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 2026-I, Istanbul, 12 February 2026.

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Distinguished Members of the Press, Esteemed Participants,

Welcome to the briefing we hold to convey the main messages from the first Inflation Report of 2026.

As you know, our tight monetary policy gradually yielded results in 2025.

During this period, when demand conditions remained at disinflationary levels, we placed critical importance on improving inflation expectations and pricing behavior as well.

In this sense, we value the progress we made last year in achieving price stability.

We find it particularly meaningful that, in the background of inflation figures, the inertia persisting for a long time in certain services items, such as rent, is showing signs of easing in this period.

This development will be one of the key factors in the upcoming course of the disinflation process.

On the other hand, the recent period has once again demonstrated that domestic and global dynamics pose risks to and have effects on the course of inflation that may vary depending on developments.

This underscores the importance of our data-driven, prudent monetary policy stance.

Therefore, at the outset of my speech, I would like to emphasize that we are ready to decisively use all monetary policy tools in the coming period to continue seeing the positive effects of our tight monetary policy on inflation.

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,

First, I would like to address global economic developments.

We are going through a period where the uncertainties that arose last year due to protectionism in foreign trade are still present and fluctuating.

Meanwhile, trade uncertainties continued to recede during the current reporting period.

As trade tensions gradually eased, we witnessed a rebound in global growth forecasts.

The Export-Weighted Global Growth Index, which serves as an indicator for Türkiye's external demand, points to a similar recovery.

Indeed, the projected growth path of the index for 2025 and 2026 had hit its lowest level in the second Inflation Report of 2025.

Subsequently, the outlook gradually improved and, given the latest data, converged toward the period before April 2025.

Nevertheless, we follow a slower growth path compared to the fourth quarter of 2024, when tariff measures were not on the agenda.

On the other hand, recently heightened geopolitical risks add to global uncertainty.

This, in turn, puts pressure on growth as it has the potential to negatively impact global financial markets and supply chains.

Moreover, we consider that the ongoing protectionism may weaken the link between foreign trade and growth.

Therefore, despite the relative recovery in recent periods, we assess that the risks to the global growth outlook are tilted to the downside.

In this atmosphere, we continued to monitor the upward effects of the search for safe financial assets on precious metal prices as well as the rising sectoral tariffs on industrial metal prices.

Non-energy commodity prices maintained their upward trend despite recent volatility.

Energy prices also exhibited increased volatility due to geopolitical risks.

The course of inflation, which is also influenced by these global factors, varies across countries, and this is likewise reflected in monetary policies.

While some central banks continue to cut interest rates, others have completed their rate cut cycles, and a few have even begun raising them.

Developed countries' monetary policies are closely monitored due to their wide-ranging effects.

The Fed is expected to keep cutting rates in 2026, but the amount and timing of these cuts are still uncertain.

On the other hand, markets are pricing a tighter monetary policy by Bank of Japan.

These policies may affect global financial conditions in both directions.

These developments should be monitored as they may cause fluctuations in global risk appetite and portfolio flows.

ECONOMIC OUTLOOK

Esteemed Guests,

Following the global outlook, now, I would like to share our observations on domestic macroeconomic developments.

As an intended result of our tight monetary policy, rebalancing in demand composition continues.

The contribution of consumption to growth receded significantly in the first three quarters of 2025 compared to the same period of 2023, while the contribution of investment increased.

While the contribution of net exports turned negative during this period amid global trade uncertainties of 2025, there is a more balanced picture compared to the pre-tightening period.

As for the indicators for the last quarter of the year:

Industrial production was flat in the last quarter.

The service production index also maintained its flat course that began in the second quarter through the last quarter.

The capacity utilization rate in the manufacturing industry is still below the historical average, despite limited growth in the last quarter and January.

Regarding the labor market, the headline unemployment rate fell in the fourth quarter.

Meanwhile, broadly defined indicators are still at high levels, despite declining in the last two quarters.

As you know, we regularly monitor sales and consumption indicators to assess demand conditions.

These indicators suggest that domestic demand recovered somewhat in the fourth quarter but remains at moderate levels.

In the left panel, you can see that retail sales posted a slightly higher quarterly increase than the previous quarter. Excluding gold, retail sales followed a more moderate course.

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

In the chart, we see that consumption of goods has fallen below the trend following the monetary tightening. Retail sales follow a downward trend as well. When gold is excluded, this trend is more evident.

Another indicator we use to monitor demand is card spending.

As you know, we adjust card spending based on card usage rates, taking into account the shift in payment preferences. We believe that focusing on these adjusted data is more meaningful as they are more consistent with private consumption trends.

Accordingly, we see that card spending increased slightly in the last quarter.

According to the Business Tendency Survey data, manufacturing firms' registered domestic orders increased slightly in the last quarter of 2025, but indicators remain close to the historical average.

January data also points to a continued increase in domestic market orders, although at a slower pace.

Now, it is important to look at the data on demand conditions as a whole.

The average of the output gap indicators based on alternative methods still points to a negative level in the last quarter, despite moving slightly upward compared to the previous reporting period.

In other words, demand conditions continue to support the disinflation process, albeit to a lesser extent.

We expect this disinflationary outlook to last in 2026.

Before moving on to the inflation outlook, I would like to briefly touch upon developments in the current account balance.

The current account deficit edged up in the third quarter but remained moderate in line with the domestic demand outlook. In this period, the current account deficit-to-GDP ratio stayed the same as in the second quarter at 1.3 percent.

We estimate that this ratio closed the year well below its long-term average, despite a limited increase in the last quarter.

In 2026, we project that the current account deficit will rise slightly but remain moderate.

However, gold and energy prices and trade uncertainties continue to pose risks to the current account balance.

Distinguished Participants,

I will now move on to discuss inflation developments.

The disinflation process that started in June 2024 continues.

Compared to the previous reporting period, consumer inflation decreased by 2.2 points to 30.7 percent in January.

In this period, core inflation indicators also declined.

Based on the forecast interval, inflation was at the lower bound given in the previous report in November and December.

In this period, we witnessed improvements in distribution-based underlying trend indicators.

In January, on the other hand, inflation was close to the upper band of the range.

Food prices were the main driver of this development in January.

As illustrated in the chart, the gradual slowdown in non-food inflation continues, while food inflation has been particularly volatile over the last six months.

As you know, food prices are significantly affected by supply-side developments related to weather conditions.

In January, developments in vegetable prices were particularly noteworthy in this regard.

Vegetable prices, which had fallen sharply in November due to temperatures exceeding seasonal averages, rose significantly in January following unfavorable weather conditions.

The impact of this development will extend into February. However, with the supply conditions normalizing in the second quarter, we expect these effects to reverse to a certain extent.

When we examine the course of underlying trend indicators in order to better understand the recent trajectory of inflation, we observe a period-specific increase in January.

As you know, services items with strong time-dependent price-setting and backward-indexation tendency play a significant role in January. Additionally, adjustments to wages, administered prices and taxes also have an impact on inflation.

On the other hand, median inflation, one of the key underlying inflation indicators, continues its moderate course.

However, I'd like to note that underlying inflation in January was higher than projected in the previous report.

On the other hand, we observe an upward movement in the trend inflation indicator, which is a longer-term measure by design.

These developments suggest that we should stand firm in maintaining our tight stance.

Here I would like to emphasize services inflation, which is a major component of the underlying inflation.

The high level of services inflation was driven by rents and education in 2025, as well.

As I have mentioned in my previous speeches, factors such as earthquakes, demographic elements and backward indexation caused severe inertia in rent inflation.

Likewise, the backward-indexation tendency has a noticeable role in education prices.

However, it should be noted that inflation in these two items saw significant declines in 2025. This signifies that the persisting inertia in services has started to be broken, which I will shortly elaborate on.

As can also be seen in the chart, excluding rent and education, the remaining service items display a picture that has converged much closer to consumer inflation.

Accordingly, it would be useful to mention some factors that may be influential in services inflation in the upcoming period.

On the rents side, both seasonally adjusted data and leading indicators for rents such as the Retail Payment System data point to a downward underlying inflation.

As you can see, the chart on the left indicates a clear deceleration in monthly rent inflation.

The chart on the right demonstrates the results of a Box we included in our Report, addressing "the relationship between CPI rent inflation and market rents."

As you will further explore in the relevant Box, under various scenarios, year-end rent inflation is projected to be between 30 percent and 36 percent.

On the education side, price adjustment regulations brought about a shift towards reflecting the past 12 months' inflation in prices, rather than the past 24 months' inflation. We see this as an important development.

As a matter fact, we expect that these changes will relatively weaken the backward-indexation behavior, thereby supporting the disinflation process.

For instance, under a counterfactual assumption that this regulation had been in force in 2025, education inflation would have been at around 16 points.

Therefore, the regulation-implied figures for 2026 indicate that there is a certain room for disinflation on the education side.

Looking at core goods, we see weaker inflation due to the exchange rate channel.

Having sightly trended upwards in January due to labor costs and partly to the exchange rate developments, core goods inflation remains relatively mild.

Inflation expectations continue to improve across all sectors compared to previous quarters.

The improvement in real sector expectations, in particular, is noteworthy due to its relation to pricing behavior.

It is clearly visible from the table that market participants' expectations have declined across various horizons.

However, expectations remain above inflation forecasts, indicating that risks to the disinflation process are alive.

This picture is one of the reasons which require us to maintain our tight monetary policy stance.

MONETARY POLICY

Distinguished Participants,

I would now like to give a brief account of our recent monetary policy decisions.

Against the backdrop of what I have just summarized, we reduced the policy rate in December to 38 percent from 39.5 percent.

In the January MPC meeting, we assessed that demand conditions continued to support the disinflation process, albeit at a moderating pace

In January, leading indicators suggested that the underlying inflation rose slightly and monthly inflation increased, led by food prices.

As you know, we also take into account the aspects, which are temporary or outside the scope of the monetary policy, as second-round effects from the expectations channel.

Accordingly, we reviewed the step size and we delivered a limited cut of 100 basis points, bringing the policy rate to 37 percent.

Therefore, we are decisively maintaining our tight monetary policy stance to ensure the continuation of the disinflation process in line with targets.

In this process, we continue to support the monetary transmission with macroprudential measures and maintain an effective liquidity management.

As part of macroprudential measures, we continue to implement the regulations that aim to increase the share of Turkish lira deposits. We revise these targets based on the current developments.

Additionally, we are limiting fluctuations in loan growth through loan growth caps and maintaining the share of the Turkish lira in loans.

We are keeping the monetary transmission mechanism strong through effective liquidity management.

Recently, excess liquidity conditions persist in the market. We sterilize this excess liquidity mostly through overnight and one-week deposit buying auctions.

On the other hand, supporting the OMO portfolio size is crucial to maintain operational flexibility in Turkish lira liquidity management.

As you can see on the right panel, 68% of our portfolio will be redeemed over the next three years.

In this context, we began outright purchases at the start of the year and increased the OMO portfolio from 262 billion to 311 billion Turkish lira.

We will continue to support the OMO portfolio via gradual purchases throughout the year.

For details, you can review the relevant box in our report.

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 the most recent data, simple interest rates for deposits, commercial loans and consumer loans are 37.3 percent, 38.5 percent, and 48.2 percent, respectively.

These data indicate that our policy rate steps have passed through to deposit and loan rates to a significant extent.

Compared to the last week of June, deposit rates and commercial loan rates fell by 9.2 and 8 points, respectively, in the week ending January 30.

On the other hand, the effects on consumer loan rates emerge in a more gradual fashion due to the risk premium and the macroprudential framework.

The loan composition has improved significantly in favor of the Turkish lira following the steps we took in the early months of 2025 regarding foreign currency commercial loans.

Having followed a mild path after the tightening steps in FX loans, total loan growth accelerated in December and increased to 32 percent by the end of January.

Both commercial loans and retail loans contributed to this increase.

In commercial loans, seasonal effects specific to the year-end were at the forefront. While Turkish lira loan growth maintained its end-November level of 41 percent as of end-January, FX loan growth rose from 7 percent to 12 percent in the same period.

In retail loans, we saw an acceleration led by consumer loans due to the year-end promotional campaigns in addition to the ongoing high course stemming from unsecured loans.

In light of these developments, we have recently taken additional steps to keep loan growth aligned with the disinflation process and strengthen the monetary transmission mechanism.

We introduced an eight-week growth limit of 2 percent for overdraft account limits allocated to consumers, and reduced the eight-week growth limit for foreign currency loans to 0.5 percent from 1 percent.

On the deposits side, we see that the share of Turkish lira deposits remains close to its historical average, standing at approximately 59 percent.

The picture stays the same when mutual funds are also included.

That said, Turkish lira deposit shares typically decline when there is a surge in gold prices like the one in the recent period.

The impact of the sharp increase in gold prices is also traceable in foreign currency deposit developments.

As you know, we were expecting some increase in foreign currency deposits during the phasing out of KKM accounts.

However, gold price movements and the subsequent rise in the euro/US dollar parity appear to be the main drivers of the increase in 2025.

As a matter of fact, the gold/ounce price has surged by 97 percent since end-2024 while the euro/US dollar parity has increased by 15 percent.

Accordingly, the FX deposit balance went up by 79 billion dollars to 267 billion dollars compared to end-2024, while we calculate the increase to be 21 billion dollars when adjusted for the parity and price effects.

On the other hand, as you may recall, we terminated the openings and renewals of KKM accounts for legal entities in February 2025 and for real persons in August 2025.

The KKM balance is now below 0.1 billion dollars, down from over 140 billion dollars in August 2023.

As for bond markets, we saw a rise in interest rates in the September-October period due in part to the deterioration in the inflation outlook.

In the period following the previous Inflation Report, bond rates fell across all maturities with the improving inflation outlook and increased investor interest.

We expect this performance in the bond market to continue in the coming period in line with the disinflation process.

As for capital inflows, starting from January, we see that capital flows into Türkiye have strengthened compared to other emerging economies.

In this context, the positive outlook in reserves also continues.

In comparison with the previous reporting period, gross reserves increased by 24 billion dollars to 208 billion dollars on February 6, 2026 from 184 billion dollars on October 31, 2025.

Meanwhile, net reserves excluding swaps rose by 25 billion dollars to 78 billion dollars.

During this period, the rise in gold prices contributed 22 billion dollars to gross reserves and 16 billion dollars to net reserves excluding swaps, due to our strong gold position.

As shown in the charts, market risk and volatility indicators have also improved since the previous reporting period.

We believe the favorable course in risk indicators will continue as inflation falls and inflation uncertainties decline.

MEDIUM-TERM FORECASTS

Before moving on to our inflation forecasts, I would like to share the details behind the deviation from the interim target in 2025 as required by the transparency and accountability principles.

As you know, at the end of 2025, inflation materialized 6.9 percentage points above our interim target of 24 percent.

This deviation was caused by five main factors.

First of these factors is the impact of rising import prices led by the commodity prices on inflation with the impact of trend of global protectionism and geopolitical developments.

The other one is that drought and frost events have an impact on food prices inflation both through supply and expectation channels.

Thirdly, the output gap we project based on the current data points to a more limited disinflationary effect.

While the fourth factor is that the administered prices realized higher than our assumptions,

Finally, the slower than projected underlying trend and inertia of inflation were partly influential on the deviation of inflation from interim targets in 2025.

For details, you can review the relevant box in our report.

Having presented the last year's accounting, I will at this part talk about the revisions in our assumptions on which our future projections are based.

As I have stated in the beginning of my speech, the global growth outlook still follows a resilient path despite uncertainties. Therefore, we have revised our assumptions for external demand upwards.

Our second revision is about the oil prices. When we consider the production level of OPEC countries together with the prospects for global growth and monetary policies, we project that oil prices will remain relatively subdued with waning geopolitical uncertainties.

Meanwhile, rising industrial metal prices have an upward effect on nonenergy commodity prices. Accordingly, we revised our assumptions for import prices upwards.

Additionally, while recent rainfall across the country has limited drought-related risks, we have made a limited upward revision to our food price assumption, assessing that the increase observed in food prices may be temporary due to the effects of Ramadan and supply shocks.

As always, we have built our forecasts on the assumption that tight monetary policy stance will be maintained decisively and the coordination among economic policies will continue.

Against this backdrop, I would like to share our inflation forecasts with you.

We forecast inflation to be between 15 percent and 21 percent by the end of 2026. For the end of 2027, our forecasts indicate that inflation will decline to a range of 6 percent to 12 percent.

We maintained our interim targets for inflation at 16 percent and 9 percent, respectively for 2026 and 2027. We set our interim target for 2028 at 8 percent.

We target inflation to decrease to 8 percent in 2028 and stabilize at 5 percent in the medium term.

The revision of the forecast range for 2026 was led by the increased basket share of the services group following the changes made to the CPI calculation method in addition to the revisions in our assumptions and the emergence of certain key risks.

Distinguished Participants,

We have always reiterated that during the disinflation process, we will maintain our tight monetary policy stance to achieve our interim targets.

The cautious 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.

Macroprudential measures that support the monetary transmission mechanism will contribute to this process, too.

Accordingly, keeping domestic demand at disinflationary levels through the steps and measures we take will remain pivotal to this process.

The sustained improvement in expectations and the continued break in persistance of the services inflation will support the decrease in underlying inflation in the coming period.

We expect the macroeconomic framework set out in the Medium-Term Program will also contribute significantly to this process.

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

We will continue to set the policy rate in accordance with the interim targets to ensure the level of tightness required by the disinflation path.

In this process, we take into account inflation realizations, underlying inflation and inflation expectations as usual.

In other words, we will continue to follow a prudent, inflation-focused, and meeting-by-meeting approach when deciding on policy steps and their size.

We stand ready to tighten our monetary policy stance in case of a significant deviation in inflation outlook from the interim targets.

Distinguished Participants,

I would like to underline once more that price stability is a prerequisite for sustainable growth and increased social welfare.

Accordingly, we will decisively continue to do whatever it takes to bring inflation down in accordance with the 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, the Chief Economist 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.