

MNI CBRT Preview: June 2025

Details:

Monetary policy decision: 1200BST/1300CET/ 0700ET, Thursday 19th June 2025.

MNI Point of View:

The CBRT is expected to keep its one-week repo rate unchanged at 46.00% this month following a 350bp hike in April, but risks of a rate cut are noted by some analysts given the recent slowdown in monthly inflation. However, upside price pressure stemming from FX weakness post the arrest of the Istanbul mayor Ekram Imamoglu in March ultimately warrants further caution, while increased funding through the key policy window has already led to a reduction in the weighted-average funding rate.

All of the analyst views we have surveyed in this document expect the CBRT to stand pat on rates this month, with the rate-cutting cycle expected to resume in July. Some forecast 250bp rate cuts at each meeting from next month onwards, which would take the one-week repo rate to the mid-30s by year-end.

While the central bank's key one-week repo rate stands at 46.00% following a 350bp rate hike in April, the Bank began to lean more heavily on its overnight lending facility following the March 19 turmoil – where the associated rate is 49.00% – effectively returning interest rates to levels seen a year ago. The CBRT can therefore ease liquidity conditions to normalise the average funding cost around the key rate, and in doing so it can provide 300bps of effective easing without adjusting its main policy rate.

The central bank has already expanded its funding through the key window to above TRY 200bln on June 11 from TRY 5bln the week prior, and this resulted in the weighted-average funding rate slipping to 48%. Bloomberg Economics note that if the central bank maintains this trend, it could drive the effective funding rate down to almost match the 46% policy rate by the June meeting. Ultimately, this 'shadow easing' will provide policymakers with room to stand pat on rates until the July 24 meeting. Meanwhile, traders who spoke to Reuters clarified that despite the upping of the size of the operation, overnight rates are expected to remain at 49%. However, the sources added that overnight rates will be monitored given the expectations that the CBRT will resume rate cuts in the next few months.

Still, the latest slowdown in inflation skews risks towards an earlier start of the rate-cutting cycle. Headline CPI inflation slowed to +35.4% Y/Y in May from +37.9% in April, while month-on-month price growth moderated to +1.53% from +3.00% prior – significantly below expectations of a more moderate decline to +2.00%. While much of the slowdown can be attributed to lower food prices, it confirms that the underlying trend has returned to the dynamics seen prior to the March turmoil.

Meanwhile, the central bank kept its year-end inflation estimate unchanged at 24% as part of its latest inflation report, with Governor Fatih Karahan noting in an accompanying press conference that the Bank is ready to do "whatever is needed" to tame price pressures. He said it saw only a "temporary" effect on prices of currency volatility in March and will be monitoring the pass-through effect, but that "the risk toward inflation remains to the upside." The communication was hawkish overall, and dampened expectations of a June cut. Fresh geopolitical uncertainty stemming from the Israel-Iran conflict – and associated rise in commodities prices – further justifies caution, while the central bank will also be wary of the elevated levels of local political risk. On June 30, the Turkish courts will determine the legality of past leadership elections in the main opposition party CHP, and if the party election is judged unlawful, a trustee could be appointed to lead the party in the interim until a new leader is elected.

CBRT Data Watch:

<div> mni Central Bank Watch - CBRT </div>											
June 17, 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	35.41	39.05	↓	47.09	↓					-1.53
Core CPI YoY	% y/y	35.37	40.21	↓	47.13	↓					-1.30
PPI YoY	% y/y	23.1	25.2	↓	29.5	↓					-0.96
Expected CPI	%	25.06	25.26	↓	27.20	↓					-0.79
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	3.3	1.2	↑	-2.9	↑					0.44
Trade Balance	\$bn	-12.09	-7.51	↓	-5.94	↓					-2.08
Markit PMI Mfg	Index	47.2	48.3	↓	48.3	↓					-0.46
Capacity Utilization	%	75.0	74.5	↑	76.1	↓					0.08
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	22651.4		↑	18807.0	↑					1.80
Foreign Transactions of Equities	%	93.2		↑	276.9	↓					0.56
Foreign Transactions of Govt bond	\$m	114.0	69.00	↑	83.0	↓					0.22
Home Sales YoY	% y/y	56.6	39.70	↑	76.1	↓					0.54
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	11.50	12.55	↓	15.07	↓					-0.67
Consumer Confidence	Index	61.8	62.60	↓	58.2	↑					0.97
Unemployment rate	%	8.50	9.00	↓	8.50	↓					-0.17
Foreign Tourist Arrivals	% y/y	8.0	6.10	↑	9.3	↓					0.67
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	9020	9659	↓	9652	↓					0.02
TR 10-Year Yield	%	7.77	7.27	↑	7.05	↑					1.29
TR Yield Curve (2s-10s)	bps	605	578	↑	509	↑					-0.13
Effective Exchange Rate	Index	71.11	75.08	↓	72.22	↓					-0.86

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

Analyst Views (Alphabetic Order):

BNY: Karahan Comments Indicate Rate Cuts Are Not Imminent

- BNY note that the CBRT is widely expected to hold its policy rate at 46% at the June meeting, following a 700bp hike in April aimed at stabilizing the TRY amid political unrest. May CPI fell more than anticipated in April, but despite this disinflation, the CBRT has maintained its year-end inflation forecast at 24%, citing persistent uncertainties.
- Governor Karahan emphasized a cautious, data-dependent approach, indicating that rate cuts are not imminent. Market consensus suggests easing may begin in July, contingent on sustained disinflation and improved financial stability.

Goldman Sachs: Expect Rate Cutting Cycle to Resume in July, See Year-End Rate at 33%

- Goldman Sachs expect the CBRT to keep its policy rate on hold at 46.00%. They note that the risk of a cut has risen after the slowdown in inflation in the May CPI print and with the CBRT having reopened its repo facility in the last week.
- The CBRT explicitly attributed the policy rate hike in the last meeting to upside pressure on inflation from FX weakening post the arrest of the Istanbul mayor Ekram Imamoglu in March. However, monthly inflation slowed notably in May. Although the slowdown was mostly due to the lower food prices, it confirmed that the

underlying inflation returned to the inflation dynamics before the volatility at the end of March, a dynamic that the CBRT saw consistent with cutting its repo rate.

- Goldman Sachs' normative view remains that the Bank needs to remain hawkish. While real rates are high compared to annual inflation and the forecasts of financial analysts, they are not unusually high vs the inflation expectations of corporates and households, and hence loan demand remains brisk. With downside demand pressures now more visible and the decline in annual inflation likely to dampen inflation expectations, Goldman Sachs are forecasting a resumption of the rate-cutting cycle from the July meeting onwards and see rates at 33.00% by year-end, which is below market pricing.

ING: Believe CBRT Will Wait for July Meeting Before Cutting Rates

- ING expect rates to remain unchanged at 46.00%, in line with market expectations. Given continued disinflation and an improving appetite for TRY assets, the CBRT has started easing liquidity conditions to normalise the average funding cost around the one-week repo rate. With this easing, ING assume that the central bank will want to wait for the July meeting to begin cutting rates.

JP Morgan: Expect CBRT to Hold in June, 250bp Cuts per Meeting Thereafter

- JP Morgan expect the CBRT to keep the policy rate of one week repo rate unchanged at 46.00%, and the overnight lending rate at 49.00%. That said, JPM note that the CBRT has increased the daily 1-week repo auction size to TRY100bln from TRY1bln, and ceased conducting depo auctions. This suggests that the CBRT is confident in the lira interbank rates moving towards 46.00%, down from 48.50% currently.
- Looking ahead, JP Morgan see the CBRT cutting 250bps at each MPC meeting starting from July 2025 to 36.00% by end-25 following lower-than-expected May CPI and a weaker growth outlook.