

## Macro: The rate cut was below expectations with 100 bps

**CBRT cut its policy interest rate by 100 basis points (bps), less than expected, setting it at 37.0%.** Overnight lending and borrowing rates were also reduced by the same amount, to 40.0% and 35.5% respectively, maintaining the width of the asymmetric interest rate corridor. This marks the second lower-than-expected 100 bps rate-cut since the start of July, similar to the one in October. The one in October was influenced by high inflation data during the back-to-school period. Other than the assessment regarding the demand conditions were stronger than previously anticipated in the last quarter and the leading indicators for January inflation; there are no changes to the forward guidance.

### Evaluations:

- **There are no changes in forward guidance regarding the policy stance.** Meeting-by-meeting approach in decision-making is maintained. There is also no change in the communication for macroprudential tools and liquidity tools.
- **The changes concentrated on the assessments regarding inflation and the course of the economic activity.**
  - CBRT underlined that January inflation may be high due to food prices in January: "*While leading indicators suggest that monthly consumer inflation has firmed in January, led by food prices, the rise in the underlying trend of inflation is limited*". It is inferred that CBRT expects a monthly inflation above market expectations in January. While our inflation forecast based on the data from the first half of the month is 4.2% monthly and 29.9% annually, we note that there are upward risks stemming from food prices, and risks in both directions due to methodology and weighting updates.
  - "*Indicators for the last quarter point to demand conditions that continue to support the disinflation process, albeit at a moderating pace*". Based on November data, the average of our growth forecast models indicates that annual growth in the last quarter of 2025 will be in the 2.5%-3.0% range. We believe that the data flow for December (PMI; BTS, foreign trade data, loans, etc.) will push these estimates upwards. Consequently, we estimate that annual growth in the last quarter will be 3.0%, and quarterly growth will be moderately positive, assuming there is no technical correction due to chain indexation. Further, we maintain our previous assessment that demand conditions may not be at deflationary levels in the last quarter.
- **Despite the lower-than-expected rate cut, we are not changing our year-end policy rate forecast.**
  - Based on our year-end inflation forecast (25.0%), we anticipate the policy interest rate to be 31% at the end of the year.
  - We anticipate that the rate cut in March will remain the same. To reach our year-end policy rate forecast, it's possible that CBRT may pause in one of the meetings after March. Alternatively, the rate cut could be reduced (e.g., to 50 bps at each meeting) in some meetings.

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