

Turkish central bank delivers a cautious 100bp cut

At the MPC meeting, the Central Bank of Turkey continued its policy rate cuts with a 100bp reduction to 37%, showing a decline in the pace from 150bp in December, likely impacted by rising upside risks to the inflation outlook



Fatih Karahan,
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At the first rate-setting meeting of 2026, the Central Bank of Turkey (CBT) delivered a lower-than-expected rate cut of 100bp vs the 150bp market consensus, while the move showed a decline in the pace in comparison to December on the back of noisy inflation data in January and signs of pickup in domestic demand. Accordingly, the bank pulled the policy rate to 37% from 38% and kept the width of the interest corridor unchanged at 450bp.

The MPC statement showed some revisions to the macro assessment, while forward guidance and key messages have remained unchanged. On the inflation front, the CBT governor already warned last week about upside risks to the January and February CPI mainly due to rising food prices likely due to the upcoming Ramadan effect, while, according to him, inflation expectations, administrative price hikes and re-weighting by TurkStat are other factors that could impact the headline figure.

Accordingly, in the statement, while pointing out the decline in the underlying trend last month, the CBT reiterated that “monthly consumer inflation has firmed in January” with a limited rise in the underlying trend, which likely impacted its decision of a lower-than-expected cut in the MPC. We currently project January CPI at 4.2% (previously 3.5%) due to rising food prices, though favourable base effects are expected to help lower annual inflation to 29.8% YoY in January 2026, from 30.9% YoY a month ago.

In the latest market participants’ survey, the year-end Consumer Price Index (CPI) forecasts for 2026 dropped by 12bp from the previous month to 23.23%, while 12M and 24M inflation expectations also fell to 22.2% and 16.9%, respectively.

In the statement, the CBT acknowledged recovering demand conditions in the last quarter, according to early indicators that should be another factor in the bank’s January move. According to the bank, this backdrop still supports the disinflation process, though at a moderating pace.

For the policy outlook, the bank implied it would not change the macroprudential framework, repeated its pledge to maintain a tight monetary stance to support disinflation, and added that it would do this “in line with interim targets” and would tighten “in case of a significant deviation in inflation outlook from the interim targets”. While it reemphasised that future rate decisions will be data-driven and determined meeting-by-meeting, the bank was not clear about rate plans in the near term.

Overall, rising pricing pressures and recovery in demand conditions prompted the CBT to be more cautious with a slowdown in the rate cut pace. Going forward, it will continue to closely monitor inflation, demand conditions, international reserves and depositor behaviour to determine the pace of cuts.

The recent acceleration in reserve accumulation, with both gross reserves and net reserve position moving to new peaks, should be a relief factor for the bank. Regarding depositor behaviour, despite gradual FX purchases, the dollarisation rate has remained below its long-term average of around 40% with attractive TRY rates.

Given this backdrop, we expect the bank to make rate cuts, while the size moves will remain in the 100-150bp range in the near term.

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