Macro note – July 2026 Inflation

In July, CPI rises 1.78 per cent month-on-month and 31.75 per cent year-on-year, slightly below expectations. Whilst monthly inflation in the health category climbs into double figures, administered and guided prices make a significant upward contribution to inflation this month.

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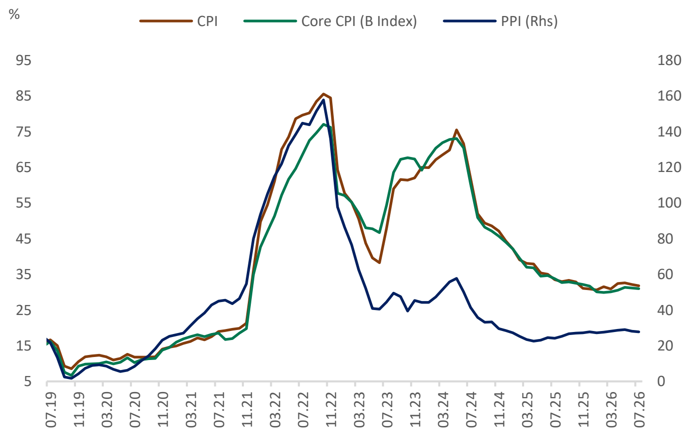
	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
CPI	1,90	1,82	1,78	31,87	31,80	31,75
PPI	-	-	1,52			27,83

CPI rose by 1.78 per cent in July compared with the previous month, whilst annual inflation stood at 31.75 per cent (previously 32.11 per cent). Market expectations were for inflation to rise by 1.90 per cent month-on-month and 31.87 per cent year-on-year (Seker Invest forecast was 1.82 per cent month-on-month and 31.80 per cent year-on-year). Our inflation forecast was slightly below market expectations. The actual figures also came in slightly below our own forecasts. The B index, our core inflation indicator, fell to 1.66 per cent month-on-month. These levels are consistent with the CBRT's year-end forecasts. We can say that administered and guided prices made a significant contribution to inflation this month. This effect is evident in the core indices. Monthly inflation in the core indicators, which exclude administered/guided prices, stood at 1.39 per cent and diverged significantly from the headline figures. Looking at the dispersion index for July, 117 sub-indices recorded increases whilst 50 sub-indices showed decreases. The monthly changes in the three main expenditure groups with the highest weightings were as follows: a 1.61 per cent increase in food and non-alcoholic beverages, a 2.59 per cent increase in transport, and a 2.25 per cent increase in housing. The contributions of these main groups to the monthly change were 0.4 percentage points for food and non-alcoholic beverages, 0.44 percentage points for transport, and 0.27 percentage points for housing. The increases in the items that make up the vast majority of the consumption basket for the low-income group are deviating significantly upwards from headline inflation. This index, calculated using the average inflation rate for food, housing and transport – which account for 52.46 per cent of CPI – rose by 36.01 per cent year-on-year in July. The shifts in price dynamics this month can be summarized as follows. A 1.61 per cent increase was observed in food and non-alcoholic beverages in July, contributing 0.4 percentage points to monthly inflation. In alcoholic beverages and tobacco, a 1.93 per cent increase was recorded this month due to the impact of administered/guided prices, pushing monthly inflation up by 0.05 percentage points. In the transport sector this month, a 2.59 percentage point decline was recorded due to fluctuations in oil prices, pushing up monthly inflation by 0.44 percentage points. Housing inflation rose by 2.25 per cent in July, contributing 0.27 percentage points to monthly inflation. Healthcare reached double figures this month, standing at 10.74 per cent, and pushing monthly inflation up by 0.32 percentage points. Upward price stickiness persists due to adjustments made through fiscal policy. Of the annual inflation rate of 31.75 per cent, 19.32 percentage points stem from the food, housing and transport categories. In the B index (core inflation), which is the Special Comprehensive CPI Indicator, monthly inflation stood at 1.66 per cent, whilst annual inflation reached 30.98 per cent. Whilst monthly core inflation was 0.8 percentage points lower than headline inflation, annual core inflation was higher due to base effects. The upward trend in energy prices observed in July pushed headline inflation higher through adjustments to administered/regulated prices. We may expect a scenario where a slowdown in the underlying inflation trend becomes more pronounced once supply shocks subside. The resurgence of the war and geopolitical tensions in July brought about another temporary shock, and interest rate cuts have been postponed for a while longer. We believe that, in an environment where tensions ease and negative supply shocks subside, the postponed interest rate cuts will be implemented aggressively. Real interest rates will continue their positive trend this year, as they have in recent years. However, according to our base scenario, the trajectory of the real interest rate may move within a narrower band in the coming period. We forecast inflation closing at 29 per cent and the policy rate at 33 per cent this year.

Producer prices rose by 1.52 per cent month-on-month in July, whilst the year-on-year change in the Producer Price Index (PPI) stood at 27.83 per cent. Looking at the sub-indices of PPI, the annual increases were 26.79 per cent for intermediate goods, 26.57 per cent for durable consumer goods, 32.46 per cent for non-durable consumer goods, 26.62 per cent for energy and 21.28 per cent for capital goods. Month-on-month changes showed an increase of 0.81 per cent in intermediate goods, 0.40 per cent in durable consumer goods, 1.33 per cent in non-durable consumer goods, 4.83 per cent in energy and 1.09 per cent in capital goods. The PPI-CPI spread widened to -3.92 points (previously -4.02), remaining in negative territory (peaking at 78 points in October 2022). The pass-through of producer cost-driven inflation remains low. Inflation stickiness persists, driven more by one-off supply shocks than by cost and output prices.

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



Graph 2: PPI – CPI Spread

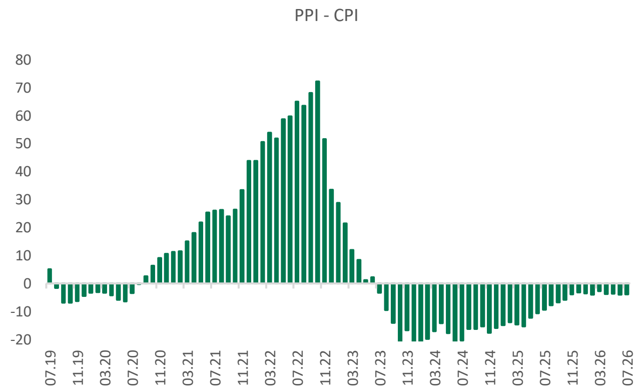


Table 1: Inflation and Sub-Components

Main expenditure groups	Weights	MoM(%)	Ytd (%)	YoY(%)
CPI	**100,00**	**1,78**	**19,86**	**31,75**
Food and non-alcoholic beverages	24,44	1,61	21,83	37,53
Alcoholic beverages and tobacco	2,75	1,93	16,29	29,38
Clothing and footwear	7,90	-3,93	2,76	16,48
Housing, water, electricity, gas and other fuels	11,40	2,25	25,92	40,32
Furnishing, household equipment, routine maintenance of the house	7,92	1,70	14,93	22,41
Health	2,79	10,74	37,45	43,89
Transportation	16,62	2,59	23,18	30,83
Information and communication	3,10	2,04	15,66	23,97
Recreation, sport and culture	4,34	1,24	16,23	23,36
Education services	2,02	1,32	19,22	44,18
Restaurants and accommodation services	11,13	2,28	21,26	31,65
Insurance and financial services	1,07	1,01	27,73	25,64
Personal care, social protection and miscellaneous goods and services	4,494	1,11	12,79	21,74

In summary, whilst CPI rose by 1.78 per cent month-on-month in July—slightly below expectations—annual inflation stood at 31.75 per cent. Administered/regulated prices and energy costs triggered a temporary rise in inflation this month. We believe that a sustained monthly inflation rate of 1.6 per cent or below constitutes the threshold for an interest rate cut. Interest rate cuts have been postponed until the September meeting due to volatility caused by geopolitical tensions. If August inflation shows a slowdown similar to that seen in June, we may see a limited interest rate cut in September. Given the scope of monetary policy, measures that take financial stability into account as well as price stability will help reduce exchange rate volatility, thereby contributing to both risk premiums and macro-financial stability. Within the current outlook, we maintain our year-end 2026 inflation forecast at 29 per cent. We emphasize that we may update our inflation forecasts depending on developments in monthly inflation levels and the course of monetary policy.

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