

Türkiye's central bank cuts policy rate to 36%, next steps depend on inflation

First cut since January; the decision text treats energy prices as a risk

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The Central Bank of the Republic of Türkiye cut its policy rate to 36%, its first cut since January; the decision text makes no promise of further cuts and treats energy prices as a risk to inflation.

The Monetary Policy Committee (MPC) of the Central Bank of the Republic of Türkiye (CBRT) cut the policy rate by 100 basis points, or 1 percentage point, from 37% to 36% on 22 October. The policy rate is the interest rate applied at the auctions in which banks borrow from the CBRT for one week against collateral (the one-week repo auction). In the same decision, the Committee lowered the overnight lending rate from 40% to 39% and the overnight borrowing rate from 35.5% to 34.5%. These are the rates the CBRT charges when it lends to banks overnight and pays when it borrows from them overnight; they form the upper and lower bounds of the range known in the market as the "interest rate corridor".

Anadolu Agency (AA) and the German news agency Deutsche Presse-Agentur (DPA) reported that this was the first cut since January this year. The decision ends a period of about nine months in which the rate was left unchanged. The Committee said it would set the size and timing of further steps at each meeting, based on the inflation outlook and with a cautious approach.

Background to the decision

Rates and funding from January to October

On 22 January the CBRT had cut the policy rate from 38% to 37%. At the next five meetings, in March, April, June, July and September, it left the rate unchanged.

The way banks borrow from the CBRT also changed during this period. On 1 March the CBRT suspended its one-week repo auctions. During the suspension, banks' funding needs were met at the overnight lending rate of 40%, the upper bound of the corridor. As a result, the rate banks actually paid to borrow stayed above the announced policy rate of 37%.

On 23 August the CBRT decided to resume the one-week repo auctions. With the auctions

reopened, banks could once again borrow from the CBRT at the 37% policy rate.

Inflation and expectations

According to the Turkish Statistical Institute (TurkStat), consumer prices rose by 29.73% year on year in September; the monthly increase was 1.84%. Annual inflation fell below 30% for the first time since November 2021.

The CBRT announces its inflation forecasts in the Inflation Report, which it publishes four times a year. In Inflation Report 2026-III, published on 13 August, the Bank raised its end-2026 forecast from 26% to 28%. This forecast is below September's annual inflation rate of 29.73%.

Market expectations, however, are above the CBRT's forecast. The October round of the CBRT's monthly Market Participants Survey was published on 16 October. According to the 71 participants who responded, year-end inflation is expected to be 29.63%. Participants expected the policy rate to be cut to 36% at the October meeting; the Committee's decision was in line with that expectation.

What the decision text says

Rationale for the cut

According to the Committee's decision text, despite monthly fluctuations, recent inflation data and leading indicators confirm that the decline in the underlying trend of inflation is continuing. The underlying trend is the basic pace of price increases once temporary and volatile price movements are excluded. Leading indicators are data that give early signals about the near-term course of inflation.

According to the decision text, economic activity data show that domestic demand remains weak; the limited pass-through of supply shocks to domestic prices also points to this. Domestic demand is consumption and investment spending within the country. A supply shock is a disruption in production or supply that pushes prices up.

Risks and next steps

According to the decision text, energy prices, which remain high because of ongoing geopolitical tensions, continue to be a risk that could push inflation above expectations. The Committee says it is monitoring the effects of these developments on costs, economic activity and expectations.

Despite the cut, the Committee reiterated that it will maintain a tight monetary policy until price stability is achieved. A tight monetary policy aims to slow spending and price increases by keeping interest rates high. A policy rate above inflation is one of the main measures showing that monetary policy is tight. The Committee's aim is to bring inflation down to the medium-term target of 5%. According to the text, monetary policy will be tightened if the inflation outlook deteriorates significantly and persistently. The decision text contains no promise of a cut at the coming meetings.

The Committee also said that if unexpected developments occur in the loan and deposit markets, it will support the transmission of its rate decisions to the rates in these markets with additional macroprudential measures. Macroprudential measures are

regulatory tools other than interest rates; a cap on the growth rate of loans is one example.

What the cut changes

The first change is in banks' cost of borrowing from the CBRT. The Committee lowered both the policy rate and the overnight lending rate by 1 percentage point. So whether banks borrow from the CBRT through the auction or overnight, the rate they pay falls by 1 point. How far this is reflected in loan and deposit rates depends on how banks set those rates.

The second change is in the gap between the policy rate and inflation. Before the cut, the 37% policy rate was about 7.3 points above September's annual inflation of 29.73%. After the cut, the gap narrowed to about 6.3 points. The policy rate remains above inflation.

What to watch

There is a gap of about 1.6 points between the CBRT's year-end forecast of 28% and the 29.63% expected by the market. For annual inflation to fall to 28% by the end of the year, the combined price increase in October, November and December must not exceed about 3%. In the same three months of 2025, prices rose by about 4.4%. Because the Committee has said it will set its steps according to the inflation outlook, the October and November data may influence its decision on 10 December.

- The CBRT will publish the summary of the MPC meeting on 30 October. The summary will set out in detail the assessments that led the Committee to its decision to cut.
- TurkStat will release October inflation data in early November. This will be the first inflation reading published after the decision and the first sign of whether the decline in the underlying trend is continuing.
- Inflation Report 2026-IV, which the CBRT will publish on 12 November, will show whether the 28% year-end forecast has been kept.
- The last MPC meeting of the year will be held on 10 December.

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