

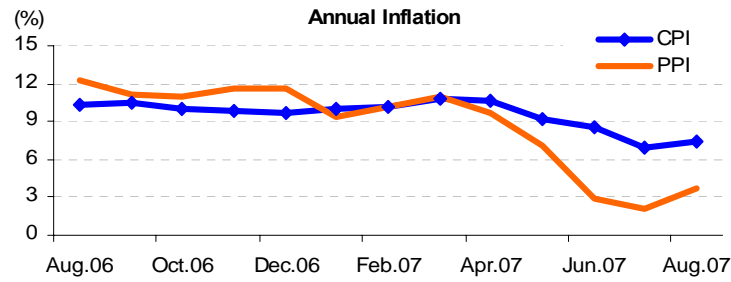


INFLATION AUGUST 2007

(%)	PPI		CPI	
	2006	2007	2006	2007
August	-0.75	0.85	-0.44	0.02
January-August	11.80	3.93	5.30	3.13
Annual	12.32	3.72	10.26	7.39
Annual Average	6.49	8.29	8.84	9.46

In August, CPI and PPI increased by 0.02% and 0.85% respectively.

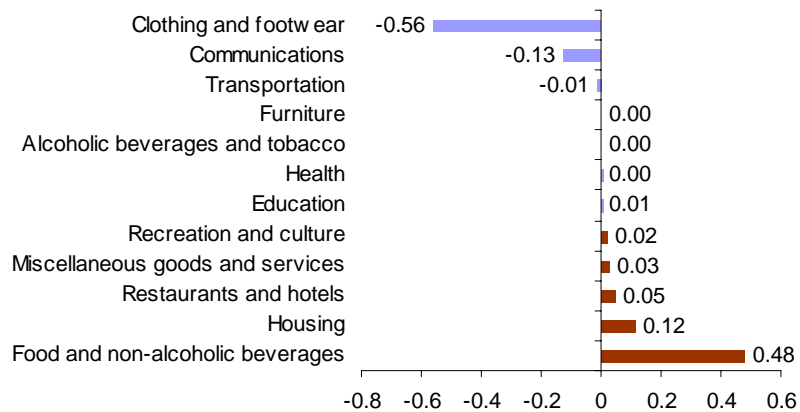
In August, compared to the previous month, **CPI and PPI increased by 0.02% and 0.85% respectively**. According to the Reuters' Survey, markets' monthly inflation expectations were 0% in CPI and 0.42% in PPI. On the other hand, according to the CBRT's Survey of Expectations, CPI inflation was expected as +0.13%.



CPI inflation was in line with the expectations.

In August, the increase in monthly CPI was in line with the expectations. The 7.1% of monthly decline in clothing and footwear sub-sector due to the seasonal price cuts pushed the CPI down. Besides, the price decreases in communication and transportation sub-sectors also supported the decline in inflation in August. On the other hand, the rise in food sub-sector, which has the highest share in the index, limited the fall in CPI. Moreover, the volatility in food prices continued to be a risk factor for the inflation outlook.

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



Unprocessed food prices had an increasing effect on CPI.

Analysis of the special CPI aggregates revealed that seasonal products continued to have a decreasing effect on CPI, while unprocessed food products had an increasing one. On the other hand, the downward trend in CBRT's favorite core inflation indicator "ÖKTG-H index" continued in August.

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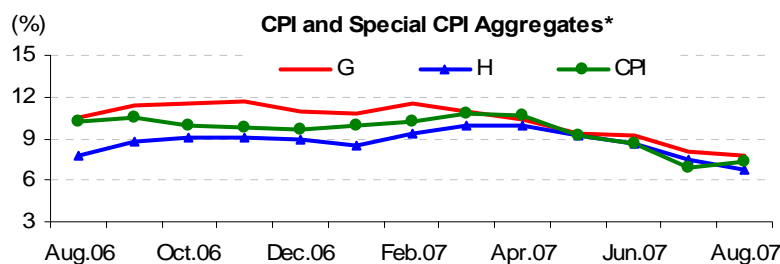
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(*) Annual Change

G: CPI excluding energy, alcoholic beverages and tobacco products, other goods with administered prices and indirect taxes, unprocessed food products.

H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.

PPI was realized above the expectations.

In August, monthly PPI inflation was realized as 0.85%, higher than the expectations. The rise in the agricultural and industrial sector prices was responsible for the increase in PPI. The 0.60% increase in the manufacturing sub-sector mainly stemmed from the rise in food, coke and petroleum products prices.

We estimate 0.95% CPI and 0.60% PPI inflation in September.

In September, as a result of seasonal factors and Ramadan, we expect that the food, housing, clothing and education prices would have an adverse effect on disinflation trend. On the PPI side, possible seasonal price increases in the agriculture together with the course of energy prices and exchange rates would be influential. **In this context, we estimate 0.95% CPI and 0.60% PPI inflation in September.**

The increase in non-interest budget expenditures restrained the disinflation process.

The Monetary Policy Committee of CBRT decided to keep short-term interest rates unchanged at 17.50% at its meeting on August 14th. After the meeting, it was stated that while private sector investment and consumption demand exhibited signs of recovery, the contribution of external demand to growth was moderating and aggregate demand conditions continued to support the disinflation process. However, it was mentioned that non-interest budget expenditures, which increased remarkably in the first half of the year, restrained the disinflation process.

The market fluctuations are not expected to affect the medium term inflation outlook adversely.

Besides, the Committee considered the volatility in unprocessed food prices and the stickiness in inflation expectations as important risks to the inflation outlook. The Committee mentioned that recent market volatility had the potential to affect inflation adversely through exchange rate channel in the short term although the decline in oil and other commodity prices would ease the cost-push inflationary pressure. On the other hand, the Committee also mentioned that the increase in risk perception would limit the downward trend in the bank lending rates in the domestic markets, and also curb the banks' appetite for extending credit. Accordingly, the likelihood of the materialization of the risk that "domestic demand conditions may turn less supportive for the disinflation process", as quoted in the last meetings, has been reduced. In this context, it was also stated that the volatility in the markets, as of the meeting date, would not adversely affect medium term inflation outlook.

In this respect, the Committee maintained the policy stance envisioning measured easing in short term interest rates starting from the last quarter of 2007. However, the Committee added that the exact timing and the extent of the easing may vary depending on the incoming information regarding global liquidity conditions, external demand, public expenditures and other determinants of medium term inflation outlook.



INFLATION AUGUST 2007

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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
2006	January	1.96	1.96	5.11	5.45	0.75	0.75	7.93	8.07
	February	0.26	2.22	5.26	5.04	0.22	0.97	8.15	8.03
	March	0.25	2.48	4.21	4.49	0.27	1.25	8.16	8.05
	April	1.94	4.46	4.96	4.09	1.34	2.60	8.83	8.11
	May	2.77	7.36	7.66	4.27	1.88	4.53	9.86	8.21
	June	4.02	11.68	12.52	4.97	0.34	4.88	10.12	8.32
	July	0.86	12.64	14.34	5.82	0.85	5.76	11.69	8.64
	August	-0.75	11.80	12.32	6.49	-0.44	5.30	10.26	8.84
	September	-0.23	11.54	11.19	7.06	1.29	6.65	10.55	9.05
	October	0.45	12.04	10.94	7.76	1.27	8.01	9.98	9.25
	November	-0.29	11.72	11.67	8.60	1.29	9.40	9.86	9.44
	December	-0.12	11.58	11.58	9.34	0.23	9.65	9.65	9.60
2007	January	-0.05	-0.05	9.37	9.68	1.00	1.00	9.93	9.76
	February	0.95	0.89	10.13	10.08	0.43	1.44	10.16	9.92
	March	0.97	1.88	10.92	10.63	0.92	2.36	10.86	10.15
	April	0.80	2.69	9.68	11.01	1.21	3.60	10.72	10.30
	May	0.39	3.09	7.14	10.95	0.50	4.12	9.23	10.24
	June	-0.11	2.98	2.89	10.09	-0.24	3.87	8.60	10.11
	July	0.06	3.05	2.08	9.03	-0.73	3.11	6.90	9.70
	August	0.85	3.93	3.72	8.29	0.02	3.13	7.39	9.46
	September (E)	0.60	4.55	4.59	7.74	0.95	4.11	7.04	9.17

(E): Estimate

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