

Macro note – July 2025 Inflation

CPI increases by 2.06% month-on-month and 33.52% year-on-year in July. The figures, which exceeded inflation expectations, bring optimism regarding the extent and pace of interest rate cuts.

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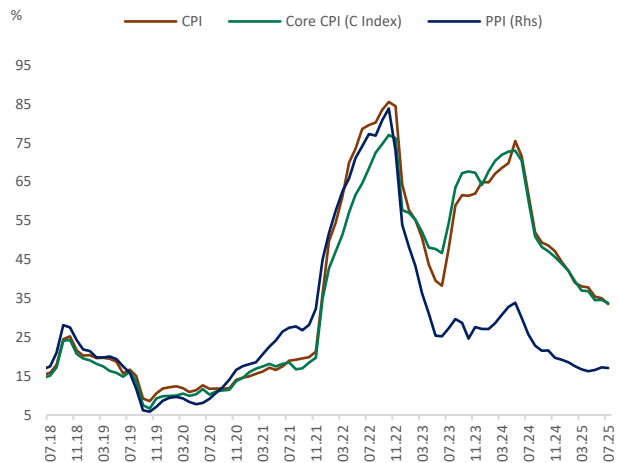
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	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
CPI	2,4	2,5	2,06	34,05	34,12	33,52
PPI	-	-	1,73			24,19

CPI rose by 2.06% in July compared to the previous month, while annual inflation stood at 33.52% (previously 35.05%). Market expectations were for inflation to increase by 2.4% monthly and 34.05% annually (Seker Invest expectations were for a 2.5% monthly increase and 34.12% annually). The positive inflation figures, which exceeded both market and our expectations, are stimulating risk appetite. The average inflation rate for food, housing, and transportation, which account for 55.52% of the index, rose by 36.9% annually. Annual inflation in basic expenditure items is above headline figures. During the same period, the monthly inflation rate for the B index (core inflation), which is the Special Scope CPI Indicator, was 1.82%, while the annual inflation rate was 33.77%. We had expected that upward pressure from administered/guided prices in July would cause a temporary rise in inflation. This pressure was clearly felt in the rise in alcoholic beverages and tobacco and housing prices (5.69% and 5.78% monthly, respectively). When these items are excluded, the slowdown in inflation is clearly evident. Monthly inflation increased at varying rates in all categories except clothing and footwear. When their contributions to the annual inflation rate of 33.52% are evaluated, housing, food, and transportation contribute a total of 20.5 points. We can say that the pressure on inflation from demand has been largely brought under control. However, both the pressure from public finances and supply-side price levels are well above the target figures. Despite a marked improvement in service inflation, the annual rate of 48.54% is causing a deviation from the price stability target. Inflation will remain close to flat in the 30-35% range until the end of the year. The inertia and base effect formed at these levels are likely to persist until 2026. After the interest rate cut in June, the CBRT's interest rate map could change direction depending on inflation developments. Inflation in July, which came in below expectations, calmed concerns in financial markets. Unless there is an external shock to the disinflation path, risk appetite will remain strong until the end of the year.

Producer prices rose by 1.73% month-on-month in July, while the annual change in the PPI stood at 24.19%. Looking at the sub-indices of the PPI, the annual changes in the main industrial groups were a 21.91% increase in intermediate goods, 31.35% increase in durable consumer goods, 26.40% increase in non-durable consumer goods, 20.82% increase in energy, and 28.34% increase in capital goods. Monthly dynamics showed a 1.68% increase in intermediate goods, a 2.31% increase in durable consumer goods, a 0.54% increase in non-durable consumer goods, a 3.43% increase in energy, and a 2.53% increase in capital goods. After pressures from energy prices and geopolitical risks subsided, supply-side pressures on inflation have been limited. Considering the PPI-CPI gap, the pass-through from producer prices to consumer prices will stabilize at around 25-30%. The inflation-focused tight stance in monetary policy is producing effective results on the path to price stability. After the June cut, we can say that the CBRT's hand has been eased regarding interest rate cuts with July inflation. Interest rate cuts that take into account the real interest rate level and do not create additional tightening in the market will also give the real sector some breathing room. In particular, the improvement in inflation expectations may create a tighter level in real interest rates. Therefore, improvements in the expectation channel will pave the way for more flexible interest rate cuts.

Graph 1: CPI, PPI, and Core CPI (YoY %)



Graph 2: PPI – CPI Spread

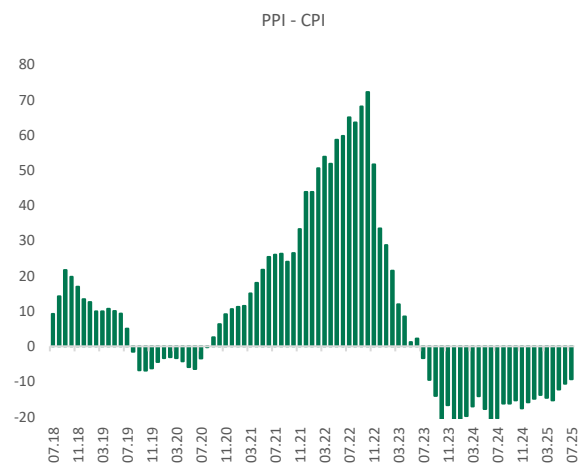


Table 1: Inflation and Sub-Components

Main expenditure groups	Weights	MoM (%)	Ytd (%)	YoY (%)
CPI	100,00	2,06	19,08	33,52
Food and non-alcoholic beverages	24,97	0,07	13,66	27,95
Alcoholic beverages and tobacco	3,52	5,69	17,56	27,79
Clothing and footwear	7,16	-5,82	-6,05	10,67
Housing, water, electricity, gas, and other fuels	15,22	5,78	34,10	62,01
Furnishing, household equipment, routine domestic maintenance	7,67	1,63	17,32	30,13
Health	4,09	2,84	25,01	37,49
Transportation	15,34	2,89	20,84	26,57
Communication	3,62	4,25	11,68	19,62
Recreation and Culture	3,36	2,06	15,65	27,52
Education	2,31	2,67	37,49	75,54
Hotels, cafes, and restaurants	8,32	2,24	23,53	34,16
Miscellaneous goods and services	4,43	1,95	21,98	34,90

Source: TURKSTAT

In summary, while the CPI rose by 2.06% month-on-month in July, annual inflation stood at 33.52%. Despite upward price pressures caused by fiscal policy in July, inflation figures that were below market and our expectations created optimism regarding the monetary policy stance. Our baseline scenario at the beginning of the year was disrupted by political developments in March. Inflation levels in May, June, and July indicate that prices have slowed beyond expectations due to the tight monetary policy stance. The significant declines in both goods and services inflation also limit upside risks to year-end forecasts. Inflation developments have opened up significant room for the CBRT to return to its pre-March scenario and stance. We believe that the economic administration, which is gradually adjusting monetary and fiscal policies in line with inflation trends, will implement interest rate cuts that support economic activity until the end of the year. We are closely monitoring inflation expectations, as improvements in the expectation channel will affect both pricing behavior and costs. Contributions to inflation due to cost and exchange rate pressures have been limited, and consumption and demand inflation have entered a downward trend. Considering the scope of monetary policy, measures that take into account both price stability and financial stability will reduce exchange rate volatility and contribute to both risk premiums and macro-financial stability. We maintain our year-end inflation forecast at 30%. We emphasize here that we may update our inflation forecasts depending on developments in the monthly inflation rate and the course of monetary policy.

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