Inflation Pulse

Türkiye | April CPI not to allow complacency

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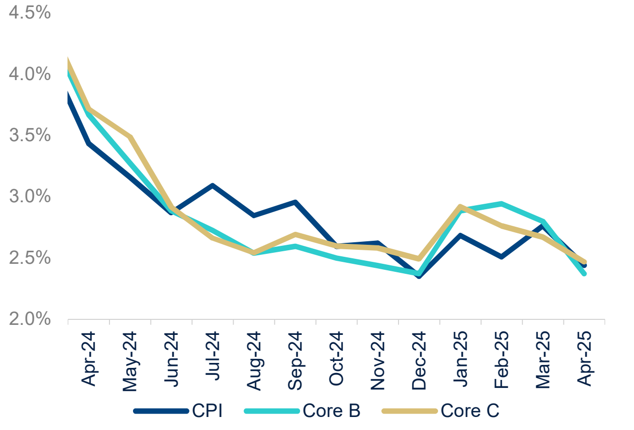
Consumer prices rose by 3.0% m/m, in line with our expectations but slightly lower than the consensus (3.2%), resulting in an annual inflation of 37.9%. We calculate only a limited worsening in seasonally adjusted monthly inflation to 2.7%, mainly helped by a correction in food prices. Yet, the underlying monthly inflation trend as an average of six indices, followed by the CBRT, could have worsened to 2.7% m/m from the previous 1.9%. We calculate an acceleration in monthly basic goods inflation due to the lagged impact of the currency depreciation (particularly in the items sensitive to Euro) and services inflation remaining almost flat across the board. Much tighter financial conditions, expected slow-down in activity and lower global commodity prices could benefit the inflation outlook; whereas the recent deterioration in inflation expectations (up to 3pp for year-end compared to early March), stickiness due to high inertia, and uncertainties on an effective policy mix might contain the gains. Assuming no additional minimum wage hike for 2H25, tighter monetary stance accompanied by a less tight fiscal policy resulting in a GDP growth of 3.5%, and our expectation of $68 on average per barrel (vs. the previous $74) and 25% natural gas price hike for households later, we forecast 31% year end inflation for 2025. The CBRT now prioritizes to support its reserves by even a tighter stance, led by the most recent macro prudential measures announced at the weekend. Once the CBRT feels more comfortable about the level of reserves, they can again start easing the monetary stance at some point, also helped by the upcoming tourism season.

Slight deterioration in headline trend, mainly helped by the correction in food CPI

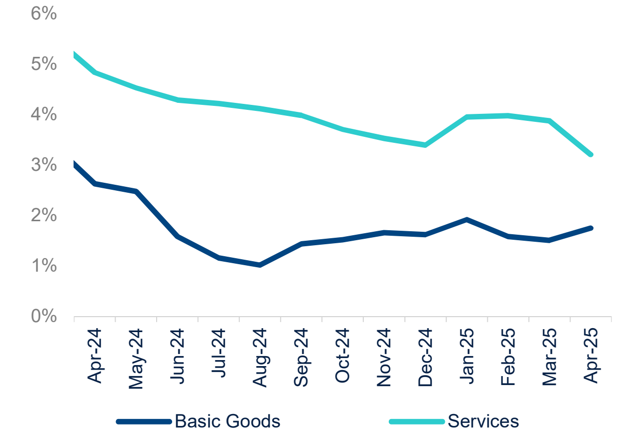
Consumer prices rose by 3.0% m/m in April (vs. 2.46% in March), in line with our expectations but slightly below the consensus of 3.2%, resulting in a decline in annual inflation to 37.86% from 38.1% previously. Our seasonally adjusted CPI calculations indicate only a limited worsening to 2.7% m/m in April from 2.6% in March, helped by a correction in food prices, lower global energy prices, and much tighter financial conditions curbing demand, despite the recent currency depreciation and electricity price hike of 25% for households and 10-15% for producers at the start of the month. This improvement in food inflation mainly stemmed from a decline in unprocessed food inflation, which had spiked in March due to Ramadan effects but was corrected in April. Meanwhile, basic goods exerted upward pressure on the headline figure, reflecting the impact of the currency shock in March. Consequently, the 3-month inflation trend improved to 2.5% in April, down from the previous 2.8%, also eliminating the carry over impact from the much worse January monthly inflation.

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



Source: Garanti BBVA Research, TURKSTAT

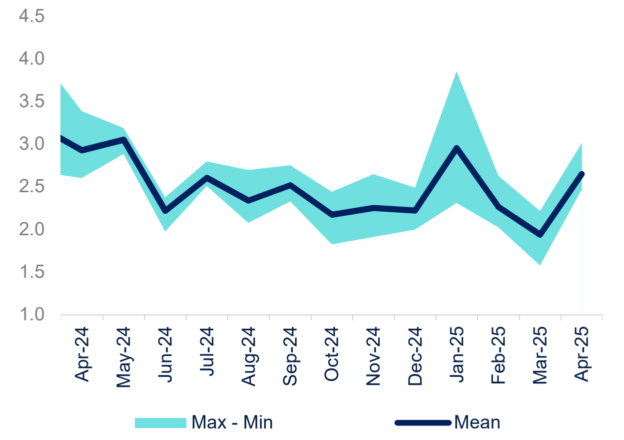
Figure 2. **CORE C INFLATION INDICATORS**
(seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

According to our calculations, the seasonally adjusted underlying trend indicators followed by the CBRT deteriorated in April and their monthly average (mean inflation) increased to 2.6% from the previous 1.9%. However, the 3-month trend of the mean inflation slightly eased to 2.3% m/m in April (down from 2.4%), helped by the elimination of higher January reading from the average calculation. Among the components of the underlying trend indicators, core C (3%) was the highest, while Satrim (2.5%) -which approached its January 2025 level- was the lowest. Among the indicators that exclude extreme values (Satrim, V_1, and median inflation), inflation figures rose to the 2.5-2.6% range in April, whereas they were below 1.9% previously, indicating a broad-based increase in the underlying trend and reflecting the impact of the March currency shock and the deterioration in expectations. In line with this, the dynamic factor model inflation figure rose to 2.6%, up from 2.2% previously, confirming the presence of widespread inflationary pressures in April. Therefore, the pass-through from the recent currency shock appears to have been dampened by the correction in unprocessed food prices and the decline in oil prices on the goods side, and moderating demand on the services side, which resulted in only a limited worsening in the seasonal adjusted headline inflation (2.7%).

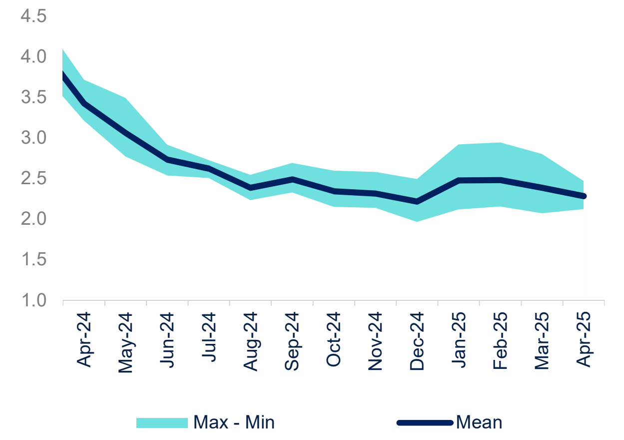
Figure 3. **CONSUMER INFLATION INDICATORS***
(seasonal adj., monthly)



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)



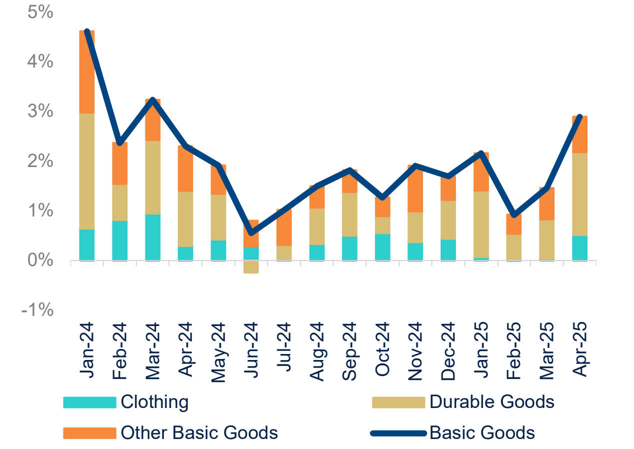
Source: Garanti BBVA Research, TURKSTAT

The deterioration in seasonally adjusted core-C inflation was led by the basic goods inflation, whereas almost stable services inflation helped prevent a further deterioration. The increase in basic goods inflation came from mainly durable goods (3.4%, up from 1.6%), which include the currency pass-thru impact on mostly items sensitive to euro, and to a lesser extent from clothing (2.4%, up from 0.2%). Services inflation, which typically responds with a lag to currency shocks due to its nature of mostly backward indexation, remained almost stable (3.1%, up from 3.0%). Within services, inflation rose in rent (4.3%, up from 4.2%), restaurants and hotels (2.5%, up from 2.2%), and other services (3.5%, up from 3.3%); while transportation (3.1%, down from 3.3%) and communication (0.4%, down from 0.6%) services declined slightly. Much tighter financial conditions, moderating domestic demand and more favorable global energy prices will likely contain core-C price inflation going forward in absence of additional shocks. However, the recent deterioration in inflation expectations (up to 3pp for year-end compared to early March), stickiness due to high inertia, and uncertainties on an effective policy mix might keep the gains relatively more moderate.

On food inflation, seasonally adjusted data improved compared to March, thanks to a sharp decline in unprocessed food inflation (0.6%, down from 7.4%), which had incorporated Ramadan effects. However, processed food inflation deteriorated (2.0%, up from 0.6%). Accordingly, overall food and non-alcoholic beverages inflation declined to 1.4% in April from 3.7% in March, bringing its annual inflation down to 36.1% from 37.1%.

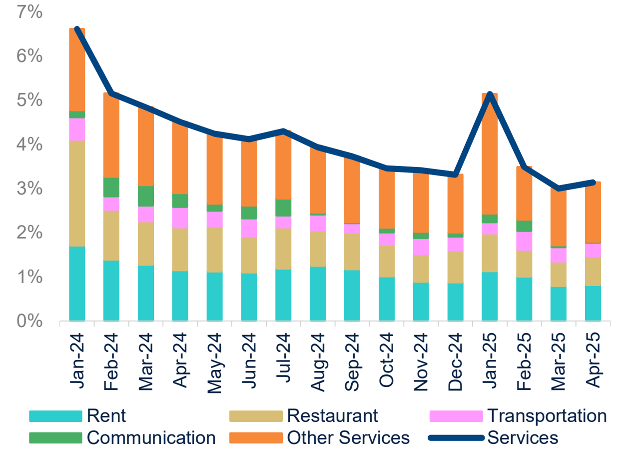
On energy, monthly inflation accelerated to 4.3% from the previous 0%, led by the electricity price hike of 25% for households and 10-15% for producers at the start of the month. We were expecting a similar hike for natural gas as of May, but it seems it can be made later, may be during the summer while monthly inflation could be lower on top of seasonal factors in order not to generate additional stress over the inflation expectations.

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

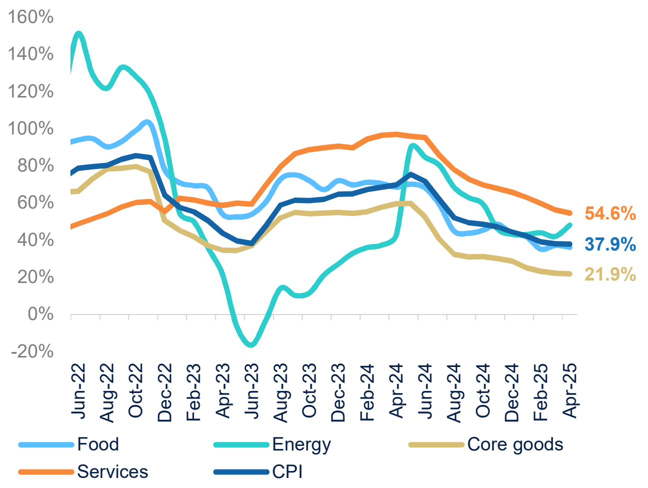
On the other hand, domestic producer price inflation accelerated to 2.76% (vs. 1.88% prev.) in April, mainly driven by the contribution from manufacturing products such as food (+0.7pp), basic metals (+0.3pp), textiles and motor vehicles (+0.2pp each), mostly reflecting the exchange rate pass-through due to the most recent currency depreciation but to a lower extent, helped by the decline in global oil prices. Consequently, annual producer price inflation still came down to 22.5%, showing a trend of weakening cost push factors.

Despite some ease, inflationary pressures persist

Looking ahead, the conditions are becoming more favorable for disinflation on top of tighter financial conditions, moderating domestic demand and more favorable global energy prices, yet, there is a high degree of uncertainty due to various factors. First, inflation expectations remain unanchored, pointing to ongoing distorted pricing behavior. The CBRT surveys on inflation expectations -which incorporates the recent political shock across all respondent groups and the April MPC meeting's positive surprise for households and the real sector only- all showed a deterioration in the 12-month ahead annual inflation expectations, with 25.56% (24.55% prev.) for market participants, 41.70% (41.10% prev.) for real sector and 59.30% (59.25% prev.) for households. Second, the stickiness of the services prices remain a challenge led by high inertia on backward indexation. Furthermore, uncertainties on an effective policy mix might contain the adjustment in activity and therefore keep inflation expectations deviating from the inflation targets. We expect the most recent much tighter financial conditions to drive the output gap back to the negative levels as of 2Q25. Nevertheless, the degree of the adjustment will depend on the fiscal stance, which would be preferred to be kept supportive instead of the expected tightening in order to mitigate the adverse effects of the recent policies on the employment outlook.

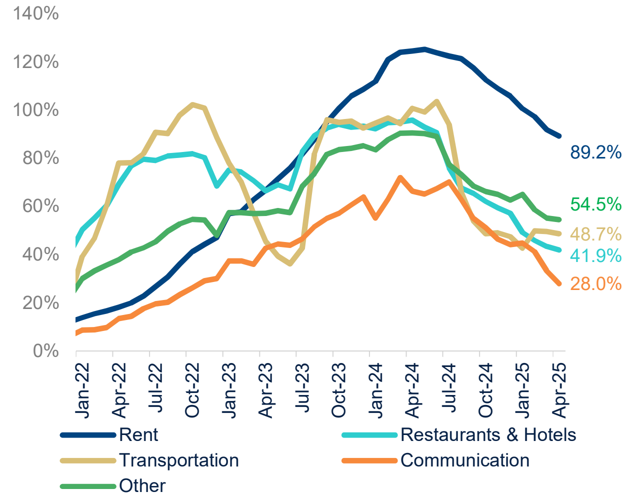
Assuming no additional minimum wage hike for 2H25, tighter monetary stance accompanied by a less tight fiscal policy resulting in a GDP growth of 3.5%, and our expectation of $68 on average per barrel (vs. the previous $74) and 25% natural gas price hike for households later, we forecast 31% year end inflation for 2025. The CBRT now prioritizes to support its reserves by even a tighter stance, led by the most recent macro prudential measures announced at the weekend. Once the CBRT feels more comfortable about the level of reserves, they can again start easing the monetary stance at some point, also helped by the upcoming tourism season. In this regard, we will closely monitor the next inflation report presentation of the CBRT to be held on May 22nd, where their output gap projections and communication will be crucial to gauge their future monetary stance.

Figure 7. **CONSUMER INFLATION SUBCOMPONENTS** (YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 8. **SERVICES INFLATION** (YoY)



Source: Garanti BBVA Research, CBRT

Figure 9. **CPI SUBCOMPONENTS**

	MoM	YoY
Total	**3.00%**	**37.86%**
Food & Non-alcoholic beverages	2.0%	36.1%
Beverage & Tobacco	-0.1%	33.9%
Clothing & Textile	6.5%	16.9%
Housing	4.7%	74.1%
Household Equipment	2.6%	30.5%
Health	1.0%	42.0%
Transportation	3.8%	22.8%
Communication	0.9%	21.3%
Recreation & Culture	1.4%	25.8%
Education	2.3%	79.2%
Restaurants & Hotels	3.6%	41.9%
Misc. Goods & Services	2.7%	36.0%

Source: Garanti BBVA Research, TURKSTAT

Figure 10. **PPI SUBCOMPONENTS**

	MoM	YoY
Total	**2.76%**	**22.50%**
Mining & Quarrying	3.5%	29.6%
Manufacturing	2.9%	22.7%
Food Products	3.2%	27.1%
Textiles	2.7%	16.6%
Wearing Apparel	2.1%	31.3%
Coke & Petroleum Products	-2.0%	-4.1%
Chemicals	3.2%	22.2%
Other Non-Metallic Mineral	0.9%	20.8%
Basic Metals	3.3%	9.2%
Metal Products	2.1%	21.4%
Electrical Equipment	1.9%	22.3%
Electricity, Gas, Steam	1.4%	14.4%

Source: Garanti BBVA Research, TURKSTAT

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