Benign Turkish inflation led by food and health costs

February inflation turned out to be better than expected, leading to an improvement in the underlying trend thanks to both the food and non-food groups. The annual figure, meanwhile, continued its steady decline

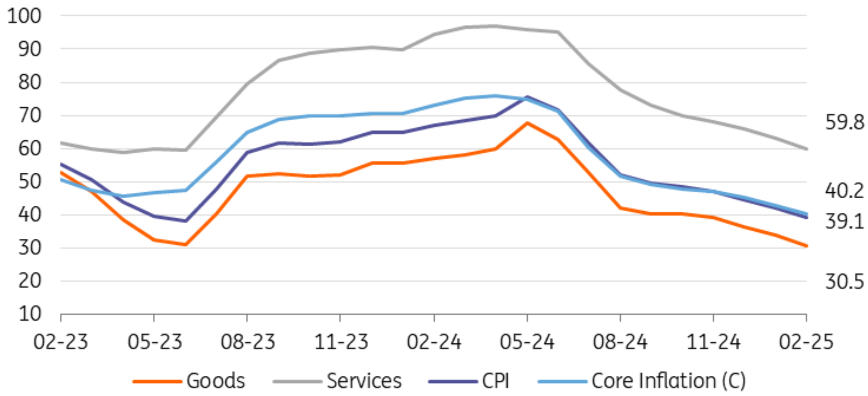
Food inflation was below the long-term February average while goods and services prices fell

In February, inflation stood at 2.3% month-on-month, coming in below the consensus of 2.9% and our forecast of 3.0%. As a result, annual inflation continued its downtrend, falling to 39.1% year-on-year from 42.1% a month earlier, though it remained well above the Central Bank of Turkey's (CBT) forecast of 24%. In February last year, inflation climbed by 4.5%, while the 10-year February average for the 2003-based index stood at 1.6%. This highlights a favorable base effect for this year.

PPI was recorded at 2.1% MoM, leading to a decline to 25.2% YoY, driven by utility prices and supportive base effects. This data suggests a significant weakening in cost pressures since mid-2024, supported by a stable currency (less than 10% increase in the EUR:USD basket), lower global commodity prices, and relatively stable oil prices. These factors are expected to remain key determinants of the PPI trend moving forward.

Core inflation (CPI-C) came in at 1.8% MoM, bringing it down to 40.2% on an annual basis. This was supported by a relatively slow-moving foreign exchange (FX) basket, despite a MoM acceleration to 2% in February and a favourable PPI outlook. However, the pricing behaviour and stickiness in services remain key risk factors for the pace of the current disinflation process. An early analysis of seasonally adjusted figures, set to be released by TurkStat tomorrow, reveals that the underlying trend, closely monitored by the CBT, has improved significantly after a jump in January.

Inflation outlook (%)

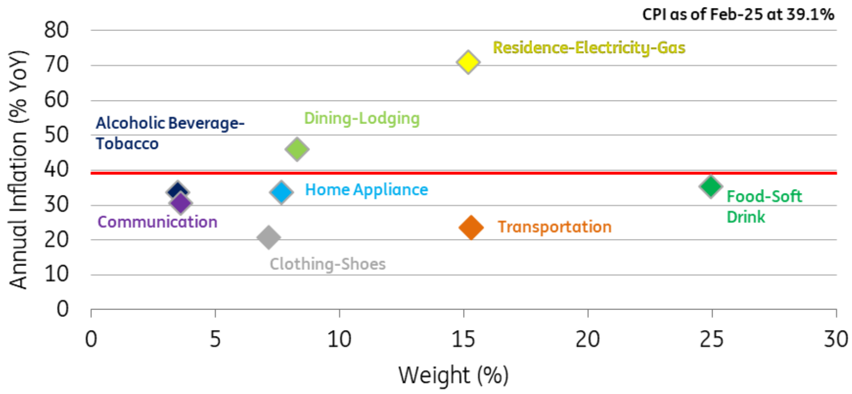


Source: TurkStat, ING

In the breakdown:

- The food group was the major contributor to headline inflation, adding 0.78 percentage points (ppt). Monthly inflation in this group was below the long-term February average, thanks to a slow increase in unprocessed food prices and a decline in fresh fruit and vegetable prices.
- Housing contributed 0.71ppt to inflation, reflecting the ongoing impact of rent increases and a hike in electricity fees. TurkStat incorporated tiered electricity price hikes, depending on consumption levels, into the CPI index last month, recording a 10.7% MoM increase. Meanwhile, the pace of monthly rent increases remained high at over 5% MoM.
- The transportation sector added 0.46ppt to headline inflation, driven by a significant adjustment in transportation service prices.
- On the other hand, the clothing sector reduced headline inflation by 0.33ppt due to seasonality, while the health sector had a 0.2ppt downside impact due to the partial reversal of regulated health price hikes.
- Goods inflation inched down to 30.5% YoY, while core goods inflation, a better indicator of the trend, fell to 21.7% YoY. Services inflation, which is less sensitive to currency movements but more impacted by domestic demand and minimum wage increases, continued its downtrend to 59.8% YoY—the lowest since mid-2023—with ongoing signs of improvement.

Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, both food and non-food groups were drivers of the lower-than-expected inflation in February after a large upside surprise in January. The downtrend in annual inflation has also continued. In a move aligning with disinflation efforts, the Ministry of Treasury and Finance reversed the hospital copayment hike, contributing to a benign reading last month. While there are pricing pressures due to the recovery in domestic demand, leading producers to pass cost increases to consumers, disinflation is expected to continue as the CBT has signalled it will maintain its tight stance despite the start of interest rate cuts, ongoing real TRY appreciation, and improvement in services inflation. We expect inflation to fall below 30% by the end of 2025. This backdrop is supportive for the CBT to continue with rate cuts, starting with another 250bp cut in March.

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