

APRIL INFLATION AND OUTLOOK

I. GENERAL EVALUATION

1. In April, WPI and CPI prices increased by 1.8 percent and 2.1 percent, respectively. Since the monthly increases realized at April 2002 were at similar level, annual WPI and CPI remained almost unchanged. Hence, annual WPI inflation became 35.1 percent, while CPI inflation realized at 29.5 percent. Meanwhile, seasonally adjusted WPI and CPI increases were 1.5 percent and 1.7 percent, respectively.
2. Rise in crude oil and food prices and the cost-push effects of rapid depreciation of the Turkish lira in January were the main factors underlying the rise in inflation in February. In March the cost-push effect diminished, while adverse developments in food prices persisted. Along with these developments, with the decline in international crude oil prices and exchange rates, cost-push pressures reversed in April.
3. Price increases in WPI mainly stemmed from agricultural prices. When agriculture sector is excluded, WPI remained the same compared to March. CPI excluding food rose by 2.1 percent on monthly basis. Although increases in headline WPI and CPI are at April 2002 levels, WPI excluding agriculture and CPI excluding food are lower compared to the figures of April 2002. Accordingly, WPI excluding agriculture dropped to 32.8 percent and CPI to 29.3 percent (Table 1).

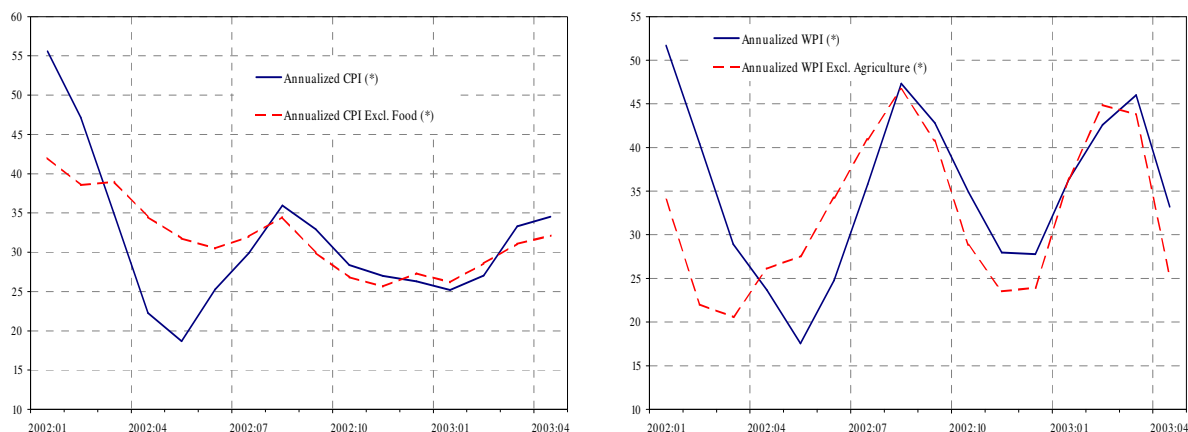
Table 1: General CPI, WPI and Sub-items

	Annual % Change		Monthly % Change			
	2002	2003	2003	2003	2002	2003
	April	April	February	March	April	April
CPI	52,7	29,5	2,3	3,1	2,1	2,1
Goods	59,3	29,4	2,5	3,3	2,4	2,5
Services	40,9	29,7	1,8	2,7	1,3	1,3
Excluding Food	48,9	29,3	1,5	1,5	2,5	2,1
Food	65,8	30,0	4,8	8,2	0,7	1,9
WPI	58,0	35,1	3,1	3,2	1,8	1,8
Public	52,7	37,7	3,8	1,9	2,4	-1,2
Private	60,1	34,1	2,9	3,7	1,6	2,9
Public Manufacturing	51,4	43,2	4,1	1,8	2,2	-0,9
Private Manufacturing	55,6	29,4	1,5	1,6	1,9	0,7
Agriculture	69,3	42,1	5,6	7,8	1,0	7,2
Excl. Agriculture	54,6	32,8	2,4	1,8	2,1	0,0
Excl. Agr. and Energy	54,2	33,9	2,5	1,8	2,1	0,0

Source: CBRT, SIS.

4. The last three-month average of seasonally adjusted inflation became 2.4 percent in WPI and 2.5 percent in CPI. The annualized figures for the referred inflation correspond to 33.2 percent in WPI and 33.6 percent in CPI. During the same period, monthly WPI inflation excluding agriculture became 1.9 percent, while that of CPI excluding food realized at 2.3 percent. In annual terms, WPI inflation excluding agriculture and CPI inflation excluding food were 25.3 percent and 32.1 percent, respectively (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

5. In April, CPI inflation remained below the expectations with 2.1 percent. 1 point of 2.1 percent rise in CPI stemmed from the increases in clothing prices due to the beginning of new season.

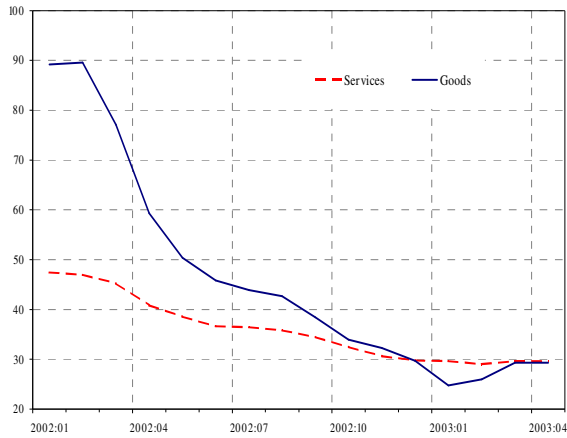
6. With the impact of the rise in clothing prices, prices of goods increased by 2.5 percent in April. Price increases in services remained at 1.3 percent owing to the limited rise in rent prices. Seasonally adjusted data reveal an increase of 2.0 percent in prices of services and 1.5 percent of increase in prices of goods. Hence, the rate of increase in both groups substantially slowed down compared to the last two months. Annual price increases realized at 29.4 percent in goods and 29.7 in services (Figure 2).

7. When sub-groups of CPI are analyzed, it is noted that rate of increase in food prices remained limited despite ongoing high rates of increase in agricultural prices. Moreover, housing prices became another significant factor that limited April inflation. Prices in housing group recorded the lowest monthly increase during 1994-2003 period with 0.6 percent. Considerably low level of increase of 1.1 percent in rents in April and decline in fuel oil prices played an important role in this development as well as the drop in housing heating costs.

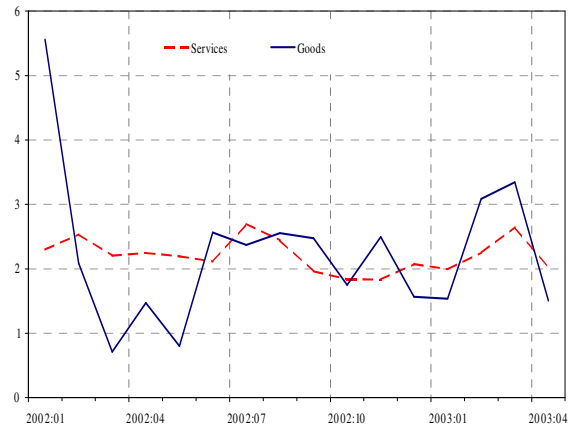
8. Prices in durable consumption goods consisting of electrical-non-electrical housing devices, private transportation vehicles and entertainment-culture devices increased by 3.9 percent in April. Despite the relative acceleration in prices of this group, it is seen that the first four-month cumulative increase rate of 7.1 percent is still at a low level compared to the same periods of previous years. One of the leading reasons of the said acceleration in durable consumption goods is considered to be the delayed impact of increases in exchange rates in recent months.

Figure 2: Prices of Goods and Services

Annual Percentage Change



Monthly Percentage Change (Seasonally Adjusted)*



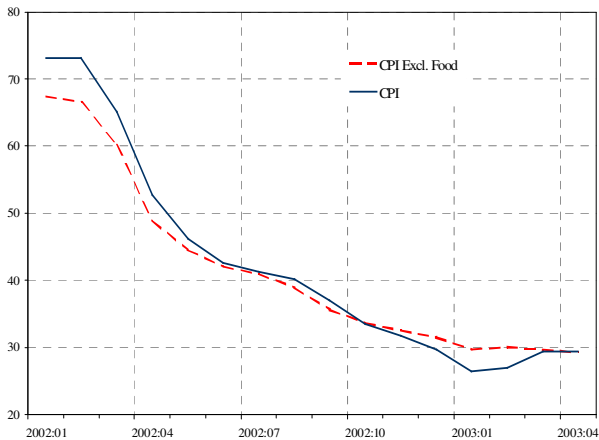
Source: CBRT, SIS.

* TRAMO/SEATS method has been used for deseasonalization.

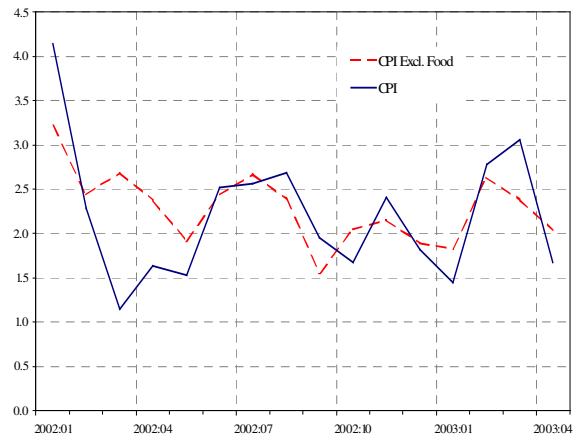
9. In April, with 1.7 percent, seasonally adjusted rate of increase in CPI realized at its lowest level percent after January 2003, owing to the drop of seasonally adjusted rate of change to 0.5 percent from 6.1 percent, and the drastic slowdown in the rate of increase in CPI excluding food compared to the last two months (Figure 3).

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.

14. Energy prices declined by 0.4 percent in April. The cumulative rate of increase in energy sector, which was 1.8 in 2003, remained well below the cumulative rate of increase of 14.4 percent in WPI. The annual rate of increase was 34.8 percent in water prices, and 11.5 percent in electricity and natural gas prices.

III. OUTLOOK

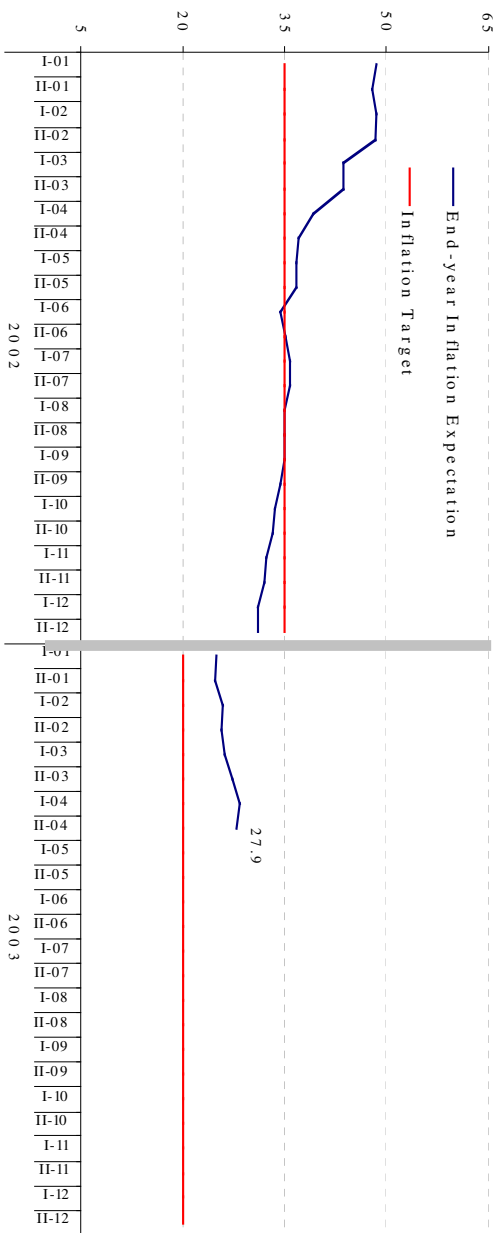
15. Inflation figures in March were affected by the sustained adverse developments in food prices as well as the ease of cost-push pressures. In April, with the downward movement observed in exchange rates in April, after the earlier-than-expected end of the war in Iraq and termination of IMF's 4th review, and the following decrease in oil prices, the cost-push pressures weakened, which had been playing an important role in inflation since the turn of 2003.

16. In our public releases entitled the "Inflation and Outlook" in February and March, we had stated that the base effect played an important role in the recent rise in inflation and had anticipated that this effect would be reduced as of June and inflation would return to its downward course after the "extraordinary" developments stemming from the war in Iraq have ceased. As a matter of fact, following the decline in exchange rates and oil prices, annual inflation, which had been rising since February 2003, halted in April.

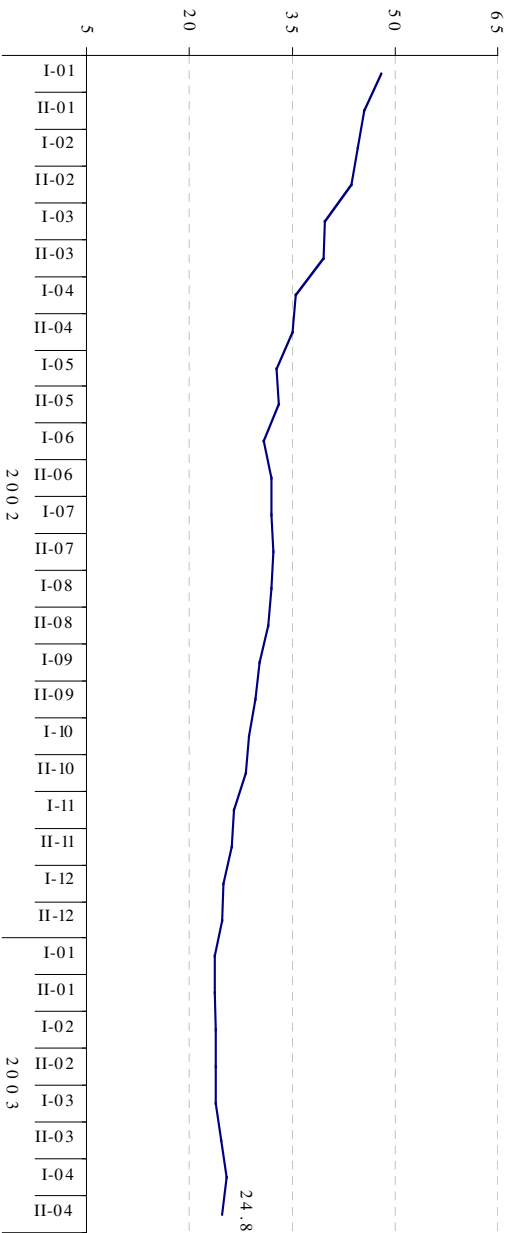
17. The favorable developments in WPI and CPI inflation are more pronounced when some sub-sectors like agricultural and food sectors, the prices of which mostly depend on the seasonal conditions, are excluded. WPI excluding agriculture decreased from 35.6 percent in March to 32.8 percent while CPI excluding food dropped down from 29.7 percent in March to 29.3 percent in April. As cost-push pressures have ceased and no significant recovery in the domestic demand is expected in the short-run, the downward trend in inflation figures in excluding food and agriculture is expected to continue in the forthcoming period. Moreover, the base effect, which contributed to the rise in annual inflation figures in February and March, is expected to ease partially as of June, which would lead to a significant decline in annual inflation in the forthcoming months.

18. Consequently, despite the favorable developments in inflation, maintaining the fiscal discipline allowing no room for any concessions, conducting public price adjustments and income policies consistent with the end-year inflation target, steadfast implementation of structural reforms, and instilling confidence to minimize the fluctuations in the financial markets appear to be the sine qua non condition for attaining the end-year inflation target.

**Figure 5: Inflation Expectations According to CBRT Expectations Survey
End-year Inflation Expectations and Inflation Target: 2002-2003**



Inflation Expectations for the Next 12 Months



Source: CBRT Expectations Survey