

## Turkish inflation remains flat in March

Inflation in Turkey was broadly in line with the market consensus at 1.03% in March, keeping the annual figure practically unchanged. Food, transportation and health prices were major drivers for the monthly reading.



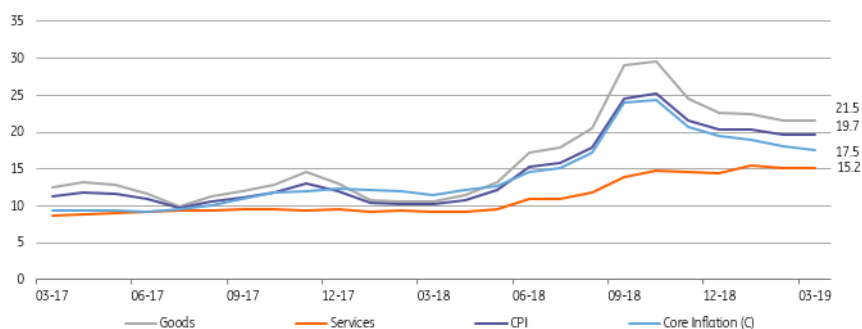
Source: Shutterstock

CPI inflation was broadly in line with the market consensus and came in at 1.03% for March, while the annual figure remained practically unchanged at 19.71% vs 19.67% a month ago.

Food, transportation and health prices were major drivers of the monthly reading. Accordingly, we saw flat annual goods inflation at 21.5% as a positive impact from another negative reading in core goods - the fifth in a row - was offset by food and especially energy inflation and marginal change in annual services inflation to 15.2% from 15.1%.

Annual core inflation stood at 17.5% last month vs 18.1% in February, as we saw a continuation of the downtrend, in place since October 2018. This downtrend reflects the impact of government actions, administrative price adjustments, FX pass-through running its course, tight policies and weakening domestic demand.

## Evolution of annual inflation (%)



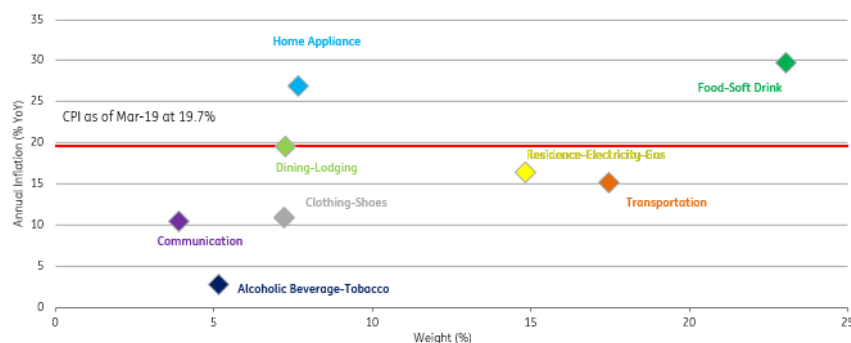
Source: CBT, ING Bank

On the other hand, the domestic producer price index (D-PPI), stood at 1.58%, keeping annual inflation unchanged at 29.6%. The monthly PPI reflects the impact of price changes in energy and commodity-related products. Given the downtrend since its peak at 46.2% YoY in September, we see improvement in producer-price-driven cost pressures on the back of exchange rate developments though still remaining elevated with cumulative effects realised in 2018.

The details show the food group recorded a 2.4% month on month change, higher than the average of March readings in the current inflation series at 1.4%. This likely reflects the continuation of pricing pressures in this group driven by fresh fruit and vegetable prices recording 70.7% YoY inflation in March, the highest in 2003=100 series.

Providing +60bp contribution to the headline, annual inflation in the food group stood at 29.8% last month from 29.3% in February. Among others, transportation followed with +12bp thanks to rising average energy prices last month. Finally, health lifted the headline by +9bp on the back of price adjustments in medicine by 14.1%, showing the lagged impact of last year's exchange rate developments in this government regulated product group.

## Contributions to annual inflation (ppt)



Source: CBT, ING Bank

Overall, March data kept the annual figure flat while core inflation maintained its downtrend. Last month, with rising financial stability, concerns the central bank tightened the liquidity policy by suspending the funding of the banking sector through the 1-week

repo rate (at 24.0%) and directing the ON lending (at 25.5%). The current effective cost of funding will likely remain in place until lira stability is fully restored.

So, in the period ahead, exchange rate developments will be watched to assess the inflation outlook, though the current economic backdrop with ongoing weakness in domestic demand will remain supportive. We shouldn't rule out likely impact from marked deterioration in pricing behaviour and inflation expectations. Due to supportive base effects, we continue to expect a pronounced drop in the second half of this year.

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