

Macro note – January 2026 Inflation

CPI increases by 4.84% month-on-month and 30.65% year-on-year in January. Price increases in food, healthcare, insurance and education items slowed deflation in January.

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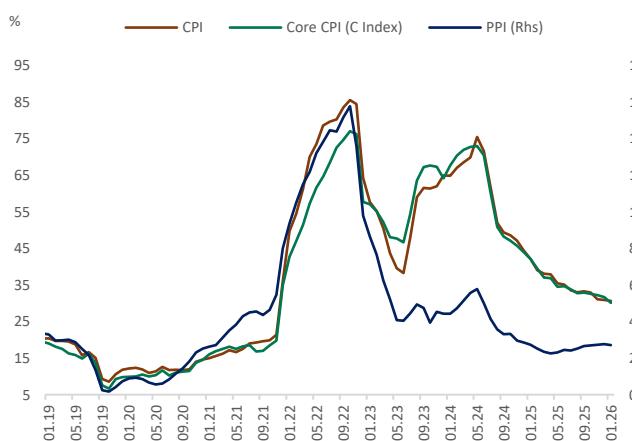
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| | MoM% | | | YoY% | | |
|------------|--------|--------------|--------|--------|--------------|--------|
| | Market | Seker Invest | Actual | Market | Seker Invest | Actual |
| CPI | 4,26 | 4,50 | 4,84 | 29,96 | 30,30 | 30,65 |
| PPI | - | - | 2,67 | | | 27,17 |

The CPI rose by 4.84% in January compared to the previous month, while annual inflation stood at 30.65% (previously 30.89%). Market expectations were for inflation to increase by 4.26% monthly and 29.96% annually (Şeker Invest expectation was 4.5% monthly and 30.3% annually). The actual figures, which exceeded both market and our expectations, are slowing down the pace of disinflation. Public finance-related factors such as tax regulations and administered/guided prices, as well as seasonal effects, can create temporary shocks in inflation in January. When the stickiness of food prices is added to the effects stemming from fiscal policy, January's actual figures appear to have exceeded expectations. When we assess the impact of inflation on income groups, a divergence is also apparent. Considering the items that constitute the majority of the consumption basket for the low-income group, the figures above headline inflation are noteworthy. This month, the index was revised and the base year changed, leading to changes in basket weights. The weight of food, housing and transport, which constitute the main expenditure basket for the low-income group, was revised from 55.52 per cent to 52.46 per cent. Currently, the average inflation rate for food, housing and transport, which has a 52.46% weight in the index, rose by 33.93% annually. This month's price dynamics can be summarized as follows. Attention was drawn to January inflation in food and non-alcoholic beverages. Food inflation, which came in at 6.59% monthly, is in line with the general inflation trend at 31.69% annually. The monthly increase in health and insurance/financial services has reached double digits. This is undermining the improvement in the dispersion index. While achieving disinflation, slowing down all sub-indices is one of the key objectives. Sharp increases in some sectors are noteworthy here. The monthly inflation rate for the B index (core inflation), which is the Special Comprehensive CPI Indicator, was 4.22%, while the annual inflation rate was 30.11%. Education inflation, which has been highlighted before and is subject to regulation, continues to rise. The monthly inflation rate is 6.61% and the annual inflation rate is 64.70%. And since it is included in the expenditure items of almost all income groups, the slowdown in this area is critical in terms of the main inflation trend. Although housing experienced a 4.4% increase this month, close to headline inflation, its annual increase is at 45.36%. A significant increase in both goods and services inflation is noteworthy. Excluding clothing and footwear, prices rose across all expenditure groups this month. However, what is most important is the sharp increases above the main trend. Although demand inflation has been brought under control, it remains high and is not trending towards the targeted levels. The cost channel and pricing behavior are clearly affected by expectations and inflation inertia. Here, we feel the dominance of the expectation channel in the transmission mechanism. Structural breaks in future inflation expectations are particularly necessary to break inflation inertia. The reason why the CBRT opted for a cautious stance in its January interest rate decision is becoming clearer. Leading indicators were likely signaling a slowdown in disinflation, and the CBRT made its decision by focusing on the main trend in the coming months rather than year-end inflation realization. Effectively managing inertia and the expectation channel, as mentioned in the monetary policy statement, is critical for adjusting the monetary policy stance. In this context, the trajectory of inflation in February and March will shape the monetary policy stance for the remainder of the year. If the shock in January is temporary, the CBRT may be able to act more comfortably. However, if this inertia spills over into the coming months, we may see more cautious interest rate cuts for the remainder of the year.

Producer prices rose by 2.67% month-on-month in January, while the annual change in the PPI stood at 27.17%. Looking at the sub-indices of the PPI, the main industrial groups saw a 25.69% increase in intermediate goods, a 30.07% increase in durable consumer goods, a 30.44% increase in non-durable consumer goods, a 22.14% increase in energy, and a 29.24% increase in capital goods. Monthly dynamics saw a 2.96% increase in intermediate goods, a 4.02% increase in durable consumer goods, a 4.16% increase in non-durable consumer goods, a 1.69% decrease in energy, and a 2.82% increase in capital goods. The PPI-CPI gap narrowed to 3.8 points, reflecting producer dynamics in cost inflation (peak in October 2022 at 78 points). We anticipate that cost and supply-side pressures will show a limited upward trend, with this effect becoming more pronounced throughout 2026.

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



Graph 2: PPI – CPI Spread

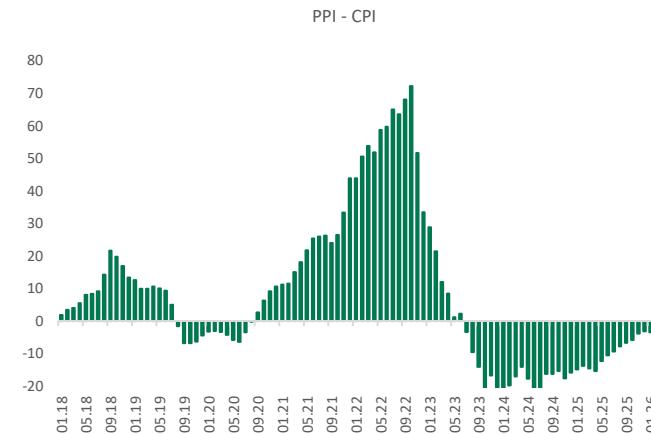


Table 1: Inflation and Sub-Components

| Main expenditure groups | Weights | MoM(%) | Ytd (%) | YoY(%) |
|--|---------------|-------------|-------------|--------------|
| CPI | 100,00 | 4,84 | 4,84 | 30,65 |
| Food and non-alcoholic beverages | 24,44 | 6,59 | 6,59 | 31,69 |
| Alcoholic beverages and tobacco | 2,75 | 1,53 | 1,53 | 31,45 |
| Clothing and footwear | 7,90 | -4,66 | -4,66 | 7,07 |
| Housing, water, electricity, gas and other fuels | 11,40 | 4,43 | 4,43 | 45,36 |
| Furnishing, household equipment, routine maintenance of the house | 7,92 | 3,19 | 3,19 | 23,13 |
| Health | 2,79 | 14,85 | 14,85 | 21,63 |
| Transportation | 16,62 | 5,29 | 5,29 | 29,39 |
| Information and communication | 3,10 | 4,03 | 4,03 | 20,09 |
| Recreation, sport and culture | 4,34 | 5,36 | 5,36 | 26,88 |
| Education services | 2,02 | 6,61 | 6,61 | 64,70 |
| Restaurants and accomodation services | 11,13 | 5,86 | 5,86 | 33,31 |
| Insurance and financial services | 1,07 | 10,82 | 10,82 | 23,08 |
| Personal care, social protection and miscellaneous goods and services | 4,49 | 5,39 | 5,39 | 29,71 |

In summary, while CPI rose by 4.84% month-on-month in January, annual inflation stood at 30.65%. Inertia and volatility in pricing behavior continue, albeit at a reduced pace. The delayed effects of the tight stance are gradually continuing to be reflected in price indicators. We are going through a period where we clearly feel the importance of the expectation channel in the transmission mechanism. As the improvement in the expectation 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 service inflation is spread over time. Considering the scope of monetary policy, measures that take into account financial stability as well as price stability will contribute to both risk premiums and macro-financial stability by reducing exchange rate volatility. Within the current outlook, we maintain our inflation forecast for the end of 2026 at 23%. We emphasize here that we may update our inflation forecasts depending on developments in monthly inflation levels and the course of monetary policy.



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