

## Turkey: inflation falls for the first time since May 2021

While annual inflation fell in November for the first time in more than a year, inflationary pressures still remain broad-based

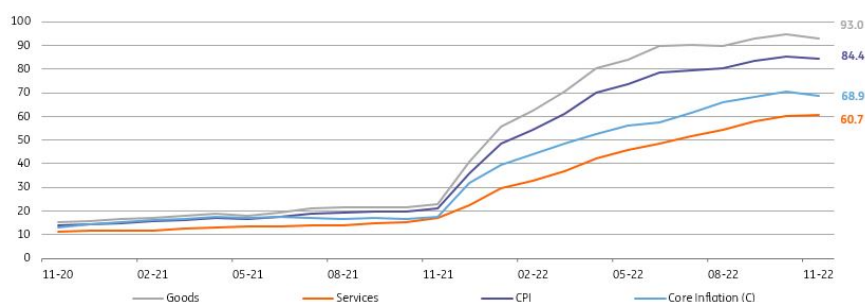


For the first time since May 2021, inflation in Turkey has fallen. The annual inflation rate dropped to 84.4% in November from 85.5% in October, following a monthly print of 2.9% which is in line with the market consensus (3%). This suggests the October inflation reading was the peak and we will see a further drop in the annual figure in the near term with large supportive base effects if stability in the Lira continues.

According to the data release, the core "C" inflation measure, which strips out energy, food and some other goods, also changed direction, falling to 68.9% year-on-year from the highest level in the current 2003=100 inflation series a month ago, while the underlying trend (as measured by the 3-month moving average, annualised percentage change, based on seasonally-adjusted series) has gradually improved over the past few months. On the other hand, the headline inflation rate has remained elevated and has not shown a meaningful change, implying continuing pressures on the outlook.

## Annual inflation (%)

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



Source: TurkStat, ING

PPI inflation recorded a sharp drop to 136.2% with the lowest monthly reading in more than two years at 0.74% and a large base from the last year. Moderation in the monthly turnout is due to the electricity and gas production and distribution group as well as basic metals showing some improvement in energy and commodity-related pressures.

In the breakdown of the main expenditure groups, the only group that dragged the headline rate was clothing due to seasonal factors while the remaining 11 groups contributed positively, implying that inflationary pressures remain broad-based in November. Among them, food, once again, turned out to be the biggest contributor with a 152bp addition to the headline, driven by both processed and unprocessed foods. Among others, impacts from housing (reflecting a high rent increase as well as a water fee hike), household equipment (attributable to white goods and furniture), transportation (due to higher energy prices and adjustments in transportation services) and catering (reflecting sharp food price increases) floated in the 20-30bp range last month. As a result, goods inflation slightly moderated to 93.0%, while annual inflation in services maintained an increase and stood at 60.7%, at the peak of the current inflation series.

## Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, while annual inflation fell in November, inflationary pressures still remain broad-based as all CPI categories except clothing have contributed positively to the increase in inflation. As widely expected, annual inflation is likely to decline to around 70% at year-end and 50% in May 2023 mainly due to strong base effects and stability in the currency.

However, risks to the outlook next year are on the upside given a deterioration in pricing behaviour, higher trend inflation and continued cost-push pressures. In this environment, the Central Bank of Turkey (CBT) is expected to keep interest rates low while focusing on selective credit policy and pursuing a "liratisation" strategy. The CBT's macro-prudential framework will likely strengthen this month with the release of the "2023 Monetary and Exchange Rate" document which is key for the macro and financial outlook in the near term.

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