Macro: Rapid decline in commodity prices improved the short-term inflation outlook

Consumer inflation rose by 0.99% month-on-month in June, in line with our expectations, bringing annual inflation down by 0.5 percentage points to 32.1%. The direct and indirect effects of the fall in oil prices were observed through fuel prices. Following sharp price hikes earlier in the year, the food group also limited inflation. The cumulative increase in fuel prices between March and June eased to 11.5%. As of June, we estimate the cumulative impact of fuel prices on inflation to be between 3 and 3.5 percentage points. It was announced that the "sliding-scale" mechanism in fuel pricing would be phased out over three months. Thus, following the lifting of the short-selling ban in the equity market, the transition from "emergency" measures to a phase of "gradual normalization" is becoming evident. There is a strong likelihood that a step in this direction will also be taken at the Monetary Policy Committee (MPC) meeting on July 23.

We estimate that the seasonally adjusted (s.a.) monthly CPI inflation to be announced by TurkStat at 1.74% (May: 1.88%). Regarding exclusion-based core indicators, monthly inflation rates for indices B and C are 2.1% and 2.0% (previously 2.3% and 2.2%, respectively). Among core indicators, the median and trimmed monthly inflation rates stand at 1.86% and 1.91% (previously 1.85% and 1.87%). The stickiness in median inflation since mid-2024 persists. This situation keeps the question of the underlying inflation trend and the degree of stickiness it exhibits at the forefront. The average median inflation rate over the past two years is 2.0% monthly (26.8% annualized), while the average over the past year is 1.9% monthly (25.7% annualized). Historically, CPI inflation has averaged 4 percentage points above the median. Consequently, we estimate the short-term underlying inflation trend to be around 29–30%.

Policy and communication measures aimed at breaking these levels will be crucial for the disinflation narrative to regain credibility and take center stage. The recent tightening of credit conditions—driven by the lowering of growth caps—will further dampen domestic demand. However, we anticipate that the impact of the financial tightening through macroprudential tools on the expectations channel will be limited. When also considering the mounting pressure on wages, it appears unlikely that the prevailing short-term trend will shift markedly downward in the medium term.

Mid-year pricing behavior in July stands out as the most critical indicator to watch in the coming days. Authorities have also announced decisions aimed at curbing inflation regarding administered prices and tax adjustments. In this context, the automatic mid-year tax adjustments—normally indexed to the Domestic Producer Price Index (D-PPI)—will not be implemented for fuel and cigarettes. Conversely, we view the plan for a phased exit from the sliding-scale mechanism —driven by the desire to rapidly revert to pre-war tax levels—as a measure that poses risks to the inflation outlook. While the mechanism's level of protection could have been conditioned on oil price levels to mitigate potential inflationary effects, it appears that tax revenues and budget performance have taken precedence among policy priorities.

Commodity prices have declined much more rapidly than the scenarios we formulated during the initial weeks of the war. The average price of Brent crude (spot) was $92.5 in the first half of the year, compared to $68 during the first three days of July. If current levels are maintained for the remainder of the year, the annual average will drop to $80. Consequently, downside risks are increasing regarding our year-end inflation and policy rate forecasts (30.0% and 37.0%, respectively), which were originally based on an assumed average price of $90. Under current conditions, year-end inflation could fall to as low as 29%. Barring any major inflation surprises and assuming the current outlook holds, the CBRT might seek to lower the policy rate to the 34–35% range by year-end; this would involve cutting rates at least twice during the three remaining meetings, following an initial adjustment of the effective funding rate to 37% at the July 23 MPC meeting. While we characterize this trajectory as the best-case scenario for the year, we also view it as a monetary stance that falls far short of what is required to ensure sustained disinflation in the medium term.

Consumer Price Index (CPI)

Monthly inflation came in at 0.99%, in line with our forecast (0.9%) and market expectations (0.95%). Consequently, annual inflation declined by 0.5 percentage points to 32.1%. **The cumulative price increase for the first half of the year stood** at 17.76%. The limited monthly inflation and the decline in the annual rate were driven by favorable trends in vegetable prices, as well as the impact of falling fuel prices resulting from the pullback in oil prices. **Annual inflation in the Core B indicator**—which excludes energy and unprocessed food—edged down slightly from 31.3% to 31.2%. Meanwhile, annual inflation in the "C" index slowed from 30.4% to 29.8%, reflecting the exclusion of processed food prices, which continued to rise sharply (Chart 1, Table 3).

We estimate that the seasonally adjusted (s.a.) monthly CPI inflation to be announced by TurkStat will decline slightly to 1.74% from 1.88% in May. A similar improvement is evident in core inflation indicators as well; in June, monthly inflation in B (s.a.) fell from 2.3% to 2.1%, while C (s.a.) inflation dropped from 2.2% to 2.0%.

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

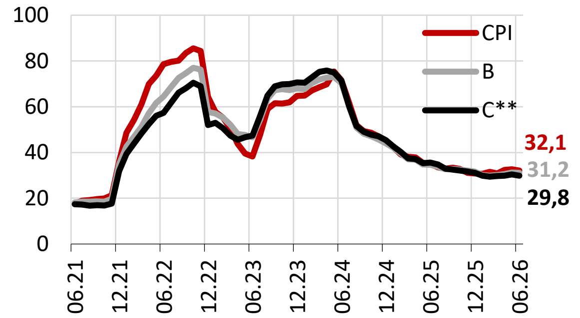
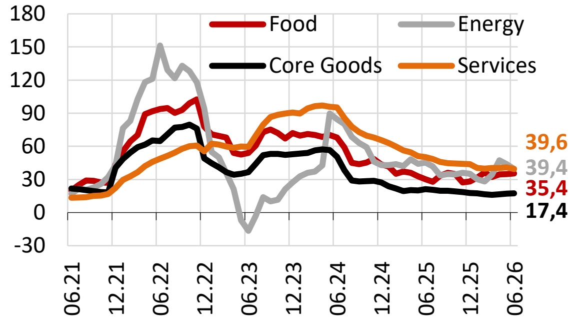


Chart 2. CPI Sub-Indices (annual % change)



* 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

In June, while annual inflation rose slightly for food and core goods, it declined for energy and services (Chart 2, Table 1). Details are as follows:

- **Food:** Monthly food inflation stood at 0.16%, supported by favorable trends in fresh fruit and vegetable prices while annual food inflation rose by 0.5 percentage points to 35.4%, driven by a base effect stemming from processed food. On a seasonally adjusted basis, monthly food inflation edged down slightly from 1.98% to 1.89%. Although the favorable trend in vegetable prices strengthened, increases in other unprocessed food items and persistently high monthly inflation in processed food limited the overall improvement in the food group.
- **Energy:** Energy prices declined by 0.91% on a monthly basis in June, driven by a 3.94% drop in fuel prices resulting from the rapid retreat in international oil prices. Consequently, annual inflation in the energy group fell by 4.5 percentage points to 39.4%. The decision not to implement the automatic adjustment on excise Special Consumption Tax (SCT) on fuel, is a development that will support the continued decline in annual energy inflation. Additionally, according to a decision published in the Official Gazette, the sliding-scale price adjustment mechanism will be phased out over a three-month period.
- **Core goods:** While monthly inflation in core goods slowed back to 1.11% as seasonal price increases in the clothing and footwear group came to an end, the group's annual inflation rose by 0.1 points to 17.4%. Monthly inflation (s.a.) in core goods remained steady at 1.5%. While the monthly price increase (s.a.) in durable goods (1.4%) tracked in line with exchange rates, the price

increase in clothing and footwear (s.a.) slowed slightly compared to the April–May period, coming in at 1.2%.

- **Services:** Monthly inflation (s.a.) in services declined from 2.6% to 2.3%. The moderation of transportation services inflation, driven by the drop in fuel prices, played a role in this outcome. Annual services inflation fell from 41.1% to 39.6% (Chart 2). Monthly rent inflation (s.a.) showed a slight improvement, coming in at 3.05%, while there was no significant change in the restaurants and hotels group (shifting from 2.03% to 2.11%). Meanwhile, monthly inflation in transportation services (s.a.) slowed from 4.06% to 2.3%. Inflation trends in communication services and other services also eased somewhat.

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

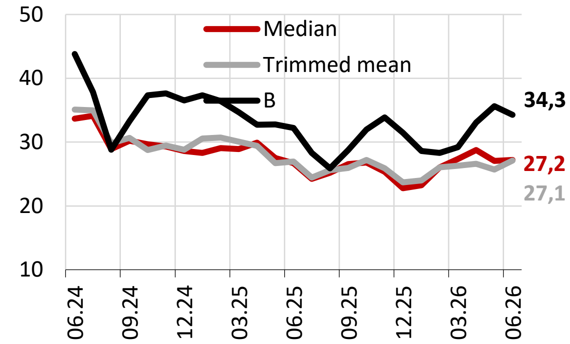
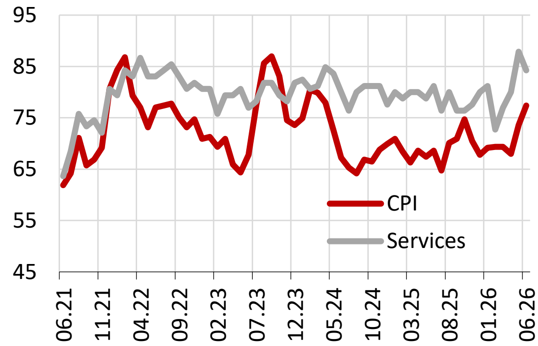
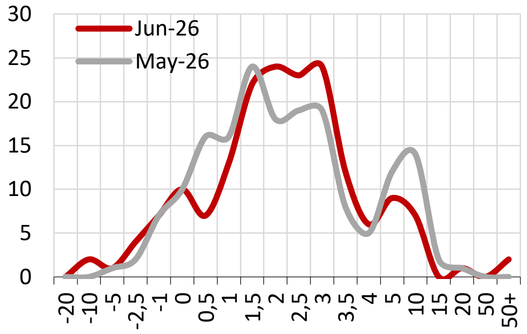


Chart 4. Diffusion Index (seas. adj., increase-decrease, %)



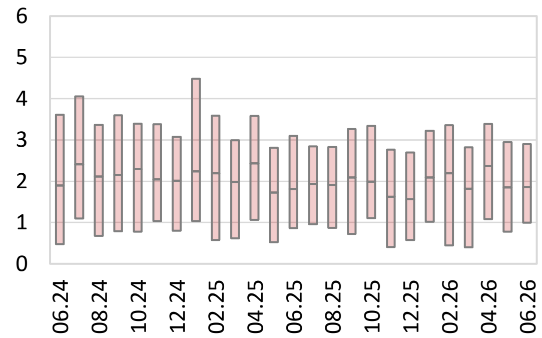
* In calculating trimmed mean indicator, 15% of the monthly inflation distribution has been deducted from both ends.
Source: Turkstat, Akbank

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



Source: Turkstat, Akbank

Chart 6. Monthly Inflation Distribution (IQR, %)

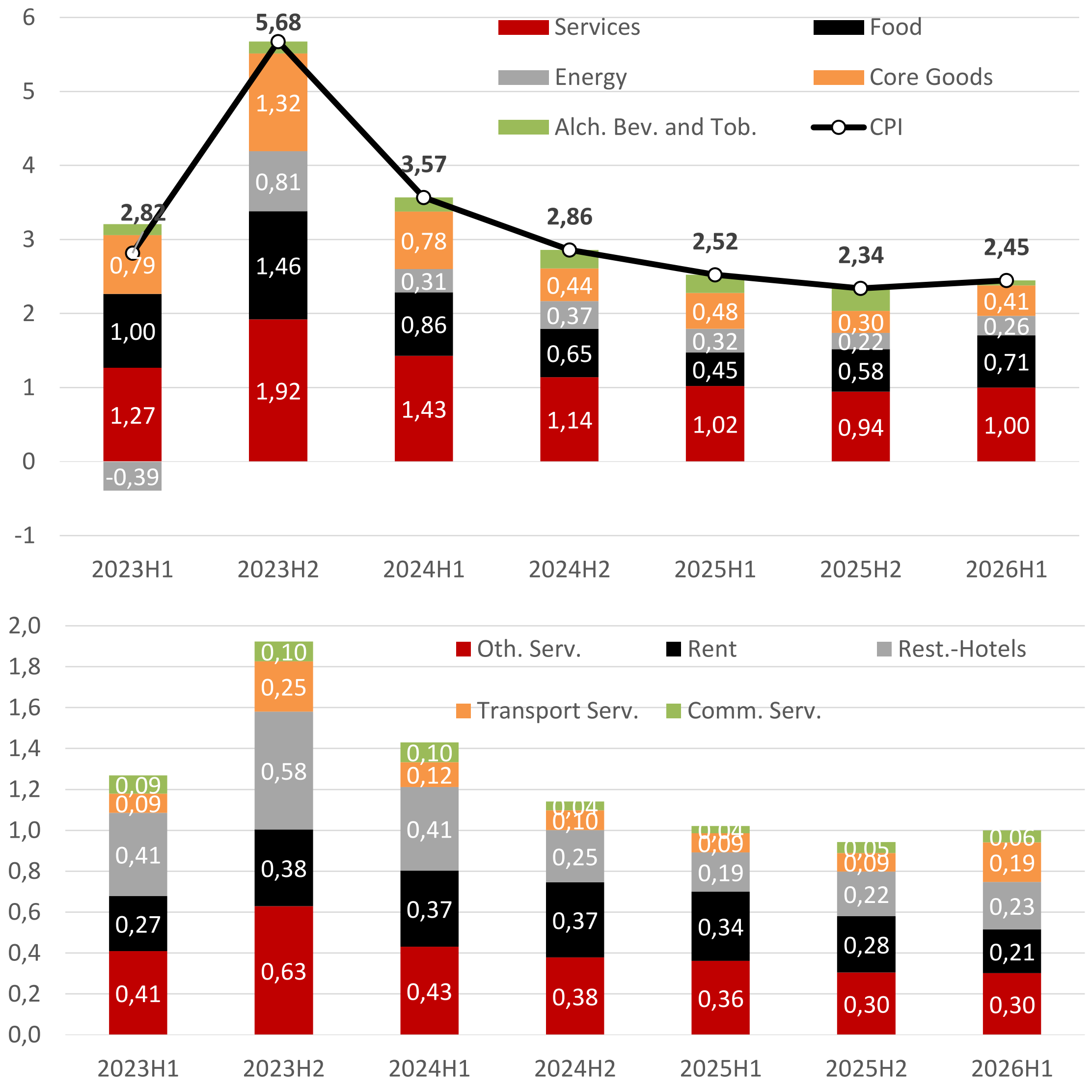


Note: The red boxes represent the 1st and 3rd quartiles (IQR), corresponding to the 25th and 75th percentiles of the monthly inflation distribution; the horizontal lines within the boxes represent the median inflation rate.
Source: Turkstat, Akbank

The median inflation indicator highlighted in monetary policy communication stood at 1.85%, while the monthly trimmed-mean inflation rate came in at 1.9%, levels similar to the previous month. The annualized three-month and two-month averages for both indicators point to a trend of 27% and 25%, respectively (Chart 3). No significant improvement has been observed in median inflation since June 2024. This situation keeps alive the question of the underlying inflation trend and the extent of its stickiness. The median's average over the last two years is 2.0% monthly (26.8% annualized), while the one-year average is 1.9% monthly (25.7% annualized). Historically, CPI inflation runs an average of 4 points above the median; consequently, we assess the short-term underlying inflation trend to be around 29–30%. Diffusion indices remain at quite high levels (Chart 4). Furthermore, the distribution of seasonally adjusted monthly inflation does not yet present a picture consistent with medium-term targets (Charts 5 and 6).

Commodity prices have declined much more rapidly than the scenarios we formulated during the initial weeks of the war. The average price of Brent crude (spot) was $92.5 in the first half of the year, compared to $68 during the first three days of July. If current levels are maintained for the remainder of the year, the annual average will drop to $80. Consequently, downside risks are increasing regarding our year-end inflation and policy rate forecasts (30.0% and 37.0%, respectively), which were originally based on an assumed average price of $90. Under current conditions, year-end inflation could fall to as low as 29%. Barring any major inflation surprises and assuming the current outlook holds, the CBRT might seek to lower the policy rate to the 34–35% range by year-end; this would involve cutting rates at least twice during the three remaining meetings, following an initial adjustment of the effective funding rate to 37% at the July 23 MPC meeting. While we characterize this trajectory as the best-case scenario for the year, we also view it as a monetary stance that falls far short of what is required to ensure sustained disinflation in the medium term.

Chart 7. Contributions to Monthly Inflation (s.a, % points)



Source : Turkstat, Akbank

Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Jun.25	**May.26**	**Jun.26**	**Jun.25**	**May.26**	**Jun.26**
CPI	**1.37**	**1.71**	**0.99**	**35.05**	**32.61**	**32.11**
Food and Non-Alcoholic Beverages	-0.27	-0.48	0.17	30.20	34.86	35.45
Alcoholic Beverages and Tobacco	0.14	-0.02	3.46	27.96	29.85	34.15
Clothing and Footwear	-0.27	11.29	-0.18	14.47	14.08	14.18
Housing. Water. Electricity. Gas and Other Fuels	2.62	2.28	2.30	65.47	45.59	45.14
Furnishings. household eq. maint. of the house	2.01	1.99	1.98	30.12	22.36	22.32
Health	0.66	0.41	1.17	38.70	32.94	33.62
Transport	2.34	2.03	-0.05	27.91	34.29	31.15
Communication	1.88	0.45	1.87	18.10	25.58	25.57
Recreation and Culture	1.39	1.17	1.00	33.44	25.88	25.39
Education	4.48	0.83	1.72	73.33	50.06	46.10
Restaurants and Hotels	2.10	1.87	2.11	35.59	31.59	31.61
Insurance and financial services	1.24	0.49	1.06	48.40	28.30	28.07
Miscellaneous Goods and Services	1.74	0.51	1.04	35.06	23.55	22.71

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Jun.25	**May.26**	**Jun.26**	**Jun.25**	**May.26**	**Jun.26**
CPI	**1.37**	**1.71**	**0.99**	**35.05**	**32.61**	**32.11**
Goods	**0.71**	**1.34**	**0.53**	**28.44**	**28.13**	**27.90**
Energy	2.27	-0.17	-0.91	45.40	43.88	39.41
Food and Non-alcoholic Beverages	-0.27	-0.48	0.16	30.20	34.86	35.44
Unprocessed Food	-1.68	-4.05	-2.83	30.26	34.76	33.19
Fresh Fruits and Vegetables	-1.94	-9.34	-10.22	44.72	39.96	28.15
Other Unprocessed Food	-1.50	0.14	2.48	21.36	31.66	36.98
Processed Food	0.97	2.63	2.60	29.97	35.31	37.50
Bread and Cereals	1.46	2.63	1.60	36.59	33.80	33.98
Other Processed Food	0.71	2.63	3.00	26.75	35.93	39.02
Goods excl. Energy and Food	0.96	3.46	1.25	22.11	18.92	19.25
Core Goods	1.01	3.91	1.11	21.09	17.26	17.37
Clothing and Footwear	-0.32	11.40	-0.22	13.79	13.62	13.74
Durable Goods (excl. Gold)	1.24	1.32	1.39	22.37	16.60	16.77
Other Core Goods	1.59	0.96	2.01	24.84	21.20	21.71
Services	**2.73**	**2.30**	**1.69**	**50.34**	**41.07**	**39.64**
Rent	3.97	2.15	2.65	82.97	49.77	47.87
Restaurant-Hotels	2.10	1.87	2.11	35.59	31.59	31.61
Transportation Services	4.01	5.61	0.58	49.55	52.02	47.01
Telecommunication Services	1.48	1.69	1.60	21.74	41.98	42.15
Other Services	2.28	1.14	1.42	51.68	36.89	35.73
CPI	**1.37**	**1.71**	**0.99**	**35.05**	**32.61**	**32.11**
A (CPI excl. seasonal products)	1.66	1.63	1.48	36.13	33.76	33.51
B (CPI excl. unpro. food. energy. alc. bev. tob., gold)	1.76	2.87	1.66	34.62	31.30	31.18
C (CPI excl. energy. food. alc. bev. tob. and gold)	1.93	2.92	1.46	35.64	30.44	29.84
D (CPI excl. unproc. food. alc. bev. and tobacco)	1.84	2.58	1.41	35.99	32.44	31.88
E (CPI excl. alcoholic beverages and tobacco)	1.42	1.76	0.92	35.31	32.66	32.01
F (CPI excluding administered prices)	1.48	1.66	0.79	32.84	31.35	30.45

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

Monthly D-PPI inflation slowed to 1.8% as the momentum of commodity price increases waned, while annual inflation declined by 0.8 percentage points to 28.1% (Table 3). A breakdown of the D-PPI reveals that, although price increases in the energy group remained relatively high due to lagged effects, they slowed significantly compared to previous months. Regarding the goods groups that directly impact the CPI, price increases slowed markedly for durable consumer goods, whereas they accelerated slightly for non-durable consumer goods

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Jun.25	May.26	Jun.26	Jun.25	May.26	Jun.26
Domestic PPI	**2.46**	**2.75**	**1.80**	**24.45**	**28.93**	**28.09**
Intermediate Goods	1.77	2.94	1.88	21.77	27.76	27.89
Durable Consumption Goods	2.12	1.31	0.24	29.92	31.39	28.97
Non-durable Consumption Goods	1.12	1.29	1.41	26.45	31.05	31.42
Energy	8.42	6.60	3.04	24.15	31.45	24.93
Capital Goods	2.26	1.58	1.66	27.40	23.73	23.01

Source: TURKSTAT

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağlar Yüncüler, PhD – Vice President
Caglar.Yunculer@akbank.com

M. Sibel Yapıcı
Sibel.Yapici@akbank.com

Sercan Pişkin
Sercan.Piskin@akbank.com