

JANUARY PRICE DEVELOPMENTS



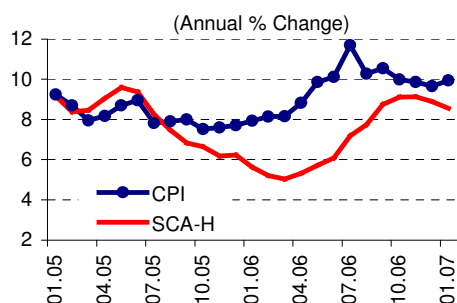
Central Bank of the Republic of Turkey

5 February 2007

SUMMARY OUTLOOK...

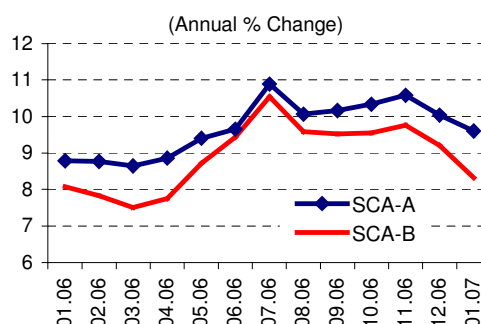
In January, due to supply-side factors, unprocessed food prices recorded a significant rise, and became the determinant of inflation. Price movements other than those of unprocessed food manifested no unfavorable outlook and annual inflation in all of the special aggregates excluding the said group declined. Nevertheless, the expected slowdown in services inflation has not yet been observed.

...EVALUATIONS...

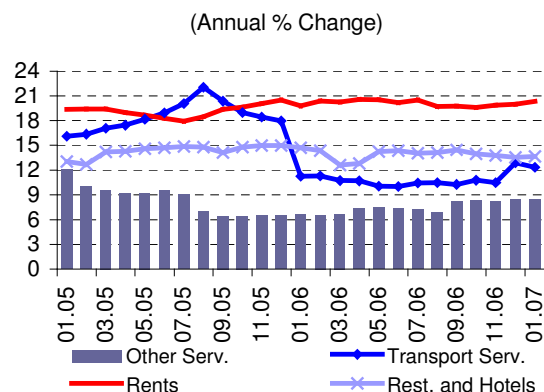
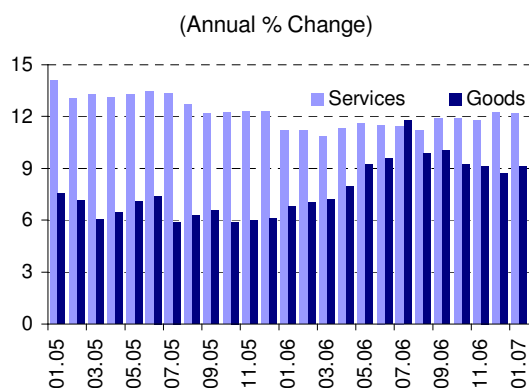


While annual inflation rose in January, the slowdown in the annual increase of the Special CPI aggregate excluding energy, unprocessed food, alcoholic beverages and tobacco products and gold (SCA-H), which is produced to measure the basic trend of inflation, became more apparent.

All special aggregates excluding unprocessed food products (SCA B, D, G, H) declined in January. In addition, the annual growth rate of the Special CPI aggregate excluding seasonal products (SCA-A) decelerated.



In January, goods and services group prices rose by 0.93 percent and 1.20 percent, respectively. Annual price increase in the services group showed no marked change over the previous month. Detailed analysis of services group prices demonstrate that high increases persist in rents and restaurants-hotels group while price increases in transportation services slowed down in connection with oil price developments.



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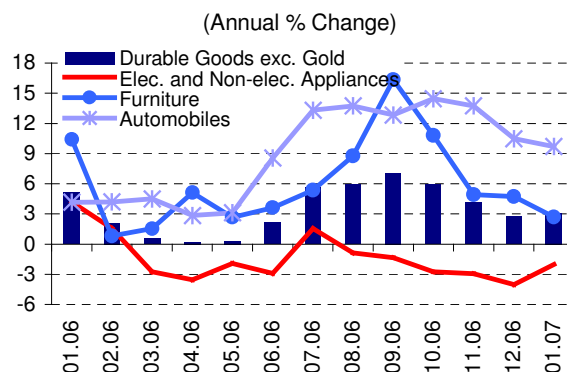
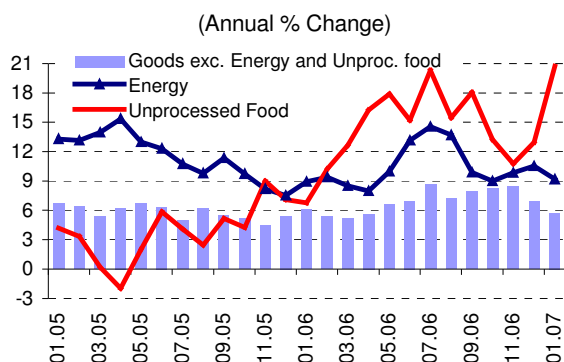
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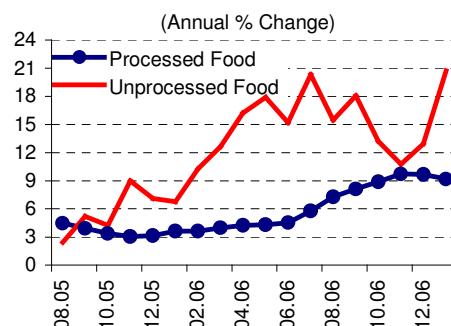
	Monthly Percentage Change		Annual Percentage Change	
	January 2007	January 2006	January 2007	January 2006
CPI	1,00	0,75	9,93	7,93
1. Goods	0,93	0,57	9,08	6,77
Energy	0,25	1,49	9,18	8,93
Unprocessed Food	8,82	1,79	20,73	6,78
Goods excl. Energy and Unprocessed Food	-1,17	-0,06	5,73	6,09
Durable Goods	0,32	0,69	6,22	8,19
Durable Goods excl. Gold	0,41	0,07	3,12	5,14
Semi-Durable Goods	-2,38	-1,09	6,41	4,90
Non-Durable Goods	3,42	1,76	11,62	7,82
2. Services	1,20	1,21	12,20	11,20
Rents	1,59	1,31	20,33	19,79
Restaurants and Hotels	1,13	1,03	13,65	14,71
Transport Services	0,33	0,82	12,34	11,24
Other Services	1,35	1,38	8,41	6,56

Source: TÜRKSTAT, CBRT

Annual inflation in the goods group rose with the effect of unprocessed food prices. On the other hand, in line with the stabilization of exchange rate and the slowdown of domestic demand, the annual growth rate of the prices of goods excluding energy and unprocessed food continued to decline and the annual inflation in this group became 5.73 percent as of January.



The 4.44 percent increase in the food and non-alcoholic beverages group prices is the highest increase in January, in the last five years. Price developments in the unprocessed food products group that recorded the historically highest rate of increase – 8.82 percent – in the index with base year 2003 were the determinant of this development. With this increase, annual inflation in this sub-item reached 20.73 percent.



January price developments support the point we have been making in our recent reports that food prices constitute a significant risk factor for inflation. Vegetable prices, which rose significantly during this period as a result of adverse weather conditions and better export opportunities for some products, accounted for almost 3.1 percentage points of the 4.44 percent inflation recorded in the food and non-alcoholic beverages group. In other words, excluding vegetable prices, January inflation is observed to have realized close to zero.

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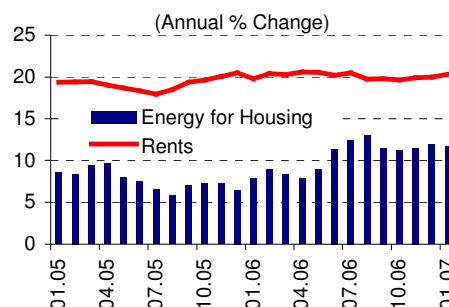
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As opposed to the developments in unprocessed food prices, annual inflation in processed food prices declined during the last two months. However, the fall in grain – especially wheat – production continues to be effective in the price developments for this group. Along the same lines, increases in the bread and grain group prices continued also in January, annual increase in the prices of bread, which has a significant share in the consumption of households, reached 18.38 percent.

Clothing group prices, which recorded a 6.25 percent decrease in January 2006, fell by 8.43 percent this year. Global competition conditions are believed to be influential in the lower rate of the annual inflation in the clothing group compared to other expenditure groups in recent years. Within this framework, the contribution of the clothing group to the disinflation process is expected to continue in the upcoming period as well.

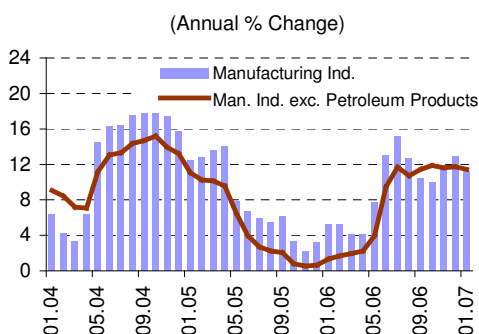
Housing group prices rose by 1.18 percent in January. With an increase of 1.59 percent, the rent sub-item was the determinant of this development. Hence, the annual rate of increase in the rents sub-item reached 20.33 percent. Another development that was effective on housing group prices in January was the high-rated (4.28 percent) increase in the prices of tap water sub-item set by the municipalities.



Transportation group price index fell by 0.03 percent in January, reducing the annual rate of increase to 8.46 percent. This development was affected by the 2.37 percent drop observed in oil prices in January. However, the 1.65 percent increase in automobile prices limited this favorable impact induced by oil prices.

In the communications group, prices rose by 1.71 percent in January, due to the increases in mobile phone conversation costs. Annual rate of increase in the group prices is still at a low level with 1.06 percent. However, it is thought that the price adjustments made by Türk Telekom in the tariffs of phone conversation will be markedly reflected on group prices in March.

PPI dropped by 0.05 percent in January, where the agricultural sector had an increasing effect of 0.32 percentage points while the industrial sector had a decreasing effect of 0.37 percentage points.



During this period, manufacturing industry prices dropped by 0.58 percent over December, in connection with the price cuts in especially coke coal and refined petroleum products, clothing and basic metal industry sectors. Due to the decline in the prices of petroleum products, prices of coke coal and refined petroleum products fell by 7.96 percent compared to the previous month, manufacturing industry prices excluding petroleum products recorded an increase of 0.24 percent in January, after their downward trend in recent months.

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When the PPI is analyzed according to the MIGS classification, in January it is observed that prices of energy and intermediate goods decreased, while prices of capital and durable goods increased. While the prices of intermediate goods continue to decline with the stable course of exchange rates, prices of durable goods rise due to the increases in the prices of furniture and white goods. Meanwhile, no significant change was observed in January, over December, in the non-durable goods prices, as the fall in the clothing prices was offset by the rise in food prices. Furthermore, energy prices that had displayed a downward trend since August 2006 on account of petroleum products prices, declined in January 2007 as well, after having increased in December.

PPI Developments According to MIGS Classification

	Monthly Percentage Change												
	Jan.06	Feb.06	Mar.06	Apr.06	May.06	Jun.06	Jul.06	Aug.06	Sep.06	Oct.06	Nov.06	Dec.06	Jan.07
Intermediate Goods Prices	0,11	0,31	0,74	2,20	4,43	6,84	1,55	-0,46	0,62	0,37	-0,34	-0,57	-0,08
Capital Goods Prices	0,60	-0,09	0,23	0,24	2,19	4,66	-0,15	-0,17	0,28	0,91	0,40	0,53	5,09
Durable Goods Prices	1,90	-2,94	-0,13	1,00	0,73	8,46	4,16	1,97	-0,50	1,85	0,94	-0,43	1,43
Non-Durable Goods Prices	0,71	0,05	0,16	0,30	-0,04	0,37	0,13	0,24	2,35	0,96	-0,26	0,13	0,03
Energy Prices	8,36	1,32	0,32	6,87	6,70	9,65	4,11	-4,28	-8,60	-2,32	-1,80	1,53	-3,82

Source: TÜRKSTAT, CBRT

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...UPCOMING DEVELOPMENTS...

- Sales season continues in the clothing and footwear group.
- High-rated price increases are expected in the communication group in March due to telephone conversation costs.

...TABLES

January CPI and Sub-Items (% Change)					
	Weight	2007		2006	
		Monthly	Annual	Monthly	Annual
CPI	100	1,00	9,93	0,75	7,93
Food and Non-Alcoholic Beverages	28,47	4,44	14,60	1,32	5,06
Alcoholic Beverages and Tobacco	5,06	0,01	0,39	4,66	33,82
Clothing and Footwear	7,86	-8,43	-0,47	-6,25	-1,38
Housing	16,62	1,18	13,94	1,27	10,52
Household Equipment	7,22	0,10	7,04	0,34	5,04
Health	2,66	0,66	7,95	0,64	-0,33
Transport	11,60	-0,03	8,46	1,52	9,58
Communication	4,41	1,71	1,06	1,99	3,85
Recreation and Culture	3,16	0,02	9,04	-0,71	3,89
Education	2,15	0,00	7,70	0,03	7,53
Restaurants and Hotels	6,40	1,13	13,65	1,03	14,71
Miscellaneous Goods and Services	4,39	0,78	11,04	1,95	11,82

Source: TÜRKSTAT

January PPI and Sub-Items (% Change)					
	Weight	2007		2006	
		Aylık	Yıllık	Aylık	Yıllık
PPI	100	-0,05	9,37	1,96	5,11
Agriculture	18,17	1,78	2,41	1,90	3,98
Industry	81,83	-0,46	11,10	1,97	5,43
Mining	1,49	4,21	16,73	1,39	15,06
Manufacturing	74,49	-0,58	10,60	0,97	5,27
Energy	5,85	-0,07	16,25	17,67	3,76

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

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Monetary Policy Committee meeting.