

Türkiye | Inflation Moderates, Challenges Persist

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- Consumer inflation materialized at 1.7% m/m, in line with our expectation, bringing annual inflation to 32.6% up from 32.4% in April.
- Food and energy prices dragged headline CPI lower on a monthly basis, while core inflation eased only modestly, largely reflecting seasonal pressures in clothing prices. According to our calculations, seasonally adjusted CPI (1.9% vs. 3.4% prev.) decelerated mainly on food and energy, whereas core inflation (s.a., 2.2% m/m vs. 2.5% prev.) remained relatively sticky due to ongoing inertia in services inflation.
- Trend inflation indicators point to limited improvement, while their 3-month moving averages retreated only to the levels observed before the conflict in February. The 3-month moving average of median inflation, closely monitored by the CBRT, stood at 2.15%, implying an annualized CPI of 29%. Therefore, the data is neither particularly encouraging from an expectations standpoint nor does it point to further deterioration following the unexpected price adjustments in April.
- Cost-push pressures remain elevated, as PPI excluding food continues to imply monthly price increases of around 3%. Persistent inflation inertia, highly unanchored inflation expectations, uncertainty surrounding the conflict, and elevated energy price volatility remain key risks to the disinflation path.
- Considering the risks to both price and financial stability, we expect the CBRT to raise the policy rate to 40% at next week's MPC meeting. However, given the still-limited dollarization tendency and the recent tightening of credit growth caps, we do not rule out the possibility of a pause. Even so, we believe the CBRT should stay tight for longer.
- Given downside risks to the external balance, we expect growth-supportive policies to remain limited. Assuming 3% GDP growth in 2026, a gradual reopening of the Strait of Hormuz in 2H26, and average oil prices of USD 90/bbl in 2026, we maintain our year-end inflation forecast at 30%.

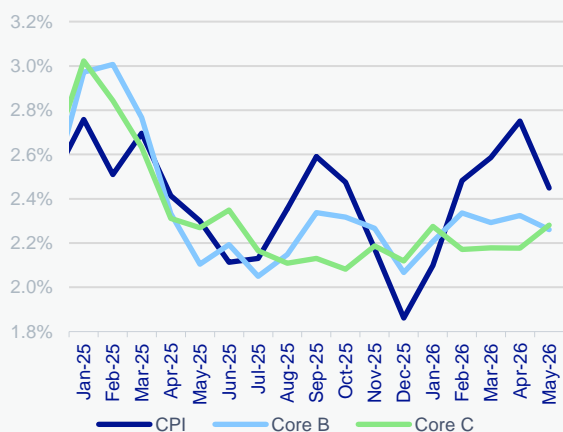
Food and Energy Drive Improvement, Underlying Trend Stays Elevated

Consumer prices rose by 1.71% m/m in May26 (vs. 4.18% m/m in Apr26), in line with our expectations and slightly above the 1.6% market consensus; accordingly, annual inflation edged up to 32.61% from 32.37% in Apr26. The improvement in monthly headline inflation was largely driven by energy and food prices, which together accounted for more than 2pp of the decline in the monthly figure. On the energy side, the fading impact of electricity and natural gas administered price hikes, coupled with declining fuel prices under the sliding-scale mechanism and easing global energy prices, contributed favorably. On the food side, earlier persistent pressures appear to have eased, with fresh food inflation declining beyond seasonal patterns, supported by favorable weather

conditions, with this trend expected to continue in the coming months. As a result, according to our calculations, seasonally adjusted headline inflation decelerated to 1.9% m/m from 3.4% m/m. Regarding the seasonally adjusted Core-C, the moderation was mainly driven by a correction in basic goods inflation, which had been the main upward surprise in the previous month's print and suggests that current demand conditions might help contain a further intensification of supply-side pressures; easing demand conditions also appear to be reflected in improving trend in restaurant and hotel inflation as well.

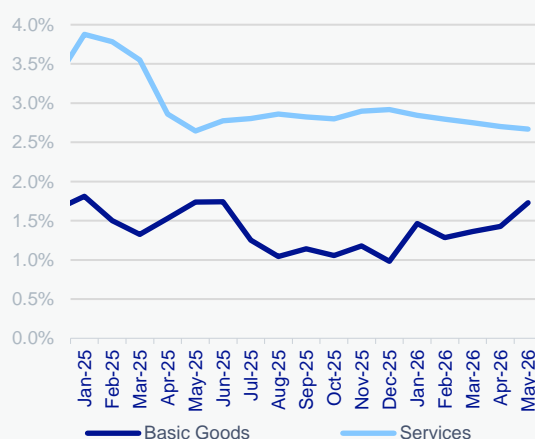
By Core-C components, seasonally adjusted basic goods inflation eased sharply to 1.5% m/m (vs. 2.4% m/m), with the deceleration primarily reflecting a correction following last month's broad-based price adjustments in the other basic goods category (0.1% m/m, -3.4pp); meanwhile, clothing (2.5% m/m, +0.2pp) and durable goods (1.3% m/m, +0.2pp) inflation edged up, likely reflecting carry-over effects from price adjustments implemented in response to the earlier accelerating depreciation trend in the currency. In contrast, seasonally adjusted services inflation edged up and remained elevated at around 2.6% m/m; while rent inflation (3.1% m/m, -0.3pp) and restaurants & hotels inflation (1.9% m/m, -0.2pp) improved, and communication (1.7% m/m, +0.1pp) and other services (2.4% m/m, +0.1pp) recorded only modest increases, the deterioration was mainly driven by transportation services inflation (4.5% m/m, +1.0pp), likely additionally affected by stronger demand ahead of the long Bayram (Eid al-Adha) holidays.

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)

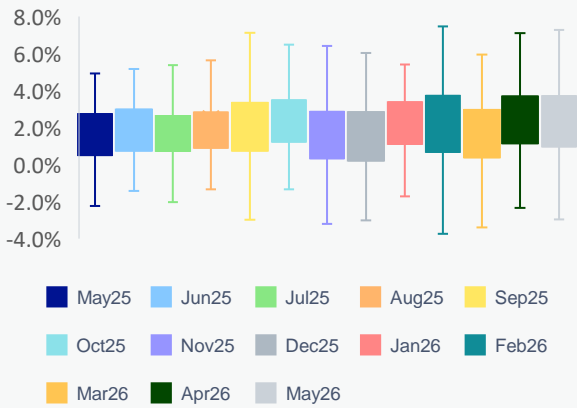


Source: Garanti BBVA Research, TURKSTAT

According to our calculations, the average of the underlying trend indicators closely monitored by the CBRT showed a broad-based improvement to 2.2% m/m from 2.6% m/m, following the war-related price adjustments that had intensified particularly in basic goods. However, its 3-month average remained at around 2.25% m/m, staying still above pre-war levels. Core-C inflation eased to 2.2% m/m (vs. 2.5% m/m), primarily reflecting a correction in basic goods inflation. Core-B inflation similarly improved, also benefiting from processed food prices as the impact of the previous month's bread price hikes faded (2.3% m/m vs. 2.6% m/m prev.). Median inflation moderated to 2.0% m/m from 2.5% m/m, with the balance easing also evident in the median measures of both services and basic goods subcategories. SATRIM (2.1% m/m), DFM (2.3% m/m), and V_1 (2.3%

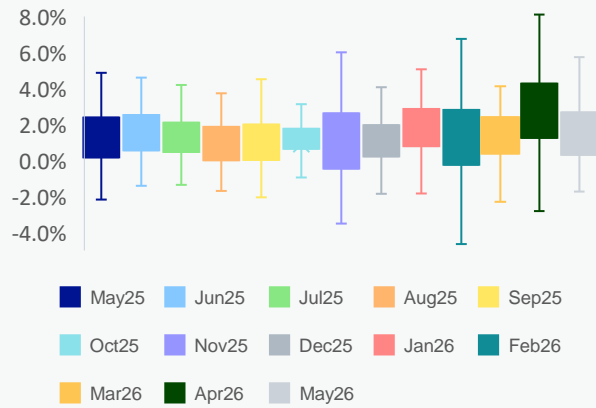
m/m) likewise showed significant improvement compared to the previous month, although they remained at around elevated pre-war levels.

Figure 3. Spread of 5-digit Inflation Series (seasonal adj., monthly, pp)



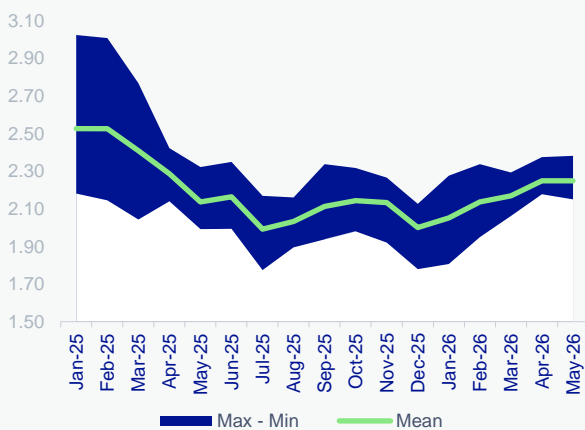
Source: Garanti BBVA Research, TURKSTAT

Figure 4. Spread of 5-digit Basic Goods Inflation Series (seasonal adj., monthly, pp)



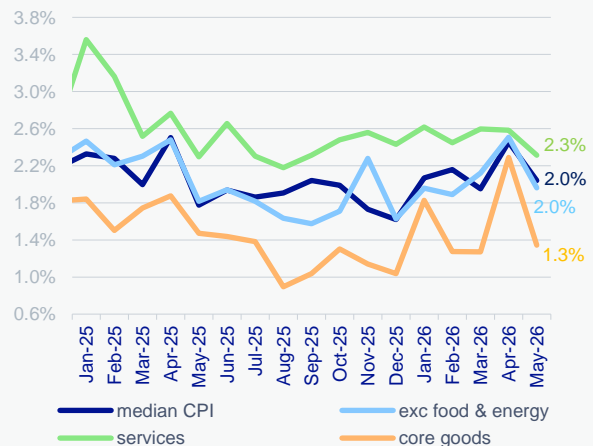
Source: Garanti BBVA Research, TURKSTAT

Figure 4. Underlying Trend Indicators* (seasonal adj., monthly, 3-month avg., %)



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 5. 5-digit Inflation Series' Median (seasonal adj., monthly)



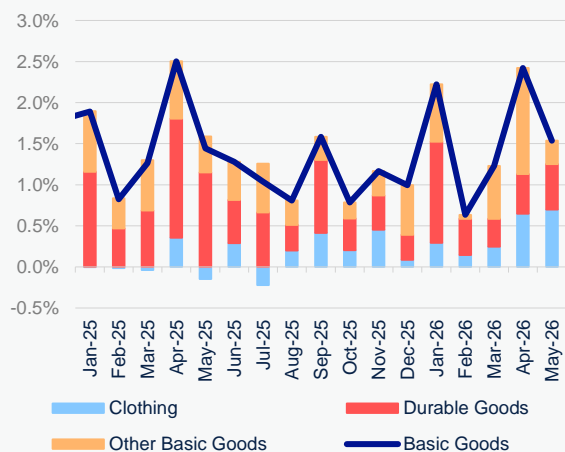
Source: Garanti BBVA Research, TURKSTAT

Food inflation, which came in at 3.8% in April, realized as -0.7% m/m in May, supported by a sharp decline in fresh fruit and vegetable prices (-9.3% m/m) due to seasonal factors, while annual food inflation rose to 35.2%. On the other hand, processed food inflation eased only modestly (2.6% m/m vs. 3.3% in April), partly reflecting recent hikes in milk and dairy product prices. Supportive weather conditions and seasonal effects could keep food inflation favorable during the summer

months. However, higher fertilizer prices stemming from the conflict and rising global food prices may limit these gains over the remainder of the year.

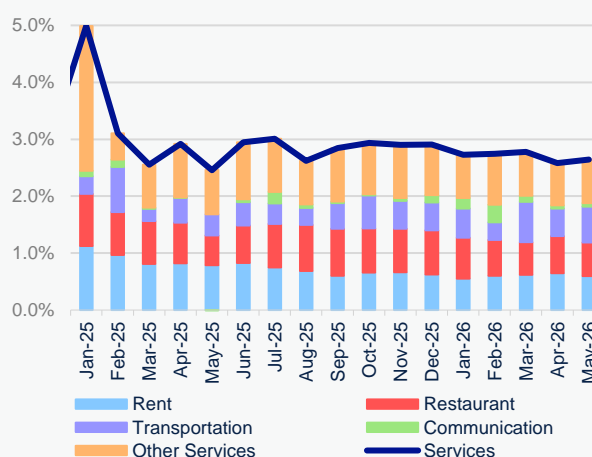
Cost pressures continue to strengthen as producer prices increased by 2.8% m/m in May (3.2% m/m in April), bringing annual PPI inflation to 28.9%. Excluding food prices, PPI has risen by around 3% m/m over the past two months. Should the conflict come to an end, the normalization in energy prices that we expect could help ease producer prices. However, the fact that a peace has yet to be reached despite entering the third month of the negotiations among war partners continues to pose upside risks on this front. Overall, with cumulative consumer inflation in the first five months of the year reaching a higher level than in the corresponding period of last year (16.6% vs. 15.1%) and the prolonged conflict in the Middle East continuing to pose supply-side risks, a meaningful deceleration in annual inflation by end-2026 relative to end-2025 (30.89% y/y) appears challenging.

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



Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

Inflation Challenges Call for a Tighter-for-Longer Stance

The cumulative inflation reached 16.6% in the first 5 months of 2026, implying that if monthly inflation averages 1.5–2.0% over the remainder of the year, year-end inflation would likely fall within a 29–34% range. Given that average monthly inflation stood at 1.9% over the same period last year and that upside risks to inflation remain elevated, bringing inflation below 30% appears quite challenging. On the positive side, abundant rainfall this year could help contain food inflation. However, supply-chain disruptions stemming from the conflict continue to create uncertainty around the ultimate impact on food prices. Another supportive factor is that activity indicators for the first half of 2026 point to a normalization in demand conditions, suggesting a deeper negative output gap and a more supportive backdrop for disinflation.

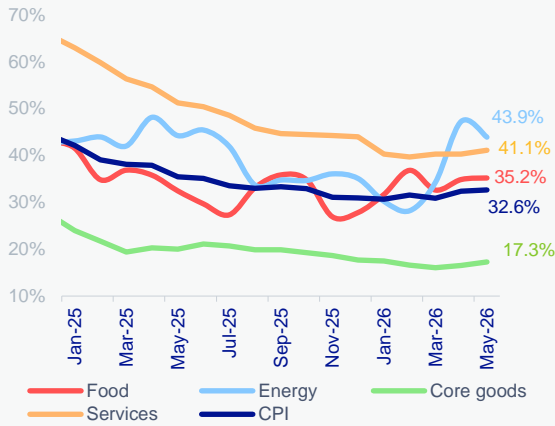
On the other hand, persistent services inflation continues to signal strong inflation inertia. While some of the inflationary impact from higher energy prices and supply-chain disruptions has already

materialized, risks related to second-round effects remain. Moreover, despite entering the third month of negotiations between the parties involved in the conflict, there is still no clear path toward peace. As a result, uncertainty over the duration and intensity of the conflict remains elevated, while energy price volatility continues to pose risks to pricing behavior. Finally, highly unanchored inflation expectations remain a key challenge to the disinflation path. In May, 12-month-ahead inflation expectations among market participants rose to 23.8%, while those of the real sector and households improved somewhat to 33.1% and 49.5%, respectively. Overall, the May inflation print is unlikely to materially alter inflation expectations in either direction.

The balance of risks to the inflation outlook remains tilted to the upside. In its second Inflation Report of the year, the CBRT revised its interim inflation targets upward by more than expected, now targeting inflation of 24% for 2026 (vs. 16% previously), 15% for 2027 (vs. 9%), and 9% for 2028 (vs. 8%). The Bank also raised its year-end 2026 inflation forecast to 26%, from the 15–21% range presented in the first report of the year. In addition, it highlighted predominantly upside risks stemming from food and energy prices—particularly depending on the evolution of the conflict—as well as inflation inertia and supply-side shocks. The Governor also stated that relying on the interest rate corridor for an extended period would not be appropriate and emphasized that all options remain on the table under an adverse scenario. Given the ongoing uncertainty surrounding the conflict, mounting inflationary risks, recent domestic political developments, and financial stability concerns, we expect the CBRT to raise the policy rate to the current funding cost of 40% at next week’s MPC meeting. We do not view this as an additional tightening measure per se; rather, it would align the policy rate with the effective funding rate while preserving room to respond to adverse shocks through the upper band of the corridor if needed. That said, we do not rule out the possibility of the CBRT keeping rates unchanged next week, given the still-limited dollarization tendency and the additional tightening of credit growth caps on May 22. Nevertheless, current conditions suggest that monetary policy will need to remain tight for longer.

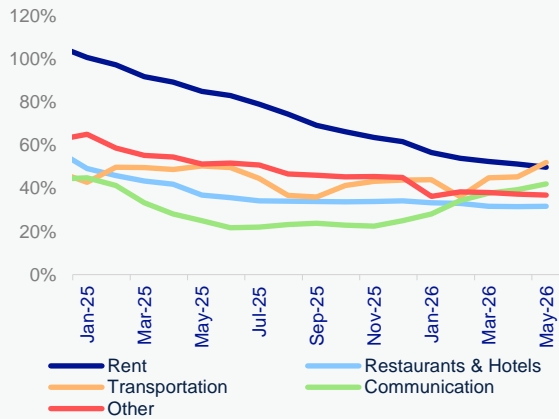
Higher energy prices for longer and weakening external demand are increasing downside risks to the external balance. As a result, the growing trade-off between growth and the external balance suggests that, while there is some room on the fiscal side to support activity, any support is likely to remain selective and limited. Accordingly, we have revised our 2026 growth forecast down to 3%. Under our baseline assumptions that the Strait of Hormuz reopens in 2H26, Brent oil prices average around USD 90/bbl, USD/TRY ends the year at 52, and the policy rate declines to 37% by year-end through cuts beginning in September, we maintain our end-2026 inflation forecast at 30%, while acknowledging upside risks related to the evolution of the conflict.

Figure 8. Consumer Inflation Subcomponents (YoY)



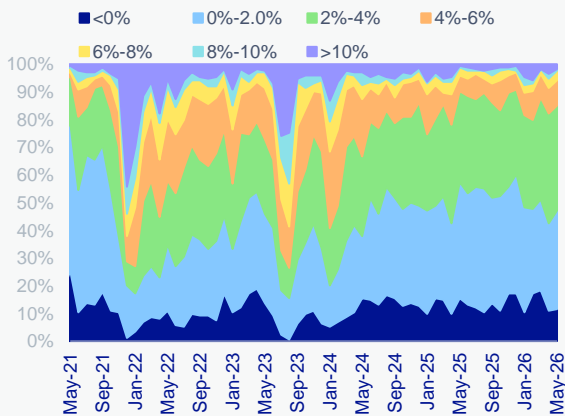
Source: Garanti BBVA Research, TURKSTAT

Figure 9. Services Inflation (YoY)



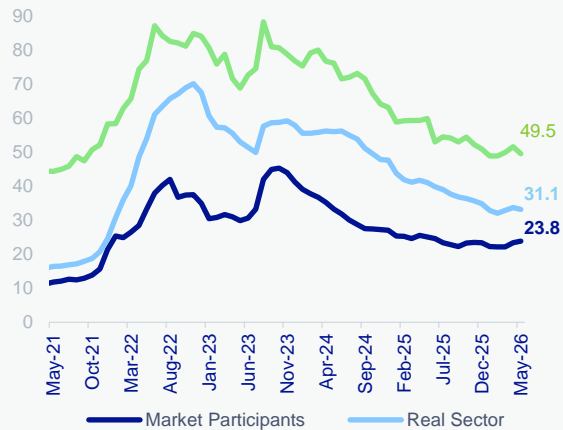
Source: Garanti BBVA Research, TURKSTAT

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	1.71%	32.61%
Food & Non-alcoholic beverages	-0.5%	34.9%
Beverage & Tobacco	0.0%	29.9%
Clothing & Textile	11.3%	14.1%
Housing	2.3%	45.6%
Household Equipment	2.0%	22.4%
Health	0.4%	32.9%
Transportation	2.0%	34.3%
Information & Communication	0.5%	25.6%
Recreation, Sport & Culture	1.2%	25.9%
Education	0.8%	50.1%
Restaurants & Hotels	1.9%	31.6%
Insurance & Financial Services	0.5%	28.3%
Personal Care & Misc. Goods and Services	0.5%	23.6%

Source: Garanti BBVA Research, TURKSTAT

Figure 13. PPI Subcomponents

	MoM	YoY
Total	2.75%	28.93%
Mining & Quarrying	2.8%	42.7%
Manufacturing	2.0%	30.7%
Food Products	1.5%	32.9%
Textiles	3.0%	20.9%
Wearing Apparel	0.4%	30.9%
Coke & Petroleum Products	-1.8%	114.1%
Chemicals	4.2%	39.5%
Other Non-Metallic Mineral	2.2%	24.2%
Basic Metals	2.1%	25.2%
Metal Products	2.7%	21.5%
Electrical Equipment	2.8%	30.1%
Electricity, Gas, Steam	12.0%	6.9%

Source: Garanti BBVA Research, TURKSTAT

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