

Türkiye | A better inflation print but not yet comfortable

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- Consumer inflation came in at 1.84% m/m, below our forecast (2.3%) and consensus (2.2%), bringing annual inflation down to 29.7%, also on base effects. Energy outlook poses upside risks, while weaker demand provides some offset. We keep our 30% year-end inflation forecast, with slight downside risk after the latest print.
- The downside surprise in headline inflation was driven by food, transportation and communication prices. According to our calculations, seasonally adjusted (s.a.) monthly inflation eased to 1.6% (from 2.3%), driven by food, alcohol & tobacco and services.
- Core C inflation (s.a.) edged down to 1.67% m/m (vs. prev. 1.8%), supported by services inflation (1.85% m/m vs. prev. 2.58%), while basic goods inflation (s.a) rose to 1.4% m/m on the back of clothing and durable goods inflation.
- Diffusion and trend indicators point to only limited improvement, with the average of six trend indicators edging down to 1.74% m/m and median inflation unchanged at 1.74%. Still, the 3-month average underlying trend has stayed below 2% since July, suggesting that weak demand and favorable food inflation have helped contain second-round effects.
- October inflation could edge slightly above 2% m/m on seasonal factors, while annual inflation may decline further to 29-29.5%. Producer prices excluding food point to cost pressures, while elevated inflation expectations and uncertainty around the Middle East conflict warrant caution.
- Weaker activity and downside risks to demand from the recent fund shock have increased the likelihood of an October rate cut. However, upside risks to energy outlook, higher global rates and elevated inflation expectations call for a prudent stance. We maintain our 30% year-end forecast despite limited downside risks, given uncertainty around food and energy.

Headline inflation eases, but improvement remains uneven

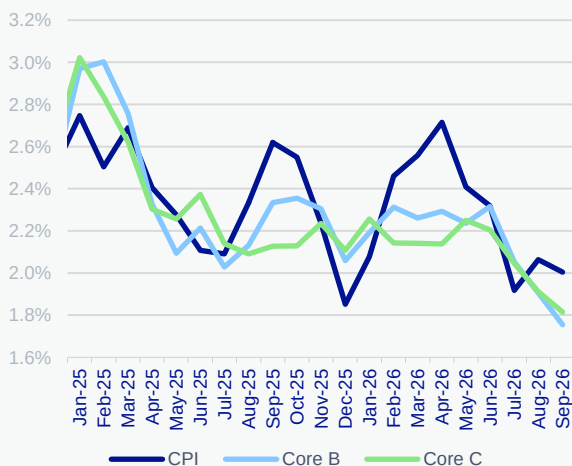
Monthly consumer inflation was unchanged from the previous month at 1.84% m/m, surprising to the downside relative to both our forecast of 2.3% m/m and the market consensus of 2.2% m/m. As a result, annual inflation declined to 29.7% y/y from 31.5% y/y, keeping the disinflation trend intact, with favorable base effects also contributing to the moderation. Compared with the previous month, food inflation eased further, on top of seasonal factors, alcohol & tobacco inflation subsided following the price hikes in the previous month, while services inflation moderated. In contrast, basic goods inflation, which had previously remained relatively benign, accelerated, and energy-related price pressures intensified further. According to our calculations, seasonally adjusted consumer inflation slowed down to 1.6% m/m from 2.3% m/m in August.

Energy prices rose sharply by 6.3% m/m in September, following an already strong 5.5% increase in the previous month. The rise was driven by persistently elevated fuel prices as well as the gradual phase-out of the sliding-scale mechanism, with SCT collection on diesel partially resuming in September. Nevertheless, we estimate that the mechanism still lowered monthly inflation by around 0.5ppt, broadly in line with the previous month, indicating that its disinflationary contribution remains sizeable. Looking ahead, the gradual reintroduction of SCT on gasoline prices is also expected to continue partially in October, contrary to expected of a one-off adjustment. Meanwhile, uncertainty surrounding the outlook for energy prices and developments in the Middle East remains elevated, posing a key upside risk to the inflation outlook.

On the other hand, seasonally adjusted food inflation slowed markedly to 0.2% m/m in September (vs. 1.6% prev.), reflecting a broad-based moderation across its components. The most pronounced improvement came from unprocessed food prices, which declined by 1.5% m/m (vs. 1.1% m/m prev.), while the slowdown in processed food inflation to 1.4% m/m (vs. 2.0% m/m prev.) was also noteworthy. Consequently, annual food inflation fell sharply to 27.6% y/y (vs. 33.8% y/y prev.), supported by favorable base effects stemming from last year's agricultural frost-related high food inflation. The recent moderation in food inflation warrants caution, as higher energy prices could exert renewed upward pressure on food prices in the coming months.

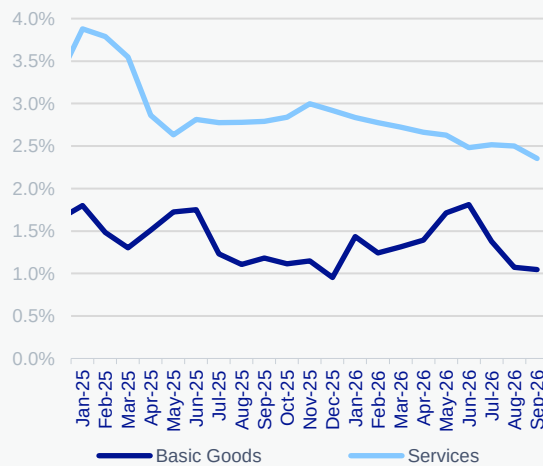
Regarding Core-C components, in seasonally adjusted terms, services inflation declined to 1.8% (vs. 2.6% previously) pointing to a notable cooldown considering the typically sticky nature of services prices. However, whether this moderation proves transitory or more persistent will be critical for the disinflation process in the coming months. In contrast, previously supportive basic goods prices, accelerated to 1.4% m/m (vs. 0.6% m/m) despite continued support from a relatively controlled currency and subdued demand conditions. As a result, led by the former, Core-C inflation declined modestly to 1.7% m/m (vs. 1.8% m/m prev.) falling below the roughly 2% monthly pace around which it has hovered for much of the period since the past year.

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



Source: Garanti BBVA Research, TURKSTAT

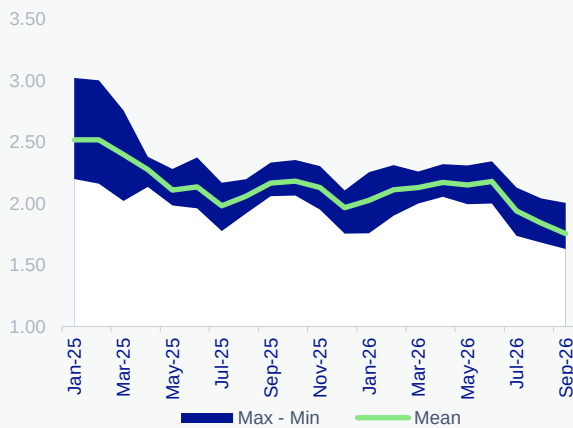
Figure 2. Core C Inflation Indicators
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

According to the average of the six inflation indicators closely monitored by the CBRT, we calculate the underlying inflation trend dropped to 1.7% m/m (-0.1pp), while its three-month average stayed unchanged at 1.8%. As mentioned above, Core-C inflation(s.a.) retreated to 1.7% m/m (-0.1pp), while Core-B inflation slowed down to a further extent to 1.6% m/m (-0.2pp). The median inflation remained stable at 1.7% m/m: the median for services inflation held steady at 2.1% m/m, whereas the median for core goods deteriorated to 1.7% m/m (+0.4pp). SATRIM and V_1, which exclude outlier price movements, both fell to 1.7% m/m (-0.1pp for both), while DFM increased to 2.1% m/m (+0.1pp). The median indicators point to a lack of broad-based improvement in core inflation (Figure 4), particularly considering the worsening in the overall distribution of basic goods prices (Figure 6). Nevertheless, despite the sizeable supply shock, the weak demand conditions have limited the second round effects on the inflation outlook so far as the trend inflation has remained below 2% since July.

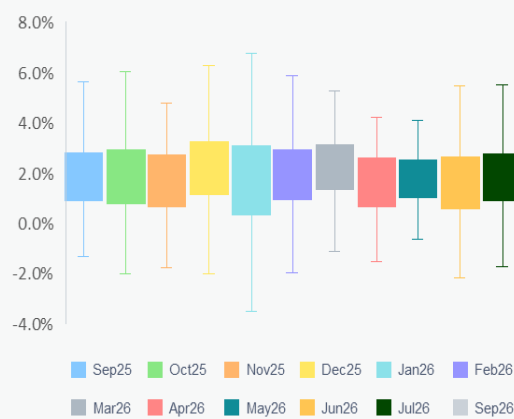
Figure 3. Underlying Trend Indicators*
(seasonal adj., monthly, 3-month avg., %)



Source: Garanti BBVA Research, TURKSTAT

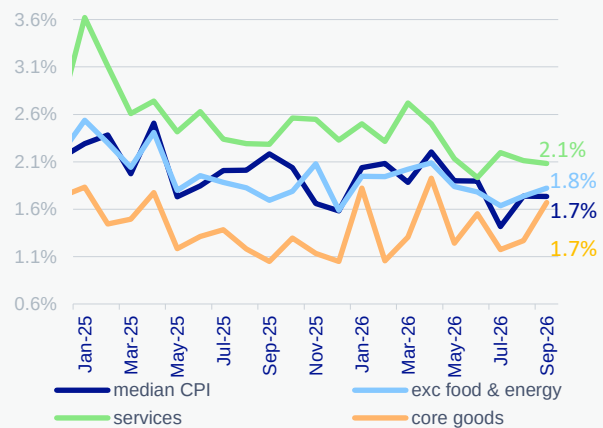
* Mean represents the average of different trend indicators including seasonally adjusted B, C, SATRIM, Median, inflation excluding volatile items and dynamic factor. The highlighted area shows the maximum and minimum range.

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



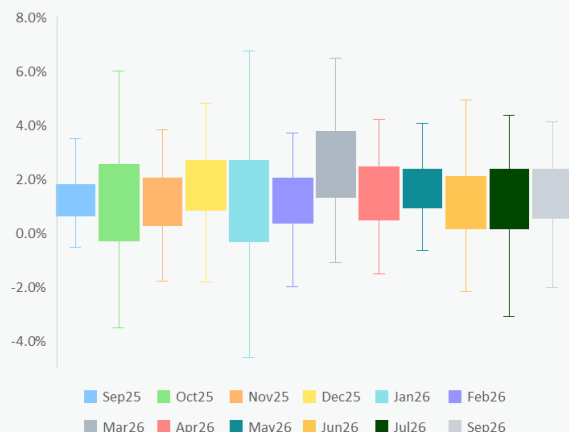
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

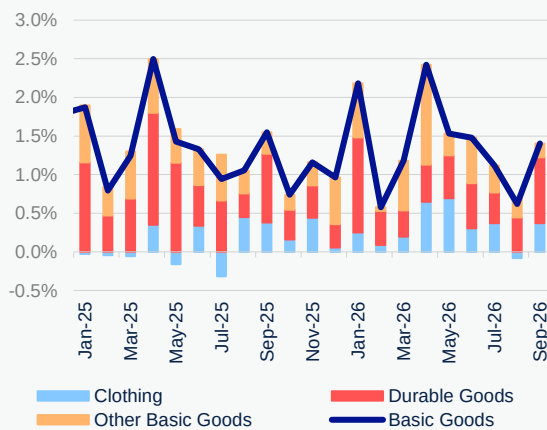
Figure 6. Spread of 5-digit Basic Goods Inflation Series (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

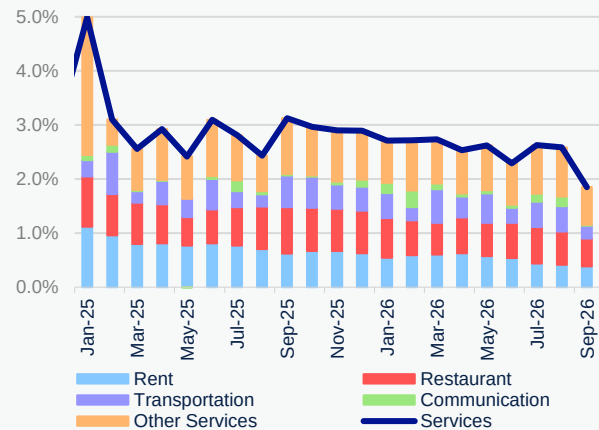
Looking at core inflation components in greater detail, basic goods prices showed a mixed picture. Clothing & footwear inflation strengthened to 1.3% m/m (+0.1pp contribution), while durable goods inflation also increased to 2.0% m/m (+0.1pp). By contrast, other basic goods inflation softened slightly to 0.6% m/m (-0.2pp contribution). On the services side, rent inflation continued to moderate and fell to 2.0% m/m (-0.01pp contribution), while demand-sensitive restaurant & hotels inflation eased to 1.7% m/m (-0.04pp) and other services retreated to 2.2% m/m (-0.08pp). Notably, transportation and communication services moderated to 1.7% m/m (-0.09pp contribution) and 0.5% m/m (-0.06pp), respectively, following their elevated readings over the last two months.

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 lost momentum in September as indicated by PPI growth of 2.1% m/m (vs. 2.6% m/m prev.), bringing its annual inflation down to 27.4% y/y (vs. 27.9% prev.). However, manufacturing PPI inflation excluding food producer prices suggests that cost-push factors remain alive but subdued demand conditions are likely constraining the pass-through into consumer prices. Moreover, continued uncertainty around commodity prices could sustain cost-push pressures in the coming period.

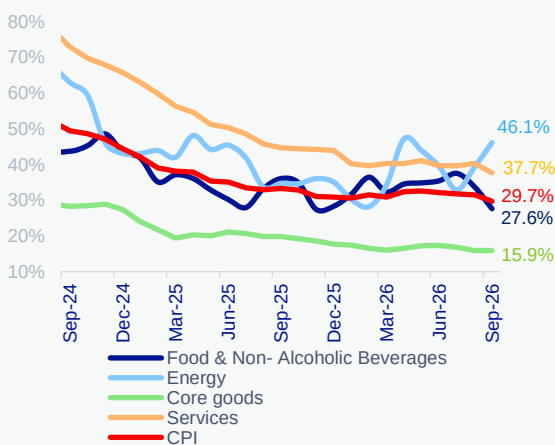
Disinflation progresses but scope for further improvement is limited

Softer demand conditions appear to be supporting progress in services inflation, while war-related supply-side pressures continue to constrain further disinflation in basic goods despite subdued demand and a managed currency. Supply-side pressures did not ease in September, with no clear improvement in sight: manufacturing firms reported higher near-term import cost expectations in the real sector tendency survey, global energy prices remain elevated, and support from the sliding-scale mechanism diminishes further as of October. Given the limited room for further improvement in basic goods inflation amid war-related supply-side pressures, near-term progress in overall inflation will increasingly depend on both food inflation, whose outlook is also clouded by energy prices, and services inflation, which requires effective expectations management. Progress on the latter is far from assured, as twelve-month-ahead inflation expectations did not improve in September.

Looking ahead to October, monthly inflation might edge slightly above 2% on seasonal factors. The absence of pressure from time-dependent price adjustments and softer demand conditions could provide some offset, despite reduced support from the sliding-scale mechanism. However, seasonal clothing-price increases and a potential correction in food inflation following September's downside surprise could exert upward pressure. A possible increase in milk prices, with spillovers to dairy products, could add further pressure in the coming months.

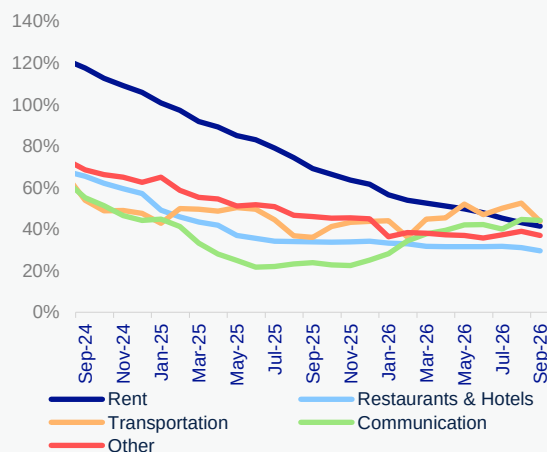
Assuming a modest normalization in energy prices and the maintenance of a prudent policy mix in 4Q26, we maintain our year-end inflation forecast at 30%. Energy prices currently remain above our baseline assumption for 4Q26, but weak demand could offset some of the associated upside risks. Nevertheless, the September inflation print bringing annual inflation below 30%, together with the recent fund shock posing downside risks to already below-potential activity, we assess that the likelihood of a 100bps rate cut at the October MPC meeting has increased. On the other hand, uncertainty surrounding the commodity price outlook, together with elevated and unanchored inflation expectations, warrants maintaining a prudent monetary policy stance.

Figure 9. Consumer Inflation Subcomponents (YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 10. Services Inflation (YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 11. CPI Subcomponents

	MoM	YoY
Total	1.84%	29.73%
Food & Non-alcoholic beverages	-0.2%	27.6%
Beverage & Tobacco	0.9%	31.6%
Clothing & Textile	4.0%	13.2%
Housing	2.7%	40.0%
Household Equipment	1.8%	23.8%
Health	0.3%	43.3%
Transportation	2.8%	35.1%
Information & Communication	2.2%	26.5%
Recreation, Sport & Culture	0.7%	23.4%
Education	14.2%	48.6%
Restaurants & Hotels	1.4%	29.5%
Insurance & Financial Services	3.4%	31.9%
Personal Care & Misc. Goods a	1.1%	21.9%

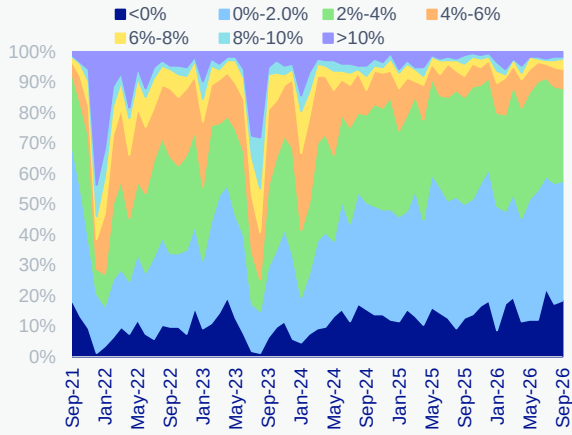
Source: Garanti BBVA Research, TURKSTAT

Figure 12. PPI Subcomponents

	MoM	YoY
Total	2.07%	27.38%
Mining & Quarrying	-0.8%	34.1%
Manufacturing	2.3%	29.1%
Food Products	1.8%	24.9%
Textiles	1.7%	23.3%
Wearing Apparel	1.7%	30.1%
Coke & Petroleum Products	13.3%	116.8%
Chemicals	2.7%	34.8%
Other Non-Metallic Mineral	1.0%	25.5%
Basic Metals	2.4%	29.9%
Metal Products	1.8%	21.7%
Electrical Equipment	2.6%	30.8%
Electricity, Gas, Steam	1.0%	8.7%

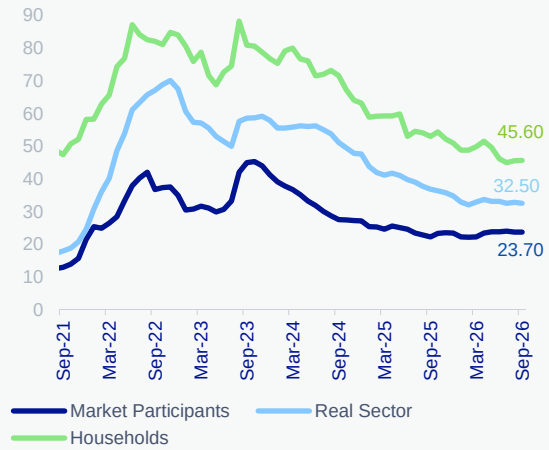
Source: Garanti BBVA Research, TURKSTAT

Figure 13. CPI Diffusion Index (according to monthly SA changes)



Source: Garanti BBVA Research, TURKSTAT

Figure 14. Inflation Expectations (12 Month Ahead, %)



Source: Garanti BBVA Research, TURKSTAT

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