Snap | 3 April 2026 TURKEY

Benign food prices prompt a positive surprise in Turkish inflation

Turkey s March inflation data, impacted by war-related factors, saw a decline in the annual figure and benign food prices

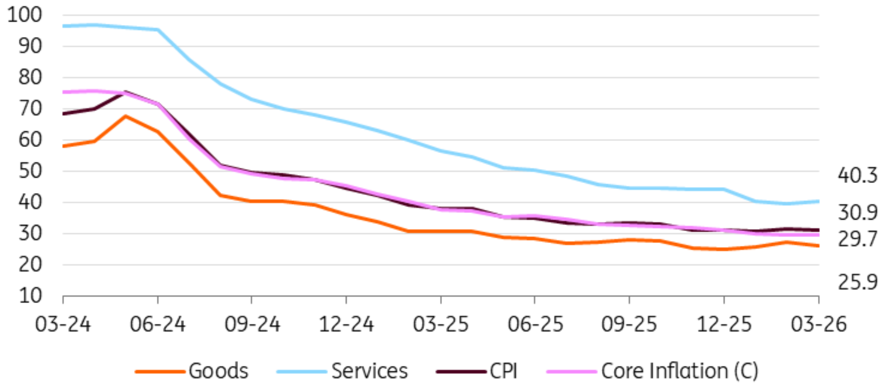
Monthly inflation in March stood at 1.94% vs market consensus at 2.3% (and our call at 2.2%), while annual inflation resumed a downtrend with a fall to 30.9% (vs the Central Bank of Turkey's target at 16% and forecast range of 15-21% in the latest inflation report) from 31.5% a month ago. The food group was the key driver for the positive surprise in the headline rate, though pricing pressures in the energy group have increased with the geopolitical shock, as expected. While inflation rose by 2.5% in March 2025, the five-year average for January in the CPI index was 2.9%.

Core inflation (CPI-C) rose by 1.64% month-on-month, leading to an increase in the annual rate to 29.7%. The currency managed by the central bank, with a modest nominal lira depreciation in recent months, limited the increase. In March, PPI stood at 2.3% MoM, moving up to 28.1% YoY, after floating at 27-28% in the previous five months.

In addition to food products, coke & refined petroleum products, chemicals, and basic metals were the major drivers in the March PPI increase, likely reflecting the impact of the Gulf War on some industrial materials. Global commodity prices and particularly oil prices in the current geopolitical backdrop will remain the key risk factors to the PPI trend in the near term.

Inflation outlook (%)

Core = CPI excluding energy, food & drinks, alcoholic beverages, tobacco, gold



Source: TurkStat, ING

Preliminary seasonally adjusted data, set to be published by TurkStat and closely monitored by the CBT, indicates that in three-month moving average terms, the underlying inflation trend is still high above 2%, while core inflation shows a further uptick, implying challenges to disinflation in the current environment.

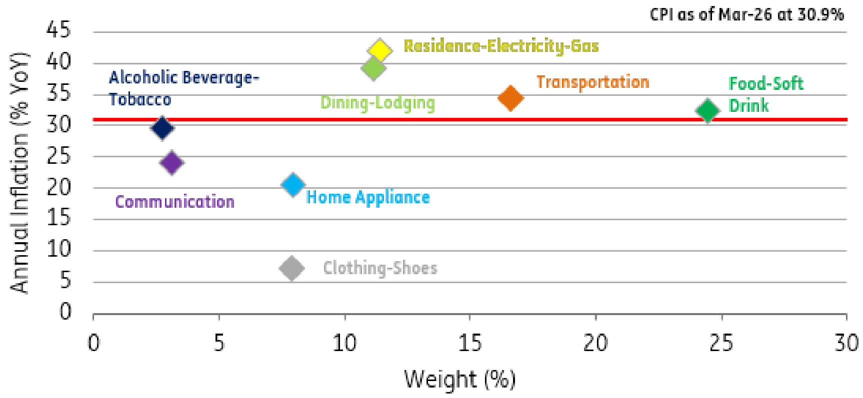
Breaking down the data:

- The transportation group made the largest contribution to the headline (0.75ppt) with significant adjustments in energy prices and transportation services. However, the sliding scale tariff mechanism reinstated by the Ministry of Finance has absorbed roughly two-thirds of the oil price shock and reduced the impact on the monthly figure.
- The food group was another large contributor (0.46ppt), though the pace has lost momentum following the large increases in the first two months of this year, leading to the positive surprise in March inflation. Annual food inflation dropped markedly to 32.3%, driven by unprocessed food vs the CBT's assumption for this item at 19% for this year.
- The housing group followed with a 0.22ppt impact. A key issue worth mentioning in this group is rents, which play an important role in persisting services pricing pressures. Rent inflation dropped to 52.5% with further deceleration in the monthly pace; the CBT forecast expects it to drop into a 30-36% range this year, based on different assumptions.
- On the flip side, negative impacts on the headline include clothing (-0.14ppt). Annual inflation has remained at single digits despite the monthly change being above that of last year, leading to an increase in the annual figure vs the previous month.

As a result:

- Goods inflation fell to 25.9% YoY, while core goods inflation dropped to 16.1% YoY, given the CBT's tight grip on the exchange rate supporting disinflation in this group.
- Services inflation inched up and stood at 40.3% YoY; this element remaining elevated illustrates the extent of the inertia at play here.

Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, March inflation – affected by war-related factors – led to a decline in the annual figure, with food prices remaining benign. The uncertainty surrounding oil prices, which also affects other commodity prices, increases risks to the inflation outlook. This is despite the government's decision to absorb some of the oil price shock by adjusting the tax on gasoline prices.

The CBT is following the same policy playbook during this geopolitical shock as it did during the local political volatility seen last year, and has prioritised financial stability. While continuing to utilise its FX reserves and possibly allowing a slightly faster pace of TRY depreciation, the CBT can also opt to adjust the policy rate towards the current funding rate. It can also adjust the policy rate corridor structure. As it was stated in the March MPC meeting, should there be a significant and persistent deterioration in the inflation outlook – potentially driven by recent geopolitical developments – then the monetary policy stance will be tightened further. The current environment poses significant challenges to the bank, given rising energy prices, moderating growth prospects, and dollarisation risks.

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