MNI CBRT Preview: July 2025

Details:

Monetary policy decision: 1200BST/1300CET/ 0700ET, Thursday 24th July 2025.

MNI Point of View:

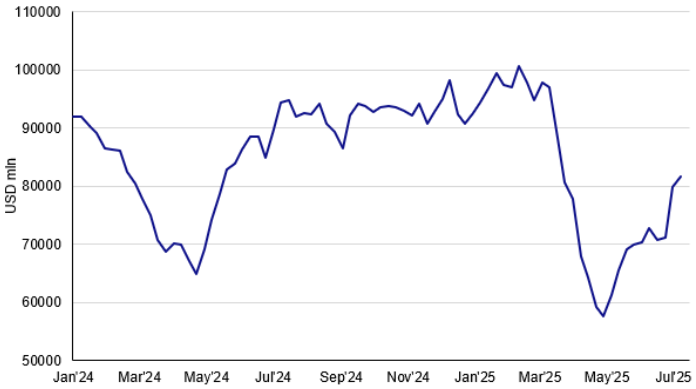
Adjustments to the CBRT's policy statement in June indicated that policy easing will resume from July onward – which is the prevailing view shared among sell-side analysts. The median surveyed estimate looks for a 250bp cut to the one-week repo rate to 43.50%, although there are some calls for an even bolder move. Softer-than-expected headline CPI in June is supportive of renewed easing, however, ongoing political uncertainty and recent tweaks to tax rates on TRY deposits should prompt the CBRT to approach its cutting cycle with caution.

There were few surprises at the June MPC meeting – the CBRT kept its one-week repo rate unchanged at 46.00% given increased funding through the key rate and less reliance on the overnight lending facility effectively meant that the central bank had already eased liquidity conditions by ~300bps without actually adjusting the main policy rate. In April, the CBRT's policy statement noted that "Monetary policy stance will be tightened in case a significant and persistent deterioration in inflation is foreseen," whereas the June edition stated that "All monetary policy tools will be used effectively in case a significant and persistent deterioration in inflation is foreseen" – a subtle change in language which is consistent with a rate cut this month.

Officials have previously stressed that monetary policy can be restrictive even if rate cuts are being delivered, and this logic is likely to be repeated given that the one-week repo rate is currently over 10ppts above headline inflation. Year-on-year inflation fell to its lowest level since 2021 in June, with the +35.05% Y/Y print a touch below expectations. The downside surprise stemmed primarily from food prices and favourable base effects, though services inflation increased by a strong 2.7% M/M. Meanwhile, the CBRT assessed that "all indicators of underlying inflation decreased in May compared to the previous month."

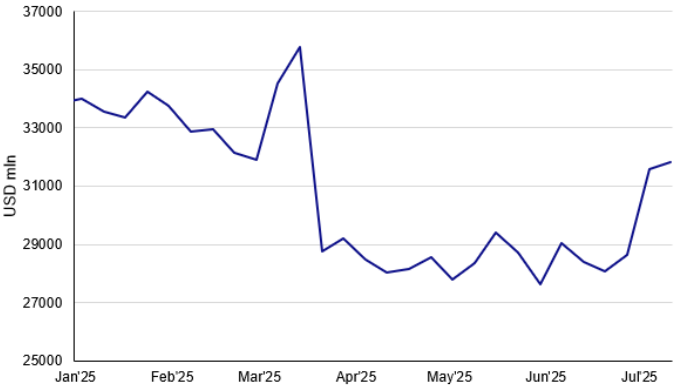
CBRT data showed gross foreign exchange reserves rose to $81.5bln in the week ending July 11, reaching its highest level since late-March as the slump following the arrest of Istanbul mayor Ekrem Imamoglu continues to reverse. Meanwhile, overseas investors have continued to step up purchases of shares and debt after the Turkish court adjourned a ruling on the legality of the main opposition CHP's 2023 leadership contest.

Figure 1: Gross Foreign Exchange Reserves



Source: MNI/ Bloomberg Finance L.P.

Figure 2: Shares and Debt Held by Non-Residents



Source: MNI/ Bloomberg Finance L.P.

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But amid growing expectations of a July rate cut, Ekonomi ran a piece earlier this month in which they noted that the recent increase in the withholding tax on TRY deposits has tempered expectations that the CBRT will being its easing cycle with a large cut, as a tax reduction had been expected to accompany any rate cuts in order to prevent a rush to foreign currency. As a reminder, the withholding tax rate on standard TRY deposits and investment funds with maturities of up to six months was raised from 15% to 17.5%.

The primary goal of the withholding tax tweak is likely to bolster public finances as the government faces a widening budget deficit, but the move complicates the central bank's efforts to de-dollarise the economy as it deteriorates real returns on TRY-denominated assets and may add to pressure on the currency and act indirectly as a source of inflation. The newspaper said a cut to the tax rate was expected to accompany the upcoming rate cut cycle to prevent a rush to foreign currency, and that now expectations for the size of the first repo rate reduction - 350bps previously - have been lowered to 250bps.

Political tensions also justify a cautious approach to the easing cycle. The Turkish court last week sentenced Imamoglu to one year and eight months in prison on charges of threatening and insulting a prosecutor. Though the outcome was expected and had little market impact, the developments mean the CBRT finds itself in a position where it must both manage a weaker lira and address slower economic activity and a political preference for lower rates. Consequently, the central bank is likely to complement a cautious cutting cycle with a looser set of macroprudential measures to ease financial conditions further. As per the CBRT's latest survey, market participants see the central bank's policy rate at 43.3% following this week's meeting (from 46% in last month's survey) and at 36.2% at year-end.

CBRT Data Watch:

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Central Bank Watch - CBRT

July 21, 2025

MNI CBRT Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI YoY	% y/y	35.05	38.10	↓	44.38	↓					-1.52
Core CPI YoY	% y/y	35.64	37.42	↓	45.34	↓					-0.99
PPI YoY	% y/y	24.5	23.5	↑	28.5	↓					-0.40
Expected CPI	%	24.56	24.55	↑	27.07	↓					-0.99
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Industrial Production YoY	% y/y	4.9	-1.9	↑	1.7	↑					0.80
Trade Balance	$bn	-6.65	-7.79	↑	-7.51	↑					0.69
Markit PMI Mfg	Index	46.7	47.3	↓	49.1	↓					-1.37
Capacity Utilization	%	74.6	74.4	↑	75.8	↓					-0.46
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M3 Money Supply	TRYbn	23396.3		↑	19389.9	↑					1.83
Foreign Transactions of Equities	%	247.7		↑	-101.0	↑					0.87
Foreign Transactions of Govt bond	$m	114.0	69.00	↑	83.0	↑					0.22
Home Sales YoY	% y/y	35.8	5.10	↑	53.4	↓					-0.03
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales YoY	% y/y	17.66	12.16	↑	16.25	↑					0.29
Consumer Confidence	Index	61.8	62.60	↓	58.2	↑					0.97
Unemployment rate	%	7.60	8.70	↓	8.40	↓					-1.88
Foreign Tourist Arrivals	% y/y	-1.8	-5.30	↑	8.2	↓					-0.47
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market (BIST 100)	Index	9949	9659	↑	9831	↑					0.77
TR 10-Year Yield	%	7.36	7.60	↓	7.41	↓					-0.31
TR Yield Curve (2s-10s)	bps	570	617	↓	548	↑					-0.25
Effective Exchange Rate	Index	69.97	73.65	↓	72.45	↓					-1.52

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

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Analyst Views (Alphabetic Order):

Goldman Sachs: Expect 350bp Cut, But Note Risk of a Smaller Move

- Goldman Sachs expect the CBRT to reduce its policy rate by 350bps to 42.50%. However, they see risks to their forecast favouring a smaller rate cut given the recent increase in withholding tax on TRY deposits and ongoing political uncertainty.
- Recent statements from the CBRT leadership indicate that apart from inflation dollarization trends will be the secondary determinant of monetary policy and that the Bank will adopt a cautious approach to rate cuts. The higher withholding tax reduces returns on TRY deposits, potentially necessitating a more measured approach from the CBRT.
- Meanwhile, political uncertainty persists following the postponement of the final court ruling on the validity of the CHP's internal elections from June 30 to September 15. The acceleration in dollarization following Ekrem Imamoglu's arrest in March suggests the central bank may exercise greater caution this time while political uncertainty remains elevated.

JP Morgan: Expect 250bp Rate Cuts at Each of the Remaining Four MPC Meetings of 2025

- JP Morgan expect the CBRT to resume rate cuts with 250bps to 43.50%. Inflation has surprised to the downside in recent months, they note, and sequential inflation momentum eased with headline CPI momentum declining to 2% m/m. They add that the CBRT's forward guidance in the June MPC statement was nearly identical to the November MPC statement, signalling a 250bp cut in December 2024. Thus, it is clear that the CBRT is set to resume rate cuts.
- JPM anticipate CPI to increase by 2.5% m/m in July (34.1% oya, down from 35.0% in June). A 25% natural gas hike and automatic tax hikes on alcohol, tobacco, and fuel prices likely added 1%-pt to the July CPI. Sticky services inflation and the expected high July CPI print of 2.5% m/m suggest a prudent 250bp rate cut, while the recent hike in the withholding tax rate from 15% to 17.5% further increases the likelihood of a prudent interest rate cut.
- JPM say the CBRT is likely to be prudent on rate cuts in 2H25 in order to avoid re-dollarisation among Turkish residents. CBRT`s recent communication suggests prudent and predictable rate cuts in 2H25. Consequently, they continue to expect a 250bp cut at each of the remaining four MPC meetings by year-end, bringing the policy rate to 36%.

SocGen: Expect 250bp Rate Cut, Policy Rate to Decline to 37.00% by Year-End

- SocGen expect the MPC to cut the repo rate by 250bps to 43.50%. In their view, the CBRT will opt for a cautious approach, taking into account the following: (1) The stickiness of core inflation momentum. (2) Political and geopolitical uncertainties in and around Turkey, such as developments surrounding the CHP party and the latest Israeli strikes on Syria.
- SocGen anticipate a further 250bp reduction in September and two reductions of 200bp in October and November. The CBRT's policy rate should therefore decline to 37.00% by the end of the year.