

Macro note – December 2025 Inflation

The Consumer Price Index (CPI) increases by 0.89% monthly and 30.89% annually in December. Inflation for 2025 is projected to be 28.31% for food and non-alcoholic beverages, 49.45% for housing, and 44% for the services sector.

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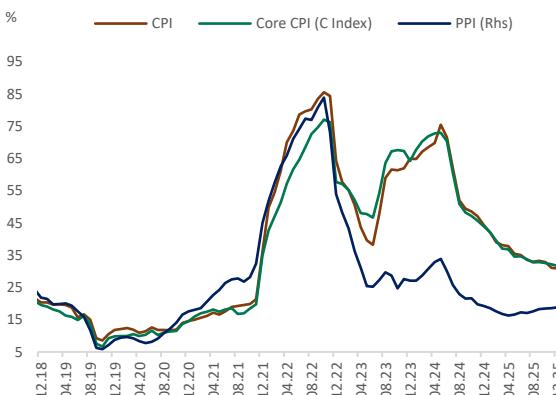
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	MoM%			YoY%		
	Market	Seker Invest	Actual	Market	Seker Invest	Actual
CPI	0,94	0,98	0,89	30,99	31,05	30,89
PPI	-	-	0,75			27,67

CPI increased by 0.89% in December compared to the previous month, while annual inflation reached 30.89% (previous 31.07%). Market expectations were for inflation to increase by 0.94% monthly and 30.99% annually (Seker Invest expectation was 0.98% monthly and 31.05% annually). The disinflation process has fallen below the CBRT's interim targets for 2025 (interim target 31-33%). We had stated that the real fight against inflation would begin after these levels. Looking at pricing behavior and dynamics, managing the inertia and expectation channels is even more critical for levels below 30%. On the other hand, when we look at the impact of inflation on income distribution and expenditure groups, we see a more negative atmosphere. Considering the items that make up the majority of the consumption basket for the low-income group, the figures above the headline inflation are noteworthy. The average inflation of food, housing, and transportation, which have a weight of 55.52% in the index, increased by 34.14% annually. It is necessary to draw attention to the two main groups that are slowing the pace of disinflation. Food inflation, which was negative in November, increased by 1.99% this month, ending the year at 28.31%. While the main trend is returning to an upward trend, leading indicators point to upward pressure on food prices in January. Housing and education were the two items that recorded the highest increases in annual headline inflation (49.45% and 66.27% respectively). After food inflation, the other group that needs attention in terms of inertia and pricing behavior is the services sector. Although significant progress has been made in disinflation, annual inflation is still at 44%. Considering its contribution to headline inflation, improvement in this area will significantly contribute to the disinflation process. In the Special Comprehensive CPI Indicator, the B index (core inflation), monthly inflation was 0.78%, while annual inflation reached 31.66%. If we were to make a short and general assessment of 2025, we would close the year with an inflation level of 30.89%. Monthly dynamics in the last quarter significantly contributed to the disinflation process, and we can say that the actual inflation levels were below market expectations. The annual inflation rate of 30.89% was contributed to by food (7.07 points), housing (7.52 points), transportation (4.36 points), and restaurant/hotel services (2.84 points). While demand inflation did not meet the CBRT's expectations, it can be said that it was largely brought under control. However, the risk in the services sector remains significant. Since the inflation outlook, main trend, and intermediate targets serve as the main anchors for the monetary policy stance, the CBRT has more flexible room for maneuver regarding interest rate cuts in the first quarter of the year. Economic activity continues to be vibrant. Although demand inflation is under control, it remains high, and the downward trend is not at the targeted levels. The cost channel and pricing behavior are significantly affected by the expectations channel and inflation inertia. Here, we feel the dominance of the expectations channel in the transmission mechanism. Breaking inflation inertia requires structural changes, especially in future inflation expectations. The first interest rate decision of the year will be on January 22nd. Since December inflation will significantly impact the decision, a 150 basis point cut seems reasonable. However, if the CBRT observes a deterioration in the inflation trend in the period leading up to the decision, it may opt for a more moderate cut. Administered/regulated prices and food inflation could push the main trend upward in January. Therefore, both possibilities have equal weight regarding a rate cut. In the first half of the year, in line with the downward trend in inflation, we may see a total cut in the 500-600 basis point range.

Producer prices increased by 0.75% monthly in December, while the annual change in PPI was 27.67%. Looking at the sub-indices of PPI, the main industrial groups saw annual increases of 24.28% in intermediate goods, 33.03% in durable consumer goods, 30.81% in non-durable consumer goods, 27.06% in energy, and 29.79% in capital goods. Monthly dynamics showed a 1.61% increase in intermediate goods, a 1.30% increase in durable consumer goods, a 0.82% increase in non-durable consumer goods, a 3.63% decrease in energy, and a 1.98% increase in capital goods. The PPI-CPI gap narrowed to 3.2 points, reflecting the producer dynamics in cost inflation (peaked in October 2022 at 78 points). We anticipate that cost and supply-side pressures are on an upward trend, albeit limited, and that this effect will be felt more pronounced throughout 2026.

Graph 1: CPI, PPI, and Core CPI (YoY %)



Graph 2: PPI – CPI Spread

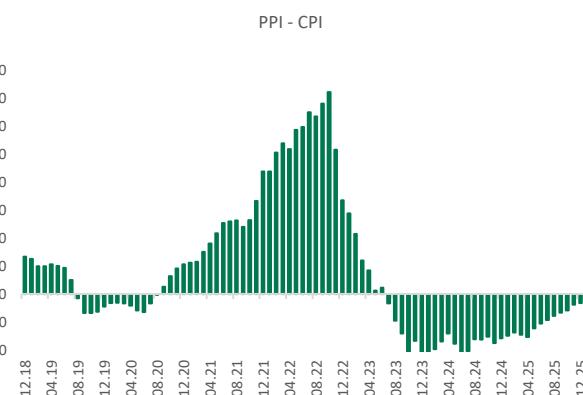


Table 1: Inflation and Sub-Components

Main expenditure groups	Weights	MoM (%)	Ytd (%)	YoY (%)
CPI	100,00	0,89	30,89	30,89
Food and non-alcoholic beverages	24,97	1,99	28,31	28,31
Alcoholic beverages and tobacco	3,52	0,06	30,80	30,80
Clothing and footwear	7,16	-2,94	6,50	6,50
Housing, water, electricity, gas, and other fuels	15,22	1,39	49,45	49,45
Furnishing, household equipment, routine domestic maintenance	7,67	1,56	24,97	24,97
Health	4,09	1,97	30,87	30,87
Transportation	15,34	-1,03	28,44	28,44
Communication	3,62	2,91	19,04	19,04
Recreation and Culture	3,36	0,75	24,99	24,99
Education	2,31	0,13	66,27	66,27
Hotels, cafes, and restaurants	8,32	1,51	34,11	34,11
Miscellaneous goods and services	4,43	1,34	29,68	29,68

Source: TURKSTAT

In summary, CPI increased by 0.89% monthly in December, while the annual inflation rate for 2025 reached 30.89%. Housing, education, and other services finished the year above headline inflation, while food and goods inflation showed a significant decline. The lagged effects of the tight monetary stance continue gradually in price indicators. We are going through a period where we are clearly feeling the importance of the expectations channel in the transmission mechanism. Since improvements in the expectations channel will affect both pricing behavior and costs, we are closely monitoring inflation expectations. Despite the slowdown in consumption and demand inflation, the adjustment in services inflation is spread over time. Considering the scope of monetary policy control, practices that take into account financial stability as well as price stability will reduce exchange rate volatility, contributing to both risk premiums and macro-financial stability. Within the framework of the current outlook, we maintain our year-end inflation forecast for 2026 at 23%. We would like to emphasize that we may update our inflation forecasts depending on developments in monthly inflation levels and the course of monetary policy.



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