The CBRT delivering a “Strong and Transparent” tightening

The Central Bank of Turkey delivered an Strong and Transparent message. 

On the interest rate side, it tightened the one week repo by 475 bp raising the official rate to 15%.

This rate is consistent with the level suggested by our Taylor rule which estimate the interest rate according with the economic conditions and the expected inflation path. We don’t expect more changes in the short run unless the situation change.

It also simplify the monetary policy by returning to the one rate system. The Liquidity will be funded to the official rate which become the effective rate too. This decision removes uncertainty and will accelerate further official reaction if needed.

The real interest rate differential is now positive which increase the attractiveness of the Lira.

The wording of the statement is even more attractive. In essence the Central Bank took important decisions:

- First, the normalization and simplification of the monetary policy rates.
- Second, It includes a forward guidance by signaling that monetary policy will remain tight until inflation expectations clearly moves towards goals
- This message is reinforced by signaling the critical role of low inflation to achieve lower risk premium, build up international reserves and curb the dollarization process.
- Last but not least it clearly improves the communication policy, by sending an Strong and Transparent message

Maintaining this commitment is the right way to restore credibility