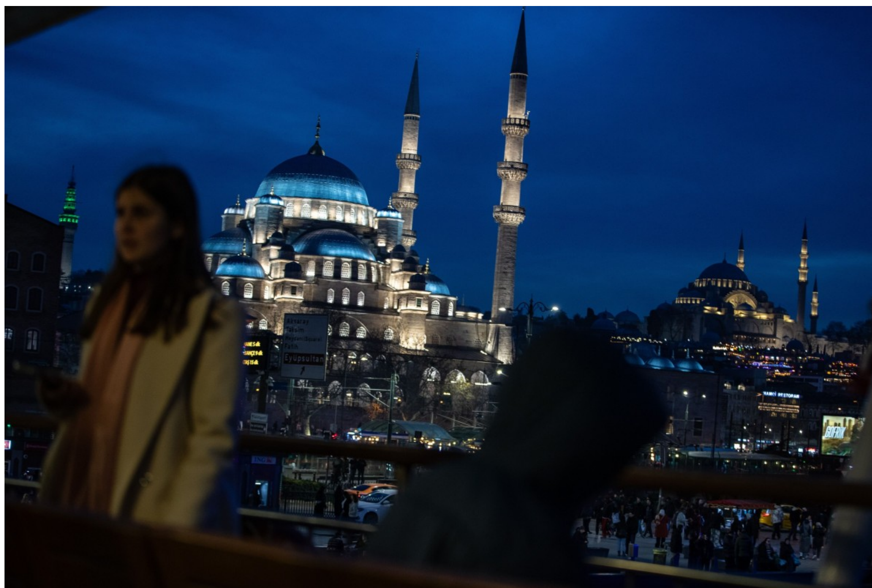
Monitoring Turkey: Turkish policymakers in action

January inflation in Turkey rose to 4.84% month-on-month, but annual inflation eased to 30.7% on base effects. The Turkish central bank is staying cautious, slowing rate cuts amid pricing pressures. The policy rate at year-end is expected to be 28%. Here's a look at Turkey's economy and our forecasts for the month ahead



Turkey's economy at a glance

- January inflation at 4.84% month-on-month was above consensus (4.2%). However, annual inflation has maintained its downtrend with a further decline from 30.9% to 30.7%. While inflation rose by 5.0% in January 2025, the five-year average for January in the CPI index was 6.2%. This suggests a strong base effect, reinforcing the continued decline in annual inflation.
- We have revised our end-year inflation to 23% from 22%, above the Central Bank of Turkey's (CBT's) forecast range, which was at 19% in the November report. The new inflation report to be published on 12 February will shed more light on the bank's assessment of the inflation outlook and its stance for the period ahead.
- Rising pricing pressures and recovery in demand conditions prompted the CBT to be more

cautious with a slowdown in the rate-cutting pace in January, and to implement coordinated macroprudential measures with the BRSA. Going forward, it will continue to closely monitor inflation, demand conditions, international reserves and depositor behaviour to determine the pace of cuts.

- Given upside risks with uncertainty surrounding heavyweight food and energy prices, the central bank will maintain its cautious stance in its current rate-cutting cycle. We expect the CBT to bring the policy rate to 28% by the end of 2026, with risks skewed to the upside.
- In its 2026 policy paper, the CBT announced that it aimed to increase its OMO portfolio to a nominal TRY450bn in 2026, from TRY262bn, up by 72%. In January, the bank bought back TRY38.9bn (roughly 15% of the target).
- Turkey has year-to-date issued around USD5.9bn (with $3.5bn in Jan, EUR2.0bn in Feb), which is 45% of the total $13bn plan for 2026. Given the $18.7bn amortisation this year ($12.5bn of which is principal), the Treasury can exceed the borrowing target as was the case in 2025.

Quarterly forecasts

	3Q25	4Q25	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	3.7	3.9	4.0	3.8	3.7	4.5	4.8	5.1
CPI (eop, %YoY)	33.3	30.9	28.9	26.7	23.9	23.0	20.6	19.5
Central bank key rate (eop, %)	40.50	38.00	35.50	33.00	30.00	28.00	26.00	24.00
3m interest rate (eop, %)	42.58	40.10	35.44	32.95	29.87	27.19	25.91	24.08
10yr yield (eop, %)	31.54	28.89	27.17	26.30	24.48	23.32	21.20	20.30
USD/TRY exchange rate (eop)	41.57	42.94	44.78	46.79	48.86	51.00	53.05	55.06
EUR/TRY exchange rate (eop)	48.80	50.45	53.29	56.15	59.13	62.22	64.72	67.17

Source: Various sources, ING

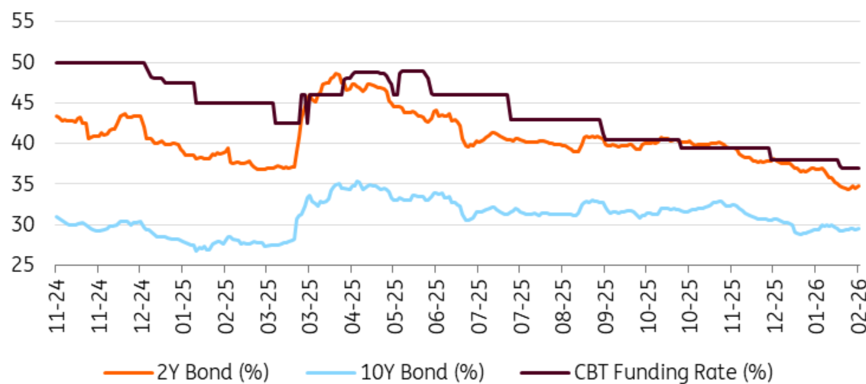
FX and rates outlook

January's higher-than-expected inflation is a game-changer for markets. While we saw rates at record lows in the second half of January, the inflation numbers brought significant repricing upwards and the market is visibly changing its view on the CBT cutting cycle. Before the inflation numbers, the market was expecting a 150bp rate cut at each meeting. Now, the March meeting pricing is less than 100bp, and repricing is probably not over yet. This can be translated as market hesitation between a pause and a 100bp step.

Year end pricing, meanwhile, sits only slightly above 30%, showing a much smaller shift than the market's expectations for the upcoming meeting. While a pause in March would send a strong signal and cannot be dismissed, we think that even if the CBT opts to take a breather, the easing cycle would ultimately resume later. Therefore, for now, we prefer that the market eventually returns to a steepening bias. However, the momentum here is visibly slowing down, and the market will become increasingly cautious, which is not good news for duration and TurkGBs either.

On the other hand, for FX carry trades, a slower cutting cycle is the best possible outcome, in our view. Given the stronger persistence of inflationary pressures, it is increasingly unlikely that the CBT will allow additional inflationary pressures coming from a weakening TRY. Therefore, FX seems to be the main winner in the overall picture. This is visibly reflected in the foreign inflow into TRY long carry trades and, for us, this remains the main view with a growing conviction that we will not see any changes from the central bank in the near future. For USD/TRY, we expect 46.80 by mid-year and 51.00 by year-end.

Local bond yields vs CBT funding rate



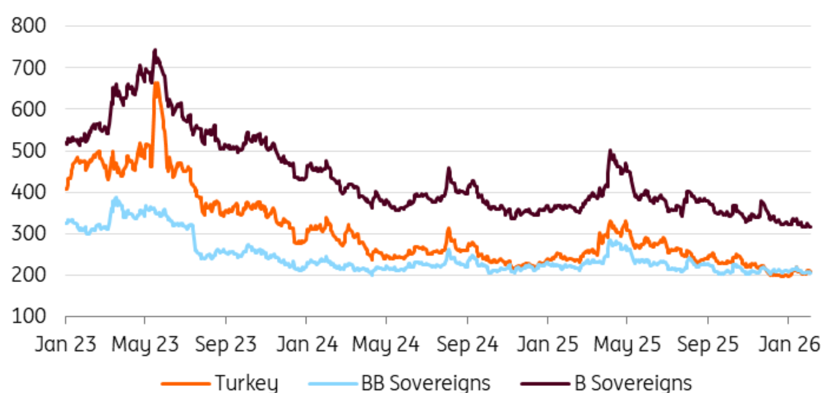
Source: CBT, Bloomberg, ING

Sovereign credit views

The latest developments in Turkey point to a continued, but slower pace, of disinflation, while also reaffirming the cautious policy stance of the central bank. At the same time, an improved rating outlook by Fitch (from stable to positive) highlights the steady improvement in fundamentals over the past six months.

While this momentum is likely to slow, Turkish sovereign credit still seems in a decent spot to generate steady carry, with almost half of the year's planned issuance out of the way. Spread levels have compressed towards the BB average, although current valuations still offer a decent pickup over peers such as South Africa, Brazil and Uzbekistan, especially at maturities in the 5-10-year area.

US$ Bond Sub-Index Spreads vs USTs



Source: Refinitiv, ING

Central bank and banking regulator tightening actions

At the end of January, both the Turkish central bank and the Banking Regulation and Supervision Agency (BRSA) introduced several policy moves tightening FX loans as well as credit card and overdraft facilities.

On the CBT side, the bank introduced changes to the reserve requirement framework to reinforce

its tight monetary stance and strengthen macro-financial stability, taking into account recent developments in foreign currency loans and overdraft accounts. Accordingly, the growth limit for FX loans has been reduced to 0.5% from 1% for the eight week period. The momentum (as measured by the 13-week moving average, FX adjusted, annualised growth) in these loans has shown signals of revival lately, leading to further tightening of the growth cap. Additionally, a growth limit has also been introduced on overdraft account limits allocated to consumers, with the eight week growth cap set at 2%.

The BRSA, on the other hand, announced several moves targeting credit cards (CCs), overdraft facilities, mortgage loans, restructuring of overdue credit cards and general purpose loans. These changes are:

1. Banks have been instructed to partially reduce unused card limits for cardholders whose total credit card limits across all banks exceed TRY400K (close to US$10K). In a separate statement, the authority cited the latest monthly sector data showing that total individual credit card limits had reached TRY13.3tr. Of this amount, only 21% was actively utilised, while the remaining 79% sat unused. The BRSA also reported that there were 40.7m unique cardholders, of whom 30.6m – roughly three-quarters – had limits below TRY400K, indicating that the majority of users would not fall within the scope of the new limit reduction mechanism. This policy action followed a CBT research paper released in late December, which found that credit limit levels are an important determinant of individual CC balances. Banks are also required to base new card issuance and the limit increases solely on verifiable monthly or annual average income.
2. As a complementary move, the limit for opening new overdraft accounts or increasing existing overdraft account limits has been set at a maximum of twice the monthly average income verified through documents deemed acceptable by banks.
3. The distinction between first hand and second hand housing has been removed in determining the loan-to-value ratio for mortgage loans extended to consumers and higher financing for energy-efficient homes.
4. Finally, credit card balances that are partially or fully unpaid, as well as personal loans overdue by more than 30 days, may now be restructured – upon the debtor’s request, within three months of the restructuring date – into maximum maturity of 48 months. The NPL rate on general-purpose loans and individual CCs stands at 5.2% and 4.6%, respectively, as of late January, up from 3.8% and 2.9% at the end of 2024, despite a previous restructuring decision introduced in July.

Inflation brings an upside surprise in January

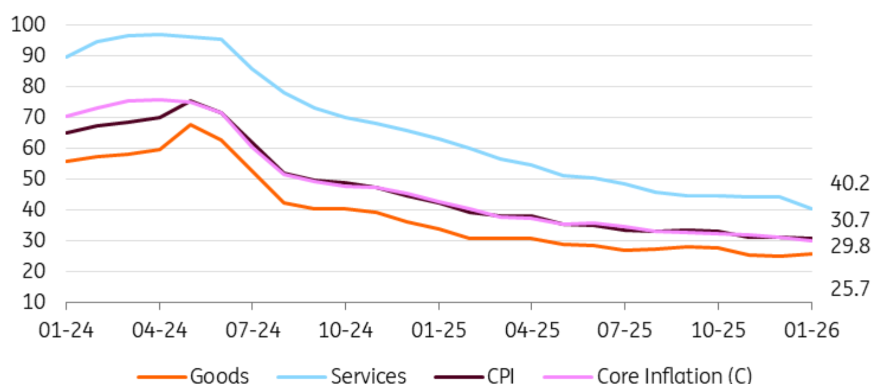
With the release of the January data, TurkStat revised the base year to 2025 "to preserve the representativeness of the index.” Together with the new base year series and in line with the EuroStat recommendation, TurkStat has also revised expenditure weights based on National Accounts Household Final Consumption Expenditure data and increased the number of expenditure groups to 13 from 12 previously.

Between 2025 and 2026, the new series shows some shifts in weights. Accordingly, while weights of housing (-3.86ppt), information & communication (-1.71ppt), health (-1.29ppt), alcoholic beverages & tobacco (-0.77ppt) and food (-0.52ppt) dropped, catering services (2.82ppt), recreation, sport & culture (2.21ppt), transportation (1.09ppt), financial services (0.82ppt) and clothing (0.74ppt) recorded considerable increases. After the changes, the weight of the food

group remained the highest at 24.44%, while transportation stands at 16.62%, followed by housing at 11.4%, and catering services at 11.1%.

January inflation, at 4.84% MoM, was above consensus, given significant pricing pressure in the food group. However, annual inflation has maintained its downtrend with a further decline from 30.9% to 30.7%. While inflation rose by 5.0% in January 2025, the five-year average for January in the CPI index was 6.2%. This suggests a strong base effect, reinforcing the continued decline in annual inflation.

Inflation outlook (YoY%)



Source: TurkStat, ING

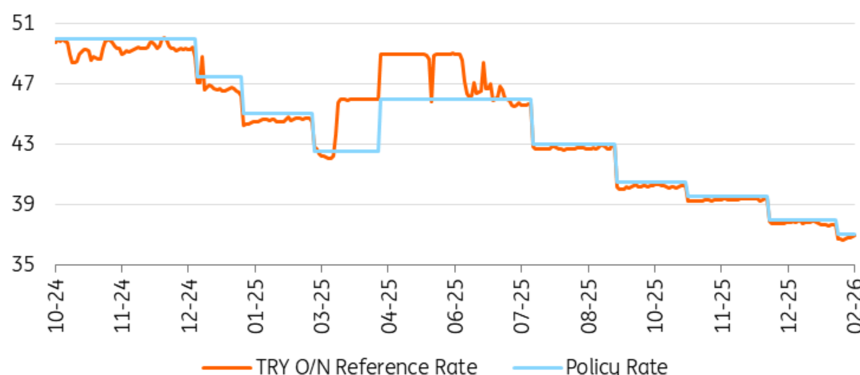
The CBT delivers a cautious 100bp cut

At the first rate-setting meeting of 2026, the Central Bank of Turkey delivered a lower-than-expected rate cut of 100bp vs the 150bp market consensus, with the move showing a decline in the pace in comparison to December on the back of noisy inflation data in January and signs of a pickup in domestic demand. Accordingly, the bank pulled the policy rate to 37% from 38% and kept the width of the interest corridor unchanged at 450bp.

The MPC statement showed some revisions to the macro assessment, while forward guidance and key messages have remained unchanged. In the statement, while pointing out the decline in the underlying trend last month, the CBT reiterated that “monthly consumer inflation has firmed in January” with a limited rise in the underlying trend, which likely impacted its decision to carry out a lower-than-expected cut in the MPC.

The CBT also acknowledged recovering demand conditions in the last quarter, according to early indicators, which should be another factor in the bank’s January move. According to the bank, this backdrop still supports the disinflation process, though at a moderating pace.

The policy rate vs. interbank O/N rate



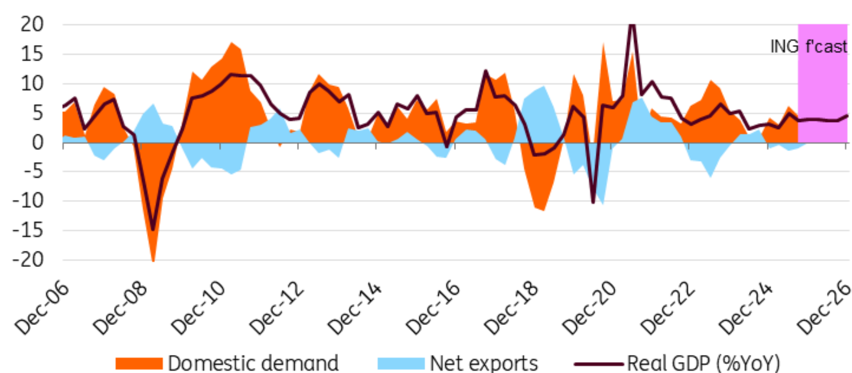
Source: CBT, Bloomberg, ING

Domestic demand on a recovery path

The latest indicators suggest that domestic demand has been recovering. That was also acknowledged by the CBT, which stated in the latest MPC note that demand conditions in the last quarter still support the disinflation process, though at a moderating pace. Real sector confidence dropped slightly in January, though remained above the 4Q average. Confidence indicators in services and construction showed further recovery in January, while confidence in retail trade recorded a drop. This backdrop implies that persistently high inflation expectations, combined with ongoing easing in financial conditions and the wealth effect from rising gold prices, continue to support domestic demand.

On the supply side, Oct-Nov data indicate a decline in industrial production over the third quarter average, while services production remained broadly unchanged. Despite relative strength in construction production, production seems to be weak amid continuing recovery in domestic demand conditions. Regarding soft indicators, manufacturing capacity utilisation has remained on a recovery track since September, though still below the 75% threshold. Meanwhile, the PMI, despite a slight decline in contractionary territory, stood higher than the 4Q average. Soft indicators, on the other hand, suggest that recovery in production is quite slow while financial conditions ease.

Real GDP (%YoY) and contributions (ppt)



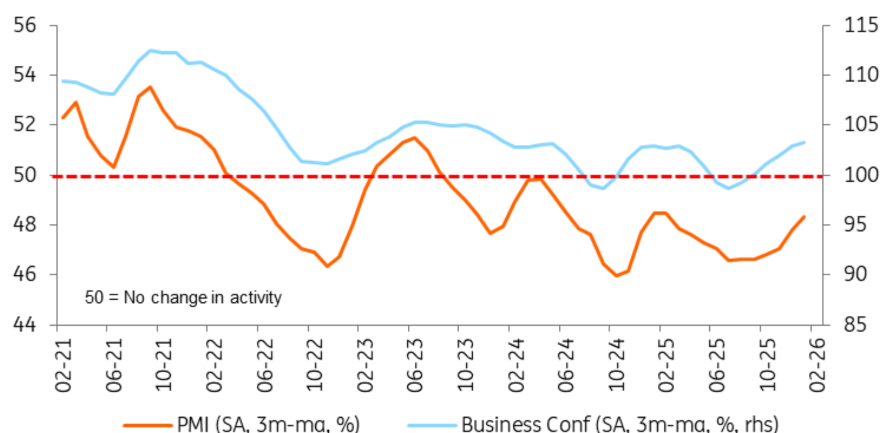
Source: TurkStat, ING

January PMI down slightly vs a month ago

The manufacturing sector (seasonally adjusted basis) PMI that was gradually recovering in the last two months of 2025 inched down in January to 48.1 from 48.9 in December, and has been below the 50 threshold since the first quarter of 2024. The figure, which is still in the contractionary territory, signals continuing but less pronounced challenges in business conditions for the manufacturing sector, especially in comparison to the 4Q average. In the breakdown, the data show some moderation in comparison to December in key variables such as output and new orders, which led to a scale back in employment and purchasing activity. Pricing pressures signalled significant strengthening as evidenced by the January inflation data.

Findings in the sectoral PMIs, on the other hand, released by the Istanbul Chamber of Industry, showed that six of 10 sectors recorded an increase in their PMIs in comparison to December, while four of them positioned above the 50 level. Additionally, compared with the 4Q average, January PMIs were positive with moderately less challenging business conditions at the start of 2026.

PMI & Business Confidence



Source: ICI, CBT, ING

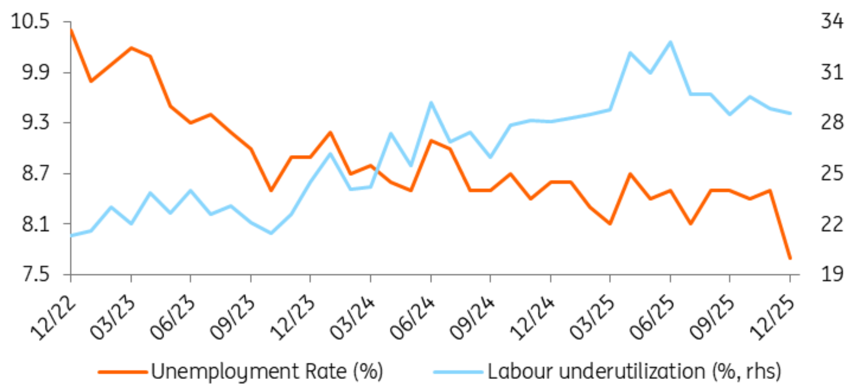
Unemployment rate at all-time low

According to the seasonally adjusted labour market data, the headline unemployment rate plunged in December to the lowest level in the current series starting in 2005. This is attributable to the decline in labour force participation being above the employment decline. Broadly defined unemployment indicators also showed a more positive outlook compared to the previous month.

Accordingly, compared to the previous month, the number of unemployed dropped by 286K, standing at 2.74m, while the unemployment rate stood at 7.7%. The number of employed people, on the other hand, also fell by 42K people compared to the previous month. This implies weak employment generation and employees leaving the workforce as the labour force participation rate fell, standing at 53.2% vs 53.7% in December.

One of the broader unemployment indicators, the underutilisation rate – which combines time-related underemployment, potential labour force, and the unemployed – dropped by 0.3 ppt MoM to 28.6%. For the whole of 2025, the unemployment rate was 8.4%, down from 8.7% in 2024.

Labour market outlook



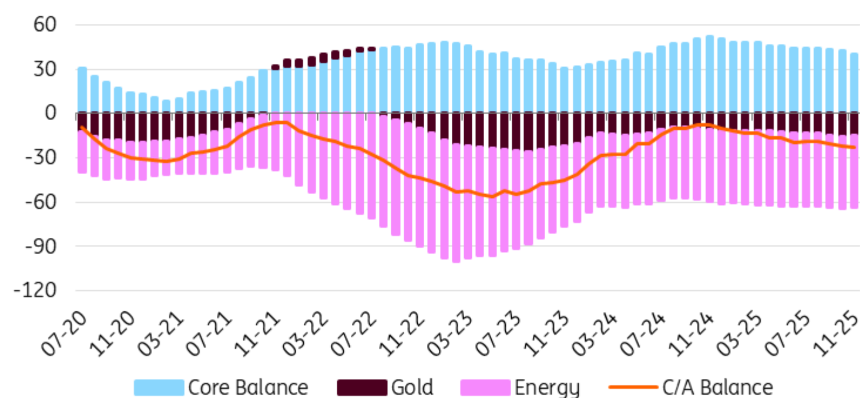
Source: TurkStat, ING

Higher-than-expected November current account deficit

Turkey's current account posted a deficit of US$4.0bn, higher than the market forecast and our call at $3.5bn. A closer look at the monthly figures shows the deficit widened by roughly $1.2bn compared with the same month in 2024, primarily due to a larger trade gap, which increased from $-5.2bn to $-6.4bn. This deterioration was primarily driven by the core trade surplus turning to a deficit and a worsening balance in primary income. However, the lower energy deficit limited the deterioration in the current account balance. As a result, the 12-month rolling current account deficit, which began rising in November of the previous year, continued its uptrend and reached $23.2bn, or approximately 1.6% of GDP, up from $22.0bn a month ago.

On the capital account side, inflows remained weak in November at $1.2bn. With net outflows from errors and omissions of $1.9bn, and considering the current account deficit, official reserves contracted by $4.8bn.

Current account (12M rolling, US$bn)



Source: CBT, ING

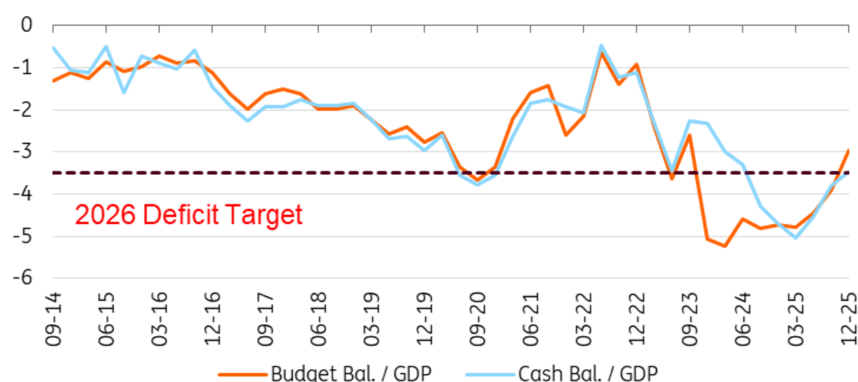
Strong fiscal adjustment in 2025

The central government budget deficit, which stood at 4.7% at the end of 2024, declined to 2.9% in 2025 versus the 3.6% forecast in the latest Medium-term Plan (MTP). Of the total 1.8ppt improvement, 2.3ppt came from the non interest balance, while interest expenditures increased

by 0.5ppt. In the MTP, the government envisages the budget deficit to be around 3.5% of GDP, while the primary budget to be on balance.

The improvement last year in the non interest balance was mainly attributable to higher tax revenues, contributing 1.7ppt. The primary driver of the increase in tax revenues was income tax, contributing 1.2ppt. Domestic (indirect) taxes (VAT and SCT) were also among the major drivers with a total of 0.4ppt contribution. On the expenditure side, the main factor behind the improvement (0.7ppt) was the decline in earthquake related spending.

Budget performance



Source: Ministry of Treasury and Finance, ING

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