

Macro: The trend at the end of the year points to inflation above the 2026 targets

Consumer inflation increased by 0.89% month-on-month (mom), in line with our forecast (0.9%), and annual inflation fell by 0.2 percentage points to 30.9%. We calculate that seasonally adjusted (s.a.) monthly CPI inflation rose from 1.49% to 1.67%. Thus, monthly inflation (s.a.) remained below 2.0% for two consecutive months. On the other hand, B (s.a.) and C (s.a.) monthly inflation remained stable at 2.0%. The median inflation, which has been highlighted in recent monetary policy communications, was 1.7% (previously 1.8%). We calculate the average median trend of the last three months as 23.5% on an annualized basis.

Looking at the inflation trend on a semi-annual basis, we see that the decline in average monthly inflation has gradually slowed. In the second half of 2025, the seasonally adjusted average monthly inflation fell to 2.16% (annualized 29.2%). The largest improvement compared to the first half of the year occurred in core goods, followed by energy and services. The downward trend in food prices has reversed despite positive developments in recent months. Rigidity in services continues.

Looking at the second half of the year on a quarterly basis, the improvement in services appears to have stalled. If it weren't for the external shocks (frost and drought) that particularly affected food prices in Q3, the overall inflation trend could have been better. The appreciation of the euro (which we believe could have been offset by exchange rate policy) also contributed to additional inflation (and the depreciation of the dollar following the reciprocal tariffs announced at the beginning of April). If the dollar exchange rate had been suppressed to the extent that it offset the euro's appreciation (i.e., if the depreciation in the basket had been equal to that of the dollar), we estimate that consumer inflation at the end of the year would have been around 1.3 percentage points lower. In sum, when we exclude the "external" factors in food and exchange rates, we believe that inflation could have remained within the 29% upper limit set in the first inflation report of 2025.

As a result of the minimum wage being set in line with our assumptions and December inflation being in line with our expectations, we maintain our 2026 year-end inflation forecast of 25% and our assessments regarding the monetary policy outlook as shared in our previous statements. Even considering the upside risks to January inflation, since the ex-post real interest rate will be above 8%, we estimate that the policy rate could be reduced by 150 basis points to 36.5%, taking into account the continuity of rate cuts and reserve developments. In March, with an annual inflation rate around 29%, the policy rate could be reduced by an additional 100-150 basis points to 35-35.5%. Since there has been no improvement in reserves in the near term, except for the contribution of gold prices, it is likely that interest rate cuts will be implemented cautiously despite the high real interest rate.

Consumer Price Index (CPI)

Monthly inflation in December was 0.89%, in line with our forecast (0.9%). Market expectations were slightly higher at 1.0%. As a result, annual inflation fell by 0.2 percentage points to 30.9%, remaining slightly below the forecast range (31%-33%) shared by the CBRT in its latest Inflation Report. The decline in core inflation indicators was even stronger at 0.5 percentage points. B annual inflation decreased from 32.2% to 31.7%, while C annual inflation fell from 31.6% to 31.1% (Chart1, Table 3).

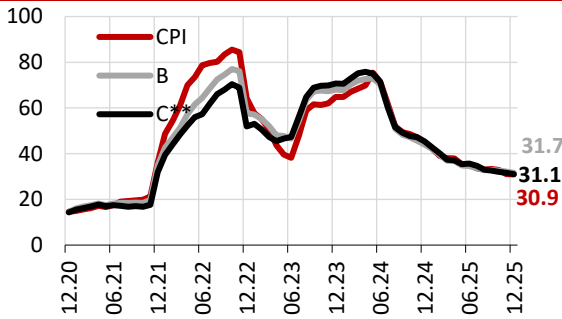
In 2025, annual inflation decreased by 13.5 percentage points compared to the end of 2024, reaching 30.9%. The decline in annual inflation was widespread across the main groups. Annual energy inflation decreased by 8 percentage points to 35.1%, annual food inflation decreased by 15.3 percentage points

to 28.3%, annual core goods inflation decreased by 9.7 percentage points to 17.7%, and annual services inflation decreased by 21.7 percentage points to 44.0% (Chart Appendix 1 and Appendix 2; Chart 2).

Looking at the components of the main groups, the decline in food came largely from unprocessed food, the decline in core goods came largely from items other than durable goods, and the decline in services came largely from items other than transportation services, primarily rent (Chart Appendix 1 and Appendix 2).

We calculate that the seasonally adjusted (s.a.) monthly CPI inflation rose from 1.49% to 1.67%. Thus, monthly inflation (s.a.) remained below 2% for two consecutive months. On the other hand, monthly inflation for B (s.a.) and C (s.a.) remained stable at 2.0%. The median inflation, which has been highlighted in recent monetary policy communications, was 1.7% (previously 1.8%). We calculate the average median trend of the last three months as 23.5% on an annualized basis.

**Chart 1. CPI and Core CPI
(annual % change)**

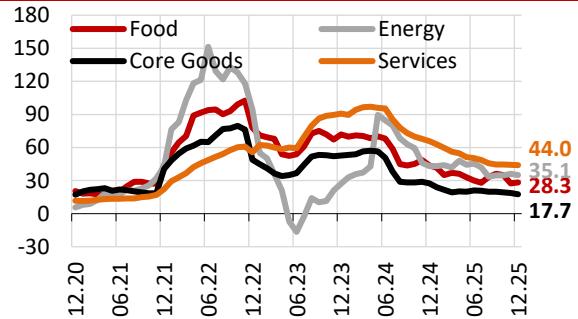


* CPI excluding unprocessed food, energy, alcoholic beverages and tobacco products, and gold

** CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products, and gold

Source: Turkstat

**Chart 2. CPI Sub-Indices
(annual % change)**



In December, annual inflation declined in all major groups except food (Chart 2, Table 1). Details are as follows:

- **Food:** In December, food prices increased by 1.99%, after limiting inflation in November due to the positive trend in unprocessed food prices. While processed food prices increased by approximately 1.5%, similar to November, unprocessed food prices rose by 2.64%, driven by items other than fresh fruits and vegetables. As a result, annual food inflation increased by 0.9 percentage points to 28.3%. CBRT Inflation Report had projected annual food inflation at 32.3%. Therefore, the positive trend in food inflation played a role in keeping annual inflation below the CBRT's forecast range.

Seasonally adjusted food prices rose by 1.6% in December after declining by 0.2% in November. This increase was primarily driven by a rise in monthly inflation (s.a.) for unprocessed food from -2.36% to 1.76%. Monthly inflation (s.a.) increased in both fresh fruit and vegetables (-5.93% → -1.23%) and other unprocessed food (0.11% → 3.72%). The increase in other unprocessed food prices was particularly significant, especially in red meat.

- **Energy:** In the energy group, prices saw a limited monthly decline, while the group's annual inflation fell by 1.0 percentage point to 35.1%. Fuel prices decreased by 2.5% in December, following a 4.1% increase in November. While bottled gas prices accelerated again, **electricity** and **natural gas** saw limited increases.

There will be no tariff update-related increase in electricity and natural gas prices in January, but we expect an increase of around 20% for the year as a whole. The fact that the fixed excise tax on

fuel products is automatically adjusted to less than the PPI increase over the last six months will somewhat limit the monthly increase in fuel prices.

- **Core goods:** Although monthly inflation in core goods fell to 0.3% due to seasonal price decreases in clothing and footwear, excluding seasonal effects, the decrease in monthly inflation was limited (1.13% → 1.00%). The group's annual inflation decreased by 0.9 percentage points to 17.7% (Chart 2, Table 2).
- With the start of the discount season in the **clothing and footwear group**, prices decreased by 3.05%. Seasonally adjusted monthly inflation slowed to 0.15% compared to previous months. The group's annual inflation continues to show a significant divergence between our field observations and alternative measurements. Annual clothing inflation decreased by 2.5 percentage points to 5.8%, while the Istanbul Chamber of Commerce (ICC) index stands at 26.3%.

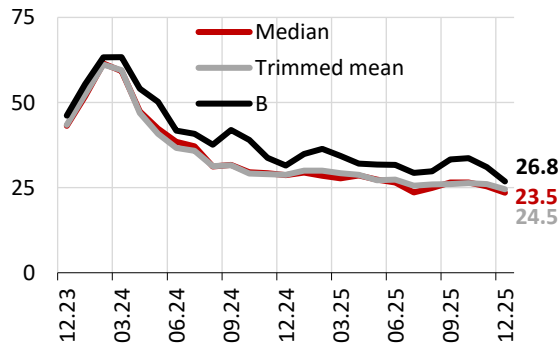
Monthly inflation in **durable goods, excluding gold**, slowed to 0.7% compared to the previous month. The decrease in automobile prices positively impacted group inflation. In **other core goods**, however, monthly inflation rose to 2.1% due to the increase in pharmaceutical prices (10.1%).

- **Services:** The services sector remains rigid. While raw data shows monthly services inflation falling to 0.89%, “s.a.” monthly inflation remained at 2.92%, similar to the previous month. For the past four months, the monthly trend in services inflation has remained stable at 2.9% (annualized 40.6%). The decline in the group's annual inflation is also progressing slowly; it decreased by 0.2 percentage points to 44.0% (Chart 2).

Looking at the sub-categories, monthly inflation in **rent** (s.a.) decreased to 3.01% in December after remaining stable around 3.3% for three months. Annual rent inflation also fell from 63.6% to 61.6%. This month, the acceleration in **communication services'** monthly inflation (1.51% → 3.63%) prevented a decrease in monthly inflation in services. On the other hand, a horizontal trend was observed in **restaurants and hotels** (2.59% → 2.66%). Monthly inflation in **transportation services** (s.a.) decreased from 3.25% to 3.05%, while monthly inflation in **other services** (s.a.) decreased from 2.96% to 2.87%.

We expect an acceleration in monthly service inflation in January due to the impact of the minimum wage increase and the increases in urban public transportation fares determined by municipalities.

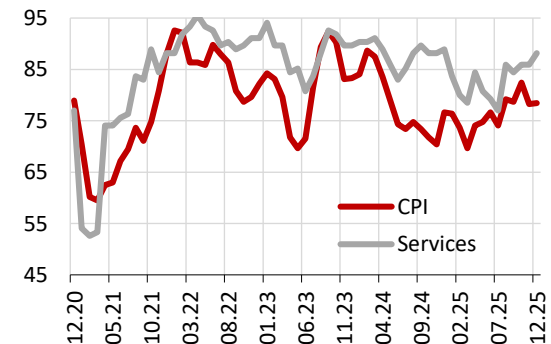
Chart 3. Underlying Inflation* (seas. adj. m-o-m, 3-month moving average, annualized)



* In calculating trimmed mean indicator, 15% of the monthly inflation distribution has been deducted from both ends.

Source: Turkstat, Akbank

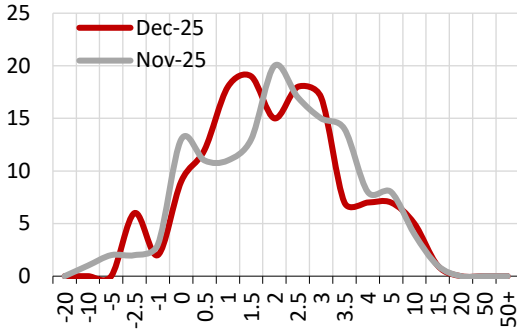
Chart 4. Diffusion Index (seas. adj., increase-decrease, %)



Source: Turkstat, Akbank

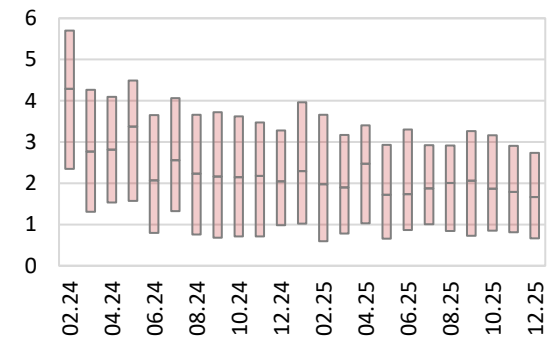
Seasonally adjusted (s.a.) monthly CPI increase rose to 1.67% in December, but remained below 2% for two consecutive months, showing a positive trend. Monthly increases for B (s.a.) and C (s.a.) remained stable at 2.0%. The median and SATRIM monthly inflation rates, which are distribution-based trend indicators highlighted in the CBRT's communication, were 1.7%, lower than the previous month (1.8%). We calculate the average median trend for the last three months as 23.5% on an annualized basis. On the other hand, there is still no significant improvement in the inflation distribution (Charts 4-6).

Chart 5. CPI Subgroups Monthly Inflation Histogram (seas. adj)



Source: Turkstat, Akbank

Chart 6. Monthly Inflation Distribution (IQR, %)



Note: The red boxes represent the 1st and 3rd quartiles (IQR), corresponding to the 25th and 75th percentiles of the monthly inflation distribution; the horizontal lines within the boxes represent the median inflation rate.

Source: Turkstat, Akbank

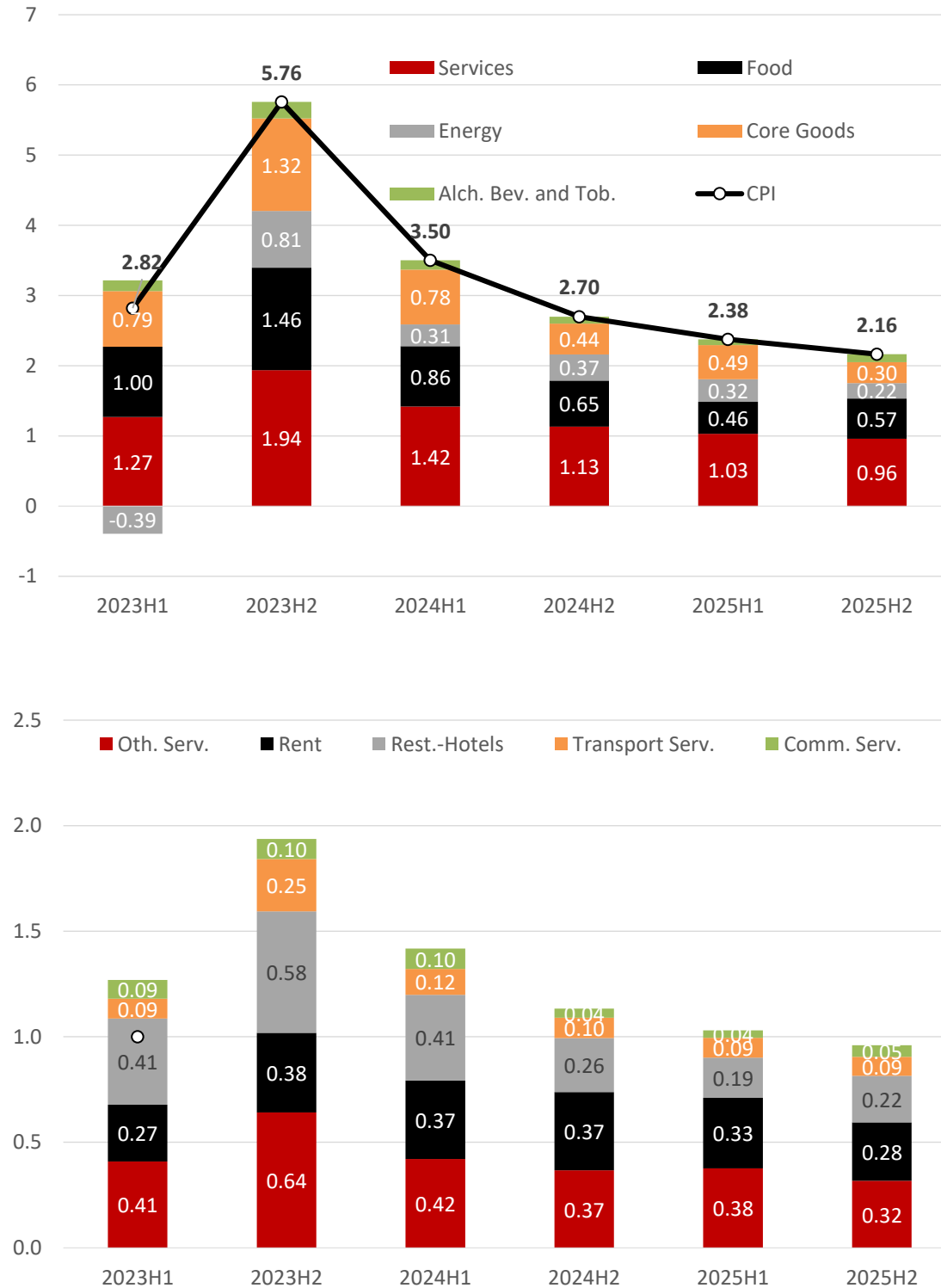
Looking at the inflation trend on a semi-annual basis, we see that the decline in average monthly inflation has gradually slowed. In the second half of 2025, the seasonally adjusted average monthly inflation fell to 2.16% (annualized 29.2%) (Chart 7). The largest improvement compared to the first half of the year occurred in core goods, followed by energy and services. The downward trend in food prices has reversed despite positive developments in recent months. Rigidity in services continues.

Looking at the second half of the year on a quarterly basis, the improvement in services appears to have stalled. If it weren't for the external shocks (frost and drought) that particularly affected food prices in Q3, the overall inflation trend could have been better. The appreciation of the euro (which we believe could have been offset by exchange rate policy) also contributed to additional inflation (and the depreciation of the dollar following the reciprocal tariffs announced at the beginning of April). If the dollar exchange rate had been suppressed to the extent that it offset the euro's appreciation (i.e., if the depreciation in the basket had been equal to that of the dollar), we estimate that consumer inflation at the end of the year would have been around 1.3 percentage points lower. In sum, when we exclude the "external" factors in food and exchange rates, we believe that inflation could have remained within the 29% upper limit set in the first inflation report of 2025.

As a result of the minimum wage being set in line with our assumptions and December inflation being in line with our expectations, we maintain our 2026 year-end inflation forecast of 25% and our assessments regarding the monetary policy outlook as shared in our previous statements (Chart 8). Even considering the upside risks to January inflation, since the ex-post real interest rate will be above 8%, we estimate that the policy rate could be reduced by 150 basis points to 36.5%, taking into account the continuity of rate cuts and reserve developments. In March, with an annual inflation rate around 29%, the policy rate could be reduced by an additional 100-150 basis points to 35-35.5%. Since there

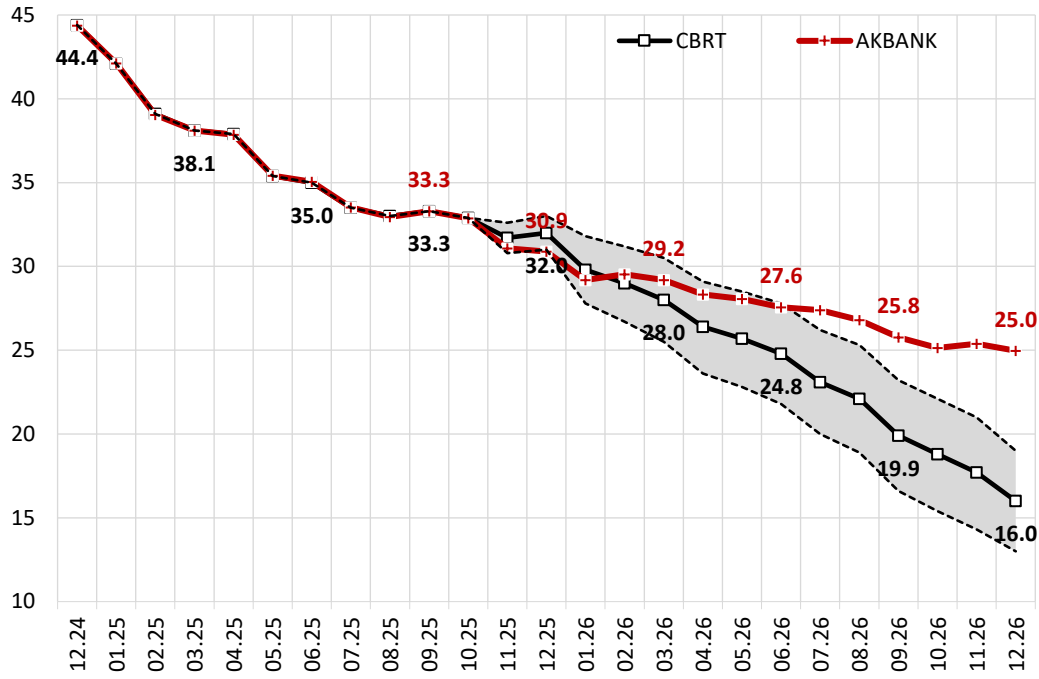
has been no improvement in reserves in the near term, except for the contribution of gold prices, it is likely that interest rate cuts will be implemented cautiously despite the high real interest rate.

Chart 7. Contributions to Monthly Inflation (s.a, % points)



Source : Turkstat, Akbank

Chart 8. Annual Inflation Forecasts ⁽¹⁾



Source: CBRT, Akbank.

(1) CBRT forecast path is derived from the visualization in the Inflation Report

Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Dec.24	Nov.25	Dec.25	Dec.24	Nov.25	Dec.25
CPI	1.03	0.87	0.89	44.38	31.07	30.89
Food and Non-Alcoholic Beverages	1.29	-0.69	1.99	43.58	27.44	28.31
Alcoholic Beverages and Tobacco	-0.02	2.42	0.06	39.28	30.70	30.80
Clothing and Footwear	-0.67	0.68	-2.94	32.32	8.99	6.50
Housing, Water, Electricity, Gas and Other Fuels	1.71	1.70	1.39	69.03	49.92	49.45
Furnishings, household eq., maint. of the house	2.78	0.87	1.56	38.72	26.47	24.97
Health	0.88	0.67	1.97	47.63	29.46	30.87
Transport	-0.42	1.78	-1.03	25.88	29.23	28.44
Communication	1.82	0.55	2.91	34.08	17.78	19.04
Recreation and Culture	1.46	3.33	0.75	37.57	25.87	24.99
Education	0.07	0.30	0.13	91.64	66.17	66.27
Restaurants and Hotels	1.35	0.89	1.51	57.13	33.91	34.11
Miscellaneous Goods and Services	1.54	1.14	1.34	43.30	29.94	29.68

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Dec.24	Nov.25	Dec.25	Dec.24	Nov.25	Dec.25
CPI	1.03	0.87	0.89	44.38	31.07	30.89
Goods	1.02	0.56	0.89	36.14	25.19	25.02
Energy	0.65	1.86	-0.08	43.11	36.05	35.06
Food and Non-alcoholic Beverages	1.29	-0.69	1.99	43.58	27.44	28.31
Unprocessed Food	0.86	-3.33	2.64	50.29	19.42	21.53
Fresh Fruits and Vegetables	-1.65	-6.09	-0.11	68.78	8.03	9.72
Other Unprocessed Food	2.85	-1.45	4.43	38.78	28.27	30.24
Processed Food	1.71	1.50	1.47	37.67	34.61	34.29
Bread and Cereals	1.47	0.64	1.22	41.87	38.83	38.50
Other Processed Food	1.82	1.96	1.60	35.72	32.50	32.21
Goods excl. Energy and Food	0.94	1.11	0.36	28.77	20.25	19.56
Core Goods	1.07	0.92	0.30	27.43	18.62	17.71
Clothing and Footwear	-0.73	0.66	-3.05	31.67	8.32	5.79
Durable Goods (excl. Gold)	1.62	0.99	0.72	22.46	22.86	21.78
Other Core Goods	1.56	1.01	2.07	32.62	20.19	20.78
Services	1.05	1.46	0.89	65.73	44.21	43.99
Rent	2.89	2.49	1.65	105.82	63.59	61.61
Restaurant-Hotels	1.35	0.89	1.51	57.13	33.91	34.11
Transportation Services	-3.02	1.69	-2.66	47.51	43.24	43.77
Telecommunication Services	1.44	1.51	3.63	44.19	22.40	25.04
Other Services	0.71	1.06	0.36	62.55	45.45	44.93
CPI	1.03	0.87	0.89	44.38	31.07	30.89
A (CPI excl. seasonal products)	1.32	1.23	1.19	44.04	34.19	34.01
B (CPI excl. unpro. food.. energy.. alc. bev.. tob.. gold)	1.17	1.27	0.78	43.94	32.17	31.66
C (CPI excl. energy. food. alc. bev.. tob.. and gold)	1.06	1.22	0.63	45.34	31.65	31.08
D (CPI excl. unproc. food.. alc. bev. and tobacco)	1.10	1.35	0.70	43.79	32.71	32.19
E (CPI excl. alcoholic beverages and tobacco)	1.07	0.81	0.92	44.58	31.09	30.90
F (CPI excluding administered prices)	1.14	0.78	0.93	44.06	29.72	29.44

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

Although the Producer Price Index (PPI) reached its lowest level in 11 months in December at 0.75% mom, indicating a decrease in cost-driven effects on the Consumer Price Index (CPI), annual producer inflation increased by 0.5 percentage points to 27.67% due to unfavorable base effects (Table 3).

According to the sub-components of the PPI, as in the previous two months, the decrease in energy prices in December suppressed headline inflation. Excluding energy, price increases accelerated in all main groups compared to November.

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Dec.24	Nov.25	Dec.25	Dec.24	Nov.25	Dec.25
Domestic PPI	0.40	0.84	0.75	28.52	27.23	27.67
Intermediate Goods	0.64	1.27	1.61	27.01	23.09	24.28
Durable Consumption Goods	1.41	1.08	1.30	35.69	33.17	33.03
Non-durable Consumption Goods	1.48	0.48	0.82	39.26	31.65	30.81
Energy	-3.37	-0.48	-3.63	11.92	27.40	27.06
Capital Goods	0.92	1.54	1.98	29.21	28.44	29.79

Source: TURKSTAT

Appendix

Chart A-1. Year-End Inflation Rates by Group

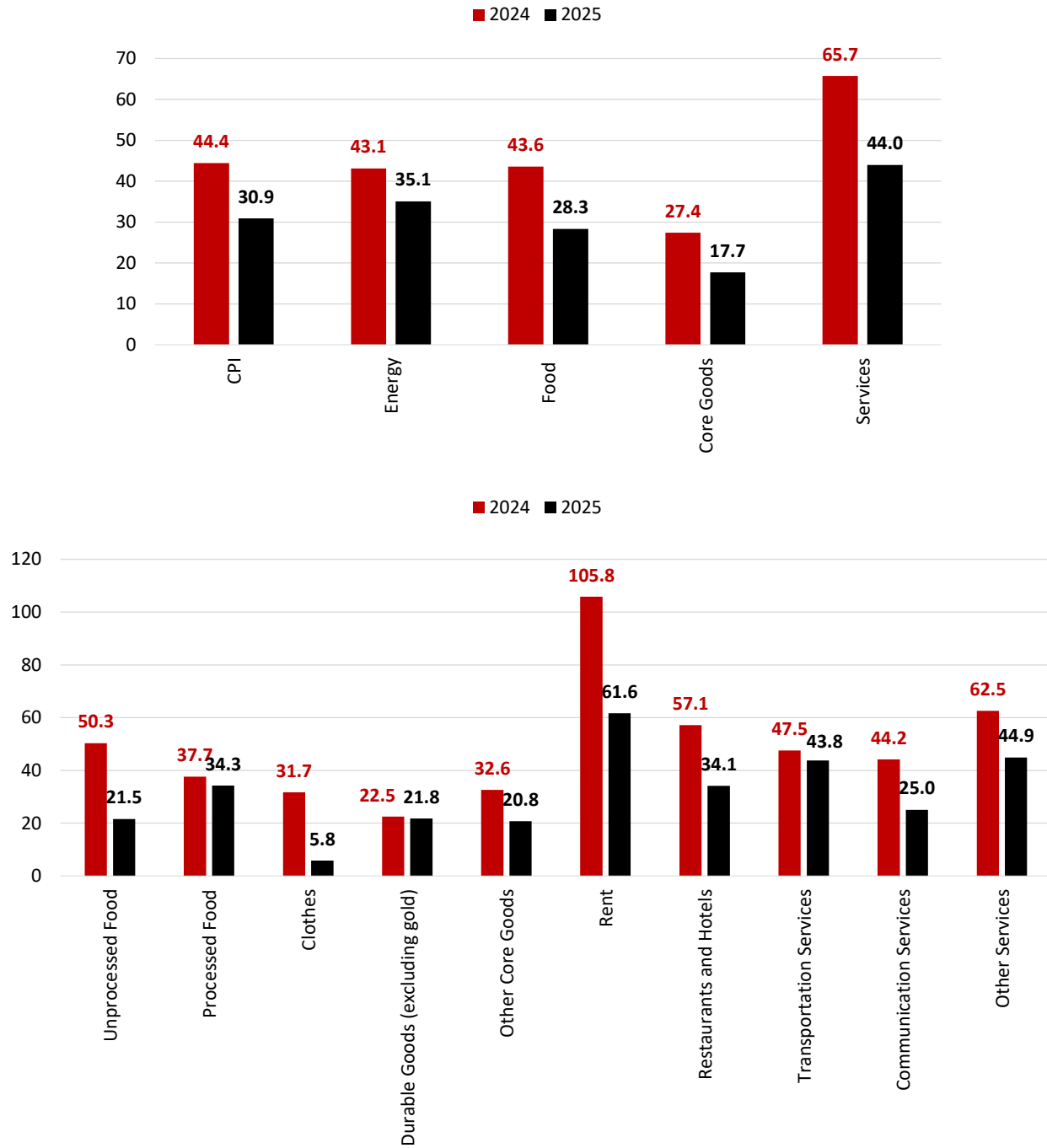
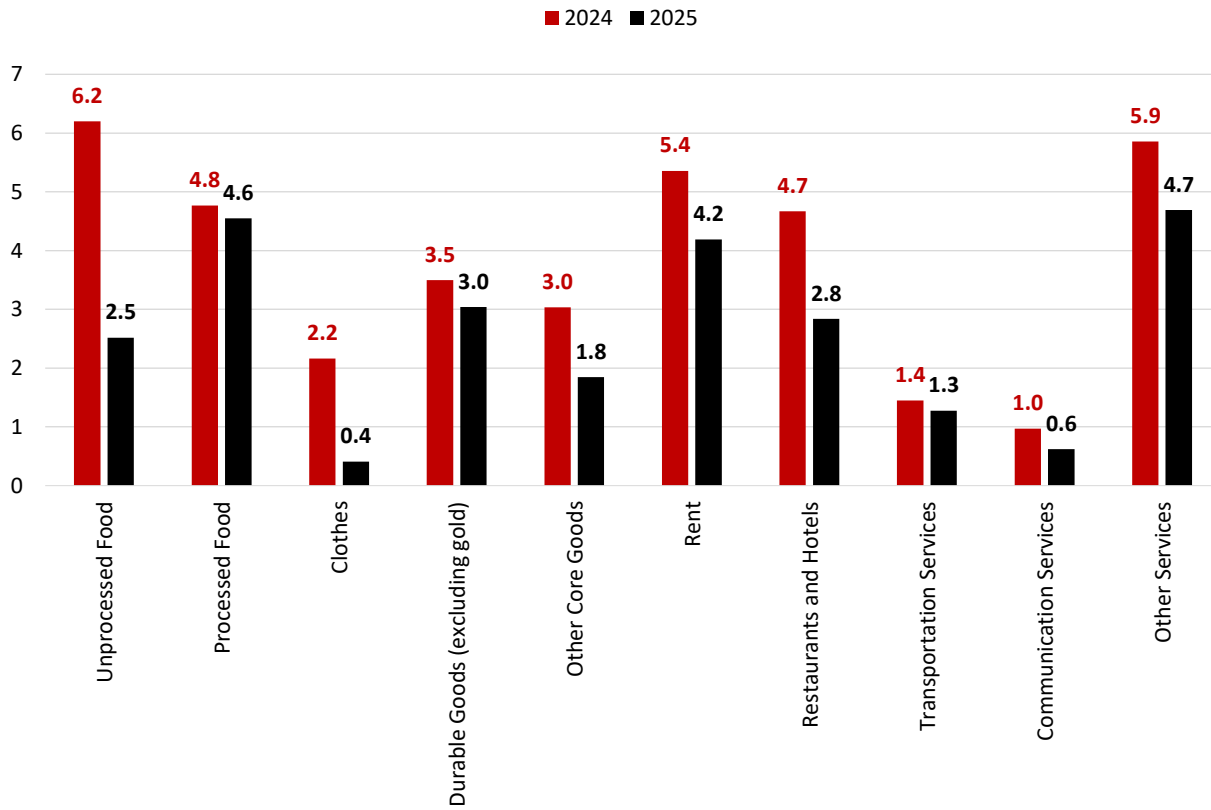
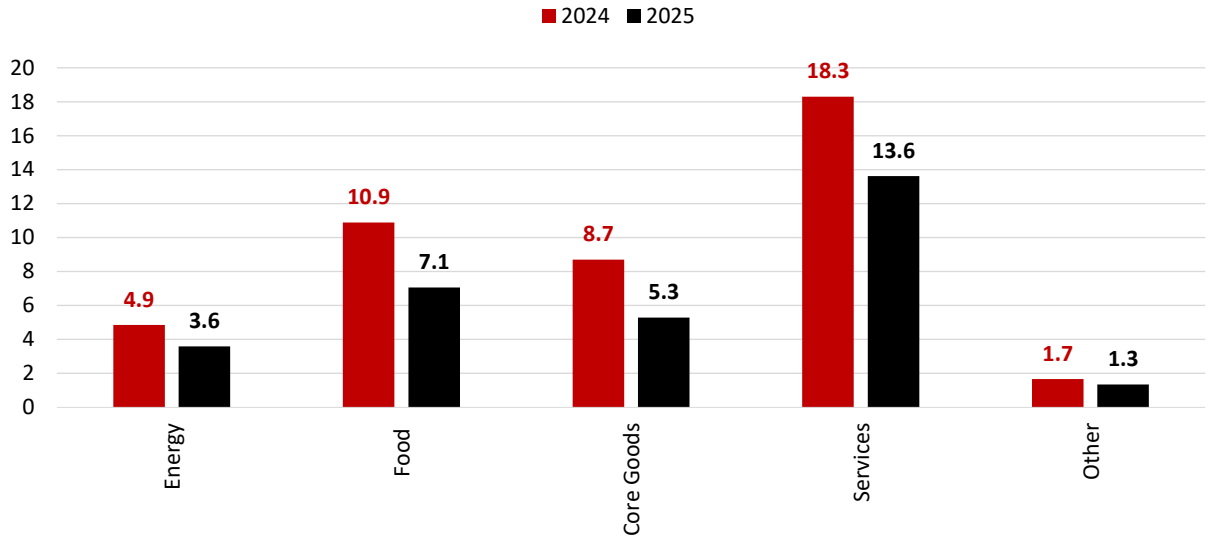


Chart A-2. Contributions to Year-End Inflation by Groups



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