INFLATION REPORT



2026-I

February 12, 2026

TÜRKİYE CUMHURİYET
MERKEZ BANKASI

Contents

1. Overview 1

1.1 Monetary Policy Decisions 3

2. Economic Outlook 8

2.1 Global Economy 8

2.2 Financial Conditions 13

2.3 Economic Activity 17

2.4 Inflation 27

3. Medium-Term Projections 44

3.1 Current State, Short-Term Outlook and Assumptions 44

3.2 Medium-Term Outlook 46

3.3 Key Risks to Inflation Forecasts and Possible Impact Channels 48

Boxes

Box 1.1 CBRT's OMO Portfolio and Outright Purchases **5**

Box 2.1 Findings from Interviews with Firms **34**

Box 2.2 Rent Inflation Dynamics and Forecasting **37**

Box 2.3 The Effect of Real Exchange Rate Movements Against China on Exports **41**

Box 3.1 Assessment of the Deviation from the 2025 Interim Target **51**

1.Overview

Throughout 2025, the global growth outlook was moderate on the back of productivity growth, fiscal and monetary policies, and global financial conditions, with effects of global uncertainties remaining relatively limited. In the reporting period, growth forecasts for both 2025 and 2026 have been revised upward in many countries. Meanwhile, risks to the global growth outlook have recently been skewed to the downside. Elevated geopolitical tensions and fading but still persisting uncertainties regarding tariffs pose risks in terms of global financial markets and supply chains. While the divergence between energy and non-energy commodity prices continues, precious metal and industrial metal prices stand out with significant increases amid heightened volatility. The global disinflation process remains in place with variations across countries. While central banks are nearing the end of their cutting cycles, the magnitude and frequency of rate cuts vary across countries. Although few in number, there are also central banks that are increasing their policy rates. While portfolio flows towards emerging markets have fluctuated due to global uncertainties, the Fed's and the BoJ's monetary policy strategies for 2026 may have an impact on portfolio movements.

In the reporting period, portfolio inflows to emerging economies have displayed fluctuations, and global uncertainty has remained elevated due to the recently exacerbated geopolitical risks. In the reporting period, global uncertainties increased due to geopolitical developments, and portfolio flows into TRY assets continued. Against this background, Türkiye's CDS premium declined to 218 basis points on February 6, converging to the average of emerging market risk premiums, and the implied volatility of the Turkish lira declined in the current reporting period. The increase in CBRT reserves continued due also to the increase in gold prices, and the CBRT's gross international reserves reached USD 218.2 billion as of January 30.

While financial conditions have remained tight, the share of TRY deposits has stabilized at around 60%. The rate cuts of 150 and 100 basis points in the MPC meetings of December 11 and January 22, respectively, have transmitted into deposit and loan rates. Positive real interest rates in both loans and deposits are maintained based on both realized and expected inflation. Amid the tight monetary policy, investors' preference for the TRY continued, while FX deposits grew marginally due to parity and price effects. While the annualized 13-week growth of FX-adjusted total loans shows an increase due to the year-end balance sheet effect in 2025, this increase lost some pace in 2026. The effects of the decisions taken by the CBRT and the BRSA at the end of January on loan growth will be closely monitored.

Having accelerated in the second quarter of 2025, economic activity decelerated somewhat in the third quarter, growing close to its quarterly potential. In the third quarter, GDP increased by 3.7% year-on-year and by 1.1% on a quarter-on-quarter basis. Final domestic demand has been the driver of annual and quarterly growth. After declining in the first two quarters of the year, private consumption rebounded in the third quarter, while total investments continued to support growth from the second quarter onwards. Imports of goods and services declined during this period, while exports increased, leading to a positive contribution from net exports to quarterly growth in the third quarter.

Leading indicators for the last quarter of 2025 point to demand conditions that continue to support the disinflation process, albeit at a moderating pace. In that period, retail sales excluding gold gained some momentum compared to the previous quarter, yet remained below their long-term trend. Sales of white goods and automobiles increased in the last quarter. Although card spending continued to rise on a quarterly basis in this period, it remained below its long-term trend. The findings from interviews with firms regarding consumption expenditures confirm the ongoing moderate course of domestic demand despite a limited quarter-on-quarter rise. On the production side, industrial production remained almost flat in the fourth quarter. Excluding the typically volatile sectors, industrial production rose slightly on a quarterly basis. Survey-based indicators such as the BTS and PMI also imply a recovery in industrial activity. The flat course of the services production index, which began in the second quarter, continued in the last quarter of the year. Meanwhile, the construction production index rose further in the last quarter.

The labor market is less tight than implied by the headline unemployment rate. Based on the averages of seasonally adjusted monthly data, employment increased by 0.4% (around 136,000 people) in the fourth quarter. In this period, the unemployment rate decreased by 0.2 percentage points quarter-on-quarter, while the labor force participation rate remained flat. The continued high level of the labor underutilization rate suggests that the labor market may not be as tight as implied by the unemployment rate. In the third

quarter of 2025, the fall in real per capita wages coupled with the increase in partial labor productivity brought about lower non-farm real unit wages.

The seasonally and calendar-adjusted current account deficit increased in the last quarter of 2025. The foreign trade deficit widened in the last quarter due to the rise in the gold trade deficit, the energy trade deficit, and the trade deficit excluding gold and energy. In this period, external demand was moderate, while the increase in exports was mainly driven by rising prices. The increase in imports prevailed across the main groups. Gold imports, supported by the surge in global gold prices, remained strong and rose relative to the third quarter. In the fourth quarter, when uncertainties stemming from global trade policies continued to weigh on the foreign trade balance, the improvement in the terms of trade persisted. Provisional data point to a limited widening in the foreign trade deficit in January. In the October-November period, marked by a widened current account deficit, net capital inflows were recorded arising from GDDS and loans, whereas outflows were seen in foreign direct investments. The net errors and omissions item ran a negative balance, and official reserves decreased. Meanwhile, data for December and January show that both equity and GDDS markets registered inflows.

Consumer inflation fell to 30.7% in January and materialized close to the upper band of the forecast range presented in the previous Report. Developments across sub-items over the last three months indicate that the largest contribution to disinflation came from energy and core goods groups. Meanwhile, the contribution of the services group remained relatively flat. In January, service inflation was particularly pronounced in items characterized by high labor costs as well as strong tendency for time-dependent pricing and backward indexation. The sharp increase in vegetable prices, driven by seasonal supply conditions, affected food prices. In January, adjustments in administered prices and lump-sum taxes remained lower than in past years, supporting the disinflation process. During the November-January period, international energy prices declined to some extent, while prices of non-energy commodities rose, led by industrial and precious metals. In the first ten days of February, due mostly to crude oil prices, international energy prices recorded increases. In December, geopolitical developments pushed the Global Supply Chain Pressure Index above its historical average, while the downward trend in global and China container indices, which began in July, reversed in November. In the reporting period, the Turkish lira maintained its stable course. Real unit costs, which are predicted to have decelerated in the last quarter of 2025, are expected to increase as of the first quarter of 2026. The moderate upward trend in producer prices in the last two months of the year grew slightly stronger in January. Despite signals of improvement, inflation expectations and pricing behavior still pose risks to disinflation. The underlying inflation lost pace in the last quarter of 2025, but posted a period-specific increase in January. The base year, basket structure, and classification method of the CPI were revised in January 2026. Accordingly, the index share of the services group rose by 7.4 points to 38.4%, while the weight of goods dropped to 61.6%. In addition, the weights of the B and C indices increased by 5.2 and 4.5 points, respectively.

With 70% probability, inflation is projected to be between 15% and 21% at end-2026 and between 6% and 12% at end-2027. Inflation is projected to decline to single-digit levels at end-2028 and then stabilize at the medium-term inflation target of 5%. Interim targets are maintained at 16% and 9% for end-2026 and end-2027, respectively, while the target for end-2028 is set at 8%. In the upward revision to the 2026 forecast range relative to the 2025 Inflation Report IV, the increased weight of the services group in the CPI basket has been one of the contributing factors. Moreover, despite the decrease in the assumption for oil and energy prices, the revision in the assumption for TRY-denominated import prices due to the rise in non-energy commodity prices had an upward effect on forecasts. Limited revisions to food inflation assumptions and the more-limited-than-projected improvement in the underlying inflation and inflation expectations have also led to higher forecasts. The fact that economic activity has been at higher levels than anticipated has likewise played a role in the forecast update. On the other hand, the decline in services inflation, particularly in rent and education, is expected to continue, supporting the disinflation process. Under the outlook in which monetary tightness is maintained and supported by macroprudential policies, the impact of monetary policy on demand conditions is projected to become more pronounced, and inflation expectations are expected to improve. In this framework, the end-2027 inflation forecast range has been maintained.

Medium-term forecasts are based on a framework in which the tight monetary policy stance will be maintained decisively until price stability is achieved, and the coordination among policy components will be sustained. The convergence of inflation expectations to targets is critical for normalization of pricing behavior and stabilization of inflation at low levels. Taking into account the recent developments in underlying inflation, the MPC delivered a modest policy rate cut in January with a prudent approach, and the monetary tightness was maintained in a framework supported by macroprudential policies. The forecasts are based on a framework where monetary policy is determined prudently with a focus on the inflation outlook, considering interim targets. In this context, the output gap is expected to continue supporting the disinflation process. Moreover, in services items that display high inertia, such as rent and education, the rate of increase in prices and the backward-indexation behavior are projected to weaken due to the lagged effects of the tight monetary policy and the contribution of implemented regulations. The moderate outlook for the exchange rate is expected to contribute to a continued decline in core goods inflation. In this process, inflation expectations are projected to improve in line with the interim targets. In the forecast period, the continuation of the coordination between the monetary policy and other economic policies will also support disinflation through demand, cost, and expectation channels.

1.1 Monetary Policy Decisions

The CBRT reduced the policy rate by 150 basis points in December and 100 basis points in January, delivering a total rate cut of 250 basis points. Assessing that the underlying inflation declined slightly in October and November following an increase in September, the CBRT decided to lower the policy rate from 39.5% to 38% in December. At its January meeting, the CBRT noted that the underlying inflation declined in December, while preliminary data for January indicated an increase in monthly consumer inflation, led by food, with the increase in the underlying inflation being limited. The CBRT also highlighted that while inflation expectations and pricing behavior are showing signs of improvement, they remain a risk factor for the disinflation process. However, stating that demand conditions continued to support the disinflation process, albeit to a lesser extent in the last quarter, the CBRT lowered the policy rate to 37% in January with a modest reduction.

The CBRT emphasized that 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 CBRT reiterated that steps to be taken regarding the policy rate would be determined by taking into account realized and expected inflation as well as its underlying trend in a way to ensure the tightness required by the projected disinflation path in line with the interim targets. The CBRT stated that policy rate steps would be reviewed prudently on a meeting-by-meeting basis with a focus on the inflation outlook, and that the monetary policy stance would be tightened in case of a significant deviation in the inflation outlook from the interim targets. The CBRT also indicated that in case of unanticipated developments in credit and deposit markets, monetary transmission mechanism would be supported via additional macroprudential measures.

Macroprudential measures have been updated to strengthen the monetary transmission mechanism. With the amendment of December 12, 2025, the growth targets for real-person TRY deposit shares were lowered. On January 8, 2026, the calculation period for TRY shares was extended to eight weeks from four weeks. Due to the maturing KKM accounts that had been opened prior to the termination of the opening and renewal of KKM accounts on August 23, 2025, the relevant communiqués were repealed on January 24, 2026. On January 31, 2026, the eight-week growth limit for FX loans was reduced to 0.5% from 1%. On the same date, an eight-week growth limit of 2% was introduced for overdraft account limits allocated to consumers.

The reserve requirement ratios and maximum interest rates for credit cards have been revised. On December 2, 2025, the CBRT announced that the provisional arrangement of a zero-percent reserve requirement on increases in long-term foreign currency liabilities (maturities exceeding one year) obtained directly from abroad by banks and finance companies would not be extended beyond year-end 2025. However, incentives for long-term borrowing were maintained by reducing the reserve requirement ratios for foreign currency liabilities with maturities longer than one year. The same decision also unified the reserve requirement ratios for foreign currency deposits/participation funds and precious metal deposit accounts. On January 24, 2026, the CBRT raised the reserve requirement ratios for TRY-denominated funding obtained from abroad with maturities up to one year by two percentage points. As announced on December 12, the CBRT reduced the maximum monthly interest rates to be applied to credit card

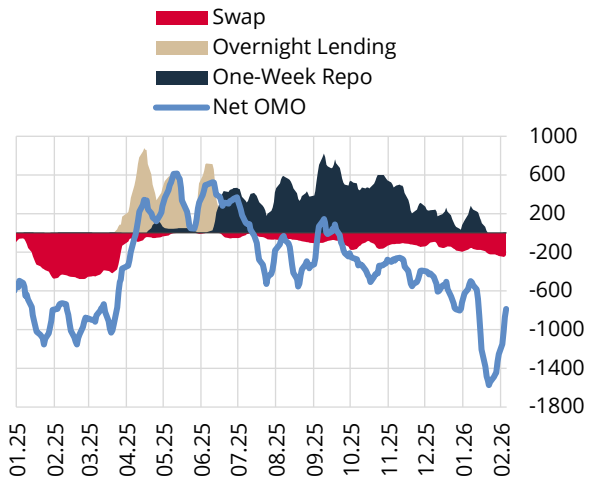
transactions in Turkish lira (including cash withdrawals and usage, and overdraft accounts) by 25 basis points, effective from January 1, 2026 and revised the term debt periods used to determine the maximum interest rates for credit cards. Meanwhile, within the scope of the BRSA's decision of January 29, 2026, the maximum contractual interest rate to be applied in the restructuring of personal credit card debts that have not been paid partially or fully by the due date was limited to the reference rate.

During the current reporting period, excess liquidity in the system increased. Excess liquidity in the system fluctuated at around TRY 500 billion from November to the beginning of December. In the subsequent period, the impact of the Ministry of Treasury and Finance's transactions and monetary base-driven transactions on liquidity remained limited, while excess liquidity increased due to the impact of CBRT operations. The excess liquidity of TRY 413 billion in the system on December 5, 2025 increased to TRY 899 billion as of February 9, 2026 (Chart 1.1.1). The OMO outright portfolio purchases for 2026 began in January. As of the transaction date of February 9, 2026, the total amount of outright purchases by the CBRT reached TRY 48.9 billion in nominal terms (Box 1.1).

During the current reporting period, excess liquidity in the market was mainly withdrawn via overnight sterilization operations. The CBRT carried out sterilization primarily through overnight Turkish lira deposit buying auctions at the policy rate. During this period, one-week reverse swap auctions against gold were also held for sterilization purposes. A limited portion of excess liquidity was withdrawn through overnight quotations at the CBRT overnight borrowing rate. Since January 23, 2026, the CBRT has been sterilizing a portion of excess liquidity by holding deposit buying auctions with one-week maturity.

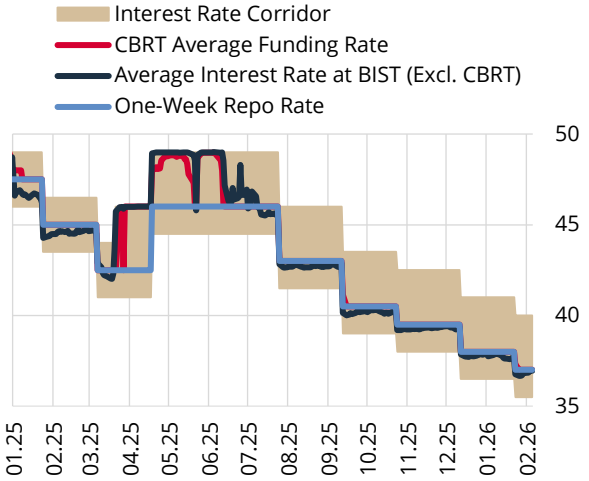
The amount of funding provided through one-week repo auctions declined due to increased excess liquidity in the system. The one-week repo stock fell from TRY 502 billion on November 3, 2025, to TRY 5.0 billion as of February 9, 2026. As the CBRT primarily sterilized excess liquidity at the policy rate, overnight interest rates hovered around the CBRT policy rate (Chart 1.1.2).

Chart 1.1.1: CBRT OMO and Swap Transactions (One-Week Moving Average, TRY Billion)



Source: CBRT.

Chart 1.1.2: CBRT Interest Rates and Short-Term Interest Rates (%)



Source: BIST, CBRT.

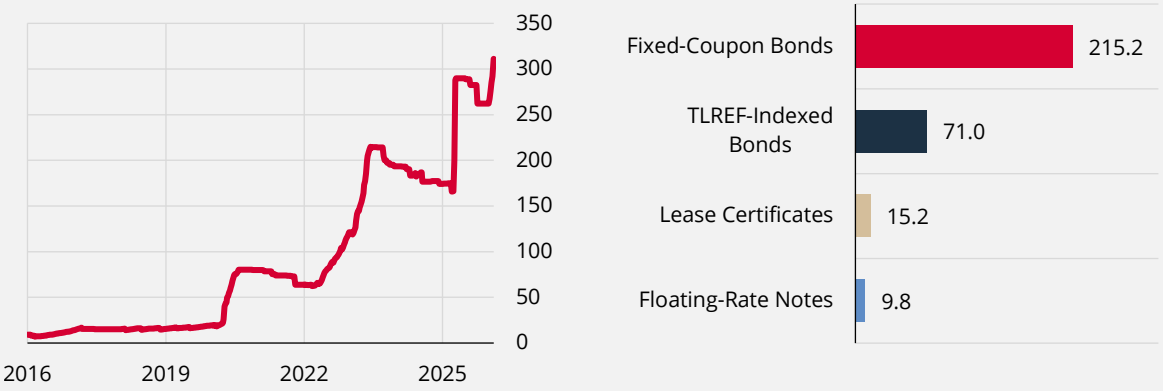
Box 1.1

CBRT's OMO Portfolio and Outright Purchases

The CBRT holds a sufficient level of GDDS and lease certificates in its OMO portfolio to support operational flexibility in liquidity management. The securities held in the OMO portfolio enable the control of short-term interest rates and ensure effective liquidity management within the system. This box examines the outlook of the OMO portfolio and outright purchase auctions.

As of February 10, 2026, the size of the OMO portfolio is TRY 311.2 billion in nominal terms. The portfolio's average maturity is approximately 2.88 years. The OMO portfolio is composed of TRY 296 billion of GDDS and TRY 15.2 billion of lease certificates (Chart 1).

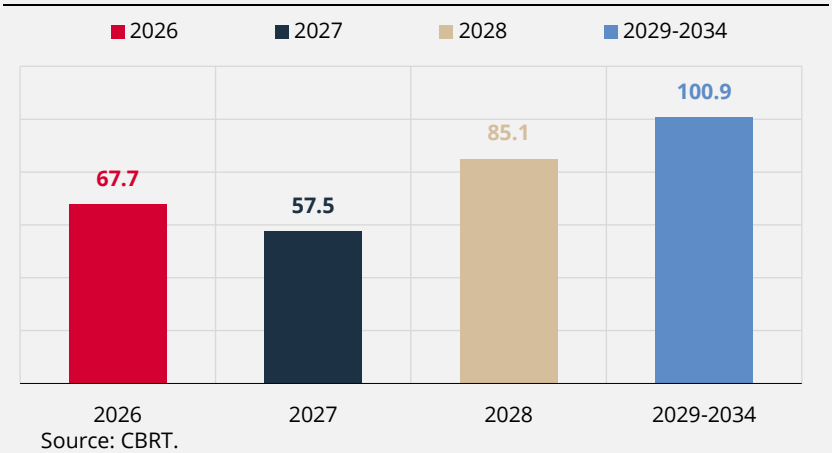
Chart 1. OMO Portfolio and Diversification (Nominal, TRY Billion)



Source: CBRT. Source: CBRT.

A total of TRY 67.7 billion of the OMO portfolio's total nominal amount will be redeemed in 2026, while TRY 210.3 billion will be redeemed by the end of 2028 (Chart 2). For the remainder of 2026, a total of TRY 142.3 billion in redemptions will occur in the OMO portfolio, including TRY 74.6 billion in coupon payments, in addition to principal.

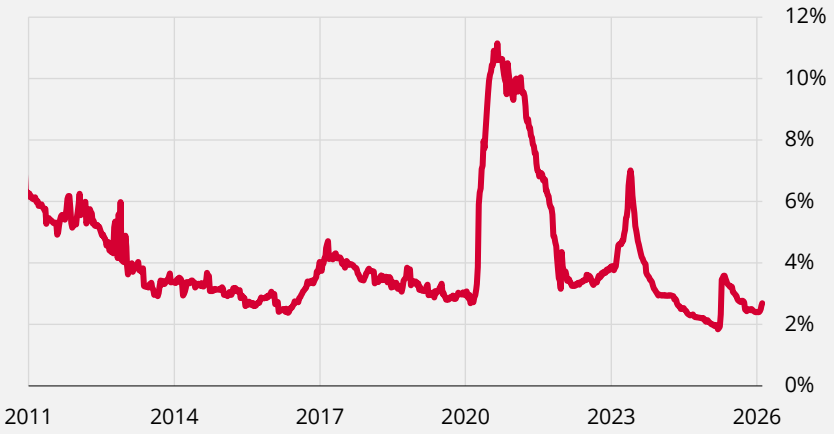
Chart 2. OMO Portfolio Redemption Profile (Nominal, TRY Billion)



Source: CBRT.

The ratio of the OMO portfolio to analytical balance sheet assets serves as an important indicator for monitoring the relative portfolio size. The ratio of the portfolio to assets increased to 3.6 percent with the outright purchases made in 2025. However, it decreased to 2.4 percent by year-end due to redemptions and growth in the analytical balance sheet. As of February 10, 2026, the ratio reached 2.7 percent with the outright purchase auctions conducted in 2026 (Chart 3).

Chart 3. Ratio of OMO Portfolio to CBRT's Analytical Balance Sheet Assets (%)

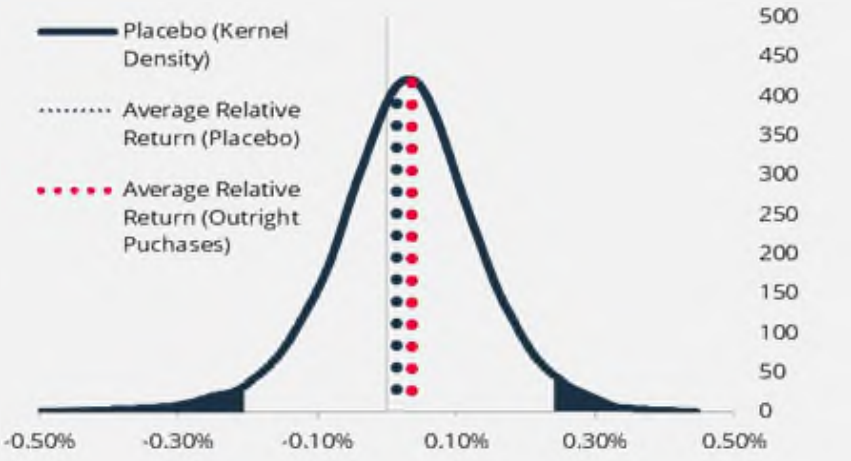


Source: CBRT.

In order to maintain operational flexibility, it is important to gradually support the OMO portfolio. Accordingly, it was publicly announced in the Monetary Policy for 2026 text that the OMO portfolio would be supported through outright purchase auctions. In the 2026 Monetary Policy text, the annual OMO portfolio size was set at a nominal TRY 450 billion, with a plan to purchase a total of TRY 255 billion in nominal terms throughout the year to reach this level.

Accordingly, outright purchase auctions, using the multiple-price method, began to be held in 2026. Auctions were conducted on Thursdays and Fridays, taking into account market liquidity conditions. Market conditions and factors such as the concentration of securities' ownership, liquidity, and pricing compared to similar securities were considered when the securities to be auctioned were determined. Of the announced nominal TRY 55 billion for outright purchase auctions in 2026, TRY 217.6 billion in bids were received, and TRY 48.9 billion in outright purchases were made.

Chart 4. Outright Purchase Auctions – Secondary Market Price Impact Placebo Distribution* (Frequency, Relative Return)



Source: Authors' calculations, BIST.
* The average relative return of the outright purchases was calculated using the securities from outright purchase auctions held in 2026. The non-shaded areas indicate the 95% confidence interval. The placebo sample distribution was created using the kernel method by bootstrapping the daily relative returns for 10,000 times in the fourth quarter of 2025.

Additionally, the impact of the auctions conducted in 2026 on the secondary market prices is examined (Chart 4). In this regard, an index created from the changes in the clean price of fixed-coupon securities in the market is compared with the change in the clean price of the securities subject to outright purchase on the auction day.[1] The average difference in the prices of the securities subject to the outright purchase auctions is calculated as 0.04 percent relative to index. This difference is compared with the distribution of the averages of placebo samples obtained on non-auction days. Therefore, it cannot be concluded that the average relative returns of the auctioned securities were diverged from those of the placebo sample distribution. According to the findings, considering the auction days, amounts, and securities, the market impact of the outright purchase auctions held in 2026 was negligible.[2]

Since the beginning of 2016, the total outright purchases are composed of TRY 32.5 billion of fixed-coupon GDDS, TRY 11.3 billion of TLREF-indexed GDDS, and TRY 5.1 billion of lease certificates. Correspondingly, the purchases have supported portfolio diversification while strengthening the CBRT's capacity to operate in repo markets and the Committed Transactions Market.

In summary, the amount of outright purchases required to reach the determined 2026 OMO portfolio level is assessed as limited compared to the expected redemptions in the portfolio. Additionally, it is concluded that outright purchase auctions held in 2026 had a negligible market impact. As of February 10, 2026, TRY 48.9 billion of the targeted TRY 255 billion in outright purchases has been realized. The OMO portfolio will continue to be supported throughout the remainder of the year.

[1] The relevant index is calculated daily and is the weighted average of the changes in the clean prices of fixed-coupon GDDS transactions realized in the BIST Outright Purchases and Sales Market.
[2] The effects may vary depending on bond market conditions and liquidity.

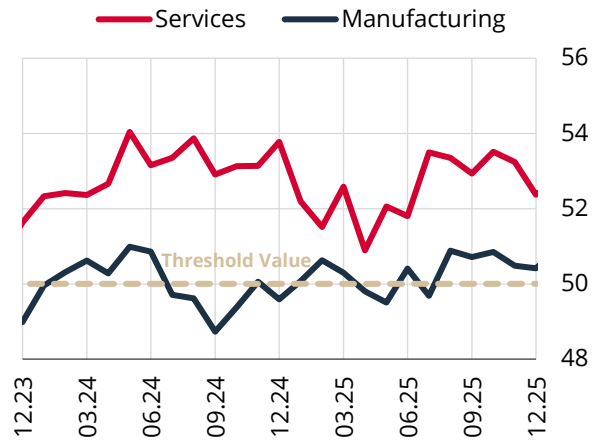
2. Economic Outlook

2.1 Global Economy

While the uncertainty surrounding global trade policies continues to decrease, it may display fluctuations cyclically. As geopolitical risks have revived recently, global uncertainty has remained elevated. The one-year interim agreement between China and the US has resulted in some tariff reductions and the removal of export restrictions on semiconductors and rare earth elements. In addition, the US has lowered the tariffs on certain agricultural products, taking into account the food inflation in the country. While trade tensions eased somewhat after these developments, ongoing legal proceedings in the US regarding tariffs and some procurement and investment commitments in bilateral agreements that lack full transparency keep uncertainties alive. On the other hand, geopolitical developments in the Americas and the Middle East are exacerbating downside risks to global risk appetite.

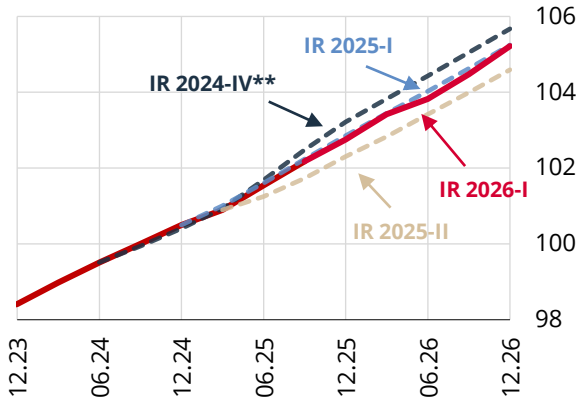
The global growth outlook remained resilient throughout 2025 despite high uncertainty. Productivity increases, fiscal and monetary policies, and global financial conditions have been key factors supporting growth in this period. Global PMI also point to a marked recovery since April, when uncertainties peaked (Chart 2.1.1). Growth forecasts have been revised up for both 2025 and 2026 in many countries. While growth in the US remains strong on the back of technology investments, the labor market shows signs of weakening. Although the Chinese economy lost some momentum in the last quarter, it reached its growth target of 5% for 2025. The Chinese economy maintained its growth momentum of 2024 despite rising protectionist tendencies (Zoom-In 2.1). Against this background, the external demand outlook of Türkiye has also registered a similar recovery in the recent period. Although the Export-Weighted Global Growth (EWGG) Index lost some pace compared to the period before trade tensions (IR 2024-IV), the projected path of the index recovered from the lows published in the May 2025 Report (IR 2025-II) and reached a level close to its pre-April 2025 trend (IR 2025-I) (Chart 2.1.2). On the other hand, risks to the global growth outlook have recently become weighted to the downside. Escalating geopolitical tension and ongoing uncertainties regarding tariffs pose a risk to global financial markets and supply chains. All in all, the global growth outlook remains relatively strong, but downside risks for 2026 are still present.

Chart 2.1.1: Global PMI (Level)



Source: S&P Global.

Chart 2.1.2: EWGG Index*



Source: Consensus Economics, S&P Global.

* The EWGG Index is calculated by weighting the growth rates and forecasts of Türkiye's trading partners by their respective shares in exports.

** The Inflation Report published in November 2024 does not include a forecast for the EWGG Index for 2026. Therefore, a projection for 2026 has been created, taking into account the momentum observed in updated forecasts between 2025 and 2026.

Energy and non-energy commodity prices continue to diverge, while there have been notably sharp increases in precious metal and industrial metal prices. The headline commodity prices index went up over the previous reporting period as a result of the rise in non-energy commodity prices. However, all commodity prices have been fluctuating in the recent period due to global uncertainties. Precious metal prices posted a sharp increase toward the end of January, driven by these uncertainties but decreased rapidly after the announcement of the new Fed chair nominee. Prices appear to remain on a fluctuating course following the strong declines. Thus, precious metal prices increased by 27.7% compared to the previous reporting period and by 73.7% on an annual basis. Industrial metal prices continue to rise due to the increase in the US tariff on aluminum and supply-side problems regarding copper. On the other hand, energy commodity prices are affected by geopolitical developments and seasonal conditions. Brent oil prices fluctuated due to the developments between the US and Venezuela and events in Iran, posting a 9.0% increase over the previous reporting period, but declining by 7.2% on an annual basis. Natural gas prices recorded a high rate of increase in the recent period, driven by seasonal effects. Meanwhile, agricultural commodity prices fell by 5.2% compared to the previous reporting period (Table 2.1.1).

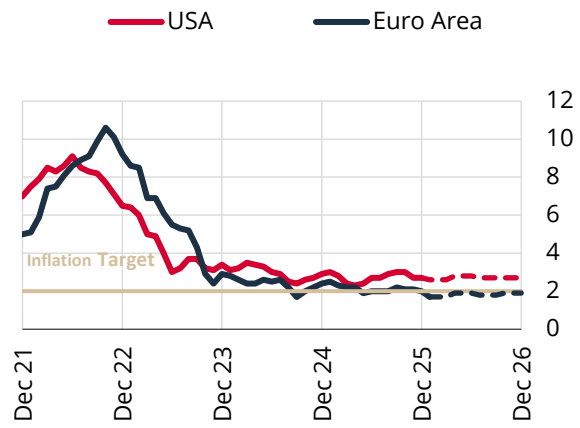
Table 2.1.1: Commodity Prices (%)

	November 2025	December 2025	January 2026	February 2026	Annual	Compared to the Previous Reporting Period*
Headline	1.1	-0.8	3.7	2.5	3.3	5.5
Energy	2.6	-5.0	1.7	5.3	-8.8	1.6
Agriculture	3.1	-1.8	-2.3	-1.7	-14.9	-5.2
Industrial Metal	0.9	5.3	8.9	-0.9	25.0	12.5
Precious Metal	1.6	7.5	12.1	1.1	73.7	27.7
Non-Energy	-0.3	3.3	5.5	0.2	16.9	9.2
Brent Oil	-1.6	-1.3	6.0	4.8	-7.2	9.0
Natural Gas (USA)	33.4	-1.9	-4.5	-19.1	-9.4	-17.0
Natural Gas (Europe)	-3.6	-9.9	22.8	-0.2	-32.7	16.1
Coal	5.8	-1.6	-0.4	6.9	10.1	11.0
Aluminum	1.2	2.3	8.5	-2.6	15.0	6.6
Copper	-0.5	7.4	9.2	-0.2	29.2	15.6
Iron	-0.9	2.5	-0.2	-4.9	-4.9	-5.9
Wheat	4.7	-2.2	-1.0	2.3	-8.4	-0.8
Soy	8.6	-4.3	-2.2	3.5	4.7	1.4
Rice	-3.8	-3.5	6.1	7.0	-18.6	9.4
Corn	2.1	2.1	-2.1	-0.3	-11.9	-0.3
Cotton	-1.0	0.6	1.1	-3.5	-6.5	-6.8
Sugar	-6.0	2.2	-1.0	-3.0	-28.9	-2.2

Source: Bloomberg.
* Percentage change in prices between October 31, 2025 and February 6, 2026. Red and green colorings indicate increases and decreases in prices, respectively.

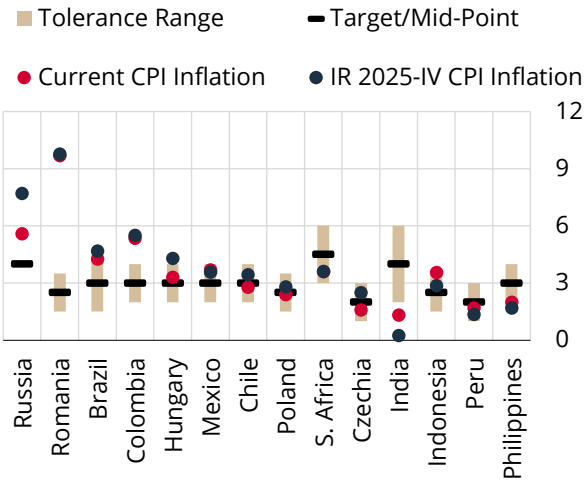
The global disinflation process continues, despite variations across countries. Throughout the reporting period, the moderate decline in the US services inflation continued, while the ongoing rise in durable goods inflation driven by tariff measures lost pace in December. In the euro area, where food, alcohol, and tobacco products as well as services sector exhibit high inflation, transport and energy sectors have been effective in bringing headline inflation back to the target. Headline inflation is estimated to remain moderate at almost current levels in both the US and the euro area throughout 2026 (Chart 2.1.3). In the US, as the downside risks to the labor market have strengthened, inflation is expected to decline to the target level in a gradual manner. Although the course of inflation continues to vary across emerging economies, inflation has declined in many economies compared to the previous reporting period (Chart 2.1.4). Additionally, inflation forecasts for end-2026 have been revised downward for most countries. The possible lagged effects of tariffs, increased public indebtedness, and fluctuations in commodity prices are considered to be the risk factors that may impair the global inflation outlook in 2026.

Chart 2.1.3: US and Euro Area Inflation and Forecasts for 2026 (Annual, %)



Source: Bloomberg.

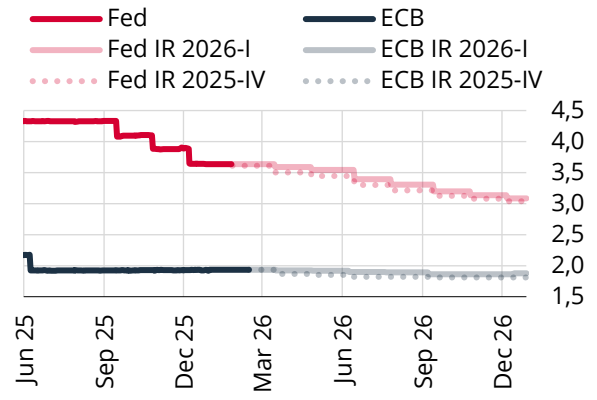
Chart 2.1.4: Consumer Inflation in Emerging Economies (%)



Source: Bloomberg.

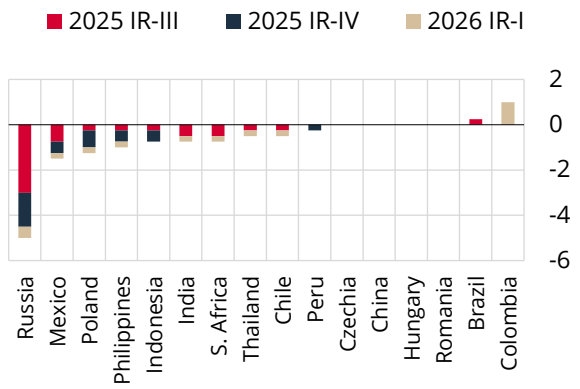
While central banks are coming to the end of their rate cut cycles, the size and frequency of cuts as well as the remaining room for further cuts vary across countries. The Fed reduced the policy rate further by 25 basis points in December following cuts in September and October, and kept it unchanged in January. Markets are pricing in a high probability of two more policy rate cuts by the Fed in 2026, while expectations suggest that these rate cuts may be delivered in the second half of the year. The policy rate path priced in by the markets has remained mostly unchanged compared to the previous reporting period, while the priced-in policy rate for end-2026 has increased by approximately 5 basis points. On the other hand, markets assign a lower probability to a rate cut by the ECB in 2026, and the priced-in policy rate path has further flattened. In this respect, the ECB is thought to have completed its rate cut cycle (Chart 2.1.5). Meanwhile, during the reporting period, the Bank of Israel further reduced its policy rate by 50 basis points, while the Reserve Bank of New Zealand and the Bank of England cut their policy rates both by 25 basis points. In contrast, the BoJ maintained its monetary policy tightening with an increase of 25 basis points. The Reserve Bank of Australia also raised its policy rate by 25 basis points, highlighting the increase in inflationary pressures. During the same period, rate cut cycles also continued across emerging economies despite variations in the size and frequency of cuts (Chart 2.1.6). Throughout the reporting period, the Bank of Russia lowered the policy rate by 50 basis points, and the central banks of South Africa, India, Mexico, Poland, Thailand, Chile, and the Philippines reduced their policy rates by 25 basis points each, whereas the Central Bank of Colombia increased its policy rate by 100 basis points. Meanwhile, China has taken some monetary easing steps to support growth. The policy rates implied by futures contracts indicate that emerging market central banks will continue to maintain a tight monetary policy by setting policy rates above inflation expectations, as in previous reporting periods.

Chart 2.1.5: Policy Rates and Market-Implied Policy Paths (Effective, %)



Source: Bloomberg.

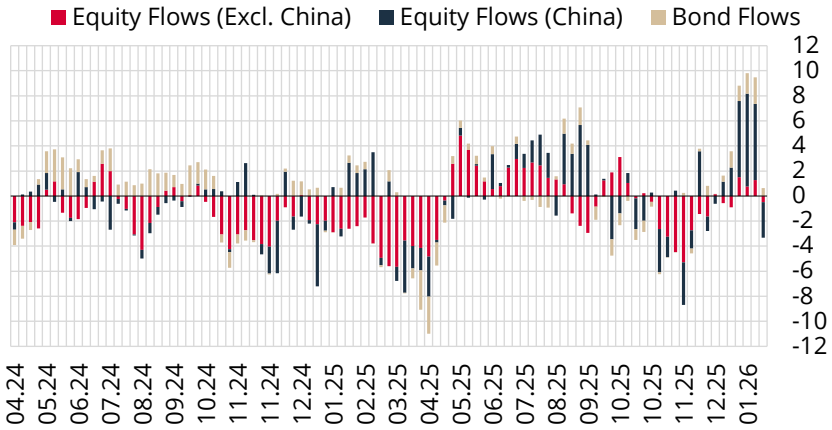
Chart 2.1.6: Policy Rate Changes in Emerging Economies (% Points)



Source: Bloomberg.

Portfolio flows to emerging economies remain volatile amid global uncertainties. In addition to ongoing trade tensions and geopolitical developments in the current reporting period, expectations regarding the monetary policies of the Fed and the BoJ caused fluctuations in portfolio flows to emerging economies (Chart 2.1.7). On a cumulative basis, between October 31, 2025 and February 6, 2026, bond markets received inflows, whereas equity markets of emerging economies excluding China recorded outflows. During this period, China saw net inflows into its equity markets. Persistent, yet diminishing uncertainties regarding global economic and trade policies as well as recently heightened geopolitical risks continue to pose significant risks to portfolio flows toward emerging economies. Advanced economies' monetary policies in 2026 may also affect portfolio flows. Increased policy trade-off in the US escalates the uncertainty about the Fed's policy. On the other hand, the BoJ's fourth interest rate increase to 0.75%, coupled with its monetary policy tightening through reduced bond purchases, signals of further hikes as well as possible future steps have the potential to negatively impact global financial markets (Zoom-In 2.2).

Chart 2.1.7: Weekly Portfolio Flows to Emerging Economies
(Four-Week Moving Average, USD Billion)



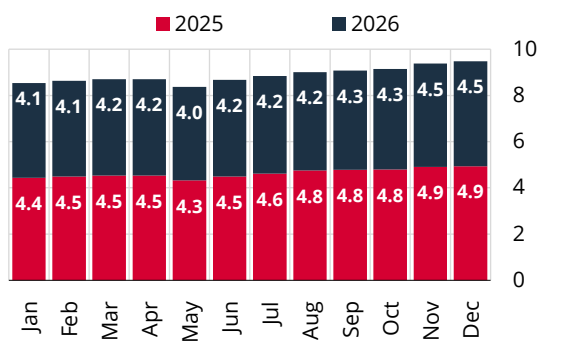
Source: IIF.

Zoom-In 2.1

Growth and External Demand in Chinese Economy in 2025

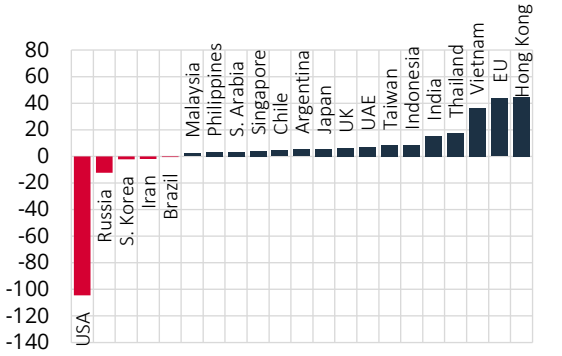
Despite trade tensions and reciprocal protectionist measures with the US, economic activity in China has followed a resilient course throughout the year. Growth forecasts, which hit the lowest level in May, quickly rebounded and returned to March levels for both 2025 and 2026 within one month. Growth data announced during the year surpassed expectations each time, and GDP consistently remained above the projected paths. The year-end growth rate of 5% was 0.7 percentage points higher than the May forecast, while the current forecast for 2026 is also 0.5 percentage points higher than the May forecast (Chart 1).

Chart 1: Growth Expectations (%)



Source: Consensus Economics.

Chart 2: Exports to Selected Countries
(2025-2024 Difference, USD Billion)



Source: CBRT's calculations, General Customs Administration of China.

The strong course of exports in China, despite increased tariff rates, has been a significant factor supporting the resilience of the growth outlook. Chinese exports have grown by approximately USD 196 billion compared to 2025, representing an increase by 5.5% over the previous year. While this initially suggests that the impact of tariff increases may have remained limited, the tariff impact is obvious when the export distribution of countries and sectors is analyzed. Exports to the US have declined by USD 104 billion compared to the previous year, corresponding to a roughly 20% decline in 2024. However, Chinese economy has more than compensated for this export loss to the US with gains in the EU and Asian markets (Chart 2). A sectoral analysis also reveals export losses in sectors with high US shares, such as toys, footwear, and furniture. On the other hand, China's limited dependence on the US market in its fast-growing export sectors such as electric vehicles, batteries, shipping, and semiconductors has played an important role in maintaining the strong course of exports.

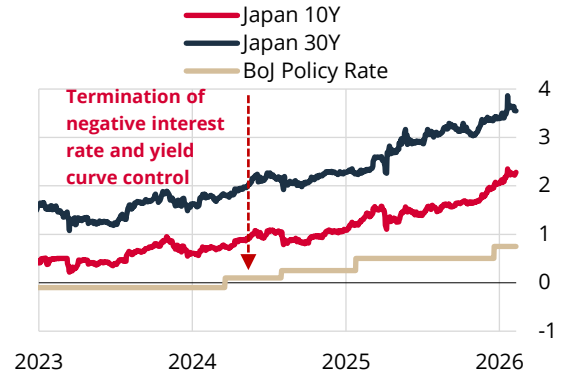
Zoom-In 2.2

Possible Effects of Japan's Monetary Policy on Global Markets

Possible actions by BoJ to counter weakening of the yen carry risks for global markets. The BoJ's decision in March 2024 to end its negative interest rate policy and yield curve control, which had been in place since 2016, reduced the Bank's pressure on the bond market but caused long-term yields to rise rapidly. The BoJ's further increase in the policy rate in August 2024 triggered a rapid unwinding of yen positions by global investors who had previously borrowed at low yen interest rates. This, in turn, led to yen appreciation and increased volatility in global markets through changes in financial asset positions. During this period, the rise in long-term interest rates continued in parallel with the normalization of the BoJ's monetary policy. However, this rise has been relatively limited due to policy communication and the weak growth outlook (Chart 1).

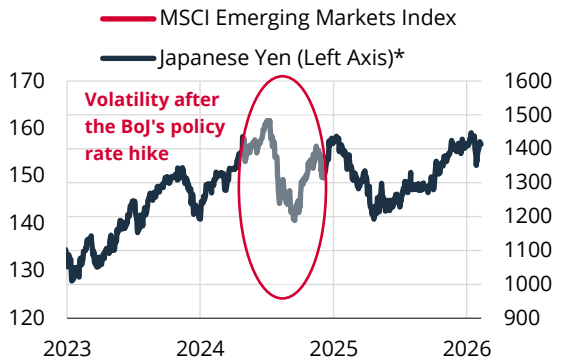
The BoJ's continued rate hikes in 2025, along with a more determined normalization perception and rising inflationary risks, have caused Japanese long-term interest rates to rise again and at a faster pace recently. Early general elections held in February resulted in strengthening of the current pro-fiscal expansion government, which has been another factor driving up bond rates. In addition, wage increases and the expectations that the rise in core inflation will be permanent also affect yields through the risk premium. In this context, the possibility of further narrowing of cheap borrowing opportunities in yen has the potential to exert simultaneous pressure on equity and FX markets of emerging economies by weakening the global risk appetite (Chart 2).

Chart 1: Japanese Long-Term Bond Yields and Policy Rate (%)



Source: Bloomberg.

Chart 2: Japanese Yen and MSCI Emerging Markets Index



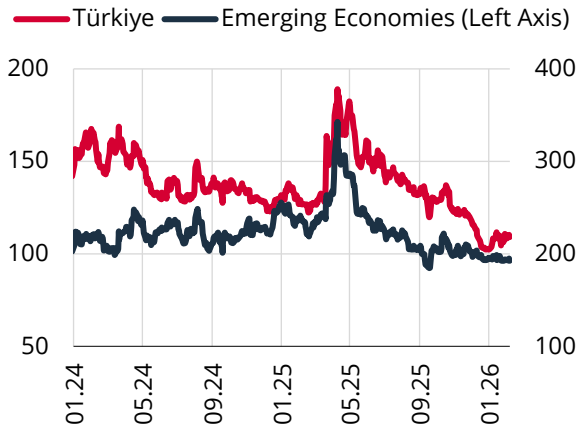
Source: Bloomberg.

* Shows the Japanese yen equivalent of one US dollar.

2.2 Financial Conditions

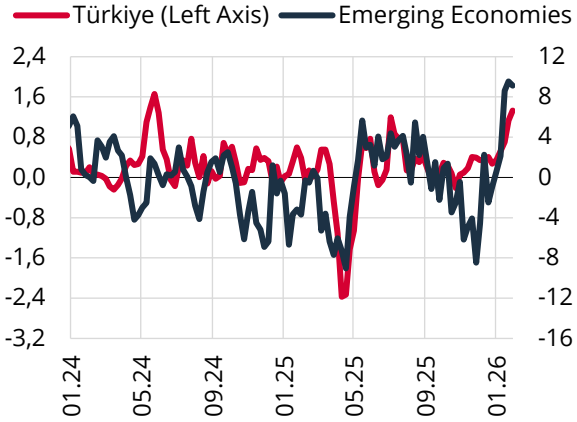
In the reporting period, portfolio flows to emerging economies fluctuated while global uncertainty remained high due to the recent resurgence in geopolitical risks. In this period, global uncertainties increased due to geopolitical developments, and portfolio flows into Turkish lira assets continued. Against this backdrop, Türkiye's CDS premium converged to the average risk premium of emerging economies, decreasing to 218 basis points as of February 6, 2026 (Chart 2.2.1). Portfolio flows into emerging market assets remained volatile during the current reporting period, accelerating marginally in January. In light of these developments, a net total of USD 9.0 billion in portfolio inflows was recorded, with USD 6.5 billion inflows into the GDDS market and USD 2.5 billion inflows to the equity market (Chart 2.2.2).

Chart 2.2.1: CDS Premiums in Türkiye and Emerging Economies* (Five-Year, Basis Points)



Source: Bloomberg.
* Emerging economies include Brazil, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Poland, Romania, South Africa, and the Philippines.

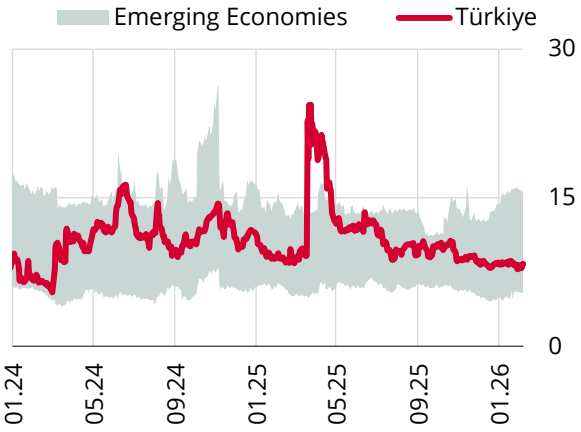
Chart 2.2.2: Portfolio Flows to Türkiye and Emerging Economies* (Four-Week Average, USD Billion)



Source: CBRT, IIF.
* Data for Türkiye covers portfolio flows to equity and GDDS markets. Repo is excluded from the GDDS data.

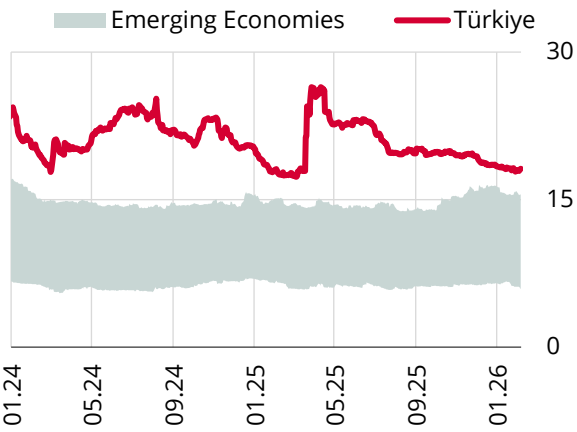
The implied volatility of the Turkish lira decreased. In the current reporting period, exchange rate volatility decreased marginally. Accordingly, the implied exchange rate volatility of the Turkish lira stands at 8.3% for one month and at 18.1% for 12 months (Charts 2.2.3 and 2.2.4). While volatility over one month is close to the emerging economies' average, the relatively high level of volatility over 12 months suggests that the exchange rate risk perception for the long term persists.

Chart 2.2.3: Implied Volatility of FX Options* (Against USD, One-Month Maturity, %)



Source: Bloomberg.
* Emerging economies include Brazil, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Poland, Romania, South Africa, and the Philippines.

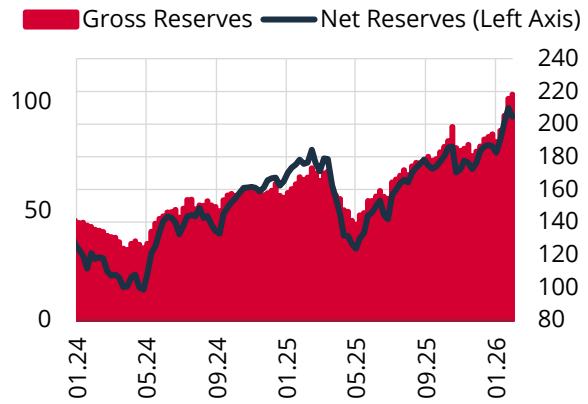
Chart 2.2.4: Implied Volatility of FX Options* (Against USD, 12-Month Maturity, %)



Source: Bloomberg.
* Emerging economies include Brazil, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Poland, Romania, South Africa, and the Philippines.

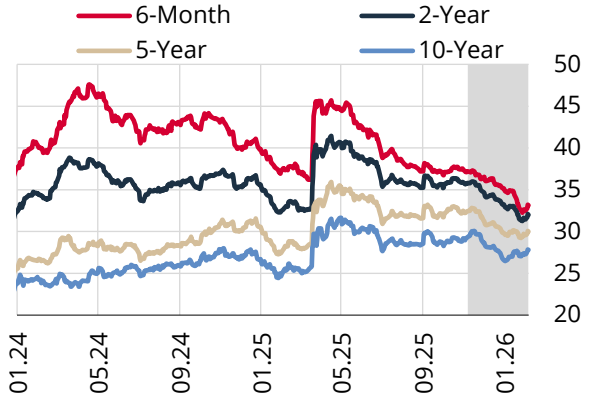
The uptrend in CBRT reserves continues. In the current reporting period, the CBRT's gross international reserves increased by USD 32.7 billion to USD 218.2 billion with the additional effect of the strong rise in gold prices (Chart 2.2.5). The contribution of the tight monetary stance to CBRT reserves is expected to continue, while any change in the global risk appetite may lead to fluctuations in reserves.

Chart 2.2.5: CBRT's Gross International Reserves (Weekly, USD Billion)



Source: CBRT.

Chart 2.2.6: GDDS Yields (%)

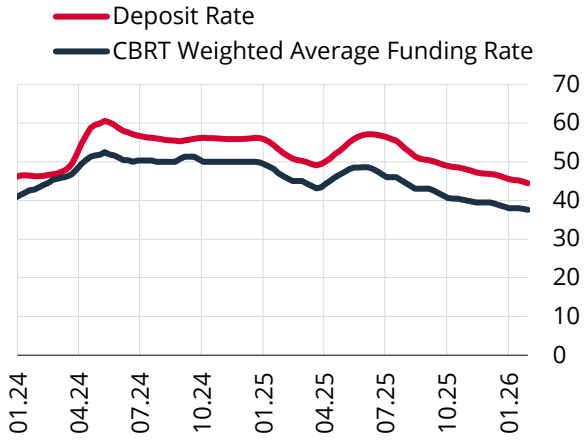


Source: Bloomberg.

GDDS yields decreased in the current reporting period. In this report period, GDSS yields decreased across all maturities, more significantly in shorter maturities, while the rigidity in longer maturities persists (Chart 2.2.6). At the MPC meeting on January 22, 2026, the policy rate was reduced, and it was stated that the size of the policy rate steps would be reviewed prudently on a meeting-by-meeting basis with a focus on the inflation outlook. With the improvement in risk perception towards Turkish lira assets due to domestic and global developments, GDDS yields are expected to become more aligned with the inflation and monetary policy outlook.

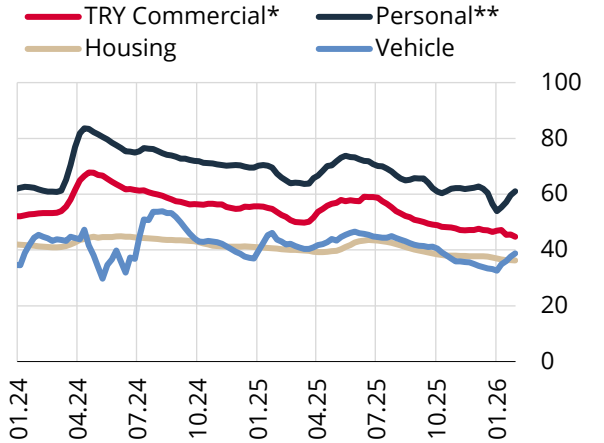
Financial conditions remained tight during the current reporting period. The 150 and 100 basis points of cuts at the December 12 and January 23 MPC meetings, respectively, were reflected in deposit and loan rates. As of January 30, deposit rates declined to 43.7% (Chart 2.2.7). In the same week, TRY commercial loan rates were 46.1%, while personal loan rates were 60.3%. Housing loan rates were recorded at 35.9%, while vehicle loan rates stood at 36.2% (Chart 2.2.8). In this reporting period, there has been no significant change in the level of the positive real interest rate in deposit and loan rates calculated by using the realized and expected inflation. Additionally, the monetary transmission mechanism has been supported by additional macroprudential measures. These steps are believed to support the tightness in financial conditions.

Chart 2.2.7: Turkish Lira Funding Rates* (Four-Week Moving Average, %)



Source: CBRT.
* Deposit rate is compound interest rate, while CBRT weighted average funding rate is simple interest rate.

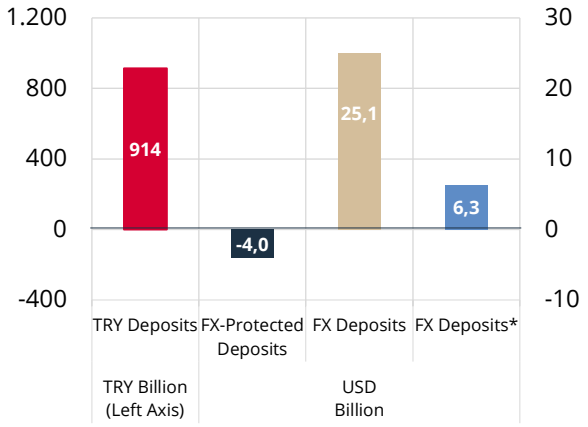
Chart 2.2.8: Loan Rates*** (Flow, Four-Week Moving Average, %)



Source: CBRT.
* Excluding overdraft accounts and credit cards.
** Excluding overdraft accounts.
*** Loan rates are compound interest rates.

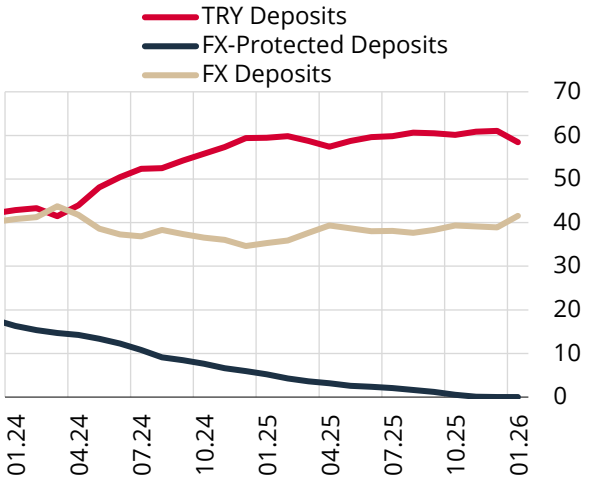
The Turkish lira share in banks' deposit composition continued to hover close to its historical average. In this reporting period, owing to the tight monetary policy stance, depositors continued to opt for Turkish lira deposits, which increased by TRY 914 billion. As the opening and renewal of KKM accounts were terminated on August 23, 2025, the KKM balance dropped by USD 4 billion and came down to almost zero in this reporting period. Meanwhile, the rise in the EUR/USD parity and also in gold and precious metals led to a USD 25.1 billion rise in the FX deposit balance. The rise in FX deposits becomes more moderate when adjusted for price and parity effects (Chart 2.2.9). The rise in FX deposits can be partly attributed to non-renewal of KKM accounts. The TRY deposit share is stable at 60% (Chart 2.2.10). In order to provide some flexibility for banks, the Turkish lira share calculation period was extended from four weeks to eight weeks and the commission rates to be charged in case of undershooting the Turkish lira share targets were decreased. Lastly, in order to reduce the negative effects of the volatility observed in exchange rates and gold prices on the Turkish lira share calculation, a change has been made to use the six-month average of the exchange rates and precious metal prices instead of the three-month average.

Chart 2.2.9: Change in Deposits
(January 30, 2026-October 24, 2025)



Source: CBRT.
* Shows parity- and price-adjusted change. TRY deposits exclude KKM and FX-protected deposit accounts converted from FX. The change in FX deposits is the change in residents' deposits in domestic branches.

Chart 2.2.10: Deposit Composition* (% Share)



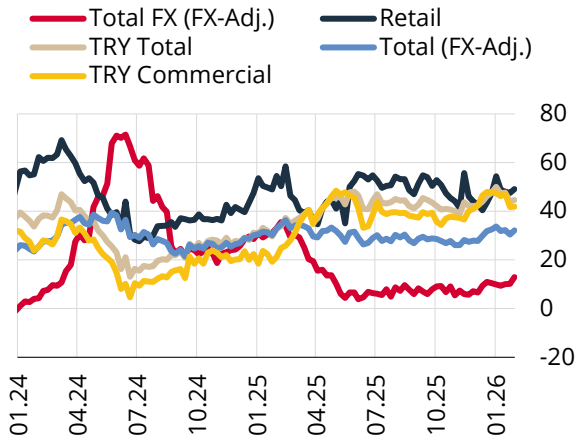
Source: CBRT.
* TRY deposits exclude KKM and FX-protected deposit accounts converted from FX.

There has been an acceleration in total commercial loan growth due to the year-end balance sheet period. In the current reporting period, FX commercial loans remained slightly above the rates implied by loan growth limitations, while TRY commercial loans accelerated. The acceleration in TRY commercial loan growth is also attributed to banks' increased lending appetite due to the year-end balance sheet period. Actually, TRY commercial loan growth has slightly decelerated since the beginning of 2026. As of January 30, the 13-week annualized FX commercial loan growth adjusted for exchange rates stood at 13.0%, while TRY commercial loan growth stood at 41.9%. The FX-adjusted 13-week annualized growth rate of total loans also increased in the current reporting period and reached 27.1% in the same week (Chart 2.2.11). On January 31, 2026, the CBRT announced that the eight-week growth limit for foreign currency loans was reduced from 1% to 0.5%.

Retail loan growth is mainly driven by personal loans and personal credit cards. The 13-week annualized growth rate of retail loans accelerated in this reporting period and stood at 49.1% as of January 30. The acceleration in retail loan growth was affected by the rise in the 13-week annualized growth rate of personal loans to 57.3%. In this reporting period, the housing loan growth decreased slightly, while growth in personal credit cards somewhat accelerated. The vehicle loan growth, which had been in the negative territory since the second quarter of 2024, climbed up to the positive territory due to end-of-year campaigns but retreated again (Chart 2.2.12). As of January 30, the 13-week annualized growth rates of housing loans, personal credit cards and vehicle loans were recorded at 34.4%, 47.9%, and -4.4%, respectively (Chart 2.2.12). On January 31, 2026, the CBRT introduced a growth limit for overdraft accounts, and the eight-week growth limit was set at 2%. Moreover, in a press release on January 30, 2026, the BRSA introduced some changes to the regulations on retail loans. Accordingly, the distinction between new and

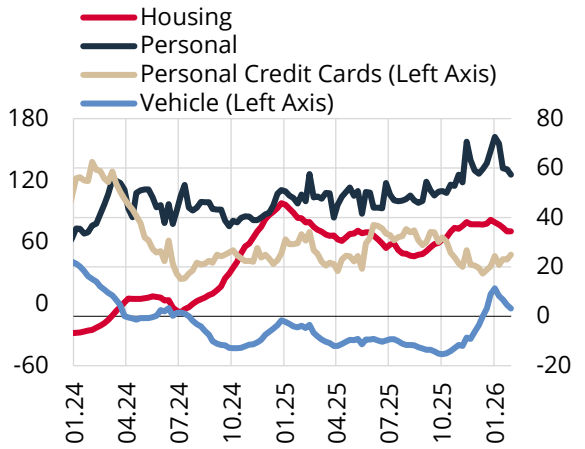
second-hand houses in the loan-to-value ratio for housing loans has been removed, and houses in the C energy class have also been included in the scope of houses with favorable loan-to-value ratios. Thus, while loan-to-value ratios for second-hand homes have been increased, loan financing opportunities have also been provided for second-hand houses with a value over TRY 10 million. Moreover, some changes have been introduced towards aligning credit card limits with income levels verified by documents until January 1, 2027 and partially reducing unused limits (excluding education and health spending) on cards with a total limit exceeding TRY 400,000 across all banks. The maximum overdraft account limit has been set at twice as the customer's average monthly income as determined by banks based on verifiable documents, and overdraft account limits granted to retail customers for education payments have been exempt from this limitation. In addition, in line with international regulations, banks' capital requirements for unused overdraft account limits have been increased. Finally, unpaid or partially unpaid statement balances on personal credit cards, and consumer loans with payments overdue by more than 30 days have become eligible for restructuring. The impact of these changes on retail loan growth will be closely monitored.

Chart 2.2.11: Loan Growth (13-Week Annualized, FX-Adjusted, %)



Source: CBRT.

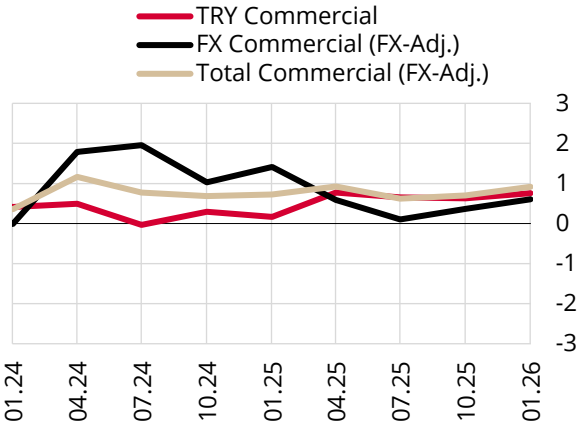
Chart 2.2.12: Retail Loan Growth (13-Week Annualized, %)

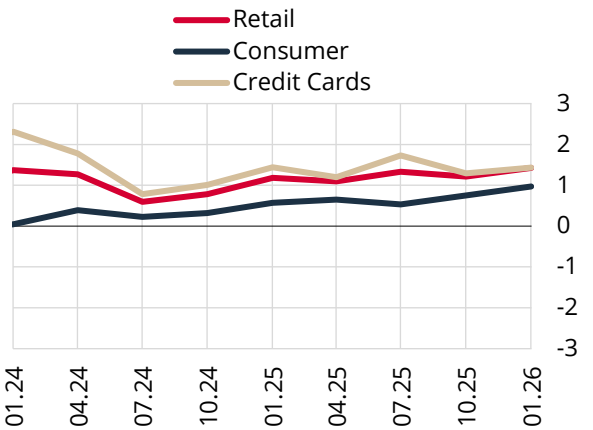


Source: CBRT.

Real loan utilization hovers slightly above long-term averages in commercial loans and retail loans. The FX-adjusted standardized real changes in total commercial loans slightly increased in this reporting period due to TRY and FX loans and remained above the long-term average. In this period, the rise in the standardized real changes in retail loans was driven by both personal loans and personal credit cards. Meanwhile, standardized real changes in personal credit cards continued to hover above those of consumer loans (Chart 2.2.13).

Chart 2.2.13: Loan Change* (13-Week Average, Real, Standardized Value)





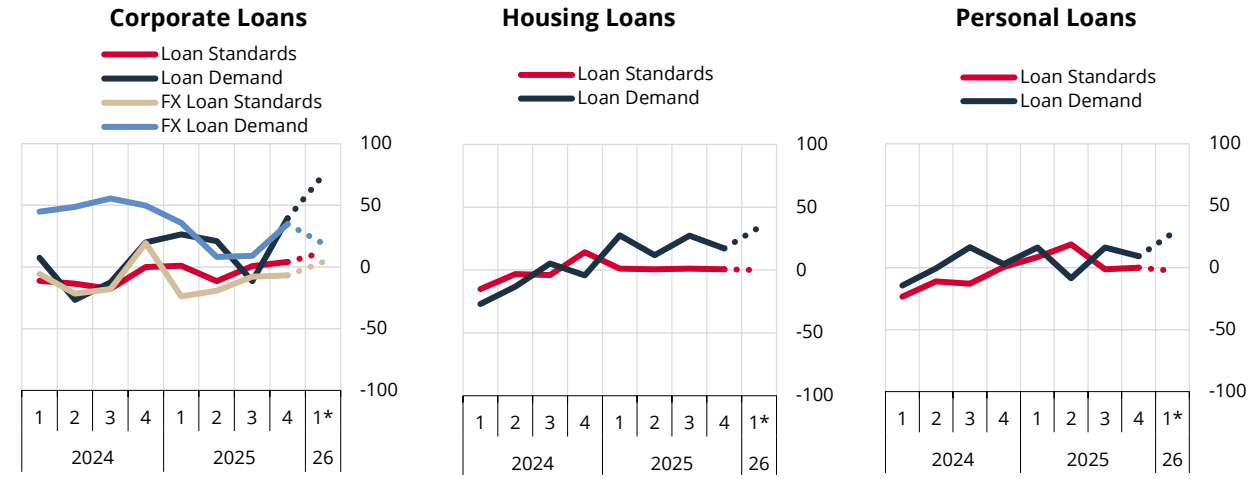
Source: CBRT.

* Series are deflated by the CPI. The mean and standard deviations of the series are calculated based on the 2006–2019 period. The 13-week average is taken after weekly real changes in loan stock balances are standardized. Consumer loans are composed of housing, vehicle and personal loans, while retail loans are the sum of consumer loans and personal credit cards.

According to the Bank Loans Tendency Survey (BLTS), banks expect commercial loan demand to increase and commercial loan standards to ease in the first quarter of 2026. Commercial loan standards have started to ease moderately as of the third quarter of 2025 on the back of the improvement in banks' liquidity conditions and access to financing facilities. In the last quarter of 2025, commercial loan demand rose due to the rise in companies' inventories and working capital needs. Banks expect that the easing in commercial loan standards and the rise in loan demand will continue in the first quarter of 2026 as well. As for FX commercial loans, loan standards remained tight in the last quarter of 2025 due to credit growth limitations, nonetheless, demand for FX loans continued to increase. In the first quarter of 2026, banks expect a limited easing in FX commercial loan standards and a slight increase in the demand for FX loans (Chart 2.2.14).

According to BLTS, in the first quarter of 2026, personal and housing loan standards are expected to remain flat, while loan demand is expected to continue to increase. In the last quarter of 2025, while banks' credit standards remained unchanged, demand for housing and consumer loans increased. For the first quarter of 2026, banks' expectations are that standards will remain unchanged for both housing and personal loans, but demand will increase significantly (Chart 2.2.14).

Chart 2.2.14: Loan Standards and Loan Demand



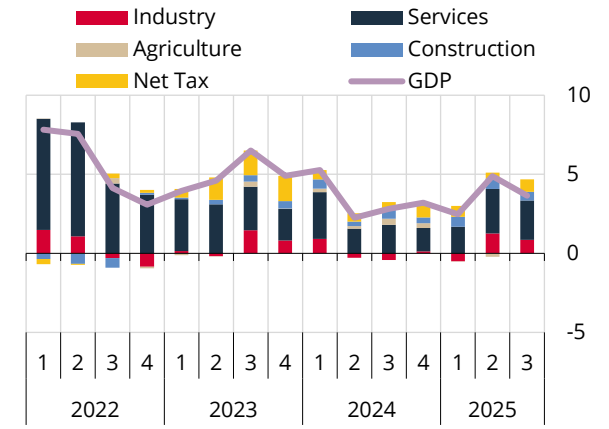
Source: BLTS, CBRT.
* Denotes banks' expectations. Loan Standards and Loan Demand indices are calculated as follows: Banks are asked how their loan standards (loan demand) have changed in the past three months. Net trends, which are calculated using the percentages of responses, show the direction of change in loan standards (loan demand). An index value above zero indicates easing in loan standards (increase in loan demand).

2.3 Economic Activity

Supply and Demand Developments

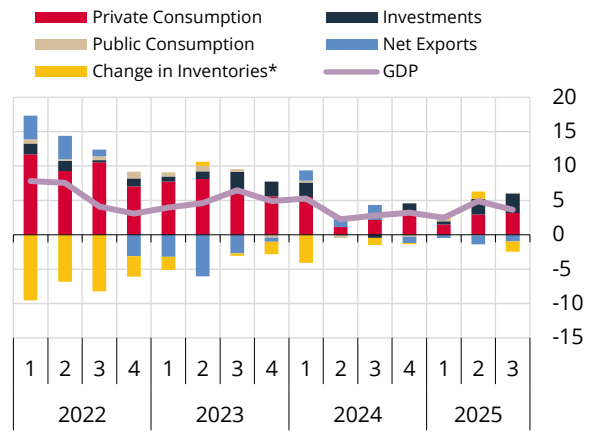
In the third quarter of 2025, GDP grew by 3.7% on an annual basis and by 1.1% on a quarterly basis, with quarterly growth exceeding the forecasts. Due to the decline in crop production caused by frost and drought, agricultural value added fell by 12.7% on an annual basis in this period, limiting growth. Growth was higher when the agricultural sector was excluded. From a production standpoint, services sector was the main driver of both annual and quarterly growth in the third quarter, while the industrial and construction sectors also contributed positively to growth (Chart 2.3.1). By the expenditure approach, private consumption and total investments made a positive contribution to annual growth in this period (Chart 2.3.2). On a quarterly basis, while private consumption declined in the first two quarters of the year, it increased in the third quarter, and total investments continued to support growth from the second quarter onwards. In the third quarter, imports of goods and services decreased on a quarterly basis, while exports increased. Thus, net exports contributed positively to quarterly growth. Against this backdrop, economic activity, which picked up in the second quarter, eased somewhat in the third quarter, growing at a rate close to its quarterly potential.

Chart 2.3.1: Annual GDP Growth and Contributions from Production Side (% Points)



Source: CBRT, TURKSTAT.

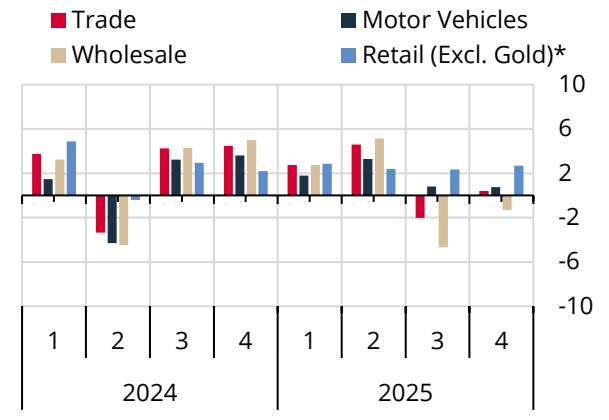
Chart 2.3.2: Annual GDP Growth and Contributions from Expenditures Side (% Points)



Source: CBRT, TURKSTAT.
* Includes changes in inventories and statistical discrepancy due to chain-linking.

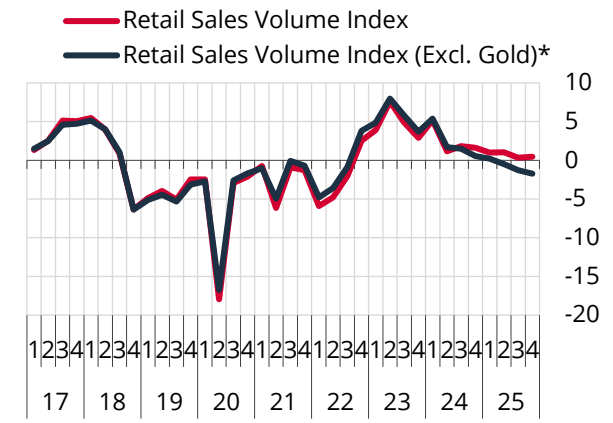
Leading indicators for the last quarter of 2025 point to demand conditions that continue to support the disinflation process, albeit at a moderating pace. In December, the retail sales volume index increased by 1.7% on a monthly basis and 4.0% on a quarterly basis (Chart 2.3.3). In this period, retail sales excluding gold accelerated somewhat compared to the previous quarter but remained below its trend (Chart 2.3.4). In the same period, the trade sales volume index rose by 2.1% on a monthly basis and 0.4% on a quarterly basis, with the latter rise being limited by a decline in wholesale trade. White goods and car sales increased in the last quarter (Chart 2.3.5). Recently, increased product variety and consumer interest in electric vehicles, along with brand-based campaigns in the car market, have also supported car sales. Survey data for manufacturing firms pointed to an increase in registered domestic orders in the last quarter of the year. January data indicates that this trend continued. While card spending continued to increase in the last quarter of 2025, data for January remain weak. Meanwhile, the rise in card usage rates observed in recent years is also assessed to have had an upward effect on card spending. Indeed, the fact that card spending hovers below its trend recently, is also consistent with this assessment (Chart 2.3.6). Findings obtained from firm interviews on consumption expenditures also confirm the continued moderate trend in domestic demand, despite a limited quarterly growth (Box 2.1). According to January interviews, domestic sales experienced a slight slowdown in the first quarter of the year. In sum, recent data indicate that demand conditions continue to support the disinflation process, albeit to a lesser extent.

Chart 2.3.3: Sales Volume Indices (Seasonally and Calendar Adjusted, Quarterly % Change)



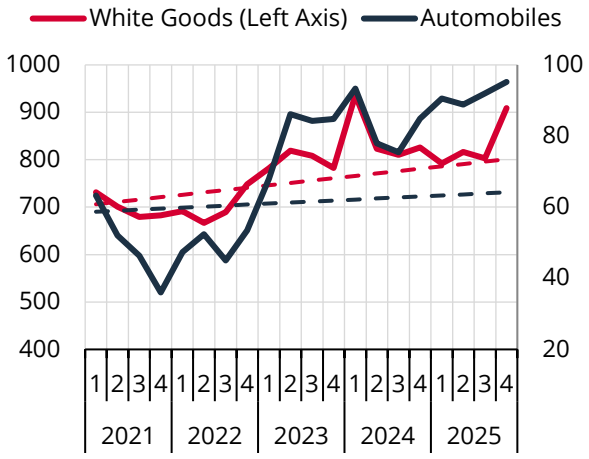
Source: TURKSTAT.
* The retail sales volume index excluding gold is the retail sales volume excluding watches and jewelry items, published by TURKSTAT.

Chart 2.3.4: Retail Sales Volume Index (Deviation from HP Trend, %)



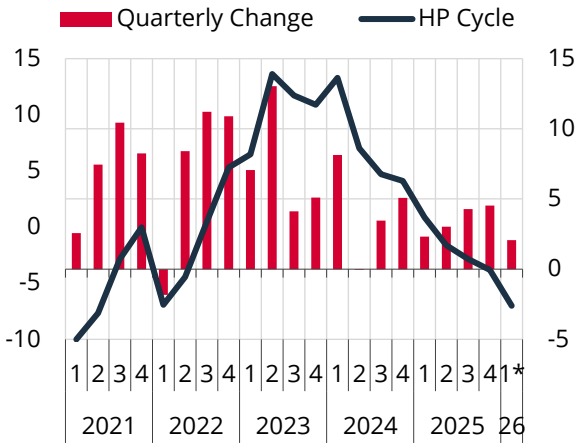
Source: CBRT, TURKSTAT.
* The retail sales volume index excluding gold is the retail sales volume excluding watches and jewelry items, published by TURKSTAT.

Chart 2.3.5: Sales of White Goods and Automobiles* (Thousand, Seasonally and Calendar Adjusted)



Source: CBRT, ODMD, TURKBESD.
* Dashed lines show the trend for the 2010–2018 period.

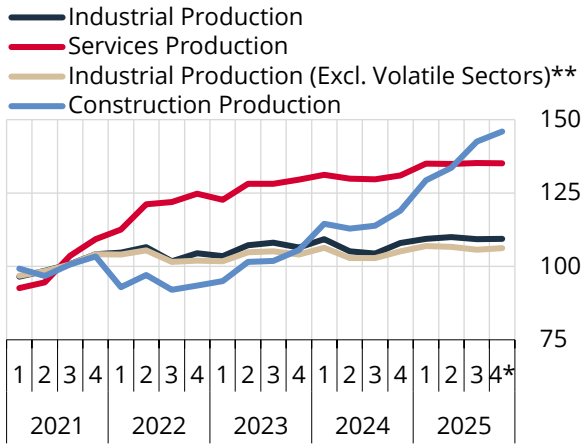
Chart 2.3.6: Card Spending** (Real, %)



Source: CBRT.
* As of January 18.
** Deflated by CPI.

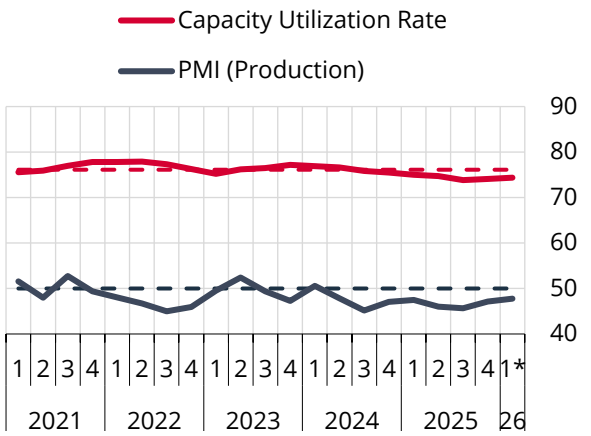
Industrial and services production indices remained flat in the fourth quarter. In December, the industrial production index increased by 1.2% on a monthly basis, adjusted for seasonal and calendar effects, but decreased by 2.1% on an annual basis, adjusted for calendar effects. On a quarterly basis, industrial production remained nearly flat in the fourth quarter (Chart 2.3.7). When other transportation and similar sectors, which are typically volatile, were excluded to track the main trend, industrial production recorded a limited increase on a quarterly basis. The services production index rose slightly in November. On a quarterly basis, the flat trend that started in the second quarter continued in the last quarter of the year. The construction production index increased by 2.4% on a quarterly basis in the fourth quarter of the year as of November. Survey indicators for the manufacturing industry point to an increase in the sector's activity in the fourth quarter. During this period, survey indicators for current production and orders improved compared to the previous quarter. The PMI production indicator rose in the last quarter, but remained below the threshold value (Chart 2.3.8). Survey data for January presented a mixed picture for manufacturing production activity. While the BTS implied an improvement in the current production level of firms, the PMI indicator declined. The capacity utilization rate posted a moderate increase in the fourth quarter, rising by 0.3 percentage points compared to the previous quarter. This upward trend continued in January. To sum up, production indicators for the last quarter of the year point to a nearly flat outlook for both industrial and services production. Meanwhile, survey-based indicators imply that activity in the manufacturing industry increased in the last quarter of the year. January data also point to a limited rise in total orders of manufacturing firms.

Chart 2.3.7: Industrial, Services and Construction Production Indices (Seasonally and Calendar Adjusted, 2021=100)



Source: CBRT, TURKSTAT.
* As of November.
** Industrial production excluding recorded media, computer-optical instruments, basic pharmacy, and other transportation sectors that are typically volatile.

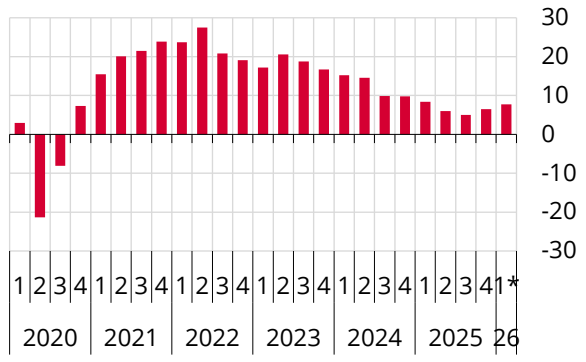
Chart 2.3.8: Capacity Utilization Rate and PMI** (Seasonally Adjusted, %)



Source: CBRT, S&P, TURKSTAT.
* As of January.
** Dashed lines show the average capacity utilization rate for the 2007–2024 period and the threshold value of 50 for the PMI.

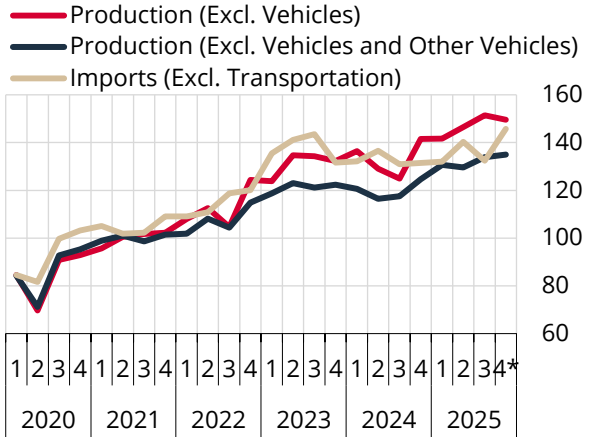
The improvement in investment expectations of manufacturing firms continued in January. The firms' investment tendency, which had been declining since the second half of 2023, rose in the last quarter of 2025 (Chart 2.3.9). The production of capital goods, excluding vehicles and other transportation, saw a limited increase in the fourth quarter, and imports of capital goods, excluding transport vehicles, rose on a quarterly basis (Chart 2.3.10). The BTS for January points to an improvement in investment expectations on a monthly and quarterly basis.

Chart 2.3.9: BTS Expectations for Fixed Capital Investment Spending (Up-Down, Seasonally Adjusted, %)



Source: CBRT.
* As of January.

Chart 2.3.10: Production and Import Quantity Indices of Capital Goods Excluding Vehicles (Seasonally Adjusted, 2021=100)

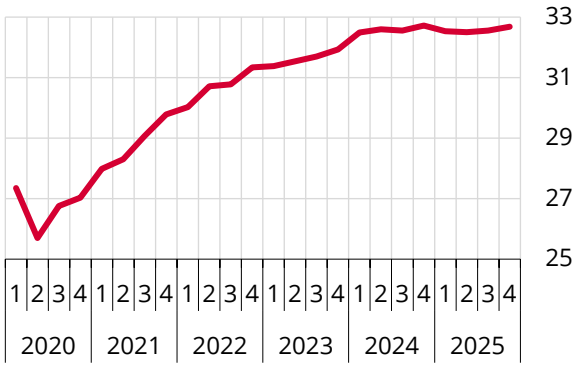


Source: CBRT, TURKSTAT.
* Quantity indices are as of November.

Labor Market Developments

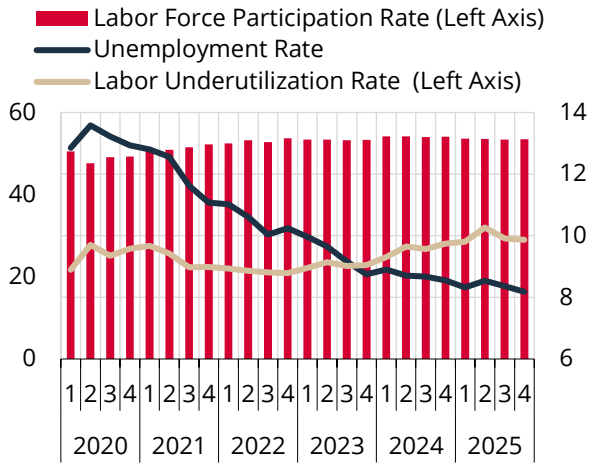
Employment increased in the last quarter of the year. According to the quarterly averages of seasonally adjusted monthly data, employment increased by 0.4% (136,000 people) in the last quarter (Chart 2.3.11). During this period, the seasonally adjusted unemployment rate dropped by 0.2 percentage points on a quarterly basis, while the labor force participation rate remained flat (Chart 2.3.12). On the unemployment rate, population growth had an upward effect of 0.18 percentage points, while the increase in employment had a downward effect of 0.38 percentage points (Chart 2.3.13). The labor force participation rate had a limited upward effect of 0.03 percentage points.

Chart 2.3.11: Total Employment* (Seasonally Adjusted, Million People)



Source: TURKSTAT.
* The last quarter is the average of monthly data.

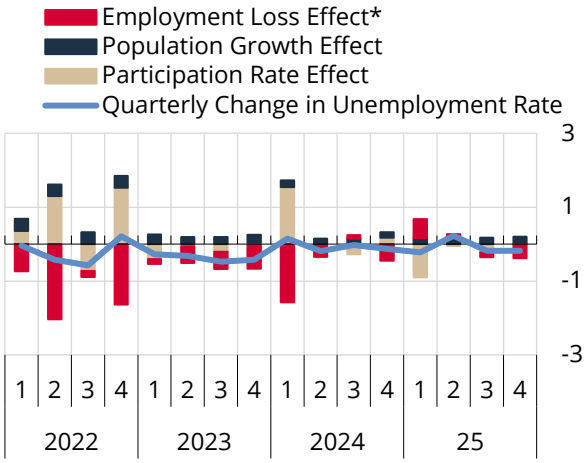
Chart 2.3.12: Total Unemployment Rate and Labor Force Participation Rate* (Seasonally Adjusted, %)



Source: TURKSTAT.
* The last quarter is the average of monthly data.

The labor market is less tight than implied by the headline unemployment rate. In the fourth quarter, the labor underutilization rate, a complementary indicator of the labor market, remained high. During this period, the Composite Labor Market Indicator recorded an increase but remained below zero (Chart 2.3.14). The total number of applications per job listing on Kariyer.net declined slightly but remained at a high level (Chart 2.3.15). Thus, it is assessed that the labor market is not as tight as implied by the unemployment rate.

Chart 2.3.13: Contributions to Change in Total Unemployment Rate** (Seasonally Adjusted, % Points)



Source: CBRT, TURKSTAT.
* A negative value for the employment loss effect indicates an increase in employment.
** The last quarter is the average of monthly data.

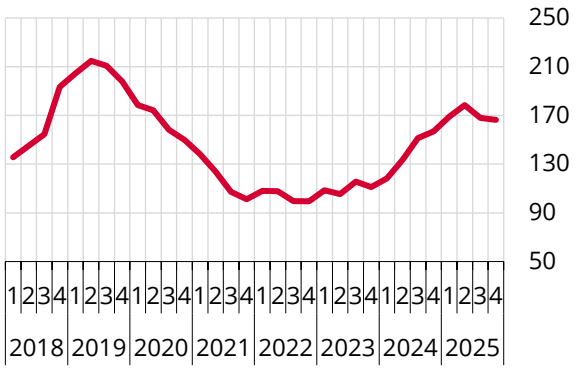
Chart 2.3.14: Composite Labor Market Conditions Index (Standardized Values)



Source: CBRT.

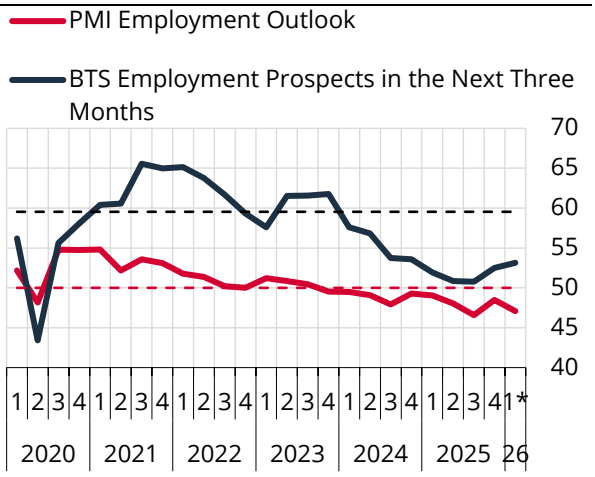
Survey indicators show that manufacturing firms' employment expectations for the future still hover below the historical average. Survey data for manufacturing industry firms indicate that in the fourth quarter, firms' employment expectations increased compared to the previous quarter but remained below their historical averages (Chart 2.3.16). However, survey data for January implies a slight decline in employment expectations on a monthly basis.

Chart 2.3.15: Total Applications per Job Listing on Kariyer.net (Seasonally Adjusted, Million People)



Source: CBRT, Kariyer.net.

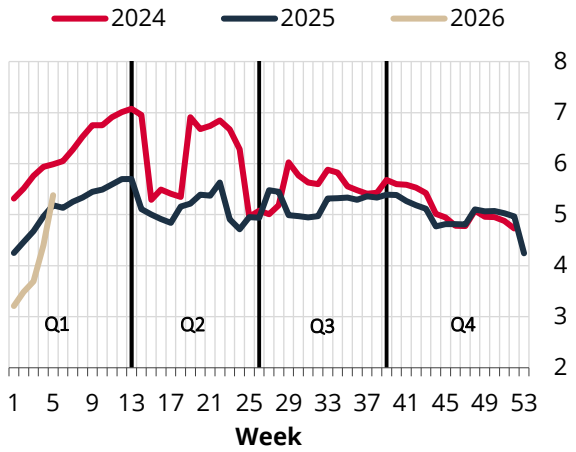
Chart 2.3.16: Employment Outlook and Expectation in the Industrial Sector** (Seasonally Adjusted, Up-Down)



Source: CBRT, S&P Global.
* As of January.
** BTS indicator is adjusted, where 50 denotes neutral level in line with the PMI. Dashed lines show the 2011–2019 average for BTS and the threshold value 50 for PMI.

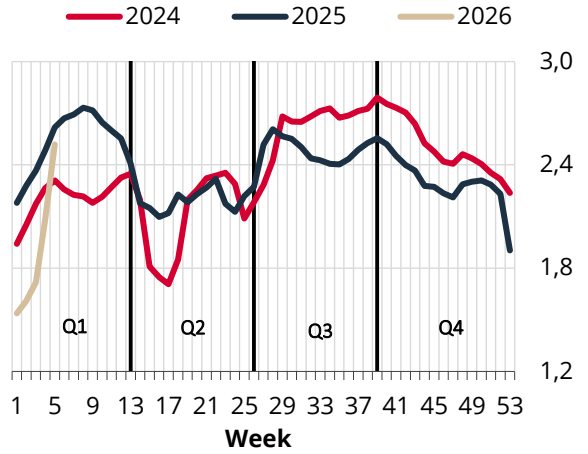
High-frequency data indicates weakening in both labor demand and supply compared to the previous year. According to data from Kariyer.net, new job postings and total job applications remained close to last year's levels as of January (Charts 2.3.17 and 2.3.18).

Chart 2.3.17: New Job Postings* (Four-Week Average, Thousand)



Source: Kariyer.net.
* As of January 31. Vertical lines show the beginning of quarters.

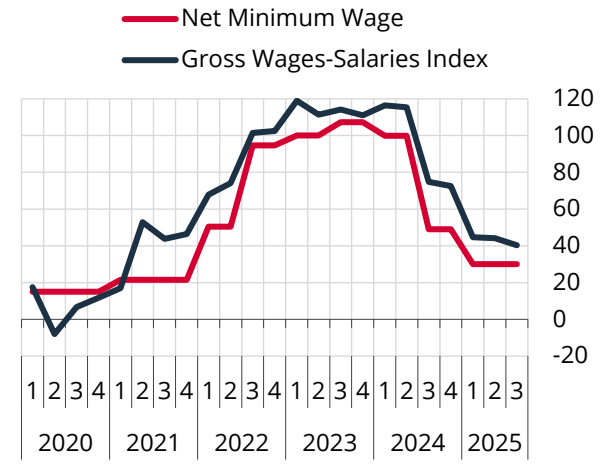
Chart 2.3.18: Total Job Applications* (Four-Week Average, Million)



Source: Kariyer.net.
* As of January 31. Vertical lines show the beginning of quarters.

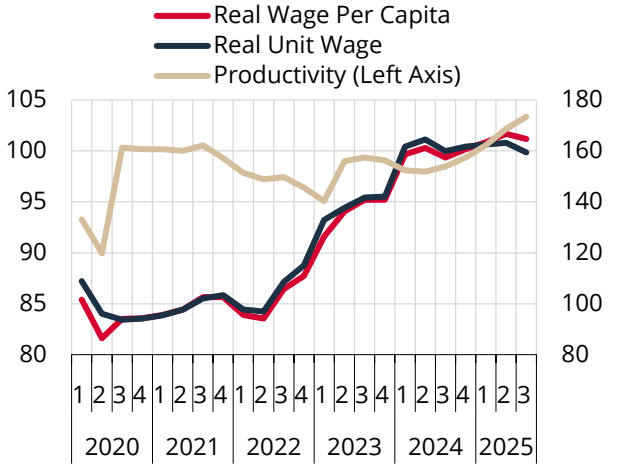
The annual rate of increase in non-farm nominal wages was 40.3% in the third quarter of 2025 (Chart 2.3.19). Partial labor productivity in the non-farm sector (non-farm value added/non-farm employment) continued to increase in the third quarter. Real unit wages in the non-farm sector (real per capita wage/productivity) declined in the third quarter due to the fall in real per capita wages as well as the increase in productivity (Chart 2.3.20).

Chart 2.3.19: Net Minimum Wage and Non-Farm Wage Index (Nominal, Annual % Change)



Source: CBRT, Ministry of Labor and Social Security, TURKSTAT.

Chart 2.3.20: Non-Farm Partial Labor Productivity*, Real Wage Per Capita, and Real Unit Wages** (Seasonally Adjusted, 2021=100)



Source: CBRT, TURKSTAT.

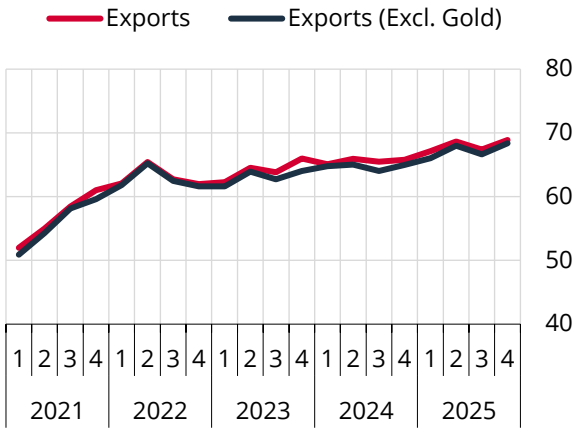
* Non-farm value added/non-farm employment.

** Real per capita wage/productivity. Deflated by the CPI.

Foreign Trade and Balance of Payments Developments

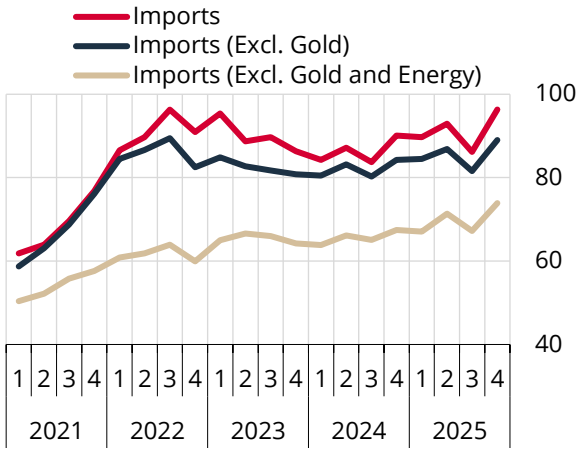
In the last quarter of 2025, both exports and imports increased. Total exports and exports excluding gold, both seasonally and calendar adjusted, increased in the last quarter of the year compared to the previous quarter (Chart 2.3.21). In this period, external demand remained moderate, while the main driver of the increase in exports was the rise in export prices. Exports of other transportation, fabricated metal, machinery and equipment, motor vehicles, and electrical equipment contributed positively to total export growth, while exports of petroleum, other manufacturing, leather, basic pharmaceuticals, and paper products contributed negatively. Approximately two-thirds of the increase in seasonally and calendar-adjusted imports in the last quarter stemmed from the rise in imports excluding gold and energy (Chart 2.3.22). In this period, gold imports also remained strong, supported by the rise in global gold prices, and increased by approximately USD 2.7 billion compared to the third quarter. The rise in energy imports, on the other hand, has been relatively limited. According to the Broad Economic Classification, imports have increased across all major sectors. The increase in investment goods and intermediate goods was more significant than that in consumption goods. Thus, imports in groups other than consumption goods surpassed the second quarter level. Against this backdrop, the seasonally and calendar-adjusted trade deficit increased in the last quarter. Over the past year, exports increased by 4.4% to USD 273.4 billion in 2025 (from USD 261.8 billion in 2024), while imports rose by 6.2% to USD 365.4 billion (from USD 344 billion in 2024). Thus, the trade deficit increased by USD 9.8 billion compared to the previous year, reaching USD 92 billion. Excluding gold, the annual increase in the foreign trade deficit was more limited at USD 3.3 billion. On the other hand, provisional foreign trade data for January point to a slight increase in the foreign trade deficit, with a decline in exports and imports in seasonally and calendar-adjusted terms.

Chart 2.3.21: Exports (Seasonally and Calendar Adjusted, USD Billion)



Source: CBRT, TURKSTAT.

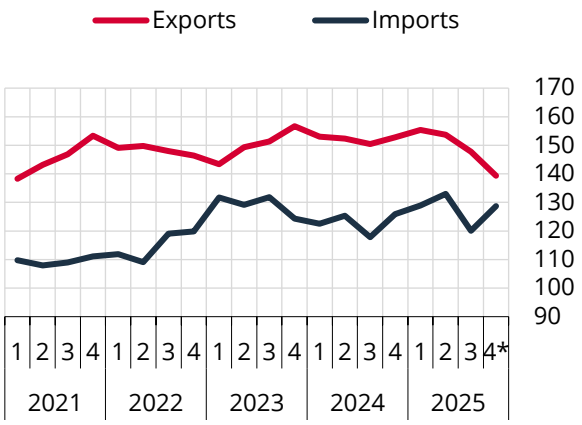
Chart 2.3.22: Imports (Seasonally and Calendar Adjusted, USD Billion)



Source: CBRT, TURKSTAT.

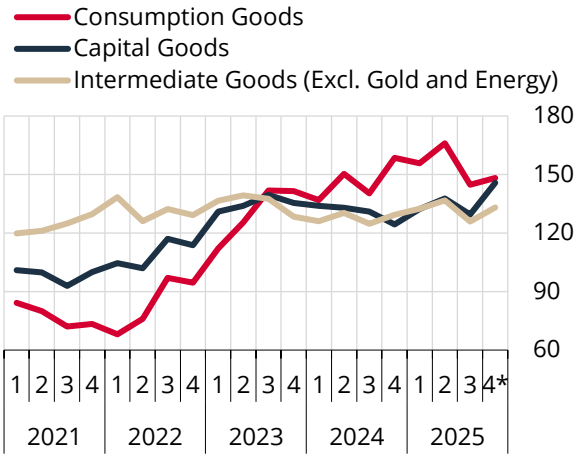
While the export quantity index fell in the last quarter, the import quantity index and the terms of trade rose. The foreign trade quantity indices for the fourth quarter as of November show a quarterly decrease in exports as well as a quarterly increase in imports in seasonally and calendar-adjusted terms (Chart 2.3.23). An analysis of export quantity changes by sector reveals that motor vehicles, machinery and equipment, beverages, and leather products contributed positively, while base metals, basic pharmaceuticals, computers-electronics, and chemicals had a negative impact. The rise in import quantities was widespread across subgroups, largely offsetting the decline observed in the third quarter (Chart 2.3.24). Meanwhile, the improvement in the terms of trade extended into the fourth quarter (Chart 2.3.25). Throughout this period, import prices continued to increase moderately, while export prices experienced a more significant rise. The lower energy prices, relative to the first half of the year, also supported the improvement in the terms of trade. As a result, developments in the foreign trade unit value indices had a positive impact on the trade balance during the reporting period.

Chart 2.3.23: Foreign Trade Quantity Indices (Seasonally Adjusted, 2015=100)



Source: TURKSTAT.
* As of November.

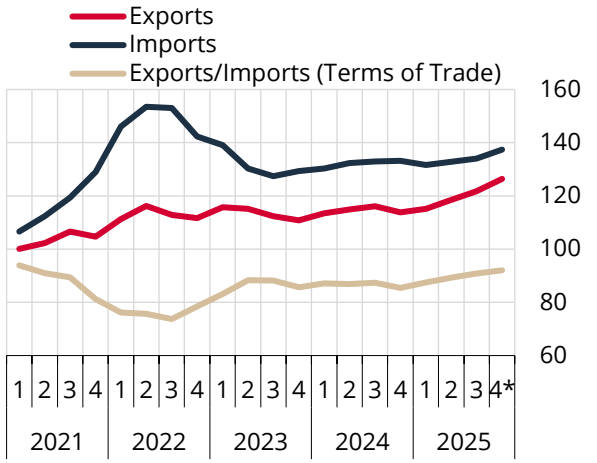
Chart 2.3.24: Import Quantity Indices by Goods Groups (Seasonally Adjusted, 2015=100)



Source: CBRT, TURKSTAT.
* As of November.

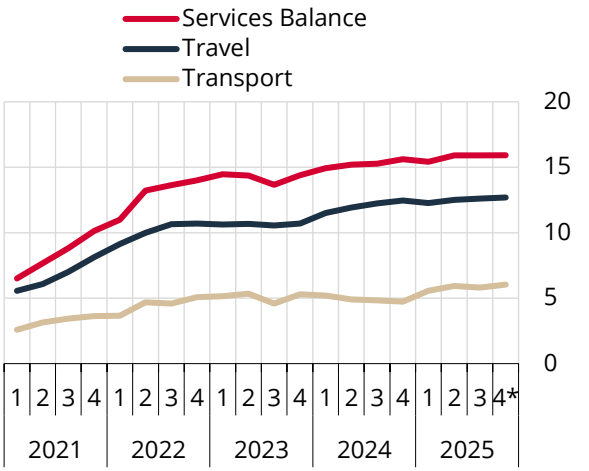
The services balance surplus remained nearly flat in the fourth quarter. Net travel revenues, which are the main driver of the services balance, remained almost unchanged as of November, while net transport revenues saw a slight increase (Chart 2.3.26). Leading indicators suggest that the number of foreign visitors will remain high in December and further contribute positively to net travel revenues. In the fourth quarter, the total number of visitors exceeded the level recorded in the same period of the previous year, and the average spending of those visitors rose as well, with both factors contributing to the growth in tourism revenues.

Chart 2.3.25: Foreign Trade Unit Value Indices (2015=100)



Source: CBRT, TURKSTAT.
* As of November.

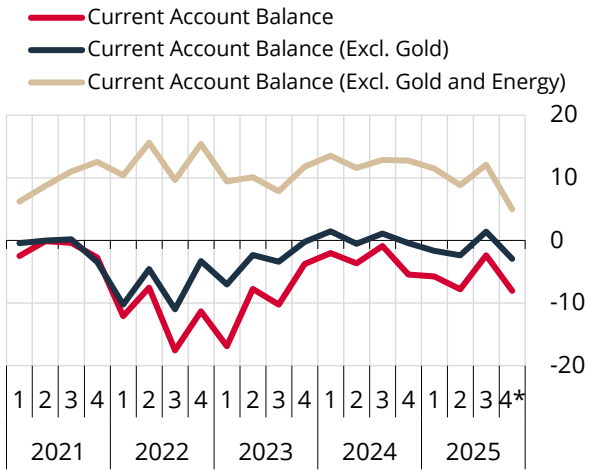
Chart 2.3.26: Services Balance (Seasonally and Calendar Adjusted, USD Billion)



Source: CBRT.
* As of November.

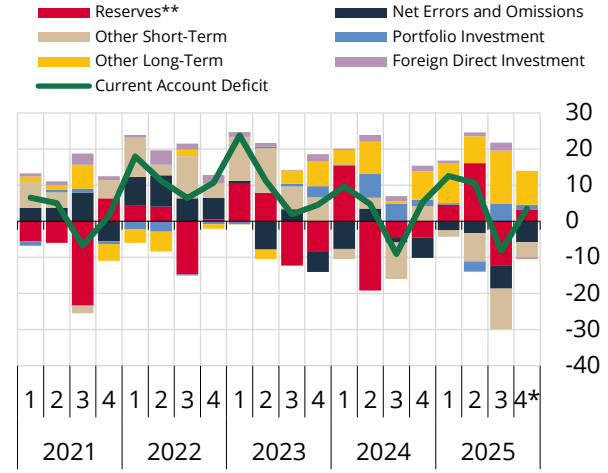
The seasonally and calendar-adjusted current account deficit widened in the last quarter (Chart 2.3.27). The payments balance-defined trade deficit widened due to the rise in trade deficits excluding energy, gold, and gold-energy. During this period, while the services balance remained close to stable, the combined primary and secondary income balances showed a limited improvement. Tariffs and protectionist measures under global trade policies continue to exert downward pressure on global demand. The recently highlighted free trade agreements between EU and Mercosur and the EU and India have the potential to partially alleviate downward pressure on global demand in the medium term. However, these agreements also introduce an additional risk to Türkiye's foreign trade balance in the medium term, as they may erode the country's competitiveness in the EU market. In this regard, updating the Customs Union agreement to mitigate these risks is considered essential. Developments in global trade policies are closely monitored for their impact on global growth and foreign trade competitiveness. The low level of energy prices provides support by reducing energy imports. However, given that the current level remains below the historical average and energy prices are sensitive to geopolitical factors, the contribution to the current account balance from this channel is assessed to be limited. Meanwhile, the ongoing uptrend in global gold prices remains an additional risk factor for gold imports. Gold price movements and the trajectory of gold imports continue to be important for the current account balance. The ongoing tightening of financial conditions continues to limit domestic demand-driven pressure on imports, while the real appreciation of the Turkish lira remains supportive of import demand. In this context, the risks to the current account balance, which remained moderate and below the historical average as a ratio to GDP in 2025, are expected to show a slightly upward trend for 2026.

Chart 2.3.27: Current Account Balance
(Seasonally and Calendar-Adjusted, USD Billion)



Source: CBRT.
* As of November.

Chart 2.3.28: Financing of the Current Account Deficit (USD Billion)



Source: CBRT.
* As of November.
** Denotes the CBRT reserves plus cash and deposits at banks abroad. A negative value indicates an increase in reserves.

The financing of the current account balance continued to be dominated by long-term items. There were net capital inflows originating from GDDS and loans in the fourth quarter as of November, while outflows were observed in direct investments (Chart 2.3.28). Residents' deposits abroad increased. The net errors and omissions item showed a negative balance. With the widening of the current account deficit, the need for financing increased. Consequently, official reserves declined. Nevertheless, data for December and January revealed inflows into both the equity and GDDS markets.

Public Finance Developments

In 2025, the central government budget recorded a deficit of TRY 1,799.1 billion and a primary surplus of TRY 255.3 billion. During this period, the Treasury was a net borrower in both domestic and foreign financing to meet its funding needs. In 2025, the central government debt stock-to-GDP ratio is estimated to be 22.0%, while the ratios of domestic and external debt stocks to GDP are estimated to be 13.1% and 8.9%, respectively.

In 2025, revenues and expenditures increased by 48.0% and 35.7%, respectively, compared to the previous year. The ratio of primary expenditures covered by tax revenues was 87.8%. The annual growth rates of current transfers and personnel expenditures, which account for a significant share of primary expenditures, were 40.0% and 36.3%, respectively. Transfers totaling TRY 236.4 billion and TRY 155 billion to Electricity Generation Corporation and BOTAŞ, respectively, as part of duty losses, and TRY 165.2 billion to Turkish State Railways as part of lending stand out among the transfers to public enterprises in 2025. Income tax, which contributed the most to the rise in tax revenues, recorded a strong annual rise of 84.2% in 2025. This favorable performance is attributed to higher withholding tax rates on deposits as well as wage developments. Consumption-sensitive tax items, including domestic VAT, SCT, and VAT on imports, recorded increases of 56.7%, 39.5%, and 29.3%, respectively, compared to 2024. Meanwhile, corporate tax income rose by 37.5% year on year.

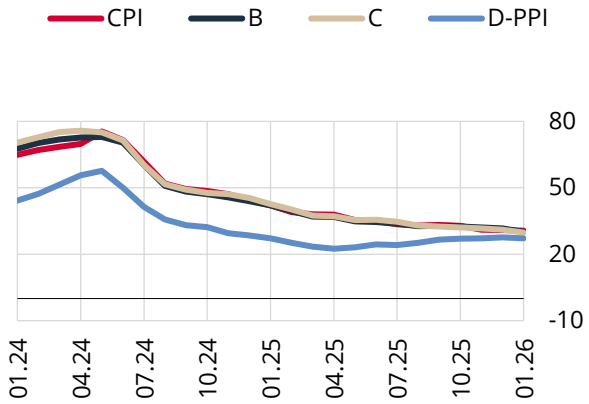
The budget deficit-to-GDP ratio for 2025 is expected to stand at 2.9%. The end-2025 target announced in the MTP is 3.6%. The ratios of revenues, primary expenditures, and interest expenditures to GDP are estimated to be 20.6%, 20.2%, and 3.3%, respectively. Higher-than-anticipated tax revenue collections played a significant role in the budget deficit-to-GDP ratio standing at 2.9%, below the MTP forecast.

In 2025, the Treasury cash balance posted a deficit of TRY 2,111.9 billion. The cash deficit-to-GDP ratio is expected to be 3.4% in 2025. In January 2026, a cash deficit of TRY 246.2 billion was recorded, and the 12-month cumulative cash deficit-to-GDP ratio is estimated to stand at 3.4%.

2.4 Inflation

Consumer inflation receded to 30.7% in January, remaining close to the upper bound of the forecast range presented in the previous Report (Chart 2.4.1). During the November–January period, international commodity prices increased in the non-energy group, led by industrial and precious metals, while energy commodity prices edged down. In the first ten days of February, however, international energy prices rose, mainly driven by crude oil prices. The Global Supply Chain Pressure Index remained slightly above its historical average in December and January, partly due to geopolitical developments. Meanwhile, the downtrend in the global container index and the container index for China that began in July reversed in November, shifting to an upward trajectory. During the current reporting period, the stable course of the exchange rate acted as a factor limiting cost pressures. Data for the final quarter imply that the support provided by demand conditions to the disinflation process continued, albeit at a weaker level. Pressures stemming from producer prices remained subdued, particularly in the last two months of the year. The annualized three-month trend in producer prices stood at 18.4% in January, remaining at a lower level than consumer inflation. While expectations and pricing behavior, key drivers of inflation, showed signs of improvement, they continued to pose risks to the disinflation process. An analysis of consumer price developments over the past three months by sub-items indicates that the biggest contribution to the decline in annual consumer inflation came from the energy and core goods groups, while the contribution of services was relatively flat (Chart 2.4.2). In the recent period, food prices were influenced by meat prices as well as seasonal supply conditions in vegetables. In January, adjustments to administered prices and lump-sum taxes were more moderate compared to previous years, thereby supporting the disinflation process. According to the base year update to the CPI, the changes in the classification system, and the revisions to the consumption basket and weight structure introduced by TURKSTAT, the weight of the services group in the basket increased by 7.4 percentage points to 38.4% in 2026, while the weight of goods declined to 61.6%. The weights of the B and C indicators rose by 5.2 and 4.5 percentage points, respectively. The change in the weight of services is projected to push consumer inflation up by around 1 percentage point in 2026.[1]

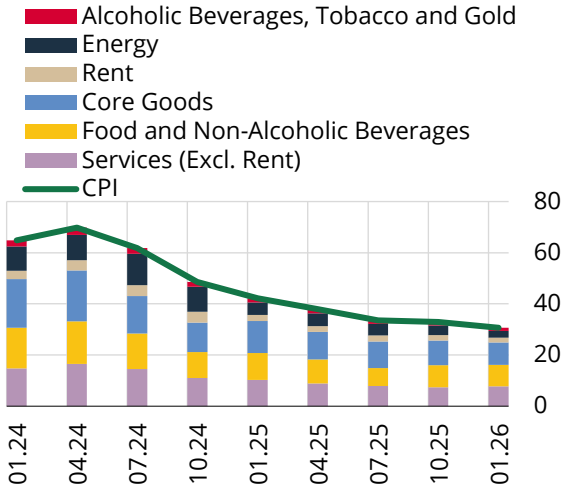
Chart 2.4.1: CPI, D-PPI, B Index, and C Index* (Annual % Change)



Source: TURKSTAT.

* B index: CPI excluding unprocessed food, energy, alcoholic beverages, tobacco, and gold. C index: CPI excluding food and non-alcoholic beverages, energy, alcohol-tobacco, and gold.

Chart 2.4.2: Contributions to Annual CPI (% Points)

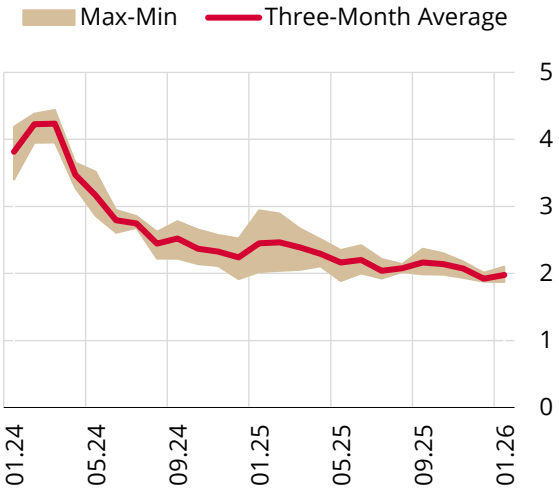


Source: CBRT, TURKSTAT.

[1] Ertuğ, D., & Özlü, N. (2026, February 4). Revisions to the 2026 consumer price index and their implications. *CBRT Blog*.

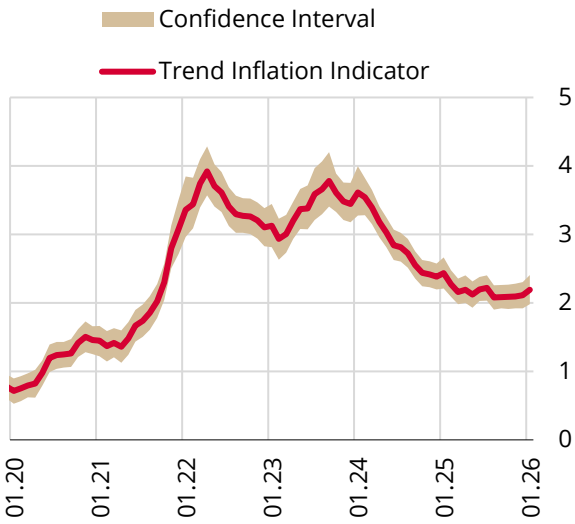
The underlying inflation slowed in the final quarter of 2025 but recorded a period-specific uptick in January. The quarterly average of the indicators monitored for the underlying inflation declined from 2.2% in the third quarter to 1.9% in the last quarter, hitting its lowest quarterly level since September 2021. The quarterly average for the last three months as of January rose to 2.0%. This pattern in the underlying inflation was driven by price developments in services items with a strong tendency for backward indexation and time-dependent price-setting, specific to January (Chart 2.4.3). The trend inflation indicator, which by design focuses on longer-term movements and filters out one-off effects, also posted a limited rise in January (Chart 2.4.4).

Chart 2.4.3: Indicators of Underlying Inflation* (Seasonally Adjusted, Monthly % Change**,** Three-Month Average)



Source: CBRT, TURKSTAT.
* Quarterly average of seasonally adjusted B and C indices, SATRIM, Median, excluding volatile items (VOLX) and dynamic factor model (DFM) indicators. The shaded area represents the range between the maximum and minimum values.

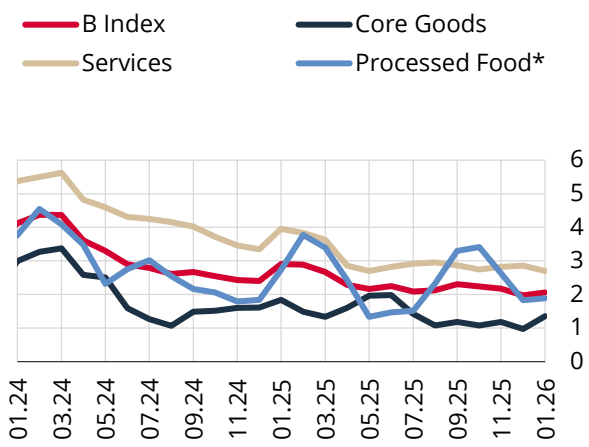
Chart 2.4.4: Multivariate Trend Inflation Indicator* (%)



Source: CBRT, TURKSTAT.
* Obtained by applying the Stock and Watson (2016) MUCSVO model to monthly price changes of processed food and seasonally adjusted core goods and services.

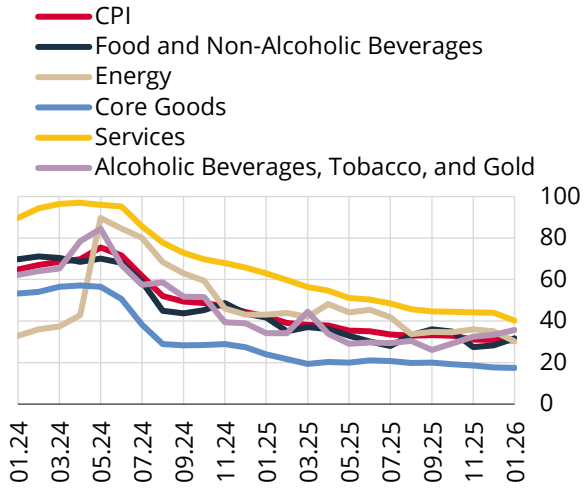
Among the groups that make up the B index, price increases weakened in processed food but rose in core goods and remained relatively flat in services during the current reporting period (Chart 2.4.5). Price increases in durable goods strengthened compared to the previous period, reflecting developments in January. This was driven by items such as consumer electronics and home textiles. During this period, inflation in automobiles and white goods slowed somewhat but remained elevated, while furniture prices continued to rise at a pace similar to the previous period despite higher labor costs. Assessments suggest that the effect of the customs duty regulation on automobile prices was limited, while the decline in the intensity of campaigns and the rise in the euro exchange rate in December had a more noticeable impact. In other core goods inflation, the impact of developments in drug prices has been felt primarily. During the current reporting period, price increases in services sustained their elevated course, driven by labor costs as well as items with a strong tendency for time-dependent price-setting and subject to regulation. In this period, the most significant price increase occurred in the health sector, with items affected by the revaluation rate and financial services also standing out. While rent inflation stayed high, it continued to decelerate. This pattern is expected to continue into 2026 (Box 2.2). During the reporting period, price increases in communication services accelerated, whereas restaurants-hotels inflation rose at a pace comparable to the previous period, despite rising labor costs and red meat prices. Processed food inflation moderated relative to the previous reporting period. While inflation in meat products strengthened amid higher meat prices, there was a slowdown across other items.

Chart 2.4.5: B Index and Subgroups
(Seasonally Adjusted, Monthly % Change, Three-Month Average)



Source: CBRT, TURKSTAT.
* Processed food is not adjusted for seasonality due to the absence of statistically significant seasonal effects.

Chart 2.4.6: CPI and Main Expenditure Groups (Annual % Change)

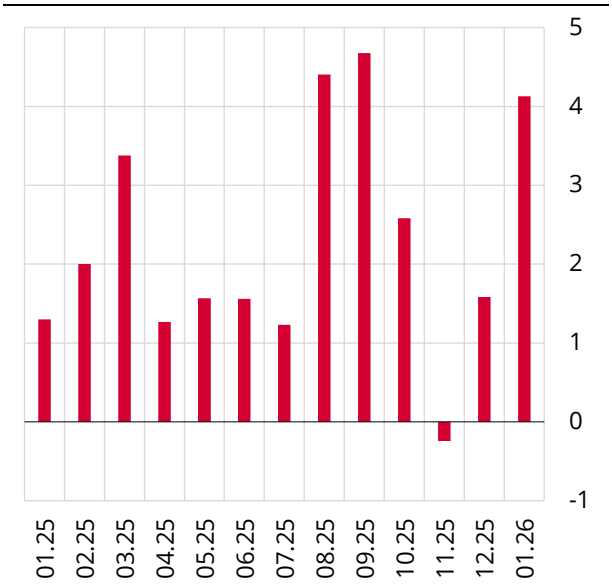


Source: CBRT, TURKSTAT.

Domestic energy inflation has risen slightly in the current reporting period. Annual inflation in the energy group receded further, while the rate of increase in the last three months rose compared to the previous period and reached 4.1%. This was driven by municipal water, solid fuel, and bottled gas prices. Electricity prices edged up in January due to a revision in the consumption limit for the end-source supply tariff. After a decline in the November-January period, global energy commodity prices increased in the first ten days of February due mainly to crude oil prices. The price of Brent crude oil, which declined in the second half of the year, rose to an average of USD 67 in January amid geopolitical developments. Trending further upward, crude oil prices averaged USD 70 in the first ten days of February. The moderate uptrend in the currency basket also continued. In this period, the effects of diesel price developments, which diverged from crude oil prices, were apparent on fuel group prices. In addition, the lump-sum tax rates remained below the increase implied by producer prices in January had a relatively limited effect, yet pushed fuel and bottled gas prices upward.

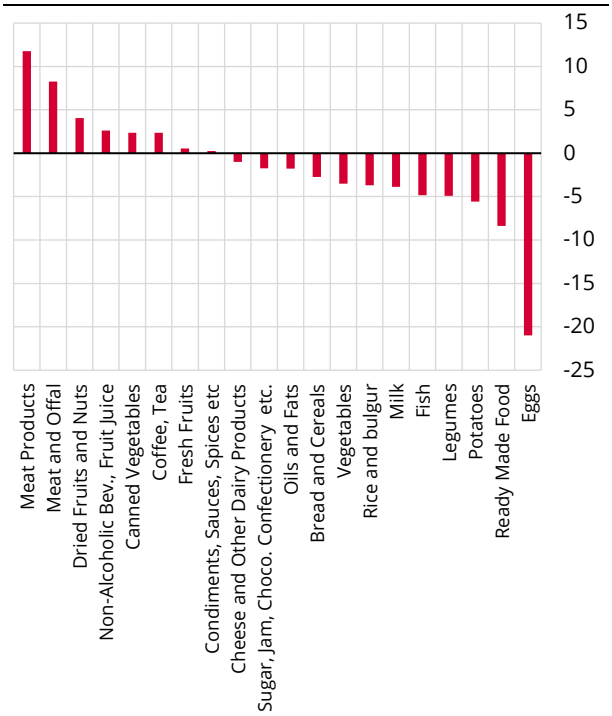
Inflation in the food and non-alcoholic beverages group followed a volatile course due to the vegetable prices during the current reporting period (Chart 2.4.6). While food prices declined in November due to unprocessed food, primarily driven by vegetables, increases in vegetable and meat prices in December and January had an upward effect on food inflation (Chart 2.4.7). As of January, annual inflation in the food and non-alcoholic beverages group stood at 31.7%, above headline inflation. Having increased above their historical average over the last three months, meat prices had evident effects on processed meat products, while dried fruit and nut prices remained high due to the effects of frost and drought (Chart 2.4.8). Egg prices, which were high during the previous reporting period, were the item that declined the most compared to their historical average. The upsurge in red meat prices is expected to pose an upward risk on white meat prices in the coming period through an additional rise in demand (Chart 2.4.8).

Chart 2.4.7: Food Prices (Seasonally Adjusted, Monthly % Change)



Source: TURKSTAT.

Chart 2.4.8: Food Prices by Sub-Items* (Deviation of % Change of Last Three Months from Historical Average, Ranked)



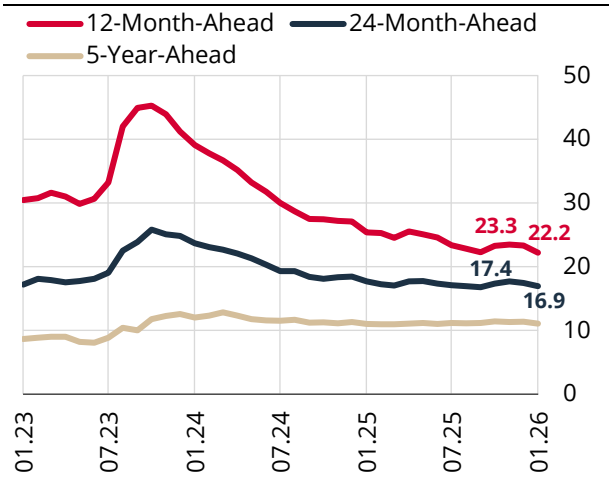
Source: CBRT, TURKSTAT.
* Difference between the percentage change in the reporting period (January 26-November 25) and the historical average (2012-2021).

Prices of alcoholic beverages, tobacco and gold products rose by 6.2% over the last three months. In November, the rise in the prices of tobacco products was led by the carry-over effect of the price adjustment by producing firms in the previous month. In January, the rise in D-PPI seen in the second half of 2025 was reflected less in prices than the rise in lump-sum taxes. Amid the increase in global gold prices, the gold group recorded a robust increase in the reporting period with 1.70% (Chart 2.4.6). Accordingly, annual inflation in the alcoholic beverages, tobacco, and gold group surged by 6.4 points to 35.6% as of January.

Drivers of Inflation

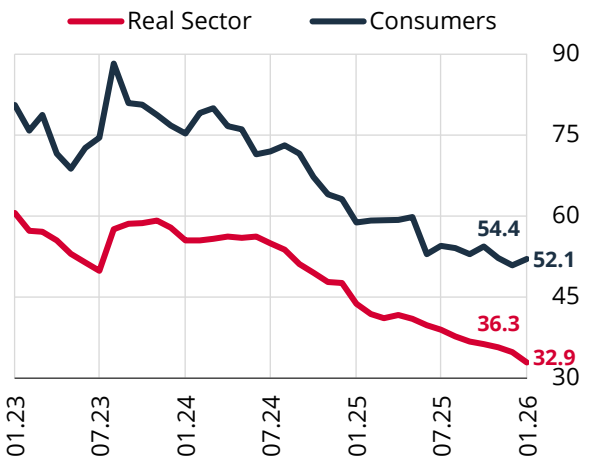
The downward trend in inflation expectations has continued over the current reporting period. The January results of the Survey of Market Participants show a 1.1-point decline in the 12-month-ahead inflation expectations compared to the previous Inflation Report, while the 24-month-ahead expectations fell by 0.4 points. The five-year-ahead inflation expectations remained broadly unchanged (Chart 2.4.9). Inflation expectations for end-2026 hovered above the interim target with 23.2%. Meanwhile, 12-month-ahead inflation expectations of the consumers and the real sector continued to decline in the current reporting period (Chart 2.4.10).

Chart 2.4.9: Consumer Inflation Expectations from the CBRT Survey of Market Participants* (%)



Source: CBRT.
* Results of the CBRT Survey of Market Participants that polls real and financial sector representatives as well as professionals.

Chart 2.4.10: Consumer Inflation Expectations of the Real Sector and Consumers* (12-Month-Ahead, %)



Source: CBRT, TURKSTAT.
* Inflation expectations of the real sector are obtained from the BTS, and those of consumers are obtained from the Consumer Tendency Survey.

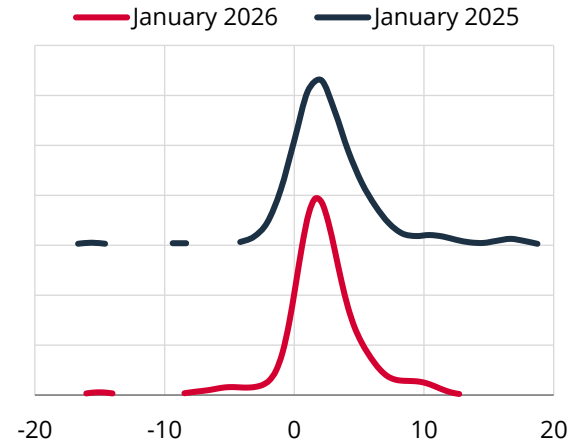
Despite showing signs of improvement, inflation expectations and pricing behavior continue to pose risks to the disinflation process. An analysis of seasonally adjusted data using three-month moving averages reveals a recent fall in the diffusion index for the goods sector, while the services group posted an increase due to the developments in January (Chart 2.4.11). Distributions of monthly price changes for items at the five-digit level examined to provide insight into pricing behavior reveal that compared to the previous year, the distribution for January 2026 moved slightly to the left, i.e. towards lower price increases, and the consensus strengthened around median inflation (Chart 2.4.12).

Chart 2.4.11: Diffusion Indices* (Seasonally Adjusted, Three-Month Moving Average)



Source: CBRT, TURKSTAT.
* Calculated as the ratio of the difference between the number of items with price increases and the number of items with price decreases to the total number of items.

Chart 2.4.12: Distribution of CPI Monthly Inflation (Seasonally Adjusted, Five-Digit, CPI Excluding Fresh Fruits and Vegetables, Energy, Alcoholic Beverages, and Tobacco)

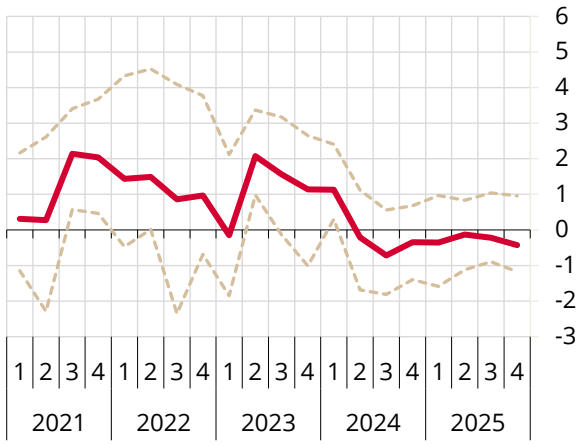


Source: CBRT, TURKSTAT.

The output gap is estimated to have been supportive of the disinflation process in the last quarter of the year. (Chart 2.4.13). Having hovered around its potential in the third quarter of 2025, growth is estimated to have slowed in the last quarter. Parallel to this, production indices remain unchanged in the last quarter (Chart 2.3.7). In the same period, the rise continued in demand indicators such as the retail sales volume (excluding gold) and card expenditures (Charts 2.3.3 and 2.3.6). However, the capacity utilization rate, a key

leading indicator, continued to lag behind its historical average (Chart 2.3.8). On the other hand, real credit use (adjusted for exchange rate effects) posted some increase during the current reporting period (Chart 2.4.14), while the composite labor market tightness index remained low but indicated a partial recovery compared to the previous period (Chart 2.3.14). Accordingly, aggregate demand conditions are assessed to have further underpinned the disinflation process, albeit at a moderating pace compared to the previous reporting period.

Chart 2.4.13: Output Gap* (%)



Source: CBRT.
* The average of output gap indicators calculated by using different methods is displayed with minimum and maximum values.

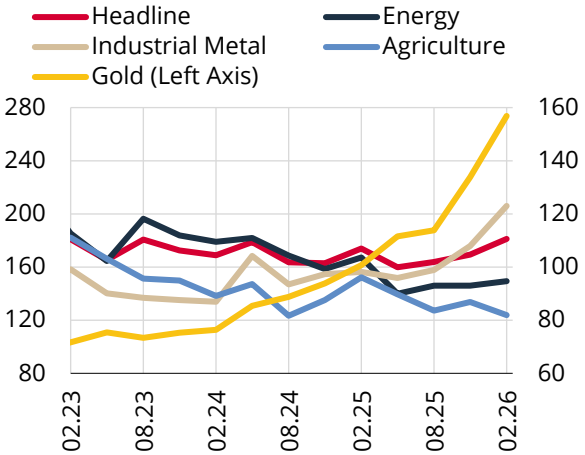
Chart 2.4.14: Total Credit Change* (13-Week Average, FX-Adjusted, Real, Standardized Value)



Source: CBRT.
* FX-adjusted weekly credit changes are deflated by the CPI. The 13-week average is taken after weekly real changes are standardized. The mean and standard deviations of the series are calculated based on the 2006–2019 period.

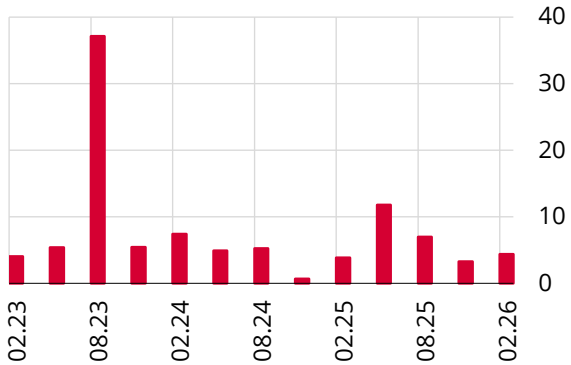
While the divergence observed among the sub-items of commodity prices became more pronounced, the uptrend in exchange rates remained moderate. The energy sub-index crept up over the current reporting period, while the rise in gold and industrial metal prices strengthened amid global uncertainties. Meanwhile, agricultural commodity prices decreased in this period (Chart 2.4.15). The Turkish lira remained stable over the last three months, with limited depreciation (Chart 2.4.16). The exchange rate channel continued to support the disinflation process in the second half of 2025.

Chart 2.4.15: Commodity Price Indices* (2021=100)



Source: Goldman Sachs.
* As of February 3.

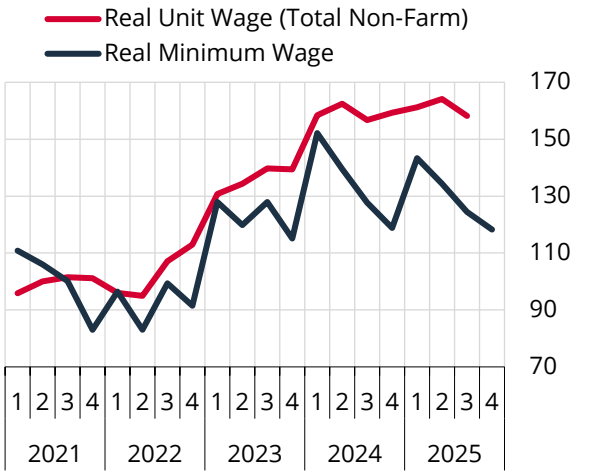
Chart 2.4.16 Currency Basket* (Three-Month % Change)



Source: CBRT.
* The US dollar and euro have equal weights. The February data is as of February 3. Percentage changes were calculated based on the average values for the respective months.

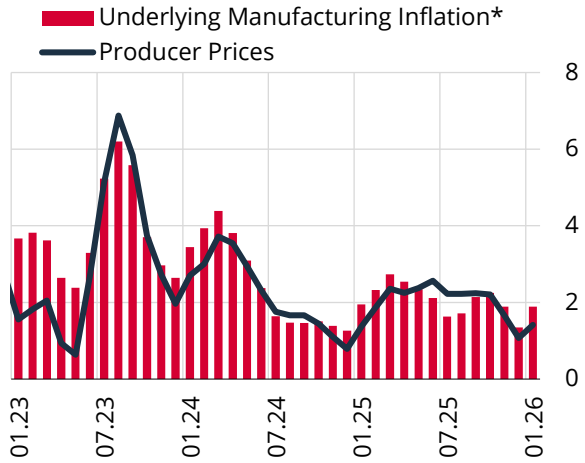
The slowdown in the underlying producer inflation was interrupted in January. Real unit wage growth posted a decline in the third quarter of the year (Chart 2.4.17). It is estimated that real unit wages declined in the last quarter of the year as nominal wage increases slowed, but will rise again in the first quarter of 2026 following the wage adjustments in January. Compared to the previous reporting period, container rates and dry cargo transport costs increased. During this period, the Global Supply Chain Pressure Index hovered slightly above its historical average. Commodity prices increased with gold and industrial metals in the lead. The stable course of the exchange rate has been a factor limiting cost pressures. Against this background, the producer inflation and the underlying manufacturing inflation, which had weakened in November and December, rose due to conditions exclusive to January (Chart 2.4.18). Despite developments in January, the annualized producer inflation for the last three months remained at 18.4%, below the current annual producer inflation of 27.17%.

Chart 2.4.17: Real Unit Wage per Hour Worked* (Value Added, 2021=100, Seasonally Adjusted) **and Real Minimum Wage**** (2021=100)



Source: CBRT, TURKSTAT.
* Deflated by seasonally adjusted CPI. Real wage per hour worked/productivity.
** Net minimum wage is deflated by seasonally adjusted CPI.

Chart 2.4.18: Underlying Manufacturing Inflation and Headline Producer Prices (Monthly % Change, Three-Month Moving Average)



Source: CBRT, TURKSTAT.
* Manufacturing industry producer prices excluding base metals and petroleum.

The impact of taxes and administered items on headline inflation was more modest in January 2026 compared to past years, supporting the disinflation process. In November, the announcement of Hajj fees led to an increase in package tour prices. Regarding medicine prices, nearly half of the impact of the December revision to the euro reference rate carried over into January, while the effect of the increase in the medicine co-payment was also felt. In January, SCT raises were kept lower than implied by the rise in D-PPI (10.3%), and a pricing approach that considers the inflation targets was adopted for administered items. The rate of increase in SCT for fuel and bottled gas was capped at 6.95%. Following the revisions in wages and raises in fuel prices in January, urban transport items and airfare recorded increases. For some items subject to the revaluation rate as well as for increases in intercity rail and passenger transport fare, inflation forecasts for 2026 were taken into account. In January, increases in the maximum fee schedules of the Turkish Medical Association and the Turkish Dental Association led to a surge in prices of healthcare services. With the upward adjustment of the raw milk reference price, milk and dairy products saw an uptick in prices during this period, and it should be noted that part of this effect will carry over into February. Although the rise in producer prices in the second half of 2025 was reflected at a lower rate in lump-sum SCT amounts, prices of alcoholic beverages and beverage services saw relatively high increases. In January, tobacco product prices remained unchanged despite the revised lump-sum SCT amounts. It is estimated that the impact of the tax revision will appear in February for this group. In January, among administered items, prices of tap water and electricity (based on the revised consumption limit of the end-source supply tariff) within the energy group posted upticks.

Box 2.1

Findings from Interviews with Firms

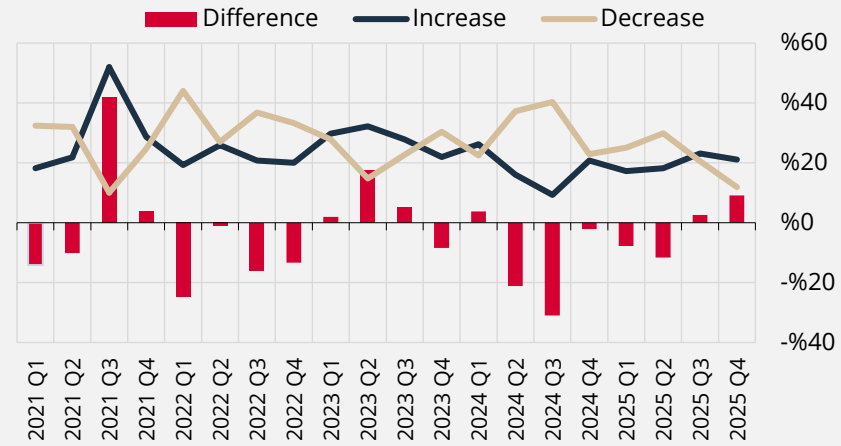
The CBRT holds face-to-face meetings with firms as part of the **Economic Lens to the Real Sector (RESİM)** study.[1] This box summarizes the findings from the interviews conducted in the October-December 2025 period and firm assessments regarding the impact of the Carbon Border Adjustment Mechanism (CBAM) on exports.

In the last quarter of the year, domestic sales and production increased slightly, exports remained flat, and weakness in the investment stance continued.

Domestic sales increased slightly in the fourth quarter.

While consumer demand did not recover significantly compared to the previous quarter, campaigns undertaken by firms in order to generate cash flow and reduce inventory supported sales (Chart 1). However, erosion of purchasing power, tight financial conditions, and weaker consumption demand ahead of price changes in the new year compared to previous years limited sales. In business-to-business trade, emphasis on tight financial conditions, collection risks, and uncertainties regarding economic outlook continued.

Chart 1: Demand Perception of Firms* (Compared to the Previous Quarter)



Source: CBRT RESİM.
* Demand perception shows the evaluation firms make in view of the current sales, orders and expectations. The difference series shows the difference between firms with a positive perception of demand and those with a negative perception of demand compared to the previous quarter and provides information on the prevalence of the change in demand perception, not the size of the change.

According to meetings in January, there was a moderate slowdown in domestic sales for the first quarter of the year. Tight financial conditions, campaigns with decreasing intensity, and a mild pace of wage increases contributed to this slowdown

[1] The main purpose of this study is to obtain information on periodic production, domestic and international sales, investments, employment, credit conditions, cost and price developments in a timely manner, to closely monitor economic activity and to improve the communication between the CBRT and real sector representatives through meetings with firms in different sectors. The findings obtained from the semi-structured interviews constitute a high quality and timely source of information for monetary policy decisions. Interviews are held with firms in the manufacturing industry and trade and services sectors within the framework of the sample created by considering their weight in the total economic activity at sectoral, regional and scale levels. The charts are produced by scoring the anecdotal information obtained from the firm interviews. This study includes evaluations and inferences based on interviews with firms and does not reflect the views of the CBRT. The information and findings obtained may differ from the official statistics, information and findings that will be published later.

Exports did not change significantly in the fourth quarter.

The gradual decrease in uncertainties related to global trade wars in the second half of the year and parity developments affected foreign sales positively. The tendency to produce higher value-added products in sectors such as textile, clothing and automotive along with strong global demand in energy investments and the defense industry contributed to exports. On the other hand, strengthening Chinese competition in the non-US markets, challenges in competitive pricing and protectionist trade policies kept exports risks alive. Thus, exports volume of most sectors decreased in the last quarter. Furthermore, January meetings indicated a slowdown for exports in the first quarter of 2026. Regional and global geopolitical developments and initiation of a new phase of the CBAM in Europe increased export uncertainties.

Although production increased slightly in the last quarter, it maintained its weak trend.

Production of firms primarily operating in the domestic market increased moderately in the fourth quarter. Tight financial conditions, deteriorating cash flows, competitive pressures, and the rising import tendency were factors limiting production. According to the meetings conducted as of January, the production slowed in the first quarter.

The weakness in investment stance persisted.

In a large number of firms, the tendency to avoid risk and preserve the current situation continued in an environment of high production costs and declining profitability. Uncertainties regarding the demand outlook, high investment costs, declining profitability due to campaign-driven sales in certain sectors, and idle capacity were factors constraining investments.

Investment appetite increased to a limited extent, particularly among large and medium-sized firms with strong equity structures and those producing high value-added products. During this period, automation and modernization investments aimed at increasing competitiveness and reducing costs have come to the forefront.

Existing employment plans were maintained.

Due to firms' general tendency to continue production with the minimum possible number of employees, there was no significant change in employment plans. Automation and productivity-enhancing investments aimed at reducing costs have continued to suppress employment growth plans. On the other hand, although not widespread, there was a limited recovery in employment growth plans among firms with a relatively positive investment stance.

The emphasis on increasing financing needs continued to decline in the last quarter.

The slowdown in cost increases stood out mainly in the reduction of the emphasis on working capital-related financing needs. Meanwhile, the emphasis on additional investment financing increased for large and medium-sized firms with strong financial structures.

Credit conditions continued to ease mainly through the interest rate channel in the last quarter. Access to credit followed a similar trend to the previous quarter.

Inter-firm trade conditions eased slightly in the last quarter of the year compared to the previous quarter. Although the proportion of firms reporting problems in receivables collection increased in December, the quarterly average remained below that of the previous quarter. On the other hand, due to the persistence of collection problems, firms continued to pursue secured sales strategies while remaining cautious against increases in receivables risk.

While cost pressures eased, the proportion of firms planning price increases rose due to the transition to the new year.

The emphasis on increases in input and supply costs showed a limited decline, while references to cost increases stemming from exchange rates, energy, labor, and financing decreased significantly. In addition to the slowdown in cost increases, competitive pressures arising from campaign periods were factors limiting price increases in the last quarter.

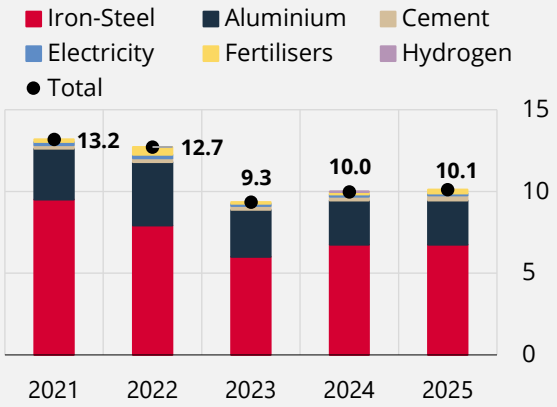
Planned price increases were primarily driven by wage adjustments at the beginning of the year and the expected increases in input prices associated with these adjustments.

RESİM Focus: Firms Assessments Regarding the Effect of the CBAM on Exports

The EU aims to make Europe the world's first climate-neutral continent by reducing greenhouse gas emissions with the Green Deal. In line with that goal, the EU designed the CBAM to protect competitiveness of firms producing within the EU borders and to prevent carbon leakage. The CBAM requires payment of carbon tax according to carbon content (euro/ton) of the goods imported to the EU. Reporting requirements began on October 1, 2023 and financial obligations were introduced on January 1, 2026.

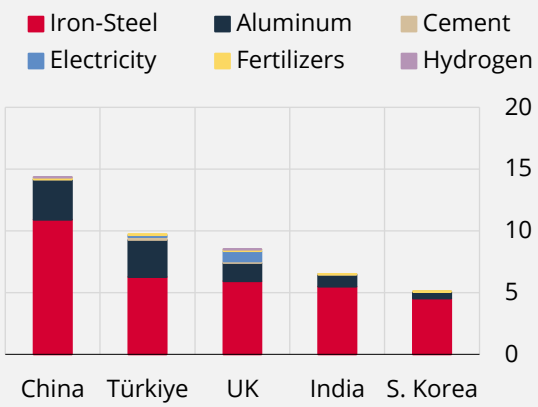
The CBAM applies to production emissions of aluminum, cement, iron-steel, electricity, fertilizers, and hydrogen. Therefore, the CBAM could affect directly or indirectly all sectors that produce/use these product groups as inputs. The share of these six products in Türkiye's exports to the EU was 10.1 percent in 2025 and 11.1 percent on average in the 2021-2025 period (Chart 2). The share of these products in Türkiye's total exports was on average 4.6 percent led by iron-steel and aluminum in the 2021-2025 period. Türkiye's most important competitors in the exports of CBAM products to the EU are China, the UK, and India (Chart 3).

Chart 2: Share of CBAM Products in Türkiye's Exports to the EU* (%)



Source: EU Official Journal, TURKSTAT.
* The data for 2025 includes January-November period.

Chart 3: Exports of CBAM Products to the EU* (First-Five Countries, 2023, USD Billion)



Source: EU Official Journal, TURKSTAT, UN Comtrade.
* Due to Russia-Ukraine war, exports data for Russia is unavailable. The latest data for South Korea is from 2022, and for other countries, from 2023.

The CBAM affects the basic metals sector directly and impacts other sectors mainly through supply chains.

The sectors mentioned most in relation to CBAM developments during the meetings were basic metals, automotive and white goods supplies, machinery, and textiles. In the basic metals sector, some firms mainly exporting to the EU market and producing steel from scrap are ready for the CBAM and expect to gain an advantage in the EU market compared to competing countries. On the other hand, some firms have pointed out that there may be a loss of advantage due to changes in the EU's quota policy and potential problems in scrap metal supply. Firms exporting to non-EU markets and producing steel from iron ore stated that their exports may be affected negatively because competing countries which are not able to sell to the EU due to CBAM will turn to their markets.

There are some exporting firms within the automotive and white goods suppliers and the machinery sector that are prepared for the CBAM and expect a competitive advantage. At the same time, manufacturers that do not use CBAM-compliant inputs may face losses in the EU market due to mainly supplier changes and new investment costs. Particularly, small and medium-sized firms with low capital would have more difficulties. Many large exporting firms in the textile sector reported that they have converted their electricity and chemical usage in production to CBAM-compliant standards and have gained a competitive advantage.

In sum, while the CBAM raises uncertainties for the exports outlook, according to the finding of RESİM meetings, the net impact will be re-shaped by sectoral dynamics, firm-specific factors, the reactions of competing countries, and measures taken.

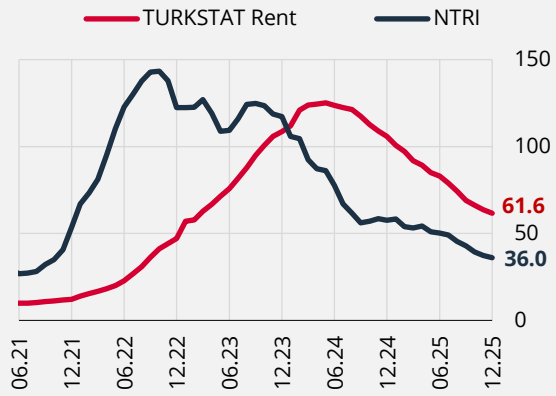
Box 2.2

Rent Inflation Dynamics and Forecasting

Rent inflation significantly outpaced headline inflation in 2025, closing the year at 61.6%. Accordingly, understanding the dynamics of rent inflation and forecasting its trajectory is critical for assessing the disinflation process in 2026. Building on Ball and Koh (2025), this box develops a rent inflation forecasting model and uses it to conduct a set of scenario analyses (Özcan-Kodaz et al., 2026).

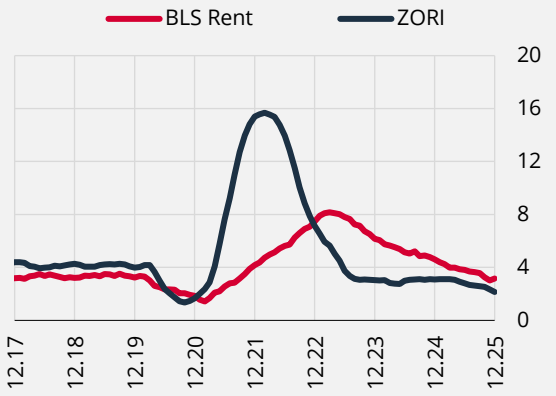
The New Tenant Rent Index (NTRI) presented in Chart 1 is compiled by the CBRT and reflects prevailing market rent levels for newly signed rental contracts.[1] On the other hand, the CPI rent index (TURKSTAT Rent) captures the average rent paid by tenants, encompassing both newly signed and ongoing contracts. Based on year-on-year changes, CPI rent inflation is observed to follow the NTRI with a considerable lag (Chart 1). A similar lag structure is observed in the US when comparing the CPI rent compiled by the Bureau of Labor Statistics (BLS) with the Zillow Observed Rent Index (ZORI) -- US counterparts of TURKSTAT CPI rent and NTRI -- suggesting that this phenomenon is not specific to Türkiye (Chart 2).

Chart 1: CPI Actual Rent and NTRI
(Annual % Change)



Source: CBRT, TURKSTAT.

Chart 2: BLS Rent and ZORI
(Annual % Change)



Source: BLS, Zillow.

Three main factors account for the delayed response of the CPI rent index to changes in market rents:

1. **Update frequency:** Rents for the vast majority of rental housing units in Türkiye are updated once a year. As a result, the rent paid for a given dwelling remains fixed between two contract renewal dates and is unable to respond to market developments within the contract term.
2. **Legal cap and the fifth-year rule:** Rent increases for tenants with ongoing contracts are legally capped. Specifically, unless the tenant has completed the fifth year (or a multiple thereof) in the same dwelling, the annual rent increase is limited to the 12-month average CPI inflation. In practice, this cap is not fully binding, and rent increases are often determined through negotiation between landlords and tenants. Moreover, landlords retain the right to reset rents to market levels every five years.
3. **Frequency of data collection:** Rents for dwellings included in the TURKSTAT sample are collected every four months. Consequently, the monthly change in the CPI rent index effectively reflects the average rent increase observed over the most recent four months.

[1] The NTRI and unit rents will be made public on the CBRT EDDS website as of February 17, 2026.

The rent model employed in this box incorporates these three structural features and assumes that the market rent path is exogenous. Details of the methodology are presented below.

Rent-Setting Behavior and Rent Inflation

The model assumes that each tenant updates their rent once every 12 months and that all tenants who complete their fifth year in a dwelling vacate the property.[2] In Equation (1), i denotes the number of years a tenant has resided in the dwelling and t represents the current month. The variable K_t^i indicates the average rent to be paid in the subsequent year by tenants who have completed i years in the dwelling as of month t. Paid rents are assumed to be determined according to Equation (1).

$$K_t^i = \begin{cases} m_t, & i \in \{0,5\} \\ \min\{(\lambda_1 + \lambda_2 x_t)K_{t-12}^{i-1} + \lambda_3 m_t,\ m_t\}, & i \notin \{0,5\} \end{cases} \qquad (1)$$

If a tenant is newly entering a dwelling or has completed their fifth year, the rent is set equal to the prevailing market rent (m_t). In all other cases, the new rent is determined as a weighted average of (i) the rent paid in the previous year, (ii) the rent implied by applying the legal cap to the previous year's rent, and (iii) the prevailing market rent. Here, λ_1 denotes the weight on the rent paid in the previous year, λ_2 the weight on the rent implied by the legal cap and x_t the legal cap rate (plus one), λ_3 the weight on the prevailing market rent in month t. The parameters $\lambda_1, \lambda_2, and\ \lambda_3$, which are subject to constraints $\lambda_1,\ \lambda_2, and\ \lambda_3 \geq 0\ and\ \lambda_1 + \lambda_2 + \lambda_3 = 1$, are estimated from the data.[3] If the rent implied by this rule exceeds the market rent, the rent is set equal to the market rent.

For tenants with ongoing contracts, the rent update rule is based on the number of years they have resided in the home, so information on how many tenants have resided in the same home for how many years also forms part of the model input. This distribution is derived under the assumption that a fixed fraction α of tenants relocate each year.[4] The parameter α is calibrated to be consistent with TURKSTAT data. Let s^i denote the share of tenants who have resided in the same dwelling for i years; l_t (the average rent of renewed contracts in month t) can then be computed accordingly:

$$l_t = \sum_{i=0}^{4} K_t^i * s^i \qquad (2)$$

Under the assumption that renewed rental contracts are evenly distributed across months (i.e. approximately one-twelfth of tenants update their rent in each month), R_t represents the average rent paid in the relevant month.[5]

$$R_t = \sum_{j=0}^{11} l_{t-j} \Big/ 12 \qquad (3)$$

Accordingly, given that all rental contracts are updated once per year, the average paid rent (R_t) is equal to the arithmetic average of rents renewed in the current month and those renewed over the preceding eleven months.

Given that TURKSTAT collects rents for each dwelling in the sample every four months, only 25% of the sample updates its rent in a given month, while rents for the remaining dwellings are assumed to remain unchanged. Consequently, the CPI rent index effectively corresponds to a four-month moving average of paid rents.

[2] The calculation assumes that tenants who have completed their fifth year in the property will vacate the premises, as the rent level for both tenants completing their fifth year and those signing a new lease agreement is equal to the prevailing market rate.

[3] The values are selected to minimize the total absolute error between the actual rent inflation produced by the model and the seasonally adjusted actual rent inflation reported by the TURKSTAT.

[4] In a framework where s^i indicates the share of tenants who have resided in the same house for i years among the total number of tenants, the long-term equilibrium values of s^i are obtained through the following three equations: 1) $s^0 = \alpha * (s^0 + s^1 + s^2 + s^3 + s^4) + (1 - a)s^4$, 2) If $i \neq 0,\ s^i = (1 - a) * s^{i-1}$ and 3) $s^0 + s^1 + s^2 + s^3 + s^4 = 1$.

[5] In real life, rent renewal periods are not evenly distributed across each month. However, since the model is calibrated based on seasonally adjusted rent inflation, this assumption does not pose any problem for the model.

$$1+\pi_t^r=\left[\left(\frac{R_t}{R_{t-1}}\right)\left(\frac{R_{t-1}}{R_{t-2}}\right)\left(\frac{R_{t-2}}{R_{t-3}}\right)\left(\frac{R_{t-3}}{R_{t-4}}\right)\right]^{1/4}=\left(\frac{R_t}{R_{t-4}}\right)^{1/4} \quad (4)$$

Here, π_t^r denotes the model-implied seasonally adjusted monthly CPI rent inflation.

Model Estimation

Assuming that the average market rent is proxied by the CBRT's NTRI, the parameters $\lambda_1,\ \lambda_2, and\ \lambda_3$ are required to estimate in order to generate forecasts for the CPI rent index. These parameters are chosen to minimize the total absolute error between model-implied rent inflation and seasonally adjusted CPI rent inflation.

The optimal parameter values for ongoing contracts are estimated as $\lambda_1,\ \lambda_2, and\ \lambda_3$ are 0, 0.56 and 0.44, respectively. In this baseline model, renewed rents for ongoing contracts are determined solely as a weighted average of the legally capped rent and the market rent. This baseline specification is used for the scenario analyses presented in this box. In addition, a simplified version of the model that allows renewed rents to depend on a weighted average of the previous year's rent and the market rent is also estimated, enabling a quantification of the inertia between market rents and the CPI rent index ($\lambda_1 \neq 0, \lambda_2 = 0, \lambda_3 \neq 0$).

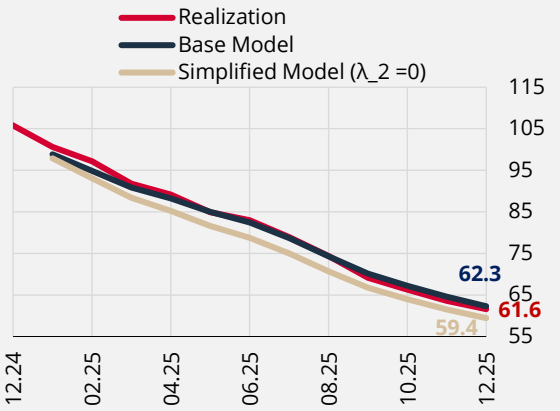
Model Performance

Before presenting the model-based projections and scenario analyses, an out-of-sample forecasting exercise is conducted to assess model performance. Model parameters are estimated using CPI rent data up to December 2024, and realized market rent data for 2025 are fed into the model to generate rent inflation forecasts for 2025. In other words, the exercise addresses the question: *Had the models been estimated as of December 2024, how well would they have predicted CPI rent inflation in 2025, given observed market rents?* The results shown in Chart 3 indicate that both models perform well, with the baseline model delivering more accurate forecasts.

Rent Inflation Inertia and Scenario Analysis for 2026

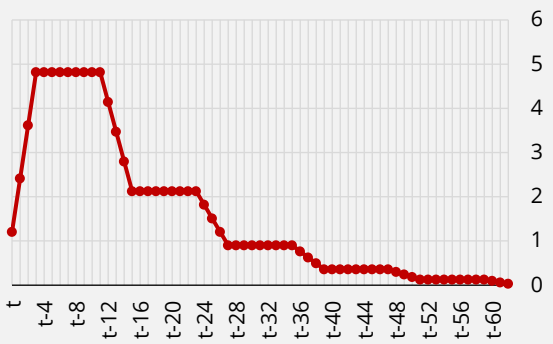
As discussed above, the simplified rent model allows the lagged relationship between market rents and CPI rent inflation to be quantified. Using the weights derived from the model and shown in Chart 4, the CPI rent index can be expressed as a weighted moving average of the NTRI. According to these estimates, the cumulative weight of market rents over the past 12 months in the CPI rent index is 53 percent, rising to 83 percent over the past 24 months and 94 percent over the past 36 months. These findings indicate that changes in market rents are transmitted to CPI rent inflation over a prolonged period.

Chart 3: Forecast Performance of Baseline and Simplified Models for 2025 (Annual % Change)



Source: Authors' calculations, TURKSTAT.

Chart 4: Weights Implied by the Simplified Model (% Points)



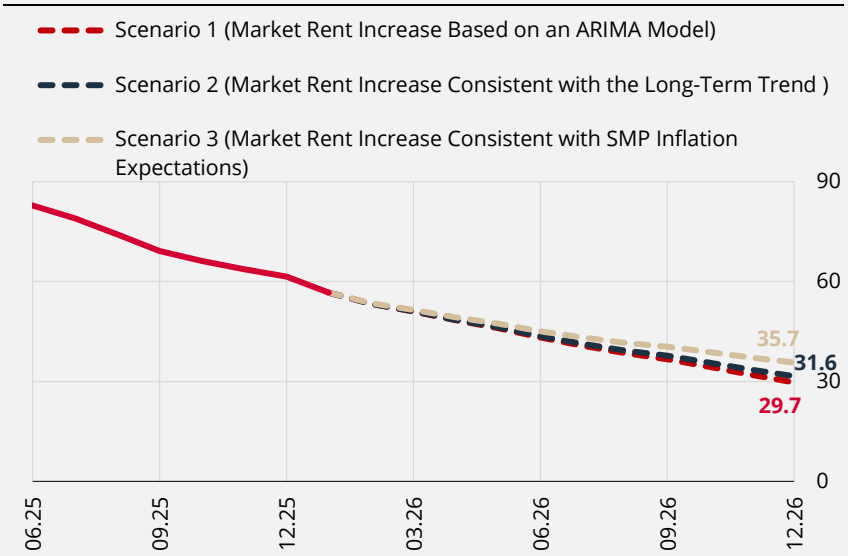
Source: Authors' calculations, TURKSTAT.

Finally, projections for end-2026 CPI rent inflation under alternative market rent scenarios are presented based on the baseline model:

- **Scenario 1:** Market rents follow an ARIMA process and end 2026 with an annual increase of 15%.
- **Scenario 2:** Market rents evolve in line with the trend estimated using the MUCSVO method proposed by Stock and Watson (2016), ending 2026 with a 19% increase.
- **Scenario 3:** Market rents track the year-end headline inflation expectation from the January Survey of Market Participants (SMP) throughout 2026 and rise by 23% over the year.

Under these scenarios, end-2026 CPI rent inflation is projected at 29.7%, 31.6%, and 35.7%, respectively (Chart 5).

Chart 5: TURKSTAT CPI Rent Forecasts (Annual % Change)



Source: Authors' calculations, TURKSTAT.

The results suggest that even a pronounced slowdown in market rents would continue to feed into CPI rent inflation with a lag due to past rent increases. Conversely, a renewed acceleration in market rents would translate into CPI rent inflation in the same direction, albeit in a more muted and delayed manner. Overall, the proposed model provides a practical tool for short-term rent inflation forecasting and for assessing medium-term CPI paths under alternative market rent scenarios.

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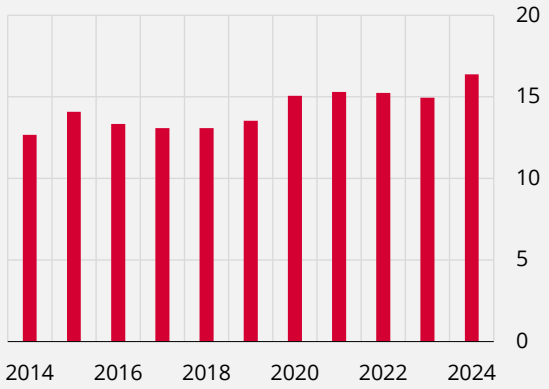
Stock, J. H., & Watson, M. W. (2016). Core inflation and trend inflation. *Review of Economics and Statistics*, *98*(4), 770–784.

Box 2.3

The Effect of Real Exchange Rate Movements Against China on Exports

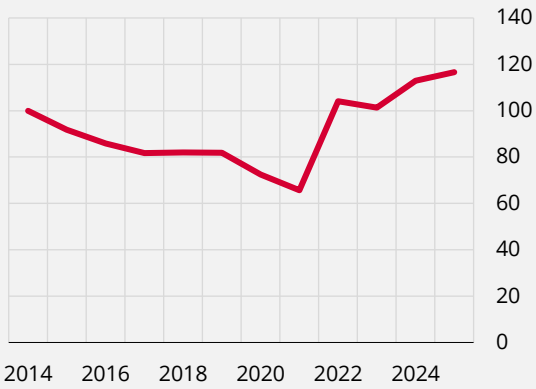
The world's largest exporter, China, accounted for more than 16% of global exports as of 2024 (Chart 1). That makes China the most important competitor for developing economies such as Türkiye in global markets, and the price competition pressure arising from China is frequently highlighted. The real exchange rate, which is widely used as a key indicator of price competitiveness, has increased in recent years when calculated against the Chinese renminbi (Chart 2). This box examines the effect of real exchange rate movements between Türkiye and China on Türkiye's exports.

Chart 1: China's Share in Global Exports
(%)



Source: UN Comtrade.

Chart 2: PPI-Based Real Exchange Rate Index Against China (2014=100)



Source: CBRT, NBSC, TURKSTAT.

In the economics literature, the effect of relative prices is predominantly examined using the real exchange rate with respect to importing countries, focusing on price competition with domestic producers in those economies. [1] Nonetheless, Mattoo et al. (2017) analyze the impact of competition with China in export markets and conclude that the depreciation of China's real exchange rate against importing countries has a negative impact on the exports of other emerging economies.

Using the econometric framework employed in Mattoo et al. (2017), the effect of changes in Türkiye's real exchange rate against China on exports is estimated for the 2014-2023 period with the following panel data specification:

$$lnX_{ijt}^{TR} = \beta_1 * \alpha_{ij}^{CH} * lnRER_t^{TR,CH} + \beta_2 * lnM_{ijt} + \eta_{ij} + \delta_{jt} + \gamma_{it} + \varepsilon_{ijt}$$

In the equation, the dependent variable denoted by lnX_{ijt}^{TR} represents the natural logarithm of Türkiye's exports of product *i* to country *j* in year *t*. The main variable of interest, the competitor-country effect, is constructed as the interaction between China's export share in the relevant product-destination market, denoted by α_{ij}^{CH}, and the natural logarithm of Türkiye's PPI-based real exchange rate against China, $lnRER_t^{TR,CH}$. [2] A larger value of α_{ij}^{CH} indicates that China is a more important competitor for Türkiye in the relevant product market (product *i* market in country *j*). The model also includes control variables accounting for other factors influencing exports. Country-time fixed effects, δ_{jt}, capture general macroeconomic conditions affecting import demand in destination countries (such as growth and real exchange rate developments). To account for product-specific import demand, which differs from overall import demand, total import volume at the product-country level, lnM_{ijt}, is

[1] Studies conducted for Türkiye indicate that real exchange rate appreciation has a negative but limited effect on exports (Gül and Kazdal; 2021). Unlike the existing literature, this box directly examines the relationship between the real exchange rate between Türkiye and China and exports.

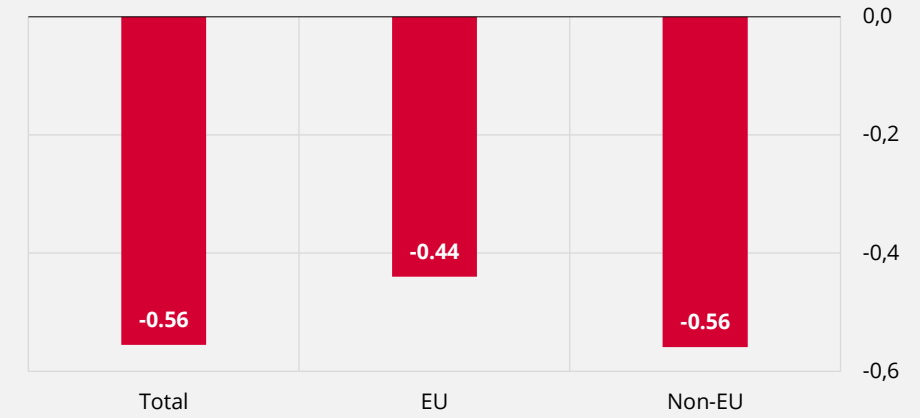
[2] To avoid potential endogeneity concerns α_{ij}^{CH} is held constant at its initial period value, following Mattoo et al. (2017).

also included in the specification. Product-country fixed effects, η_{ij}, account for time-invariant factors in import markets (for instance, geographical proximity or cultural ties between Türkiye and the importer country) while γ_{it} captures global demand conditions for product *i*.

The analysis uses export data at the six-digit level of the Harmonized System classification, obtained from UN Comtrade. Real exchange rate is calculated using producer price index data from TURKSTAT and the NBSC (National Bureau of Statistics of China). The equations are estimated separately for all export markets, as well as for EU and non-EU markets.

Chart 3 presents the estimated β_1 coefficients obtained from the model estimations. Accordingly, a 1% increase in the real exchange rate against China, as an extreme example, leads to an approximately 0.6% decline in exports in a market where China's share is 100%. This effect is more pronounced in non-EU countries. In order to assess the overall impact of real exchange rate movements on exports, the effects are calculated across all markets using export values to each product-destination market and China's share and then aggregated.

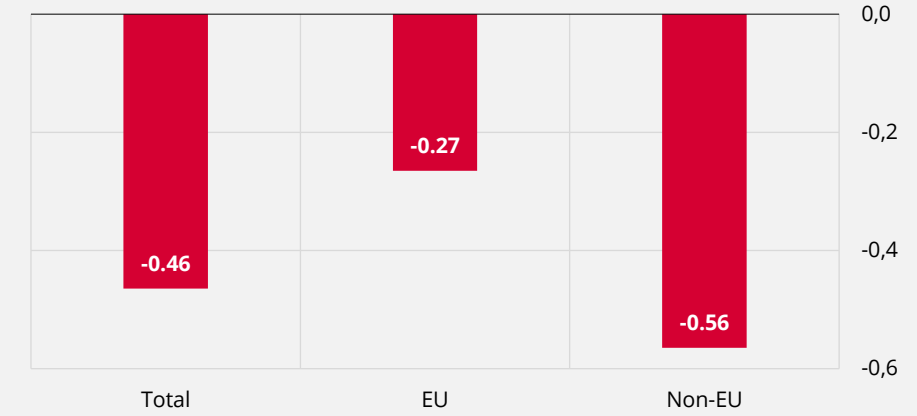
Chart 3: Model Coefficients* (β_1)



* All coefficients are statistically significant at the 1% significance level.

Based on the impact analysis conducted using 2023 export data, a 10% appreciation of the real exchange rate against China reduces exports by approximately 0.5%, corresponding to a decline of about USD 1.2 billion (Chart 4). Regional analysis results indicate that the effect of real exchange rate appreciation on exports to EU countries is more limited: a 10% appreciation in the real exchange rate decreases exports by around 0.3% (USD 282 million). In non-EU markets, the effect is relatively higher, where a 10% increase in the real exchange rate leads to an approximately 0.6% decline in exports (USD 810 million).

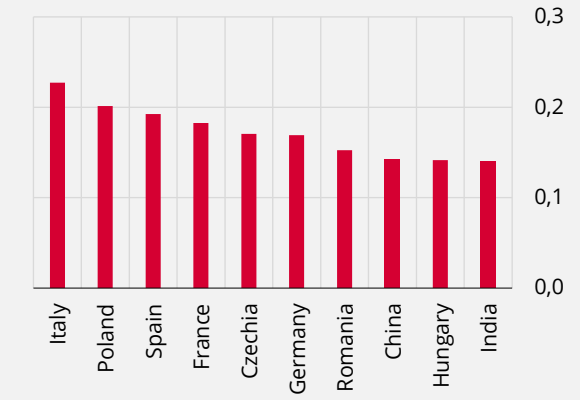
Chart 4: Impact of a 10% Appreciation in Real Exchange Rate Against China on Exports* (% Change)



* The impact analysis employs export data for 2023.

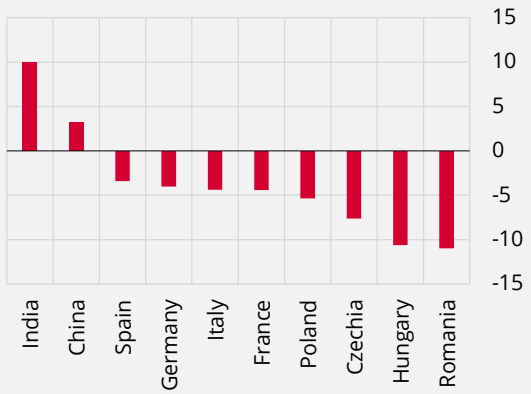
Although China is the most important competitor for most of the countries, other competitors in export markets should also be taken into account when monitoring real exchange rate movements. In this framework, Türkiye's main competitor countries have been identified using an export similarity index (Chart 5). Excluding India, the real exchange rate against competitor countries other than China depreciated in 2025 (Chart 6).[3] Therefore, real exchange rate-driven competitive pressures have not been significant in the recent period.

Chart 5: Export Similarity Index[4] (Product-Country, 2023)



Source: Authors' calculations, UN Comtrade.

Chart 6: Annual Change in the Real Exchange Rate by Country (PPI-Based, December 2025)



Source: CBRT, Eurostat, NBSC, TURKSTAT.

In summary, the analysis results indicate that changes in the real exchange rate against China have a statistically significant but limited effect on Türkiye's exports. These findings are consistent with previous evidence suggesting that exchange rate is not the primary determinant of export competitiveness.

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Mattoo, A., Mishra, P., & Subramanian, A. (2017). Beggar-thy-neighbor effects of exchange rates: A study of the renminbi. *American Economic Journal: Economic Policy, 9*(4), 344-366.

[3] When the analysis conducted for China is replicated for India, a 10% increase in the real exchange rate is estimated to have a very limited impact on exports, amounting to around USD 400 million. Nevertheless, this effect could be larger if the European Union-India free trade agreement were to be implemented.

[4] While constructing the export similarity index at the product-destination (product-country) level respect to Türkiye, only countries with export values exceeding USD 100 billion in 2023 are included in the analysis. The export similarity index is calculated using the formula below by summing the minimum shares of product-destination pairs in the total exports of the two countries being compared. In equation, *i* and *j* denote exporting countries, while *k* represents the exported product-destination pair.

$$Similarity_{i,j} = \sum \min\left(\frac{x_i^k}{x_i}, \frac{x_j^k}{x_j}\right)$$

3. Medium-Term Projections

3.1 Current State, Short-Term Outlook and Assumptions

Changes in Key Forecast Variables

Data released during the reporting period indicate that following the stronger-than-projected growth in the third quarter, economic activity followed a moderate course in the final quarter of 2025. On the demand side, quarterly increases in the retail sales volume index and card spending continued in this period, yet remained below their historical trends. On the production side, industrial production and services production remained almost flat in the last quarter of the year, while construction production recorded a quarterly increase. Survey-based indicators point to a limited recovery in manufacturing activity, albeit remaining below historical averages. Despite the ongoing increase in employment in the labor market, complementary indicators suggest that the market is less tight than implied by the headline unemployment rate. Accordingly, it is assessed that amid tight domestic financial conditions and relatively weak external demand, demand conditions continue to support the disinflation process, albeit to a lesser extent compared to the previous reporting period, while the output gap remained in negative territory (Table 3.1.1).

Consumer inflation declined to 30.7% in January, close to the upper bound of the forecast range presented in the previous Inflation Report. The disinflation process that started in mid-2024 continues, albeit at a slower pace in the recent period. Over the last three months, the most significant contribution to the decline in annual inflation came from the energy and core goods groups, while the contribution of the services group remained relatively flat. In this period, inflation in the food and non-alcoholic beverages group displayed a volatile pattern driven by vegetable and meat prices, and annual food inflation exceeded headline inflation. In the services group, time-dependent price adjustments and the backward-indexation tendency were noticeable, while rent inflation remained high but continued to decelerate. Core goods inflation maintained its moderate course on the back of steady exchange rates and weakening cost pressures. Producer price-driven pressures weakened in the last two months of the year, and the annualized three-month trend of producer inflation fell below that of consumer inflation in January.

The downward trend in the annual rates of increase in core indicators has recently lost steam. The underlying inflation decelerated markedly in the final quarter of 2025 but increased in January due to period-specific factors. While the quarterly average of underlying trend indicators declined to historically low levels in the last quarter of the year, it recorded a limited uptick in the last three-month period as of January. This outlook is attributable to pricing behavior specific to the services group, while trend inflation indicators and the distribution of price increases do not suggest a persistent deterioration in the underlying trend of inflation. Although inflation expectations and pricing behavior display signs of improvement, their current levels continue to pose risks to the disinflation process.

Table 3.1.1: Changes in Key Forecast Variables*

	2025-III	2025-IV
Output Gap	-0.2	-0.4
(%)	(-0.6)	(-1.2)
Consumer Inflation**	32.9	30.7
(Annual % Change)	(32.9)	(29.7)
B Index Inflation**	32.5	30.1
(Annual % Change)	(32.5)	(29.4)

* Figures in parentheses denote values presented in the previous Inflation Report.
** Denotes inflation in October for 2025-III and January 2026 for 2025-IV.

Assumptions for Exogenous Variables

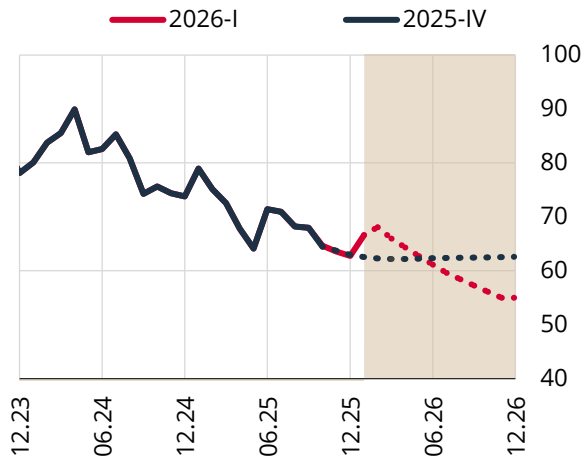
The global growth outlook remains resilient despite uncertainties surrounding global trade policies and geopolitical risks. In the US, technology sector investments stand out as a key driver of growth, while the Chinese economy appears to have performed in line with its growth targets despite tariffs. Countries' growth forecasts have been revised upward on expectations that the recovery in global growth will

continue this year. Productivity gains and the relative easing in global financial conditions are assessed to be determinant in this picture. Accordingly, the assumption for the annual rate of increase in the global growth index based on Türkiye's weight of exports with its trading partners has been revised to 2.1% and 2.3% for 2025 and 2026, respectively. This rate is assumed to be 2.2% for 2027 (Table 3.1.2).

Uncertainties regarding the Fed's monetary policy and geopolitical risks have increased volatility in global financial conditions. In particular, uncertainties surrounding the Fed's monetary policy outlook for the second half of 2026 have caused fluctuations in financial markets, notably in precious metal prices. Although uncertainties regarding the Fed's monetary policy have somewhat eased recently, volatility in financial markets has persisted amid rising geopolitical tensions. This environment has caused portfolio flows toward emerging economies to fluctuate at varying degrees depending on each country's exposure to geopolitical risks. In the period ahead, in line with market expectations, it is assumed that the Fed will deliver two rate cuts in the remainder of the year, while the ECB will maintain its current policy stance. Accordingly, inflation forecasts are based on a framework in which global financial conditions are projected to ease moderately in the upcoming period.

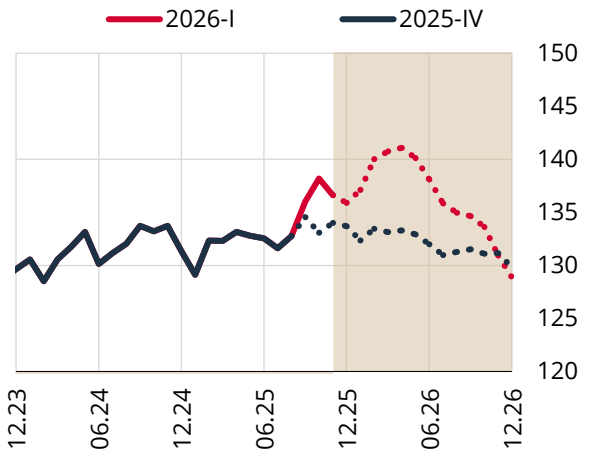
Global uncertainties have increased volatility in commodity prices. While geopolitical developments and uncertainties regarding Fed's policies have exerted upward pressure on commodity prices with precious metals in the lead, a portion of the recent rise in gold prices has been reversed amid the partial easing in uncertainty surrounding the Fed's monetary policy. In this period, the more limited increase in oil prices compared to non-energy commodity prices has accentuated divergence between energy and non-energy commodities. Taking into account OPEC countries' production levels, the global growth outlook, and the limited room for easing in global monetary policies, oil prices are expected to remain weak in the period ahead as geopolitical uncertainties subside. Against this background, crude oil prices are assumed to average USD 60.9 in 2026 and USD 56.0 in 2027 (Chart 3.1.1). Similarly, the import unit value index used for the overall level of commodity prices is projected to increase by an annual average of 2.0% in 2026 and to decline by an annual average of 0.9% in 2027 (Chart 3.1.2 and Table 3.1.2).

Chart 3.1.1: Revisions in Oil Price Assumptions* (USD/bbl)



Source: Bloomberg, CBRT.
* Shaded area denotes the forecast period.

Chart 3.1.2: Revisions in Import Price Assumptions* (Index, 2015=100)



Source: CBRT, TURKSTAT.
* Shaded area denotes the forecast period.

The food price assumption has been revised slightly upward for 2026. Food inflation stood at 28.3% at end-2025, 4.0 points below the previous assumptions. This deviation was mainly driven by unprocessed food prices, which displayed a favorable outlook in the last two months of the year. Recently, supply shocks as well as the month of Ramadan led food prices to increase. Anticipating that nationwide rainfall will limit drought-related risks, the food inflation assumption for 2026 has been revised up from 18% to 19%. For 2027, food prices are projected to increase by 11.0% (Table 3.1.2).

Table 3.1.2: Revisions in Assumptions*

	2025	2026	2027
Export-Weighted Global Growth Index (Annual Average % Change)	2.1 (2.0)	2.3 (2.2)	2.2 (-)
Oil Prices (Average, USD)	69.0 (69.0)	60.9 (62.4)	56.0 (-)
Import Prices (USD, Annual Average % Change)	1.5 (0.8)	2.0 (-0.6)	-0.9 (-)
Food Price Inflation (Year-End % Change)	28.3 (32.3)	19.0 (18.0)	11.0 (-)

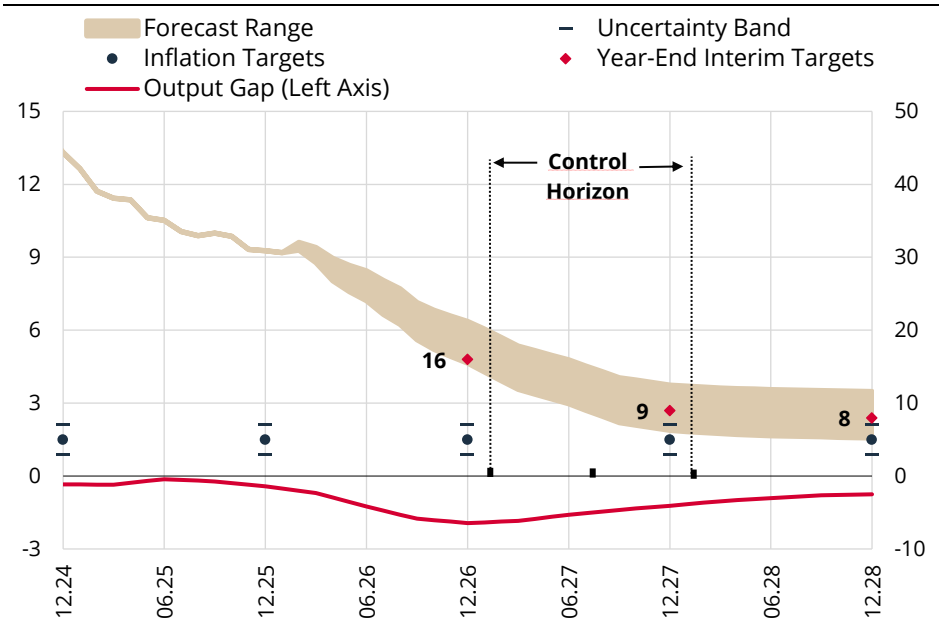
* Figures in parentheses denote values presented in the previous Inflation Report.

The forecasts are based on an outlook in which macroeconomic policies are determined in a coordinated manner focused on disinflation by adopting a medium-term perspective. Accordingly, it is assumed that the coordination of fiscal policy will contribute significantly to the disinflation process, and the government policies regarding administered prices, borrowing, tax, and incomes will be determined so as to support the disinflation process. Indeed, the MTP for the 2026-2028 period presents a framework in which the projected improvement in budget balances will be achieved through a reduction in primary expenditures, indicating that fiscal policy will be supportive of the disinflation process.

3.2 Medium-Term Projections

With 70% probability, inflation is projected to be between 15% and 21% at end-2026 and between 6% and 12% at end-2027. Inflation is projected to decline to single-digit levels at end-2028 and then stabilize at the medium-term inflation target of 5%. (Chart 3.2.1). Interim targets are maintained at 16% and 9% for end-2026 and end-2027, respectively, while the target for end-2028 is set at 8%. The CBRT will ensure the tightness required by disinflation in line with the interim targets in view of inflation realizations as well as its underlying trend and expectations.

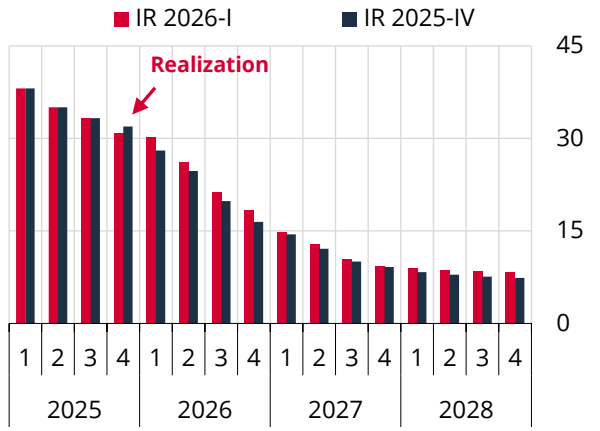
Chart 3.2.1: Inflation Forecasts* (%)



Source: CBRT, TURKSTAT.
* Shaded area denotes the 70% confidence interval for the forecast.

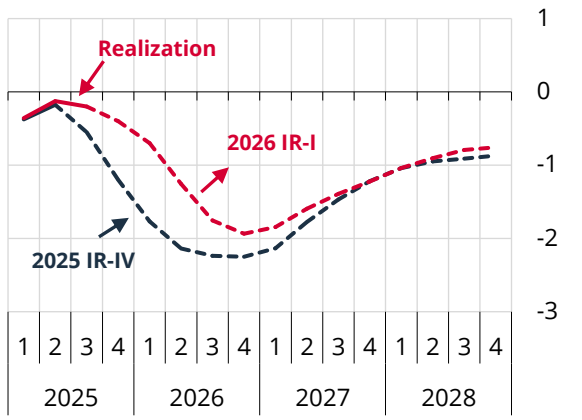
The forecast range for 2026 was revised from between 13% and 19% to between 15% and 21%. One of the contributing factors of this revision has been the increased weight of the services group in the CPI basket. This is projected to push annual inflation upwards by around 1 percentage points.[1] Moreover, despite the decrease in the assumption for oil and energy prices, the revision in the assumption for TRY-denominated import prices due to the rise in non-energy commodity prices had an upward effect on forecasts. Likewise, limited revisions to food inflation assumptions caused an upward revision in forecasts. The limited improvement in the underlying inflation and inflation expectations, influenced also by volatile food prices stemming from temporary supply shocks, led to upward revisions in forecasts. The higher-than-anticipated output gap also contributed to the revision of the forecast (Charts 3.2.2 and 3.2.3). On the other hand, the decline in services inflation, particularly in rent and education, is expected to continue, supporting the disinflation process. Under the outlook in which monetary tightness is maintained and supported by macroprudential policies, the impact of monetary policy on demand conditions is projected to become more pronounced, and inflation expectations are expected to improve. In this framework, the end-2027 inflation forecast range has been maintained.

Chart 3.2.2: Inflation Forecast (Quarter-End, Annual %Change)



Source: CBRT, TURKSTAT.

Chart 3.2.3: Output Gap Forecast (%)



Source: CBRT.

Forecasts are based on the prospects for a sustained resilient course in the global growth outlook and the absence of a notable deterioration in the sovereign risk premium. Global uncertainties remain high due to the recent re-escalation of geopolitical risks, causing portfolio flows to emerging economies to fluctuate. However, portfolio flows into Turkish lira assets have continued during the current reporting period. Türkiye's risk premium has receded, converging to the average risk premium of emerging economies. The tight monetary stance and the current level of the CBRT's international reserves will limit the potential negative impact of volatility in global financial markets on the sovereign risk premium.

Medium-term forecasts are based on a framework in which the tight monetary policy stance will be maintained decisively until price stability is achieved, and the coordination among policy components will be sustained. The convergence of inflation expectations to interim targets in the short term and to the target of 5% in the medium term is critical to the normalization of pricing behavior and stabilization of inflation at low levels. Taking into account the recent developments in underlying inflation, the MPC delivered a modest policy rate cut in January with a prudent approach, and the monetary tightness was maintained in a framework supported by macroprudential policies. The forecasts are based on a framework where monetary policy is determined prudently with a focus on the inflation outlook, considering interim targets. In the forecast period, the continuation of the coordination between the monetary policy and other economic policies is also estimated to support disinflation through demand, cost, and expectation channels.

[1] For details, see Ertuğ, D., & Özlü, N. (2026, February 4). Revisions to the 2026 consumer price index and their implications. *CBRT Blog*.

The tight monetary policy stance, which would be maintained until price stability was achieved, will strengthen the disinflation process through demand, exchange rate, and expectation channels. The output gap is expected to continue supporting the disinflation process, amid external demand outlook and tight domestic financial conditions. Dampening effects of the tight monetary stance on domestic demand are expected to become more apparent in time (Chart 3.2.3). In the last quarter of 2025, the underlying inflation posted a decline. However, circumstances specific to January led to an increase in the underlying trend. Under the tight monetary stance, the underlying trend is projected to recede further in the upcoming period. Moreover, in services items that display high inertia, such as rent and education, the rate of increase in prices and the backward-indexation behavior are projected to weaken due to the lagged effects of the tight monetary policy and the contribution of the regulations implemented. Furthermore, a continued decline in core goods inflation is expected amid the moderate outlook for the exchange rate. In the meantime, inflation expectations are also projected to improve in line with the interim targets.

3.3. Key Risks to Inflation Forecasts and Possible Impact Channels

The outlook underlying the medium-term forecasts presented in the previous section is shaped by the assessments and assumptions of the MPC. However, the inflation outlook may be subject to various risks associated with assumptions, leading to a divergence from the monetary policy stance projected in the baseline scenario. The risks that have the potential to change the inflation outlook are listed below and summarized in Table 3.3.1.

Uncertainties stemming from global trade policies and geopolitical developments continue to be significant for global economic activity and inflation. While uncertainties regarding global trade policies have periodically receded, the limited predictability surrounding the scope and duration of protectionist measures causes volatility in global risk appetite. Meanwhile, geopolitical developments in the Americas and the Middle East keep both downside and upside risks to the global growth and inflation outlook alive. Against this background, while global growth forecasts for 2025 and 2026 have been revised upward, downside risks for 2026 remain in place. The lagged effects of tariff measures and potential increases in global cost pressures pose upside risks to the global inflation outlook. These developments are likely to exert upward pressure on domestic inflation forecasts through commodity prices, global financial conditions, and risk premium channels. Accordingly, uncertainties regarding the course of protectionist trade policies and geopolitical developments are being closely monitored with regard to the inflation outlook.

Downside and upside risks to the trajectory of global commodity prices have increased. Compared to the previous reporting period, non-energy commodity prices have generally risen. While geopolitical developments and heightened risk sentiment have driven precious metal and oil prices up, industrial metal prices have also remained on the rise due to tariffs. However, the relatively weak global demand and increased output by OPEC+ member countries exert downward pressure on crude oil prices. Nevertheless, commodity prices, particularly oil, show significant volatility, and these developments feed uncertainties surrounding the domestic inflation outlook through the cost channel.

Recent food price developments, especially for unprocessed foods, pose an upside risk to inflation forecasts. Volatility in unprocessed food prices, led by vegetables and meat, has caused fluctuations in food inflation. The significant increase in red meat prices, coupled with a potential additional rise in demand, is likely to pose an upside risk to white meat prices in the upcoming period. Moreover, the increased demand specific to the month of Ramadan may also exert upward pressure on food prices.

Price developments, particularly in the food and services groups, continue to pose risks to the disinflation process through the inflation expectations and pricing behavior channels. Despite the downward trend, inflation expectations of consumers, firms, and market participants remained high. The elevated level of inflation expectations adversely affects the disinflation process through households' and firms' portfolio preferences, consumption patterns, and pricing behavior channels.

The tendency for backward indexation persists. Despite the decline in annual inflation and the limited, albeit ongoing, improvement in expectations, the continuation of backward-indexed pricing, particularly in the services group, constrains the effectiveness of monetary policy. Indeed, according to the quantitative accounting of the deviation from the 2025 interim target (Box 3.1), inflation persistence and the course of pricing behavior are among the main factors driving the deviation from the interim target. The prevalent time-dependent and backward-indexed pricing in services items limits the expected moderation in the underlying inflation, thereby keeping risks to the disinflation process alive.

Maintaining coordination between monetary and fiscal policies is crucial to the disinflation process. Fiscal and incomes policies affect inflation through the production cost, demand, and expectations channels. Adjusting administered prices, tax items, and the lump-sum SCT increases in early 2026, with consideration for the interim targets will contribute to mitigating the backward-indexed pricing behavior. These adjustments are also expected to support the disinflation process indirectly through the inflation expectations channel. Maintaining fiscal discipline while achieving the projected budget balance targets by prioritizing expenditure reductions over tax increases will support macroeconomic stabilization and the fight against inflation. The budget and cash deficits, public borrowing and loans to be utilized by public subsidiaries all have a significant impact on liquidity and money supply, and can therefore influence the inflation outlook.

Table 3.3.1: Key Risks to Inflation Forecasts and Possible Impact Channels*

Risks	Evaluation of Risks Compared to the Baseline Scenario and Possible Effects on Inflation (↑ | ↔ | ↓)	Indicators Monitored
Global uncertainties and the course of commodity prices	• Protectionism in trade policies poses both upside and downside risks to inflation. ↔ • Weak global demand and OPEC+ member countries' decision to continue raising oil production had a downward effect on oil prices. ↓ • Geopolitical developments pose both upside and downside risks through energy and precious metals. ↔ • Ongoing price increases in precious and industrial metals pose an upside risk to non-energy commodity prices. ↑	• Global inflation and growth indicators and forecasts • Global economy and trade policies • Global uncertainty index • Global risk appetite indicators • EWGG index • Crude oil prices and supply-demand balance • OPEC+ decisions • Indicators for domestic energy market • Administered prices • Import unit value index
Inflation Expectations	• The asymmetric response of inflation expectations to data surprises and expectations remaining above interim targets keep upside risks alive. ↑ • The effects of recent price developments on the disinflation process through inflation expectations and pricing behavior are closely monitored. ↑	• Sectoral inflation expectations • Distribution of inflation expectations • Inflation uncertainty indicators • Alignment of inflation expectations with Inflation Report forecasts • Survey- and market pricing-based inflation and exchange rate expectations

Strong tendency for backward indexation in pricing behavior	• The slower-than-expected easing of inertia in the rents and education subgroups may pose an upside risk.	↑	• Key inflation indicators • Inertia in services inflation • Rents • Prices of education services
Food prices	• Supply-side factors could lead to upside risks in food prices.	↑	• Prices of fresh fruits and vegetables, and processed food, notably bread and cereals • International agricultural commodity prices • Meteorological and climate statistics such as temperature and precipitation
Risks to the effectiveness of the coordination between monetary and fiscal policies	• Any disruption to the coordination between monetary and fiscal policies may pose risks to inflation and the rebalancing process in domestic demand.	↑	• Adjustments in administered prices and taxes • Developments in tax revenues and public expenditure • MTP and fiscal policy measures • Budget and public debt stock indicators • Structural budget balance forecasts • Share of direct taxes in total taxes • Minimum wage and public wage increases

* Each risk row in the table indicates the possible channel and the direction for the change in inflation forecasts in case the mentioned risk materializes. The signs ↑, ↓ indicate that the risk to the inflation forecast is upside and downside, respectively. The ↔ sign is used when the net impact on the inflation forecast is not completely clear. The indicators through which the risk is monitored are also listed in the right column.

Box 3.1

Assessment of the Deviation from the 2025 Interim Target

As announced in Zoom-In 3.1 of the 2025 Inflation Report III, the CBRT introduced a change in its medium-term forecast communication framework. In this context, the CBRT shares with the public not only the forecast path but also a year-end-focused interim target for each year (CBRT, 2025). Within this framework, the interim target for 2025 was set at 24 percent. This interim target was to serve as a commitment and an anchor, and would not be revised unless extraordinary deviations in the inflation outlook emerged. Indeed, although year-end forecasts were revised upward in the last two Inflation Reports of 2025, the interim target remained unchanged. By the end of 2025, inflation realized at 30.9 percent — within the lower bound of the forecast range presented in IR 2025-IV, yet above the interim target. Accordingly, the deviation from the interim target amounted to 6.9 percentage points. This box outlines a framework explaining the reasons behind the deviation of year-end inflation from the 2025 interim target within the context of the principles of accountability and transparency.

The quantitative accounting of the deviation from the interim target is conducted by comparing realizations with the assumption set underlying the medium-term forecasts in IR 2025-II which is the report immediately preceding the change made in the new communication framework. Four main themes stand out as key drivers in this assessment.

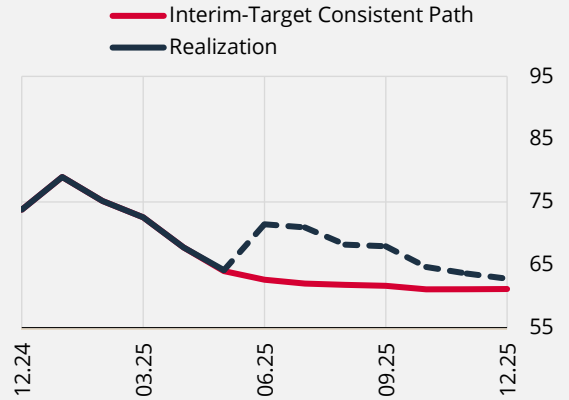
Table 1: Interim Target Main Assumptions and Realizations

	Interim Target Assumptions	Realization
Export-Weighted Global Growth (Average Annual % Change)	1.9	2.1
Oil Prices (USD, Annual Average)	65.8	69.0
Import Prices (USD, Average Annual % Change)	-1.1	1.4
Food Price Inflation (Year-End % Change)	26.5	28.3

Increasing Protectionism in Global Trade, Geopolitical Developments, and Commodity Prices

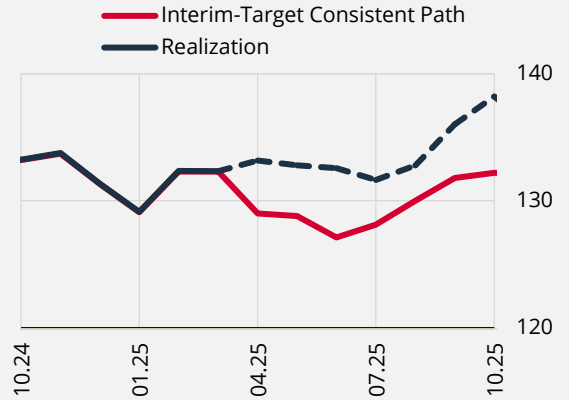
The year 2025 was characterized by rising protectionist tendencies in global trade policies following tariff measures, alongside a marked increase in geopolitical risks. Commodity prices fluctuated due to global uncertainty but non-energy commodity prices maintained an upward trend driven by industrial and especially precious metals. Geopolitical developments reinforced increases particularly in crude oil and precious metal prices. In this context, the oil price assumption used in the interim target framework remained below realized levels (Table 1). Additionally, geopolitical tensions and international sanctions contributed to higher refinery margins, exerting pressure on fuel prices (Gökcü and Sezer, 2025). Similarly, strong price increases in industrial metals sustained supply-side pressures on inflation within the non-energy commodity group (Charts 1 and 2).

Chart 1: Oil Prices (USD per barrel)



Source: Bloomberg, CBRT.

Chart 2: Import Prices (Index, 2015=100)



Source: CBRT, TURKSTAT.

Drought and Frost Events

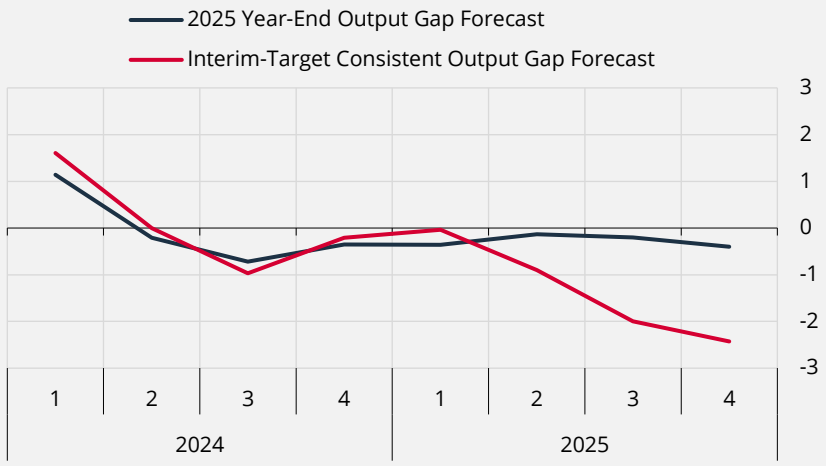
Food prices exerted upward pressure on inflation during the period. While the interim target assumptions projected annual food inflation at 26.5 percent by year-end, it realized at 28.3 percent (Table 1). Agricultural frost events in March and April, coupled with rising temperatures and insufficient rainfall leading to drought, created supply-side pressures that significantly affected food prices. These developments also led to price increases in unprocessed food items. Given their frequent consumption and substantial weight in the CPI basket, food products can influence inflation expectations (CBRT, 2024). Consequently, rising food inflation exerted upward pressure both on expectations and headline inflation. High temperatures and low rainfall also increased the need for water conservation, resulting in larger-than-assumed increases in municipal water prices.

Demand Conditions

Indicators for the final quarter of 2025 suggest that demand conditions continued to support the disinflation process. However, output gap estimates for 2025 point to a more limited disinflationary impact compared with levels consistent with the interim target (Chart 3).

Among the factors underlying the output gap materializing above levels consistent with the interim target is stronger-than-anticipated global demand (Table 1). The export-weighted global growth index for Türkiye is expected to increase by 2.1 percent in 2025, exceeding the interim-target-consistent assumption of 1.9 percent. Meanwhile, national income statistics, which underwent a comprehensive revision in the second quarter, indicate that the disinflationary impact of demand conditions has been more limited than previously projected. In this demand outlook, increases in precious metal prices — particularly gold and silver — are also assessed to have played a role (Çolak and Şamcı, 2025). As these commodities are widely used domestically as stores of value, their price increases may influence the demand outlook through the wealth channel.

Chart 3 : Output Gap Estimations (%)



Source: CBRT, TURKSTAT.

Inflation Persistence and Pricing Behavior

Although inflation expectations and pricing behavior showed signs of improvement in 2025, they continued to pose risks to the disinflation process. Despite the decline observed in market participants' 12-month-ahead inflation expectations during 2025, expectations remained above interim targets. Similarly, inflation expectations of the real sector and households entered a downward trend but remained elevated. This environment has delayed the disinflationary process through channels such as portfolio allocation, consumption behavior, credit demand, and pricing decisions. The slower-than-anticipated decline in inflation expectations has kept upside risks to inflation alive and contributed to a moderation in the pace of disinflation.

Moreover, the persistence of backward-looking pricing behavior — particularly in service sector items — has strengthened inflation inertia and emerged as a factor constraining the effectiveness of monetary policy. Within service subcomponents, items characterized by strong indexation to past inflation, notably education and rents, alongside locally provided services with relatively limited competition, recorded pronounced price increases (Çelgin and Öğünç, 2026). Consequently, the misalignment of inflation expectations with interim targets and the persistence observed in service prices limited the improvement in pricing behavior throughout 2025.

Accounting for the Deviation from the 2025 Interim Target

The four main factors summarized above constituted the primary drivers of the 6.9-percentage-point deviation of year-end inflation from the interim target in 2025. In this context, current output gap levels suggest that demand conditions contributed approximately 0.9 percentage points to the deviation. This contribution is assessed to reflect external demand dynamics, statistical revisions, and wealth effects associated with increases in precious metal prices. Meanwhile, the rise in commodity prices led by oil translated into higher Turkish lira-denominated import prices, contributing 2.1 percentage points to the deviation from the interim target. Realizations in the increases in administered and regulated prices exceeded interim-target-consistent assumptions, exerting an additional upward contribution of 1.1 percentage points. Alcohol and tobacco products, natural gas, and municipal water tariffs were the primary drivers of this effect, while fiscal coordination helped contain its magnitude. Food price developments — reflecting delayed impacts of the March–April frost event and widespread drought conditions — contributed 0.9 percentage points to the deviation. In calculating these contributions, indirect effects operating through expectations channels arising from demand conditions, commodity prices, food prices, and administered prices were also taken into account (CBRT, 2024). Finally, the slower-than-projected improvement in the underlying inflation trend and persistence added 1.9 percentage points to the deviation from the interim target (Table 2).

Table 2: Sources of Deviation From 2025 Inflation Interim Target

	Interim Target Accounting
2025 Year-End Interim Target (%)	24.0
2025 Year-End Inflation Realization (%)	30.9
Interim Target Deviation (% Points)	**6.9**
Sources of Interim Target Deviation (% Points)	
TL-Denominated Import Prices	+2.1
Food Prices	+0.9
Administered Prices	+1.1
Output Gap	+0.9
Underlying Inflation and Inertia	+1.9

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