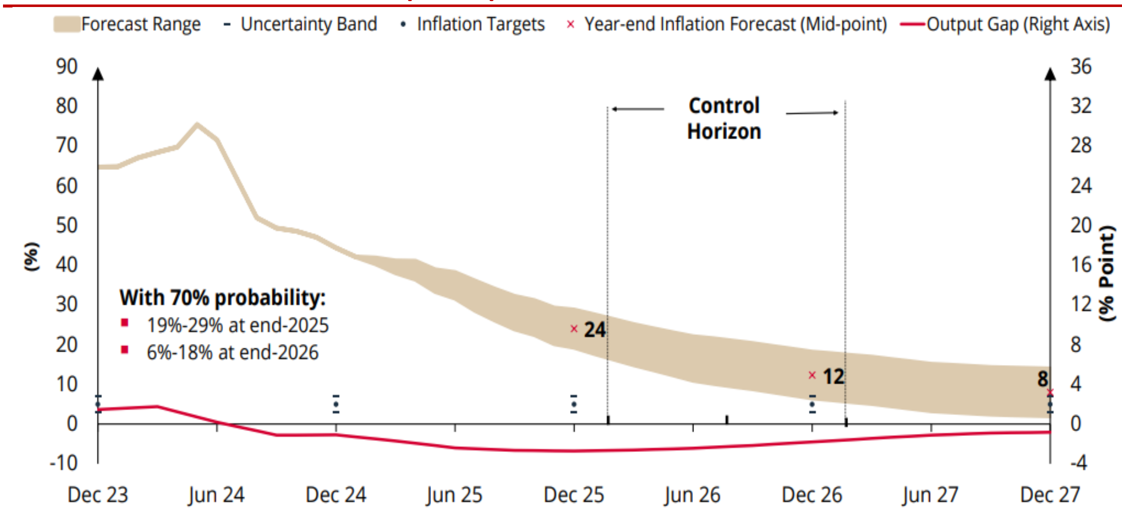
Macro: Short-term inflation forecast raised; but no policy response to inflation surprise

1. Forecasts

The CBRT raised its year-end inflation forecast from 21% to 24% for 2025, while keeping it at 12% for 2026 and setting it at 8% for 2027 (Chart 1). The uncertainty band for inflation forecasts was revised as 19%-29% for 2025 and kept as 6%-18% for 2026. Although the uncertainty range for 2027 is not explicitly stated, it seems to be 1%-15%.

Chart 1. 2025-I Inflation and Output Gap Forecasts



Sources of forecast revision: Upward revision to the end-2025 inflation forecast was due to i) The mechanical increase (+0.8 points) caused by the updated weights in the CPI basket in favour of services (+0.8 points), ii) the increase in the assumption for annual food inflation (+0.5 points) and iii) the increase in the contribution of administered prices (+1.7 points), mainly due to the update in official medical examination co-payment. Although it is observed from the graphs and tables in the Report that the USD-denominated import price assumption and output gap projections were partially changed, the Report did not include any dialogue on the impact of these changes on inflation forecasts.

Table 1. Revisions to Inflation Forecasts

	2025
IR 2024-IV Year End Forecast (%)	21.0
IR 2024-IV Year End Forecast (**Updated CPI Weights**, %)	21.8
IR 2025-I Year End Forecast (%)	24.0
Forecast Revision as Compared to IR 2024-IV Period (% Point)	**2.2**
Sources of Forecast Revision (% Point)	
Food Prices	+0.5
Administered Prices	+1.7

2. Assumptions

External demand: The assumption for the external demand outlook has been revised downwards. Expected export-weighted global growth has been revised downwards from 2.4% to 2.2% for 2025, while a moderate recovery in external demand is assumed for 2026. Both forecasts point to an outlook for external demand below historical averages. While the recent deterioration in expectations for the growth outlook in Europe, our main trading partner, was the main driver of the downward revision, it was also emphasized that increasing uncertainties regarding international trade policy have increased the downside risks to global growth forecasts.

Food prices: The food inflation assumption for 2025 has been revised from 22.5% to 24.5% (Table 2). This revision increased the end-year inflation forecast for 2025 by 0.5 points. The revision in the food price assumption for 2025 was due to unprocessed food. For 2026, the food inflation assumption was set at 13.5%, which is higher than headline inflation.

Although the revision in the food assumption was driven by unprocessed food, the outlook for processed food inflation was also quite distorted in January. In particular, bread prices, which are rapidly affected by wage increases, rose sharply, while price adjustments in milk and dairy products due to the raw milk purchase price revision and the ongoing increases in confectionery products also had a negative impact on the group's inflation. In our view, the upside risks to the inflation forecast from processed food should not be ignored.

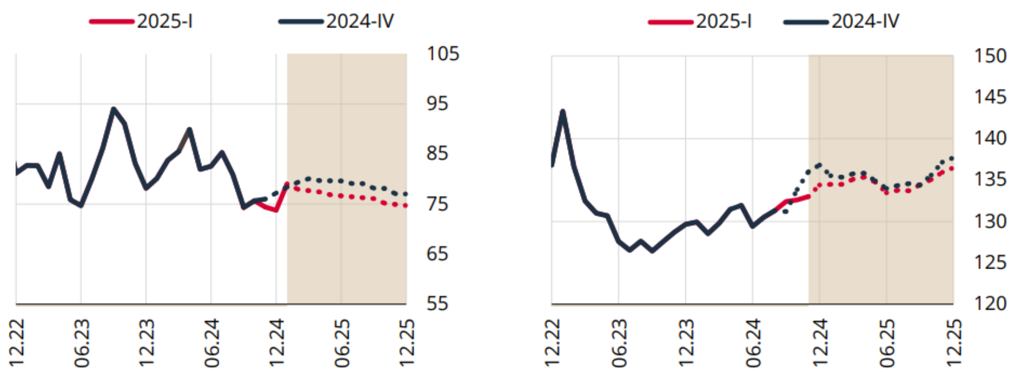
Table 2. Assumption Updates*

	2024	2025	2026
Export-weighted Global Growth (Annual % Change)	1,9 (2,0)	2,2 (2,4)	2,4 (-)
Oil prices (Average, USD)	80,7 (81,1)	76,5 (78,8)	74,0 (-)
Import prices (USD, Annual Avg. % Change)	0,5 (0,8)	2,6 (2,8)	0,6 (-)
Food Annual Inflation (Year-end, %)	43,6 (41,8)	24,5 (22,5)	13,5 (-)

* Numbers in the parentheses show the assumptions in the previous Inflation Report

Commodity prices: Oil prices remained below the assumption in the previous reporting period (Chart 2). Accordingly, the average oil price assumption for 2025 has been lowered from $78.8 to $76.5 (Table 2). A decline in oil prices was projected for 2026. The revision to import prices was more limited.

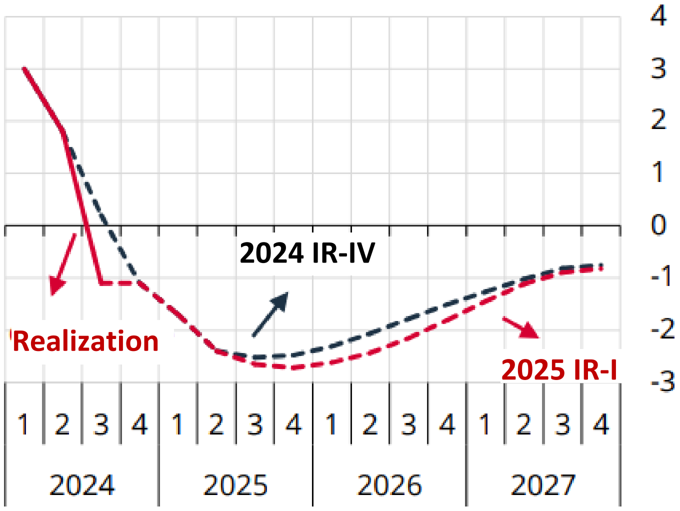
Chart 2. Oil (left panel) and Import Price (right panel) Assumptions



Source: Bloomberg, CBRT
* Shaded areas show the forecast horizon

Economic activity: The output gap forecast has been revised downwards (Charts 1 and 3). Thus, the disinflationary impact of demand conditions on economic activity has increased compared with the previous report. Nevertheless, no information on this was provided in the forecast.

Chart 3. CBRT Output Gap Forecasts



Source: CBRT

- The output gap forecasts indicate that quarterly growth is expected to be close to potential in the fourth quarter of 2024. While the below-potential trajectory in the previous report ended in the last quarter of 2025, the new projections show quarterly growth below potential throughout 2025. From the first quarter of 2026 onwards, quarterly economic growth is expected to reach and then exceed potential.
- We calculate that the output gap path presented is consistent with a growth forecast of around 2.7% for 2024. For 2025, we calculate the implied growth forecast to be 2.5%.
- When converting output gap forecasts into growth forecasts, the assumption of potential growth is important. Table 3 shows the growth forecasts implied by the output gap under different quarterly potential growth assumptions:

Table 3. Growth Forecasts Implied by Output Gap Forecasts (%)

	Quarterly Potential Growth (%)		
	0.8	**1.0**	**1.2**
2025	1.1	1.8	2.5
2026	3.4	4.2	5.0
2027	4.5	5.3	6.2

Exchange rate: Although not explicitly stated in the Inflation Reports, the fact that the assumption for USD-denominated import prices was lowered, while the forecast calculation did not include the effect of TL-denominated import prices, may indicate that the exchange rate assumption may have increased slightly. In the previous note, we indicated that we had estimated the expected exchange rate to be 41. The new forecasts may be based on an exchange rate in the 42-43 range.

3. Our Evaluations

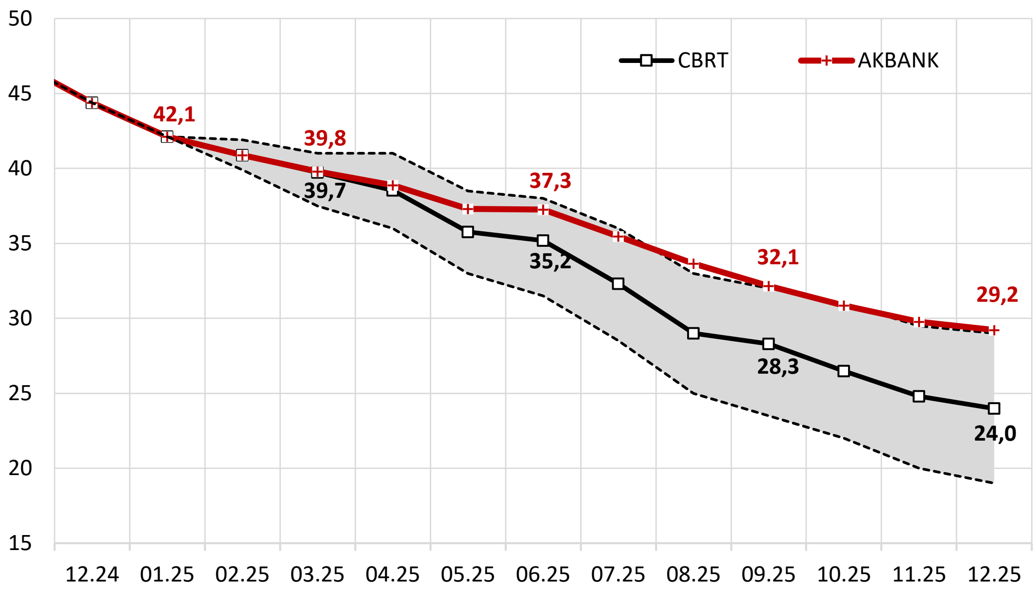
Taking the upward revision of the inflation forecast and the growth implied by the output gap forecasts together, it seems that the CBRT will not take any additional policy measures to cool the economy further.

Following the inflation report press conference, we raise our year-end inflation forecast from 27.5% to 29.2% (Chart 4).

- The main reason for our update is that the CBRT raised its year-end forecast rather than reacting to the recent inflation shock.
- In the assessment we made after the January inflation data, we reflected a total of 1.5 points in our forecast due to (i) the revision in basket weights (0.3 points) and (ii) the change in the health implementation communiqué (1.2 points), which were not included in our previous assumptions.
- Electricity and natural gas price increases, which have not yet been realized and are said to be in line with the year-end inflation forecasts, may be stronger after this forecast update.
- Comparing the monthly inflation path derived from the CBRT chart with our own forecasts, we are quite close in the first four months of the year. After that, our forecasts are close to the CBRT's upper band (Chart 4).

Given our inflation outlook, we believe that the CBRT may begin to scale back its rate cuts from March.

Chart 4. Annual Inflation Forecasts (Akbank vs. CBRT)



Source: CBRT, Akbank.
Note: CBRT forecast path is derived from the Chart in the Inflation Report by ourselves.
Red line shows Akbank forecast, while black line shows CBRT forecast. Grey area shows the uncertainty band around CBRT's forecast.

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