

Macro-note – Industrial Production

Industrial production falls by 0.8% month-on-month and 1.1% year-on-year in March. Production indicators are set to exert downward pressure on first-quarter growth figures.

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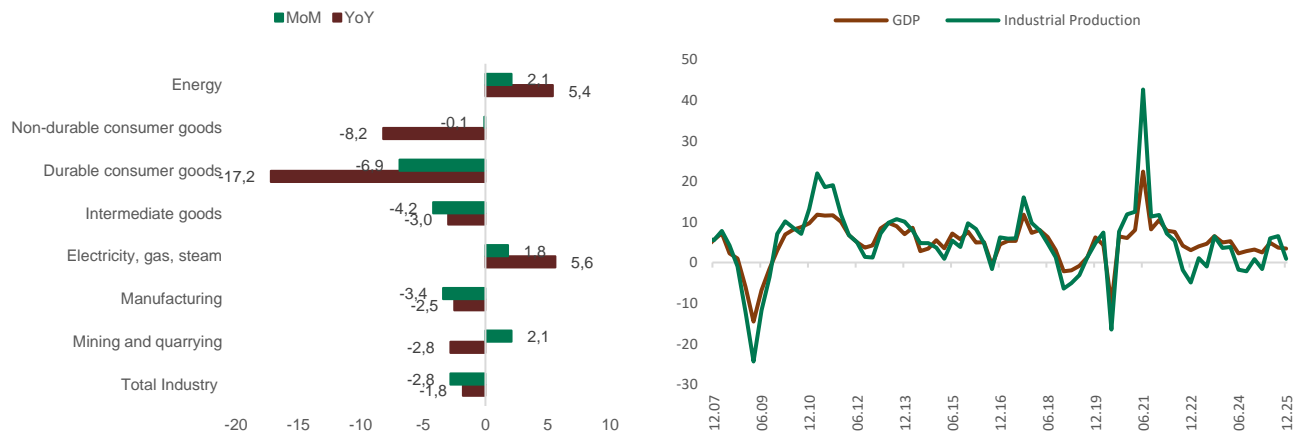
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According to industrial production index data, seasonally and calendar-adjusted production fell by 0.8% in March compared with the previous month. Year-on-year production contracted by 1.1%. Following the recovery in February, we had anticipated a modest pullback in the March figures. We can say that the data has come in line with our expectations. However, this slowdown in production figures at these levels is both increasing downward pressure on industrial companies and limiting the contribution of production to GDP figures. In 2025, growth figures had maintained their strength driven by sectors such as construction and services. Looking at the picture through the lens of first-quarter leading industrial indicators, the situation is not much different. In fact, year-on-year industrial production contracted in the first quarter compared to the previous year. The tight monetary stance and macroprudential measures continue to adjust total demand in line with disinflation by pulling production levels below potential. The tight monetary stance, which is having a marked impact on production and supply-side indicators in the real economy, is unable to pull economic activity down to the same extent. In this context, we can say that the output gap is proving stronger than the central bank's forecasts. The result of this is a slowdown in the disinflationary path and the need for greater patience in the fight against inflation. When recent developments are assessed alongside the effects of monetary policy, supply-side negative shocks are bringing with them effects that push inflation upwards whilst revising growth forecasts downwards. The initial impact in April triggered a significant and unexpected upward movement in inflation. The extent of the net impact on inflation, however, depends on two conditions. The first is how long the upward trend in commodity prices will last and where it will stabilise. The second effect is the contraction of growth and demand due to price increases, which may pull inflation down slightly. Another effect of recent developments has been the triggering of inflationary pressures in key export markets and the pricing in of tighter monetary conditions. In particular, the impending start of interest rate hikes in Europe is exerting downward pressure on production and order data. In our baseline scenario at the start of the year, we had anticipated that economic activity and industrial companies would begin to show a more positive performance from the first quarter onwards. The negative supply shock caused by unforeseen geopolitical developments has led to these expectations being postponed. In particular, the shock caused by developments in the Middle East may not return to pre-war levels until the third quarter of the year. Consequently, we are facing a situation where scenarios such as interest rate cuts and positive performance by companies in the manufacturing sector have been pushed back by two quarters. Even in a scenario where the war ends tomorrow, it will take time for infrastructure and confidence to be re-established, and for energy flows and orders to return to their previous equilibrium. In such a scenario, we believe it would be a sound decision for the CBRT to maintain its hawkish stance and support the long-standing fight against inflation through further tightening. Otherwise, the disinflation process that has been ongoing for nearly three years would have been at risk of becoming a casualty of a premature policy shift. In this context, we forecast that the year-end policy rate will close at around 32%, following a total cut of 500 basis points. The pace and magnitude of the cuts will depend on inflation developments and geopolitical tensions. We anticipate that, once oil stabilises at \$75–80 per barrel, inflation will retreat to a range of 25–29 per cent, with the midpoint at 27 per cent. It is worth noting that these scenarios are valid on the assumption that the war is resolved through negotiations before it escalates further or spreads to the region.

In March 2026, the index for the mining and quarrying sector fell by 5.6% compared with the same month of the previous year, the index for the manufacturing sector fell by 1.3%, and the index for the electricity, gas, steam and air conditioning supply sector rose by 5.8%. In terms of monthly changes, the mining and quarrying sector index fell by 1.6% compared to the previous month, the manufacturing sector index fell by 1.1%, and the electricity, gas, steam and air conditioning production and distribution sector index rose by 3.9%. Although the shift from the long-standing negative cycle to a positive one in durable consumer goods suggests a turnaround, it is important for this to be confirmed by the April data. Production in sectors such as energy, electricity and gas reflects the conditions of war and has seen a marked surge. The trend in the manufacturing sector actually reveals the true picture. There is a contraction in both the monthly and annual data.

Table 1: Industrial Production Rate of Change (%) **Graph 1: Industrial Production and GDP Growth (YoY %)**



In summary, industrial production contracted by 0.8% month-on-month and 1.1% year-on-year in March. Production figures have returned to contraction territory following February. Whilst growth figures are diverging positively from production figures, this also raises questions regarding their sustainability. The pressure on domestic production figures from the tightening measures initiated in developed countries continues. Easing geopolitical concerns and falling costs will contribute positively to production. Although production and GDP diverged in the first-quarter growth data, we expect the gap to narrow by the end of the year. We would like to emphasise that any new decisions and measures taken will necessitate updates to our forecasts.

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