

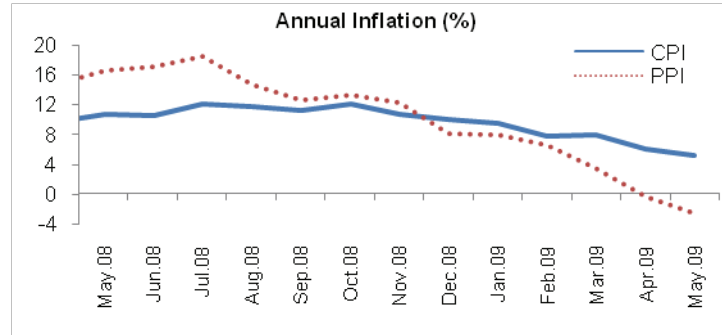
INFLATION MAY 2009

(%)	PPI		CPI	
	2008	2009	2008	2009
May	2.12	-0.05	1.49	0.64
January-May	13.39	2.30	6.38	1.71
Annual	16.53	-2.46	10.74	5.24
Annual Average	7.20	8.96	8.47	9.49

In April, CPI increased by 0.64% while PPI decreased by 0.05%.

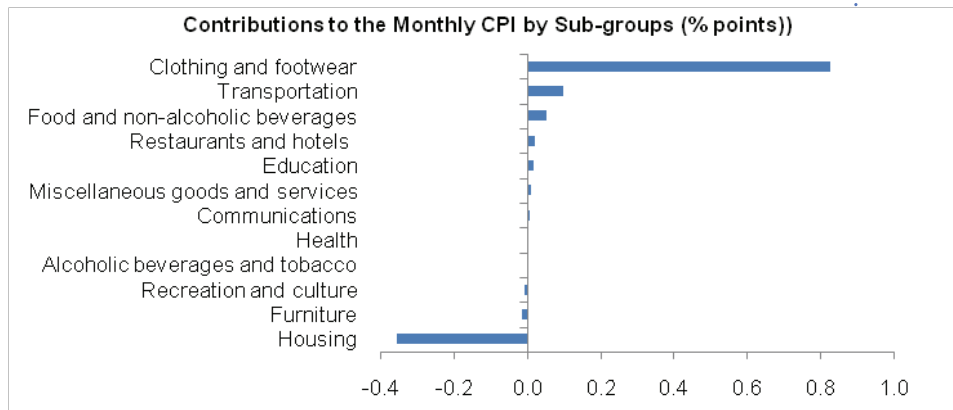
In May, compared to the previous month, **CPI increased by 0.64% while PPI decreased by 0.05%**. According to the Reuters' Survey, markets' monthly inflation expectations were 0.4% in CPI and 0.7% in PPI. According to the CBRT's Survey of Expectations, CPI inflation was also expected as 0.4%.

In May, annual CPI increase was realized as 5.24%, the lowest figure since July 1970 while annual PPI decreased by 2.46%, the lowest figure since April 1964.



Monthly CPI inflation was realized slightly above the expectations.

In May, monthly CPI inflation was realized slightly above the expectations. The rise in CPI was mainly attributable to the 11.46% increase in clothing and footwear sub-group due to seasonal factors. Besides, the rise in the prices of transportation and food sub-groups also increased the CPI. Due to the weak domestic demand, the price increases in other sectors were limited. The fall in prices in housing sector and furniture sector due to VAT cuts also restricted the rise in CPI.



Annual rise in special CPI aggregates are at record low levels.

Analysis of the special CPI aggregates on a monthly basis revealed that all sub-groups except seasonal products put a downward pressure on inflation. Excluding seasonal products, the monthly CPI decreased by 0.04%. On an annual basis, the rises in CBRT's favorite core inflation aggregates, denoted by H and I, were realized as 3.03% and 3.17%, respectively.

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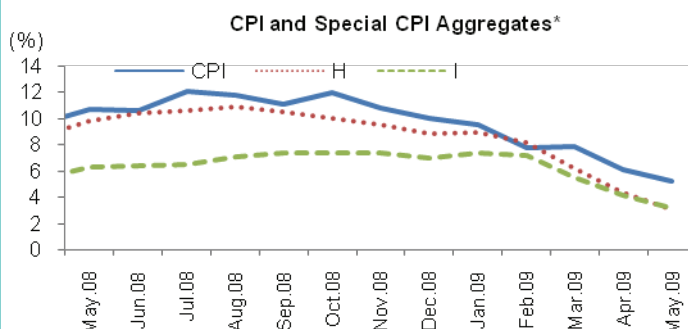
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(*) Annual change

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

I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products and gold.

Industrial sector prices decreased.

In May, monthly PPI decreased by 0.05% in contrast to the expectations. On monthly basis, agricultural sector prices rose by 3.7% while industrial sector prices decreased by 0.89%. Prices in manufacturing industry, having a share of nearly 74% in industrial sector, decreased slightly by 0.07%. However, the prices in electricity, gas and water sub-group, which has a share of 6.3% in industrial sector, decreased by 10.1% due to the price cuts in natural gas and had a declining impact on total industrial sector prices. The highest price increase in manufacturing industry was registered in clothing sub-group (4.09%).

We expect CPI and PPI to rise by 0.10% and 0.05% in June, respectively.

In June, the food and clothing prices are expected to support the downward trend in inflation due to seasonal factors. On the other hand, the recent rising tendency of oil prices might put an upward pressure on inflation. In this context, **we estimate CPI and PPI to increase by 0.10% and 0.05% in June, respectively.**

CBRT cut the short term interest rates by 50 basis points.

The Monetary Policy Committee of CBRT decided to cut short-term interest rates by 50 basis points, in line with the expectations, at its meeting on May 14th. Thus, CBRT decreased short-term borrowing and lending rates from 9.75% and 12.25% to 9.25% and 11.75%, respectively. The Committee underlined that problems in international credit markets persisted and there were no significant signs of improvement in the outlook for global economy. In this context, the downward pressures on domestic and global demand as well as on the inflation were expected to continue. Moreover, the Committee stated that past declines in oil and other commodity prices were likely to further contribute to disinflation in the near term. The Committee envisaged that the next rate cut might be measured, and that it might be necessary for the monetary policy to maintain an easing bias for a considerable period.

In May, annual CPI went below the year-end inflation forecast of 6% and this development supported the expectations that the Central Bank would cut the interest rates in June.



INFLATION MAY 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
2008	January	0.42	0.42	6.44	6.08	0.80	0.80	8.17	8.61
	February	2.56	3.00	8.15	5.94	1.29	2.11	9.10	8.53
	March	3.17	6.26	10.50	5.95	0.96	3.09	9.15	8.40
	April	4.50	11.04	14.56	6.39	1.68	4.82	9.66	8.33
	May	2.12	13.39	16.53	7.20	1.49	6.38	10.74	8.47
	June	0.32	13.76	17.03	8.39	-0.36	6.00	10.61	8.64
	July	1.25	15.18	18.41	9.76	0.58	6.61	12.06	9.07
	August	-2.34	12.49	14.67	10.68	-0.24	6.35	11.77	9.43
	September	-0.90	11.48	12.49	11.29	0.45	6.83	11.13	9.76
	October	0.57	12.11	13.29	12.03	2.60	9.60	11.99	10.12
	November	-0.03	12.08	12.25	12.56	0.83	10.52	10.76	10.31
	December	-3.54	8.11	8.11	12.72	-0.41	10.06	10.06	10.44
2009	January	0.23	0.23	7.90	12.81	0.29	0.29	9.50	10.54
	February	1.17	1.40	6.43	12.63	-0.34	-0.06	7.73	10.41
	March	0.29	1.70	3.46	11.99	1.10	1.05	7.89	10.29
	April	0.65	2.35	-0.35	10.65	0.02	1.07	6.13	9.98
	May	-0.05	2.30	-2.46	8.96	0.64	1.71	5.24	9.49
	June (E)	0.05	2.35	-2.73	7.26	0.10	1.82	5.72	9.08

(E): Estimate

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