

Türkiye | A positive CBRT surprise - we almost forgot

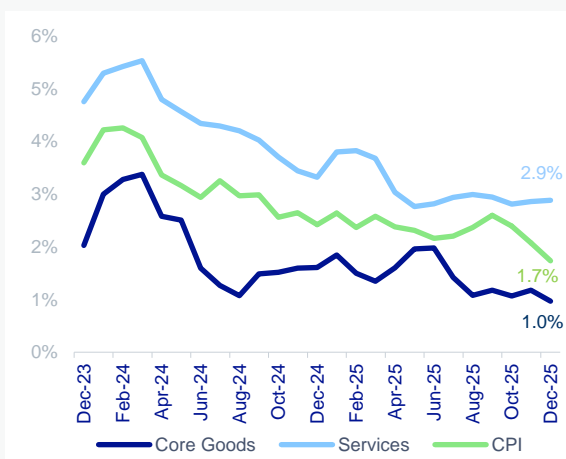
Adem Ileri / Seda Guler Mert

- The Central Bank of the Republic of Türkiye (CBRT) surprised positively and reduced the policy rate by 100bps to 37.0%, below our expectation and consensus of 150bps, with also a similar size of cuts in the corridor (35.5%-40.0%).
- The CBRT this time seems relatively cautious and highlights the likelihood of a stronger than initially expected monthly consumer inflation for January, led by food prices (We nowcast a m/m CPI of close to 4% with two side risks depending on food inflation and changes in the CPI methodology). Despite the expectation of a limited deterioration in the underlying trend, we understand the CBRT aims to avoid any further deterioration in the trend stemming from expectations after a firm start of the year. Moreover, the CBRT finally acknowledges decelerating disinflationary impact from demand conditions as of 4Q25, which we have been highlighting for quite some time [here](#) and [there](#), and discussing demand might have not cooled down adequately to help converge to the targeted inflation levels.
- In [our December MPC decision note](#), we had assessed that the CBRT shows a will to utilize the scope available to the extent permitted by inflation trend and reserve flows. We maintain our view of a calibration of the policy rate via ex post and 3-month forward ex ante real rates of around 6pp, and today's decision confirms that expectations play a key role as well.
- There is the news flows of a potential electricity price hike in February, which we were expecting to take place later in 2Q26. If this happens in addition to the worsening trend due to the start of the year price hikes and seasonal surprises (also Ramadan effects to be expected in Feb-Mar), there appears the risk of a stronger deterioration in inflation expectations, which the CBRT has been betting the opposite to become a trigger to decelerate the resilient inertia. Therefore, the CBRT might have acted more prudently than the consensus, which is very good to gain credibility and show efforts to anchor expectations, as seen in the stronger decline in the longer end of the TL sovereign curve after the decision.
- 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 continue to construct our baseline with a disinflation trend but evaluate the balance of risks is shifting towards a stickier inflation trend alongside upside risks on the economic activity. Therefore, we welcome today's prudent decision as showing the market that there is no pre-determined easing cycle, compared to the latest market participants survey of 150bps cuts in the first three meetings of the year.
- Overall, we maintain our view of gradual rate cuts from the CBRT by 100bps till 2H26, which could decelerate further and finish the year at 32% policy rate. Assuming a controlled scenario of a moderate 4% GDP growth and close to 21% nominal depreciation of the currency, we

forecast year end CPI to be 25% (vs. the CBRT point target of 16% and upper bound of 19%), where the overall policy mix remains to be restrictive and real rates do not ease much.

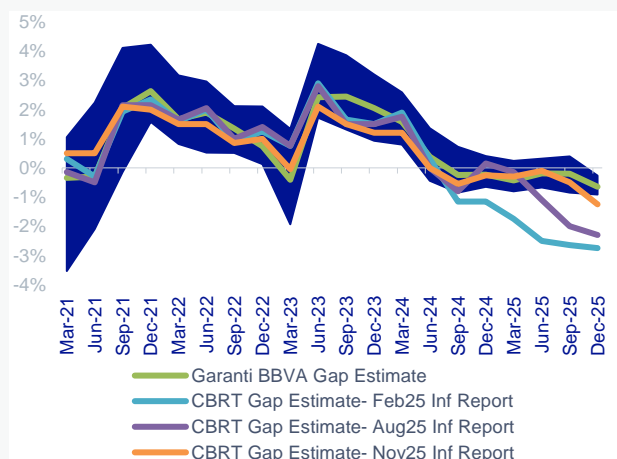
- If expectations improve much faster than we envisage and this is reflected to the pricing behavior, there might occur downside risks on our above consensus inflation forecast. In this respect, Jan-Feb CPI prints will be essential to understand the deterioration in the trend after the early year price and wage hikes. CPI methodology will also be revised with changes in the data sources (national accounts vs. household budget surveys), weights and the index year (2025=100), which we will evaluate once the data is released on Feb 3rd. We will also see the first inflation report of the year on Feb 12th, where the CBRT will present the accounting of the failure to miss the target of last year and show revisions for this year, if any.

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



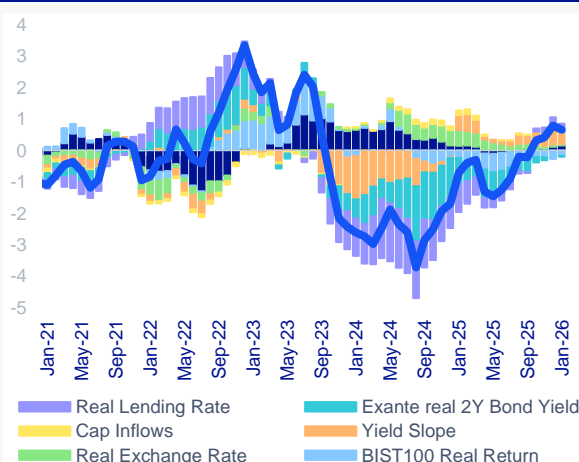
Source: Garanti BBVA Research, TURKSTAT

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



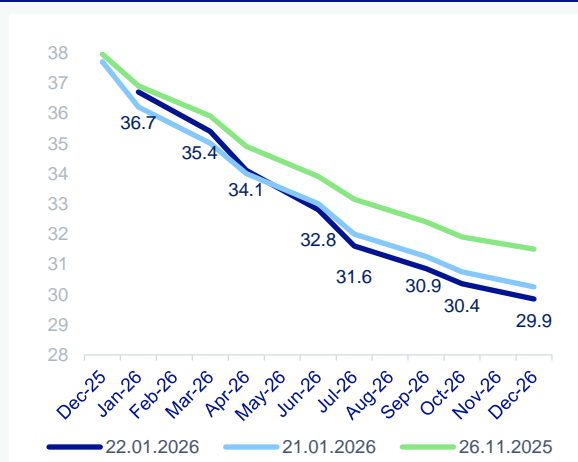
Source: Garanti BBVA Research, TURKSTAT, CBRT

Figure 3. Garanti BBVA Financial Conditions (FCI) Index (standardized, + easing, - tightening)



Source: Garanti BBVA Research, CBRT

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



Source: Bloomberg

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