

INFLATION June 2011

(%)	PPI		CPI	
	2010	2011	2010	2011
June	-0.50	0.01	-0.56	-1.43
January-June	4.93	6.21	3.59	3.43
Annual	7.64	10.19	8.37	6.24
Annual Average	4.30	9.42	7.41	6.47

Economic
Research
Division

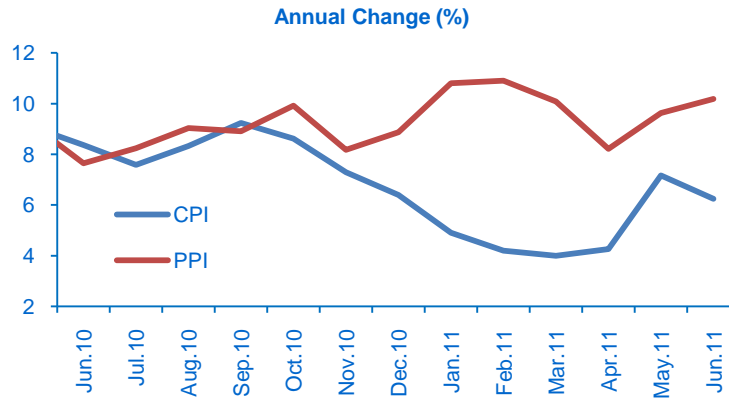
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In June, CPI decreased well below the expectations.

In June, compared to the previous month, **CPI decreased by 1.43% while PPI increased by 0.01%**. According to the Reuters' Survey, markets expected monthly CPI to decrease by 0.75% while PPI to rise by 0.20%. According to the CBRT's survey of expectations, CPI was expected to increase by 0.02%.

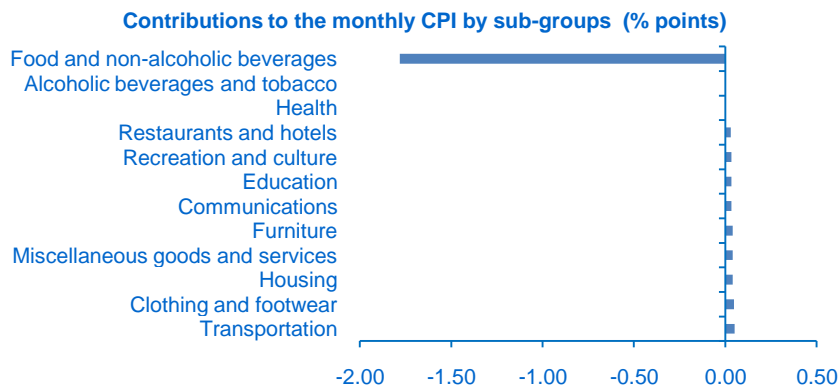
Annual CPI decreased to 6.24%.

In June, thanks to the fall in monthly CPI figure, annual inflation also edged down. Indeed, annual CPI decreased from 7.17% in May to 6.24% in June. In PPI, on the other hand, the annual increase was realized as 10.19%.



In June, substantial drop in food prices was influential on the decrease in CPI.

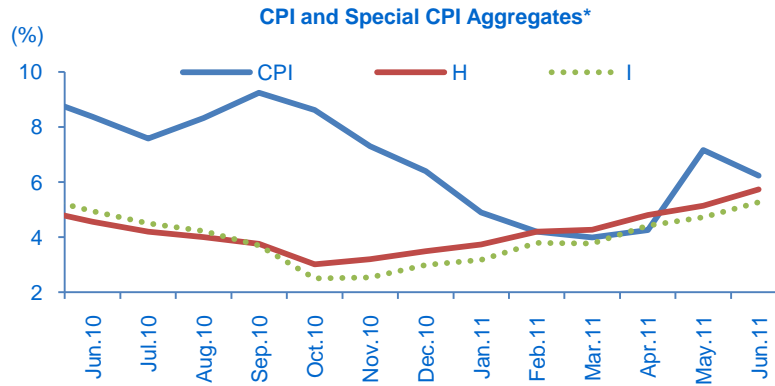
In June, the price developments in food and beverages sub-group, which has the highest weight in CPI basket, were influential on the rapid fall of CPI. Indeed, in this period prices in food and beverages sub-group dropped at a record rate of 6.40%. Thus, mentioned subgroup had 178 basis points decreasing impact on monthly CPI figure. On the other hand, price developments in transportation and clothing and footwear sub-groups limited the fall in CPI.



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Rapid increase in core inflation aggregates continues.

Analyzing core inflation indicators, it was seen that in June all subgroups excluding energy and products having administrated prices put a downward pressure on monthly inflation. In this period, depreciation of the Turkish Lira against Dollar affected the price increases in these groups. On the other hand, the rapid price drops in seasonal products, which had increased unexpectedly in previous month, were determinant in the rapid fall of CPI. In June, CBRT's favorite core inflation aggregates denoted by H and I increased by 0.55% and 0.63%, respectively. Thus, annual core inflation aggregates, which have followed a steady upward trend since October 2010, converged to pre-crisis levels. In June, annual price increases in H and I indices rose to 5.73% and 5.27%, respectively. In this period, the significant contraction between headline and core inflation figures was noteworthy.



(*) 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.

Lower than expected PPI increase...

In June, the price developments in agriculture and hunting was responsible in lower than expected PPI increase. In this period, 3.29% decline in mentioned groups had a decreasing effect of 55 basis points on PPI. On the other hand, it was seen that the price developments in basic metal industry and manufacture of electric apparatus groups, which have higher sensitivity to exchange rate fluctuations, supported the rise in PPI.

In July, we estimate monthly CPI to decrease by 0.20%, while PPI to increase by 0.20%.

We think that food prices, after having dropped at a record rate in June, would follow a more stable trend in July. Moreover, we anticipate that the seasonal price falls in clothing and footwear group would have a decreasing effect on monthly CPI figures. In this context, we estimate monthly CPI to decrease by 0.20% while PPI to increase by 0.20%.

CBRT will observe the effect of the measures taken for a while.

At the Monetary Policy Committee meeting held on 23rd of June, Central Bank left policy rates unchanged at current level of 6.25% and decided to keep reserve requirement ratios constant, which were used as an active policy tool in the recent period. In the announcement made after the meeting, CBRT stated that the Turkish economy has entered a moderate growth course in the second quarter in line with the monetary tightening. In this context, it was declared that private consumption and investment expenditures lost momentum while the weakness in external demand conditions continued. Emphasizing the persistence of lower capacity utilization ratios, it was stated that demand driven inflationary pressures remained weak. On the other hand, it was confirmed that given the lagged



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impact of rising import prices and base effects, core inflation is expected to record a temporary rise over the short term.

Together with the recent inflation figures, annual inflation converged to the CBRT's target path. In this context, we don't expect that the CBRT would start to increase policy rates before the last quarter of the year.



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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	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 (T)	0.20	6.42	10.59	9.61	-0.20	3.22	6.53	6.39

(E) Estimate

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