

Inflation - January 2013

Economic Research Division

In January, CPI increase surpassed the expectations.

In January, compared to the previous month, CPI increased by 1.65% while PPI decreased by 0.18%. According to the Reuters' survey, markets' monthly CPI inflation expectation was 1.14%. According to the CBRT's survey of expectations, on the other hand, CPI was expected to rise by 0.85% in January.

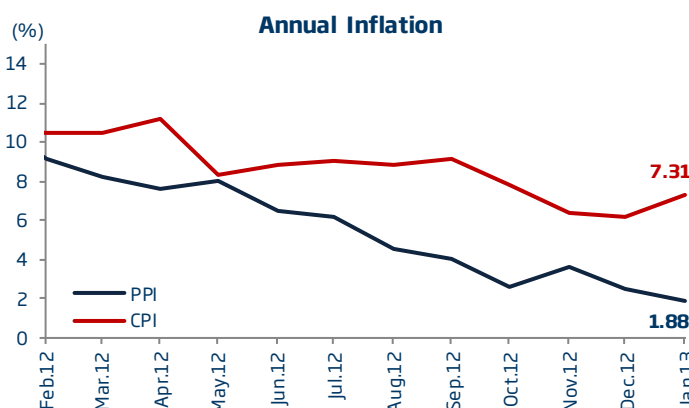
(%)	PPI		CPI	
	2012	2013	2012	2013
Monthly	0.38	-0.18	0.56	1.65
Year to Date	0.38	-0.18	0.56	1.65
Annual	11.13	1.88	10.61	7.31
Annual Average	11.11	5.33	6.95	8.62

After falling for 3 months annual CPI increased again.

The annual increase in CPI was realized as 7.31% due to the sharp increase in monthly inflation. Thus, the annual CPI inflation, which followed a downward trend in the last quarter of 2012, increased in January. PPI, which declined on a monthly basis, increased 1.88% annually as of January 2013, recording the lowest annual increase since November 2009.

Decline in the prices of agriculture sector brought PPI down.

In January, agriculture sector, in which the prices declined by 3% compared to the previous month, made the highest contribution to PPI decrease by 50 basis points. In addition, considering their weights in the index, decline in prices of furniture products together with electric and gas production also contributed to the downward trend in PPI.

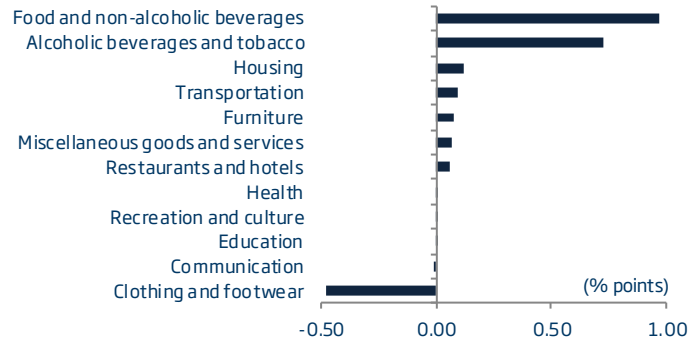


Tax amendments were influential on CPI increase.

Prices in all subgroups of CPI increased in January except clothing/footwear and communication. In this period, 4% monthly rise in prices of food and beverages subgroup, which has the highest weight in CPI, made the biggest contribution to CPI increase by 97 basis points. Among CPI subgroups, the highest monthly price increase was realized

in the alcoholic beverages and tobacco subgroup. It was stemmed from the tax amendments which have started to be effective as of January 2013. On the other hand, clothing and footwear prices, which have declined due to the seasonal factors, limited the CPI increase.

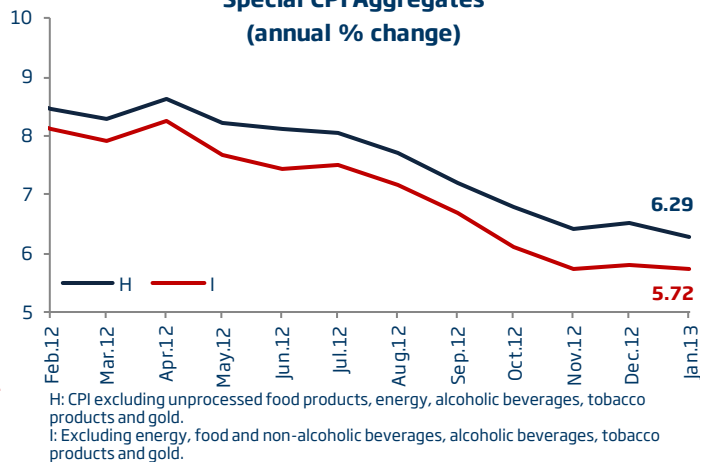
Contributions to the Monthly CPI by Subgroups



Core inflation aggregates declined in January.

The downward trend in the annual increases of CBRT's favorite core inflation indicators throughout 2012 has also continued in January and decreased to their lowest level since July 2011. Annual increase in H and I indices were realized as 6.29% and 5.72%, respectively.

Special CPI Aggregates (annual % change)



We expect CPI and PPI to increase by 0.50% and 0.80%, respectively in February.

We anticipate that the increase in food and beverage prices would be influential on the course of the CPI in February. We expect the clothing and footwear prices to decrease further due to seasonal factors. In this framework, we expect CPI and PPI to increase by 0.50% and 0.80%, respectively in February.

Source: Turkstat

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Turkstat revised the basket of goods and services.

Turkstat revised the weights of main expenditure groups of CPI for 2013. While the weight of food and beverages subgroup has been decreased from 26.22% to 24.09% , the weights of housing and transportation subgroups have been increased from 16.44% and 16.73% to 16.68% and 17.99% , respectively.

Weights by Main Expenditure Groups of CPI (%)

	2012	2013	Change
Food and non-alcoholic beverages	26.22	24.09	-2.13
Alcoholic beverages and tobacco	5.21	5.07	-0.14
Clothing and footwear	6.87	6.83	-0.04
Housing	16.44	16.68	0.24
Furniture	7.45	7.28	-0.17
Health	2.29	2.22	-0.07
Transportation	16.73	17.99	1.26
Communication	4.60	4.64	0.04
Recreation and culture	2.98	2.95	-0.03
Education	2.18	1.91	-0.27
Restaurants and hotels	5.63	6.18	0.55
Miscellaneous goods and services	3.40	4.16	0.76

CBRT shifted the interest rate corridor down.

At its meeting on January 22nd, CBRT lowered the overnight borrowing rate from 5% to 4.75% and overnight lending rate from 9% to 8.75%. In the announcement following the MPC meeting, it was noted that rebalancing between domestic and external demand continued as envisaged, exports managed to maintain its upward trend despite the weak global economic performance and domestic demand kept following a moderate trend.

CBRT published the first inflation report of 2013

In the latest inflation report, CBRT stated that inflation is expected to be between 3.9% and 6.7% with a mid-point of 5.3% at the end of 2013, and between 3.1% and 6.7% with a midpoint of 4.9% at the end of 2014. CBRT Governor Başçı indicated that inflation forecasts assume a framework where the credit and exchange rates follow a stable course and aggregate demand conditions are kept at levels that do not exert upside pressures on inflation. Başçı also stated that the credit growth has accelerated recently and continuation of this upward trend would necessitate additional macroprudential measures in the forthcoming period.

Source: Turkstat

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Inflation (%)

	Consumer Price Index (2003=100)				Producer Price Index (2003=100)				
	Monthly	Year to		Annual Average	Monthly	Year to		Annual Average	
		Date	Annual			Date	Annual		
2011	January	0.41	0.41	4.90	8.28	2.36	2.36	10.80	8.89
	February	0.73	1.14	4.16	7.76	1.72	4.13	10.87	9.23
	March	0.42	1.57	3.99	7.29	1.22	5.40	10.08	9.36
	April	0.87	2.45	4.26	6.79	0.61	6.04	8.21	9.17
	May	2.42	4.93	7.17	6.64	0.15	6.20	9.63	9.21
	June	-1.43	3.43	6.24	6.47	0.01	6.21	10.19	9.42
	July	-0.41	3.00	6.31	6.37	-0.03	6.18	10.34	9.59
	August	0.73	3.75	6.65	6.24	1.76	8.05	11.00	9.76
	September	0.75	4.53	6.15	6.00	1.55	9.72	12.15	10.03
	October	3.27	7.95	7.66	5.93	1.60	11.48	12.58	10.26
	November	1.73	9.82	9.48	6.13	0.65	12.20	13.67	10.72
	December	0.58	10.45	10.45	6.47	1.00	13.33	13.33	11.09
2012	January	0.56	0.56	10.61	6.95	0.38	0.38	11.13	11.11
	February	0.56	1.13	10.43	7.48	-0.09	0.29	9.15	10.96
	March	0.41	1.55	10.43	8.02	0.36	0.65	8.22	10.79
	April	1.52	3.09	11.14	8.59	0.08	0.73	7.65	10.72
	May	-0.21	2.87	8.28	8.68	0.53	1.27	8.06	10.57
	June	-0.90	1.95	8.87	8.89	-1.49	-0.24	6.44	10.24
	July	-0.23	1.71	9.07	9.11	-0.31	-0.56	6.13	9.88
	August	0.56	2.28	8.88	9.29	0.26	-0.30	4.56	9.33
	September	1.03	3.34	9.19	9.53	1.03	0.72	4.03	8.65
	October	1.96	5.36	7.80	9.53	0.17	0.90	2.57	7.80
	November	0.38	5.76	6.37	9.26	1.66	2.58	3.60	6.98
	December	0.38	6.16	6.16	8.89	-0.12	2.45	2.45	6.09
2013	January	1.65	1.65	7.31	8.62	-0.18	-0.18	1.88	5.33
	February ^(E)	0.50	2.15	7.24	8.35	0.80	0.62	2.79	4.80

(E) Estimate

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