Turkey’s return to lower inflation opens the door to a December rate cut

Turkey's CPI surprised to the downside in October as annual inflation made a return to its downward trajectory. All of this supports the case for another rate cut in December

Clothing made the second-largest contribution to inflation in October, with its monthly increase coming in higher than we've seen for the last five years

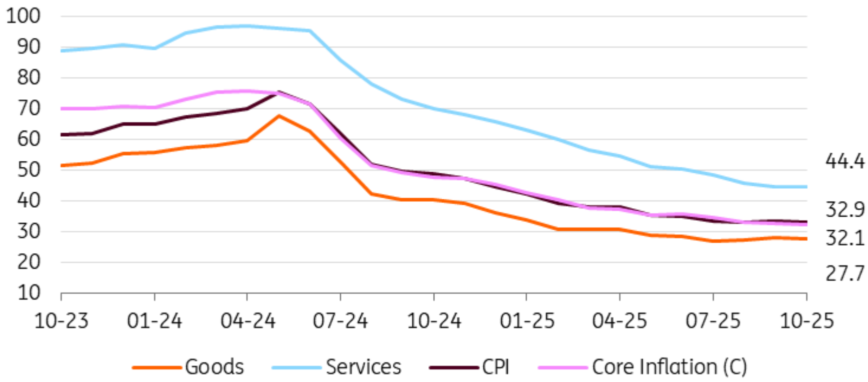
Turkey's October CPI inflation came in at 2.55% month-on-month, lower than the consensus estimate of 2.8% and close to our call of 2.6%. This was mainly due to unprocessed food and some non-food groups. As a result, after a temporary setback in September, annual inflation has returned to its downtrend with a decline from 33.3% to 32.9%.

Year-to-date inflation, on the other hand, reached 28.6% versus the Central Bank of Turkey's 25-29% forecast range for 2025, according to the latest inflation report. The new report (due to be published on 7 November) will shed more light on the bank’s assessment of the inflation outlook and its stance in the period ahead.

PPI increased by 1.6% MoM, with a significant portion of the monthly change attributable to food products alone. Annual producer inflation inched up to 27% YoY and has remained on a gradual uptrend since April. However, the current level of PPI inflation indicates that cost pressures remain moderate, as the FX basket showed only a very limited average increase of 0.9% MoM in October and its cumulative increases over the last 12 months remained at 27.0%.

Core inflation (CPI-C) rose by 2.4% MoM, bringing the annual rate down to 32.5% on the back of a large base in 2024. Preliminary seasonally adjusted data – set to be published by TurkStat and closely monitored by the CBT – indicates that in three-month moving average terms, the underlying inflation trend is likely to remain elevated last month without showing a concrete improvement.

Inflation outlook (%)



Source: TurkStat, ING

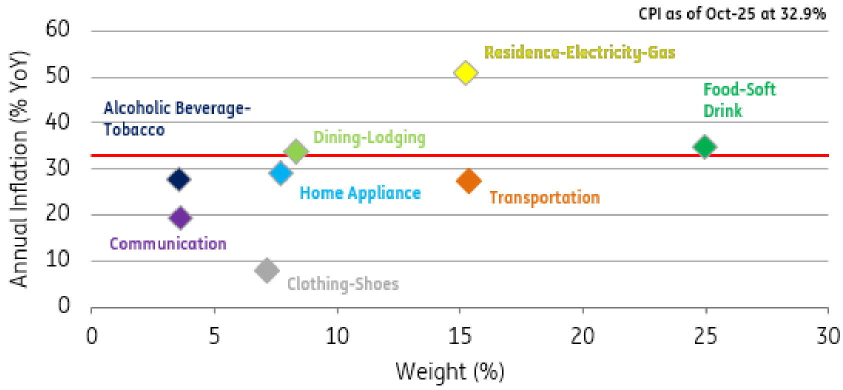
Breaking down the data:

- The food group made the largest contribution to monthly inflation (0.83ppt). The price increase in processed food has remained strong, exceeding the level seen in October 2024. However, unprocessed food turned out to be one of the factors driving lower-than-expected headline inflation; relatively benign fresh fruits and vegetables inflation proved significantly lower than it was in the same month of 2024. Annual food inflation stood at 34.9%, versus the CBT's assumption for this item at 26.5% for this year.
- The second major contributor was clothing, with a 0.69ppt impact due to seasonality. The monthly increase was above the last five years' October average, suggesting higher pricing pressures in this group.
- This was followed by the housing group (0.45ppt) driven by rents, though the monthly rent inflation has lost momentum compared to recent months.

As a result:

- Goods inflation fell to 27.7% YoY, while core goods inflation also improved to 19.2% YoY.
- Services inflation continued to decline, standing at 44.4% YoY. This is the lowest level seen since early 2022, though it's still elevated, illustrating the extent of inertia in this category.

Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, inflation has returned to a downtrend, but the disinflation process will remain challenging in the near term. We anticipate that the annual inflation rate could be around 32% by the end of 2025.

For next year, we now expect inflation to decelerate to around 22% (versus the CBT's interim target at 16%) with the balance of risks tilted to the upside. The CBT has responded to the deterioration in the inflation outlook by slowing rate cuts and further downsizing the pace to 100bp in October from 250bp in September and 300bp in July.

Meanwhile, the October data supports another rate cut in December, the size of which will also be determined by November inflation. With another expected 100bp cut in December, we expect the policy rate to be at 38.5% at the end of this year.

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