Macro: Rigidities persist despite improvement in the inflation trend

Consumer inflation increased by 2.55% month-on-month (mom), below our forecast (2.8%) and market expectations (2.7-2.8%). Thus, annual inflation decreased by 0.4 percentage points (pp) to 32.9% and remained ≈1pp above the upper limit of the CBRT's forecast band.

In October, there were significant increases in food and transportation prices as well as clothing items, which saw seasonally rising prices. As in the previous month, price increases in the food group stemmed from high price increases in products with weaker correlations with weather conditions such as drought and frost. In this context, the strong upward trend in unprocessed food products, excluding fresh fruits and vegetables, continued for the third consecutive month.

The inflation trend has declined compared to previous month, as seasonally adjusted (s.a.) monthly inflation declined to 2.07% from 2.7%. This is consistent with our assessment that the inflation trend will remain above 2%, even excluding one-time effects from September. Among the distribution-based trend indicators highlighted in the CBRT's communication, the median and trimmed inflation rates are 2.0% (previously 2.1% and 2.0%, respectively).

Cumulative inflation for the first 10 months reached 28.6%, and it is unlikely that inflation will end the year within the CBRT's forecast band. As we emphasized in our September report (Macro: Rigidity in inflationary trends narrows the scope for policy easing), the median inflation trend of around 28%, highlighted in policy communications, appears to ensure the continuation of the rate cuts with small steps. While previous actions and the reaction function we perceive as a result of the September decision suggest that the "cut at every meeting" bias will persist as long as reserves are deemed sufficient, there are questions about establishing the necessary tightness to achieve medium-term targets.

We consider the signals that the exchange rate channel is working in inflation dynamics, that the demand channel is heterogeneous and contains significant uncertainties, and, more importantly, that no significant improvement has been achieved in the expectations and pricing behavior channel, to be significant. The depreciation trend in the Turkish lira, which has decelerated since late July, appears to be further slowing down somewhat recently. Despite this, we forecast year-end inflation at 32.0% and maintain our assessment that interest rate cuts should be paused to ensure continued disinflation. Furthermore, to weaken backward-looking indexation mechanisms, we believe it would be beneficial to set the revaluation rate of 25.5% based on the domestic producer price index (D-PPI) in line with the targets in practice.

Consumer Price Index (CPI)

Monthly inflation was 2.55%, below our forecast (2.8% mom; 33.2% yoy) and market expectations (2.7-2.8% mom; 33.1-33.2% yoy). As a result, annual inflation decreased from 33.3% to 32.9%, and remained ≈1pp above the upper limit of the CBRT's forecast band.

Cumulative inflation for the first ten months reached 28.6%, making it unlikely to end the year within the CBRT's forecast range. The seasonally adjusted (s.a.) monthly CPI inflation fell to 2.07%, from 2.7% in the previous month (2.7%).

Annual inflation for core indicators also recorded a similar decline. Annual inflation for B and C decreased by 0.4 percentage points, reaching 32.5% and 32.1%, respectively (Chart 1, Table 3).

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

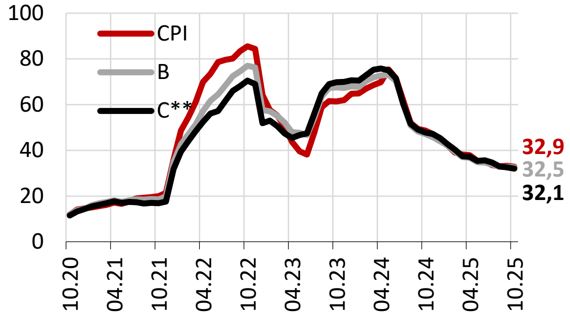
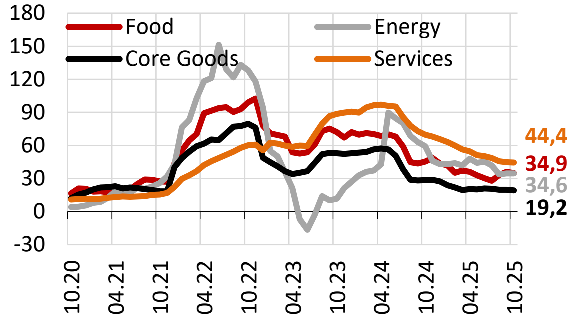


Chart 2. CPI Sub-Indices (annual % change)



* 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

In October, annual inflation decreased in all major groups (Chart 2, Table 1). Details are as follows:

- **Food:** Monthly food inflation remained high at 3.4%, while annual food inflation fell 1.2 pp to 34.9%. Seasonally adjusted monthly food inflation fell from an average of 4.6% over the past two months to 2.6%. This slowdown was observed in both processed and unprocessed food groups, with a notable divergence between the components of processed and unprocessed food.

  On the **unprocessed food** front, while monthly inflation in **fresh fruits and vegetables** (s.a.) fell sharply from an average of 5.8% in the last two months to 0.4%, monthly inflation in other unprocessed foods (s.a.) remained high at 4.5%. The average inflation trend in **other unprocessed foods** over the last three months is quite strong at 5.1% (81% annualized). Looking at the details, the upward trend in meat, milk, and egg prices remains.

  On the **processed food** front, the slowdown in monthly inflation from 3.9% to 2.5% was largely due to items other than bread and cereals. While the rise in bread prices continued to gradually decline, the 7.8% increase in pasta prices led to a limited slowdown in monthly **bread and cereal** inflation, which reached 2.8% compared to September (3.0%). In **other processed food**, monthly inflation fell from 4.4% to 2.4%. During this period, the impact of the raw milk price adjustment on dairy prices was apparent, while strong price increases continued in items such as confectionery and cocoa.

  In summary, despite the slowdown in fresh fruit and vegetable price increases, food inflation remained high, driven by items less closely linked to weather conditions such as drought and frost. The average monthly increase (s.a.) in the food group over the last three months, at 4.0%, indicates a high annualized inflation trend of 60%. In this context, CBRT's annual food inflation forecasts for 2025 and 2026 in its Inflation Report remain optimistic at 26.5% and 17.0%, respectively. Therefore, food inflation forecasts are likely to change in the new Inflation Report to be released on Friday.

- **Energy:** Monthly inflation in the energy group was 1.28%, similar to September, while annual inflation decreased by 0.1 pp to 34.6%. While the monthly increase in **fuel** prices was limited at 0.2% compared to the previous month (2.4%), the 4.8% increase in **bottled gas prices** and the monthly price increase in **solid fuels**, which rose to 4.9% due primarily to seasonal factors, prevented monthly energy inflation from declining compared to the previous month.

- **Core goods:** Monthly inflation in core goods rose to 3.2% due to a strong (12.7%) increase in the clothing and footwear group stemming from the season opening, but excluding this seasonal effect, it slowed to 0.8% compared to the previous month (1.6% s.a.). Annual inflation in the group decreased by 0.7 percentage points to 19.2%, its lowest level since Nov. 2021 (Chart 2, Table 2).

Price increases in the **clothing and footwear** group were high at 12.7% due to seasonal effects, but seasonally adjusted monthly inflation slowed to 0.7% compared to September (1.4%). The group's annual inflation remains significantly different from our field observations and alternative measures. Annual clothing inflation decreased by 1.8 percentage points to 7.3%, while Istanbul Chamber of Commerce (ICC) Index stands at 35.0%.

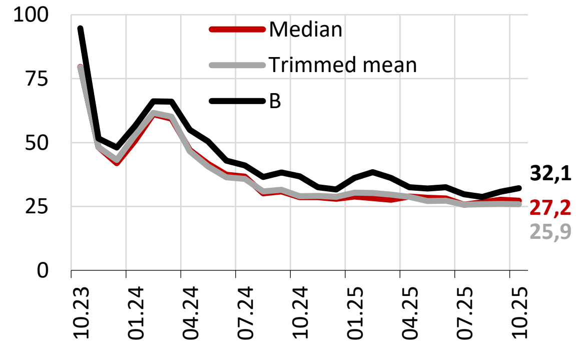
The monthly inflation in **durable goods excluding gold** slowed to 0.9% compared to the previous month (2.1%). The nearly 5% increase in white goods prices the previous month did not continue at the same pace in October. Automobile price increases also lost momentum.

Inflation trends in **other core goods** have weakened significantly. Monthly inflation reached 0.67%, the lowest rate since May 2021. We will likely see further increases in other core goods in the coming period due to adjustments in medicine prices.

- **Services:** The rigidity in monthly services inflation remained in October. Monthly services inflation fell to 1.79% mom in the raw data, while in "s.a" terms it remained flat at 2.88%. Annual services inflation decreased by 0.3 percentage points to 44.4%. Services has had the highest annual inflation among major groups since April 2023 (Chart 2).

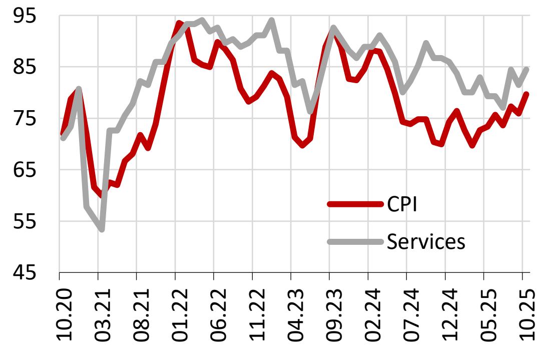
  Monthly **rent** (s.a.) inflation remained unchanged at 3.4% and annual rent inflation decreased from 69.1% to 66.3%. **Other services**, which saw high increases due to seasonal increases in the education group in the past two months, saw moderate increases this month. However, improvement in this category was limited in "s.a." terms. Although monthly inflation in **transportation** services decreased compared to previous months due to seasonal effects, it rose from 3.1% to 4.1% in s.a. terms. Monthly inflation in **restaurants and hotels** (s.a.) remained around 2.6%. **Communication services**, on the other hand, continue to limit overall services inflation.

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, %)

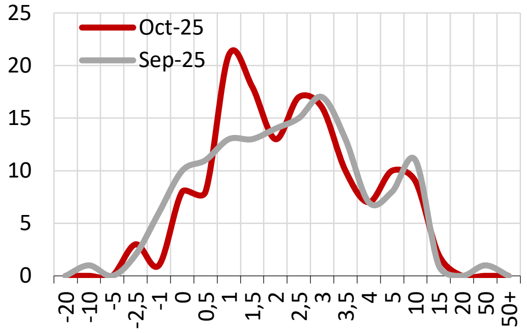


Source: Turkstat, Akbank

The seasonally adjusted monthly CPI inflation slowed to 2.07% in October (from 2.7% in September). This is consistent with our previous assessment that the inflation trend will remain above 2%, even excluding one-time effects in September. Monthly increases in B (s.a.) and C (s.a.) were 2.0% and 1.9%, respectively, lower than last month (2.6% and 2.3%, respectively). The median and trimmed monthly inflation rates, among the distribution-based trend indicators highlighted in the CBRT's communications, were 2.0% (from 2.1% and 2.0%). Therefore, the annualized inflation trend remained around 28% (Chart 3). Meanwhile, while the diffusion indices have been rising in recent months (Chart

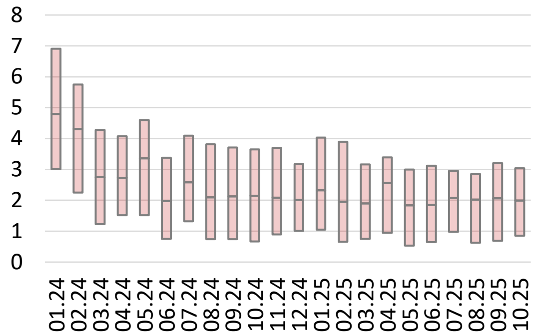
4), there was no significant improvement in inflation distribution too (Chart 5). The fact that median inflation has remained rigid at around 2% per month for over a year (Chart 6) indicates that the desired further improvement in the inflation trend may require a very costly process.

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



Source: Turkstat, Akbank

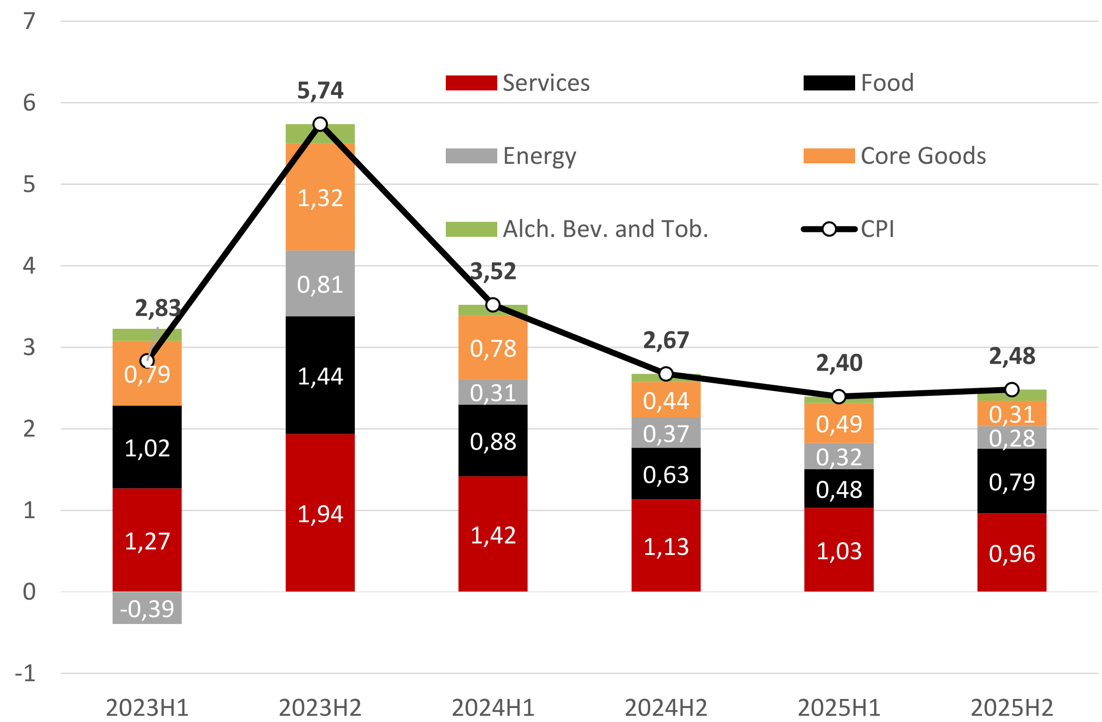
Chart 6. Monthly Inflation Distribution (IQR, %)

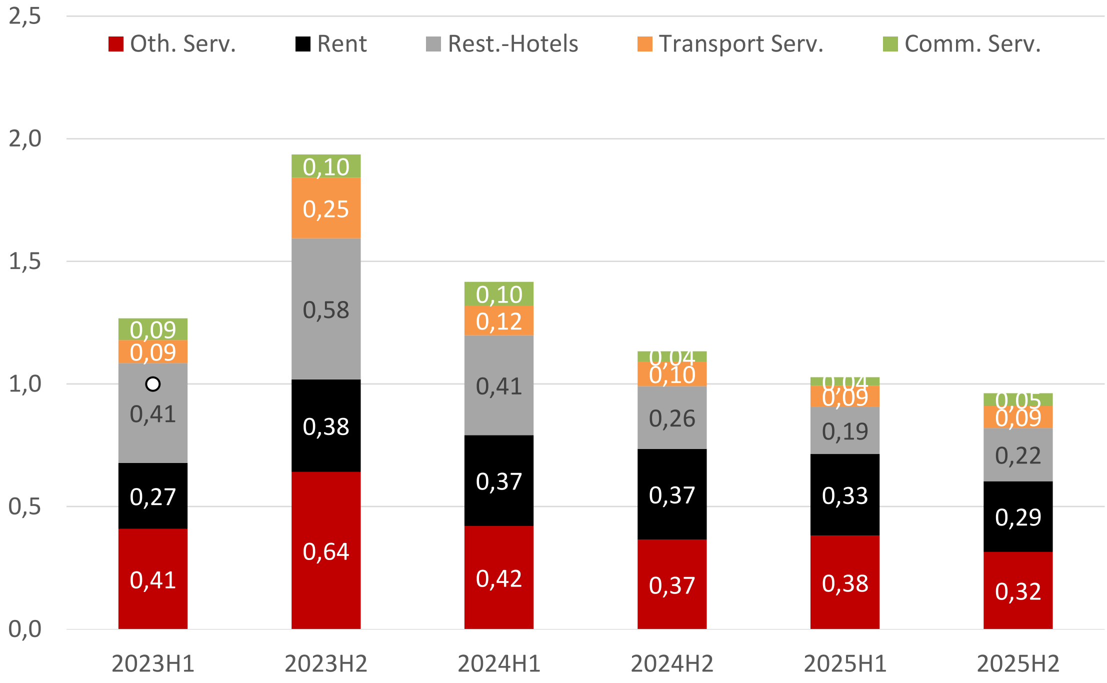


Note: The red boxes represent the 1st and 3rd quartiles (IQR), corresponding to the 25th and 75th percentiles of the monthly inflation distribution; the horizontal lines within the boxes represent the median inflation rate.
Source: Turkstat, Akbank

As we emphasized in our September report ([Macro: Rigidity in inflationary trends narrows the scope for policy easing]), the median inflation trend of around 28%, highlighted in policy communications, appears to ensure the continuation of the rate cuts with small steps. While previous actions and the reaction function we perceive as a result of the September decision suggest that the "cut at every meeting" bias will persist as long as reserves are deemed sufficient, there are questions about establishing the necessary tightness to achieve medium-term targets.

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

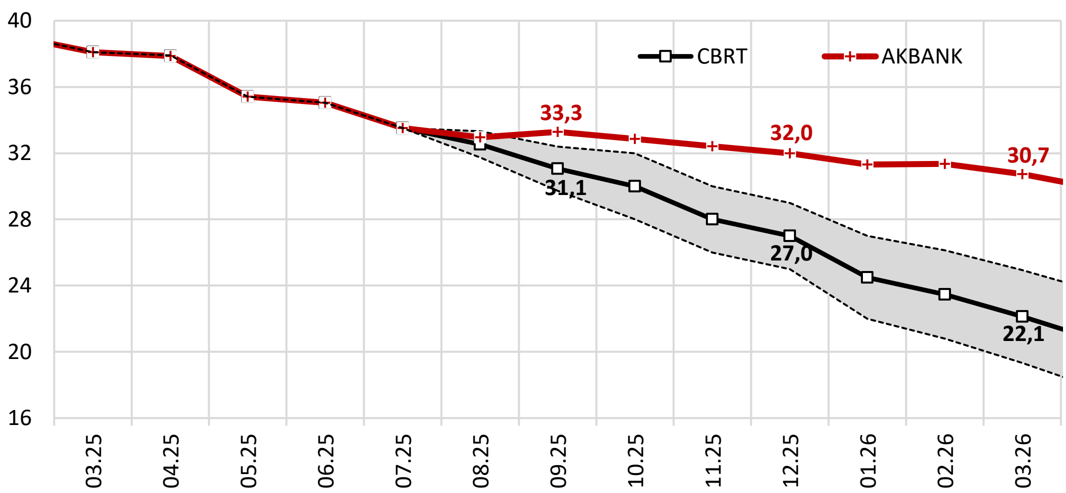




Source : Turkstat, Akbank

We consider the signals that the exchange rate channel is working in inflation dynamics, that the demand channel is heterogeneous and contains significant uncertainties, and, more importantly, that no significant improvement has been achieved in the expectations and pricing behavior channel, to be significant. The depreciation trend in the Turkish lira, which has decelerated since late July, appears to be further slowing down somewhat recently. Despite this, we forecast year-end inflation at 32.0% and maintain our assessment that interest rate cuts should be paused to ensure continued disinflation. Furthermore, to weaken backward-looking indexation mechanisms, we believe it would be beneficial to set the revaluation rate of 25.5% based on the domestic producer price index (D-PPI) in line with the targets in practice.

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		
	Oct.24	Sep.25	Oct.25	Oct.24	Sep.25	Oct.25
CPI	**2.88**	**3.23**	**2.55**	**48.58**	**33.29**	**32.87**
Food and Non-Alcoholic Beverages	4.33	4.62	3.41	45.28	36.06	34.87
Alcoholic Beverages and Tobacco	-0.04	-0.03	2.42	52.15	24.49	27.56
Clothing and Footwear	14.32	3.92	12.42	31.37	9.80	7.98
Housing, Water, Electricity, Gas and Other Fuels	2.93	2.56	2.66	89.39	51.36	50.96
Furnishings, household eq., maint. of the house	1.82	1.65	1.48	39.22	29.32	28.90
Health	2.88	0.48	0.48	51.05	35.21	32.06
Transport	-0.54	2.81	1.07	26.14	25.30	27.33
Communication	3.52	1.25	0.29	37.77	23.20	19.35
Recreation and Culture	0.62	1.29	1.00	41.64	24.85	25.32
Education	0.33	17.90	0.08	93.66	66.10	65.69
Restaurants and Hotels	1.44	2.68	1.34	62.09	33.91	33.78
Miscellaneous Goods and Services	2.02	2.14	0.89	45.18	31.60	30.13

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Oct.24	Sep.25	Oct.25	Oct.24	Sep.25	Oct.25
CPI	**2.88**	**3.23**	**2.55**	**48.58**	**33.29**	**32.87**
Goods	**3.33**	**2.79**	**2.94**	**40.36**	**28.13**	**27.65**
Energy	1.35	1.24	1.28	59.37	34.73	34.64
Food and Non-alcoholic Beverages	4.33	4.62	3.41	45.28	36.06	34.87
Unprocessed Food	6.75	5.53	4.52	47.05	37.53	34.66
Fresh Fruits and Vegetables	19.20	4.33	5.49	57.58	53.49	35.84
Other Unprocessed Food	-0.41	6.35	3.87	40.63	28.21	33.73
Processed Food	2.22	3.90	2.51	43.72	34.33	34.71
Bread and Cereals	3.05	2.97	2.76	45.16	40.96	40.56
Other Processed Food	1.83	4.39	2.38	43.10	31.10	31.81
Goods excl. Energy and Food	3.30	1.92	3.15	31.14	20.58	20.41
Core Goods	3.77	2.11	3.20	28.45	19.89	19.23
Clothing and Footwear	14.60	3.94	12.68	30.63	9.10	7.27
Durable Goods (excl. Gold)	0.70	2.10	0.91	23.10	22.95	23.20
Other Core Goods	1.24	0.95	0.67	34.93	23.35	22.64
Services	**1.95**	**4.10**	**1.79**	**69.78**	**44.66**	**44.44**
Rent	5.50	4.39	3.74	112.59	69.10	66.28
Restaurant-Hotels	1.44	2.68	1.34	62.09	33.91	33.78
Transportation Services	-2.04	6.28	1.81	48.73	35.99	41.33
Telecommunication Services	1.50	0.80	0.69	51.23	23.83	22.85
Other Services	1.52	5.04	0.99	66.23	46.09	45.33
CPI	**2.88**	**3.23**	**2.55**	**48.58**	**33.29**	**32.87**
A (CPI excl. seasonal products)	1.39	3.13	1.81	49.32	34.11	34.67
B (CPI excl. unpro. food.. energy.. alc. bev.. tob.. gold)	2.69	3.34	2.43	47.10	32.86	32.52
C (CPI excl. energy. food. alc. bev.. tob.. and gold)	2.79	3.22	2.41	47.75	32.54	32.05
D (CPI excl. unproc. food.. alc. bev. and tobacco)	2.51	3.09	2.30	48.62	33.08	32.82
E (CPI excl. alcoholic beverages and tobacco)	3.00	3.36	2.56	48.45	33.65	33.07
F (CPI excluding administered prices)	3.16	3.35	2.70	45.82	32.53	31.93

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

Although the Producer Price Index (PPI) increased at a lower rate in October compared to previous months with 1.63%, annual producer inflation increased by 0.4 pp to 27.0% (Table 3). Consequently, the Revaluation Rate for 2026 stood at 25.49%.

While the price decline in the energy group limited producer inflation, the relatively negative trend in consumer goods remained. Monthly price increases in capital goods were relatively modest at 1.2%, while monthly inflation in intermediate goods was similar to the previous month.

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Oct.24	Sep.25	Oct.25	Oct.24	Sep.25	Oct.25
Domestic PPI	**1.29**	**2.52**	**1.63**	**32.24**	**26.59**	**27.00**
Intermediate Goods	1.52	1.48	1.57	31.79	22.27	22.33
Durable Consumption Goods	2.82	2.80	3.95	39.17	31.62	33.07
Non-durable Consumption Goods	1.90	5.07	2.43	41.48	33.21	33.91
Energy	-0.56	0.78	-0.65	14.54	25.17	25.05
Capital Goods	0.67	1.90	1.18	33.84	26.62	27.27

Source: TURKSTAT

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