

Macro: Policy rate kept unchanged, prudent message against inflationary risks

The CBRT kept the policy rate unchanged at 37.0%, in line with improving expectations following the recent decline in geopolitical tensions and the near-term reserve accumulation. Overnight lending and borrowing rates were also maintained at 40.0% and 35.5%, respectively.

In this decision, the restart of foreign capital inflows due to the increase in global risk appetite with the ceasefire process that began on April 6, the \$20 billion improvement in CBRT reserves, the strong preference for TRY by residents, and signals of a slowdown in economic activity played a role. However, uncertainties regarding how the war will evolve and whether the current ceasefire process will turn into a lasting peace persist. In particular, the fact that energy prices will not quickly return to pre-war levels appears likely to keep risks related to inflation, the current account balance, and external financing needs alive. Although the CBRT used a hawkish tone by adding a statement to the decision text indicating that it will maintain a prudent stance against these risks, the absence of a policy step that would expand its room for maneuver prevents us from characterizing the policy stance as hawkish.

Evaluations:

- ***“The underlying trend of inflation declined in March. Leading indicators suggest a slight increase in the underlying trend in April.”***
 - As a reminder, monthly inflation in March came in at 1.94%, below expectations, while annual inflation declined again to 30.9%. Seasonally adjusted monthly inflation slowed significantly compared to January–February, to 2.0% ([Macro: Inflation Developments – March 2026](#)).
 - According to the prices we have compiled and our models regarding April inflation, monthly inflation in April will be in the range of 3%–3.5%. In April, there are high increases in many items such as electricity, natural gas, bread, bottled gas, and medicines due to accumulated cost pressures. The inflationary effects that were not felt much in March due to the war can be said to have shifted to this month. Under this outlook, we estimate that seasonally adjusted monthly inflation will rise to around 3.0%. It is also understood that the CBRT has a similar monthly inflation expectation from the above wording.
- ***“Amid geopolitical developments and the resulting uncertainties, energy prices remain elevated and exhibit notable volatility. The effects of these developments and domestic energy prices on the inflation outlook through the cost channel and economic activity are being closely monitored.”***
 - Through the sliding scale mechanism, the pass-through of increases in oil prices to fuel prices was significantly limited. According to our calculations, the cumulative increase in fuel prices in March and April will be around 20%. If the mechanism had not been in place, we estimate that this increase would have been over 40%. Although the recent decline in geopolitical tensions has led to a decrease in energy prices, the fact that they will not return to pre-war levels in the short term indicates that inflationary effects may persist throughout the year.
 - Within this framework, in a scenario where the Brent oil price averages \$90 and the Dutch LNG price €45 over the year, growth declines from 4.0% to 3.0%, and the year-end USD/TRY exchange rate assumption remains unchanged at 50.7, we estimate year-end inflation at 28.0% (pre-war: 25.0%), assuming the shock is absorbed by CBRT reserves and the public budget.

- ***“While indicators point to a slowdown in economic activity, potential second-round effects of recent developments on the inflation outlook will be of importance.”***
 - Model estimates based on data for January and February were signaling a slowdown in economic activity. Leading indicators for March and April, particularly due to the slowdown in external orders, point to an additional deceleration.

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