



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

## **Value of Financial Stability**

**Erdem Başçı**

**Governor, Central Bank of Turkey**

**Istanbul Finance Congress (May 31, 2013)**

**Kadir Has University, Istanbul**

**Summer Workshop (June 1, 2013)**

**Istanbul School of Central Banking**

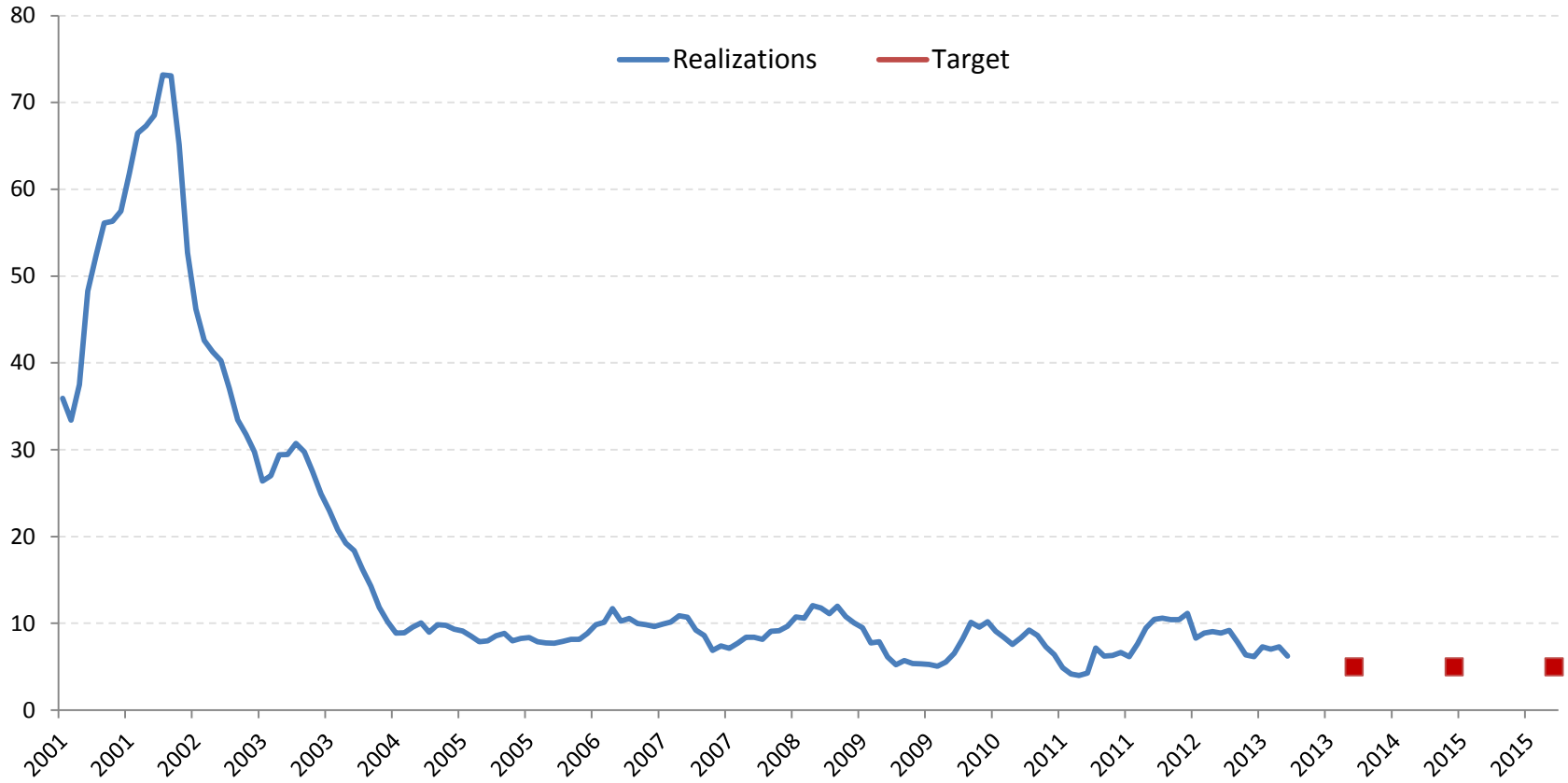
# Overview

- Bringing inflation down to single digits has removed one of the most important obstacles to growth.
- The fall in inflation to the 5 percent target in the forthcoming period will bring additional benefits regarding financial stability.
- A multi-instrument monetary policy supports financial stability by smoothing out the fluctuations in credit and currency.
- Liquidity policy is among the most effective instruments on both credit and currency.

# Three Pillars of Growth

- I. Price Stability
- II. Financial Stability
- III. Productivity Growth

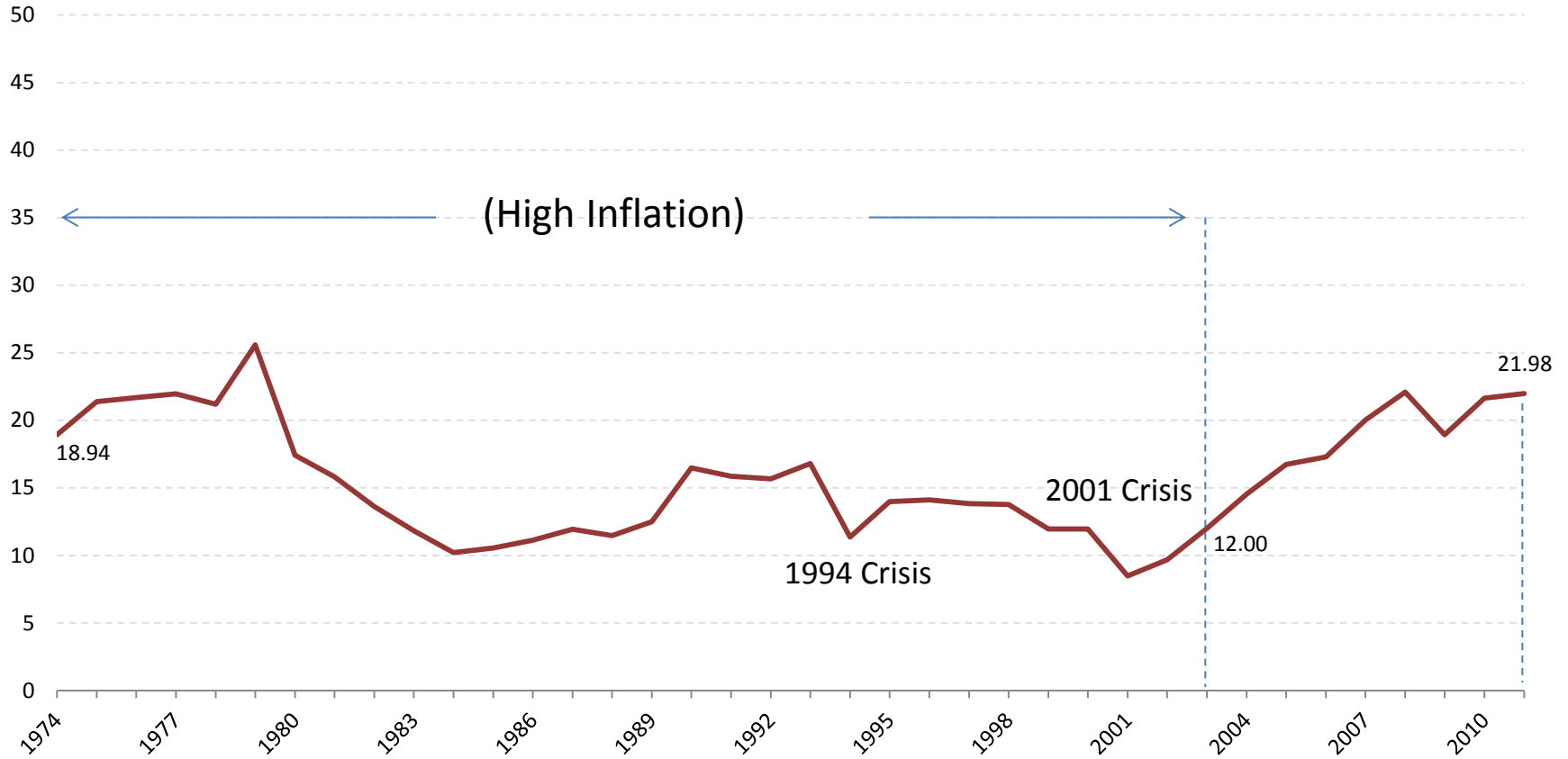
# Price Stability



Source: CBRT.

# Costs of Inflation and Financial Crises

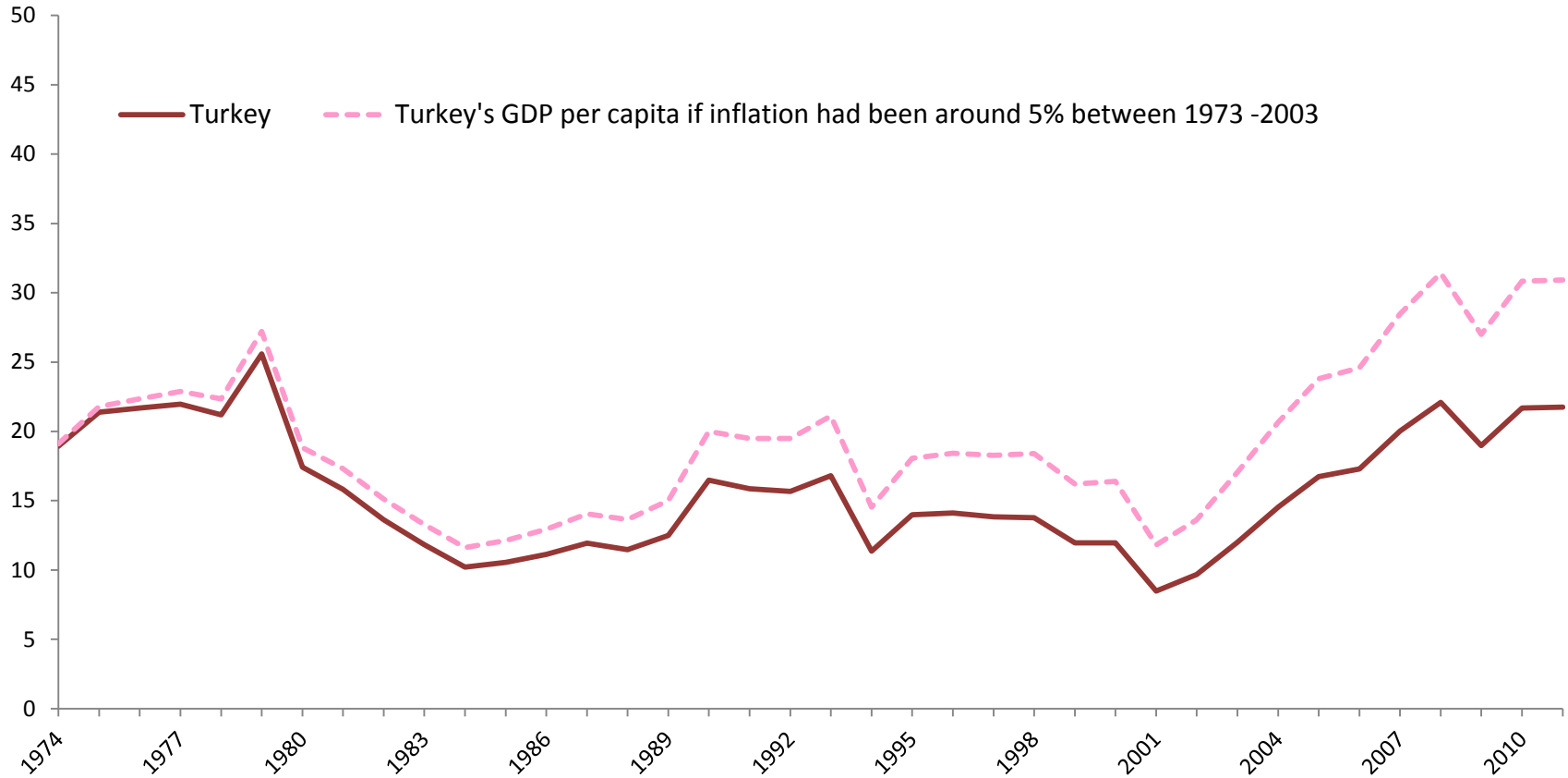
## Per Capita Income in Turkey with Respect to the US (Percent)



Source: UN, CBRT

# A Counterfactual

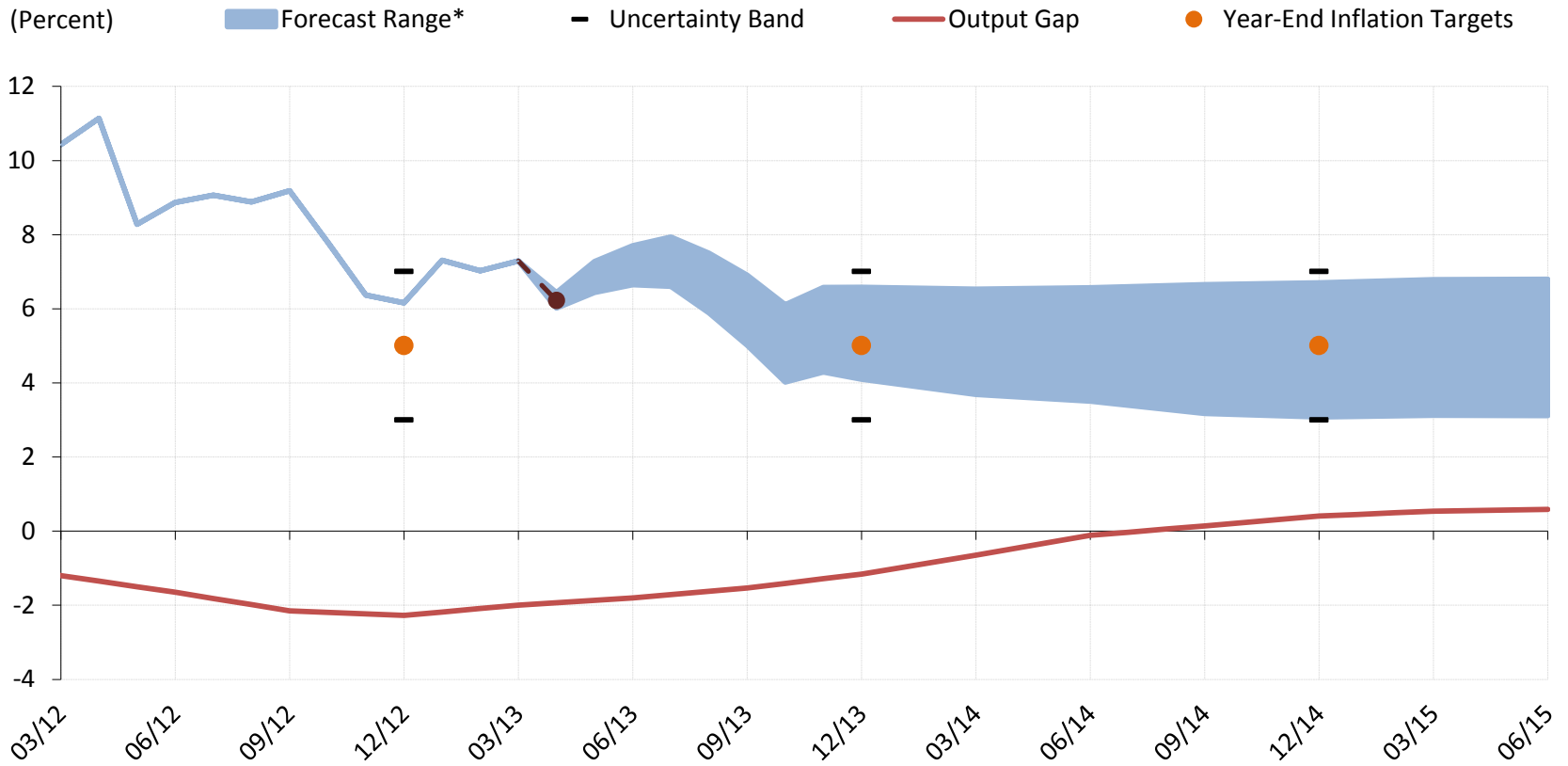
## Per Capita Income with Respect to the US (Percent)



Source: UN, CBRT.

\*Average inflation in Turkey between 1973 and 2003 is 54.5 percent.  
An inflation which is higher on average by 10 percentage points leads to a reduction in GDP growth rate by 0.25 on average according to Barro, Robert J. (1995). "Inflation and Economic Growth."

# Inflation Forecasts and Realizations

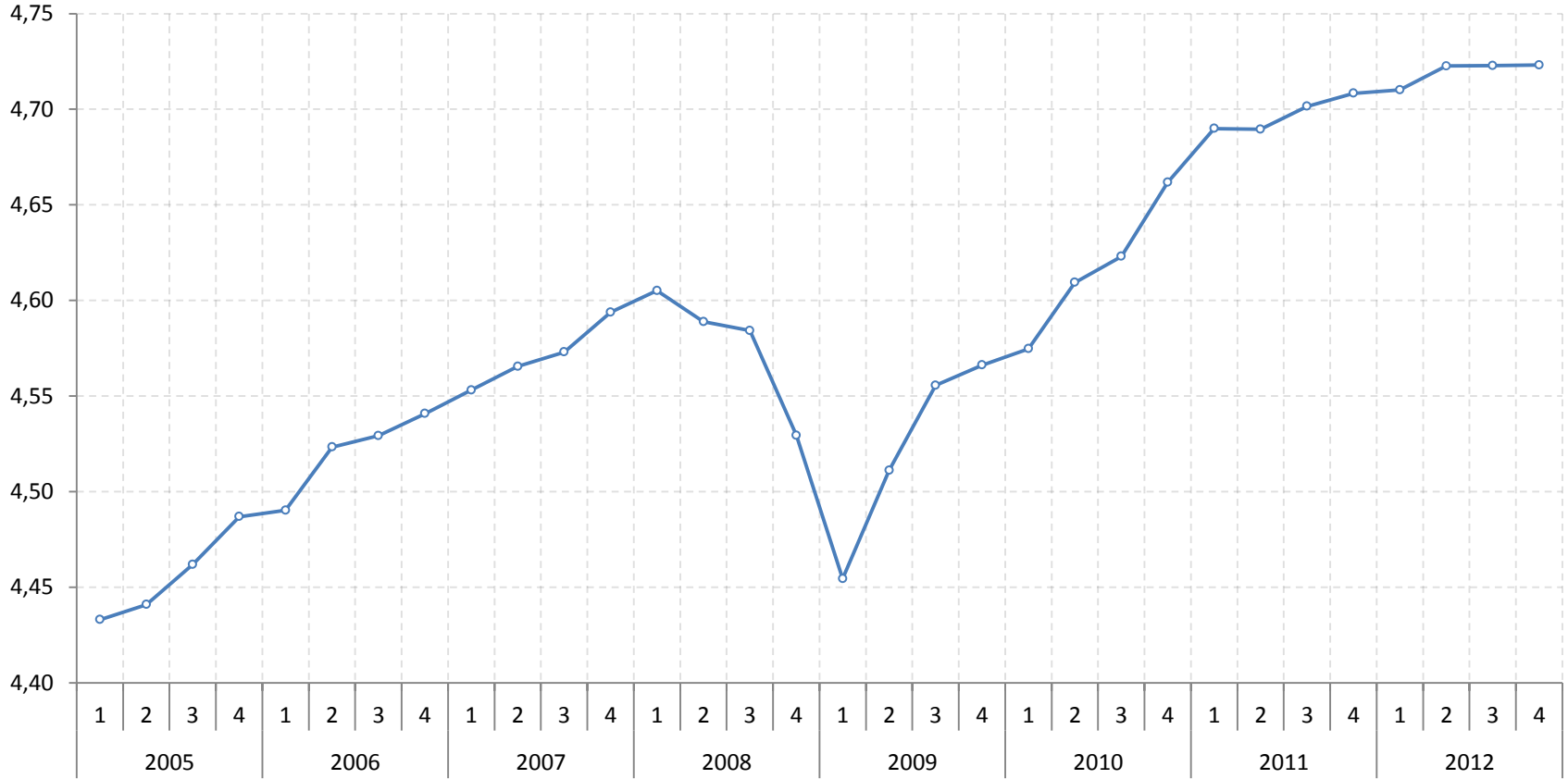


Source: CBRT.

\* Shaded region indicates the 70 percent confidence interval for the forecast.

# Growth

## Actual GDP (Base Quarter: 2008Q1, Seasonally Adjusted, Natural Logarithms)

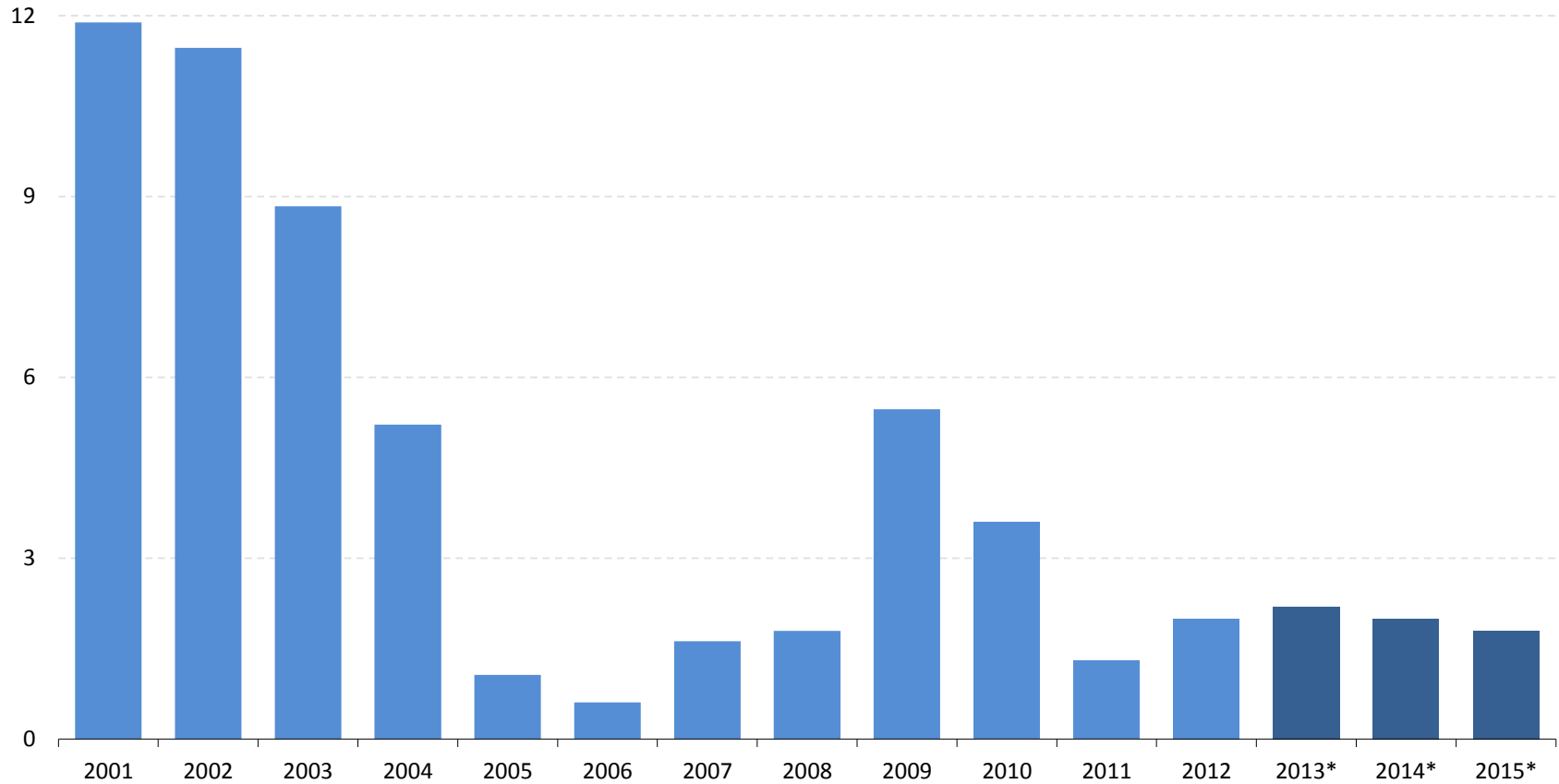


Source: TURKSTAT, CBRT.



# Fiscal Policy

## Budget Deficit to GDP (Percent)

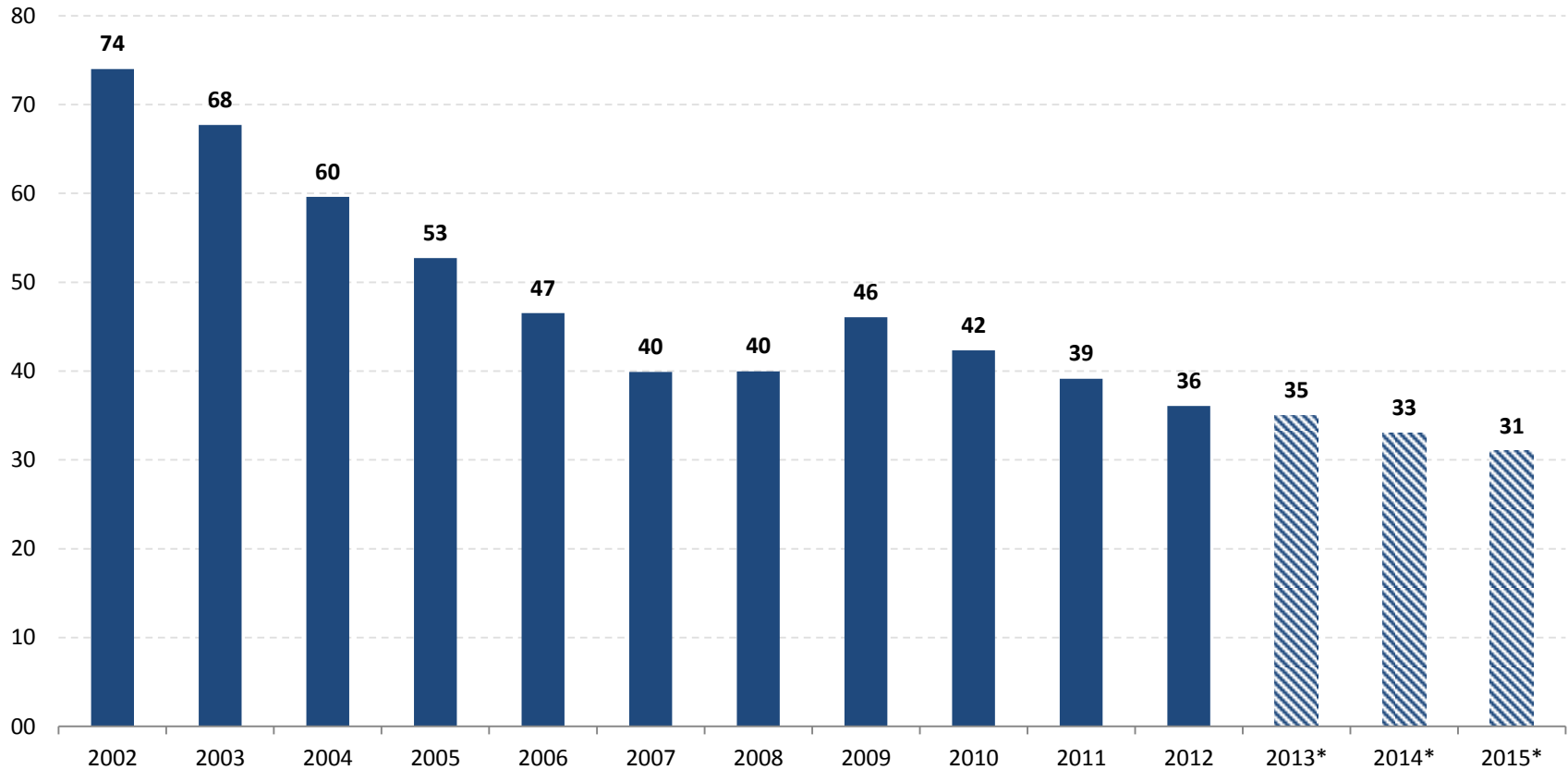


Source: Ministry of Finance

\*Medium Term Program projections.

# Fiscal Policy

## EU Defined Public Debt to GDP (Percent)

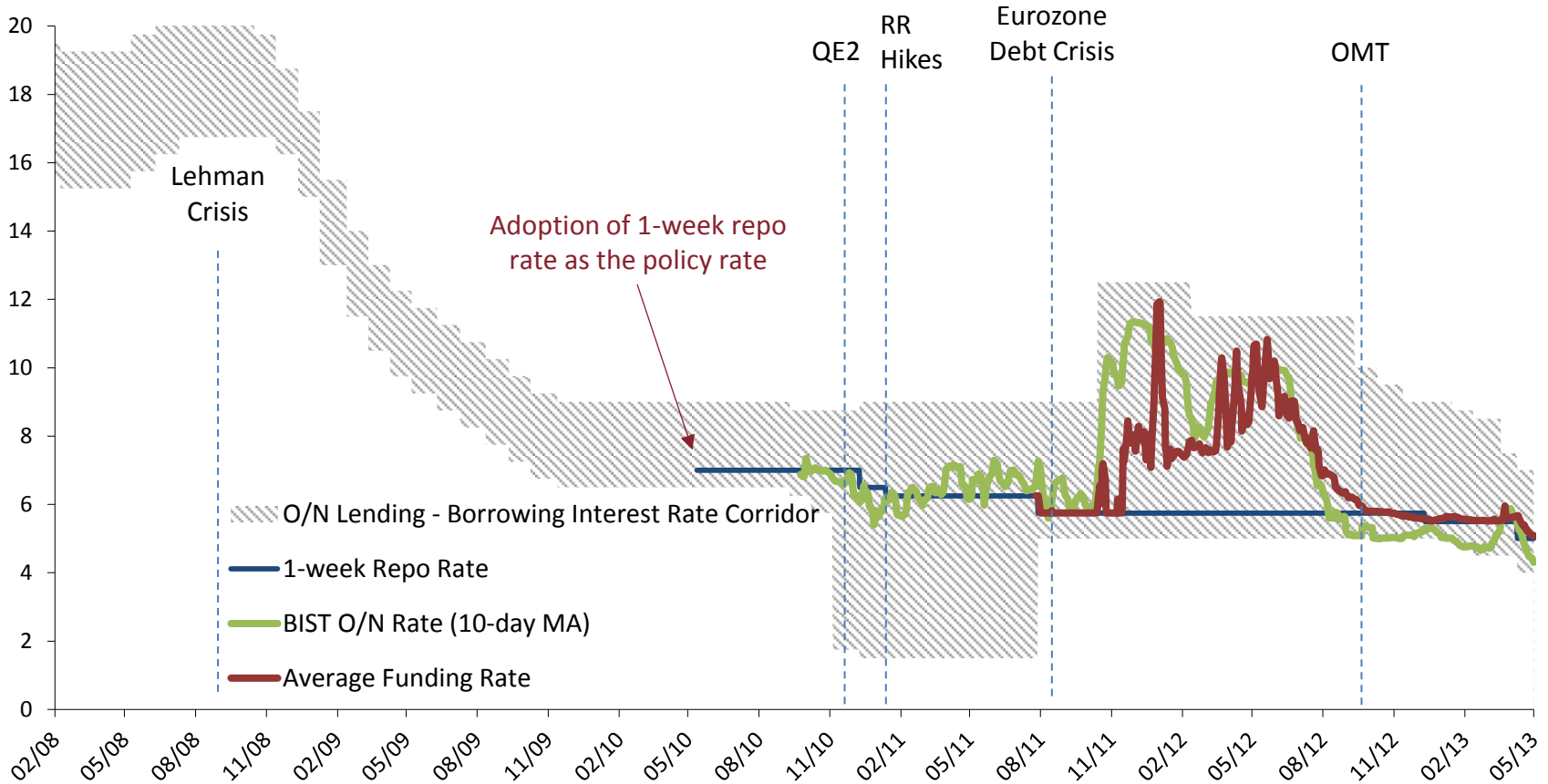


Source: Ministry of Finance

\*Medium Term Program projections.

# Monetary Policy

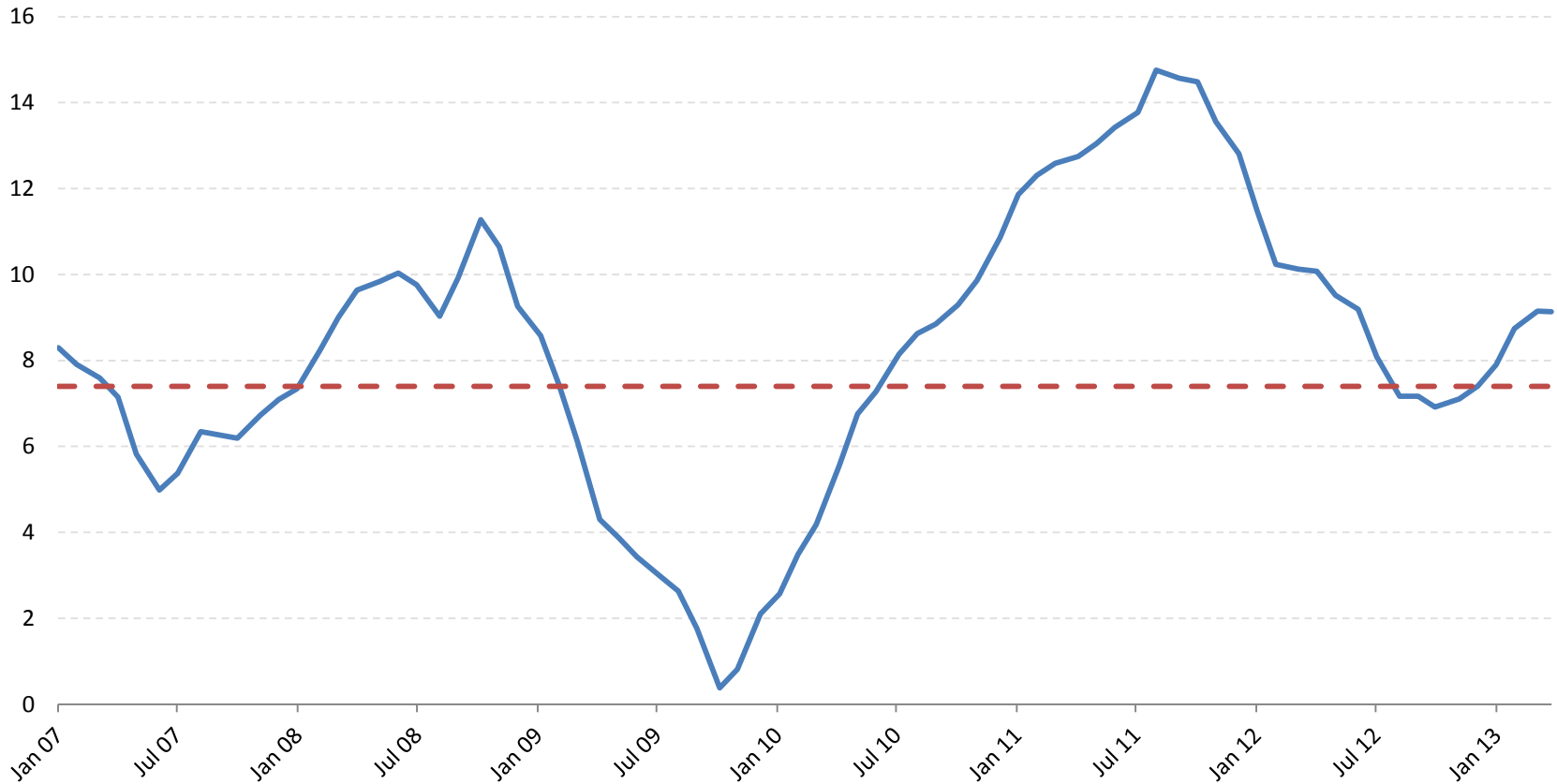
## Interest Rate Corridor and Average Funding Rate (Percent)



Source: BIST, CBRT.

# The Credit Cycle in Turkey

**Total Loans\***  
(Ratio of Annual Change to GDP, Percent)

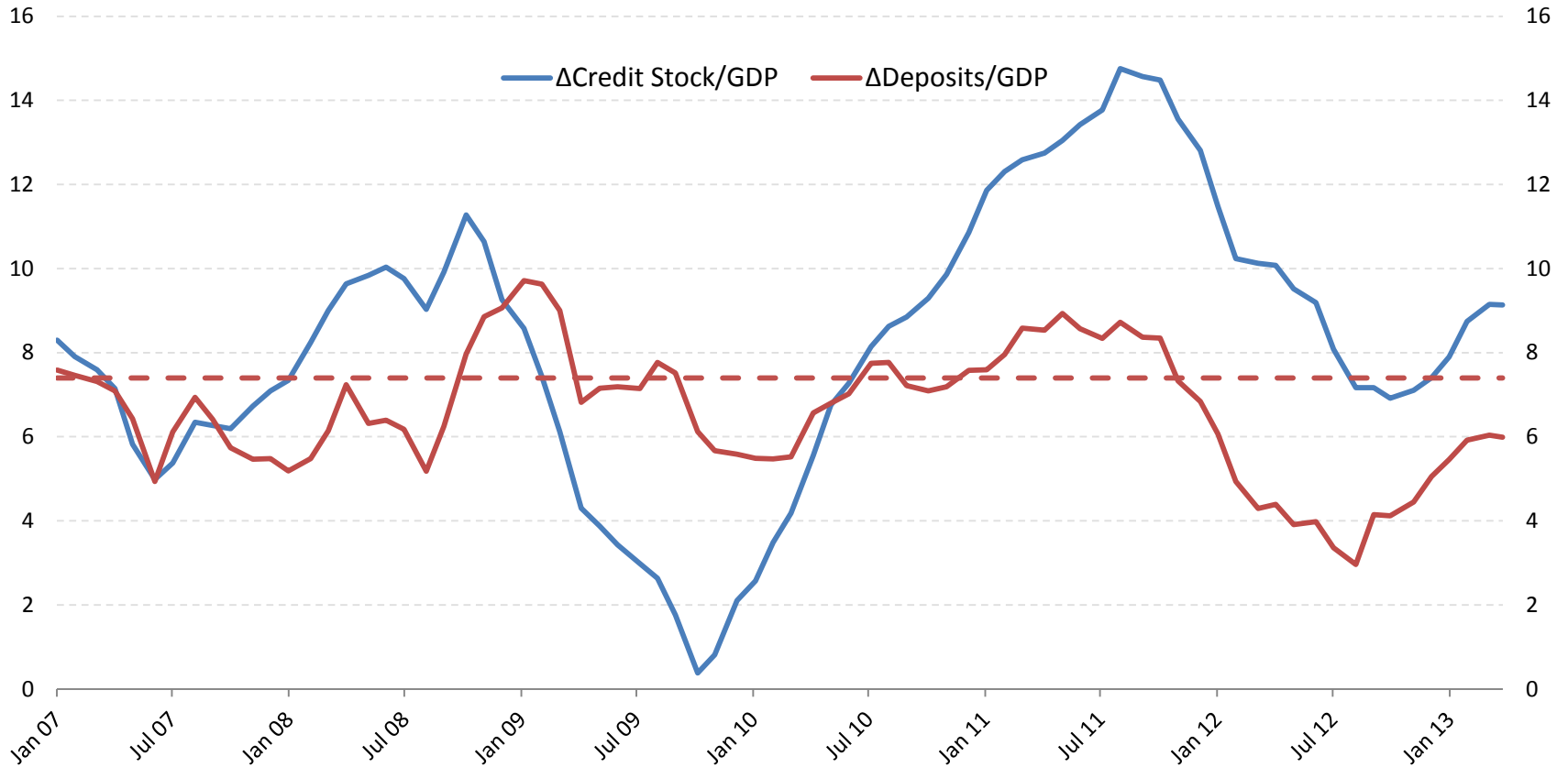


Source: CBRT.

\*Participation banks are included.

# The Credit Cycle in Turkey

**Total Loans and Total Deposits\***  
(Ratio of Annual Change to GDP, Percent)

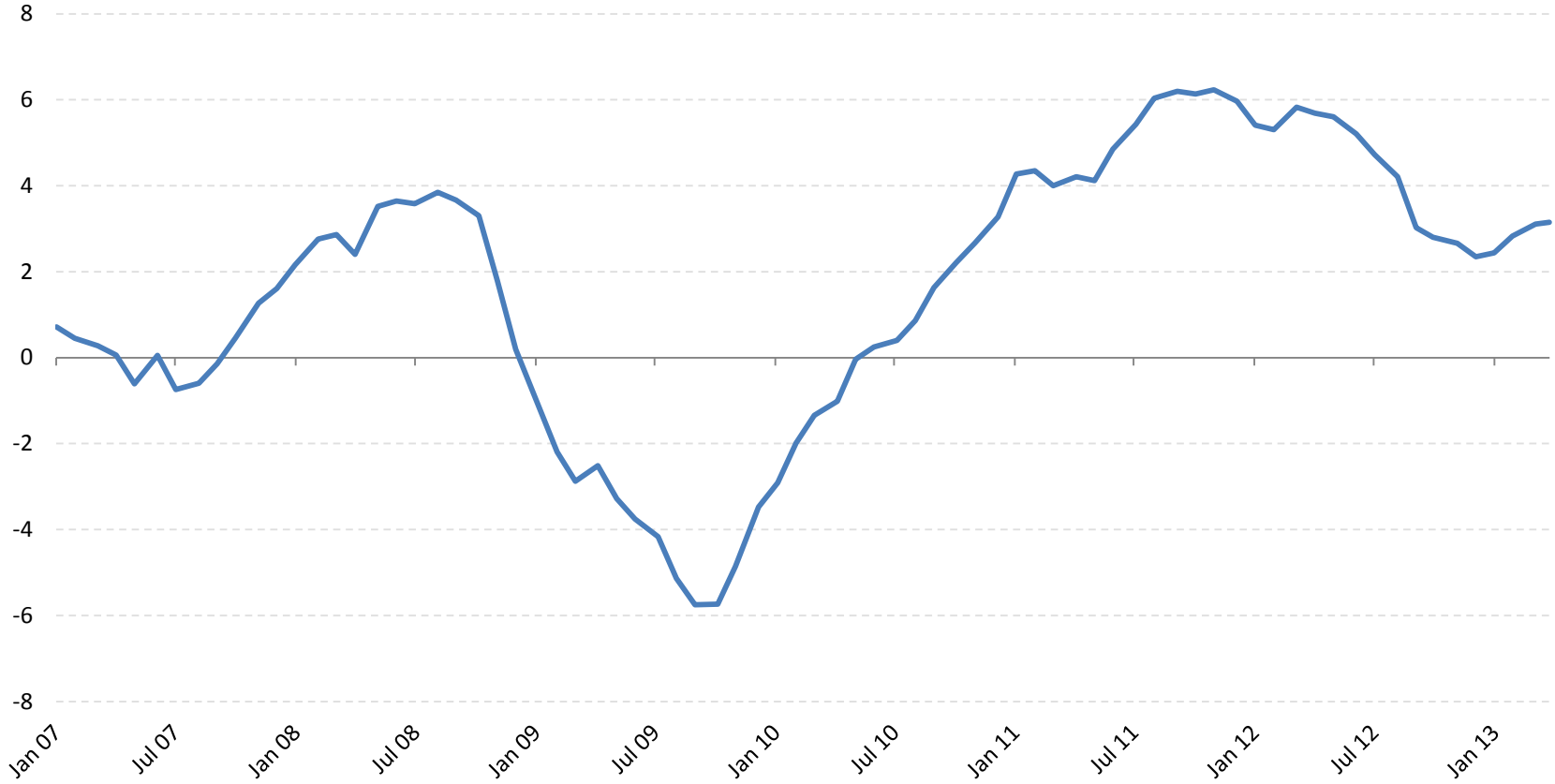


Source: CBRT.

\*Participation banks are included, interbank deposits are excluded.

# The Credit Cycle in Turkey

## Difference Between Total Loans and Deposits\* (Ratio of Annual Change to GDP, Percent)

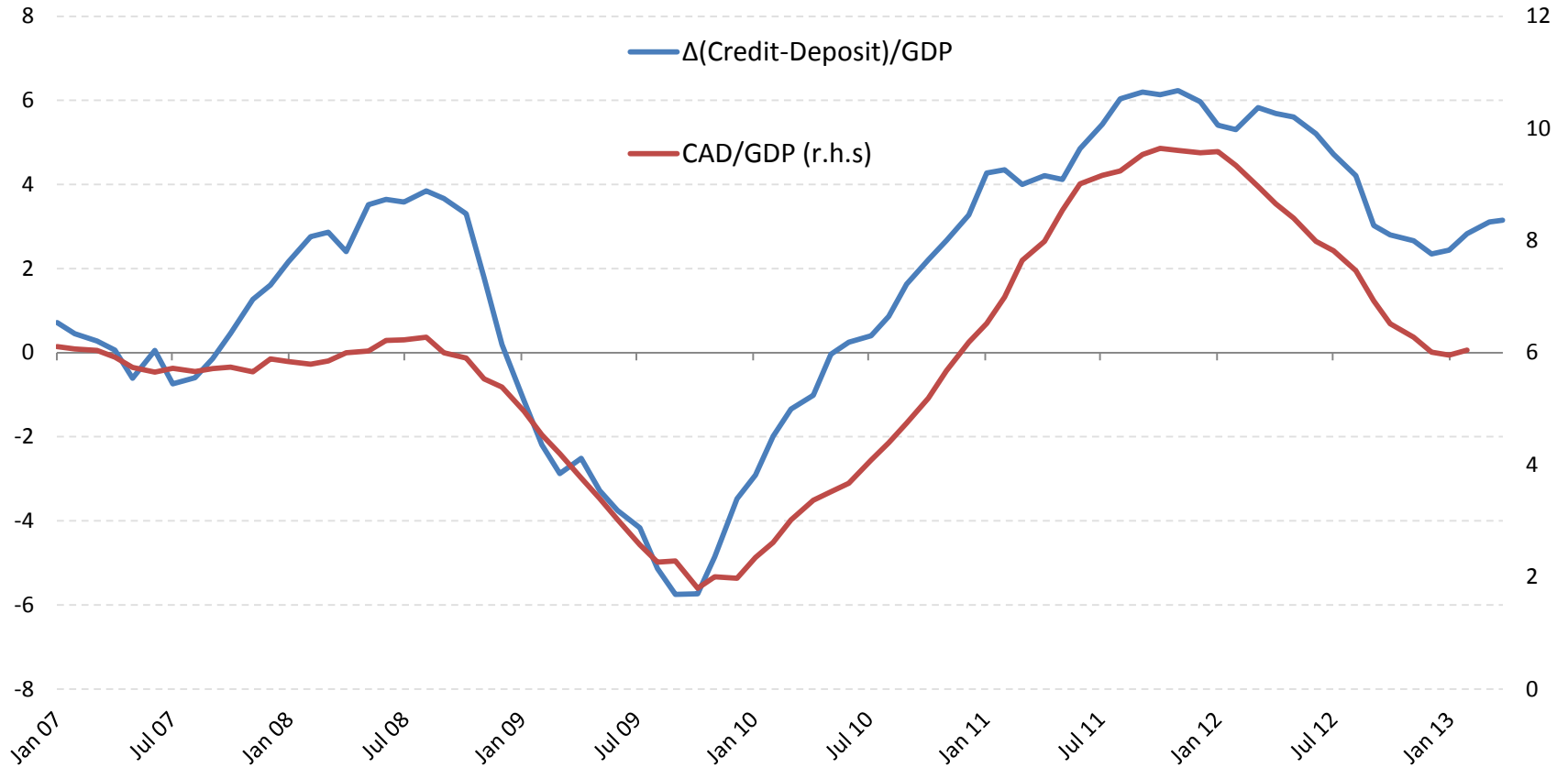


Source: CBRT.

\*Participation banks are included, interbank deposits are excluded.

# The Credit Cycle in Turkey

## Difference Between Total Loans and Deposits\* and Current Account Deficit (Annual Change, Percent)

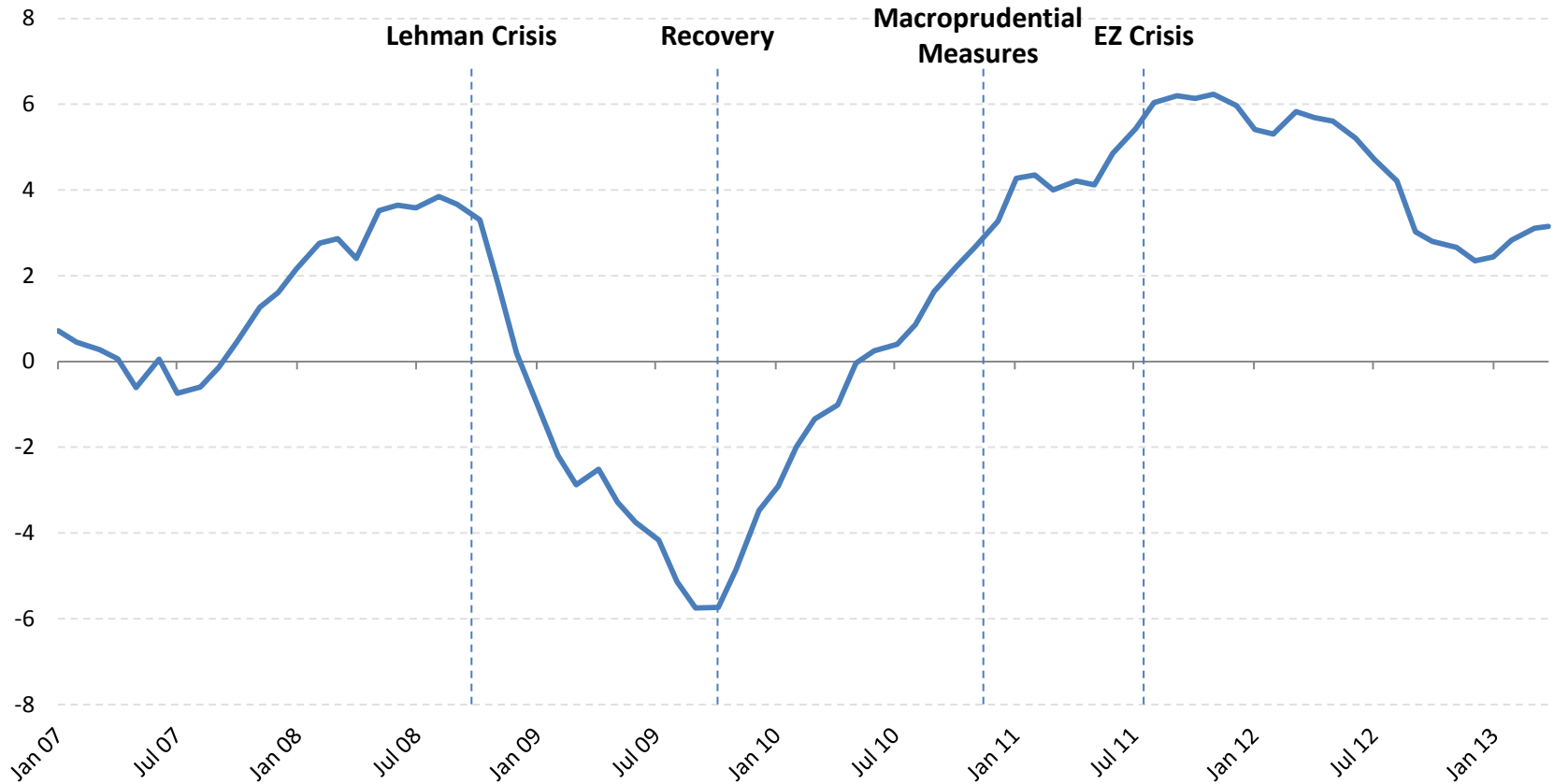


Source: CBRT.

\*Participation banks are included, interbank deposits are excluded.

# The Credit Cycle in Turkey

## Difference Between Total Loans and Deposits\* (Ratio of Annual Change to GDP, Percent)



Source: CBRT.

\*Participation banks are included, interbank deposits are excluded.



# Macroprudential Measures

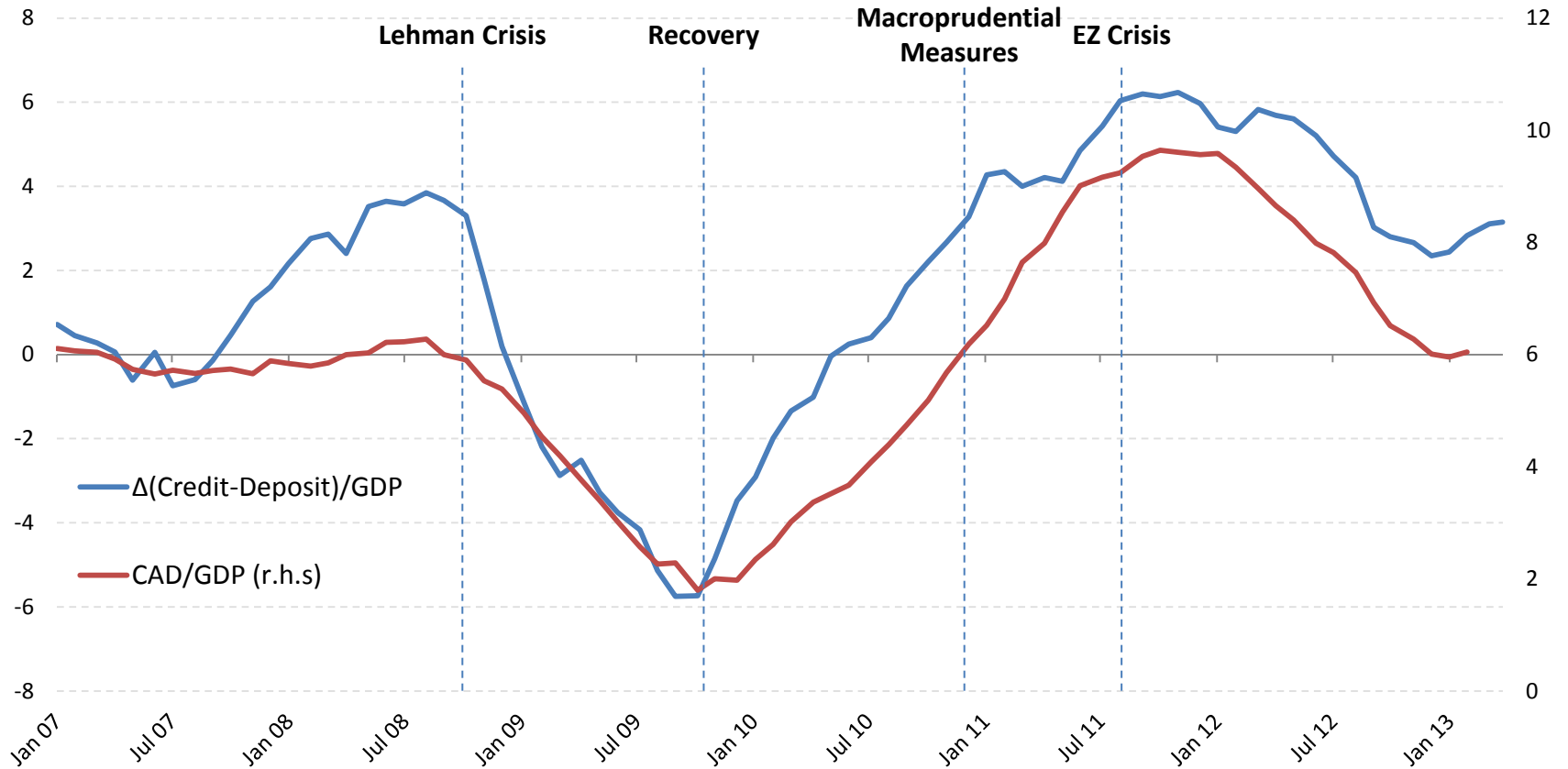
- Loan-to-Value Restrictions
- Risk Weights on Consumer Loans
- General Provisioning Requirements
- Levy on Consumer Loans
- Reserve Requirements

# Reserve Requirements

- Maturity-Based Reserve Requirements
- Currency-Based Reserve Requirements
- Leverage-Based Reserve Requirements
- Reserve Options

# The Credit Cycle in Turkey

## Difference Between Total Loans and Deposits\* and Current Account Deficit (Annual Change, Percent)

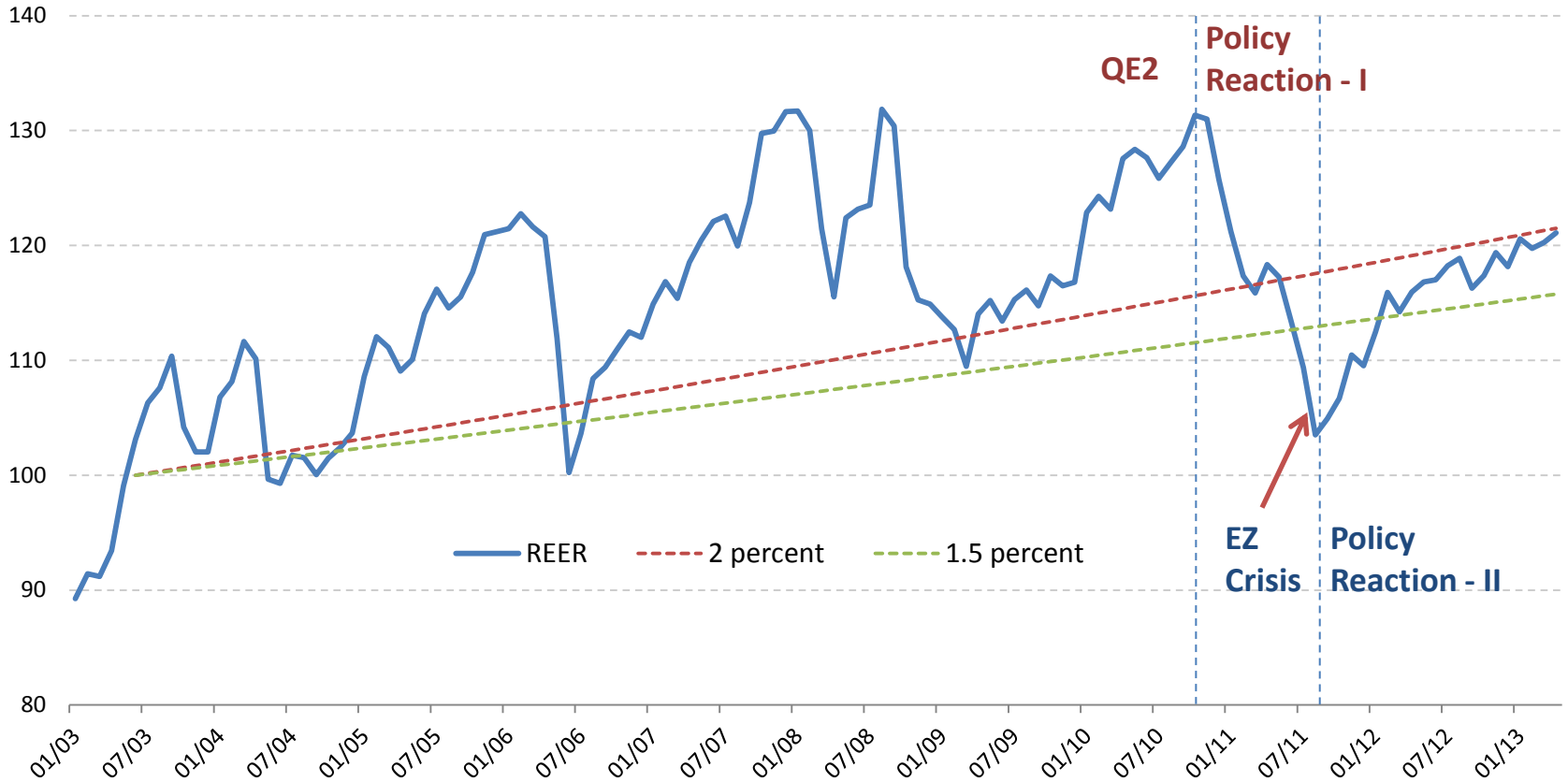


Source: CBRT.

\*Participation banks are included, interbank deposits are excluded.

# Real Effective Exchange Rate (REER)

## CPI Based REER (Base year: 2003)



Source: CBRT.

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