

HEAD OFFICE

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MINISTER OF TREASURY AND FINANCE

ANKARA

Pursuant to Article 42 of the Central Bank Law No. 1211, when the inflation target is not met, the Central Bank of the Republic of Türkiye (CBRT) is mandated to report to the Government and announce to the public the reasons for the deviation from the target and the necessary measures to be taken. In 2025, inflation surpassed the designated uncertainty band around the target. This correspondence serves to elucidate the underlying causes behind this deviation from the established inflation target, while also delineating the policies already implemented and those deemed necessary for realigning inflation with the target path.

Factors Driving Inflation in 2025

The disinflation process, which started in June 2024 and continued over 2025, was underpinned by the tight monetary stance, tight financial conditions, and moderating demand. Meanwhile, supply-side developments, rigidity in the price-setting behavior, and expectations that were not fully in line with the targets limited the pace of disinflation.

Global commodity prices supported the inflation outlook in the first half of the year, and the fall in energy and agricultural commodity prices also made favorable contributions. Volatility in energy prices amid geopolitical developments and increases in prices of certain metals created conjunctural cost pressures. These effects were offset to some extent by the normalization of global supply chains and the decline in transport costs.

Domestic supply conditions, which were affected particularly by drought and frost, exerted an upward pressure through food prices. The decline in crop production led to price fluctuations in the third quarter, temporarily slowing the disinflation process through expectations. The volatility in food prices caused short-term deterioration in the underlying inflation; yet, these effects partly abated in the last few months of the year thanks to favorable weather conditions.

In 2025, the impact of exchange rate developments on inflation remained more limited compared to the previous years. The relatively stable course of the Turkish lira, coupled with the disinflationary level of demand conditions, contained the exchange rate passthrough.

Price increases were high in service items with strong backward indexation tendency, such as rents and education. The compensatory price adjustments, observed following the price caps previously imposed on these items, also fueled the high annual rates of price increases. Meanwhile, the decline in rent inflation became more pronounced towards the end of the year. The widespread price increases in the services sector have dampened the decline in core inflation indicators.

Administered price adjustments throughout the year also had an impact on inflation. Price developments particularly in tobacco products, natural gas and municipal water stood out.

Demand conditions remained at disinflationary levels throughout the year. The moderation in demand was gradual due to housing construction activities in the aftermath of the earthquake as well as the trends in certain durable consumption goods.

While inflation expectations displayed a downward trend throughout the year for most sectors, they remained above the targets. This curbed the pace of disinflation. The improvement in inflation expectations supported the medium-term effectiveness of the monetary policy. However, the limited pace of improvement in expectations remained to be a significant factor for the continuation of the disinflation process.

In 2025, maintaining fiscal discipline and the strong coordination with the monetary policy contributed significantly to the disinflation process. The budget deficit-to-GDP ratio stood at 2.9 percent.

Overall, the rigidity in the price-setting behavior, the limited alignment of expectations with targets, and seasonal supply shocks had a role in inflation exceeding the target in 2025. On the other hand, the tight monetary policy stance, tight financial conditions, and moderation in demand supported the disinflation process, leading to a significant improvement in the underlying inflation in the final quarter of the year.

Monetary Policy Strategy Implemented in Pursuit of Price Stability

The CBRT formulated its monetary policy stance throughout 2025 by taking into account realized and expected inflation and its underlying trend to ensure the tightness required by the projected disinflation path. Accordingly, monetary policy decisions were made prudently on a meeting-by-meeting basis with a focus on the inflation outlook.

The CBRT lowered the policy rate (the one-week repo auction rate) by a total of 500 basis points in January and March, bringing it down to 42.5 percent. In mid-March, the overnight lending rate was raised to 46 percent in order to contain the risks that the financial market developments might pose to the inflation outlook. In addition, the one-week repo auctions were suspended for a period of time, and the funding was provided at the overnight lending rate. Highlighting the impact of financial market developments on underlying inflation, the CBRT increased the policy rate to 46 percent, overnight lending rate to 49 percent, and overnight borrowing rate to 44.5 percent in April. In addition, the CBRT announced that it would resume the one-week repo auctions. The CBRT kept the policy rate unchanged in June, but reduced it by a total of 800 basis points over the following period. Thus, the policy rate was brought down to 38 percent as of December 2025. The CBRT lowered the policy rate to 37 percent through a moderate rate cut in January 2026.

The CBRT continued to implement macroprudential policies in 2025 to enhance the functioning of market mechanisms, strengthen macro financial stability, and support the monetary transmission mechanism. Under the macroprudential policy framework, measures to terminate FX-protected deposit accounts and increase the share of Turkish lira deposits supported monetary transmission. The CBRT closely monitored credit developments and implemented the necessary measures against the risk of deviations from the projected path.

The primary objective of the CBRT is to achieve and maintain price stability. In case of a significant deterioration in the inflation outlook, the monetary policy stance will be tightened. In the event of unanticipated developments in credit and deposit markets, additional macroprudential measures will be introduced.

Enclosed for your information are the “Inflation Report 2026-I”, published on our website on February 12 and providing a comprehensive account of the developments regarding inflation and monetary policy as well as our medium-term forecasts, and the “Monetary Policy for 2026” document, explaining in detail the monetary policy to be implemented to achieve the inflation target in the short and medium term.

Sincerely,

CENTRAL BANK OF THE REPUBLIC OF TÜRKİYE

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Annexes: Inflation Report 2026-I, Monetary Policy for 2026