TÜRKİYE CUMHURİYET MERKEZ BANKASI

BRIEFING ON 2025-III INFLATION REPORT

Fatih Karahan, Ph.D.
Governor

AUGUST 14, 2025

ISTANBUL

Outline

- Global Economy
- Macroeconomic Outlook
- Monetary Policy
- Medium-Term Projections
- Overview

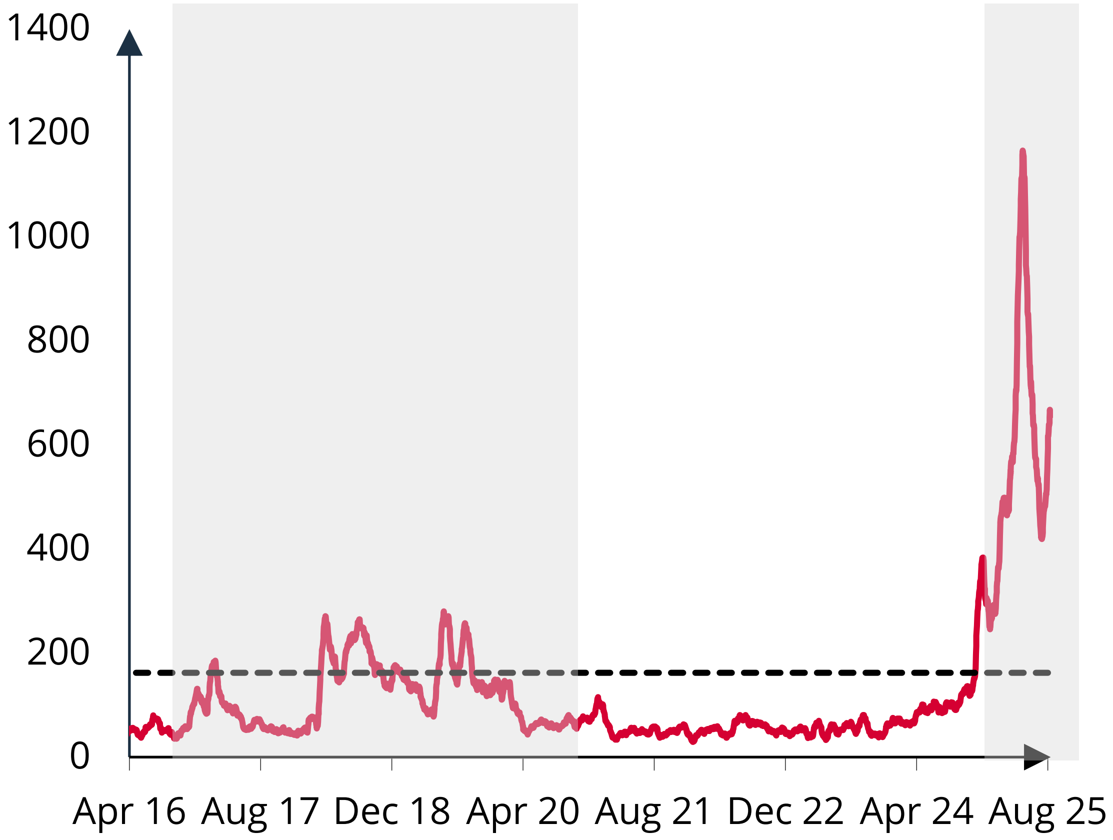
Boxes

- Findings from Interviews with Firms
- Potential Labor Force in Türkiye
- Composite Labor Market Conditions Index (CLMI)
- Survey-Based Economic Uncertainty Indicator
- Monetary Policy Pass-through to Prices

GLOBAL ECONOMY

Global trade policy uncertainty and geopolitical risks have remained high.

Trade Policy Uncertainty Index*

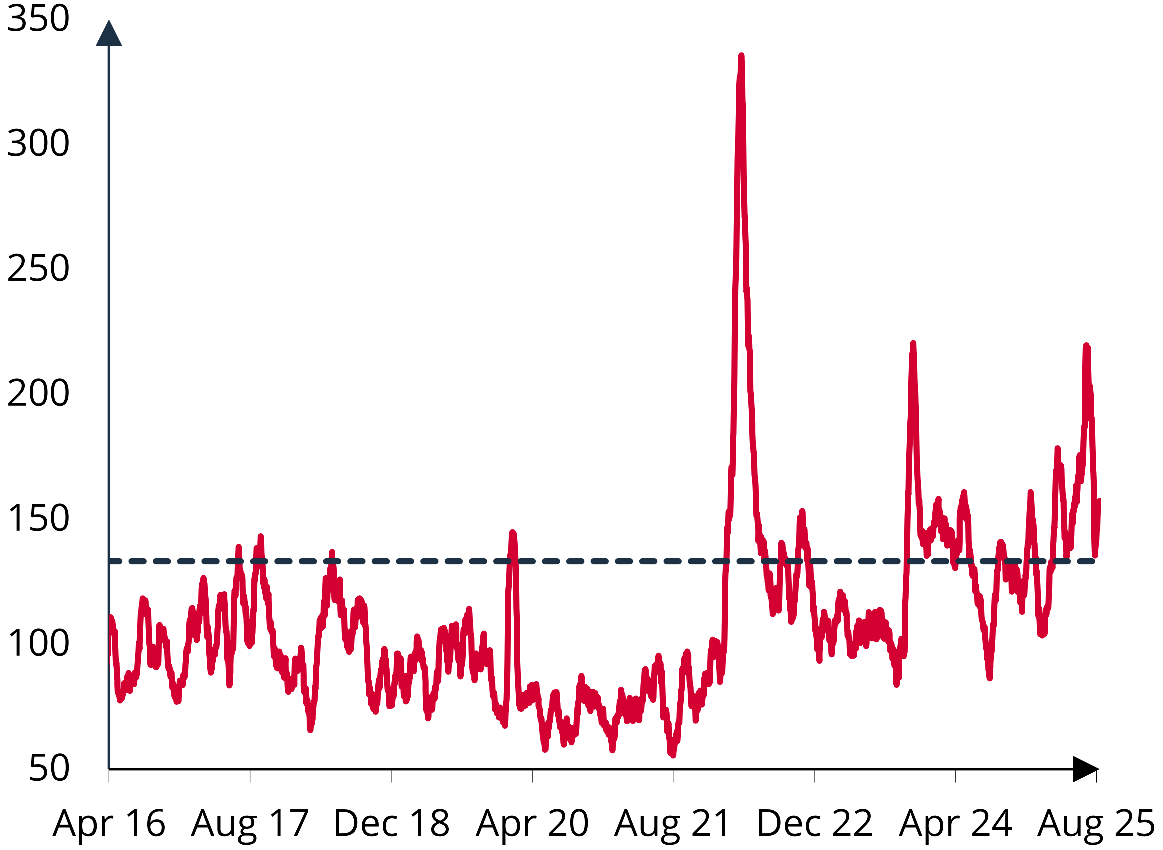


Source: The Economic Effects of Trade Policy Uncertainty, Caldara et al. (2020).

Last Observation: August 11, 2025.

*Dashed lines indicate the average of the last five years. 30 days moving average data is used. Shaded areas show the First (January 2017 – January 2021) and Second (from January 2025 onwards) Tariff Announcement Periods.

Geopolitical Risk Index*



Source: Geopolitical Risk Index, Iacoviello et al. (2021).

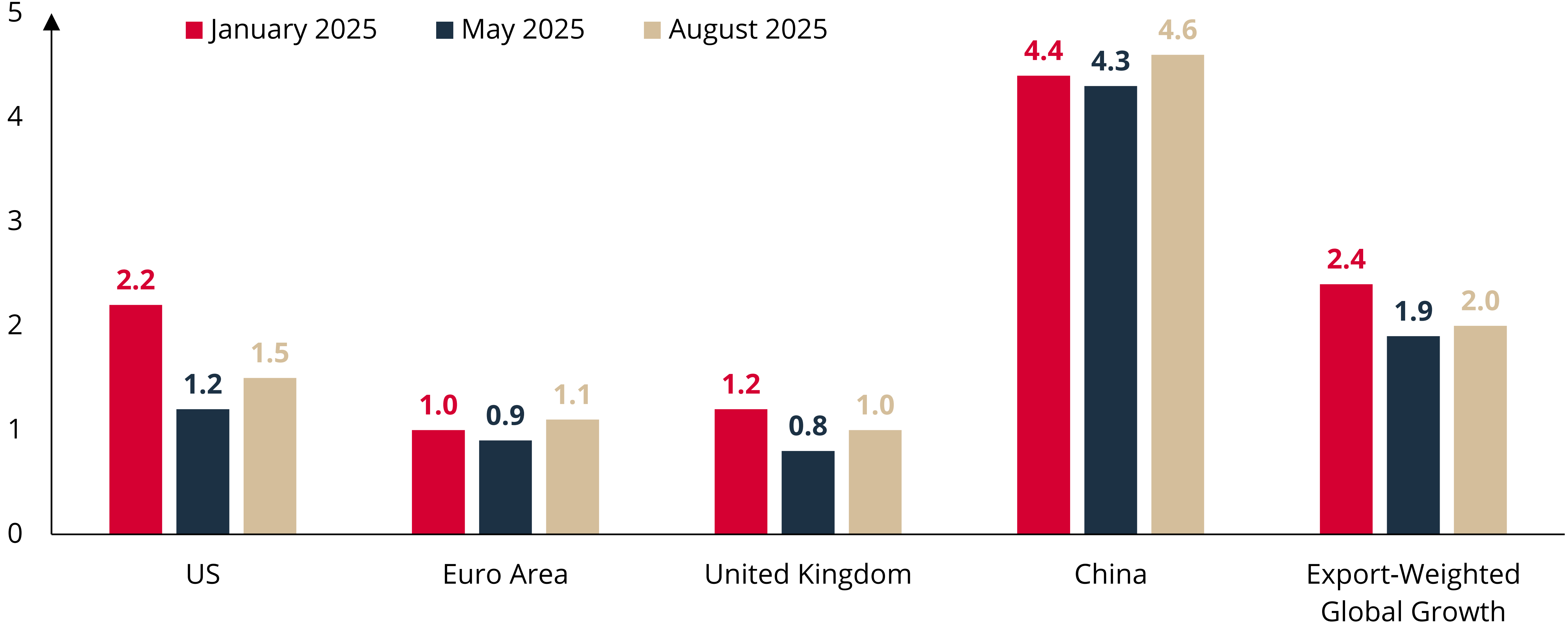
Last Observation: August 11, 2025.

* Dashed lines indicate the average of the last five years. 30 days moving average data is used.

TÜRKİYE CUMHURİYET MERKEZ BANKASI

Global growth outlook remains weak compared to the beginning of the year.

Growth Forecasts for 2025 (%)

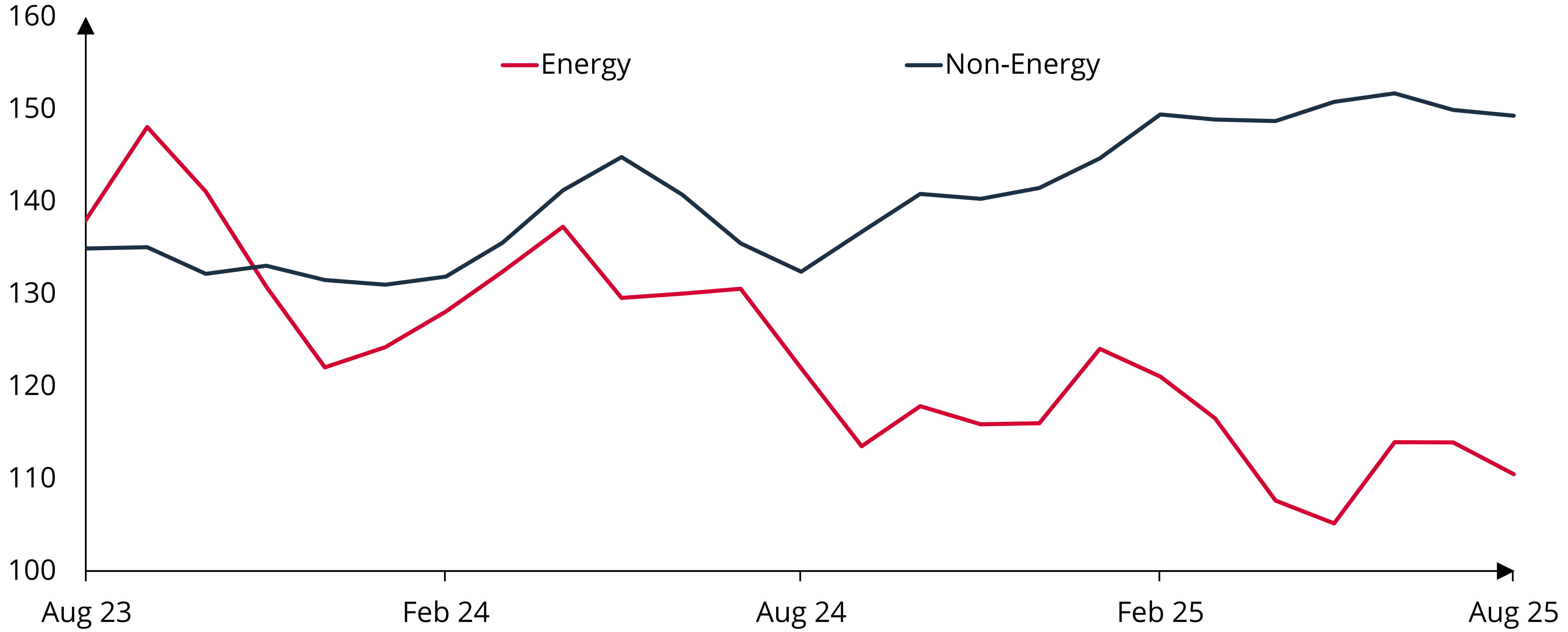


TÜRKİYE CUMHURİYET MERKEZ BANKASI

Source: Consensus Economics.

Supply growth has curbed geopolitically driven energy price pressures.

Commodity Price Indices* (Monthly Average)

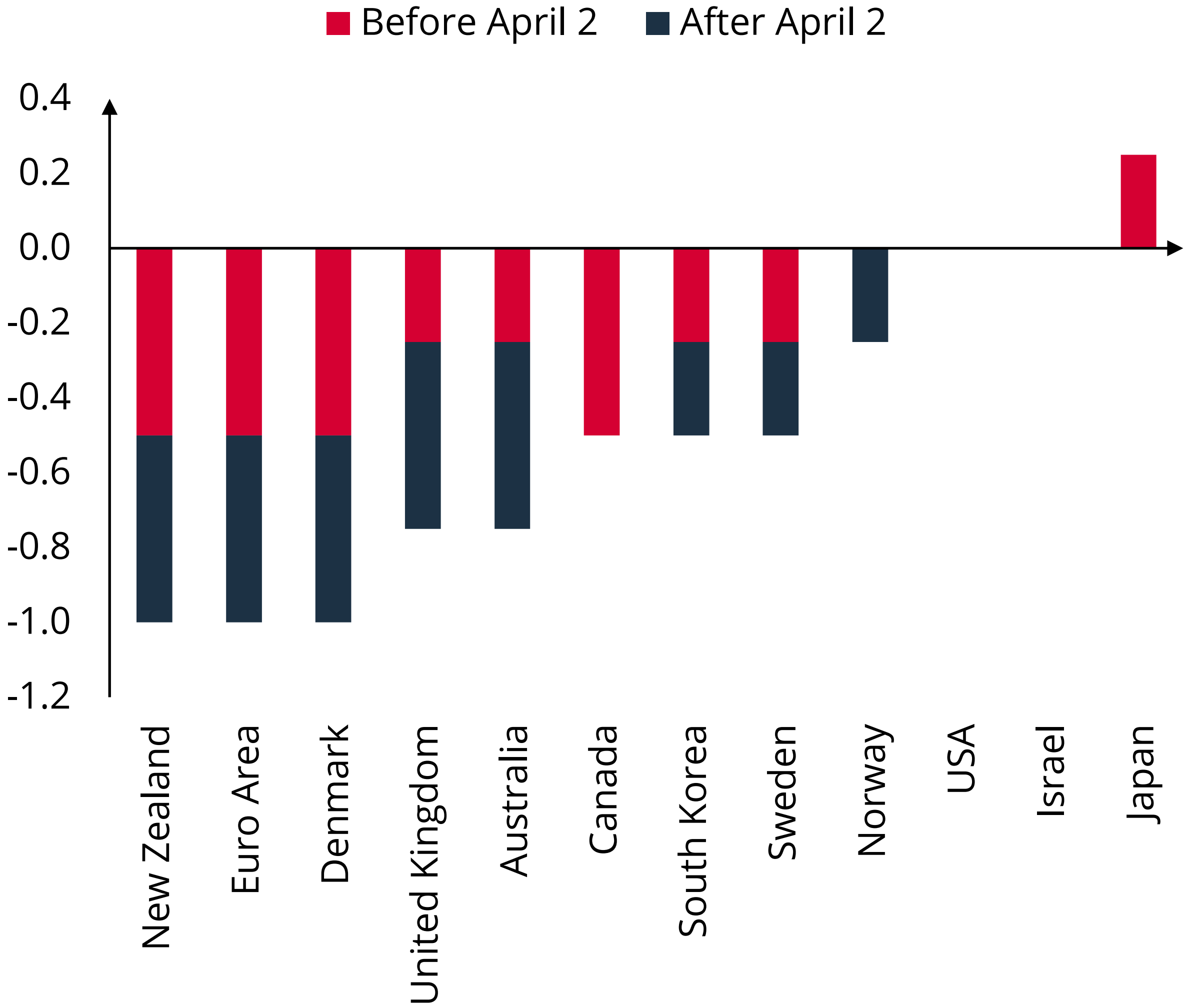


TÜRKİYE CUMHURİYET MERKEZ BANKASI

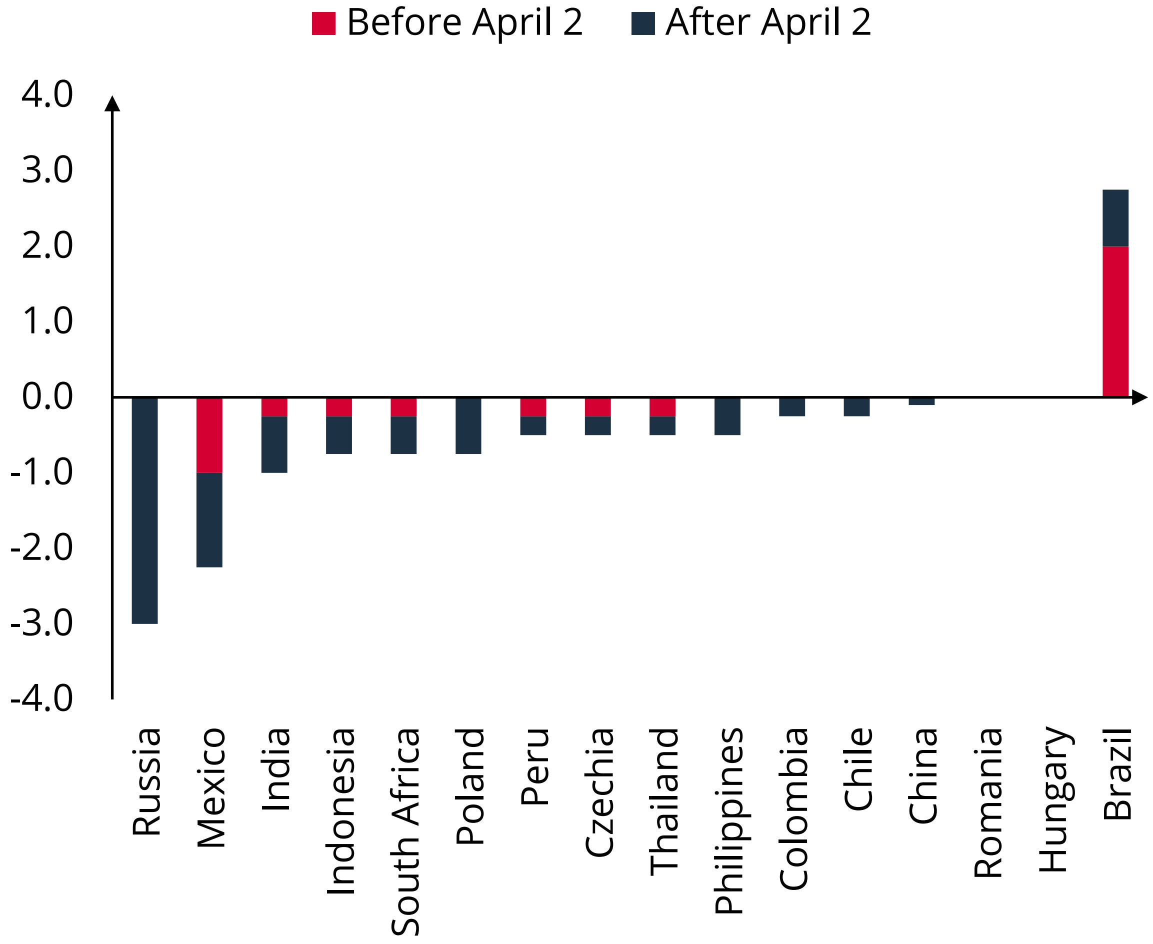
Source: Bloomberg.
* December 2019=100.
Last Observation: August 8, 2025.

While country dynamics differ, central banks continue to cut policy rates.

2025 Policy Rate Changes in Advanced Economies*
(% Points)



2025 Policy Rate Changes in Emerging Economies*
(% Points)

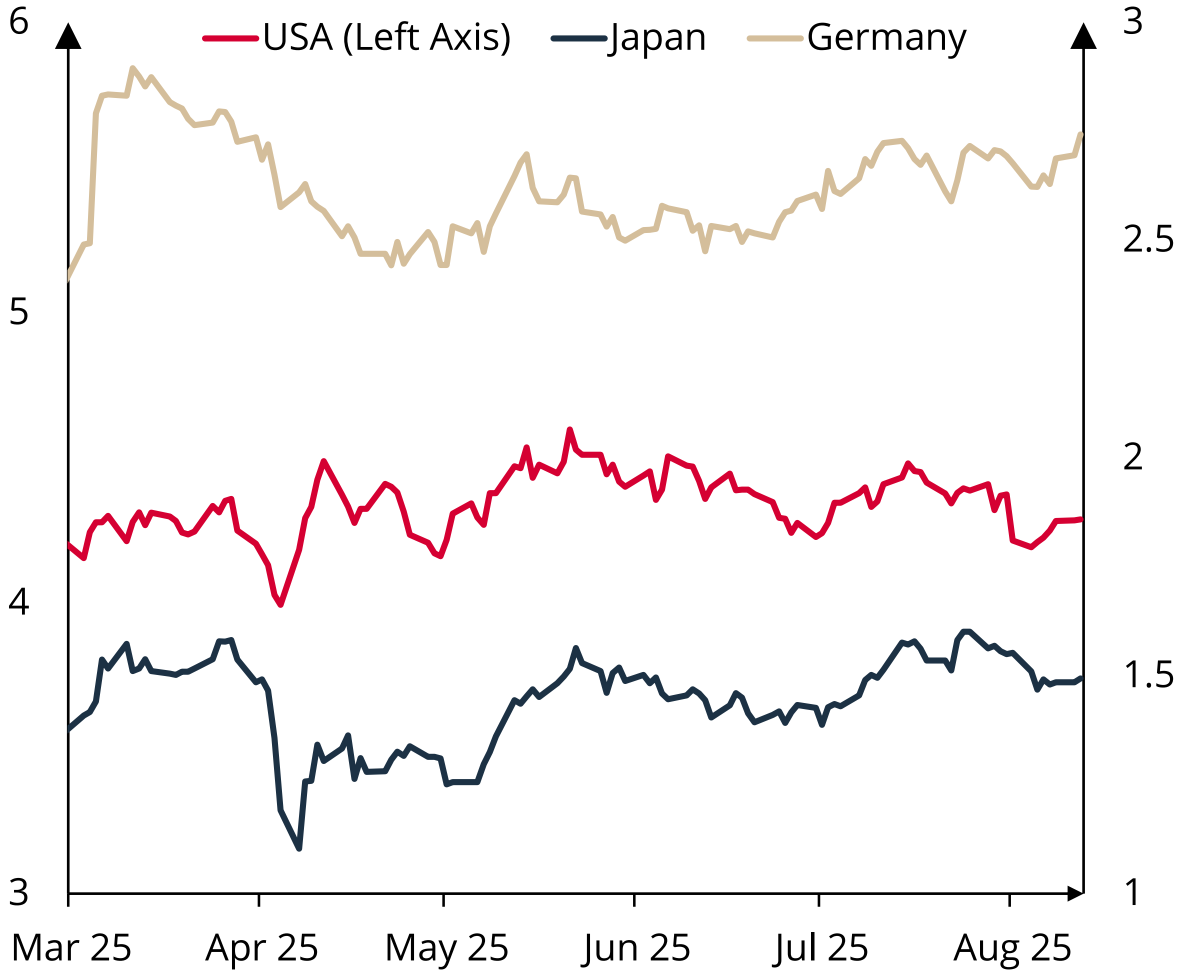


TÜRKİYE CUMHURİYET MERKEZ BANKASI

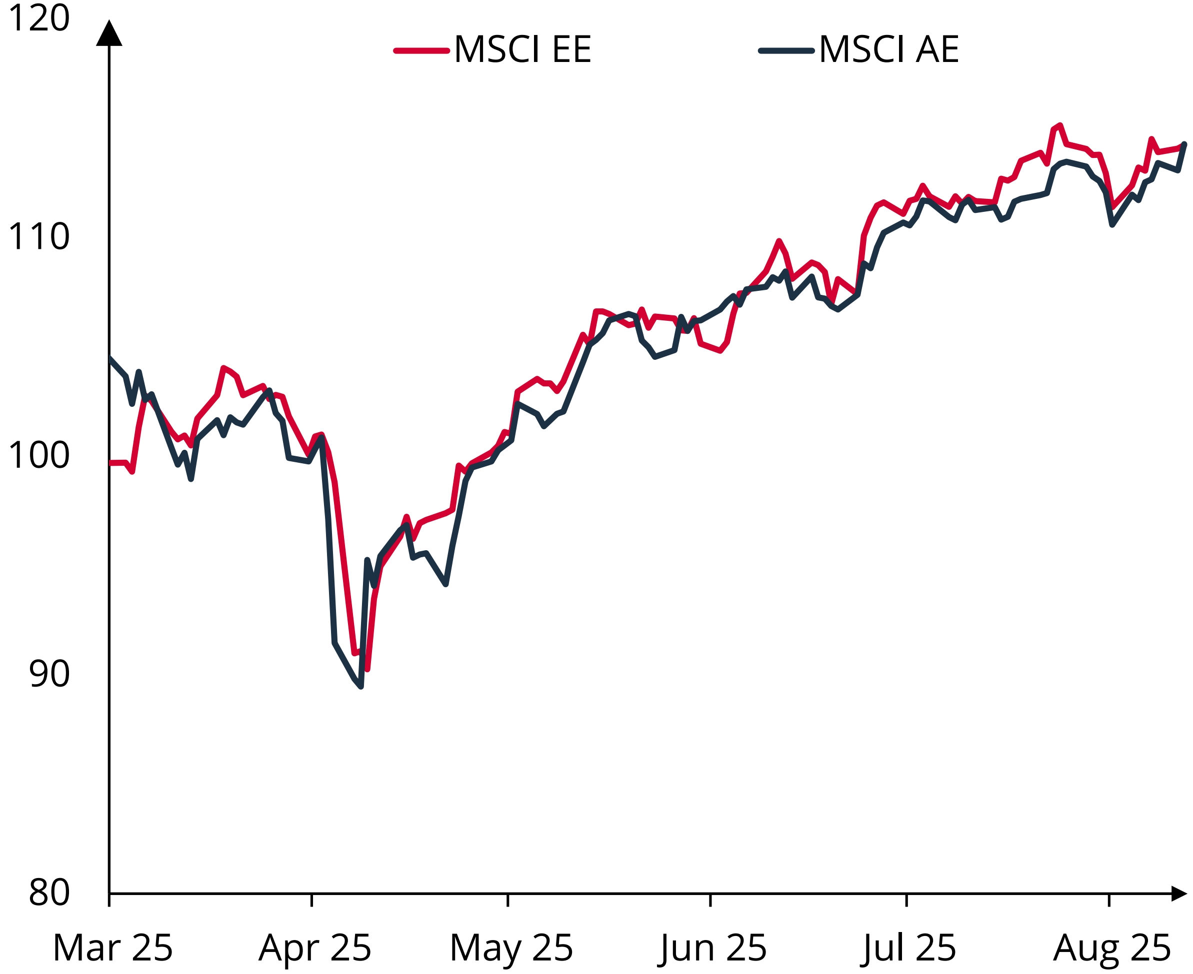
Source: Bloomberg.
Last Observation: August 12, 2025.
*Shows the changes in policy rates from December 31, 2024 to April 2, 2025 and from April 2, 2025 to August 12, 2025.

In global markets portfolio preferences have shifted towards stocks.

10-Year Government Bond Yields (%)



AE and EE Stock Market Indices*



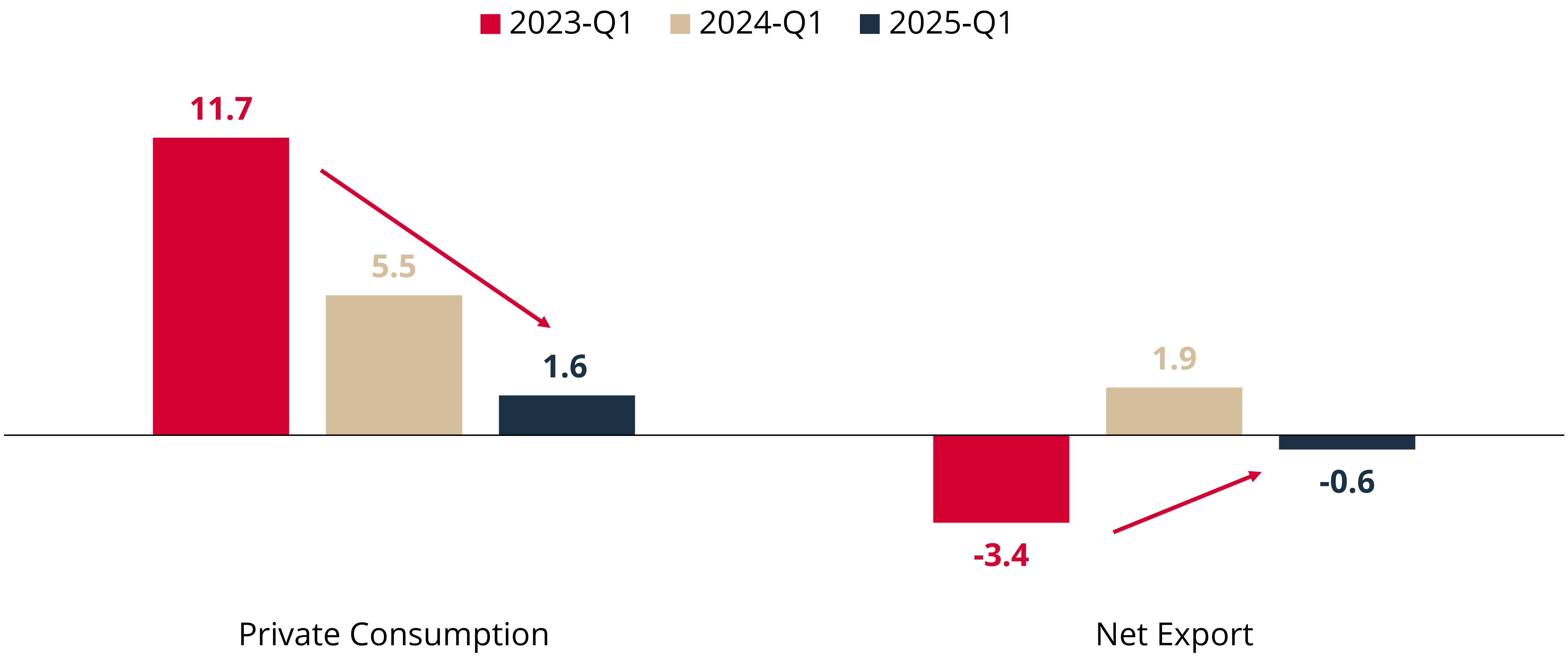
TÜRKİYE CUMHURİYET MERKEZ BANKASI

Source: Bloomberg.
Last Observation: August 12, 2025.
* AE: Advanced economies, EE: Emerging economies. September 2024 average=100.

ECONOMIC ACTIVITY

Demand composition has become more balanced amid tight monetary policy.

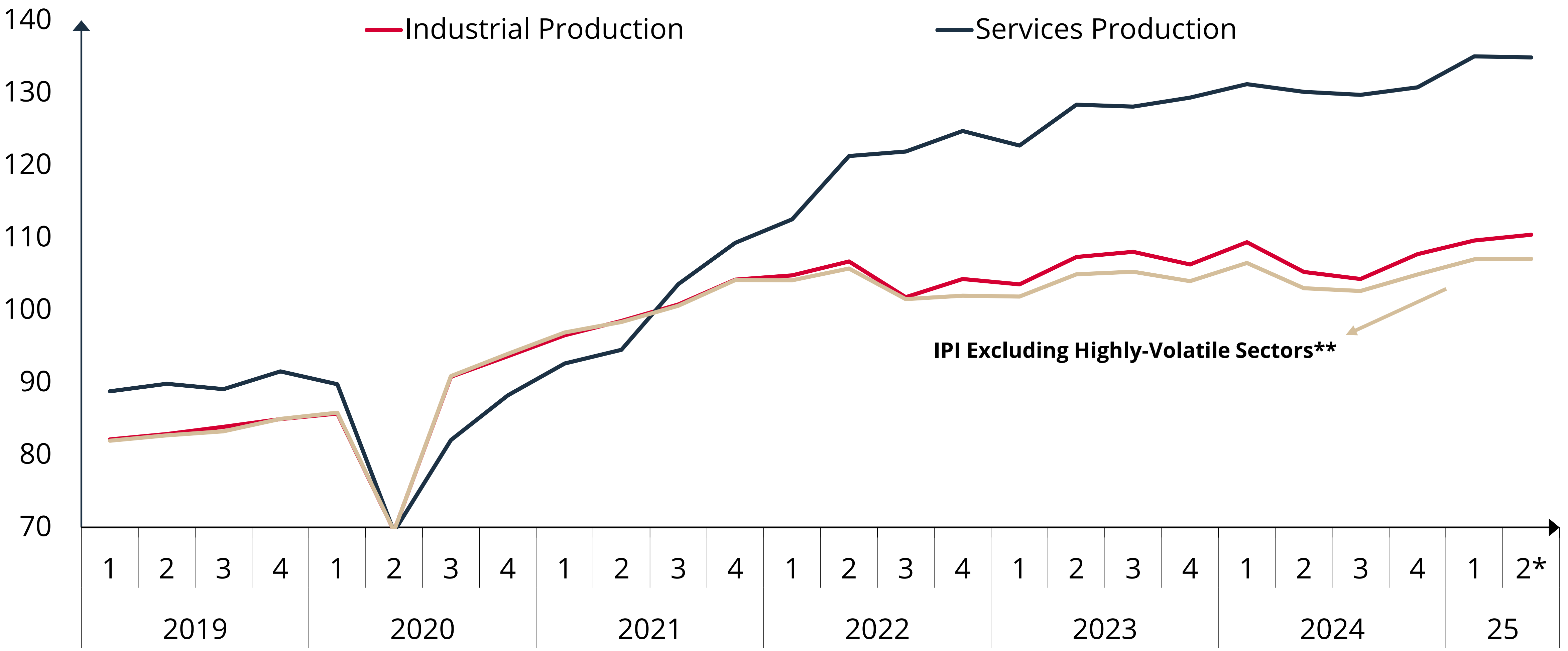
Contributions to Annual Growth from the Expenditure Method (% Points)



Source: CBRT, TURKSTAT.

Growth of the production indices slowed down in the second quarter.

Production Indices (Seasonally and Calendar Adjusted, 2021=100)



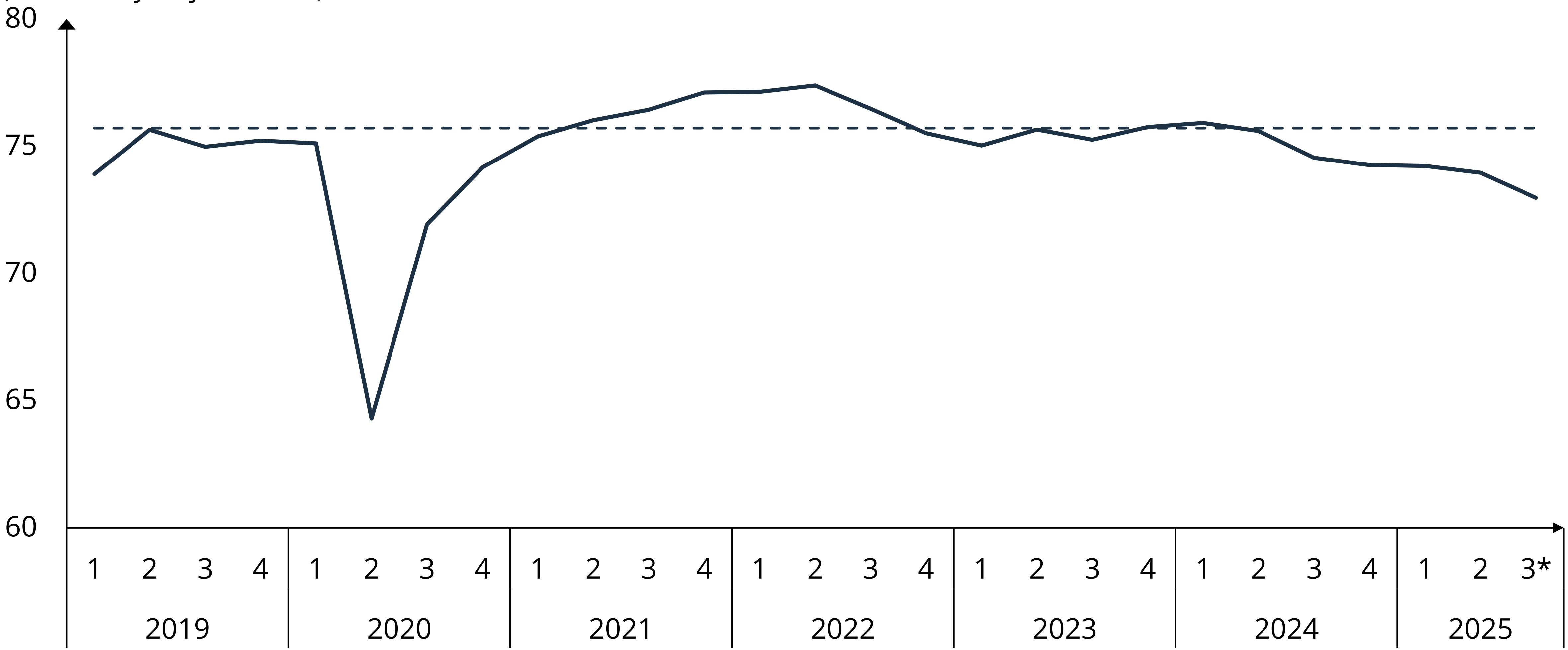
Sources: CBRT, TURKSTAT.

*Services Production Index as of May.

** Industrial production excluding the typically volatile sectors: recorded media, computer-optics, basic pharmaceuticals and other transportation.

Survey-based indicators point to a weakening outlook in the industrial sector.

Capacity Utilization Rate**
(Seasonally Adjusted, %)



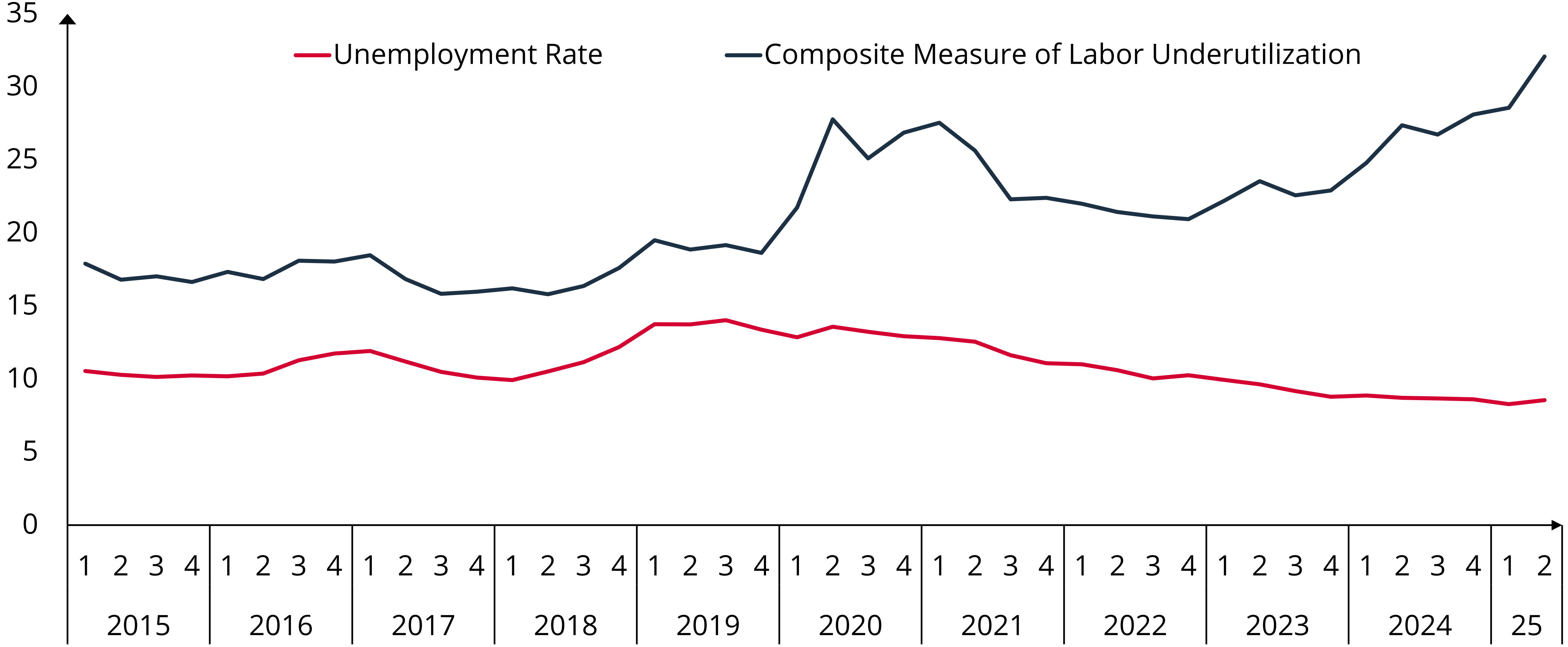
Source: CBRT.

* As of July. **Dashed lines show the average of capacity utilization rate for 2007-2024 period, Order indicators are defined as the difference from the historical average.

TÜRKİYE CUMHURİYET MERKEZ BANKASI

Labor market is less tight than the headline unemployment rate implies.

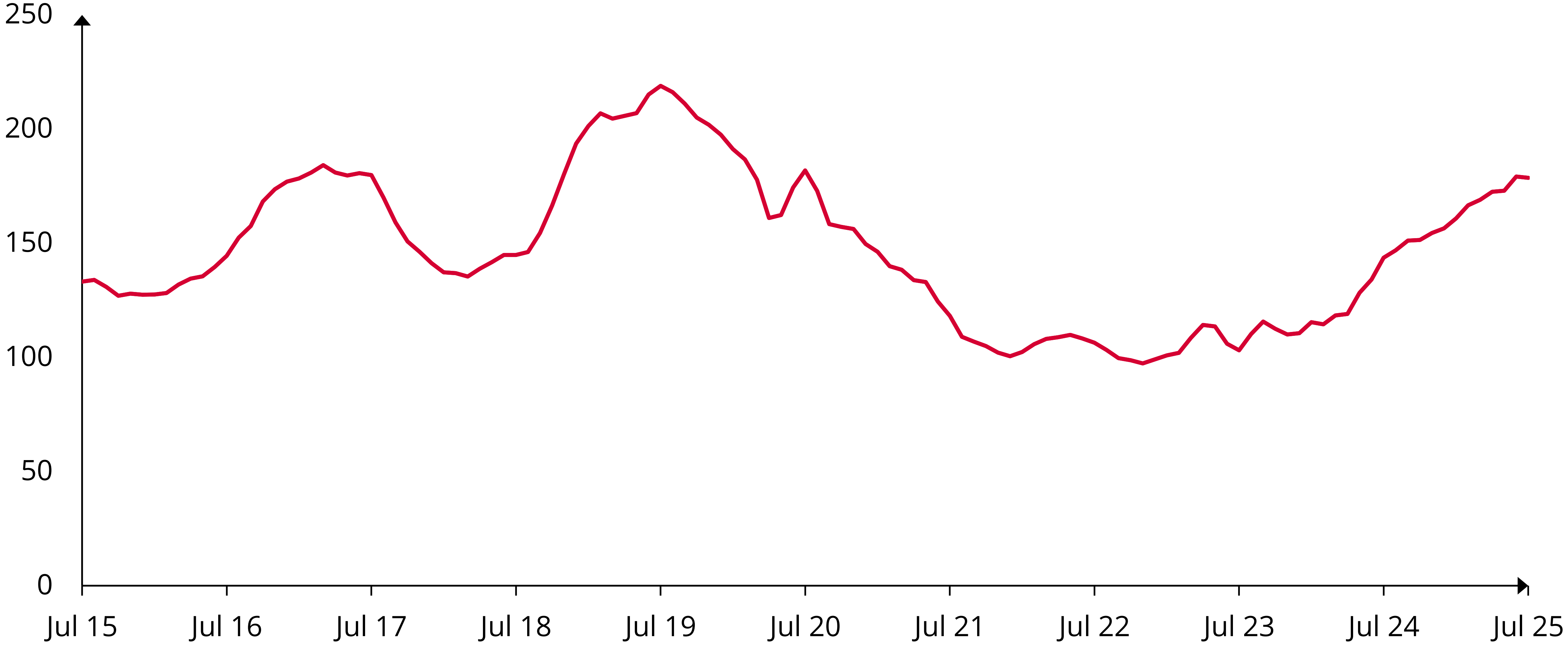
Labor Market Indicators
(Seasonally Adjusted, %)



Source: TURKSTAT.

Labor market is less tight than the headline unemployment rate implies.

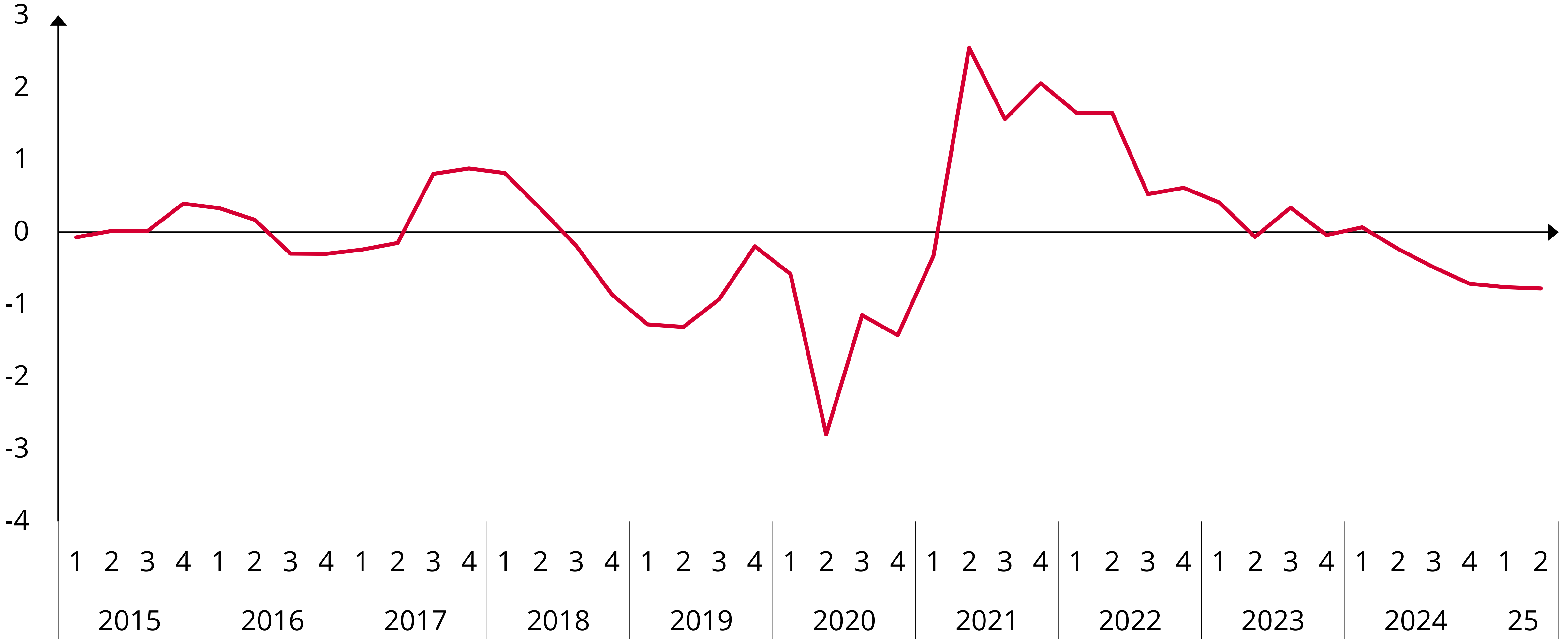
Applications per Job Postings
(Seasonally Adjusted, 3-Month Moving Average)



Source: CBRT, Kariyer.net.

Labor market is less tight than the headline unemployment rate implies.

Composite Labor Market Index*

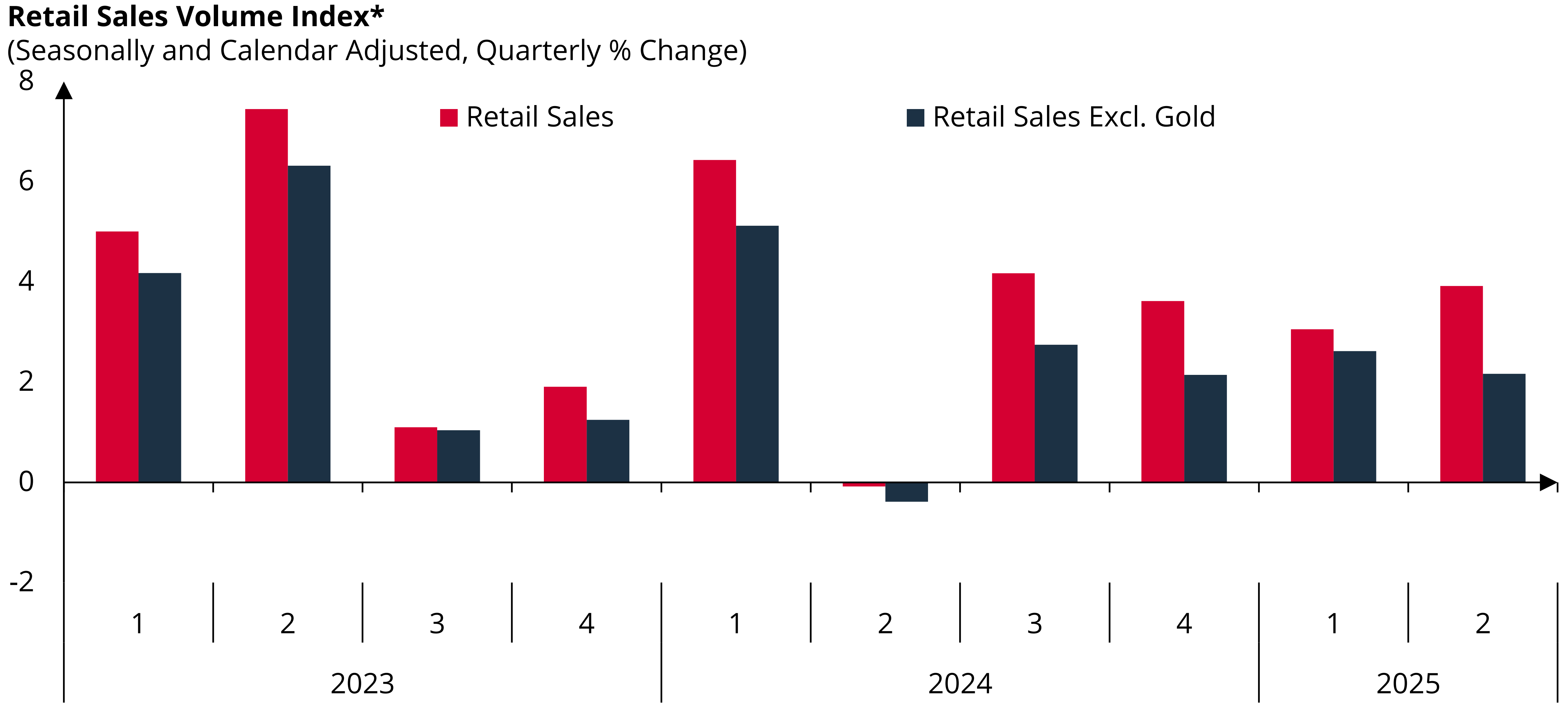


TÜRKİYE CUMHURİYET MERKEZ BANKASI

Source: 2025-IR-III Box 2.3.

* Standardized values.

Retail sales excluding gold remain moderate.

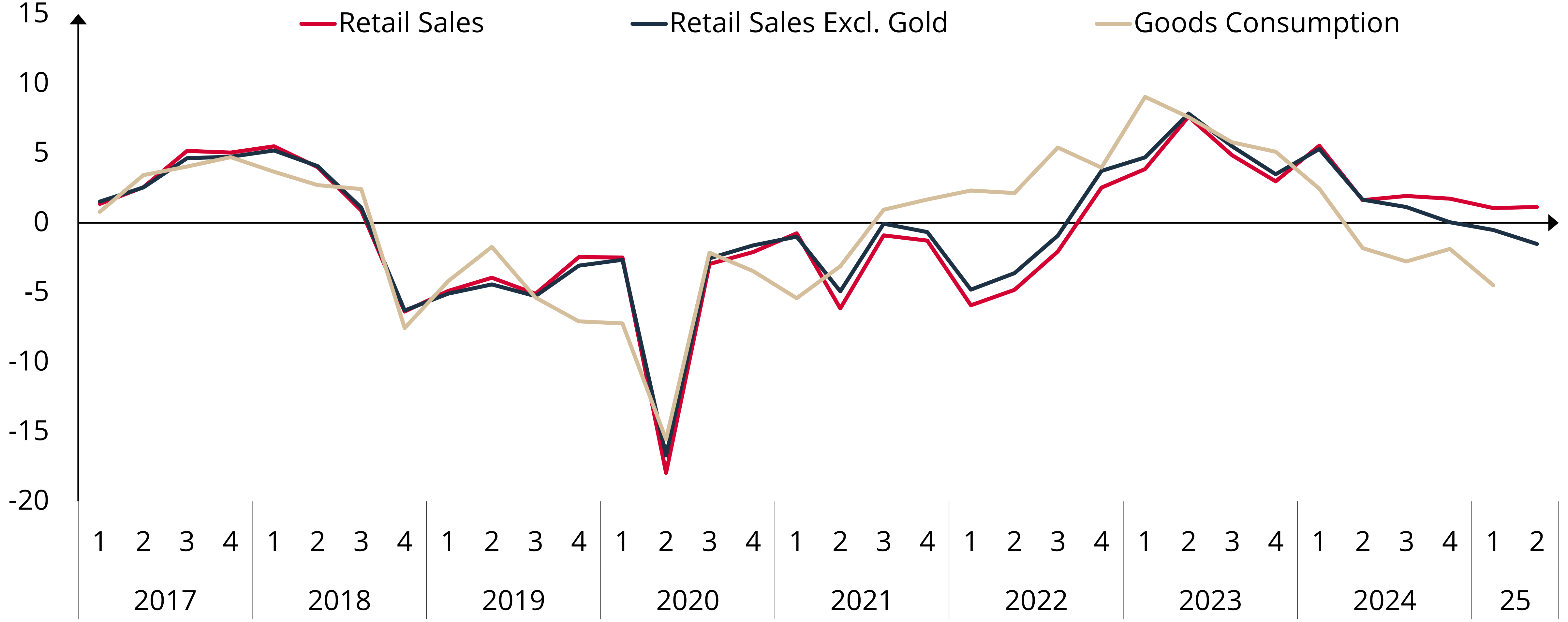


Source: CBRT, TURKSTAT.

*Retail sales volume index excluding gold represents the retail sales volume index excluding watches and jewelry specifically omitting the item "47.77 - Retail sale of watches and jewelry in specialized stores" from retail trade activities.

Retail sales excluding gold remain moderate.

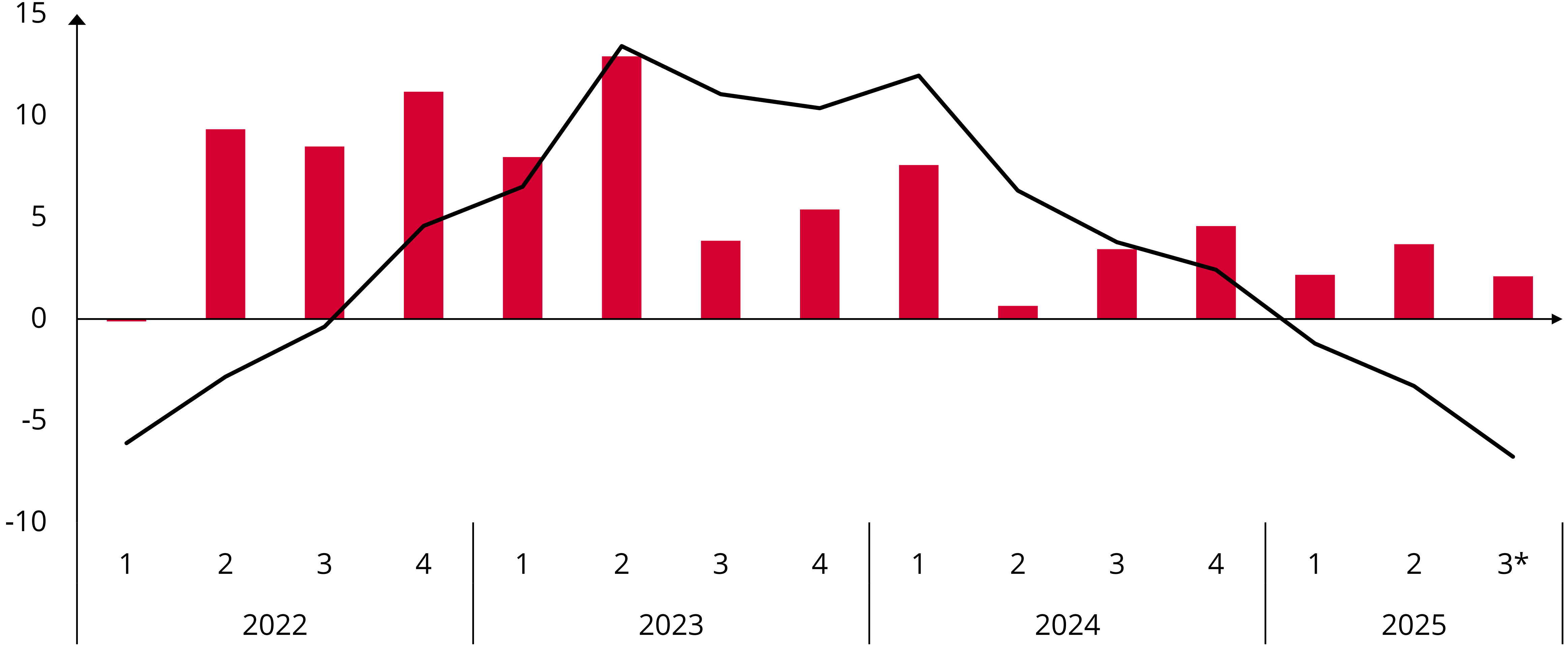
Retail Sales Volume Index and Consumption of Goods*
(HP Gap, %)



Source: CBRT, TURKSTAT.
*Goods consumption refers to household goods consumption as classified under GDP.

Card spending suggests that the slowdown in consumption continues.

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

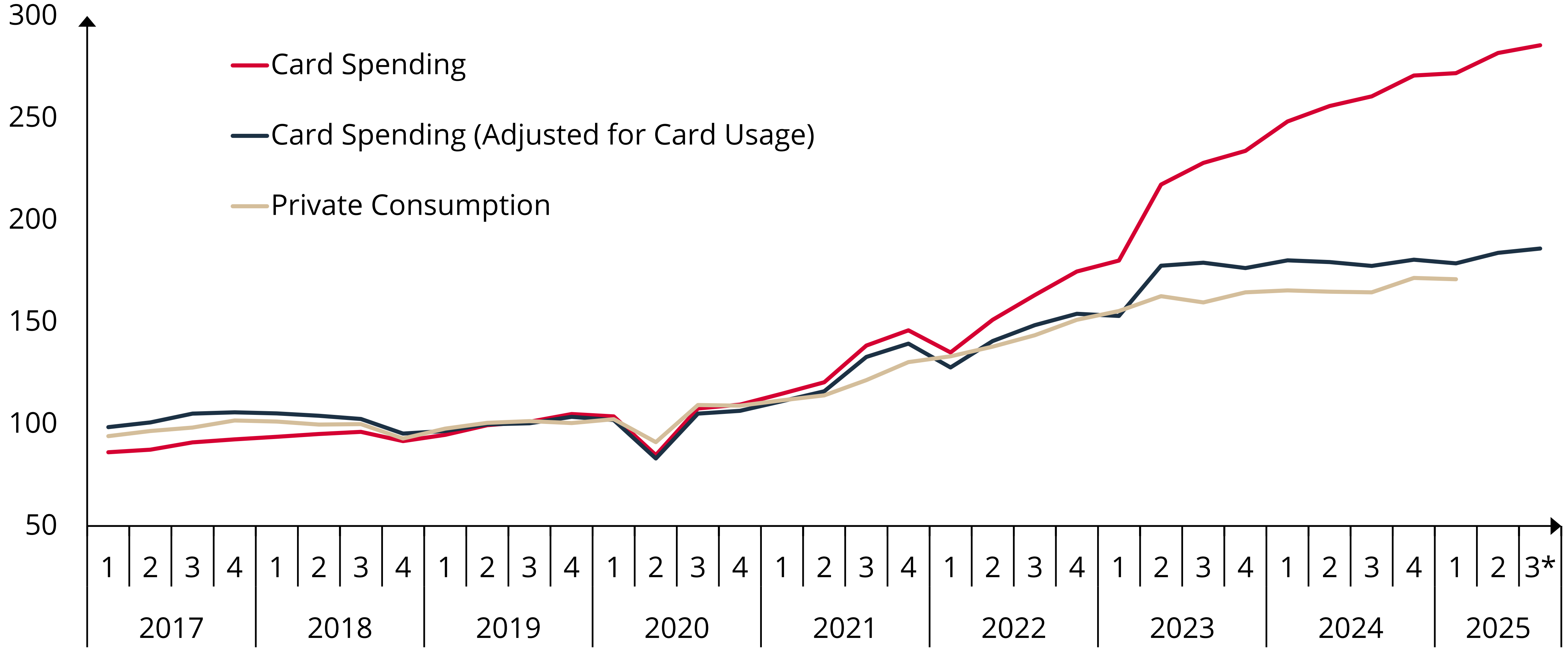


Source: CBRT.
* As of July
** The line indicates deviation from HP-trend.

When adjusted for card usage trends, card spending is more moderate.

Card Spending **

(Real, Seasonally Adjusted, 2019=100)



Source: CBRT.

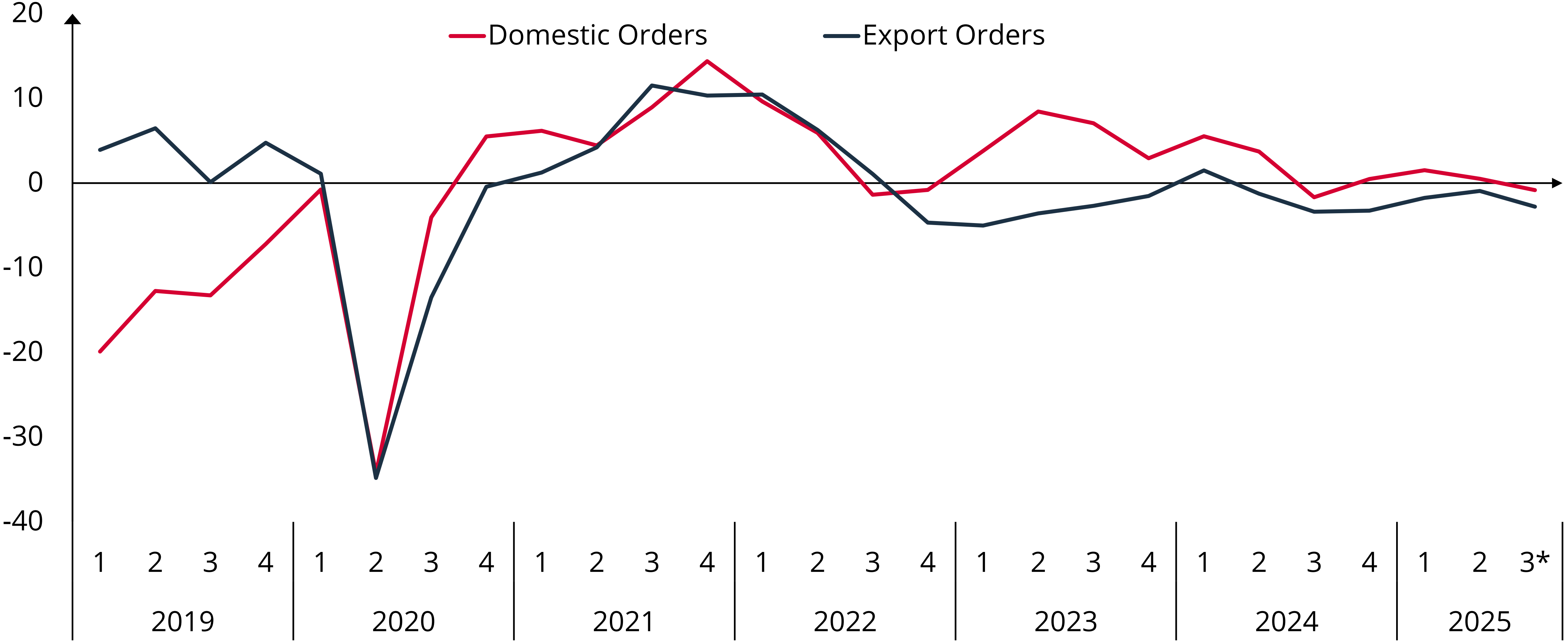
* As of July.

** In this chart, the real value adjustment of card-based expenditures has been performed using a more detailed deflator with 5-digit level, in line with the blog study entitled "Card Usage Rate and Card Spending".

Registered orders in the manufacturing industry remain moderate.

Registered Domestic and Export Orders

(Seasonally Adjusted, Above Normal – Below Normal, Compared to the 2007-2024 Average)

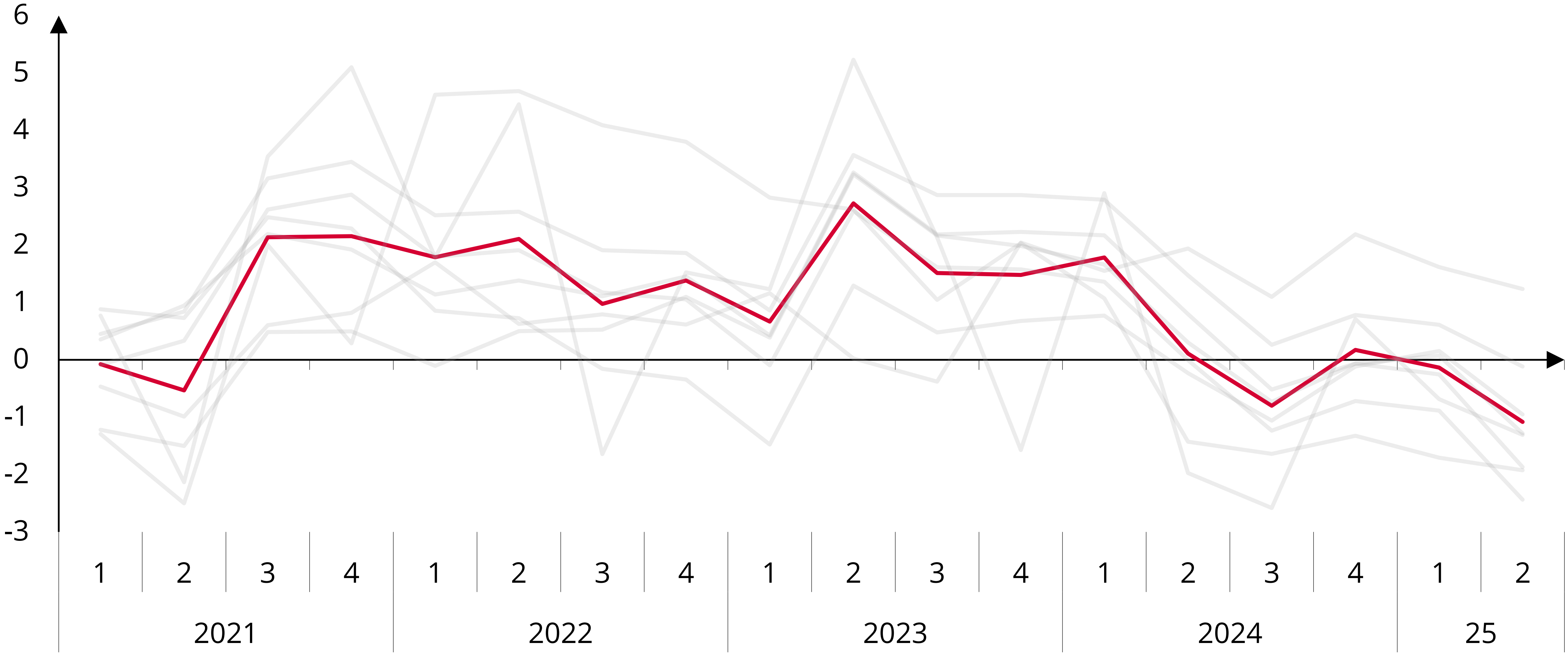


Source: CBRT.

*As of July.

Disinflationary effect of demand conditions has strengthened as projected.

Output Gap*

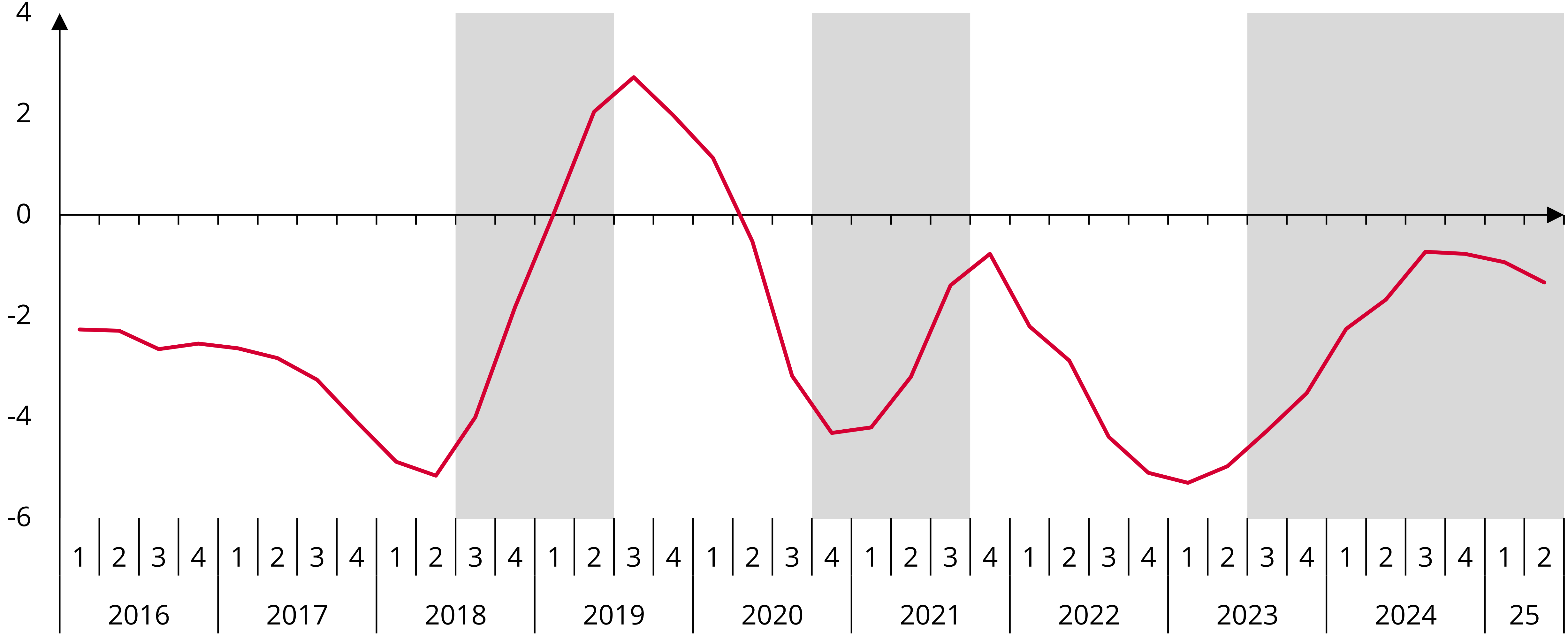


Source: CBRT.

* Light colored lines show the eight output gap estimates from different methods, while the dark red line shows the average of these estimates.

Current account deficit increased slightly, still remaining below historical averages.

Current Account Balance/GDP* (%)



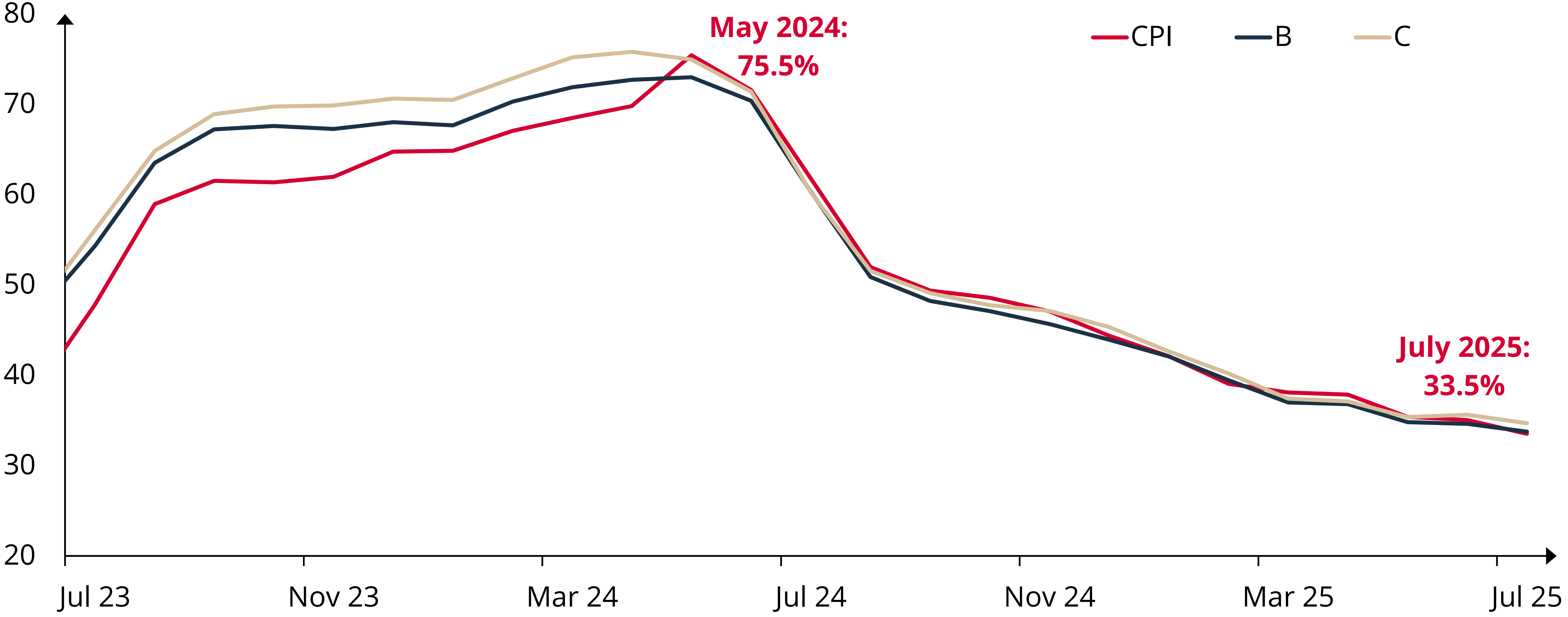
Source: CBRT, TURKSTAT.

* Estimate for the current account balance to GDP ratio in the second quarter of 2025. Shaded areas indicate monetary tightening periods.

INFLATION

The disinflation process continues.

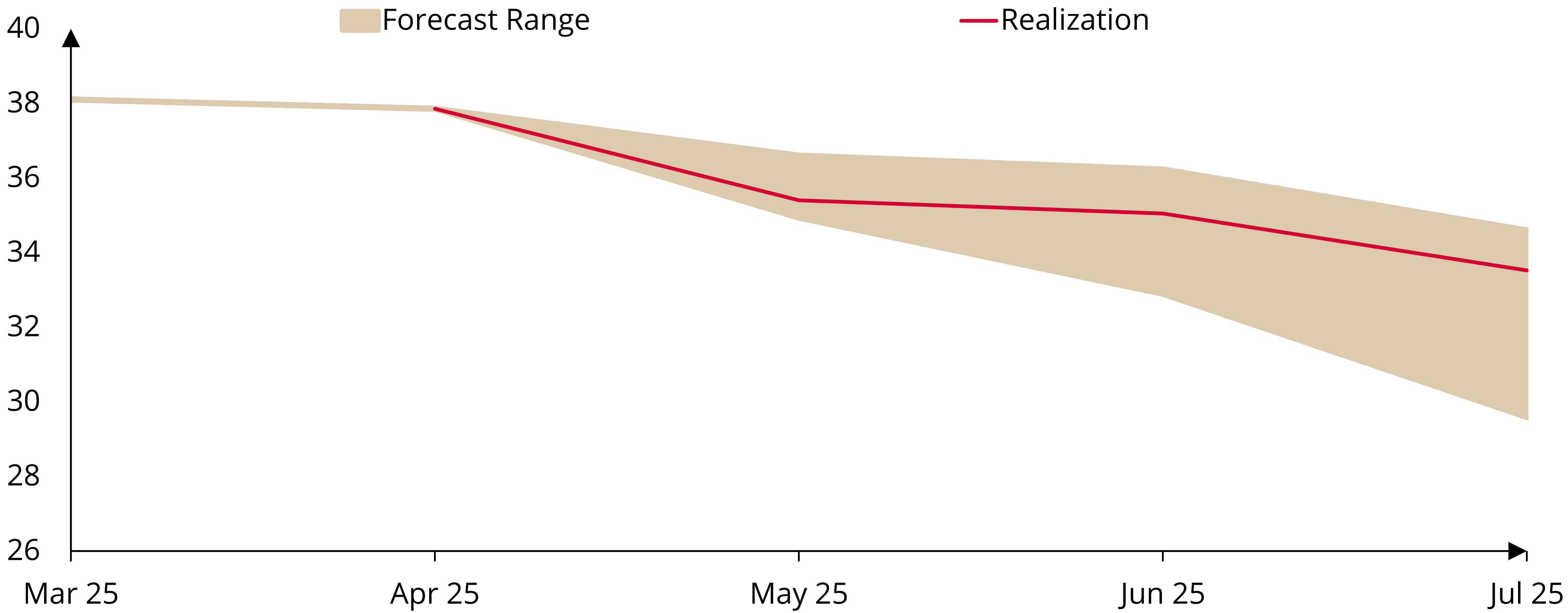
CPI and Core Indicators
(Annual % Change)



Source: TURKSTAT.

Inflation was slightly below the upper bound of the forecast range.

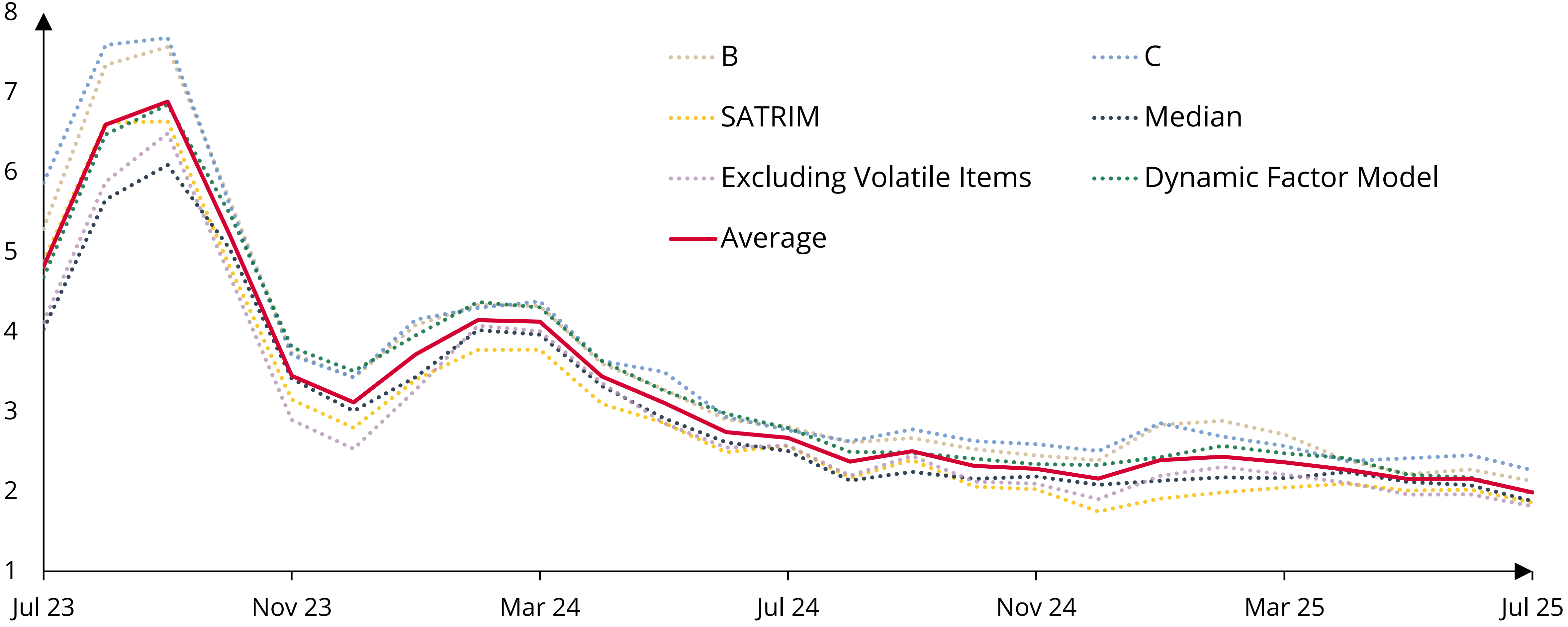
CPI Realization and IR 2025-II Forecasts
(Annual % Change)



Source: CBRT, TURKSTAT.

Last three months' data point to a slowdown in the underlying inflation.

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

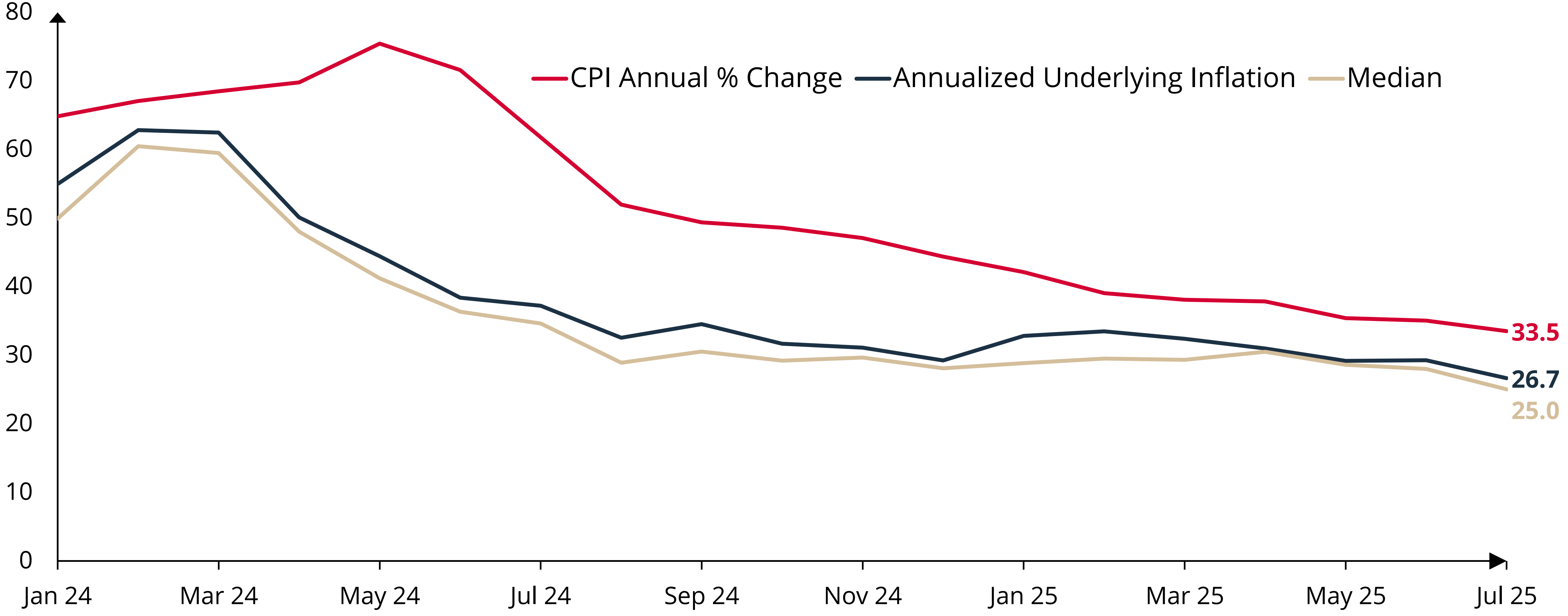


Source: CBRT, TURKSTAT.

* Average refers to the mean of six different indicators: B, C, SATRIM, median, excluding volatile items, and dynamic factor model.

Underlying inflation indicators point to ongoing disinflation process.

CPI, Median and Underlying Inflation* (% Change)

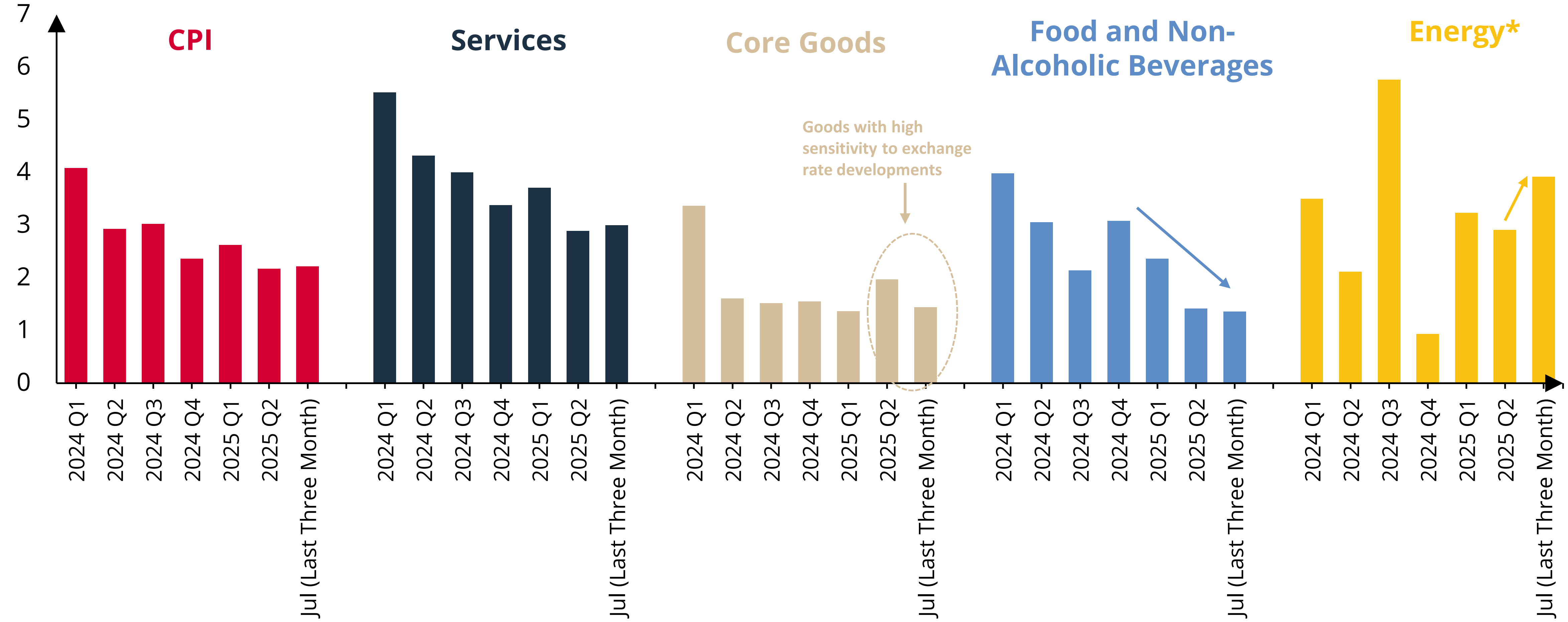


Source: CBRT, TURKSTAT.

* Annualized underlying inflation refers to the annualized value of the 3-month average of 6 different indicators (seasonally adjusted B, C, SATRIM, Median, Excluding Volatile Items and Dynamic Factor Model). The annualized value of the 3-month average of the monthly value is used for the median.

The increase in core goods inflation has been temporary.

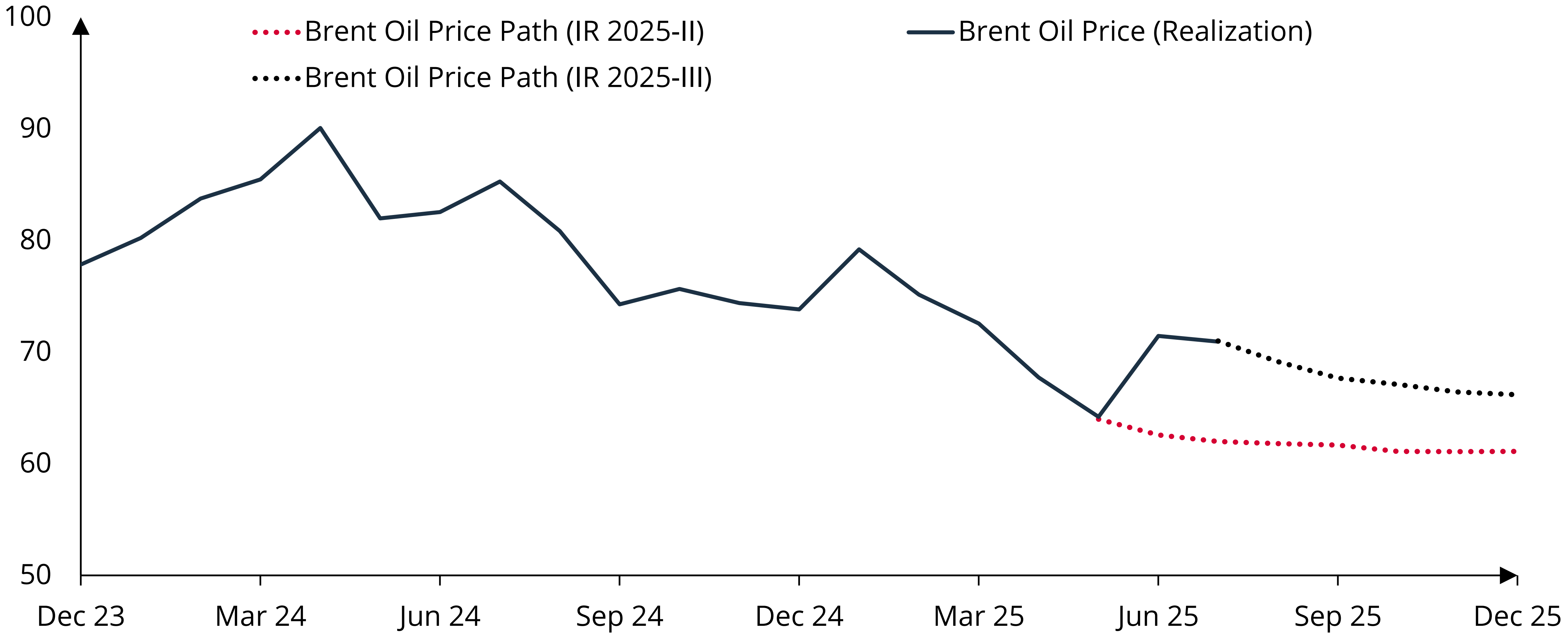
Monthly Inflation (Seasonally Adjusted, Quarterly Average, %)



Source: TURKSTAT.
*No seasonal effect in energy group.

Geopolitical developments have negatively affected global energy prices.

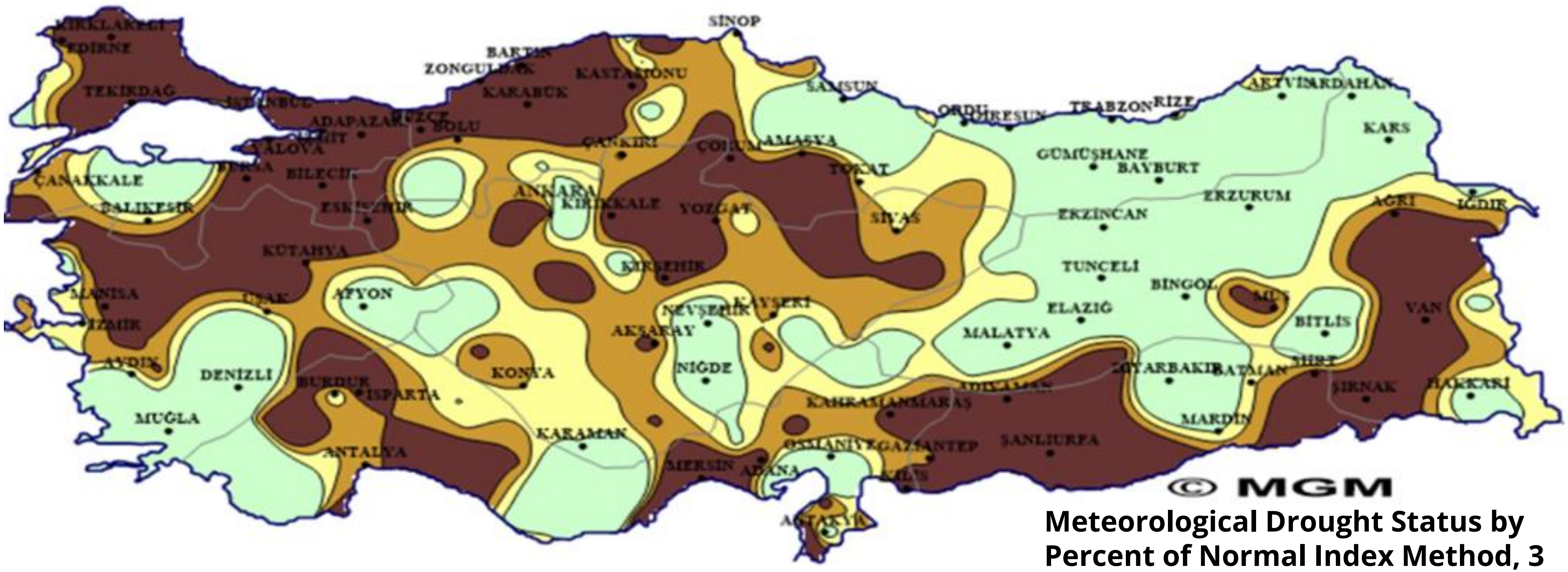
Oil Price Assumption and Realization ($/Barrel)



Source: CBRT, TURKSTAT and Bloomberg.

Adverse weather conditions have increased upward risks on food prices.

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



Meteorological Drought Status by Percent of Normal Index Method, 3 Months (May 2025-July 2025)

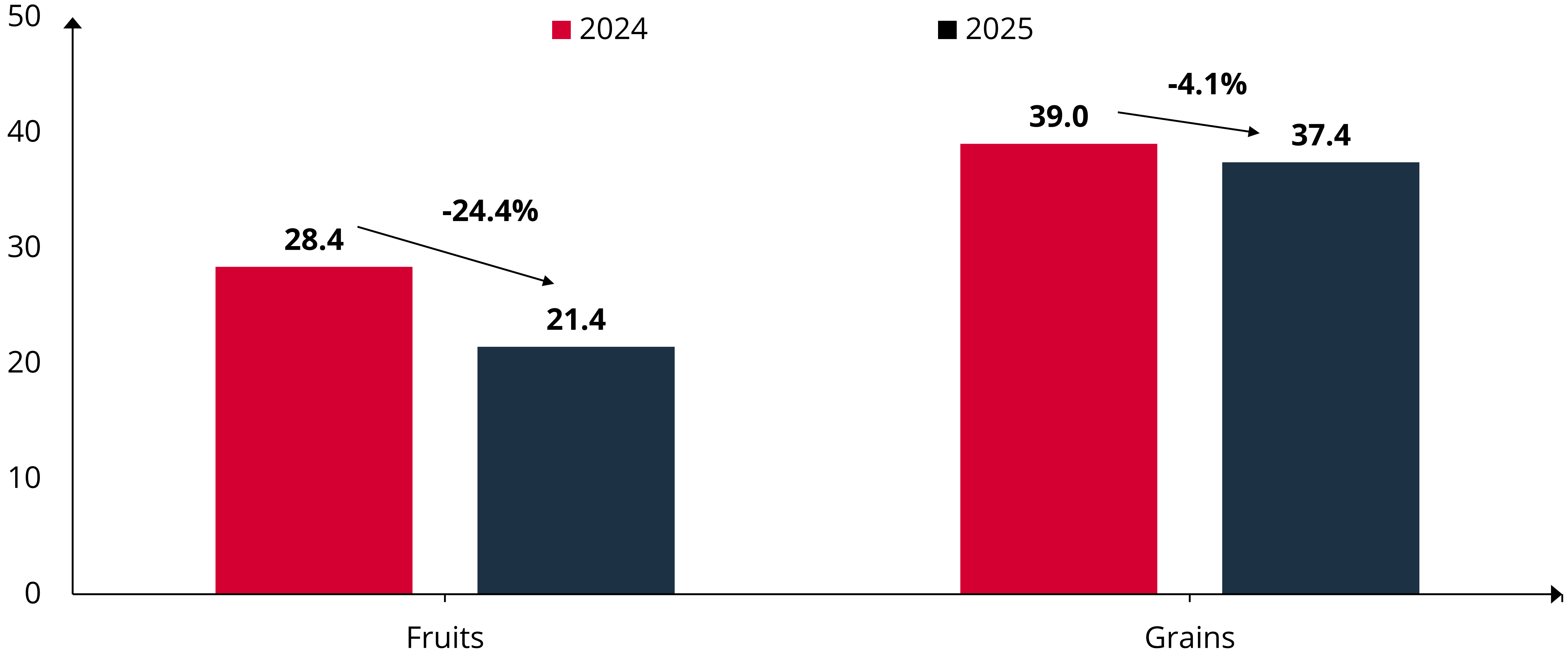
Normal and Above (No risk)	Semi-Dry (Start monitoring)	Moderately Dry (Warning)	Severe Drought (Emergency)

% 75 | % 65 | % 55

Source: Turkish State Meterological Service.

Adverse weather conditions have increased upward risks on food prices.

Fruit and Grain Production* (Millions of Tonnes)

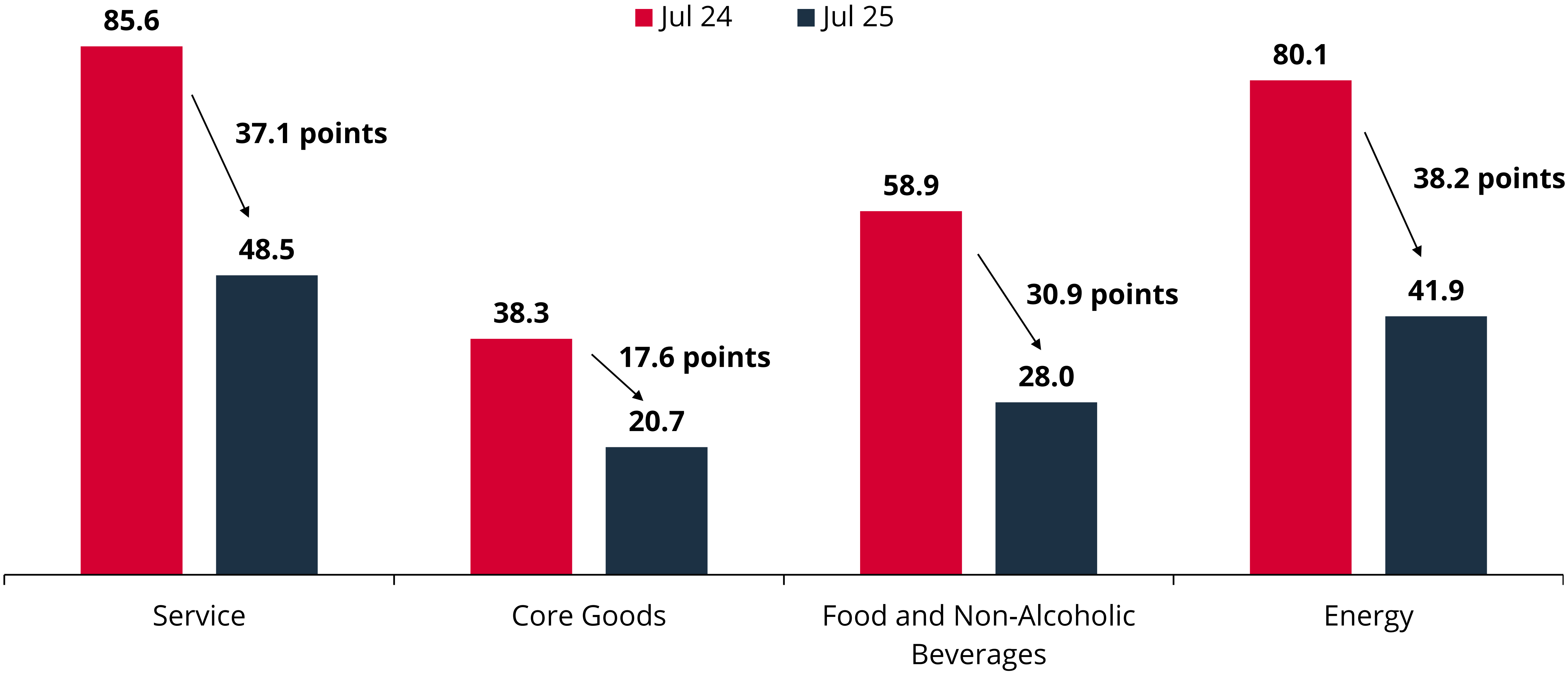


TÜRKİYE CUMHURİYET MERKEZ BANKASI

Source: TURKSTAT.
* 1st Projection of Crop Production as of May 23, 2025.

Services inflation, while remaining elevated, has declined notably.

CPI Subcategories (Annual % Change)

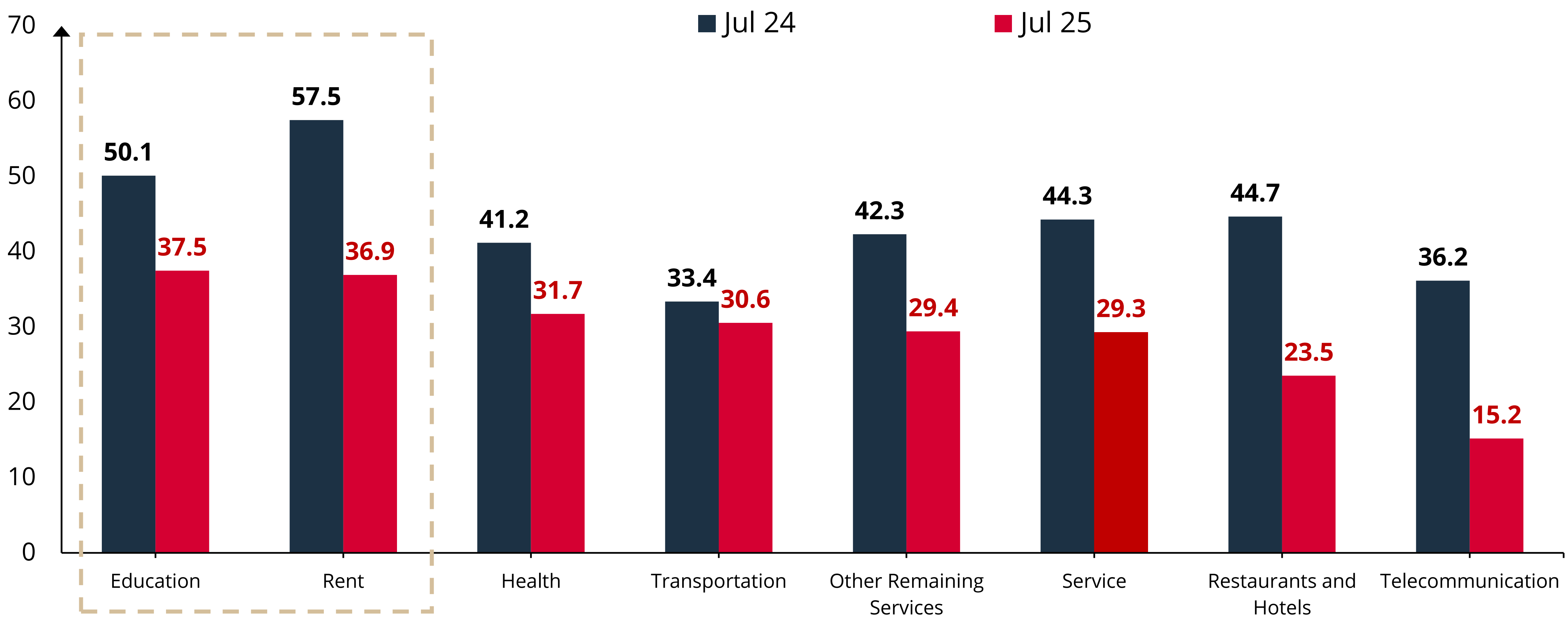


TÜRKİYE CUMHURİYET MERKEZ BANKASI

Source: TURKSTAT.

Items with backward indexation are slowing the disinflation process.

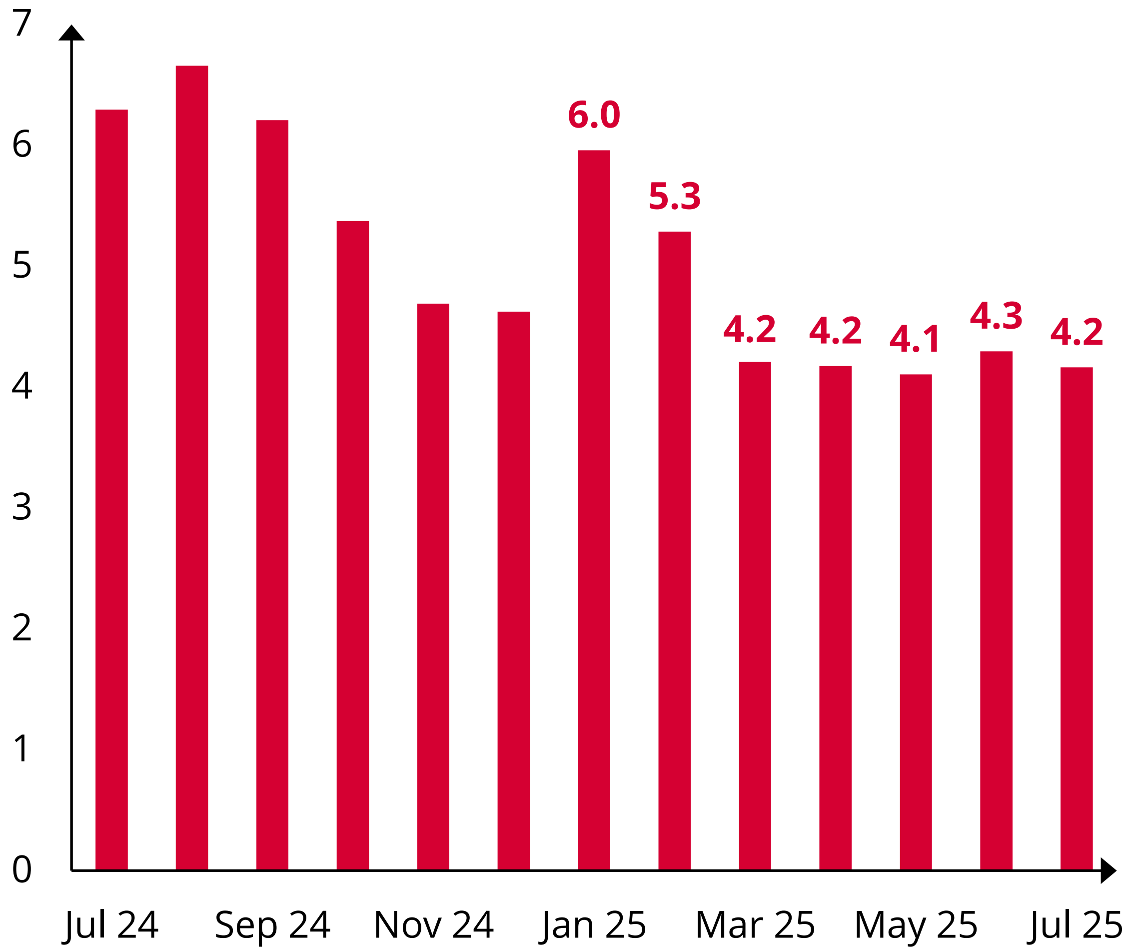
Services Subcategories (Cumulative % Change for the First 7 Months)



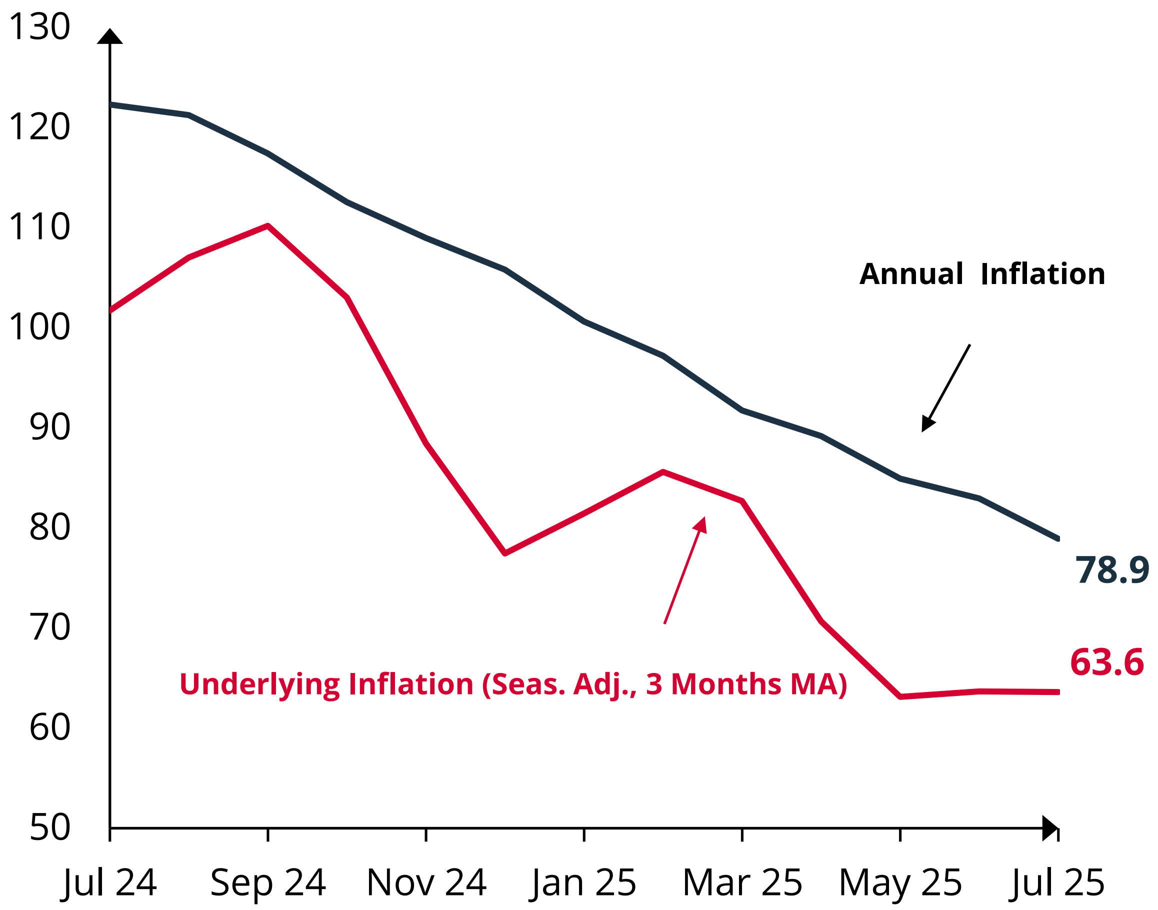
Kaynak: CBRT, TURKSTAT.

Rent inflation is proving more persistent than forecasted.

Rent (Seasonally Adjusted, Monthly % Change)



Rent (Annual % Change ve Annualized Underlying Inflation)

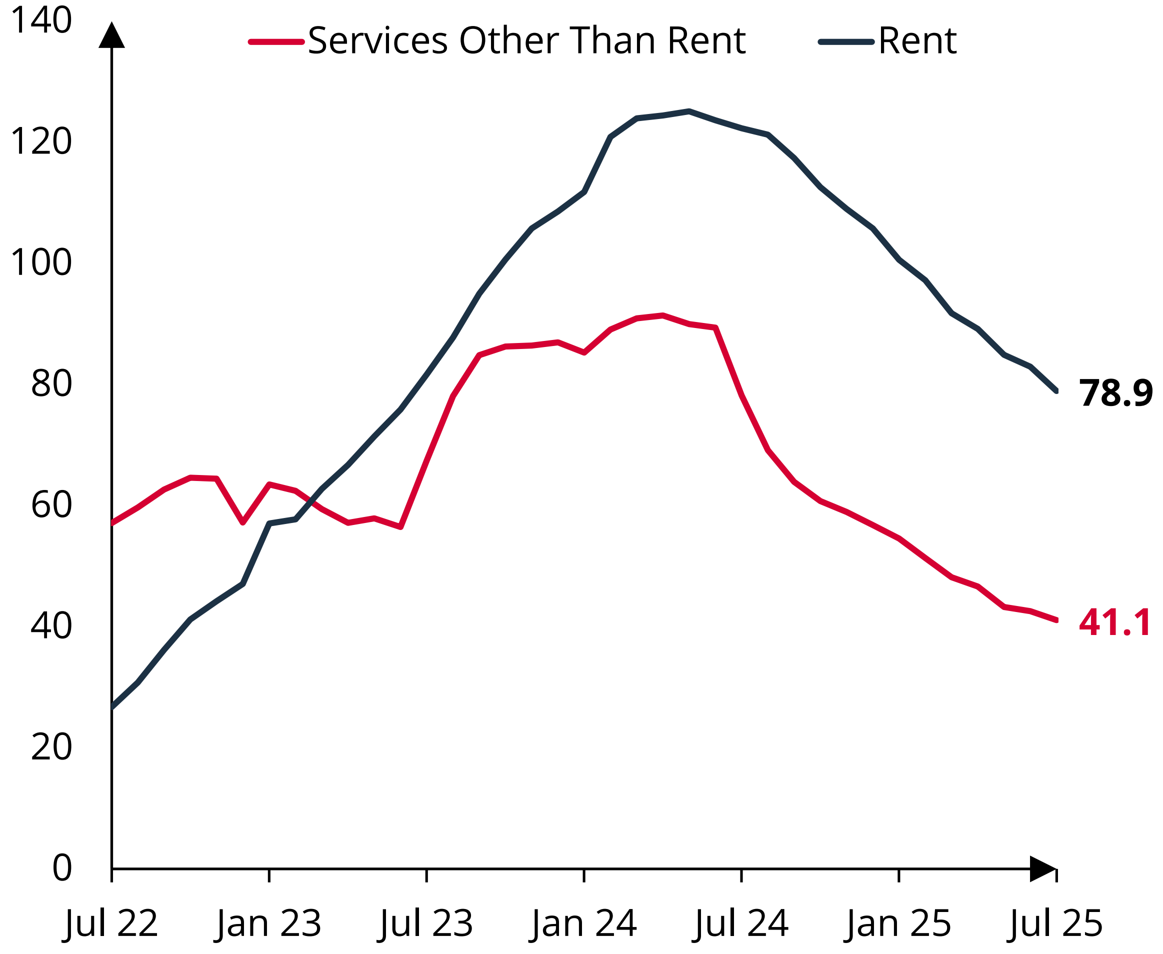


TÜRKİYE CUMHURİYET MERKEZ BANKASI

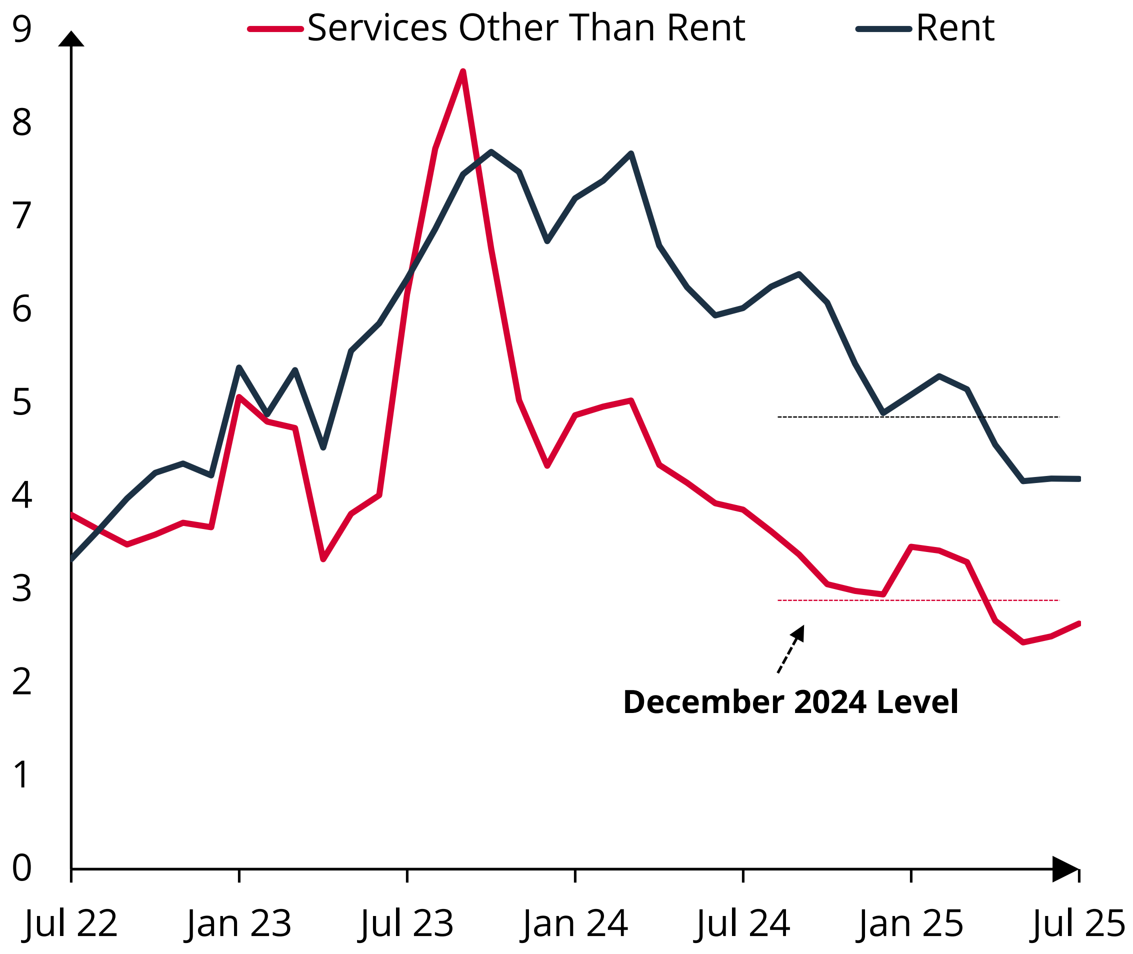
Kaynak: CBRT, TURKSTAT.

The underlying trend in services excluding rent is showing a gradual slowdown.

Rent and Services Excluding Rent (Annual % Change)



Underlying Inflation of Rent and Services Excluding Rent
(Seasonally Adjusted, Monthly % Change, 3-Month Average)

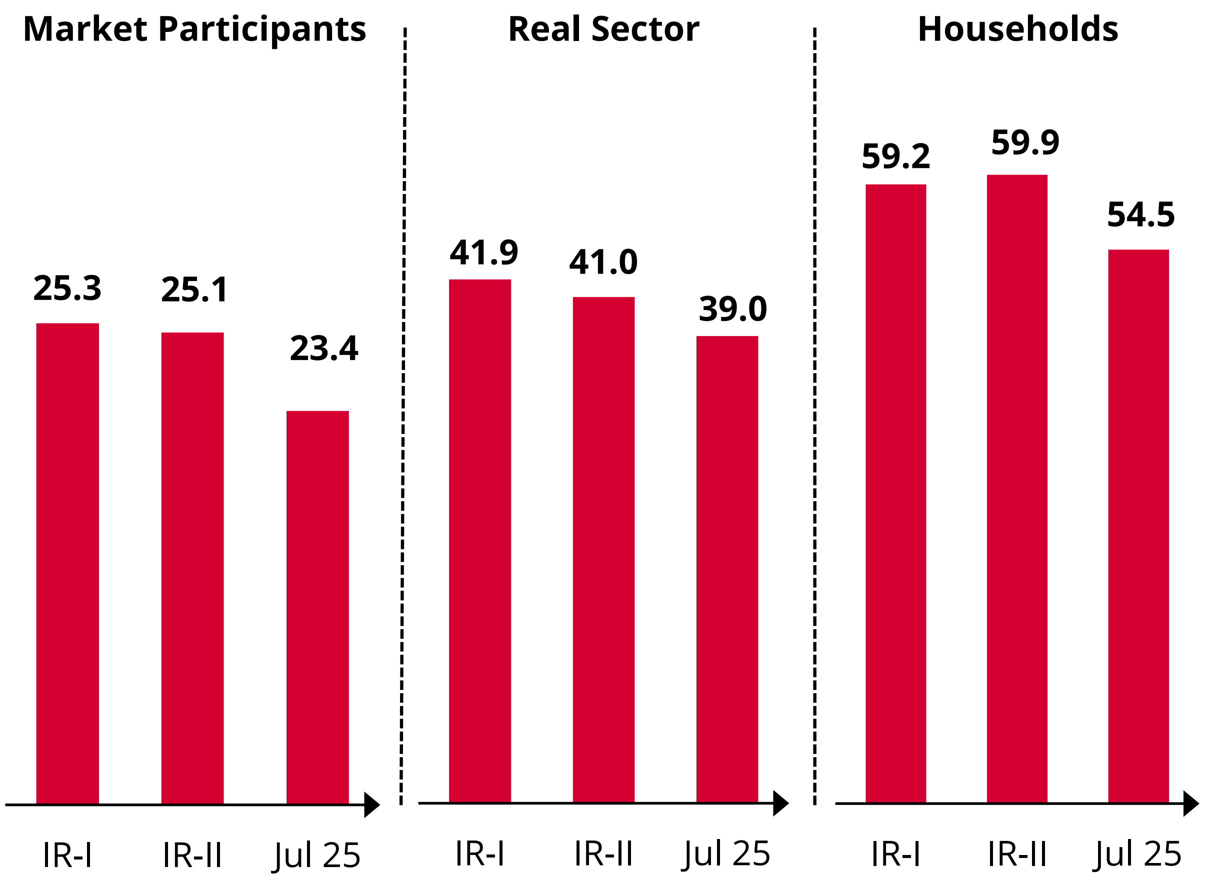


TÜRKİYE CUMHURİYET MERKEZ BANKASI

Source: CBRT, TURKSTAT.

Inflation expectations have declined.

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



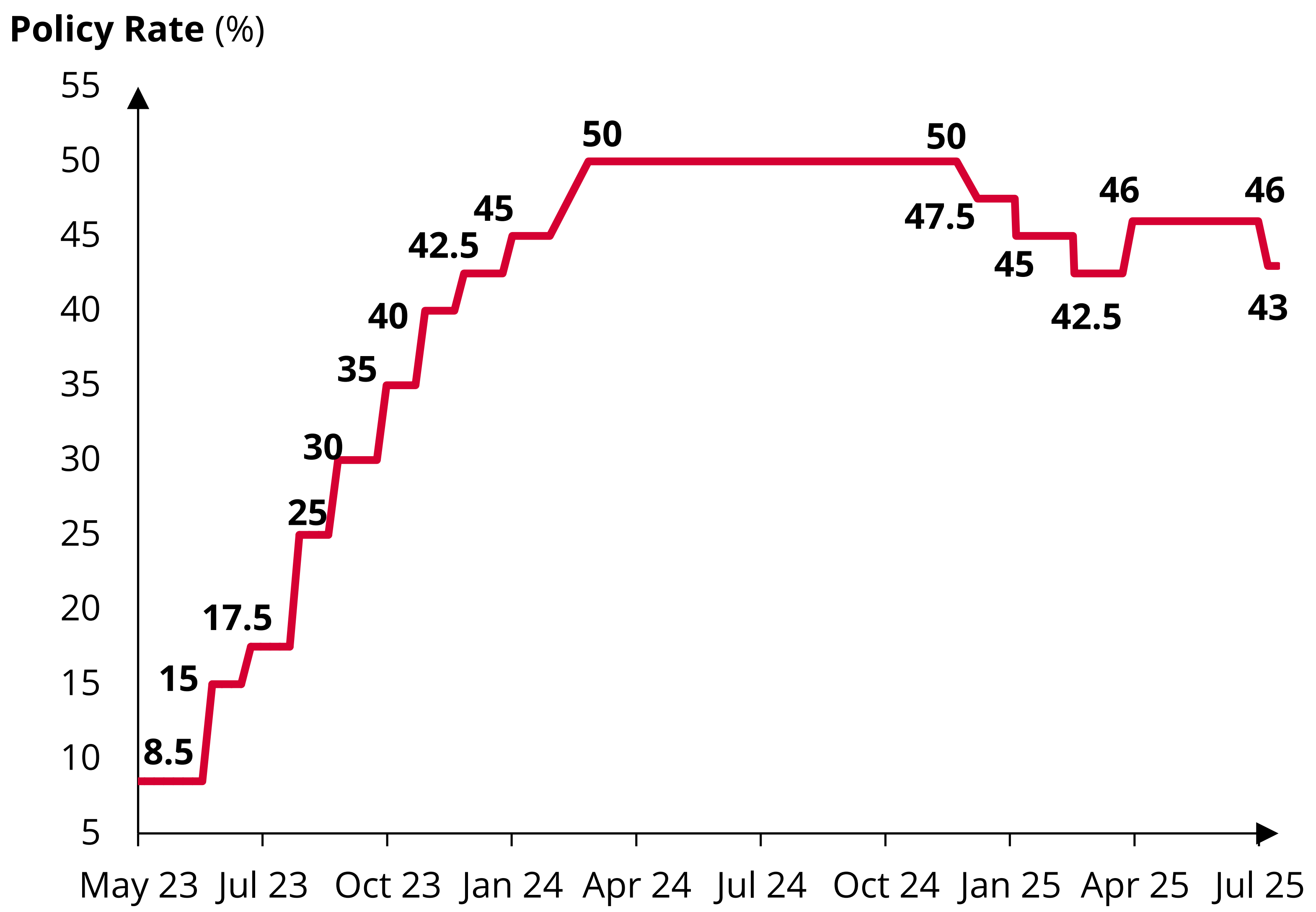
Market Participants Inflation Expectations (%)	
August 2025	32.5
September 2025	31.2
December 2025	29.7
July 2026	23.4
December 2026	20.4

Source: CBRT.

MONETARY POLICY

TÜRKİYE CUMHURİYET MERKEZ BANKASI

Tight monetary policy stance is maintained.



Macroprudential Framework

+

Liquidity Management

Source: CBRT.

Macroprudential measures and liquidity management support the tight stance.

1

Regulations for TL deposit share and KKM

- Targets for TL deposit share
- Targets for KKM's gradual reduction

2

Loan growth caps

- Limits on TL and FX loan growth

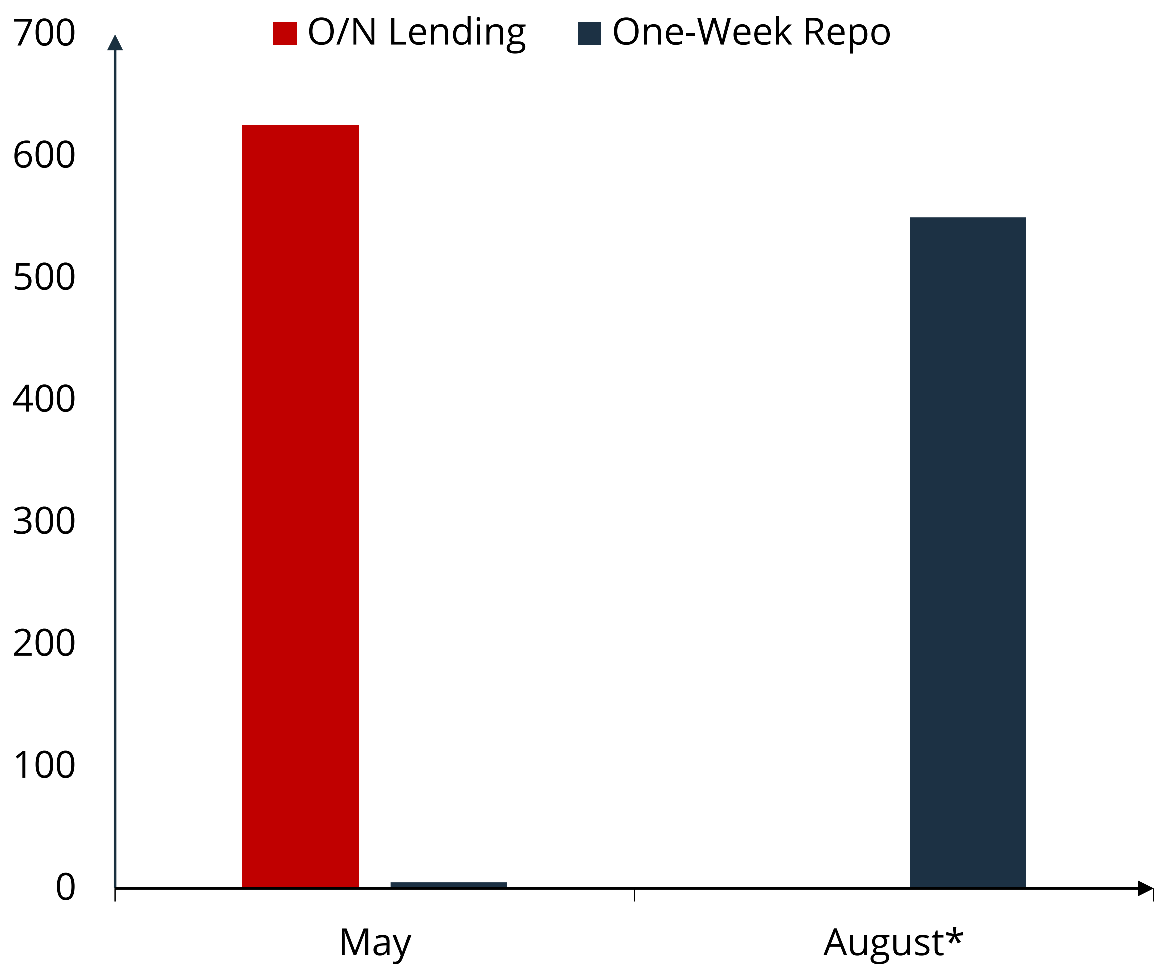
3

Liquidity management

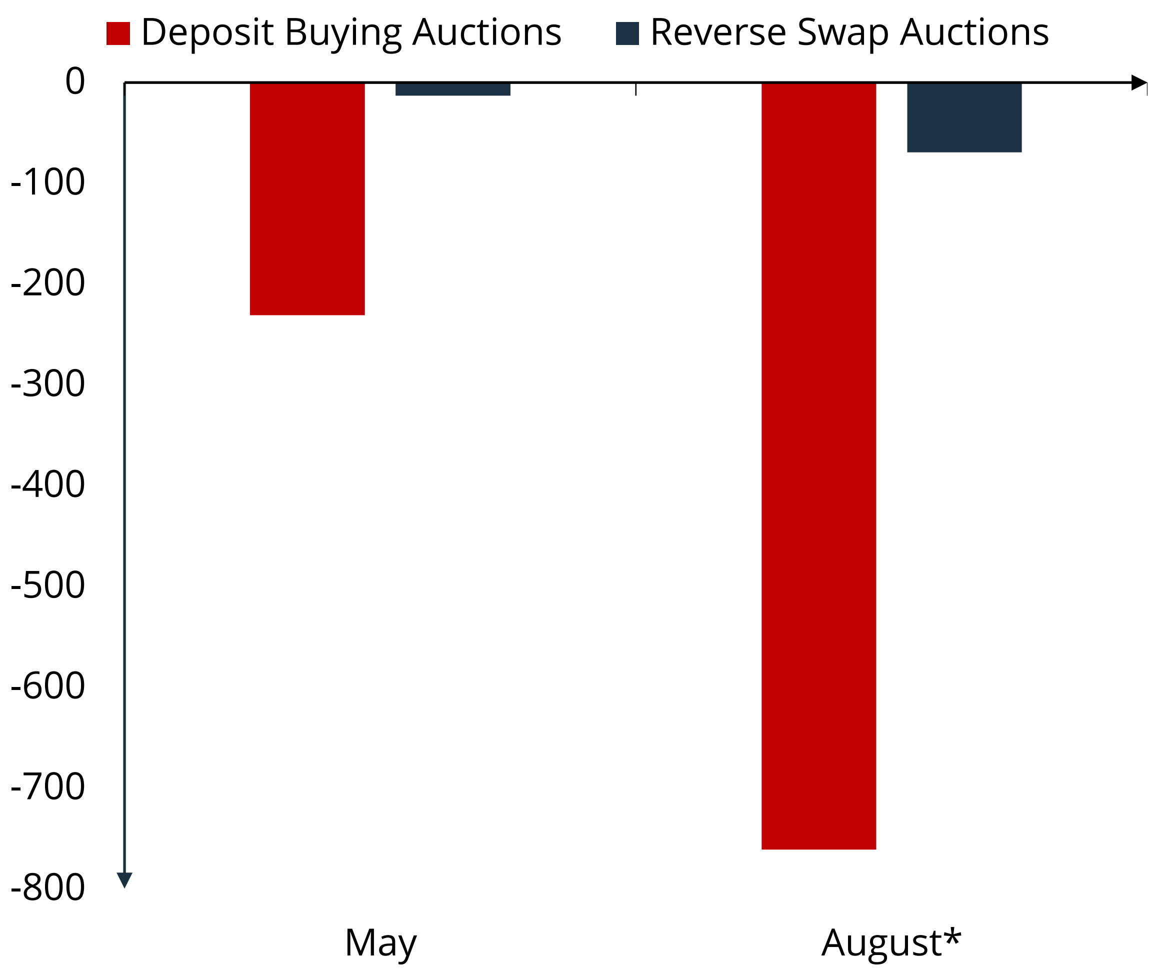
- Reserve requirements
- TL deposit auctions
- Sell-side swap auctions

Liquidity management tools are effectively used taking into account liquidity conditions.

Funding Composition (Billion TL)



Sterilization Composition (Billion TL)



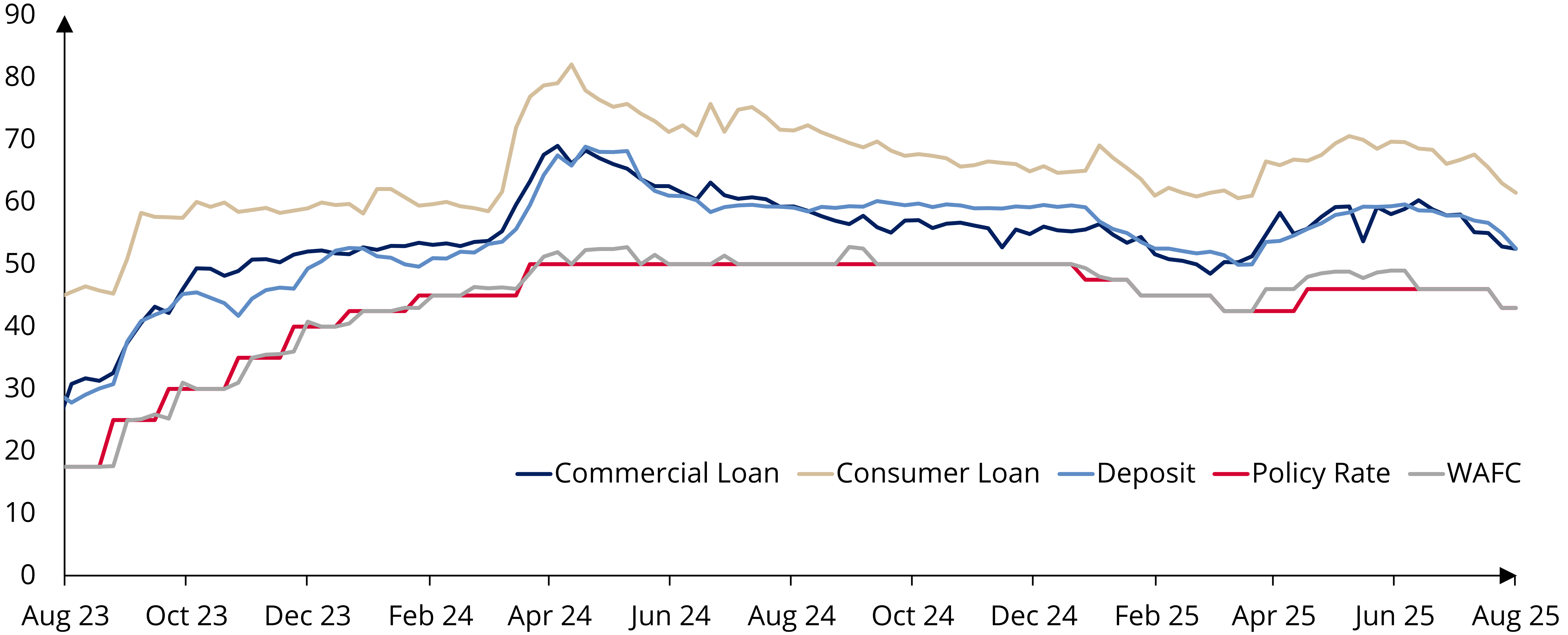
TÜRKİYE CUMHURİYET MERKEZ BANKASI

Source: CBRT.
*As of August 11.

FINANCIAL CONDITIONS

Financial conditions remain tight.

Interest Rates * (%)

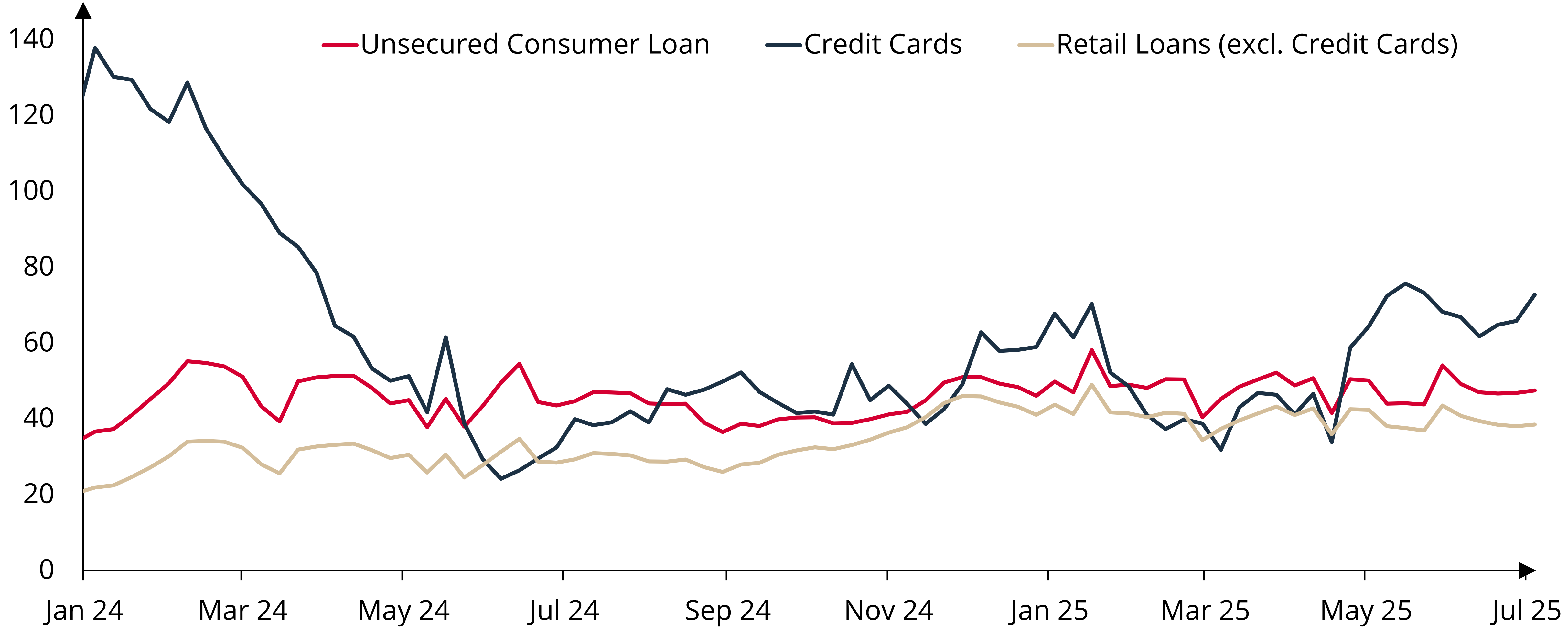


TÜRKİYE CUMHURİYET MERKEZ BANKASI

Source: CBRT.
Last Observation: August 1, 2025.
* Depost rates indicates 1 to 3 month TL deposit interest rate. Commercial and consumer loan interest rates exclude credit cards and overdraft accounts.

Retail loan growth slightly accelerated due to credit cards.

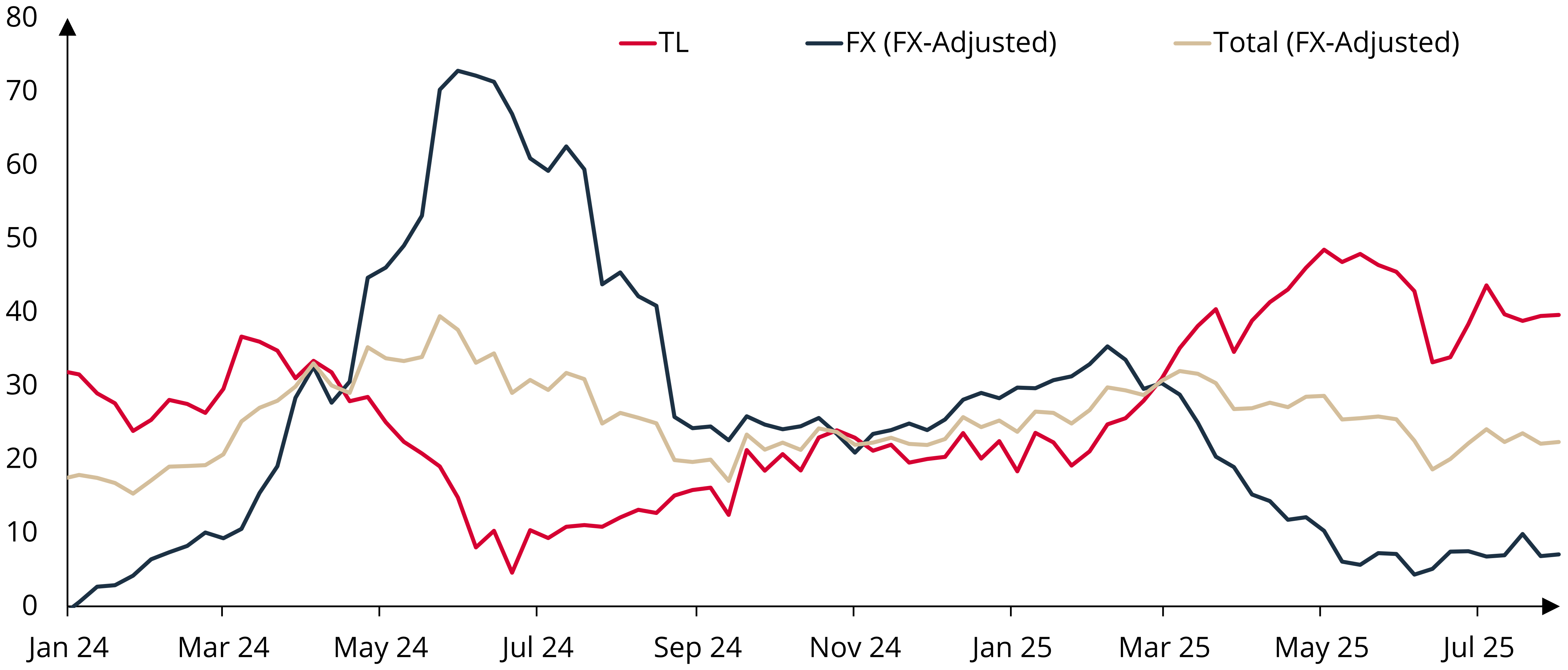
Retail Loan Growth (13-Week, Annualized, %)



Source: CBRT.
Last Observation: August 1, 2025

Composition of commercial loans has been shifting in favor of TL.

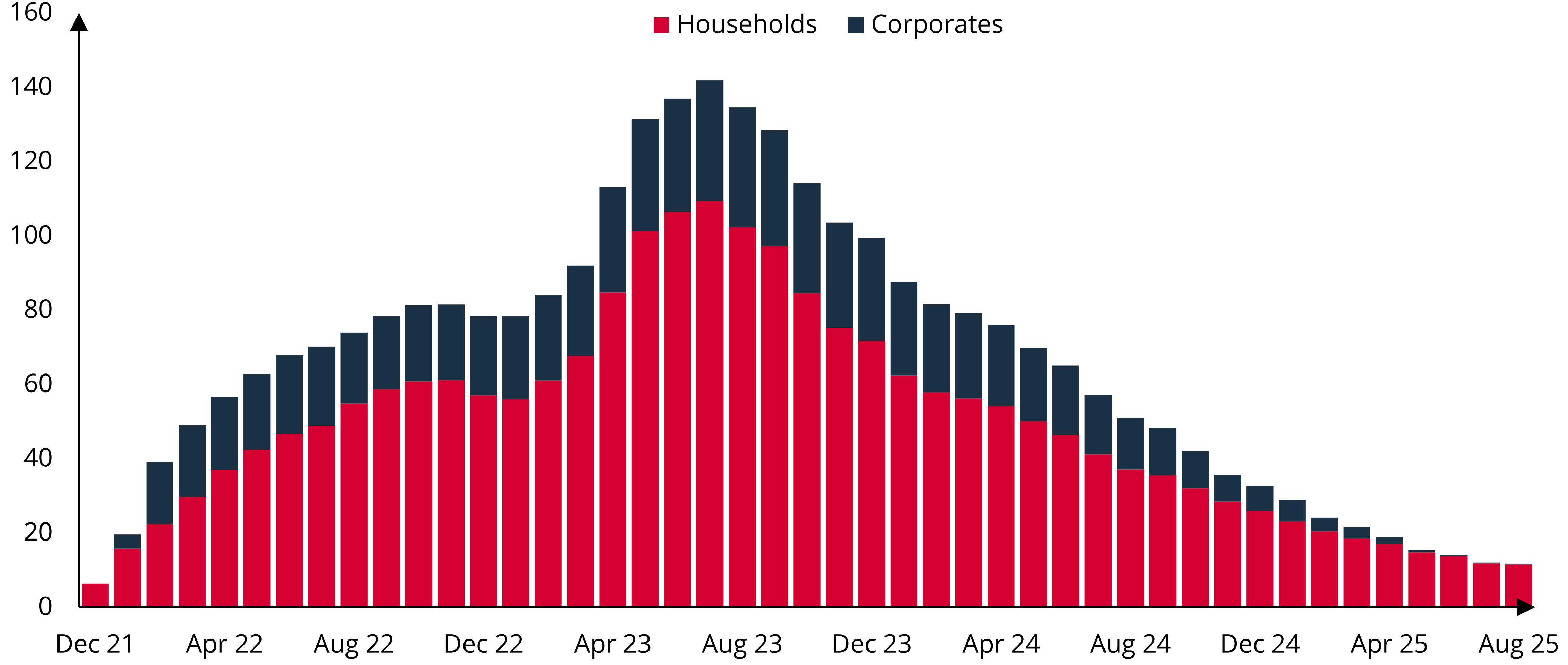
Commercial Loan Growth (13-Week, Annualized, %)



Source: CBRT.
Last Observation: August 1, 2025

There has been a notable decline in the balance of KKM accounts.

Outstanding Balance of KKM Accounts (Billion USD)

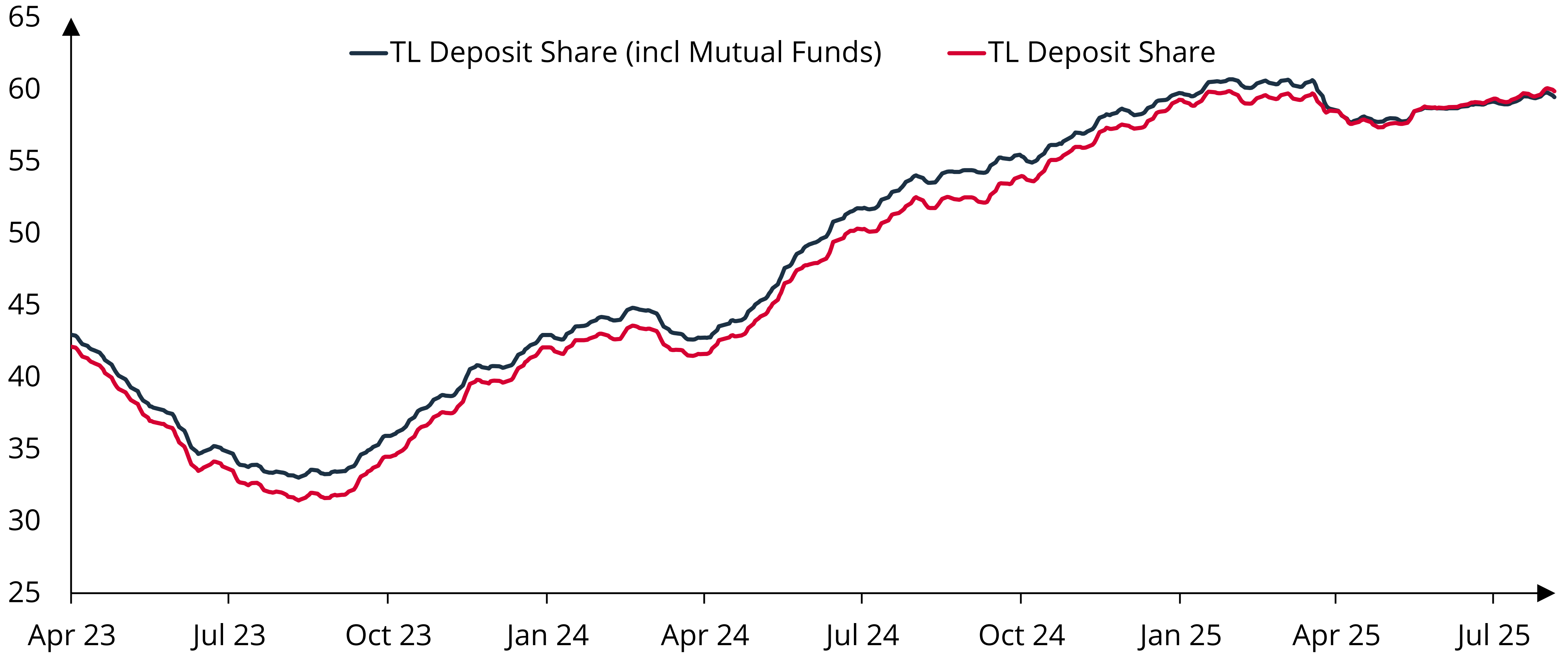


TÜRKİYE CUMHURİYET MERKEZ BANKASI

Source: CBRT.
Last Observation: August 4, 2025
* YUVAM accounts are excluded.

The tendency towards the Turkish lira in portfolio preferences continues.

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



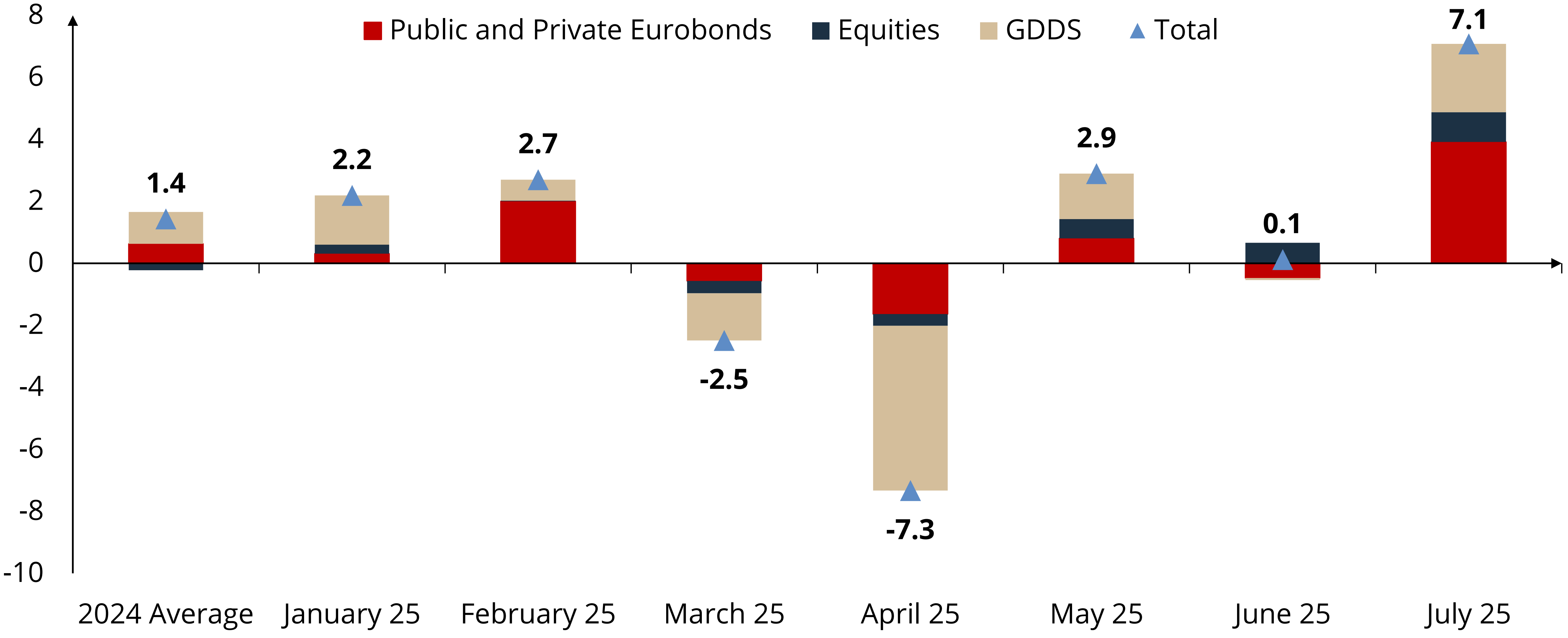
Source: BRSA, TEFAS, CBRT.

Last Observation: August 5, 2025

* TL Deposit Share (incl Mutual Funds): Assets in the portfolio compositions of mutual funds have been categorized as TL and FX and then included in the share. Deposits in mutual funds are deducted from banking sector's deposits.

Capital inflows to Türkiye have restarted.

Non-Resident Positioning in Turkish Assets* (Billions of US Dollars)

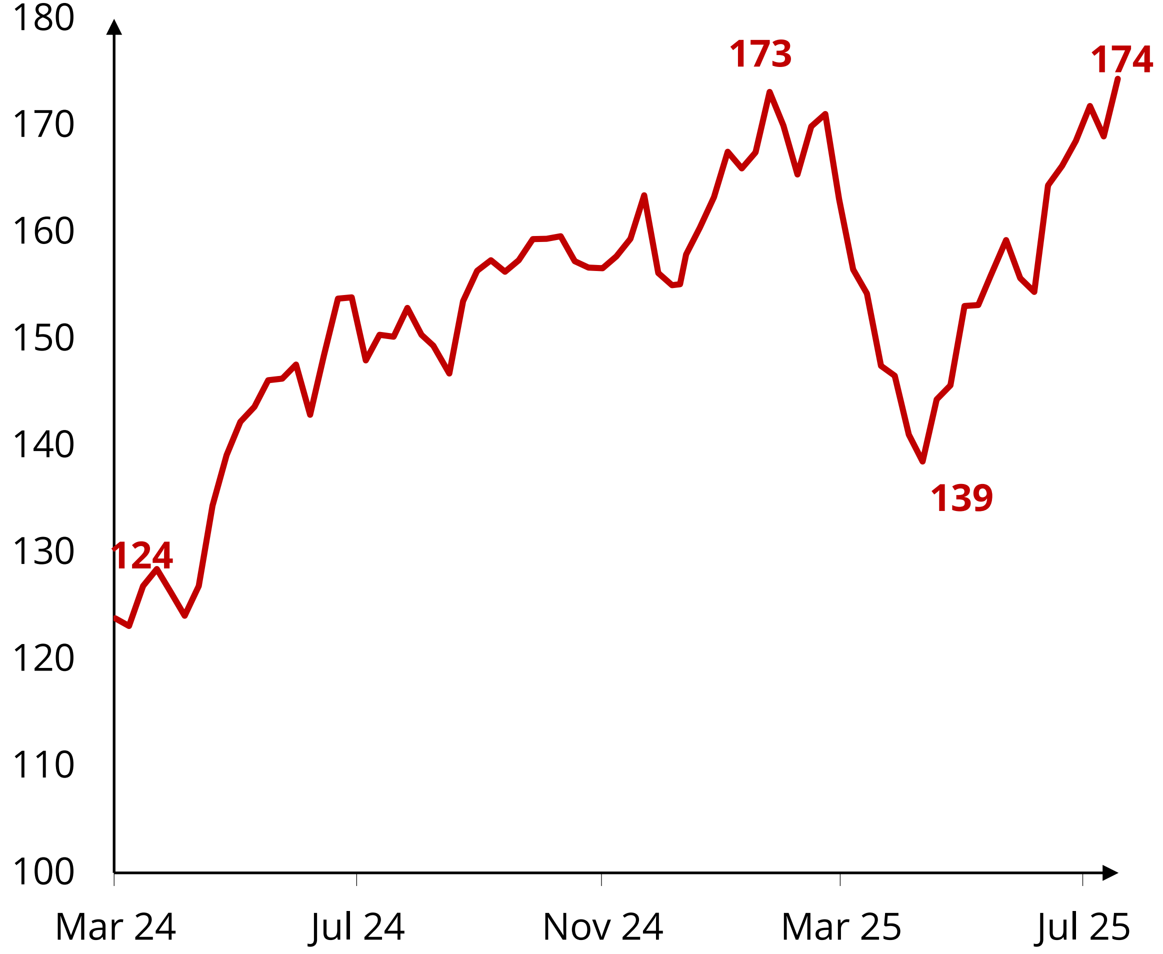


Source: CBRT, IIF.

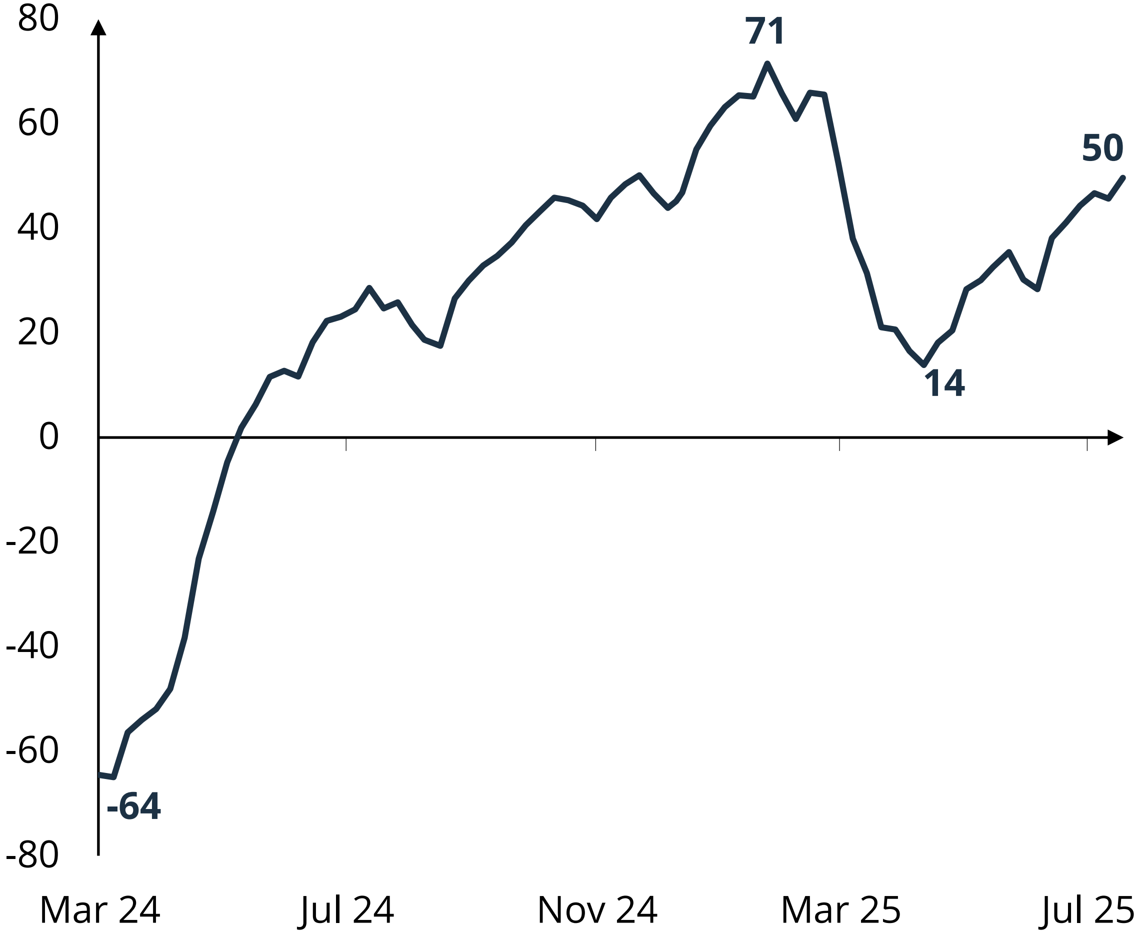
*As of August 1, 2025

Tight monetary policy stance supports reserves.

Gross International Reserves* (Billion USD)



Net Reserves Excluding Swaps* (Billion USD)

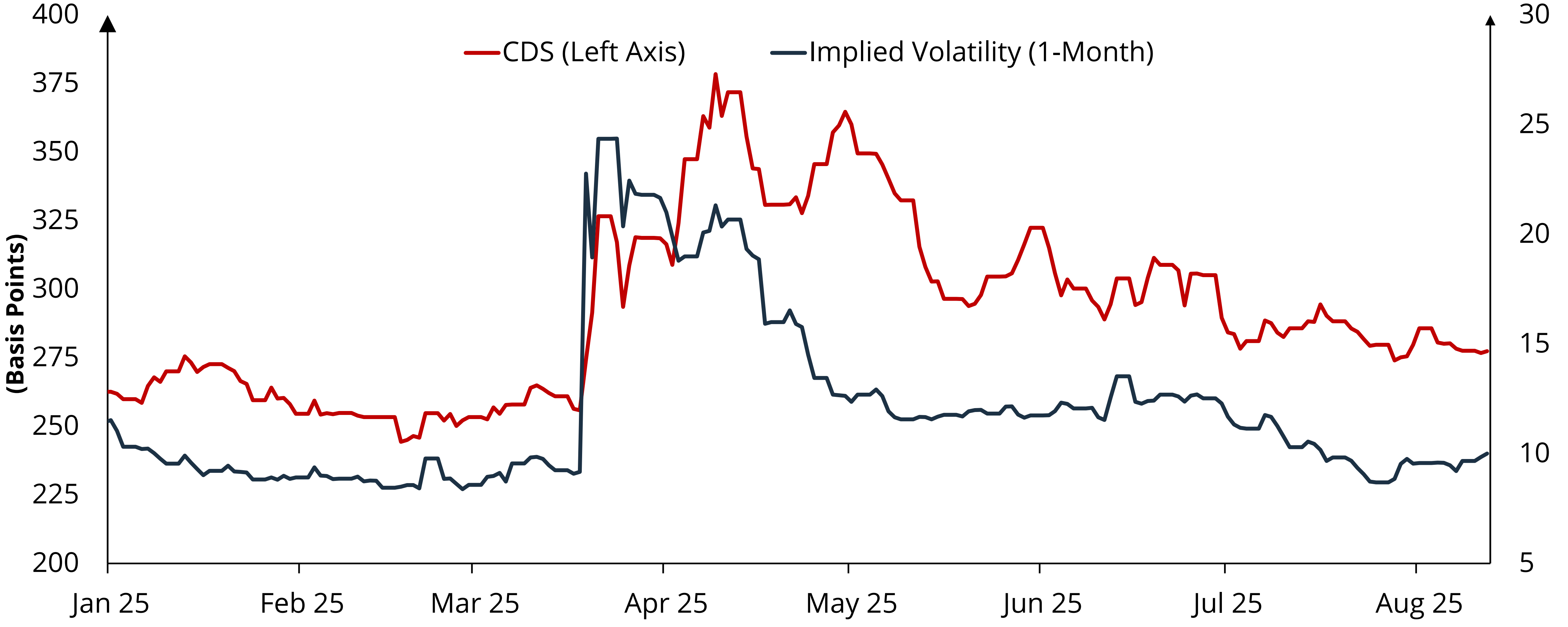


Source: CBRT.

*As of August 8, 2025

Tight monetary policy contributes to improvements in risk and volatility indicators.

CDS Premium and FX Volatility*



Source: Bloomberg.
*As of August 12, 2025

MEDIUM TERM PROJECTIONS AND INTERIM TARGETS

New Framework for Medium-Term Forecast Communication – Interim Targets

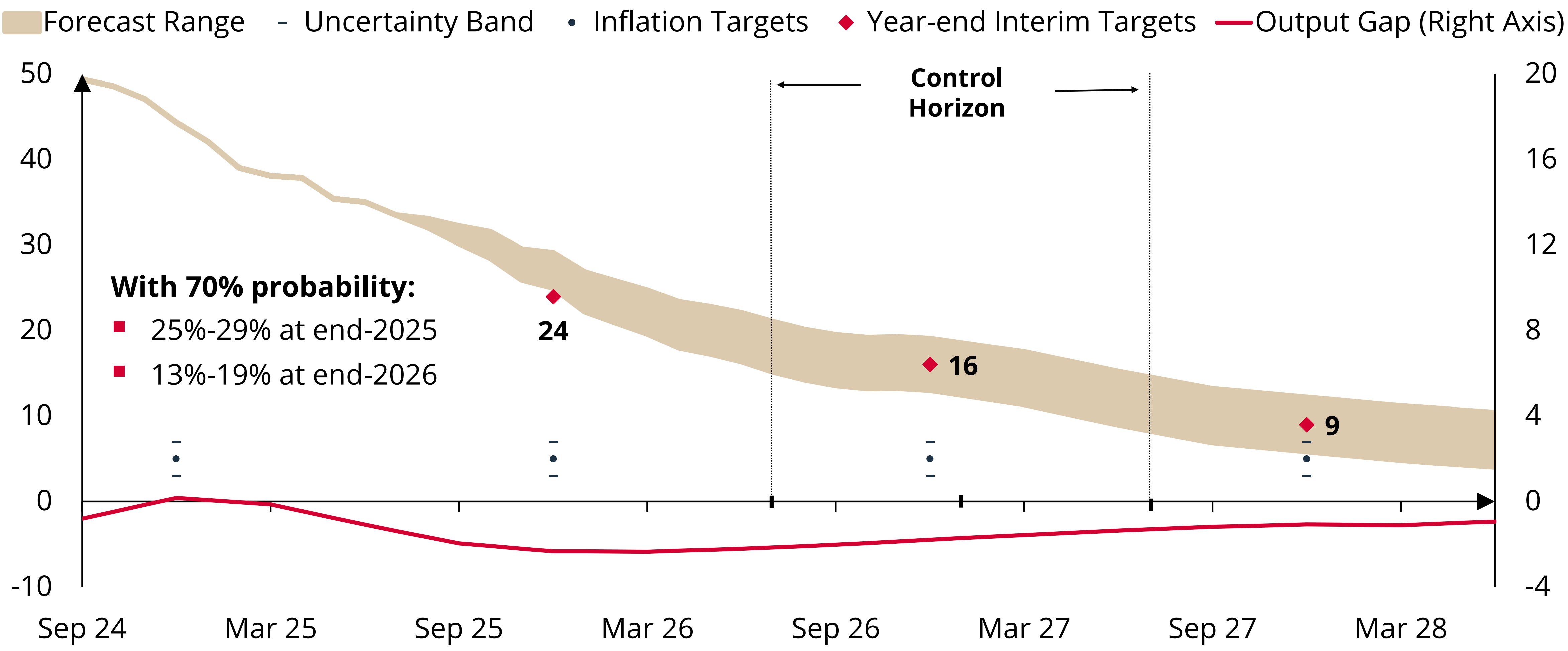
- In the new framework, alongside Inflation Report forecasts, year-end interim targets that represent explicit policy commitments and anchors will be announced.
- Interim targets will be maintained unless there are exceptional circumstances.
- Interim targets are the inflation levels that CBRT commits to achieving in the short term during the disinflation process as inflation converges towards 5 percent.
- The interim targets will serve as a reference for determining the endogenous monetary policy path, ensuring that inflation converges to the interim targets within the control horizon.
- Given the lagged effects of monetary policy, the control horizon for Türkiye is defined as the period between 12 and 24 months from now.

Revisions to Main Assumptions

		IR 2025-II	IR 2025-III
Global Production Index* (Average Annual % Change)	2025	1.9	2.0
	2026	2.1	2.3
Oil Prices (USD, Annual Average)	2025	65.8	69.8
	2026	60.6	64.4
Import Prices (USD, Average Annual % Change)	2025	-1.1	0.3
	2026	-1.3	-1.3
Food Price Inflation (Year-End % Change)	2025	26.5	26.5
	2026	13.5	17.0

* Based on the growth rates and export shares of 110 countries to which Türkiye exports.

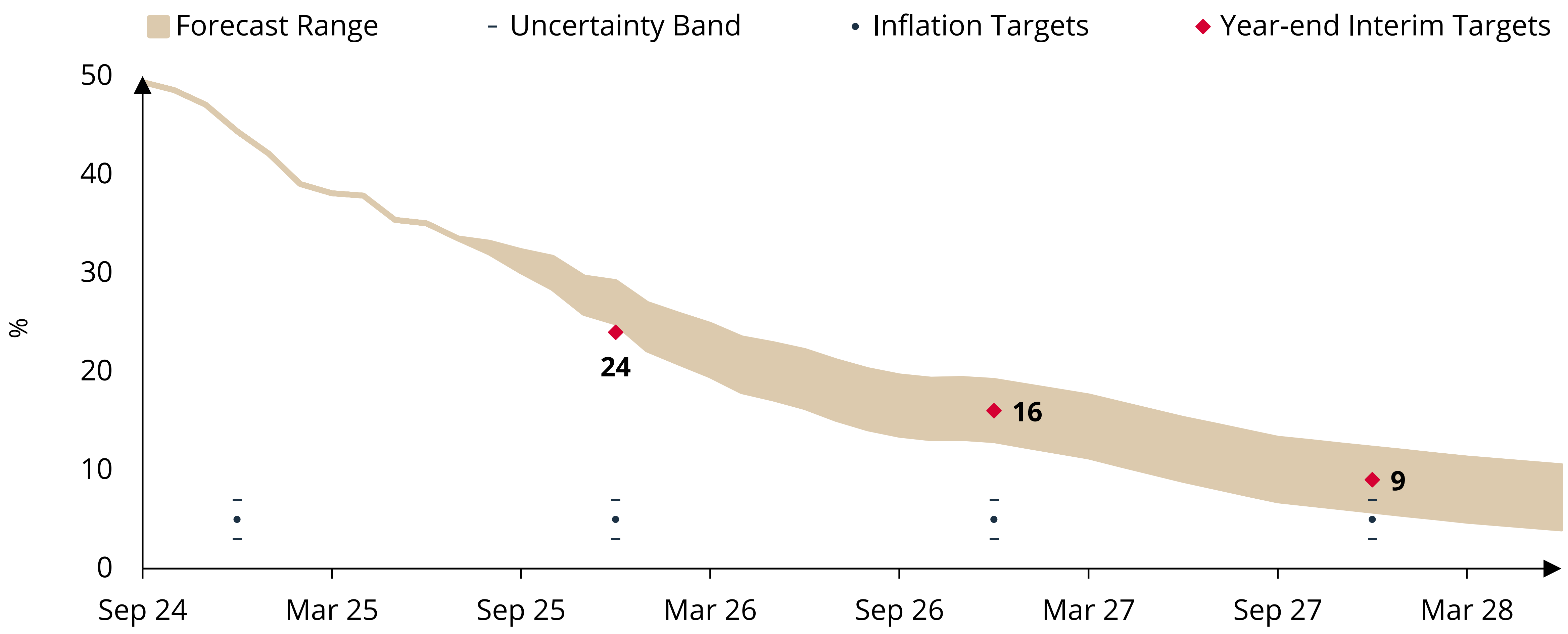
Inflation is projected to be between %25 and %29 in 2025, %13 and %19 in 2026.



The 12 percent forecast for 2026 has been updated to an interim target of 16 percent.

	2026
IR 2025-II Year-end Forecast (%)	12.0
IR 2025-III Year-end Interim Target (%)	16.0
Revision as Compared to IR 2025-II Period (% Points)	**4.0**
Sources of Revision (% Points)	
Food Prices	+0.9
Import Prices in Turkish Lira	+1.2
Underlying Inflation and Inertia	+1.9

The tight monetary policy stance will be maintained decisively.



The tight monetary stance will be maintained until price stability is achieved.

Inflation realizations

Underlying inflation

Inflation expectations

The tightness required by the projected disinflation path will be ensured.

TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BRIEFING ON 2025-III INFLATION REPORT

Fatih Karahan, Ph.D.
Governor

AUGUST 14, 2025

ISTANBUL