

## Turkey: Second-highest January reading in current inflation series

While January inflation in Turkey significantly surprised on the upside, it is on a downward trend with large base effects that will likely contribute to further decline in the near term



Shoppers at a street market in Antalya, Turkey

January's inflation reading of 6.65% turned out to be the second-highest January reading in the current inflation series, which started in 2003, and was significantly higher than the market consensus of 3.8%. However, the annual figure maintained its downward trend, falling to 57.7% from 64.3% in December, attributable to large base effects. So, while pricing pressures showed some further strengthening, increases across all groups were lower than they were last year and therefore helped the drop in the headline figure. We will likely see further falls in the near term with the presence of large base effects if stability in the Lira continues.

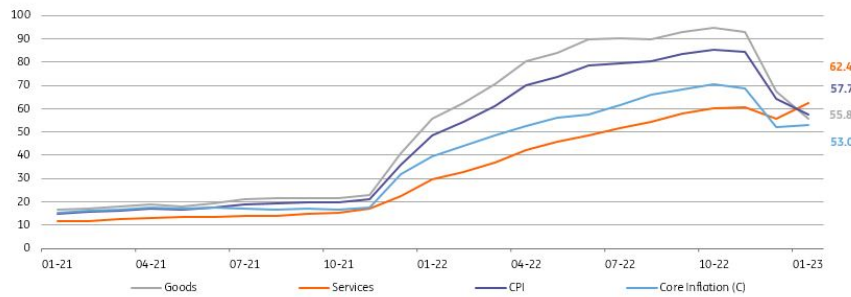
The underlying trend (as measured by the three-month moving average, annualised percentage change, based on seasonally-adjusted series) for goods inflation remained broadly unchanged in comparison to the previous month. However, the services group recorded a significant increase in annual inflation compared to the previous month, contributing to the deterioration in underlying trends of core and headline inflation in January.

PPI inflation recorded another sharp drop to 86.5% year-on-year, the lowest reading since the end

of 2021. While the base effects have been the main determinant, we also see support from price drops in oil and utilities. However, the monthly reading of 4.2% hints at an increase in cost-push pressures, also likely contributed by the adjustment in the minimum wage.

## Annual inflation (%)

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

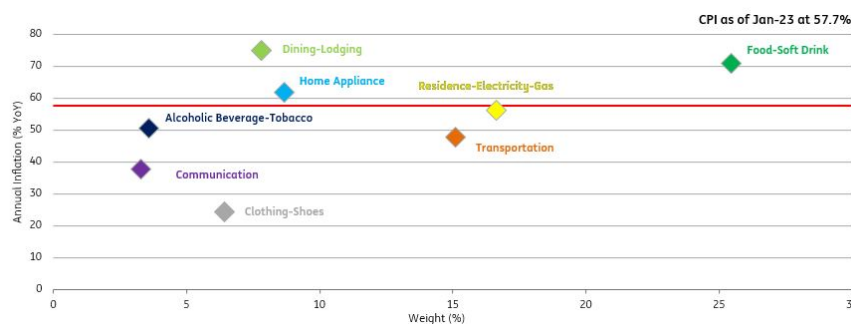


Source: TurkStat, ING

In the breakdown of the main expenditure groups, annual inflation in the heavy-weight food group declined driven by both processed and unprocessed food prices. However, the monthly figure almost doubled the long-term January average, pulling the headline up by 1.68ppt. Pressure in food prices and price adjustments at the start of the year caused a jump in catering prices, making it the second-biggest contributor with 1.00ppt. It is followed by transportation, given price adjustments in transportation services, automobiles and gasoline. However, the annual change in this group further declined to 47.7% from triple digits in November, showing the extent of base effects. With the exception of clothing and shoes, which recorded a price decline, all other groups showed strong increases, confirming the challenges to disinflation despite the Central Bank of Turkey's relatively optimistic forecast for this year of 22.3%. As a result, goods inflation moderated to 55.8% YoY, while annual inflation in services jumped to 62.4% YoY, which is the peak of the current inflation series driven in particular by rent and catering services.

Finally, the Turkish Statistical Institute made its usual revisions to the CPI basket by cutting the weights of transportation, alcoholic beverages and tobacco, communication, education and household equipment and adding housing, health and food. After these changes, the weight of the food group remained the highest at 25.43%, while housing stood at 16.6% followed by transportation at 15.1%, losing its place to housing this year.

## Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, annual inflation maintained its downtrend in January as expected, and is likely to decline further until May mainly due to strong base effects, albeit depending on the currency stability. However, given deeply negative real interest rates, further disinflation would 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 the still elevated level of cost-push pressures.

In the January Monetary Policy Committee (MPC) meeting, the removal of the forward guidance about “the current level of policy rate being adequate” attracted attention, while the central bank has recently introduced further macro-prudential moves with the objective of permanent “liratisation”. This week, President Erdogan’s statement that “...at the moment, we have an interest rate of 9% and we will lower it further...” will likely shift focus to the February MPC. In this environment, efforts to maintain TRY stability will continue.

## 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>.