Fatih Karahan: Recent economic and financial developments in Turkey

Speech by Ms Fatih Karahan, Governor of the Central Bank of the Republic of Turkey, at the 93rd Ordinary Meeting of the General Assembly, Ankara, 30 April 2025.

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Esteemed Shareholders, Distinguished Guests,

Welcome to the Central Bank of the Republic of Türkiye' s (CBRT) 93rd Ordinary General Assembly Meeting.

The main contribution that central banks can make to social welfare is to achieve price stability. The year 2024 was marked by decisive steps taken by the CBRT to this end, which led to the start of the disinflation process.

Before moving on to the agenda items we will discuss at the General Assembly, I would like to share with you our assessments of macroeconomic developments since early 2024, and give a brief summary of our monetary policy implementations. Then I will talk about the measures we took to counter the recent volatility in markets. In the final part of my speech, I will briefly touch upon our corporate activities in 2024.

Distinguished Participants,

In 2024, the global growth outlook improved slightly, while the normalization trend in the supply and demand balance in labor markets continued. The recently heightened uncertainties regarding global economic and trade policies, and geopolitical developments have increased downside risks to global growth for 2025. Although global inflation has declined, the elevated uncertainty and brisk risks caused central banks to maintain their prudent stances.

Looking at Türkiye, economic activity was strong in the first quarter of 2024 on the back of wage adjustments and the demand brought forward, but slowed down in the second and third quarters in particular, due to the effects of monetary tightening. In the last quarter of the year, promotional sales led to acceleration in household demand and economic activity compared to the previous two quarters. Against this background, the contribution of domestic demand and net exports to growth remained balanced throughout 2024, pointing to a healthier outlook. In line with this rebalancing, economic activity slowed down on an annual basis in 2024 and the growth rate stood at 3.2%. On the production side, the services sector was the main driver of growth throughout the year, while the construction sector added to this growth. Demand indicators for the first quarter of 2025 suggest that domestic demand has lost momentum, yet remained above projections and its disinflationary effect has diminished. At this point, I would like to emphasize that we are closely monitoring demand indicators and will take necessary measures if developments in demand conditions adversely affect the disinflation process.

In 2024, exports increased annually, while imports declined. Due to the decline in the foreign trade deficit and the strong outlook for the services balance, the current account deficit narrowed significantly in 2024 to USD 10 billion. The strong outlook for the services balance was mirrored favorably in the current account balance, while improvements in gold, energy and core foreign trade balance supported the decline in the current account deficit. As of February 2025, the 12-month cumulative current account deficit was USD 12.8 billion due to wider gold and energy deficits despite the high level of services surplus.

After reaching 75.5% year-on-year as of May 2024, consumer inflation assumed a fast trend of decline owing to the disinflation process that started in June 2024, and stood at 44.4% at the end of the year. Domestic demand conditions, which tended to weaken throughout the year amid monetary tightening, came to the levels that supported the decline in inflation in the second half of the year. Credit utilization registered increases in the first half, but remained moderate in the remainder of the year thanks to macroprudential measures. Depreciation in the Turkish lira became more limited compared to last year, which alleviated inflationary pressures stemming from this channel.

In 2024, cost increases driven by wages and raw materials weakened. After edging up in the first quarter, commodity prices trended downwards for the rest of the year, with the energy group in the lead. Inflation expectations hovered above inflation forecasts, yet declined throughout the year. In addition to all these, periodic price hikes in the food group have become a risk factor for inflation.

Distinguished Guests,

Against this macro-outlook I touched upon, we determine our monetary policy stance in a way to ensure the continuation of the disinflation process. Within the framework of the strong monetary tightening process that we initiated to establish disinflation as soon as possible, anchor inflation expectations and contain the deterioration in the pricing behavior, we raised the policy rate to 50% in March 2024. Maintaining our prudent stance against upside risks to inflation, we kept the policy rate constant at 50% in the April-November 2024 period.

In December, we reduced the policy rate to 47.5% on account of the inflation outlook and the improvement in inflation expectations. We also decided to set the overnight borrowing and lending rates 150 basis points below and above the one-week repo auction rate, respectively.

In addition to the policy rate, we continued to implement macroprudential policies in 2024 to enhance the effectiveness of monetary transmission against the divergence in economic agents' expectations and possible volatility. We made effective arrangements regarding deposits, loans and liquidity management.

Accordingly, we took steps to eliminate the excess Turkish lira liquidity that will support monetary tightening. As part of the simplification in the macroprudential framework, we abolished the securities maintenance regulation and terminated the additional reserve requirement maintenance practice based on the leverage ratio.

In order to phase out FX-protected deposit accounts (KKM) by switching to TL, we changed the target calculations for switching from KKM accounts to Turkish lira and for renewal of KKM accounts. In addition, we abolished the remuneration of required reserves for KKM accounts.

The disinflation process that started in June 2024 continued in the first quarter of 2025. As of March, annual consumer inflation receded to 38.1%. Commodity prices fell in the first quarter of the year, led by oil prices. Annual core goods inflation showed a slight uptick and declined below 20%. Services inflation, on the other hand, picked up somewhat in January due to wage, administered price, and lump-sum tax adjustments but slowed significantly in February and March. While fresh fruit and vegetable prices posted mild increases in the first two months of the year, unfavorable weather conditions in March led to an increase in fruit and vegetable prices.

Parallel to these developments in inflation, we reduced the policy rate to 45% in January and to 42.5% in March. We have kept implementing macroprudential measures in 2025 to maintain macro financial stability, support the tight monetary stance, and enhance the effectiveness of the monetary policy transmission mechanism.

To ensure that loan growth and composition remain consistent with the disinflation path, we reduced the monthly growth limit for foreign currency commercial loans to 1% and then to 0.5%. For Turkish lira commercial loans, we set the growth limit for SME loans at 2.5% and for other commercial loans at 1.5%. We raised the reserve requirement ratio for Turkish lira-denominated liabilities of banks with maturities up to one year. We terminated the opening and renewal of KKM accounts for legal entities as part of the strategy to phase out KKM accounts.

Distinguished Participants,

In this part of my speech, I will talk about recent market developments and the measures we have taken to curb the risks that they may pose to the inflation outlook.

As you may know, developments in domestic and international financial markets in March and April led to depreciation in financial assets. To avoid these developments from disrupting the macroeconomic outlook, we swiftly took additional steps to support the monetary transmission mechanism.

The Monetary Policy Committee held an interim meeting on March 20 and introduced measures to support the tight monetary stance. Accordingly, we raised the Central Bank overnight lending rate from 44% to 46%. We also suspended the one-week repo auctions for a period of time, which restrained the rise in indicators displaying excess volatility on March 19.

On April 17, we raised the policy rate from 42.5% to 46%. We also raised the Central Bank overnight lending rate from 46% to 49% and the overnight borrowing rate from 41% to 44.5%. We closely monitor the potential effects of the rising protectionism in global trade on the disinflation process through global economic activity, commodity prices, and capital flows.

To contain volatility in the market, we took measures for Turkish lira and FX liquidity. Accordingly, we extended the maturities of Turkish lira deposit auctions. Moreover, we diversified our liquidity tools and began issuing liquidity bills with maturities up to 91 days. We made outright purchases of government domestic debt securities (GDDS) to support the effective functioning of the bond market.

As for foreign exchange liquidity, we started conducting Turkish lira-settled foreign exchange forward selling transactions. We will continue to closely monitor liquidity conditions and use liquidity management tools effectively.

Distinguished Guests,

In order to maintain the sound functioning of financial markets, we will continue to decisively use all the policy tools at our disposal within market mechanism. We will adopt a proactive stance in determining the steps to be taken to contain the macroeconomic effects of the volatility in the market.

We will maintain our tight monetary stance until a sustained decline in inflation and price stability are achieved. Accordingly, we will determine the policy rate in a way to ensure the tightness required by the projected disinflation path taking into account the realized and expected inflation, and the underlying trend. Monetary policy stance will be tightened in case a significant and persistent deterioration in inflation is foreseen.

Distinguished Shareholders and Esteemed Guests,

In the last part of my speech, I would like to summarize some of our corporate activities in 2024.

We attach great importance to effective communication and coordination of our policies with other stakeholders. Therefore, in 2024, we continued to inform the public about our decisive steps towards achieving our primary objective of price stability through a simple, transparent and two-way communication policy. For the first time, we prepared and announced a "Research Agenda".

Last year, we took steps to use technology and financial infrastructure more intensively and effectively. I would like to briefly mention some of these.

Within the scope of FAST, in 2024, we continued our efforts to increase competition and innovation in the field of payments and to provide new and value-added services. We gradually increased FAST transaction amount limits.

We carried out tasks to ensure uninterrupted circulation of Turkish lira banknotes, modernize the hardware and software of the banknote processing system used in our branches, and increase our banknote processing capacity.

In 2024, we continued to carry out various activities in the framework of our duties and powers in order to increase cooperation with our national and international stakeholders and enhance existing relations.

While working to fulfill our core duties and responsibilities, we also continued to contribute to academic studies as part of our corporate social responsibility activities.

Distinguished Shareholders and Esteemed Guests

I would like to emphasize once again that price stability is a prerequisite for sustainable growth and increased social welfare. At the CBRT, we will continue the disinflation process and work with determination and dedication to bring inflation down in line with the intermediate targets we have set.

Before concluding my remarks, I would like to thank my esteemed colleagues who support the Bank's activities with great dedication, and I would like to express my sincere gratitude to all of you for your participation.