

# VAKIFBANK GLOBAL ECONOMY WEEKLY

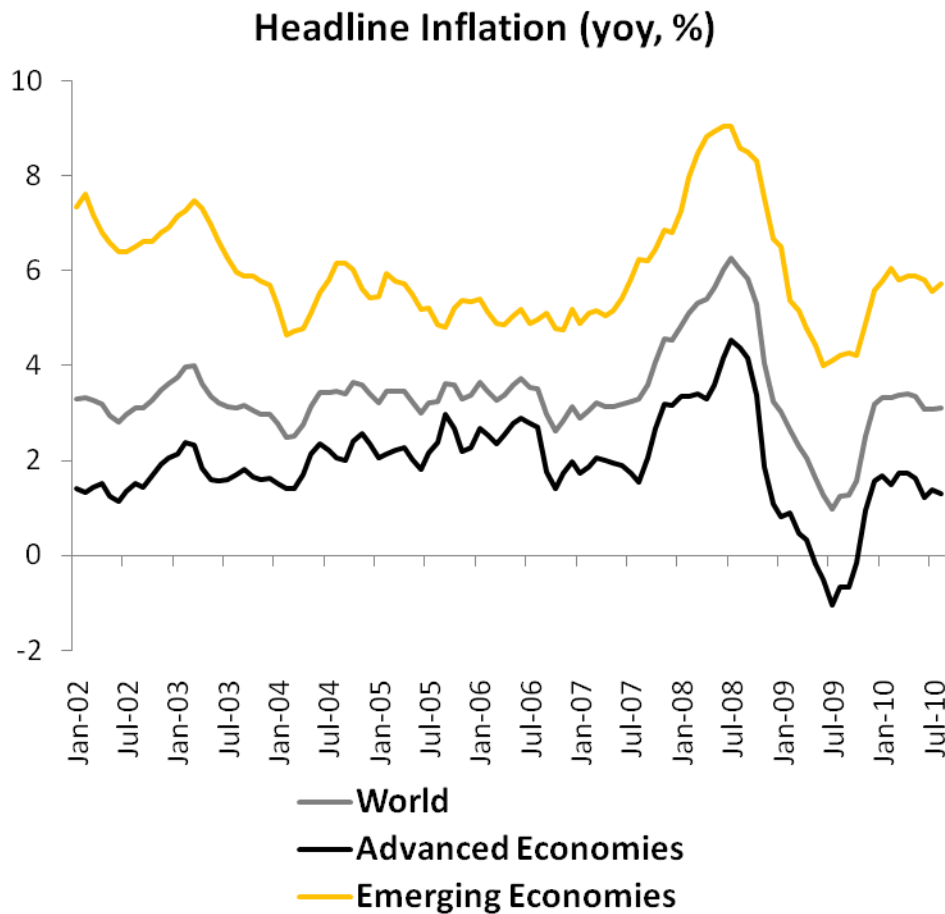
## Rising inflationary pressures in EM Economies



T. Vakıflar Bankası T.A.O



# Headline inflation rates are lower than the pre-crisis levels...

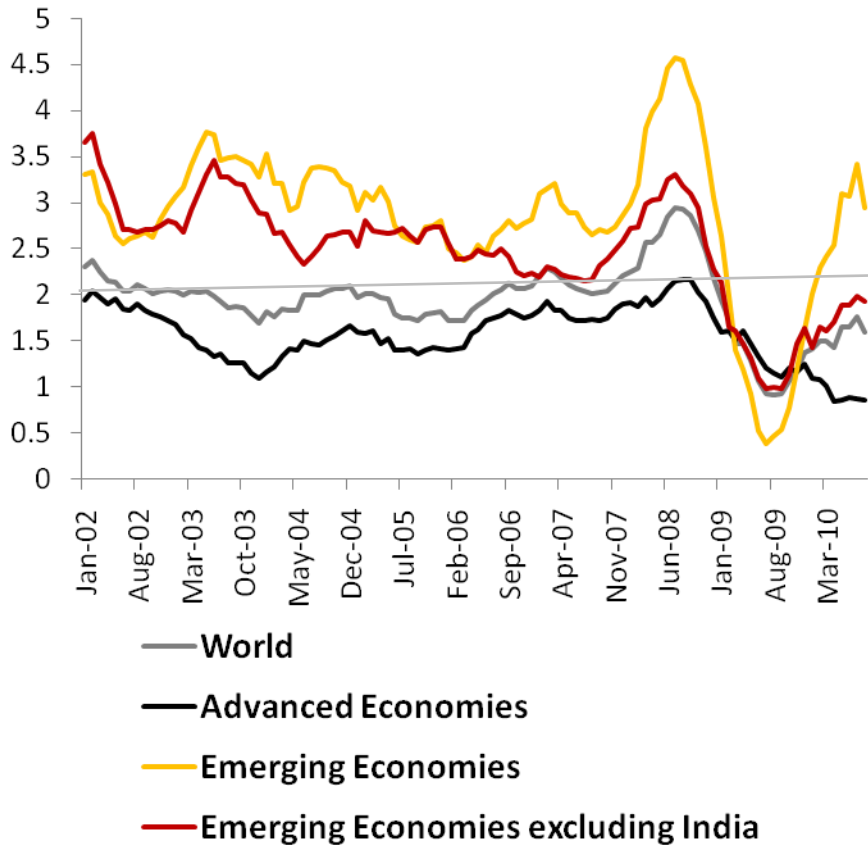


Source: IMF

- Global headline inflation rates which declined substantially as a result of the slowdown in economic activity because of the global crisis, have started to rise right after the initial steps of recovery.
- Currently, price pressures are lower than the pre-crisis levels in both the EMs and advanced economies.

# Core inflation rates are lower than the pre-crisis levels...

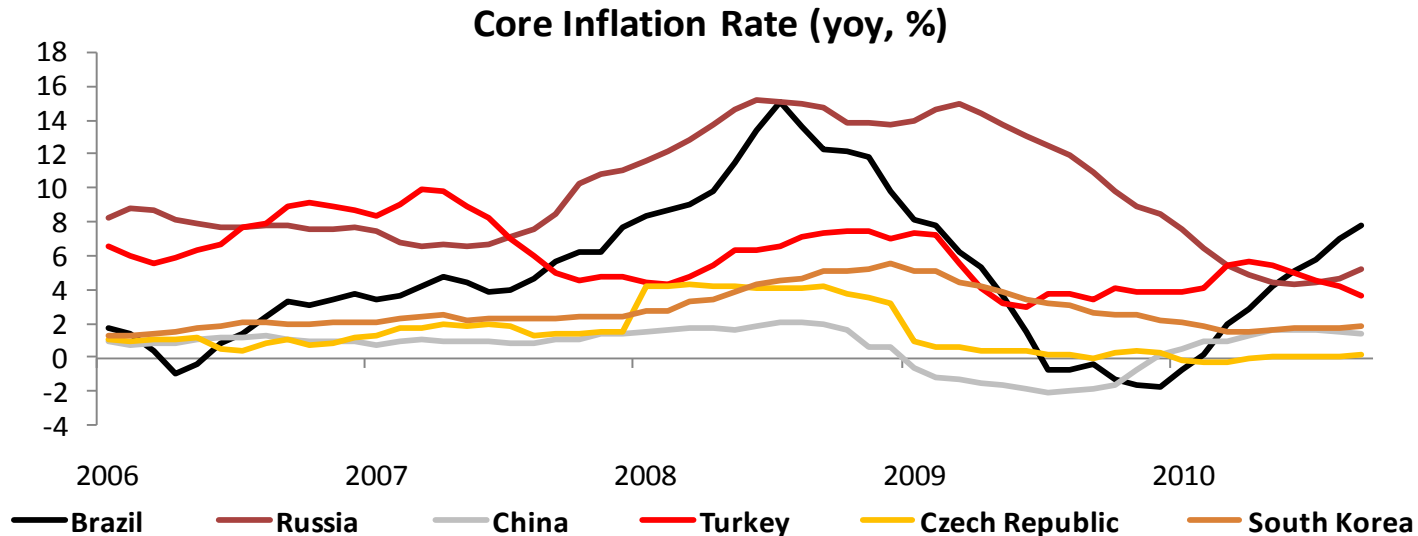
Core Inflation (yoy, %)



- Core inflation which can be described as the inflation rate which excludes certain price items such as food and energy has decreased during financial crisis.
- The fall in core prices was the sharpest in EMs like the increase in the recovery period.
- High inflation rate of India had an important impact on this upward behavior of inflation in Ems. Excluding India EM core inflation rate has increased only slightly.

Source: IMF

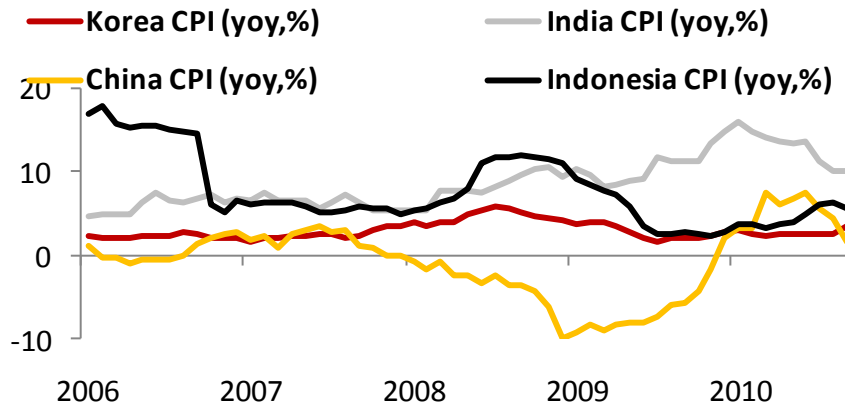
# Core inflationary pressures are re-emerging in EMs...



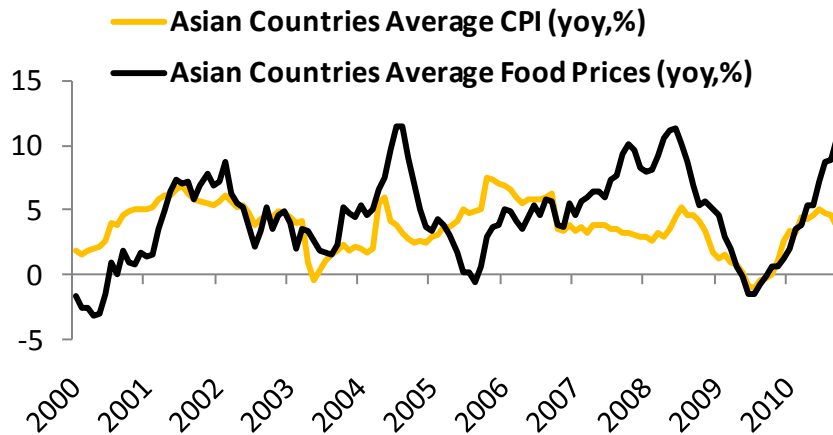
Source: Bloomberg

- Export oriented EM economies such as China, Brazil and Russia have higher core inflation rates than other EMs.
- Headline CPI in EMs increased in the midst of the global crisis. However, core inflation rates in EM economies decouple.
- It is remarkable that Turkey has a decreasing core inflationary behaviour while other EM economies experience an upward core inflation trend.

# Inflationary pressures are re-emerging in Asian EM economies...



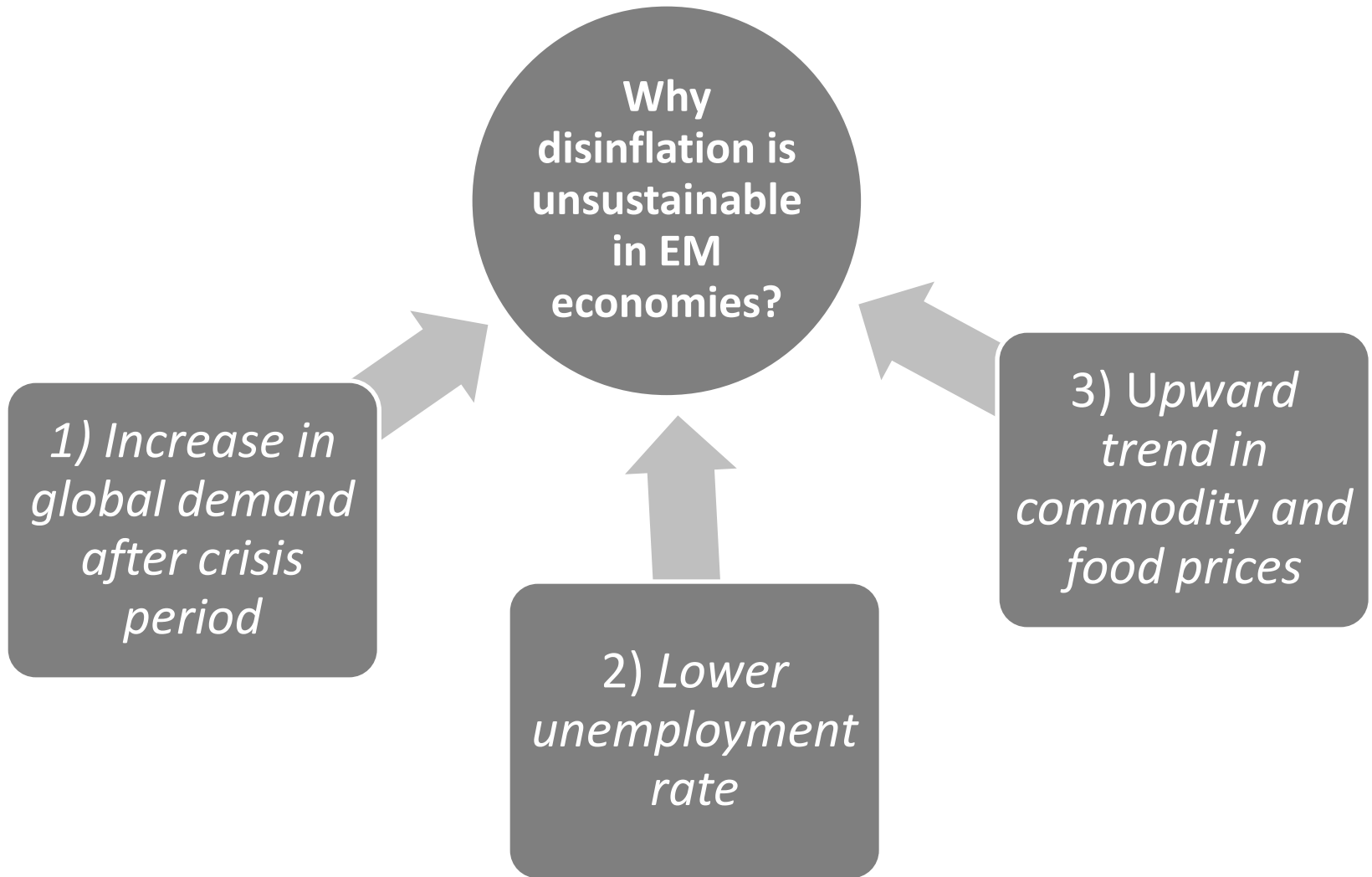
Source: Bloomberg



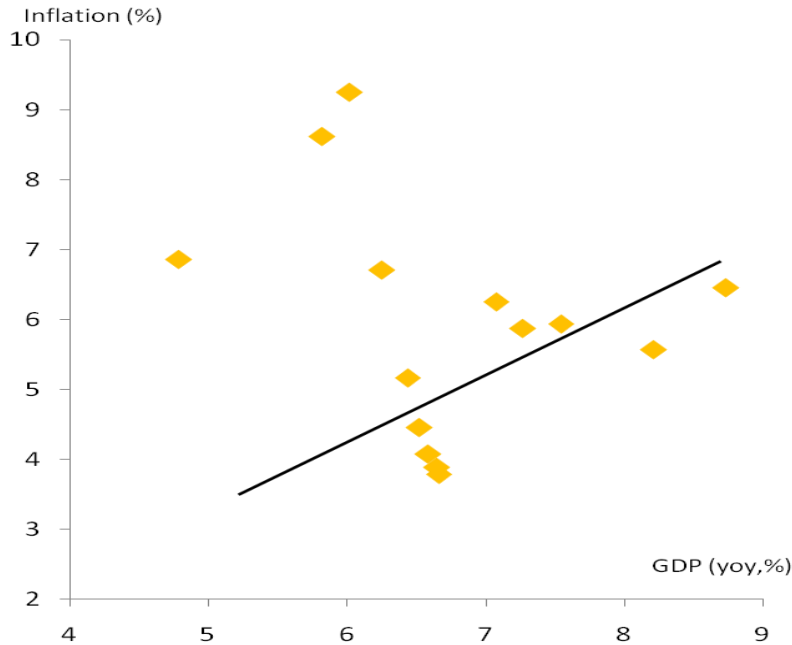
Asian Countries: China, Korea Republic, Indonesia, India

Source: Bloomberg

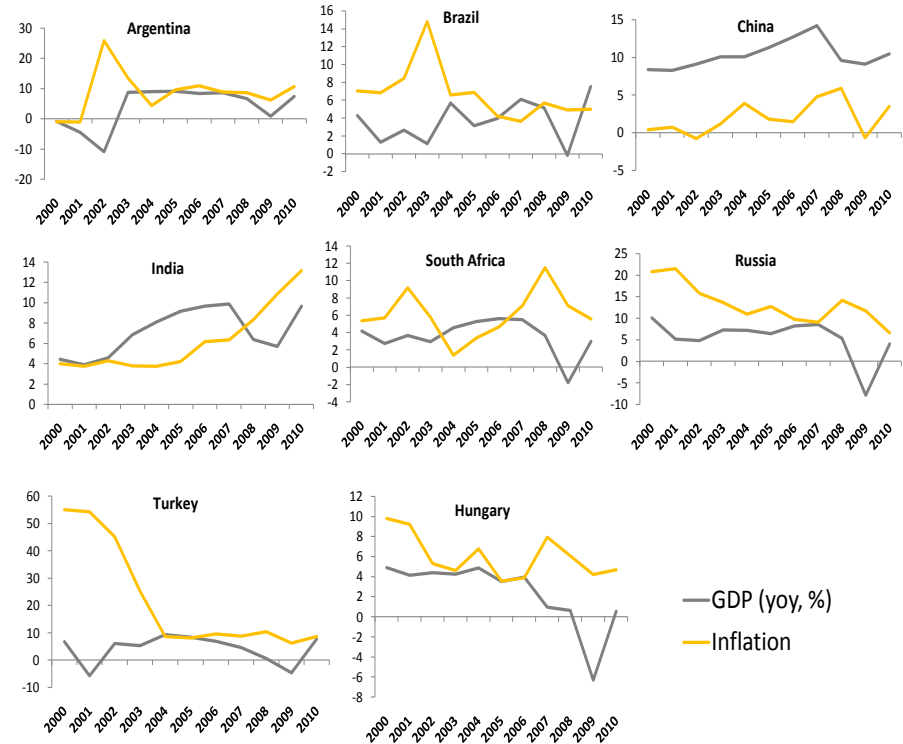
- Only China has a negative inflation among BRIC after 2008.
- Commodity prices create inflationary pressures. Crude oil price increases are passing through to transport and utilities.
- Weather-related disturbances are boosting food prices in Asian EM economies. Food price component is the major component of inflation in Asian EM economies.
- Consumer price increases in Asian EM economies are relatively higher than other EM economies because of high inflation expectations, tight labor markets and accelerating credit growth.



# 1- Increase in global demand after crisis period...



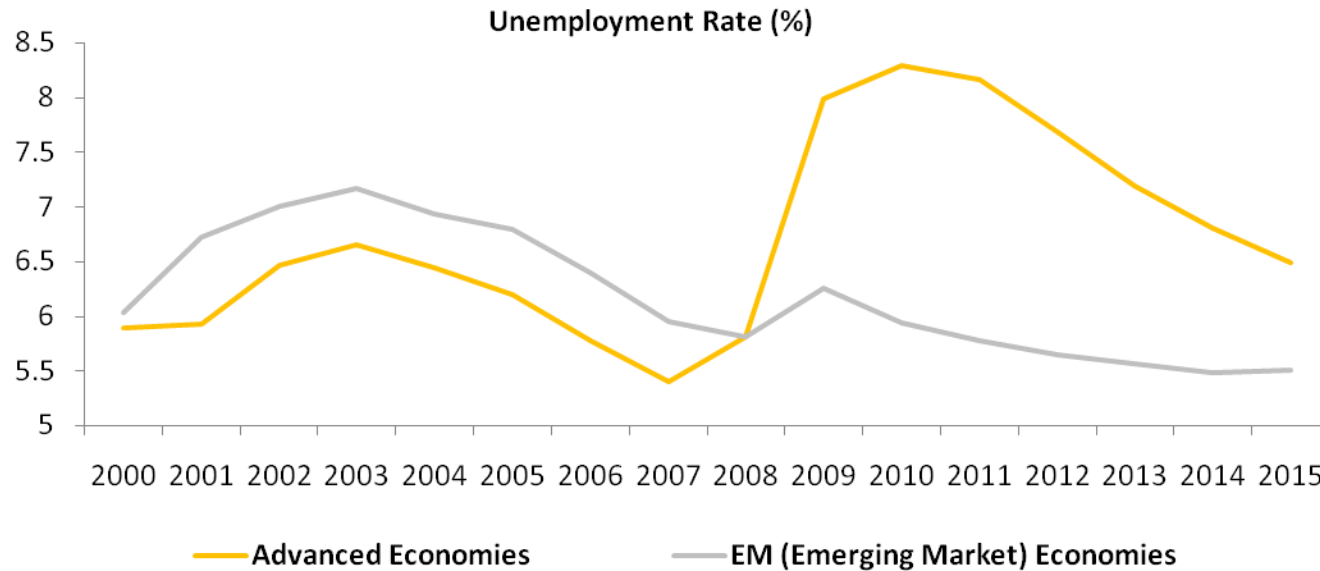
Source: IMF



Especially declining demand because of the global crisis is the reason of downward trend in the core inflation in EM economies. However, there is an increase in global demand due to recovery in economic activity and this limits the downward movement of inflation.

The positive relation between inflation and growth can be seen in the scatter plot.

## 2- Lower unemployment rates...

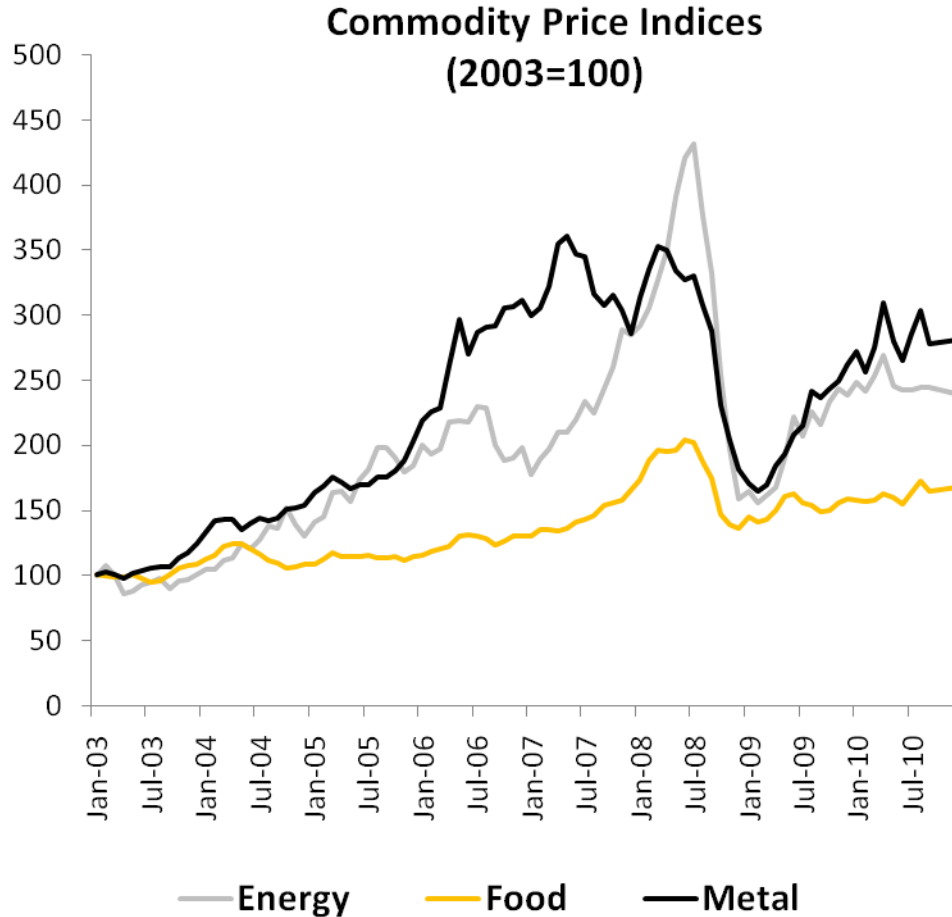


Source: IMF

- After the first quarter of 2010, there is a remarkable decrease in unemployment rates in advanced and emerging market economies. Forecasts show that decrease in unemployment rates will continue until 2015.
- Unemployment rate has a negative relationship with inflation in macroeconomics in the short run. Low unemployment rate prevents sustainability of disinflation in EM economies.



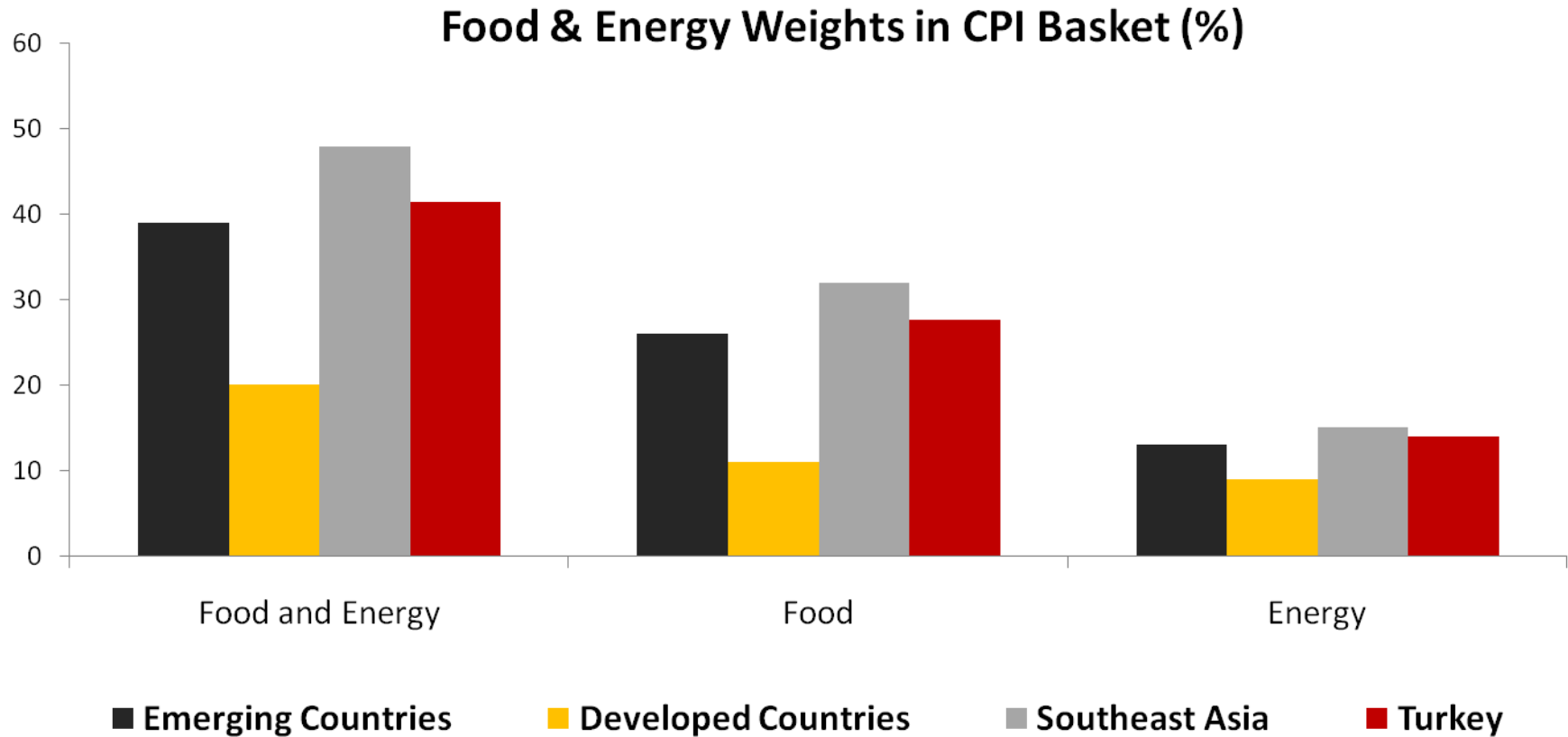
### 3- Upward trend in commodity and food prices...



Source: IMF

- Movements in commodity prices were in parallel with the movement in inflation and core inflation.
- Food and energy inflation is likely to continue to be significant in EM economies suggesting that the inflation could potentially go upwards.

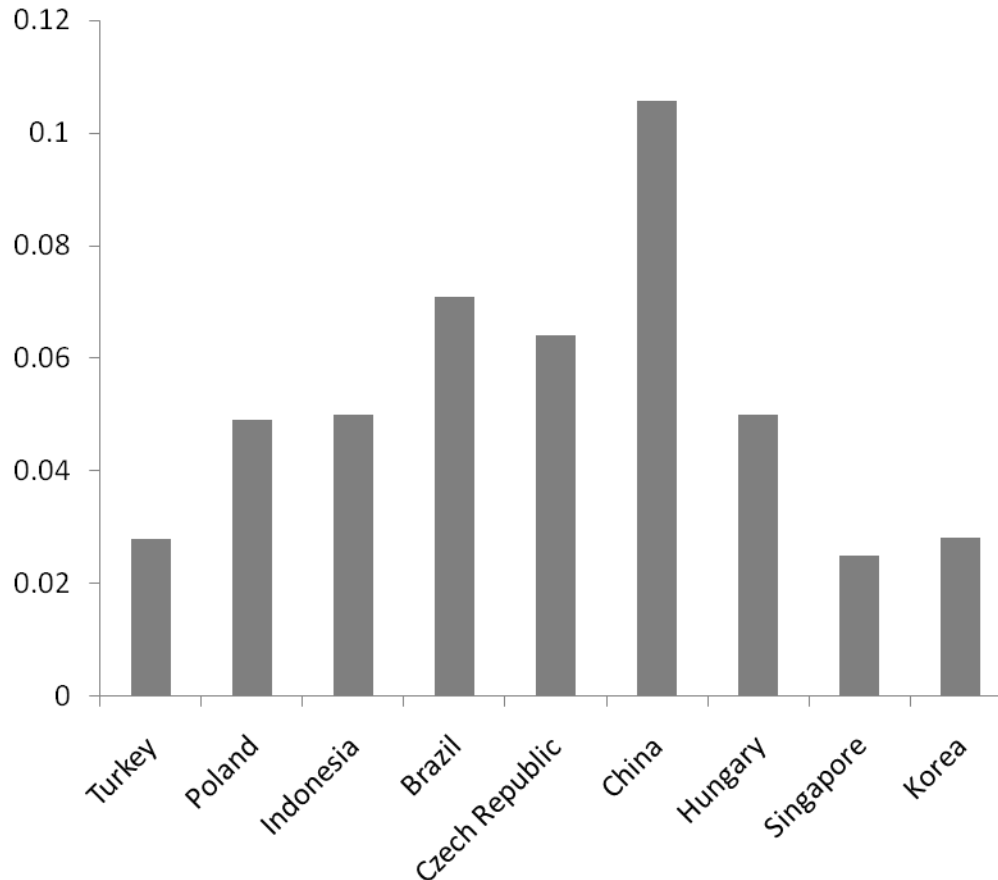
# EM CPI baskets have the highest food and energy weights (%39) relative to developed countries (20%)...



Source: Bloomberg, BofA Merrill Lynch, TURKSTAT

# Consumer Price Indices in EM economies are especially sensitive to food and energy prices...

## CPI Sensitivity to global food prices



Source: Bloomberg, Reuters, Vakifbank

- Estimated empirical linkage between world food prices and each country's CPI as a measure of inflation vulnerability to a global food price shock shows us EM consumer price indices are sensitive to food prices.

- China has the highest vulnerability to global food prices.

- Turkey on the other hand has relatively lower sensitivity than other EM's. However, during the starting period of 2010, 10% increase in food prices contribute 2.8 points to the yearly CPI.

Serkan Özcan

Chief Economist

+ 90 312 455 7087

[serkan.ozcan@vakifbank.com.tr](mailto:serkan.ozcan@vakifbank.com.tr)

Seda Meyveci

Economist

+ 90 312 455 8485

[seda.meyveci@vakifbank.com.tr](mailto:seda.meyveci@vakifbank.com.tr)

Selin Düz

Researcher

+ 90 312 455 8493

[selin.duz@vakifbank.com.tr](mailto:selin.duz@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

Atatürk Bulvarı No: 207

Kavaklıdere 06683 Ankara, Turkey

[www.vakifbank.com.tr](http://www.vakifbank.com.tr)

Vakifbank 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.

---