



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

**Monetary Policy  
in a Challenging Environment**

**Erdem Başçı  
Governor**

**19 September 2013  
OECD Council, Paris**

# Three Pillars of Growth

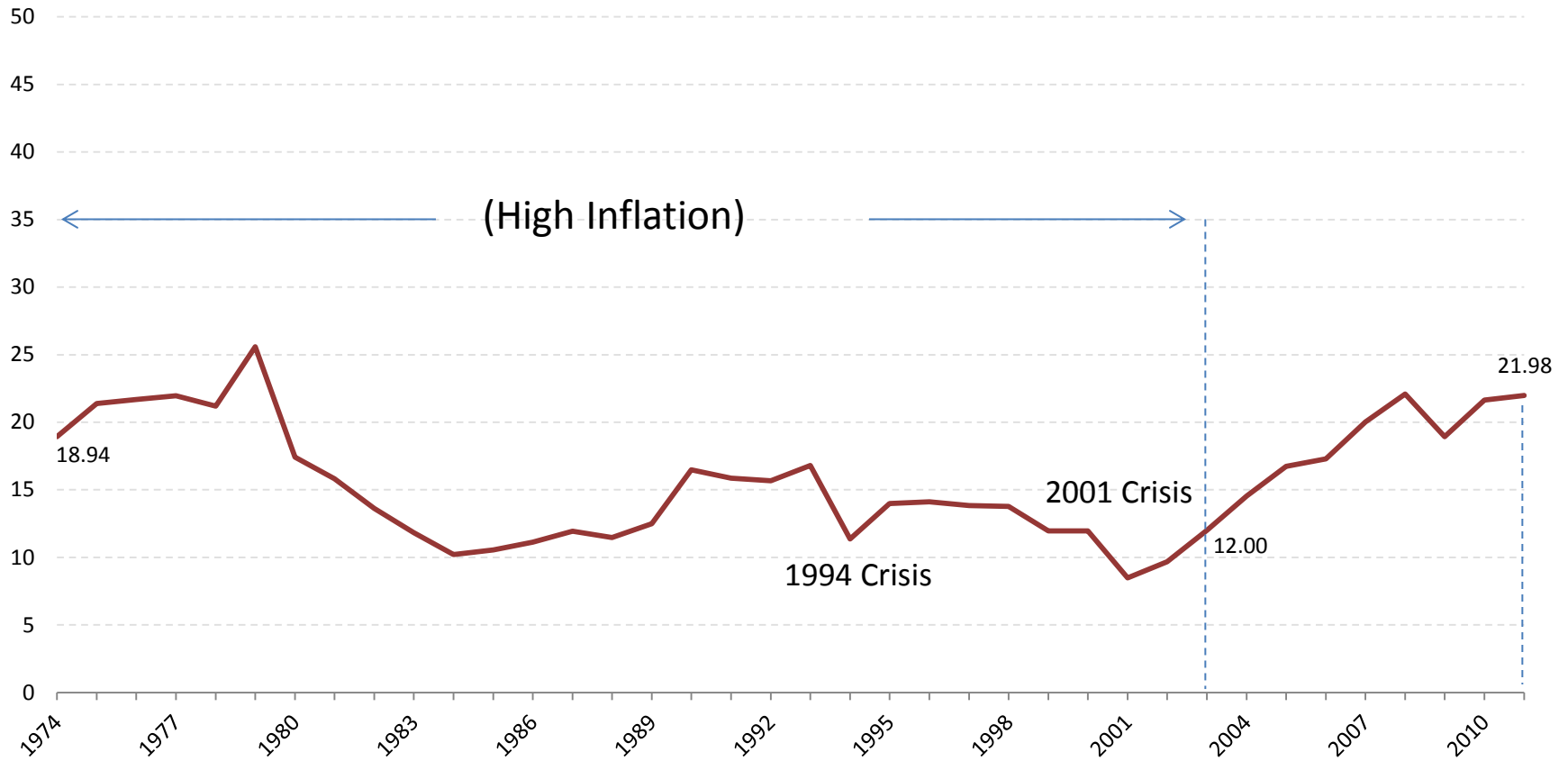
- I. Price stability
- II. Financial stability
- III. Productivity growth

# Key to Success for the Emerging Market Economies

- I. Real Convergence
- II. Nominal Decoupling

# Real Convergence

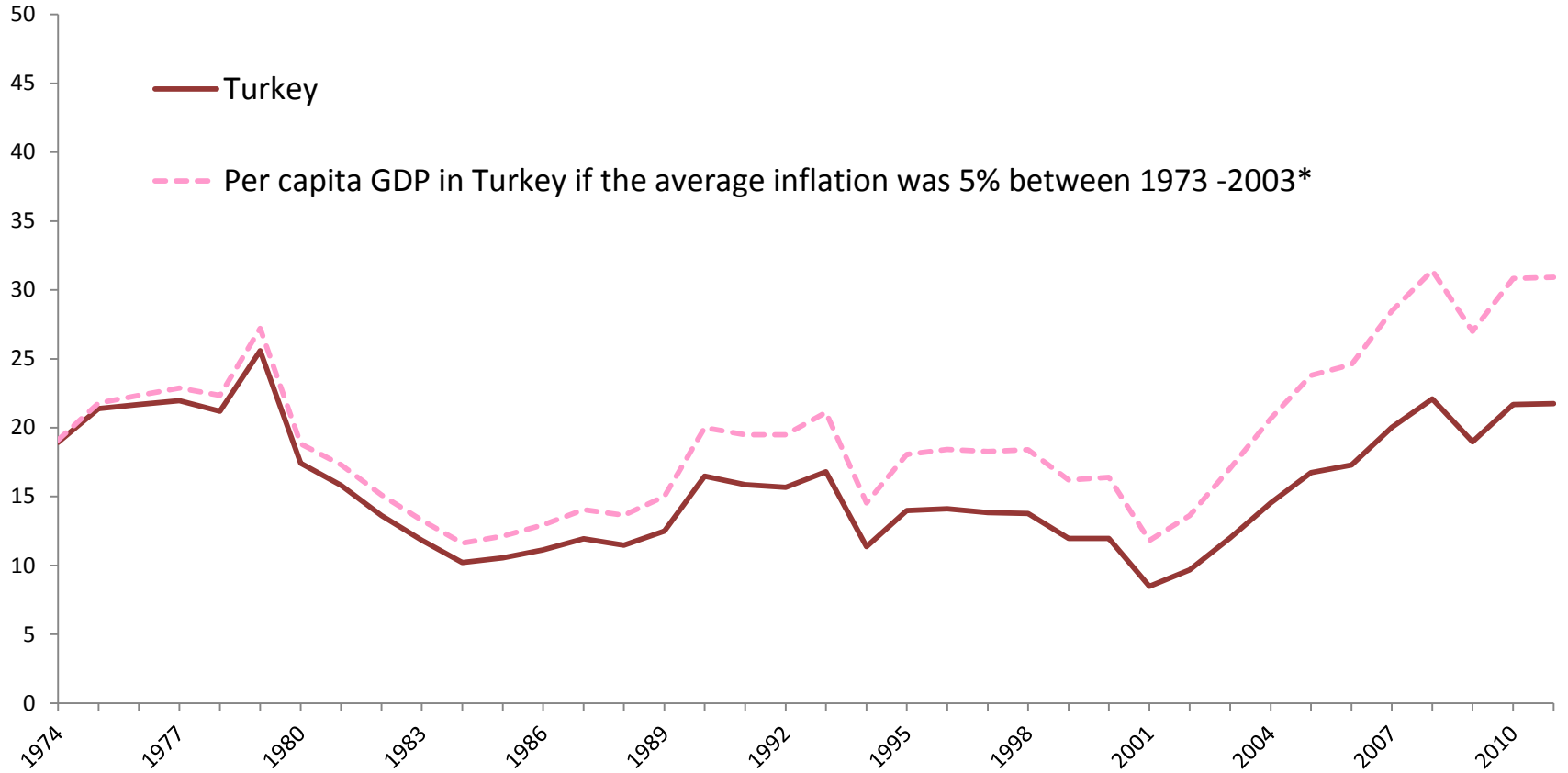
Per Capita GDP in Turkey / Per Capita GDP in USA  
(Percent)



Source: BM, TCMB

# Real Cost of Inflation

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

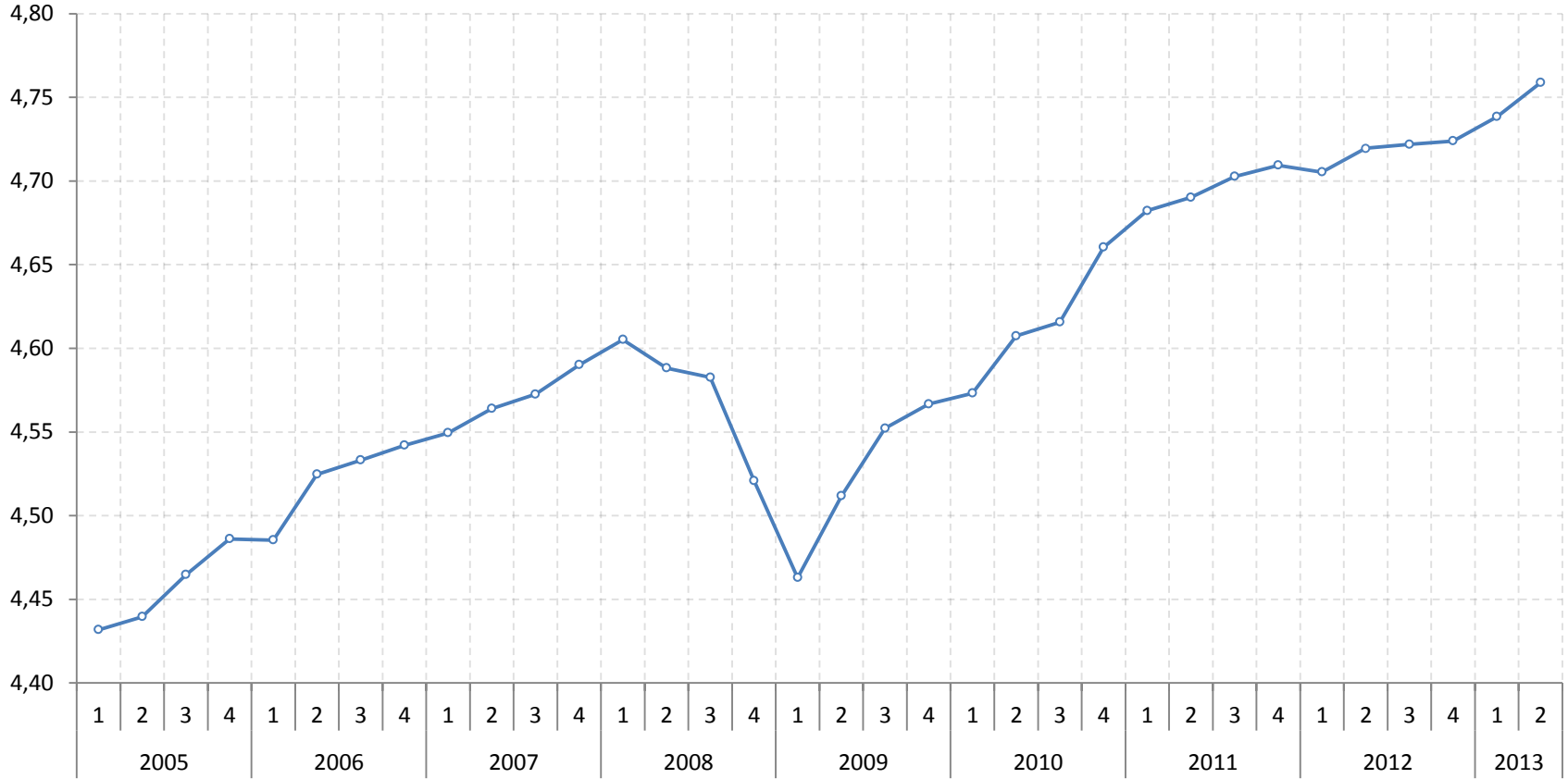


Source: BM, TCMB

\*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.

# Nominal Decoupling

- Sensitivity of local currency interest rates to global rates needs to be reduced
- Requires additional instruments:
  - I. FX liquidity
  - II. LC liquidity

# Key Policy Elements

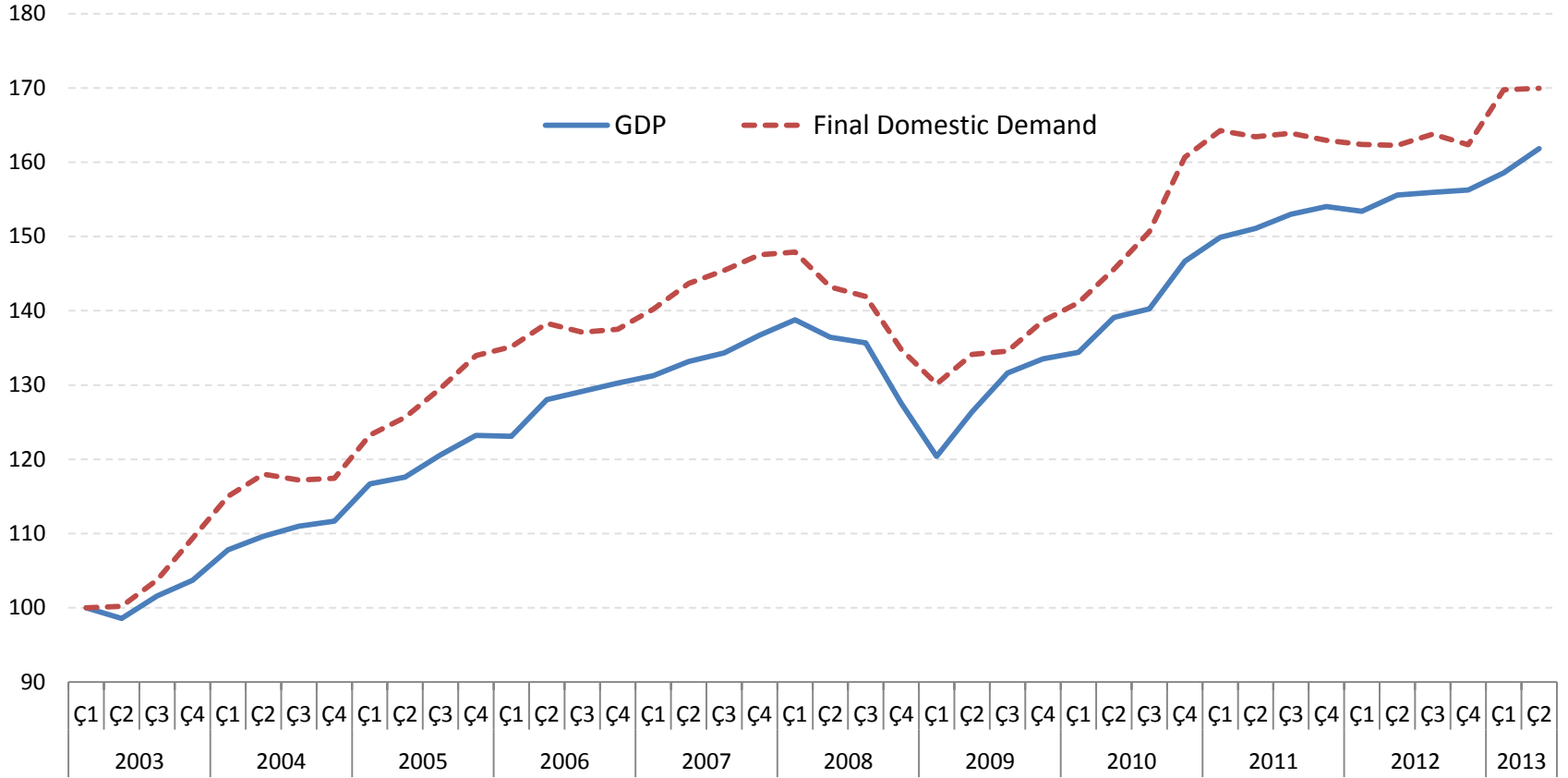
I. Flexibility

II. Predictability



# Rebalancing

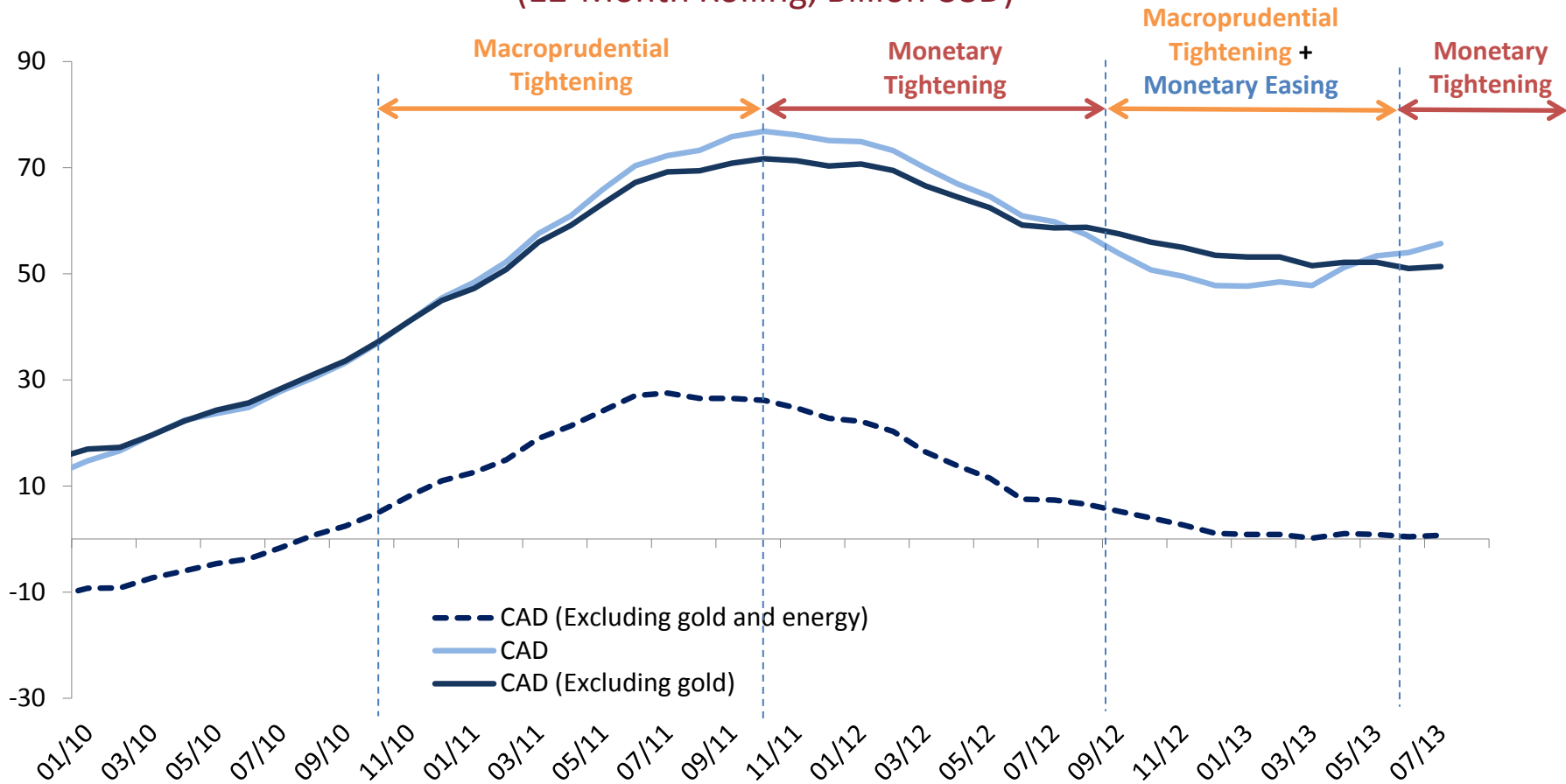
## Final Domestic Demand and GDP (Seasonally Adjusted, 2003Q1=100)



Source: TurkStat, CBRT.

# Rebalancing

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

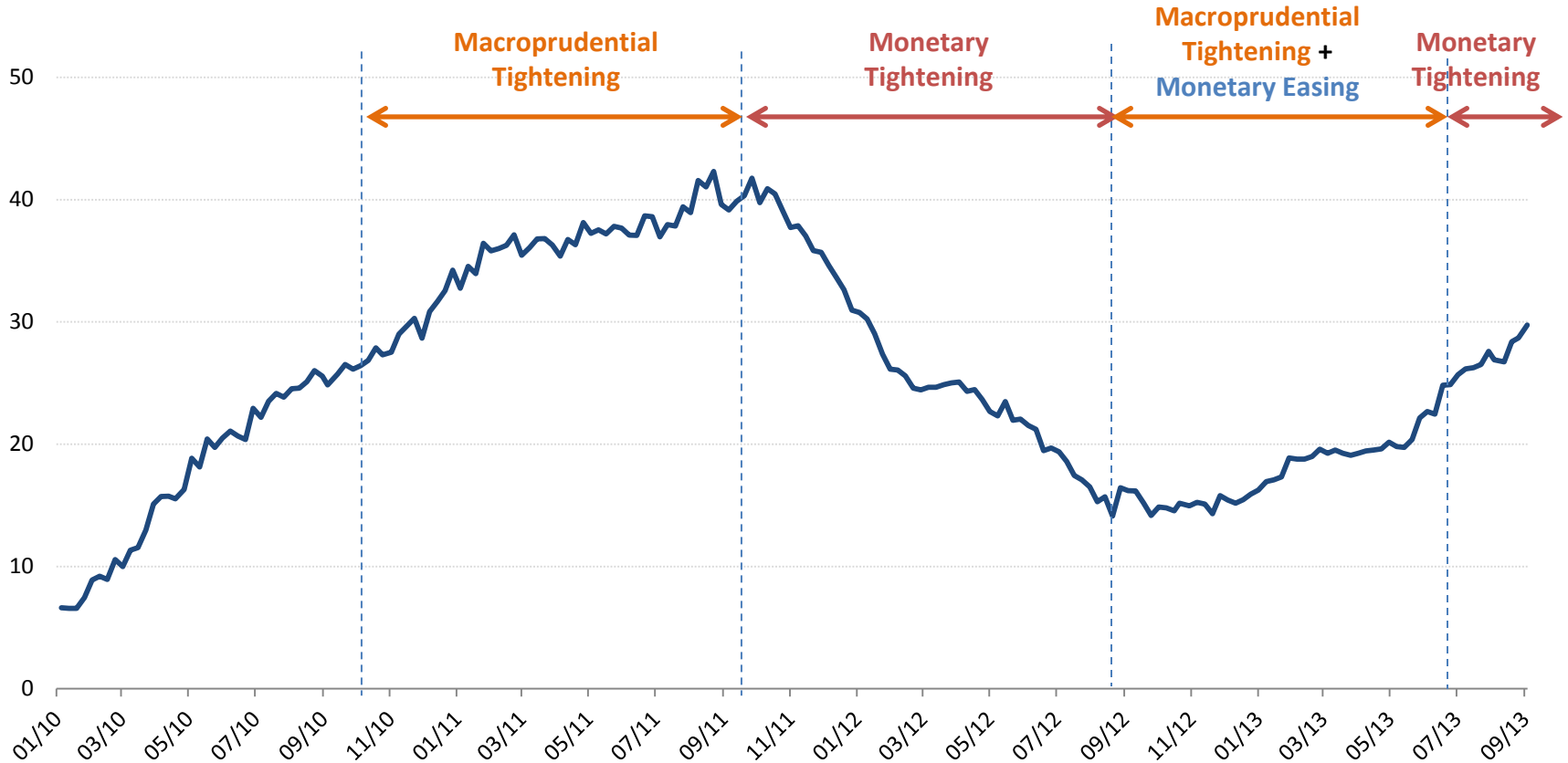


Source: CBRT.

Last Observation: July 2013.

# 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.

# Policy Framework

|              | Old Approach    | New Approach                           |
|--------------|-----------------|--|
| Objectives   | Price Stability | Price Stability<br>Financial Stability |
| Policy Tools | Policy Rate     | Structural Tools<br>Cyclical Tools     |

# Structural Tools, CBRT

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

# Cyclical Tools, CBRT

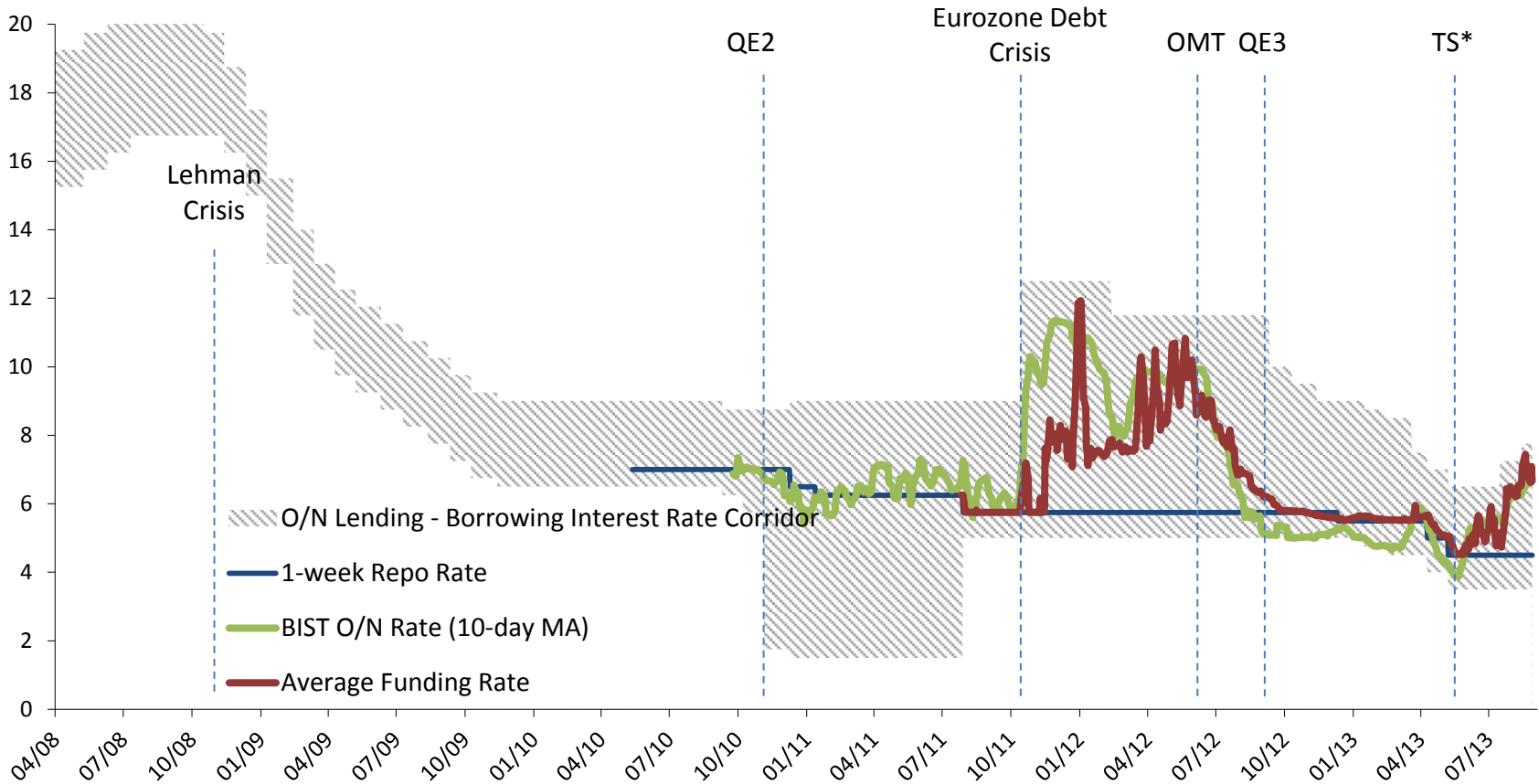
- Policy Rate
- Interest Rate Corridor
- TL Liquidity Management
- FX Liquidity Management

# Other Macprudential Measures

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

# Monetary Policy

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



Source: BIST, CBRT.

• TS: Tapering Signal

Last observation: 11.09.2013

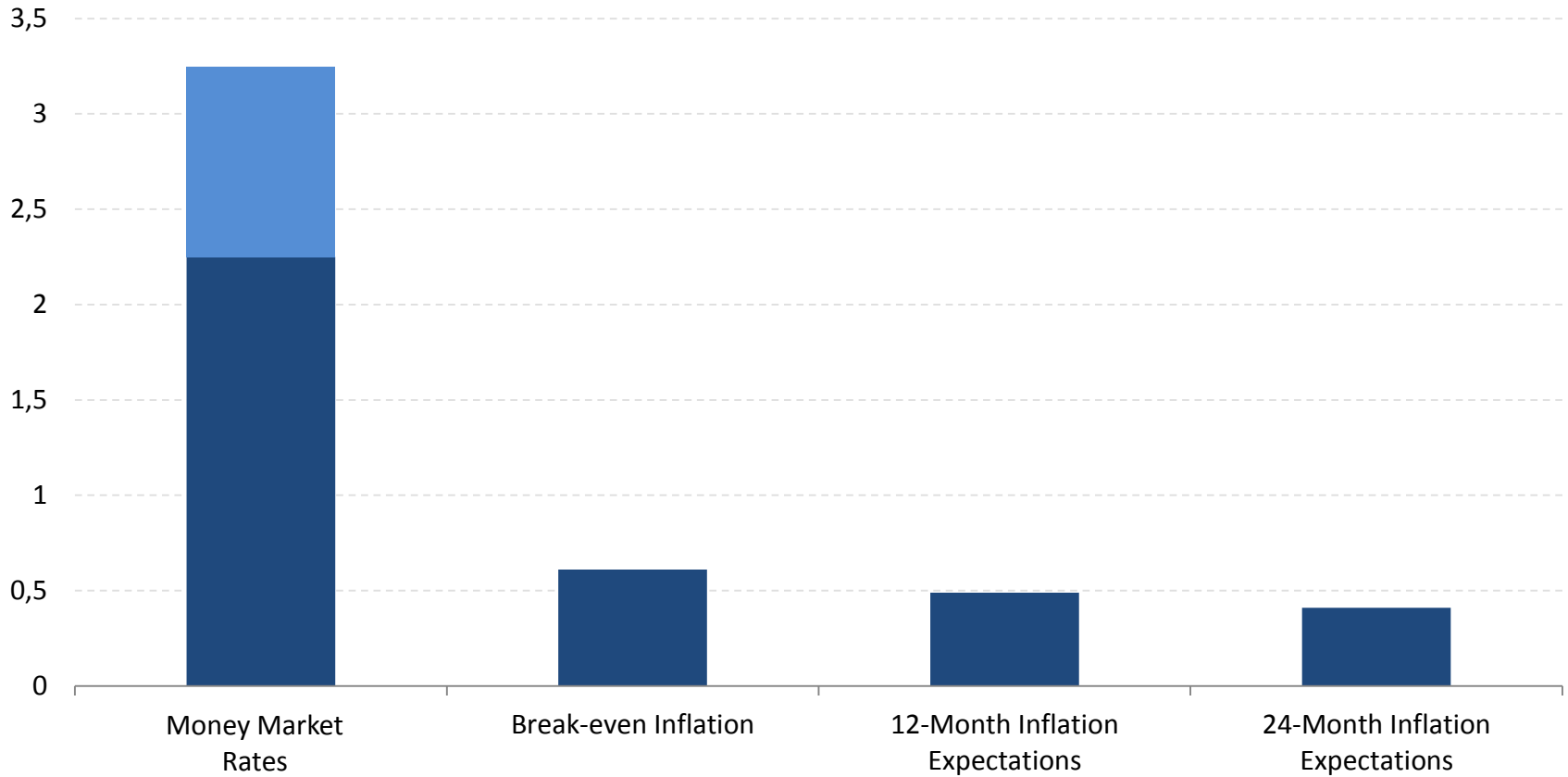


# CBRT's Response to FED's Tapering Signal

- Front-loaded monetary tightening  
(June-August 2013)
- Neutral stance on rates  
(Forward guidance - 20,27 August, 17 September 2013)
- Unsterilized FX sales  
(June-September 2013)

# Front-loaded Monetary Tightening

## Change in Key Variables (Percent, from May 22 to September 17)



Source: CBRT.

# Neutral stance on rates

- The cautious stance will be maintained until the inflation outlook is in line with the medium term targets.

(MPC Statement, August 2013)

# Unsterilized FX sales

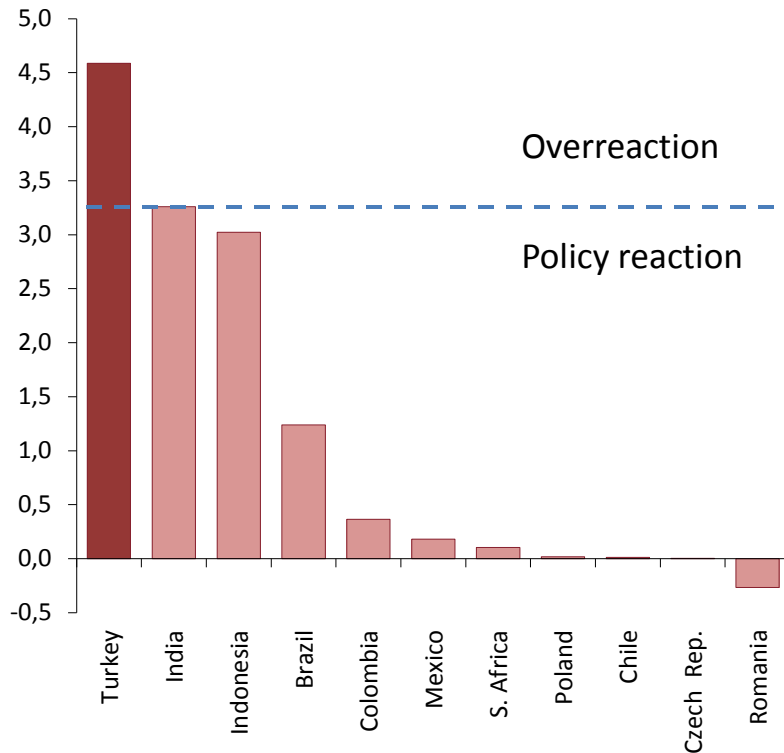
## Additional Monetary Tightening

- Additional monetary tightening (AMT) is mainly implemented via open market operations. Liquidity provided to the market at the policy rate is reduced temporarily below the lower bound announced for normal days.
- In order to support the additional monetary tightening, the Central Bank may hold unsterilized intraday foreign exchange sales auctions or foreign exchange interventions when deemed necessary.
- Additional monetary tightening is intended to be strong, effective and temporary. The duration of the implementation may vary depending on the progress of volatility in the foreign exchange market.

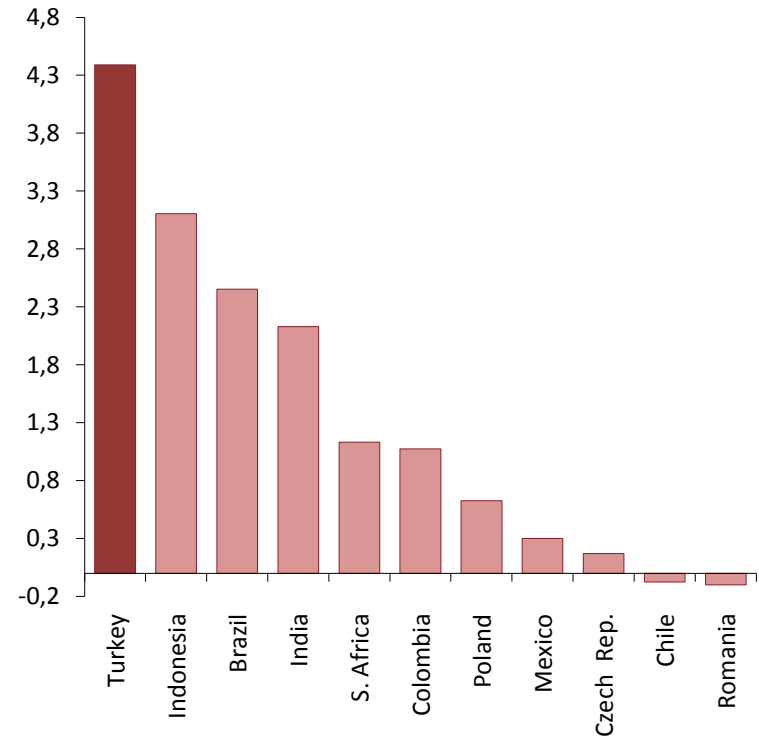
(Press Release On Short Term Additional Monetary Tightening, 11 June 2013)

# Overreaction: Interest Rates

Change in 3-Month Market Rates  
(From May 22 to September 2 , 2013 )



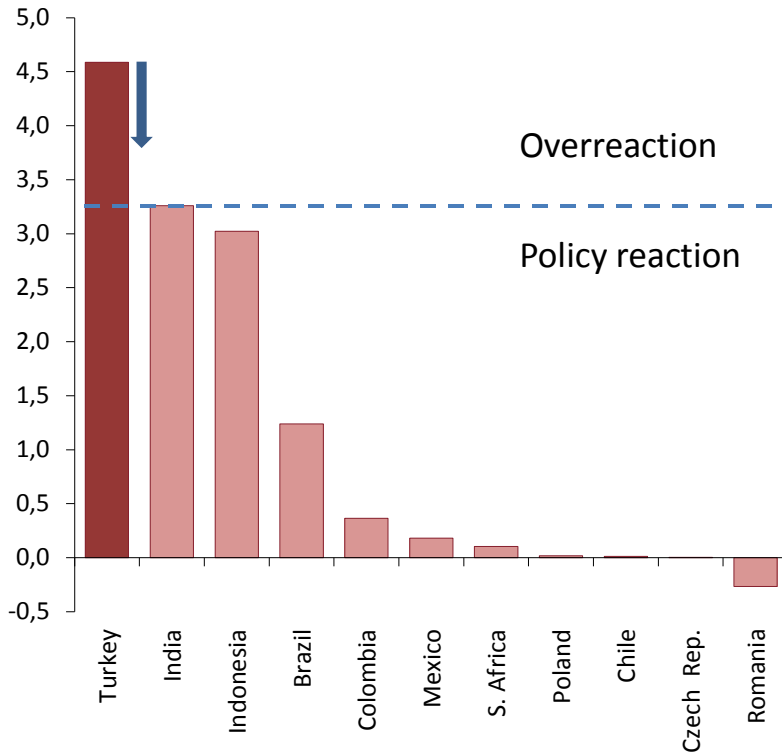
Change in 2-Year Market Rates  
(From May 22 to September 2 , 2013)



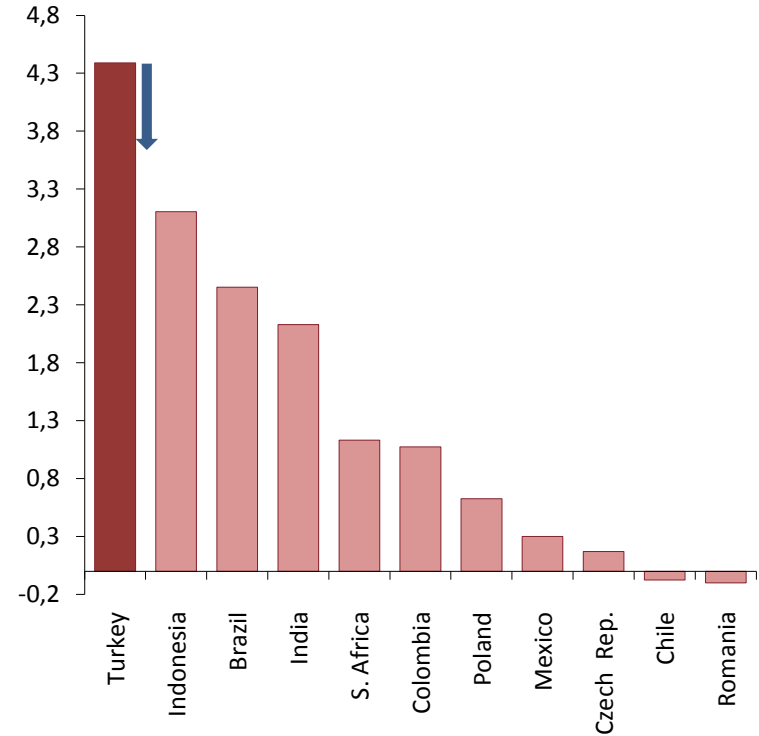
Source: Bloomberg

# Mean Reversion: Interest Rates

Change in 3-Month Market Rates  
(From May 22 to September 2, 2013)



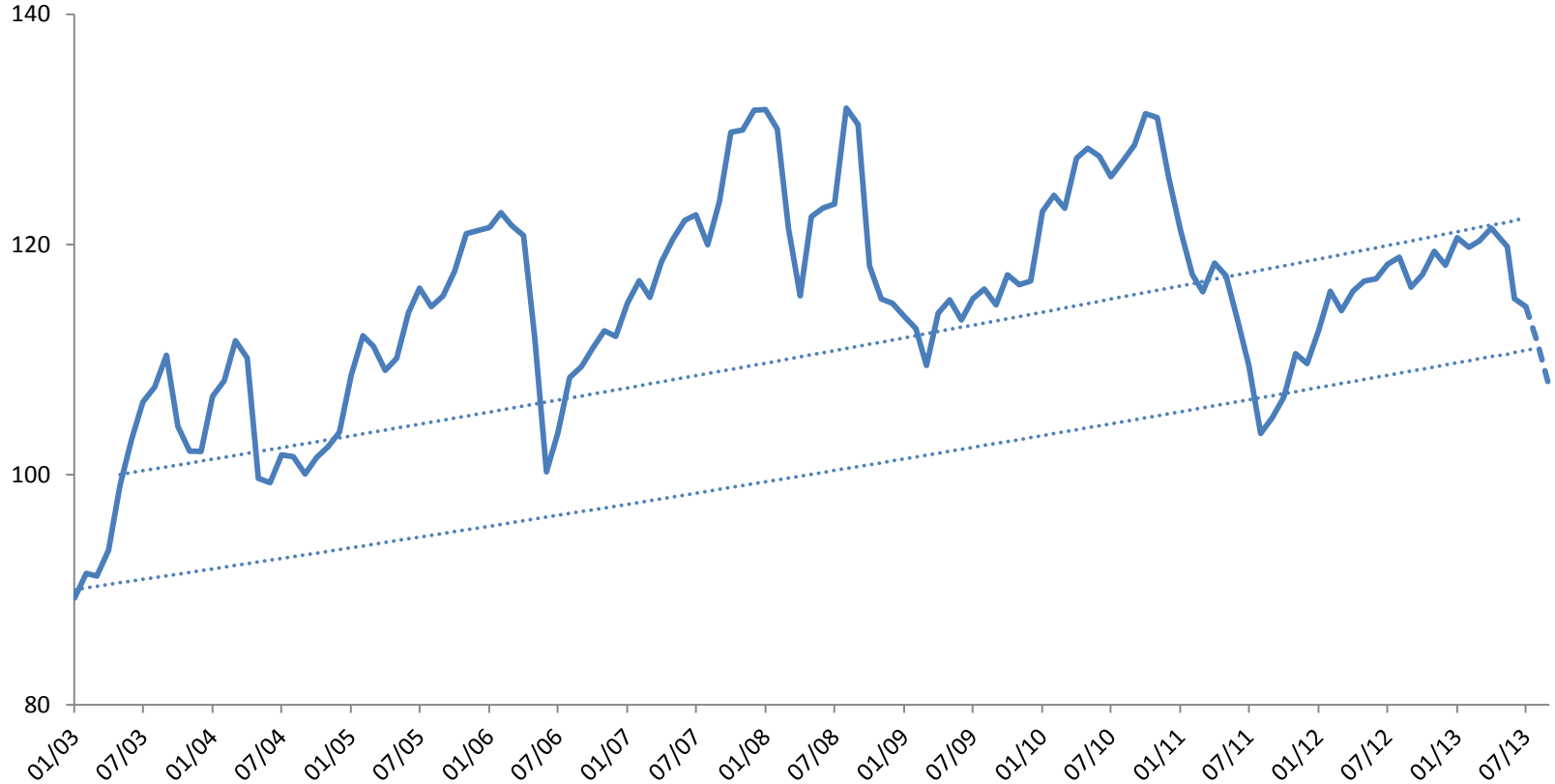
Change in 2-Year Market Rates  
(From May 22 to September 2, 2013)



Source: Bloomberg

# Overreaction: Exchange Rates

Real Effective Exchange Rates  
(2003=100)

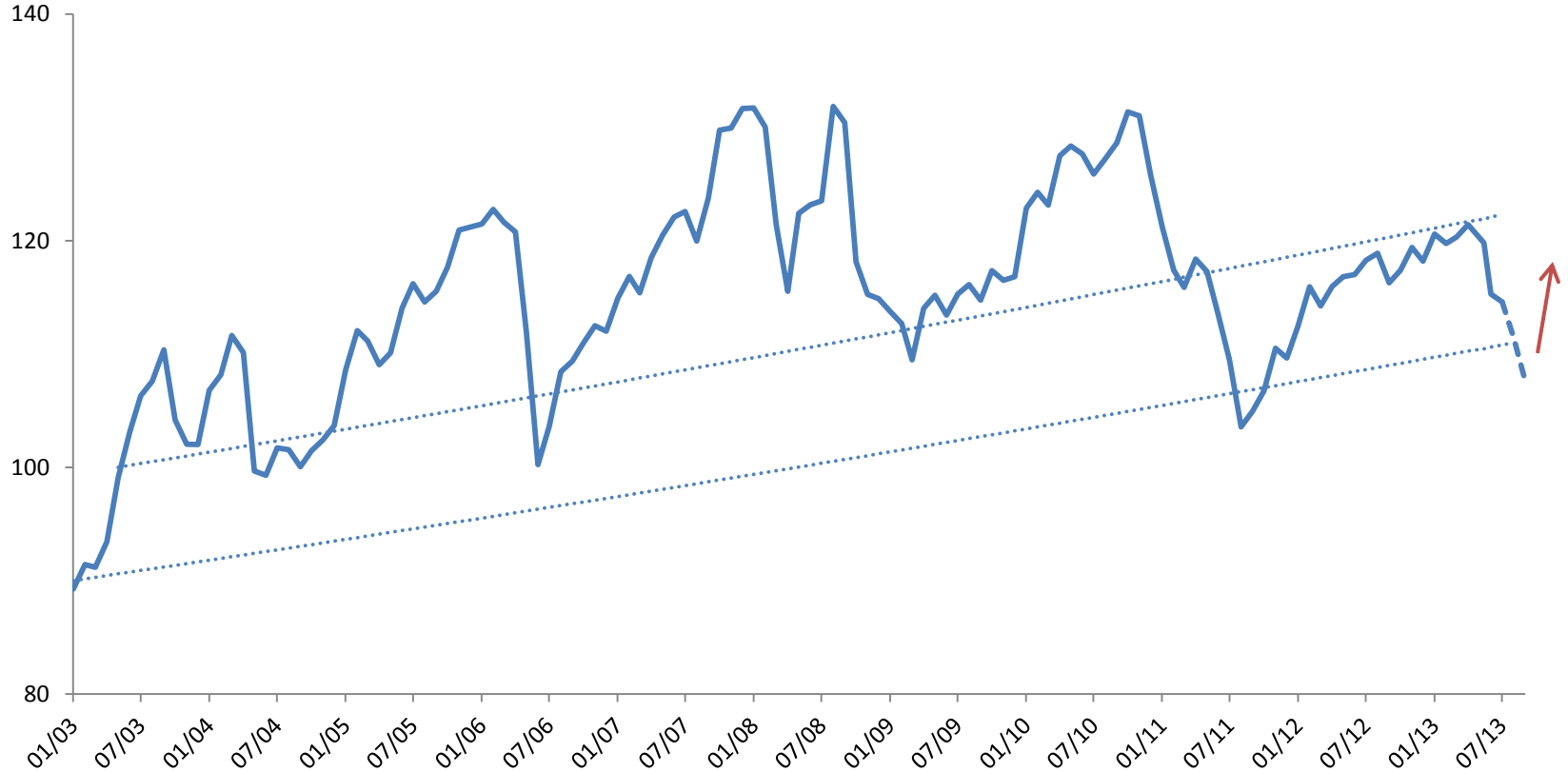


Source: CBRT.

September is estimated with the September 3, 2013 exchange rates. An increase in index indicates an appreciation of the Turkish lira. Dotted lines represent 2 percent trends for May 2003=100 or January 2003=90.

# Mean Reversion: Exchange Rates

Real Effective Exchange Rates  
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Source: CBRT.

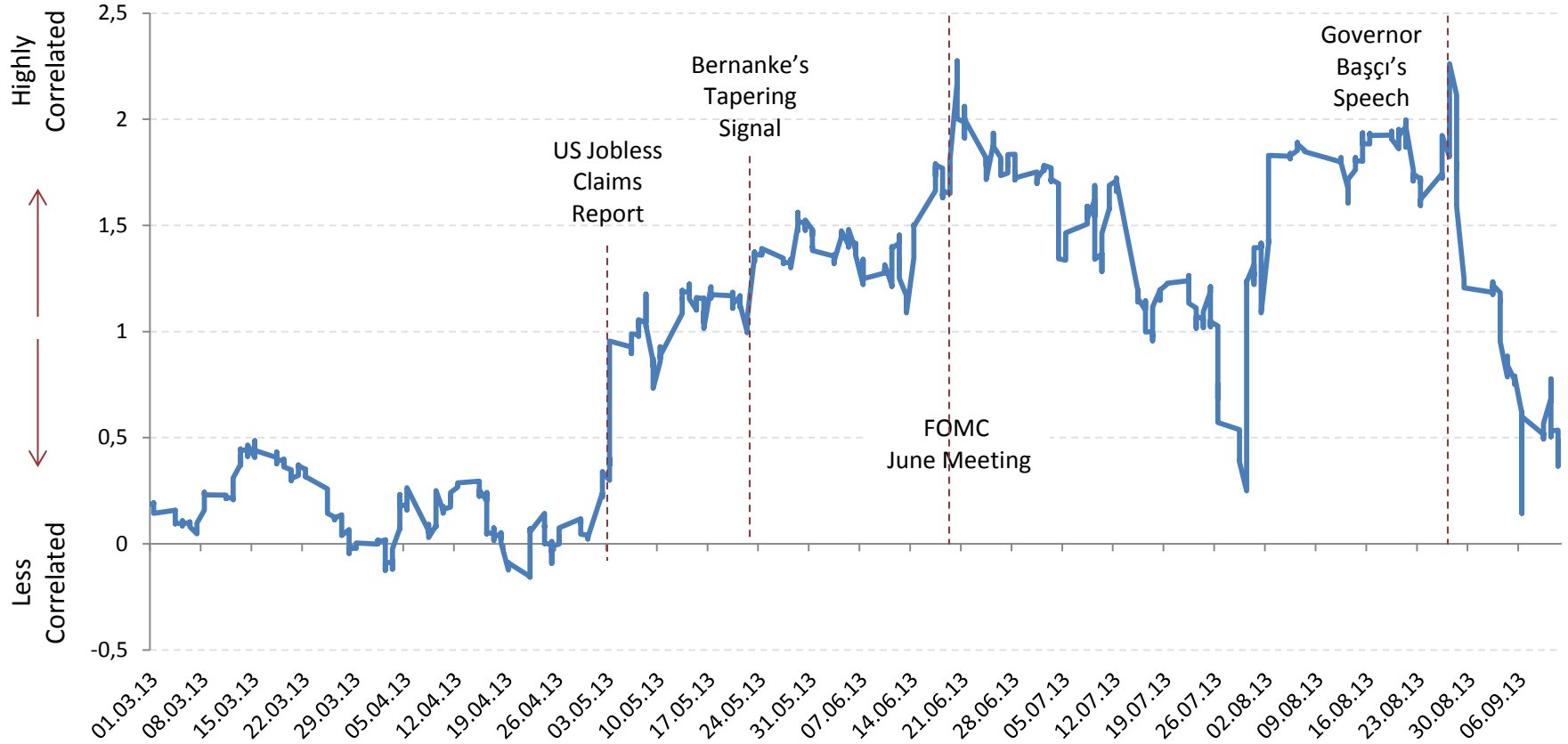
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# Sensitivity to Global Rates

## Beta for Turkish Bond Yields\* (10-day moving window)



Source: Bloomberg, CBRT.

\*Beta is the coefficient of the US 10Y Bond returns in the following regression;  $\Delta r_{TL} = \alpha + \beta \Delta r_{us} + \epsilon$

# 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 the financial stability.
- Unconventional monetary policies (UMPs) by major central banks led to a deterioration of external balances in most EMEs.
- Normalization of policy via the exit 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 associated volatility in capital flows.



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