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Türkiye | Fragile Disinflation, Narrow Room to Ease

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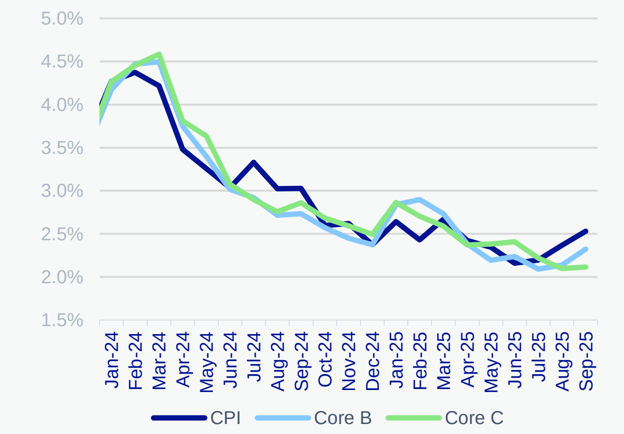
- Consumer inflation came in well above the market expectations at 3.2% m/m and 33.3% y/y (vs. 2.5% and 32.4%, respectively) in September. The deterioration in the underlying trend and its potential impact on still unanchored inflation expectations materially increase the likelihood of a year-end inflation of above 30%, while also raising upside risks on the next year's inflation path.
- The upward surprise came from much higher than expected food inflation with a broad-based worsening, and core prices driven by both goods and services, where the former weighed more. Manufacturing producer prices also rose by 2.8% m/m, above our expectations, signaling stronger cost-push pressures.
- According to our calculations, seasonally adjusted consumer inflation rose to 2.7% (vs. 2.5% in August), led by the deterioration in core inflation, while its 3-month trend increased to 2.53% (vs. 2.37% in August). On the other hand, excluding education, seasonally adjusted CPI slightly improved on a monthly basis.
- The acceleration in seasonally adjusted monthly core inflation (Core C of 2.2% vs. 1.8% previously) stemmed from mainly basic goods (1.6% vs. 0.8%), whereas the services trend remained almost the same (closer to 2.8%).
- The uptick in the basic goods' trend, still robust inertia in services inflation, and the deterioration in the average of six inflation-trend indicators on both monthly and three-month bases necessitate a cautious stance. Also, September inflation and 12-month ahead expectations stayed above the upper band of the CBRT's forecast range, requiring the CBRT to react, given their ambitious 16% year-end target for 2026.
- Although we cannot fully rule out a pause in the October MPC to be held on Oct 23rd, given the easing bias seen in July and Sep meetings, we expect further reduction in the pace of cuts with 150 bps cuts in Oct and Dec, bringing the policy rate to 37.5% at the year end, followed by very gradual reductions in 2026, conditional on further disinflation gains.

Basic goods inflation surprised to the upside

Consumer prices rose by 3.23% m/m in Sep25 (vs. 2.04% in Aug), exceeding both our expectation (2.65%) and the consensus (2.5%), leading annual inflation to accelerate to 33.29% y/y, up from 32.95% in Aug. While the back-to-school period was expected to broadly affect services, the upside surprise stemmed from mainly faster basic goods inflation despite the absence of significant demand pull pressures with relatively managed currency against the US dollar. Nevertheless, it seems, back-to-school purchases with low demand elasticity and the appreciation of the Euro could have weighed up in basic goods inflation, as well. Moreover, food inflation came in even above our already high expectations, with unprocessed food contributing an additional 0.4pp compared to the previous month. Overall, price increases were broad-based, suggesting resilient inflationary pressures and pushing year-end inflation above 30%.

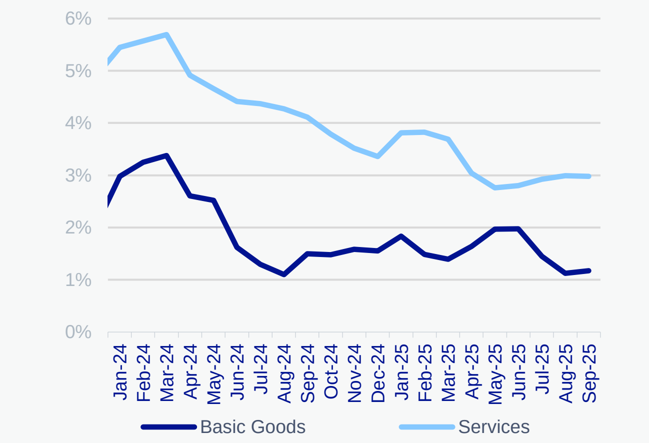
On a seasonally adjusted basis, according to our calculations, CPI accelerated to 2.7% m/m in Sep (vs. 2.5% prev.). Services contributions remained relatively stable, despite a 0.5pp impact from university education prices, which were absent previously. In contrast, basic goods contributions accelerated—mainly due to durable goods (+0.2pp m/m)—reversing the easing trend observed earlier. Food inflation added nearly 1.2pp to the headline, remaining elevated from Aug, signaling persistent supply-side risks on food prices.

Figure 1. Consumer Inflation Indicators
(seasonal adj., monthly, 3-month average)



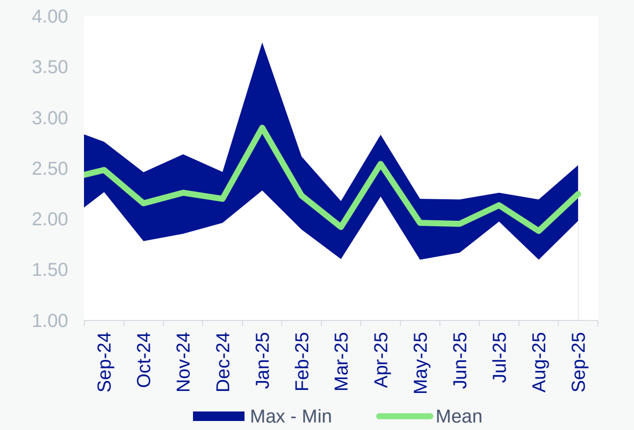
Source: Garanti BBVA Research, TURKSTAT

Figure 2. Core C Inflation Indicators
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

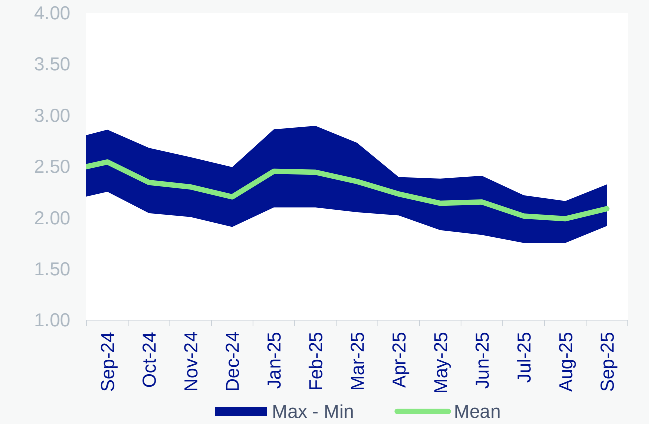
Figure 3. Consumer Inflation Indicators*
(seasonal adj., monthly)



Source: Garanti BBVA Research, TURKSTAT

* Mean represents the average of different trend indicators including seasonally adjusted B, C, SATRIM, Median, inflation excluding volatile items and dynamic factor. The highlighted area shows the maximum and minimum range.

Figure 4. Consumer Inflation Indicators*
(seasonal adj., monthly, 3-month average)

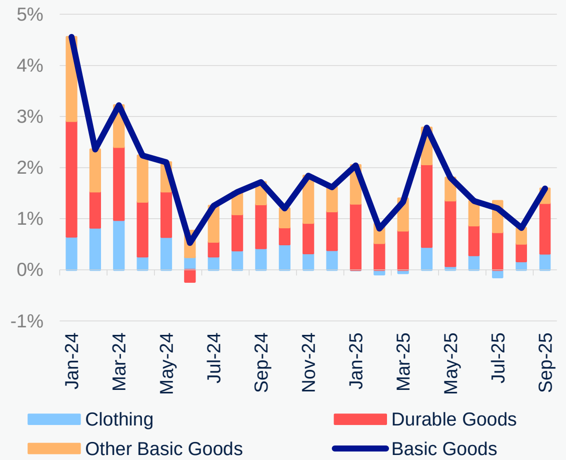


Source: Garanti BBVA Research, TURKSTAT

The average of the CBRT's underlying trend indicators deteriorated, with the average rising to 2.2% m/m in Sep25 (vs. 1.9% prev.); while its 3-month average edged up to 2.1% (vs. 2.0% prev.). Median inflation, considered the best predictor of the inflation trend, rebounded to 2.0% after falling to a 4-year low of 1.8% in Aug, keeping the 3-month average steady at 1.9%. Core-C accelerated to 2.2% m/m (vs. 1.8%), and Core B came at 2.5% (vs. 2.2%) - a higher level due to high processed food inflation. Trend indicators that exclude extreme or volatile prices stood well above Aug levels, confirming the broad-based nature of price increases: SATRIM rose to 2.2% (vs. 1.6% prev.), V_1 to 2.3% (vs. 1.7%). The dynamic factor model indicator stood at 2.2% m/m (vs. 2.1% prev.), reflecting persistent underlying rigidity, with its 3-month average remaining stable at 2.2% for the third consecutive month.

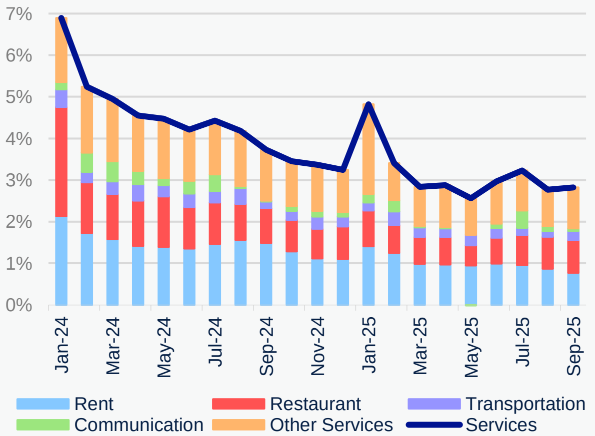
By components of Core-C, seasonally adjusted basic goods inflation accelerated to 1.6% m/m in Sep25 (vs. 0.8% in Aug), driven by durable goods (2.1% vs. 0.7%) and, to a lesser extent, clothing (1.4% vs. 0.7%); while other basic goods was stable (~1.0%). Services inflation remained broadly stable at 2.8%, as moderation in rent (3.3% vs. 3.7%) and communication services (0.8% vs. 1.7%) helped offset higher inflation in transportation (2.7% vs. 1.6%), other services (3.1% vs. 2.7%), and restaurants & hotels (2.8% vs. 2.7%). With no significant cost pressures stemming from exchange rate movements, inventories accumulated -though costly- in 2Q25 appear ineffective in easing basic goods prices; instead, demand conditions are failing to dampen cost pass-through. Given sticky services inflation, driven by unanchored expectations and backward indexation, the CBRT is likely to manage -if possible- a slower depreciation in the near term to contain inflationary pressure.

Figure 5. Contributions to Basic Goods Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 6. Contributions to Services Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Food and non-alcoholic beverages rose 4.8% m/m in Sep25 (vs. 4.5% in Aug), pushing annual food inflation to 36.1% y/y (vs. 33.3% prev.) and contributing 1.2pp to the headline. Acceleration in unprocessed food inflation (4.8% vs. 4.5% prev.) signals persistent supply-side pressures, while unprocessed food remained elevated at 3.9% in adjusted terms.

Energy inflation hiked up to 1.2% in Sep25 from 0.6% in Aug25. On the producer side, domestic PPI rose up to 2.52% m/m (vs. 2.48%, previously) and 26.6% y/y. It seems that there is a broad-based acceleration in the PPI of various product segments due to underlying cost push factors. The impact of the strengthening cost push pressures on consumer prices may remain limited on moderate demand conditions. Nevertheless, distorted pricing behavior could continue and keep pressure on the consumer prices, especially over the services prices.

Upside risks on disinflation path could cap the CBRT's easing pace

The recent economic activity data point to moderating domestic demand conditions led by private consumption, and suggest that the output gap will deepen -though not as much as the Central Bank (CBRT) projections. The exchange rate has remained broadly stable, and energy prices have edged down in recent months. Even so, the average of six inflation-trend indicators has oscillated between 2.0% and 2.5% m/m (sa) since August 2024; while it has recently moved up above 2%, it has not fallen durably below 2%. In addition, services inflation remains sticky due to backward-looking and time-dependent pricing, and the deterioration in basic goods recently keeps risks alive for the inflation outlook. Food prices could continue to also face upside risks from drought. Energy prices remained supportive in the last 2 months but we assume Brent oil prices will be around $65 per barrel on average in 2026; however, the potential resurgence of geopolitical risks and ongoing uncertainty around tariff wars might add challenges on disinflation outlook.

Inflation expectations remain high despite some easing, and upside surprises in realized inflation may reinforce this. According to the CBRT's September survey, 12-month-ahead expectations improved marginally for market participants (22.3% vs. 22.8%), the real sector (36.8% vs. 37.7%), and households (53.0% vs. 54.1%), yet all remain well above the CBRT's upper forecast band for the corresponding horizon. Moreover, September annual inflation exceeded the upper bound of the CBRT's forecast range, potentially adding new upward pressure on future expectations.

On fiscal policy, the recent discipline may feed through to disinflation path with a lag, but considering the Medium-Term Program, the fiscal stance could get closer to neutral next year, implying limited fiscal support to disinflation. In its latest decision in September, the CBRT cut the policy rate by 250 bps while committing to tighten if the inflation outlook diverges materially from interim targets. Given that current annual inflation is above both the target and the upper band of the forecast range -and likely to stay there through the end of 2025- together with the 12-month ahead expectations remaining above the upper band and the deterioration in underlying 3 month moving average inflation trend, we think that the room for further cuts is quite limited.

Overall, the year-end inflation is very likely to stay above 30%. This could, in turn, feed up expectations, which could have potential to leave the next year's inflation well above the CBRT's ambitious 16% target. With the recent definition of 12 to 24 months control horizon for the monetary policy, skipping October is possible but given the easing bias shown in July and September meetings, we expect the Central Bank could opt for smaller 150 bps cuts in October and December, taking the policy rate to 37.5% at the year end, followed by more gradual cuts in 2026 depending on the disinflation gains.

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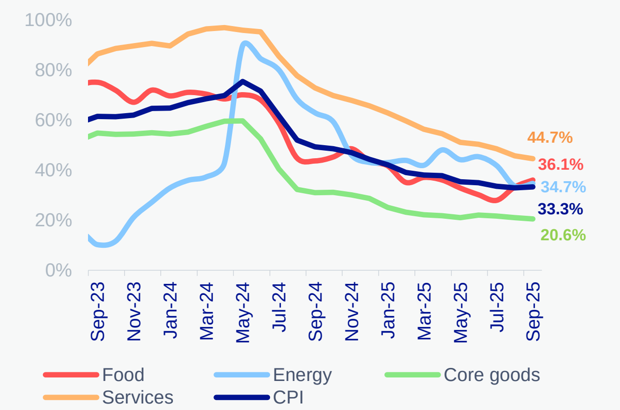
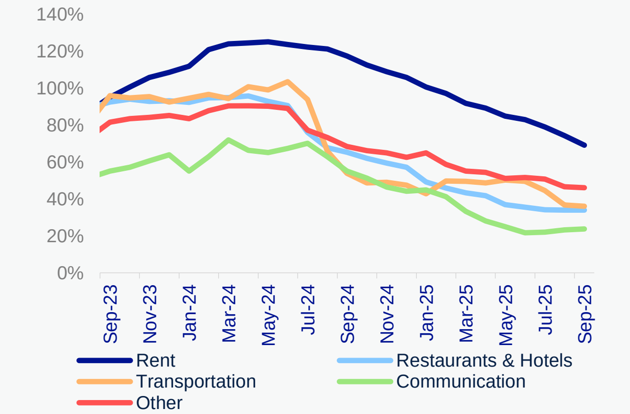
Figure 8. Consumer Inflation Subcomponents (YoY)



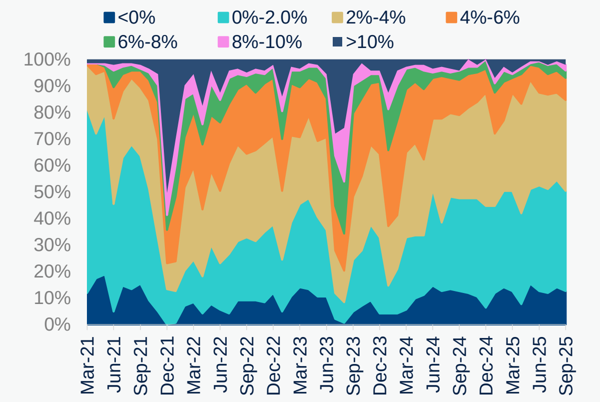
Source: Garanti BBVA Research, TURKSTAT

Figure 9. Services Inflation (YoY)



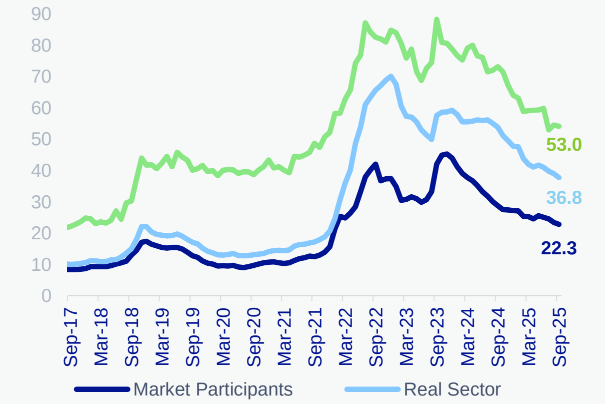
Source: Garanti BBVA Research, TURKSTAT

Figure 10. CPI Diffusion Index (according to monthly SA changes)



Source: Garanti BBVA Research, TURKSTAT

Figure 11. Inflation Expectations (12 Month Ahead, %)



Source: Garanti BBVA Research, TURKSTAT

Figure 12. CPI Subcomponents

	MoM	YoY
Total	**3,23%**	**33,29%**
Food & Non-alcoholic beverages	4,6%	36,1%
Beverage & Tobacco	0,0%	24,5%
Clothing & Textile	3,9%	9,8%
Housing	2,6%	51,4%
Household Equipment	1,6%	29,3%
Health	0,5%	35,2%
Transportation	2,8%	25,3%
Communication	1,3%	23,2%
Recreation & Culture	1,3%	24,8%
Education	17,9%	66,1%
Restaurants & Hotels	2,7%	33,9%
Misc. Goods & Services	2,1%	31,6%

Source: Garanti BBVA Research, TURKSTAT

Figure 13. PPI Subcomponents

	MoM	YoY
Total	**2,52%**	**26,59%**
Mining & Quarrying	2,7%	28,7%
Manufacturing	2,8%	26,6%
Food Products	6,8%	35,0%
Textiles	6,1%	19,8%
Wearing Apparel	1,1%	35,6%
Coke & Petroleum Products	3,0%	24,0%
Chemicals	1,5%	23,4%
Other Non-Metallic Mineral	1,1%	18,4%
Basic Metals	1,4%	17,2%
Metal Products	1,5%	24,5%
Electrical Equipment	2,2%	26,4%
Electricity, Gas, Steam	0,0%	23,8%

Source: Garanti BBVA Research, TURKSTAT

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