

VAKIFBANK GLOBAL ECONOMY WEEKLY

IMF has cut World 's GDP growth estimates....



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World Economic Outlook...

GROWTH

- Despite the negative surprises, the global economy has continued to grow
- Growth will slow “temporarily”

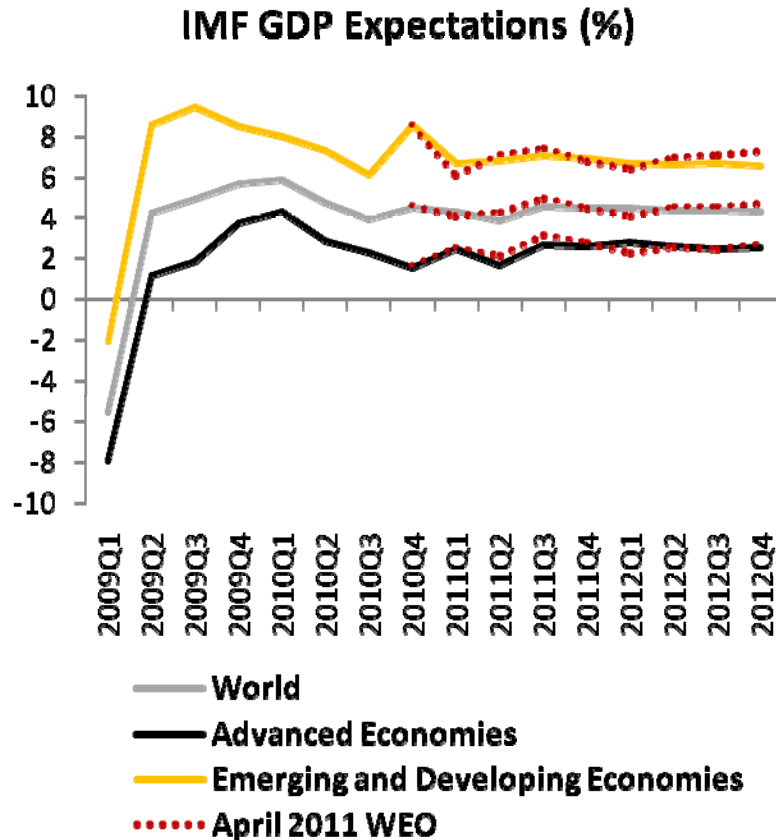
INFLATION

- Inflation has risen.
- Commodity prices have stabilized

FINANCIAL RISKS

- Financial volatility has increased
- Regarding commodities, risks are smaller than projected in April but still point down for growth.
- Fiscal challenges continue to pose various risks for the recovery.

IMF revised its expectations about GDP, inflation, unemployment and commodity prices...



Source: IMF

- IMF increased its global growth expectation to 4.3% for 2011.
- IMF stated that different growth dynamics between the EMs and advanced economies will continue.
- Japanese economy is projected to be narrowed in 2011 by 0.7% because of the negative effects of the earthquake and tsunami on the industrial production and supply chain.
- US growth expectation was decreased to 2.5% and 2.7% for 2011 and 2012 by IMF due to the high commodity prices, bad weather condition and supply chain disruptions.
- Moreover, FED also decreased its growth expectations to 2.7-2.9% because of the similar reasons.

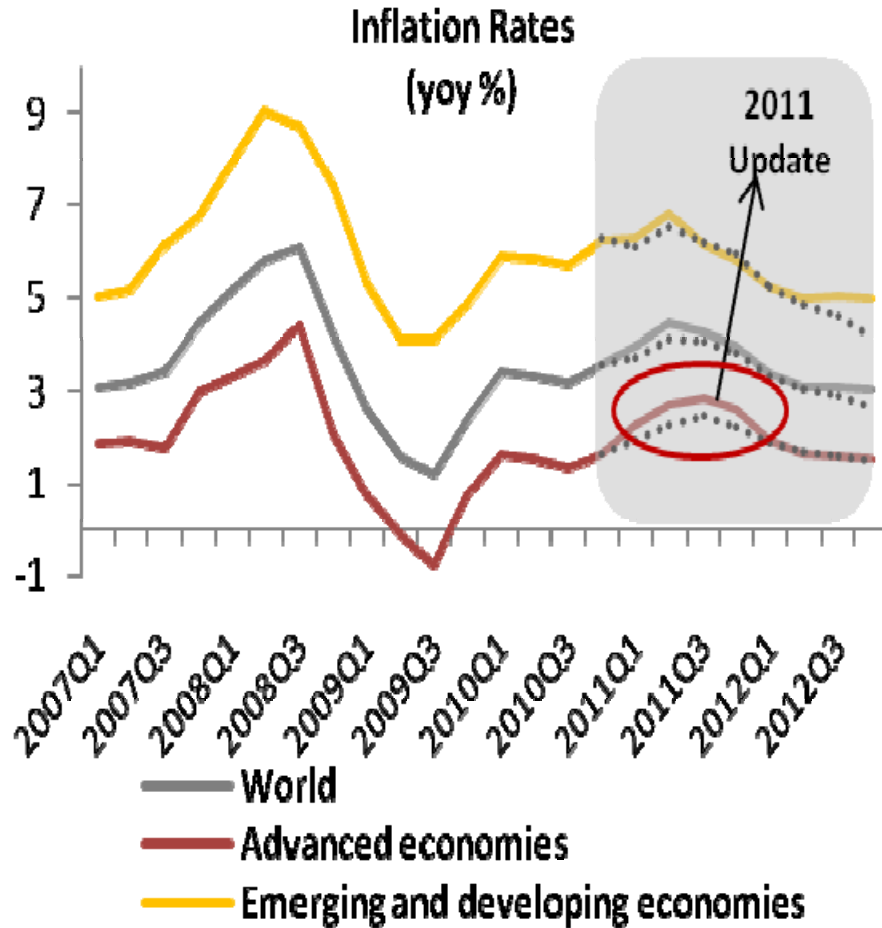
While the growth expectations for EMs were increased, they were decreased for advanced economies...

- ✔ While IMF decreased the growth expectations for advanced economies having financial problems, for Euro Zone growth expectation was increased to 2% owing to Germany and France.
- ✔ IMF stated that advanced economies including Euro Zone must address the financial sector vulnerabilities.
- ✔ Moreover, IMF stated that the slowdown in the economies will be temporary and will reaccelerate in the second half of 2011. Hence IMF projected that Japanese economy will expand by 2.9% in 2012 after the sharp slowdown in 2011.

IMF GDP Expectations (%)				
	June 2011		April 2011	
	2011	2012	2011	2012
World	4.3	4.5	4.4	4.5
Advanced Economies	2.2	2.6	2.4	2.6
Emerging and Developing Economies	6.6	6.4	6.5	6.6
USA	2.5	2.7	2.8	2.9
Japan	-0.7	2.9	1.4	2.1
Euro Zone	2.0	1.7	1.6	1.8
Brazil	4.1	3.6	4.5	4.1

Source: IMF

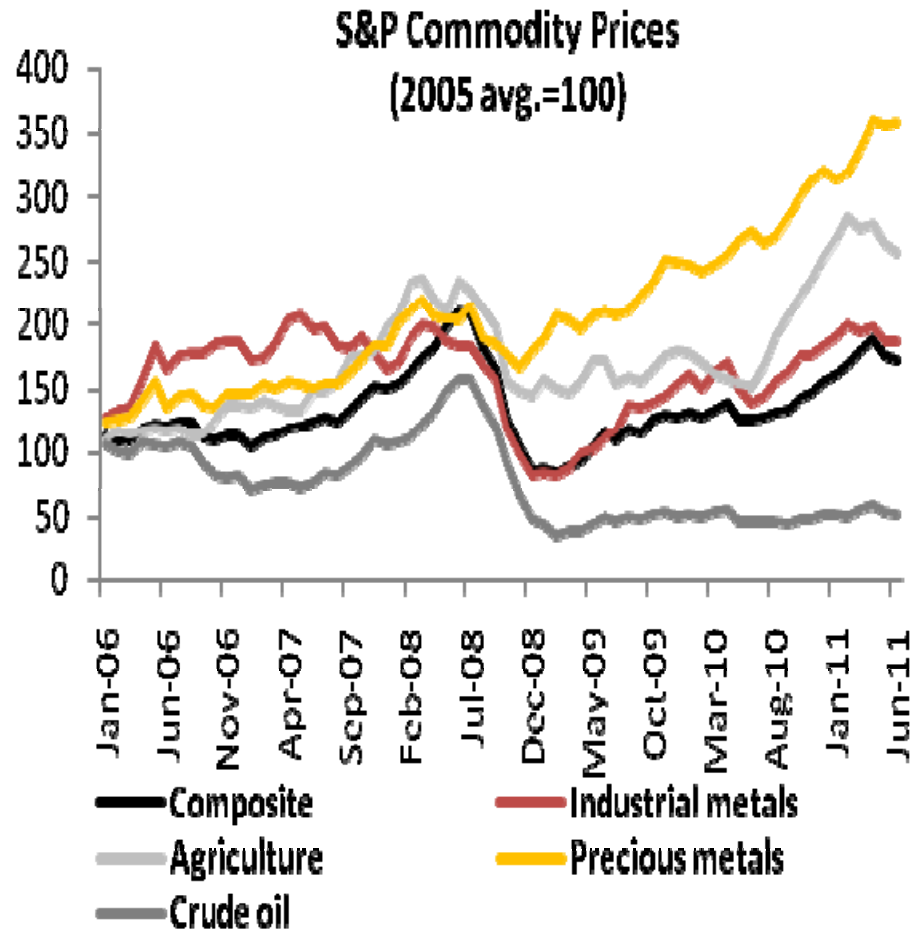
IMF revised inflation expectations...



Source: IMF

- Hard rising in crude oil prices by the effect of last social and economic conflicts in Middle East caused extremely disparity in the world economies.
- Especially increases in oil prices caused inflation pressures both in developed markets (DM) and emerging markets (EM).
- Even if the recovery in world economy in the beginning of 2010 caused increases on inflation expectations, high public deficit issues in Eurozone and moderation on leading indicators of USA led to changes on inflation expectations, again.

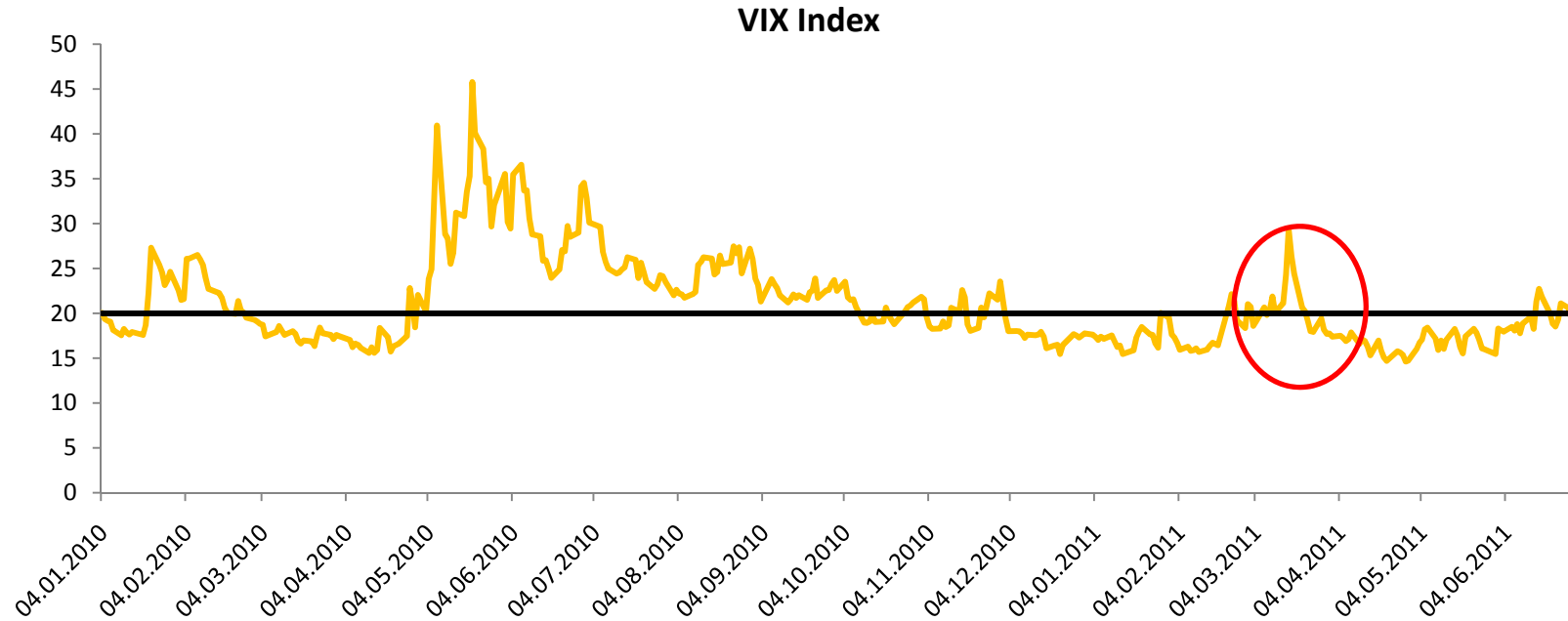
Commodity prices affected the expectations...







Source: Bloomberg

- A bit slowdown in increases of oil prices led to decreases on end of year oil price expectations of IMF. Hence this decreases led to downward revisions on inflation expectations of EM and DM countries.
- Downward revisions on EM countries were more limited than DM countries. Because increasing oil prices and strong domestic demand led to inflation pressures in EM countries.
- Hence IMF revised world inflation expectations to 3.8% from 3.96%, and revised DM expectations to 2.2% from 2.6%. Moreover, IMF revised EM inflation expectations to 5.9% from 5.8% which is the only upward revision in all of the revisions of IMF.

Downside risks have increased again...



Source: Bloomberg

-  Global financial markets have become more volatile after May 2011.
-  The Chicago Board Options Exchange volatility index, rised above several times in Q2 2011 its long-term average at 20.
-  Weak housing market in US and fiscal challenges of the Greece have negative effect on risk perceptions.
-  Signs of overheating in the many emerging economies cause extra downside risk

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