

Türkiye | Core inflation eases, food bites

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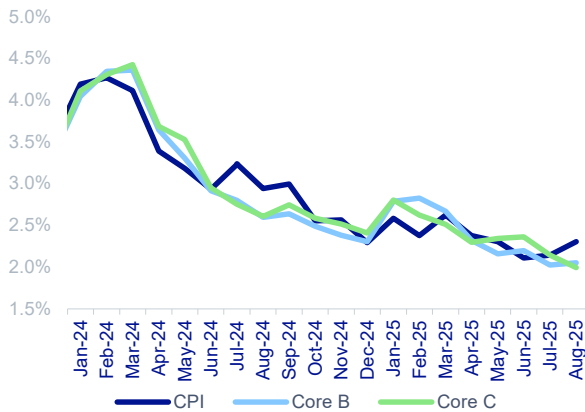
- Consumer prices rose by 2.04% m/m in August, above both our expectation and consensus (1.75%), resulting in an annual inflation of 32.95%. The upward surprise came from mainly food inflation (0.75pp contribution), which had weighed to the downside in the previous three months.
- According to our calculations, seasonally adjusted (s.a.) monthly consumer inflation slightly eased to 2.4% m/m (down from 2.6% in July). Therefore, its 3-month trend inched up to 2.3% (vs. 2.1% before) but still remained below its April level and closer to its pre-shock past December figure.
- We calculate seasonally adjusted monthly core C inflation (excluding food, energy, gold, alcohol and tobacco) as 1.7% (vs. 2.1% previously), the lowest level since late 2021; whereas core B inflation (including processed food compared to core C) stayed almost the same at 2.1%, signaling additionally challenging conditions for the CBRT.
- In the details of core inflation, monthly basic goods inflation came down to 0.8%, supported by both durable goods and other basic goods; while services inflation eased only marginally to 2.7% with its stickiness closer to 3% since February.
- The Turkish economy grew by 1.6% q/q in 2Q25 (vs. 0.7% in 1Q25), bringing the output gap getting closer to neutral levels. The CBRT's more negative output gap projections will likely be revised and huge positive contribution from inventories in 2Q25 requires caution not to allow fast price increases in the next months. Also, the stronger commitment of the CBRT for more aggressive inflation targets will necessitate timely reactions to well anchor inflation expectations.
- Overall, even though August consumer inflation shows further improvement in core details, the gains happen much more slowly in services due to strong inertia and backward indexation. Inflation expectations remain above the upper bound of the CBRT forecast range. Despite the most recent efforts of fiscal consolidation, we suspect the fiscal policy might remain supportive but to a lower extent. The economy barely slows down and the quarterly contraction in private consumption was only marginal in 1H25 despite more restrictive financial conditions after March. Given the reduced room for real appreciation going ahead, there is the risk of sticking to 1.5-2% monthly CPI trend in the short term, which will require a reduced pace of rate cuts, even starting from next week. We maintain our inflation forecast of 30% by end 2025 and evaluate risks on the upside for the next-year's end of the year inflation consensus expectation of 20%.

Core C breaks below 2% on basic goods, but services remain sticky

Consumer prices rose by 2.04% m/m in Aug25 (vs. 2.06% in Jul25), surprising on the upside against both the consensus and our expectation (1.75%). The main driver was food inflation, which added 0.75pp to the headline after dampening it for the past three months. This upsurge in food prices offset the mechanical deceleration effect, as the Jul25 figure had been lifted by 0.9pp from administered prices. With other components broadly balanced, the headline remained steady.

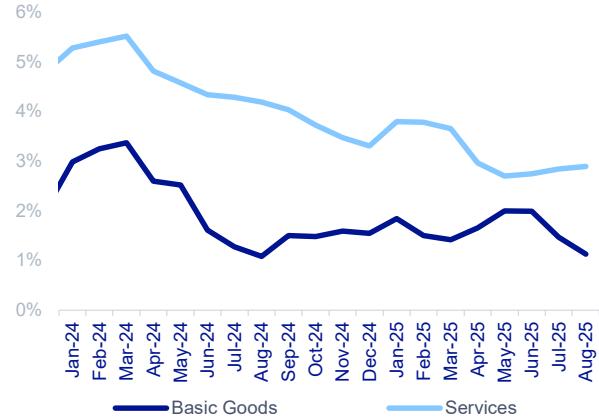
On a seasonally adjusted basis, according to our calculation, CPI moderated to 2.4% m/m in Aug25 from 2.6% in Jul25, despite food inflation contributing 1.1pp (0.3pp prev.). The 3-month headline trend, distorted by food prices, edged up to 2.3% from 2.1% previously.

Figure 1. Consumer Inflation Indicators
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

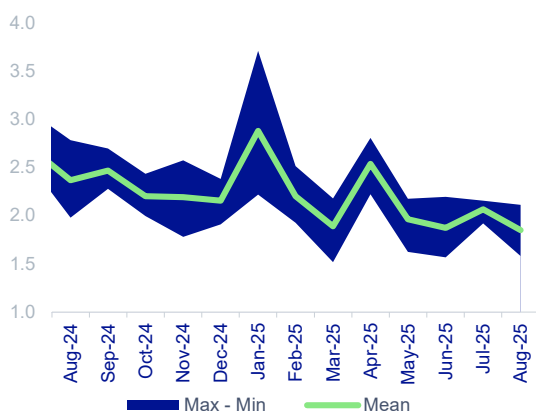
Figure 2. Core C Inflation Indicators
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

The average of CBRT's underlying trend indicators improved to 1.8% m/m in Aug25 from 2.1% in Jul25 (vs. 1.9% in Jun25), according to our calculations, and its 3-month average slowed slightly to 1.9% from 2.0% (vs. 2.1% in Jun25). Core C inflation (excluding food, energy, gold, alcohol and tobacco) posted the sharpest correction, falling to 1.7% m/m –a four-year low– from 2.15% in Jul25. Core B inflation (including processed food compared to core C) stayed almost the same at 2.1%. Median (1.9% vs. 2.0%), SATRIM (1.6% vs. 1.9%), and V_1 (1.7% vs. 2.1%) improved from Jul25 but remained at or above Jun25 levels (1.8%, 1.6%, 1.6% respectively). The dynamic factor model signaled broadly stable underlying dynamics in Aug25 (2.1%) vs. Jul25 (2.2%) and Jun25 (2.2%).

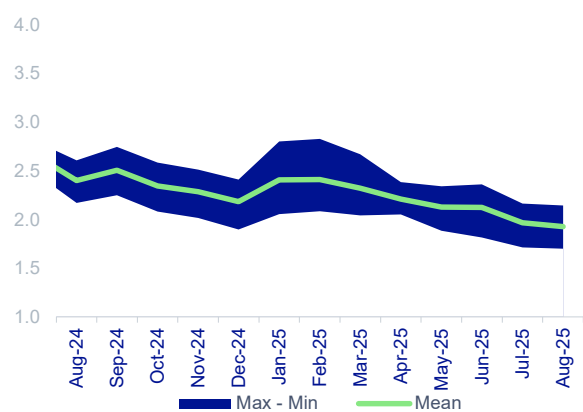
Figure 3. Consumer Inflation Indicators*
(seasonal adj., monthly)



Source: Garanti BBVA Research, TURKSTAT

* Mean represents the average of different trend indicators including seasonally adjusted B, C, SATRIM, Median, inflation excluding volatile items and dynamic factor. The highlighted area shows the maximum and minimum range.

Figure 4. Consumer Inflation Indicators*
(seasonal adj., monthly, 3-month average)

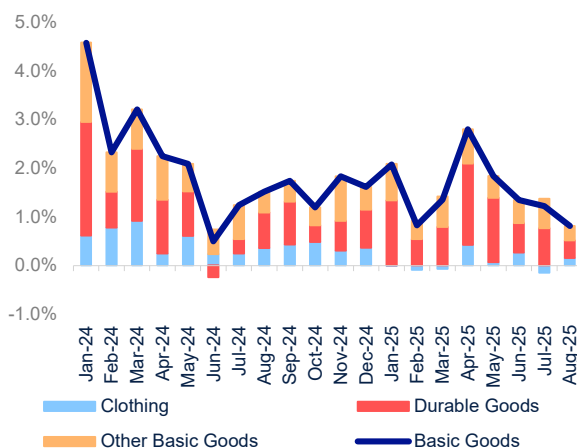


Source: Garanti BBVA Research, TURKSTAT

It is noteworthy that upside extreme values in August are disproportionately reflected in food items. Excluding these, the underlying trend looks more favorable -an aspect of greater relevance to the CBRT, as it better implies dynamics under its control. However, risks persist from food and energy, time-related adjustments in education (to be seen in mostly Sep CPI) and health, backward indexation in services, and a narrower negative output gap realizations relative to CBRT's assumptions.

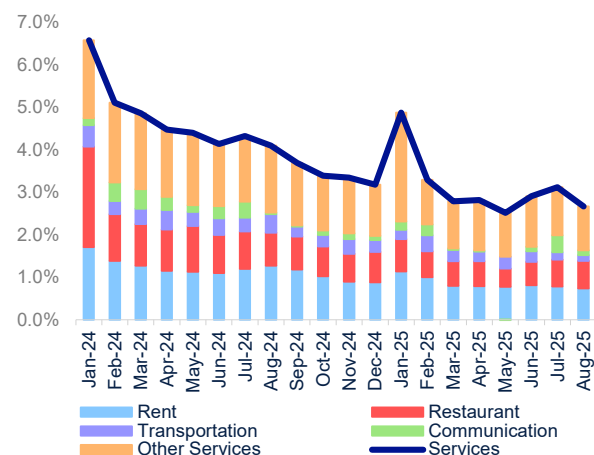
In seasonally adjusted terms, basic goods inflation eased to 0.8% m/m in Aug25 from 1.2% in Jul25, supported by moderate clothing inflation (0.7% vs. -0.7%), slower durable goods (0.7% vs. 1.6%), and weaker other basic goods (1.0% vs. 2.0%). Services inflation decelerated to a still-high 2.7% m/m from 3.1%, largely due to a sharp correction in communication services (1.7% vs. 5.7%). Rent slowed to 3.9% (4.1% prev.), the first time below 4% in three years. Transportation services eased to 1.4% from 1.8%, and other services to 2.7% from 2.9% (not including university fee adjustments yet which were carried over the following month). The deterioration in restaurants and hotels inflation (2.5% vs. 2.4%) stemmed from restaurant price hikes, moving in line with food prices.

Figure 5. Contributions to Basic Goods Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 6. Contributions to Services Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

On the other hand, food and non-alcoholic beverages surged 4.4% m/m (vs. 1.2% prev.), contributing 1.1pp to the headline. In adjusted terms, both unprocessed (5.1% vs. 0% prev.) and processed (2.8% vs. 2.2% prev.) food inflation accelerated. Annual food inflation jumped to 33.3% from 28.0%. With the expected impact of agricultural frost, food inflation remains a key risk to the CBRT's year-end projection.

Energy inflation slowed down to 0.6% in Aug25 from 7.3% in Jul25, with the sharp July reading driven by natural gas price hikes and the special consumption tax on fuel. On the producer side, domestic PPI rose 2.5% m/m (vs. 1.7% prev., 25.2% y/y), driven by energy, as lagged effects of gas price hikes filtered through. In this regard, costs-push pressures stay moderate; however, accumulated inventories as of 2Q25 pose risks on consumer prices for the coming months. The extent of such pass-through will depend on demand conditions, which -based on 2Q25 GDP upside surprise- are proving more resilient than expected.

The risk of sticky inflation depending on the restrictiveness of policy mix

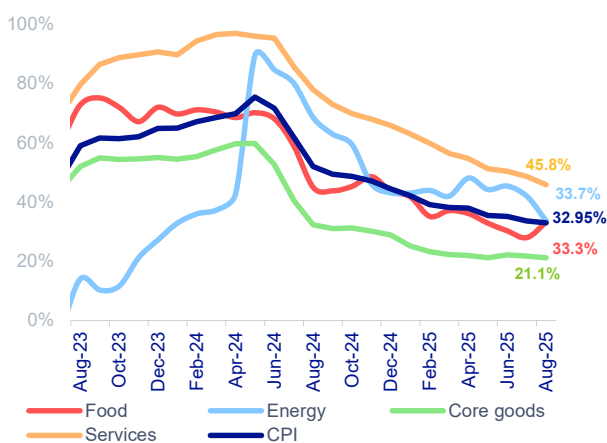
The higher than expected correction in food prices resulted in an upward surprise in August CPI, resulting in a monthly inflation trend of 2.3%. Looking ahead, food inflation might remain volatile and lead to upward surprises when we get closer to winter because of extreme weather conditions.

On the other hand, core C inflation trend came down below 2%, backed by mainly basic goods (trend of 1.1%) on the back of a larger support from durable goods reflecting the implications from a stable currency and relatively subdued demand. However, services inflation trend stayed closer to 2.9% with a widespread contribution from sub-components, rent being the highest. Consequently, the slower gains on inflation result in still strong inertia and distorted pricing behavior, slowing down the disinflation process even further.

Inflation expectations remain well above the CBRT forecast range (25-29% for 2025 and 13-19% for 2026), despite some improvement lately. According to the market participants survey of the CBRT, 12-month ahead inflation expectation fell to 22.8% (vs. 23.4% prev.), while the year-end inflation expectation for 2026 materialized as 20.4%. On the other hand, 12-month ahead real sector expectations limitedly came down to 37.7% (vs. 39.0%), households' expectations declined only marginally to 54.1% (vs. 54.5%). We assess that prolonged process of disinflation with a potentially stronger reliance on macro-prudential measures going forward keep inflation expectations elevated and weaken the monetary transmission mechanism.

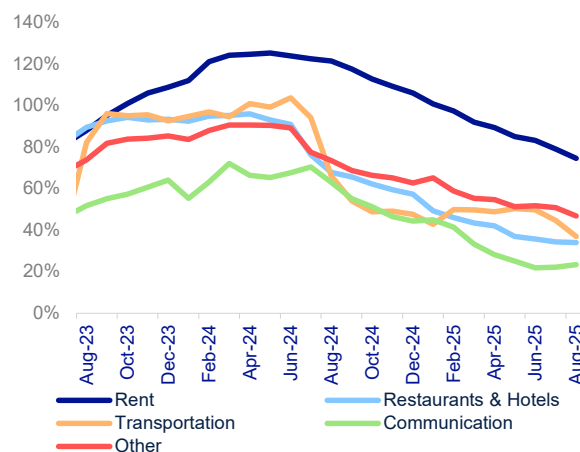
Despite the most recent efforts of fiscal consolidation, we suspect the fiscal policy might remain supportive, may be to a lower extent. Therefore, the economy barely slows down and given the 2Q25 upward surprise, 2025 GDP growth might easily reach 3.5-4%. All in all, we see the risk of sticking to 1.5-2% monthly CPI trend in the short term, given the reduced room for real appreciation going ahead, which will require a reduced pace of rate cuts, even starting from the next week MPC meeting. We maintain our inflation forecast of 30% for the end of 2025 and evaluate risks on the upside for the next-year's end of the year inflation consensus of 20%.

Figure 8. Consumer Inflation Subcomponents (YoY)

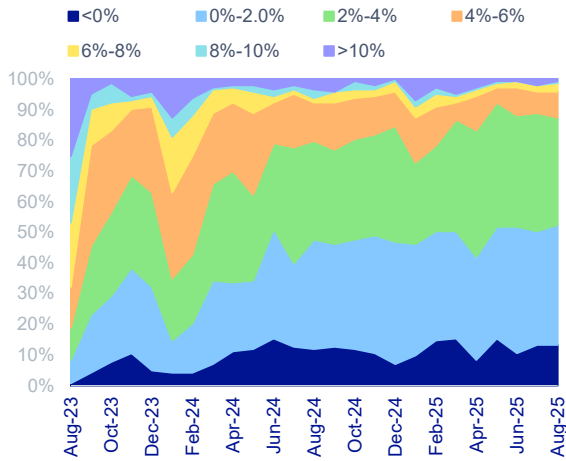


Source: Garanti BBVA Research, TURKSTAT

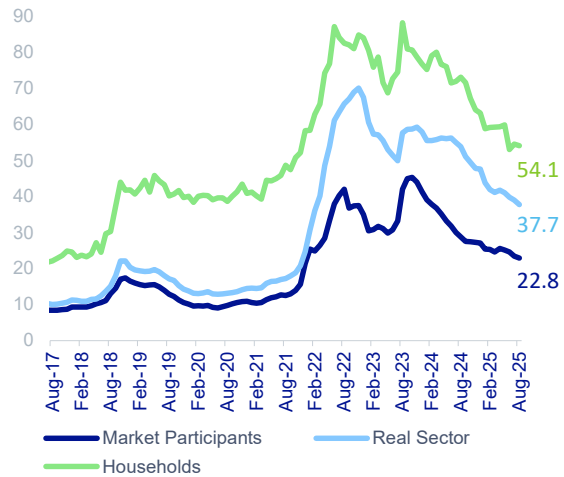
Figure 9. Services Inflation (YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 10. CPI Diffusion Index (according to monthly SA changes)


Source: Garanti BBVA Research, TURKSTAT

Figure 11. Inflation Expectations (12 Month Ahead, %)


Source: Garanti BBVA Research, TURKSTAT

Figure 12. CPI Subcomponents

	MoM	YoY
Total	2.04%	32.95%
Food & Non-alcoholic beverages	3.0%	33.3%
Beverage & Tobacco	6.0%	29.7%
Clothing & Textile	-0.7%	9.5%
Housing	2.7%	53.3%
Household Equipment	0.8%	29.7%
Health	1.0%	36.6%
Transportation	1.6%	24.9%
Communication	1.5%	20.6%
Recreation & Culture	1.5%	26.2%
Education	2.1%	60.9%
Restaurants & Hotels	1.9%	34.0%
Misc. Goods & Services	0.7%	33.0%

Source: Garanti BBVA Research, TURKSTAT

Figure 13. PPI Subcomponents

	MoM	YoY
Total	2.48%	25.16%
Mining & Quarrying	2.0%	27.6%
Manufacturing	1.8%	24.7%
Food Products	3.5%	28.7%
Textiles	1.8%	20.2%
Wearing Apparel	3.5%	33.0%
Coke & Petroleum Products	-1.8%	13.7%
Chemicals	1.5%	23.7%
Other Non-Metallic Mineral	1.6%	17.2%
Basic Metals	1.1%	17.7%
Metal Products	0.5%	24.5%
Electrical Equipment	1.9%	24.5%
Electricity, Gas, Steam	10.1%	26.7%

Source: Garanti BBVA Research, TURKSTAT

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