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Impact of the (Dis)inflation Process on Macroeconomic Parameters: A Case Study of Türkiye

(Dez)enflasyon Sürecinin Makroekonomik Parametreler Üzerindeki Etkisi: Türkiye Örneği

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ABSTRACT

The main objective of this study is to examine the effects of Türkiye's disinflation process from a socio-economic perspective. The study highlights the challenges Türkiye has faced in implementing disinflationary policies and its ongoing struggle to manage exchange rate fluctuations. Socio-economic outcomes such as the wage-price spiral and the price-price spiral as well as consumers' behavioral responses to the inflationary environment are also discussed. Using data for the 2020–2025 period, we examine the dynamics between inflation, wages, profits, and expectations by drawing on both official statistics and our own calculations. The evidence shows that inflation expectations are slow to adjust, reinforcing conflict inflation. We argue that this case contributes to macroeconomic theory by demonstrating how expectation rigidity and profit-driven markups complicate the effectiveness of disinflation policies. Although official data point to a downward trend in inflation, both consumers and producers continue to display behaviors consistent with high inflation expectations, and the market has yet to enter a price-setting process aligned with disinflation. In addition to this economic outlook, geopolitical uncertainties have created a fragile environment, making it premature to conclude that disinflation policies have achieved success. The study concludes that sustainable disinflation requires both broad social consensus and strong political will.

Keywords: *inflation, disinflation, wage-profit, consumer behavior*

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ÖZ

Bu çalışmanın temel amacı, Türkiye'nin dezenflasyon sürecinin etkilerini sosyo-ekonomik açıdan incelemektir. Çalışma, Türkiye'nin dezenflasyon politikalarını uygularken karşılaştığı zorlukları ve döviz kuru dalgalanmalarını yönetme konusundaki süregelen mücadelesini vurgulamaktadır. Ücret-fiyat sarmalı ve fiyat-fiyat sarmalı gibi sosyo-ekonomik sonuçlar ve tüketicilerin enflasyonist ortama karşı davranışsal tepkileri de ele alınmaktadır. Çalışmada 2020-2025 verileri kullanılarak, hem resmi istatistiklere hem de kendi hesaplamalarımıza dayanarak enflasyon, ücretler, kârlar ve beklentiler arasındaki dinamikler test edilmiştir. Kanıtlar, enflasyon beklentilerinin yavaş uyum sağladığını ve çatışma enflasyonunu güçlendirdiğini göstermektedir. Bu durumun, beklenti katılığının ve kâr odaklı göstergelerin dezenflasyon politikalarının etkinliğini nasıl zorlaştırdığını göstererek makroekonomik teoriye katkıda bulunduğunu savunuyoruz. Resmi veriler enflasyonda düşüş eğilimine işaret etse de, hem tüketiciler hem de üreticiler yüksek enflasyon beklentileri ile tutarlı davranışlar sergilemeye devam etmektedir. Sonuç olarak piyasa henüz dezenflasyonla uyumlu bir fiyat belirleme sürecine girmemiştir. Mevcut ekonomik görünüme ek olarak, jeopolitik belirsizlikler kırılgan bir ortam yaratmış ve bu da dezenflasyon politikalarının başarıya ulaştığı sonucuna varmak için erken olmuştur. Çalışma, sürdürülebilir dezenflasyonun hem geniş toplumsal mutabakat hem de güçlü siyasi irade gerektirdiği sonucuna varmaktadır.

Anahtar kelimeler: *enflasyon, dezenflasyon, ücret-kâr, tüketici davranışları*

1. Introduction

Türkiye has witnessed numerous disinflations attempts in its republican history, most of which were supported by stand-by arrangements with the International Monetary Fund (IMF). These agreements often prioritized policies aimed at slowing down the depreciation of the Turkish lira (TL) because of the pass-through effect between exchange rates and inflation in the country. As a result, policy prescriptions favoring the appreciation of the Turkish lira or reducing its rate of depreciation were commonly adopted. However, experience has shown that IMF-supported programs -intended to mitigate the risks of foreign trade deficits and current account deficits arising from exchange rate interventions- have frequently resulted in failures and economic crises.

The fact that 90% of Türkiye's imports consist of raw materials, intermediate goods, and investment goods — including energy —demonstrates that the link between exchange rates and inflation is real. Meanwhile, the widespread use of both national currency and foreign currencies in commercial transactions and daily life has been accepted as an "indispensable" instrument by economic administrations to manage exchange rate movements.

When governments implement disinflation policies by simultaneously controlling exchange rates and maintaining high interest rates, effective demand cannot be curbed. As a result, private consumption, public spending, and foreign trade continue to grow while declining investments lead to a persistent increase in the general price level and a distortion in the relative price equilibrium.

As a result of the continuous rise in costs for goods and services producers and the persistent increase in the cost of living for consumers, price increases have not contributed positively to profitability, and the ongoing rise in wages has not improved employees' welfare. While domestic residents' purchasing behaviors deteriorated due to a lack of confidence in the disinflation policy, firms' pricing behaviors were similarly affected by supply and cost-related risks.

The interest rate cut initiated in Türkiye on September 23, 2021, led to a rapid increase in inflation.[4] The decision to lower the policy interest rate disrupted economic balances by triggering inflationary pressures. In October 2022, the Consumer Price Index (CPI) rose by 3.54% monthly, bringing annual inflation to a peak of 85.52%. A downward trend in inflation began in 2023, following a decision to raise interest rates again; however, by the end of 2023 inflation had only declined to 48.63%, falling short of expectations

The Central Bank revised its year-end inflation forecast for 2024 from 38% to 44%. Actual inflation in 2024, closely aligned with the Central Bank of the Republic of Türkiye's (CBRT) revised projection, reached 44.38%. Nevertheless, the slow pace of disinflation poses a continuing risk in that inflation may negatively affect the economic outlook for 2025.

As interest rates remained well below the inflation rate, economic actors turned to foreign currency, leading to a rise in the exchange rate. When it became clear that lowering interest rates amid rising inflation was misguided, the disinflation process was initiated. This period was marked by the statement that "Türkiye has no choice but to return to a rational ground." Signals were given indicating that there would be a return to orthodox policies in the "new period".

Thus, the greatest challenge for an economy entering a disinflation process is breaking inflationary expectations and establishing confidence among both consumers and producers. From that perspective, it is important to determine whether the primary driver of inflation in Türkiye is supply-side or demand-side. Demand-driven inflation arises when the demand for goods and services increases faster than the supply provided by production and imports. If production cannot meet this rapid increase in demand, prices begin to rise. Similarly, increases in the costs of inputs used in the production process are reflected in final prices and contribute to inflation. The inflation experienced in Türkiye is a combination of both cost-push and demand-pull factors. As cost increases are passed on to prices, inflation intensifies. Moreover, inflationary expectations lead to an increased demand, further pushing prices upward (Eğilmez, 2022).

Disinflation refers to a decline in the rate of price increase over time. Since inflation is typically regarded as a monetary phenomenon, monetary policy plays a central role in disinflationary efforts. The primary tool available to central banks in this process is interest rates.[5] However, for anti-inflationary measures to be effective, fiscal policy must also align with monetary policy. Fiscal policy practices that complement monetary policy are considered to be part of a holistic approach in combating inflation. In this context, central banks, as the executors of monetary policy, use the interest rate tool. Holistic policy frameworks view inflation as an outcome shaped by various transmission mechanisms within the economy. Factors such as the structure of the financial sector, capital flows, the degree of economic openness, and the level of dollarization influence the relationship between interest rates and inflation. These dynamics can be analyzed through the case of the Turkish economy. In this regard, this study examines the effects of the disinflationary policies initiated in Türkiye in June 2023 on macroeconomic parameters.

[4]The policy interest rate refers to the borrowing rate set by central banks to either supply liquidity to banks in need or to absorb excess liquidity from the financial system.
[5]For further details on Central Bank operations in Türkiye, refer to Alkin (2025), pages 110–115.

2. Methodology

This research evaluates the impact of disinflation policies on macroeconomic parameters through a descriptive analysis approach. Data sets compiled by the authors via the Verimetrik application from official sources—including the Turkish Statistical Institute (TURKSTAT), the Electronic Data Delivery System of the Central Bank of the Republic of Türkiye (CBRT-EVDS), the Ministry of Labor and Social Security (MoLSS), and Borsa İstanbul (BIST)—cover the 2020–2025 period on a monthly basis. Graphical analyses highlight time trends, abrupt changes, and breakpoints associated with policy implementation periods. Rather than using empirical tests, the descriptive approach clarifies the current situation and more effectively illustrates the policy impacts. Within this framework, disinflation policies designed to tackle one of Türkiye's chronic economic challenges—namely inflation—are critically examined using up-to-date data.

The research pursues two main objectives. First, it evaluates the outcomes of the disinflation process in Türkiye under current economic conditions and assesses the implications for economic policymaking. Second, it offers a broader perspective by examining both the economic and social effects of disinflation policies. By doing so, it synthesizes the theoretical and practical dimensions of disinflation within a socio-economic framework, thereby contributing to the literature.

Structurally, the article consists of two parts. The first part analyzes the wage–price and profitability relationship during the disinflation process, combining theoretical perspectives with empirical data. The second part focuses on consumer behavior in an inflationary environment, examining consumer price perceptions, purchasing decisions, and key marketing strategies that emerge under inflationary conditions to explain the gap between inflation expectations and realized inflation.

3. Literature Review

A prominent theme in the disinflation literature is the emphasis on central bank independence. Mishkin (2007) identifies central bank independence and accountability as essential prerequisites—alongside fiscal and financial conditions—for achieving price stability. Alesina & Summers (1993) underscore this point with their well-known finding that "greater autonomy correlates with lower inflation". The degree of independence varies substantially across countries. Although central bank independence promotes price stability, Romer & Romer (2024) argue that it has no measurable effect on real economic indicators such as growth, unemployment, or real interest rates. Their study nevertheless shows that the strength of policy commitment is one of the key determinants of success in disinflationary initiatives.

Another major strand of research examines how wage rigidities shape disinflation processes. The New Keynesian model highlights the importance of balancing inflation stabilization with the maintenance of welfare (Blanchard & Galí, 2007). Combating inflation is a deliberate policy choice aimed at stabilizing prices and generally requires a trade-off between inflation control and economic growth. Success depends on central bank credibility, the timing of policy actions, and the management of inflation expectations. Within this framework, Ball (1994) raises the question "how much output or employment loss is acceptable?" through the concept of the Sacrifice Ratio. Supporting this view, Fares (2025) emphasizes the need to reconcile societal demands with macroeconomic stability to address high inflation effectively.

The literature also debates how quickly central banks should pursue disinflation. Ambrocio et al. (2022) show that the Euro area has preferred a slower pace of disinflation than the United States. A widely shared interpretation of the recent inflation episode is that U.S. inflation has been largely demand-driven, whereas supply shocks have played a greater role in the Euro area (Furman, 2022; Lagarde, 2022). Consequently, the ECB may have been in a less favorable position than the Fed, leading policymakers in the Euro area to adopt a more cautious approach to disinflation.

Research on Türkiye likewise highlights the debate over the Central Bank's interest rate policies. Şimşek & Kadılar (2006) stress the importance of strengthening central bank credibility and focusing on financial stability. This conclusion is reinforced by Tayyar (2019) and Olgun (2022), who argue that credibility is critical to the effectiveness of monetary policy. Çakmaklı & Demiralp (2020) further demonstrate that the Central Bank's credibility has declined markedly over time. Their study draws attention to the Bank's disappointing performance in meeting inflation targets and its vulnerability to political pressures.

Inflation expectations—defined as the rate at which consumers, firms, and investors anticipate future price increases—play a central role in monetary policy decisions. Actual inflation is partly shaped by these expectations: all else being equal, a one-percentage-point rise in expected inflation tends to translate into a one-percentage-point increase in actual inflation (Lee et al., 2020). Given that actual inflation has diverged significantly from targets in many countries, recent research has focused on whether expectations remain anchored. Economic outcomes thus reflect the realization of earlier forecasts, as decision-makers act on the information and projections available to them. Alpağut (2023) finds a negative relationship between variables and identifies one-way causality from expected to actual inflation.

Finally, Lorenzoni & Werning (2023) interpret the recent inflation episode through a New Keynesian model incorporating price and wage rigidities and inelastic non-labor inputs. Their analysis shows that a gap emerges when firms seeking to offset high non-labor costs anticipate declining real wages, while workers simultaneously expect real wages to rise. This tension generates a wage–price spiral that can persist even if input prices fall, as long as the initial relative scarcity of non-labor inputs remains.

4. Analytical Framework of the Disinflation Process

4.1. Wage-Price and Profitability Relationships in the Disinflation Process

Wages and prices are closely linked, meaning that price shocks can trigger significant domino effects. Inflationary expectations lead to upward pressure in both price-setting and wage determination processes. This phenomenon, known as the wage–price spiral, results in further inflation fueled by those expectations. As a result, the mutually reinforcing cycle between rising prices and wages produces a twofold effect: first, it perpetuates inflation through the wage–price spiral; second, it generates a price–price spiral, in which initial price increases lead to further price hikes.

4.1.1. Wage-Price Spiral

On the firm side, prices are set according to the principle of profit maximization. Pricing behavior is one of the main drivers of inflation, often influenced by inflationary expectations. Both producers and consumers engage in purchasing and borrowing decisions based on anticipated price increases. Naturally, wage costs are reflected in prices; however, the issue lies in disproportionate price hikes. While wages are typically set periodically and unilaterally—without direct input from consumers— prices are determined freely by the market. In economic environments dominated by inflationary expectations, the interaction between wage and price setting leads to a wage–price spiral.[6] Wage earners demand higher increases to preserve their purchasing power, while firms raise prices disproportionately in anticipation of rising costs, thereby intensifying the wage–price spiral.

In the fight against inflation, every segment of society is expected to make sacrifices. However, this burden is typically borne by those with fixed incomes. As inflation erodes purchasing power, wage earners must demand wage increases at least equal to the inflation rate in order to maintain—or ideally improve—their real incomes. Yet, they have limited influence over the wage-setting process. Wages are generally determined for a fixed period (such as one or two years) and remain unchanged during that time. They are largely established through collective bargaining agreements and decisions made by minimum wage commissions. In response to inflation, workers seek substantial wage increases in collective negotiations to shield themselves from its adverse effects. In countries where both labor and employer unions are strong, these negotiations tend to be prolonged, often leading to heightened social tension, widespread strikes, and lockouts.

Wage increases are often restricted on the grounds that they may trigger cost-push inflation. However, research shows that wage hikes do not significantly fuel inflation. According to Eğilmez (2023), who analyzed the impact of a 49% year-end minimum wage increase in 2023, each 1% rise in the minimum wage raised the Consumer Price Index (CPI) by only 0.07%. Based on this estimate, the 49% increase in the minimum wage is expected to result in a short-term inflation increase of approximately 3.5%, and about 6% in the long term.

Fares (2025), taking an institutional perspective, argues that effective inflation control relies on cooperation between workers and capitalists who have reached an implicit agreement on income distribution. Successful disinflation therefore requires adjustments that remove factors distorting or undermining income distribution. In addition, a substantial real appreciation may push a small economy into financial instability, leading to large current account deficits.

Moreover, examining distributional dynamics—specifically the respective shares of labor and capital in national income—can reveal which social segments contribute more to inflation. Based on the results of the latest income distribution data from Turkish Statistical Institute (TURKSTAT) (2024) it has been observed that the share of the highest 20% income group decreased by 0.6 points compared to the previous year, falling to 48.1%, while the share of the lowest 20% increased by 0.2 points, reaching 6.3%.

[6]For more on the wage-price spiral, see Ceylan Ataman (1996).

The Gini coefficient was estimated at 0.413, marking a 0.007-point decrease from the previous year. The P80/P20[7] ratio—considered a more meaningful indicator of income distribution than the Gini coefficient—declined by 0.2 points to 7.7, while the P90/P10 ratio dropped by 0.5 points to 13.3. A P80/P20 ratio above 7 is generally viewed as a sign of significant income inequality.

In the case of Türkiye,[8,9] this inequality becomes even more pronounced at the decile level, with the P90/P10 ratio reaching 13. To achieve a fairer income distribution, it is recommended that countries strive to reduce inequality to the point where the bottom 40% of the population earns nearly as much as the richest 10% (World Economic Forum, 2024).

In addition to income inequality, data show that the proportion of people living in poverty or at risk of social exclusion—those with incomes at or below the subsistence level—stands at 29.3% in Türkiye.[10] This rate is even higher among certain age groups: it reaches 38.9% in the 0–17 age group, 26.3% among those aged 18–64, and 23.3% for individuals aged 65 and over (TURKSTAT, 2024).

What becomes clear when the above-mentioned findings are considered alongside the trend illustrated in Figure 1 is the following: the hunger threshold—calculated monthly by TÜRK-İŞ as the minimum food expenditure required for a family of four—consistently exceeds the legally defined minimum wage. This persistent gap highlights the need for a more in-depth analysis of the disinflation process that has been in place since June 2023.

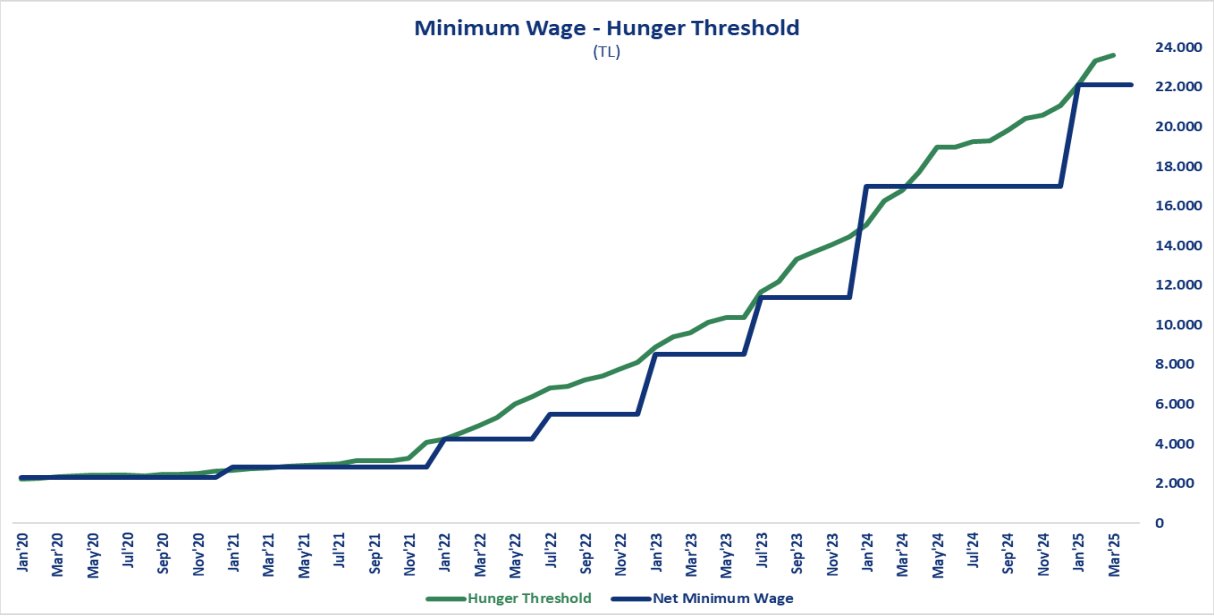

Figure 4.1. Comparison of Minimum Wage and Hunger Threshold in Türkiye (2020–2025)

Source: Compiled by Verimetrik from data of the Ministry of Labour and Social Security of the Republic of Türkiye (MoLSS) and TÜRK-İŞ.

[7]P80/P20 is the ratio of the highest income earners to the lowest income earners of the 20% of society.
[8]The P80/P20 ratio is calculated as the ratio of the income share held by the highest-earning 20% of the population to that held by the lowest-earning 20%. For comparison, countries with more equitable income distribution show significantly lower P80/P20 ratios: 4.0 in Norway, 3.9 in Finland, 3.5 in the Czech Republic, and 3.2 in Slovakia (Euronews, 2024).
[9]An illustrative benchmark for a more equitable income distribution can be seen in the P80/P20 ratios: 4.0 in Norway, 3.9 in Finland, 3.5 in Czechia, and 3.2 in Slovakia (Euronews, 2024).
[10]The average annual equivalized household disposable income for one-person households was 223,859 TL, while for households consisting of a single nuclear family, this figure was 192,110 TL. The household type with the lowest annual equivalized household disposable income was households consisting of at least one nuclear family and other people, at 146,828 TL (TURKSTAT, 2024).

In this context, it can be argued that wage increases are not substantial enough to significantly boost consumption or production costs and therefore do not make a major contribution to inflation.

In an inflationary environment, rising prices may encourage firms to further expand their profit margins, leading to a price–profit cycle. In such cases, a price–price spiral—or, more specifically, a price–profit spiral—can emerge, potentially making inflation more persistent and chronic than a typical wage–price spiral.

4.1.2. From Wage-Price Spiral to Price-Price Spiral or Price-Profit Cycle

It is necessary to monitor the risk of a price-profit spiral in order to offer insights into how companies shape the economy. Some manufacturers may use the uncertainty created by high and volatile inflation to increase their profit margins beyond what is necessary to cover rising costs. Increases in profit margins not only raise prices in their own sectors but also spread throughout the economy via sectoral interconnections.

When labor responds to rising prices by seeking to protect real wages, it sets off a wage–price spiral that further intensifies inflation. As a result, inflation disrupts industrial relations and makes it difficult to implement rational wage systems due to income disputes between workers and employers.

This suggests that any shock triggering inflation in Türkiye—such as depreciation of the Turkish lira or rising global commodity prices—disrupts firms' pricing behavior and that increases in unit profitability further fuel inflation.

While profits alone do not fully explain the recent inflationary dynamics, disregarding profit trends during this period significantly weakens inflation analyses. Efforts to preserve real wages, in turn, activate the so-called "conflict mechanism" dynamic.

4.1.3. Inflation Expectations

The fact that inflation expectations among various segments, as shown in Figure 2, are not declining as rapidly as desired indicates that the disinflation process has failed to manage expectations effectively following the end of the base effect. The persistence or deterioration of expectations at elevated levels among the real sector and households signals potential shifts in both purchasing and pricing behaviors. This, in turn, reflects a complex interplay between the wage–price, price–price, and price–profit cycles, where cause-and-effect relationships have become increasingly blurred.

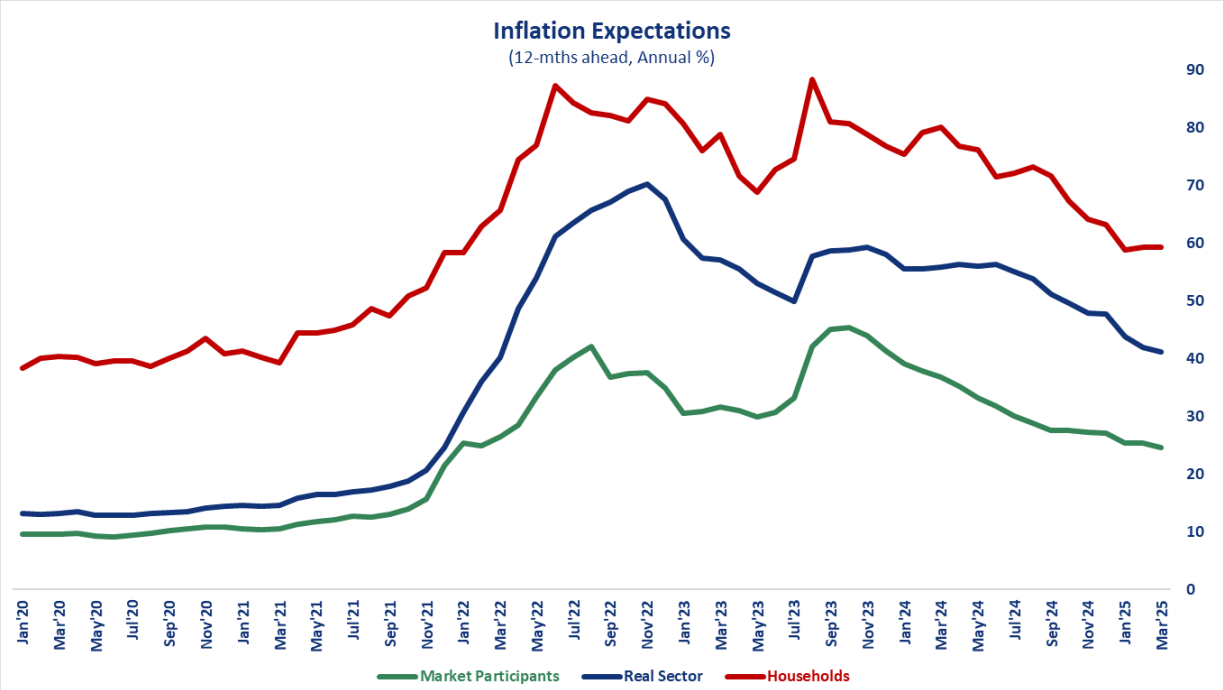

Figure 4.2. Trends in Inflation Expectations Across Different Economic Actors (2020–2025)

Source: Compiled by Verimetrik from Central Bank of the Republic of Türkiye (CBRT) data.

As stated in previous sections, the real sector's increasing reliance on foreign currency loans—rather than Turkish lira (TL) loans—for financing or lowering financing costs, due to the restrictions imposed by the Central Bank and the Banking Regulation and Supervision Agency (BRSA), indicates that firms are forced to bear significant exchange rate risk. The persistently low profitability of firms and the continuous decline in equity-to-total-assets ratios suggest that companies are attempting to survive by making highly risky financial choices. Although exchange rates have remained below inflation levels due to Central Bank policies, firms tend to reflect exchange rate risks in their pricing whenever market conditions allow. As shown in Figure 3, the real sector's foreign exchange position deficit in Türkiye has now surpassed its level during the pandemic period.

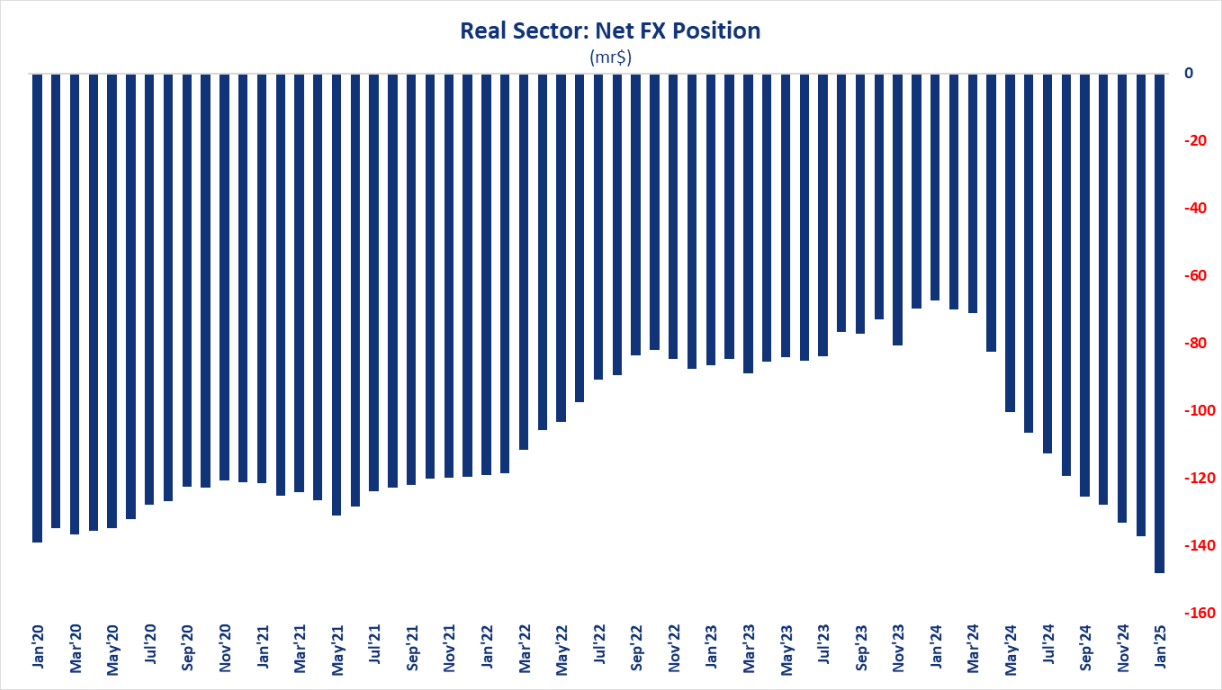

Figure 4.3. Real Sector: Net Foreign Exchange Position (2020-2025)

Source: Compiled by Verimetrik from CBRT data.

Figure 4.4 illustrates how official inflation and exchange rate movements have become increasingly detached from wage growth and the cost of living. This divergence indicates that the real sector has lost much of its competitive edge. In particular, producer-exporters are reportedly unable to set prices effectively under the current low exchange rate policy and have become unprofitable due to rapidly rising input costs.

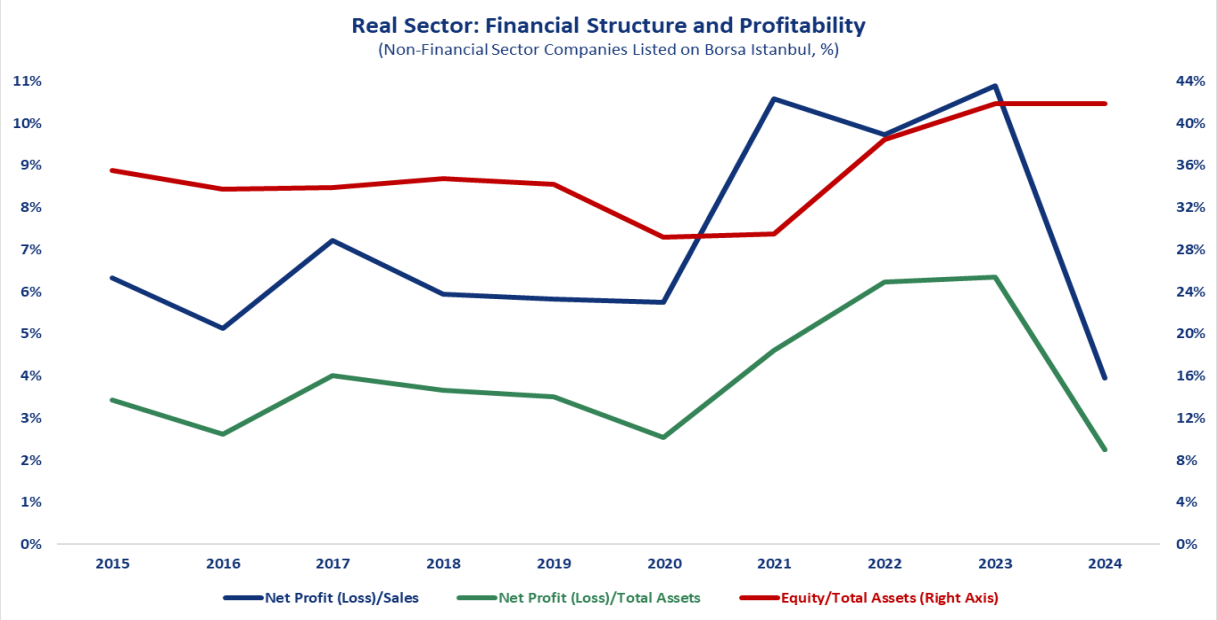

Figure 4.4. Financial status of publicly traded real sector companies during the disinflation process (2015–2024)

Source: Calculated by Verimetrik from the financial statements of the non-financial sector of Borsa Istanbul (BIST)

4.1.4. Financial Structure and Profitability

To transparently analyze the impact of the disinflation process on companies, the financial data of publicly traded firms in the real sector —as presented in Figure 4—were used. Figure 4, based on publicly available information from companies that represent a significant share of employment, reveals that the disinflation process initiated in 2023 disrupted the financial structure of firms. From this perspective, it can be argued that the disinflation process has not established balance in the economy; on the contrary, it has destabilized existing structures and caused both pricing and purchasing behaviors to deviate from their normal patterns.

To identify the root causes of these distortions, it is useful to examine the behavior of consumers and firms in inflationary environments—or during disinflation periods that have failed to achieve their intended outcomes, as previously discussed.

4.2. Consumers in an Inflationary Environment

In times of inflation, marketing activities are particularly influenced by the overall economic environment. In such times, effective management of customer relations is crucial for retaining existing customers and winning back those who have turned to other brands or companies (Erdoğan & Gürbüz, 2023, p. 4).

Consumers are the group that directly experiences the effects of inflation. The pressures caused by inflation and the resulting complaints play a significant role in shaping governments' economic policies, often swinging between populist and rational decisions. Therefore, the phenomenon of inflation should be thoroughly analyzed by all segments of society. In countries like Türkiye, where income distribution is unequal, the middle-income group is gradually shrinking, while the very rich and the very poor continue to coexist. Inflation significantly reduces the purchasing power of the low-income group, while causing little to no change for the high-income group. Consequently, a comprehensive inflation analysis evaluating both groups together can be misleading in such contexts. Likewise, inflation affects price perceptions differently across brands and market segments.

The effects of inflation may also vary across sectors. The prices of some products may rise more than others. Indeed, when considering changes in product prices, there are differences between the inflation figures—and thus the observed price increases—for products included in Türkiye's official inflation basket and those excluded from it. Therefore, when determining strategies to address the impact of inflation on companies, it is important to adopt approaches that build an overall picture from their constituent parts rather than relying on broad generalizations. Periods of inflation are when companies have the greatest need to understand their price elasticity. In other words, it is crucial for firms to know how much a one-unit change in price will affect demand.

4.2.1. The Relationship Between Consumers' Price Perception and Purchase Decisions

Price perception sensitivity is closely linked to the economic environment. The impact of price perception on purchasing decisions tends to increase, particularly in countries facing economic hardship. Although various factors beyond price influence purchasing behavior, price becomes a primary concern in countries where purchasing power is constrained by low per capita income and unequal income distribution.

It is difficult to assume that there is a significant difference in how consumers perceive inflationary and disinflationary periods. Analyzing such periods solely in terms of either inflation or disinflation can be misleading from the perspective of consumer perception. Disinflation refers to a period in which prices continue to rise, but at a slower pace. Consumers typically perceive these prices as still increasing compared to previous purchase periods. As there is no conclusive empirical evidence, it is not easy to claim that consumers perceive disinflationary periods differently from inflationary ones. In both cases, prices are still rising for consumers—even if the pace of increase has slowed.

As it becomes more difficult for individuals to maintain their financial stability, their sensitivity to price perception increases. Here, price perception does not refer to the actual market price. Two consumers exposed to the same price may perceive it differently (as high, low, or reasonable). The concept of price perception refers to the subjective value placed on the price—particularly the perceived significance of the profit margin added to a product's cost in the consumer's mind.

In this context, price perception is not only reflected in the act of refraining from purchasing despite having the financial means—it can also manifest as the complete inability to make a purchase, due to a lack budget. There is a clear distinction between choosing not to buy a product despite being able to afford it, and being unable to buy it at all due to its cost. Therefore, price remains one of the most critical determinants of purchasing behavior.

One of the key findings in behavioral decision theory is the concept of anchoring. In a well-known study, Tversky & Kahneman (1974) used a roulette wheel and asked participants: "What percentage of African countries are members of the United Nations?" After spinning the wheel, which would randomly stop on a number (e.g., 65), they asked: "Is the percentage of African countries in the UN less than or more than 65?" The number on the wheel acted as the anchor.

Their analysis revealed that when a figure such as 65% was mentioned, participants' estimates clustered around that value. For instance, when the anchor was 65%, the average answer was approximately 45%, whereas when the anchor was 10%, the average dropped to 25% (Poundstone, 2010, p. 23; Tversky & Kahneman, 1974, p. 1128). In the context of inflation, monthly inflation announcements by TURKSTAT[11] and other institutions have a similar anchoring effect on consumer perceptions. The announced monthly inflation rate serves as a reference point in consumers' minds, influencing how they perceive subsequent price increases.

[11]TURKSTAT is the Turkish government agency commissioned with producing official statistics on Turkey, its population, resources, economy, society, and culture.

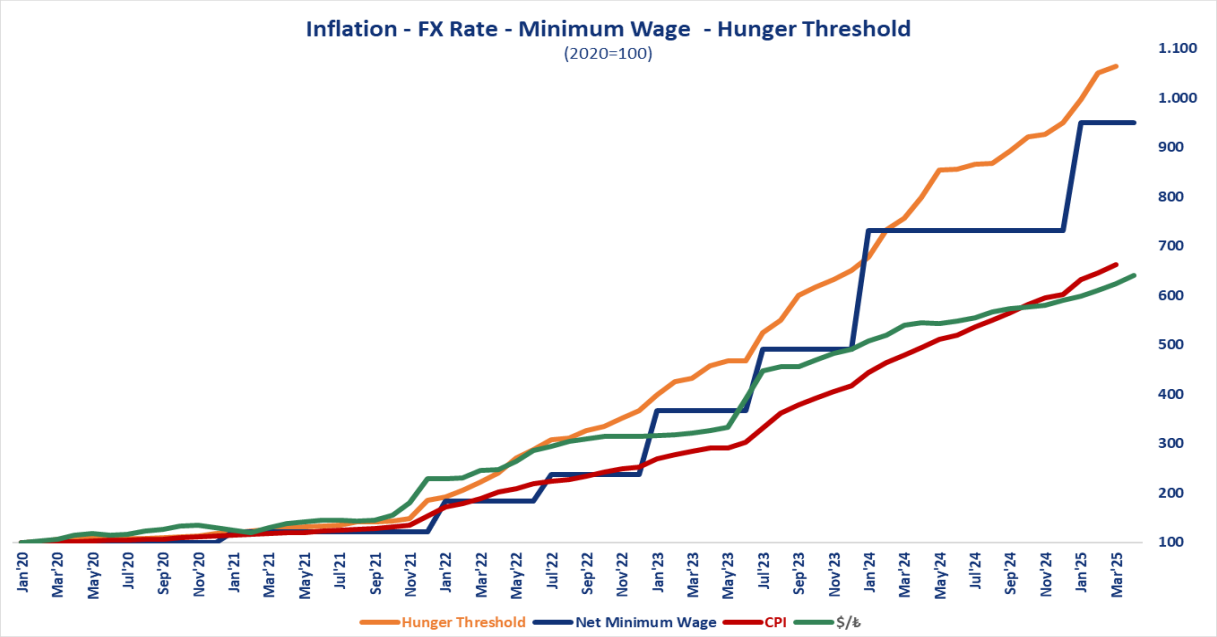

Figure 4.5. Divergence of Inflation-Exchange Rate-Minimum Wage-Hunger Threshold (2020-2025)

Source: Compiled by Verimetrik from data of the Ministry of Labor and Social Security (MoLSS), CBRT, TURKSTAT and TÜRK-İŞ.

The results of the disinflation process—centered on the high interest rate–low exchange rate policy implemented since June 2023, which has disrupted the relative price equilibrium—are clearly reflected in Figure 4.5. While there are concerns that the inflation figures announced by TURKSTAT in Türkiye do not reflect reality, alternative price indices such as those published by Inflation Research Group (ENAG) have emerged. It has been observed that some university-led studies yield results that are partly consistent with TURKSTAT's dataset, while others produce significantly different outcomes. As the gap between official inflation data and the actual cost of living widens, consumers' price perceptions become increasingly distorted. This distortion has fostered the belief that buying today is effectively saving for tomorrow. A significant part of the resistance to disinflation stems from inadequate expectation management.

4.2.2. Consumer Reactions in a Disinflationary Environment

During periods of inflation, marketing activities are particularly influenced by the overall economic environment. In such times, effective management of customer relations is crucial for retaining existing customers and winning back those who have turned to other brands or companies (Erdoğan & Gürbüz, 2023, p. 4).

In disinflationary environments, the marketing concept of value tends to erode. Customer-perceived value can be roughly defined as the difference between the benefits and the costs of a product relative to alternatives—formulated as Value = Benefit – Cost. While the perception of benefit generally remains constant during inflationary periods, the perception of cost continues to rise. Even though the rate of price increases may slow during disinflation, the fact that prices are still rising obliges companies to demonstrate more clearly the superior value of their products compared to similar alternatives. In this context, emphasizing "value" becomes more important than ever—particularly in the marketing of industrial products, and especially for sales personnel.

Inflationary periods particularly demand not only reactive but also proactive pricing strategies. Therefore, it becomes essential to adopt a flexible pricing approach, frequently adjusting prices, and closely monitoring competitors' pricing strategies to apply competitive pricing (Eser, 2006, p. 56).

For consumers whose purchasing power decreases during periods of inflation, purchasing decisions for products they previously bought without hesitation begin to lose their routine nature. Their initial reactions typically involve reducing consumption or switching to cheaper alternative products. Discretionary expenses are removed from shopping lists, and campaigns offering price discounts are actively pursued. Discount stores and outlets generally gain importance during these periods.

The "financial affordability" of products during inflation is of paramount importance. One of a company's primary goals should be to ensure that its products remain financially accessible to consumers. In this context, various strategies may be implemented—for example, reducing package sizes to enable low-income customer groups to continue purchasing the product.

During the inflation/disinflation process, the label price becomes the most immediate focus of consumer perception. The visible and tangible increases in product prices at points of sale can trigger behavioral responses, even in disinflationary periods. Particularly for products without strong brand loyalty, it is common for consumers to switch to private-label products, often driven by their relatively lower prices. Thus, inflationary periods can be risky for companies that have not built strong brand loyalty. Conversely, for companies with an established loyal customer base, that customer segment becomes their most valuable asset. Customers with strong brand loyalty are relatively less likely to shift to cheaper alternatives compared to those with weaker ties to a brand.

One of the effects of sharp price increases felt by consumers is that, if their limited budgets allow, they tend to purchase certain products in advance to avoid paying higher prices in the near future. In fact, even some unplanned purchases may occur based on the assumption that aging household appliances might soon break down. Such anticipatory purchases, driven by expectations of further price hikes, are more likely among consumers who have some disposable income beyond their basic needs—even if limited. Naturally, consumers with very low incomes are generally excluded from this behavior of bringing forward purchase decisions.

The effects of inflation on consumers are not limited to purchasing behavior; consumption habits are also affected. For instance, consumption volumes may be reduced or, in some cases, halted entirely. While some consumers turn to saving, others accelerate their purchases out of concern that prices will continue to rise. Ironically, in an environment where efforts are being made to combat inflation, these behavioral responses may further fuel inflation or prolong the disinflation period.

5. Conclusion

This study demonstrates that Türkiye's experience offers a critical case study for macroeconomic theory. It shows that disinflation in emerging markets may evolve into a conflict between wage defense and profit markups, rather than a simple adjustment of expectations. Theoretical and empirical implications suggest that future models of inflation dynamics should integrate profit-driven markups alongside wage rigidities to explain why disinflation in low-credibility environments tends to be both slower and more costly.

If confidence can be strengthened through social consensus, it may become possible to approach the inflation target in a sustainable manner, allowing for reductions in interest rates and a gradual exit from tight monetary policy. To ensure the equal participation of all societal stakeholders in the fight against inflation, wage and price controls must be implemented in tandem. Such decisions should be based on reliable data and sound statistics. Wages should be determined and adjusted through collective bargaining or agreed minimum wage mechanisms involving governments, employers, and employees. Wage policies must promote gender equality, fairness, and non-discrimination. Conducting the wage determination process through social dialogue will contribute to more equitable outcomes.

Given the history of fixed and drifting exchange rate regimes in the Republic of Türkiye—approaches that have been attempted several times but failed due to political developments—it would be prudent to design a disinflation policy rooted in social consensus, supported by political will, and aligned with the principles of a free market economy.

To sum up, although official data indicates a downward trend in inflation, both consumers and producers are still holding high inflation expectations, and the market has not yet entered a price-setting process aligned with disinflation. It is premature to assert that disinflationary policies have succeeded in a region where geopolitical uncertainties, alongside the economic outlook, further contribute to a fragile environment.

Authors' Contributions

The authors contributed to the study equally.

Declaration of Conflict of Interest

The authors declare that there is no conflict of interest.

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