

## Turkey: No respite for inflation as it reaches 54.4%

While the February inflation has remained on a rapid uptrend with a broad-based deterioration in pricing behaviour, upside risks remain at the forefront with the Russian and Ukraine conflict and likely spillovers



Inflation in Turkey rose to 68.5% year-on-year in March

# 54.4%

CPI Inflation

(as of February, YoY%)

Higher than expected

Turkey's annual CPI inflation rose to 54.4% in February, the highest in 20 years, after another higher-than-expected monthly rise of 4.8%. Inflation in the last three months, however, stood at 36.9%, reflecting the impact of worsening inflation expectations, pass-through from currency weakness in the last quarter of 2021 which can be attributed to deep monetary easing delivered by the Central Bank of the Republic of Turkey (CBT), along with large administrative price hikes. Following these developments, trend inflation which was previously in the high single digits is now estimated to be around 20%, confirming the need for policy reversal

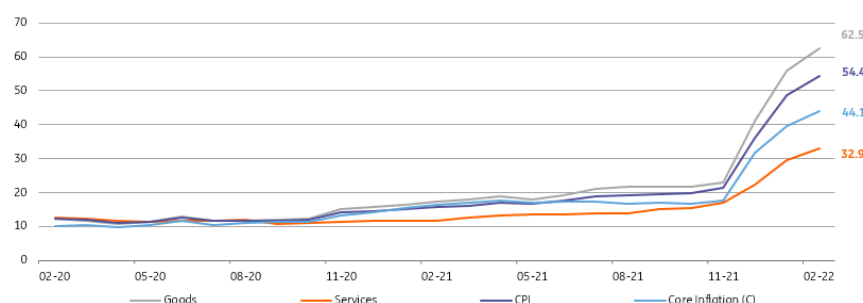
towards a more restrictive stance.

For the core indicators, both B (excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C (excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) indices moved up further to 47.0% year-on-year and 44.1% year-on-year, respectively, while the underlying trend for both indicators has remained elevated at record high levels.

The February Domestic Producer Price Index (D-PPI), on the other hand, is now at triple digits at 105.0%, the highest in almost three decades, reflecting a spike in cost-push pressures given wage adjustments, FX volatility in late 2021, and rising commodity prices, particularly energy.

## Evolution of Annual Inflation (%)

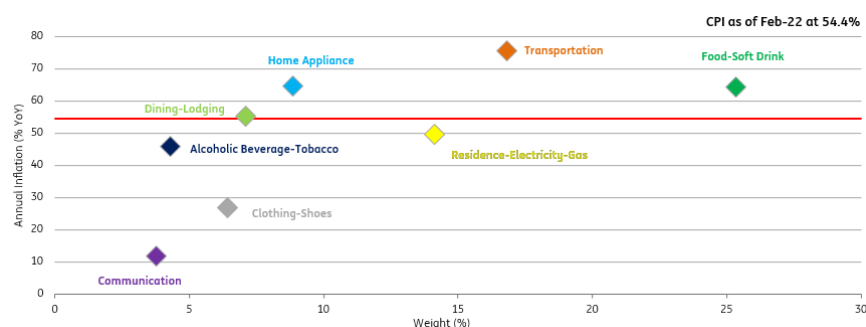
(Core = CPI excluding energy, food & drinks, alcoholic beverages, tobacco, gold)



Source: CBT, ING

In the breakdown of the CPI, goods inflation reached 62.5% given the continuing impact of exchange rate developments and higher energy prices, along with pricing pressures on other imported commodities. In this group, food turned out to be the biggest contributor to the monthly figure by 2.13ppt despite the VAT cut in certain food products from 8% to 1%, introduced in the middle of the month. Transportation ranked second with a 77bp impact given adjustments in gasoline and liquefied petroleum gas prices, while we also saw hikes on transportation services. Home appliances followed, pulling the headline figure up by 63bp with group-wide price increases. Among others, utilities and catering services provided a 23bp and 32bp lift to the monthly reading reflecting electricity price adjustments and the impact of food price pressures. Accordingly, services inflation reached 32.4%, the highest in the current 2003=100 series.

## Annual inflation in Expenditure Groups



Source: CBT, ING

Overall, while the February inflation has maintained its rapid uptrend with a broad-based deterioration in pricing behaviour, upside risks remain at the forefront with the Russian and Ukraine conflict and likely spillovers. Given this backdrop, escalating geopolitical risks support views for further inflationary challenges and widening external imbalances for Turkey via agricultural products and energy, either with price effects or possible trade drags with these countries.

## Author

### Muhammet Mercan

Chief Economist, Turkey

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