

May 8, 2002

PRESS RELEASE

APRIL INFLATION AND FORWARD-LOOKING EXPECTATIONS

I. GENERAL EVALUATION

1. The downward inflationary trend has continued also in April, which typically exhibits seasonal price increases. Consumer Price Index (CPI) and Wholesale Price Index (WPI) increased by 2,1 percent and 1,8 percent, respectively. Annual inflation figures declined to 52,7 percent in CPI and 58,0 percent in WPI (Table 1).

2. In addition to the favorable developments in exchange rates, domestic demand and public prices which led to a decline in inflation in recent months, the rate of increase in food and agriculture prices that remained quite below the April averages, have kept the April inflation in accordance with market inflationary expectations. However, the high rate of increase in clothing and footwear prices due to seasonal effects, have caused CPI (excluding food) to increase by 2,5 percent, while WPI (excluding agriculture) increased by 2,1 percent.

3. The annual inflation trend- calculated by the de-seasonalized consumer and wholesale price indices according to quarterly moving averages- has continued its downward trend also in April. As of April, annual inflation trend has fallen to 29,5 percent in WPI, and 23,7 percent in CPI. The annual inflation trend is 18,6 percent in WPI (excluding agriculture) and 36,1 in CPI (excluding food).

Table 1: CPI, WPI and Sub-items

Yearly % Change		Monthly % Change		
2001	2002	2002	2002	2002
April	April	February	March	April

CPI	48,3	52,7	1,8	1,2	2,1
Goods	49,4	59,3	1,5	0,7	2,4
Services	46,1	40,9	2,3	2,2	1,3
Excluding Food	51,8	48,4	1,3	1,8	2,5
WPI	50,9	58,0	2,6	1,9	1,8
Public	58,3	52,7	0,5	2,0	2,4
Private	48,2	60,1	3,3	1,8	1,6
Private					
Manufacturing	55,8	55,6	0,7	1,3	1,9
Excluding					
Agriculture	56,7	54,6	0,6	1,6	2,1
Excluding Agr.					
And Energy	55,5	54,2	0,7	1,7	2,1

Source: CBRT, SIS.

Developments in Consumer Prices

4. In recent months, the elimination of input cost pressure on prices and continued sluggish domestic demand have put the inflation in a downward trend. Since the food prices have slowed down considerably since February, the decline in inflation has become more evident in March and April. April CPI increase was mainly due to the clothing and footwear prices, which showed a 13 percent increase mainly because of seasonal effects. The contribution of clothing and footwear item to the 2,1 percent increase in CPI stood at 1,2 percentage points.

5. Food, beverages and tobacco prices increased by only 0,6 percent following the decline in March. Fresh fruit and vegetable prices that showed high rates of increases during the last quarter of 2001 and January 2002, have declined in recent months as consumers switched to substituting goods, and favorable weather conditions affected supply positively. This situation has contributed to the slowdown of inflation both in the food items and in the CPI in general.

Figure 1: CPI and CPI Excluding Food

Yearly % Change

Monthly % Change



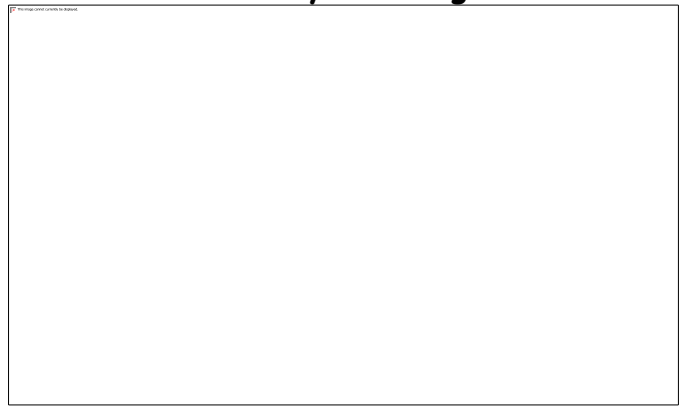
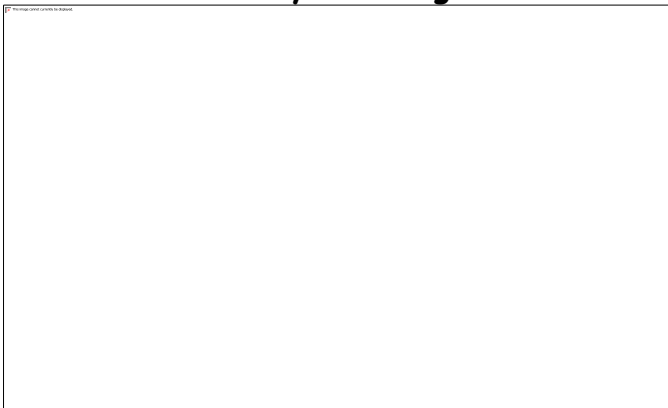
Source: CBRT, SIS.

6. Price increase in goods registered a remarkable slowdown in contrast to the services sector, which preserved the price rigidity. In the services sector, prices fell down to 1,3 percent in April. The reasons for this decline can be accounted for the diminishing rate of increase in monthly housing rents, which decreased to 1,5 percent in April, and the slowdown in the rate of increase in the sub-items of the services, excluding culture-entertainment. In the goods sector, on the other hand, the rate of change in prices in food and clothing, which reached to 2,4 percent owing to the seasonal factors, was the driving force. Excluding food and clothing categories, rate of increase in prices of services falls down to 1,1 percent per month.

Figure 2: Goods and Services Prices

Yearly % Change

Monthly % Change



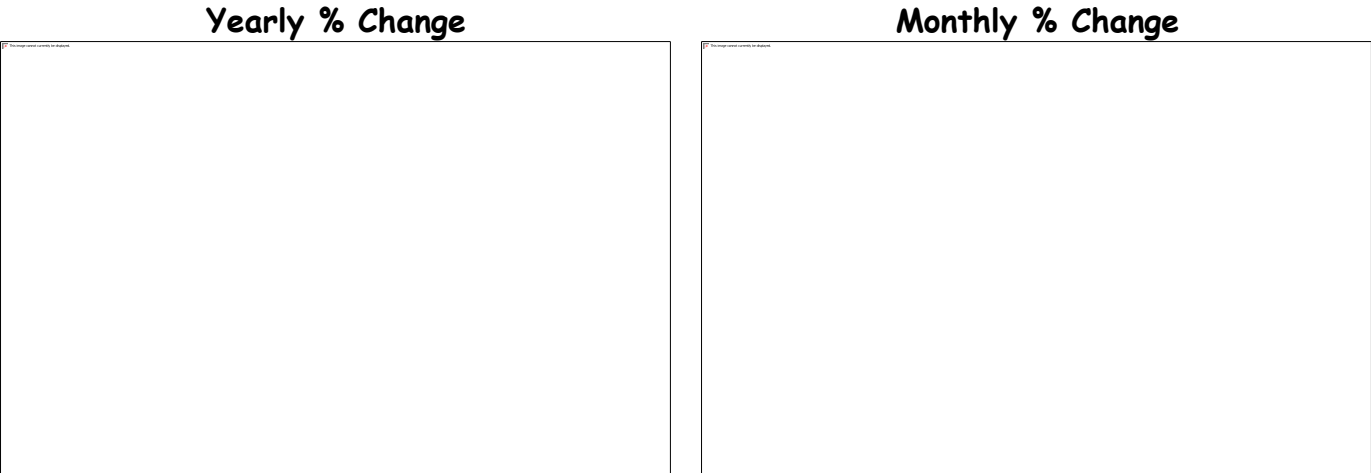
Source: CBRT, SIS.

Developments in Wholesale Prices

7. In April, while the slowdown in the rate of increase in agricultural prices continued, the private manufacturing industry and public sector price increases remained above previous months' levels. Rising crude oil prices affected the rate

of price change in mining, petroleum products and chemical sector sub-items adversely. Due to these developments, rate of increase in public sector and private manufacturing industry price indices, both of which are above the expected rate of change, were 2,4 and 1,9 percent per month, respectively. Within the private manufacturing industry, rate of price increase has continued to vary across different sub-categories. In clothing and leather products sectors, which are generally export-oriented sectors, we see an acceleration of an upward trend in prices with the coming of the new season. Price increases in the other non-metallic mineral products category containing key inputs for the construction industry, and in the wood and cork products continued also in April. The higher than expected price increase in manufacturing industry was balanced by that of in the agriculture sector, which remained below the April averages. As a result, the monthly rate of increase in WPI was realized at 1,8 percent.

Figure 3: WPI and WPI Excluding Agriculture



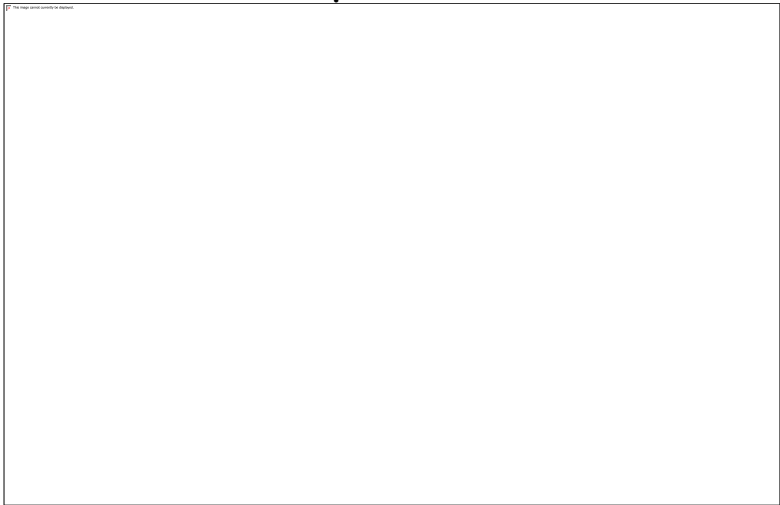
Source: CBRT, SIS.

II. FORWARD-LOOKING EXPECTATIONS

8. In April, due to seasonal factors, which can be clearly observed from previous inflationary developments, the monthly inflation rate stood above the March inflation rate and generally in line with inflationary expectations. The survey results compiled after the announcement of March inflation figures showed that inflationary expectations were gradually approaching to the end-year target (Graph 4). The April inflation figures, which are in line with the expectations, will strengthen the expectations about reaching the year-end CPI inflation target.

9. As a result of the strict implementation of monetary and fiscal policies, the downward trend in inflation has become evident. This has increased the credibility of the economic program and the belief in the end-year inflation target. In the following period, strict implementation of the economic program, together with the incomes policy and the price-setting policy of public and private sectors, conducted in line with the inflation target, will contribute to the elimination of inflationary inertia and will reinforce the economic recovery.

Figure 4: Year-end Inflation Expectations According to the CBRT Survey of Expectations



Source: CBRT.

10. In the next period, we expect that inflation will be affected favorably by the downward trend in the agriculture and food price increases, the lagged effect of exchange rate developments on production costs, and the absence of demand-push pressure. However, crude oil prices, the divergent pricing behavior within the private manufacturing industry sub-sectors and the probable impact of exchange rate changes on the public sector prices are regarded as risk factors.