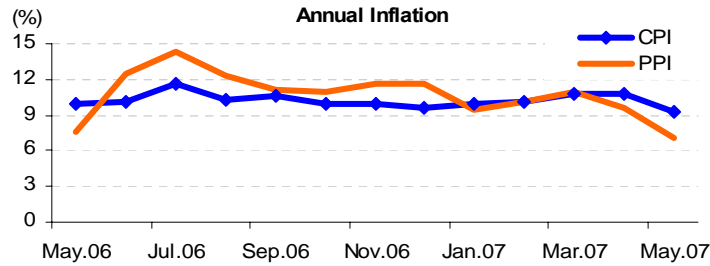


INFLATION MAY 2007

(%)	PPI		CPI	
	2006	2007	2006	2007
May	2.77	0.39	1.88	0.50
January-May	7.36	3.09	4.53	4.12
Annual	7.66	7.14	9.86	9.23
Annual Average	4.27	10.95	8.21	10.24

In May, CPI and PPI increased by 0.50% and 0.39%, respectively.

In May, compared to the previous month, **CPI and PPI increased by 0.50% and 0.39%, respectively.** According to the Reuters' Survey, markets' monthly inflation expectations were 0.84% in CPI and 0.62% in PPI. On the other hand, according to the CBRT's Survey of Expectations, CPI inflation was expected as 0.79%.

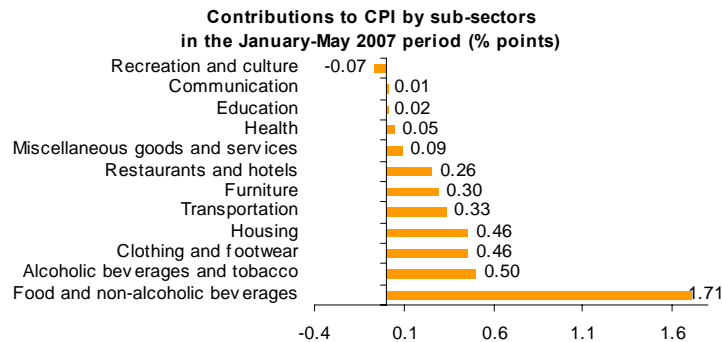


CPI came in below consensus.

The increase in CPI was realized lower than expectations in May. Despite the 11.4% price increase in the clothing and footwear sub-group, the decline in the prices of food sub-group, which has a 28.5% weight in the index, resulted in a moderate CPI increase. Besides, the prices in the communication, re-creation and culture, miscellaneous goods and services sub-groups also declined. As a result, the annual increase in CPI declined to single digit levels thanks to the strong base-year.

In the first five months, highest contribution came from the food sub-group.

In the first five months of 2007, the food sub-group made the highest contribution to the year-to-date inflation (4.12%) by 1.71 points. Seasonal factors and supply shocks have considerable impacts on this group. Therefore price developments in the food sub-group pose a risk factor for the inflation outlook. On the other hand, VAT cuts in some food products might have positive impacts on CPI.



Decelerating trend in core inflation...

Analysis of the special CPI aggregates reveals that seasonal products continued to have an increasing effect on CPI. In fact, CPI excluding seasonal products increased by 0.31% in May, lower than the general index. This pointed out that the domestic demand conditions continued to support the disinflation process. Indeed, a declining tendency was observed in CBRT's favorite core inflation indicator "ÖKTG-H index" .

Economic Research Department

Alper Gürler

Alper.Gurler@isbank.com.tr

Hatice Erkiletlioğlu

Hatice.Erkiletlioglu@isbank.com.tr

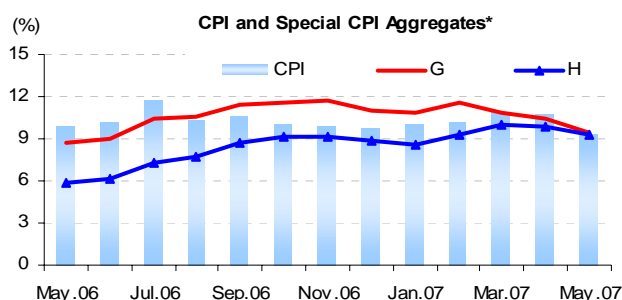
Kıvılcım Eraydın

Kivilcim.Eraydin@isbank.com.tr



INFLATION MAY 2007

Economic
Research
Department



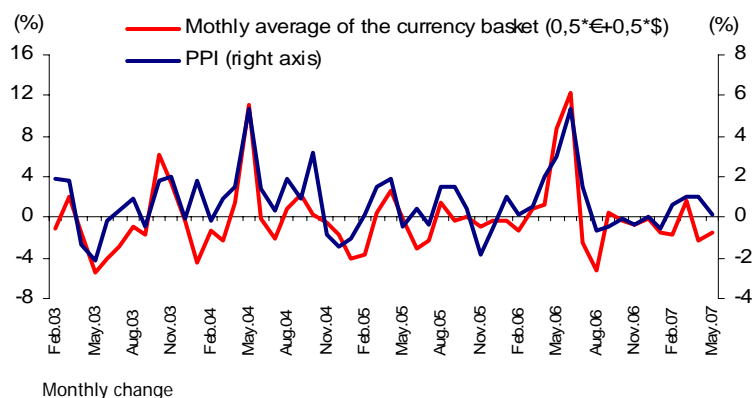
(*) Annual Change

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.

Limited increase in PPI...

In May, the increase in PPI was limited thanks to the declining prices in the industrial sector. The decline in the industrial sector prices stemmed from the 4.3% monthly decrease in electricity, gas and water sub-sector prices. On the other hand, the 2.9% increase in the agricultural sector prices was noteworthy. In the manufacturing sector, a 2.15% increase was registered in coke and refined petroleum prices. A high correlation between monthly changes in PPI and TRY is observed between February 2003-May 2007 period. In this respect, the appreciation of TRY in May also played a role in the relatively moderate increase in PPI.



We estimate 0.25% CPI and 0.20% PPI inflation in June.

The figures of May, reinforced the expectations that the year-end inflation might come in below 7%. In June, despite the recent hike in oil prices, seasonal factors and the VAT cut in some food products would support the disinflation trend. Considering the 4.02% increase in PPI in June 2006, a strong base year effect would also be observed in June 2007. **In this context, we estimate 0.25% CPI and 0.20% PPI inflation in June.**

CBRT stayed on hold in May.

Monetary Policy Committee (MPC) of CBRT kept the interest rates unchanged in its meeting on May, 14. In the minutes of the meeting, MPC remarked that the slowdown in domestic demand continued to support disinflation. According to the CBRT, possibility of stronger-than-expected inertia in inflation, uncertainties over the lagged effects of monetary policy, the possible increase in the non-interest budget expenditures, continuing uncertainties over the global economy and fluctuations in commodity prices stand as the major risks to inflation outlook



INFLATION MAY 2007

Economic
Research
Department

		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 (E)	0.20	3.30	3.21	10.12	0.25	4.38	9.13	10.15

(E): Estimate

This report has been prepared by Türkiye İş Bankası A.Ş. by using the information from publicly available sources believed to be reliable, solely for information purposes. It is not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice. Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of its publication or its contents.

Copyright and database rights protection exists in this publication and it may not be reproduced, distributed or published wholly or partially by any person for any reason without the prior express consent of Türkiye İş Bankası A.Ş. All rights reserved.