

# INFLATION APRIL 2007

## Economic Research Department

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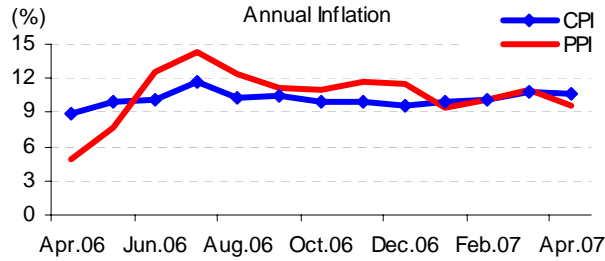
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**CPI increased above expectations in April.**

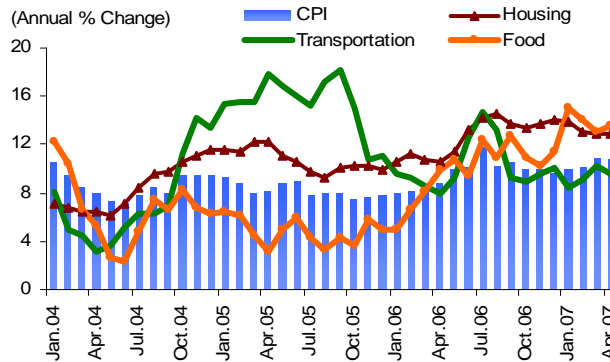
(%)	PPI		CPI	
	2006	2007	2006	2007
April	1.94	0.80	1.34	1.21
January-April	4.46	2.69	2.60	3.60
Annual	4.96	9.68	8.83	10.72
Annual Average	4.09	11.01	8.11	10.30

In April, compared to the previous month, **CPI and PPI increased by 1.21% and 0.80%, respectively**. According to the Reuters' Survey, markets' monthly inflation expectations were 0.81% in CPI and 0.79% in PPI. On the other hand, according to the CBRT's Survey of Expectations, CPI inflation was expected as 0.70%.



**The 11% monthly increase in clothing prices was influential in CPI.**

Higher than expected CPI stemmed from the clothing and footwear, food and non-alcoholic beverages sub-sectors. Indeed, clothing and footwear sub-sector, which registered a monthly increase of 11.3%, made the highest contribution to CPI by 0.89 points. The adverse effects of the price increases in the food sector continued in April. The price increases in the transportation sub-sector were also significant due to the rise in the prices of airline tickets, gasoline and diesel oil. According to the annual price developments, the high contributions of food, housing and transportation sub-sectors were noteworthy. As a result, the annual increase in CPI was realized above 9% in the last 12 months and remained within a band of 9-12%.



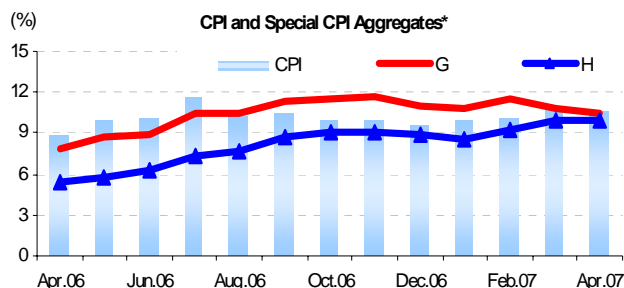
**The decrease in the annual core inflation was limited.**

Analysis of the special CPI aggregates reveals that seasonal products had an increasing effect on CPI. In fact, CPI excluding seasonal products increased by 0.51%, pointing out that the impact of the domestic demand on CPI increase was limited. The monthly increase in the CBRT's favorite core inflation indicator "ÖKTG-H index" was 1.38%, above the general index. In this context, annual decrease in the "ÖKTG-H" index was realized below expectations.



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(\*) Annual Change

G: CPI excluding energy, alcoholic beverages and tobacco products, other goods with administered prices and indirect taxes, unprocessed food products.

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

**PPI was in line with the expectations.**

The monthly increase in PPI was 0.80% in April with the contribution of the manufacturing and agricultural sectors. The price increases in energy and clothing sectors were prominent in the manufacturing sector. In fact, the price increases of the coke and refined petroleum and clothing sectors made the highest contributions to PPI by 0.5% and 0.21%, respectively. Considering the high level of oil and commodity prices, the developments in the energy prices would continue to be a pressure on the PPI.

**We estimate 1.05% CPI and 1% PPI inflation in May.**

In May, the foreign investors' cautious approach because of the political uncertainty would be influential on the markets. This market sentiment would in turn may have adverse impacts on inflation. Besides, taking into account the seasonal factors and high level of oil prices, **we estimate 1.05% CPI and 1% PPI inflation in May.**

**CBRT expects that the inflation would decrease starting from the second quarter.**

Monetary Policy Committee (MPC) of CBRT kept the interest rates unchanged at 17.5% in its meeting on April 18. In its announcement after the meeting, MPC remarked that the slowdown in domestic demand continued to support disinflation. Accordingly, the disinflation trend is expected to become discernible starting from the second quarter of 2007. However, the gap between inflation expectations and targets, the backward looking pricing behavior, increase in oil prices and the stickiness related to services prices are considered to be the main risks against the disinflation process. Besides, it is stated that the potential impacts of the progress in the structural reform agenda and the developments in incomes policy as well as public sector non-interest expenditures on inflation and inflation expectations should be carefully evaluated.

**CBRT forecasts with 70% probability that annual inflation rate will be between 4.5-7.1%.**

According to the Central Bank's April Inflation Report, there is a stronger emphasis on the need to stay cautious compared to the January Inflation Report in order to ensure the consistency of the medium-term outlook with the targets. In this respect, Central Bank forecasts with 70% probability that annual inflation rate will be within 4.5 – 7.1% range (mid-point 5.8%) at the end of 2007 and within 1.3 – 5.0% range (mid-point 3.2%) at the end of 2008.

**The decrease in inflation would be probably less than the Central Bank's forecasts.**

The favorable base year effect on inflation would be more influential starting from May. However, the higher than expected April inflation pointed out that the decrease in inflation would be probably less than the Central Bank's forecasts. This fact reinforced the expectations that the Central Bank would not cut the interest rates in the short-term. The nearest interest rate cut would be possible in the last quarter.



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		INFLATION (%)							
		PRODUCER PRICE INDEX (2003=100)				CONSUMER PRICE INDEX (2003=100)			
		Monthly	Year to date	Annual	Annual Average	Monthly	Year to date	Annual	Annual Average
2006	January	1.96	1.96	5.11	5.45	0.75	0.75	7.93	8.07
	February	0.26	2.22	5.26	5.04	0.22	0.97	8.15	8.03
	March	0.25	2.48	4.21	4.49	0.27	1.25	8.16	8.05
	April	1.94	4.46	4.96	4.09	1.34	2.60	8.83	8.11
	May	2.77	7.36	7.66	4.27	1.88	4.53	9.86	8.21
	June	4.02	11.68	12.52	4.97	0.34	4.88	10.12	8.32
	July	0.86	12.64	14.34	5.82	0.85	5.76	11.69	8.64
	August	-0.75	11.80	12.32	6.49	-0.44	5.30	10.26	8.84
	September	-0.23	11.54	11.19	7.06	1.29	6.65	10.55	9.05
	October	0.45	12.04	10.94	7.76	1.27	8.01	9.98	9.25
	November	-0.29	11.72	11.67	8.60	1.29	9.40	9.86	9.44
	December	-0.12	11.58	11.58	9.34	0.23	9.65	9.65	9.60
2007	January	-0.05	-0.05	9.37	9.68	1.00	1.00	9.93	9.76
	February	0.95	0.89	10.13	10.08	0.43	1.44	10.16	9.92
	March	0.97	1.88	10.92	10.63	0.92	2.36	10.86	10.15
	April	0.80	2.69	9.68	11.01	1.21	3.60	10.72	10.30
	May (E)	1.00	3.72	7.79	11.00	1.05	4.69	9.82	10.29

(E): Estimate

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