

AUGUST PRICE DEVELOPMENTS



Central Bank of the Republic of Turkey

5 September 2006

SUMMARY OUTLOOK...

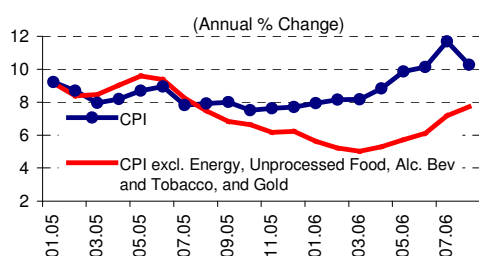
In August, the annual inflation followed a course consistent with the forecasts in the previous reports, and was realized as 10.26 percent.

It is observed that monthly developments in consumer prices were affected mainly by decreases in the prices of seasonal products. Especially, the correction in unprocessed food prices is outstanding. In August, prices of fuel oil, gold and technology-intensive imported goods declined due to the appreciation of the New Turkish lira. Nonetheless, the unfavorable lagged effects of exchange rates on prices are still observed in many products, albeit in a lessened manner.

The annual rate of increase of the special CPI aggregate excluding prices of energy, unprocessed food, alcoholic beverages, tobacco products and gold, which is used to measure the general inflation trend, reached 7.74 percent by August 2006.

It is projected that there may be temporary fluctuations in inflation in the near future, due to the impact of the Ramadan and other seasonal factors.

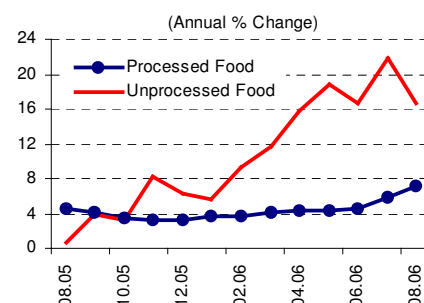
...EVALUATIONS...



The annual rate of increase in most of the Special CPI Aggregates decelerated in August. This development confirms the projection that the effects of exchange rate developments on inflation would ease in August, as stated in the previous report.

The recent upward trend in the Special CPI Aggregate excluding prices of energy, unprocessed food, alcoholic beverages, tobacco products and gold also continued in August. In line with the developments in May and June, lagged unfavorable effects of the depreciation of the New Turkish lira continue to be observed on the price developments in this index albeit at a lower level.

Prices of unprocessed food, which registered high-rated increases in July, significantly decreased in August and became the main determinant of the fall in the food and non-alcoholic beverages group prices. In the said sub-group, sharp declines in the prices of fresh fruits and vegetables are notable. Last September, annual price increases – especially of vegetables – had started to accelerate. Therefore, the annual rate of price increases in the said sub-groups is expected to lose pace in the coming months. Another significant development is the continuation of the upward trend in the annual rate of increase of processed food prices in the month of August, following July. The lagged effects of exchange rates are believed to have a significant role in this development. Meanwhile, it should be taken into account that there may be an upward pressure on food prices in September, with Ramadan approaching



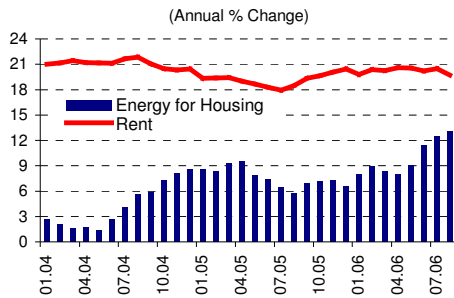
The rates of summer season sales (July and August) in the clothing and footwear group are higher compared to the previous year. The group continued its favorable contribution to consumer inflation as annual inflation became -1.37 percent by August.

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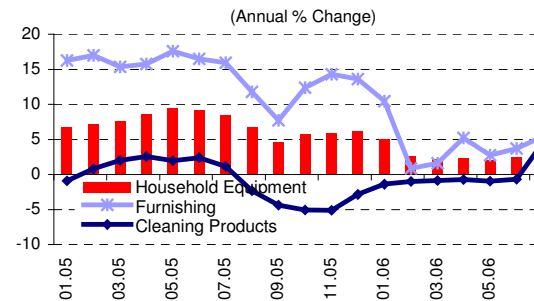
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The annual inflation in the housing group, which continued to rise in August, reached 14.53 percent. As also emphasized in our previous reports, increases in housing group-oriented energy prices such as water, gas and solid fuel continue to be influential in the said development. Meanwhile, the fact that the rate of rent increases in August remained below that of the same period last year should be perceived as a favorable development.

The last three months' increase in the sub-group of household equipments, which is influenced by the lagged effects of exchange rate developments, reached 6.23 percent with the rapid rise observed in August. The price increase in the household equipments group in August resulted mainly from high-rated increases in prices of furniture (2.76 percent) and cleaning products (4 percent), while the rate of increase in prices of electrical and non-electrical equipments within this group decelerated considerably.



Automobile prices within the transportation group, which rose by 8.42 percent in the May-July period in line with exchange rate developments, increased by only 0.46 percent in August. Fuel oil prices, which had increased by a total of 9.44 percent in June and July, declined by 2.39 percent in August due to the fall in international oil prices and exchange rates. Besides, it is observed that the reductions made in fuel oil prices in the last days of the month were not fully reflected on the index figures of August. Therefore, favorable effects of the said reductions on consumer prices are expected to continue in September in light of the current situation. Meanwhile, increases observed in fuel oil prices in June and July started to affect transportation services prices, which had increased at a moderate rate of 2.64 percent in the first half of the year. Prices in the said sub-group rose by 4.68 percent in the last two months.

Recreation and culture group prices increased by 0.96 percent in August. Technology-intensive products whose prices declined parallel to exchange rate developments had a decreasing effect on the prices in the said groups, while the high increase in package holiday prices was the determinant of the group prices. Furthermore, the price increases in education and stationery products in this group gained momentum in the last three months parallel to both exchange rate developments and the upcoming academic year. Package holiday prices, which are likely to decrease seasonally in September, are expected to have a positive impact on group prices for the rest of the year.

The eight-month inflation of the education group realizing below that of the previous year is considered as a positive development. Prices of the said group, which are likely to increase in September along with the announcement of university fees, are expected to realize close to the rate of increase of 2005 (7.21 percent) at the end of the year.

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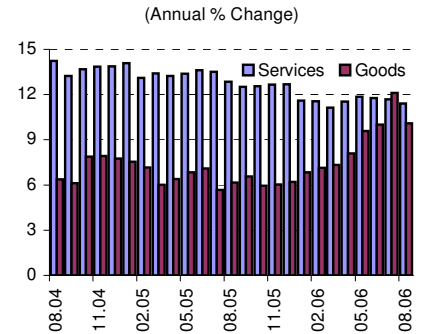


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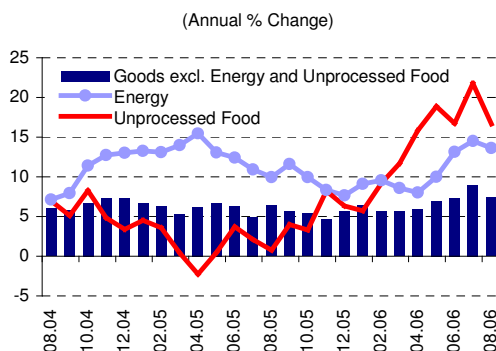
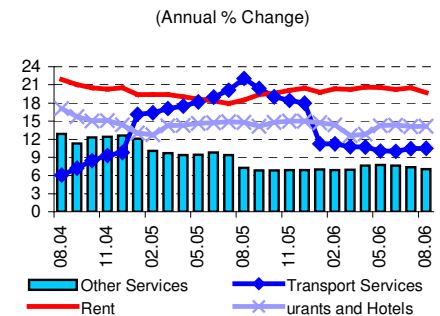
Gold prices that decreased by 5.72 percent in August continue to be effective on prices of the miscellaneous goods and services group. Meanwhile, in August, the price increases in personal care products that were subjected to the lagged effects of exchange rate developments (with the 3.07 percent-increase in the last two months) limited the positive impact of gold on group prices. Moreover, another development that draws attention in this group is that the intermediary fees (charges for money order and communication fees) in the banking sector increased by 8.45 percent in the last quarter.

In August, annual rate of increase in prices in the goods and services group decreased compared to that of the previous month. The downward trend of the price increases in the services group continues, albeit in a limited manner whereas the annual rate of increase in goods group prices slowed down after a long-lasting increase. Analyzing the sub-items in the services group, it is observed that the monthly price increases in transportation services are at high levels despite the limited decline in the annual rate of increase in rents in August. Furthermore, the annual price increase in the restaurants and hotels group maintains its high level. The annual rate of increase in other services excluding rents, restaurants-hotels and transportation decreased in the last three months. It is estimated that the rate of increase in services group prices will continue to decline in the upcoming period.



	Monthly Change		Annual Change	
	August 2006	August 2005	August 2006	August 2005
CPI	-0.44	0.85	10.26	7.91
1. Goods	-1.03	0.79	10.08	6.16
Energy	-0.09	0.69	13.63	9.97
Unprocessed Food	-4.43	-0.21	16.61	0.74
Goods excl. Energy and Unprocessed Food	-0.36	1.07	7.38	6.35
Durable Goods	-0.66	0.69	13.77	6.36
Durable Goods excl. Gold	0.47	0.09	6.20	7.99
Semi-Durable Goods	-1.75	-1.05	8.49	7.25
Non-Durable Goods	-0.59	2.19	10.35	5.33
2. Services	1.11	1.37	11.40	12.87
Rent	1.98	2.63	19.73	18.49
Restaurants and Hotels	0.73	0.66	14.15	14.78
Transportation Services	2.36	2.34	10.49	22.06
Other Services	0.64	0.92	7.08	7.28

Source: TURKSTAT, CBRT



When prices in the goods group are analyzed, it is observed that the annual rates of increase in unprocessed food and energy group prices, which stand as the main determinants of inflation in the recent period, decelerated in August. In addition, the annual rate of increase in prices of goods excluding energy and unprocessed food decreased by 1.5 percentage points during the same period. Monthly rate of increase in prices of durable goods excluding gold also decelerated considerably by August.

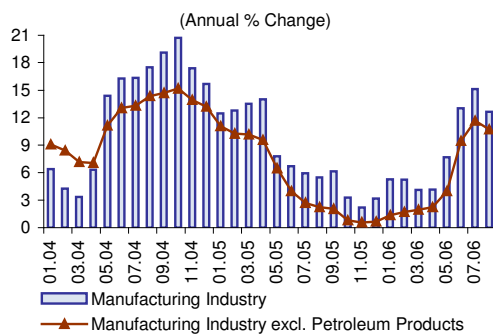
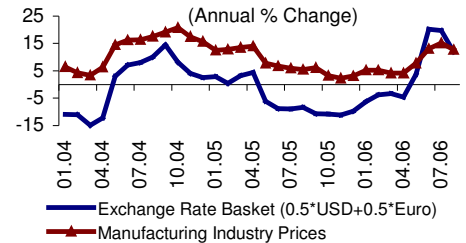
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While the agricultural sector had a 0.24 percentage point decreasing effect on the PPI inflation, which decreased by 0.75 percent in August, the industrial sector contributed to the fall in the PPI inflation by 0.51 percentage points. Manufacturing industry prices fell by 0.69 percent in August, due to decreases in exchange rates and oil prices.



The fall in manufacturing industry prices resulted mainly from decreases in prices of coke coal and refined petroleum products, basic metal industry and textile products. Excluding the effect of petroleum products, it is observed that the annual rate of increase in manufacturing industry prices decelerated.

Evaluating prices of durable goods within producer prices, it is observed that the increases in prices of white goods and furniture continued. However, a decline was observed in prices of television, which is one of the brown goods. It should be emphasized that the impact of price developments in the said groups on the CPI will vary depending on demand conditions.

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...UPCOMING DEVELOPMENTS...

- Unprocessed food prices will enter an upward trend in September.
- The religious month of Ramadan is expected to bring about an overall increase in food prices in general.
- Price reductions in fuel oil products may also continue in September.
- It is expected that package holiday prices will follow a downward course in the rest of the year.
- A five percent increase is expected in medicine prices.
- New university fees will lead to an increase in education group prices on monthly basis.

...TABLES

August CPI and Sub-Items (% Change)							
	Weight	2006			2005		
		Monthly	Annual	Cumulative*	Monthly	Annual	Cumulative*
CPI	100	-0.44	10.26	5.30	0.85	7.91	2.87
Food and Non-Alc. Bev.	27.68	-1.21	10.78	3.81	-0.07	3.52	-1.69
Alc. Bev. and Tobacco	5.62	-0.01	10.02	4.85	16.87	23.06	21.86
Clothing and Footwear	8.28	-6.92	-1.37	-11.66	-5.07	2.69	-10.55
Housing	16.29	1.18	14.53	9.25	0.91	9.20	4.80
Household Equipment	6.89	1.94	8.06	5.57	-0.29	6.72	3.82
Health	2.54	1.64	6.25	5.69	-1.46	0.47	-0.93
Transportation	10.48	0.04	13.23	11.94	1.42	17.14	9.75
Communication	4.55	-0.57	3.19	1.92	0.29	1.81	0.45
Recreation and Culture	3.63	0.96	2.85	6.69	1.36	7.51	10.61
Education	2.41	0.40	6.91	4.05	0.70	9.76	4.35
Restaurants and Hotels	6.74	0.73	14.15	8.95	0.66	14.78	9.75
Misc. Goods and Services	4.89	-0.58	20.45	12.73	1.32	5.93	1.57

Source: TURKSTAT

August PPI and Sub-Items (% Change)							
	Weight	2006			2005		
		Monthly	Annual	Cumulative*	Monthly	Annual	Cumulative*
PPI	100	-0.75	12.32	11.80	1.04	4.32	2.18
Agriculture	19.78	-1.28	11.23	3.55	-0.53	0.06	-4.09
Industry	80.22	-0.62	12.33	13.84	1.45	5.48	3.94
Mining	1.47	0.87	18.53	18.91	2.09	12.18	9.99
Manufacturing	73.98	-0.69	12.66	13.27	1.48	5.48	3.72
Energy	4.77	0.03	5.17	21.04	0.73	3.58	5.45

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.