



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Does International Inter-dependence Imply More Policy Cooperation Necessarily?

**Erdem Başçı
Governor**

4 October 2013

**Modelling International Linkages and Spillovers
CBRT-ECB Joint Conference, Izmir**

Does International Inter-dependence Imply More Policy Cooperation?

- Not necessarily.
- A strong policy framework,
- A collegial exchange of views, and
- A sound international financial architecture may be enough.

A Strong Policy Framework for Emerging Market Economies

- I. Real Convergence
- II. Nominal Decoupling

A Strong Policy Framework for Emerging Market Economies

I. Real Convergence

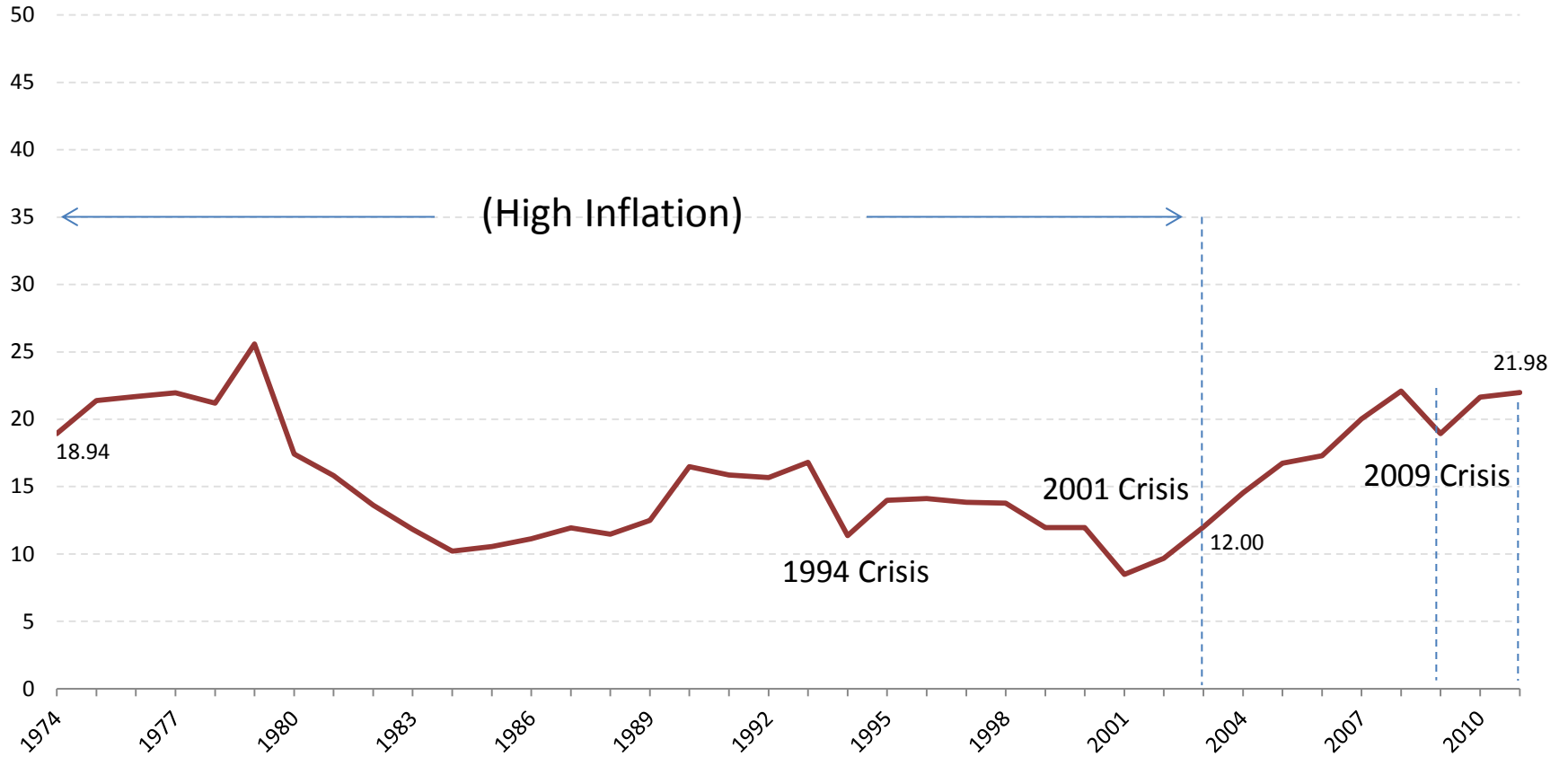
II. Nominal Decoupling

Drivers of Real Convergence and Growth

1. Price Stability
2. Financial Stability
3. Productivity Enhancing Structural Reforms

Real Convergence

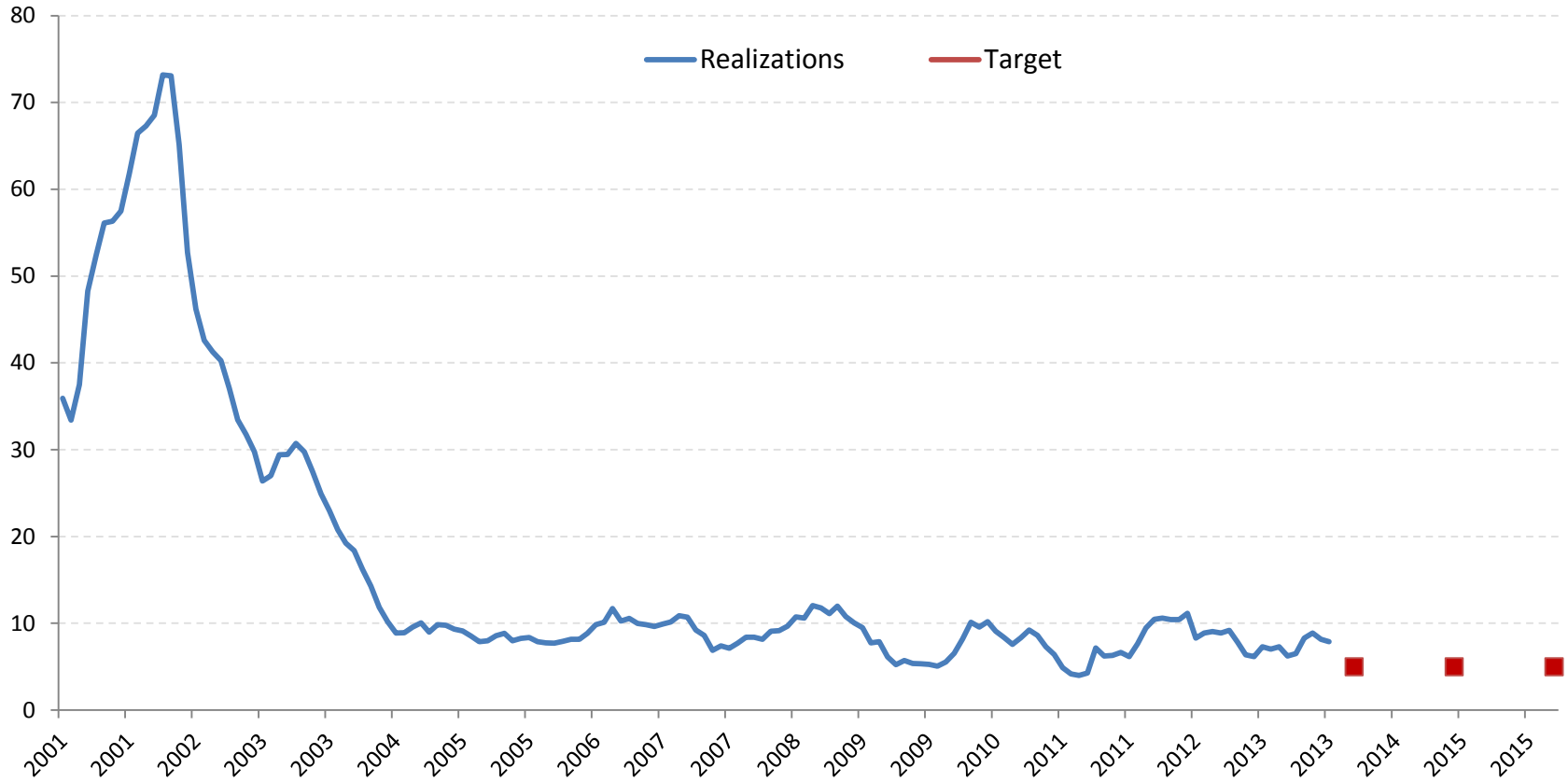
Per Capita GDP in Turkey / Per Capita GDP in USA
(Percent)



Source: UN, CBRT

Inflation

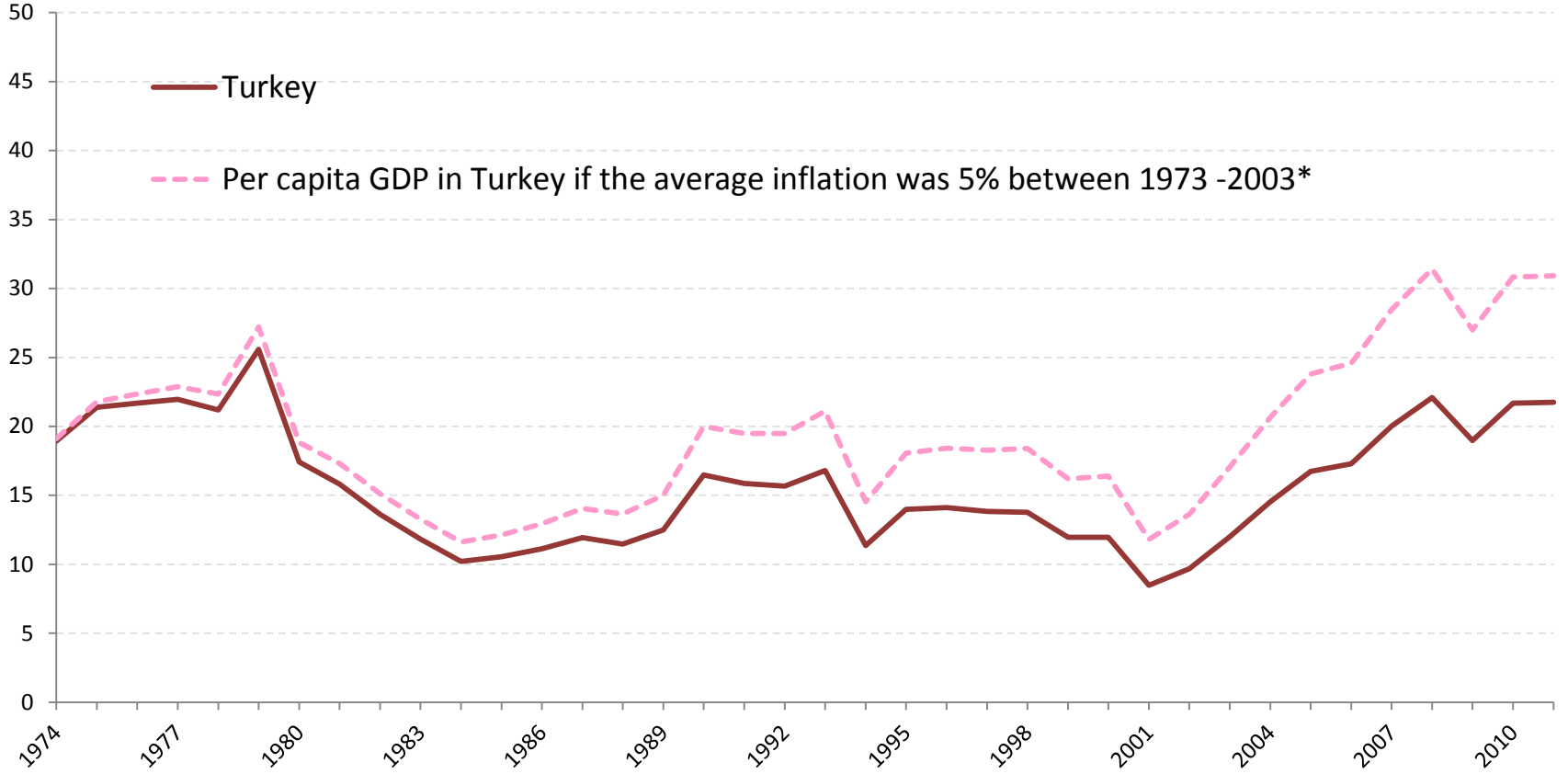
Inflation Realizations and Target (Percent)



Source: CBRT.

Real Cost of Inflation

Per Capita GDP in Turkey / Per Capita GDP in USA (Percent)

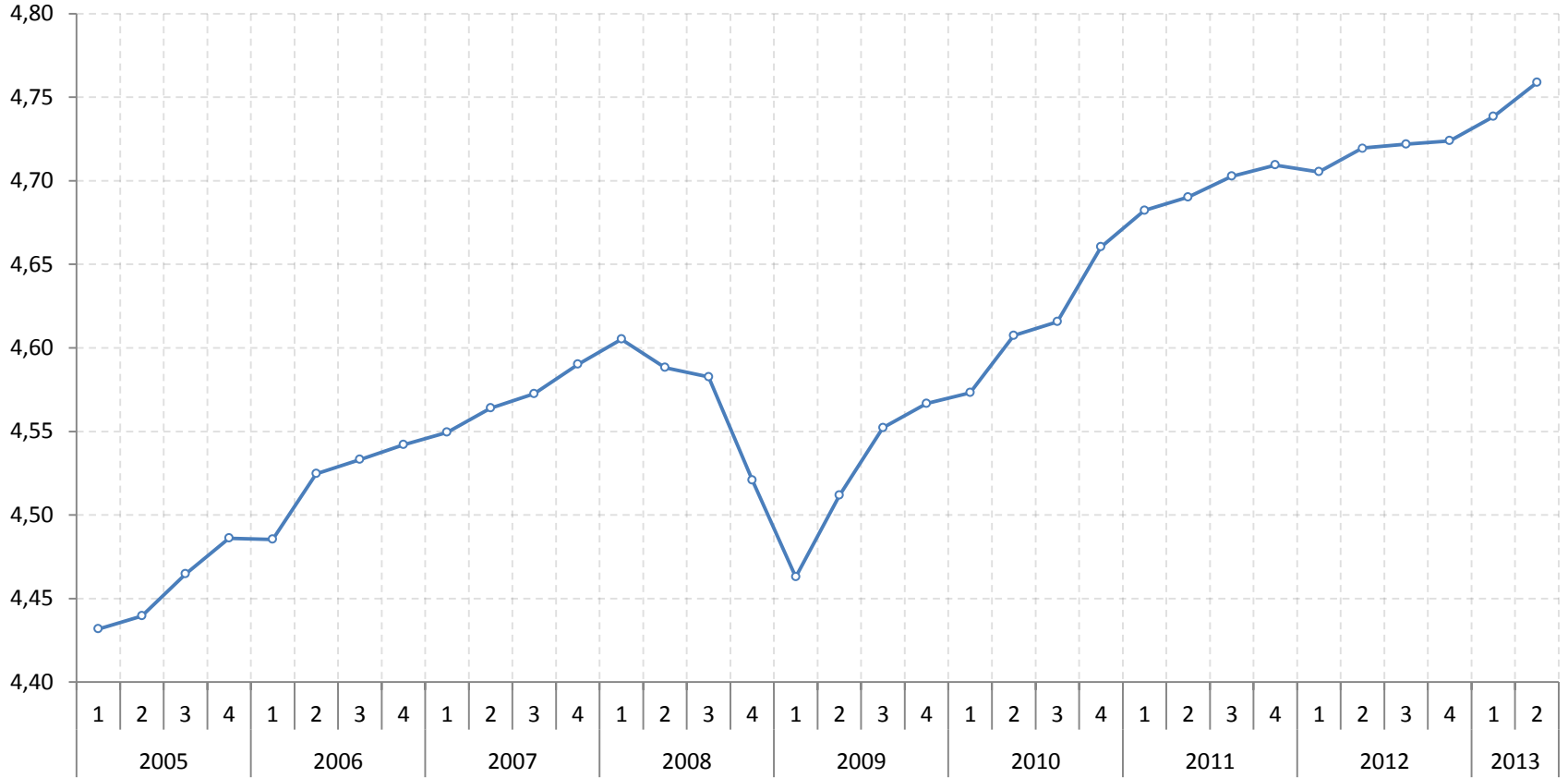


Source: UN, CBRT

*Average inflation was in Turkey was %54,5 between 1973-2003.
According to article, Barro, Robert J. (1995). "Inflation and Economic Growth ", each additional 10% inflation causing a 0.25% decrease in growth

Post-Lehman Recovery

GDP (Seasonally Adjusted, Natural Logarithms)



Source: TurkStat, CBRT.

A Strong Policy Framework for Emerging Market Economies

I. Real Convergence

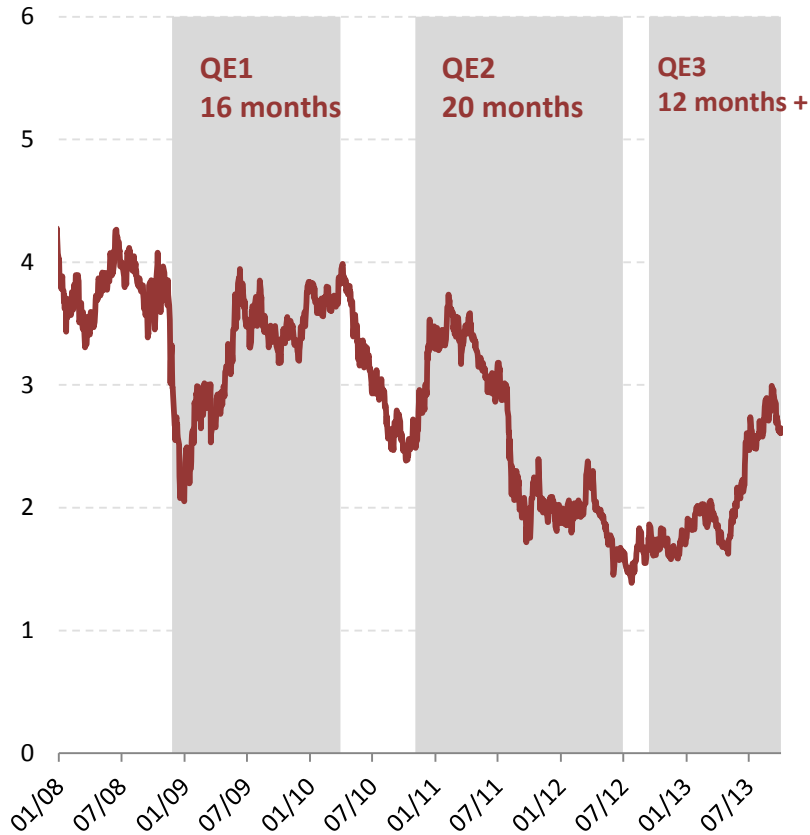
II. Nominal Decoupling

Nominal Decoupling

1. Well-Developed Markets
 - Equity
 - Local Currency Debt
 - Derivatives
2. Automatic and Discretionary Stabilizers
 - Fiscal
 - Monetary
 - Macroprudential

10 Year US Govn. Bond Yields

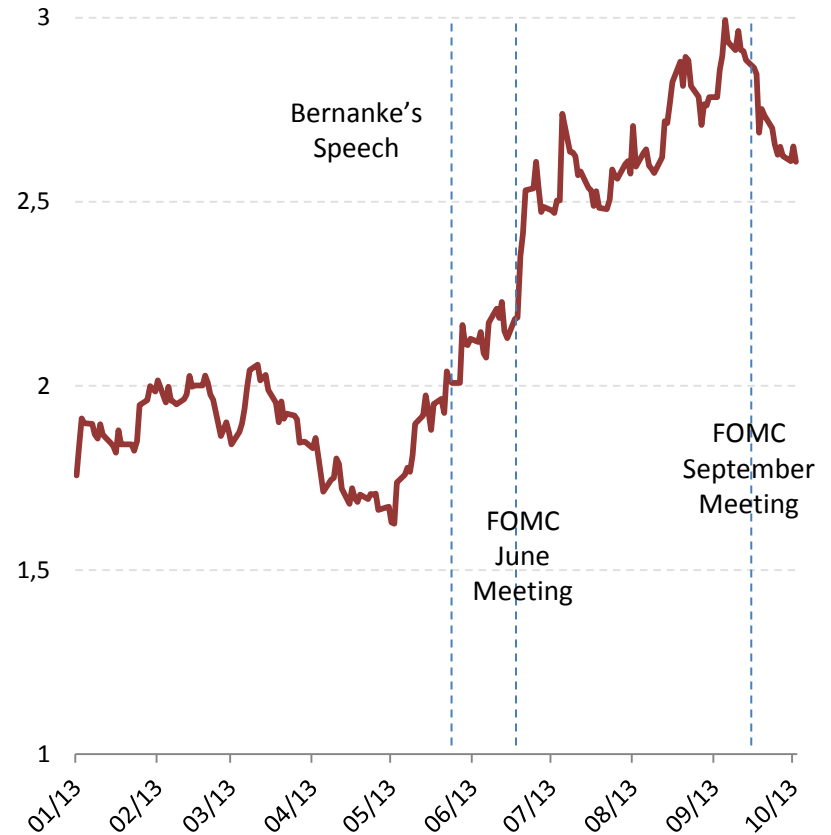
2008-2013
(Percent)



Source: Bloomberg.

Last observation: 02 October 2013

2013
(Percent)



Source: Bloomberg.

Last observation: 02 October 2013

Exchange Rate Volatility in EMEs

Exchange Rate Volatility Index

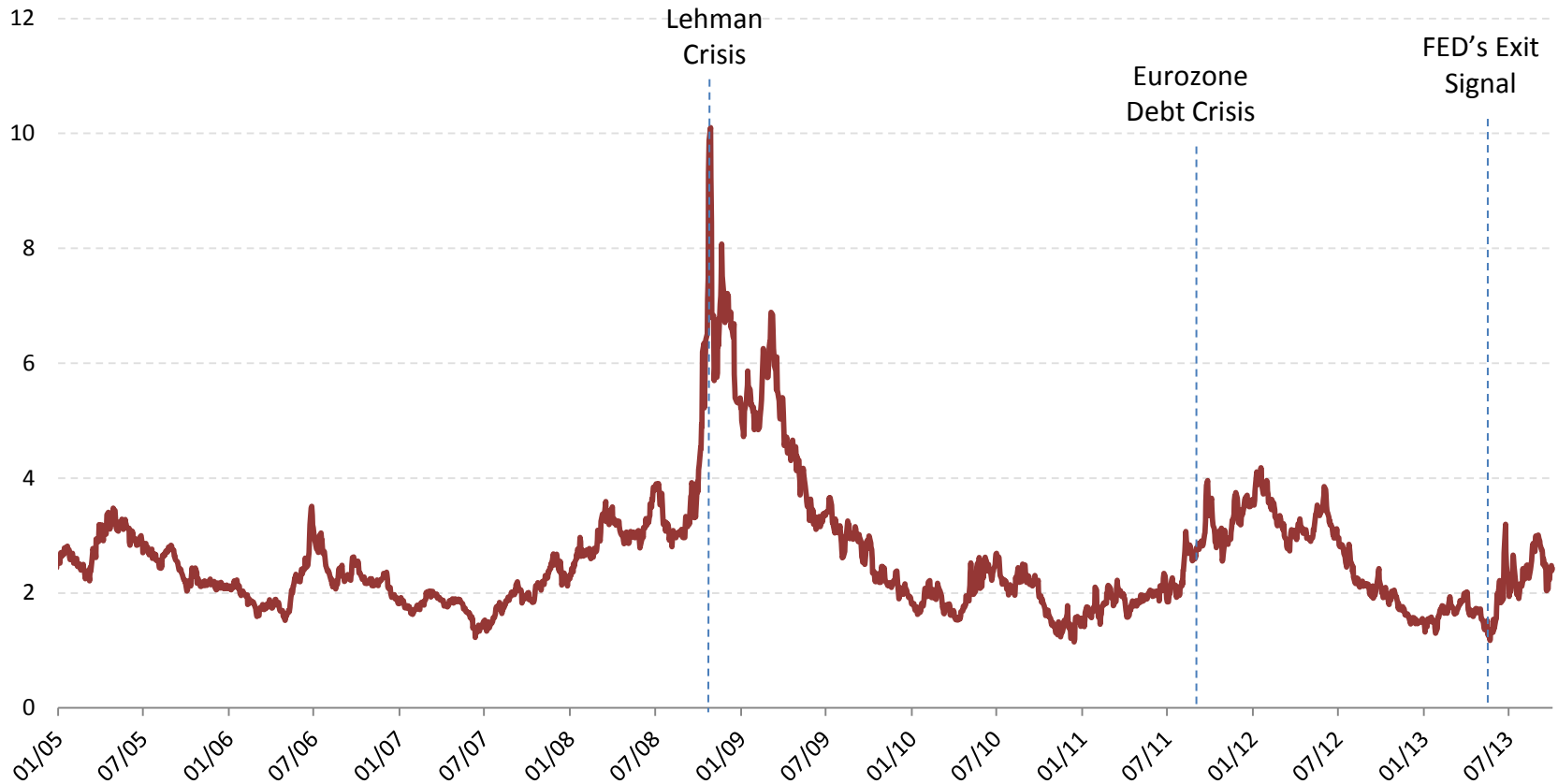


Source: Bloomberg, JPMVXYEM Index.

Last observation: 02 October 2013

Turkey: Risk Premium

Difference Between Turkey-USA 10 Year Bond Rates (Percent)

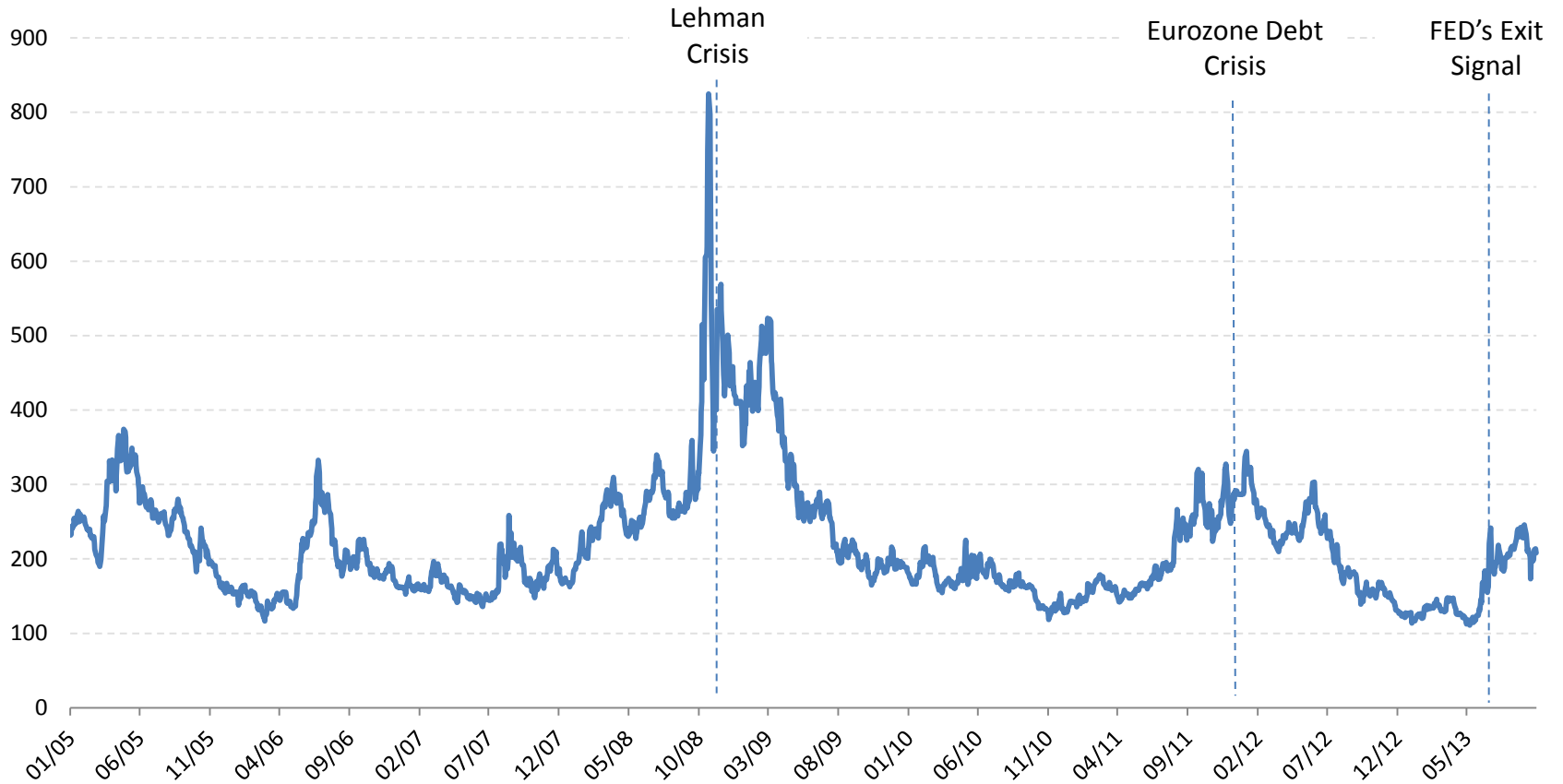


Source: Bloomberg, CBRT.

Last observation: 02 October 2013

Turkey: Risk Premium

Turkey 5 Year CDS Prices

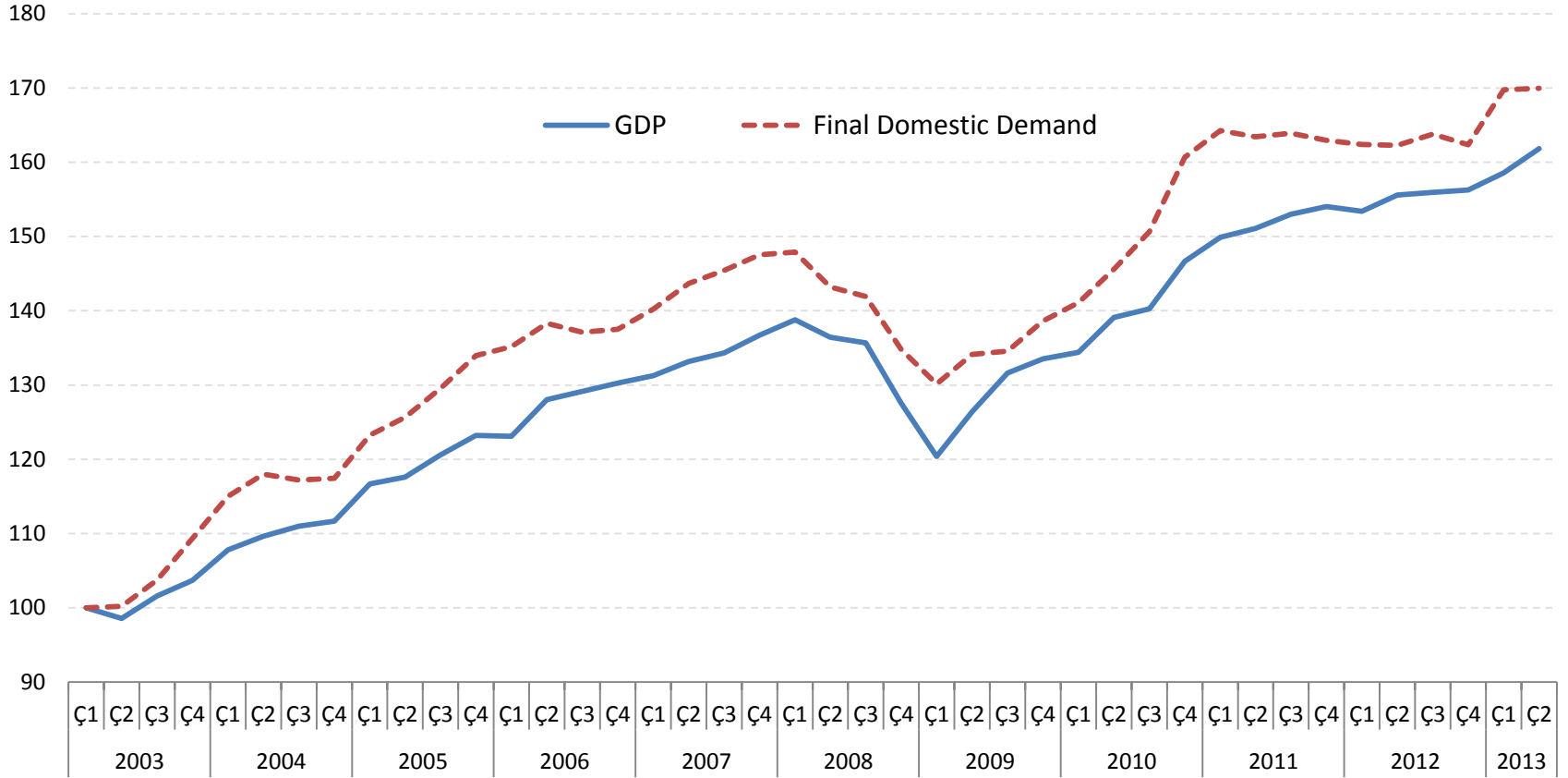


Source: Bloomberg, CBRT.

Last observation: 01 October 2013

Rebalancing

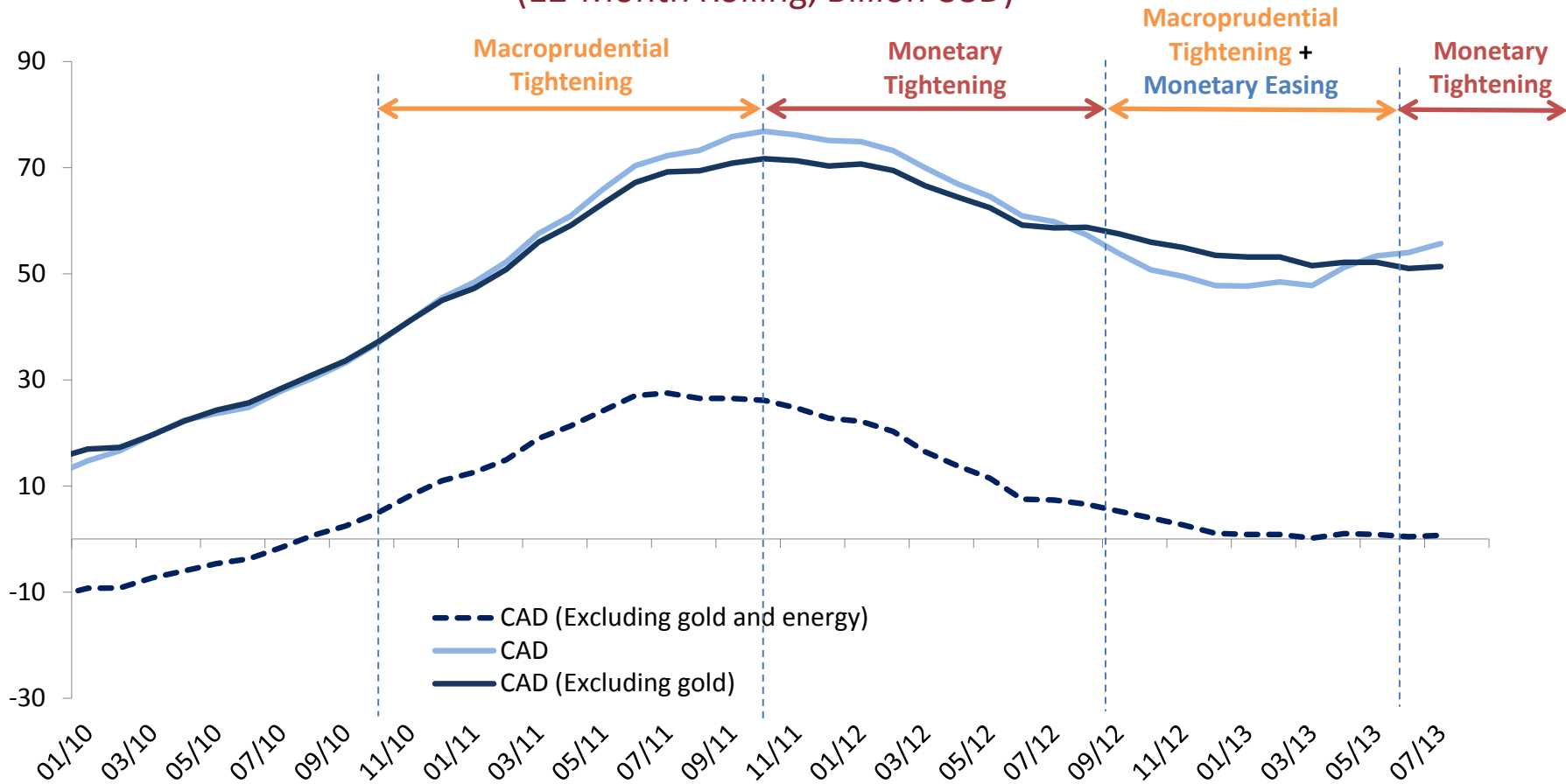
Final Domestic Demand and GDP (Seasonally Adjusted, 2003Q1=100)



Source: TurkStat, CBRT.

Rebalancing

Current Account Deficit (12-Month Rolling, Billion USD)

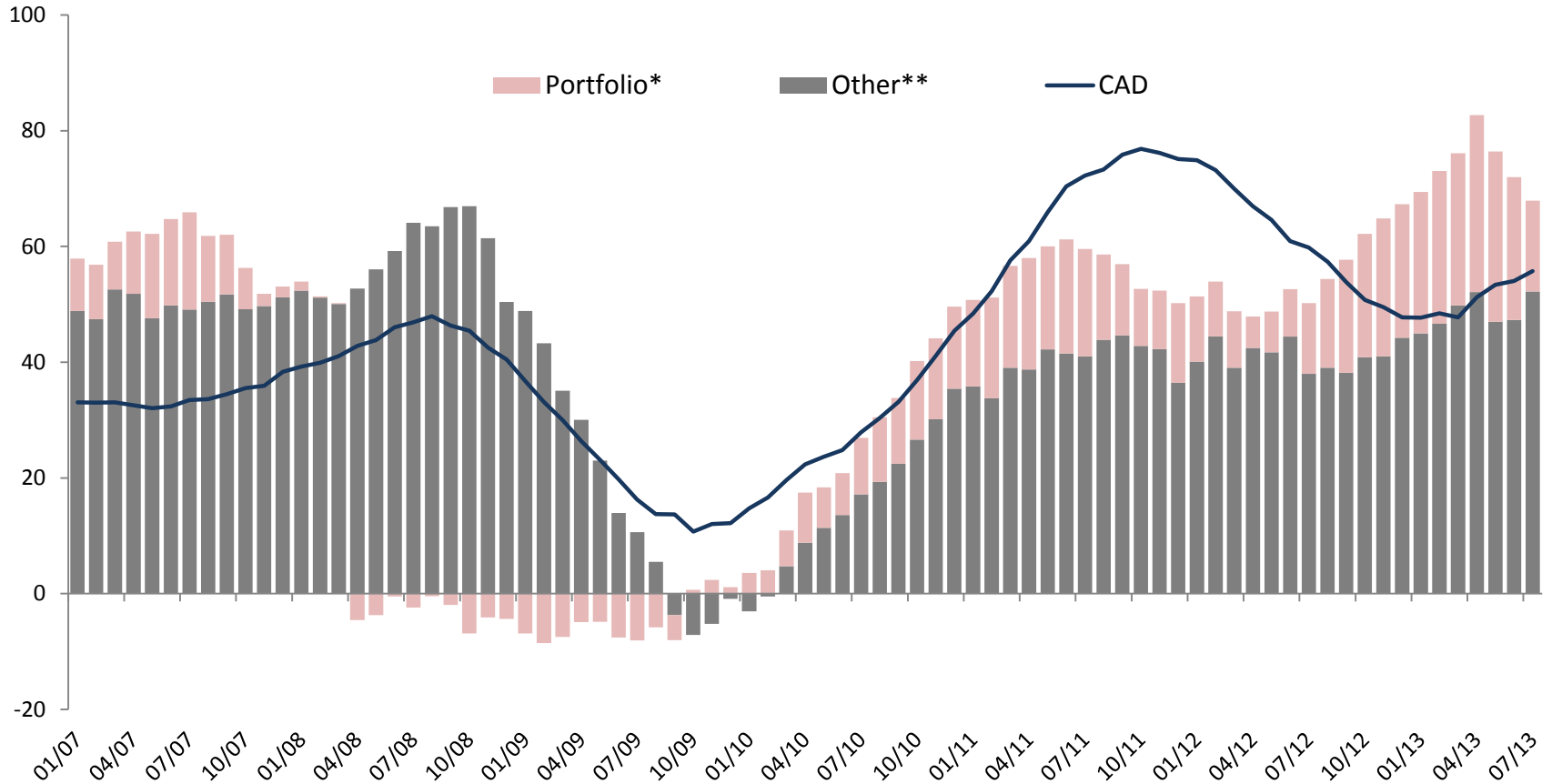


Source: CBRT.

Last Observation: July 2013.

Composition of Capital Inflows

Main Sources of Current Account Deficit Finance (12-Month Cumulative, Billion USD)

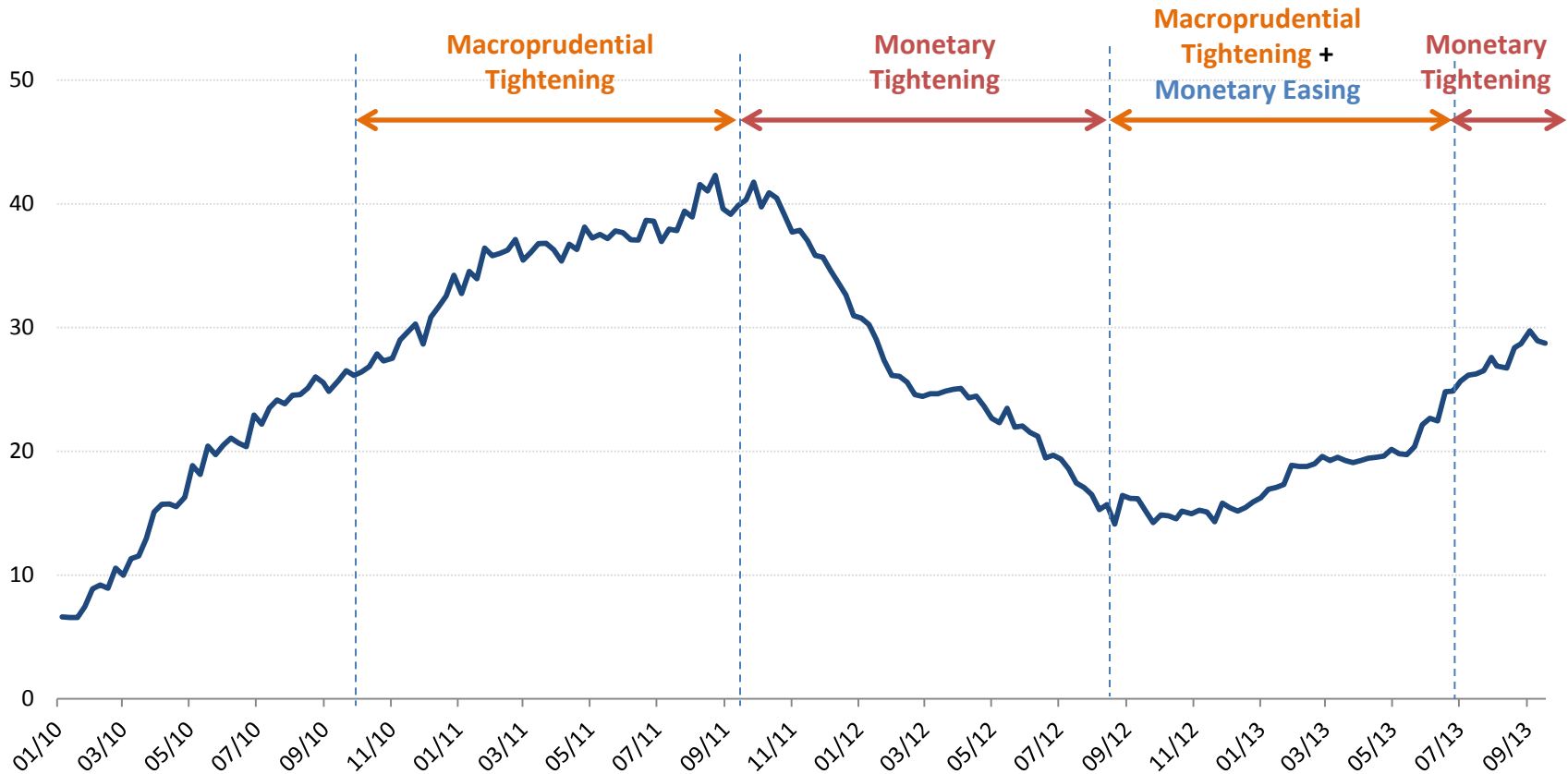


Source: CBRT.

*Portfolio flows include purchases of stocks and government bonds by non-residents.
**Other flows include short- and long-term net credit of financial and non-financial sectors, bond issuance of banking sector, Eurobonds and FX deposits within the banking system.

Rebalancing: Credit Growth

Total Loan* Growth Rates (YoY Change, Percent)



Source: BRSA.

*Total credit is inclusive of all types of banks (deposit banks, participation banks, and development/investment banks) and credit cards.

Macroprudential Measures

- Loan-to-Value Restrictions
- Risk Weight on Consumer Loans
- General Provision Requirements
- Levy on Consumer Loans

Structural Tools, CBRT

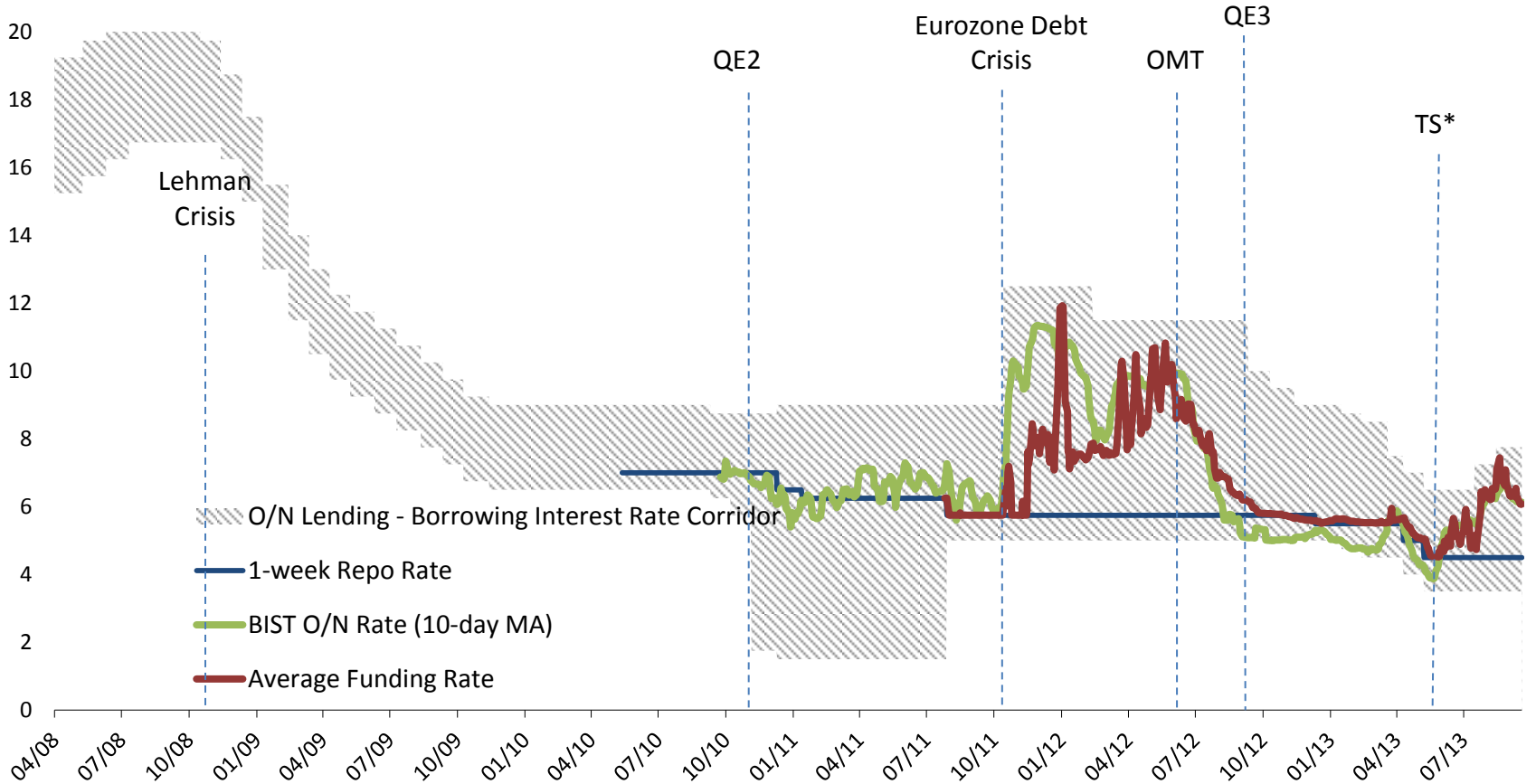
- Maturity Based Reserve Requirements
- Currency Based Reserve Requirements
- Leverage Based Reserve Requirements
- Reserve Options (Automatic Stabilizer)

Discretionary Tools, CBRT

- Policy Rate
- Interest Rate Corridor
- TL Liquidity Management
- FX Liquidity Management

Monetary Policy

Interest Rate Corridor and Average Funding Rate (Percent)

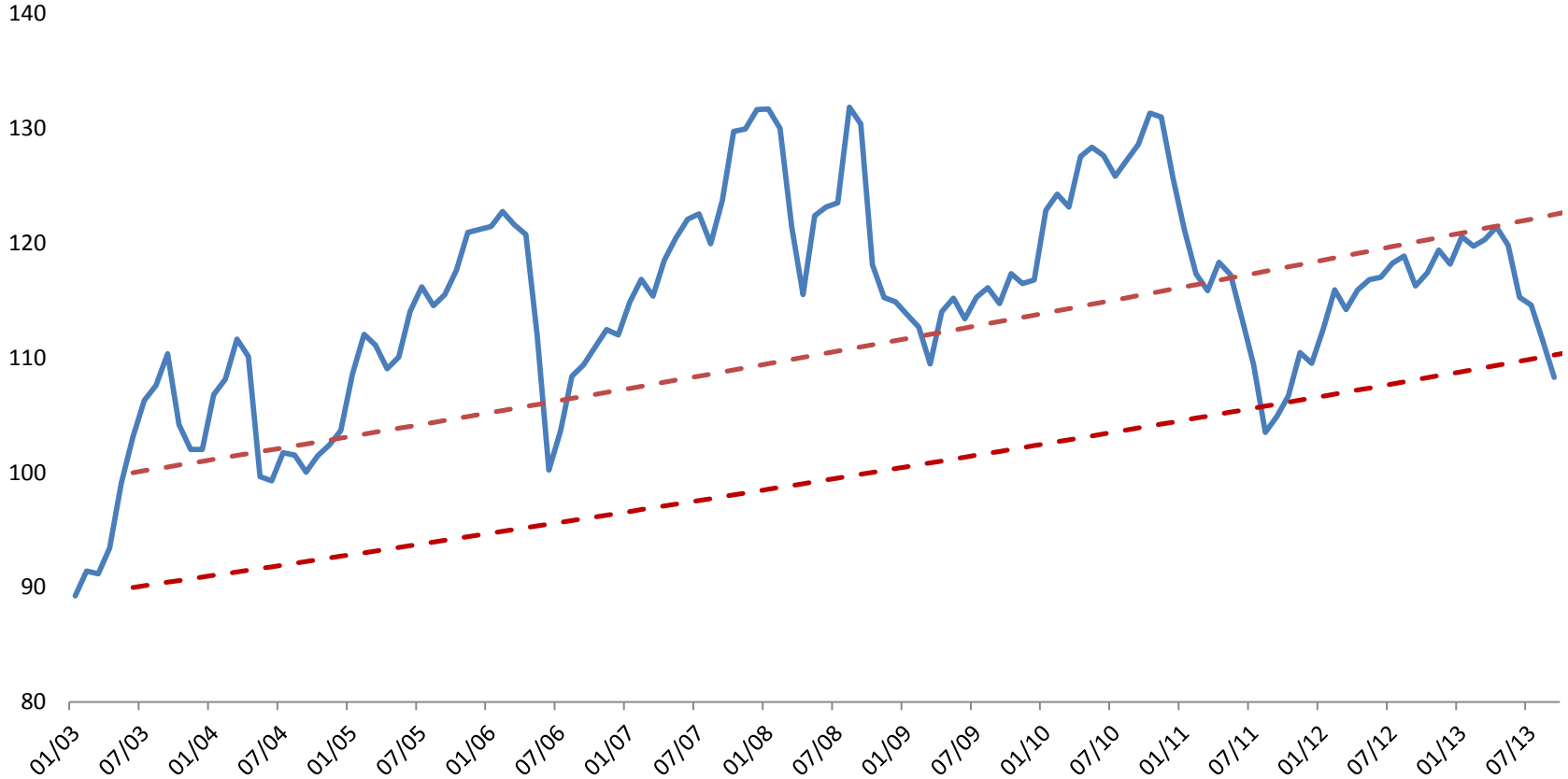


Kaynak: BIST, TCMB.

*TS: Tapering Signal
Last observation: 25.09.2013

Real Effective Exchange Rate (REER)

CPI Based REER (Base Year: 2003)



Source: CBRT.

Dotted lines represent 2 percent trends for May 2003=100 or January 2003=90.
Last observation: September 2013

Concluding Remarks

- Productivity enhancing structural reforms constitute the main drivers of economic growth in Emerging Market Economies (EMEs).
- The Central Bank's contribution to growth in Turkey is via ensuring price stability and contributing to financial stability.
- Unconventional monetary policies (UMPs) by major central banks led to a deterioration in the external balances of most EMEs.
- Normalization of policy via exits from UMPs in major advanced economies would be a welcome development.
- Yet, macroprudential and monetary policy instruments in EMEs need to be used appropriately in order to minimize the impact of the associated volatility in capital flows.



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