BBVA Research

Türkiye | Temporary pause in disinflation with new risks

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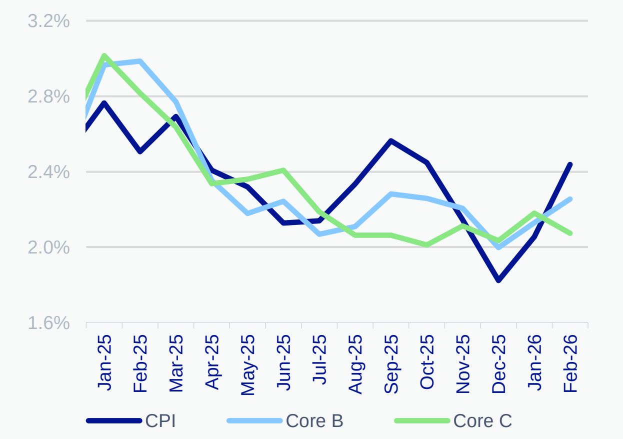
- Consumer prices rose by 2.96% m/m in February, bringing annual inflation to 31.53% and marking a pause in disinflation. Headline was pushed up by elevated food prices, partly reflecting Ramadan effects, but softer core goods inflation limited the deterioration. Seasonally adjusted inflation eased only marginally (to 2.75% from 2.84%, by our estimates), as services inflation remained elevated alongside persistent food inflation.
- Core inflation (s.a.) decelerated to near-term low levels, driven by an easing in basic goods inflation (0.5% s.a.), which had picked up in Jan26 due to broad price adjustments. In contrast, services inflation (2.7% s.a.) showed no signs of improvement.
- All six underlying inflation indicators, with the exception of Core-C, signal a persistently strong trend, with no clear improvement. Median inflation, closely monitored by the CBRT, edged up to 2.2%, hovering around levels seen in early last year, though it showed a limited improvement excluding food. Additionally, highly unanchored inflation expectations and resilient domestic demand remain key challenging factors.
- Rising energy costs amid the conflict in the Middle East pose upside risks to inflation. A 10% increase in energy prices could add roughly 1–1.5pp to headline inflation over a one-year horizon.
- We calculate a nearly 1.5pp impact on our year-end 2026 inflation forecast, led by the recent energy price shock and persistent inflation dynamics. However, the timely reaction of the CBRT by raising real rates combined with the potential implementation of a sliding-scale system for fuel prices could offset part of this pressure. At this stage, we maintain our 25% year-end inflation forecast, which we will revise in light of geopolitical developments and additional policy actions, if needed.

Headline Inflation Eases on Seasonal Factors but Remains Elevated amid Ramadan-Related Food Pressures

Consumer prices rose by 2.96% m/m in Feb26 (vs. 4.84% m/m in Jan26), in line with both consensus and our expectations. The disinflation process stalled, with annual inflation increasing to 31.53% from 30.65%. The deceleration in headline inflation on a monthly basis was primarily driven by a retreat in services inflation due to seasonal factors. However, inflation remained elevated amid persistent food price pressures, which contributed 1.6pp to the monthly print. Basic goods inflation slowed following the January pick-up driven by widespread price adjustments. According to our calculations, seasonally adjusted headline inflation edged down only marginally to 2.7% m/m (vs. 2.8% m/m prev.), as the improvement in basic goods was offset by a deterioration in food inflation, reflecting Ramadan effects. In contrast, Core-C decelerated to near-term lows on the back of basic goods, while services inflation showed no meaningful improvement. Overall, as the data are heavily influenced by broadly elevated price adjustments in food items, the underlying trend shows no clear improvement.

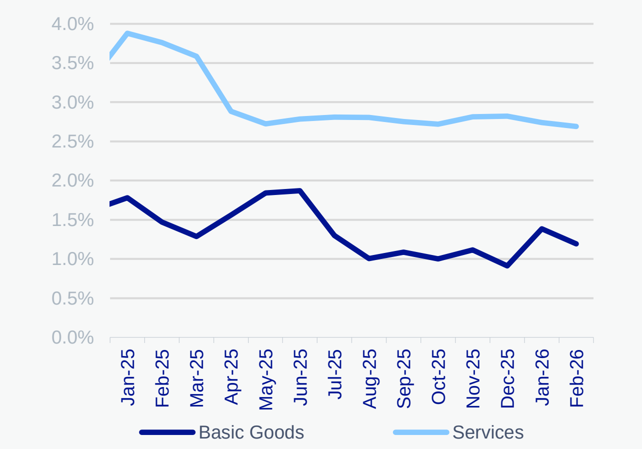
Excluding food, indicators point to some improvement compared to the previous month; however, this remains insufficient to bring the three-month average of the underlying trend below 2%. Risks to the inflation outlook are tilted to the upside: externally, recent geopolitical developments pose supply-side risks, while domestically, inertia in services inflation remains unresolved. Moreover, the recent easing in basic goods inflation may partly reflect a lower frequency of price adjustments under the managed currency regime, while also signaling the accumulation of upward pressures in the months ahead. That said, given the CBRT's proactive response to recent geopolitical developments and its communication that policy reacts not only to the inflation outlook but also to realized inflation in order to prevent second-round effects, we assess that policy countermeasures could help contain energy-driven pressures, depending on the duration of the shock and the extent of the fiscal offset.

Figure 1. Consumer Inflation Indicators (seasonal adj., monthly, 3-month average)



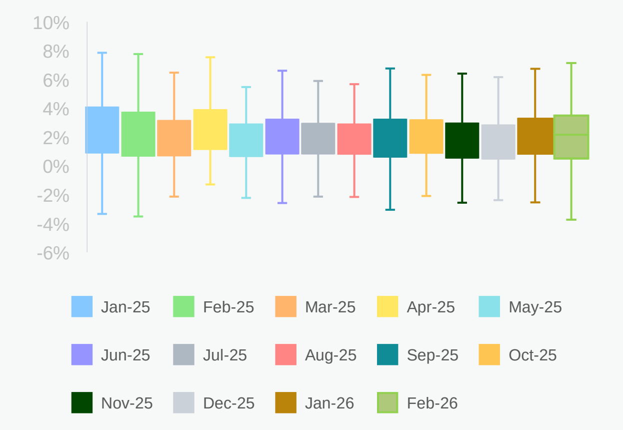
Source: Garanti BBVA Research, TURKSTAT

Figure 2. Core C Inflation Indicators (seasonal adj., monthly, 3-month average)



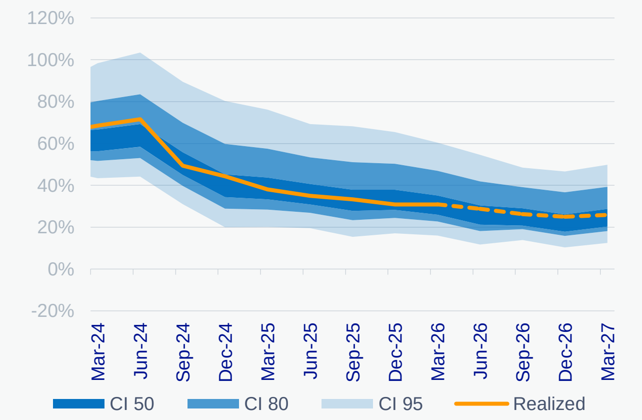
Source: Garanti BBVA Research, TURKSTAT

Figure 3. Spread of 5-digit Inflation Series (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

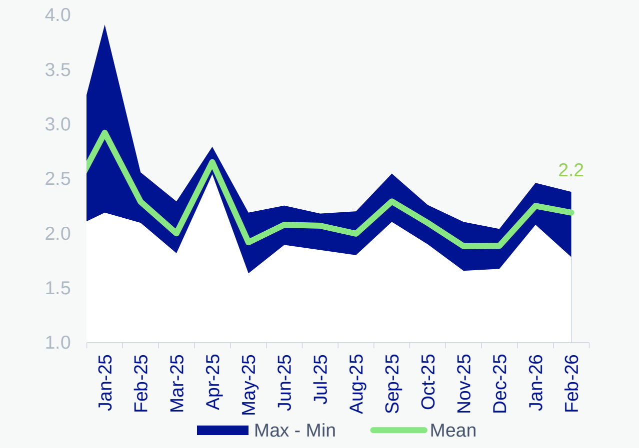
Figure 4. CPI at Risk (quarterly, YoY)



Source: Garanti BBVA Research, TURKSTAT

According to our calculations, the average of the underlying trend indicators closely monitored by the CBRT edged down to 2.2% m/m (vs. 2.3% m/m prev.), remaining above pre-Jan levels. The three-month average increased to 2.1% m/m (vs. 2.0% m/m), implying an annualized inflation rate of 28% in the absence of countermeasures. Core-B posted 2.4% m/m, showing no significant correction from Jan due to the pick-up in processed food inflation ahead of Ramadan, while Core-C declined to 1.8% m/m (vs. 2.4% m/m prev.). Median inflation remained at 2.1% m/m, while excluding food it edged down to 1.8% m/m. SATRIM and DFM edged up to 2.3% m/m, and V-1 remained at 2.2%, indicating a widespread increase in prices in February, as it was in January.

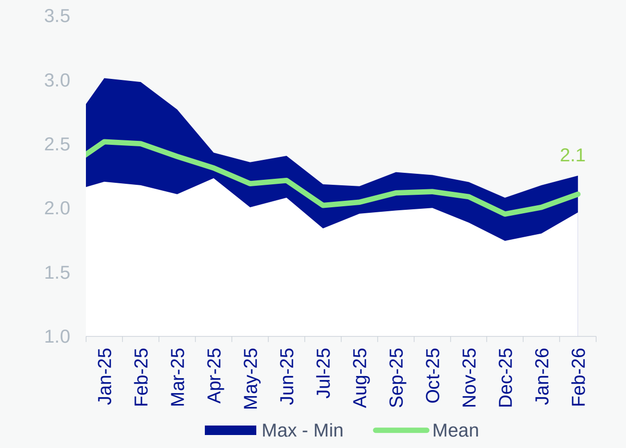
Figure 4. Consumer Inflation Indicators* (seasonal adj., monthly)



Source: Garanti BBVA Research, TURKSTAT

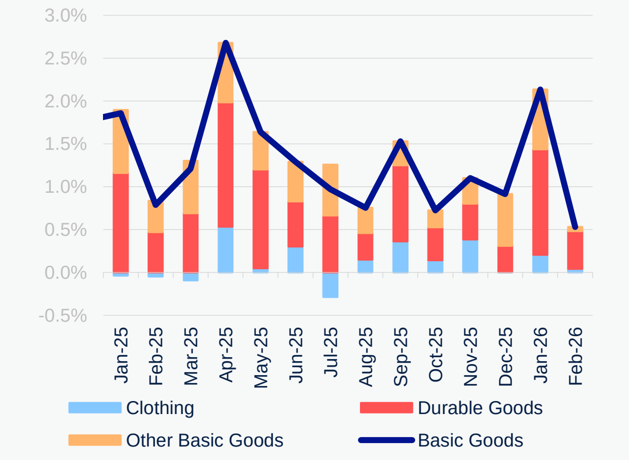
* Mean represents the average of different trend indicators including seasonally adjusted B, C, SATRIM, Median, inflation excluding volatile items and dynamic factor. The highlighted area shows the maximum and minimum range.

Figure 5. Consumer Inflation Indicators* (seasonal adj., monthly, 3-month average)



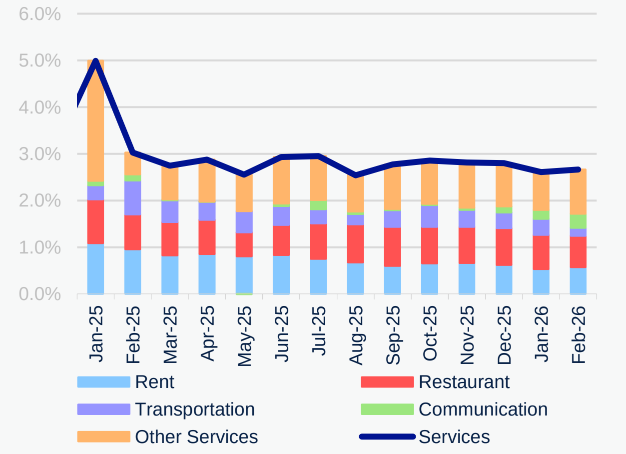
Source: Garanti BBVA Research, TURKSTAT

Figure 6. Contributions to Basic Goods Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 7. Contributions to Services Inflation (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

By Core-C components, seasonally adjusted basic goods inflation eased sharply to 0.5% m/m (vs. 2.1% m/m prev.), with broad-based support: durable goods at 1.0% m/m (-1.9pp m/m), other basic goods at 2.0% m/m (-2.2pp m/m), and clothing at 0.2% m/m (-0.6pp m/m). In contrast, services inflation edged up to 2.7% m/m (vs. 2.6% m/m prev.), driven by communication services (8.7% m/m, +3.4pp), other services (2.9% m/m, +0.4pp), and rent (3.0% m/m, +0.2pp), while improvements in restaurants & hotels (2.2% m/m, -0.2pp) and transportation services (1.2% m/m, -1.3pp) largely offset these increases.

In seasonal adjusted terms, food and non-alcoholic beverage prices (5.3% m/m) showed the largest rise of the last two years (6.8% m/m in Feb24) carrying the annual food inflation to 36.4% (vs. 31.7% prev.). The surge in food prices was primarily driven by the processed food (0.7pp contribution) among which other processed food (other than bread and grain products) made the largest contribution with 0.5pp. Nevertheless, contribution of unprocessed food to food inflation (0.6pp) was still strong.

Despite the rise in global oil prices, energy inflation slowed down to 2.0% m/m in February (2.3% m/m in Jan26) after the partial adjustment in electricity prices and tax adjustments at the start of the year. On the producer side, domestic PPI decelerated to 2.4% m/m in Feb26 (vs. 2.7% m/m in Jan26), supported by an improvement in manufacturing conditions and easing electricity related cost pressures since Oct25. Although the monthly Feb26 print came in higher than the same period last year (2.1% m/m in Feb25), year-to-date PPI growth stood at around the same level (5.2%). That said, the trajectory of oil along with remaining energy prices and FX pressures — driven in large part by the ongoing Iran war and its impact on global energy markets and currency volatility — will be critical in shaping inflation dynamics in the coming months.

New risks require more effective policy mix to ensure disinflation path

In its first Inflation Report of 2026, the CBRT kept its 16% year-end target unchanged, while revising the forecast range upward to 15–21% (from 13–19%). The adjustment was mainly driven by food price assumptions, a less negative output gap than previously envisaged, and the rising weight of services in the inflation basket. Meanwhile, the market inflation expectation move up to the range of 24-25% for this year-end, and the improvement in household and real sector expectations appear too slowly, with levels of 48.8% and 32%, respectively, for one year ahead.

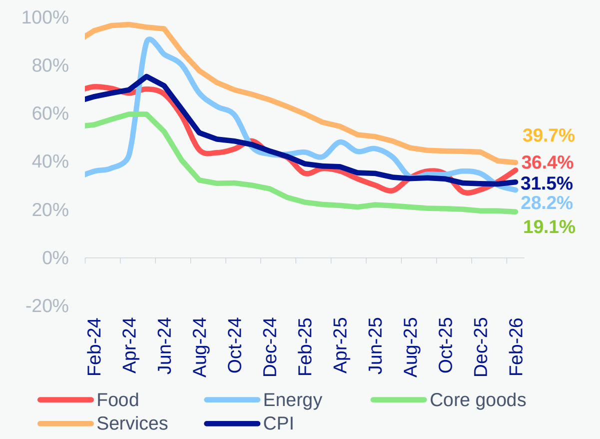
In the first two months of the year, cumulative consumer inflation reached 7.9%, driven by elevated food prices and start-of-year price adjustments, slightly exceeding the level observed in the same period last year. The persistently strong underlying trend, high inertia, adverse food dynamics, unanchored inflation expectations, resilient demand, and heightened geopolitical risks continue to weigh on the inflation outlook.

Escalating geopolitical risks arising from the conflict in the Middle East are exerting upward pressure on energy prices while creating significant uncertainty. This environment poses risks to the Turkish economy through multiple channels, including economic activity, financial stability, the external balance, and price stability, thereby necessitating a coordinated policy response. Indeed, the CBRT has effectively closed the one-week repo funding window, pushing the average funding cost toward 40%. To contain FX market volatility, the Bank has also been intervening directly and has introduced

TL-settled forward FX selling auctions to ease pressures on the currency. According to our calculations, a 10% increase in energy prices can impact inflation by approximately 1-1.5 percentage points over a one-year horizon. This estimate assumes a linear pass-through; however, if energy prices rise more sharply or persist for longer, the impact could become non-linear and significantly larger. Recent remarks by Treasury and Finance Minister Şimşek regarding compensatory measures for higher energy costs suggest that a sliding-scale (eşel-mobil) fuel pricing mechanism may be introduced. Depending on the duration and intensity of the conflict, additional policy measures may be required. The effective use of available fiscal space to cushion adverse shocks could help sustain the disinflation process while limiting the negative impact on economic activity.

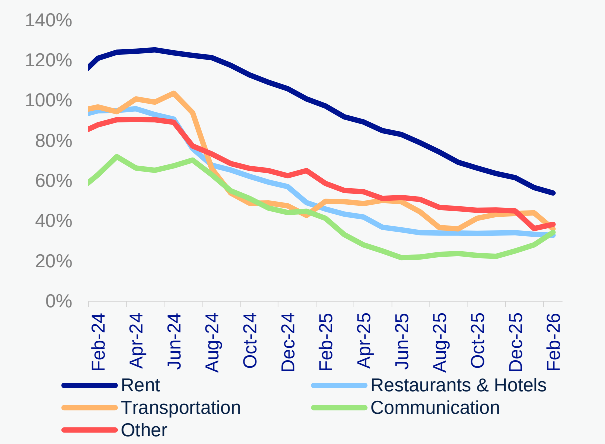
In our baseline scenario, assuming the energy price shock remains relatively short-lived and does not extend beyond 1H26, we have revised our 2026 average oil price forecast to USD 69 from USD 63. Consequently, the persistent inflation trend and the higher oil price assumption imply a 1.5pp upside risk to our current 25% year-end 2026 inflation forecast. Against this backdrop, we expect the CBRT to maintain a tight stance, keeping the policy rate unchanged at both the March and April MPC meetings. Should the shock de-escalate, the Bank may gradually steer the average funding cost back toward the policy rate, potentially as early as April. We then anticipate rate cuts to resume in June, with gradual 100bps cuts at subsequent meetings, bringing the policy rate to 32% by year-end. Overall, higher real interest rates, a potential sliding-scale fuel pricing mechanism, and a relatively stronger currency outlook supported by additional short-term measures could help offset these risks. Accordingly, we maintain our 25% year-end inflation forecast for now and will reassess our projections in line with the evolution of geopolitical risks and domestic policy responses.

Figure 8. Consumer Inflation Subcomponents (YoY)



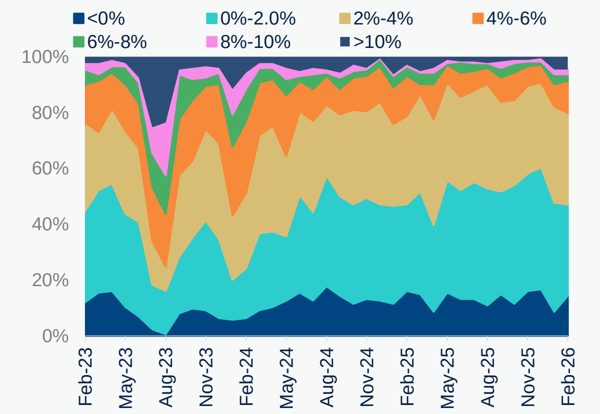
Source: Garanti BBVA Research, TURKSTAT

Figure 9. Services Inflation (YoY)



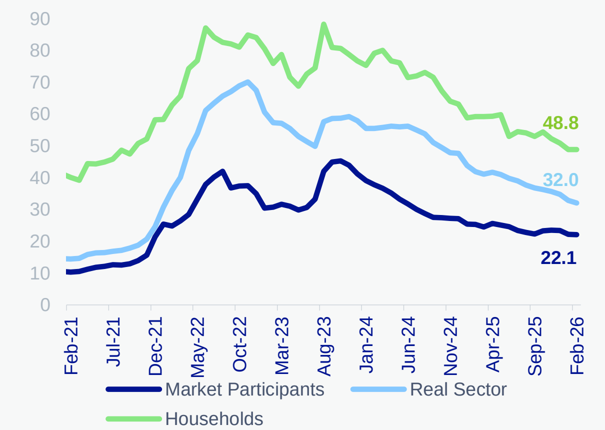
Source: Garanti BBVA Research, TURKSTAT

Figure 10. CPI Diffusion Index (according to monthly SA changes)



Source: Garanti BBVA Research, TURKSTAT

Figure 11. Inflation Expectations (12 Month Ahead, %)



Source: Garanti BBVA Research, TURKSTAT

Figure 12. CPI Subcomponents

	MoM	YoY
Total	**2.96%**	**31.53%**
Food & Non-alcoholic beverages	6.9%	36.4%
Beverage & Tobacco	3.9%	36.5%
Clothing & Textile	-5.3%	6.8%
Housing	2.4%	42.3%
Household Equipment	0.9%	22.2%
Health	1.6%	29.3%
Transportation	2.6%	28.9%
Information & Communication	3.8%	22.4%
Recreation, Sport & Culture	0.4%	27.2%
Education	4.0%	55.8%
Restaurants & Hotels	2.8%	32.9%
Insurance & Financial Services	8.0%	28.3%
Personal Care & Misc. Goods and Services	1.8%	28.0%

Source: Garanti BBVA Research, TURKSTAT

Figure 13. PPI Subcomponents

	MoM	YoY
Total	**2.43%**	**27.56%**
Mining & Quarrying	3.3%	31.9%
Manufacturing	2.9%	28.0%
Food Products	3.6%	34.3%
Textiles	1.8%	19.7%
Wearing Apparel	2.6%	27.2%
Coke & Petroleum Products	8.3%	18.1%
Chemicals	1.5%	25.4%
Other Non-Metallic Mineral	2.5%	20.5%
Basic Metals	1.4%	24.6%
Metal Products	1.0%	22.9%
Electrical Equipment	4.7%	31.7%
Electricity, Gas, Steam	-3.0%	22.5%

Source: Garanti BBVA Research, TURKSTAT

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