Grant Thornton

IFRS Alert

Turkey should now be considered a hyperinflationary economy

April 2022 – IFRS Alert 2022-02

Executive Summary

Turkey has economic conditions that will now require reporting entities in that country to follow the requirements set out in IAS 29 'Financial Reporting in Hyperinflationary Economies'. Given this, we expect entities that have interim or annual reporting requirements at 30 June 2022 or thereafter to reflect this Standard in their financial statements.

The inclusion of Turkey means that at the date of issuing this publication there are now eleven countries around the world where IAS 29 should be applied, when entities are stating they are in full compliance with IFRS. These countries are: Argentina, Iran, Lebanon, South Sudan, Sudan, Suriname, Syria, Turkey, Venezuela, Yemen and Zimbabwe.

Requirements of IAS 29

IAS 29 requires the financial statements of any entity whose functional currency is the currency of a hyperinflationary economy to be restated for changes in the general purchasing power of that currency, so that the financial information provided is more meaningful.

Indicators of hyperinflation

The Standard lists factors that indicate an economy is hyperinflationary. One of the indicators of hyperinflation is if cumulative inflation over a three-year period approaches, or is in excess of, 100 per cent. This is often seen in practice as being a particularly significant indicator given that under US GAAP this threshold is considered a 'bright-line' in terms of whether an economy is hyperinflationary or not. While IAS 29 differs from US GAAP in referencing other indicators of hyperinflation, there is nevertheless a natural desire for a certain amount of consistency between IFRS and US GAAP in terms of which economies are considered hyperinflationary. The International Practices Task Force (IPTF) of the Centre for Audit Quality (CAQ) in the US independently determined last month that Turkey has hyperinflationary economy.

The mechanics of restatement

IAS 29 requires amounts in the statement of financial position that are not already expressed in terms of the measuring unit current at the end of the reporting period, are restated by applying a general price index. In summary:

- assets and liabilities linked by agreement to changes in prices, such as index linked bonds and loans, are adjusted in accordance with the agreement
- non-monetary items carried at current amounts at the end of the reporting period (such as net realisable value and fair value) are not restated
- all other non-monetary assets and liabilities are restated
- monetary items (ie money held and items to be received or paid in money) are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period, and
- all items in the statement of comprehensive income should be expressed using the measuring unit current at the end of the reporting period, so all amounts need to be restated from the dates when the items of income and expenditure were originally recorded in the financial statements.

Other important factors that should be taken into considerations when applying IAS 29

IAS 29 sets out specific requirements on how to restate prior period comparatives. It requires corresponding figures for the previous reporting period to be restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period.

IAS 29 may result in the creation of additional temporary differences under IAS 12 'Income Taxes'. This is because the restatement of items under IAS 29 will often lead to adjustments to the carrying amounts of items without corresponding changes to their tax bases. IAS 12 requires these adjustments to be recognized in profit or loss.

Impairment testing should also not be overlooked. IAS 29 requires any restated non-monetary items to be reduced when it exceeds its recoverable amount, even if those assets were not previously considered impaired under historical cost accounting. It will be important when preparing financial statements to consider whether the restatement of asset carrying values affects the results of impairment tests that were conducted in previous reporting periods, and whether there are any indicators of impairment for assets that were not tested for impairment in previous periods.

IFRIC decisions relating to hyperinflation

The IFRS Interpretations Committee (IFRIC) has recently considered a number of accounting issues in relation dealing with hyperinflation. These include:

- translating a hyperinflationary foreign operation and presenting exchange differences
- accounting for cumulative exchange differences before a foreign operation becomes hyperinflationary, and
- presenting comparative amounts when a foreign operation first comes hyperinflationary.

We encourage careful consideration of both these IAS 29 issues, and additionally an issue they are currently considering, which is the consolidation of a non hyperinflationary subsidiary by a hyperinflationary parent.

Our thoughts

IAS 29 is not a Standard that can be quickly implemented, particularly in group situations. Careful consideration needs to be given to the IFRIC guidance dealing with situations where there is a hyperinflationary parent that has subsidiaries who also report in a hyperinflationary currency versus situations where a non-hyperinflationary parent has subsidiaries that report in a hyperinflationary currency. IFRIC is also currently considering how a hyperinflationary parent with subsidiaries that do not report in a hyperinflationary currency should be accounted for given IAS 21 'The Effects of Changes in Foreign Exchange Rates'. This should also be taken into consideration.

Any reporting entity considering IAS 29 for the first time will need to adapt their existing accounting systems to be able to process the hyperinflationary adjustments. It is important they understand the mechanics of adjusting for hyperinflation so they can restate both current and comparative period amounts they need to disclose in their financial statements.

ENAGrup
Inflation Research Group

Homepage | Why Daily Inflation? | Methodology | Our Research and Projects | ENAGRUP Members | We In Press

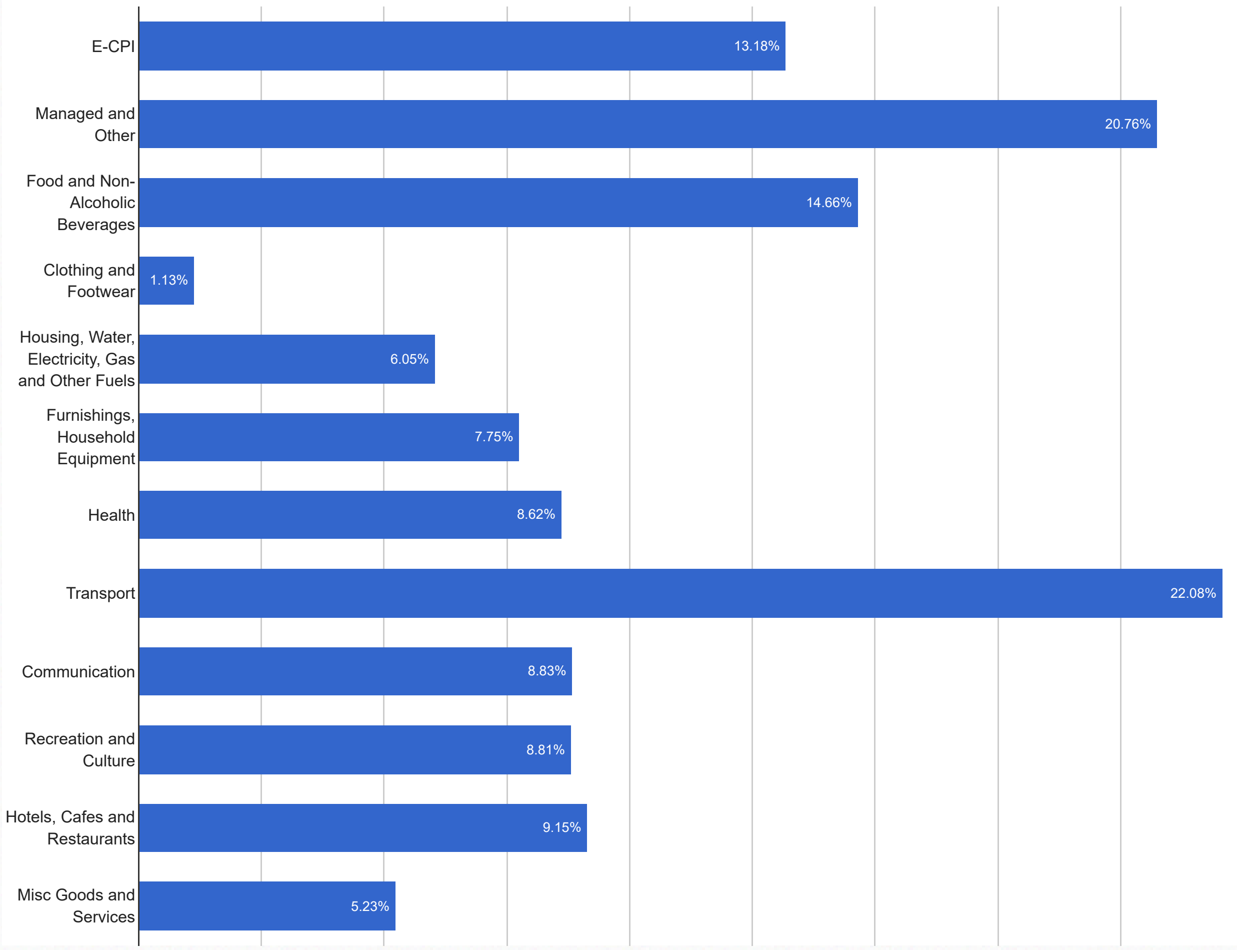
ENAGrup Consumer Price Index (E-CPI) July 2023:

ENAGrup Consumer Price Index increased by **%13.18** in July

For newsletter **click here.**

The last 12 months increase rate in ENAGrup Consumer Price Index (E-CPI) is %122.88.

ENAGrup Pandemic-Consumer Price Index (E-CPI) main spending group inflation rates (July 2023)



Tweets from @ENAGRUP

ENAG
@ENAGR... · Apr 14, 2022

ENAGrup bu sayfada ve her zaman enflasyon oranını halkımız ile paylaşacaktır.

Saygılarımızla.

417 33K

ENAG
@ENAGRUP · Aug 6, 2022

ENAG ailesi ODTÜ mezunlarına en içten sevgilerini iletir.

Ülkeniz için verimli nice güzel günlere!

Privacy Policy - Copyright Information - Legal Notice

ENAG

twitter : @enagrup
web : enagrup.org

ENAGroup – Inflation Research Group

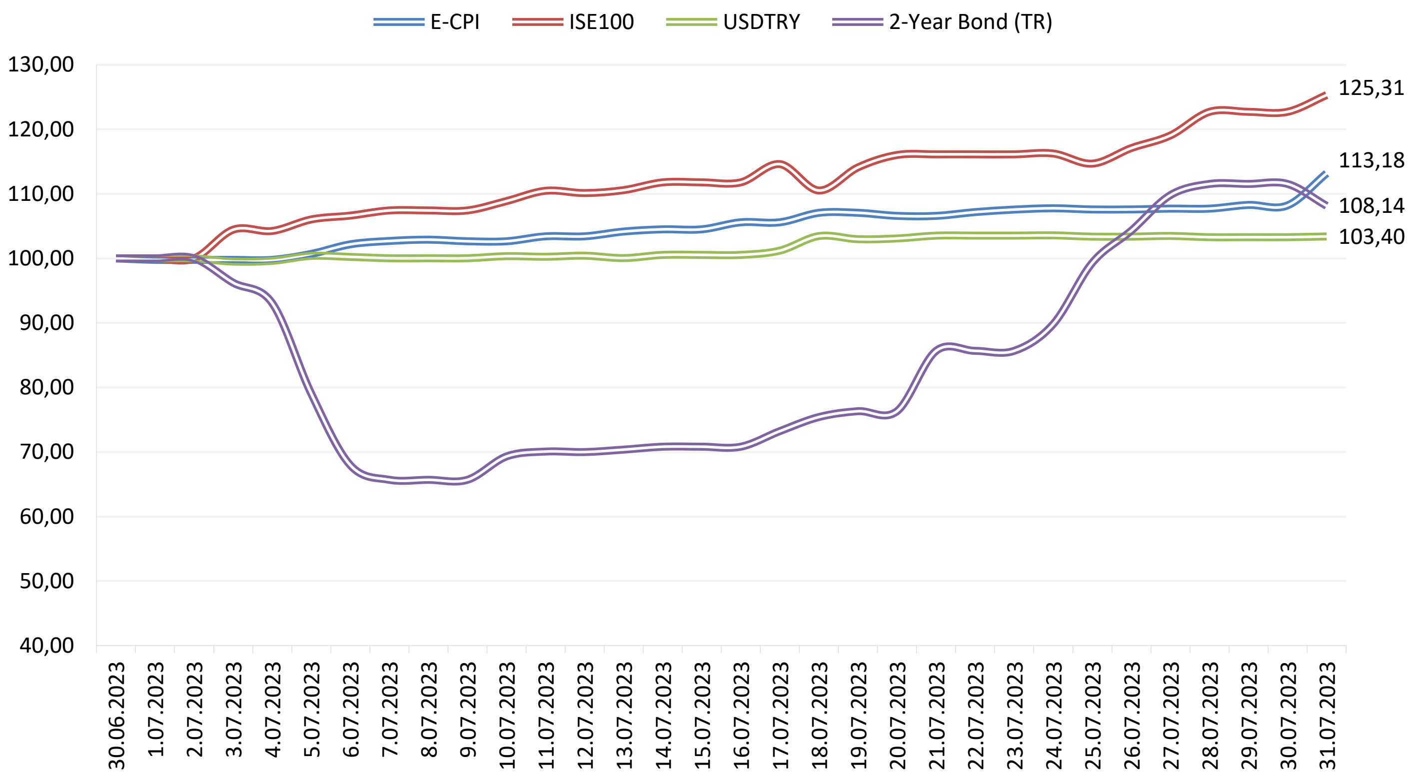
Monthly Inflation Bulletin August 3, 2023

E-CPI ENAGroup Consumer Price Index, July 2023

ENAGroup Consumer Prices rose by %13,18 in July

ENAGroup Consumer Price Index calculated using daily price data increased by %13,18 in July 2023 (from 30.06.2023 to 31.07.2023)

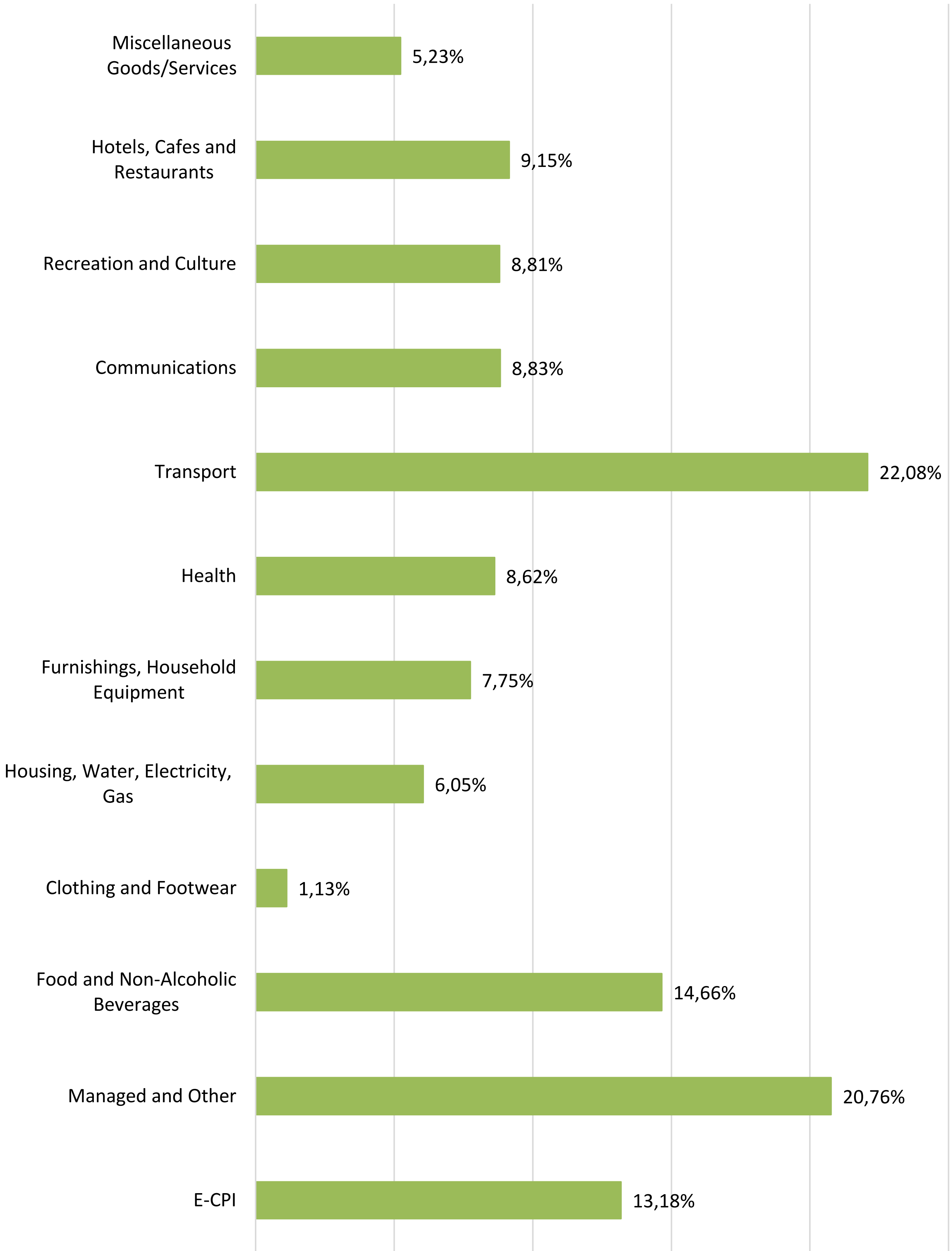
July 2023, The graph below shows that the pattern of E-CPI (**ENAGroup Consumer Price Index**), ISE100 (**Istanbul Stock Exchange**), USDTRY (**US Dollar-Turkish Lira Exchange Rate**), and T-Bond (**2-Year Turkish Treasury Bond**).



ENAGroup Consumer Price Index (E-CPI) and Inflation Rates of Sub-Consumption Bundles (Based on TURKSTAT Classification)

The graph below presents the inflation rates of sub-consumption bundles.

ENAGroup observes that the prices increase in bundles of Clothing and Footwear by %1,13. A sharp increase has been experienced in Transport by %22,08.


Miscellaneous Goods/Services
5,23%
Hotels, Cafes and Restaurants
9,15%
Recreation and Culture
8,81%
Communications
8,83%
Transport
22,08%
Health
8,62%
Furnishings, Household Equipment
7,75%
Housing, Water, Electricity, Gas
6,05%
Clothing and Footwear
1,13%
Food and Non-Alcoholic Beverages
14,66%
Managed and Other
20,76%
E-CPI
13,18%

ENAG

ENAGroup – Inflation Research Group

- Twitter : https://twitter.com/ENAGRUP
- Web : http://enagrup.org/

THE ECONOMIC TIMES | News
English Edition ▾ | Today's Paper

How did Erdogan held onto power in Turkiye despite worse economy, hyperinflation?

By Mehmet Ozalp, PTI • Last Updated: May 30, 2023, 01:56 PM IST

Synopsis
What is astonishing is how the majority of Turkish people elected Erdogan despite a worsening economy and now chronic hyperinflation that would likely bring down any government in a democratic country. So, how did Erdogan win the election and, more significantly, what is likely to happen in the country in the foreseeable future?


Turkey election: Recep Tayyip Erdogan wins another term as president

Recep Tayyib **Erdogan** will remain president of **Turkiye** for another five years after winning Sunday's run-off election over his long-time rival, Kemal Kilicdaroglu. If he serves the full five-year term, he will have held power for 26 years - almost the entire history of **Turkey** in the 21st century.

What is astonishing is how the majority of Turkish people elected Erdogan despite a worsening economy and now chronic **hyperinflation** that would likely bring down any government in a democratic country.

So, how did Erdogan win the election and, more significantly, what is likely to happen in the country in the foreseeable future?

The election was free in that political parties could put forth nominees on their own and carry out campaigns. Parties also had the right to have representatives in every polling station to ensure the votes were counted correctly. And voters were free to vote.

However, the election was far from fair.

First, a potential leading rival in the race, Ekrem Imamoglu, was sentenced in December to more than two years in prison on a charge of "insulting public figures".

Imamoglu, the popular mayor of Istanbul, dealt Erdogan's party a rare defeat in the 2019 Istanbul elections. Polls had shown he could win against Erdogan in the presidential election by a comfortable margin.

Some argue the court ruling was politically motivated. With Imamoglu out of the picture, the opposition had to coalesce behind Kilicdaroglu, the weakest of all possible high-profile candidates.

Erdogan also has an almost ubiquitous grip over the Turkish media, engineered through Fahrettin Altun, the head of media and communication at the presidential palace.

Turkish media are either directly owned by Erdogan's relatives, such as the popular Sabah newspaper managed by Sedat Albayrak, or controlled through managing editors appointed and monitored by Altun. Some independent internet news sites such as T24 practice self-censorship in order to remain operational.

With this massive media control, Erdogan and his men ensured he had the most television airtime.

Erdogan was depicted in the media as a world leader advancing Turkey by building airports, roads and bridges. He was put in front of dozens of journalists on TV, but all the questions were prepared in advance and Erdogan read his answers through a prompter.

Altun also orchestrated a massive smear campaign against Kilicdaroglu. The opposition leader received minimal airtime, and when he was in the media, he was depicted as an inept leader unfit to rule the country.

Altun not only controlled the conventional TV channels and print media, but also social media. On Twitter, a very influential platform in Turkey, Altun used bots and an army of paid trolls and influencers to seek to control the dialogue.

And it worked. Sufficient number of voters were swayed through confusion and fear that the country would be far worse if Kilicdaroglu was elected.

Lastly, there was the potential for fraud due to the non-transparent way the election results are processed. Once each ballot box is counted, the ballot and result sheet are transported by police in cities and the military in regional areas to the electoral commission. Both the police and military are under Erdogan's tight control.

The results are then reported only through the state-owned Anadolu Agency, while in the past they were reported by multiple independent agencies.

Even if no evidence of fraud emerges in this election, the spectre could put in doubt the integrity of the entire electoral process.

There are two other factors that were decisive in the elections.

The first is the support Erdogan received from Sinan Ogan, who was third in the first round of the presidential election two weeks ago, with 5.2 per cent of the votes. Erdogan persuaded Ogan to throw his support to him.

The second and most important factor was the way Erdogan was viewed in an almost mythical fashion by conservative and religious voters. For them, Erdogan is a religious hero and saviour.

The religious population in Turkey has long suffered persecution in the name of secularism. For them, Kilicdaroglu and his Republican People's Party symbolised that persecution.

Although Kilicdaroglu abandoned the party's previous strict secular policies, these voters never forgave it for preventing Muslim women from wearing the head scarf in educational and state institutions and keeping religion out of public life and politics for decades.

The conservative and religious right in Turkey sees Erdogan as a world leader and a hero who struggled against ill-intentioned forces, both internally and externally, to make Turkey great again.

Turkey desperately needed a change of government and a breath of fresh air. Now the social, political and economic suffocation is likely to get worse.

Erdogan had promised a Turkish revival by 2023, which is the 100th anniversary of the republic's founding. Turkiye was supposed to enter the top 10 economies in the world by then. However, Turkiye barely sits in the top 20, at 19th.

The economy has experienced a significant downturn in the past three years. The Turkish lira has plummeted in value, leading to a dollar-based economy.

But dollars are hard to come by. The **Turkish Central Bank** kept the economy afloat by emptying its reserves in the last few months for the elections. The Central Bank has been running a current account deficit of USD 8-10 billion dollars every month, and its reserves last week fell into the negative for the first time since 2002.

Now Erdogan has to find money. He will resort to high interest foreign loans and embark on a diplomatic spree of the oil-rich Muslim countries to draw some of their funds to Turkiye. The uncertainty around how successful these endeavours will be and their likely short-term gain may throw the Turkish economy into recession.

For the people of Turkiye, this could mean massive unemployment and a reduced cost of living. The inflation rate had reached a 24-year high of 85.5 per cent last year, and may go even higher, as the cash-strapped government continues to print digital money to pay for its large bureaucratic workforce.

On foreign policy, Erdogan will continue to try to become a regional power independent of NATO, the European Union and the US. He will likely continue to strengthen Turkiye's ties with Russian President Vladimir Putin, which has been a worry for Turkiye's Western allies.

This will be Erdogan's absolute last term in office, according to the Turkish constitution, and it could possibly be cut short.

The 69-year-old president has many health problems. He is becoming increasingly physically frail, finding it hard to walk, and his speech often slurs. In coming years, his health may get worse and he may have to hand over his presidency to a trusted deputy.

The other possibility is that potential leaders in his party could decide to carry out a party coup to topple Erdogan before his term is up, so they can garner public support ahead of the 2028 presidential election.

While there may be some political stability in post-election Turkiye for now, the country will be in economic, social and political turmoil for the foreseeable future.

(The writer is Associate Professor in Islamic Studies, Director of The Centre for Islamic Studies and Civilisation and Executive Member of Public and Contextual Theology, Charles Sturt University Melboune)
(This article is syndicated by PTI from The Conversation)

(Originally published on May 29, 2023)

In Video: **Turkey election: Recep Tayyip Erdogan wins another term as president**

WORLD ECONOMY

Turkey’s inflation rate cools despite steep lira plunge

PUBLISHED WED, JUL 5 2023•4:26 AM EDT UPDATED WED, JUL 5 2023•4:51 AM EDT

Lee Ying Shan
@LEEYINGSHAN

KEY POINTS

- Turkey’s consumer price index rose 3.92% month-on-month, official data showed Wednesday. The reading was lower than Reuters’ forecast of 4.84% and compares against a 0.04% increase in May.
- President Recep Tayyip Erdogan named former economy chief Mehmet Simsek as his new treasury and economy minister, who was known for his market friendly policies.

Ayhan Altun | Moment Open | Getty Images collapse of the lira currency following the re-election of President Recep Tayyip Erdogan.

Turkey's consumer price index rose 3.92% month-on-month, official data showed Wednesday. The reading was lower than Reuters' forecast of 4.84% and compares against a 0.04% increase in May.

The largest gains were attributed to tobacco and alcoholic beverage prices, which jumped 11.13%, while restaurant and hotel prices inched up 4.31%.

On a year-on-year basis, inflation rose 38.21%, also slightly lower than Reuters' forecasts of 39.47%.

While June was the eighth consecutive month of price growth deceleration, Conotoxia's Market Analyst Bartosz Sawicki told CNBC that there is "little reason for optimism."

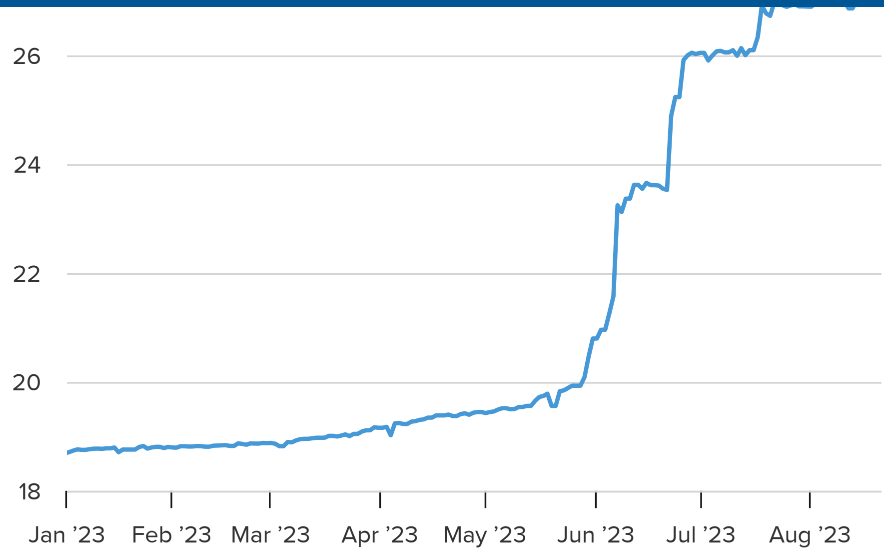
"The lira freefall starts to take its toll once again as it reignites cost pressures," he said. Meanwhile, BlueBay Asset Management's Senior EM Sovereign Strategist Timothy Ash said the country could have seen even higher numbers.

"Could have been much worse given the 25% odd FX correction seen [through] post elections and worries about FX pass [through]," Ash said via an e-mailed statement.

Ash added that the central bank will need to "work very hard to bring inflation meaningfully down from here."

The Turkish lira year-to-date

+



cnbc.com

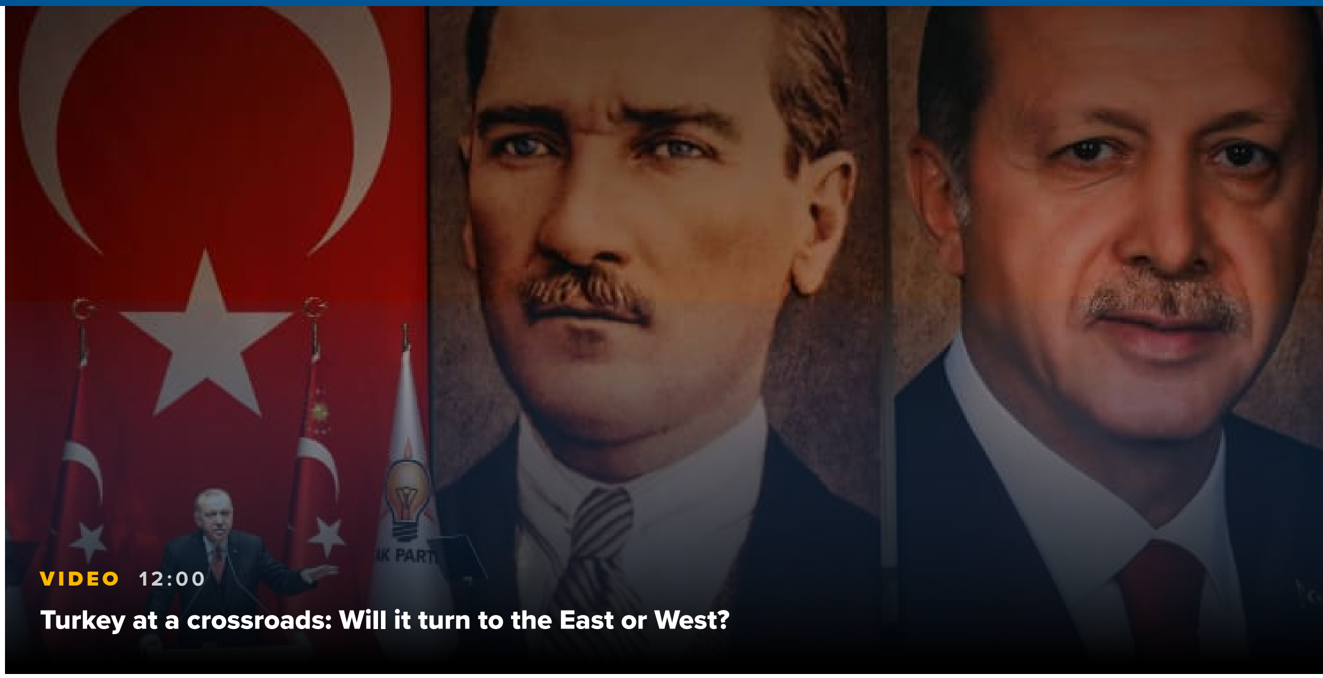
Last October saw Turkey's inflation rate soar to 85%. The Turkish lira was last trading at 26.09 against the dollar.

"With Simsek there is at least a chance of managing [through] this all without a broader systemic crisis, but there is absolutely no room for a policy error at this stage," Ash continued.

Erdogan had named former economy chief Mehmet Simsek as his new treasury and economy minister, who was known for his market friendly policies.

Alongside that appointment was Turkey's new central bank governor, former Wall Street banker Hafize Gaye Erkan.

Last month, the central bank lifted the country's key interest rate from 8.5% to 15%, and affirmed that there will be further gradual monetary tightening until the inflation situation in the country improves.



However, the lira's demise is not the only source of inflationary pressures, said Contoxia's Sawicki.

"Inflation expectations refuse to grind lower in the permanently profoundly negative real interest rates and an overheated economy," he said in an e-mail.

Turkey's introduction of a minimum wage hike, as well a possible overhaul of tax rates which were postponed due to the elections should contribute to the return of the annual inflation rate toward the 50% mark in the second part of the year, he forecasts.

Soaring inflation and a collapsing currency: Why is Turkey's economy in such a mess?

euronews.com/2022/11/09/everything-is-overheating-why-is-turkeys-economy-in-such-a-mess

By Joshua Askew
Published on 09/11/2022 - 13:32•Updated 21/12/2022 - 10:08
Runaway inflation and the collapse of the lira has pushed millions of Turks to the brink of financial ruin. But what went wrong with Turkey's economy?

Turkey’s economy is in tatters. Runaway inflation and a collapsing lira have pushed millions of Turks to the brink of financial ruin and slammed factories, farmers and retailers across the country.

More than two-thirds of people in Turkey are **struggling to pay for food and cover their rent**, according to a survey by Yöneylem Social Research Centre, fuelling a surge in mental illness and debt.

But it wasn't always this way. The Turkish economy has come on leaps and bounds over the last two decades, averaging 5.8% yearly GDP growth between 2002 and 2021.

So, what went wrong?

'Devaluation spiral'

Ask anyone who goes to Turkey year after year, and they will tell you that the Turkish lira is in trouble. Starting in 2013, the currency has steadily fallen in value, nosing diving over the last 12 months.

In September 2021, 1 US dollar was worth around 8 Turkish lira, yet by December 2022, this has lept to nearly 19.

One of the main consequences of this devaluation is inflation -- and lots of it.

When currencies fall in value, things brought from abroad become more expensive. With most countries importing goods, such as fuel, materials or technology, weaker currencies mean higher prices.

This has fuelled record-breaking inflation in Turkey -- among the highest rate in Europe.

A man waits for clients at an open-air food market, in Ankara, Turkey, Sunday, July 31, 2022.Burhan Ozbilici/AP

The Turkish Statistical Institute reported that inflation hit a **25-year high of 85.5%** in October, though many have claimed the real rate is likely even higher. Independent analysts at ENAG estimated that the annual CPI inflation was in fact 176.0%.

Turkish businesses have been hammered by the lira's fall in value, which has caused production costs to spike, while people's wages have been depleted because they can now buy less with their money.

"The situation is even worse for skilled workers," says **Dr Cem Oyvat**, an economics lecturer at the University of Greenwich, leading to a devastating "brain drain".

Losing such talent has "the potential to damage Turkey's economy long into the future, with the economy losing out on the jobs and businesses these individuals could have created," he says.

'The economy is too hot'

Yet other factors are at play.

According to Dr Oyvat, the strong GDP growth that Turkey experienced over the last decades was not "even sustainable" in the first place.

Some of this is due to deeper structural issues, such as Turkey's large current account deficit, meaning it imports more than its exports, yet something else is at play: interest rates.

When economies grow rapidly, interest rate rises are often used by central banks to cool down the economy. They do this by increasing the cost of borrowing money, which reduces economic activity.

In Turkey, however, the opposite has happened. Interest rates have been kept very low by the Turkish Central Bank, leading the economy to spiral out of control.

"It's always running too hot," says **Timothy Ash**, an emerging markets expert at BlueBay Asset Management. "Growth is too high, domestic demand is too high, imports are too high. Everything is overheating."

Turkey's tourism industry struggles as Russian visitors face sanctions

Confidence in the economy has all but collapsed as a result, while foreign and local investors have pulled their money out of Turkey because of the lira's free-fall.

Low-interest rates are largely due to President Recep Tayyip Erdogan's "unorthodox" understanding of monetary policy, claims Ash.

In the past, Erdogan won elections by flooding the economy with cheap money, he says. "But ultimately there is payback."

Ash also claims that rock bottom interest rates have been "beneficial" for "big funders" of Erdogan's AKP party, such as construction and real estate, who can reap more profit from cheaper loans.

Erdogan's religious background is something the Turkish leader often points out himself, says Ash.

He was one of the first Turkish leaders in post-Kemal Atatürk times to go to a religious vocational school, İmam Hatip, and has quoted Islam's aversion to usury, which views lending money at interest as sinful, as one of the reasons for the 2021 lowering of interest rates.

"In the end, it is a combination of all these things," he adds.

Erdogan's traditionalist views and the so-called "neo-Ottoman" policies that have seen Turkey heavily invest in mosques and other religious institutions both home and abroad endeared him to his more conservative supporters over the years.

However, his critics have repeatedly claimed that those could have also served as part of his populist ploy to sway voters in a country with institutionalised secularism for nearly a century.

Why aren't things changing in Turkey?

Turkish officials are aware of what is happening and have repeatedly criticised the status quo.

However, unlike the situation in most other advanced economies, the central bank of Turkey is not independent of the government, meaning it is difficult for them to address the problem.

Making matters worse, Erdogan has dismissed multiple finance ministers and heads of the central bank “essentially for standing up to him” and challenging his unconventional policies, according to Ash.

“Erdogan blames everyone else,” he told Euronews. “He has a team of people around him who are yes men. They don't tell the truth to power. It's like the Emperor's New Clothes.”

A centralisation of power in the hands of the Turkish president is at the heart of this issue.

“In the first 10 years of AKP rule, they had pretty orthodox policies and the government was more of a broad church,” says Ash. “Now it is essentially just Erdogan and all the other centres of power within the party have been forced out.”

“There are no checks and balances anymore,” he added.

None of this is lost on Turkey’s population.

A woman sits at a currency exchange shop, in Ankara, Turkey, Thursday, Aug. 18, 2022.Burhan Ozbilici/AP

Erdogan and the AKP party have plummeted in the polls as the economy has deteriorated, losing control of Turkey's two major cities Istanbul and Ankara in local elections in 2019.

"People are pretty upset," said Ash. "They are seeing their own living standards falling."

Judgement day for Erdogan comes in 2023 when Turkey is due to hold a national election, though there is a chance he can turn things around, particularly by using public spending.

"Erdogan can throw a lot of money at insulating certain sections of the population, like pensioners, those on social security payments [and] public sector workers," explained Ash. "He'll certainly use the budget to help those he thinks are key to winning the election."

The legal minimum wage was recently doubled in Turkey in light of sky-rocketing inflation.

But there is a danger he might resort to other tactics.

Worryingly the Turkish president has begun clamping down on opposition voices, jailing Istanbul mayor Ekrem İmamoğlu in December for **allegedly "insulting" officials** and **drafting controversial media laws** that criminalise "disinformation".

Still, the long-term prospects for his government will be dim if the polls remain low and its economic policies do not change.

“It's hard to predict an election,” said Ash. “But this will be the most closely fought vote in 20 years. “The stakes are high, Erdogan has a lot to lose.”

“It’s going to be interesting,” he added.

Middle East

Turkish inflation soars to 36%, highest in Erdogan era

By **Daren Butler** and **Jonathan Spicer**

January 3, 2022 12:53 PM EST · Updated 2 years ago

- Real yields deeply negative after rate cut to 14%
- Lira seesaws after worst year in two decades
- Erdogan says he is saddened by inflation reading

ISTANBUL, Jan 3 (Reuters) - Turkey's annual inflation rate surged to 36.1% last month, its highest in the 19 years that Tayyip Erdogan has ruled, laying bare the depths of a currency crisis engineered by the president's unorthodox interest rate-cutting policies.

In December alone, consumer prices took a rare step into double-digits, rising 13.58%, Turkish Statistical Institute data showed on Monday, eating deeper into the earnings and savings of Turks rattled by the economic turmoil.

The year-over-year CPI outstripped a median Reuters poll forecast of 30.6% with staples such as transportation and food - which took increasing shares of households' budgets during 2021 - rising even faster. read more

Turkey's lira shed 44% of its value last year as the central bank slashed interest rates under a drive by Erdogan to prioritise credit and exports over currency and price stability.

On Monday the currency whipsawed down 5% then up 3%. It stood at 13.0790 versus the dollar at 1734 GMT, some 0.8% firmer than Friday's close. read more

Some economists predict inflation could reach as high as 50% by spring unless the direction of monetary policy is reversed. Goldman Sachs said it would remain above 40% for most of the year ahead.

"Rates should be immediately and aggressively hiked because this is urgent," said Ozlem Derici Sengul, founding partner at Spinn Consulting in Istanbul.

The central bank was however unlikely to act, she added, and annual inflation "will probably reach 40-50% by March", by when administered price rises would have been added into the mix, including a 50% minimum wage hike. read more

Turkey now has the eighth-highest inflation in the world, according to a Trading Economics listing.

Last year was the worst for the lira in nearly two decades, while the annual CPI was the highest since the 37.0% reading of September of 2002, two months before Erdogan's AK Party first took office. read more

Erdogan's focus early on Monday was on trade data which showed exports surged by a third to $225 billion last year.

"We have only one concern: exports, exports and exports," he said in a speech, adding the trade data showed a six-fold rise in exports during his tenure as leader.

Women shop at a local market in Fatih district in Istanbul, Turkey January 13, 2021. REUTERS/Murad Sezer *Acquire Licensing Rights*

Later, Erdogan said he was "saddened" that Turks had to face such high inflation levels, pledging to bring it down to single digits as soon as possible. read more

To support the currency and replenish its depleted reserves, the central bank said on Monday it had asked exporters to sell 25% of their hard-currency revenues to the bank for lira.

"WE DON'T GO OUT"

Erdogan overhauled the central bank's leadership last year. The bank has slashed the policy rate to 14% from 19% since September, leaving Turkey with deeply negative real yields that have spooked savers and investors.

The subsequent accelerating surge in prices and drop in the lira have also upended household and company budgets, scuttled travel plans and left many Turks scrambling to cut costs. Many queued last month for subsidised bread in Istanbul, where the municipality says the cost of living is up 50% in a year.

"We don't sit with our friends in a cafe and drink coffee any more," Mehmet, 26, a university graduate, said. "We don't go out, just from home to work and back again."

The central bank has argued that temporary factors had been driving prices and forecast a volatile course for inflation, which - having been around 20% in recent months and mostly double-digits over the last five years - it said in October would end the year at 18.4%. read more

Sengul suggested that, with Monday's data, that argument had run its course.

"This reflects a vicious cycle of demand-pull inflation, which is very dangerous because the central bank had implied the price pressure was from cost-push (supply constraints), and that it couldn't do anything about it," she said.

Reflecting soaring import prices, December's producer price index rose 19.08% month-on-month and 79.89% year on year. Annual transportation prices soared 53.66% while the food and drinks basket jumped 43.8%, the CPI data showed.

Reuters Graphics *Acquire Licensing Rights*

The economic turmoil has also hit Erdogan's opinion polls ahead of an election scheduled for no later than mid-2023. read more

The lira touched a record low of 18.4 against the dollar in December before rebounding sharply two weeks ago after state-backed market interventions, and after Erdogan announced a scheme to protect lira deposits against currency volatility.

Additional reporting by Mehmet Emin Caliskan and Ezgi Erkoyun in Istanbul, Ece Toksabay in Ankara; Editing by John Stonestreet, Hugh Lawson and Angus MacSwan

Our Standards: **The Thomson Reuters Trust Principles.**

Jonathan Spicer
Thomson Reuters

Turkey Bureau Chief overseeing political, economic and foreign policy coverage. Work spans the country's diplomatic balancing act, landmark elections, historic earthquakes and the mainstream media, as well as reporting on Syria, Lebanon and Ukraine. Previously covered the U.S. economy, Federal Reserve and Wall Street including award-winning work on financial-market trading and a global cyber heist.