

Inflation Pulse

Türkiye | Feb CPI surprised to the downside

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3 March 2025

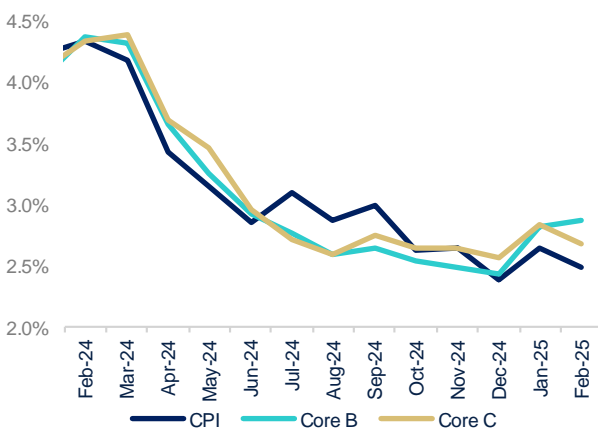
Consumer prices rose by 2.27% m/m in February, lower than both consensus (3%) and our expectation (2.9%), leading to a further decline in annual inflation (39.05%) on favorable base effects and improving trend. We calculate the seasonal adjusted monthly inflation as 2.3% (down from 3.2% in January), which leads the three-month-average trend to decelerate to 2.5% in February (vs. 2.6% prev.). Underlying inflation trend as an average of six indices followed by the CBRT, remained stable at around 2.45%. The deceleration in monthly inflation is primarily attributable to a significant improvement in basic goods inflation and energy inflation; while services inflation displayed only a limited improvement thanks to the correction in medical examination contribution fees. Cost push factors remain subdued on the back of real appreciation and relatively weaker wage adjustments this year. Strong inflation inertia, unanchored inflation expectations and recent acceleration in domestic demand put upside risks on inflation outlook. Under the assumptions of a stronger real appreciation, at least 1pp of GDP non-primary fiscal savings, credit growth caps for longer and no additional minimum wage hike in 2H25, we expect year end inflation to be 29%. The timing and the split of the upcoming administrative price hikes will determine the path, whether we will realize sustainably below 2% monthly inflation trend later this year or not. Albeit slightly, the ease in inflation trend in February clears out further space for the CBRT to continue rate cuts. We maintain our expectation of 250 bps rate cut in March MPC meeting to be held this Thursday, where we will evaluate the future pace of cuts.

Moderating inflation amid persistent pressures from services inflation

Consumer prices rose by 2.27% m/m in February, resulting from a widespread downside surprise in inflation across all main categories, primarily driven by subdued core goods inflation, which brought down the annual inflation to 39.05% from 42.1%. Our seasonally adjusted CPI calculations (official data to be released tomorrow afternoon) show a significant improvement compared to January, with monthly inflation decreasing to 2.3% in February from 3.2% in January. Consequently, the 3-month seasonally adjusted inflation trend improved to 2.48%, down from 2.64%.

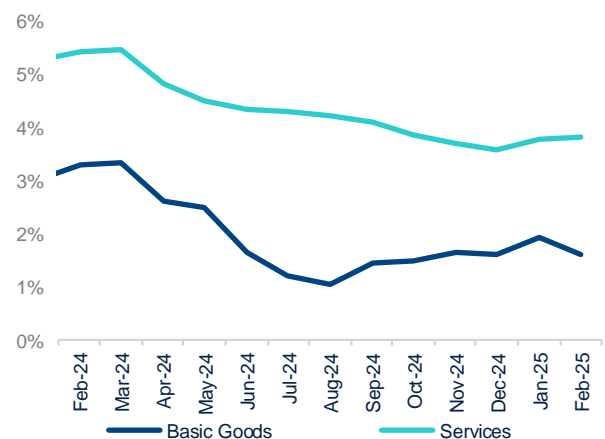
Among the six seasonally adjusted underlying trend indicators, their average showed an even greater improvement, declining to 2.3% in February from 2.8% in January. However, its 3-month average remained stable at around 2.45%, showing no clear improvement compared to January and still reflecting a deterioration from December 2024 level of 2.2%. The 3-month average of the underlying trend ranges between 2.18% and 2.88%, with Core B and Core C exerting upward pressure on the mean; while the median inflation - considered a more reliable indicator of the long term trend- stood at 2.18% (stable compared to January and December).

Figure 1. CONSUMER INFLATION INDICATORS (seasonal adj., monthly, 3-month average)



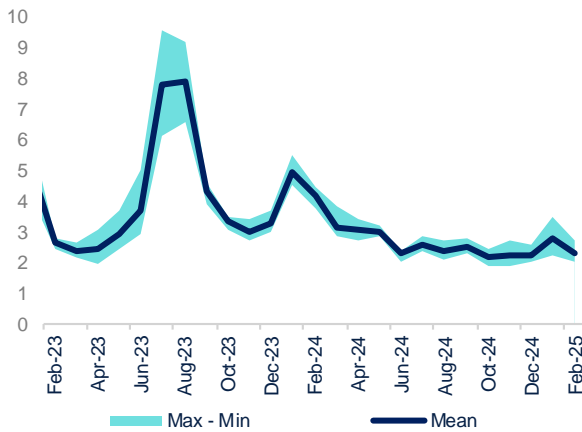
Source: Garanti BBVA Research, TURKSTAT

Figure 2. CORE C INFLATION INDICATORS (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

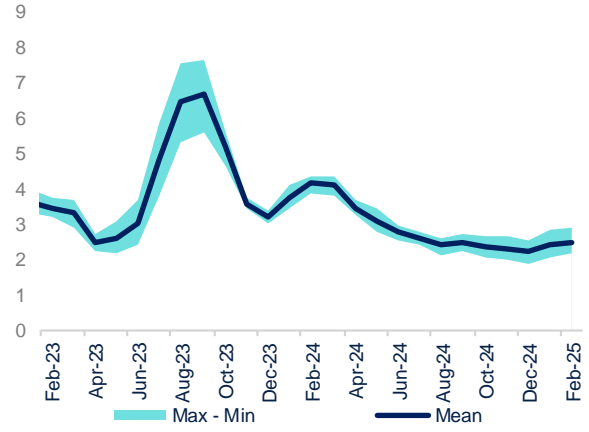
Figure 3. **CONSUMER INFLATION INDICATORS***
(seasonal adj., monthly)



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.

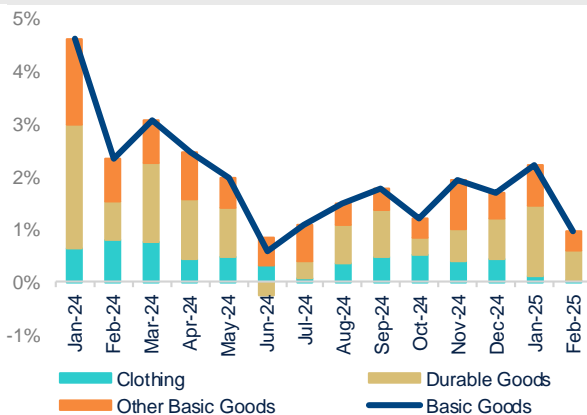
Figure 4. **CONSUMER INFLATION INDICATORS***
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

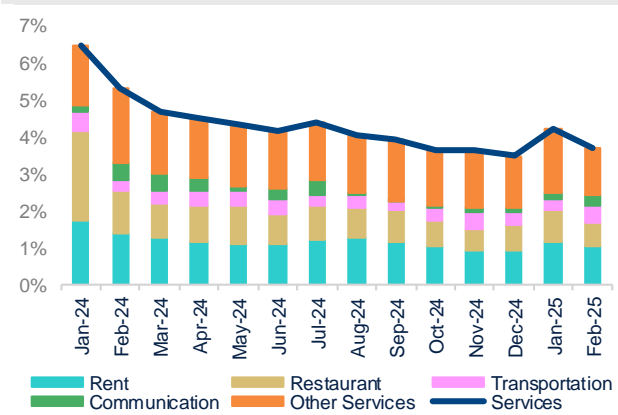
Our calculations on seasonally adjustment indicate a 2.30% m/m rise in core-C prices (down from 3.19% in January) thanks to the significant improvement in basic goods prices. Basic goods inflation retreated to 0.95% m/m (down from 2.20%), as durable goods and other basic goods inflation (s.a) declined to their 4-month lows, 1.11% (down from 2.74% in January) and 1.26% (down from 2.52% in January), respectively. The real currency appreciation and the relatively weaker wage adjustment of this year seem to compensate the upside pressure on basic goods prices stemming from the recent revival of domestic demand. On the other hand, services inflation declined to only 3.69% (down from 4.21%), led by the downside correction in medical examination contribution fees reflected in the other services category; whereas inertia in other components persists with no notable improvement in pricing behavior. Rent and restaurant & hotel prices remained elevated, recording inflation rates of 5.61% (down from 6.03%) and 2.41% (down from 3.38%), respectively. In contrast, inflation in transportation and communication sectors further deteriorated, rising to 4.73% (up from 2.95%) and 3.66% (up from 2.82%), respectively. Given the upside risk of robust demand and strong inertia, we may observe a stronger need to maintain real currency appreciation in the short term.

Figure 5. **CONTRIBUTIONS TO BASIC GOODS INFLATION** (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 6. **CONTRIBUTIONS TO SERVICES INFLATION** (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Energy inflation alone contributed 0.4pp to the seasonally adjusted CPI of 2.31%, being materialized as 3.58% (down from 6.1% in January) due to the upside price adjustment in the high electricity consumption category, which led to a 10% monthly increase in electricity prices, and the prolonged impact of the water price hikes in January.

Monthly seasonally adjusted inflation for food and non-alcoholic beverages stood at 2.13% in February (down from 2.38% in January), resulting in an annual inflation rate of 35.11% (down from 41.76% in January). Processed food continues to exert upward pressure on food prices, recording an inflation rate of 4.70% (compared to 4.92% in January). Meanwhile, unprocessed food inflation helped ease pressure thanks to deflation in the fresh fruit and vegetable category of 6.85% (compared to -2.38% in January).

Cost push factors remained weak on limited impact from wage adjustments and real currency appreciation as domestic producer price inflation fell to 2.12% m/m (3.06% m/m in January) and 25.2% y/y (vs. 27.2% in January).

Figure 7. **CONSUMER PRICES HEAT MAP** (% , seasonal adj., 3 month moving avg.)*

Mean	2023												2024												2025		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
CPI	1.4	3.6	3.4	3.6	2.5	1.7	2.4	4.9	8.0	7.9	5.7	3.9	3.6	4.2	4.3	4.2	3.4	3.1	2.9	3.1	2.9	3.0	2.6	2.6	2.4	2.6	2.5
CORE-B	1.3	4.0	3.8	3.7	2.7	2.8	3.3	5.3	7.3	7.5	5.6	3.7	3.4	4.0	4.4	4.3	3.6	3.3	2.9	2.8	2.6	2.6	2.5	2.5	2.4	2.8	2.9
CORE-C	1.2	3.9	3.8	3.7	2.7	3.1	3.7	5.9	7.5	7.6	5.6	3.7	3.4	4.1	4.3	4.4	3.7	3.5	3.0	2.7	2.6	2.8	2.6	2.6	2.6	2.8	2.7
Goods Prices	1.3	2.9	2.8	3.1	2.0	0.6	1.6	4.4	8.1	7.7	5.2	3.2	3.1	3.8	3.9	3.6	2.9	2.6	2.3	2.6	2.3	2.5	2.1	2.2	1.9	2.2	1.9
Energy	1.3	0.3	0.0	0.9	-0.9	-8.2	-6.9	-1.3	10.4	10.3	7.2	5.8	5.4	6.3	3.9	3.5	1.4	2.1	2.1	5.4	6.1	5.8	2.9	0.9	0.9	2.5	3.4
Food and Non Alcoholic Bev. Prices	1.5	4.1	4.1	4.8	4.0	2.8	3.2	5.1	7.7	7.6	5.7	3.1	3.3	3.6	5.0	4.4	3.7	2.6	2.7	3.0	2.0	2.0	2.5	3.7	3.1	2.7	1.9
Unprocessed Food Prices	1.7	3.8	4.5	5.9	5.6	4.4	5.4	7.5	9.3	8.1	5.4	2.2	3.1	3.4	5.5	4.7	3.9	3.0	2.7	3.0	1.5	1.9	2.9	5.9	4.5	2.6	-0.2
Processed Food Prices	1.4	4.3	3.8	3.9	2.6	1.5	1.3	3.0	6.4	7.1	5.9	3.8	3.4	3.8	4.5	4.1	3.5	2.3	2.8	3.0	2.5	2.2	2.1	1.8	1.8	2.7	1.8
Basic Goods Prices	1.1	3.2	2.9	2.6	1.6	1.5	1.4	3.9	6.9	7.1	5.0	2.6	3.0	4.0	4.0	3.6	2.8	2.5	2.2	2.0	1.8	1.7	1.4	1.9	2.0	2.4	3.8
Clothing	0.8	1.4	1.6	1.1	0.8	1.4	2.3	3.3	5.3	5.1	4.9	2.6	2.5	2.4	2.8	3.4	3.1	2.6	1.9	1.3	1.1	1.3	2.0	2.1	2.0	1.4	0.9
Durable Goods	1.2	3.1	3.1	3.0	2.4	2.7	4.4	7.5	9.0	7.6	3.6	1.2	1.3	2.7	3.0	3.1	2.3	2.4	1.2	0.7	0.5	1.3	1.3	1.3	1.2	1.9	1.8
Other Basic Goods	1.2	3.2	2.9	2.6	1.6	1.5	1.4	3.9	6.9	7.1	5.0	2.6	3.0	4.0	4.0	3.6	2.8	2.5	2.2	2.0	1.8	1.7	1.4	1.9	2.0	2.4	1.8
Services Prices	1.4	5.1	4.9	4.9	3.6	4.2	4.4	6.2	7.5	8.4	6.9	5.5	4.8	5.2	6.4	5.5	4.8	4.5	4.3	4.3	4.2	4.1	3.8	3.7	3.6	3.8	3.8
Rent	1.5	5.4	4.9	5.4	4.5	5.5	5.8	6.3	6.9	7.4	7.7	7.5	6.8	7.3	7.5	7.7	6.6	6.1	5.9	6.0	6.2	6.4	6.1	5.5	5.0	5.2	5.5
Restaurant	1.6	6.2	5.8	5.6	3.3	4.2	4.4	7.5	8.2	8.5	5.9	4.6	4.3	5.9	6.0	5.8	4.0	3.9	3.7	3.6	3.3	3.3	3.0	2.8	2.7	2.9	2.9
Transportation Services	1.4	3.5	3.3	3.2	3.0	3.0	3.0	4.1	10.6	11.8	11.3	4.9	4.0	4.3	4.2	3.9	3.6	3.8	4.1	3.6	3.6	3.0	3.1	3.2	3.6	3.5	3.7
Communication Services	0.8	4.0	3.4	3.5	3.4	4.0	4.6	3.2	3.9	4.8	4.9	4.9	4.1	3.5	3.9	5.1	5.8	4.4	3.6	4.0	3.4	2.1	0.8	1.2	1.6	2.0	2.6
Other Services	1.3	4.9	4.9	4.9	3.6	3.8	3.9	6.3	7.3	8.6	6.4	5.5	4.5	4.3	4.7	4.6	4.6	4.3	4.1	4.1	4.1	4.1	4.0	4.0	3.8	4.1	3.8

Contraction Slow-down Growth Boom

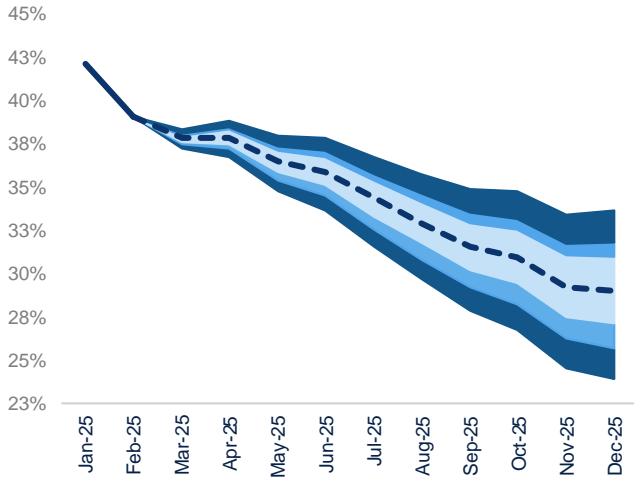
Source: TURKSTAT, Garanti BBVA Research, *Mean and standard deviation based on data period from 2005-2024 realization.

February inflation: Still no clear sign of easing in inflationary risks

February inflation data reflected only a slight ease in inflation trend, led by both food prices excluding processed food and core prices on top of basic goods. Still, despite the removal of the upward adjustment in medical examination contribution fees, which had contributed to the January inflation, the improvement in services was very limited, indicating ongoing strong inertia. Furthermore, unanchored inflation expectations keep upside risks on the inflation outlook. In February market participants survey (Figure 9), professional forecasters' expectations for 2025 year-end inflation increased to 28.3% (vs. 27.05%, prev.), still above the CBRT's recently updated interim target of 24%. The expectations for 2026 year-end inflation also worsened to 19.10% (vs. 18.67% prev.), again being above the CBRT's target of 12%. The real sector's expectations for 12-month ahead inflation improved slightly to 41.9% (vs. 43.8% prev.), while the households' expectations for 12-month ahead inflation deteriorated for the first time since August, increasing to 59.20% (vs. 58.82%). Besides, [4Q24 GDP realizations](#) confirmed the recovery in activity driven by domestic demand. Easing financial conditions, accelerating credit growth trend on top of credit cards and exceptions beyond the monthly loan growth caps indicate that demand-driven growth may continue in 1Q25. Therefore, the imbalance between demand and supply may persist, feeding into inflationary pressures. Last but not the least, high accrual-basis deficit recorded in December signaled that the support from the expected fiscal consolidation on disinflation may not be observed clearly until 2H25.

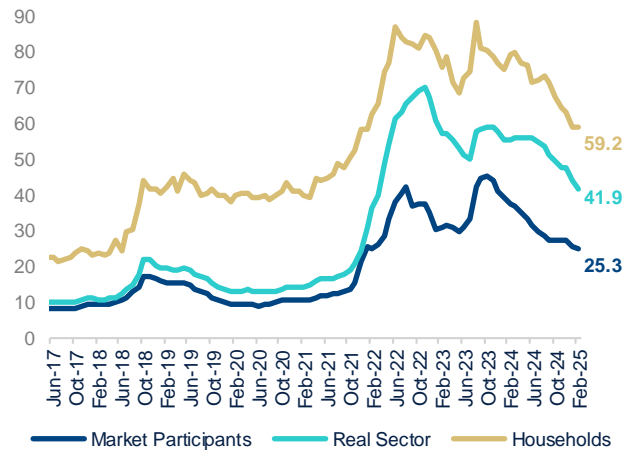
All in all, February inflation clears out further space for the CBRT to continue rate cutting cycle with higher comfortability, hence we continue to expect 250 bps rate cuts in March MPC meeting to be held on this Thursday. However, the aforementioned risk factors will likely necessitate a cautious stance in the near term. We will closely monitor March policy statement for signals to understand the future pace of cuts and any potential additional macro-prudential policies. Under the assumptions of a stronger real appreciation, at least 1pp of GDP non-primary fiscal savings, credit growth caps for longer and no additional minimum wage hike in 2H25, we expect year end inflation to be 29%. The timing and the split of the upcoming administrative price hikes will determine the path, whether we will realize sustainably below 2% monthly inflation trend later this year.

Figure 8. **GARANTI BBVA CPI FORECAST**
(YoY, 30%- 50%-70% Confidence Bands)



Source: Garanti BBVA Research, TURKSTAT

Figure 9. **CBRT MARKET PARTICIPANTS SURVEY ONE-YEAR AHEAD INFLATION EXPECTATIONS (%)**



Source: Garanti BBVA Research, CBRT

Figure 10. **CPI SUBCOMPONENTS**

	MoM	YoY
Total	2.27%	39.05%
Food & Non-alcoholic beverages	3.2%	35.1%
Beverage & Tobacco	0.0%	33.4%
Clothing & Textile	-5.1%	20.8%
Housing	4.6%	70.8%
Household Equipment	1.7%	33.6%
Health	-4.4%	43.0%
Transportation	3.1%	23.4%
Communication	2.4%	30.5%
Recreation & Culture	0.3%	29.3%
Education	9.9%	94.9%
Restaurants & Hotels	3.1%	45.9%
Misc. Goods & Services	2.9%	39.1%

Source: Garanti BBVA Research, TURKSTAT

Figure 11. **PPI SUBCOMPONENTS**

	MoM	YoY
Total	2.12%	25.21%
Mining & Quarrying	4.2%	33.2%
Manufacturing	2.2%	24.8%
Food Products	2.3%	32.5%
Textiles	2.1%	19.1%
Wearing Apparel	4.0%	37.2%
Coke & Petroleum Products	2.9%	1.7%
Chemicals	1.7%	22.1%
Other Non-Metallic Mineral	2.3%	28.0%
Basic Metals	1.0%	9.3%
Metal Products	1.4%	22.2%
Electrical Equipment	2.5%	23.9%
Electricity, Gas, Steam	-0.3%	23.9%

Source: Garanti BBVA Research, TURKSTAT

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