

---

# Turkish inflation rate back in double figures.

By Vincent Boland in Ankara  
FT 4/7/2006

---

Turkey's annual inflation rate rose to double figures in June for the first time in more than two years, showing the difficulties of keeping inflation under control as the country continues its economic recovery.

The June inflation rate was 10.1 per cent on an annual basis, compared with 9.9 per cent in May, the statistics office said. The figure was less than expected and steadied Turkey's financial markets, which have been rocked in recent weeks by a sharp sell-off as part of a global retreat from emerging market risk.

But the figure is a setback for the government and the central bank, which have touted their success in reducing inflation to single figures as a cornerstone of Turkey's economic turnaround. Annual inflation fell below 10 per cent in 2004 for the first time in three decades. It had been more than 70 per cent in 2001.

The drop allowed the bank to redenominate the lira, dropping six zeroes accumulated in 30 years of high inflation. It also enabled a sustained period of monetary easing that helped to fuel strong economic growth.

Serhan Cevik, an economist at Morgan Stanley, said: "Not only is inflation in double figures, it is also much higher than its projected path." The central bank had set a target of 5 per cent for 2006 inflation at the beginning of the year, with a range of two percentage points on either side.

Mr Cevik added, however, that, given the scale of the sell-off Turkey had experienced since the beginning of May, the June inflation figure was "a pretty good result". Garanti Securities, in a note to investors, said the figure was "well below expectations" and would have "a positive impact on the market".

The lira and the Turkish stock market have fallen by about 20 per cent in value in the past two months. The central bank has been forced to raise its overnight borrowing rate - its key policy rate - by 400 basis points and dip into its estimated \$60bn of foreign exchange reserves to stabilise the lira.

Economists said the central bank had appeared determined to ensure that inflation for all of 2006 stood in single figures.

---