Macro: Rate cut down to 250bps following domestic data and news flow

The CBRT cut the policy rate by 250 basis points to 40.5% in September, in line with market expectations. Overnight lending and borrowing rates were also reduced by the same amount, to 43.5% and 39.0% respectively, and the width of the asymmetric interest rate corridor was maintained.

In its communication at the July Monetary Policy Committee meeting, the CBRT linked the decision on the magnitude of subsequent interest rate steps to the data flow and stated that it would review its stance accordingly. In this context, we see that stronger-than-expected growth and inflation data, along with political developments, have limited the size of the interest rate cut.

Although the statement regarding the monetary stance in the coming period that “Monetary policy stance will be tightened in case of a significant deviation in inflation outlook from the interim targets,” is hawkish, the vague use of the word “significant” weakens the communication's power.

Our key messages and evaluations are as follows:

MPC Decision:

- ***“The underlying trend of inflation slowed down in August.”***
  - In August, monthly consumer inflation was 2.04%, slightly below market expectations (monthly 1.8%; annual ≈32.6%). According to seasonally adjusted (s.a.) data published by TURKSTAT, despite the elimination of one-off effects (≈0.9 points) in July, the CPI monthly price increase declined only slightly from 2.6% to 2.5% due to deterioration in food inflation. However, the fact that the median and trimmed inflation measures, which are distribution-based trend indicators, remained around their recent trends at 2.0% and 1.8% monthly, respectively, indicating that the deterioration in the inflation trend was not broad-based. Therefore, the annualized inflation trend continues to hover around 27%. However, it does not imply a significant slowdown (Macro: Inflation Developments – August 2025).
  - Although the depreciation trend of TL has slowed since late July, we assess that under the current outlook, the likelihood of inflation remaining within the CBRT's forecast range by year-end has decreased.
- ***“While GDP growth was above projections in the second quarter, final domestic demand remained weak. Recent data indicate that demand conditions are at disinflationary levels.”***
  - In 2025Q2, GDP grew by 4.8% year-on-year, exceeding market expectations (4.1%), while quarterly growth accelerated to 1.6% despite expectations of a slowdown. Therefore, the data presented an inconsistent picture with the CBRT’s assessment in its August Inflation Report that activity slowed in the second quarter and demand conditions remained at disinflationary levels (negative output gap). We believe that the level of GDP in the second quarter was 2.2% above the CBRT's forecast and that the output gap was rather +1.0 (Macro: GDP Developments -2025Q2).
  - Although final domestic demand declined by a cumulative 0.6% over the last two quarters, contrary to the CBRT's assessment, we assess that this decline does not signal a strong correction following the 5.0% increase in the second half of 2024. We consider final domestic demand to remain strong in terms of level. Moreover, domestic demand (final domestic demand + inventory changes) continues to be the driver of growth.
  - Although leading indicators point to a slowdown in growth in the third quarter, when we consider the output gap as a combination of activity, the labor market, and the credit market, it is unlikely that the output gap will be at a disinflationary level (negative output gap) in the third quarter.
- ***“The macroeconomic framework outlined in the Medium-Term Program will contribute to this process.”***
  - CBRT changed its statement regarding the coordination of fiscal stance in the disinflation process, drawing attention to the budget deficit estimates in the Medium-Term Program (MTP). The MTP shared that the budget deficit/GDP ratio is 3.6% for 2025 and 3.5% for 2026. The CBRT pointed that it will be

difficult to achieve the inflation target if the budget deficit is not limited. We interpret this statement as a message that the CBRT expects revenues and administered price/tax policies to support disinflation in the coming period.

- On the other hand, the fiscal stance shared in the MTP reflects an accrual-based budget. However, the postponement of unpaid earthquake expenditures in 2023 to 2025 and beyond will cause the cash-based budget deficit to be higher than the accrual-based budget deficit in both 2025 and subsequent years. Therefore, we expect the actual fiscal stance to be looser than stated in the MTP throughout the forecast period.

- ***"The Committee will determine the policy rate by taking into account realized and expected inflation and its underlying trend in a way to ensure the tightness required by the projected disinflation path in line with the ~~projected~~ interim targets. The step size will be reviewed prudently on a meeting-by-meeting basis with a focus on the inflation outlook. Monetary policy stance will be tightened in case of a significant deviation in inflation outlook from the interim targets."***
  - The CBRT, in its August Inflation Report, changed the framework for communicating medium-term forecasts, separating year-end inflation forecasts from "intermediate targets". Previously, forecasts also served as intermediate targets and could be updated frequently. Under the new framework, inflation forecasts can be revised based on data flows, while intermediate targets will not be changed between reporting periods unless there are extraordinary developments. Accordingly, intermediate targets were set at 24%, 16%, and 9% for the end of 2025, 2026, and 2027, respectively. (Macro: Inflation Report 2025-III)
  - Although the second sentence is hawkish, the vague wording of the phrase "significant" weakens the communication's impact by leaving the conditions that would trigger a policy response unclear. Formulating the phrase as "in the event of a deviation from the interim target" would have been a stronger commitment for the CBRT.

- ***"The tight monetary policy stance, which will be maintained until price stability is achieved, will ~~support~~ strengthen the disinflation process through ~~moderation in domestic~~ demand, ~~real appreciation in Turkish lira~~ exchange rate, and ~~improvement in inflation expectations. Going forward, coordination of fiscal policy~~ expectation channels"***
  - We believe that the change in the text reflects the intention to move away from the "real appreciation of the TL" communication. However, the statement that "the exchange rate channel will strengthen the disinflation process" indicates that there is no question of departing from the current strategy. Considering current inflation expectations alongside the 16% interim target, we assess that there is a continuing need for additional real appreciation of the TL.

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağlar Yüncüler, PhD – Vice President
Caglar.Yunculer@akbank.com

M. Sibel Yapıcı
Sibel.Yapici@akbank.com

Sercan Pişkin
Sercan.Piskin@akbank.com