BBVA Research

Türkiye | The CBRT is going big and pulling no punches

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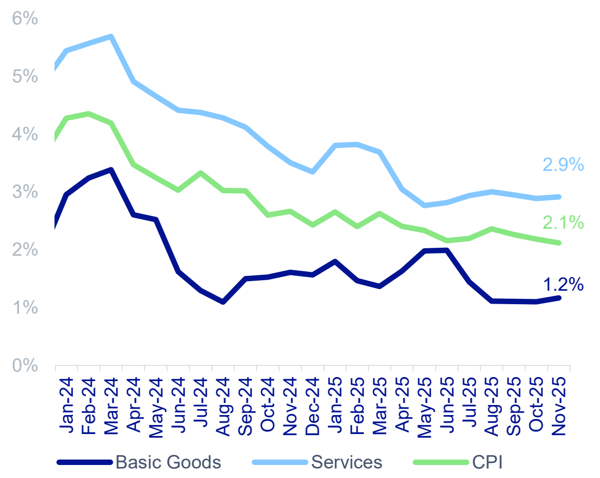
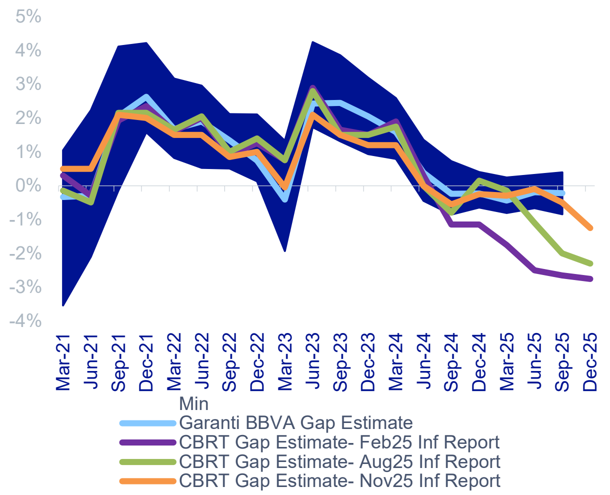
- The Central Bank of the Republic of Türkiye (CBRT) reduced the policy rate by 150bps to 38.0%, following the split among the rate cut expectations of 100-200bps, with also a similar size of cuts in the corridor (36.5%-41.0%).
- The CBRT is again optimistic about the demand conditions and the disinflation process, despite the higher than expected GDP momentum in 3Q25 (1.1% q/q) boosted by domestic demand and the continuing stickiness in inflation trend above 2%. They also refer to signs of improvement in inflation expectations and pricing behavior, where we have doubts going forward under the easing bias of the CBRT and all expectations staying even above the upper bound of the CBRT forecast range (13-19%) for 2026. After today’s decision, we understand the CBRT will likely calibrate the policy rate via ex post and 3-month forward ex ante real rates of around 6pp and they would like to use the room that the disinflation pace provides as much as possible.
- The rest of the statement remains the same by highlighting the maintenance of the tight monetary stance until price stability is achieved and promising additional tightening in case of a significant deviation in inflation outlook from the interim targets.
- We think the CBRT has again missed a great opportunity to surprise the markets positively by delivering a lower 100bps rate cut after the stronger than expected GDP figures, unpleasant growth composition and stickiness in the inflation trend, ahead of the potentially increasing inflation trend above 2% in 1Q26 following the start of the year price hikes. Unanchored inflation expectations, second round effects and strong inertia will preserve the challenges ahead. In this regard, we maintain the view that financial stability might still be prioritized in a way that risks are contained, but inflation stays high.
- Although the CBRT surprised us to the negative side today (vs. our 100bps expectation), we continue to expect gradual rate cuts from the CBRT by 100bps till 2H26 since we forecast the cumulative consumer inflation to be 8-9% in 1Q26. Assuming an average wage hike of 25%, nominal depreciation of the currency by 21%, administered price hikes in line with the Ministry guidance so far and 4% GDP growth, we forecast year end consumer inflation to be 25% (vs. the CBRT point target of 16%), where the CBRT might keep cutting the policy rate toward 32% at the end of 2026.

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



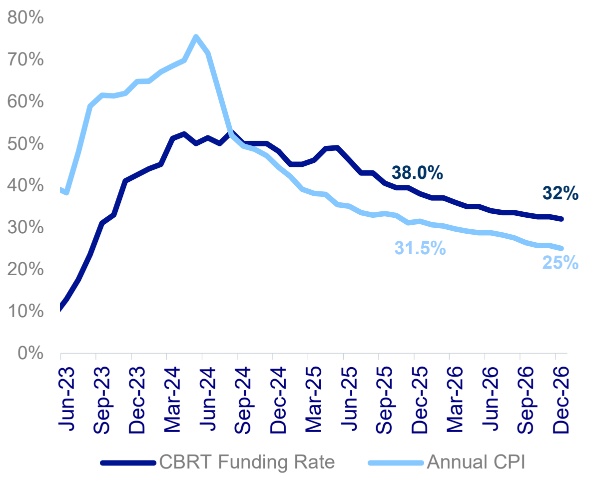
Source: Garanti BBVA Research, TURKSTAT

Figure 2. Output Gap Estimates (Garanti BBVA vs. CBRT wrt potential output)



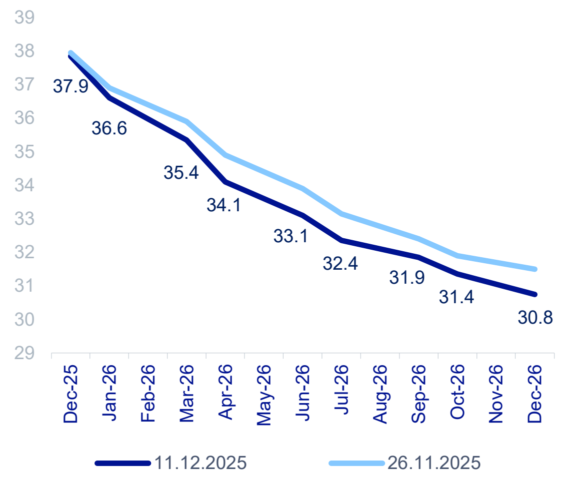
Source: Garanti BBVA Research, TURKSTAT, CBRT

Figure 3. Garanti BBVA CBRT Funding Rate & CPI Forecasts (%)



Source: Garanti BBVA Research, CBRT

Figure 4. CBRT Funding Rate Pricing Implied by OIS Curve (%)



Source: Bloomberg

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