BBVA Research

Türkiye | Underlying inflation still calls for caution

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- Consumer price inflation came in at 1.78% m/m in July, slightly below our expectation (1.85% m/m) and the consensus (1.9% m/m), bringing annual inflation down to 31.8%.
- Seasonally adjusted (s.a.) monthly inflation rose to 2.2% (vs. prev. 1.85%); however, the underlying trend remained broadly flat after excluding the effects of the healthcare price hike, higher energy prices, and the tax adjustment on alcoholic beverages.
- Core C inflation (s.a.) stayed almost stable at 2.1% m/m, as the moderation in basic goods inflation offset the upward pressure from services inflation. While weaker domestic demand conditions support disinflation in basic goods, services inflation remains elevated even after temporary factors are excluded.
- According to our calculations, median inflation and the average of six underlying inflation indicators improved to 1.5% m/m and 1.8% m/m, respectively, supported by lower basic goods inflation. Their three-month averages also eased to 1.7% and 2.0%, respectively. However, the lack of broad-based improvement in diffusion indicators and the broadly flat underlying trend, despite disinflationary demand conditions, continue to call for caution.
- The lagged impact of fuel price adjustments on August inflation, together with expected time-dependent price increases, could exert upward pressure on inflation in the Aug–Sep period. Seasonal factors in food inflation and weakening demand conditions could provide some support. Nevertheless, high inflation expectations, volatile energy prices and strong inertia remain challenges to the inflation outlook.
- Assuming a normalization in energy prices and a prudent policy mix in 2H26, we maintain our 30% year-end inflation forecast. We expect no change in the CBRT's inflation forecast in the August Inflation Report, but we will closely monitor its communication regarding the future policy outlook. We expect the cost of funding to begin normalizing toward the policy rate from September onward and, provided conditions allow, the policy rate to decline to 36% by year-end.

Underlying Trend Remains Flat Excluding Temporary Factors

Consumer prices increased by 1.78% m/m in July (vs. 0.99% m/m in June), slightly below our expectation (1.85% m/m) and consensus (1.9% m/m), bringing annual inflation down to 31.8% y/y (vs. 32.1% y/y in Jun26). Compared with the previous month, inflation accelerated as price pressures strengthened across energy, food and services.

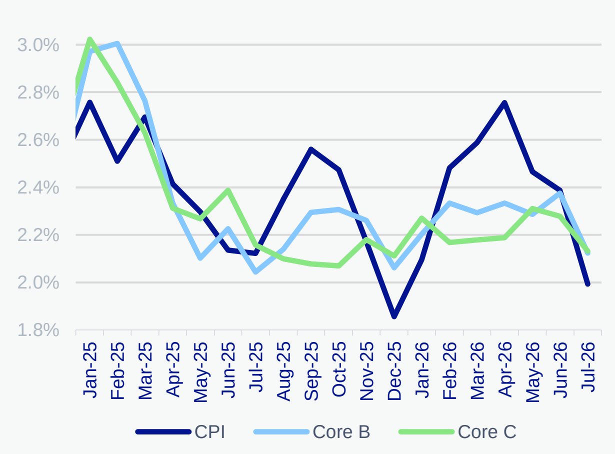
Energy prices rose by 2.3% m/m (vs. -0.9% m/m in June) on the back of rebounding fuel prices due to the re-escalation of conflicts in the Middle East and the gradual exit from the fuel pricing mechanism (50% compensation vs. 75% in Mar-Jun period). Notably, we calculate that the sliding-scale mechanism has still pulled the headline monthly inflation down by 0.45pp in July. Depending on the evolution of the energy prices, energy inflation might accelerate in August (with current prices fuel inflation is up to 9.1% m/m vs. 2.7% m/m prev. due to the carry-over effects), with declining support from sliding scale mechanism as the compensation ratio further falls to 25% in August.

Meanwhile, food inflation regained momentum (1.6% m/m) in July after two months of moderation, mainly due to higher fresh fruit & vegetable prices despite favorable seasonal conditions, pushing its annual inflation up to 37.5% (vs. 35.4% in June, 28.3% by end 2025).

On the other hand, services inflation accelerated to 3.2% m/m (vs. 1.7% m/m in June), driven by adjustments in administered prices—particularly the increase in medical examination co-payments, which pushed health inflation to 10.7% m/m in July (vs. 1.2% m/m in June)—as well as by higher bridge and highway tolls and second-round effects from higher energy prices, as reflected in transport services. By contrast, basic goods inflation remained subdued at -0.4% m/m, helping to contain the increase in Core-C inflation, which rose to 1.8% m/m from 1.5% m/m in June.

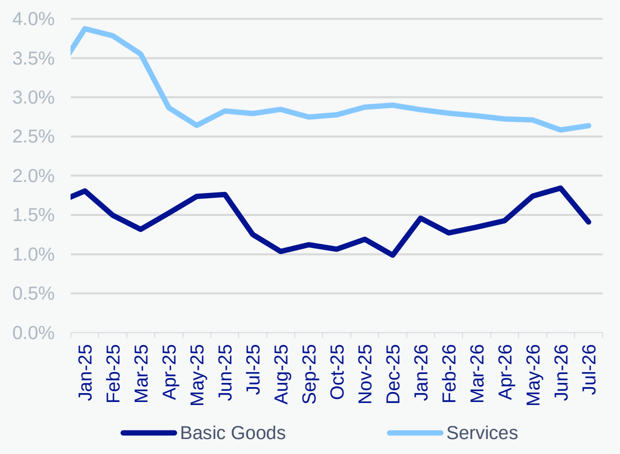
According to our calculations, seasonally adjusted consumer inflation rose to 2.2% m/m (vs. 1.9% m/m in June), while seasonally adjusted Core-C inflation edged up to 2.1% m/m (vs. 2.0% m/m in June). Notably, we estimate Core-C inflation to have stayed broadly flat at around 2.0% m/m after excluding the health-related price hikes. This suggests that weakening domestic demand conditions are helping to contain second-round effects and limit the deterioration in core inflation.

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



Source: Garanti BBVA Research, TURKSTAT

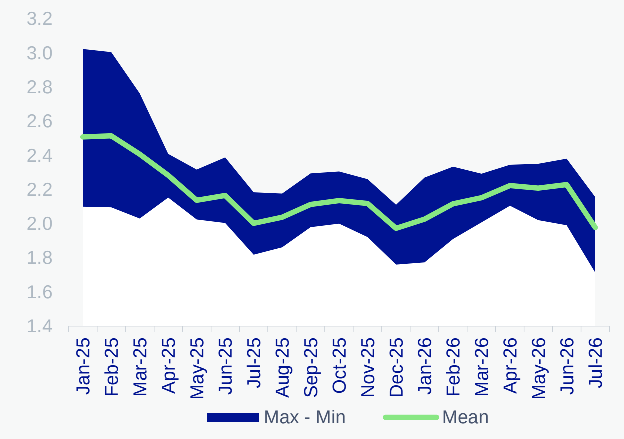
Figure 2. Core C Inflation Indicators
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

Based on the average of the inflation indicators closely monitored by the CBRT, we calculate that the underlying trend declined to 1.8% m/m (-0.2pp), supported by lower basic goods inflation, while its three-month average remained broadly stable at around 2.0%. As noted above, Core-C inflation increased only slightly to 2.1% m/m (+0.1pp), largely due to the above-mentioned one-off health price adjustment, while Core-B inflation eased to 1.9% m/m (-0.2pp). The decline in median inflation to 1.5% m/m (-0.3pp) was driven by basic goods prices: the median for services inflation increased to 2.3% m/m (+0.5pp), whereas the median for core goods eased to 1.1% m/m (-0.4pp). SATRIM and V_1, which exclude outlier price movements, also decelerated to 1.6% m/m (-0.3pp for both), while DFM improved to 1.9% m/m (-0.3pp).

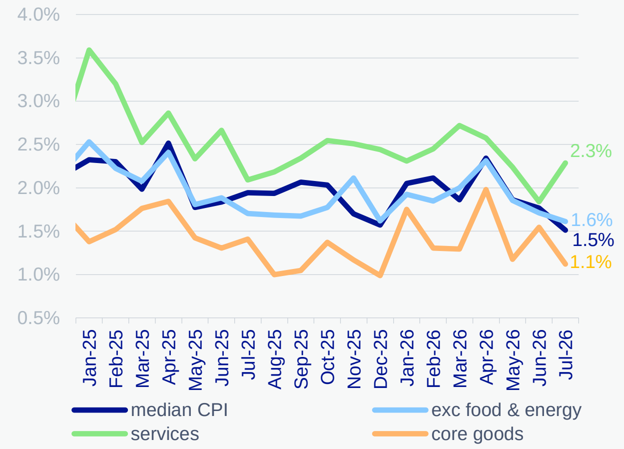
Figure 3. Underlying Trend Indicators* (seasonal adj., monthly, 3-month avg., %)



Source: Garanti BBVA Research, TURKSTAT

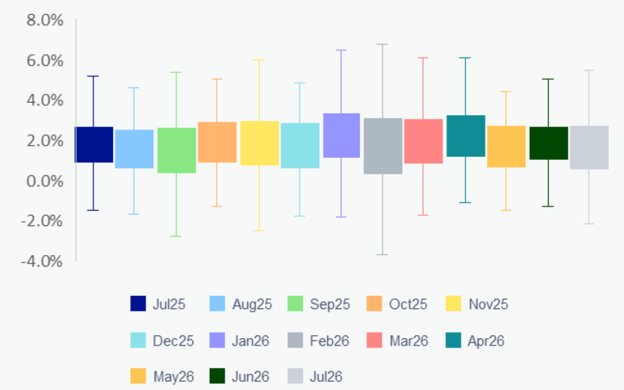
Mean represents the average of different trend indicators including seasonally adjusted B, C, SATRIM, Median, inflation excluding volatile items and dynamic factor. The highlighted area shows the maximum and minimum range.

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



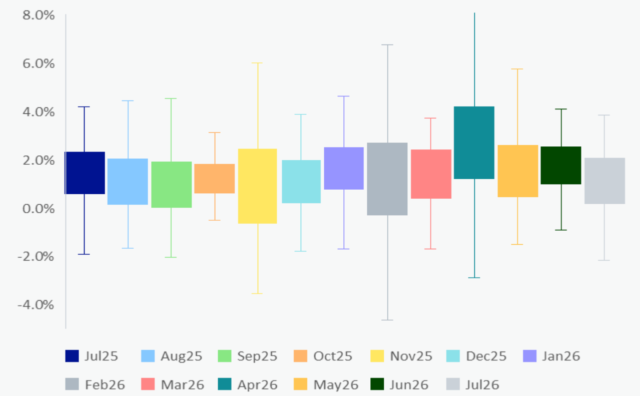
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

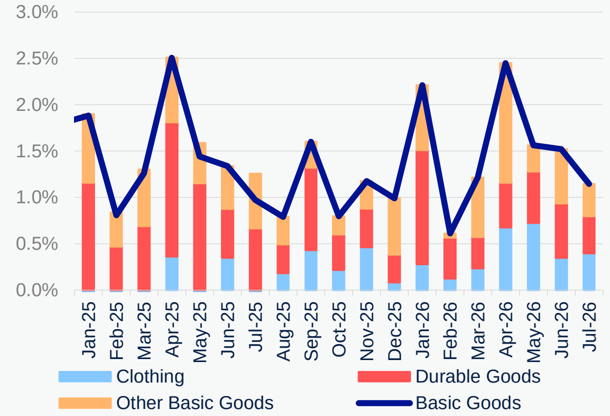
Figure 6. Spread of 5-digit Basic Goods Inflation Series (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

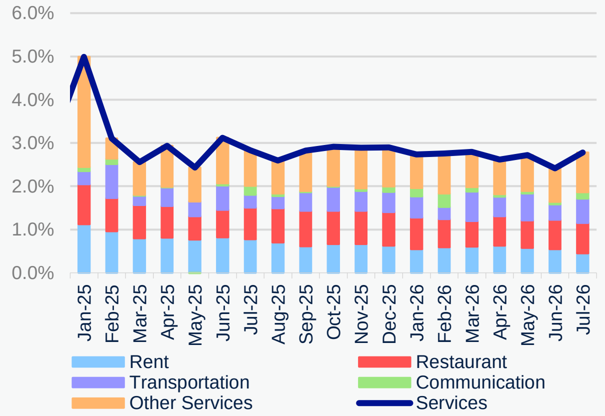
By Core-C components, seasonally adjusted basic goods inflation decelerated to 1.1% m/m (-0.4pp) amid the weakening demand conditions and contained currency depreciation. In detail, clothing inflation rose to 1.4% m/m (+0.2pp), while durable goods inflation retreated to 0.9% m/m (-0.5pp) and other basic goods inflation decelerated to 1.2% m/m (-0.8pp). On the other hand, seasonally adjusted services inflation accelerated to 2.8% m/m (+0.4pp). Rent inflation was the only component to improve, easing to 2.4% m/m (-0.5pp), its lowest monthly reading since March 2022. In contrast, transportation services (4.0% m/m, +1.4pp), restaurants and hotels (2.3% m/m, +0.1pp), communication (4.1% m/m, +2.5pp), and other services (2.9% m/m, +0.5pp) all picked up, reflecting the impact of administered price adjustments, second-round effects from higher energy prices, and still-persistent services inflation inertia.

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

Cost pressures continued to ease in July, with monthly PPI inflation declining to 1.5% from 1.8% in June despite the renewed increase in energy prices. Consequently, annual PPI inflation fell to 27.8% from 28.1%. While the slowdown in cost pressures was mostly due to lower mining costs, the rise in manufacturing costs remained limited at 1.1% m/m (vs. 1.0% m/m in June). Looking ahead, the trajectory of energy prices in the midst of geopolitical uncertainties and the timing of the abandonment of the sliding-scale mechanism—currently expected in October—will be critical to sustaining the disinflation process, as firms have already begun to revise down their expectations for input-cost pressures, according to the CBRT Business Tendency Survey.

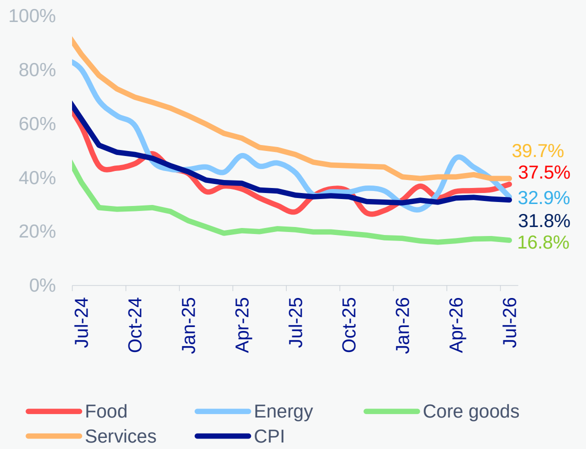
Soft Demand Offsets Inflationary Pressures, but Risks Remain

The disinflation in annual CPI, which resumed in June, following the outbreak of US-Iran tensions, continued in July; however, year-to-date cumulative inflation as of July remains higher than in the same period of last year (19.9% vs. 19.1%). Softer domestic demand conditions appear to be weighing on basic goods prices, also preventing a rapid pass-through from the energy price increases. Despite encouraging signs of a clearer moderation in rent prices, services inflation remains sticky even after excluding the one-off impact of the health consultation fee hike and energy-related pressures on transportation services. On the positive side, the 3-month average of the underlying trend indicator improved to 2.0%, returning to its pre-conflict level and implying an annualized inflation rate of 26.5% (vs. 26.9% in July 2025). For this moderation in the underlying trend to be reflected in the coming months' inflation prints, an improvement in services inflation will be necessary, as the current moderation is largely driven by basic goods prices, which have limited room for further deceleration given the uncertainty surrounding energy prices and the resolution of the Middle East conflict. However, persistently elevated inflation expectations continue to generate strong inertia in services inflation and remain the key challenge ahead, alongside geopolitical risks. The CBRT's latest survey showed some improvement in 12-month-ahead inflation expectations among the real sector (32.5%, -0.6pp) and households (44.9%, -1.2pp), although both remain well above the CBRT's projections; meanwhile, market participants' expectations edged up to 23.95% (+0.1pp).

The recent escalation in geopolitical tensions pushed energy prices higher again, worsening the balance of risks to the inflation outlook compared with the previous month. Nonetheless, the continued—although reduced—support from the sliding-scale mechanism (eşel-mobil) for fuel prices until October still supports the disinflation process. The deceleration in PPI inflation in July and firms' reports of lower input costs in the PMI survey point to easing cost pressures. Combined with softer domestic demand, easing cost pressures point to a more favorable inflation outlook ahead, as also reflected in the Real Sector Tendency Survey for July. However, uncertainty remains regarding upcoming time-dependent price adjustments in services during Aug-Sep, particularly in education and transportation services. In addition, uncertainty persists over fresh food inflation once the favorable impact of weather conditions fades. Looking ahead to August, favorable carry-over effects from the sharp increase in fresh food prices in July are expected to partially offset the upward carry-over from higher energy prices. According to our preliminary nowcast, monthly CPI inflation could therefore come in at around 1.5%.

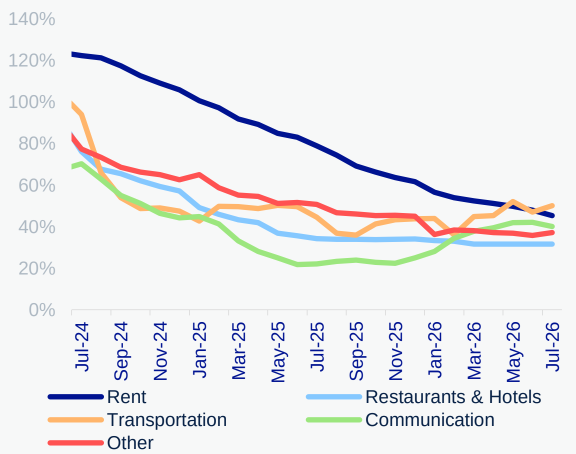
Assuming a normalization in energy prices and the maintenance of a prudent policy mix in 2H26, we maintain our year-end inflation forecast of 30%. The recent escalation in geopolitical tensions has brought energy prices back to our baseline assumption of USD 88/bbl for 2H26; together with the factors discussed above, we assess the risks around our forecast as broadly balanced. On August 13, the CBRT will present its third Inflation Report of the year. We expect no change in the Bank's inflation forecasts, but we will closely monitor its communication regarding the future policy outlook. We expect the funding rate to begin converging toward the policy rate from September onward and, provided conditions allow, the policy rate to decline to 36% by year-end.

Figure 9. Consumer Inflation Subcomponents (YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 10. Services Inflation (YoY)



Source: Garanti BBVA Research, TURKSTAT

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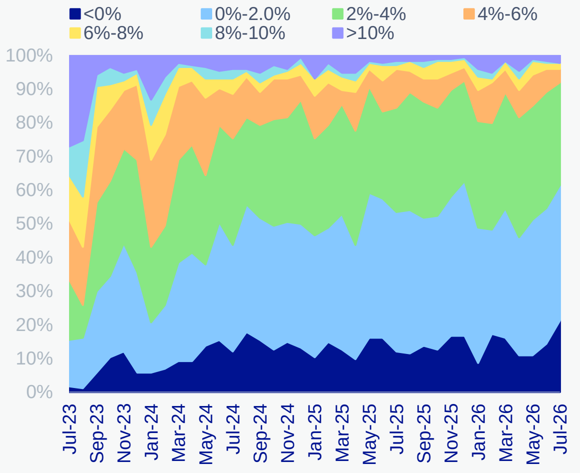
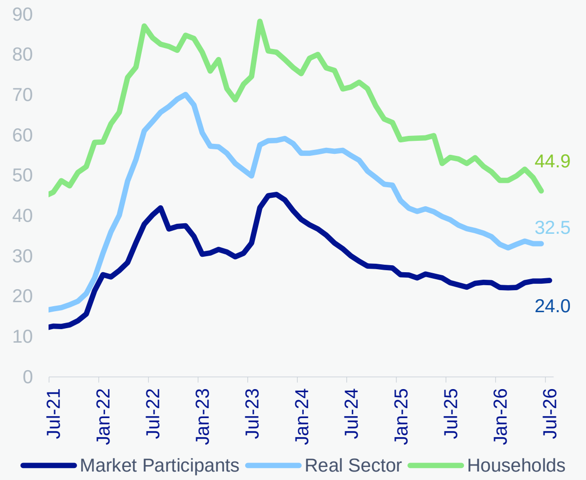
Figure 11. CPI Diffusion Index (according to monthly SA changes)



Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

Figure 13. CPI Subcomponents

	MoM	YoY
Total	**1.78%**	**31.75%**
Food & Non-alcoholic beverages	1.6%	37.5%
Beverage & Tobacco	1.9%	29.4%
Clothing & Textile	-3.9%	16.5%
Housing	2.3%	40.3%
Household Equipment	1.7%	22.4%
Health	10.7%	43.9%
Transportation	2.6%	30.8%
Information & Communication	2.0%	24.0%
Recreation, Sport & Culture	1.2%	23.4%
Education	1.3%	44.2%
Restaurants & Hotels	2.3%	31.7%
Insurance & Financial Services	1.0%	25.6%
Personal Care & Misc. Goods and Services	1.1%	21.7%

Source: Garanti BBVA Research, TURKSTAT

Figure 14. PPI Subcomponents

	MoM	YoY
Total	**1.52%**	**27.83%**
Mining & Quarrying	-4.2%	41.8%
Manufacturing	1.1%	29.0%
Food Products	0.5%	33.4%
Textiles	2.1%	22.6%
Wearing Apparel	3.5%	30.1%
Coke & Petroleum Products	2.2%	66.2%
Chemicals	-0.8%	33.3%
Other Non-Metallic Mineral	1.3%	25.2%
Basic Metals	1.4%	27.6%
Metal Products	0.9%	19.9%
Electrical Equipment	1.9%	29.2%
Electricity, Gas, Steam	9.7%	11.7%

Source: Garanti BBVA Research, TURKSTAT

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