

JUNE INFLATION AND FORWARD LOOKING EXPECTATIONS

I. GENERAL ASSESSMENT

1. In accordance with the economic program being implemented, the downward trend in consumer prices and wholesale prices sustained in June as well. Compared to the previous month, Consumer Prices Index (CPI) and Wholesale Prices Index (WPI) increased by 0.6 percent and 1.2 percent, respectively and the annual CPI inflation decreased to 42.6 percent and WPI to 46.8 percent. As was the case in May, the increase in food and agriculture prices in June displayed a downward trend beyond the seasonal factors (Table 1).

2. The food and agriculture prices, which played an important role in the downward trend of inflation from February 2002 onwards, led the CPI inflation to remain below the expectations in June. Increases in housing item in CPI and manufacturing prices in WPI have been the key factors exerting upward pressure on prices. The increase in the CPI inflation excluding food stood at 2.2 percent because of the increases mainly in the housing item and clothing and shoes prices while increase in the WPI inflation excluding agriculture turned out to be 3.4 percent due to the increase in manufacturing sector prices.

3. Calculated on a basis of 3-month moving averages of seasonally adjusted data on WPI and CPI, the annual inflation trend as of June was 24.1 percent in WPI and 25.1 percent in CPI. The annual inflation trend stood at 32.4 percent in WPI excluding food and 30.6 in CPI excluding agriculture.

Table 1: General CPI, WPI and Sub-items

	Annual Percentage Change		Monthly Percentage Change		
	2001 June	2002 June	April	2002 May June	
CPI	56,1	42,6	2,1	0,6	0,6
Goods	60,9	45,8	2,4	0,1	0,2
Services	47,8	36,6	1,3	1,6	1,4
Excluding Food	57,3	42,0	2,5	2,0	2,2
WPI	61,8	46,8	1,8	0,4	1,2
Public	73,5	44,6	2,4	2,7	4,3
Private	57,4	47,7	1,6	-0,4	0,0
Private					
Manufacturing	65,9	45,5	1,9	1,5	2,8
Excluding					
Agriculture	68,6	45,0	2,1	1,9	3,4
Excluding					
Agriculture and					
Energy	67,3	45,4	2,1	2,0	3,5

Source: CBRT, SIS

Developments in Consumer Prices

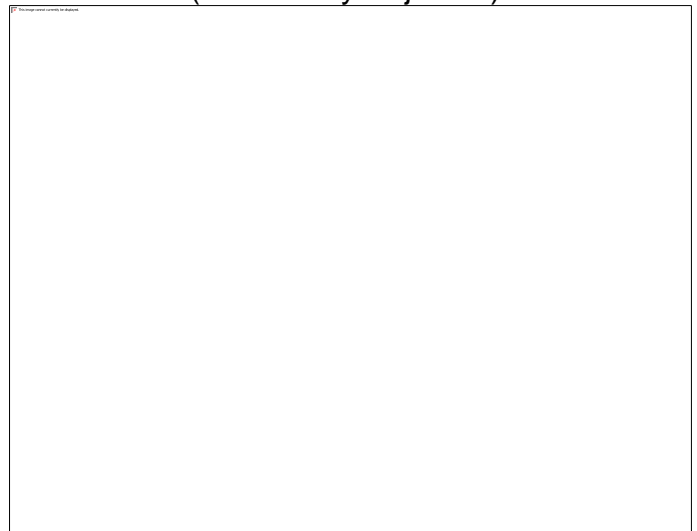
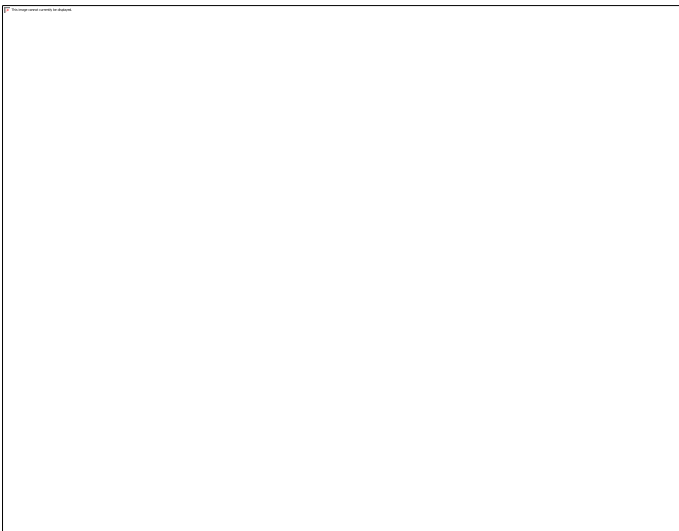
4. In June, CPI showed an increase in all sectors except for the food sector, due to the depreciation of the TL and upward adjustments in public sector prices.

5. As was the case in May, the lower-than-expected inflation outturn and the decline in food prices beyond seasonal factors rendered the downward trend in inflation more prominent in June. The downward trend in food, beverages and tobacco prices that started in March 2002 sustained its trend and declined by 3 percent in June. The food, beverages and tobacco prices have been adversely affected by the price increases imposed upon TEKEL goods. While the decrease in the prices of fresh fruits and vegetables in June led to a decline in food prices by 4.8 percent, prices of beverages and tobacco products increased by 5.6 percent and 9.5 percent, respectively. To sum up, the price increases originating from public sector price adjustments have been the major factor limiting further decrease in food, beverages and tobacco products prices. In seasonally adjusted terms, the CPI inflation and the CPI inflation excluding food rose by 2.5 percent and 2.4 percent, respectively.

Figure 1: CPI and CPI Excluding Food

Annual Percentage Change

Monthly Percentage Change
(Seasonally Adjusted)*



Source: CBRT, SIS

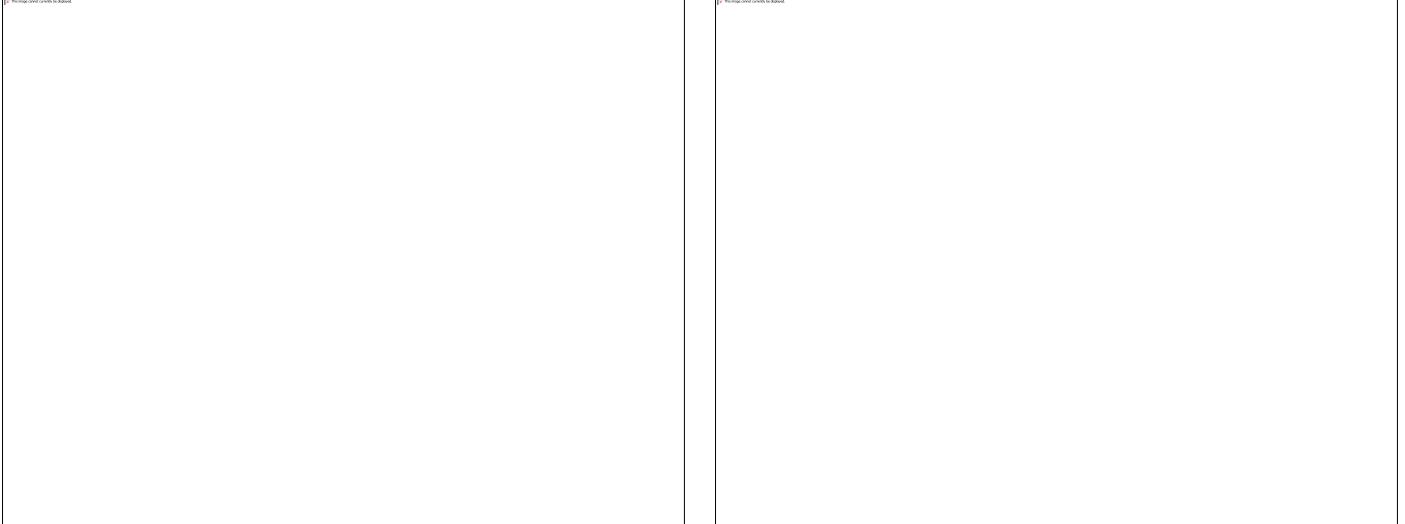
*TRAMO/SEATS method has been used for seasonal adjustment.

6. While a visible slow-down is observed in the increase in the price of goods owing to the decrease in food prices, the price of services sustained the trend they exhibited in the last few months. The percentage of increase in the price goods stood at 0.2 percent. Affected by the 1.9 percent increase in housing rents and 2.2 percent increase in restaurant, hotel and patisserie prices, the percentage of increase in services group was 1.4 percent. As a consequence, the annual increase stood at 45.8 percent in goods prices and at 36.6 percent in the price services in June.

Figure 2: Goods and Services Prices

Annual Percentage Change

Monthly Percentage Change



Source: CBRT, SIS

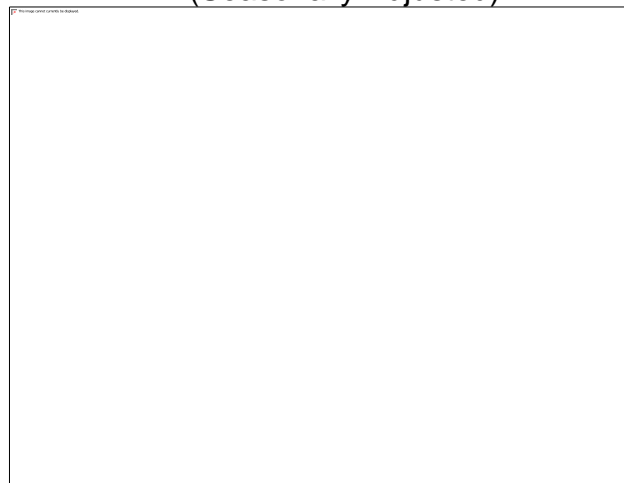
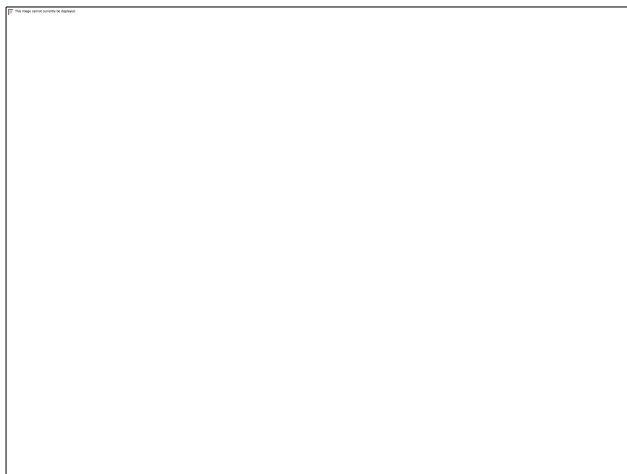
Developments in Wholesale Prices:

7. In June, the factors determining the increase in the WPI inflation were manufacturing sector prices and agriculture prices that have declined beyond seasonal movements. Manufacturing sector prices in June were mainly affected by the price adjustments stemming from the financing needs of the State Economic Enterprises (SEEs). Moreover, nominal depreciation of the Turkish lira against foreign exchange by 7.4 percent and 9.5 percent in May and June respectively, played an important role in the increase in manufacturing sector prices in June. However, as in May, the pass-through from the exchange rate to prices was limited. Agriculture prices declined by 5.9 percent in June which arose from the base effect owing to higher-than-seasonal prices in the beginning of this year, weak domestic demand and the surplus caused by seasonal factors. To sum up, in June, seasonally adjusted WPI increased by 2.9 percent and WPI excluding agriculture by 3.1 percent.

Figure 3: WPI and WPI Excluding Agriculture

Annual Percentage Change

Monthly Percentage Change
(Seasonally Adjusted)*



Source: CBRT, SIS.

*TRAMO/SEATS method has been used for seasonal adjustment.

II. OUTLOOK FOR FUTURE

8. According to the Expectations Survey of the CBRT, the end year inflation expectation of the markets have declined to 34.6 percent in the first half of June, which was the lowest level of the year. However, according to the survey conducted in the second half of June, the political uncertainty has led to a slight increase in inflationary expectations.

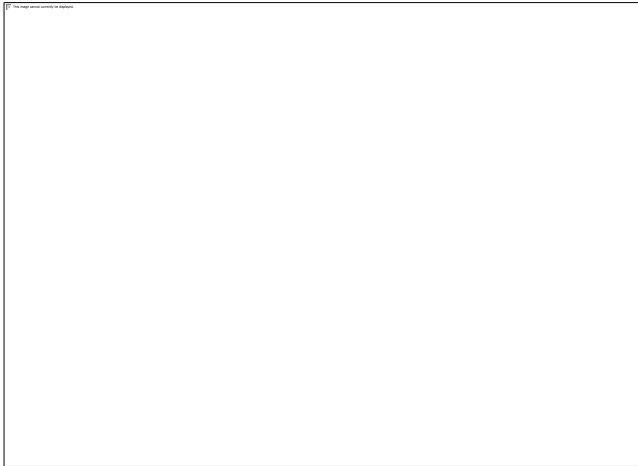
9. The inflation data for June has once again shown that the year-end inflation target is well within reach. The political uncertainty that started in the second half of May has had a negative impact on the risk premium, thereby adversely affecting the foreign exchange rates and interest rates. In spite of these developments, the overall economic program has been very successful in containing inflation.

10. The adverse effects of the shocks engendered by non-economic factors have been contained by the program that rests upon strong structural reform measures including the bank restructuring program, the amendments to the Central Bank Law and the adoption of Public Debt Management Law. However, the persistence of political uncertainty may obstruct the attainment of program targets by increasing concerns about the sustainability of the economic policies, thereby increasing the risk premium. In this regard, the need for carrying out the existing program and the rationale behind this was announced in the CBRT's press release dated June 28, 2002.

11. In the forthcoming period, the increase in foreign exchange rates and the lagged effects of the public price adjustments are likely to exert upward pressure on prices.

This upward pressure, however, is expected to be compensated by the seasonal decrease in agriculture and food prices. As a consequence, there is no doubt that the end-year target will be attained provided that the political uncertainty is removed.

Figure 4: End-Year Inflation Expectations according to the CBRT Expectations Survey



Source: CBRT