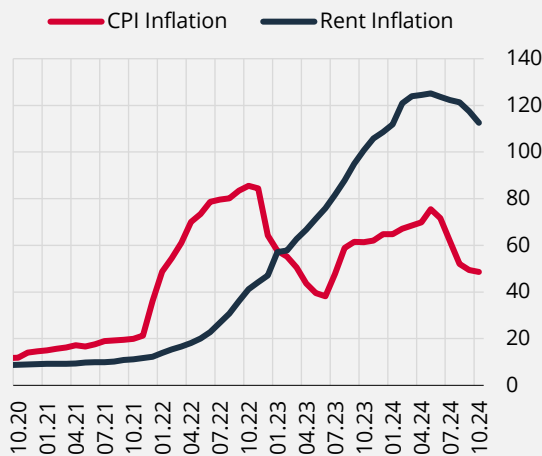


Box 2.6

Rent Inflation and RPS Leading Indicator

The rent index, which is calculated based on actual rents paid by tenants and holds a 5.06% weight in the CPI for 2024, has been higher than the CPI since the beginning of 2023 (Chart 1). The rental component has recorded the highest increase among main categories in CPI, thereby limiting the decline in inflation. In this Box, the structure and recent trajectory of rent inflation will be analyzed, the RPS, one of the leading indicators, will be presented and the course of rent inflation will be evaluated taking this indicator into consideration.

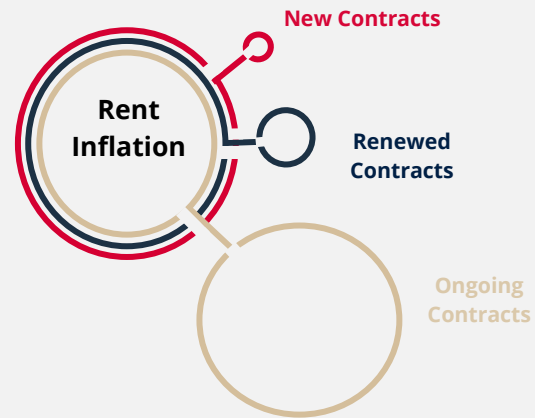
Chart 1: CPI and Rent Inflation*



Source: TURKSTAT.

* CPI inflation and rent inflation represent the annual percentage changes in the CPI and in its sub-index for rent.

Figure 1: Composition of Rent Inflation*



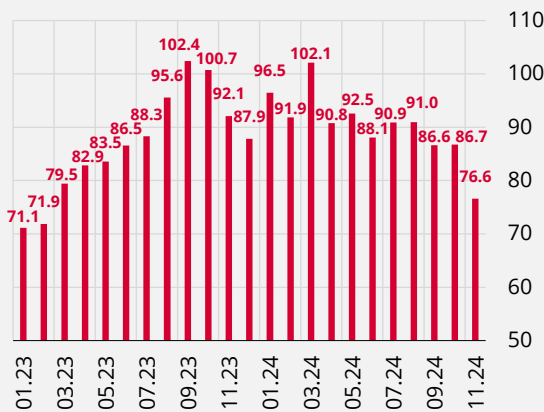
Source: CBRT, TURKSTAT.

* The sizes of the figures are proportional to the share of the respective component.

Rent inflation is determined by the price dynamics in three main categories: (i) new contracts (new tenant), (ii) renewed contracts (existing tenant with rent updates) and (iii) ongoing contracts (existing tenant without rent updates) (Figure 1). Since the ratio of new contracts to total contracts is minimal, price movements in new contracts have a limited impact on rent inflation. The tendency to index renewed contracts to past inflation and the low frequency of updates contribute to inertia in rent inflation. Prices and increase rates in new and renewed rental contracts may also be reflected in ongoing contracts as they serve as benchmarks in the future.

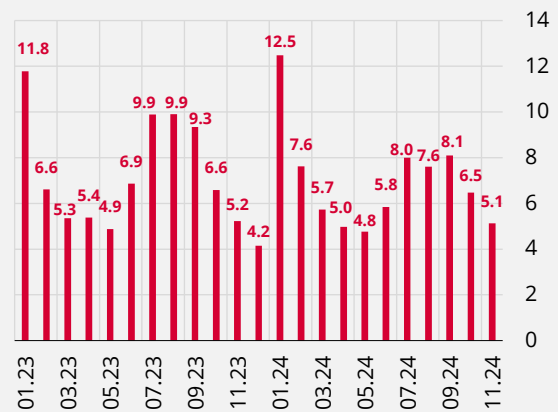
CBRT monitors a range of indicators with distinct features to track rent inflation and assess its future trajectory. One of these indicators is rental payments made via the RPS, which operates under the Electronic Funds Transfer (EFT) system for Turkish lira transfers between customers. RPS data allow for the calculation of increase rates in both new and renewed contracts, as well as for inferences about the renewal rate of ongoing contracts (Charts 2 and 3).

The price increase rate in new and renewed contracts remained within the 90-100% range until August 2024. Recently, the change in rental prices has shown a deceleration, reaching 76.6% as of the first seven days of November 2024 (Chart 2). The contract renewal rate typically peaks in January each year, with high levels in the third quarter, followed by lower levels in the last quarter (Chart 3). Similar seasonal effects are also observed in rent inflation reported by TURKSTAT.

Chart 2: RPS Rental Price Changes in New and Renewed Contracts* (%)

Source: CBRT.

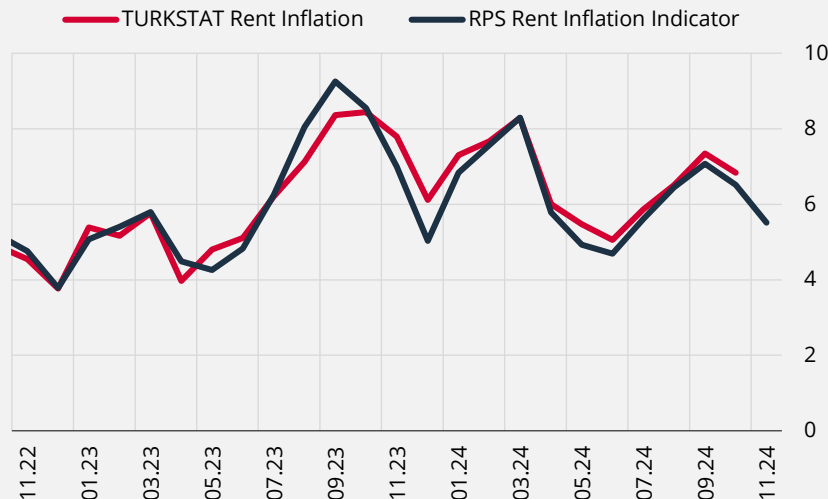
* Data covers the first seven days of November.

Chart 3: RPS Contract Renewal Rate* (%)

Source: CBRT.

* The number of followed contracts varies monthly. Data covers the first seven days of November.

A leading indicator for monthly rent inflation in the CPI can be constructed by using the rental price change rate in new and renewed contracts and the renewal rate in ongoing contracts. The RPS rent inflation indicator provides insights into current rent inflation and serves as an input for short-term inflation forecasts. Due to differences in coverage and methodology, as it excludes certain transfer types such as cash payments, this indicator may diverge from TURKSTAT rent inflation. However, the high number of traceable rental transactions in the EFT system partially alleviates coverage-related issues. Indeed, as shown in Chart 4, this leading indicator, while occasionally diverging from TURKSTAT rent inflation, generally aligns closely in terms of level and trend (Chart 4).

Chart 4: TURKSTAT Rent Inflation and RPS Rent Inflation Indicator* (Three-Month Moving Average, Monthly % Change)

Source: CBRT, TURKSTAT.

* Calculated using RPS and includes new, renewed and ongoing contracts. Data covers the first seven days of November.

In sum, considering the downward trend in contract increase rates in the RPS leading indicator since March 2024 and the moderation of the contract renewal rate in the last quarter, rent inflation is expected to decelerate in the last quarter of 2024.