

Macro: Depreciation and administered price adjustments pushed up inflation trend

Consumer inflation was 3.0% mom and 37.9% yoy, below market expectations (monthly $\approx 3.2\%$; annual $\approx 38.2\%$). Thus, annual inflation continued to decline by 0.2 pp. The month-on-month inflation trend increased in line with the electricity price hike and exchange rate developments. Administered price adjustments and the depreciation of the TL pushed up the inflation trend, while the disappearance of the Ramadan effect in food prices limited the monthly price increase.

In this regard, core indicators provide more reliable information. According to our own calculations, the monthly increase in the seasonally adjusted CPI was 2.8% (previously 2.6%), while the monthly increases in core B and C were 2.7% (previously 2.0% and 2.1%). The relatively limited increase in CPI trend was mainly due to the correction in unprocessed food prices. In the March-April period, the effect of the depreciation of the basket exchange rate by almost 10% was felt in core indicators. Median and trimmed-mean inflation rates, which are distribution-based trend indicators, were realized as 2.5% and 2.4% mom (previously 1.9% and 2.0%). Median inflation, which averaged 2.1% in the June-March period, reached its highest level of the last 11 months in April.

The weaker outlook for aggregate demand due to the tightening of financial conditions and global developments, as well as the decline in commodity prices, is likely to weaken the monthly inflation trend in the second half of the year [assuming that the administered price adjustments will be completed in May and that the exchange rate depreciation will continue in a controlled manner]. Accordingly, we believe that we could see a more sustained improvement in the inflation trend in the second half of the year. On the other hand, upside risks to expectations and price behavior remain significant. Against the backdrop of a return to the exchange rate path in May, which we consider to be in line with the CBRT's Inflation Report forecast, and a year-end USD exchange rate of 43; the slowdown in economic activity from the second quarter due to tighter financial conditions partially offsetting the exchange rate-driven inflationary effects; and Brent oil prices averaging around \$68, we maintain our end-2025 inflation forecast at 30.0%.

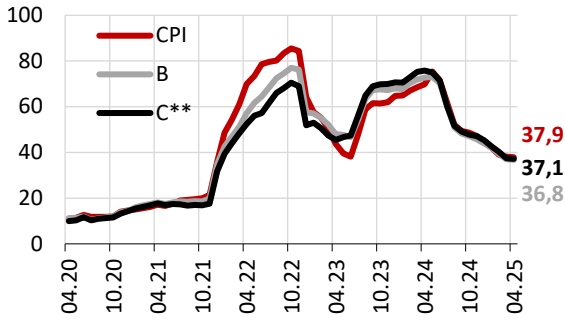
Two issues regarding the inflation and monetary policy outlook gain importance: (i) Financial conditions appear much tighter than last year. Following the policy rate hike to 50% in March 2024, a more pronounced economic slowdown than the one observed in Q2 and Q3 is likely. (ii) On the other hand, the equilibrium real interest rate level, which would support residents' preference for TL, has increased due to the reflection of domestic developments on risk sentiment. This means that policy trade-offs between inflation-growth-financial stability have increased.

Consumer Price Index (CPI)

Monthly inflation was realised as 3.0%, in line with our forecast and slightly below the average market expectation ($\approx 3.2\%$). Thus, annual inflation decreased by 0.2 pp to 37.86%. According to our own calculations, seasonally adjusted (s.a.) CPI monthly inflation came in at 2.8%, slightly accelerating compared to last month (2.6%).

The decline in annual inflation in core indicators was also limited. Annual inflation in the B index fell by 0.2 points to 36.8%, while annual inflation in the C index fell by 0.3 points to 37.1% (Chart 1, Table 3).

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

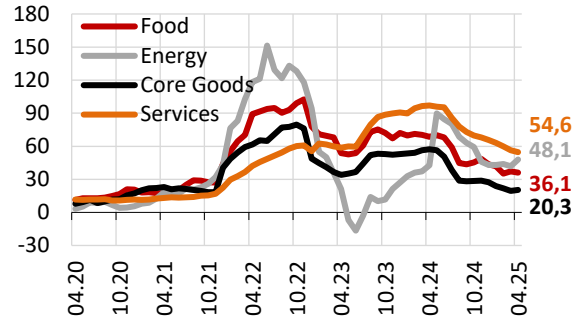


* CPI excluding unprocessed food, energy, alcoholic beverages and tobacco products, and gold

** 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 March, annual inflation decreased in food and services, but increased in energy and core goods (Chart 2, Table 1). The details are as follows:

- **Food:** In March, monthly inflation in food and non-alcoholic beverages accelerated significantly due to Ramadan. As this effect disappeared in April, the monthly rate of increase slowed down to 2.0% (s.a. 2.5%), with unprocessed food being the main driver of this slowdown. Annual food inflation decreased by 1.0 point to 36.1% and remained below the headline inflation (Table 1).

Unprocessed food prices rose by 10.2% (8.2% s.a.) in March on the back of the strong price increase in fresh fruits and vegetables, which was expected to be temporary due to Ramadan. In fact, prices of **fresh fruits and vegetables** retreated slightly in April (-1.5%, s.a. -0.6%) (Table 2). The fall in **vegetable** prices (-17.3%, s.a. -10.8%) was largely offset by the rise in **fruit** prices (-19.8%, s.a. -9.5%). Average monthly inflation (s.a.) in fruit prices has been quite strong at 7.4% in the last 7 months. We think that the recent agricultural frost was effective on April inflation and will have a negative impact on fruit inflation in the upcoming period.

Price increases in the **other unprocessed food group** were also high (4.7%) due to seasonal effects, while 's.a.' monthly inflation decreased to 1.7%. Egg prices were noteworthy in this group. Annual egg inflation was 108.7%, the highest level since January 2007. The average monthly price increase (s.a.) in the last 6 months is 8.8%, indicating a much stronger annual inflation trend. The main reason for this increase is the increase in exports.

Monthly **processed food** inflation increased due to exchange rate developments. However, monthly inflation remained below the increases driven by wage hikes and raw milk purchase prices in January-February. Monthly inflation accelerated in items with high exchange rate pass-through (flour, jam, confectionery, cocoa, coffee, etc.).

- **Energy:** Prices in the energy group increased by 4.3% mom due to the rise in electricity tariffs, while annual energy inflation rose by 6.1 pp to 48.1%.

Fuel prices decreased by 0.4% mom due to the decline in Brent oil prices. **Electricity** prices rose by 20.8% mom, adding 0.37 pp to the monthly CPI inflation. **Natural gas, bottled gas and tap water** price indices increased by 1.8%, 1.6% and 1.7% (s.a. 2.7%), respectively. **Solid fuel** price increase decreased to 0.5% due to seasonal effects, while 'sm.a.' monthly inflation was 1.4%.

After electricity, we expect a similar increase in the natural gas tariff in the near future and a similar contribution to monthly inflation.

- **Core goods:** Price increases in core goods, the most sensitive item to exchange rate developments, accelerated in April in line with the rise in the basket exchange rate. Monthly inflation in this group rose to 3.7% (a.m. 2.6%). Thus, annual core goods inflation rose by 0.9 points to 20.3% (Chart 2, Table 2).

Clothing and footwear inflation continued to diverge significantly from our field observations and alternative measures. Clothing prices rose by 6.7% mom due to seasonal effects and 2.3% s.a. (January-March average: 0.15%). Annual clothing inflation increased by 2.1 pp to 16.1%, while it is 45.4% in ICC's price index.

Monthly **durable goods inflation excluding gold** accelerated to 3.4% (s.a. 2.8%) compared to last month (1.6%; s.a. 1.6%). Although the 4.7% (s.a. 3.3%) rise in automobile prices stood out in this development, price increases were recorded in all items sensitive to exchange rate developments such as white goods, furniture, etc.

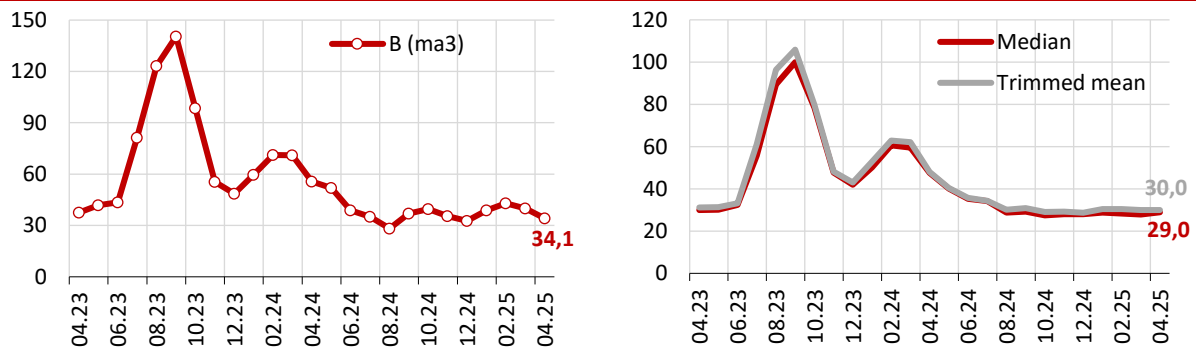
- **Services:** The slowdown in the underlying trend of services inflation was interrupted in April. Prices of services rose by 3.0% mom (3.6% s.a.), while annual services inflation fell by 1.7 points to 54.6%. Services remains the main group with the highest annual increase (Chart 2).

Monthly inflation in **rent** (s.a.) rose from 3.8% to 4.9% in April despite the gradual decline in the benchmark rate of increase. The group's annual inflation receded to 89.2% from 91.8% due to the base effect, but continued to diverge significantly from other services sub-items and CPI.

Monthly inflation in the **restaurants-hotels** group was 3.6%, while the 's.a.' monthly trend remained relatively mild at 2.2%. Annual inflation in this group declined to 41.9%. It was 57.1% at the end of 2024.

In **transport** services, monthly inflation was 5.75%, while 's.a.' inflation remained stable at 3.0%. April was characterised by a strong price increase in air transport (42.1%, 31.6% s.a.). Monthly inflation in **communication services** continued to moderate. Finally, price increases in **other services** continued (3.5%, s.a.), mainly driven by the education group.

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



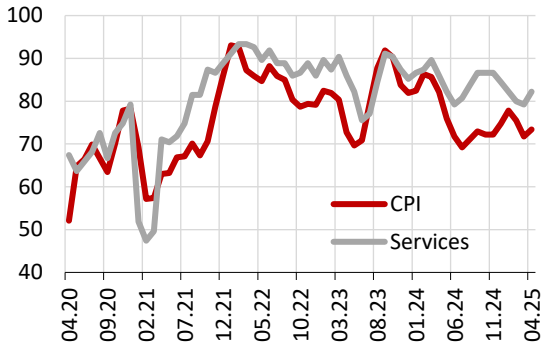
* In calculating trimmed mean indicator, 15% of the monthly inflation distribution has been deducted from both ends.

Source: Turkstat, Akbank

The inflation trend rose compared to last month. According to our own calculations, the monthly CPI (s.a.) price increase of 2.8% accelerated slightly compared to last month (2.6%). The depreciation in the Turkish lira and the increase in electricity prices were influential in this development. The slowdown in food inflation, which was the main driver of the rise in inflation trend in March, limited the deterioration in the trend. Due to the exchange rate pass-through, monthly increases in core B and C inflation reached 2.7% (previously 2.0% and 2.1%), while median and trimmed-mean monthly inflation rates, which are distribution-based trend indicators, rose to 2.5% and 2.4% (previously 1.9%

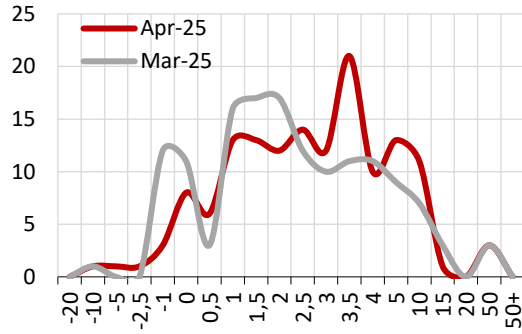
and 2.0%), respectively (Chart 3). Having hovered around 2.1% on average in the June-March period, median inflation hit an 11-month high in April.

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



Source: Turkstat, Akbank

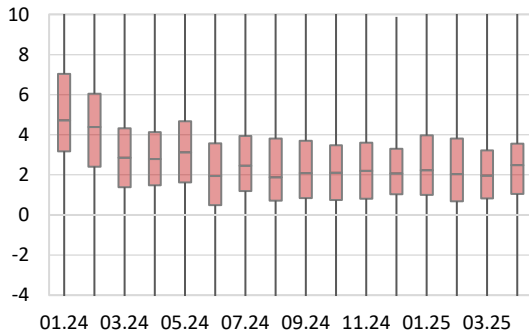
Chart 5. CPI Subgroups Monthly Inflation Histogram (seas. adj)



Source: Turkstat, Akbank

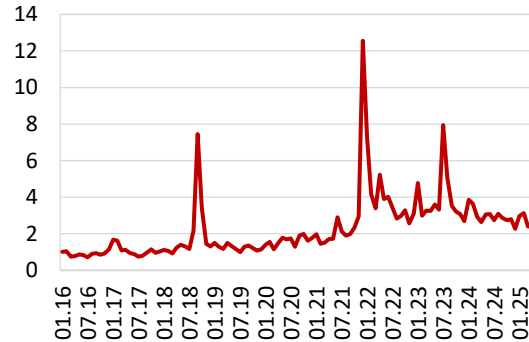
In order to evaluate the underlying trend and pricing behaviour, the distribution of inflation by sub-items contains important information Chart 6 shows how the 's.a.' monthly inflation distribution of CPI subcategories has changed since the beginning of 2024. The vertical lines show the minimum and maximum values for the relevant month; the red boxes show the values in the first and third quartiles of the distribution (interquartile range-IQR); and the horizontal lines inside the red boxes show the median inflation rates. **In April**, IQR bandwidth did not change much compared to March (Chart 7).

Chart 6. Monthly Inflation Distribution (%)



Source: TURKSTAT, Akbank

Chart 7. Interquartile Range (IQR, %)



Source: TURKSTAT, Akbank

The weaker outlook for aggregate demand due to the tightening of financial conditions and global developments, as well as the decline in commodity prices, is likely to weaken the monthly inflation trend in the second half of the year [assuming that the administered price adjustments will be completed in May and that the exchange rate depreciation will continue in a controlled manner]. Accordingly, we believe that we could see a more sustained improvement in the inflation trend in the second half of the year. On the other hand, upside risks to expectations and price behavior remain significant. Against the backdrop of a return to the exchange rate path in May, which we consider to be in line with the CBRT's Inflation Report forecast, and a year-end USD exchange rate of 43; the slowdown in economic activity from the second quarter due to tighter financial conditions partially offsetting the exchange rate-driven inflationary effects; and Brent oil prices averaging around \$68, we maintain our end-2025 inflation forecast at 30.0%.

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hand, the equilibrium real interest rate level, which would support residents' preference for TL, has increased due to the reflection of domestic developments on risk sentiment. This means that policy trade-offs between inflation-growth-financial stability have increased.

Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Apr.24	Mar.25	Apr.25	Apr.24	Mar.25	Apr.25
CPI	3.18	2.46	3.00	69.80	38.10	37.86
Food and Non-Alcoholic Beverages	2.78	4.94	2.01	68.50	37.12	36.09
Alcoholic Beverages and Tobacco	9.56	9.96	-0.06	78.53	46.74	33.85
Clothing and Footwear	4.58	-2.48	6.50	51.20	14.81	16.92
Housing, Water, Electricity, Gas and Other Fuels	1.38	2.10	4.66	55.55	68.63	74.07
Furnishings, household equipment, maintenance of the house	4.11	2.32	2.64	67.88	32.41	30.54
Health	1.03	0.71	1.02	77.67	42.01	41.99
Transport	2.81	0.25	3.80	80.39	21.59	22.76
Communication	3.18	0.37	0.94	55.40	24.01	21.31
Recreation and Culture	2.62	2.21	1.37	66.99	27.36	25.81
Education	2.97	4.68	2.28	103.86	80.42	79.20
Restaurants and Hotels	4.69	2.15	3.59	95.82	43.38	41.87
Miscellaneous Goods and Services	3.52	1.78	2.65	66.12	37.18	36.03

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Apr.24	Mar.25	Apr.25	Apr.24	Mar.25	Apr.25
CPI	3.18	2.46	3.00	69.80	38.10	37.86
Goods	2.76	2.71	2.99	59.67	30.50	30.79
Energy	0.00	0.03	4.32	42.83	41.98	48.11
Food and Non-alcoholic Beverages	2.78	4.94	2.01	68.50	37.12	36.09
Unprocessed Food	3.85	10.17	1.98	77.85	39.57	37.06
Fresh Fruits and Vegetables	0.66	16.03	-1.49	77.96	62.46	59.00
Other Unprocessed Food	5.83	5.98	4.69	78.05	25.47	24.13
Processed Food	1.75	0.57	2.04	60.19	34.96	35.35
Bread and Cereals	2.02	0.18	2.61	60.61	44.05	44.90
Other Processed Food	1.63	0.77	1.74	59.97	30.73	30.88
Goods excl. Energy and Food	3.64	1.84	3.36	59.64	22.19	21.86
Core Goods	2.96	0.89	3.74	57.14	19.39	20.28
Clothing and Footwear	4.60	-2.59	6.57	50.27	13.99	16.14
Durable Goods (excl. Gold)	2.28	1.63	3.43	59.90	17.95	19.28
Other Core Goods	3.01	2.09	2.38	58.19	26.27	25.50
Services	4.16	1.96	3.00	96.99	56.34	54.60
Rent	4.61	3.39	3.20	124.47	91.77	89.19
Restaurant-Hotels	4.69	2.15	3.59	95.82	43.38	41.87
Transportation Services	6.44	-0.29	5.75	100.75	49.64	48.66
Telecommunication Services	4.45	0.55	0.38	66.32	33.22	28.02
Other Services	2.73	1.83	2.27	90.47	55.20	54.49
CPI	3.18	2.46	3.00	69.80	38.10	37.86
A (CPI excl. seasonal products)	3.21	2.07	3.04	70.79	38.62	38.39
B (CPI excl. unpro. food.. energy.. alc. bev.. tob.. gold)	3.24	1.30	3.10	72.72	36.99	36.81
C (CPI excl. energy. food. alc. bev.. tob.. and gold)	3.56	1.46	3.34	75.81	37.42	37.12
D (CPI excl. unproc. food.. alc. bev. and tobacco)	2.82	1.15	3.27	68.35	37.57	38.18
E (CPI excl. alcoholic beverages and tobacco)	2.95	2.20	3.11	69.49	37.80	38.01
F (CPI excluding administered prices)	3.39	2.39	2.96	74.67	35.30	34.74

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

While the monthly rate of increase in D-PPI rose to 2.76% due to exchange rate developments, annual producer inflation decreased by 1 percentage point to 22.5% (Table 3). Energy prices increased slightly on a monthly basis, while the monthly increase in non-energy groups was 2.7%-3.7%, higher compared to previous months. The lagged effects of the exchange rate hike on producer prices may continue in May, but declining commodity prices due to global growth concerns will be a factor limiting the increase in producer prices.

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Apr.24	Mar.25	Apr.25	Apr.24	Mar.25	Apr.25
Domestic PPI	3.60	1.88	2.76	55.66	23.50	22.50
Intermediate Goods	2.95	2.28	3.08	54.88	19.78	19.93
Durable Consumption Goods	3.63	2.19	2.73	65.83	32.91	31.74
Non-durable Consumption Goods	4.77	2.26	2.78	66.35	30.89	28.41
Energy	5.08	-1.17	0.61	29.84	16.98	12.00
Capital Goods	1.98	2.53	3.69	66.33	23.14	25.20

Source: TURKSTAT

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