Macro note – 2025 March Inflation

CPI increases by 2.46% mom and 38.1% yoy in March. While services inflation converges to the target levels on a monthly basis, increases in core goods led by food and alcoholic beverages keep inflationary risks alive.

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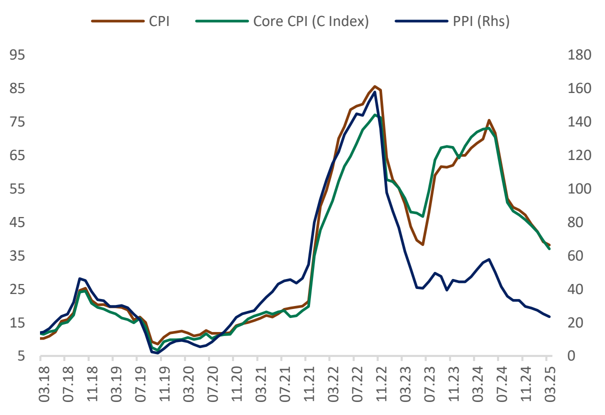
	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
CPI	2.9	2.78	2.46	38.7	38.5	38.1
PPI	-	-	1.88			23.5

CPI increased by 2.46% mom in March, while annual inflation was realized as 38.1%. Market expectations were that inflation would increase by 2.9% mom and 38.7% yoy (Seker Investment expectations were 2.78% mom and 38.5% yoy). Despite our inflation forecast being below the market expectations, the realized figures were also below our forecasts. The average of food, housing, and transportation inflation, which has a weight of 55.5% in the index, rose by 41.46% yoy. In the same period, monthly inflation in the Special CPI Index B (core inflation) was realized as 1.3%, while annual inflation was realized as 37%. Food and non-alcoholic beverages (4.94%), alcoholic beverages and tobacco (9.96%), and education (4.68%) were the main items that triggered the March inflation rise. Education inflation was 23.84% in the first three months of the year, revealing the rigidity in services inflation. Food, transportation, and housing inflation suggests that inflation in core consumption expenditures is higher than the headline figures. On the other hand, core consumption items such as clothing and footwear have been falling for the past five months. We can describe this situation, which balances the price dynamics in the consumption basket, as limited when we consider the total effect. 2024 services inflation, which has been gradually declining from its 97% peak in April 2024, fell to 56.34% in March but still hovers around 20 percentage points above the headline figures.

Producer prices, on the other hand, rose by 1.88% mom in March, while the annual change in PPI was realized as 23.5%. When we look at the sub-indices of PPI, annual changes in main industrial groups were realized as a 19.78% increase in intermediate goods, 32.91% increase in durable consumer goods, 30.89% increase in non-durable consumer goods, 16.98% increase in energy and 23.14% increase in capital goods. Considering the recent market developments, we think that inflation may come under pressure from exchange rates and administered prices. We expect a pause in interest rate cuts due to recent developments, which will limit the pressure on demand inflation. Although inflation dynamics have entered an almost flat annual course, monetary policy developments may remain tight for longer than expected. Having raised the lending rate by 200 basis points at the end of March due to domestic political developments and increased volatility, the CBRT may pause its policy rate cuts for a while, depending on market developments. We expect the CBRT to maintain its cautious stance even if interest rate cuts continue and to pursue a monetary policy stance that favors the real interest rate. We think that the tight monetary policy stance may be affected more by the global outlook and domestic political developments compared to the first quarter of the year, which was focused on economic activity. In particular, the recent steps taken on trade and tariffs may bring about a significant change in both inflation and growth indicators on a global and domestic scale. When domestic political risks are added to these developments, uncertainty over inflation and price dynamics increases. The CBRT has tightened monetary policy further, and both liquidity and macroprudential measures have calmed the market and macro indicators, albeit to a limited extent. We want to emphasize that political and global developments in April will be critical for the inflation path and monetary policy stance for the rest of the year.

Graph 1: CPI, PPI and Core CPI (YoY %)



Graph 2: PPI – CPI Spread

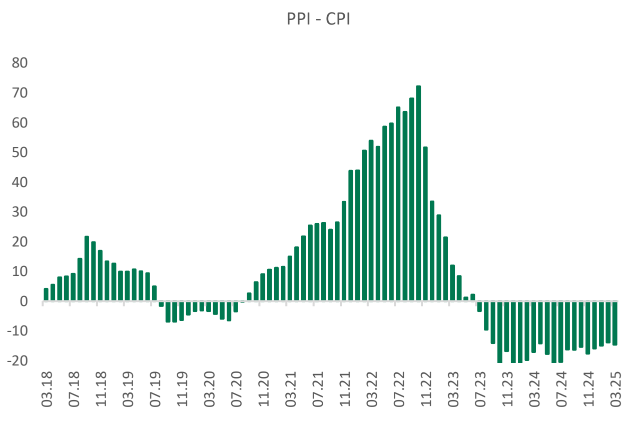


Table 1: Inflation and Sub-Components

Main expenditure groups	Weights	MoM (%)	Ytd (%)	YoY (%)
CPI	**100,00**	**2,46**	**10,06**	**38,10**
Food and non-alcoholic beverages	24,97	4,94	12,44	37,12
Alcoholic beverages and tobacco	3,52	9,96	11,07	46,74
Clothing and footwear	7,16	-2,48	-12,19	14,81
Housing, water, electricity, gas and other fuels	15,22	2,10	14,61	68,63
Furnishing, household equipment, routine domestic maintenance	7,67	2,32	8,94	32,41
Health	4,09	0,71	18,99	42,01
Transportation	15,34	0,25	7,65	21,59
Communication	3,62	0,37	4,97	24,01
Recreation and Culture	3,36	2,21	8,10	27,36
Education	2,31	4,68	23,85	80,42
Hotels, cafes and restaurants	8,32	2,15	12,18	43,38
Miscellaneous goods and services	4,43	1,78	12,79	37,18

Source: TURKSTAT

In sum, CPI increased by 2.46% mom in March, while annual inflation was realized as 38.1%. The lower-than-expected inflation levels are the result of the monthly slowdown in services inflation. In our baseline scenario, we envisaged a significant decline in inflation in the first half of the year. We expect the recent political and economic shocks to put upward pressure on inflation. We believe that the developments in April will be critical for the CBRT, which reacted to the political shocks by raising the lending rate in the same month after the rate cut in March. Demand-side inflation and the course of items such as core goods/food seem to be in line with CBRT forecasts. The economic management, which gradually adjusts monetary and fiscal policies according to the trend in inflation, will need more time to manage inflation expectations. We closely monitor those expectations as the improvement in the expectations channel will have an impact on pricing behavior and costs. Contributions to inflation from cost and exchange rate pressures have been contained, and consumption and demand inflation have started to decline. Considering the sphere of monetary policy control, implementations that take financial stability as well as price stability into account will reduce exchange rate volatility and contribute to risk premiums and macro-financial stability. As a result of recent global and local developments, we are raising our year-end inflation forecast from 26.4% to 30%. We stress here that we may revise our inflation forecasts according to developments in the monthly inflation level and the course of monetary policy.

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