

Turkish CPI higher than expected in August, but annual inflation slows

While August consumer price inflation was higher than expected, mainly due to higher food prices, the annual trend remains downward. The combination of the inflation figure and political newsflow points to less aggressive easing this month than previously anticipated



Istanbul, Turkey

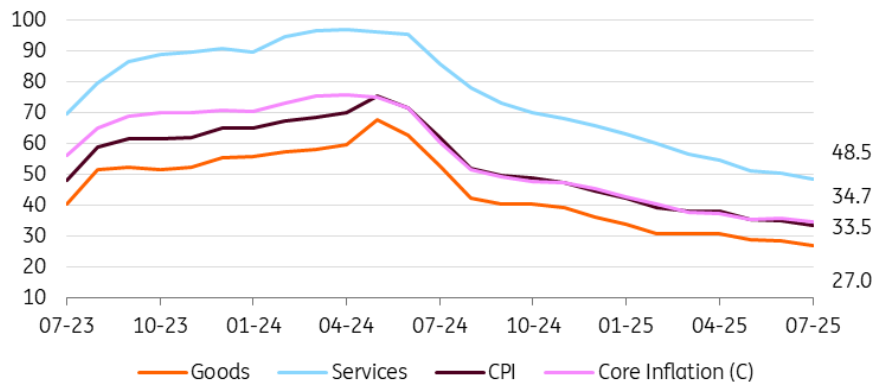
Turkey's August CPI inflation was 2.04% month-on-month, higher than the consensus estimate of 1.8% and our call of 1.5%. This was largely due to higher pricing pressures in food and transportation prices, as well as the decline in clothing remaining below its long-term August average. However, the downtrend in annual inflation continued, falling to 32.95% from 33.52% in July.

While inflation rose by 2.47% in August 2024, the five-year average for August in the 2003-based index was just 3.0%. This suggests a favourable base effect, supporting the continued decline in annual inflation. Year-to-date inflation, on the other hand, reached 21.5% vs the Central Bank of Turkey's 25-29% forecast range for 2025, according to the latest inflation report. August data increases risks for end-of-year inflation remaining above the upper band.

PPI increased by 2.5% MoM, with more than half of the monthly change attributable to food products and utilities. Annual producer inflation inched up to 25.2% YoY, remaining on a gradual uptrend since April. However, the current level of PPI inflation indicates that cost pressures remain moderate due to the CBT's continuing control of the exchange rate.

Core inflation (CPI-C) rose by 1.7% MoM, bringing the annual rate down to 33%. Preliminary seasonally adjusted data, set to be published by TurkStat and closely monitored by the CBT, indicate a continuing elevated underlying trend remaining above 2.0%.

Inflation outlook (%)



Source: TurkStat, ING

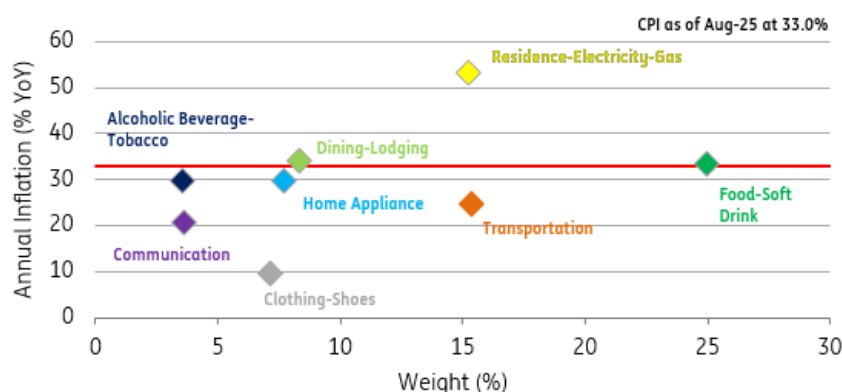
Breaking down the data, we see that:

- The food group made the largest contribution to monthly inflation (0.72ppt), driven by both processed food, including the strong increase in bread, and unprocessed food. Annual food inflation reached 33.3% vs the CBT's assumption for this item at 26.5% at the end of 2025.
- This was followed by the housing group (0.46ppt), driven by persistently high rents.
- The transportation group added 0.24ppt thanks to price hikes in transportation services.
- Alcoholic beverages and tobacco (0.21ppt), driven by cigarettes and catering services (0.16ppt), were impacted by the higher prices in the food group.

As a result:

- Goods inflation rose to 27.2% YoY, while core goods inflation stood at 19.9% YoY.
- Services inflation continued to decline, standing at 45.8% YoY, its lowest level since mid-2022.

Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, stronger-than-expected August inflation data underscores the ongoing challenges in achieving disinflation. Provided that no unforeseen shocks arise in the remainder of the year – such as abrupt changes in exchange rates, wage adjustments, regulated prices, or commodity markets – we anticipate that the annual inflation rate could approach 30% by the end of 2025.

The next Monetary Policy Committee (MPC) meeting is scheduled for 11 September, just four days before the CHP Congress lawsuit, adding a layer of political sensitivity. The combination of August’s inflation figures and the convergence of political and institutional developments is likely to complicate the central bank’s decision-making process.

In determining the magnitude of any interest rate cut at the upcoming MPC meeting, foreign exchange demand will play a critical role alongside inflation dynamics. During the July MPC meeting, the CBT stated that future policy steps will be guided by economic data and evaluated on a meeting-by-meeting basis, emphasising a cautious and flexible approach.

Against this backdrop, the release of the inflation report introduced more binding intermediate targets, and market expectations exceeded the CBT’s inflation forecasts. Taken together, these factors point to a less aggressive easing this month than previously anticipated, in our view.

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