

## JANUARY INFLATION AND OUTLOOK

### I. GENERAL EVALUATION

1. In January 2003, WPI and CPI increased by 5,6 percent and 2,6 percent, respectively. Moreover, the seasonally adjusted increases became 1,4 percent in WPI and 3,9 percent in CPI. Thus, the overall increase in CPI dropped to 26,4 percent, maintaining its downward trend. On the other hand, the annual increase in WPI accelerated compared to December and rose to 32,6 percent in January.

2. Depreciation of the Turkish lira starting from the second half of December, increases in petroleum products and public prices due to developments in international oil prices and exchange rates were the main reasons that particularly pushed up WPI inflation in January. Rising by 7,7 percent, agricultural prices also played an important role in the increase of WPI inflation.

3. As these unfavorable conditions had a greater impact on WPI, and agricultural prices rose more than foods prices, the increase in CPI inflation remained moderate in comparison to WPI inflation.

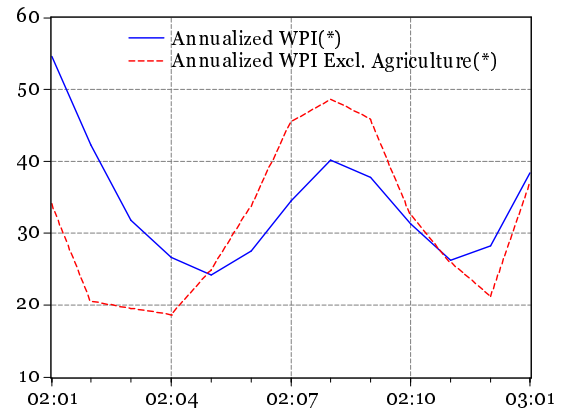
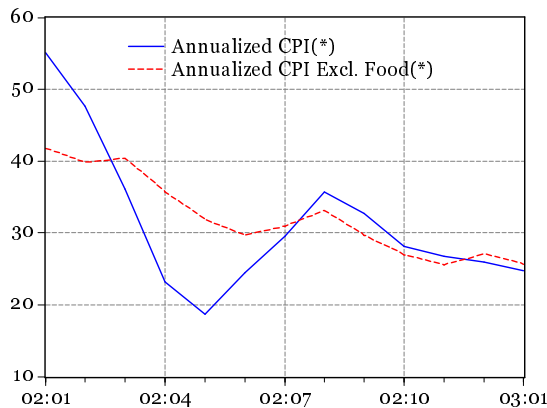
**Table 1: CPI, WPI and Sub-items**

	Year-on-Year % Change		Monthly % Change			
	2002	2003	2002		2002	2003
	January	January	November	December	January	January
<b>CPI</b>	<b>73,2</b>	<b>26,4</b>	<b>2,9</b>	<b>1,6</b>	<b>5,3</b>	<b>2,6</b>
Goods	89,2	24,8	3,6	1,6	6,4	2,3
Services	47,4	29,7	1,5	1,7	3,2	3,1
Excluding Food	67,5	29,7	2,0	1,3	3,9	2,5
Food	92,6	16,4	6,0	2,9	9,9	3,0
<b>WPI</b>	<b>92,0</b>	<b>32,6</b>	<b>1,6</b>	<b>2,6</b>	<b>4,2</b>	<b>5,6</b>
Public	101,9	38,5	0,3	1,6	2,5	7,3
Private	88,4	30,4	2,1	3,0	4,8	4,9
Public Manufacturing	101,9	43,6	0,0	2,8	1,5	8,5
Private Manufacturing	95,3	29,5	1,6	2,0	2,1	3,6
Agriculture	75,6	31,5	3,3	5,2	10,8	7,7

Excluding Agriculture	97,6	33,0	1,2	1,9	2,3	5,0
Excluding Agriculture and Energy	96,4	34,2	1,1	2,0	1,9	5,2

4. *Inflation tendency*, calculated by annualizing the three-month moving averages of seasonally adjusted price indexes, declined to 24.8 percent in CPI and 25,7 percent in CPI excluding food, while increasing to 38,4 percent in WPI and 36,8 percent in WPI excluding agriculture.

**Figure 1: Annual Percentage Change and Three-Month Moving Averages  
CPI and CPI Excluding Food                      WPI and WPI Excluding Agriculture**



(\*)Annualized 3 month moving average of seasonally adjusted data

### ***Developments in Consumer Prices***

5. Increase in CPI in January 2003 displays notable differences compared to the same month of the previous years. Price increases in food, furniture, and health remained remarkably low with regard to the January figures of the recent years, while clothing and footwear prices decreased by a rate that is even higher than the January figures of the previous years.

**Table 2: Price increases in January**

	1989-1998 Avg.	1999	2000	2001	2002	2003
CPI	6,3	4,8	4,9	2,5	5,3	2,6
Food, Beverages, Tobacco	6,5	3,9	3,6	1,5	8,6	3,8
Food	7,6	4,4	3,5	1,8	9,9	3,0
Furniture	7,8	4,8	8,3	1,8	7,7	1,4
Health	12,3	16,0	17,5	6,6	4,6	2,3
Clothing	-0,2	-2,9	-2,0	-3,4	-2,0	-4,2

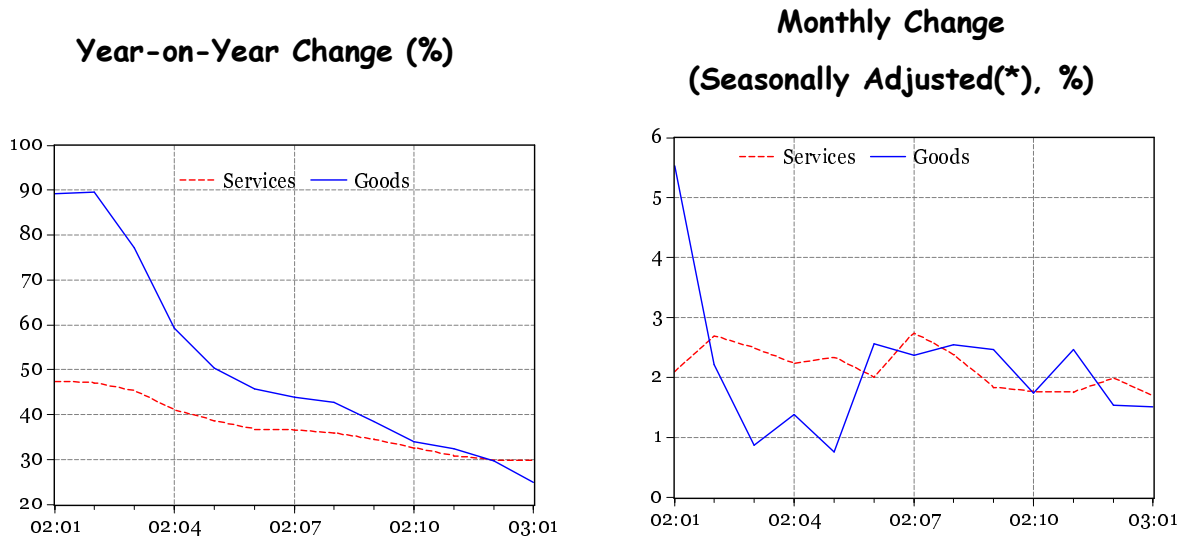
Not <sup>(\*)</sup>: For period between 1989 and 1994 price index with 1987=100 as the base year, and for the following periods Price index which has 1994 as the base year were utilized.

The period for which average of the rate of increase in the food subgroup is calculated is between 1995 and 1998.

6. While increase in goods prices remained at 2,3 percent due to the fall in clothing prices, price increase in services became 3,1 percent due to adverse impact of price adjustments made in the hotels, cafes and restaurants group as well as in financial services. However, when seasonally adjusted price increases are examined, it is seen that price increase in services was 1,7 percent, 0,3 percent lower than the previous month. Annual percentage price change dropped to 24,8 percent in goods and 29,7 percent in services. Annual price increase in goods group was lower than the increase in services group for the first time since February 2001 crisis (Figure 2).

7. The effects of public price adjustments made in January can be clearly seen in housing, health, transportation and miscellaneous goods and services. Heating and other expenditures, which increased due to price increases in water, petroleum and natural gas supplied to houses, had a significant impact on housing group. Some of the prices in medical services were adjusted in early January, and some of them at the end of the month. Since the latter was not reflected in January inflation, the average price increase in this group remained considerably low compared to the same month of the previous years. While the transportation group prices were affected by the hike in petroleum prices, the price increases in miscellaneous goods and services accelerated due to seasonal rise in prices of financial services and other services.

Figure 2: Prices of Goods and Services



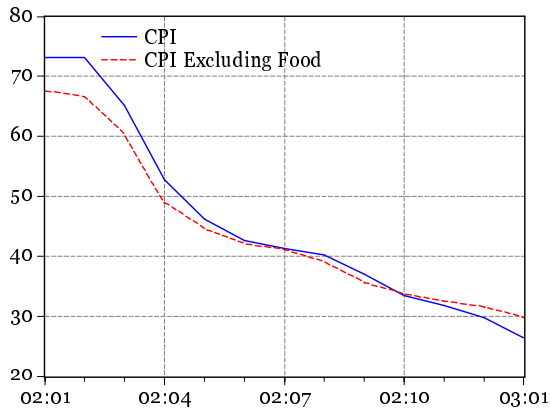
Source: CBRT; SIS

(\*) TRAMO/SEATS methodology is utilized for seasonal adjustment.

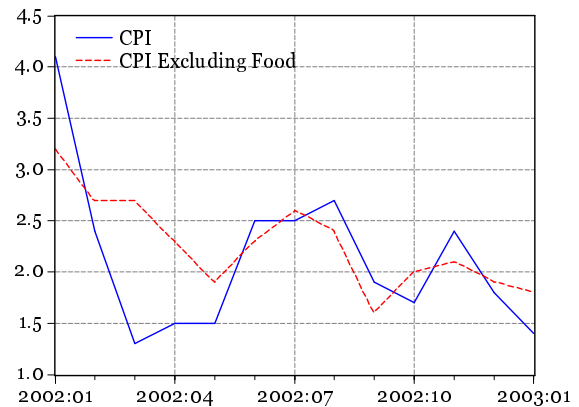
8. As mentioned above, the moderate increase in the prices of the groups like food, durable consumption goods and health--which tend to increase seasonally in January--partly offset the adverse impact of public price increases on CPI. As a consequence, seasonally adjusted CPI increase became 1,4 percent, dropping to its lowest level since March 2002.

**Figure 3: CPI and CPI Excluding Food**

**Year-on-Year Change (%)**



**Monthly Change  
(Seasonally Adjusted(\*), %)**



Source: CBRT; SIS

(\* ) TRAMO/SEATS methodology is utilized for seasonal adjustment.

### ***Developments in Wholesale Prices***

**9.** The rise in international crude oil prices, 6,4 percent depreciation in the exchange rate basket (1 US dollar + 0.77 euro), the adjustments in public prices, and the acceleration in the agricultural price increase exerted an upward pressure on the WPI inflation in January 2003.

**10.** The increase in agricultural prices in January realized at 7,7 percent, which is below the January average of the last eight years, namely 8,7 percent. When the seasonally adjusted series are analyzed, it is observed that increase in agricultural prices, which was 4 percent in December 2002, dropped down to 3,9 percent in January 2003. When agricultural sector is excluded, it is seen that increase in WPI accelerated compared with December, and reached 5 percent in January 2003.

**11.** The 8,5 percent increase in public manufacturing sector prices in January 2003 has been the highest rate of increase in this sector since April 2001. The increase in question has mainly stemmed from the adverse effect of the increase in international crude oil prices on the mining and petroleum products manufacturing sector prices, and from the 11,5 percent

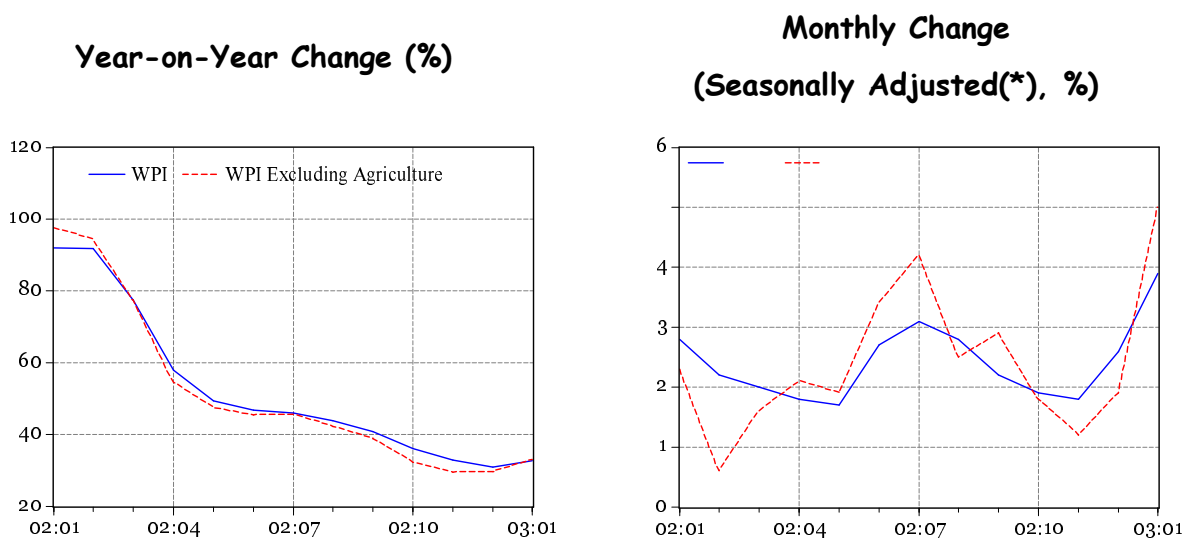
increase in the prices of tobacco products due to rise in TEKEL products prices. Thus, annual increase in public manufacturing sector prices has reached 43.6 percent.

12. Compared with December 2002, the rate of increase in private manufacturing sector prices accelerated and realized 3,6 percent. The increase of 3,8 percent in food and beverage manufacturing prices, which have the biggest share in private manufacturing sector, was a driving force behind the said increase. Moreover, the increase of 12 percent in the metal industry, which is known to be vulnerable to exchange rate developments, became another factor that exerted upward pressure on WPI inflation in January 2003. The annual rate of increase in private manufacturing sector prices thus became 29,5 percent.

13. Due to the above-mentioned developments, seasonally adjusted WPI increased by 3,9 percent in January, and thus, the downward trend observed in seasonally adjusted ratios since August turned upward in December (Figure 4).

14. The downward trend observed in WPI inflation since February 2002 was interrupted in January 2003. Moreover, WPI inflation excluding agriculture continued its upward trend in January, as it did in December (Figure 4).

**Figure 4: WPI and WPI Excluding Agriculture**



Source: CBRT; SIS

(\*) TRAMO/SEATS methodology is utilized for seasonal adjustment.

## II. OUTLOOK

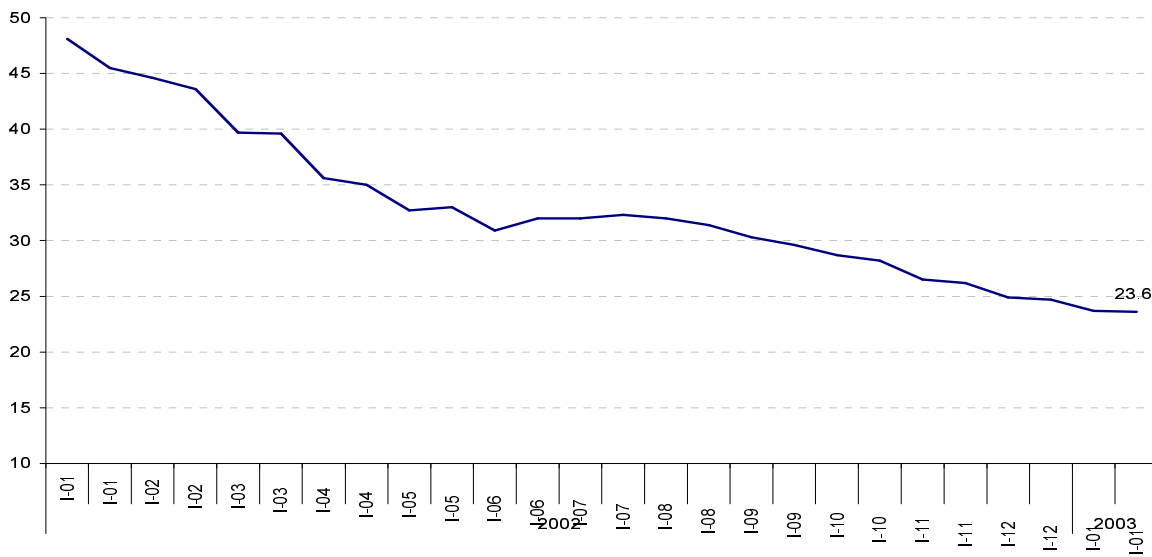
15. Increase in CPI inflation came down to 26,4 percent in January 2003, in line with the annual inflation target and the market expectations. According to the data compiled by the CBRT Expectations Survey, the end-year expected inflation rate has continued to decrease and the expected inflation in the second half of January has been revealed as 24,8 percent (Figure 5).

16. January WPI inflation has been the- highest since November 2001, owing mainly to the rise in input costs stemming from exogenous factors. WPI inflation may be adversely affected in the months ahead, if the sharp rise in international crude oil prices and exchange rates continue and the acceleration in agricultural price increases and public price adjustments keep going on. Moreover, the modest rise in energy prices in the last two months despite the rise in energy production costs may signal a price adjustment in the near future.

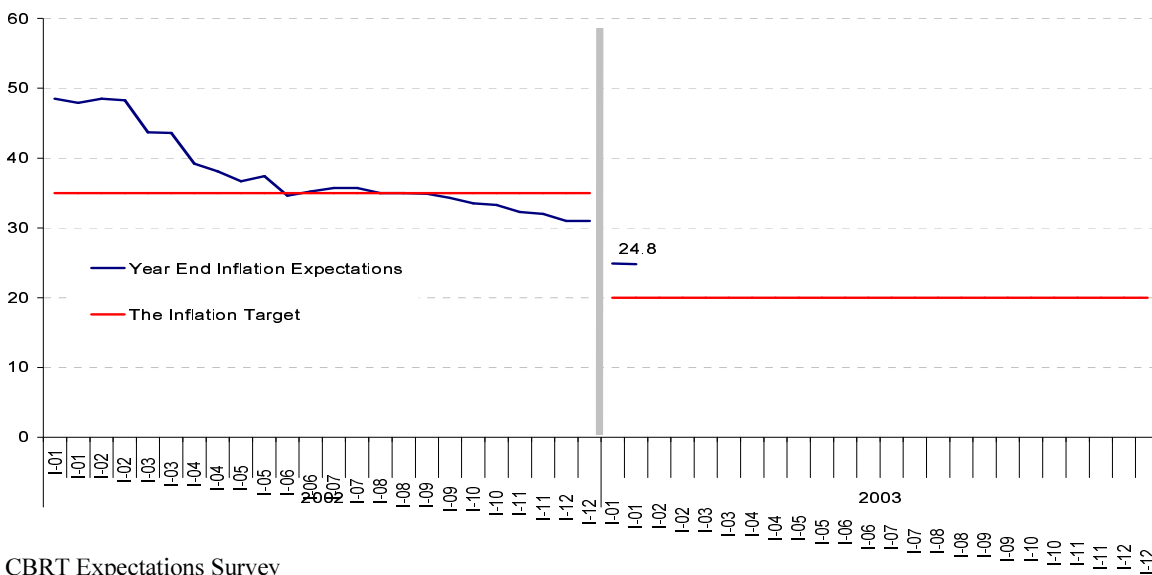
17. To what extent these increases are to be reflected on the consumer prices will depend on the domestic demand developments and on the persistence of the factors, especially the conflict in Iraq, that give rise to increases in production costs. Meanwhile, the increase in agricultural prices that started in the last quarter of 2002 may exert an upward pressure on CPI food prices.

18. January 2003 inflation figures indicate how important it is to preserve fiscal discipline in disinflation efforts. In the forthcoming period, the probability of introducing some revenue increasing measures in the form of taxes and public price adjustments with the aim of reaching the fiscal targets, which would create price movements above the inflation target, will pose risk to the continuation of downward trend in inflation. In an environment where exogenous risk factors exist, it is very important, from the standpoint of the disinflation process, to introduce necessary structural reforms, and to implement the economic program in line with the inflation target with the aim of achieving the fiscal discipline.

**Figure 5: Inflation Expectations According to CBRT Expectations Survey  
Expected Inflation for the Next 12 Months**



**End-year Inflation and Inflation Target: 2002-2003**



Source: CBRT Expectations Survey

19. Conditional on the fiscal discipline being attained through concrete and convincing measures, and the reforms that have brought about a radical transformation in the economy being pursued decisively, the rise in wholesale prices in January is considered to be a temporary deviation from the remarkable downward trend of inflation in 2002. Within this framework, the Central Bank remains to be optimistic about the achievement of the end-year inflation target of 20 percent.