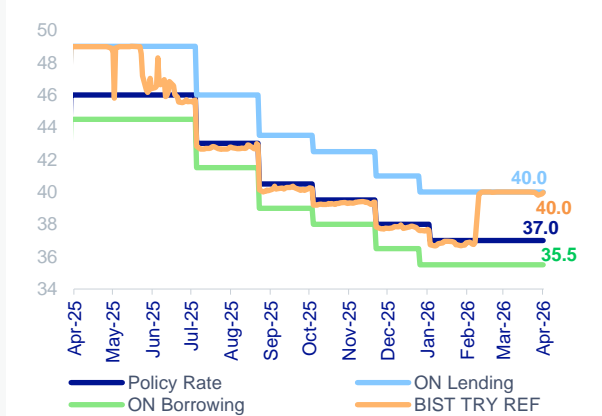


# Türkiye | The CBRT stays optimistic

Adem Ileri / Seda Guler Mert

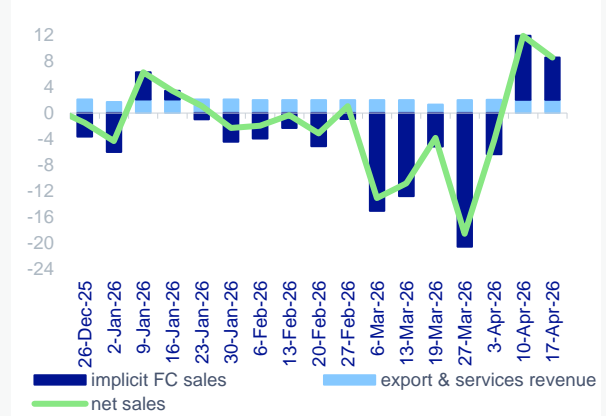
- The Central Bank (CBRT) kept the policy rate unchanged at 37%, in line with market expectations, thereby missing another opportunity to deliver a positive surprise and strengthen its credibility. Notably, raising the policy rate to 40% -the current effective cost of funding via the overnight lending rate- would not have altered the effective funding rate. However, such a move could have shifted funding back to the policy rate and signaled a more cautious stance in the face of rising risks. The CBRT appears to consider existing measures sufficient and views conflict-related risks as temporary, despite the recent clear deterioration in inflation expectations.
- The longer-than-expected duration of the conflict, along with rising energy prices and disruptions in supply chains, poses downside risks to growth and the current account deficit, while creating upside risks to the inflation outlook. Indeed, the deterioration in leading indicators in March and April has signaled a weaker –but not sharply worsening– activity outlook in the near term. Meanwhile, short-term inflation expectations have deteriorated significantly. In March, 12-month-ahead inflation expectations for both firms and households worsened, and will likely deteriorate further in April. According to the April market participants survey, year-end 2026 inflation expectations rose by 2pp to 27.5%, while 2027 expectations rose by 1.4pp to 20.1%. As today's policy statement underlined, the CBRT follows an intention to monitor the secondary effects of geopolitical developments on inflation amid a slowdown in activity -suggesting that a pro-growth bias may currently be somewhat more pronounced.
- According to our calculations, after a total foreign currency intervention of the CBRT (including inflows to reserves from exporters etc.) by around \$US60bn in March, we see an improvement close to \$US20bn till last Monday, supported by capital inflows amid expectations of a ceasefire. The rebound in reserves, the decline in the risk premium, and the relatively low dollarization trend among residents on top of the likelihood of a ceasefire may have led the CBRT to remain on hold.
- Even though a ceasefire is reached within 2Q26, uncertainty will likely persist regarding its durability and the pace of normalization in supply chains. In particular, damage to energy infrastructure may delay the recovery on the supply side. Considering the ongoing deterioration in the external balance, the pressure on reserves and the exchange rate may continue. Moreover, we expect the inflation trend in April to deteriorate, which is also emphasized by the CBRT in the policy statement, and annual inflation to remain around 32% till July.
- Despite rising risks, today's decision suggests that a pro-growth bias would be maintained and the Bank might start preemptively easing when conditions allow. We expect the funding rate to gradually normalize –possibly starting in June– and move closer to the policy rate. Subsequently, limited rate cuts could begin as early as July. By year-end, based on current forward prices on energy, we expect year-end CPI to materialize at 28.5% and the policy rate to decline to at most 35%. If the process is prolonged, we assess that risks to inflation and interest rates are tilted to the upside, while risks to growth are tilted to the downside.

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



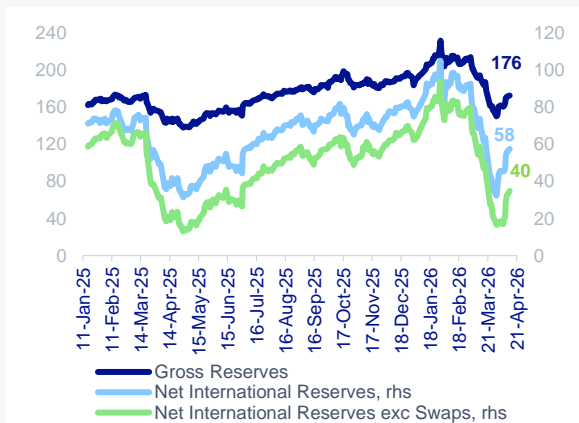
Source: Garanti BBVA Research, CBRT

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



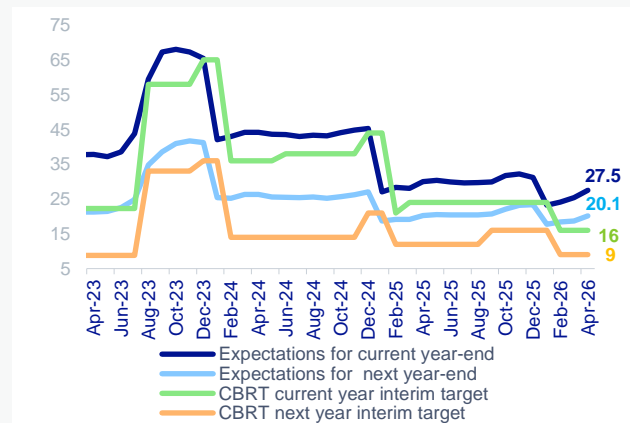
Source: Garanti BBVA Research, CBRT

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



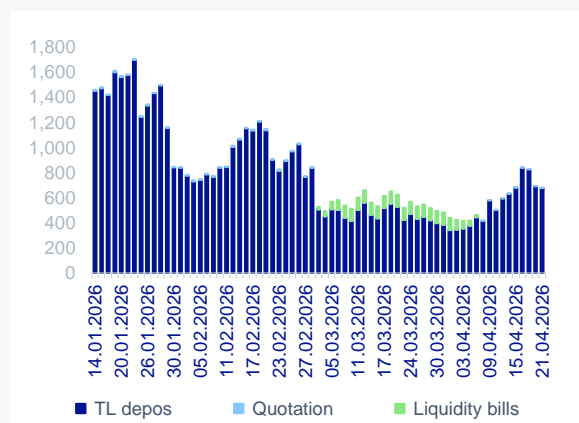
Source: Garanti BBVA Research, CBRT

**Figure 4. Inflation Expectations of Market Participants (%)**



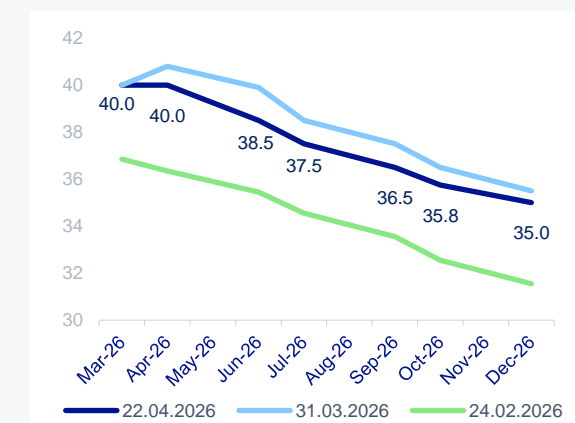
Source: Bloomberg

**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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