

BRIEFING ON 2025-I INFLATION REPORT

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FEBRUARY 7, 2025

ISTANBUL



Outline

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



Boxes

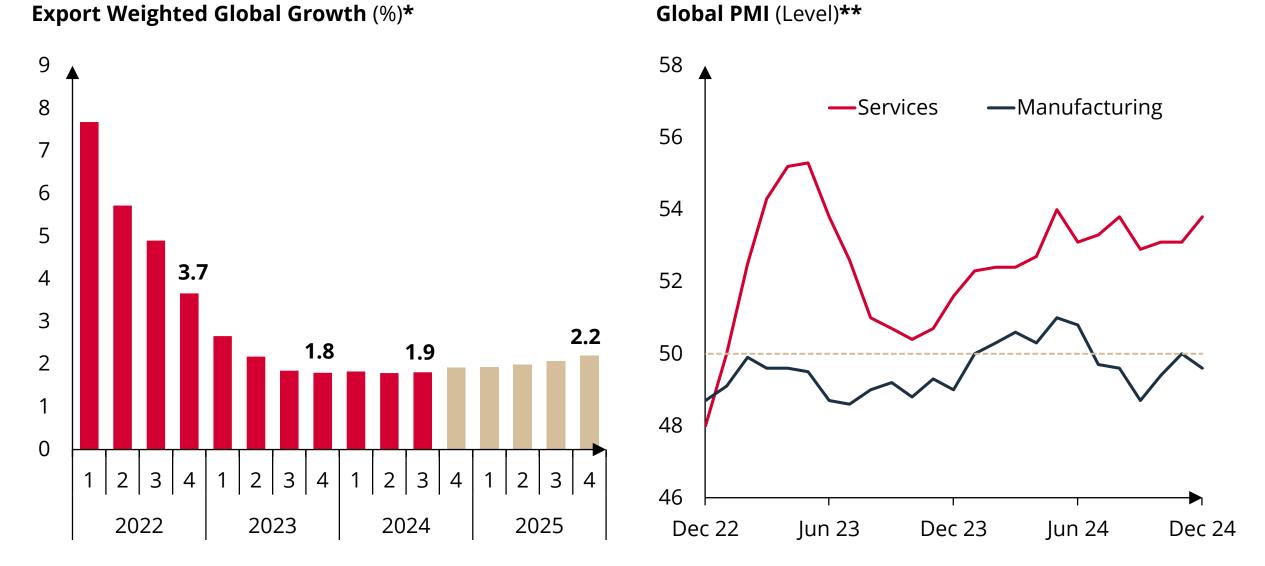
- Recent Inflation Trend from a Pricing Behavior Perspective
- The Relationship Between Producer and Consumer Prices in Services
- Findings from Interviews with Firms
- Valuation Effect on Household Assets
- Foreign Trade Effects of Changes in Euro-Dollar Exchange Rate



GLOBAL ECONOMY



Gradual recovery outlook for global growth remains intact.





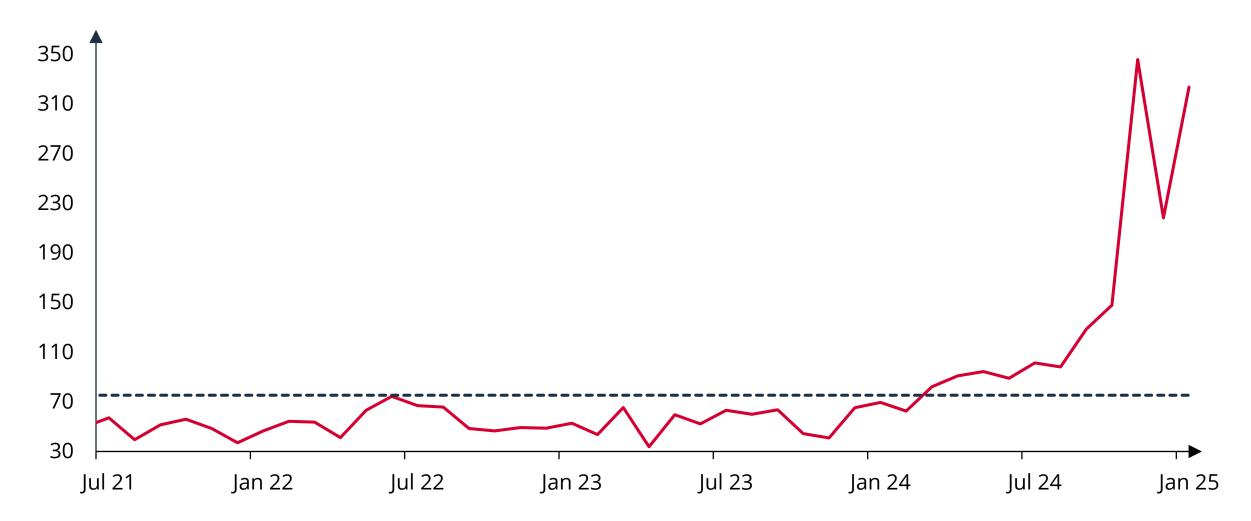
Source: Left Panel: CBRT, Consensus Economics, S&P Global. Right Panel: S&P Global.

* Annualized, 2024Q4-2025Q4 values are forecasts.

** Dashed lines indicate the threshold level.

Global trade policy uncertainty has been elevated in the recent period.

Trade Policy Uncertainty Index (Monthly)*

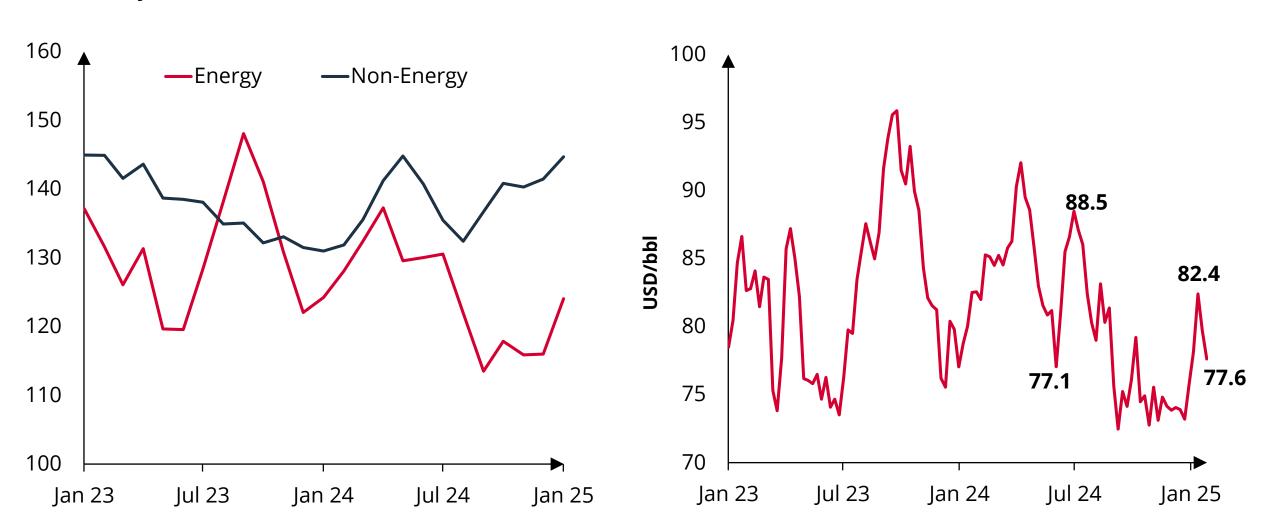




Source: The Economic Effects of Trade Policy Uncertainty, Caldara et al. (2020).

* Dashed lines indicate the average of the last five years.

Energy prices have been volatile recently.



Brent Oil Price**

Commodity Price Indices*

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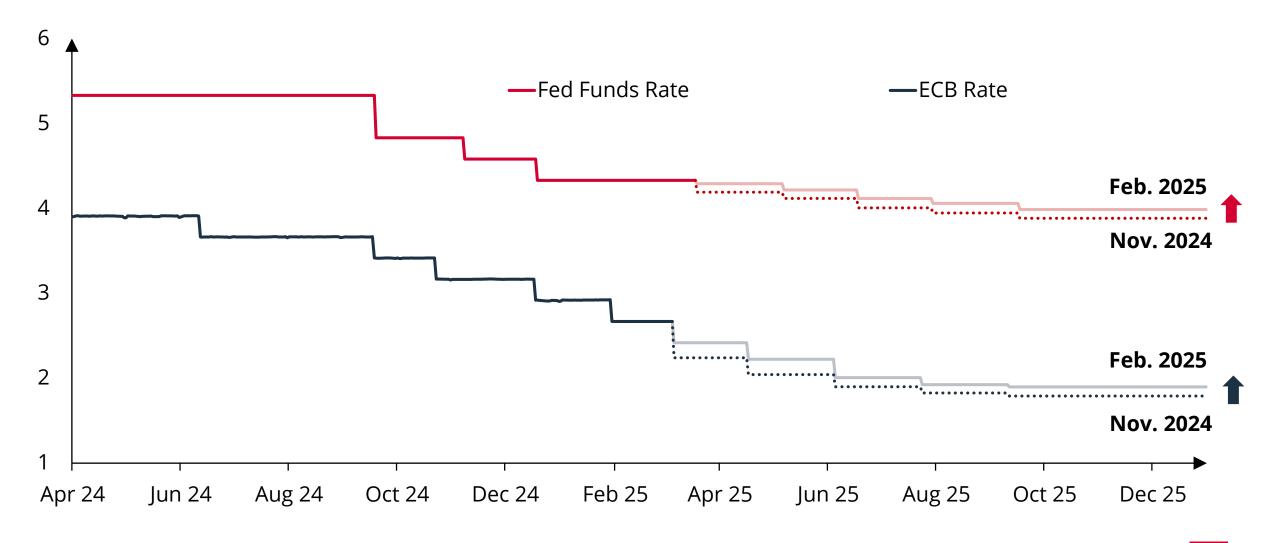
Source: Bloomberg.

* December 2019=100.

** Denotes weekly values as of 31 January 2025.

Central banks are easing monetary policy, taking into account the inflation outlook.

Market Implied Policy Rates (%, Effective)

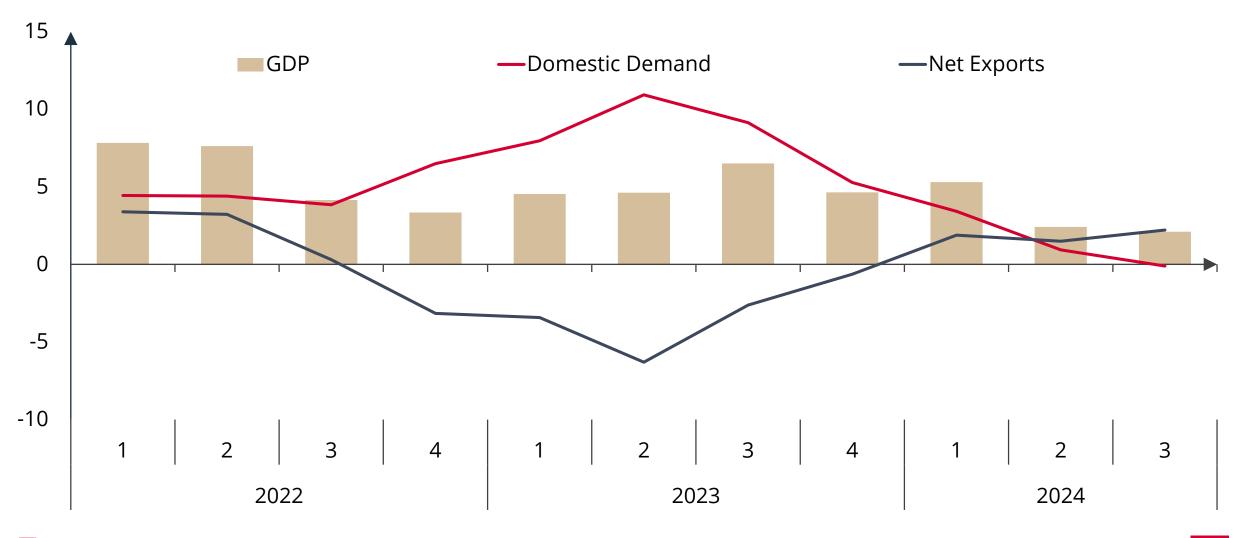


ECONOMIC ACTIVITY



Demand composition remained balanced.

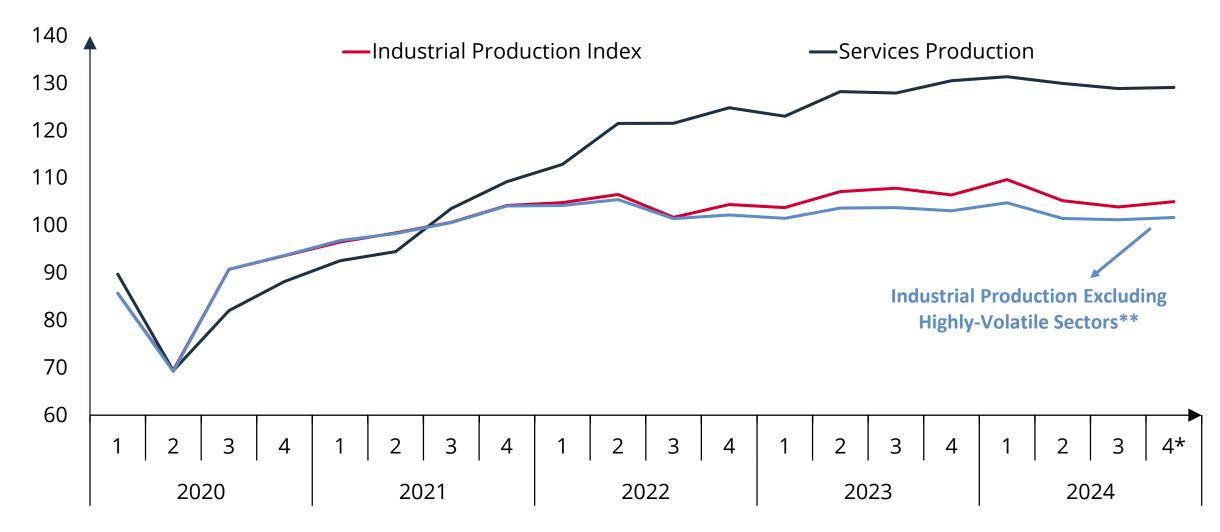
Contributions to Annual Growth from the Expenditure Side (% Points)





Production indicators point to recovery in economic activity.

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



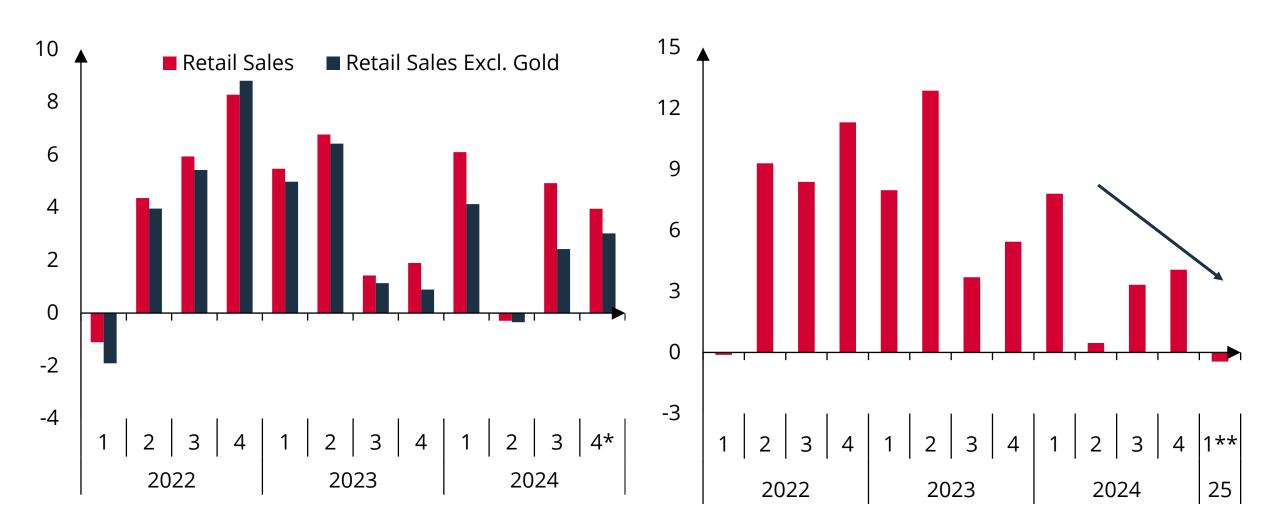


Source: CBRT, TURKSTAT.

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

Moderate course in domestic demand continues.

Retail Sales Volume Index (Seas. Adj., Quarterly % Change) **Card Spending** (Real, Seas. Adj., Quarterly % Change)



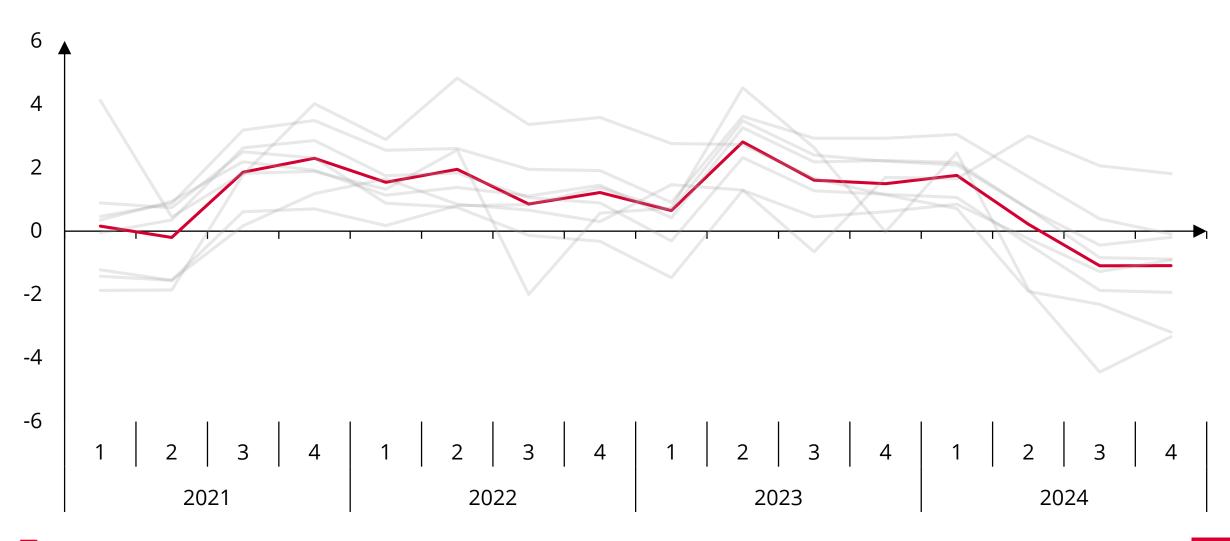


Source: CBRT, TURKSTAT.

* Average of October-November. **As of January 26, 2025.

Demand conditions stand at disinflationary levels.

Output Gap*



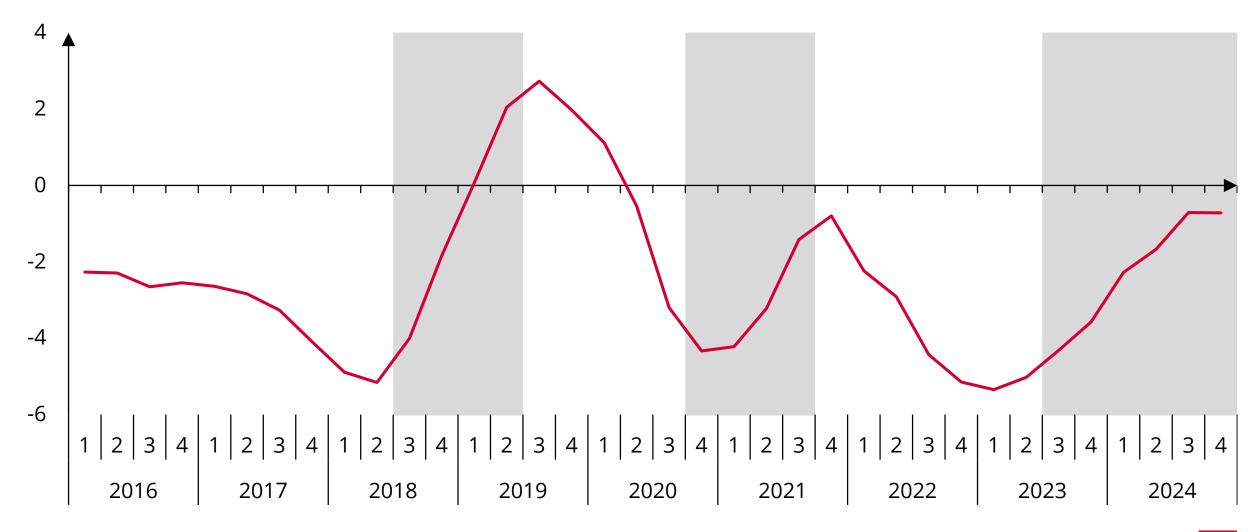


Source: CBRT.

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

Current account balance continues to follow a favorable course.

Current Account Balance/GDP* (%)





Source: CBRT, TURKSTAT.

*Current account balance to GDP ratio for 2024-Q4 is forecast. Shaded areas indicate the monetary tightening periods defined by the difference between the lowest and highest values of the 1-week repo rate in the corresponding time interval.

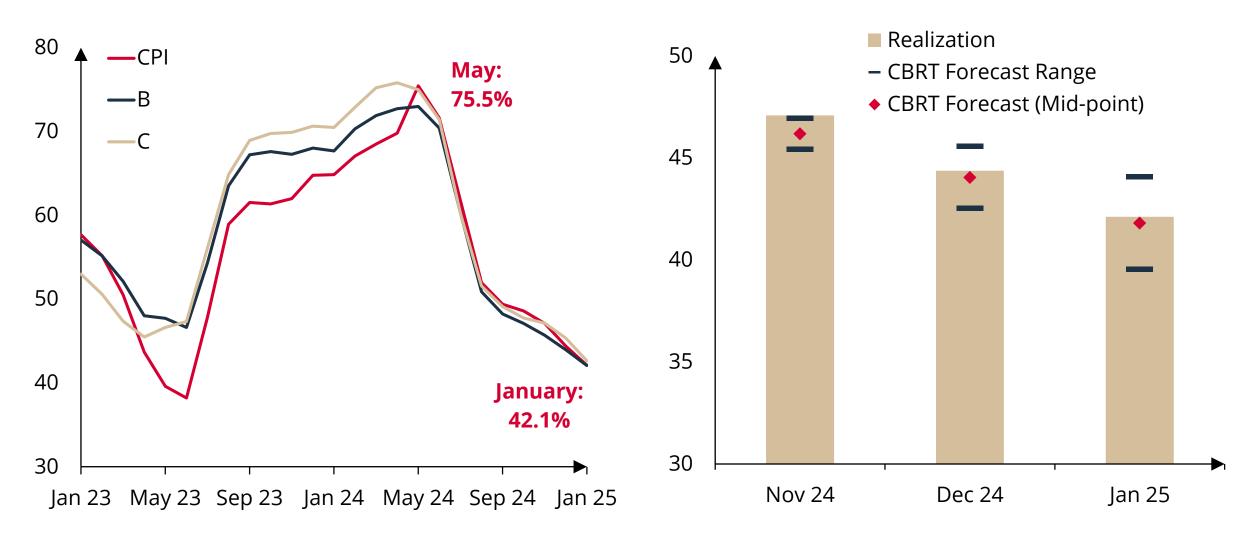
INFLATION



Disinflation process is on track.

CPI and Core Indicators (Annual % Change)

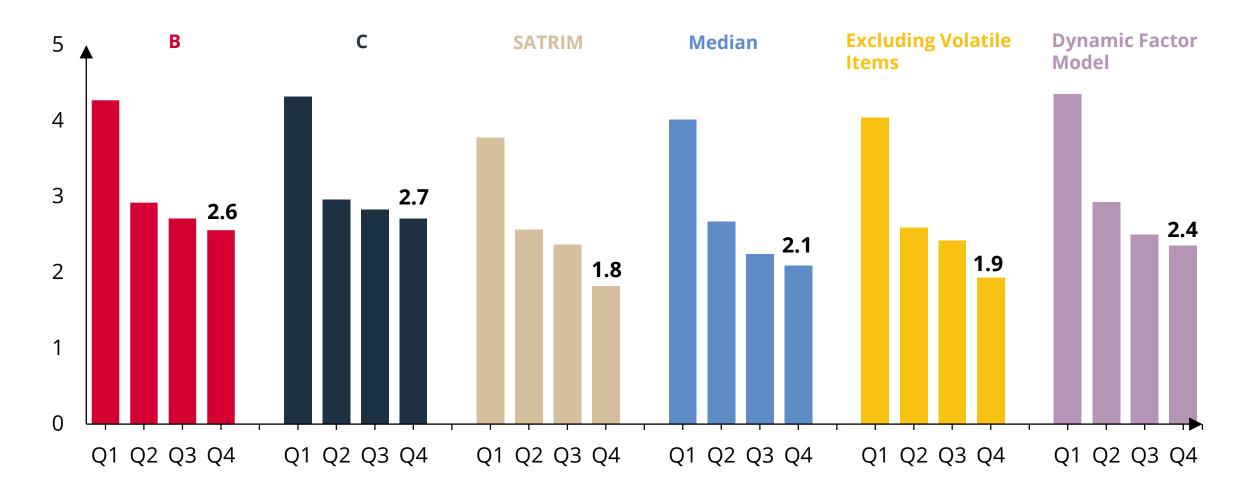
Actual CPI and CBRT Forecast (IR 2024-IV) (Annual % Change)





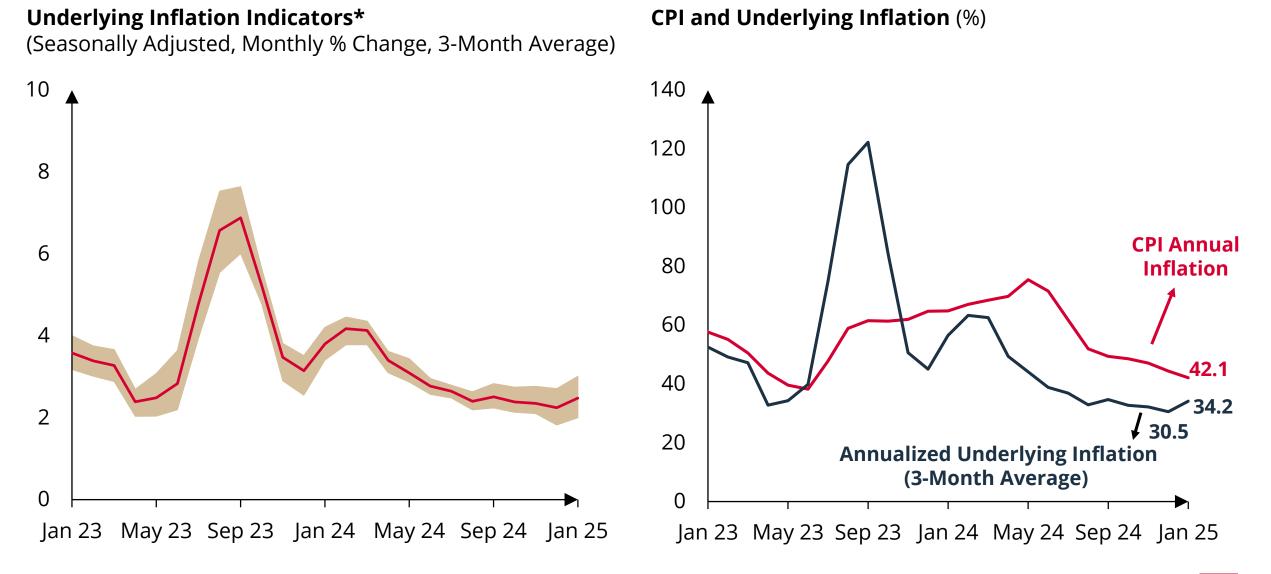
Slowdown in the underlying inflation continued in the last quarter.

Underlying Inflation Indicators of Monthly Inflation (%, Seasonally Adjusted, Quarterly Average, 2024)





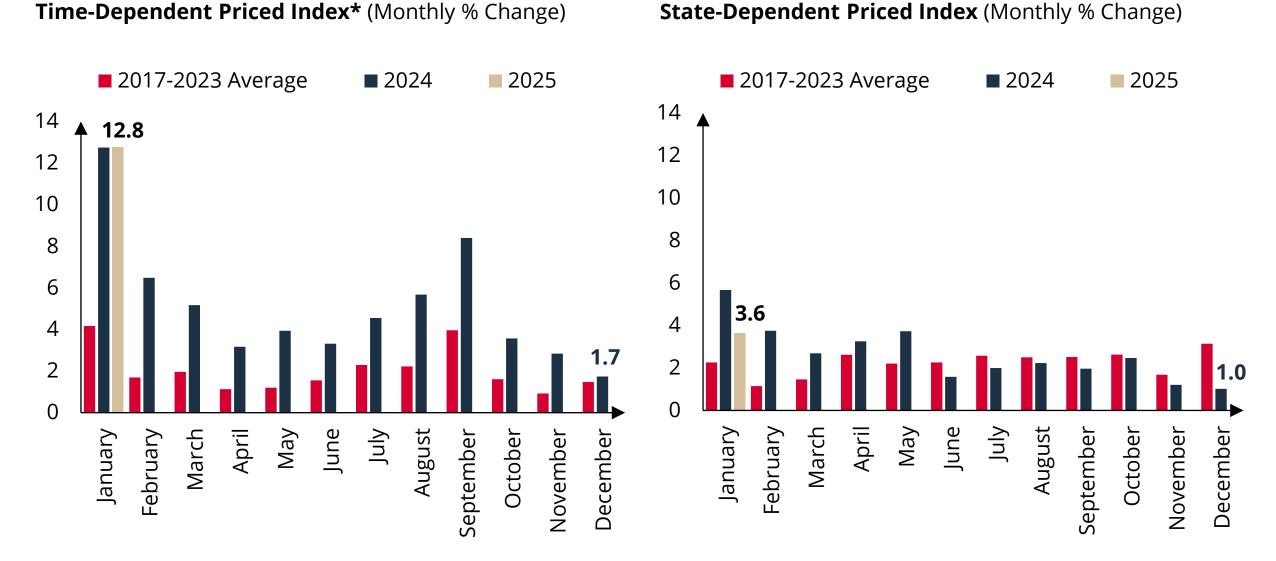
The underlying inflation increased in January in line with projections.





Source: CBRT, TURKSTAT.* Seasonally adjusted average of 6 different indicators: B, C, SATRIM, Median, dynamic factor model and exclusion of volatile items method. Shaded area shows the maximum and minimum range.

In January, inflation was evident in items with time-dependent price setting.



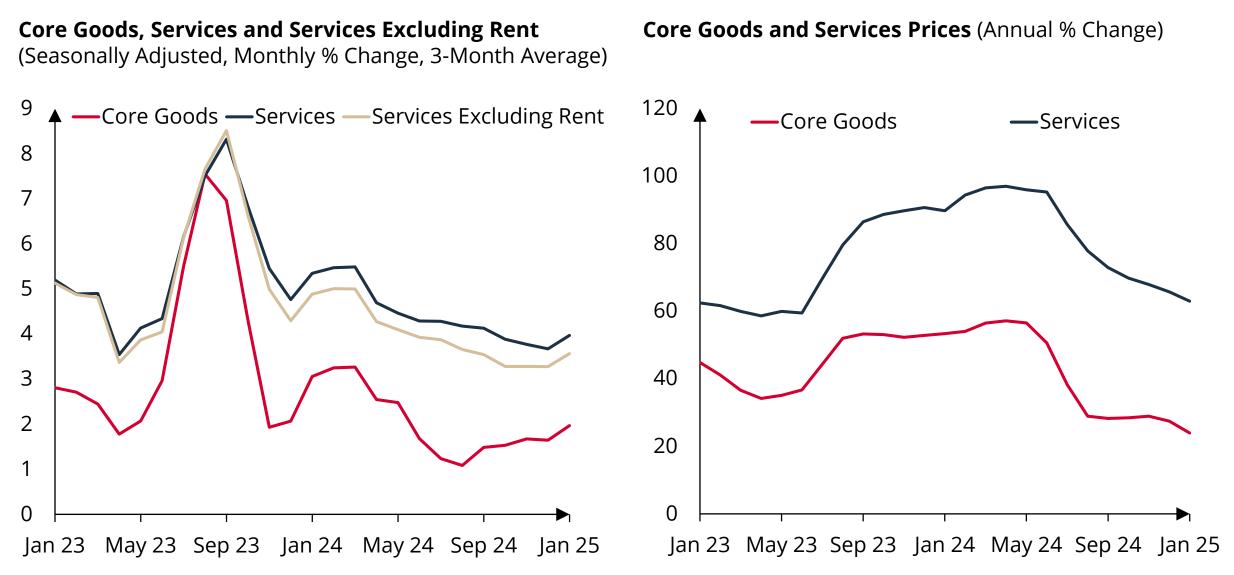
Source: CBRT, TURKSTAT

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*For items with time-dependent pricing, the timing of price changes is determined independently of economic conditions and occurs in certain months during each year (e.g. housing rent). For items with state-dependent pricing, price changes occur according to economic conditions throughout the year. See Box 2.3 for more details. 19

Services inflation is gradually losing momentum.



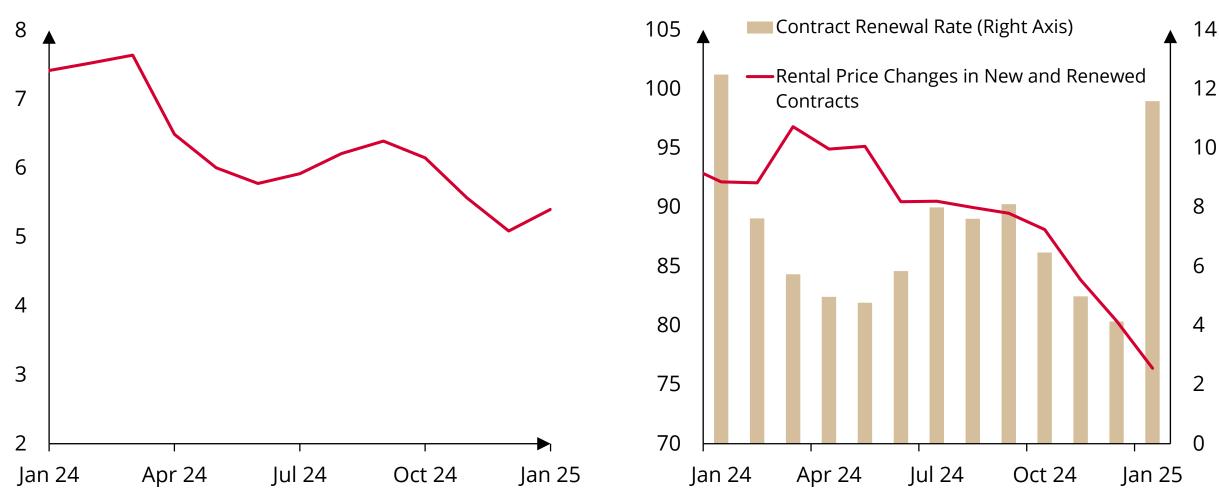


Rent inflation is slowing down.

Rent

(Seasonally Adjusted, Monthly % Change, 3-Month Average)

Contract Renewal Rate and Rental Price Changes in Contracts* (%)





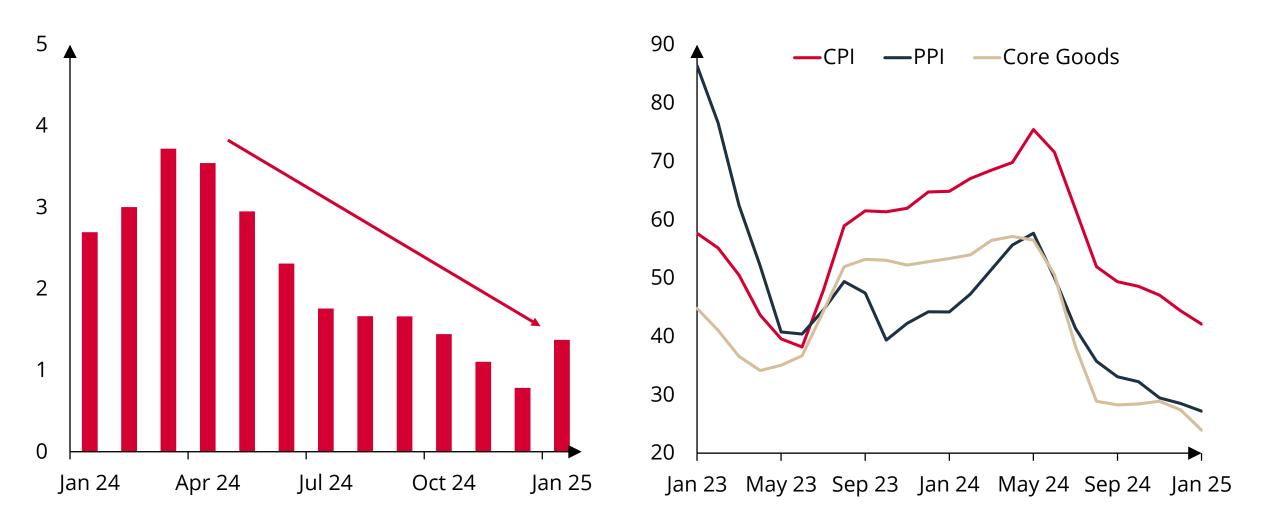
Source: CBRT (Retail Payment System), TURKSTAT.

* Rental price changes in the contracts are presented as 3-month average.

The decline in producer inflation has a favorable impact on core goods inflation.

PPI (Monthly % Change, 3-Month Average)

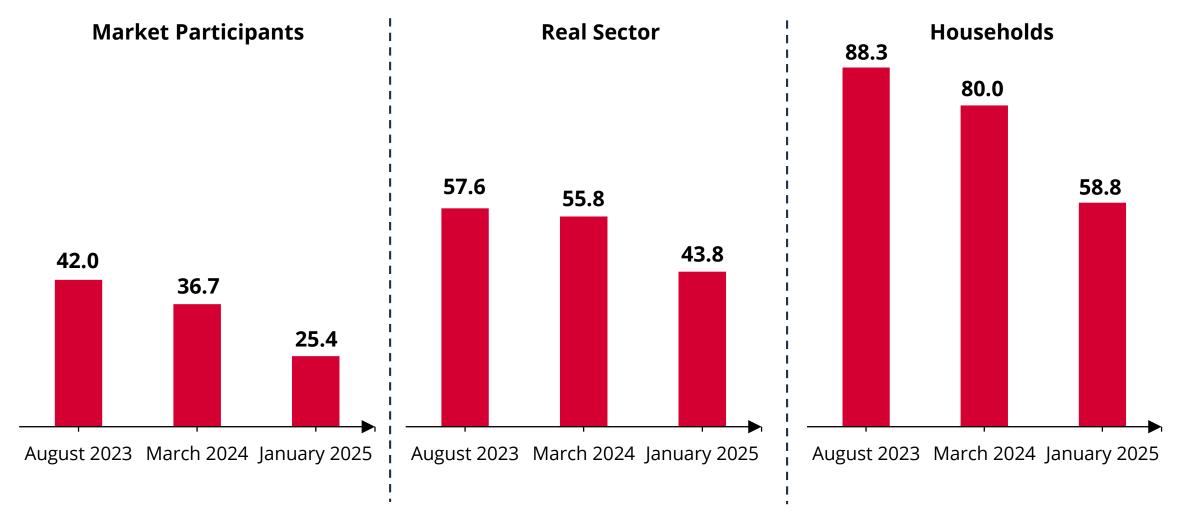
PPI, CPI and Core Goods (Annual % Change)





Inflation expectations of households and firms are on a downward trend.

12-Month Ahead Annual CPI Inflation Expectations (%)



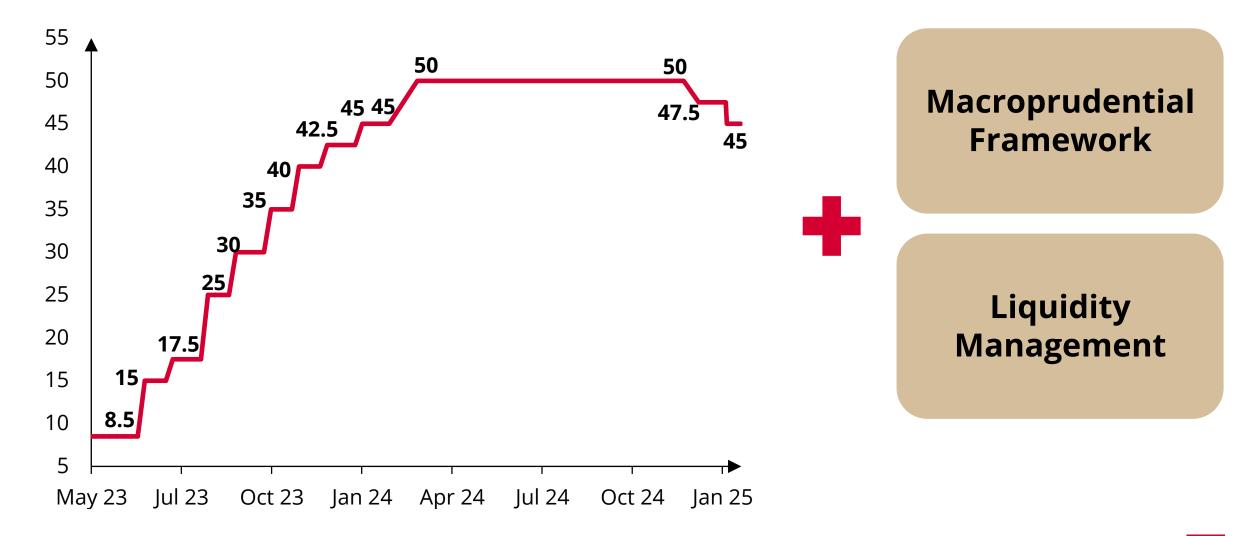


MONETARY POLICY



The tight monetary stance is maintained.

Policy Rate (%)





Macroprudential measures and liquidity management support the tight stance.

Regulations for TL deposit share and KKM

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

Loan growth caps

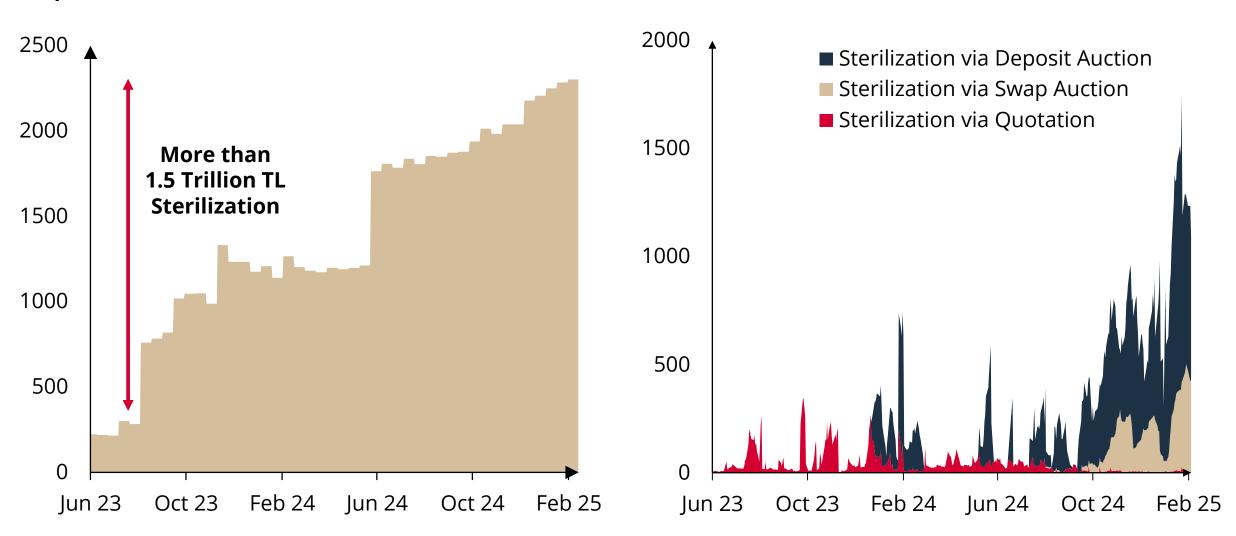
• Limits on TL and FX loan growth

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



Excess liquidity is sterilized.

Required Reserves (Billion TL)



Sterilization via Quotation and Auctions (Billion TL)

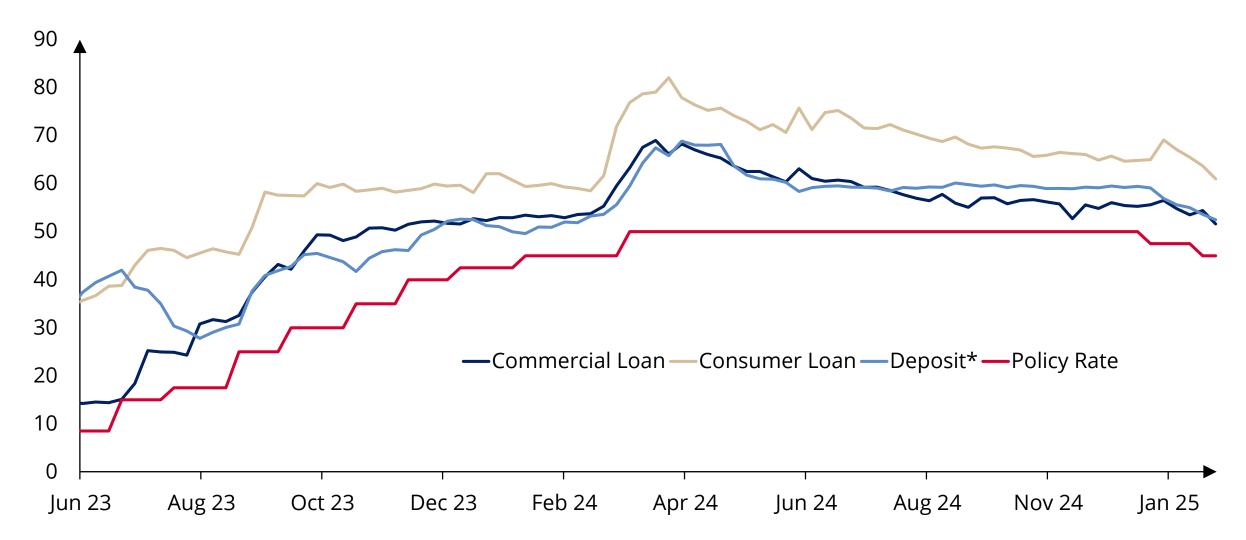


FINANCIAL CONDITIONS



Financial conditions remain tight.

Interest Rates (%)

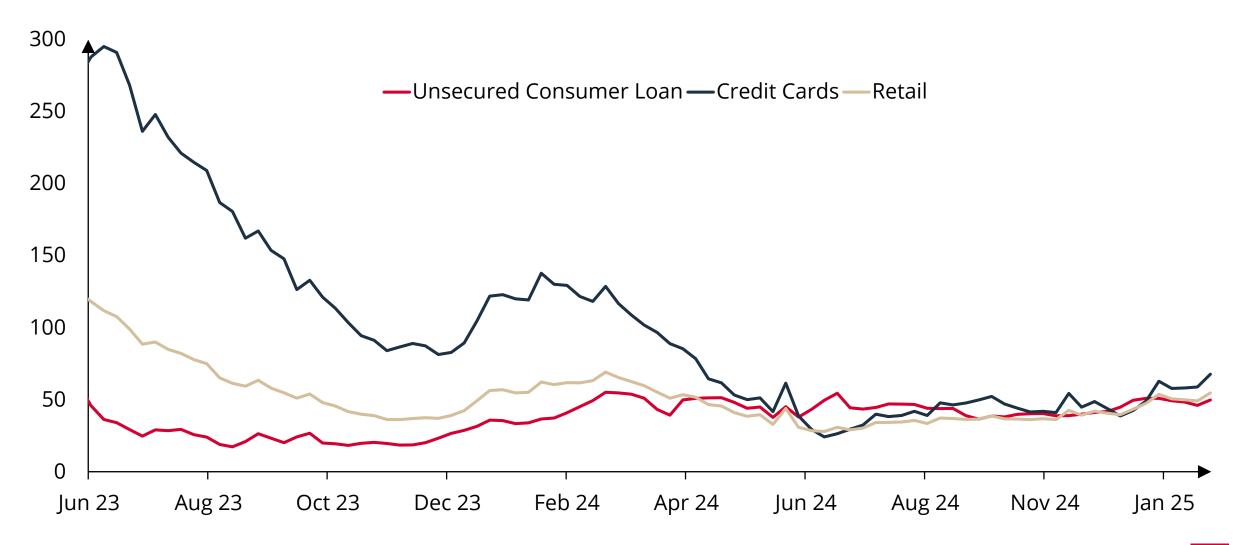




Source: CBRT, as of January 31, 2025 * 1 to 3 month TL deposit interest rate

Retail loan growth moderated in January after a rise in December.

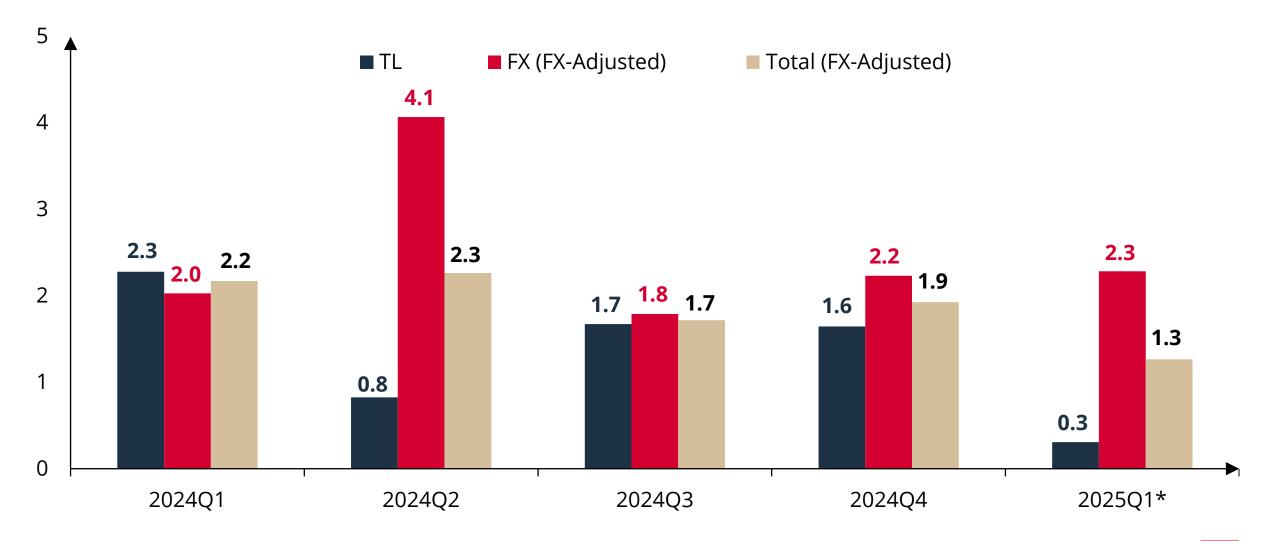
Retail Loan Growth (13 Week, Annualized, %)





Commercial loan growth is in line with the caps.

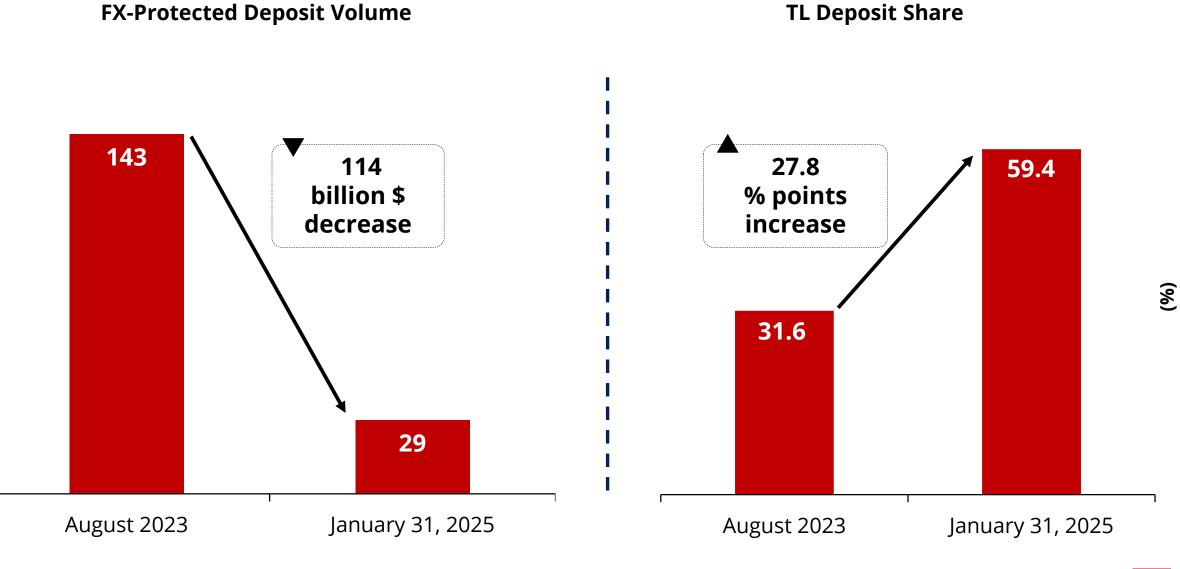
Commercial Loan Growth* (%)





Source: CBRT. * 2025Q1 includes January data. Calculated by taking the arithmetic average of the monthly growth rates of each quarter. The monthly total loan growth (FX-Adjusted) calculation is based on the exchange rate at the beginning of the period.

FX-protected deposits continue to decline, while TL demand remains strong.

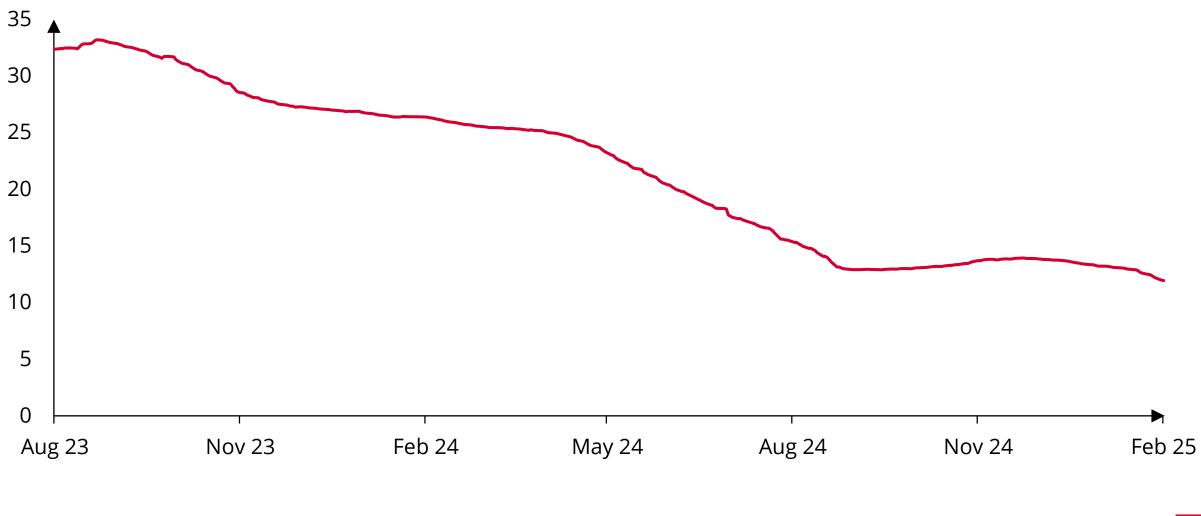




(Billion \$)

Transition to FX from FX-protected accounts is limited.

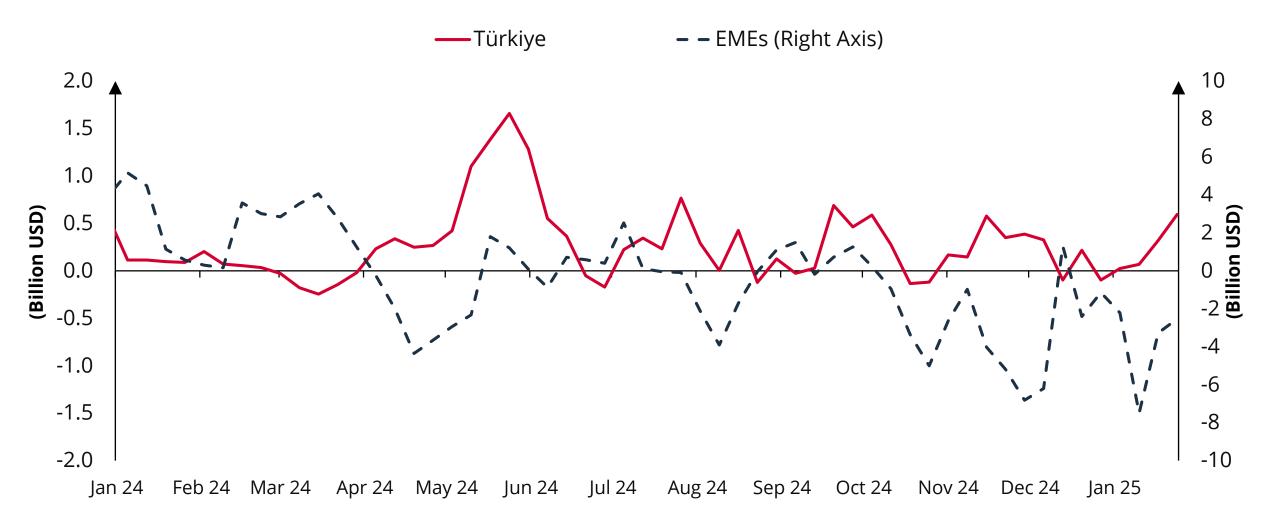
Transition to FX from Maturing FX-protected Accounts* (%, 12-Month Average Rate)





The favorable course of capital inflows continues.

Capital Flows to Türkiye and EMEs (4-Week Average)

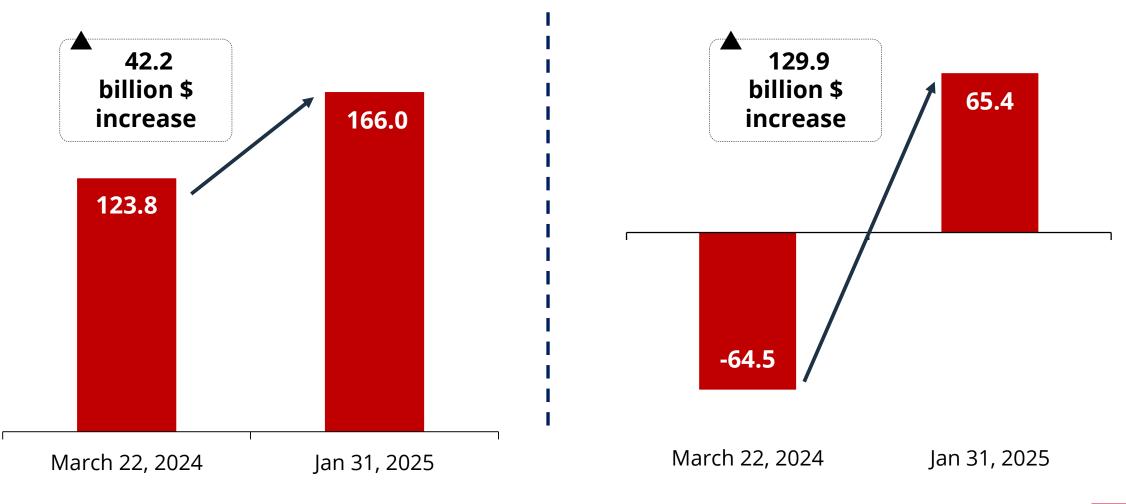




The tight monetary policy stance has positive effects on international reserves.



Net Reserves exc. Swaps



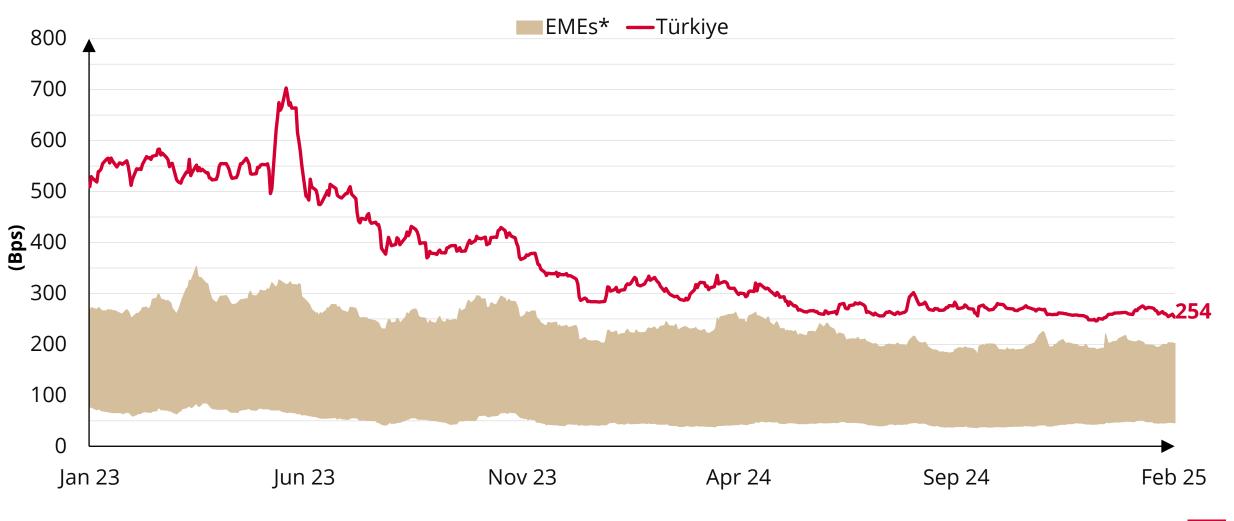
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(Billion \$)

35

Risk premium remains moderate.

5-Year CDS Premium





Source: Bloomberg, as of February 4, 2025

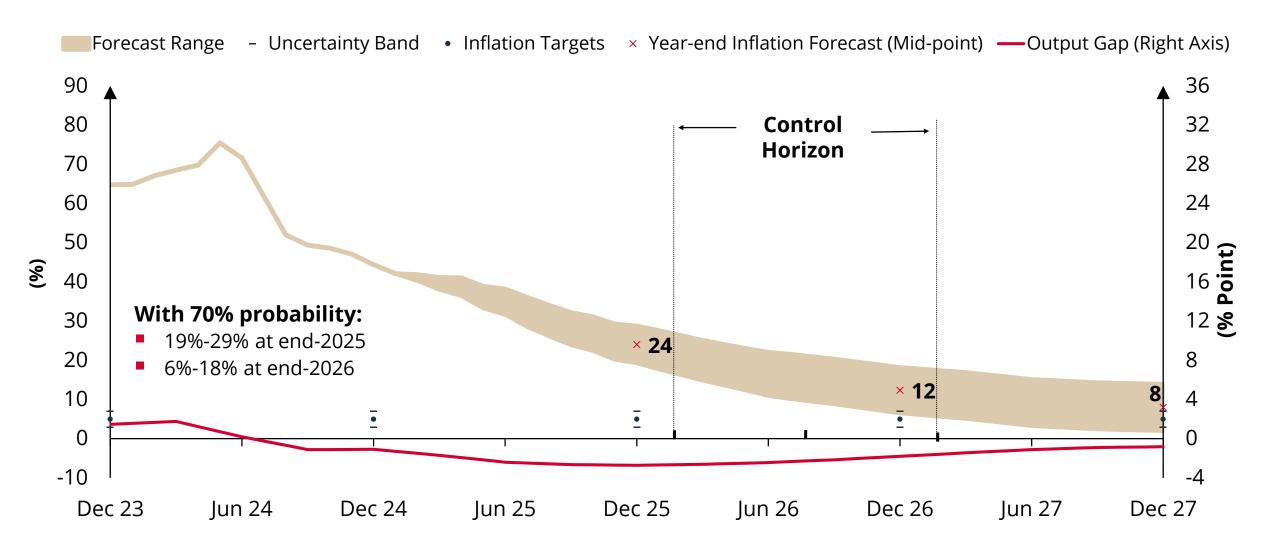
* EM Sample: Brazil, Chile, Colombia, Indonesia, Malaysia, Mexico, Philippines and South Africa. Shaded area shows the difference between maximum and minimum CDS spreads.

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MEDIUM TERM PROJECTIONS



Inflation forecasts are set as 24% for 2025, 12% for 2026 and 8% for 2027.



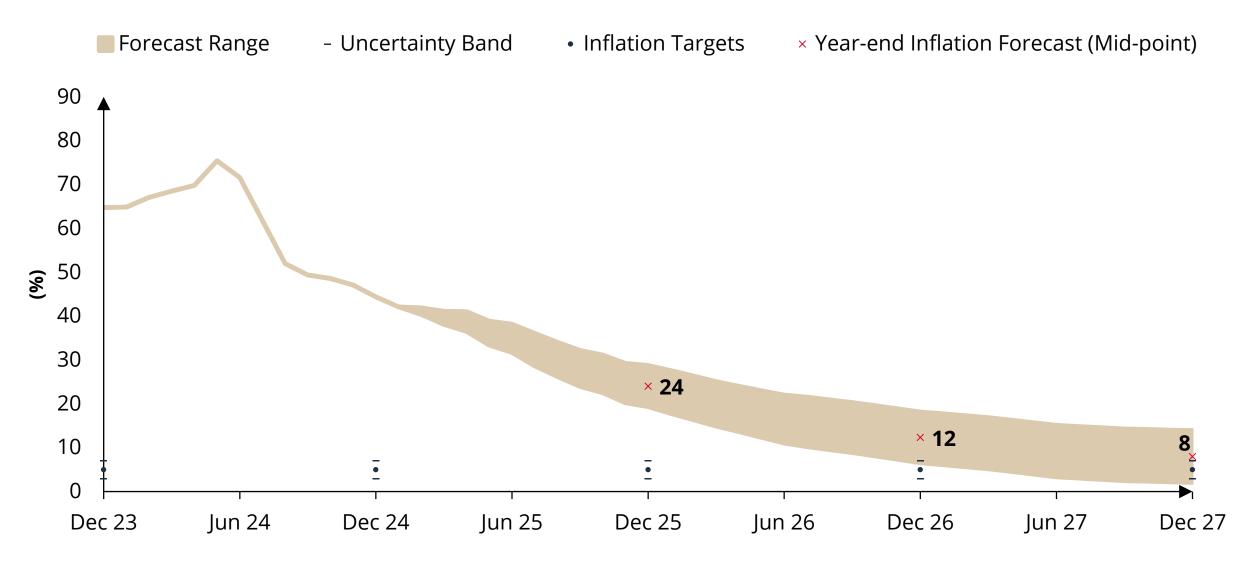


Food and administered prices played a prominent role in the forecast update.

	2025
IR 2024-IV Year End Forecast (%)	21.0
IR 2024-IV Year End Forecast (Updated CPI Weights , %)	21.8
IR 2025-I Year End Forecast (%)	24.0
Forecast Revision as Compared to IR 2024-IV Period (% Point)	2.2
Sources of Forecast Revision (% Point)	
Food Prices	+0.5
Administered Prices	+1.7

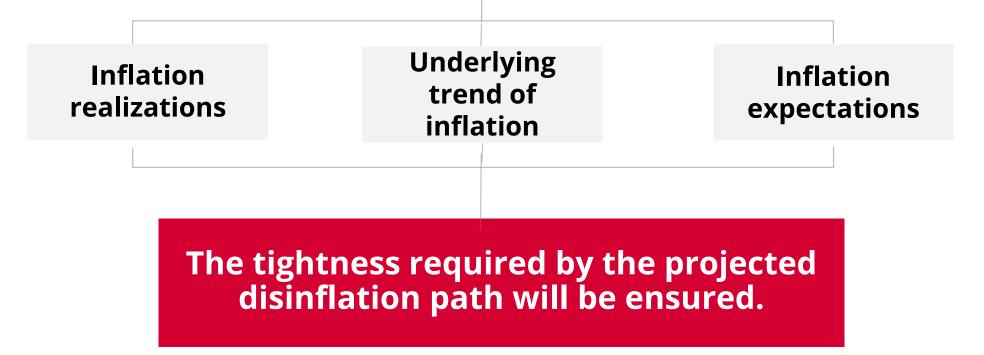


The tight monetary policy stance will be maintained decisively.





The tight monetary stance will be maintained until price stability is achieved via a sustained decline in inflation.







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