Türkiye | Volatile headline, steady core inflation

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- Monthly consumer inflation came in at 2.58% m/m in October (vs. 1.84% m/m prev.), slightly exceeding both our forecast (2.45% m/m) and the consensus (2.4% m/m), pushing annual inflation marginally higher to 29.8% y/y (vs. 29.7% y/y prev.).

- The upside surprise in headline inflation was mainly driven by food and energy prices. According to our calculations, seasonally adjusted (s.a.) monthly inflation also rose to 2.1% m/m (vs. 1.6% m/m prev.), largely reflecting stronger food and energy price pressures.

- Core-C inflation (s.a.) eased to 1.6% m/m (vs. 1.7% m/m prev.), as the moderation in basic goods inflation more than offset the acceleration in services inflation. Its three-month trend also improved to 1.7% m/m (vs. 1.8% m/m prev.) but the overall median and the average of six underlying inflation indicators remained unchanged, continuing to warrant caution.

- Ongoing softness in domestic demand supports core disinflation by limiting second round effects. However, with firms' margins already narrowing, the inflation outlook will increasingly depend on food and energy prices, alongside the restrictive stance of the policy mix. We will closely monitor the messages and the potential revisions in the next inflation report of the CBRT on November 12th.

- We maintain our 2026 year-end inflation forecast at 30%, with risks slightly tilted to the upside, partly mitigated by subdued demand conditions. We continue to expect the CBRT to pause at its December 10 MPC meeting, given elevated energy prices and recent pressures on reserves. Nevertheless, should energy price pressures ease and reserve conditions stabilize, a 100bp rate cut, broadly in line with consensus, cannot be ruled out.

- Looking ahead to 2027, persistent supply disruptions, uncertainty surrounding early-year price and wage adjustments, expected fiscal and credit impulses, and still-high inflation expectations lead us to forecast inflation closer to the upper end of the 25–30% range.

Energy prices remain a drag on the disinflation process

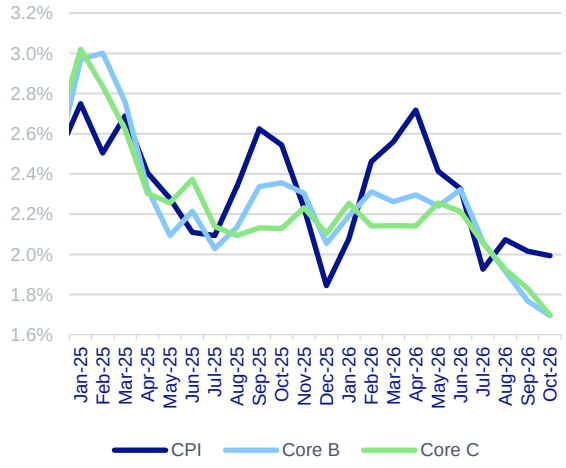
Consumer prices increased by 2.58% m/m in Oct26 (vs. 1.84% m/m prev.), slightly surprising to the upside our expectation and the consensus (2.45% and 2.4%), and its annual inflation inched up to 29.8% y/y (vs. 29.7% in Sep26). Compared to the previous month, energy price pressures eased somewhat but remained elevated, following the second-highest monthly print of the year in the preceding month. Food inflation accelerated, potentially reflecting a correction after having been particularly supportive of disinflation over the previous two months. On the core side, the

moderation in basic goods inflation more than offset the acceleration in services inflation, with the latter partly reflecting the shifting timing of education-related price adjustments between August and September this year. According to our calculations, seasonally adjusted (s.a) consumer inflation rose to 2.1% m/m from 1.6% m/m in September.

Energy prices rose significantly by 4.9% m/m in October, following an even sharper increase of 6.3% m/m in the previous month. The moderation was mainly driven by slower increases in diesel and petrol prices, while other fuels for personal transport and equipment, consisting of LPG and electric vehicle charging, were the largest contributors to energy inflation, driven by the full restoration of the special consumption tax (SCT) on LPG. According to our estimates, the gradual rather than full restoration of SCT on diesel and petrol helped contain headline inflation by around 0.3pp. Looking ahead, the ongoing volatility in the Middle East, already reflected in the sharp upward trend in Brent Oil prices since early August, poses upside risks to the disinflation process. Based on our calculations, assuming international energy prices remain at current levels through end-2026, monthly energy inflation could hover around 3–3.5% over the final two months of the year. Furthermore, we estimate that the announced reduction in the annual electricity consumption threshold for households eligible for government-subsidized tariffs will, at most, add up to 0.2pp to monthly headline inflation in January 2027.

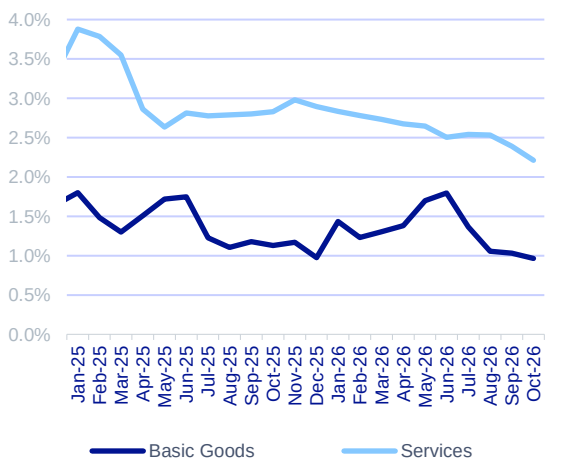
On the other hand, food inflation (s.a.) gained momentum, reaching 2.9% m/m (vs. 0.2% m/m prev.), mainly driven by a rebound in unprocessed food prices. Specifically, unprocessed food prices rose by 4.4% m/m (vs. -1.5% m/m prev.), largely reflecting a sharp increase in fresh fruit and vegetable prices (8.4% m/m) following two consecutive months of declines (-7.3% m/m in September and -3.9% m/m in August). Meanwhile, processed food inflation picked up more moderately (1.7% m/m vs. 1.4% m/m prev.). As a result, annual food inflation remained broadly stable at 27.7% y/y (vs. 27.6% y/y prev.). Looking ahead, the acceleration in food-related cost pressures over the past three months, as reflected in monthly food PPI, warrants caution, particularly with the approach of winter and persistently high energy prices.

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



Source: Garanti BBVA Research, TURKSTAT

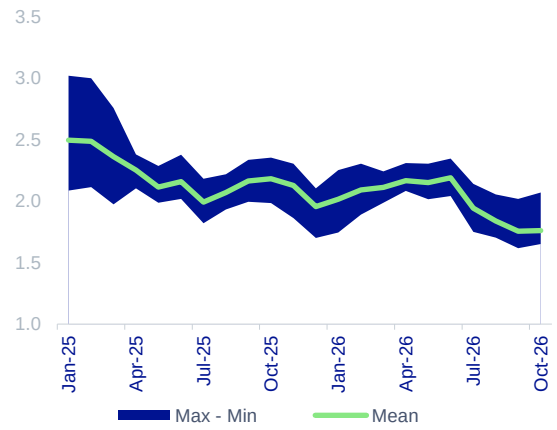
Figure 2. Core C Inflation Indicators
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

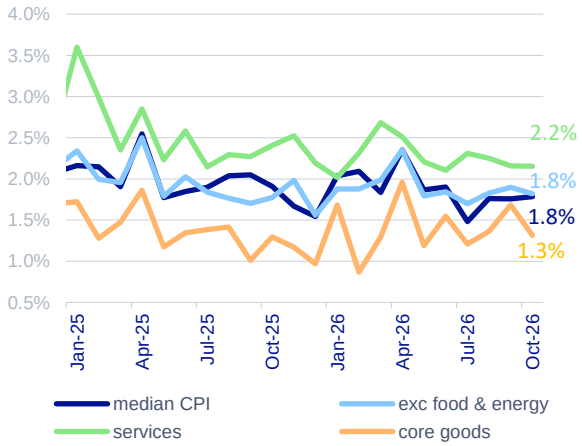
Regarding Core-C components, services inflation (s.a.) edged up to 2.1% m/m (vs. 1.9% m/m prev.), but its three-month trend continued to show moderation thanks to weak domestic demand conditions. In contrast, basic goods prices were supportive compared to September, with a 0.9% m/m increase (vs. 1.4% m/m) on subdued demand conditions. All in all, despite the significant supply shock, Core-C inflation declined modestly to 1.6% m/m (vs. 1.7% m/m prev.) remaining below the roughly 2% monthly pace, supported by lower time-dependent price adjustments in October alongside the aforementioned factors.

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



Source: Garanti BBVA Research, TURKSTAT

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

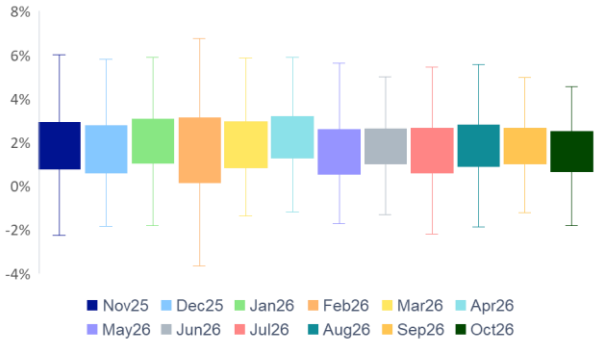


Source: Garanti BBVA Research, TURKSTAT

According to the average of the six inflation indicators closely monitored by the CBRT, we calculate the underlying inflation trend held steady at 1.7% m/m, as also its three-month average stayed unchanged at 1.8% (Figure 3). As mentioned above, Core-C inflation (s.a.) retreated to 1.6% m/m (-0.1pp), while Core-B inflation remained same at 1.6% m/m. The median inflation, similarly, stayed stable at 1.8% m/m: while the median for services inflation was unchanged at 2.1% m/m, the median for core goods improved to 1.3% m/m (-0.4pp). SATRIM and V_1, which exclude outlier price movements, both fell to 1.6% m/m (-0.1pp for both), while DFM remained at 2.1% m/m (+0.0pp). Moreover, the median indicators in Figure 4 and spread in Figure 5 below point to limited improvements in both the median and distribution of core prices, supporting the CBRT's assessment that subdued demand has helped limit the pass-through of supply-side shocks to consumer prices.

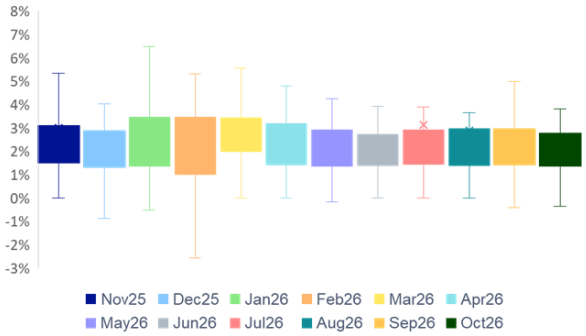
Examining the core in greater details, the moderation in basic goods inflation to 0.9% m/m (-0.5pp), was broad-based. Specifically, clothing & footwear inflation declined to 0.9% m/m (-0.4pp), durable goods inflation eased to 0.9% m/m (-1.1pp) and other basic goods inflation softened to 0.3% m/m (-0.3pp). On the services side, inflation rose to 2.1% m/m (+0.2pp) as the downward trend in rent inflation observed over the previous couple of months paused (2.3% m/m, +0.2pp), while transportation services and other services accelerated to 3.0% m/m (+1.2pp) and 2.5% m/m (+0.3pp), respectively. Notably, inflation in demand-sensitive restaurants and hotels remained subdued, supporting the disinflation process.

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



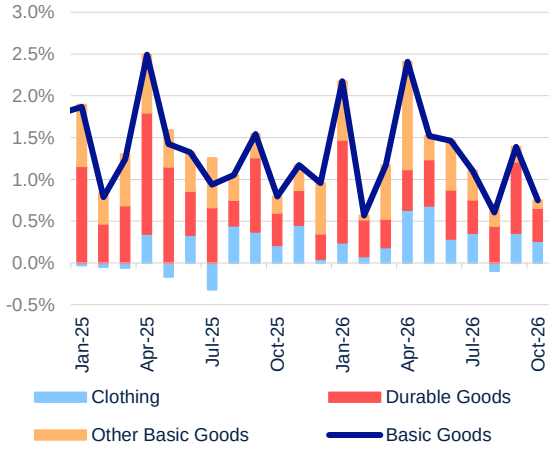
Source: Garanti BBVA Research, TURKSTAT

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



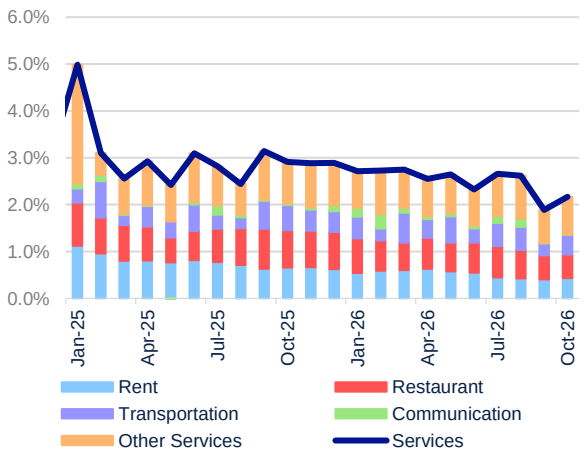
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

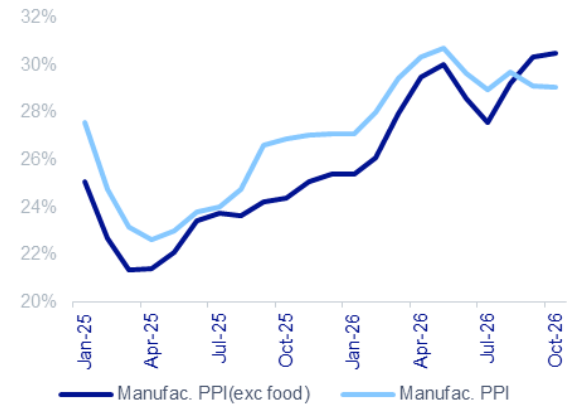
Figure 8. Contributions to Services Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

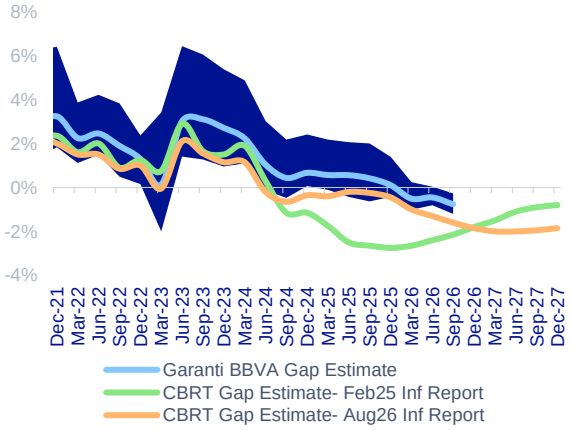
In October, PPI moderated to 1.7% m/m (vs. 2.1% m/m prev.), indicating some easing in cost pressures compared to September. Consequently, annual PPI inflation stood unchanged at 27.4% y/y. However, the recent trend in manufacturing producer prices excluding food points to accumulating cost pressures (Figure 9); although subdued demand conditions appear to be containing their pass-through to consumer prices, as previously highlighted. In this regard, the evolution of energy prices and domestic demand conditions will remain critical.

Figure 9. PPI (YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 10. Output Gap Estimates
(Annual, pp, deviation from potential)



Source: Garanti BBVA Research, TURKSTAT, CBRT

Uncertainty on inflation outlook requires a prudent stance

Ongoing softness in domestic demand conditions supports progress in core inflation, dampening the pass-through from elevated energy prices. Firms expect subdued demand conditions to persist and continue to weigh on margins: despite supply-side pressures becoming more prominent and manufacturing firms reporting higher near-term input cost expectations, firms report lower expected increases in final-goods prices compared with the previous month. Meanwhile, support from lower special consumption tax collected on fuel oil and diesel is diminishing further as of November, implying additional energy price pressures amid limited prospects for a resolution to the war that could offset them. Considering the uncertainty surrounding the outlook, a cautious policy stance is warranted for effective expectations management, particularly ahead of new-year price adjustments, to prevent secondary effects from potential short-term volatility in headline inflation.

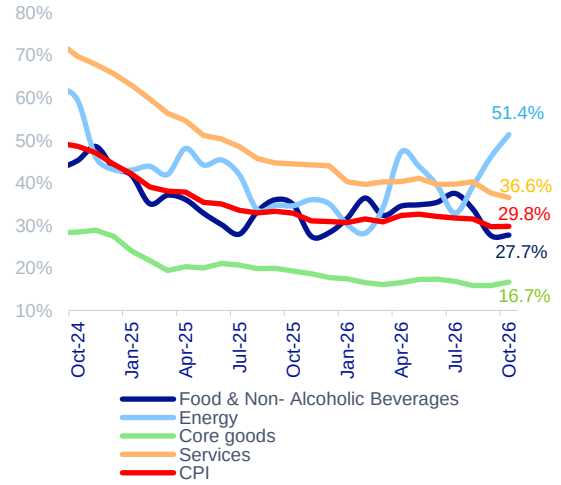
Looking ahead to November and December, monthly inflation could come in around 1% on favourable seasonal factors. Despite continued upward pressure from energy prices, core inflation might remain benign amid November sales. On the food side, as we enter colder weather conditions, uncertainty remains regarding both fresh food harvests and the impact of energy prices as heating needs increase. Moreover, the National Dairy Council is expected to revise milk prices in the near term, although no decision was reached at its Oct 30 meeting.

In the near term, meaningful disinflation progress appears challenging. First, energy and food prices remain sources of volatility for the inflation outlook, with limited room for meaningful improvement amid persistent supply-side pressures. Second, real-sector's one year-ahead inflation expectation remaining above 30% among price setters warrant attention ahead of new-year price adjustments and signal a higher likelihood of upside risks than envisaged. Moreover, uncertainty surrounding overall wage adjustments and administered prices poses upside risks to inflation. Meanwhile, the revaluation rate materialized as 27.8%, following the October PPI realization. Should the government adjust administered prices in line with this rate at the beginning of 2027, it could further complicate the disinflation process (vs. the official inflation target of 21% for 2027), through its impact on inflation expectations. All in all, given all these uncertainties in

addition to the expected fiscal and credit impulses, we expect consumer inflation to be closer to the upper end of the 25–30% range by end-2027.

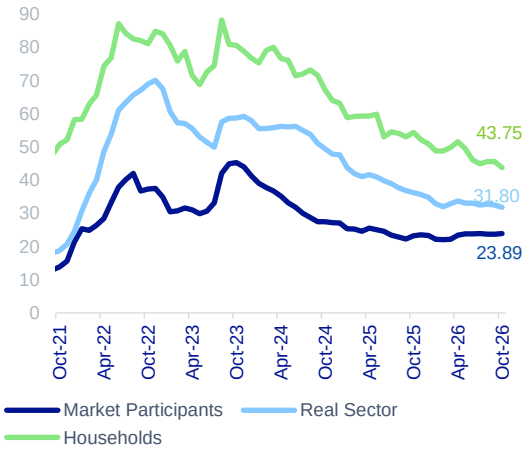
Against this backdrop and the expectation of higher rate for longer on the global side, we see limited room for further monetary easing in the short term. We will closely monitor the CBRT communication and any potential forecast revisions at the final inflation report meeting of the year on November 12. The developments in energy prices and the level of reserves could play a key role in shaping the Central Bank's interest rate decision in December.

Figure 11. Consumer Inflation Subcomponents (YoY)



Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

Figure 13. CPI Subcomponents

	MoM	YoY
Total	**2.58%**	**29.77%**
Food & Non-alcoholic beverages	3.5%	27.7%
Beverage & Tobacco	0.2%	28.7%
Clothing & Textile	12.6%	13.4%
Housing	2.8%	40.2%
Household Equipment	0.8%	23.0%
Health	0.5%	43.3%
Transportation	2.0%	36.4%
Information & Communication	1.2%	27.3%
Recreation, Sport & Culture	0.3%	23.2%
Education	0.2%	48.9%
Restaurants & Hotels	0.5%	28.4%
Insurance & Financial Services	0.6%	31.4%
Personal Care & Misc. Goods and Services	0.3%	20.9%

Source: Garanti BBVA Research, TURKSTAT

Figure 14. PPI Subcomponents

	MoM	YoY
Total	**1.65%**	**27.41%**
Mining & Quarrying	4.0%	35.1%
Manufacturing	1.8%	29.0%
Food Products	2.4%	24.3%
Textiles	1.5%	24.8%
Wearing Apparel	5.5%	32.5%
Coke & Petroleum Products	2.8%	124.4%
Chemicals	2.1%	36.4%
Other Non-Metallic Mineral	1.7%	26.1%
Basic Metals	1.9%	29.0%
Metal Products	1.4%	22.4%
Electrical Equipment	1.7%	30.5%
Electricity, Gas, Steam	-0.8%	9.1%

Source: Garanti BBVA Research, TURKSTAT

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