



CPI inflation was in line with expectations.

In January, CPI increased in line with market expectations by 1.06% on a monthly basis. According to the Reuters' survey, the monthly increase in CPI was expected to be 1%. Domestic PPI (D-PPI), which declined in the last two months of 2018, also rose by 0.45% in January.

Limited increase in annual inflation...

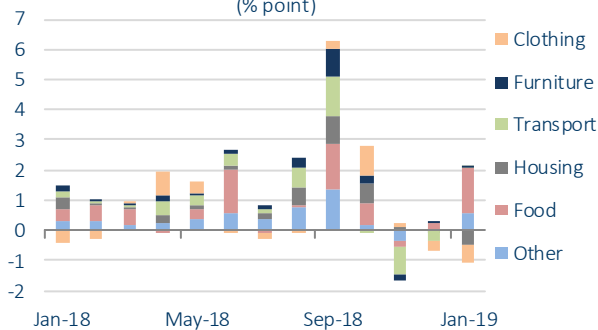
After reaching 25.24% in October and declined to 20.3% at the end of 2018, the annual CPI inflation increased slightly in January to 20.35%. The downward trend in annual D-PPI inflation, which has started in October, continued in the first month of 2019. Annual D-PPI inflation, which completed 2018 at 33.64%, became 32.93% in January.

January (change %)	CPI		D-PPI	
	2018	2019	2018	2019
Monthly	1.02	1.06	0.99	0.45
Annual	10.35	20.35	12.14	32.93
Annual Average	11.23	17.16	15.66	28.70

The rise in food prices was the main driver of inflation.

Prices of all main expenditure groups excluding clothing and footwear and housing increased on a monthly basis in January. Food and non-alcoholic beverages increased by 6.43% compared to the previous month and contributed 149 bps to the monthly CPI inflation. Due partly to the flood disaster in Antalya, a monthly rise of 29.7% in fresh fruit and vegetable prices stood out. In January, service prices put upward pressure on CPI. On the other hand, due to seasonal factors, the monthly decline in the clothing and footwear group as well as the housing group limited the monthly rise in CPI by 57 and 47 bps, respectively.

Contribution to Monthly CPI Inflation
(% point)

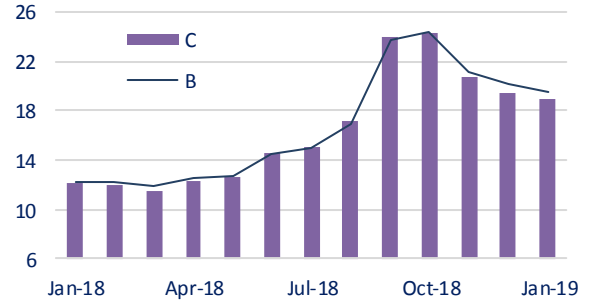


Core inflation indicators...

The improvement in core inflation indicators, which do not include the food prices, continued in January due to stable course of TRY, the slowdown in domestic demand and the continuation of tax incentives. The annual increases in 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 were closely monitored by the CBRT, increased in January by 19.55% and 19.02%, respectively, the lowest readings of the last 5 months.

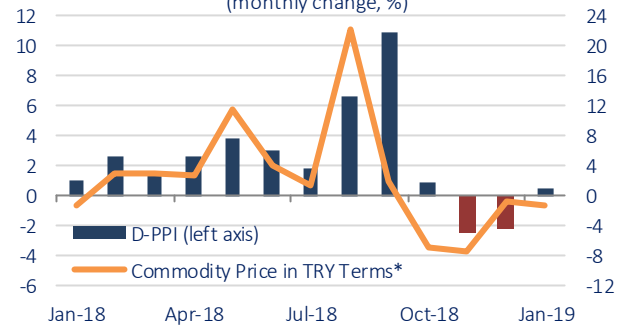
Special CPI Aggregates
(annual % change)



Annual D-PPI inflation kept decreasing.

In the first month of 2019, the prices in 10 out of 29 sub-sectors of D-PPI decreased compared to the previous month. Due to the weakness in commodity prices, the main metals and coke and refined petroleum products limited monthly D-PPI increase by 31 bps. On the other hand, price increases in food group contributed 25 bps to monthly D-PPI.

Commodity Prices and D-PPI
(monthly change, %)



Expectations.

We expect the impact of unprocessed food prices to continue in February as well. We foresee that inflation will keep its high course in the first quarter due to low base effect. Considering CBRT's strong commitment to tight monetary policy and assuming that TRY will remain stable, we expect inflation to follow a decreasing trend in the second half of the year and became 16% at the year-end.

(*)Based on CRB Commodity Price Index

Source: Turkstat, Datastream

Inflation (%)

	CPI (2003=100)				D-PPI (2003=100)				
	Monthly	Year to		Annual Average	Monthly	Year to		Annual Average	
		Date	Annual			Date	Annual		
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	1.06	1.06	20.35	17.16	0.45	0.45	32.93	28.70
	February ^(E)	1.50	2.58	21.27	18.07	2.00	2.46	32.05	30.19

(E) Estimate

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