

INFLATION May 2012

(%)	PPI		CPI	
	2011	2012	2011	2012
May	0.15	0.53	2.42	-0.21
January-May	6.20	1.27	4.93	2.87
Annual	9.63	8.06	7.17	8.28
Annual Average	9.21	10.57	6.64	8.68

Economic
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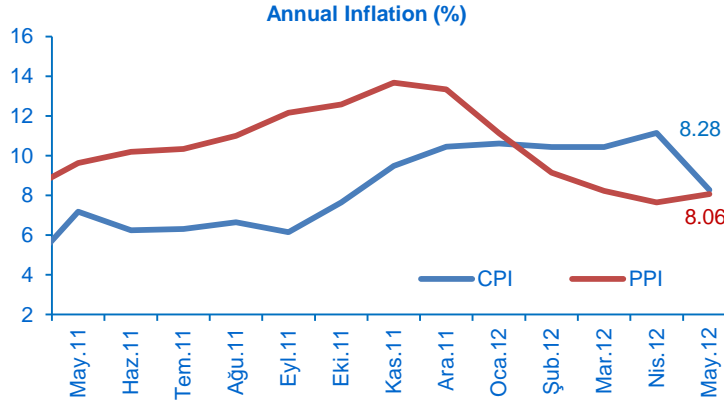
[Bora Çevik](#)

In May, CPI decreased contrary to expectations.

In May, compared to the previous month, **CPI decreased by 0.21% while PPI increased by 0.53%**. According to the Reuters' Survey, markets' monthly inflation expectations were 0.40% in CPI and 0.33% in PPI. According to the CBRT's survey of expectations on the other hand, CPI was expected to rise by 0.69%.

The annual rise in CPI fell back to single-digit level.

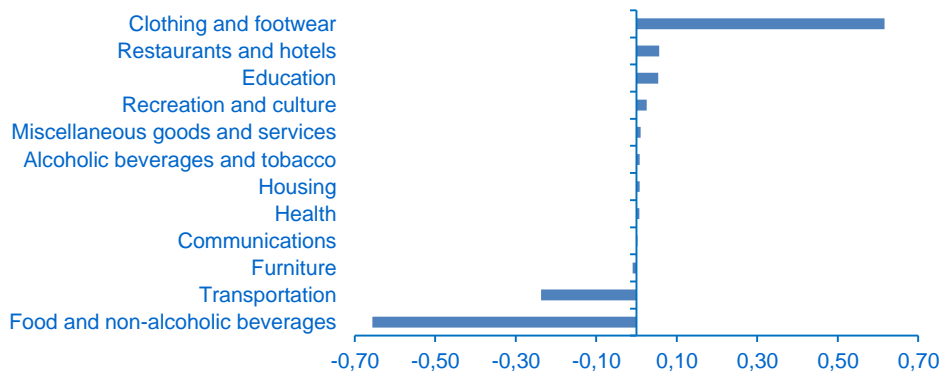
The annual CPI, which hovered around double-digit levels since December 2011, declined to 8.28% in May. The annual increase in PPI, which followed a downward trend in recent months, realized as 8.06% in May.



Rapid decrease in food prices...

In May, the price developments in food and non-alcoholic beverages sub-group were influential on the course of inflation. During this period, the prices in mentioned sub-group fell by 2.40% and had a 66 basis points decreasing impact on CPI figures. In addition to that, the significant fall in oil prices during May led to a decrease in transportation prices. Last month, on the other hand, seasonal price increases in clothing and footwear sub-group, limited the fall in CPI.

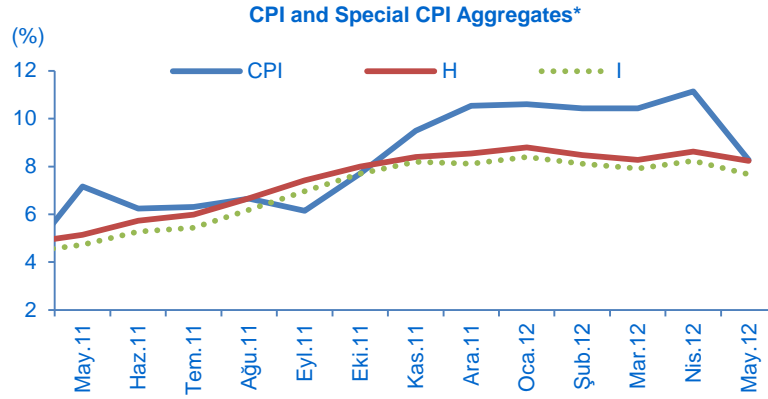
Contributions to the monthly CPI by sub-groups (% points)



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Seasonal products...

Analyzing the core inflation indicators in May, it was seen that all items excluding seasonal products supported the fall in inflation. During this period, the annual increases in CBRT's favorite core inflation aggregates denominated by H and I realized as 8.23% and 7.67%, respectively. The annual core inflation aggregates, which followed a flat course in May, are likely to lose momentum in the coming period.



(*) 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.

In May, PPI increased by 0.53%.

After following a stable course during recent months, PPI registered a 0.53% increase in May. During this period, the price developments in agriculture sub-group contributed to the inflation by 65 basis points.

We expect CPI and PPI to decline by 0.30% and 0.10%, respectively in June.

In June, the seasonal price decreases in food and non-alcoholic sub-group would be effective on the course of inflation. In addition to that, we foresee that if the oil prices kept their recent low levels, the price developments in transportation sub-group would contribute the fall in inflation further. In this context, we expect CPI and PPI to decline by 0.30% and 0.10%, respectively in June.

CBRT, increased the upper limit for FX reserves that might be held to meet TL reserve requirements.

CBRT kept the policy rates unchanged at its meeting held on 29th May while increasing the upper limit for FX reserves that might be held to meet TL reserve requirements from 40% to 45%. According to the CBRT's announcement, the aim is to increase the FX reserves, to ease the TL liquidity conditions and to reduce the gap between the costs of holding the TL reserve requirements in TL or FX. In addition, CBRT governor Erdem Başçı stated that the said ratio can be raised gradually to as high as 60% in the coming period, if the conditions would be suitable. It was also announced that the upper limit for standard gold reserves that might be held to meet TL reserve requirements could also be increased to 30%. Başçı stressed that the additional monetary tightening will continue in the coming period and the recent arrangements in reserve requirement policy should not be interpreted as monetary easing.



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CBRT published the Financial Stability Report on 31 May 2012. In the report, it was underlined that the flexible monetary policy implementation and the continued fiscal discipline supported the economic stability in Turkey against the adverse developments in global markets. In the report, CBRT noted that TL followed a relatively more stable path against the Dollar compared to the other emerging market currencies thanks to the flexible monetary policy approach. On the other hand, CBRT also stated that the re-balancing between the domestic and external demand continued and positive developments were registered in foreign trade and current account balance.



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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
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	1.76	8.05	11.00	9.76	0.73	3.75	6.65	6.24
	September	1.55	9.72	12.15	10.03	0.75	4.53	6.15	6.00
	October	1.60	11.48	12.58	10.26	3.27	7.95	7.66	5.93
	November	0.65	12.20	13.67	10.72	1.73	9.82	9.48	6.13
	December	1.00	13.33	13.33	11.09	0.58	10.45	10.45	6.47
2012	January	0.38	0.38	11.13	11.11	0.56	0.56	10.61	6.95
	February	-0.09	0.29	9.15	10.96	0.56	1.13	10.43	7.48
	March	0.36	0.65	8.22	10.79	0.41	1.55	10.43	8.02
	April	0.08	0.73	7.65	10.72	1.52	3.09	11.14	8.59
	May	0.53	1.27	8.06	10.57	-0.21	2.87	8.28	8.68
	June ^(E)	-0.10	1.17	7.95	10.37	-0.30	2.56	9.52	8.95

(E) Estimate

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