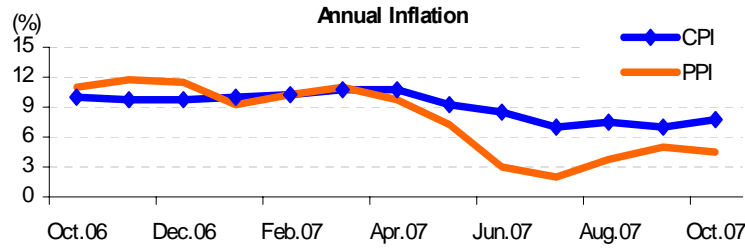


INFLATION OCTOBER 2007

| (%) | PPI | | CPI | |
|-----------------|-------|-------|------|------|
| | 2006 | 2007 | 2006 | 2007 |
| October | 0.45 | -0.13 | 1.27 | 1.81 |
| January-October | 12.04 | 4.84 | 8.01 | 6.08 |
| Annual | 10.94 | 4.41 | 9.98 | 7.70 |
| Annual Average | 7.76 | 7.23 | 9.25 | 8.98 |

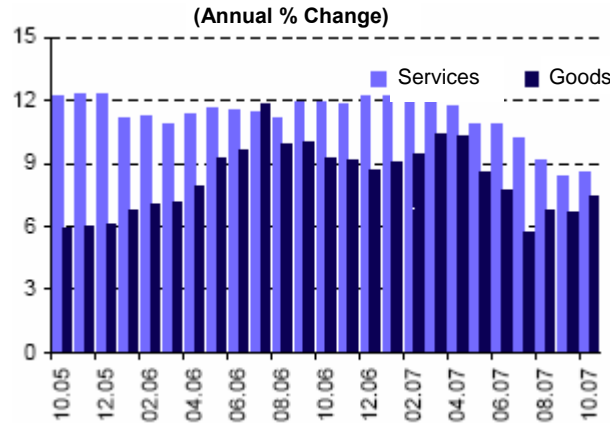
In October, CPI increased by 1.81%, while PPI decreased by 0.13%.

In October, compared to the previous month, **CPI increased by 1.81%, while PPI decreased by 0.13%**. According to the Reuters' Survey, markets' monthly inflation expectations were 1.20% in CPI and 0.45% in PPI. On the other hand, according to the CBRT's Survey of Expectations, CPI inflation was expected as 1.03%.



CPI inflation was realized above the expectations.

In October, the increase in monthly CPI was realized above the expectations. Food, housing, and clothing and footwear sub-groups made the most significant contributions to the CPI due to the seasonal factors. CPI inflation was largely attributable to the remarkable increase in food prices. On the other hand, the prices in education, transportation and health sub-groups displayed a positive outlook in October. The slowdown tendency in the annual rate of price increases in services sector was interrupted in October. On the other hand, the increasing tendency recently observed in the goods group prices continued.



Source: CBRT

The favorable outlook in core CPI indicators continued.

Analysis of the special CPI aggregates on a monthly basis revealed that seasonal goods and unprocessed food products had an increasing effect on the CPI. On the other hand, on an annual basis the downward trend in CBRT's favorite core inflation indicator "core-H index" continued despite a slowdown. In October, the 6.01% annual increase in core-H index remained below the CPI inflation.

Economic Research Department

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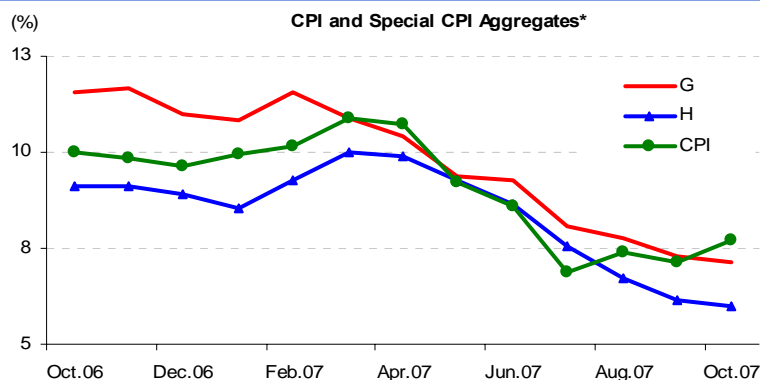
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INFLATION OCTOBER 2007



(*) 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.

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PPI was realized below the expectations.

In October, monthly PPI inflation was realized as -0.13%, lower than the expectations. Although the prices of agricultural products continued to rise, the decline in PPI was attributable to the decreasing electricity, gas and water prices (-8.9%). Despite the appreciation of TL, the high level of oil and commodity prices is expected to put pressure on PPI in the coming period.

We estimate 1.30% CPI and 0.50% PPI inflation in November.

In November, the appreciation of TL is expected to limit the rise in CPI and PPI inflation. On the other hand, the new water tariffs in Istanbul and the Special Consumption Tax rise in fuel-oil products would have an increasing effect on the CPI. Taking into account the seasonal factors and the surge in energy prices, **we estimate 1.30% CPI and 0.50% PPI inflation in November.**

CBRT lowered interest rates to 16.75%.

The Monetary Policy Committee of CBRT decided to reduce short-term interest rates to 16.75% at its meeting on October 16th. After the meeting, it was stated that while private consumption and investment demand exhibited signs of recovery, the aggregate demand conditions continued to support the disinflation process due to the moderation of the external demand. Besides, the Committee assessed that developments in services inflation continued its favorable course and despite the risks related to energy, food, and administered prices, inflation would continue to decelerate owing to the lagged effects of strong monetary tightening.

CBRT forecasted inflation to be between 6.7% and 7.9% at the end of 2007.

In the fourth Inflation Report, CBRT revised their assumption on oil prices upwards from \$/barrel 65 to \$/barrel 70. Moreover, unlike the previous Report, CBRT assumed a sizeable increase in electricity prices in the last quarter of the year. The end-2007 forecast was revised upwards by 0.8 percentage points owing to the revision in energy prices. The sharp increase in food prices was also effective in this development. In this context, CBRT forecasted inflation to be between 6.7% and 7.9% (midpoint 7.3%) at the end of 2007, above the uncertainty band. Assuming that measured rate cuts for the rest of the year and for the first couple of months of 2008 followed by a flat course for some time; inflation is forecasted to be between 2.5% and 5.7% (midpoint 4.1%) at the end of 2008, and between 1.7% and 5.5% (midpoint 3.6%) at the end of the third quarter of 2009.



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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 | 1.02 | 4.98 | 5.02 | 7.77 | 1.03 | 4.19 | 7.12 | 9.17 |
| | October | -0.13 | 4.84 | 4.41 | 7.23 | 1.81 | 6.08 | 7.70 | 8.98 |
| | November (E) | 0.50 | 5.37 | 5.24 | 6.71 | 1.30 | 7.46 | 7.71 | 8.80 |

(E): Estimate

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