

# VAKIFBANK GLOBAL ECONOMY WEEKLY

ECB raised the policy interest rate 25 base point in line with the market expectation...



T. Vakıflar Bankası T.A.O

## ECB hiked the policy interest rate by 0.25 bp to 1.50%...



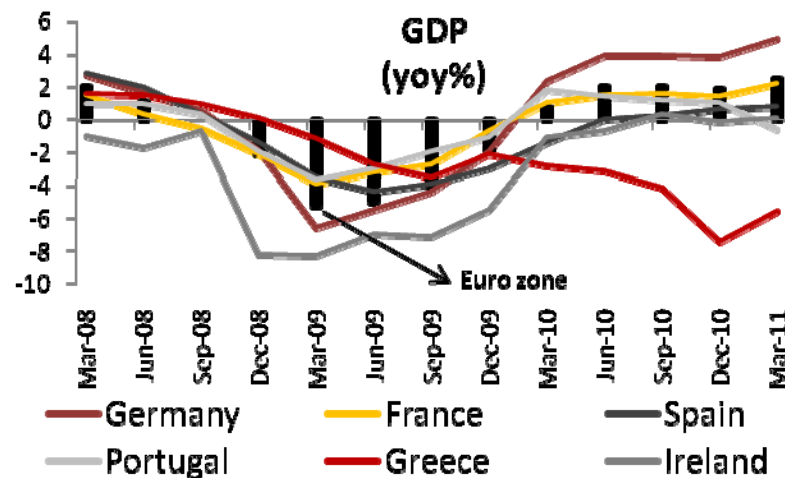
✔ In the press conference, Trichet stated that economic growth will continue despite of slowdown and underlined that “Bank would monitor risks to price stability very closely”.

✔ This statement is the same with the statements of press conference after the April meeting. Hence, Trichet hinted that there might be more policy interest rate hiking.

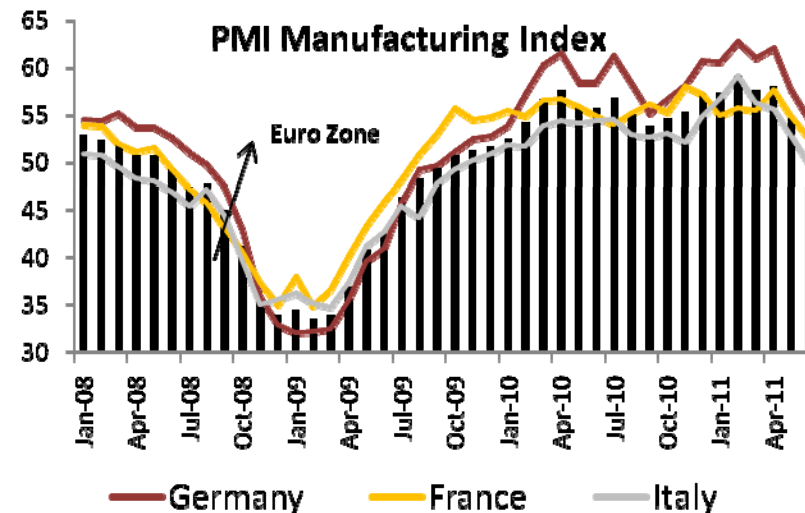
ECB Policy Interest Rate		
Change History	Changing Rate	Policy Interest Rate
July 2011	+0.25	%1.50
April 2011	+0.25	%1.25
May 2009	-0.25	%1.00
April 2009	-0.25	%1.25
March 2009	-0.50	%1.50
January 2009	-0.50	%2.00
December 2008	-0.75	%2.5
November 2008	-0.50	%3.25
October 2008	-0.50	%3.75
Source: Bloomberg		

✔ Moreover, Trichet said that ECB will continue to support Portugal even if the more downgrades will happen. This supported the equity market and EUR/USD upwardly.

## Greece has the weakest GDP performance in the other Euro Zone...



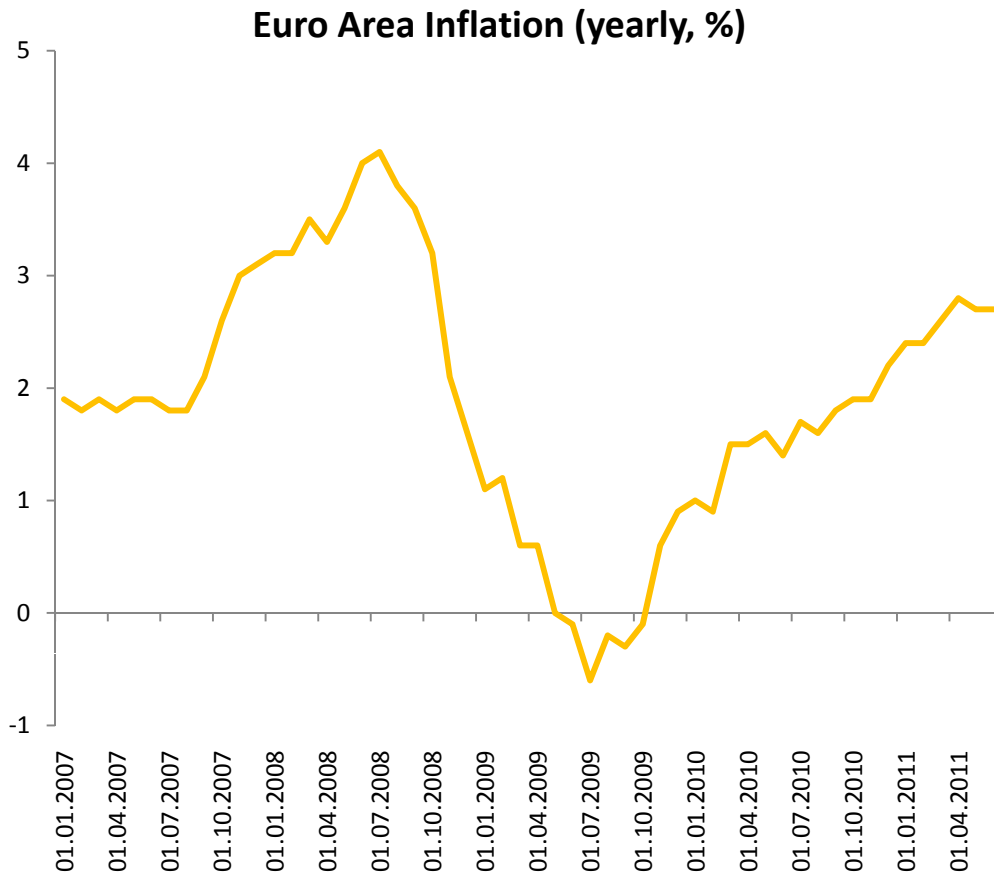
Source: Bloomberg



Source: Bloomberg

- ✔ Debt crisis in Euro Zone led to rigid decreases on some Euro Zone countries' GDP when other sustain their growth performance.
- ✔ There were some political and social unrests in some Euro Zone countries because of the strict austerity policies.
- ✔ Some Euro Zone members were in expectation of the Euro Zone GDP would come closer between themselves. Because they expected that ECB would apply more strict financial stability policies because of these unrests.
- ✔ However, these expectations ended after the 2011 Q1 GDP realizations in Euro Zone countries.
- ✔ While France grew by 1.5% under the Euro zone GDP 2%, Germany grew upper than Euro Zone with the strong performance 2.7%. On the other hand, Greece grew lowest between all of the Euro Zone countries.
- ✔ As shown in graph of PMI, Germany has always a highest PMI level which is upper than Euro zone PMI manufacturing index especially since the out of crisis period. Hence, this can be said that strong growth performance is led by strong manufacturing performance.

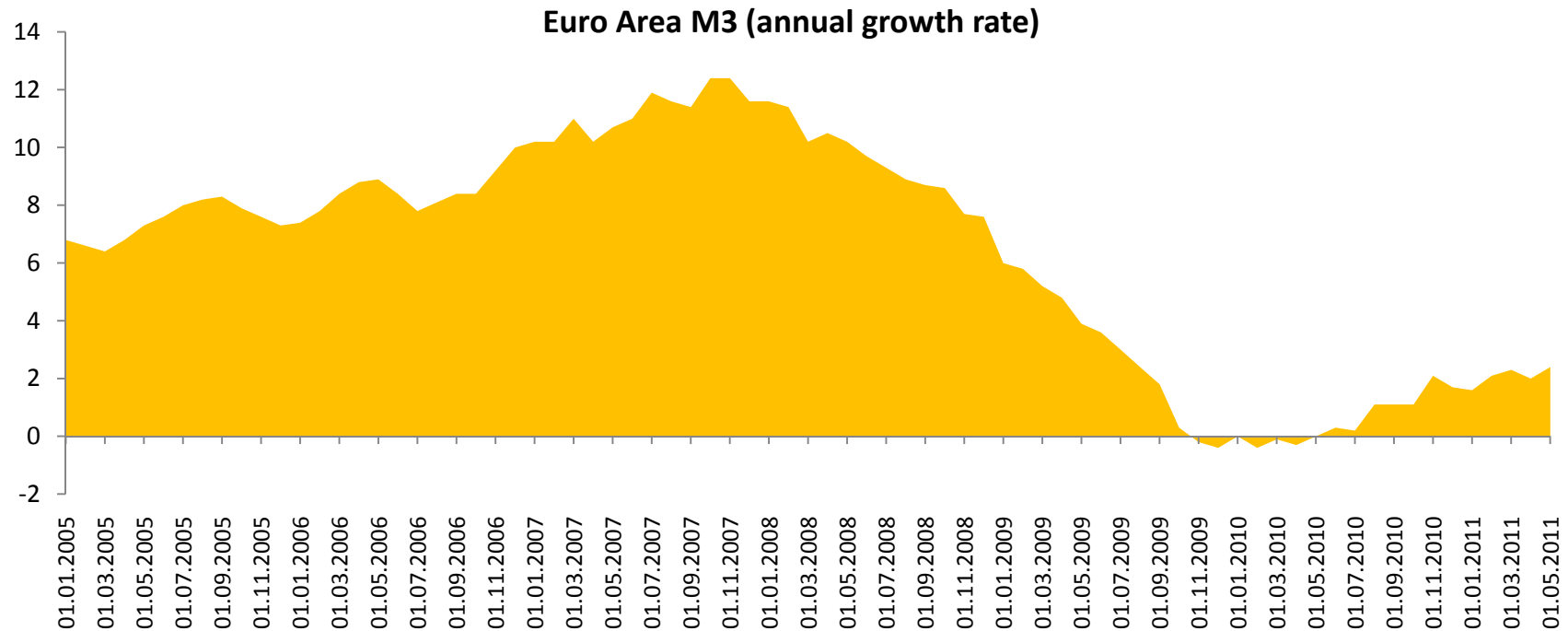
# Inflation expectations have been trending up...





Source: Bloomberg

- ✓ Euro Area annual inflation expectation inflation was 2.7% in June 2011.
- ✓ Higher energy, food and commodity prices caused relatively high inflation over the past months.
- ✓ Medium-term outlook for inflation developments seems to be upside.
- ✓ Increases in energy prices continues to support upward movements in inflation.
- ✓ Trichet states that “there is a risk of increases in indirect taxes and administered prices that may be greater than currently assumed”

## There is higher volatility in broad money growth ...



Source: Bloomberg

-  The annual growth rate of M3 increased to 2.4% in May 2011, from 2.0% in April.
-  Because of the recent macroeconomic and social problems in periphery countries in Euro Area lead to higher volatility in broad money growth.

## To sum up...

✔ ECB increased the key policy rates by 25 basis points, after raising rates by 25 basis points in April 2011 from historically low levels.

✔ **Main points:**

- Recent economic data indicate some deceleration in the pace of economic growth in the second quarter of 2011.
- While the underlying momentum of economic growth in the euro area continues to be positive, uncertainty remains elevated.
- We will continue to monitor very closely all developments with respect to upside risks to price stability.

✔ There are still doubts on regional growth because of the periphery countries' economics problems. On the other hand, the strong economies at the region such as Germany and France have a relatively higher growth rate which can be seen as balance factor.

✔ The explanation emphasizing inflation supports the expectations towards the tight monetary policy implementation by ECB.

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)

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

Fatma Özlem Kanbur  
Researcher  
+ 90 312 455 8482  
[fatmaozlem.kanbur@vakifbank.com.tr](mailto:fatmaozlem.kanbur@vakifbank.com.tr)

T. Vakıflar Bankası T.A.O  
Ataturk Bulvari 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.

---