

**Macro: Underlying trend remains flat despite the administered price and tax adjustments; yet inflation inertia prevails**

Consumer inflation remained below market expectations with 2.1% mom and 33.5% yoy, while annual inflation continued to decline, falling 1.5 points from the previous month. The correction in fresh fruit and vegetable prices and the surprise drop in clothing prices were the main factors of downwards surprise. As a result, inflation remained below market expectations for three consecutive months.

Using a direct approach, we calculate seasonally-adjusted (s.a.) monthly CPI inflation at 2.2% (previously 2.1%). However, significant fluctuations in the same month in previous years make it difficult to accurately interpret the seasonally adjusted data. Nevertheless, the limited increase in monthly inflation is positive, despite administered price and tax adjustments, particularly for natural gas (impacting inflation by  $\approx 0.9$  percentage points). The median and trimmed monthly inflation rates (s.a.) based on distribution-based trend indicators are 2.1% and 2.0%, respectively (previously 2.0% each). These two indicators have been fluctuating at these levels (annualised at  $\approx 27\%$ ) for some time and provide important information about inflation inertia. The fact that we have not yet broken through these levels is due to continued inertia in services, despite a moderate trend in core goods.

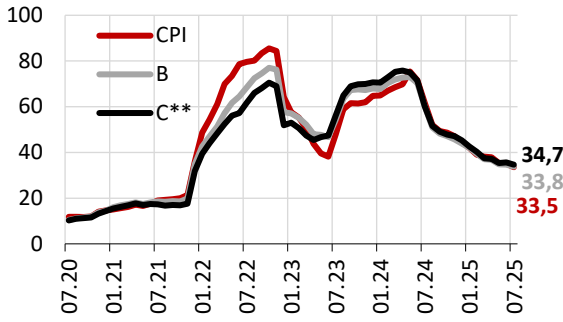
The inflation has a better distribution than last month, with increased clustering around the median. The fact that the interquartile range (IQR) band width has fallen to its lowest level since the first half of 2021 indicates that inflation is more evenly distributed among sub-items. However, despite the improvement in distribution, the lack of a further fall in median inflation for a long time suggests that achieving the desired improvement in inflation trend may require a more costly process.

In summary, following the May-June data that signaled the first signs of a break in the inflation regime, the July data, excluding temporary factors specific to this month, point to a trend that is close to flat. Although a lower trend has been observed in both services and the CPI over the last three months, the improvement is quite slow and gradual. If (i) an appropriate monetary tightening is maintained with a patient and prudent approach during the interest rate cut process and (ii) the current depreciation trend in the dollar exchange rate ( $\approx 1.8\%$  per month since the end of April) is mitigated, inflation is likely to remain within the CBRT's forecast range at the end of the year. Given the slightly higher exchange rates and oil prices compared to the macroeconomic framework we outlined last month, we are updating our year-end inflation forecast to 29.5% (previously 28.5%).

### Consumer Price Index (CPI)

**Monthly inflation was 2.06%, below our forecast (monthly 2.3%; annual 33.9%) and market expectations (monthly 2.4%; annual  $\approx 34.0\%$ ).** As a result, annual inflation fell by 1.5 points to 33.5%. According to our calculations, the seasonally adjusted (s.a.) CPI monthly increase was 2.2%, up 0.1 percentage points from the previous month.

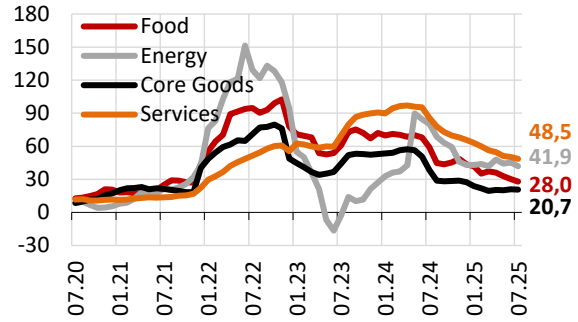
**The annual inflation rates of core indicators also declined.** The annual inflation rate of the B index fell by 0.8 points to 33.8%, while the annual inflation rate of the C index decreased by 0.9 points to 34.7% (Chart 1, Table 3).

**Chart 1. CPI and Core CPI  
(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

**Chart 2. CPI Sub-Indices  
(annual % change)**

In July, annual inflation declined across all main groups (Graph 2, Table 1). Details are as follows:

- **Food:** The recent positive trend in the food and non-alcoholic beverages group continued. While prices remained flat due to seasonal effects, the seasonally adjusted monthly price increase was 0.84%, the lowest in the last 11 months. Annual food inflation fell by 2.2 points to 28.0%.

The positive trend in the food inflation was mainly driven by the unprocessed food, led by fresh fruits and vegetables. In the processed food group, monthly inflation rose to 2.2% due to other processed foods, which excludes bread and cereals.

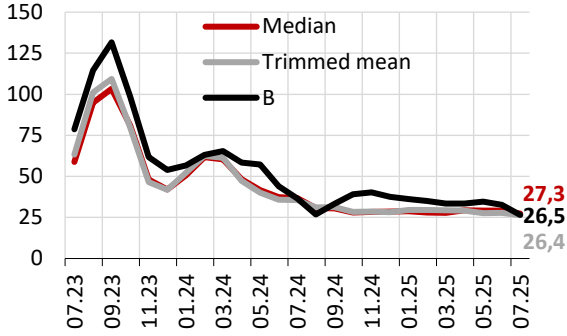
- **Energy:** The monthly inflation rate for the energy group was 7.35% due to administered price and tax adjustments, while the annual energy inflation rate fell by 3.5 points to 41.9%. Due to increases in tariffs for households, natural gas monthly inflation was 26.4%, contributing 0.45 points to the CPI monthly inflation rate. In addition, fuel prices increased by 6.7% and bottled gas prices by 3.2%, largely due to automatic tax (specific excise tax) adjustments. These two items contributed approximately 0.2 percentage points to the monthly CPI inflation rate.
- **Core goods:** Monthly inflation in core goods remained limited at 0.1% due to the seasonal price fall in the clothing group. Seasonally-adjusted core goods inflation, on the other hand, slowed by 0.4 points month-on-month to 1.2%. Annual inflation in this group decreased by 0.4 points to 20.7% (Chart 2, Table 2).

**Clothing and footwear** inflation continues to diverge significantly from our field observations and alternative measures. Clothing prices fell by 6.0% mom due to seasonal effects and by 0.6% in s.a. terms. Annual clothing inflation decreased by 3.8 points to 10.0%, while ICC index stands at 45.05%.

Monthly **durable goods inflation excluding gold** (s.a.) was unchanged from last month at 1.8%. The monthly rate of price increase is very similar to the recent upward trend in exchange rates.

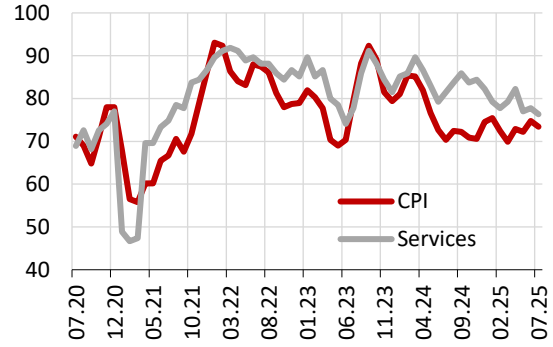
- **Services:** The underlying trend of services inflation remained unchanged in July. Prices of services rose by 3.1% mom, while the “s.a.” monthly increase remained above 3%. Annual services inflation continued to fall by 1.8 points (48.5%). The services group continues to be the main group with the highest annual inflation, although the gap is gradually closing (Chart 2).

Across subcategories, monthly rent (s.a.) inflation remained at around 4%. This month, the positive impact of the decline in transport services inflation was offset by the strong price increase in communication services. Monthly inflation in restaurants and hotels (s.a.) edged down compared to last month.

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

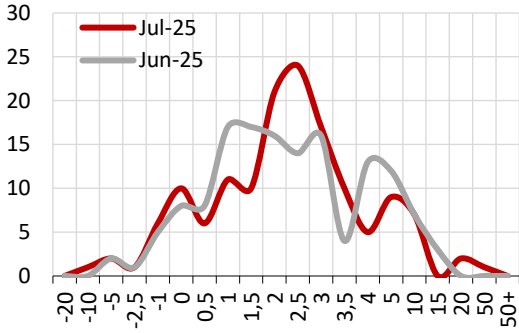
\* In calculating trimmed mean indicator, 15% of the monthly inflation distribution has been deducted from both ends.

Source: Turkstat, Akbank

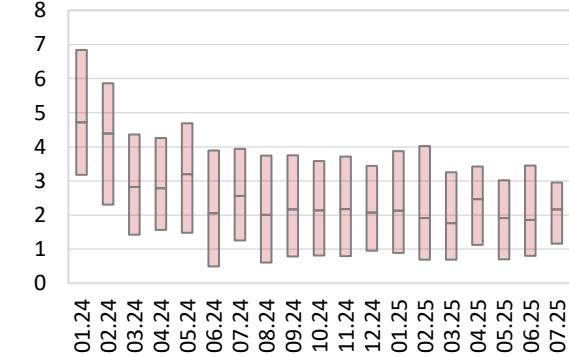
**Chart 4. Diffusion Index (seas. adj., increase-decrease, %)**

Source: Turkstat, Akbank

Using the direct approach, we calculate the seasonally adjusted (s.a.) monthly CPI inflation as 2.2% (previous 2.1%). We find it positive that the rise in monthly inflation remained limited despite the administered price and tax adjustments, particularly for natural gas ( $\approx 0.9$ pp impact). The median and pruned monthly inflation (m.a.) rates, which are distribution-based trend indicators, are 2.1% and 2.0% (previously 2.0%). These two indicators, which have been hovering around these levels (annualized  $\approx 27\%$ ) for a long time, provide an important clue to inflation rigidity (Chart 3).

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

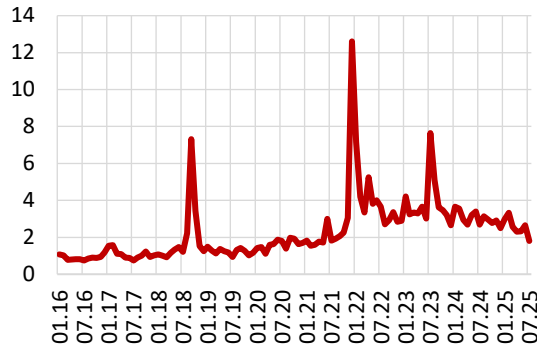
Source: Turkstat, Akbank

**Chart 6. Monthly Inflation Distribution (IQR, %)**

Source: Turkstat, Akbank

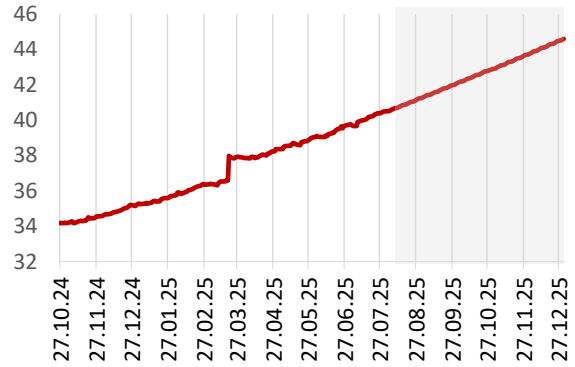
**While the distribution of inflation has improved compared to last month, the concentration around the median has increased (Chart 5).** Moreover, the IQR (interquartile range) bandwidth has fallen to its lowest level since the first half of 2021, suggesting a more homogenous distribution of inflation across subcategories (Charts 6 and 7). However, despite the improvement in dispersion, median inflation has not fallen further for a long time, suggesting that the desired further improvement in the inflation trend may require a more costly process.

Chart 7. Interquartile Range (% points)



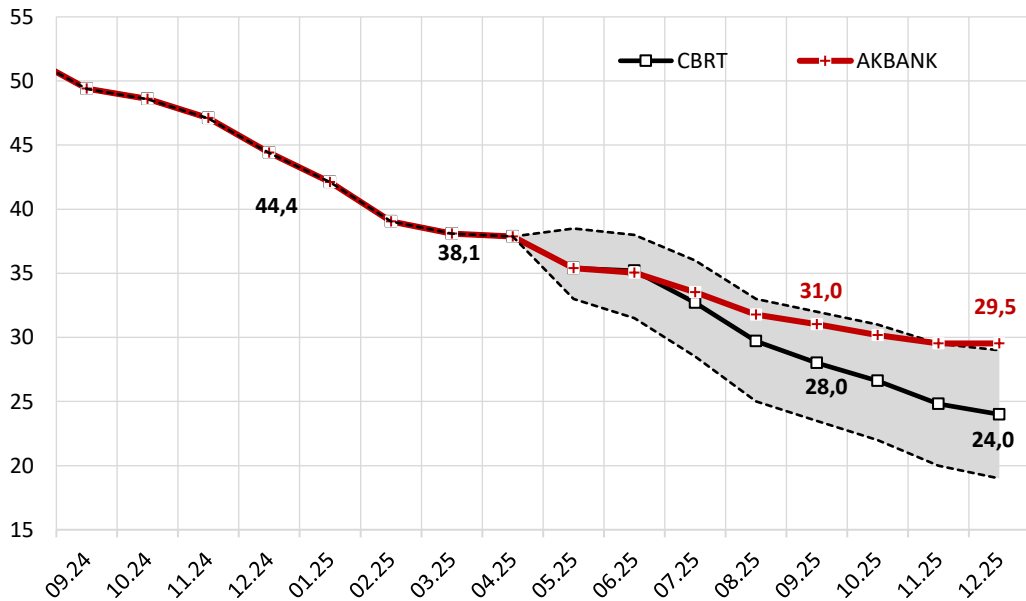
Source: TURKSTAT, Akbank

Chart 8. USD/TRY (if the depreciation trend since April 25 is maintained)



Source: CBRT, Akbank

In order to reach the upper bound of the inflation forecast band at the end of the year, we assess that the depreciation trend of the USD exchange rate, which has been 1.8% per month since late April, needs to be curbed (Chart 8). With the current trend, the USD exchange rate is likely to reach 44.5 by the end of the year; limiting this to 43.0, our assumption of the past months, would increase the likelihood of inflation staying within the CBRT's forecast band (<29%). We are entering a period when the current account balance will be in surplus (cumulatively around \$8-9 billion) in the July-October period, so we may lower our inflation forecast again if we see increasing pressure on the exchange rate in a season when the CBRT may be relatively comfortable in terms of FX supply-demand balance. We revise our end-2025 inflation forecast from 28.5% to 29.5% (Chart 9), assuming that (i) the CBRT cuts interest rates by a total of 700 basis points in the remaining three meetings; (ii) growth limited to 3.0% throughout the year; (iii) USD exchange rate stands at 44.0 at the end of the year; (iv) Brent oil prices hover around \$68 on average for the rest of the year; and (v) no further adjustments are made to administered prices excluding tobacco products.

Chart 9. Annual Inflation Forecasts <sup>(1)</sup>

Source: CBRT, Akbank.

(1) CBRT forecast path is derived from the visualization in the Inflation Report

Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Jul.24	Jun.25	Jul.25	Jul.24	Jun.25	Jul.25
<b>CPI</b>	<b>3.23</b>	<b>1.37</b>	<b>2.06</b>	<b>61.78</b>	<b>35.05</b>	<b>33.52</b>
Food and Non-Alcoholic Beverages	1.83	-0.27	0.07	58.91	30.20	27.95
Alcoholic Beverages and Tobacco	5.84	0.14	5.69	59.88	27.96	27.79
Clothing and Footwear	-2.58	-0.27	-5.82	39.57	14.47	10.67
Housing, Water, Electricity, Gas and Other Fuels	8.08	2.62	5.78	98.48	65.54	62.01
Furnishings, household equipment, maintenance of the house	1.68	2.01	1.63	56.58	30.19	30.13
Health	3.74	0.66	2.84	63.02	38.70	37.49
Transport	3.82	2.38	2.89	46.07	27.72	26.57
Communication	3.21	1.83	4.25	47.96	18.43	19.62
Recreation and Culture	2.07	1.44	2.06	54.82	27.53	27.52
Education	1.38	4.48	2.67	104.50	73.33	75.54
Restaurants and Hotels	3.33	2.10	2.24	76.04	35.59	34.16
Miscellaneous Goods and Services	2.94	1.73	1.95	55.58	36.21	34.90

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	July.24	Jun.25	July.25	July.24	Jun.25	July.25
<b>CPI</b>	<b>3.23</b>	<b>1.37</b>	<b>2.06</b>	<b>61.78</b>	<b>35.05</b>	<b>33.52</b>
<b>Goods</b>	<b>2.71</b>	<b>0.71</b>	<b>1.52</b>	<b>52.67</b>	<b>28.44</b>	<b>26.96</b>
Energy	10.00	2.27	7.35	80.11	45.40	41.89
Food and Non-alcoholic Beverages	1.83	-0.27	0.07	58.91	30.20	27.95
Unprocessed Food	1.07	-1.68	-2.39	57.35	30.26	25.80
Fresh Fruits and Vegetables	3.14	-1.94	-4.78	56.59	44.72	33.60
Other Unprocessed Food	-0.20	-1.50	-0.70	57.73	21.36	20.76
Processed Food	2.55	0.97	2.18	60.35	29.97	29.50
Bread and Cereals	3.54	1.46	1.43	60.77	36.59	33.80
Other Processed Food	2.07	0.71	2.57	60.26	26.75	27.37
Goods excl. Energy and Food	1.04	0.96	0.71	40.50	22.11	21.71
Core Goods	0.42	1.01	0.09	38.25	21.09	20.70
Clothing and Footwear	-2.74	-0.32	-6.02	38.71	13.79	9.95
Durable Goods (excl. Gold)	0.62	1.24	1.57	31.39	22.37	23.54
Other Core Goods	2.34	1.59	2.02	49.81	24.84	24.46
<b>Services</b>	<b>4.39</b>	<b>2.73</b>	<b>3.14</b>	<b>85.63</b>	<b>50.34</b>	<b>48.54</b>
Rent	7.04	3.97	4.68	122.33	82.97	78.95
Restaurant-Hotels	3.33	2.10	2.24	76.04	35.59	34.16
Transportation Services	4.84	4.01	1.28	93.93	49.55	44.48
Telecommunication Services	5.46	1.48	5.67	70.23	21.74	21.99
Other Services	3.42	2.28	2.79	77.33	51.68	50.75
<b>CPI</b>	<b>3.23</b>	<b>1.37</b>	<b>2.06</b>	<b>61.78</b>	<b>35.05</b>	<b>33.52</b>
A (CPI excl. seasonal products)	3.64	1.66	2.94	63.74	36.13	35.21
B (CPI excl. unpro. food.. energy.. alc. bev.. tob.. gold)	2.47	1.76	1.82	60.31	34.62	33.77
C (CPI excl. energy. food. alc. bev.. tob.. and gold)	2.45	1.93	1.74	60.23	35.64	34.70
D (CPI excl. unproc. food.. alc. bev. and tobacco)	3.42	1.84	2.50	62.57	35.99	34.78
E (CPI excl. alcoholic beverages and tobacco)	3.13	1.42	1.93	61.85	35.31	33.74
F (CPI excluding administered prices)	2.56	1.48	1.45	59.52	32.84	31.41

Source: TURKSTAT

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

While the monthly rate of increase in D-PPI slowed down to 1.73%, annual producer inflation declined from 24.45% to 24.19% (Table 3). While the decline in monthly inflation came from non-durable consumption and energy items, the relatively strong course of energy inflation continued.

**Table 3. Domestic Producer Price Index**

	Monthly % Change			Annual % Change		
	July.24	Jun.25	July.25	July.24	Jun.25	July.25
<b>Domestic PPI</b>	<b>1.94</b>	<b>2.46</b>	<b>1.73</b>	<b>41.37</b>	<b>24.45</b>	<b>24.19</b>
Intermediate Goods	1.57	1.77	1.68	36.96	21.77	21.91
Durable Consumption Goods	1.20	2.12	2.31	49.78	29.92	31.35
Non-durable Consumption Goods	0.58	1.12	0.54	55.41	26.45	26.40
Energy	6.28	8.42	3.43	31.09	24.15	20.82
Capital Goods	1.78	2.26	2.53	40.06	27.40	28.34

Source: TURKSTAT

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