INFLATION JULY 2007

Economic Research Department

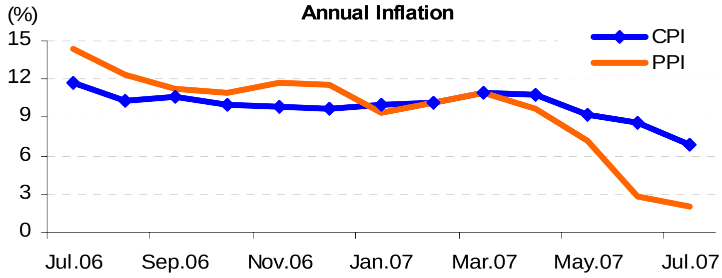
Alper Gürler
Alper.Gurler@isbank.com.tr

Kıvılcım Eraydın
Kivilcim.Eraydin@isbank.com.tr

(%)	PPI 2006	PPI 2007	CPI 2006	CPI 2007
July	0.86	0.06	0.85	-0.73
January-July	12.64	3.05	5.76	3.11
Annual	14.34	2.08	11.69	6.90
Annual Average	5.82	9.03	8.64	9.70

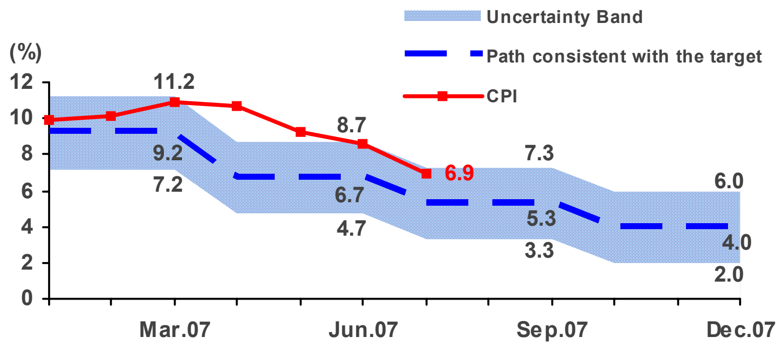
In July, CPI decreased by 0.73% while PPI increased by 0.06%.

In July, compared to the previous month, **CPI decreased by 0.73% while PPI increased by 0.06%.** According to the Reuters' Survey, markets' monthly inflation expectations were -0.22% in CPI and -0.07% in PPI. On the other hand, according to the CBRT's Survey of Expectations, CPI inflation was expected as +0.10%.



CPI decreased to 37-year low.

In July, the decrease in monthly CPI was beyond expectations. Thus, the annual CPI was realized as 6.9% in July, below the upper limit of the uncertainty band of 7.3% set for September. The annual CPI of 6.9% is the lowest level since July 1970. The 7.71% of monthly decline in clothing and footwear sub-sector due to the seasonal price cuts pushed the CPI down. Indeed, 0.61% of the 0.73% decline in inflation stemmed from this group. Besides, the food sub-sector, which has the highest share in the index, also supported the decrease in inflation in July. On the other hand, figures of July pointed out that the stickiness in services inflation continued. In fact, the highest increases were registered in education and housing sub-sectors.



Unprocessed foods and seasonal products pushed the CPI down.

Analysis of the special CPI aggregates revealed that unprocessed food and seasonal products continued to have a decreasing effect on CPI inflation.

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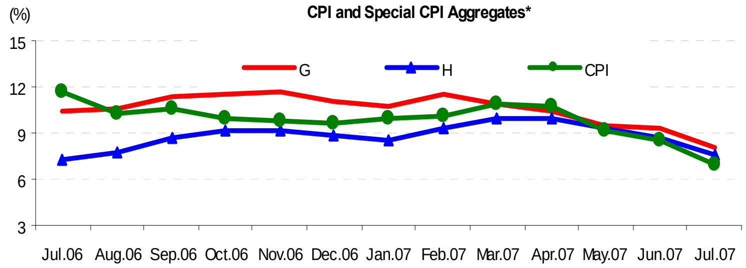

(*) Annual Change
G: CPI excluding energy, alcoholic beverages and tobacco products, other goods with administered prices and indirect taxes, unprocessed food products.
H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.

PPI was realized above the expectations.

Although the markets expected the PPI inflation to decrease in July, it increased by a moderate 0.06%. The continuing rise in the agricultural sector prices was responsible for the higher than expected PPI. On the other hand, the 0.27% decrease in the manufacturing sub-sector indicated a declining pressure of the cost-push inflation on CPI.

We estimate 0.05% CPI and 0.15% PPI inflation in August.

In August, despite the unfavorable effects of the fluctuations in global markets over TRY, interest rates and energy prices, we expect that the food and clothing sectors would support the disinflation trend. **In this context, we estimate 0.05% CPI and 0.15% PPI inflation in August.**

CBRT expects the inflation to decline gradually in the third quarter of 2007.

In the Central Bank's third Inflation Report in 2007, it was stated that the monetary transmission mechanism had proven to be more effective although the domestic demand needed to stay under control for a while in order to reach the medium-term inflation target of 4%. Besides, the higher than expected increase in government expenditures was emphasized as a risk factor in terms of budget discipline and price stability. According to CBRT, the strong TRY, the lagged effects of the monetary tightening and the strong base in the second half of 2006 would help the inflation to continue its gradual decrease in the third quarter of 2007.

With 70% possibility, inflation will be between 5.1% and 6.9% at the end of 2007.

Under the assumption that the effects of the wage increases would last throughout 2007, oil prices would continue to pose risk and the structural price stickiness in housing would persist, the improvement in services inflation would be limited. In this respect, assuming measured policy rate cuts starting from the beginning of the last quarter, CBRT's forecasts indicate that with 70% possibility inflation will be between 5.1% and 6.9% (midpoint 6.0%) at the end of 2007, and between 1.5% and 4.9% (mid-point 3.2%) at the end of 2008.

CBRT is expected to stay on hold until the last quarter .

Despite the decreasing tendency in inflation, we expect that the CBRT would stay on hold until the resolution of the political uncertainties completely and the implementation of the announced fiscal measures.

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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	***0.15***	***3.20***	***3.00***	***8.23***	***0.05***	***3.16***	***7.42***	***9.46***

(E): Estimate