

Macro: February reading would keep rate cuts at the same pace

Consumer price inflation was 2.3% mom and 39.1% yoy, below expectations (3.0% mom; 40.0% yoy). Specialist doctors' fees fell by 23.3% mom after the 89.8% rise in January, due to the reduction in co-payments for medical examination, which was the source of the upside surprise in January. As we expected, the change in the regulation subtracted 0.3 pp from monthly inflation (without the change, the effect would have been +0.6 pp). In addition, the monthly increase in electricity prices was 10.7% (+0.2 pp mom) due to the tariff change in the high consumption group.

The inflation trend has improved significantly compared to last month. According to our own calculations, the seasonally adjusted (s.a.) monthly CPI inflation rate fell from 2.9% in January to 2.1% (31.4% annualized over the last three months). Thus, excluding the impact of health services in January, the monthly trend was also down. Median and trimmed-mean inflation, which give an accurate signal of the underlying trend, fell to 2.0% and 2.2%, respectively (previously 2.2% and 2.5%, last three months annualized 27.8-30.9%). The annualized trend in the median inflation rate has averaged slightly below 30% since last June. The persistence of these levels is as important as the rapid convergence towards them.

While we maintain our end-2025 forecast at 29.2%, we note that the risks have become more balanced compared to last month. The growth outlook is the main upside risk to the forecast. If TL loans continue to grow in line with the 13-week average trend and FX loans grow in line with the revised cap, we expect total loan growth to be around 35% at the end of the year. Although the recent macroprudential measures imply a significant brake compared to before, we estimate that growth will remain well above the MTP target (4.0%) in 2025 unless there is a significant improvement in the cash balance of the Treasury. Among the downside risks, apart from the geopolitical factors, the global backdrop that is putting pressure on oil prices stands out.

While the February data leave room for further 250 bps rate cuts in March, April and June, we believe that the CBRT may start to scale back its steps from July. According to our forecast path, it is possible to cut the policy rate to 40.0% in the next two meetings (2 x 250 bps cuts) as inflation will fall to 37% in April. With strong policy coordination, after a 250 bps cut in June, cuts of 150 bps at each meeting could keep the ex-post real interest rate at a reasonable level in the second half of the year.

Consumer Price Index (CPI)

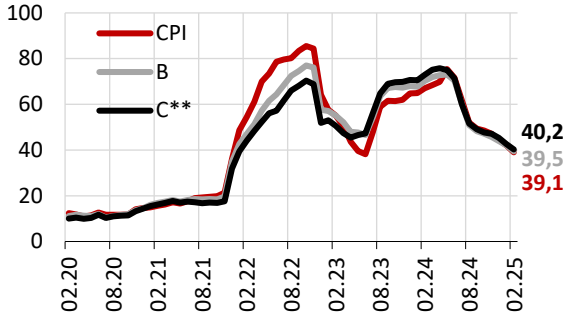
Monthly inflation was 2.27%, below our and the average market expectation ($\approx 3.0\%$). As a result, annual inflation fell by 3.1 pp due to the base effect to 39.05%, the lowest level since June 2023. The cumulative price increase in the first two months was 7.42%. Annual inflation in February was 1.8 pp below the forecast in the CBRT Inflation Report. Thus, inflation also fell below the lower bound of the CBRT's forecast band.

The inflation trend has improved significantly compared to last month. According to our own calculations, the seasonally adjusted (s.a.) monthly CPI inflation rate fell from 2.9% in January to 2.1%. This brought the annualized average seasonally adjusted monthly inflation over the last three months to 31.4%. In general, inflation in core goods, one of the subgroups most sensitive to exchange rate developments, remained low, while the strong increase in services (excluding the restraining effect of health services) continued.

Annual inflation in the core inflation indicators also continued to decline fall to the base effect. Annual inflation in the B index fell by 2.6 points to 39.5% (the lowest level since December 2021), while

annual inflation in the C index fell by 2.4 points to 40.2% (the lowest level since January 2022) (Chart 1, Table 3).

**Chart 1. CPI and Core CPI
(annual % change)**

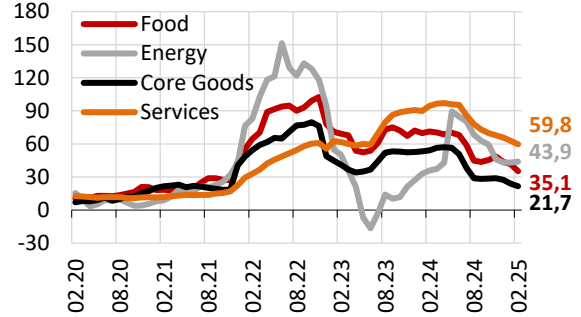


* CPI excluding unprocessed food, energy, alcoholic beverages and tobacco products, and gold

** CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products, and gold

Source: Turkstat

**Chart 2. CPI Sub-Indices
(annual % change)**



In January, annual inflation decreased in main groups excluding energy, and slightly increased in energy (Chart 2, Table 1). The details are as follows:

- **Food:** Monthly inflation in the food and non-alcoholic beverages group was 3.17%, while annual inflation decreased by 6.7 points to 35.1%, hitting the lowest level since November 2021 (27.1%) (Table 1). Monthly food inflation (s.a.) was more moderate at 1.6%. As in January, the outlook for processed food was more negative in February.

Unprocessed food prices increased by 1.4%, while decreasing by 1.6% in seasonally-adjusted terms (Table 2). The correction in the prices of **fresh fruit and vegetables** (s.a.), which started after the strong increases in the September-November period, continued to hold down the group inflation. In fact, prices of fresh fruits and vegetables (s.a.) fell by 6.6% mom (vegetables down 10.5%, fruits up 2.7%). On the other hand, the 2.6% rise in **other unprocessed food** prices (s.a.) continued to be driven by higher prices for eggs and red meat products.

Monthly processed food inflation remained high at 4.7% (January: 4.9%). In the **bread and cereals** group, bread price increases that started in some provinces after wage adjustments continued to take effect. Apart from this, monthly inflation in **other processed food** accelerated due to price hikes for milk and dairy products. Despite the 17.1% increase in the purchase price of raw milk from 1 January, the change in milk and related products prices remained low in January. The pass-through was largely completed in February. On the other hand, prices for confectionery, ice cream and cocoa products continued to rise at high rates.

Energy: Monthly energy inflation was 3.58%, while annual energy inflation rose by 0.8 points to 43.9%. The largest contributor to monthly energy inflation was **electricity** prices. The electricity price index rose by 10.7% mom, due to the change in the billing of electricity consumption by households with high electricity consumption, effective from 1 February, and contributed 0.18 pp to the monthly CPI inflation.

The **fuel** price index rose by 2.3% mom in February, after a 5.0% mom increase in January. Despite the depreciation of the TRY, fuel prices did not record a significant change during the month thanks to the decline in international oil prices. However, the fuel price index increased due to carry-over effects from January.

The monthly **municipal water** inflation fell from 20.3% (m.a. 16.8%) in January to 3.0% (m.a. 3.3%) in February. **Bottled gas** prices also increased by 6.7% in February. The monthly increase in **solid fuel prices** remained moderate.

- **Core goods:** The underlying trend of core goods maintained its downtrend in February. This development was once again led by the clothing group, where prices decreased by 0.25% mom (up 1.0% m.a.), while annual core goods inflation fell from 24.0% to 21.7% (the lowest since November 2021) (Chart 2, Table 2).

Clothing and footwear prices fell by 5.3% mom due to seasonal effects, while s.a. monthly inflation fell to 0.0%. As a result, annual clothing inflation fell from 26.8% to 20.1%. While the annual clothing inflation is not in line with our field observations, the price index published by the ICC shows a clothing inflation of 61.0%, which is significantly different from the CPI.

Monthly inflation for **durable goods (excluding gold)** was 1.1% (s.a. 1.4%), slightly lower than in the previous month (2.7%; s.a. 1.6%). **Furniture** prices, which had risen sharply in January (7.3%, 2.7% s.a.) on the back of wage increases, rose marginally by 0.4% (1.0% s.a.) in February. The rate of increase for the price of **household appliances** also slowed down to 0.9% (s.a. 1.9%) in February. On the other hand, the price increase for **motor vehicles** remained moderate at 1.6% (s.a. 1.2%).

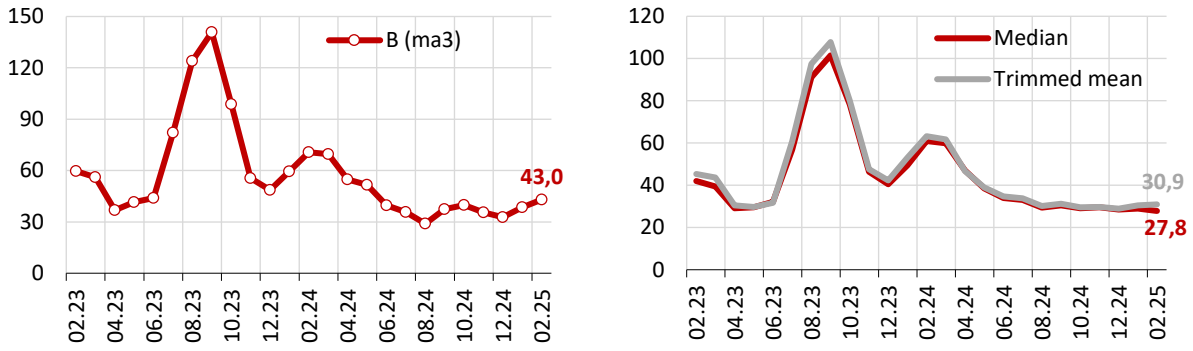
- **Services:** In January, monthly services inflation had picked up due to the increase in the minimum wage and price adjustments in health services. While the lagged effects of wage increases continued in February, the reduction in co-payments for medical examinations limited monthly inflation in this group. Prices for services rose by 3.6% mom, while the annual services inflation fell by 3.1 pp to 59.8%. Services remain to be the main group with the highest annual inflation (Chart 2).

Monthly **rent** inflation remains high, despite some deceleration. While monthly inflation was 5.2% (s.a. 5.4%), the group's annual inflation declined from 100.6% to 97.2% due to the base effect and continued to diverge significantly from other services sub-items and the CPI.

Monthly inflation in the **restaurants-hotels** was 3.1%, while the monthly trend fell to 1.5%. Annual inflation in this group decreased to 45.9%. Price increases in catering services were stronger with 3.4% mom (s.a. 2.4%). Considering the course of food prices and the lagged effects of wage increases, the rate of increase in catering services can be considered low.

Monthly inflation in **transport services** was 7.3% (s.a. 7.3%) due to the lingering effects of urban public transport fare hikes. We expect monthly inflation in this group to moderate in the upcoming period as the adjustments are mostly completed. Meanwhile, monthly inflation in **communication services** rose to 3.7%, while the group's annual inflation decreased to 41.3% from 44.8%.

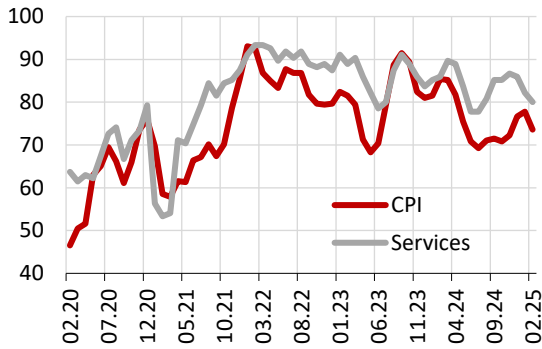
Finally, monthly inflation in the other services group slowed to 2.0% in February after a record rise of 16.7% in January. In January, the high revision of co-payments for medical examinations in health services had a negative impact on CPI and services inflation. As this change in regulation took effect on 15 January, it was expected to have a similar inflationary impact in February (+0.6 pp). However, the decision published in February reversed a significant part of this increase with effect from 15 January. Thus, after rising by 89.8% in January, the specialist doctors' fees item fell by 23.3% in February, contributing -0.28 points to monthly inflation. Thus, thanks to this adjustment, February's monthly inflation was published 0.9 points lower. Excluding this effect, the strong rise in services inflation (4.5% mom s.a.) continued.

Chart 3. Underlying Inflation* (seas. adj. m-o-m, 3-month moving average, annualized)

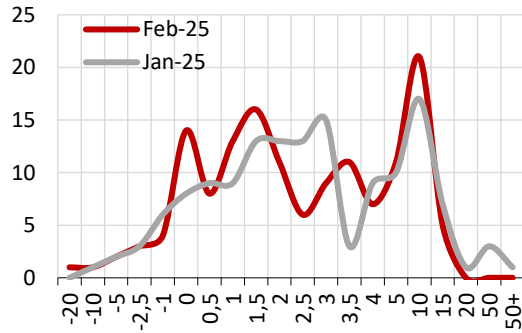
* In calculating trimmed mean indicator, 15% of the monthly inflation distribution has been deducted from both ends.

Source: Turkstat, Akbank

The inflation trend improved significantly compared to the previous month. The median and trimmed-mean inflation rates were 2.0% and 2.2% (27.8-30.9% annualized over the last three months), respectively, which are not affected by the increases that can be concentrated in certain items from time to time (e.g. health services last month) and provide a more accurate signal for the underlying trend (Chart 3). The annualized trend of median inflation has averaged slightly below 30% since last June. The improvement in the monthly inflation distribution was limited in February (Chart 5).

Chart 4. Diffusion Index (seas. adj., increase-decrease, %)

Source: Turkstat, Akbank

Chart 5. CPI Subgroups Monthly Inflation Histogram (seas. adj)

Source: Turkstat, Akbank

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Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Feb.24	Jan.25	Feb.25	Feb.24	Jan.25	Feb.25
CPI	4.53	5.03	2.27	67.07	42.12	39.05
Food and Non-Alcoholic Beverages	8.25	3.86	3.17	71.12	41.76	35.11
Alcoholic Beverages and Tobacco	0.49	1.02	-0.01	63.09	34.10	33.43
Clothing and Footwear	0.20	-5.17	-5.06	43.44	27.53	20.84
Housing, Water, Electricity, Gas and Other Fuels	3.41	7.34	4.58	49.07	68.90	70.81
Furnishings, household equipment, maintenance of the house	3.01	4.70	1.70	62.92	35.32	33.60
Health	3.64	23.57	-4.38	81.25	55.02	43.02
Transport	2.85	4.20	3.05	77.98	23.14	23.38
Communication	4.31	2.14	2.38	51.89	32.98	30.53
Recreation and Culture	3.19	5.49	0.25	65.44	33.05	29.26
Education	12.76	7.63	9.92	91.84	99.93	94.90
Restaurants and Hotels	5.43	6.50	3.12	94.78	49.18	45.90
Miscellaneous Goods and Services	3.52	7.66	2.93	61.86	39.94	39.14

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Feb.24	Jan.25	Feb.25	Feb.24	Jan.25	Feb.25
CPI	4.53	5.03	2.27	67.07	42.12	39.05
Goods	4.06	2.69	1.63	57.03	33.65	30.53
Energy	2.96	6.10	3.58	35.95	43.05	43.92
Food and Non-alcoholic Beverages	8.25	3.86	3.17	71.12	41.76	35.11
Unprocessed Food	9.30	2.66	1.40	84.41	44.17	33.75
Fresh Fruits and Vegetables	13.74	3.41	-1.21	76.75	62.14	40.82
Other Unprocessed Food	6.52	2.10	3.36	89.09	32.90	28.96
Processed Food	7.29	4.92	4.70	60.42	39.44	36.07
Bread and Cereals	5.74	8.08	5.02	61.01	46.17	45.17
Other Processed Food	8.02	3.34	4.53	60.12	36.21	31.80
Goods excl. Energy and Food	1.46	0.80	-0.16	55.25	25.16	23.16
Core Goods	1.58	0.74	-0.25	54.00	23.95	21.71
Clothing and Footwear	0.08	-5.46	-5.26	42.39	26.83	20.07
Durable Goods (excl. Gold)	1.50	2.74	1.11	58.98	20.05	19.59
Other Core Goods	2.74	2.52	1.26	54.95	28.90	27.04
Services	5.66	10.26	3.61	94.36	62.95	59.78
Rent	7.06	8.66	5.24	120.93	100.64	97.21
Restaurant-Hotels	5.43	6.50	3.12	94.78	49.18	45.90
Transportation Services	2.25	7.89	7.30	96.72	42.75	49.81
Telecommunication Services	6.27	2.82	3.66	62.98	44.83	41.27
Other Services	6.08	16.72	2.02	87.75	64.99	58.67
CPI	4.53	5.03	2.27	67.07	42.12	39.05
A (CPI excl. seasonal products)	4.37	5.94	3.00	68.33	42.22	40.35
B (CPI excl. unpro. food.. energy.. alc. bev.. tob.. gold)	4.23	5.47	2.32	70.31	42.08	39.47
C (CPI excl. energy. food. alc. bev.. tob.. and gold)	3.57	5.59	1.80	72.89	42.65	40.21
D (CPI excl. unproc. food.. alc. bev. and tobacco)	4.04	5.53	2.48	64.90	42.15	40.02
E (CPI excl. alcoholic beverages and tobacco)	4.68	5.18	2.35	67.22	42.42	39.25
F (CPI excluding administered prices)	5.17	4.15	2.43	72.60	40.58	36.91

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

The monthly rate of increase in D-PPI was 2.12% due to the lagged effects of wage increases and the moderate depreciation in the Turkish lira, while annual producer inflation fell from 27.2% to 25.2%, the lowest level since December 2020 (Table 3). The monthly change in groups excluding energy displayed a balanced outlook within the 2%-3% band. Compared to last month's increase, monthly increases in goods groups excluding intermediate goods lost momentum.

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Feb.24	Jan.25	Feb.25	Feb.24	Jan.25	Feb.25
Domestic PPI	3.74	3.06	2.12	47.29	27.20	25.21
Intermediate Goods	3.93	1.81	2.15	51.47	23.27	21.16
Durable Consumption Goods	5.07	6.39	2.83	61.51	37.44	34.52
Non-durable Consumption Goods	5.41	4.45	2.41	64.34	37.42	33.52
Energy	0.02	2.27	0.98	0.45	18.05	19.18
Capital Goods	3.23	3.25	2.04	64.70	25.61	24.16

Source: TURKSTAT

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