

MAY PRICE DEVELOPMENTS



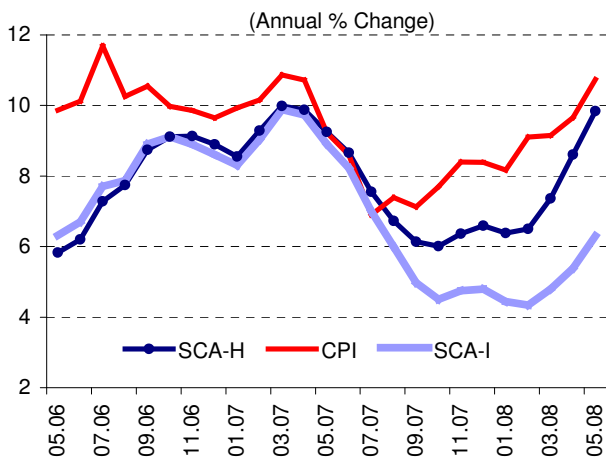
The Central Bank of Turkey

4 June 2008

SUMMARY...

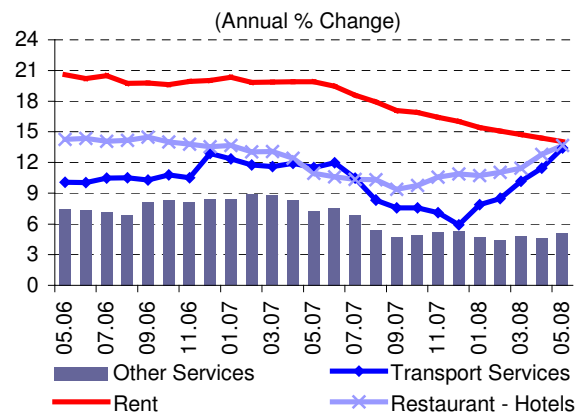
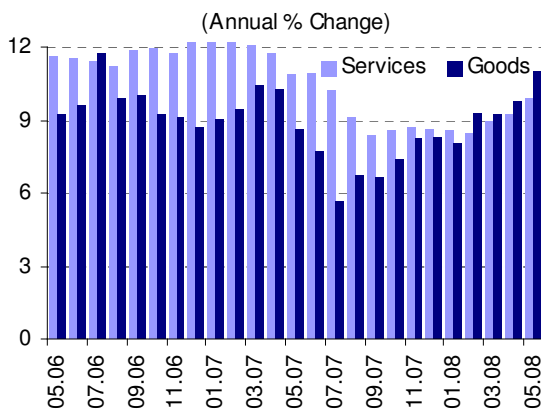
In May, consumer prices rose by 1.49 percent, pushing annual inflation up to 10.74 percent on the back of soaring food and oil prices and lagged effects of exchange rate shifts. The surge in food and energy prices accounts for 7 percentage points of annual inflation as of May. Rent inflation keeps decelerating, while the annual rate of increase in prices for catering and transport services continues to accelerate due to escalating food and energy prices. Lagged effects of exchange rate shifts and second-round effects of supply shocks have put upward pressure on core inflation indicators. On balance, annual inflation is expected to remain elevated in the months ahead, driven by the base effect; but might be back on a steady downward track by the final quarter of the year.

EVALUATIONS...



In May, consumer prices rose by 1.49 percent, bringing annual CPI inflation up to 10.74 percent. The annual growth rate of the CPI index excluding energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H) climbed to 9.84 percent from 8.61 percent in April. With a further exclusion of processed food prices (SCA-I), the index increased from a year-on-year rate of 5.38 percent in April to 6.30 percent in May. Key drivers were second-round effects of energy and food prices and lagged impacts of exchange rate developments.

Prices of goods and services were up 1.64 and 1.05 percent, respectively. Inflation soared to an annual rate of 9.86 and 11.02 percent, respectively, in services and goods.



The ongoing surge in food and energy prices put further upward pressure on services prices. Accordingly, prices for transport services were up 1.79 percent and catering prices rose by 1.82 percent. Much of the rise in annual services inflation was because of soaring prices of catering and transport services, which had increased by 5.07 and 5.02 percent, respectively, during the past three months.

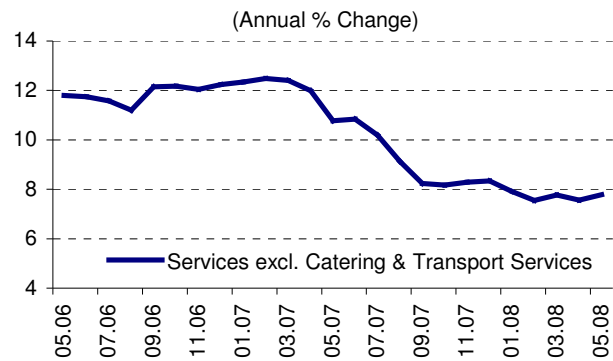
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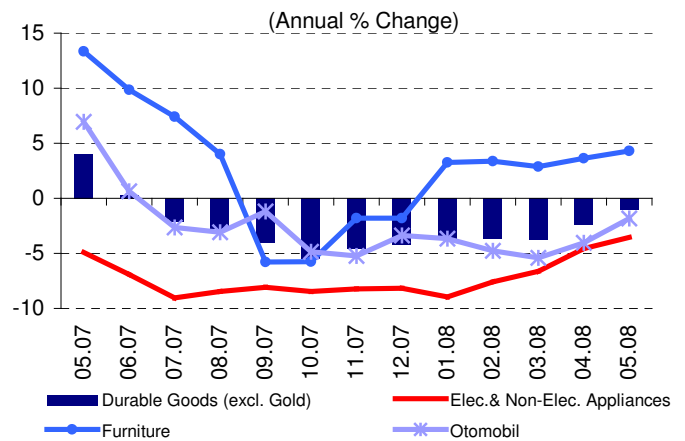
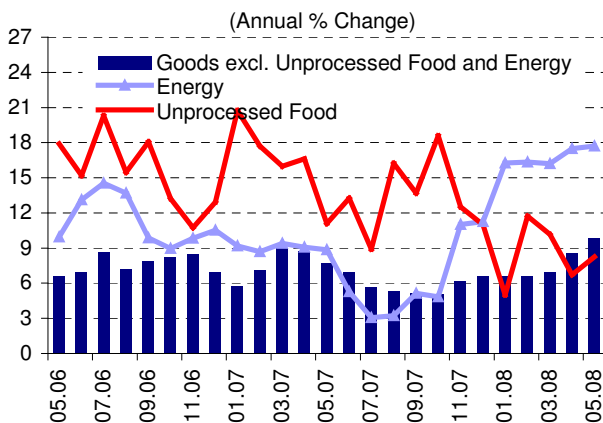
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In contrast, prices for services other than transport and catering remained steady in May. Particularly, the annual rate of increase in rents continued to decelerate, registering a cumulative decline of about 6 percentage points for the past one year.



Energy prices increased by 2.58 percent, pushing the annual inflation in energy prices up to 17.70 percent. Given the impending automatic price adjustment mechanism, energy prices are to remain elevated on a year-over-year basis.

The annual rate of increase in prices of goods excluding energy and unprocessed food jumped to 9.90 percent, largely due to the rising annual inflation rate in processed food prices, in particular, and in prices of clothing/footwear and durable goods. The annual inflation in clothing prices went up by 3.1 percentage points to 4.62 percent during the past three months, mainly on lagged effects of exchange rate movements.



Though up 1.48 percent from April, prices for durables (excluding gold) were still on the decline in annual terms. As for sub-categories, prices of automobiles and electric and non-electric appliances increased by 0.52 and 0.81 percent month-on-month, respectively, but were still down year-on-year. Moreover, furniture prices increased at a strong 5.20 percent month-on-month, amounting to a cumulative 10.5 percent jump for the first five months. Gold prices, however, decreased by 6.16 percent in May.

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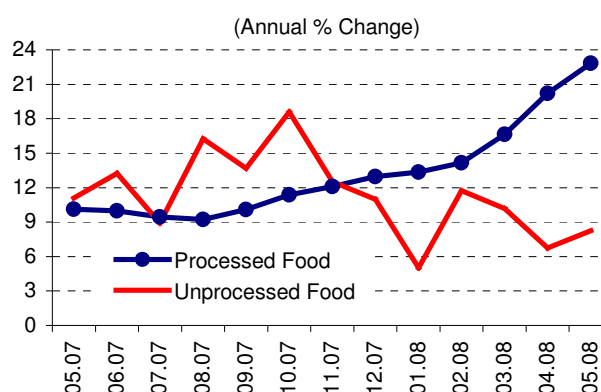
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4 June 2008

	Monthly Percentage Change		Annual Percentage Change	
	May 2008	May 2007	May 2008	May 2007
CPI	1.49	0.50	10.74	9.23
1. Goods	1.64	0.51	11.02	8.59
Energy	0.77	0.58	17.70	8.85
Unprocessed Food	-2.10	-3.48	8.26	11.09
Goods excl. Energy and Unprocessed Food	3.05	1.79	9.90	7.72
Durable Goods	0.75	-0.22	1.08	2.01
Durable Goods excl. Gold	1.48	0.08	-1.03	4.02
Semi-Durable Goods	3.97	3.55	11.44	8.48
Non-Durable Goods	0.29	-1.30	13.35	10.34
2. Services	1.05	0.49	9.86	10.85
Rent	0.85	1.18	14.02	19.88
Restaurants and Hotels	1.66	0.86	13.67	10.92
Transport Services	1.79	0.03	13.41	11.50
Other Services	0.59	0.15	5.11	7.27

Source: TURKSTAT, CBRT.

Unprocessed food prices posted a seasonal decline of 2.10 percent in May. Fresh vegetable prices saw a significant decrease, but the sizable gain in prices of other unprocessed food items, such as meat, rice and pulses, drove the annual inflation in this category to 8.26 percent.



Processed food prices soared further in May, up 2.33 percent month-on-month to an annual rate of 22.83 percent. The monthly price growth was boosted by the annual rate of increase in bread and grain prices and prices for solid and liquid fats that amounted to 28.61 and 53.66 percent, respectively. The annual inflation in this category is expected to inch higher in the short run due to base effect.

...PPI...

PPI increased by 2.12 percent in May to 16.53 percent year-on-year. Rising prices of agricultural and industrial products contributed 0.67 and 1.45 percentage points, respectively, to the index's performance. The monthly growth rate of 3.49 percent in prices of agricultural products can be attributed largely to the sharp increase in prices of seasonal fruits and vegetables of summer that entered the index in May.

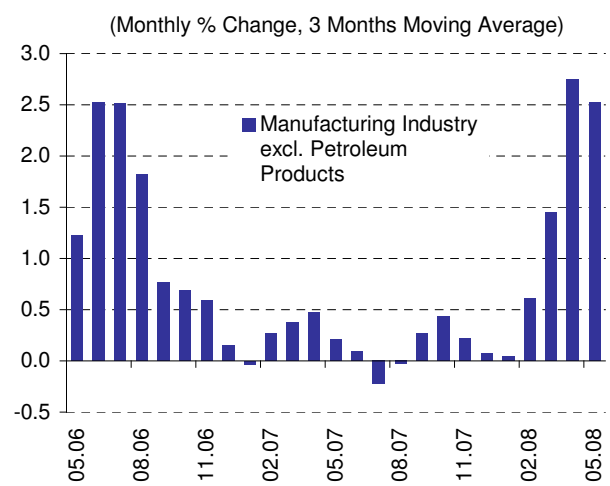
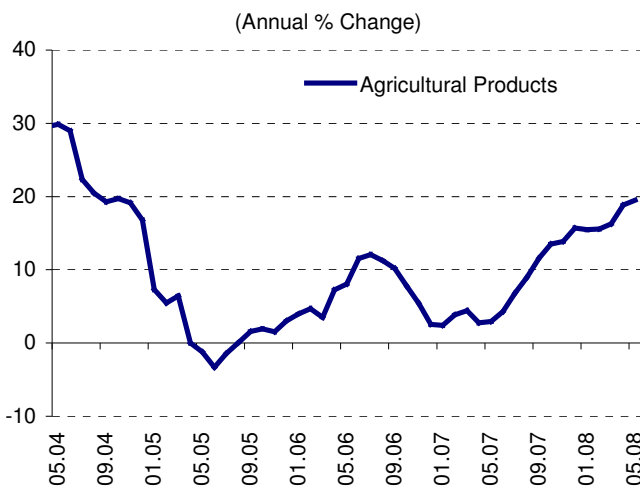
Prices of petroleum products rose by 8.27 percent, while manufacturing industry prices excluding petroleum products were up 0.87 percent. Base metal prices continued to soar in May, up 6.60 percent from April.

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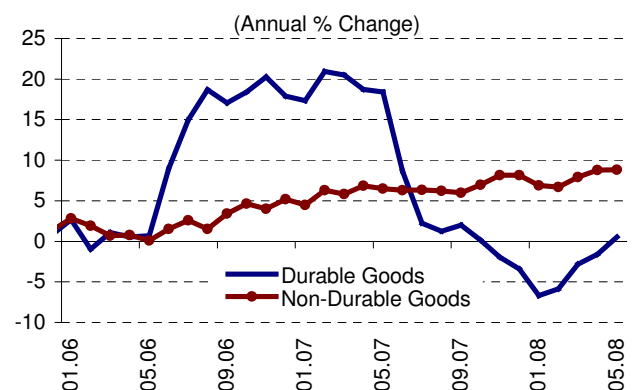
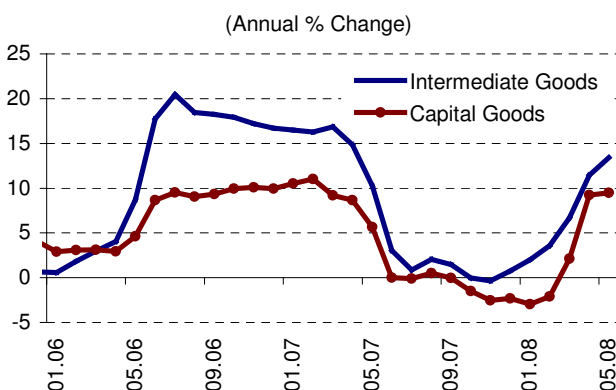


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4 June 2008



According to a PPI analysis based on MIGS classification, prices of non-durables and capital goods edged down, whereas prices for all other items remained on an upward track in May. Prices of intermediate goods continued to increase due to higher prices for base metals, while prices of durables rose on the back of soaring furniture prices. In contrast, the drop in prices of textiles and clothing drove prices of non-durables lower.



PPI Developments According to MIGS Classification
Monthly Percentage Change

	Jun-07	Jul-07	Agu-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jan-May*
Intermediate Goods Prices	-0.13	-0.63	0.72	0.06	-1.13	-0.64	0.53	1.18	1.66	4.30	4.90	2.03	14.82
Capital Goods Prices	-0.93	-0.27	0.43	-0.22	-0.59	-0.64	0.75	0.44	1.23	2.84	6.71	-0.42	11.11
Durable Goods Prices	-0.46	-2.02	1.01	0.23	-0.02	-1.17	-1.90	-2.00	0.90	2.74	0.75	2.60	5.01
Non-Durable Goods Prices	0.20	0.13	0.13	2.13	1.88	0.84	0.14	-1.15	1.63	0.86	2.08	-0.33	3.10
Energy Prices	-1.36	1.84	2.68	-0.32	-2.94	6.68	-0.86	0.60	7.74	7.85	8.56	5.29	33.60

Source: TURKSTAT, CBRT.

*5 Months Cumulative Increase.

...TABLES

May CPI and Sub-Items (Percentage Change)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
CPI	100	1.49	10.74	0.50	9.23
Food and Non-Alcoholic Beverages	28.63	0.25	15.69	-1.66	10.64
Alcoholic Beverages and Tobacco	5.00	0.01	6.86	0.01	10.18
Clothing and Footwear	8.07	11.99	4.62	11.35	6.67
Housing	16.60	0.41	15.26	0.37	12.83
Household Equipments	7.42	2.10	5.37	1.85	12.42
Health	2.54	0.06	-0.46	0.08	5.07
Transport	12.59	1.57	9.67	0.11	8.10
Communication	4.30	-0.04	-0.54	-0.24	0.30
Recreation and Culture	2.81	1.58	2.66	-1.78	3.98
Education	2.24	0.91	6.69	0.41	7.92
Restaurants and Hotels	5.64	1.66	13.67	0.86	10.92
Miscellaneous Goods and Services	4.16	-0.82	9.71	-0.70	2.66

Source: TURKSTAT.

May PPI and Sub-Items (Percentage Change)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
PPI	100	2.12	16.53	0.39	7.14
Agriculture	19.84	3.49	19.51	2.90	2.95
Industry	80.16	1.79	15.83	-0.17	8.19
Mining	1.62	2.66	23.64	0.88	10.12
Manufacturing	73.33	1.87	15.26	0.14	7.65
Energy	5.21	0.60	21.17	-4.31	14.95

Source: TURKSTAT.

Price Developments are published within two working days 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 monthly inflation developments by the public during the period between the announcement of official price statistics and the Monetary Policy Committee meeting.