

INFLATION April 2011

(%)	PPI		CPI	
	2010	2011	2010	2011
April	2.35	0.61	0.60	0.87
January-April	6.69	6.04	4.55	2.45
Annual	10.42	8.21	10.19	4.26
Annual Average	2.52	9.17	6.87	6.79

Economic
Research
Division

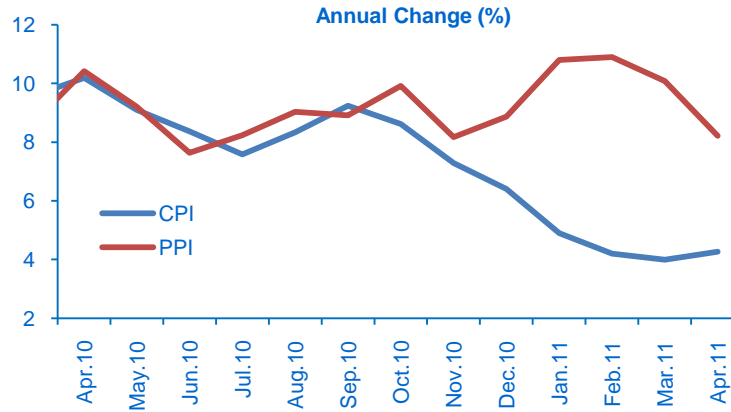
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In April, CPI was realized parallel to the expectations.

In April, compared to the previous month, **CPI and PPI increased by 0.87% and 0.61%, respectively**. According to the Reuters' Survey, markets' monthly inflation expectations were 0.90% in CPI and 1.20% in PPI. According to the CBRT's survey of expectations, CPI inflation was expected to increase by 0.75%.

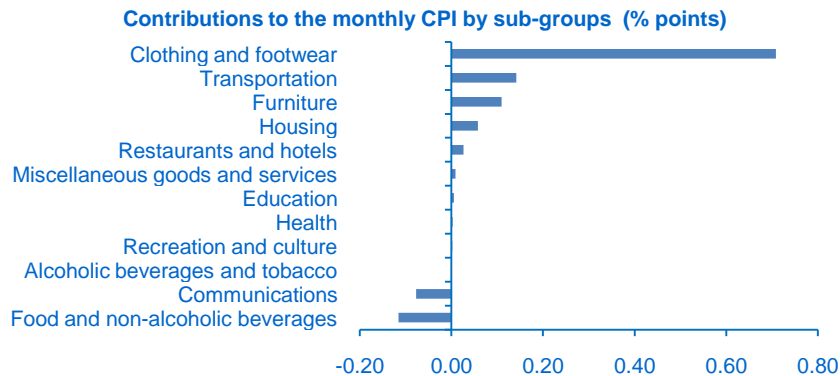
Annual CPI increased to 4.26%.

In April, annual CPI inflation was realized as 4.26%. Thus, annual CPI inflation has increased for the first time since September 2010. In PPI, on the other hand, the annual increase was realized as 8.21%. In April the gap between annual CPI and PPI inflation narrowed to some extent.



Rise in clothing and footwear prices...

In April, the seasonal price increases in clothing and footwear subgroup made the highest contribution to the CPI. Indeed, the 10.9% monthly price increase in this group contributed to inflation by 71 basis points. In line with the developments in oil prices, the price increases in transportation group also fueled the rise in CPI. On the other hand, the decrease in food and beverages group limited the rise in monthly inflation.

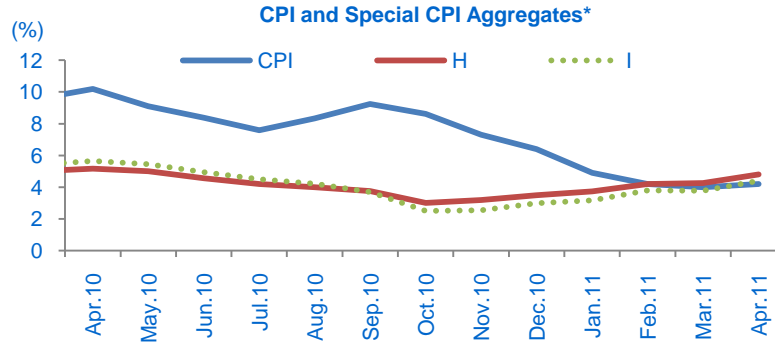


Rapid rise in core inflation...

In April, CBRT's favorite core inflation aggregates denoted by H and I increased rapidly on monthly basis and were realized as 1.43% and 1.77%, respectively. In the coming period, together with the narrowing output gap, it

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is thought that the rise in core aggregates would be reflected on headline inflation.



(*) 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.

Increase in PPI was below the expectations.

In April, the 0.61% monthly increase in PPI was mainly due to the price developments in the agricultural sector. In this period, the price increases in agricultural sector contributed to PPI by 57 basis points. On the other hand, the reflection of the increase in commodity prices were limited thanks to the appreciation of TL in April, which also played role in the lower than expected PPI figure.

In May, we estimate monthly CPI and PPI to rise by 1% and 1.10%, respectively.

In May, we anticipate that the seasonal developments in clothing and footwear subgroup and the high level oil prices would be influential on CPI. In PPI, on the other hand, we expect that commodity prices would be effective. In this context, we estimate CPI and PPI to increase by 1% and 1.10%, respectively.

CBRT kept interest rates unchanged.

CBRT kept the policy rate unchanged at 6.25% in line with market expectations at its meeting on April 21st. According to the statement made after the meeting, increase in economic activity lost momentum in the first quarter of the year compared to previous quarter and Turkey has entered a "moderate" growth trend. CBRT also announced that inflation would display an increasing trend over the short term due to lagged impacts of oil price increases and base effects and annual inflation is expected to realize somewhat above the target of 5.5%. Moreover, CBRT underlined that it would not react to first round effects of the increases in oil and commodity prices, but also would not tolerate a deterioration in the pricing behaviour due to those developments.

CBRT increased required reserve ratios.

At its meeting in April, CBRT increased required reserves less than its previous decision and also raised the required reserve ratios for FX liabilities above the pre-crisis levels. In this context, TL required reserve ratios were increased from 15% to 16% for demand deposits and deposit accounts up to 1 month, FX required reserve ratios were raised from 11% to 12% for demand deposits and deposit accounts up to 1-year maturity. The "limited" increase in required reserve ratios is thought to be a signal from CBRT to show its support to its new policy mix.

CBRT announced Inflation Report.

CBRT stated that the domestic demand conditions remained strong while foreign demand conditions displayed a gradual recovery in its Inflation Report announced on April 28th. CBRT increased its annual average oil price forecast from \$/barrel 95 to \$/barrel 115 due to supply side concerns and expected this revision would contribute to annual inflation by 50 basis points.



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Moreover, CBRT anticipated that the hike in customs duties on fabric and apparel imports would affect the year-end inflation by 50 basis points in 2011. In this context, due to the developments beyond the control of CBRT, inflation was expected to be with 70% probability, between 5.6% and 8.2% with a mid-point of 6.9% at the end of 2011, and between 3.4% and 7.0% with a mid-point of 5.2% at the end of 2012.



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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	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 (E)	1.10	7.21	10.67	9.30	1.00	3.47	5.69	6.51

(E) Estimate

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