

Turkish disinflation dips below central bank's forecast range

Turkey's CPI surprised to the downside once again in December. Annual inflation has maintained its downward trajectory, moving slightly below the central bank's forecast range in 2025



Istanbul, Turkey. We're expecting inflation this year at 22%, but risks are skewed to the upside

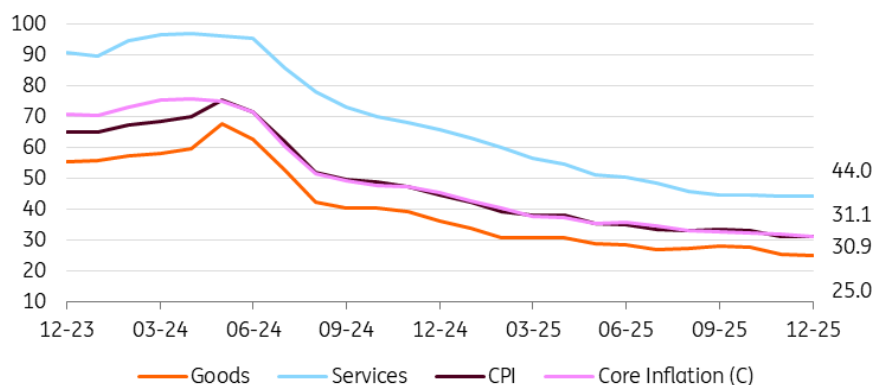
At 0.9% month-on-month, Turkish inflation came in slightly below both consensus and our call of 1.0%. Annual inflation came in at 30.9% year-on-year vs the Central Bank of Turkey's 31-33% forecast range in the latest inflation report, with a drop from 31.1% a month ago. December 2024 saw an increase of 1.0%, while the month's average of the 2003-based index for the last five years was 4.0%, indicating that the base effect was not favourable for this year.

Core inflation (CPI-C) rose by 0.6% MoM, bringing the annual rate down to 31.1% on the back of modest nominal Turkish lira depreciation in addition to a slow pace of increase in the PPI, which keeps costs for producers under control. In December, PPI stood at 0.75% MoM, up 27.7% YoY vs a month ago. While the data illustrates a notable weakening in cost pressures compared to last year – also attributable to supportive currency developments – global commodity prices, and particularly oil prices in the current geopolitical backdrop, will likely remain the key determinant of the PPI trend over the coming period.

Preliminary seasonally adjusted data (set to be published by TurkStat and closely monitored by the CBT) indicates that, in three-month moving average terms, the underlying inflation trend is likely to improve. This is despite the monthly data showing an uptick in December driven by goods, reflecting the impact of food prices.

Inflation outlook (%)

Core = CPI excluding energy, food & drinks, alcoholic beverages, tobacco, gold



Source: TurkStat, ING

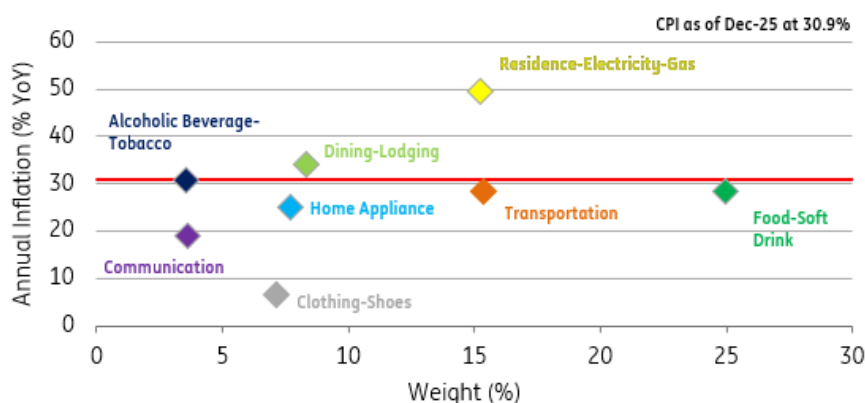
Breaking down the data:

- The food group made the largest contribution to monthly inflation (0.48ppt). While the price increase in processed food lost pace compared to the same month of 2024, unprocessed food turned out to be one of the major factors weighing on the headline inflation. Annual food inflation stood at 28.3% vs the CBT's expectation for this item at 32.3% for this year.
- The housing group was another large contributor (0.24ppt). The key issue worth mentioning in this group is the continuing momentum loss in rent inflation after large increases in recent months.
- On the flipside, negative impacts on the headline rate came from clothing (-0.18ppt) due to seasonality and transportation (-0.16ppt), with a drop in oil prices limiting the monthly change in December CPI.

As a result:

- Goods inflation fell slightly to 25.0% YoY, while core goods inflation also improved at 17.7% YoY.
- Services inflation maintained its downtrend and stood at 44.0% YoY, which is still elevated and demonstrates the extent of the inertia.

Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, while the December figures came in lower than expected due to non food prices, disinflation in 2025 proved slower, driven by persistent pricing pressures in food and the difficulty of achieving services disinflation, which requires a marked improvement in price setting behaviour and inflation expectations.

Looking at some of the drivers that could impact disinflation in 2026:

1. The exchange rate will likely remain supportive of disinflation, as the CBT reiterated that the exchange rate regime will be maintained in 2026, and this implies a continuation of TRY's gradual real appreciation.
2. The government raised the minimum wage by 27.0%, close to market expectations. A central bank study indicates that a 1% nominal increase in the minimum wage increases CPI inflation by 0.06-0.08 points in the first quarter, and by 0.08-0.12 points over a one-year period. Based on these findings, the potential impact on consumer inflation is estimated to be between 2.2-3.2ppt. Given that this met expectations, however, there should not be significant adjustments in inflation forecasts.
3. Administrative price adjustments seem to be lower than the revaluation rate (derived from the PPI), close to the CBT's target at 16% for this year. On the other hand, TurkStat's update of CPI weights – based on "Household Final Consumption Expenditures" from National Accounts – together with the trajectory of global commodity prices, particularly oil, adds uncertainty to the outlook.

Given this backdrop, we expect 2026 inflation at 22%, and risks are significantly on the upside. The December data should encourage the CBT to continue its rate cuts this month by 150bp, but continuing inflation risks could keep the bank cautious with a lower 100bp cut, in our view.

Author

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.