

MAY PRICE DEVELOPMENTS



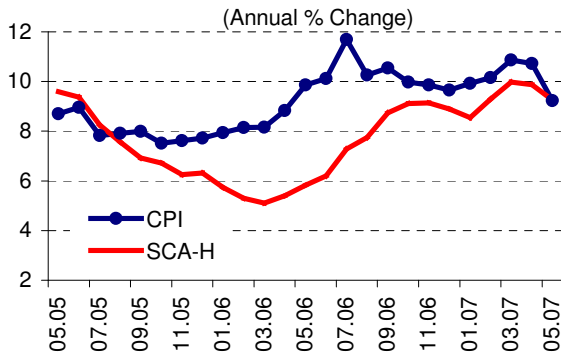
The Central Bank of the Republic of Turkey

5 June 2007

SUMMARY...

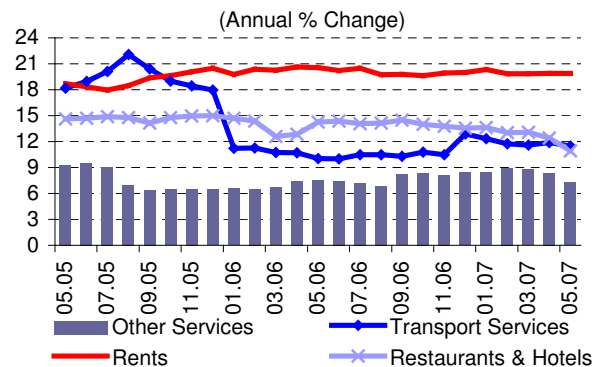
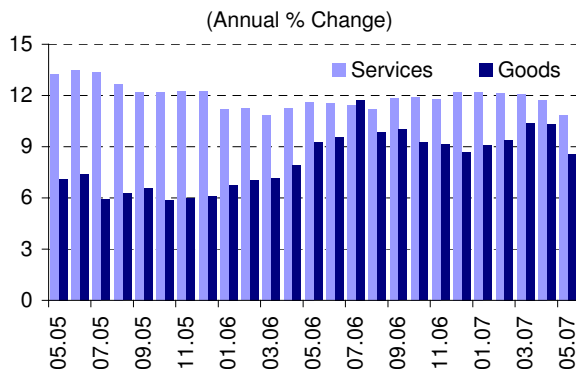
In May, consumer prices rose by 0.50 percent, pushing annual inflation down by 1.5 percentage points to 9.23 percent. The decline in annual inflation was mainly driven by the lagged effects of monetary tightening along with the partial correction in food prices and the high base observed in the same period last year. The recent downward trend in services prices became more apparent in May. Although the gradual decline in inflation is forecast to continue in the upcoming months, risks pertaining to unprocessed food and energy prices still persist.

...EVALUATIONS...



In May, consumer prices inflation decreased by 1.5 percentage points compared to April. The slowdown in the annual increase of the Special CPI Aggregate excluding energy, unprocessed food products, alcoholic beverages, tobacco products and gold (SCA-H) became more evident in May.

Prices of goods and services increased by 0.51 percent and 0.49 percent, respectively. Annual inflation decreased in both groups.



The annual rate of inflation for services fell by 0.91 percentage points since April to 10.85 percent. The annual rate of increase in rents remained unchanged at 20 percent, while the annual inflation for services excluding rents decreased. This was mainly attributed to the descending annual price changes of health services, restaurants and hotels, transport and recreation and culture services. The cumulative services prices inflation for the first 5 months of 2007 remained at 1.3 percentage points down from that of last year.

The recent price developments indicate that the risks regarding oil prices continue to be of critical concern. Energy components of the housing group increased at a moderate pace, while fuel oil prices displayed a high rated increase over the last three months.

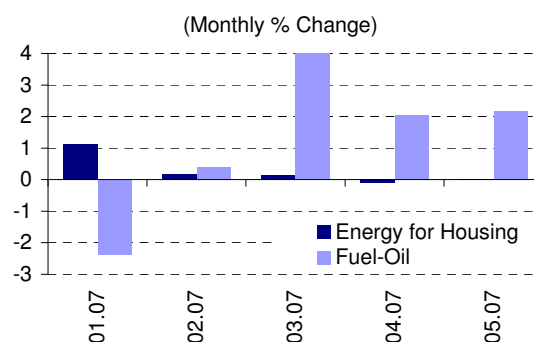
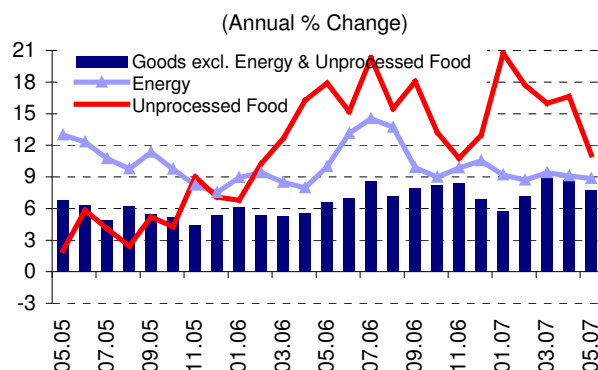
Despite the rise in the clothing-footwear group, annual inflation in goods excluding energy and unprocessed food dropped by 1 point since April in response to the falling durable goods and gold prices.

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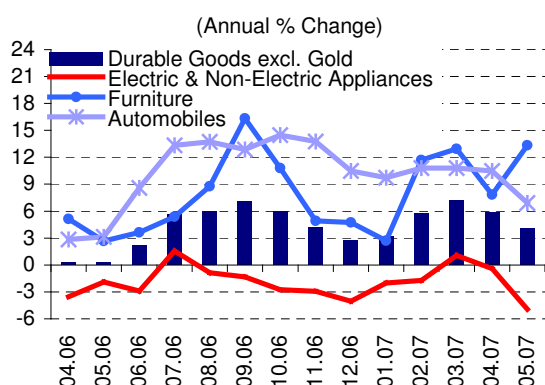


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In May, prices of durable goods (excluding gold) did not display a significant change over the previous month. Yet, the high base effect from the previous year faded out, lowering the annual inflation in this group by 1.82 points down from April



As regards durable goods, prices of automobiles and electric & non-electric appliances declined by 1.74 percent and 0.24 percent, respectively, while furniture prices rose by 4.53 percent. Currently, among the sub-items of durable goods, furniture registered the highest rate of increase in annual inflation with 13.33 percent.

While white goods prices recorded a high monthly increase, prices of technology-intensive imported goods declined.

| | Monthly Percentage Change | | Annual Percentage Change | |
|---|---------------------------|-------------|--------------------------|--------------|
| | May 2007 | May 2006 | May 2007 | May 2006 |
| CPI | 0.50 | 1.88 | 9.23 | 9.86 |
| 1. Goods | 0.51 | 2.09 | 8.59 | 9.24 |
| Energy | 0.58 | 0.79 | 8.85 | 9.96 |
| Unprocessed Food | -3.48 | 1.33 | 11.09 | 17.90 |
| Goods excl. Energy and Unprocessed Food | 1.79 | 2.75 | 7.72 | 6.61 |
| Durable Goods | -0.22 | 4.56 | 2.01 | 9.30 |
| Durable Goods excl. Gold | 0.08 | 1.82 | 4.02 | 0.31 |
| Semi-Durable Goods | 3.55 | 3.58 | 8.48 | 6.03 |
| Non-Durable Goods | -1.30 | 0.51 | 10.34 | 11.59 |
| 2. Services | 0.49 | 1.32 | 10.85 | 11.60 |
| Rent | 1.18 | 1.20 | 19.88 | 20.57 |
| Restaurants and Hotels | 0.86 | 2.20 | 10.92 | 14.25 |
| Transport Services | 0.03 | 0.39 | 11.50 | 10.05 |
| Other Services | 0.15 | 1.14 | 7.27 | 7.49 |

Source: TÜRKSTAT, CBRT

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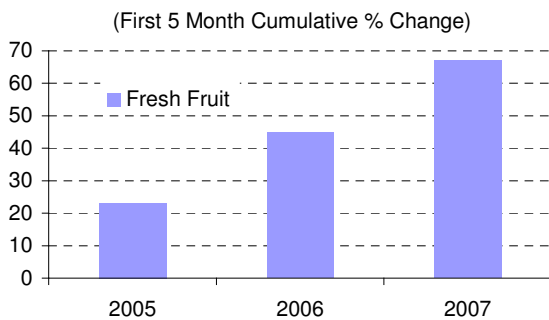
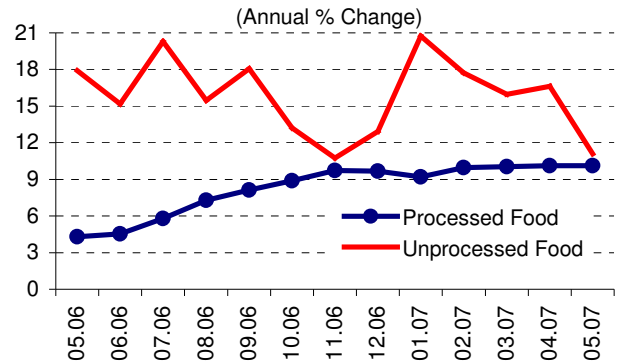


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Annual inflation in the clothing-footwear group increased by 0.45 percentage points to 6.67 percent over the previous month. As stated in the previous report, the recent price developments in this group indicate that in 2007 the contribution of clothing and footwear to the disinflation process might be limited compared to the last two years.

In May, unprocessed food prices dropped by 3.48 percent. This development can be attributed to the relatively warmer weather conditions and especially to the excess supply generated by the early marketing of certain vegetables.



Meanwhile, the high-rated increases that have been observed in fresh fruit prices since the beginning of 2007 continued in May and became 17.14 percent. During the first five months of the year, the rate of increase in this group equaled to 66.95 percent. The annual rate of increase in the processed food group whose prices did not display a considerable change in May maintained its horizontal course at 10.12 percent

Risks related to food prices prevail. Since vegetable prices already fell significantly in May, price declines are likely to be more moderate during summer where prices enter a seasonally downward trend generally. In addition, temperatures above seasonal norm and water shortages may lead to production losses in certain food groups. Notwithstanding the said effects, favorable effects of the VAT cut in certain food products will be evident in the near future. The new Wholesale Market Law that came into force at end-May 2007 to establish the conditions for trading fresh fruits and vegetables stands as another factor that creates uncertainties over food price inflation.

Annual inflation in all special aggregates fell thanks to the favorable prices of services and durable goods in May, and also to the removal of the unfavorable effect of the significant depreciation in YTL observed in May 2006. The downward trend of the annual inflation in SCA-H index got stronger, while seasonally adjusted monthly increase of the index moderated over recent months.

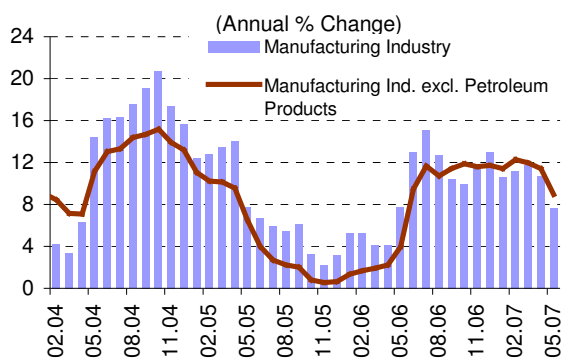
PPI rose by 0.39 percent in May, pulled 0.53 points up by the agricultural sector and 0.14 points down by the manufacturing sector.

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Soaring prices of food and beverage production as well as of coke coal and refined petroleum products were influential in the increase of manufacturing industry prices by 0.14 percentage points in May. Prices of coke coal and refined petroleum products increased by 2.15 percent, while the manufacturing industry prices excluding petroleum products declined by 0.09 percent.

Analyzing the PPI by the MIGS classification, energy prices declined due to the decrease in the cost of production of electricity, despite the price hikes in petroleum products in May. While intermediate goods prices continued to rise at a subdued pace, durable goods prices surged up owing to the increase in furniture prices. On the other hand, capital goods prices were influenced by the decrease in the prices of agricultural and forestry machinery whereas non-durable goods prices were marked with the decrease especially in apparel manufacturing prices.

PPI Developments According to MIGS Classification

Monthly Percentage Change

| | May-06 | Jun-06 | Jul-06 | Agu-06 | Sep-06 | Oct-06 | Nov-06 | Dec-06 | Jan-07 | Feb-07 | Mar-07 | Apr-07 | May-07 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Intermediate Goods Prices | 4.43 | 6.84 | 1.55 | -0.46 | 0.62 | 0.37 | -0.34 | -0.57 | -0.08 | 0.12 | 1.24 | 0.44 | 0.27 |
| Capital Goods Prices | 2.19 | 4.66 | -0.15 | -0.17 | 0.28 | 0.91 | 0.40 | 0.53 | 1.11 | 0.34 | -1.41 | -0.25 | -0.64 |
| Durable Goods Prices | 0.73 | 8.46 | 4.16 | 1.97 | -0.50 | 1.85 | 0.94 | -0.43 | 1.43 | 0.02 | -0.48 | -0.49 | 0.44 |
| Non-Durable Goods Prices | -0.04 | 0.37 | 0.13 | 0.24 | 2.35 | 0.96 | -0.26 | 0.13 | 0.03 | 1.82 | -0.30 | 1.28 | -0.38 |
| Energy Prices | 6.70 | 9.65 | 4.11 | -4.28 | -8.60 | -2.32 | -1.80 | 1.53 | -3.82 | 0.64 | 6.04 | 2.12 | -0.54 |

Source: TÜRKSTAT, CBRT.

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...TABLES

| May CPI and Sub-Items (Percentage Change) | | | | | |
|---|--------|---------|--------|---------|--------|
| | Weight | 2007 | | 2006 | |
| | | Monthly | Annual | Monthly | Annual |
| CPI | 100 | 0.50 | 9.23 | 1.88 | 9.86 |
| Food and Non-Alcoholic Beverages | 28.47 | -1.66 | 10.64 | 0.72 | 10.43 |
| Alcoholic Beverages and Tobacco | 5.06 | 0.01 | 10.18 | 0.00 | 31.20 |
| Clothing and Footwear | 7.86 | 11.35 | 6.67 | 10.88 | 0.01 |
| Housing | 16.62 | 0.37 | 12.83 | 0.50 | 11.45 |
| Household Equipments | 7.22 | 1.85 | 12.42 | 0.45 | 2.12 |
| Health | 2.66 | 0.08 | 5.07 | 2.50 | 2.22 |
| Transport | 11.60 | 0.11 | 8.10 | 1.53 | 9.32 |
| Communication | 4.41 | -0.24 | 0.30 | 0.59 | 2.15 |
| Recreation and Culture | 3.16 | -1.78 | 3.98 | 2.70 | 4.56 |
| Education | 2.15 | 0.41 | 7.92 | 0.28 | 8.38 |
| Restaurants and Hotels | 6.40 | 0.86 | 10.92 | 2.20 | 14.25 |
| Miscellaneous Goods and Services | 4.39 | -0.70 | 2.66 | 5.08 | 20.91 |

Source: TÜRKSTAT

| May PPI and Sub-Items (Percentage Change) | | | | | |
|---|--------|---------|--------|---------|--------|
| | Weight | 2007 | | 2006 | |
| | | Monthly | Annual | Monthly | Annual |
| PPI | 100 | 0.39 | 7.14 | 2.77 | 7.66 |
| Agriculture | 18.17 | 2.90 | 2.95 | 2.72 | 8.04 |
| Industry | 81.83 | -0.17 | 8.19 | 2.78 | 7.55 |
| Mining | 1.49 | 0.88 | 10.12 | 2.47 | 10.01 |
| Manufacturing | 74.49 | 0.14 | 7.65 | 3.00 | 7.70 |
| Energy | 5.85 | -4.31 | 14.95 | 0.01 | 3.80 |

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.