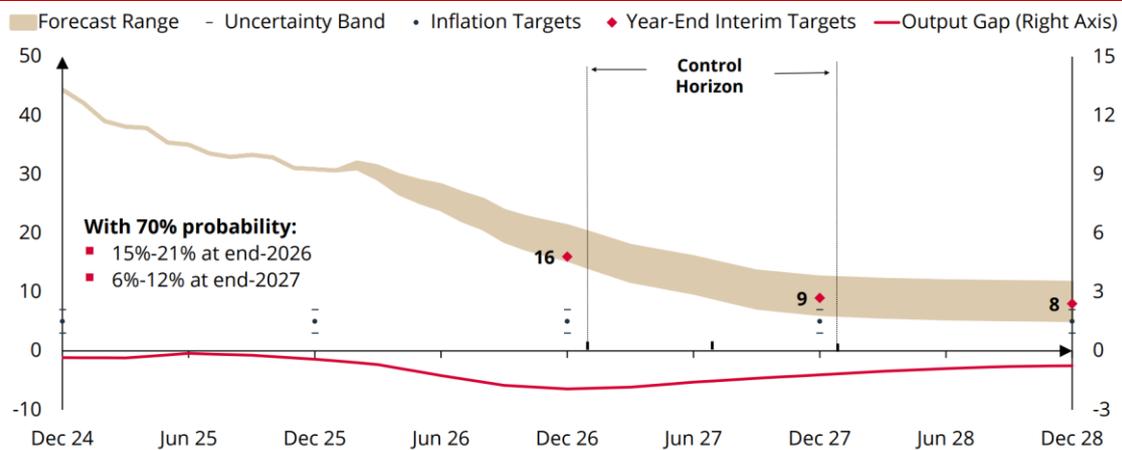


## Macro: Slight upward revision in forecast range, no clear signal about pausing rate cut cycle

### 1. Forecasts

- CBRT kept its interim targets, which it had committed to achieve by separating them from the inflation forecasts in the previous reporting period, unchanged at 16% and 9% for the end of 2026 and 2027, respectively and set at 8% for 2028.
- The midpoint of the year-end inflation forecast band was raised from 16% to 18% for 2026, while kept constant at 9% for 2026 and set at 2027, respectively (Chart 1).
- The uncertainty range for the end-of-2026 forecast was also increased by 2 points to 15-21% (previous: 13-19%). Thus, the width of the range was maintained at 6 points. The uncertainty range for the end-of-2027 forecast was set at 6-12%.

**Chart 1. 2026-I Inflation and Output Gap Forecasts**



**Forecast accounting (End-2026):** No explicit numerical breakdown was provided regarding the change in the end-2026 forecast band and the upward revision at the midpoint. However, according to the statements in the report, 1 percentage point of the revision stemmed from changes in the weights of the inflation basket. Approximately 0.25 percentage points came from the change in the food inflation assumption. The remaining contributions likely resulted from the output gap estimate and the upward revision in the assumption for import prices denominated in U.S. dollars. The decline in the Brent oil price assumption played a somewhat limiting role.

**Forecast accounting (2025 interim target):** At the meeting where the CBRT introduced its interim targets, it had stated that in the event of an overshoot relative to the interim target, it would share the reasons for the deviation within the framework of transparency and accountability. In this report, a breakdown was provided regarding the deviation of year-end 2025 inflation (30.9%) from the interim target (24.0%). Accordingly, the export-weighted global growth index, oil prices, import prices denominated in U.S. dollars, and developments in food inflation materialized above assumptions (Table 1). In this context, of the 6.9 percentage point deviation, 2.1 points stemmed from TL-denominated import prices, 1.9 points from the underlying trend and inertia of inflation, 1.1 points from administered and directed price adjustments, 0.9 points from the output gap, and 0.9 points from food inflation (Table 2).

**Table 1. Interim Target Main Assumptions and Realizations**

	Interim Target Assumptions	Realization
Export-Weighted Global Growth (Average Annual % Change)	1.9	2.1
Oil Prices (USD, Annual Average)	65.8	69.0
Import Prices (USD, Average Annual % Change)	-1.1	1.4
Food Price Inflation (Year-End % Change)	26.5	28.3

**Table 2. Sources of Deviation From 2025 Inflation Interim Target**

	Interim Target Accounting
2025 Year-End Interim Target (%)	24.0
2025 Year-End Inflation Realization (%)	30.9
<b>Interim Target Deviation (% Puan)</b>	<b>6.9</b>
<b>Sources of Interim Target Deviation (% Points)</b>	
TL-Denominated Import Prices	+2.1
Food Prices	+0.9
Administered Prices	+1.1
Output Gap	+0.9
Underlying Inflation and Inertia	+1.9

## 2. Assumptions

**External demand:** Although uncertainties in trade policies—while declining over time compared to early 2025—remain significant, global growth continues to show resilience. Accordingly, the global growth assumption calculated based on Türkiye’s export weights was revised slightly upward for 2026 (2.2% → 2.3%). For 2027, growth is expected to remain broadly flat at around 2.2% (Table 3).

**Food prices:** For 2026, the assumption for annual food inflation was revised slightly upward from 18% to 19% (Table 3). Although food prices increased significantly in January and February due to supply shocks as well as the effect of Ramadan, the change in the food inflation assumption was kept limited based on the expectation that widespread rainfall across the country would mitigate drought-related risks (Table 3).

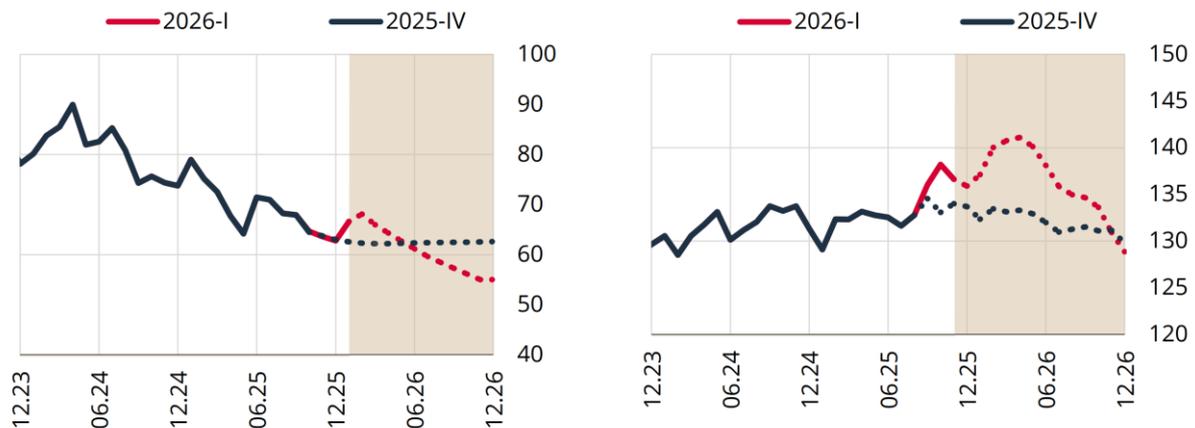
**Fiscal stance:** It is assumed that administered prices, along with borrowing, tax, and income policies, will be set in a way that supports the decline in inflation. The primary surplus is projected to remain slightly positive in 2026, similar to 2025.

**Commodity prices:** Assumptions regarding oil prices were revised downward, while the increase in the import unit value index—used for the general level of commodity prices—was revised upward (Chart 2, Table 3).

**Table 3. Revisions to Main Assumptions**

		IR 2025-IV	IR 2026-I
Global Production Index* (Average Annual % Change)	2025	2.0	2.1
	2026	2.2	2.3
	2027	-	2.2
Oil Prices (USD, Annual Average)	2025	69.0	69.0
	2026	62.4	60.9
	2027	-	56.0
Import Prices (USD, Average Annual % Change)	2025	0.8	1.5
	2026	-0.6	2.0
	2027	-	-0.9
Food Prices (Year-End % Change)	2025	32.3	28.3
	2026	18.0	19.0
	2027	-	11.0

**Chart 2. Oil (left panel) and Import Price (right panel) Assumptions**



Source: Bloomberg, CBRT

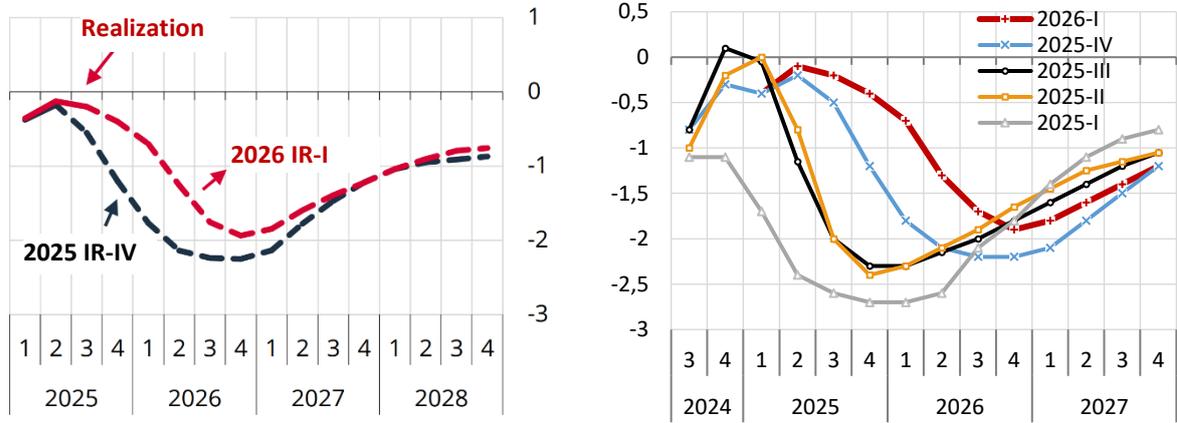
\* Shaded areas show the forecast horizon

**Economic activity:** As in every report last year, this report also includes a notable upward revision to the output gap forecasts (Chart 3, left panel). Although the trough of the output gap remains the last quarter of 2026, as in the previous report, the disinflationary impact of demand conditions over the year as a whole has declined markedly compared to the previous reporting period. Under different quarterly potential growth assumptions, the growth forecasts implied by the output gap projections are as follows:

**Table 2. Growth Forecasts Implied by Output Gap Forecasts (%)**

	Quarterly Potential Growth (%)		
	0.8	1.0	1.2
2025	3.5	3.6	3.6
2026	1.9	2.6	3.3
2027	3.2	4.0	4.8
2028	3.9	4.7	5.6

Chart 3. CBRT Output Gap Forecasts



### 3. Our Evaluations

Of the 2 percentage point upward revision in the end-2026 inflation forecast, 1 point was attributed to changes in CPI weights. Therefore, in practice, only a rather limited 1 percentage point revision was made to the forecasts, which signals a tighter monetary stance compared to what was projected in the previous report, in response to domestic policy developments. Nevertheless, due to what we consider shortcomings in communication, we assess that even the upper bound of the forecast range remains quite ambitious. It does not appear feasible to reach the forecast band merely by “reducing step sizes” without transitioning to a different regime in terms of policy action and communication.

Output gap forecasts imply a slowdown compared to last year, independent of the potential growth assumption. While the external demand growth forecast was revised from 2.2% to 2.3%, such a slowdown would only be possible with a tighter overall policy stance aimed at domestic demand. However, significant upward revisions to the output gap over the past year limit the credibility of this forecast (Chart 3, right panel). Indeed, economic activity has consistently been stronger than the CBRT’s projections, and given the current momentum, it seems difficult for growth to fall below 4% in 2026.

We assess the tone used and the messages conveyed at the press conference as generally dovish. Market reactions appear to be in the same direction. While there was no notable change in the interest rate swap curve, equities—led by banks—traded with buying interest.

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