

Turkey sees record high CPI inflation in July

With a near double-digit monthly increase, annual inflation jumped again in July, ending a deceleration phase which started in October



Prices are rising quickly again throughout Turkey

9.5%

Turkey CPI inflation in July

47.8% annual jump

Higher than expected

Turkey's CPI inflation rate jumped to 9.49% in July against a consensus of 9.1%. It's the highest July figure since the current series began in 2003. Annually, consumer prices have jumped to 47.8% from 38.2% a month ago, marking the first increase since October. That's despite supportive base effects, as the monthly inflation was much higher than the long-term average of previous July readings. With the July data, cumulative inflation in the first seven months of this year reached 31.1% (vs 58% CBT forecast for the whole year in the latest inflation report).

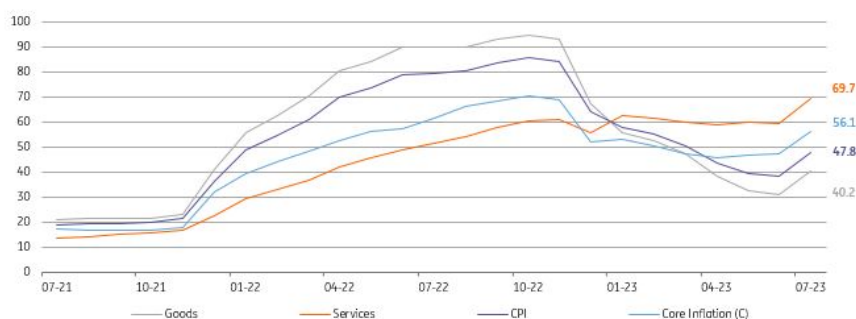
Core inflation (CPI-C) came in at 9.61% MoM, rising to 56.1% on an annual basis. After prolonged

support from major inflation drivers to core inflation indicators, FX passthrough with the recent currency weakness has started impacting the inflation outlook again, along with large tax and administrative price adjustments. Durable goods prices rose by 12.5% MoM, while core goods inflation increased to 44.3% YoY. Accordingly, the underlying trend (as measured by 3M-MA, annualised percentage change, based on seasonally adjusted series) for all inflation indicators markedly rose compared to the previous month.

After a sharp increase in June, PPI showed a further acceleration in July, with a monthly reading of 8.2%, reflecting the impact of exchange rate volatility and higher commodity prices. The data imply that cost pressures have been accelerating again, and companies are able to pass these pressures to consumers, given that domestic demand is still strong.

Inflation outlook (%)

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

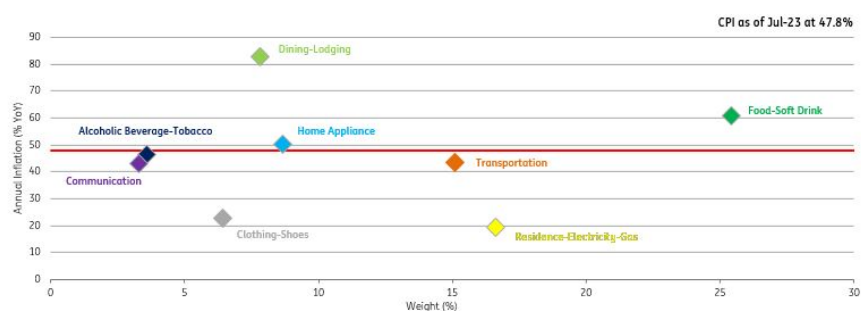


Source: TurkStat, ING

Breaking it all down, all main expenditure groups positively impacted the headline numbers. Among them, transportation was the major contributor, with 2.77 percentage points attributable to weaker TRY, higher oil prices and the government's large SCT adjustment on gasoline. This was followed by food with 2.1ppt driven by both processed and unprocessed food products. Among non-food groups, double-digit hikes were recorded in health, transportation, restaurants & hotels and alcoholic beverages & tobacco. Significant price increases were observed in goods sensitive to exchange rate developments and domestic demand, including household textiles, appliances, and medical products.

As a result, goods inflation jumped to 40.2% YoY, while annual inflation in services stood at 69.7% YoY, reaching a new peak in the current inflation series as it was significantly affected by domestic demand and hence accelerated with across-the-board pricing pressures.

Annual inflation in expenditure groups



Source: TurkStat, ING

Overall, inflation has started rising again. This trend will likely continue until the second quarter of next year, given that all major inflation drivers are becoming less supportive with pressures from FX-related effects, administered prices and wages. The Central Bank of Turkey envisages a transition heading towards the disinflation and stabilisation period and expects inflation to peak at around 60% in the second quarter of 2024 and adopt a declining trend thereafter. In this environment, while the CBT has taken the initial steps towards normalisation in interest rates and exchange rate policy after the elections, the equilibrium point of exchange rates and interest rates will be key issues watched by the markets, along with the policy moves related to macro-prudential regulations and publicly determined prices.

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>.