

## Turkey: Continuing broad-based deterioration in price dynamics

Following a slightly better-than-expected February inflation print, cumulative inflation in the first two months of the year reached 10%, showing the continuation of a broad-based deterioration in price dynamics despite currency stability in recent months



Turkish consumer prices rose 3.15% in February, the second-highest February reading since 2000

After a surge in inflation in January (to 6.65%), Turkish consumer prices rose 3.15% in February (vs the market consensus of 3.4%), the second-highest February reading since 2000. Accordingly, cumulative inflation in the first two months reached almost 10%, while the Central Bank of Turkey's (CBT's) forecast in the January inflation report for the whole year was 22.3%. However, the annual figure maintained a downtrend to 55.2% from 57.7% a month ago attributable to large base effects. Therefore, while the latest figures show a continuation of the broad-based deterioration in price dynamics despite currency stability in recent months, increases across all groups were lower than last year which contributed to the drop in the headline reading. We will likely see further falls in the near term with the presence of large base effects if stability in the Lira continues.

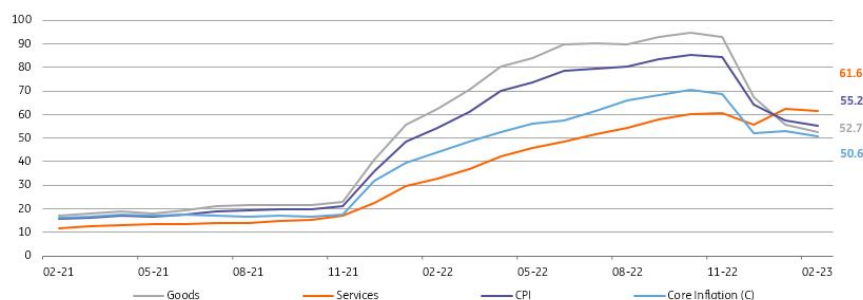
The underlying trend (as measured by the 3-month moving average, annualised percentage change, based on seasonally adjusted series) for goods inflation remained broadly unchanged in

comparison to the previous month. However, the services group which has strong inertia has remained elevated with a strong contribution to the deterioration in underlying trends of core and headline in February.

PPI inflation recorded another sharp drop to 76.6% year-on-year, the lowest reading since November 2021, implying that there are still high, but improving, cost-push pressures in comparison to previous months. While the monthly reading was 1.56% with support from a price drop in utilities, the base effects have been the main determinant of the decline in annual inflation.

## Annual inflation (%)

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

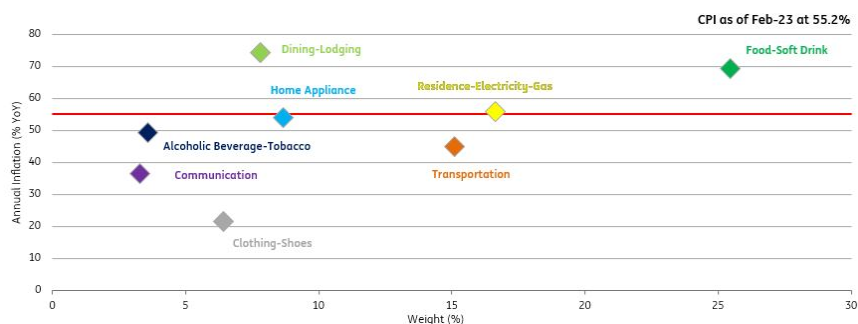


Source: TurkStat, ING

In the breakdown of the main expenditure groups, annual inflation in the food group declined due to unprocessed food prices. However, the monthly figure more than tripled the long-term February average, pulling the headline up by 1.87ppt. We see food prices continuing to impact catering prices, making it a strong contributor with 0.34ppt. With a 0.39ppt impact on the monthly headline, transportation was among the major contributors given price adjustments in transportation services, and automobile prices. However, the annual change in this group further declined to 44.9% from triple digits in November, showing the extent of base effects.

With the exception of clothing and shoes and alcoholic beverages and tobacco which all recorded a price decline, all other groups showed strong increases, confirming challenges to disinflation despite the CBT's relatively optimistic forecast for this year. As a result, goods inflation moderated to 52.7% YoY, while annual inflation in services recorded a 61.6% YoY change that is slightly below the peak of the current inflation series driven in particular by rent, catering and transportation services.

## Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, annual inflation maintained a downtrend in February as widely expected, and is likely to decline further until May mainly due to strong base effects, though currency stability will remain key for the outlook. However, given deeply negative real interest rates, further disinflation will be quite challenging, while risks to the outlook this year are on the upside given the significant deterioration in pricing behaviour, higher trend inflation and a still-elevated level of cost-push pressures.

In the February Monetary Policy Committee, the CBT hinted that interest rate cuts will not continue as a series, while we can expect further macro-prudential measures to maintain favourable financial conditions with the objective of minimising the effects of the recent earthquakes. Following the earthquakes, the policy mix will likely be even more supportive with larger fiscal stimulus, i.e. a net increase in the budget deficit, and looser monetary policy. This, in return, should be inflationary. In this environment, the CBT is likely to maintain its control over locals' FX flows to maintain low rates.

### 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>.