

03 Mar 2015

FLASH COMMENTARY

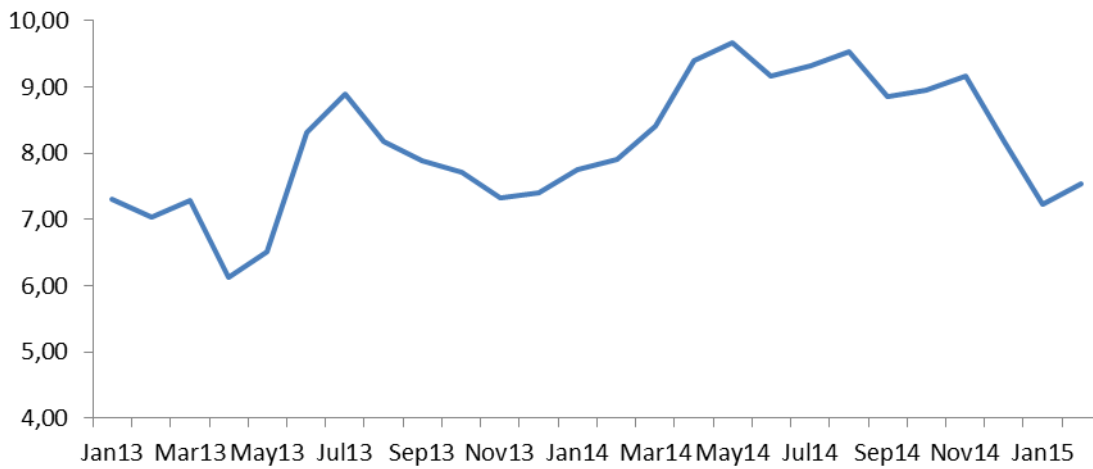
TURKEY - INFLATION

The inflation rate in Turkey came well above expectations and rose 0.71 per cent in February. The last figure brought the annual inflation up to 7.5 per cent on year-on-year basis from 7.2 per cent in January. We were expecting a monthly increase of 0.4 per cent in February. However, the Central Bank of Turkey (CBT) has warned last month about the high food prices effect in inflation. Despite ease monetary policy they expected high inflation in February because of the adverse effect of the food prices. Indeed, highest jump in prices was in food and non-alcoholic beverages with 2.6 per cent rise on month-on-month basis in February. Food and non-alcoholic beverages rose 13.7 per cent on a year-on-year basis.

Now that the annual inflation rose above 7.5 per cent, it will be hard for the CBT to attain its official inflation forecast band of 4.9 per cent-6.1 per cent. There are highly favorable base effects in March and April. The inflation could even fall below 6 per cent in the month of April because of the favorable base effect however this would not prevent inflation to rise above 7 per cent by the year end. We still expect an inflation figure above 7 per cent by year end. Please see graph below for the route of in annual inflation in the last years.

Inflation in Turkey:

Annual inflation in Turkey (%)



When we look at sub-items of the consumer price index we notice that main increase came from food prices. But on the other side, the transportation prices, which were declining since mid-2014, stepped up by 1.8 per cent month-on-month basis in February. In addition, the food services & restaurant prices are rising above 1 per cent since mid-2013 and we believe that the services prices are the main problem in the basket of the consumer prices index.

There was no market reaction to the monthly inflation data as expected.

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