

INFLATION May 2011

(%)	PPI		CPI	
	2010	2011	2010	2011
May	-1.15	0.15	-0.36	2.42
January-May	5.47	6.20	4.17	4.93
Annual	9.21	9.63	9.10	7.17
Annual Average	3.50	9.21	7.20	6.64

Economic
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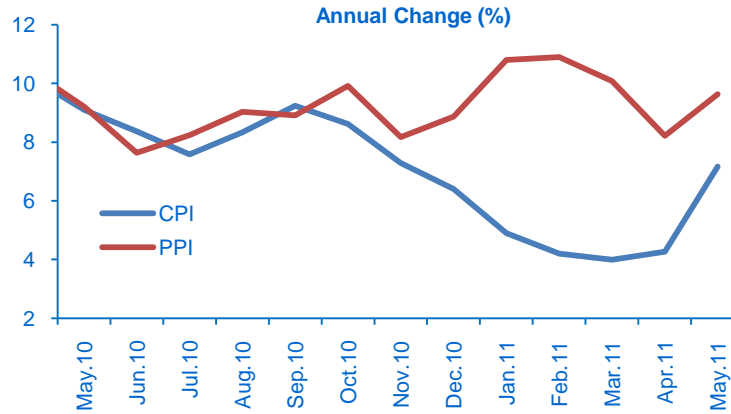
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In May, CPI was realized well above expectations.

In May, compared to the previous month, **CPI and PPI increased by 2.42% and 0.15%, respectively.** According to the Reuters' Survey, markets' monthly inflation expectations were 1.02% in CPI and 1% in PPI. According to the CBRT's survey of expectations, CPI was expected to increase by 0.7%.

Annual CPI increase was realized as 7.17%.

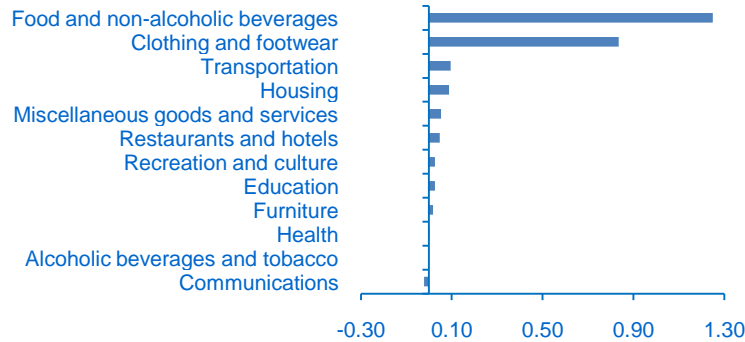
In May, CPI has recorded its highest monthly increase since October 2008. Annual increase in CPI has reached 7.17% and exceeded 7% for the first time since November 2010. In PPI, on the other hand, the annual increase was realized as 9.63%.



Food and clothing subgroups were influential on the rise in CPI.

In May, the fast increase in food and non-alcoholic beverages prices was effective on the considerably higher than expected rise in CPI. In addition, the seasonal price increases in clothing and footwear subgroup made the second highest contribution to the CPI rise after food and non-alcoholic beverages sub-group. On the other hand, price developments in communications and alcoholic beverages and tobacco limited the rise in CPI.

Contributions to the monthly CPI by sub-groups (% points)

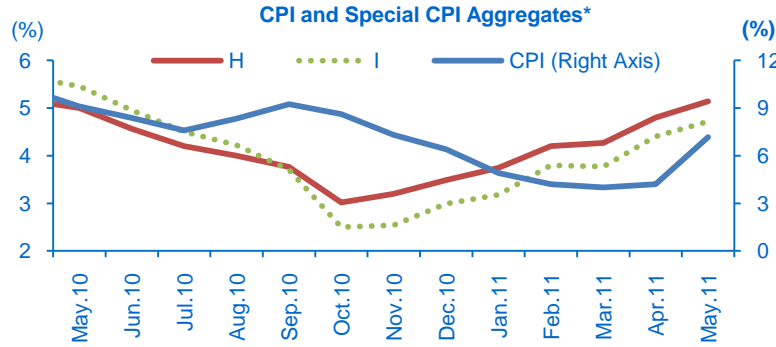


Rapid rise in core inflation continued.

In May, CBRT's favorite core inflation aggregates denoted by H and I continued to increase rapidly on monthly basis and were realized as 1.55% and 1.89%, respectively. Analyzing core inflation indicators, it was seen that seasonal and unprocessed food products were effective on the rapid rise in

INFLATION May 2011

CPI. Thus, excluding seasonal and unprocessed food products, monthly rise in CPI decreases to 0.52% and 1.36%, respectively. Despite the higher than expected increase in CPI in May, the CBRT is not expected to change its monetary policy in the short-term, as the increase in CPI mainly stemmed from temporary factors.



(*) 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 May, the price developments in the electricity and gas and agriculture subgroups were influential on lower than expected increase in monthly PPI. In this period, the 4.4% increase in basic metal industry contributed to PPI by 36 basis points. On the other hand, decrease in agricultural sector prices in May points out that the rapid increase in unprocessed food prices might be shortlived.

In June, we estimate monthly CPI to decrease by 0.3% and PPI to rise by 0.4%.

In June, we anticipate the CPI to decrease due to the seasonal developments in food prices. In PPI, on the other hand, we expect that commodity prices would be effective. In this context, we estimate monthly CPI to decrease by 0.3% and PPI to increase by 0.4%.

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

At the Monetary Policy Committee meeting held on 25th of May, CBRT, in line with the market expectations, kept the policy rates unchanged at the current level of 6.25%. In the announcement made after the meeting, it was stated that private consumption and investment demand followed a moderate trend, whereas foreign demand kept its rather weak outlook. Moreover, it was emphasized that the persistence of the manufacturing sector capacity utilization rates at their low levels indicated that aggregate demand has not reached the levels to put an upward pressure on inflation yet. Monetary Policy Committee did not change the required reserve ratios which were increased slightly in the previous month and announced that more time is needed to see the effects of the measures taken.

Financial Stability Report was announced.

In its Financial Stability Report which was announced on the 30th of May, CBRT stated that the effects of the new policy mix which has been implemented since November 2010 and consisting of low policy rates, wide interest rate corridor and high reserve requirement ratios, actually become visible in the markets. It was also expressed that the rapid credit expansion lost pace and average maturity of deposits extended after the implementation of above-mentioned measures. CBRT, assuming the restrictive effects on credits will be more evident during the coming period, forecasted that the need for additional increases in the reserve requirement ratios might diminish taking into account the recent



INFLATION May 2011

developments in the credit growth path. What's more, potential additional measures that might be taken by other public authorities are expected to decrease the need for further rises in the reserve requirement ratios, in the same way.



INFLATION May 2011

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 (E)	0.40	6.62	10.63	9.46	-0.30	4.61	7.45	6.57

(E) Estimate

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