# Macro note – 2025 February Inflation

## CPI increased by 2.27% mom and 39.05% yoy in February. Disinflation, which became evident in core goods; continues to be rigid in services.

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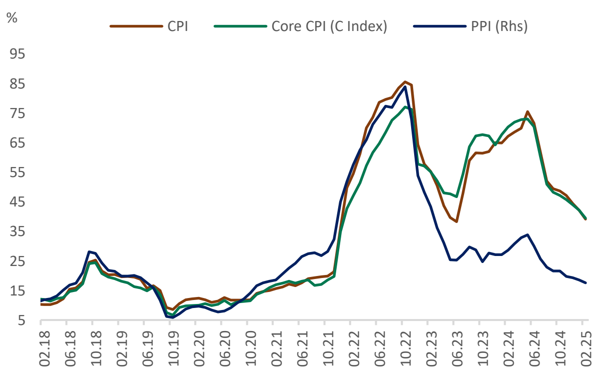
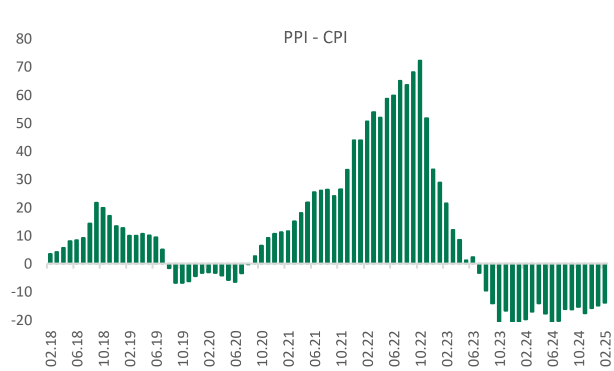
| | MoM% | | | YoY% | | |
|---|---|---|---|---|---|---|
| | Market | Seker Invest | Actual | Market | Seker Invest | Actual |
| **CPI** | 3 | 2.85 | 2.27 | 40.04 | 39.8 | 39.05 |
| **PPI** | - | - | 2.12 | | | 25.21 |

CPI increased by 2.27% mom in February, while annual inflation was realized as 39.05%. Market expectations were that inflation would increase by 3% mom and 40.04% yoy (Seker Investment expectations were 2.85% mom and 39.8% yoy). Monthly inflation, which was well below the market and our expectations, slowed down the annual inflation significantly. The average of food, housing and transportation inflation, which has a 55.5% weight in the index, rose by 41.65% yoy. Considering the impact across income groups, the price increase in the core expenditure items of lower income groups still hovered above the headline inflation. In the same period, monthly inflation in the Special CPI Aggregate B index (core inflation) was realized as 2.32% while annual inflation was realized as 39.47%. Two items that significantly slowed down the inflation dynamics in February were clothing and footwear and health expenditures. The partial withdrawal of the contribution fees introduced in January led to a monthly decline of 4.38% in health expenditures, while the monthly decline in clothing and footwear was 5.06%. Producer prices, on the other hand, rose by 2.12% mom in February, while the annual change in PPI was realized as 25.21%. When we look at the sub-indices in PPI, annual changes in main industrial groups were realized as 21.16% increase in intermediate goods, 34.52% increase in durable consumer goods, 33.52% increase in non-durable consumer goods, 19.18% increase in energy and 24.16% increase in capital goods. We see that the long-lasting low course of monthly producer prices has revived. Considering the general course of inflation, services inflation continues to be the most important headline. After a gradual decline from its 97% peak in April 2024, services inflation fell to 59.78% in February. This level, which is well above the headline inflation, reveals the divergence between goods and services inflation. On the other hand, services items such as education, which still show monthly increases of 10%, indicate that disinflation in this area requires more effort and patience. After the inflation data, which fell well below expectations, the markets are now expecting a rate cut in March to be finalized. We expect the CBRT to maintain its cautious stance even if the interest rate cut continues and to pursue a monetary policy stance that favors the real interest rate. In this context, the first half of the year will be a critical period in terms of interest rate cuts and seeing the effects of the change in economic activity. We expect that the monetary policy stance will be adjusted according to these developments in the second half of the year.

**Graph 1: CPI, PPI and Core CPI (YoY %)**




**Graph 2: PPI – CPI Spread**



Analyzing the subcategories of CPI inflation, the main group with the lowest year-on-year increase was clothing and footwear with 20.84%. On the other hand, the main group with the highest increase compared to the same month of the previous year was education with 94.90%. By main expenditure groups, the main group with the highest decrease in February 2025 compared to the previous month was clothing and footwear with -5.06%. On the other hand, the main group with the highest increase in February 2025 compared to the previous month was education with 9.92%.

**Table 1: Inflation and Sub-Components**

| Main expenditure groups | Weights | MoM (%) | Ytd (%) | YoY (%) |
|---|---|---|---|---|
| **CPI** | **100,00** | **2,27** | **7,42** | **39,05** |
| **Food and non-alcoholic beverages** | 24,97 | 3,17 | 7,15 | 35,11 |
| **Alcoholic beverages and tobacco** | 3,52 | -0,01 | 1,01 | 33,43 |
| **Clothing and footwear** | 7,16 | -5,06 | -9,97 | 20,84 |
| **Housing, water, electricity, gas and other fuels** | 15,22 | 4,58 | 12,26 | 70,81 |
| **Furnishing, household equipment, routine domestic maintenance** | 7,67 | 1,70 | 6,47 | 33,60 |
| **Health** | 4,09 | -4,38 | 18,15 | 43,02 |
| **Transportation** | 15,34 | 3,05 | 7,38 | 23,38 |
| **Communication** | 3,62 | 2,38 | 4,58 | 30,53 |
| **Recreation and Culture** | 3,36 | 0,25 | 5,76 | 29,26 |
| **Education** | 2,31 | 9,92 | 18,31 | 94,90 |
| **Hotels, cafes and restaurants** | 8,32 | 3,12 | 9,82 | 45,90 |
| **Miscellaneous goods and services** | 4,43 | 2,93 | 10,82 | 39,14 |

*Source: TURKSTAT*

In sum, CPI increased by 2.27% mom in February, while annual inflation was realized as 39.05%. Price dynamics were realized well below monthly expectations, while the rigidity in services in particular persisted. In our baseline scenario, we envisaged a significant decline in inflation in the first half of the year. Although there has been no significant change, if the rigidity and global shocks persist, we may have a first half slightly above our expectations. As inflation dynamics are closely related to the monetary policy stance, a rate cut in the March rate decision is almost certain. Demand-side inflation and the course of items such as core goods/food seem to be in line with CBRT forecasts. The economic management, which gradually adjusts monetary and fiscal policies according to the trend in inflation, will need more time to manage inflation expectations. We closely monitor inflation expectations as the improvement in the expectations channel will have an impact on both pricing behavior and costs. Contributions to inflation from cost and exchange rate pressures have been contained, and consumption and demand inflation have started to decline. Considering the sphere of monetary policy control, implementations that take financial stability as well as price stability into account will reduce exchange rate volatility and contribute to both risk premiums and macro financial stability. We would like to underline that we may revise our inflation forecasts depending on the developments in the monthly inflation level and the course of monetary policy. We maintain our 2025 year-end inflation forecast at 26.4%.

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