BBVA Research

Türkiye | Cooling Print, But Firm Inflation Trend

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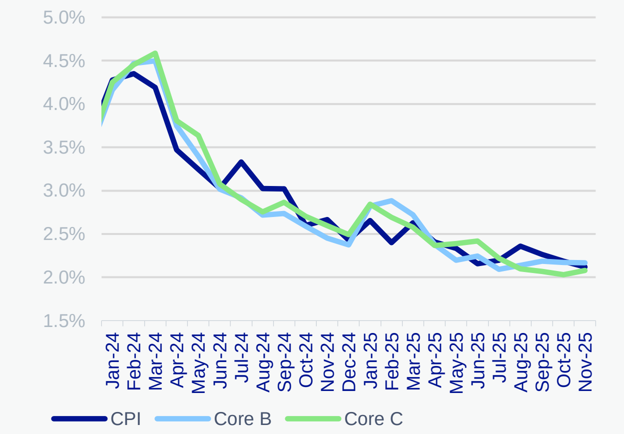
- Headline and seasonally adjusted monthly inflation were low, mainly due to food inflation, while seasonally adjusted core inflation deteriorated slightly, driven by basic goods.
- Despite the recent mild depreciation in the exchange rate, the worsening core inflation trend may reflect strong front-loaded demand. Seasonally adjusted basic goods inflation shows broad-based deterioration, led by clothing and other basic goods. Similarly, seasonally adjusted services inflation remained close to 2.9%, maintaining a flat trend for the past three months.
- The average of the six inflation-trend indicators monitored by the CBRT declined only marginally, while the 3-month average has stayed at 2.1% for the past three months. The annualized trend of the 3-month median inflation stands at 26.6%.
- Cost-push pressures remain weak, as producer prices rose 0.84% m/m and 27.2% y/y. However, firms' expectations of a sharp increase in 12-month-ahead producer prices, along with uncertainties related to wage and administered-price adjustments at the beginning of the year, call for keeping prudence in economic policies.
- We now expect 31.5% inflation for the year end on the recent lower realizations. Given upward risks to the disinflation path, we expect the CBRT to remain cautious and deliver a 100 bps rate cut at next week’s meeting. Fiscal policy may provide support next year, mainly through tax and administered price adjustments. Considering robust inertia, high inflation expectations, and a very gradual easing cycle assumption, we maintain our 2026 year-end inflation forecast at 25%.

Underlying Trend Stagnant; Headline Eases on Seasonal Effects and Food-Driven Downside Surprise

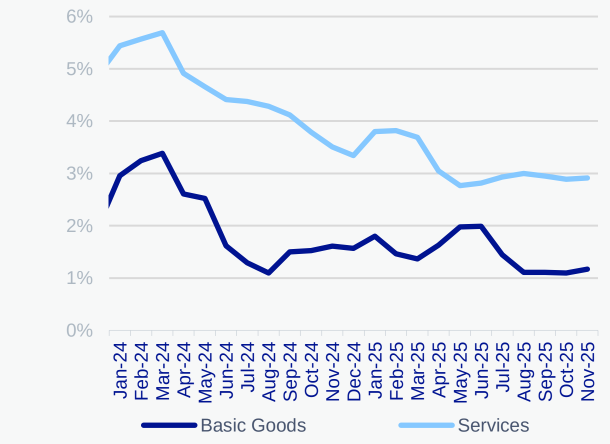
Consumer prices rose by 0.87% m/m in November, decelerating from 2.55% in Oct25, with the direction of the deceleration broadly in line with seasonal effects, though the magnitude surprised to the downside relative to both consensus and our 1.25% m/m expectation due to food prices. Accordingly, annual inflation decelerated to 31.07% y/y from 32.87% y/y in Oct25. Core C inflation , however, came in line with our expectations and showed no improvement in seasonally adjusted terms, posting 2.0% m/m. The improvement in seasonally adjusted headline inflation to 1.5% m/m in Nov25 from 2.0% previously stemmed solely from fresh food prices, which declined by 2.35% m/m after driving inflation higher over the past three months. The data continue to show no evidence of demand driven disinflatiory pressures: the contribution of services to headline inflation remained broadly stable at 0.90pp, with services prices rising 2.9% m/m; meanwhile the contribution of basic goods increased slightly to 0.30pp (up 0.1pp), with basic goods prices up 1.1% m/m, despite controlled currency keeping the durable goods contribution unchanged. Overall, while headline inflation improved compared to October due to favorable food prices and seasonal effects, the broader trend remains stagnant, with no underlying improvement amid resilient inflationary pressures—likely reflecting unanchored expectations that continue to sustain demand amid declining purchasing power. Controlled currency dynamics are clearly preventing further deterioration in prices, keeping currency-sensitive items below the median inflation rate. This reliance on currency stability for price moderation highlights the fragility in inflation trend. Accordingly, the positive November headline figure leaves no room for complacency in economic policies.

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)

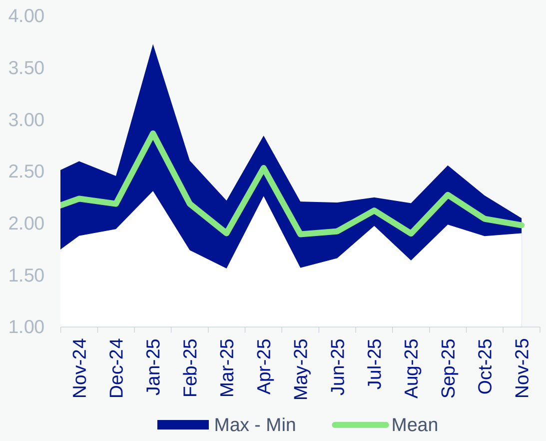


Source: Garanti BBVA Research, TURKSTAT

According to our calculations, the CBRT's underlying trend indicators edged down only slightly to around 2.0% m/m—still above Aug25 levels—despite the absence of cost-push pressures, likely reflecting secondary effects of the high September inflation reading. The 3-month average of underlying indicators remained around 2.1% for the third consecutive month, broadly flat for the past seven months, implying annual inflation of 25.7%. Median inflation, often viewed as a strong predictor of trend inflation, eased to 1.9% m/m (2.1% previously; 1.8% in Aug25), supported by controlled currency that keeps currency-sensitive items below the current median, raising questions about its representativeness as a long-term trend indicator. Core C inflation edged up to 2.0% m/m (vs. 1.9% in Oct25 and 1.8% in Aug25), while core B remained at 2.0% m/m. Trend indicators excluding volatile prices show the lasting impact of the high September outcome on price dynamics: SATRIM at 1.9% m/m and V_1 at 2.0% m/m remained above Aug25 levels (1.6% and 1.8% m/m, respectively). The dynamic factor model showed a monthly improvement to 2.0% m/m, down from 2.3% in Oct25 (vs. 2.1% in Aug25). Overall, the 3-month average of none of the sub-indices shows improvement relative to August, pointing to a stagnant disinflation outlook.

By core C components, seasonally adjusted basic goods inflation accelerated to 1.1% m/m (vs. 0.8% in both Oct25 and Aug25), led by clothing (1.6% m/m vs. 0.8% previously) and other basic goods (1.0% m/m vs. 0.7% previously), while durable goods inflation (1.0% m/m vs. 0.9% previously) remained relatively contained due to support from limited currency depreciation. Services inflation stayed elevated at around 2.9% m/m (vs. 2.8% in Aug25), with rent (3.4% m/m), restaurants & hotels (2.5% m/m), and other services (3.0% m/m) remaining stable and accounting for 0.8pp of the 0.9pp total services contribution, while transportation services decelerated to 3.3% m/m (from 4.0% m/m) and communication accelerated to 1.5% m/m (from 0.7% m/m). Deteriorating purchasing power does not appear to offset demand pressures tied to non-improving expectations. In basic goods, concerns about price increases at the start of 2026 may be prompting front-loaded purchases that keep demand supported, while firms' reports of lower inventories may also be contributing to inflationary pressures. Moreover, the dynamics since September indicate that the high price realization continues to have lasting effects transmitted through weakening expectations and distortions in price setting. This requires a cautious stance from the CBRT, as price adjustments at the beginning of the 2026 could create lasting distortions in the inflation trend in the absence of a strong commitment actions.

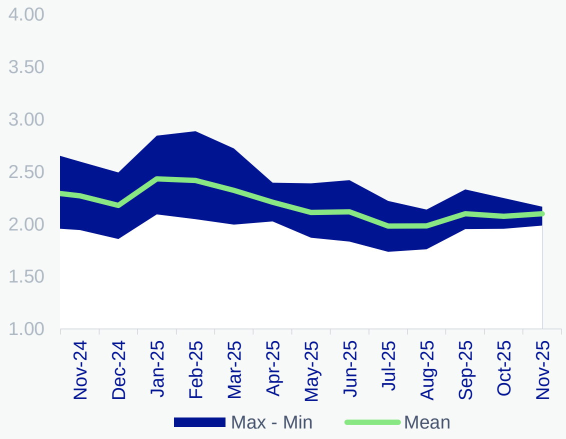
Figure 3. Consumer Inflation Indicators* (seasonal adj., monthly)



Source: Garanti BBVA Research, TURKSTAT

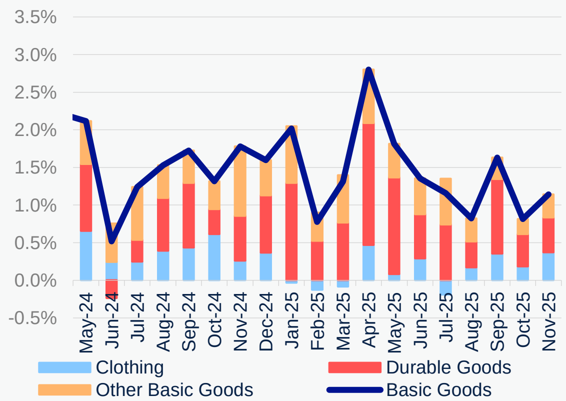
* Mean represents the average of different trend indicators including seasonally adjusted B, C, SATRIM, Median, inflation excluding volatile items and dynamic factor. The highlighted area shows the maximum and minimum range.

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



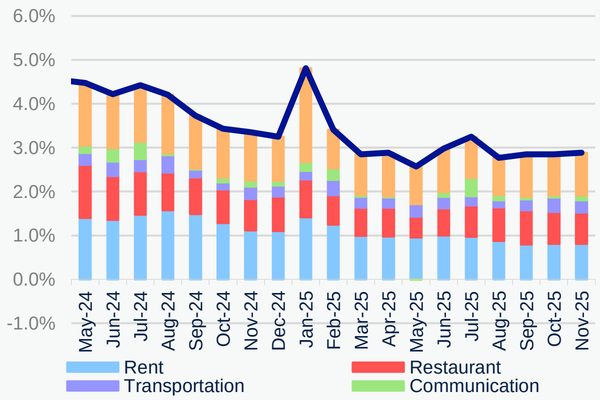
Source: Garanti BBVA Research, TURKSTAT

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 beverage prices declined, for the first time since July 2020, by 0.2% m/m in Nov25 (vs. 2.6% rise in Oct25 and year-high 4.8% in Sep25), slowing the annual food inflation to 27.4% (vs. 34.9% prev.). While there is a broad-based improvement in food inflation relative to Oct25 and 3Q25, it was primarily driven by the unprocessed foods, with fresh fruits and vegetables, and other unprocessed food contributing equally to the decline in food inflation. This indicates a potential ease in supply-side pressures from the previous months stemming from the agricultural frost and drought.

Energy inflation accelerated to 1.86% m/m after exhibiting a greater stability in October (1.28% m/m). On the producer side, domestic PPI diminished to 0.84% m/m (vs. 1.63 m/m in Oct25), the lowest of the year so far, demonstrating improvements in the all four segments of the industry. In this regard, the easing in the cost-push pressures is aiding the disinflation process, although the degree of improvement remains dependent on the prevailing demand dynamics.

Challenges on inflation target for 2026 required CBRT to remain prudent

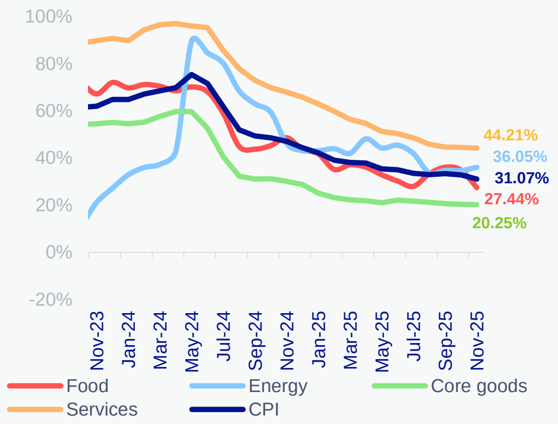
In the absence of a major shock late in the year, price adjustments tend to be weaker and seasonal effects generally produce low monthly inflation readings historically. The likelihood that December inflation will also remain subdued increases the probability that year-end inflation will come around 31.5%, lower than our current 32% forecast. That said, the lower-than-expected headline inflation in November was driven by negative food inflation, while the inflation trend shows no meaningful improvement. National accounts data indicate that demand conditions remained strong in Q3, contrary to what the CBRT implied, and leading indicators show that demand still has not cooled sufficiently to generate the desired level of disinflation support. Meanwhile, although 12-month-ahead inflation expectations improved slightly for households and firms, they deteriorated among professional forecasters. Expectations across all economic agents remain unanchored and stand well above the CBRT's 16% target for next year. The hunger-threshold announced by Türk-İş in November stands roughly 35% above the net minimum wage. So the uncertainty around wage hikes and administered prices adjustment at the start of 2026 remained as risk factor. Moreover, inertia in services inflation remains strong due to backward-looking and time-dependent pricing, while elevated cost inflation expectations for 12 month ahead among firms also pose a risk to the disinflation outlook.

On the fiscal side, support has been limited this year. Government spending exerted a negative demand impulse in Q2 but turned supportive again in Q3. The fact that the primary deficit has been managed largely through strong revenues on solid activity so far rather than spending restraint apart from earthquake expenditures weakens fiscal support to disinflation. According to the Medium-Term Program, next year's fiscal stance is likely to remain more neutral regarding the support to demand conditions. However, Finance Minister Şimşek recently stated that in 2026, adjustments to administered prices and taxes would be made in line with inflation targets, depending on budget space. The size of these adjustments will be important, but fiscal policy could provide support to disinflation next year through this channel.

While the risk balance to the disinflation path remained to the upside, the fiscal contribution will likely remain limited. The other two legs of the disinflation strategy—monetary policy tightness and structural reforms—will remain crucial. Structural reforms are unlikely to affect short-term inflation meaningfully and will only have an impact over the medium to long term depending on the success of their implementation. Monetary policy, however, must remain tight. The CBRT will announce its final rate decision of the year next week on December 11. Although expectations for a larger rate cut increased after the favorable inflation print, the fact that the improvement was food-driven, the no change in underlying trend, and the above-mentioned upside risks lead us to expect the Central Bank to remain highly cautious and deliver only 100 bps cut.

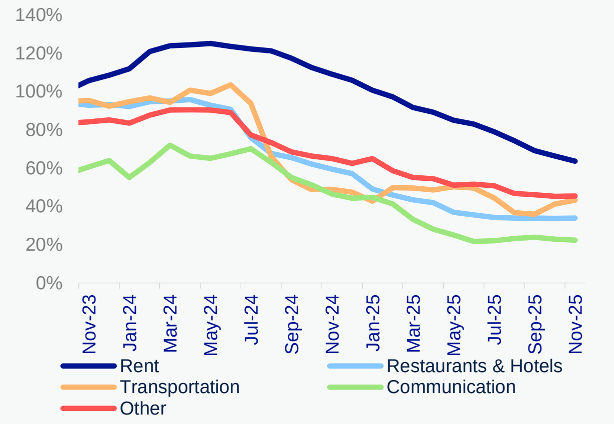
Under the assumptions of gradual rate cuts supported by macroprudential measures, limited fiscal support, strong inertia, Brent crude oil prices around USD 63 per barrel on average in 2026, wage adjustments of around 25%, and continued real appreciation with lower degree, we expect next year-end inflation to be around 25%. The final path will depend on food inflation and the effectiveness of economic policies, and we will revisit our forecast after seeing wage hikes and the price adjustments at the start of 2026.

Figure 8. Consumer Inflation Subcomponents (YoY)



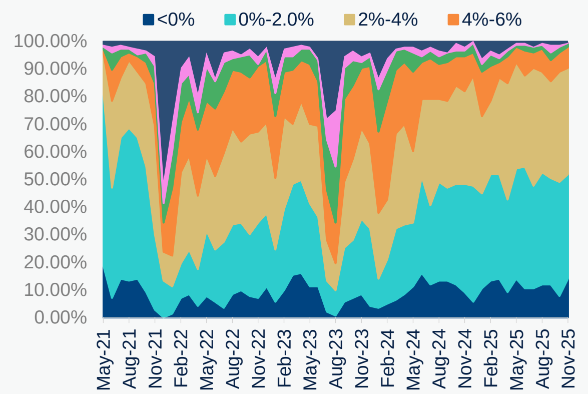
Source: Garanti BBVA Research, TURKSTAT

Figure 9. Services Inflation (YoY)



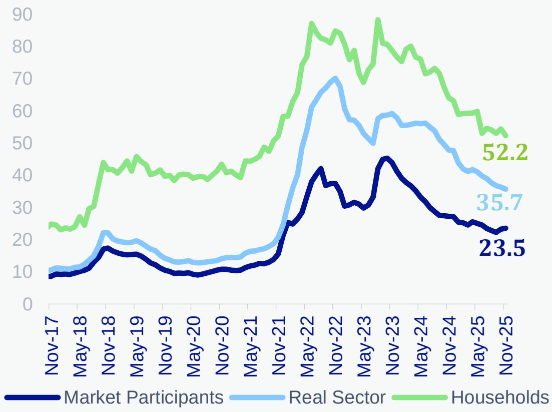
Source: Garanti BBVA Research, TURKSTAT

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	**0.87%**	**31.07%**
Food & Non-alcoholic beverages	-0.7%	27.4%
Beverage & Tobacco	2.4%	30.7%
Clothing & Textile	0.7%	9.0%
Housing	1.7%	49.9%
Household Equipment	0.9%	26.5%
Health	0.7%	29.5%
Transportation	1.8%	29.2%
Communication	0.5%	17.8%
Recreation & Culture	3.3%	25.9%
Education	0.3%	66.2%
Restaurants & Hotels	0.9%	33.9%
Misc. Goods & Services	1.1%	29.9%

Source: Garanti BBVA Research, TURKSTAT

Figure 13. PPI Subcomponents

	MoM	YoY
Total	**0.84%**	**27.23%**
Mining & Quarrying	1.8%	32.6%
Manufacturing	1.2%	27.0%
Food Products	0.2%	33.7%
Textiles	0.7%	20.0%
Wearing Apparel	2.4%	35.7%
Coke & Petroleum Products	7.7%	29.5%
Chemicals	0.6%	23.0%
Other Non-Metallic Mineral	0.9%	19.0%
Basic Metals	1.6%	19.1%
Metal Products	0.4%	24.4%
Electrical Equipment	1.5%	28.8%
Electricity, Gas, Steam	-3.1%	24.9%

Source: Garanti BBVA Research, TURKSTAT

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