

## Macro: First signs of a break in the inflation regime

Consumer inflation remained below market expectations with 1.4% mom and 35.0% yoy, while annual inflation continued to decline by 0.4 pp mom. Using the direct approach, we calculate a seasonally adjusted (s.a.) monthly CPI inflation at 1.9% (previously 1.7%). Thus, although the monthly inflation trend slightly increased compared to the previous month, it remains below 2% for two consecutive months for the first time since October 2021. The median and trimmed-mean monthly inflation rates (s.a), which are distribution-based trend indicators, are 1.9% and 2.0%, respectively (previously 1.9% and 1.8%). There is no notable improvement in the distribution of inflation, as there are high increases in food, transportation, education and durable goods.

The 25% increase in natural gas prices, which is in line with our expectations, will affect July inflation by around 0.5 point. In addition, tax adjustments and mid-year pricing are also factors that will temporarily raise the inflation trend. We think that this picture may push the CBRT to act cautiously and limit the size of the interest rate cut we expect in July.

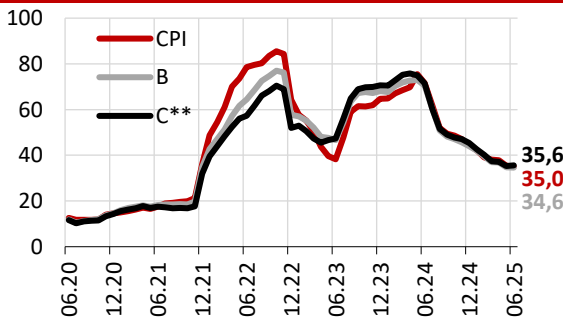
The tight monetary stance, the weakening aggregate demand outlook due to global developments and the mild course of commodity prices will continue to restrain the inflation trend in the rest of the year. While the May-June data provide the first signs of a break in the inflation regime, it is critical to ensure this becomes permanent. If appropriate monetary tightness is maintained with a patient and prudent approach during the upcoming rate cut process, it is quite possible that year-end inflation will remain within the CBRT's forecast range.

In sum, the inflation outlook is improving on the back of weaker demand conditions, stable exchange rates and mild course of commodity prices. In light of the following factors: (i) measured rate cuts of 250 basis points in four meetings beginning from July; (ii) growth limited to 3.0% in 2025; (iii) USD exchange rate of 43.0 at year-end; (iv) Brent oil prices averaging \$65 for the rest of the year; and (v) no further adjustment in administered prices, our year end inflation forecast is being lowered from 30.0% to 28.5%. The risks associated with the forecast are considered to be balanced.

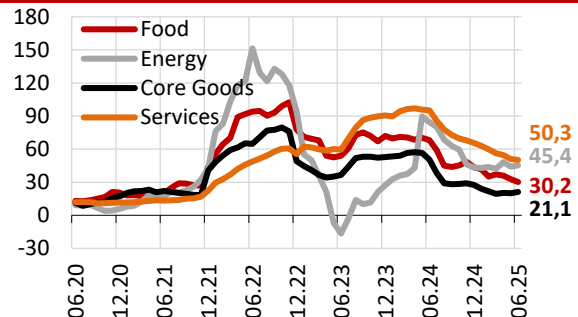
## Consumer Price Index (CPI)

**Monthly inflation was 1.37%, close to our forecast (1.3% mom; 34.9% yoy) and slightly below market expectations (1.5%-1.6% mom; ≈35.3% yoy).** Thus, annual inflation decreased by 0.4 pp to 35.0%. Cumulative inflation in the first 6 months was realized as 16.7%. According to our own calculations, the seasonally adjusted (s.a.) monthly CPI inflation came in at 1.85%, 0.15 pp higher than last month.

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



**Chart 2. CPI Sub-Indices**  
(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

**Annual inflation in core indicators displayed a mixed outlook.** Annual inflation in the B index fell by 0.2 points to 34.6%, while annual inflation in the C index rose by 0.2 points to 35.6% (Chart 1, Table 3).

**In June, annual inflation decreased in food and services, but increased in core goods and energy groups** (Chart 2, Table 1). The details are as follows:

- **Food:** Prices in the food and non-alcoholic beverages group fell by 0.27% mom due to seasonal effects, while annual inflation decreased by 2.7 points to 30.2% (Table 2). Excluding seasonal effects, monthly food inflation was 1.6% in June, similar to May. Price increases (s.a.) were lower in the processed food group than in the unprocessed food group, while vegetables were relatively negative. Although the monthly price decline in raw data was stronger for vegetables than for fruits, in s.a. terms, the picture for vegetables was more unfavorable than in previous months. In the other unprocessed food group, the ongoing decline in egg prices, which started last month, is an important development that curbed inflation.
- **Energy:** In the energy group, the impact of rising oil prices in the middle of the month due to geopolitical developments was observed. While monthly energy inflation was 2.3%, annual energy inflation rose by 1.2 pp to 45.4%. While fuel prices rose by 4.1% mom, the impact of the fall in oil prices on inflation was limited as geopolitical tensions faded towards the end of the month. Municipal water prices maintained their strong upward trend (5.0%; s.a. 5.6%). Electricity prices, on the other hand, fell by 1.0% due to the Last Source Supply Tariff.

In case no other decision is taken, the lump sum SCT on fuel and bottled gas will increase by the 6-month cumulative D-PPI increase (15.7%) as of tomorrow. In addition, natural gas tariffs used by households were increased by 24.6% effective from July 2. We calculate that the natural gas price increase will add around 0.5 percentage points to the monthly CPI inflation. Due to these two factors, monthly energy inflation will be high in July.

- **Core goods:** Core goods prices edged up by 1.0% mom due to the reversal of seasonal increases in the clothing group. The seasonally-adjusted price increase slowed to 1.8% mom. Nevertheless, annual core goods inflation increased by 1.1 points to 21.1% due to the low base effect (Chart 2, Table 2).

**Clothing and footwear** inflation continues to diverge significantly from our field observations and alternative measures. Clothing prices decreased by 0.3% mom due to seasonal effects, but increased by 1.5% s.a.. Annual clothing inflation increased by 0.4 points to 13.8%, while ICC's price index stands at 43.4%.

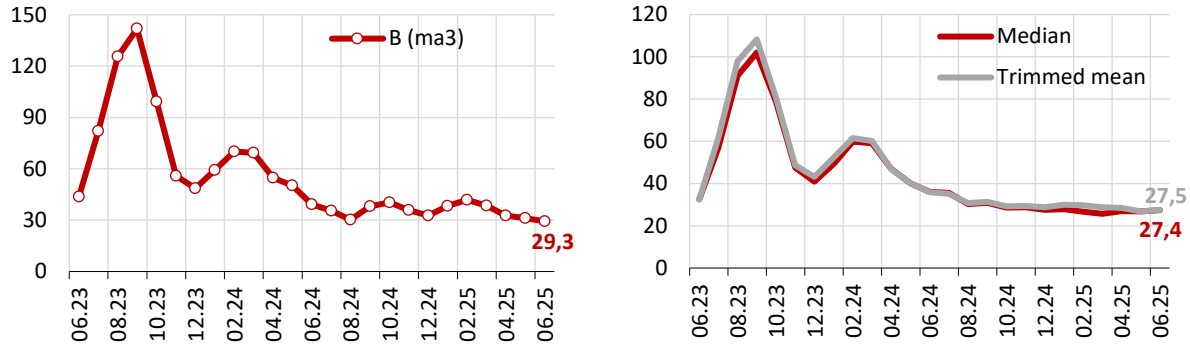
Monthly **durable goods inflation (excluding gold, s.a.)** eased to 1.8% (May s.a. 2.5%) as the lagged effects of the exchange rate hike faded. Price increases in electrical and non-electrical household appliances remained relatively strong. Price increases in **furniture and automobiles** slowed down.

- **Services:** The improvement in the underlying trend of services inflation stalled in June. While services prices rose by 2.7% mom, we calculate that the "s.a." monthly increase rose above 3% again. Annual services inflation continued to fall by 0.9 points (50.3%). The services group continues to be the main group with the highest annual inflation (Chart 2).

Monthly **rent** (s.a.) inflation increased slightly in June. Despite falling by 1.9 points, annual rent inflation continued to diverge significantly from other services sub-items and CPI with 83.0%. While monthly inflation in the **restaurants-hotels** group was 2.0%, the rate of increase in "s.a." prices also picked up again (2.4%), but annual inflation declined to 35.6%.

Monthly inflation in **transport services** was 4.0% due to the strong increase in passenger transportation by road due to the holiday, while it remained strong at 3.2% “s.a.”. Monthly inflation in **communication services** was the lowest among services subcategories with 1.5%. In **other services**, monthly inflation in the **education** group accelerated compared to May due to the increase in pre-school education fees.

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

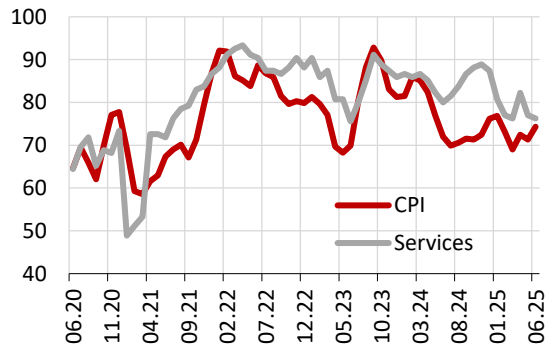


\* In calculating trimmed mean indicator, 15% of the monthly inflation distribution has been deducted from both ends.

Source: Turkstat, Akbank

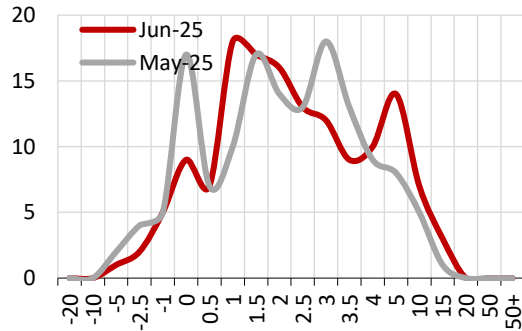
The monthly inflation trend was slightly higher than the previous month but remained below 2% for the second month in a row. According to our own calculations, the monthly CPI (s.a.) price increase was 1.85%, slightly higher than the last month (1.7%). The median and trimmed-mean inflation rates, which are distribution-based trend indicators, improved slightly at 1.9% and 2.0% mom (previously 1.9% and 1.8%). At this point, the stabilization of the annual inflation trend below 30% seems to allow for an adjustment in the monetary stance.

**Chart 4. Diffusion Index (seas. adj., increase-decrease, %)**



Source: Turkstat, Akbank

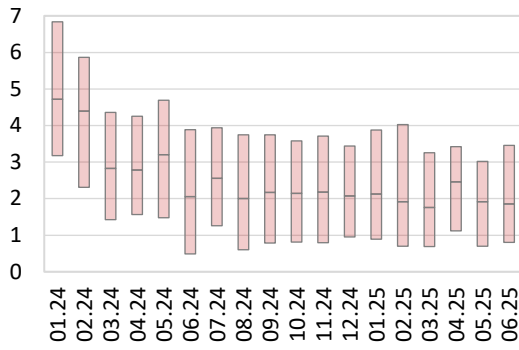
**Chart 5. CPI Subgroups Monthly Inflation Histogram (seas. adj.)**



Source: Turkstat, Akbank

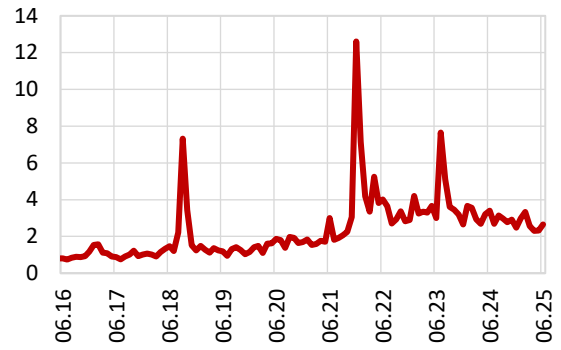
The distribution of inflation by subcategories provides important information for assessing underlying trends and pricing behavior. Chart 6 shows how the “s.a.” monthly inflation distribution of CPI subcategories has changed since the beginning of 2024. The vertical lines show the minimum and maximum values for the respective month; the red boxes show the values in the first and third percentiles of the distribution (interquartile range-IQR); and the horizontal lines inside the red boxes show the median inflation rates. Although median inflation recorded a slight decline in June, the IQR band seems to have widened slightly compared to the previous month (Charts 6 and 7). Some items in the food, transportation, education and durable goods groups stood out at the right end of the distribution with high increases.

Chart 6. Monthly Inflation Distribution (%)



Source: TURKSTAT, Akbank

Chart 7. Interquartile Range (IQR, %)



Source: TURKSTAT, Akbank

The tight monetary stance, the weakening aggregate demand outlook due to global developments and the mild course of commodity prices will continue to restrain the inflation trend in the rest of the year. While the May-June data provide the first signs of a break in the inflation regime, it is critical to ensure this becomes permanent. If appropriate monetary tightness is maintained with a patient and cautious approach during the upcoming rate cut process, it is quite possible that year-end inflation will remain within the CBRT's forecast range.

In summary, the inflation outlook is improving on the back of weaker demand conditions, stable exchange rates and mild course of commodity prices. In light of the following factors: (i) measured rate cuts of 250 basis points in four meetings since July; (ii) growth limited to 3.0% throughout the year; (iii) USD exchange rate of 43.0 at year-end; (iv) Brent oil prices averaging \$65 for the rest of the year; and (v) no further adjustment in administered prices, our year end inflation forecast is being lowered from 30.0% to 28.5%. The risks associated with the forecast are considered to be balanced.

Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Apr.25	May.25	Jun.25	Apr.25	May.25	Jun.25
<b>CPI</b>	1.64	1.53	1.37	71.60	35.41	35.05
Food and Non-Alcoholic Beverages	1.78	-0.71	-0.27	68.08	32.87	30.20
Alcoholic Beverages and Tobacco	0.07	0.06	0.14	67.93	27.87	27.96
Clothing and Footwear	-0.58	6.97	-0.27	47.84	14.12	14.47
Housing, Water, Electricity, Gas and Other Fuels	3.79	2.99	2.62	94.72	67.43	65.54
Furnishings, household equipment, maintenance of the house	1.62	1.21	2.01	67.72	29.69	30.19
Health	1.69	0.47	0.66	78.51	40.12	38.70
Transport	-0.13	2.66	2.38	65.67	24.59	27.72
Communication	2.54	-0.71	1.83	52.27	19.25	18.43
Recreation and Culture	0.26	1.94	1.44	61.00	26.04	27.53
Education	3.47	1.19	4.48	107.11	71.67	73.33
Restaurants and Hotels	3.09	1.83	2.10	90.67	36.91	35.59
Miscellaneous Goods and Services	1.56	1.59	1.73	64.27	35.98	36.21

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Apr.25	May.25	Jun.25	Apr.25	May.25	Jun.25
<b>CPI</b>	<b>1.64</b>	<b>1.53</b>	<b>1.37</b>	<b>71.60</b>	<b>35.41</b>	<b>35.05</b>
<b>Goods</b>	<b>0.91</b>	<b>1.43</b>	<b>0.71</b>	<b>62.56</b>	<b>28.70</b>	<b>28.44</b>
Energy	1.43	2.15	2.27	84.58	44.21	45.40
Food and Non-alcoholic Beverages	1.78	-0.71	-0.27	68.08	32.87	30.20
Unprocessed Food	0.79	-3.01	-1.68	70.50	33.53	30.26
Fresh Fruits and Vegetables	6.07	-4.67	-4.60	78.61	56.53	40.79
Other Unprocessed Food	-2.19	-1.79	-1.50	66.30	20.51	21.36
Processed Food	2.71	1.39	0.97	65.89	32.21	29.97
Bread and Cereals	4.64	1.17	1.46	71.15	40.87	36.59
Other Processed Food	1.81	1.51	0.71	63.43	28.14	26.75
Goods excl. Energy and Food	0.12	2.90	0.96	52.56	21.08	22.11
Core Goods	0.11	3.26	1.01	50.62	20.02	21.09
Clothing and Footwear	-0.68	7.09	-0.32	46.87	13.38	13.79
Durable Goods (excl. Gold)	-0.50	2.73	1.24	46.89	20.26	22.37
Other Core Goods	1.70	1.49	1.59	59.17	24.99	24.84
<b>Services</b>	<b>3.31</b>	<b>1.74</b>	<b>2.73</b>	<b>95.27</b>	<b>51.19</b>	<b>50.34</b>
Rent	5.09	3.10	3.97	123.64	84.94	82.97
Restaurant-Hotels	3.09	1.83	2.10	90.67	36.91	35.59
Transportation Services	4.53	0.99	4.01	103.54	50.29	49.55
Telecommunication Services	4.20	-0.14	1.48	67.45	25.01	21.74
Other Services	1.95	1.39	2.28	89.06	51.18	51.68
<b>CPI</b>	<b>1.64</b>	<b>1.53</b>	<b>1.37</b>	<b>71.60</b>	<b>35.41</b>	<b>35.05</b>
A (CPI excl. seasonal products)	1.59	1.53	1.66	72.98	36.04	36.13
B (CPI excl. unpro. food.. energy.. alc. bev.. tob.. gold)	1.90	2.25	1.76	70.40	34.81	34.62
C (CPI excl. energy. food. alc. bev.. tob.. and gold)	1.73	2.43	1.93	71.41	35.37	35.64
D (CPI excl. unproc. food.. alc. bev. and tobacco)	1.83	2.24	1.84	71.98	35.99	35.99
E (CPI excl. alcoholic beverages and tobacco)	1.70	1.58	1.42	71.74	35.69	35.31
F (CPI excluding administered prices)	1.53	1.49	1.48	70.79	32.90	32.84

Source: TURKSTAT

### Domestic Producer Price Index (D-PPI)

While the monthly D-PPI inflation was realized as 2.46%, annual producer inflation rose from 23.13% to 23.45% (Table 3). While the 8.4% rise in energy prices prevented a slowdown in monthly PPI inflation, monthly inflation in main groups excluding energy remained below the headline rate. We expect the monthly inflation trend of sectors excluding energy to gradually decline.

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Apr.25	May.25	Jun.25	Apr.25	May.25	Jun.25
<b>Domestic PPI</b>	<b>1.38</b>	<b>2.48</b>	<b>2.46</b>	<b>50.09</b>	<b>23.13</b>	<b>24.45</b>
Intermediate Goods	0.71	1.92	1.77	46.89	20.50	21.77
Durable Consumption Goods	1.57	0.05	2.12	63.36	29.22	29.92
Non-durable Consumption Goods	1.95	1.70	1.12	64.13	27.48	26.45
Energy	2.22	7.98	8.42	30.41	17.05	24.15
Capital Goods	1.53	2.38	2.26	53.68	26.48	27.40

Source: TURKSTAT

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