

Turkey-MPC Meeting

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December 2021 - Policy rate cut by 100 bps to 14.00%

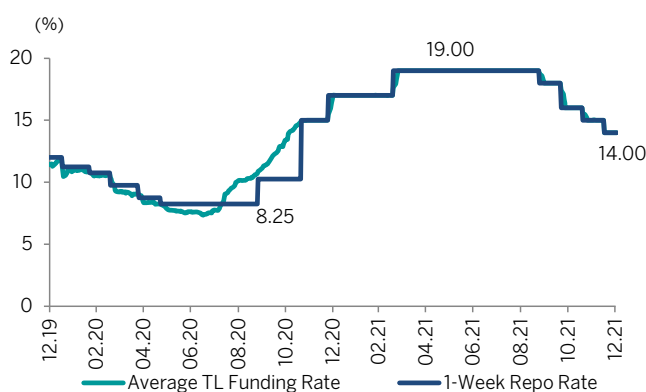
The CBRT has reduced the 1-week repo (policy) interest rate by 100 bps to 14.00% in line with the consensus. The total rate cut since September has reached 500 bps. The next MPC meeting will be held on January 20th.

In the meeting minutes,

- **The room for interest rate cuts is finalized. In 1Q22, the impact of decisions will be followed and the policy framework will be reviewed.** “The Committee decided to complete the use of the limited room implied by transitory effects of supply-side factors and other factors beyond monetary policy’s control on price increases and reduced the policy rate by 100 basis points. Cumulative impact of the recent policy decisions will be monitored in the first quarter of 2022 and during this period, all aspects of the policy framework will be reassessed in order to create a foundation for a sustainable price stability”
- **The exchange rate was added to the factors affecting inflation.** “Increase in inflation in November has been driven by developments in exchange rates and supply side factors such as the rise in global food and agricultural commodity prices, supply constraints, and demand developments.”
- **The current account balance is expected to register a surplus in 2022.** “Current account balance is expected to post a surplus in 2022 due to the strengthening of the upward trend in exports. Strengthening of the improvement trend in current account balance is important for price stability objective, and in that respect, developments in commercial and consumer loans are closely monitored.”
- **The risks to global economic activity is underlined.** “The reintroduction of travel restrictions and lockdowns due to the new variants keeps the downside risks to global economic activity alive and raises the uncertainty.”
- **There is divergence from the monetary policy communication of advanced countries.** “Accordingly, while monetary policy communication of central banks in advanced economies varies with their diverse outlook for economic activity, labor market and inflation expectations, they continue their supportive monetary stances and asset purchase programs.”

According to the CBRT’s Survey of Market Participants, the inflation expectation rose to 21.39% from 15.61% for 12 months and to 14.41% from 11.76% for 24 months ahead. The 2021 year-end inflation forecast rose to 23.85% from 19.31%. In the upcoming period, TRY depreciation, cumulative cost increases, high commodity and food prices, and domestic demand remain risk factors for the inflation outlook. The CBRT’s statements that the room for a policy rate cut has been exhausted and the effects will be monitored in 1Q22 signal that the policy rate will be kept constant in 1Q22. On the other hand, the statement that a comprehensive review will be made within the framework of the policy indicates that policy implementations could be revised in the coming period. The CBRT is expected to announce the Monetary and Exchange Rate Policy report for 2022 in December.

CBRT Interest Rates



Inflation Expectations (Market Participants Survey)



Source: CBRT, Garanti BBVA Securities

Nihan Ziya Erdem

Chief Economist

Research

Direct Tel : +90 212 384 11 31

Tel : +90 212 384 10 10

nihanz@garantibbva.com.tr

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