Summary of the Monetary Policy Committee Meeting

January 30, 2025, No: 2025-08

Meeting Date: January 23, 2025

Global Economy

1. The limited improvement in global growth continued in the last quarter of 2024 while the normalization trend seen in the labor market supply-demand balance was maintained. The global growth index, which is weighted by the export shares of Türkiye's foreign trade partners, is forecasted to grow by 1.9% in 2024, slightly higher than the 1.8% growth recorded in 2023. The growth rate is expected to be close to its historical average at 2.2% in 2025. The services sector continued to follow a favorable course while the manufacturing industry remained weak. The US economic growth trend continued to diverge positively from other advanced economies. The global demand outlook, supply-side factors, and geopolitical risks lead commodity prices to fluctuate. Heightened uncertainties regarding global economic and trade policies, as well as geopolitical developments are seen as prominent risk factors for the course of global economic activity.

2. Global inflation continues to decline. Rigidity in services inflation weakens, yet keeps the upside risks to inflation alive. While advanced and emerging economies (EMEs) continue the rate-cutting process, there is an increasing expectation that central banks will adopt a more cautious approach in their rate cuts due to the recent heightened global uncertainties. Portfolio outflows from EMEs' markets were recorded in this period.

Monetary and Financial Conditions

3. Deposit rates fell by 282 basis points compared to the week ending December 27, and stood at 52.9% as of January 17. In the same period, TRY commercial loan rates (excluding overdraft accounts and credit cards) decreased by 212 basis points to 53.5%. Retail loan rates for general-purpose loans (excluding overdraft accounts) declined by 178 basis points to 68.3% while housing loan rates decreased by 46 basis points to 40.4%. Vehicle loan rates were 47.3% as of January 17.

4. The average four-week growth rate of retail loans remained flat after December 27 and stood at 3.5% on January 17. In this period, credit cards recorded a limited increase while the growth rates of general-purpose loans, housing loans, and vehicle loans slightly declined. In the same period, TRY commercial loans rose from an average four-week growth rate of 1.4% to 2.3%. The average four-week growth rate of FX commercial loans adjusted for exchange rates edged down from 2.3% of the previous MPC meeting period to 2.2%. On January 4, 2025, the CBRT introduced changes to the loan growth-based reserve requirement to ensure that the loan growth and composition are in line with the disinflation path. Accordingly, the monthly growth limit for foreign currency commercial loans was reduced from 1.5% to 1% while the 2% monthly growth limit for Turkish lira commercial loans was differentiated as 2.5% for SME loans and 1.5% for other commercial loans.

5. As part of the strategy to phase out FX-protected deposit accounts (KKM accounts), longer-term maturities for new and renewed accounts have been discontinued. Accordingly, the CBRT decided to terminate the opening and renewal of FX-protected deposit and participation accounts -converted from FX and gold- with maturities of six months and 12 months as of January 20, 2025.
6. The gross international reserves of the CBRT rose by USD 8.2 billion since December 27 to USD 163.3 billion as of January 17, 2025. Türkiye's five-year credit default swap (CDS) premium stood at 265 basis points on January 22, 2025, posting a slight increase since December 27. The one-month implied exchange rate volatility of the Turkish lira fell to 9.2% as of January 22 while the 12-month implied exchange rate volatility dropped to 18.2%. Since the previous MPC meeting week, net portfolio inflows have totaled USD 1.3 billion, comprising USD 1.6 billion of inflows to the government domestic debt securities (GDDS) market, and USD 0.3 billion of outflows from the stock market.

Demand and Production

7. In November, the retail sales volume index recorded a monthly increase of 1.9% while the quarterly growth rate slightly lost momentum, although it remains positive. Meanwhile, the quarterly increase in retail sales volume was more moderate when gold is excluded. In the same period, the trade sales volume index posted a weaker monthly increase compared to the retail sales volume. The services production index, which provides insight into both the production of services and their demand, posted a decrease of 0.2% in November. Services production, which edged up by 0.2% on a quarterly basis, fell on an annual basis. After recording a decline during the previous two quarters, the automobile and white goods sales have shown signs of improvement, with sales increasing in the last quarter of 2024. The monthly increase in card spending was below the average of the previous quarter in October and November, but increased slightly in December. The data for the first two weeks of January point to a monthly decline in card spending. Survey data for manufacturing firms indicate that domestic market orders increased in the last quarter of 2024, albeit declining in December, but remain below their historical average. Accordingly, when the data on the demand for goods and services are evaluated as a whole, indicators for the last quarter suggest that domestic demand stands at disinflationary levels.
8. In November, the industrial production index increased by 2.9% month-on-month when adjusted for seasonal and calendar effects, and by 1.5% year-on-year when adjusted for calendar effects. On a quarterly basis, industrial production rose by 1.1% in the fourth quarter as of November, following a 4% and 1.3% decline in the second and third quarters, respectively. Excluding the typically volatile sectors, industrial production posted a more limited increase in quarterly terms. Accordingly, the data as of November indicate a recovery trend in industrial production. Survey indicators for the manufacturing industry point to a sustained improvement in the manufacturing sector activity. In line with this trend, the manufacturing industry capacity utilization rate increased in November after a decline in October and remained flat in December. Still buoyed by the quake-driven construction activities, the index of production in construction rose by 1.3% in quarterly terms in November, and by 8.8% compared to the October-November period of the previous year.
9. In November, seasonally adjusted employment stood at 32.7 million people, growing by 0.5% on a quarterly basis. The labor force participation rate went up by 0.2 percentage points quarter-on-quarter while the unemployment rate remained unchanged at 8.7% in the last quarter as of November. Survey indicators suggest an outlook lagging behind historical averages for manufacturing firms' future employment expectations in the last quarter.

10. In November, the current account balance posted a monthly deficit of USD 2.9 billion while the 12-month cumulative current account deficit stood at USD 7.4 billion, with a limited month-on-month increase of USD 0.2 billion. These figures were mainly led by rising services balance despite the widening energy and gold deficits. In fact, during this period, the 12-month cumulative services balance surplus remained robust and reached USD 60.9 billion.

11. In December, provisional foreign trade data pointed to an uptick both in exports and imports, with stronger increase in exports, in seasonally adjusted terms. The 12-month cumulative data reveal that the foreign trade deficit rose compared to the previous month. Accordingly, the 12-month cumulative current account deficit is projected to widen in December. Gold imports amounted to USD 2 billion in December, and to USD 17.1 billion in cumulative terms. Seasonally adjusted imports of consumption goods declined in the third quarter compared to the previous quarter, but increased again in the last quarter. Excluding the jewelry imports, which has recently contributed significantly to the rise in consumption goods imports, the increase in the last quarter was less pronounced. When the provisional foreign trade data for December is considered along with the high-frequency leading data for January, the three-month average trends point to a sustained strength in exports with a mild increase and an upswing in imports. High-frequency data imply a decline in jewelry imports in January while suggesting a possible monthly uptick in consumption goods imports when jewelry imports are excluded.

12. Regarding the financing of the current account deficit, the banking sector's 12-month cumulative long-term debt rollover ratio hovered around 134% in November. In the non-bank corporate sector, this ratio was around 111%. Accordingly, external financing opportunities remained high.

Inflation Developments and Expectations

13. In December, consumer prices were up by 1.03% while annual inflation fell by 2.71 percentage points and ended the year at 44.38%. The slowdown in food inflation led by fresh fruits and vegetables played a major role in the fall in monthly consumer inflation. Annual inflation in the B and C indices declined by 1.74 and 1.79 percentage points to 43.94% and 45.34%, respectively. In this period, the contribution to annual inflation was down across all main groupings, with food and services in the lead. Meanwhile, monthly consumer inflation registered a slowdown in seasonally adjusted terms.

14. While core goods inflation remained mild, the monthly price increase in services became more apparent in December. Monthly inflation in the food group lost momentum significantly due also to the replacement of strong price increases in fresh fruits and vegetables by a slight fall in the last couple of months. Across subgroups, the mild increase in unprocessed food prices was driven mainly by fresh fruits and vegetables. Monthly inflation in processed food recorded a month-on-month increase, which was led by certain cereal products as well as items affected also by international commodity price hikes such as fats-oils, confectionary-chocolate, cacao and coffee. Meanwhile, energy prices remained on a mild track in December.

15. The underlying trend of inflation decreased in December. In seasonally adjusted terms, monthly increases recorded a decline in the B and C indices compared to the previous month. In this period, among the components of the B index, price increases decelerated in core goods and services but accelerated somewhat in processed food. The distribution-based and the model-based indicators also point to a decline in the underlying trend of inflation in December.

16. As of December, the seasonally adjusted average price increase over the last three months remained flat with 1.72% in core goods while this rate has weakened compared to the previous month and materialized as 3.21% in services. Meanwhile, it declined to 2.82% in services excluding rent.

17. The prevalent price-setting behavior in the services sector leads to significant inertia and causes the impact of shocks on inflation to extend over a long time period. The slowdown in services prices, which had displayed significant increases for a long time, in the preceding two months, became more visible in December, and services prices saw a modest increase of 1.05% in this period. Monthly rent inflation fell to 2.89% due to the seasonal decline in contract rates as well as lower rate of rent increase in contracts, and thus has recorded the lowest monthly rate of increase since February 2023. Monthly inflation in services excluding rents also remained relatively low at 0.52%. In the restaurants-hotels subgroup, while catering inflation increased slightly compared to the previous month, accommodation prices decreased, and thus the group's monthly inflation remained mild at 1.35%. The transportation sector, where prices fell (-3.02%) due to air and intercity road passenger transport, stood out in the services group. In the other services group, price increases also remained mild.

18. Leading indicators tracked through micro data from the Retail Payment System (RPS) imply that monthly rent inflation will increase significantly in January. Despite the slowdown in the rate of increase in new and renewed contracts, the higher seasonal rise seen in contact renewal rates is expected to drive the monthly rent inflation up. Meanwhile, rates of rent increases in new and renewed contracts obtained from RPS micro data and those monitored through residential property valuation reports are below the current annual inflation in the rent item of the consumer price index (CPI).

19. Producer price increases weakened significantly. Domestic producer prices rose by 0.40% in December, and annual inflation dropped by 0.95 percentage points, ending the year at 28.52%. In this period, across main industrial groupings, prices of durable and non-durable goods increased while energy prices decreased, and intermediate goods posted a moderate rise. The low course in producer inflation affects prices of goods favorably for consumers.

20. In December, international commodity prices remained relatively moderate. The monthly rise in the FAO food prices index in September was replaced by a decline in December. Meanwhile, commodity prices increased in the first half of January. Across subgroups, commodity prices posted a mild increase in agriculture but rose significantly in energy. Brent crude oil prices, which were USD 73.8 on average in December, climbed to USD 79.8 on average in the first 20 days of January, due in part to geopolitical developments.

21. The Global Supply Chain Pressure Index remained slightly below its historical average in December. Container indices for the globe and China increased in December while the downtrend in dry cargo transport indices, which started after October, continued. The basket exchange rate displayed a limited increase in December. In this period, the seasonally adjusted PMI data point to an increase in input prices and a slow-down in goods prices in the manufacturing industry.

22. According to the results of the Survey of Market Participants in January, the year-end inflation expectation for 2025 remained unchanged at 27.1%. The inflation expectation for end-2026, on the other hand, edged up by 0.2 percentage points to 18.7%, while expectations declined for other terms. The 12-month and 24-month-ahead inflation expectations were revised down by 1.7 percentage points and 0.8 percentage points to 25.4% and 17.7%, respectively. Meanwhile, the five-year-ahead inflation expectation was measured at 11.0%, down by 0.3 percentage points. According to the expectations of the real sector, the 12-month-ahead

annual inflation expectations of firms, which was 47.8% in November, declined by 0.2 percentage points to 47.6%. Provisional data suggest that the slowdown in real sector expectations extended into January. In December, the 12-month-ahead annual inflation expectations of households fell by 0.9 percentage points to 63.1%. While inflation expectations and pricing behavior tend to improve, they continue to pose risks to the disinflation process.

23. Leading indicators point to an increase in the underlying trend of inflation in January, in line with the projections. This increase is mainly driven by services items with time-dependent pricing and backward indexation. Additionally, wage increases and administered price and lump-sum tax adjustments were also influential. Core goods inflation, however, remains relatively low. Monthly food inflation is anticipated to resume its uptrend in January, led by processed food prices. In the energy group, while the effect of the lump-sum tax adjustment remained considerably limited, price increases have become more pronounced largely due to global commodity price developments.

Monetary Policy

24. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (the one-week repo auction rate) from 47.5% to 45%.

25. The decisiveness regarding tight monetary stance is strengthening the disinflation process through moderation in domestic demand, real appreciation in Turkish lira, and improvement in inflation expectations. Going forward, increased coordination of fiscal policy will also contribute significantly to this process. The tight monetary stance will be maintained until price stability is achieved via a sustained decline in inflation. Accordingly, the policy rate will be determined in a way to ensure the tightness required by the projected disinflation path taking into account realized and expected inflation, and the underlying trend. The Committee will make its decisions prudently on a meeting-by-meeting basis with a focus on the inflation outlook. Monetary policy tools will be used effectively in case a significant and persistent deterioration in inflation is foreseen.

26. In case of unanticipated developments in credit and deposit markets, monetary transmission mechanism will be supported via additional macroprudential measures. Liquidity conditions will be closely monitored and sterilization tools will continue to be used effectively with additional measures.

27. Taking into account the lagged effects of monetary tightening, the Committee will make its policy decisions so as to create the monetary and financial conditions necessary to ensure a decline in the underlying trend of inflation and to reach the 5% inflation target in the medium term.

28. Accordingly, all monetary policy tools will be used decisively.

29. The Committee will make its decisions in a predictable, data-driven and transparent framework.