

Central Banks and Financial Stability

“ECB High-Level Policy Workshop on Macroprudential Policy”

Dr.Erdem BAŞÇI

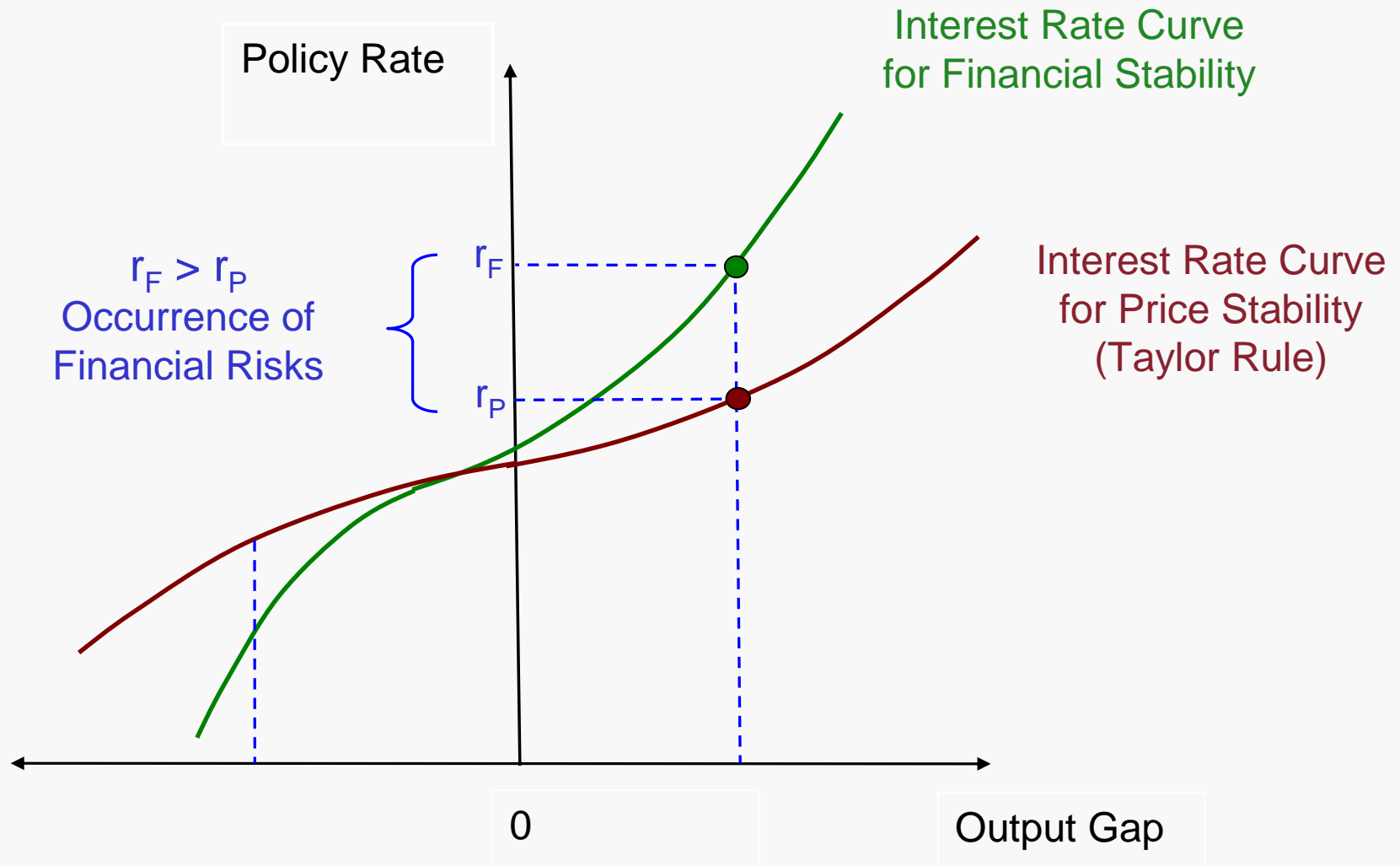
Deputy Governor, CBRT

15 December 2010, Frankfurt

Presentation Outline

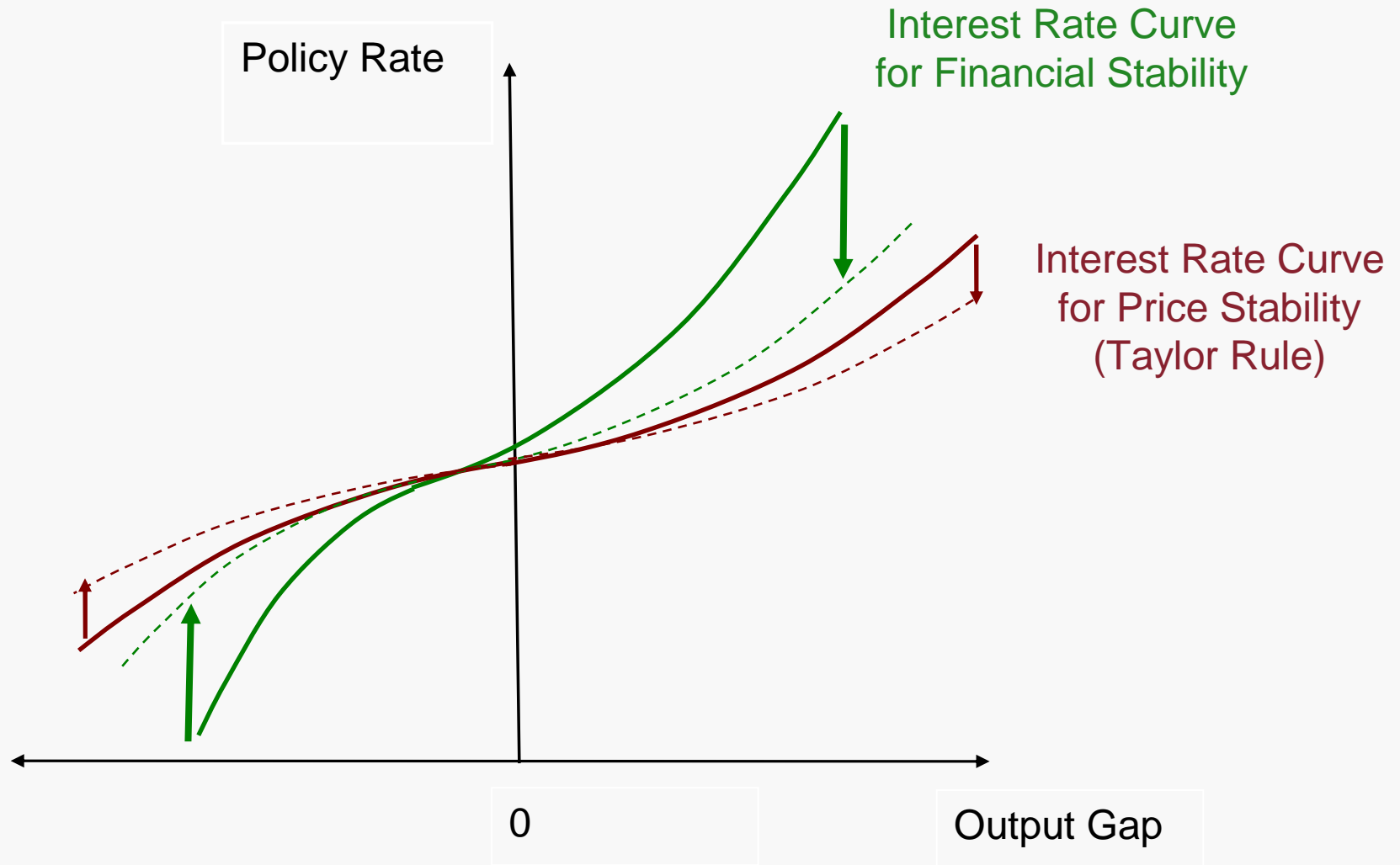
- I. Central Banks and Financial Stability**
- II. Financial Stability: Objectives**
- III. Financial Stability: Instruments**
- IV. Economic Outlook and Risks**
- V. Communications**

Central Banks and Financial Stability

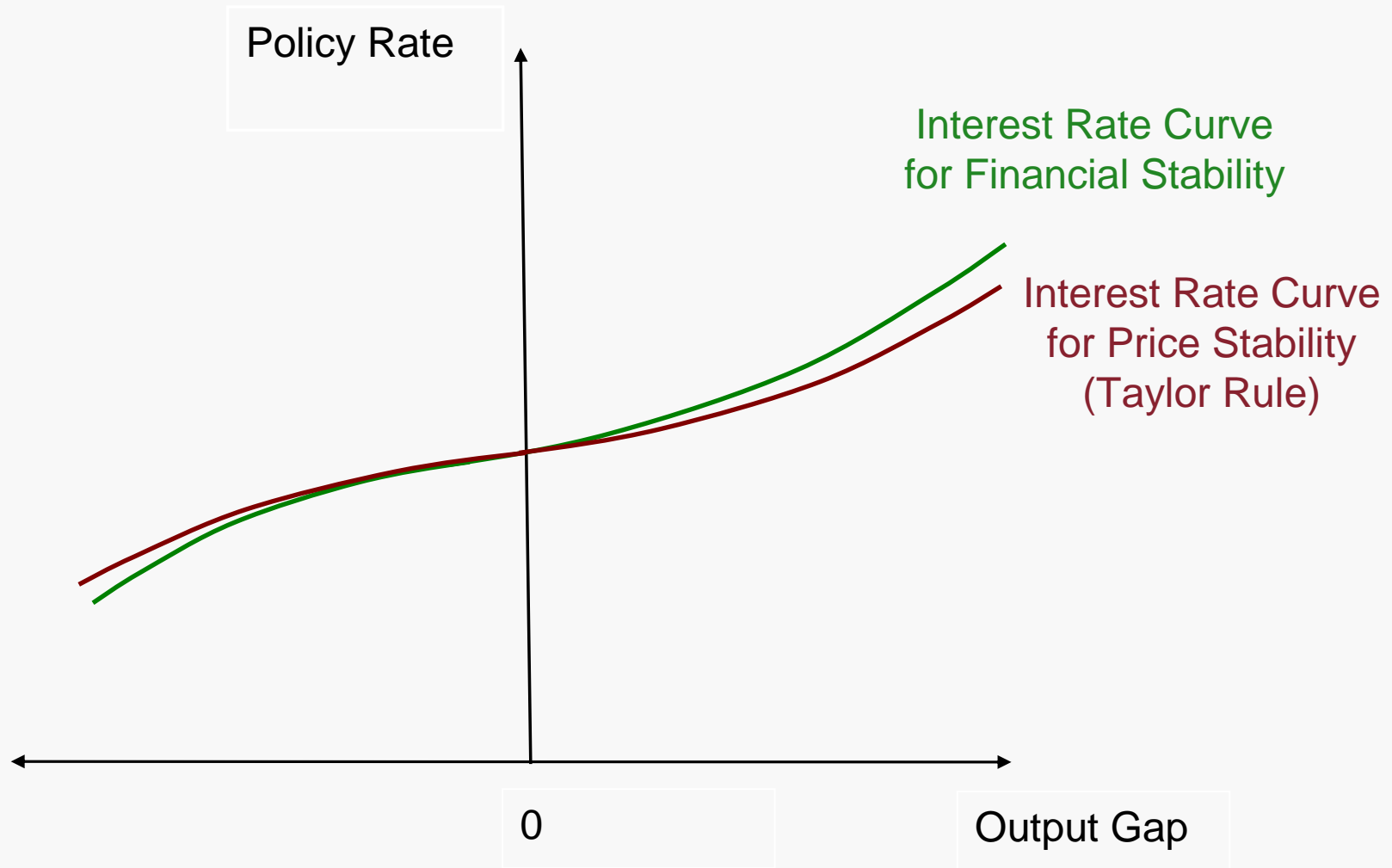


Note: Where macroprudential instruments are not used

Case Where Macroprudential Instruments are Used



Case Where Macroprudential Instruments are Used



Central Banks and Financial Stability

- **The additional measures we have taken recently should be evaluated as a preparation for the new world economic and financial outlook.**
- **The main feature of this new outlook is the potential risks of overheating, excessive credit growth and emergence of asset bubbles as a result of increasing capital inflows towards reliable and dynamic emerging market economies.**

Financial Stability: Objectives

1. **Debt Ratios**: *Use of equity capital in higher amounts, more prudent borrowing*
2. **Debt Maturities**: *Extending maturities of domestic and foreign borrowing and deposits*
3. **FX Positions**: *Strengthening FX positions of public and private sectors*
4. **Risk management**: *More effective management of exchange rate risk via instruments such as the Turkish Derivatives Exchange*

Financial Stability: Instruments

- 1. Required Reserve Ratios**
- 2. Liquidity Management of the Central Bank**
- 3. Capital Adequacy Ratios**
- 4. Liquidity Adequacy Ratios**
- 5. Taxes**
- 6. Primary Expenditures of the Public Sector**

Liquidity Management Instruments of the Central Bank

1. FX Purchases

2. Weekly Repo Auctions

3. 3-Month Repo Auctions

4. Corridor System

- [...] the difference between borrowing and lending rates, or the difference between these and the policy rate (one-week repo auction rate) will be determined as an element of the operational framework of monetary policy (Exit Strategy 2010, paragraph 16.b.iii)

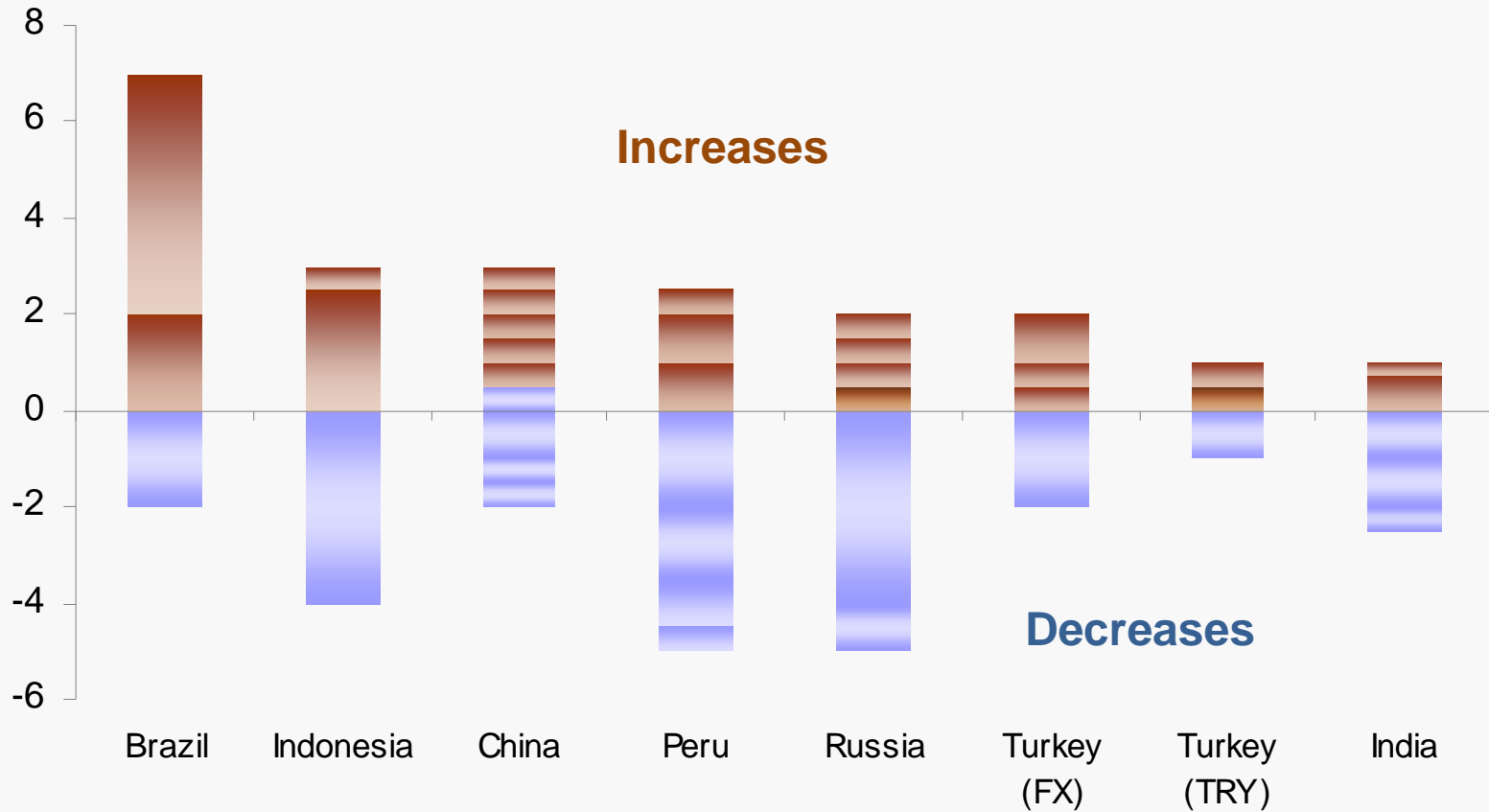
Required Reserves

1. Liquidity Channel

2. Cost Channel

Required Reserves

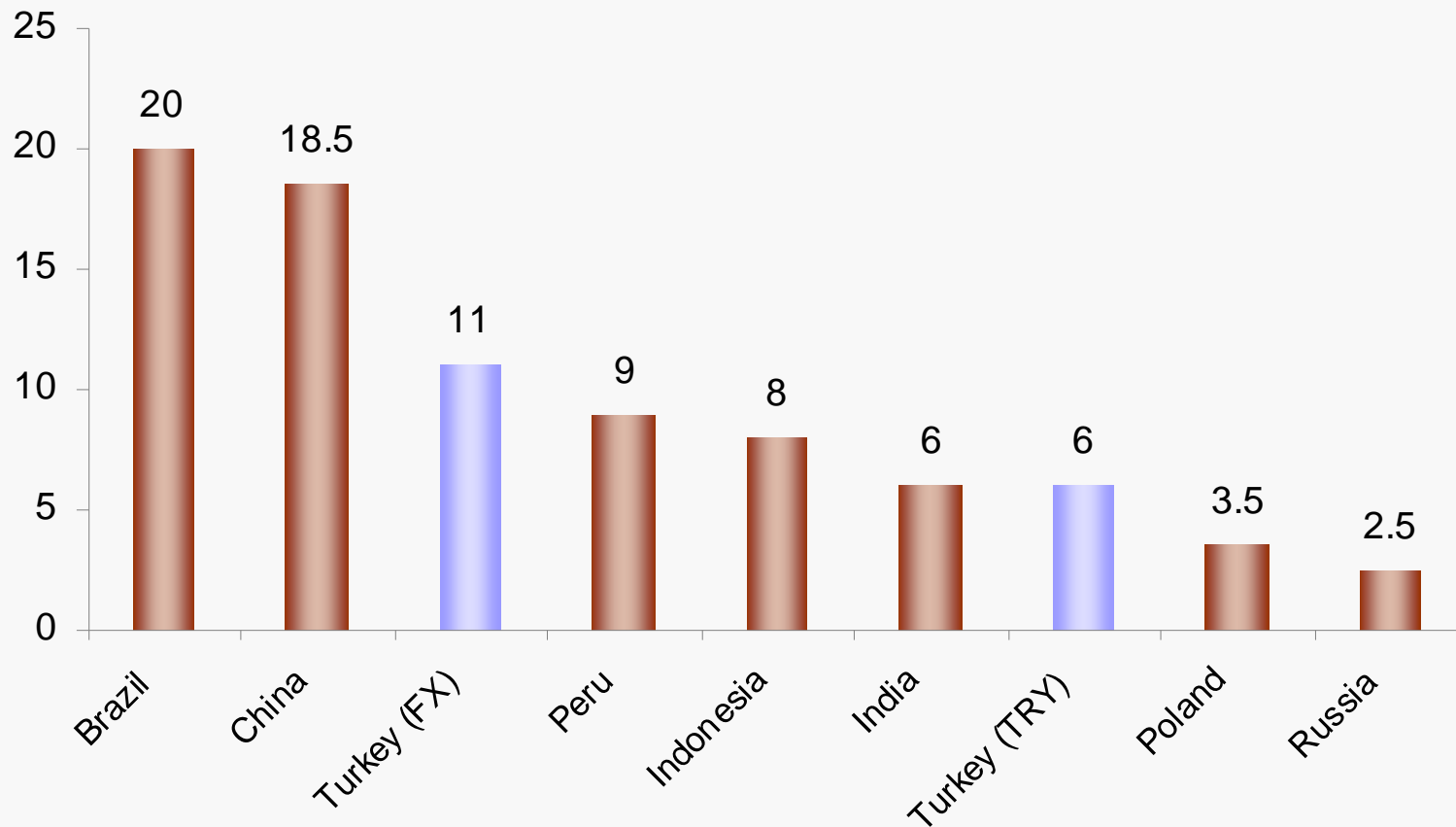
The Use of Required Reserves as a Policy Instrument



Source: Central Banks, CBT

Required Reserves

The Use of Required Reserves as a Policy Instrument



Source: Central Banks, CBT

Central Bank's Policy Instruments

Instruments for Price Stability (in the order of priority):

1. Short Term Interest Rates
2. TRY Liquidity Management
3. Required Reserve Ratios

Central Bank's Policy Instruments

Instruments for Financial Stability (in the order of priority):

1. Required Reserve Ratios
2. TRY Liquidity Management
3. Short Term Interest Rates

Central Bank's Policy Instruments

Frequency of Use (higher to lower):

1. TRY Liquidity Management
2. Short Term Interest Rates
3. Required Reserve Ratios

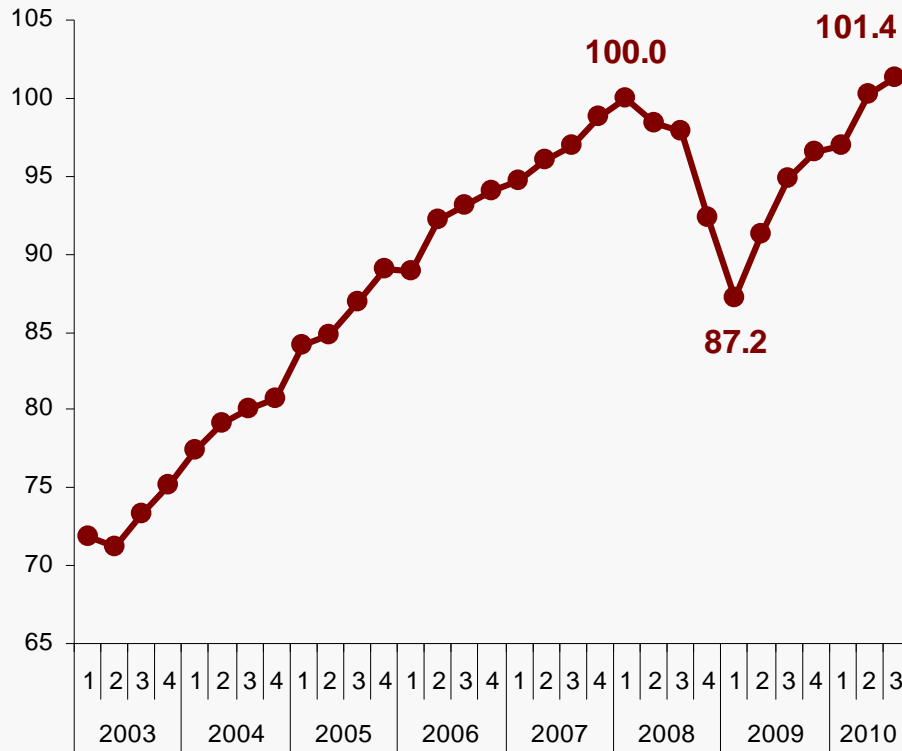
Central Bank's Policy Instruments

Predictability (higher to lower):

1. Required Reserve Ratios
2. Short Term Interest Rates
3. TRY Liquidity Management

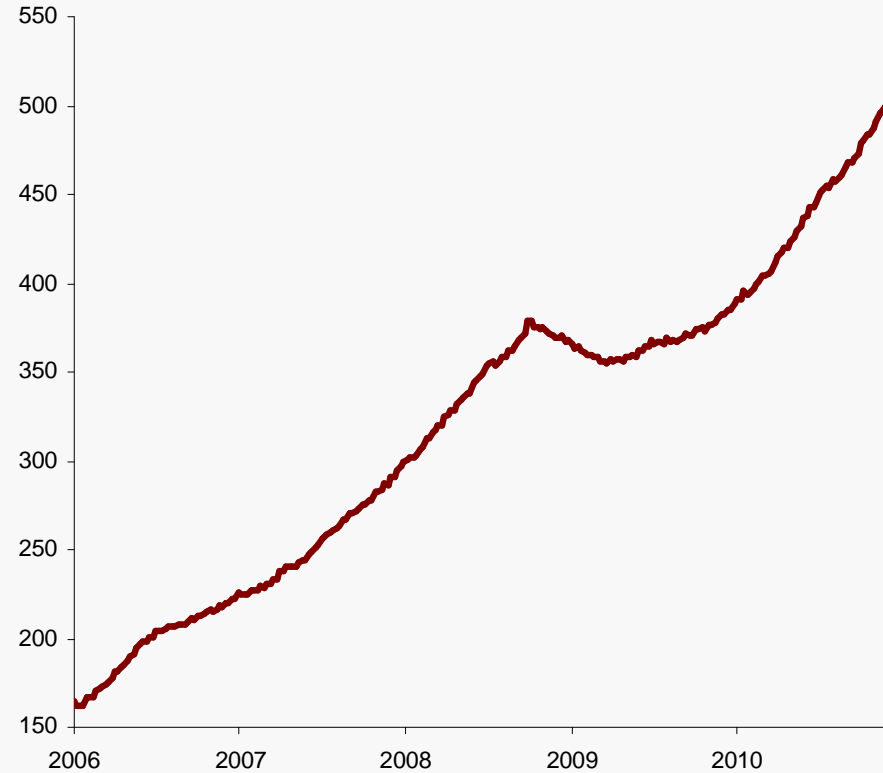
Economic Outlook and Risks

Seasonally Adjusted GDP
(2003 Q1 – 2010 Q3, constant prices, 2008 Q1 = 100)



Source: TurkStat, CBT

Total Credit Volume*
(Jan 2006 – Nov 2010, billion TL)



* Total credits extended by deposit, development, investment and participation banks along with consumer financing firms; exchange rate adjusted
Source: BRSA, CBT

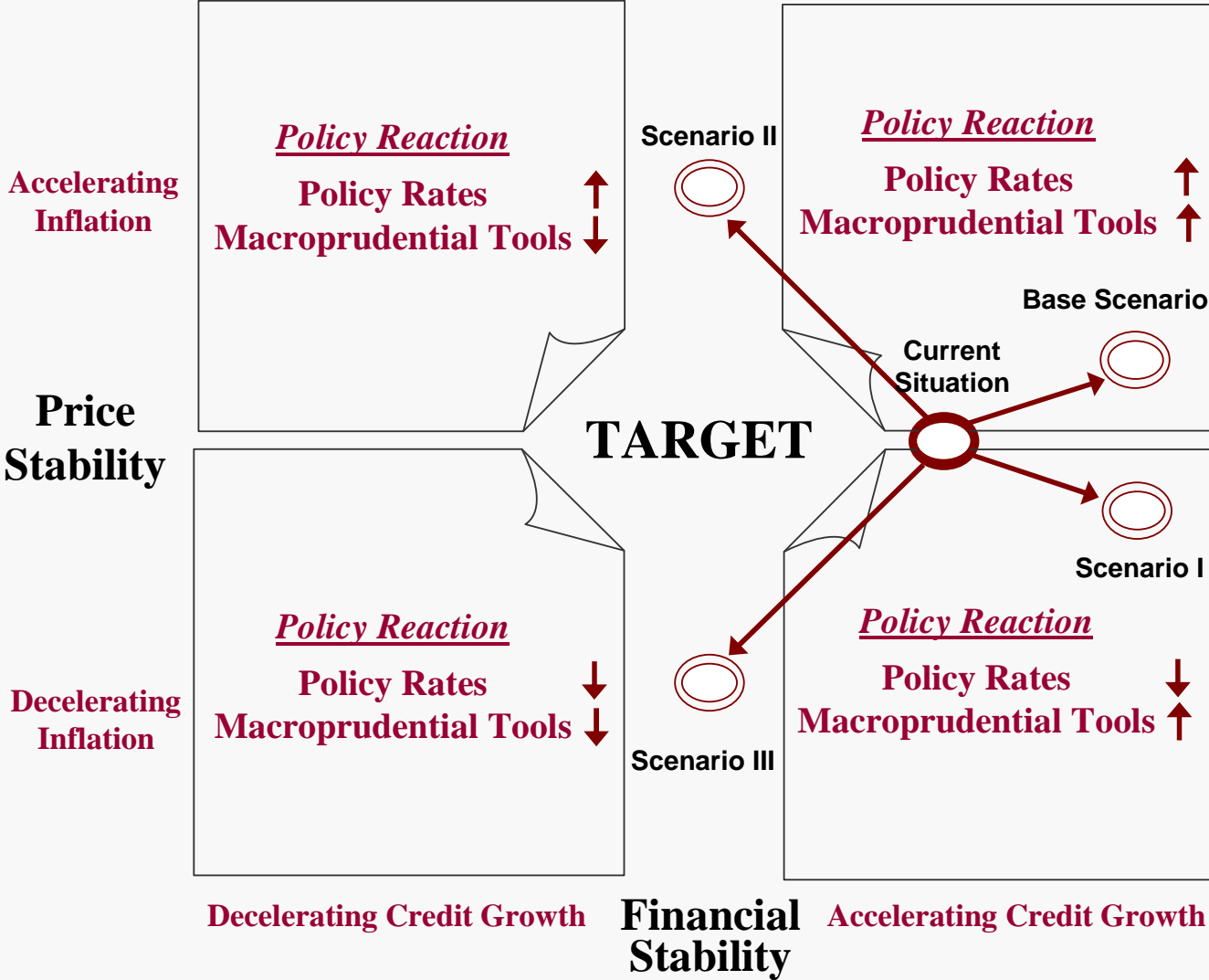
Economic Outlook and Risks

“ [...] Should the divergence between domestic demand and external demand continue, use of other policy instruments such as reserve requirement ratios and liquidity management facilities would be warranted in order to address financial stability concerns stemming from rapid credit expansion and deterioration in the current account balance..” (Inflation Report, October 2010)

Policy Instruments Affecting the Current Account Deficit

- 1. Primary Budget Surplus**
- 2. Taxes**
- 3. Capital Adequacy Ratios (Basel III)**
- 4. Liquidity Adequacy Ratios (Basel III)**
- 5. Required Reserve Ratios**
- 6. Central Bank's Liquidity Management**

Economic Policies under Current Outlook



Central Bank Communications

- **Inflation Report (Oct 2010)**
- **Financial Stability Report (Nov 2010)**
- **Governor's Remarks at the Turkish Export Assembly (Sep 2010)**
- **Governor's Remarks at the Turkish Banks' Association (Oct 2010)**
- **Governor's Testimony before the Parliament (Oct 2010)**
- **Governor's Testimony before the Council of Ministers (Oct 2010)**

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