

INFLATION July 2011

(%)	PPI		CPI	
	2010	2011	2010	2011
July	-0.16	-0.03	-0.48	-0.41
January-July	4.77	6.18	3.09	3.00
Annual	8.24	10.34	7.58	6.31
Annual Average	5.33	9.59	7.59	6.37

Economic
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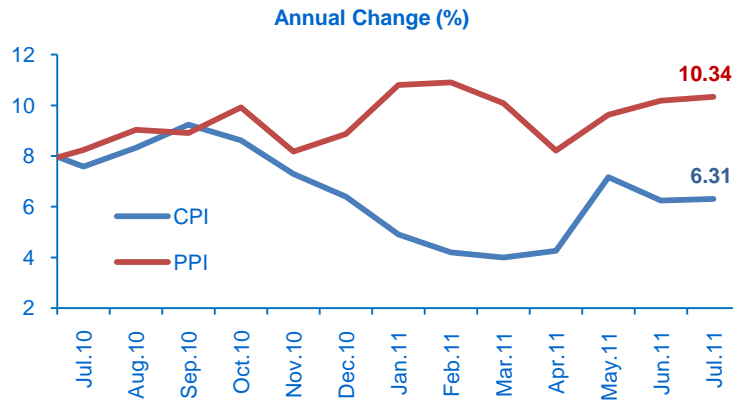
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In July, fall in CPI was more than expected.

In July, compared to the previous month, **CPI and PPI decreased by 0.41% and 0.03%, respectively.** According to the Reuters' Survey, markets expected monthly CPI to decrease by 0.07% while PPI to rise by 0.80%. According to the CBRT's survey of expectations, CPI was expected to increase by 0.05%.

Annual CPI increase was realized as 6.31%.

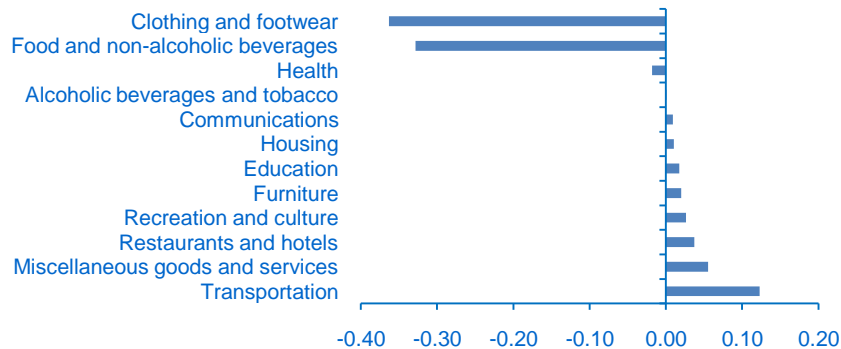
After the rapid decline in June, CPI also edged down on a monthly basis in July. On the other hand, annual increase in CPI mildly rose to 6.31% in the same month. Following a similar pattern, annual PPI also ascended to 10.34%. Thereby, divergence between CPI and PPI has continued in July.



Decrease in food and clothing prices was influential on the fall in CPI.

In July, the price developments in clothing and footwear, food and beverages sub-group were influential in the lower than expected CPI realization. In this period, clothing and footwear prices dropped by 4.84% and made the highest contribution to the decrease in CPI by 36 basis points. Besides, rapid decline in food prices has continued its downward trend in July, the food and beverages sub-group made 33 basis points contribution to the decrease in CPI. On the other hand, price developments in transportation sub-group limited the fall in CPI.

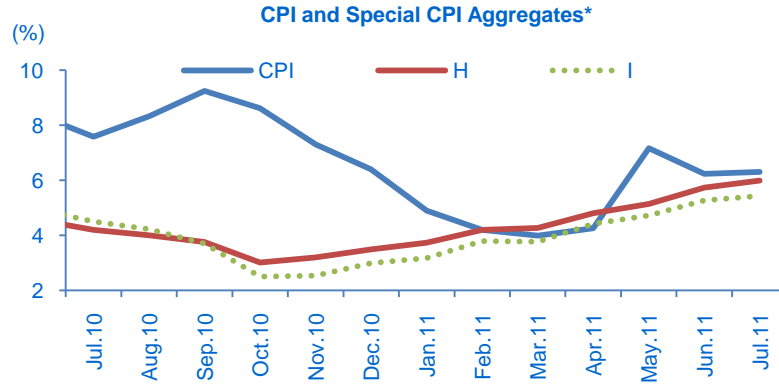
Contributions to the monthly CPI by sub-groups (% points)



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Increase in annual core inflation aggregates continued their upward trend.

CBRT's favorite core inflation indicators, which followed an upward trend on a monthly basis since February, declined in July. However, analyzing annual indicators, it was seen that increasing trend of annual core inflation has continued. Indeed, annual price increases in H and I indices rose to 5.99% and 5.43%, respectively. Thereby, core indicators converged to the headline annual inflation in July. On the other hand, development in energy prices would be influential on the course of inflation due to the recent depreciation of TL against Dollar.



(*) 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.

Contrary to the expectations, PPI decreased in July.

Price developments in agriculture sub-group was effective on the decline of PPI on contrary to the upward expectations. In fact, in this period 7.04% decline in the mentioned group had a decreasing effect of 28 basis points on PPI. On the other hand, increase in the basic metal industry together with food products and beverages prices limited the decrease in PPI.

In August, we estimate monthly CPI and PPI to increase by 0.50%.

We expect an increase in food prices due to the Ramadan in August. Besides, we think that course of TL throughout August, which depreciated recently, would be influential on CPI. On the other hand, we anticipate that in this period drop in clothing and footwear prices would limit the increase in CPI. In this context, we estimate both monthly CPI and PPI to increase by 0.50% in August.

Central Bank held an interim Monetary Policy Committee meeting.

In its Inflation Report published on 28th July, Central Bank stated that if the problems in advanced economies would intensify and the slowdown in domestic economic activity would become harder than expected, all monetary policy tools might be used for easing. In this context, Central Bank held an interim Monetary Policy Meeting on August 4th in order to assess the recent developments in international markets and review the current monetary policy. At this meeting, Central Bank decided to cut the policy rate with a surprise move by 50 basis points to 5.75% in order to reduce the "risk of a domestic recession" that might be triggered by the heightened problems in global economy. Besides, in order to limit the potential downside volatility in the short-term interest rates, the interest rate corridor was narrowed significantly by increasing the overnight borrowing rate from 1.50% to 5%.

Central Bank intervened in the foreign exchange market.

The currency basket (0.5EUR + 0.5USD) reached a record high level against TL in July due to the tension in the markets created by the developments in Euro Area and negative comments from rating agencies about Turkish economy. In response, in two different dates required reserve ratios for FX liabilities were decreased by the CBRT. Liquidity amounting to approximately



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\$1,520 million will be provided to the market with these moves. In addition, Central Bank suspended foreign exchange buying auctions on 25th July 2011 and in its interim meeting Central Bank decided to start foreign exchange selling auctions beginning from August 5th to provide FX liquidity in the markets if needed.



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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	-0.03	6.18	10.34	9.59	-0.41	3.00	6.31	6.37
	August (E)	0.50	6.71	9.62	9.64	0.50	3.52	6.41	6.21

(E) Estimate

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