

Türkiye | Higher than expected inflation despite pending second round effects

Adem Ileri / Berfin Kardaslar / Ates Gursoy

- Consumer inflation came in at 4.2% m/m, above both consensus (3.2%) and our forecast (3.4%), pushing annual inflation up to 32.4% (vs. 30.9% previously).
- Headline inflation increased across all subcomponents, while the seasonally adjusted rise was mainly driven by energy, food, and core goods. In core inflation, the deterioration was led by basic goods, while services showed a limited improvement.
- Energy prices rose sharply by 14.5% m/m, driven by increases in natural gas and electricity price hikes, as well as elevated global commodity prices. Cost pressures are also strengthening, with manufacturing PPI rising by 3.6% m/m and annual figure reaching 30.4%.
- In line with the Central Bank's expectations, the three-month average trend in CPI inflation showed only a limited deterioration; however, median inflation across all main subcomponents continues to display a worsening trend. According to our calculations, median inflation stood at around 2% in basic goods, 2.6% in services, and 2.4% for overall CPI. Second-round effects from higher commodity prices, supply disruptions, and deteriorating expectations have yet to fully materialize.
- In the second inflation report of 2026, which will be released on May 14, the CBRT is likely to revise its 2026 interim target (16%) and forecast range (15–21%) upward. Signals on the future policy stance and underlying assumptions will be key for the inflation outlook.
- The prolonged conflict, uncertainties around the normalization process of energy markets, deteriorating inflation expectations and a pro-growth policy stance are all contributing to upside risks to the inflation outlook. Considering today's print with distorted pricing behavior on goods, increasing risks on higher energy prices for longer, alongside with potential second round effects amid a pro-growth bias, we revise our year-end inflation expectation to 30% (from 28.5%).

Energy spike meets rising food prices, lifting headline inflation

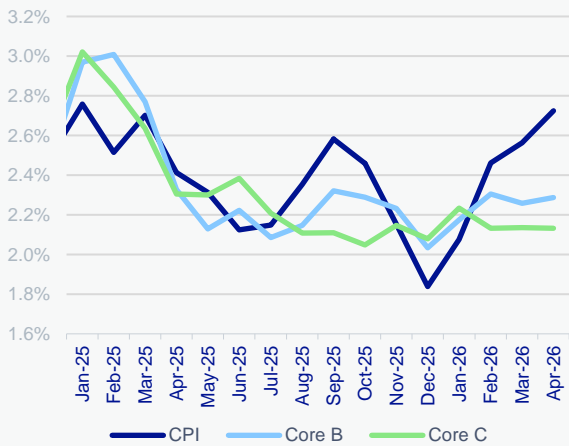
Consumer inflation deteriorated in Apr26 with a reading of 4.18% m/m (vs. 1.94% m/m in Mar26) surprising to the upside (vs. our expectation of 3.4% m/m and consensus of 3.2% m/m). Thereby, annual inflation rose to 32.4% y/y (vs. 30.9% y/y in Mar26) and the year-to-date inflation has surpassed the same month of the last year (14.6% by Apr26 vs. 13.4% by Apr25) pointing out a derailed disinflation process despite more favorable administrative price and wage adjustments at the start of the year.

The acceleration in the monthly raw figure stems mainly from the increases in energy and food prices on top of the upward post-discount rebound in clothing and footwear, increases in restaurant & hotels and health prices on the back of rising medicine costs. These latter components altogether led the Core-C inflation to surge as well to 3.46% m/m (vs. 1.64% m/m in Mar26). Goods inflation picked-up amid a widespread deterioration (exc. alcohol and tobacco), while services inflation rose

solely due to increases in restaurants & hotels. On the other hand, we calculate the seasonally adjusted monthly headline inflation to be 3.35% m/m (vs. 2.0% m/m in Mar26). While services inflation eased, basic goods inflation increased yielding an elevated Core-C (2.5% vs. 2.1% in Mar26). Apart from core prices, food prices also fastened and along with energy, they account for more than half of the adjusted monthly headline print, with highest share since Aug21. In summary, raw data point to a broad-based deterioration across energy, food, core goods, and services; while the services becomes supportive once seasonally adjusted.

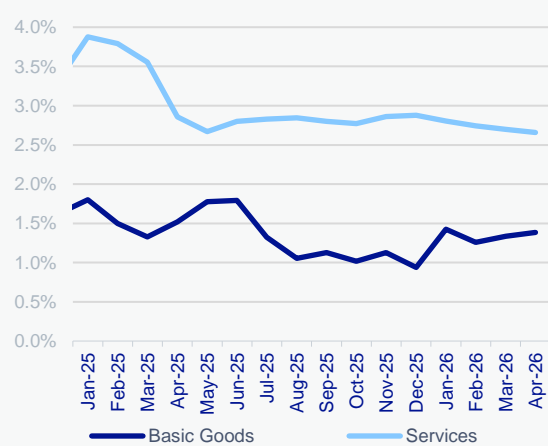
With respect to the Core-C components, seasonally adjusted basic goods inflation surged to 2.3% m/m (vs. 1.2% m/m prev.) largely driven by other basic goods with 4.4% m/m, which is followed by clothing with 2.0% m/m and durable-goods with 1.1% m/m. On the other hand, services inflation softened marginally to 2.6% m/m (vs. 2.7% m/m prev.) on the basis of lower transportation services with 3.1% m/m, communication services with 1.6% m/m and other services with 2.3% m/m. In contrast, remaining services such as restaurants & hotels with 2.2% m/m and rent with 3.5% m/m limited the improvement. So far, the second-round effects from energy price increases do not appear to have materialized in services completely, possibly reflecting backward indexation; nevertheless, this poses upside risks for the future.

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)



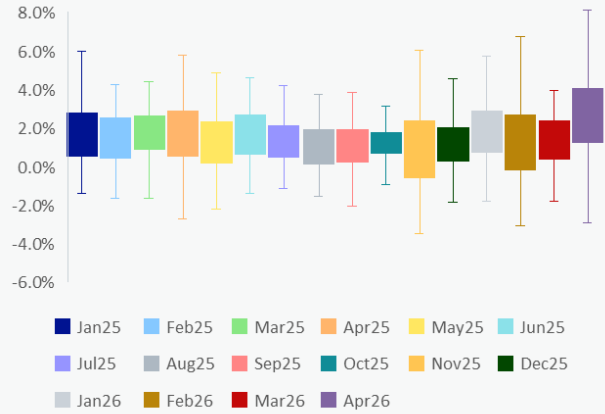
Source: Garanti BBVA Research, TURKSTAT

In seasonal adjusted terms, food and non-alcoholic beverage inflation advanced to 3.0% m/m following the dip seen in Mar26 (0.8% m/m). Therefore, annual food inflation rose to 34.6% y/y from 32.4% y/y the month before. The processed food inflation on recent adjustment in bread prices and the unprocessed food inflation on especially fresh fruits and vegetables materialized as 3.25% m/m and 2.6% m/m, respectively. Looking ahead, favorable weather conditions especially on high rainfall so far could support food prices but the worsening in fertilizer and energy prices would be negative factors.

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



Figure 4. Spread of 5-digit Basic Goods Inflation Series (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Source: Garanti BBVA Research, TURKSTAT

Undeniably, energy prices spiked by 14.4% m/m as the impact of the war on fuel prices became more pronounced in Apr26 -following the initial increase of 4.7% m/m in Mar26-, resulting in an annual inflation of 47.2% (up from 34.2% in Mar26). Moreover, after the price hikes, natural gas prices rose by 44.5% m/m, followed by electricity (16.9% m/m) while diesel (12.0% m/m), and gasoline (3.1% m/m) increased further in April. As a result, the current war pushed energy inflation to its highest level since the Russian invasion of Ukraine. In a counterfactual analysis, we estimate that sliding scale system alleviated fuel inflation by 25.6pp and headline inflation by 0.83pp in April.

Figure 4. Consumer Inflation Indicators* (seasonal adj., monthly, %)

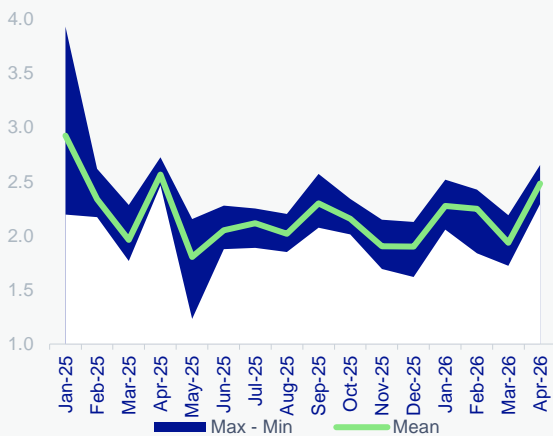
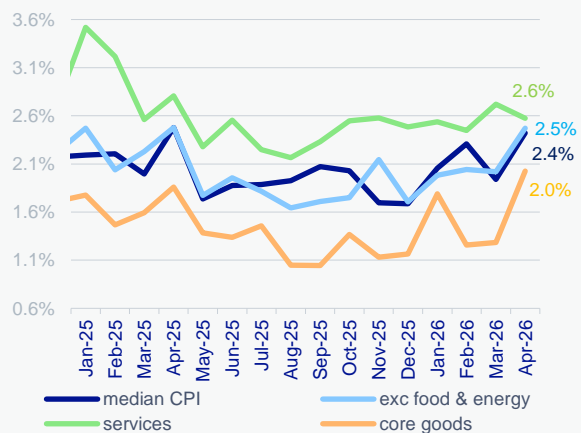


Figure 5. 5-digit Inflation Series' Median (seasonal adj., monthly)



Source: Garanti BBVA Research, TURKSTAT

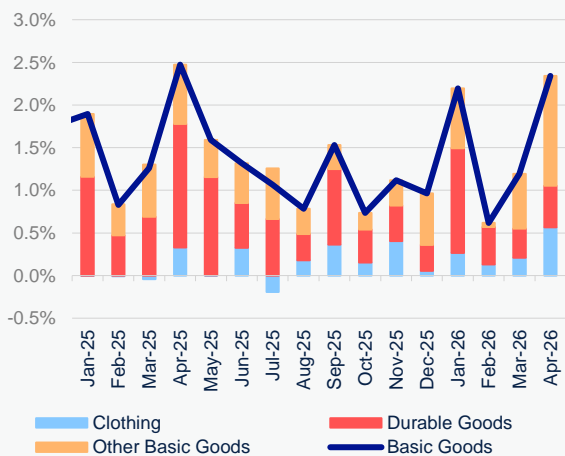
Source: Garanti BBVA Research, TURKSTAT

* 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.

On the producer side, despite the lower realization than our expectation, domestic PPI accelerated from 2.3% m/m in Mar26 to 3.2% m/m in Apr26, driven primarily by manufacturing (3.6% m/m) with broad-based increase across its sub-sectors and higher costs in mining and quarrying, notably a sharp increase in crude oil production prices (42.9% m/m). Notably, cost push factors are increasing as year-to-date PPI change stands at nearly 11.0% as of Apr26 (vs. 10.2% as of Apr25), with existing risks to the upside in the remainder of the year amid the higher energy prices, uncertainty and supply-side disruptions from the war.

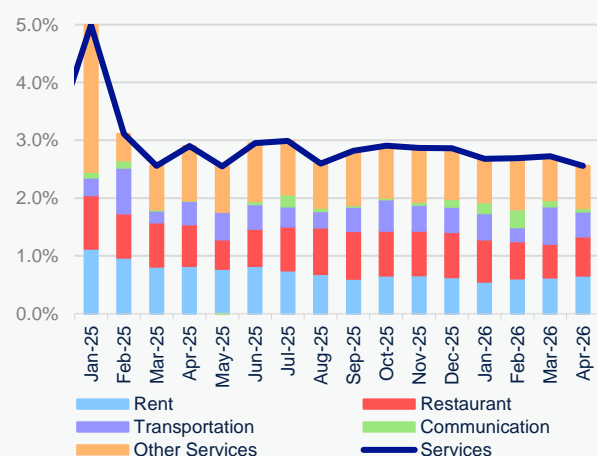
According to our calculations, the average of the underlying trend indicators closely monitored by the CBRT surged to 2.5% m/m (vs. 1.9% m/m prev.), reaching its highest level since the beginning of 2025. Core-B posted 2.6% m/m, showing a sharp significant upward correction from Mar26 due to the significant rise in processed food and basic goods inflation, while Core-C increased to 2.5% m/m (vs. 2.1% m/m prev.). Median inflation accelerated to 2.4% m/m (1.9% m/m prev.), while excluding food and energy, it also grew to 2.5% m/m (2.0% m/m prev.). Furthermore, like the mean, SATRIM also increased (2.3% m/m vs. 1.7% m/m prev.), DFM strengthened to 2.7% m/m (2.2% m/m prev.) and V-1 jumped to 2.4% (vs. 1.8% m/m prev.), suggesting a generalized climb in prices during April. Although three month average of all trend indicators worsened slightly in line with the CBRT’s latest expectation (as the high January figure is removed from the average calculation), they remained above 2%, signaling above %30 annualized trend. Considering further deterioration in inflation expectations on top of expected second round effects, further improvement in the underlying trend would be less likely, signaling persistent high inflation in the near future.

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

The prolonged conflict in Middle East put upside risks on inflation outlook

In the first four months of the year, cumulative consumer inflation reached 14.6% (13.4% in 2025). While elevated fresh food inflation and energy prices contributed to this deterioration, only a limited improvement in Core-C (11.6% vs. 12.7%), despite the managed currency, lower administered price adjustments, and a smaller wage increase at the start of the year, indicates resilient demand

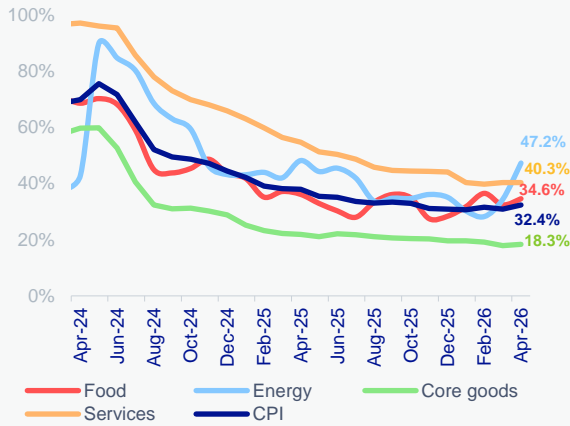
conditions that remain insufficient to exert meaningful pressure on firms' pricing behavior. Already much higher relative to the CBRT's guidance, inflation expectations deteriorated further in a broad-based manner following the war in Iran. While 12-month-ahead expectations of market participants (23.4%, up 1.3pp vs. pre-war) and the real sector (33.7%, up 1.7pp) adjusted more cautiously, household expectations worsened more sharply (51.6%, up 2.8pp), increasing the risk of strengthened inertia, as evidently reinforced by the higher willingness to borrow, as indicated in surveys, thereby supporting demand. On the other hand, the prolonged nature of the war has led to more persistent effects, with sectoral inflation expectations for the next year also rising (20.1%, up 1.7pp vs. pre-war).

Deteriorating expectations underscore the critical importance of the CBRT guidance and proven determination in anchoring expectations, noting that an opportunity was already missed by keeping the policy rate unchanged and not raising it to the funding rate of 40% in April MPC meeting. While the statement emphasized downside risks to growth, the lack of reference to worsening inflation expectations signals a pro-growth bias. The second inflation report of the year will be released on May 14. Given the current conditions, the interim target (16%) and the forecast band (15–21%) from the previous report will need to be revised. Beyond this, the assumptions underlying the inflation outlook and the messages on the future monetary policy stance will be critical for credibility and, consequently, for anchoring inflation expectations.

On the fiscal side, the sliding-scale mechanism has so far limited the pass-through from energy inflation to consumer inflation but it almost reached to its limit. A prolonged conflict would heighten the trade-off between growth and the external balance. However, the April monetary policy decision and announced quasi-fiscal measures, such as credit support packages, point to a continued pro-growth bias.

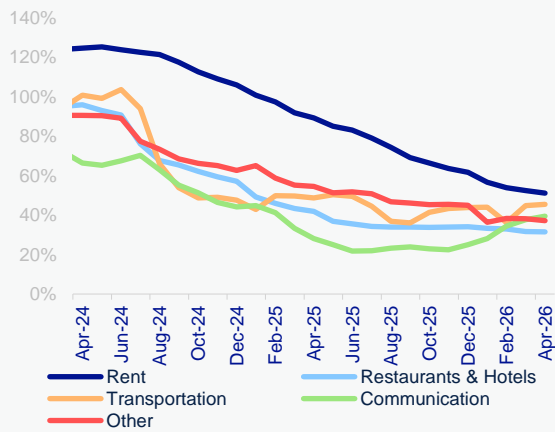
Despite two months having passed since the conflict began, the likelihood of a peace agreement remains low given the parties' red lines. Ongoing uncertainty and the risk of a closure of the Strait of Hormuz for longer continue to put upward pressure on energy prices and disrupt supply chains. In addition, the worsening inflation trend, a pro-growth policy stance, elevated and deteriorating inflation expectations, and expected second-round effects lead us to revise our year-end inflation forecast upward to 30% from 28.5%, under the assumptions of a normalization toward 80\$ per barrel Brent price in 4Q26, a moderate growth above 3% and our year-end currency forecast of 52 against the US dollar. We will reassess our forecast depending on the policy mix and the pace of normalization in energy markets depending on the geopolitical developments. Nonetheless, we evaluate the room for rate cuts is narrowing and the CBRT will be required to remain tight for longer.

Figure 8. Consumer Inflation Subcomponents (YoY)



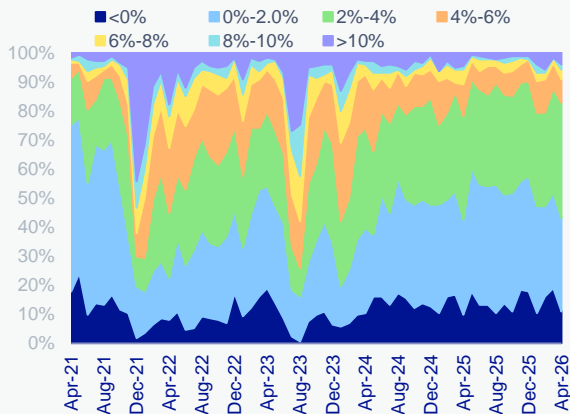
Source: Garanti BBVA Research, TURKSTAT

Figure 9. Services Inflation (YoY)



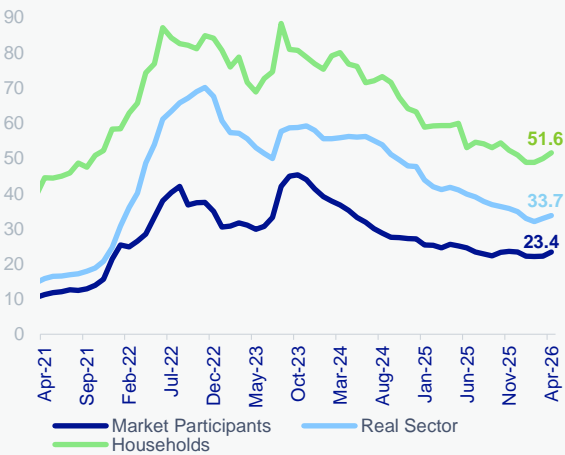
Source: Garanti BBVA Research, TURKSTAT

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
Total	4.18%	32.37%
Food & Non-alcoholic beverages	3.7%	34.5%
Beverage & Tobacco	0.2%	30.0%
Clothing & Textile	8.9%	9.7%
Housing	8.0%	46.6%
Household Equipment	3.4%	5.6%
Health	3.4%	33.0%
Transportation	4.3%	35.1%
Information & Communication	1.1%	24.4%
Recreation, Sport & Culture	2.3%	28.0%
Education	1.4%	50.6%
Restaurants & Hotels	3.5%	31.5%
Insurance & Financial Services	1.1%	30.3%
Personal Care & Misc. Goods and Services	2.2%	25.0%

Source: Garanti BBVA Research, TURKSTAT

Figure 13. PPI Subcomponents

	MoM	YoY
Total	3.17%	28.59%
Mining & Quarrying	9.8%	40.4%
Manufacturing	3.6%	30.4%
Food Products	2.3%	33.2%
Textiles	2.7%	19.2%
Wearing Apparel	6.4%	32.4%
Coke & Petroleum Products	19.2%	117.8%
Chemicals	7.6%	35.5%
Other Non-Metallic Mineral	2.8%	23.1%
Basic Metals	3.6%	25.4%
Metal Products	1.6%	20.8%
Electrical Equipment	1.3%	29.4%
Electricity, Gas, Steam	-5.0%	7.2%

Source: Garanti BBVA Research, TURKSTAT

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