

NOVEMBER INFLATION AND OUTLOOK

I. GENERAL EVALUATION

1. The ongoing downward trend that had begun in June 2003 persisted in November as well, and annual inflation rates realized as 19.3 percent in CPI and 16.2 percent in WPI. The annual inflation rates in the CPI excluding food and WPI excluding agriculture continued to drop and became 18.5 percent and 13.4 percent, respectively. These figures have once more demonstrated that the probability of achieving the inflation target for end-2003 is very strong. Moreover, the decline of consumer inflation to its lowest level of the last 26 years is a striking development.

2. Monthly price increases recorded as 1.7 percent in WPI and 1.6 percent in CPI. Seasonally adjusted CPI and WPI inflations became 1.1 percent and 1.6 percent, respectively.

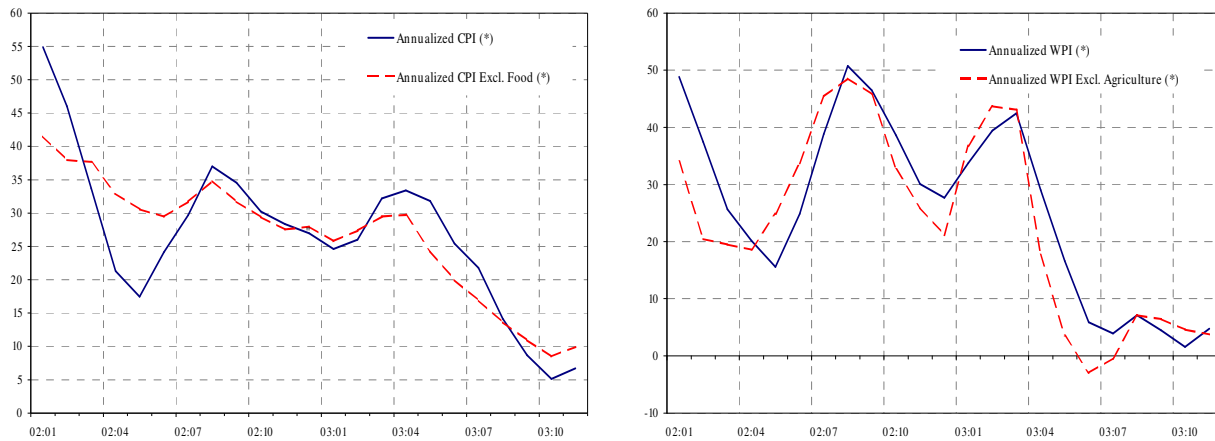
Table 1: General CPI, WPI and Sub-items

	Annual % Change		Monthly % Change			
	2002 Nov.	2003 Nov.	2003 Sep.	2003 Oct.	2002 Nov.	2003 Nov.
CPI	31.8	19.3	1.9	1.4	2.9	1.6
Goods	32.3	16.5	1.3	1.4	3.6	2.0
Services	30.7	24.7	3.0	1.5	1.5	0.8
Excl. Food	32.5	18.5	2.0	1.2	2.0	0.9
Food	29.3	21.8	1.6	2.2	6.0	4.0
WPI	32.8	16.2	0.1	0.6	1.6	1.7
Public	31.3	12.7	-0.6	-0.6	0.3	0.6
Private	33.4	17.6	0.3	1.0	2.1	2.1
Public Manufacturing	31.2	15.8	-0.8	-0.5	0.0	0.3
Private Manufacturing	28.1	13.6	0.2	0.6	1.6	0.9
Agriculture	45.5	25.9	0.4	1.9	3.3	4.6
Excl. Agriculture	29.5	13.4	0.0	0.2	1.2	0.8
Excl. Agr. and Energy	29.5	14.1	0.0	0.2	1.1	0.8

Source: CBRT, SIS.

3. The average of the last three-month seasonally adjusted inflation realized as 0.4 percent in CPI and 0.5 percent in WPI. The annualized figures correspond to 4.8 percent and 6.7 percent, respectively. During the same period, the average rate of increase in seasonally adjusted CPI excluding food was 0.8 percent. This figure corresponds to 9.9 percent in annual terms (Figure 1).

**Figure 1: Annual Percentage Change and Quarterly Moving Averages
CPI and CPI Excluding Food WPI and WPI Excluding Agriculture**



(*)Quarterly Moving Averages (Annualized, Seasonally Adjusted)

Source: CBRT, SIS

Developments in Consumer Prices

4. The downward trend in consumer inflation continued in November as well. When compared to the figures of October, it is observed that annual inflation dropped by 1.5 points in CPI and 1.3 points in CPI excluding food (Figure 2).

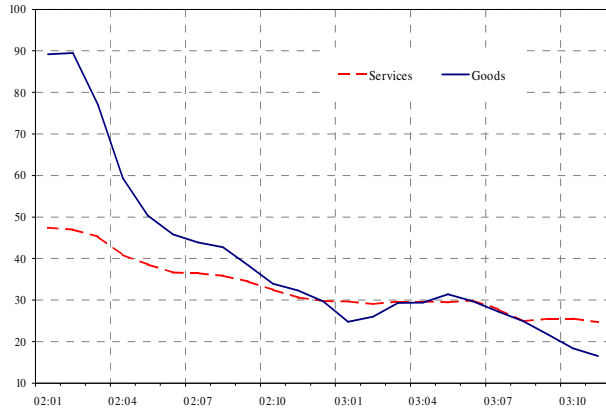
5. Prices in goods group increased by 2.0 percent. Food group became a determinant factor in price increases. Meanwhile, inflation remained at 0.8 percent in services group. When seasonally adjusted price increases are analyzed, it is noted that price increases in goods and services became 0.9 percent and 1.6 percent, respectively.

6. The downward trend in price increases in CPI sub-groups except food and entertainment continued in November too. While prices in durable consumption goods did not display a significant deviation from their trend observed in the last period, health group (medicine) prices continued to decline in November. In summary, there was not an apparent increase in inflation trend in sub-items other than food group.

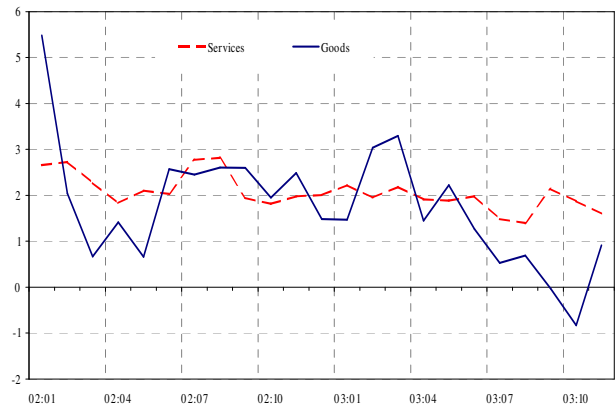
7. By 1.1 percent, the increase in rents in November became the lowest rate of increase in this group since April. This development has confirmed our evaluation that the acceleration in rate of increase in rents in September and October was temporary. Moreover, the falling rates of increase in rents, the most important sub-item of services group, indicate that there is not a noteworthy deviation in the general inflation trend.

Figure 2: Prices of Goods and Services

Annual Percentage Change



Monthly Percentage Change (Seasonally Adjusted)*



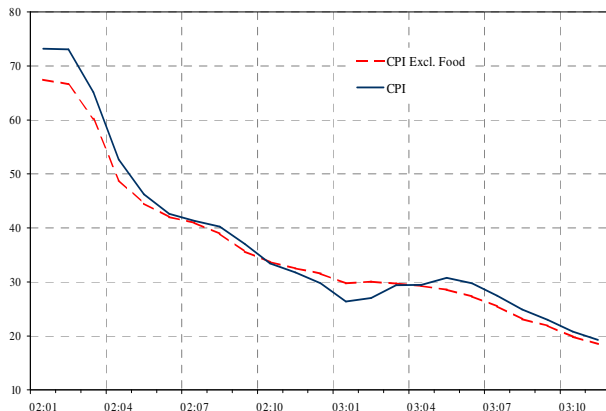
Source:CBRT, SIS.

* TRAMO/SEATS method has been used for deseasonalization.

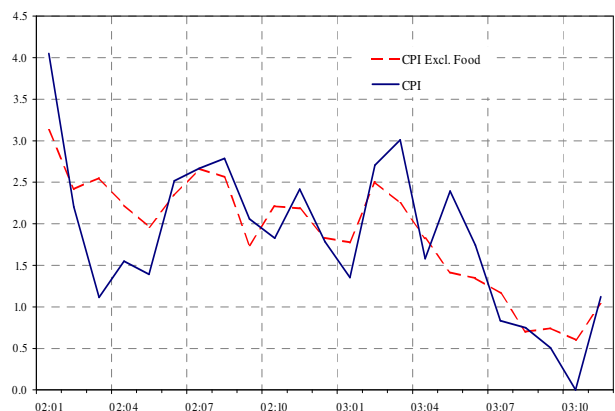
8. The seasonally adjusted CPI increased by 1.1 percent in November (Figure 3). The acceleration in CPI inflation mainly stemmed from food prices, which rose by 1.4 percent on a seasonally adjusted basis in November. On the other hand, the rate of increase in the seasonally adjusted CPI excluding food remained at 1 percent. Despite a notable rise in food prices compared to the July-October period, the increases in CPI excluding food did not display a significant deviation from their trend.

Figure 3: CPI and CPI Excluding Food

Annual Percentage Change



Monthly Percentage Change (Seasonally Adjusted)*



Source:CBRT, SIS.

* TRAMO/SEATS method has been used for deseasonalization.

II. OUTLOOK

13. The November inflation figures denote that the end-year inflation may remain below the 20 percent target. The course of inflation in the second half of 2003 has confirmed our forecasts for the future course of inflation that we have announced via our monthly press releases titled "Inflation and Outlook".

14. As repeatedly underlined before, under the current monetary policy, the decisions on short-term interest rates are made with respect to the consistency of the future inflation figures with the targeted inflation rates. The main reason for this is that the most of the effects of monetary policy on inflation make themselves evident with a time lag. Therefore, the inflation figures achieved at the end of 2003 are not only the outcome of the last few months, but of all monetary policy actions taken since the beginning of 2003, along with all other policies implemented. This argument is even more important in that the realization of the end-year inflation so close to the targeted figure demonstrates the consistency of the Central Bank's past decisions on interest rates.

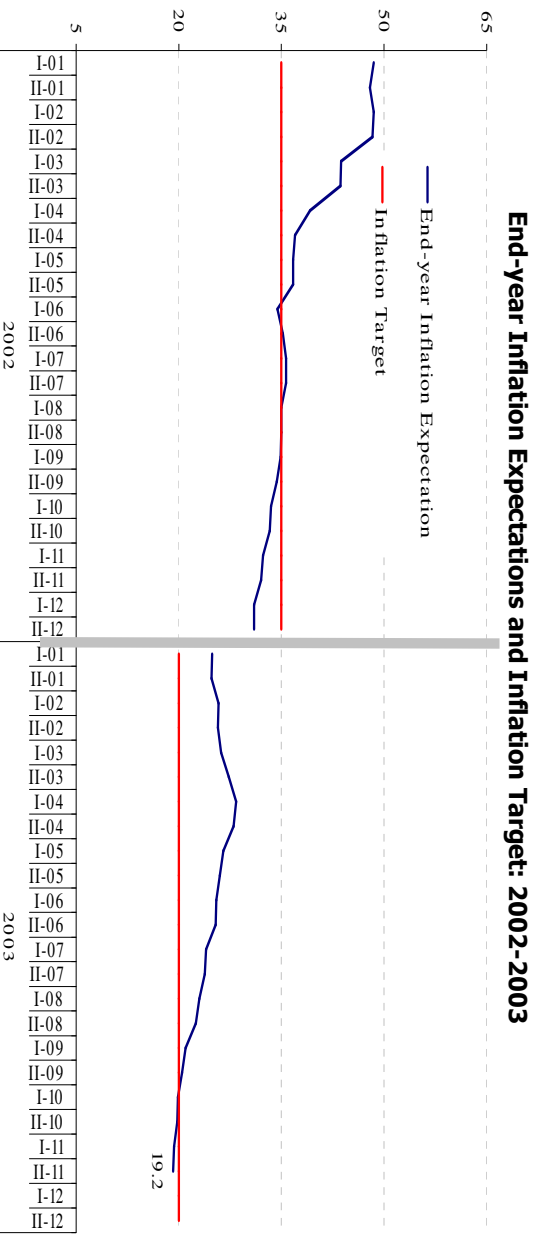
15. In this context, the Central Bank has been emphasizing since October that it has already focused on 2004 inflation. The November inflation figures have asserted that the downward trend in inflation is not a temporary one. Moreover, this positive trend is reflected on inflation expectations as well. Given the current conditions, recent movements in exchange rates are expected to have a rather limited impact on inflation.

16. Under the assumption that there would be no significant exogenous surprises, or cost shocks in the coming period, the downward trend in inflation is expected to continue. The Central Bank is closely monitoring the developments in consumer credits as well as other indicators for domestic demand. Despite the rapid increase materialized in these indicators in recent months, no significant upsurge was observed in unit costs. In other words, the recovery in demand is not expected to create a push-up effect on inflation. Undoubtedly, these factors may slacken the downward trend in inflation. However, it must be kept in mind that these developments have already been considered in the decisions on interest rate cut taken with a forward-looking approach.

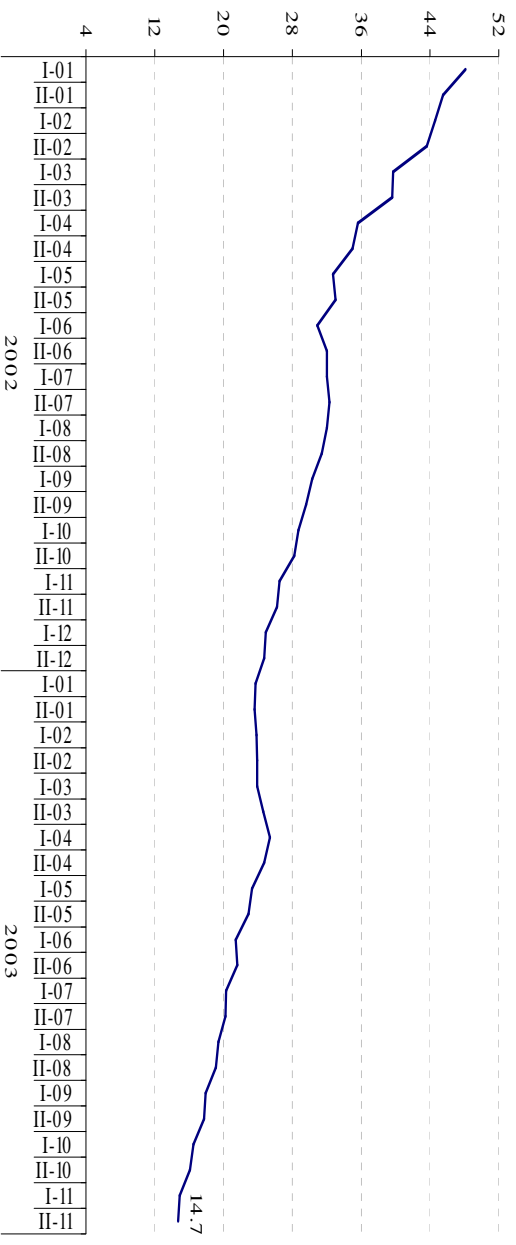
17. The point arrived in disinflation efforts should be regarded as an achievement. Nevertheless, there is still a long way ahead to achieve sustainable price stability in Turkey. Price stability means a situation, in which no inflation risk is involved in decision-making mechanism of economic agents. Therefore, fiscal discipline and sustained structural reforms, the importances of which have been repeatedly underlined, will gain more importance in the coming period. Especially the efforts towards increasing productivity in public sector are of utmost importance with respect to the improvement in the quality of fiscal discipline. Moreover, every step to be taken towards developing the competitiveness, deepening of the financial sector along with the banking reform, improving the investment environment and enhancing the quality of good governance will continue to wipe out the obstacles on the way to price stability. It should be borne in mind that these reforms will also

bring in a sustainable growth environment, and will support the fight against inflation without risking economic growth.

Figure 5: Inflation Expectations According to CBRT Expectations Survey



Inflation Expectations for the Next 12 Months



Source: CBRT Expectations Survey