Inflation Pulse

Türkiye | Higher uncertainty on inflation outlook

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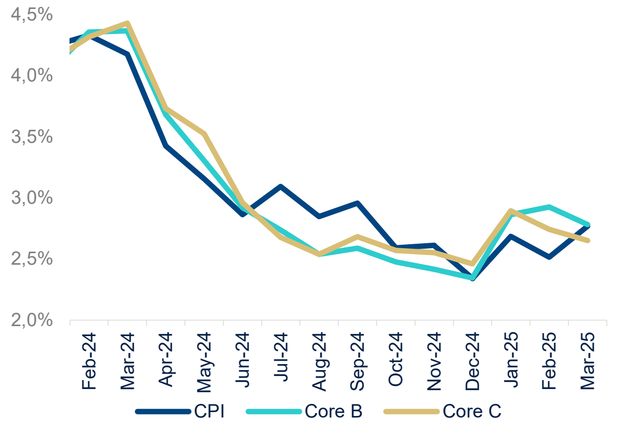
Consumer inflation rose by 2.46% m/m, lower than both our expectation (3%) and the market consensus (2.9%), bringing annual inflation down to 38.1%. The deviation from our forecast mainly stems from core inflation, particularly in the services inflation. Seasonally adjusted monthly inflation increased on food and basic goods inflation, whereas a broad-based correction in services (excluding other services) and weakness in energy prices were supportive factors. The impact of exchange rate depreciation observed toward the end of March may become more apparent in April and May inflation figures. Trend indicators point to a slight improvement in the underlying inflation trend, but the expected pass thru on recent currency depreciation need to be closely monitored to assess the final impact. According to our calculations, under a scenario where the exchange rate pass-through is around 35% (in line with latest publication of CBRT), the recent depreciation could add around 2-3 percentage points with dynamic impacts to our year-end inflation forecast. Accordingly, we have revised our 2025 year-end inflation forecast to 32% from 29% under the assumption of real currency appreciation, energy price hikes in line with inflation target, no additional wage adjustment and slightly tighter monetary policy than our previous expectation. High inflation expectations, strong inflation inertia, output gap remaining close to neutral level, delayed fiscal support, and the lagged impacts of recent currency depreciation create upside risks to disinflation path. On the global side, the U.S.'s newly announced reciprocal tariffs and the likelihood of retaliatory measures from other countries may contribute to upward pressure on global inflation. Despite news of a 25% electricity price hike as of April, the absence of an actual energy price adjustment and the recent postponement of fuel price increases are seen as positive steps for short-term inflation. We expect the Central Bank to keep the policy rate unchanged in April, starting more gradual rate cuts from June onwards if the most recent shock remains temporary, with the policy rate potentially falling to 35% by year-end. The extent of fiscal support, the scale of energy price adjustments, and the tightness of monetary policy will be key in shaping the disinflation path.

Weak core inflation in the absence of the recent currency shock impact

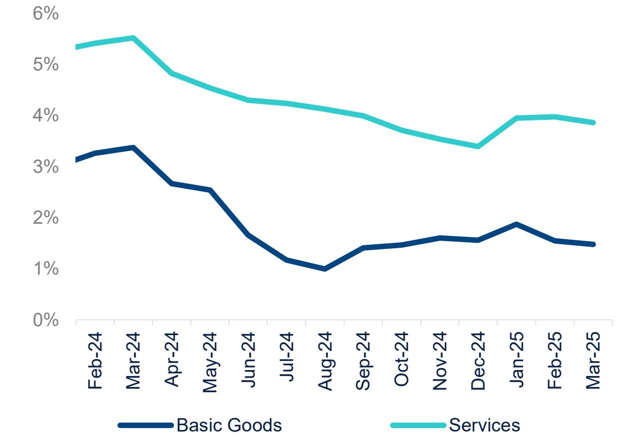
Consumer prices increased by 2.46% m/m in March, surprising to the downside due to deceleration in core inflation while food inflation (5.1%) on Ramadan impact and alcohol and tobacco inflation (9.96%) was upside factors. As a result, annual inflation declined to 38.10%, from 39.05% in the previous month. Our seasonally adjusted (s.a.) CPI inflation indicate a deterioration compared to February, with monthly inflation rising to 2.61% in March, up from 2.24%. This increase was primarily driven by elevated fresh food inflation. Consequently, the three-month inflation trend worsened, climbing 2.77% from 2.52%.

Figure 1. **CONSUMER INFLATION INDICATORS** (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

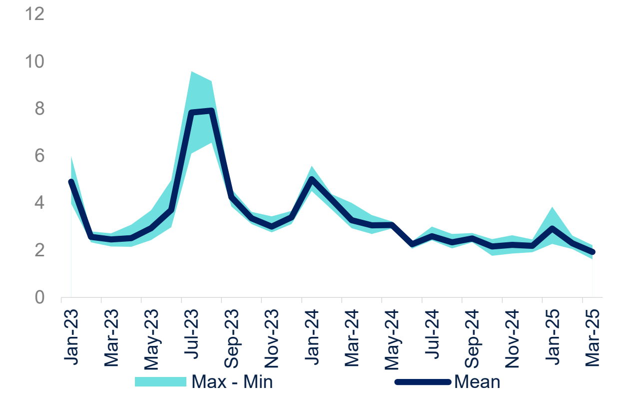
Figure 2. **CORE C INFLATION INDICATORS** (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

In contrast to seasonal adjusted CPI, the average of six seasonally adjusted underlying trend indicators showed notable improvement, declining to 1.93% in March from 2.28% in February. While the range of these underlying indicators remained stable, both the maximum and minimum values shifted downward by approximately 0.4 percentage points, converging toward levels last observed in September 2021. Accordingly, the three-month average of the indicators eased slightly to 2.38%, down from 2.46% in February. The three-month average of the trend indicators ranges between 2.06% and 2.78%, with Core-B representing the upper bound and the median inflation – widely regarded as an indicator of long-term trend- representing the lower bound. Among the indicators excluding extreme values, such as the median, SATRIM, and v_1, monthly inflation trend remained below 2%. However, the dynamic factor model still points to robust common inflationary pressures, with the common component declining to 2.21% form 2.51%, signaling improvement yet continued strength in underlying dynamics. The expected pass thru from recent currency depreciation may lead some deterioration in underlying trend in the upcoming months.

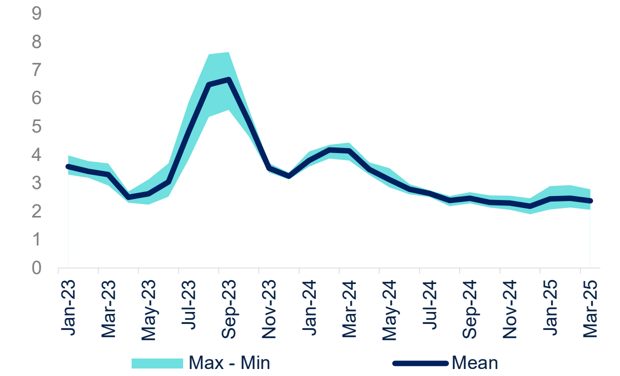
Figure 3. **CONSUMER INFLATION INDICATORS*** (seasonal adj., monthly)



Source: Garanti BBVA Research, TURKSTAT

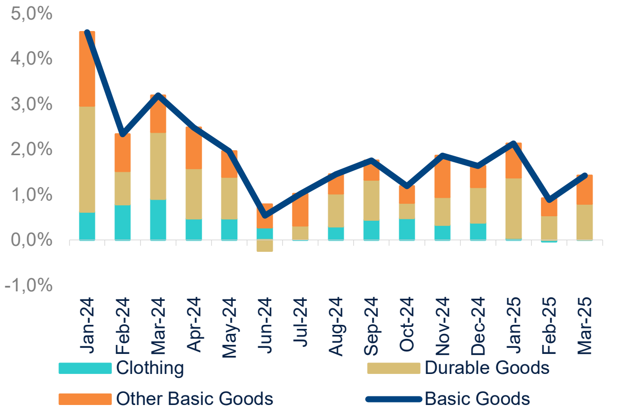
* Mean represents the average of different trend indicators including seasonally adjusted B, C, SATRIM, Median, inflation excluding volatile items and dynamic factor. The highlighted area shows the maximum and minimum range.

Figure 4. **CONSUMER INFLATION INDICATORS*** (seasonal adj., monthly, 3-month average)



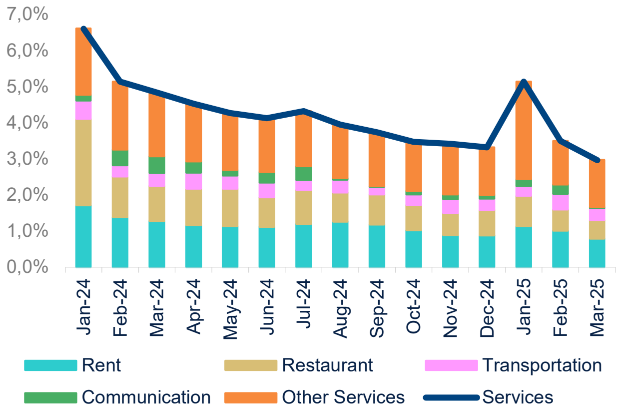
Source: Garanti BBVA Research, TURKSTAT

Figure 5. **CONTRIBUTIONS TO BASIC GOODS INFLATION** (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 6. **CONTRIBUTIONS TO SERVICES INFLATION** (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Seasonal adjusted Core-C inflation remained stable around 2.2% in March. The deterioration in basic goods inflation was offset by a marked improvement in services inflation, which declined to 2.96%, falling below the 3% threshold for the first time since November 2021. The moderation in services inflation was led by significant declines in rent (4.13% down from 5.29%), restaurants and hotels (1.99% down from 2.28%), transportation (3.36% down from 4.46%), and communication services (0.55% down from 3.66%); while, other services inflation rose to 3.37% from 3.13%), In contrast, basic goods inflation picked up to 1.42% (up from 0.88% in February), driven by increases in durable goods (1.63% up from 1.11%), other basic goods (2.09% up from 1.26%), and clothing (0.02% up from -0.16%) inflation. The broad-based strengthening in basic goods inflation likely reflects the lagged impact of the recent revival in domestic demand, as well as some pass-through effects from recent currency depreciation via import prices. Given the persistence of robust demand and reflection of exchange rate effects in April data, further movement in basic goods inflation is likely to be observed next month while a likely deterioration in inflation expectations on recent uncertainty could pose upside risks to core inflation.

Seasonally adjusted inflation for food and non-alcoholic beverages rose sharply in March, reaching 3.78% compared to 2.18% in February, resulting an annual inflation rate of 37.12% up from 35.11%. In deviation from recent patterns, the March acceleration was mainly driven by fresh fruit and vegetable prices (14.91% up from -6.63%), while processed food inflation (0.57% down from 4.70%) remained relatively subdued.

On the other hand, Energy prices remained benign, registering a growth of 0.03% in March on recent weaker oil prices. Although the planned electricity price hikes (25% according to news) were postponed for April, their implementation in the coming months will be a key determinant of the inflation trajectory going forward.

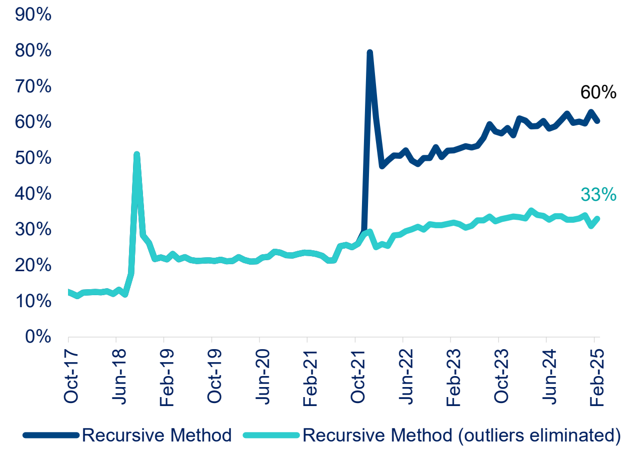
Last but not least, cost-push factors remained weak, as domestic producer price inflation decelerated to 1.88% m/m (down from 2.12%), and 23.50% y/y (down from 25.51%) especially on energy goods producer inflation. The recent exchange rate depreciation may put some upside risks in the near future.

Monetary policy should remain tighter for longer on recent upside inflationary risks

The recent domestic political developments led to an initial 12% intraday currency depreciation on March 19th, which has been later contained by the CBRT to nearly 5% monthly depreciation against the currency basket in March, thanks to its timely interventions. Since prices were collected up to 24th of March, March inflation did not include the impact yet, but we are likely to see its spillover effects into April and May inflation figures. According to our calculation, under an exchange rate pass-through of approximately 35% (Figure 7), the recent depreciation could contribute around 2–3 percentage points to year-end inflation (Figure 8). The CBRT surveys on inflation expectations, where households' 12-month ahead inflation expectation remained unchanged at 59.2% and the real sector's expectation declined only slightly to 41.1% (from 41.9%) in March 2025, do not yet reflect the effects of the recent shock. Early economic activity indicators suggested a continuation of 1.5-2% strong quarterly growth in 1Q25. As a result, the output gap could remain close to zero, pointing to a lack of domestic demand contribution to the disinflation path. On the other hand, we will closely monitor the impact of the opposition's call for a boycott of consumption and firms on domestic demand. The momentum in credit growth during 1Q25 and the potentially delayed fiscal support also pose risks to the disinflation path. Lastly, on the global front, the U.S.'s recently announced tariffs and potential retaliatory measures from other countries pose upside risks to global inflation. This, combined with rising uncertainty, could also negatively affect capital flows to emerging markets. On the other hand, the delayed energy price hikes for households (vs. news of a possible 25% electricity price hike as of April) and the recently postponed fuel prices hike could be supportive factors on inflation outlook in the short term. Nonetheless, the inflation outlook has become more challenging in the near future.

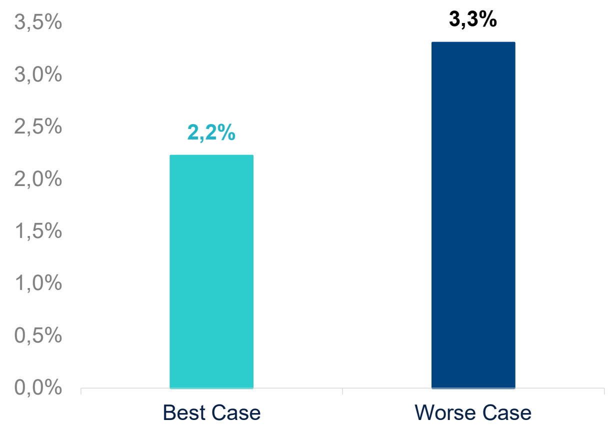
We have revised our year-end inflation forecast for 2025 to 32% from 29% by including the potential impact from the most recent currency depreciation. In response to recent market turmoil, the CBRT raised upper band of the interest rate corridor by 200 bps to 46% and refrained from providing funding through weekly repo auctions. As a result, the average cost of funding has recently been hovering around 46%. At the same time, the CBRT significantly reduced excess TL liquidity in the market through FX sales, TL depos and liquidity bills. Given upside risks to the disinflation path and the ongoing uncertainty, we will closely monitor the pace of dollarization and how the CBRT will manage TL liquidity and TL O/N rates in the meantime. Hence, we expect the policy rate to remain unchanged in April MPC meeting; however, if risks intensify, we do not rule out a policy rate hike to the current cost of funding of 46%. If the recent shock proves to be temporary, the cost of funding may initially converge to the policy rate after some time and gradual rate cuts could again begin June onwards, and the policy rate could decline to 35% by year-end.

Figure 7. **EXCHANGE RATE PASS-THROUGH (%)**



Source: Garanti BBVA Research, TURKSTAT

Figure 8. **EXCHANGE RATE PASS-THROUGH IMPACT FROM THE RECENT SHOCK** (%, 2025 Total Impact)



Source: Garanti BBVA Research, CBRT

Figure 9. **CPI SUBCOMPONENTS**

	MoM	YoY
Total	**2.46%**	**38.10%**
Food & Non-alcoholic beverages	4.9%	37.1%
Beverage & Tobacco	10.0%	46.7%
Clothing & Textile	-2.5%	14.8%
Housing	2.1%	68.6%
Household Equipment	2.3%	32.4%
Health	0.7%	42.0%
Transportation	0.3%	21.6%
Communication	0.4%	24.0%
Recreation & Culture	2.2%	27.4%
Education	4.7%	80.4%
Restaurants & Hotels	2.1%	43.4%
Misc. Goods & Services	1.8%	37.2%

Source: Garanti BBVA Research, TURKSTAT

Figure 10. **PPI SUBCOMPONENTS**

	MoM	YoY
Total	**1.88%**	**23.50%**
Mining & Quarrying	1.5%	30.9%
Manufacturing	2.1%	23.1%
Food Products	2.3%	29.8%
Textiles	2.2%	16.2%
Wearing Apparel	1.5%	35.6%
Coke & Petroleum Products	-3.1%	-0.4%
Chemicals	2.1%	20.6%
Other Non-Metallic Mineral	1.3%	26.8%
Basic Metals	1.9%	7.1%
Metal Products	2.4%	20.7%
Electrical Equipment	2.4%	23.7%
Electricity, Gas, Steam	-0.9%	21.2%

Source: Garanti BBVA Research, TURKSTAT

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