

Bulletin



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

Issue: 27 / June 2013

Child and Youth Finance International Summit 2013

The second annual Child and Youth Finance International Summit brought together many children, youth and senior level representatives from across various sectors on the topic of financial inclusion and Economic Citizenship for Children and Youth. The Summit which was held in Amsterdam in April last year, was held in İstanbul in May this year under the patronage of the Capital Markets Board of Turkey, in collaboration with the Central Bank of the Republic of Turkey (CBRT) and the Borsa İstanbul.

At the inaugural gala dinner which was held at Hilton İstanbul, CBRT Deputy Governor. Mehmet Yörükoğlu made a speech. Following day, CBRT Executive Director of Banking and Financial Institutions Department Çiğdem Koğar emphasised the importance of financial education in her welcome speech with her words "We strongly believe that the significance of financial education is going far beyond its conceptual meaning and we attach great importance to collaborating with national and international institutions in this area". In her speech Koğar also mentioned the national campaign initiated by CBRT for increasing awareness on savings and supporting the usage of kuruş (Turkish penny - coins).

In the media, the summit was evaluated as having a key role for the Child and Youth Finance Movement. Starting from May 7th till May 9th, various meetings were held under the umbrella of the Summit which brought together many participants in the workshop sessions enabling interactive learning among participants. More than 400 senior participants from 101 countries took part in the Summit. During the interactive sessions, child and youth representatives expressed their recommendations on topics including financial education, employment, banking & services, technology & communication and entrepreneurship. Regarding financial education, representatives demanded free education for all students provided through banks & schools. At the awards ceremony held in the last day of the event, outstanding achievements by youth, financial service providers and national authorities in 6 different categories were celebrated. Among closing remarks, significance of overcoming the barriers, necessity of multi-stakeholders approach and the important responsibilities for children and youth in this subject were noteworthy. Next year, Child and Youth Finance International Summit will be hosted by Chile as announced during the awards ceremony.



CBRT in Children's Land



The 35th International 23rd April Children's Festival, organized by TRT Çocuk (Turkish Radio and Television Corporation's kids channel), was celebrated this year in İzmir.

The Festival is a gift from the founder of the Republic of Turkey, Mustafa Kemal Atatürk, to the children of Turkey, on the occasion of the establishment of the national parliament. It is the first and only children's festival that is

being celebrated internationally as "TRT 23rd April International Children's Festival" since 1979.

The Festival Week, held from 15 to 23 April 2013, began with the Festival Parade while the enthusiasm for the 23rd April International Children's Festival

was most experienced in the Children's Land, raised in Kültür Park in İzmir. The cartoon heroes of TRT Çocuk and their special play worlds, various event areas, playgrounds and the amusement parks prepared by numerous organizations took place in the "Children's Land".

To increase the awareness of savings and to encourage the usage of 'kuruş', the CBRT has initiated several activities. These activities were aimed to reach all age groups; but primarily

children on this occasion.

In this regard, the CBRT made children-oriented activities in Children's Land, set up by TRT in İzmir Kültür Park as part of 23rd April International Children Festival. In Children's Land, visited by approximately 250.000 visitors during the Festival Week, the CBRT distributed about 25.000 bags that contained the TRT Child Magazine (topic of the month being savings and kuruş), the TÜBİTAK (The Scientific and Technological Research Council of Turkey) Children Magazine, covering the savings and money issues, as well as some stationery items such as pencil, eraser, bookmark, badge and a purpose-designed "children's money", designed and produced specifically for this occasion.

The public opinion to CBRT's first participation and activities was considerably positive. The CBRT is planning to further develop financial awareness of the general public.



New Monetary Policy Tools and Credit Growth

When the monetary policy solely focuses on the price stability and the inflation targets are relatively short-term targets, this may hinder central banks from observing the other risks accumulated in the system. Especially after the Global Crisis, it has become a common view that the monetary policy should also take into consideration the financial and macroeconomic stability. In parallel to these developments, new approaches have come to order in monetary policy implementations.

Rapid credit growth is deemed to be an important indicator of financial crises in the academic literature. Therefore, it has become more important to keep track of the credit growth process. In order to minimize the macro-financial risks arisen with the Global Crisis, in the second half of the year 2010, the CBRT has begun to monitor credit growth more closely in its new policy mix, as a new component of the financial stability.

In the academic literature, according to the bank credit channel, the primary source of finance is bank credits for the companies and households. Moreover, it is assumed that credits are mostly funded by deposits. In the periods when the monetary policy stance becomes tight, a fall in the liquidity is observed and in the environment where the banks' access to non-deposit fund resources is limited, the banks resort to credit rationing. Consequently, the

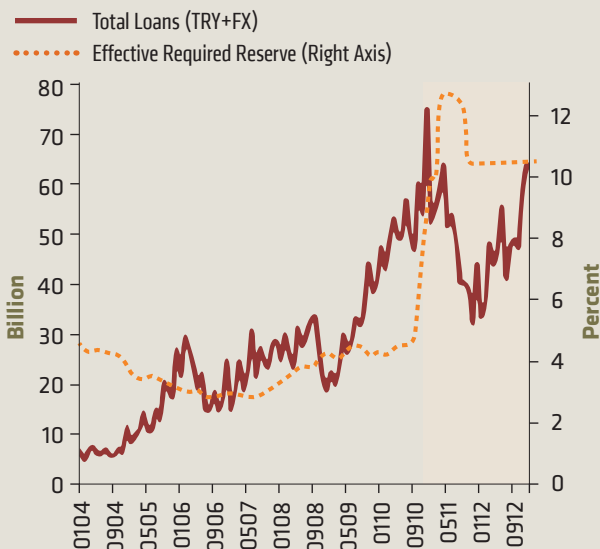
substitution effects between the deposit and non-deposit fund resources and bank credits and other alternative financing resources become leading factors that are affecting the effectiveness of bank credit channel. Many studies in developed countries that focus on the effectiveness of the bank credit channel, take into consideration only policy rate and ignore other policy tools; however, in developing countries, new policy tools are widely used as well.

In order to evaluate the precautionary policies' effect on the credit growth more timely, flow data is used as credit variable. From the end of 2010, with the increase of the effective required reserves and widening of the interest rate corridor, it is observed that there has been a fall in the excessive increase in the flow credits in Turkey (Charts 1&2).

Moreover, recent analysis made by the CBRT has shown that required reserve ratios, policy rate and interest rate corridor have negative effect on credits. However, while required reserve ratios have strong relation with all kinds of credits, it has been found that policy rate has a stronger effect on consumer credits, whereas interest rate corridor has a stronger effect on commercial credits (Table 1). These results are supportive of the view that new policy tools are influential on credit composition and thus are strengthening the credit channel transmission mechanism.

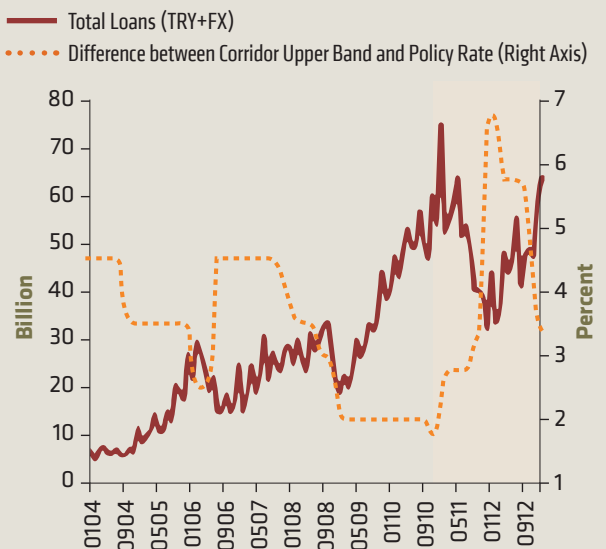
Table 1	Consumer Credits	Commercial Credits
Required Reserve Ratios	Strong negative relation	Strong negative relation
Policy Rate	Strong negative relation	Weak negative relation
Interest Rate Corridor	Weak negative relation	Strong negative relation

Chart 1: Total Flow Loans and Required Reserve Ratio



Source: CBRT

Chart 2: Total Flow Loans and Corridor



Source: CBRT

Thermometer

Inflation and Output Gap Forecasts

Medium-term forecasts envisage an outlook where macro financial risks arising from the recent surge in capital inflows are contained. In other words, the policy stance behind the forecast is one in which interest rates are kept low, while macroprudential measures are sustained. In this respect, it is assumed that annual loan growth rate will hover around 15 percent. Accordingly, inflation is expected to be, with 70 percent probability, between 4.1 percent and 6.5 percent (with a mid-point of 5.3 percent) at end-2013; and between 3.1 percent and 6.7 percent (with a mid-point of 4.9 percent) at end-2014. Inflation is expected to stabilize around 5 percent in the medium-term.

Inflation is expected to fluctuate in the short-term due to the base effect in energy prices. Accordingly, annual inflation is estimated to decrease significantly in April and increase gradually in the May-July period. The downward trend in inflation is expected to resume after July, bringing inflation down to 5.3 percent by the end of the year.

Chart 3: Inflation and Output Gap Forecasts

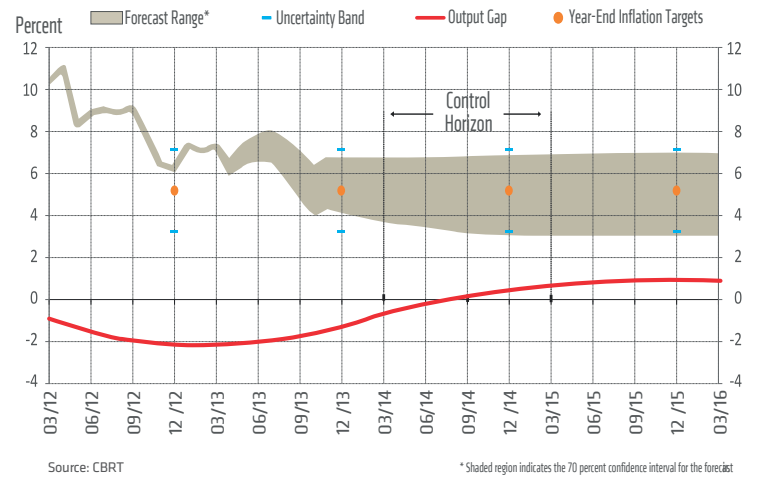
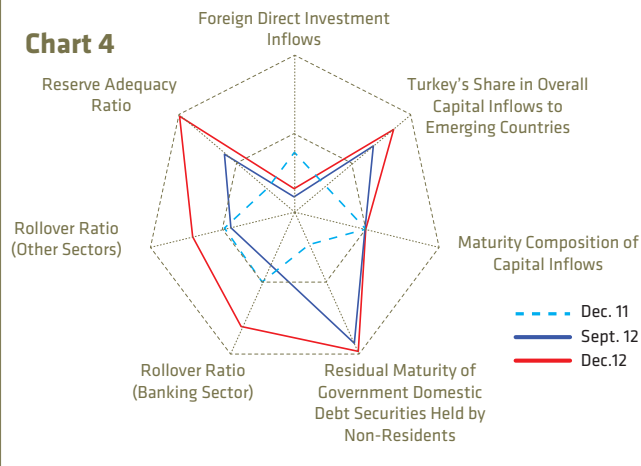


Chart 4



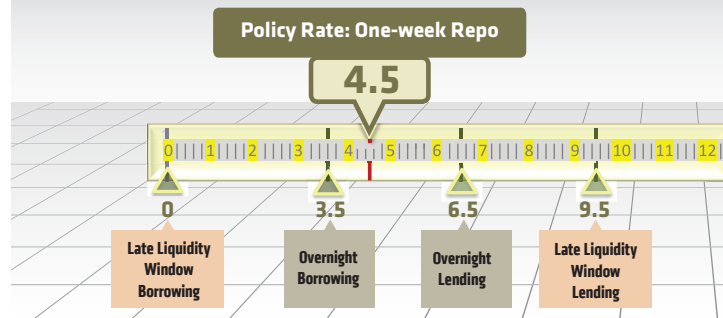
Quality of Current Account Deficit Financing

A breakdown of capital inflows by main headings reveals that the share of direct investments and other investments declined in 2012 while portfolio inflows had an outstanding share. Capital inflows that surged on the back of decreased current account deficit led to a significant increase in official reserves and banks' reserves.

In the global portfolio flows towards emerging economies, Turkey's share reached historic highs in the final quarter of 2012. The expectation over upgrade of the country's sovereign rating to investment level, along with the materialization of this expectation, became instrumental in acceleration of portfolio inflows.

Variables of different magnitudes and units have been rescaled such that they would take values between "0" and "1". Increased distance from the core indicates improvement in conditions.

CBRT Interest Rates (as of 16 May 2013, %)



CBRT Foreign Exchange Reserves:

109.08 billion USD
(As of 17 May 2013)
CPI: 6.13 %
(Annual, April 2013)

Issue: 27 | June 2013

Published quarterly by the Central Bank of the Republic of Turkey

Owner on behalf of the Central Bank of the Republic of Turkey and Managing Editor
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Printed in

Korza Yayıncılık Basım San. Tic. Ltd. Şti.

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