BBVA Research

Türkiye | Disinflation Progress, Caution Required

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- Headline consumer inflation remained subdued (0.89% m/m, 30.89% y/y) in December, supported by seasonally low core inflation and weaker energy prices. However, our estimates show seasonally adjusted CPI edging up to 1.6% m/m, driven by services and food. Persistent inertia in services inflation and limited improvement in core goods -despite lower currency depreciation- suggest continued stickiness in core inflation (1.9% m/m sa core B; 2.0% core C).
- The average of six inflation trend indicators improved only marginally in December (1.8% m/m vs. 1.94% in November). That said, median inflation (1.64% m/m) - which the Central Bank closely monitors and uses as a justification in its decisions - and the inflation distribution showed more favorable readings.
- Lower tax rates relative to PPI -particularly on fuel, alcohol, and tobacco in 1H26- and certain administered price adjustments aligned with the CBRT's 19% upper forecast bound may help anchor expectations and partly offset pressure from the 27% minimum wage hike in 2026. Still, uncertainty remains over upcoming CPI methodology changes.
- Inflation expectations stay well above the CBRT's 16% median and 19% upper bound of the forecast range for end 2026 despite the December's improvement. Services inflation still signals robust inertia and easing financial conditions have already started to support demand.
- Lower than expected December CPI together with additional downside risk to our January forecast (potentially below 4%) -assuming no negative food surprise- creates room for a similar 150bps rate cut in January. We will closely watch the revisions in CPI index and the effectiveness of the policy mix going forward and evaluate the balance of risks on our already above consensus 25% year end inflation forecast.

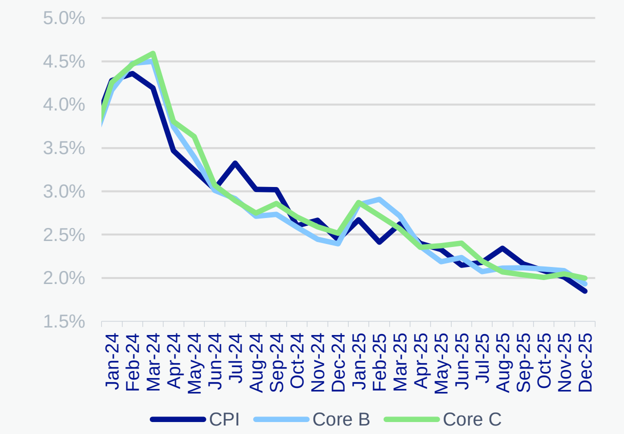
Gradual Disinflation Continues, While Risks Persist Amid Sticky Core Pressures

Consumer prices increased by 0.89% m/m in December, marking another moderate rise following November (0.87% m/m), supported by favorable seasonal effects. While the headline outcome was in line with consensus expectations, it came modestly below our forecast of 1.15%, driven by softer-than-expected developments in both basic goods and food prices. As a result, annual inflation continued its deceleration trend, declining to 30.89% y/y at 2025 year-end. The seasonally adjusted headline inflation registered 1.6% m/m (1.5% m/m prev.) supported by favorable energy price dynamics, lowering the three-month average trend to 1.85% m/m, the lowest level since 2023. However, demand-sensitive Core-C inflation showed no meaningful disinflation, remaining broadly stable around 2.0% m/m, reflecting persistently elevated services inflation (2.9% m/m, contributing

0.9pp to CPI) and relatively supportive basic goods inflation (1.0% m/m, 0.3pp contribution), the latter benefitting from a controlled currency that helped contain underlying risks.

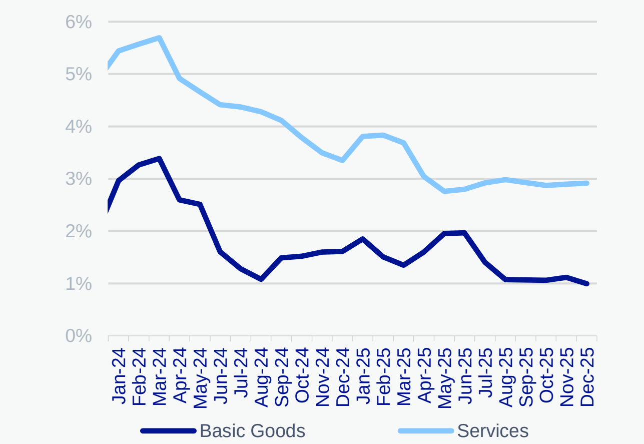
On an annual basis, headline CPI declined to 30.89% y/y at 2025 year-end, from 44.38% y/y at 2024 year-end. Food prices (down 3.8pp y/y) and energy prices (down 1.3pp y/y) remained supportive of the annual disinflation. The largest contribution to the improvement came from Core-C (down 8.1pp y/y), reflecting lower wage pressure compared to 2024 and helping curb services inflation; a controlled currency limiting pass-through to basic goods, and relatively tight financial conditions. Nevertheless, inadequate slow-down in demand conditions, elevated inflation expectations, distorted pricing behavior and the currency shock in March hindered a faster disinflation process.

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



Source: Garanti BBVA Research, TURKSTAT

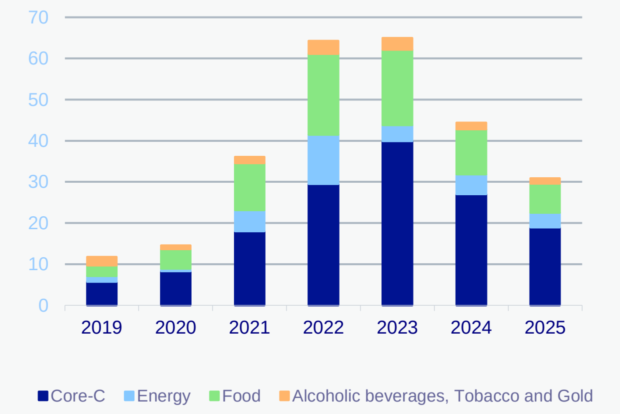
Figure 2. Core C Inflation Indicators
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

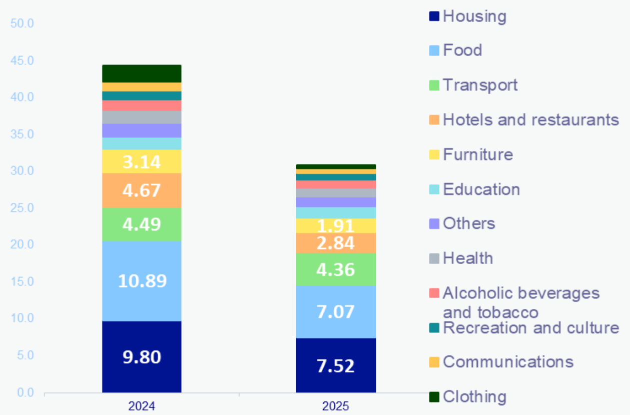
According to our calculations, the CBRT's underlying trend indicators improved to 1.8% m/m (1.94% m/m previously), bringing its three-month average trend slightly below 2% m/m in the last 4 years. While Core-B (~1.9% m/m), Core-C (~2.0% m/m), and DFM (~2.1% m/m) remained broadly unchanged from the previous month, the improvement mainly reflected a narrower distribution of monthly price changes, accompanied by a lower median. Indicators excluding extreme values decelerated to near-term lows, with SATRIM easing to 1.6% m/m (1.8% m/m prev.) and V_1 to 1.7% m/m (2.0% m/m prev.). Median inflation—closely monitored by the CBRT as a strong predictor of trend inflation—also eased to 1.6% m/m (1.9% m/m prev.); as in the previous month, the decline was supported by a controlled currency, which kept currency-sensitive items below the prevailing median, raising questions about the indicator's representativeness as a long-term underlying trend measure without control. Moreover, limited nominal depreciation over recent months implies a lower adjustment in the near term but increases the risk of a cumulative adjustment going ahead.

Figure 3. Contributions to Annual Inflation



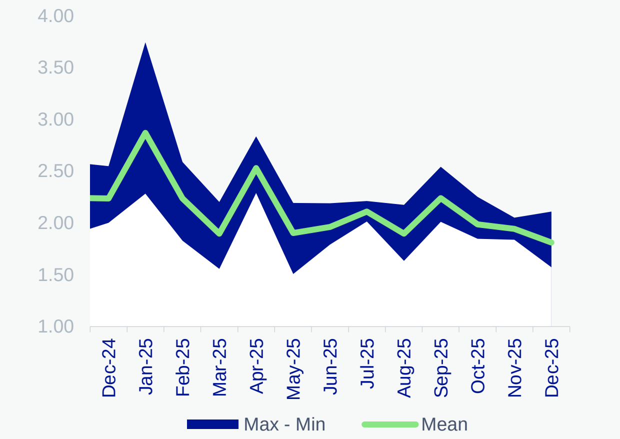
Source: Garanti BBVA Research, TURKSTAT

Figure 4. Contributions to Annual Inflation (detailed)



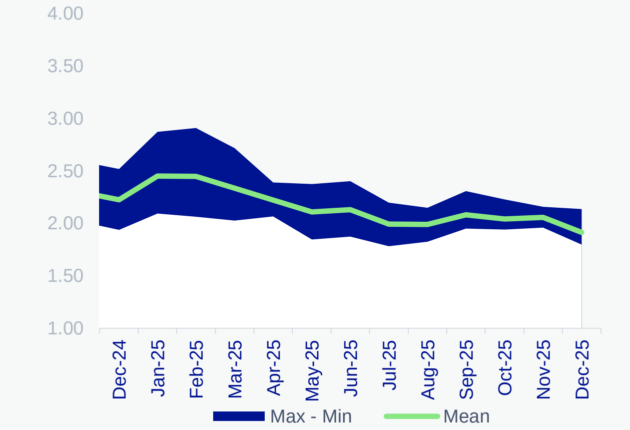
Source: Garanti BBVA Research, TURKSTAT

Figure 5. Consumer Inflation Indicators Inflation (seasonal adj., monthly)



Source: Garanti BBVA Research, TURKSTAT

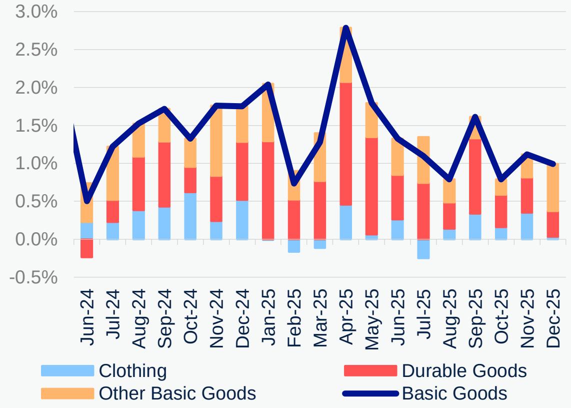
Figure 6. Consumer Inflation Indicators (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

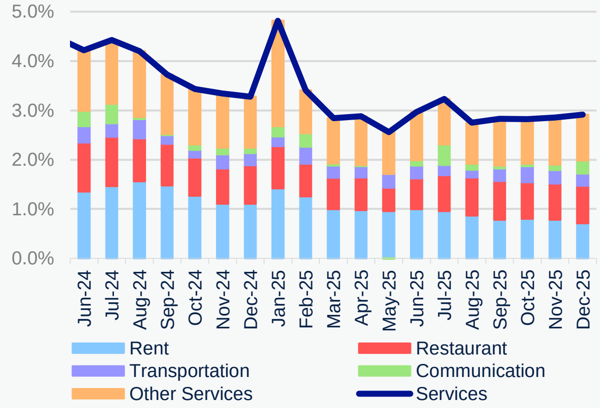
By Core-C components, seasonally adjusted basic goods inflation decelerated to 1.0% m/m (-0.1pp), led by clothing (0.1% m/m, -1.4pp) and durable goods (0.7% m/m, -0.3pp), while other basic goods inflation accelerated to 2.1% m/m (+1.1pp). Services inflation—remaining the largest contributor to headline inflation with an average contribution of around 0.9pp throughout the year—edged higher, driven by communication services (3.6% m/m, +2.1pp) and restaurants and hotels (2.7% m/m, +0.1pp). In contrast, rent (3.0% m/m, -0.3pp), transportation (3.0% m/m, -0.2pp), and other services (2.9% m/m, -0.1pp) helped prevent a more pronounced deterioration.

Figure 7. Contributions to Basic Goods Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 8. Contributions to Services Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

After contracting in Nov25, driven by higher unprocessed food prices, food and non-alcoholic beverage prices rebounded by 1.58% m/m in Dec25 (vs. -0.23% m/m in Nov25) completing the year with an annual inflation of 28.3% (vs. 43.6% y/y in 2024). The deceleration in annual food inflation accounted for 3.8pp of the decline in the annual headline inflation, which fell from 44.4% in 2024 to 30.9% in 2025. Looking ahead to 2026, the extent of this contribution will be influenced by environmental and climate-related factors.

On the other hand, energy prices retreated by 0.08% m/m in Dec25 (vs. 1.86% m/m rise in Nov25), marking the first monthly decrease since 2023. In annual terms, energy inflation stood at 35.1% in 2025 compared to 43.1% in 2024 contributing 1.3pp to the easing in the annual headline inflation. On the producer side, cost push factors remained muted as domestic PPI growth slowed to 0.75% m/m in Dec25 (from 0.84% m/m in Nov25), with the manufacturing of pharmaceutical products recording the largest increase (10.4% m/m) led by the update to the euro exchange rate used in transactions for these products. Lastly, annual PPI inflation moderated to 27.7% in 2025 (vs. 28.5% in 2024). The recent minimum wage adjustment of 27% may put some upside risk on near term producer inflation but the relatively weak energy commodity prices and muted currency depreciation could be supportive factors.

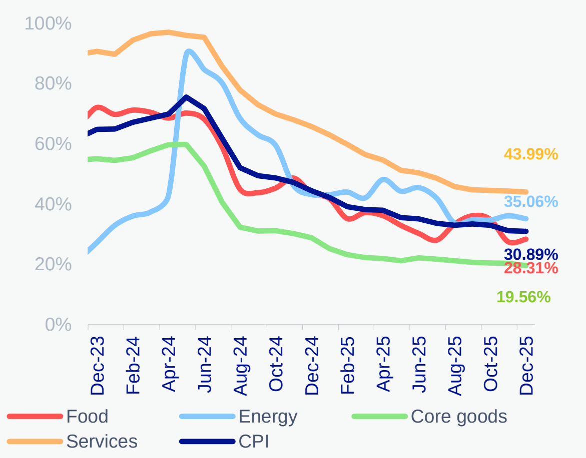
Challenges on inflation outlook required limited rate cuts from CBRT

Annual inflation ended 2025 at 30.9%, well above the Central Bank's revised 24% target. While the market turbulence in March and the subsequent rise in food prices due to frost accounted for an estimated 3pp impact; inflation inertia and inadequate slow-down in demand conditions constrained disinflation gains. Finance Minister Şimşek had emphasized that tax and administered price adjustments in 2026 would provide stronger support to the fight against inflation. Indeed, special consumption tax (SCT) on fuel prices has been adjusted by 6.95% instead of %10 six-month accumulated PPI inflation, while SCT on alcoholic beverages and tobacco were raised by 7.95%. In addition, items such as passport fees, traffic fines, and the motor vehicle tax were adjusted at 18.95%, in line with the upper band of inflation forecast, below the 25.5% revaluation rate. Postponed adjustments to health examination fees were made in the 20–30% range, much lower than our expectation, while pharmaceutical prices were increased by around 17% in mid-December. Moreover, the new calculation method for education prices—based on year-end CPI and PPI instead of 12-month averages—would also be supportive. Finally, although the minimum wage increase came in at 27%, slightly above the expected 25%, it does not pose a significant upside risk to inflation outlook. Assuming no negative surprise in food inflation, January inflation could be below 4%, contrary to our earlier forecast. Economy management obviously aims to bring annual inflation below 30% early in the year, hoping to improve expectations and accelerate disinflation gains.

The lower-than-expected December inflation and potential downside risks for January may create additional room for the CBRT to continue rate cuts. Nevertheless, while 12-month-ahead inflation expectations improved somewhat in December, they remain highly unanchored. Market participants' expectations stand at 23.4%, while households' and firms' expectations are 50.9% and 34.8%, respectively—well above the Central Bank's 16% median and 19% upper-band projections for end 2026. Another key concern is the ongoing robust inertia, signaled by the stickiness in services inflation. The recent easing in financial conditions could keep demand relatively strong, reinforcing this stickiness alongside elevated expectations. Climate-related risks continue to warrant caution on optimistic food inflation forecast, while geopolitical risks complicate the outlook for energy prices. In addition, uncertainty remains on CPI methodological changes. Overall, given the challenges to the disinflation outlook, we believe rate cuts should remain limited, but given the room December CPI has provided, we expect the CBRT to deliver a similar 150bps cut in January.

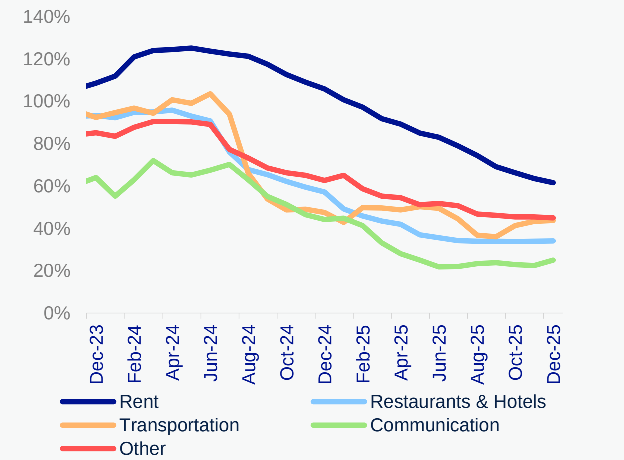
A more accurate inflation forecast can be made after observing January price adjustments and the impact of methodological changes. In the February Inflation Report to be released on February 12th, the 2026 year-end point target (%16) may remain unchanged, but we will closely monitor the accounting of the 2025 inflation overshoot and the forward guidance provided. Effectiveness of the policy coordination will also be critical for the inflation outlook. Once more information becomes available on these factors, we will reassess the balance of risks on our already above consensus 2026 year-end inflation forecast of 25%.

Figure 9. Consumer Inflation Subcomponents (YoY)



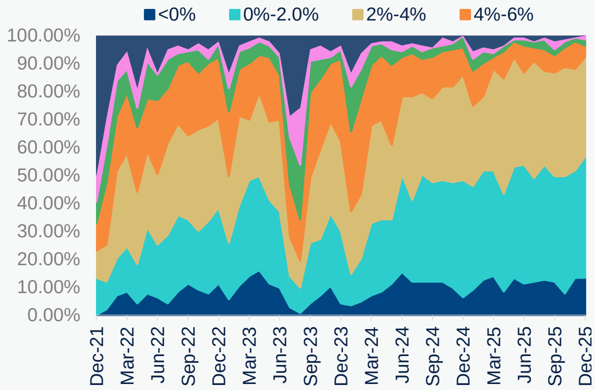
Source: Garanti BBVA Research, TURKSTAT

Figure 10. Services Inflation (YoY)



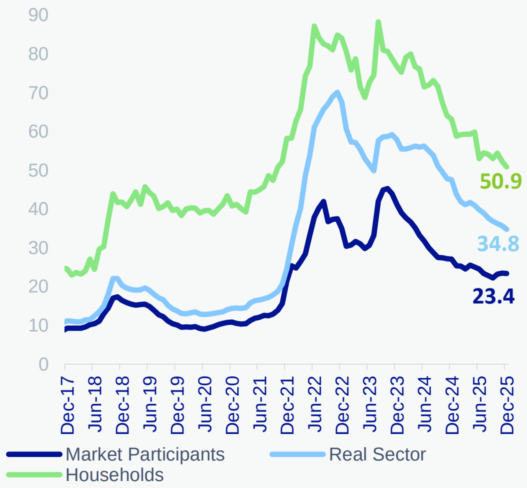
Source: Garanti BBVA Research, TURKSTAT

Figure 11. CPI Diffusion Index (according to monthly SA changes)



Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

Figure 13. CPI Subcomponents

	MoM	YoY
Total	**0.89%**	**30.89%**
Food & Non-alcoholic beverages	2.0%	28.3%
Beverage & Tobacco	0.1%	30.8%
Clothing & Textile	-2.9%	6.5%
Housing	1.4%	49.4%
Household Equipment	1.6%	25.0%
Health	2.0%	30.9%
Transportation	-1.0%	28.4%
Communication	2.9%	19.0%
Recreation & Culture	0.8%	25.0%
Education	0.1%	66.3%
Restaurants & Hotels	1.5%	34.1%
Misc. Goods & Services	1.3%	29.7%

Source: Garanti BBVA Research, TURKSTAT

Figure 14. PPI Subcomponents

	MoM	YoY
Total	**0.75%**	**27.67%**
Mining & Quarrying	1.6%	33.9%
Manufacturing	1.1%	27.1%
Food Products	0.7%	32.8%
Textiles	1.2%	20.1%
Wearing Apparel	-0.7%	33.6%
Coke & Petroleum Products	-7.8%	18.6%
Chemicals	2.0%	25.0%
Other Non-Metallic Mineral	1.2%	18.8%
Basic Metals	1.8%	21.0%
Metal Products	2.1%	25.5%
Electrical Equipment	2.3%	28.8%
Electricity, Gas, Steam	-3.0%	28.7%

Source: Garanti BBVA Research, TURKSTAT

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