

VAKIFBANK WEEKLY ECONOMIC REPORT

A downward trend in real interest rates continues...

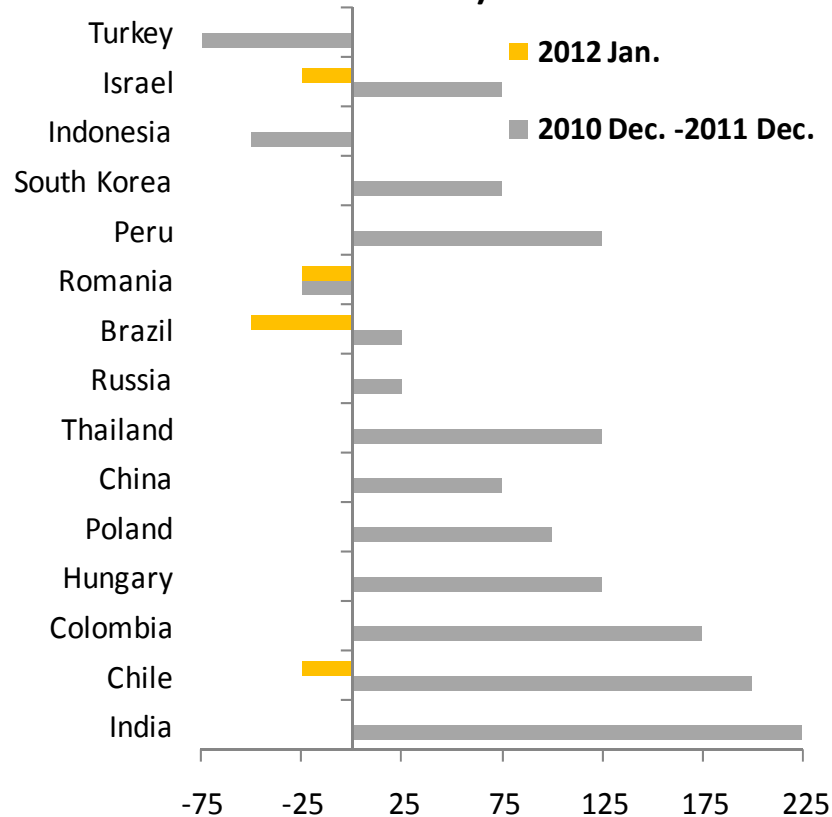


T. Vakıflar Bankası T.A.O



Monetary Policy of EMs has differs from DMs...

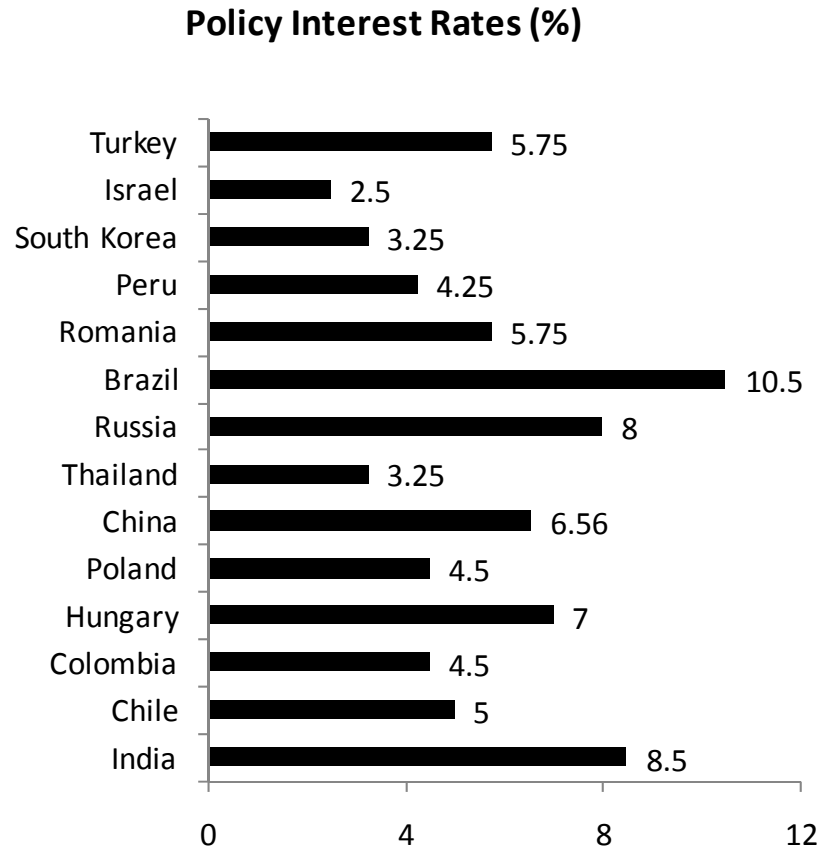
Change in EM's Policy Rate (Base Points)



Source: Reuters

- Emerging Markets (EMs) displayed strong growth performance in 2011 despite moderate growth in Developed Markets (DMs). Inflationary pressures driven by strong domestic demand in EMs has been higher in 2011. Hence, EMs and DMs have differed from each other in terms of monetary policy.
- Although most Central Bank of EMs hiked policy rate in the first half of 2011, the CBRT was only central bank that cut policy rate.
- CBRT has implemented monetary policy that consider financial stability by using unconventional monetary policy tools since the end of 2010.
- Although some EMs' Central Banks continued to implement tight monetary policy in the second half of 2011, in order to limit the risks related to Euro Zone, CBRT and Central Bank of Brazil decreased policy rate in August.
- Since ongoing uncertainties related to Euro Zone have posed risk on other countries, some Central Banks of EMs have changed rate hike decisions.

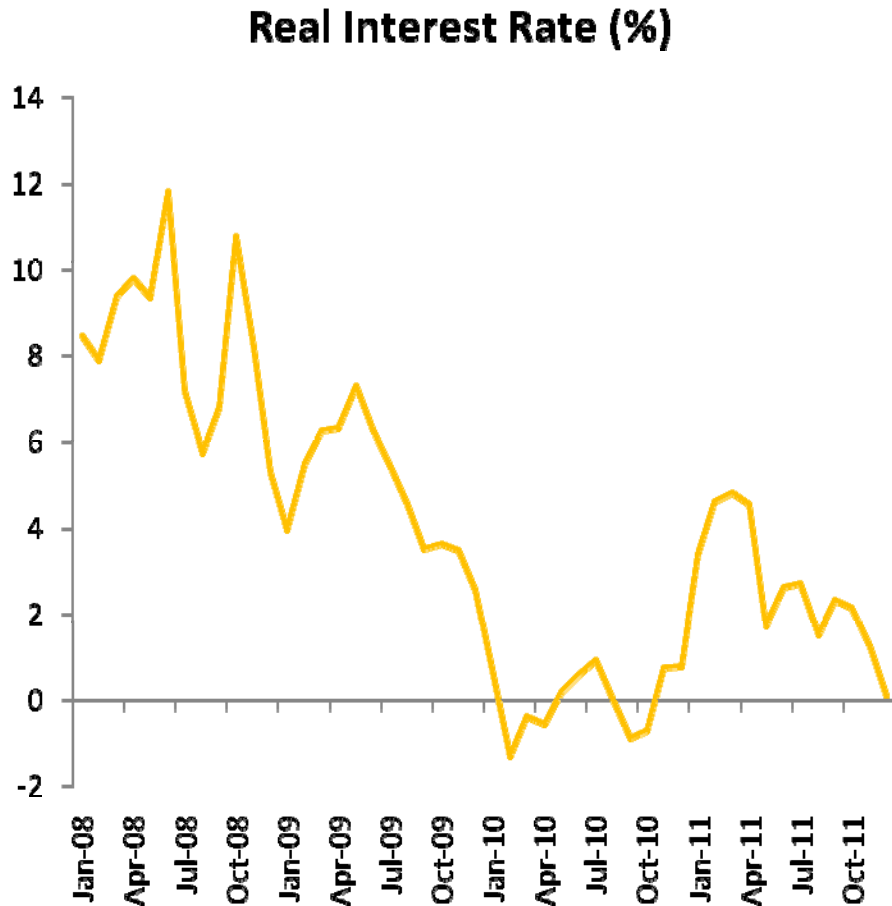
Concerns about Euro Zone lead the EMs Central Banks to ease the monetary policy...



Source: Reuters

- ✚ Brazil, Romania and Chile Central Banks cut the policy rates in the first meetings of 2012 because of the increasing concerns about Euro Zone.
- ✚ Hungary Central Bank (MPC) expected to increase policy rate, did not increase the rates.
- ✚ Following the last week's meeting, CBRT gave signal to tight monetary policy by repeating that inflation remains high in the short term but it had a more cautious attitude about the risks related to global markets.
- ✚ Euro Zone concerns and negative expectations are the main drivers for the monetary policies of Emerging Economies.

Real interest rates are decreasing...



Source: Bloomberg

- Financial stability environment in Turkey since 2003 has provided a significant decrease in interest rates.
- After the global crisis period, relatively strong features of Turkey provided downward trend of interest rates to continue in the globally low interest rates environment.
- Real interest rates have downwardly moved since May 2008 when the real interest rate was 10.27%.
- Since the last quarter of 2010 upwardly movements have been seen in the real interest rates because of the concerns about Euro Area.
- In the last period, increasing inflation causes to decrease in real interest rates despite of the increase in effective interest rates.




Performance of EMs' real interest rates and currencies...

Change in real interest rates and FX for corresponding time period (Point)

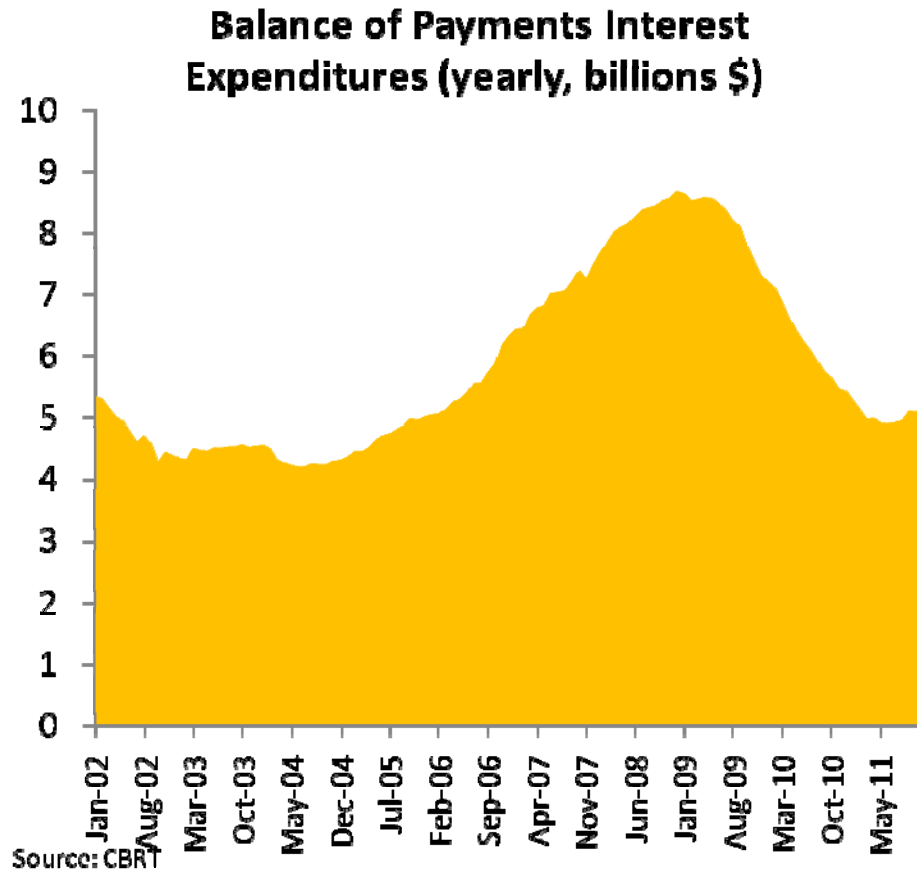
	2008:01 - 2011:12		2008:01 - 2009:06		2009:06 - 2011:12		2010:12 2011:12	
	Real Interest Rate	FX ²	Real Interest Rate	FX ²	Real Interest Rate	FX ²	Real Interest Rate	FX ²
South Africa	0.27	8.85	1.93	3.73	-1.66	5.12	-3.21	21.43
Brazil	-3.94	5.87	-2.70	10.89	-1.24	-5.02	-2.27	11.43
Poland	-1.48	41.18	0.13	30.29	-1.61	10.89	-1.40	19.53
Hungary	3.79	40.54	5.26	12.00	-1.47	28.54	1.81	20.58
Russia	6.89	31.54	5.23	27.32	1.66	4.22	3.16	6.60
The Czech Rep.	2.65	12.33	5.01	5.61	-2.35	6.72	-0.20	5.86
Turkey	-8.38	61.46	-2.18	31.92	-6.20	29.54	-0.68	29.80

Source: Bloomberg, VakifBank

 Nominal Exchange Rates 2007=100

-  In the period between 2008 and 2011, real interest rates has decreased in Brazil, Poland and Turkey. Turkey is the country that real interest rate decreased most among these countries.
-  Moreover in all countries currencies depreciated during this period. Depreciation in TL was higher than other countrys currencies.
-  In the post-crisis era, depreciation in currencies of Hungary and Poland have accelarated.

Interest expenditures have still been near the its low levels...



- Another reflection of downward trend in global interest rates is seen in the financing side of balance of payment in Turkey.
- With the global crisis, low interest rate and high liquidity policies lead to a decrease in interest rates paid for financing of current account deficit.
- Although interest expenditures have recently increased, low level of interest expenditures are expected to continue due to the expectation of continuity of low interest rates and high possibility of new quantitative easing programme.

To conclude...

- ✔ CBRT did not change the policy interest rate at the first meeting of 2012.
- ✔ In January meetings many EMs' central banks such as Brazil, Romania, Chile and Israel cut the interest rates. Concerns about Euro Zone have been effective on the interest rate decisions.
- ✔ Recent upward trend in inflation has caused an downward movement in reel interest rates.
- ✔ In the period between 2008 and 2011, TL was the most depreciated currency among the selected countries' FX. In the same period real interest rate dropped in Turkey more than others.
- ✔ The strong recovery after the global crisis has allowed to continue downward trend in real interest rate in Turkey.

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