

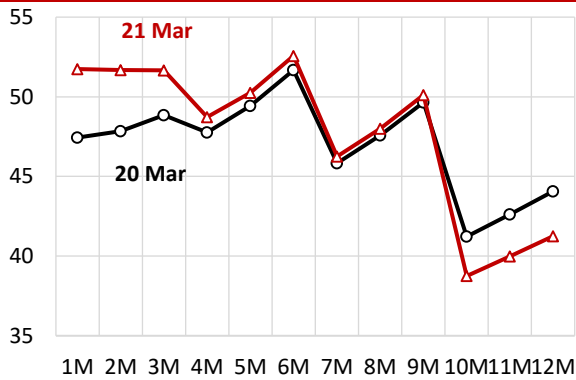
## Macro: CBRT seems determined and target-oriented, policy rate 50.0%

CBRT raised the policy rate by 500 basis points to 50% in March. The market expectation was that the policy rate would remain unchanged, but could increase within three months. The highlights and our evaluations are as follows:

- ***The Committee changed the operational framework and widened the interest rate corridor.***
  - The interest rate corridor (the spread that determines the overnight borrowing and lending rates), which was previously +/- 150 basis points around the policy rate, was widened to +/- 300 basis points.
  - Thus, CBRT switched to a framework that allows for an additional tightening of 3 percentage points above the policy rate of 50%.
- ***“In February, led by services inflation, the underlying trend of monthly inflation was higher than expected.”***
  - In February, monthly inflation (4.5%) realized well above the projection (3.4%) in the Inflation Report. We understand that this figure is also above the CBRT forecasts.
- ***“While imports of consumption goods and gold slowed down and contributed to the improvement in the current account balance, other recent indicators imply that domestic demand remains resilient.”***
  - High-frequency indicators point that economic activity gained strength in the first quarter of the year with an annual growth rate of around 5%, largely driven by domestic demand.
  - Our view that domestic demand is stronger than the CBRT's previous projections was confirmed.
- ***“Stickiness in services inflation, inflation expectations, geopolitical risks, and food prices keep inflation pressures alive.”***
  - The addition of "inflation expectations" to last month's statement indicates that the deterioration in expectations was also influential in the decision. The year-end inflation expectation for 2024 increased to 44.2% in March and continued to move away from the CBRT's forecast band (December: 41.2%, January: 42.0%, February: 43.0%) ([Macro: Expectations for further tightening against deteriorating CPI outlook](#)). Thus, after the minimum wage hike and other fiscal expansion steps, the revision in year-end inflation expectations reached 3 points.
- ***“In response to the deterioration in the inflation outlook, the Committee decided to raise the policy rate.”***
  - We assess the decision to be fully linked to the inflation outlook positively in terms of the clarity of the monetary policy reaction function and policy communication.
- ***“Tight monetary stance will be maintained until a significant and sustained decline in the underlying trend of monthly inflation is observed, and inflation expectations converge to the projected forecast range.”***
  - At the Inflation Report press conference, CBRT stated that seasonally adjusted monthly average inflation was expected to be 2.5% in the third quarter and 1.5% in the fourth quarter ([Macro: Inflation forecasts were maintained with the change in the forward guidance on the monetary stance](#)).
  - The course of the fiscal stance and the development of inflation expectations will be influential on the timing of interest rate cuts. In this context, we will be monitoring the administered price adjustments postponed until after the elections and the incomes policy. In the scenario that no additional minimum wage adjustment is made in the middle of the year, it is possible that interest rate cuts will be put on the agenda at the beginning of the fourth quarter.

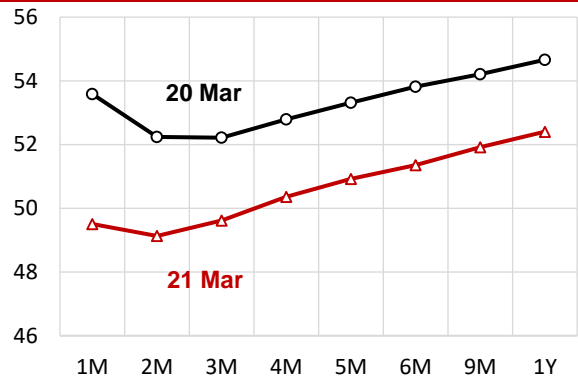
- After the decision, pricing in the OIS (overnight indexed swap) market rose and flattened in the short term, but did not imply an additional rate hike (Chart 1). On the other hand, the implied interest rates in the forward exchange rate market also moved down significantly after the decision (Chart 2).
- **“Monetary transmission mechanism will continue to be supported in case of unanticipated developments in credit growth and deposit rates. Market liquidity will be closely monitored and sterilization tools will continue to be effectively used whenever needed.”**
  - With the widening of the interest rate corridor, the message is given that if additional tightening is needed, it will be done through the corridor and through regulations.
  - In case there is a need for an additional increase in the deposit rate for the continuation of de-dollarization, it is possible that existing regulations, especially commission rates, may be tightened.

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



Source: Bloomberg

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



Source: Bloomberg

This report is prepared by Akbank Economic Research

[Economic.research@akbank.com](mailto:Economic.research@akbank.com)

Çağrı Sarıkaya– Chief Economist

[Cagri.Sarikaya@akbank.com](mailto:Cagri.Sarikaya@akbank.com)

Çağlar Yüncüler

[Caglar.Yunculer@akbank.com](mailto:Caglar.Yunculer@akbank.com)

M. Sibel Yapıcı

[Sibel.Yapici@akbank.com](mailto:Sibel.Yapici@akbank.com)

Alp Nasır

[Alp.Nasir@akbank.com](mailto:Alp.Nasir@akbank.com)

DISCLAIMER STATEMENT: The text, information and graphs in this report and comments has been prepared from the primary accessible systemic sources on a bona fide basis, and without consideration to establishing any guarantee and assurance for establishing a basis for any informed decision under any name or form, in terms of their accuracy, validity and effectiveness, and thus it has only been gathered for information purposes. Akbank TAŞ, Ak Yatırım AŞ and their employees will not be held responsible for any damages resulting from the comments included in this report such as lack of information and/or updates. Akbank TAŞ and Ak Yatırım AŞ may modify and/or remove the above information and recommendations at any time, without having to serve any prior notice and/or warning in any way, manner or form. Since this report and comments, the comprehensive information and recommendations which have been prepared in the form of general investment suggestions for the purpose of providing general information do not include any commitment by Akbank TAŞ and Ak Yatırım AŞ, the consequences of any decisions taken, conclusions reached, transactions made and any risks caused by any private and/or legal person based on such information will therefore rest with such persons. For this reason, Akbank T.A.Ş., Ak Yatırım A.Ş. and their employees shall not by any means or in any manner be liable for any material and moral damages, loss of profits, or any direct and/or indirect damages, whatsoever, incurred by the persons concerned or 3rd parties, as a result of the decisions taken, conclusions reached, or transactions performed by private and/or legal persons due to reliance on the information contained in this report, the comments and recommendations herein, and the persons concerned understand and accept that they are not entitled to claim any indemnity, whatsoever, from Akbank TAŞ, Ak Yatırım AŞ and their employees for any damages suffered/to be suffered. The information given in this report, and the comments and recommendations contained herein do not constitute an "investment consultancy" service and/or activity, but fall within the scope of a general investment consultancy activity, and individuals and entities willing to receive an investment consultancy service must contact entities and institutions that are authorized to provide such service and obtain such service under a service agreement pursuant to the legislations of CMB. Investment consultancy services are offered under an investment consultancy agreement to be signed between brokerage houses, portfolio management companies, banks that do not admit deposits and the clients. The comments and recommendations contained herein depend upon the personal opinions of the persons who make the comments and recommendations. Since such opinions have been arranged in the scope of a general investment consultancy activity they do not contain reports, comments and recommendations specific to a person, and may therefore not suit your financial status, risk and return preferences. Thus, making investment decisions solely based on the information contained herein might not bring an outcome that meets your expectations.

