



Annual inflation in 2018 came out at 20.3%.

In December, consumer prices declined faster than market expectations by 0.4% on a monthly basis. According to the Reuters' survey market expectation was a fall of 0.23%. In December, domestic PPI (D-PPI) has continued its rapid decline by decreasing 2.22% mom.

In December, annual CPI inflation, which has followed a downward trend after reaching its peak in October, fell to 20.3%. This level is lower than the year-end forecast of New Economic Program (20.8%) and CBRT's expectation (23.5%) announced in the latest Inflation Report. The annual increase in D-PPI also declined to 33.64%.

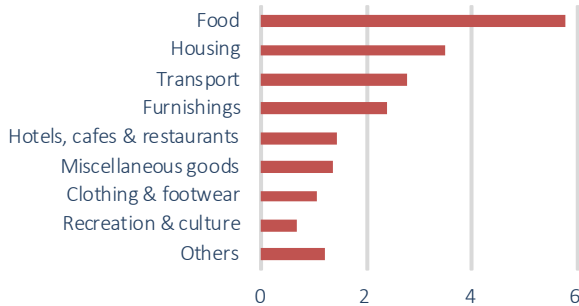
December (change %)	CPI		D-PPI	
	2017	2018	2017	2018
Monthly	0.69	-0.40	1.37	-2.22
Annual	11.92	20.30	15.47	33.64
Annual Average	11.14	16.33	15.82	27.01

Transportation and clothing-footwear groups were effective in monthly CPI decrease.

The prices in transportation group pulled monthly inflation down by 44 bps due to revisions in fuel prices thanks to the decline in global oil prices and appreciation of TRY. In this period, seasonal price decreases in clothing and footwear group also supported the decline in CPI by 29 bps. On the other hand, the rise in food prices due to the increases in fresh fruit and vegetable prices, limited the decline by 25 bps in December.

The food prices are also effective on the annual inflation figures. Analysis of the expenditure groups revealed that food and non-alcoholic beverages was the biggest contributor to the annual CPI inflation by 578 bps in 2018. With the increase in electricity and natural gas prices, the housing group was the second group by 352 bps.

Contributions to Annual CPI Inflation
(2018, % points)



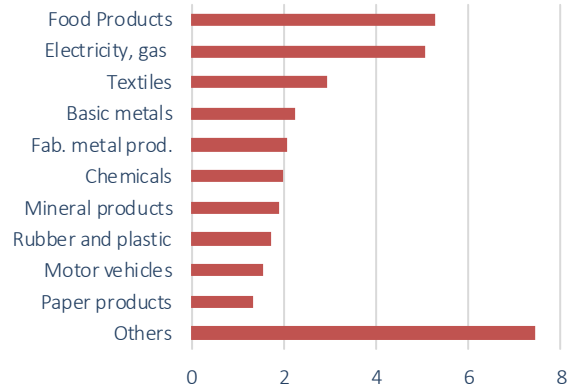
Recovery in core inflation indicators...

Core inflation indicators continued to decrease in December. B (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) indices, which are closely monitored by the CBRT, ended 2018 at annual increases of 20.15% and %19.35, respectively.

Decrease in D-PPI was broad-based in December.

The prices in 23 out of 29 subsectors declined in December. Electricity, gas production and distribution sector made a strong contribution to the monthly decline in D-PPI by 66 bps, while the main metals and coke and refined petroleum products sectors pulled down the monthly D-PPI by 41 bps and 38 bps, respectively. Although food prices declined on monthly basis, they had a high impact on the annual D-PPI increase by 528 bps. Electricity, gas production and distribution sector also contributed to annual D-PPI inflation by 506 bps.

Contributions to Annual D-PPI Inflation
(2018, % points)



Expectations...

Annual CPI inflation, which had risen to 25.24% in October, declined to 20.3% thanks to rapid decline in global oil prices, appreciation in TRY and measures taken by authorities. In 2019, the inflation is expected to be driven by domestic demand and exchange rate developments. In this context, we expect annual CPI inflation to hover around 20% in the first half of the year and to decrease to 16% at the end of 2019 after following a downward trend in the second half of the year.

Inflation (%)

	CPI (2003=100)				D-PPI (2003=100)				
	Monthly	Year to	Annual	Annual	Monthly	Year to	Annual	Annual	
		Date		Average		Date		Average	
2017	January	2.46	2.46	9.22	7.76	3.98	3.98	13.69	4.96
	February	0.81	3.29	10.13	7.88	1.26	5.29	15.36	5.87
	March	1.02	4.34	11.29	8.21	1.04	6.38	16.09	6.89
	April	1.31	5.71	11.87	8.66	0.76	7.19	16.37	8.01
	May	0.45	6.18	11.72	9.09	0.52	7.74	15.26	9.02
	June	-0.27	5.89	10.90	9.36	0.07	7.82	14.87	9.98
	July	0.15	6.05	9.79	9.44	0.72	8.60	15.45	10.94
	August	0.52	6.60	10.68	9.66	0.85	9.52	16.34	12.05
	September	0.65	7.29	11.20	9.98	0.24	9.78	16.28	13.26
	October	2.08	9.52	11.90	10.37	1.71	11.66	17.28	14.47
	November	1.49	11.16	12.98	10.87	2.02	13.91	17.30	15.38
	December	0.69	11.92	11.92	11.14	1.37	15.47	15.47	15.82
2018	January	1.02	1.02	10.35	11.23	0.99	0.99	12.14	15.66
	February	0.73	1.76	10.26	11.23	2.68	3.69	13.71	15.50
	March	0.99	2.77	10.23	11.14	1.54	5.29	14.28	15.35
	April	1.87	4.69	10.85	11.06	2.60	8.03	16.37	15.36
	May	1.62	6.39	12.15	11.10	3.79	12.12	20.16	15.80
	June	2.61	9.17	15.39	11.49	3.03	15.52	23.71	16.57
	July	0.55	9.77	15.85	12.00	1.77	17.56	25.00	17.41
	August	2.30	12.29	17.90	12.61	6.60	25.32	32.13	18.78
	September	6.30	19.37	24.52	13.75	10.88	38.96	46.15	21.36
	October	2.67	22.56	25.24	14.90	0.91	40.22	45.01	23.73
	November	-1.44	20.79	21.62	15.63	-2.53	36.68	38.54	25.52
	December	-0.40	20.30	20.30	16.33	-2.22	33.64	33.64	27.01
2019	January ^(E)	1.50	1.50	20.87	17.21	0.90	0.90	33.53	28.76

(E) Estimate

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