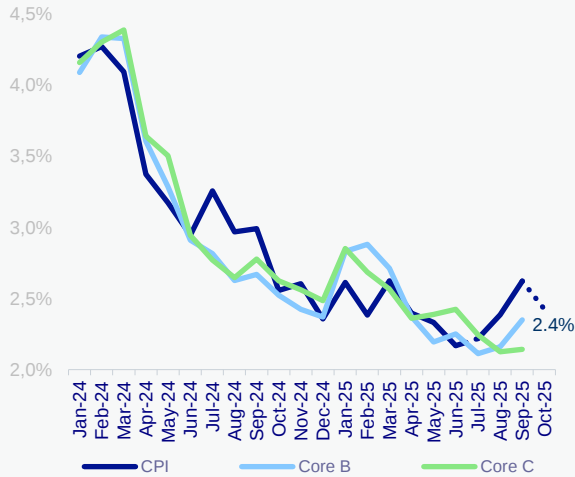


Türkiye | The CBRT avoids a major surprise

Adem Ileri / Seda Guler Mert

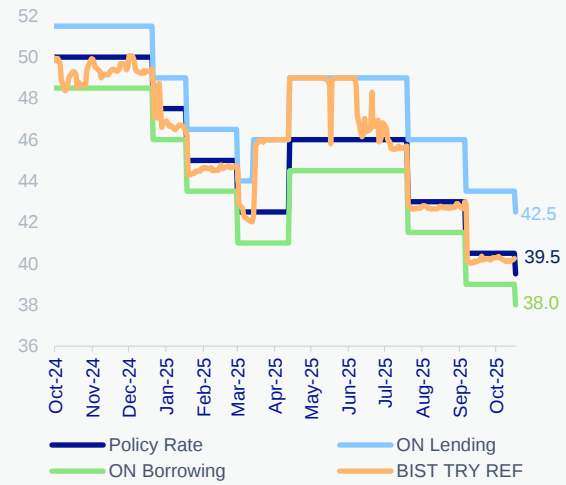
- The Central Bank of the Republic of Türkiye (CBRT) reduced the policy rate by 100bps to 39.5%, parallel to the majority of the rate cut expectations of 100-150bps, with also a similar size of cuts in the corridor (38%-42.5%).
- Given the increasing inflationary pressure since August, the CBRT underlines a decelerating inflation trend and more pronounced risk factors to the disinflation outlook through inflation expectations, and justifies today's reduced pace of easing. However, the overall tone seems not to be too much concerned about inflation since their remarks on disinflationary demand conditions are repeated and the impact from food inflation has been highlighted, instead of the stress over the services items with high inertia, and uncertainties from global factors previously.
- The underlying inflation trend increased in September and we nowcast again a seasonally high monthly consumer inflation of nearly 3% for October, fueled by both food and stickiness of services prices, resulting in an annual inflation potentially above 33%. Even though we assume some correction and normalizing trend in the last two months of the year, year-end consumer inflation will likely reach 32.5-33%, adding new inflationary pressure over the start of the year price hikes and wage adjustments, and also our 2026 year-end forecast of 23%.
- Having said that, the reliance on liquidity and macro-prudential measures, particularly deposit rules, will likely remain essential not to allow a fast decline in TL deposit rates, and speeding up domestic demand and dollarization. Nevertheless, if an easing bias is maintained to keep rate cuts, a stronger reliance on macro-prudential measures will continue to weaken the monetary transmission mechanism with distributional effects. Therefore, the room for future easing vanishes further and requires a more cautious stance from the CBRT.
- In this respect, the CBRT maintained the commitment to tighten the stance in case of a significant deviation in inflation outlook from the interim targets, keeping a buffer for their future communication. Yet, the markets will seek for an action when that moment arrives and the easing bias makes the CBRT open to those risks.
- The removal of the reference to the contribution from the fiscal stance to the process also signals some exhaustion of the CBRT, and might be an acceptance of a slower disinflation trend, compared to the more aggressive inflation targets of next years.
- Overall, we maintain the view of gradual rate cuts going ahead, with a similar 100bps cut in Dec. The start of the year price adjustments will push the inflation trend upward in 1Q26, keeping it above 2%. Potentially worsening inflation expectations further, second round effects and strong inertia will preserve the challenges ahead. In this regard, financial stability might still be prioritized in a way that risks are contained, but inflation stays high. We will watch how the CBRT will revise its inflation projections (25-29% for 2025 and 13-19% for 2026) in the last inflation report of the year -to be released on 7th of November- and revise our forecasts, accordingly.

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



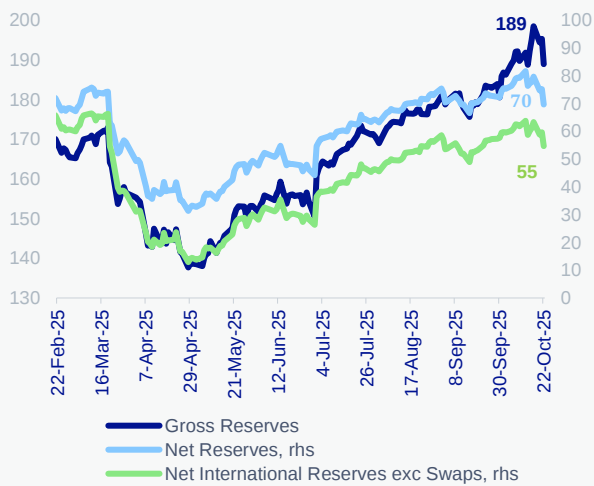
Source: Garanti BBVA Research, TURKSTAT

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



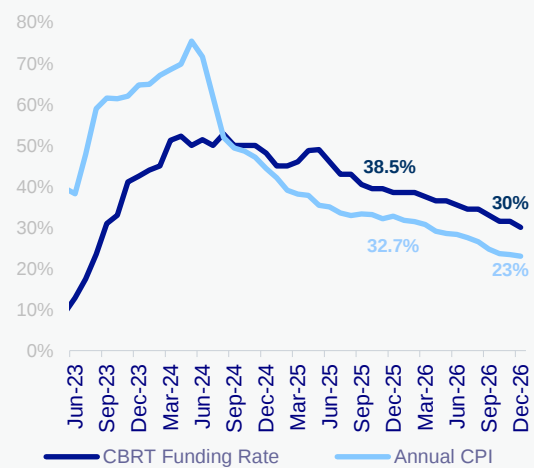
Source: Garanti BBVA Research, CBRT

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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