Macro note – October 2026 Inflation

In October, the Consumer Price Index (CPI) rose by 2.58% MoM and by 29.77% YoY, exceeding expectations. As food and clothing prices are driving inflation up significantly, the likelihood of year-end inflation remaining below 30% is diminishing.

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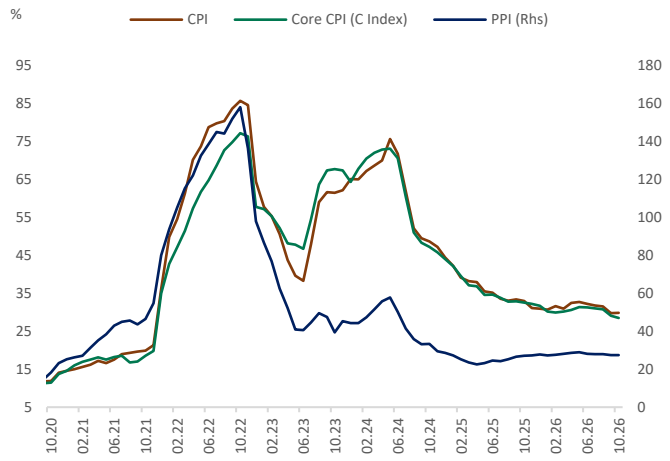
	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
CPI	2,4	2,45	2,58	29,54	29,60	29,77
PPI	-	-	1,65			27,41

The CPI rose by 2.58% in October compared with the previous month, whilst annual inflation stood at 29.77% (previously 29.73%). Market expectations were for inflation to rise by 2.40% month-on-month and 29.54% year-on-year (Seker Invest forecast was 2.45% month-on-month and 29.60% year-on-year). The data came in slightly above both market and our own expectations. Whilst the market reaction has been subdued, we do not expect to see a marked decline in the underlying inflation trend, as was the case last month. The main drivers pushing inflation upwards this month were food and clothing. We had noted that the decline in food prices in September would be offset in subsequent months. Indeed, this month, food contributed 0.84 percentage points to monthly inflation with a 3.5% increase. On the other hand, the volatile trend in clothing and footwear continues. It is following the trend of clothing and footwear inflation, which had been stable and mostly negative in previous months. Although there was a 12.58% increase this month, the annual rate remains at 13.38% – less than half the headline inflation rate. The real issue, however, lies in the persistent inflation in categories such as food, housing and transport, which carry the greatest weight in the basket. Housing recorded a 2.84% increase this month, whilst transport rose by 2.02%. The rigidity in what we refer to as 'core expenditure' items is slowing the pace of disinflation. In transport, energy prices and the impact of public finances/taxation are significant. In housing costs, inflation indexation has become entrenched. Steering the expectations channel is crucial. Despite adjustments made to education and rent, current levels remain very high. Whilst convergence in goods and services inflation continues, annual inflation has entered a period of stagnation. It is clear that positive shocks capable of creating a structural break are needed. Goods inflation stood at 25.65% year-on-year and services inflation at 36.56% year-on-year. The progress made is as important as the current situation; services inflation has fallen from levels of 97% to 37%. However, as we have highlighted in our previous reports, the levels of 25% for goods inflation, 35% for services and 30% for headline inflation have become entrenched. Any shift below these levels that would create a structural break will be driven more by the expectations channel than by monetary policy. Looking at the diffusion index for October, 134 sub-indices recorded an increase whilst 29 sub-indices showed a decline. The monthly changes in the three main expenditure groups with the highest weightings were as follows: a 3.5% increase in food and non-alcoholic beverages, a 2.02% rise in transport, and a 2.84% rise in housing. The contributions of these main groups to the monthly change were 0.84 percentage points for food and non-alcoholic beverages, 0.36 percentage points for transport, and 0.34 percentage points for housing. This index, calculated using the average inflation rate for food, housing and transport – which account for 52.46% of the CPI – rose by 33.19% year-on-year in October. Developments in price dynamics this month can be summarized as follows: of the 29.73% annual inflation rate, 17.62 percentage points stem from food, housing and transport. There is a 3.43-point difference between headline inflation and the basic necessities that make up the core of the consumer basket. In the B index (core inflation), which is the Special Comprehensive CPI Indicator, monthly inflation stood at 2%, whilst annual inflation reached 28.46%. Core indicators are performing significantly better than headline inflation. Price dynamics in volatile categories, however, are heavily influenced by seasonal and geopolitical developments. We are likely to see a slight upward deviation from the CBRT's forecasts for year-end inflation. The current oil price is significantly higher than the CBRT's forecast, and its impact on inflation is quite pronounced. Inflation stood at 0.87% and 0.89% in November and December last year, respectively. For inflation to reach these levels, an extraordinary positive shock would

be required this year. Even if the monthly rate were to fall from around 2% to 1% over the last two months, annual inflation would still stand at 30%.

Whilst producer prices rose by 1.65% month-on-month in October, the year-on-year change in the PPI stood at 27.41%. Looking at the sub-indices of the PPI, the year-on-year increases were 28.66% for intermediate goods, 23.25% for durable consumer goods, 25.12% for non-durable consumer goods, 33.42% for energy and 21.24% for capital goods. Month-on-month changes showed a 2.00% rise in intermediate goods, a 0.91% rise in durable consumer goods, a 1.74% rise in non-durable consumer goods, a 1.33% rise in energy and a 0.92% rise in capital goods. The PPI-CPI spread widened to -2.36 points (previously -2.35) and remains in negative territory (peaking at 78 points in October 2022). The pass-through of producer cost-driven inflation remains low. Inflation stickiness persists, driven more by one-off supply shocks than by cost and output prices.

Graph 1: CPI, PPI, and Core CPI (YoY %)



Graph 2: PPI – CPI Spread

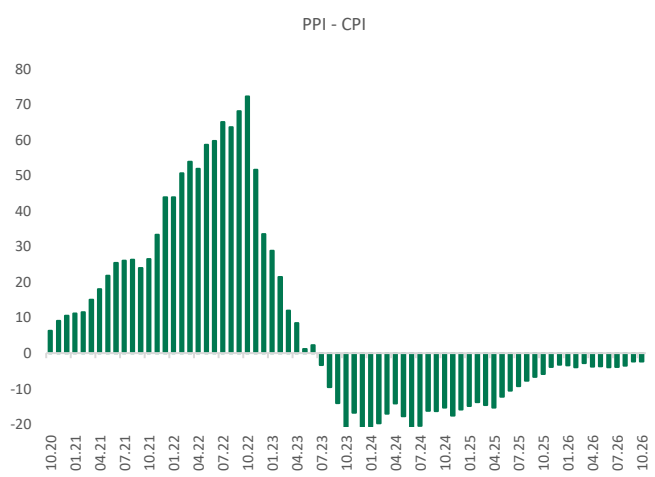


Table 1: Inflation and Sub-Components

Main expenditure groups	Weights	MoM(%)	Ytd (%)	YoY(%)
CPI	**100,00**	**2,58**	**27,52**	**29,77**
Food and non-alcoholic beverages	24,44	3,50	26,11	27,73
Alcoholic beverages and tobacco	2,75	0,18	25,61	28,73
Clothing and footwear	7,90	12,58	16,03	13,38
Housing, water, electricity, gas and other fuels	11,40	2,84	36,01	40,24
Furnishing, household equipment, routine maintenance of the house	7,92	0,82	20,07	23,00
Health	2,79	0,50	39,59	43,29
Transportation	16,62	2,02	35,41	36,39
Information and communication	3,10	1,15	22,64	27,33
Recreation, sport and culture	4,34	0,33	19,66	23,21
Education services	2,02	0,24	48,23	48,86
Restaurants and accommodation services	11,13	0,47	25,40	28,42
Insurance and financial services	1,07	0,59	32,92	31,41
Personal care, social protection and miscellaneous goods and services	4,494	0,32	17,11	20,86

In summary, the CPI rose slightly above expectations in October, increasing by 2.58% month-on-month, whilst annual inflation stood at 29.77%. Food and clothing prices were the two main drivers of inflation in October. We believe that a sustained monthly inflation rate of 1.6–1.8% or below is necessary for further interest rate cuts. Given the scope of monetary policy, measures that take financial stability into account as well as price stability will help reduce exchange rate volatility, thereby contributing to both risk premiums and macro-financial stability. Within the current outlook, we are raising our year-end 2026 inflation forecast to 31%. We would like to emphasise that we may update our inflation forecasts depending on developments in the monthly inflation rate and the course of monetary policy.

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