

Macro note – 2025/IV Inflation Report

In its final inflation report of the year, the Central Bank of the Republic of Türkiye (CBRT) maintains its 2025 and 2026 interim targets at 24% and 16%, respectively. The year-end inflation forecast for 2025 is raised to 32%, while highlighting the slowdown in the disinflation process.

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In its latest 2025 inflation report, the Central Bank shared the outlook for the local and global economies, developments in the real sector and financial markets, and medium-term forecasts. Maintaining its interim inflation targets, the CBRT raised its 2025 year-end inflation forecast range to 31-33% (from 25-29%). These updates are driven by certain changes to key assumptions. First, while external demand assumptions remain in place for this year, they have been slightly revised downward for 2026. Due to the weakness in global growth and the continued increase in oil supply, oil price assumptions have also been lowered. Meanwhile, increases in precious and industrial metal prices are having an upward impact on non-energy commodity prices. In this context, the Turkish lira-denominated import price assumption has been raised. Finally, food price assumptions have also been revised upward based on domestic supply developments, particularly due to adverse weather conditions. Recent upward pressure from food, rent, and clothing prices has raised the midpoint of the year-end inflation forecast from 27% to 32%. On the other hand, retrospective indexing in pricing behavior limits downward structural breaks in inflation expectations.

The main points highlighted in the general assessment of the inflation report are as follows: “While uncertainty regarding global trade policies remains vivid, the global growth outlook remains weak. Inflows into Turkish Lira-denominated assets have slowed in the current reporting period due to weak global risk appetite. Growth exceeded projections in the second quarter of 2025. The seasonally and calendar-adjusted current account balance improved in the third quarter. Consumer inflation decreased to 32.9% in October, exceeding the upper limit of the forecast range presented in the previous report. Medium-term forecasts are based on an outlook where the tight monetary policy stance will be maintained until price stability is achieved and that coordination among economic policies continues. The CBRT reduced the policy rate by a total of 350 basis points in September and October. The CBRT reiterated that the steps to be taken regarding the policy rate will be determined to ensure the tightness required for disinflation in line with the intermediate targets, taking into account inflation realizations, its underlying trend, and expectations. During the current reporting period, Excess liquidity fluctuated, creating a short-lived liquidity shortage in the market. During the current reporting period, excess liquidity in the market was primarily withdrawn through overnight sterilization operations. The slowdown in core inflation indicators and the underlying trend has slowed. The Central Bank of the Republic of Türkiye (CBRT) updated its output gap assumptions, and despite the negative output gap, demand remained strong. The fact that inflation even exceeded the upper range of the forecast band necessitated the update to the assumptions.

The following explanations are provided in the section detailing the updates to the forecasts and their sources. Inflation is projected to be between 31% and 33% at the end of 2025, with a 70% probability, and between 13% and 19% at the end of 2026. After declining to single-digit levels by the end of 2027, inflation is expected to stabilize at the medium-term inflation target of 5%. As shared in the previous Inflation Report, the framework of the medium-term forecast communication has been amended, and in addition to the forecast path, interim targets of 24%, 16%, and 9% have been defined for 2025, 2026, and 2027, respectively. The CBRT will ensure the monetary tightness required for disinflation in line with these interim targets, taking into account inflation realizations, its underlying trend, and expectations.

In summary, in its latest 2025 inflation report, the Central Bank maintained its year-end interim targets while raising its 2025 inflation forecast to 32%. Upside risks to food, housing, and clothing inflation were highlighted, while the hardening of inflation expectations was emphasized. The rhetoric surrounding a tight monetary stance was reiterated, emphasizing that interest rate cut decisions depend on the inflation outlook. The CBRT, which effectively utilizes both the monetary transmission mechanism and macro-prudential measures, reiterated its commitment to using all available tools to bring current inflation closer to its forecast path. It can be said that the CBRT's forecasts, which converge with market estimates, have become more consistent. In light of current developments and the outlook, we are raising our year-end inflation forecast from 30.3% to 32.2%.

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