# Monthly Economic Review

TÜRKİYE İŞ BANKASI | research.isbank

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**Economic Research Division**

Alper Gürler
Division Head
alper.gurler@isbank.com.tr

H. Erhan Gül
Unit Manager
erhan.gul@isbank.com.tr

Dilek Sarsın Kaya
Asst. Manager
dilek.kaya@isbank.com.tr

Gamze Can
Asst. Manager
gamze.can@isbank.com.tr

Esra Mine Güngör
Asst. Economist
mine.gungor2@isbank.com.tr

Büşra Ceylan
Asst. Economist
busra.ceylan@isbank.com.tr

Nurgül Türkmen
Asst. Economist
nurgul.turkmen@isbank.com.tr



## Global Economy

Following the dispute over budget negotiations in the US Senate, the US federal government was unable to finance non-mandatory expenditures as of October 1, the start of the new fiscal year.

Uncertainty surrounding the global trade and investment environment remains high due to protectionist policies led by the US. The Trump administration has announced new tariffs on the pharmaceutical and furniture sectors and is preparing to implement new measures targeting Chinese technology companies.

At its meeting on September 16-17, Fed cut its policy rate by 25 basis points in line with market expectations, bringing it to a range of 4.00-4.25%. Projections indicate that Fed members expect two more rate cuts this year.

U.S. labor market continues to show signs of weakening amid ongoing uncertainty about the trajectory of inflation. While monthly CPI inflation exceeded expectations at 0.4% in August, ADP private sector employment declined in September despite expectations of an increase.

ECB did not change its key interest rates at its September meeting, in line with market expectations. ECB President Lagarde stated in her remarks after the meeting that they would maintain their data-driven approach in terms of policy stance.

Fed's interest rate cut and expectations of further rate cuts for the remainder of the year supported global stock markets, while gold prices hit historic highs. Oil prices, meanwhile, fluctuated amid developments related to the Russia-Ukraine war and expectations of a supply increase.

## Turkish Economy

Medium-Term Program (MTP) for the 2026-2028 period sets the fundamental objectives as strengthening macroeconomic and financial stability, maintaining fiscal discipline, and ensuring price stability.

Seasonally adjusted unemployment rate rose by 0.4 percentage points mom to 8.5% in August, while the underemployment rate remained high at 29.7%.

ICI Türkiye Manufacturing PMI fell to 46.7 in September, signaling continued weakness in the sector's operating conditions.

In July, current account surplus exceeded market expectations at 1.8 billion USD. Current account deficit, which increased by 64.6% yoy to 21.2 billion USD in the January-July period, stood at 18.8 billion USD based on 12-month cumulative data.

In August, central government budget revenues rose by 86.5% yoy to 1.3 trillion TRY, while budget expenditures displayed a relatively moderate rise of 45.2% to 1.2 trillion TRY. During this period, the central government budget recorded a surplus of 96.7 billion TRY.

CBRT cut its policy rate by 250 basis points to 40.5% at its meeting on September 11.

CPI rose by 3.23% mom in September, significantly exceeding market expectations, while annual CPI inflation rose from 32.95% to 33.29%. During this period, D-PPI rose by 2.52% on a monthly and 26.59% on an annual basis.

### Unemployment rate was 8.5% in August.

According to seasonally adjusted data, the labor force increased by 376K people on a monthly basis in August, and the labor force participation rate rose by 0.6 points to 54%. While employment recorded a more moderate rise of 208K people, the unemployment rate rose by 0.4 points mom in August to 8.5%. During this period, the unemployment rate among young people aged between 15-24 went up by 0.8 percentage points to 16%, while the labor underutilization rate, the broadest measure of unemployment, increased by 0.1 percentage points to 29.7%, continuing to remain high.

### Production indices presented a mixed outlook in July.

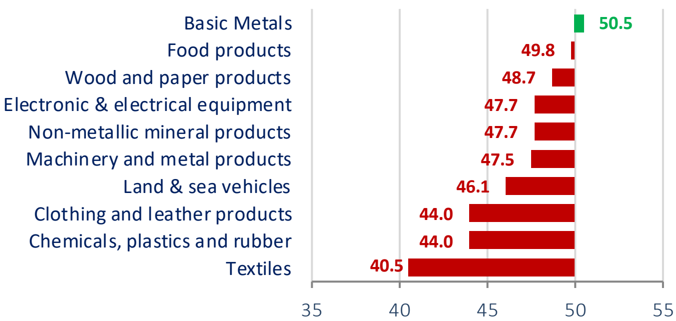
According to seasonally and calendar-adjusted data, the industrial production index declined by 1.8% mom in July, following increases in May and June. While this decline was widespread, manufacturing industry (-2.3%) among the main sectors, non-durable consumer goods (-3.4%) according to product type grouping, and high-tech products (-18.8%) based on technology intensity were the groups that recorded the sharpest monthly declines in production within their respective classifications. During this period, production decreased in 17 of the 24 sub-sectors that constitutes the manufacturing industry, with the most significant decline recorded in the manufacture of wood products (-8.2%). According to calendar-adjusted data, the annual increase in industrial production lost momentum as well, falling to 5% in July.

On the other hand, the divergence in production indices of services and construction sectors kept on in July. Services production index continued to contract on a monthly basis (0.4%), while its annual increase fell to 2.5%. Construction production index, however, sustained expansion for the third consecutive month even if it lost some momentum. Thus, the index increased by 1.9% on a monthly and 24.1% on an annual basis.

### ICI Türkiye manufacturing PMI fell to 46.7 in September.

Türkiye's manufacturing PMI, published by Istanbul Chamber of Industry (ICI), fell from 47.3 in August to 46.7 in September, indicating that weak trend in the sector's operating conditions continued. In September, new orders and export orders slowed further due to weak demand, while companies recorded significant declines in employment, input purchases, and pre-production inventories. Furthermore, input costs in September showed their fastest increase in the last three months, while final sales prices displayed their fastest rise in the last five months. According to sectoral basis, the PMI remained below the threshold value in all sectors except food products in September, with the deepest contraction seen in the textile sector.

**ICI Türkiye Sectoral PMI**
(September 2025)




### Demand indicators signaled slowdown in domestic demand.

According to seasonally and calendar-adjusted data, falling by 0.2% mom in July retail sales recorded its first monthly decline since March, while the annual increase in sales fell slightly to 13%. In this period, wholesales had its sharpest contraction (10%) since April 2020. The index's annual growth rate fell from 28% in June to 11.4%. Thus, trade sales volume index, which recorded the fastest contraction in almost two and a half years by declining 6.5% mom, expanded by 11.6% on an annual basis. The figures pointed to a slowdown in domestic demand.

### The housing market continued its solid course in August.

In August, domestic house sales rose by 6.8% yoy to 143,319 units. This marks the second highest August sales figure in the data set following August 2020. During this period, mortgage sales continued to grow rapidly at 45.2%, while the share of these sales in total remained low at 13.8%. Total house sales in January-August period increased by 21.3% yoy to 806,317 units.

In line with the positive trend in the market, the housing price index rose by 2.53% mom in August, exceeding CPI inflation and recording the fastest increase in the last 3 months. In contrast, the annual rise in housing prices was realized as 31.4%, the lowest level in the last six months. Thus, the annual real decline in housing prices continued in August at 1.2%.

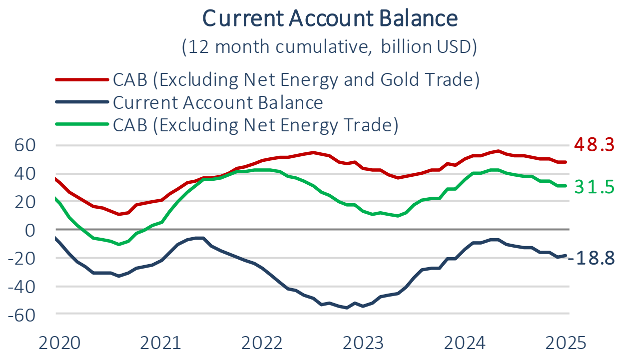
### Consumer confidence index declined in September.

According to seasonally adjusted data, the consumer confidence index fell by 0.4% mom to 83.9 in September. The decline in the index was mainly driven by the fall (3.2% mom) in the sub-index of "financial situation of household at present" . On the other hand, the seasonally adjusted real sector confidence index rose by 0.2 points mom to 100.8, continuing to be close to the threshold value. Assessments on the fixed capital investment expenditure and on the total order volume for both the current period and last three months were behind the increase in real sector confidence. Sectoral confidence indices presented a mixed picture in September. The confidence index increased in retail trade (0.4%) and the construction sector (3.6%), while it declined in the services sector (0.1%). Thus, the economic confidence index recorded a limited rise of 0.1% to 98 in September.

Source: CBRT, Datastream, ICI, TURKSTAT

### Current account posted a surplus of 1.8 billion USD in July.

The current account surplus exceeded market expectations in July, realizing at 1.8 billion USD. Markets expected a surplus of 1.6 billion USD during this period. In January-July period, current account deficit increased by 64.6% yoy to 21.2 billion USD. The 12-month cumulative current account deficit became 18.8 billion USD during this period.



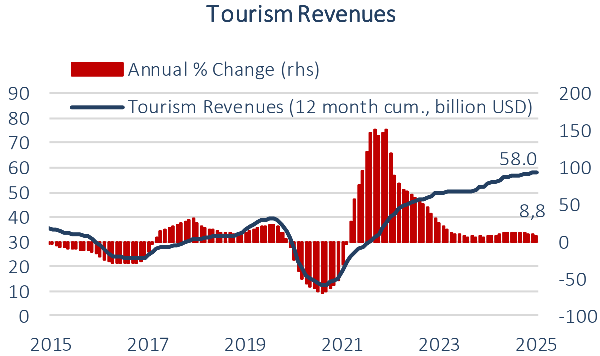

### The foreign trade deficit narrowed in July.

The foreign trade deficit, as defined by the balance of payments methodology, fell by 8.5% yoy in July to 4.6 billion USD. During this period, the general merchandise trade balance recorded a 13.8% decline, while non-monetary gold imports fell by 5.5% yoy to 943 million USD, the lowest level since April 2022. Thus, the current account surplus excluding net gold trade was 2.3 billion USD in July. Energy imports fell by 2.8% yoy to 5.2 billion USD during this period, while the current account balance excluding net energy and gold trade recorded a surplus of 6 billion USD, the highest level since October 2024.

In the first seven months of the year, the balance of payments defined trade deficit increased by 19.0% yoy, while net gold imports increased by 45.8% yoy and net energy imports increased by 0.6% yoy during this period.

### Tourism revenues reached 30.6 billion USD in the first seven months of the year.

Net services revenues rose by 4.1% yoy in July, reaching 8.0 billion USD. Services revenues increased by 2.9%, while services expenses rose by a limited 0.9%. Tourism revenues,



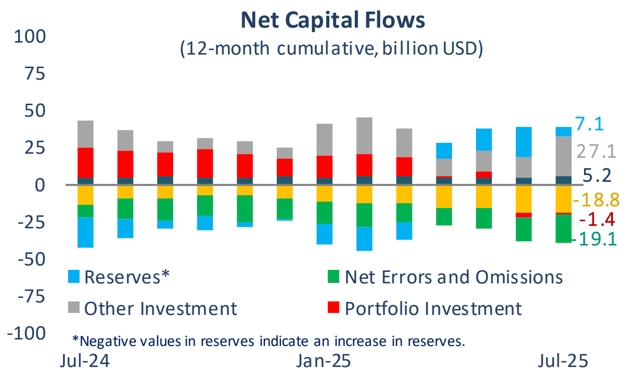

which accounted for 53% of total services revenues during this period, fell by 0.8% yoy to 6.8 billion USD. Tourism expenses fell by 7.2% yoy to 617 million USD. Thus, net tourism revenues remained relatively flat, falling by 0.1% yoy to 6.2 billion USD. Transportation revenues, which accounted for 32% of service revenues during this period, increased by 5.5% to 4.1 billion USD.

In the first seven months of the year, net tourism revenues increased by 1.3% to 25.1 billion USD, while tourism revenues increased by 5.8% to 30.6 billion USD.

### On the financing side, other investments and portfolio investments inflows stood out in July.

In July, net capital inflows in other investments reached 11.2 billion USD, the highest level since May 2020. Net capital inflows of 8.8 billion USD were recorded in the currency and deposits items, while net capital inflows in the loans item amounted to 3.1 billion USD. In July, banks borrowed 3.1 billion USD against 1.6 billion USD in long-term debt repayments, while other sectors borrowed 2.1 billion USD against 1.1 billion USD in long-term debt repayments. According to 12-month cumulative data, the long-term debt rollover ratios of banks and other sectors continued to exceed their long-term averages at 164% and 149%, respectively.

In portfolio investments, a capital inflow of 5.1 billion USD was recorded in July. During this period, net foreign capital inflows into the Government Domestic Debt Securities market amounted to 2.0 billion USD, while net purchases of the Treasury's Eurobond securities reached 2.4 billion USD. The equity market also recorded the highest monthly net foreign capital inflow since December 2023, amounting to 859 million USD.




### Net foreign direct investment inflows reached 2 billion USD in July...

Net direct investments made by non-residents in Türkiye recorded the strongest inflow since May 2022 in July, reaching 2.0 billion USD. During this period, capital investments amounted to 1.5 billion USD, while real estate investments reached 358 million USD.

Source: Datastream, Turkstat, CBRT

In July, net asset acquisitions abroad by residents amounted to 802 million USD. Thus, net direct investment inflows became 1.2 billion USD.

**Reserve assets expanded at a record pace in July.**

Reserve assets reached a historic high in July, increasing by 18.6 billion USD. In the first seven months of the year, reserve assets contributed to the financing of the current account deficit. During this period, reserve assets decreased by 8.6 billion USD.

**A capital outflow of 4.9 billion USD was recorded in the net error and omission item in the first seven months of the year.**

In July, there was an outflow of 582 million USD in the net error and omission item. As of the first seven months of the year, an outflow of 4.9 billion USD was recorded.

**Expectations...**

The current account balance, which recorded a deficit of 2 billion USD in June, posted a surplus above expectations in July. The 12-month cumulative current account deficit declined slightly compared to the previous month. Following the narrowing of the foreign trade deficit in July, August data points to a 15.8% annual decline in the foreign trade deficit as well. Against this backdrop, current expectations for the year-end deficit seem achievable.

The current account deficit to GDP ratio, which stood at 0.8% at the end of last year, was recorded at 1.3% as of the first half of this year, according to 12-month cumulative data. The year-end expectation for the said ratio in the Medium Term Program announced last week is 1.4%. In US dollar terms, the MTP forecasts a current account deficit of 22.6 billion USD at the end of 2025, while the market expectation for the year-end current account deficit stands at 20.9 billion USD, according to the results of the CBRT's Survey of Market Participants published today.

Balance of Payments (USD million)

| | Jul. 2025 | Jan. - Jul. 2024 | Jan. - Jul. 2025 | % Change | 12-month Cumulative |
|---|---|---|---|---|---|
| **Current Account Balance** | **1,766** | **-12,895** | **-21,224** | **64.6** | **-18,786** |
| Foreign Trade Balance | -4,635 | -35,037 | -41,695 | 19.0 | -62,680 |
| Services Balance | 8,024 | 31,077 | 31,726 | 2.1 | 62,018 |
| Travel (net) | 6,209 | 24,731 | 25,057 | 1.3 | 49,246 |
| Primary Income | -1,462 | -8,912 | -10,780 | 21.0 | -17,744 |
| Secondary Income | -161 | -23 | -475 | 1,965.2 | -380 |
| **Capital Account** | **-120** | **-98** | **-125** | **27.6** | **-153** |
| **Financial Account** | **1,064** | **-16,639** | **-26,249** | **57.8** | **-38,023** |
| Direct Investment (net) | -1,224 | -3,035 | -3,098 | 2.1 | -5,194 |
| Portfolio Investment (net) | -5,097 | -12,550 | 790 | - | 1,363 |
| Net Acquisition of Financial Assets | 1,091 | 5,122 | 5,314 | 3.7 | 9,724 |
| Net Incurrence of Liabilities | 6,188 | 17,672 | 4,524 | -74.4 | 8,361 |
| Equity Securities | 859 | -1,271 | 1,387 | - | 177 |
| Debt Securities | 5,329 | 18,943 | 3,137 | -83.4 | 8,184 |
| Other Investment (net) | -11,212 | -145 | -15,371 | 10,500.7 | -27,089 |
| Currency and Deposits | -8,816 | 8,556 | -5,416 | - | -74 |
| Net Acquisition of Financial Assets | -6,554 | 9,273 | -1,405 | - | 1,689 |
| Net Incurrence of Liabilities | 2,262 | 717 | 4,011 | 459.4 | 1,763 |
| Central Bank | -503 | -7,710 | -6,878 | -10.8 | -11,034 |
| Banks | 2,765 | 8,427 | 10,889 | 29.2 | 12,797 |
| Foreign Banks | 2,569 | 5,124 | 10,283 | 100.7 | 11,884 |
| Foreign Exchange | 442 | 1,008 | 4,768 | 373.0 | 6,325 |
| Turkish Lira | 2,127 | 4,116 | 5,515 | 34.0 | 5,559 |
| Non-residents | 196 | 3,303 | 606 | -81.7 | 913 |
| Loans | -3,056 | -12,559 | -9,651 | -23.2 | -23,206 |
| Net Acquisition of Financial Assets | -1,172 | 334 | 1,980 | 492.8 | 3,907 |
| Net Incurrence of Liabilities | 1,884 | 12,893 | 11,631 | -9.8 | 27,113 |
| Banking Sector | -4 | 13,206 | 3,914 | -70.4 | 15,774 |
| Non-bank Sectors | 1,361 | -421 | 7,252 | - | 10,303 |
| Trade Credit and Advances | 668 | 3,872 | -291 | - | -3,744 |
| Other Assets and Liabilities | -8 | -14 | -13 | -7.1 | -65 |
| Reserve Assets (net) | 18,597 | -909 | -8,570 | 842.8 | -7,103 |
| **Net Errors and Omissions** | **-582** | **-3,646** | **-4,900** | **34.4** | **-19,084** |

Source: CBRT, Ministry of Trade, Datastream, TURKSTAT

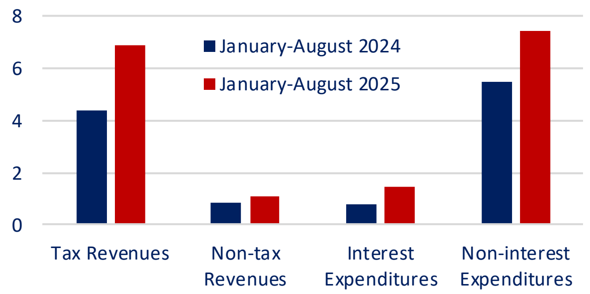
**Central government budget posted a surplus of 96.7 billion TRY in August.**

In August, central government budget revenues increased by 86.5% yoy to 1.3 trillion TRY, while budget expenditures recorded a more moderate rise with 45.2% and became 1.2 trillion TRY. Thus, the central government budget posted a surplus of 96.7 billion TRY in August. During this period, primary budget surplus was realized as 276.4 billion TRY. In the January-August period, central government budget deficit decreased by 6.8% compared to the same period of last year and became 907.6 billion TRY.

**Tax revenues continued to grow rapidly in August.**

Tax revenues, which have shown strong growth since the beginning of the second half of the year, surged by 99.5% yoy and reached 1.2 trillion TRY in August . Corporate tax revenues, which accounted for 25.5% of tax revenues recorded a 14.3-fold annual increase, partly due to differences in the collection period and became 292.9 billion TRY. In the same period income tax revenues, which accounted for 21.4% went up by 80.7% yoy to 245.9 billion TRY. In August, domestic value-added tax revenues (64.1%) and special consumption tax revenues (47.8%) showed increases above the annual CPI inflation rate, while value-added tax collected on imports recorded a more limited rise of 26.7% due to the moderate trend in foreign exchange rates. Thus, tax revenues from the consumption of goods and services totaled 472.3 billion TRY in August, accounting for 41.1% of total tax revenues. During this period, the halving of portfolio revenues of Treasury compared to the same month of last year caused a 30.8% annual contraction in property income revenues. Interest, shares, and fines revenues rose by 42.6% yoy, exceeding the annual CPI inflation, due to high increases in shares from person and agencies and fines, despite a limited 18% rise in interests.

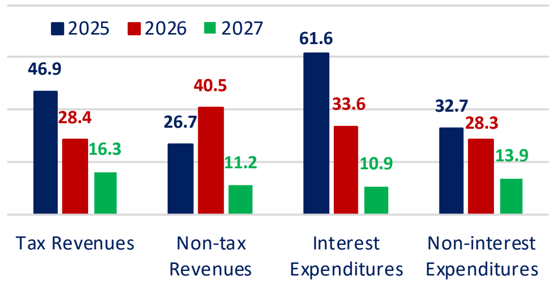
**Main Budget Items**
(TRY trillion)




**Interest expenses rose by 85.2% yoy.**

In August, interest expenses went up by 85.2% and became 179.7 billion TRY. Thus, the share of interest expenditures in total budget expenditures continued to be high at 15.1%. During this period, current transfers, which accounted for 44.4% of budget expenditures excluding interest, increased by 48.8% yoy to 449.4 billion TRY, while personnel expenditures, which accounted for 30%, rose by 31.9% yoy to 303.1 billion TRY. Expenditures on goods and services (49.9%) and capital expenditures (45.5%) increased above the annual CPI inflation rate. During this period, 12.9 billion TRY was allocated to the Turkish State Railways from the lending item. There were allocations of 27 billion TRY to Electricity Generation Corporation and 18 billion TL to Petroleum Pipeline Corporation (BOTAS), both from the assignment item under current transfers.

**Annual % Change in Main Budget Items According to MTP Targets**




**Expectations…**

In August, despite budget expenditures continued to rise above CPI inflation, tax revenues nearly doubled yoy, resulting in a surplus in the central government budget. Thus, the budget deficit for the January-August period stood at 907.6 billion TRY. In the Medium-Term Program announced on September 8, the budget deficit target for the end of 2025 was revised from 1.9 trillion TRY to 2.2 trillion TRY, and as a percentage of GDP, from 3.1% to 3.6%. Within this framework, the cumulative budget deficit for the first eight months of the year constituted 41.1% of the target set in the MTP for the whole year. In the coming period, when the CBRT is expected to continue with its interest rate cuts, the size of the cuts and their impact on economic activity will continue to be decisive for budget revenues through taxes.

**Central Government Budget** (billion TRY)

| | August | | % | January-August | | % | 2025 Budget | MTP | Real./ MTP |
|---|---|---|---|---|---|---|---|---|---|
| | 2024 | 2025 | Change | 2024 | 2025 | Change | Target | Target | Target (%) |
| **Expenditures** | **820.3** | **1,191.4** | **45.2** | **6,226.6** | **8,891.2** | **42.8** | **14,731.0** | **14,674.1** | **60.6** |
| Interest Expenditures | 97.0 | 179.7 | 85.2 | 764.0 | 1,425.8 | 86.6 | 1,950.0 | 2,052.7 | 69.5 |
| Non-Interest Expenditures | 723.3 | 1,011.6 | 39.9 | 5,462.6 | 7,465.4 | 36.7 | 12,781.0 | 12,621.4 | 59.1 |
| **Revenues** | **690.7** | **1,288.1** | **86.5** | **5,253.0** | **7,983.6** | **52.0** | **12,800.3** | **12,465.9** | **64.0** |
| Tax Revenues | 576.7 | 1,150.4 | 99.5 | 4,401.8 | 6,871.7 | 56.1 | 11,138.8 | 10,733.6 | 64.0 |
| Other Revenues | 114.0 | 137.7 | 20.8 | 851.2 | 1,111.9 | 30.6 | 1,661.6 | 1,732.3 | 64.2 |
| **Budget Balance** | **-129.6** | **96.7** | **-** | **-973.6** | **-907.6** | **-6.8** | **-1,930.7** | **-2,208.3** | **41.1** |
| **Primary Balance** | **-32.5** | **276.4** | **-** | **-209.5** | **518.1** | **-** | **19.3** | **-155.6** | **-** |

Numbers may not add up to total value due to rounding.

Source: Datastream , Ministry of Treasury and Finance

**CPI rose by 3.23% mom in September.**

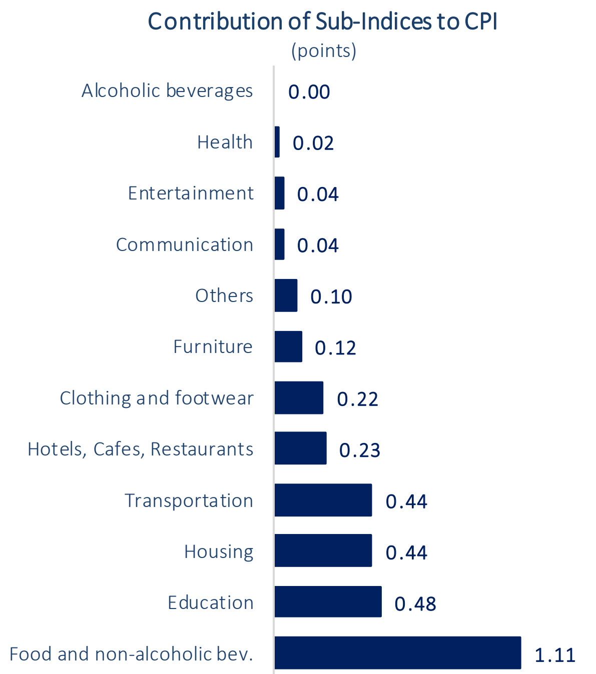
Monthly CPI inflation in September was realized as 3.23%, significantly above the market expectations of 2.60%. Thus, annual CPI inflation increased to 33.29%, halting the disinflationary trend in annual figures that had been ongoing since June 2024. During this period, the monthly increase in the PPI also gained momentum at 2.52%, while producer price inflation rose to 26.59% yoy.

| September | CPI | | D-PPI | |
|---|---|---|---|---|
| (change %) | 2024 | 2025 | 2024 | 2025 |
| Monthly | 2.97 | 3.23 | 1.37 | 2.52 |
| Year-to-Date | 35.86 | 25.43 | 25.55 | 23.66 |
| Annual | 49.39 | 33.29 | 33.09 | 26.59 |
| Annual Average | 63.47 | 38.36 | 44.81 | 25.83 |

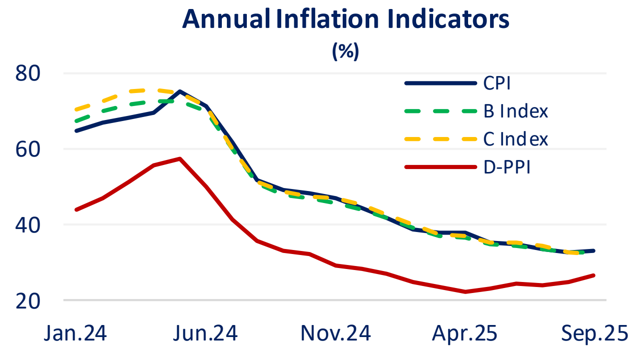
**Price increases were widespread across all sub-indices of the CPI.**

In September, prices rose in all 12 main expenditure groups that constitute the CPI, except for alcoholic beverages and tobacco, while prices in three expenditure groups (food, clothing, and education) rose faster than the headline CPI. During this period, prices in the food and non-alcoholic beverages group, which has the highest weight in the CPI basket, rose by 4.62% compared to the previous month, increasing the monthly CPI inflation by 1.11 points. The rapid seasonal increase in prices in the education group, at 17.9% mom, raised the monthly CPI inflation by 0.48 points. During this period, price increases in the housing and transportation groups also contributed 0.44 points each to monthly CPI inflation. In the clothing and footwear group, which is also influenced by seasonal factors, prices rose by 3.92% mom, contributing 0.22 points to the CPI.

**Core inflation figures were consistent with headline inflation.**




Although items that played a significant role in September had considerable price increases due to seasonal effects, the monthly increase in the A index (CPI excluding seasonal products) was 3.13%, demonstrating that the deterioration in inflation outlook was widespread in September. Monthly increases in other core inflation indicators, B (CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco, and gold) and C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco products, and gold), were also high, at 3.34% and 3.22%, respectively.




In September, prices in the energy group rose by a modest 1.24% mom, while the price increase for unprocessed food products was 5.53% during this period. While goods inflation stood at 2.79% in September, it was notable that services inflation remained high at 4.10%. The high service inflation was driven by inertia in actual rentals paid by tenants, as well as price increases in other services, including transportation and education. During this period, the increase in communication services was relatively low at 0.8%.

**The upward trend in annual D-PPI inflation continued.**

In September, the monthly rise in domestic producer prices, which stood at 2.52%, was seen across all sub-items except electricity, gas, and steam. The sectors contributing most to the monthly increase in producer prices were food (1.36 points), other manufactured goods (0.13 points), and basic metals (0.11 points). The annual inflation rate in the D-PPI, which declined to 22.50% in April, rose in the following period to reach 26.59% in September, partly due to the end of the favorable base effect, indicating that cost pressures may continue to be influential on the CPI side for a while.

**Expectations…**

In September, inflation indices deteriorated significantly due to rises in food, housing, and transportation group prices along with seasonal factors. The persistence of high core inflation readings raised concerns about the disinflationary process. In this scenario, due to persistent inertia, we anticipate annual CPI inflation exceeding the projection range provided by the CBRT in its most recent Inflation Report.

Source: Datastream, Turkstat

| | 29.Aug | 30.Sep | Change |
|---|---|---|---|
| 5-Y CDS (basis point) | 261 | 249 | -12 bp ▼ |
| 2-Y Benchmark Bond Yield (%) | %38,93 | %39,38 | 45 bp ▲ |
| BIST-100 | 11.288 | 11.012 | -%2,4 ▼ |
| USD/TRY | 41,1005 | 41,5658 | %1,1 ▲ |
| EUR/TRY | 48,0272 | 48,7213 | %1,4 ▲ |
| Currency Basket* | 44,5639 | 45,1436 | %1,3 ▲ |

(*) (0,5 USD/TRY + 0,5 EUR/TRY)

### The Medium Term Program was published in September.

The Medium Term Program (MTP) for the 2026-2028 period was published in the Official Gazette on September 8. The MTP sets the main objectives as strengthening macroeconomic and financial stability, maintaining fiscal discipline, and ensuring price stability by reducing inflation to single digits in the medium term. In terms of macroeconomic forecasts, compared to the program announced last year, the MTP projected slower growth, a lower unemployment rate, higher inflation, and higher budget deficit/GDP ratios.

### CBRT lowered its policy rate to 40.5%.

At its meeting on September 11, the CBRT lowered the one-week repo auction rate, which is the policy rate, from 43% to 40.5%, the overnight lending rate from 46% to 43.5%, and the overnight borrowing rate from 41.5% to 39%. The statement released after the meeting pointed out that the underlying trend of inflation slowed in August and that demand conditions were disinflationary as the recent data suggested. On the other hand, CBRT noted that food prices and high inertia in services items continued to exert upward pressure on inflation. CBRT also stated that inflation expectations, pricing behavior, and global developments remained as risk factors for the disinflation process.

Against this backdrop, CBRT noted that steps to be taken regarding the policy rate would be determined in a manner consistent with the intermediate targets and would ensure the tightness required for disinflation, and that monetary policy stance would be tightened if the inflation outlook diverged significantly from the intermediate targets.

### Inflation expectations for 12-month ahead declined in September.

Inflation expectations for 12-month ahead improved slightly across all sectors in September. During this period, annual CPI inflation expectations for the next 12 months declined by 0.6 percentage points compared to the previous month to 22.3% among market participants, by 0.9 percentage points to 36.8% in the real sector, and by 1.1 percentage points to 53% among households. In September, the percentage of households expecting inflation to fall over the next 12 months decreased by 0.2 percentage points compared to the previous month, and became 27.4%. On the other hand, according to the results of the CBRT Survey of Market Participants for September, participants' annual CPI inflation expectations for the end of 2025 rose slightly to 29.86%. According to the Survey results, market participants' USD/TRY expectations stood at 43.85 for the end of 2025 and 48.96 for 12-month ahead. Survey participants' GDP growth expectations rose by 0.3 points to 3.2% for 2025, while remaining unchanged at 3.7% for 2026.

### Securities portfolio of non-residents...

According to data adjusted for price and exchange rate movements, as of September 26, the equities portfolio of non-residents decreased by a net 122 million USD compared to the end of August, while the GDDS portfolio (based on the total of outright purchases, reverse repos, taken-as-collaterals, and securities borrowing) decreased by a net 1.9 billion USD. Thus, since the beginning of the year, there has been a net inflow of 1.8 billion USD into the stock market, while the net outflow from the GDDS market amounted to 3.3 billion USD. As of September 26, the CBRT's gross reserves increased by around 4.6 billion USD compared to the end of August, reaching 183 billion USD, partly due to the rise in gold prices, while its net international reserves decreased by 900 million USD to 72.7 billion USD.

**Medium Term Program Estimates**

| (annual, %) | 2025 (RE) | 2026 (P) | 2027 (P) | 2028 (P) |
|---|---|---|---|---|
| **GDP Growth** | **3.3** | **3.8** | **4.3** | **5.0** |
| *Previous MTP* | 4.0 | 4.5 | 5.0 | |
| **CPI Inflation** | **28.5** | **16.0** | **9.0** | **8.0** |
| *Previous MTP* | 17.5 | 9.7 | 7.0 | |
| **Unemployment Rate** | **8.5** | **8.4** | **8.2** | **7.8** |
| *Previous MTP* | 9.6 | 9.2 | 8.8 | |
| **C.A Balance/GDP** | **-1.4** | **-1.3** | **-1.2** | **-1.0** |
| *Previous MTP* | -2.0 | -1.6 | -1.3 | |
| **Budget Balance/GDP** | **-3.6** | **-3.5** | **-3.1** | **-2.8** |
| *Previous MTP* | -3.1 | -2.8 | -2.5 | |

*RE: Realization Estimate, P: Program*

### BIST-100 index closed September with a monthly loss of 2.4%.

Although the BIST-100 index rose to 11,468 on September 11, buoyed by optimism following the CBRT's interest rate cut, it fluctuated throughout the month due to domestic developments and ended September with a monthly decline of 2.4%. During this period, the index in USD terms fell by 3.5% compared to the end of August to 264.9 USD. Yields on 2-year and 10-year benchmark bonds rose by 45 and 16 basis points, respectively, while Türkiye's 5-year CDS premium fell by 12 basis points mom to 257 basis points as of September 30. During this period, USD/TRY and EUR/TRY rose by 1.1% and 1.4%, respectively.

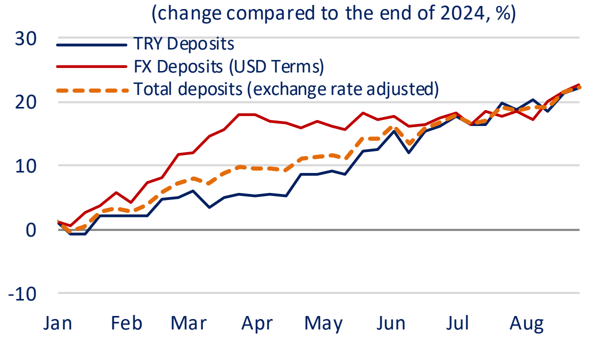
Source: CBRT, Datastream, Reuters

### The volume of foreign currency deposits increased by 3.5% mom in September.

According to the BRSA data, as of the week of September 26, the total deposit volume in the banking sector reached 25 trillion TRY, expanding by 4.6% mom and by 31.4% ytd. During the same periods, the TL deposit volume increased by 2.9% and 22.2%, respectively, reaching 15.4 trillion TRY. The FX-protected deposits' (KKM) volume, for which account opening and renewal transactions for real persons were terminated as of August 23, declined to 292.8 billion TRY as of September 26, while the ratio of KKM to total TP deposits fell from 9.1% to 1.9%, compared to the end of 2024. The foreign exchange equivalent of the KKM volume, which peaked at 127.6 billion USD in August 2023, stood at 7 billion USD as of September 26. The foreign currency deposit volume in USD terms expanded by 3.5% (7.8 billion USD) mom and 22.8% (43 billion USD) ytd, rising to 231 billion USD as of September 26. Adjusted for the exchange rate effect, domestic resident individuals' foreign currency deposits decreased by 1.0 billion USD mom and by 948 million USD ytd. During the same periods, changes in

**Deposit Growth**

(change compared to the end of 2024, %)



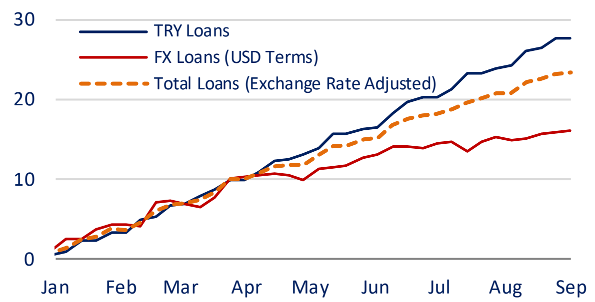

foreign currency deposits of corporates amounted to 3.8 billion USD and -776 million USD, respectively. As of September 26, the ratio of foreign currency deposits to total deposits stood at 38.3% (including KKM: 40%).

### Total credit volume reached 21 trillion TRY.

As of September 26, TL credit volume in the banking sector expanded by 3.5% mom and by 29.4% ytd, reaching 13 trillion TRY. The foreign currency credit volume in USD terms increased by 1.0% and 15.9% respectively during the

**Loan Growth**

(change compared to the end of 2024, %)



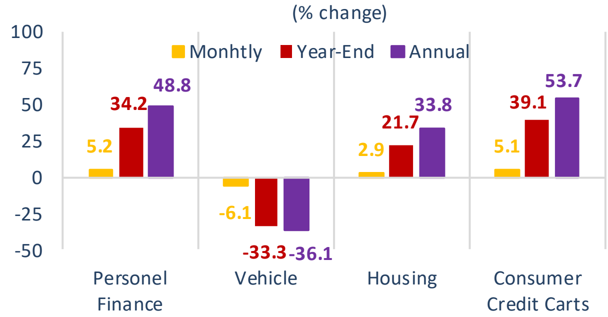

same periods, rising to 194.4 billion USD. Thus, the total credit volume rose by 3.5% mom and 32.3% ytd, reaching 21 trillion TRY. According to data adjusted for exchange rate effects, the increases recorded in the total credit volume during the same periods were 2.9% and 24.4%, respectively.

### The consumer credit card balance expanded by 53.7% yoy.

As of September 26, the annual growth in retail loans was 47.1% due to the rapid increase in consumer credit cards and personal finance loans. During this period, the rise in consumer credit cards, which accounted for approximately

**Consumer Loans as of End-September**

(% change)




half of the total retail credit balance, was 53.7%, while the annual increase in personal finance loans, which accounted for 37.5% of retail loans, was 48.8%. On the other hand, housing loans displayed a more moderate increase of 33.8% in the same period, and the annual decline in vehicle loans continued at 36.1%. Growth in retail loans since the end of 2024 was 28.5% as of September 26. During this period, consumer credit card balances, consumer loans, and housing loans expanded by 39.1%, 34.2%, and 21.7%, respectively.

### Non-performing loans ratio stood at 2.27%.

In line with tight financial conditions, the banking sector's non-performing loans ratio continued to rise in September. As of September 26, the sector's NPL ratio increased to 2.27%, reaching its highest level since October 2022. This ratio stood at 3.87% for consumer loans, the highest level since June 2017, while it was recorded at 1.76% for commercial loans.

### Net foreign currency position...

As of September 26, the banking sector's on-balance sheet foreign currency position was (-)40,007 million USD, while its off-balance sheet foreign currency position was (+) 41,984 million USD. Thus, the sector's net foreign currency position was recorded at (+) 1,976 million USD.

Source: BRSA Weekly Bulletin

## Concluding Remarks

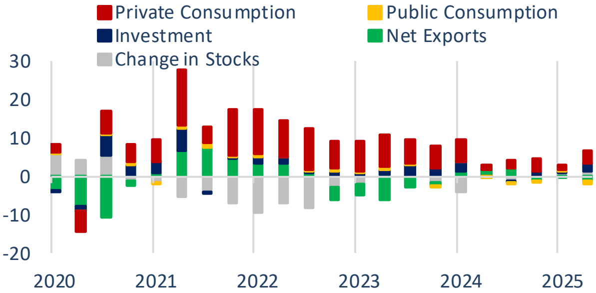
The global agenda remained quite busy in September. With increasing signs of weakness in the US labor market, Fed made its first interest rate cut decision this year. As well as this rate cut Fed members' dot projections and market expectations pointing to two more rate cuts for the remainder of the year, supported global risk appetite. News flow regarding artificial intelligence investments in the US drew the rise of technology stocks as well. However, uncertainties surrounding the global trade and investment environment remain high due to protectionist policies led by the US. In recent weeks, Trump's announcement of new tariffs on the pharmaceutical and furniture sectors and new protectionist measures targeting Chinese technology companies were closely followed. The failure to reach an agreement on budget proposals in the US Senate, resulting in the government being unable to spend money at the start of the new fiscal year on October 1, was a worrying development, although it did not initially affect the markets. In the coming period, the course of budget negotiations in the US and the Fed members messages regarding monetary policy will be closely monitored.

Medium Term Program covering the 2026-2028 period was published on September 8. Ensuring price stability was among the main objectives of the Program. Compared to the previous program, growth forecasts were revised downward and inflation expectations were revised upward.

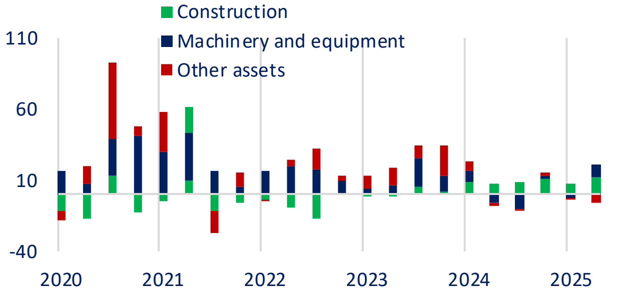
Preliminary data on production released in September indicated that the weak outlook in industrial sector's activity continued in the third quarter of the year. In July, service production maintained its moderate pace, while construction production recorded strong growth, albeit losing momentum. Meanwhile, inflation data for September exceeded expectations, rising in line with rapid increases in education group prices due to the start of the new school year and rising food prices due to the impact of frost disaster, and indicated that inflationary risks remain high. The trend in demand indicators in the coming period will be closely monitored in terms of the inflation outlook.

## Growth

### Contributions to GDP Growth
(% point)

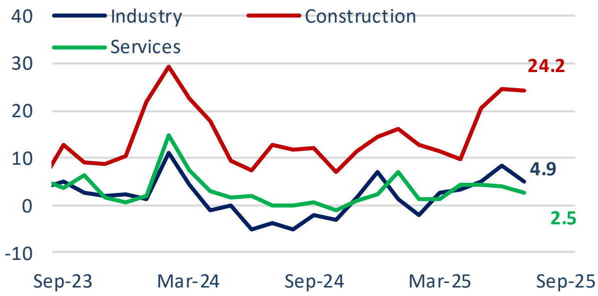



### Gross Fixed Capital Formation
(annual % change)

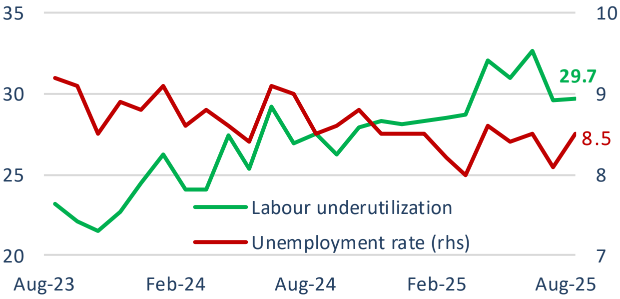



## Leading Indicators

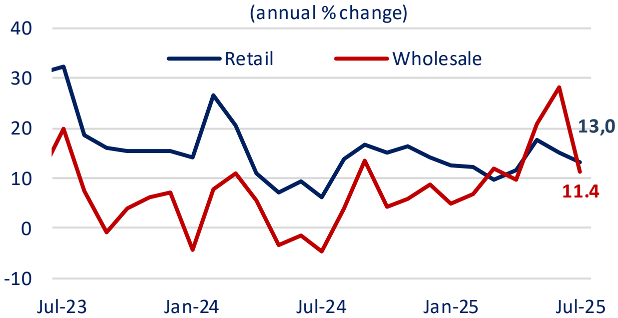
### Production Indices
(ca, annual % change)



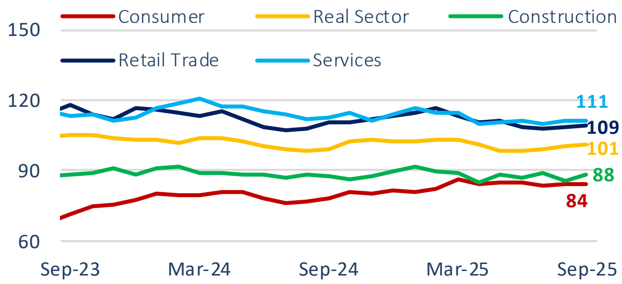

### Labour Force Statistics
(sa, %)




### Sales Volume Indices
(annual % change)

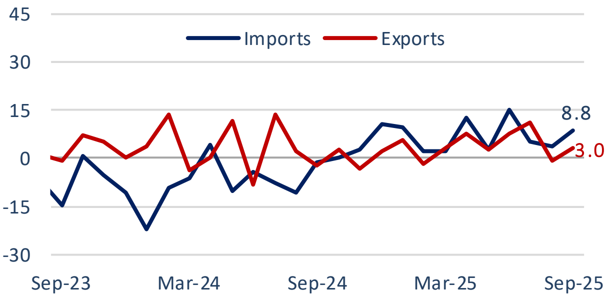



### Confidence Indices
(sa)

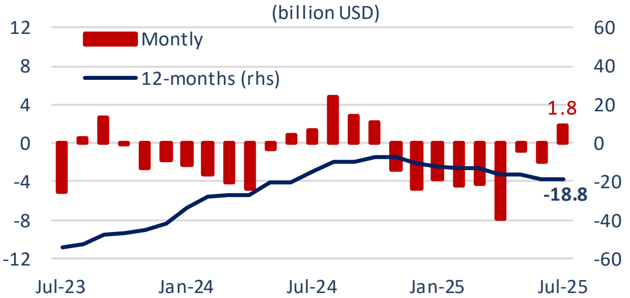



## Foreign Trade and Current Account Balance

### Foreign Trade*
(annual % change)




### Current Account Balance
(billion USD)

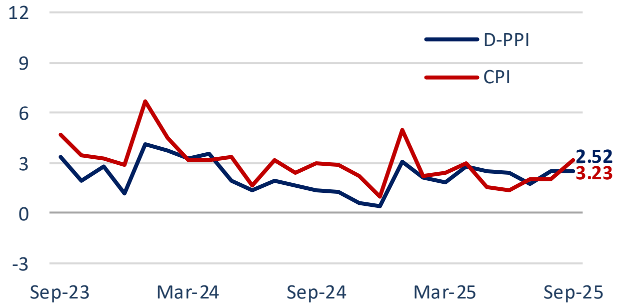



(CA): Calendar adjusted, (SA): Seasonally adjusted
*: Latest data according to preliminary figures of Ministry of Trade

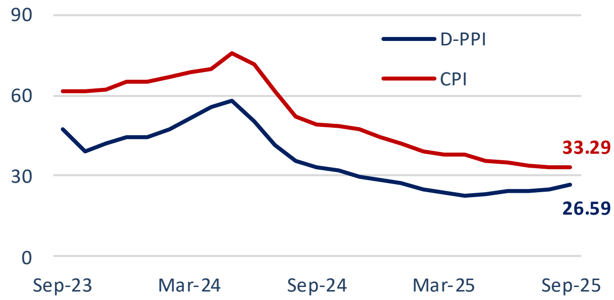
Source: Datastream, CBRT, Turkstat

## Inflation

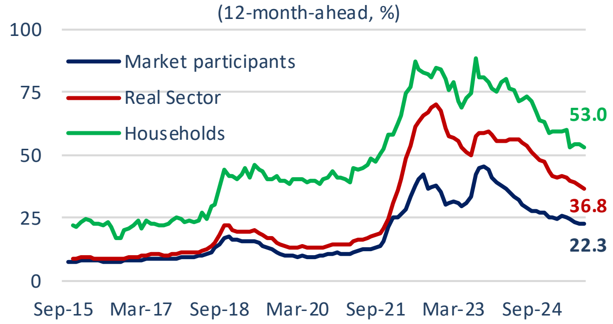
### Monthly Inflation
(%)



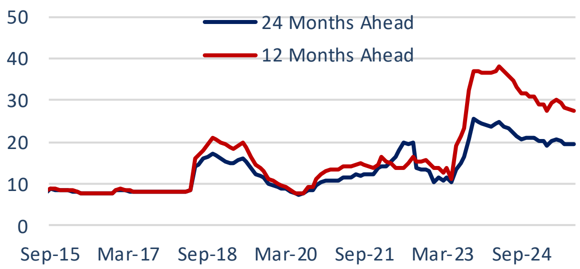

### Annual Inflation
(%)




### Sectoral Inflation Expectations
(12-month-ahead, %)

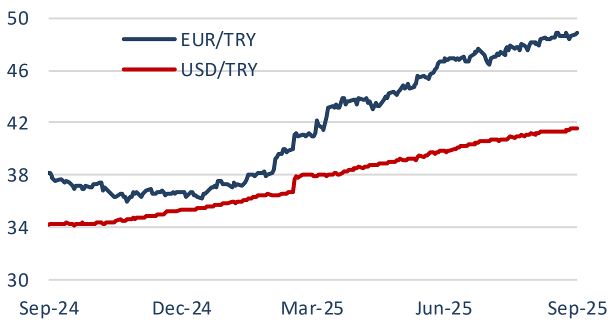



### CBRT Survey of Market Participants - 12 and 24 Months Ahead Policy Rate Expectation
(%)

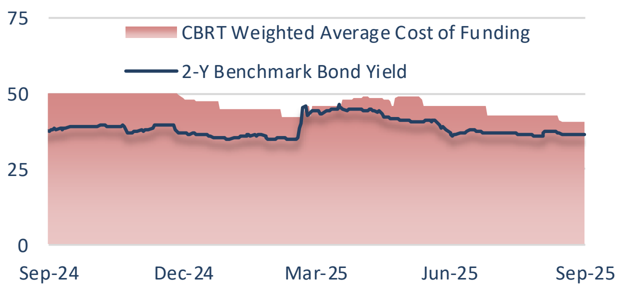



## Foreign Exchange and Bond Market

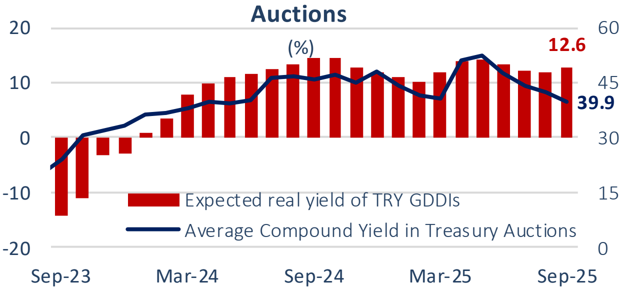
### Exchange Rates



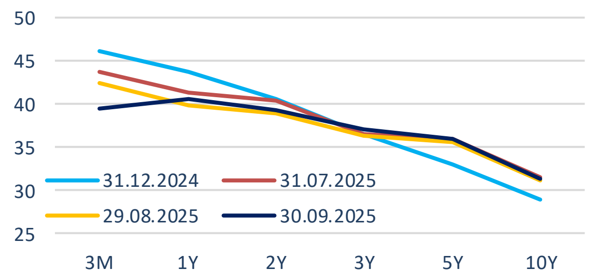

### CBRT WACOF and 2-Y Benchmark Bond Yield
(%)




### Expected Real Yield of TRY GDDIs and Average Compound Yield in Treasury Auctions




### Yield Curves




(R) Realization

Source: BİST, Datastream, Reuters, CBRT, Turkstat, Treasury

# Turkish Economy - Macroeconomic Indicators

| GROWTH | 2020 | 2021 | 2022 | 2023 | 2024 | Q4-24 | Q1-25 | Q2-25 |
|---|---|---|---|---|---|---|---|---|
| GDP (USD billion) | 692 | 560 | 819 | 1,153 | 1,358 | 380 | 346 | 378 |
| GDP (TRY billion) | 5,142 | 7,434 | 15,326 | 27,091 | 43,411 | 13,061 | 12,493 | 14,579 |
| GDP Growth Rate (%) | 1.9 | 11.4 | 5.5 | 5.8 | 3.3 | 3.2 | 2.3 | 4.8 |
| **INFLATION (%)** | | | | | | **Jul-25** | **Aug-25** | **Sep-25** |
| CPI (annual) | 14.60 | 36.08 | 64.27 | 64.77 | 44.38 | 33.52 | 32.95 | 33.29 |
| Domestic PPI (annual) | 25.15 | 79.89 | 97.72 | 44.22 | 28.52 | 24.19 | 25.16 | 26.59 |
| **SEASONALLY ADJUSTED LABOR MARKET FIGURES** | | | | | | **Jun-25** | **Jul-25** | **Aug-25** |
| Unemployment Rate (%) | 12.6 | 11.0 | 10.3 | 8.8 | 8.5 | 8.5 | 8.1 | 8.5 |
| Labor Force Participation Rate (%) | 49.1 | 52.6 | 53.9 | 53.9 | 54.0 | 53.7 | 53.4 | 54.0 |
| **FX RATES** | | | | | | **Jul-25** | **Aug-25** | **Sep-25** |
| CPI Based Real Effective Exchange Rate | 65.0 | 50.3 | 58.6 | 59.5 | 72.4 | 69.29 | 69.84 | |
| USD/TRY | 7.43 | 13.28 | 18.72 | 29.53 | 35.36 | 40.59 | 41.15 | 41.58 |
| EUR/TRY | 9.09 | 15.10 | 19.98 | 32.62 | 36.62 | 46.46 | 48.17 | 48.86 |
| Currency Basket (0.5*EUR+0.5*USD) | 8.26 | 14.19 | 19.35 | 31.08 | 35.99 | 43.53 | 44.66 | 45.22 |
| **FOREIGN TRADE BALANCE[1] (USD billion)** | | | | | | **Jun-25** | **Jul-25** | **Aug-25** |
| Exports | 169.6 | 225.2 | 254.2 | 255.6 | 261.8 | 266.9 | 269.4 | 269.1 |
| Imports | 219.5 | 271.4 | 363.7 | 362.0 | 344.0 | 356.1 | 357.7 | 356.7 |
| **Foreign Trade Balance** | **-49.9** | **-46.2** | **-109.5** | **-106.3** | **-82.2** | **-89.2** | **-88.4** | **-87.6** |
| Import Coverage Ratio (%) | 77.3 | 83.0 | 69.9 | 70.6 | 76.1 | 75.0 | 75.3 | 75.4 |
| **BALANCE OF PAYMENTS[1] (USD billion)** | | | | | | **May-25** | **Jun-25** | **Jul-25** |
| **Current Account Balance** | **-31.0** | **-6.2** | **-46.3** | **-41.5** | **-10.5** | **-16.4** | **-19.2** | **-18.8** |
| **Financial Account** | **-38.7** | **3.4** | **-17.5** | **-51.4** | **-28.4** | **-33.6** | **-35.0** | **-38.0** |
| Direct Investments (net) | -4.3 | -6.2 | -8.9 | -4.7 | -5.1 | -4.6 | -4.8 | -5.2 |
| Portfolio Investments (net) | 9.8 | 7.6 | 18.5 | -5.7 | -12.0 | 3.7 | 4.0 | 1.4 |
| Other Investments (net) | -12.4 | -21.3 | -39.4 | -39.0 | -11.9 | -17.6 | -13.9 | -27.1 |
| Reserve Assets (net) | -31.9 | 23.3 | 12.3 | -2.0 | 0.6 | -15.0 | -20.3 | -7.1 |
| **Net Errors and Omissions** | **-7.7** | **9.7** | **28.8** | **-9.7** | **-17.8** | **-17.1** | **-15.8** | **-19.1** |
| **Current Account Balance/GDP (%)** | **-4.5** | **-1.1** | **-5.7** | **-3.6** | **-0.8** | - | - | - |
| **BUDGET[2][3] (TRY billion)** | | | | | | **Jun-25** | **Jul-25** | **Aug-25** |
| **Expenditures** | **1,203.7** | **1,603.5** | **2,942.7** | **6,588.0** | **10,777.0** | **6,579.1** | **7,699.8** | **8,891.2** |
| Interest Expenditures | 134.0 | 180.9 | 310.9 | 674.6 | 1,270.5 | 1,111.4 | 1,246.0 | 1,425.8 |
| Non-interest Expenditures | 1,069.8 | 1,422.7 | 2,631.8 | 5,913.4 | 9,506.6 | 5,467.6 | 6,453.8 | 7,465.4 |
| **Revenues** | **1,028.4** | **1,402.0** | **2,800.1** | **5,207.6** | **8,670.9** | **5,598.6** | **6,695.5** | **7,983.6** |
| Tax Revenues | 833.3 | 1,165.0 | 2,353.4 | 4,501.1 | 7,304.9 | 4,771.5 | 5,721.3 | 6,871.7 |
| **Budget Balance** | **-175.3** | **-201.5** | **-142.7** | **-1,380.4** | **-2,106.1** | **-980.5** | **-1,004.3** | **-907.6** |
| **Primary Balance** | **-41.3** | **-20.7** | **168.2** | **-705.8** | **-835.7** | **131.0** | **241.7** | **518.1** |
| **Budget Balance/GDP (%)** | **-3.4** | **-2.7** | **-0.9** | **-5.1** | **-4.7** | - | - | - |
| **CENTRAL GOVERNMENT DEBT STOCK (TRY billion)** | | | | | | **Jun-25** | **Jul-25** | **Aug-25** |
| Domestic Debt Stock | 1,060.4 | 1,321.2 | 1,905.3 | 3,209.3 | 4,959.9 | 6,568.7 | 6,885.1 | 7,251.4 |
| External Debt Stock | 752.5 | 1,426.6 | 2,130.1 | 3,527.4 | 4,297.5 | 4,893.1 | 5,161.4 | 5,225.7 |
| **Total Debt Stock** | **1,812.8** | **2,747.8** | **4,035.5** | **6,736.6** | **9,257.4** | **11,461.8** | **12,046.5** | **12,477.1** |

(1) 12-month cumulative
(2) Year-to-date cumulative
(3) According to Central Government Budget

Source: CBRT, Datastream, Ministry of Treasury and Finance , Reuters, Turkstat

## BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

| (TRY billion) | 2020 | 2021 | 2022 | 2023 | 2024 | Jul.25 | Aug.25 | Change(1) |
|---|---|---|---|---|---|---|---|---|
| **TOTAL ASSETS** | **6,106** | **9,215** | **14,347** | **23,553** | **32,657** | **40,705** | **41,887** | **28.3** |
| **Loans** | **3,576** | **4,901** | **7,581** | **11,677** | **16,052** | **20,059** | **20,631** | **28.5** |
| TRY Loans | 2,353 | 2,832 | 5,110 | 7,894 | 10,145 | 12,388 | 12,732 | 25.5 |
| Share (%) | 65.8 | 57.8 | 67.4 | 67.6 | 63.2 | 61.8 | 61.7 | - |
| FX Loans | 1,224 | 2,069 | 2,471 | 3,783 | 5,907 | 7,670 | 7,900 | 33.7 |
| Share (%) | 34.2 | 42.2 | 32.6 | 32.4 | 36.8 | 38.2 | 38.3 | - |
| Non-performing Loans | 152.6 | 160.1 | 163.4 | 191.9 | 293.6 | 452.4 | 472.9 | 61.1 |
| Non-performing Loan Rate (%) | 4.1 | 3.2 | 2.1 | 1.6 | 1.8 | 2.2 | 2.2 | - |
| **Securities** | **1,023** | **1,477** | **2,371** | **3,970** | **5,226** | **6,490** | **6,700** | **28.2** |
| **TOTAL LIABILITIES** | **6,106** | **9,215** | **14,347** | **23,553** | **32,657** | **40,705** | **41,887** | **28.3** |
| **Deposits** | **3,455** | **5,303** | **8,862** | **14,852** | **18,903** | **23,490** | **24,002** | **27.0** |
| TRY Deposits | 1,546 | 1,880 | 4,779 | 8,897 | 12,307 | 14,593 | 14,974 | 21.7 |
| Share (%) | 44.7 | 35.5 | 53.9 | 59.9 | 65.1 | 62.1 | 62.4 | - |
| FX Deposits | 1,909 | 3,423 | 4,083 | 5,955 | 6,596 | 8,897 | 9,028 | 36.9 |
| Share (%) | 55.3 | 64.5 | 46.1 | 40.1 | 34.9 | 37.9 | 37.6 | - |
| **Securities Issued** | **224** | **310** | **325** | **584** | **1,045** | **1,552** | **1,652** | **58.0** |
| **Payables to Banks** | **658** | **1,048** | **1,432** | **2,384** | **3,535** | **4,572** | **4,730** | **33.8** |
| **Funds from Repo Transactions** | **255** | **587** | **540** | **723** | **2,244** | **2,556** | **2,899** | **29.2** |
| **SHAREHOLDERS' EQUITY** | **600** | **714** | **1,406** | **2,153** | **2,898** | **3,461** | **3,576** | **23.4** |
| Profit (Loss) of the Period | 58.5 | 93.0 | 431.6 | 620.8 | 659.0 | 479.2 | 563.4 | -14.5 |
| **RATIOS (%)** | | | | | | | | |
| Loans/GDP | 69.6 | 65.9 | 49.5 | 43.1 | 36.0 | - | - | - |
| Loans/Assets | 58.6 | 53.2 | 52.8 | 49.6 | 49.2 | 49.3 | 49.3 | - |
| Securities/Assets | 16.7 | 16.0 | 16.5 | 16.9 | 16.0 | 15.9 | 16.0 | - |
| Deposits/Liabilities | 56.6 | 57.5 | 61.8 | 63.1 | 57.9 | 57.7 | 57.3 | - |
| Loans/Deposits | 103.5 | 92.4 | 85.5 | 78.6 | 84.9 | 85.4 | 86.0 | - |
| Capital Adequacy (%) | 18.7 | 18.4 | 19.5 | 19.1 | 19.7 | 18.2 | 18.3 | - |

(1) Year-to-date % change

Source: BRSA, Turkstat