

JUNE PRICE DEVELOPMENTS



Central Bank of the Republic of Turkey

4 July 2006

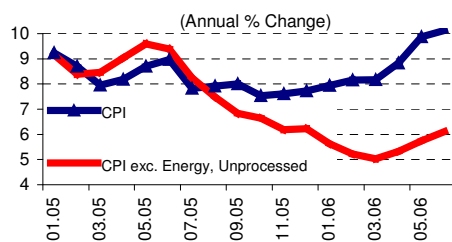
SUMMARY OUTLOOK...

High-rated decreases in prices of unprocessed food products and prices of durable consumption goods and energy, which increased due to the exchange rate developments, became the main determinants of June consumer inflation.

While prices of food and non-alcoholic beverages had a 0.77 percentage points decreasing effect on consumer prices, which boosted by 0.34 percent in June, the impact of exchange rate developments on CPI was calculated as around 0.87 percentage points.

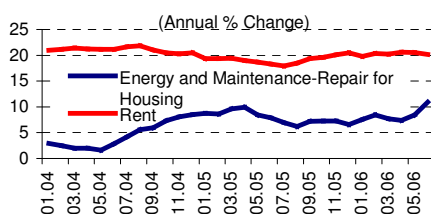
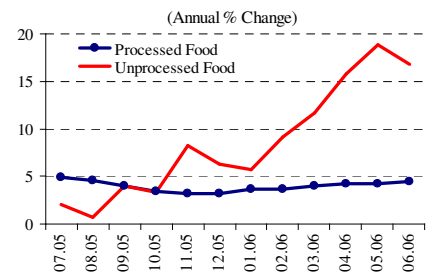
The annual rate of increase in Special CPI Aggregate, which is calculated by excluding energy, unprocessed food products, alcoholic beverages, tobacco products and gold in order to measure general trend of inflation, became 6.1 percent in June. Seasonally adjusted monthly rate of increase was realized as 0.54 percent.

...EVALUATIONS...



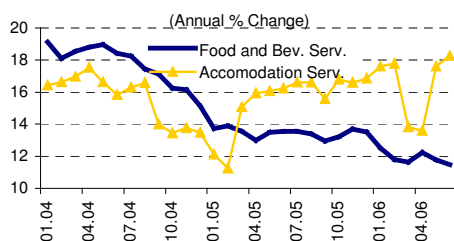
Though the annual rate of increase in Special CPI Aggregate excluding energy, unprocessed food products, alcoholic beverages and tobacco products, and gold points to a lower level compared to headline consumer inflation, the upward trend continued in June as well due to the exchange rate developments.

Analyzing prices in food and non-alcoholic beverages group, prices of unprocessed food continue to be determinant on the group prices. As projected in our previous evaluations, prices of unprocessed food products contributed favorably to June inflation. In this development, the apparent decline in June vegetable prices had a significant effect. It is expected that the positive contribution of unprocessed food products will also continue in July.



In June, the monthly rate of increase in rents slowed down compared to the same period last year. However, it's observed that the high rated annual inflation of around 20 percent continues in rents. Energy and maintenance-repair group, which includes the items other than rents in the housing group, shows price increases in line with the rise in exchange rates.

Prices in transportation group are affected by international oil prices and recent exchange rate developments. Fuel oil prices (fuels and lubricants for personal transport equipment) which increased by 7.5 percent in the first five months of the year, increased by 5.9 percent in June. Meanwhile, automobile prices boosted by 5.02 percent in June, being another determinant item in the increase in transportation group.



The slowdown in the annual inflation of the restaurants and hotels group continued. In the meantime, it is observed that price increases in accommodation services follow a volatile course and the price increase in June is realized above the increase in the same period of the previous year.

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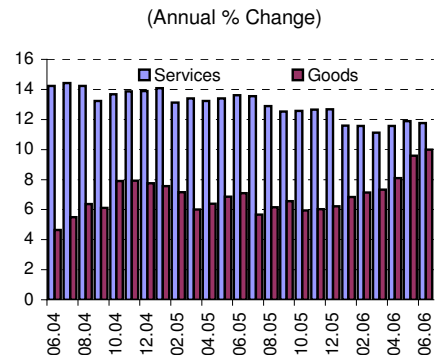


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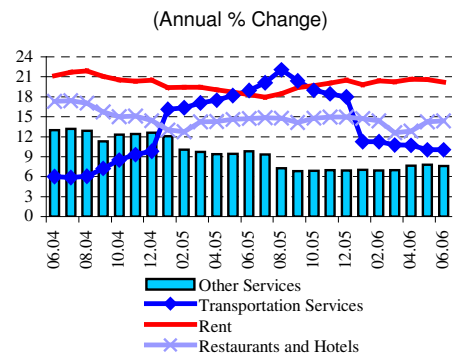
Gold prices that boosted by a high rate of 39.9 percent in the first five months of 2006 parallel to the developments in foreign markets had an unfavorable impact on consumer prices. International gold prices started to decline apparently as of June. However, recent developments in exchange rates limited the favorable reflection of this decline on domestic gold prices.

The annual rate of increase in prices of goods group is above its level of the previous year, whereas the annual increase in services remains below the previous year's level. In the first half of the year, the annual rate of increase in prices in goods group has been hiking due to the high increases in energy prices and prices of unprocessed food products. In addition, exchange rate developments in May and June made a contribution to goods inflation through such groups as household equipment, recreation-culture and communication, which include durable consumption goods. Viewing prices in services group, high annual inflation in rents and restaurants-hotels groups are still continuing. In the meantime, while the annual rate of increase in transportation services follows a course below its previous year's level, the tendency in other services remained unchanged in the recent period.



	Monthly Change		Annual Change	
	June 2006	June 2005	June 2006	June 2005
CPI	0.34	0.10	10.12	8.96
1. Goods	0.03	-0.34	10.00	7.08
Energy	3.36	0.51	13.14	12.42
Unprocessed Food	-5.93	-4.22	16.75	3.71
Goods excl. Energy and Unprocessed Food	0.78	0.42	7.30	6.31
Durable Goods	1.85	1.01	10.70	5.36
Durable Goods excl. Gold	2.97	1.00	2.52	6.39
Semi-Durable Goods	2.36	0.60	7.92	10.62
Non-Durable Goods	-2.05	-1.34	11.37	4.91
2. Services	1.14	1.23	11.76	13.62
Rent	1.42	1.73	20.21	18.32
Restaurant and Hotels	0.84	0.75	14.36	14.71
Transportation Services	0.70	0.74	10.01	18.96
Other Services	1.31	1.46	7.60	9.81

Source: TURKSTAT, CBRT



Direct effects of exchange rate developments on consumer inflation are observed via fuel oil, gold and durable consumption goods in general. The impact of exchange rate developments on CPI in June is calculated as about 0.87 percentage points. Therefore, the total direct impact of the exchange rate movements in May and June reached 1.5 percentage points.

The high-rated hikes in prices of unprocessed food products during the last one-year period have led to an increase in relative contribution of the said group prices to Special CPI Aggregates (SCA). However, in June, the high level of monthly rate of increase in the aggregate (SCA-B) that excludes unprocessed food products reveals the impact of exchange rate developments on prices.

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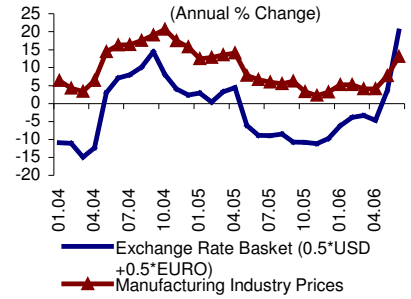
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According to the diffusion index compiled from item prices in the CPI, the share of products, whose prices increased, declined in April compared to previous year's level. However, in May and June this share remained above of that of previous year due to the recent fluctuations in financial markets.

In June, the monthly PPI inflation of 4.02 percent is mainly driven by the high rated increases in industry prices. The impact of exchange rate increases of June on manufacturing industry prices are clearly perceived. Analyzing manufacturing prices by sectors, though significant increases were observed in sub-items on the whole in June, price increases in coke, refined petroleum products, basic metal industry and textile products manufacturing were mainly effective.

Share of Items with Price Increase in the Basket					
2006			2005		
April	May	June	April	May	June
50.2	57.5	56.1	53.4	44.4	45.4



As emphasized in our previous reports, following the compilation of prices excluding taxes, the PPI has become more susceptible to exchange rate movements. Although the rise in PPI constitutes cost based risks to the future inflation, to what extent these increases will be reflected on consumer inflation will take shape depending on demand conditions and the future trend of the services inflation.

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... UPCOMING DEVELOPMENTS...

- Prices of unprocessed food products are seasonally expected to drop in July as well.
- In the health group, 5 percent increase is expected in medicine prices in July.
- As of July, high rated increases are predicted in the prices of coke and refined petroleum products under manufacturing industry.
- In July, sales season is opening in clothing and footwear sector.
- Direct effects of the exchange rate increase is predicted to continue in July, though with a slowing pace.

... TABLES

June CPI and Sub-Items (% Change)						
	2006			2005		
	Monthly	Annual	Cumulative	Monthly	Annual	Cumulative
CPI	0.34	10.12	4.88	0.10	8.95	2.59
Food and Non-Alc. Bev.	-2.72	9.22	3.61	-1.63	5.95	-0.47
Alc. Bev. and Tobacco	0.00	31.11	4.84	0.07	3.47	2.26
Clothing and Footwear	0.84	0.03	1.97	0.81	9.34	1.81
Housing	2.18	13.23	6.12	0.57	10.51	2.96
Household Equipment	1.35	2.49	0.73	1.00	9.24	4.44
Health	0.41	2.54	4.96	0.11	7.85	1.95
Transportation	3.77	12.64	8.78	0.71	16.07	7.21
Communication	0.95	3.72	2.31	-0.58	1.47	0.33
Recreation and Culture	2.52	3.06	4.38	4.01	9.57	8.00
Education	1.96	7.03	2.52	3.24	20.34	2.70
Restaurants and Hotels	0.84	14.36	7.40	0.75	14.71	7.98
Misc. Goods and Services	-0.88	18.87	10.76	0.83	6.84	1.12

Source: TURKSTAT

June PPI and Sub-Items (% Change)						
	2006			2005		
	Monthly	Annual	Cumulative	Monthly	Annual	Cumulative
PPI	4.02	12.52	11.68	-0.48	4.25	1.89
Agriculture	-0.25	11.53	7.03	-3.37	-3.30	-1.14
Industry	5.08	12.63	12.82	0.34	6.50	2.75
Mining	5.13	18.32	13.03	-2.26	7.58	4.72
Manufacturing	5.37	13.01	12.38	0.42	6.70	2.57
Energy	0.91	4.77	19.71	-0.03	3.29	4.68

Source: TURKSTAT

Price Developments are published within two days following the announcement of price statistics by Turkish Statistical Institute (TURKSTAT). Price Developments, which involve 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.