

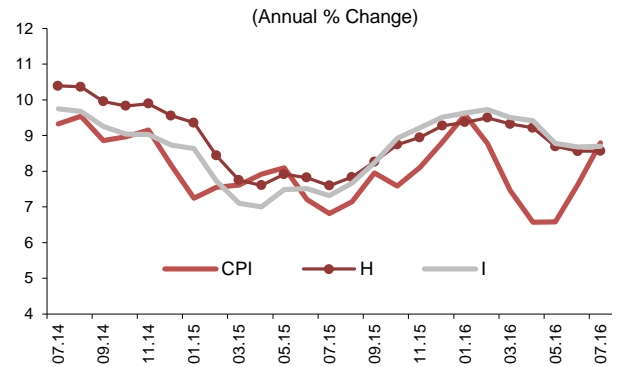
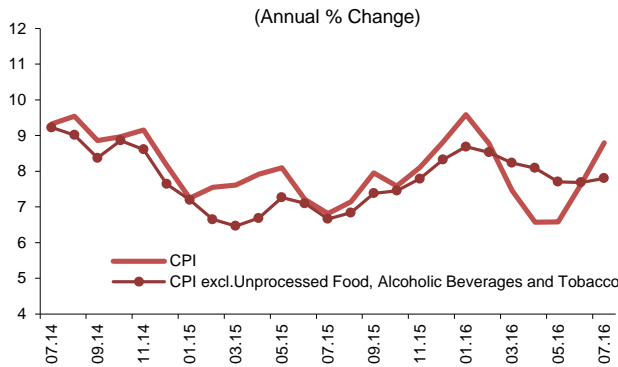
## SUMMARY...

In July, consumer prices rose by 1.16 percent, and annual consumer inflation climbed to 8.79 percent. As also stated in the Summary of the Monetary Policy Committee Meeting of July, due to the developments in unprocessed food and tobacco prices, consumer inflation witnessed a sizeable increase. In this period, annual inflation in core indicators and the underlying trends for core inflation remained almost unchanged on a monthly basis.

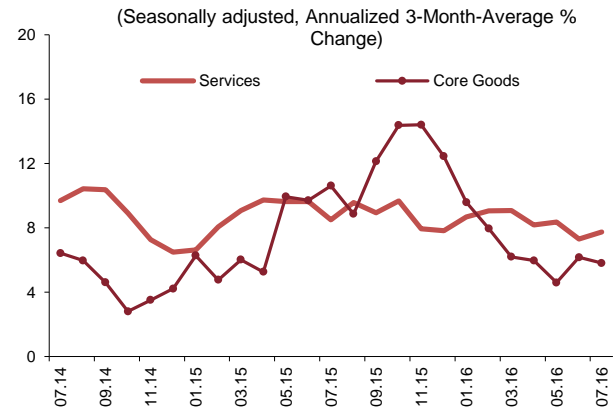
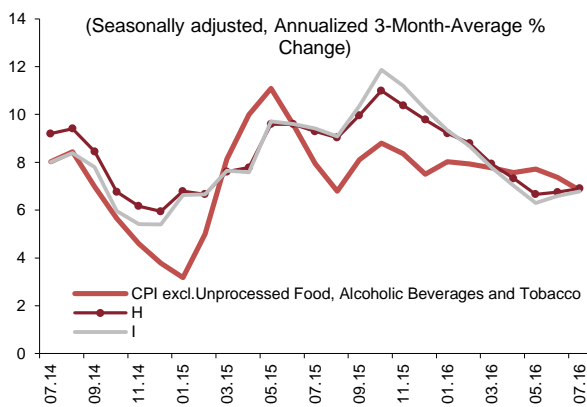
## ... EVALUATIONS ...

In July, consumer prices rose by 1.16 percent, and annual consumer inflation climbed by 1.15 points to 8.79 percent. The annual rate of change in the H and I indices remained unchanged month-on-month at 8.56 and 8.67 percent, respectively.

Contributions of sub-groups to annual CPI inflation reveal a month-on-month increase of 0.71 points from the food group and 0.35 points from the alcohol-tobacco group. The services group contributed 0.12 points more, while core goods added 0.10 points less to annual CPI inflation in July. The contribution of the energy group did not post a noticeable change.



The underlying trend of inflation based on seasonally-adjusted data in 3-month-averages reveals that core inflation indicators remained almost unchanged in July. The underlying trend receded in the core goods group, but increased in the services group.

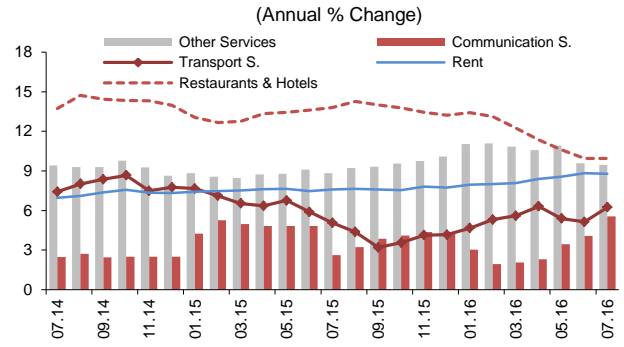
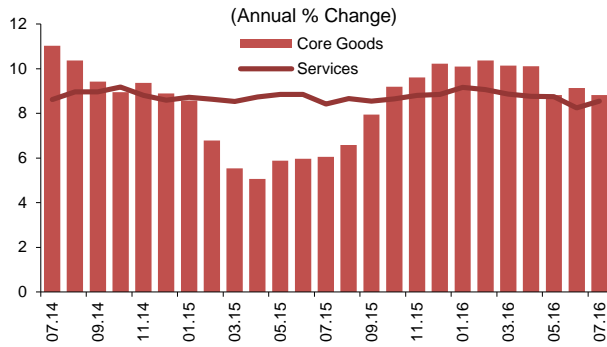


Prices of services increased by 1.07 percent on a monthly basis and the group's annual inflation edged up by 0.30 points to 8.55 percent in July. Annual inflation increased in transport and communication services, and followed an almost flat course in other subgroups. Monthly price changes reveal that internet tariffs were the culprit behind the hikes in the communication group, while intercity bus and plane

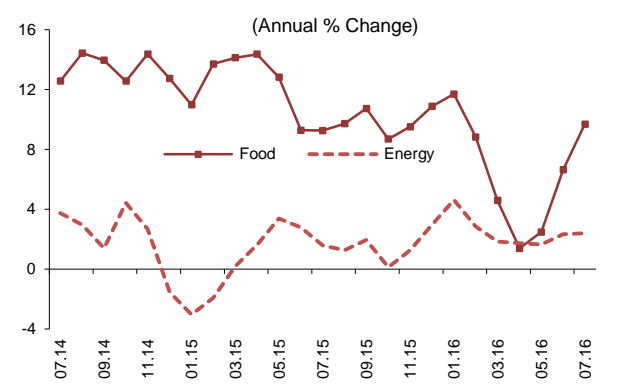
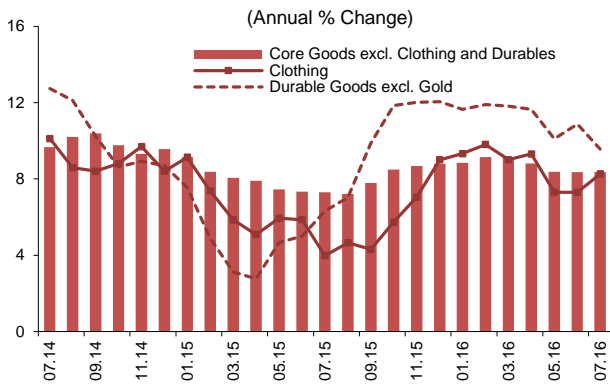
# JULY PRICE DEVELOPMENTS

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fares were the items pushing transport prices upwards. Prices in the other services group rose due to package tour prices, while they registered the highest monthly increase of the year in the restaurants-hotels group due to food prices. In July, rents saw a slight deceleration in the monthly price increases.



Annual core goods inflation edged down by 0.31 points to 8.82 percent in July. Durable goods emerged as the main driver of the decline in annual inflation in this period. On the other hand, annual inflation increased in the clothing group, but remained flat in goods excluding clothing and durables. The relatively stable course of exchange rates – up to the second half of July led to a favorable outlook in durable goods excluding furniture. Prices fell in white goods, stayed flat in automobiles and remained mild in electrical/non-electrical appliances in July. Clothing prices decreased slightly below seasonal averages. Meanwhile, core goods excluding clothing and durables witnessed robust monthly price increases due to the continued rise in medicine prices.



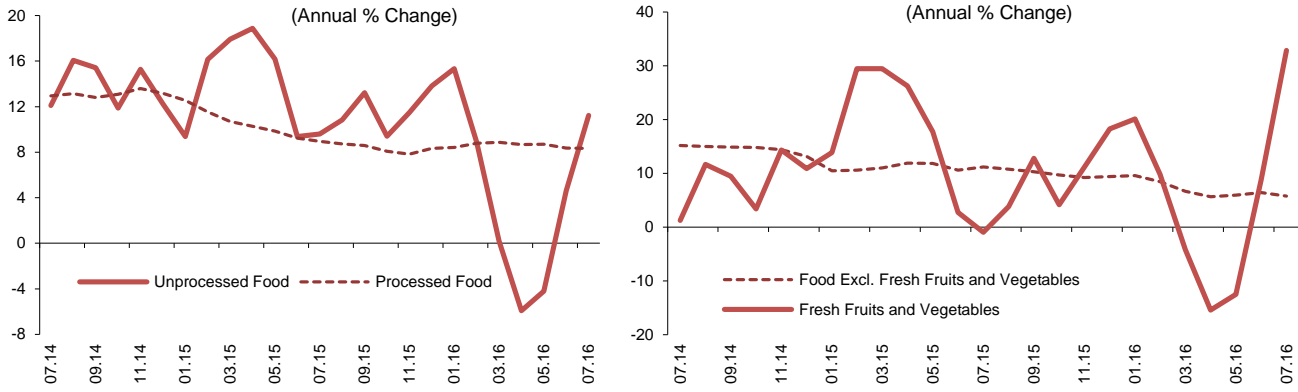
Energy prices dropped by 0.40 percent in July. The main driver of inflation in this month was fuel prices, which fell by 1.52 percent in tandem with the decline in international oil prices. Thus, annual energy inflation stayed low with 2.40 percent.

Annual inflation in food and non-alcoholic beverages rose by 3.05 points to 9.69 percent. This rise is attributed to the fresh fruits and vegetables group, the annual inflation of which surged to 32.83 percent. When this group is excluded, annual food inflation indicates a decline. Annual inflation in the unprocessed food group reached 11.24 percent, and annual price hikes stood out in vegetables (26.22 percent) and fruits (42.21 percent) in this group. Red meat prices saw an upsurge as in June with a 1.81 percent month-on month increase, yet the group's annual inflation dropped further. On the other hand, processed food prices registered an increase by 0.71 percent, and the group's annual inflation remained flat with 8.33 percent.

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Prices in the alcoholic beverages and tobacco group saw an uptick by 7.05 percent due to the hikes in cigarette prices. Accordingly, annual inflation in tobacco prices hit 19.59 percent, the highest level of the last five years. As the price increase was made in the middle of the month, its upside impact on inflation is expected to continue with a diminishing pace in August.



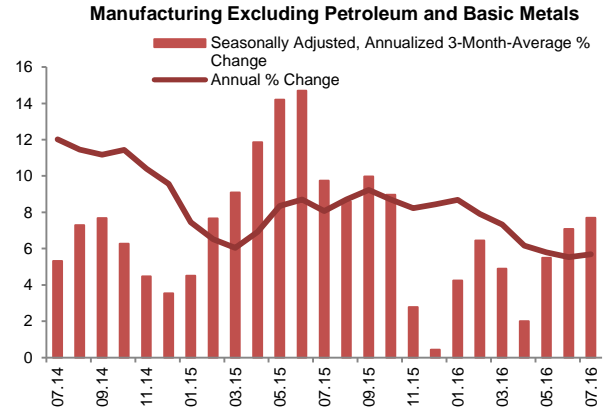
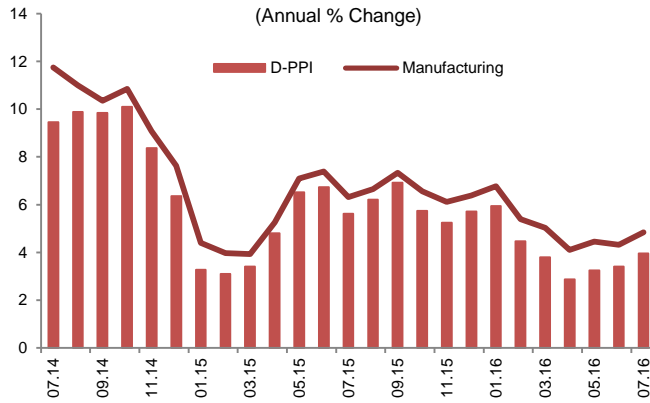
|   | Monthly Percent Change |              | Annual Percent Change |             |
|---|------------------------|--------------|-----------------------|-------------|
|   | Jul.2016               | Jul.2015     | Jul.2016              | Jul.2015    |
| <b>CPI</b>  | <b>1.16</b>            | <b>0.09</b>  | <b>8.79</b>           | <b>6.81</b> |
| <b>1. Goods</b>   | <b>1.21</b>            | <b>-0.21</b> | <b>8.89</b>           | <b>6.14</b> |
| Energy  | -0.40                  | -0.47        | 2.40                  | 1.58        |
| Food and nonalcoholic beverages                                 | 3.15                   | 0.28         | 9.69                  | 9.25        |
| Unprocessed food  | 6.06                   | -0.26        | 11.24                 | 9.59        |
| Fresh fruits and vegetables                                     | 14.96                  | -5.85        | 32.83                 | -0.99       |
| Other unprocessed food  | 0.86                   | 2.50         | 1.38                  | 15.04       |
| Processed food  | 0.71                   | 0.75         | 8.33                  | 8.96        |
| Bread and cereals   | 0.50                   | 0.32         | 10.04                 | 6.31        |
| Other processed food  | 0.82                   | 0.99         | 7.40                  | 10.54       |
| Goods excluding energy and food                                 | 0.49                   | -0.47        | 10.92                 | 5.65        |
| Core goods  | -0.94                  | -0.65        | 8.82                  | 6.05        |
| Durable goods   | 0.46                   | 0.98         | 10.58                 | 6.48        |
| Durable goods (excluding gold)                                  | 0.09                   | 1.29         | 9.56                  | 6.31        |
| Alcoholic beverages and tobacco                                 | 7.05                   | 1.16         | 19.36                 | 3.28        |
| Gold  | 6.38                   | -4.39        | 28.30                 | 9.61        |
| <b>2. Services</b>  | <b>1.07</b>            | <b>0.80</b>  | <b>8.55</b>           | <b>8.42</b> |
| Rents   | 0.73                   | 0.78         | 8.78                  | 7.58        |
| Restaurants and hotels  | 1.22                   | 1.21         | 9.96                  | 13.80       |
| Transport   | 1.44                   | 0.38         | 6.24                  | 5.07        |
| Communication   | 1.51                   | 0.08         | 5.56                  | 2.62        |
| Other*  | 0.85                   | 0.95         | 9.47                  | 8.84        |
| <b>3. Core Measures</b>   |                        |              |                       |             |
| CPI excluding unprocessed food, alcoholic beverages and tobacco | 0.18                   | 0.08         | 7.80                  | 6.66        |
| H   | 0.22                   | 0.22         | 8.56                  | 7.60        |
| I   | 0.13                   | 0.11         | 8.70                  | 7.31        |

Source: TurkStat, CBRT.

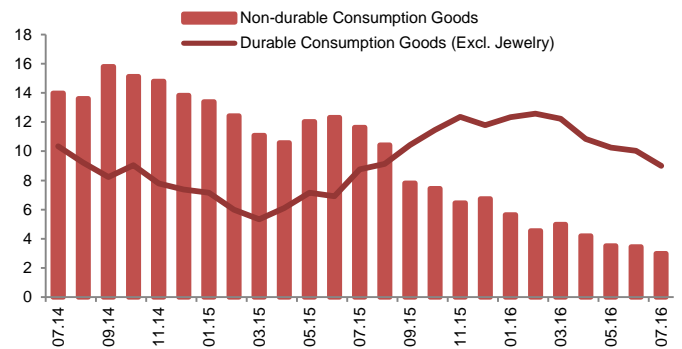
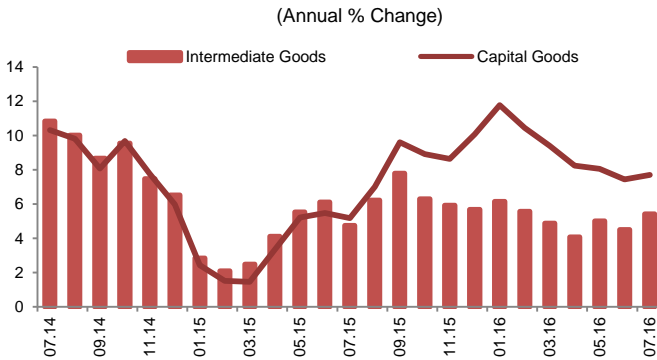
\*Other: The services index excluding rents, restaurants/hotels, transport and communication services.

## ...D-PPI ...

Domestic producer prices rose by 0.21 percent month-on-month, and the group's annual inflation increased by 0.55 points to 3.96 percent in July. The fall in international commodity prices curbed the adverse effect of exchange rate developments in the second half of the month. Annual inflation climbed to 4.84 percent in the manufacturing industry and to 5.70 percent in the manufacturing industry excluding petroleum and basic metals.



According to the Main Industrial Groupings (MIGs), all groups excluding durable goods exhibited a mild outlook in July. Prices in durable consumption goods rose due to gold prices, while the increase of 0.54 percent in prices of durable consumption goods excluding jewelry is attributed to the furniture group. Prices of capital goods were pushed up by the special-purpose machinery group. In July, intermediate goods and non-durable consumption goods did not record any noticeable change in prices. As a result, producer-driven cost pressures on consumer prices remained relatively subdued in July.



## ...TABLES

| July CPI and Subcategories (Percent Change) |        |         |        |         |        |
|---|--------|---------|--------|---------|--------|
|   | Weight | 2016    |        | 2015    |        |
|   |        | Monthly | Annual | Monthly | Annual |
| CPI   | 100    | 1.16    | 8.79   | 0.09    | 6.81   |
| Food and nonalcoholic beverages             | 23.68  | 3.15    | 9.69   | 0.28    | 9.25   |
| Alcoholic beverages and tobacco             | 4.98   | 7.05    | 19.36  | 1.16    | 3.28   |
| Clothing and footwear                       | 7.43   | -4.14   | 8.26   | -4.97   | 4.06   |
| Housing                                     | 15.93  | 0.34    | 6.69   | 0.33    | 8.15   |
| Household equipment                         | 8.02   | 0.17    | 8.21   | 1.60    | 8.69   |
| Health                                      | 2.66   | 1.02    | 10.58  | 0.32    | 6.49   |
| Transport                                   | 14.31  | 0.11    | 6.13   | 0.41    | 0.92   |
| Communication                               | 4.42   | 1.38    | 4.49   | -0.01   | 1.19   |
| Recreation and culture                      | 3.81   | 1.08    | 7.31   | -0.18   | 7.72   |
| Education                                   | 2.56   | 0.57    | 7.89   | 0.51    | 6.15   |
| Restaurants and hotels                      | 7.47   | 1.22    | 9.96   | 1.21    | 13.80  |
| Miscellaneous goods and services            | 4.73   | 1.31    | 12.68  | 0.10    | 9.31   |

Source: TurkStat.

| July D-PPI and Subcategories (Percent Change)           |        |         |        |         |        |
|---|--------|---------|--------|---------|--------|
|   | Weight | 2016    |        | 2015    |        |
|   |        | Monthly | Annual | Monthly | Annual |
| D-PPI   | 100.00 | 0.21    | 3.96   | -0.32   | 5.62   |
| Mining  | 3.50   | 1.18    | 2.96   | -1.38   | -1.31  |
| Manufacturing   | 87.28  | 0.16    | 4.84   | -0.33   | 6.32   |
| Manufacturing excl. petroleum products                  | 84.65  | 0.25    | 5.49   | -0.09   | 7.46   |
| Manufacturing excl. petroleum products and basic metals | 75.61  | 0.33    | 5.70   | 0.18    | 8.07   |
| Electricity, gas, steam and air-conditioning supply     | 8.13   | 0.49    | -5.92  | 0.26    | 0.31   |
| Water supply  | 1.08   | -0.29   | 8.03   | -0.16   | 22.02  |
| D-PPI (MIGs Classification)                             |        |         |        |         |        |
| Intermediate Goods                                      |        | 0.18    | 5.43   | -0.69   | 4.76   |
| Durable Consumption Goods                               |        | 1.24    | 12.31  | 0.39    | 9.01   |
| Durable Consumption Goods (Excl. Jewelry)               |        | 0.54    | 9.01   | 1.49    | 8.77   |
| Non-Durable Consumption Goods                           |        | -0.01   | 2.99   | 0.44    | 11.63  |
| Capital Goods   |        | 0.59    | 7.69   | 0.35    | 5.18   |
| Energy  |        | -0.11   | -5.23  | -1.53   | -4.37  |

Source: TurkStat.

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