

# Türkiye | Upside risks to inflation outlook amid recent war

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- According to our calculations, the sliding scale system in fuel prices (“eşel mobil”) prevented an upward impact of around 0.4–0.5 percentage points on monthly CPI. The decline in headline inflation was mainly driven by food and services prices. Seasonally adjusted monthly inflation also decelerated (2% m/m vs. 2.8% previously), largely due to food inflation, offsetting adverse contributions from core and energy components.
- Meanwhile, seasonally adjusted core C inflation (2.05% m/m vs previously 1.8%) deteriorated, driven by increases in core goods and continued stickiness in services inflation. Although the average of trend inflation indicators and median inflation showed some improvement on a monthly basis in March, median inflation excluding food and energy has been on a deteriorating trend since September 2025, hovering close to 2%.
- Timely policy actions by the economic authorities have mitigated some of the adverse impacts of geopolitical risks; however, significant uncertainty remains regarding both the duration and intensity of the conflict. Inflation expectations, still elevated and not yet firmly anchored, worsened slightly in March, while inflation inertia remains strong. Moreover, risks to the sustainability of the external balance are on the rise.
- The increasing likelihood of a more prolonged conflict has added further upside risks to the inflation outlook. Based on current forward prices and recently announced higher than expected energy price hikes for both households and producers as of April, we estimate an additional 3–4pp increase with upside risks relative to our previous 25% year-end inflation forecast, which was based on Brent at \$69 and gas at \$12/MMBtu on average in 2026.
- In light of rising risks to both inflation and the external balance, monetary policy may need to remain tight for longer. Should pressures on the CBRT reserves intensify, a policy rate hike at the April MPC meeting appears increasingly likely. We will reassess our forecasts once the geopolitical outlook becomes clearer.

## CPI eases on food correction, remains elevated amid Ramadan pressures

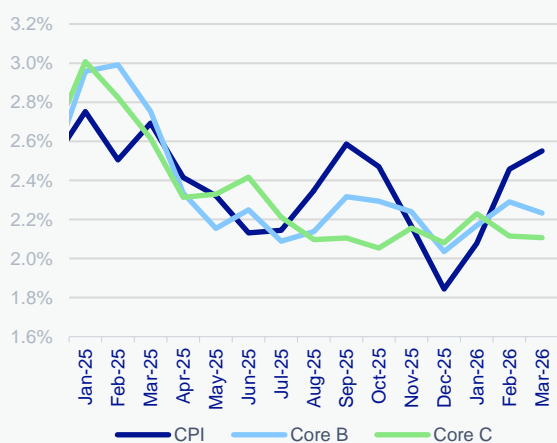
Consumer prices rose by 1.94% m/m in March (vs. 2.96% m/m in Feb) below both the consensus and our expectation (2.3% and 2.2%, respectively), leading to an annual inflation of 30.9% down from 31.5% y/y in Feb26. As a result, year-to-date inflation stayed close to last year’s 1Q figure (10.04% in 2026 vs. 10.06% in 2025), pointing out to difficulties in the disinflation process, despite much lower administrative price hikes at the start of the year.

The slowdown in monthly inflation was driven by weaker food inflation, partly offsetting rising energy and core goods prices along with carry-over effect stemming from the rise of tobacco prices last month, while the contribution from services inflation remained elevated. Our estimates suggest that seasonally adjusted monthly headline inflation also eased, albeit more moderately (2.04% m/m in

Mar26 vs. 2.76% in Feb26), as the lack of disinflationary support from services kept the underlying trend sticky, alongside a slight increase in core goods inflation.

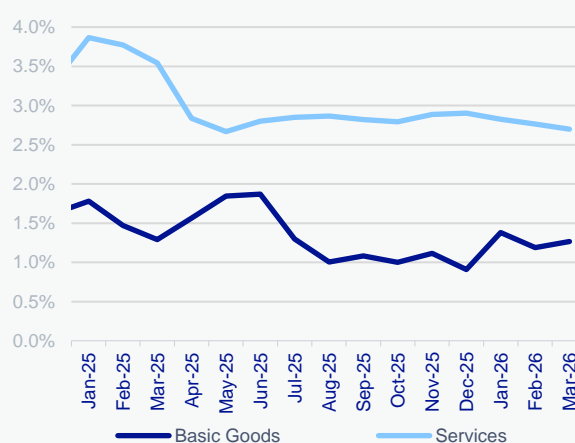
By Core-C components (excluding food, energy, alcohol & tobacco and gold), seasonally adjusted basic goods inflation surged to 1.1% m/m (vs. 0.5% m/m prev.), largely driven by other basic goods which contributed 57% of the overall basic goods' contribution to headline: durable goods at 0.8% m/m (0.1pp), other basic goods at 2.2% m/m (+0.6pp), and clothing at 0.5% m/m (+0.1pp)<sup>1</sup>. In contrast, seasonally adjusted services inflation remained stable at 2.7% m/m, as slower increases in communication (3.0% m/m), other services (2.5%), and restaurants & hotels (1.7%) largely offset higher transportation services (4.9%) and rent inflation (3.2%). All in all, seasonally adjusted core C inflation edged up to 2.0% in March (vs. 1.8% in Feb), keeping its 3-month trend broadly stable at 2.1%. In contrast, seasonally adjusted core B inflation decelerated to 1.8% (vs. 2.4% in Feb), supported by weaker processed food prices, marking its lowest level in the last one year and leaving its 3-month trend unchanged at 2.2%.

**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

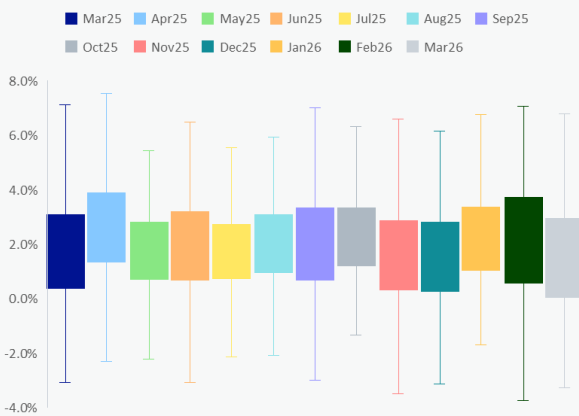
In seasonal adjusted terms, food and non-alcoholic beverage inflation plummeted to 0.9% m/m (vs. 5.3% m/m in Feb26) marking the lowest monthly food inflation since the deflation seen in Nov25. Thus, the annual food inflation reduced to 32.4% from 36.4% in Feb26. Although the decline in food prices was primarily led by the slow-down in processed food inflation (0.6% m/m), the moderation in unprocessed food inflation (1.2% m/m) was also significant. Fresh fruit and vegetables drove the easing in unprocessed food prices, while processed food prices declined mostly on the back of processed food other than bread and cereals. Looking ahead, while we do not expect drought-related cost pressures, the Iran war has pushed fertilizer prices higher, which—together with elevated oil prices—poses upside risks to food inflation in the coming months. Bread prices have already increased by around 17% in early April.

On the other hand, energy prices rose by 4.7% m/m in March (vs. 2.0% m/m in Feb26), the largest energy inflation since Jul25 when the price adjustments in administered prices were made. The

<sup>1</sup> Contribution changes are according to the monthly basic goods inflation.

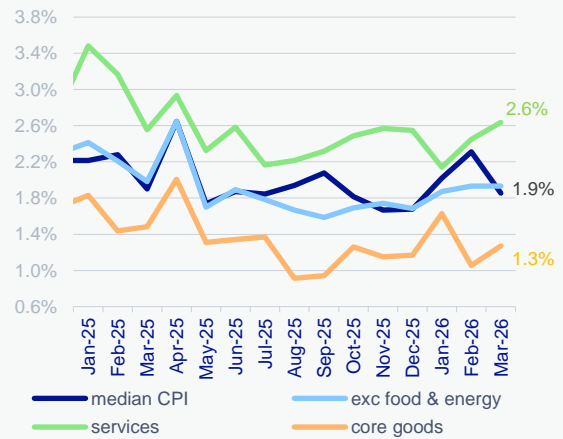
recent rise in oil prices would have led to a much sharper increase in fuel prices if fiscal policy had not offset the direct impact through the sliding scale mechanism. Nonetheless, lagged fuel effects are likely to exert upward pressure on CPI in April. In addition, the 25% increase in electricity and natural gas tariffs for households, along with hikes for producers (around 20% electricity and natural gas increases) is estimated to add around 0.6pp directly to headline inflation, while also generating cost pressures and potentially triggering indirect effects through inflation expectations.

**Figure 3. Spread of 5-digit Inflation Series (seasonal adj., monthly)**



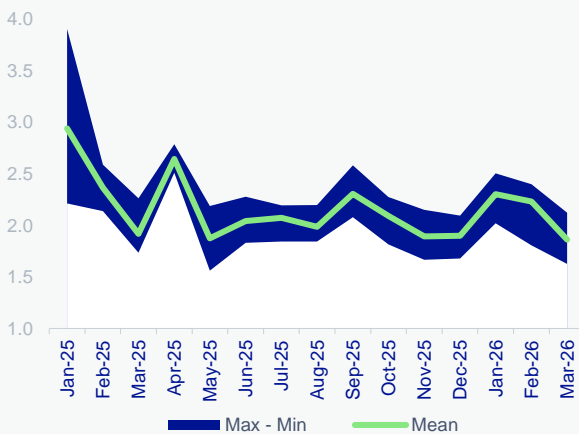
Source: Garanti BBVA Research, TURKSTAT

**Figure 4. 5-digit Inflation Series' Median (seasonal adj., monthly)**



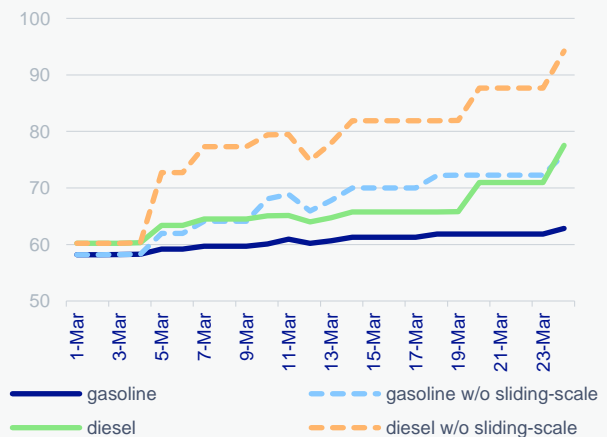
Source: Garanti BBVA Research, TURKSTAT

**Figure 4. 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 5. Fuel Prices in March (level, TL)**



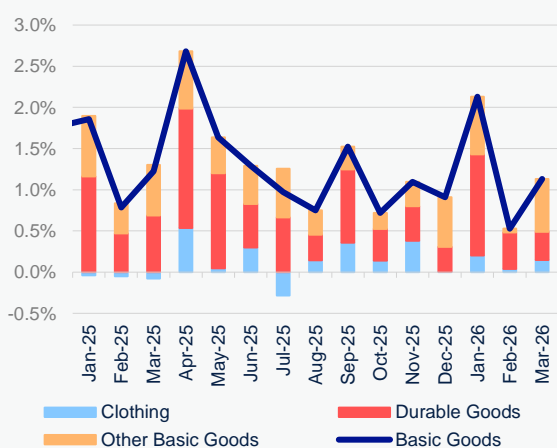
Source: Garanti BBVA Research

On the producer side, domestic PPI decelerated to 2.3% m/m in Mar26 (vs. 2.4% m/m in Feb26) supported by broad-based ease in cost pressures across sectors except the manufacturing. Year-to-date PPI growth reached 7.6% as of Mar-26 (vs. 7.2% as of Mar-25); combined with the 20%

electricity price hike for producers in April, foreseeable cost pressures amid rising energy prices and the currency evolution will be critical for the rest of the year.

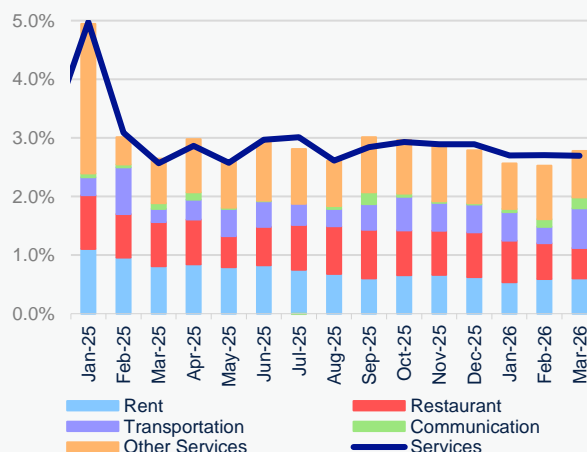
According to our calculations, the average of the underlying trend indicators closely monitored by the CBRT declined to 1.9% m/m (vs. 2.2% previously) in March, hovering around levels seen at end-2025. The three-month average remained flat at 2.1% m/m, implying an annualized inflation rate of around 29% in the absence of countermeasures. Core B inflation slowed to 1.8% m/m, marking a significant correction from February, while Core C rose to 2.0% m/m (vs. 1.8% previously). Median inflation dropped to 1.9% m/m (2.3% m/m prev.), while excluding food and energy it remained at 1.9%, not showing any improvement. Moreover, SATRIM fell to 1.6% m/m (vs. 2.3%), while DFM and V-1 eased to 2.1% and 1.7%, respectively, indicating a narrowing range in the distribution of price changes. However, the recent energy price shock, together with supply-side disruptions affecting other commodities, is likely to worsen the outlook ahead.

**Figure 6. Contributions to Basic Goods Inflation** (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

**Figure 7. Contributions to Services Inflation** (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

## An effective policy mix is required to prevent further entrenchment of inflation inertia

In the first three months of the year, cumulative consumer inflation reached 10%, showing no improvement compared to the same period last year. Elevated food inflation—driven by adverse weather conditions and Ramadan effects—along with a strong underlying trend, points to persistent inflation inertia amid unanchored expectations. Over the past 12 months, the underlying trend has remained above 2% m/m, while median services inflation has worsened in recent months, hovering around 2.5% m/m.

Inflation expectations improve only gradually and stay elevated relative to the CBRT’s guidance, before deteriorating in March in response to recent tensions in the Middle East. 12-month-ahead CPI expectation of the market participants stands at 22.2% y/y (up 0.1pp m/m), indicating a cautious adjustment that has yet to fully incorporate war-related effects; relatively stable 2027 year-end

expectations (18.7% y/y) suggest that markets expect these effects to be transitory. In contrast, the real sector (32.9% y/y, up 0.9pp m/m) and households (49.9% y/y, up 1.1pp m/m) have reacted more promptly, underscoring the critical importance of anchoring expectations.

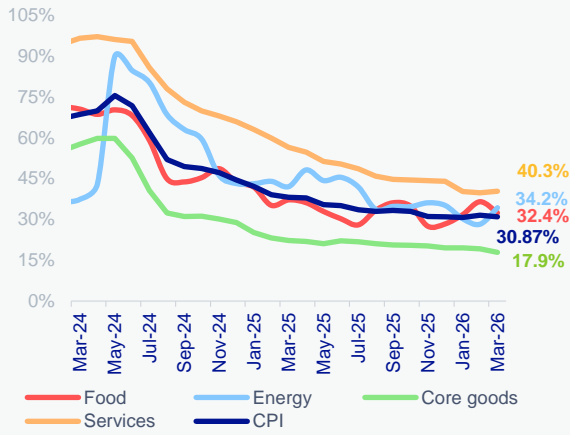
Beyond the chronic problem of unanchored expectations, inflation outlook faces additional challenges stemming from recent geopolitical risks: direct effects and cost-push pressures have emerged through higher oil prices and currency pressures amid a global risk-off environment. To mitigate oil price channel, the Treasury implemented a sliding-scale (“eşel mobil”) fuel pricing mechanism, absorbing 75% of the price increase via foregone special consumption tax revenues. According to our calculations, monthly fuel inflation would have reached 23.3% in March instead of 9.5%, implying that the mechanism absorbed ~0.45pp direct impact on headline inflation. Based on current USD/TRY levels, if Brent oil prices exceed the ~USD 120 threshold for gasoline and ~USD 110 threshold for diesel, price increases would be fully reflected in fuel prices, posing significant upside risks to inflation through direct effects, cost-push pressures, and expectation channels.

To support financial stability and alleviate currency pressures, the CBRT has taken proactive measures and increased the funding rate by 3pp by halting funding via the policy rate (37%) and shifting to O/N lending at 40%; the Bank also introduced TL-settled forward FX selling auctions. We estimate an approximately USD 60bn of intervention was conducted in March to contain FX volatility, largely driven by foreign outflows (USD ~35-40bn), while elevated deposit rates have helped limit domestic FX demand (except for domestic companies demand of ~15-20bn). The CBRT has ultimately sterilized above 2 trillion TL from the system in March, fueled by the reserves sale; which led to a TL liquidity squeeze and required the CBRT to resume wrong way swaps with the local banks as of March 31st. In this respect, the priority seems to be given to financial stability with the maintenance of the managed currency regime despite risks from a higher inflation and a wider current account deficit.

However, rising household inflation expectations and any potential panic mood might pose a risk of renewed dollarization. Based on the duration and the depth of the impact from the war, monetary policy might be required to tighten further. Should pressures on the CBRT reserves intensify, a policy rate hike at the April MPC meeting appears increasingly likely, which would both mitigate dollarization risks and support the re-anchoring of expectations, particularly in an environment of depleted reserves and increased external financing needs amid a prolonged conflict.

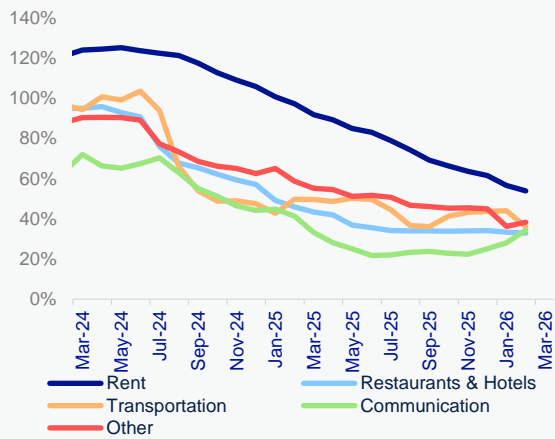
Under the assumption of a short-lived conflict, our baseline had incorporated an average Brent price of USD 69 and natural gas price of USD 12/MMBtu for 2026. However, the increasing likelihood of a more prolonged conflict adds further upside risks to the inflation outlook. Based on current forward prices and recently announced higher than expected energy price hikes for both households and producers as of April, we estimate an additional 3-4pp increase with upside risks relative to our previous 25% year-end inflation forecast. We will reassess our projections as the geopolitical outlook becomes clearer.

**Figure 8. Consumer Inflation Subcomponents (YoY)**



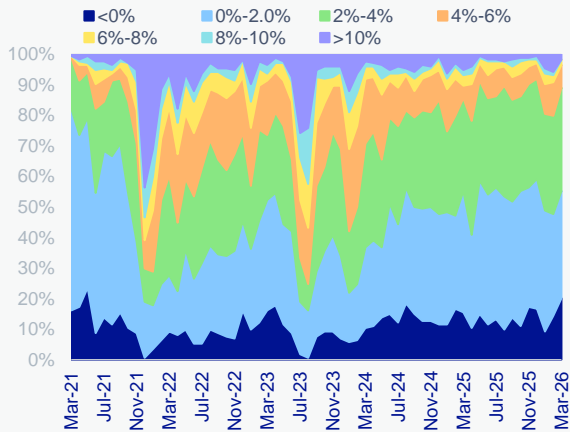
Source: Garanti BBVA Research, TURKSTAT

**Figure 9. Services Inflation (YoY)**



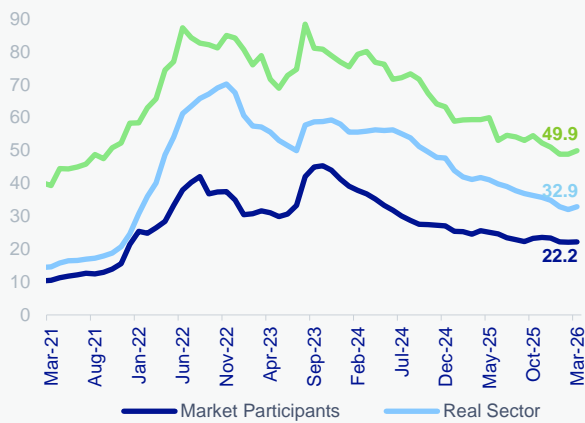
Source: Garanti BBVA Research, TURKSTAT

**Figure 10. CPI Diffusion Index (according to monthly SA changes)**



Source: Garanti BBVA Research, TURKSTAT

**Figure 11. Inflation Expectations (12 Month Ahead, %)**



Source: Garanti BBVA Research, TURKSTAT

**Figure 12. CPI Subcomponents**

	MoM	YoY
<b>Total</b>	<b>1.94%</b>	<b>30.87%</b>
Food & Non-alcoholic beverages	1.8%	32.4%
Beverage & Tobacco	4.4%	29.6%
Clothing & Textile	-2.1%	7.2%
Housing	1.9%	42.1%
Household Equipment	0.9%	20.5%
Health	1.3%	30.0%
Transportation	4.5%	34.4%
Information & Communication	1.5%	24.1%
Recreation, Sport & Culture	3.8%	27.4%
Education	2.1%	52.0%
Restaurants & Hotels	1.2%	31.7%
Insurance & Financial Services	2.9%	32.9%
Personal Care & Misc. Goods and Services	0.2%	25.6%

Source: Garanti BBVA Research, TURKSTAT

**Figure 13. PPI Subcomponents**

	MoM	YoY
<b>Total</b>	<b>2.30%</b>	<b>28.08%</b>
Mining & Quarrying	1.8%	32.3%
Manufacturing	3.3%	29.4%
Food Products	2.3%	34.3%
Textiles	1.8%	19.2%
Wearing Apparel	1.4%	27.1%
Coke & Petroleum Products	47.1%	79.2%
Chemicals	5.8%	29.9%
Other Non-Metallic Mineral	1.6%	20.9%
Basic Metals	2.3%	25.0%
Metal Products	1.1%	21.4%
Electrical Equipment	1.3%	30.2%
Electricity, Gas, Steam	-7.5%	14.3%

Source: Garanti BBVA Research, TURKSTAT

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