



ASSET AND LIABILITY DOLLARIZATION IN TURKEY

CAUSES AND CONSEQUENCES

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Current Issues in Economic Governance

2 April 2008, Bilkent, Ankara



OUTLINE

- 1) Dollarization in Turkey
- 2) Causes
- 3) Consequences
- 4) Cures



Types of Dollarization

-Full versus Partial

-Medium of exchange (TR: no)

-Unit of account (TR: no)

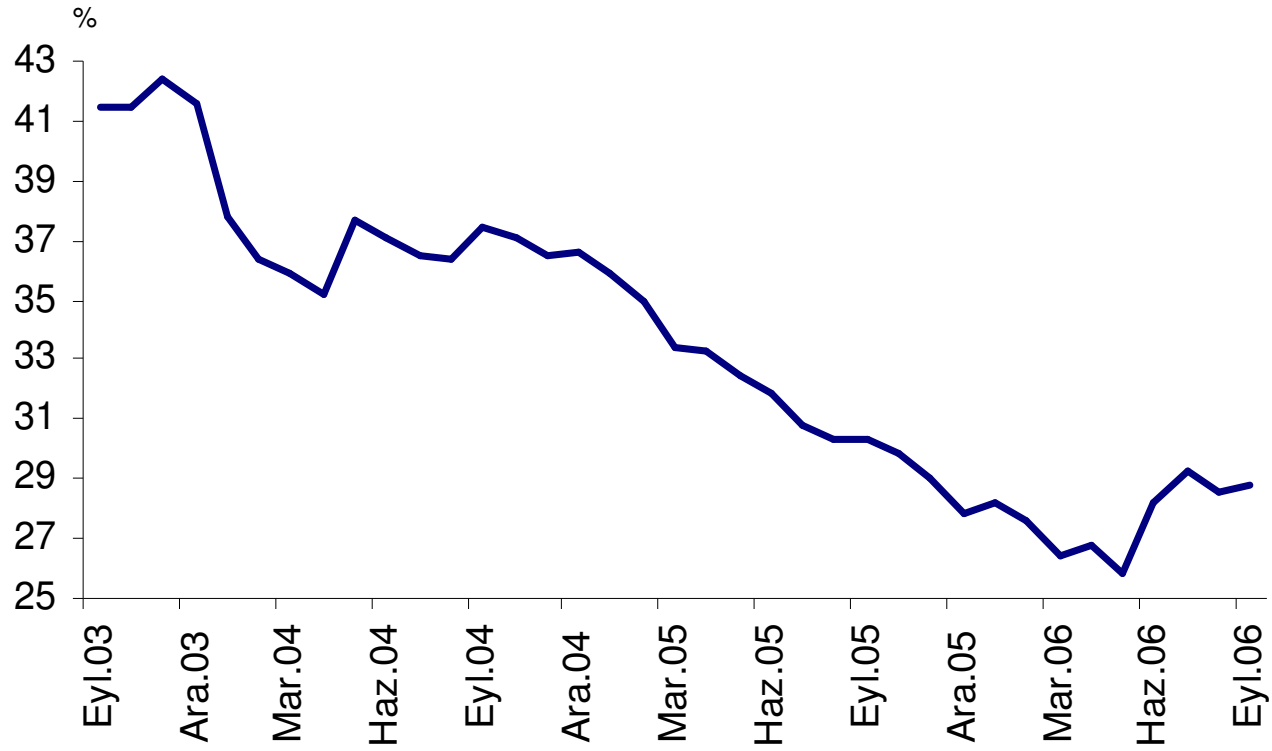
-Medium for savings (TR: partial)

-Asset versus Liability (TR: both)



DOLLARIZATION IN TURKEY

Share of FX-denominated deposits in total deposits

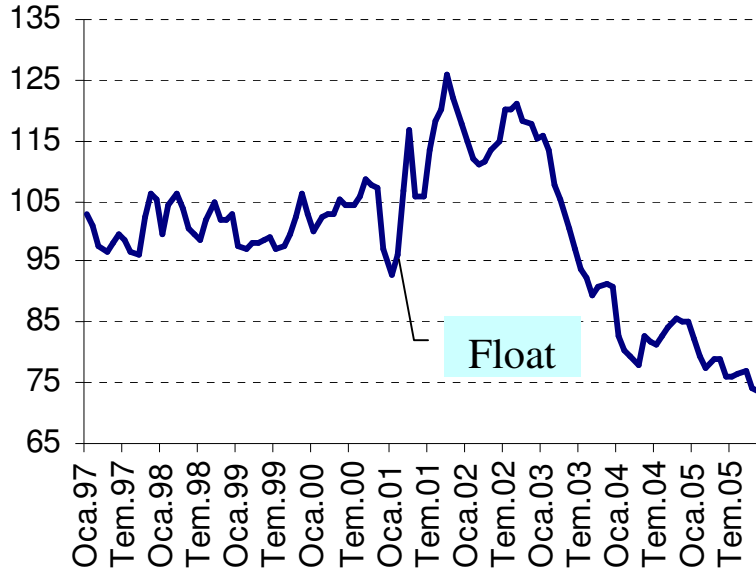


Source: CBT

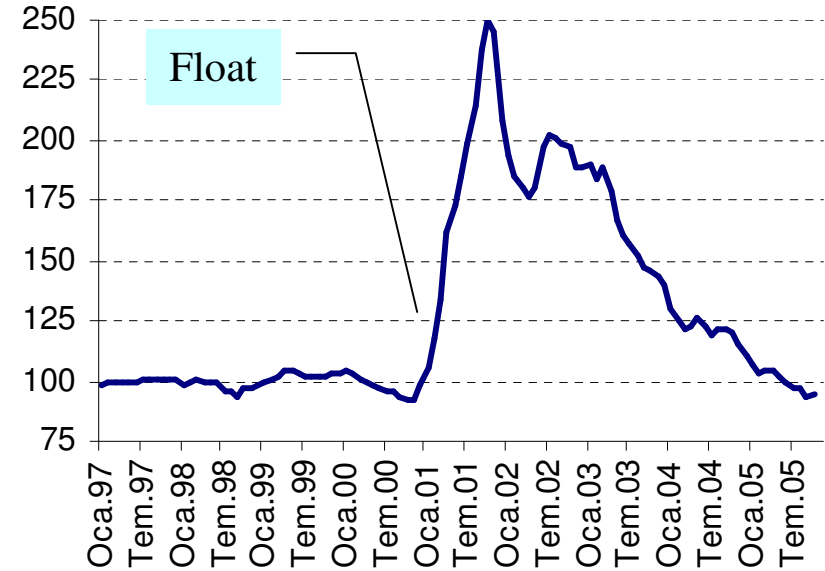


DOLLARIZATION IN TURKEY

Asset dollarization index (1997=100)



Liability dollarization index (1997=100)



¹ For more detailed information on the subject and the methodological explanations, see Akıncı et al (2005).



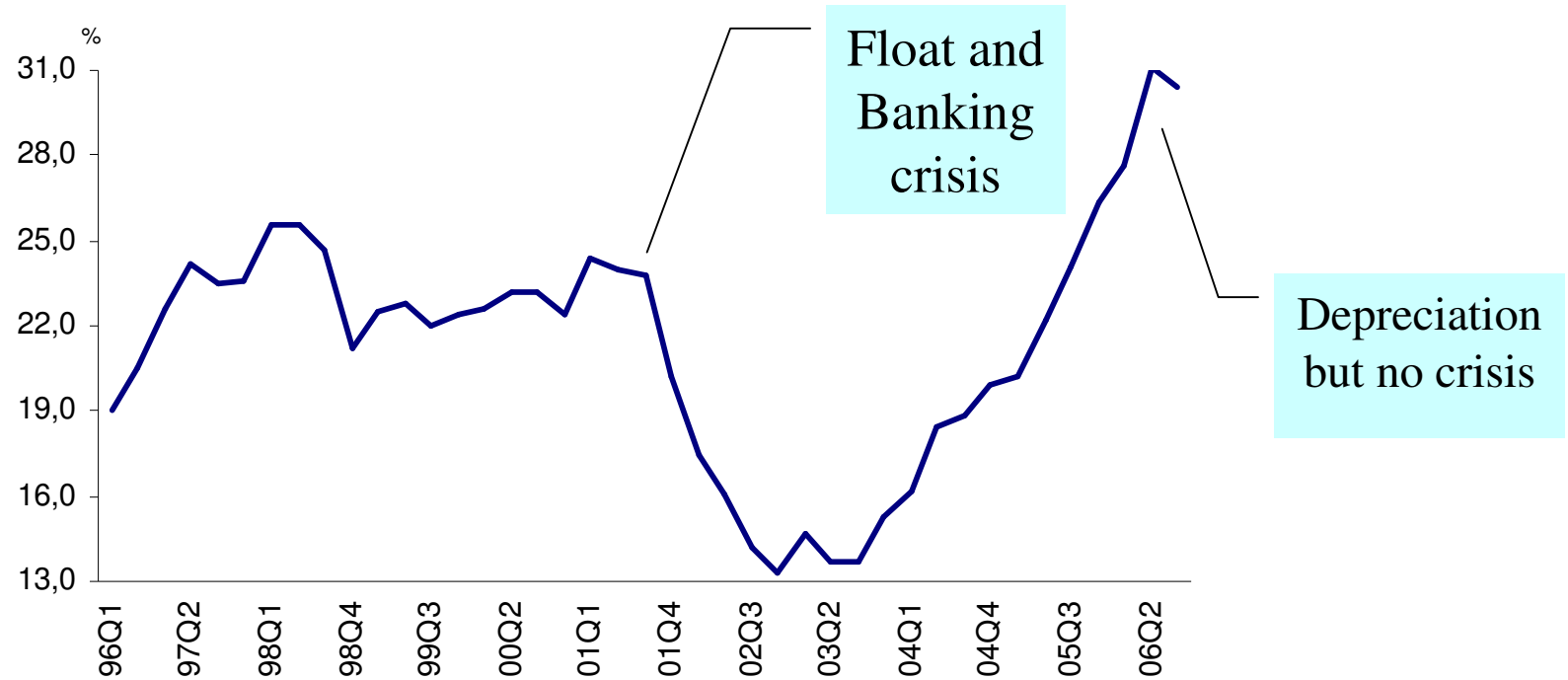
Causes of Dollarization

- Chronic inflation
- Crawling peg
- Financial repression
- Habits and one way bets



FINANCIAL REPRESSION

Private sector credit/GDP



Source: CBT

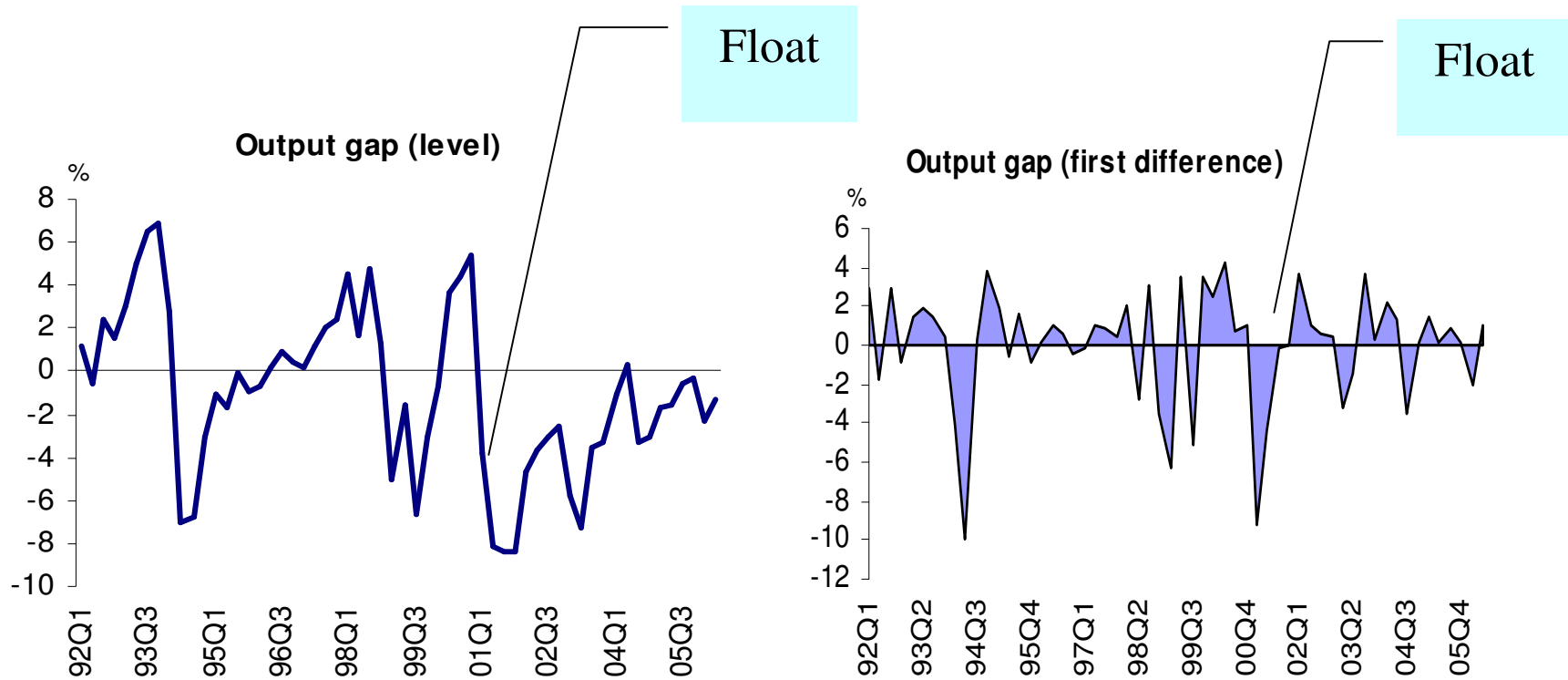


Consequences of Dedollarization

- 1) Output volatility (lower)
- 2) Inflation volatility (lower)
- 3) Transmission mechanism (normalized)



Reduced Output Volatility - 1

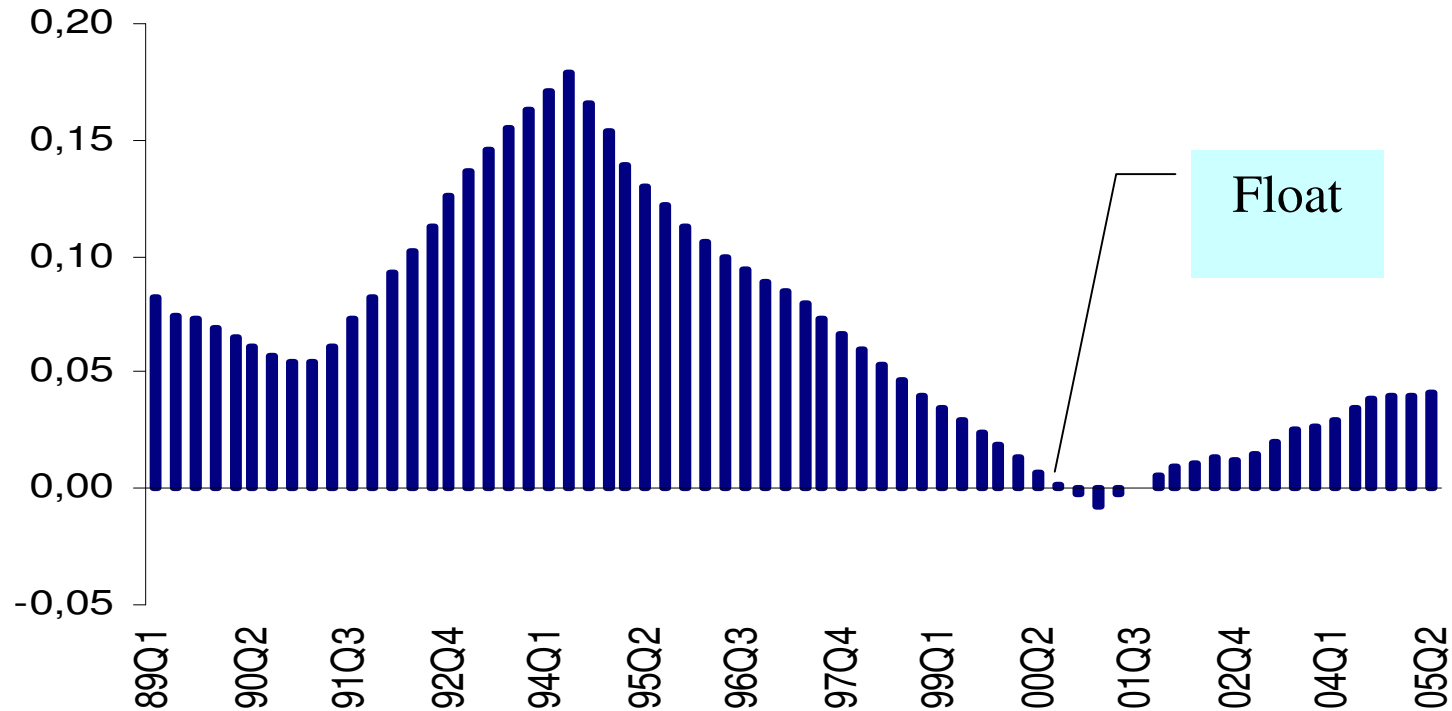


Source: Kara et al (2007).



Reduced Output Volatility - 2

Time-varying impact of real exchange rate on output gap¹

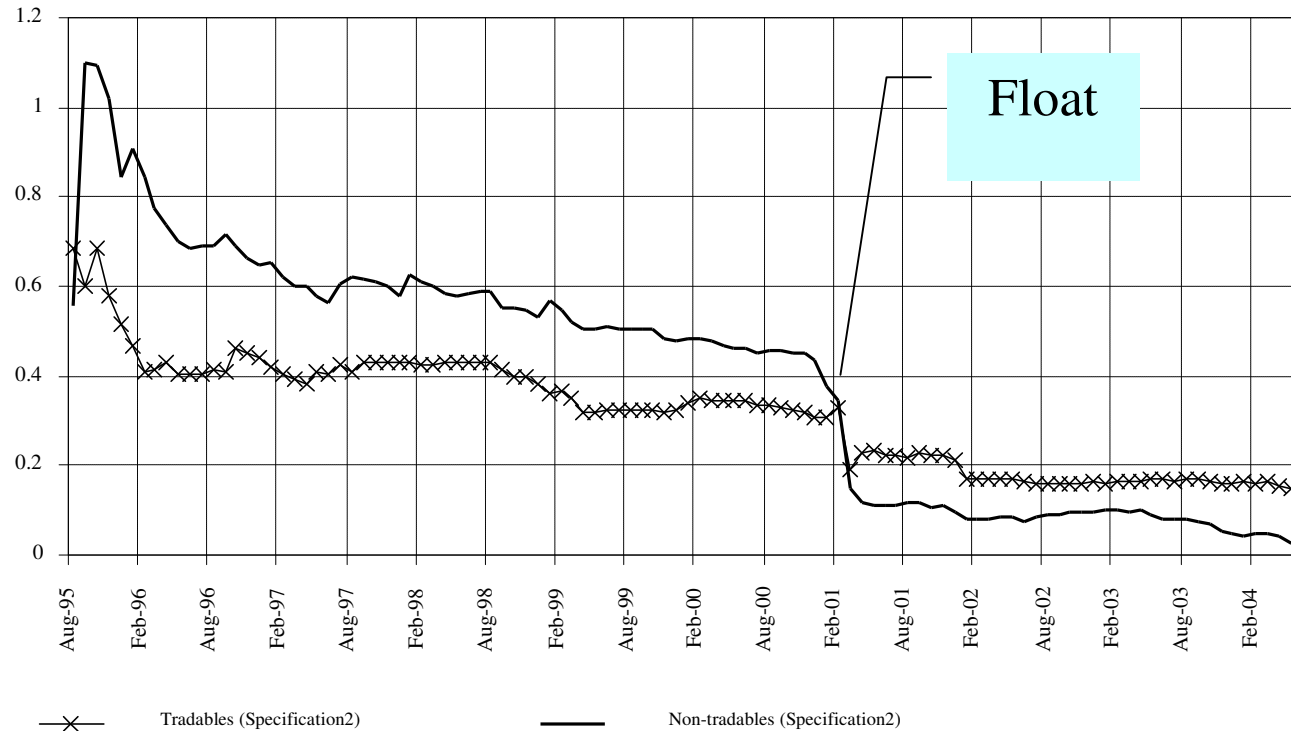


¹ Time-varying coefficient of real exchange rate is estimated through the extended Kalman filter method. For more detailed information on the subject and the methodological explanations, see Kara et al (2007). Also see Kılınç (2007)



Reduced Inflation Volatility - 1

Pass-through coefficient in tradables vs. non-tradables¹



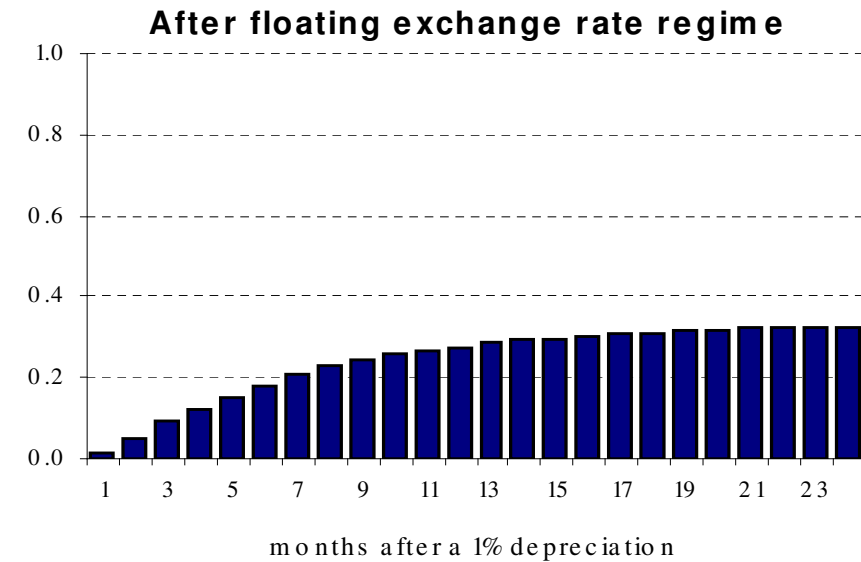
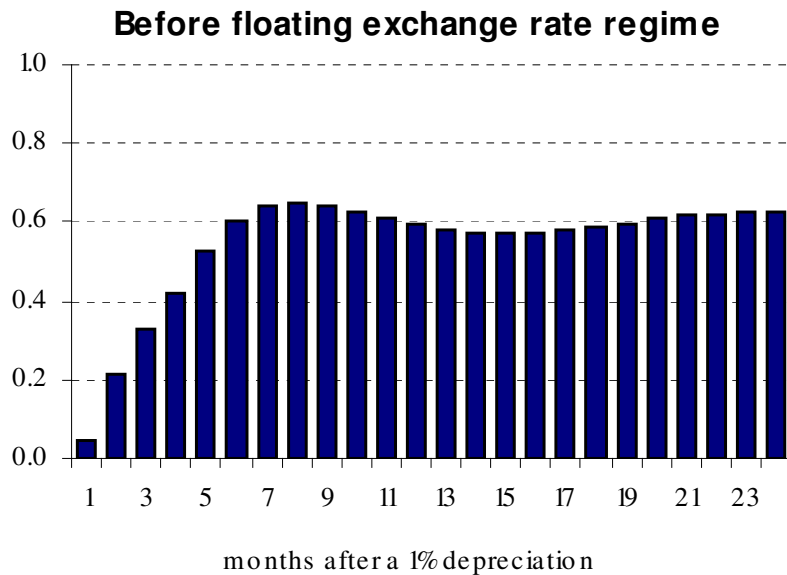
¹ For more detailed information on the subject and the methodological explanations, see Kara et al (2007).



Reduced Inflation Volatility - 2

Cumulative exchange rate pass-through to consumer inflation:

VAR evidence¹

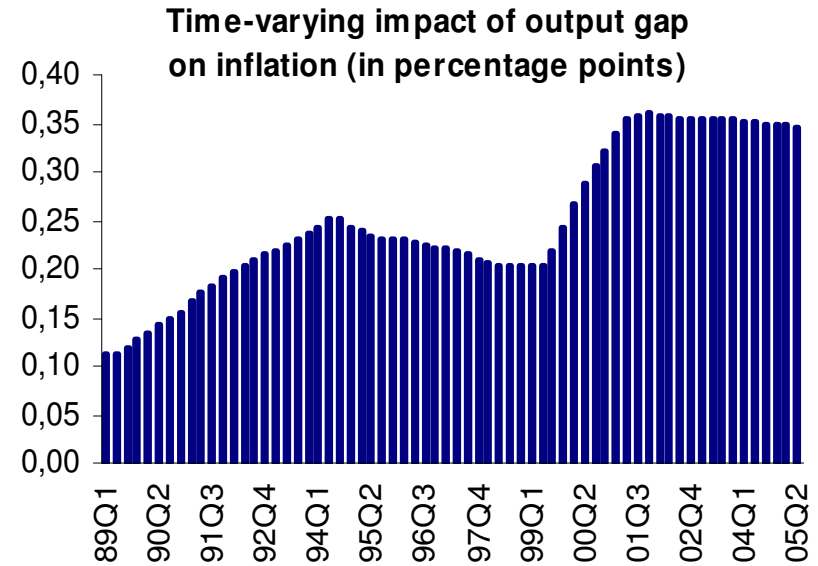
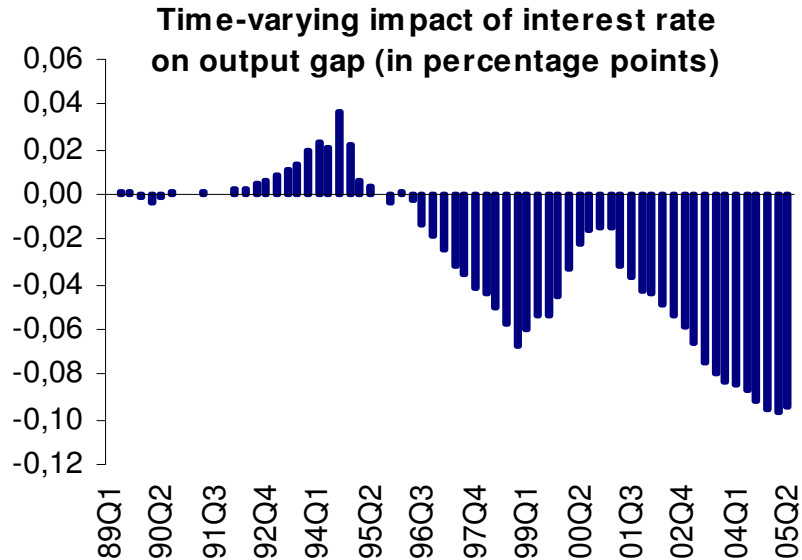


¹ For more detailed information on the subject and the methodological explanations, see Kara and Ögünç (2005).



Normalized Transmission Mechanism

Evolution of the interest rate channel¹



¹ Time-varying coefficients are estimated through the extended Kalman filter method. For more detailed information on the subject and the methodological explanations, see Kara et al (2007).



Cures of Dollarization

- Low and stable inflation
- Floating exchange rates
- Financial development
- Prudential regulation



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