

Inflation Pulse

# Türkiye | Steadily high inflation trend

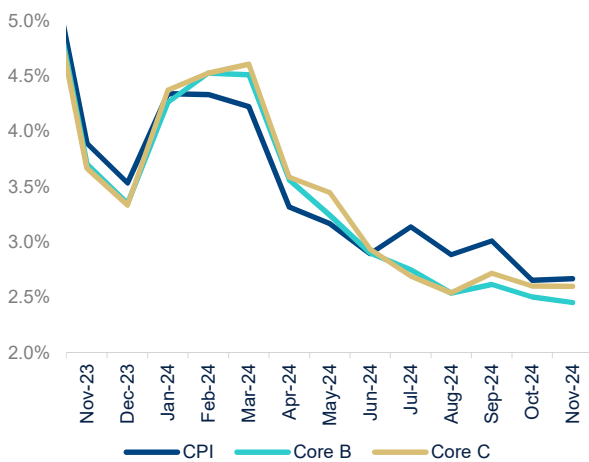
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3 December 2024

Consumer prices rose by 2.24% in November, higher than our expectation (1.9%) and consensus (2.0%). Annual consumer inflation declined to 47.09% (vs. 48.58% prev.) on the back of favorable base effects. Seasonally adjusted (s.a.) monthly consumer inflation deteriorated slightly on both core and food prices, according to our calculations. The monthly increase in basic goods inflation (s.a.) undermined the expected improvement in core inflation, while services inflation trend remained steady. Despite the real currency appreciation and the negative output gap, still robust inflation dynamics, particularly the upward trend in basic goods inflation, signaled that the monetary transmission mechanism is not functioning as expected on various reasons. Still unanchored inflation expectations despite some improvement recently, high inflation inertia, stronger demand conditions than supply, and current robust dynamics put uncertainty on the inflation outlook. Under these conditions, CBRT should remain prudent, while fiscal policy needs to support effectively the fight against inflation. We expect annual inflation to be around 45% by the end of the year and decrease to 26.5% at the end of 2025 on the assumption of more coordinated monetary and fiscal policies. Administrative prices adjustment, the revaluation rate (currently announced as 43.9%), and the minimum hike wage at the start of the year will be also key factors shaping the inflation path in near future.

## Core inflation rose due to basic goods, services inflation remained stable

Monthly headline inflation decreased to 2.24% (previously 2.88%), thanks to a decline in core inflation, although food inflation exerted upward pressure. However, according to our calculations, the seasonally adjusted (s.a.) monthly CPI inflation increased to 2.81% from 2.51%, keeping the underlying inflation trend (3-month average monthly inflation) stable at 2.67% (previously 2.66%). Seasonally adjusted data reveal that the deterioration in inflation was driven by both food and core inflation. Basic goods inflation (s.a.) climbed to 2% (previously 1.3%), while services inflation (s.a.) remained stable at 3.37%, pushing core C inflation (s.a.) higher to 2.68% from 2.33%.

Figure 1. CONSUMER INFLATION INDICATORS (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

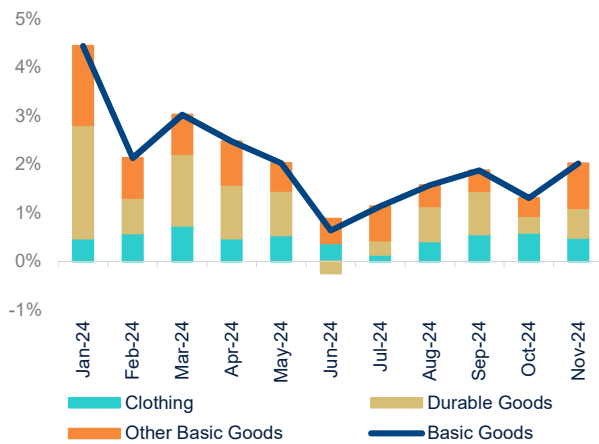
Figure 2. CORE C INFLATION INDICATORS (seasonal adj., monthly, 3-month average)



Source: Garanti BBVA Research, TURKSTAT

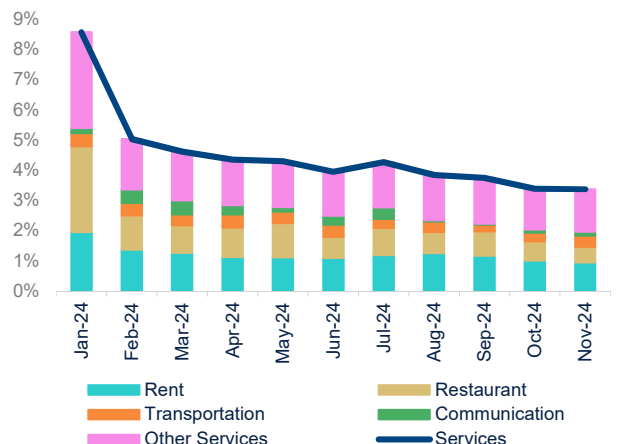
High inflation expectations on top of slowing but still resilient demand and real currency appreciation might have led the increase in basic goods inflation driven by durable goods (1.27% vs. 0.70% prev.) and other basic goods (3.08% vs. 1.24% prev.). The upward push stemming from the monthly increases in transportation, communication, and other services inflation on top of still high rent inflation has been compensated by the retreat in restaurant and accommodation inflation, led to a steady level of services inflation, indicating an ongoing robust inflation inertia.

Figure 3. **CONTRIBUTIONS TO BASIC GOODS INFLATION** (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 4. **CONTRIBUTIONS TO SERVICES INFLATION** (seasonal adj., monthly, pp)



Source: Garanti BBVA Research, TURKSTAT

Food and beverages inflation rose sharply to 8.07% (previously 5.49%), higher than our expectations, primarily driven by accelerating fresh fruit and vegetable price inflation (seasonally adjusted 15.51%, up from 12.95%). Unprocessed food inflation alone contributed nearly 1 percentage point to the seasonally adjusted CPI increase of 2.81%.

On the other hand, energy inflation remained weak thanks to supportive energy prices and stable exchange rate but weak water prices inflation in November indicated that the recent hike in İstanbul water prices (17.5%) could kick in December energy inflation. Overall, cost push factors weakened further as producer price inflation further slowed down to 0.66% m/m (vs. 1.29% prev.) which pinned the annual PPI inflation down to 29.47% y/y (vs. 32.24% y/y prev.). In particular, the deflation in electricity and gas prices was noteworthy with -3.6% m/m (-1.6% m/m prev.).

Figure 5. **CONSUMER PRICES HEAT MAP** (% , seasonal adj., 3 month moving avg.)\*

	Mean	2023												2024											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>CPI</b>	1.3	3.6	3.4	3.6	2.4	1.6	2.4	4.9	7.9	7.9	5.7	3.9	3.5	4.3	4.3	4.2	3.3	3.2	2.9	3.1	2.9	3.0	2.7	2.7	
<b>CORE-B</b>	1.3	4.1	3.9	3.8	2.6	2.8	3.2	5.3	7.3	7.5	5.6	3.7	3.3	4.3	4.5	4.5	3.6	3.2	2.9	2.7	2.5	2.6	2.5	2.5	
<b>CORE-C</b>	1.2	4.1	3.9	3.7	2.6	3.1	3.7	5.8	7.5	7.6	5.5	3.7	3.3	4.4	4.5	4.6	3.6	3.4	2.9	2.7	2.5	2.7	2.6	2.6	
<b>Goods Prices</b>	1.3	3.3	3.2	3.4	2.0	1.2	1.8	4.3	7.6	8.1	6.1	3.9	3.1	4.2	4.4	4.6	3.3	3.2	2.8	3.0	2.9	3.2	2.9	2.3	
<b>Energy</b>	1.3	0.3	0.0	0.9	-0.9	-8.2	-6.9	-1.3	10.4	10.3	7.2	5.8	5.4	6.3	3.9	3.5	1.4	2.1	2.1	5.4	6.1	5.8	2.9	0.9	
<b>Food and Non Alcoholic Bev Prices</b>	1.5	3.9	3.8	4.5	3.9	2.9	3.3	5.2	7.9	7.7	5.8	3.3	3.3	3.4	4.5	4.0	3.5	2.8	3.0	3.2	2.3	2.2	2.7	3.9	
<b>Unprocessed Food Prices</b>	1.6	3.5	3.8	5.3	5.3	4.5	5.7	7.8	9.6	8.4	5.7	2.6	3.1	2.9	4.5	4.0	3.6	3.3	3.2	3.5	1.9	2.3	3.4	6.4	
<b>Processed Food Prices</b>	1.4	4.3	3.8	3.9	2.6	1.5	1.3	3.0	6.3	7.1	5.9	3.9	3.4	3.8	4.5	4.1	3.5	2.3	2.8	3.0	2.5	2.2	2.1	1.8	
<b>Basic Goods Prices</b>	1.1	2.8	2.7	2.4	1.8	2.1	3.1	5.6	7.6	7.0	4.3	1.9	2.1	3.0	3.2	3.2	2.5	2.5	1.7	1.3	1.1	1.5	1.6	1.7	
<b>Clothing</b>	0.8	1.3	1.5	0.9	0.7	1.4	2.4	3.4	5.4	5.2	5.0	2.6	2.7	2.2	2.4	2.8	2.8	2.7	2.1	1.6	1.4	1.7	2.4	2.5	
<b>Durable Goods</b>	1.2	3.1	3.1	3.0	2.4	2.7	4.4	7.5	9.0	7.6	3.6	1.2	1.3	2.7	3.0	3.1	2.3	2.4	1.2	0.7	0.5	1.3	1.3	1.3	
<b>Other Basic Goods</b>	1.2	3.2	2.9	2.6	1.6	1.5	1.4	3.9	6.9	7.1	5.0	2.6	3.0	4.0	4.0	3.6	2.8	2.5	2.2	2.0	1.8	1.7	1.4	1.9	
<b>Services Prices</b>	1.3	5.5	5.1	5.1	3.4	4.0	4.3	6.1	7.3	8.2	6.7	5.5	4.6	5.8	5.9	6.1	4.7	4.4	4.2	4.2	4.0	3.9	3.7	3.5	
<b>Rent</b>	1.4	5.5	5.0	5.6	4.5	5.5	5.8	6.3	6.8	7.4	7.7	7.5	6.5	7.4	7.5	8.1	6.6	6.2	5.9	6.0	6.2	6.4	6.0	5.5	
<b>Restaurant</b>	1.6	6.5	6.2	6.1	3.3	4.3	4.4	7.4	7.9	8.2	5.6	4.3	4.1	6.3	6.5	6.3	3.9	3.9	3.6	3.6	3.0	3.1	2.8	2.5	
<b>Transportation Services</b>	1.4	3.5	3.3	3.2	3.0	3.0	3.0	4.1	10.6	11.8	11.4	5.0	4.0	4.0	4.1	4.1	4.1	4.0	4.1	3.6	3.5	2.9	2.9	3.0	
<b>Communication Services</b>	0.7	4.0	3.4	3.5	3.4	4.0	4.6	3.2	3.9	4.8	4.9	4.9	4.1	3.5	3.9	5.1	5.8	4.4	3.6	4.0	3.4	2.1	0.8	1.2	
<b>Other Services</b>	1.3	5.5	5.2	4.9	2.9	3.4	3.7	6.1	7.0	8.2	6.2	5.4	4.4	5.6	5.6	5.6	4.1	4.0	3.9	3.9	3.8	3.9	3.8	3.7	

Contraction    Slow-down    Growth    Boom

Source: TURKSTAT, Garanti BBVA Research, \*Mean and standard deviation based on data period from 2005-2024 realization so far.

As we highlight in our heat map above, the underlying inflation trend indicates a challenging outlook on the back of core prices unlike what the Central Bank (CBRT) had anticipated in the last Inflation Report of the year. Core inflation failed to show any improvement, remaining steady at 2.6%, which underscores persistent underlying inflationary pressures. The trend in basic goods inflation increased to 1.78% from 1.58%, despite a slight decrease in the services inflation trend to 3.50% (3.66% prev.), overall pointing to the continuation of distorted pricing behavior.

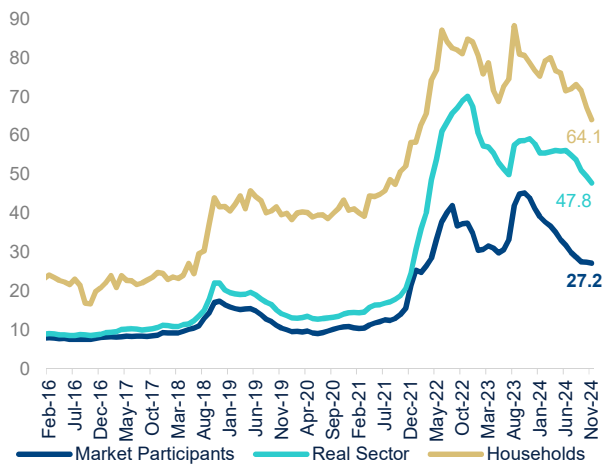
## More coordinated policy mix would be crucial for disinflation path in 2025

In the last inflation report of the year, the Central Bank (CBRT) revised its point interim targets for 2024 and 2025 year-end inflation up to 44% and 21% (38% vs. 14% prev.), respectively with upper bounds of 46% and 26% of the forecasted range, much closer to the market participants' expectations. Their revised projections have become more realistic but their communication still implied a less hawkish tone with softer negative output gap forecasts and stress on items out of the CBRT control as reasons of the recent upward CPI surprises. In November survey, professional forecasters' expectations for 2024 and 2025 year-end inflation inched upward to 44.81% and 26.22% (vs. 44.11% and 27.44%, previously). On the other hand, the real sector's and households' expectations for 12-month ahead inflation came down to 47.8% and 64.05%, respectively (49.50% and 67.23% previously) but still remained elevated compared to the CBRT targets.

The magnitude of the minimum wage hike, administrative price adjustments and the revaluation rate (currently determined as 43.93%) will be decisive on the inflation trend at the beginning of the year. Despite the negative output gap on top of tight financial conditions, demand conditions remain stronger than supply, posing upside risks on inflation. Last but not the least, steady services inflation also displays strong inertia on backward indexation. Considering these upside risk factors, we expect the CBRT to remain cautious by starting the easing cycle with a limited 100 bps cut in December and to follow very gradual cuts throughout 2025 via being data dependant. Besides, we expect fiscal policy to become supportive on fight against inflation with also a calibration to absorb the potential downside risks on growth due to mounting geopolitical tensions and heightening protectionism in economic policies.

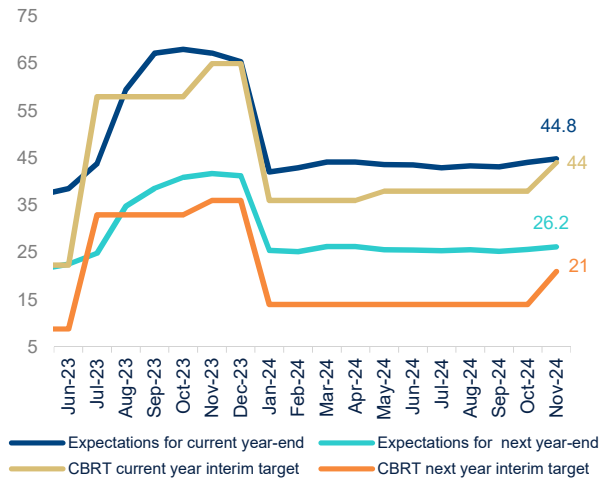
Considering November realizations, we evaluate the annual consumer inflation will likely materialize around 45%, slightly higher than our recently revised forecast of 44.5%. Under the assumption of a more coordinated policy mix, real currency appreciation and weakening backward indexation of the administrative price hikes, we expect consumer inflation to decline to 26.5% at the end of 2025.

Figure 6. **CBRT SECTORAL INFLATION EXPECTATIONS (% , 12 MONTH AHEAD, ANNUAL)**



Source: Garanti BBVA Research, CBRT

Figure 7. **CBRT MARKET PARTICIPANTS SURVEY INFLATION EXPECTATIONS (%)**



Source: Garanti BBVA Research, CBRT

Figure 8. **CPI SUBCOMPONENTS**

	MoM	YoY
<b>Total</b>	<b>2.24%</b>	<b>47.09%</b>
Food & Non-alcoholic beverages	5.1%	48.6%
Beverage & Tobacco	0.0%	39.3%
Clothing & Textile	-0.3%	31.4%
Housing	2.4%	74.5%
Household Equipment	2.8%	39.9%
Health	2.7%	52.8%
Transportation	0.3%	26.2%
Communication	1.9%	35.7%
Recreation & Culture	2.9%	42.8%
Education	0.0%	92.5%
Restaurants & Hotels	0.8%	59.4%
Misc. Goods & Services	1.3%	43.8%

Source: Garanti BBVA Research, TURKSTAT

Figure 9. **PPI SUBCOMPONENTS**

	MoM	YoY
<b>Total</b>	<b>0.66%</b>	<b>29.47%</b>
Mining & Quarrying	1.1%	38.0%
Manufacturing	1.1%	31.3%
Food Products	1.7%	39.6%
Textiles	0.3%	23.7%
Wearing Apparel	2.8%	44.0%
Coke & Petroleum Products	-0.4%	1.3%
Chemicals	0.9%	27.5%
Other Non-Metallic Mineral	0.6%	30.6%
Basic Metals	0.3%	23.9%
Metal Products	0.5%	29.0%
Electrical Equipment	0.8%	28.5%
Electricity, Gas, Steam	-3.6%	4.7%

Source: Garanti BBVA Research, TURKSTAT

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