

## Macro: March relatively moderate with a downside surprise; April expected to be more challenging

Monthly inflation realized at 1.94%, lower than our estimate, and annual inflation declined by 0.67 points to 30.87%. We calculate the seasonally adjusted (s.a.) monthly CPI inflation, to be announced by TURKSTAT on Monday, as 2.02% (previous 2.8%). From exclusion-based core indicators, B and C monthly inflations (s.a.) were 1.8% and 2.1% (previous 2.4% and 1.8%); from distribution-based core indicators, median and trimmed-mean monthly inflation rates were 1.8% and 1.6% (previous both 2.1%). Thus, median inflation returned to the trend of last November-December.

While the main source of the downside surprise is the food group, high price increases at the end of the month, which we think did not reflect into March inflation, are likely to shift to April inflation. In addition, in the other services group, particularly education, inflation is also below our expectation. When we examine cumulative price increases in the first quarter by sub-items, increases in administered prices such as railway transportation, water supply and electricity are lower compared to last year. In contrast, the fact that the highest price increases after vegetables are observed in air transportation and mobile communication indicates that there are additional areas that can be controlled by the public in administered pricing policy.

In our February report, we evaluated the widening of the monthly inflation distribution towards below the median as a positive leading signal for March inflation with the fading of the food shock ([February inflation in line with expectations; geopolitical developments overshadow positive signals for March](#)). The data confirmed this view. As a matter of fact, some groups where weakening demand conditions are effective in core goods and services groups draw attention. Although a limited improvement is observed in the monthly inflation distribution compared to the previous month, the width of the distribution shows that risks regarding pricing behavior are still alive.

In addition to food, the fact that a significant part of the increase in fuel prices will enter April data; and that notable increases are observed in other commodity prices such as jet fuel and fertilizers, will make the inflationary effects that were significantly limited in March more noticeable in the coming months. With the updates we made in our macro framework, in the base scenario where (i) Brent oil price averages 95\$, Dutch LNG price 50€ level, (ii) growth decreases from 4.0% to 3.0%, (iii) the assumption of 20% increases in electricity and natural gas prices is maintained, (iv) the year-end \$/TL exchange rate assumption of 50.7 does not change, (v) the shock is absorbed by CBRT reserves and the public budget, we update our year-end inflation forecast from 25% to 28%.

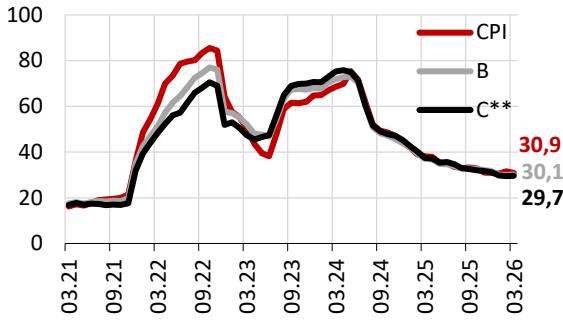
### Consumer Price Index (CPI)

**Monthly inflation realized at 1.94%, below our estimate (2.3%) and market expectations (2.4%).** Thus, annual inflation returned to the end-2025 level of 30.9%. On the contrary, **the annual inflations of core indicators increased.** Annual inflation increased from 29.9% to 30.1% for the B-Index, and from 29.5% to 29.7% of the C-Index (Chart 1, Table 3). Compared to the year-end, annual inflation decreased by 1.6 and 1.4 points in the B and C indices, respectively. **In the first quarter of the year, cumulative increase in CPI was 10.04%.** Cumulative changes in core indicators were 8% for B and 7.9% for C.

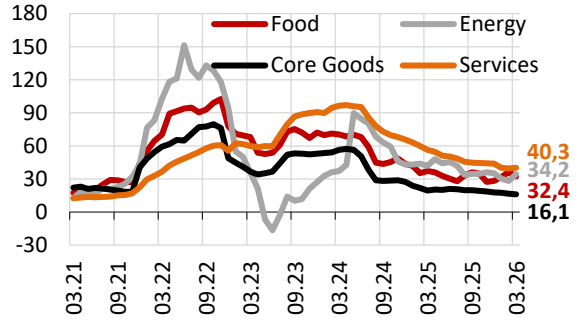
We calculate that the seasonally adjusted (s.a.) monthly CPI inflation, to be announced by TURKSTAT on Monday, decreased significantly compared to February (2.77%) to 2.02%. The B (s.a.) monthly

inflation, which excludes unprocessed food also decreased from 2.42% to 1.83%, whereas the C (s.a.) monthly inflation, which excludes all food items, recorded an increase (1.84%→2.10%). The slowdown in processed food (5.2%→0.6%) prevented the acceleration originating from core goods from being reflected in the B index.

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



**Chart 2. CPI Sub-Indices (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

In March, annual inflation decreased in food and core goods, while increasing in energy and services (Chart 2, Table 1). Details are as follows:

- **Food:** Food monthly inflation, after increases of 6.6% and 6.9% in January and February respectively, decelerated to 1.8% in March and became the main source of the downside surprise in headline inflation. Annual food inflation decreased to 32.4%.

**On a seasonally adjusted basis,** the monthly increase in food prices decreased significantly compared to the first two months (average: 4.7%) to 0.9%. The decrease came both from unprocessed and processed food. The monthly inflation (s.a.) slowed down to 2.3% (February: 10.35%) in fresh fruits and vegetables, to 0.52% in other unprocessed food (February: 2.5%), and to 0.62% in processed food (February: 5.16%).

Following geopolitical developments, increases in fuel prices and in the input prices in agricultural production (fertilizer, etc.) are among the risk factors that will prevent/slow the improvement in food inflation (especially unprocessed food). In addition, the 16.6% increase in bread prices effective from April 1 and the increases expected to be realized in raw milk purchase prices in the upcoming period will be factors that will increase processed food monthly inflation.

- **Energy:** Increasing international energy prices due to geopolitical developments caused a significant increase of 9.5% in domestic fuel prices. On a sub-item basis, the increase in diesel was 14.4%, in gasoline 7.9%, while the increase in LPG remained limited at 1.0%. Thanks to sliding scale system implemented at the beginning of March (75% of the increase that should occur in fuel prices is met by reducing the fixed SCT), the pass-through of price increases in energy commodities to fuel prices was significantly limited. According to our calculation, if the sliding scale system had not been implemented, the fuel price increase in March would have been around 23%. Due to increasing refinery margins in diesel, the discount provided through the system has been exhausted. In gasoline, however, there is still some room. At the beginning of April, a significant increase also occurred in LPG. In addition, since fuel prices increased gradually during March, there are carry-over effects in April. Under these conditions, we will also see a high fuel monthly inflation in April.

- **Core goods:** Monthly inflation in core goods returned to positive (0.44%) with the weakening of seasonal effects in the clothing and footwear group. Seasonally adjusted monthly change also accelerated to 1.13% compared to February (0.5%). The decrease in annual inflation of the group continued, annual inflation realized at 16.1%.

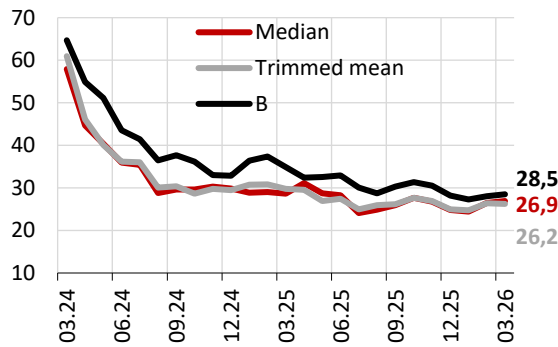
Prices in the clothing and footwear group decreased by 2.2% in March, while the seasonally adjusted monthly inflation, although accelerating compared to February, remained quite limited at 0.53%. The significant divergence in annual inflation of the group compared to our field observations and alternative measurements continues. While annual clothing inflation is at 26.4% in the ICC index, it is at 6.8% in TURKSTAT data with a 0.5 point monthly increase.

Monthly inflation of durable goods excluding gold slowed somewhat compared to last month at 0.8%. Price movements in some groups affected by demand conditions indicate that there may be some weakening in demand conditions. In other core goods, monthly inflation accelerated again to 2.2%.

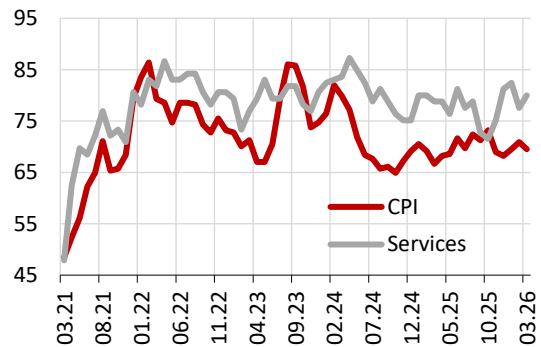
**Services:** We calculate that seasonally adjusted monthly inflation in the services group increased from 2.7% to 2.8%. The ongoing decrease in annual inflation of the group was interrupted; annual inflation increased from 39.7% to 40.3%.

Looking at sub-items, we see that rent (s.a.) monthly inflation increased limitedly compared to February at 3.18%. In transportation services, monthly inflation (s.a.) accelerated from 2.0% to 4.85% with the effect of increasing fuel prices and the lagged effect of the transportation hike in Istanbul in February. The slowdowns in inflation trend in restaurants-hotels, communication and other services limited the effects originating from transportation services. We note that inflation in other services group, especially education, remained below our expectation.

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



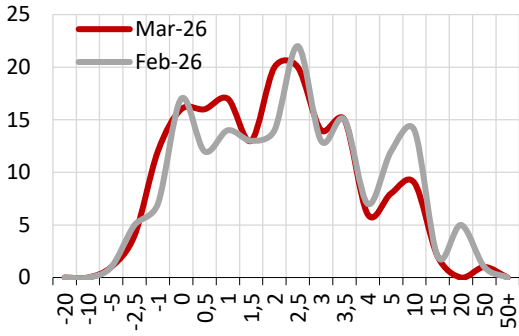
**Chart 4. Diffusion Index (seas. adj., increase-decrease, %)**



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

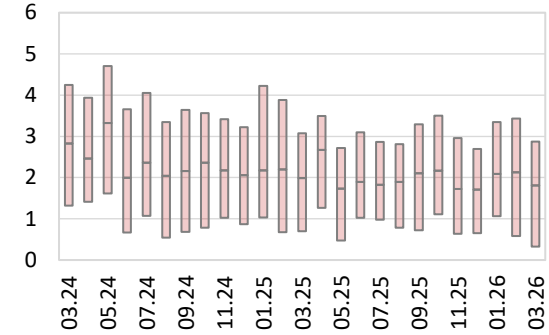
Median inflation, which is highlighted in monetary policy communication, decreased to 1.8%, and the trimmed monthly inflation rate, another distribution-based core indicator, decreased to 1.6%. Thus, median inflation returned to last year’s November-December trend. Both indicators had taken the value of 2.1% in February. Although a limited improvement is observed in the monthly inflation distribution compared to the previous month, the width of the distribution shows that risks regarding pricing behavior remain alive (Chart 5 and 6).

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



Source: Turkstat, Akbank

Chart 6. Monthly Inflation Distribution (IQR, %)



Note: The red boxes represent the 1<sup>st</sup> and 3<sup>rd</sup> quartiles (IQR), corresponding to the 25<sup>th</sup> and 75<sup>th</sup> percentiles of the monthly inflation distribution; the horizontal lines within the boxes represent the median inflation rate.

Source: Turkstat, Akbank

In addition to food, the fact that a significant part of the increase in fuel prices will enter April data; and that notable increases are observed in other commodity prices such as jet fuel and fertilizers, will make the inflationary effects that were significantly limited in March more noticeable in the coming months. With the updates we made in our macro framework, in the base scenario where (i) Brent oil price averages 95\$, Dutch LNG price 50€ level, (ii) growth decreases from 4.0% to 3.0%, (iii) the assumption of 20% increases in electricity and natural gas prices is maintained, (iv) the year-end \$/TL exchange rate assumption of 50.7 does not change, (v) the shock is absorbed by CBRT reserves and the public budget, we update our year-end inflation forecast from 25% to 28%.

Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Mar.25	Feb.26	Mar.26	Mar.25	Feb.26	Mar.26
<b>CPI</b>	<b>2.46</b>	<b>2.96</b>	<b>1.94</b>	<b>38.10</b>	<b>31.53</b>	<b>30.87</b>
Food and Non-Alcoholic Beverages	4.94	6.89	1.80	37.12	36.44	32.36
Alcoholic Beverages and Tobacco	9.96	3.86	4.36	46.74	36.54	29.59
Clothing and Footwear	-2.48	-5.31	-2.10	14.81	6.79	7.20
Housing. Water. Electricity. Gas and Other Fuels	2.10	2.40	1.91	68.56	42.33	42.06
Furnishings. household eq. maint. of the house	2.30	0.90	0.91	32.34	22.18	20.52
Health	0.71	1.62	1.27	42.01	29.26	29.98
Transport	0.25	2.58	4.52	21.87	28.86	34.35
Communication	0.14	3.77	1.54	20.54	22.41	24.12
Recreation and Culture	3.68	0.41	3.80	36.94	27.24	27.40
Education	4.68	3.97	2.12	80.42	55.78	51.97
Restaurants and Hotels	2.15	2.82	1.17	43.38	32.93	31.66
Miscellaneous Goods and Services	-0.71	8.02	2.86	48.82	28.31	32.93

Source: TURKSTAT

**Table 2. Core Indicators (Raw Data)**

	Monthly % Change			Annual % Change		
	Mar.25	Feb.26	Mar.26	Mar.25	Feb.26	Mar.26
<b>CPI</b>	<b>2.46</b>	<b>2.96</b>	<b>1.94</b>	<b>38.10</b>	<b>31.53</b>	<b>30.87</b>
<b>Goods</b>	<b>2.71</b>	<b>2.82</b>	<b>1.65</b>	<b>30.50</b>	<b>27.17</b>	<b>25.87</b>
Energy	0.03	1.97	4.75	41.98	28.19	34.24
Food and Non-alcoholic Beverages	4.94	6.90	1.79	37.12	36.45	32.36
Unprocessed Food	10.17	9.03	3.18	39.57	42.30	33.29
Fresh Fruits and Vegetables	16.03	17.55	3.08	62.46	54.06	36.86
Other Unprocessed Food	5.98	3.25	3.27	25.47	34.81	31.36
Processed Food	0.57	5.16	0.62	34.96	32.04	32.10
Bread and Cereals	0.18	2.65	0.01	44.05	27.92	27.70
Other Processed Food	0.77	6.16	0.85	30.73	33.71	33.82
Goods excl. Energy and Food	1.84	-0.48	0.77	22.19	19.14	17.88
Core Goods	0.89	-1.00	0.44	19.39	16.57	16.06
Clothing and Footwear	-2.59	-5.43	-2.17	13.99	6.29	6.75
Durable Goods (excl. Gold)	1.63	1.04	0.81	17.95	21.89	20.90
Other Core Goods	2.09	0.16	2.20	26.27	19.34	19.46
<b>Services</b>	<b>1.96</b>	<b>3.19</b>	<b>2.39</b>	<b>56.34</b>	<b>39.67</b>	<b>40.26</b>
Rent	3.39	3.46	2.41	91.77	53.91	52.45
Restaurant-Hotels	2.15	2.82	1.17	43.38	32.92	31.66
Transportation Services	-0.29	1.43	6.07	49.64	36.10	44.78
Telecommunication Services	0.55	8.73	3.03	33.22	34.37	37.69
Other Services	1.83	3.58	1.62	55.20	38.35	38.07
<b>CPI</b>	<b>2.46</b>	<b>2.96</b>	<b>1.94</b>	<b>38.10</b>	<b>31.53</b>	<b>30.87</b>
A (CPI excl. seasonal products)	2.07	2.89	2.22	38.62	32.58	32.78
B (CPI excl. unpro. food. energy. alc. bev. tob.. gold)	1.30	2.16	1.45	36.99	29.91	30.11
C (CPI excl. energy. food. alc. bev. tob. and gold)	1.46	1.53	1.64	37.42	29.46	29.68
D (CPI excl. unproc. food. alc. bev. and tobacco)	1.15	2.15	1.70	37.57	29.99	30.69
E (CPI excl. alcoholic beverages and tobacco)	2.20	2.94	1.88	37.80	31.34	30.91
F (CPI excluding administered prices)	2.39	3.06	1.67	35.30	31.05	30.12

Source: TURKSTAT

### Domestic Producer Price Index (D-PPI)

D-PPI increased by 2.30% monthly in March, while annual change increased by 0.5 points to 28.1%. When the sub-details of PPI are examined, the recent decline in the energy group turned to an increase of 4.65% with the development in international prices. Price increases in other goods groups slowed compared to February. The persistence of the price shock due to geopolitical tension and how much supply chains will be affected by developments will be important for the course of PPI in the coming months.

**Table 3. Domestic Producer Price Index**

	Monthly % Change			Annual % Change		
	Mar.25	Feb.26	Mar.26	Mar.25	Feb.26	Mar.26
<b>Domestic PPI</b>	<b>1.88</b>	<b>2.43</b>	<b>2.30</b>	<b>23.50</b>	<b>27.56</b>	<b>28.08</b>
Intermediate Goods	2.28	2.48	2.07	19.78	26.09	25.84
Durable Consumption Goods	2.19	4.47	0.89	32.91	32.14	30.45
Non-durable Consumption Goods	2.26	3.30	2.56	30.89	31.57	31.95
Energy	-1.17	-0.22	4.65	16.98	20.68	27.78
Capital Goods	2.53	2.25	0.68	23.14	29.51	27.18

Source: TURKSTAT

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