

Türkiye | A Better Print, A Tough Trend

Adem Ileri / Berfin Kardaslar

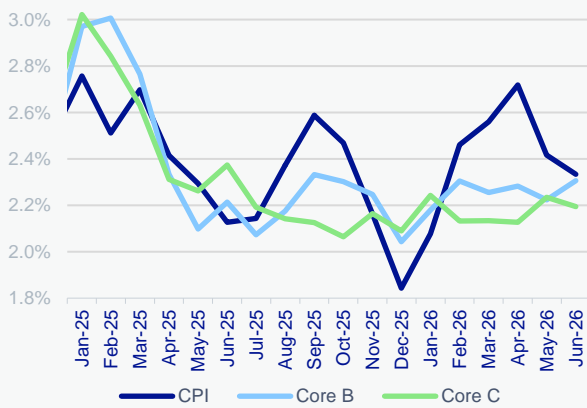
- Consumer inflation rose 1.0% m/m in June, in line with our expectations, bringing annual inflation down to 32.1%. The decline in headline CPI was mainly driven by easing core inflation. However, seasonally adjusted monthly CPI remained broadly unchanged at 1.8%, while its 3-month trend eased only slightly.
- Seasonally adjusted core C inflation fell to 1.97% m/m (vs. 2.15% previously). Despite weaker demand conditions, recent acceleration in currency depreciation and unanchored expectations appear to have kept core goods inflation at 1.5% m/m, with its 3-month trend rising to its highest level (1.8% m/m) since Jan25. Excluding transport services, services inflation showed no meaningful improvement.
- The average of the six trend inflation indicators declined only marginally to 2.05% m/m in June (vs. 2.18% previously), while its 3-month average remained unchanged at 2.26%. Similarly, median inflation edged down to 1.93%, while its 3-month trend stayed at 2.12%, the highest level since May25. Moreover, excluding food and energy, the inflation distribution has not changed meaningfully.
- The postponement of the SCT adjustment on fuel prices in 2H26 and the sharp decline in energy prices have improved the balance of risks to inflation, albeit only to a limited extent. Elevated and unanchored inflation expectations, persistent inertia, and an unfavorable underlying trend remain key challenges to the disinflation process.
- If Brent oil prices remain in the USD 70–75/bbl range in 2H26, this could create around a 1pp downside risk to our year-end CPI forecast. Yet, the recent hike in healthcare prices may partly offset it. We maintain our 30% year-end inflation forecast, while acknowledging a modest downside bias. A rapid monetary policy easing could hinder the disinflation process. We expect the CBRT to gradually lower the funding rate, while further improvement in inflation may create limited downside risk to our 37% year-end policy rate forecast.

Favorable Energy and Fresh Food Prices Mask Offset Core Inflation

Consumer prices rose by 0.99% m/m in Jun26 (vs. 1.71% m/m in May26), in line with both our forecast and the consensus; as a result, annual inflation eased to 32.11% y/y from 32.61% y/y in May26, marking the resumption of the disinflation process following the outbreak of US-Iran tensions. The improvement in monthly headline inflation was largely driven by core goods amid moderating seasonal factors, while favorable energy and fresh food prices continued to support the headline figure, extending the trend that began in May26. On the energy side, the decline reflected lower fuel prices amid the rapid easing in global energy prices, which enabled an increase in the special consumption tax collected on fuel, resulting in smaller contribution from the sliding-scale mechanism to headline inflation (-0.5pp vs. -0.8pp previously). On the food side, fresh food inflation declined beyond seasonal patterns due to favorable weather conditions, and became a contributor

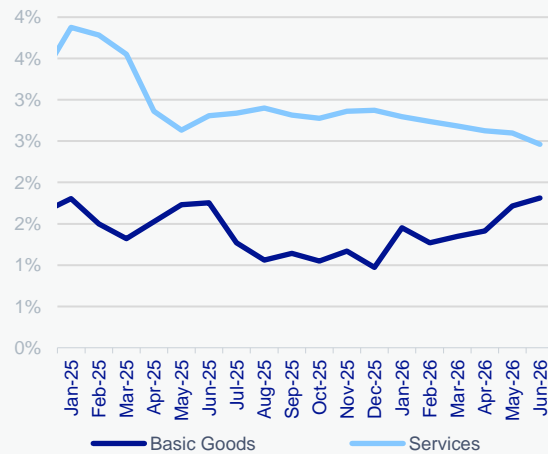
to annual disinflation after previously acting as a drag; should this trend continue, it could support to the year-end inflation figure. According to our calculations, seasonally adjusted headline inflation edged down to 1.8% m/m (-0.5pp), with tobacco price hikes adding around 0.1pp to the headline figure. Seasonally adjusted Core-C moderated to 2.0% m/m (-0.2pp), reflecting the normalization in transportation services following the holiday-related surge in the previous month; overall, despite softer domestic demand conditions, Core-C continues to point to persistent stickiness in services inflation, while basic goods inflation remains above last year's levels amid reduced support from the real appreciation of the currency.

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



Source: Garanti BBVA Research, TURKSTAT

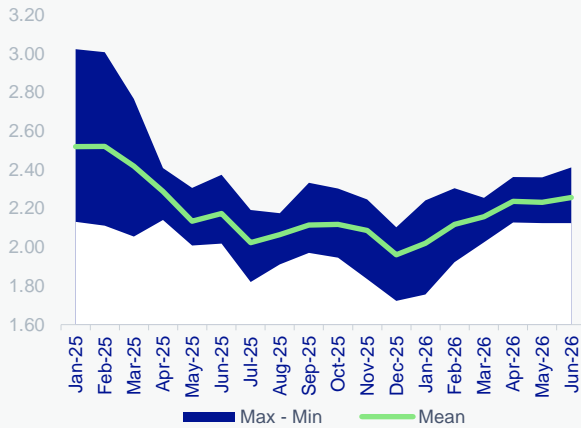
Figure 2. Core C Inflation Indicators
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

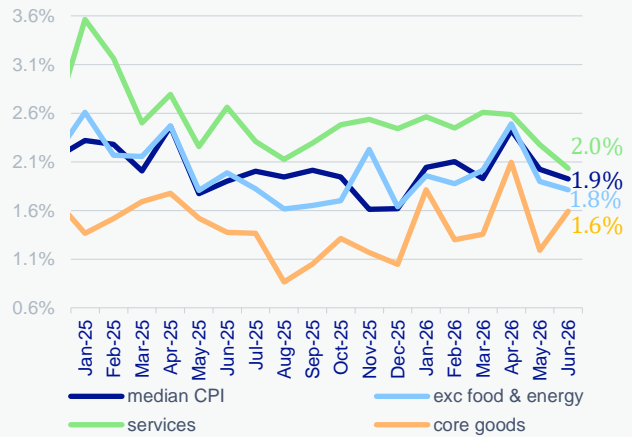
According to our calculations, the average of the underlying inflation indicators closely monitored by the CBRT slowed to 2.05% m/m (-0.1pp), while the 3-month average remained broadly unchanged at around 2.25% m/m, staying above pre-war levels and pointing above 30% inflation over a year. Core-C inflation eased to 2.0% m/m (-0.2pp), largely due to above mentioned one-off factors, while Core-B posted 2.1% m/m (-0.2pp), driven higher by unprocessed food inflation. The ease in median inflation to 1.9% m/m (-0.1pp) was unbalanced: the median for services inflation declined to 2.0% m/m (-0.3pp), reflecting the post-holiday normalization in transportation services, whereas the median for core goods increased to 1.6% m/m (+0.4pp), with higher concentration of price increases than in the previous month. SATRIM and V_1, which exclude outlier price movements, also eased slightly but remained high around 2.0% m/m. In contrast, DFM showed no improvement, remaining at 2.3% m/m and continuing to signal persistent and broad-based price pressures.

Figure 3. Underlying Trend Indicators*
(seasonal adj., monthly, 3-month avg., %)



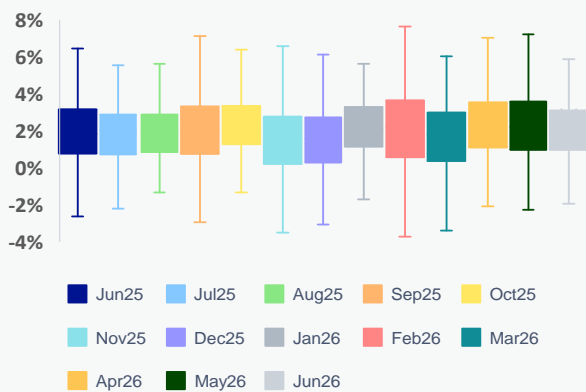
Source: Garanti BBVA Research, TURKSTAT *
Mean represents the average of different trend indicators including seasonally adjusted B, C, SATRIM, Median, inflation excluding volatile items and dynamic factor. The highlighted area shows the maximum and minimum range.

Figure 4. 5-digit Inflation Series' Median
(seasonal adj., monthly)



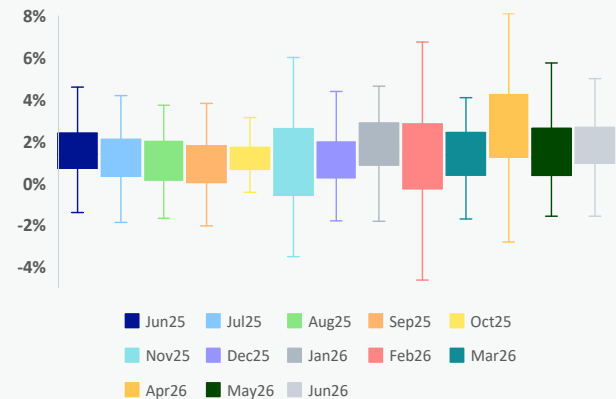
Source: Garanti BBVA Research, TURKSTAT

Figure 3. Spread of 5-digit Excluding Food and Energy Inflation Series (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 4. Spread of 5-digit Basic Goods Inflation Series (seasonal adj., monthly, pp)

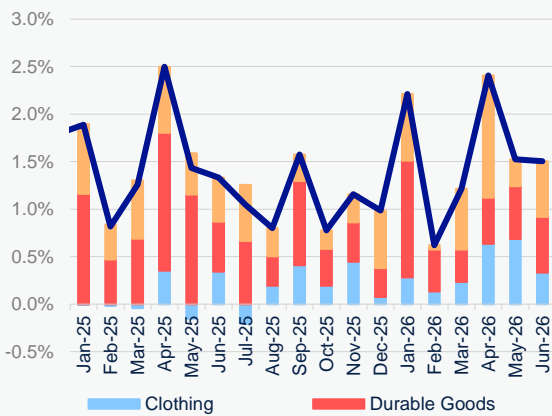


Source: Garanti BBVA Research, TURKSTAT

By Core-C components, seasonally adjusted basic goods inflation remained unchanged at 1.5% m/m, still above last year's levels; despite soft demand conditions, solid figures remained broad-based across the category, potentially reflecting both the faster depreciation of the currency and second-round effects from the war. Although easing, clothing inflation remained elevated at 1.2% m/m (-1.2pp), durable goods inflation edged up to 1.4% m/m (+0.1pp), while other basic goods inflation accelerated to 2.0% m/m (+1.0pp). Seasonally adjusted services inflation declined to 2.3%

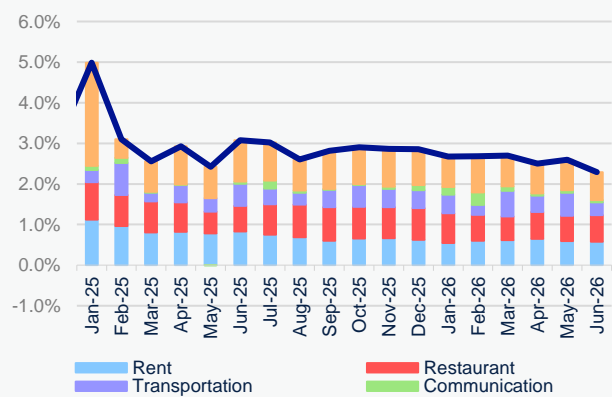
m/m (-0.3pp) but remained elevated, suggesting that high inflation expectations continue to hinder improvement in the services sector despite weaker demand conditions. Transportation services provided the main source of moderation, correcting the holiday-related surge in the previous month (2.3% m/m, -1.8pp); rent (3.0% m/m, -0.1pp), communication (1.6% m/m, -0.1pp), and other services (2.1% m/m, -0.2pp) edged down only modestly, while restaurants and hotels inflation increased slightly to 2.1% m/m (+0.1pp).

Figure 7. Contributions to Basic Goods Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 8. Contributions to Services Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Food inflation came in at -0.1% m/m in Jun26 (vs. -0.7% prev.), continuing to support headline inflation, driven by fresh food inflation (-10.2% m/m in Jun26 vs. -9.3% prev.), which declined beyond seasonal patterns. Annual food inflation, however, continued to accelerate, reaching 35.5% y/y (+0.3pp m/m, vs. 27.8% y/y at end-2025), and remained a drag on the deceleration in headline inflation. Persistently elevated processed food inflation (2.6% m/m in both May and Jun26), together with upcoming price increases in red meat, milk and dairy products, suggest that the food inflation outlook will depend heavily on fresh food inflation and therefore remains subject to risks.

Cost pressures eased following the retreat in global energy prices: producer prices increased by 1.8% m/m (vs. 2.8% prev.), while annual producer inflation declined to 28.1% y/y (vs. 28.9% previously). The moderation in manufacturing producer inflation to 1.0% m/m (-1.0pp), together with firms' reports of easing input cost pressures in the CBRT Business Tendency Survey, points to lower cost-push pressures ahead. Moreover, the postponement of the regular administered price adjustments in Jul26 prevented energy price increases and will support the producer inflation outlook; at the same time, the gradual withdrawal of support from the sliding-scale mechanism, which is expected to be phased out by Oct26, will offset part of these gains.

A Better Near-Term Inflation Outlook, But No Room for Complacency

While the moderation in monthly headline inflation and the resumption of disinflation on an annual basis are encouraging, the resilience in the underlying inflation trend paints a less optimistic picture. Indeed, the 3-month averages of the six trend inflation indicators and median inflation remain at

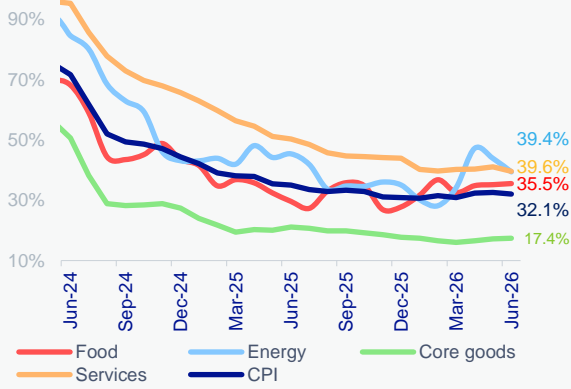
2.26% m/m and 2.12% m/m, respectively, implying annualized inflation rates of around 31% and 29%. Moreover, despite weaker demand conditions and continued orderly currency depreciation, the trend in core goods inflation has recently accelerated to 1.8% (vs. 1.0% in Dec25), providing little evidence of an improvement in pricing behavior. Although demand conditions have somewhat weakened, persistently elevated inflation expectations and strong inflation inertia in services remain key challenges. The CBRT's latest expectations survey showed no improvement in 12-month-ahead inflation expectations among market participants and the real sector, with expectations remaining unchanged at 23.8% and 33.1%, respectively. By contrast, households' 12-month-ahead inflation expectations declined by 3.4pp to 46.1%, falling below their pre-war level. However, the share of households expecting inflation to decline remained low (15.7% vs. 20.3% before the war), suggesting confidence in the disinflation process has yet to fully recover.

Despite the challenges to the inflation outlook, we believe the balance of risks has improved somewhat compared with last month. The faster-than-expected decline in energy prices, supported by easing geopolitical tensions, stands out as the most important positive development, although uncertainty over a lasting peace remains. In addition, the postponement of the SCT adjustment on fuel prices for 2H26 and the extension of the sliding-scale mechanism (eşel mobil)—even if its support is gradually reduced—until October should continue to support the disinflation process. Moreover, favorable weather conditions have kept fresh fruit and vegetable prices subdued, creating both a near-term tailwind and potential downside risks to food inflation in the months ahead. Finally, the deceleration in PPI inflation in June and firms' expectations of easing cost pressures for the upcoming 3 months could be another supportive factor.

If Brent oil prices remain in the USD 70–75 per barrel range during the second half of 2026, instead of our baseline assumption of USD 88 per barrel, this would imply around a 1pp downside risk to our year-end inflation forecast. We also expect other commodity and non-commodity prices affected by the war to continue normalizing gradually. That said, the recent sharp increase (98%–250%) in hospital examination fees could add at least 0.4pp to July monthly inflation, while potential spillovers to other healthcare services remain a source of uncertainty. The postponement of the SCT adjustment does not pose a risk to our forecast, as it is broadly in line with our previous assumption. In addition, uncertainty remains regarding upcoming price adjustments during the July–September period, particularly in education and transportation services. Overall, recent developments imply a modest downside risk to our 30% year-end inflation forecast.

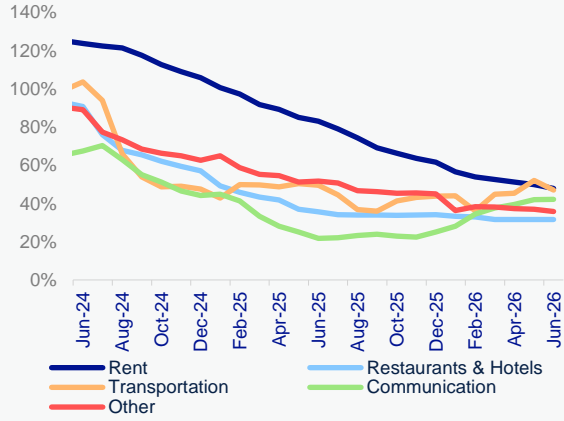
All eyes are now on the Central Bank's monetary policy decisions in July and beyond. Premature monetary policy easing could support domestic demand and reduce the likelihood of inflation falling below 30% by year-end. We therefore expect a gradual normalization of the funding rate around the July 23 MPC meeting. We maintain our year-end policy rate forecast at 37%, although recent developments in inflation imply a limited downside risk to this forecast.

Figure 9. Consumer Inflation Subcomponents (YoY)



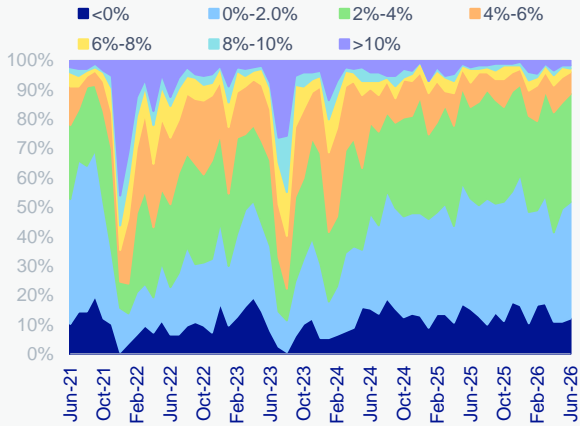
Source: Garanti BBVA Research, TURKSTAT

Figure 10. Services Inflation (YoY)



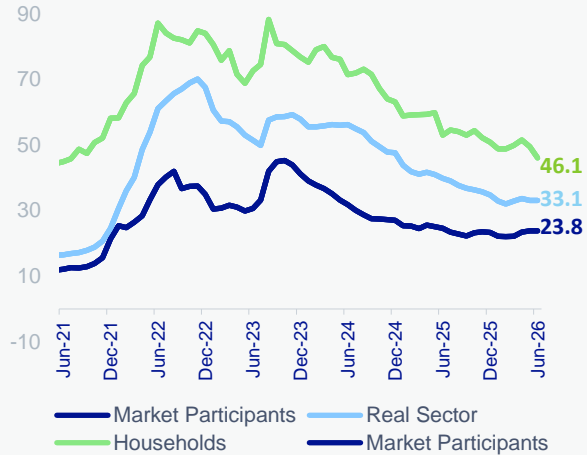
Source: Garanti BBVA Research, TURKSTAT

Figure 11. CPI Diffusion Index (according to monthly SA changes)



Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

Figure 13. CPI Subcomponents

	MoM	YoY
Total	0,99%	32,11%
Food & Non-alcoholic beverages	0,2%	35,4%
Beverage & Tobacco	3,5%	34,2%
Clothing & Textile	-0,2%	14,2%
Housing	2,3%	45,1%
Household Equipment	2,0%	22,3%
Health	1,2%	33,6%
Transportation	0,0%	31,2%
Information & Communication	1,9%	25,6%
Recreation, Sport & Culture	1,0%	25,4%
Education	1,7%	46,1%
Restaurants & Hotels	2,1%	31,6%
Insurance & Financial Services	1,1%	28,1%
Personal Care & Misc. Goods and Services	1,0%	22,7%

Source: Garanti BBVA Research, TURKSTAT

Figure 14. PPI Subcomponents

	MoM	YoY
Total	1,80%	28,09%
Mining & Quarrying	8,3%	53,5%
Manufacturing	1,0%	29,7%
Food Products	0,9%	33,1%
Textiles	2,5%	22,1%
Wearing Apparel	0,9%	29,7%
Coke & Petroleum Products	-12,6%	73,1%
Chemicals	0,8%	38,0%
Other Non-Metallic Mineral	2,9%	25,2%
Basic Metals	3,1%	26,8%
Metal Products	2,7%	22,4%
Electrical Equipment	1,9%	29,0%
Electricity, Gas, Steam	7,1%	4,1%

Source: Garanti BBVA Research, TURKSTAT

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