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Türkiye | Slight downward surprise with no room for complacency

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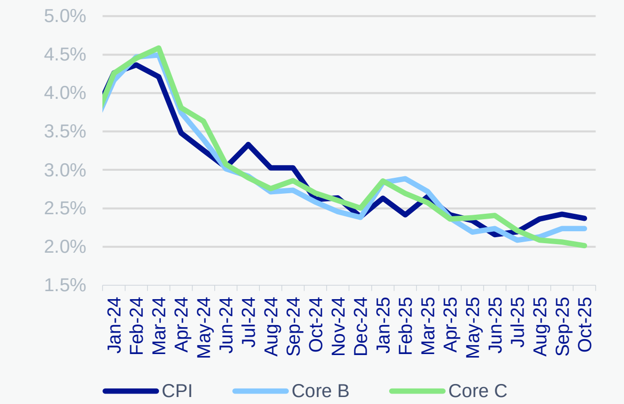
- Consumer prices rose by 2.55% m/m, lower than both consensus (Bloomberg, 2.7%) and our expectation (2.85%), leading to its annual inflation to retreat to 32.9%.
- The seasonally adjusted ease in monthly inflation (to 2% from the previous 2.7%) was mainly driven by lower core goods and food prices, and its 3-month trend improved only marginally to 2.39% m/m, according to our calculations.
- The drop in core inflation was supported by basic goods, while services inflation stayed flat. The average of six inflation-trend indicators fell slightly to 2% m/m, and the 3-month average of median inflation -monitored closely by the CBRT- remained steady, with an annualized rate of 26.5%, below the headline trend. This may keep the door open for gradual rate cuts, but unanchored inflation expectations still restrict the room for easing and increase the reliance on macro-prudential measures, weakening the monetary transmission mechanism.
- Cost-push pressures stayed weak as domestic PPI was 1.6% m/m, lifting its annual inflation slightly to 27% y/y. The past 12-month average annual PPI, the reference for the revaluation rate, reached 25.5%. The final rate to be set, which the Minister Simsek clues to be modest, will be important for inflation expectations going ahead.
- Demand conditions stay blurred for disinflation. Besides, unanchored expectations, strong inertia and distorted pricing behavior keep upside risks on inflation. We will closely monitor the potential revisions and messages of the CBRT in the last inflation report of the year on Nov 7.
- Given the slight ease in the inflation trend, we expect the CBRT to deliver again a limited 100 bps cut in December. After potentially finishing this year at around 32.5% y/y CPI, we now evaluate a clear upward bias on our inflation forecast of 23% by 2026 end, depending on the start of the year price and wage hikes.

Headline Deceleration Amid Stagnant Underlying Inflation Pressures

Consumer prices rose by 2.55% m/m in Oct25 (vs. 3.23% in Sep25) so annual inflation returned to a deceleration path, coming in at 32.87% y/y (vs. 33.28% in Sep25 and 32.95% in Aug25). Services inflation slowed sharply from the September level, which had reflected broad-based back-to-school effects. However, the seasonally adjusted figure remained broadly flat, showing no meaningful improvement. Meanwhile, despite the seasonal surge in clothing prices inflating the basic goods category, the seasonally adjusted core goods inflation decelerated from September, supported by easing cost pressures stemming from a much slower nominal depreciation. Demand-pull factors do not seem to be driving the decline in basic goods prices, as consumers reportedly expecting higher prices early next year may have frontloaded purchases, preventing a visible slowdown in demand. However, this is unlikely to turn inflationary in the coming months given the upcoming sales period in November.

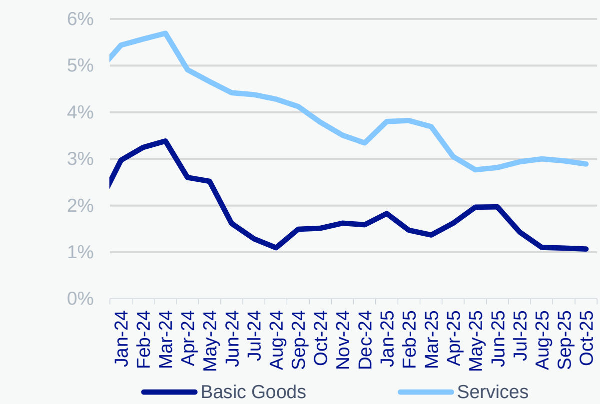
Overall, while inflation improved compared to September, the broader trend remains stagnant, with resilient inflationary pressures, leaving no room for complacency. On a seasonally adjusted basis, according to our calculations, CPI decelerated to 2.0% m/m in Oct25 (vs. 2.7% in Sep25), mainly due to lower contributions from food (0.6pp vs. 1.2pp) and durable goods (0.1pp vs. 0.3pp) compared to September -though still above the August level, when cost-push pressures from the currency were stronger. The services contribution remained at a high 0.9pp.

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

The CBRT's underlying trend indicators improved slightly to 2.0% (vs. 2.3% in Sep25), still above the Aug25 level of 1.9%, indicating persistent broad-based pressures. The 3-month average of the underlying trend stood at 2.1% (unchanged from Aug25), showing no significant improvement over the past six months. Median inflation, often regarded as the best predictor of the inflation trend, eased marginally to 2.0% m/m (vs. 2.1% in Sep25 and 1.9% in Aug25). Core C inflation improved to 1.9% m/m, close to the August level, while Core B decelerated further to 2.0% (vs. 2.5% in Sep25) on the back of the correction in food prices. Trend indicators that exclude volatile prices signaled an ongoing resilience. SATRIM came at 2.1% (vs. 2.3% in Sep25 and 1.6% in Aug25), V_1 stood at 2.0% (vs. 2.3% in Sep25 and 1.8% in Aug25), while the dynamic factor model indicator deteriorated slightly to 2.3% (vs. 2.2% in Sep25 and 1.1% in Aug25), reflecting greater dispersion on the upper end of the distribution and pointing to demand-pull pressures despite limited cost-push effects.

By Core C components, seasonally adjusted basic goods inflation slowed to 0.8% (vs. 1.6% in Sep25), returning to its Aug25 level, led by accoss-the-board corrections amid a more cautiously managed currency following the September surge. Clothing (0.7% vs. 0.7% in Aug25) and other basic goods (0.7% vs. 1.0% in Aug25) inflation eased or remained near August levels, while durable goods rose slightly to 0.9% (vs. 0.7% in Aug25) despite the September uptick (2.1%), possibly reflecting accumulated cost pressures.

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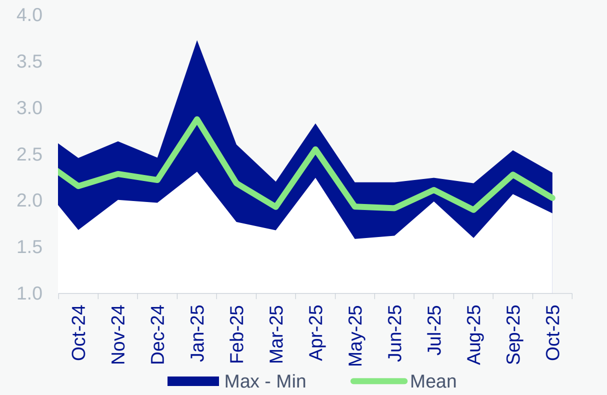
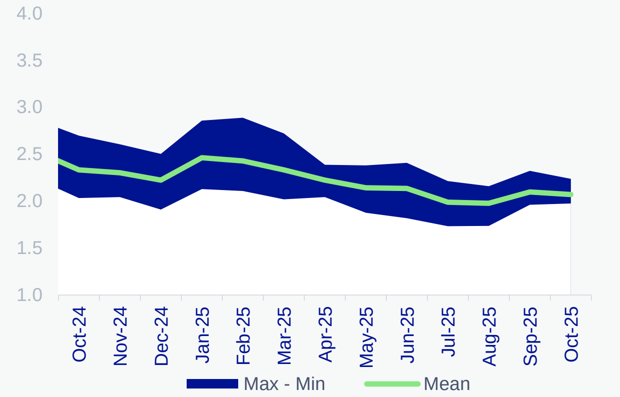
Figure 3. Consumer Inflation Indicators* (seasonal adj., monthly)



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.

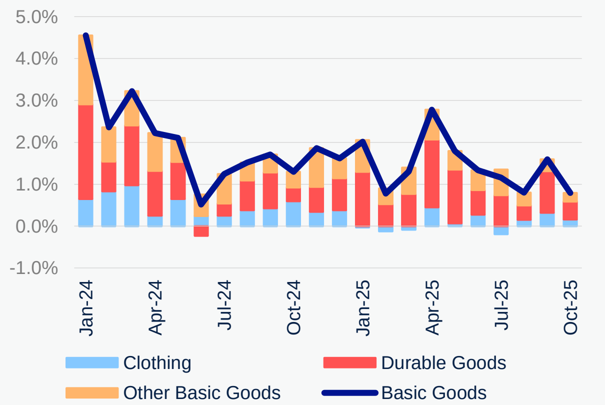
Figure 4. Consumer Inflation Indicators* (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

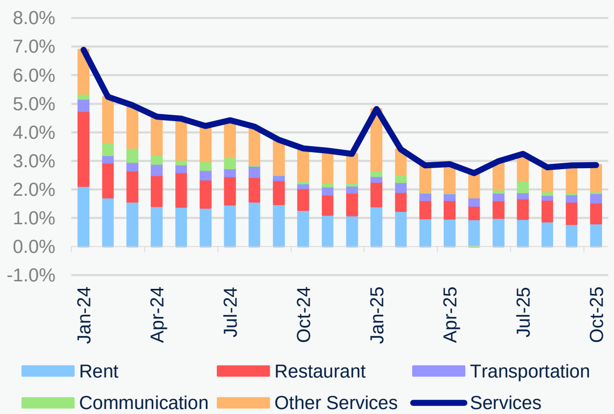
Services inflation remained elevated at 2.85% m/m. Transportation services slowed (3.1% vs. 4.1% prev.) due to local price adjustments, while other components showed limited improvement: rent (~3.4%), restaurants & hotels (2.6% vs. 2.7% prev.), communication services (0.7% vs. 0.8% prev.), and other services (2.9% vs. 3.0% prev.). Given that services inflation last month was boosted by the concentrated back-to-school impact in September -rather than spread across August and September as usual- and that cost-push pressures have eased, the slight decline in components does not yet point to weakening demand-pull pressures, even amid deteriorating consumer purchasing power. With sticky services inflation driven by unanchored expectations and backward indexation, the CBRT is likely to maintain a slower pace of depreciation in the near term, as seen after August, to contain inflationary pressures.

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 inflation eased down to 2.66% m/m in Oct25 (vs. 4.79% in Sep25), lowering its annual food inflation to 34.9% (vs. 36.1% prev.) and contributing 0.6 pp to the headline. There is a broad-based improvement in food inflation relative to Sep25 and 3Q25 average, signaling decelerating supply-side pressures. Regardless, the CBRT highlighted the risks posed by food prices on the disinflation process on its press release after the latest MPC meeting.

Energy inflation remained steady compared to its sharp rise in September: it only reached to 1.28% in Oct25 from 1.24% in Sep25. On the producer side, domestic PPI diminished to 1.63% m/m (vs. 2.52 m/m in Sep25) driven by the corrections in the manufacturing prices and energy prices. In this regard, cost-push pressures stay moderate assisting the amelioration in consumer inflation degree to which depends on demand conditions.

The disinflation outlook in 2026 will be challenging with unknowns

Although there could be some normalization in the last two months of the year, inflation trend will likely worsen again in early 2026 due to wage and price hikes. Meanwhile, the steady level of seasonally adjusted services inflation at around 3% and very limited improvement in trend indicators continue to confirm strong inertia and distorted pricing behaviors. Although the CBRT's median inflation indicator remains below the headline trend -suggesting room for rate cuts- unanchored inflation expectations significantly narrow that space, requiring caution. In October, 12-month-ahead inflation expectations rose for market participants and households (23.3% and 54.4%, respectively), while firms' expectations (36.3%) improved slightly. Still, all economic agents' expectations stay well above next year's target of 16%, underscoring long-lasting lack of credibility.

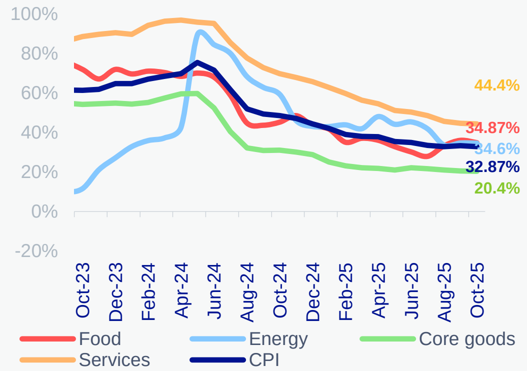
On the fiscal side, the negative impulse observed in 2Q and 3Q will likely reverse in 4Q; and adjustments in taxes and administered prices will play a key role in supporting disinflation. The 12-month average PPI, used as the reference for the revaluation rate, came in at 25.5%; Treasury and Finance Minister Şimşek stated that tax adjustments next year will align with the 16% target. Hence, a lower revaluation rate could have a limited direct effect on inflation but may support disinflation through expectations channel. Consistent adjustments in energy prices—such as natural gas and electricity—could reinforce this effect.

We expect rate cuts to continue gradually, depending on the pace of disinflation. Demand conditions adjust more slowly than the CBRT anticipates, so the Bank is likely to proceed cautiously with limited rate cuts (100 bps in December meeting) with an increasing need to complement its stance with real appreciation, macro-prudential tools, liquidity management, and regulations. The CBRT will likely revise this year's inflation forecast band (25-29%) upward, with potential effects on the next year's path as well, in the last inflation report of the year, to be released on November 7.

Last but not the least, TURKSTAT announced that it will change the base year of the consumer prices series from 2003 to 2025, and that at the group level, the weights of 12 main price categories will now be derived from household final consumption expenditure data in national accounts, rather than from the household budget survey. However, sub-group weights will continue to be determined based on the household budget survey and the past figures would not change. According to our calculations, if the national accounts' final consumption expenditure weights for 2024 were used, year to date inflation in 2025 could have been around 0.5pp lower. The potential reduction in the weight of food and non-alcoholic beverages introduces some uncertainty around the inflation forecast for next year.

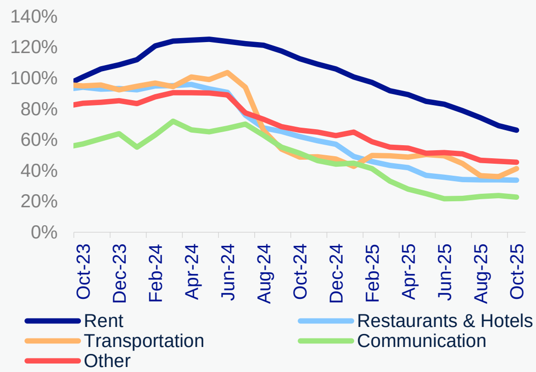
In summary, we now expect 2025 year-end inflation to be 32.5%. Assuming a cautious monetary stance and alignment of wages, taxes, and administered prices with the inflation target, we maintain our next year-end annual inflation forecast at 23%. Yet, unanchored expectations, persistent inertia, distorted pricing behavior, and global tariff uncertainties pose clear upside risks. We will closely monitor the potential revisions and messages of the CBRT this week and revise our forecasts, accordingly.

Figure 8. Consumer Inflation Subcomponents (YoY)



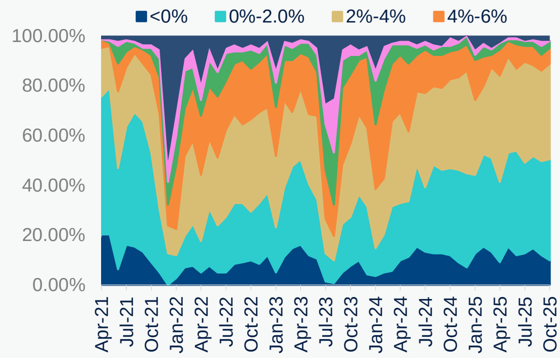
Source: Garanti BBVA Research, TURKSTAT

Figure 9. Services Inflation (YoY)



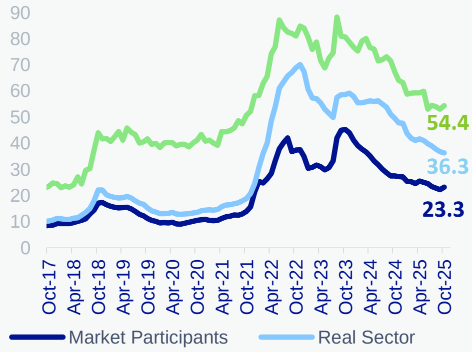
Source: Garanti BBVA Research, TURKSTAT

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	**2.55%**	**32.87%**
Food & Non-alcoholic beverages	3.4%	34.9%
Beverage & Tobacco	2.4%	27.6%
Clothing & Textile	12.4%	8.0%
Housing	2.7%	51.0%
Household Equipment	1.5%	28.9%
Health	0.5%	32.1%
Transportation	1.1%	27.3%
Communication	0.3%	19.3%
Recreation & Culture	1.0%	25.3%
Education	0.1%	65.7%
Restaurants & Hotels	1.3%	33.8%
Misc. Goods & Services	0.9%	30.1%

Source: Garanti BBVA Research, TURKSTAT

Figure 13. PPI Subcomponents

	MoM	YoY
Total	**1.63%**	**27.00%**
Mining & Quarrying	3.2%	31.8%
Manufacturing	1.8%	26.9%
Food Products	2.9%	35.7%
Textiles	0.3%	19.5%
Wearing Apparel	3.6%	36.4%
Coke & Petroleum Products	-0.7%	19.8%
Chemicals	1.0%	23.4%
Other Non-Metallic Mineral	1.2%	18.6%
Basic Metals	2.6%	17.5%
Metal Products	0.8%	24.5%
Electrical Equipment	2.0%	28.0%
Electricity, Gas, Steam	-1.2%	24.3%

Source: Garanti BBVA Research, TURKSTAT

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