

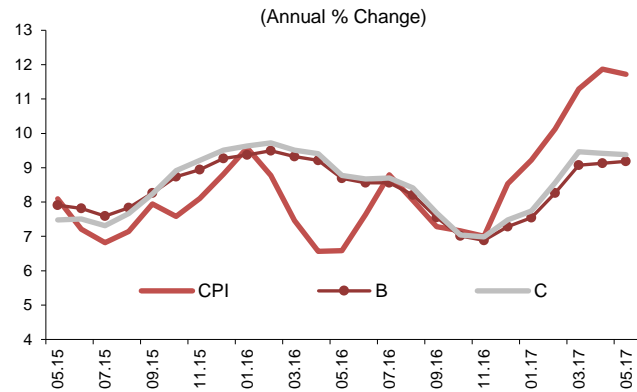
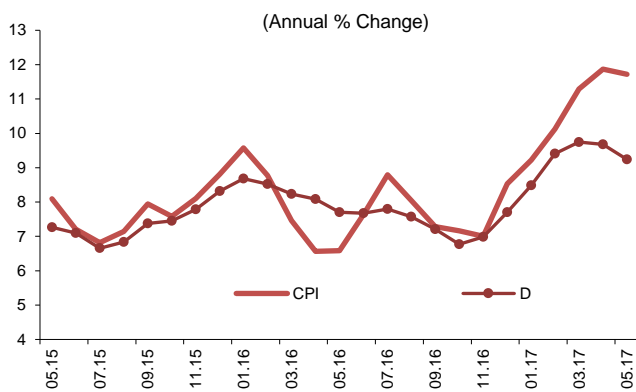
SUMMARY...

In May, consumer prices increased by 0.45 percent and annual inflation dropped by 0.15 points to 11.72 percent. Food inflation remained on the rise. Energy inflation continued to decline, while services inflation increased. The lagged effects of the cumulative Turkish lira depreciation continued to put pressure on core goods. Nevertheless, temporary factors stemming from the methodology change for clothing prices helped bring core goods inflation down. Adjusted for these factors, the underlying trend of inflation registered a slight downtick.

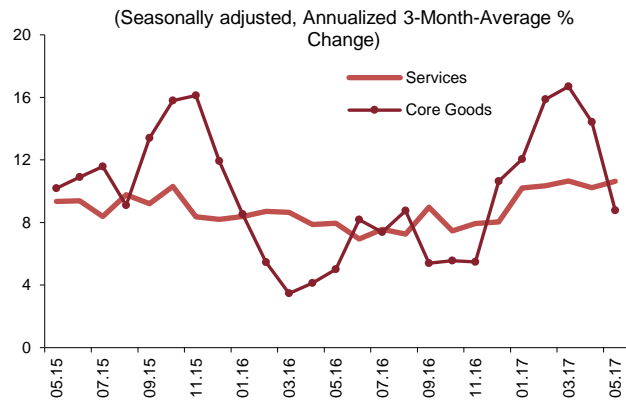
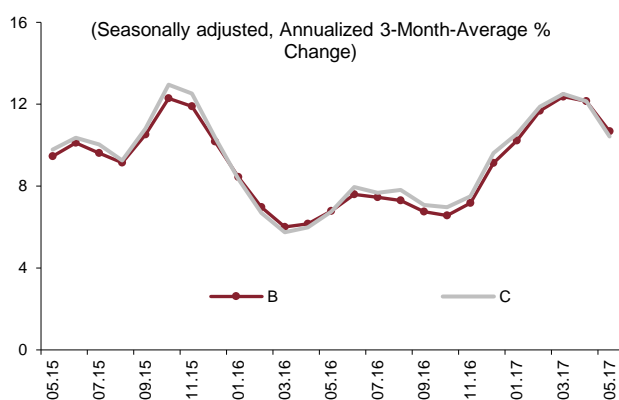
... EVALUATIONS ...

In May, consumer prices increased by 0.45 percent and annual inflation dropped by 0.15 points to 11.72 percent. The annual rate of change in the B and C indices remained relatively flat at 9.19 and 9.38 percent, respectively.

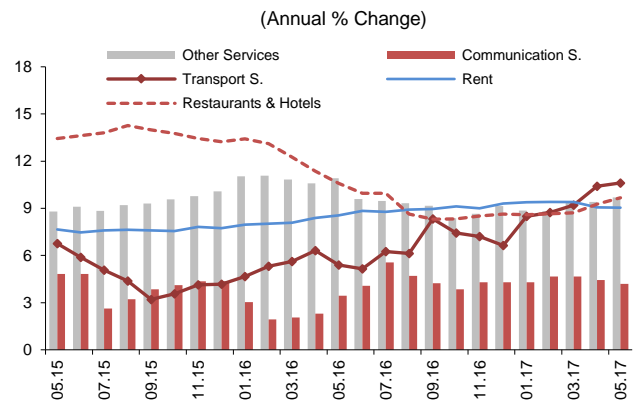
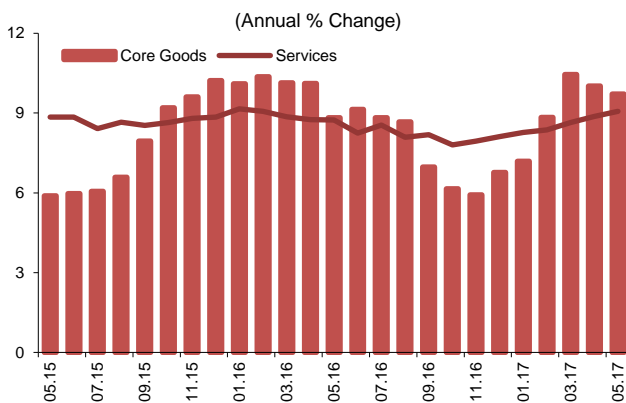
Across subcategories, the contribution of food to annual inflation was up 0.22 points month-on-month, whereas that of energy decreased by 0.30 points. The contributions of core goods and services barely changed.



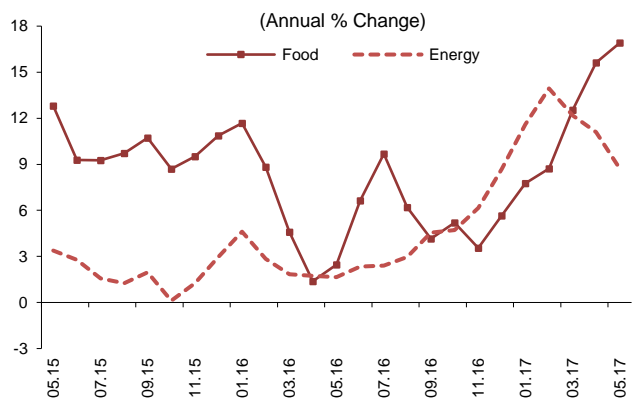
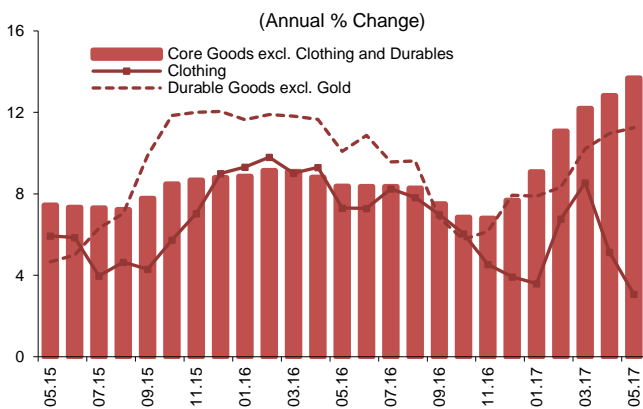
Three-month averages of seasonally-adjusted core inflation indicators reveal a slide in the underlying trend. The underlying trend of services inflation remained flat whereas that of core goods inflation posted a marked decline due to clothing prices. The slowing clothing inflation mostly reflects the temporary effects of the methodological change. Adjusted for these effects, the improvement in the underlying trend is more subtle.



Prices of services rose by 0.93 percent in May, while annual services inflation edged up by 0.19 points to 9.06 percent. Large monthly upswings were noted in catering services of the restaurants and hotels group amid high food prices, in land passenger transport of the transportation group, and in package tours (up 14.63 percent) of the other services group. Thus, annual inflation was up in these groups but remained flat in rent and receded in communication.



Annual core goods inflation dropped by 0.31 points to 9.71 percent in May due to clothing prices. However, the lagged effects of the cumulative Turkish lira depreciation continued to put pressure on non-clothing categories. The seasonal increase in clothing prices was smaller than in previous years mostly, as stated above, on account of the changed weight structure. On the other hand, prices of durable goods edged lower on the back of prices of automobiles and electrical and nonelectrical home appliances. Prices continued to rise sharply across core goods excluding clothing and durables, driving annual inflation up to an all-time high of 13.68 percent in this subcategory. The largest price hikes were noted in home maintenance and repair and household cleaning products.

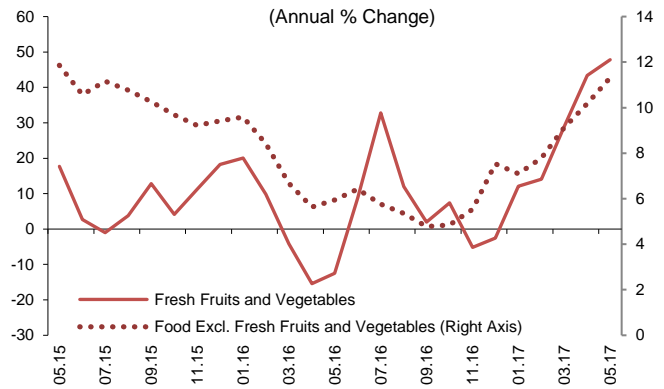
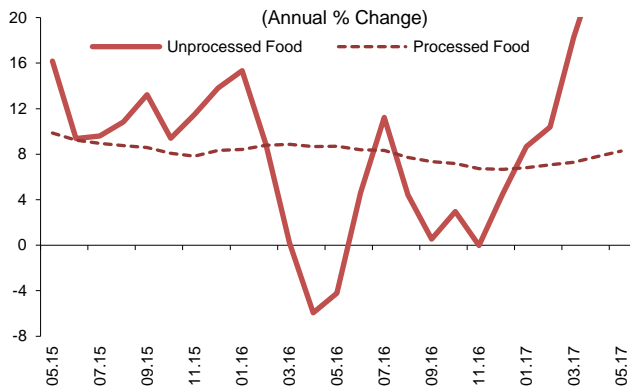


Energy prices fell by 1.07 percent in May. Fuel and bottled gas prices were down 2.89 and 1.63 percent, respectively, amid sinking international oil prices and the appreciating Turkish lira. On the other hand, municipally-determined tap water rates remained on the rise. Thus, annual energy inflation declined by 2.38 points to 8.72 percent.

Annual food and nonalcoholic beverages inflation jumped by 1.28 points to 16.91 percent in May, mostly due to rising unprocessed food prices. Annual inflation edged up in processed food as well. Seasonally adjusted unprocessed food prices soared in May, particularly because of red meat prices that increased by a substantial 3.46 percent. Annual inflation remained flat in fresh fruits but climbed further in vegetables. Accordingly, annual unprocessed food inflation reached 27.33 percent due, among other factors, to the low base effect. Processed food prices rose further by a sharp 0.87 percent month-on-month, bringing annual processed food inflation up to 8.27 percent. Across subcategories, bread and nonalcoholic beverages (soft drinks, mineral water, coffee, etc.) saw sizable price hikes. Thus, annual food inflation excluding fresh fruits and vegetables remained on a steady upward track in May.

MAY PRICE DEVELOPMENTS

JUNE 6, 2017



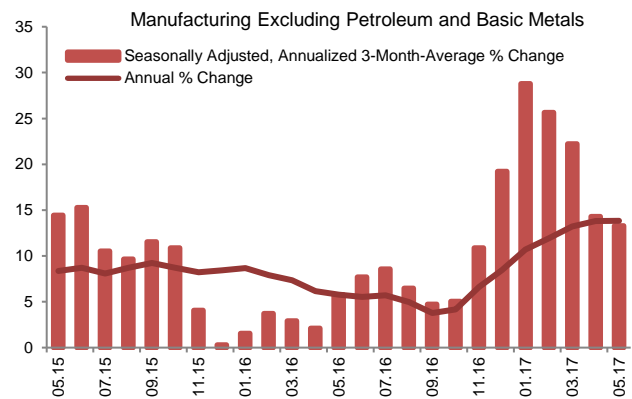
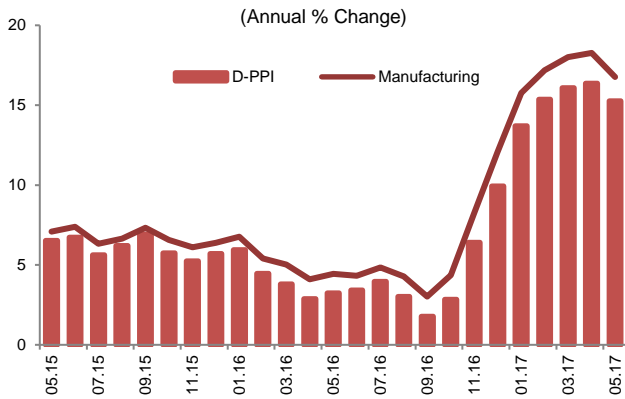
| | Monthly Percent Change | | Annual Percent Change | |
|---|------------------------|-------------|-----------------------|-------------|
| | May.2017 | May.2016 | May.2017 | May.2016 |
| CPI | 0.45 | 0.58 | 11.72 | 6.58 |
| 1. Goods | 0.24 | 0.50 | 12.90 | 5.68 |
| Energy | -1.07 | 1.09 | 8.72 | 1.65 |
| Food and nonalcoholic beverages | -0.55 | -1.64 | 16.91 | 2.47 |
| Unprocessed food | -1.95 | -4.05 | 27.33 | -4.22 |
| Fresh fruits and vegetables | -7.77 | -10.54 | 47.82 | -12.53 |
| Other unprocessed food | 2.06 | -0.03 | 16.96 | 1.20 |
| Processed food | 0.87 | 0.43 | 8.27 | 8.71 |
| Bread and cereals | 1.19 | 0.40 | 7.92 | 9.93 |
| Other processed food | 0.69 | 0.45 | 8.47 | 8.04 |
| Goods excluding energy and food | 1.25 | 1.78 | 11.96 | 9.63 |
| Core goods | 1.77 | 2.06 | 9.71 | 8.83 |
| Durable goods (excluding gold) | -0.08 | -0.34 | 11.25 | 10.09 |
| Clothing and footwear(*) | 6.07 | 8.19 | 3.07 | 7.30 |
| Other core goods | 0.93 | 0.17 | 13.68 | 8.38 |
| Alcoholic beverages and tobacco | 0.00 | -0.03 | 21.69 | 12.79 |
| Gold | -3.92 | 5.27 | 20.05 | 17.12 |
| 2. Services | 0.93 | 0.76 | 9.06 | 8.74 |
| Rents | 0.76 | 0.77 | 9.04 | 8.56 |
| Restaurants and hotels | 0.89 | 0.51 | 9.68 | 10.59 |
| Transport | 0.44 | 0.25 | 10.61 | 5.40 |
| Communication | 0.88 | 1.12 | 4.20 | 3.44 |
| Other | 1.28 | 1.00 | 9.70 | 10.92 |
| 3. Core Measures | | | | |
| B - CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold | 1.26 | 1.20 | 9.19 | 8.69 |
| C - CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold | 1.33 | 1.36 | 9.38 | 8.77 |
| D - CPI excluding unprocessed food, alcoholic beverages and tobacco | 0.81 | 1.21 | 9.24 | 7.70 |

Source: TurkStat.

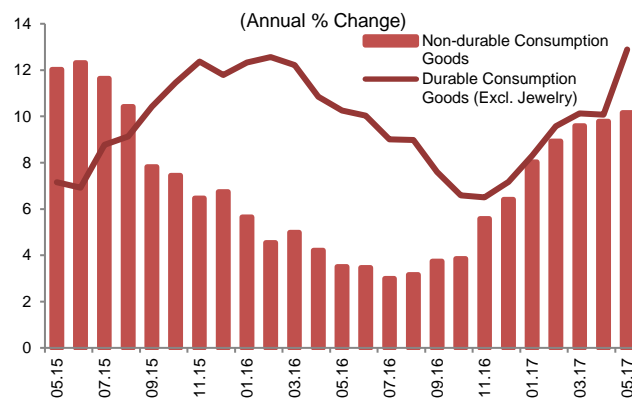
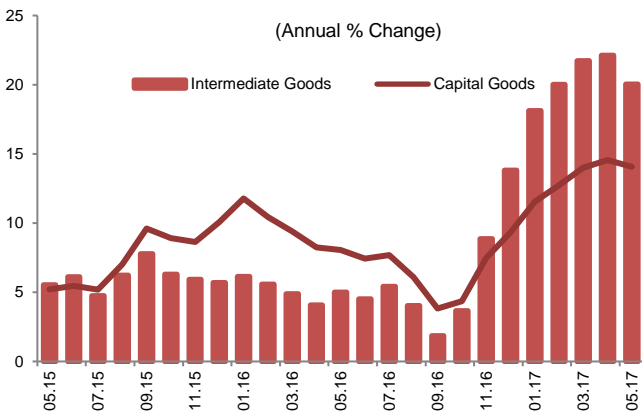
(*) Does not cover clothing services.

... D-PPI ...

Domestic producer prices rose by 0.52 percent in May, while annual PPI inflation dropped by 1.11 points to 15.26 percent amid favorable international commodity prices (oil and metals) and exchange rates. Annual inflation shrunk to 16.77 percent in the manufacturing industry but remained flat at 13.83 percent in the manufacturing industry excluding petroleum and base metals. The seasonally-adjusted underlying trend of manufacturing industry prices excluding petroleum and base metals moderated slightly, albeit remaining elevated.



According to the Main Industrial Groupings (MIGs), prices registered modest gains across intermediate goods and capital goods but soared remarkably for durable (non-jewelry) goods and nondurable goods (up 3.16 and 1.38 percent, respectively) in May. Among durable goods, price developments were more pronounced in furniture and home electronics, while across nondurable goods prices increased on account of food items such as meat products, fruits and vegetables and baked goods. Motor vehicles were the main contributor to higher capital goods prices in this period. In short, producer-driven cost pressures on consumer prices eased slightly in May, but remained robust nonetheless.



...TABLES

| May CPI and Subcategories (Percent Change) | | | | | |
|--|--------|---------|--------|---------|--------|
| | Weight | 2017 | | 2016 | |
| | | Monthly | Annual | Monthly | Annual |
| CPI | 100 | 0.45 | 11.72 | 0.58 | 6.58 |
| Food and nonalcoholic beverages | 21.77 | -0.55 | 16.91 | -1.64 | 2.47 |
| Alcoholic beverages and tobacco | 5.87 | 0.00 | 21.69 | -0.03 | 12.79 |
| Clothing and footwear | 7.33 | 5.97 | 3.15 | 8.04 | 7.32 |
| Housing | 14.85 | 0.40 | 7.56 | 0.38 | 6.51 |
| Household equipment | 7.72 | 0.77 | 6.70 | -0.28 | 9.18 |
| Health | 2.63 | 0.23 | 13.29 | 0.25 | 9.58 |
| Transport | 16.31 | -0.73 | 15.81 | 1.10 | 5.72 |
| Communication | 4.12 | 0.51 | 3.72 | 0.92 | 2.86 |
| Recreation and culture | 3.62 | 2.42 | 10.86 | 0.91 | 8.97 |
| Education | 2.69 | 0.90 | 9.48 | 1.04 | 7.56 |
| Restaurants and hotels | 8.05 | 0.89 | 9.68 | 0.51 | 10.59 |
| Miscellaneous goods and services | 5.04 | -0.91 | 11.60 | 0.95 | 11.87 |

Source: TurkStat.

| May D-PPI and Subcategories (Percent Change) | | | | | |
|---|--------|---------|--------|---------|--------|
| | Weight | 2017 | | 2016 | |
| | | Monthly | Annual | Monthly | Annual |
| D-PPI | 100.00 | 0.52 | 15.26 | 1.48 | 3.25 |
| Mining | 3.36 | -0.54 | 13.95 | 2.43 | -0.39 |
| Manufacturing | 88.79 | 0.57 | 16.77 | 1.87 | 4.45 |
| Manufacturing excl. petroleum products | 86.18 | 0.77 | 15.92 | 1.49 | 5.45 |
| Manufacturing excl. petroleum products and basic metals | 77.80 | 0.97 | 13.83 | 0.95 | 5.79 |
| Electricity, gas, steam and air-conditioning supply | 6.81 | 0.31 | -1.60 | -3.25 | -8.63 |
| Water supply | 1.03 | 0.72 | 11.25 | 0.49 | 7.58 |
| D-PPI (MIGs Classification) | | | | | |
| Intermediate Goods | | 0.16 | 20.04 | 1.90 | 5.00 |
| Durable Consumption Goods | | 2.74 | 14.34 | 1.64 | 11.35 |
| Durable Consumption Goods (Excl. Jewelry) | | 3.16 | 12.89 | 0.59 | 10.25 |
| Non-Durable Consumption Goods | | 1.38 | 10.16 | 1.04 | 3.51 |
| Capital Goods | | 0.62 | 14.07 | 1.05 | 8.06 |
| Energy | | -1.20 | 11.50 | 1.35 | -9.51 |

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.