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The Evolution Of Inflation In Turkey From 2021 To 2026 And The Outcomes Of Economic Policy Changes

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Abstract: This article examines the high inflation experienced in Turkey between 2021 and 2026 and its principal causes. It explores the effects of exchange rate depreciation, rising import and energy prices, and monetary policy on inflation. The article also considers the economic measures introduced to reduce inflation and their outcomes. The study applies descriptive statistical, trend, and comparative policy analysis to official consumer price index and monetary policy data for 2021–2026. The analysis indicates that inflation in Turkey resulted from the interaction of several economic factors and that the monetary tightening implemented after 2023 contributed to disinflation.

Keywords: inflation, Turkey economy, monetary policy, exchange rate, Turkey lira, inflation expectations, imported inflation, food prices, energy prices.

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1. Introduction

Inflation is a key indicator of macroeconomic stability and refers to a sustained and substantial increase in the general price level of goods and services over time. High inflation reduces real incomes and purchasing power and erodes the real value of money and savings. Price instability also makes it harder for businesses to forecast costs and revenues and plan investment. Maintaining price stability is therefore a central priority of economic policy [1].

Inflation emerges from the interaction of multiple macroeconomic factors. Aggregate demand growing faster than productive capacity can generate demand pull inflation. Rising production costs, energy prices, and raw material prices can also intensify inflationary pressure from the supply side [2]. In economies heavily dependent on imported goods and inputs, currency depreciation directly affects domestic prices. Imports become more expensive, and the resulting price increases spread to other markets. Expectations of further price increases among households and businesses can also make inflation self reinforcing [3].

Inflation has become a particularly pressing issue in Turkey in recent years. In 2021–2022, substantial depreciation of the Turkey lira, rising global energy and food prices, higher production costs, and persistently strong domestic demand were among the main factors behind accelerating inflation. These developments significantly affected household consumption expenditure, business activity, and investment [4].

The sharp rise in inflation in 2022 compounded the challenges facing the Turkey economy. Higher food, energy, transport, and everyday consumer goods prices increased pressure on household purchasing power. Businesses also found it more difficult to forecast production costs, set prices, and undertake financial planning. Currency depreciation raised import costs and intensified inflationary pressure.

From 2023 onward, Turkey introduced significant institutional and operational changes to its monetary policy to contain inflation. The Central Bank of the Republic of Turkey (CBRT) raised its policy interest rate, tightened lending conditions, and strengthened measures to moderate domestic demand. These policies sought to reduce inflationary pressure, stabilize monetary conditions, and restore price stability [5]. Nevertheless, inflation remained closely linked to exchange rates, domestic demand, production costs, import prices, and inflation expectations.

Studying inflation in Turkey during 2021–2026 is valuable for understanding its underlying mechanisms, its effects across economic sectors, and the effectiveness of policy interventions. An analysis of this period allows a systematic assessment of the relationships between inflation, the exchange rate, energy and import costs, domestic demand, and monetary policy.

The purpose of this study is to analyze the development and dynamics of inflation in Turkey during 2021–2026, identify its principal determinants, and assess the monetary policy measures used to reduce it [6]. The analysis considers changes in inflation, depreciation of the Turkey lira, import and energy prices, domestic demand, and CBRT policy measures as interrelated factors. It also examines how Turkey responded to high inflation and considers lessons that could help Uzbekistan reduce inflation further.

2. Methodology

This study employs a qualitative–quantitative research design that combines descriptive statistical analysis, time-series trend analysis, and comparative policy analysis. The study period covers January 2021 to August 2026. It encompasses the phase of monetary accommodation, the inflation peak, the shift to monetary tightening, and the subsequent gradual easing and disinflation.

The empirical base consists of secondary data. Annual and monthly consumer price index (CPI) inflation rates for Turkey were obtained from the Turkish Statistical Institute (TurkStat). Policy interest rate decisions, the overnight lending and borrowing rates, the medium term inflation target, and official policy statements were taken from the publications and press releases of the Central Bank of the Republic of Türkiye (CBRT). These data were supplemented by international statistical databases, analytical reports of international financial institutions, and economic news sources, each of which is cited where it is used.

The analysis is grounded in the New Keynesian view of monetary policy, in which the central bank influences inflation through the policy rate, the expectations channel, and the exchange rate channel. Within this framework, the study examines four transmission mechanisms: (i) the interest rate channel, assessed by comparing nominal policy rates with realized inflation to approximate real interest rates; (ii) the exchange rate pass-through channel, which links lira depreciation to import, energy, and consumer prices; (iii) the cost-push channel arising from global energy and food prices; and (iv) the expectations channel, which reflects the credibility of monetary policy.

The study proceeds in three steps. First, the dynamics of annual CPI inflation are described and visualized to identify turning points and distinct phases. Second, these phases are matched with changes in the policy rate and other policy measures to evaluate the direction and timing of their effects, using standard aggregate demand–aggregate supply reasoning. Third, a comparative case analysis contrasts Turkey’s experience with inflation dynamics in Uzbekistan during 2016–2025, based on data and policy documents of the Central Bank of the Republic of Uzbekistan [10], in order to derive policy lessons. Because the study relies on descriptive and comparative methods rather than econometric estimation, its findings indicate associations and policy-relevant patterns rather than precisely quantified causal effects.

3. Result

Inflation, derived from the Latin term for swelling or expansion, describes a decline in the purchasing power of money resulting from a sustained rise in the general price level of goods and services. During an inflationary period, some goods may become substantially more expensive, while others become cheaper or remain unchanged in

price. Major drivers include rising demand, higher production costs, rapid growth in money and credit, more expensive imports, and exchange rate changes. In general, stronger demand or higher production costs can increase prices and reduce purchasing power. An increase in the price of a single product does not, by itself, constitute inflation; inflation concerns the general price level across a broad range of goods and services.

The sharp rise in inflation in Turkey in recent years cannot be attributed to a single cause. The evidence examined in this study suggests that several economic factors acted simultaneously. Prolonged monetary accommodation, policy rate reductions, depreciation of the Turkey lira, dependence on imported energy and other goods, higher production costs, and elevated inflation expectations all contributed to rising prices.

The central bank's interest rate policy deserves particular attention. From 2021, Turkey placed considerable emphasis on making credit cheaper to stimulate economic activity. Lower interest rates made borrowing easier for households and businesses. This approach sought to encourage investment and consumption and support production, exports, and employment [7]. Between September and December 2021, the CBRT reduced its policy rate from 19% to 14%. Further cuts followed in 2022, bringing the rate to 13% in August. Rather than declining as expected, inflation accelerated rapidly during this period.

As a result, real interest rates became very low and, in some cases, sharply negative. For example, when inflation is approximately 80% while the nominal interest rate remains at 14%, money rapidly loses purchasing power. Under such conditions, households and investors may become less willing to hold funds in the national currency. Demand for foreign currency, gold, and other assets can then increase, placing additional pressure on the lira.

Depreciation of the lira was another important factor intensifying inflation. Turkey relies substantially on imported energy, raw materials, machinery, and other goods, much of which is paid for in foreign currency, particularly US dollars. When the lira weakens against the dollar, the domestic currency cost of these goods rises even if international prices remain unchanged. For example, a product priced at USD 100 costs TRY 3,000 at an exchange rate of TRY 30 per dollar, but TRY 3,500 at TRY 35 per dollar. Exchange rate movements therefore affect domestic prices through imported goods. Energy is especially important because Turkey meets a large share of its energy needs through imports. Higher global oil and natural gas prices increase its import bill, and their effects extend beyond fuel prices because energy is used throughout the economy.

Higher fuel prices, for example, raise transport costs, which feed into the final prices of food and other goods. Similarly, higher electricity and gas prices increase industrial production costs. Businesses may pass these increases on to consumers. In this way, changes in global energy prices are transmitted to domestic inflation in Turkey.

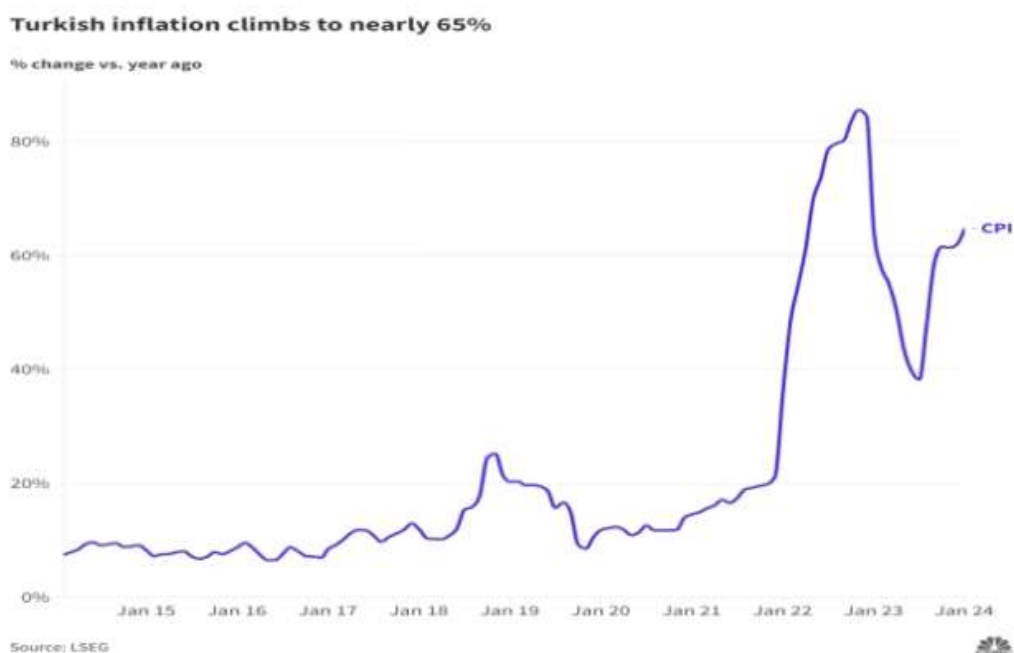
Inflation in Turkey fluctuated substantially during 2021–2026 and remained a major macroeconomic challenge. The highest rate within this period was recorded in 2022, followed by a gradual disinflation process in subsequent years [8]. Annual consumer price index (CPI) inflation was 36.08% at the end of 2021 and rose to 64.27% at the end of 2022. In October 2022, it reached 85.51%, the peak for the period. Inflation remained high in 2023, ending the year at 64.77%. It rose to 75.45% in May 2024 before falling to 44.38% by year end, as monetary tightening began to reduce inflationary pressure. Disinflation continued in 2025, with annual inflation falling to 30.89% at year end. Although inflation in 2026 remained lower than earlier peaks, price growth was still high: annual inflation stood at 31.51% in August 2026.

The reported inflation rates were therefore 36.08% in 2021, 64.27% in 2022, 64.77% in 2023, 44.38% in 2024, 30.89% in 2025, and 31.51% in August 2026. These figures indicate a gradual reduction in price growth following the intense inflationary pressure of 2022. However, the August 2026 rate of 31.51% suggests that price stability had not yet been achieved.

The following chart illustrates the scale of Turkey's inflation problem and the subsequent reduction in inflation:

Annual Inflation in Turkey, 2021–2026 (%)

[Figure 1] Source: compiled by the author based on TurkStat and Trading Economics data.



In 2024, Turkey maintained a tight monetary policy to contain high inflation. In May, the CBRT kept its policy rate unchanged at 50% for the second consecutive month. This decision aimed to reduce inflationary pressure, monitor the effects of monetary policy on lending and domestic demand, and stabilize inflation expectations.

According to the central bank, the underlying monthly inflation trend weakened slightly in April 2024, while domestic demand slowed relative to the first quarter [9]. Nevertheless, annual inflation reached 69.8%, up from 68.5% in March, showing that inflation remained high in the initial phase of monetary tightening. The central bank therefore stated that it would maintain its policy stance until a significant and sustained decline in the underlying monthly inflation trend was observed.

High interest rates were the main policy instrument. By increasing borrowing costs and slowing growth in credit and domestic demand, they sought to reduce price pressure. The central bank expected inflation to decline in the second half of the year and retained its medium term inflation target of 5%.

Subsequent inflation figures suggested a strengthening disinflationary effect. Annual inflation was 44.38% at the end of 2024 and fell further in 2025, reaching 35.05% in June. By comparison, it had approached 75% in May 2024. Weaker demand and more moderate credit growth helped ease inflationary pressure.

As inflation declined, the central bank began gradually easing monetary policy. Following a Monetary Policy Committee meeting, the overnight lending rate was reduced from 49% to 46%, while the overnight borrowing rate was lowered from 44.5% to 41.5%. The decision was larger than market expectations, as analysts had generally anticipated a reduction of 250 basis points. Nevertheless, the central bank emphasized that future decisions would be taken cautiously, with each meeting assessed in light of prevailing economic conditions [10].

Although interest rate cuts reflected easing inflationary pressure, the central bank did not regard the inflation problem as fully resolved. It retained its medium term target of 5%. Further disinflation was expected by the end of 2025. Initial forecasts put year end inflation at approximately 24%, but these projections were subsequently revised in response to economic conditions and inflation developments.

Disinflation reflected several factors working together, rather than high interest rates alone. Weaker domestic demand, more moderate lending, slower growth in wages and raw material costs, easing goods price pressure, and a more limited pace of lira depreciation than in earlier periods all contributed. Lower inflation expectations also

supported price stability.

Subsequent figures also show that inflation fell substantially relative to 2024. Annual inflation declined from 44.38% at the end of 2024 to 30.89% at the end of 2025, before reaching 31.51% in August 2026. Thus, the tight monetary policy maintained in 2024 was followed by a substantial decline in inflation.

However, the August 2026 inflation rate of 31.51% indicates that the process of restoring price stability remained incomplete. The tight policy maintained in 2024 initially served to restrain inflation, after which interest rates were eased cautiously as inflation declined. Because inflation remained far above the central bank's medium term target of 5%, disinflation in Turkey should be regarded as an ongoing process.

Reducing sharp fluctuations in the lira's exchange rate is another important component of disinflation. Since a large share of imports is paid for in foreign currency, depreciation raises the cost of imported goods, raw materials, and capital equipment. An IMF working paper estimates that a 10% depreciation of the lira raises goods inflation by approximately 5 percentage points within about three months, whereas services inflation rises by only about 1 percentage point over the same period.

4. Discussion.

In my assessment, Turkey should strengthen measures to reduce abrupt and disorderly exchange rate movements rather than attempt to maintain the lira artificially at a fixed level. This requires consistent monetary policy and stronger confidence in central bank decisions. Interest rate policy should respond to inflationary pressure, while the central bank should provide clear and understandable signals about its future policy stance.

Second, international reserves may be used cautiously during periods of intense foreign exchange market pressure. The objective should be to limit the inflationary effects of excessive short term volatility rather than defend a particular exchange rate. Third, gradually increasing international reserves would strengthen resilience to external economic shocks [11].

Lowering inflation expectations is also important. The central bank should establish clear inflation targets, explain its policies regularly, and communicate credible signals to market participants. Greater household and business confidence in the national currency may reduce demand for foreign currency and ease pressure on the foreign exchange market.

The analysis suggests that exchange rate stability requires a combination of consistent monetary policy, stronger international reserves, measures to smooth abrupt fluctuations, and lower inflation expectations. This approach may provide a more durable basis for disinflation than artificially maintaining the lira at a predetermined exchange rate. Sustained disinflation in Turkey also requires close attention to food and energy prices. Increases in these prices raise household expenditure as well as production, transport, and service costs. Initial price shocks can therefore spread to other sectors and intensify overall inflationary pressure. In August 2026, for example, energy prices reportedly rose by 5.46% month on month, partly reflecting higher international oil prices and changes in diesel prices.

In my view, reducing exposure to external energy price fluctuations should be a policy priority for Turkey. This could involve expanding domestic and renewable energy sources, adopting energy efficient technologies, and gradually reducing dependence on imported oil and gas. Mechanisms that moderate abrupt domestic price increases may also be useful during sharp global energy price rises [12]. According to the CBRT, a sliding scale mechanism intended to cushion the effects of international prices on domestic fuel prices began operating in March 2026.

In the food sector, controlling retail prices alone is insufficient. Price stability depends primarily on agricultural output and the conditions under which products reach consumers. Adverse weather in early 2026 reportedly contributed to higher prices for some agricultural products, particularly fruit and vegetables. Improving irrigation, expanding modern storage facilities, and developing logistics infrastructure could therefore be important policy measures. Higher agricultural productivity and lower costs along the supply chain can also help moderate food inflation. Expanding storage and

distribution capacity is particularly important for reducing seasonal price fluctuations. The analysis therefore suggests combining short term price measures with long term structural reforms. Reducing energy import dependence and improving energy efficiency, alongside stronger food production, storage, and logistics capacity, may limit sharp price changes and address the underlying sources of inflation.

Uzbekistan has also taken measures to prevent inflation from accelerating and to reduce it gradually. Inflation is an important macroeconomic indicator affecting economic stability, real incomes, and purchasing power. Analyzing its dynamics helps assess policy effectiveness and long term development prospects. Annual inflation in Uzbekistan during 2016–2025 followed a complex but broadly consistent trajectory shaped by economic reforms and external factors. Official statistics indicate several distinct phases [13]. Annual inflation was 9.7% in 2016 and rose sharply to 18.8% in 2017, the highest rate in the period. It then stood at 14.3% in 2018 and 15.2% in 2019. From 2020, inflation slowed gradually, reaching 10% in 2021. External economic factors contributed to an increase to 12.3% in 2022, followed by a decline to 8.8% in 2023. Inflation was 9.8% in 2024 and fell to 7.3% in 2025, the lowest rate over the decade. These developments reflect some of the outcomes of inflation management policies. Elevated inflation in 2017–2019 was associated with several factors, including strong domestic demand and increased economic activity.

Rising import prices, exchange rate changes, and insufficient competition in some markets also contributed to elevated inflation. Extensive economic reforms introduced during this period placed additional short term pressure on prices. International financial institutions, including the World Bank, recognize that temporarily elevated inflation can accompany economic transitions. A declining inflation trend emerged from 2020, associated in particular with monetary policy measures implemented by the Central Bank of Uzbekistan [14]. The introduction of inflation targeting elements, the use of interest rates to balance aggregate demand, and tighter control of the money supply helped slow inflation. Figures for 2023–2025 suggest the emergence of a relatively more stable price environment.

The decline in inflation to 7.3% in 2025 can be considered a meaningful result for macroeconomic stability. Lower inflation helps preserve real incomes and supports household welfare. Low and predictable inflation also improves the investment climate, simplifies business planning, and supports long term economic growth. Overall, the 2016–2025 analysis suggests that inflation in Uzbekistan followed a complex but manageable trajectory. A period of high inflation was followed by gradual disinflation and stabilization, indicating the emergence of longer term results from economic reforms. Maintaining effective inflation control, improving production efficiency, and strengthening competition will remain important for sustainable economic development.

Macroeconomic Indicators of Uzbekistan and Annual Inflation Dynamics

[Figure 2]



The chart illustrates the decline in inflation in Uzbekistan. Further progress could draw on Turkey's experience by improving monetary policy, addressing food and energy supply constraints, reducing import dependence, and developing domestic markets. I also propose improving access to credit for households and entrepreneurs to support business development. Expanding tourism destinations and attracting more visitors may support domestic economic activity and strengthen foreign exchange earnings. Turkey's experience offers a useful example of measures intended to reduce high inflation. Interest rate increases contributed to disinflation, and further improvement in policy implementation could strengthen these results. Food and energy also remain important policy areas: annual inflation was reported at 31.51% in August 2026, with higher food and energy prices identified among the main drivers that month. Since these products are central to everyday living costs, stabilizing food supply, improving logistics, and reducing dependence on energy imports are important [15]. Further development of domestic and renewable energy sources would also be beneficial. In agriculture, supporting livestock farming and crop production in remote areas and expanding greenhouse cultivation could extend production across seasons, increase food supply, and reduce dependence on imports.

5. Conclusion.

The analysis indicates that prolonged low interest rates, lira depreciation, rising import and energy prices, higher food prices, and strong domestic demand were the principal drivers of high inflation in Turkey during 2021–2026. Subsequent interest rate increases and tighter lending conditions contributed to disinflation. Nevertheless, persistently high inflation in 2026 demonstrates the need for sustained and consistent policies.

Turkey's experience also offers lessons for Uzbekistan. Monetary policy should be complemented by measures to expand domestic production and food supply, improve energy provision, reduce import dependence, and develop agriculture and logistics. Addressing the underlying causes of inflation, alongside its immediate effects, is essential for long term economic stability.

Based on this analysis, I recommend that Turkey prioritize consistent monetary policy and lower inflation expectations. Developing renewable energy would help reduce dependence on energy imports, while improved agricultural logistics could support food price stability. For Uzbekistan, I propose supporting domestic producers to reduce dependence on imported goods and improving household and business access to credit. Expanding modern storage facilities and greenhouse complexes could help stabilize food prices. Further tourism development could increase foreign exchange earnings and support stability in the foreign exchange market.

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