

INFLATION June 2012

(%)	PPI		CPI	
	2011	2012	2011	2012
June	0.01	-1.49	-1.43	-0.90
January-June	6.21	-0.24	3.43	1.95
Annual	10.19	6.44	6.24	8.87
Annual Average	9.42	10.24	6.47	8.89

Economic
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Division

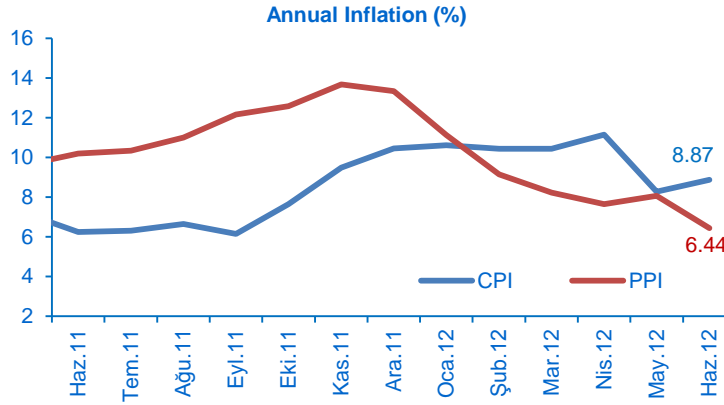
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In June, CPI decreased more than expected.

In June, compared to the previous month, **CPI and PPI decreased by 0.90% and 1.49%, respectively**. According to the Reuters' Survey, markets' monthly inflation expectations were -0.50% in CPI and 0.18% in PPI. According to the CBRT's survey of expectations, on the other hand, CPI was expected to rise by 0.09%.

Base effect on annual inflation...

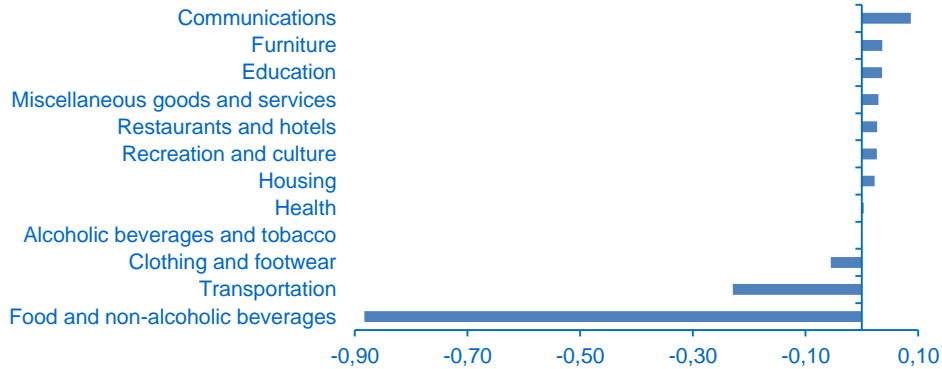
Although CPI decreased more than expected, the annual inflation rose to 8.87% in June due to the base effect. Thanks to the mitigating cost pressures during the recent months, the annual increase in PPI realized as 6.44%, the lowest figure since January 2010.



Rapid decrease in food prices...

In June, the price developments in food and non-alcoholic beverages sub-group stemming from the seasonal factors were influential on the course of inflation. During this period, the prices in mentioned sub-group fell by 3.42% and had a 88 basis points decreasing impact on CPI figures. In addition to that, the significant fall in oil prices during June played a role in decreasing transportation prices. Besides, the downward trend in clothing and footwear prices also supported the fall in inflation.

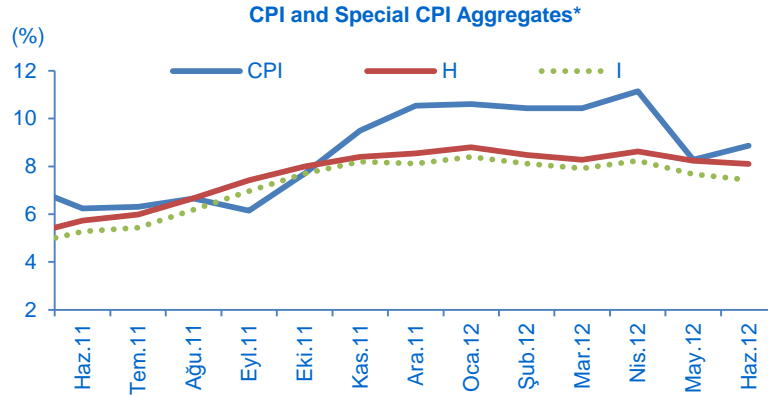
Contributions to the monthly CPI by sub-groups (% points)



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The fall in inflation is widespread.

Analyzing the core inflation indicators in June, it was seen that the fall in inflation was widespread among sub-groups. During this period, the price developments in seasonal products were the main factor behind the favorable inflation, while declining energy prices were also noteworthy. In June, the annual increases in CBRT's favorite core inflation aggregates denominated by H and I realized as 8.10% and 7.43%, respectively. In the coming period, the annual inflation aggregates would follow a downward trend in line with the diminishing base effect.



(*) Annual change

H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.

I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco products and gold.

Rapid fall in PPI...

PPI, which decreased by 1.49% in June, has registered the most rapid decline since December 2008. The price developments in agriculture sub-group were influential in the rapid fall of PPI while the downward trend in industrial commodity prices also supported this development.

We expect CPI and PPI to decline by 0.35% and 0.10%, respectively in July.

In July, the seasonal price falls in clothing and footwear are expected to lead to a decline in CPI. Besides, we anticipate that the developments in oil and food prices before the Ramadan would also be influential on inflation. **In this context, we expect CPI and PPI to decline by 0.35% and 0.10%, respectively in July.**

CBRT kept interest rates unchanged.

CBRT decided to keep one-week repo auction interest rate (5.75%), overnight borrowing interest rate (5%) and the overnight lending interest rate (11.5%) on hold as expected at its policy meeting June 21th.

It was stated that the re-balancing between domestic and external demand continued; and while domestic demand showed a significant slowdown in the first quarter, leading indicators suggested a modest recovery for the second quarter. Besides, it was highlighted that exports continued to grow despite the problems related to global economic activity. In this context, CBRT anticipated that the decline in inflation and improvement in the current account balance will continue in the forthcoming period. However, it was also noted that despite its falling trend, the current inflation level above the target necessitates CBRT to keep its cautious stance and to implement additional monetary tightening in required days.



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		PRODUCER PRICE INDEX (2003=100)				CONSUMER PRICE INDEX (2003=100)			
		Monthly	Year to date	Annual	Annual Average	Monthly	Year to date	Annual	Annual Average
2011	January	2.36	2.36	10.80	8.89	0.41	0.41	4.90	8.28
	February	1.72	4.13	10.87	9.23	0.73	1.14	4.16	7.76
	March	1.22	5.40	10.08	9.36	0.42	1.57	3.99	7.29
	April	0.61	6.04	8.21	9.17	0.87	2.45	4.26	6.79
	May	0.15	6.20	9.63	9.21	2.42	4.93	7.17	6.64
	June	0.01	6.21	10.19	9.42	-1.43	3.43	6.24	6.47
	July	-0.03	6.18	10.34	9.59	-0.41	3.00	6.31	6.37
	August	1.76	8.05	11.00	9.76	0.73	3.75	6.65	6.24
	September	1.55	9.72	12.15	10.03	0.75	4.53	6.15	6.00
	October	1.60	11.48	12.58	10.26	3.27	7.95	7.66	5.93
	November	0.65	12.20	13.67	10.72	1.73	9.82	9.48	6.13
	December	1.00	13.33	13.33	11.09	0.58	10.45	10.45	6.47
2012	January	0.38	0.38	11.13	11.11	0.56	0.56	10.61	6.95
	February	-0.09	0.29	9.15	10.96	0.56	1.13	10.43	7.48
	March	0.36	0.65	8.22	10.79	0.41	1.55	10.43	8.02
	April	0.08	0.73	7.65	10.72	1.52	3.09	11.14	8.59
	May	0.53	1.27	8.06	10.57	-0.21	2.87	8.28	8.68
	June	-1.49	-0.24	6.44	10.24	-0.90	1.95	8.87	8.89
	July ^(E)	-0.10	-0.34	6.36	9.90	-0.35	1.59	8.93	9.10

(E) Estimate

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