



### CPI inflation came in above expectations in January.

CPI increased by 1.35% mom in January. According to the Reuters survey, markets expected a rise of 1.1%. Domestic PPI (D-PPI) recorded an increase of 1.84% during this period.

January (change %)	CPI		D-PPI	
	2019	2020	2019	2020
Monthly	1.06	1.35	0.45	1.84
Annual	20.35	12.15	32.93	8.84
Annual Average	17.16	14.52	28.70	15.71

### Annual CPI inflation is at 12.15%.

Annual CPI inflation, which ended 2019 at 11.84%, became 12.15% in the first month of 2020. Annual rise in D-PPI, which was 7.36% in December 2019, stood at 8.84% in January.

### The rise in food prices led to a larger than expected CPI inflation.

Food and non-alcoholic beverages group, in which prices increased by 4.7% on a monthly basis in January, made the highest contribution to inflation by 106 bps. This was largely due to the rises in fruits and vegetables prices. Food prices were followed by miscellaneous goods and services group with a positive contribution of 26 bps. Monthly inflation was dragged down most by clothing and footwear group, in which seasonal factors were in place, and by furnishings and household equipment group, in which value-added tax cuts were implemented. Clothing and footwear prices were down by 6.7% making a negative contribution of 46 bps. Furnishings and household equipment prices pushed monthly inflation down by 11 bps.

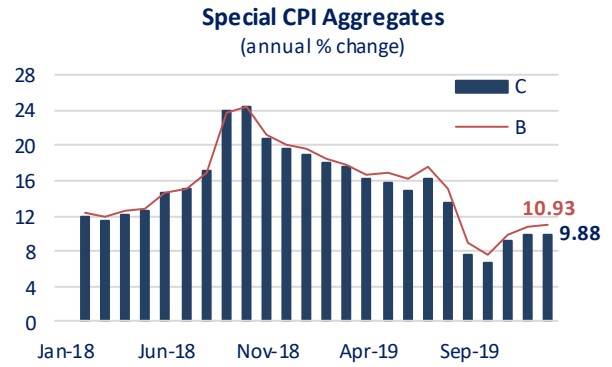
Turkstat has revised the weights of the expenditure groups in inflation basket. The weight of food group came

Weights of expenditure groups (%)			Δ (% point)
	2020	2019	
Food and non-alcoholic beverages	22.77	23.29	-0.52
Alcoholic beverages and tobacco	6.06	4.23	1.83
Clothing and footwear	6.96	7.24	-0.28
Housing, water, electricity, gas	14.34	15.16	-0.82
Furnishings and household equipment	7.77	8.33	-0.56
Health	2.80	2.58	0.22
Transport	15.62	16.78	-1.16
Communications	3.80	3.69	0.11
Recreation and culture	3.26	3.29	-0.03
Education	2.58	2.40	0.18
Hotels, cafes and restaurants	8.67	7.86	0.81
Miscellaneous goods and services	5.37	5.15	0.22
<b>Total</b>	<b>100</b>	<b>100</b>	<b>-</b>

down from 23.29% to 22.77%. The weights of transportation, housing, furnishings as well as clothing and footwear groups were also revised down. The weights of alcohol and tobacco group, on the other hand, increased to 6.06% from 4.23%.

### Core inflation indicators...

CPI excluding seasonal products rose at a slower pace compared to headline inflation with 1.18% mom. One of the CBRT's favorite core inflation indicators, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold), increased 0.34% mom. C index (CPI excluding energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold) rose by 0.1% mom during this period. Annual increases in B and C indices accelerated slightly and became 10.93% and 9.88%, respectively.



### Food and basic metals pushed up monthly D-PPI inflation.

In January, the rise in D-PPI was mainly driven by food products and basic metals sub-sectors. The said groups pushed monthly D-PPI inflation up by 43 bps and 26 bps, respectively. During this period, prices declined only in three groups, namely tobacco products, paper products and wearing apparel. The said groups made a total negative contribution of 7 bps.

### Expectations...

While the rise in the currency basket in the last two months may have an adverse impact on inflation in the coming period, the recent cancellation of automatic price hikes in tobacco and alcohol products for the first half of the year and the still absence of domestic demand driven inflationary pressures support the inflation outlook. As the downside and upside risks on inflation look broadly balanced, the CBRT left its inflation forecast for the 2020-end at 8.2% in its Inflation Report published on January 30. The exchange rate developments and the size of interest rate cuts will be significant in terms of achieving this level.

Inflation (%)

	Inflation (%)								
	CPI (2003=100)				D-PPI (2003=100)				
	Monthly	Year to Date	Annual	Annual Average	Monthly	Year to Date	Annual	Annual Average	
<b>2018</b>	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
<b>2019</b>	January	1.06	1.06	20.35	17.16	0.45	0.45	32.93	28.70
	February	0.16	1.23	19.67	17.93	0.09	0.55	29.59	29.97
	March	1.03	2.27	19.71	18.70	1.58	2.14	29.64	31.17
	April	1.69	4.00	19.50	19.39	2.98	5.18	30.12	32.24
	May	0.95	4.99	18.71	19.91	2.67	7.99	28.71	32.85
	June	0.03	5.01	15.72	19.88	0.09	8.09	25.04	32.81
	July	1.36	6.44	16.65	19.91	-0.99	7.02	21.66	32.34
	August	0.86	7.35	15.01	19.62	-0.59	6.39	13.45	30.51
	September	0.99	8.42	9.26	18.27	0.13	6.53	2.45	26.44
	October	2.00	10.59	8.55	16.81	0.17	6.71	1.70	22.58
	November	0.38	11.01	10.56	15.87	-0.08	6.63	4.26	19.68
	December	0.74	11.84	11.84	15.18	0.69	7.36	7.36	17.56
<b>2020</b>	January	1.35	1.35	12.15	14.52	1.84	1.84	8.84	15.71

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