

## Turkey: Inflation rises, but surprises to the downside

February data shows a moderate increase in annual inflation with supportive energy and tobacco prices despite higher food inflation and recent weakness in the lira



Source: Shutterstock

**12.4%** February inflation  
(YoY)

Lower than expected

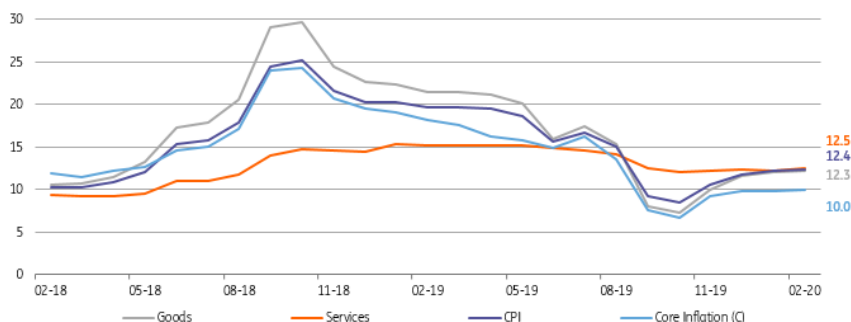
Turkey's inflation in February came in better-than-expected at 0.35% vs market consensus at 0.65% (and our call of 0.5%), pulling the annual figure up to 12.37% from 12.15% a month ago.

The breakdown shows a modest increase in annual goods inflation to 12.3% driven by food prices, while energy and core goods pulled the headline down with price declines last month. Services inflation remained elevated at 12.5% and recorded an increase over January attributable to price

changes in rent and transportation services.

Annual core inflation that changed direction in November and has been increasing since then went further up in February to 10.0%, though the monthly figure was benign at -0.2%, and broadly in line with the long term average.

## Annual Inflation (%)



Source: TurkStat, ING

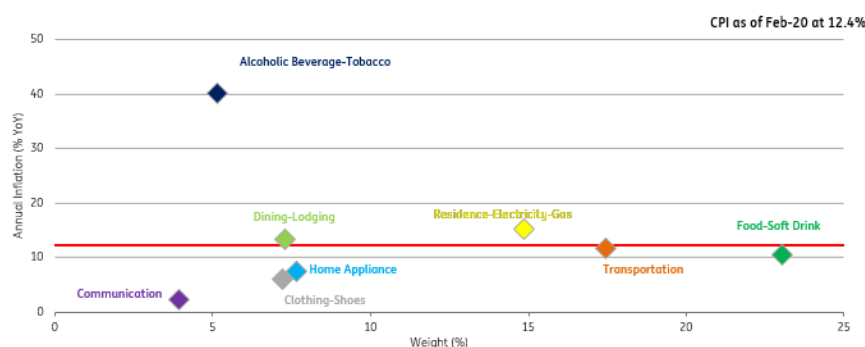
The domestic producer price index (D-PPI) has maintained the upwards trend that started in the last November and went up to 9.3% from 8.8% a month ago. The rapid increase in recent months is attributable to large negative base effects, though producer-price-driven cost pressures have remained manageable given price declines in energy and related products.

Regarding the main expenditure groups, among the positive drivers, food group stood out as the major driver lifting the headline by 54bp, returning to double digits at 10.6%. The details show that unprocessed food, recording a price increase more than long-term February average was the major contributor, while processed food inflation maintained uptrend since October and recorded a 16.6% annual change.

Among the negative drivers, clothing dragged the headline by -31bp, thanks to seasonal factors, though the extent of the seasonality effect was somewhat lower vs previous years. We also see the impact of lower energy prices on transportation group with -6bp contribution despite the sensitivity of the group on the exchange rate movements.

Finally, alcoholic beverages and tobacco group cut the headline by -8bp thanks to downward price adjustments in cigarettes. However annual inflation in this group is the highest, at 40.2%.

## Annual inflation in Expenditure Groups



Source: TurkStat, ING

Overall, we see a moderate increase in February inflation with supportive energy and tobacco prices despite higher food prices and recent weakness in the lira.

Going forward, exchange rate performance will remain a key variable for the inflation outlook along with the evolution of food inflation that was one of the major drivers of the disinflation process last year. Impact of February price data on the central bank's policy stance will be limited.

The Bank will likely be more cautious in the near term on the back of the nervousness in global financial markets regarding coronavirus, rapidly increasing geopolitical risks in addition to stickier inflation readings and the low real rate buffer.

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