

## Turkey: Inflation closed 2017 with a downward move

Consumer prices surprised once again to the upside though yearly inflation fell to 11.9% in December, from 13.0% a month ago. Core inflation maintained its uptrend, reflecting exchange rate developments



Source: Shutterstock

**11.9%** 2017 inflation  
(YoY)

Worse than expected

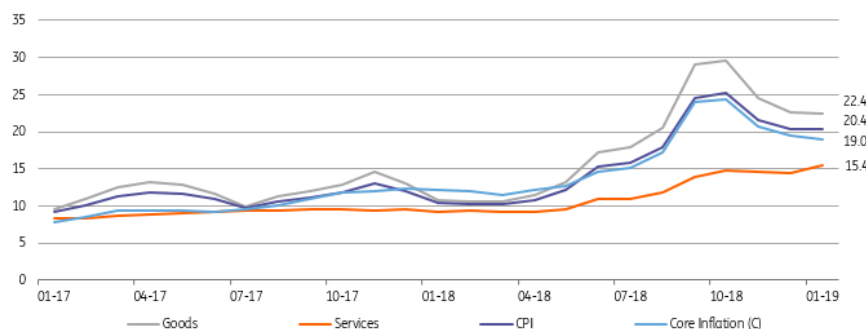
### Supportive base effects contribute to decline in annual inflation

Consumer prices increased by 0.69% in December, above median market expectations and our call at 0.5%. Annual inflation changed direction and closed 2017 at 11.92%, on supportive base effects and down from 12.98% a month ago (its highest since the inception of the 2003=100 series). An improvement in goods inflation contributed the most to the monthly reading, mainly driven by

easing base effects on transportation prices and food inflation. Services inflation, on the other hand, remained broadly unchanged, though a small decline in rents is noteworthy.

The Domestic Producer Price Index (D-PPI), on the other hand, rose by 1.37%. Annual inflation fell to 15.47% from 17.30% (its highest level since Jul-08) the previous month. Notwithstanding the base-effect-driven disinflation, widespread pricing pressures in all PPI groups (with the exception of minor declines at metal ores and wearing apparel) driven by continuing TRY weakness show that producer-driven cost factors remained significant.

## Evolution of Annual Inflation (%)

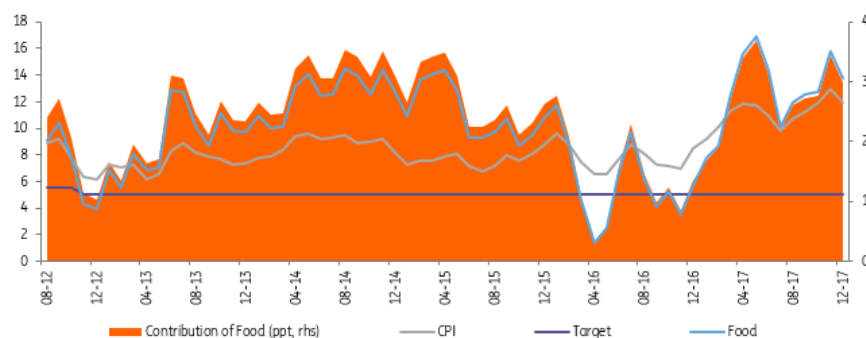


Source: TurkStat, ING Bank

## Food again the major driver, along with transportation

In the CPI breakdown, the increase in share of items in the CPI basket that saw price declines in December - from 17.9% to 30.2% - is noteworthy. Among the positive drivers of the monthly reading, the food group stood out as the major contributor at 34bp, though annual inflation in this group fell from 15.78% to 13.79% on favourable base effects. The transportation group followed, at plus 28bp and reflecting exchange rate developments. Annual inflation in this group turned out to be 18.2% in 2017, the highest of all groups. Other factors contributing to higher inflation include utilities (+12bp), home appliances (+9bp), and catering (4bp) - reflecting a combination of direct and indirect effects from exchange rate developments, seasonality, inflation indexation and elevated food prices. On the flipside, clothing reduced the headline by 18bp, showing the impact of seasonality. With the exception of communication and alcoholic beverages & tobacco, annual inflation in all groups remained elevated at close to or above the 10% threshold.

## Food vs CPI (%)



Source: TurkStat, ING Bank

## Core inflation at a new peak

Regarding core inflation, the "C" indicator in the set (C = CPI excluding all food & beverages, energy, alcoholic drinks & tobacco, gold) recorded a 0.55% change in December, pulling annual inflation further up to 12.30%, a new peak in the current inflation series. The data show continuation of the impact from currency effects and from strong economic activity, with no clear sign of any downtrend in core inflation yet. Given the continuing impact of recent TRY weakness and ongoing deterioration in expectations and pricing behaviour, core inflation is likely to remain in double digits.

Overall, the December data show a fall in headline inflation, as expected. In the coming months easing base effects will continue to contribute to a recovery in the inflation outlook. However the fall will likely be shorter and shallower than previously envisaged, while concerns about the sustainability of disinflation will remain. In the latest MPC, the CBT hiked the late liquidity window (LLW) rate by 50bp (market expectations: 75-100bp hike) - this lower than expected move is attributable to improving risk appetite towards EMs and consequent recovery in TRY vs USD. So, the CBT's rates policy is driven not only by the changes in inflation outlook but also by concerns about the exchange rate. Given this backdrop and this CBT's continuing tightening bias, any decision in the January meeting will be dependent on market conditions.

### Author

#### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and

which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.