

February brings another sharp inflation rise in Turkey

Annual inflation in Turkey temporarily increased with significant pricing pressures in February. This, in addition to ongoing pressure on energy prices, led us to revise our end-of-year forecast higher



People shop for daily necessities at the Carsamba open-air market in Istanbul

February inflation in Turkey came in at 2.96% month-on-month, broadly in line with expectations, while annual inflation ticked up to 31.5% from 30.7%. Food remained the main source of price pressures, though several non food categories – including transport and catering – also added to last month's strong rise.

Core inflation (CPI C) increased by 1.53% MoM, pushing the annual rate down to 29.5% – its lowest since late 2021. This reflects modest TRY depreciation in recent months and a slower pace of PPI increases, helping to contain producer costs. In February, PPI stood at 2.4% MoM and reached 27.6% YoY. Annual PPI inflation has hovered around 27% for six months, signalling stable cost pressures attributable to supportive currency developments, though global commodity and oil prices in the current geopolitical backdrop remain key upside risks in the near term.

Breaking down the data:

- The food group made the largest contribution to February inflation (1.71ppt) following the large increase in January. Pressure in both processed (5.2% MoM) and unprocessed (9.0% MoM) food groups ahead of Ramadan turned out to be the major factors weighing on headline inflation. Annual food inflation stood at 36.5% vs the central bank's assumption for this item at 19% for this year.
- The transportation group was another large contributor (0.43ppt) with significant adjustments in transportation services.
- Catering services, which were also impacted by high food inflation, raised the headline 0.32ppt.
- The housing group followed with 0.27ppt impact. A key issue worth mentioning in this group is rents, which play an important role in persisting services pricing pressures. Rent inflation dropped markedly to 53.9% vs the central bank's forecast of a drop to the 30-36% range this year, based on different assumptions.
- On the flip side, negative impacts on the headline figure from clothing (-0.38ppt) due to the seasonality limited the monthly change in February CPI.

As a result:

- Goods inflation rose slightly to 27.2% YoY, while core goods inflation dropped to 16.6% YoY, given the Central Bank of Turkey's tight grip on the exchange rate, supporting disinflation in this group.
- Services inflation maintained a downtrend and stood at 39.7% YoY. This is still elevated, showing the extent of inertia, but is on a continuous downtrend from close to 100% since early 2024.

Overall, February inflation, which was particularly impacted by food, led to a temporary increase in the annual figure, though the downtrend will likely resume in March. We raise our annual inflation forecast to 25% on the back of the elevated February inflation, leading to a higher path and ongoing pressure in energy prices. The uncertainty surrounding oil prices increases risks to the inflation outlook despite the possibility of a government decision to absorb some of the oil price shock via adjusting the tax on gasoline prices.

As a response to recent geopolitical developments, the CBT has taken several actions: providing FX supply to the system by actively utilising its FX reserves and starting lira-settled FX forward sales (NDF), reducing TRY supply that could go to FX. While FX sales have been reducing TRY liquidity in the system, it also started issuing liquidity bills, supporting demand for TRY. The bank suspended one-week repo auctions and allowed OIS rate to move higher to the upper band of the corridor.

We think the CBT will not change the policy rate in March, keeping it at 37%, then resume cautious cuts, pulling it to 30% at the end of this year, though risks are on the upside.

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