MNI CBRT Review: July 2025

Executive Summary:

- **The CBRT cut the one-week repo rate by 300bps to 43.00%, slightly above the median estimate of a smaller 250bp move.**
- **Future decision will be made prudently on a meeting-by-meeting basis.**
- **Among sell-side, analysts expect the repo rate to end the year in the low- to mid-30s.**
- **Click here to see the policy statement.**

Key Takeaways: A Large Cut and an Easing Bias

The CBRT's 300bp cut to the one-week repo rate came as a slight surprise compared to market expectations, though a minority of analysts had been expecting a larger step than the median forecast of 250bps. The flat trend of underlying inflation in June justified easing, but persistent threats to the disinflation process means that future decisions will be made prudently on a meeting-by-meeting basis. Sell-side analysts expect the repo rate to end the year in the low- to mid-30s.

The central bank made equal adjustments to the upper and lower rates of its interest rate corridor, thereby maintaining the 300bp gap between the overnight lending rate (46%) and the policy rate (43%). This provides policymakers with the flexibility to tighten conditions by shifting funding across windows – which was demonstrated during the episode of political turmoil in March/April.

In its policy statement, the CBRT stated that "The step size will be reviewed prudently on a meeting-by-meeting basis with a focus on the inflation outlook," a change from the previous month's guidance which just referred to adjusting the policy rate on a meeting-by-meeting basis, without specifying a direction. The central bank also notes that underlying inflation remained flat in June, though a temporary rise in monthly inflation is expected in July due to month-specific factors.

Given the central bank has moved away from monthly meetings this year, the next rate-setting meeting is not until September 11, and this may have played a part in the larger-than-expected rate cut this month. This also means that the policymakers will have two sets of inflation data to inform its next move, while it will have also published the third edition of its 2025 Inflation Report. The Bank currently forecasts annual inflation at 24% in December – an estimate which some analysts say is overly optimistic.

Key Upcoming Dates:

- **July MPC meeting summary:** "Within five working days"
- **July inflation data:** August 04
- **Inflation Report:** August 14
- **August inflation data:** September 03
- **Next MPC meeting:** September 11

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Analyst Views (Alphabetical):

Commerzbank: Judge This Rate Cut to Be Premature

- Commerzbank say their view remains cautious: they previously argued that a cooling of year-on-year CPI during June should not become the basis for rate cuts; large misleading base-effects are at play which will end soon.
- Underlying inflation, using fresh month-on-month change of seasonally-adjusted core prices, continues to annualise to c.30%, which is incompatible with the CBRT's end-2025 targets, and crucially, incompatible with the notion that the inflation rate will continue to decelerate – from 35% to 30%, then to 20%, then towards 10%. In the near-term, too, risks linger – for example, a 25% increase in retail gas prices and ongoing lira depreciation, which are pro-inflationary.
- While CBRT reiterated its commitment to stringent monetary policy and readiness to deploy all instruments should the inflation outlook worsen, Commerzbank judge this rate cut to be premature given the prospective long-term vulnerabilities. If the inflation trajectory were not to pan out exactly as per CBRT's guidance, credibility will go for a tailspin because of the sanguine posture with which they cut the rate.

Goldman Sachs: Expect Rates to Fall to 33.00% by Year-End

- Looking ahead, Goldman Sachs believe the CBRT will remain focused on inflation and domestic dollarisation trends as it continues to ease monetary policy. The Bank's initial response to any notable acceleration in dollarisation will involve slowing the rate of TRY depreciation rather than tightening policy through rate increases, in their view.
- While policy caution will likely increase if the domestic political risk environment deteriorates, Goldman Sachs continue to expect rates to fall to 33.00% by year-end.
- Meanwhile, they continue to expect underlying inflation momentum to track close to its near-term average of 1.8% m/m for the remainder of the year, with annual inflation declining to 25.8% y/y by December.

ING: Expect Rates to Fall to 35.00% by Year-End

- ING say the market was leaning on the dovish side in its expectations, so no big surprise to speak of in the 300bp rate cut. Despite some improvement in inflation-related risks, the corridor's asymmetric structure remained unchanged – indicating that the CBRT aims to retain flexibility in response to potential shocks that might exert unexpected pressure on foreign exchange and reserves.
- They say recent data supports continued easing given a) improving inflation expectations, b) signs of slowing economic activity, and c) renewed foreign capital inflows and a decline in domestic FX demand, which have bolstered the CBT's foreign exchange reserves.
- After the easing, real interest rates have remained significantly elevated on both an ex-post and ex-ante basis. ING expect the year-end policy rate at 35.00%.