

Turkey: Inflation remains on an upward path

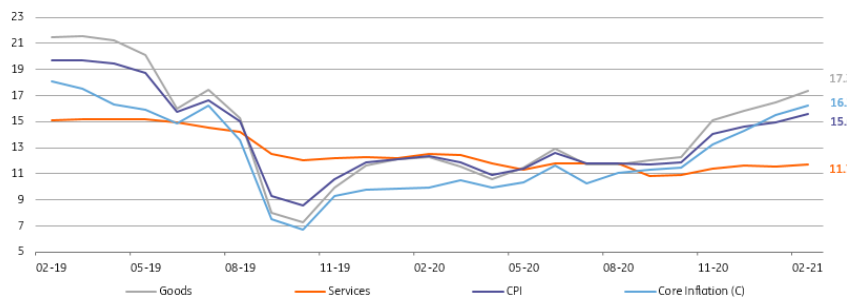
Turkish inflation maintained its uptrend in February reflecting still strong cost-push factors, sticky services inflation, and elevated inflation expectations



Source: Flickr

Evolution of Annual Inflation (%)

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



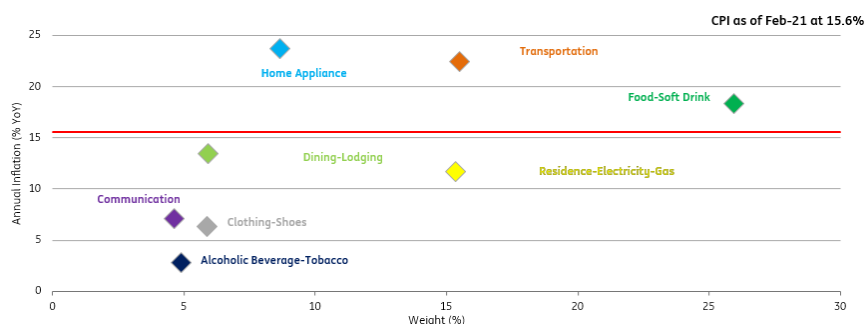
Source: TurkStat, ING

With another higher than expected reading of 0.91%, annual CPI inflation in February maintained its uptrend, reaching 15.6% (consensus: 15.4% and our call: 15.2%) from 15.0% a month ago. The latest data, which includes a further rise in the core rate to 16.2%, confirms that the inflation dynamics affected by demand conditions, elevated services inflation, the recent uptrend in commodity prices and supply constraints during the pandemic, remain challenging.

In the breakdown, we see 1) goods inflation at 17.3%, the highest since mid-2019, up from 16.5% a month ago attributable especially to processed food and clothing along with base effects from the last year 2) services inflation inching up further to 11.7%, driven by rent as well as catering and transportation services.

The Domestic Producer Price Index (D-PPI) exceeded 27% having seen a sharp uptrend since last May on the back of exchange rate developments but also recent pressure on commodity prices and strong base effects. The outlook indicates significant producer price-driven cost pressures on the inflation outlook.

Annual inflation in Expenditure Groups



Source: TurkStat, ING

Regarding the main expenditure groups:

- Food has remained the biggest contributor to the headline rate, adding 67bp, due to processed foods - the monthly reading in this group was the highest February figure in the current inflation series. This is attributable to ongoing increases in global food prices despite TRY appreciation mitigating some of the adverse effects. Unprocessed foods, on the other hand, were relatively benign, at close to the February average in the past. Accordingly, we saw an increase in annual inflation in this group to 18.4% (vs the Central Bank of Turkey's 11.5% call for end-2021).
- The second highest contributor was health, adding 10bp, on the back of exchange rate adjustments in the pricing of medicines.
- The monthly contribution from housing of 9bp was due to rent, and hikes in water fees was another driver of February inflation. Restaurants-hotels added 8bp due to catering services and the increases in food prices.
- On the flip side, clothing prices dragged down the headline rate by 5bp, reflecting seasonal patterns, though the supportive impact was more subdued this year.

Overall, the higher-than-expected change in inflation last month and continuing pricing pressures reflect still strong cost-push factors, sticky services inflation, and elevated

inflation expectations. Inflation will likely peak in April though upside risks continue given the likely recovery in demand conditions in certain groups, the impact of rising international commodity prices, the possibility of tax adjustments and still high inflation expectations.

Given this backdrop, the CBT will remain cautious in the near term given not only inflationary pressures, but also concern about the level and composition of reserves, high dollarisation and the need to maintain capital flows.

Author

Muhammet Mercan

Chief Economist, Turkey

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>.