TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BRIEFING ON 2025-II INFLATION REPORT

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Governor

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ISTANBUL

Outline

- Global Economy
- Macroeconomic Outlook
- Recent Developments and Monetary Policy
- Medium-Term Projections
- Overview

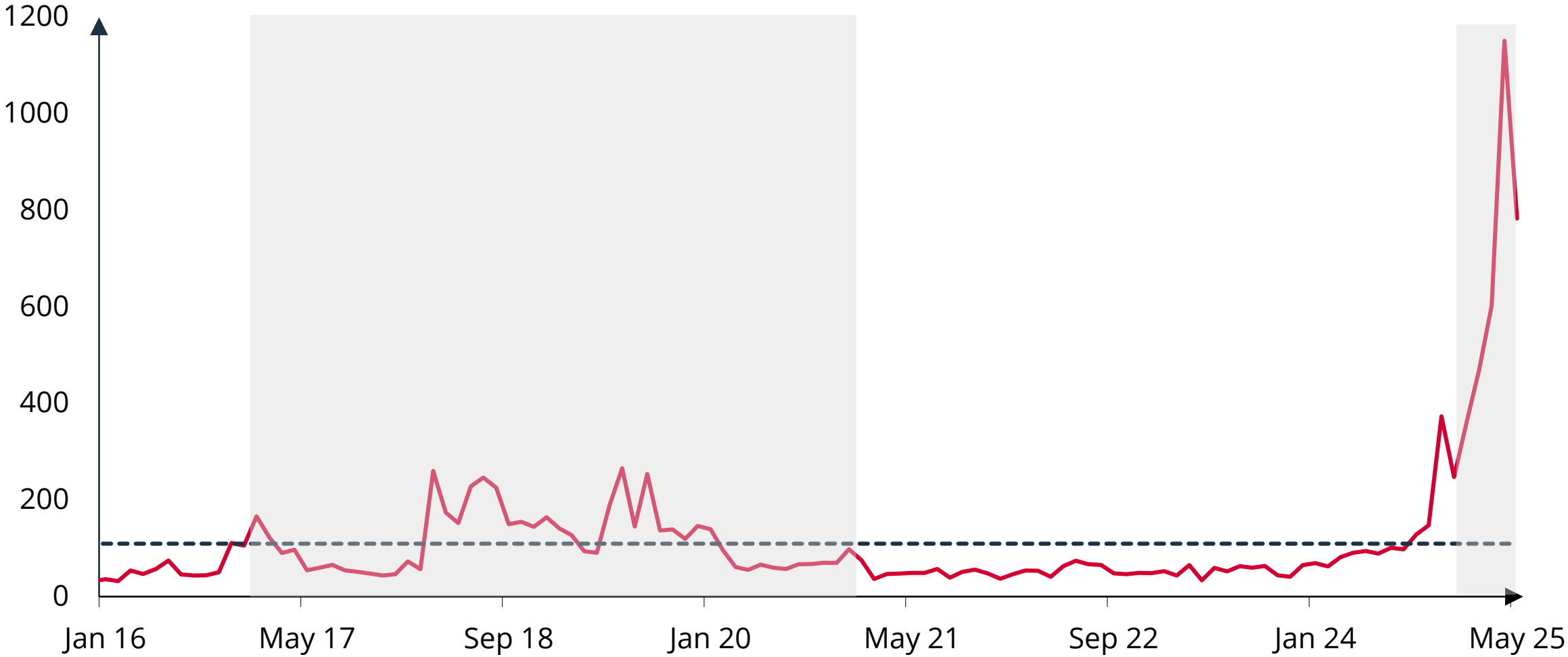
Boxes

- Last Resort Supply Tariff and Its Implications for Residential Electricity Prices
- Government Spending Multiplier
- Multivariate Trend Inflation Indicator
- Findings from Interviews with Firms
- Household Inflation Expectations: How Important is Past Experience?

GLOBAL ECONOMY

Global trade policy uncertainty has elevated recently.

Trade Policy Uncertainty Index* (Monthly)

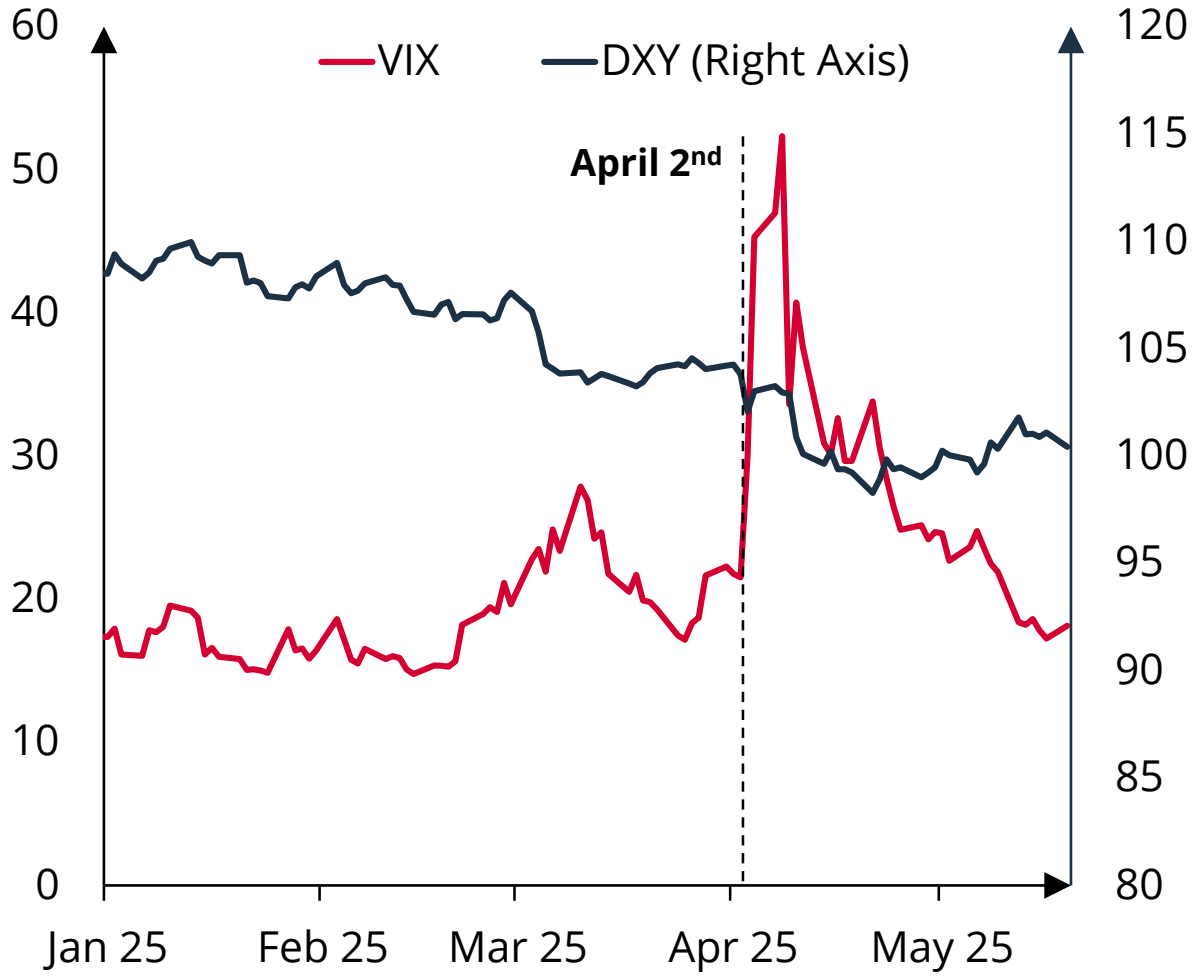


Source: The Economic Effects of Trade Policy Uncertainty, Caldara et al. (2020). Last Observation: May 2025.

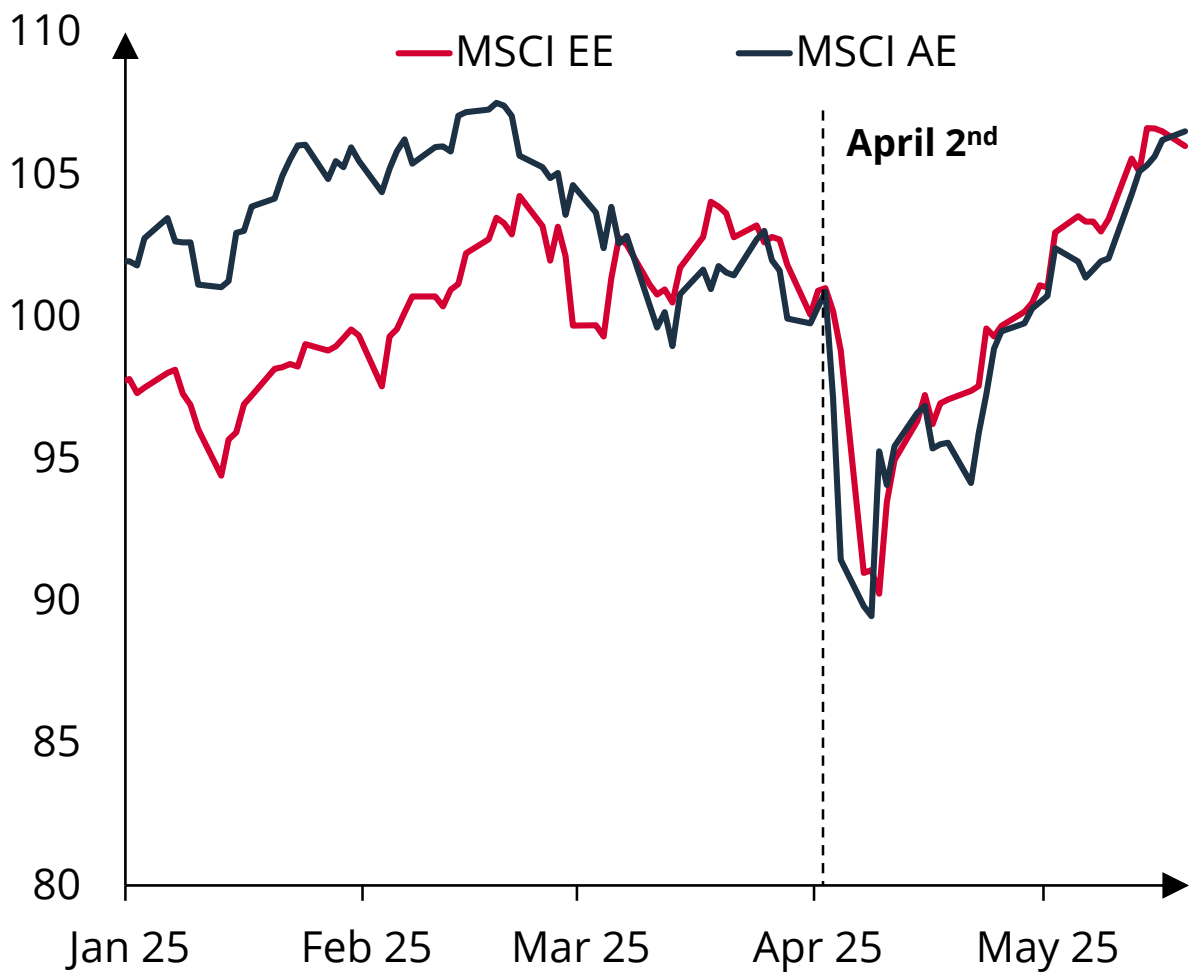
*Dashed lines indicate the average of the last five years. For May, average of daily data between May 1-19 is taken. Shaded areas show the First (January 2017 – January 2021) and Second (from January 2025 onwards) Tariff Announcement Periods.

Volatility in financial markets has increased.

VIX Volatility Index and DXY US Dollar Index



AE and EE Stock Market Indices*



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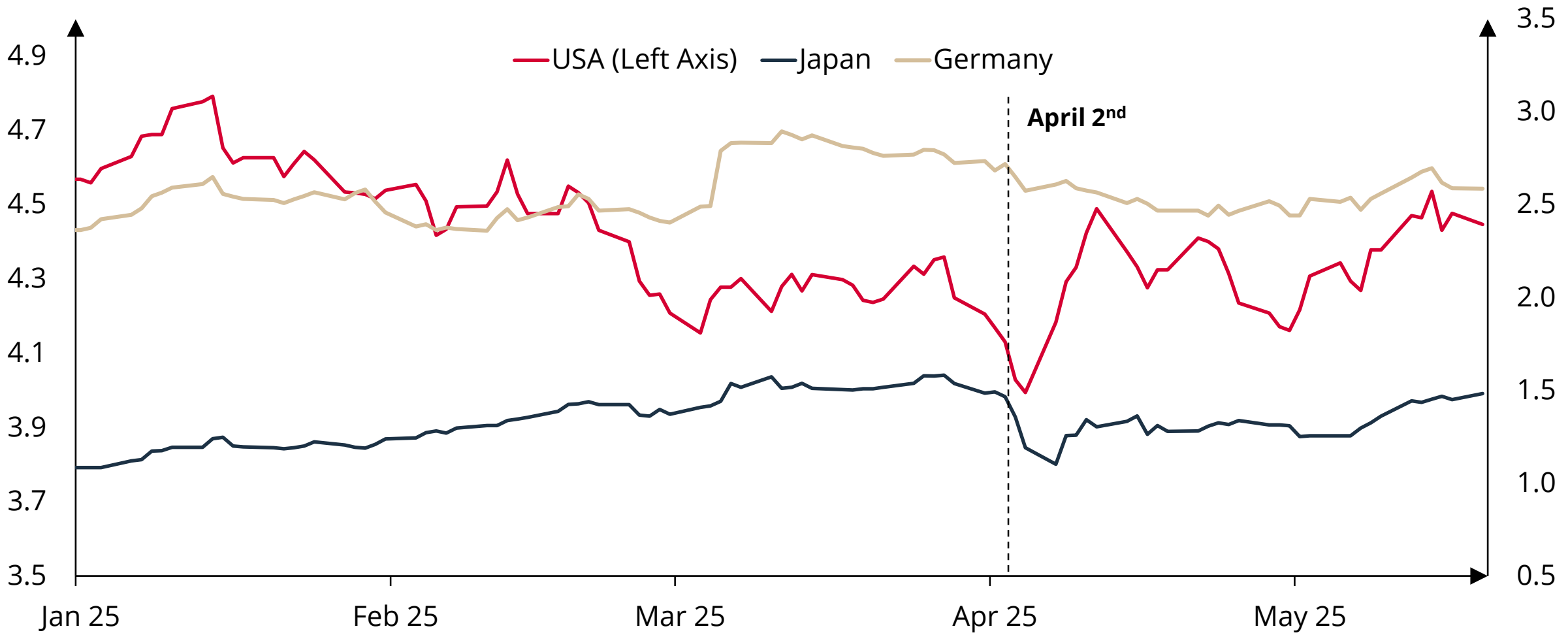
Source: Bloomberg.

* AE: Advanced economies, EE: Emerging economies. September 2024 =100. Last Observation: 19 May 2025.

Tariff measures have led to fluctuations in long-term bond yields.

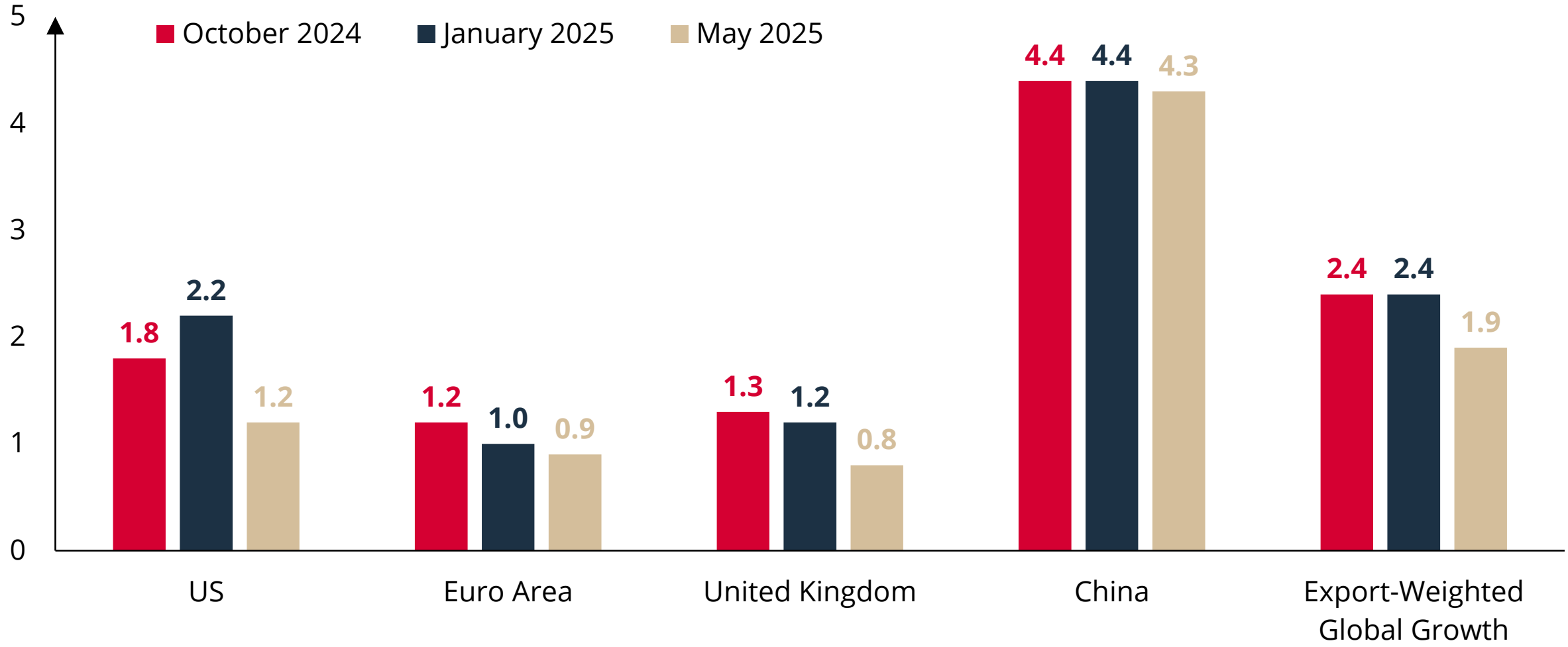
10-Year Government Bond Yields (%)



Source: Bloomberg. Last Observation: May 19, 2025

Growth forecasts have been revised downwards due to global uncertainties.

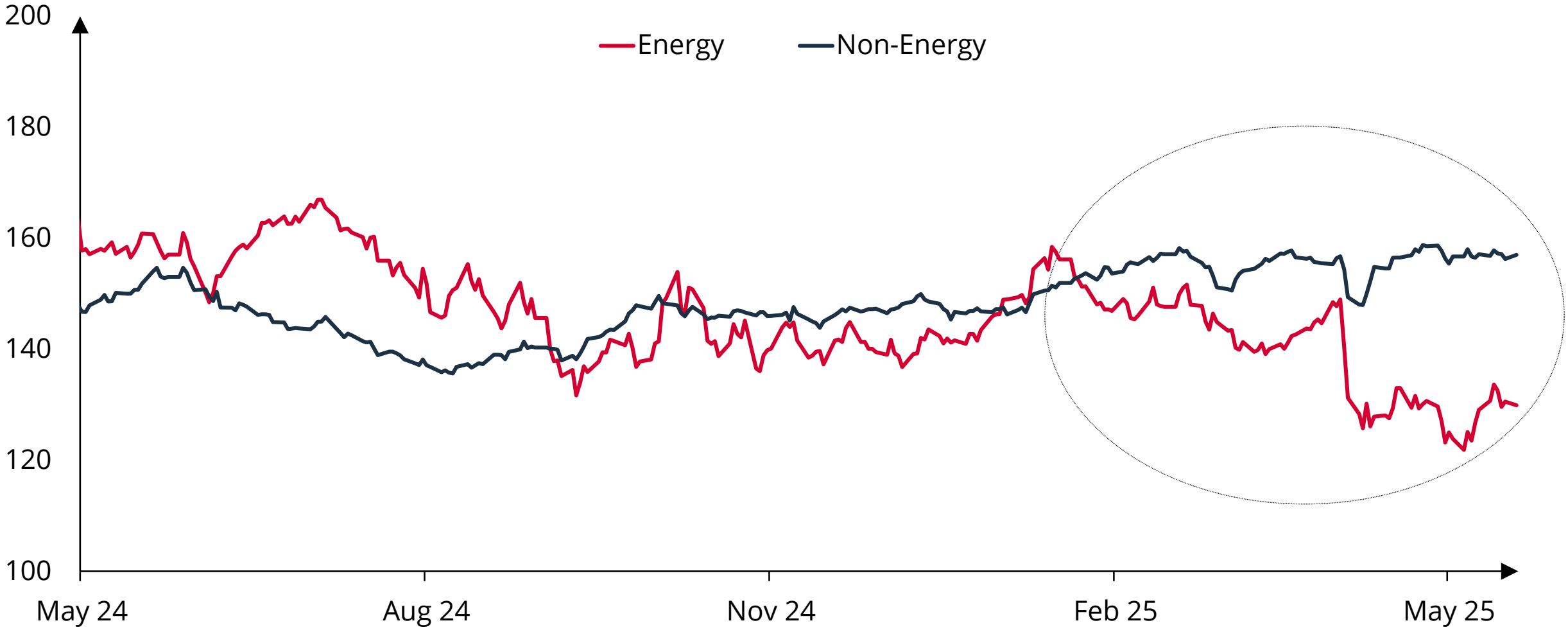
Growth Forecasts for the Year 2025 (%)



Source: Consensus Economics.

Energy commodity prices have declined significantly in the recent period.

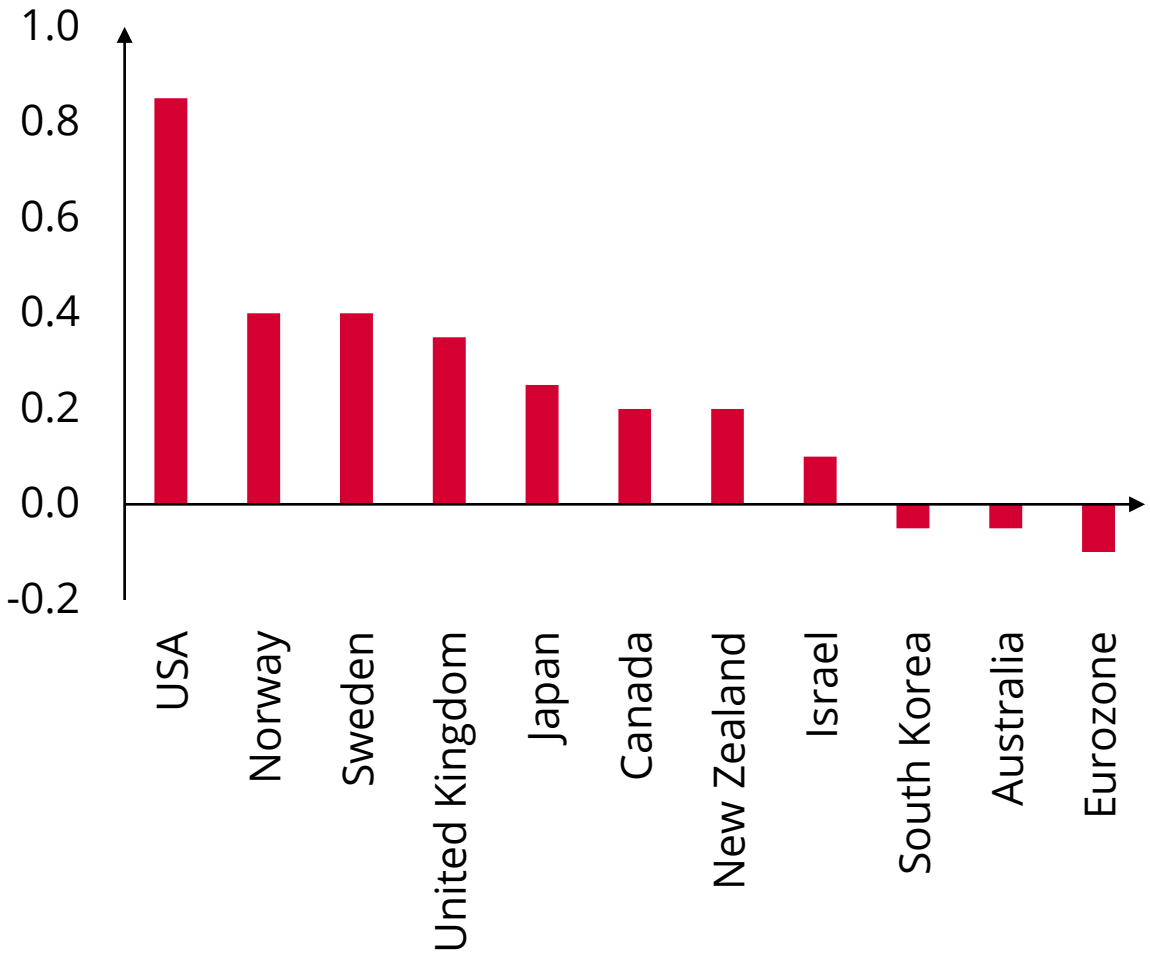
Commodity Price Indices* (Daily)



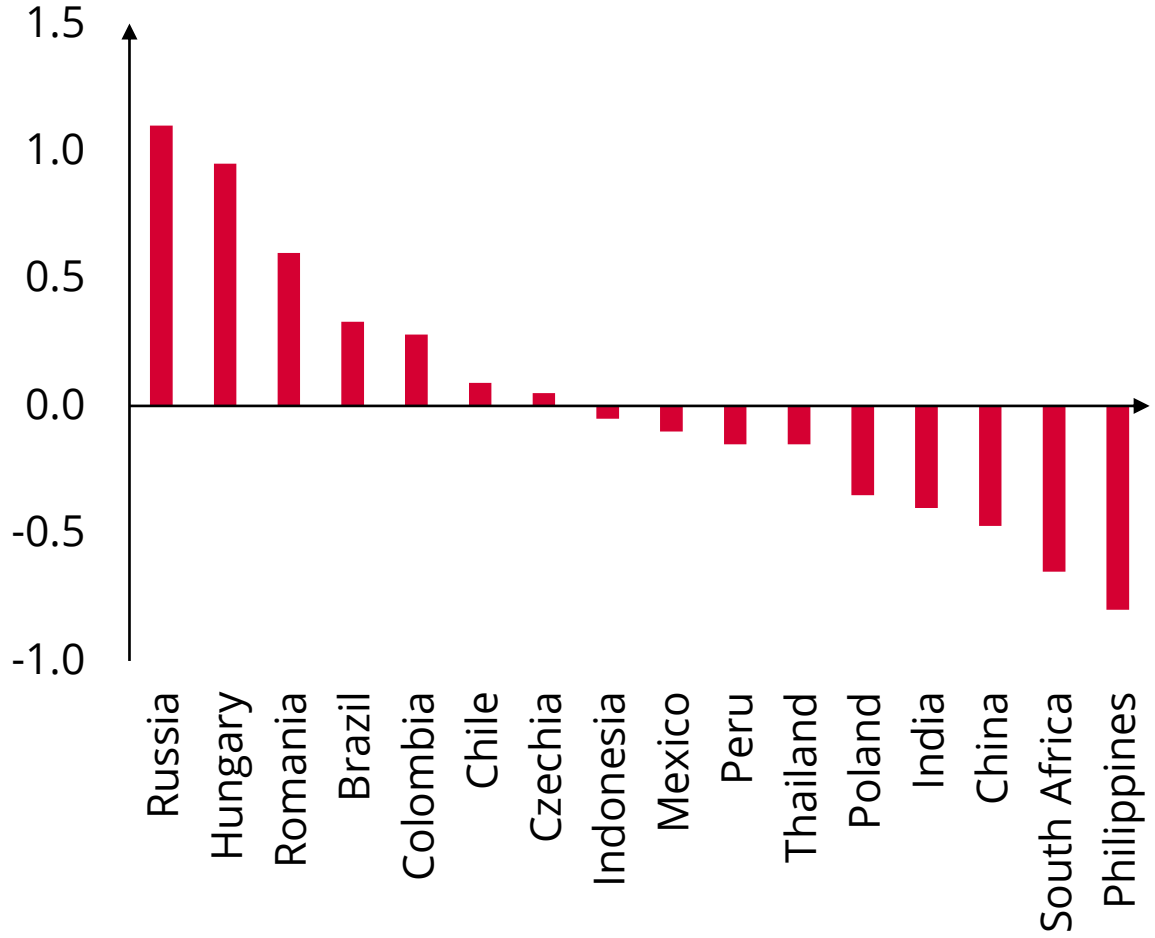
Source: Bloomberg. Last Observation: May 19, 2025.
* January 1, 2019=100.

Tariff measures have raised inflation expectations moderately.

Changes in Inflation Expectations in AE* (% Points)



Changes in Inflation Expectations in EE* (% Points)



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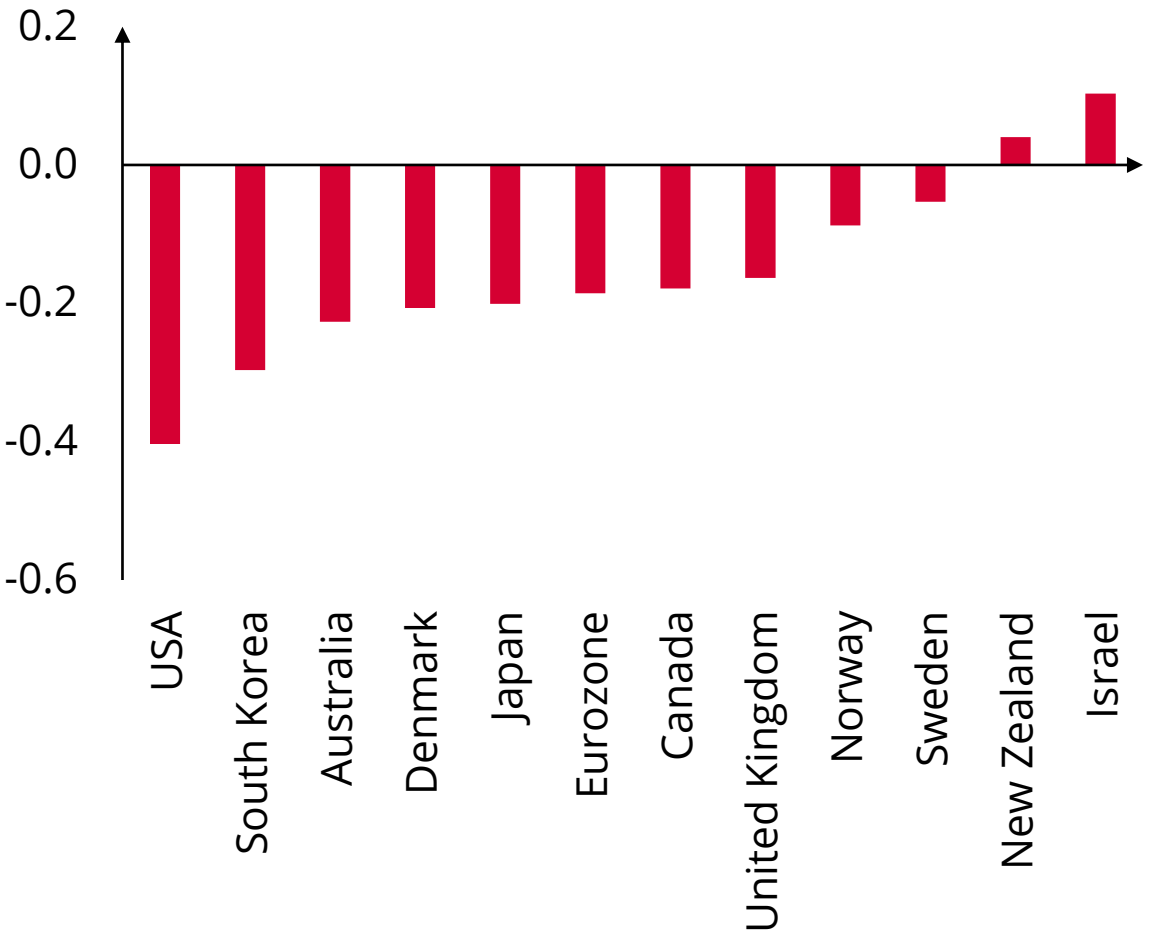
Source: Bloomberg. Last Observation: May 19, 2025.

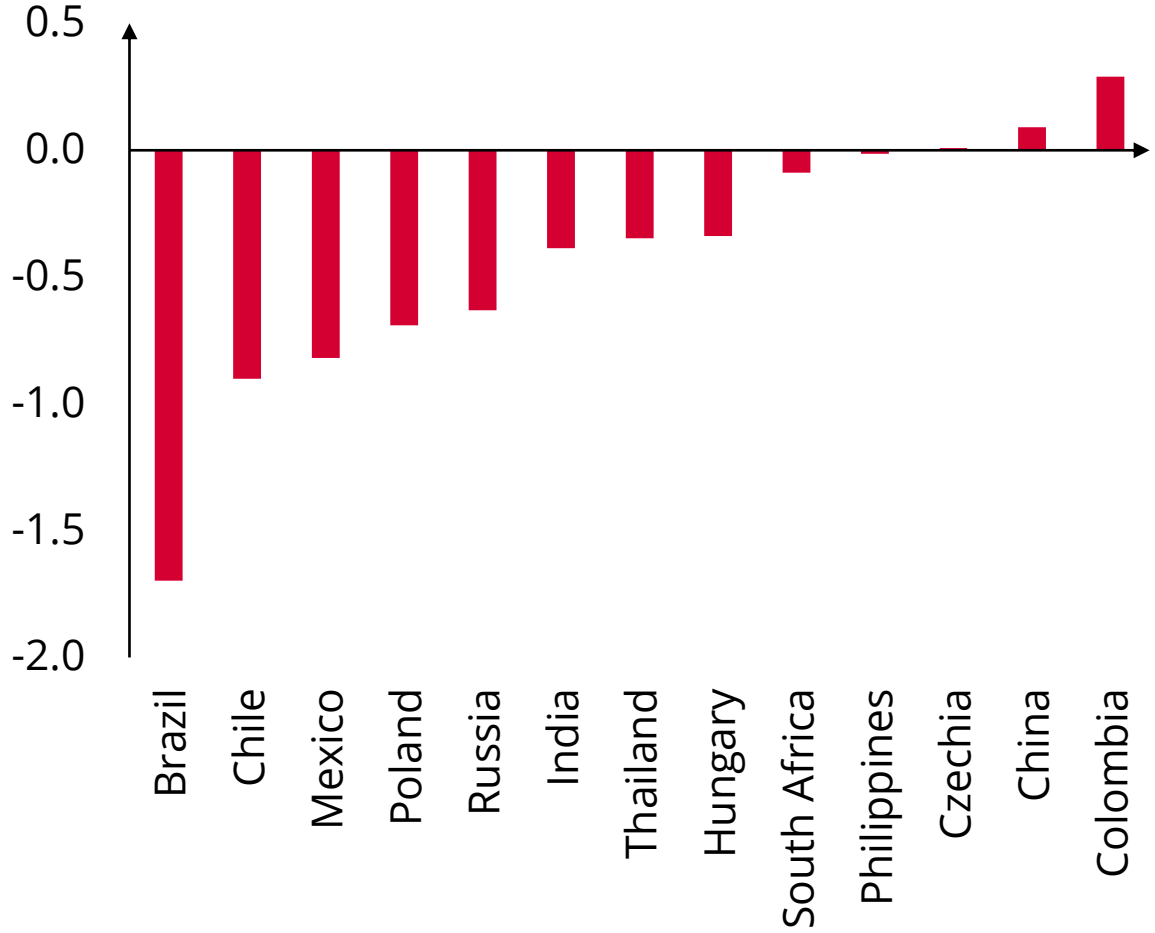
*The change in inflation expectations for the 4th quarter of 2025 between February 7 and May 19.

Following the tariff measures further interest rate cuts are priced in the markets.

Changes in Policy Rate Pricing in AE* (% Points)



Changes in Policy Rate Pricing in EE* (% Points)



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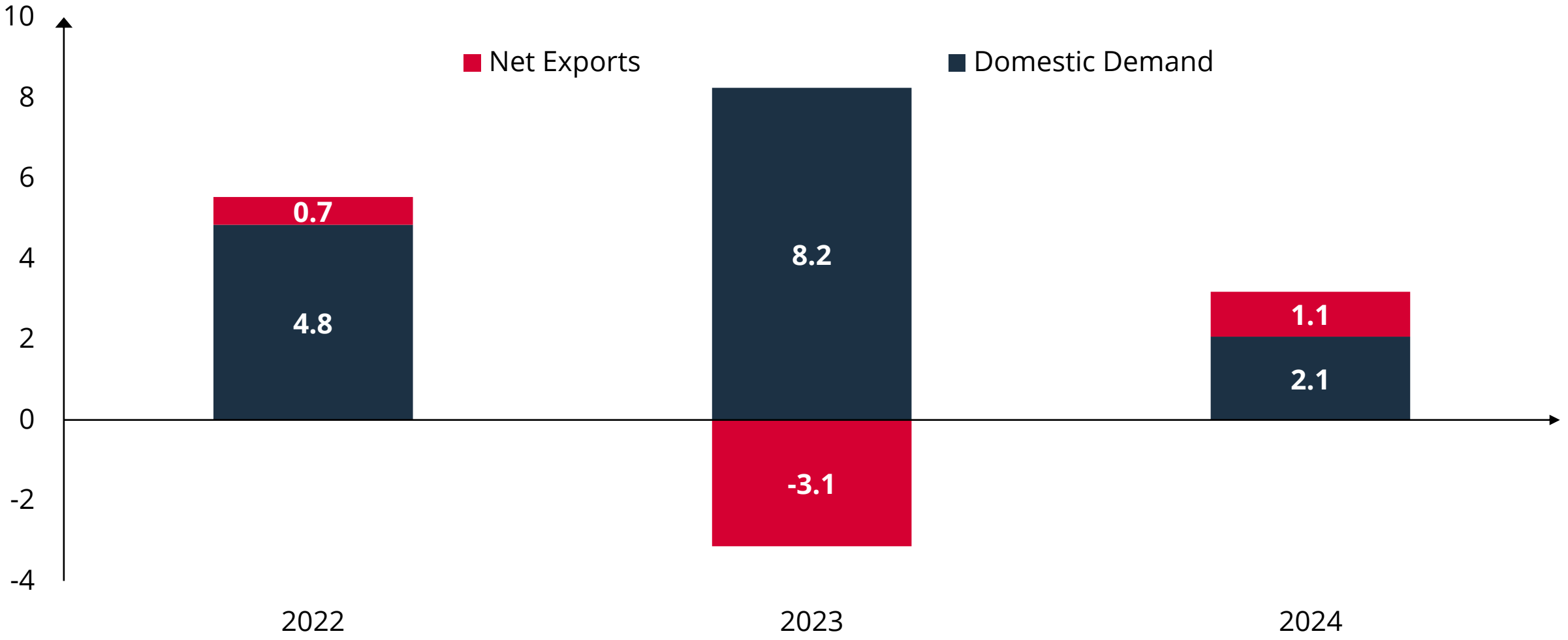
Source: Bloomberg. Last Observation: May 19, 2025.

*The change in policy rate pricing in futures markets for the end of 2025 between February 7 and May 19.

ECONOMIC ACTIVITY

Demand composition has become more balanced amid tight monetary policy.

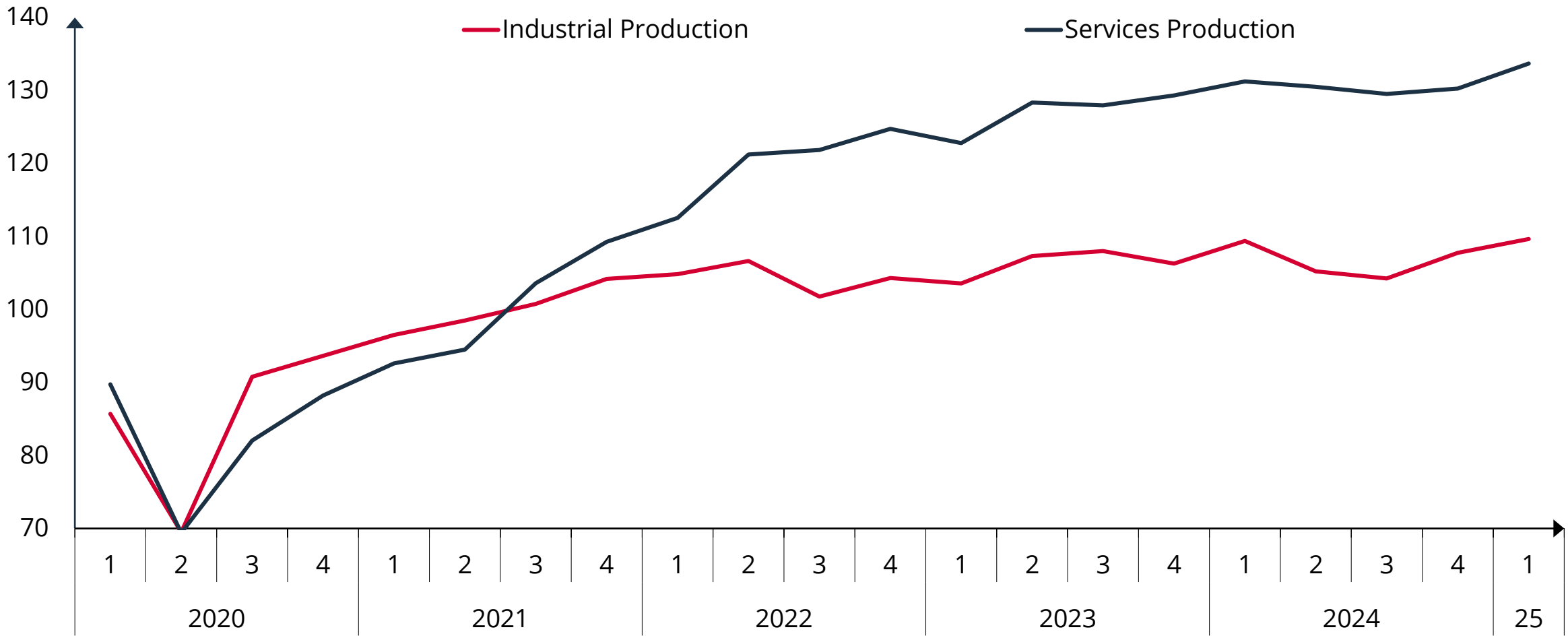
Contributions to Annual Growth from the Expenditure Side (% Points)



Source: CBRT, TURKSTAT.

Industrial and services production increased in the first quarter.

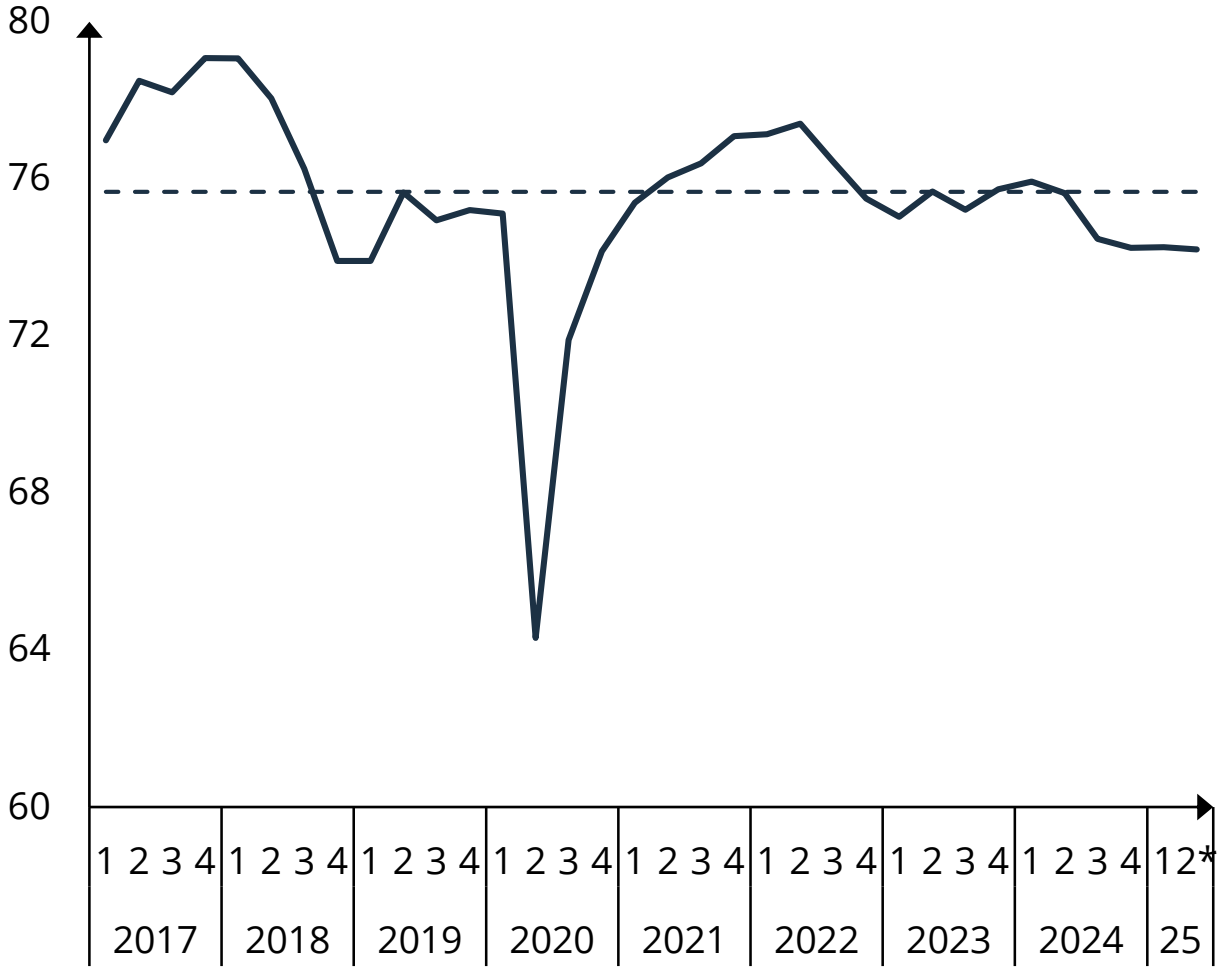
Production Indices (Seasonally and Calendar Adjusted, 2021=100)



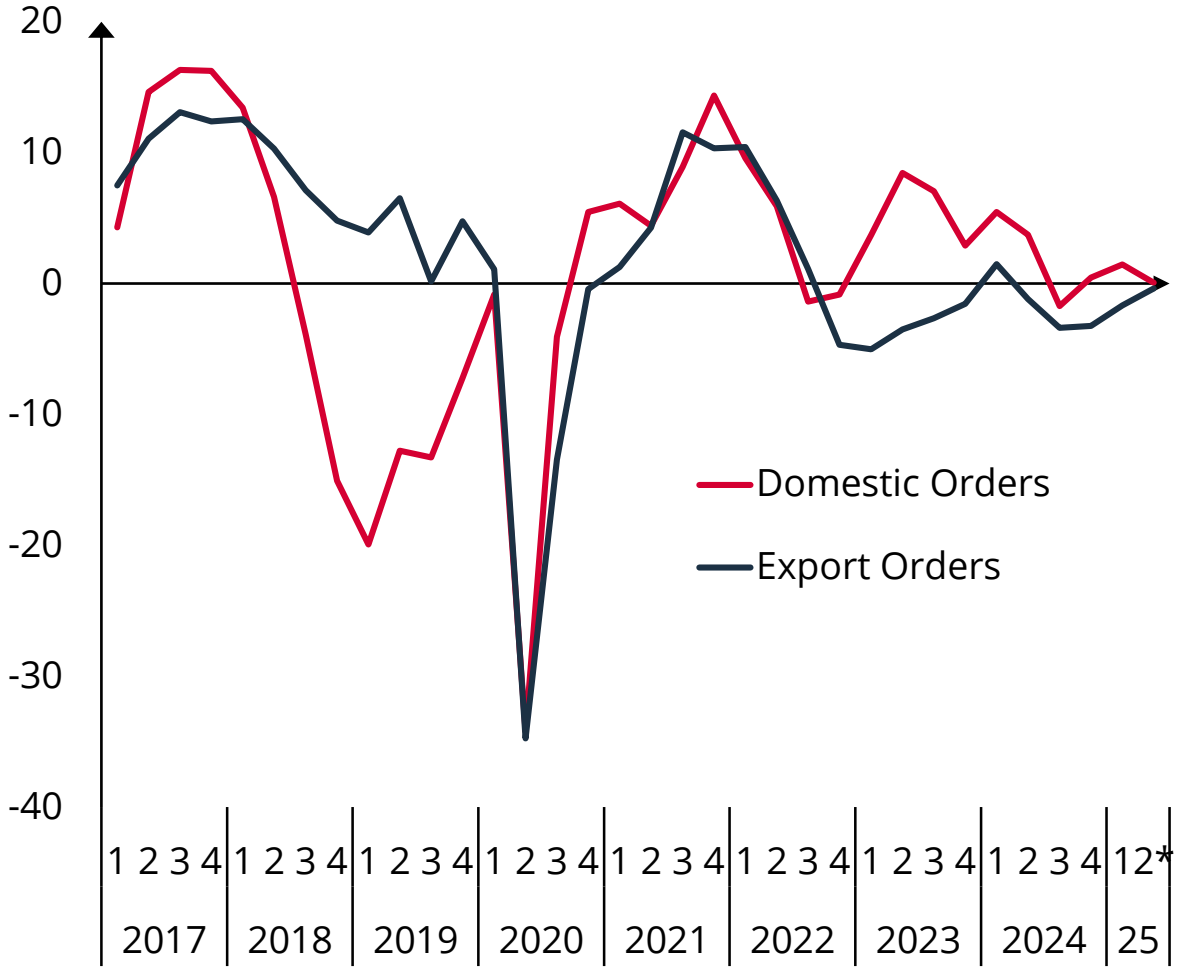
Source: TURKSTAT.

Survey-based indicators point to a weaker outlook in the industrial sector.

Capacity Utilization Rate**
(Seasonally Adjusted, %)



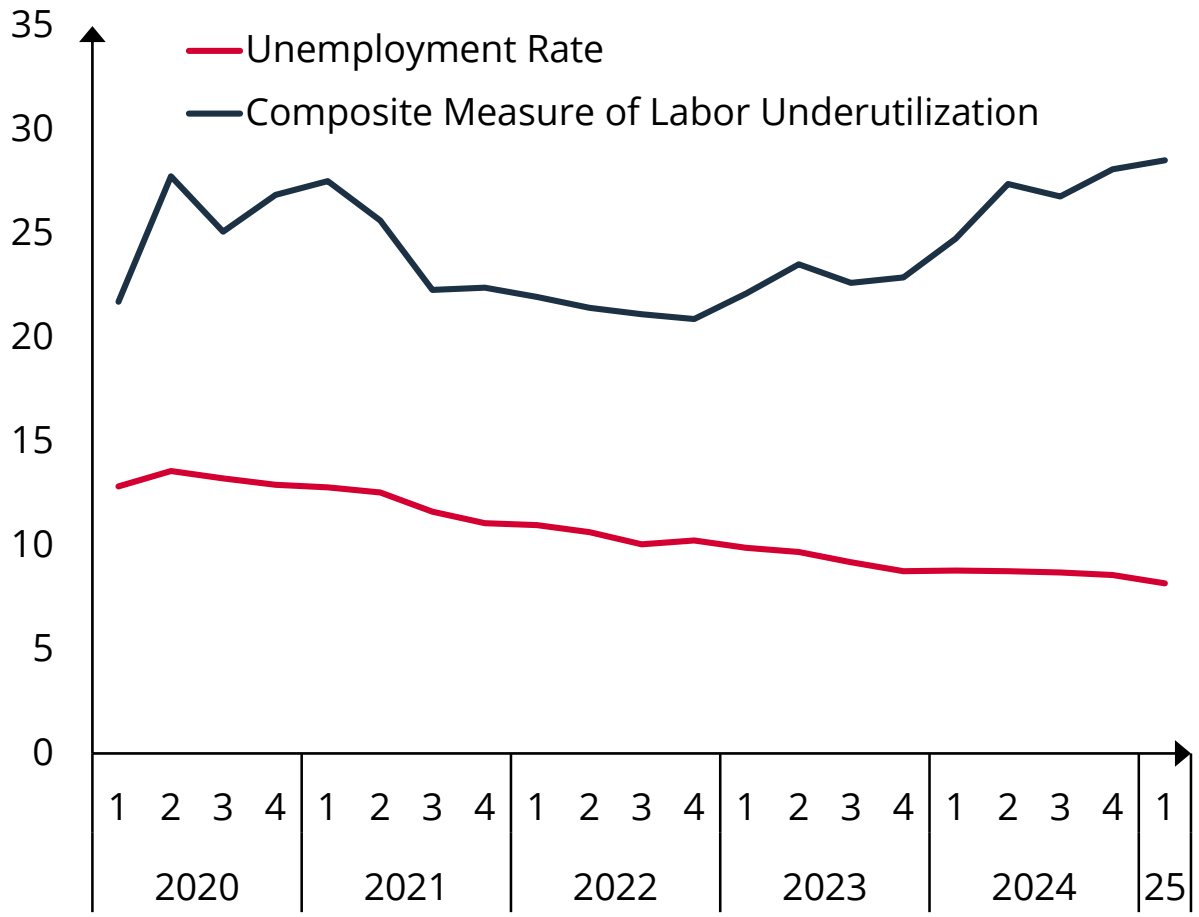
Registered Domestic and Export Orders
(Seas. Adj., Above Normal – Below Normal)



Source: CBRT Business Tendency Survey (BTS). * As of April. Dashed lines show the average of capacity utilization rate for 2007-2025 period, Order indicators are defined as the difference from the historical average. ** Manufacture of coke and refined petroleum products is excluded.

Labor market is less tight than the headline unemployment rate implies.

Labor Market Indicators
(Seasonally Adjusted, %)

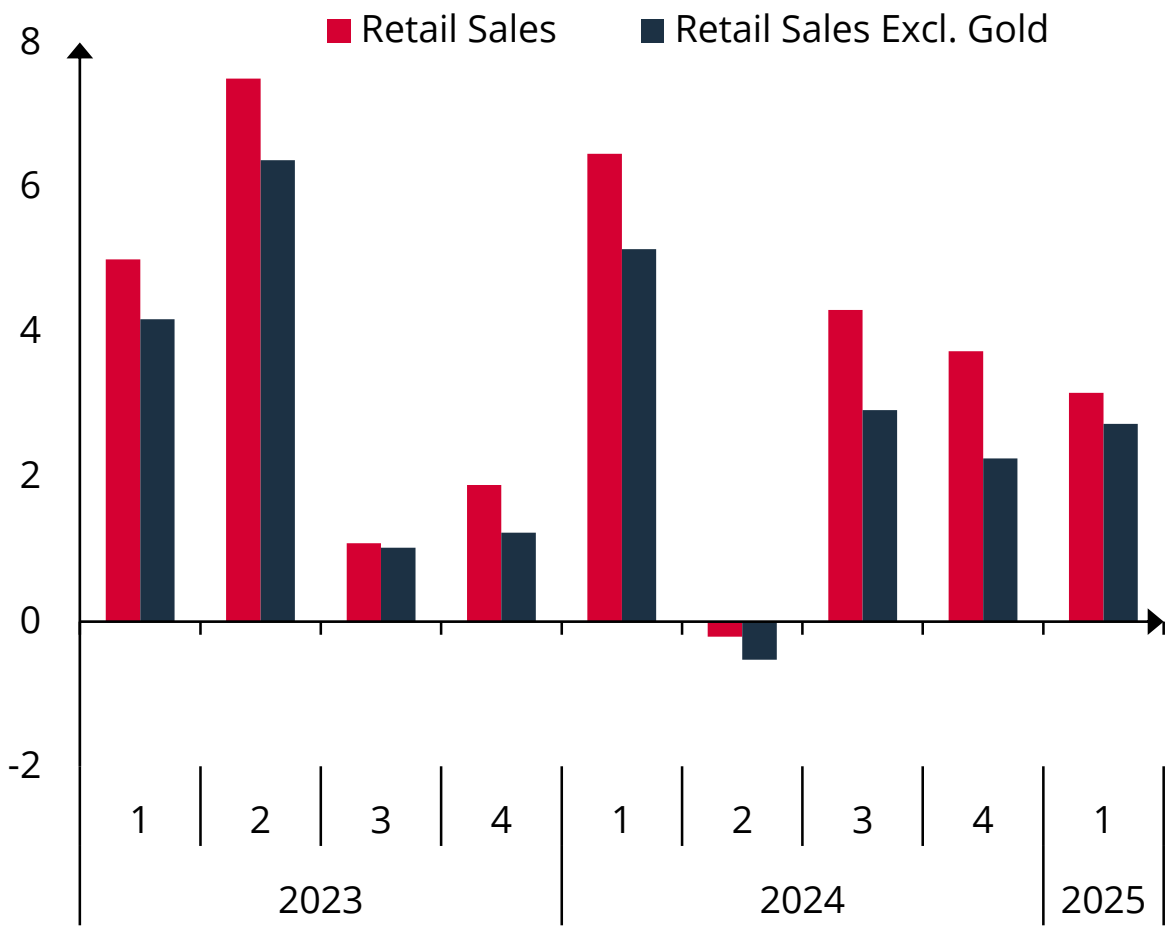


Kariyer.net Total Applications per Job Postings
(Seasonally Adjusted, 3-Month Moving Average)

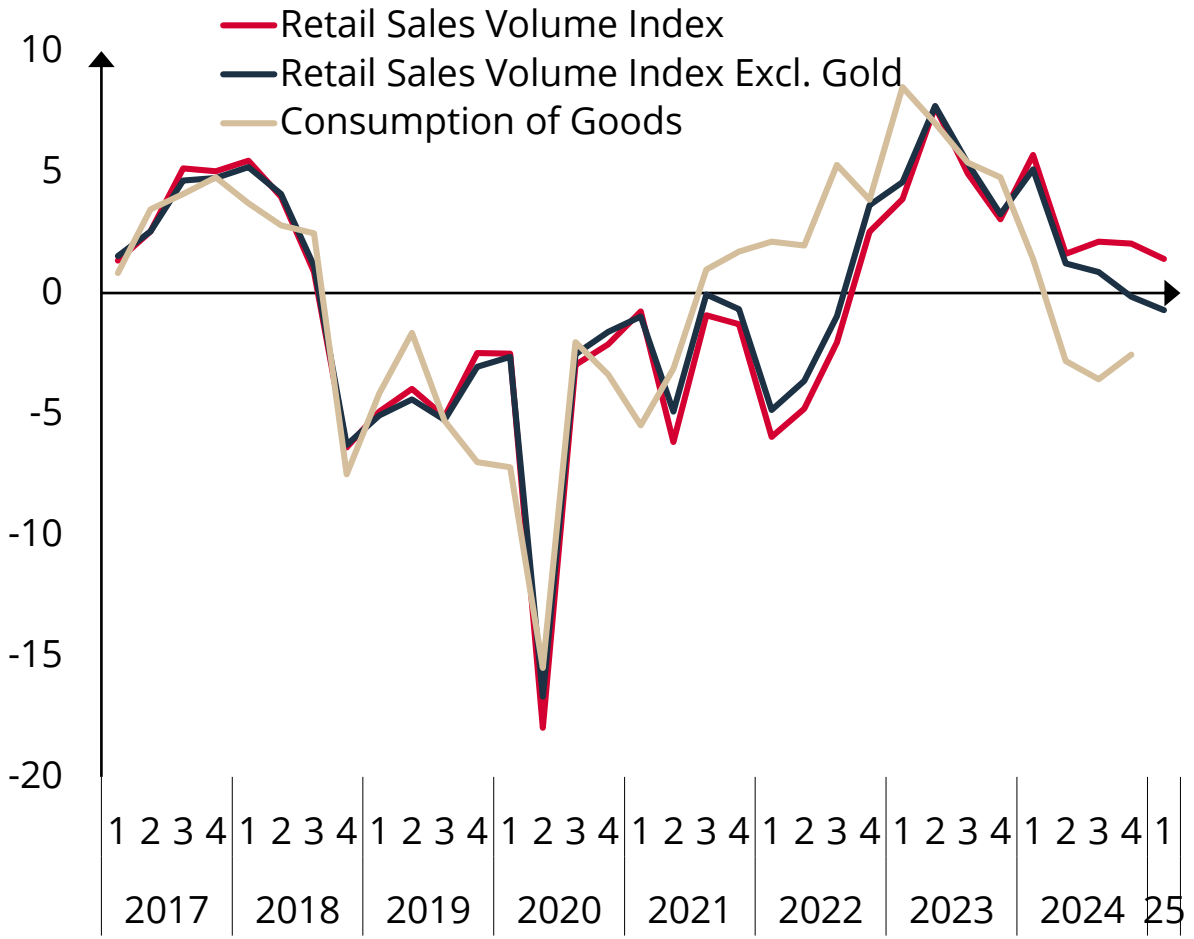
Source: Kariyer.net , CBRT, TURKSTAT.

Domestic demand lost momentum but stayed above projections.

Retail Sales Volume Index*
(Seas. Adj., Quarterly % Change)



Retail Sales Volume Index and Consumption of Goods**
(HP Gap, %)



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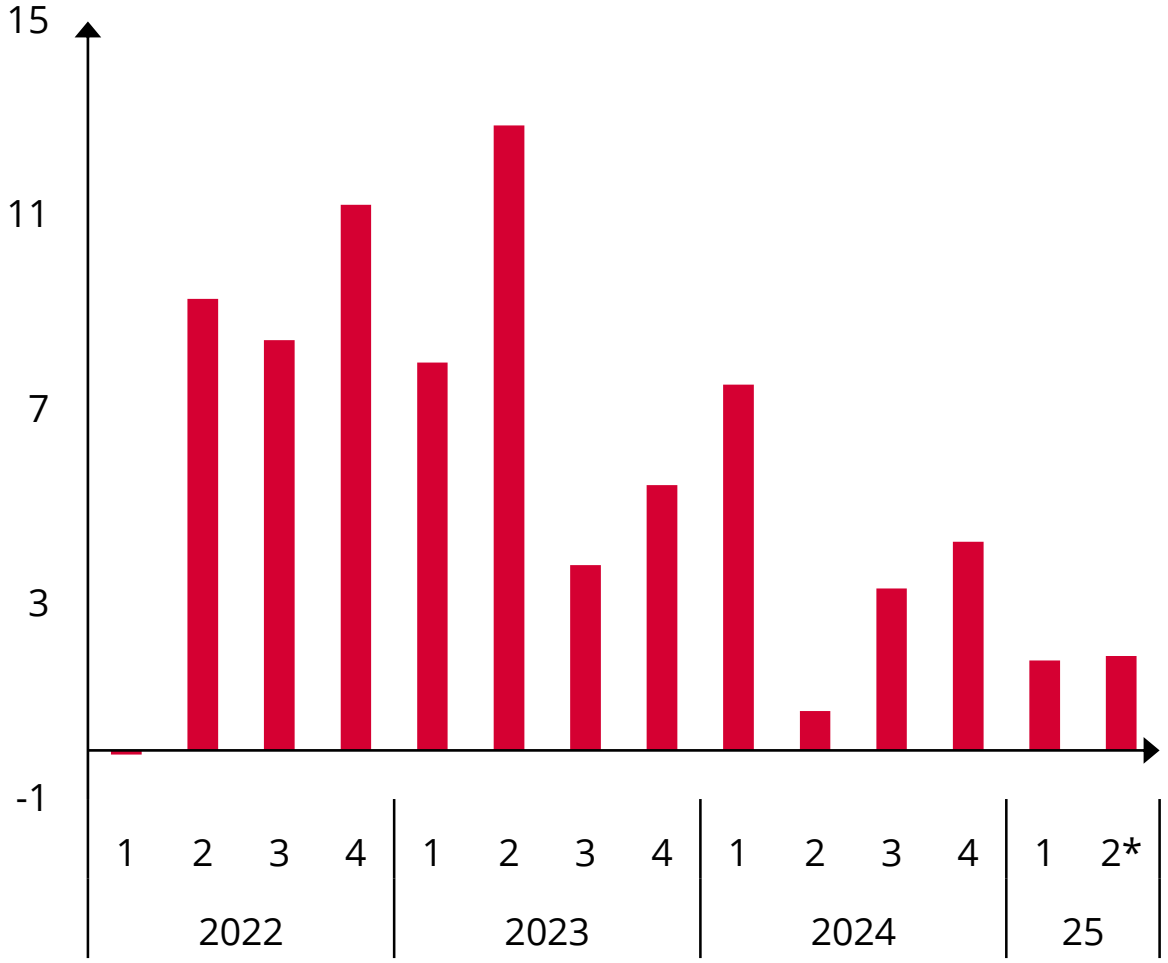
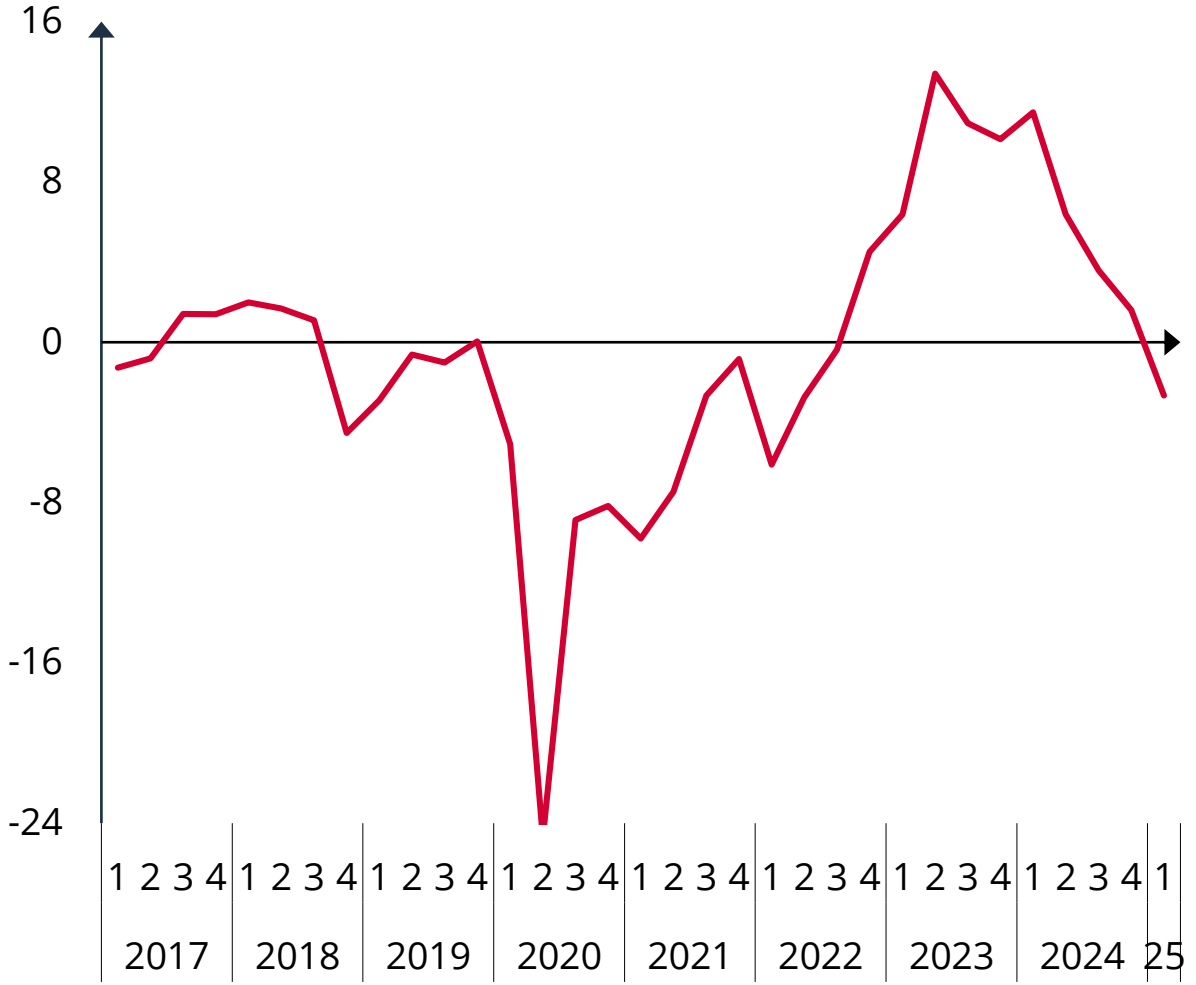
Source: CBRT, TURKSTAT. * Retail sales volume index excluding gold represents the retail sales volume index excluding watches and jewelry specifically omitting the item "47.77 - Retail sale of watches and jewelry in specialized stores" from retail trade activities. ** Consumption of goods refers to household consumption of goods under GDP.

Card spending suggests that the slowdown in consumption continues.

Card Spending
(Real, Seas. Adj., Quarterly % Change)



Card Spending
(Real, Seas. Adj., HP Gap, %)



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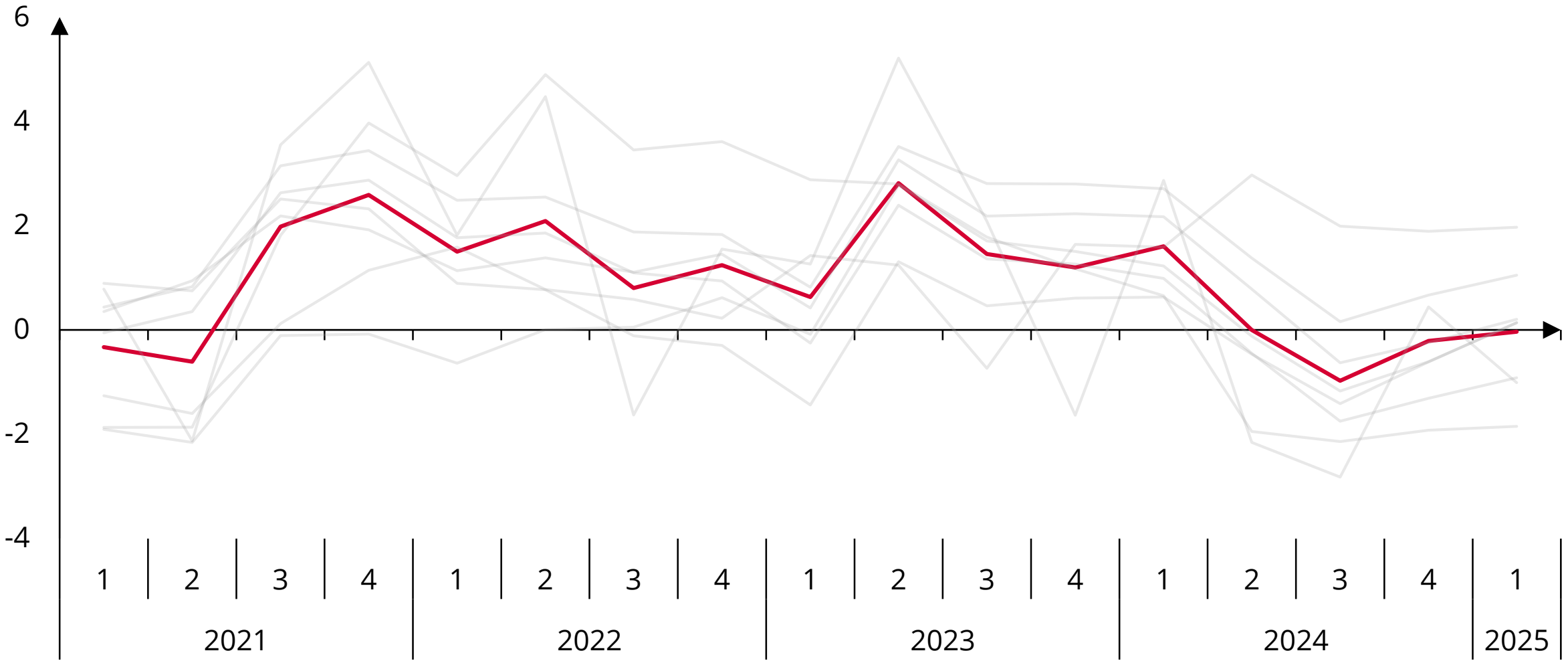
Source: CBRT.
* As of April.

The disinflationary impact of demand conditions declined in the first quarter.

Output Gap*

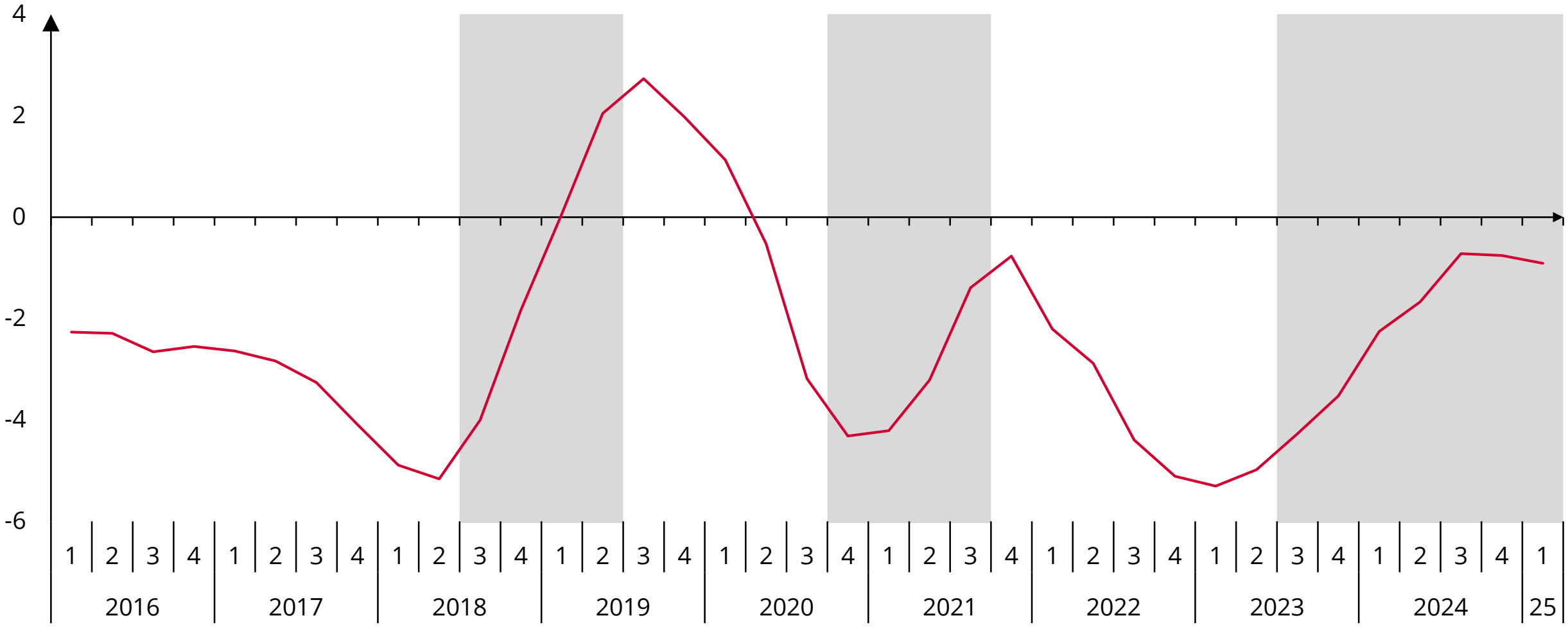


Source: CBRT.

* Light colored lines show the eight output gap estimates according to different methods, while the dark red line shows the average of these estimates.

Current account deficit remains at low levels.

Current Account Balance/GDP* (%)



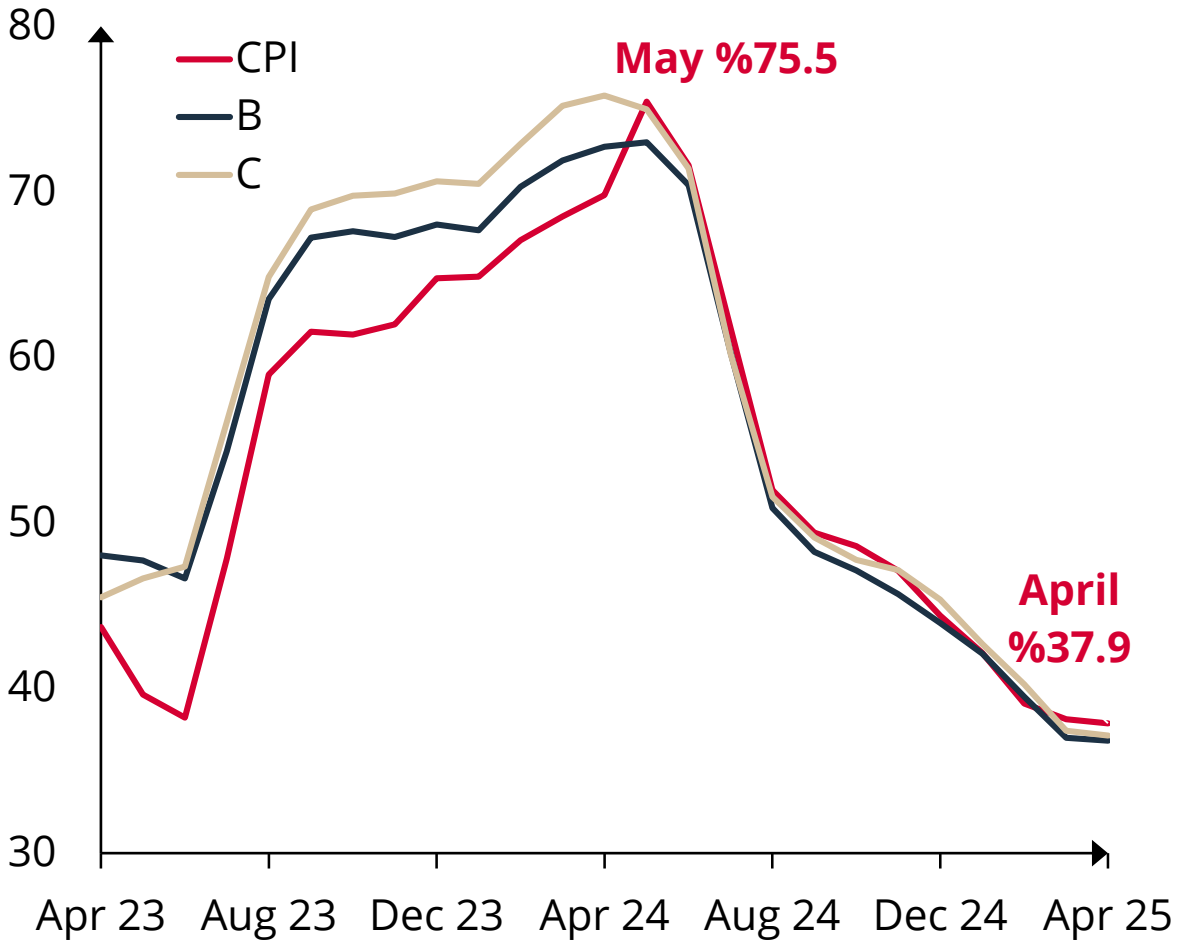
Source: CBRT, TURKSTAT.

* Estimate for the current account balance to GDP ratio in the first quarter of 2025. Shaded areas indicate monetary tightening periods.

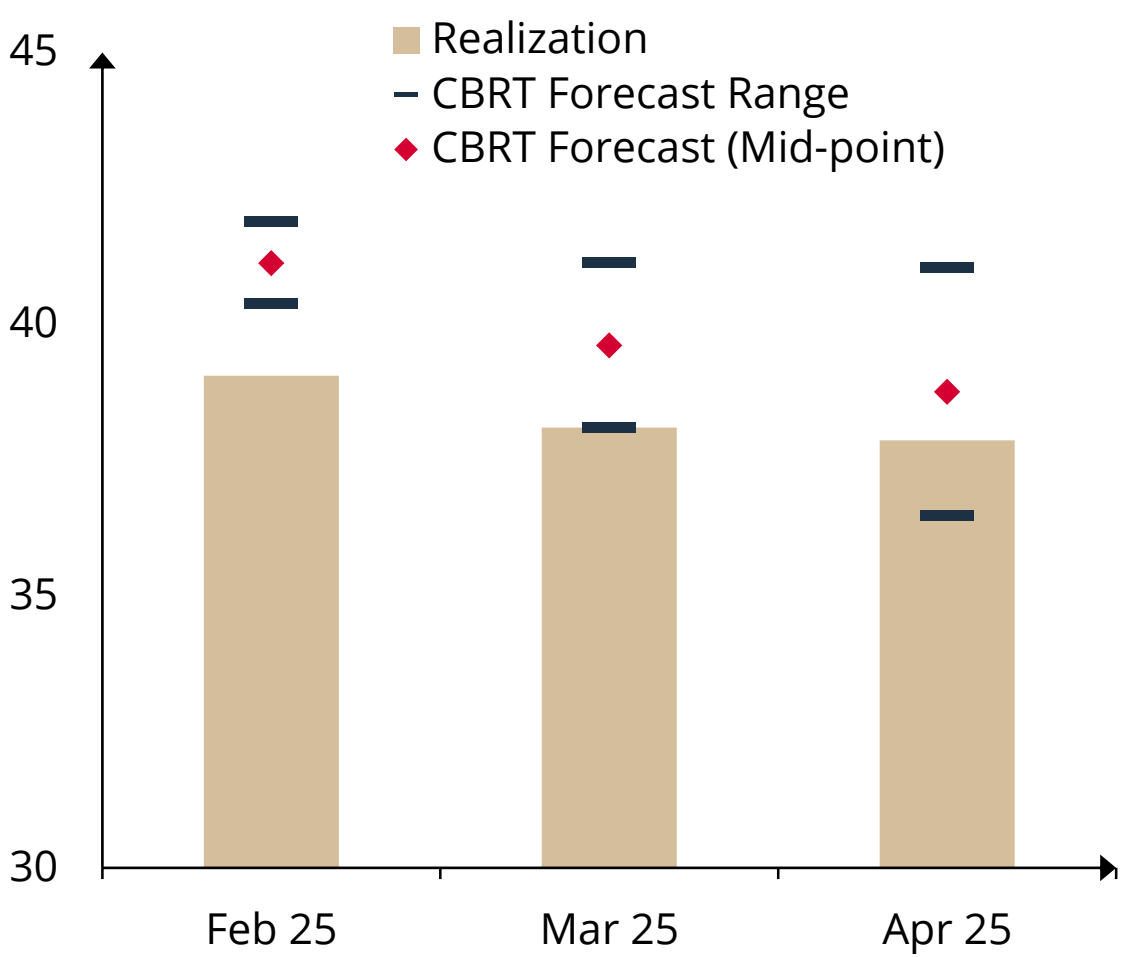
INFLATION

The disinflation process continues.

CPI and Core Indicators (Annual % Change)



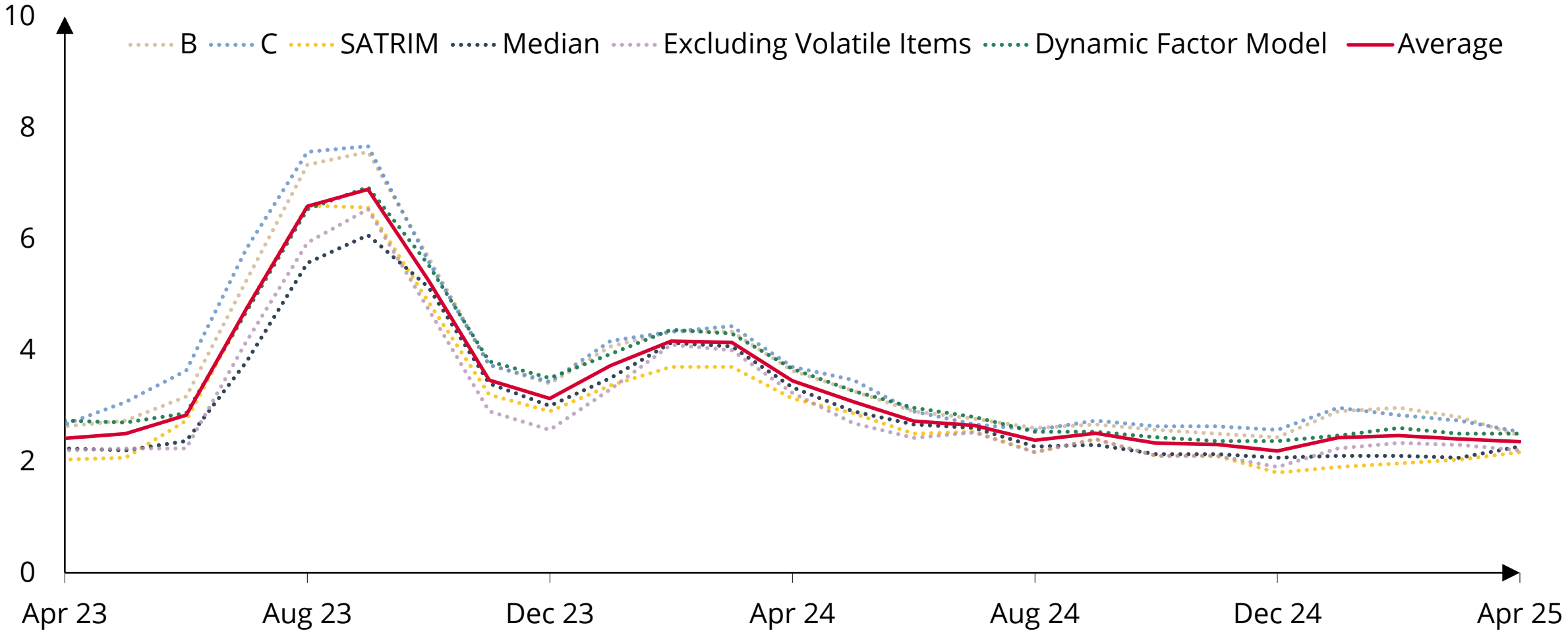
CPI Realization and CBRT Forecasts
(IR 2025-I) (Annual % Change)



Source: CBRT, TURKSTAT.

Indicators point to a stable course in the underlying inflation.

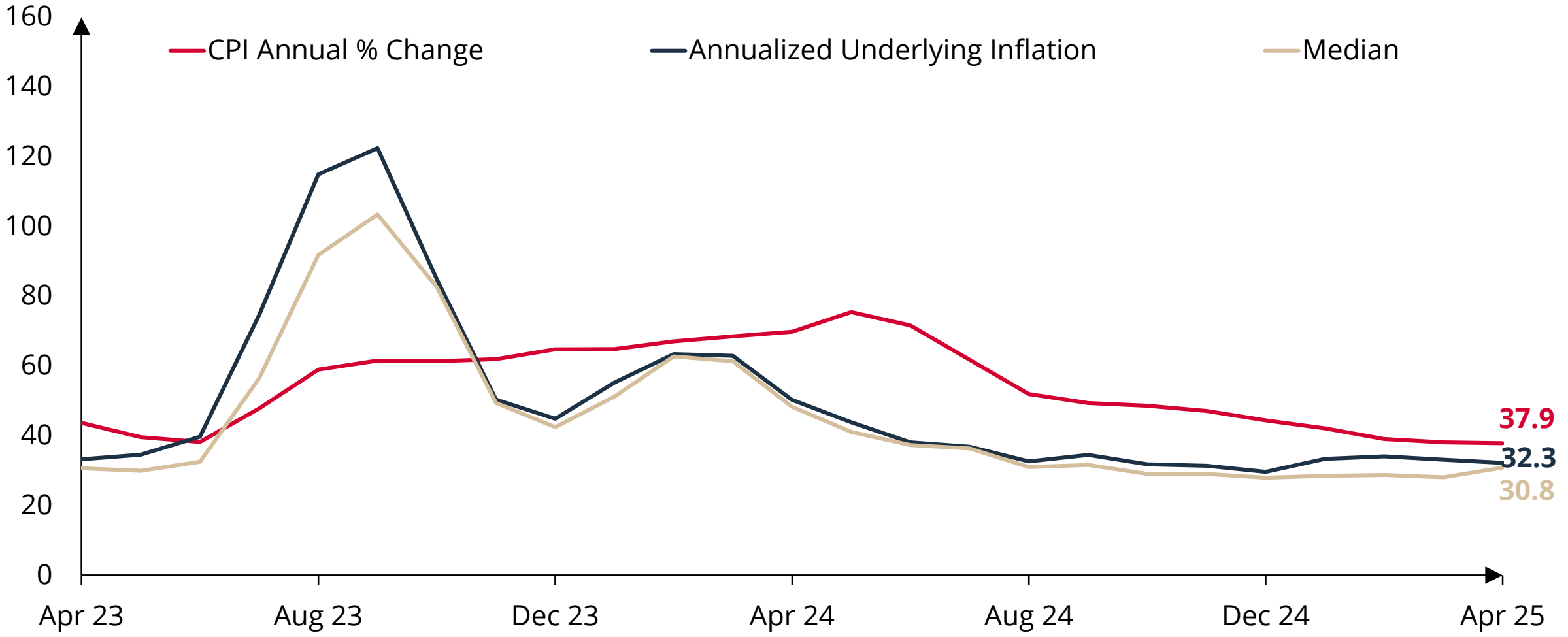
Underlying Inflation Indicators
(Seasonally Adjusted, Monthly % Change, 3-Month Average)



Source: CBRT, TURKSTAT.

Underlying inflation indicators point to ongoing disinflation.

CPI, Median and Underlying Inflation* (% Change)

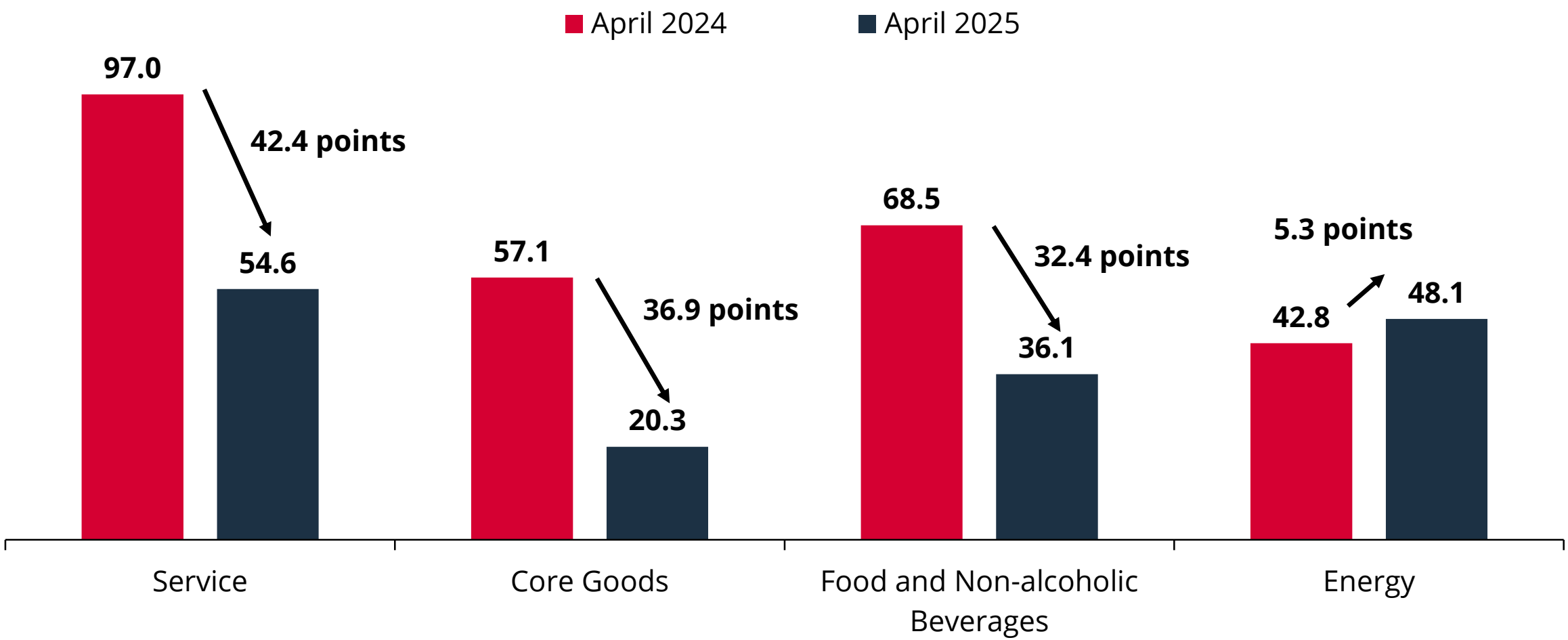


Source: CBRT, TURKSTAT.

* Annualized underlying inflation refers to the annualized value of the 3-month average of 6 different indicators (seasonally adjusted B, C, SATRIM, Median, Excluding Volatile Items and Dynamic Factor Model). The annualized value of the 3-month average of the monthly value is used for the median.

The decline in services inflation is becoming more evident.

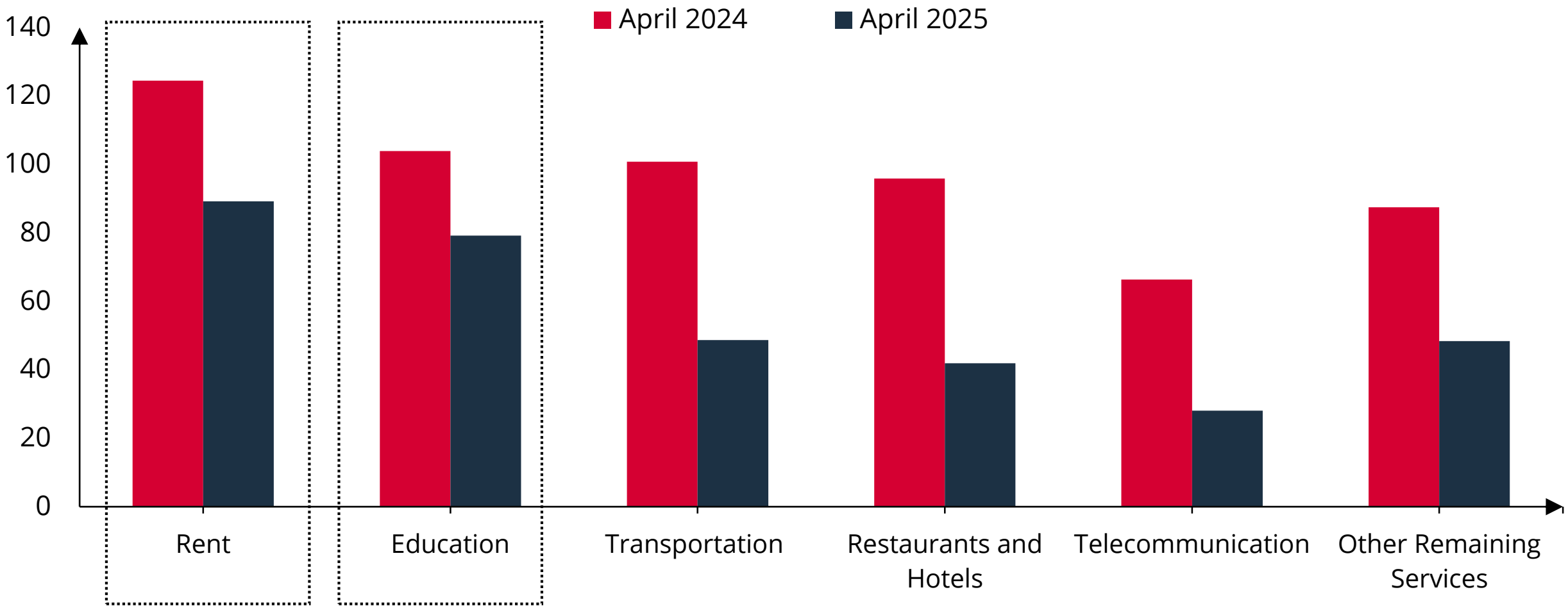
CPI Subcategories (Annual % Change)



Source: TURKSTAT.

Items with backward indexation are pushing up services inflation.

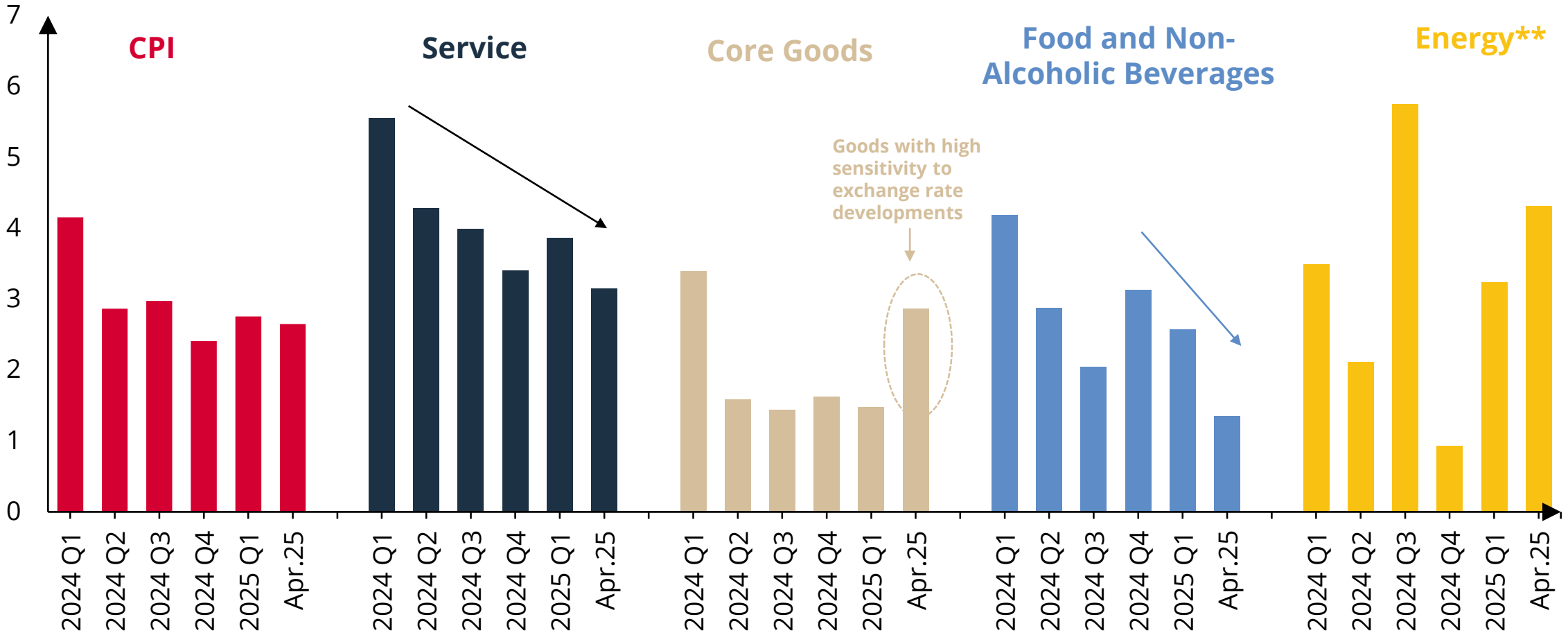
Services Prices (Annual % Change)



Source: TURKSTAT.

Core goods inflation picked up in April.

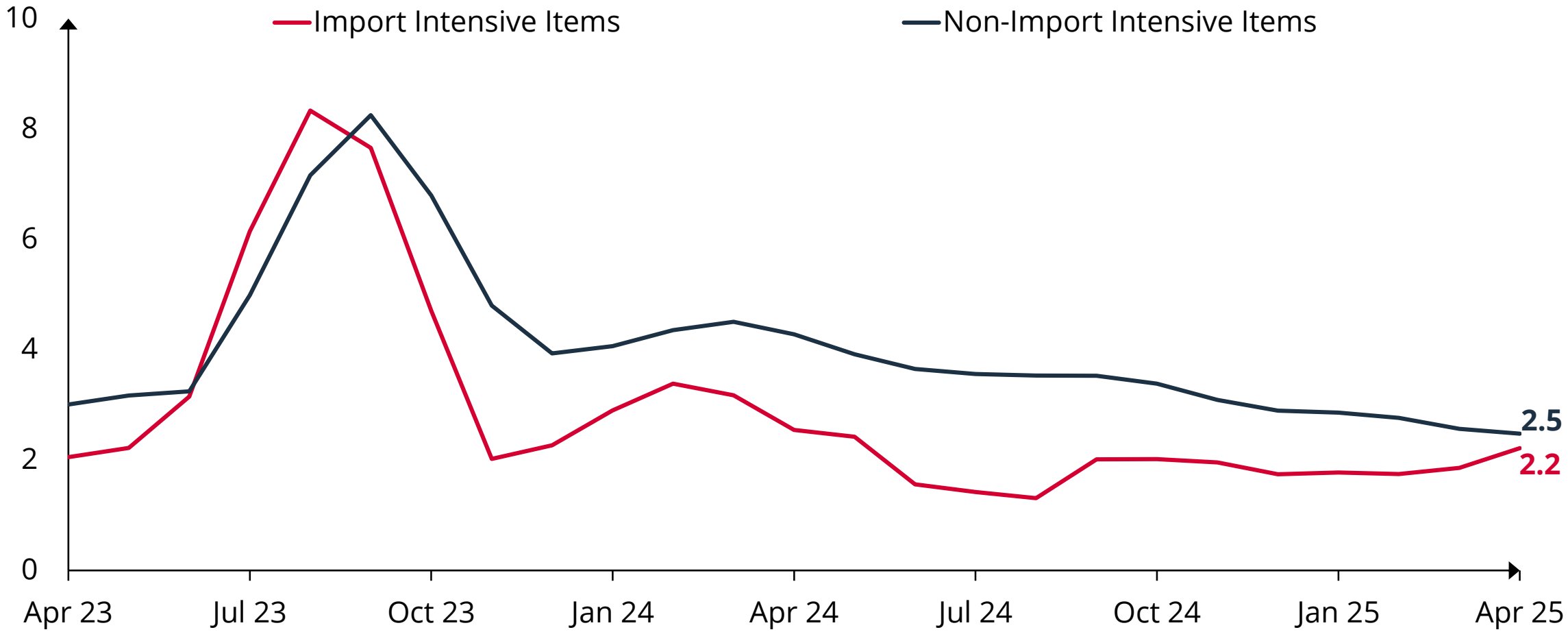
Monthly Inflation* (Seasonally Adjusted, Quarterly Average)



Source: TURKSTAT.
* 2025 April data shows the seasonally adjusted monthly inflation.
** No seasonal effect in energy group.

Current data imply that the exchange rate effect is more limited compared to past.

Prices in Items with High and Low Imported Input Intensity* (Seasonally Adjusted, 3 Months Average, % Change)



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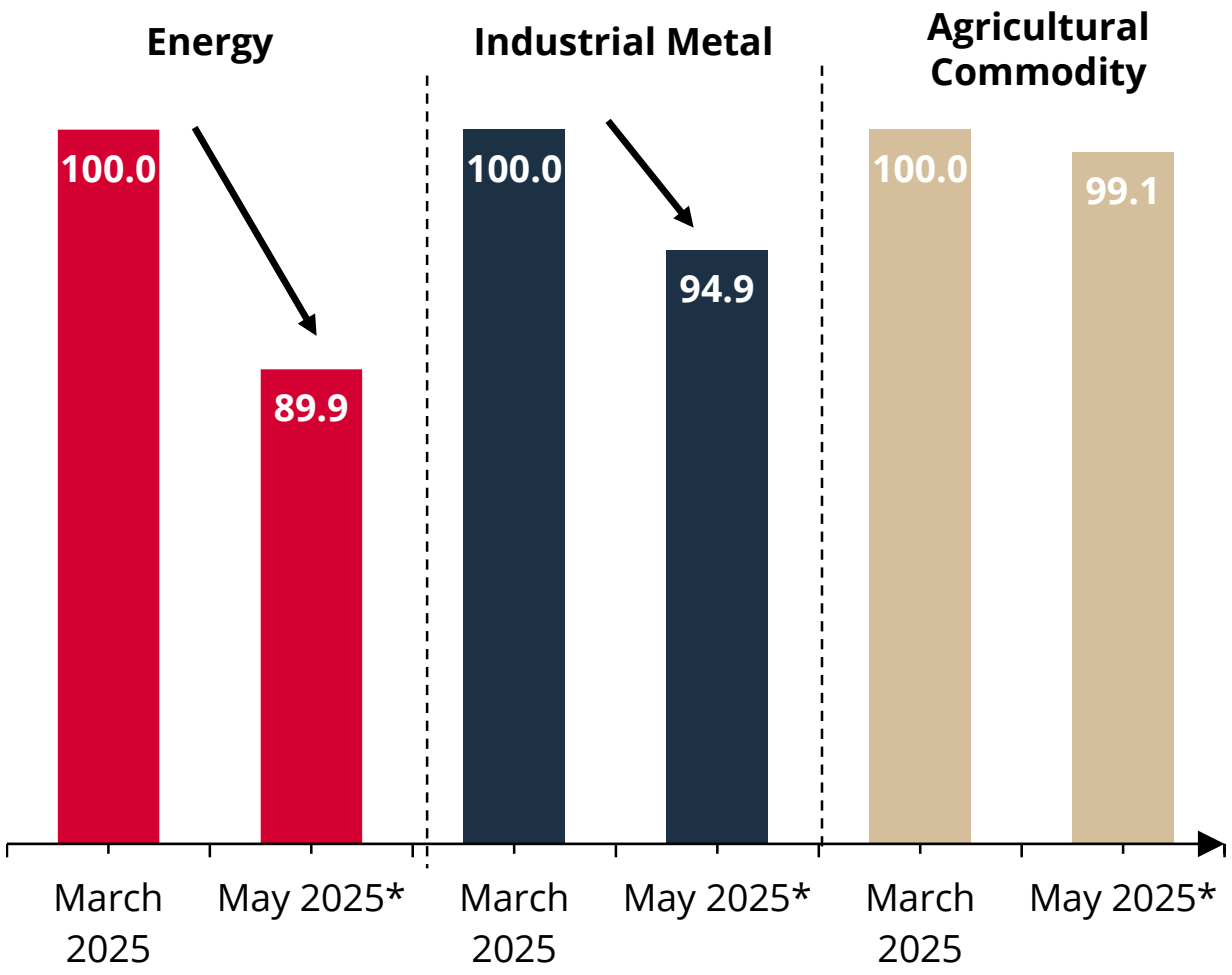
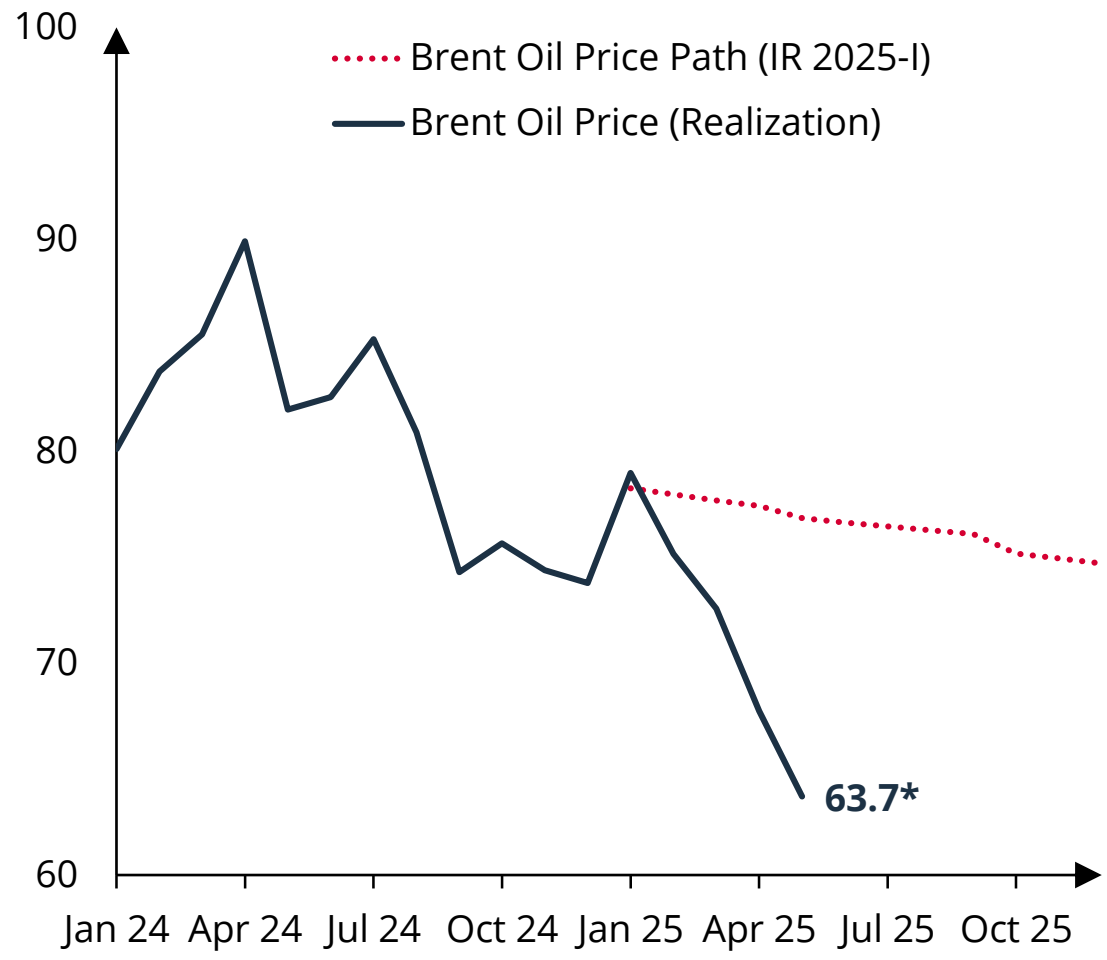
* Imported input ratios including indirect purchases are calculated for each firm using the foreign trade micro data set and declared purchases and sales data. The threshold for dividing the basket into import-intensive and others is taken as 16%.

The fall in commodity prices is expected to support disinflation.

Commodity Prices (March 2025=100)



Oil Price Assumption and Realization ($/Barrel)



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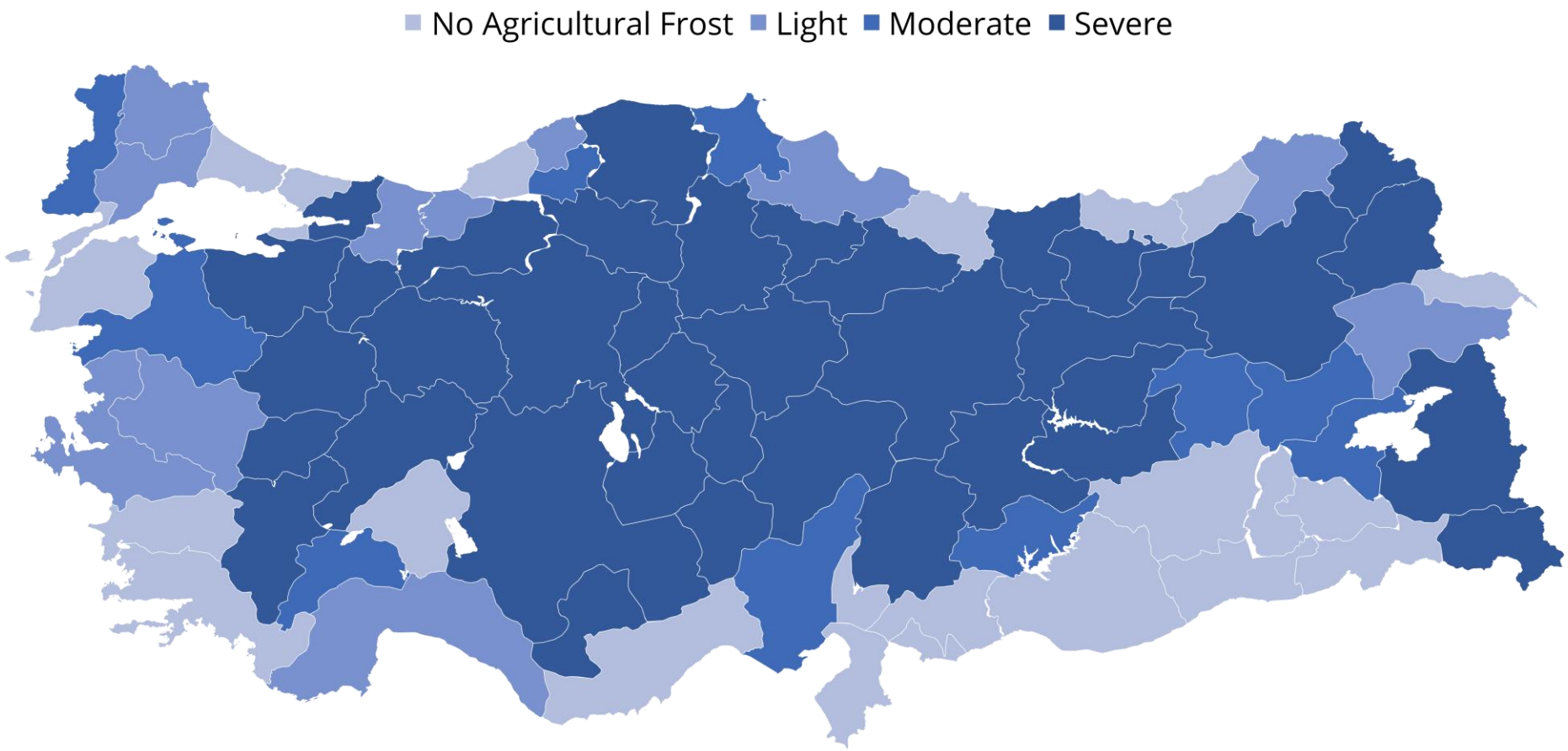
Source: CBRT, TURKSTAT.

* It shows the average for the first 19 days of May.

Agricultural frost events have increased upward risks on food prices.

Agricultural Frost Map* (April 2025)

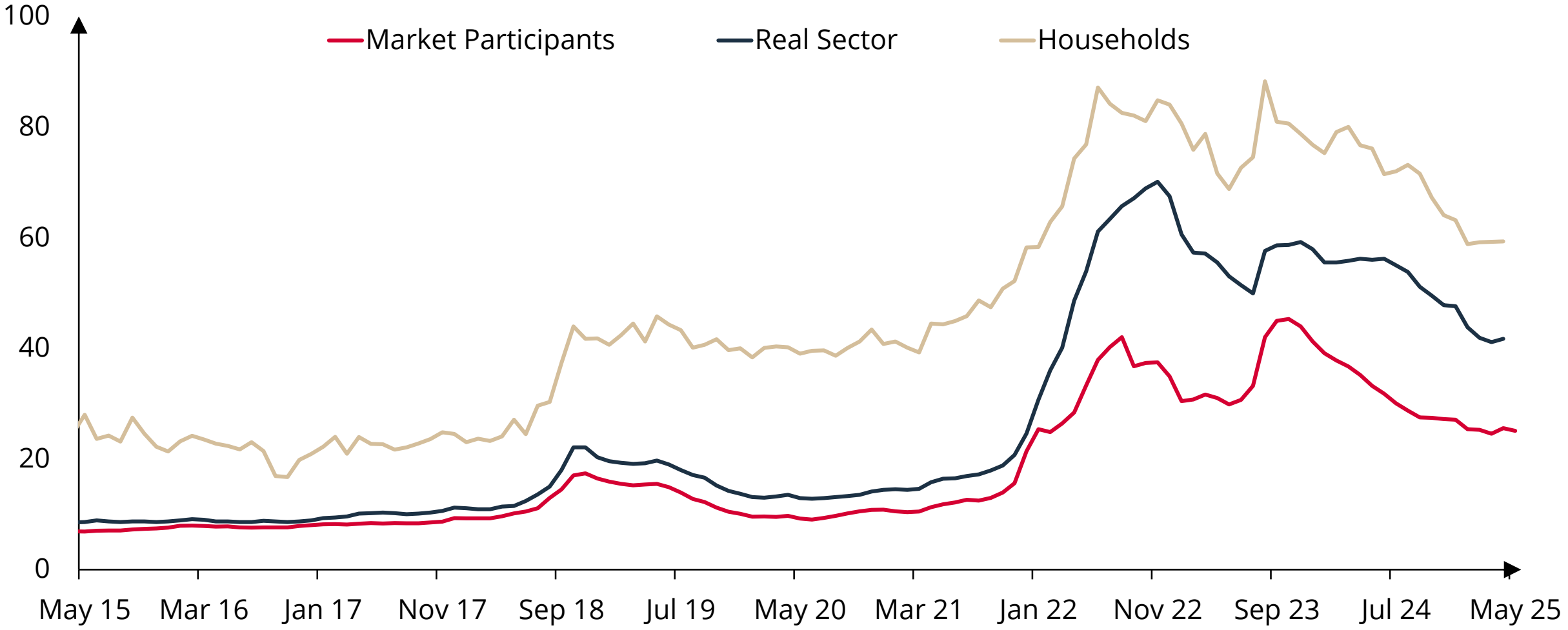


Source: TSMS, CBRT.

* Frost events are classified as light frost (0°C to -2.2°C), moderate frost (-2.2°C to -4.4°C) and severe frost (-4.4°C and below) according to TSMS classification.

Expectations continue to pose risks to the disinflation process.

Expectations of 12-Month Annual CPI Inflation (%)



Source: CBRT.

RECENT DEVELOPMENTS AND MONETARY POLICY

Proactive, market friendly actions supported tight monetary policy stance.

Cost of Funding

Interim MPC:

- Overnight lending rate was raised from **44% to 46%**.
- One-week repo auctions were suspended.

April MPC:

- Policy rate was raised by 350 basis points to **46%**.
- Overnight rate corridor was raised to **44.5% - 49%** from 41% - %46**.**

Liquidity Management

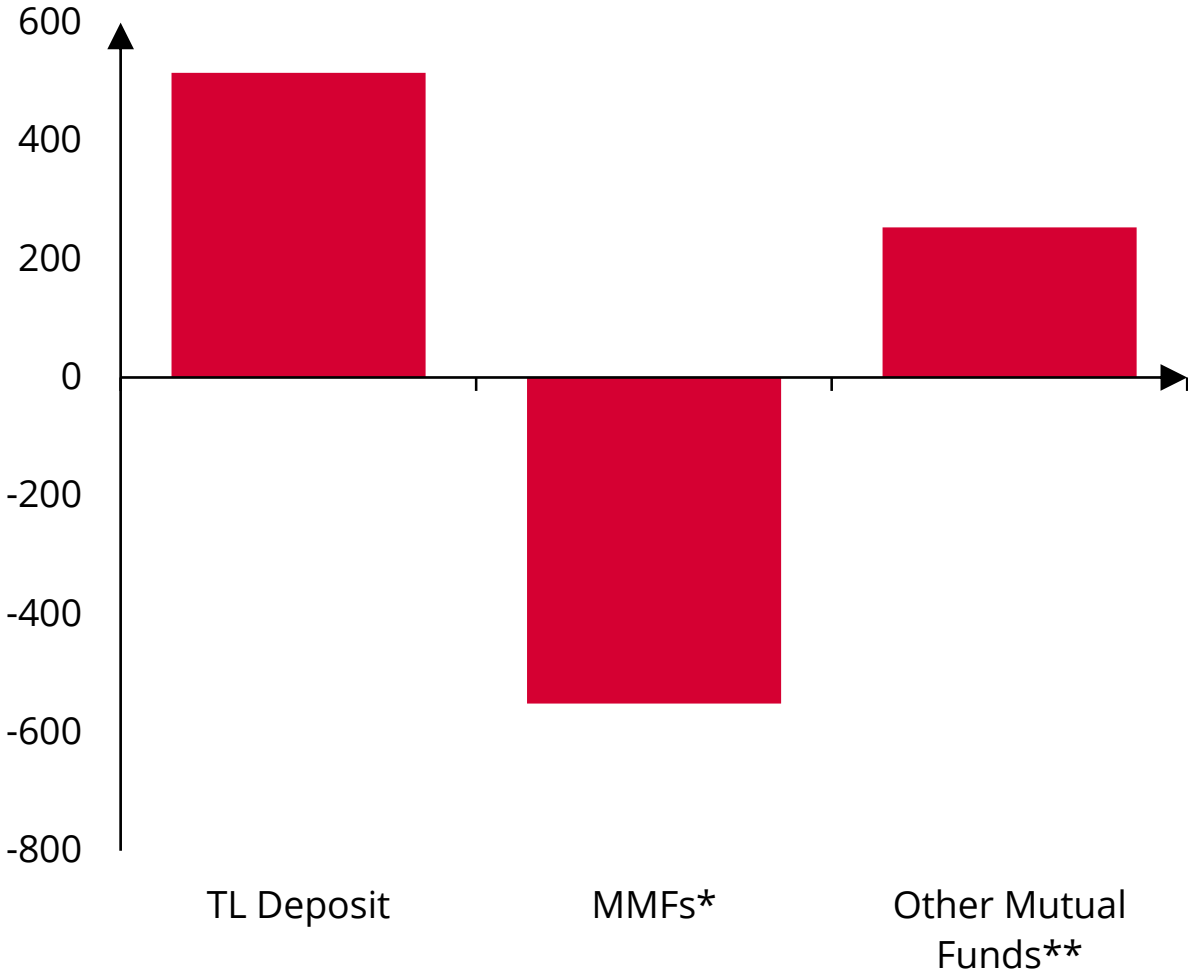
- The maturity of TL deposit buying auctions was extended.
- Liquidity bills issuance started.

FX Demand

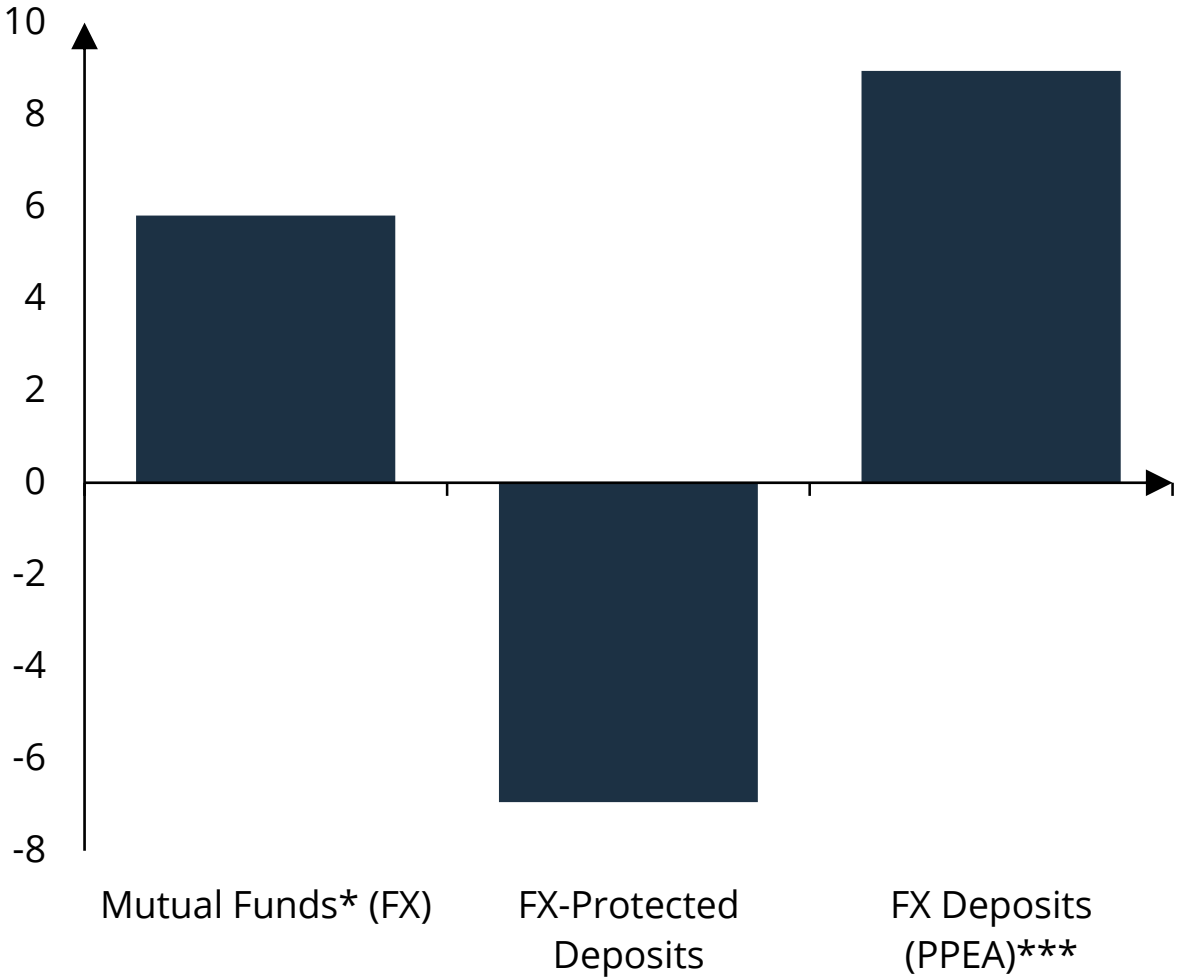
- FX Forward transactions (NDF) started.
- To enhance and stabilize returns in money market funds, CBRT conducted outright purchases of GDDS.

TL outflows were from money market funds.

TL Instruments
(Change over March, 18 – May, 15, Billion TL)



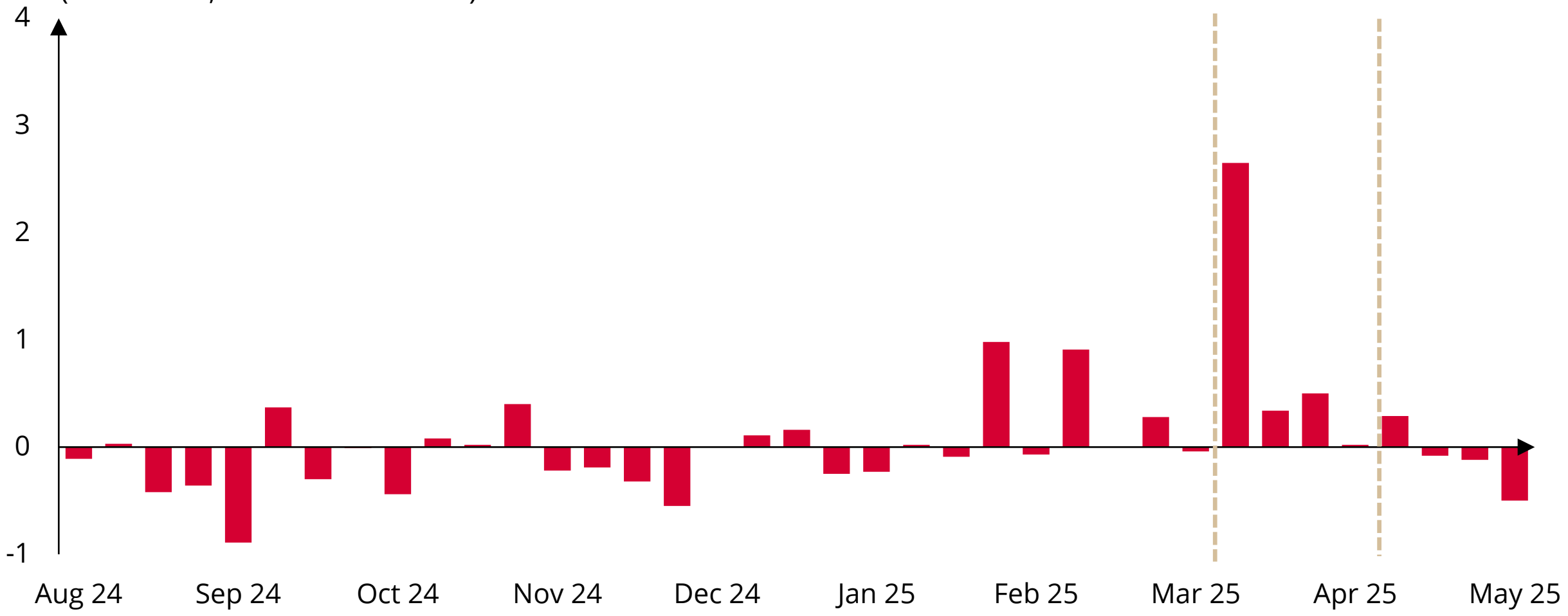
FX Instruments
(Change over March, 18 – May, 15, Billion USD)



Source: Left Panel: TEFAS, BRSA, as of May 15, 2025. Right Panel: CBRT, BRSA,TEFAS as of May 15, 2025.
*Change in mutual funds and MMF (including pariticipation MMFs) is denominated in nominal values.
**Includes debt mutual funds and other mutual funds.
*** PPEA stands for price and parity effects adjusted

Household FX deposit demand slowed down after the last MPC meeting.

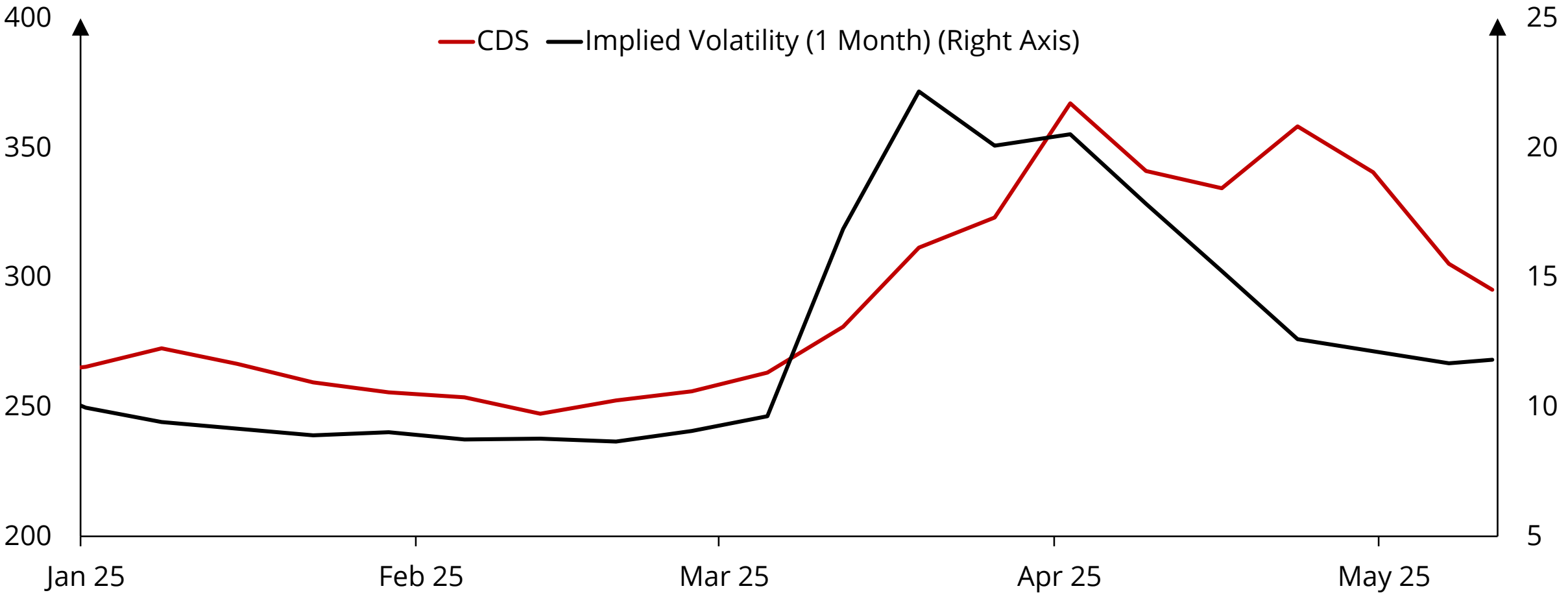
Domestic Resident FX Deposits Weekly Changes*
(Billion USD, Domestic Branches)



Source: CBRT. As of May 9, 2025
* Parity effects adjusted.

Volatility in financial markets decreased due to the measures taken.

CDS Premium and Exchange Rate Volatility (Weekly Average)

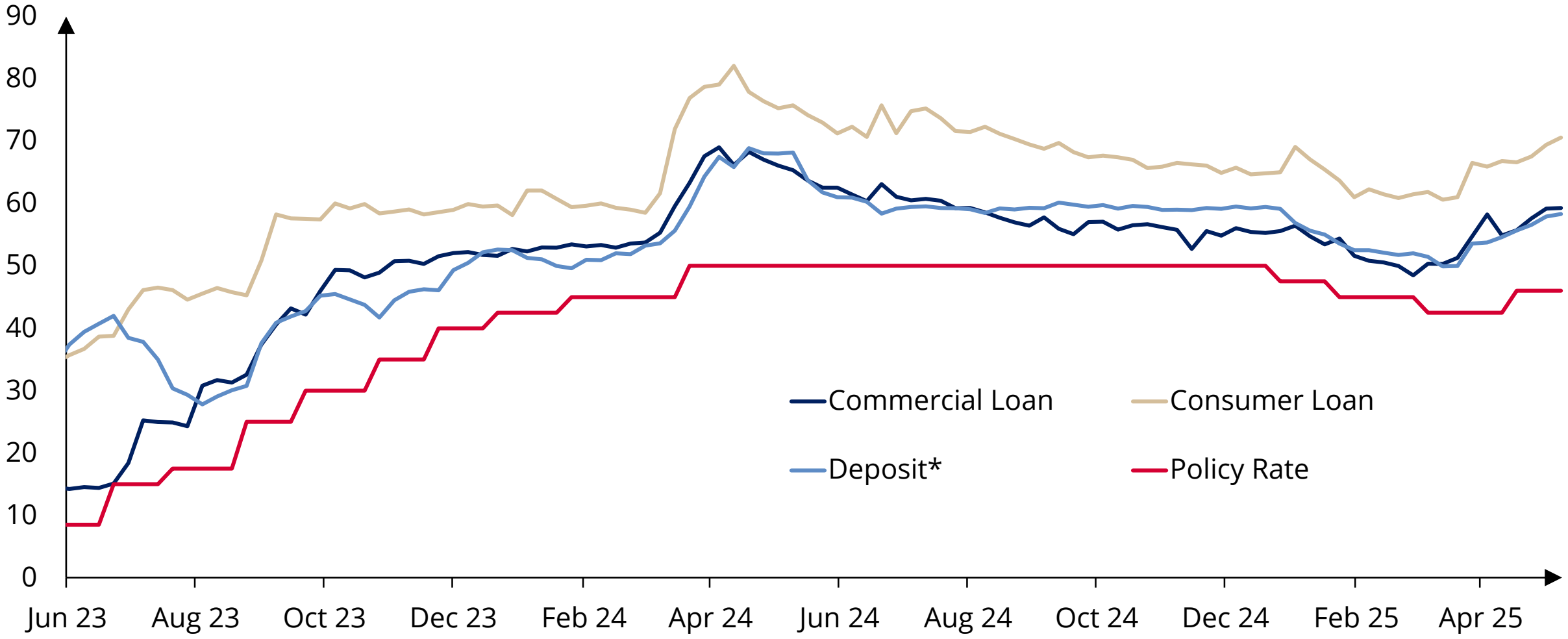


Source: Bloomberg. As of May 20, 2025

FINANCIAL CONDITIONS

Financial conditions remain tight.

Interest Rates (%)

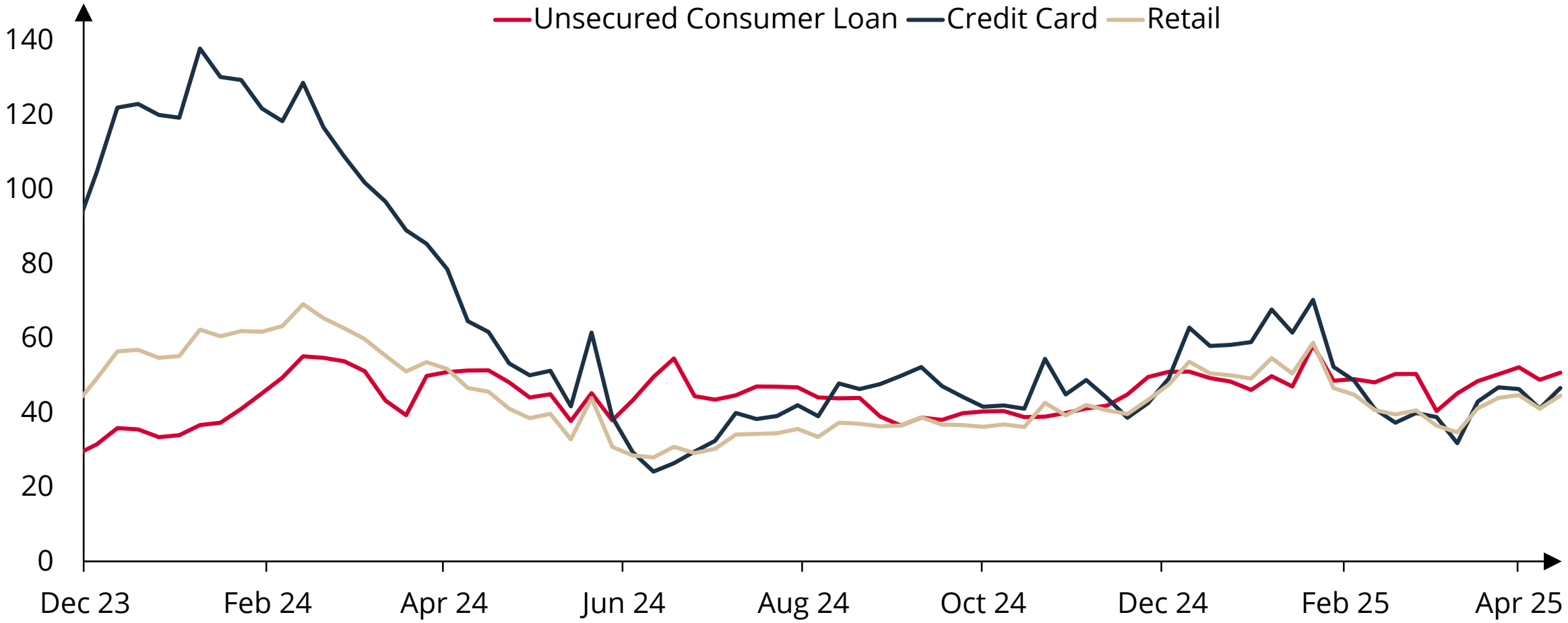


Source: CBRT. As of May 9, 2025

* 1 to 3 month TL deposit interest rate

Retail loan growth increased slightly in April.

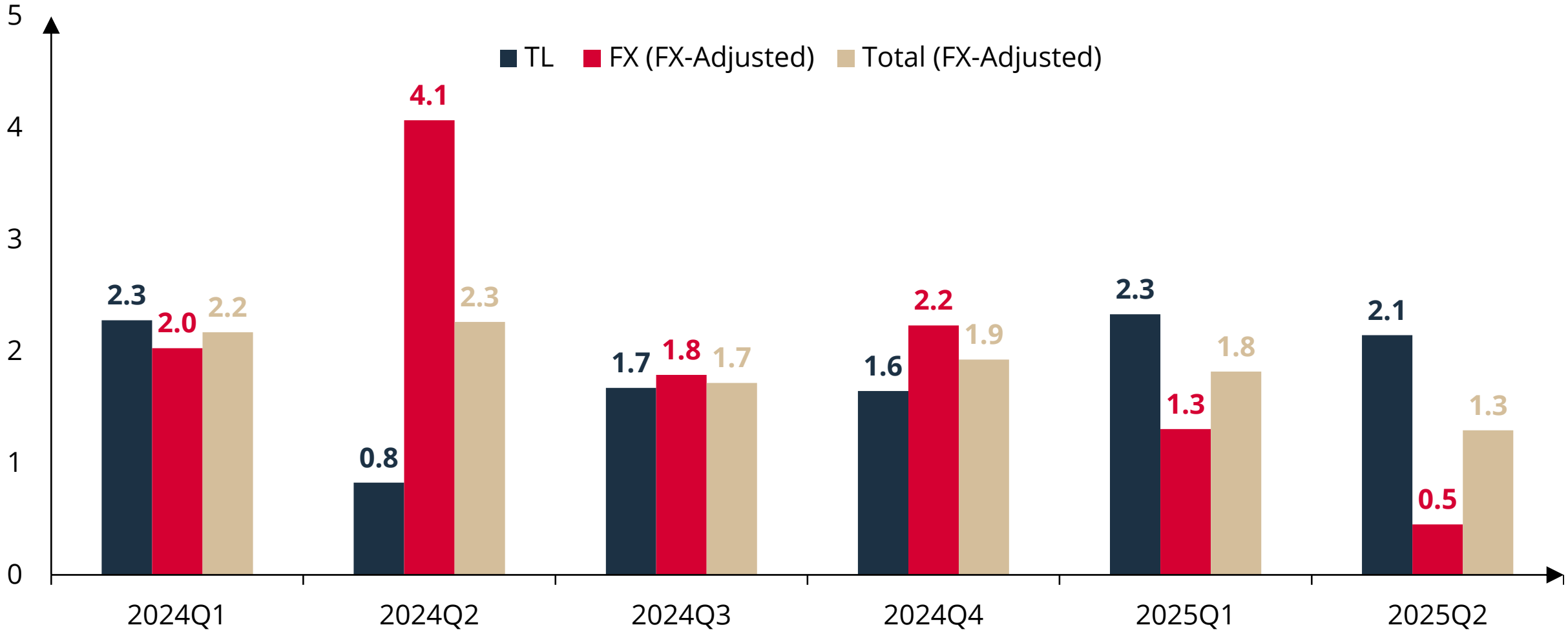
Retail Loan Growth (13-Week, Annualized, %)



Source: CBRT. As of May 9, 2025

Commercial loan growth is in line with the caps.

Commercial Loan Growth* (%)

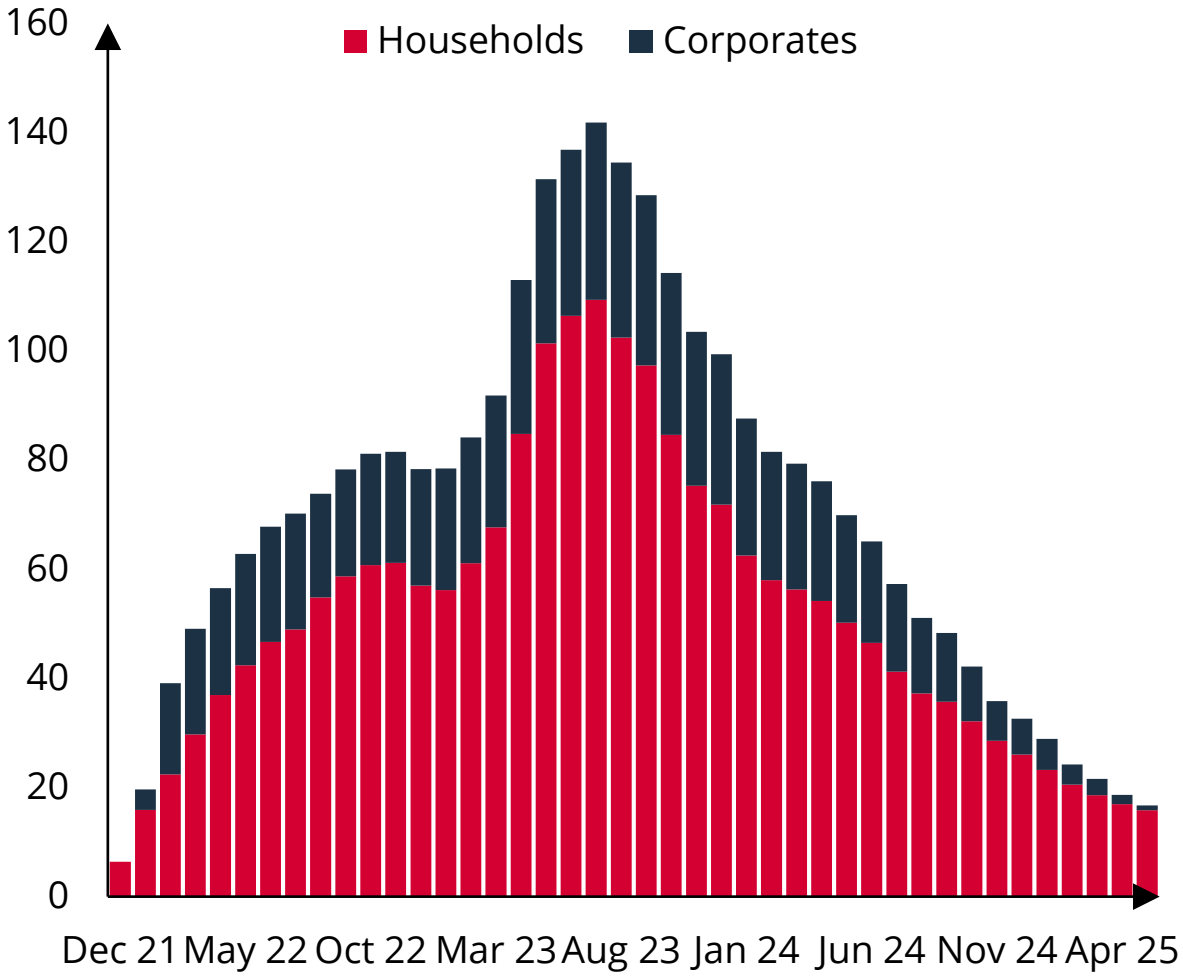


Source: CBRT.

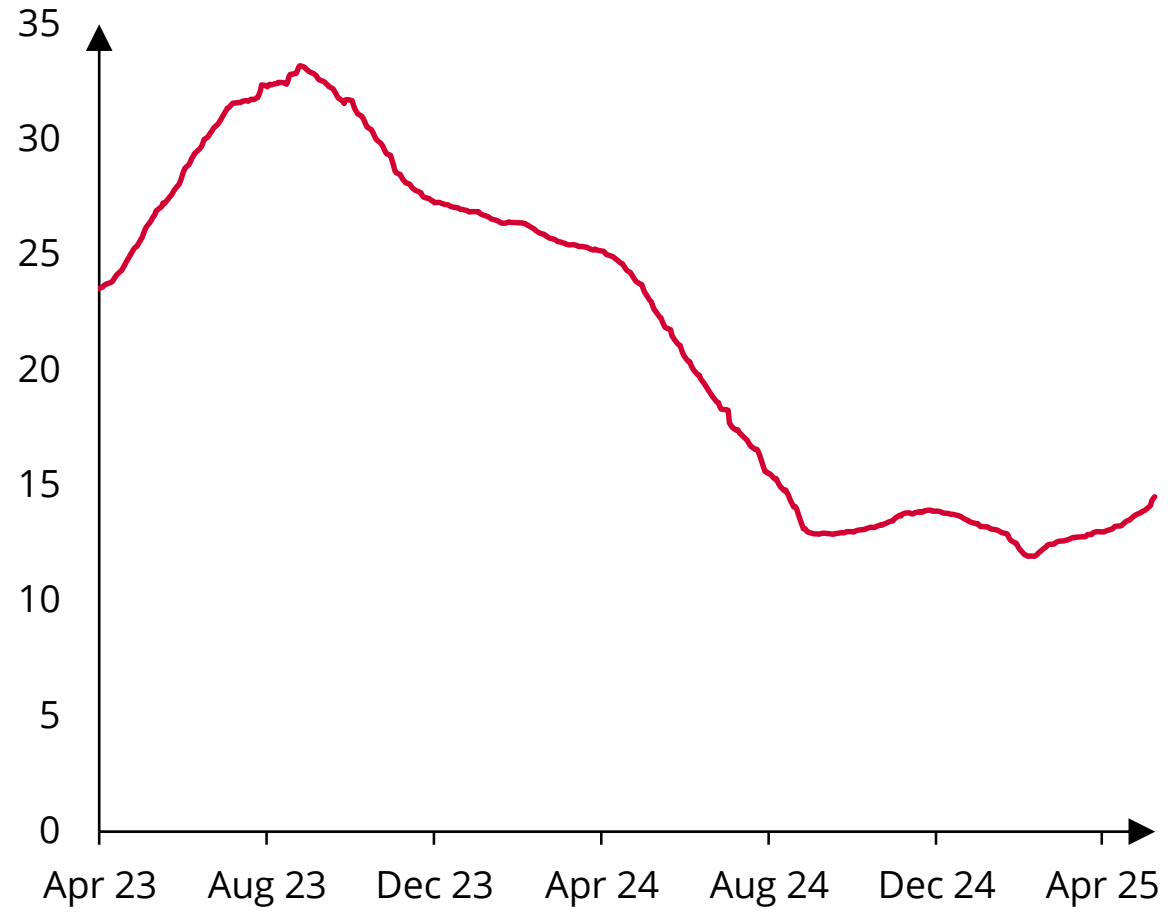
* 2025Q2 includes data as of May 15.

The significant deceleration in the KKM accounts continues.

Outstanding KKM Accounts (Billion USD)



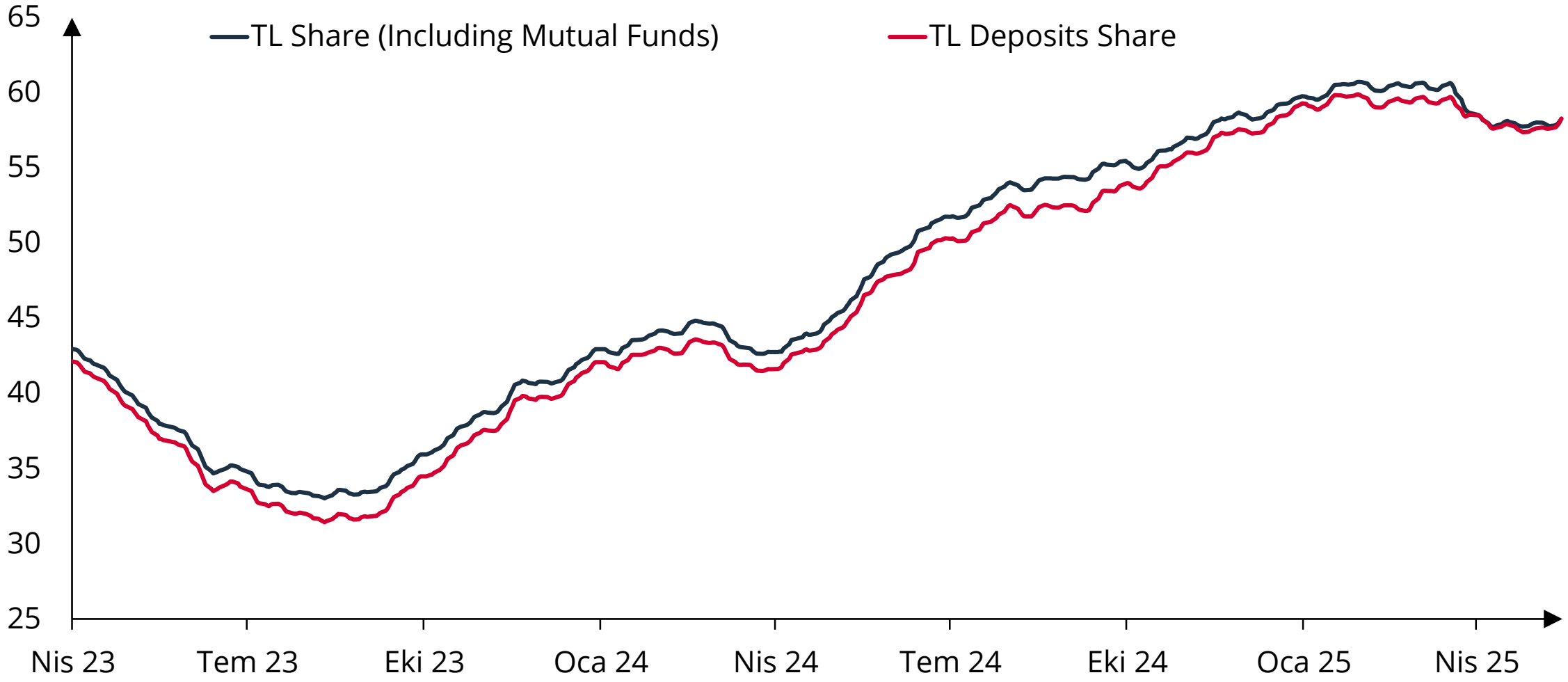
Transition to FX from Maturing KKM Accounts*
(12-Months Moving Rate, %)



Source: Left Panel: CBRT. As of May 12, 2025. Right Panel: CBRT. As of May 9, 2025.
*YUVAM accounts are excluded.

The shift towards FX in portfolio choices has been limited.

Development of TL Share in Deposits and Mutual Funds* (%, 5-Day Moving Average)

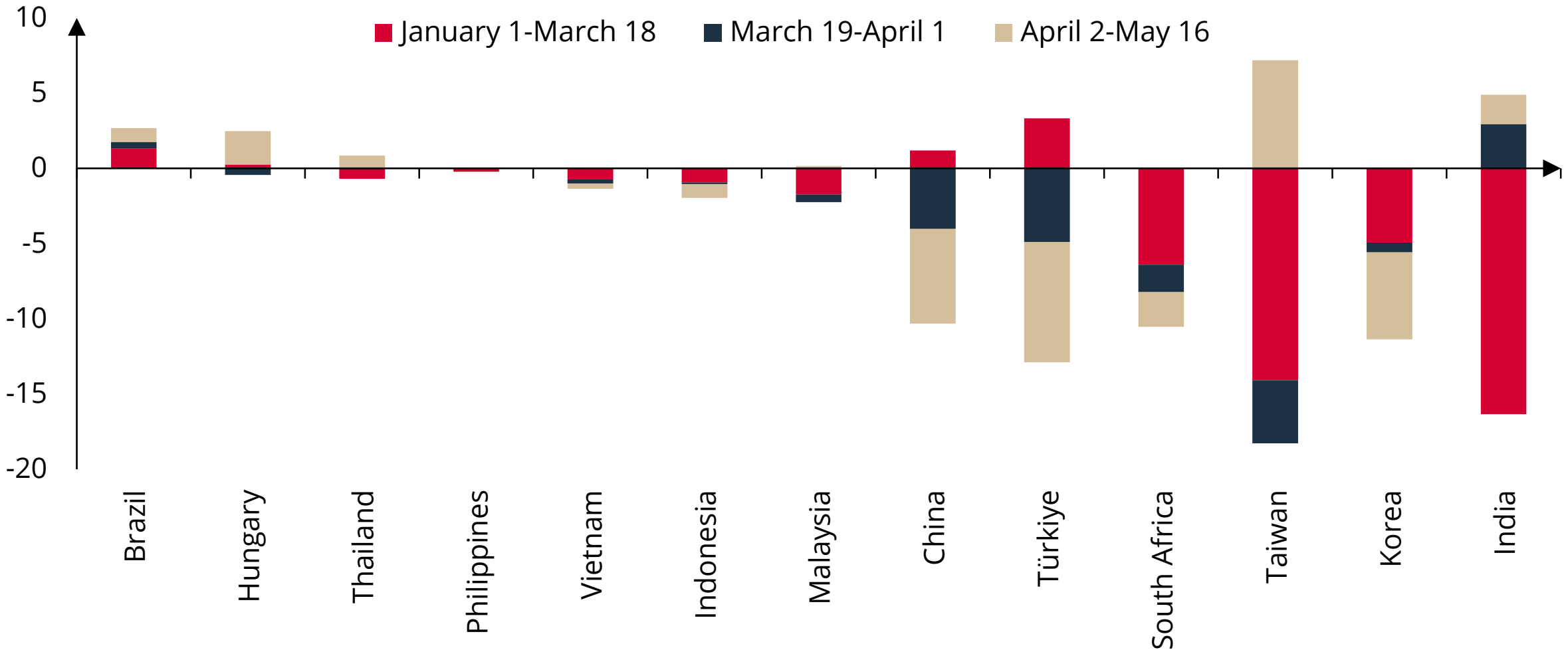


Source: BRSA, TEFAS, CBRT. As of May 15, 2025.

* TL Share (Including Mutual Funds): Securities Mutual funds are included in the ratio by breaking down TL and FX according to the portfolio allocation. Deposit balances of mutual funds are deducted from banking sector deposits.

Trade uncertainty led to portfolio outflows from emerging markets.

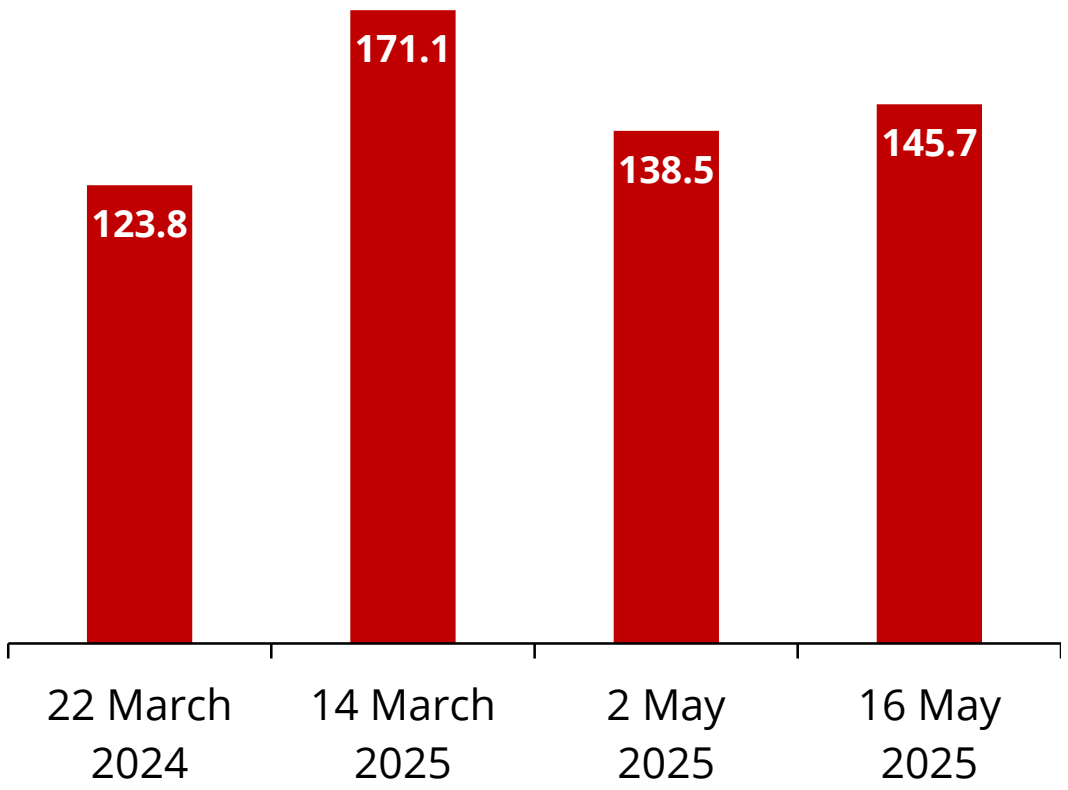
Portfolio Flows to Türkiye and Emerging Markets (Billion USD)



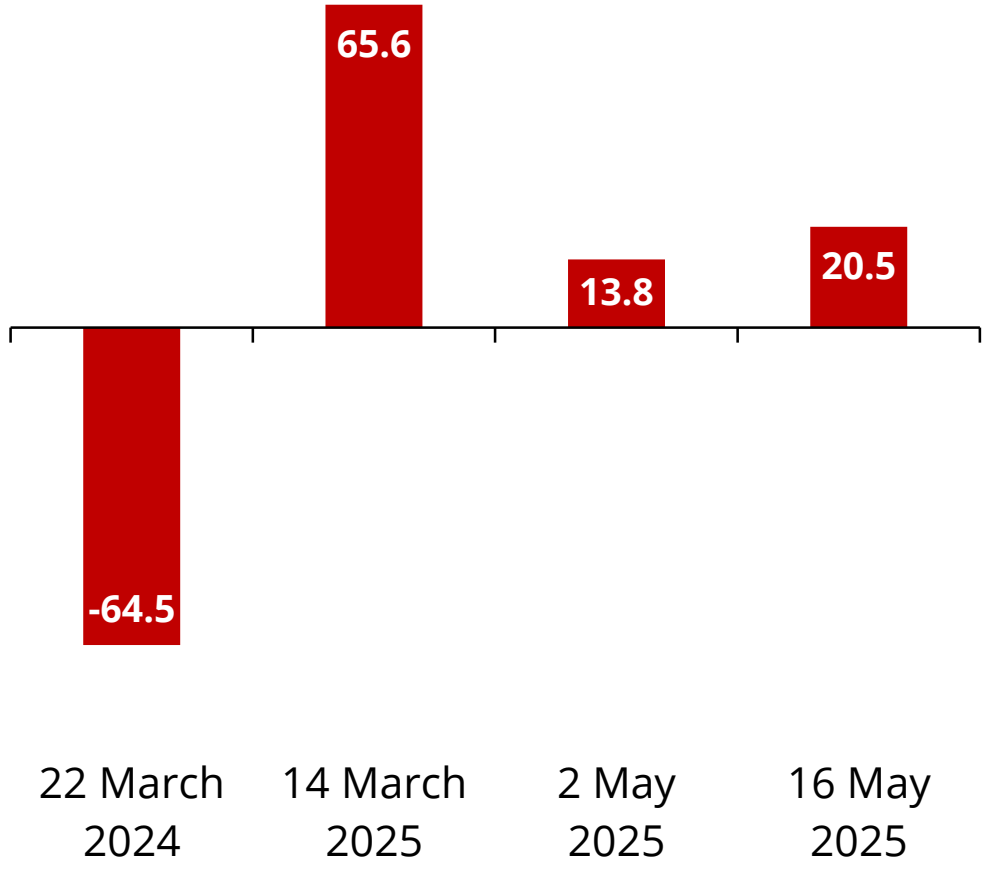
Source: CBRT, IIF, as of May 16, 2025.

Tight monetary policy stance supports reserves.

Gross International Reserves (Billion USD)



Net Reserves Excluding Swaps (Billion USD)



Source: CBRT

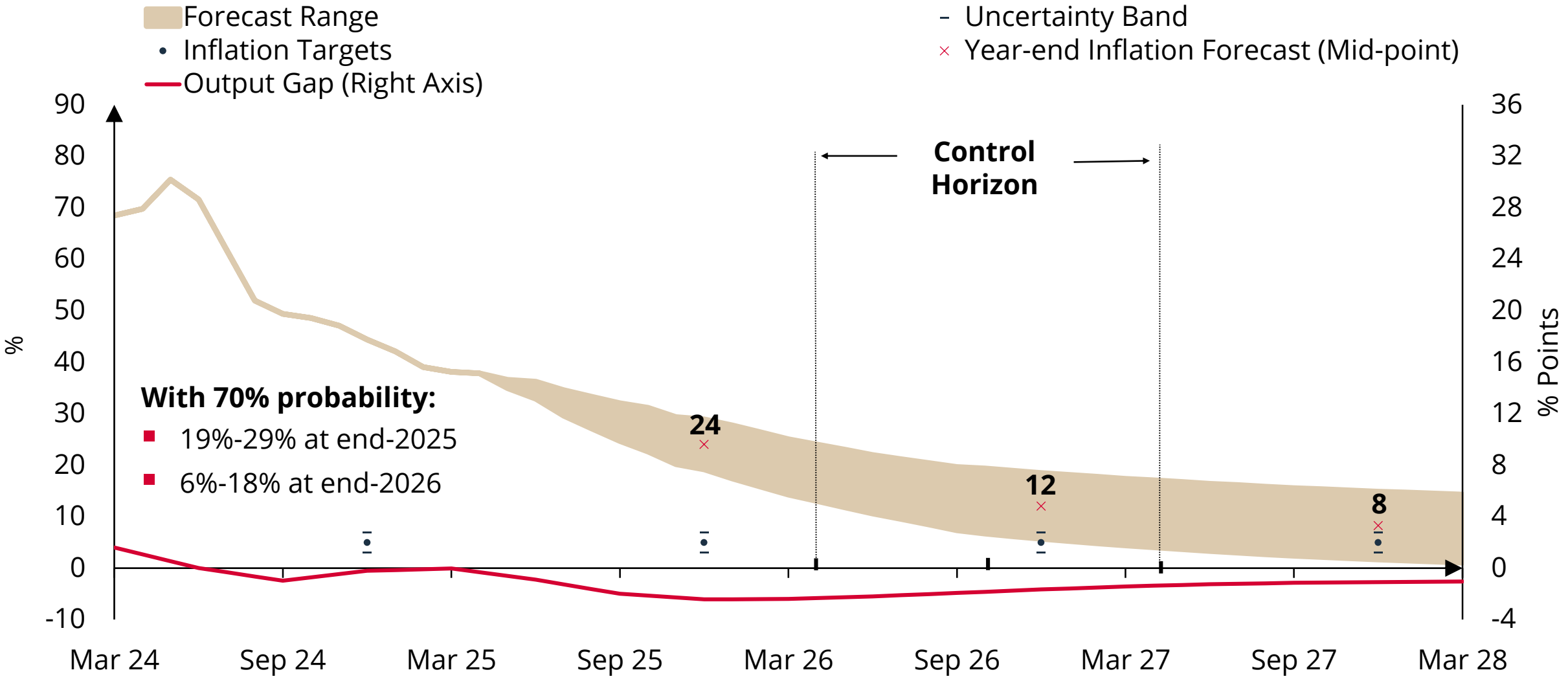
MEDIUM TERM PROJECTIONS

Revisions to Main Assumptions

		IR 2025-I	IR 2025-II
Global Production Index* (Average Annual % Change)	2025	2.2	1.9
	2026	2.4	2.1
Oil Prices (USD, Annual Average)	2025	76.5	65.8
	2026	74.0	60.6
Import Prices (USD, Average Annual % Change)	2025	2.6	-1.1
	2026	0.6	-1.3
Food Price Inflation (Year-End % Change)	2025	24.5	26.5
	2026	13.5	13.5

* Based on the growth rates and export shares of 110 countries to which Türkiye exports.

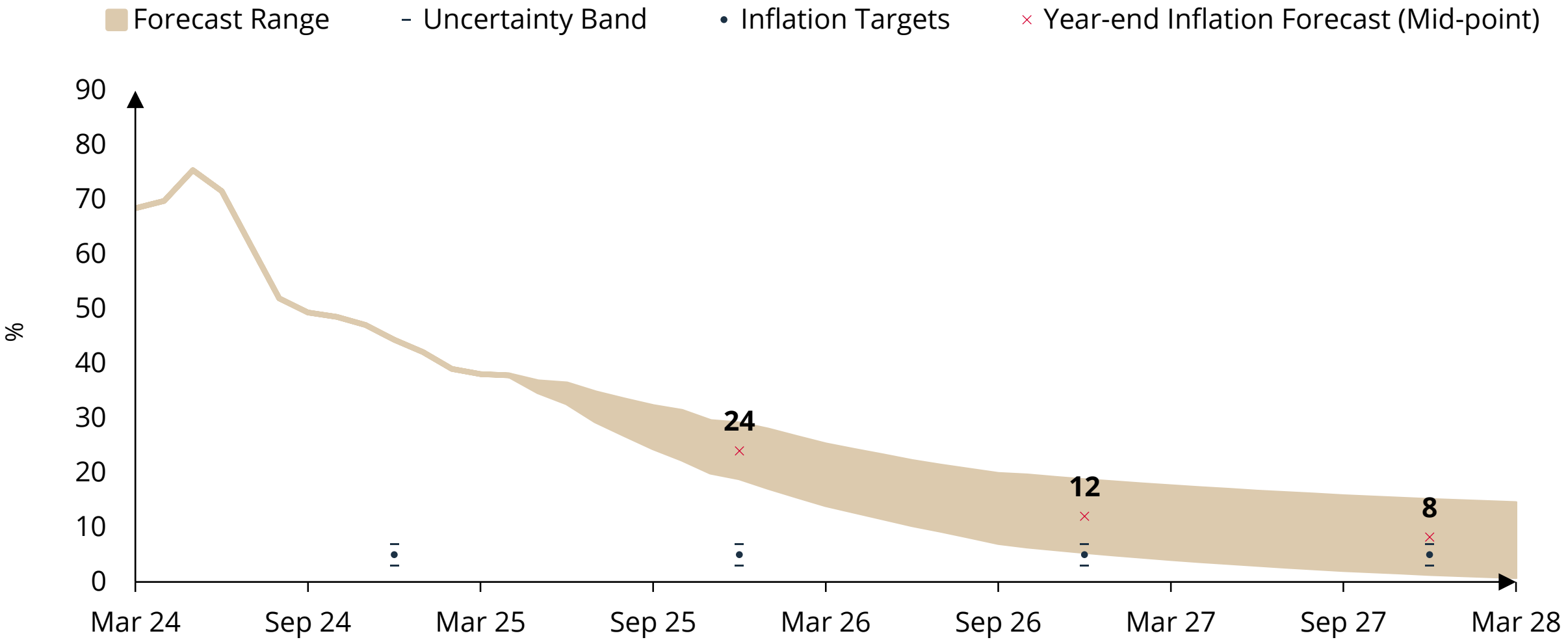
Inflation is projected to decline to 24% in 2025, 12% in 2026 and 8% in 2027.



The upward and downward effects on forecasts were offset by the policy response.

	2025
IR 2025-I Year-end Forecast (%)	24.0
IR 2025-II Year-end Forecast (%)	24.0
Forecast Revision as Compared to IR 2025-I Period (% Points)	**0**
Sources of Forecast Revision (% Points)	
Food Prices	+ 0.5
Output Gap	+0.3
Import Prices in Turkish Lira	+0.1
Initial Conditions / Underlying Inflation	+0.1
Administered Prices	-1.0

The tight monetary policy stance will be maintained decisively.



The tight monetary stance will be maintained until price stability is achieved via a sustained decline in inflation.

- **Inflation realizations**
- **Underlying inflation**
- **Inflation expectations**

The tightness required by the projected disinflation path will be ensured.

TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BRIEFING ON 2025-II INFLATION REPORT

Fatih Karahan, Ph.D.
Governor

MAY 22, 2025

ISTANBUL