

# MONETARY POLICY AND INFLATION OUTLOOK IN TÜRKİYE

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**Governor**

**JANUARY 13-14, 2026**

**LONDON-NEW YORK**



# Key Takeaways on Inflation Dynamics

## 1 Underlying Trend

- Disinflation in 2025 was led by services, alongside moderation in food and core goods.
- Underlying inflation eased in recent months.

## 2 Drivers of Disinflation

- Inflation expectations improved, especially that of households and firms.
- Pricing behavior improved.
- Strong growth and credit coexist with tighter financial conditions.

## 3 Risks and Uncertainty

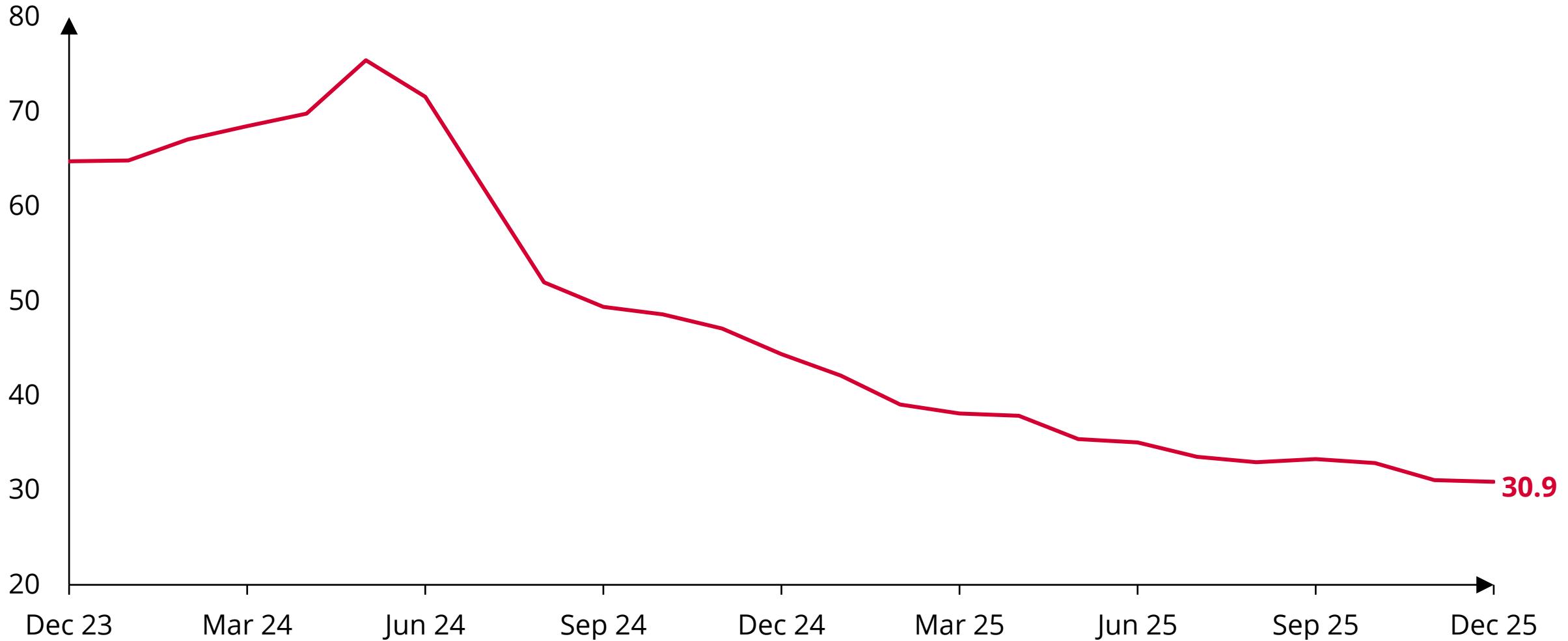
- Food inflation may rebound early in the year
- Easing rent inflation and recent regulatory changes in education will reduce inertia.
- Fiscal support is becoming more visible.
- Global backdrop remains a source of uncertainty.

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# **Anatomy of Disinflation in 2025**

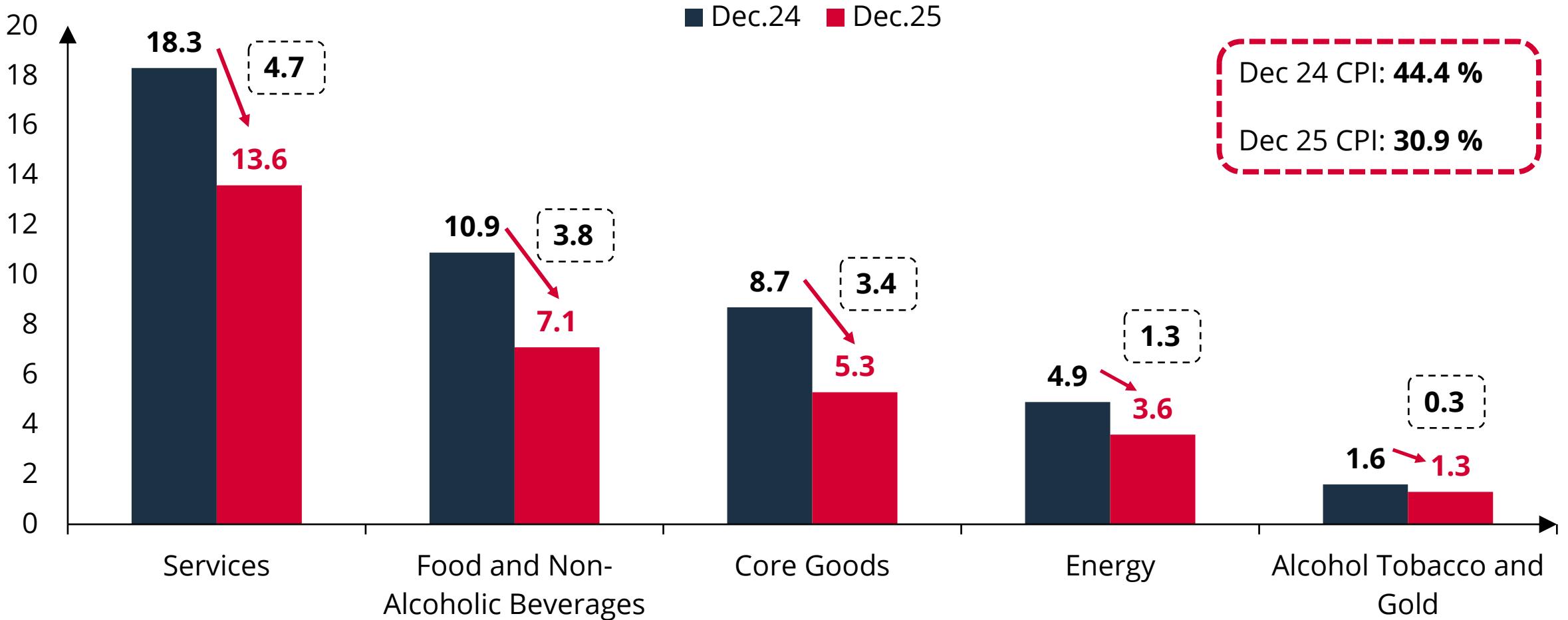
# Inflation ends 2025 at 30.9%.

CPI (Annual % Change)



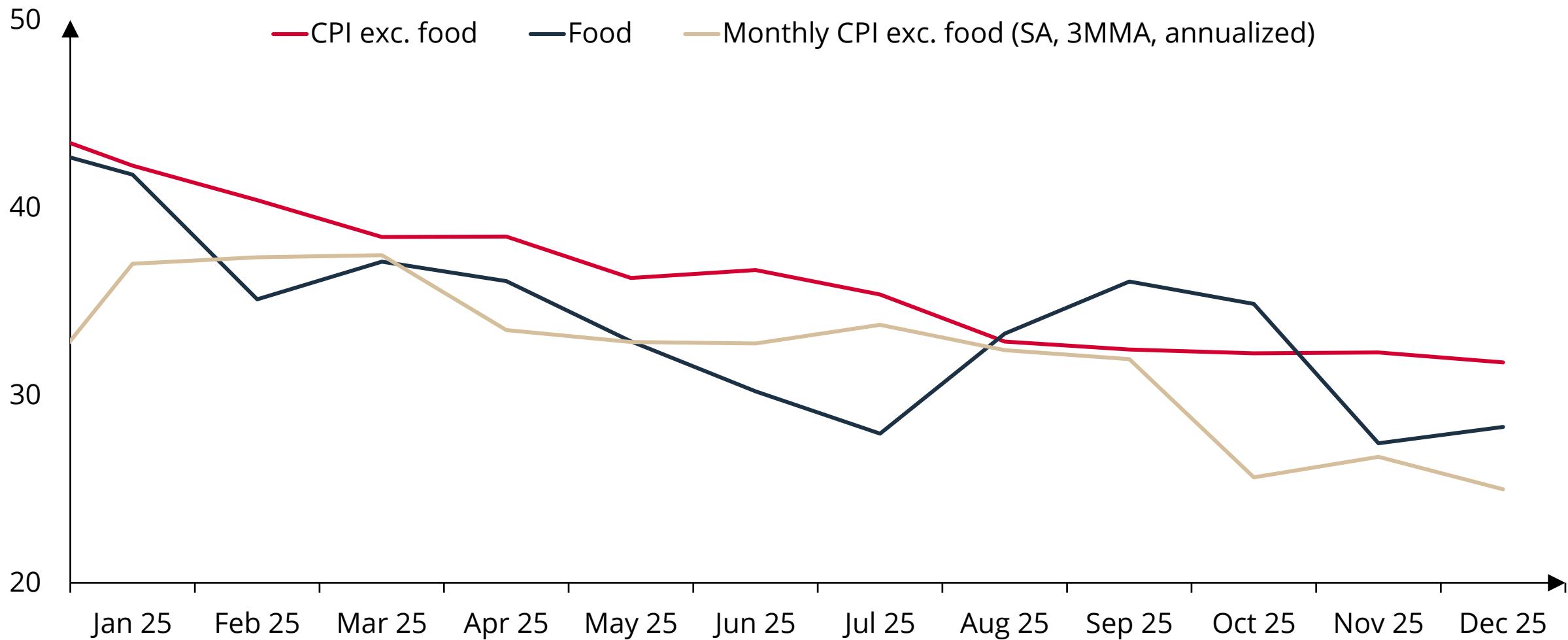
# The decline in inflation was broad based across.

Annual Contributions of Sub-Items to the CPI (%)



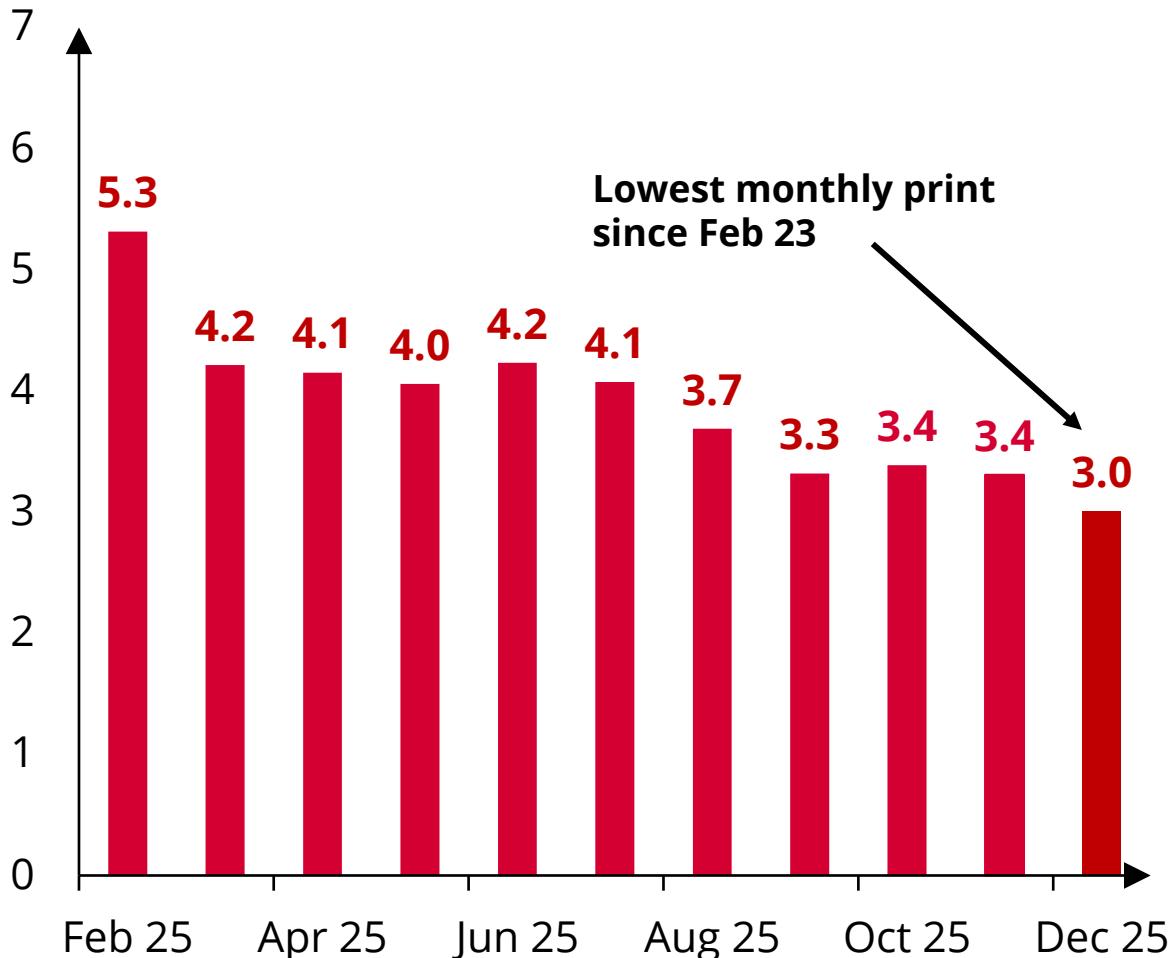
## Food inflation induced some volatility in 25H2.

Food and Non-Food Prices (Annual % Change)

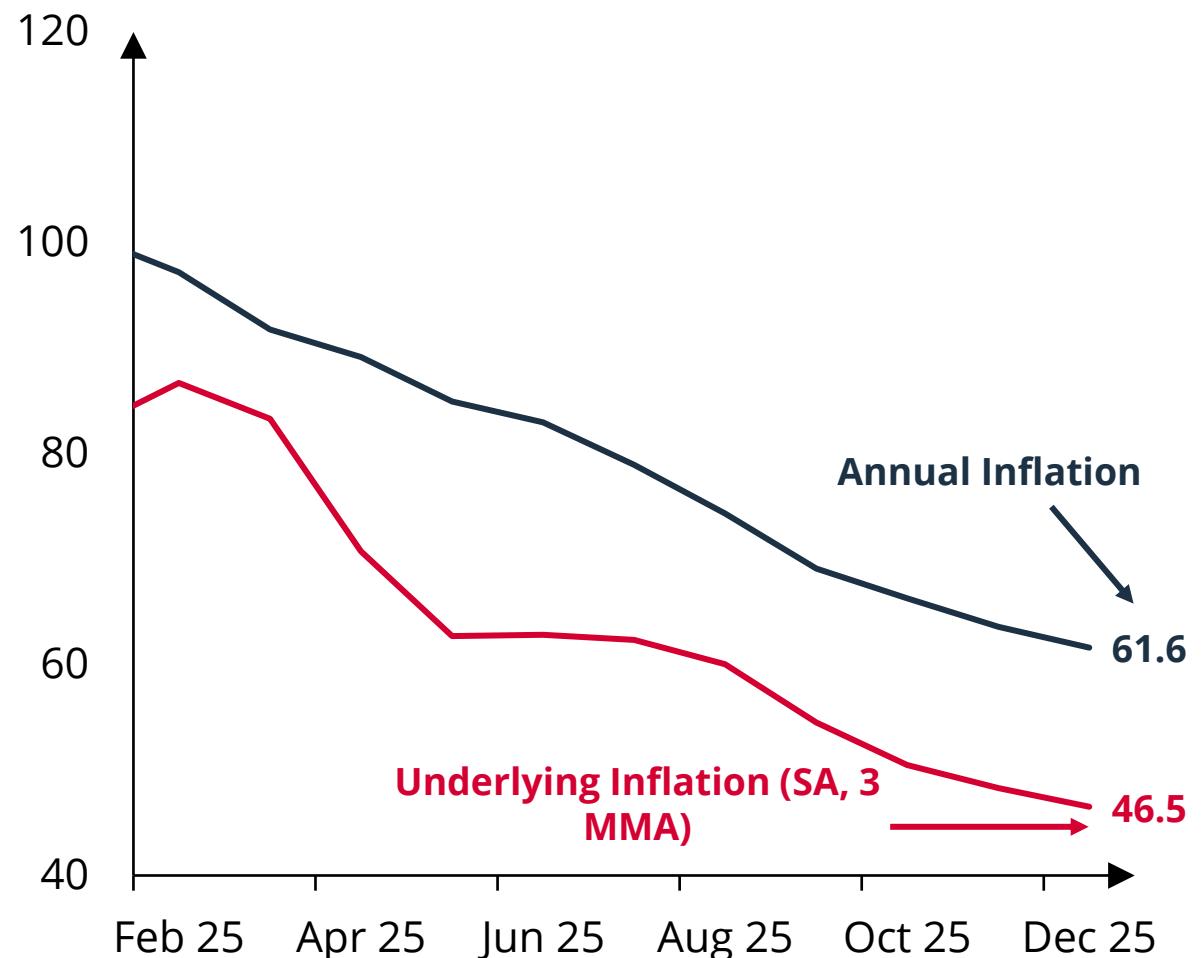


# Rent inflation continued to decelerate in 2025.

Rent (Seasonally Adjusted, Monthly % Change)

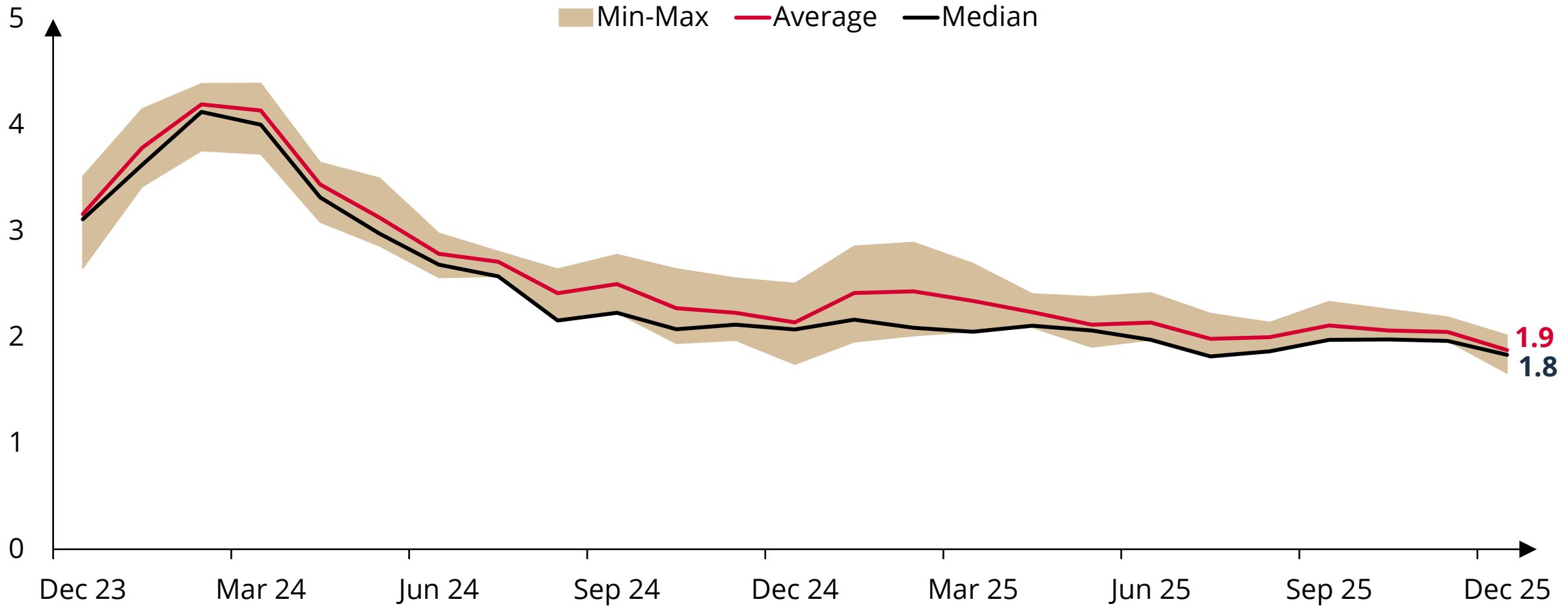


Rent (Annual % Change and Annualized Underlying Inflation)



# Many underlying inflation indicators at lowest levels since September 2021.

## Underlying Inflation Indicators (SA, 3 MMA, %)

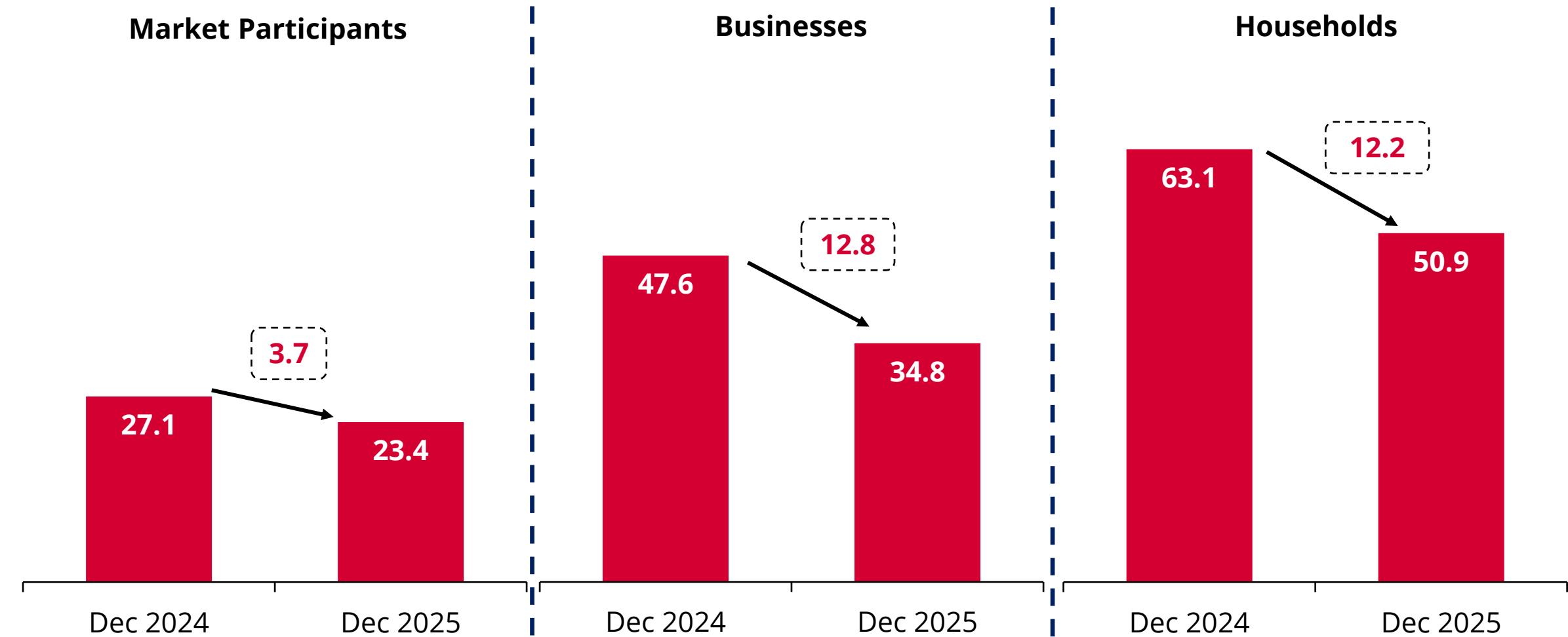


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**Drivers of  
Disinflation  
in 2025**

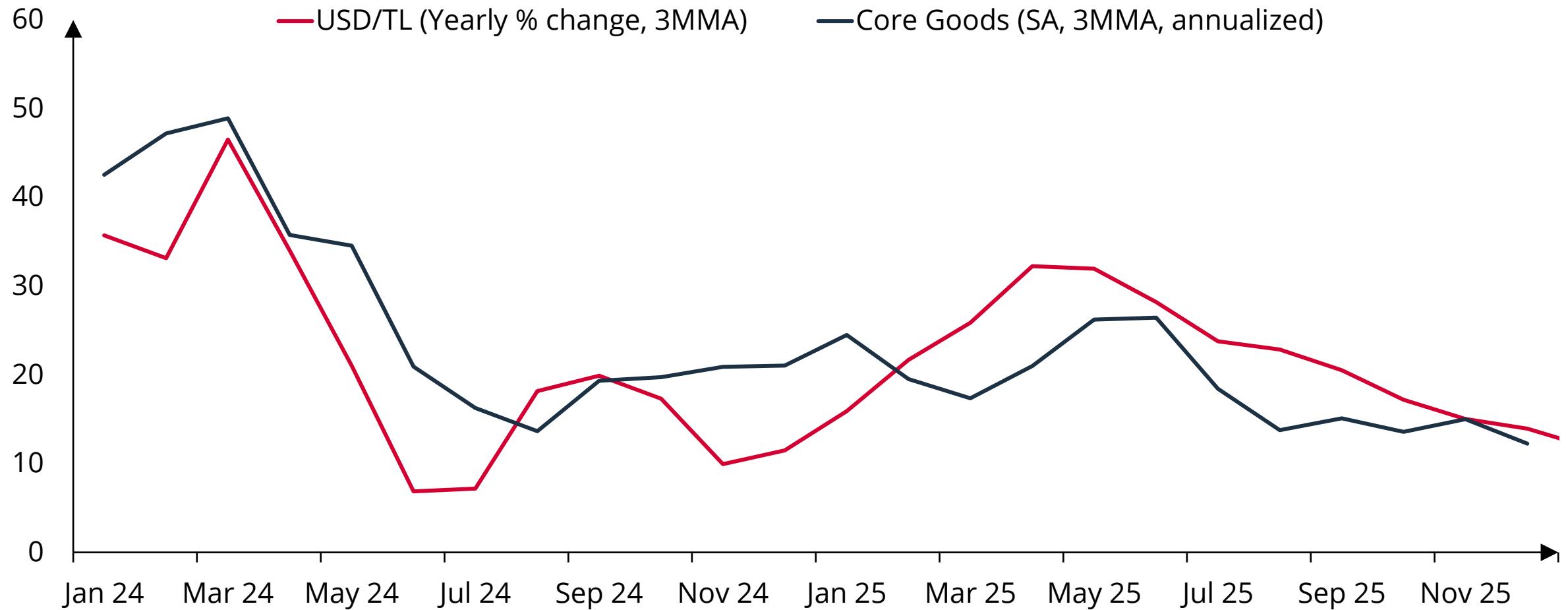
# Inflation expectations have improved especially for households and businesses.

## Expectations of 12-month Ahead Annual CPI Inflation (%)



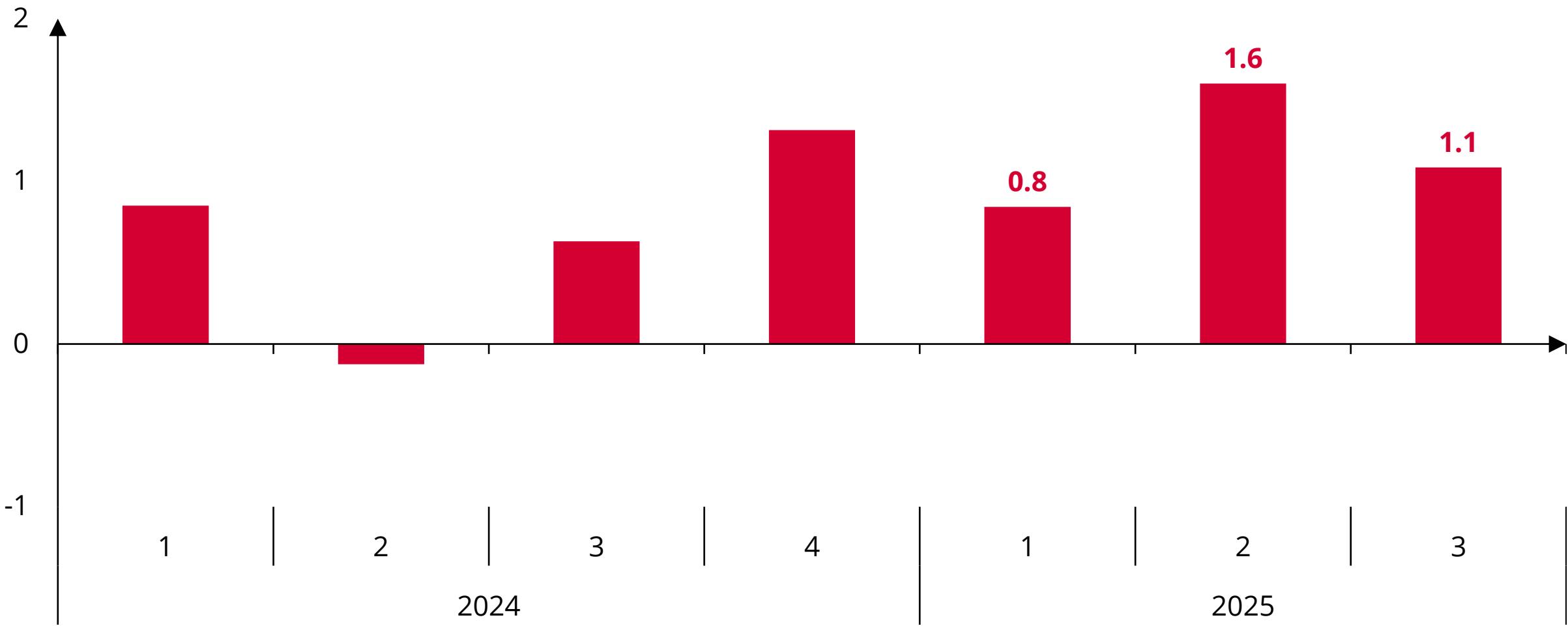
# Exchange rate channel worked well in 25H2.

## USDTRY and Core Goods Inflation



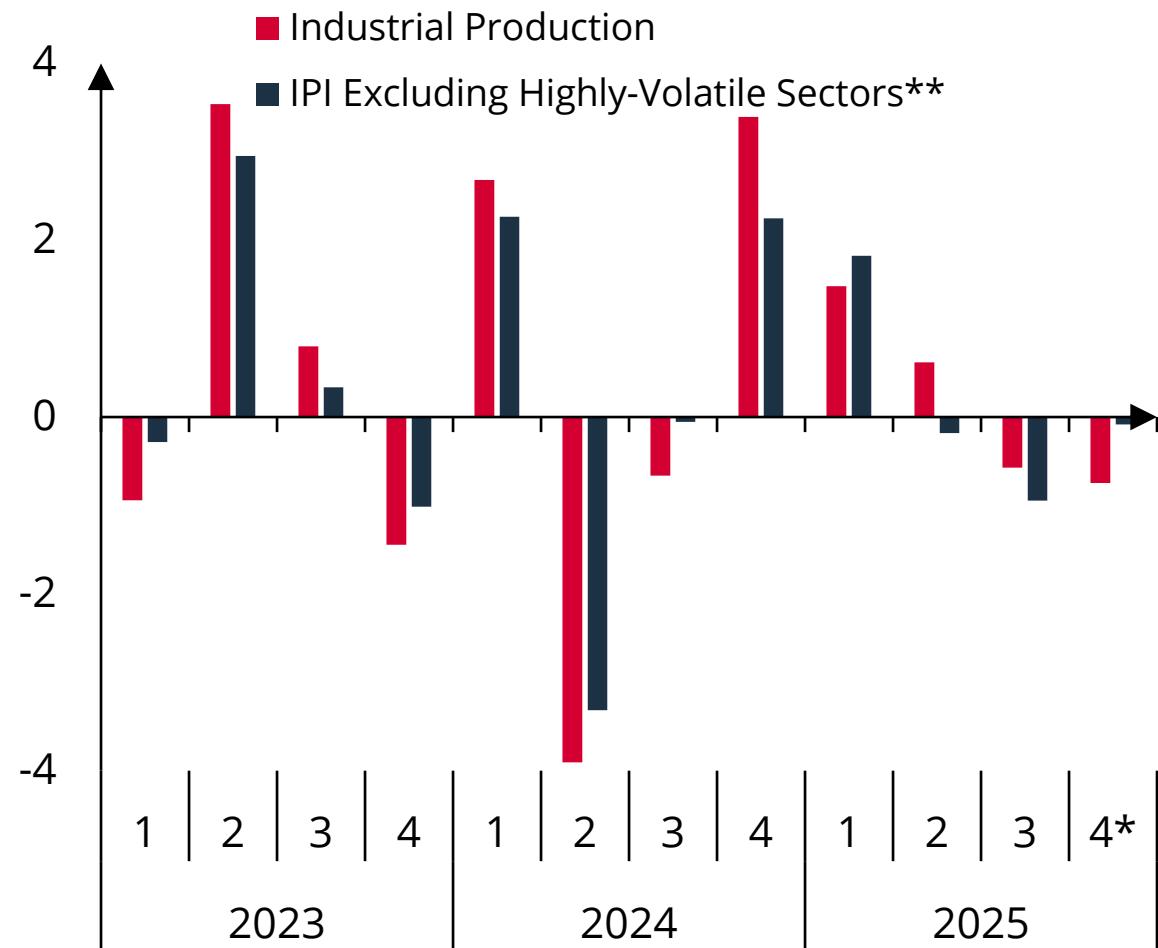
# Growth stayed resilient through 25Q3.

**GDP Growth** (Quarterly, % Change)

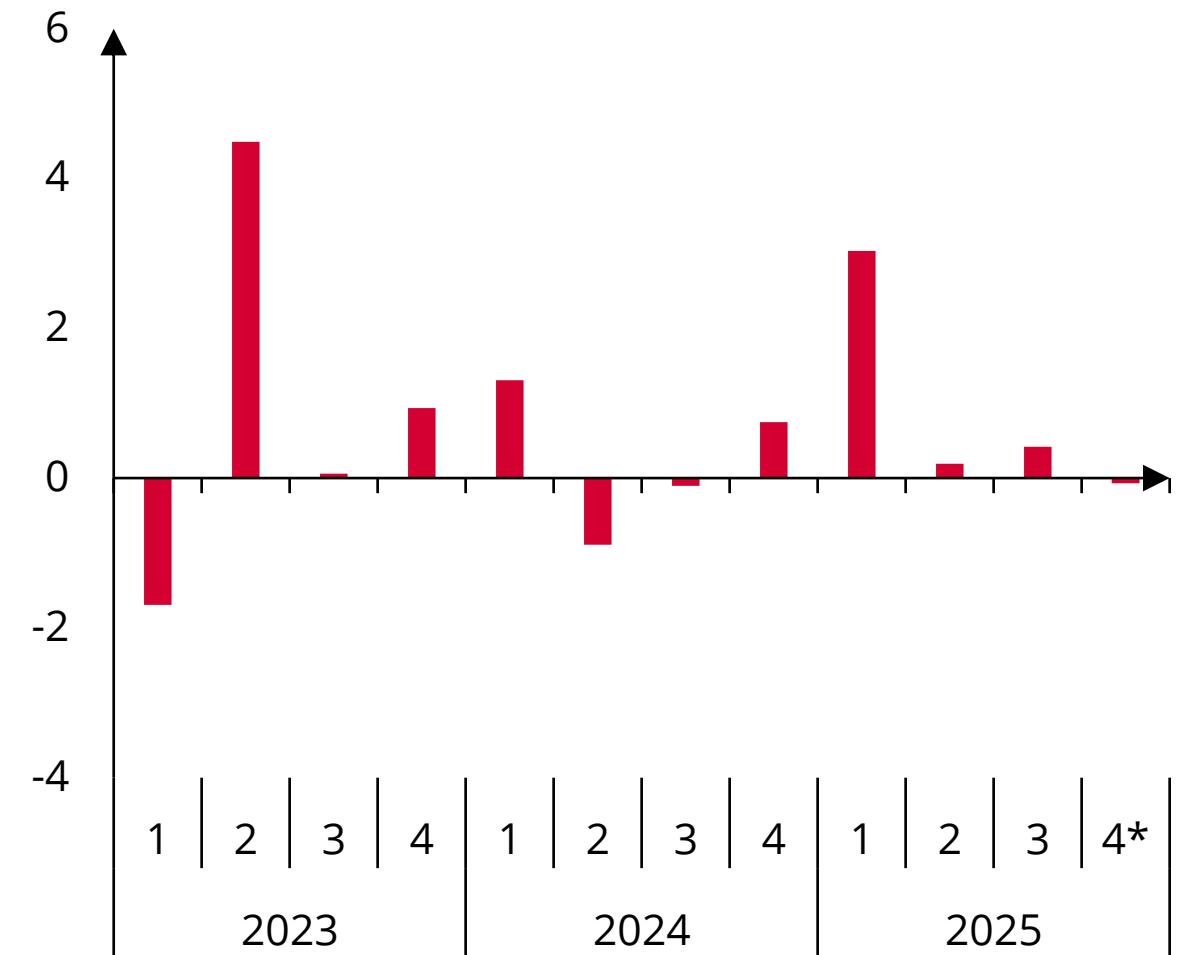


## But other activity measures paint a mixed picture ...

Industrial Production Index (SCA, Quarterly % Change)

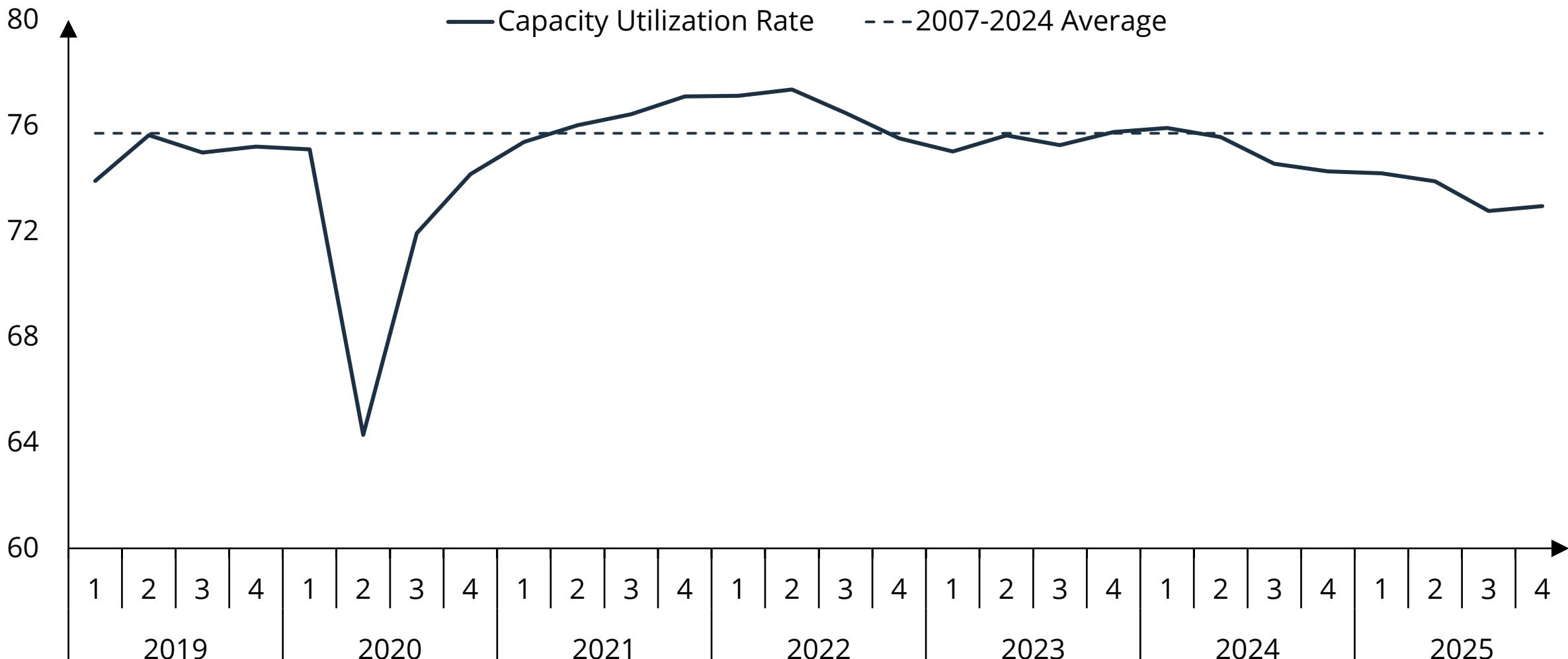


Services Production Index (SCA, Quarterly % Change)



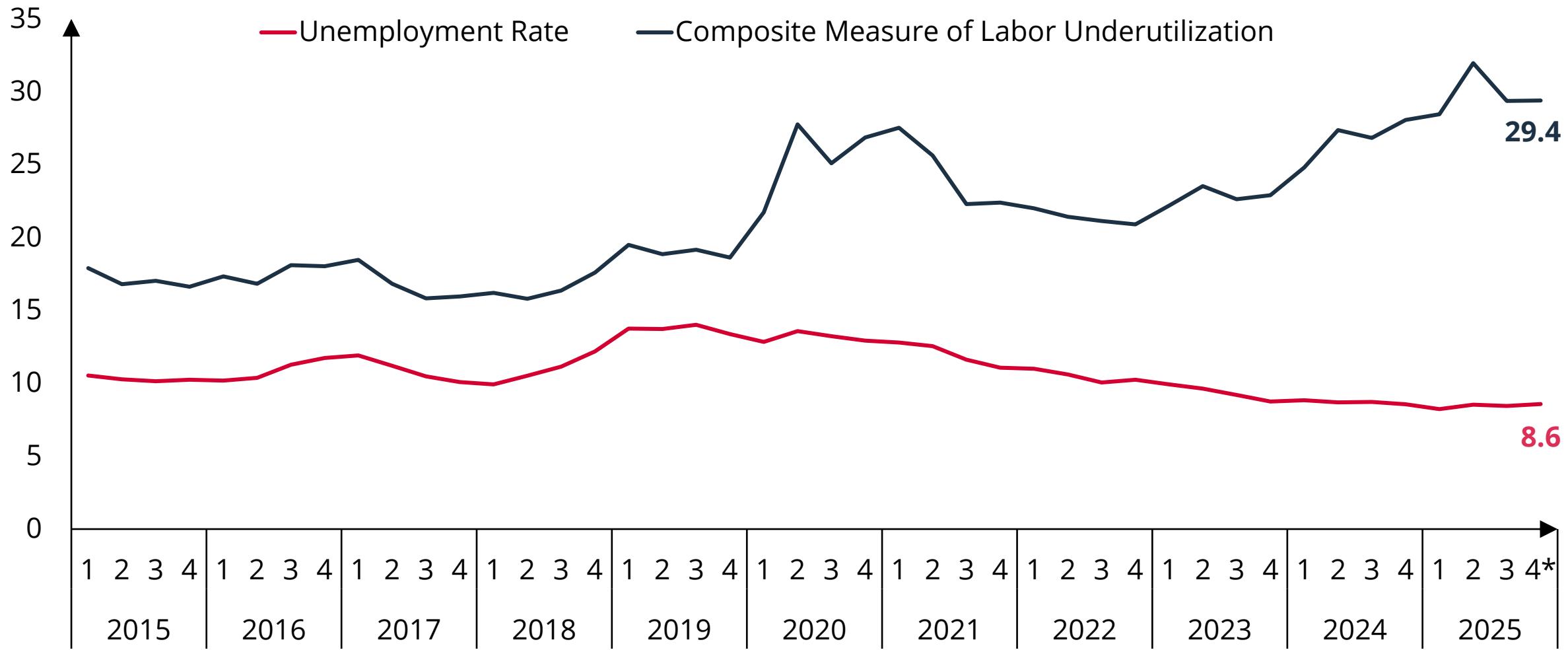
**... and capacity utilization remains at post-COVID lows in 25Q4.**

**Capacity Utilization Rate\* (Seasonally Adjusted, % )**



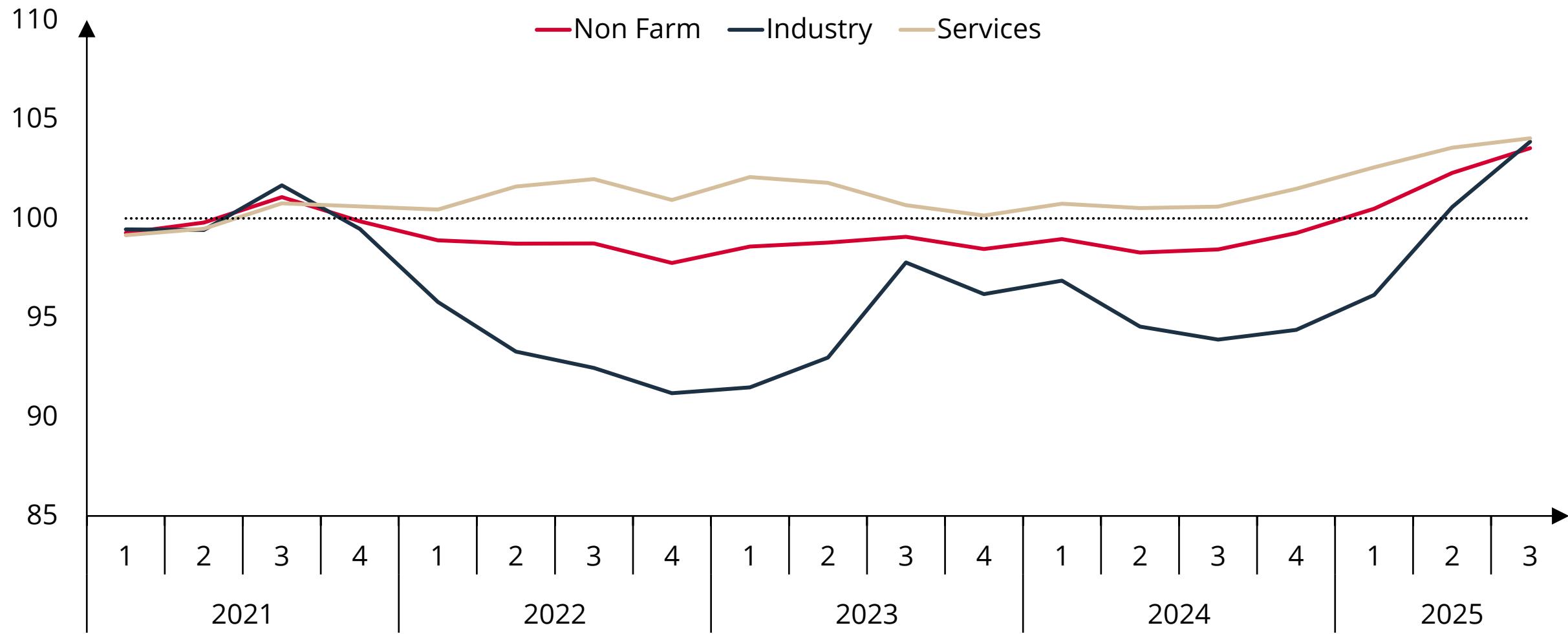
# Labor market shows more slack under the hood.

## Labor Market Indicators\* (Seasonally Adjusted, %)



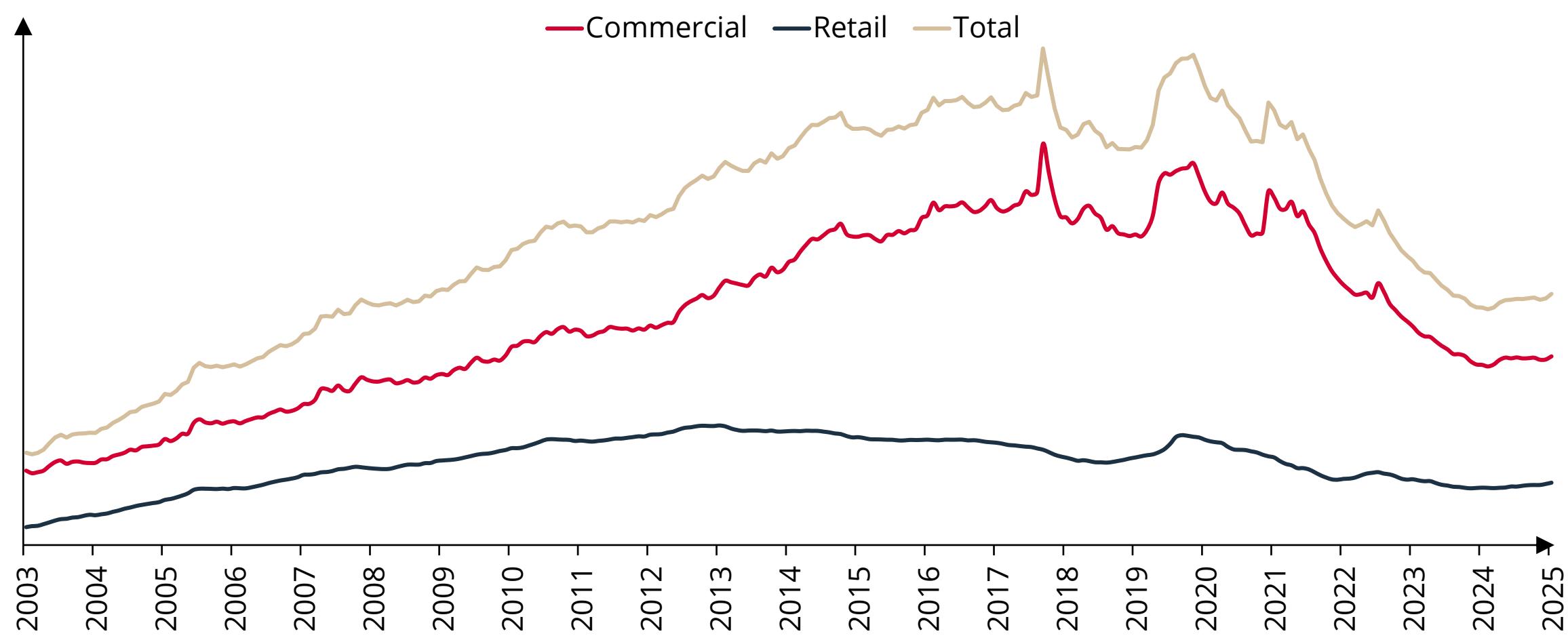
# Labor productivity is increasing.

**Output per Worker\*** (Seasonally Adjusted, 2021=100)



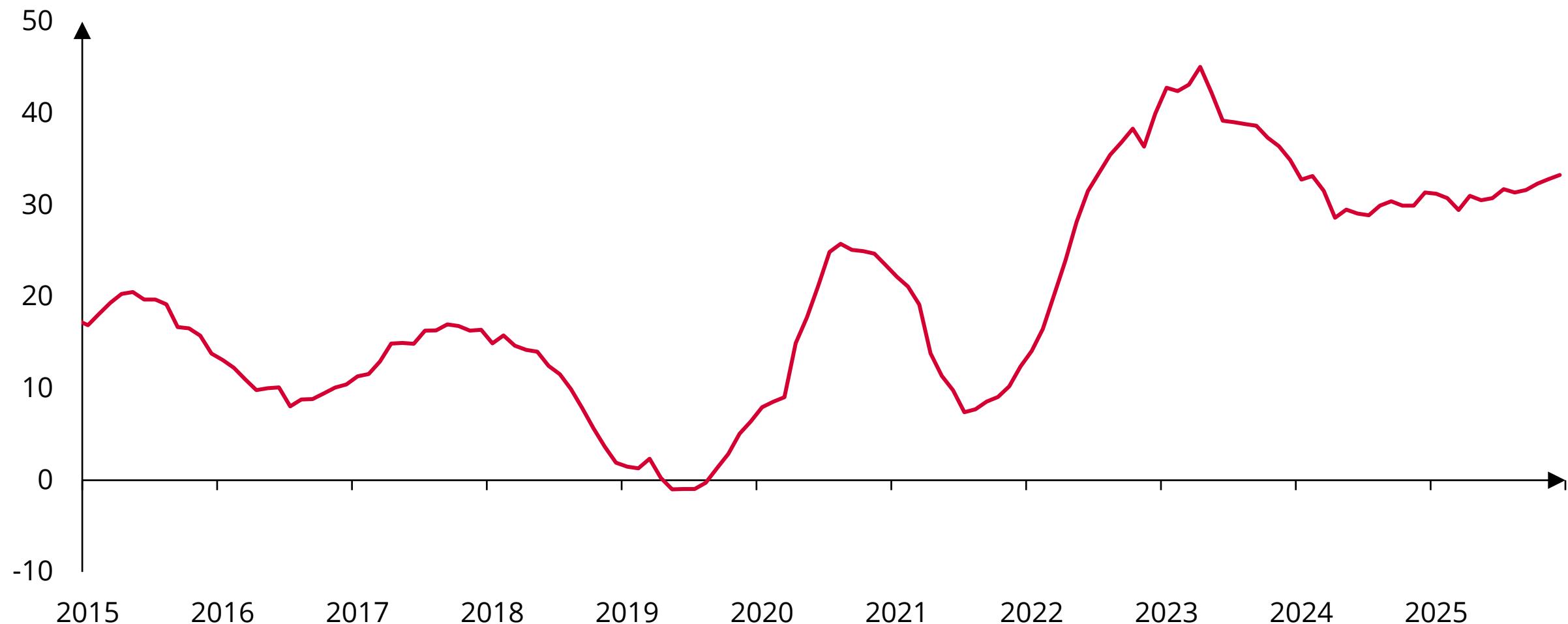
# Households and businesses faced tight monetary policy at historically low leverage.

Outstanding Loans/GDP (%)



## Credit growth remains relatively firm.

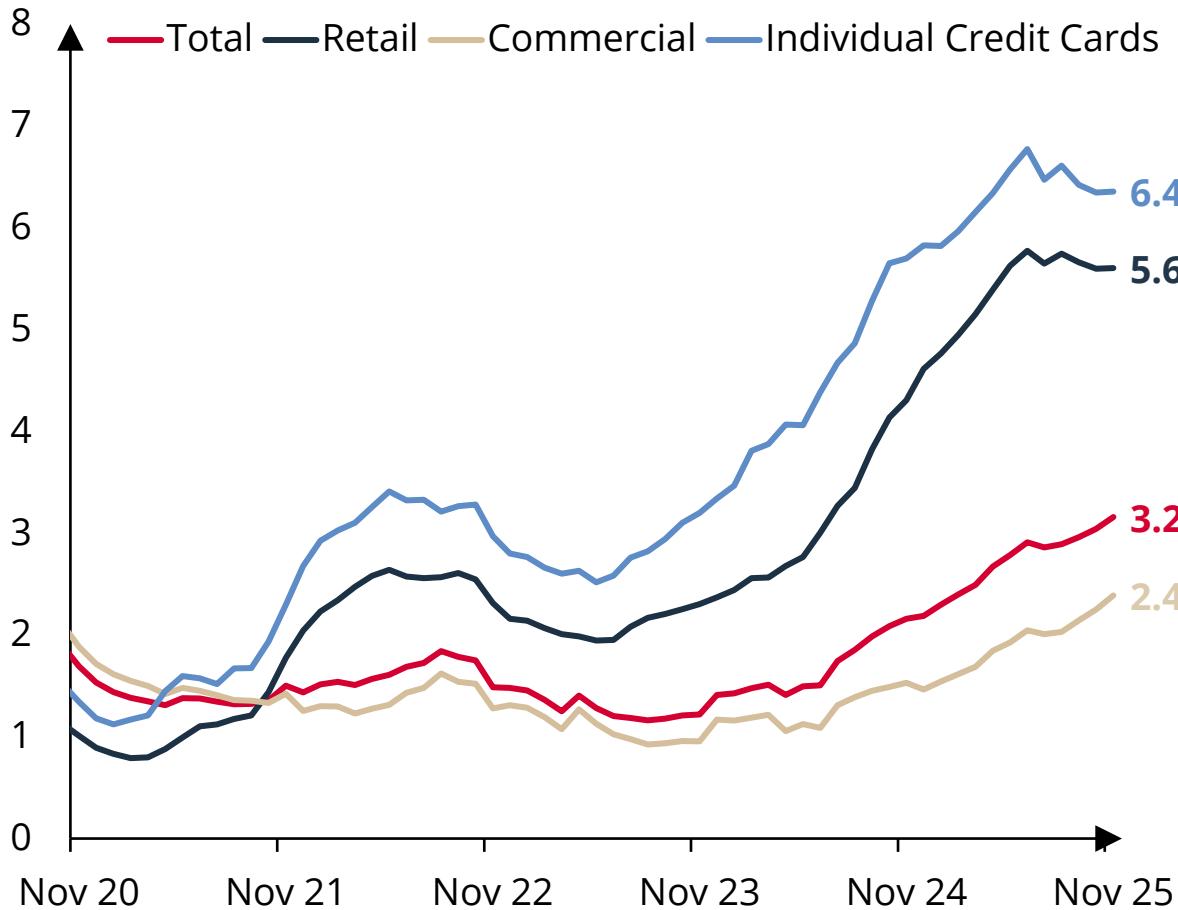
**Credit Growth** (Fx Adj., Annual % Change)



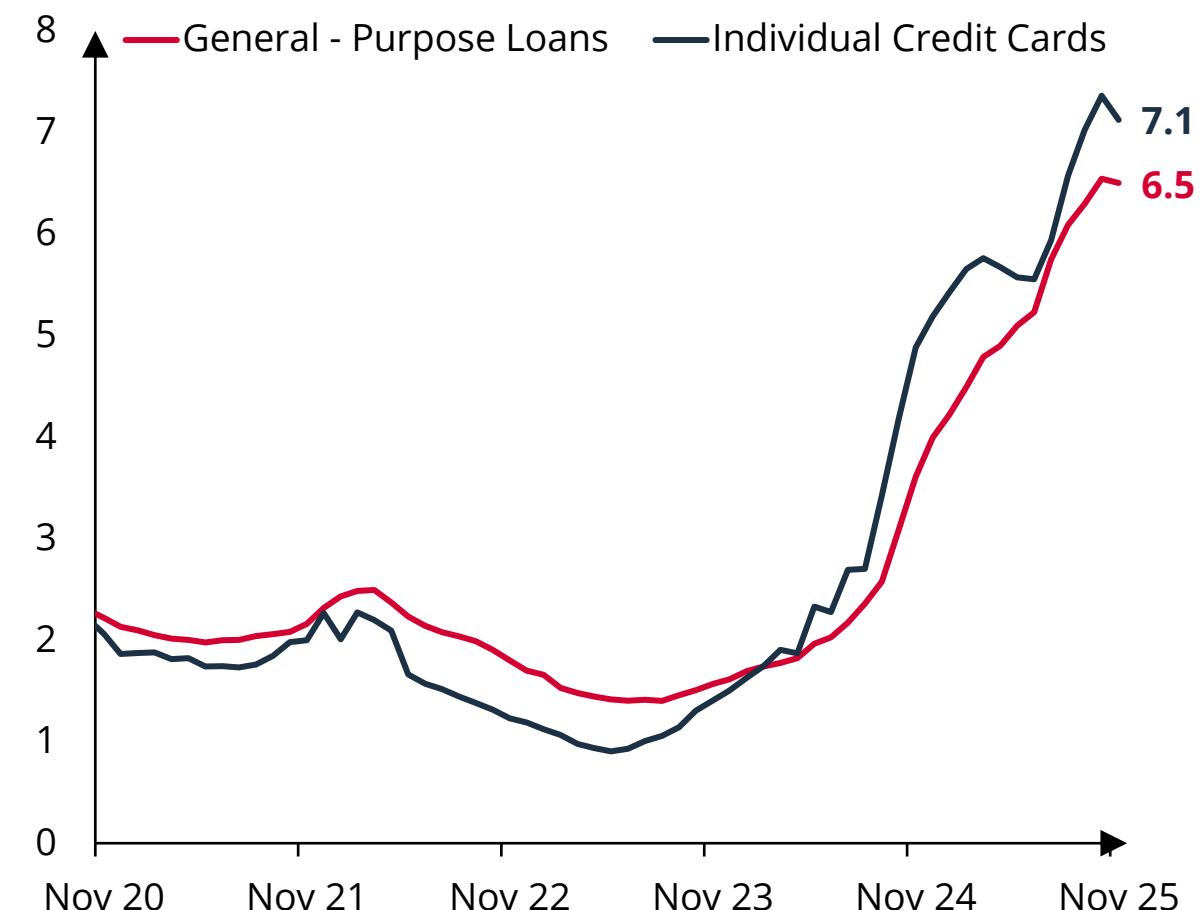
# Yet, delinquencies and loan restructurings suggest restrictive financial conditions.

## Transition Rate from Performing Loans to NPL\*

(Flow, 12-Month Cumulative, %)

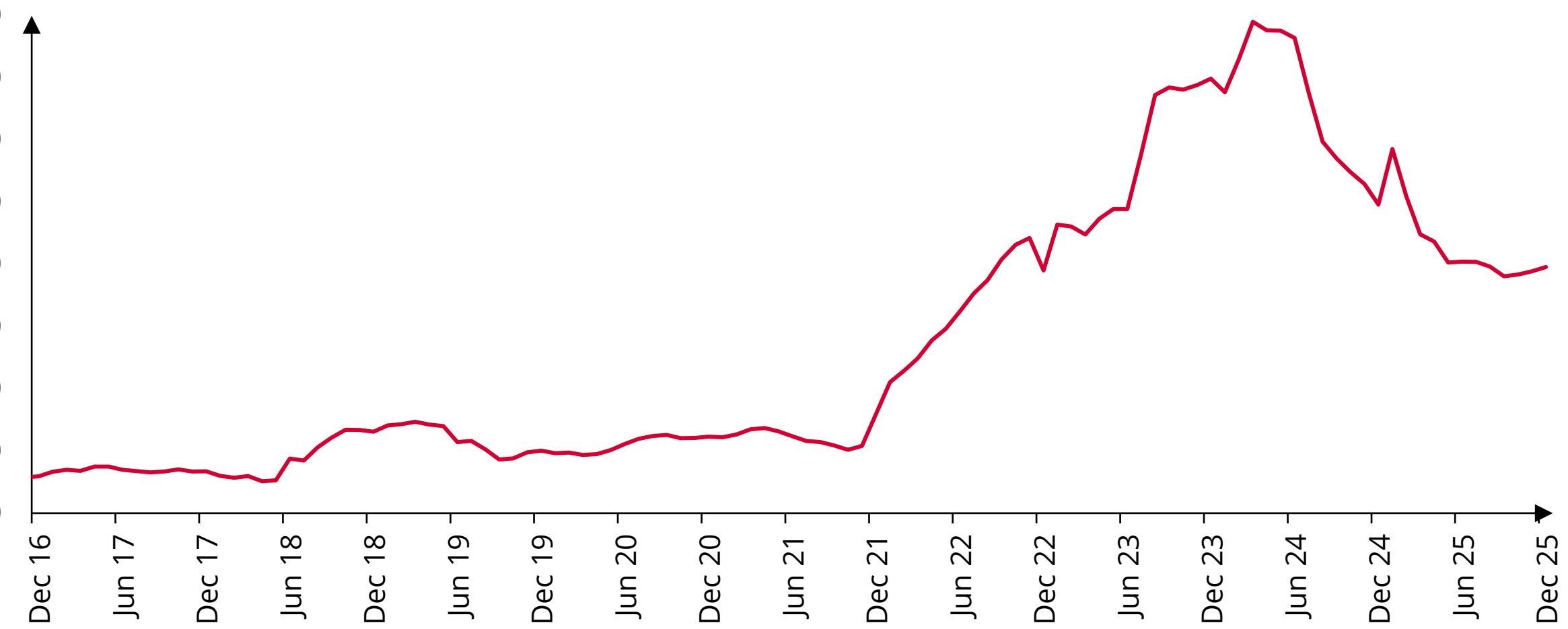


## Restructured Loan Share (%)



# The decline in services inflation implies a negative output gap.

**Monetary Policy Sensitive Services** (Annual Inflation, %)



# 3

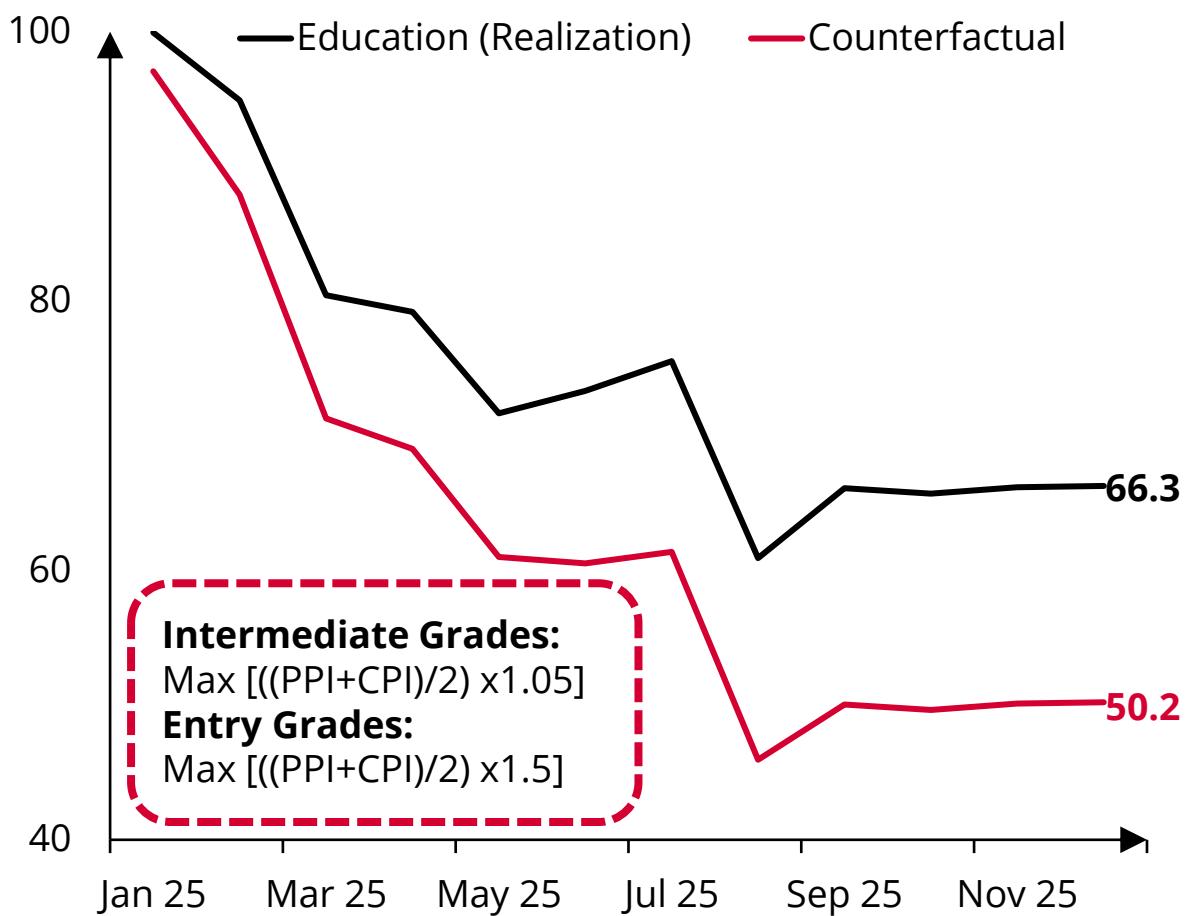
## **Risks to Inflation Outlook**

## Inflation data over the next two months might be noisy.

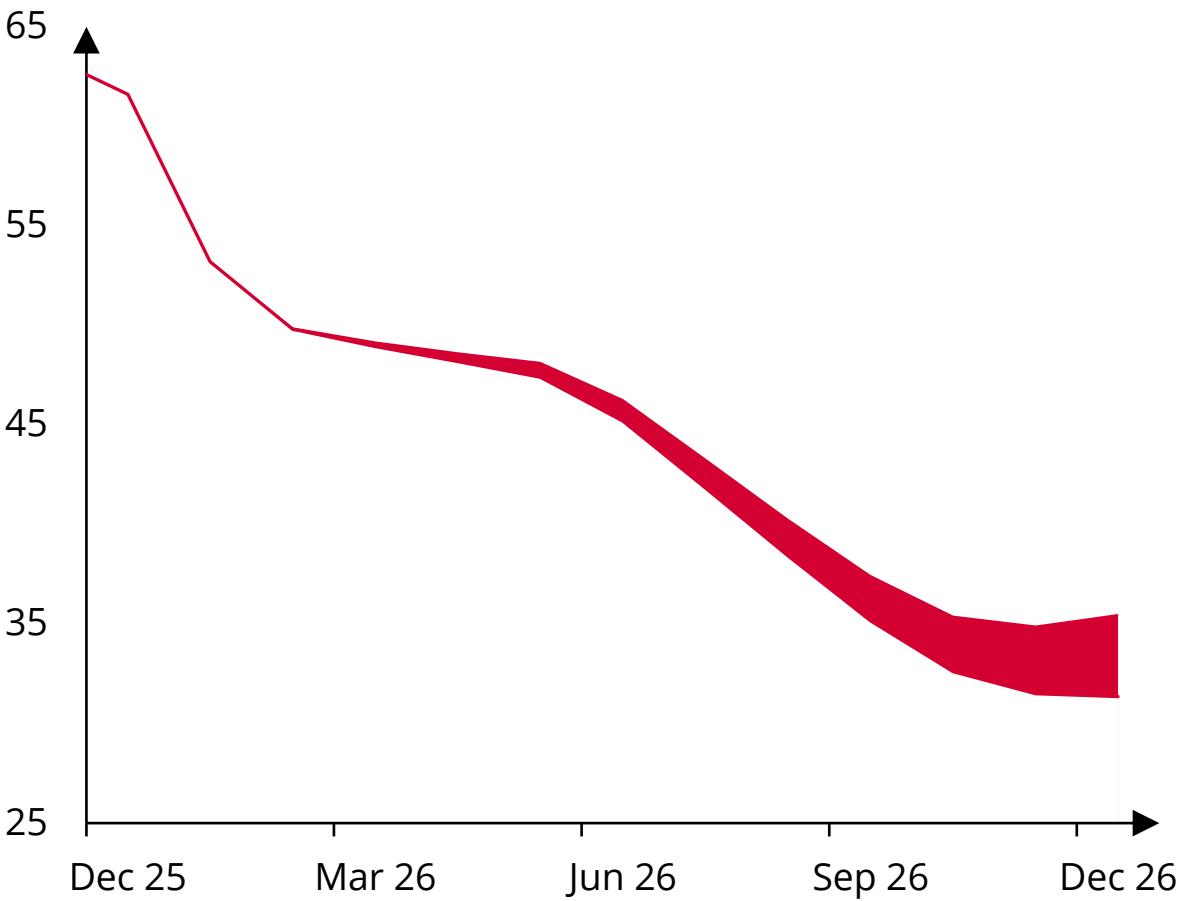
- Food
- Inflation expectations
- Time-dependent price changes
- Favorable administered price hikes
- Reweighting by TURKSTAT

# Lower inertia in services will support disinflation in 2026.

**Education inflation** (Annual, %)



**Rent Inflation Projection** (Annual % Change)



## Conclusions

- The decline in inflation was broad based. Underlying downward trend improved.
- Improvement in businesses' and households' inflation expectations support pricing behavior.
- Growth stayed resilient while other activity measures paint a mixed picture.
- Inflation over the next two months might be noisy but lower inertia in services will support disinflation over 2026.
- The tight monetary policy stance, which will be maintained until price stability is achieved, will strengthen the disinflation process through demand, exchange rate, and expectation channels.
- The Committee will determine the policy rate by taking into account realized and expected inflation and its underlying trend in a way to ensure the tightness required by the projected disinflation path in line with the interim targets.
- The step size will be reviewed prudently on a meeting-by-meeting basis with a focus on the inflation outlook.
- Monetary policy stance will be tightened in case of a significant deviation in inflation outlook from the interim targets.



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