Macro: Geopolitical tensions delay the expected improvement in the inflation trend

Consumer prices increased by 1.78% month-on-month (mom) in July, coming in below our expectation (1.98%). Accordingly, annual inflation declined by 0.35 percentage points compared to June, falling to 31.75%. The downside surprise was mainly driven by energy excluding fuel and core goods prices. In fuel prices, the cumulative increase in March–July reached 15.6%, and we estimate that its cumulative contribution to inflation has reached around 3.5 percentage points.

We estimate that the seasonally adjusted (s.a.) monthly inflation to be announced by TurkStat will be 2.29% (previous: 1.80%). Core B and C monthly inflation rates (s.a.) are 2.0% and 2.2% (previous: 2.2% and 2.1%). Median and trimmed-mean monthly inflation rates are 1.6% and 1.5% (previous: 1.8% and 1.9%). The exclusion and distribution-based indicators, which signaled in the opposite direction during this period, reflect the effects of the slowdown in demand conditions on the one hand, while on the other hand, due to successive cost shocks and the rigidity of expectations in a high-uncertainty environment, they do not yet show a widespread and significant improvement in the main trend. The continued rigidity in services inflation (m.a. 2.85%) despite the weakening of domestic demand draws attention to the role of expectations and pricing behavior.

In the note summarizing the June developments (Macro: Rapid decline in commodity prices improved the short-term inflation outlook), we had assessed the gradual exit from the sliding-scale mechanism as a risky practice in terms of inflation. Indeed, the renewed escalation of geopolitical tensions during the past period led to significant increases in oil prices. Since the exit plan is designed asymmetrically, in the event of volatility in oil prices, the sliding scale mechanism becomes a mechanism that amplifies the inflationary effect. Our analysis indicates that the war's inflationary effects could reach 4 percentage points in August. Unless oil prices return to their June levels by October, the eliminated inflationary effects so far are likely to pile up in the last quarter, posing a significant risk to the inflation and monetary policy outlook. In this context, we believe that revising the sliding-scale mechanism into a design that operates symmetrically and conditional to oil prices would be beneficial in terms of expectation management and overall macroeconomic balances.

In an optimistic scenario where tensions in the region ease and commodity prices fall rapidly again, year-end inflation and policy interest rates could fall to 29% and 35%, respectively. On the other hand, in a pessimistic scenario where geopolitical tensions do not ease and policy coordination remains weak (or disinflation falls behind in policy priorities), additional inflationary pressures could keep the effective funding rate at 40%. We believe that for the risk in the second scenario to disappear, both oil prices need to fall and the sliding-scale mechanism needs to be updated to reflect this decline simultaneously in domestic prices. Taking into account the current risk balance and the measures that can be taken against upside risks, we maintain our year-end inflation and policy interest rate forecasts (30.0% and 37.0%), which we produced assuming an average annual Brent oil price of $90 at the beginning of the war.

Consumer Price Index (CPI)

Monthly inflation came in at 1.78%, slightly below both our forecast (1.98%) and market expectations (≈1.9%). Thus, annual inflation declined by 0.35 percentage points to 31.75%. The cumulative increase in CPI since the beginning of the year reached 19.86%. Annual inflation edged down in the B-index from 31.2% to 31.0%, while remaining broadly flat at 29.9% in the C-index (Chart 1, Table 3).

We estimate that the seasonally adjusted (s.a.) monthly CPI inflation, to be announced by TurkStat, increased to 2.29%, compared with 1.8% in June. On the other hand, monthly B inflation (s.a.) declined from 2.16% to 1.97%, while monthly C inflation (s.a.) increased from 2.07% to 2.18%.

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

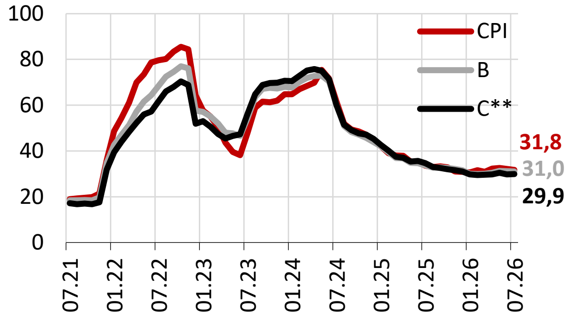
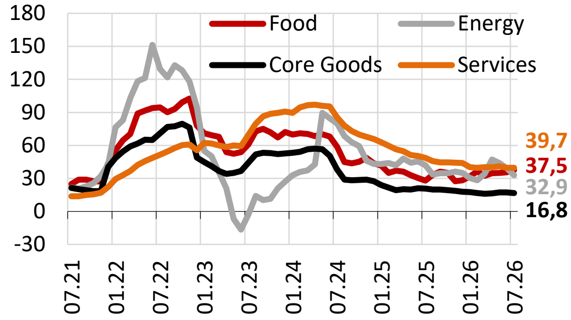


Chart 2. CPI Sub-Indices (annual % change)



* 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 July, annual inflation declined in energy and core goods, increased in food, and remained broadly flat in services (Chart 2, Table 1). Details are as follows:

- **Food:** After relatively low levels in May and June due to positive trends in fresh fruit and vegetable prices, monthly food inflation gained momentum again in July, driven by fresh fruit and vegetable prices. While the raw monthly inflation rate was 1.61%, the seasonally adjusted rate rose from 1.9% to 2.65%. Annual inflation in the food group increased by 2.1 percentage points to 37.5%, primarily driven by unprocessed food prices.

  In unprocessed food prices (s.a.), a strong increase was recorded in vegetable prices, while fruit prices decreased. In processed food, recent increases in items such as bread and dairy products were more limited in July, somewhat mitigating the impact of fresh fruit and vegetable prices on group inflation.

- **Energy:** Developments in international prices continue to affect energy prices. Monthly inflation in the energy group rose to 2.3%, driven by increases in fuel prices (≈3.7%) and electricity prices (5.8%) due to the "End-Source Supply Tariff". Despite this, annual inflation for the group decreased by 6.5 percentage points to 32.9% due to the base effect. During this period, tap water, natural gas, and solid fuels limited the group's overall inflation.

  The renewed increase in oil prices beginning in the second week of July, together with the significant increase in refinery margins, led to gradual increases in domestic fuel prices throughout the month, particularly for diesel. As of month-end, gasoline prices had increased by approximately 8% in July, while diesel prices had increased by approximately 25%. LPG prices, on the other hand, remained unchanged because international pricing for this item is carried out once a month and at the beginning of the month. Since the price increases largely took place in the second half of the month, the average increase in July remained limited to 2.4% for gasoline and 7.2% for diesel. Therefore, we expect fuel prices in the CPI basket to show a strong carry-over effect in August from July. Due to the expected increase in LPG prices (approximately 7.0%) and the fact that, following the change in the sliding-scale mechanism, declines in international prices will no longer be reflected in domestic fuel prices, we may see an increase of ≈10% in fuel prices in August. Depending on the course of oil prices, there is also a risk of a strong additional increase in fuel prices at the beginning of October with the complete exit from sliding-scale mechanism.

- **Core goods:** Monthly inflation in core goods was -0.38%, driven by the seasonal decline in clothing and footwear prices, while annual inflation in the group declined by 0.6 percentage points to 16.8%. Seasonally adjusted monthly inflation slowed from 1.5% to 1.15%. Monthly price inflation (s.a.) in durable goods stood at 1.14%, broadly in line with the basket exchange rate increases, while monthly price inflation (s.a.) in clothing and footwear accelerated somewhat to 1.56%. Although annual inflation in the clothing and footwear group rose to 16.2%, its highest level since February 2025, it continues to remain low according to alternative measures.

- **Services:** Monthly inflation in services (s.a.) increased from 2.43% to 2.85%, driven by increases in items other than rents. The cumulative increases in fuel prices were reflected in urban and intercity passenger transportation, while increases in communication services and the reflection of the medical examination co-payment regulation introduced under the Social Security Institution (SGK) Health Implementation Communiqué, together with tariff increases of the Turkish Medical Association, contributed to services inflation. Price increases in outpatient and inpatient treatment services contributed a total of 0.3 percentage points to monthly inflation. Monthly inflation (s.a.) in the restaurants and hotels group was limited to 2.3%, while annual inflation in the group has remained around 31.6% over the last five months. Monthly inflation (s.a.) in rents was 2.35%, marking approximately the lowest level in the last 4.5 years.

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

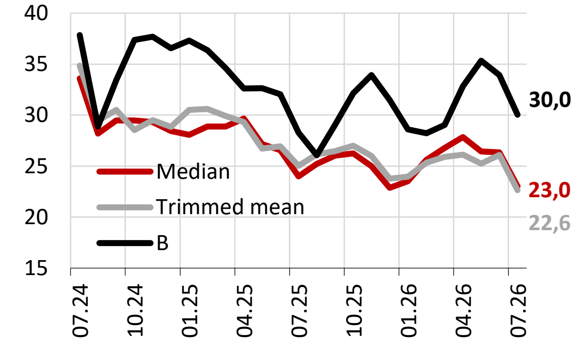
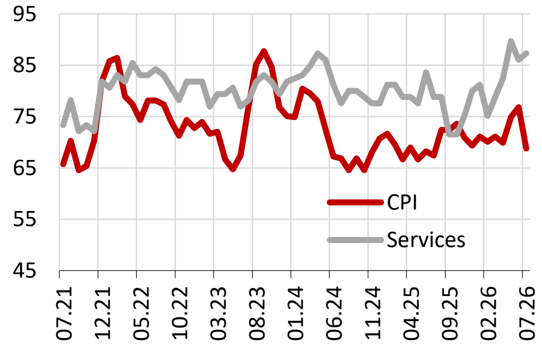


Chart 4. Diffusion Index (seas. adj., increase-decrease, %)



* 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)

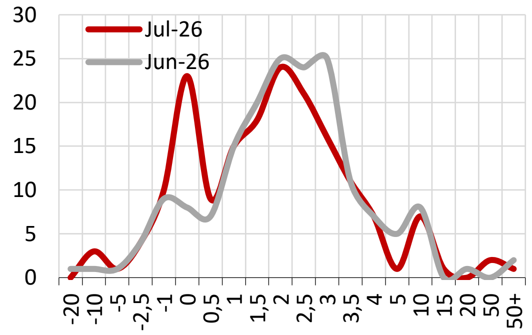
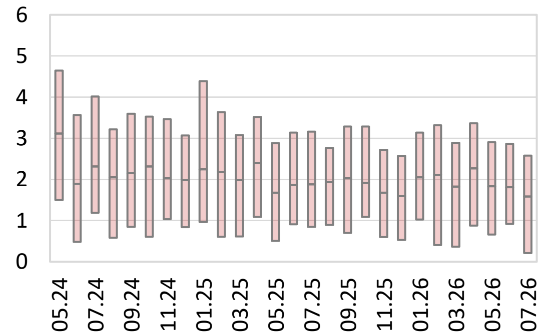


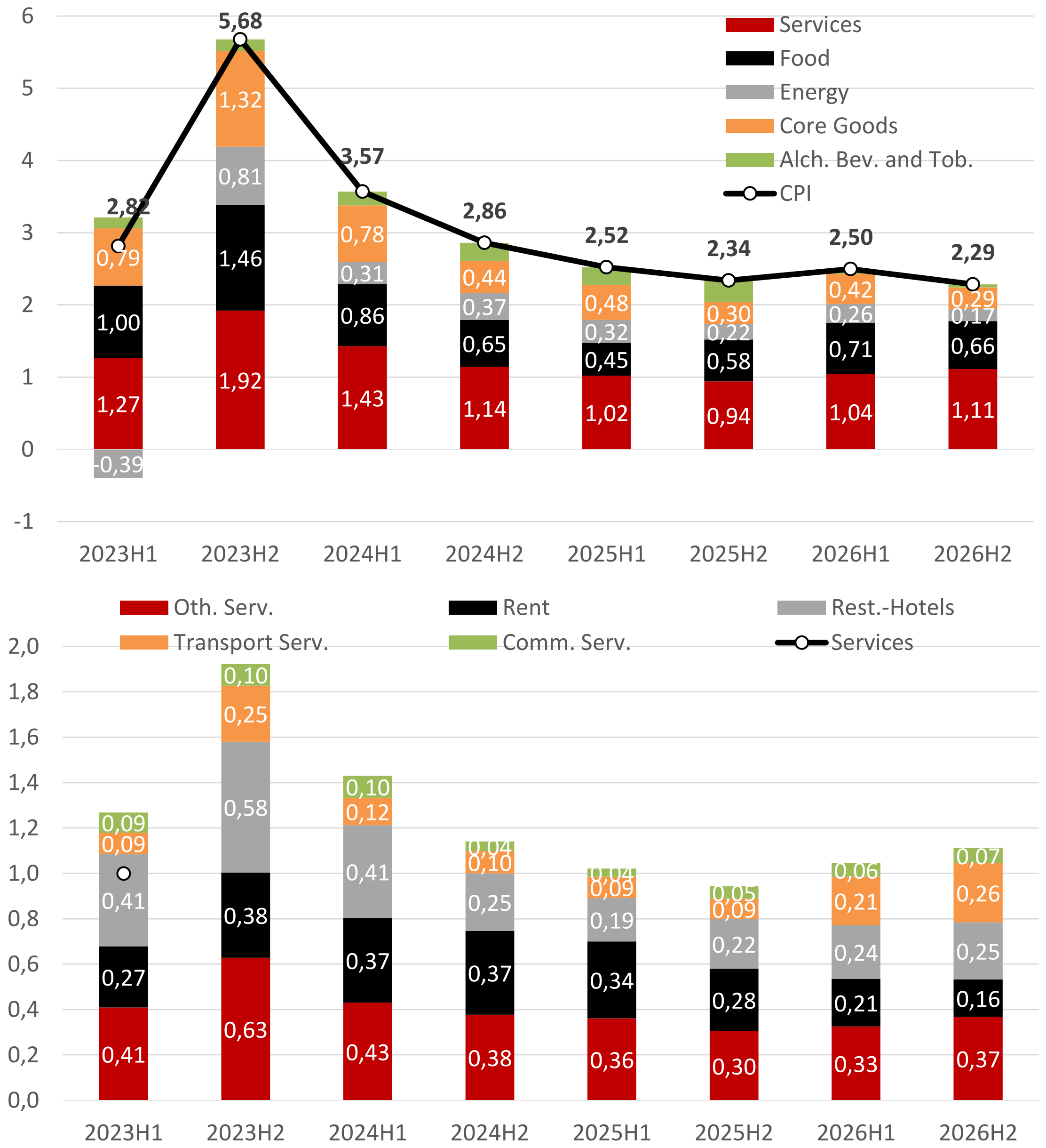
Chart 6. Monthly Inflation Distribution (IQR, %)



Source: Turkstat, Akbank
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

Seasonally adjusted monthly inflation, one of the indicators of the inflation trend, increased to 2.3% compared with the previous month (June: 1.8%). Among exclusion-based core indicators, monthly B and C inflation rates (s.a.) were 2.0% and 2.2%, respectively (previously 2.2% and 2.1%). In contrast to the moderate course in core goods, services remain quite elevated. Distribution-based core indicators, namely median and trimmed monthly inflation, were 1.6% and 1.5%, respectively (previously 1.8% and 1.9%). The exclusion and distribution-based indicators, which signaled in the opposite direction during this period, reflect the effects of the slowdown in demand conditions on the one hand, while on the other hand, due to successive cost shocks and the rigidity of expectations in a high-uncertainty environment, they do not yet show a widespread and significant improvement in the main trend. The continued rigidity in services inflation (s.a. 2.85%) despite the weakening of domestic demand draws attention to the role of expectations and pricing behavior. Examining the contributions to average seasonally adjusted monthly inflation as of half-years also clearly reveals the persistence in the services and food groups (Charts 7 and 8).

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



Source : Turkstat, Akbank

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Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Jul.25	**Jun.26**	**Jul.26**	**Jul.25**	**Jun.26**	**Jul.26**
CPI	**2.06**	**0.99**	**1.78**	**33.52**	**32.11**	**31.75**
Food and Non-Alcoholic Beverages	0.07	0.17	1.61	27.95	35.45	37.53
Alcoholic Beverages and Tobacco	5.69	3.46	1.93	27.79	34.15	29.38
Clothing and Footwear	-5.82	-0.18	-3.93	10.67	14.18	16.48
Housing. Water. Electricity. Gas and Other Fuels	5.76	2.30	2.25	61.94	45.14	40.32
Furnishings. household eq. maint. of the house	1.63	1.98	1.70	30.08	22.32	22.41
Health	2.84	1.17	10.74	37.49	33.62	43.89
Transport	2.84	-0.05	2.59	26.78	31.15	30.83
Communication	3.35	1.87	2.04	18.61	25.57	23.97
Recreation and Culture	2.91	1.00	1.24	34.33	25.39	23.36
Education	2.67	1.72	1.32	75.54	46.10	44.18
Restaurants and Hotels	2.24	2.11	2.28	34.16	31.61	31.65
Insurance and financial services	2.96	1.06	1.01	43.47	28.07	25.64
Miscellaneous Goods and Services	1.92	1.04	1.11	33.88	22.71	21.74

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Jul.25	Jun.26	Jul.26	Jul.25	Jun.26	Jul.26
CPI	**2.06**	**0.99**	**1.78**	**33.52**	**32.11**	**31.75**
Goods	**1.52**	**0.53**	**0.86**	**26.96**	**27.90**	**27.07**
Energy	7.35	-0.91	2.30	41.89	39.41	32.86
Food and Non-alcoholic Beverages	0.07	0.16	1.61	27.95	35.44	37.52
Unprocessed Food	-2.39	-2.83	2.37	25.80	33.19	39.69
Fresh Fruits and Vegetables	-4.78	-10.22	5.39	33.60	28.15	41.84
Other Unprocessed Food	-0.70	2.48	0.47	20.76	36.98	38.58
Processed Food	2.18	2.60	1.03	29.50	37.50	35.95
Bread and Cereals	1.43	1.60	0.98	33.80	33.98	33.39
Other Processed Food	2.57	3.00	1.05	27.37	39.02	36.96
Goods excl. Energy and Food	0.71	1.25	-0.19	21.71	19.25	18.19
Core Goods	0.09	1.11	-0.38	20.70	17.37	16.82
Clothing and Footwear	-6.02	-0.22	-4.01	9.95	13.74	16.18
Durable Goods (excl. Gold)	1.57	1.39	0.95	23.54	16.77	16.05
Other Core Goods	2.02	2.01	1.19	24.46	21.71	20.71
Services	**3.14**	**1.69**	**3.18**	**48.54**	**39.64**	**39.70**
Rent	4.68	2.65	2.85	78.95	47.87	45.29
Restaurant-Hotels	2.24	2.11	2.28	34.16	31.61	31.65
Transportation Services	1.28	0.58	3.40	44.48	47.01	50.09
Telecommunication Services	5.67	1.60	4.09	21.99	42.15	40.02
Other Services	2.79	1.42	3.90	50.75	35.73	37.19
CPI	**2.06**	**0.99**	**1.78**	**33.52**	**32.11**	**31.75**
A (CPI excl. seasonal products)	2.94	1.48	1.93	35.21	33.51	32.20
B (CPI excl. unpro. food. energy. alc. bev. tob., gold)	1.82	1.66	1.66	33.77	31.18	30.98
C (CPI excl. energy. food. alc. bev. tob. and gold)	1.74	1.46	1.80	34.70	29.84	29.91
D (CPI excl. unproc. food. alc. bev. and tobacco)	2.50	1.41	1.70	34.78	31.88	30.86
E (CPI excl. alcoholic beverages and tobacco)	1.93	0.92	1.78	33.74	32.01	31.80
F (CPI excluding administered prices)	1.45	0.79	1.39	31.41	30.45	30.37

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

While monthly D-PPI inflation slowed to 1.52%, annual inflation decreased by 0.3 percentage points to 27.8% (Table 3). Looking at the details of the PPI, price increases in the energy group continued to be relatively higher. In other groups, price increases continued to slow down in a more general manner, and producer price increases excluding energy fell to around 1%.

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Jul.25	Jun.26	Jul.26	Jul.25	Jun.26	Jul.26
Domestic PPI	**1.73**	**1.80**	**1.52**	**24.19**	**28.09**	**27.83**
Intermediate Goods	1.68	1.88	0.81	21.91	27.89	26.79
Durable Consumption Goods	2.31	0.24	0.40	31.35	28.97	26.57
Non-durable Consumption Goods	0.54	1.41	1.33	26.40	31.42	32.46
Energy	3.43	3.04	4.83	20.82	24.93	26.62
Capital Goods	2.53	1.66	1.09	28.34	23.01	21.28

Source: TURKSTAT

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