

AUGUST PRICE DEVELOPMENTS



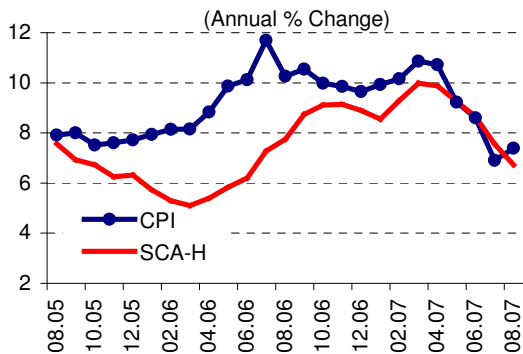
Central Bank of the Republic of Turkey

4 September 2007

SUMMARY...

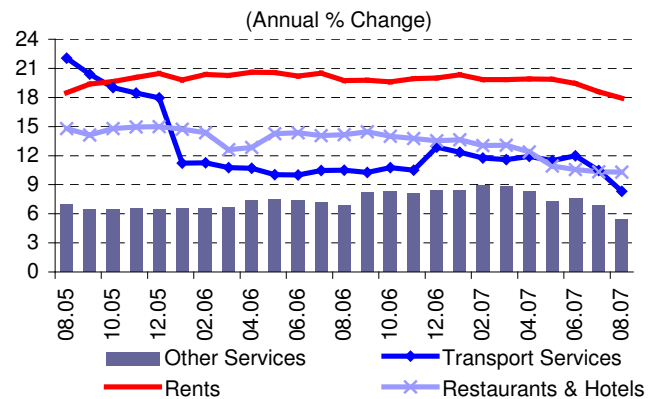
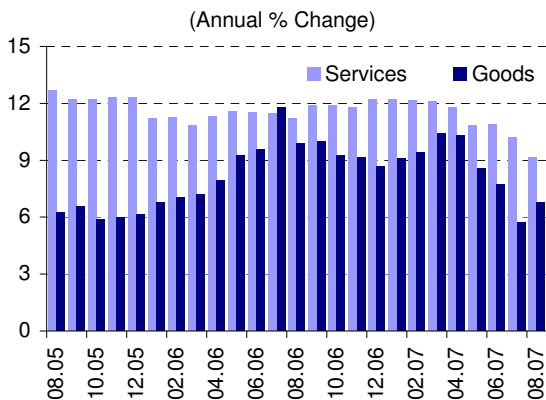
In August, consumer prices rose by 0.02 percent, pushing annual inflation up to 7.39 percent. As stated by the Monetary Policy Committee last month, the increase in unprocessed food prices temporarily raised the annual inflation. The slowdown in the annual services inflation became more pronounced and prices of durables moved further down, suggesting that the lagged effects of the strong monetary tightening continues. In this context, special CPI aggregates display a benign course. Although risks pertaining to unprocessed food and energy prices still persist, headline inflation is forecast to edge lower in the upcoming period.

...EVALUATIONS...



Annual consumer inflation increased in August, mainly on the price hikes in unprocessed food, whereas the annual inflation of the special CPI aggregate excluding energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H) continued to decelerate.

Prices of goods decreased by 0.03 percent while prices of services rose by 0.18 percent. Annual inflation in services declined to 9.16 percent, but in goods, it rose to 6.77 percent.



Annual services inflation continued to fall, down by 3 percentage points from early 2007. Annual inflation in all services items has come down, with rents being the most remarkable. The annual inflation in restaurants-hotels continued its declining trend. Thanks to the waning base effect from last year, the annual inflation in transport services fell by 2.1 percentage points down from July. Communication prices decreased due to the continuing effects of the rate cut in local calls. This group, coupled with health services, saw the lowest annual rate of increase among services sub-groups. In September, services inflation is expected to further ease off, although education services (tuition fees, transport fees, accommodation fees, etc) may display seasonal price hikes.

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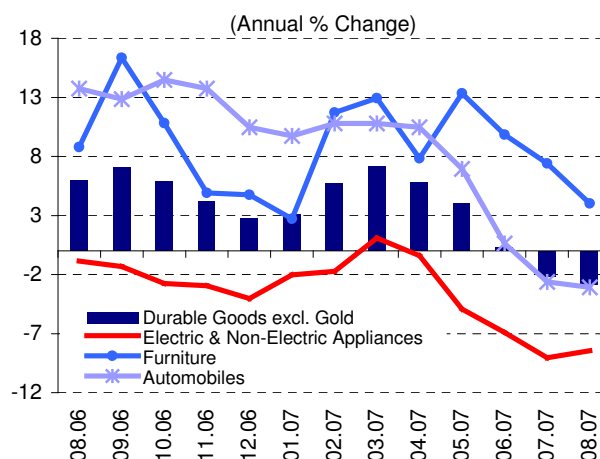
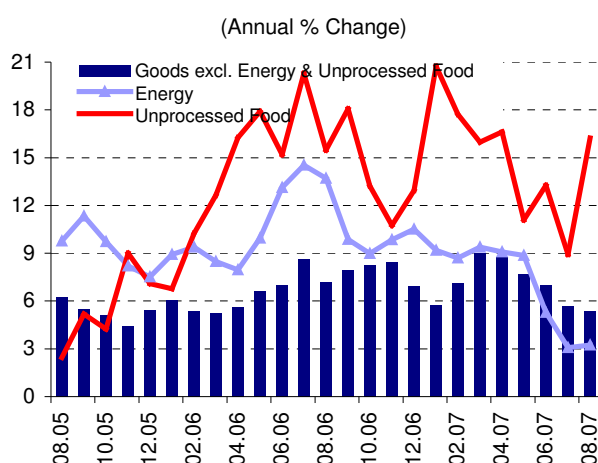


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Although the annual inflation in energy increased at a moderate rate, the group ran a favorable course with monthly prices unchanged from the previous month. Despite receding world oil prices, fuel prices that were modestly lowered by the weakening Turkish lira added to the favorable outlook in energy prices.

Prices of goods excluding energy and unprocessed food, decreased by 0.66 percent owing to falling prices of durables and clothing and footwear. Annual inflation in clothing and footwear continued to slow down, to 6.01 percent in August.



Monetary tightening continues to add pressure on prices of durables (excluding gold) that fell by 0.20 percent down from July. As regards sub-groups, automobile prices remained unchanged over the previous month, while the rest went down. Annual inflation in durables (excluding gold) reduced to -2.80 percent, thanks to the regular slowdown in prices for the last five months.

	Monthly Percentage Change		Annual Percentage Change	
	August 2007	August 2006	August 2007	August 2006
CPI	0.02	-0.44	7.39	10.26
1. Goods	-0.03	-1.03	6.77	9.89
Energy	0.07	-0.09	3.23	13.70
Unprocessed Food	1.99	-4.43	16.24	15.48
Goods excl. Energy and Unprocessed Food	-0.66	-0.36	5.35	7.21
Durable Goods	-0.02	-0.66	-3.20	13.28
Durable Goods excl. Gold	-0.20	0.47	-2.80	5.94
Semi-Durable Goods	-1.96	-1.75	4.21	8.43
Non-Durable Goods	1.28	-0.59	11.15	10.14
2. Services	0.18	1.11	9.16	11.19
Rent	1.41	1.98	17.92	19.73
Restaurants and Hotels	0.71	0.73	10.30	14.15
Transport Services	0.38	2.36	8.33	10.49
Other Services	-0.69	0.64	5.43	6.90

Source: TÜRKSTAT, CBRT.

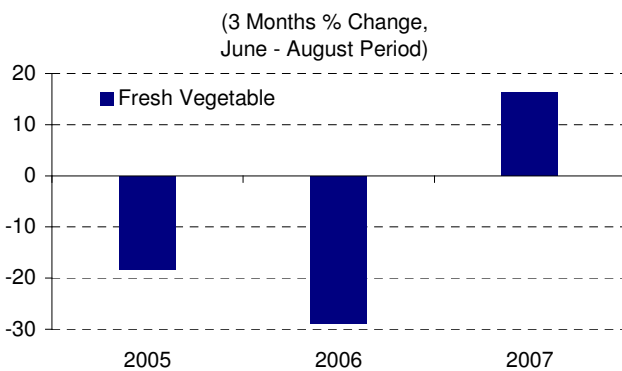
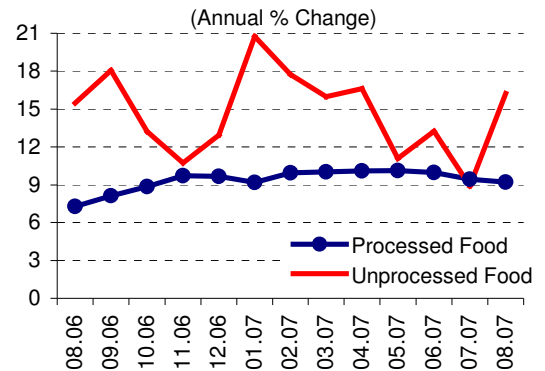
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Annual inflation in unprocessed food prices remained volatile, moving up to 16.24 percent in August from 8.92 percent in July. This was mainly due to the soaring fresh vegetable prices of the last three months, hitting the highest over the previous years, months, and the upsurge in unprocessed food prices excluding fresh fruit and vegetables.



Temperatures above seasonal averages and water shortages also pose a risk on processed food prices. Price hikes in processed food products equaled as high as 1.42 percent, led by climbing prices of bread and grains and dairy products in August as in July.

As stated in our previous reports, the positive impact of Türk Telekom's mid-July local call rate cut on consumer prices was well observed in August. In addition, the 12.42 percent reduction in Internet access costs as well as the falling phone prices lowered communication prices to - 3.19 percent per annum.

The annual rate of increase in special CPI aggregates excluding unprocessed food prices decelerated in August. Annual inflation in the SCA-H index came down by 3.25 percent in the last six months (March-August), mainly on the favorable developments observed in services and durable goods prices. The downward trend in the seasonally adjusted monthly increase of the index became more evident, suggesting further moderation in inflation.

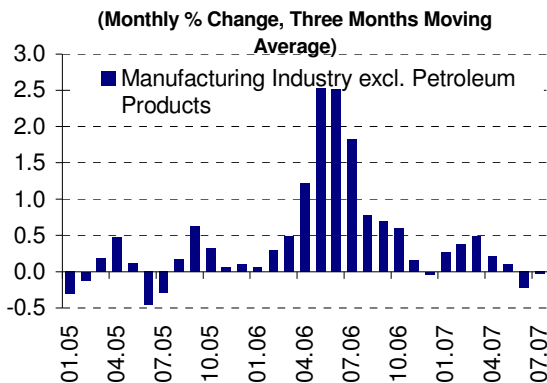
PPI increased by 0.85 per month and by 3.72 percent per annum. Unlike in previous years, agricultural prices displayed a rise, by 0.71 percent, in August due to soaring prices of crops (such as wheat, corn, rough rice, barley and lentils) and fruit and vegetables.

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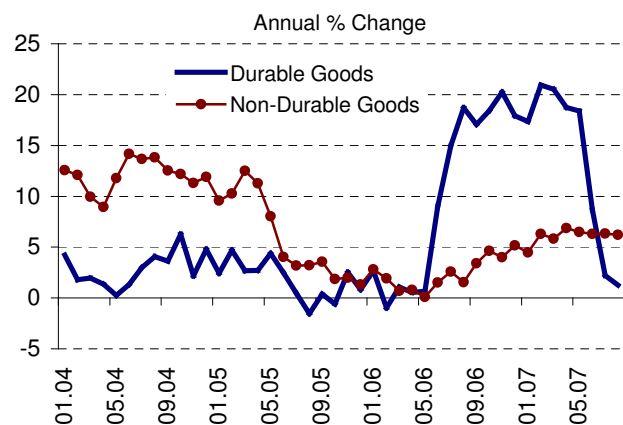
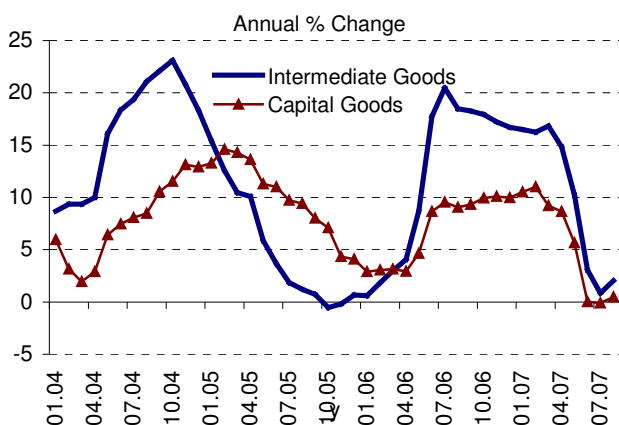
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The rise in prices of food, textiles and petroleum products raised manufacturing industry prices by 0.60 percent. Likewise, manufacturing industry prices excluding petroleum products rose by 0.49 percent after a three-month slump, in which the weakening Turkish lira, coupled with price hikes in chemicals, basic metals, plastic/rubber and non-metallic mineral products, played a major role.

Analyzing the PPI by the MIGS classification, prices of all sub-items increased in August, mainly owing to exchange rate fluctuations. The increase in non-durables was due to price hikes in food and textile production, but was restrained by falling prices of apparel manufacturing. On the other hand, prices of intermediate goods, which are highly susceptible to exchange rate fluctuations, rose by 0.72 percent. Besides, rising prices of furniture and white goods raised prices of durables in August, ending a five-month downward trend.



PPI Developments According to MIGS Classification

Monthly Percentage Change

	Agu-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Agu-07
Intermediate Goods Prices	-0.46	0.62	0.37	-0.34	-0.57	-0.08	0.12	1.24	0.44	0.27	-0.13	-0.63	0.72
Capital Goods Prices	-0.17	0.28	0.91	0.40	0.53	1.11	0.34	-1.41	-0.25	-0.64	-0.93	-0.27	0.43
Durable Goods Prices	1.97	-0.50	1.85	0.94	-0.43	1.43	0.02	-0.48	-0.49	0.44	-0.46	-2.02	1.01
Non-Durable Goods Prices	0.24	2.35	0.96	-0.26	0.13	0.03	1.82	-0.30	1.28	-0.38	0.20	0.13	0.13
Energy Prices	-4.28	-8.60	-2.32	-1.80	1.53	-3.82	0.64	6.04	2.12	-0.54	-1.36	1.84	2.68

Source: TÜRKSTAT, CBRT.

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...TABLES

August CPI and Sub-Items (Percentage Change)					
	Weight	2007		2006	
		Monthly	Annual	Monthly	Annual
CPI	100	0.02	7.39	-0.44	10.26
Food and Non-Alcoholic Beverages	28.47	1.69	12.39	-1.21	10.78
Alcoholic Beverages and Tobacco	5.06	0.00	10.23	-0.01	10.02
Clothing and Footwear	7.86	-7.13	6.01	-6.92	-1.37
Housing	16.62	0.70	9.04	1.18	14.53
Household Equipments	7.22	-0.04	6.28	1.94	8.06
Health	2.66	0.13	4.22	1.64	6.25
Transport	11.60	-0.10	0.93	0.04	13.23
Communication	4.41	-2.92	-3.19	-0.57	3.19
Recreation and Culture	3.16	0.57	1.37	0.96	2.85
Education	2.15	0.26	7.66	0.40	6.91
Restaurants and Hotels	6.40	0.71	10.30	0.73	14.15
Miscellaneous Goods and Services	4.39	0.66	1.58	-0.58	20.45

Source: TÜRKSTAT.

August PPI and Sub-Items (Percentage Change)					
	Weight	2007		2006	
		Monthly	Annual	Monthly	Annual
PPI	100	0.85	3.72	-0.75	12.32
Agriculture	18.17	0.71	8.99	-1.28	11.23
Industry	81.83	0.89	2.55	-0.62	12.33
Mining	1.49	3.31	3.59	0.87	18.53
Manufacturing	74.49	0.60	1.44	-0.69	12.66
Energy	5.85	3.84	18.17	0.03	5.17

Source: TÜRKSTAT.

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