

Macro: Rigidity in inflationary trends narrows the scope for policy easing

Consumer inflation increased by 3.23% month-on-month (mom), well above our forecast (2.6%) and market expectations (2.5%). Thus, annual inflation increased by 0.3 percentage points (pp) to 33.3%, exceeding the upper limit of the CBRT forecast band for the first time (≈ 1 pp).

In September, there were significant increases in education, food, and transportation prices. While inflation trend increased compared to the previous month, the consistent deterioration after May was notable. We estimate that TURKSTAT will announce seasonally adjusted (s.a.) monthly inflation as 2.7% using the indirect approach (previously 2.5%). We estimate the contribution from one-time effects in September to be around 0.8 pp in the raw data and around 0.4 pp in the "s.a." data. Even excluding these items, the inflation trend appears to be above 2.0%. Among the distribution-based trend indicators highlighted in the CBRT's communication, the median and trimmed inflation rates are 2.1% and 2.0%, respectively (previously 2.0% and 1.9%).

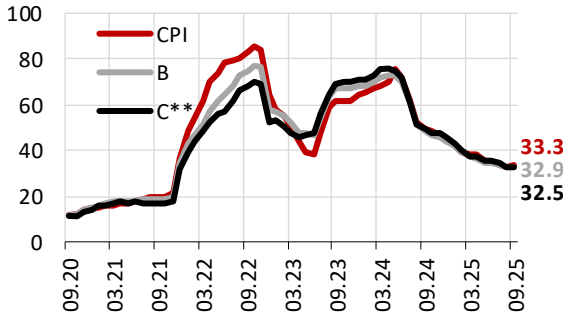
Under the current outlook, year-end inflation is unlikely to remain within the CBRT's forecast band. An examination of the sub-items reveals no significant improvement, with the exception of core goods, which largely reflect the exchange rate developments. Indeed, $\approx 5\%$ increases in white goods prices indicate that some items within core goods still have pricing power above cost increases. It appears that sticky inflation is not specific to services, and that disinflation progress remains limited even in food and energy. Against this background, CBRT may pause the rate cuts in October, as it will be difficult to justify them. Furthermore, the median annualized inflation trend of $\approx 28\%$, emphasized in policy communications, may also allow for the continuation of the rate cut process with smaller steps (100-150 bps). In this regard, this month will be a decisive one in understanding the degree of commitment to medium-term targets and the policy reaction function.

Despite the weakening of the Turkish lira since late July, the persistently high inflation trend raises significant questions regarding transmission channels. We consider these signs to be significant: the exchange rate channel is operating in inflation dynamics, the demand channel is heterogeneous and contains significant uncertainties, and, more importantly, the expectations and pricing behavior channel has not achieved significant success. Given this outlook, and given the uncertainties surrounding wage, administered price, and tax adjustments for the coming year, we believe that it would be appropriate to pause interest rate cuts until the end of the year. We believe such action would be consistent with the statement in the September Monetary Policy Committee decision, "*Monetary policy stance will be tightened in case of a significant deviation in inflation outlook from the interim targets.*"

Consumer Price Index (CPI)

Monthly inflation was 3.23%, above our forecast (2.6% mom; 32.5% yoy) and market expectations (2.5% mom; 32.4% yoy). As a result, annual inflation increased from 33.0% to 33.3%, exceeding the upper limit of the CBRT forecast band for the first time (≈ 1 pp). The seasonally adjusted (s.a.) CPI monthly increase, calculated using an indirect approach was 2.7%, slightly higher than the previous month (2.5%).

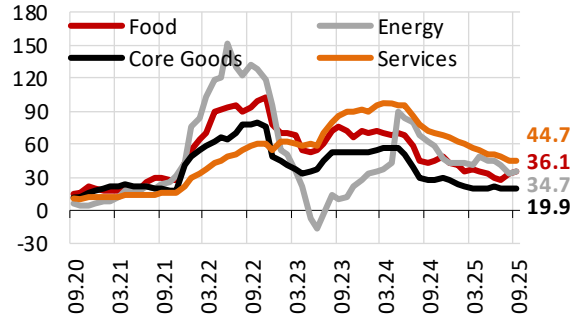
Annual inflation for core indicators had different directions. Annual inflation for B increased by 0.2 points to 32.9%, while annual inflation for C decreased by 0.5 points to 32.5% (Chart 1, Table 3).

**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 September, annual inflation increased in all major groups except services (Chart 2, Table 1). Details are as follows:

- **Food:** The negative outlook from August continued into September. Food prices increased by 4.6% mom, driven by both processed and unprocessed food groups. This increase, indicates an acceleration in monthly inflation to 4.8% in seasonally-adjusted terms in comparison to the previous month (4.4%).

There were significant price increases in items such as fats and oils, vegetables, eggs, white meat, butter, jam, and honey. Meanwhile, annual food inflation rose from 33.3% to 36.1%, further diverging from the headline inflation.

The average increase in the food prices (s.a.) over the last two months, at 4.6%, indicates a high inflation trend of 72% on an annualized basis. Food price increases over the last two months may partially be corrected in the coming months. Nevertheless, prices for food, having the highest weight in the consumer basket, remains a significant risk factor for the disinflation process. In this context, the CBRT's annual food inflation assumptions for 2025 and 2026 (26.5% and 17.0%, respectively) remain too optimistic.

- **Energy:** Monthly inflation was 1.24%, while annual inflation rose 1 pp to 34.7%. The monthly increase in fuel prices was 2.4%, and the monthly increase in solid fuels was 3.1%.
- **Core goods:** Monthly inflation increased significantly to 2.1% (1.6% s.a.) compared to the previous month (0.8% s.a.). Annual inflation for the group increased slightly to 19.9% (Chart 2, Table 2)

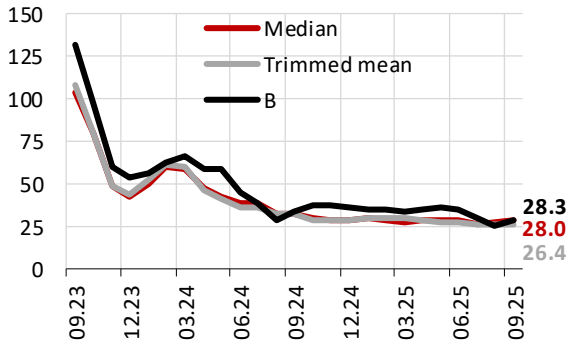
The divergence in **clothing and footwear** inflation compared to our field observations and alternative measurements continues to be significant. Clothing prices increased by 3.94% mom due to seasonal effects, while also increasing moderately (1.4%) in "s.a." terms. Annual clothing inflation increased by 0.3 points to 9.1%, while the clothing annual inflation in Istanbul Chamber of Commerce (ICC) Index stands at 40.8%.

The monthly inflation rate for **durable goods excluding gold** accelerated to 2.1% last month. The monthly price increase rose despite the slowdown in the exchange rate. This development was driven by increases of nearly 5% in white goods prices and a 2.4% increase in automobile prices.

- **Services:** Services prices increased by 4.1% mom, led by increases in education services, rent, and transportation services, while the "s.a" monthly increase remained solid at around 2.8%. Annual inflation, however, fell from 45.8% to 44.7% due to the base effect. The services group continues to be the main group with the highest annual inflation (Chart 2).

Looking at the sub-items, monthly rent (s.a.) inflation, at 3.3%, decreased by 0.4 points compared to the previous month, but remains high. The most prominent increases in services inflation this month were the 61.7% increase in university tuition fees (23% s.a), the 36.6% increase in dormitory fees (3.2% s.a.), and the 13.5% increase in bus and urban passenger transportation costs (3.4% s.a.) due to the increase in public transportation in Istanbul. These items contributed 0.42, 0.08, and 0.24 pp to the monthly CPI inflation, respectively.

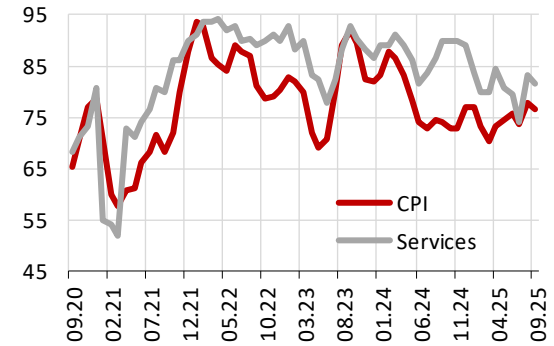
Chart 3. Underlying Inflation* (seas. adj. m-o-m, 3-month moving average, annualized)



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

Source: Turkstat, Akbank

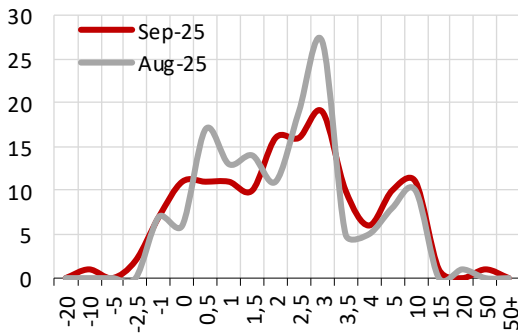
Chart 4. Diffusion Index (seas. adj., increase-decrease, %)



Source: Turkstat, Akbank

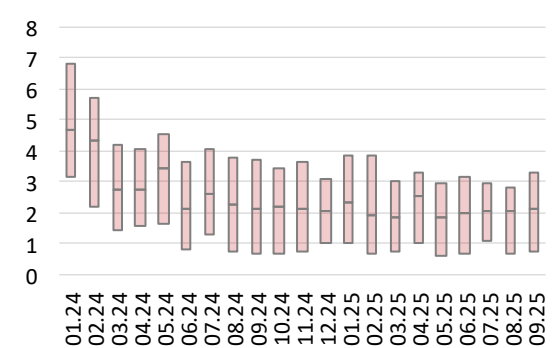
Using an indirect approach, we calculate the **seasonally adjusted monthly CPI** increase at 2.7% (previously 2.5%). Monthly increases in B (s.a.) and C (s.a.) are 2.6% and 2.3%, respectively, higher than last month (2.2% and 1.8%, respectively). Meanwhile, the deterioration in distribution-based trend indicators is more limited. The median and trimmed inflation rates are 2.1% and 2.0% mom, respectively (compared to 2.0% and 1.9%). The annualized inflation trend is ≈28% (Chart 3). Furthermore, the rise in distribution indices in recent months (Chart 4); the deterioration in inflation distribution (Chart 5); and the rigidity of median inflation in the 2-2.5% monthly range for over a year (Chart 6) all indicate that the desired further improvement in inflation trends may require a rather costly process.

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



Source: Turkstat, Akbank

Chart 6. Monthly Inflation Distribution (IQR, %)

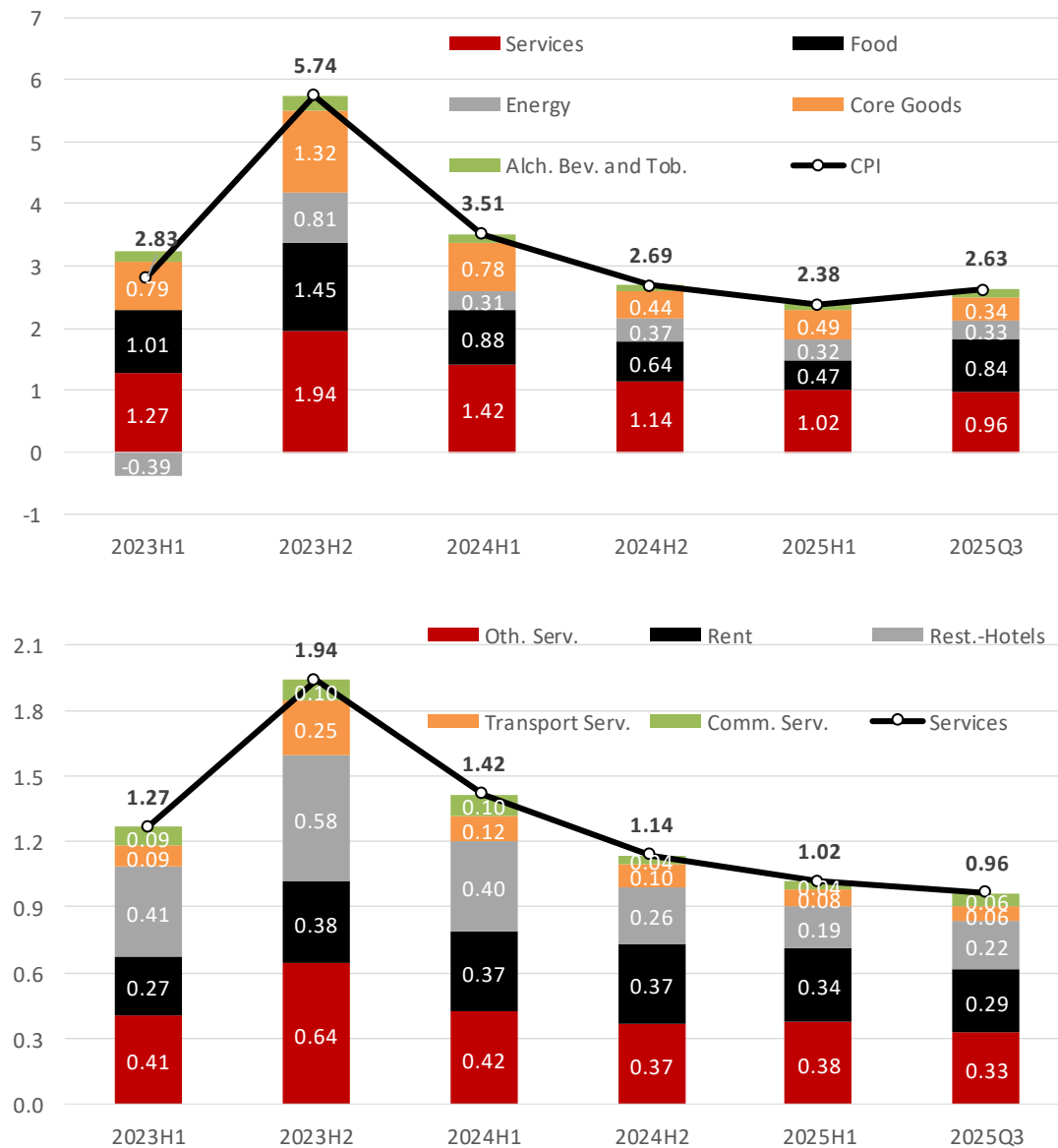


Note: The red boxes represent the 1st and 3rd quartiles (IQR), corresponding to the 25th and 75th percentiles of the monthly inflation distribution; the horizontal lines within the boxes represent the median inflation rate.

Source: Turkstat, Akbank

When assessing the achievability of the 16% target set for 2026 year-end, the real cost of reducing inflation (growth-inflation trade-off = sacrifice ratio) is a significant discussion topic. In this context, examining the levels of inflation rigidity and its sources is highly informative. Chart 7 shows the contributions of seasonally adjusted average monthly CPI and services inflation, as well as their main sub-items, by half-years. Accordingly, (i) the exchange rate channel have significantly constrained core goods inflation (ii) Inflation rigidity appears to be strong not only in services but also in food and energy. (iii) Adjustments in other services, including education and healthcare, and rents are very slow. In short, no significant improvement is observed except for core goods, which largely reflect the exchange rate effect. Indeed, increases approaching 5% in white goods prices in this group indicate that some items still have pricing power above cost increases.

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

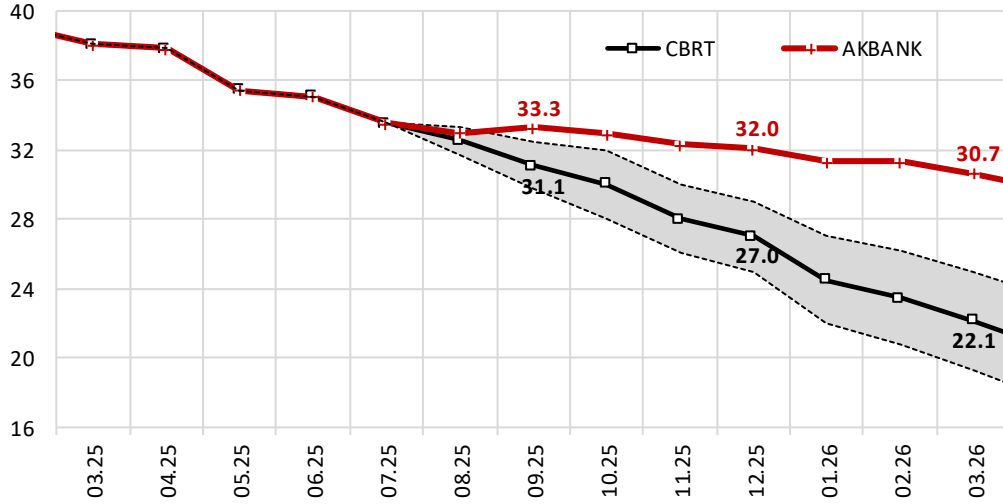


Source : Turkstat, Akbank

Under the current outlook, year-end inflation is unlikely to remain within the CBRT's forecast band. We are updating our end-2025 inflation forecast to 32.0% by reflecting what we previously considered to be upside risks in our baseline scenario (Chart 8). Given that interest rate cuts are difficult to justify in this scenario, we believe the CBRT may pause the rate cut process at its October meeting.

Furthermore, the median annualized inflation trend of $\approx 28\%$, emphasized in the policy communication, could also lead to a continuation of the rate cut process with smaller steps (100-150 bps). In this context, we believe this month will be a decisive one in understanding the degree of commitment to medium-term targets and the policy reaction function.

Chart 8. Annual Inflation Forecasts⁽¹⁾



Source: CBRT, Akbank.

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

Despite the weakening of the Turkish lira since late July, the persistently high inflation trend raises significant questions regarding transmission channels. We consider these signs to be significant: the exchange rate channel is operating in inflation dynamics, the demand channel is heterogeneous and contains significant uncertainties, and, more importantly, the expectations and pricing behavior channel has not achieved significant success. Given this outlook, and given the uncertainties surrounding wage, administered price, and tax adjustments for the coming year, we believe that it would be appropriate to pause interest rate cuts until the end of the year. We believe such action would be consistent with the statement in the September Monetary Policy Committee decision, "Monetary policy stance will be tightened in case of a significant deviation in inflation outlook from the interim targets."

Table 1. Consumer Price Index (Raw data)

	Aylık % Değişim			Yıllık % Değişim		
	Sep.24	Aug.25	Sep.25	Sep.24	Aug.25	Sep.25
CPI	2.97	2.04	3.23	49.38	32.95	33.29
Food and Non-Alcoholic Beverages	2.48	3.02	4.62	43.72	33.28	36.06
Alcoholic Beverages and Tobacco	4.16	6.04	-0.03	52.35	29.71	24.49
Clothing and Footwear	3.63	-0.71	3.92	30.70	9.49	9.80
Housing, Water, Electricity, Gas and Other Fuels	3.86	2.66	2.56	97.87	53.27	51.36
Furnishings, household eq., maint. of the house	1.98	0.80	1.65	40.29	29.74	29.32
Health	1.51	1.01	0.48	50.70	36.59	35.21
Transport	2.44	1.55	2.81	26.60	24.86	25.30
Communication	-0.88	1.46	1.25	36.64	20.61	23.20
Recreation and Culture	2.35	1.48	1.29	43.96	26.16	24.85
Education	14.21	2.07	17.90	93.59	60.91	66.10
Restaurants and Hotels	2.72	1.88	2.68	65.41	33.96	33.91
Miscellaneous Goods and Services	3.25	0.67	2.14	46.69	33.03	31.60

Kaynak: TÜİK

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Sept.24	Aug.25	Sept.25	Sept.24	Aug.25	Sept.25
CPI	2.97	2.04	3.23	49.38	32.95	33.29
Goods	2.06	1.72	2.79	40.27	27.22	28.13
Energy	0.44	0.64	1.24	62.94	33.66	34.73
Food and Non-alcoholic Beverages	2.48	3.02	4.62	43.72	33.28	36.06
Unprocessed Food	3.54	2.02	5.53	43.34	34.94	37.53
Fresh Fruits and Vegetables	3.17	2.25	4.33	32.70	51.78	53.49
Other Unprocessed Food	3.75	1.86	6.35	50.07	25.09	28.21
Processed Food	1.59	3.83	3.90	44.05	31.35	34.33
Bread and Cereals	1.40	5.77	2.97	42.83	38.82	40.96
Other Processed Food	1.68	2.82	4.39	44.77	27.69	31.10
Goods excl. Energy and Food	2.35	1.12	1.92	31.00	21.10	20.58
Core Goods	2.07	0.52	2.11	28.26	19.85	19.89
Clothing and Footwear	3.63	-0.77	3.94	29.93	8.78	9.10
Durable Goods (excl. Gold)	1.82	0.73	2.10	22.77	22.60	22.95
Other Core Goods	1.43	1.01	0.95	36.60	23.93	23.35
Services	4.90	2.65	4.10	72.92	45.77	44.66
Rent	7.62	4.61	4.39	117.43	74.33	69.10
Restaurant-Hotels	2.72	1.88	2.68	65.41	33.96	33.91
Transportation Services	6.89	3.36	6.28	53.92	36.76	35.99
Telecommunication Services	0.33	1.65	0.80	55.08	23.26	23.83
Other Services	5.47	1.92	5.04	68.49	46.69	46.09
CPI	2.97	2.04	3.23	49.38	32.95	33.29
A (CPI excl. seasonal products)	2.92	2.19	3.13	51.67	33.83	34.11
B (CPI excl. unpro. food.. energy.. alc. bev.. tob.. gold)	3.22	2.07	3.34	48.23	32.71	32.86
C (CPI excl. energy. food. alc. bev.. and gold)	3.57	1.69	3.22	49.10	33.00	32.54
D (CPI excl. unproc. food.. alc. bev. and tobacco)	2.84	1.88	3.09	50.05	32.77	33.08
E (CPI excl. alcoholic beverages and tobacco)	2.92	1.89	3.36	49.27	33.08	33.65
F (CPI excluding administered prices)	3.08	2.04	3.35	46.09	32.19	32.53

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

The Producer Price Index (PPI) rose by 2.52% mom in September. As a result, annual producer inflation increased from 25.2% to 26.6% (Table 3). In the energy sector, which has recently seen a high rate of increase, price increases were relatively limited at 0.8% in September. However, the positive impact of the slowdown in energy prices was offset by the negative impact of the stronger increases in producer prices of consumer and capital goods, particularly non-durable consumer goods, which was fueled by a 6.8% monthly price increase in food manufacturing

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Sept.24	Aug.25	Sept.25	Sept.24	Aug.25	Sept.25
Domestic PPI	1.37	2.48	2.52	33.09	25.16	26.59
Intermediate Goods	1.27	1.34	1.48	32.70	22.02	22.27
Durable Consumption Goods	1.70	1.26	2.80	37.95	30.22	31.62
Non-durable Consumption Goods	1.70	3.21	5.07	44.38	28.94	33.21
Energy	0.45	6.39	0.78	11.89	24.76	25.17
Capital Goods	1.89	1.11	1.90	36.55	26.61	26.62

Source: TURKSTAT

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağlar Yüncüler, PhD – Vice President

Caglar.Yunculer@akbank.com

M. Sibel Yapıcı

Sibel.Yapici@akbank.com

Sercan Pişkin

Sercan.Piskin@akbank.com

DISCLAIMER STATEMENT: The text, information and graphs in this report and comments has been prepared from the primary accessible systemic sources on a bona fide basis, and without consideration to establishing any guarantee and assurance for establishing a basis for any informed decision under any name or form, in terms of their accuracy, validity and effectiveness, and thus it has only been gathered for information purposes. Akbank TAŞ, Ak Yatırım AŞ and their employees will not be held responsible for any damages resulting from the comments included in this report such as lack of information and/or updates. Akbank TAŞ and Ak Yatırım AŞ may modify and/or remove the above information and recommendations at any time, without having to serve any prior notice and/or warning in any way, manner or form. Since this report and comments, the comprehensive information and recommendations which have been prepared in the form of general investment suggestions for the purpose of providing general information do not include any commitment by Akbank TAŞ and Ak Yatırım AŞ, the consequences of any decisions taken, conclusions reached, transactions made and any risks caused by any private and/or legal person based on such information will therefore rest with such persons. For this reason, Akbank T.A.Ş., Ak Yatırım A.Ş. and their employees shall not by any means or in any manner be liable for any material and moral damages, loss of profits, or any direct and/or indirect damages, whatsoever, incurred by the persons concerned or 3rd parties, as a result of the decisions taken, conclusions reached, or transactions performed by private and/or legal persons due to reliance on the information contained in this report, the comments and recommendations herein, and the persons concerned understand and accept that they are not entitled to claim any indemnity, whatsoever, from Akbank TAŞ, Ak Yatırım AŞ and their employees for any damages suffered/to be suffered. The information given in this report, and the comments and recommendations contained herein do not constitute an "investment consultancy" service and/or activity, but fall within the scope of a general investment consultancy activity, and individuals and entities willing to receive an investment consultancy service must contact entities and institutions that are authorized to provide such service and obtain such service under a service agreement pursuant to the legislations of CMB. Investment consultancy services are offered under an investment consultancy agreement to be signed between brokerage houses, portfolio management companies, banks that do not admit deposits and the clients. The comments and recommendations contained herein depend upon the personal opinions of the persons who make the comments and recommendations. Since such opinions have been arranged in the scope of a general investment consultancy activity they do not contain reports, comments and recommendations specific to a person, and may therefore not suit your financial status, risk and return preferences. Thus, making investment decisions solely based on the information contained herein might not bring an outcome that meets your expectations.

