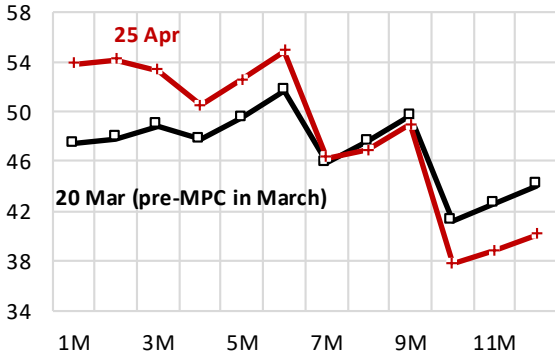


## Macro: CBRT kept the policy rate unchanged, emphasizing the tightening bias against inflationary risks

CBRT kept the policy rate unchanged at 50% in April, in line with expectations. The main messages and our evaluations are as follows:

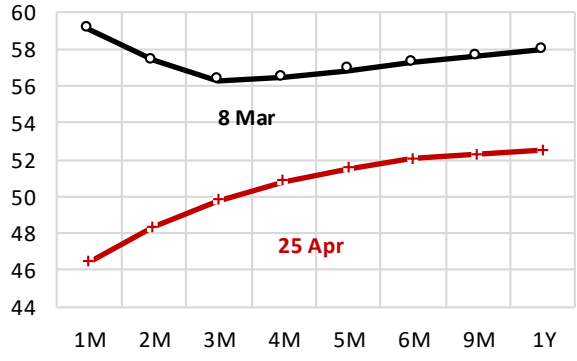
- ***“In March, despite an ongoing decline, the underlying trend of monthly inflation was higher than expected.”***
  - In March, monthly inflation was realized as 3.16%, higher than projected in the Inflation Report path ( $\approx 2.7\%$ ) ([Macro: Underlying inflation remains sticky](#)). Annual inflation was also close to the upper bound of the forecast band ( $\approx 69.0\%$ ) at 68.5%.
- ***“Considering the lagged effects of the monetary tightening, the Committee decided to keep the policy rate unchanged, but reiterated that it remains highly attentive to inflation risks.”***
  - We consider this statement as a “hawkish” stance regarding potential policy actions ahead.
  - *“Monetary policy stance will be tightened in case a significant and persistent deterioration in inflation is foreseen.”* is another statement that supports the possibility of taking further tightening steps.
- ***“The monetary policy decisions in March have led to a significant tightening in financial conditions. The effects of monetary tightening on credit conditions and domestic demand are closely monitored.”***
  - We interpret it as the current monetary stance is tight enough and that further rate hikes will not be on the agenda for a while. The expectations of market participants before the decision was parallel to this ([Macro: No further interest rate hike expected from the Central Bank](#)).
  - The OIS (overnight indexed swap) market is not pricing an additional rate hike (Chart 1). The depreciation pressures on Turkish lira have eased after the monetary tightening (Chart 2).
  - Loan growth has started to lose momentum following the policy tightening steps (Chart 3). Further, the tightening in financial conditions has started to moderate loan growth toward the levels consistent with macro targets (Chart 4).
    - We expect that aggregate credit growth below 30% would slow down domestic demand in the second half if the fiscal stance is also tightened. Policymakers will monitor whether the current 4-week trend (29.4%) is maintained to assess the need for further tightening.
- ***“Monetary transmission mechanism will continue to be supported in case of unanticipated developments in credit growth and deposit rates.”***
  - We anticipate that unconventional tools will continue to be used for credit growth and deposit rates. Therefore, instead of raising the policy rate for simplification, CBRT will wait the disinflation trend to start and become permanent with the current monetary stance.
- **A press release on reserve requirements was published after the MPC decision.**
  - The upper limit of the remuneration rate applied to the amount of required reserves that should be maintained for KKM accounts based on the renewal and Turkish lira conversion rate is set at 30% (previously 25%).
  - The upper limit of the remuneration rate applied to the amount of required reserves that should be maintained for Turkish lira deposits based on the Turkish lira conversion rate is set at 40% (previously 36%).
  - This made the conversion to TL targets more attractive for the banks.

**Chart 1. Policy Rate: OIS Curve (%)**



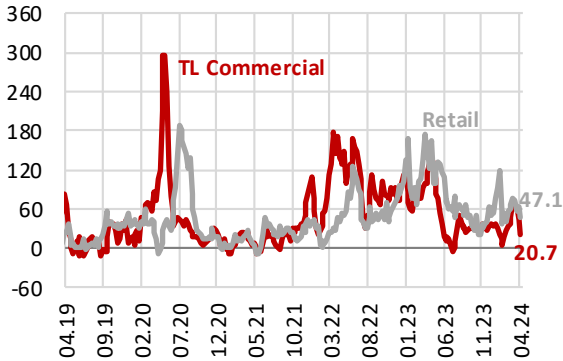
Source: Bloomberg

**Chart 2. Forward USD/TRY Implied Rate (%)**



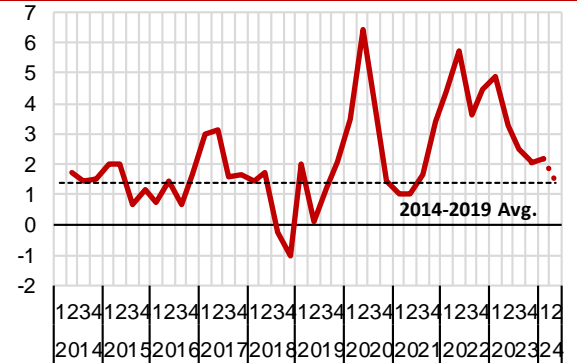
Source: Bloomberg

**Chart 3. TL Loan Growth (4W avg., annualized, %)**



Source: BRSA, Akbank

**Chart 4. TL Net Credit Use (% GDP)**



Source: BRSA, Akbank

\* Q2 data is the estimated value of net credit use if TL loan growth maintains its momentum in the last 4 weeks.

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