

Macro: The Improvement in the Inflation Trend Provides Some Room for Monetary Policy Despite Cost Pressures

Consumer prices rose by 1.84% month-on-month in September, coming in below our expectation for the third consecutive month (a cumulative deviation of 0.8 pp). As a result, annual inflation declined by 1.8 percentage points compared with August to 29.7%. While the food group was the main driver of the downside surprise, core-B inflation was in line with our forecast.

Despite the sharp rise in fuel prices, the July-September period was navigated quite smoothly compared with previous years. The cumulative increase in fuel prices reached 42.5% over March-September, and we estimate its cumulative impact on inflation at around 4.5 percentage points. The fact that the realized impact remained below the average historical pass-through reflects the effects of weakening demand conditions. On the other hand, given current fuel prices, there is potential for an additional 14% increase in the final quarter under the planned exit from the sliding-scale mechanism. We note the accumulated cost pressures on fresh fruit and vegetable (relative) prices, which have fallen below their long-term trend amid their moderate course in recent months.

Seasonally adjusted (s.a.) monthly inflation declined to 1.6% (previous: 2.2%). In September, exclusion-based indicators joined the distribution-based core indicators that had been confirming the cooling in the economy since July. Monthly core B and C inflation (s.a.) stood at 1.6% and 1.7%, respectively (previously 1.9% for both). Median and trimmed monthly inflation rates, meanwhile, remained flat at 1.7%. Based on annualized trends over the last three months, median inflation stands at 21% and core B at around 24%.

The effects of weakening demand conditions are becoming increasingly noticeable. Unlike in the first half of the year, the sectoral breadth of the slowdown in the economy has increased in Q3. The trade sector, which has long been the driving force of economic activity, appears to have fallen below its long-term trend for the first time in 3.5 years. In this regard, we view positively the fact that the moderate course in core goods has begun to be accompanied by an improvement in services (from 2.7% to 1.9% s.a.).

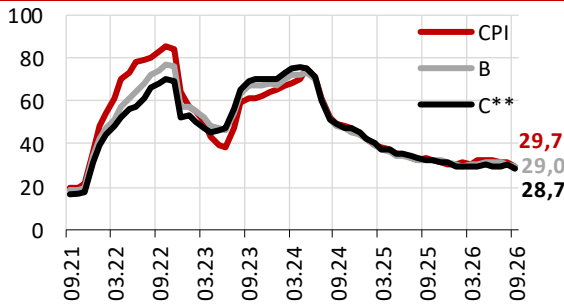
Although the improvement in the inflation trend provides some room for monetary policy, (i) additional price increases that may result from the exit from the sliding-scale mechanism, (ii) cost pressures that have not yet been reflected in final prices, and (iii) the rise in global interest rates limiting the relative return on TRY assets lead us to remain cautious about the size and persistence of potential rate cuts.

In our baseline scenario, we envisage a 100 bps rate cut at the MPC meeting on 22 October. In fact, we also assess that, in the absence of dollarization and reserve constraints, the macro picture in terms of domestic balances supports a cut of more than 100 bps. In this context, depending on market and price developments during the month, a 150 bps rate cut is also possible. Under the 100 bps cut scenario, we assume that recent developments in domestic and global markets will prompt the CBRT to act cautiously against dollarization risk. Under the 150 bps scenario, as the real policy rate would remain unchanged at its August level, policy communication could be built around the narrative of “calibration rather than easing.” In summary, while noting the downside risks, we maintain our year-end inflation and policy rate forecasts at 30.0% and 36.0%, respectively.

Consumer Price Index (CPI)

Monthly inflation came in at 1.84%, below our forecast of 2.1%. As a result, annual inflation declined by 1.8 percentage points to 29.7%, falling below 30% for the first time since November 2021 (21.3%). The cumulative price increase in the first nine months of the year was 24.3%. Annual inflation followed a similar pattern in the core indicators, declining from 30.7% to 29.0% in the B index and from 30.1% to 28.7% in the C index (Chart 1, Table 3).

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

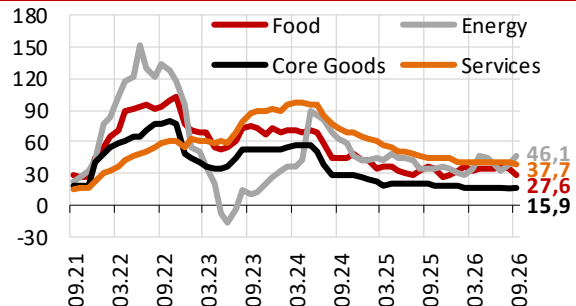


* CPI excluding unprocessed food, energy, alcoholic beverages and tobacco products, and gold

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

Source: Turkstat

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



We estimate that the seasonally adjusted (s.a.) monthly CPI inflation, to be announced by TurkStat, declined from 2.2% to 1.6%. A slowdown was also recorded in the trend of core indicators in September. Monthly B inflation (s.a.) declined from 1.9% to 1.6%, while monthly C inflation (s.a.) fell from 1.9% to 1.7%.

In September, annual inflation declined in food and services, increased in energy, and remained unchanged in core goods (Chart 2, Table 1). Details are as follows:

- Food:** Monthly food inflation recorded a low reading, as in May, June and August, supported by the continued favorable course in fresh fruit and vegetable prices. Prices declined by 0.2% month-on-month in unadjusted data, while increasing by a limited 0.09% on a seasonally adjusted basis. Annual inflation in the food group declined by 6.2 percentage points, driven by both processed and unprocessed food, to 27.6%, falling below headline annual inflation for the first time this year. Monthly unprocessed food inflation (s.a.) declined from 0.8% to -1.63%, driven by a 7.34% monthly decline in fresh fruit and vegetable prices (s.a.) and a slowdown in monthly inflation in other unprocessed food (s.a.) from 4.0% to 1.94%. In processed food, monthly inflation declined from 1.99% to 1.4%, driven by both bread and cereals and other processed food.
- Energy:** Developments in international prices continued to affect energy prices in September. Monthly inflation in the energy group accelerated to 6.25% from 5.46% in August, led by the increase in fuel prices ($\approx 11.0\%$). As a result, annual inflation in the group rose by 6.9 percentage points to 46.1%. The cumulative increase in fuel prices reached 42.5% over March-September, and we estimate its cumulative impact on inflation at around 4.5 percentage points (Chart 3). The fact that the realized impact remained below the average pass-through reflects the effects of weakening demand condition.

On the other hand, given current fuel prices, there is potential for an additional 14% increase in the final quarter under the planned exit from the sliding-scale mechanism. We note the accumulated cost pressures on fresh fruit and vegetable (relative) prices, which have fallen below their long-term trend amid their moderate course in recent months.

- **Core goods:** The monthly inflation trend in core goods accelerated somewhat compared with recent months, but remained at moderate levels in September. Annual inflation remained unchanged at 15.9%, while monthly inflation (s.a.) rose from 0.6% to 1.4%. This increase was driven by the rise in clothing prices (1.31% s.a.) and by monthly durable goods inflation (s.a.) exceeding 2% for the first time since January, led by home appliances and furniture items (Chart 4).
- **Services:** Monthly inflation in services (s.a.) slowed markedly from 2.66% to 1.85%. While the pass-through of cumulative increases in fuel prices to transportation services continued, albeit with some loss of momentum, the pause in the recently strengthening upward trend in communication services played an important role in the improvement in services inflation. On the other hand, the inflation trend in the rent group continued to weaken, at 2.03%. Monthly inflation in the restaurants and hotels group (s.a.) slowed from 2.0% to 1.67%. In other service prices, the trend weakened despite the effects of periodic movements in some education items.

Chart 3. Passthrough of Fuel Prices into CPI (cumulative, annual % change)

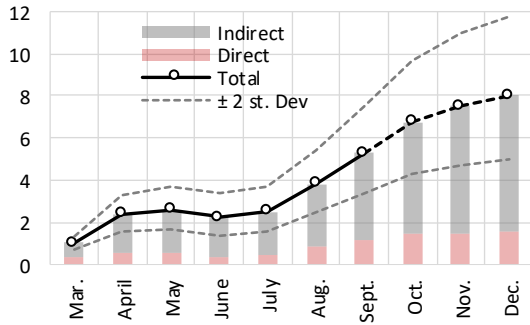
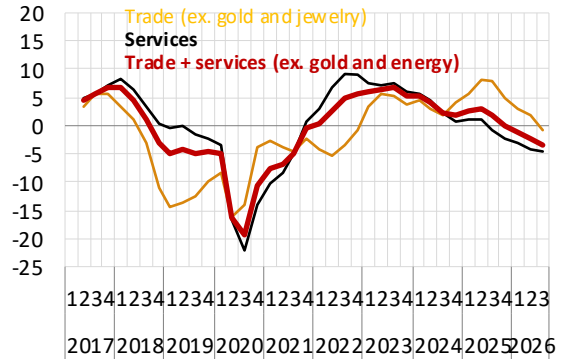


Chart 4. Output Gap in Services (% difference from log-linear trend)*



* Total services indicator is the weighted average of other two series with their 2024 weights

Source: TURKSTAT, Akbank

Chart 5. Underlying Inflation* (seas. adj. m-o-m, 3-month moving average, annualized)

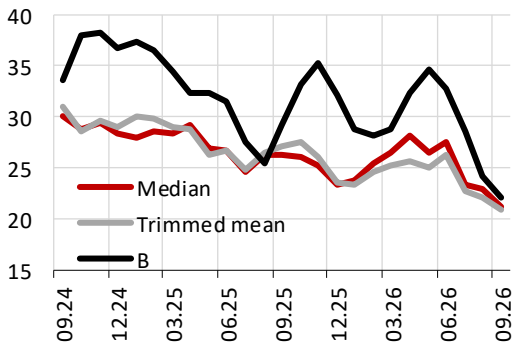
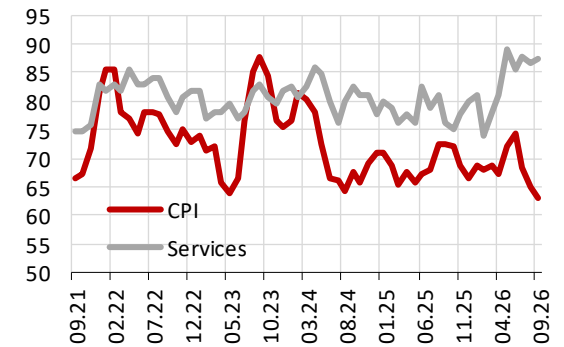


Chart 6. Diffusion Index (seas. adj., increase-decrease, %)



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

Source: Turkstat, Akbank

Among the indicators of the inflation trend, seasonally adjusted (s.a.) monthly inflation declined by 0.6 percentage points compared with July and August, to 1.6%. Among exclusion-based core indicators, monthly B and C inflation (s.a.) stood at 1.6% and 1.7%, respectively (previously 1.9% for both). The improvement in services accompanying the moderate course in core goods slowed the core inflation trend. Among distribution-based core indicators, median and trimmed monthly inflation rates remained flat at 1.7%. The increases in these indicators, to which the CBRT gives greater prominence in its policy communication, are consistent with the ongoing cooling in the economy (Chart 4). Based on the average of the last three months, the annualized median inflation trend declined to 21% (Chart 5).

The effects of weakening demand conditions are becoming increasingly noticeable. Unlike in the first half of the year, the sectoral breadth of the slowdown in the economy has increased in Q3. The trade sector, which has long been the driving force of economic activity, appears to have fallen below its long-term trend for the first time in 3.5 years (Chart 4).

Chart 7. CPI Subgroups Monthly Inflation Histogram (seas. adj)

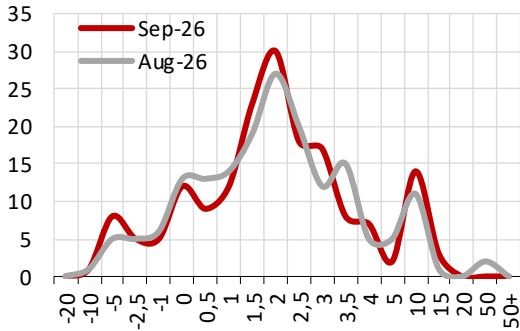
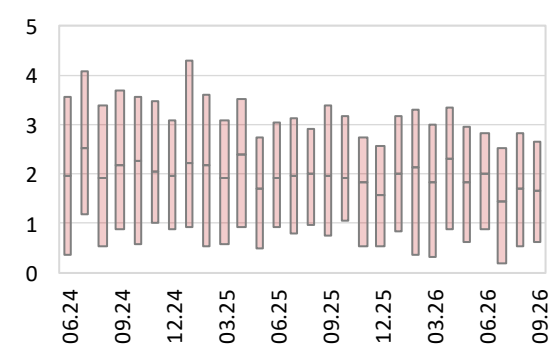


Chart 8. Monthly Inflation Distribution (IQR, %)

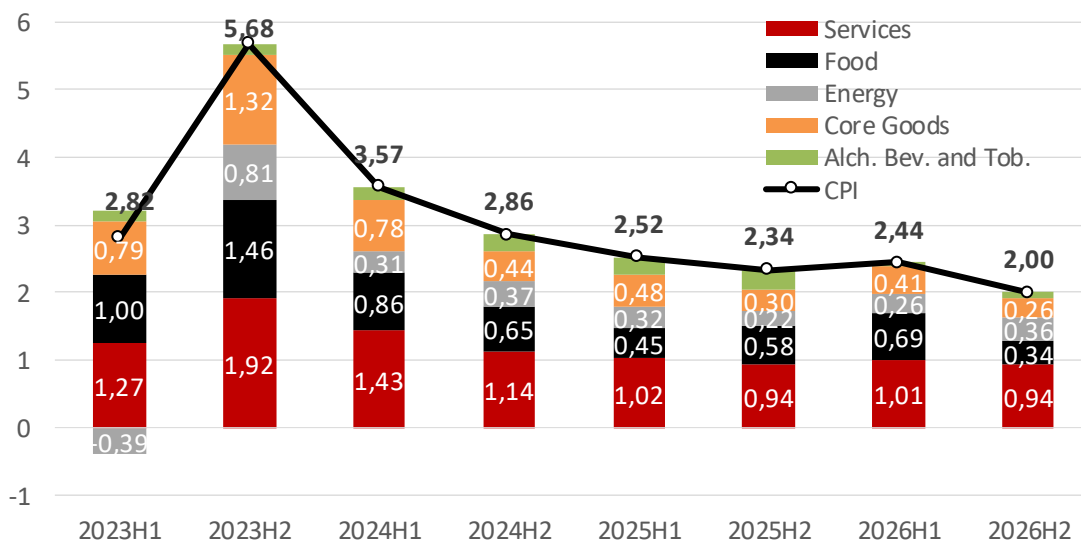


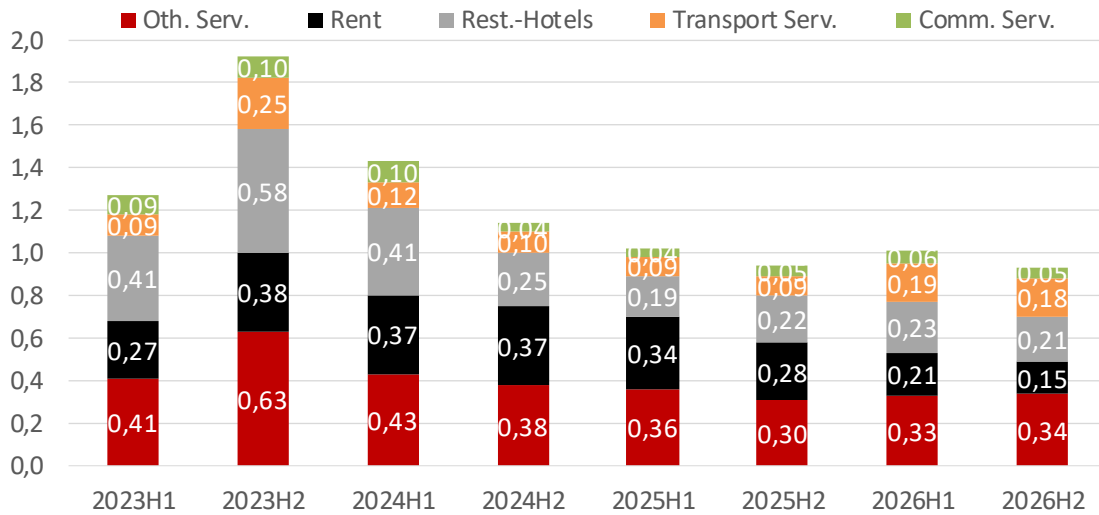
Note: The red boxes represent the 1st and 3rd quartiles (IQR), corresponding to the 25th and 75th percentiles of the monthly inflation distribution; the horizontal lines within the boxes represent the median inflation rate.

Source: Turkstat, Akbank

The improvement in the inflation trend had been interrupted in the first half of the year, while cost pressures that increased with the war had worsened the inflation outlook. Since the third quarter, the further weakening in demand conditions and, accordingly, the relatively limited cost pass-through have led to a noticeable improvement in the inflation trend. When contributions to average monthly inflation are examined by half-year periods, the contribution of the core goods, services and food groups to disinflation is clearly visible (Chart 9). Although food (particularly fresh fruit and vegetables) is a volatile item and therefore always entails risk, it is important that we are once again seeing an improvement in services (notably in rents and restaurants-hotels) (Chart 10).

Chart 9. Contributions to Monthly Inflation (s.a, % points)





Source : Turkstat, Akbank

Although the improvement in the inflation trend provides some room for monetary policy, (i) additional price increases that may result from the exit from the sliding-scale mechanism, (ii) cost pressures that have not yet been reflected in final prices, and (iii) the rise in global interest rates limiting the relative return on TRY assets lead us to remain cautious about the size and persistence of potential rate cuts.

In our baseline scenario, we envisage a 100 bps rate cut at the MPC meeting on 22 October. In fact, we also assess that, in the absence of dollarization and reserve constraints, the macro picture in terms of domestic balances supports a cut of more than 100 bps. In this context, depending on market and price developments during the month, a 150 bps rate cut is also possible. Under the 100 bps cut scenario, we assume that recent developments in domestic and global markets will prompt the CBRT to act cautiously against dollarization risk. Under the 150 bps scenario, as the real policy rate would remain unchanged at its August level, policy communication could be built around the narrative of “calibration rather than easing.” In summary, while noting the downside risks, we maintain our year-end inflation and policy rate forecasts at 30.0% and 36.0%, respectively.

Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Sep.25	Aug.26	Sep.26	Sep.25	Aug.26	Sep.26
CPI	3.23	1.84	1.84	33.29	31.51	29.73
Food and Non-Alcoholic Beverages	4.62	0.22	-0.20	36.06	33.79	27.62
Alcoholic Beverages and Tobacco	-0.03	6.89	0.88	24.49	30.42	31.60
Clothing and Footwear	3.92	-3.54	3.98	9.80	13.16	13.22
Housing. Water. Electricity. Gas and Other Fuels	2.56	2.26	2.71	51.31	39.77	39.99
Furnishings. household eq. maint. of the house	1.65	1.75	1.83	29.28	23.58	23.81
Health	0.48	0.70	0.35	35.21	43.46	43.26
Transport	2.77	4.82	2.79	25.52	35.08	35.10
Communication	1.48	2.60	2.16	21.23	25.66	26.51
Recreation and Culture	0.78	1.87	0.72	29.41	23.43	23.36
Education	17.90	8.62	14.19	66.10	53.44	48.62
Restaurants and Hotels	2.68	1.50	1.41	33.91	31.16	29.53
Insurance and financial services	-1.94	0.05	3.40	33.24	25.08	31.89
Miscellaneous Goods and Services	2.55	2.39	1.08	31.27	23.65	21.88

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Sep.25	Aug.26	Sep.26	Sep.25	Aug.26	Sep.26
CPI	3.23	1.84	1.84	33.29	31.51	29.73
Goods	2.79	1.02	1.63	28.13	26.19	24.77
Energy	1.24	5.46	6.25	34.73	39.23	46.11
Food and Non-alcoholic Beverages	4.62	0.22	-0.20	36.06	33.79	27.62
Unprocessed Food	5.53	-2.03	-2.33	37.53	34.14	24.15
Fresh Fruits and Vegetables	4.33	-8.18	-8.93	53.49	27.36	11.17
Other Unprocessed Food	6.35	2.03	1.58	28.21	38.81	32.59
Processed Food	3.90	1.99	1.40	34.33	33.54	30.33
Bread and Cereals	2.97	1.01	0.65	40.96	27.39	24.52
Other Processed Food	4.39	2.37	1.69	31.10	36.35	32.81
Goods excl. Energy and Food	1.92	0.54	1.96	20.58	17.51	17.57
Core Goods	2.11	-0.28	2.11	19.89	15.89	15.90
Clothing and Footwear	3.94	-3.62	4.01	9.10	12.84	12.91
Durable Goods (excl. Gold)	2.10	1.05	2.02	22.95	16.41	16.32
Other Core Goods	0.95	0.88	0.61	23.35	20.55	20.13
Services	4.10	3.08	2.15	44.66	40.28	37.65
Rent	4.39	3.04	3.10	69.10	43.11	41.34
Restaurant-Hotels	2.68	1.50	1.41	33.91	31.16	29.53
Transportation Services	6.28	4.98	0.24	35.99	52.44	43.78
Telecommunication Services	0.80	5.03	0.45	23.83	44.68	44.18
Other Services	5.04	3.22	3.48	46.09	38.94	36.88
CPI	3.23	1.84	1.84	33.29	31.51	29.73
A (CPI excl. seasonal products)	3.13	2.80	2.30	34.11	32.98	31.91
B (CPI excl. unpro. food. energy. alc. bev. tob., gold)	3.34	1.84	2.01	32.86	30.68	29.00
C (CPI excl. energy. food. alc. bev. tob. and gold)	3.22	1.81	2.14	32.54	30.07	28.70
D (CPI excl. unproc. food. alc. bev. and tobacco)	3.09	2.18	2.38	33.08	31.25	30.35
E (CPI excl. alcoholic beverages and tobacco)	3.36	1.71	1.87	33.65	31.57	29.67
F (CPI excluding administered prices)	3.35	1.72	1.88	32.53	29.96	28.10

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

Monthly D-PPI inflation slowed somewhat to 2.07%, while annual inflation declined from 27.95% to 27.4% (Table 3). Looking at the subcomponents of the PPI, although the price increase in the energy group lost momentum compared with August, it remained high at 3.55%. Since the beginning of the war, the cumulative price increase in the energy group has reached 40% (cumulative increase in D-PPI: 17.3%). Price increases in the other groups, meanwhile, were more balanced, ranging between 1.5% and 2.0%. The recent acceleration in durable consumer goods appears to have slowed somewhat.

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Sep.25	Aug.26	Sep.26	Sep.25	Aug.26	Sep.26
Domestic PPI	2.52	2.57	2.07	26.59	27.95	27.38
Intermediate Goods	1.48	1.84	2.04	22.27	27.41	28.11
Durable Consumption Goods	2.80	2.84	1.54	31.62	28.54	26.97
Non-durable Consumption Goods	5.07	1.51	1.59	33.21	30.28	25.97
Energy	0.78	6.99	3.55	25.17	27.33	30.82
Capital Goods	1.90	1.76	1.47	26.62	22.06	21.55

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.

