

Macro: CBRT raised the policy rate to 46% and provided upward flexibility until the June meeting

The CBRT raised the policy rate by 350 basis points to 46%, which was set as the overnight lending rate at the interim meeting in March. The overnight lending rate was raised from 46% to 49% and the overnight borrowing rate was raised from 41% to 44.5%. Thus, CBRT took a step that will provide flexibility for an additional tightening until the June meeting. In addition, CBRT announced that it would resume one-week repo auctions, which it had suspended in March. Given the domestic and international developments in financial markets since mid-March and their impact on residents' FX demand, capital flows and the CBRT reserves, we believe that the significant decline in reserves rather than the inflation outlook was the determinant of the rate hike decision. Indeed, global developments, which appear to be disinflationary for the time being through import prices and aggregate demand conditions, were not strongly mentioned in the decision, and a cautious communication was made on the inflation outlook.

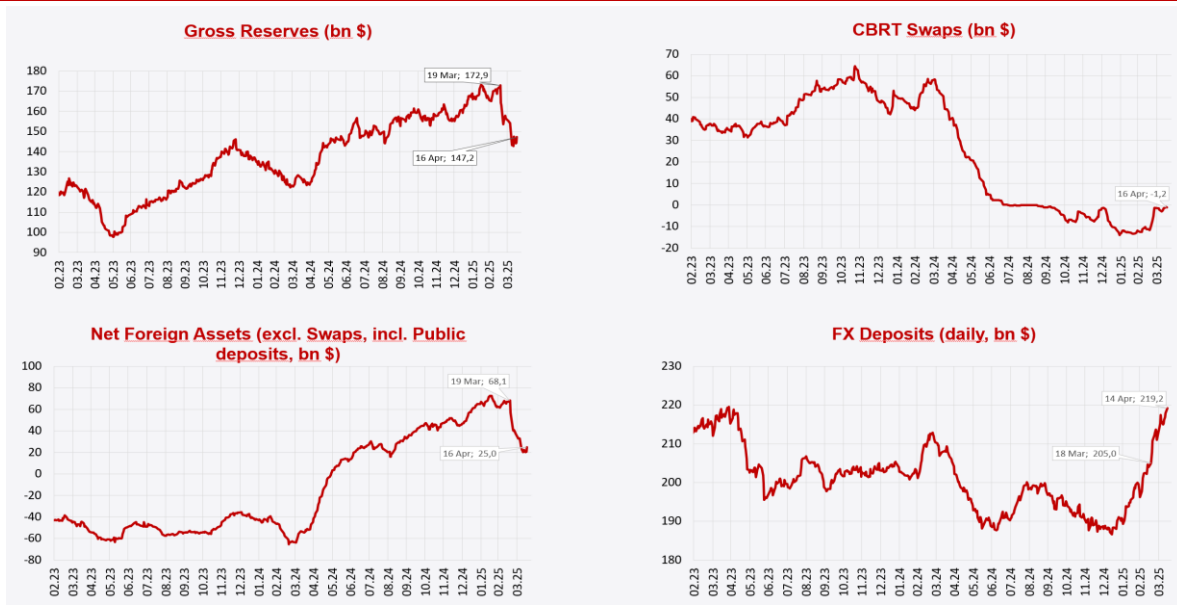
In the upcoming period, the amount of one-week repo auctions will determine the level of the weighted average funding rate (WAFR). A funding rate close to the upper corridor band may lead to an additional increase in deposit rates. In a period of high uncertainty, we expect that the CBRT will prefer a funding rate close to the upper band for a while and shape its liquidity policy accordingly. In this regard, we do not expect the liquidity to be provided through OMO to be large in the first place. To the extent that domestic and external market conditions allow, it is possible that the funding rate will converge to the policy rate over time, and then interest rate cuts may resume. In sum, although it is too early to discuss, the convergence of the WAFR to the policy rate will be an important leading indicator before interest rate cuts begin.

Our key messages and evaluations are as follows

Outlook Before the Decision:

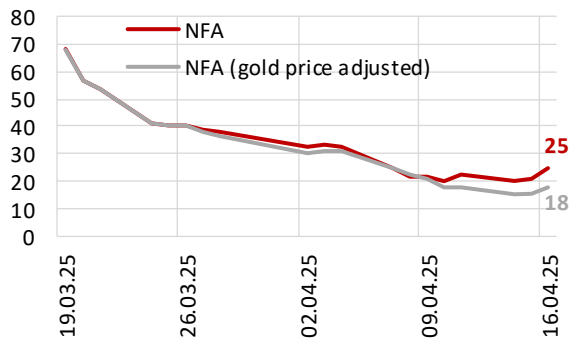
- **The CBRT has been a net seller in the foreign exchange market since 19 March.**
 - Between 19 March and 15 April, CBRT net foreign assets (excluding swaps and including public deposits) fell by \$43 billion from \$68 billion to \$25 billion (Chart 1).
 - In the same period, gross reserves decreased from \$173 billion to \$147 billion (down by \$26 bn).
 - Estimated foreign exchange sales due to foreign outflows (≈ 2 bn \$ equities, ≈ 8 bn \$ government bonds, ≈ 15 bn \$ swap, $\approx 8-9$ bn \$ repo) is approximately 34 bn \$
- **Gold price-adjusted net foreign assets were \$18.0 bn, lower than the headline figure.**
 - The contribution of the rise in gold prices to reserves since 18 March is ≈ 7 bn (Chart 2).
 - The share of gold in reserves rose above 50% due to the appreciation effect (Chart 3).
- **The dollarization tendency of residents continues (Table 1).**
 - FX deposits stock was \$219.2 billion as of 14 April, up \$14.2 billion since 18 March.
 - \$7.6 billion of the increase stemmed from households and \$6.6 billion from corporates.

Chart 1. Dollarization and Reserves



Source: CBRT, BRSA, Akbank

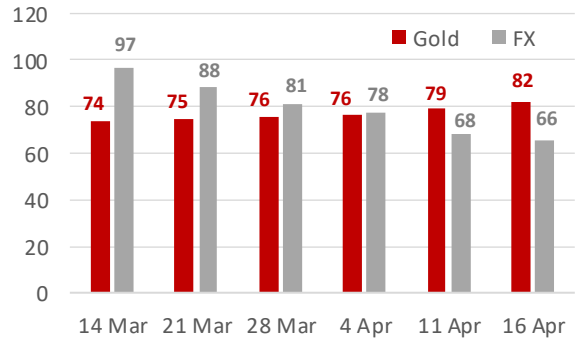
Chart 2. Net Foreign Assets (excl. swaps, bn \$)



Note: The price effect is calculated under the assumption that the gold price remains constant at the level on 18 March.

Source: CBRT, Akbank

Chart 3. TCMB Rezerv Kompozisyonu (myr \$)



Not: 16 April data are Akbank estimates.

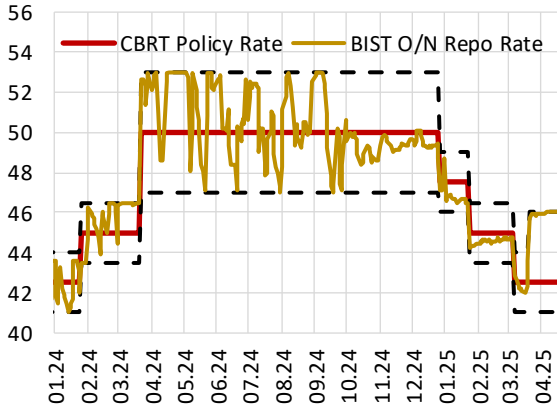
Source: CBRT, Akbank

Table1. FX Deposits (bn \$)

	Total	Households	Corporates
18.03.2025	205.0	130.8	74.2
25.03.2025	212.8	132.8	80.0
2.04.2025	215.2	135.3	79.9
7.04.2025	215.0	134.3	80.7
8.04.2025	215.2	134.1	81.1
9.04.2025	216.1	134.9	81.2
10.04.2025	216.9	136.4	80.5
11.04.2025	218.0	138.3	79.6
14.04.2025	219.2	138.3	80.8
Total Change	14.2	7.6	6.6

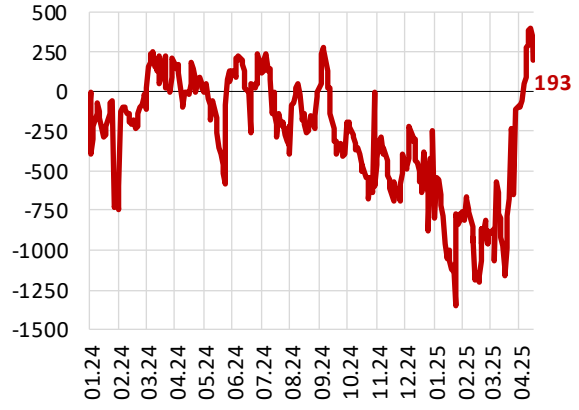
- The resulting TL liquidity shortage tightened financial conditions in terms of loan and deposit pricing. The BIST overnight repo rate rose to 46%, the CBRT borrowing rate, while net OMO reached TRY 193 billion (Charts 4 and 5).

Chart 4. Interest Rates (%)



Source: CBRT, Bloomberg
Last observation: 16 Apr 2025

Chart 5. CBRT Net OMO Funding (billion TL)



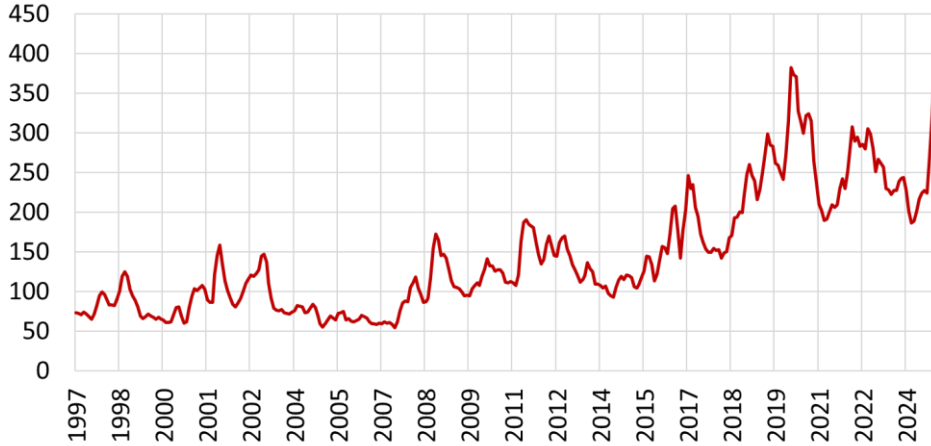
Source: CBRT

MPC Decision:

- ***“The underlying trend of inflation declined in March. Monthly core goods inflation is expected to rise slightly in April due to recent developments in financial markets, while services inflation is likely to remain relatively flat.”***
 - Consumer inflation was 2.5% mom and 38.1% yoy in March, while the inflation trend improved compared to the previous month ([Macro: Inflation Developments - March 2025](#)). According to Turkstat, seasonally adjusted CPI inflation was 2.6% mom (2.3% in February). The rise in monthly inflation was mainly driven by the strong increase in food prices due to Ramadan.
 - In a recent study published by the CBRT, the additional inflationary effect of Ramadan on March CPI was calculated as 0.5 points ([CBRT Blog: Ramadan and Food Inflation](#)). Excluding the Ramadan effect, the inflation trend continued to improve. In fact, the monthly increase in core B and C indicators remained more limited with 1.9% and 2.2%, respectively, while the median and trimmed-mean inflation rates, which are our own distribution-based trend indicators, fell to their lowest levels of the recent period with 1.9% and 2.0% mom, respectively.
 - Although the direction and general trend of March indicators look favorable, we anticipate that the impact of domestic developments on exchange rates and expectations as well as energy price adjustments will push the inflation trend higher again in April and May. Our model forecasts for April monthly inflation are between 2.7-3.3%, while our base forecast is 3.1% (3.0% mom; 37.9% yoy).
- ***“Leading indicators point to a level of domestic demand above projections despite some loss of momentum in the first quarter, suggesting a lower disinflationary impact.”***
 - We believe that the significant acceleration in loans and the loose fiscal stance in the first quarter supported economic activity. Our forecast models based on high-frequency indicators suggest that the momentum of the last quarter of 2024 may have carried over to the first quarter of 2025.
 - Against this background, the output gap indicator, which we constructed by aggregating information from goods/services, credit and labor markets, suggests that demand conditions may not be at disinflationary levels ([Macro: GDP Developments - 2024Q4](#)). As a matter of fact, the communication in the decision text also includes a more cautious assessment of the disinflationary support provided by demand conditions (the size of the negative output gap).
- ***“Potential effects of the rising protectionism in global trade on the disinflation process through global economic activity, commodity prices and capital flows are closely monitored.”***
 - With this sentence, the CBRT sends the message that it will closely monitor the recent developments.

- The transmission of recent global developments to the Turkish economy can be expected to materialize mainly through four channels: (i) global growth and external demand, (ii) commodity prices, (iii) exchange rates, (iv) uncertainty/confidence.
- We expect the first two channels to contribute to disinflation in line with global trends. With the April decision, we expect exchange rate and domestic demand channels to support disinflation.

**Chart 6. Economic Policy Uncertainty
(Index, 3-month moving average)**



Source: Davis, Steven J., 2016. "An Index of Global Economic Policy Uncertainty," Macroeconomic Review, October. <https://www.policyuncertainty.com/>

- In addition to the tightening in domestic and external financing conditions, we expect growth to weaken starting from the second quarter through trade and uncertainty channels. Uncertainty over economic policies has reached historically high levels, surpassing Trump's first term, which will adversely affect investment and consumption decisions on a global scale (Chart 6).
- According to analyses by the IMF, if the US raises tariffs by 20%, the cumulative loss in GDP by the end of 2026 is estimated to reach 1.0% in the global economy, 2.0% in the US, 1.2% in the euro area and 1.0% in China. Forecasts by various central and investment banks indicate that cumulative growth over the two-year period for the retaliation scenarios would be 0.4-1.2 percentage points lower in the euro area, 1.2-2.4 percentage points lower in Germany and 1.2-1.6 percentage points lower in the US. It should be noted, however, that higher tariffs and possible retaliation could further undermine market confidence and lead to a deeper slowdown in a non-linear fashion.
- **"Monetary policy ~~tools~~ stance will be ~~used effectively~~ tightened in case a significant and persistent deterioration in inflation is foreseen"**
 - With this wording change, the CBRT displays a hawkish stance by signaling that it may take further tightening steps if necessary.

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