

Fatih Karahan: Recent economic and financial developments in Turkey

Speech by Dr Fatih Karahan, Governor of the Central Bank of the Republic of Türkiye, at the briefing on the Inflation Report 2025-III, Istanbul, 14 August 2025.

* * *

Distinguished Members of the Press, Esteemed Guests,

Welcome to the briefing we hold to convey the main messages from our Inflation Report.

We are saddened by the successive loss of four distinguished Central Bank figures, Mr. Rüdü Saracolu, Mr. Hasan Ersel, Mr. Süreyya Serdengeçti, and Mr. Ercan Kumcu, who left a lasting mark on the history of the Bank.

Each of them served the public at different times and in different capacities at our Bank. I commemorate them once again with gratitude, and offer my condolences to their loved ones.

Distinguished Guests,

Our tight monetary policy is gradually yielding results.

Domestic demand has continued to slow down and demand-side disinflationary effects have increased. The disinflation has continued uninterrupted since June 2024. Underlying trend indicators suggest that disinflation is on track.

We value the progress we have made in achieving price stability. To this end, we will continue to use all monetary policy tools decisively in the coming period.

In my presentation, I will first share our assessments of the global economy, the macroeconomic outlook, and the monetary policy. Later on, I will present our medium-term projections. After the presentation, our Deputy Governors and I will be answering your questions.

As usual, our Inflation Report includes boxes on prominent issues on the agenda as well as our thematic analyses.

Distinguished Guests,

I would first like to address the recent key global economic developments.

Although the uncertainty around global trade policies have eased somewhat thanks to bilateral agreements, it remains elevated.

As it's known, agreements imposed lower tariff rates than those initially announced. However, high sectoral tariffs remain in effect.

Uncertainty regarding many countries and sectors persists.

Moreover, geopolitical risks continue to weigh on the global economic outlook.

The adverse impact of these uncertainties and risks on expectations regarding global economic activity are still apparent.

The recent slight decline in uncertainty has also led to a modest improvement in the global growth outlook.

That said, we see that growth projections remain below January levels.

Energy commodity prices have risen somewhat over the previous reporting period due to geopolitical developments.

However, weak demand conditions and production increases limited this rise.

On the non-energy side, industrial metal prices, increased due to tariffs.

Despite differing country dynamics, rate cuts generally continued after April.

However, the pace of cuts varies based on inflation and growth outlooks.

Accordingly, policy rate expectations and pricing also show movements in both directions.

Due to high indebtedness, risk perceptions regarding bond yields have relatively increased in the recent period.

On the other hand, equity markets have been performing well on a global scale.

Against this background, we see that portfolio preferences have shifted towards equities.

Before moving on to the domestic outlook, I would like to emphasize that global uncertainty, despite having decreased somewhat, continues to weigh on the global economic outlook and financial markets.

Esteemed Guests,

Macroeconomic Outlook

Now, I would like to share our observations on domestic macroeconomic developments.

As an intended result of our tight monetary policy, demand composition remains balanced.

In the first quarter of 2025, the annual growth of private consumption decelerated.

The contribution of private consumption to growth declined significantly compared to the pre-tightening period. Meanwhile, the contribution of net exports has become more balanced.

The moderation in demand composition is also apparent on a quarterly basis. While private consumption declined, net exports made a positive contribution to growth due to the increase in exports and decrease in imports.

Accordingly, with financial conditions remaining tight in the first quarter of the year, domestic demand weakened and external balance improved.

In the second quarter, the rate of increase in industrial production decelerated.

Excluding the typically volatile sectors, industrial production declined slightly on a quarterly basis.

Having risen in the first quarter, the services production index edged down in the second quarter as of May.

A similar trend is also apparent in the index of production in construction. In sum, production indicators were generally on a moderate course.

As a related indicator, capacity utilization rate in the manufacturing industry remained flat in the second quarter.

In July, capacity utilization declined compared to the previous month and the previous quarter's average.

Accordingly, capacity utilization has been hovering below the historical average for the past year.

Regarding the labor market, the headline unemployment rate remained well below its historical average, albeit with a slight increase in the second quarter.

Meanwhile, broadly defined indicators are still at high levels due to their differing dynamics.

In this context, data on applications per job openings also points to a rise.

This outlook is similar to that of 2018 tightening period.

When evaluating the labor market, it is essential to consider a broader set of data that also includes the indicators I have talked about.

Sometimes, key indicators, such as the unemployment rate, and other labor market indicators can send mixed signals.

The chart displays the Composite Labor Market Index, which is derived from a variety of labor market indicators and provides a comprehensive outlook.

While an increase in the index, indicates tightening in the labor market on an annual basis, a decrease indicates easing.

Hence the index implies that labor market is less tight than the unemployment rate suggests.

You can take a look at our box study on this particular topic for details.

In the second quarter domestic demand continued to lose momentum.

Excluding gold, retail sales followed a more moderate course. Indeed, the index's growth rate, excluding gold, slowed in the second quarter compared to the previous quarter.

This chart shows the trend-adjusted retail sales volume and expenditures on goods in household's final consumption.

First, I would like to note that, the divergence between these series after 2024 could be attributed to factors such as i scope differences and variations in the deflators used.

In the chart, we see that consumption of goods has fallen below the trend following the monetary tightening. Retail sales continue to lose pace. This trend is more evident when gold is excluded.

Card spending r increased in the second quarter and edged up in July.

Deviations from the trend also confirm the loss of momentum in card spending.

As we discussed on the CBRT Blog, the data adjusted for rising card usage preferences in recent years aligns more closely with private consumption.

This adjusted data allows us to better observe the loss of momentum in consumption expenditures.

The Business Tendency Survey data is also consistent with moderation in domestic demand led by monetary tightening.

Indeed, manufacturing firms' registered domestic orders hover around the previous periods' average.

Considering the data on demand as a whole, the disinflationary impact of demand conditions increased in the second quarter.

The average of the output gap indicators based on alternative methods implies a near-neutral, negative level in the first quarter of the year.

Output gap remained negative in the second quarter as well. Therefore, as financial conditions remained tight, demand conditions aligned more closely with the disinflationary path in this period. We expect this outlook to last for the remainder of the year.

In the context of economic activity, I would like to briefly mention the current account deficit.

Despite a slight increase in the second quarter, the current account deficit remained moderate in line with the domestic demand.

Looking at the details, exports continued to rise amid recent uncertainty regarding trade policies and weak global demand.

Imports declined in the first quarter but picked up in the second. This was partly driven by demand brought forward due to these uncertainties.

The rise in the euro-dollar parity had a positive impact on the foreign trade and services balance.

Provisional data for July points to an improvement in the trade balance.

Against this background, we estimate that the current account deficit-to-GDP ratio was around 1.3 percent in the second quarter.

We forecast that this ratio will remain below its long-term average in 2025.

Meanwhile, energy prices and global trade policies continue to pose upside risks to the current account deficit.

Distinguished Participants,

Following this brief review of domestic economic activity, I will now share our assessment on the inflation outlook.

The disinflation process that started in June 2024 continues uninterrupted despite the volatility in financial markets as well as geopolitical developments.

Consumer inflation decreased to 33.5 percent in July, a significant decline about 42 points from its peak in May 2024. Leading data suggest that this course continues in August, as well.

Despite being above the midpoint we projected, inflation has remained within our forecast range since the previous reporting period.

Although inflation stood below market expectations in the last three months in a row, the inertia in the services sector remains above our projections, remaining as a risk factor to forecasts.

The underlying inflation indicators registered a partial increase in April due to the developments in financial markets. In the following months, we witnessed a moderate course in indicators.

Underlying inflation posted a temporary rise due to month-specific factors in July. This was mainly driven by the price increases in services items with a strong tendency toward time-dependent price setting.

Analyzing three-month moving averages reveals a further gradual deceleration in the underlying inflation.

On the other hand, the average of six indicators we monitor show that the annualized underlying inflation is below 27 percent.

Median inflation, which performs better in forecasting, implies that underlying inflation hovers around 25 percent. A comparison of these figures with consumer inflation, which is 33.5 percent, suggests that disinflation will continue.

As I mentioned before, leading indicators for August also point to a gradual slowdown in underlying inflation.

Across subgroups, services inflation, which had recorded a gradual slowdown, increased somewhat in July due to items with strong tendency toward time-dependent price-setting such as communication, health and rent.

In the period following April, core goods inflation rose slightly due to exchange rate developments, yet this proved temporary.

Inflation in the food group lost some pace despite the agricultural frost. Although the frost had an adverse impact on fruit prices in the first half of the year, the favorable course of vegetable prices offset this to some extent. In this period, the deceleration in prices of the other food group has also been supportive.

In the energy group, we have recently witnessed the effects of the lump sum taxes and administered prices coupled with the uptick in global energy prices amid the geopolitical turmoil.

In this respect, if we were to look into the details of the main groups, commodity prices settled on a downtrend in March on account of the expectations towards global trade and growth, as you may remember. Accordingly, we revised our assumptions downwards for commodity prices, chiefly crude oil, in the second Inflation Report of the year.

However, geopolitical events of June reversed this picture. As I mentioned in the first part of my presentation, international commodity prices increased, driven by the energy group led by oil prices.

Meanwhile, climate conditions continue to affect food prices.

In tandem with increasing temperatures in recent months, we see drought getting more severe in certain areas.

Plant production forecasts indicate losses in yields due both to agricultural frost and rising temperatures.

We consider that drought, which is getting more severe, adds to the upside risks to food prices in the upcoming period.

Across subgroups, the highest annual inflation is recorded in the services group.

However, I need to underline that services inflation registered a notable decline in the last one year period.

However, we see that services items with a strong tendency toward time-dependent price setting and backward indexation add to the inertia in services inflation.

In fact, a closer look at cumulative inflation in the first seven months highlights education and rent items.

Inflation in education services followed a brisk course in the first seven months due to the hikes in private school fees. We will monitor the effects of the developments in private university tuition fees in the couple of months ahead.

The education services is followed by the rent item, while services items highly sensitive to demand conditions follow a milder course. Restaurants and hotels subgroup poses an example to this case.

Let's take a closer look at rent inflation.

Seasonally adjusted data indicate that monthly rent inflation has remained flat at around 4 percent in recent months.

As seen in the chart on the right, the annualized recent trends imply a course approximately 15 points below the current annual rent inflation rate of 63.6 percent. This indicates that rent inflation will continue to decline.

This downward course is confirmed both by the Retail Payment System (RPS) microdata and the rates of rent increases monitored through residential property valuation reports.

However, we should also note that rent inflation is more persistent than we had projected, due to supply-side factors specific to the housing sector, such as earthquakes and urban transformation.

The persistence in rents is clearly evident when services are analyzed in terms of rent and non-rent.

In services excluding rent, annual inflation differentiated considerably on the downside and underlying inflation shows a gradual slowdown.

The recent underlying annualized inflation for this group is at around 37 percent.

As previously emphasized, inflation expectations play a pivotal role in the disinflation process.

Compared to the first two Inflation Reports of the year, we see that inflation expectations have declined across all sectors.

In this slide, we present inflation expectations of market participants over various time horizons. Accordingly, it is anticipated that inflation continues to decline gradually.

Even though inflation expectations have improved, they are still above our inflation forecasts. In this respect, they continue to pose a risk to the disinflation process.

This requires us to maintain our tight and decisive monetary policy stance.

Monetary Policy

Distinguished Participants,

The developments and data I have outlined so far have a clear message. We maintain our tight monetary policy stance and gradually collecting the results.

In this part of my speech, I would like to talk about our monetary policy stance.

As I indicated in the presentation, we have seen an improvement in the inflation outlook.

Against this background, we cut the policy rate by 3 points to 43 percent in July, while maintaining the necessary tightness in monetary policy.

Our tight monetary policy stance will ensure the continuity of the disinflation process.

In addition, we are reinforcing the monetary transmission with macroprudential measures against divergence and potential volatility in expectations among economic agents.

We also maintain an effective liquidity management strategy based on liquidity conditions.

As you know, the instruments we use to support our tight monetary stance can be grouped under three main categories:

We aim to increase the share of Turkish lira deposits and gradually reduce FX-protected deposit accounts (KKM) through regulations targeting deposits.

We prevent fluctuations in loan demand through regulations on loan growth.

And we manage excess Turkish lira liquidity in the system through our liquidity measures.

Recently, Turkish lira liquidity has increased with the improvement in our reserve position.

We sterilize the resulting excess liquidity in this period through deposit buying auctions and reverse swap transactions.

On the other hand, to mitigate the volatility in money market interest rates, we have also provided funding through repo auctions, taking into account the distribution of liquidity.

Our liquidity management strategy maintains money market interest rates close to the policy rate.

Now, I would like to share the latest developments regarding the financial conditions that are critical to the transmission of our monetary policy.

According to recent data, deposit and commercial loan rates are approximately 53 percent, and consumer loan rates are approximately 62 percent on a compounded basis.

In this context, the policy rate cut has been reflected in deposit and loan pricing in line with our expectations.

After the July Monetary Policy Committee decision, consumer loan rates dropped by 5.3 points and commercial loan rates dropped approximately by 5.5 points compared to the first week of July.

Thanks to our monetary policy stance and the macroprudential framework, the level of deposit rates continues to support the transition to Turkish lira and formation of new savings.

Personal loan growth picked up due to increased credit card spending as of the second quarter onwards.

As I mentioned before, consumers' shift from cash to card payments also influences credit card balance developments.

Consumer loans excluding credit cards are growing at a more moderate pace.

It is essential to maintain a pace of consumer credit growth that supports the rebalancing of domestic demand.

Excluding the loan categories exempt from the limits; Turkish lira commercial loan growth is in line with monthly growth limits and loan demand.

Approximately half of the Turkish lira commercial loan growth stems from the loans exempt from monthly growth limits.

As you may know, in order to strengthen the monetary transmission mechanism and achieve financial stability, we had lowered the monthly growth limit for FX loans to 0.5 percent.

Consequently, the slowdown in FX loan growth has become more pronounced, consistent with this measure.

In February, we terminated openings and renewals of KKM accounts for legal entities.

Currently, the remaining KKM balance for real persons is at 12 billion dollars.

Once the balance further declines, we will be able to terminate the openings and renewals of KKM accounts this year.

The demand for Turkish lira deposits has been strong recently, and the share of the Turkish lira is above the value before the volatility in financial markets.

In fact, the share of Turkish lira deposits is 60 percent, close to its historical average. This outlook remains about the same when mutual funds are included.

The decline in the KKM balance increases the share of Turkish lira deposits. Thus, the monetary transmission mechanism is strengthened and risks to the central bank's balance sheet are mitigated.

Distinguished Guests,

With the uncertainty about tariffs waning, Türkiye, like other emerging economies, started to re-attract capital flows in May.

When we look at non-residents' positions, we see that the improvement observed after April has become more evident especially in July.

Gross reserves increased by 50 billion dollars to 174 billion dollars in August 8, 2025 from 124 billion dollars in March 2024.

Meanwhile, net reserves excluding swaps rose by 114 billion dollars to 50 billion dollars.

Our decisive tight monetary policy stance has contributed to the improvement in risk and volatility indicators as well.

We believe that the positive trend in risk indicators will continue as long as we sustain our tight monetary policy stance so as to reduce inflation as well as the uncertainty surrounding it.

Medium-Term Forecasts and Interim Targets

Dear Participants,

Following the economic outlook, I have summarized, which outlines the background of our forecasts, I would now like to share our new medium-term forecast communication strategy with you.

As of this Inflation Report, we have decided to change the framework for presenting medium-term forecasts.

Before getting into the details, I would like to highlight two key concepts of our new approach: the "forecasts" we will announce in our Inflation Reports, and the "year-end interim targets" that will serve as a commitment and anchor.

In other words, from now on, alongside our "inflation forecasts," which we may revise depending on the flow of data, we will present "interim targets" that will not be changed unless extraordinary circumstances occur between report periods.

These interim targets represent the inflation levels we are committed to achieving in the short term during the disinflation process as inflation converges toward 5%.

In this context, interim targets will serve as a reference in determining the endogenous monetary policy path, ensuring that inflation converges to the interim targets within the control horizon.

At this point, it is important to remind the concept of the "control horizon" which refers to the period when monetary policy decisions have their highest impact on inflation.

Given the lagged effects of monetary policy, the control horizon for Türkiye is defined as the period between 12 and 24 months from now.

You can follow our new framework, which we have discussed in detail in the relevant Zoom-in section in the Report.

Before going into the details of our inflation forecasts and interim targets, I would like to share the main assumptions underlying our forecasts.

As I mentioned at the beginning of my speech, the recent easing of uncertainty following the announcement of tariff rates has slightly improved global growth expectations. Therefore, we have revised our assumptions regarding external demand upward.

In light of rising commodity prices driven by geopolitical tensions, we have updated our assumptions for crude oil and import prices upward.

On the other hand, our assumption for food prices has remained unchanged for 2025 compared to the previous report, while it has been revised upward for 2026.

When forming our forecasts and interim targets, we have assumed that the tight stance in monetary policy will be maintained until price stability is achieved. Additionally, we assumed that coordination in economic policies will continue.

In this context, we forecast inflation to be between 25% and 29% by the end of 2025. For the end of 2026, our forecasts indicate that inflation will decline to a range of 13% to 19%.

Due to easing global uncertainties and inflation declining to lower levels, we have narrowed the forecast range compared to the previous report period.

As I mentioned earlier, these values reflect the inflation forecasts and corresponding forecast ranges we had previously shared with you. However, in this Report, I will also share our year-end interim inflation targets.

We maintain the 24% inflation forecast for the end of 2025 as our interim target for that year. For 2026 and 2027, we have set our interim inflation targets at 16% and 9%, respectively.

After inflation declines to 9% in 2027, we foresee it stabilizing at 5% in the medium term.

In the past, if there were any changes to our inflation forecasts, we shared the sources of those revisions.

From this Report onward, we will make such communication if the actual year-end inflation deviates from the interim target. If such a deviation occurs, we will explain its sources in the first Inflation Report of the following year.

In the previous report, we shared the 12% inflation forecast for 2026. Under our new approach, we have now set the 2026 "interim inflation target" at 16%. Analyzing the 4 percentage point difference, we find that higher food price assumptions have contributed 0.9 percentage points. The underlying inflation and inertia added 1.9 percentage points, and import prices in Turkish lira, largely reflecting updates to the oil price assumption, added 1.2 percentage points.

During the disinflation process, we will maintain our tight monetary policy stance to achieve our interim targets.

One of our top priorities is to keep domestic demand at disinflationary levels through the monetary policy measures we adopt. We will define the necessary measures by taking into account realized and expected inflation, and its underlying trend in a way that ensures the tightness required by the interim targets.

Maintaining our cautious stance, we expect inflation to decline steadily in the upcoming period. Our decisive approach in monetary policy will continue to support the disinflation process through moderation in domestic demand, real appreciation of the Turkish lira, and improvement in inflation expectations.

With the continued downward trend in expectations and the ongoing decrease in services inflation, the decline in the underlying inflation will continue throughout the remainder of 2025. The fiscal policy coordination will also contribute to this process.

To sum up, we will decisively maintain our tight monetary policy stance until price stability is achieved.

We set the policy rate to ensure the level of tightness required by the projected disinflation path. In this process, we take into account inflation realizations, underlying inflation and inflation expectations.

I would like to emphasize that we adopt a prudent, inflation-focused, and meeting-by-meeting approach when deciding on policy steps and their magnitude.

If we foresee a significant and persistent deterioration in inflation, we will effectively use all monetary policy tools at our disposal.

Distinguished Guests,

I would like to emphasize once again in this meeting that price stability is a prerequisite for sustainable growth and increased social welfare.

In the disinflation process, we will continue to do whatever it takes to bring inflation down in line with our interim targets.

Distinguished Participants,

As I conclude my remarks, I would like to thank all of my colleagues who have contributed to the writing of the Report, primarily the members of the Monetary Policy Committee, the Chief Advisors and the staff of the Research and Monetary Policy Department, and everyone that have contributed to the press conference.

Now, along with our Deputy Governors, we can proceed to the Q&A session.