

INFLATION January 2011

(%)	PPI		CPI	
	2010	2011	2010	2011
January	0.58	2.36	1.85	0.41
Annual	6.30	10.80	8.19	4.90
Annual Average	1.14	8.89	6.16	8.28

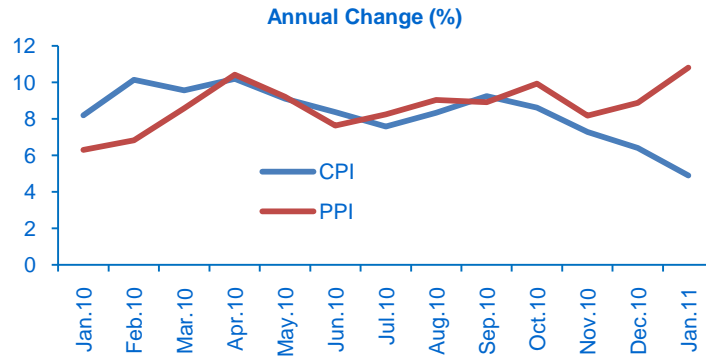
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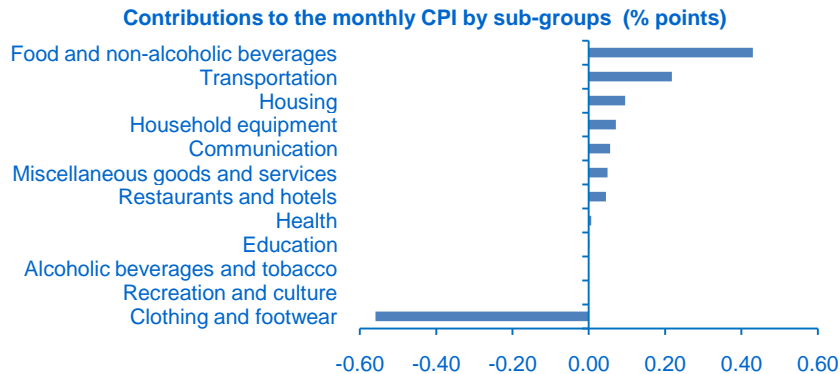
In January, compared to the previous month, **CPI and PPI increased by 0.41% and 2.36%, respectively.** According to the Reuters' Survey, markets' monthly inflation expectations were 0.50% in CPI and 1% in PPI. According to the CBRT's survey of expectations, CPI inflation was expected to increase by 0.62%.

The downward trend in annual CPI since September 2010 has also continued in January. Monthly increase in CPI was slightly less than expected while the annual increase in CPI slowed down to 4.9%. The annual PPI inflation was realized as 10.8%.



Annual CPI inflation fell below 5%.

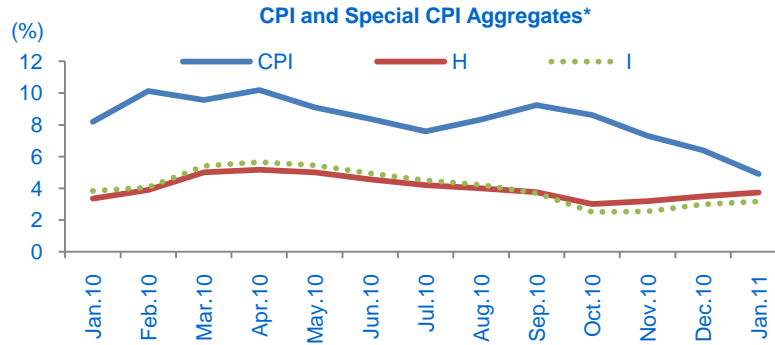
In January, CPI inflation stemmed mainly from the price increases in food and non-alcoholic beverages and transportation subgroups which have high shares in CPI basket. On the other hand, 7.76% price fall in clothing and footwear sub-group due to seasonal factors limited the increase in CPI. Price decreases were only registered in clothing and footwear and recreation and culture sub-groups.



Rise in core inflation...

Analysis of the special CPI aggregates on a monthly basis revealed that only seasonal products had a decreasing impact on the CPI inflation in January. Thus, monthly CPI excluding seasonal products rises by 0.74%. In January, the annual increases in CBRT's favorite core inflation aggregates denoted by H and I were realized as 3.74% and 3.18%, respectively. Thus, the limited rise in core inflation aggregates continued in January parallel to expectations of CBRT.

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(*) 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 rise in PPI...

The increase in monthly PPI was well above the expectations in January. This development was mainly due to the 2.25% price increase in industrial sector which has 83% weight in PPI basket. Examining industrial sector subgroups, the price increases in basic metal industry, food and beverages and textile products sectors contributed the PPI increase most. It is anticipated that the lagged effect of the rapid rise in PPI would pass through consumer prices and CPI would tend to increase in the coming period.

In February, we estimate monthly CPI and PPI to rise by 0.80% and 1.25%, respectively.

In February, in addition to the course of TL, possible rises in oil and other commodity prices fueled by the instability in the Middle East would be influential on inflation. On the other hand, we expect the downward effect of the seasonal price decreases in clothing and footwear sub-group to continue also in February. **In this context, we estimate CPI and PPI to increase by 0.80% and 1.25%, respectively.**

Decrease in policy rates, increase in required reserves...

Monetary Policy Committee of CBRT decreased 1-week repo rate, which is its policy rate, by 25 basis points to 6.25% at its meeting on January 20th. The Committee underlined that the net impact of the measures taken will be restrictive together with the increase in required reserve ratios. Thus, on January 24th new measures were announced regarding required reserve ratios. Required reserve ratios were increased and differentiated according to different maturities in order to extend maturity of deposits. CBRT increased required reserve ratios 400 basis points in demand deposits, 200 basis points in deposit accounts up to 1-month and 3-month maturity and 100 basis points in liabilities excluding deposits/participation funds. It was announced that TL9.8 billion will be withdrawn from the market after this latest regulations.

CBRT announced the Inflation Report.

After the required reserve regulations, CBRT announced its first inflation Report of the year on January 25th. Despite the decrease in non-processed food prices CBRT has revised its year-end inflation estimates upward due to the recent increase in oil and commodity prices. CBRT announced that assuming that the policy mix is adjusted to deliver an additional limited monetary tightening during the rest of 2011, inflation was expected to be with 70% probability, between 4.5% and 7.3% with a mid-point of 5.9% at end-2011, and between 3.3% and 6.9% with a mid-point of 5.1% by the end of 2012. It was anticipated that inflation would stabilize around 5% in the medium term. Moreover, CBRT stated that the measures taken in order to sustain financial stability would be monitored closely and additional measures would be implemented if credit growth rate or inflation deviate from its desired levels.



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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
2010	January	0.58	0.58	6.30	1.14	1.85	1.85	8.19	6.16
	February	1.66	2.25	6.82	1.20	1.45	3.32	10.13	6.38
	March	1.94	4.24	8.58	1.63	0.58	3.93	9.56	6.53
	April	2.35	6.69	10.42	2.52	0.60	4.55	10.19	6.87
	May	-1.15	5.47	9.21	3.50	-0.36	4.17	9.10	7.20
	June	-0.50	4.93	7.64	4.30	-0.56	3.59	8.37	7.41
	July	-0.16	4.77	8.24	5.33	-0.48	3.09	7.58	7.59
	August	1.15	5.98	9.03	6.18	0.40	3.50	8.33	7.83
	September	0.51	6.52	8.91	6.89	1.23	4.77	9.24	8.16
	October	1.21	7.80	9.92	7.71	1.83	6.69	8.62	8.45
	November	-0.31	7.47	8.17	8.27	0.03	6.72	7.29	8.59
	December	1.31	8.87	8.87	8.52	-0.30	6.40	6.40	8.57
2011	January	2.36	2.36	10.80	8.89	0.41	0.41	4.90	8.28
	February (E)	1.25	3.64	10.35	9.19	0.80	1.22	4.23	7.77

(E) Estimate

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