

SEPTEMBER PRICE DEVELOPMENTS OCTOBER 4, 2012

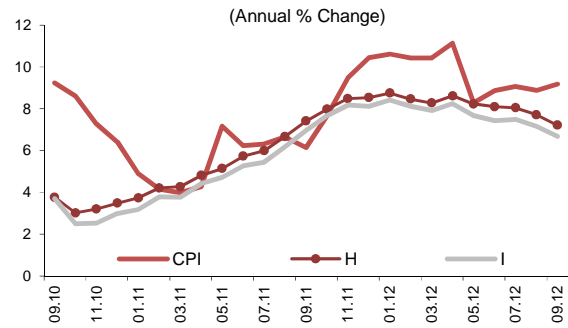
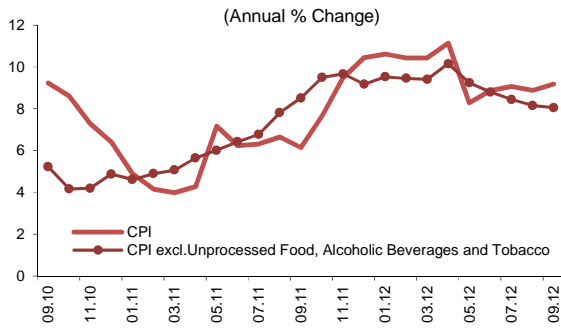
SUMMARY...

Triggered by energy and unprocessed food prices, consumer prices were up by 1.03 percent and annual inflation climbed to 9.19 percent in September. Core inflation indicators maintained their favorable trend. Despite the hikes in administered prices, inflation is estimated to exhibit a notable decline in the last quarter of the year.

...EVALUATIONS...

In September, consumer prices were up by 1.03 percent and annual inflation climbed to 9.19 percent. The rate of increase in the CPI excluding energy, unprocessed food, alcoholic beverages, tobacco and gold (SCA-H) went down to 7.21 percent year-on-year. With a further exclusion of processed food, the rate of increase in the index (SCA-I) decreased to 6.68 percent year-on-year.

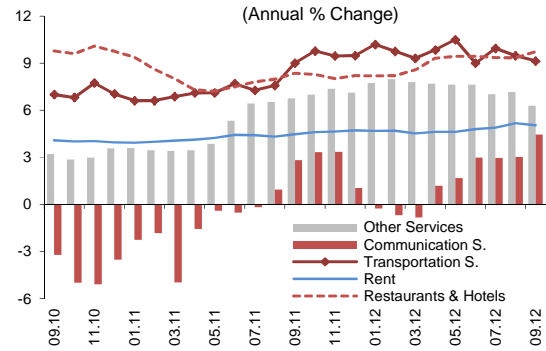
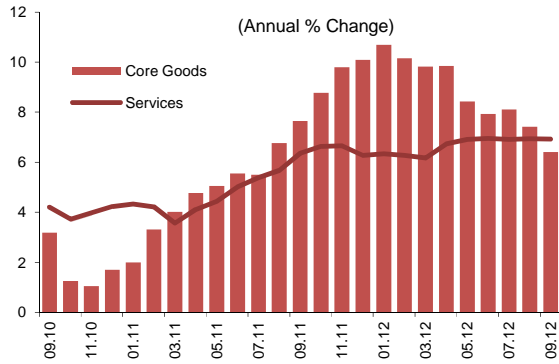
As for the contribution of subgroups to annual inflation, those of food and energy group increased by 0.31 and 0.28 percentage points month-on-month to 2.72 and 1.89 percentage points, respectively; thereby accounting for the half of the annual inflation in September. Meanwhile, contributions of alcohol-tobacco and gold group did not record a noticeable change with 1.93 and 1.01 percentage points, respectively. However, the contribution of core goods declined by 0.27 percentage points to 1.65 percentage points.



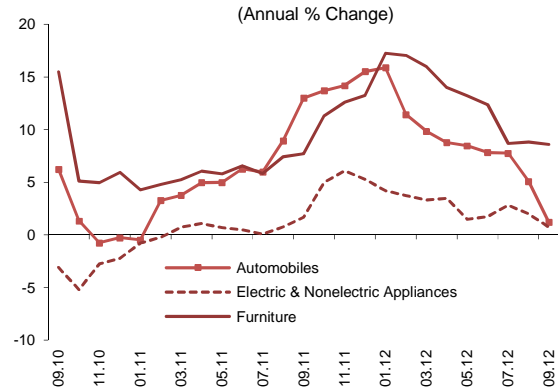
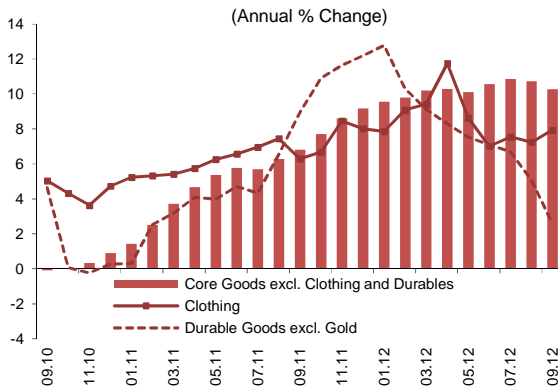
Recently, additional fiscal measures have been introduced upon budget realizations. With respect to these decisions, Special Consumption Tax (SCT) amounts applied to fuel oil, automobile and alcoholic beverages were raised. Moreover, natural gas and electricity prices were increased as of October 1. Under the assumption that the adjustments in the SCT will completely reflect on consumer prices, it is estimated that the effect on the annual consumer inflation will be around 0.66 percentage points. Meanwhile, the rise in natural gas and electricity tariffs is envisaged to contribute to inflation by approximately 0.5 percentage points. Therefore, the direct effect of the recent measures on inflation is calculated to become 1.16 percentage points at most. Greater part of this effect (approximately 1 percentage point) will be apparent in October, which is to be noted.

Prices of services rose by 0.87 percent in September, and annual services inflation preserved its flat course of recent months with 6.93 percent. The rise in the group's prices was led by the price hikes in restaurant-hotel and communication services. On the other hand, following a subsequent rise for the last five months, annual rent inflation registered a decline in September. Moreover, with the Decision of the Board of Ministers published in the Official Gazette on August 29, 2012, which introduced an arrangement in university tuition rates, the university tuition rate item included in the index fell remarkably and the annual inflation in educational services went down by 3.16 percentage points to 4.66 percent. In sum, the diffusion index of the prices of services posted a limited increase, however the underlying trend of seasonally-adjusted prices remained on a mild track amid the price developments in educational services.

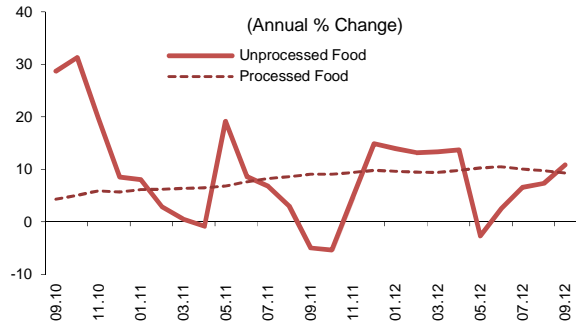
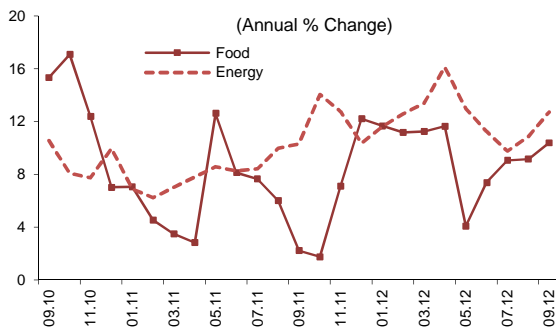
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Annual inflation in core goods group fell by 1 percentage point to 6.41 percent. The clothing group, one of the main sectors constituting this group, saw an increase in annual inflation; while others recorded decreases in September. Durable goods prices went down by 0.4 percent on a monthly basis particularly upon the fall in automobile and white goods prices. The rise in the SCT did not bring about a change in automobile prices in September. All in all, the cumulative price increase in durable goods for the first nine months of the year remained modest with 0.66 percent.



Energy prices increased by 2.43 percent in September, and the annual rate of change rose to 12.71 percent. This rise was attributed to the domestic fuel and bottled gas prices that surged upon the high course of international oil prices. Moreover, the raise introduced to the amount of lump sum SCT also elevated the fuel oil prices. However, as the tax arrangement was enforced on September 22, the greater part of the mentioned effect will be felt in October. In addition to the tax arrangement in fuel oil, energy prices will soar in October due to the rise in natural gas and electricity tariffs.



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Annual inflation in food and nonalcoholic beverages went up by 1.25 percentage points to 10.39 percent, which is attributed to the rise in unprocessed food prices upon the developments in fresh fruits and vegetables. The downward trend in seasonally-adjusted unprocessed food prices in the first half of the year reversed in July. The said prices maintained the upward trend in September though they lost pace compared to the last two months. Consequently, annual inflation in unprocessed food group went up to 10.85 percent.

Having risen compared to the recent months, month-on-month rate of increase in processed food prices, went up by 0.92 percent in September. This was driven both by the accelerated prices of bread-cereals and other processed food prices. The rise in bread prices continued in this period. What is more, prices of pasta (3.77 percent), flour and other cereals (2.38 percent) also increased amid the escalating course of domestic wheat prices. Specifically, the cumulative price increase in bread in the first nine months reached 11.5 percent. Prices of cheese and other dairy products besides sugar increased; whereas, the mild downtrend in fats and oils was maintained in September. As a result, despite the said developments, annual processed food inflation went down to 9.32 percent due to the high base effect.

| | Monthly Percent Change | | Annual Percent Change | |
|--|------------------------|-------------|-----------------------|-------------|
| | Sept. 2012 | Sept. 2011 | Sept. 2012 | Sept. 2011 |
| CPI | 1.03 | 0.75 | 9.19 | 6.15 |
| 1. Goods | 1.09 | 0.70 | 9.96 | 6.07 |
| Energy | 2.43 | 0.73 | 12.71 | 10.30 |
| Food and nonalcoholic beverages | 2.14 | 0.99 | 10.39 | 2.23 |
| Unprocessed food | 3.87 | 0.60 | 10.85 | -4.99 |
| Fresh fruits and vegetables | 6.69 | -3.91 | 24.59 | -20.34 |
| Other unprocessed food | 2.19 | 3.15 | 3.36 | 5.72 |
| Processed food | 0.92 | 1.32 | 9.32 | 9.07 |
| Bread and cereals | 1.08 | 0.66 | 10.34 | 8.95 |
| Other processed food | 0.82 | 1.68 | 8.61 | 9.15 |
| Goods excluding energy and food | -0.36 | 0.46 | 8.27 | 7.54 |
| Core goods | -0.68 | 0.26 | 6.41 | 7.64 |
| Durable goods | 0.02 | 2.49 | 1.95 | 12.98 |
| Durable goods (excluding gold) | -0.40 | 2.02 | 2.58 | 8.93 |
| Alcoholic beverages and tobacco | 0.29 | 0.11 | 18.88 | -0.29 |
| Gold | 8.25 | 7.28 | -4.12 | 71.27 |
| 2. Services | 0.87 | 0.88 | 6.93 | 6.36 |
| Rents | 0.48 | 0.60 | 5.05 | 4.47 |
| Restaurants and hotels | 1.48 | 1.10 | 9.74 | 8.36 |
| Transport | 1.36 | 1.67 | 9.14 | 9.00 |
| Communication | 1.38 | 0.00 | 4.45 | 2.81 |
| Other* | 0.16 | 0.96 | 6.29 | 6.75 |
| 3. Core Measures | | | | |
| CPI excluding unprocessed food, alcoholic beverages and tobacco | 0.72 | 0.82 | 8.06 | 8.51 |
| SCA-H | 0.28 | 0.75 | 7.21 | 7.42 |
| SCA-I | 0.12 | 0.58 | 6.68 | 6.96 |

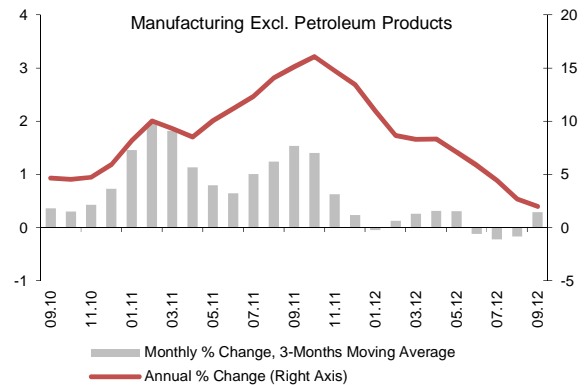
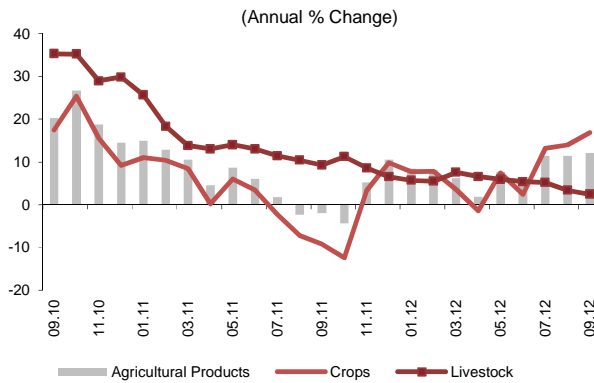
Source: TurkStat, CBRT.

*Other: The services index excluding rents, restaurants/hotels, transport and communication services.

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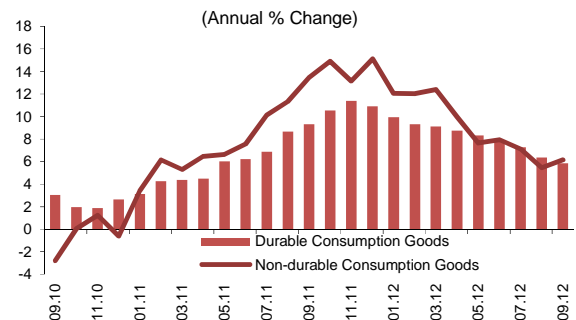
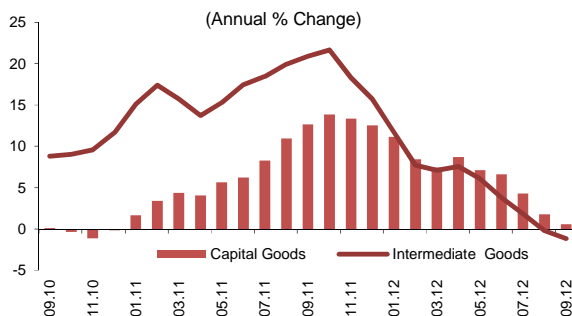
...PPI...

In September, producer prices were up by 1.03 percent and annual PPI inflation went down by 0.53 percentage points to 4.03 percent. Both seasonally-adjusted agricultural prices and the group's annual inflation posted an increase in this period. The uptrend in domestic wheat prices was maintained, bringing the cumulative price increase to 10.1 percent in the last four months. Sunflower prices surged in September, and cotton prices also recorded increases. Meanwhile, the downtrend in livestock prices and the uptrend in milk prices continued in this period.



In September, manufacturing prices increased due to the exchange rate developments besides commodity prices that maintained the uptrend. However, preserving the downtrend of the last four months also in September, base metal prices continued to restrict the rise in manufacturing price increases. In this period, prices in the manufacturing industry excluding oil besides those excluding both oil and base metal saw month-on-month increases by 0.86 and 0.98 percent, respectively; whereas their annual rate of increases posted a decline due to the high base.

Main Industrial Groupings (MIGS) suggest that the rise in manufacturing prices got spread in all subcategories. The greatest contributors to the rise in prices of intermediate goods were main chemicals and plastic materials in September. Prices of capital goods rose mainly upon the price increases in electrical engines and generators. Prices of durable goods accelerated in line with the rise in jewelry prices, while monthly inflation in nondurable goods gained pace upon the rise in producer prices in food and textile products. As a result, manufacturing goods prices, whose cumulative increase for the last nine months lagged behind the figures of past years with 1.45 percent, gained a slight momentum in September, yet pointed that cost effects on consumer prices have remained on a mild track during this period.



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...TABLES

| September CPI and Subcategories (Percent Change) | | | | | |
|--|--------|---------|--------|---------|--------|
| | Weight | 2012 | | 2011 | |
| | | Monthly | Annual | Monthly | Annual |
| CPI | 100 | 1.03 | 9.19 | 0.75 | 6.15 |
| Food and nonalcoholic beverages | 26.22 | 2.14 | 10.39 | 0.99 | 2.23 |
| Alcoholic beverages and tobacco | 5.21 | 0.29 | 18.88 | 0.11 | -0.29 |
| Clothing and footwear | 6.87 | -2.62 | 7.92 | -3.24 | 6.29 |
| Housing | 16.44 | 0.82 | 12.05 | 0.63 | 5.27 |
| Household equipment | 7.45 | 0.24 | 8.15 | 0.92 | 8.61 |
| Health | 2.29 | 0.05 | 1.83 | 0.03 | 0.35 |
| Transport | 16.73 | 1.65 | 4.96 | 1.92 | 14.10 |
| Communication | 4.60 | 1.54 | 5.05 | 0.18 | 2.98 |
| Recreation and culture | 2.98 | 0.09 | 4.64 | 0.43 | 2.74 |
| Education | 2.18 | -1.19 | 4.66 | 1.79 | 6.24 |
| Restaurants and hotels | 5.63 | 1.48 | 9.74 | 1.10 | 8.36 |
| Miscellaneous goods and services | 3.40 | 2.26 | 8.80 | 2.78 | 20.19 |

Source: TurkStat.

| September PPI and Subcategories (Percent Change) | | | | | |
|---|--------|---------|--------|---------|--------|
| | Weight | 2012 | | 2011 | |
| | | Monthly | Annual | Monthly | Annual |
| PPI | 100 | 1.03 | 4.03 | 1.55 | 12.15 |
| Agriculture | 17.21 | 1.40 | 12.09 | 0.80 | -2.00 |
| Crops, fruits and vegetables | 11.76 | 3.75 | 16.84 | 1.20 | -9.24 |
| Livestock and animal products | 4.73 | 0.68 | 2.47 | 1.57 | 9.28 |
| Industry | 82.79 | 0.95 | 2.55 | 1.69 | 15.23 |
| Mining | 3.09 | 1.52 | 8.45 | 1.42 | 17.46 |
| Manufacturing | 70.83 | 0.94 | 2.18 | 1.57 | 17.03 |
| Manufacturing excluding petroleum | 68.22 | 0.86 | 2.00 | 1.55 | 15.11 |
| Manufacturing excluding petroleum and base metals | 62.07 | 0.98 | 3.43 | 1.49 | 12.94 |
| Electricity, gas and water | 8.87 | 0.92 | 4.06 | 2.90 | -0.11 |

Source: TurkStat, CBRT.

| PPI by MIGS (Monthly Percent Change) | | | | | | | | | | | | | | |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|
| | Sep.11 | Oct.11 | Nov.11 | Dec.11 | Jan.12 | Feb.12 | Mar.12 | Apr.12 | May.11 | Jun.12 | Jul.12 | Aug.12 | Sept.12 | Annual |
| Intermediate goods | 1.62 | 0.40 | -1.63 | 0.50 | -0.16 | -1.01 | 1.04 | 0.45 | -0.02 | -0.80 | -0.58 | 0.02 | 0.64 | -1.17 |
| Capital goods | 1.59 | 0.59 | -0.55 | 0.09 | 0.38 | -0.36 | 0.57 | 0.21 | -0.55 | 0.17 | -0.22 | -0.15 | 0.39 | 0.57 |
| Durable goods | 2.04 | 2.53 | -0.36 | 0.35 | 0.85 | 1.70 | -0.19 | -1.55 | -1.21 | 1.32 | -0.08 | 0.02 | 2.71 | 6.15 |
| Nondurable goods | 1.36 | 1.25 | 0.91 | 0.28 | -0.27 | 1.06 | 0.64 | 0.26 | 0.56 | -0.78 | 0.40 | 0.54 | 0.87 | 5.85 |
| Energy | 2.33 | 2.61 | 1.20 | 1.66 | 1.85 | -3.17 | 0.44 | 0.59 | -0.82 | -0.52 | -1.98 | 2.06 | 1.50 | 5.38 |

Source: TurkStat, CBRT.

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 of the monthly inflation developments by the public during the period between the announcement of the official price statistics and the Monetary Policy Committee meeting.