



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **Formulating Monetary Policy In The Face of Current Global Challenges**

**Turalay Kenç**

**Deputy Governor**

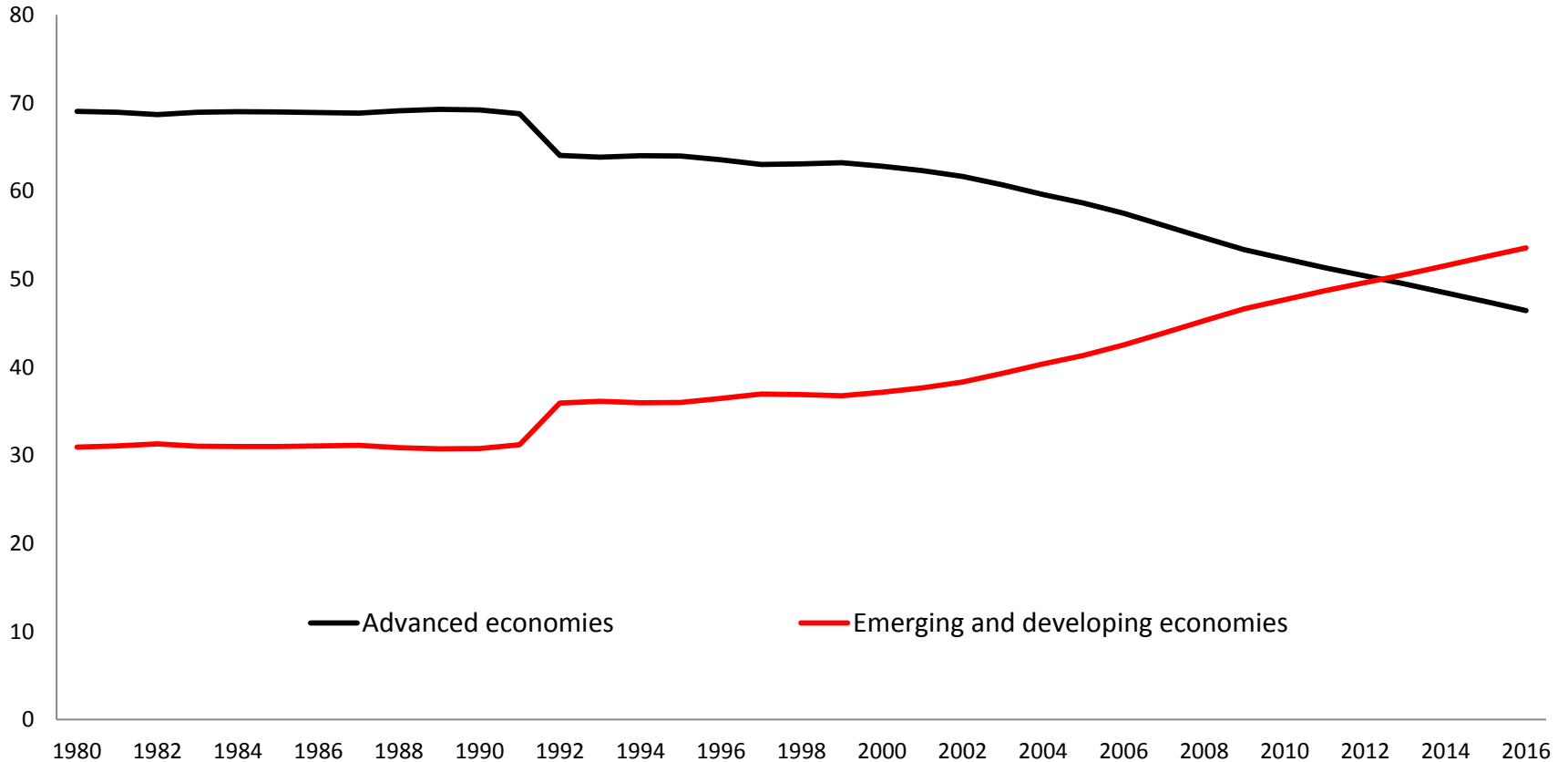
**October 2, 2012**

- **RISING ROLE OF EMES IN THE WORLD ECONOMY**
- **WHY HAS TURKEY'S MONETARY POLICY BECOME EFFECTIVE?**
  - **TURKEY'S STOCK BALANCES**
  - **RICH MONETARY FRAMEWORK**
- **MONETARY POLICY RESPONSE AGAINST GLOBAL CHALLENGES**

# RISING ROLE of THE EMEs

## Share of EMEs in the world GDP has been increasing.

### Shares in the World GDP (%, GDP Based on PPP)



Source: HSBC, World in 2050, January 2012

**Both stock and flow balances in EMEs are better than those of ACs.**

**Growth prospects are better.**

**Unemployment rates in G7 are higher.**

**Stock balances (Public debt/GDP etc.) are better.**

**Risk premia are better.**

# Policy space and effectiveness in EMEs are bigger than those of ACs.

Close to zero effective rates in ACs

Constraints to QE policies in ACs (collateral etc.)

High budget deficit and debt stock

Low macroprudential buffers

**The impact of transmission channels has been weakening.**

**Trade Channel: Increased trade between EM**

**Financing Channel: Buffers such as FX reserves,  
CCSs and collateral agreements**

**Expectation Channel: Policy Coordination in EMEs**

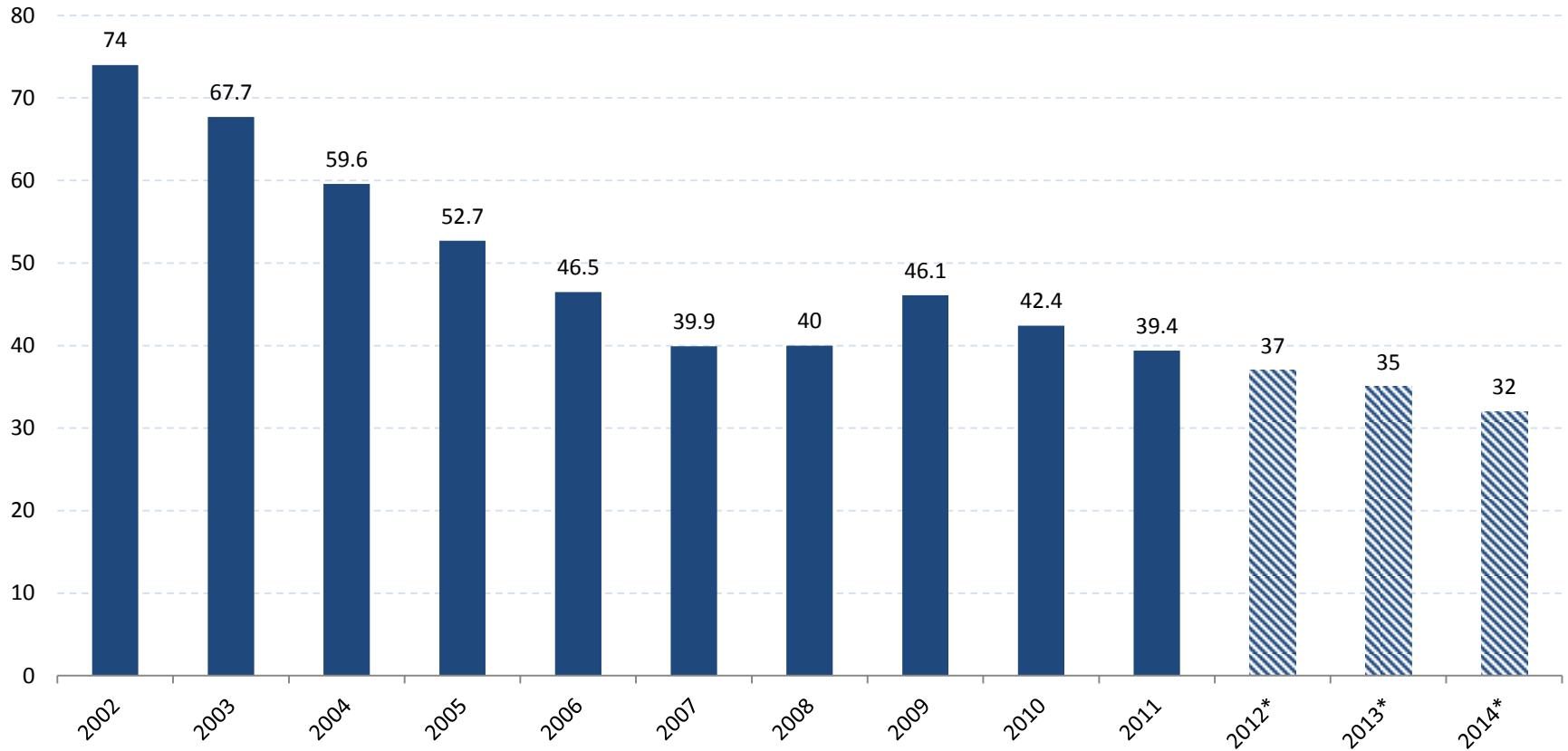
# **WHY HAS TURKEY'S MONETARY POLICY BECOME EFFECTIVE?**

- TURKEY'S STOCK BALANCES**
- RICH MONETARY FRAMEWORK**



## Fiscal dominance continues to decline...

### Public Debt Stock (% of GDP)

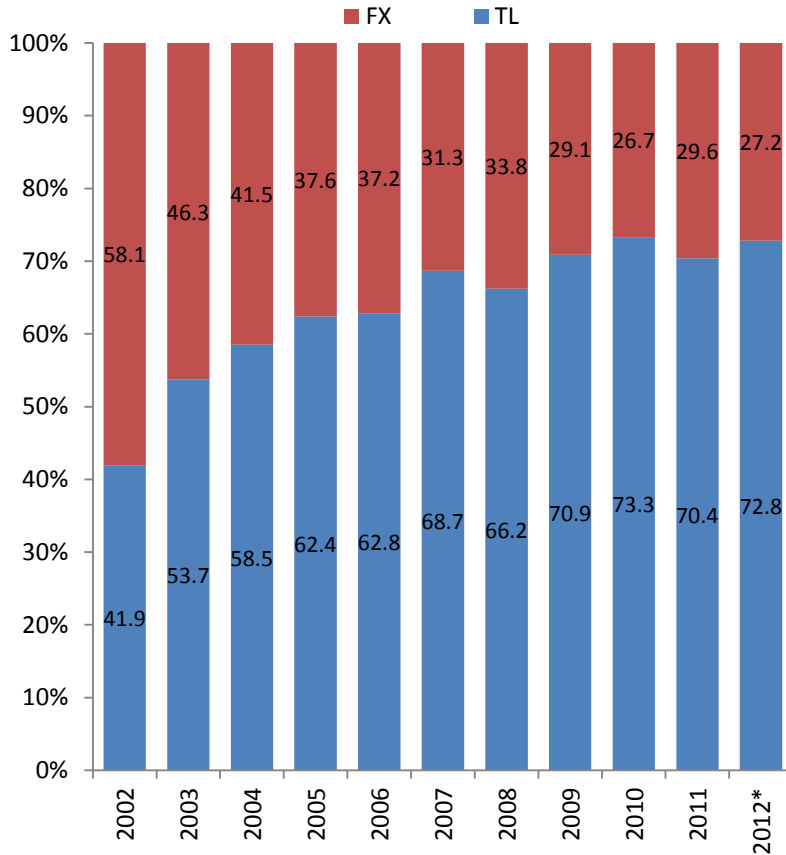


Source: Treasury, CBRT

\*MTP forecasts (2012-2014)

...with significant improvement in its composition.

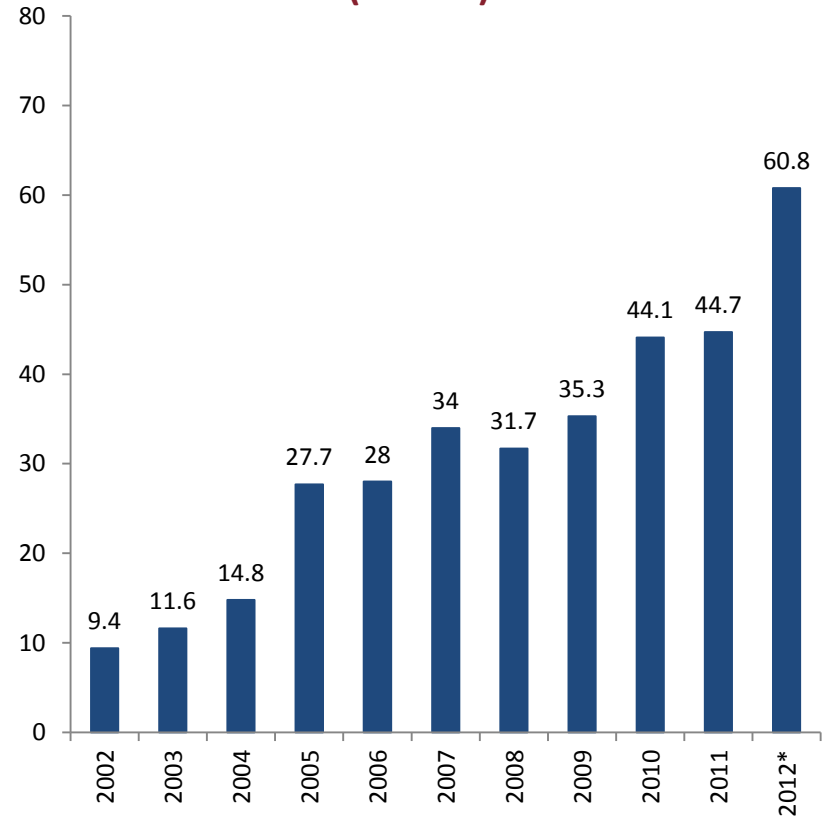
### Currency Composition (%)



Source: Treasury, CBRT

\*August 2012

### Average Maturity of Domestic Borrowing\*\* (month)



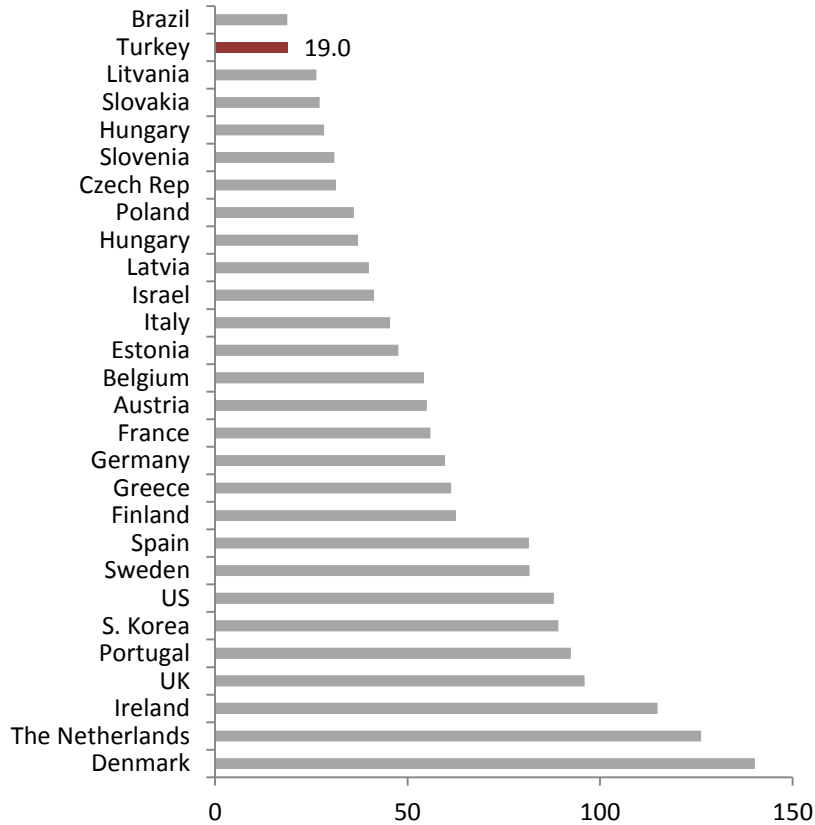
Source: Treasury

\*August 2012

\*\*Flow data

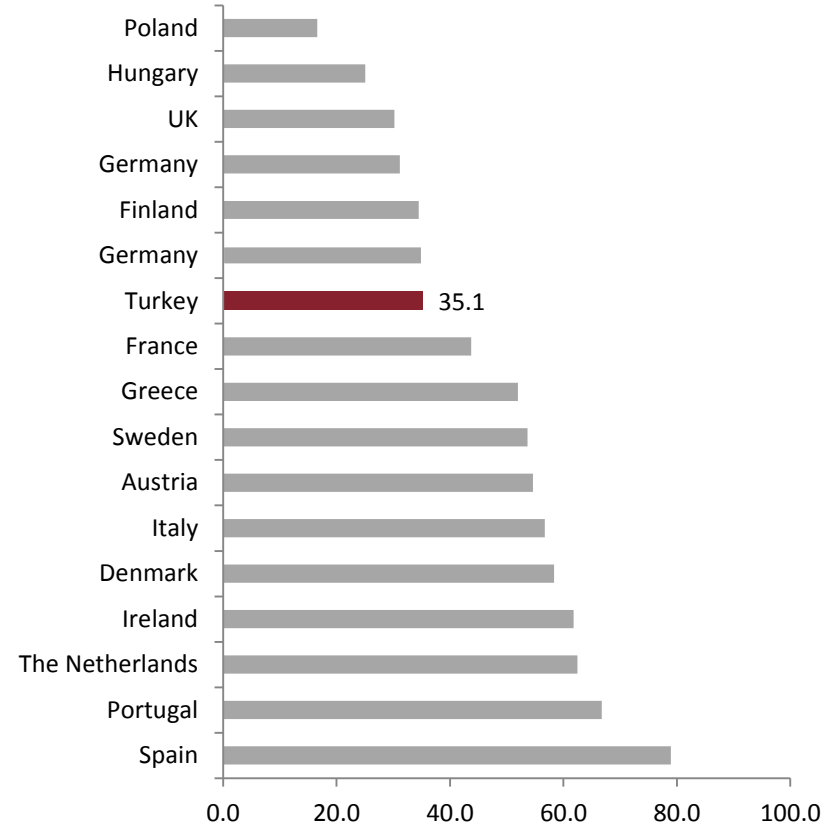
# While real sector liabilities are low...

## Household Liabilities (% of GDP)



Source: ECB, CBRT.

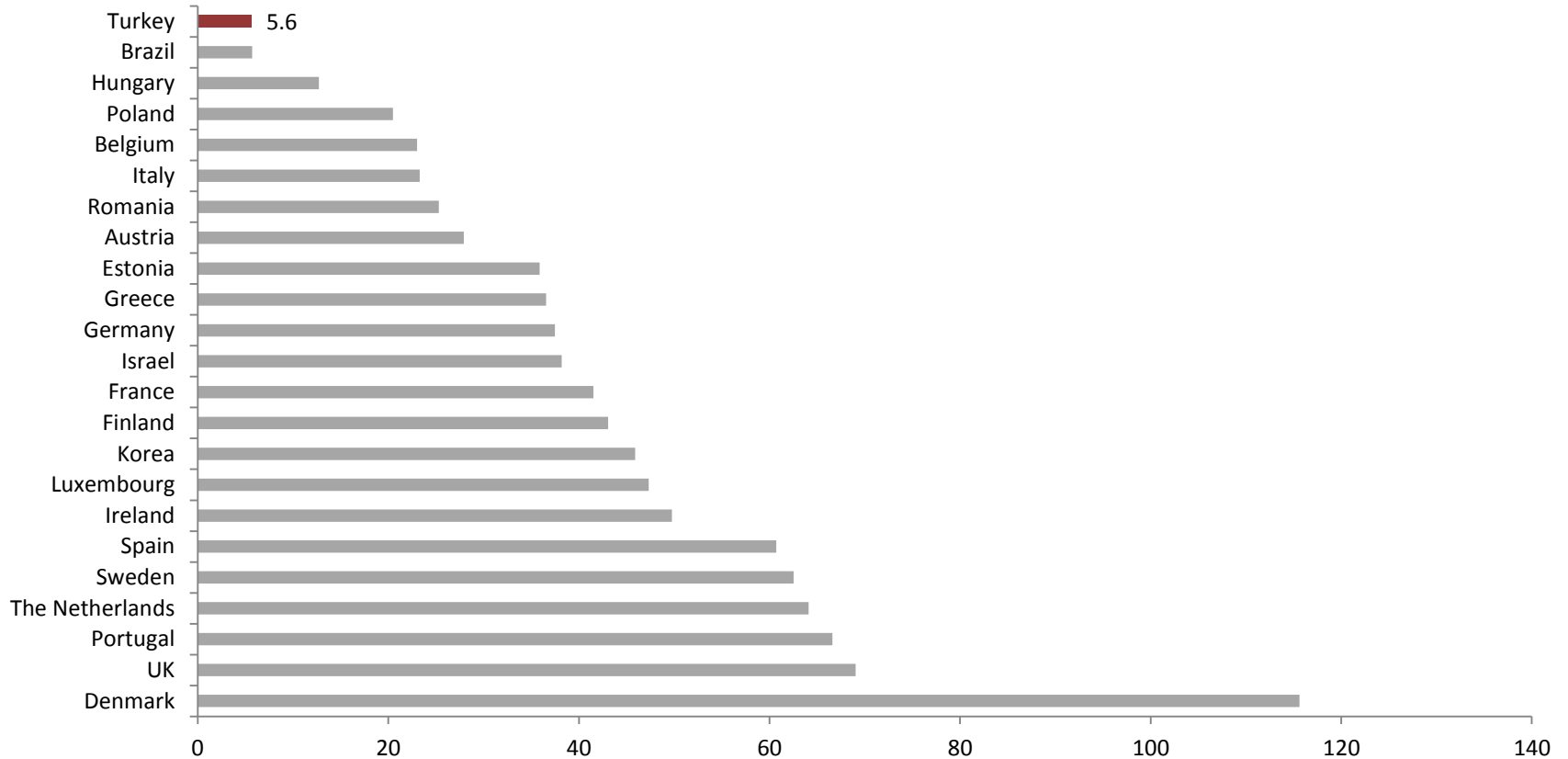
## Corporate Liabilities (% of GDP)



Source: ECB, CBRT.

...housing loans do not pose a risk.

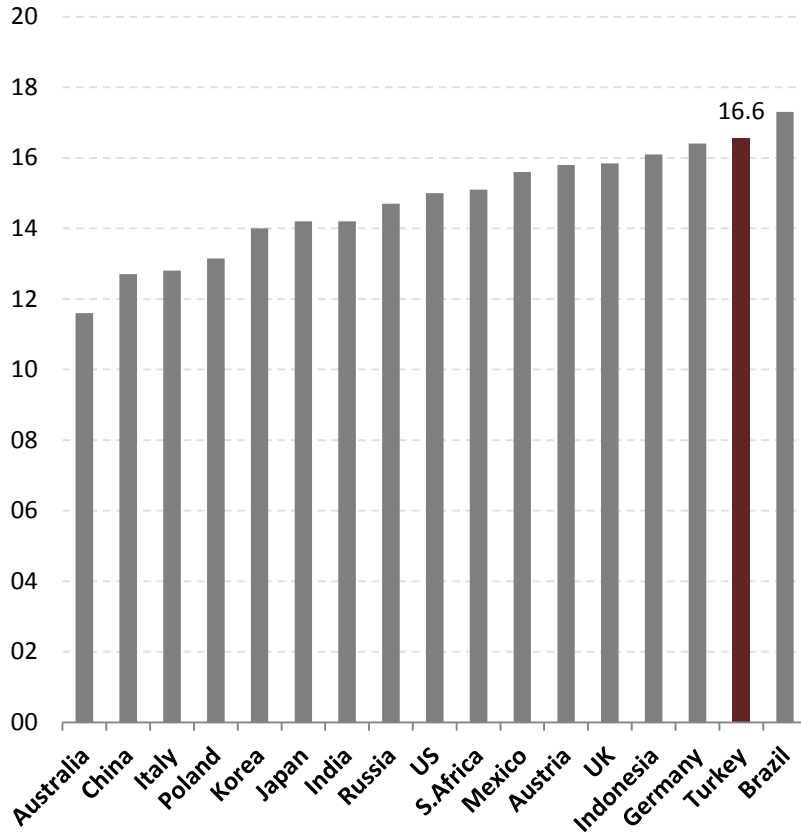
## Housing (Mortgage) Loans (% of GDP)



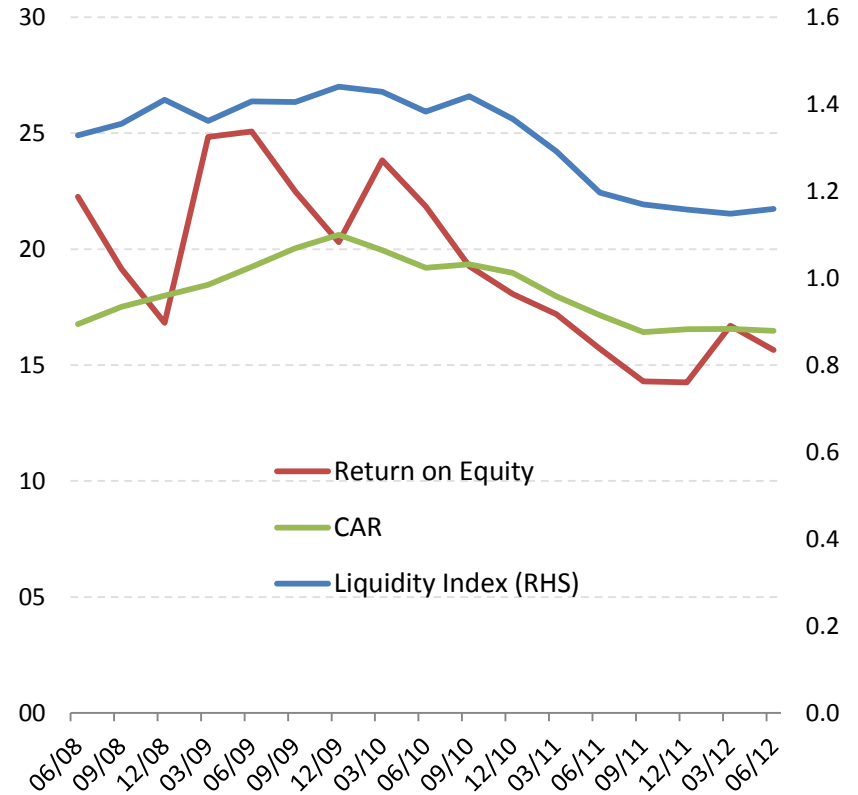
Source: ECB, CBRT.

# Banking sector capital base presents a healthy outlook.

## Capital Adequacy Ratio (as of 2011 Q4, %)



## Financial Soundness of the Banking Sector (%)



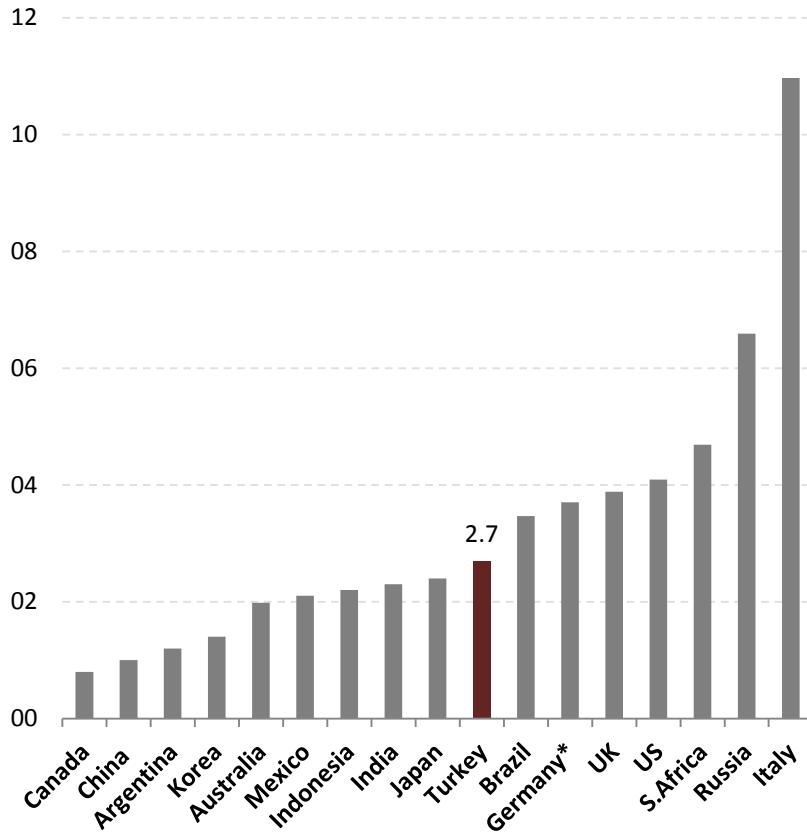
Source: FSI - IMF, CBRT.

Latest Observation: June 2012 for Turkey

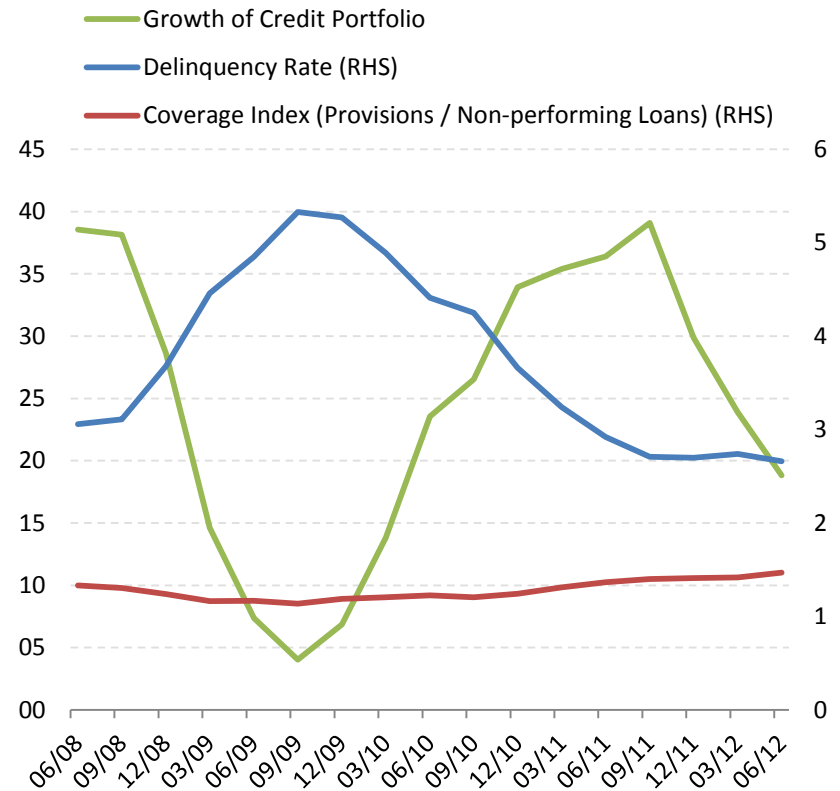
Source: CBRT.

...as well as the NPL ratios.

### NPL Ratios (as of 2011 Q4, %)



### Financial Soundness of the Banking Sector (%)

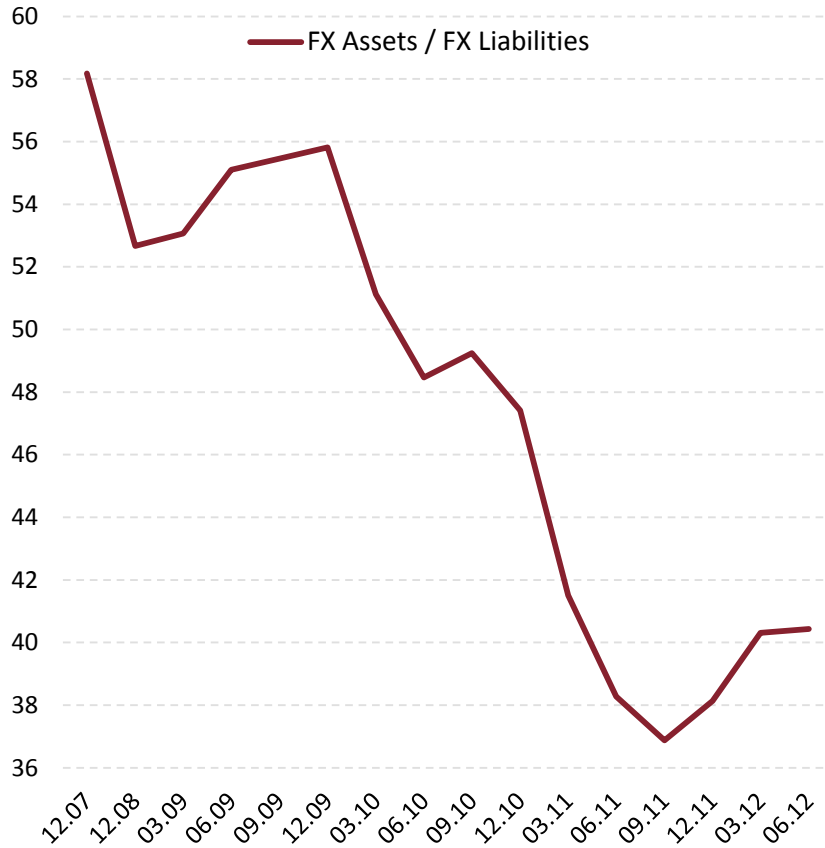


Source: FSI - IMF, CBRT.

\*2010

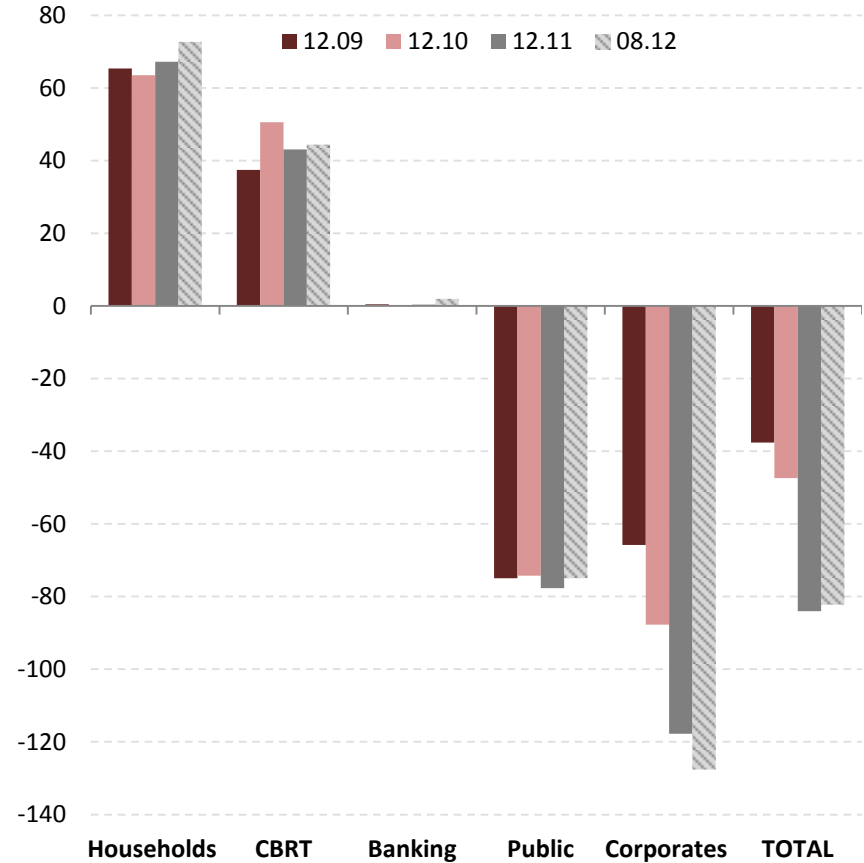
# FX position of households presents a healthy outlook.

## Real Sector FX Assets and Liabilities (%)



Source: CBRT.

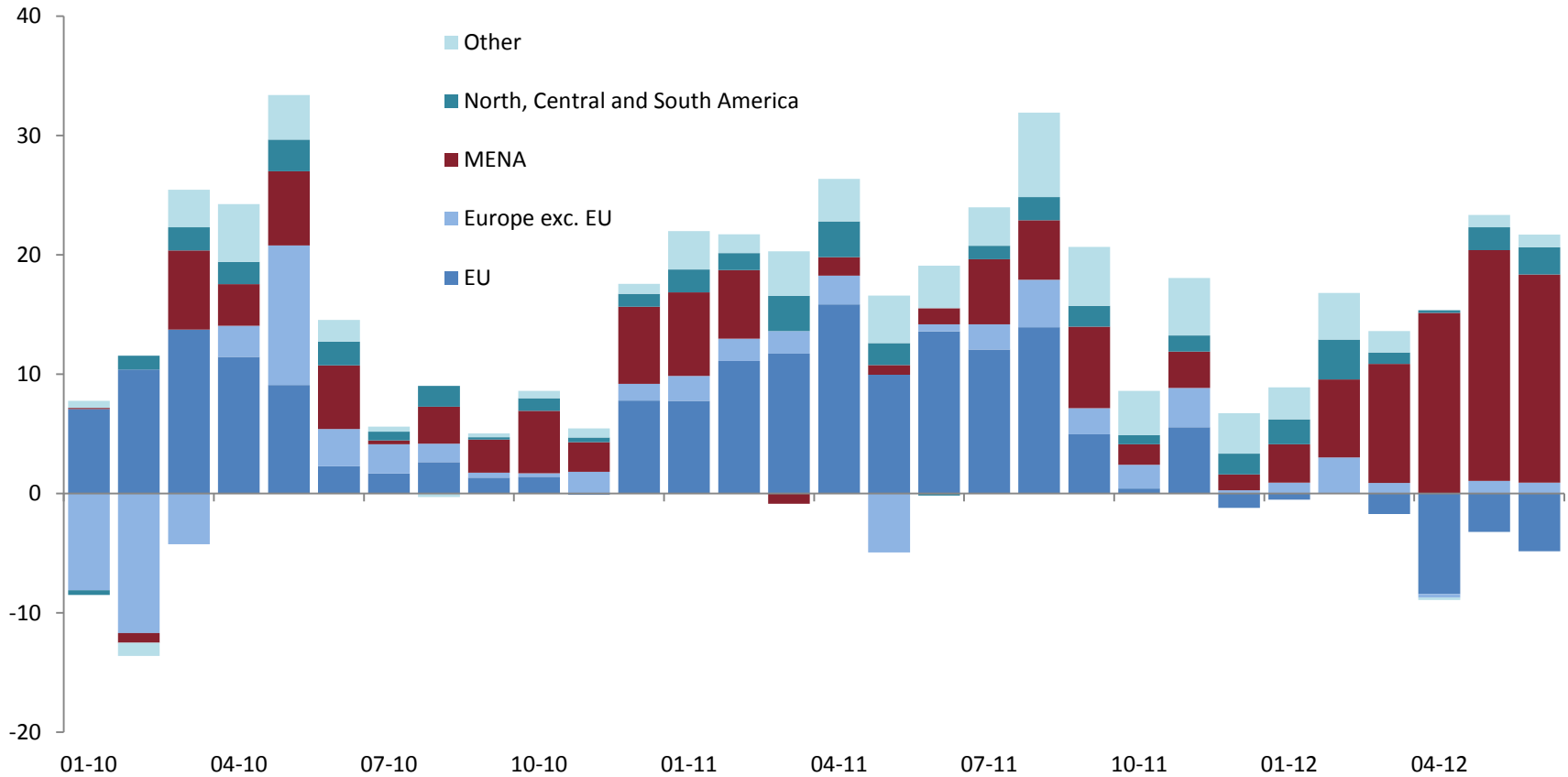
## Net FX Positions (Cumulative Figures, Billion USD)



Source: CBRT BOP Statistics.

# Export diversification continues.

## Export Diversification (Yearly % contribution)



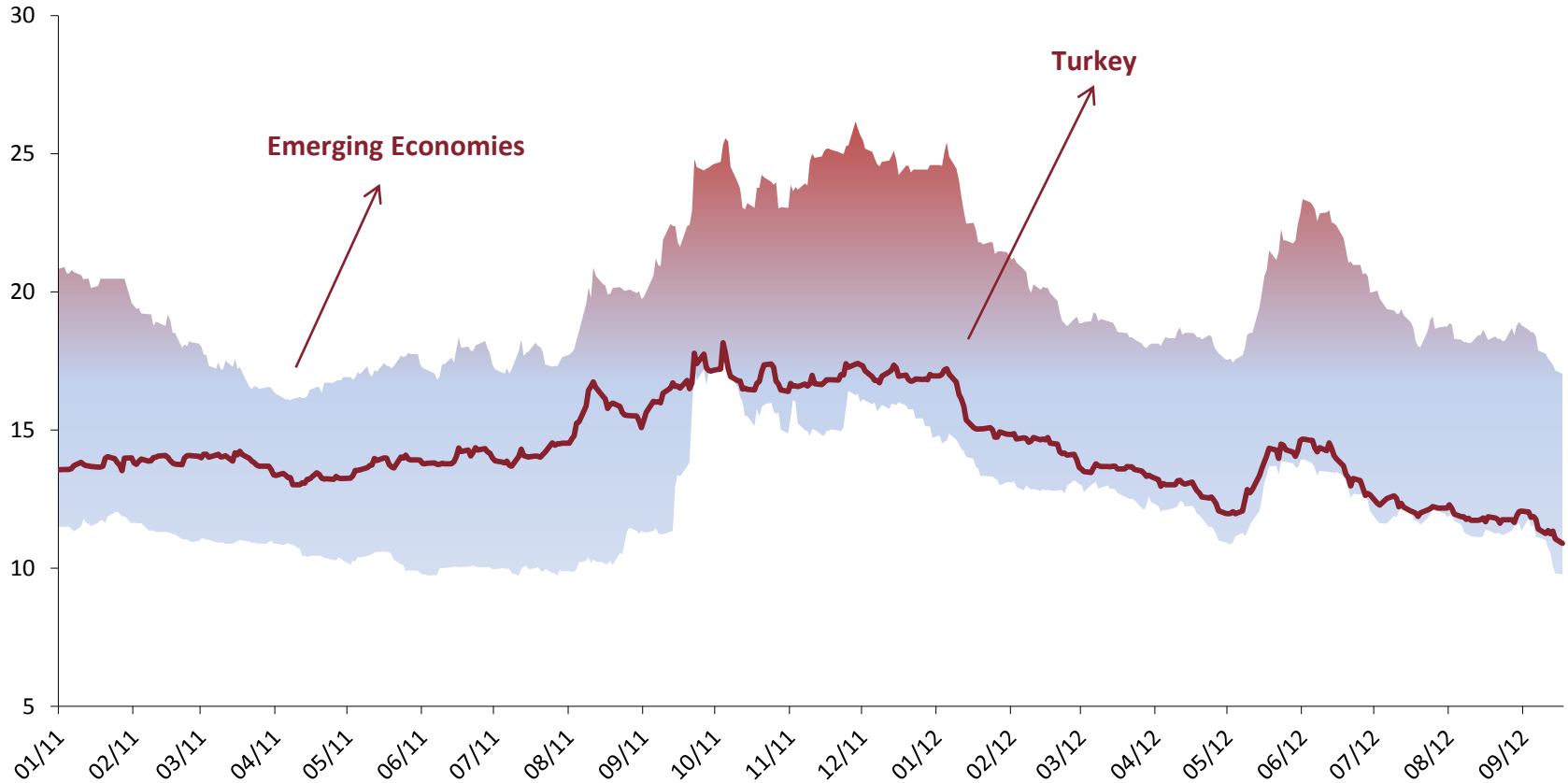
Source: Turkstat

Latest Observation: June 2012



# Exchange rate volatility is low compared to Major EMEs.

## Implied Volatility: Major EM Countries vs. Turkey (12-month, %)

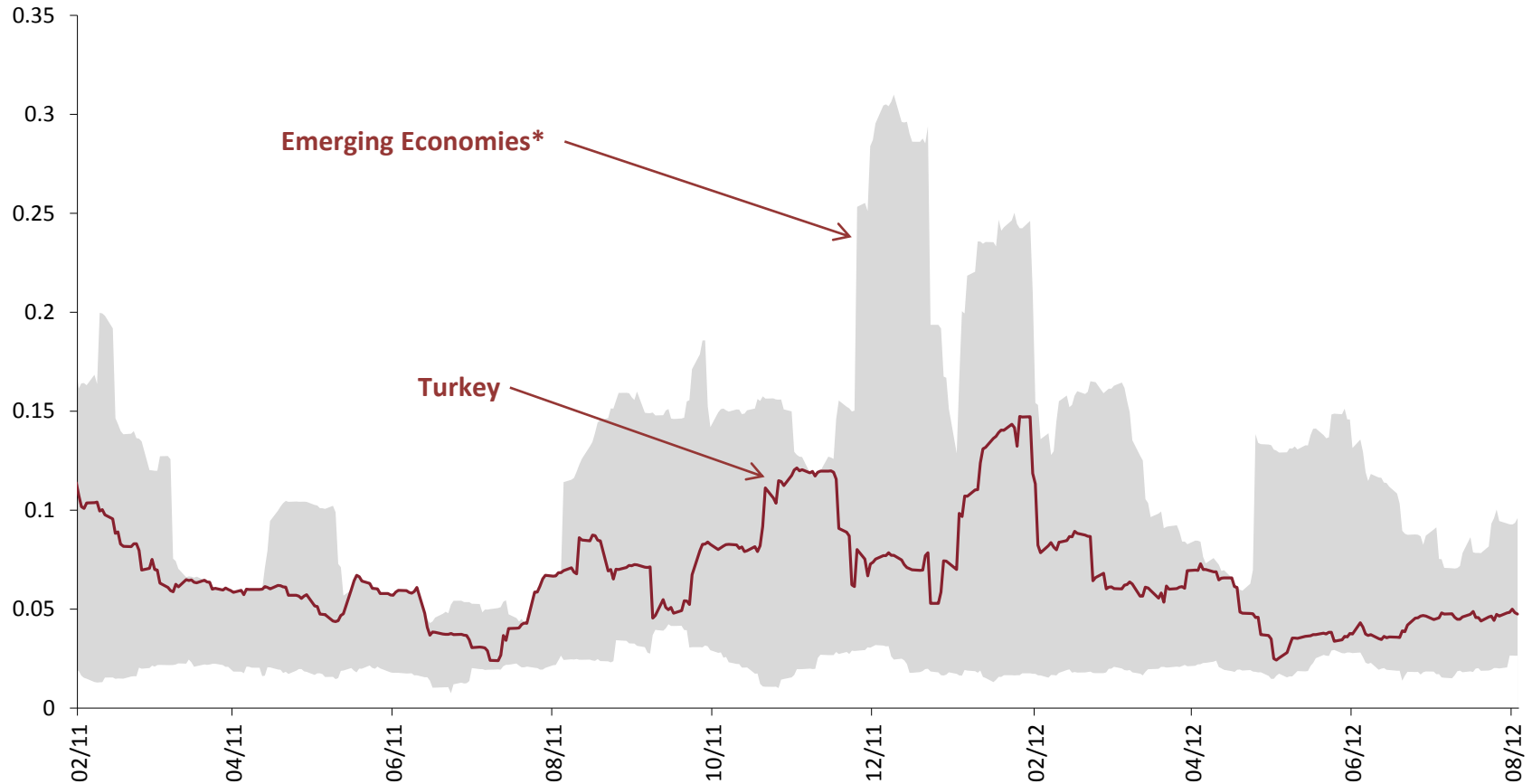


Source: Bloomberg.

Latest Observation: September 2012

# Interest rate volatility is also low compared to Major EMEs.

## Implied Volatility: Major EM Countries vs. Turkey (benchmark rates, standard deviation, 20-day moving window)



Source: Bloomberg.

Source: CBRT.

Latest Observation: September, 2012

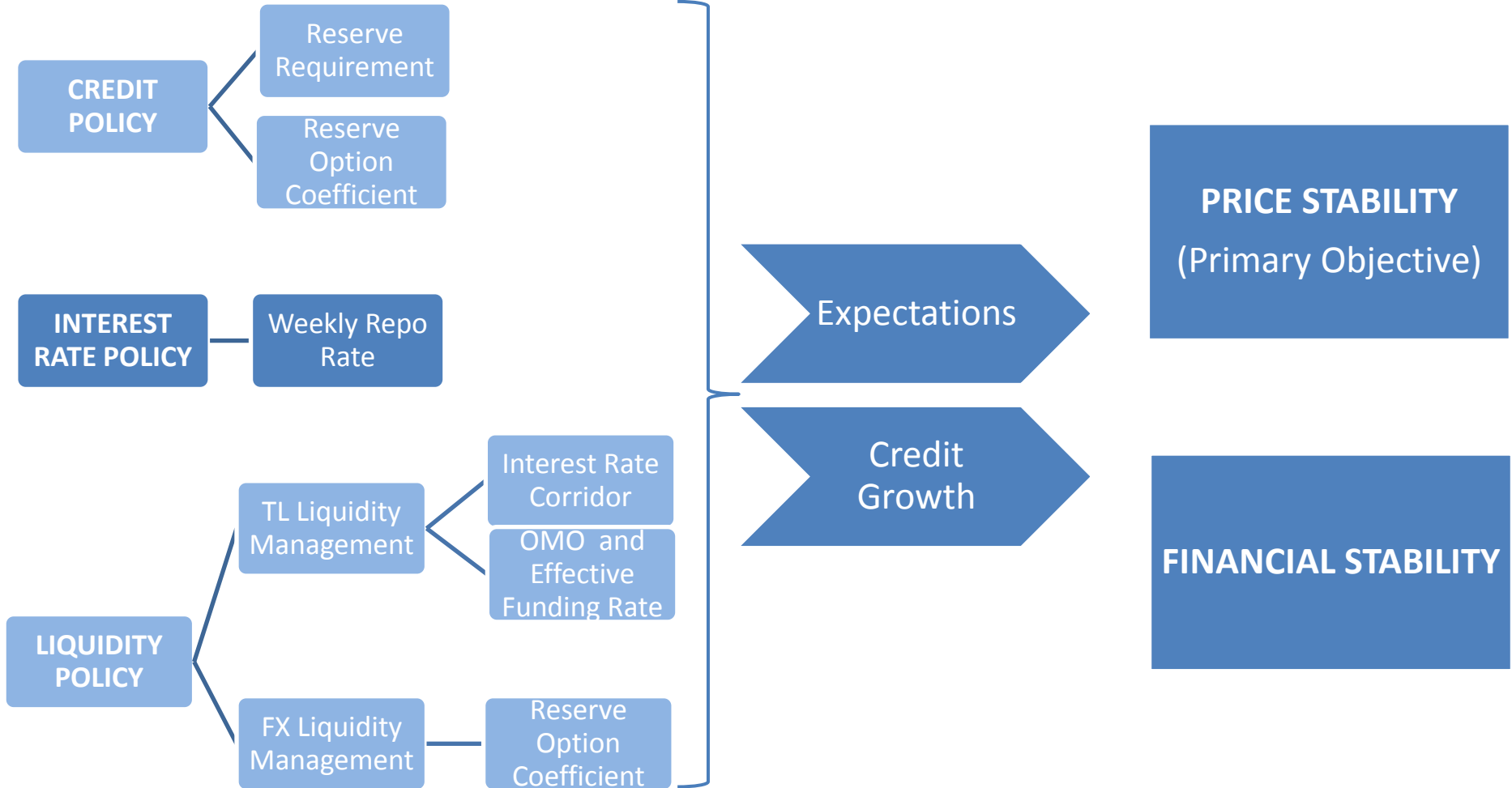
# Rich Monetary Framework

## Aggregate Demand Management + Liquidity Management

### INSTRUMENTS

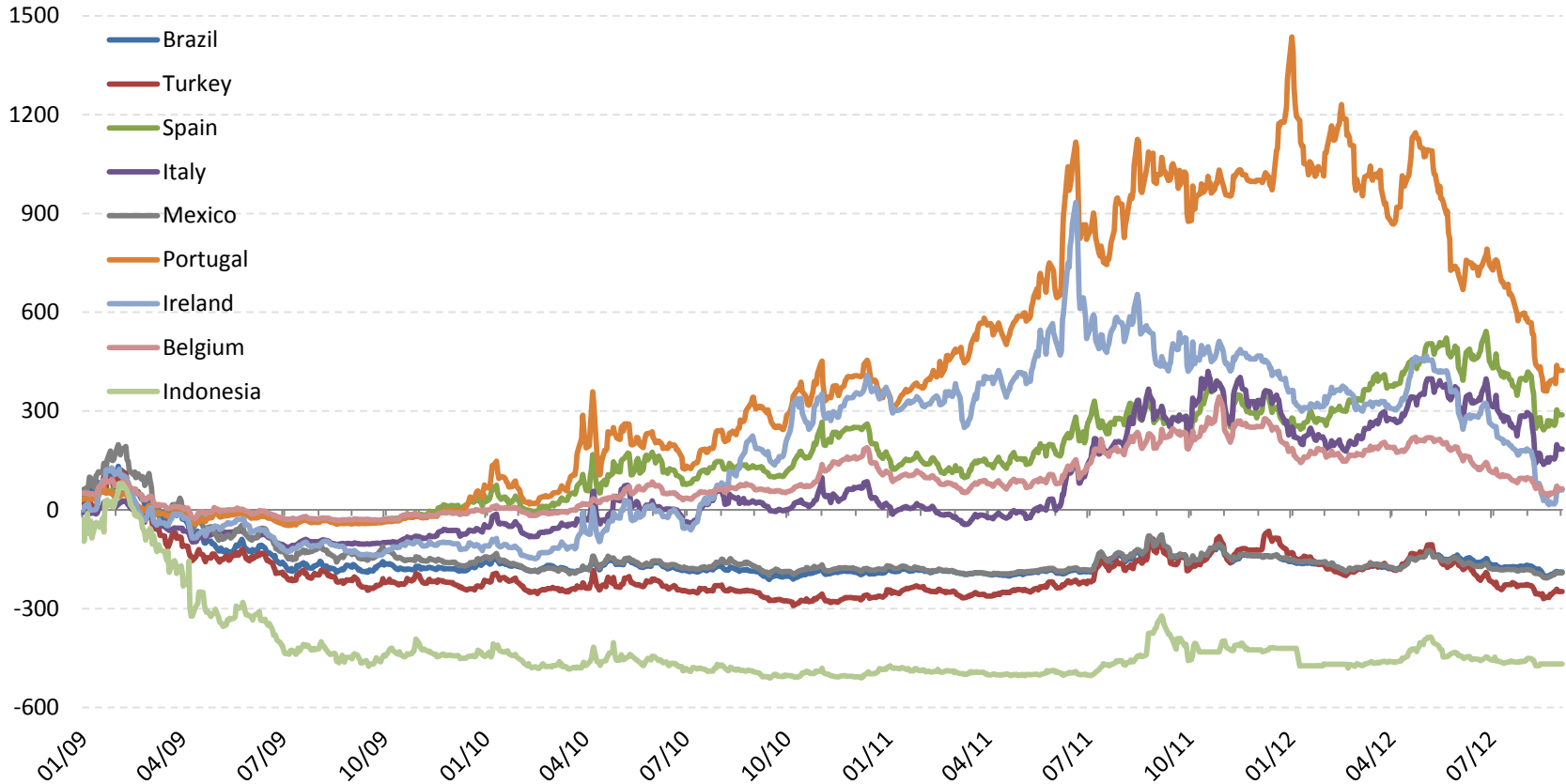
### KEY INDICATORS

### OBJECTIVES



# Markets consider Turkey as an investment grade country.

## CDS Rates (5Y, January 29, 2009=0)

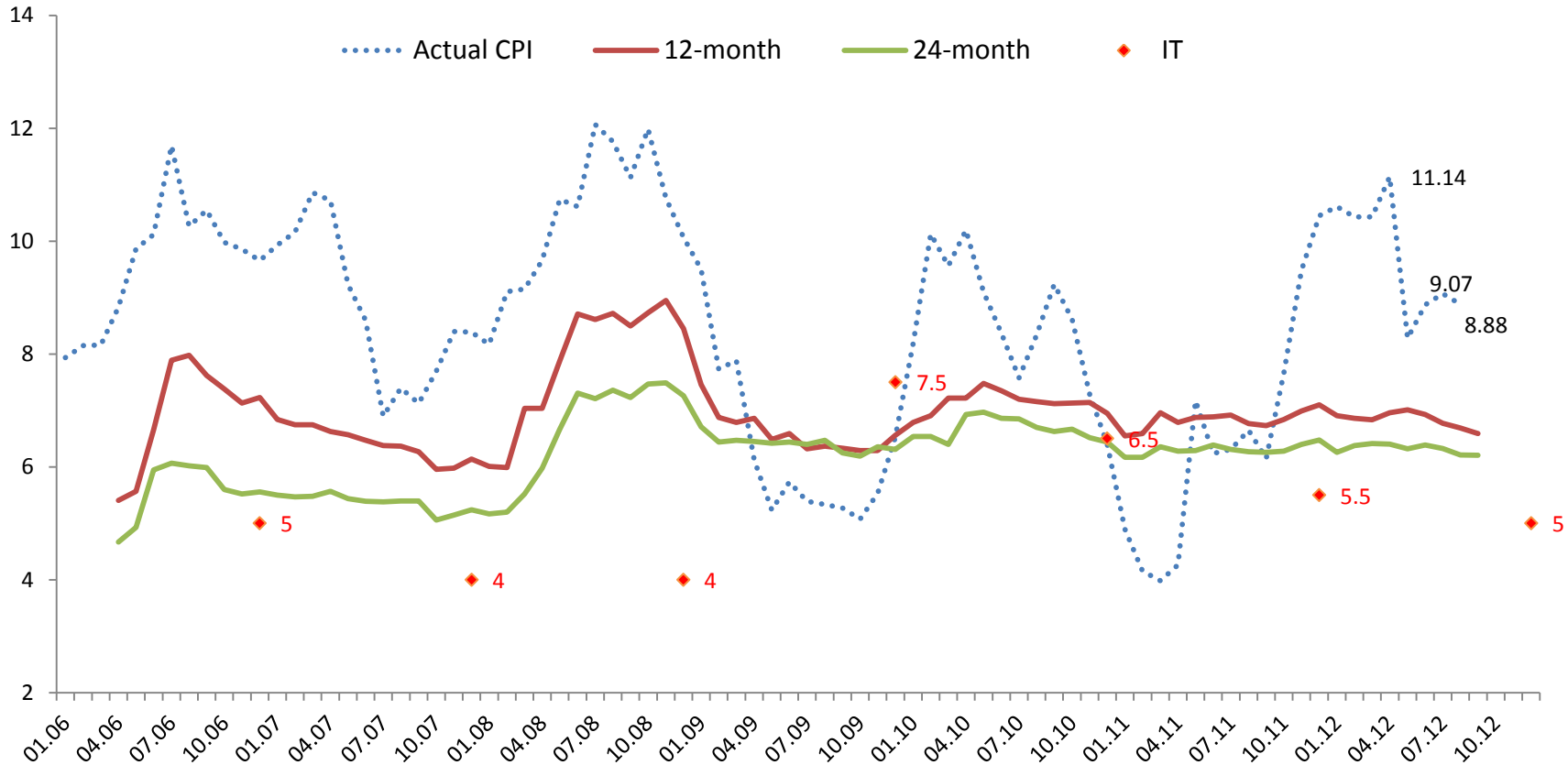


Source: Bloomberg, CBRT.

Latest Observations: October 1, 2012.

# Anchored inflation expectations indicate effective monetary policy.

## Medium Term Inflation Expectations (%)

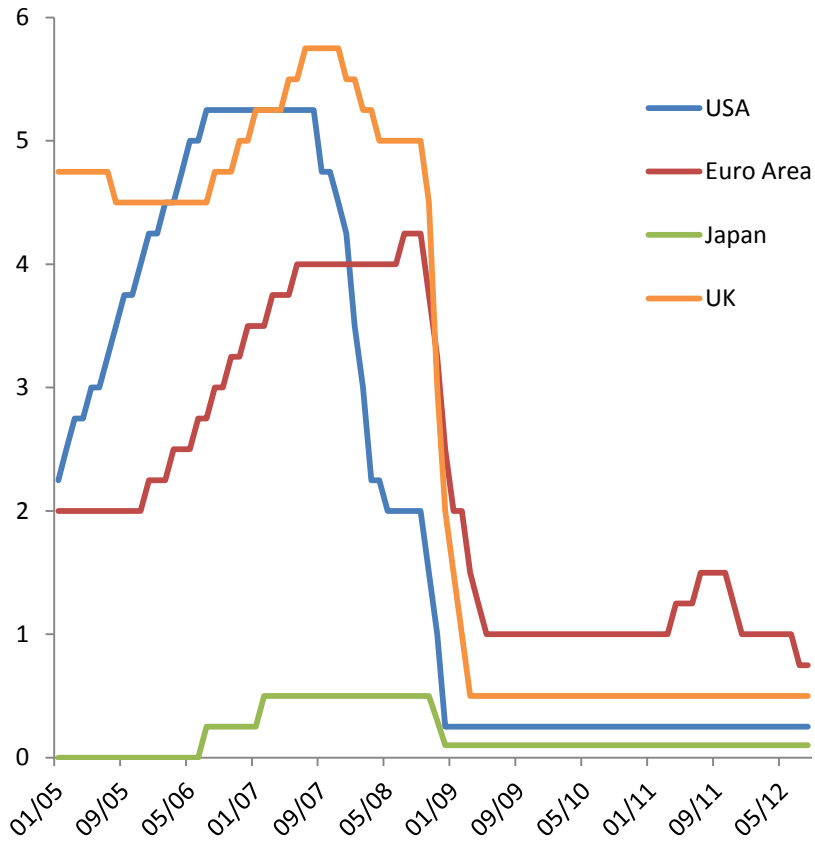


Source: CBRT.

# **MONETARY POLICY RESPONSE AGAINST GLOBAL CHALLENGES**

# While ACs' central banks pumping liquidity...

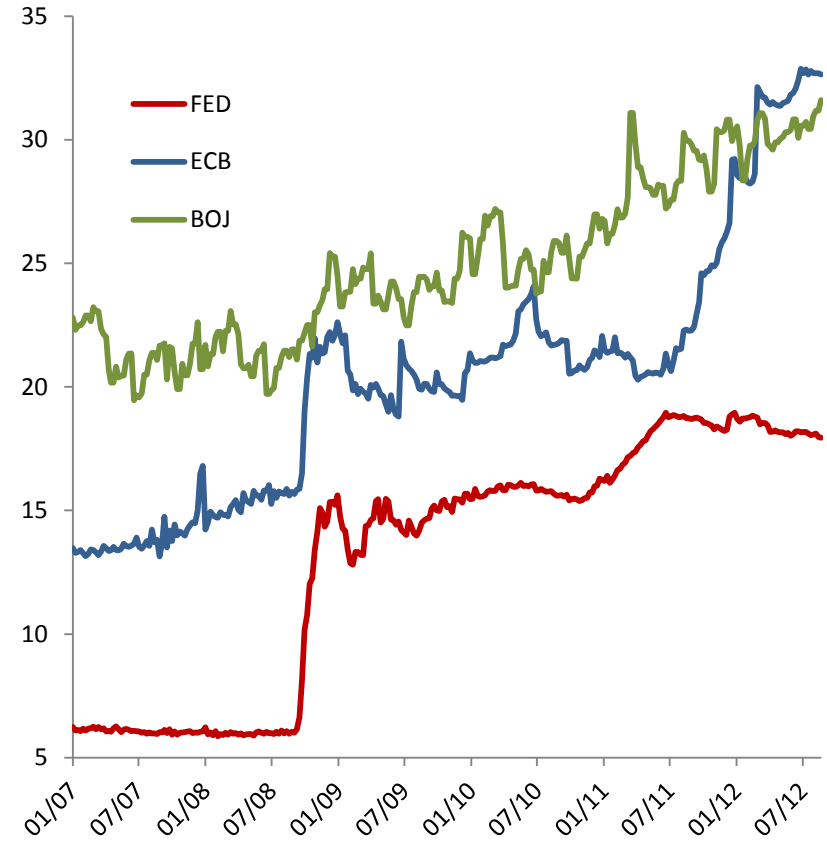
## Policy Rates in Advanced Economies (%)



Source: Bloomberg

Last Observation: August 2012

## Liabilities of Major Central Banks (% of GDP)

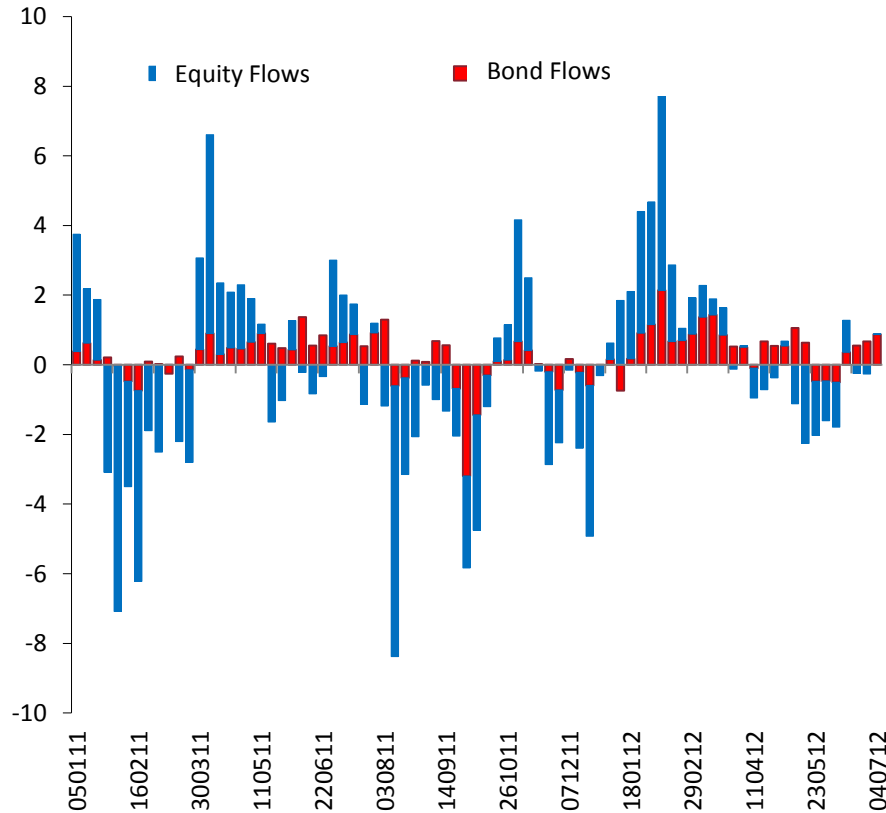


Source: Bloomberg

Last observation: August 2012

...global stress increases the capital flow volatility.

## Capital Inflows to Emerging Markets (Billion USD)



Source: EPFR, Bloomberg.

### Sources of Volatility

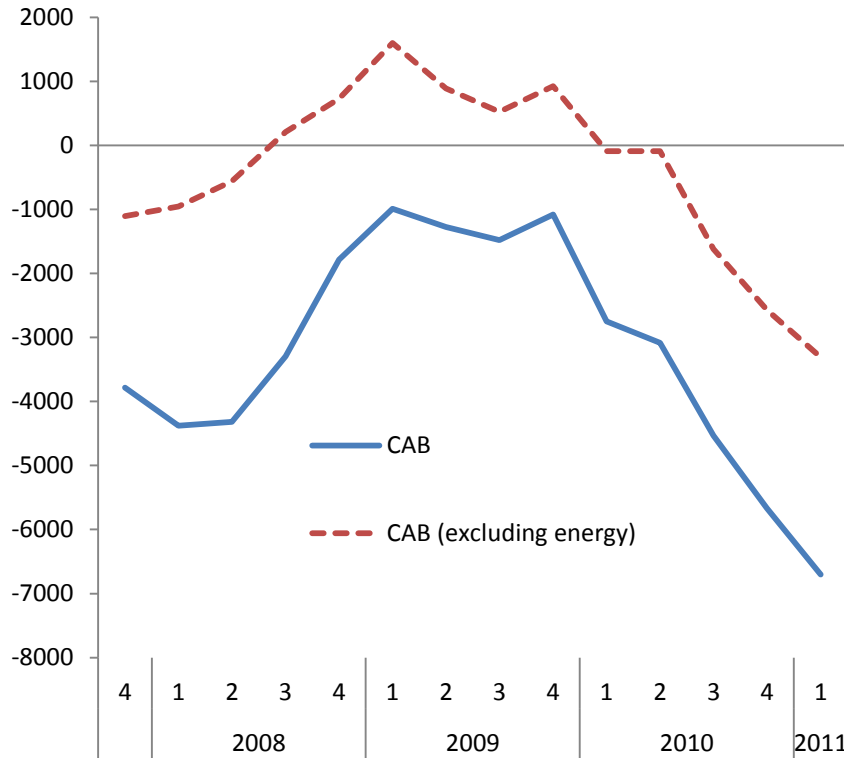
- EZ Problems
- Results of QE Policies
- Risks on energy prices
- US and China growth



# Main financial stability concern in 2010 was the current account balance.

## Current Account Balance

(Seasonally Adjusted, Quarterly Average, Million USD)

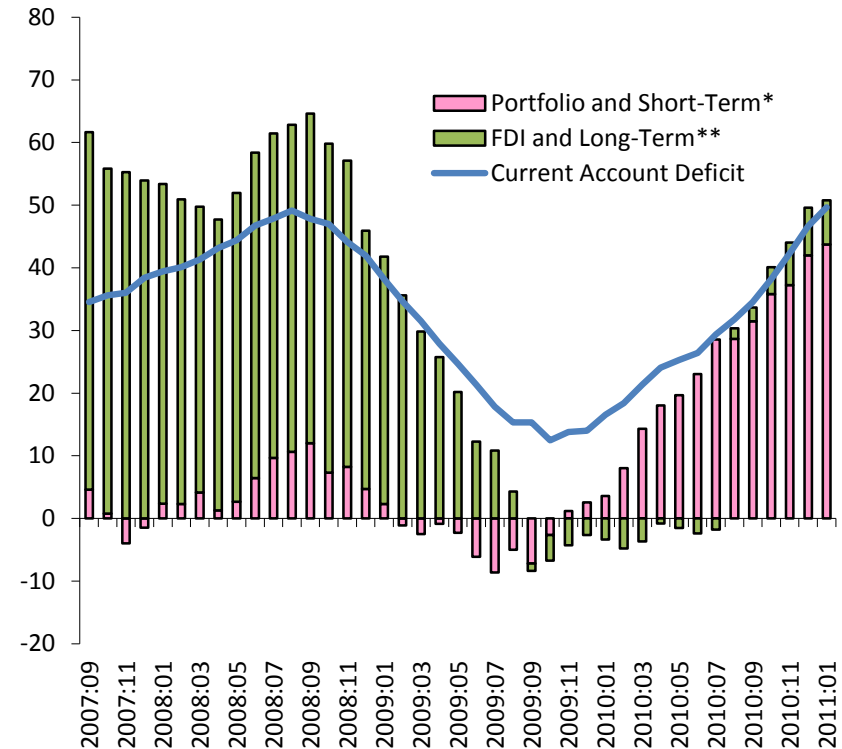


Source: TURKSTAT, CBRT.

- Current account (CA) deficit widened significantly
- In contrast to pre-crisis episodes, most of CA deficit was financed by short-term capital flows

## Main Sources of Current Account Deficit Finance\*

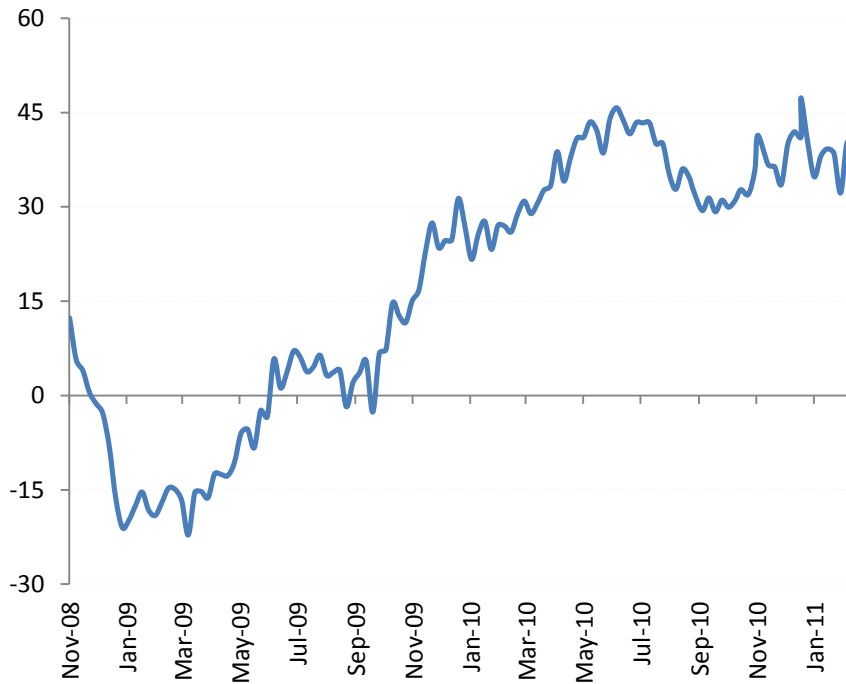
(12-months Cumulative, Billion USD)



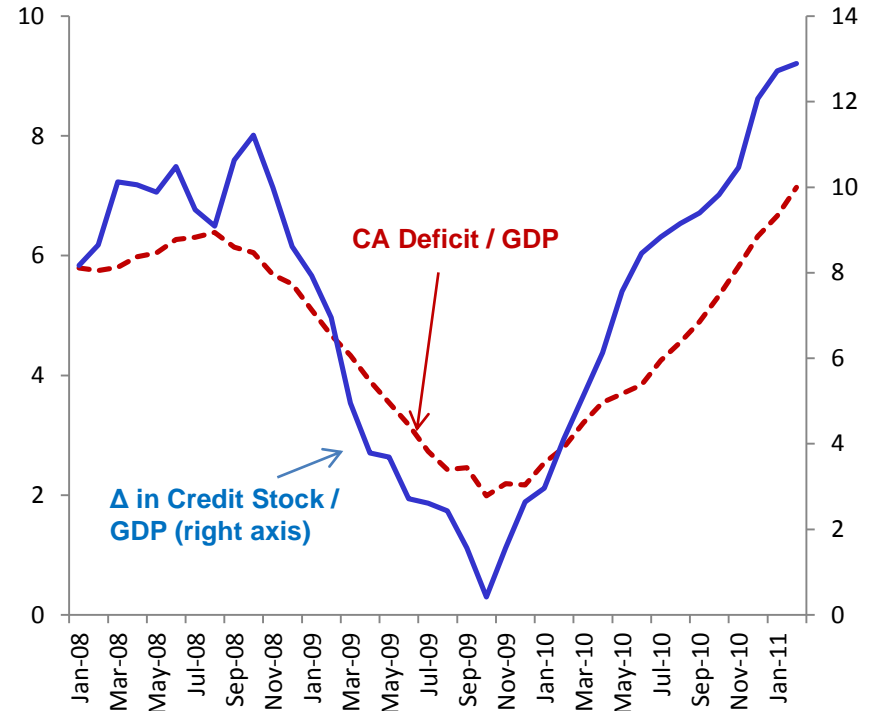
\*Short-term capital movements are sum of banking and real sectors' short term net credit and deposits in banks. Long-term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.  
Source: CBRT.

## Credit growth was very strong.

**Total Loan Growth Rates**  
(13-Week m.a., Annualized, FX Adjusted, Percent)



**Credit Change and CA Deficit / GDP**  
(12 month cumulative, Percent)




Source: CBRT

- Credit growth was very strong
- Positive correlation between credit growth and CA deficit

**Monetary policy aimed to establish rebalancing.**

**Rising current account deficit  
financed by portfolio and short term capital inflows  
have increased the risk of a sudden stop**



**Engineering a soft-landing without hampering the  
primary objective of price stability**

# Rich monetary policy framework employed against global risks.

## Predominant Policy

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**Before August 2011**

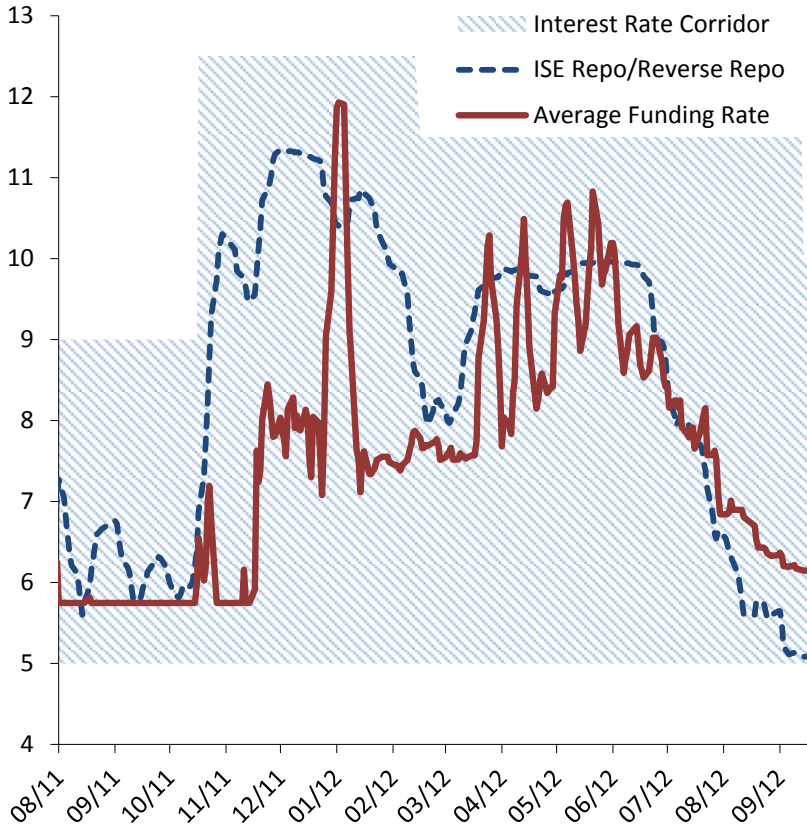
Macroprudential Tightening

**After October 2011**

Monetary Tightening

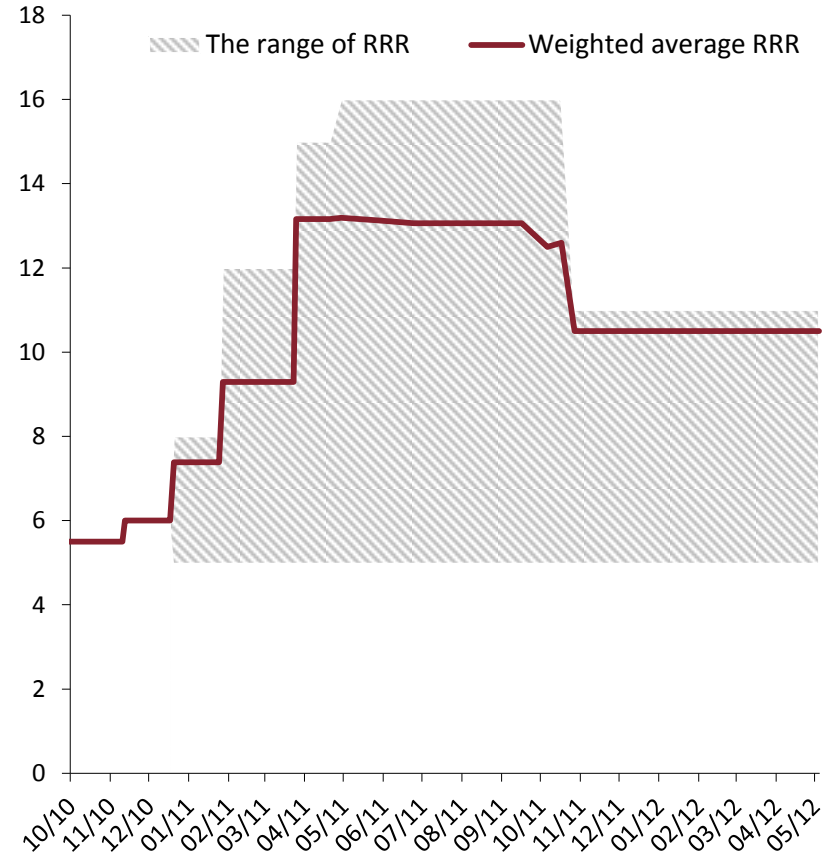
# Interest rate corridor, OMO and RRR were used actively.

## Interest Rate Corridor (%)



Source: CBRT.

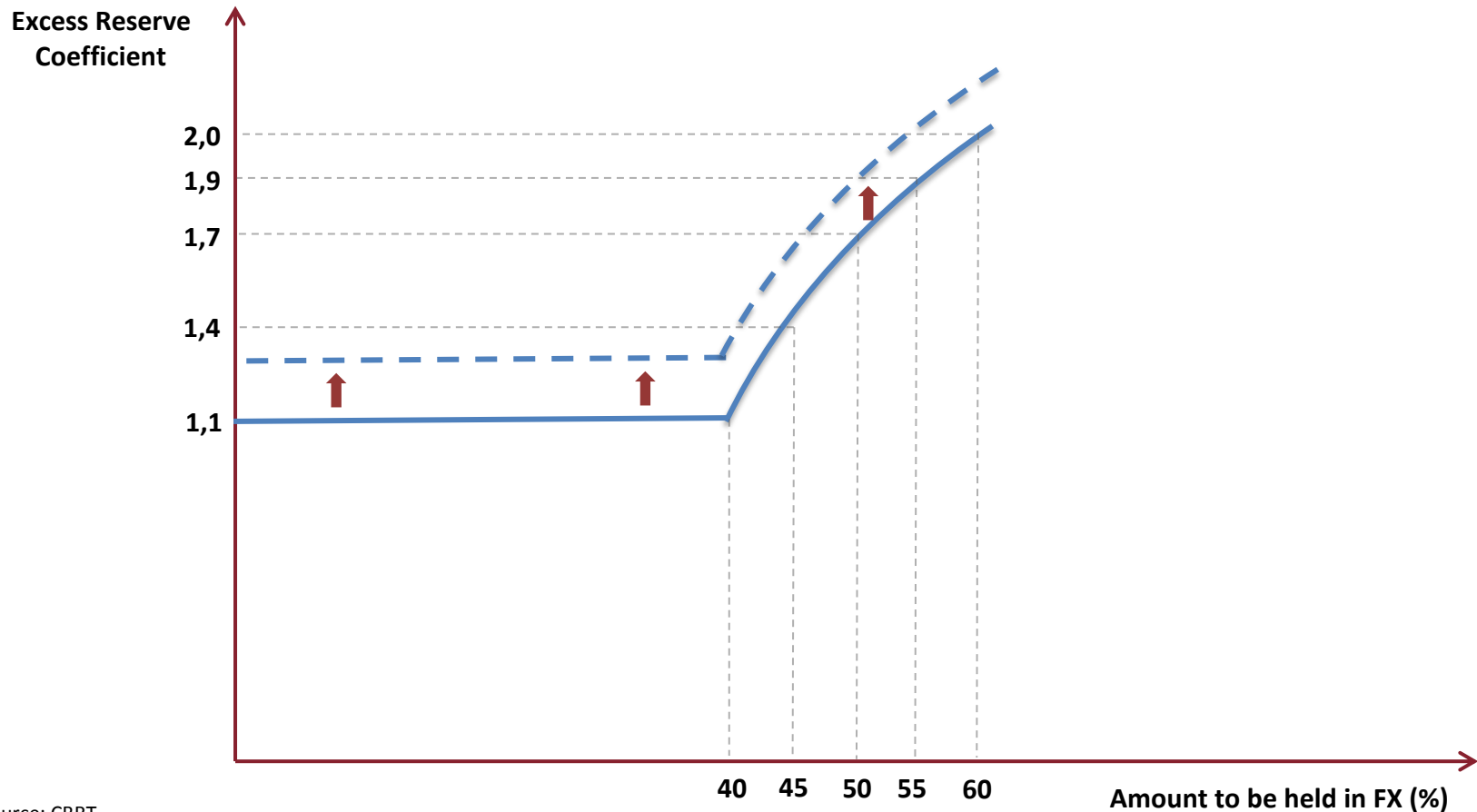
## Reserve Requirements (%)



Source: CBRT.

# Reserve Option Coefficient is introduced as an automatic stabilizer.

## Automatic Stabilizer

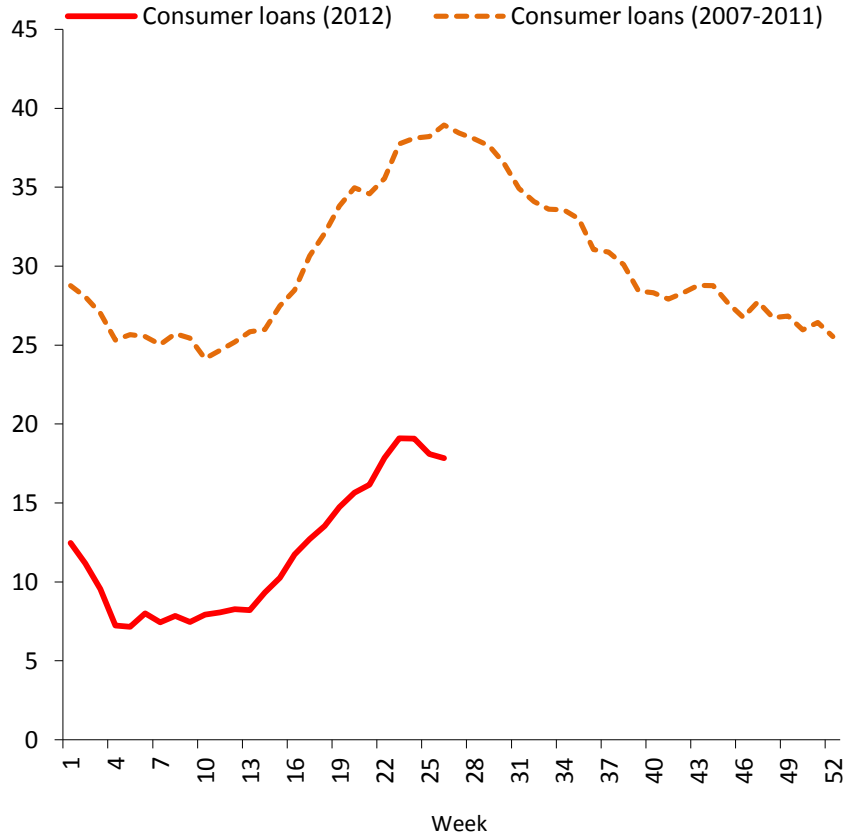


Source: CBRT.

# Deceleration in loan growth has been achieved.

## Consumer Loan Growth Rates

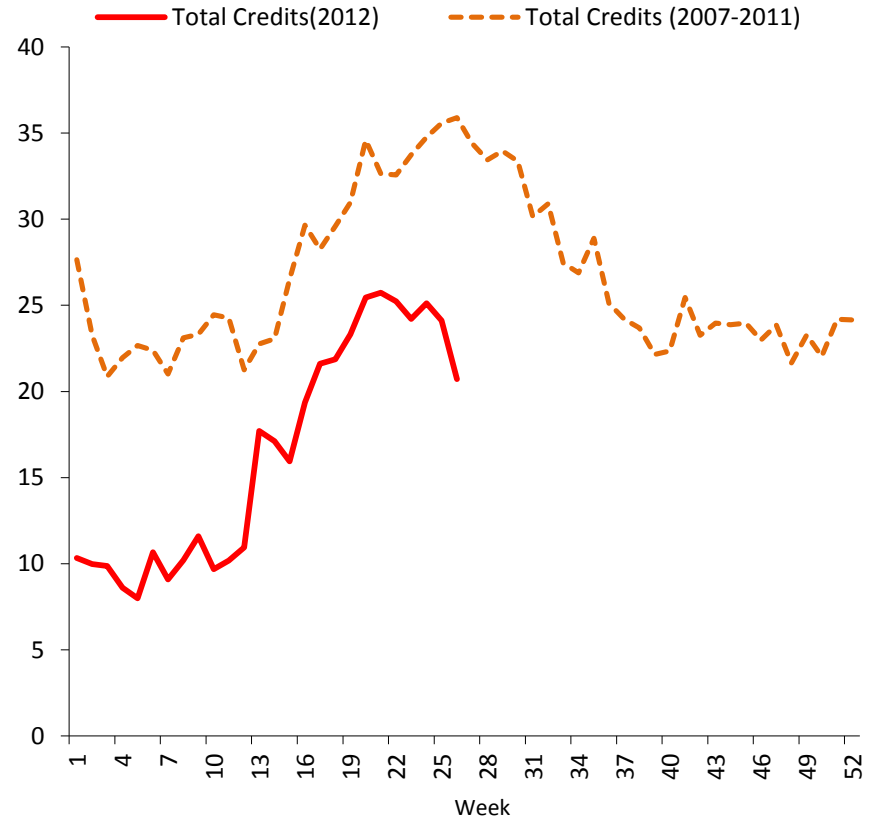
(13-Week M.A., Annualized, FX Adjusted, Percent)



Source: CBRT.

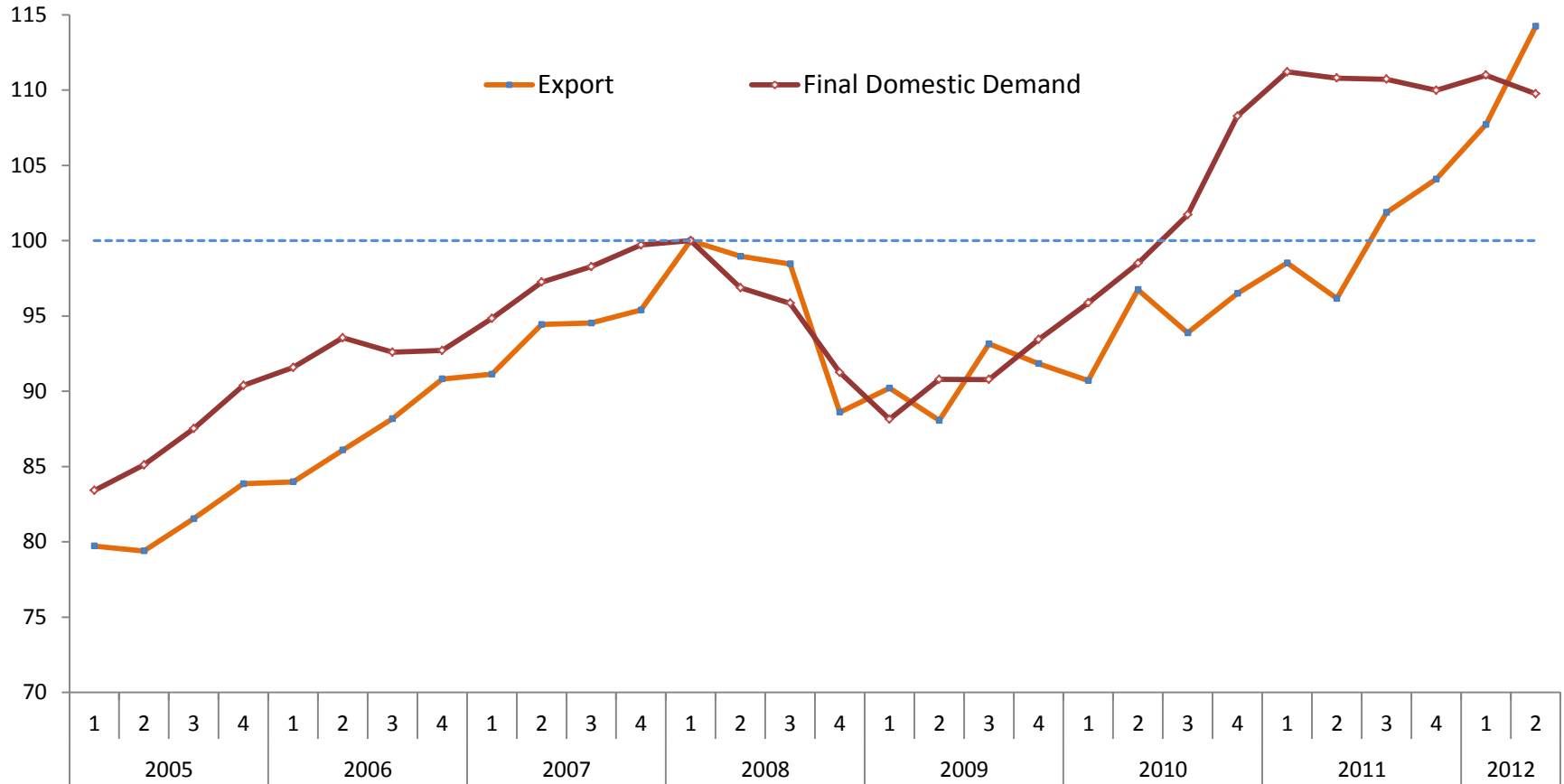
## Total Loan Growth Rates

(13-Week M.A., Annualized, FX Adjusted, Percent)



# Domestic demand grows at a moderate pace.

## Final Domestic Demand and Exports (Seasonally Adjusted, 2008Q1=100)

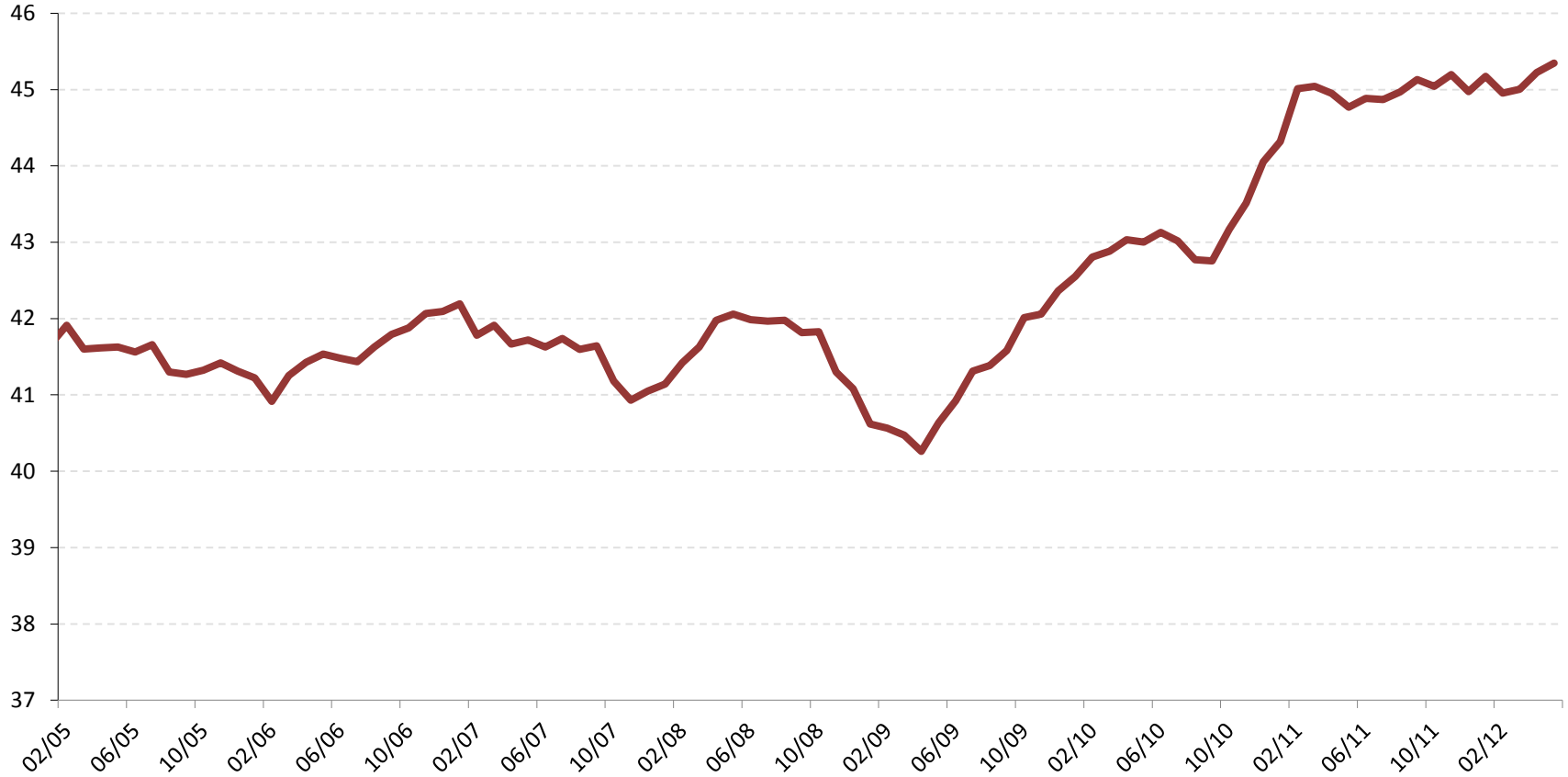


Source: CBRT, Turkstat.



# Employment continues to increase.

**Employment Rate**  
(%, seasonally adjusted)



Source: Turkstat, CBRT

## Reforms have been introduced to control current account deficit...

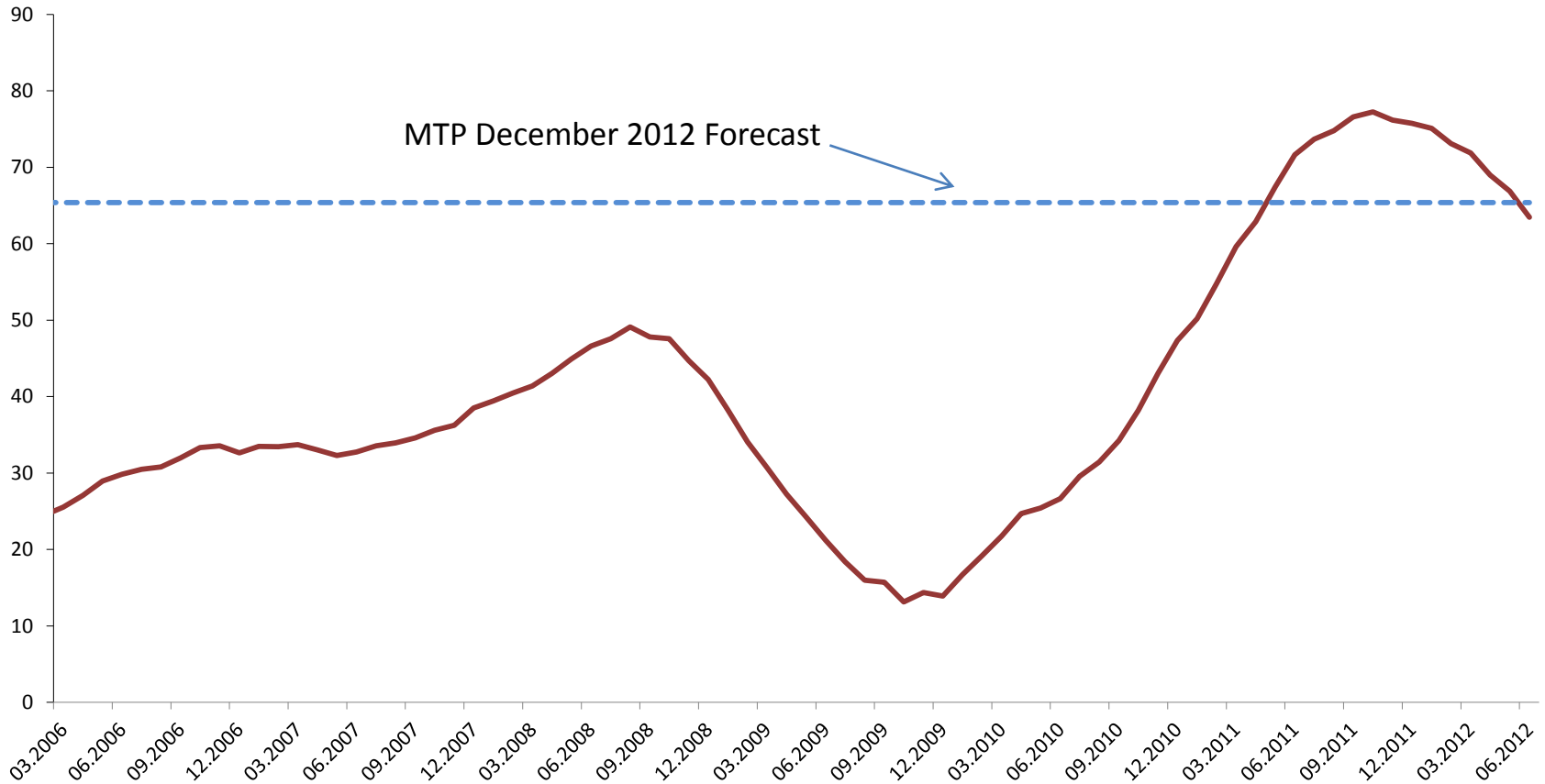
- Increasing Domestic Savings
  - Sustaining Fiscal Discipline
  - Increasing Household and Firm Savings
    - ✓ Transition to government subsidized New Private Pension Scheme
    - ✓ Regulations on supporting insurance sector
- Decreasing Foreign Dependence in Energy

## ..in both structural and conjunctural aspects.

- Increasing competitiveness, diversity of goods and markets
  - New Incentive System
  - Input Provision Strategy (GiTES)
  - Diversifying export markets
- Increasing the quality of financing
  - Encouraging long-term savings
  - Supporting corporate (firms and banks) bond issuance
  - Diversifying government debt instruments: Rent Certificates
  - Tax incentives for Private Participation Capital and Venture Capital Funds

# Therefore, rebalancing continues.

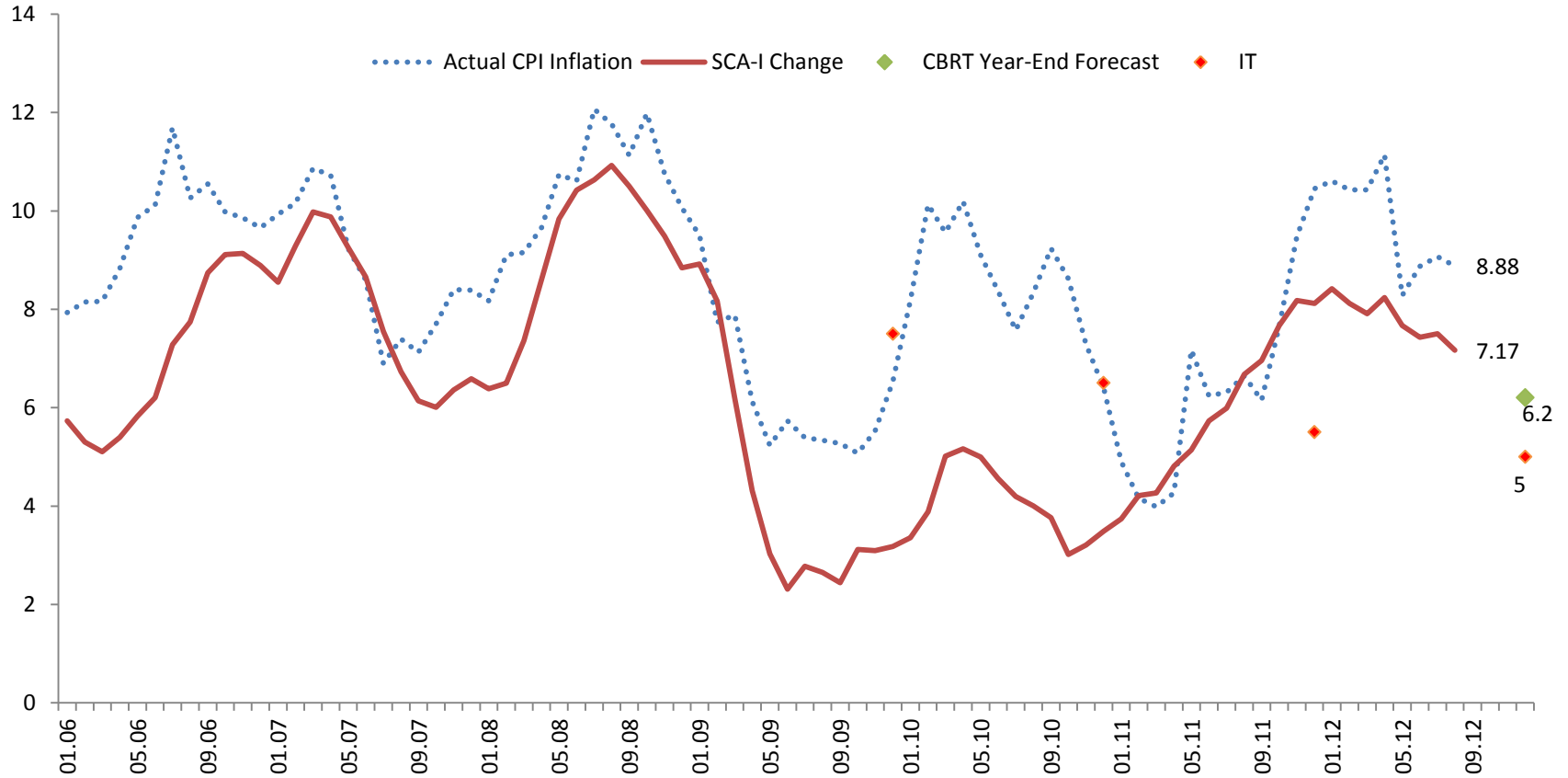
## Current Account Balance (12-month cumulative, Billion USD)



Source: CBRT, Turkstat

**Inflation is expected to converge to target in 2013.**

### Inflation (%, yearly change)



Source: CBRT.



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