

VAKIFBANK WEEKLY ECONOMIC REPORT

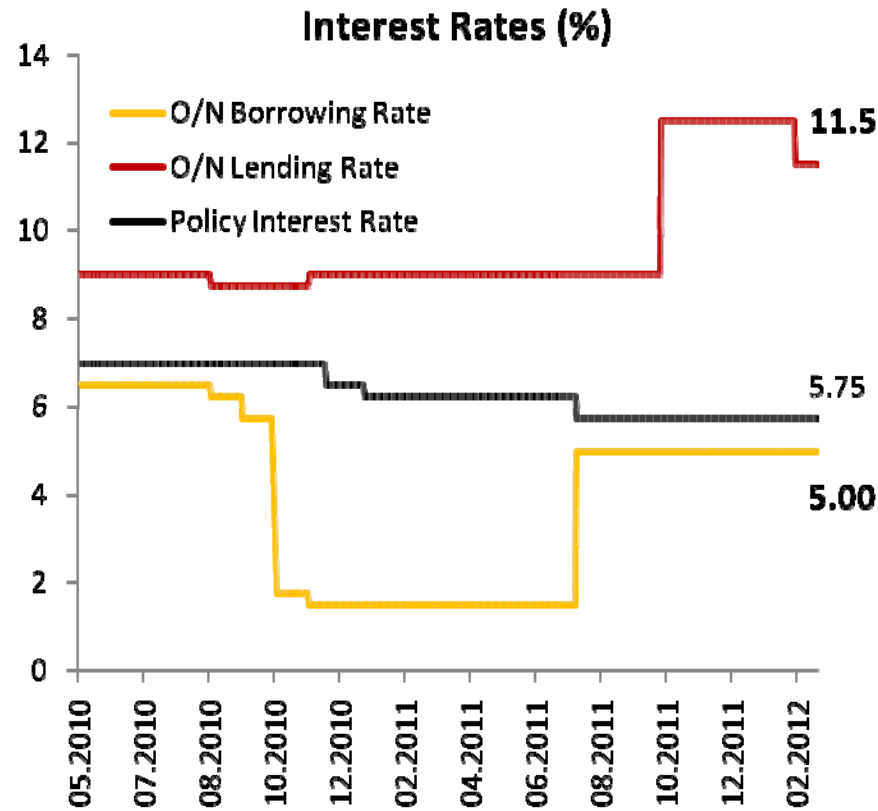
CBRT narrowed down the interest rate corridor...







T. Vakıflar Bankası T.A.O



CBRT narrowed down the interest rate corridor in February meeting...



Source: CBRT

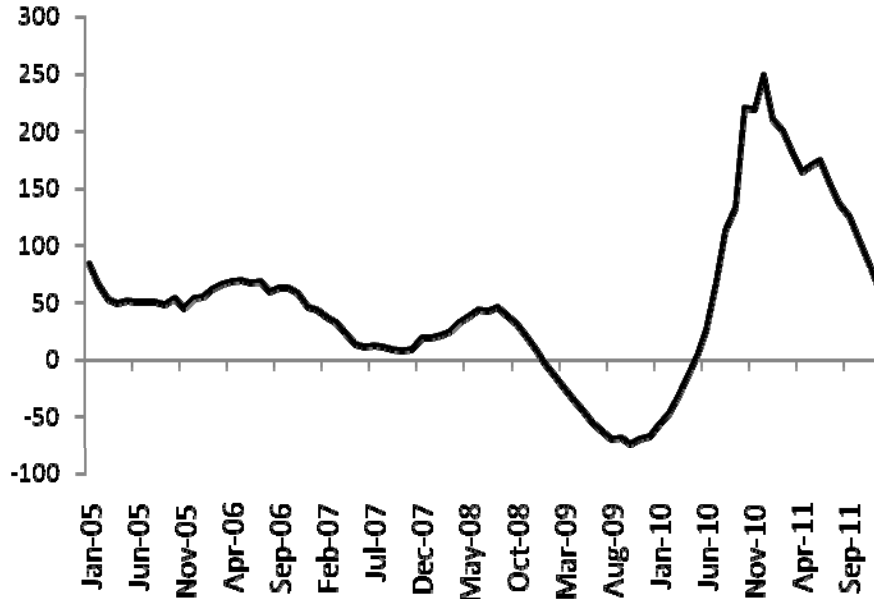
-  CBRT kept policy rate unchanged at 5.75% in the February meeting.
-  CBRT also left unchanged the overnight borrowing rate which was 5%.
-  However CBRT narrowed down the interest rate corridor by cutting the overnight lending rate from 12.5% to 11.5%.
-  The decision regarding lending rate cut was earlier than our estimates

Main points of Monetary Policy Committee Meeting...

		January MPC	February MPC	Change
Interest Rate	Policy Interest Rate	5.75	5.75	→
	O/N Borrowing Rate	5.0	5.0	→
	O/N Lending Rate	12.5	11.5	↓
	Interest Rate Corridor	7.5	6.5	↓
Inflation	CPI	Stay high	--	Increasing emphasis on downward movement in CPI
	Core CPI	--	Downward movement since February	
Macro Economy	Current Account Deficit	Gradually decrease	Gradually decrease	→
	Real GDP Growth	Contribution of net export	Contribution of net export	→
Policy Stance	Monetary Policy	Flexible	Flexible	→
Source: CBRT				

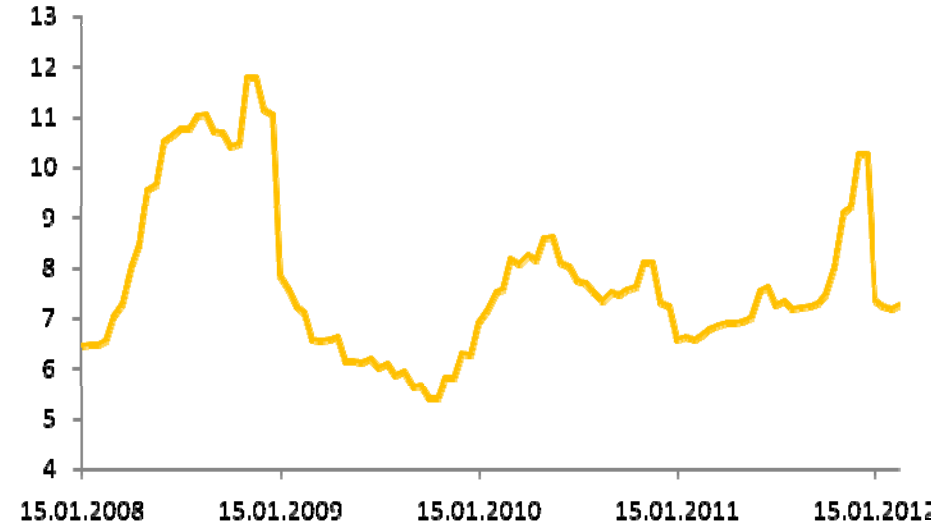
Inflation may fall in the coming months...




Current Account Deficit (Yoy %)



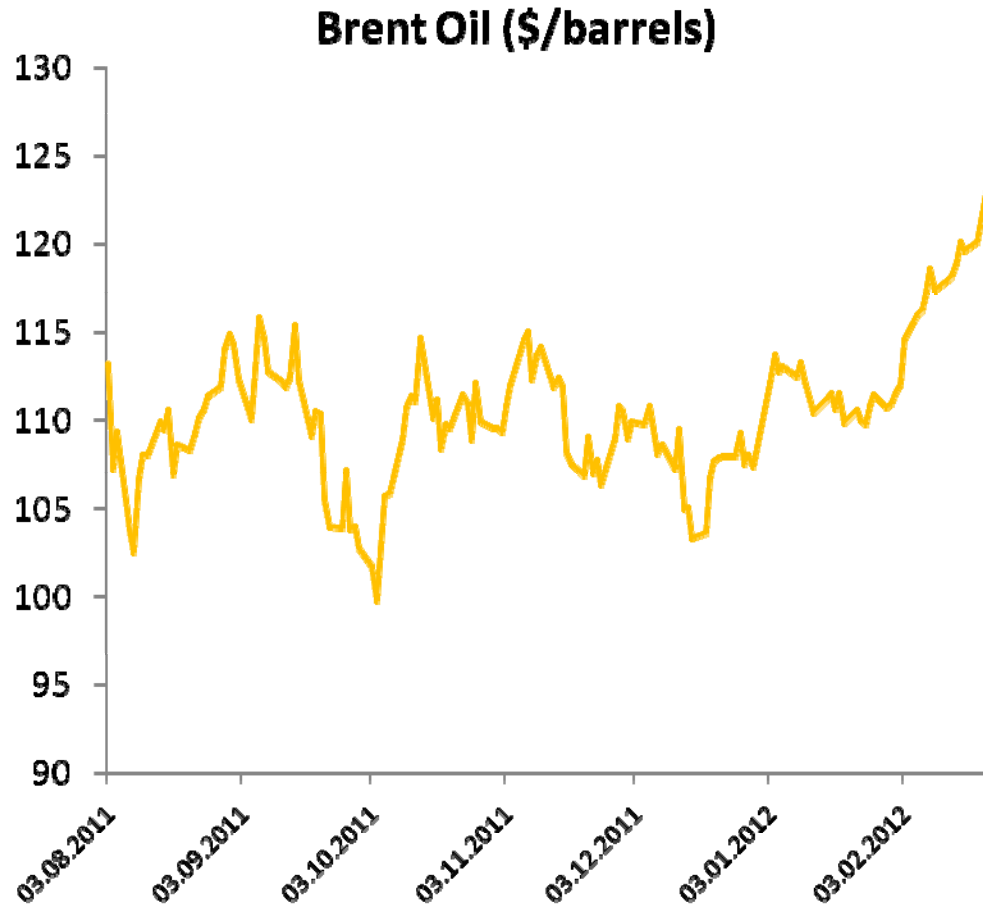
Source: CBRT

Expected annual CPI by the end of the year (%)



-  Due to higher inflation in January, MPC stated that tight monetary policy is required to continue.
-  In February meeting, the emphasis on downward movement of inflation increased.
-  Moreover, improvement in the current account deficit became clear in the last quarter of 2011 with the positive effects of depreciation of TRY on the export performance. Hence, it can be said that contribution of net export to growth increased in the last quarter.

Higher oil price is still important risk factor...

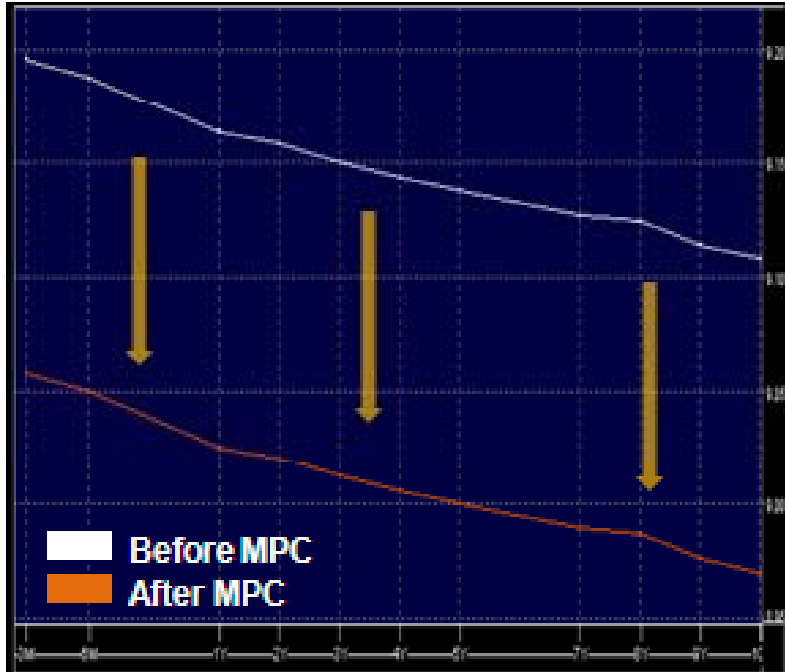


Source: Bloomberg

- ▣ Rise in oil prices has accelerated in recent weeks.
- ▣ Brent oil price reached to 123 \$/brl last week, and increased by 12.7% compared to end of January 2012
- ▣ Higher oil prices might create upward pressure on inflation.
- ▣ Also, higher oil prices can cause a slowing in rebalancing process in current account deficit.

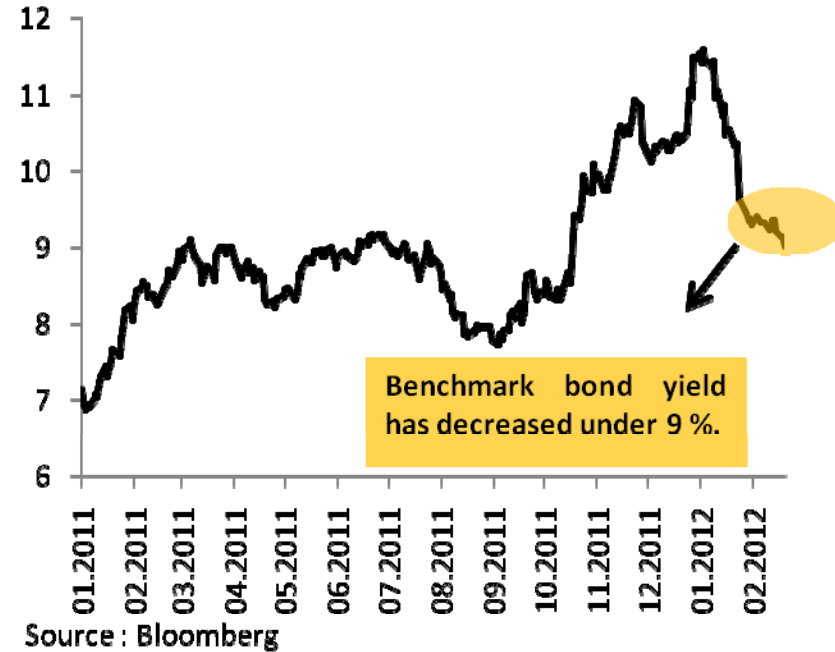
The decision of the Monetary Policy Committee led to the fall in interest rates...

Yield Curve



Source: Bloomberg

Benchmark Bond Yield (%)



Source : Bloomberg

- ✓ Narrowing down the interest rate corridor of CBRT has caused the market rates down.
- ✓ The benchmark bond yield which was 10.37% before the MPC meeting has decreased to 9.60% after the meeting. Similarly, yield curve has moved downwardly after meeting.
- ✓ Although CBRT did not change the policy rates in the last meeting, it led to decrease in bond rates by decreasing the O/N lending rate in the direction of its target.

Conclusion...

- ✔ Although CBRT kept policy rate unchanged in February MPC, it narrowed interest rate corridor 100bp.
- ✔ In the MPC Press release, CBRT stated that inflation pressures have decreased and improvement in current account deficit would continue in the coming period.
- ✔ At first look, this action of the CBRT was not perceived as an easing in monetary policy, however decision of the Monetary Policy Committee led to a fall in interest rates
- ✔ Last policy decision of the CBRT strengthen the expectation related to the decline in inflation which is important tool of managing the expectations.
- ✔ Due to the inflation and current account deficit, high oil prices may be an important risk factor for Turkish economy.

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