

## Inflation in Turkey continues to fall

At 43.7% year-on-year, Turkey's April inflation print came in lower than the consensus forecast and continued its downward trend thanks to base effects



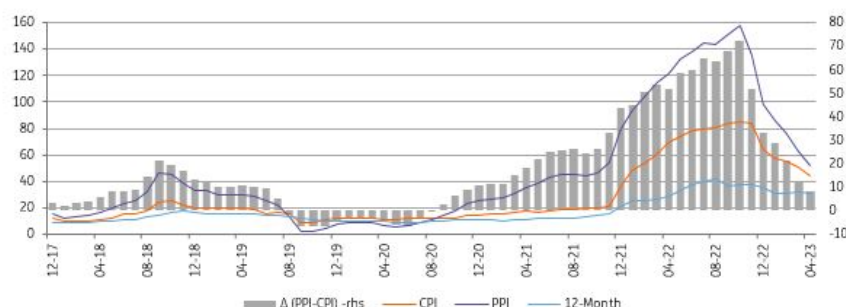
Annual inflation in Turkey continued to fall in April, to 43.4% from 50.5% a month ago, thanks to a better-than-expected monthly reading of 2.4% (vs the consensus of 2.6%) – although this was the second highest April print in the current inflation series which began in 2003. Given this backdrop, the latest data show persistently high price pressures, however, the increases in all groups were lower than last year which helped the drop in the headline figure.

Cumulative inflation in the first four months of the year has already reached 15.2% (vs the 22.3% Central Bank of Turkey forecast for the whole year) and it is highly likely that the bank will revise its forecast in the upcoming inflation report release on 4 May.

Core inflation (CPI-C) came in at 3.2% month-on-month, 45.5% on an annual basis, mainly attributable to core goods. The underlying trend (as measured by the 3-month-moving average, annualised percentage change, based on seasonally adjusted series) for the headline markedly recovered in comparison to March thanks to goods inflation, while the services group with strong inertia has maintained the elevated trend given continuing pressures in rent and telecommunication services.

PPI inflation recorded another sharp drop to 52.1% YoY, the lowest reading since October 2021, implying still high but relatively improving cost-push pressures in comparison to previous months. While the monthly reading was at 0.7% with support from price drops in heavy-weight utilities, the base effects have remained the key determinant of the decline in annual inflation.

## Inflation outlook (%)



Source: TurkStat, ING

In the breakdown of the main expenditure groups, annual inflation in the food group continued to decline to 52.7%, although the monthly figure was significantly above the long-term April average, pulling the headline up by 1.06ppt. Accordingly, the annual rate of increase in food prices turned significantly above the food price assumption in the Inflation Report at 22%. We see a continuation of the impact of food prices on catering prices, making it a strong contributor with 0.36ppt.

With a 0.37ppt impact on the monthly headline rate, transportation was among the major contributors thanks to higher price adjustments in automobiles and transportation services. The only group that reduced the monthly reading with a 1.5% decline was housing given the 15% drop in electricity prices, despite continuing upward pressure on rents. As a result, goods inflation moderated to 38.6% YoY, a level seen before the December 2021 volatility, while annual inflation in services recorded 58.6% YoY, close to the peak of the current inflation series.

## Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, the drop in annual inflation continued in April as widely expected, due to strong base effects. Despite the likelihood of another fall in the near term, inflation could rise again in the second half of this year given the uncertainty surrounding the current outlook and

potential adjustment in wages and administered prices.

Given this backdrop, further disinflation would be quite challenging with a deterioration in pricing behaviour and higher trend inflation, and the inflation path will depend on whether the current policy mix (a preference for low interest rates) continues, or whether there will be a focus shift to disinflation with a significantly tighter monetary stance.

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