Turkish central bank cuts rates by 150bp amid softer inflation

At the MPC meeting, the Central Bank of Turkey cut interest rates by 150bp, lowering the policy rate to 38%. This marks a quicker pace of easing than the 100bp cut delivered in October, and was likely encouraged by a softer November CPI reading

The Central Bank of Turkey in Istanbul

At the last rate setting meeting of this year, the CBT delivered a larger rate cut of 150bp in comparison to the more cautious 100bp reduction at the October MPC. This followed a better-than-expected reading on headline inflation for November. The consensus was evenly balanced between 100bp and 150bp ahead of the meeting. The move pushes the policy rate down to 38% from 39.5% while the interest corridor remains unchanged at 450bp.

The November inflation data was quite mixed. The headline rate eased more than expected amid a downside surprise in food inflation and favourable base effects. In its statement, the CBT acknowledged that the underlying trend had declined slightly. However, the same indicator in both core and services inflation remained elevated, with no meaningful improvement. This backdrop of softer headline inflation seemed to be one of the factors that encouraged the central bank to make a bigger rate cut in December.

A survey of market participants released by the CBT shows a further deterioration in inflation expectations in November. 12-month ahead inflation expectations increased to 23.5%, while the 24-month ahead indicator rose to 17.7%. The survey shows year-end inflation expectations for 2025 and 2026 at 32.2% and 23.2%, respectively, marking a deterioration compared to last month. While December may bring some improvement following November's favourable inflation surprise, the survey suggests that the market expects the disinflation process to progress more slowly than the CBT's interim targets imply. Consequently, today's accelerated rate cuts signal a dovish bias, in our view.

Regarding economic activity, despite the headline weakness in the third quarter, the seasonally-adjusted quarterly pace has remained strong, defying earlier expectations of a significant slowdown in momentum. Leading indicators – including the PMI, capacity utilisation, and consumer and real sector confidence indices – also point to an improvement in the fourth quarter. The bank remains constructive, noting that these indicators suggest demand conditions continue to support the disinflation process. This marks a positive shift from the October statement, which assessed that 'demand conditions (…) point to a slowdown in the disinflation process.' This change is likely another factor behind the bank's December decision.

The bank signalled that it would not alter the macroprudential framework and repeated its pledge to maintain a tight monetary stance to support disinflation, stating that this would be done "in line with interim targets" and that any tightening would occur "in the event of a significant deviation in the inflation outlook from these interim targets".

While the bank emphasised that future rate decisions will remain data-driven and assessed on a meeting-by-meeting basis, it provided little clarity regarding near-term rate actions. In this context, inflation expectations, the outcome of the 2026 minimum wage negotiations, and the anticipated adjustment to automatic tax rates – promised by Finance Minister Mehmet Simsek – will be key for the outlook, alongside considerations regarding dollarisation and reserve levels, in our view.

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