

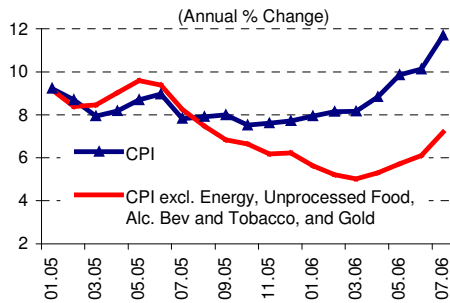
## SUMMARY OUTLOOK...

In July 2006, rate of increase in the prices of services in monthly terms was lower compared to the same month last year, while rate of increase in the prices of goods displayed a rapid increase due to exchange rate movements and other supply-side developments.

The basic factors affecting inflation in July were price increments stemming from depreciation of New Turkish Lira and high-level of increase in the prices of food group exceeding seasonal trends. Moreover, the unfavorable trend in energy prices due to rapid rise in oil prices continued in July too. While the contribution of food and non-alcoholic beverages prices to consumer inflation was 0.39 percentage points in July, that of energy prices was 0.30 percentage points.

The annual rate of increase of the Special CPI Aggregate, which is calculated by excluding prices of energy, unprocessed food products, alcoholic beverages, tobacco products and gold to measure the general trend of inflation, reached 7.19 percent by July 2006.

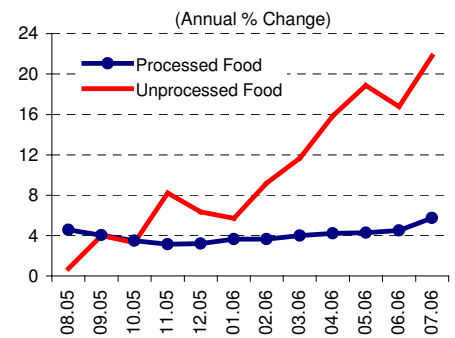
## ...EVALUATIONS...



After May and June, the effects of fluctuations in exchange rates were quite felt in July as well. The upward trend in the Special CPI Aggregate excluding prices of energy, unprocessed food products, alcoholic beverages, tobacco products and gold observed in the last 3 months continued in July. It is predicted that the effect of exchange rates on inflation will diminish as of August.

When price developments in food and non-alcoholic beverages group are analyzed, it is observed that annual rate of price increase in unprocessed food products increased by 5 percentage points compared to previous month and reached 21.77 percent. As stated in our previous reports, high increments observed in the prices of fresh fruits and vegetables compared to previous years are stemming from supply-side developments. Although the prices of fresh fruits did not show a significant change cumulatively in the first 7 months of 2005, prices of the same item rose by 52.06 percent in the same period of 2006.

Meanwhile, the annual rate of increase in processed food prices, which had been stable recently, increased slightly in July due to the lagged effects of exchange rates.

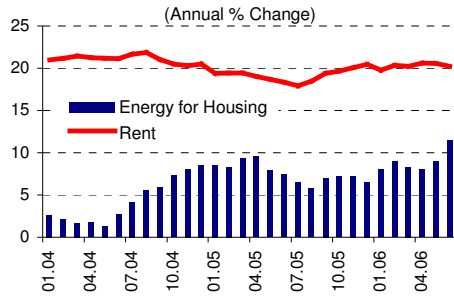


# JULY PRICE DEVELOPMENTS



Central Bank of the Republic of Turkey

4 August 2006

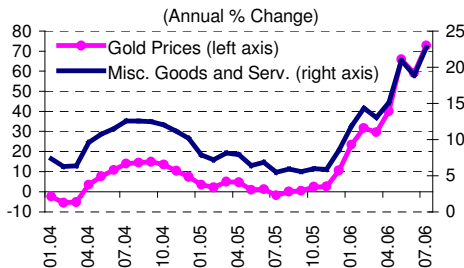


Prices in the housing group, which increased by 3.86 percent in the first seven months of 2005, rose by 7.98 percent in the same period of 2006. During the said period, the increase in rents was realized in line with the realizations in 2005. Meanwhile, housing group-oriented energy prices such as gas and solid fuel increased more rapidly than last year, due to exchange rate developments and the increase in oil prices. Moreover, it should be emphasized that the increase in prices of water, which are determined by municipalities, was also influential in this development. It is notable that water prices, which decreased considerably (by 10.27 percent) in the first seven months of 2005, increased significantly (by 8.49 percent) in the same period of 2006.

Household equipments group prices are observed to be affected by exchange rate developments more in July than in May and June. High-rated increases in durables such as furniture and white goods as well as in cleaning products resulted in 2.82 percent inflation in the said group. The significant increases observed in many sub-groups of the household equipments group basically reflect the lagged effects of exchange rates. Nonetheless, inflation in the household equipments group is at lower levels compared to the first seven months of the previous year, despite the above-mentioned high-rated increases.

In line with international oil prices and recent exchange rate developments, fuel oil prices also increased by 3.34 percent in July, following the high increase (by 5.90 percent) in June. The high level of fuel oil prices started to affect prices of the transportation services, too. In the meantime, automobile prices within the transportation group rose by 10.05 percent in the last three months as a result of exchange rate movements. It is anticipated that the increase in automobile prices will come to an end in August.

Evaluating prices in the restaurants and hotels group, which increased by 0.71 percent in July, it is observed that the prices of accommodation services maintain their high levels on annual basis, despite the low rate of monthly increase in July. Meanwhile, the annual rate of increase in food and beverages services is lower compared to last year.



In July, prices of the miscellaneous goods and services group increased by 2.38 percent and made a 0.12 percentage point contribution to consumer inflation. Gold prices that boosted by 72.56 percent in the last one-year period were determinant in this development.

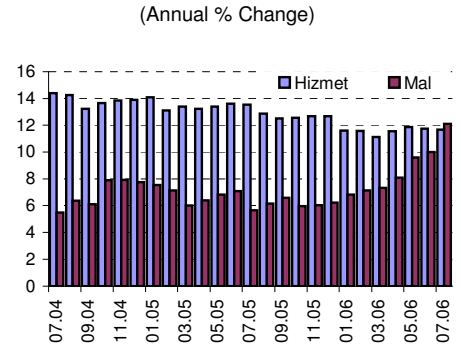
# JULY PRICE DEVELOPMENTS

Central Bank of the Republic of Turkey



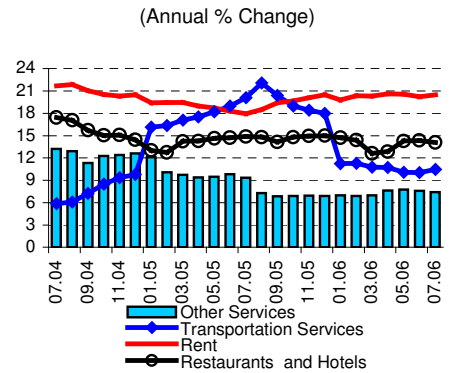
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The annual rate of increase in prices in the services group declined compared to the previous month, whereas the upward trend in prices in the goods group gained momentum and the annual rate of increase remained above that of the services group. It is observed that the prices in the goods group increased mainly due to high increases in prices of unprocessed food products as of the last quarter of 2005, energy prices that increased as a result of the developments in international oil prices as well as the price increases that occurred parallel to the fluctuations in exchange rates. In July, the sub-items in the services group did not display a significant change, while the prices in the rents and housing services group increased at high rates and those of the education group increased in a limited manner. As also stated in the Inflation Report of July, the rate of increase in prices of the services sector is expected to slow down in the upcoming period.



	Monthly Change		Annual Change	
	July 2006	July 2005	July 2006	July 2005
CPI	0.85	-0.57	11.69	7.82
<b>1. Goods</b>	<b>0.74</b>	<b>-1.15</b>	<b>12.10</b>	<b>5.66</b>
Energy	2.04	0.81	14.51	10.89
Unprocessed Food	1.56	-2.63	21.77	2.09
Goods excl. Energy and Unprocessed Food	0.08	-1.42	8.93	4.94
Durable Goods	2.82	-1.29	15.32	4.34
Durable Goods excl. Gold	2.25	-0.92	5.80	5.85
Semi-Durable Goods	-0.56	-1.77	9.26	8.43
Non-Durable Goods	1.19	-0.65	13.44	3.96
<b>2. Services</b>	<b>1.13</b>	<b>1.21</b>	<b>11.68</b>	<b>13.53</b>
Rent	2.17	1.92	20.49	17.95
Restaurants and Hotels	0.71	0.96	14.07	14.88
Transportation Services	2.26	1.84	10.46	20.10
Other Services	0.66	0.87	7.38	9.35

Source: TURKSTAT, CBRT



According to the diffusion index compiled from item prices in the CPI, the share of products, whose prices increased, in total products remained significantly above their previous years' level as a result of exchange rate developments.

Share of Items with Price Increases in the Basket (%)					
2006			2005		
May	June	July	May	June	July
57.5	56.1	63.3	44.4	45.4	43.7

The annual inflation rates in all Special CPI Aggregates increased more than 1 percentage point in July. This increase was stemmed mainly from the effects of exchange rate developments on the prices of tradable goods. It is anticipated that significant part of relative price adjustments was completed by July and therefore the effects of exchange rate on inflation will ease in August.

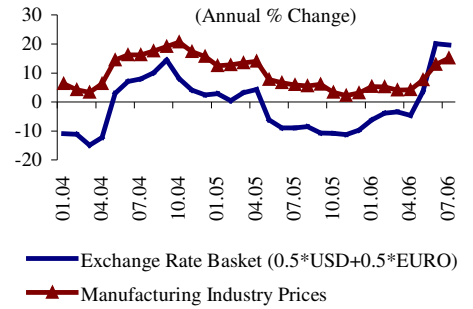
# JULY PRICE DEVELOPMENTS



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4 August 2006

While the agriculture sector had a 0.38 percentage point decreasing effect on the PPI inflation, which was realized as 0.86 percent in July, industrial sector prices had a 1.24 percentage point increasing effect. Effects of exchange rate developments on the pricing behaviors of the companies operating in the manufacturing industry vary according to sectors. Effects of the increases in exchange rates observed in May and June were observed concurrently in sectors such as electrical machinery and office machinery, while the said effects reflected on the prices in the sectors such as paper and paper products, furniture and wood and cork products with a time lag.



It is projected that the high increases in producer prices will be reflected on the CPI moderately, along with the slow-down in domestic demand.

# JULY PRICE DEVELOPMENTS



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## ... UPCOMING DEVELOPMENTS...

- In August, natural gas prices increased by 6.8 percent.
- In August, medicine prices display a 5 percent-increase.
- The sales season in the clothing and footwear group will continue in August, as well.

## ... TABLES

**July CPI and Sub-Items (% Change)**

	Weight	2006			2005		
		Monthly	Annual	Cumulative*	Monthly	Annual	Cumulative*
CPI	100	0.85	11.69	5.76	-0.57	7.82	2.00
Food and Non-Alc. Bev.	27.68	1.41	12.05	5.07	-1.15	4.43	-1.62
Alc. Bev. and Tobacco	5.62	0.01	28.59	4.85	1.97	5.49	4.27
Clothing and Footwear	8.28	-6.93	0.59	-5.10	-7.45	5.13	-5.78
Housing	16.29	1.76	14.22	7.98	0.87	9.67	3.86
Household Equipment	6.89	2.82	5.70	3.57	-0.31	8.40	4.12
Health	2.54	-0.93	3.01	3.98	-1.38	5.21	0.54
Transportation	10.48	2.87	14.79	11.90	0.94	15.19	8.21
Communication	4.55	0.18	4.09	2.50	-0.16	1.28	0.16
Recreation and Culture	3.63	1.24	3.26	5.67	1.04	7.57	9.12
Education	2.41	1.08	7.22	3.63	0.91	21.13	3.63
Restaurants and Hotels	6.74	0.71	14.07	8.16	0.96	14.88	9.03
Misc. Goods and Services	4.89	2.38	22.75	13.40	-0.86	5.48	0.25

Source: TURKSTAT

**July PPI and Sub-Items (% Change)**

	Weight	2006			2005		
		Monthly	Annual	Cumulative*	Monthly	Annual	Cumulative*
PPI	100	0.86	14.34	12.64	-0.74	4.26	1.14
Agriculture	19.78	-2.00	12.07	4.89	-2.47	-1.45	-3.58
Industry	80.22	1.52	14.67	14.54	-0.28	5.87	2.46
Mining	1.47	4.30	19.96	17.89	2.87	12.87	7.73
Manufacturing	73.98	1.50	15.13	14.07	-0.36	5.93	2.20
Energy	4.77	1.08	5.91	21.00	0.00	3.11	4.68

Source: TURKSTAT

\*Percentage change with respect to December of the previous year.

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