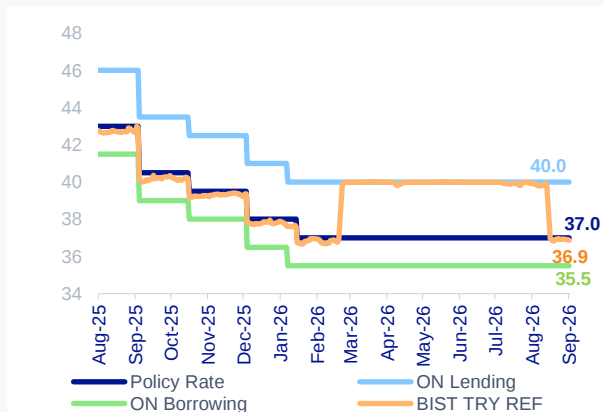


Türkiye | Caution Returns to the Fore at the CBRT

Adem Ileri / Seda Guler Mert

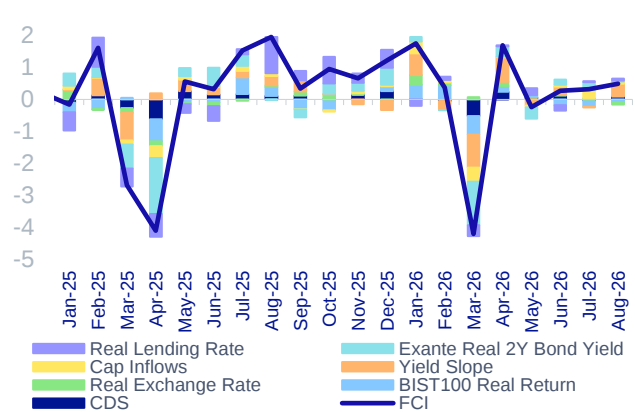
- The Central Bank (CBRT) again kept the policy rate and the interest corridor unchanged at 37% and 35.5-40%, respectively, in line with the market consensus. The CBRT resumed one-week repo funding as of August 23 and began sterilizing excess TL liquidity through the policy rate, immediately resulting in a 300bp decline in the cost of funding (440bp on a compounded basis).
- Following the CBRT's earlier and faster-than-expected easing, today's decision appears to signal caution amid the renewed rise in energy prices stemming from recent geopolitical developments. The CBRT again highlights the weakness in domestic demand, pointing to limited pass-through from supply shocks to domestic prices. However, this time, the Bank also stresses that elevated energy prices pose an upside risk to the inflation outlook. This still leads us to think that, once pressure from energy prices eases, the Bank would feel more comfortable reducing real rates, particularly given increasing concerns over weakening economic activity.
- On inflation, the CBRT foresees a decelerating underlying trend of inflation despite monthly fluctuations, as signaled by recent inflation figures and leading indicators. We nowcast a slightly above 2% m/m CPI increase in September, implying a seasonally adjusted monthly increase of just below 2%, broadly confirming the CBRT's assessment. Nevertheless, developments in commodity prices and time-dependent price adjustments during the back-to-school period could keep risks tilted to the upside. Moreover, a potentially softer core inflation trend in 4Q26 would likely reverse at the start of 2027, reflecting year-start price & wage adjustments and a gradual shift toward supportive fiscal stance, as signaled in the latest Medium Term Program (MTP).
- Assuming an average Brent price of USD 89/bbl in 2H26, we maintain our year-end CPI inflation forecast at 30%; however, recent tensions in the region pose upside risks to our forecast. According to the CBRT's August market participants survey, year-end inflation expectations rose further to 29.4%, while end-2027 expectations increased to 21.9%. Meanwhile, one-year-ahead inflation expectations among households and the real sector reacted more strongly, rising to 45.6% and 32.8%, respectively.
- On growth, we nowcast annual GDP growth of around 3% for 3Q26 as of August, implying 1% q/q growth, closer to potential, and making 3% GDP growth for 2026 increasingly likely. Having said that, domestic demand conditions continue to moderate, and we are closely monitoring whether the gradual easing in financial conditions generates any signs of a recovery in activity.
- If energy prices normalize below USD 90/bbl as we approach the October MPC meeting on October 22, we expect a 100bp cut in the policy rate, supported by the room provided by still-high real rates as annual inflation declines to around 30%. Given that inflation is likely to remain sticky at around 30% until late 1Q27, we expect the policy rate to stay at 36% until there is a clearer improvement in the disinflation trend. Faster-than-expected rate cuts would risk generating renewed inflationary pressures and increase reliance on macroprudential measures.

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



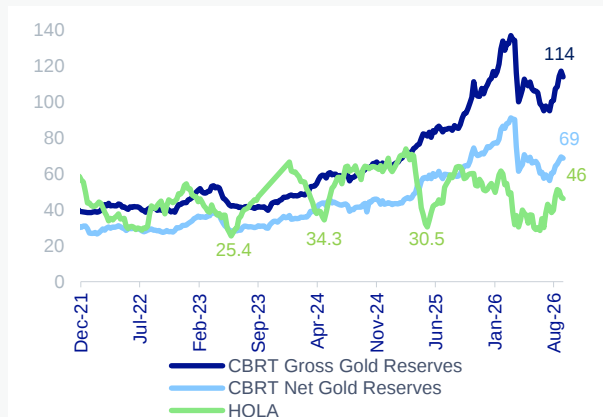
Source: Garanti BBVA Research, CBRT

Figure 2. Garanti BBVA Financial Conditions Index (FCI, standardized: >0 looser, <0 tighter)



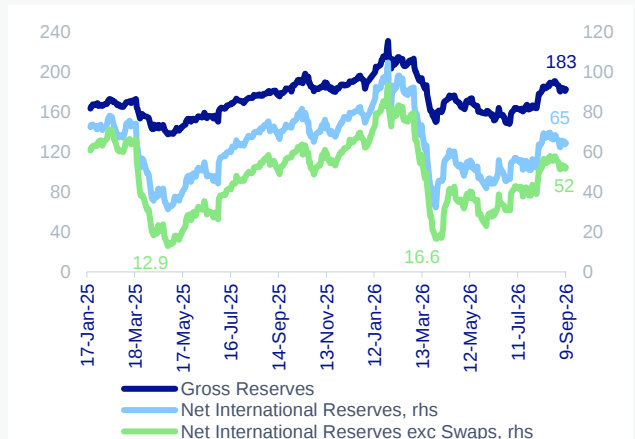
Source: Garanti BBVA Research, CBRT

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



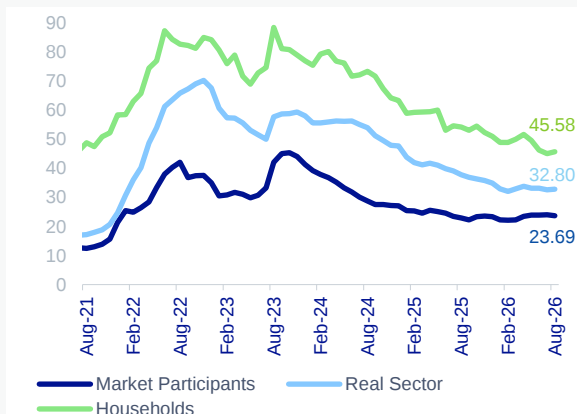
Source: Garanti BBVA Research, CBRT

Figure 4. CBRT International Reserves (\$USbn)



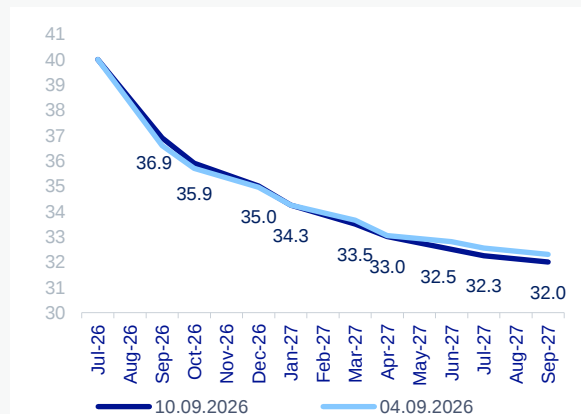
Source: CBRT

Figure 5. One-Year Ahead Inflation Expectations (%)



Source: CBRT

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



Source: Bloomberg

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