

## Macro: Policy rate unchanged; no signal of a change in the operational framework

The CBRT kept the policy rate unchanged at 37.0%, in line with the expectations. Overnight lending and borrowing rates were also maintained at 40.0% and 35.5%, respectively.

In this decision, despite the volatility due to domestic political developments, the preservation of the improvement in reserves after the ceasefire and the strong preference of domestic residents for the Turkish lira played a role, together with the slowdown in economic activity. CBRT made no change on the wording for policy stance, and there was no modification in the statement that could be interpreted as a forward guidance.

Given the high sensitivity to global and domestic political news flow and the absence of a clear upward trend in reserves, we believe conditions have not yet matured for an exit from the “extraordinary circumstances” mode. If year-end inflation materializes in line with our forecast (30.0%), we assess that, apart from a possible return to one-week repo funding within the operational framework if conditions permit, there is no room for policy rate cuts until year-end.

### Evaluations:

- ***“The underlying trend of inflation, which increased in April due in part to higher energy prices, following its rise in the first months of the year, decreased slightly in May.”***
  - Monthly inflation in May came in at 1.71%, slightly above expectations, while seasonally adjusted monthly inflation slowed from 3.4% to 1.9%, reflecting the disappearance of direct impact of administered price adjustments in April and the favorable course of food prices. Distribution-based trend indicators declined, with median and trimmed monthly inflation falling to 1.8% and 1.9%, respectively (previously 2.3% and 2.2%). Nevertheless, while no improvement has yet been observed in underlying trend since June 2024, stickiness in services continues ([Macro: Inflation Developments – May 2026](#)).
  - According to the prices we have compiled and our models regarding June inflation, the favorable course of food prices in June significantly limits CPI inflation. Against this backdrop, we expect seasonally adjusted monthly inflation to decline further. Unlike its general approach, the CBRT shared no assessment of monthly inflation this time.
- ***“Amid geopolitical developments and the resulting uncertainties, energy prices remain volatile and elevated. The impact of geopolitical developments on the inflation outlook through the cost channel, economic activity and expectations is 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 the last three months was around 16%. If the mechanism had not been in place, we estimate that this increase would have been 43%. More recently, oil prices have stabilized below 100\$, leading to a decline in fuel prices. As of June 11, assuming prices remain unchanged for the rest of the month, we estimate a 3.5% decline in fuel prices in June.
  - Under our baseline scenario of (i) an average Brent oil price of \$95, (ii) annual growth of 3.0%, (iii) a year-end USD/TRY exchange rate of 50.7, (iv) no additional adjustments to administered energy prices during the remainder of the year, and (v) favorable weather conditions

continuing to support agricultural supply and food inflation, we keep our year-end inflation forecast at 30.0%.

- ***“First quarter data point to a slowdown in economic activity, and leading indicators suggest a continued weak course in domestic demand.”***
  - GDP grew by 2.5% year-on-year in the first quarter, close to both the market expectation (2.7%) and our model forecast (2.3%). Seasonally adjusted quarterly growth came in at 0.1%, in line with our expectation of below-potential growth ([GDP Developments - 2026Q1](#)).
  - We expect economic activity, which is already on a cyclical cooling trend, to remain weak in the second quarter as a result of additional financial tightening (higher effective funding costs and lower credit growth limits). Under this outlook, our estimated output-gap indicators suggest that aggregate demand may have converged toward its potential level—or even fallen below it—by the second quarter.
  - Looking ahead, the course of the war and the magnitude of the positive contribution expected from the agricultural sector will be key determinants of growth during the year. While downside risks remain somewhat more pronounced, we maintain our 2026 growth forecast at 3.0%.

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