

Macro: The first wave of the global shock has been weathered, but stickiness persist

Consumer inflation came in at 1.71% month-on-month, slightly above our forecast (1.5%) and market expectations (1.6%), while annual inflation increased by 0.24 percentage points to 32.6%. We estimate that the seasonally adjusted (s.a.) monthly CPI inflation to be announced by TurkStat is 1.9% (previously 3.4%). Among core indicators, monthly inflation in B and C (s.a.) was 2.3% and 2.2% (previously 2.7% and 2.5%), respectively; median and trimmed monthly inflation declined to 1.8% and 1.9% (previously 2.3% and 2.2%).

The upside surprise was largely driven by clothing prices. In our report evaluating April data ([Macro: The global outlook and upward surprise erode the monetary policy buffer](#)), we had assessed that the additional inflation stemming from energy, pharmaceuticals, bread, and food items would weaken in May. In parallel, with the easing of these effects, core and headline trends converged. We expect the favorable course in food prices in June to significantly limit CPI inflation.

Although distribution-based trend indicators declined compared to the previous month, no meaningful improvement has been observed since June 2024. Stickiness in services continue. While a slow and gradual improvement in rent inflation persists, transportation inflation appears to have accelerated under the leadership of air and road transport. Inflation in restaurants-hotels and other services remains close to horizontal. The shape and width of the monthly inflation distribution indicate that upside risks to pricing behavior remain alive.

We maintain the macro framework updated in March. Under our baseline scenario of (i) an average Brent oil price of \$95, (ii) annual growth of 3.0%, (iii) a year-end USD/TRY exchange rate of 50.7, (iv) no additional adjustments to administered energy prices during the remainder of the year, and (v) favorable weather conditions continuing to support agricultural supply and food inflation, we keep our year-end inflation forecast at 30.0% and our policy rate forecast at 37.0%.

Given the high sensitivity to global and domestic political news flow and the absence of a clear upward trend in reserves, we believe conditions have not yet matured for an exit from the “extraordinary circumstances” mode. On the other hand, from the policymaker’s perspective, we think there will be reluctance to raise interest rates due to (i) the nature of the shock (an external supply shock), (ii) weak dollarization, (iii) recent GDP data and expected negative signals regarding economic activity, and (iv) recent macroprudential tightening measures. Accordingly, we expect the CBRT to prefer maintaining the status quo without a rate hike at its June MPC meeting. Apart from a possible return to one-week repo funding within the operational framework if conditions permit, we believe there is no room for policy rate cuts until year-end.

Consumer Price Index (CPI)

Monthly inflation came in at 1.7%, slightly above our forecast (1.5%) and market expectations (1.6%). Thus, annual inflation increased by 0.2 percentage points to 32.6%. The upside surprise was largely driven by clothing prices. The cumulative increase in prices over the first five months of the year reached 16.61%. The increase in annual inflation of core indicators was more pronounced. Annual inflation in the B index rose by 0.8 percentage points to 31.3%, while annual inflation in the C index increased by 0.6 percentage points to 30.4% (Chart 1, Table 3).

We estimate that the seasonally adjusted (s.a.) monthly CPI inflation to be announced by TurkStat declined markedly to 1.92% from 3.44% in April. In April, strong increases in food and energy (electricity, natural gas, and fuel) had pushed the monthly figure upward. In May, with the disappearance of one-off increases and correction in unprocessed food, we observe an improvement

in trend. Since the improvement largely stemmed from excluded items, the improvement in the underlying core inflation trend was more limited. In May, monthly inflation in B (s.a.) declined from 2.7% to 2.3%, while C (s.a.) inflation fell from 2.5% to 2.2%.

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

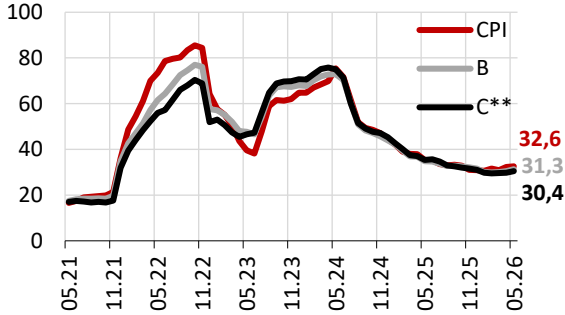
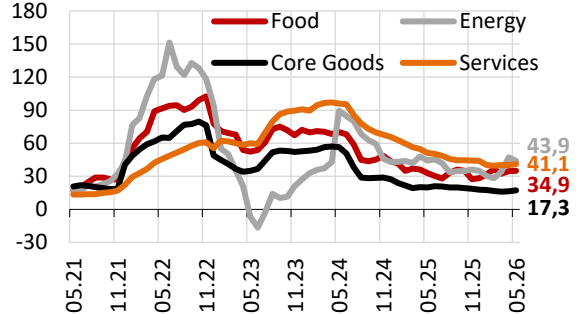


Chart 2. CPI Sub-Indices (annual % change)



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

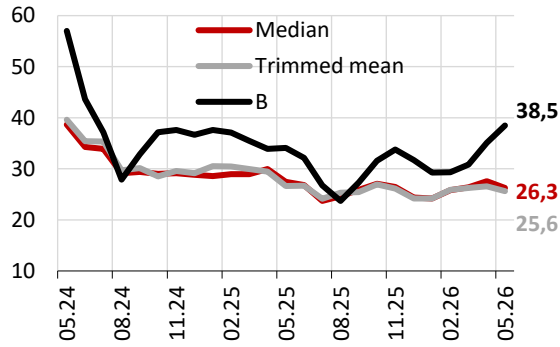
** CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products, and gold

Source: Turkstat

Annual inflation increased in all main groups except energy in May (Chart 2, Table 1). Details are as follows:

- Food:** Monthly food inflation was -0.48%, supported by a 9.3% decline in fresh fruit and vegetable prices, while annual inflation increased by 0.3 percentage points to 34.9%. On a seasonally adjusted basis, monthly food inflation declined from 3.05% to 2.0%. Despite the favorable course in vegetable prices, increases in other unprocessed food items and the pass-through of administered price adjustments in processed food such as bread and raw milk prevented a lower monthly food inflation outcome. Going forward, we may continue to see increases in processed food prices stemming from administered prices (tea, wheat, etc.).
- Energy:** After increasing by 14.4% in April due to higher electricity and natural gas tariffs and rising fuel prices related to the war, energy prices declined by 0.17% month-on-month in May as fuel prices eased. Consequently, annual inflation in the energy group fell by 3.3 percentage points to 43.9%.
- Core goods:** Monthly inflation in core goods was high at 3.9%, driven by seasonal price increases in the clothing and footwear group, while annual inflation in the group rose by 0.8 percentage points to 17.3%. In trend terms, an improvement was recorded compared to the previous month due to the absence of a pharmaceutical price adjustment in May. Seasonally adjusted monthly inflation in core goods declined from 2.43% to 1.54%. Monthly price increases in durable goods (s.a.) stood at 1.32%, remaining more consistent with exchange-rate developments, while price increases in clothing and footwear (s.a.) accelerated over the last two months, averaging 2.4%, compared with previous months.
- Services:** Stickiness in the services group persist. Seasonally adjusted monthly inflation increased from 2.6% to 2.7%, mainly reflecting the pass-through of rising fuel prices to transportation services. Annual inflation in services rose from 40.3% to 41.1% (Chart 2). Seasonally adjusted monthly rent inflation improved somewhat, declining to 3.13%. Annual rent inflation fell below 50% for the first time since the end of 2022, reaching 49.8%. In addition to rents, inflation dynamics in the restaurants-hotels group also improved somewhat, from 2.11% to 1.91%. On the other hand, seasonally adjusted monthly inflation in transportation services increased from 3.46% to 4.51%. The impact of higher fuel prices was particularly evident in air passenger transportation. Limited increases in inflation trends were also observed in communication and other services.

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

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

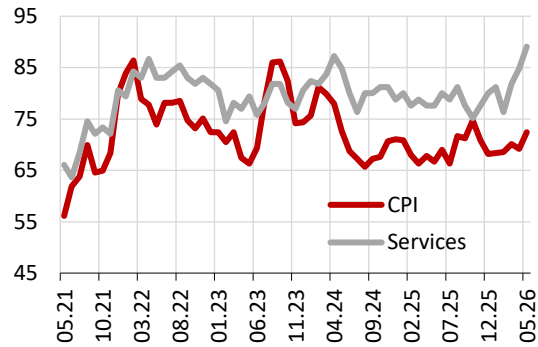
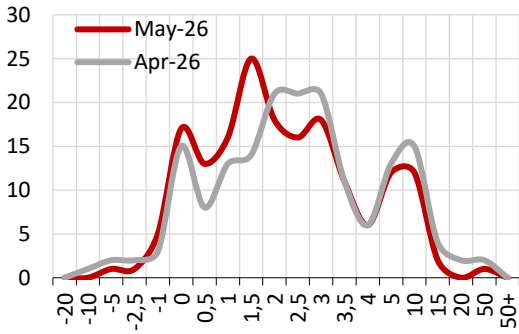
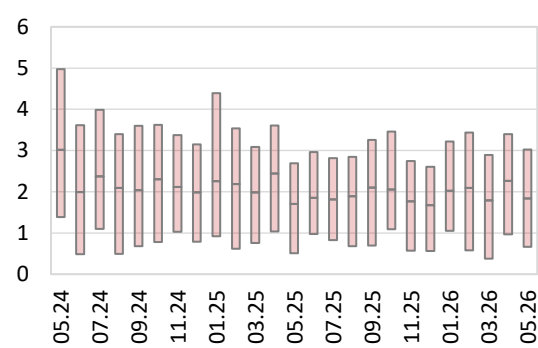


Chart 5. CPI Subgroups Monthly Inflation Histogram (seas. adj)



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

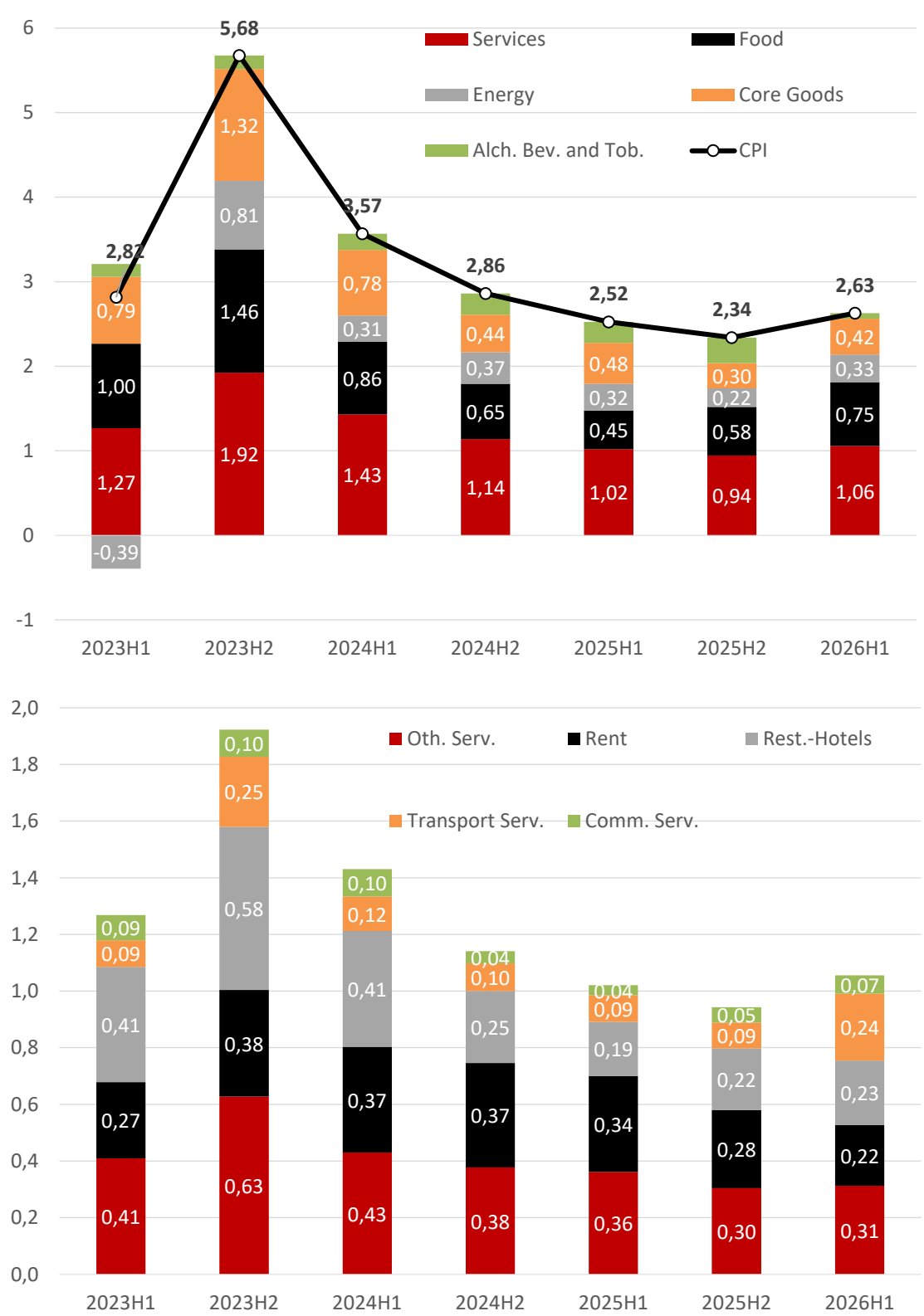
The median inflation indicator highlighted in monetary policy communication declined to 1.8%, while trimmed monthly inflation, another distribution-based core indicator, fell to 1.9%. In April, these indicators had been elevated at 2.3% and 2.2%, respectively. Although distribution-based trend indicators declined compared to the previous month, no meaningful improvement has been observed since June 2024. The shape and width of the monthly inflation distribution indicate that upside risks to pricing behavior remain alive. (Charts 3–6).

We maintain the macro framework updated in March. Under our baseline scenario of (i) an average Brent oil price of \$95, (ii) annual growth of 3.0%, (iii) a year-end USD/TRY exchange rate of 50.7, (iv) no additional adjustments to administered energy prices during the remainder of the year, and (v) favorable weather conditions continuing to support agricultural supply and food inflation, we keep our year-end inflation forecast at 30.0% and our policy rate forecast at 37.0%.

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repo funding within the operational framework if conditions permit, we believe there is no room for policy rate cuts until year-end.

Chart 7. Contributions to Monthly Inflation (s.a, % points)



Source : Turkstat, Akbank

Table 1. Consumer Price Index (Raw data)

| | Monthly % Change | | | Annual % Change | | |
|--|------------------|-------------|-------------|-----------------|--------------|--------------|
| | May.25 | Apr.26 | May.26 | May.25 | Apr.26 | May.26 |
| CPI | 1.53 | 4.18 | 1.71 | 35.41 | 32.37 | 32.61 |
| Food and Non-Alcoholic Beverages | -0.71 | 3.70 | -0.48 | 32.87 | 34.55 | 34.86 |
| Alcoholic Beverages and Tobacco | 0.06 | 0.22 | -0.02 | 27.87 | 29.96 | 29.85 |
| Clothing and Footwear | 6.97 | 8.94 | 11.29 | 14.12 | 9.66 | 14.08 |
| Housing, Water, Electricity, Gas and Other Fuels | 2.99 | 7.99 | 2.28 | 67.36 | 46.60 | 45.59 |
| Furnishings, household eq. maint. of the house | 1.20 | 3.41 | 1.99 | 29.62 | 21.42 | 22.36 |
| Health | 0.47 | 3.38 | 0.41 | 40.12 | 33.02 | 32.94 |
| Transport | 2.62 | 4.29 | 2.03 | 24.83 | 35.06 | 34.29 |
| Communication | -0.51 | 1.05 | 0.45 | 17.03 | 24.38 | 25.58 |
| Recreation and Culture | 2.88 | 2.31 | 1.17 | 34.74 | 28.00 | 25.88 |
| Education | 1.19 | 1.35 | 0.83 | 71.67 | 50.60 | 50.06 |
| Restaurants and Hotels | 1.83 | 3.50 | 1.87 | 36.91 | 31.54 | 31.59 |
| Miscellaneous Goods and Services | 2.04 | 1.13 | 0.49 | 43.78 | 30.29 | 28.30 |

Source: TURKSTAT

Table 2. Core Indicators (Raw Data)

| | Monthly % Change | | | Annual % Change | | |
|---|------------------|-------------|-------------|-----------------|--------------|--------------|
| | May.25 | Apr.26 | May.26 | May.25 | Apr.26 | May.26 |
| CPI | 1.53 | 4.18 | 1.71 | 35.41 | 32.37 | 32.61 |
| Goods | 1.43 | 4.94 | 1.34 | 28.70 | 28.24 | 28.13 |
| Energy | 2.15 | 14.40 | -0.17 | 44.21 | 47.22 | 43.88 |
| Food and Non-alcoholic Beverages | -0.71 | 3.70 | -0.48 | 32.87 | 34.55 | 34.86 |
| Unprocessed Food | -3.01 | 4.22 | -4.05 | 33.53 | 36.21 | 34.76 |
| Fresh Fruits and Vegetables | -4.67 | 5.93 | -9.34 | 56.53 | 47.17 | 39.96 |
| Other Unprocessed Food | -1.79 | 2.90 | 0.14 | 20.51 | 29.12 | 31.66 |
| Processed Food | 1.39 | 3.25 | 2.63 | 32.21 | 33.67 | 35.31 |
| Bread and Cereals | 1.17 | 5.98 | 2.63 | 40.87 | 31.89 | 33.80 |
| Other Processed Food | 1.51 | 2.22 | 2.63 | 28.14 | 34.45 | 35.93 |
| Goods excl. Energy and Food | 2.90 | 3.70 | 3.46 | 21.08 | 18.27 | 18.92 |
| Core Goods | 3.26 | 4.15 | 3.91 | 20.02 | 16.52 | 17.26 |
| Clothing and Footwear | 7.09 | 9.03 | 11.40 | 13.38 | 9.22 | 13.62 |
| Durable Goods (excl. Gold) | 2.73 | 1.15 | 1.32 | 20.26 | 18.23 | 16.60 |
| Other Core Goods | 1.49 | 4.41 | 0.96 | 24.99 | 21.83 | 21.20 |
| Services | 1.74 | 3.03 | 2.30 | 51.19 | 40.30 | 41.07 |
| Rent | 3.10 | 2.33 | 2.15 | 84.94 | 51.16 | 49.77 |
| Restaurant-Hotels | 1.83 | 3.51 | 1.87 | 36.91 | 31.55 | 31.59 |
| Transportation Services | 0.99 | 6.17 | 5.61 | 50.29 | 45.36 | 52.02 |
| Telecommunication Services | -0.14 | 1.64 | 1.69 | 25.01 | 39.42 | 41.98 |
| Other Services | 1.39 | 1.64 | 1.14 | 51.18 | 37.22 | 36.89 |
| CPI | 1.53 | 4.18 | 1.71 | 35.41 | 32.37 | 32.61 |
| A (CPI excl. seasonal products) | 1.53 | 3.69 | 1.63 | 36.04 | 33.62 | 33.76 |
| B (CPI excl. unpro. food. energy. alc. bev. tob., gold) | 2.25 | 3.42 | 2.87 | 34.81 | 30.51 | 31.30 |
| C (CPI excl. energy. food. alc. bev. tob. and gold) | 2.43 | 3.46 | 2.92 | 35.37 | 29.83 | 30.44 |
| D (CPI excl. unproc. food. alc. bev. and tobacco) | 2.24 | 4.31 | 2.58 | 35.99 | 32.00 | 32.44 |
| E (CPI excl. alcoholic beverages and tobacco) | 1.58 | 4.29 | 1.76 | 35.69 | 32.42 | 32.66 |
| F (CPI excluding administered prices) | 1.49 | 3.75 | 1.66 | 32.90 | 31.13 | 31.35 |

Source: TURKSTAT

Domestic Producer Price Index (D-PPI)

Monthly D-PPI inflation slowed to 2.75% as commodity price increases weakened somewhat, while annual inflation rose 0.3 percentage points to 28.9% (Table 3). In detail, while price increases in the energy group remained high, price increases in other commodity groups, excluding capital goods, slowed. The trajectory of commodity prices and the extent to which supply chains are affected by geopolitical developments will remain important for the trajectory of the D-PPI in the coming months.

Table 3. Domestic Producer Price Index

| | Monthly % Change | | | Annual % Change | | |
|-------------------------------|------------------|-------------|-------------|-----------------|--------------|--------------|
| | May.25 | Apr.26 | May.26 | May.25 | Apr.26 | May.26 |
| Domestic PPI | 2.48 | 3.17 | 2.75 | 23.13 | 28.59 | 28.93 |
| Intermediate Goods | 1.92 | 3.62 | 2.94 | 20.50 | 26.49 | 27.76 |
| Durable Consumption Goods | 0.05 | 2.17 | 1.31 | 29.22 | 29.75 | 31.39 |
| Non-durable Consumption Goods | 1.70 | 2.48 | 1.29 | 27.48 | 31.57 | 31.05 |
| Energy | 7.98 | 4.84 | 6.60 | 17.05 | 33.15 | 31.45 |
| Capital Goods | 2.38 | 1.67 | 1.58 | 26.48 | 24.70 | 23.73 |

Source: TURKSTAT

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