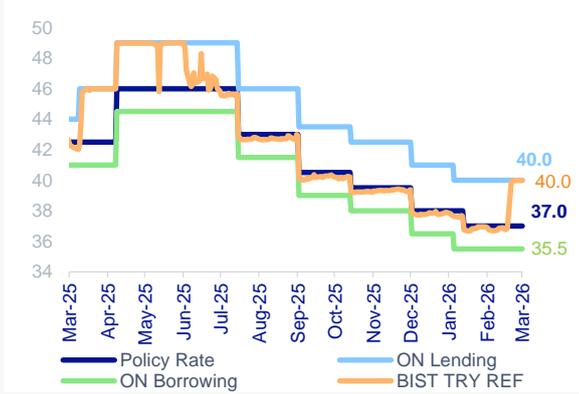


# Türkiye | The CBRT Sees a Transitory Shock, Stays Cautious

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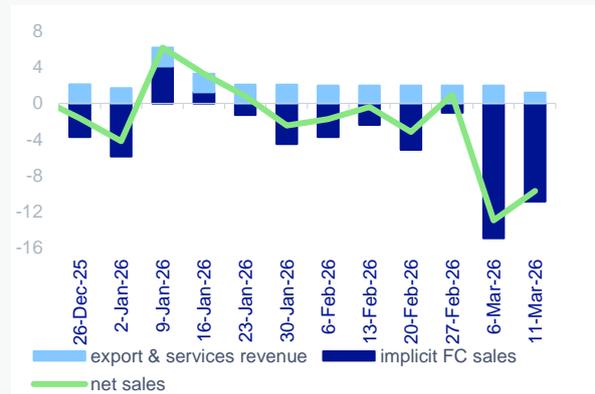
- The Central Bank of the Republic of Türkiye (CBRT) maintained the policy rate (37.0%) and the bands of the interest rate corridor (35.5%-40.0%), parallel to the expectations. As the conflict in the Middle East has led to a spike in global energy prices and initiated demand for the U.S. dollar, risks over the financial stability have already led the CBRT to take different timely measures and the average cost of funding has already been hiked to 40% as of March 2<sup>nd</sup>. Likewise, coordinated fiscal measures have been introduced to contain risks on the inflation outlook.
- Today's decision suggests the CBRT views the recent geopolitical risks as temporary and believes its current policy toolkit is sufficient to mitigate these risks for now. We also think that financial stability remains the key priority, as the reference to potential additional monetary tightening was linked to a significant and persistent deterioration in the inflation outlook -potentially driven by recent developments- rather than to deviations of inflation from the interim targets.
- The CBRT does not provide any guidance for March inflation outlook and regarding that its potential next steps. Instead, they give the impression that they have already taken the right steps and from now onwards they aim to closely monitor the effects of geopolitical developments on the inflation outlook through the cost channel and economic activity.
- On the impact so far, we calculate a depletion from the CBRT reserves above \$25bn since the start of the war till yesterday and see the level of the sovereign bonds over the CBRT assets has moved up toward 4% (from 2.5%) together with its sterilization of TL liquidity still up to TL 600bn (down from TL 1,000bn just before the start of the war). As of yesterday, the risk-off mood has started to stabilize helping the offshore carry inflow and the CBRT has again proved itself in the crisis management that the FC demand from residents has been very limited to only corporate demand (also with non-deliverable forward outstanding position of \$507mn).
- We construct our baseline with a short-lived conflict with 4-5 weeks duration, where the average oil and natural gas prices could be 10% higher than our pre-conflict baseline in 2026, adding 1-1.5pp upside risk on our 25% year-end inflation forecast. In this regard, we assume additionally tightened monetary stance, sliding-scale fuel pricing mechanism, and a relatively stronger currency outlook might offset such risk. However, a conflict lasting longer could add renewed financial stability risks and inflationary pressure; therefore we will reassess our projections in line with the evolution of geopolitical risks and domestic policy responses.
- We nowcast a monthly CPI of 2% with an annual inflation falling below 31% in March, which seems manageable so far for spill-over effects on inflation expectations. Should the shock de-escalate, the CBRT may gradually steer the average funding cost back toward the policy rate, potentially depending on the duration of conflict. In our baseline, we anticipate rate cuts to resume in June, with gradual 100bps cuts at subsequent meetings, bringing the policy rate to 32% by year-end. Next MPC meeting will be held on 22<sup>nd</sup> of April.

**Figure 1. CBRT Interest Rate Corridor & BIST TRY Ref Rate (%)**



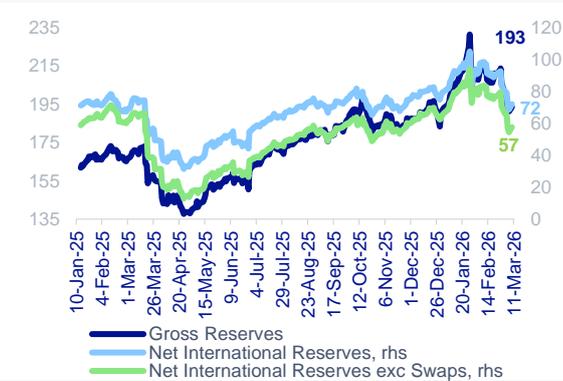
Source: Garanti BBVA Research, CBRT

**Figure 2. Flow of CBRT Reserves\* (weekly, \$USbn)**



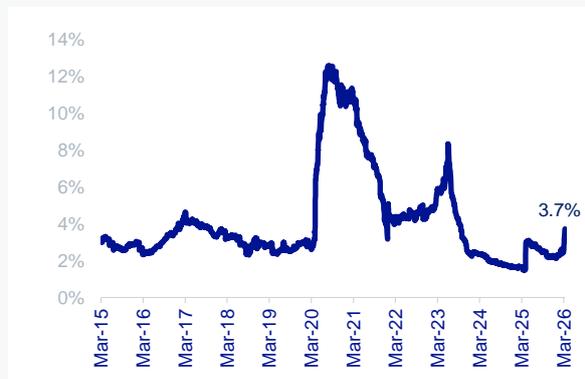
Source: Garanti BBVA Research, CBRT, \*the week ending by March 11<sup>th</sup> refers to three days as 9-11 March

**Figure 3. CBRT International Reserves (\$USbn)**



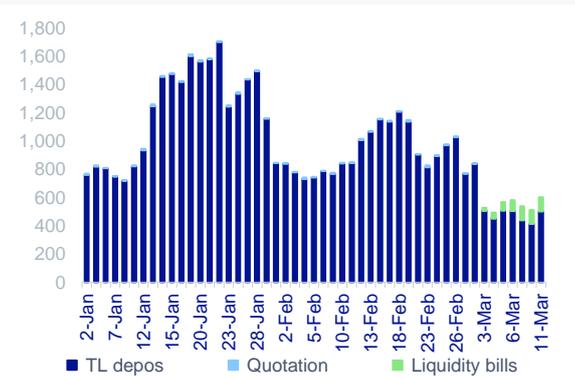
Source: Garanti BBVA Research, CBRT

**Figure 4. CBRT TRY Sovereign Bond Holdings / Assets (% ratio)**



Source: Bloomberg

**Figure 5. CBRT Sterilization Volume (TL bn)**



Source: Garanti BBVA Research, CBRT

**Figure 6. CBRT Funding Rate Pricing Implied by OIS Curve (%)**



Source: Bloomberg

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