COMMENTS ON THE SEPTEMBER MPC DECISION

- **In contrast with the no change expectations of the market, the Central Bank of Turkey raised the policy rate by 200bps to 10.25%.** The decision was the correct one, not only by size, which means our Taylor rule has already been suggesting a level near 10.5%; but also in terms of the "signaling" impact. From now onwards, the funding composition of the Central Bank will be critical, but in any case turning back to funding from the policy rate, which is the one week repo, implies that the Central Bank wants to be more explicit, disregarding the option of widening the interest rate corridor.

- Just to remind, The Central Bank has been using the interest rate corridor to tighten the monetary policy and resulted in an average funding rate of near 11% ahead of the MPC decision. Compared to mid-July levels, this already reflects a tightening of near 350bps. Therefore, a rate hike in the policy rate automatically results in an upward shift of the interest rate corridor, which means the Central Bank can further squeeze the TL liquidity to increase its average funding rate to a level as high as 13.25%, which is the new late liquidity window rate.

- Meanwhile consumer inflation could likely breach 12% in September, and put more pressure over the Central Bank medium term inflation projections as the Bank also acknowledges this by stressing an inflation level following a "higher-than-envisaged path". Hence, the upward shift the interest rate corridor also enlarges the room for maneuver. All in all, an explicit rate hike came as the right step to ease upside pressures on the financial assets and accordingly on the inflation expectations. The message was also clear but it still needs to be reinforced by additional actions if needed.