



MAIN THEME

Macroprudential Measures and Turkey's Implementation

The devastating effects of the global crisis, which started in advanced economies in 2008 and loomed over the global economy, called for the introduction of proactive measures and arrangements addressing the entire financial economic system. The set of measures taken and arrangements made are called the macroprudential policies.



CBRT DEPARTMENTS

The Banknote Printing Plant

The Banknote Printing Plant was established on 22 July 1955 with the Decision No. 5232 of the Board of the Central Bank of the Republic of Turkey. The Banknote Printing Plant became fully operative with all its service units and workplaces at the end of 1956.



THERMOMETER

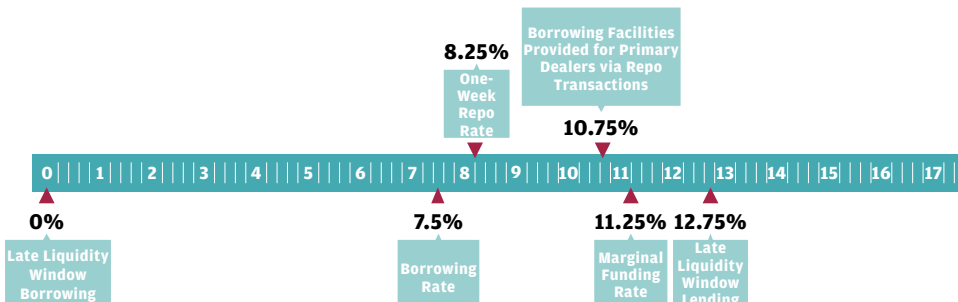
- *Special CPI Aggregates
- *Consumer Confidence

→ Page 2

→ Page 3

→ Page 4

CBRT INTEREST RATES (25 SEPTEMBER 2014)



CBRT RESERVES (19 SEPTEMBER 2014)

GROSS FX RESERVES

USD 111.381 BILLION

GOLD

USD 21.201 BILLION

INFLATION (AUGUST 2014)

9.54%

MAIN THEME

Macroprudential Measures and Turkey's Implementation

Capital flows to emerging economies accelerated as a result of the low interest rates and expansionary monetary policies implemented by advanced economies in the aftermath of the 2008 financial crisis. These capital flows -mostly composed of short-term investments- led to fluctuations in emerging economies fuelling concerns over financial stability; therefore, it became important for those emerging economies, including Turkey, to implement macroprudential policies to avoid financial crises.

Institutional Infrastructure

In Turkey, the Undersecretariat of Treasury, the Banking Regulation and Supervision Agency (BRSA), the Capital Markets Board of Turkey (CMB), the Savings Deposit Insurance Fund (SDIF) and the Central Bank of the Republic of Turkey (CBRT) are the leading institutions responsible for safeguarding financing stability. The protocols signed by and between these institutions enhance cooperation, coordination and exchange of information among these institutions and contribute to their efforts in establishing and maintaining financial stability as well as monitoring and preventing systemic risk. While the CBRT is responsible for taking measures towards establishing financial stability, the BRSA is one of the leading regulatory and supervisory institutions safeguarding financial stability. The SDIF insures savings deposits and takes over management and supervision of banks whose operating permission has been revoked by the BRSA and fulfills the necessary operations regarding their bankruptcy and liquidation. The CMB is the regulatory and supervisory authority in charge of fair and effective functioning of securities markets in Turkey, while the Undersecretariat of Treasury is responsible for the regulation and inspection of insurance and personal pension companies.

In addition to these institutions, some committees have been set up by the contribution of various institutions to detect systemic risks and to implement macroprudential policies:

The Systemic Risk Evaluation Group (SREG) has been established for the early detection of the incidents that could lead to systemic risk and takes necessary measures, and ensures coordination, cooperation and exchange of information among parties.

The Financial Sector Commission has been established to facilitate cooperation, coordination and exchange of information among institutions to ensure confidence and stability as well as development in financial markets, to make joint policy recommendations and to express views on issues concerning the future of the financial sector.

Financial Stability Committee is responsible for monitoring and preventing systemic risks and carrying out necessary coordination in systemic risk management activities. Therefore the Committee is responsible for:

- Diagnosing and monitoring systemic risks which could ripple over the whole financial system, determining necessary measures and policy proposals for mitigating these risks,
- Warning the concerned parties about systemic risks, and supervising the implementations put into practice in response to warnings and policy proposals,
- Assessing systemic risk management plans prepared by related institutions,
- Carrying out the coordination of systemic risk management,
- Collecting all data and information from public institutions in line with their mandates and ensuring coordination of the policies and their implementations among institutions,
- Making decisions on other issues as authorized by legislation.

Macroprudential Policy Implementation in Turkey after the Global Financial Crisis

The capital flows to Turkey after 2010 led to deterioration in the current account balance by causing appreciation of the Turkish lira and pushing up credit utilization. The rapid changes observed in short-term capital flows and the global risk appetite urged the CBRT to design a more flexible monetary policy that simultaneously safeguards price stability along with financial stability and allows prevention of vulnerabilities that may develop in the economy. With an aim to influence the credit channel and the exchange rate channel separately and to curb macrofinancial risks, besides the policy rate of the old policy framework, the CBRT started to simultaneously use some new and complementary policy instruments such as the interest rate corridor, reserve requirements and the reserve options mechanism that was put into practice in 2011 and targeted to achieve more than one objective at a time.¹

With a flexible monetary policy approach guarding macro financial risks, the CBRT has opted for structural and cyclical instrument diversification. Of the structural instruments, the maturity-based reserve requirement is used to reduce the maturity mismatch between assets and liabilities of the banking sector, the reserve options mechanism serves as an automatic stabilizer against capital flows and the leverage-based reserve requirement aims to restrain the

indebtedness of banks.² The policy rate, the interest rate corridor and the Turkish lira and foreign exchange liquidity management are the instruments used to contain the risks originating from cyclical factors.

Another regulatory action introduced by the CBRT to maintain financial stability and to strengthen the monetary transmission mechanism is related to overdraft accounts and corporate credit cards. In this context, an upper limit has been determined for contractual and overdue interest rates to be applied to overdraft accounts and the CBRT's scope of duty to determine maximum interest rates to be applied to individual credit cards has been expanded to cover corporate credit cards as well. Thus, interest rates have dropped to reasonable levels. Additionally, the facilitation of the use of export rediscount credits led to an increase in the number of firms applied for such credits and added to the CBRT's net reserves.

On the other hand, macroprudential measures taken by the BRSA and other authorities are essential in terms of reinforcing financial stability and expanding the monetary policy's room for maneuver. Some of the regulations introduced by the Financial Stability Committee and the BRSA in a coordinated manner are as follows:³

- Setting the criteria to be applied to credit card limits and raising minimum payment rates,
- Increasing risk weights applied to credit card installments,
- Including individual credit cards in the scope of consumer loans,
- Reducing general reserve rates for export loans and SME loans,
- Establishing regulations regarding measurement and assessment of the capital adequacy ratios of banks,
- Allocating more general reserves for vehicles loans by banks,
- Introducing installment limitations for consumer loans and credit cards,
- Applying loan-to-value ratio to vehicle loans as well,
- Implementing regulations on the harmonization studies that need to be conducted during transition to Basel III.

¹ CBRT, (March, 2013), "CBRT Bulletin", Issue: 26.

² CBRT, (May 2013), "Financial Stability Report", Volume: 16

³ Banking Regulation and Supervision Agency, (2014), "Annual Report - 2013"

CBRT DEPARTMENTS

The Banknote Printing Plant Department

The Banknote Printing Plant was established on 22 July 1955 with the Decision No.5232 of the Board of the Central Bank of the Republic of Turkey. The Banknote Printing Plant became fully operative with all its service units and workplaces at the end of 1956.

The Banknote Printing Plant started to print Turkish lira banknotes on 7 November 1957. The Banknote Printing Plant, which is established on a total of 24,000 m² of land and has 25,093 m² of covered area, has three production sets and a production capacity of an average 750,000,000 banknotes/year under normal conditions (single shifts).

The Banknote Printing Plant:

- Prints Turkish lira banknotes, as well as some foreign exchange banknotes, and valuable papers such as government papers, stock and bond certificates, visa stamps, national lottery tickets etc. against payment,
- Produces or procures the printing material necessary for producing banknotes or valuable papers,
- Conducts repair, maintenance and operation work of machines, equipment, hardware and systems to ensure that they operate uninterruptedly; undertakes manufacturing work when necessary; provides technical support for premises and equipment,

- Deals with personal rights, discipline records and training activities of its staff; conducts necessary studies to assess staff; provides security services; arranges catering and other support services,



- Procures and sells all necessary goods and services; handles operations related to social affairs, accounting, staff payment system and electronic funds transfers; provides information technology and cashier services,
- Conducts necessary studies and collaborates with relevant units to ensure that orders are ready on time,
- Examines suspected counterfeit TL or FX banknotes and valuable papers produced by the Bank and conducts necessary activities to combat counterfeiting effectively,

- Operates the Quality Management System and ensures its continuity,
- Follows and implements technological innovations in its area of activity,
- Introduces innovations in banknote and valuable paper printing and printing technologies; conducts necessary research to find out if the quality raw material used in printing can be produced in the domestic market; establishes experimental mechanisms for research and development activities; manufactures prototype machines and systems,
- Determines and conducts the operational and implementation principles of the unit.

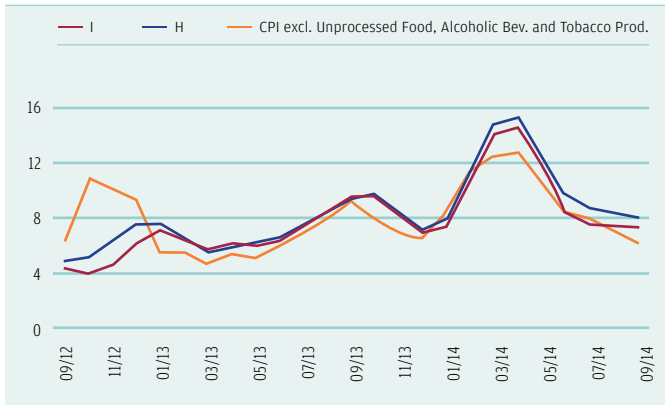
The Banknote Printing Plant Department executes its functions in seven divisions: the Banknote Production Division, the Production Control and Other Products Division, the Maintenance, Repairs and Plant Division, the Administrative Services Division, the Financial Services Division, the Research and Development Division and the Counterfeit Monitoring and Analysis Division.



THERMOMETER

Special CPI Aggregates

CHART 1: SPECIAL CPI AGGREGATES
(Seasonally adjusted, Annualized 3-Month-Average % Change)



Last Observation: September 2014
Source: TURKSTAT - CBRT

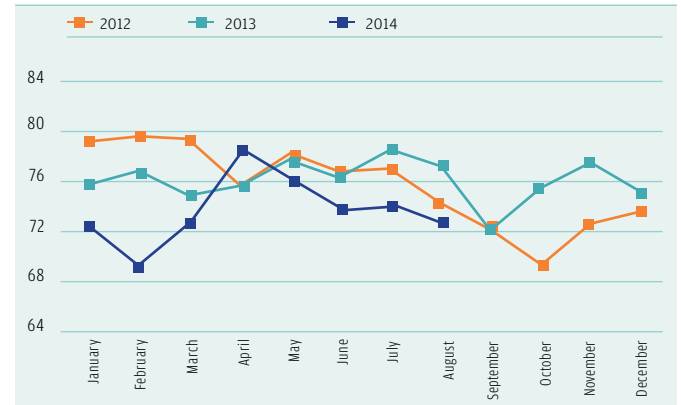
Inflation can be defined in various ways by excluding some goods groups and certain items with volatile prices from the inflation index under the assumption that the inflation indices do not fully reflect core inflationary trends. Such definitions are also monitored by central banks. Within this framework, each month the Turkish Statistical Institute (TURKSTAT) publishes the special CPI aggregates in addition to the CPI.

In September, consumer prices were up by 0.14 percent and annual inflation receded to 8.86 percent. The annual rate of increase in the SCA-H and SCA-I indices edged down on a monthly basis by 0.41 and 0.42 percentage points to 9.95 percent and 9.25 percent, respectively. Even though the food group added 0.12 percentage points less to the annual CPI inflation on a monthly basis, it was still the highest contributor among sub-groups by 3.36 percentage points.

The underlying trends of inflation in quarterly averages suggest that the improvement in core inflation indicators continued.

Consumer Confidence

CHART 2: CONSUMER CONFIDENCE INDEX



Last Observation: August 2014
Source: TURKSTAT-CBRT

The Consumer Tendency Survey conducted jointly by the TURKSTAT and the CBRT on a monthly basis measures consumers' personal financial positions and their current assessments regarding the economy in general and also their expectations for the forthcoming period, as well as propensities to spend and save in the near future.

The Consumer Confidence Index calculated based on consumer tendency survey takes values in the range of 0-200 and measures optimistic or pessimistic progress in consumer confidence. It results materialized higher in April 2014 compared to the same month of 2012 and 2013 and then posted a slight decline. It decreased by 0.9 percent month-on-month from its level of 73.9 to 73.2 in August.

No: 32/September 2014

Published quarterly by the Central Bank of the Republic of Turkey

Editorial Board

Owner on behalf of the Central Bank of the Republic of Turkey and Managing

Editor: Dr. Yusuf Soner Başkaya

Editorial Board: Dr. Mehmet Fatih Ekinci, Dr. Eyup Kahveci, Tangül Hınçal, Dr. Gülay Erün, Canan Binal Yılmaz, Emrah Uslu, Özgür Balaban, Duygu Konukçu, Cansu Gör.

Advisor: Nuri Aksu

Central Bank of the Republic of Turkey

Communications and Foreign Relations Department
İstiklal Cad. No: 10 06100
Ulus - Ankara TURKEY
Phone: +90 312 507 50 00

Twitter: @CentralBank_TR

Facebook: TürkiyeCumhuriyetMerkezBankasi

YouTube: TCMerkezBankasi

Google+: Merkez_Bankasi

Free edition of TCMB.