

Türkiye | A Cautious Easing Step

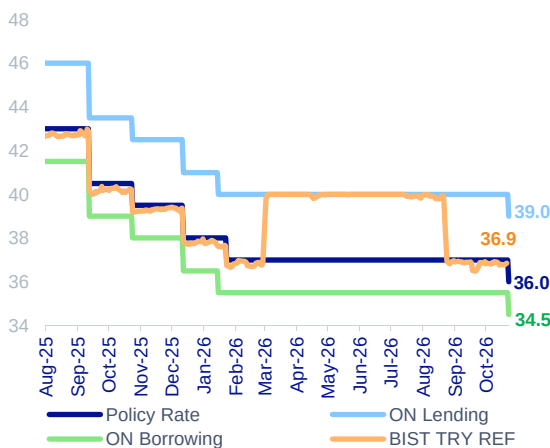
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- The Central Bank (CBRT) cut the policy rate by 100bp to 36% and accordingly lowered the asymmetric interest corridor to 34.5-39%, in line with the market consensus. This marks the first policy rate cut since January, following the resumption of funding through the policy rate in late August.
- The CBRT justifies the decision by highlighting recent inflation data and leading indicators confirming the deceleration in the underlying inflation trend. It also highlights weaker economic activity as a factor limiting the pass-through of recent supply shocks to domestic prices. At the same time, the CBRT maintains a balanced tone, acknowledging upside risks to the inflation outlook from elevated energy prices amid ongoing geopolitical tensions.
- Today's decision appears to reinforce caution amid the renewed rise in energy prices. By explicitly emphasizing that the size and timing of policy steps will be determined prudently on a meeting-by-meeting basis, with a focus on the inflation outlook, the CBRT signals that the easing cycle may not proceed smoothly, with potential pauses along the way.
- We nowcast October CPI inflation at nearly 2.5% m/m, implying a seasonally adjusted rate closer to 2% and suggesting a downward inflation trend. Nevertheless, ongoing supply disruptions, elevated energy prices, potential upward pressure from food inflation and unanchored expectations keep risks tilted to the upside. Moreover, any moderation in core inflation in 4Q26 could reverse in early 2027, reflecting year-start price and wage adjustments as well as a gradual shift toward a supportive fiscal stance, as signaled by the latest Medium-Term Program (MTP). Recent official remarks on expanding subsidized credit schemes and employment subsidies also point to additional quasi-fiscal support.
- Despite weaker domestic demand (*please see our latest [Activity Pulse](#) report*), we maintain our year-end CPI inflation forecast at 30%, given the renewed upward pressure from energy prices. According to the CBRT's October market participants survey, year-end inflation expectations held steady at 29.6%, despite the much weaker-than-expected September inflation print. More notably, end-2027 inflation expectations continued to rise, reaching 23.3%. Meanwhile, one-year-ahead inflation expectations among households and the real sector remained elevated at 45.6% and 32.5%, respectively.
- Based on the CBRT's latest communication, we understand that the Bank considers the current degree of monetary tightness appropriate and intends to preserve it by adjusting nominal interest rates in line with improvements in the underlying inflation trend. Meanwhile, it is likely to maintain its exchange rate strategy to unwind accumulated real appreciation (with USD/TRY monthly depreciation pace recently adjusted to 1.8%, from 1.6-1.7% since mid-April), supported by weaker domestic demand and high reserve buffers. Therefore, net

returns on TL assets could narrow further, particularly as global interest rates remain high for longer, warranting close monitoring of any potential shift toward dollarization.

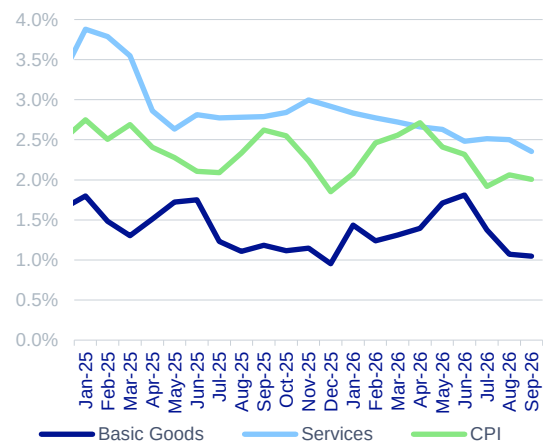
- With inflation likely to remain sticky at around 30% until late 1Q27, we forecast the policy rate to remain at 36% until clearer signs of disinflation emerge. Overall, we expect monetary policy to remain restrictive, with high real rates supporting the attractiveness of TL savings and leaving limited room for monetary easing in the short term. Nevertheless, should year-end inflation appear likely to come in below 30%, the CBRT could deliver another 100bp cut at its December MPC meeting, broadly in line with market consensus. We will closely monitor inflation dynamics and the Bank's guidance at the upcoming Inflation Report presentation on November 12.

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



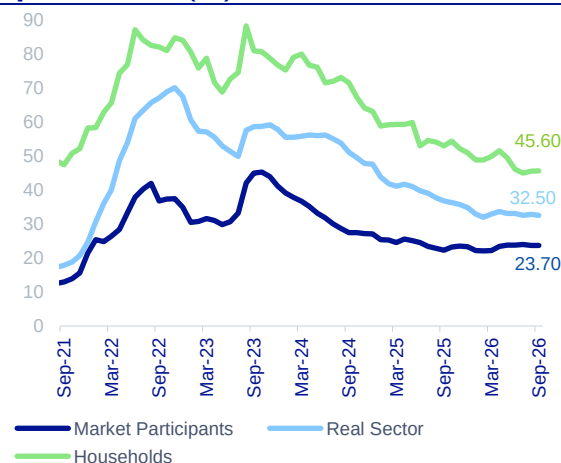
Source: Garanti BBVA Research, CBRT

Figure 2. CPI Inflation Trend (monthly SA, 3M %)



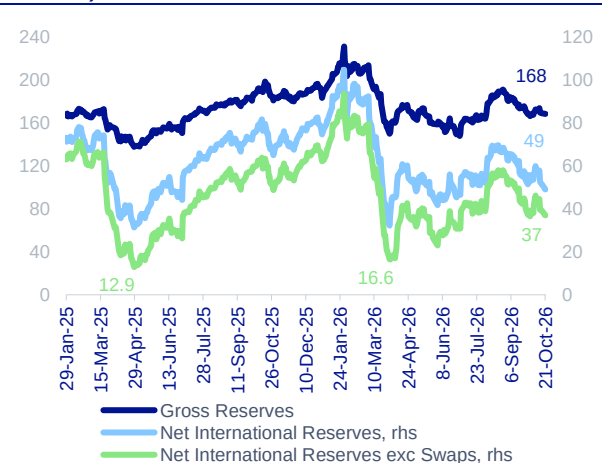
Source: Garanti BBVA Research, TURKSTAT

Figure 3. One-Year Ahead Inflation Expectations (%)



Source: Garanti BBVA Research, CBRT

Figure 4. CBRT International Reserves (\$USbn)



Source: Garanti BBVA Research, CBRT

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