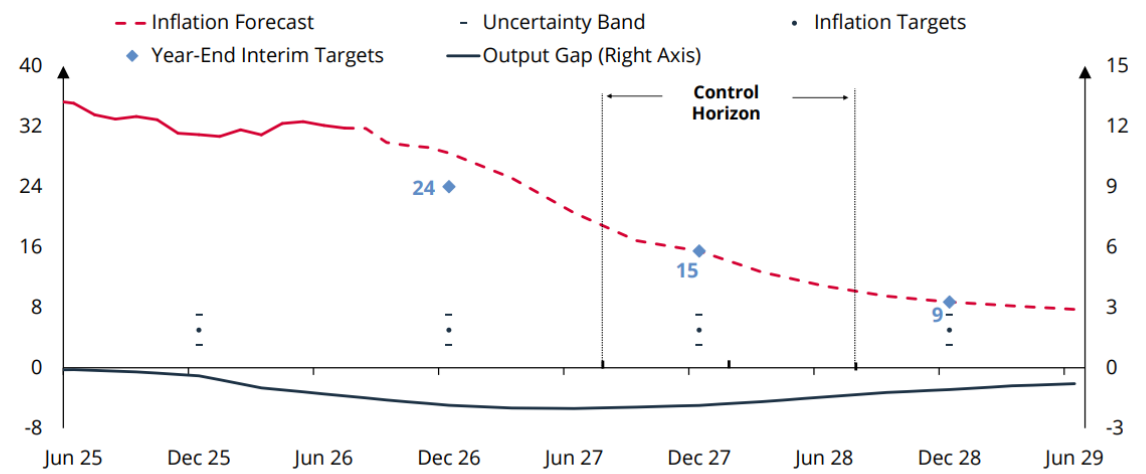
Macro: Short-term inflation forecasts were revised upwards, while interim targets were maintained

1. Forecasts

In its third inflation report of the year, the CBRT maintained its interim targets but updated year-end inflation forecast from 26% to 28%. This brings the total upward revision for the end of 2026 in the last two reports to 10 percentage points. The year-end targets for 2027 and 2028 remained unchanged at 15% and 9%, respectively.

The change in the food price assumption in the 2026 year-end forecast update appears to be influenced by administered price adjustments over the past period and, although not explicitly stated, the fact that the main trend is somewhat stronger than in previous forecasts. It was emphasized that total demand conditions were stronger than anticipated in the second quarter due to external demand, and accordingly, a slight upward revision was made to the output gap estimates. The import price projection, however, was subject to a limited increase depending on the outlook for diesel, natural gas, and other commodity prices.

Chart 1. 2026-III Inflation and Output Gap Forecasts



2. Assumptions

External demand: With geopolitical developments continuing to limit the global growth outlook, the export-weighted global growth assumption was revised downwards, albeit slightly (Table 1). Nevertheless, the report stated that "external demand was stronger than anticipated, with geopolitical developments and rising logistics costs partially shifting demand towards Türkiye." Based on this assessment, implicit growth estimates were also revised upwards, albeit slightly.

Food prices: The end-of-2026 food inflation assumption was raised from 26.3% to 28.5%. This update was influenced by (i) product-specific production losses and supply issues, (ii) higher-than-expected administered price adjustments, and (iii) additional pressures on food prices that may arise from high agricultural input costs due to geopolitical developments. The end-of-2027 food inflation assumption was maintained at 19% (Table 1).

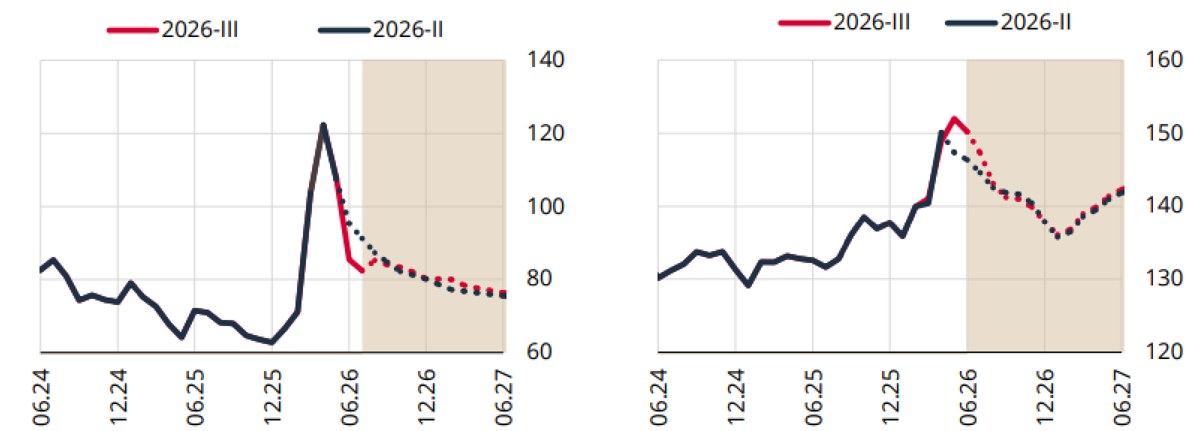
Fiscal stance: The report highlighted the effects of administered prices and tax regulations. These included administrative regulations concerning healthcare services, electricity prices, fuel tax adjustment mechanism. As always, medium-term forecasts were formulated assuming that fiscal policy would contribute to the disinflation process and that administered prices, borrowing, tax, and income policies would be determined in line with interim targets.

Commodity prices: The oil price assumption for 2026 has been updated slightly downwards, while the import price assumption has been updated upwards (Chart 2, Table 1).

Table 1. Revisions to Main Assumptions

		IR 2026-II	IR 2026-III
Global Production Index* (Average Annual % Change)	2026	1.7	1.6
	2027	2.5	2.5
Oil Prices (USD, Annual Average)	2026	89.4	87.8
	2027	75.4	76.4
Import Prices (USD, Average Annual % Change)	2026	6.3	6.9
	2027	-0.2	-0.4
Food Prices (Year-End, % Change)	2026	26.3	28.5
	2027	19.0	19.0

Chart 2. Oil (left panel) and Import Price (right panel) Assumptions



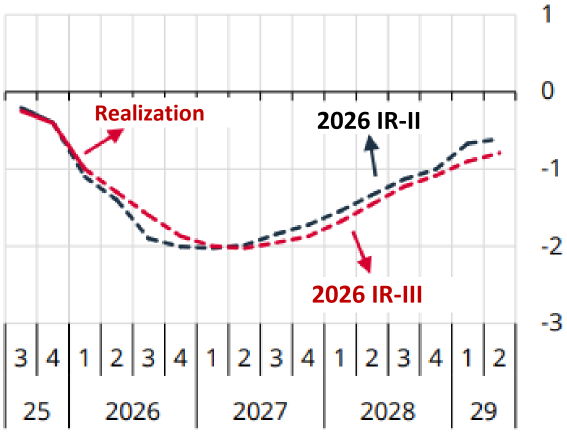
Source: Bloomberg, CBRT
* Shaded areas show the forecast horizon

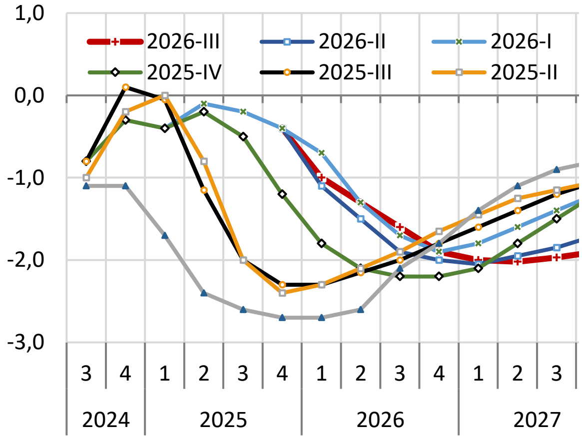
Economic activity: The report assessed that overall demand conditions remained somewhat stronger than anticipated due to the shift in external demand driven by geopolitical developments, counteracting the limiting effect of tight financial conditions on domestic demand. Output gap estimates were also updated slightly upwards accordingly (Chart 3, left panel). According to our calculations, 2026 growth is projected to be slightly higher than in the previous report (e.g., 2.8% instead of 2.5% under a 1.0% quarterly potential growth assumption). Growth estimates consistent with output gap projections under different quarterly potential growth assumptions are as follows:

Table 2. Growth Forecasts Implied by Output Gap Forecasts (%)

	Quarterly Potential Growth (%)		
	0.8	**1.0**	**1.2**
2026	2,4	2,8	3,1
2027	2,7	3,6	4,4
2028	3,9	4,7	5,6

Chart 3. CBRT Output Gap Forecasts





3. Our Evaluations

- We can summarize the key policy messages we observed from the Q&A section of the inflation report press conference as follows:
    - ✓ The 2-point revision in the year-end inflation forecast stems from supply-side factors beyond monetary policy control and therefore does not require a policy response,
    - ✓ There has been a noticeable weakening in demand conditions,
    - ✓ As the inflation trend improves and interest rates remain stable, the monetary stance is tightening where it is, therefore a certain level of tightness can be maintained as inflation and interest rates fall together,
    - ✓ The transition from overnight funding to 1-week funding is being evaluated,
    - ✓ The transition to 1-week funding is a normalization step and does not mean that rate cuts will continue.
- When we evaluate these messages collectively, we can accept the reduction of the effective funding rate from 40% to 37% at the September Monetary Policy Committee meeting as the base scenario.
- We are not making any changes to our inflation and policy rate forecast paths following the report communication. Our year-end forecasts are 30% and 37%, respectively.

This report is prepared by Akbank Economic Research

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