



In March, inflation was above expectations.

CPI came in above expectations, rising by 1.03% mom in March. According to the Reuters' survey, the monthly CPI inflation was expected to be 0.92%. Domestic PPI (D-PPI) recorded a monthly increase by 1.58% in this period.

Annual CPI inflation was 19.71%.

Annual consumer inflation, which followed a downward trend after reaching 25.24% in October and hovered around 20% since December, was realized as 19.71% in March. Declining trend in annual D-PPI inflation since October, on the other hand, ended in March. Accordingly, the annual D-PPI inflation, which had declined for 5 consecutive months and became 29.59% in February after reaching 46.15% in September, increased slightly to 29.64% in March.

March (change %)	CPI		D-PPI	
	2018	2019	2018	2019
Monthly	0.99	1.03	1.54	1.58
Year-to-Date	2.77	2.27	5.29	2.14
Annual	10.23	19.71	14.28	29.64
Annual Average	11.14	18.70	15.35	31.17

Food sub-group made the highest contribution to monthly CPI.

Food prices, which increased by 2.44% mom, made the highest contribution to the monthly CPI increase by 0.6 pp. Despite the measures taken, rise in fresh fruits and vegetables prices played a significant role in this development. Besides, the upward trend in global oil prices has pushed up fuel prices in Turkey. In March, due to the more than 4% price increases in fuel products, the transportation group made the second highest contribution to the monthly CPI increase with 0.12 pp. In this period, due to the strong increase in medicine prices (14.12%) because of the update in the reference euro rate, the health sub-group contributed to the monthly inflation by 0.09 pp.

Core inflation indicators continued to decline.

Thanks to weak domestic demand, the falling trend since November 2018 in CBRT's favorite core inflation indicators, B (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C (CPI excluding energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold), has continued in March. Annual increases in B and C indices decreased to 17.72% and 17.53%, respectively. Divergence between the

annual headline and the core inflation increases concerns regarding the effectiveness of the monetary policy on the inflation rate.

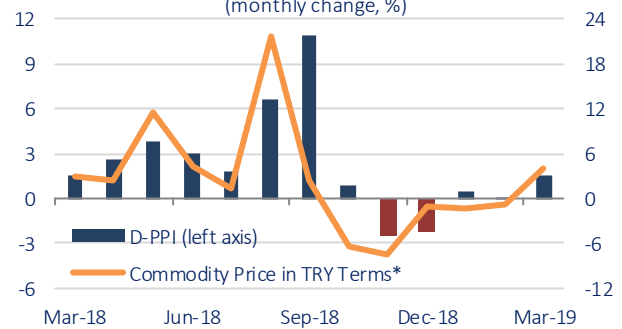
Gap Between Core (C) and Headline Inflation
(% point)



Annual D-PPI inflation increased in March

Downward trend in the annual D-PPI inflation ended in March due largely to the rise in commodity prices. Price increases in main metals, coke and refined petroleum products and food products due to the increase in commodity prices contributed by 0.72 percentage points to the monthly D-PPI increase. In addition, despite its low weight in D-PPI, basic pharmaceutical products, in which the highest monthly price increase (14.05%) among the sub-sectors was realized, played a significant role in the D-PPI inflation by 0.15 pp.

Commodity Prices and D-PPI
(monthly change, %)



Expectations...

We expect the annual inflation rate to decline gradually in the coming period due to the high base effect. On the other hand, the recent increase in energy prices and the volatility in domestic financial markets due to geopolitical developments might slow down the deceleration process.

(*)Based on CRB Commodity Price Index

Source: Turkstat, Datastream

Inflation (%)

	CPI (2003=100)				D-PPI (2003=100)				
	Monthly	Year to		Annual Average	Monthly	Year to		Annual Average	
		Date	Annual			Date	Annual		
2017	January	2.46	2.46	9.22	7.76	3.98	3.98	13.69	4.96
	February	0.81	3.29	10.13	7.88	1.26	5.29	15.36	5.87
	March	1.02	4.34	11.29	8.21	1.04	6.38	16.09	6.89
	April	1.31	5.71	11.87	8.66	0.76	7.19	16.37	8.01
	May	0.45	6.18	11.72	9.09	0.52	7.74	15.26	9.02
	June	-0.27	5.89	10.90	9.36	0.07	7.82	14.87	9.98
	July	0.15	6.05	9.79	9.44	0.72	8.60	15.45	10.94
	August	0.52	6.60	10.68	9.66	0.85	9.52	16.34	12.05
	September	0.65	7.29	11.20	9.98	0.24	9.78	16.28	13.26
	October	2.08	9.52	11.90	10.37	1.71	11.66	17.28	14.47
	November	1.49	11.16	12.98	10.87	2.02	13.91	17.30	15.38
	December	0.69	11.92	11.92	11.14	1.37	15.47	15.47	15.82
2018	January	1.02	1.02	10.35	11.23	0.99	0.99	12.14	15.66
	February	0.73	1.76	10.26	11.23	2.68	3.69	13.71	15.50
	March	0.99	2.77	10.23	11.14	1.54	5.29	14.28	15.35
	April	1.87	4.69	10.85	11.06	2.60	8.03	16.37	15.36
	May	1.62	6.39	12.15	11.10	3.79	12.12	20.16	15.80
	June	2.61	9.17	15.39	11.49	3.03	15.52	23.71	16.57
	July	0.55	9.77	15.85	12.00	1.77	17.56	25.00	17.41
	August	2.30	12.29	17.90	12.61	6.60	25.32	32.13	18.78
	September	6.30	19.37	24.52	13.75	10.88	38.96	46.15	21.36
	October	2.67	22.56	25.24	14.90	0.91	40.22	45.01	23.73
	November	-1.44	20.79	21.62	15.63	-2.53	36.68	38.54	25.52
	December	-0.40	20.30	20.30	16.33	-2.22	33.64	33.64	27.01
2019	January	1.06	1.06	20.35	17.16	0.45	0.45	32.93	28.70
	February	0.16	1.23	19.67	17.93	0.09	0.55	29.59	29.97
	March	1.03	2.27	19.71	18.70	1.58	2.14	29.64	31.17
	April ^(E)	1.75	4.06	19.57	19.40	2.00	4.18	28.88	32.12

(E) Estimate

Economic Research Division

izlem Erdem Chief Economist izlem.erdem@isbank.com.tr	ilker Şahin Economist ilker.sahin@isbank.com.tr
Alper Gürler Unit Manager alper.gurler@isbank.com.tr	Gamze Can Economist gamze.can@isbank.com.tr
H. Erhan Gül Asst.Manager erhan.gul@isbank.com.tr	Ayşim Kalkan Asst. Economist aysim.kalkan@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.