Speech

Central Bank of the Republic of Türkiye

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Governor

Inflation Report Briefing 2025-IV

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Distinguished Members of the Press, Esteemed Guests,

Welcome to the briefing we hold to convey the main messages from the last Inflation Report of 2025.

Our tight monetary policy is gradually yielding results.

Domestic demand has continued to slow down and demand conditions hover at disinflationary levels. The disinflation process that started in June 2024 has recently lost momentum, yet we will take measures to ensure that inflation remains in line with the interim targets.

We value the progress we have made in achieving price stability. We will continue to use all monetary policy tools decisively in the coming period.

In my presentation, I will first share our assessments of the global economy, the macroeconomic outlook, and the monetary policy. Later on, I will present our medium-term projections. After the presentation, our Deputy Governors and I will be answering your questions.

As usual, our Inflation Report includes boxes on prominent issues on the agenda as well as our thematic analyses.

Distinguished Guests,

I would first like to address the recent key global economic developments.

We all witnessed a significant rise in protectionism in foreign trade.

Global uncertainty still remains above historical averages.

However, the adverse impact of high uncertainty on global growth proved to be limited compared to the initial expectations.

Global economic activity has followed a relatively resilient course since the start of the year.

On the other hand, we also consider that this was led by temporary factors such as front-loading of production and trade to avoid high tariffs.

Meanwhile, global economy can be associated with an ongoing weak course.

The escalated protectionism and prolonged uncertainty are likely to spill over into growth rates for 2026 and to cause this sluggish outlook to continue.

Accordingly, we project that economic growth of our major trading partners will remain below historical averages.

Yet, we expect that the external demand outlook for Türkiye to record a limited recovery in 2026 due to the Middle East and Africa group, in particular.

On the commodity front, the differentiation between energy and non-energy commodity prices is worth noting.

Weak demand conditions coupled with increased crude oil production continue to suppress energy prices.

On the non-energy side, industrial and precious metal price increases are notable.

The search for safe financial assets is the driver of precious metal prices, while the rise in sectoral tariff rates affect industrial metal prices.

As known, a significant progress has been made in the global disinflation process.

Recently, the process has lost some momentum albeit with variations by country.

Thus, tariff decisions elevate core goods prices, while the uncertainty keeps the upside risks to prices in place.

While considering these risks, many central banks continue to cut rates.

Factors such as the current level of interest rates, the tariff-driven inflationary risks and growth-employment outlook shape the central banks' decisions.

Rate cuts are expected to continue with varying paces in many countries.

ECONOMIC OUTLOOK

Esteemed Guests,

Following the global outlook, now, I would like to share our observations on domestic macroeconomic developments.

As an intended result of our tight monetary policy, rebalancing in demand composition continues.

In the first half of 2025, the contribution of private consumption to growth receded significantly compared to the same period of past years, whereas the contribution of investments increased gradually.

In the first half of this year, the front-loaded import demand amid escalated global trade uncertainties had an adverse effect on the contribution of net exports, yet the outlook here is more balanced compared to the pre-tightening period.

As for the indicators for the third quarter of the year:

Industrial production, which increased in the second quarter, remained flat in the third quarter as of August.

Excluding highly volatile sectors, industrial production edged down on a quarterly basis.

Following a limited increase in the second quarter, the service production index maintained its near-flat trend as of August.

The capacity utilization rate in the manufacturing industry displays a decline on average in the third quarter. However, this rate recorded a slight increase in September and October.

Data shows that capacity utilization in industry has been hovering below the historical average for the past six quarters.

Regarding the labor market, the headline unemployment rate, which increased slightly in the second quarter, remained flat in the third quarter.

Meanwhile, broadly defined indicators are still at high levels, despite declining in the third quarter.

Another indicator we track for assessing the labor market, which we introduced in the previous report, is the Composite Labor Market Index.

Based on a comprehensive labor market dataset, the index remains weak despite an increase in the third quarter.

Accordingly, we believe that, along with complementary indicators, the labor market is less tight than the headline unemployment rate implies.

As you know, we regularly monitor sales and consumption indicators to assess demand conditions. These indicators suggest a continued slowdown in domestic demand in the third quarter.

To begin with retail sales, the trajectory of the volume index excluding gold provides a clearer picture. As of August, the index's quarterly growth rate slowed compared to the previous two quarters.

Here, it is essential to underscore the effect of transition to e-invoicing on curbing the informal economy.

Indeed, this transition, which increases companies' registered sales, naturally affects the retail sales volume index. It is worth noting that, when adjusted for this effect, the increase in sales is more moderate. You can take a look at our box study on this particular topic for details.

Another indicator we use to monitor demand is card spending.

As you know, we adjust card spending based on card usage rates, given the shift in payment preferences in recent years. Adjusted data are more meaningful as they are more consistent with private consumption trends.

Accordingly, we see that card spending was relatively flat in the third quarter as well.

The Business Tendency Survey data is also consistent with moderation in domestic demand led by monetary tightening. Indeed, manufacturing firms’ registered domestic orders declined in the third quarter.

While October data points to a slight increase, indicators hover around the historical average.

Considering the data on demand as a whole, demand conditions were at the disinflationary levels in the third quarter.

The average of the output gap indicators based on alternative methods points to a negative level in the third quarter.

We expect this disinflationary outlook to last for the remainder of the year.

Regarding economic activity, I would like to touch upon the foreign trade developments.

Imports increased in the second quarter due to front-loaded demand amid trade uncertainties, but declined in the third quarter. This decline was also led by a decrease in gold imports and the low levels of energy prices.

Provisional data for October implies a rise in imports on a monthly basis.

As for consumption goods imports, we observe a continued decline in October, following the fall in the third quarter.

In light of these developments, the current account deficit edged up in the second quarter but remained moderate in line with the domestic demand outlook, and the current account deficit-to-GDP ratio stood at 1.3 percent.

Our forecasts for the third quarter suggest a flat ratio.

Therefore, we project that the ratio will remain below its long-term average in 2025 as well.

However, gold and energy prices and trade uncertainties continue to pose risks to the current account deficit.

Distinguished Participants,

In this part of my presentation, I would like to share our assessments of inflation.

Over the last two months, we have experienced a slowdown in the disinflation process.

Compared to the previous report, the contribution of food prices to annual consumer inflation rose by 1.5 points. In the same period, other main subgroups had contributed to disinflation.

Amid these dynamics, consumer inflation recorded a modest decline, standing at 32.9 percent as of October.

As you know, inflation remained within our forecast range during the previous reporting period.

In the last two months, inflation figures were above our forecast range.

Looking at the background of this development, food price-related effects stood out.

We noted in the previous report that adverse weather conditions posed upside risks to food prices. These supply-side risks have materialized in recent months. In fact, crop production forecasts have been revised downward from the initial forecasts in May.

These developments have also pushed food inflation up significantly in the recent period.

In addition to the unfavorable course in food prices, the improvements in services and core goods inflation over this period were less than we had expected.

In the energy group, we observed the positive effects of falling global energy prices.

An analysis of non-food consumer prices for a clearer picture reveals a further deceleration in inflation. However, monthly averages remain higher than anticipated.

As you know, we examine the course of underlying trend indicators in order to better understand the recent trajectory of inflation.

Based on our calculation of the annualized underlying trend over the past three months, the average of the six indicators we monitor is around 28 percent.

Median inflation, which performs better in forecasting, implies that underlying inflation is around 27 percent. While these levels are below the current consumer inflation rate of 32.9 percent, they suggest a slowdown in the disinflation process.

On the other hand, we observe a slight decline in the trend inflation indicator, which is a longer-term measure by design and excludes one-off effects.

At this point, I would like to emphasize that we are determined to ensure a continued decline in the underlying trend through our tight stance.

When we go into detail based on the groups in the CPI;

Regarding core goods, the effect of the depreciation of the Turkish lira in the second quarter on inflation waned subsequently.

On the other hand, it should be noted that core goods inflation has recently relatively flattened, both on an annual and a monthly basis.

As for the services group, inflation remains elevated despite a significant improvement over the last year.

An analysis of related dynamics reveals that the inertia in services inflation persists due to items with strong time-dependent price-setting and backward-indexation tendency.

Therefore, rent and education items continue to stand out in annual inflation developments. On the other hand, inflation in services subitems with high demand-sensitivity, such as restaurants-hotels, is closer to headline inflation.

The highest rate of increase in services was registered in the education sector over the first 10 months of the year.

Education services inflation remains elevated despite a decline compared to the previous year.

When the sub-items are considered, the relative price increase appears to be considerably high particularly in university tuition fees. Compared to end-2019, consumer prices have increased 7.8 times whereas university tuition fees have surged 15-fold.

In the third quarter, tuition fees of foundation universities increased more than we had projected. Therefore, we should mention that this increase had an impact, albeit limited, on the forecast revision.

On the other hand, we should also note that some measures have been introduced in the education sector recently to weaken the backward-indexation mechanism.

As I have mentioned earlier, rent inflation is another prominent item in the services sector.

Seasonally adjusted data were indicating a flat course in monthly rent inflation at around 4 percent for some time. However, this course has been replaced by lower rates of increase for the last couple of months.

As shown in the right panel, the annualized last-three-month rent inflation trend is at 51 percent. This trend is approximately 15 points below the current annual rent inflation, indicating that rent inflation will continue to decline. This downward outlook is also confirmed by our indicators based on rental ads on the Internet, residential property loan valuation reports as well as by all the leading indicators obtained from the Retail Payment System.

Nevertheless, we should note that rent inflation is higher than we projected due in part to the supply-side factors specific to the housing sector, such as earthquakes and urban transformation.

As we always emphasize, we attach importance to the course of inflation expectations during the disinflation process and monitor them in three separate segments.

In October, the downward trend in inflation expectations was interrupted. Compared to the previous reporting period, the improvement in 12-month ahead inflation expectations has lost pace.

As you can see in the table, although the market participants' inflation expectations for different horizons have declined gradually, expectations are still above our inflation forecasts.

A related development that we deem important in this context was that the risks posed to the disinflation process by recent price developments, particularly in food, had become more pronounced through the inflation expectations and pricing behavior channels.

Taking this into account, we revised the size of our policy step in the latest decision.

In the upcoming period, we expect that the improvement in inflation expectations will be supported by our decisive monetary policy stance and the continued decline in inflation figures that it will ensure. As you can see in our box study, the decline in the pessimistic bias in inflation expectations supports this projection.

MONETARY POLICY

Esteemed Guests,

I would now like to share recent developments regarding our monetary policy stance.

When explaining inflation developments, I mentioned that the disinflation process had slowed down.

Against this background, we lowered the pace of the rate cuts to one-point in October, bringing the policy rate to 39.5 percent.

We will ensure the continuation of the disinflation process in line with targets through the tight monetary policy stance that we maintain decisively.

In this process, we are also reinforcing the monetary transmission with macroprudential measures against divergence and potential volatility in expectations among economic agents.

Moreover, we maintain an effective liquidity management strategy based on liquidity conditions.

Macroprudential measures support our tight monetary stance.

We continue to implement measures that aim to increase the share of Turkish lira deposits.

We fully terminated the KKM account openings and renewals on August 23.

Additionally, we are limiting fluctuations in loan growth through loan growth caps and maintaining the weight of the Turkish lira in loans.

Finally, we reinforce monetary transmission mechanism by our active liquidity management policy.

Excess liquidity conditions in the market have persisted in the recent period.

We sterilize excess liquidity through deposit buying auctions and reverse swap transactions.

On the other hand, to mitigate the volatility in money market interest rates, we also provide funding through repo auctions, taking into account the distribution of liquidity.

Our liquidity management strategy maintains money market interest rates at levels close to the policy rate.

Now, I would like to share the latest developments regarding the financial conditions that are critical to the transmission of our monetary policy.

According to recent data, deposit rates and commercial loan rates are 48 percent, while consumer loan rates are 59 percent on a compounded basis.

Policy rate cuts have reflected in deposit and loan pricing in line with our expectations.

Compared to the first week of June, consumer loan rates, commercial loan rates, and deposit rates fell by 11 points each in the week ending October 31.

The level of deposit rates continues to support the transition to the Turkish lira and savings.

Accordingly, total loan growth continues to move in tandem with the disinflation process.

While total loan growth slowed down from around 30 percent to 27 percent, excluding personal credit card balances, it declined to 25 percent.

As you may know, in order to strengthen the monetary transmission mechanism, we had lowered the monthly growth limit for FX loans to 0.5 percent.

Consequently, FX loan growth decelerated and total loan growth composition changed in favor of TL.

An acceleration was observed in retail loan growth in the second quarter of the year. This outlook, which also remained relatively buoyant in the third quarter, was predominantly affected by credit cards.

I would like to note that consumers' shift from cash payments to card payments has also been influential in credit card developments.

Nevertheless, we have been observing a slowdown in personal credit card growth since the second half of September.

Monthly retail loan growth, which was 4.2 percent on average in the second quarter, decreased to 3.5 percent in the third quarter, and to 2.4 percent in October.

As for deposits, the share of Turkish lira deposits is 60 percent, hovering close to the historical average.

This outlook does not change when mutual funds are also included.

Recently, we have observed an increase in FX deposits. Compared to end-2024, the FX deposit balance increased by 51 billion US dollars to 239 billion US dollars.

This increase was mainly driven by gold price movements and the rise in euro-USD exchange rate, as well as the termination of KKM accounts.

The gold price per ounce increased by 56 percent in 2025, the increase in the last two months exceeded 20 percent.

The euro/USD exchange rate increased from 1.04 to 1.16 recently.

The FX deposit growth adjusted for exchange rate and price effect stayed below 20 billion US dollars.

As you will recall, we terminated opening and renewal of KKM accounts for legal entities in February and for real persons in August.

As a result of these developments, the KKM balance, which exceeded 140 billion US dollars in August 2023, went below 4 billion US dollars.

Phasing out the KKM balance and increasing the TL deposit balance strengthened the monetary transmission mechanismand mitigated risks to the CBRT balance sheet.

As I have implied earlier, transition from KKM accounts to FX has been one of the factors affecting FX deposit growth.

The transition rate from KKM accounts to FX accounts was 25 percent between March and August.

Following the termination of the related practices for real persons as well in August, the transition rate to FX exceeded 80 percent in September and October.

The rise in the transition rate was driven by the strong FX tendency of the remaining KKM depositors.

Towards the end of the year, KKM accounts are expected to be largely wound down.

Similar to other emerging economies, there has been a recovery in capital inflows to Türkiye as well.

Capital flows remained moderate over the last few months.

The favorable course continues in reserves as well.

The gross reserves, which were 123.8 billion US dollars in March 2024, increased by 59.8 billion US dollars and reached 183.6 billion US dollars on October 31, 2025.

In this period, net reserves excluding swaps climbed to 52.6 billion US dollars, increasing by 116 billion US dollars.

Compared to the previous report period, risk perception towards Türkiye has improved as well.

With the contribution of this improvement, Eurobond rates have declined.

MEDIUM-TERM FORECASTS

Before going into the details of our inflation forecasts, I would like to share the main assumptions underlying our forecasts.

As I mentioned at the beginning of my speech, the global growth outlook remains weak amid persistent uncertainties. Therefore, we have kept our assumptions regarding external demand intact for this year and revised them slightly downward for the next year.

The weak global growth and the continued rise in oil supply exert downward pressure on oil prices. So, we have also revised our oil price assumptions downward.

On the other hand, the increases in precious and industrial metal prices push non-energy commodity prices up. Accordingly, we have raised our assumption for Turkish lira-denominated import prices.

In addition, we have revised our assumption for food prices upward in view of domestic supply developments driven by adverse weather conditions in particular.

When forming our forecasts, we have assumed an outlook where the projected monetary policy path will remain above the one in the previous reporting period. Additionally, we have assumed that the coordination among economic policies will also continue.

Against this backdrop, we forecast inflation to be between 31 percent and 33 percent by the end of 2025. For the end of 2026, our forecasts indicate that inflation will decline to a range of 13 percent to 19 percent.

We maintain our interim inflation targets for 2025, 2026 and 2027 at 24 percent, 16 percent and 9 percent, respectively.

After inflation declines to 9 percent in 2027, we foresee it stabilizing at 5 percent in the medium term.

The increase we have made in our food price assumption is among the stand-out drivers of the upward revision in the forecast range for 2025.

Despite the fall in oil price assumption, the revision in the assumption for import prices has also driven our forecasts upward.

Although demand conditions are at disinflationary levels, the recent course of the output gap above our projections has pushed our forecasts up.

The decline in underlying inflation and inflation expectations has been more limited than we envisaged, which has also led us to raise our inflation forecast for 2025.

Revisions to the assumptions for food and import prices have had an upward effect on our forecast for 2026. However, thanks to the endogenous monetary policy response that I have just mentioned, the slowdown in domestic demand will become more pronounced and inflation expectations will improve. These factors have affected our forecasts downward. As these upward and downward effects have counterbalanced each other, we have maintained our forecast range for 2026.

Distinguished Participants,

We have always reiterated that during the disinflation process, we will maintain our tight monetary policy stance to achieve our interim targets.

We will stand firm to determine the steps we will take in a way that ensures the tightness required by the interim targets.

Maintaining our cautious stance, we expect inflation to decline steadily in the upcoming period. Our decisive stance in monetary policy will strengthen the disinflation process through demand, exchange rate, and expectation channels.

Accordingly, keeping domestic demand at disinflationary levels through the steps and measures we take will remain pivotal to this process.

The sustained improvement in expectations and the continued decline in services inflation will support the decrease in underlying inflation in the coming period.

We expect the macroeconomic framework set out in the Medium-Term Program will also contribute to this process.

To sum up, we will decisively maintain our tight monetary policy stance until price stability is achieved.

As our monetary policy statements indicate, we set the policy rate to ensure the level of tightness required by the projected disinflation path. In this process, we take into account inflation realizations, underlying inflation and inflation expectations.

I would like to emphasize once again that we will continue to adopt a prudent, inflation-focused, and meeting-by-meeting approach when deciding on policy steps and their size.

We always stand ready to tighten our monetary policy stance in case of a significant deviation in inflation outlook from the interim targets.

Distinguished Participants,

Price stability is a prerequisite for sustainable growth and increased social welfare.

Accordingly, in the disinflation process, we will continue to do whatever it takes to bring inflation down in line with our interim targets.

Distinguished Participants,

As I conclude my remarks, I would like to thank all of my colleagues who have contributed to the writing of the Report, primarily the members of the Monetary Policy Committee, the Chief Advisors and the staff of the Research and Monetary Policy Department, and everyone that have contributed to the press conference.

Now, along with our Deputy Governors, we can proceed to the Q&A session.