

Turkey: November CPI realized as 21.3%

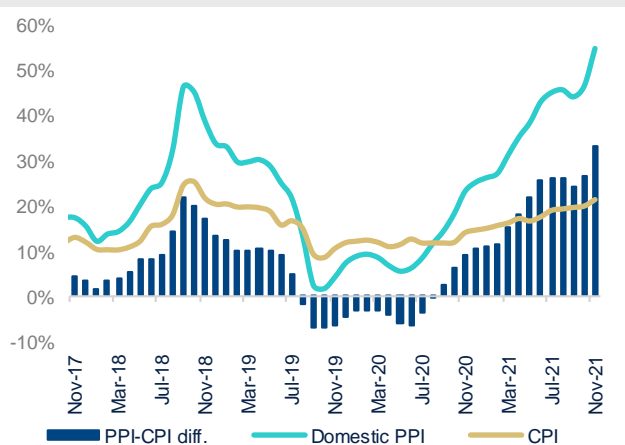
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3 December 2021

Consumer prices increased by 3.51% in November, being realized above expectations (BBVA Research 3.25%, Consensus 3.0%) and resulting in an annual inflation of 21.31% up from 19.89% the month before. Our main deviation was this time due to core prices inflation, which reflected faster than expected pass-thru from cost factors. Domestic producer prices significantly rose above expectations by 9.99% and 54.62% in annual terms, which will likely accelerate further due to energy price hikes and recent fast depreciation of the currency. Looking ahead, accelerating exchange rate pass-thru, continuing very high volatility in the currency, strengthening cost-push factors, high food inflation and growing pressures from imported inflation reinforce upside risks and uncertainty for the inflation outlook. Besides, domestic demand is accelerating on mainly consumption and inflation expectations keep significantly deteriorating. We expect consumer inflation to surprise on the upside in the coming months with levels likely getting close to 30% towards the end of 1Q22, which will be very challenging to keep the current loose stance.

Acceleration in cost push factors and core inflation led by currency depreciation

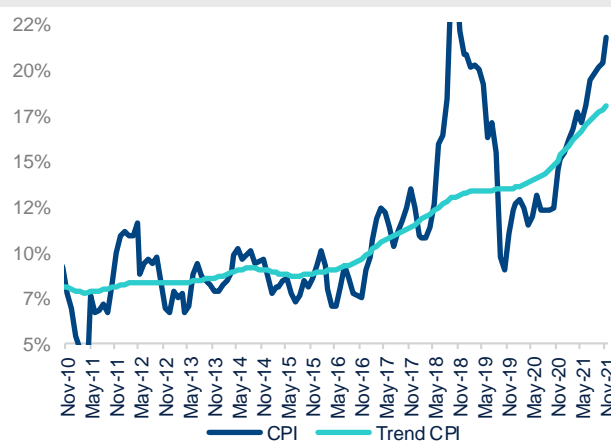
Food inflation remained elevated on the back of other unprocessed food (5.5% mom) and processed food (4.8% mom) price increases. However, annual food inflation still declined to 27.5% (prev. 27.9%) on supportive base effects. Energy prices continued to accelerate with 6% monthly increase on the back of currency depreciation and price hikes, resulting in an annual inflation of 32.1%. We would expect the continuation of this negative outlook on the energy prices given the further currency depreciation accompanied by new price hikes. Core prices accelerated as well mainly driven by the currency depreciation where core C prices increased by 2.8% mom and 17.6% yoy. The higher and faster exchange rate pass-thru impact in a period of significantly deteriorated inflation expectations will likely keep the uncertainty high and boost second-round effects on prices. Besides, cost push factors strengthen further as domestic producer prices rose by 10% mom, leading the annual PPI to 54.6%. We expect PPI to remain elevated, given the recent natural gas price hikes for the industry and expected further deterioration in energy prices and currency depreciation in the coming period. At this point, minimum wage hike for 2022 (being discussed at 35% for now) will be critical to understand the overall impact. Inflation expectations keep worsening as 12-month CPI and 24-month ahead expectations reached 15.6% and 11.8%, respectively, which will likely lead to a reinforced inertia. All in all, high currency depreciation, strengthening cost push factors accompanied with high demand and worsening expectations (also supported by the recent acceleration in credit growth and brought-forward demand), and continuing supply side problems risks remain clearly on the upside for inflation outlook.

Figure 1. CPI vs Domestic PPI, YoY



Source: Garanti BBVA Research, Turkstat

Figure 2. CPI & Trend CPI, YoY

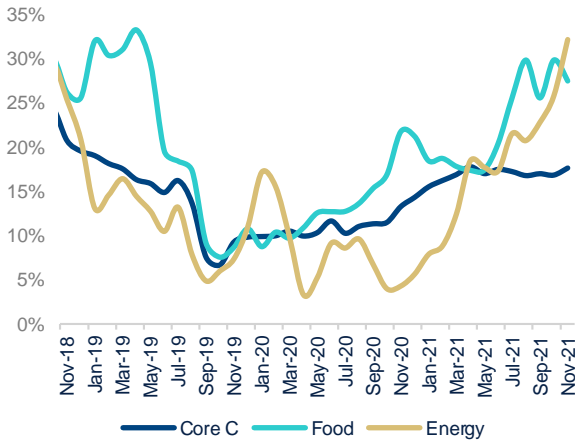


Source: Garanti BBVA Research, Turkstat

A clear worsening and growing uncertainty for inflation outlook

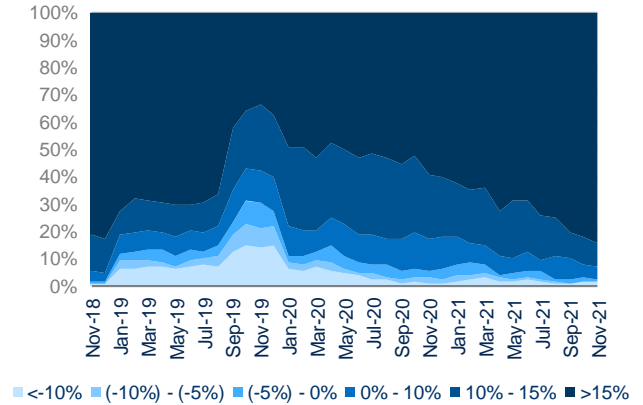
Given the increased volatility, inflation will likely experience levels close to 30% in next months, becoming challenging to keep loose policies when the global yields are rising. The CBRT still signals to deliver a rate cut in December but then to wait in order to see the cumulative effects of the current rate cuts in the first half of 2022.

Figure 3. **CPI Components, YoY**



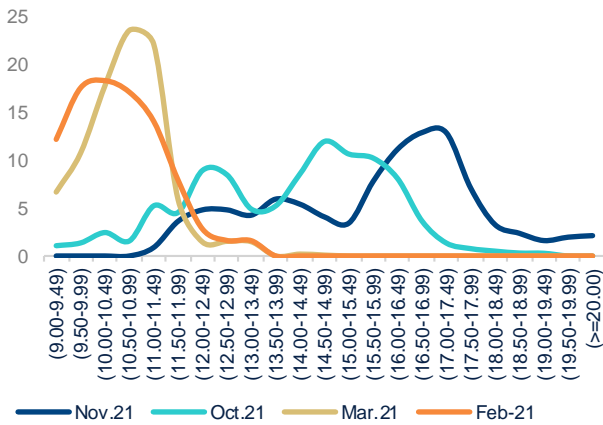
Source: Garanti BBVA Research BVAR Inflation Model, Turkstat

Figure 4. **Consumer Inflation Diffusion Map, YoY**



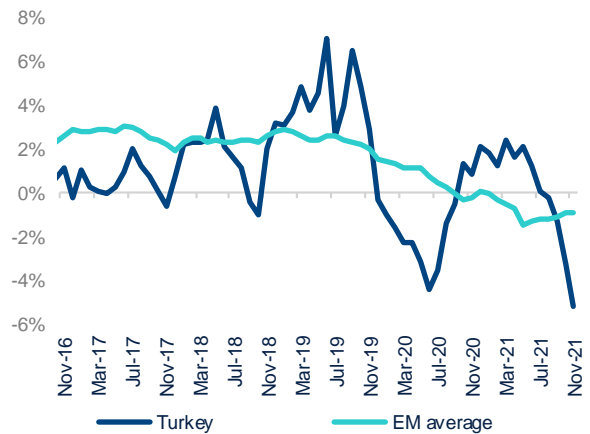
Source: Garanti BBVA Research, Turkstat

Figure 5. **Probability Distribution of 12-month ahead CPI Expectations (%)**



Source: Garanti BBVA Research, Turkstat

Figure 6. **Ex Post Real Policy Interest Rate**



Source: Garanti BBVA Research, Turkstat, Bloomberg, *EM corresponds to Brazil, India, Mexico, Indonesia, South Africa, Russia and Colombia

Figure 7. **CPI in Subcomponents**

	MoM	YoY
Total	3.51%	21.31%
Food & Non-alcoholic beverages	3.9%	27.1%
Beverage & Tobacco	0.0%	7.9%
Clothing & Textile	1.7%	8.3%
Housing	3.1%	23.8%
Household Equipment	3.4%	25.1%
Health	0.9%	17.3%
Transportation	6.3%	22.7%
Communication	0.6%	5.8%
Recreation & Culture	2.3%	14.0%
Education	0.1%	17.0%
Restaurants & Hotels	4.1%	28.9%
Misc. Goods & Services	5.4%	18.4%

Source: Garanti BBVA Research, Turkstat

Figure 8. **Domestic PPI in Subcomponents**

	MoM	YoY
Total	9.99%	54.62%
Mining & Quarrying	11.6%	44.5%
Manufacturing	9.5%	53.2%
Food Products	7.8%	39.8%
Textiles	14.4%	54.0%
Wearing Apparel	3.8%	12.6%
Coke & Petroleum Products	12.3%	145.9%
Chemicals	14.1%	68.2%
Other Non-Metallic Mineral	7.7%	51.5%
Basic Metals	1.1%	97.1%
Metal Products	10.9%	46.4%
Electrical Equipment	9.1%	46.8%
Electricity, Gas, Steam	14.3%	72.4%

Source: Garanti BBVA Research, Turkstat

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