Summary of the Monetary Policy Committee Meeting

March 13, 2025, No: 2025-17

Meeting Date: March 6, 2025

Global Economy

1. Increased protectionism in global trade and uncertainties regarding trade policies have recently affected the global growth outlook negatively. The global growth index, which is weighted by the export shares of Türkiye's foreign trade partners, is forecasted to grow by 2.1% in 2025, and by 2.4% in 2026. Although the projection of a gradual recovery in Türkiye's foreign demand holds, this is expected to take place later than it was in January. The services sector continued to follow a favorable course while the manufacturing industry remained weak. The growth trend of US economy continued to diverge positively from other advanced economies. The global demand outlook, increased protectionism, supply-side factors, and geopolitical risks lead commodity prices to follow a volatile course. Heightened uncertainties regarding global economic and trade policies, as well as geopolitical developments are seen as prominent risk factors for the course of global economic activity.
2. Global inflation has recently remained flat. Rigidity in services inflation persists, and protectionist tendencies in trade policies have exacerbated upside risks to inflation. While advanced and emerging economies (EMEs) continue the rate-cutting process, central banks are expected to maintain their cautious approach in rate cuts due to the recent heightened global uncertainties. Portfolio outflows from EME equity markets continued in this period.

Monetary and Financial Conditions

3. Deposit rates tracked the policy rate cut and fell by 178 basis points compared to the week ending January 24, and stood at 50.1% as of February 28. In the same period, Turkish lira (TRY) commercial loan rates (excluding overdraft accounts and credit cards) decreased by 588 basis points to 48.5%. General-purpose loan rates (excluding overdraft accounts) declined by 233 basis points to 64.8% while housing loan rates fell by 60 basis points to 39.9%, and vehicle loan rates by 318 basis points to 36.8%.
4. The average four-week growth rate of retail loans were down to 2.7% in the January 24-February 28 period. During this period, there was a decline in the growth of all retail loan sub-components. TRY commercial loans fell from an average four-week growth rate of 2.3% to 1.7%. The average four-week growth rate of FX commercial loans adjusted for exchange rates edged down from 2.2% of the previous MPC meeting period to 2.0%. Taking into account recent developments in FX loans, the CBRT revised the loan growth-based reserve requirement practice on March 1, 2025, to support its tight monetary stance. Accordingly, the monthly growth limit for FX loans was reduced from 1% to 0.5% while the scope of FX loans exempted from the growth limit was narrowed.
5. As part of the strategy to phase out FX-protected deposit accounts (KKM accounts), the CBRT decided to terminate the opening and renewal of KKM accounts (including YUVAM accounts)

as of February 15, 2025. Besides, KKM accounts held by legal entities were excluded from the targets for KKM accounts' renewal and transition to TRY. The reserve requirement ratios were raised to strengthen the monetary transmission mechanism on February 4, 2025. Accordingly, among banks' TRY liabilities with maturities up to one year (including one year), the reserve requirement ratios have been raised from 8% to 12% for of funds from repo transactions abroad, loans obtained from abroad, and deposits (participation funds) from banks abroad.

6. The gross international reserves of the CBRT rose by USD 6.2 billion since January 24 to USD 173.7 billion as of February 28. Türkiye's five-year credit default swap (CDS) premium stood at 255 basis points on March 5, posting a slight decline since January 22. The one-month implied exchange rate volatility of the Turkish lira fell to 9.1% as of March 5 while the 12-month implied exchange rate volatility dropped to 17.3%. Since the previous MPC meeting week, net portfolio inflows have totaled USD 0.8 billion, comprising USD 0.3 billion of inflows to the government domestic debt securities (GDDS) market, and USD 0.5 billion to the stock market.

Demand and Production

7. The effects of monetary policy stance on credit and deposit markets as well as on domestic demand are closely monitored.
8. Gross domestic product (GDP) data indicated a recovery in economic activity in the last quarter of 2024, following slightly negative growth rates in the preceding quarters. In this period, demand brought forward due to campaigns and upcoming wage revisions helped household demand for goods to remain robust. As a result, private consumption made a positive contribution to growth. There was a quarterly increase in goods and services imports against a quarterly decrease in exports, turning the contribution of net exports to growth negative. In the last quarter of the year, the balanced course of the demand composition deteriorated slightly. As the contribution of domestic demand to growth declined noticeably throughout the year, the positive contribution of net exports stood out.
9. In December, the retail sales volume index recorded monthly and quarterly increases of 0.4% and 4.2%, respectively. In the same period, the trade sales volume index increased by 4.7% month-on-month and by 4.0% quarter-on-quarter. The services production index, which provides insight into both the production of services and their demand, increased by 1.2% in December. In quarterly terms, having narrowed in the previous two quarters, the index registered a limited increase of 1%. Accordingly, although domestic demand was above projections in the fourth quarter, it remained at disinflationary levels. Leading indicators suggest that domestic demand remains disinflationary in the first quarter. In fact, current demand indicators for the first quarter show signs of a milder trend for consumption expenditures after the increase in the previous quarter. Having risen in the last quarter of 2024, card spending trended down in monthly terms in January and February. Automobile and white goods sales continued to post a limited quarter-on-quarter growth in the first quarter. In the same period, survey data for manufacturing firms indicate that domestic market orders posted a moderate increase, but remained below their historical averages.
10. In December, the industrial production index increased by 5.0% month-on-month when adjusted for seasonal and calendar effects, and by 7.0% year-on-year when adjusted for calendar effects. On a quarterly basis, industrial production rose by 3.4% in the fourth quarter, following a 3.9% and 1.0% decline in the second and third quarters, respectively. The typically volatile sectors also had an impact on the robust increase in industrial production in December. Excluding these sectors from the general index in order to monitor the underlying trend, the monthly and quarterly rise in industrial production were more moderate at 2.1% and 1.5%, respectively. Survey indicators for the manufacturing industry point to a flat

outlook in the underlying trend of industrial production in the first quarter of 2025. Despite the recent volatility stemming from sector-specific developments in sectors such as oil and vehicles, the manufacturing industry capacity utilization remains relatively flat when these factors are excluded. Meanwhile, the index of production in construction, still buoyed by the quake-driven construction activities, rose by 4.5% in quarterly terms in the last quarter of 2024, and by 11.1% compared to the same period of the previous year.

11. In the fourth quarter of 2024, seasonally adjusted employment was at 32.8 million people and increased by 0.4% on a quarterly basis. In this period, the labor force participation rate remained flat while the unemployment rate decreased by 0.1 percentage points to 8.6%. In January, seasonally adjusted employment stood at 32.5 million people, declining by 0.7% on a quarterly basis. In the same period, the labor force participation rate went down by 0.5 percentage points quarter-on-quarter, and the unemployment rate fell to 8.4% in the first quarter as of January. Survey indicators suggest an outlook lagging behind historical averages for manufacturing firms' future employment expectations in the first quarter of 2025.

12. In December, the current account balance posted a monthly deficit of USD 4.7 billion while the 12-month cumulative current account deficit stood at USD 10.0 billion, with a month-on-month increase of USD 3.0 billion. These figures were mainly led by the widening energy and gold deficits, as well as foreign trade deficits excluding energy and gold, despite the rising services balance surplus. In fact, during this period, the 12-month cumulative services balance surplus remained robust and reached USD 62.0 billion.

13. In January, seasonally adjusted exports and imports posted a decline. The 12-month cumulative data reveal that the foreign trade deficit rose compared to the previous month. Accordingly, the 12-month cumulative current account deficit is projected to widen in January. Gold imports amounted to USD 1.5 billion in January, and to USD 17.6 billion in cumulative terms. Seasonally adjusted imports of consumption goods declined month-on-month, yet continued to hover above historical averages. Excluding the jewelry imports, which have recently contributed significantly to the rise in consumption goods imports, consumption goods imports edged up compared to the previous month. When the foreign trade data for January is considered along with the provisional data for February, the three-month average trends point to a sustained strength in exports with a mild increase and a flat course in imports. Provisional data imply a moderate level of jewelry imports in February and a decline in consumption goods imports excluding jewelry on a monthly basis.

14. Regarding the financing of the current account deficit, the banking sector’s 12-month cumulative long-term debt rollover ratio hovered around 141% in January. In the non-bank corporate sector, this ratio was around 117%. Accordingly, external financing opportunities remained high.

Inflation Developments and Expectations

15. In February, consumer prices were up by 2.27% while annual inflation fell by 3.07 percentage points and stood at 39.05%. Annual inflation in the B and C indices declined by 2.61 and 2.44 percentage points to 39.47% and 40.21%, respectively. Contributions to annual inflation were down across all main groups. Meanwhile, monthly consumer inflation receded in seasonally adjusted terms while all main expenditure groups recorded a slowdown.

16. In February, core goods inflation remained relatively low while services inflation slowed down after the idiosyncratic increase in January. Prices of core goods fell in February, led by clothing and footwear. Prices of durable goods and other core goods remained mild. Monthly price increases in other main groups, particularly in services group, lost pace compared to January. Services inflation was mainly shaped by the largely realized idiosyncratic and time-dependent

price increases in January, as well as the impact of the revisions to the Communiqué on Healthcare Implementation (SUT). The impact of the revised SUT on monthly consumer inflation was upward by 0.56 percentage points in January and downward by 0.29 percentage points in February. The revised medical examination copayment had a total impact on annual consumer inflation of 0.34 percentage points. In February, food prices increased by more than 3%, driven by processed food prices. Across subgroups, the decline in vegetable prices in the unprocessed food group stood out. In this period, red meat prices strengthened also due to the idiosyncratic factors related to Ramadan. In February, monthly inflation in processed food was high at 4.70%. While bread, milk and dairy, and processed meat products had a significant impact on this development, the increases were broad-based. Energy prices increased by 3.58% in February, mainly driven by the rise in electricity prices (10.70%) due to the transition to the End-Source Supply Tariff (ESST).

17. Following the increase in January, the underlying trend of inflation decreased in February. In seasonally adjusted terms, monthly increases in the B and C indices slowed down compared to the previous month. During this period, price increases weakened for all components of the B index, albeit limited in processed food. The distribution-based and the model-based indicators also point to a decline in the underlying trend of inflation in February while distribution-based indicators such as Median and SATRIM registered lower values.

18. As of February, the seasonally adjusted average price increase over the last three months remained flat in services (4.10%) and services excluding rents (3.72%) with the effect of developments in January. Meanwhile, this rate in core goods decreased compared to the previous month and stood at 1.59%.

19. The prevalent price-setting behavior in the services sector leads to significant inertia and causes the impact of shocks on inflation to extend over a long time period. Against this background, services inflation remains higher than goods inflation. Having slowed down in the final quarter of 2024, services inflation increased in January due to the effects of items with time-dependent pricing as well as the SUT regulation. However, in February, with these effects largely dissipated and the new SUT regulation in place, the monthly services inflation rate fell significantly to 3.61%. Due to the seasonal decline in contract renewal rates as well as lower rate of rent increase in contracts, the monthly rent inflation rate fell to 5.24 %, which is still high. Monthly inflation in services excluding rents also decreased and was recorded at 3.16%. In this period, seasonally-adjusted monthly inflation in transport and communication services increased month-on-month while decelerated in the remaining subgroups, more markedly in the other services. The slowdown in the other services inflation was mainly driven by the impact of the SUT regulation while the uptrend in education services continued due to private school fees.

20. The micro data of the Retail Payment System (RPS) show that in February, contract renewal rates decreased due to seasonal effects while the rate of increase in rents in new and renewed contracts is on a downtrend. Meanwhile, rates of rent increases in new and renewed contracts obtained from RPS micro data and those monitored through residential property valuation reports are below the current annual inflation in the rent item of the consumer price index (CPI) and the downtrend continues.

21. In February, domestic producer prices rose by 2.12%, and annual inflation continued the downtrend dropping by 1.99 percentage points to 25.21%. Thus, producer inflation came down to the lowest levels that has been recorded since 2021. Across main industrial groupings, the energy group curbed headline producer inflation in February while other main groups recorded monthly price increases of more than 2%, mainly due to developments in employee costs and the Turkish lira. The recent relatively low course of producer inflation affects prices of goods favorably for consumers.

22. In February, international commodity prices remained relatively moderate. Across subcategories, the rise in non-energy commodity prices was offset by a decline in energy prices driven by developments in Brent oil. The rise in agricultural commodity prices over the last six months is remarkable. In the FAO food price index, which has a broader content, saw the monthly increases observed since September replaced by a decline in December and January, led by vegetable oil and sugar subgroups. Brent crude oil prices, which were USD 79.2 on averaged in January, dropped to USD 75.2 on average in February. The recent trend in oil prices indicates two-way risks, with the downside risks being more pronounced.

23. The Global Supply Chain Pressure Index remained slightly below its historical average in January. Container indices for the globe and China decreased in February while dry cargo transport indices displayed a varying outlook. In February, the basket exchange rate increased, more pronounced in the euro rate. In February, the seasonally adjusted manufacturing industry PMI data point to an increase both in input prices and goods prices.

24. According to the results of the Survey of Market Participants in February, the year-end inflation expectation for 2025 increased by 1.3 percentage points to 28.3%. The inflation expectation for end-2026 was revised by 0.4 percentage points to 19.1% while expectations declined for other terms. The 12-month and 24-month-ahead inflation expectations were revised down by 0.1 percentage points and 0.5 percentage points to 25.3% and 17.3%, respectively. Meanwhile, the five-year-ahead inflation expectation remained flat and was measured at 11.0%. According to the expectations of the real sector, the 12-month-ahead annual inflation expectations of firms, which was 43.8% in January, declined by 1.9 percentage points to 41.9% in February. In the same period, the 12-month-ahead annual inflation expectations of households increased by 0.4 percentage points to 59.2%. The March Market Participants Survey was published after the MPC decision. While inflation expectations and pricing behavior tend to improve, they continue to pose risks to the disinflation process.

Monetary Policy

25. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (the one-week repo auction rate) from 45% to 42.5%.

26. 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 tools will be used effectively in case a significant and persistent deterioration in inflation is foreseen.

27. Considering the recent developments in credit growth, additional measures were taken to preserve macro financial stability and to support the tight monetary policy stance. In case of unanticipated developments in credit and deposit markets, monetary transmission mechanism will be supported via additional macroprudential measures. Liquidity conditions will continue to be closely monitored and sterilization tools will continue to be used effectively.

28. Taking into account the lagged effects of monetary tightening, the Committee will make its policy decisions so as to create the monetary and financial conditions necessary to ensure a

decline in the underlying trend of inflation and to reach the 5% inflation target in the medium term. Accordingly, all monetary policy tools will be used decisively. The Committee will make its decisions in a predictable, data-driven and transparent framework.