TÜRKİYE CUMHURİYET
MERKEZ BANKASI

MONETARY POLICY AND INFLATION OUTLOOK IN TÜRKİYE

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Washington, DC

Key Takeaways

1. Monetary policy has been proactive.
2. Re-dollarization risks are contained by a decisive tight policy stance.
3. Monetary policy transmission has improved considerably over the last year.
4. Disinflation continues, but risks are alive.

    4a. FX pass-through is modest, reflecting improvement in pricing behavior.

    4b. Falling oil prices support disinflation, but the global economic outlook is uncertain.

    4c. Demand has exceeded expectations, driven by goods consumption.

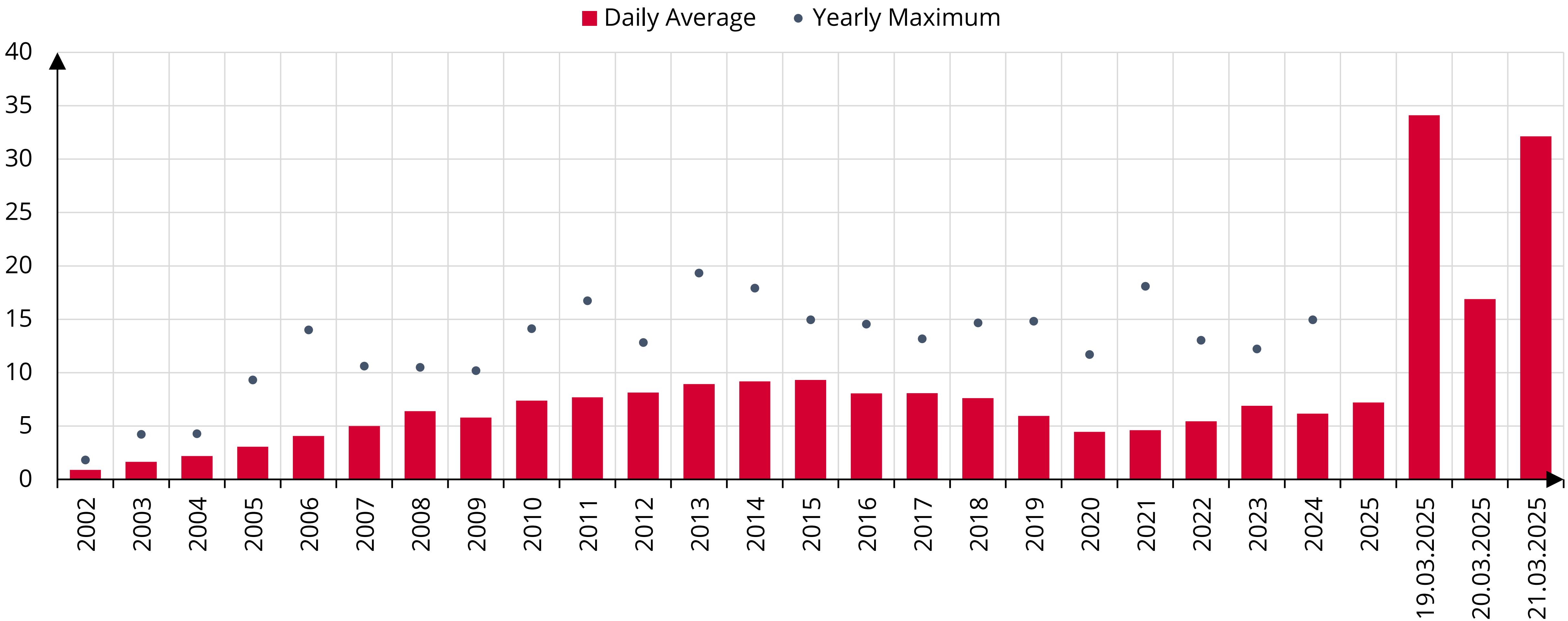
1

Monetary policy actions

- Proactive and market friendly
- Coordination
- Communication

FX transaction volume was historically high.

Daily FX Transactions Volume (Billion USD)



Source: CBRT.

Daily average for 2025 represents the average figure between January 1, 2025 and March 18, 2025.

Proactive, market friendly actions supported tight monetary policy stance.

Sterilization

- TL deposit buying auctions with 8-week maturity
- Liquidity bills

Cost of funding

Interim MPC:

- Overnight lending rate raised to 46%.
- One-week repo auctions suspended.

April MPC:

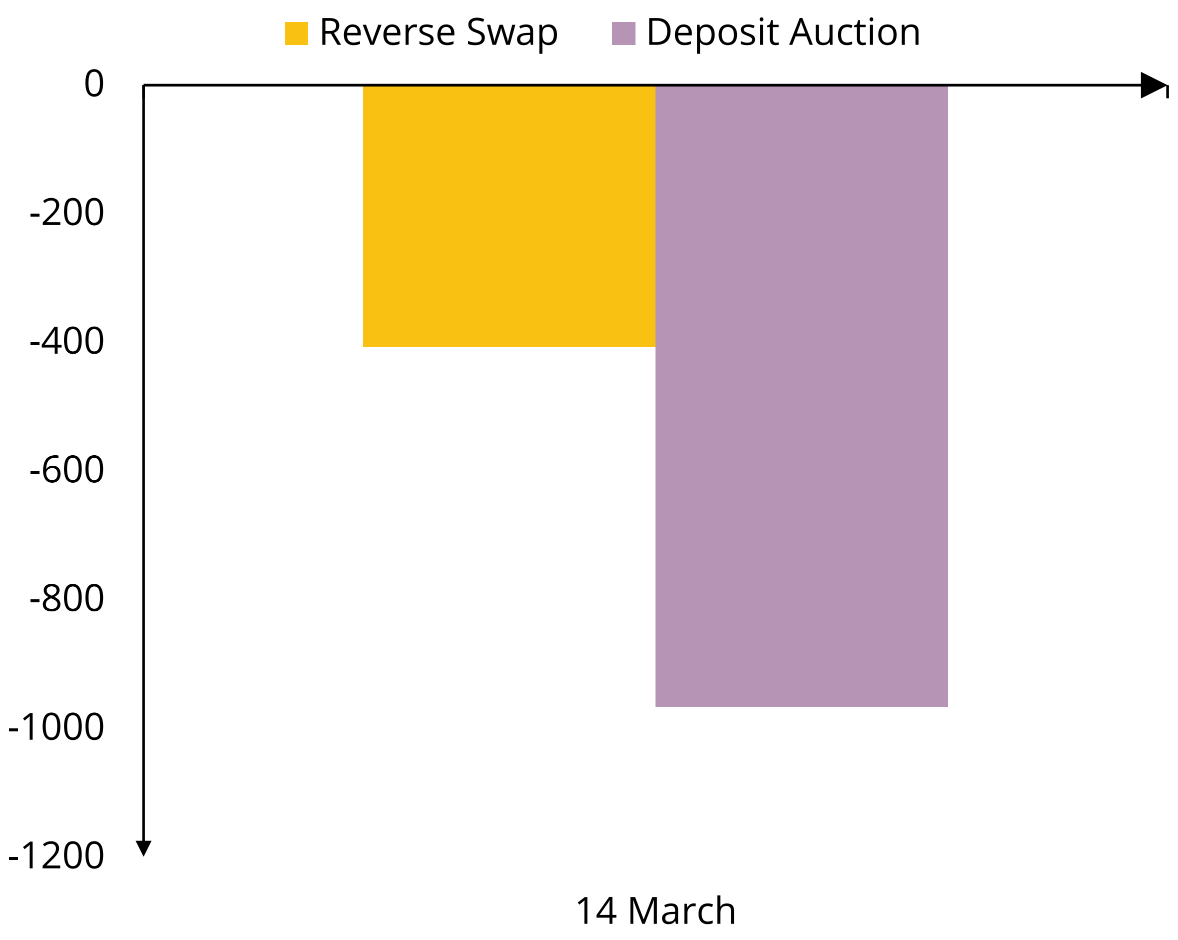
- Policy rate raised by 350 basis points to **46%.**
- Overnight rate corridor raised to **44.5%** - **49%**, from 41% - 46%.

FX demand

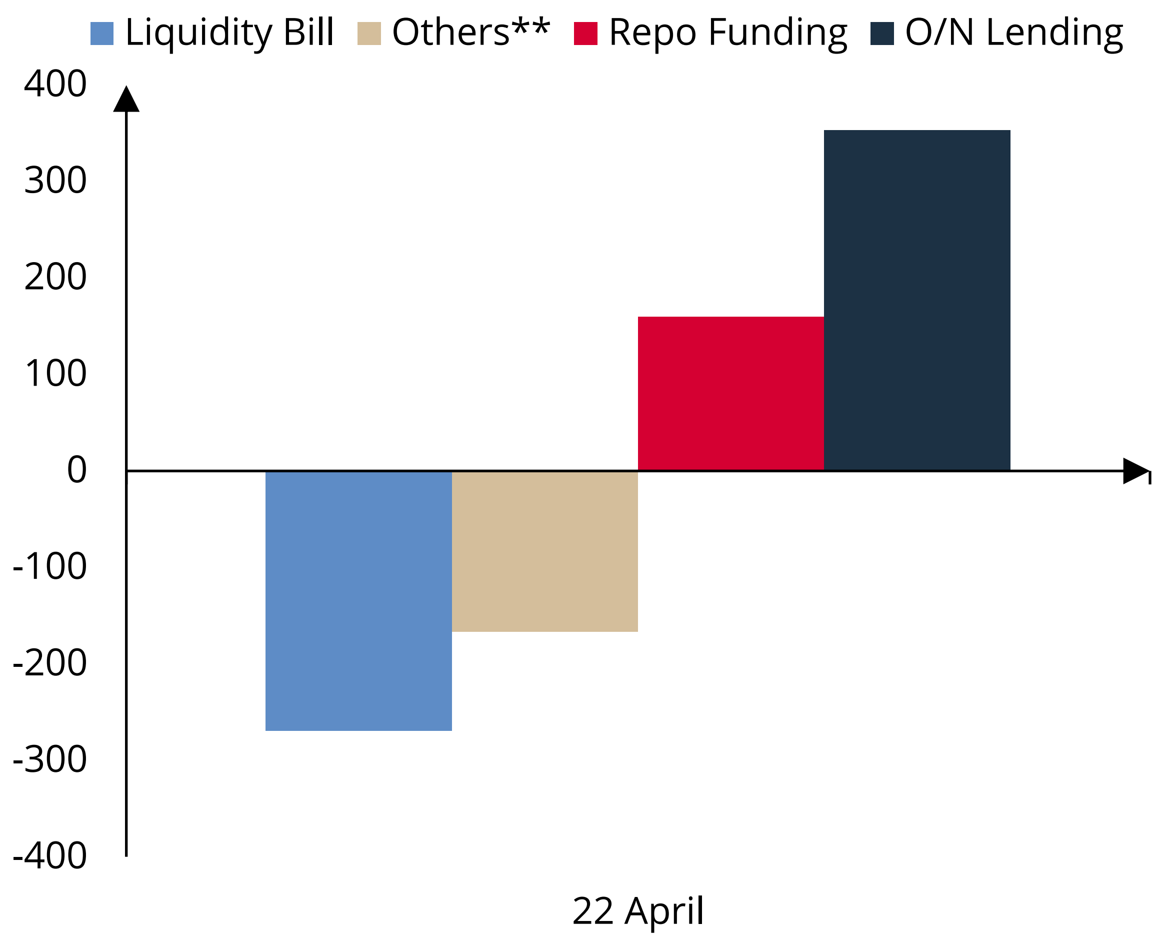
- Started conducting FX forward transactions (NDF).
- To enhance and stabilize returns in money market funds, CBRT conducted outright purchases of GDDS**.**

Liquidity surplus turned to deficit.

Liquidity Surplus*



Liquidity Deficit

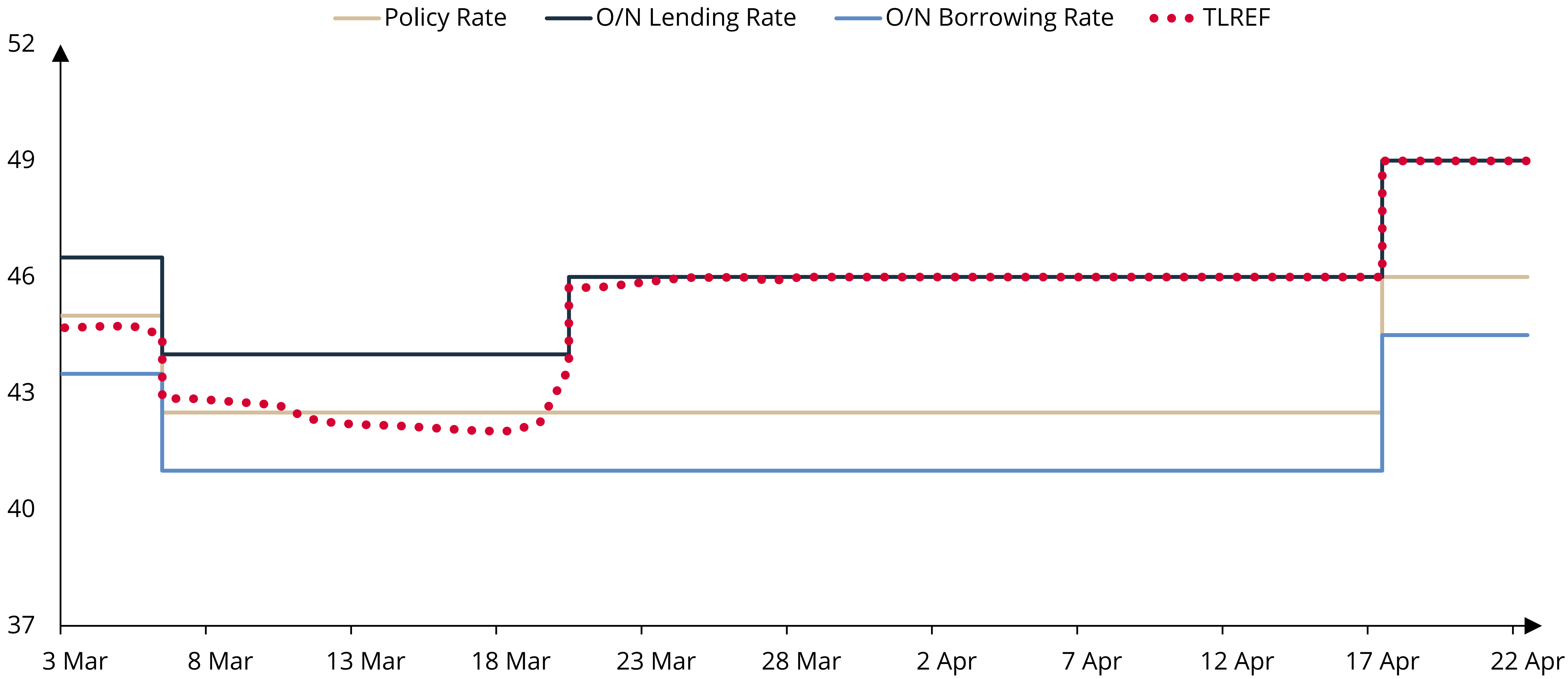


Source: CBRT.

*Repo funding and O/N borrowing are not shown in the graph due to their relatively small values.

**Reverse Swap, Deposit Auction and O/N Borrowing are reported under the «Others».

Active liquidity management enhanced monetary transmission to market rates.



Source: CBRT.

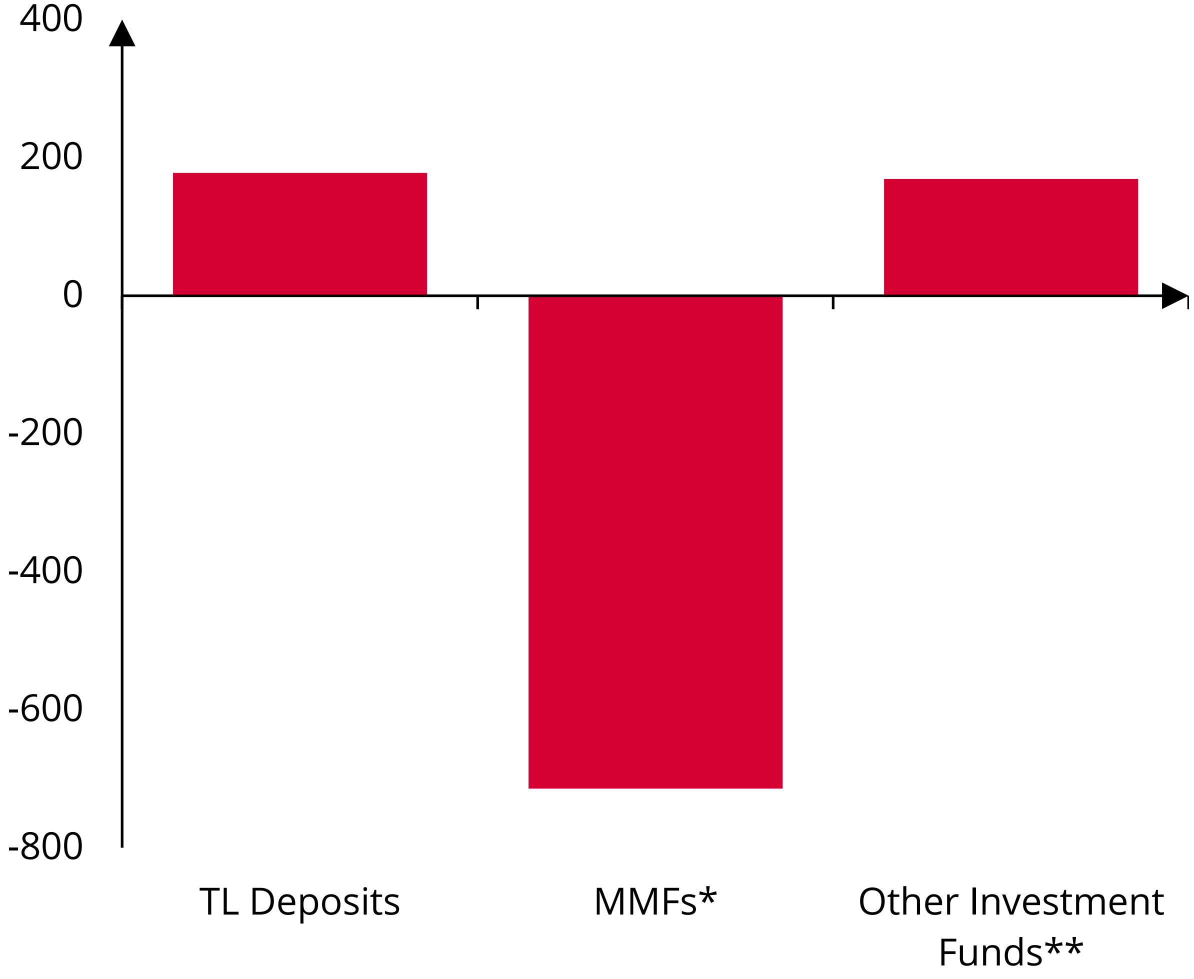
2

Is there a risk of re-dollarization?

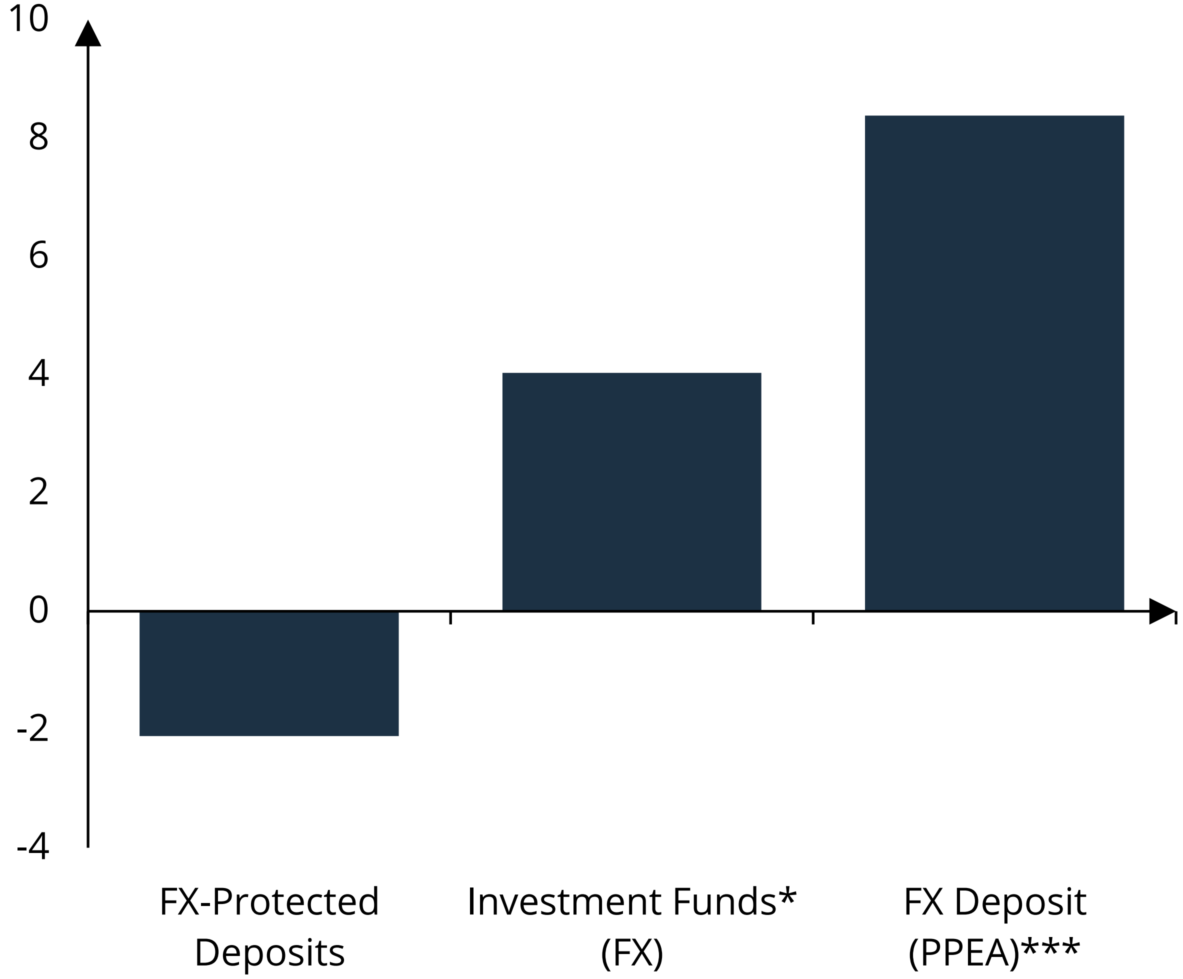
- Compared to March 2024, retail FX demand is more limited.
- Re-dollarization risk is contained with decisive monetary stance.

TL outflows were mostly from money market funds.

TL Instruments (Change over March 18 – April 15, Billion TL)



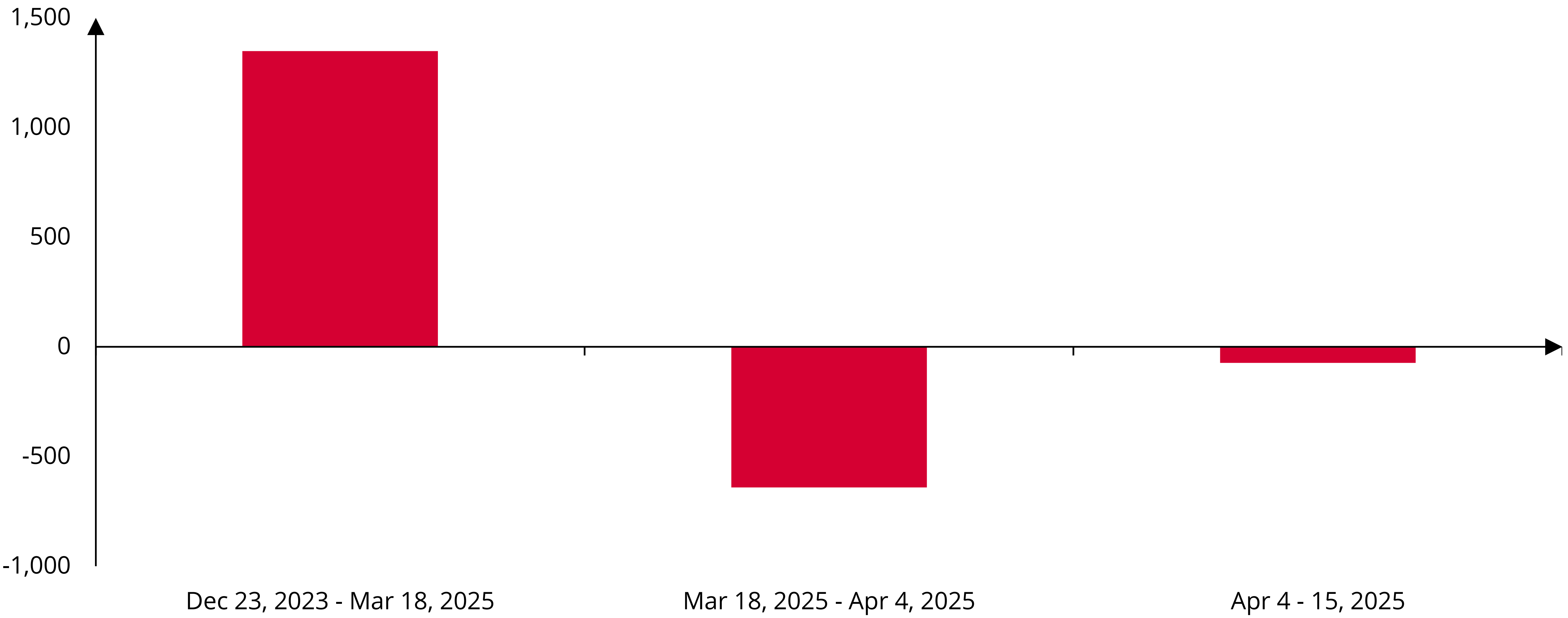
FX Instruments (Change over March 18 – April 15, Billion USD)



Source: Left Panel: TEFAS, BRSA, as of April 15, 2025. Right Panel: CBRT, BRSA,TEFAS as of April 15, 2025.
*Change in investment funds and MMF (including pariticipation MMFs) is denominated in nominal values.
**Includes debt investment funds and other investment funds.
***PPEA stands for price and parity effects adjusted.

Money market funds have stabilized.

Money Market* (Change, Billion TL)



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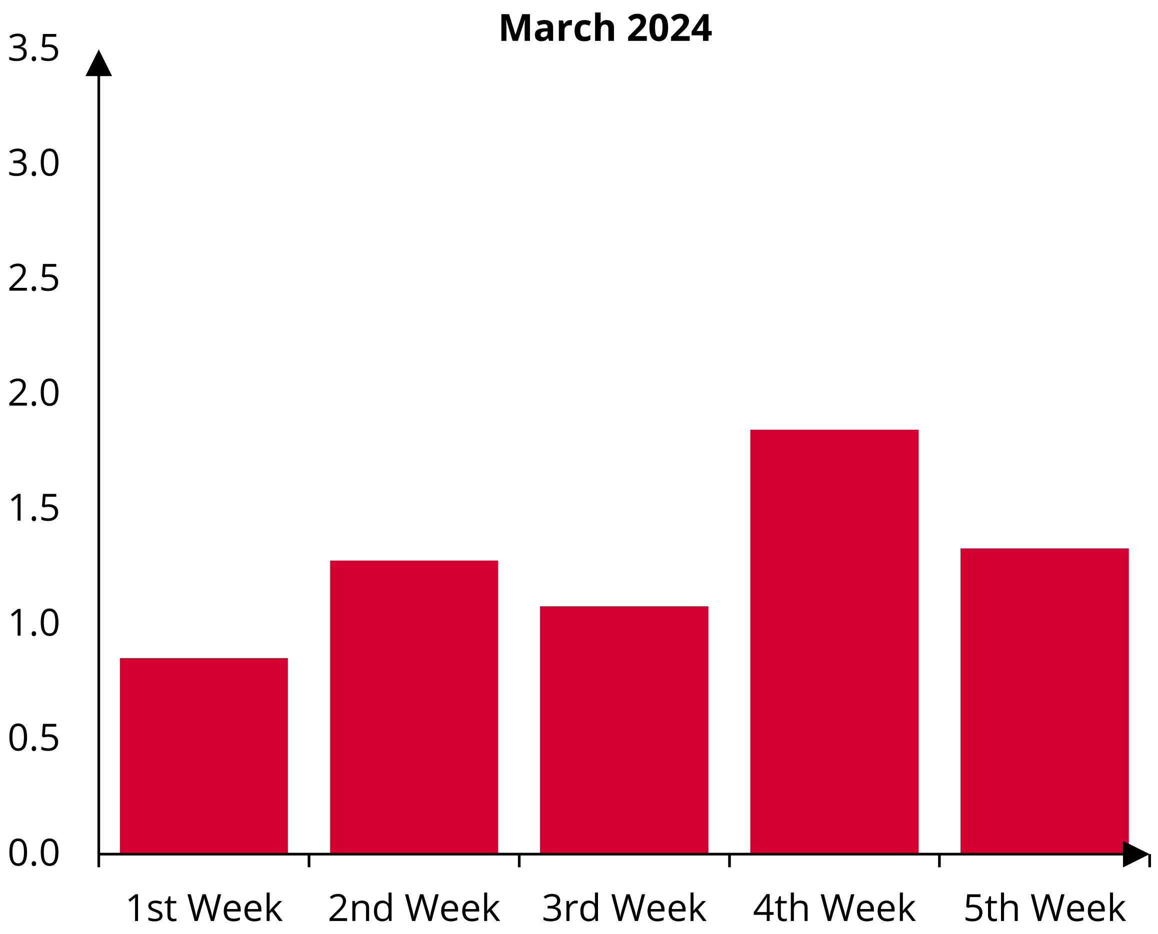
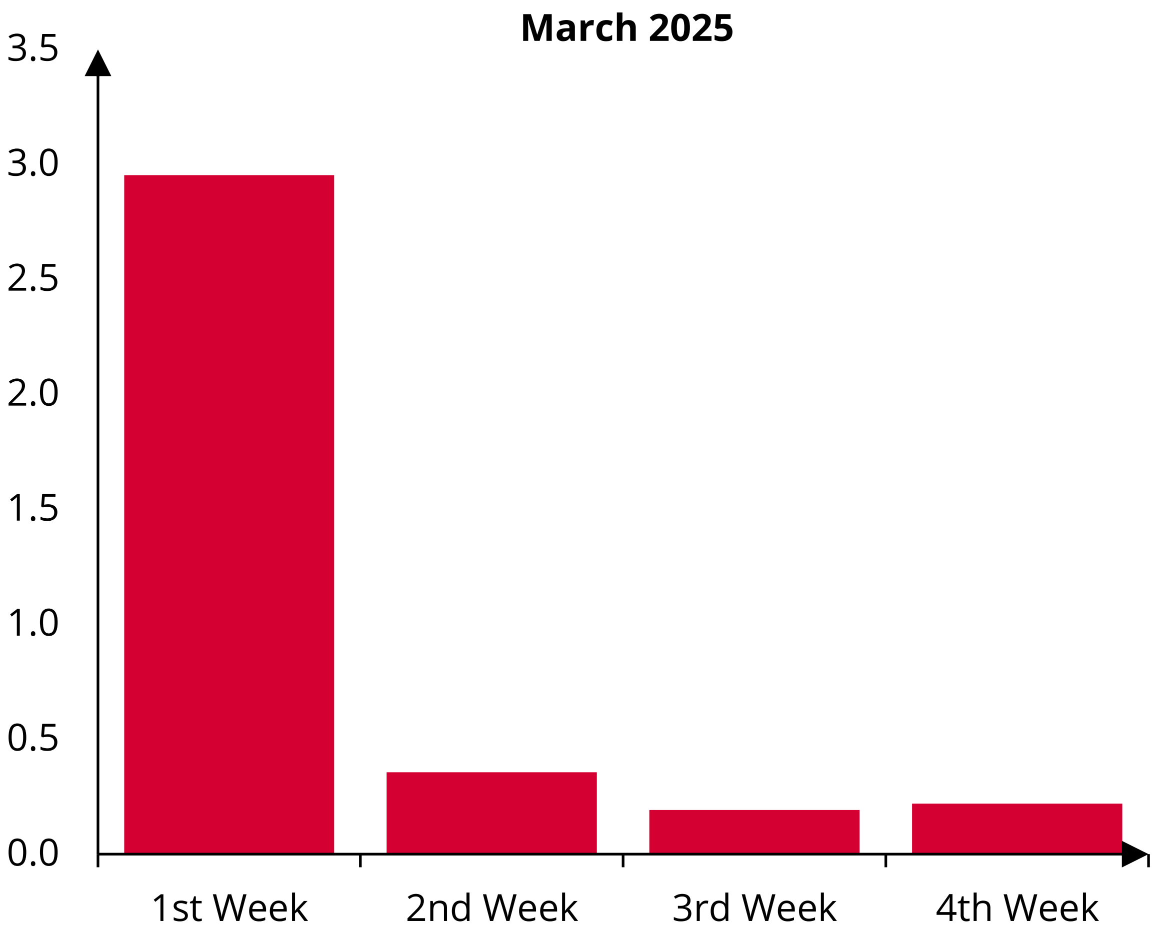
Source: CBRT, TEFAS, as of April 15, 2025.
*Includes MMF’s and participation MMF’s.

Household sentiment deteriorated only slightly.

Retail FX Deposits* (Weekly Change, Billion USD)





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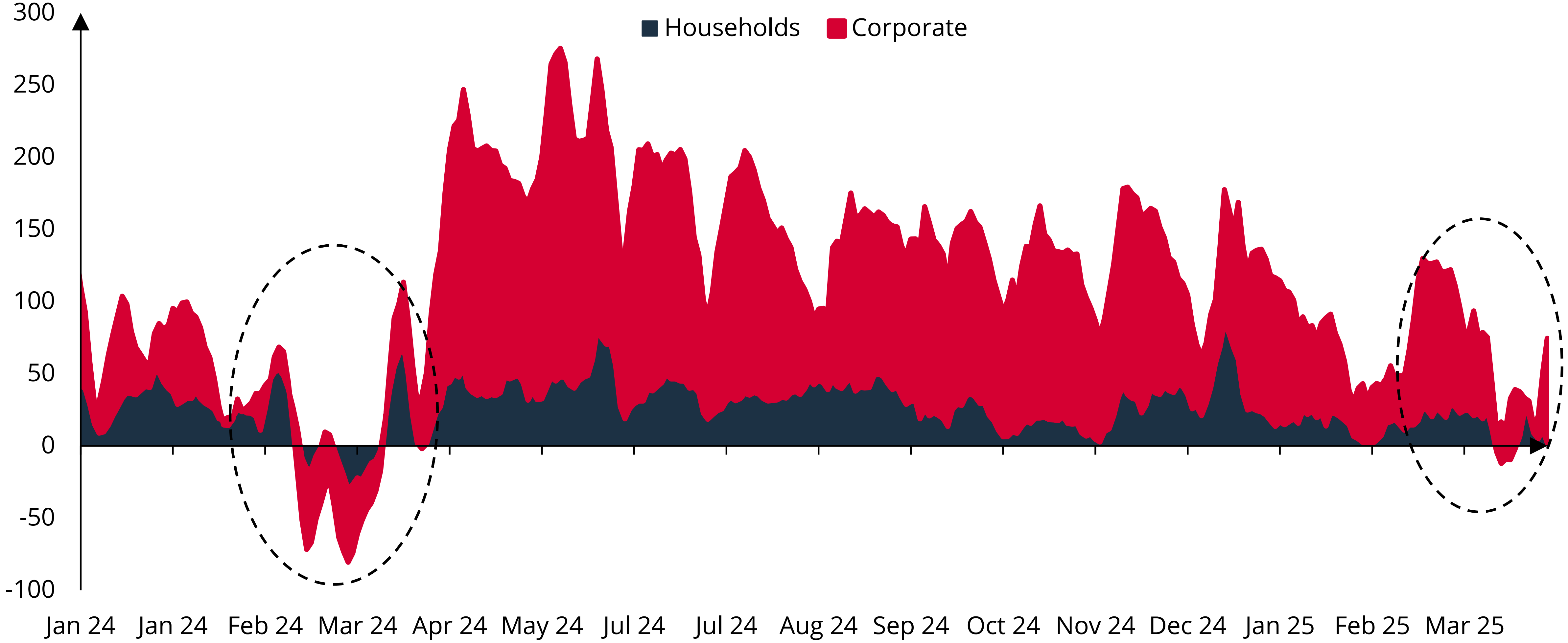
Source: CBRT, BRSA as of April 11, 2025.

*Price and parity adjusted. The 1st week on the left chart corresponds to the week ending on the March 1st, 2024, while the 1st week on the right chart corresponds to the week ending on the March 21st, 2025.

Cash FX demand remained limited despite market volatility.

Net Cash FX Flows to and from the Banking Sector (5D-MA, Million USD)



3

Why is this time different than March 2024?

- Improved monetary transmission
- Active liquidity management
- Ongoing disinflation
- Improving inflation expectations

Macroprudentials and Liquidity Management Tools

Regulations for TL deposits

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

Loan growth caps

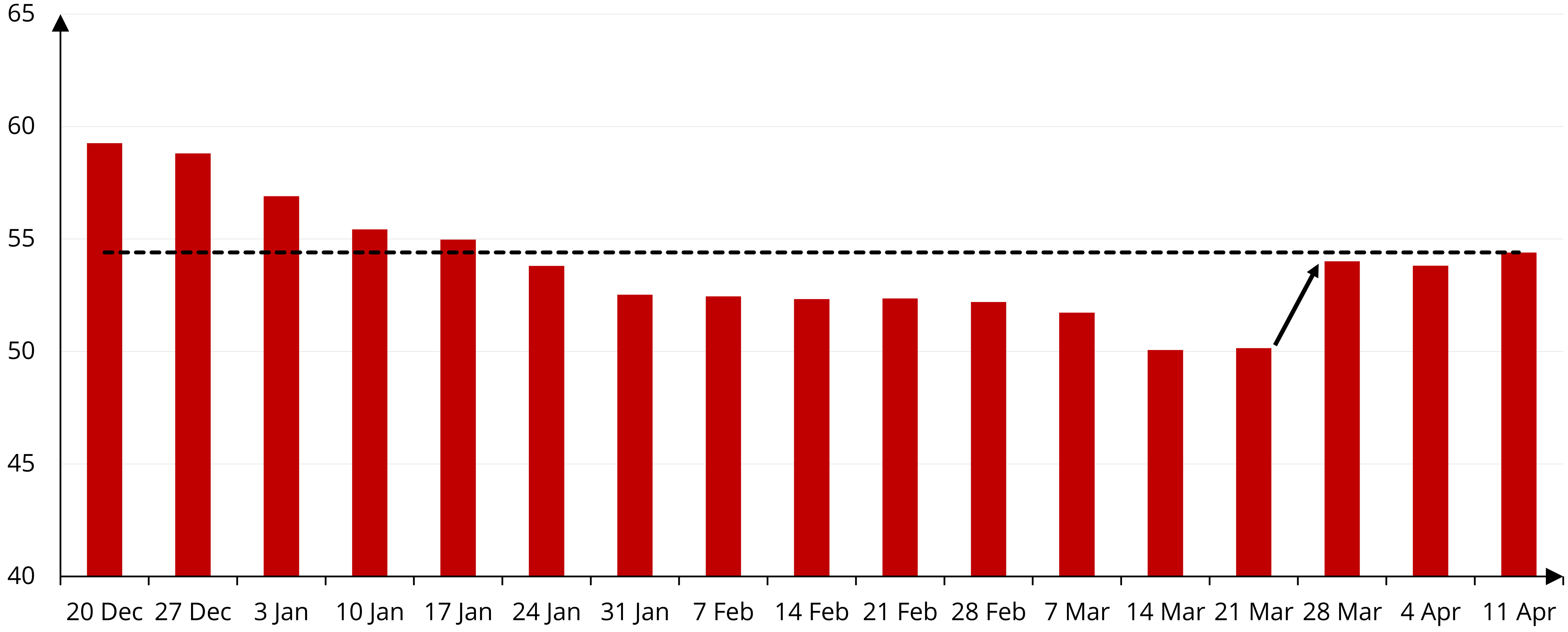
- Limits on TL and FX loan growth

Liquidity management

- Reserve requirements
- TL deposit auctions
- Reverse swap auctions
- Liquidity bills

Rapid policy response and stronger transmission boosted TL asset returns.

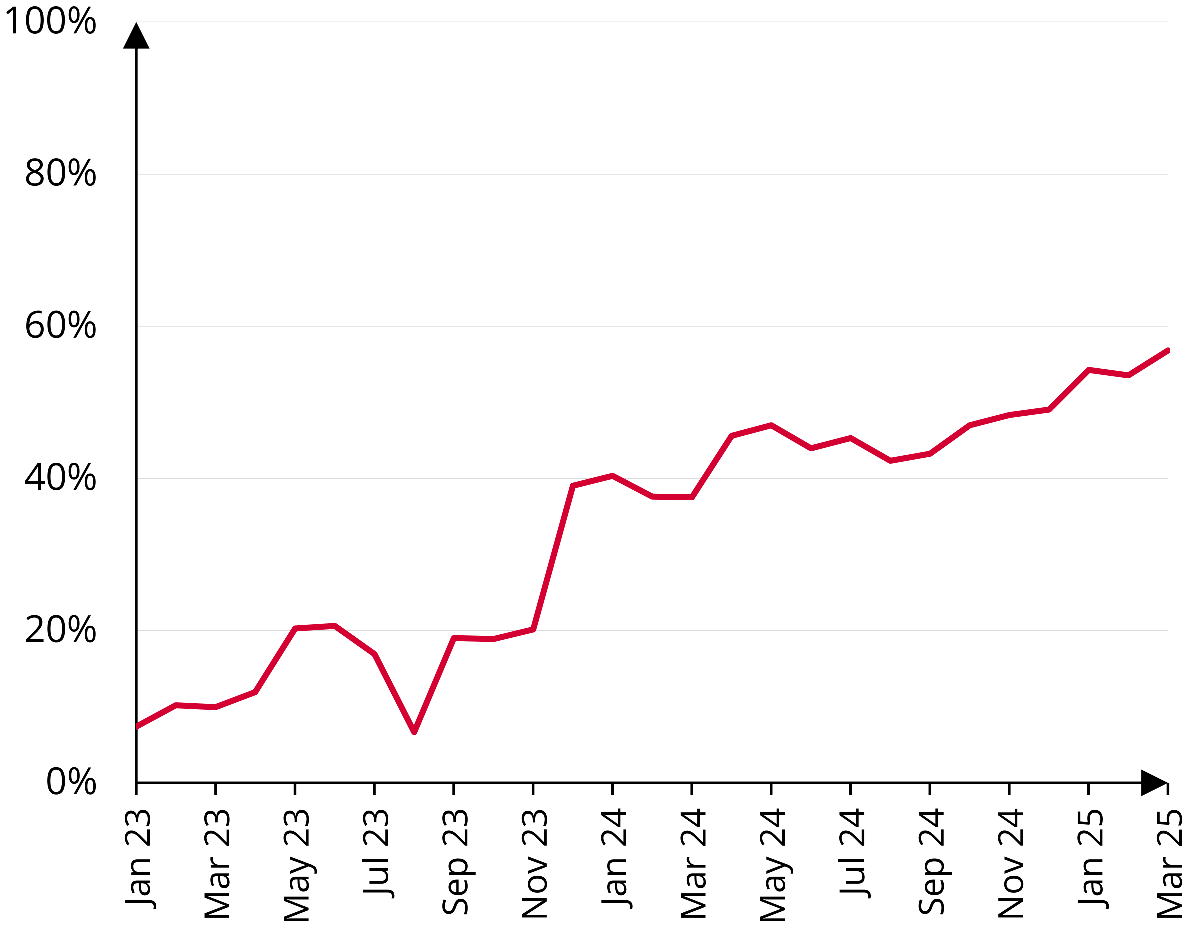
TL Deposit Rates (%, 1-3 Months Maturity)



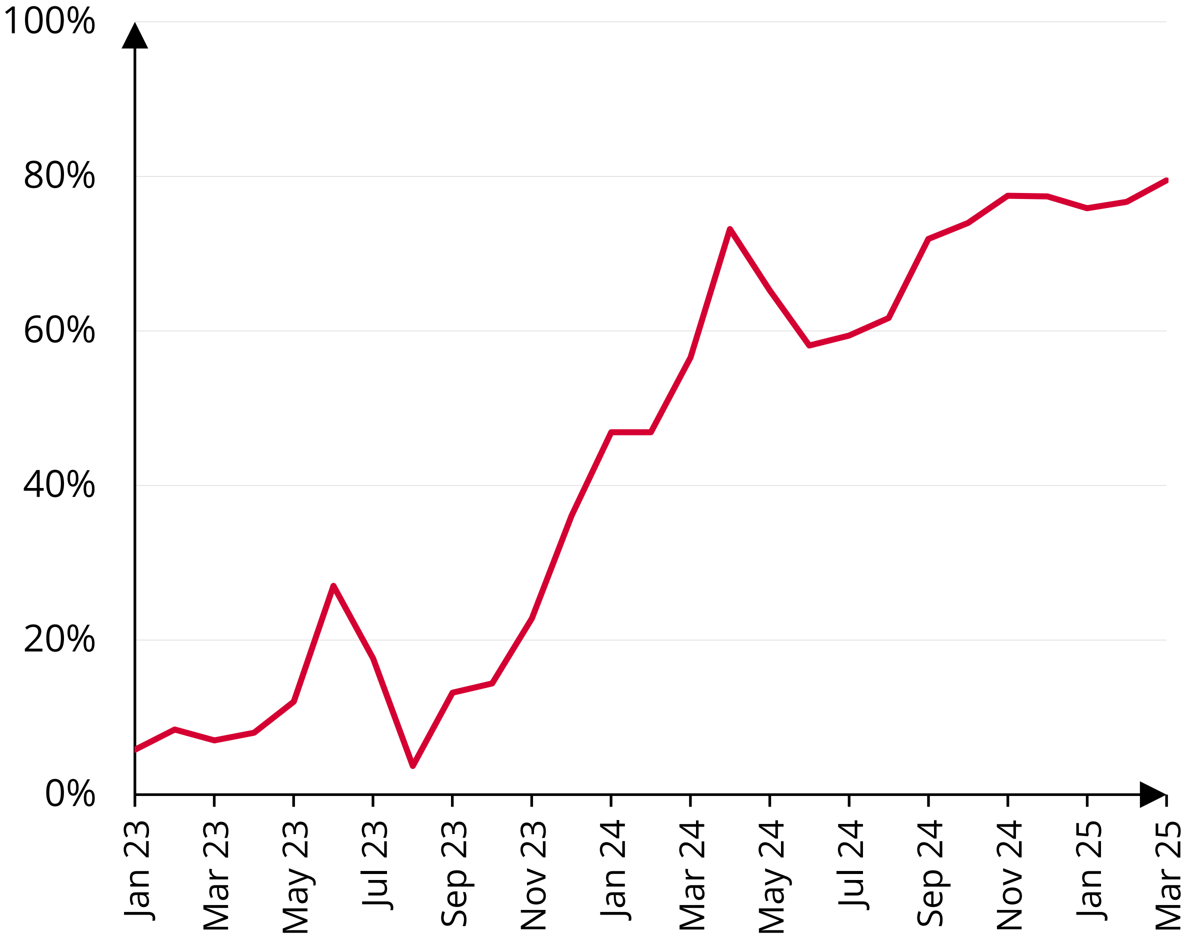
Source: CBRT, as of April 11, 2025.

Expected returns have improved on the back of improving expectations.

Share of Households Expecting Positive Ex-ante Real Return



Share of Firms Expecting Positive Ex-ante Real Return



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Source: CBRT, TURKSTAT, as of March 2025.

TL deposits with maturity up to 3 months were used in the real interest rate calculation. The calculated real interest rate is obtained by subtracting the responses to consumer price expectations for the next twelve months from the TL deposit interest rate with a maturity of up to 3 months. Weighting was applied in the calculation of the firms survey.

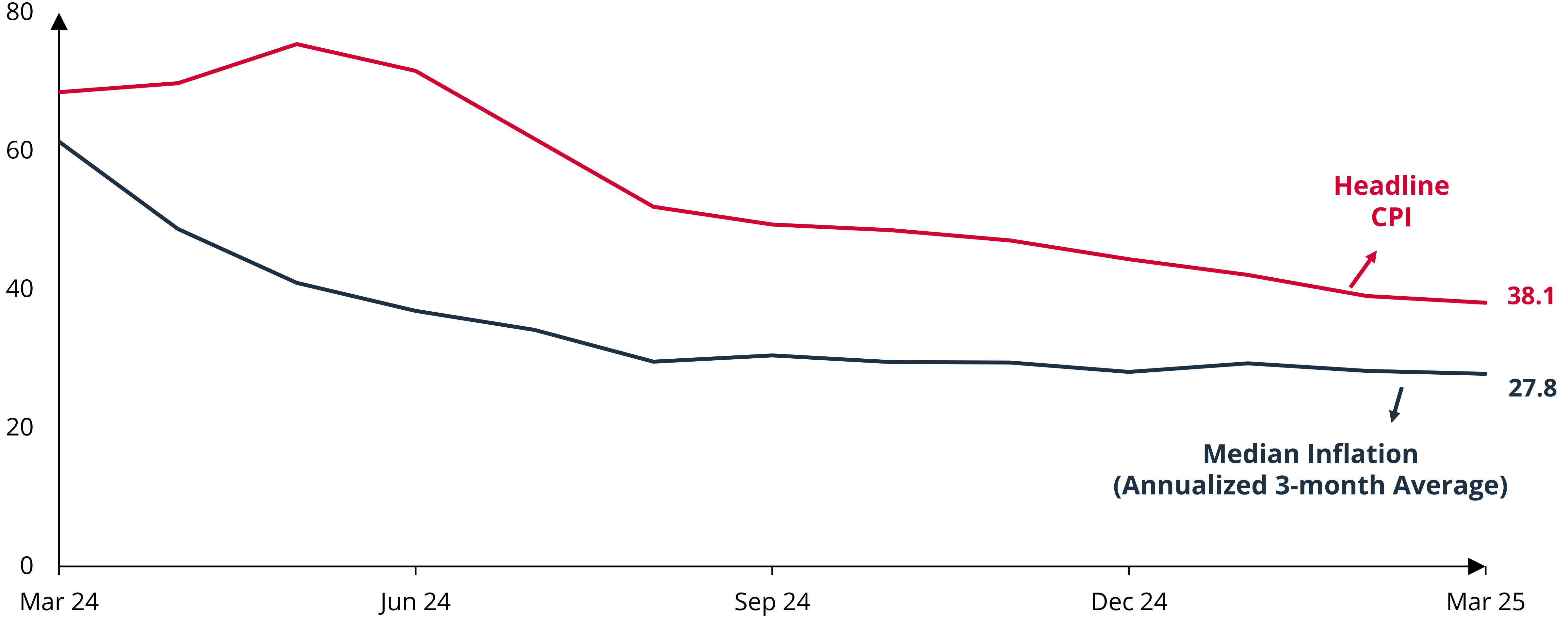
4

Is disinflation on track?

- Disinflation continues.
- Underlying trend has improved.
- Decline in services inflation is becoming more evident.
- Goods inflation is low but will be affected by FX pass-through.
- Risks are alive.

Underlying inflation indicators point to ongoing disinflation.

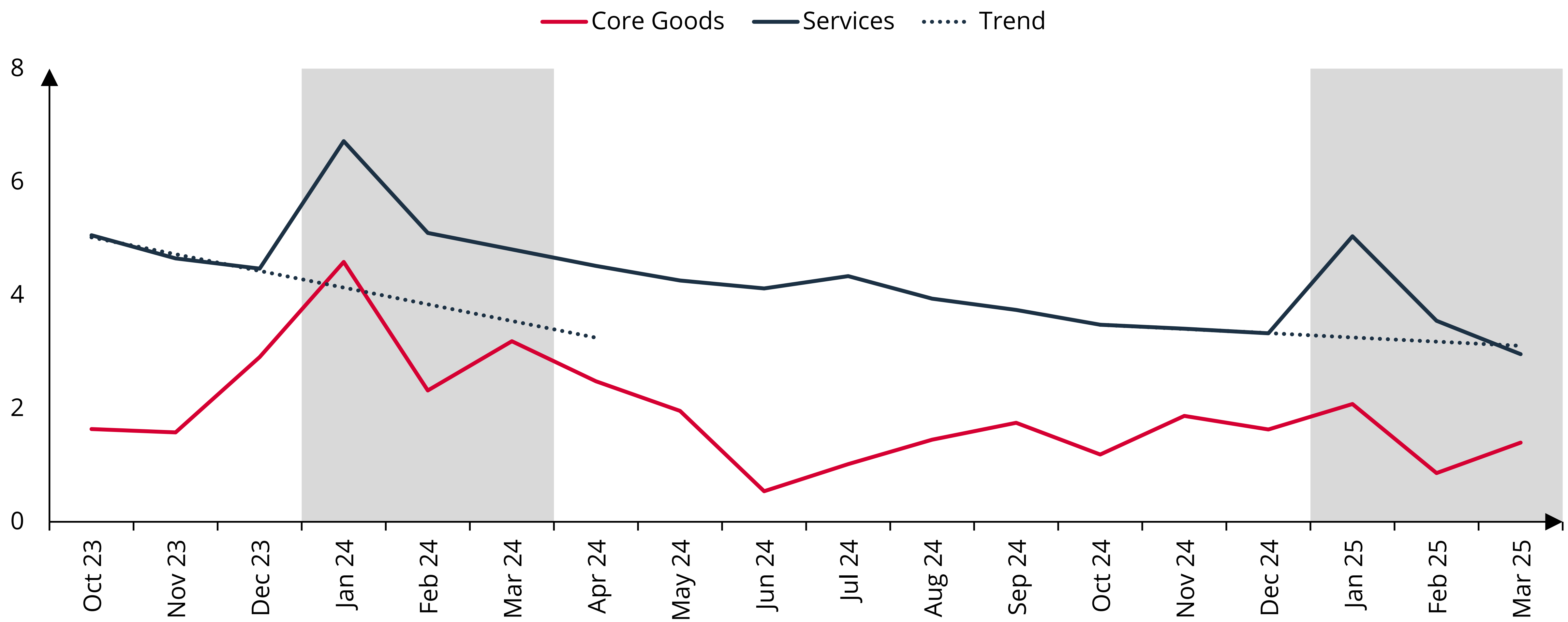
CPI and Median Inflation (%)



Source: CBRT, TURKSTAT.

After rising due to time-dependent factors, services inflation resumed its trend.

Monthly Inflation* (%, Seas. Adj.)



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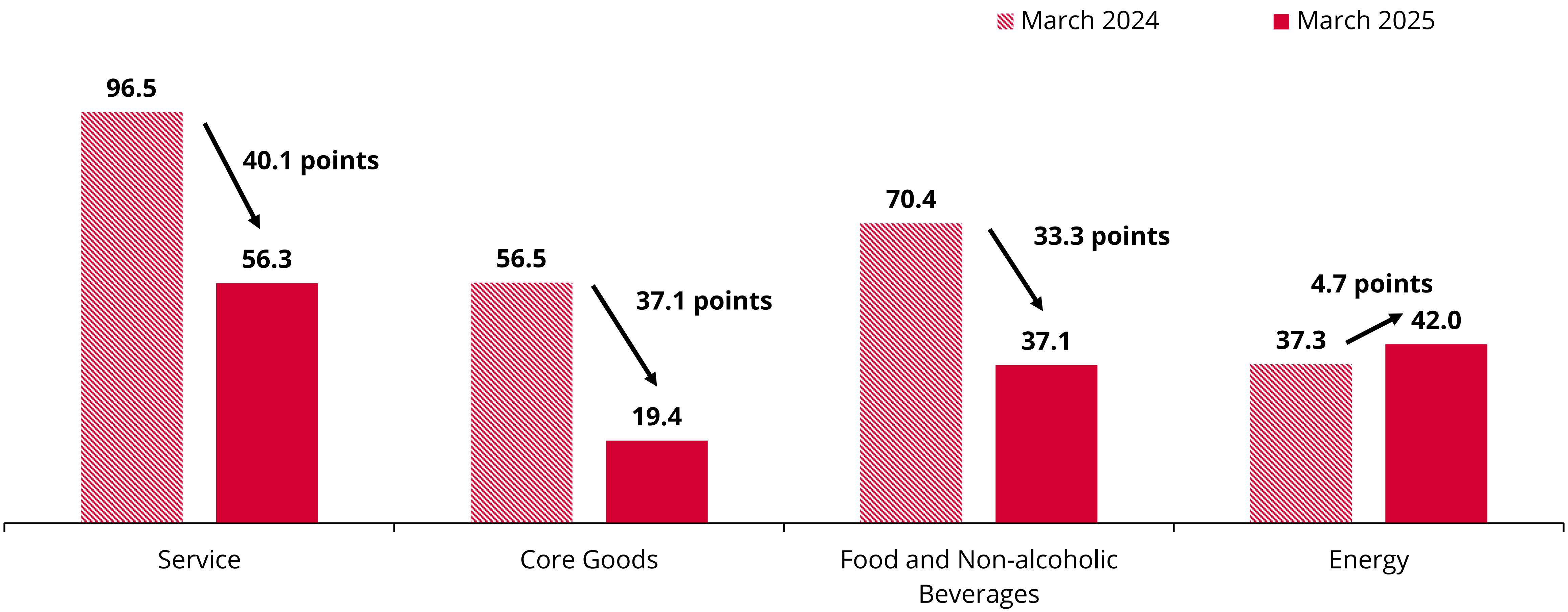
Source: CBRT, TURKSTAT.

*Dashed lines indicate the trend of services inflation for the last three months of 2023 and 2024. Shaded areas indicate the first three months of 2024 and 2025.

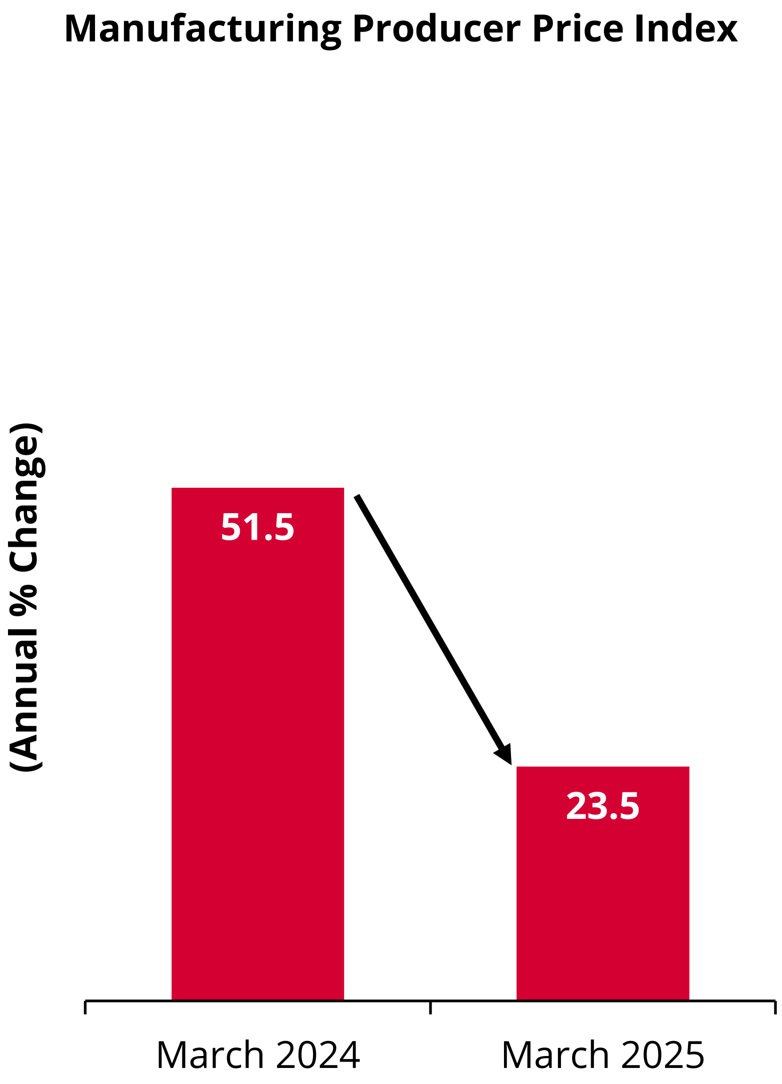
The decline in services inflation is becoming more evident.

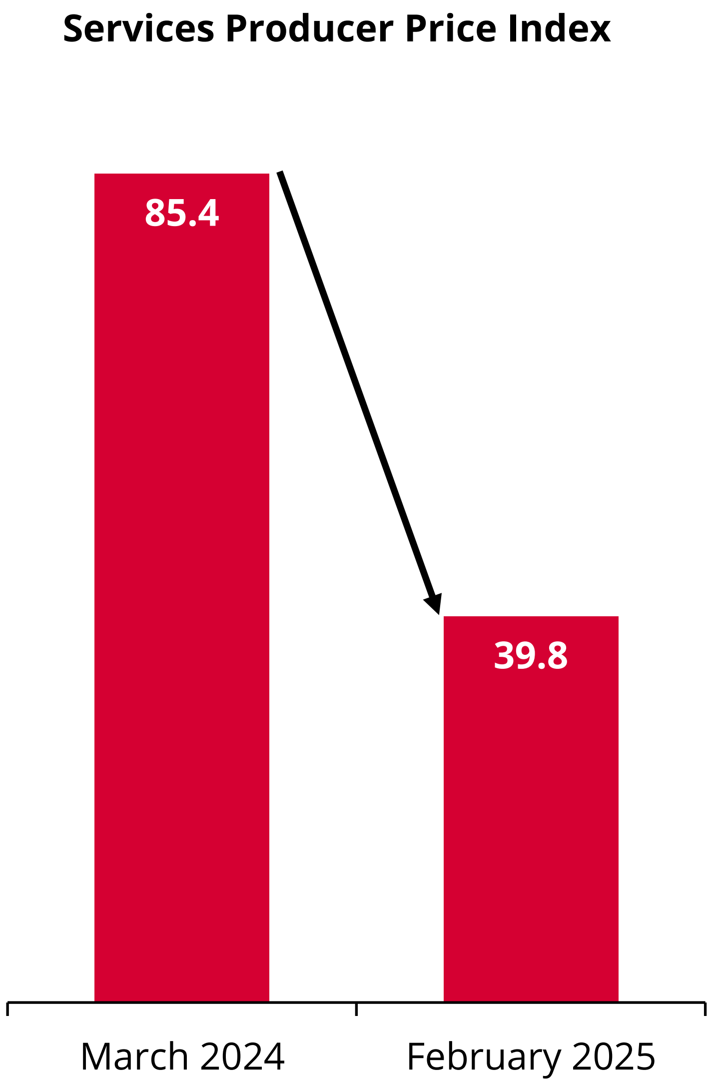
CPI Subcategories (Annual % Change)

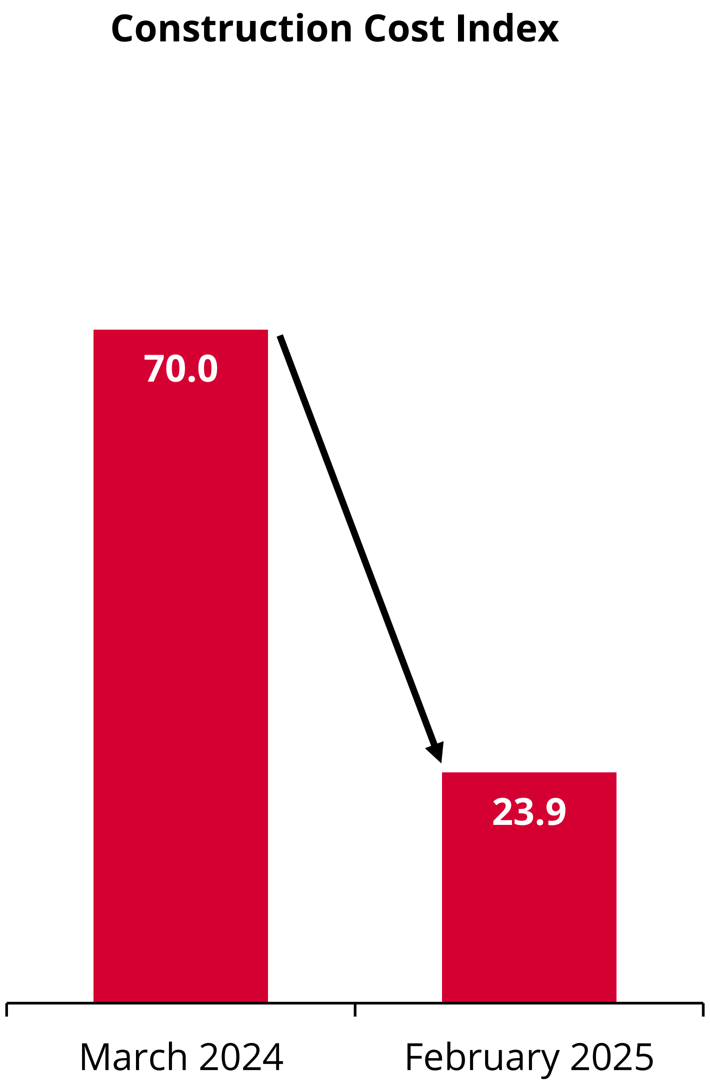


Source: TURKSTAT.

Cost increases have been declining.







Source: TURKSTAT.

Going forward

- FX pass-through
- Oil prices and global outlook
- Demand conditions

Balance of risks

▲

- Inflation expectations
- Food prices (agricultural frost)
- Global developments

▼

- Global developments

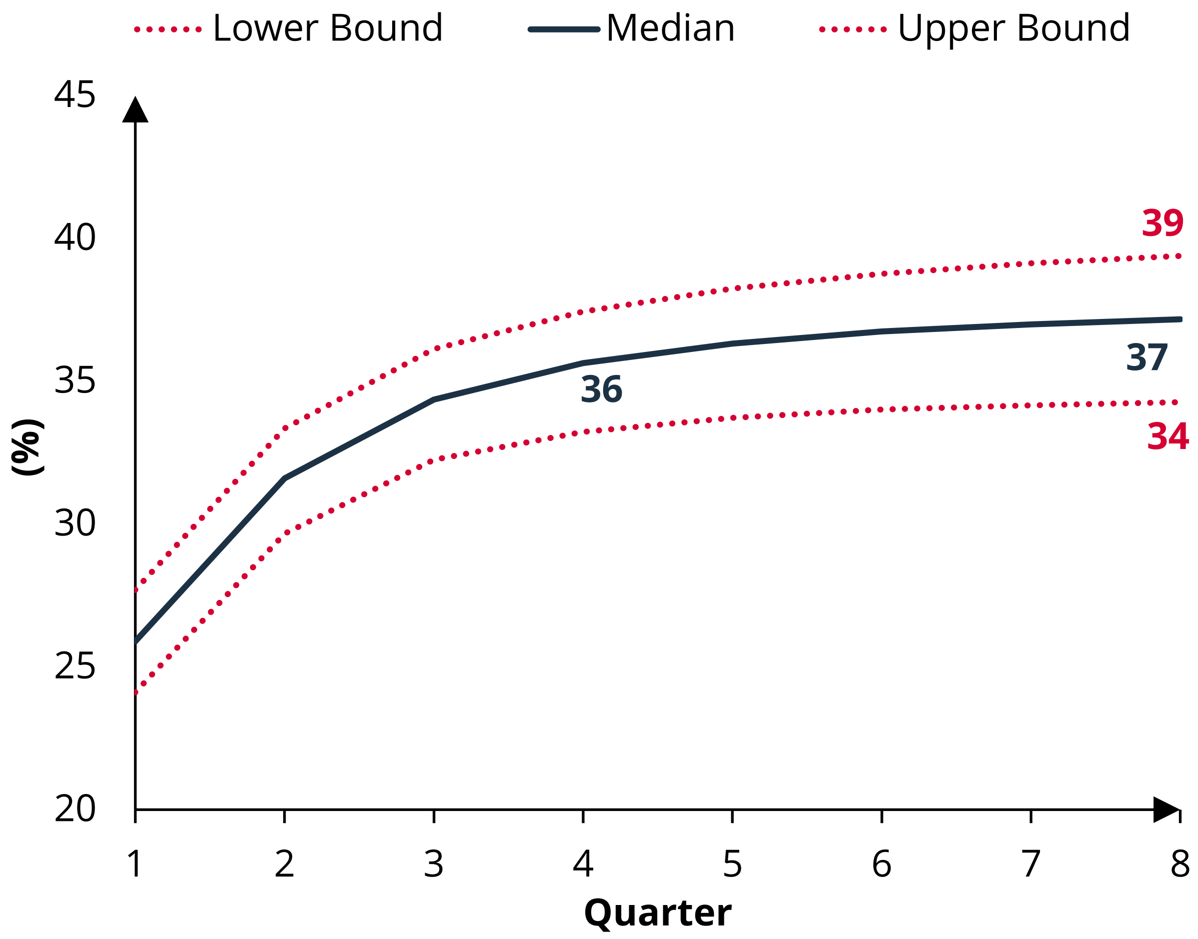
4a

What should we expect the FX pass-through to be?

- FX pass-through is expected to be around 35-40%, considerably lower than that during the summer of 2023.
- Pass-through declined amid lower KKM balances, improved inflation expectations and moderating demand.

Demand conditions and pricing behavior affect FX pass-through.

FX Pass-Through*



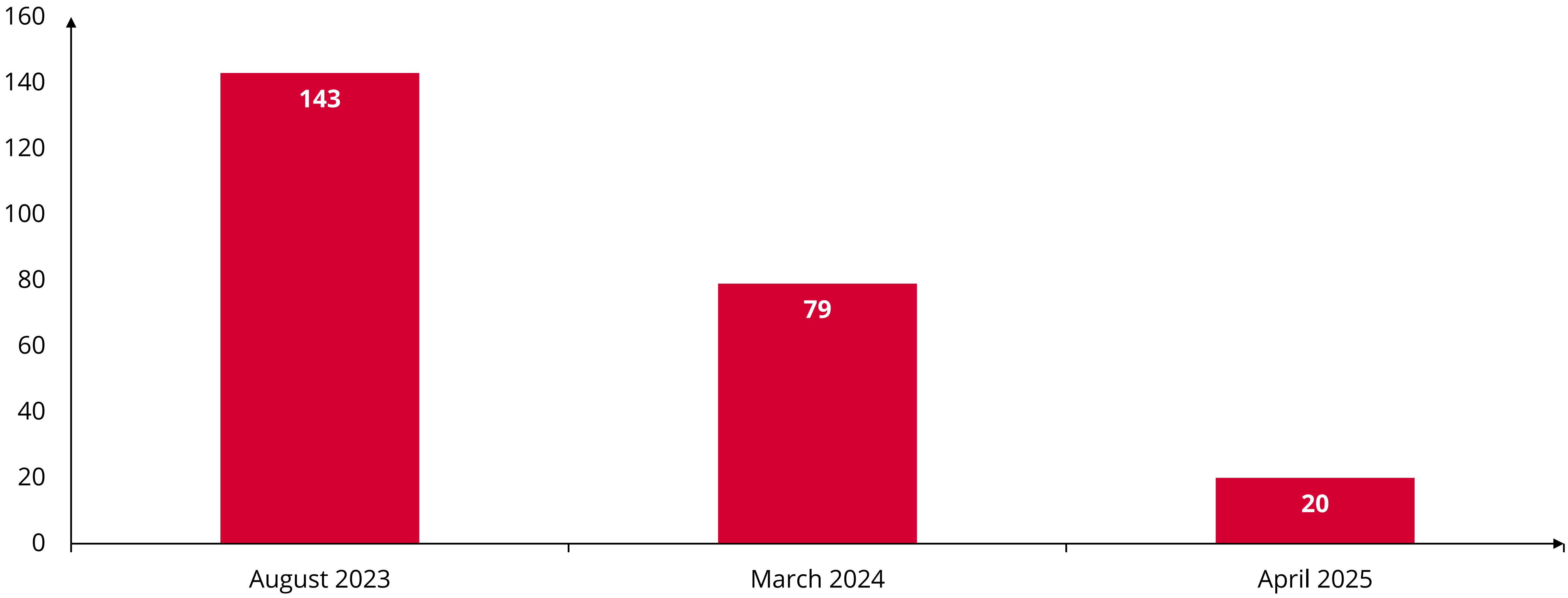
- **Estimates suggest around 35 percent pass-through.**
- **Estimated pass-through is lower and slower than in summer 2023.**
- **Preliminary April reading confirms that initial impact on inflation will be relatively limited.**

Source: CBRT.

*BVAR Model, Normal Wishart prior, 4 Lags; import prices ($), exchange rate basket, standardized TL loans, output gap, minimum wage, D inflation (SA).

FX protected accounts have declined considerably.

FX Protected Accounts (Billion $)



Source: CBRT.

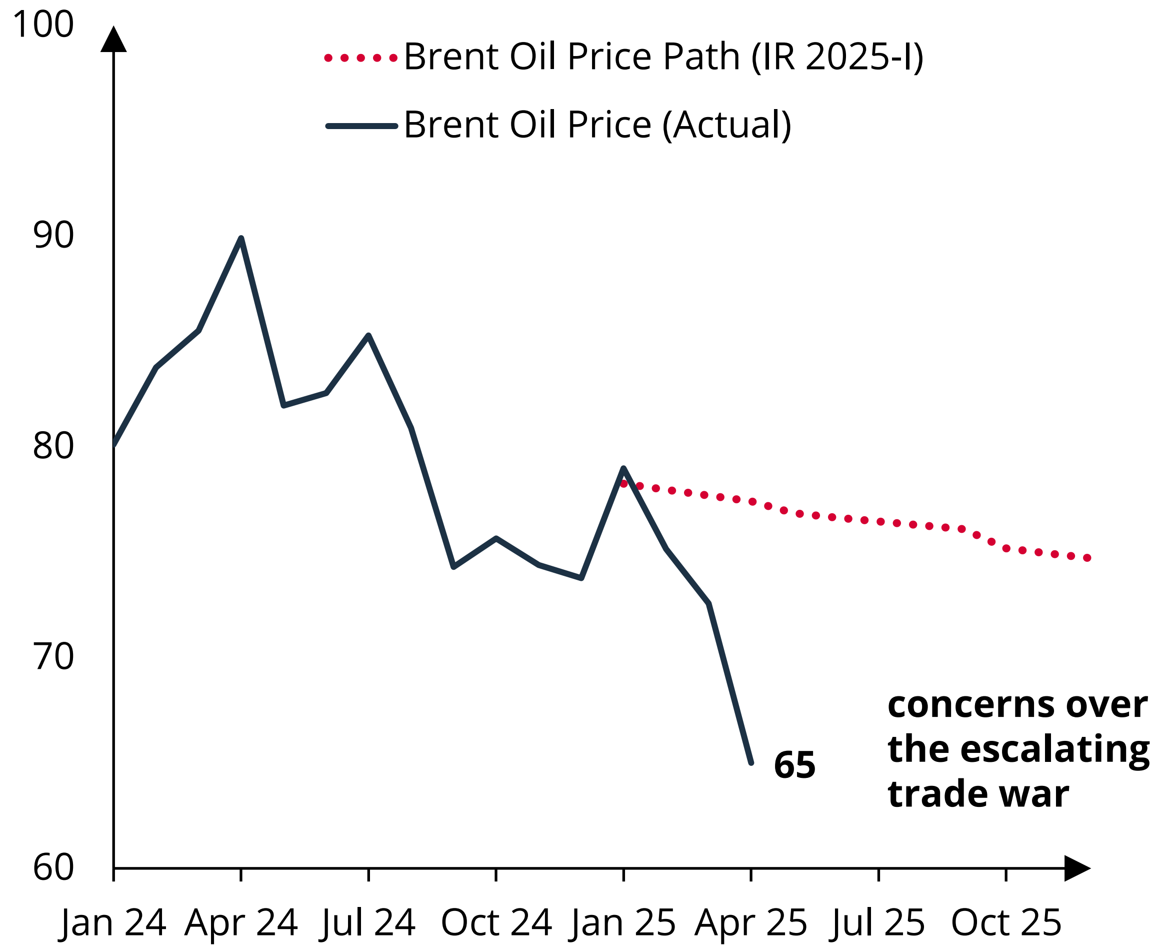
4b

How will recent trade tensions affect disinflation process?

- Potential effects on the disinflation process through
  - global economic activity,
  - commodity prices,
  - capital flows.
- There is uncertainty about the global macro outlook.

Falling commodity prices will offset some of the exchange rate effects.

Inflation Report Oil Price Path vs Realization (USD/Bbl)



Key Variables	Impact	Impact Dynamics
Inflation	▼	A 10% decline in oil prices leads to a drop in inflation around 1.0 percentage point.
Current Account Balance	▼	A 10 USD/barrel decline in oil prices leads energy imports to decline USD 4-5 billion.
Growth	?	Highly Uncertain (Direct Impact: Supply-Side Gains, Indirect Impact: Decline in Global Growth)

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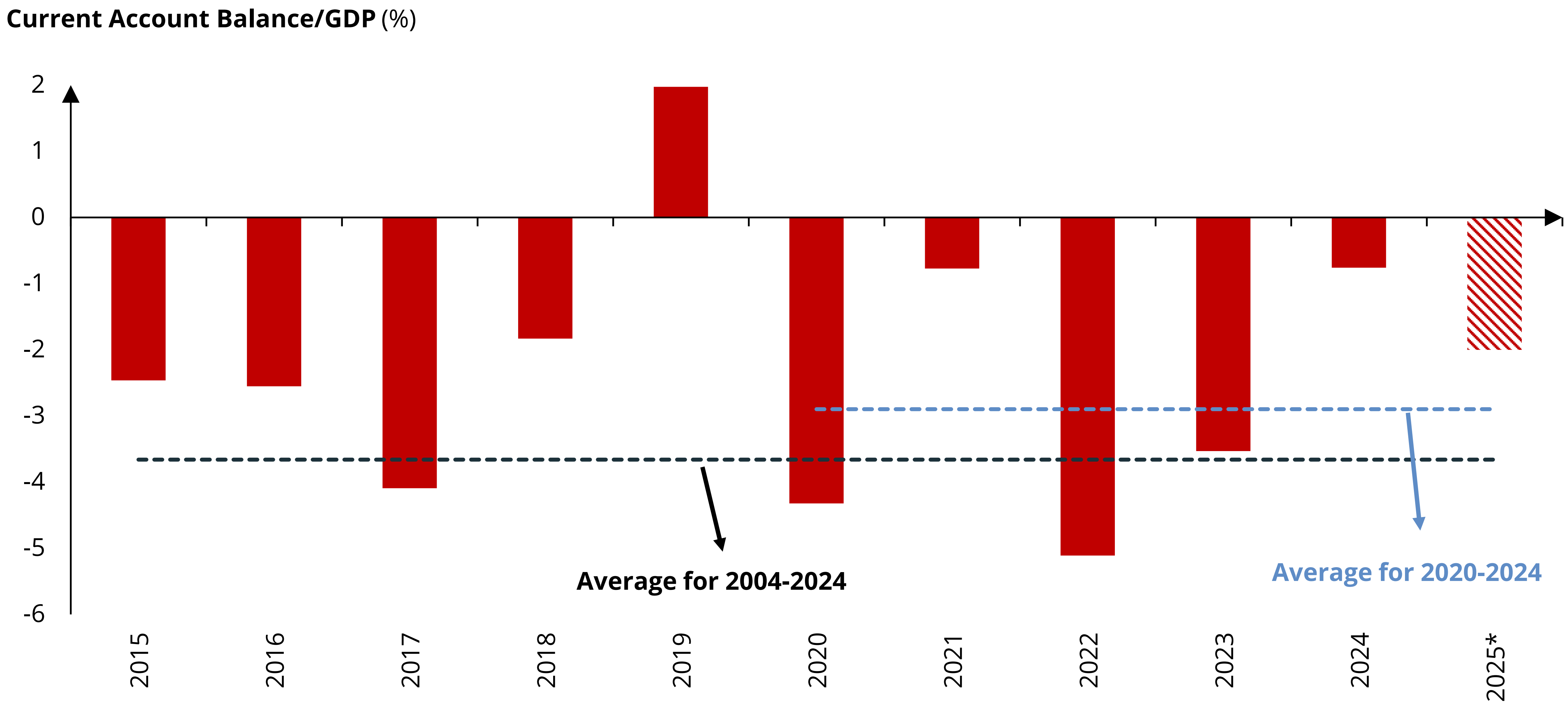
Current account deficit is expected to remain moderate.



*Medium Term Program Target. Dashed lines show the long-term and last five years' averages.

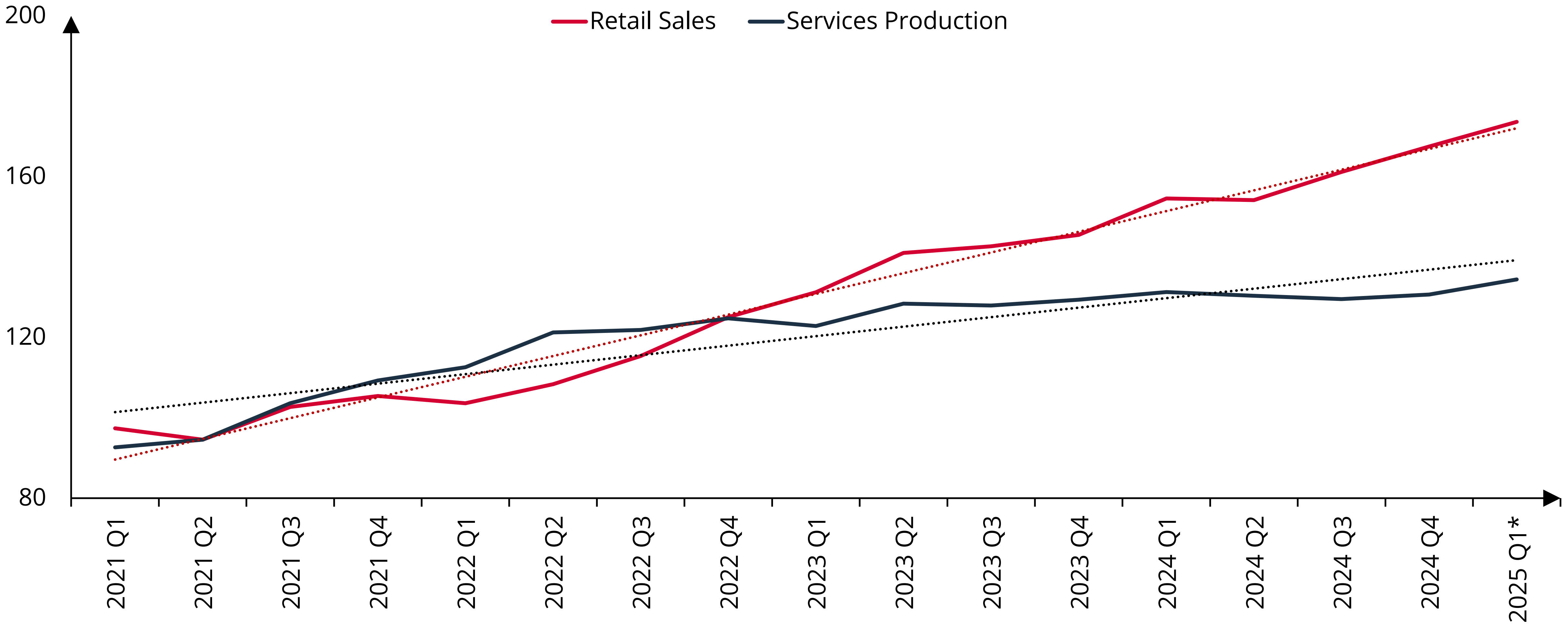
4c

Is demand moderating?

- Goods demand has been more resilient.
- Services demand is moderate.
- Policy will facilitate further moderation.

Goods demand has been more resilient while services demand is moderate.

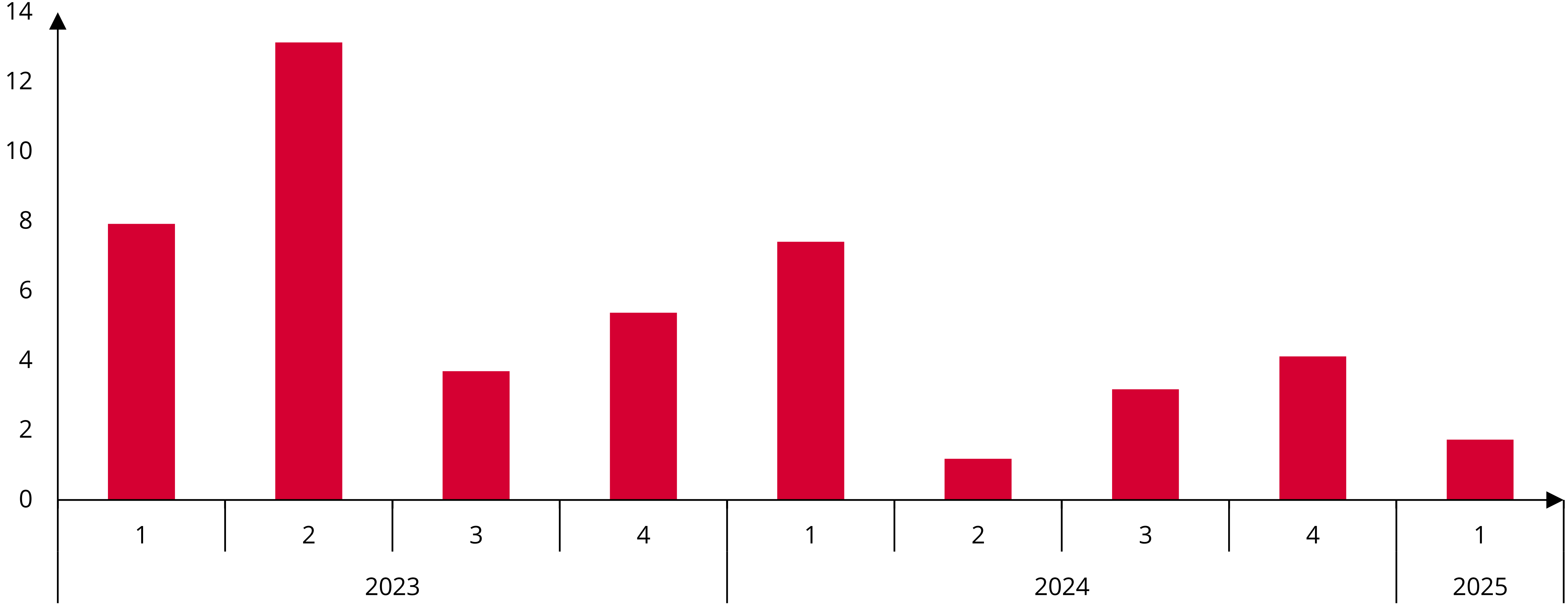
Retail Sales Volume Index and Services Production Index (Seas. Adj., 2021=100)



Soruce: TURKSTAT.
*As of February 2025.
Dashed lines indicate the trend.

Card spending indicates loss of momentum in demand.

Card Spending* (Seasonally and Calendar Adjusted, Quarterly % Change)



Source: CBRT, TURKSTAT.

*Card spending is in real terms.

Conclusions

Conclusions

- The decisiveness regarding tight monetary stance is strengthening the disinflation process through moderation in domestic demand, real appreciation in Turkish lira, and improvement in inflation expectations. Going forward, increased coordination of fiscal policy will also contribute significantly to this process.

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

- Accordingly, the policy rate will be determined in a way to ensure the tightness required by the projected disinflation path taking into account realized and expected inflation, and the underlying trend.

- The Committee will adjust the policy rate prudently on a meeting-by-meeting basis with a focus on the inflation outlook.

- Monetary policy stance will be tightened in case a significant and persistent deterioration in inflation is foreseen.

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