

## Macro note – 2026/II Inflation Report

**In its second inflation report of the year, the CBRT updated its interim year-end targets for 2026, 2027 and 2028 to 24%, 14% and 9% respectively. Citing a high degree of uncertainty, the Bank suspended the communication of forecast ranges and emphasized that the tight monetary policy stance would be maintained with determination until price stability is achieved.**

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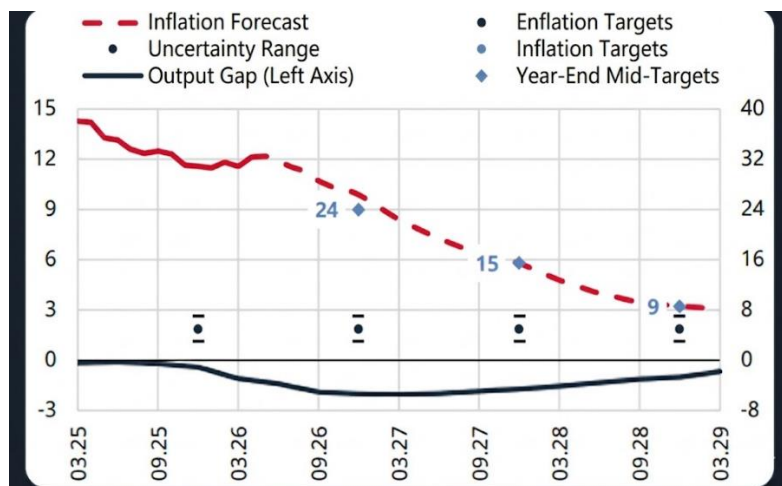
In its second inflation report for 2026, the Central Bank provided details on interim targets, medium-term forecasts, the outlook for local and global economies, and developments in the real sector and financial markets. During the previous reporting period, the interim inflation target was maintained at 16%, although the forecast range was revised upwards. In the current reporting period, however, the forecast range for the end of 2026 has not been shared, and the interim target has been revised upwards by 8 percentage points to 24%. Additionally, the year-end inflation forecast has also been raised to 26%. We can attribute this divergence between the interim target and the forecast to the high level of uncertainty. Behind these significant upward revisions lie certain changes to the underlying assumptions. Chief among these are risks related to the global growth outlook and external demand. The export-weighted global growth index has been lowered from 2.3% to 1.7%. We see an assumption that the contribution of external demand to exports will remain more limited. The most significant update to the inflation forecast and the interim target came from the oil price projections. The average oil price assumption for 2026 has risen from USD 60.9 per barrel to USD 89.4 per barrel. This represents an update of approximately USD 30 per barrel in oil prices. It will have significant implications for both the current account balance and inflation. Import prices, calculated as the annual average percentage change in USD terms, have been raised from 2% to 6.3%. We observe that the pass-through effect from the exchange rate to domestic prices has risen significantly. Finally, the food inflation assumption, reflecting the combined impact of agricultural commodities, fertiliser prices and oil prices, has been updated from 19% to 26.3%. When the forecast updates and their sources are assessed together, we see that the CBRT is moving closer to market forecasts. In our recent macroeconomic notes, we had highlighted that upward revisions to forecasts and intermediate targets might be made in the inflation report. In this context, it was appropriate for the CBRT, as the policy-maker, to update its forecasts and intermediate targets in light of current risks and to adjust monetary policy accordingly. Furthermore, the CBRT's decision to communicate to the public, with supporting rationale, that market funding is being conducted at the upper band and that a tight stance must continue for some time has enhanced the effectiveness of its communication policy.

The key points highlighted in the general assessment of the inflation report are as follows: "Following the US/Israel-Iran War that began at the end of February, energy prices rose sharply whilst uncertainties regarding the global economic outlook increased. During the reporting period, high volatility was observed in financial markets due to the impact of the US-Israel-Iran conflict, and uncertainty increased in financial markets, particularly in commodity markets. Indicators for the first quarter of 2026 point to a loss of momentum in economic activity, implying that demand conditions continue to support the disinflationary process. The seasonally and calendar-adjusted

current account deficit increased in the first quarter of 2026. In formulating medium-term forecasts, a framework was adopted assuming that monetary policy would remain tighter for a longer period than indicated in ER 2026-I and that coordination in economic policies would be maintained. The interim inflation targets for 2026, 2027 and 2028 have been updated to 24 per cent, 15 per cent and 9 per cent, respectively. The inflation forecast has been revised upwards to 26 per cent by the end of 2026 and 15 per cent by the end of 2027. The summary of the macroeconomic outlook highlights that, whilst the disinflation process continues, risks remain elevated due to temporary shocks. Both financial conditions and fiscal policy support disinflation, whilst there is limited negative pressure from the balance of payments. It has been reiterated that the tight stance will continue until price stability is achieved, taking all conditions into account.

The section containing the updates to the forecasts and their sources includes the following explanations: “The interim inflation targets for 2026, 2027 and 2028 have been updated to 24%, 15% and 9% respectively. The extraordinary geopolitical developments of recent times have necessitated exceptional updates to the set of assumptions; given the framework we shared in ER 2025-III, a need for updating the interim targets has arisen. Inflation is projected to stand at 26% by the end of 2026 and 15% by the end of 2027. It is projected that after falling to 9% by the end of 2028, inflation will stabilise at the medium-term inflation target of 5% (Chart 1). The extraordinary geopolitical developments during the current Report period have necessitated significant updates to the set of assumptions. In this context, changes have been made to the interim inflation targets in line with the framework outlined in ER 2025-III Spotlight 3.1. The interim targets have been updated to 24%, 15% and 9% for 2026, 2027 and 2028 respectively. The high volatility observed in the global outlook in recent periods, along with the increased frequency and changing nature of shocks, is significantly heightening uncertainties. In this environment of high uncertainty, as some central banks have done, the communication of forecast ranges has been suspended, and a framework has been adopted in which the key risk factors, as identified by the Council, are described descriptively”.

**Graph 1: Inflation and Output Gap Forecasts**



In summary, the Central Bank has updated its year-end interim targets and inflation forecasts in its second inflation report for 2026. Upward revisions have been made to all components, including oil prices, global growth and exports, import prices and food prices. The Central Bank reiterated its stance on a tight monetary policy, emphasising that decisions regarding interest rate cuts are contingent on the inflation outlook. The Central Bank, which utilises both the monetary transmission mechanism and macroprudential measures effectively, has once again stated its determination to use all available tools to bring current inflation closer to the forecast path. We can say that the CBRT's forecasts have become more consistent, albeit only marginally aligning with market expectations. In light of current developments and the outlook, we are maintaining our year-end inflation forecast at 27%.

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