

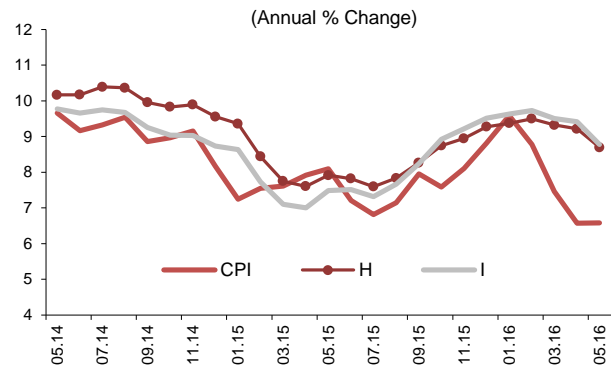
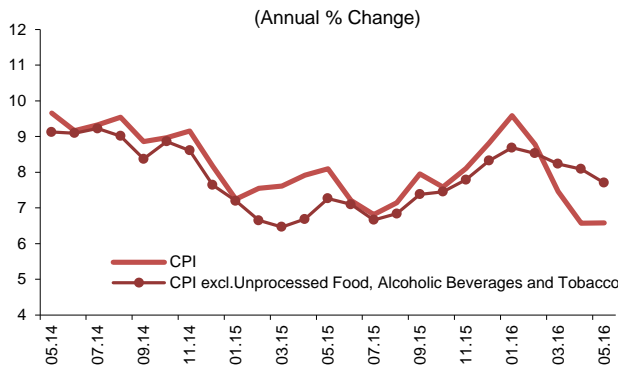
SUMMARY ...

In May, consumer prices rose by 0.58 percent, and the annual consumer inflation remained flat at 6.58 percent. Food prices followed a mild course, yet annual food inflation increased due to the base effect. The underlying trend of services inflation preserved its relatively high level. On the other hand, the cumulative effects of the exchange rates further subsided and clothing prices recorded a lower increase compared to seasonal averages, which resulted in a notable fall both in the annual inflation and the underlying trend of core goods prices. Accordingly, annual inflation in core indicators registered a decline and the improvement in their underlying trends grew more apparent.

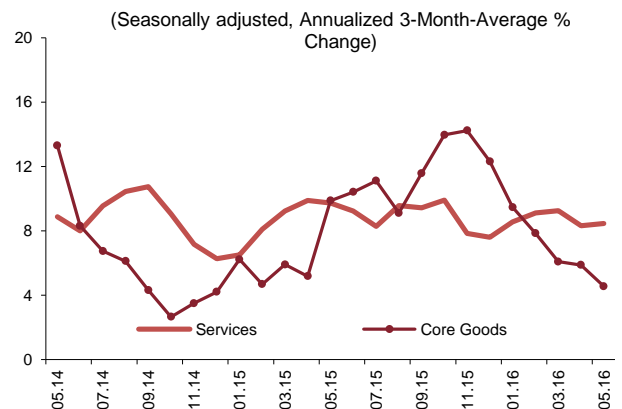
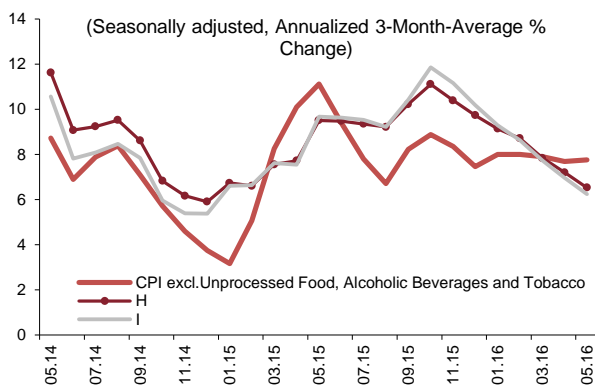
... EVALUATIONS ...

In May, consumer prices rose by 0.58 percent, and the annual consumer inflation remained flat at 6.58 percent. The annual rate of change in the H and I indices fell by 0.52 and 0.64 point month-on-month to 8.69 and 8.77 percent, respectively.

Contributions of sub-groups to annual CPI inflation reveal an increase in the food group by 0.28 point in contrast to a decline by 0.29 point in the core goods group. The contribution of energy and services groups remained almost unchanged in May.



The underlying trend of inflation based on seasonally-adjusted data in 3-month averages reveal that the improvement in the core inflation indicators grew more evident in May due to core goods. The rise in clothing prices remained below seasonal averages and core goods prices excluding clothing exhibited a slowdown, leading to an improvement in the underlying trend of the core goods group. Meanwhile, the underlying trend in the services group maintained a high course.

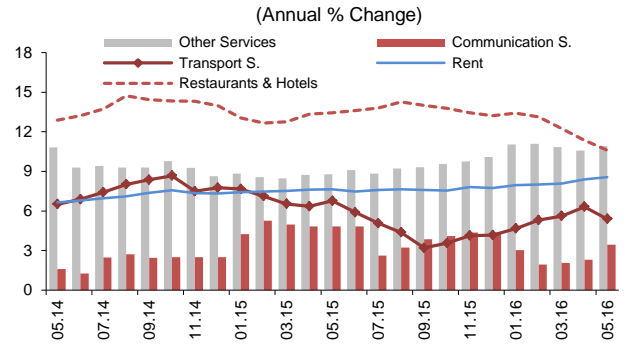
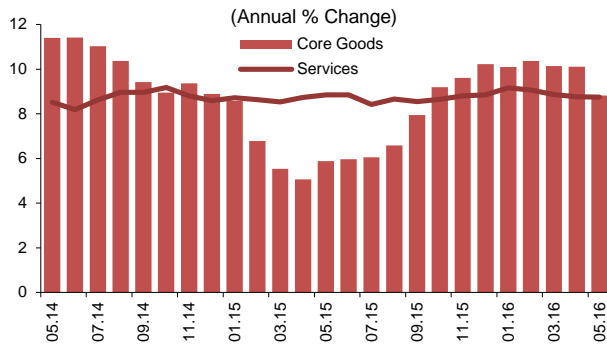


Prices of services increased by 0.76 percent on a monthly basis and the group's annual inflation remained almost flat with 8.74 percent in May. Annual inflation decreased in the transport and

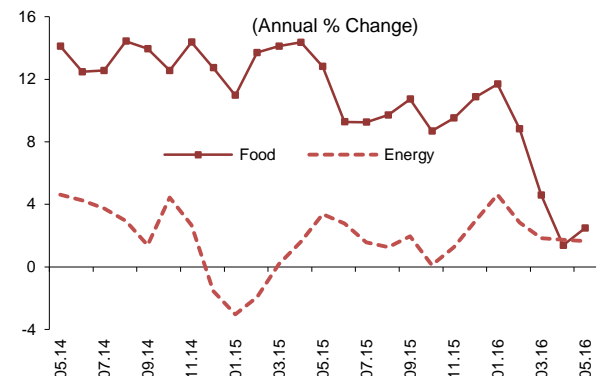
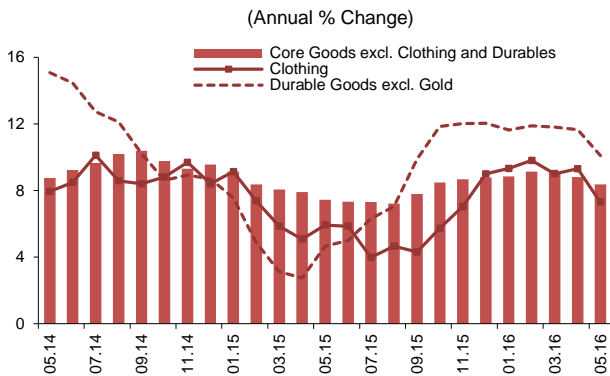
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the restaurants-hotels groups but increased in other subgroups. Having been on the increase since the start of the year, annual rent inflation reached 8.56 percent. Monthly price increases in communication and other services groups were notable. The rise in communication prices was driven by landline call rates and subscription fees, while the rise in package tour prices (11.07 percent) stood out in the other services group. Meanwhile, prices in the restaurants-hotels group continued with a modest pace amid the favorable course of food prices.



Annual core goods inflation declined by 1.29 points to 8.82 percent in May. Annual inflation registered a decline in all sub-groups in this period. The rise in clothing prices remained below seasonal averages and the annual clothing inflation fell by 2 points to 7.30 percent. Prices in durable goods edged down by 0.33 percent mainly due to prices of furniture and white goods. In May, core goods excluding clothing and durables witnessed slowing monthly price increases. The deceleration in the cumulative effects of the exchange rate pulled the annual core goods inflation down to the lowest level of the last 8 months.



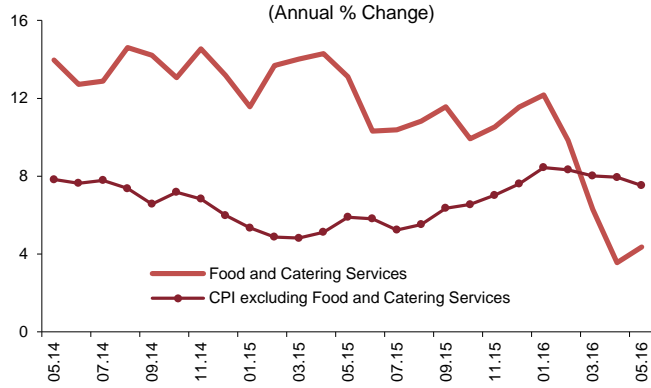
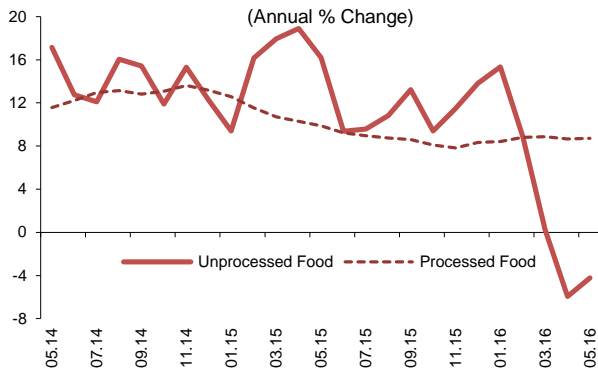
Energy prices saw an uptick by 1.10 percent in May due to the rise in fuel prices by 3.42 percent parallel to the ongoing hikes in international oil prices coupled with the depreciation in the Turkish lira. Meanwhile, bottled gas prices and water tariffs also recorded increases. On the other hand, annual energy inflation receded by 0.08 point to 1.65 percent due to the base effect.

Annual inflation in food and non-alcoholic beverages rose by 1.09 points to 2.47 percent, yet maintained the low course. The culprit of this, unprocessed food prices, receded on a monthly basis, yet increased to -4.22 percent on an annual basis stemming from the base effect in prices of vegetables. Red meat prices continued to follow a mild course on account of the enforced measures. On the other hand, annual processed food inflation remained on a high track with 8.70 percent. Annual inflation in the bread and cereals group has trended upwards in the last six months and climbed to 9.93 percent.

In May, annual inflation in food and catering services reached 4.37 percent, while consumer inflation excluding food and catering services, which has trended downwards since early 2016, receded to 7.53 percent.

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	Monthly Percent Change		Annual Percent Change	
	May.2016	May.2015	May.2016	May.2015
CPI	0.58	0.56	6.58	8.09
1. Goods	0.50	0.47	5.68	7.78
Energy	1.10	1.18	1.65	3.38
Food and nonalcoholic beverages	-1.64	-2.68	2.47	12.81
Unprocessed food	-4.05	-5.77	-4.22	16.19
Fresh fruits and vegetables	-10.54	-13.49	-12.53	17.75
Other unprocessed food	-0.02	-0.69	1.20	15.38
Processed food	0.43	0.40	8.70	9.86
Bread and cereals	0.40	0.17	9.93	7.46
Other processed food	0.45	0.53	8.04	11.29
Goods excluding energy and food	1.78	2.71	9.63	5.81
Core goods	2.06	3.27	8.82	5.88
Durable goods	-0.01	1.01	10.50	5.23
Durable goods (excluding gold)	-0.33	1.08	10.09	4.66
Alcoholic beverages and tobacco	-0.03	0.01	12.79	4.08
Gold	5.27	-0.23	17.12	16.37
2. Services	0.76	0.77	8.74	8.85
Rents	0.77	0.62	8.56	7.65
Restaurants and hotels	0.51	1.20	10.59	13.44
Transport	0.25	1.12	5.40	6.76
Communication	1.12	0.00	3.45	4.84
Other*	1.00	0.70	10.92	8.78
3. Core Measures				
CPI excluding unprocessed food, alcoholic beverages and tobacco	1.21	1.58	7.70	7.26
H	1.20	1.69	8.69	7.91
I	1.36	1.96	8.77	7.48

Source: TurkStat, CBRT.

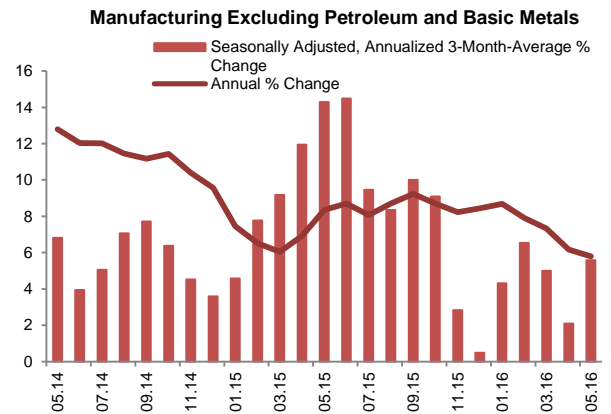
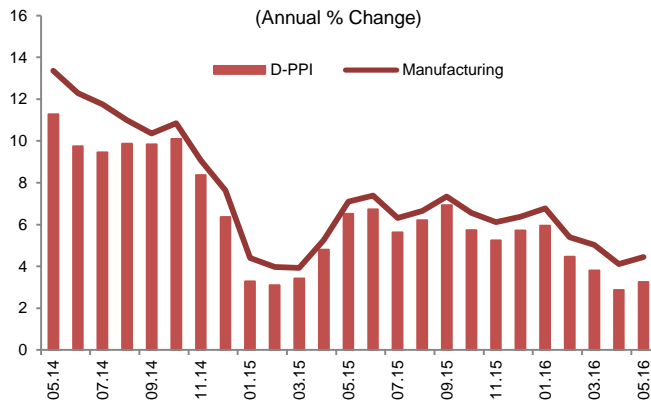
*Other: The services index excluding rents, restaurants/hotels, transport and communication services.

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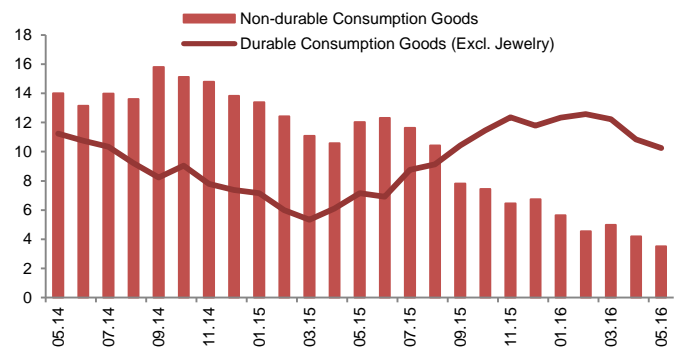
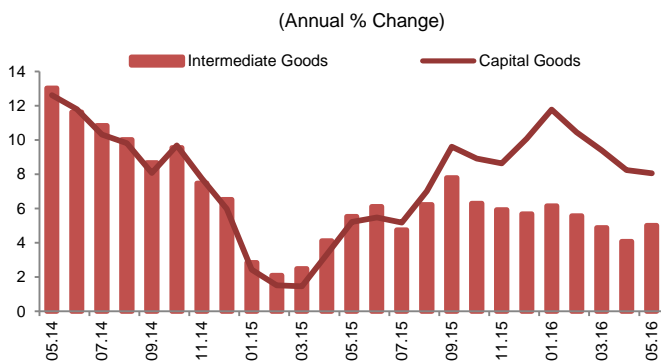
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...D-PPI...

Domestic producer prices rose by 1.48 percent month-on-month, and the group's annual inflation crept up by 0.38 point to 3.25 percent in May. Oil and basic metal sectors stood out in the monthly price increase, which were driven by rising international oil prices and the depreciating Turkish lira. Annual inflation rose to 4.45 percent in the manufacturing prices industry, but fell to 5.79 percent in the manufacturing industry excluding petroleum and basic metals.



According to the Main Industrial Groupings (MIGs), all subgroups exhibited an uptick in May. The rise in intermediate goods (1.90 percent) was led by the prices of iron-steel products. Prices of capital goods were mainly pushed up by the manufacture of special-purpose machinery and metal construction products. In the non-durable consumption goods front, prices surged due to prices of meat and meat products. Meanwhile, the rise in prices of durable consumption goods excluding jewelry was largely shaped by prices of furniture and home utensils. As a result, although having increased compared to April, producer-driven cost pressures on consumer prices remained subdued in May as well.



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...TABLES

May CPI and Subcategories (Percent Change)					
	Weight	2016		2015	
		Monthly	Annual	Monthly	Annual
CPI	100	0.58	6.58	0.56	8.09
Food and nonalcoholic beverages	23.68	-1.64	2.47	-2.68	12.81
Alcoholic beverages and tobacco	4.98	-0.03	12.79	0.01	4.08
Clothing and footwear	7.43	8.04	7.32	10.06	5.99
Housing	15.93	0.38	6.51	0.46	8.32
Household equipment	8.02	-0.28	9.18	0.82	7.83
Health	2.66	0.25	9.58	0.24	6.96
Transport	14.31	1.10	5.72	1.76	1.75
Communication	4.42	0.92	2.86	-0.16	3.17
Recreation and culture	3.81	0.91	8.97	1.08	8.70
Education	2.56	1.04	7.56	0.46	7.31
Restaurants and hotels	7.47	0.51	10.59	1.20	13.44
Miscellaneous goods and services	4.73	0.95	11.87	0.39	9.79

Source: TurkStat.

May D-PPI and Subcategories (Percent Change)					
	Weight	2016		2015	
		Monthly	Annual	Monthly	Annual
D-PPI	100.00	1.48	3.25	1.11	6.52
Mining	3.50	2.43	-0.39	0.86	0.02
Manufacturing	87.28	1.87	4.45	1.53	7.09
Manufacturing excl. petroleum products	84.65	1.49	5.45	1.28	8.06
Manufacturing excl. petroleum products and basic metals	75.61	0.95	5.79	1.31	8.35
Electricity, gas, steam and air-conditioning supply	8.13	-3.25	-8.63	-2.73	2.13
Water supply	1.08	0.49	7.58	1.06	22.32
D-PPI (MIGs Classification)					
Intermediate Goods		1.90	5.00	1.00	5.54
Durable Consumption Goods		1.64	11.35	0.75	9.10
Durable Consumption Goods (Excl. Jewelry)		0.59	10.25	1.14	7.16
Non-Durable Consumption Goods		1.04	3.51	1.72	12.03
Capital Goods		1.05	8.06	1.22	5.22
Energy		1.35	-9.51	0.42	-1.46

Source: TurkStat.

Price Developments are published within one working day, following the announcement of price statistics by the Turkish Statistical Institute (TurkStat). Price Developments, which include CBRT's initial remarks on the inflation figures of the previous month, aim to contribute to a sounder interpretation by the public of the monthly inflation developments during the period between the announcement of the official price statistics and the Monetary Policy Committee meeting.