

Turkey faces continuing price pressures

Annual Turkish inflation came in higher than expected in February, and it's expected to go higher still in the near term as ongoing price pressures remain

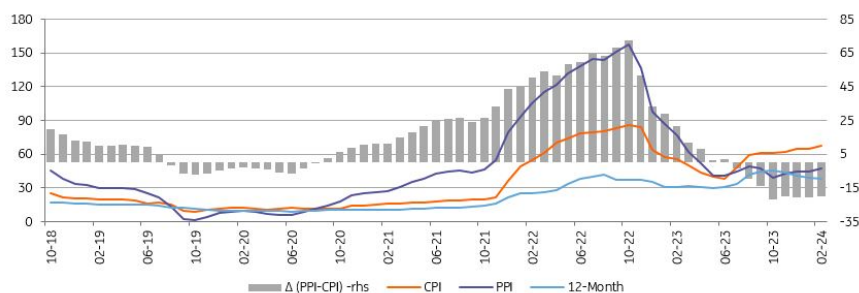


Higher food prices are a major factor in Turkey's inflation struggle

With February's month-on-month inflation figure for Turkey at 4.53% being above ours and the consensus call, annual inflation came in at 67.1%, YoY up from 64.9% a month ago on the back of across-the-board price increases. While there was an increase of 3.1% in February 2023, the average of February months of the 2003-based index was 0.9%, indicating that the base effect was favourable for this year. Accordingly, cumulative inflation in the first two months reached 11.5% vs the 36% central bank's forecast for this year, while annual inflation has remained above the CBT's forecast range of 30-42%.

February PPI, on the other hand, stood at 3.7% MoM, showing an acceleration to 47.3% YoY. However, the decline in annual PPI from close to triple digits last year shows significant improvement in cost pressures thanks to commodity price changes and exchange rate developments.

Inflation outlook (%)



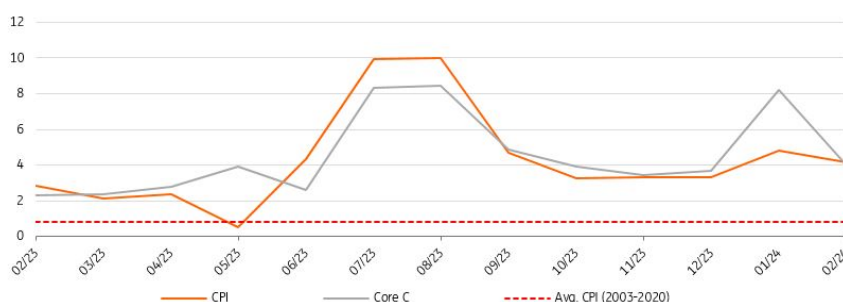
Source: TurkStat, ING

Core inflation (CPI-C) came in at 3.6% MoM, moving up to 72.9% on an annual basis on the back of pricing behaviour, implications of the minimum wage and public salary hikes, adjustment in administered prices and inertia in services. Relatively subdued exchange rate moves have recently supported the inflation outlook.

On a seasonally adjusted basis, after the spike in January, core inflation improved markedly thanks to the core goods, while services have maintained a solid underlying uptrend. As a result, despite some easing, the headline inflation trend has remained elevated at above 4% MoM. The CBT sees the seasonally adjusted monthly inflation to hover below 4% on average in the first half of this year (around 3% except for January). This implies that disinflation should be more pronounced in the coming months for the CBT forecast to hold.

Monthly trend CPI

Seasonally adjusted, Month-on-Month



Source: TurkStat, ING

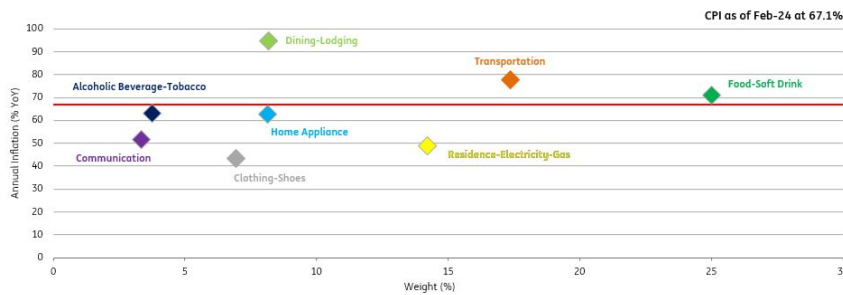
In the breakdown:

- Food again turned out to be the major contributor with 2.03ppt, leading to an increase in the annual figure to 71.1% driven by both unprocessed and processed food.
- Housing and transportation followed, with a 0.49ppt contribution each, due to i) continuing pressures in rent and adjustments in prices of some construction materials for the former and ii) increases in gasoline prices and transportation services for the latter. Accordingly, energy inflation maintained its recent uptrend and reached 36% from double-digit negative levels in the middle of 2023.

- Catering services lifted the headline by 0.47ppt, reflecting the impact of pressure on food prices and inertia in services.
- Accordingly, all groups provided positive contributions showing the ongoing challenges on the inflation front.

As a result, goods inflation moved up to 57.0% YoY, while core goods inflation inched up to 54% YoY. Annual inflation in services, which is generally influenced by domestic demand and wage hikes, maintained an uptrend and reached another peak at 94.4% YoY.

Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, annual inflation turned out higher than expected in February, while we expect further increase in the near term. Given the deterioration in price dynamics and the underlying trend remaining above the CBT projection for the first half of this year, inflation prints for March and April will be key for the bank's behaviour, given its clear forward guidance that the monetary policy stance will be tightened *"in case significant and persistent deterioration in inflation outlook is anticipated"*.

Author

Muhammet Mercan

Chief Economist, Turkey

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>.