Macro note – MPC Rate Decision

The Central Bank of the Republic of Türkiye (TCMB) cut its policy rate by 100 basis points, in line with expectations, to 36 per cent. Whilst the recent data and leading indicators confirming a decline in the underlying trend of inflation were the main rationale for the rate cut, it was emphasized that geopolitical risks remain high.

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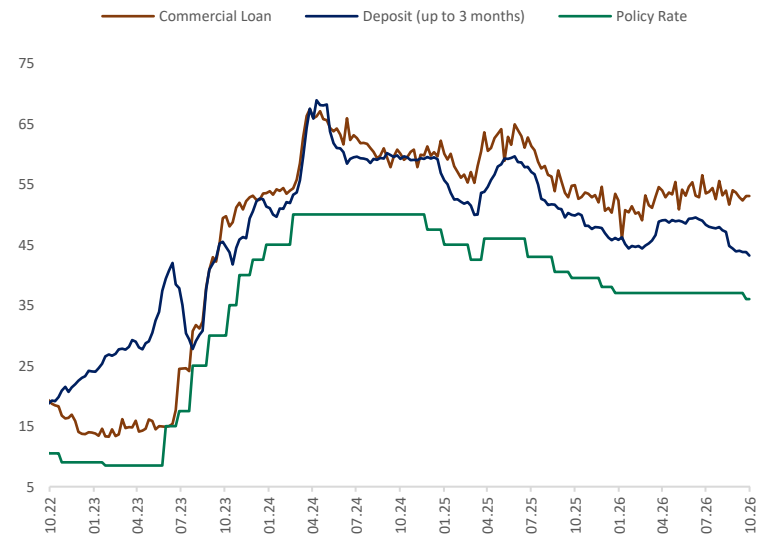
At its meeting this month, the Central Bank of the Republic of Turkey's Monetary Policy Committee (MPC) cut the policy rate by 100 basis points to 36 per cent, in line with expectations. Both the market and we had anticipated a 100-basis-point cut in interest rates. We have noted some minor changes compared with previous policy statements. Foremost amongst these is the reinforcement, with the word 'confirm', of the statement regarding the decline in actual inflation and its underlying trend. Secondly, attention was drawn to the persistence of risks by noting that geopolitical developments 'remain dynamic'. Finally, the phrase 'the magnitude and timing of my steps' was preferred over 'monetary policy decisions', signaling a less hawkish stance regarding the future policy stance. Looking at the details, the primary objective of the tight monetary policy stance was to achieve a clear and sustained improvement in the inflation outlook. The intermediate target selected here was the core inflation trend. Having risen to around 2.5 per cent in May 2026, the core inflation trend had fallen to around 1.72 per cent by September 2026. Furthermore, as far as we can gather from today's decision, leading indicators suggest that this trend is continuing. The 'confirmation' that inflation dynamics are proceeding along a path consistent with the CBRT's forecasts indicates that a clear and sustained decline has been achieved. The continued volatility in oil prices and geopolitical risks may be the key reason why the rate cut was limited to 100 basis points. At present, oil prices—which are approximately 25 per cent above the CBRT's forecasts—are both keeping risks alive and increasing uncertainty. Whilst the impact of external shocks on domestic prices remains limited due to weak domestic demand, an early rate cut could transform this limited effect into greater momentum. From the policymakers' perspective, the negative consequences of an early rate cut may outweigh its short-term positive effects. For this reason, a cautious rate cut has been implemented. Finally, by prioritizing the magnitude and timing of measures over monetary policy decisions, we see that the cycle of rate cuts has resumed, with the size of these cuts being indexed to certain indicators. Should these indicators deteriorate, the cuts could be halted; indeed, if the deterioration becomes persistent, policy could even be tightened further. We can therefore interpret the CBRT's decision today as indicating that significant and lasting progress has been made towards a clear downward trend, that the market is currently too tight relative to current indicator expectations, and that a modest interest rate cut would be appropriate.

The details of the decision statement outline the rationale for the tight stance and current developments. Accordingly, 'Despite monthly fluctuations, recent inflation outcomes and leading indicators confirm the downward trend. Data on economic activity and the limited impact of supply shocks on domestic prices indicate that the weak trend in domestic demand is continuing. On the other hand, upward risks to the inflation outlook posed by persistently high energy prices, resulting from ongoing geopolitical tensions, remain. The effects of geopolitical developments on the inflation outlook via the cost channel, economic activity and the expectations channel are being closely monitored. The tight monetary policy stance, which will be maintained until price stability is achieved, will reinforce the disinflation process via the demand, exchange rate and expectations channels. The Monetary Policy Committee will determine the steps to be taken regarding the policy rate by taking into account inflation outcomes, its underlying trend and expectations, in a manner consistent with the intermediate targets and ensuring the degree of tightness required for disinflation. The magnitude and timing of these steps will be determined through a meeting-based, prudent approach focused on the inflation

outlook. Should there be a significant and persistent deterioration in the inflation outlook, the monetary policy stance will be tightened. The Council has emphasised its prudent stance against upside risks to inflation. Should developments in the credit and deposit markets deviate from expectations, the monetary transmission mechanism will be supported by additional macroprudential measures. Liquidity conditions will remain closely monitored and liquidity management tools will continue to be utilized effectively. The Committee will determine its policy decisions in a manner that ensures monetary and financial conditions conducive to achieving the medium-term inflation target of 5 per cent. “The Council will take its decisions within a predictable, data-driven and transparent framework.” It has been reaffirmed that interest rate decisions are situation-dependent rather than time-dependent; improvements in expectations, actual outcomes and the underlying trend will lead to a continuation of interest rate cuts.

In summary, in today’s interest rate decision, the Central Bank reduced the policy rate by 100 basis points, in line with expectations, to 36 per cent. The slowdown in the core inflation trend, coupled with recent inflation figures and leading indicators, has shown that the CBRT has scope for a cautious rate cut. The scale of the cut was kept limited due to ongoing geopolitical risks. Furthermore, it was reiterated that decisions would be made on a meeting-by-meeting basis and with a focus on inflation, whilst it was emphasised that monetary policy would be tightened should the inflation outlook deteriorate significantly and persistently. The CBRT, which is both making effective use of its primary policy instrument and adjusting liquidity through complementary macroprudential measures, maintains its resolute stance in the fight against inflation. In this context, provided there are no further shocks in domestic or global markets, we expect cautious and gradual interest rate cuts to continue until the end of the year. We would like to emphasise that should any new supply- or demand-side shocks occur, further adjustments to the policy rate stance may be made.

Graph 1: Policy, Loan, and Deposit Rates (%)



Source: CBRT, SEKER Invest

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