INFLATION REPORT

2026-IV

November 12, 2026



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

1. Overview

Risks to global energy supply and uncertainties stemming from geopolitical developments persist. Crude oil and natural gas prices increased markedly in September and October, while oil price forecasts were also revised upward. The rise in the risk premium as well as the surge in freight costs played a significant role in this development. While expectations of a re-escalation of conflict weakened after the U.S. elections, the falling risk premium was also reflected in prices. It is assessed that the volatility in prices continues and risks are balanced. The global growth outlook is more resilient than anticipated in the earlier months of the war between the U.S./Israel and Iran, while downside risks remain intact. On the other hand, energy prices were the main driver of the deterioration in the global inflation outlook, whereas core inflation was on a more stable trajectory. Given the upside risks to inflation, global monetary policy is expected to be tighter, relative to projections in the previous reporting period. However, the extent to which the partial decline in energy prices in November proves to be lasting or whether it will continue at all will be key for the global inflation and monetary policy outlook.

Geopolitical developments and uncertainties regarding the global economic outlook are leading to increased volatility in financial markets, thereby affecting asset pricing and the course of portfolio flows. Compared to the previous reporting period, Türkiye's CDS premium rose broadly in line with the risk premiums of emerging market economies (EMEs). While portfolio outflows from EMEs continued in the reporting period, portfolio inflows to Türkiye lost momentum and outflows were seen toward the end of the period. The implied volatility of the Turkish lira declined across short- and long-term horizons. The volatility in gold prices and the risk appetite is also affecting reserves. Showing fluctuations, the CBRT's gross reserves decreased compared to the previous reporting period. Meanwhile, yields on government domestic debt securities (GDDS) remained flat.

The deceleration in total loan growth became more pronounced during the current reporting period. In addition to the tight monetary policy stance, the slowdown in loan growth was driven by macroprudential measures taken in the previous reporting period, such as the lowering of loan growth limits and the narrowing of exemptions, as well as by the weakening demand for retail loans. In this period, the deceleration in retail loans gained pace, whereas TL and foreign currency commercial loan growth rates registered a moderate increase. As for market interest rates, the overnight rates moved close to the policy rate as the one-week repo auctions, which were suspended in view of the developments in financial markets at the outbreak of the war, resumed on August 24, 2026. Moreover, the decline in the weighted average funding cost also appears to be reflected in deposit and loan rates.

In the second quarter of 2026, annual growth continued to slow, and the weak course of domestic demand became more pronounced. In the second quarter, Gross Domestic Product (GDP) increased by 2.3% year-on-year and by 1.1% quarter-on-quarter. The positive contribution of private consumption and total investments to annual growth continued to decline. On a quarterly basis, the continued decline in private consumption indicates that the slowdown in consumption has become more evident. In this period, total investments remained flat on a quarterly basis. Exports of goods and services increased, while imports declined, and net exports contributed positively to quarterly growth. In sum, second-quarter data point to a more pronounced weak course in domestic demand.

Indicators for the third quarter of 2026 suggest that domestic demand remains weak and that domestic demand conditions continue to support the disinflation process. In this period, remaining below its long-term trend, growth in retail sales excluding gold continued to decline as in the second quarter. Automobile sales fell further in the third quarter. Although white goods sales increased year-on-year in the third quarter, they did not offset the decline in the first half of the year. In this period, card spending remained broadly flat. Data for October indicate that the moderate course of card spending has continued. Findings from interviews with firms regarding consumption expenditures also suggest that the weak course of domestic sales continued in October. On the production side, industrial production declined in the third quarter. Survey-based indicators such as the Business Tendency Survey (BTS) and the PMI suggest that the weak course in industry continued in October. As of August, the services production index increased in the third quarter. In the same period, the construction production index recovered but did not offset the decline in the first half of the year.

The labor market is less tight than implied by the headline unemployment rate. Based on the quarterly averages of seasonally adjusted monthly data, employment decreased by 62 thousand people in the third quarter of the year, standing at 32.4 million people. During this period, the seasonally adjusted unemployment rate edged up by 0.1 percentage points on a quarterly basis to 8.1%, and the labor force participation rate dropped by 0.2 percentage points to 52.6%. The composite measure of labor underutilization increased by 1.1 percentage points compared to the second quarter and remained elevated. In the second quarter of 2026, as a result of the decline in real wages per capita and the increase in labor productivity, non-farm real unit wages edged down.

The seasonally and calendar-adjusted current account deficit narrowed in the third quarter of 2026. Based on data as of August, this was driven by the decline in the balance of payments-defined foreign trade deficit in the third quarter. The rise in the services balance surplus and the improvement in the secondary income balance also contributed positively to the current account balance during this period. In the third quarter of the year, external demand maintained its moderate course compared to the previous quarter despite the adverse effects of the war, and export prices continued to rise. Additionally, in the same period, gold exports reached their highest monthly level in a decade. Thus, seasonally and calendar adjusted exports remained strong. Meanwhile, imports decreased in the third quarter driven by lower gold and energy imports. The fall in imports excluding gold and energy also contributed to the decrease in total imports. By goods groups, intermediate and investment goods imports declined compared to the previous quarter, while consumption goods imports increased. Provisional foreign trade data for October point to a decline in seasonally and calendar adjusted exports and an increase in imports driven by higher energy prices. The foreign trade deficit implied a higher level than the third-quarter average in October. In the near term, the impact of geopolitical developments on the current account deficit is expected to depend largely on the course of energy prices. As of August, the current account surplus recorded in the third quarter was due to seasonal effects, and continued capital inflows contributed to the recovery in reserves. In this period, net capital inflows were recorded through direct investments, portfolio investments and loans. The net errors and omissions item recorded a positive balance and official reserves increased, partly offsetting the decline in the first half of the year. On the other hand, data for September point to outflows from both equity and GDDS markets.

Consumer inflation stood at 29.8% in October, slightly above the forecast presented in the previous report. Annual inflation has receded by about 2.0 percentage points over the last three months. In this period, the contribution of the food group to annual consumer inflation was down by 2.1 percentage points due partly to the prices of fresh fruits and vegetables, and that of the services group fell by 0.7 percentage points. However, the rise in fuel prices increased the contribution of the energy group by 1.1 percentage points. The weak consumer demand and the moderate course of the Turkish lira limited the increase in core goods inflation despite supply-side pressures. The seasonally-adjusted trend in services inflation has also declined in recent months. Meanwhile, geopolitically-driven higher energy prices have been a primary factor that exerted upward pressure on inflation. While fuel prices increased due to the rise in international oil prices and higher crack spreads as well as the phase-out of the sliding scale system, the extension of the phase-out process for gasoline prices until the end of the year prevented a more adverse picture. Annual inflation in the F index (CPI excluding administered prices) stood at 28.2%, 1.6 percentage points below headline inflation, suggesting that the upward pressure from administered prices, particularly energy items on annual inflation continued. On the costs side, global transportation costs and the Global Supply Chain Pressure Index hovering above its historical average were significant, while the stable course of the Turkish lira contained these pressures. Annual producer price inflation, which was 27.4% in October, remained close to its level in the previous reporting period. On the demand side, the third-quarter data suggest that the weak trend in final domestic demand continues, while the impact of supply shocks on domestic prices remaining limited confirms that demand conditions are disinflationary. The decline in the underlying inflation and the decrease in inertia in services prices over the last few months have supported re-acceleration of the disinflation process. For the sustainability of the process, it is important that the improvement in pricing behavior continues. Meanwhile, the upside risks to the inflation outlook posed by the elevated level of inflation expectations and rising energy prices due to geopolitical tensions continue.

The interim inflation target for 2026 has been maintained at 24%, while targets for 2027 and 2028 have been set at 21%, and 13.5%, respectively. Since the previous report, growing expectations that the war will be prolonged, together with the macroeconomic framework set out more clearly in the Medium Term Program (2027-2029), have made it necessary to update the interim inflation targets. The CBRT will ensure the tightness required by the projected disinflation path in line with the interim targets, by taking into account realized and expected inflation and its underlying trend.

Inflation is forecast to be 29.5% at end-2026 and 21% at end-2027. Inflation is projected to decline to 13.5% at end-2028, to 9% at end-2029 and then stabilize around the medium-term inflation target of 5%. The revision of forecasts was driven by the increase in the assumption for Turkish lira-denominated import prices due to the war. Ongoing uncertainties pertaining to the course of the war and expectations that energy prices would remain elevated for an extended period compared to the previous report period had an upward impact on inflation forecasts for 2027 and 2028. The revision in the food inflation assumption also contributed to the rise in the forecast path. The macroeconomic framework and the adjustments regarding administered prices set forth in the Medium-Term Program (2027-2029) were reflected onto forecasts. In addition, another key factor behind the upward revision of the inflation forecast path is that the effects of the war have proven more persistent than expected. This has limited the improvement in inflation expectations projected in the previous report period. Domestic demand is expected to remain weak in the coming period as the tight financial conditions will be maintained. The path for the output gap has been revised slightly upward compared to the previous reporting period, yet it remains at disinflationary levels throughout the forecast horizon.

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 economic policies will be sustained. During the current reporting period, overnight market interest rates fell by nearly 300 basis points with the resumption of one-week repo auctions in August. Due to the decline in the underlying trend of inflation and the continued weakness in domestic demand, the CBRT reduced the one-week repo auction rate by 100 basis points in October. While existing macroprudential policies continued to support monetary tightness and the monetary transmission mechanism, the measures taken following the developments in domestic financial markets in September sought to preserve macro-financial stability. The forecasts are based on a framework where monetary policy is determined prudently with a focus on the inflation outlook, considering interim targets. The underlying trend of inflation has declined recently after rising due to supply shocks, and this decline is expected to continue in the period ahead as the tight monetary stance will underpin the improvement in expectations and pricing behavior. The MTP for the 2027–2029 period outlines a policy framework to maintain strong coordination among monetary, fiscal, and income policies in the fight against inflation, enhance the alignment of administered prices with inflation targets, and reduce backward-indexation. This framework will support disinflation in the coming period. On the other hand, due to the low inflation figures recorded in November and December of the previous year, mainly attributable to vegetable prices, base effects are expected to push annual inflation upward for the remainder of 2026. Meanwhile, the course of the war and the impact of geopolitical developments on international commodity prices, notably energy prices, remain a significant factor of uncertainty in terms of the inflation outlook for 2027.

1.1 Monetary Policy Decisions

The CBRT kept the policy rate constant in September and reduced it by 100 basis points in October. At the September meeting, the CBRT reported that despite monthly fluctuations, inflation figures and leading indicators suggested a deceleration in the underlying trend of inflation. The Bank also assessed that data on economic activity as well as the limited pass-through of supply shocks to domestic prices confirmed the weakness in domestic demand. Highlighting that elevated energy prices amid geopolitical developments posed an upside risk to the inflation outlook, the CBRT kept the policy rate constant at 37%. At the October meeting, the CBRT stated that recent inflation figures and leading indicators confirmed the deceleration in the underlying trend of inflation and decided to reduce the policy rate by 100 basis points from 37% to 36%. On the other hand, the Bank emphasized that elevated energy prices due to ongoing geopolitical tensions continued to pose an upside risk to the inflation outlook. The CBRT reiterated that the Committee would determine the policy rate by taking into account realized and expected inflation and its underlying trend in

a way to ensure the tightness required by the projected disinflation path in line with interim targets. The Bank added that the size and timing of policy steps would be decided prudently on a meeting-by-meeting basis with a focus on the inflation outlook.

In September, in response to developments in domestic financial markets, stemming from a number of investment funds, CBRT took measures to support macro-financial stability and liquidity management. Accordingly, the amount of funding provided via one-week repo auctions was increased, banks' borrowing limits at the CBRT's Interbank Money Market were revised, and collateral haircuts were reduced. The CBRT resumed Turkish lira funding via the swap channel on September 24 to ensure flexibility for banks in foreign currency liquidity management, maintaining this practice until October 6. Moreover, the CBRT provided banks with flexibility in their liquidity management by lowering the ratios for maintaining TRY required reserves in blocked accounts. To facilitate firms' liquidity management, loans extended for the redemption of corporate bonds were excluded from the growth limit. With the contribution of the tight monetary policy stance and supportive macroprudential policies, the stable trend in the Turkish lira deposit share has been maintained as outflows from the money market funds and other similar funds were mainly directed toward Turkish lira deposits.

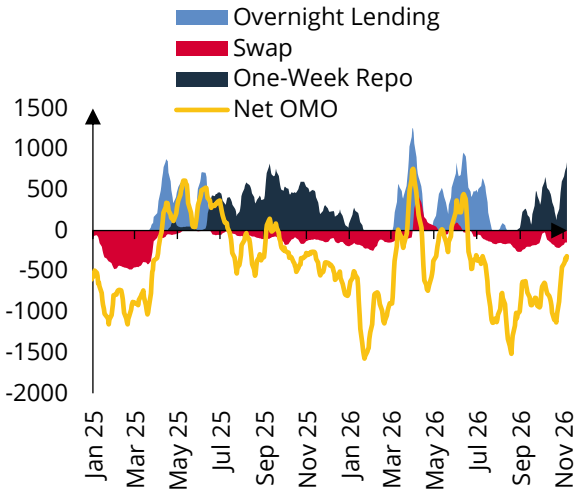
Against the backdrop of developments in credit and debt markets, additional steps have been taken in the reserve requirement framework to support financial stability. In light of the moderate pace of credit growth in the recent period and the increase in asset quality risks, credit growth limits (excluding foreign exchange currency loans) have been raised. In order to support banks' access to long-term funding and enhance the effective functioning of the market mechanism, it has been decided to provide remuneration in Turkish lira for required reserves that banks and financing companies maintain for their non-deposit liabilities denominated in Turkish lira and foreign currencies with maturities longer than one year.

The CBRT increased its purchases of TLREF-indexed government bonds to support market functioning. Taking into account the redemptions due in September in the OMO portfolio, outright purchases have resumed as of August 20. Starting on September 17, additional outright purchase auctions have been conducted for TLREF-indexed securities to support the liquidity of these securities, given their inclusion in investment fund portfolios. Between August 20 and November 6, outright purchases of fixed-coupon and TLREF-indexed securities amounted to a total nominal value of TRY 150.8 billion (Box 1.1).

In the current reporting period, the level of excess liquidity in the market fluctuated. This was driven by the CBRT's outright purchases and foreign exchange operations, developments in the Ministry of Treasury and Finance's TRY account balance, and TRY required reserve management of banks. Accordingly, the CBRT's foreign exchange operations had a downward effect on excess liquidity in the market while the CBRT's outright purchases and the remuneration of TRY required reserves had an upward effect (Chart 1.1.1).

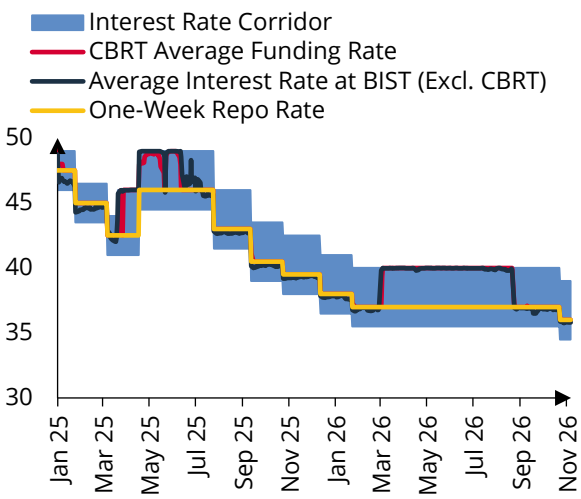
The CBRT resumed one-week repo auctions on August 24, and since that date, the funding need of the system and sterilization operations have been carried out at the CBRT's policy interest rate. The CBRT resumed the one-week repo auctions on August 24, after their suspension on March 1. Since the resumption of one-week repo auctions, the weighted average funding rate has materialized at the CBRT's policy rate. As funding and sterilization operations were carried out at the CBRT's policy rate, the overnight interest rates in the market hovered close to the policy rate (Chart 1.1.2). Excess liquidity is mostly sterilized via overnight Turkish lira deposit buying auctions. In this period, one-week reverse swap auctions against gold continued to be held for sterilization purposes. The CBRT also uses deposit buying auctions with one-week maturity to sterilize excess liquidity.

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 (%)



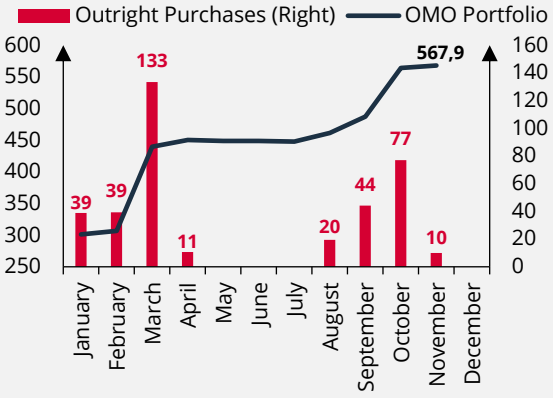
Sources: BIST, CBRT.

Box 1.1

Outright Purchases and Bond Markets

This box examines the outright purchase auctions conducted within the scope of Open Market Operations (OMO) in 2026. The OMO portfolio, which stood at a nominal level of TRY 262.3 billion at the beginning of the year, reached a nominal TRY 567.9 billion as of November 9, with the outright purchase auctions held at various points over the year (Chart 1).

Chart 1: 2026 OMO Portfolio and Outright Purchases (Nominal, TRY Billion)



Source: CBRT.

Chart 2: Ratio of the OMO Portfolio to the CBRT Analytical Balance Sheet Total Assets* (%)



Source: CBRT.

* The dashed line indicates the average level since 2016.

In order to ensure CBRT's effective liquidity management, and to support OMO portfolio in line with operational needs, outright purchases were initiated at the beginning of 2026. In this context, purchases amounting to TRY 78.3 billion were made gradually in January and February. Subsequently, in March, following the geopolitical risks arising from the US/Israel-Iran war, pressure on financial markets increased and high volatility was observed. Therefore, outright purchase auctions were intensified in March to limit the increasing volatility in the bond markets and support market conditions. With these auctions, a total of TRY 144.1 billion in purchases were carried out in March and April.

Thus, in the first four months of the year, outright purchases totaling a nominal TRY 222.4 billion were made. Of these purchases, TRY 137.4 billion consisted of fixed-coupon securities and TRY 85 billion consisted of TLREF/TLREFK-indexed securities.

While the ratio of the OMO portfolio to the CBRT analytical balance sheet total assets was 2.4% at the beginning of the year, this ratio reached 4.4% in April with the outright purchases made (Chart 2). Auctions were then paused until August. With the redemptions realized in the portfolio during the pause and the growth in the analytical balance sheet, the ratio of the OMO portfolio to balance sheet total assets declined to 3.6% in August.

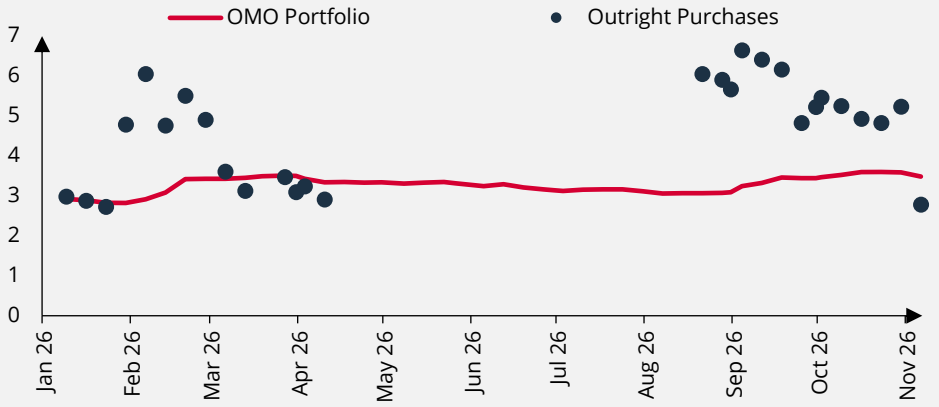
Outright purchase auctions were resumed on August 20, 2026. In the auctions held since this date, a method that allows the participation of primary dealer (PD) banks was also followed, thereby supporting the PD system and contributing to the efficiency of financial markets.

Outright purchase auctions resumed on August 20, 2026. Auctions held from that date onward were organized with the participation of primary dealer (PD) banks, thereby supporting the PD system and contributing to the efficiency of financial markets. In this period, a nominal TRY 103.8 billion of fixed-coupon GDDS were purchased from primary dealers.

Following the developments in the financial markets in September, steps were taken to manage Turkish lira liquidity and additional outright purchase auctions were held. In this context TLREF-indexed government bonds totaling 47 billion TL were purchased.

While a total of TRY 373.2 billion worth of securities—including TRY 132 billion of TLREF/TLREFK-indexed ones—were added to the OMO portfolio in 2026, the ratio of the portfolio to the CBRT's analytical balance sheet total assets reached 4.6%. Looking at the average maturity of the portfolio, the average maturity of the OMO portfolio, which stood at 2.9 years at the beginning of 2026, reached 3.6 years with the outright purchases made during the year (Chart 3).

Chart 3: OMO Portfolio and Outright Purchase Auctions Average Maturity* (Years, Weighted Average)



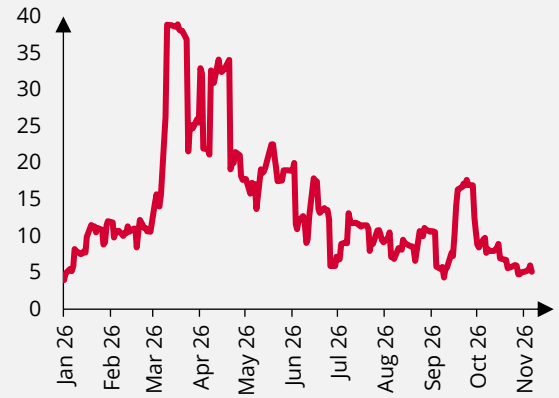
Source: CBRT.
* The average maturity of outright purchase auctions held in the respective week is shown.

Bond Market Indicators and Outright Purchase Auctions

In 2026, global shocks and domestic developments had periodic effects on bond markets. Volatility in the domestic bond market rose due to the US/Israel-Iran war (Chart 4). During this period, sudden movements were observed in the clean prices of TLREF-indexed securities, and the average price fell below the nominal value of the security (Chart 5). The outright purchases planned for the year were front-loaded and intensified in March to limit market risks during this period. By supporting the OMO portfolio with outright purchase auctions, volatility in the bond markets gradually declined, and a convergence toward theoretical pricing in TLREF securities was observed.

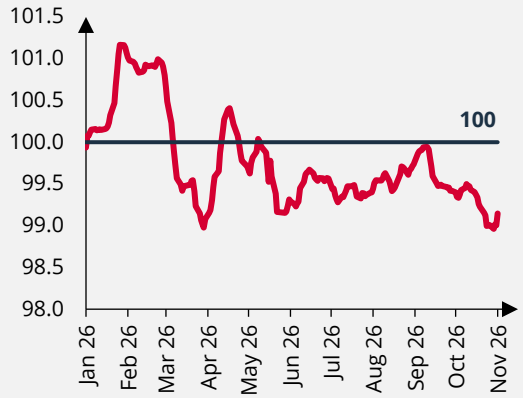
Following developments in the fund market during the second half of September, additional outright purchase auctions were held with the aim of limiting the impact of those developments on the bond markets. Aided by the outright purchase auctions that were held, volatility in the bond markets has decreased, and pressure on TLREF-indexed bonds has eased.

Chart 4: Volatility Level of the 2-Year Benchmark Bond Yield (%, 10 Trading Days)



Source: BIST, Bloomberg, authors' calculations.

Chart 5: Average Clean Price of TLREF-Indexed GDDS*



Source: BIST, Bloomberg, authors' calculations.
* TLREF-indexed average price is weighted according to the debt stock. A 5-day moving average is shown.

In the 2026 Monetary Policy document, the CBRT OMO portfolio size was set at a nominal TRY 450 billion for 2026, reserving the option for additional purchases. In this framework, the targeted portfolio size increased in line with operational requirements, driven by market conditions and analytical balance sheet realizations. As a result, by following a proactive approach to outright purchases, the OMO portfolio size reached a nominal level of TRY 567.9 billion as of November 9, 2026, through the purchases made during the year. The roadmap regarding the OMO portfolio will be shared with the public in the 2027 Monetary Policy document, which is planned to be published in December.

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