

DECEMBER PRICE DEVELOPMENTS



Central Bank of the Republic of Turkey

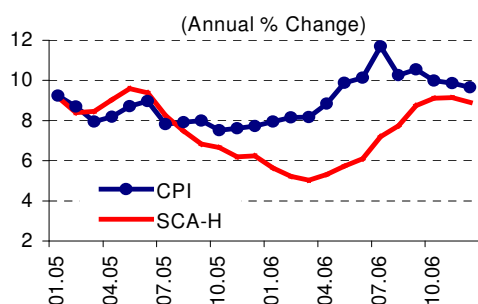
5 January 2007

SUMMARY OUTLOOK...

In December 2006, consumer prices increased by 0.23 percent and ended the year with a 9.65 percent increase. While the decline above seasonal trends in clothing and footwear group was a determining factor for the December consumer inflation, the developments in unprocessed food prices limited the positive effect of the clothing and footwear group. Moreover, upsurges in transport services prices and rents are factors having a negative effect on inflation.

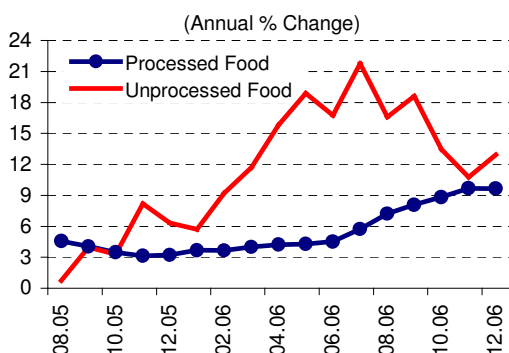
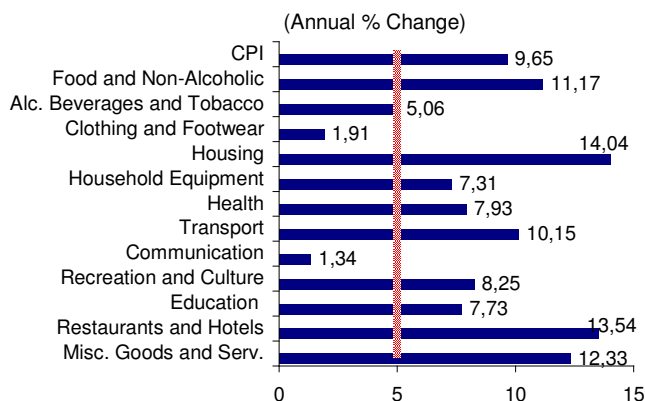
In 2006, the main groups that are influential on the increase in consumer inflation are energy and unprocessed food. The annual inflation in energy reached 10.52 percent. As for annual inflation of unprocessed food products, with the 12.94 percent rate it was remarkably high compared to previous years. With the completion, to a large extent, of the primary effects of exchange rates, the monthly rate of increase in the Special CPI aggregate excluding energy, unprocessed food, alcoholic beverages and tobacco products and gold (SCA-H) significantly weakened and the annual rate of increase in this aggregate decreased compared to previous month with the decline in clothing and footwear prices and realized as 8.89 percent.

...EVALUATIONS...



In December the annual consumer inflation continued its trend to decelerate. The annual increase of the Special CPI aggregate excluding energy, unprocessed food, alcoholic beverages and tobacco products and gold (SCA-H), which is produced to measure the general trend of inflation, declined following its horizontal course in November.

As for the main expenditure groups, while annual inflation of the clothing and footwear group along with the communication group was below the 2006 inflation target, in other expenditure groups annual inflations were above the target. The housing group on which the rent inflation is influential to a great extent and the restaurant-hotel group totally comprised of the services sector were the main expenditure groups with the highest level of annual inflation.



Prices of the food and non-alcoholic beverages group rose by 0.60 percent in December. Annual inflation of unprocessed food products that has showed tendency to decelerate recently increased in December. This rise is attributable to the high-rated increases in vegetable prices, as opposed to fruit prices that showed a decline above the seasonal trend. The volatile course of unprocessed food prices, accompanied with sharp movements on monthly basis, increases the uncertainty of the course of short-term inflation.

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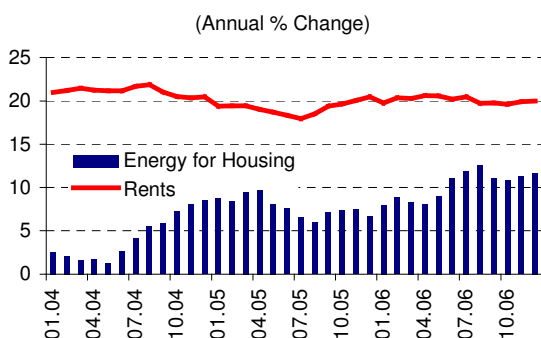
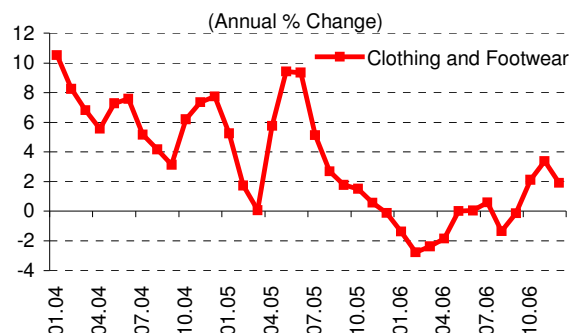


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The processed food price increases that accelerated significantly since July last pace in December, showing a decline in annual inflation of this group, albeit slightly.

Prices of the clothing and footwear group, which showed high rates of increase in October and November compared to previous years due to the lagged effects of exchange rates, displayed a decline of 2 percent in December, which is above the seasonal trend. Hence, with an annual inflation of 1.91-percent, this group became the second main expenditure group that recorded the lowest rate of increase in consumer prices.



In December, high rises in prices of the rent and solid fuel sub-items continued and the housing group prices increased by 0.71 percent. The rents also maintained its high course of 2004 and 2005 in 2006, and registered an increase of 20 percent that is notably above overall inflation in consumer prices.

While, transport group prices increased by 0.36 percent in December the annual increase in this group became 10.15 percent. When the sub-items are analyzed, it is observed that the marked decline in automobile prices (-3.49 percent) alleviated the effect of the high-rated increase in prices of transport services (2.28 percent). It is worth noting that the annual inflation rate in transport services became 12.89 percent on an annual basis.

In December, the highest monthly price increase among all main expenditures group was recorded in the recreation and culture group, whose prices increased by 1.20 percent. Package holiday prices, which rose by 6.92 percent, became the main determinant of this development. The increase in package holiday prices was, in turn, triggered by the increase (by 10.72 percent) in prices of abroad package holidays (for one-week and longer holidays), for which the demand was high due to the religious holiday and New Year. It is striking that, due to this development, the annual price increase in the package holiday item reached 40 percent. Meanwhile, the decline in the prices of technology-intensive durable goods within this expenditure group continued in December due to favorable exchange rate developments.

The restaurants and hotels group prices increased by 13.54 percent in 2006 and became the main expenditure group recording the second highest increase. Although annual inflation in this group displayed a limited decrease in the last quarter of 2006 thanks to the developments in catering and accommodation prices, the level is still high due especially to accommodation services.

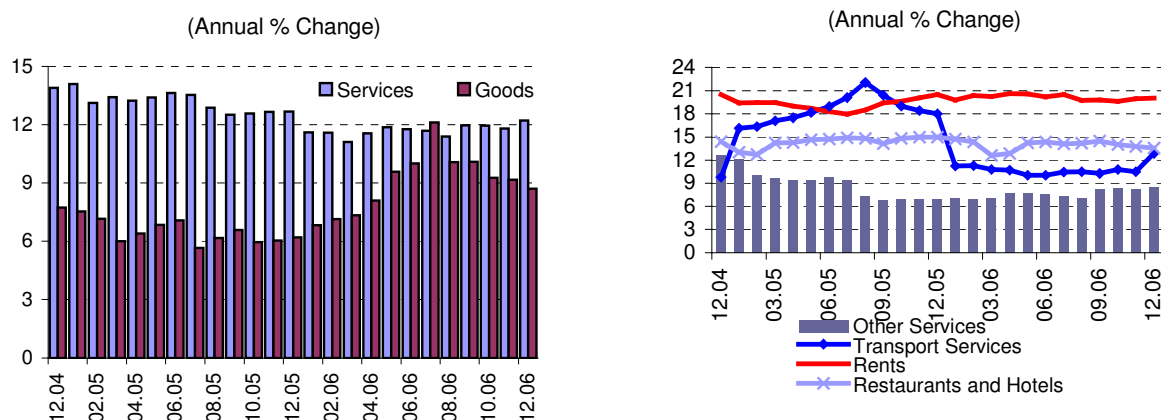
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While prices of goods increased by 8.69 percent, prices of services increased by 12.21 percent in 2006. The rapid rise in rents and restaurants and hotels group prices continued throughout the year and transport services prices displayed a high rate of increase, especially in December. Other determinants of the high annual inflation in services groups have been health and education services prices and package holiday prices.



	Monthly Percentage Change		Annual Percentage Change	
	December 2006	December 2005	December 2006	December 2005
CPI	0.23	0.42	9.65	7.72
1. Goods	0.01	0.45	8.69	6.21
Energy	0.69	0.07	10.52	7.65
Unprocessed Food	0.72	-1.20	12.94	6.34
Goods excl. Energy and Unprocessed Food	-0.41	1.05	6.93	5.71
Durable Goods	-1.36	1.36	6.61	6.91
Durable Goods excl. Gold	-1.36	-0.01	2.78	5.94
Semi-Durable Goods	-0.18	-0.10	7.81	4.85
Non-Durable Goods	0.47	0.66	9.82	7.07
2. Services	0.80	0.43	12.21	12.68
Rents	1.11	1.04	20.01	20.48
Restaurants and Hotels	0.31	0.51	13.54	14.98
Transport Services	2.28	0.11	12.89	17.97
Other Services	0.51	0.22	8.45	6.92

Source: TÜRKSTAT, CBRT

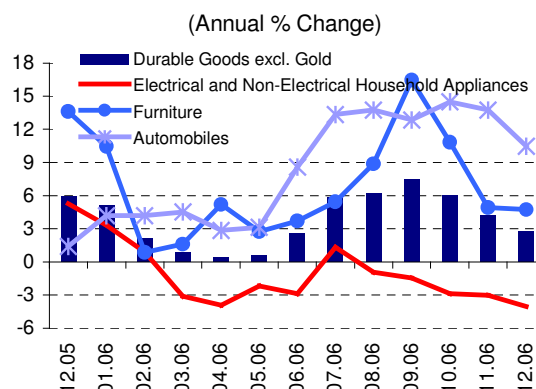
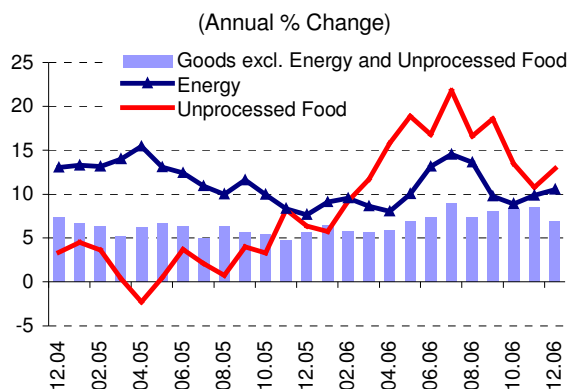
Annual inflation in energy prices, which accelerated with the effect of the rapid increase in the solid fuel prices in the second half of the year, became 10.52 percent. Annual inflation in the unprocessed food sub-item, which is one of the groups that played an important role in the increase in consumer inflation in 2006, became 12.94 in annual terms, which is considerably high compared to previous years. The prices of goods excluding energy and unprocessed food decreased in December and thus, annual inflation in the said group decreased by 1.5 percentage points compared to November and became 6.93 percent. The decline in question can be attributed mainly to the price decreases in clothing and footwear and durable goods as well as to the elimination of the base effect created by the rise in tobacco products prices last year.

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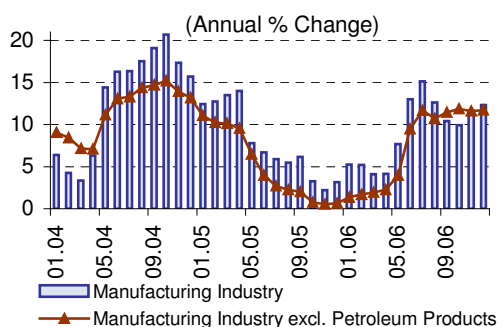
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The decline in annual inflation of durable goods continued in December as well, thanks to the appreciation trend of the New Turkish Lira and demand conditions, and the annual inflation in durable goods (excluding gold) became 2.8 percent.

In December, the PPI decreased by 0.12 percent. The agricultural sector had a decreasing effect of 0.20 percentage point, while the industrial sector had an increasing effect of 0.08 percentage point. The agricultural sector continued its positive impact on producer inflation in December and the slowdown in agricultural prices became more apparent in the last quarter of the year.



In December, in spite of the increases in prices of food and petroleum products, manufacturing industry prices displayed a limited increase of 0.06 percent compared to November due to the fact that prices decreased in most of the sectors compared to the previous month. On the other hand, excluding petroleum products, which entered an upward trend in June 2006, manufacturing industry prices decreased by 0.18 percent and 0.17 percent in November and December, respectively. This points to the favorable course of items in the manufacturing industry excluding petroleum products.

When the PPI is analyzed according to the MIGS classification, in December it is observed that prices of intermediate goods and durable goods decreased, while prices of capital and non-durable goods increased. Prices of intermediate goods that gained momentum due to fluctuations decreased in the last two months with the stable course of exchange rates. Besides, energy prices that had displayed a downward trend since August increased in December as a result of the rises observed in prices of petroleum products and natural gas.

PPI Developments According to MIGS Classification

	Monthly Percentage Change											
	Jan.06	Feb.06	Mar.06	Apr.06	May.06	Jun.06	Jul.06	Aug.06	Sep.06	Oct.06	Nov.06	Dec.06
Intermediate Goods Prices	0.11	0.31	0.74	2.20	4.43	6.84	1.55	-0.46	0.62	0.37	-0.34	-0.57
Capital Goods Prices	0.60	-0.09	0.23	0.24	2.19	4.66	-0.15	-0.17	0.28	0.91	0.40	0.53
Durable Goods Prices	1.90	-2.94	-0.13	1.00	0.73	8.46	4.16	1.97	-0.50	1.85	0.94	-0.43
Non-Durable Goods Prices	0.71	0.05	0.16	0.30	-0.04	0.37	0.13	0.24	2.35	0.96	-0.26	0.13
Energy Prices	8.36	1.32	0.32	6.87	6.70	9.65	4.11	-4.28	-8.60	-2.32	-1.80	1.53

Source: TÜRKSTAT,CBRT

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...UPCOMING DEVELOPMENTS...

- Seasonal price increases in unprocessed food products will be observed in upcoming period.
- Prices of the communication group are expected to increase in the first quarter of the year due to the telephone call costs.
- In January the sales season starts in the clothing and footwear sectors.
- Energy prices in the PPI will drop as the wholesale electricity sales tariff that is implemented by TETAŞ (Turkish Electricity Trading and Contracting Co. Inc.) will be reduced as of January.

...TABLES

December CPI and Sub-Items (% Change)					
	Weight	2006		2005	
		Monthly	Annual	Monthly	Annual
CPI	100	0.23	9.65	0.42	7.72
Food and Non-Alcoholic Beverages	27.68	0.60	11.17	-0.27	4.92
Alcoholic Beverages and Tobacco	5.62	0.01	5.06	4.92	27.87
Clothing and Footwear	8.28	-2.00	1.91	-0.59	-0.13
Housing	16.29	0.71	14.04	0.44	9.87
Household Equipment	6.89	0.14	7.31	1.05	6.26
Health	2.54	0.02	7.93	0.09	-0.40
Transport	10.48	0.36	10.15	-0.18	11.01
Communication	4.55	-0.14	1.34	-0.24	1.71
Recreation and Culture	3.63	1.20	8.25	0.48	6.63
Education	2.41	0.03	7.73	0.00	7.22
Restaurants and Hotels	6.74	0.31	13.54	0.51	14.98
Miscellaneous Goods and Services	4.89	-0.12	12.33	2.40	8.52

Source: TÜRKSTAT

December PPI and Sub-Items (% Change)					
	Weight	2006		2005	
		Monthly	Annual	Monthly	Annual
PPI	100	-0.12	11.58	-0.04	2.66
Agriculture	19.78	-1.07	2.53	1.72	3.03
Industry	80.22	0.10	13.81	-0.53	2.57
Mining	1.47	0.30	13.57	-0.82	9.63
Manufacturing	73.98	0.06	12.33	-0.58	3.15
Energy	4.77	0.44	36.90	0.44	-8.38

Source: TÜRKSTAT

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.