

Macro: The global outlook and upward surprise erode the monetary policy buffer

Consumer inflation came in at 4.18% monthly, well above our forecast (3.2%), and annual inflation rose by 1.5 percentage points to 32.4%. We calculate the seasonally adjusted (s.a.) monthly CPI inflation, to be announced by TURKSTAT, at 3.4% (previous 2.0%). The core indicators B and C monthly inflation rates (s.a.) were 2.6% and 2.5% (previous 1.9% and 2.1%); the median and trimmed-mean monthly inflation rates were 2.4% and 2.3% (previous 1.8% and 1.7%).

The impact of administered price adjustments was evident in April. Although price increases in electricity and natural gas were set at 25%, due to mild weather conditions the final increase in electricity was limited to 16.9% amid the end-source supply tariff (ESST) practice, while the increase in natural gas reached 44.5% due to the transition to consumption-based tiered pricing. Within the sliding scale mechanism, fuel price increases were limited to 9.2%, bringing the cumulative rise over the past three months to 25%. Pharmaceutical prices increased by 11.2%. It appears that the sharp price increases in the last week of March, which we believe were not reflected in last month's index, were reflected into April's index. We had estimated that these carry-over effects into April would be around 0.4 percentage points. Even after incorporating this into our forecast, the outcome is still well above our expectations. The deviation stems from core components, with a notable acceleration in core goods prices, while there is no clear deterioration in services yet. Unlike last month, the restraining effect of demand conditions appears to be overshadowed by cost-driven pressures. The shape and width of the monthly inflation distribution point to ongoing upside risks to pricing behavior.

In April, the main drivers—electricity, natural gas, bottled gas, fuel, pharmaceuticals, bread, and other food items—will not be present in May. On the other hand, adjustments in raw milk prices will be an additional factor in May through both direct and indirect effects. Provided that indirect (cost-driven) and second-round (expectation-driven) effects remain limited, a correction in food prices could support a lower inflation outcome in May. Accordingly, we expect May inflation to come in lower. We will continue to monitor expectations and the May data for a possible update to our year-end forecast (30.0%).

In its policy communication, the CBRT defines the condition for further monetary tightening as a “significant and persistent deterioration in the inflation outlook.” Compared to the official forecast, the outlook points to a “significant” deterioration, suggesting that the emphasis on the “persistence” of indirect and second-round effects will shape the policy stance. According to the April survey of market participants, inflation expectations stand at 27.5% for year-end and 23.4% for 12 months ahead. Participants tend to reflect forecast errors strongly in the following month. Accordingly, in the May survey, the year-end inflation expectation may approach 29%, while the 12-month-ahead expectation could exceed 24%. By the CBRT's criteria of “significance” and “persistence,” this could warrant a rate hike. However, the nature of the shock (being external), weak dollarization, and negative signals emerging in economic activity may reduce the likelihood of a rate increase. The policy response so far suggests that the current stance will be maintained as long as there is no serious erosion in reserves. Nevertheless, if conditions allow, a return to weekly repo auctions within the operational framework may be considered; apart from that, we assess that there is limited room for a policy rate cut until the year-end.

Consumer Price Index (CPI)

Monthly inflation realized at **4.18%**, significantly above our forecast (**3.2%**) and market expectations. As a result, annual inflation increased by 1.5 percentage points to 32.4%, the highest level since October 2025. **The cumulative price increase for the first four months of the year** was 14.64%. As of April, annual inflation remained approximately 2 percentage points above the upper band of the forecast path shared by the CBRT in its latest inflation report, and approximately 4 percentage points above the midpoint of the forecast band ([Macro: 2026-I Inflation Report](#)).

The increase in annual inflation was primarily driven by rising energy prices, resulting from commodity price increases and administered price adjustments. Consequently, **the increase in annual inflation for core indicators, which exclude energy, was more limited**. Index B annual inflation rose by 0.4 percentage points to 30.51%, while Index C annual inflation increased by 0.15 percentage points to 29.83% (Chart 1, Table 3)

We calculate that the seasonally adjusted (s.a.) monthly CPI inflation, to be announced by **TURKSTAT**, has risen significantly to **3.4%** compared to March (**2.0%**). In its April Monetary Policy Committee (MPC) decision statement, the CBRT stated, "Leading indicators suggest a slight increase in the underlying trend in April" which we interpreted as the CBRT having a similar monthly inflation expectation to market expectations ([Macro: April MPC Decision](#)). However, the much stronger upward trend indicates that monthly inflation in April also exceeded the CBRT's short-term forecasts.

In April, B (s.a.) monthly inflation rose from 1.9% to 2.6%, and C (s.a.) monthly inflation increased from 2.1% to 2.5%. While core figures, which lie below the headline, suggest the shock is largely driven by energy and food, they also indicate that the deterioration in the trend is not solely energy-related.

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

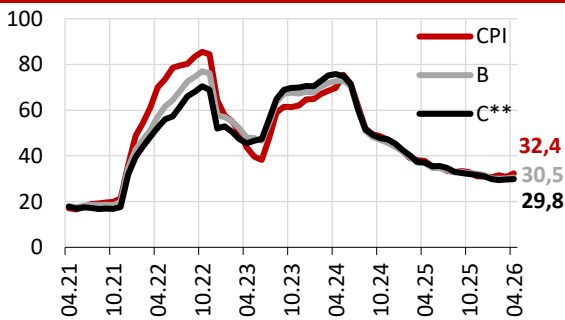
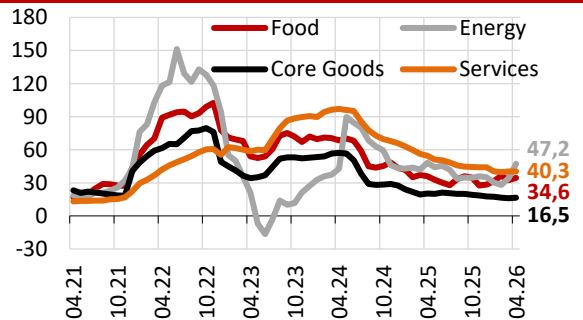


Chart 2. CPI Sub-Indices (annual % change)



* 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 April, annual inflation rose in all major groups, most strongly in energy and slightly in services (Chart 2, Table 1). Details are as follows

- **Food:** After sharp increases in January and February, food price increases, which had been moderate in March, accelerated again in April, in line with our expectations. Monthly inflation in food reached 3.7%, while annual inflation rose by 2.2 percentage points to 34.6%.

We calculate the monthly increase in food prices, after seasonally adjusted, as 3.06%. This monthly increase (s.a.) is driven by both processed (3.25%) and unprocessed food (2.80%). In **unprocessed food**, fresh fruit and vegetable monthly inflation was prominent (s.a. 6.08%), while the moderate trend in other unprocessed foods continued in April (s.a. 0.55%). In **processed food**, the 6.7% increase in bread prices, resulting from the 16.6% price increase effective April 1st, was the

determining factor. We calculate the contribution of the bread price increase to monthly CPI inflation as 0.22 percentage points.

The fact that the increase in bread prices in April was less than the announced raise indicates that there are still provinces where price adjustments have not yet been made, and that this item poses additional risks to processed food prices. In addition, the 9.4% increase in raw milk purchase prices, effective from May 1st, will lead to an increase in milk and dairy product prices, further contributing to the monthly inflation rate for processed foods.

In the fresh fruit and vegetable sector, initial signals for May suggest a monthly decrease. Therefore, a low monthly food inflation rate could lead to a positive trend in the CPI in May. However, increases in fuel prices and the prices of some agricultural inputs (fertilizers, etc.) following geopolitical developments, and the possibility that these increases may not be short-lived, are among the risk factors that will hinder/slow down the improvement in unprocessed food inflation in the coming months.

- **Energy:** In April, energy prices rose by 14.4% on a monthly basis, while the group's annual inflation increased by 13.0 percentage points to 47.2%. Thus, for the first time since December 2022, energy became the main group with the highest annual inflation.

Fuel prices continued to rise sharply domestically due to increasing international energy prices on the back of geopolitical developments. In April, fuel prices increased by 9.22%, close to the rate in March (9.48%). Thus, cumulatively, fuel prices increased by 19.6% in March-April. The increase in diesel fuel was particularly strong at 12.0% (March: 14.4%; cumulative March-April: 28.2%). The increase in gasoline slowed to 3.1% compared to March (7.9%) (cumulative March-April: 11.3%). LPG prices, after being limited to 1.0% in March, increased by 15.5% in April (cumulative March-April: 16.6%). Fuel price increases contributed approximately 0.3 percentage points to both the March and April monthly inflation figures.

The sliding scale system, implemented at the beginning of March (75% of the expected increase in fuel prices is offset by a reduction in the fixed Special Consumption Tax), significantly limited the pass-through of energy commodity price increases to fuel prices and consequently to monthly inflation. However, the sliding scale system became inactive in April because the fixed Special Consumption Tax on diesel and LPG was reduced to zero. It is still in effect for gasoline. According to our calculations, if the sliding scale system had not been implemented, the fuel price increase in April would have been approximately 17.5%, and cumulatively around 45% for the period between March and April. Therefore, the direct impact of fuel price increases on inflation would have been 1.4 percentage points instead of 0.6 percentage points if the sliding scale system had not been implemented.

Other significant drivers of energy price increases in April were the increases in electricity and natural gas tariffs. The monthly price increase was 16.9% for electricity and 44.5% for natural gas. Although the tariff increase for both categories was announced as 25%, the reflection on CPI was different. The increase in electricity prices was more limited due to the increased share of hydroelectric power in electricity production resulting from rainfall and the application of the end-source supply tariff (ESST). In natural gas, however, the transition to a consumption-based tiered tariff resulted in a higher price increase in the index. The electricity and natural gas price increases contributed 0.19 and 0.45 percentage points, respectively, to the April monthly inflation rate.

In April, bottled gas prices rose sharply at 11.2%, contributing 0.04 percentage points to monthly inflation. Solid fuels increased by 2.2% (s.a. 3.0%), while tap water prices rose more moderately at 1.4% (s.a. 2.4%).

- Core goods:** Although the controlled depreciation in the exchange rate continued, the monthly inflation trend in core goods has increased. Monthly inflation in core goods (s.a.) accelerated from 1.2% to 2.34%, driven by clothing and footwear (s.a. 2.0%; March: 0.74%), other core goods (s.a. 4.41%; March: 2.2%) due to the 11.2% increase in pharmaceutical prices, and durable goods (s.a. 1.15%; March: 0.8%). The group's annual inflation rose from 16.1% to 16.5% (Chart 2, Table 2). We estimate the contribution of pharmaceutical price increases to monthly inflation at 0.08 percentage points.
- Services:** We calculate that seasonally adjusted monthly inflation in the services group decreased from 2.8% to 2.57%. Annual inflation for the group, however, increased slightly from 40.26% to 40.3% (Chart 2). There is a mixed outlook in the sub-items. We see that monthly inflation in rent (s.a.) gained momentum in April (3.45%) after March (3.28%). In addition, the inflation trend in the restaurant-hotel group increased from 1.9% to 2.1%. On the other hand, with the lingering effect of the transportation fare increase in Istanbul in February disappearing, monthly inflation (s.a.) in transportation services decreased from 4.63% to 3.09%. However, the impact of rising fuel prices was observed in air passenger transportation. A slowdown in the inflation trend was also recorded in communication and other services. We may see price increases in transportation services due to fuel prices in the coming period.

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

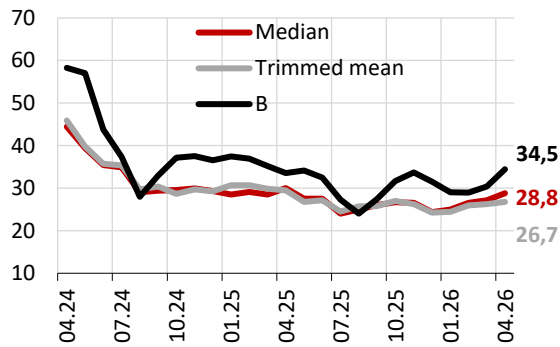
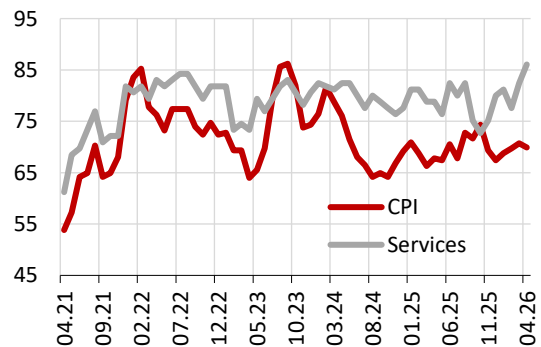
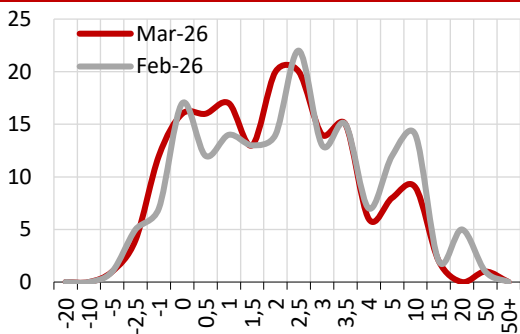


Chart 4. Diffusion Index (seas. adj., increase-decrease, %)



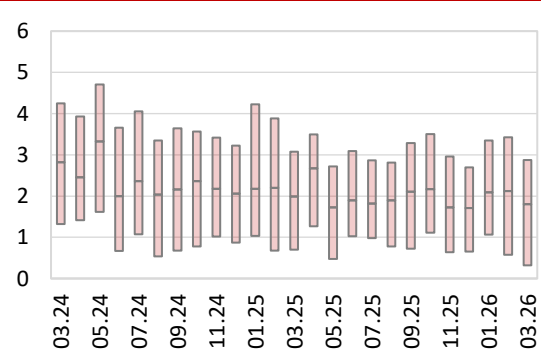
* In calculating trimmed mean indicator, 15% of the monthly inflation distribution has been deducted from both ends.
Source: Turkstat, Akbank

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



Source: Turkstat, Akbank

Chart 6. Monthly Inflation Distribution (IQR, %)



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

Source: Turkstat, Akbank

The median inflation rate, highlighted in monetary policy communications, rose to 2.4%, while the trimmed monthly inflation rate, another core indicator based on distribution, also increased to 2.3%. These two indicators had returned to their November-December trend of last year in March, reaching 1.8% and 1.7% respectively. There is also a deterioration in the distribution of monthly inflation (Charts 5 and 6). While this partial deterioration in inflation distribution currently largely reflects energy and food items, it will be necessary to monitor potential secondary effects stemming from expectations in services.

With the updates we have made to our macro framework, we estimate year-end inflation at 30.0% in our baseline scenario where (i) Brent oil price averages \$95 and Dutch LNG prices €50 level, (ii) growth decreases from 4.0% to 3.0%, (iii) the assumption of a year-end USD/TRY exchange rate of 50.7 remains unchanged, and (v) the shock is absorbed by the CBRT reserves and the public budget. We will be monitoring expectations and May data before updating our year-end forecast (30.0%).

In its policy communication, the CBRT defines the condition for further monetary tightening as a “significant and persistent deterioration in the inflation outlook.” Compared to the official forecast, the outlook points to a “significant” deterioration, suggesting that the emphasis on the “persistence” of indirect and second-round effects will shape the policy stance. According to the April survey of market participants, inflation expectations stand at 27.5% for year-end and 23.4% for 12 months ahead. Participants tend to reflect forecast errors strongly in the following month. Accordingly, in the May survey, the year-end inflation expectation may approach 29%, while the 12-month-ahead expectation could exceed 24%. By the CBRT’s criteria of “significance” and “persistence,” this could warrant a rate hike. However, the nature of the shock (being external), weak dollarization, and negative signals emerging in economic activity may reduce the likelihood of a rate increase. The policy response so far suggests that the current stance will be maintained as long as there is no serious erosion in reserves. Nevertheless, if conditions allow, a return to weekly repo auctions within the operational framework may be considered; apart from that, we assess that there is limited room for a policy rate cut until the year-end.

Chart 7. Inflation Forecast Error and Update in Expectations (% points)

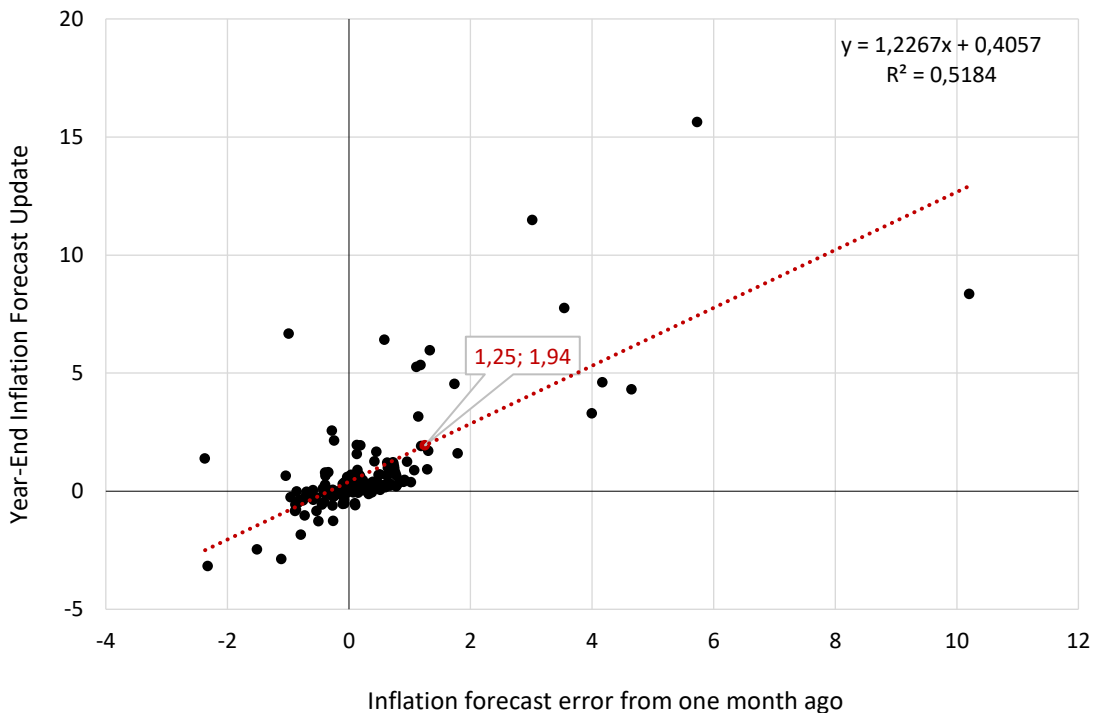


Table 1. Consumer Price Index (Raw data)

	Monthly % Change			Annual % Change		
	Apr.25	Mar.26	Apr.26	Apr.25	Mar.26	Apr.26
CPI	3.00	1.94	4.18	37.86	30.87	32.37
Food and Non-Alcoholic Beverages	2.01	1.80	3.70	36.09	32.36	34.55
Alcoholic Beverages and Tobacco	-0.06	4.36	0.22	33.85	29.59	29.96
Clothing and Footwear	6.50	-2.10	8.94	16.92	7.20	9.66
Housing. Water. Electricity. Gas and Other Fuels	4.65	1.91	7.99	73.98	42.06	46.60
Furnishings. household eq. maint. of the house	2.64	0.91	3.41	30.46	20.52	21.42
Health	1.02	1.27	3.38	41.99	29.98	33.02
Transport	3.74	4.52	4.29	23.03	34.35	35.06
Communication	0.84	1.54	1.05	18.16	24.12	24.38
Recreation and Culture	1.83	3.80	2.31	35.32	27.40	28.00
Education	2.28	2.12	1.35	79.20	51.97	50.60
Restaurants and Hotels	3.59	1.17	3.50	41.87	31.66	31.54
Miscellaneous Goods and Services	3.18	2.86	1.13	46.27	32.93	30.29

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

	Monthly % Change			Annual % Change		
	Apr.25	Mar.26	Apr.26	Apr.25	Mar.26	Apr.26
CPI	3.00	1.94	4.18	37.86	30.87	32.37
Goods	2.99	1.65	4.94	30.79	25.87	28.24
Energy	4.32	4.75	14.40	48.11	34.24	47.22
Food and Non-alcoholic Beverages	2.01	1.79	3.70	36.09	32.36	34.55
Unprocessed Food	1.98	3.18	4.22	37.06	33.29	36.21
Fresh Fruits and Vegetables	-1.49	3.08	5.93	59.00	36.86	47.17
Other Unprocessed Food	4.69	3.27	2.90	24.13	31.36	29.12
Processed Food	2.04	0.62	3.25	35.35	32.10	33.67
Bread and Cereals	2.61	0.01	5.98	44.90	27.70	31.89
Other Processed Food	1.74	0.85	2.22	30.88	33.82	34.45
Goods excl. Energy and Food	3.36	0.77	3.70	21.86	17.88	18.27
Core Goods	3.74	0.44	4.15	20.28	16.06	16.52
Clothing and Footwear	6.57	-2.17	9.03	16.14	6.75	9.22
Durable Goods (excl. Gold)	3.43	0.81	1.15	19.28	20.90	18.23
Other Core Goods	2.38	2.20	4.41	25.50	19.46	21.83
Services	3.00	2.39	3.03	54.60	40.26	40.30
Rent	3.20	2.41	2.33	89.19	52.45	51.16
Restaurant-Hotels	3.59	1.17	3.51	41.87	31.66	31.55
Transportation Services	5.75	6.07	6.17	48.66	44.78	45.36
Telecommunication Services	0.38	3.03	1.64	28.02	37.69	39.42
Other Services	2.27	1.62	1.64	54.49	38.07	37.22
CPI	3.00	1.94	4.18	37.86	30.87	32.37
A (CPI excl. seasonal products)	3.04	2.22	3.69	38.39	32.78	33.62
B (CPI excl. unpro. food. energy. alc. bev. tob.. gold)	3.10	1.45	3.42	36.81	30.11	30.51
C (CPI excl. energy. food. alc. bev. tob. and gold)	3.34	1.64	3.46	37.12	29.68	29.83
D (CPI excl. unproc. food. alc. bev. and tobacco)	3.27	1.70	4.31	38.18	30.69	32.00
E (CPI excl. alcoholic beverages and tobacco)	3.11	1.88	4.29	38.01	30.91	32.42
F (CPI excluding administered prices)	2.96	1.67	3.75	34.74	30.12	31.13

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

Driven by rising commodity prices, the monthly D-PPI inflation rose to 3.17%, and the annual inflation increased by 0.5 percentage points to 28.6% (Table 3). In detail, the price increase in the energy group remained high, similar to March, while there was a significant acceleration in price increases in other groups, excluding durable consumer goods. The persistence of the price shock related to geopolitical tensions and the extent to which supply chains will be affected by these developments will be important for the trajectory of the PPI in the coming months.

Table 3. Domestic Producer Price Index

	Monthly % Change			Annual % Change		
	Apr.25	Mar.26	Apr.26	Apr.25	Mar.26	Apr.26
Domestic PPI	2.76	2.30	3.17	22.50	28.08	28.59
Intermediate Goods	3.08	2.07	3.62	19.93	25.84	26.49
Durable Consumption Goods	2.73	0.89	2.17	31.74	30.45	29.75
Non-durable Consumption Goods	2.78	2.56	2.48	28.41	31.95	31.57
Energy	0.61	4.65	4.84	12.00	27.78	33.15
Capital Goods	3.69	0.68	1.67	25.20	27.18	24.70

Source: TURKSTAT

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağlar Yüncüler, PhD – Vice President

Caglar.Yunculer@akbank.com

M. Sibel Yapıcı

Sibel.Yapici@akbank.com

Sercan Pişkin

Sercan.Piskin@akbank.com

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