

## Turkey: Annual inflation flat in August

Despite higher transportation and food inflation, the overall annual reading was flat in August - also reflecting some favorable base effects. Exchange rate developments that are key to the inflation outlook will likely determine CBT behavior in the period ahead.



Shoppers in Istanbul

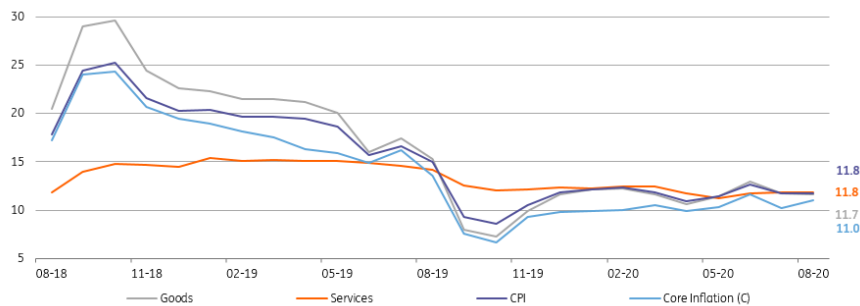
August inflation at 0.9% turned out to be in line with market consensus, keeping the annual figure at 11.8%. However, annual core inflation recorded an increase to 11.0% - likely reflecting the impact of exchange rate developments on energy, durables and other core goods.

In the breakdown, we see (1) flat annual goods inflation at 11.7% as benign clothing prices and favorable base effects associated with tobacco prices were offset by higher energy, core goods and food inflation, and (2) services inflation that has been in check since February remained flat at 11.8% - reflecting relatively moderate rent inflation. Catering services recorded an increase, likely reflecting the start of social life with easing pandemic restrictions.

The Domestic Producer Price Index (D-PPI) that has been on a rapid uptrend reached 11.5% in August, from 5.5% in May. This highlights the impact of the small base of the previous year and of the weak currency. The data implies higher producer-price-driven cost effects on the inflation outlook.

## Inflation Outlook (%)

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

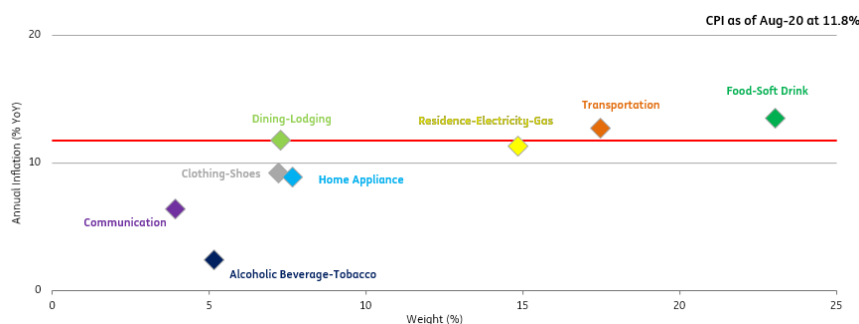


Source: TurkStat, ING

For the main expenditure groups:

- Other goods and services was impacted by the uptrend in gold prices and these turned out to be the biggest contributor to the headline with 30bp - raising group inflation even higher, to 27% on an annual basis.
- Transportation, on the other hand, pulled the monthly reading up by 24bp, driven by higher motor vehicle and fuel prices. As a result, inflation in this group jumped to 12.7% from a relatively low 8.8%.
- On the flipside, clothing provided a -13bp effect, though the seasonal impact remained below the long term average.
- Another negative contributor was food with, -2bp, though owing to a pick-up in unprocessed food, food inflation recorded an increase to 13.5%.
- Among other groups, contributions to the headline floated in a 1-to-14bp range, showing relatively broad based price increases last month.

## Annual inflation in Expenditure Groups



Source: TurkStat, ING

Overall, and despite rising transportation and food inflation, the annual reading remained flat in August and also reflected supportive base effects. Despite the disinflationary impact of domestic demand compression, exchange rate developments and elevated services inflation being highly sticky at current levels point to continuing challenges for the outlook.

The CBT has maintained the gradual shift in its policy stance, with a tightening effective cost of funding through changing funding composition and hikes in TRY and FX reserve requirement ratios. These decisions together with the pace of tightening suggest that the CBT will continue to use a step-by-step approach. Exchange rate developments will likely determine the extent and pace, though recent stability in the currency may be a factor for the CBT to keep the effective cost of funding at current levels.

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