

MPC Meeting Decision

MPC kept the rate and decision note unchanged

Monetary Policy Committee (MPC) decided to keep the policy rate (one-week repo rate) constant at 24% as widely expected. The eyes were on decision note, while the MPC has also maintained its tightening biased expression. The market welcomed the decision as the USD/TL has dropped below 5.38 levels immediately down from pre-meeting levels at 5.41.

The MPC maintained its tightening-biased stance expressing that *"Inflation expectations, pricing behavior, lagged impact of recent monetary policy decisions, contribution of fiscal policy to rebalancing process, and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered."*

The decision note provided almost no change compared to the previous one. The only addition was related the external balance as the Bank stated that the current account balance is expected to maintain its improving trend.

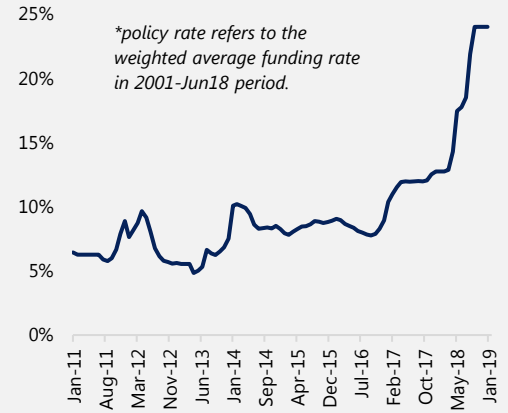
On the course of the inflation, the CBT reiterated that with developments in import prices and domestic demand conditions have led some improvement in the inflation outlook, risks on price stability continue to prevail. We believe that weak demand environment and electricity/natural gas price cuts will play supportive roles on headline in January. However, there is still some uncertainty regarding at what level the recent tax adjustment on tobacco prices will be reflected into the end -prices. In addition, the recent uptrend in Brent oil prices together with some depreciation in TL since the beginning of the year have resulted in fuel oil price increases, which will add to the January CPI. Under these circumstances, we believe that the inflation will remain at around 20-21% levels towards May. We anticipate that the significant improvement in inflation will show itself starting from June.

Following today's rate decision (i) Quarterly Inflation report and (i) January inflation realizations, will be at the forefront of investors' focuses.

- The CBT will release Quarterly Inflation Report on January 30th. CBT Governor Cetinkaya is expected to make a presentation followed by a Q&A session.
- The report will shed light on Bank's inflation and output forecasting paths. In this respect, eyes will be especially on CBT's forecast regarding January inflation, which will be released on February 4th.

The next MPC meeting is slated for March 6th, while our base case scenario incorporates no change in the policy rate again. We believe that the MPC to preserve the tightening biased expression in the note gives a signal for "no change" in the following meeting. We think that before a rate cut decision, the CBT would prefer to rebalance its wording at its decision note.

Policy rate*



Source: CBT, Tacirler Investment

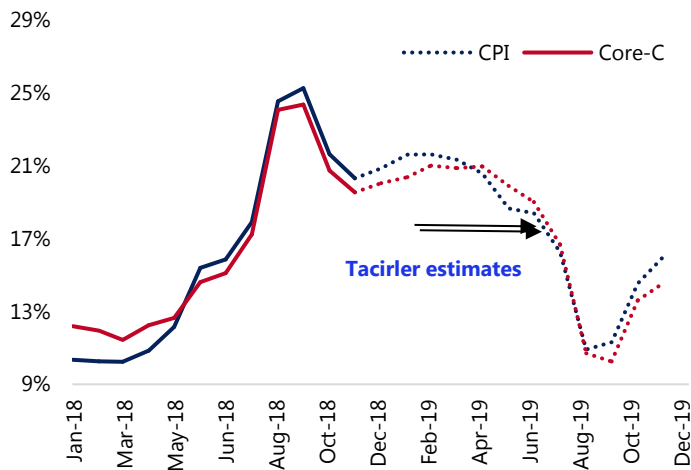
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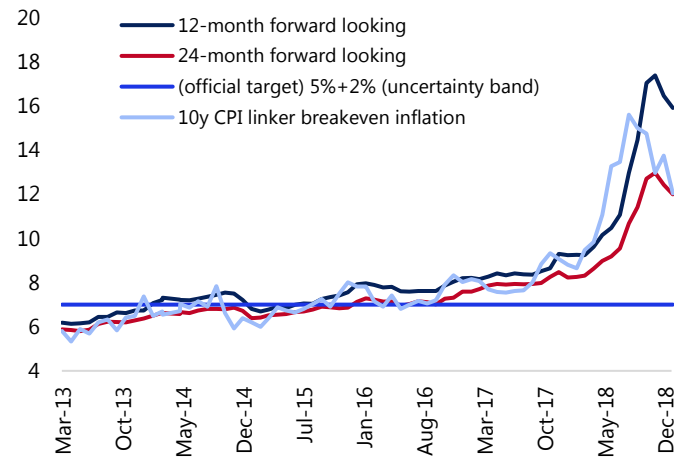
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Annual CPI & Core-C



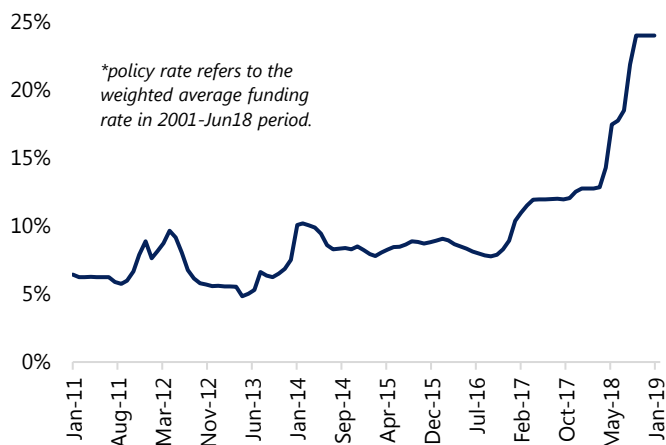
Source: TURKSTAT, Tacirler Investment

Medium-term Inflation Expectations (%)



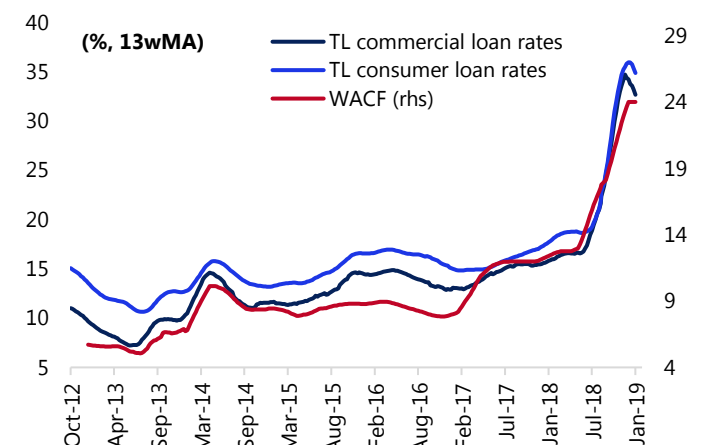
Source: CBT, Tacirler Investment

Policy rate*



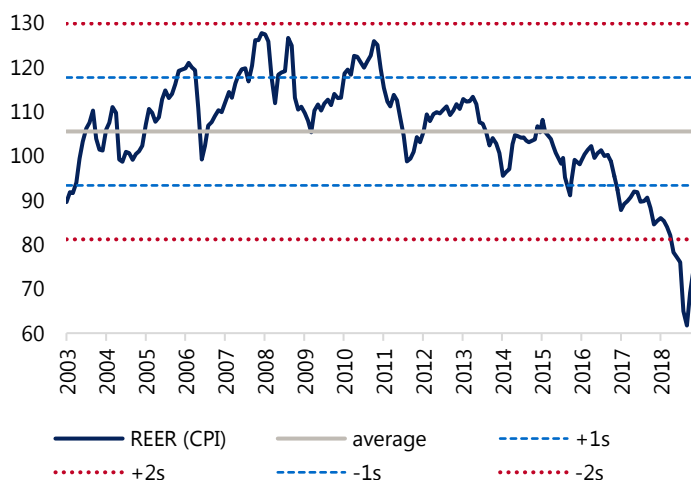
Source: CBT, BRSA, Tacirler Investment

Loan Rates & CBT's WACF (% , 13wMA)



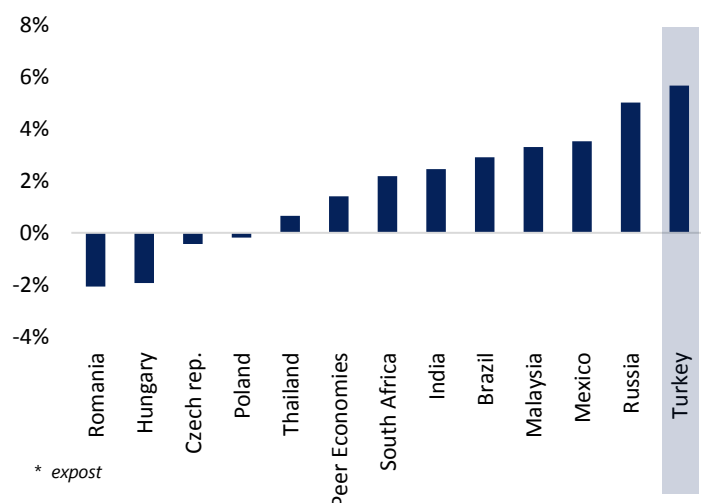
Source: CBT, Tacirler Investment

Real Effective Exchange Rate



Source: CBT, Tacirler Investment

Real Policy Rates *



Source: CBs, IMF, Tacirler Investment

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