

Turkey-MPC Meeting

12.08.2021
4:00 PM

August 2021 - Policy rate kept at 19.00%

The CBRT has kept the 1-week repo (policy) interest rate on hold at 19.00%, in line with the consensus. The next MPC meeting will be held on September 23rd.

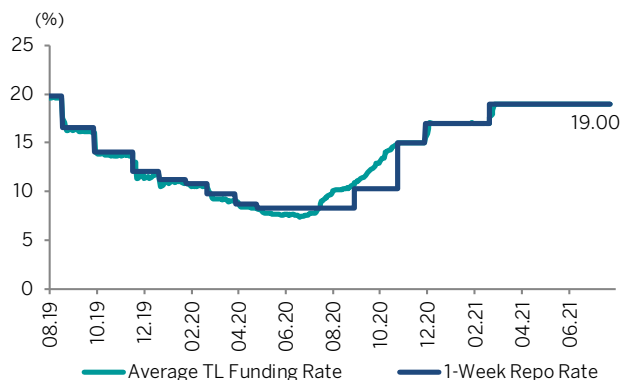
In the meeting minutes,

- **No change is made to statements regarding the current stance and the policy stance going forward.** “Taking into account the high levels of inflation and inflation expectations, the current tight monetary policy stance will be maintained decisively until the significant fall in the Inflation Report’s forecast path is achieved.” “The policy rate will continue to be determined at a level above inflation to maintain a strong disinflationary effect until strong indicators point to a permanent fall in inflation and the medium-term 5 percent target is reached.”
- **Weather conditions are included in inflationary effects on a global basis.** “Unfavorable effects of weather conditions in major agricultural commodity exporting countries are observed on global food prices.”
- **Economic activity remains strong, the adequacy of the macroprudential measures on personal loan is monitored.** “Leading indicators show that domestic economic activity remains strong in the third quarter, with the help of robust external demand.” is included.
- **Risk factors related to inflation were preserved, and the importance of current account balance in price stability was added.** “In addition to the recent increases in import prices and administered prices, demand conditions, supply constraints in some sectors, possible volatility in inflation during the summer due to the reopening, and high levels of inflation expectations continue to pose risks to the pricing behavior and inflation outlook.” “The improvement in the current account balance is important for the price stability objective.”

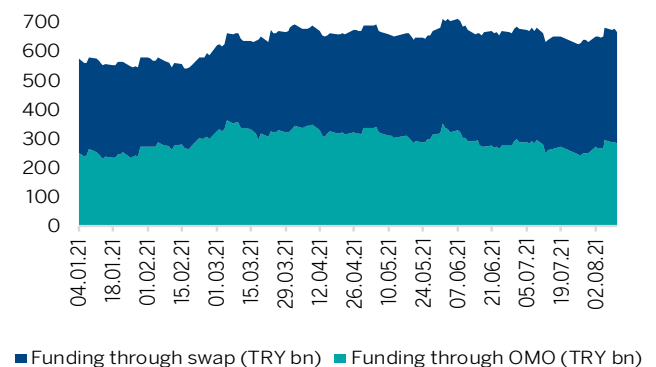
We expect CPI yoy inflation to fall to 16% by the end of the year, after hovering in the range of 17-19% until the last months of the year. According to the CBRT's latest survey, the market's year-end inflation forecast is 16.3%, significantly above the CBRT's revised forecast of 14.1%. In the upcoming period, cumulative cost increases, food prices and domestic demand continue to be risk factors to the inflation outlook. Based on our inflation forecast, we predict that the CBRT will begin gradual rate cuts in October. Our 2021 year-end policy rate forecast is 17.5%.

Looking at the funding composition of the CBRT, swap funding has increased by USD0.8bn mom to USD45.5bn, on a 10-day average basis. The share of swap funding in total funding has increased from 57% to 59%.

CBRT Interest Rates



CBRT Funding Sources (bn TRY)



Source: CBRT, Garanti BBVA Securities

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