



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

MONETARY POLICY AND INFLATION OUTLOOK IN TÜRKİYE

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SEPTEMBER 12, 2025

ISTANBUL



Key Takeaways

1

How strong is economic activity?

- The recent revision to GDP figures resulted in significant changes.
- A broad range of indicators suggest economic activity is softening.

2

Do demand conditions support further disinflation?

- Private consumption growth has been weaker than GDP growth.
- High-frequency data indicate continued moderation of demand.

3

Is disinflation losing steam?

- Disinflation is on track but upside risks are alive.

4

Is re-dollarization a potential risk?

- Demand for TL has been robust.
- Macroprudential safeguards and strong reserves support dedollarization.

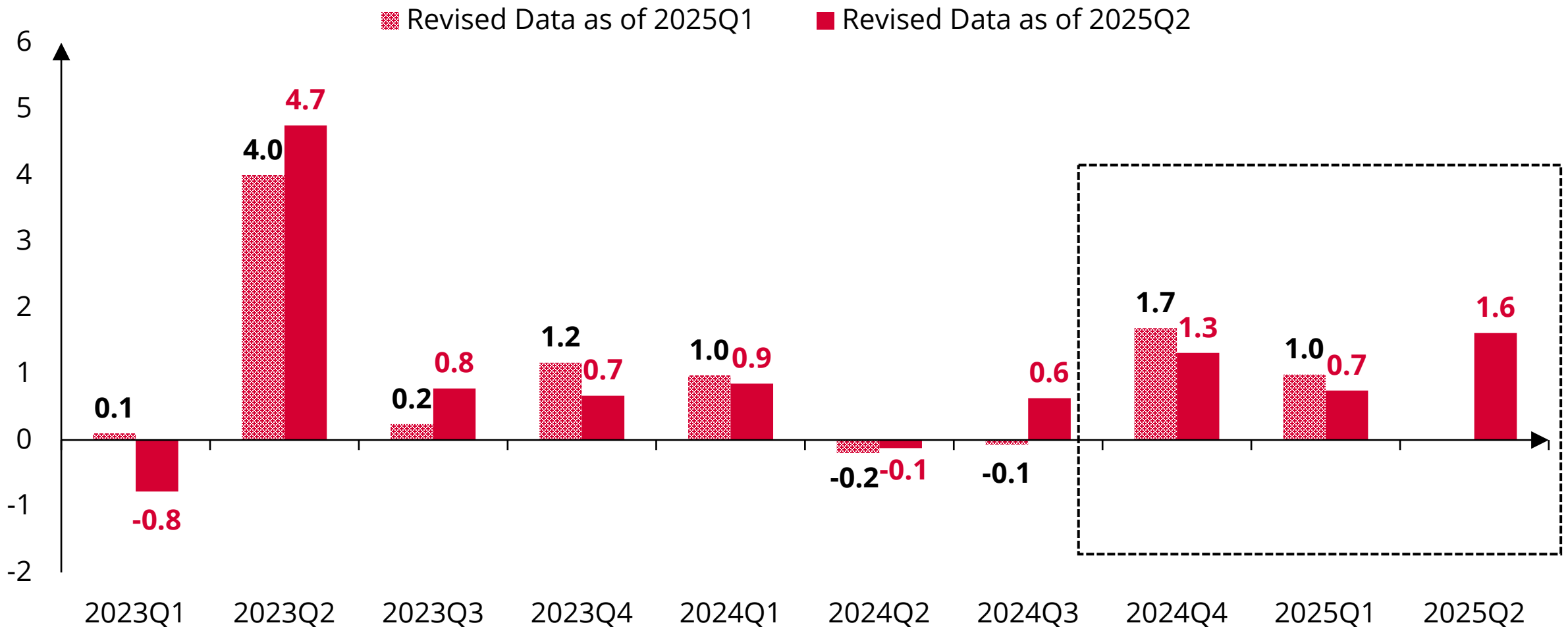
1

How strong is economic activity?

- Growth picked up in Q2
- Downward revisions in previous two quarters
- Indicators are mixed regarding activity

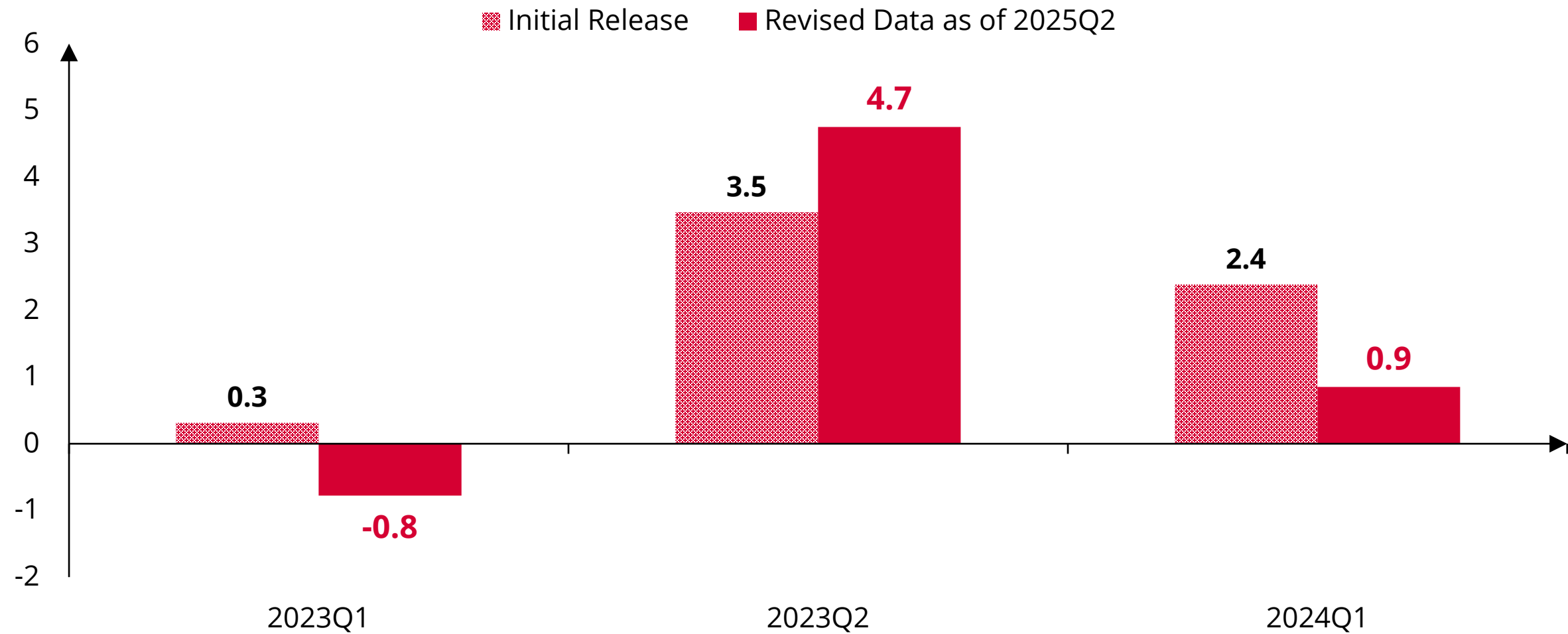
The recent revision to GDP figures resulted in significant changes.

GDP (Seasonally and Calendar Adjusted, Quarterly % Change)



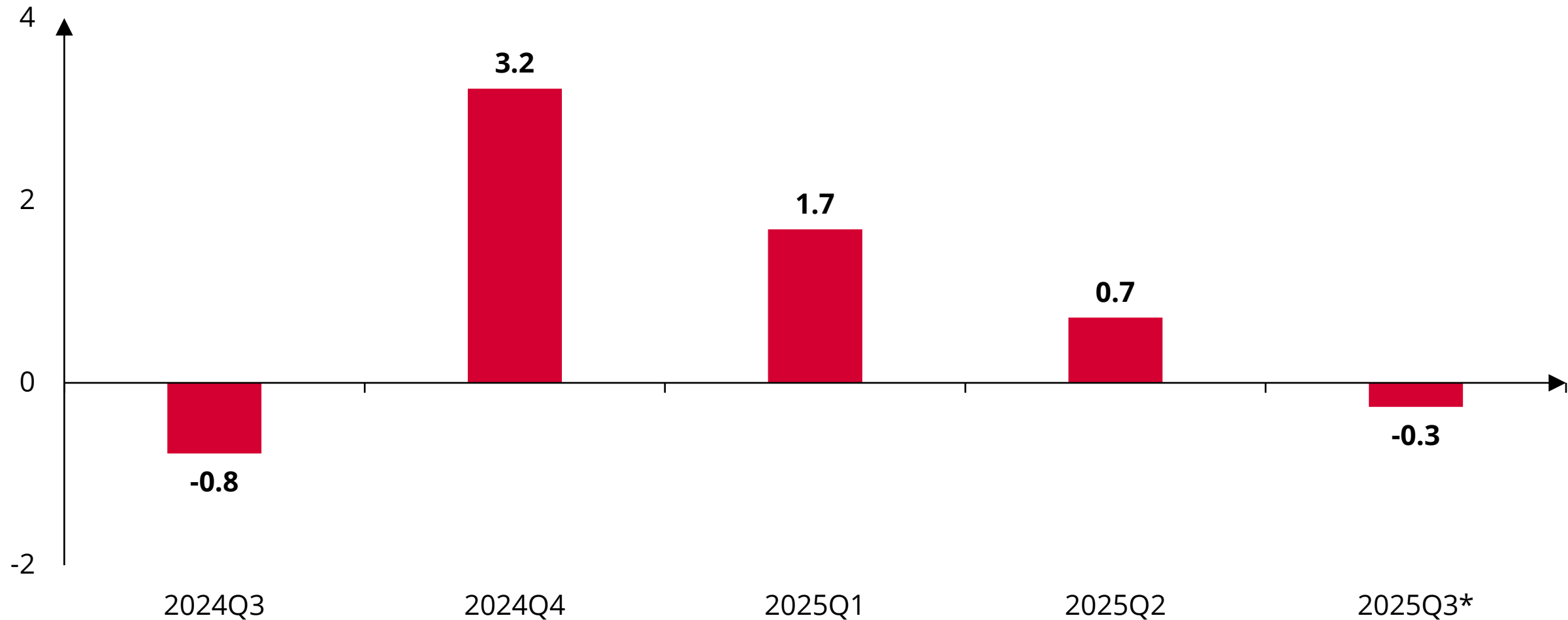
Looking at a broad range of indicators enables a more robust inference.

GDP (Seasonally and Calendar Adjusted, Quarterly % Change)



Industrial production continued to decelerate.

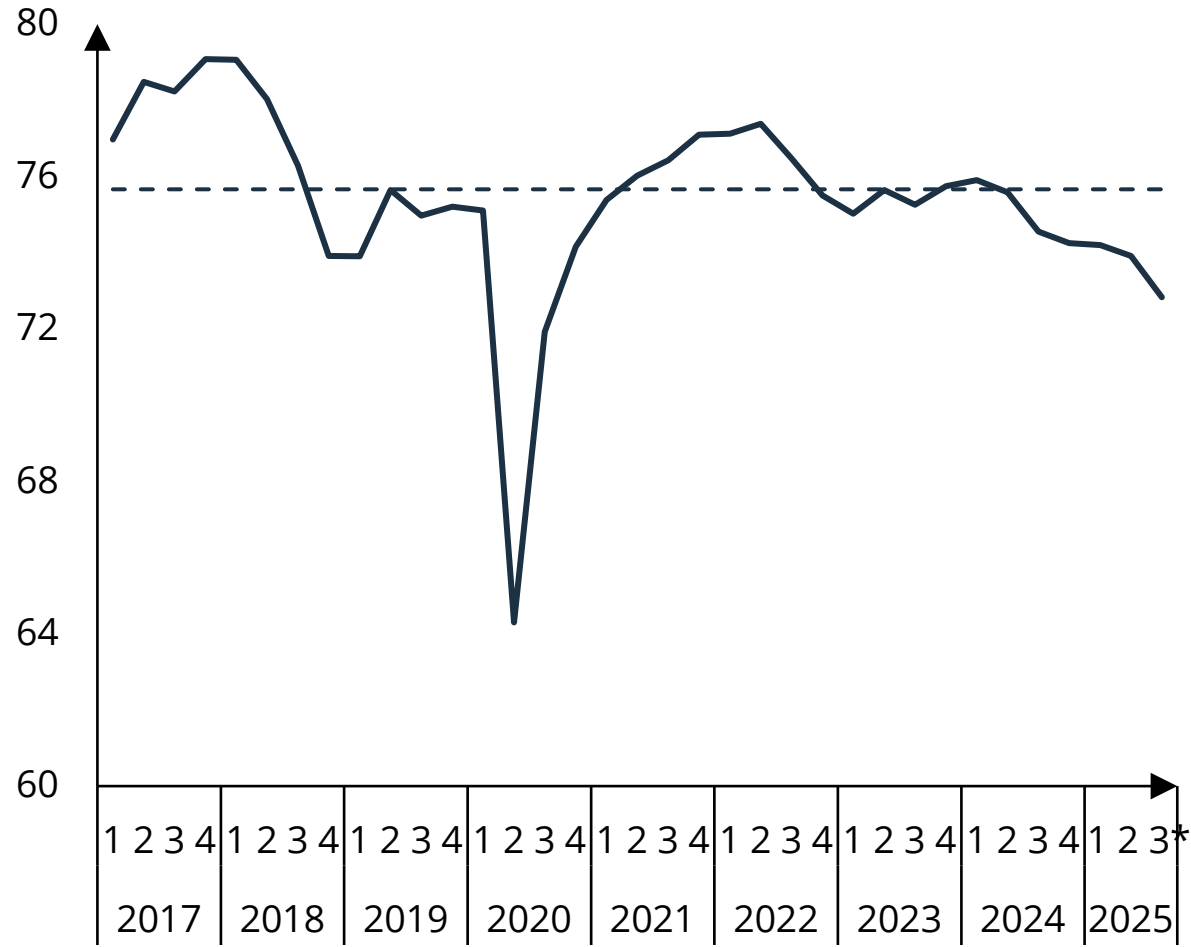
Industrial Production Index (Seasonally and Calendar Adjusted, Quarterly % Change)



Survey data point to a softening in economic activity.

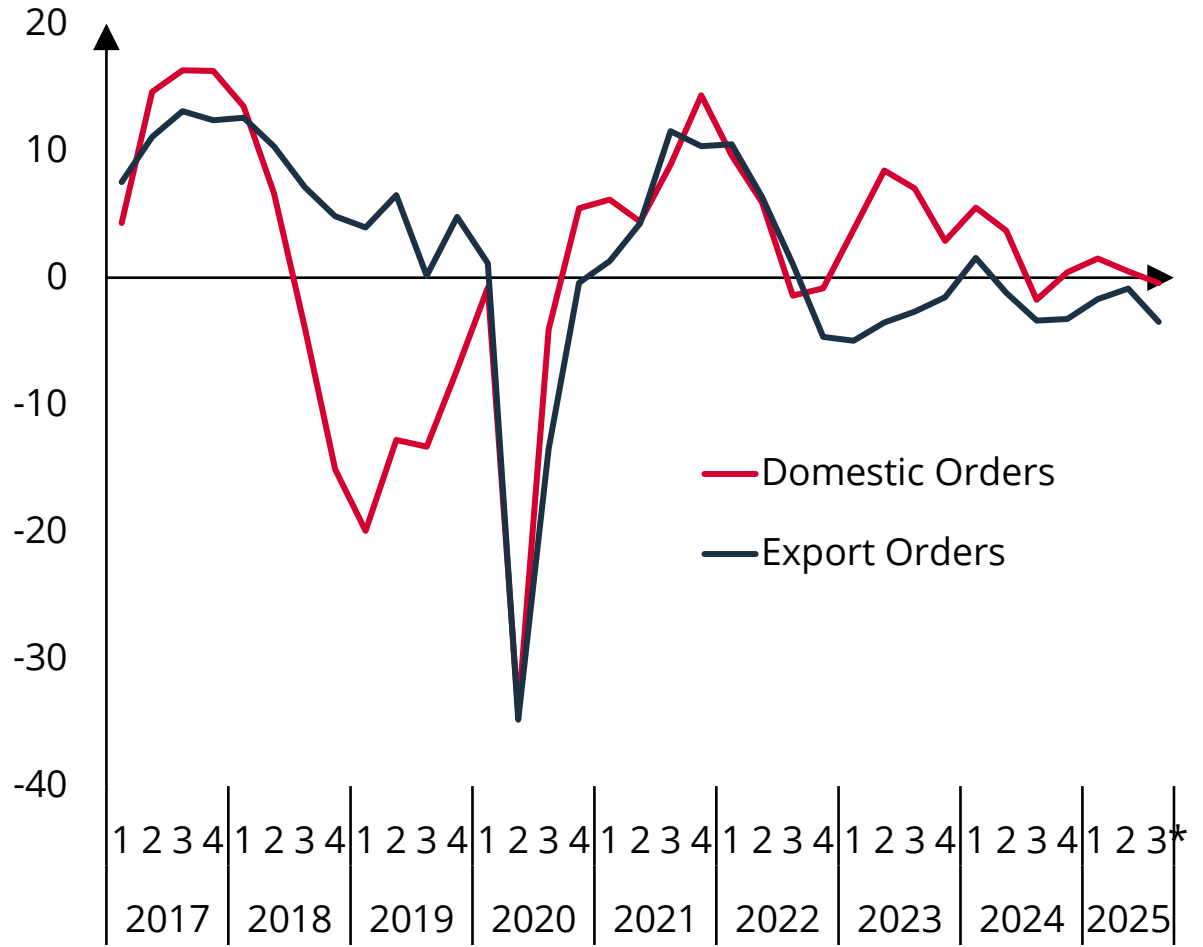
Capacity Utilization Rate**

(Seasonally Adjusted, %)



Registered Domestic and Export Orders

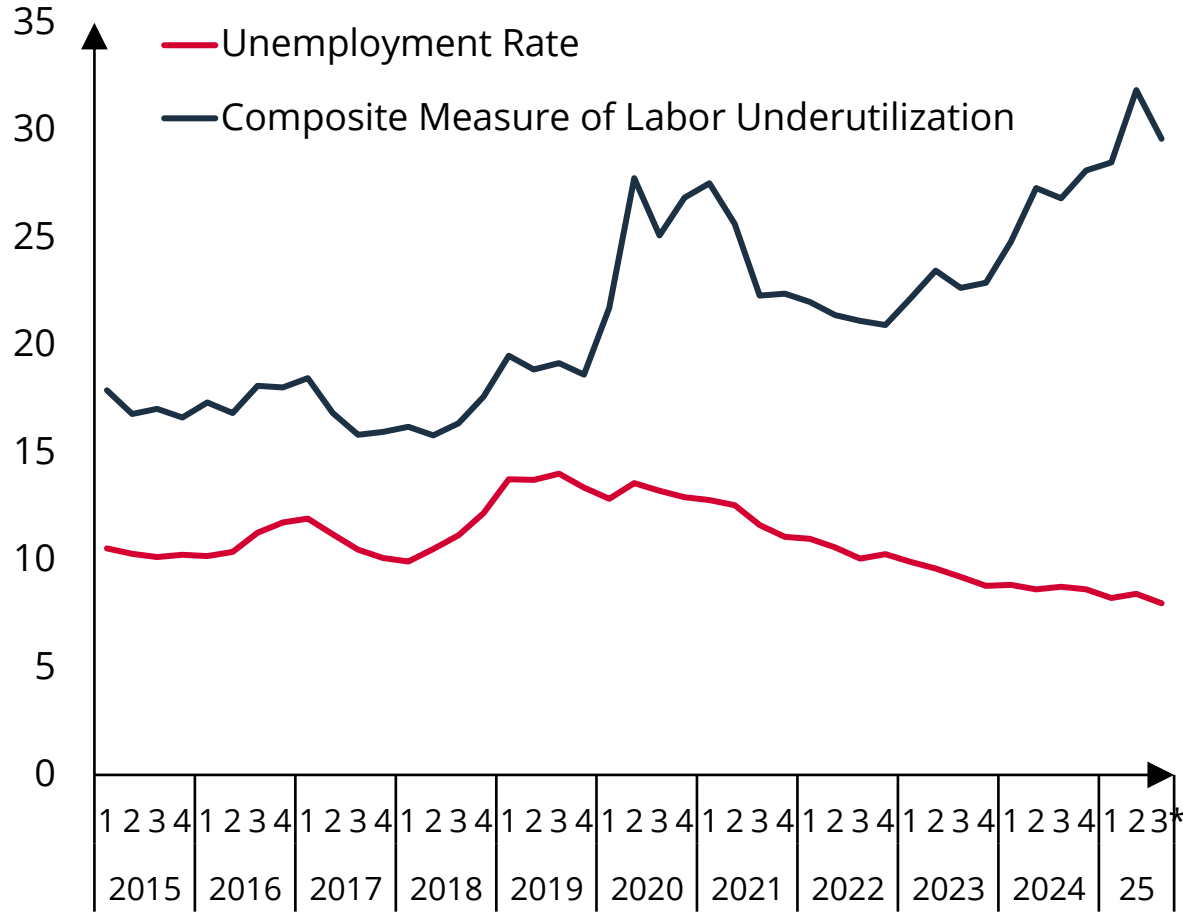
(Seasonally Adjusted, Above Normal – Below Normal)



Broader measures of labor utilization suggest more slack in the labor market.

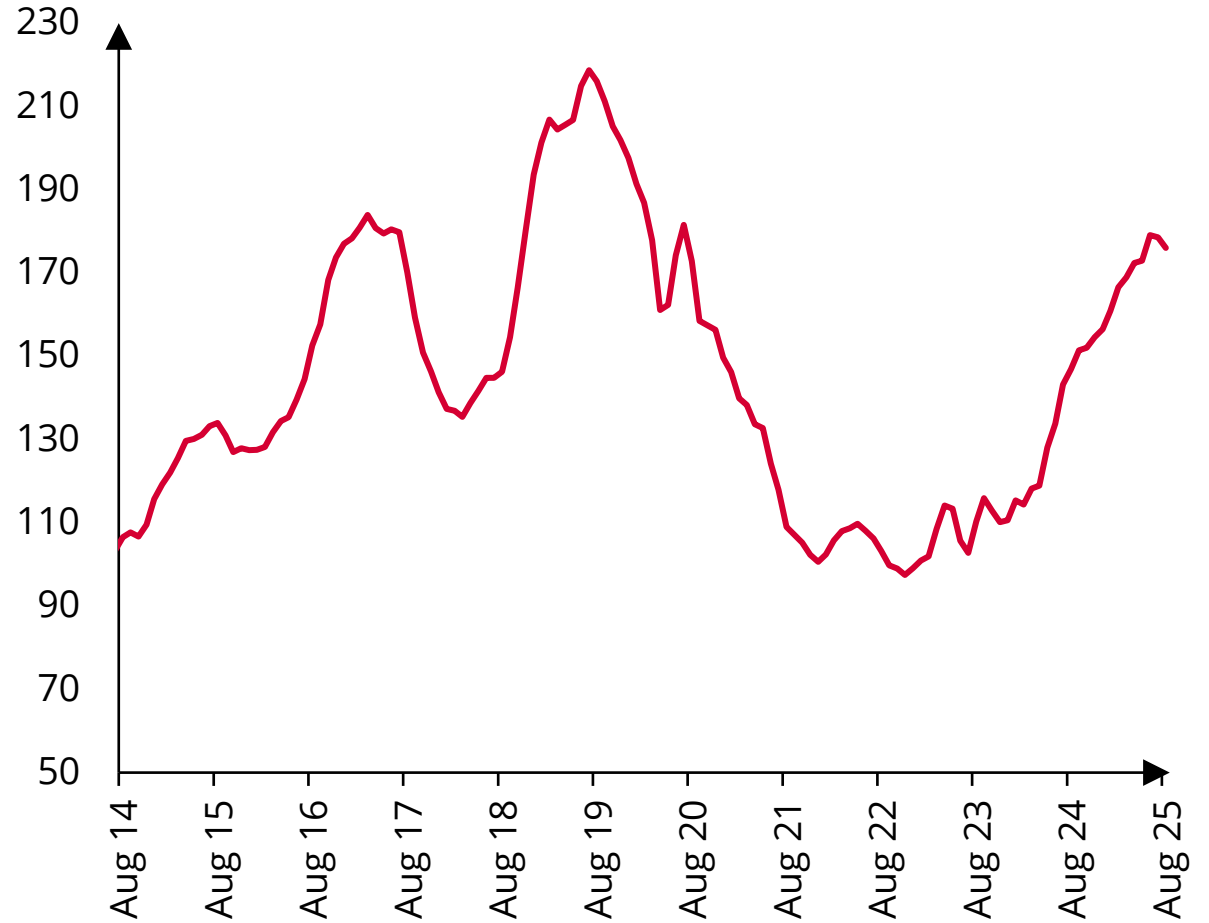
Labor Market Indicators

(Seasonally Adjusted, %)



Applications per Job Postings

(Seasonally Adjusted, 3-Month Moving Average)



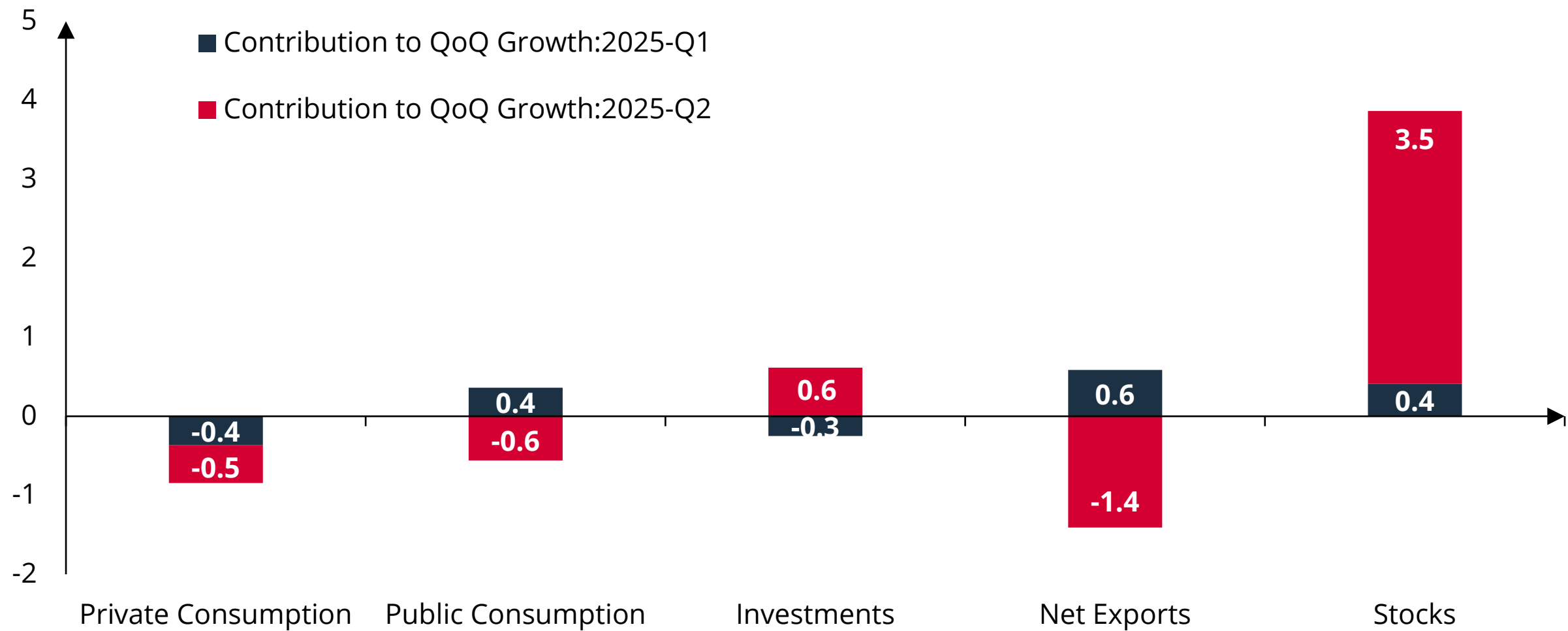
2

Do demand conditions support further disinflation?

- Demand is at disinflationary levels
- Consumption fell for two consecutive quarters
- High-frequency indicators suggest continued moderation

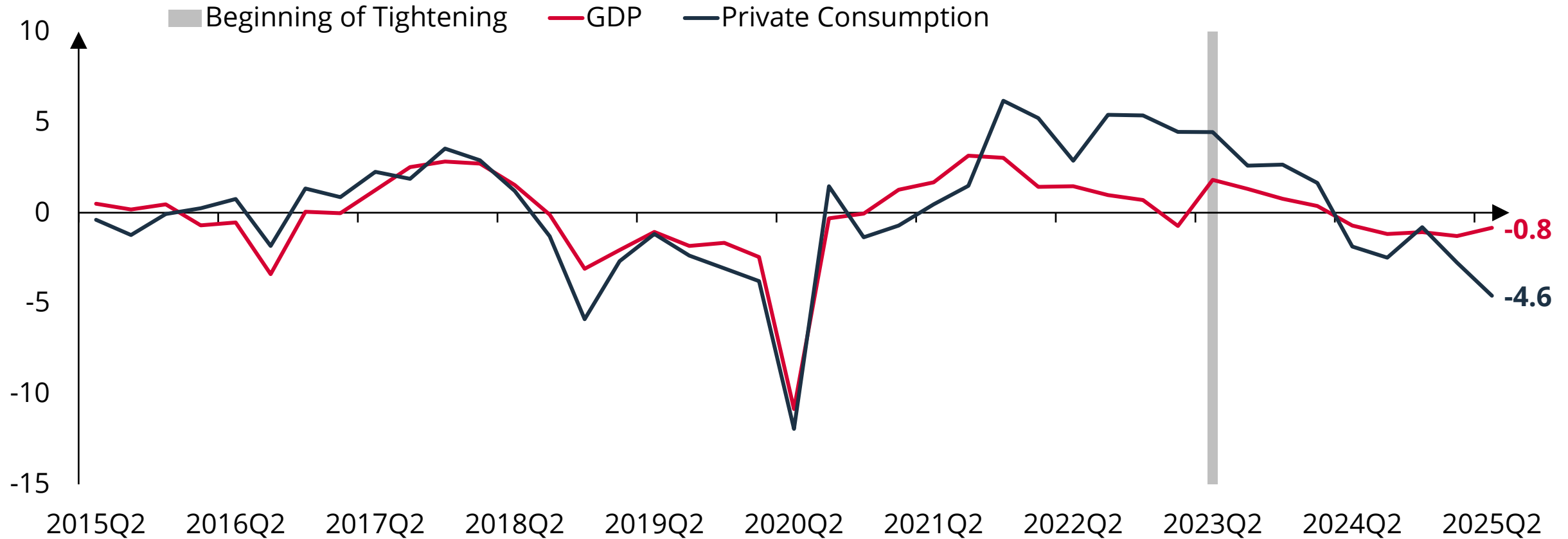
Consumption has weakened over the first half of the year.

Contributions to Quarterly Growth (% Points)



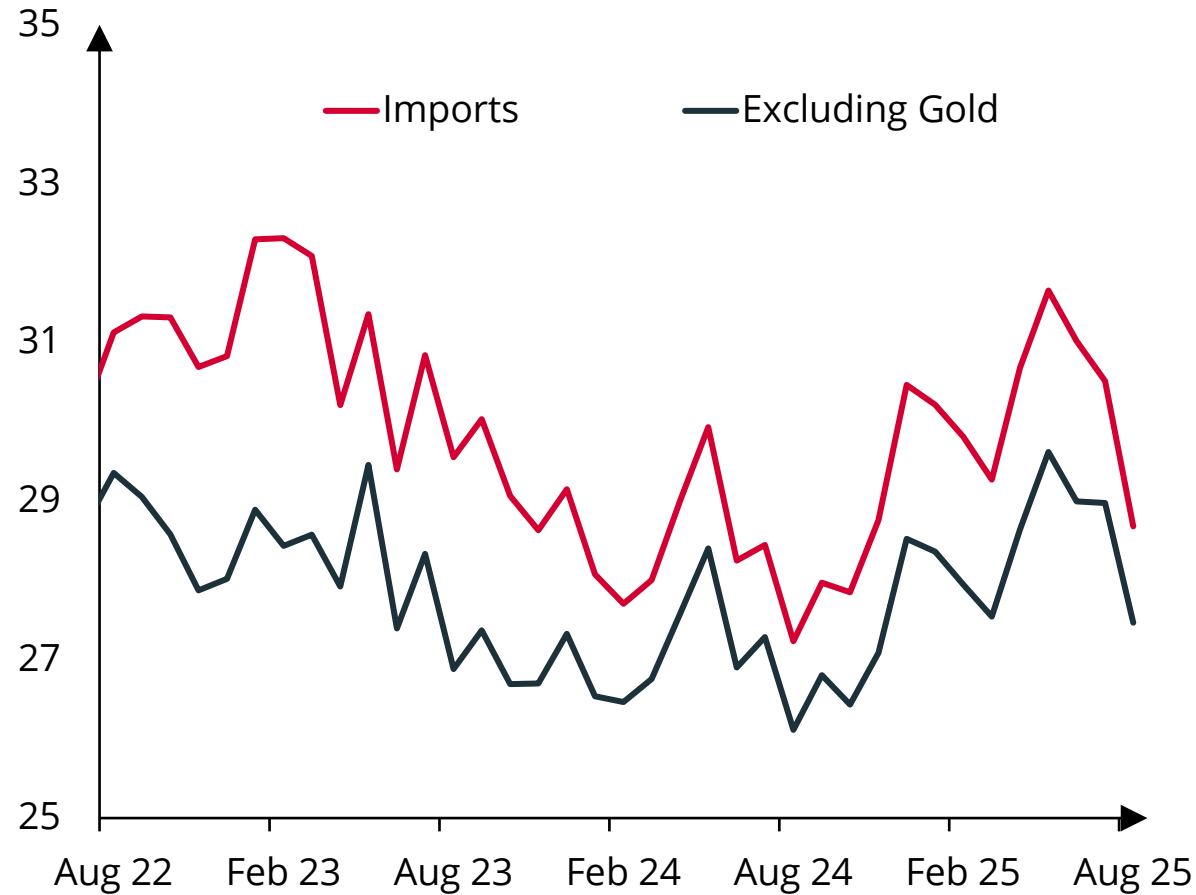
Private consumption growth has been weaker than GDP growth.

GDP and Private Consumption* (Deviation from Trend, %)

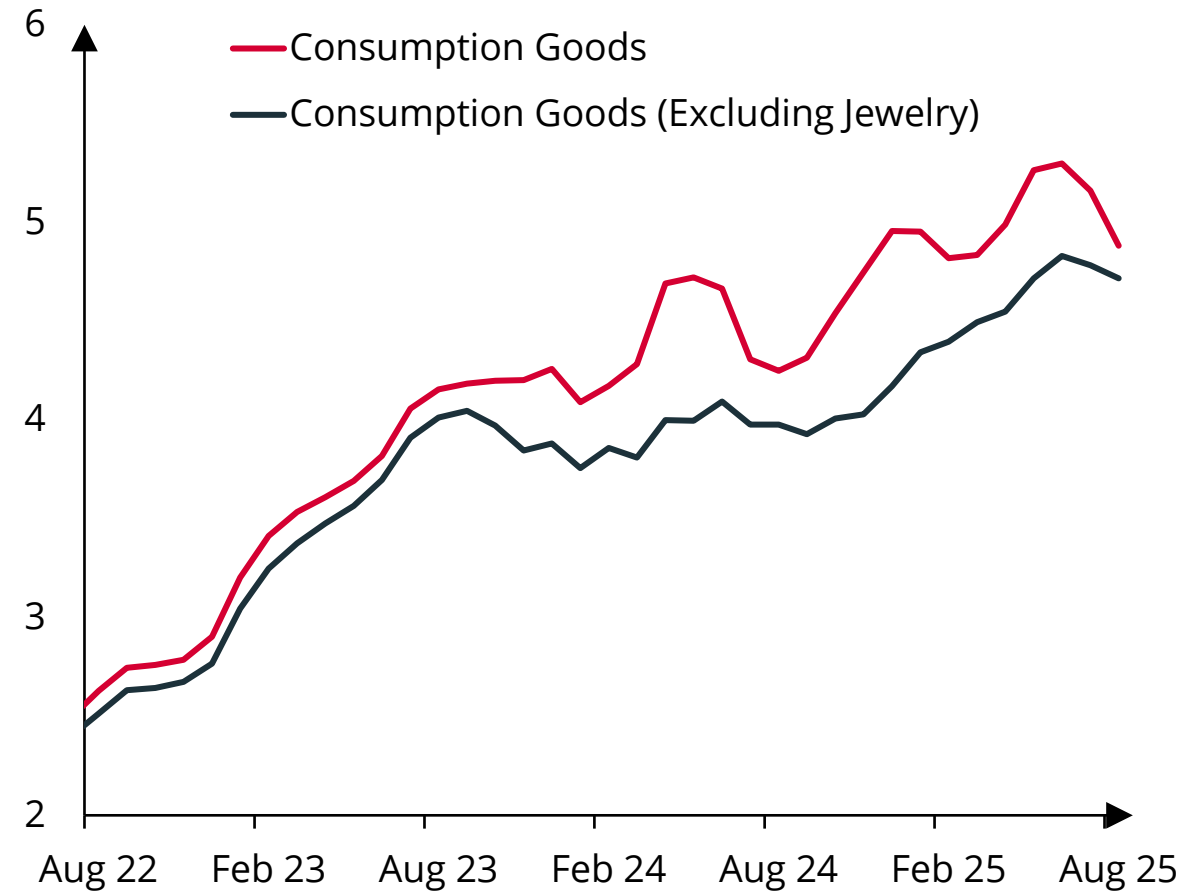


Imports lost momentum after picking up in Q2.

Imports*



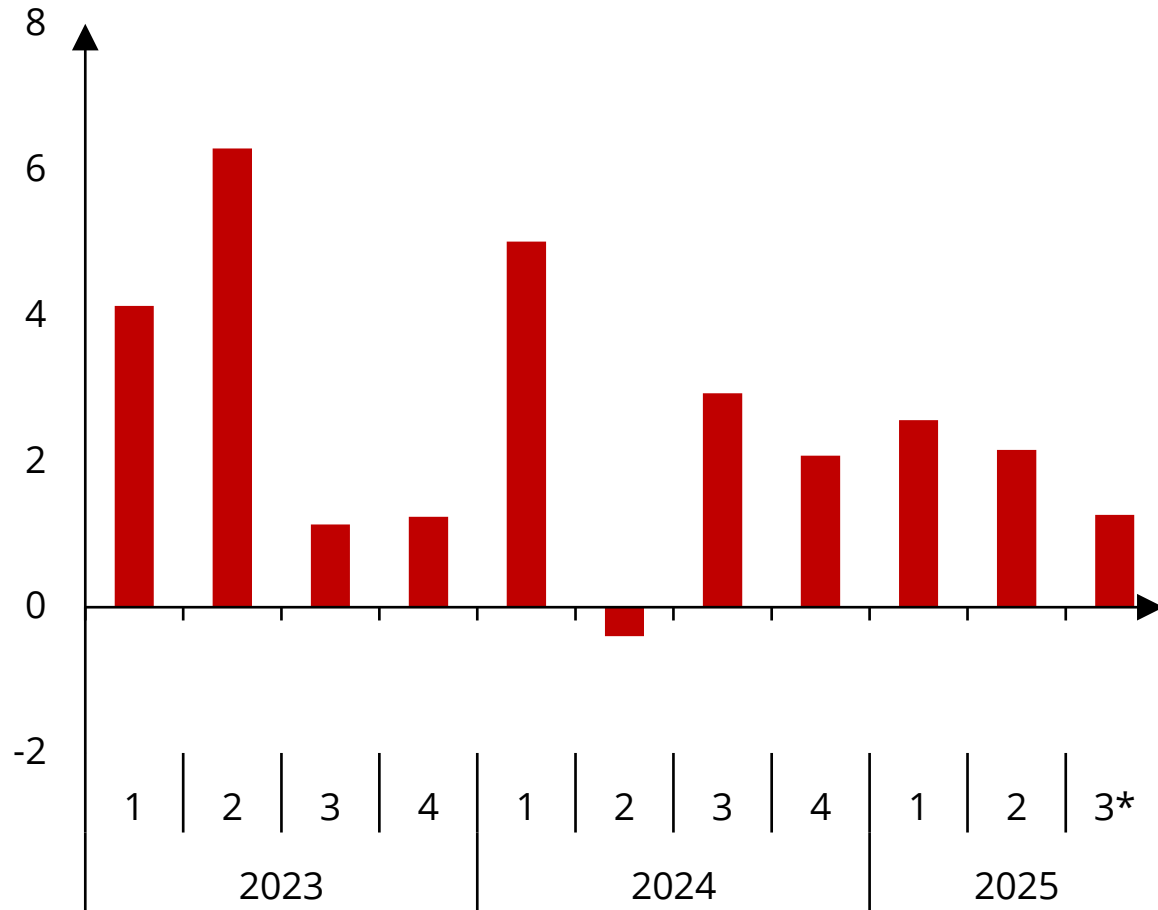
Consumption Goods Imports*



Retail sales point to a continued slowdown in demand.

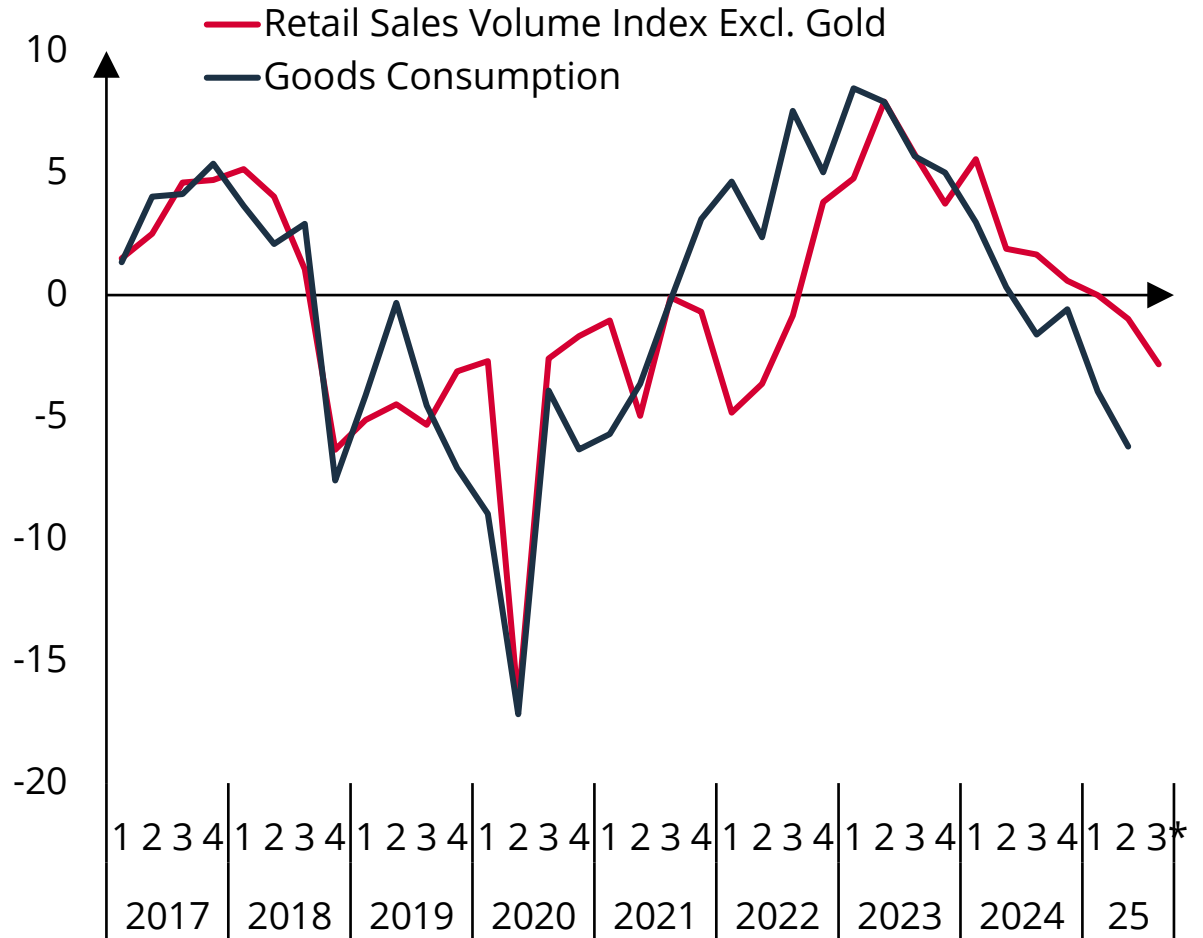
Retail Sales *

(Excluding Gold, Seasonally and Calendar Adj., Quarterly % Change)



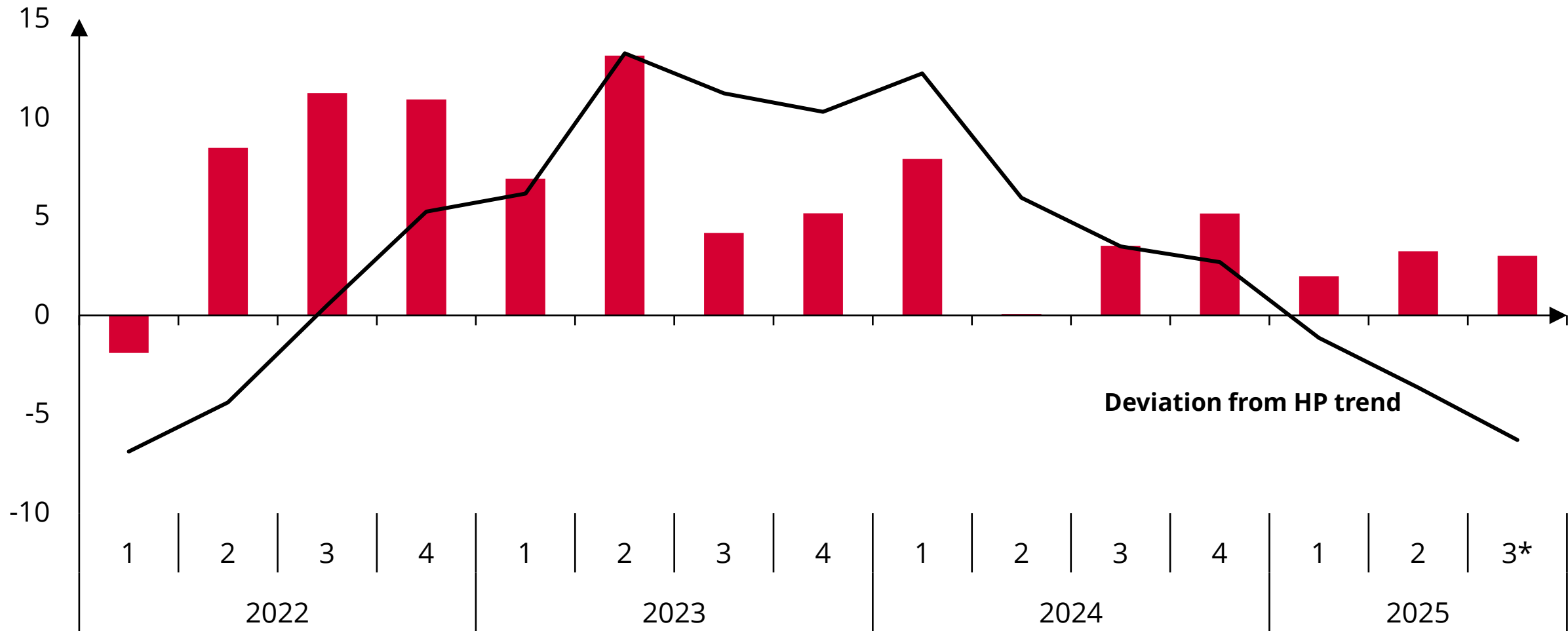
Retail Sales and Goods Consumption**

(HP Gap, %)



Card spending continued to moderate in the third quarter.

Card Spending** (Real, Seasonally Adjusted, Quarterly % Change, HP Gap, %)



3

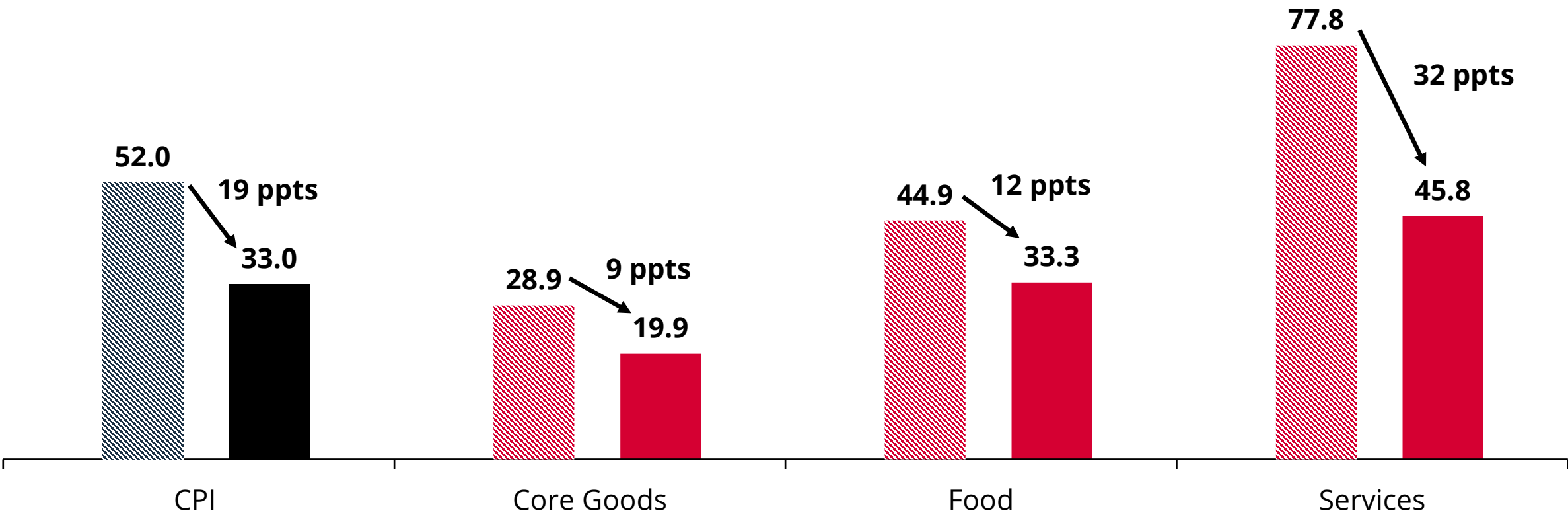
Is disinflation losing steam?

- Continued progress in disinflation
- Underlying trend has improved
- Upside risks are alive

The fall in inflation continues across the board.

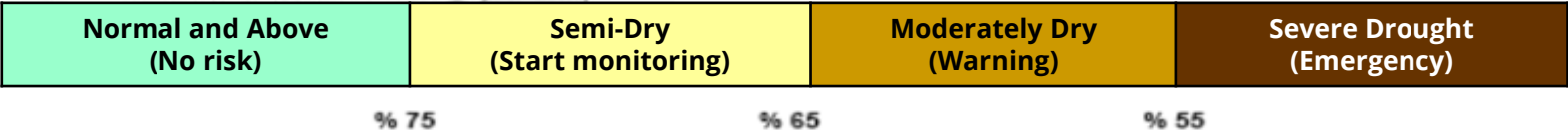
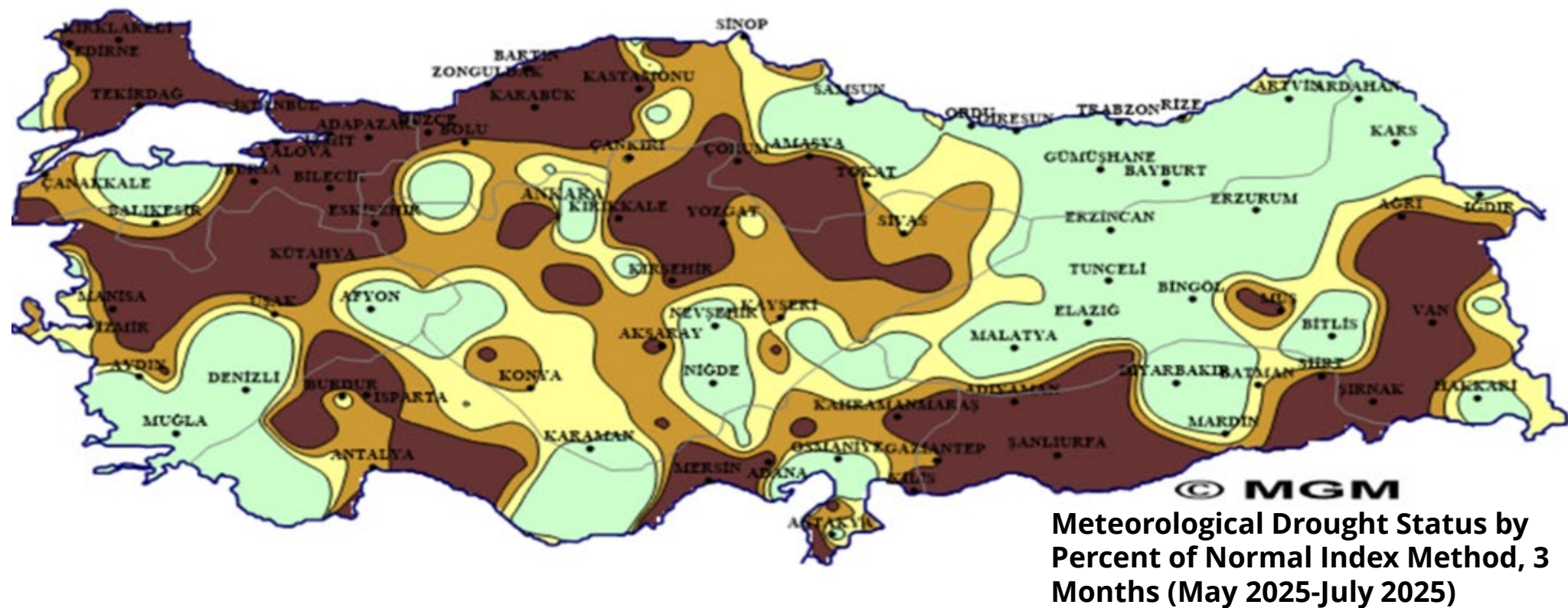
CPI Sub-Items (Annual % Change)

August 2024 August 2025



There has been a widespread drought.

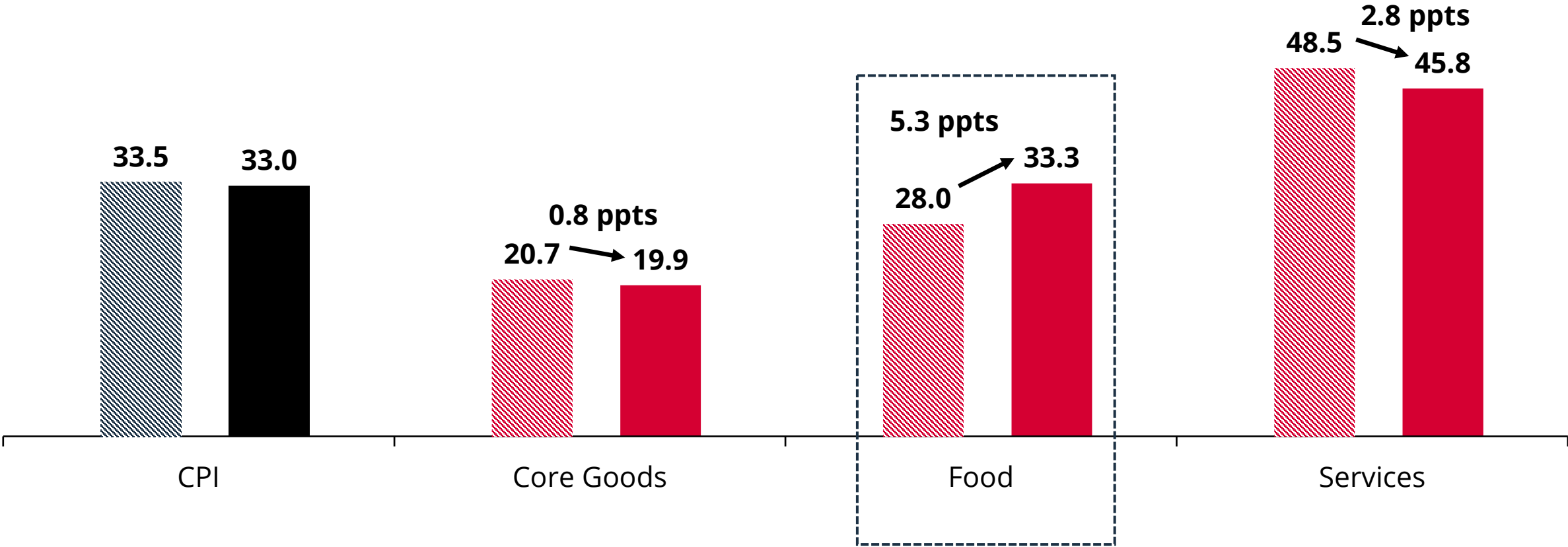
May-July 2025 Meteorological Drought Status (% of Normal Index)



Adverse weather conditions have a negative impact on food prices.

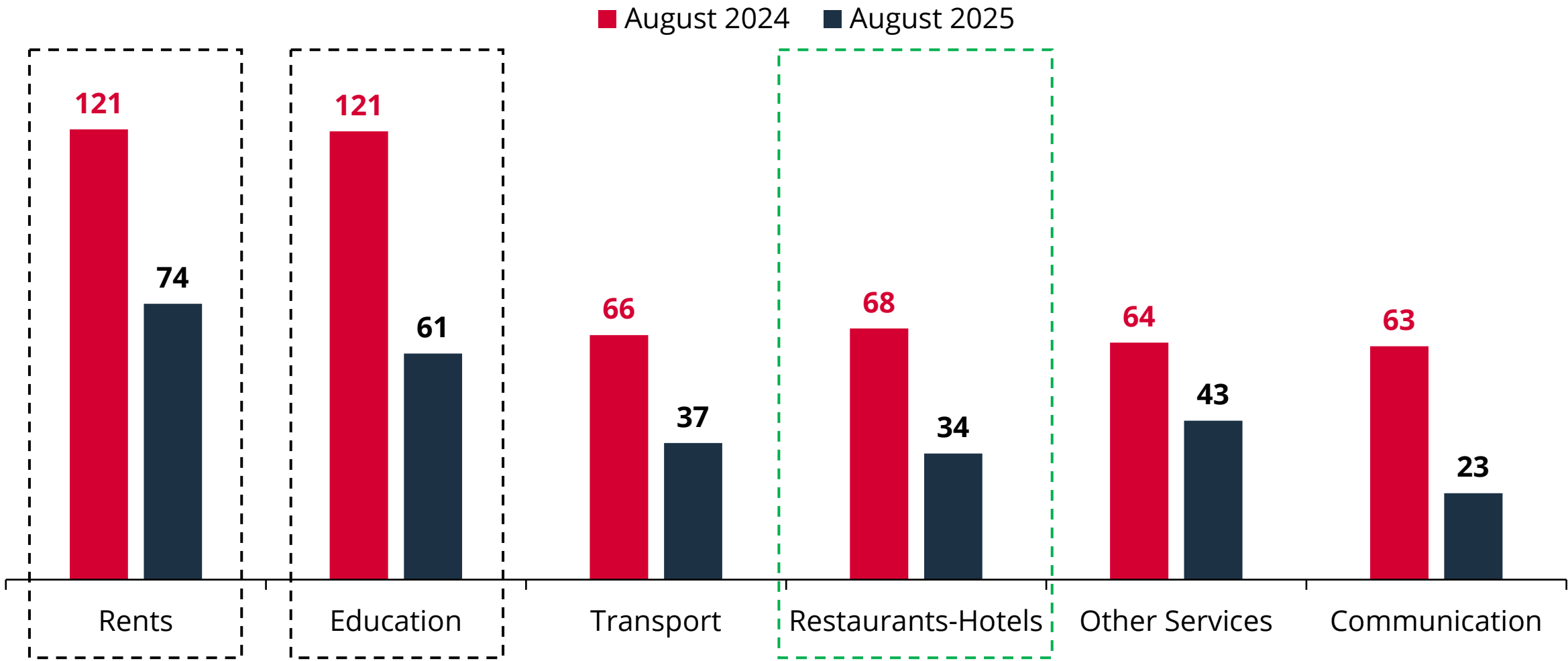
CPI Sub-Items (Annual % Change)

▨ July 2025 ■ August 2025



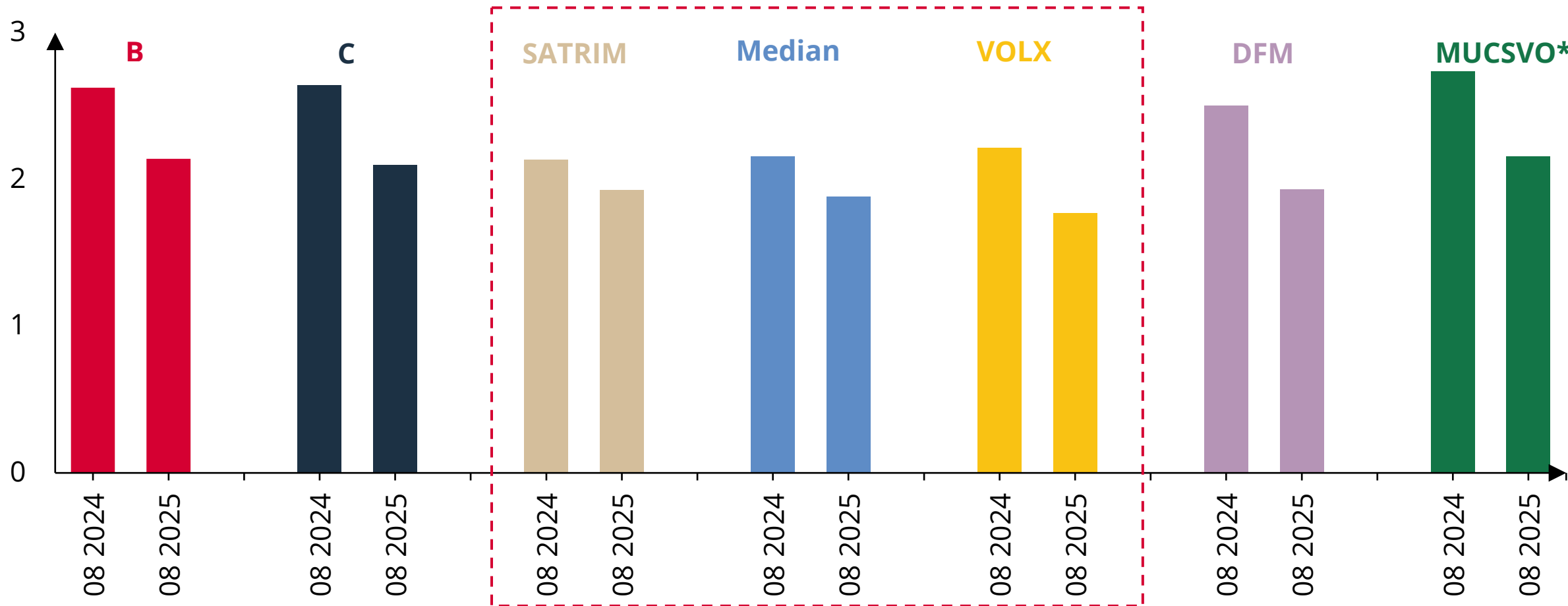
Rents and education drive services inflation up.

Services Sub-items (Annual % Change)



Underlying inflation indicators point to continued progress on disinflation.

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



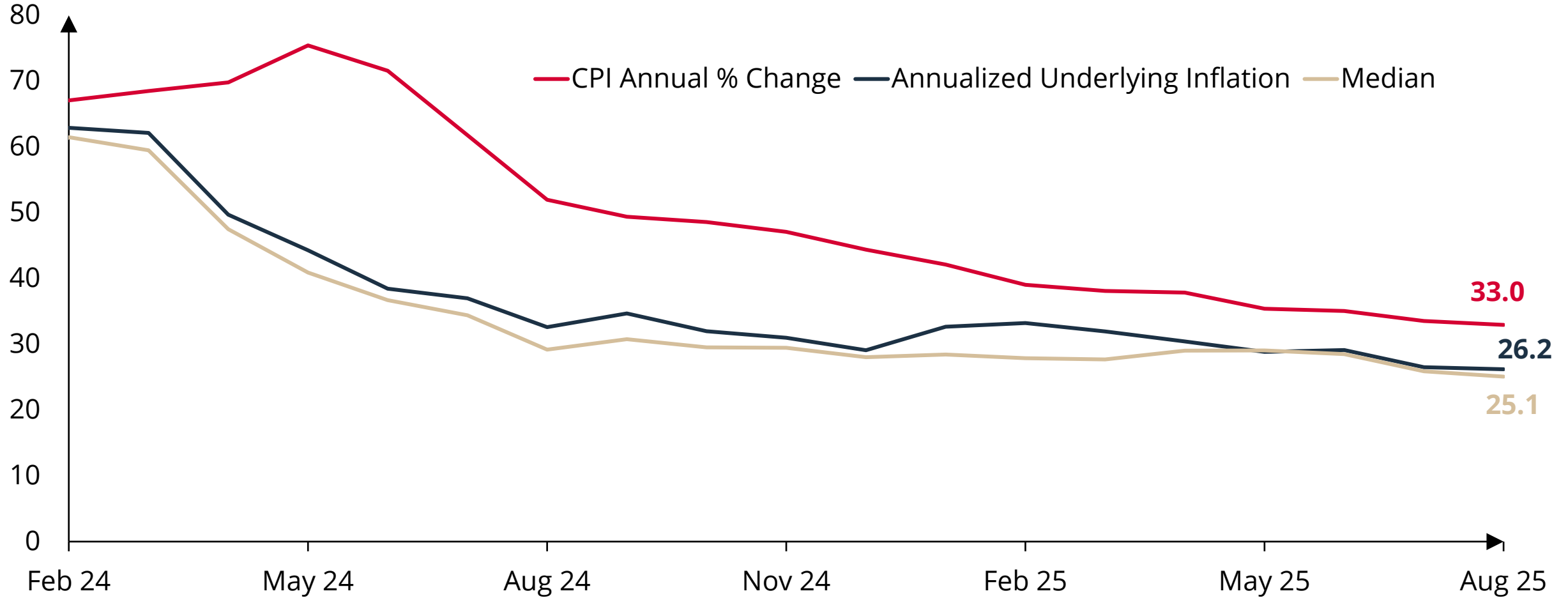
Source: CBRT, TURKSTAT.

*MUCSVO is obtained applying the Stock and Watson (2016) MUCSVO model to monthly price changes of processed food, and seasonally adjusted core goods and services. While MUCSVO is monthly, three- month average of seasonally adjusted B and C indices and SATRIM, Median, exclusion of volatile items VOLX and DFM indicators are presented in the graph.

B index excludes unprocessed food, energy, alcohol-tobacco and gold from the CPI, and the C index excludes food, energy, alcohol-tobacco and gold from the CPI. SATRIM is seasonally adjusted trimmed monthly inflation. Median inflation is the median value of monthly price changes. VOLX is obtained by periodically excluding items with excessive volatility. DFM is an indicator based on the dynamic factor model.

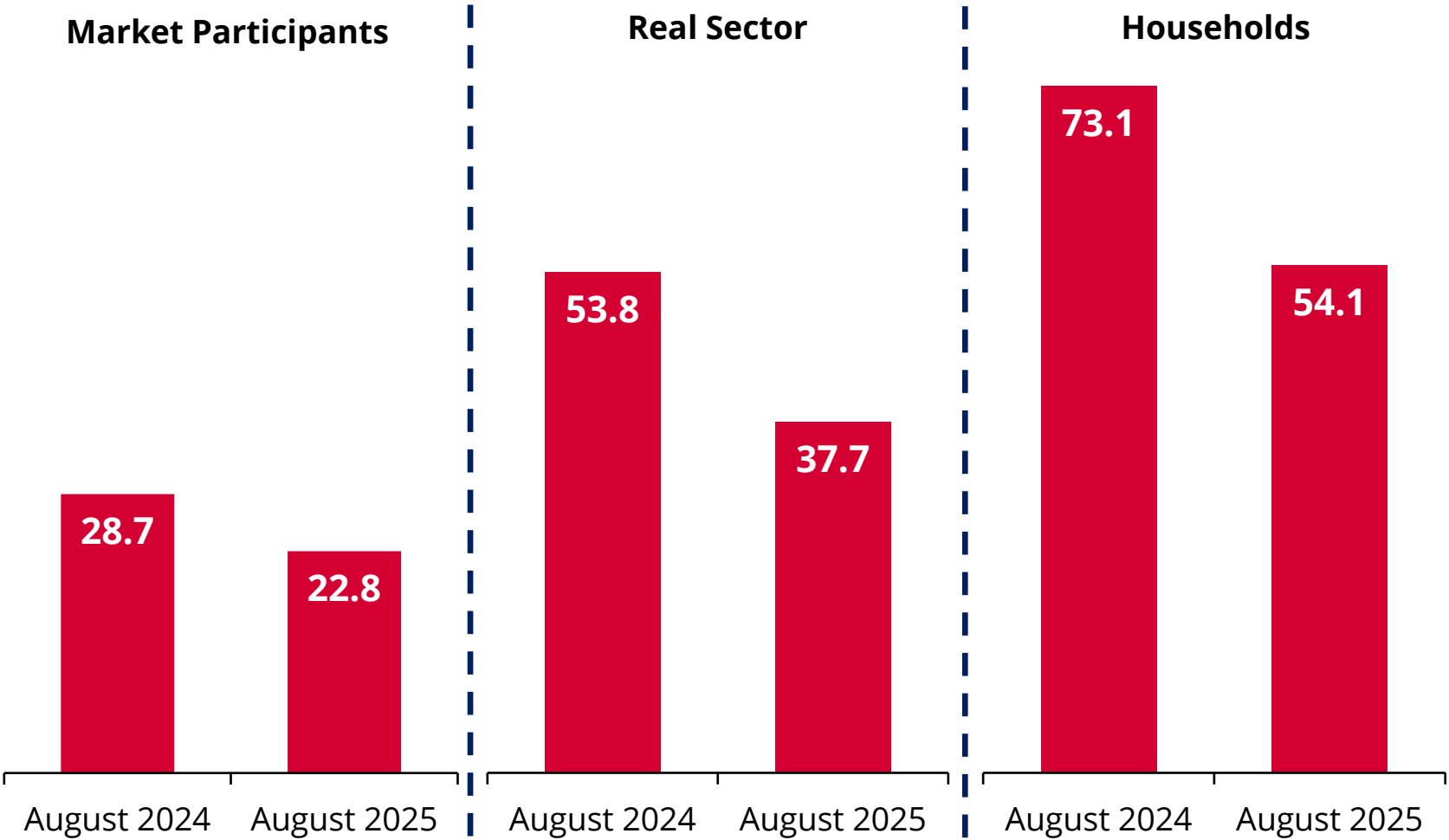
Underlying inflation indicators point to further disinflation going forward.

CPI, Median and Underlying Inflation* (% Change)



Inflation expectations have improved, but are still elevated.


Expectations of 12-Month Ahead Annual CPI Inflation (%)



Market Participants Inflation Expectations (%)	
September 2025	31.2
October 2025	30.2
December 2025	29.7
August 2026	22.8
December 2026	20.4

Inflation expectations and pricing behavior continue to pose upside risks.

Upside risks

- 
- Food prices (frost and drought)
 - Stickiness in services
 - Inflation expectations

Downside risks

- 
- Global growth
 - Commodity prices

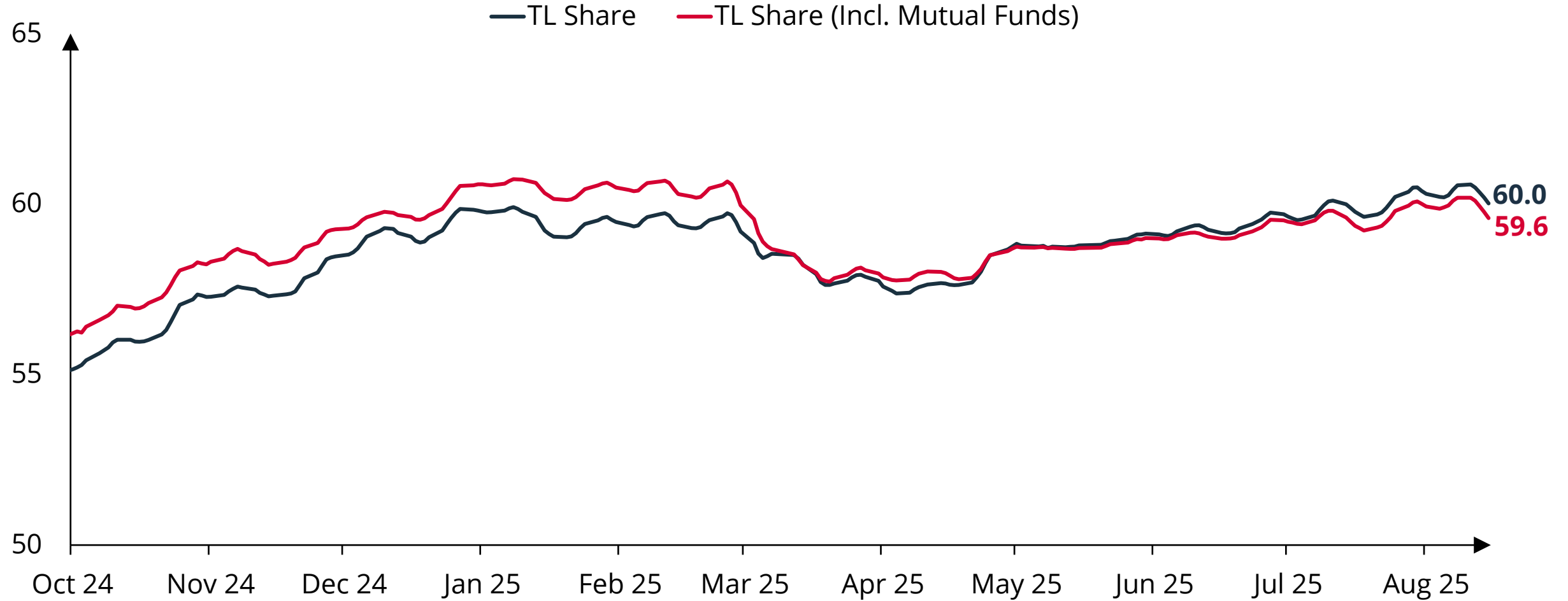
4

Is re-dollarization a potential risk?

- Robust demand for TL
- Enhanced macroprudential safeguards
- Tight monetary policy supports reserves

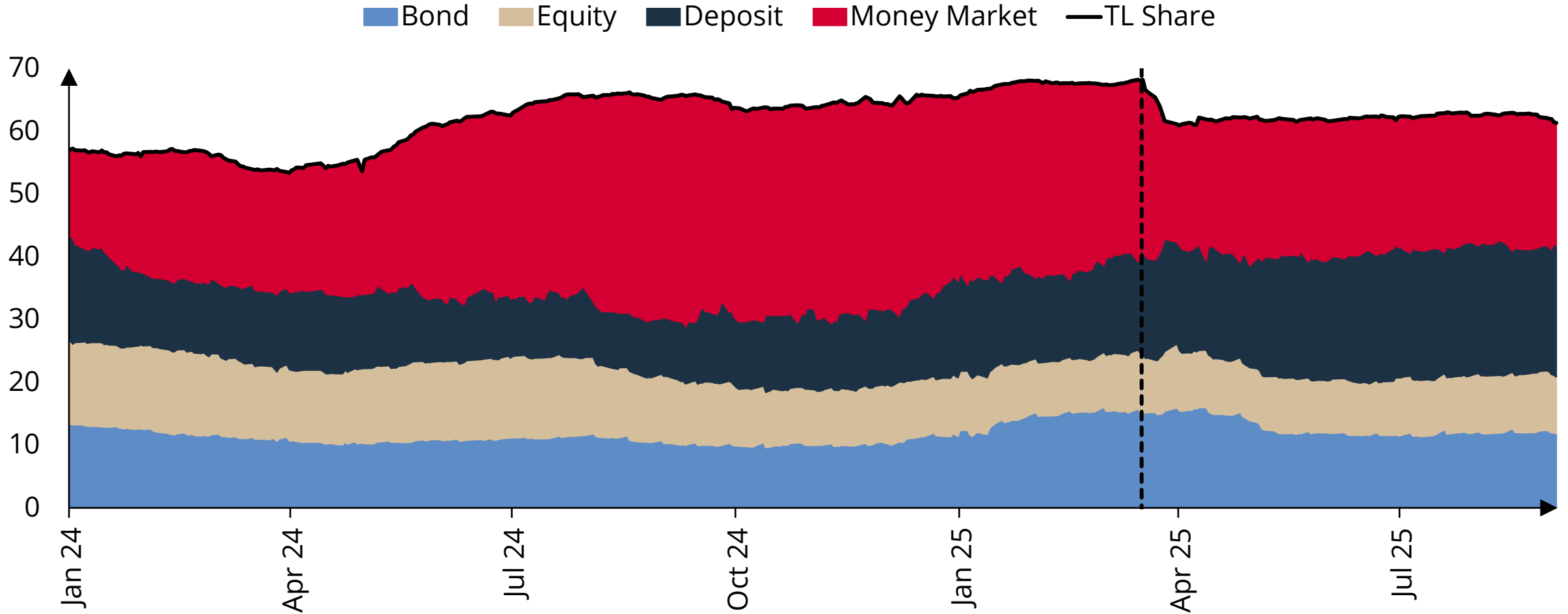
TL share is on a rising trend.

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



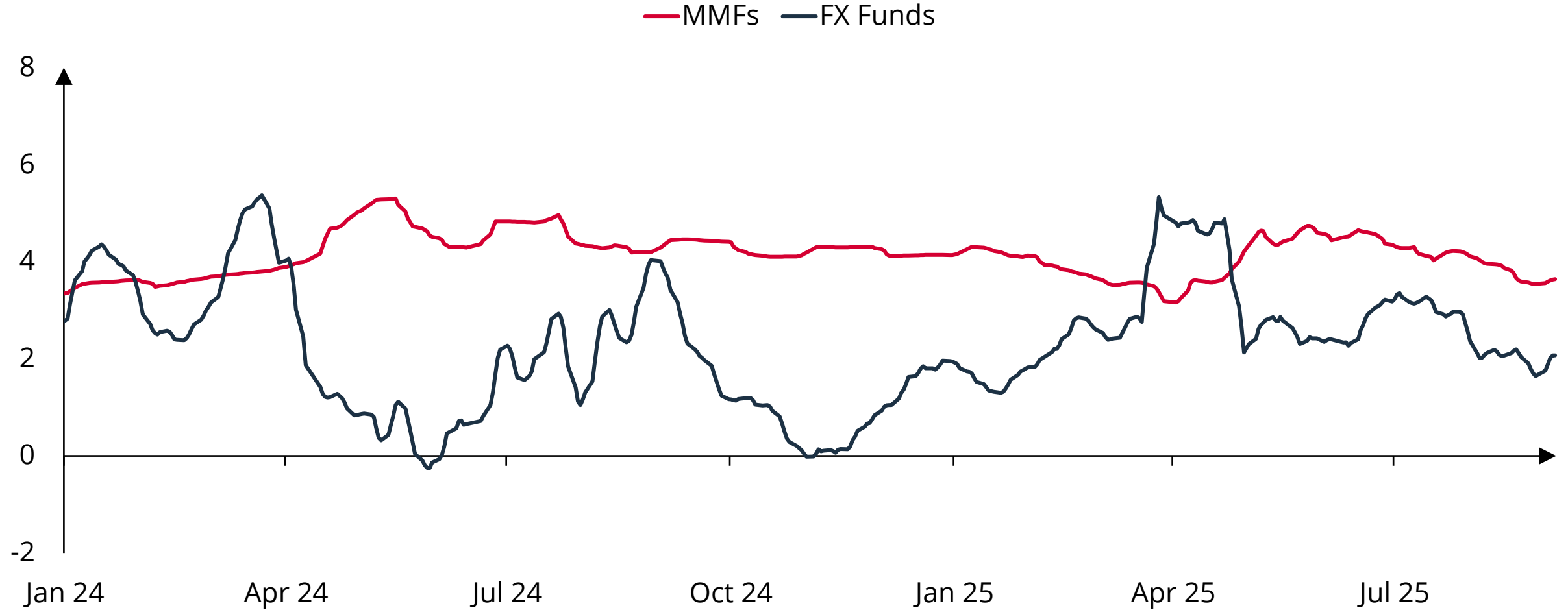
TL share of investment funds assets is supported by the tight monetary stance.

Investment Funds Asset Allocation and TL Share (%)



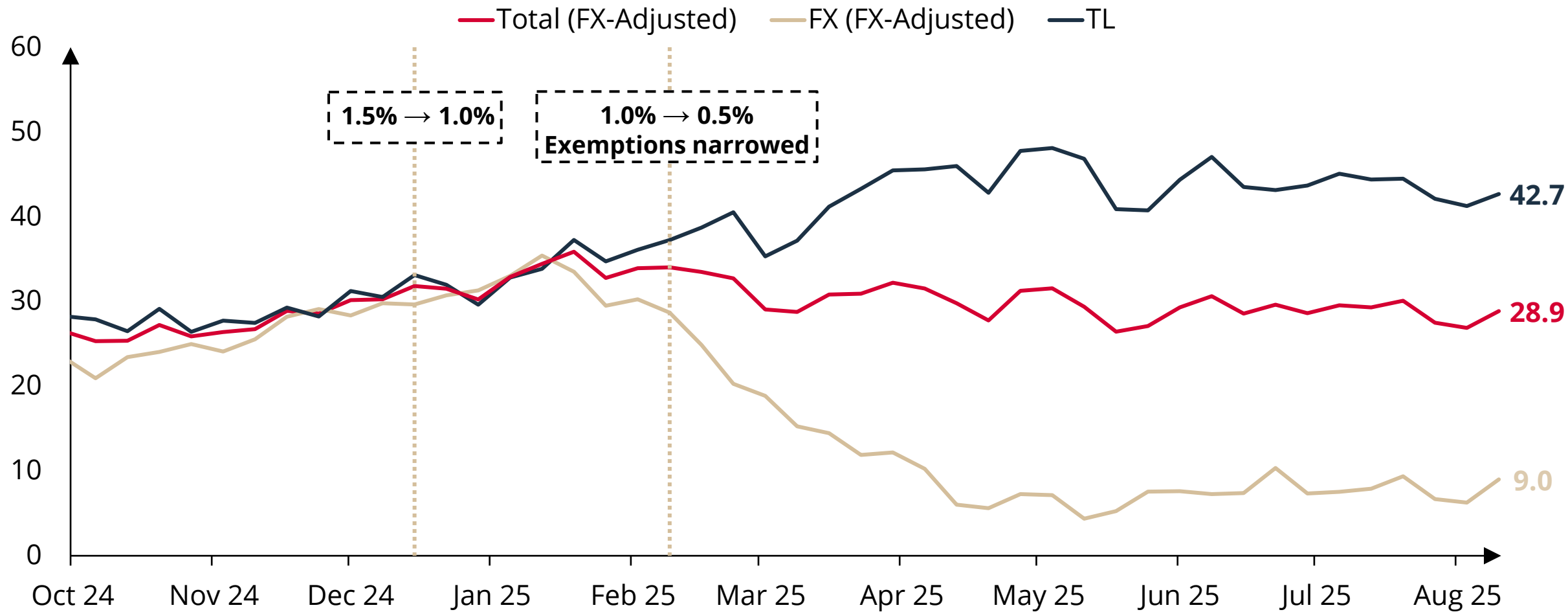
Local investors' preference for the TL stays strong, driven by TL return.

Monthly Returns of MMFs and FX Denominated Funds (TL Returns, %)



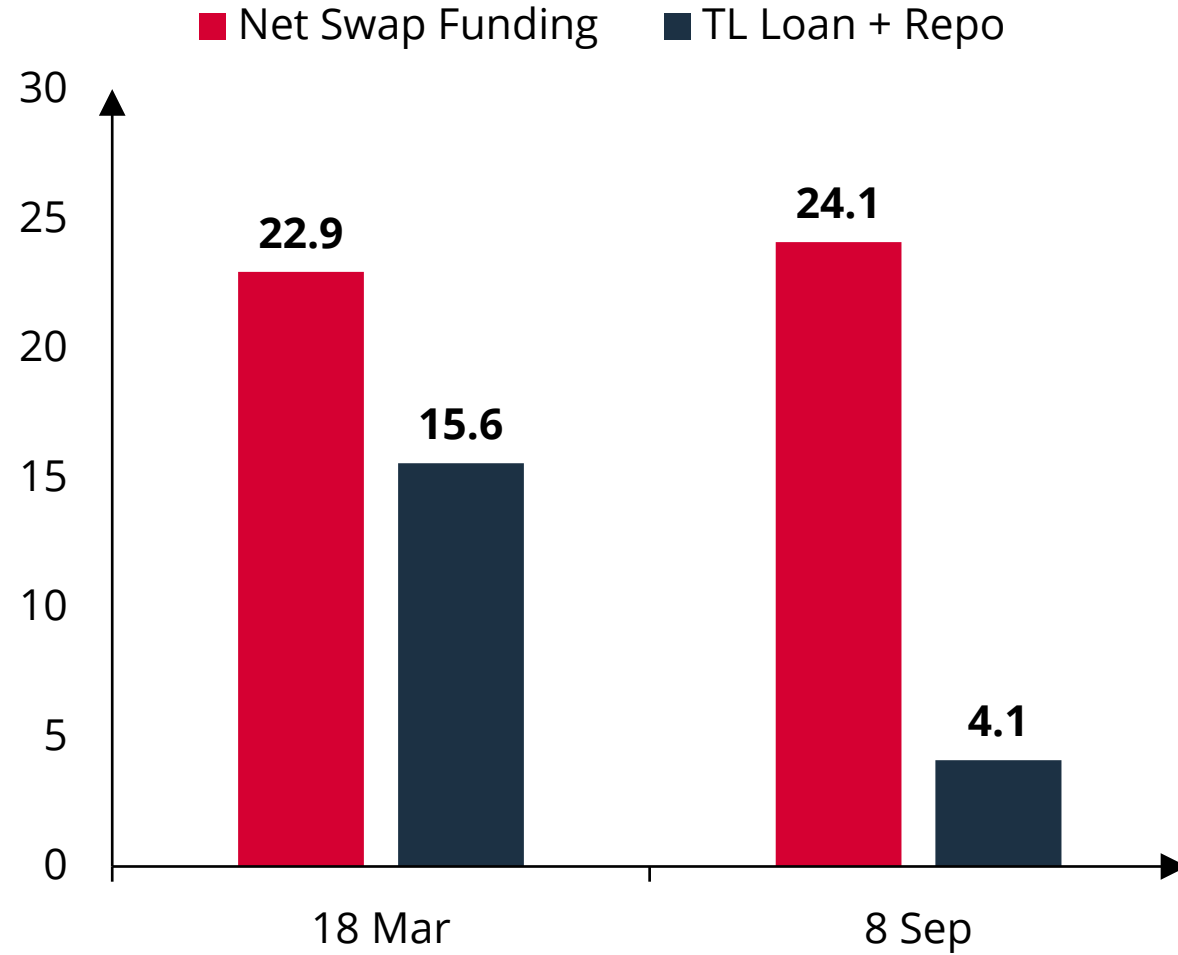
Loan growth remained stable but the composition shifted in favor of TL.

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

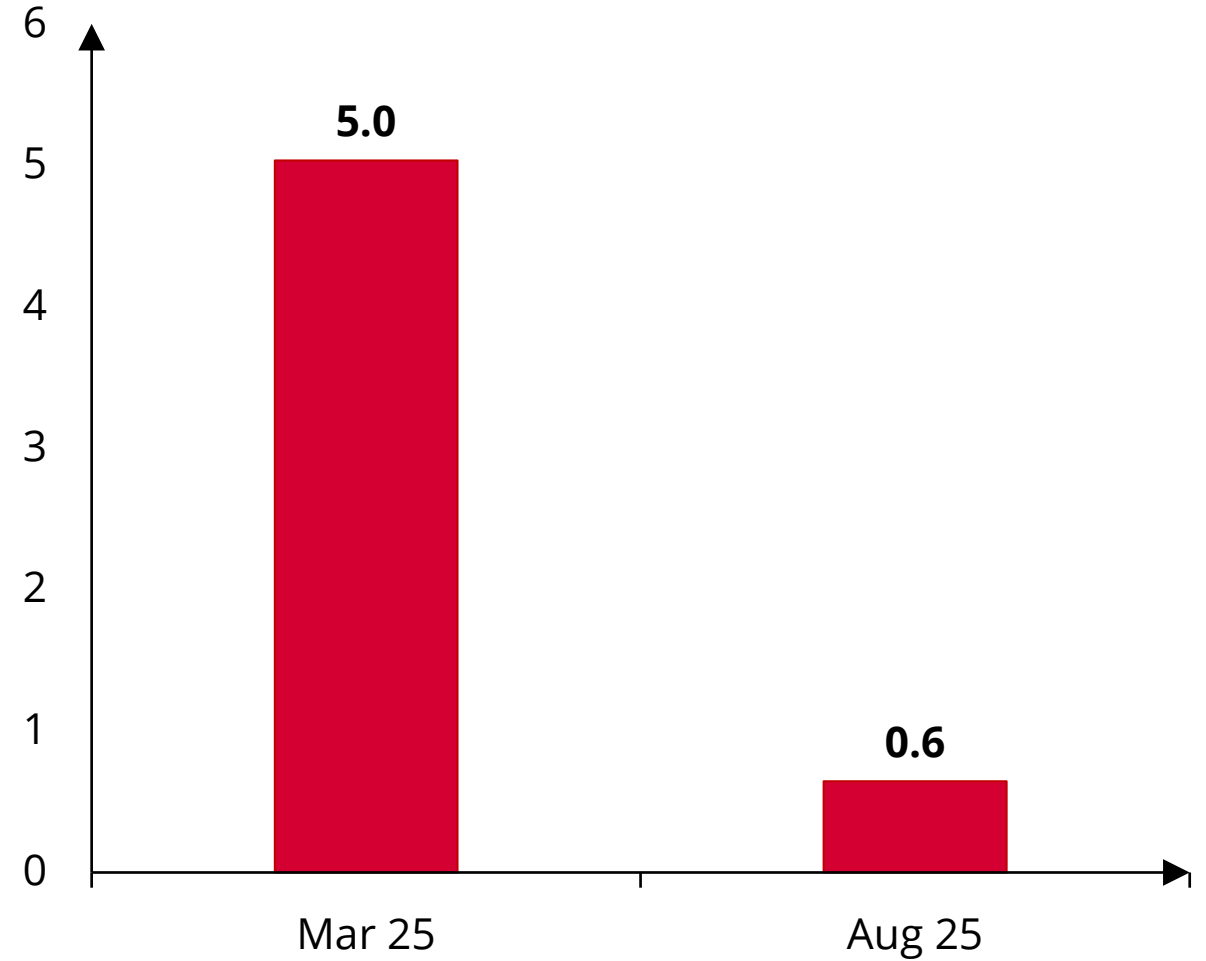


Short-term TL positioning has declined.

TL Funding via Non-Residents Abroad (Billion USD)

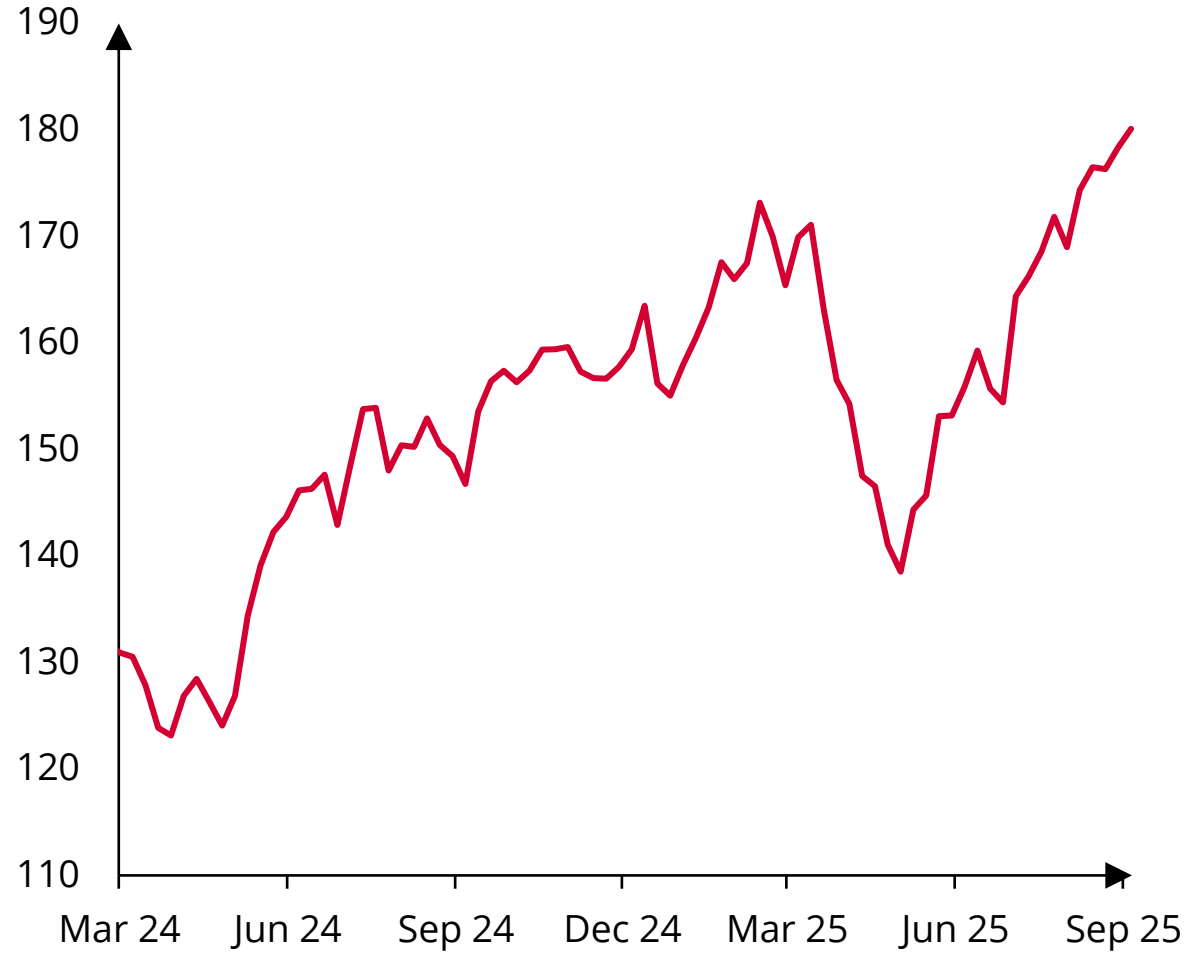


FX Loans With 0-1 Month Maturity (Flow, Billion USD)

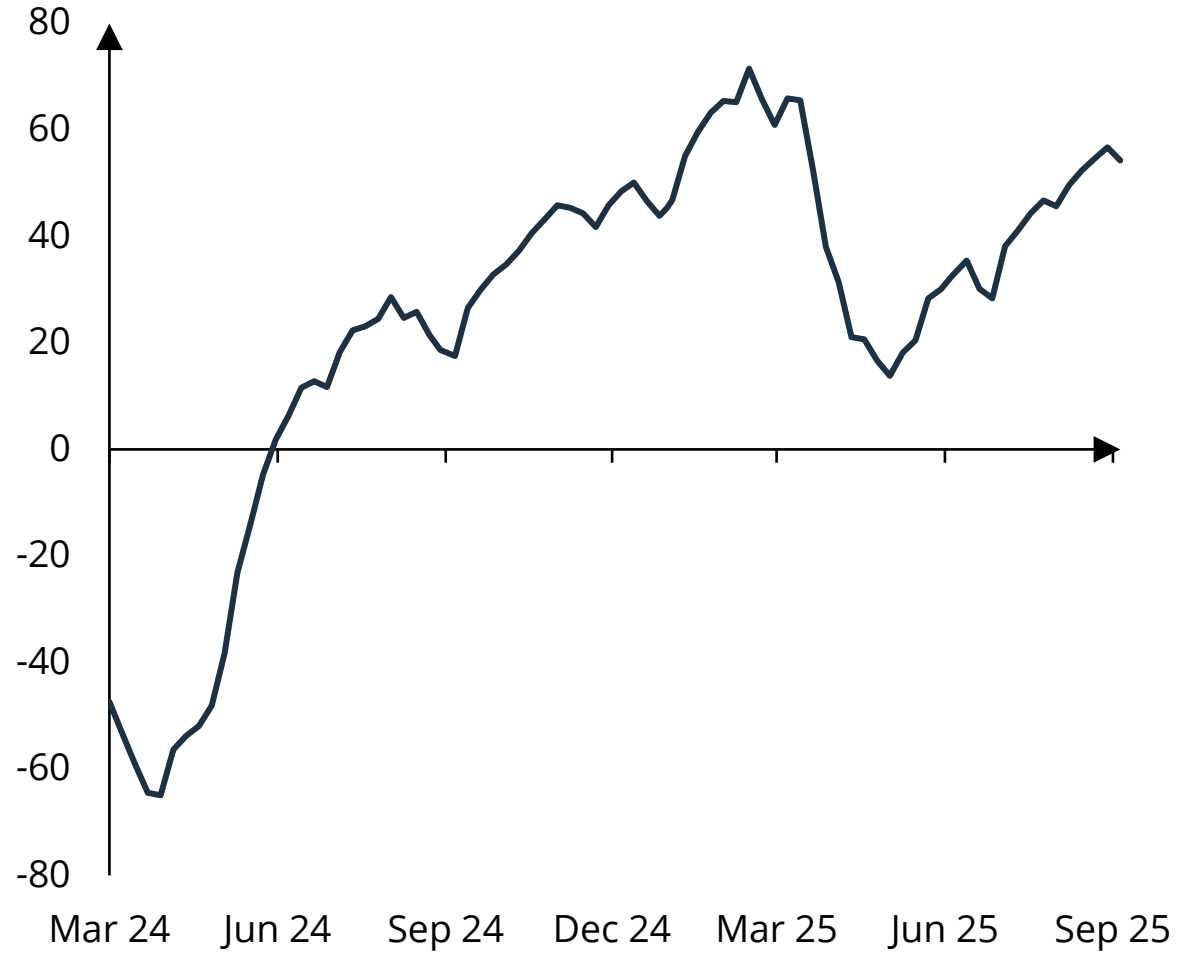


Tight monetary policy stance supports reserves.

Gross International Reserves* (Billion USD)



Net Reserves Excluding Swaps* (Billion USD)



Conclusions

- 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 macroeconomic framework outlined in the Medium-Term Program will contribute to this process.
- The Committee will determine the policy rate by taking into account realized and expected inflation and its underlying trend in a way to ensure the tightness required by the projected disinflation path in line with the interim targets.
- The step size will be reviewed prudently on a meeting-by-meeting basis with a focus on the inflation outlook.
- Monetary policy stance will be tightened in case of a significant deviation in inflation outlook from the interim targets.



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