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Turkish central bank holds rates and shifts away from easing bias

The Turkish central bank held interest rates steady and signalled a pause in its easing stance amid heightened geopolitical risks and rising energy prices

Fatih Karahan, governor of the Central Bank of Turkey

At its latest rate‑setting meeting, the Central Bank of Turkey (CBT) kept its policy rate unchanged, as widely expected. The Bank left the one‑week repo rate at 37%, and the interest rate corridor stable at 450 basis points, with the upper and lower bands remaining at 40% and 35.5%, respectively.

Against the backdrop of a geopolitical shock that has heightened short-term macroeconomic risks, both the rate decision and accompanying communication drew particular attention. In its statement, the CBT noted the deterioration in global risk appetite and the rise in energy prices. It also highlighted the coordinated steps taken together with the Ministry of Treasury and Finance to contain risks to the inflation outlook. These measures include liquidity tightening, an increase in the effective cost of funding to the upper band of the interest rate corridor, and the use of the sliding‑scale mechanism. The CBT stated that it will closely monitor the effects of global developments on costs and economic activity and stands ready to take additional measures if required.

The statement signals a shift away from the easing stance observed earlier as the Bank revised its message that “monetary decisions” will be determined with a prudent approach on a meeting-by-meeting basis instead of “the size of the steps”, and said that monetary policy will be tightened if there is a significant deterioration in the inflation outlook but removed the prior emphasis on “deviations from interim targets" as a condition to deliver additional tightening.

Its target is 16% for this year vs the market consensus of 24.11% in February before the latest geopolitical developments. In addition, the Bank now specifies that a tightening would require not only significant but also persistent deterioration in the inflation outlook, implying a willingness to tolerate temporary effects from recent developments. These suggest that, in the near term, the CBT will adopt a wait-and-see approach before deciding whether to reduce the effective cost of funding back toward the policy rate or introduce additional tightening, as referenced in the statement.

Overall, the decision to keep the policy rate unchanged appears to reflect the continued preference of domestic residents for lira-denominated assets and the view that foreign outflows have been driven by global risk aversion rather than interest rate levels.

The decision also suggests that the CBT aims to preserve flexibility to resume rate cuts should the impact of the energy shock prove short-lived. However, if elevated oil prices persist and continue to weigh on the inflation outlook, the Bank may consider additional tightening – either through a policy rate increase or a widening of the corridor – at the April Monetary Policy Committee meeting.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

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