Inflation Pulse

# Türkiye | Upward CPI surprise led by core prices

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**3 February 2025**

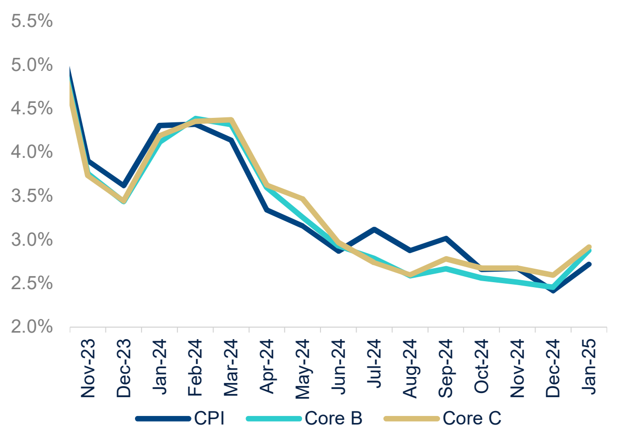
**Consumer prices rose by 5.03% m/m in January, higher than consensus and our expectation (both at 4.3%), still leading its annual inflation to decline further to 42.12% on favorable base effects. Reinforced by the upward surprise in core prices, underlying monthly inflation trend as an average of six indexes followed by the CBRT, deteriorated to 2.4% (vs. 2.2% in Dec), according to our calculations. Backward indexation, high inflation expectations, wage adjustments at the beginning of the year and the limited easing in demand so far led to a widespread high deterioration in service inflation. Despite relatively stable exchange rate, basic goods inflation also kept worsening on the back of mainly durable goods. It seems that the inertia proves to be stickier than expected and inadequate deceleration in consumption with continuing spending availability and deeper income inequality maintain distortions in pricing behavior. We maintain our year-end 2025 inflation forecast of 26.5%, though the existence of more pronounced upward inflationary risks.**

## Ongoing robust inertia signaled by the acceleration in services inflation

Consumer inflation surprised to the upside with 5.03% m/m in January, mainly due to a stronger than expected services inflation, particularly in rent, healthcare services and restaurants. In contrast, inflation in basic goods had a less pronounced impact, reflecting a somewhat limited pass-through from the January wage hike. Our seasonally adjusted CPI calculations (Figure 1-2) indicate a slightly milder deterioration, with monthly inflation rising to 3.38% from 1.97%. Accordingly, its 3-month inflation trend increased to 2.72% m/m (prev. 2.42% m/m).

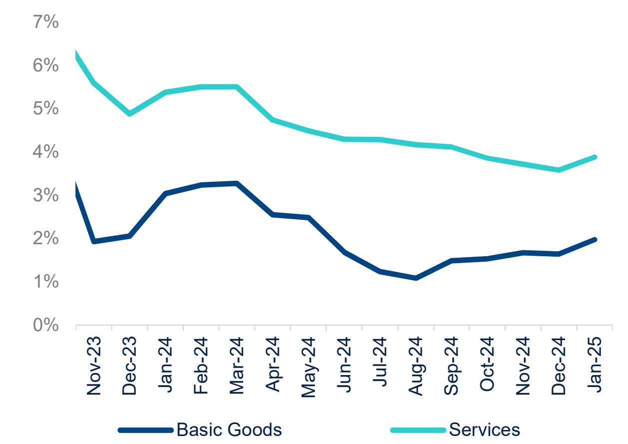
Among the six seasonally adjusted underlying trend indicators (Figure 3), the average of the trend indicators increased to 2.87% m/m in January from 2.30% in December, while its three-month trend deteriorated to 2.42% m/m (prev. 2.19% m/m). Core C inflation, remaining to be the highest among these indicators, rose to 3.37% m/m (prev. 2.62% m/m), with three-month average trend worsening to 2.91% (prev. 2.59% m/m).

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




Source: Garanti BBVA Research, TURKSTAT

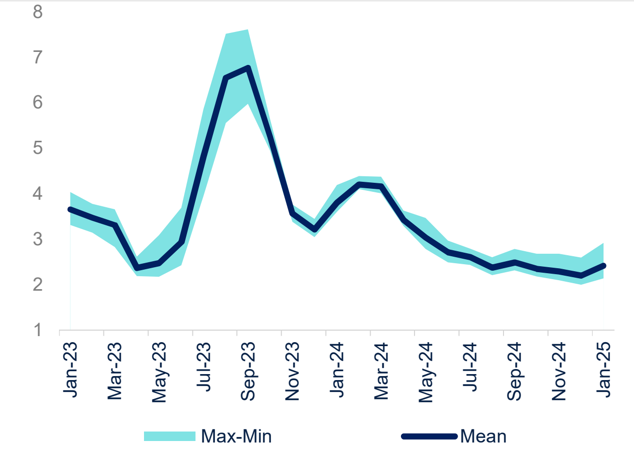
Figure 2. **CORE C INFLATION INDICATORS** (seasonal adj., monthly, 3-month average)




Source: Garanti BBVA Research, TURKSTAT

Regarding core prices, both basic goods and services inflation accelerated, with the latter experiencing more significant deterioration. Despite slight moderation in consumption and relatively stable exchange rate, basic goods inflation trend (sa) continued to worsen due to especially durable goods inflation (2.74% m/m up from 1.62% m/m), signaling that the adjustment in output gap is not enough to acquire a faster disinflation pace. In the services sector, backward indexation, wage adjustments at the start of the year and unanchored inflation expectations resulted in a broad-based deterioration in services inflation (sa) as other services prices rising by 4.64% m/m (prev. 3.92% m/m), rent prices by 6.46% m/m (prev. 4.84% m/m), and restaurant and hotel prices by 4.28% m/m (prev. 2.84%). The persistently high service inflation continues to confirm strong inflation inertia and the increase in the share of rent expenses in the revised consumer basket to 6.8% from 5.1% could continue to feed inertia further.

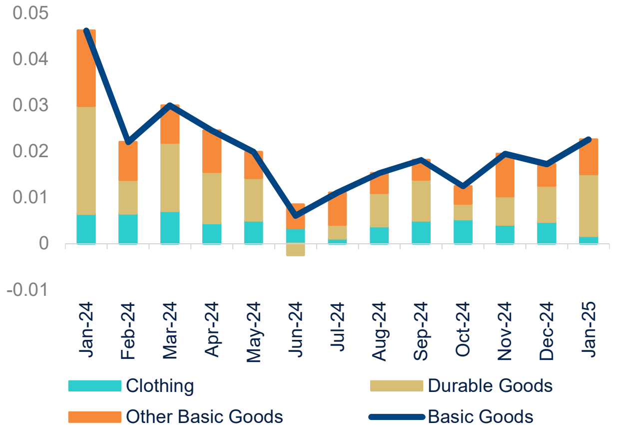
Figure 3. **CONSUMER INFLATION INDICATORS*** (seasonal adj., monthly, 3-month average)




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

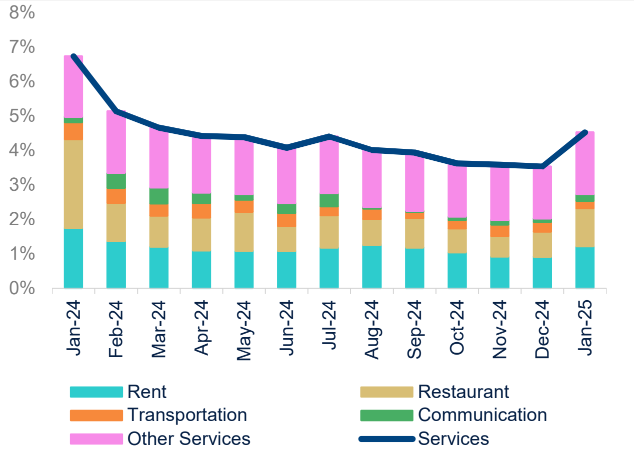



Source: Garanti BBVA Research, TURKSTAT

Energy prices were also one of the sub items putting upward pressure on consumer inflation. Especially with the increase in water prices, the rise in oil and natural gas prices in January and the tax hike in fuel prices, energy inflation materialized as by 6.1% m/m in January.

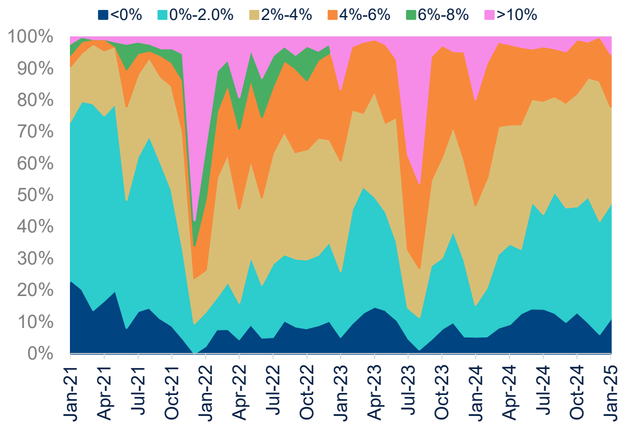
On the other hand, food and non-alcoholic beverage prices rose by 3.9% m/m, resulting in annual inflation of 41.8%. In this respect, unprocessed food inflation prevented a further deterioration in monthly consumer inflation, with a seasonally lower fresh fruit and vegetable inflation of 3.4%. However, processed food inflation continued its three-month upward trend, surging to 4.92% m/m especially supported by the adjustment in bread prices.

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




Source: Garanti BBVA Research, TURKSTAT

Figure 6. **CPI DIFFUSION** (seasonal adj., monthly,%)




Source: Garanti BBVA Research, TURKSTAT

The relatively weak wage adjustments and the stable currency led cost push factors to remain subdued as producer inflation rose by 3.1% m/m and its annual inflation decreased further to 27.2% on top of base effects.

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

| | | 2023 | | | | | | | | | | | | 2024 | | | | | | | | | | | | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mean | 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 |
| **CPI** | 1.3 | 3.6 | 3.4 | 3.5 | 2.4 | 1.6 | 2.4 | 4.9 | 7.9 | 7.9 | 5.7 | 3.9 | 3.6 | 4.3 | 4.3 | 4.1 | 3.3 | 3.2 | 2.9 | 3.1 | 2.9 | 3.0 | 2.7 | 2.7 | 2.4 | 2.7 |
| **CORE-B** | 1.3 | 4.0 | 3.8 | 3.7 | 2.6 | 2.8 | 3.3 | 5.3 | 7.3 | 7.5 | 5.6 | 3.8 | 3.4 | 4.1 | 4.4 | 4.3 | 3.6 | 3.3 | 2.9 | 2.8 | 2.6 | 2.7 | 2.6 | 2.5 | 2.5 | 2.9 |
| **CORE-C** | 1.2 | 4.0 | 3.8 | 3.6 | 2.6 | 3.1 | 3.7 | 5.9 | 7.5 | 7.6 | 5.6 | 3.7 | 3.4 | 4.2 | 4.4 | 4.4 | 3.6 | 3.5 | 3.0 | 2.7 | 2.6 | 2.8 | 2.7 | 2.7 | 2.6 | 2.9 |
| **Goods Prices** | 1.3 | 3.0 | 2.8 | 3.0 | 2.0 | 0.6 | 1.6 | 4.4 | 8.1 | 7.8 | 5.3 | 3.2 | 3.1 | 3.9 | 3.8 | 3.6 | 2.8 | 2.6 | 2.3 | 2.6 | 2.3 | 2.6 | 2.2 | 2.2 | 1.9 | 2.2 |
| **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 |
| **Food and Non Alcoholic Bev Prices** | 1.5 | 4.1 | 4.1 | 4.7 | 3.9 | 2.8 | 3.2 | 5.1 | 7.7 | 7.6 | 5.7 | 3.2 | 3.4 | 3.7 | 4.9 | 4.2 | 3.5 | 2.7 | 2.8 | 3.0 | 2.1 | 2.1 | 2.5 | 3.8 | 3.1 | 2.8 |
| **Unprocces Food Prices** | 1.7 | 4.0 | 4.3 | 5.6 | 5.3 | 4.4 | 5.4 | 7.5 | 9.3 | 8.1 | 5.5 | 2.3 | 3.3 | 3.6 | 5.3 | 4.4 | 3.6 | 3.1 | 2.8 | 3.0 | 1.5 | 2.0 | 3.1 | 6.0 | 4.6 | 2.8 |
| **Processed Food Prices** | 1.4 | 4.3 | 3.8 | 3.9 | 2.6 | 1.5 | 1.3 | 3.0 | 6.3 | 7.1 | 5.9 | 3.9 | 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 |
| **Basic Goods Prices** | 1.1 | 2.8 | 2.7 | 2.5 | 1.8 | 2.1 | 3.0 | 5.5 | 7.6 | 6.9 | 4.3 | 1.9 | 2.1 | 3.0 | 3.2 | 3.3 | 2.6 | 2.5 | 1.7 | 1.2 | 1.1 | 1.5 | 1.5 | 1.7 | 1.6 | 2.0 |
| **Clothing** | 0.8 | 1.4 | 1.5 | 1.0 | 0.7 | 1.4 | 2.3 | 3.3 | 5.3 | 5.2 | 5.0 | 2.6 | 2.5 | 2.4 | 2.7 | 3.1 | 2.8 | 2.6 | 2.0 | 1.5 | 1.3 | 1.5 | 2.2 | 2.2 | 2.2 | 1.6 |
| **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 |
| **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 |
| **Services Prices** | 1.4 | 5.2 | 4.9 | 4.8 | 3.4 | 4.1 | 4.4 | 6.2 | 7.5 | 8.3 | 6.9 | 5.6 | 4.9 | 5.4 | 5.5 | 5.5 | 4.7 | 4.5 | 4.3 | 4.3 | 4.2 | 4.1 | 3.9 | 3.7 | 3.6 | 3.9 |
| **Rent** | 1.4 | 5.5 | 5.0 | 5.3 | 4.4 | 5.4 | 5.7 | 6.3 | 6.8 | 7.5 | 7.8 | 7.6 | 6.9 | 7.4 | 7.5 | 7.6 | 6.5 | 6.0 | 5.8 | 5.9 | 6.2 | 6.4 | 6.2 | 5.6 | 5.1 | 5.4 |
| **Restaurant** | 1.6 | 6.3 | 5.9 | 5.8 | 3.2 | 4.3 | 4.4 | 7.5 | 8.0 | 8.4 | 5.8 | 4.5 | 4.3 | 6.1 | 6.2 | 5.9 | 3.8 | 3.9 | 3.6 | 3.6 | 3.1 | 3.3 | 3.0 | 2.8 | 2.6 | 3.1 |
| **Transportation Services** | 1.4 | 3.5 | 3.3 | 3.2 | 3.0 | 3.0 | 3.0 | 4.1 | 10.6 | 11.8 | 11.4 | 4.9 | 3.9 | 4.1 | 4.4 | 4.3 | 4.1 | 3.8 | 3.9 | 3.4 | 3.2 | 2.6 | 2.5 | 2.5 | 2.9 | 2.8 |
| **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 |
| **Other Services** | 1.3 | 5.0 | 4.7 | 4.5 | 3.2 | 3.7 | 3.9 | 6.3 | 7.2 | 8.4 | 6.4 | 5.6 | 4.7 | 4.6 | 4.6 | 4.5 | 4.4 | 4.3 | 4.2 | 4.2 | 4.2 | 4.3 | 4.2 | 4.2 | 4.0 | 4.2 |

| Contraction | Slow-down | Growth | Boom |
|---|---|---|---|

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

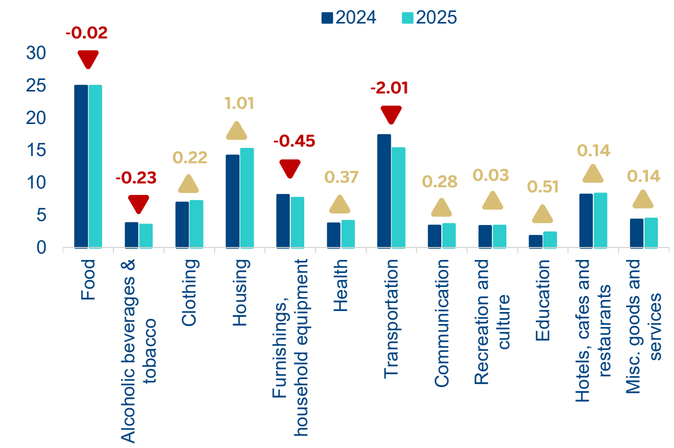
## The challenging inflation outlook with still pending effective policy mix

Despite limited wage adjustments, real currency appreciation and some mild moderation in domestic demand, the underlying inflation trend, particularly driven by core inflation, has worsened. Unanchored inflation expectations and high services inflation due to backward indexation continue to keep inflation inertia strong. The increasing trend in core goods prices since mid-last year signals that the deceleration in domestic demand has not been sufficient. Therefore, there is an upside risk on inflation outlook compared to the deeper negative output gap projections of the CBRT. Also, inflation expectations remain elevated, well above the CBRT's forecasts. In January market participants survey (Figure 9), professional forecasters' expectations for 2025 year-end inflation were almost unchanged as 27.05% (vs. 27.07%, prev.), considerably above the CBRT's interim target of 21%. Furthermore, 2026 year-end inflation expectation slightly inched upward to 18.67% (vs. 18.47% prev.), again being above the CBRT's target of 12%. Meanwhile, the real sector's and households' expectations for 12-month ahead inflation improved only limitedly to 43.8% and 58.8%, respectively (47.6% and 63.1% previously). Additionally, the strong accrued budget deficit in December suggests that fiscal policy, playing even more crucial role in the fight against inflation in the monetary easing cycle, may not be supportive for disinflation until the second half of 2025. Furthermore, the global trade wars, which started with Trump's latest tariff decisions, present additional inflationary risks. As a result, the inflation outlook continues to be challenging, with increasing upward risks.

In February, monthly inflation could materialize around 3-3.5%, but annual inflation will continue to decrease further on favorable base effects. We expect the CBRT to keep its inflation forecasts unchanged in the first Inflation Report of the year to be published on Feb 7, 2025. The communication of the CBRT, the output gap projections and the detailed analysis to be presented might guide the next steps going forward.

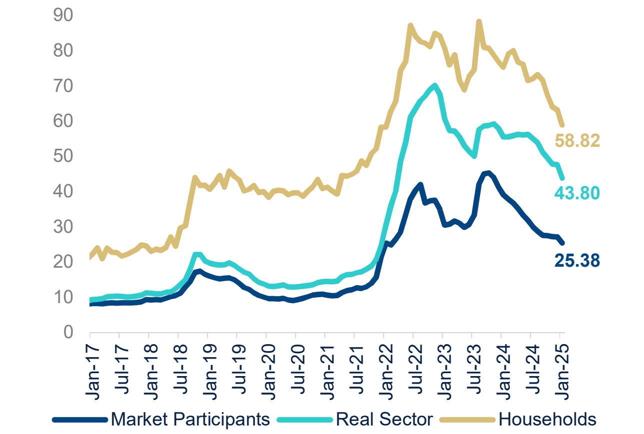
We remain prudent and still expect the easing cycle to continue with 250 bps cuts in March and April and smaller cuts afterwards before reaching 31% by year end. There will be more limited room for cuts June onwards on more gradual improvement in annual inflation with still some upside risks. We maintain our inflation forecast at 26.5% for the time being but we will closely monitor second round effects, inflation expectations, monthly inflation trend and the fiscal stance in the coming months and revise our projections, accordingly.

Figure 8. **CHANGES IN INFLATION WEIGHTS BY MAIN CATEGORIES**




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** | **5.03%** | **42.12%** |
| Food & Non-alcoholic beverages | 3.9% | 41.8% |
| Beverage & Tobacco | 1.0% | 34.1% |
| Clothing & Textile | -5.2% | 27.5% |
| Housing | 7.3% | 68.9% |
| Household Equipment | 4.7% | 35.3% |
| Health | 23.6% | 55.0% |
| Transportation | 4.2% | 23.1% |
| Communication | 2.1% | 33.0% |
| Recreation & Culture | 5.5% | 33.0% |
| Education | 7.6% | 99.9% |
| Restaurants & Hotels | 6.5% | 49.2% |
| Misc. Goods & Services | 7.7% | 39.9% |

Source: Garanti BBVA Research, TURKSTAT

Figure 11. **PPI SUBCOMPONENTS**

| | MoM | YoY |
|---|---|---|
| **Total** | **3.06%** | **27.20%** |
| Mining & Quarrying | 3.6% | 33.4% |
| Manufacturing | 3.2% | 27.6% |
| Food Products | 4.3% | 37.2% |
| Textiles | 1.9% | 20.9% |
| Wearing Apparel | 5.4% | 38.8% |
| Coke & Petroleum Products | 5.9% | 9.0% |
| Chemicals | 3.0% | 23.8% |
| Other Non-Metallic Mineral | 2.1% | 30.0% |
| Basic Metals | -0.4% | 13.6% |
| Metal Products | 4.8% | 23.9% |
| Electrical Equipment | 2.1% | 24.2% |
| Electricity, Gas, Steam | -0.4% | 18.2% |

Source: Garanti BBVA Research, TURKSTAT

# DISCLAIMER



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