

Macro: Measured rate cut to 36%, in line with expectations

The CBRT cut the policy rate by 100 bps to 36.0%, in line with expectations. The overnight lending and borrowing rates were also reduced by the same amount to 39.0% and 34.5%, respectively, preserving the width of the asymmetric interest rate corridor.

Recall that although the inflation trend and domestic demand outlook in September had provided some room for a limited recalibration of monetary policy, the CBRT maintained its cautious stance due to the geopolitical outlook and kept the policy rate unchanged.

However, (i) September inflation came in below expectations, pointing to a slowdown in the underlying trend, while preliminary indicators for October signaled that this outlook remained intact, and (ii) the weak course of domestic demand was confirmed by incoming data, allowing the available policy space to be used despite challenging geopolitical conditions. Indeed, in our assessment following the inflation data ([Inflation Developments – September 2026](#)), we had stated that, in the absence of dollarization and reserve constraints, the domestic macroeconomic picture supported a rate cut of more than 100 bps. However, as we had expected, recent developments in domestic and global markets appear to have prompted the CBRT to act cautiously.

The change in the wording regarding the monetary policy stance in the decision text is noteworthy. The phrase “the size and timing of steps,” used instead of “monetary policy decisions,” provides guidance that the direction of the policy rate is downward in the period ahead. At the same time, the inclusion of a reference to “timing” in the communication conveys the message that “I may pause if I deem it necessary.” In this way, the CBRT appears to be trying to limit the risks that could arise from the perception of “unconditional easing” in the current global environment. In other words, it does not appear possible to say with certainty that a rate cut will be delivered at the December meeting.

In the period ahead, in addition to geopolitical risks, (i) additional price increases that could result from the phase-out of the sliding-scale mechanism, (ii) cost pressures that have not yet been reflected in final prices, and (iii) the rise in global interest rates limiting the relative return on TL assets warrant maintaining a cautious stance regarding the size and continuity of rate cuts. Taking the balance of risks into account, we maintain our year-end inflation and policy rate forecasts at 30.0% and 36.0%, respectively.

Evaluations:

- ***“Despite monthly fluctuations, recent inflation figures and leading indicators ~~suggest that~~ confirm the deceleration in the underlying trend of inflation is ~~decelerating~~.”***
 - Consumer prices increased by 1.84% mom in September, below expectations, while annual inflation declined by 1.8 percentage points compared with August to 29.7%. Among indicators of the inflation trend, seasonally adjusted (s.a.) monthly inflation declined by 0.6 percentage points compared with July and August to 1.6%, while B and C monthly inflation rates (s.a.) stood at 1.6% and 1.7%, respectively (previously 1.9%). Distribution-based core indicators, namely median and trimmed monthly inflation rates, remained flat at 1.7% ([Inflation Developments – September 2026](#)).

- While the statement above provides information on October price developments, how we define the underlying trend also becomes important. Looking at seasonally adjusted CPI, the prices we collect and our models were pointing to some increase in October compared with September, particularly due to food prices. Two possibilities emerge here: First, the CBRT may be forecasting a more favorable monthly inflation rate for October than both us and the market. The second possibility is that, even if the CBRT sees CPI at a similar rate to ours, it may be placing greater emphasis on the relatively more favorable outlook in core (ex-food) inflation indicators.
- ***"Data on economic activity as well as the limited pass-through of supply shocks to domestic prices confirm the weakness in indicate that domestic demand remains weak."***
 - September inflation data indicated that the effects of weakening demand conditions were becoming increasingly visible. The moderation in the core inflation trend in September was driven by the benign course in core goods, accompanied by an improvement in services. Unlike in the first half of the year, the sectoral breadth of the cooling in the economy has been increasing since the third quarter. We estimate that the trade sector, which had long been the driving force of economic activity, fell below its long-term trend for the first time in 3.5 years.
 - In the period ahead, the course of the war and the magnitude of the positive contribution we expect from the agricultural sector will be decisive for the overall growth rate for the year. We expect financial conditions to continue constraining economic activity in non-agricultural sectors, while the favorable course of agricultural output will provide a significant contribution to GDP growth. Accordingly, we maintain our 2026 growth forecast at 3.0%. We note upside risks to our forecast stemming from agriculture and downside risks stemming from non-agricultural sectors.
- ***"On the other hand, elevated energy prices amid due to ongoing geopolitical developments tensions continue to pose an upward upside risk to the inflation outlook."***
 - The cumulative increase in fuel prices reached 42.5% between March and September, and we estimate its cumulative impact on inflation at around 4.5 percentage points. The fact that the realized impact has remained below the average pass-through rate reflects the effects of weakening demand conditions.
 - Holding current fuel prices constant, there is an additional 13% increase potential in the final quarter under the phase-out plan for the sliding-scale mechanism. We also note accumulated fuel-related cost pressures on fresh fruit and vegetable (relative) prices, which have fallen below their long-term trend following their benign course in recent months.
- ***"Monetary The size and timing of policy decisions are made steps will be decided prudently on a meeting-by-meeting basis with a focus on the inflation outlook."***
 - This change in wording provides guidance that the direction of the policy rate is downward in the period ahead. At the same time, the inclusion of a reference to "timing" in the communication conveys the message that "I may pause if I deem it necessary." In this way, the CBRT appears to be trying to limit the risks that could arise from the perception of "unconditional easing" in the current global environment. In other words, it does not appear possible to say with certainty that a rate cut will be delivered at the December meeting.

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