BBVA Research

Türkiye | A new basket, a tougher road to disinflation

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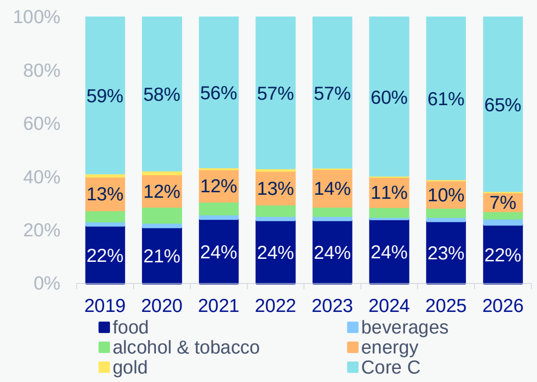
- Consumer inflation came in at 4.84%, above both consensus (4.2%) and our expectation (4.3%) in Jan26, while annual inflation edged down only marginally to 30.7%. Headline inflation deteriorated, driven by both food and core items, and we calculate seasonally adjusted (s.a.) CPI as being higher than the Central Bank's expectation of only a limited worsening.
- The substantial pick-up in core inflation (s.a.) stemmed particularly from basic goods inflation, whose level surpassed its Jan25 level, confirming the importance of expectations as we could have come to the end of the gains from real appreciation.
- In the new CPI basket, the weight of energy declined by 3.2pp, while the weight of services rose significantly by 7.4pp. Contrary to speculative expectations, the weights of rent and food changed only marginally. The new weights may reduce inflation volatility, but according to our calculations, it could also strengthen inflation inertia.
- Underlying inflation trend deteriorated to 2.3%; while the 3-month trend of median inflation, monitored by CBRT, has hovered around 2% for the past year, showing no meaningful improvement. Beyond the second-round effects in February, there is an upside risk on unprocessed food inflation due to Ramadan. We expect February CPI to be around 2.5%.
- Despite some improvement, inflation expectations remain elevated. Inertia remains strong, and demand conditions are not providing disinflationary support as expected. Smaller-than-expected rate cut in January and recent tightening steps in macroprudential measures appear to be taken to support disinflation.
- The CBRT might keep the point target of 16% unchanged in the inflation report to be presented on Feb 12th; however, given the upside risks, the forecast band may be revised upward for 2026. Higher-than-expected January print and increased weight of services pose upside risks to our year-end inflation forecast of 25% but the effects of recent policy measures should be monitored. The inflationary pressure will require the CBRT to be cautious as we already highlighted with our above-consensus policy rate expectation of 32% by year-end.

Challenging Near-Term Inflation Outlook: Revival in Basic Goods amid Sticky Services

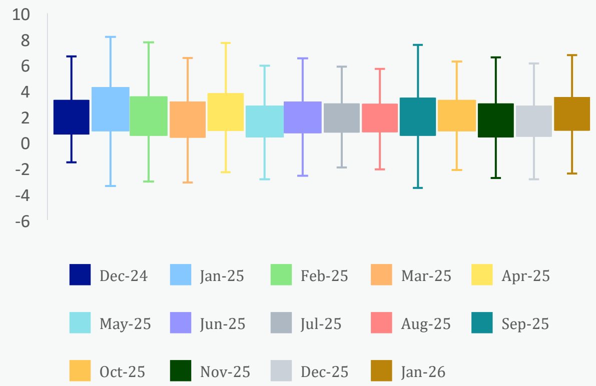
Turkstat introduced three major changes: revising the consumption expenditure classification in the CPI basket, using National Accounts Household Final Consumption Expenditure data to determine expenditure weights, and updating the CPI base year to 2025 from 2003. By adopting the COICOP 2018 classification, the number of main expenditure groups increased to 13 from 12. A new group, called as Insurance and Financial Services, was added, while communication group was renamed as Information and Communication with an expanded scope. The goods–services differentiation was clarified, with some items reclassified across groups. As a result of these classification and weight changes, the share of core items in the CPI basket (Figure-1) rose significantly to 65% (+4pp rise), while the energy share declined by 3pp to 7%. The increase in the core basket weight was driven mainly by services, whose CPI weight rose to 38.4% (+7 pp), while the weight of core goods declined. While the new weight composition may reduce inflation volatility, our calculations suggest that the higher weight of services could strengthen inflation inertia (Figure 3-4).

Figure 1. Weight Compositions



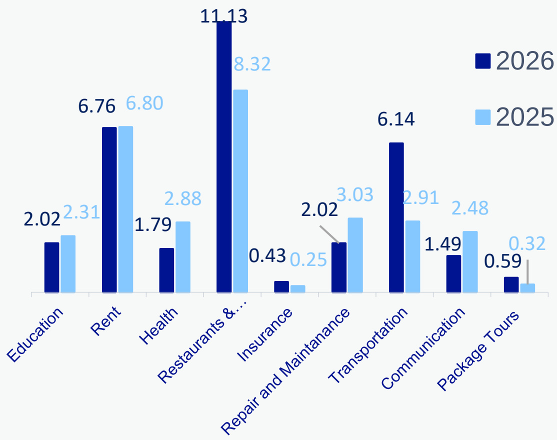
Source: Garanti BBVA Research, TURKSTAT

Figure 2. Spread of 5-digit inflation series (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 3. Weights of Selected Services



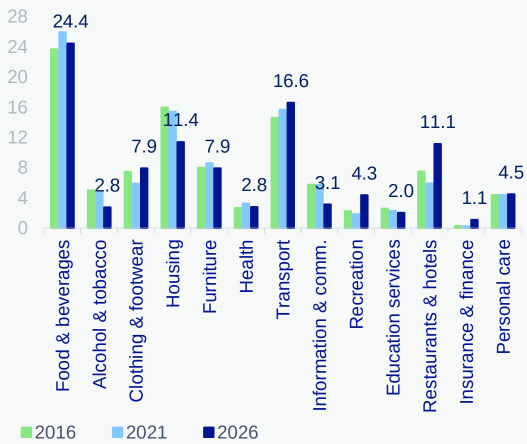
Source: Garanti BBVA Research, TURKSTAT

Figure 4. Inertia Coefficients of Services ($\pi_{i,t} = c + \rho\pi_{i,t-1} + \varepsilon_t$)

Services	ρ*
Education	0.96
Rent	0.93
Health	0.92
Restaurants & Accomodation	0.85
Insurance	0.83
Repair and Maintanance	0.82
Transportation	0.81
Communication	0.71
Package Tours	0.64

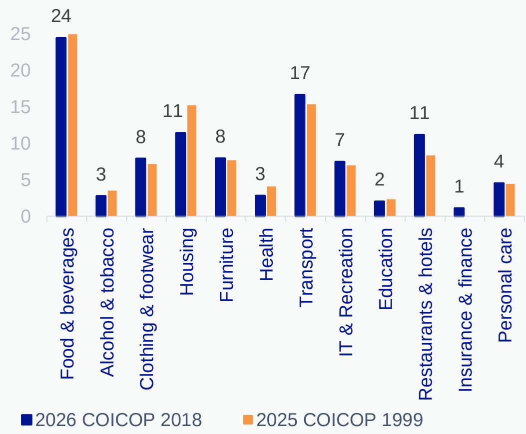
Source: Garanti BBVA Research, CBRT, ρ^*refers to our approximation of the coefficient from the Chart 5 in Box 2.3 of 3rd Inflation Report 2023 of the CBRT

Figure 5. CPI Weight Composition (% shares in total, COICOP 2018)



Source: Garanti BBVA Research, TURKSTAT

Figure 6. CPI Weight Composition* (% shares in total)

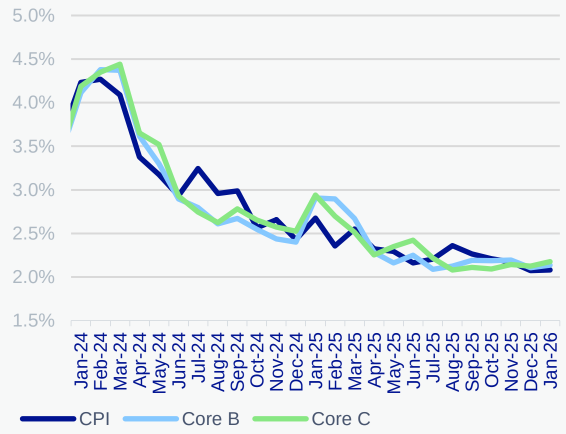


Source: Garanti BBVA Research, TURKSTAT *Since there are common items in groups 8-9 and 12-13 in COICOP 2018 compared to COICOP 1999, we show 8-9 groups in total but separate 12-13 with the old classification for 2025

Consumer prices rose by 4.84% m/m in Jan26 (vs. 0.9% m/m in Nov25 and Dec25), significantly exceeding both the consensus and our forecasts (4.2% and 4.3%, respectively). Despite the sharp monthly increase, annual inflation continued its deceleration, easing to 30.65% y/y from 30.89% y/y in Dec25. The contribution of food prices to headline inflation increased markedly to 1.6pp (vs. 1.0pp in Jan25), driven by a deterioration in fresh food inflation. Beyond time-dependent price adjustments, administered price increases and the direct impact of wage hikes at the start of the year, the data point to a deterioration in the underlying trend, led by basic goods inflation. This likely reflects a correction of the overly benign readings in recent months through more widespread price adjustments, particularly in durable goods.

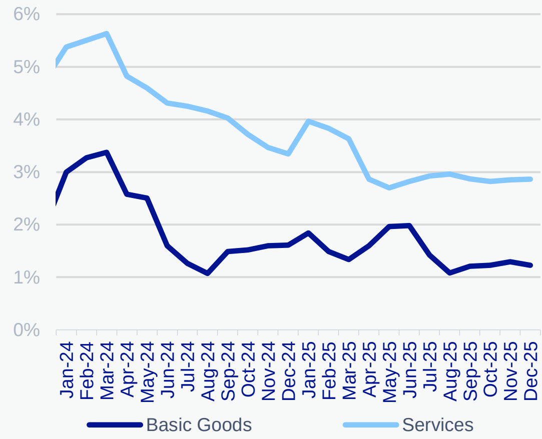
Seasonally adjusted headline inflation deteriorated to 2.9% m/m (vs. 1.7% m/m prev.), keeping the three-month average at 2.1%. Core-C inflation also worsened to 2.5% m/m (vs. 2.0% m/m prev.), with the deterioration mainly stemming from basic goods, whose inflation rose to 2.1% m/m in Jan26 -exceeding its Jan25 level (2.0% m/m)- alongside persistently high services inflation at 2.7% m/m (vs. 2.9% m/m prev.). Considering sticky services inflation -whose subcomponents point to insufficient disinflationary demand forces, the revival in basic goods inflation- suggesting that the low readings in recent months mainly reflected delayed price adjustments amid a gradually managed currency rather than an improvement in pricing behavior, upside risks to food inflation—with Ramadan-related effects expected to materialize soon, the near-term inflation outlook appears unfavorable and is prone to generate secondary effects through expectations. Therefore, the CBRT's decision to slow the pace of rate cuts at the Jan26 meeting was not bold but rather necessary and perhaps a pause may have been required.

Figure 7. Consumer Inflation Indicators (seasonal adj., monthly, 3-month average)



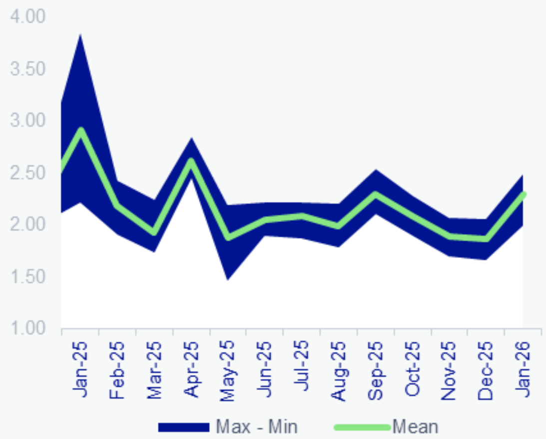
Source: Garanti BBVA Research, TURKSTAT

Figure 8. Core C Inflation Indicators (seasonal adj., monthly, 3-month average)



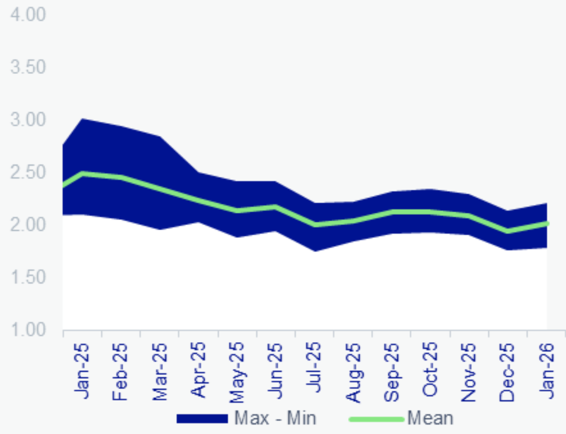
Source: Garanti BBVA Research, TURKSTAT

Figure 9. Consumer Inflation Indicators Inflation (seasonal adj., monthly)



Source: Garanti BBVA Research, TURKSTAT

Figure 10. Consumer Inflation Indicators (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

According to our calculations, the average of the underlying trend indicators closely monitored by the CBRT deteriorated to 2.3% m/m (vs. 1.9% m/m prev.), bringing the three-month average back to 2.0% (vs. 1.9% prev.), which implies an annualized inflation trend of around 27% in the absence of additional tightening. Core-B and Core-C inflation rose to around 2.5% m/m (vs. ~2.0% m/m prev.). Compared to same period last year, the monthly deterioration in median inflation (2.0% m/m vs. 1.7% m/m in Dec25) and SATRIM (2.3% m/m vs. 1.8% m/m in Dec25) was more pronounced in Jan26, reflecting more concentrated price increases.

By Core-C components, seasonally adjusted basic goods inflation increased sharply to 2.1% m/m (vs. 1.0% m/m prev.), led by durable goods (2.9% m/m, +2.2pp), followed by clothing (0.6% m/m, +0.8pp) and other basic goods (2.4% m/m, +0.3pp). Services inflation edged down to 2.7% m/m (vs.

2.9% m/m prev., +0.2pp), driven mainly by improvements in other services (2.2% m/m, -0.4pp) and rent (2.8% m/m, -0.4pp), followed by restaurant and hotels (2.5% m/m, -0.1), while communication services deteriorated significantly (5.3% m/m, +1.7pp) and transportation services edged up (3.1% m/m, +0.1pp).

According to seasonal adjusted figures, after recording relatively weak realizations in Nov25 (-0.2% m/m) and Dec25 (1.6% m/m), in Jan26, food prices rebounded significantly (4.1% m/m in Jan26 vs. 1.3% m/m in Jan25) driven by a strong rise in unprocessed food prices (6.0% m/m) yielding an annual inflation of 31.7% (vs. 28.3% y/y in Dec25). Looking forward, due to the potential food price adjustments during Ramadan (Feb-Mar26), there are upside risks on the 18% annual food inflation projection by the CBRT.

On the other hand, in Jan26 energy prices increased by 2.3% m/m (vs. 0.1% m/m drop in Dec25), while in annual terms, energy inflation stands at 30.2%. Adjustment in SCT in fuel which is below the change in the PPI of the last six-months in 2025 and the lower water price adjustments contributed to a lower energy inflation compared to last year (6.1% m/m in Jan25).

On the producer side, cost push factors recorded a considerable surge (2.7% m/m), the highest rise since last January where the minimum wage-adjustments had an effect. Furthermore, annual PPI inflation moderated to 27.2% in Jan26 (vs. 27.7% in Dec25). While there are still risks to the producer inflation stemming from potential carry-over effects of the minimum wage adjustment, relatively weak energy prices compared to 2025 and controlled currency depreciation throughout the year would be facilitating factors.

The challenges on disinflation outlook requires more effective policy mix

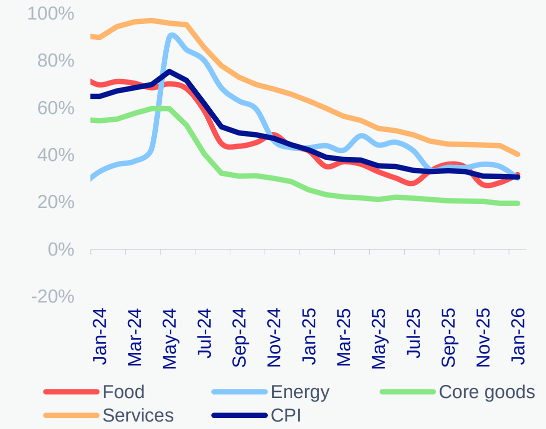
January inflation rose above expectations, driven by time-dependent price adjustments and high food prices, despite supportive adjustments in administered prices and taxes. In February, inflation could materialize around 2.5%, reflecting second-round effects and potential upside risks on food inflation due to Ramadan. Meanwhile, the underlying inflation trend has failed to fall below 2% in the past one year, indicating robust inertia led by especially services inflation. Although inflation expectations have improved somewhat, they remain high and unanchored, continuing to reinforce inertia. Indeed, 12-month-ahead household inflation expectations deteriorated in January—driven by elevated food inflation and start of the year price adjustments—rising to 52.1%. By contrast, expectations among market participants and firms showed only marginal improvement, coming in at 22.2% and 32.9%, respectively; however they could again rise after January CPI surprise. As highlighted in our latest activity report, demand conditions remain strong, failing to provide the expected disinflationary support. Last but not the least, the increasing weight of services prices in the CPI basket may further reinforce inflation inertia. As a result, upside risks to the inflation outlook are increasing.

Citing the prevailing risks, the Central Bank (CBRT) delivered a 100 bps rate cut in January, contrary to the market expectation of a 150 bps reduction. Taken together with the recent restrictive measures on credit cards and overdraft facilities, these policy actions aimed to balance the upside risks on inflation outlook. It will be important to closely monitor how restrictive these measures prove to contain demand pressures. On the fiscal side, we expect the fiscal stance to turn neutral in terms of demand conditions this year; while there might be favorable tax adjustments in favor of disinflation on the administered prices; indeed, Finance Minister Şimşek's statement that potential fuel and tobacco tax hikes in July could be skipped supports this view. As challenges to disinflation increase, the effectiveness of the economic policy coordination becomes even more critical.

The Inflation Report to be released on February 12 will be important for expectations, particularly regarding the accounting of the 2025 deviation of inflation from target, as well as assessments of the 2026 interim target and forecast band. The new monetary policy communication framework states that the interim target will not be changed unless there is a clear risk, while the forecast band may be adjusted more frequently in line with the risk balance. Accordingly, we think that while the 16% year-end point target may remain unchanged, the 13–19% forecast band could shift upward under the current conditions. We will also closely follow the Governor's messages regarding the pace of monetary easing.

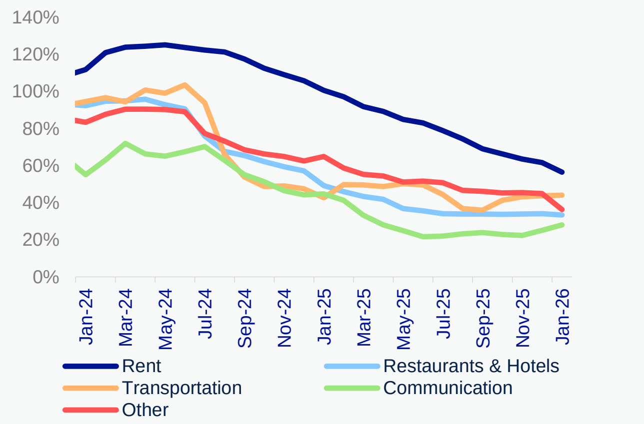
Even though we assess upside risks on our 2026 inflation forecast due to the current momentum and the rising weight of services, the effects of the recent tightening measures add uncertainty. Therefore, for the time being, we maintain our above consensus year-end inflation forecast at 25%. The CBRT may adjust the size of rate cuts depending on the risks on the inflation outlook. We expect 100 bps cuts to continue at the remaining meetings in the first half of the year, with smaller steps in the second half amid persistent inflation stickiness. In addition, we anticipate that macroprudential measures and regulations—as seen in recent decisions—will continue to be used actively to reinforce the policy stance. The appointment of a macroprudential policy expert to the Monetary Policy Committee (MPC) recently may also signal this tendency. The CBRT might maintain a tighter control over the exchange rate volatility and depreciation in the short term considering recent challenges on inflation outlook. However, the sharp increase in seasonally adjusted core goods inflation in January suggests that gains are gradually diminishing. As a result, a continued real appreciation of the currency, combined with elevated inflation expectations, could support consumer goods imports while posing downside risks to exports, potentially reinforcing the recently deteriorating trend in the foreign trade balance.

Figure 11. Consumer Inflation Subcomponents (YoY)



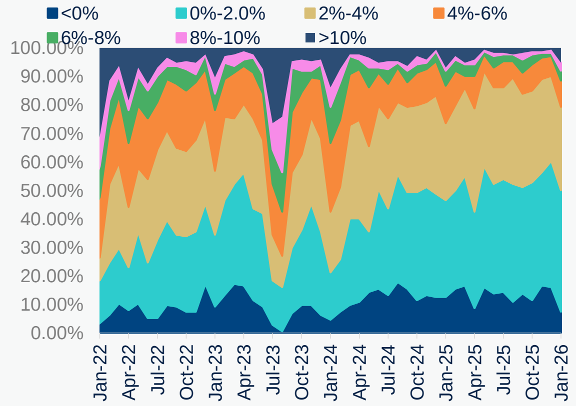
Source: Garanti BBVA Research, TURKSTAT

Figure 12. Services Inflation (YoY)



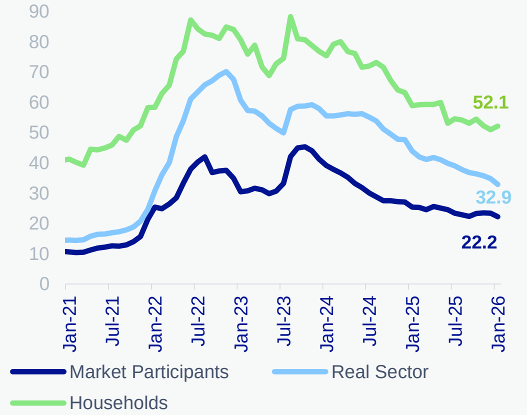
Source: Garanti BBVA Research, TURKSTAT

Figure 13. CPI Diffusion Index (according to monthly SA changes)



Source: Garanti BBVA Research, TURKSTAT

Figure 14. Inflation Expectations (12 Month Ahead, %)



Source: Garanti BBVA Research, TURKSTAT

Figure 15. CPI Subcomponents

	MoM	YoY
Total	**4.84%**	**30.65%**
Food & Non-alcoholic beverages	6.6%	31.7%
Beverage & Tobacco	1.5%	31.4%
Clothing & Textile	-4.7%	7.1%
Housing	4.4%	45.4%
Household Equipment	3.2%	23.1%
Health	14.8%	21.6%
Transportation	5.3%	29.4%
Information & Communication	4.0%	20.1%
Recreation, Sport & Culture	5.4%	26.9%
Education	6.6%	64.7%
Restaurants & Hotels	5.9%	33.3%
Insurance & Financial Services	10.8%	23.1%
Personal Care & Misc. Goods and Services	5.4%	29.7%

Source: Garanti BBVA Research, TURKSTAT

Figure 16. PPI Subcomponents

	MoM	YoY
Total	**2.67%**	**27.17%**
Mining & Quarrying	2.8%	33.0%
Manufacturing	3.2%	27.1%
Food Products	4.2%	32.7%
Textiles	1.9%	20.1%
Wearing Apparel	1.7%	28.9%
Coke & Petroleum Products	0.2%	12.2%
Chemicals	3.6%	25.7%
Other Non-Metallic Mineral	3.4%	20.2%
Basic Metals	2.2%	24.1%
Metal Products	3.0%	23.4%
Electrical Equipment	2.2%	28.9%
Electricity, Gas, Steam	-2.6%	25.9%

Source: Garanti BBVA Research, TURKSTAT

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