

# VAKIFBANK TURKISH ECONOMY WEEKLY

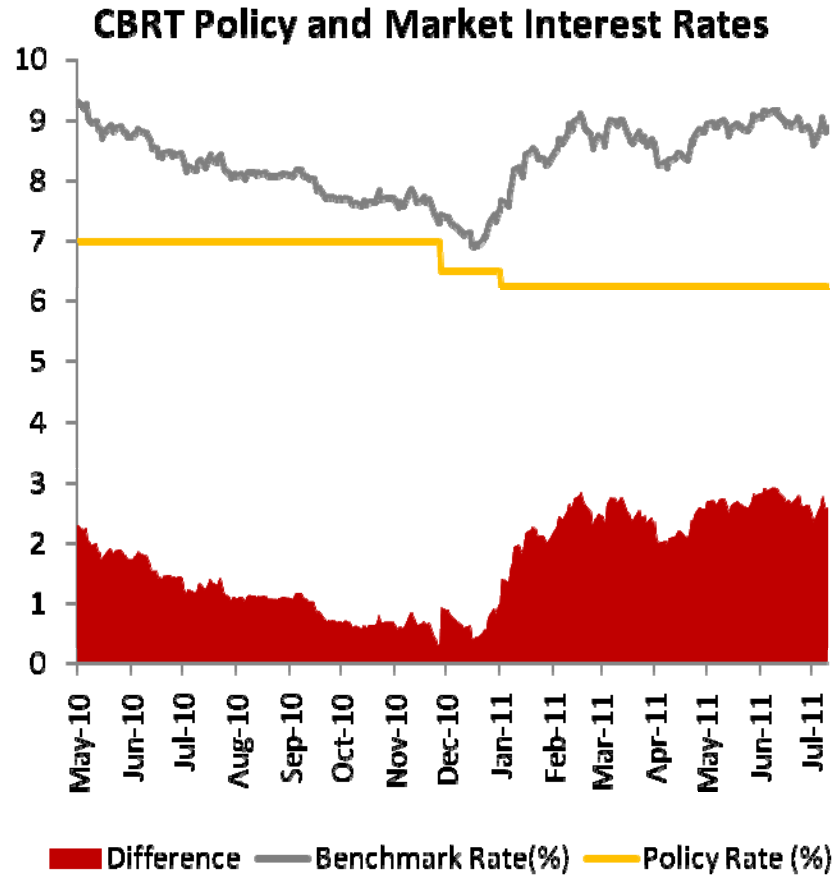
*CBRT left its policy rate  
unchanged...*



T. Vakıflar Bankası T.A.O



## CBRT left its policy rate at 6.25%...



Source: CBRT

CBRT left its policy rate unchanged at 6.25%, in line with expectations.

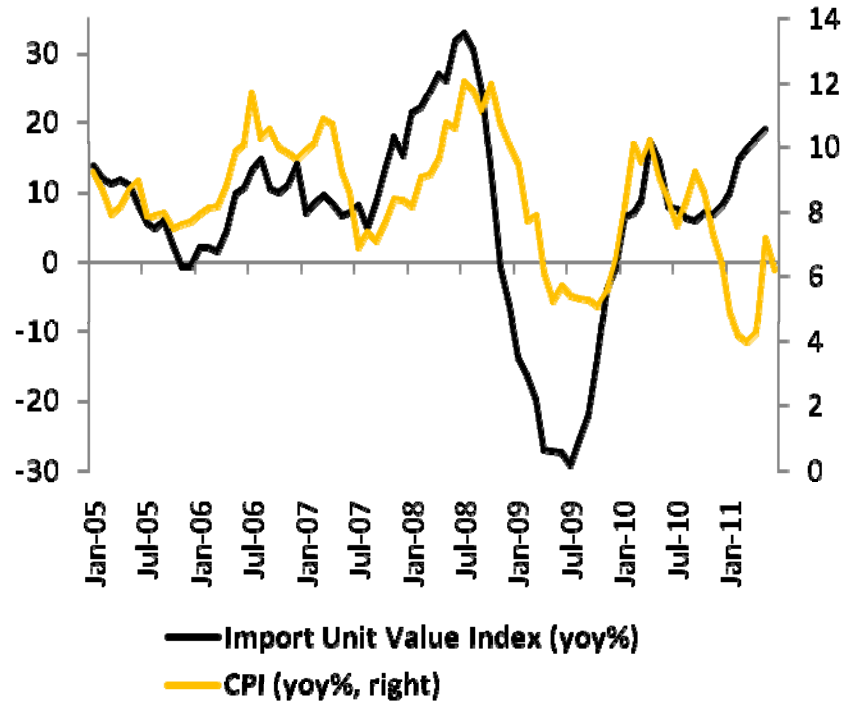
Under the consideration of uncertainties related to the global economy and the moderation in domestic economic activity, the CBRT has maintained the current policy mix.

*After last meeting, changes in the statements of CBRT draw attention.*

The Committee has stated that if global economic problems deepen and these problems lead to a contraction in domestic economic activity, all policy instruments may be eased.

If the concerns on global economic activity and sovereign debt problems related to the European countries continue to affect risk appetite, The Committee may narrow the interest corridor gradually.

## The import unit value index may have a lagged effect on CPI...

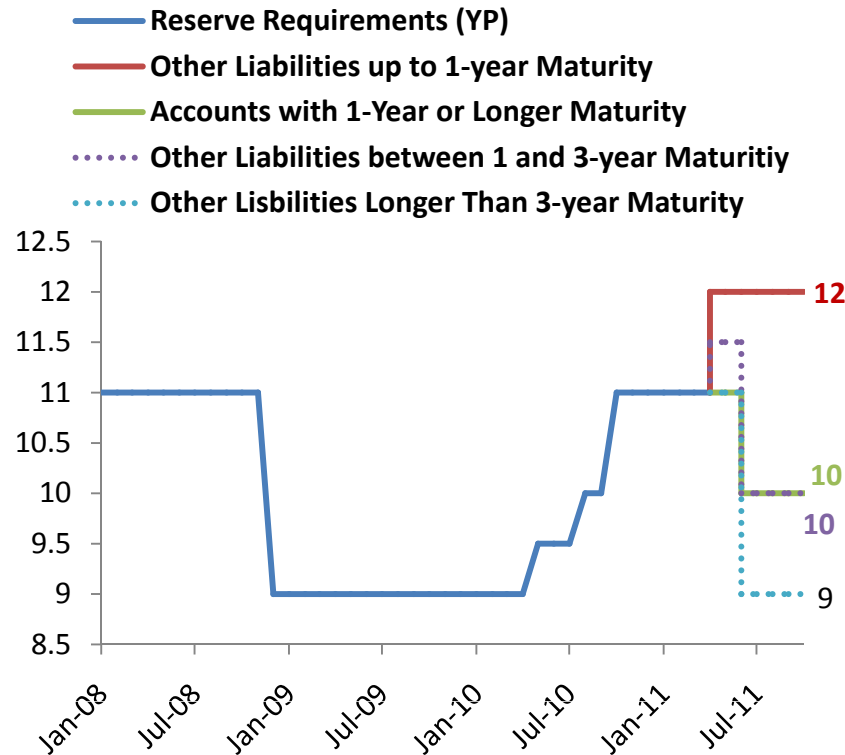


Source: CBRT






- ▣ Although CBRT stated that the core CPI may show an upward trend in the short term, this increase is expected to be limited due to the moderation of economic activities.
- ▣ However, there was not an explanation about headline CPI which is carefully followed before the Ramadan.
- ▣ The lagged effects of increasing USD/TRY on inflation would pose a risk on inflation expectations.
- ▣ As shown in the graph, changes in import prices reflect CPI after 3-4 months.


- ▣ However, the increases in import unit value index after November 2010 showed a lagged effect on CPI with positive basis affect in first quarter of 2011.
- ▣ Upward movements in import prices, which has been seen since May, constitute a risk on CPI in the coming months.

## CBRT decreased FX required reserve ratios...



Source: CBRT

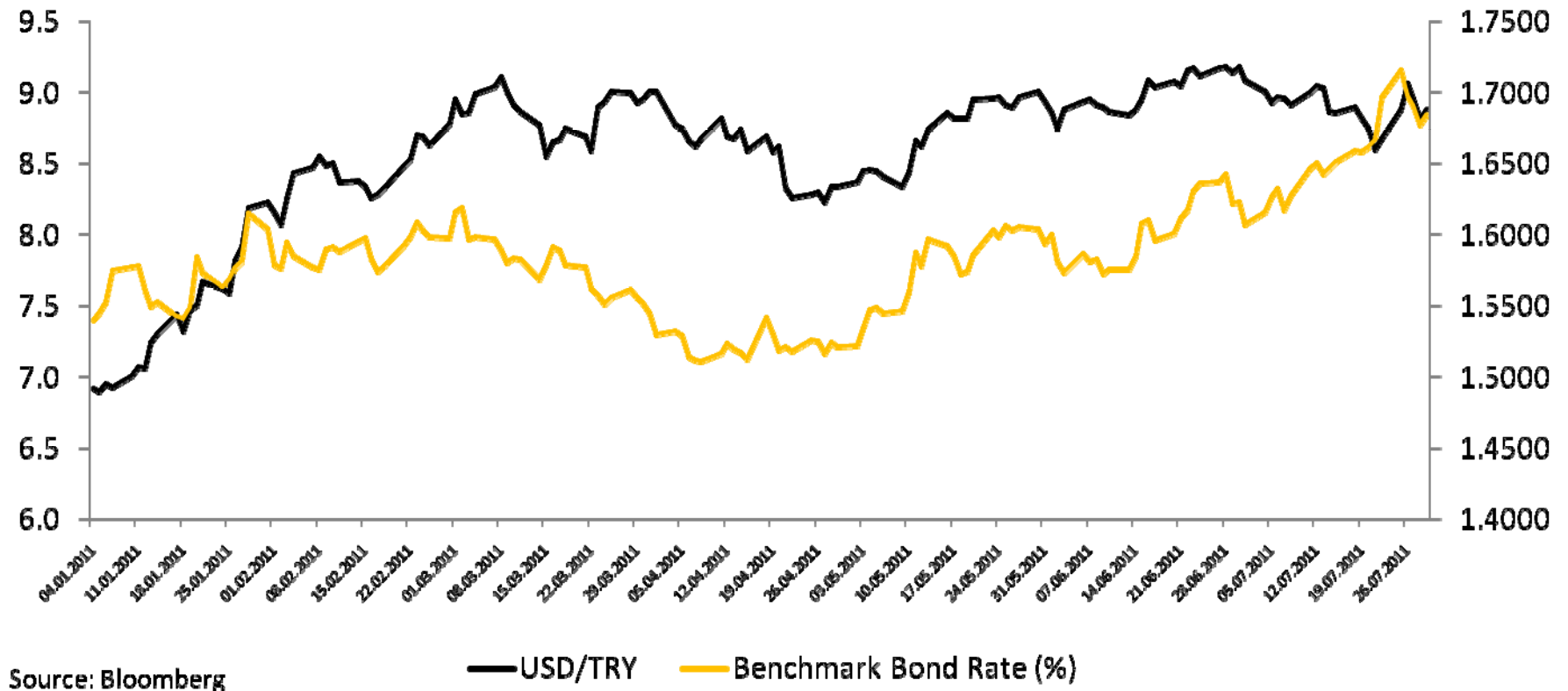
-  CBRT continues its 'wait and see' policy in July after May and June.
-  CBRT stated that the domestic demand is now under control due to the additional measures which are taken by BRSA .
-  The current account balance are expected to start to improve in the final quarter of the year.
-  In addition, CBRT decreased the foreign exchange (FX) required reserve ratios in order to lengten the maturity structure of liabilities in the banking sector.
-  Thus, CBRT aimed to provide \$590 million liquidity to the market with this current decision which will start to be maintained as of 5 August 2011.

-  CBRT, which closely watches the desicion of EU, suspended the foreign exchange buying auctions in the upcoming period which was reduced to \$30 million before.

## CBRT emphasized...



- ✔ If the concerns on global economy cause a slow down in domestic economy, the monetary policy may be eased.
- ✔ The increasing concerns on Italy after Greece and absence of an advance related to debt limit in US are the main risk factors for the global economy.
- ✔ If the concerns on global economic activity and sovereign debt problems related to the European countries continue to affect risk appetite, The Committee may narrow the interest corridor gradually.
- ✔ In this context, decreasing on inflation pressures with the relaxation on oil and food prices by the weak external demand conditions and taken measures by BRSA and CBRT would support the CBRT's current policy mix.

## Relation between USD/TRY and benchmark bond rate...



Source: Bloomberg

— USD/TRY    — Benchmark Bond Rate (%)

-  The ongoing concerns on US and Eurozone lead to upward movements in FX markets. USD/TRY reached to 1.7150 which has been the highest level since September 2009.
-  Following the CBRT meeting benchmark bond rate showed downward movement. Therefore there is a divergence between USD/TRY and benchmark bond rate.

## Analysis: Relation between USD/TRY and benchmark bond rate...

### Pre-crisis Period: (02.01.2003 – 16.09.2008)


- Weak positive correlation
- %1 increase in USD/TRY
- Granger causality: TRY $\leftrightarrow$  BBR\*



### Global Financial Crisis (16.09.2008 – 01.06.2009)

- Correlation coefficient: -0.51
- %1 increase in USD/TRY
- Granger causality: TRY  $\rightarrow$  BBR

### Post Crisis Period: (02.06.2009 – 21.07.2011)

- Weak positive correlation
- %1 increase in USD/TRY
- Granger causality: TRY  $\rightarrow$  BBR

 CBRT's widening monetary policy.

  Rising risk appetite due to debt ceiling problem in US and E  
US debt and EU periphery worries

\*: BBR: Benchmark Bond Rate

Serkan Özcan  
Chief Economist  
+ 90 312 455 7087  
[serkan.ozcan@vakifbank.com.tr](mailto:serkan.ozcan@vakifbank.com.tr)

Cem Erođlu  
Senior Economist  
+ 90 312 455 8480  
[cem.eroglu@vakifbank.com.tr](mailto:cem.eroglu@vakifbank.com.tr)

Ümit Ünsal  
Economist  
+ 90 312 455 8418  
[umit.unsal@vakifbank.com.tr](mailto:umit.unsal@vakifbank.com.tr)

Emine Özgü Özen  
Researcher  
+ 90 312 455 8487  
[emineozgu.ozen@vakifbank.com.tr](mailto:emineozgu.ozen@vakifbank.com.tr)

Naime Dođan  
Researcher  
+ 90 312 455 8486  
[naime.dogan@vakifbank.com.tr](mailto:naime.dogan@vakifbank.com.tr)

T. Vakıflar Bankası T.A.O.  
Atatürk Bulvarı No: 207  
Kavaklıdere 06683 Ankara, Turkey  
[www.vakifbank.com.tr](http://www.vakifbank.com.tr)

Vakıfbank Economic Research  
[ekonomik.arastirmalar@vakifbank.com.tr](mailto:ekonomik.arastirmalar@vakifbank.com.tr)

---

The information in this report has been obtained by Türkiye Vakıflar Bankası T.A.O. from sources believed to be reliable. However, Türkiye Vakıflar Bankası T.A.O. cannot guarantee the accuracy, adequacy, or completeness of such information, and cannot be responsible for the results of investment decisions made on account of this report. This document is not a solicitation to buy or sell any of the securities mentioned. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This report is to be distributed to professional emerging markets investors only.

---