

Macro: Strong growth and inflation inertia likely to limit interest rate cuts

Consumer inflation remained above market expectations at 2.04% monthly and 33.0% annually. Despite the elimination of one-off effects in July (≈ 0.9 points), the deterioration in food inflation prevented the improvement in inflation. Using a direct approach, we calculate that the seasonally adjusted (s.a.) CPI monthly increase accelerated to 2.6% (July: 2.3%). However, the fact that the median and trimmed inflation measures (s.a.), which are distribution-based trend indicators, remained around their recent trends at 2.0% and 1.8% monthly, respectively, indicating that the deterioration in the inflation trend was not broad-based. The annualized inflation trend continues to hover around 27%. However, the rigidity in median inflation indicates that achieving the desired additional improvement in the inflation trend may require a more costly process.

Under the current outlook, the likelihood of inflation remaining within the CBRT's forecast range by the year-end is diminishing. Although the depreciation trend of the Turkish lira has slowed down since late July, stronger demand conditions than anticipated by the CBRT, indicated by 2025Q2 GDP data, hinders further improvement in the inflation trend. On the other hand, in July MPC meeting, the CBRT linked the decision for the size of succeeding interest cuts to the data flow and stated that it would review its stance accordingly. Consistent with this communication, we expect stronger-than-expected growth and inflation data, along with political developments, to limit interest rate cut steps.

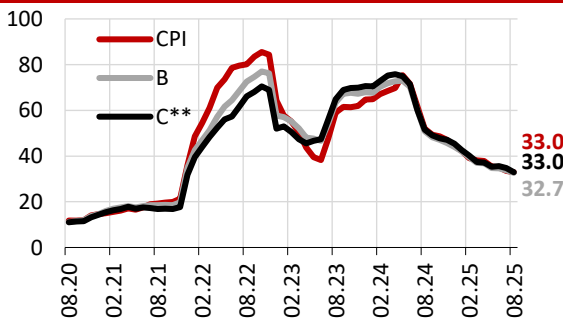
Against this background, we update our previously projected interest rate reduction path of 300 – 200 – 200bps (year-end: 36.0%) for the next three meetings to 200 – 200 – 200bps (year-end: 37.0%). We are maintaining our 2025-end inflation forecast at 29.5% for now, while noting that risks are mostly on the upside.

Consumer Price Index (CPI)

Monthly inflation was 2.04%, above our forecast (monthly 1.7%; annual 32.5%) and market expectations (monthly $\approx 1.8\%$; annual 32.6%). As a result, annual inflation declined from 33.5% to 32.95%. The seasonally adjusted (s.a.) CPI monthly increase, calculated using a direct approach, rose to 2.6% compared to the previous month (2.3%).

Core indicators' annual inflation rates also declined. The annual inflation rate for the B index fell by 1.1 points to 32.7%, while the annual inflation rate for the C index decreased by 1.7 points to 33.0% (Chart 1, Table 3).

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

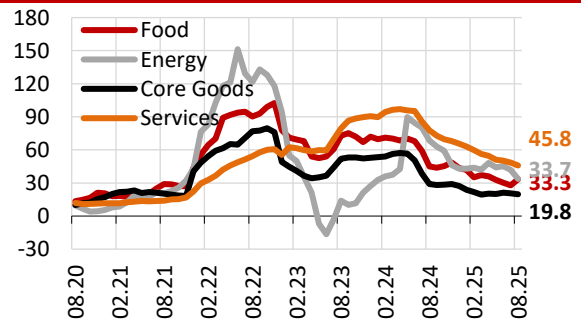


* CPI excluding unprocessed food, energy, alcoholic beverages and tobacco products, and gold

** 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 August, annual inflation declined across all main groups except food (Graph 2, Table 1). Details are as follows:

- **Food:** The main factor behind the CPI falling below expectations in the last three months was the food group, where monthly inflation accelerated in August due to both processed and unprocessed food items. Food prices rose by 3.0% mom, while the group's annual inflation rose from 28.0% to 33.3%. Thus, for the first time since November 2024, annual food inflation exceeded headline inflation. The seasonally adjusted monthly price increase reached approximately 4.0%, its highest value since March.

In the **unprocessed food** group, a deterioration was observed in August in the fresh fruit and vegetable inflation, which had been trending positively in recent periods despite the agricultural frost and drought. Fresh fruit and vegetable prices (s.a.) rose by 6.3% monthly (raw data: 2.3%), with fruit prices being more decisive in this increase. In other unprocessed food groups, inflation also increased due to meat prices.

Processed food prices also recorded a significant increase of 3.8% on a monthly basis. Increases in the bread and cereals group stood out, particularly due to the impact of increases in bread and flour prices (8.1%). The increase in raw milk purchase prices was also reflected in dairy products, while price increases continued in confectionery and snack products.

- **Energy:** Monthly inflation in the **energy** group fell to 0.6% as the effects of last month's administered and tax price adjustments faded. The group's annual inflation rate also declined from 41.9% to 33.7% due to the base effect.
- **Core goods:** Monthly inflation in **core goods** remained limited to 0.5% due to seasonal price declines in the clothing group. We estimate the seasonally adjusted price increase to be 1.2%, similar to last month. The group's annual inflation decreased by 0.9 points to 19.8% (Chart 2, Table 2).

The divergence in **clothing and footwear** inflation compared to our field observations and alternative measurements continues to be significant. Clothing prices decreased by 0.8% monthly due to seasonal effects, while also increasing moderately (0.7%) in "s.a." terms. Annual clothing inflation decreased by 1.2 points to 8.8%, while the Istanbul Chamber of Commerce (ICC) index stands at 41.1%.

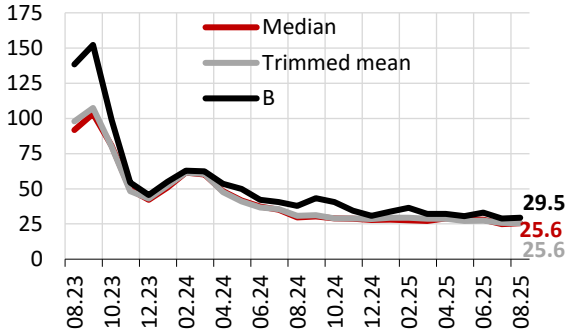
The monthly inflation rate for **durable goods excluding gold** slowed to 1.1%. The monthly price increase rate shows a strong correlation with the currency depreciation trend. The exchange rate, which had been trending upward at around 1.8% since April, appears to have positively impacted group prices by showing a more limited increase over the last month. Furthermore, the impact of the adjustment in the Special Consumption Tax (SCT) on automobiles on the price index was limited (0.84%). This development was influenced by the low weight of electric vehicles, whose prices increased significantly, in the CPI basket, and the higher weight of vehicles whose prices decreased after the adjustment in the index.

- **Services:** Inertia in **services inflation** persists. While services prices rose by 2.7% mom, we calculate that the "s.a." monthly increase remained around 3%. The group's annual inflation fell by another 2.7 percentage points to 45.8%. The services group continues to be the main group with the highest annual inflation (Chart 2).

Looking at the sub-items, the monthly inflation rate for **rent** (s.a.) remains stable at around 4.0%. The monthly inflation trend in **restaurants-hotels and transportation services** increased slightly

compared to last month (2.6% and 3.1%, respectively). **Communication services** and other services, on the other hand, show a more positive outlook compared to last month.

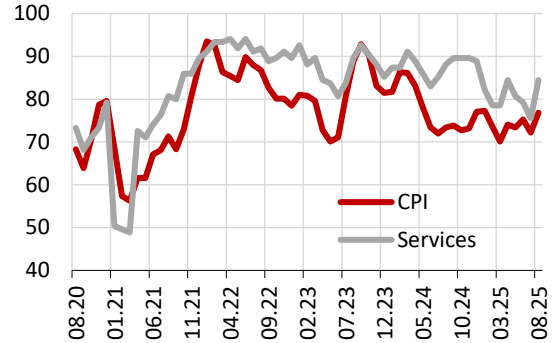
Chart 3. Underlying Inflation* (seas. adj. m-o-m, 3-month moving average, annualized)



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

Source: Turkstat, Akbank

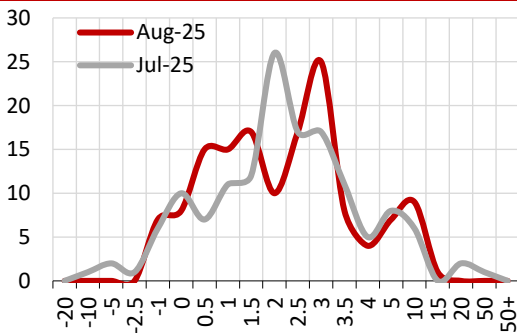
Chart 4. Diffusion Index (seas. adj., increase-decrease, %)



Source: Turkstat, Akbank

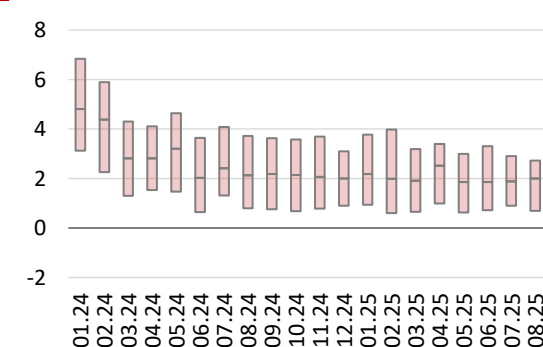
Using a direct approach, we calculate the **seasonally adjusted (s.a.) monthly CPI** increase at 2.6% (previously 2.3%). Despite the removal of the effect of administered price and tax adjustments (0.9 percentage points) in July, primarily for natural gas, the main factor hindering improvement in the inflation trend was food inflation. Indeed, trends in the CPI and B index, which include food items, were higher than last month (2.6% and 2.3%, respectively, compared to 2.3% and 2.2%, respectively). The continued increase in tobacco product prices also contributed 0.2 percentage points to monthly inflation. On the other hand, the **median and trimmed inflation rates**, which are distribution-based trend indicators, stood at 2.0% and 1.8% monthly (previous 1.9% and 2.0%). Therefore, the annualized inflation trend continues to hover around 27% (Chart 3). Despite the deterioration in monthly inflation, the fact that the median indicator has maintained its value around 2% and that the IQR (interquartile range) band width has widened downward indicates that there is no widespread deterioration (Chart 6). In addition, the deterioration in the distribution of CPI sub-components remained limited (Chart 5). However, the fact that median inflation has not fallen further for a long time indicates that achieving the desired further improvement in the inflation trend may require a more costly process.

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



Source: Turkstat, Akbank

Chart 6. Monthly Inflation Distribution (IQR, %)

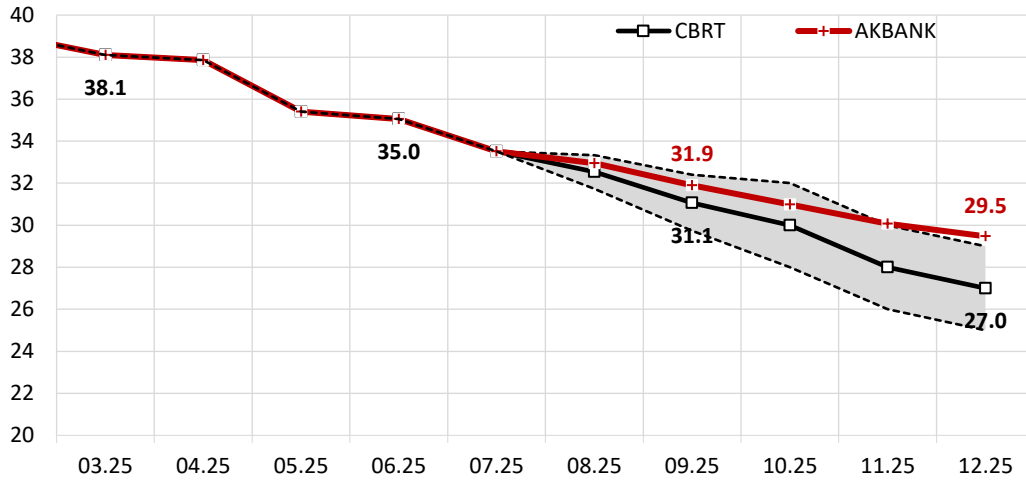


Source: Turkstat, Akbank

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hinders further improvement in the inflation trend. On the other hand, in July MPC meeting, the CBRT linked the decision for the size of succeeding interest cuts to the data flow and stated that it would review its stance accordingly. Consistent with this communication, we expect stronger-than-expected growth and inflation data, along with political developments, to limit interest rate cut steps. Against this background, we update our previously projected interest rate reduction path of 300 – 200 – 200bps (year-end: 36.0%) for the next three meetings to 200 – 200 – 200bps (year-end: 37.0%). We are maintaining our 2025-end inflation forecast at 29.5% for now, while noting that risks are mostly on the upside (Chart 7).

Chart 7. Annual Inflation Forecasts ⁽¹⁾



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		
	Jun.25	Jul.25	Aug.25	Jun.25	Jul.25	Aug.25
CPI	2.47	2.06	2.04	51.97	33.52	32.95
Food and Non-Alcoholic Beverages	-1.10	0.07	3.02	44.88	27.95	33.28
Alcoholic Beverages and Tobacco	4.46	5.69	6.04	60.94	27.79	29.71
Clothing and Footwear	0.35	-5.82	-0.71	29.38	10.67	9.49
Housing, Water, Electricity, Gas and Other Fuels	8.51	5.78	2.66	101.49	62.01	53.27
Furnishings, household equipment, maintenance of the house	1.10	1.63	0.80	44.75	30.13	29.74
Health	1.67	2.84	1.01	53.49	37.49	36.59
Transport	2.95	2.89	1.55	28.96	26.57	24.86
Communication	0.62	4.25	1.46	42.77	19.62	20.61
Recreation and Culture	2.57	2.06	1.48	47.21	27.52	26.16
Education	11.34	2.67	2.07	120.81	75.54	60.91
Restaurants and Hotels	2.03	2.24	1.88	67.70	34.16	33.96
Miscellaneous Goods and Services	2.08	1.95	0.67	47.66	34.90	33.03

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Jun.25	Jul.25	Aug.25	Jun.25	Jul.25	Aug.25
CPI	2.47	2.06	2.04	51.97	33.52	32.95
Goods	1.51	1.52	1.72	42.13	26.96	27.22
Energy	6.84	7.35	0.64	68.45	41.89	33.66
Food and Non-alcoholic Beverages	-1.10	0.07	3.02	44.88	27.95	33.28
Unprocessed Food	-4.89	-2.39	2.02	41.75	25.80	34.94
Fresh Fruits and Vegetables	-10.00	-4.78	2.25	28.93	33.60	51.78
Other Unprocessed Food	-1.67	-0.70	1.86	50.05	20.76	25.09
Processed Food	2.37	2.18	3.83	47.66	29.50	31.35
Bread and Cereals	1.95	1.43	5.77	44.89	33.80	38.82
Other Processed Food	2.57	2.57	2.82	49.20	27.37	27.69
Goods excl. Energy and Food	1.64	0.71	1.12	32.30	21.71	21.10
Core Goods	1.23	0.09	0.52	28.91	20.70	19.85
Clothing and Footwear	0.30	-6.02	-0.77	28.52	9.95	8.78
Durable Goods (excl. Gold)	1.50	1.57	0.73	23.69	23.54	22.60
Other Core Goods	1.44	2.02	1.01	38.26	24.46	23.93
Services	4.60	3.14	2.65	77.83	48.54	45.77
Rent	7.38	4.68	4.61	121.26	78.95	74.33
Restaurant-Hotels	2.03	2.24	1.88	67.70	34.16	33.96
Transportation Services	9.20	1.28	3.36	65.93	44.48	36.76
Telecommunication Services	0.61	5.67	1.65	62.90	21.99	23.26
Other Services	4.74	2.79	1.92	73.26	50.75	46.69
CPI	2.47	2.06	2.04	51.97	33.52	32.95
A (CPI excl. seasonal products)	3.25	2.94	2.19	54.93	35.21	33.83
B (CPI excl. unpro. food.. energy.. alc. bev.. tob.. gold)	2.88	1.82	2.07	50.87	33.77	32.71
C (CPI excl. energy. food. alc. bev.. tob.. and gold)	2.99	1.74	1.69	51.56	34.70	33.00
D (CPI excl. unproc. food.. alc. bev. and tobacco)	3.42	2.50	1.88	53.02	34.78	32.77
E (CPI excl. alcoholic beverages and tobacco)	2.40	1.93	1.89	51.64	33.74	33.08
F (CPI excluding administered prices)	1.44	1.45	2.04	48.22	31.41	32.19

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

The Producer Price Index (PPI) rose by 2.48% mom in August. As a result, annual producer inflation increased from 24.2% to 25.2% (Table 3). Relatively stronger price increases continued in the energy group. The 10.1% increase in electricity, gas production, and distribution was the main driver of the increase in the energy component. Food, clothing, and tobacco also accelerated monthly inflation in non-durable consumer goods. On the other hand, producer price increases in intermediate goods, durable consumer goods, and capital goods decelerated. With the weakening of increases in the exchange rate and commodity prices and the end of administered price adjustments, we expect deceleration in the monthly PPI inflation in the coming period.

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Jun.25	Jul.25	Aug.25	Jun.25	Jul.25	Aug.25
Domestic PPI	1.68	1.73	2.48	33.56	21.91	22.02
Intermediate Goods	1.25	1.68	1.34	40.70	31.35	30.22
Durable Consumption Goods	2.14	2.31	1.26	48.79	26.40	28.94
Non-durable Consumption Goods	1.17	0.54	3.21	18.20	20.82	24.76
Energy	3.04	3.43	6.39	37.98	28.34	26.61
Capital Goods	2.49	2.53	1.11	33.56	21.91	22.02

Source: TURKSTAT

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