

FEBRUARY PRICE DEVELOPMENTS



The Central Bank of the Republic of Turkey

5 March 2007

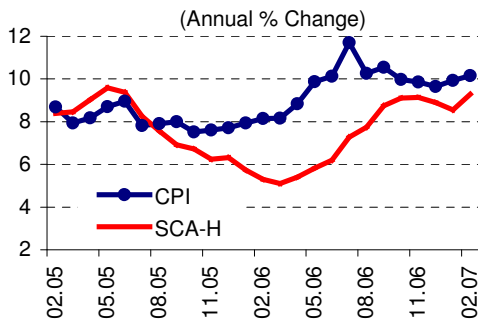
SUMMARY OUTLOOK...

In February, the annual inflation increased due to the rise in prices of tobacco products and the low base effect of February 2006: (i) In February 2006, prices of durable goods displayed a remarkable decline following the long-term cumulative appreciation of Turkish Lira, the lack of which pushed up the annual inflation and the annual increase of Special CPI aggregate in February 2007. (ii) The early winter discount in clothing, with a considerable portion of the discount realized from December to January, caused the discounts in February 2007 to remain short of that of February 2006. These irregularities in seasonal price movements partially determined the incline in annual inflation. (iii) The rise in tobacco prices in the second half of February, driven by tax adjustments, added to the inflation by 0.12 percentage points. These increases will largely be reflected on March figures.

As the above developments were deemed temporary and services prices did not display any negative tendency, February figures made no significant change to the medium-term outlook.

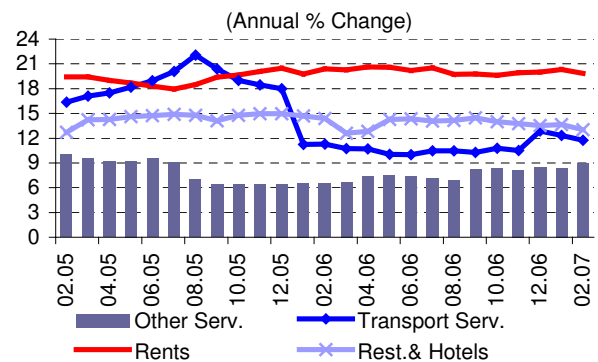
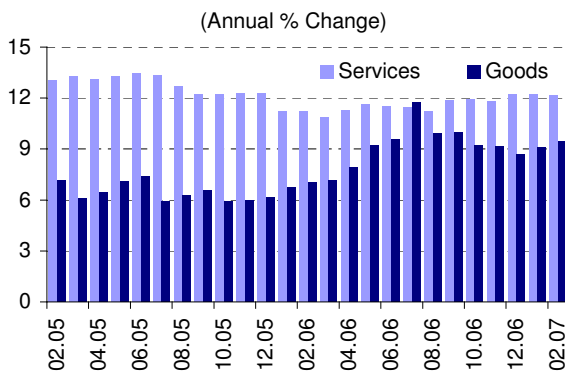
The aggregate effect of the rise in tobacco and communication prices on March inflation is calculated to be 0.6 percentage points. Although the annual inflation is predicted to be subject to a temporary increase in March it will gradually decelerate starting from the second quarter of the year.

...EVALUATIONS...



Annual inflation increased to 10.16% in February. The annual increase of the Special CPI Aggregate excluding energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H), edged up to 9.29%, suspending the recent downward trend. This development was particularly marked with the base effect in clothing and footwear group and the grain-rooted rise in processed food prices.

In February, goods and services prices rose by 0.37% and 0.58%, respectively. The annual inflation in goods increased while the annual services inflation did not display a noticeable change over the previous month.



Although the main items of the services group showed a moderate slowdown in February, the overall services inflation remains high. The monthly inflation in rents, with 1.32%, remained below the figures of the same period last year. February inflation in hotels-restaurants recorded the lowest over the past five years. The annual rate of increase in transportation services prices decelerated due to the lagged effects of oil prices. On the other hand, price developments of recreation and culture, insurance and housing services kept annual inflation at high levels.

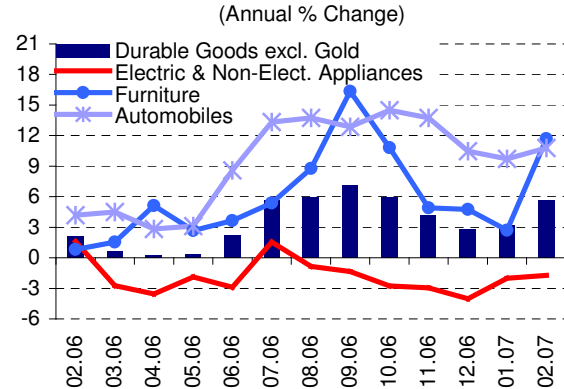
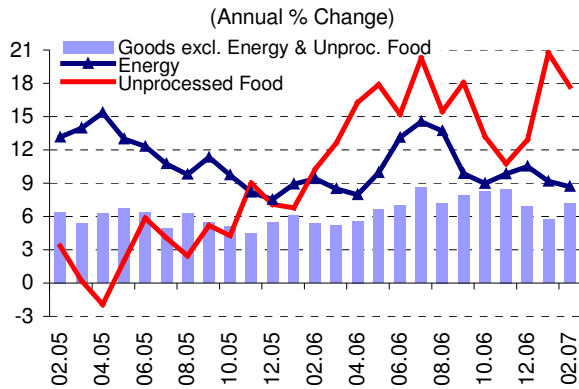
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In February, the annual rates of increase in energy and unprocessed food prices declined to 8.70% and 17.72%, respectively. Compared to January, the annual inflation in goods excluding energy and unprocessed food increased significantly to 7.15%, driven by increasing annual inflation in tobacco, processed food, gold, durable goods, clothing and footwear groups.



Prices of durable goods excluding gold rose by 0.44% in February - which can be attributed to the rise in automobile prices - while other durable goods prices revealed no significant change. However, the disappearance of the favorable base effect produced by the remarkable slowdown of February 2006 in furniture group led to a substantial incline in the annual inflation of durable goods excluding gold, which partly explains the rise in annual inflation measured by SCA-H index.

	Monthly Percentage Change		Annual Percentage Change	
	February 2007	February 2006	February 2007	February 2006
CPI	0.43	0.22	10.16	8.15
1. Goods	0.37	0.06	9.42	7.03
Energy	0.22	0.67	8.70	9.39
Unprocessed Food	2.11	4.73	17.72	10.25
Goods excl. Energy and Unproc. Food	-0.14	-1.46	7.15	5.38
Durable Goods	0.70	-1.44	8.52	6.71
Durable Goods excl. Gold	0.44	-2.00	5.70	2.10
Semi-Durable Goods	-1.65	-1.94	6.71	4.75
Non-Durable Goods	1.64	1.84	11.40	8.78
2. Services	0.58	0.64	12.13	11.23
Rents	1.32	1.74	19.84	20.38
Restaurants and Hotels	0.62	1.18	13.02	14.37
Transport Services	-0.16	0.37	11.74	11.27
Other Services	0.49	0.03	8.91	6.52

Source: TÜRKSTAT, CBRT

The correction in unprocessed food prices, as mentioned in the summary of the previous Monetary Policy Committee meeting, was partially accomplished in February. The annual rate of increase in this group showed an apparent decline of about 3 percentage points, yet remained still very high at 17.72%. Food and non-alcoholic beverages including unprocessed food became the group with largest annual inflation, 13.70%, within the CPI. In sum, the developments seen in the first two months of the year indicate that unprocessed food prices continue to pose a risk to consumer inflation.

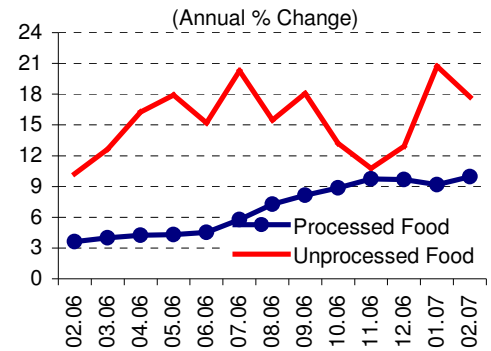
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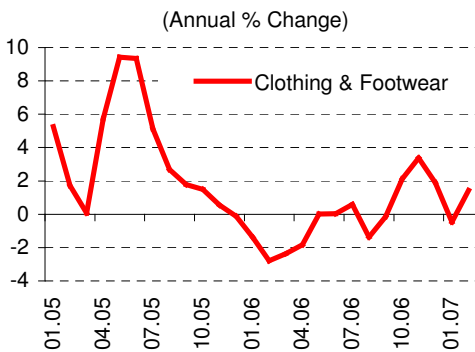
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On the other hand, albeit the downward tendency of December and January, processed food prices were set to an upswing of 1.11% in February, which might be affected by the increases in the bread and grain group prices stemming from the developments in grain production we discussed in our previous reports. Adverse weather conditions may continue to affect agricultural production over the upcoming period. This will particularly constitute a risk to unprocessed food prices but may also threaten processed food prices depending on grain production.



The fixed Special Consumption Tax (SCT) increase in tobacco products, in the second half of February, produced a hike in cigarette prices, which is assumed to have an annual effect of 0.5 percentage points on CPI, with its 0.36 percentage points to appear in March.



Occasional irregularities in seasonal movements of clothing prices lead to fluctuations in the annual rate of increase in this group. The fact that clothing and footwear prices declined by 6.47% at a relatively moderate rate compared to the same period of the previous year and the annual inflation increased to 1.43% might be reckoned as a negative development. But considering the winter discounts of December 2006 and beyond, it is quite discernible that the cumulative discount rate of the last three months is well above the figures of the previous year.

Household equipment prices increased by 0.75% in February, mainly driven by the movements in major electric and nonelectric household appliances and cleaning products.

Transportation group price index rose by 0.67% in February in response to the 1.55% rise in automobile prices. The fact that automobile prices increased by 3.21% over the last two months attracts particular attention. Fuel oil prices continued to edge up while transportation services prices declined at a subdued level.

In the communication group, mobile phone call costs continued to rise while mobile phone prices dropped. Communication group prices are expected to increase rapidly in March in response to the new call rates.

In the recreation and culture group, the annual inflation in package holidays still remains at high levels.

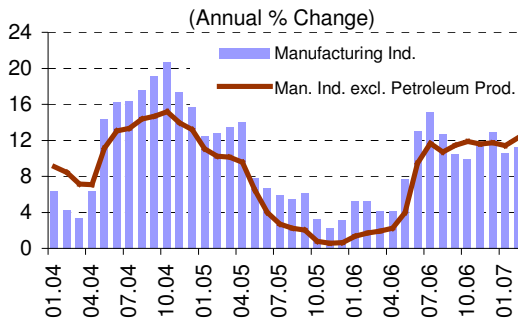
PPI rose by 0.95% in February, where the agricultural and industrial sectors contributed 0.36 and 0.59 of percentage points, respectively. Agricultural prices in PPI rose by 1.98% on a monthly basis while the rate of increase of grain prices, in particular, remained at elevated levels.

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During this period, manufacturing industry prices increased by 0.66%, compared to January, in response to the upswings in prices of food, textile and clothing sectors. Prices of coke and refined petroleum products displayed no significant change over the previous month whereas prices of manufacturing industry excluding petroleum products rose by 0.72%.

When PPI is analyzed according to the MIGS classification, it is observed that in February non-durable consumer goods prices rose at a higher rate than the previous months.

PPI Developments According to MIGS Classification

	Monthly Percentage Change												
	Feb.06	Mar.06	Apr.06	May.06	Jun.06	Jul.06	Aug.06	Sep.06	Oct.06	Nov.06	Dec.06	Jan.07	Feb.07
Intermediate Goods Prices	0.31	0.74	2.20	4.43	6.84	1.55	-0.46	0.62	0.37	-0.34	-0.57	-0.08	0.12
Capital Goods Prices	-0.09	0.23	0.24	2.19	4.66	-0.15	-0.17	0.28	0.91	0.40	0.53	1.11	0.34
Durable Goods Prices	-2.94	-0.13	1.00	0.73	8.46	4.16	1.97	-0.50	1.85	0.94	-0.43	1.43	0.02
Non-Durable Goods Prices	0.05	0.16	0.30	-0.04	0.37	0.13	0.24	2.35	0.96	-0.26	0.13	0.03	1.82
Energy Prices	1.32	0.32	6.87	6.70	9.65	4.11	-4.28	-8.60	-2.32	-1.80	1.53	-3.82	0.64

Source: TÜRKSTAT, CBRT

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...UPCOMING DEVELOPMENTS...

- The SCT increase in tobacco products in February will affect consumer prices in March.
- Communication group prices are expected to increase in March in response to the increasing call rates.
- Recent fuel oil price increases will affect transportation prices in March.

...TABLES

February CPI and Sub-Items (% Change)					
	Weight	2007		2006	
		Monthly	Annual	Monthly	Annual
CPI	100	0.43	10.16	0.22	8.15
Food and Non-Alcoholic Beverages	28.47	1.60	13.70	2.41	6.66
Alcoholic Beverages and Tobacco	5.06	2.51	2.90	0.01	31.26
Clothing and Footwear	7.86	-6.47	1.43	-8.22	-2.78
Housing	16.62	0.49	13.12	1.22	11.29
Household Equipment	7.22	0.75	9.60	-1.60	2.58
Health	2.66	0.45	7.72	0.67	0.75
Transport	11.60	0.67	9.02	0.15	9.20
Communication	4.41	-0.09	1.30	-0.32	3.33
Recreation and Culture	3.16	-0.76	10.03	-1.65	2.45
Education	2.15	0.08	7.80	-0.02	7.97
Restaurants and Hotels	6.40	0.62	13.02	1.18	14.37
Miscellaneous Goods and Services	4.39	1.20	11.10	1.16	14.33

Source: TÜRKSTAT

February PPI and Sub-Items (% Change)					
	Weight	2007		2006	
		Monthly	Annual	Monthly	Annual
PPI	100	0.95	10.13	0.26	5.26
Agriculture	18.17	1.98	3.84	0.57	4.70
Industry	81.83	0.71	11.68	0.19	5.44
Mining	1.49	-1.86	9.97	4.17	17.42
Manufacturing	74.49	0.66	11.22	0.10	5.23
Energy	5.85	2.06	18.32	0.27	3.92

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 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.