

## Turkey's inflation rate shoots past 60%

March inflation data shows no respite with continuing broad-based pricing pressure. Upside risks remain. The Russian-Ukraine war continues to weigh on commodity prices, threatening further supply disruption



A shopper in Istanbul

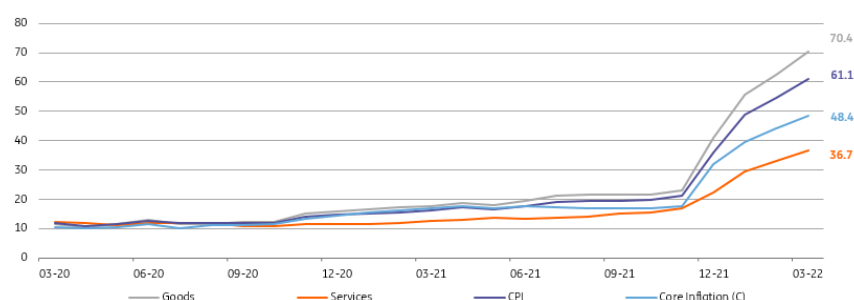
With strong and broad-based price pressures, March CPI inflation turned out to be another high figure at 5.5%, close to the market consensus of 5.7% (vs our call at 5%). Annual CPI inflation maintained its rapid uptrend, which has gone on since last October, reaching reached 61.1%, reflecting the impact of worsening inflation expectations, pass-through from currency weakness attributable to deep monetary easing delivered by the CBT, along with large administrative price hikes and pressures on global commodity prices.

For the core indicators, both B (excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C (excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) indices moved up further to 51.3% YoY and 48.4% YoY, respectively, standing at the record-high levels in the current inflation series. While the underlying trend for both indicators shows a retreat in March, it remains highly elevated, confirming a need for policy reversal towards a more restrictive stance.

On the PPI side, the annual change stood at 115%. That shows the strength of cost-led inflationary pressures which could further weigh on the CPI outlook in the coming months.

## Evolution of Annual Inflation (%)

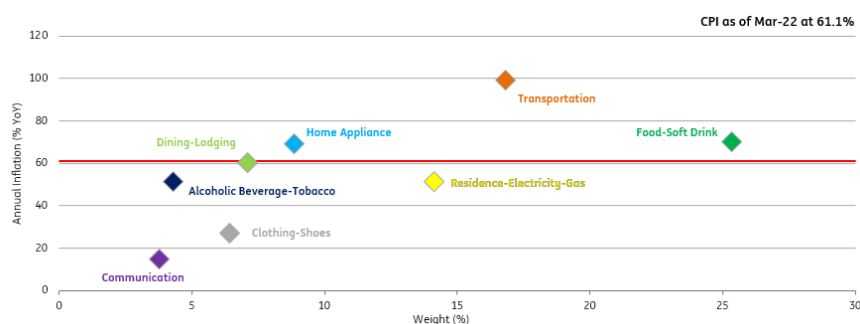
(Core = CPI excluding energy, food & drinks, alcoholic beverages, tobacco, gold)



Source: TurkStat, ING

In the breakdown of the CPI, goods inflation exceeded 70% given the spike in energy inflation, continuing upside pressures on food and core goods (except clothing). Particularly energy inflation is now at triple digits reflecting the impact of exchange rate developments and higher energy prices along with pricing pressures on other imported commodities. Accordingly, transportation turned out to be one of the major contributors to the headline in March given adjustments in gasoline and LPG prices while we also see hikes in automobile prices. Food, on the other hand, was the key contributor with annual inflation in this group now at 70.3%. As for services, annual inflation is at the highest in the current 2003=100 series with 36.7% on the back of catering and transportation services.

## Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, March inflation showed no respite with continuing broad-based pricing pressures, while upside risks remain at the forefront with the Ukraine war weighing on commodity prices risking the continuation of supply disruptions. On the flip side, easing demand with weakening purchasing power in the face of higher inflation and fragile sentiment impacted by escalating geopolitical risks should limit the upside pressures in the near term. Given the increasing and rapid FX pass-through observed in recent months, currency moves will also be key to the inflation outlook. We expect 45% for this year though risks continue to lie significantly to the upside.

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