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-II, Istanbul, 14 May 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 second Inflation Report of 2026.

At our previous Inflation Report meeting, when we shared our initial projections for 2026 with you, I noted right at the beginning of my remarks that global dynamics always carry various risks regarding the trajectory of disinflation.

The geopolitical developments following the U.S./Israel-Iran war pushed the global economy into an unexpectedly severe environment of uncertainty, opening the door to a challenging period for central banks.

In this environment, we witnessed the war's rapid impact on energy and transportation service prices-and consequently on inflation.

While the central question before us is how long the regional tensions and pressures on energy supply will persist, we assess that the related inflationary effects will remain pronounced in the short term.

Although global expectations are centered on a scenario in which the tensions and resulting pressures will be largely short-term, it will be important to monitor the potential secondary effects of this process on the inflation outlook.

In this context, the key to achieving effective results in the disinflation process lies once again in adopting a data-driven and prudent approach to monetary policy.

Therefore, even in these days when the war is affecting the disinflation outlook amid a cloud of uncertainty, I would like to emphasize that we have not compromised on our resolve.

Indeed, the impact of these developments on the medium-term inflation outlook will be shaped by our monetary policy stance. Taking this into account in our upcoming monetary policy decisions, we will continue to use all our tools in pursuit of our primary objective of price stability.

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.

The ongoing uncertainty surrounding the global economic outlook has increased significantly due to geopolitical developments.

The closure of the Strait of Hormuz poses a risk to the global energy supply.

Leading indicators point to a slowdown in global economic activity, a rise in input costs, and disruptions in supply chains.

Energy prices, which soared following the outbreak of the war at late February, remain high.

Both crude oil and natural gas prices are well above pre-war levels.

Despite easing recently, volatility in oil prices remains above its historical average.

Non-energy prices are also rising on the back of industrial metals and agricultural commodities, albeit not as sharply as energy prices.

Heightened global uncertainty weighs on consumer and producer confidence. We see growth forecasts being revised downward in many economies, particularly those located in the war-affected region.

Global growth is expected to lose considerable momentum in 2026.

Accordingly, we anticipate that Türkiye's external demand will also weaken.

Headline inflation has risen globally due to higher energy prices.

This increase is more pronounced in net energy-importing countries.

Inflation projections for 2026 have also been revised upward for both advanced and emerging economies.

Core inflation is currently following a more moderate path.

The trajectory of the war, along with the scale and duration of disruptions in energy transport will be critical in the coming period.

Since the beginning of the war, the initial monetary policy response has been limited globally.

On the other hand, interest rate cuts in advanced economies have been delayed, and in some countries, the possibility of rate hikes has also been reflected in market pricing.

While markets are assigning high probability for the Fed to keep its policy rate unchanged throughout the year, the ECB is expected to raise its policy rate in the second half.

If disruptions to the energy supply persist, a stronger monetary policy response on a global scale may be needed to contain the second-round effects of price increases and anchor expectations.

There have been portfolio outflows from emerging markets in March due to heightened geopolitical uncertainty. However, emerging markets have seen some portfolio inflows in April.

Alongside the trajectory of the war, monetary policy to be adopted by advanced economies throughout 2026 also bears the potential to influence 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 in 2025 receded significantly compared to 2023, while the contribution of investments continued.

While the contribution of net exports turned negative in 2025 amid protectionism and tariffs restricting global trade, there is a more balanced picture compared to the pre-tightening period.

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

After falling in the third quarter of 2025, industrial production stayed relatively flat over the next two quarters.

Excluding highly volatile sectors, there was a limited decline in the first quarter.

Meanwhile, services production saw a rise in the first quarter as of February.

During this period, services production fell in subitems more closely linked with household demand, such as transport and accommodation.

The capacity utilization rate edged up in the first quarter of the year and flattened out in April.

However, it still hovers below the historical average.

Regarding the labor market, the headline unemployment rate edged down in the first quarter.

While the unemployment rate remains well below the historical average, broadly defined indicators point to a less tight labor market.

For instance, the labor underutilization rate and the number of applications per job postings are at high levels.

As for demand conditions, excluding gold, retail sales growth was higher than in the previous quarter.

Meanwhile, trend-adjusted data shows that retail sales continue to lose pace.

Card spending, which is steady on a quarterly basis, also confirms the slowdown in demand.

April figures point to the continuation of subdued card expenditures.

Taken as a whole, indicators show that demand conditions were at disinflationary levels in the first quarter.

The majority and the average of the output gap indicators based on alternative methods point to a negative level in the first quarter.

We foresee that the disinflationary outlook will persist for the remainder of the year.

Regarding economic activity, I would also like to touch upon foreign trade developments.

Despite challenges in global trade and geopolitical conditions, exports increased in April while imports declined.

While there was a partial recovery in exports to the Middle East, exports to Africa, the European Union, and North America increased.

Although energy imports rose due to high prices, imports excluding gold and energy decreased.

As a result, the trade deficit narrowed in April compared to the first quarter.

Imports of consumption goods are also on the decline since the start of the year. This is largely due to the slowdown in passenger car imports.

Before moving on to the inflation outlook, I would like to briefly talk about current account balance developments.

In the first quarter, current account deficit increased due to foreign trade and services balance outlook, yet the current account deficit-to-GDP ratio continued to remain below the historical average.

The rapid rise in energy prices triggered by the war led to a significant increase in energy imports in March.

Imports of gold, which decreased quarter-on-quarter, limited the increase in the current account deficit.

In addition to the existing risks to global demand posed by protectionist measures, new risks have emerged from geopolitical developments and rising energy prices.

These developments are increasing the upward pressure on the trade deficit for the rest of the year.

Despite all these developments, we expect that the current account deficit-to-GDP ratio will remain below the long-term average in 2026.

Nevertheless, the course of geopolitical developments contains uncertainties in both directions.

Distinguished Participants,

Now, I would like to share with you our current evaluations pertaining to the inflation outlook.

The annual consumer inflation stood at 32.4 percent as of April.

Compared to the peak in May 2024, a significant fall in inflation has been achieved, yet inflation is still high.

The tension in the Middle East that started at the end of February 2026 led to negative supply shocks, becoming the primary factor in the recent inflation outlook.

The annual energy inflation, which was displaying a slowdown, rose by 19 points to 47 percent mainly due to oil and natural gas prices over the past two months.

Due to these cost increments, electricity and natural gas tariffs have been revised. In the case of natural gas, in particular the price increase became remarkable with the tiered pricing system adopted in the natural gas tariff for households, introducing higher fees for higher consumption.

Right after the rise in crude oil prices, the sliding scale system was introduced for fuel prices. This system significantly limited the impact of the rise in oil prices on inflation.

Nevertheless, it should be noted that the impact of the sliding scale system might vary depending on the level of oil prices. Particularly in periods marked by big shocks such as the current period, the rise in diesel oil prices may diverge negatively from figures implied by crude oil prices due to the course of global refinery margins.

Food prices has been another factor affecting recent inflation developments.

In the first months of the year, the food group contributed to rising inflation.

Vegetable prices, which had fallen sharply in November, rapidly picked up in January and February due to unfavorable weather conditions.

The impact of vegetable prices was quite significant on the volatile course of food inflation over the last few months.

As can be seen in the right-hand panel, prices of fruits and vegetables displayed a significant rise in the first four months of the year.

Leading data suggest that vegetable prices started to decrease in May on the back of the normalization in supply conditions. We expect this outlook to continue in the upcoming months and affect food inflation positively.

The consumer inflation, which remained within the forecast range in the February-March period, exceeded the forecast range in April as the effects of tensions became more pronounced.

The impacts of these developments are also observed on the underlying inflation indicators, albeit to a lesser extent.

Indeed, the quarterly averages of indicators point to a slight increase in the underlying inflation trend.

Looking at price developments in the first four months of the year, food and energy groups recorded a stronger increase compared to the previous year. In contrast, inflation in categories such as services and core goods has continued to decline due to tight monetary policy stance.

I would like to take a closer look at services inflation here.

As you know, the high course of services inflation in 2025 was mostly shaped by rent and education services, which exhibit a high tendency of backward-indexation.

However, I would like to underline that inflation recorded a significant decline in both items in the first four months of the year. This signals for a loss of strength in the persisting inertia in services.

In the rents front, both the recent seasonally adjusted data and the newly-introduced new tenant rent index point to a downward underlying inflation.

Regarding education services, we consider the recent price adjustment regulation that is aimed at reflecting 12-month inflation instead of past 24-mont inflation in price adjustments, to be an important step. We expect that these changes will relatively weaken the backward-indexation behavior, thereby supporting the disinflation process. The regulation-implied figures for 2026 indicate that there is a certain room for disinflation on the education side.

On the other hand, due to the geopolitical turmoil, price increases in transportation services continued strongly, driven by fuel prices. Preliminary data point that this trend lingers in May.

Lastly, I will touch upon the course of inflation expectations and key risks in this section.

When compared to the previous Report, we see that inflation expectations failed to decline as much as we aspired. Expectations still hover above our inflation forecasts.

In early 2026, food prices settled on a high trajectory, and the ensuing period was marked by the unrest in the Middle East, leading to uncertainties over the inflation outlook. Therefore, we witnessed some deterioration in inflation expectations. In this period, potential second-round effects of geopolitical developments are significant. How long the tension will last is a critical risk factor in terms of the inflation outlook.

Monetary Policy

Distinguished Participants,

I would now like to give a brief account of our monetary policy stance and financial conditions.

In January 2026, we reviewed the size of our monetary policy steps and reduced the policy rate by 100 basis points to 37 percent.

However, as I emphasized at the beginning of my remarks, the growing uncertainty stemming from the tensions that began in the Middle East at the end of February has led to high volatility and increases in the prices of crude oil, natural gas, and commodities.

To contain the risks posed by these factors to the inflation outlook, we took measures in a timely manner.

During this period, we maintained our tight monetary policy and kept the policy rate constant in March and April.

Now, I would like to talk about the measures we have taken. As of March 1, considering the developments in financial markets, we suspended the one-week repo auctions to strengthen our monetary stance.

During this period, by meeting the market's liquidity needs through funding provided at the upper band, we ensured that the reference interest rate realized in money markets increased to the level of 40 percent.

Moreover, we have started funding the market through Turkish lira against FX swap auctions.

We continue to implement macroprudential measures focused on Turkish lira deposits, loan growth and liquidity management to support our tight monetary stance.

We enforce regulations aiming at increasing the share of Turkish lira deposits through revisions based on financial conditions. We employ growth limits to manage fluctuations in loan growth.

As in the aftermath of the recent geopolitical developments, we are strengthening our monetary transmission mechanism through our active liquidity management policy.

Policy rate cuts delivered since the second half of 2025 have passed through to deposit and loan pricing in line with our expectations until the outbreak of geopolitical events at end-February.

In this period, while the policy rate was lowered by a total of 9 points, the fall in loan and deposit rates was 9 to 10 points.

Our policy decisions based on the recent geopolitical developments led to a 3-point-increase in the weighted average funding cost.

In this period, Turkish lira commercial loan and deposit rates rose by 3 points, and consumer loan rates by 4 points.

Starting in 2025, the share of the Turkish lira fluctuated at times due to the rapid rise in precious metal prices and increasing geopolitical risks. However, our tight monetary policy stance, along with our supportive macroprudential toolkit, played a role in maintaining domestic residents' preference for lira deposits.

In fact, the share of Turkish lira deposits remains strong at 59.7 percent. This picture stays the same when mutual funds are also included.

Loan growth has increased since November 2025.

Loan growth has declined slightly since April, as seasonal effects disappeared and macroprudential measures stepped in.

Moreover, loan composition has remained in favor of the Turkish lira.

Commercial loan growth rate increased in the last quarter of 2025.

To ensure that commercial loan growth remains in line with the disinflation path, we reduced the growth limit for foreign currency loans in January. Additionally, in March, we narrowed the scope of exemptions for Turkish lira commercial loans.

Owing to these measures, commercial loan growth has decelerated to some extent.

Meanwhile, having remained strong in 2025, retail loan growth has lost some pace due to the measures taken in 2026.

In retail loans, composition has also been changing. While growth in general-purpose loans and credit cards has declined, housing loan growth has accelerated.

This will contribute to the moderation of domestic demand and management of asset quality risks in the financial system.

As a result of recent developments, bond yields rose across all maturities.

During recent geopolitical developments, the FX demand has largely been driven by non-residents.

At the end of March, the sharp decline in gold prices led to an increase in households' gold demand.

In fact, this demand waned in the following weeks. Since then, household sales of gold and foreign currency holdings have continued.

In addition, during this period, we introduced Turkish lira-settled FX forward selling transactions in order to support the healthy functioning of FX market and contribute to corporates' FX risk management.

As of May 13, the outstanding amount of these transactions stood at USD 8.1 billion.

Following the ceasefire talks, there has been a decline in the country's credit risk premium and exchange rate volatility.

Gross reserves, which had fallen to 155 billion dollars on March 27, 2026, due to geopolitical developments, increased by 17 billion dollars in the following period to stand at 172 billion dollars on May 8, 2026. Net reserves excluding swaps rose by 20 billion dollars to 39 billion dollars.

Medium-term Forecasts

Before moving on to the details of our inflation forecasts, I would like to share our main assumptions that underlie our forecasts.

As I stated in the beginning of my speech, expectations regarding the global growth outlook have weakened due to geopolitical developments. Therefore, we have revised our assumption for external demand downwards for 2026.

Our second revision is about oil and import prices. Due to the geopolitical tensions, oil prices have posted sharp rises. Although the uncertainty over the unfolding of events persists, we have assumed that oil prices will gradually decline during the year.

Accordingly, we have revised our assumption for import prices significantly upwards, in line with oil prices.

Additionally, we have revised our food price assumptions upwards based on realizations and the outlook for agricultural commodity prices.

We have built our forecasts on the assumption that the monetary policy stance will remain tighter for a longer period compared to the previous reporting period. Furthermore, we have also factored in the assumption that the coordination among economic policies will continue.

As you may recall, at last year's third Inflation Report briefing, we communicated that interim targets would only be revised in the event of extraordinary developments occurring between Report periods.

As shown on the previous slide, in the current Report period, we made extraordinary revisions to our assumption set, due to the extraordinary geopolitical developments.

Thus, we found it necessary to revise our interim targets during this period.

Accordingly, we revised our interim targets for 2026, 2027 and 2028 as 24 percent, 15 percent and 9 percent, respectively.

The war and high uncertainty environment that we are currently experiencing are prompting the reconsideration of the "communication of uncertainty around forecasts", along with the revisions in interim targets.

Indeed, the supply shocks in recent years – ranging from the pandemics to the war – have led to structural breaks and heightened uncertainty, via their frequent and deep nature.

This, on the other hand, raises discussions regarding the sufficiency of "forecast bands" to measure current and future uncertainties.

Considering that the shock we are experiencing is also regarded as a "tail event" such as war, large-scale and non-linear effects have also become part of the picture.

Looking back at recent years, it is notable that, during such complex shock environments, many central banks have suspended the use of forecast band approaches in their communication.

A clear reflection of this can be seen in the chart displayed on the screen. In the post-pandemic period, the number of central banks incorporating "narrative risk assessments" and "scenarios" into their communication has increased.

In this context, we also believe that, under the current environment of elevated uncertainty, moving away from "forecast band communication" is an appropriate approach.

Accordingly, in this Report period, as a communication revision, we are sharing our baseline point forecasts and the risk factors highlighted by the Committee.

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

Against this background, we forecast inflation to be 26 percent by the end of 2026 and 15 percent by the end of 2027. We project inflation to decline to 9 percent at end-2028 before stabilizing at the medium-term inflation target of 5 percent.

Having shared our forecasts, I would now like to discuss the risks that we assess as particularly relevant for the inflation outlook.

Starting with commodities;

Depending on the course of the war, oil prices remaining higher for longer relative to the baseline assumptions constitutes one of the main upside risks. On the other hand, if the course of the war moderates, oil prices may remain below baseline assumptions and exert downward pressure on inflation.

Regarding natural gas, risks related to energy supply security and European LNG demand may create upward pressure on prices.

As for the food prices, international agricultural commodity prices, climate conditions, and supply developments continue to be important. In particular, supply side developments in the unprocessed food group may affect the short-term inflation outlook in both directions.

On the other hand, the more frequent and consecutive occurrence of supply-side shocks in recent periods poses risks in terms of pricing behavior and inflation inertia.

Finally, we assess that if potential disruptions in supply chains intensify and persist, cost pressures may increase.

In this framework, as we formulate our monetary policy stance, we will continue to assess the direction of risks and their possible effects on inflation expectations with an integrated approach.

Distinguished Participants,

As I emphasized at the beginning of my speech, although the shock experienced since the previous Report period and the uncertainty it has created have adversely affected the disinflation process, this will not alter our determination to achieve price stability.

The implications of recent developments for the medium-term inflation outlook will be shaped by our monetary policy stance.

As I have repeatedly emphasized, price stability is a prerequisite for sustainable growth and increased social welfare.

In this context, I would like to reiterate that we will maintain our tight monetary policy stance until price stability is achieved, 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 Economist, 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.