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Türkiye | On Hold for Now, Gradual Easing Still Expected

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- The Central Bank (CBRT) again kept the policy rate and the interest corridor unchanged at 37% and 35.5%-40%, respectively, broadly in line with market expectations. This marks the fifth consecutive month in which funding has continued through the overnight lending rate (40%). The expected increase in the underlying inflation trend in July, together with the renewed rise in energy prices amid recent geopolitical developments, appears to justify the decision to remain on hold. Although the CBRT highlights the ongoing weakening in domestic demand (the Turkish version refers to a more pronounced weakening, which is not reflected in the English text), the Bank appears to place greater emphasis on inflation in this statement. However, by describing the expected increase in the underlying inflation trend as temporary —a claim that cannot yet be substantiated in light of the renewed supply shock— the CBRT somewhat tempers its intended hawkish tone.
- On inflation, we nowcast 1.85% m/m consumer inflation in July, implying a seasonally adjusted level of 2.3-2.4% m/m and a slight deterioration in the underlying inflation trend, which the CBRT also stresses in the statement. Assuming a gradual normalization in energy prices toward an average Brent price of USD 89/bbl in 2H26, we maintain our year-end CPI forecast of 30% amid a pro-growth bias and unanchored inflation expectations. Short-term inflation expectations have continued to deteriorate, with year-end inflation expectations rising further to 29.2% and end-2027 expectations to 21.5%, according to the CBRT's July Market Participants Survey, while one-year-ahead inflation expectations among households and the real sector remain even higher, at 46% and 33%, respectively. The underlying inflation trend has remained at or above 2% since 1Q25, with domestic and external uncertainties continuing to pose challenges to the disinflation process.
- On growth, we nowcast an annual GDP growth of 2-2.5% y/y as of June, as discussed in our latest activity report. We observe further moderation in domestic demand conditions; however, we still believe the authorities' preference for maintaining growth at around 3% remains largely intact, given the latest efforts of selective easing with new credit packages and, to some extent, fiscal support. Unless the policy mix stays sufficiently prudent, sustaining an improving inflation outlook will become increasingly difficult, particularly amid heightened external uncertainty.
- If energy prices begin to normalize again soon, we expect the funding rate to gradually normalize toward the policy rate in September. Given the sensitivities on growth, although being premature relative to inflation targets, there may be limited room for policy rate cuts starting in 4Q26, with the policy rate expected to reach 36% by year-end. The CBRT will present the next inflation report on August 13th and the next MPC meeting will be held on September 10th. Faster than expected rate cuts would add renewed inflationary pressure going forward and increase the reliance on macroprudential measures.

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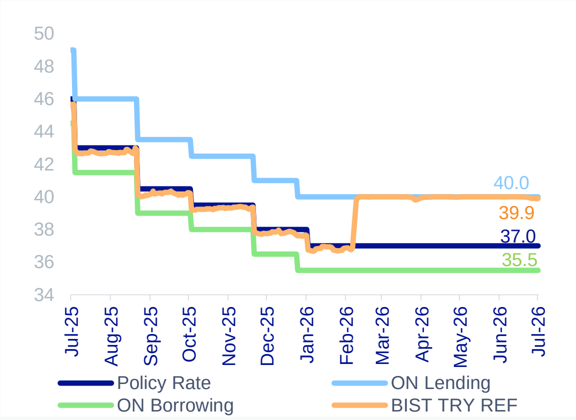
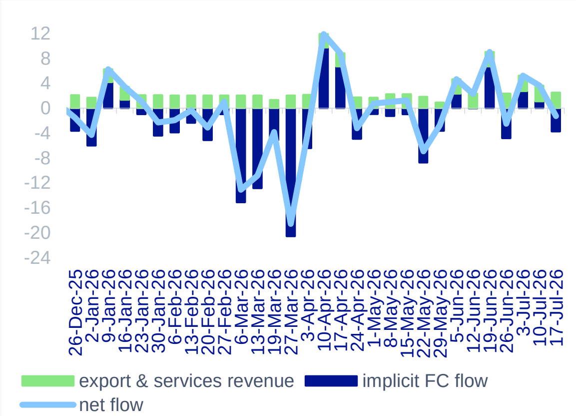
Figure 1. CBRT Interest Rate Corridor & BIST TRY ON Ref Rate (%)



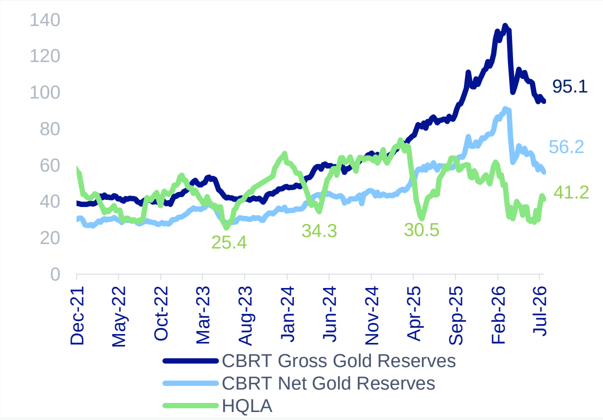
Source: Garanti BBVA Research, CBRT

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



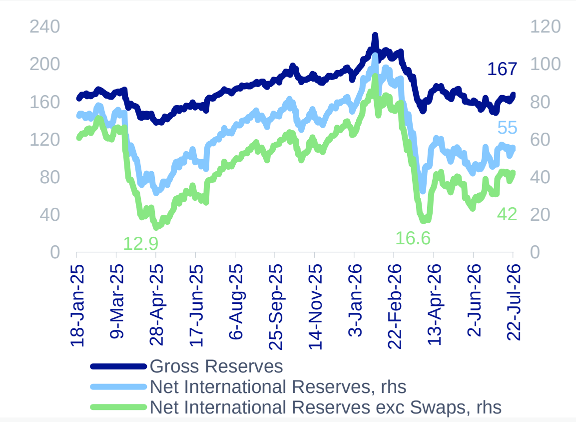
Source: Garanti BBVA Research, CBRT

Figure 3. CBRT Gold Reserves & High Quality Liquid Foreign Assets (HQLA) ($USbn)



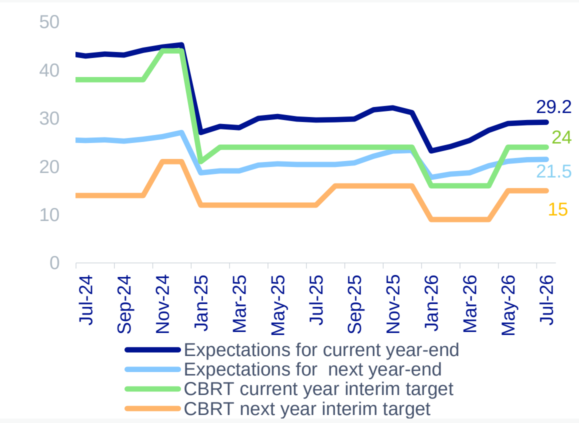
Source: Garanti BBVA Research, CBRT

Figure 4. CBRT International Reserves ($USbn)



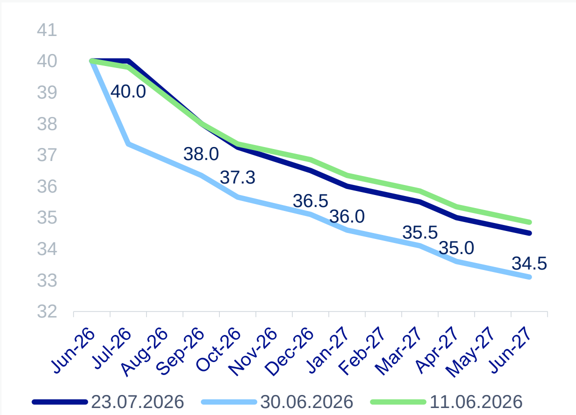
Source: CBRT

Figure 5. Inflation Expectations of Market Participants (%)



Source: Garanti BBVA Research, CBRT

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



Source: Bloomberg

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