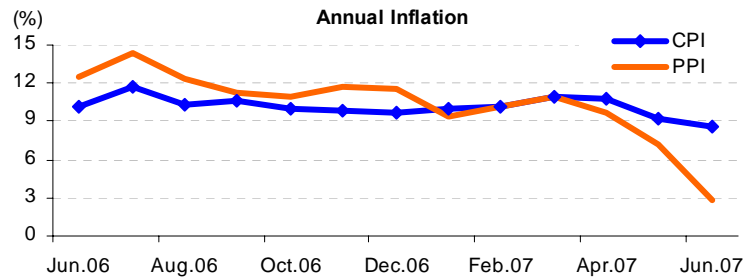


# INFLATION JUNE 2007

(%)	PPI		CPI	
	2006	2007	2006	2007
June	4.02	-0.11	0.34	-0.24
January-June	11.68	2.98	4.88	3.87
Annual	12.52	2.89	10.12	8.60
Annual Average	4.97	10.09	8.32	10.11

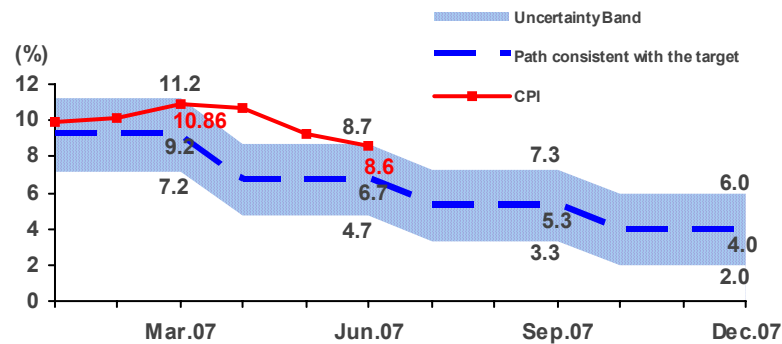
**In June, CPI and PPI decreased by 0.24% and 0.11%, respectively.**

In June, compared to the previous month, **CPI and PPI decreased by 0.24% and 0.11%, respectively.** According to the Reuters' Survey, markets' monthly inflation expectations were +0.04% in CPI and +0.2% in PPI. On the other hand, according to the CBRT's Survey of Expectations, CPI inflation was expected as +0.23%.



**CPI was realized below the upper limit of the uncertainty band.**

In June, CPI registered its first monthly fall since August 2006 and also decreased below 9% level annually for the first time since 13 months. The food sub-sector, which has the highest share in the index, pushed the core inflation down owing to the VAT cuts in some food products together with the decrease in unprocessed food prices. Indeed, the 1.94% decline in the food sub-group led to a decrease of 0.55 points in inflation. Besides, the prices in the miscellaneous goods and services and transportation sub-groups also declined. As a result, in June CPI remained below the upper limit of the uncertainty band which was 8.7%.



In the coming period, it is estimated that food prices would be volatile due to the warm weather and insufficient rain supply. Besides, high level of energy prices, uncertainties about general elections and quality of fiscal discipline all are important risk factors for the inflation outlook.

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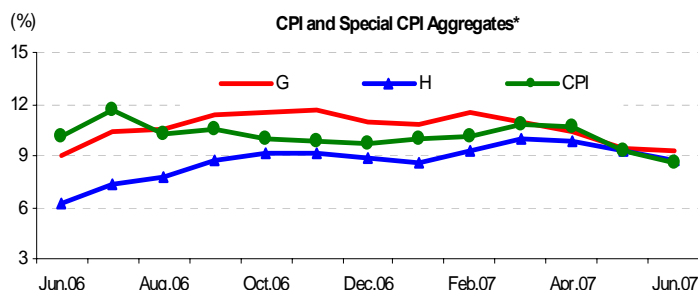


# INFLATION JUNE 2007

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**Unprocessed foods and seasonal products pushed the CPI down.**

Analysis of the special CPI aggregates revealed that unprocessed food and seasonal products had a decreasing effect on CPI. On the other hand, the decline in CBRT's favorite core inflation indicator "ÖKTG-H index" remained limited.



(\*) 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 below the expectations.**

In June, PPI was realized below the expectations thanks to the declining prices in the industrial sector. The decline in the industrial sector prices stemmed from the decreases in the manufacturing and electricity, gas and water sub-sector prices. On the other hand, the increase in the agricultural sector prices continued in June. Recent figures of PPI indicated a declining pressure of the cost-push inflation on CPI.

**We estimate -0.10% CPI and -0.03% PPI inflation in July.**

Starting from the second quarter, the annual CPI tended to moderate. In July, despite the high course of oil prices we expect that the seasonal factors would continue to support the downward trend in inflation. **In this context, we estimate -0.10% CPI and -0.03% PPI inflation in July.**

**CBRT stayed on hold in June.**

The Monetary Policy Committee of CBRT, decided to keep short-term interest rates unchanged at 17.50% in its meeting on June 14<sup>th</sup>. After the meeting, it was stated that while the slowdown in private demand became more pronounced, foreign demand remained strong and aggregate demand conditions increasingly supported disinflation. Accordingly, it is emphasized that inflation is expected to maintain its downward trend.

However, the Committee strongly mentioned the risks such as the gap between inflation expectations and targets, the backward looking pricing behavior, the remaining uncertainties –notwithstanding recent favorable developments– over services price inflation, rising oil prices, and prevailing uncertainties. The Committee gave emphasis on the lagged effects of monetary tightening exercised since June 2006 which were quite noticeable. The potential impacts of the progress in the structural reform agenda and the developments in incomes policy as well as public sector non-interest expenditures on inflation and inflation expectations were also carefully underlined by the Committee.



# INFLATION JUNE 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 (E)	-0.03	2.95	1.98	9.02	-0.10	3.76	7.58	9.76

(E): Estimate

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