BBVA Research

Türkiye | No surprises, but risks remain

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- Monthly consumer inflation edged up to 1.84% m/m in August (vs. previously 1.78%), driven by energy and alcohol & tobacco prices. According to our calculations, seasonally adjusted (s.a.) monthly inflation, in parallel, accelerated to 2.4% (vs. prev. 2.2%) due to the same factors, leading to a moderate deterioration in its 3-month trend.
- Core C inflation weakened to 1.9% m/m, as the moderation in basic goods inflation continued in August despite the sticky services. While weaker domestic demand conditions support disinflation in basic goods, services inflation remains solid reflecting pressure also from time-dependent price increases.
- Median inflation and the average of six underlying inflation indicators slightly deteriorated to 1.7% m/m and 1.8% m/m, respectively; however, their 3-month averages still eased to 1.6% and 1.9%. However, unanchored inflation expectations, sticky services inflation, and volatile food and energy prices continue to call for caution.
- Time-dependent price adjustments will be a key driver of the September inflation; however, regulations reducing backward-indexation, together with softer demand conditions, might limit the magnitude of these adjustments. If food prices remain benign and energy prices stay broadly stable, monthly inflation could come in at around 2.0% m/m. Combined with favorable base effects, this would bring annual CPI close to 30% y/y in September.
- Assuming no further escalation in geopolitical tensions and the maintenance of a prudent policy mix in 2H26, we maintain our 30% year-end inflation forecast. Following the CBRT's faster than expected normalization in funding and today's print, we now expect a 100bp policy-rate cut in October (vs. December), bringing the rate to 36%, where we still expect a hold later till year-end.

Energy-Led Pressures Cloud the Disinflation Outlook

Monthly consumer inflation inched up to 1.84% in August (vs. 1.78% in July26), coming in just below both our expectation and the consensus (1.95% m/m). As a result, the disinflation process in annual inflation resumed modestly (31.5% y/y in Aug26, vs. 31.8% y/y prev.). Compared to the previous month, price pressures strengthened across energy and alcohol-tobacco products, while easing in food, led by seasonal factors on fresh fruits and vegetables. In the core basket, services inflation remained flat, while basic goods prices continued to soften.

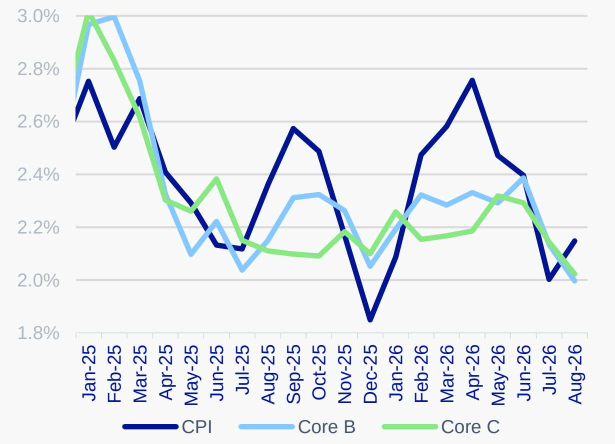
Energy prices surged by 5.5% m/m in August (vs. 2.3% m/m prev.), driven by still-high momentum in fuel prices and the gradual phase-out of the sliding scale mechanism (the compensation ratio fell to 25% in Aug26 from 50% in July26), the effects of which were reflected in the data. Quantitatively, we estimate that the fuel-pricing mechanism still reduced monthly inflation by 0.5pp in Aug26. Going forward, the reintroduction of the SCT in diesel prices, which had been reset to zero in Aug26, resulted in an early increase in prices in early Sep26, while developments in the Middle East and their impact on global prices will remain important. On the other hand, if the sliding scale will over at the end of September and there would no significant improvement in commodity prices, the delayed impact would have upside impact on inflation in October.

On the other hand, food inflation declined to 0.2% m/m in August, following a strong 1.6% m/m print in July26 amid favorable seasonal factors. The moderation was driven by supportive unprocessed food prices, particularly fresh fruit and vegetables. Consequently, annual food inflation declined to 33.8% y/y in Aug26 (vs. 37.5% y/y prev.), also supported by base effects related to the agricultural drought and frost last year.

Regarding Core-C components, services inflation fell marginally to 3.1% m/m (vs. 3.2% m/m prev.), with restaurants & accommodation and other services moderating. Prominent factors included time-dependent increases in higher-education prices and transportation. Furthermore, Sep26 services inflation is likely to be affected by carry-over effects from time-dependent adjustments, particularly in education and transportation, while the second-round effects of Aug26's high energy print may become more visible in the near term. By contrast, basic goods prices continued to decline (-0.3% m/m in Aug26 vs. -0.4% m/m prev.), supported by lower clothing & footwear prices amid favorable seasonal conditions. Thus, monthly core-C inflation was broadly unchanged at 1.81% m/m (vs. 1.80% m/m in July26), while it rose to 30.1% y/y (vs. 29.9% y/y prev.) in annual terms.

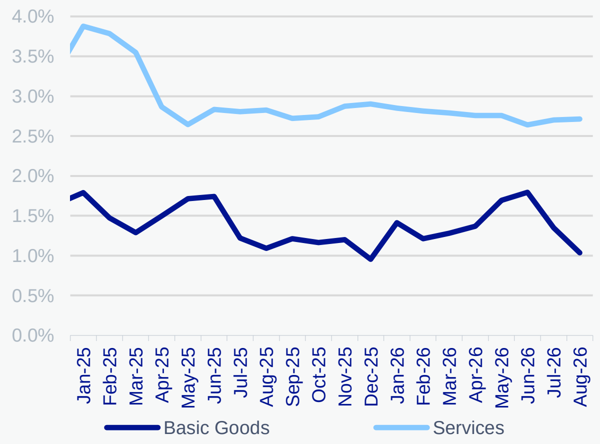
According to our calculations, seasonally adjusted consumer inflation accelerated to 2.4% m/m (vs. 2.2% m/m prev.), while seasonally adjusted core-C inflation slowed to 1.9% m/m (vs. 2.1% m/m prev.). The increase in seasonally adjusted headline inflation was driven by energy (+0.23pp contribution vs. July26) and alcohol & tobacco prices (+0.28pp contribution vs. July26), while other components made smaller contributions. In addition, the more pronounced moderation in seasonally adjusted basic goods prices in Aug26, relative to the unadjusted data, drove the decline in adjusted core-C inflation.

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



Source: Garanti BBVA Research, TURKSTAT

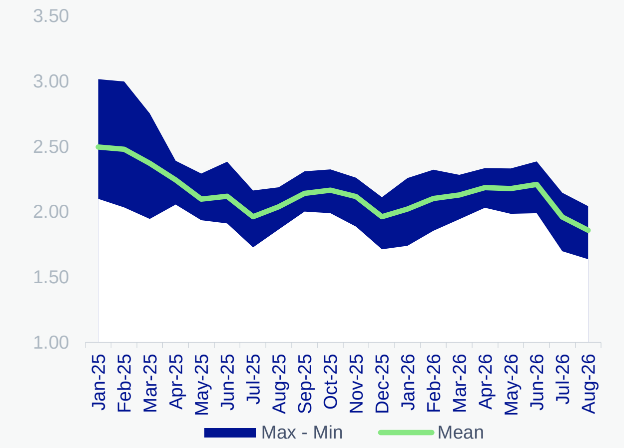
Figure 2. Core C Inflation Indicators
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

According to the average of the inflation indicators closely monitored by the CBRT, we calculate the underlying inflation trend rose to 1.8% m/m (+0.1pp), while its three-month average fell slightly under 2.0%, to be specific, to 1.9% (-0.1pp). As mentioned above, Core-C inflation retreated to 1.9% m/m (-0.2pp), while Core-B inflation has not changed at 1.9% m/m. The median inflation reached 1.7% m/m (+0.3pp): the median for services inflation inched down to 2.1% m/m (-0.1pp), whereas the median for core goods ticked up to 1.2% m/m (+0.1pp). SATRIM and V_1, which exclude outlier price movements, also accelerated to 1.8% m/m (+0.3pp for both), while DFM increased to 2.0% m/m (+0.1pp).

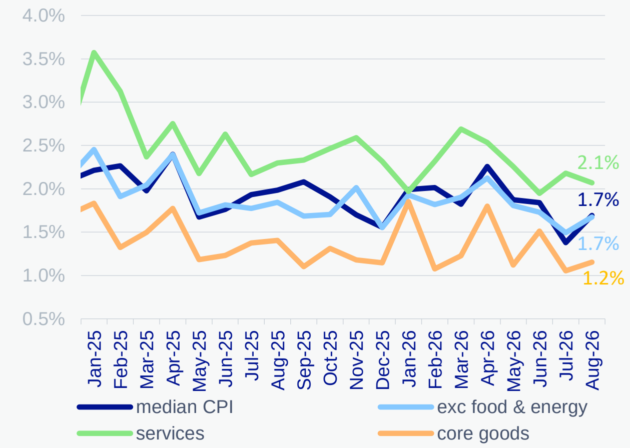
Figure 3. Underlying Trend Indicators* (seasonal adj., monthly, 3-month avg., %)



Source: Garanti BBVA Research, TURKSTAT

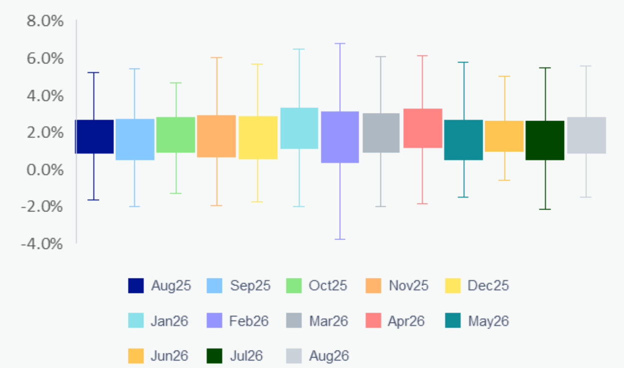
* Mean represents the average of different trend indicators including seasonally adjusted B, C, SATRIM, Median, inflation excluding volatile items and dynamic factor. The highlighted area shows the maximum and minimum range.

Figure 4. 5-digit Inflation Series' Median (seasonal adj., monthly)



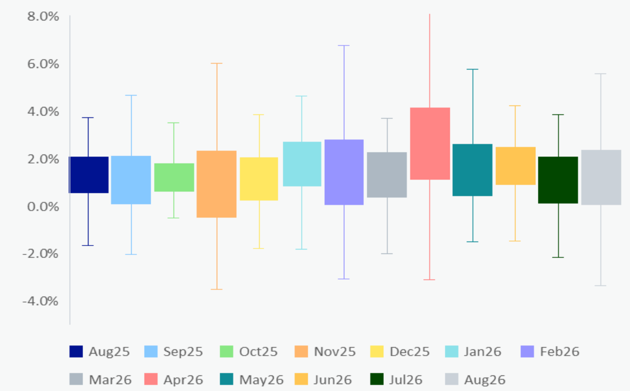
Source: Garanti BBVA Research, TURKSTAT

Figure 5. Spread of 5-digit Excluding Food and Energy Inflation Series (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

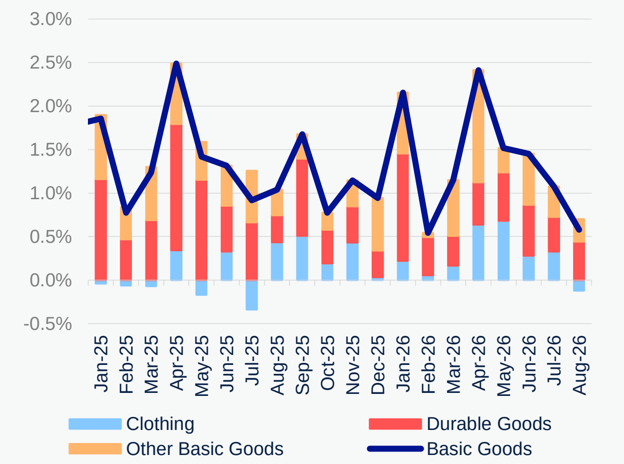
Figure 6. Spread of 5-digit Basic Goods Inflation Series (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

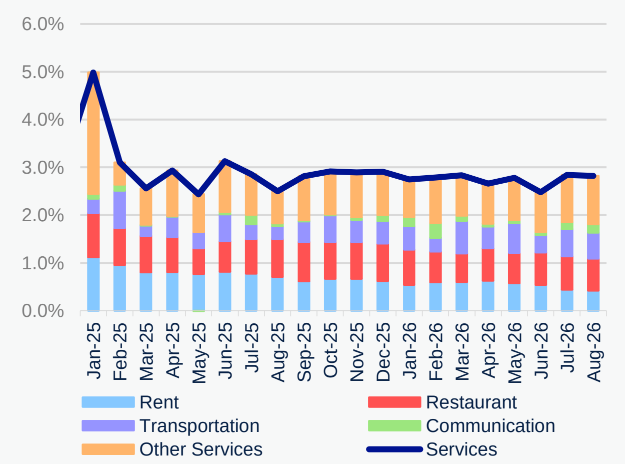
Across Core-C components, seasonally adjusted basic goods inflation weakened to 0.6% m/m (-0.5pp), amid subdued demand conditions and controlled currency depreciation. In detail, clothing & footwear inflation declined sharply to -0.4% m/m (-1.6pp), while other basic goods inflation moderated to 0.9% m/m (-0.3pp). By contrast, durable goods inflation edged up to 1.1% m/m (+0.1pp), as cost pressures increased, as reflected in the 2.8% m/m rise (+2.4pp) in durable consumer goods PPI in Aug26. In contrast, seasonally adjusted services inflation remained sticky at 2.8% m/m (+0.0pp). On the positive side, rent inflation eased further in Aug26 (2.2% m/m,-0.1pp), following July26's print, which was the lowest monthly reading since March 2022. Demand-sensitive services inflation also moderated compared with the previous month, namely restaurants & hotels (2.2% m/m, -0.1pp). Transportation services inflation stayed elevated (3.9% m/m, -0.2pp) and the remaining components accelerated, including communication services (5.0% m/m, +0.9pp) and other services (3.1% m/m, +0.1pp). Despite the deceleration in some segments, services inflation stays elevated due to still strong inertia, second-round effects from energy prices, and time-dependent price adjustments in certain components.

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

Cost pressures regained momentum in Aug26, following two months of normalization after the war. Domestic PPI rose to 2.6% m/m (vs. 1.5% m/m prev.), bringing annual PPI inflation to 27.9% y/y (vs. 27.8% y/y in July26). The acceleration in manufacturing inflation to 2.4% m/m (vs. 1.1% m/m prev.) drove the increase in headline PPI. Notably, costs in the manufacturing of coke and refined petroleum products, which are highly dependent on energy prices, surged by 16.5% m/m and made the largest contribution to headline PPI (0.6pp), highlighting the continued relevance of energy-related cost pressures.

No Significant Change in the Inflation Trend, but Risks Persist

Year-to-date inflation remains above last year's level (22.1% vs. 21.5%), mainly due to food and energy, while Core-C inflation has shown only limited improvement. Softer demand conditions have continued to weigh on basic goods prices; the moderation in rent inflation seen in July was sustained in August and pricing in demand-sensitive services segments limitedly improved. However, the impact of weaker demand on pricing in services remains constrained by elevated inflation expectations. Backward-indexation also continues to keep services inflation sticky, while high energy prices are driving transportation inflation and remain an important risk ahead. Despite the monthly deterioration, excluding the supply-shock-affected April and May prints, the three-month average of the underlying trend indicator improved to a post-Covid low of 1.9% (-0.1pp m/m), implying an annualized inflation rate of 24.7% (vs. 27.4% in Aug25). Given the limited room for further improvement in basic goods inflation, further disinflation will need to come from services, BBVA Research

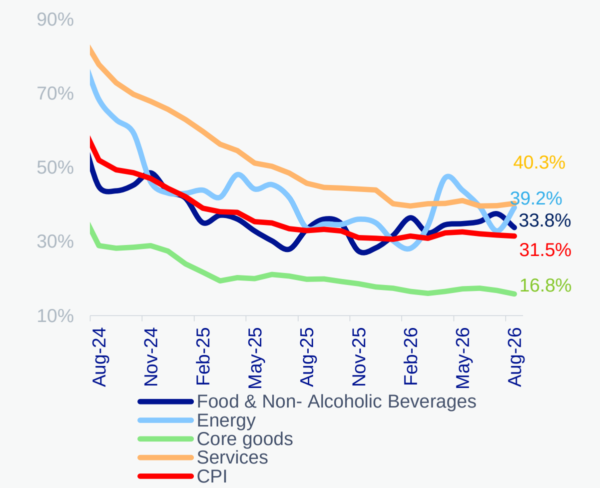
yet this is far from assured: energy-price risks and still-elevated inflation expectations—deteriorating in August for both the real sector (32.8%, +0.3pp) and households (45.6%, +0.6pp)—call for caution in policy moves.

The escalation in geopolitical tensions since mid-July has pushed energy prices higher, creating a carry-over effect in the August print; ongoing tensions, with no near-term resolution in sight, continue to keep energy prices elevated. In line with firms' reports of higher input costs in the August Real Sector Tendency Survey, PPI inflation accelerated; firms also expect input-cost pressures to remain elevated in the coming months. As the sliding-scale mechanism for fuel prices is set to end gradually till year-end, the energy-price outlook will depend heavily on volatile geopolitical developments. On the food side, uncertainty will persist once favorable weather conditions fade, while a potential milk-price increase in October is to affect dairy-product prices.

Time-dependent price adjustments will remain a key driver of the September inflation print; however, regulations reducing backward indexation, together with soft demand conditions, should limit the magnitude of these adjustments; moreover, as some of these increases were already reflected in August print, their impact on September inflation will be more limited. If food prices remain benign and energy prices stay broadly stable, monthly inflation could come in at around 2.0% m/m. Taken together, combined with favorable base effects, this would bring annual inflation close to 30% y/y in September ahead of the termination of the sliding-scale mechanism on fuel prices.

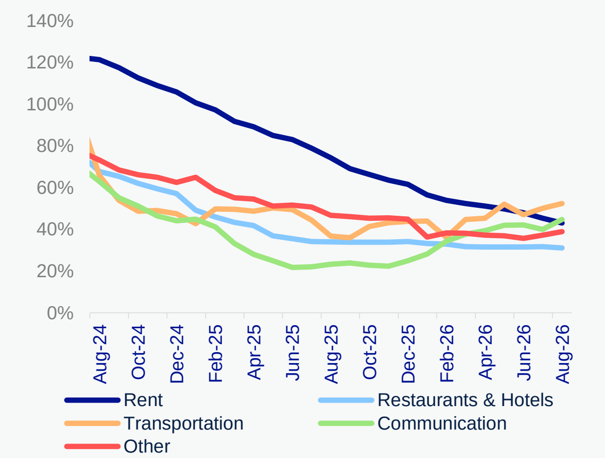
Assuming no further escalation in geopolitical tensions and the maintenance of a prudent policy mix in 2H26, we maintain our year-end inflation forecast of 30%. Energy prices are currently broadly in line with our baseline assumption for 2H26. Weak demand could deliver more favorable outcomes in time-related prices and other administrative adjustments, although these gains may be offset by the end of the fuel sliding-scale mechanism and continued energy-price volatility. In late August, the CBRT has resumed funding at the 37% policy rate, and the effective funding rate has declined by 300bps. Following the CBRT's faster than expected normalization in funding and today's print, we now expect a 100bp policy-rate cut in October (vs. December), bringing the rate to 36%, where we still expect a hold later till year-end. Given the CBRT's bias towards easing, an earlier move cannot be ruled out, particularly as a potential tightening in global financial conditions could narrow the room for easing later in the year. The new Medium-Term Program (MTP) will be released on September 6th, where we will follow further guidance on the policy direction and its macroeconomic implications.

Figure 9. Consumer Inflation Subcomponents (YoY)



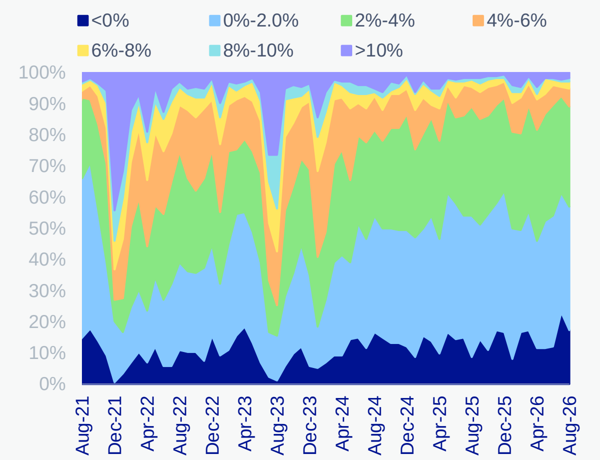
Source: Garanti BBVA Research, TURKSTAT

Figure 10. Services Inflation (YoY)



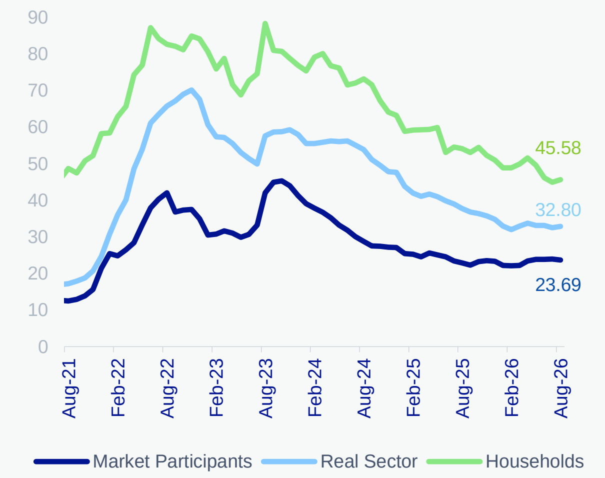
Source: Garanti BBVA Research, TURKSTAT

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	1.84%	31.51%
Food & Non-alcoholic beverages	0.2%	33.8%
Beverage & Tobacco	6.9%	30.4%
Clothing & Textile	-3.5%	13.2%
Housing	2.3%	39.8%
Household Equipment	1.8%	23.6%
Health	0.7%	43.5%
Transportation	4.8%	35.1%
Information & Communication	2.6%	25.7%
Recreation, Sport & Culture	1.9%	23.4%
Education	8.6%	53.4%
Restaurants & Hotels	1.5%	31.2%
Insurance & Financial Services	0.1%	25.1%
Personal Care & Misc. Goods and Services	2.4%	23.6%

Source: Garanti BBVA Research, TURKSTAT

Figure 14. PPI Subcomponents

	MoM	YoY
Total	2.57%	27.95%
Mining & Quarrying	-0.1%	38.9%
Manufacturing	2.4%	29.7%
Food Products	1.6%	31.0%
Textiles	1.5%	22.2%
Wearing Apparel	1.7%	27.8%
Coke & Petroleum Products	16.4%	97.1%
Chemicals	1.5%	33.3%
Other Non-Metallic Mineral	2.0%	25.7%
Basic Metals	1.9%	28.7%
Metal Products	1.7%	21.3%
Electrical Equipment	2.7%	30.3%
Electricity, Gas, Steam	6.0%	7.6%

Source: Garanti BBVA Research, TURKSTAT

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