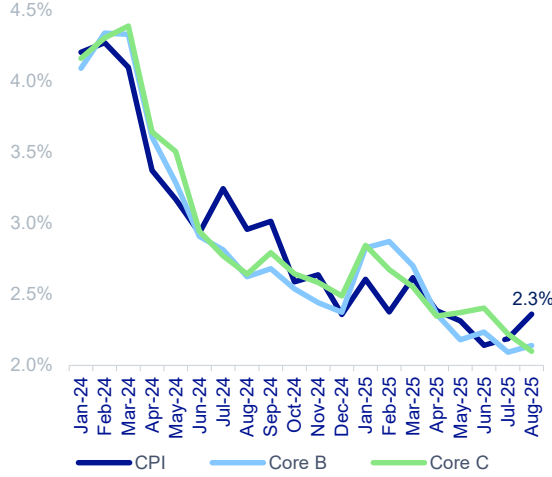


Türkiye | The CBRT, acting dovishly, seeks to strike a balance

Adem Ileri / Seda Guler Mert

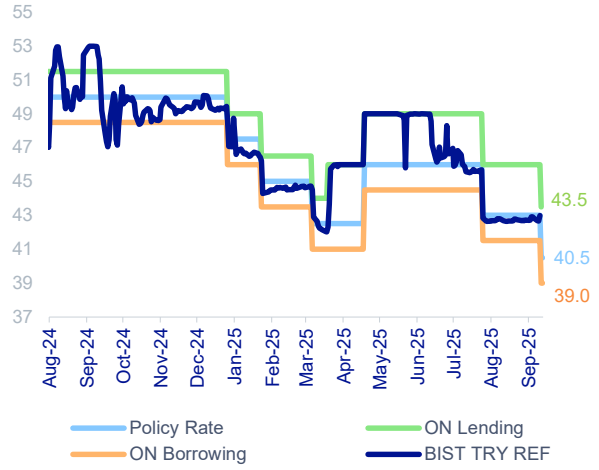
- The Central Bank of the Republic of Türkiye (CBRT) lowered the policy rate by 250bps to 40.5%, higher than the consensus of 200 bps, with also a similar size of cuts in the corridor (39%-43.5%).
- Following a similar bolder than expected rate cut in the July MPC, today's decision again implies some complacency about the price and financial stability, ahead of the potentially increasing volatility because of domestic and external uncertainties in the near future; yet this time their tone tries to draw the balance of risks with a clearer commitment of tightening if needed.
- After the positive surprise of the 2Q25 GDP growth, the CBRT acknowledges the deviation from their expectations as well, yet by still highlighting the weakness in domestic demand would help disinflation. Nonetheless, they also show the effort to give a more balanced risk view on inflation by adding an assessment as upward pressure from food prices and service items with high inertia.
- One of the most important changes in the MPC statement is the removal of the reference to the real appreciation of the currency on the disinflation process. We were already underlining the narrowed room for real appreciation after summer with the inflation trend going below 2%.
- After the change in the CBRT communication strategy by differentiating the inflation forecasts from the interim targets, they now give a clearer commitment of tightening the monetary policy with respect to the interim targets, if inflation readings deviate *significantly*. It is still blurred what level would be significant; however, being explicit to tighten instead of monetary policy tools to be used effectively shows a higher degree of commitment.
- According to our calculations, we forecast around 2% monthly CPI in September and October, but with continuing ease in the seasonally adjusted trend below 2% in 4Q25 and resulting in nearly 30% annual CPI by year-end. However, given the reduced room for real appreciation going ahead, there is the risk of sticking to 1.5-2% trend after 1Q26, and the high positive contribution from inventories in 2Q25 requires caution not to allow a fast recovery in domestic demand during the easing cycle, while inflation expectations remain above the CBRT revised forecast range.
- On financial stability, we keep observing a higher foreign currency (FC) demand in favor of FC investment funds than the KKM exit since March shock; nevertheless, overall dollarization ratio -even including funds- stays closer to 40%, confirming a stronger tendency towards TL assets. Therefore, we expect to see an effective control over dollarization with abundant level of reserves and attractive real rates, led by gradual monetary easing and a broad toolkit of the CBRT.
- Considering the challenges ahead, we still maintain the view of reducing the size of the cuts after today's decision, with 200bps cuts in Oct and Dec, to reach 36.5% policy rate by end 2025. In this regard, we understand macro-prudential measures and liquidity policies will remain essential in order not to allow a fast decline in ON TL rates and a speeding up dollarization. Also, containing any rapid recovery in consumption ahead of the early next year price hikes will be key to increase the gains over inflation expectations and reduce the impact from backward indexation.

Figure 1. Consumer Inflation Indicators*
(seasonal adj., 3-month average)



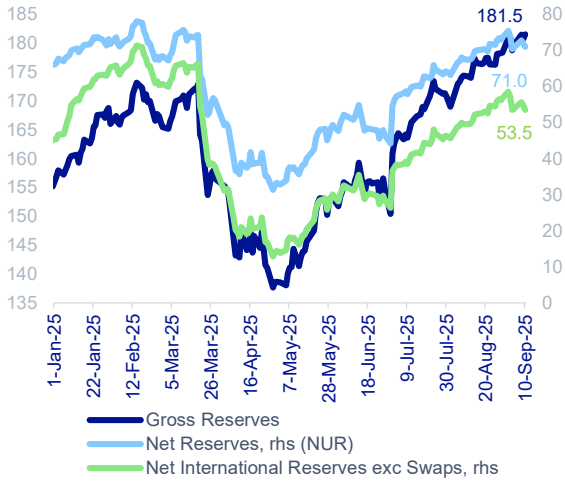
Source: Garanti BBVA Research, TURKSTAT

Figure 2. CBRT Funding Rate & BIST TL REF Rate (% , simple)



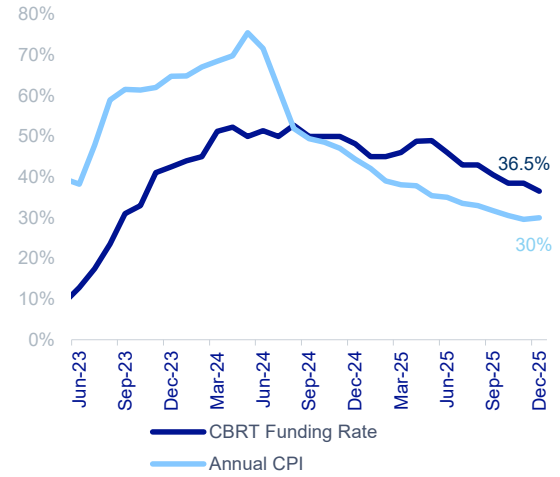
Source: Garanti BBVA Research, CBRT

Figure 3. CBRT International Reserves (\$USbn)



Source: Garanti BBVA Research, CBRT

Figure 4. Garanti BBVA CBRT Funding Rate & CPI Forecasts (%)



Source: Garanti BBVA Research, TURKSTAT, CBRT

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