

**MPC decision: Policy normalization continues**

CBRT raised the policy rate by 500 basis points to 30% in September, in line with expectations. The highlights and our assessments are as follows:

- As in August, the Statement and the rationale for the rate hike are entirely inflation-focused. This communication is positive as it reduces uncertainty about the continuation of the tightening cycle and increases policy predictability..
  - The statement that "The Committee evaluated that tax regulations and cost pressures stemming from wages and exchange rates, which have been pushing up inflation, have broadly passed through to prices, and that the underlying trend in monthly inflation is on course to decline." indicates that the pass-through from exchange rates, taxes and administered prices was largely completed in the July-August period, and therefore monthly inflation rates will follow a milder course in the coming period.
  - The statement that "year-end inflation will be close to the upper bound of the forecast range provided in the Inflation Report" was maintained. As we mentioned in the notes summarizing the inflation developments in July (Macro: [Underlying trend of inflation regains momentum](#)) and August (Macro: [Inflationary process becomes evident](#)), along with the recent increases in oil prices, there is a year-end inflation outlook of around 70%. Therefore, the decision to continue the monetary tightening process was justified by the fact that inflation was well above past projections.
- "Increasing domestic and foreign demand for Turkish lira-denominated assets" is a new addition to the Statement.
  - The sentence containing the factors contributing to price stability, which was also included in the previous months, has been amended as "Foreign direct investment, improvement in external financing conditions, continued increase in foreign exchange reserves, the positive impact of tourism revenues on current account balance, and increasing domestic and foreign demand for Turkish lira denominated assets will contribute significantly to price stability."
  - The fact that the decision was in line with expectations is a positive development in terms of the continuation of the foreign interest in the bond market, which has been signaled recently. We expect this interest to increase with the September decision. However, given the current inflationary environment, we believe that the increase in TL deposit rates may continue in order to strengthen the TL preference of domestic residents.
- The sentence "..., the Committee will continue to make decisions on quantitative tightening and selective credit tightening to support the monetary policy stance." was repeated.
  - This statement indicates that if the desired improvement in inflation and current account balance is not achieved, additional measures may be taken, particularly with regard to retail lending.
- The commitment to the forecast target for the end of 2024 was reinforced with the statement "Given the monetary tightening stance, the Committee is determined to establish the disinflation course in 2024 in line with the Report."
  - Considering the end-2024 inflation forecast of 33%, it is understood that the policy rate may be raised to 35% in the first stage.
  - The course of inflation expectations and the inflation trend will be decisive for the terminal policy rate.

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