

June 12, 2002

PRESS RELEASE

MAY INFLATION AND FORWARD-LOOKING EXPECTATIONS

I. GENERAL EVALUATION

1. The downward inflationary trend in the consumer and wholesale prices has continued in May. This decline in inflation cannot solely be attributed to seasonal factors that are observed during this period in every year. Consumer Price Index (CPI) and Wholesale Price Index (WPI) increased by 0.6 and 0.4 percent, respectively. Annual inflation figures declined to 46.2 percent in CPI and 49.3 percent in WPI (Table 1).

2. The food and agriculture prices that have contributed to the downward inflationary trend starting with February 2002, caused the inflation figures to remain below expectations in May as well. Clothing and footwear prices put upward pressure on CPI, while the increase in WPI originated from the increase in manufacturing industry prices. Due to the considerable increase in clothing and footwear prices, the CPI inflation excluding food has risen by 2 percent in May, while the WPI inflation excluding agriculture has increased by 1.9 percent.

3. As has been observed in recent months, the downward trend in *the annual inflation trend*, calculated by the annualized 3-month moving averages of the de-seasonalized CPI and WPI, has continued in May as well. As of May, the annual inflation trend has declined to 18.3 and 18.9 percent in WPI and CPI, respectively. The annual inflation trend has been 24.9 percent in WPI excluding agriculture and 31.5 percent in CPI excluding food.

Table 1: CPI, WPI and Sub-items

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

CPI	52,4	46,2	1,2	2,1	0,6
Goods	55,1	50,4	0,7	2,4	0,1
Services	47,6	38,6	2,2	1,3	1,6
Excluding Food	54,6	44,5	1,8	2,5	2,0
WPI	57,7	49,3	1,9	1,8	0,4
Public	67,2	46,7	2,0	2,4	2,7
Private	54,3	50,3	1,8	1,6	-0,4
Private Manufacturing	62,8	47,4	1,3	1,9	1,5
Excluding Agriculture	64,3	47,3	1,6	2,1	1,9
Excluding Agriculture and Energy	63,0	47,0	1,7	2,1	2,0

Source: CBRT, SIS.

Developments in Consumer Prices

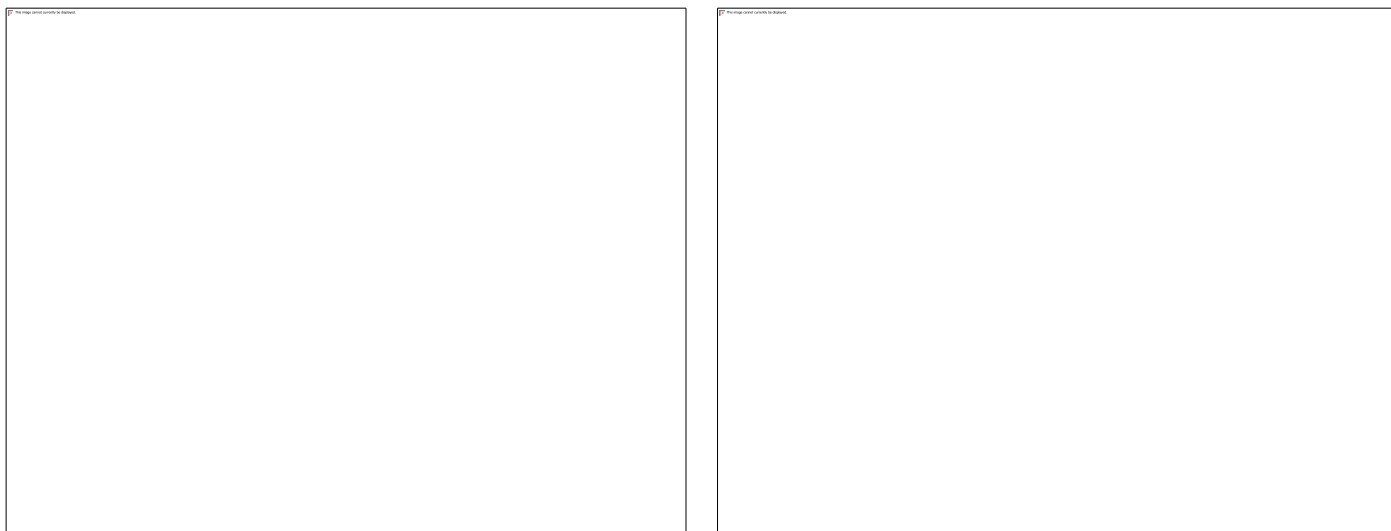
4. The main contributing factors to the acceleration of downward trend in inflation were: the decline in inflationary expectations resulting from successful implementation of the economic program, the exchange rate stability, the weak domestic demand, and the less-than expected increases in food and agriculture prices. The CPI inflation in May mostly originated from the increase in clothing and footwear prices, which rose by 6.4 percent due to seasonal factors. The contribution of the clothing and footwear item to the CPI inflation was 0.6 percentage points in May.

5. The noticeable decline in food prices, which was beyond expectations and seasonal factors, contributed substantially to the downward trend in inflation. Food, beverages and tobacco prices that have displayed a downward trend since March 2002 declined by 3.3 percent in May. The favorable weather conditions and restrictions on the exportation of fresh fruit and vegetables resulted in excess supply, thereby exerting downward pressure on food prices in May.

Figure 1: CPI and CPI Excluding Food

Yearly % Change

Monthly % Change

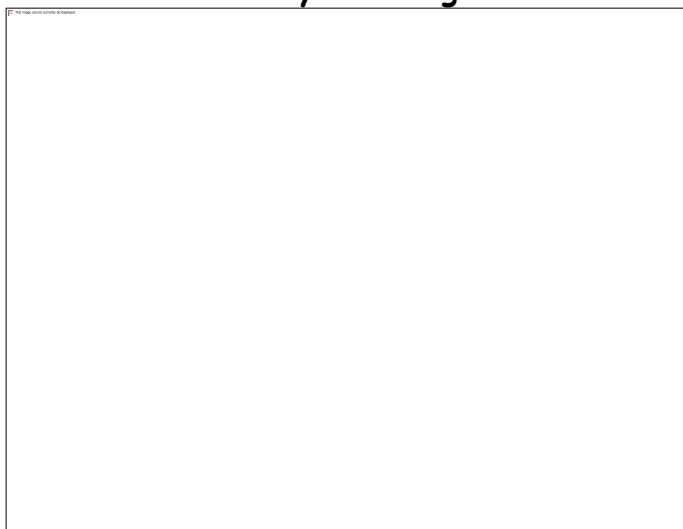


Source: CBRT, SIS.

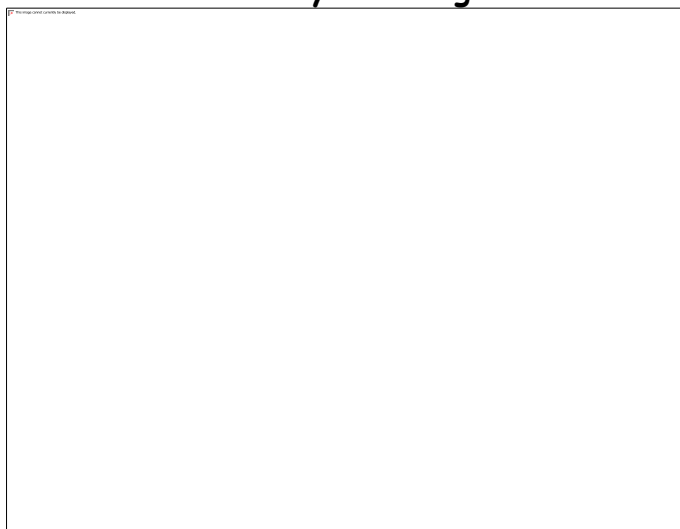
6. While the increases in goods prices display a substantial slowdown, the services sector prices appear to maintain its rigidity. The goods prices increased by only 0.1 percent in May. Services sector price increase, on the other hand, stood at 1.6 percent, owing to the 1.8 percent increase in housing rents, 3.3 percent increase in transportation services prices and 1.9 percent increase in restaurant and hotel prices. As of May, the yearly price increase has been 50.4 percent in goods and 38.6 percent in services sector.

Figure 2: Goods and Services Prices

Yearly % Change



Monthly % Change



Source: CBRT, SIS.

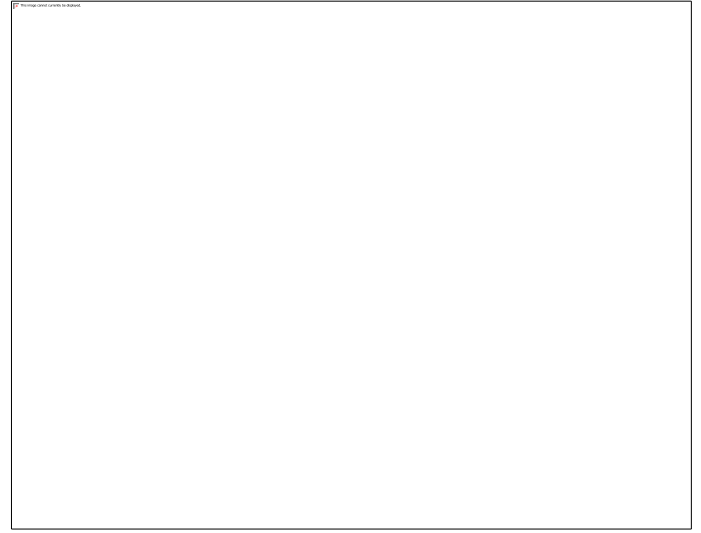
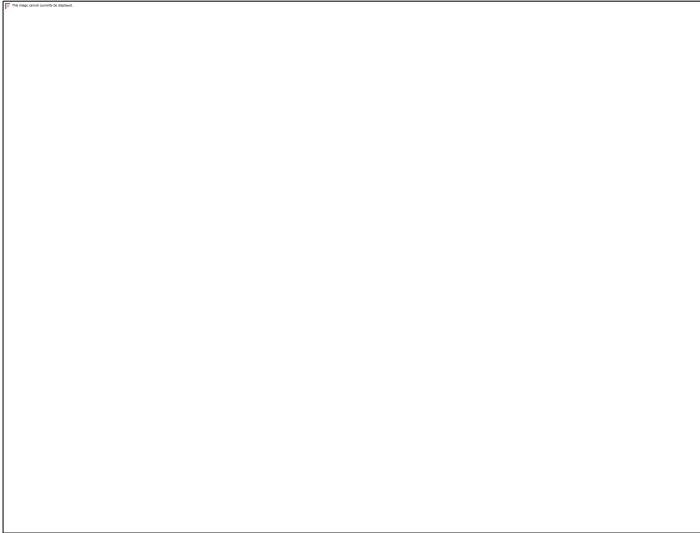
Developments in Wholesale Prices

7. The depreciation of the Turkish Lira against the US Dollar by 5.3 percent, and against the basket (1 US Dollar+0.77 Euro) by 7.4 percent resulted in comparatively high price increases in petroleum, chemical and main metal industry products that are relatively more sensitive to exchange rate changes. Private manufacturing industry prices were increased by 1.5 percent in line with the market expectations. The divergences in the rate of increase in prices have continued, as confirmed by the analysis of the sub-items of the private manufacturing industry prices. However, the deterioration in the relative price movements appears to be improving somewhat. As a result of the increases in the prices of petroleum and chemical products, crude oil-natural gas and main metal industry products, the public sector prices maintained their upward trend in May. The increase in the public sector prices was 2.7 percent with a 0.3 percentage point increase compared to April. In January-May period, while the private sector prices excluding agriculture increased by 7.7 percent, the public sector prices rose by 10.6.

Figure 3: WPI and WPI Excluding Agriculture

Yearly % Change

Monthly % Change

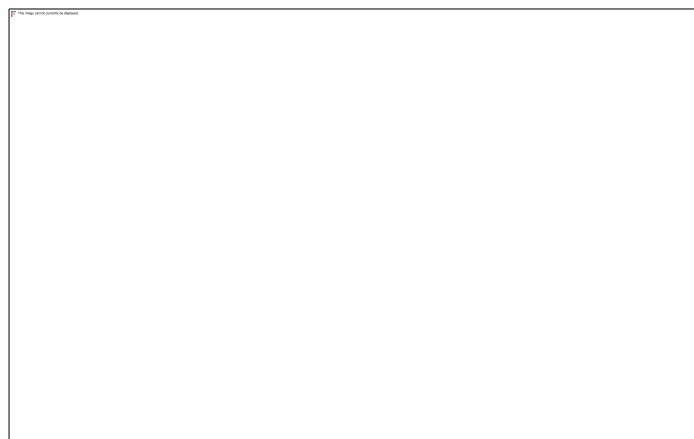


Source: CBRT, SIS.

II. FORWARD-LOOKING EXPECTATIONS

8. The inflation in May remained well below the market expectations. There is no reason why we should not attain the year-end inflation target of 35 percent, as long as the economic program is strictly implemented as planned, and there will be no unanticipated shocks. The market inflation expectations have continuously declined since the New Year, as verified by the CBRT Survey of Expectations. However, due to the political uncertainties, these expectations increased slightly in the second half of May. With a further decline in such uncertainties, the less-than expected inflation figures in May are expected to favorably affect the market inflation expectations in the coming period.

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



Source: CBRT.

9. In the coming period, the agriculture and food prices are expected to follow a favorable trend in terms of inflation thanks to the increase in agricultural production and seasonal effects.

10. The CBRT expresses, on all occasions, the significance of reaching the primary surplus target as one of the sine qua non conditions for the success of the program. Within this framework, priority should be given to the productivity at public enterprises as a supporting factor for the disinflation process, instead of using public prices for the financing needs of the state economic enterprises. The public sector pricing policy has generally been compatible with the inflation target until now. However, public sector price adjustments appear to have accelerated over the last months. In this context, the ongoing upward trend in the public sector prices, and the lagged effects of the increase in exchange rates are the risk factors that might endanger the disinflation efforts in the period ahead.

11. In light of the current inflationary developments, we, as the Central Bank, are looking positive into the future. The above highlighted risk factors, however, lead us to remain cautiously optimistic about the inflation outlook.