

## **COMMENTS ABOUT MARCH MPC DECISION**

**The Central Bank of Turkey (CBRT) raised the policy rate by 200bps to 19% beating the expectations of a 100bps hike.**

**The Bank decided to implement a front-loaded and strong additional monetary tightening, confirming its forward-guidance in the previous communications.**

**Let me summarize the potential reasons behind this positive reaction.**

**First, improving global growth outlook and therefore rising global inflation expectations led to sizable volatility in the markets in the last few weeks. So, led by the recent supply-side factors, worsening inflation outlook started to erase the real interest gains of the previous months and weigh on the exchange rate.**

**Second, as the Central Bank also shared its concerns, the recent upward trend in credit growth and the increase in import costs reinforce both demand-pull and cost-push factors on the inflation outlook.**

**Third, the peak inflation level we initially expected to have in April at 16% could get near 17%, given the rise in commodity prices and other supply side factors. This could have put the previous forward guidance of the CBRT at risk if they hadn't given any reaction.**

**Therefore, the Bank confirmed its forward-guidance and clearly strengthened its credibility.**

**The two forward guidance remarks have also been kept the same: the commitment for additional monetary tightening if needed and the decisive maintenance of the tight stance "for an extended period of time".**

**According to our Taylor rule calculations, the decision now implies a tighter bias, which will be crucial to anchor inflation expectations.**

**Although we figure out near 1.5pp upside risks on our current inflation forecast ending the year at 10.5%, the Bank's front-loaded reaction could be the peak of the tightening cycle.**

**Besides, we still maintain our view to have the first rate cut of the Central Bank in the last quarter of the year, which will depend on the inflation dynamics, and might require the Bank to stay tight for longer, given the Central Bank year-end target of 9.4%.**

**Last but not least A comprehensive policy-mix and support from other structural policies will also be needed to have a successful rebalancing in the economy in order to reduce country risk premium, initiate reverse currency substitution and accumulate foreign exchange reserves.**