

## Turkey: CPI inflation markedly below consensus

May inflation maintained its uptrend with continuing broad-based pricing pressures mainly attributable to an accommodative monetary policy stance, while upside risks remain at the forefront with ongoing geopolitical issues and a less supportive global backdrop



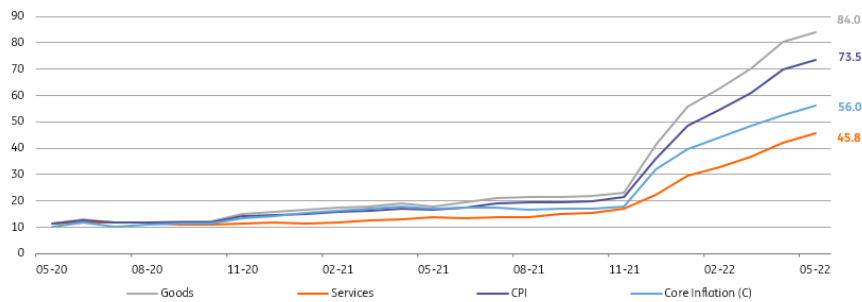
While market consensus for May inflation was 4.8% (vs our call of 3.9%), it turned out to be 2.98%, pulling the annual figure to its highest level in 24 years, at 73.5%. The pass-through from currency weakness – attributable to deep monetary easing delivered by the Central Bank of Turkey – plus worsening inflation expectations and external factors weighing on import prices, particularly global energy prices, are responsible for the rapid uptrend in the headline reading since the last quarter of 2021.

For the core indicators, both B and C indices moved up further to 61.6% year-on-year and 56.0% YoY, respectively. While standing at record-high levels in the current inflation series, the underlying trend for both indicators showed a retreat in May. However, it remained highly elevated. As inflation maintains its uptrend, the real policy rate drops further into negative territory given that the policy rate stands at 14% currently and inflation is above 70%, implying a need for policy reversal towards a more restrictive stance.

On the PPI side, the trend is still strong with an 8.8% month-on-month increase. Accordingly, annual change stood at 132.2% which shows the strength of cost-led inflationary pressures that could further weigh on the CPI outlook in the coming months. Given the possibility of higher energy prices, ongoing supply-side challenges, and currency-related uncertainties, risks are on the upside on this front too.

## Evolution of annual inflation (%)

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

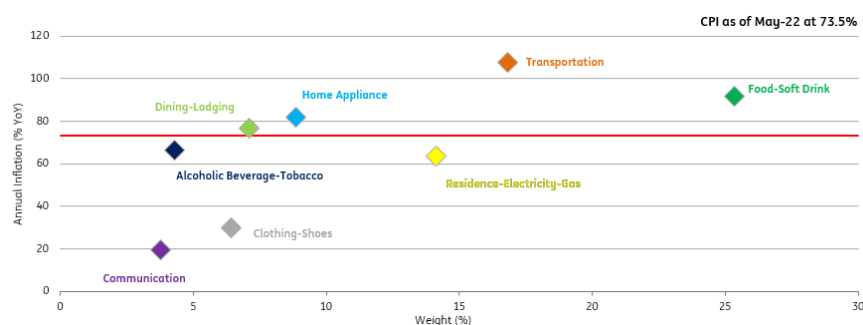


Source: TurkStat, ING

In May, the TurkStat ceased its average price data that was available as a time series for all items in the CPI basket. According to the institution, this is in line with EuroStat alignment actions so the data can be tracked in other regular CPI statistics. A breakdown of the main expenditure groups reveals that inflationary pressures remained broad-based. In particular, transportation turned out to be the biggest contributor with a 61bp addition to the headline and annual inflation at 107.6% due to higher motor vehicle and fuel prices. Food followed transportation with a 45bp contribution.

Among the remaining groups, catering services (impacted by higher food prices), alcoholic beverages and tobacco (due to tax adjustments), and home appliances were other groups that determined the monthly price changes. As a result, goods inflation hit 84% given the spike in energy inflation, continuing upside pressures on core goods, as well as alcoholic beverages and tobacco. Regarding services, annual inflation is at the highest level in the current 2003=100 series at 45.6% on the back of rent and catering services.

## Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, May inflation showed no respite with continuing broad-based pricing pressures mainly driven by an accommodative monetary policy stance, while upside risks remain at the forefront with ongoing geopolitical issues and a less supportive global backdrop that adds to challenges to the currency outlook. Given the increasing and rapid FX pass-through observed in recent months, currency moves will be key for inflation. On the flip side, easing demand with weakening purchasing power in the face of higher inflation and fragile sentiment should ease the upside pressures to some extent.

## Author

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

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