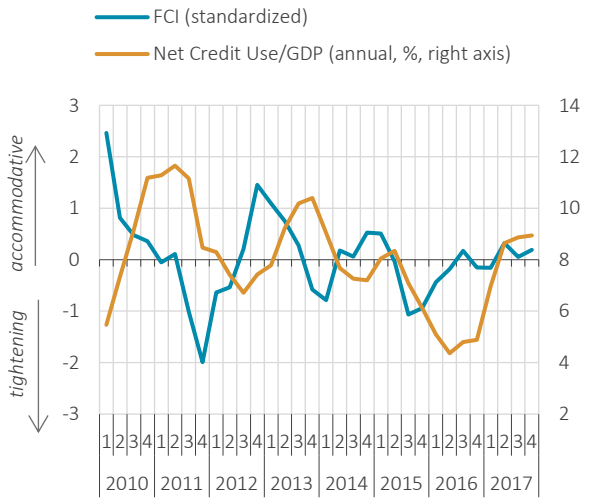
5. Financial Conditions and Monetary Policy

At the onset of the last quarter of 2017, financial markets were exposed to temporary increases in volatility caused by the Fed's announcement on its commitment to policy normalization. However, risk appetite remained brisk amid expectations for a mild normalization in global monetary policies thanks to low global inflation rates. In this period, despite interruptions due to global and geopolitical developments, portfolio inflows to emerging economies gained momentum in December. On the other hand, due both to global risk appetite and the geopolitical tensions, Turkey diverged negatively from other emerging economies with respect to exchange rate volatility, sovereign risk, stock returns, market rates and portfolio flows at the start of the last quarter. However, all financial indicators have improved since late November amid the global risk appetite, alleviated market volatility and the measures taken by the CBRT.

Although commercial loans have recorded some deceleration since mid-2017, the upbeat outlook in economic activity bolstered banks' lending appetite in the last quarter. The Bank Loans Tendency Survey indicates no remarkable change in banks expectations regarding commercial loan standards in the last quarter of 2017 and the first quarter of 2018. On the other hand, the slope of the yield curve turned more negative in the last quarter due to the CBRT's tighter monetary policy stance.

The FCI, which serves as a composite indicator of all these developments, implies that financial conditions have been slightly supportive of economic activity across 2017 (Chart 5.1). In the last quarter, stock returns and the EMBI made a higher contribution to FCI, whereas loan standards provided a slightly lower yet positive contribution. Meanwhile, yield curve slope, loan rate and the real effective exchange rate continued to pose a tightening effect on the index. Overall, the FCI has risen in the inter-reporting period (Chart 5.2).

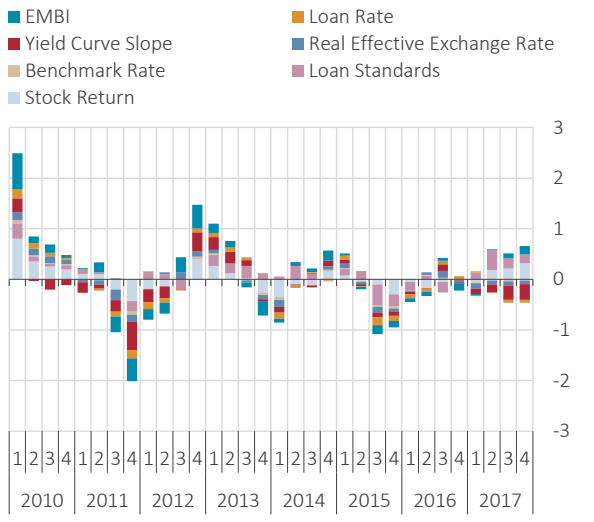
Chart 5.1: Financial Conditions and Credit Growth*



Source: CBRT.

* For further details on measuring FCI, see the CRBT Working Paper No. 15/13. Net Credit Use/GDP is defined as the annual change in the credit stock as a ratio of GDP in current prices.

Chart 5.2: Contributions to FCI*



Source: CBRT.

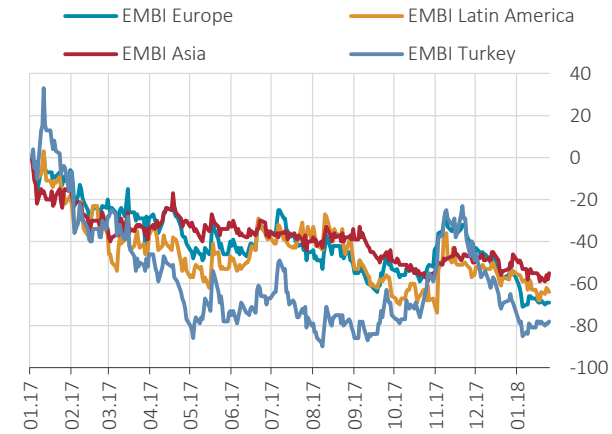
* Yield curve slope is measured by the spread between 10-year and 2-year bond rates.

5.1 Relative Performance of Financial Markets

Risk Perceptions and Portfolio Flow

Thanks to the brisk global economic activity coupled with the signals for mild normalization in monetary policies of advanced economies, emerging economies attracted strong and steady portfolio flows in 2017. The stronger expectations for continued policy normalization after the September FOMC meeting led to temporary increases in the regional risk premiums of emerging economies. Turkey's sovereign risk witnessed some negative divergence from other emerging economies from mid-September to late-November due to geopolitical developments. Nevertheless, Turkey's risk premium receded in December on the back of the bouncing global risk appetite, waning geopolitical risks and the tightening steps taken by the CBRT (Chart 5.1.1). Despite the last-quarter slowdown in portfolio flows to Turkey, in cumulative terms, portfolio flows exceeded past averages across 2017 on the back of the strong inflows in the second and third quarters (Chart 5.1.2). In the current reporting period, portfolio inflows were concentrated mostly on the stock market, while portfolio outflows emanated largely from the bond market; whereas in January 2018, the bond market attracted portfolio inflows.

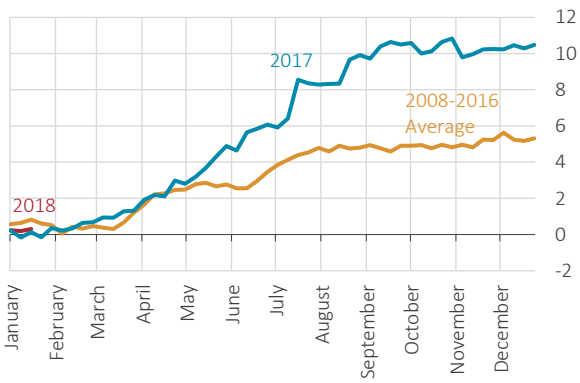
Chart 5.1.1: Regional Risk Premiums* (Basis Points)



Source: Bloomberg.

* Denotes changes since 2 January 2017.

Chart 5.1.2: Cumulative Portfolio Flows to Turkey* (Billion USD)



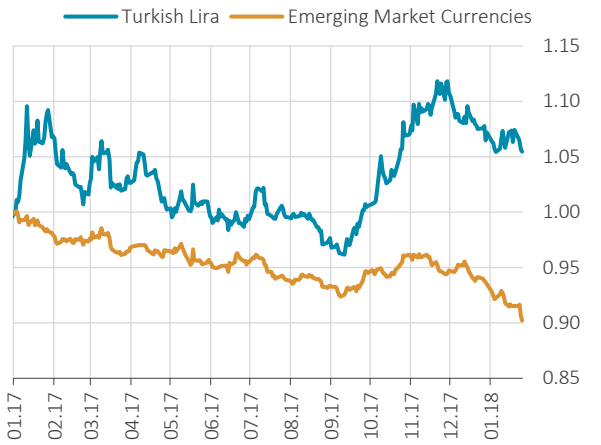
Source: CBRT.

* Includes stocks, bonds and repo.

Exchange Rates

In 2017, the global risk appetite remained strong and emerging market currencies appreciated against the US dollar. However, as mentioned above, between the September and December FOMC meetings, emerging market currencies depreciated temporarily against the US dollar due to the perception that the Fed will maintain its determination for the normalization process (Chart 5.1.3). In the current reporting period, the implied volatility of the Turkish lira declined on a par with the currencies of peer emerging economies (Chart 5.1.4).

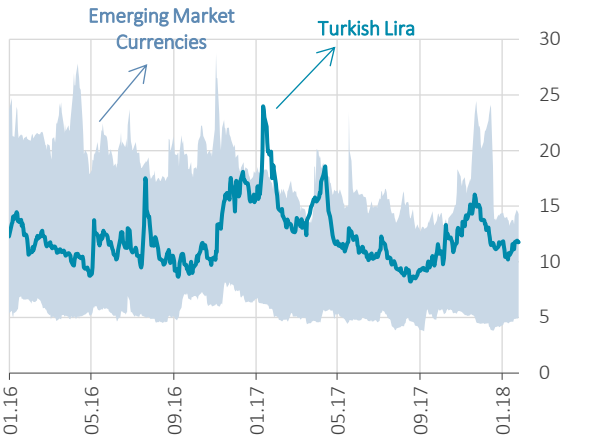
Chart 5.1.3: Turkish Lira and Emerging Market Currencies against US Dollar* (2 January 2017=1)



Source: Bloomberg.

* Emerging market currencies include those of Brazil, Chile, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Philippines, Poland, Romania and South Africa.

Chart 5.1.4: Implied FX Volatility against US Dollar* (1-Month-Ahead, %)



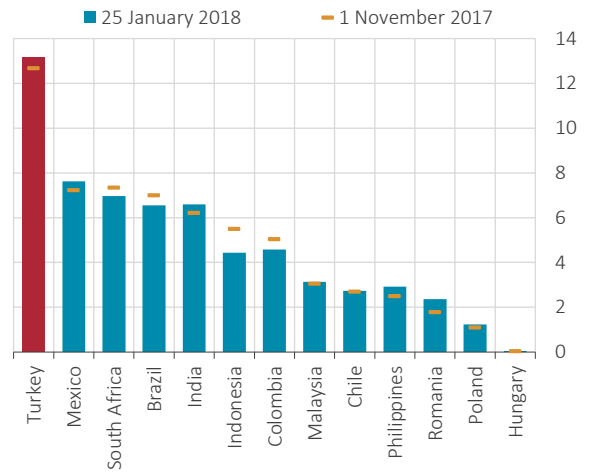
Source: Bloomberg.

* Emerging market currencies include those of Brazil, Chile, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Philippines, Poland, Romania and South Africa.

Market Rates

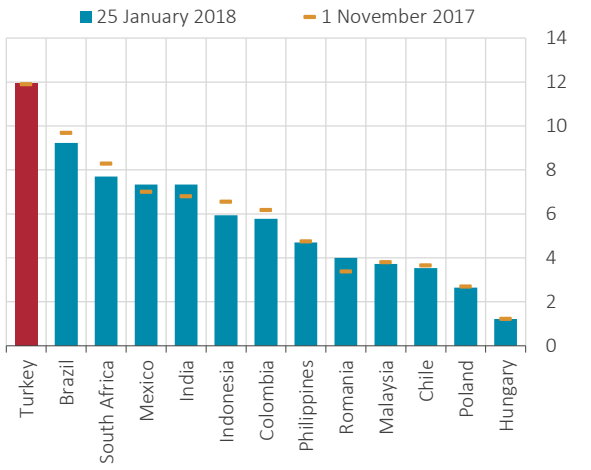
In the current reporting period, emerging economies presented no apparent trend with respect to their short and long-term rates. In Turkey, short-term market rates increased slightly amid monetary policy tightening, while long-term market rates followed a flat course (Charts 5.1.5 and 5.1.6).

Chart 5.1.5: 6-Month Market Rates (% Point)



Source: Bloomberg.

Chart 5.1.6: 5-Year Market Rates (% Point)



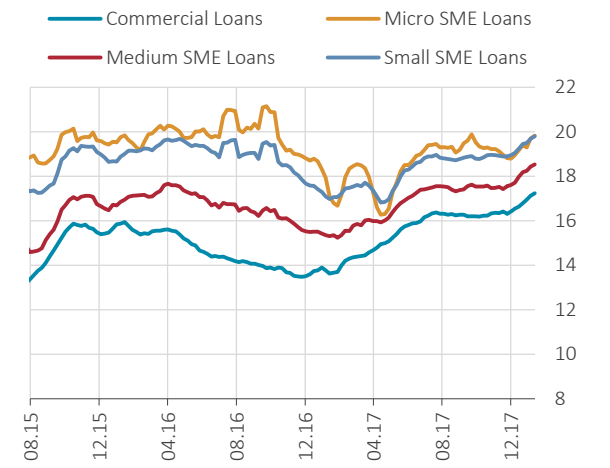
Source: Bloomberg.

5.2 Credit Conditions

Loan Rates, Funding Costs and Interest Rate Spreads

Having accelerated through supportive incentives and measures in the first quarter of 2017, commercial loans started to normalize in the last quarter, yet the lending appetite of banks continued thanks to the favorable prospects for economic activity in this period. On the other hand, upon following a flat course in the third quarter of 2017, commercial loan rates increased slightly in the last quarter amid the increased financing needs (Chart 5.2.1). In line with rising mortgage and personal loan rates, consumer loan rates followed an upward course in this period (Chart 5.2.2). As of 12 January 2018, average commercial and consumer loans were quoted at 17.2 and 18.3 percent, respectively.

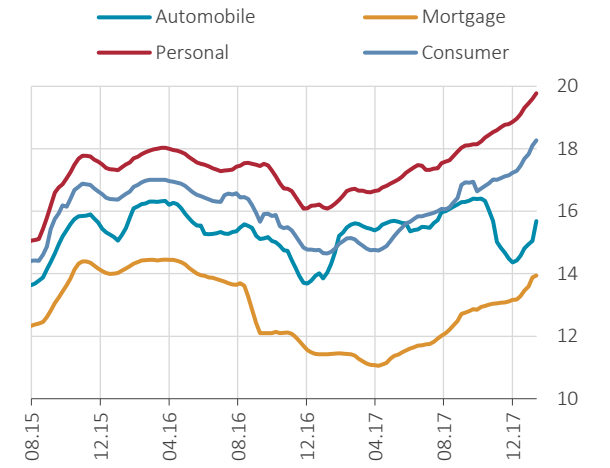
Chart 5.2.1: TL Commercial Loan Rates*
(Flow, Annualized, 4-Week Moving Average, %)



Source: CBRT.

* Excluding overdraft accounts, credit cards and non-zero interest rate loans.

Chart 5.2.2: Consumer Loan Rates
(Flow, Annualized, 4-Week Moving Average, %)

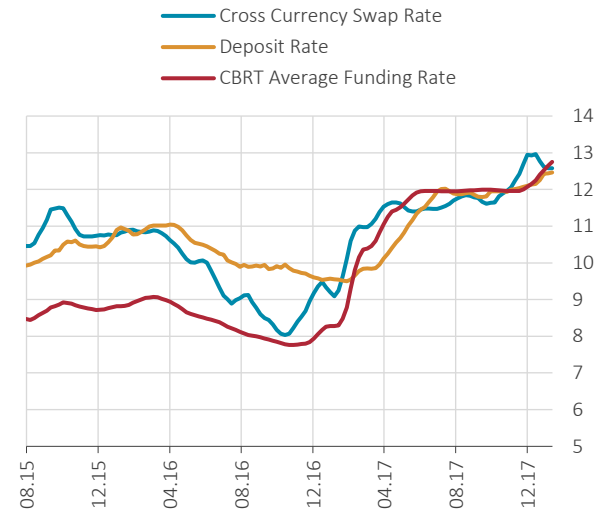


Source: CBRT.

Banks' non-deposit Turkish lira cost of funding increased slightly in the last quarter of 2017. The interest rate on TL deposits, the primary funding source of the banking sector that mostly have a maturity shorter than three months, has largely been on a par with the CBRT average funding rate since the previous reporting period. In this period, currency swap rates have generally remained above other funding costs and recently neared the CBRT average funding rate (Chart 5.2.3).

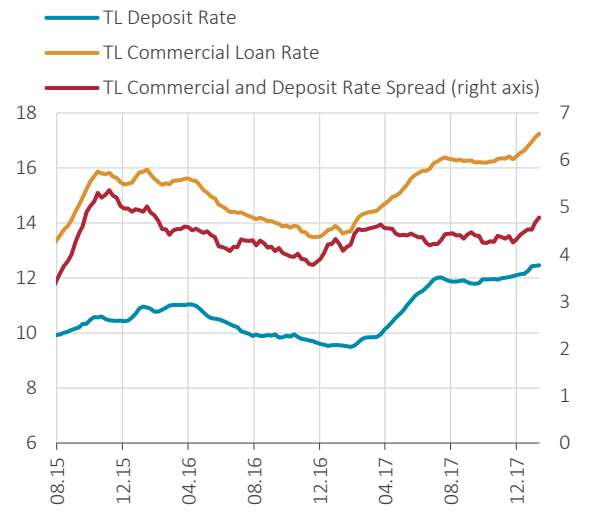
In the last quarter of 2017, parallel to the rise in commercial loan rates, the loan-deposit rate spread increased slightly to 478 basis points as of 12 January 2018 (Chart 5.2.4). The loan-deposit rate spread still remains elevated by historical standards.

Chart 5.2.3: Indicators on Banks' Funding Costs (%)



Source: BIST, CBRT.

Chart 5.2.4: TL Commercial Loan Rate and TL Deposit Rate* (Flow, Annualized, 4-Week Moving Average, %)



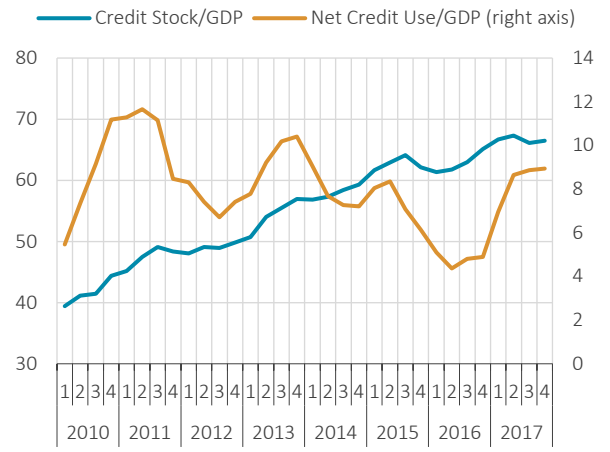
Source: CBRT.

* TL commercial loans excluding overdraft accounts, credit cards and non-zero interest rate loans.

Credit Volume

In the first half of 2017, accommodative macroprudential policies and the CGF-backed loans caused an acceleration in the net credit use to GDP ratio, while credit stock to GDP increased as well. Since the rate of increase in credits exceeded the GDP growth rate, the net credit use to GDP has picked up (Chart 5.2.5). The VAT incentive in white goods and furniture expired in the last quarter. Moreover, the positive base effect of the end-2016 has vanished, leading to a deceleration in the consumer loan growth rate. In this period, due also to the slowing commercial loan growth, total loan growth followed almost a flat course (Chart 5.2.6).

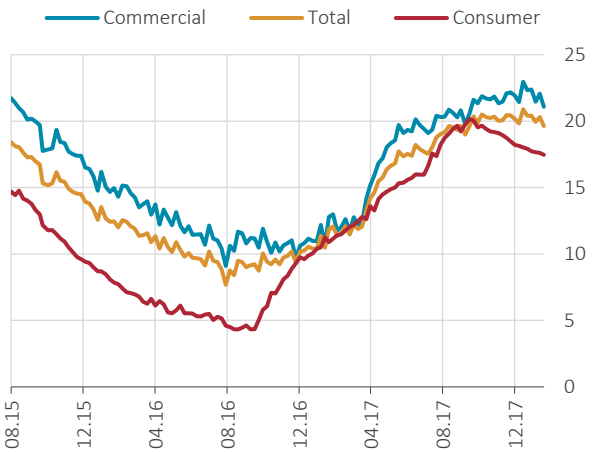
Chart 5.2.5: Domestic Credit Stock and Net Credit Use*
(%)



Source: CBRT.

* Domestic credits are comprised of total banking sector credits including participation banks, foreign branches and credit cards not adjusted for exchange rate. Net credit use is measured as the annual change in nominal credit stock adjusted for exchange rate. The last-quarter data for 2017 is forecast.

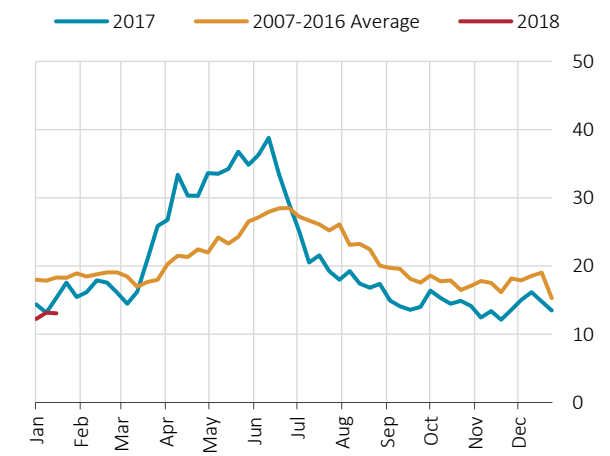
Chart 5.2.6: Annual Loan Growth
(Adjusted for Exchange Rate, Y-o-Y Change, %)



Source: CBRT.

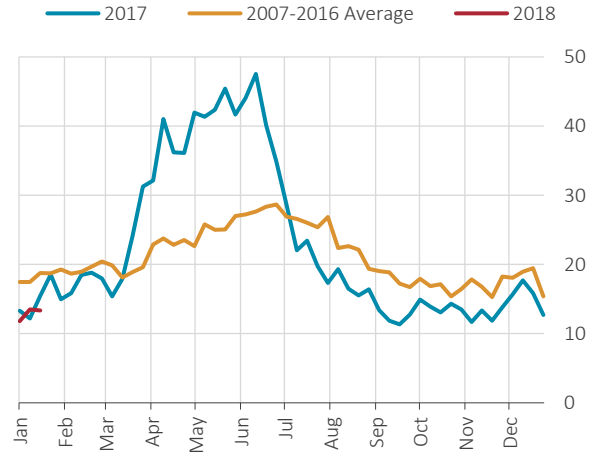
Commercial loans have stabilized since mid-2017, and the total loan growth rate has remained flat. The growth of commercial and total loans displayed a similar pattern to their historical averages in this period (Charts 5.2.7 and 5.2.8).

Chart 5.2.7: Annualized Loan Growth
(Adjusted for Exchange Rate, 13-Week Moving Average, %)



Source: CBRT.

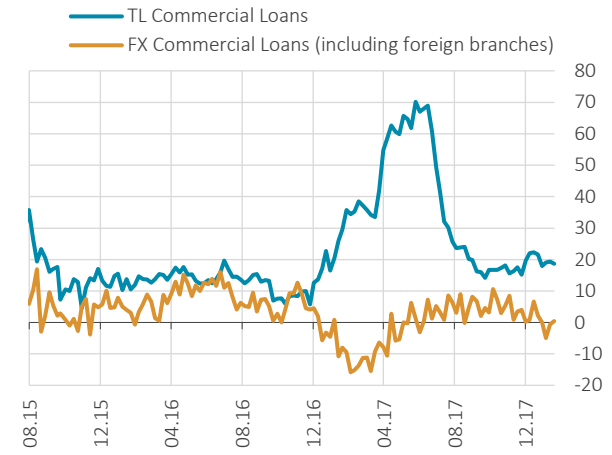
Chart 5.2.8: Annualized Commercial Loan Growth
(Adjusted for Exchange Rate, 13-Week Moving Average, %)



Source: CBRT.

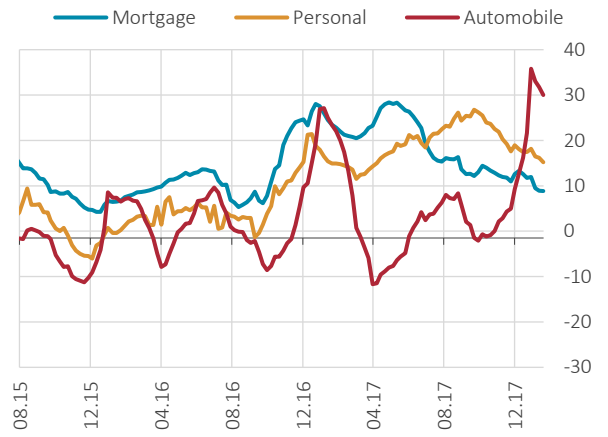
The growth rate of FX commercial loans, which turned positive in the second half of 2017, has recently neared zero amid developments in the exchange rate and signals of regulatory efforts related to exchange rate risk management (Chart 5.2.9). The growth rate of personal loans decelerated upon the expiration of VAT incentives on furniture and white goods at the end of the third quarter of 2017 and stood at 15.2 percent in 13-week annualized moving average terms on 19 January 2018. Meanwhile, the growth rate of mortgage loans, which has slowed due to the uptick in mortgage loan rates since the start of second quarter of 2017, stood at 8.9 percent as of 19 January. Automobile loans, which surged upon the year-end sales campaigns, the brisk domestic demand and the decline in the exchange rate, inched down to 30 percent as of 19 January due to the expiration of the sales campaigns (Chart 5.2.10).

Chart 5.2.9: Annualized TL and FX Commercial Loan Growth (Adjusted for Exchange Rate, 13-Week Moving Average, %)



Source: CBRT.

Chart 5.2.10: Annualized Consumer Loan Growth (13-Week Moving Average, %)



Source: CBRT.

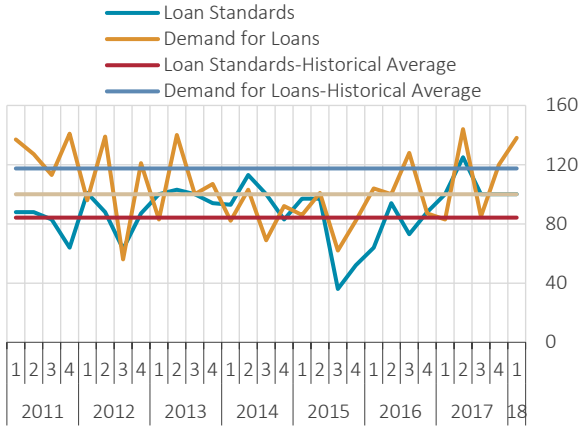
Loan Standards

According to the results of the Bank Loans Tendency Survey, commercial loan standards remained intact, yet seemed more favorable than historical averages in the last quarter of 2017 (Chart 5.2.11). In terms of scale, standards applied to SMEs displayed an easing. Across maturities, short-term loan standards eased slightly. According to currency denomination, standards applied to TL-denominated loans remained unchanged, while FX-denominated loans recorded some tightening. Among factors affecting loan standards, constraints on capital adequacy led to a slight tightening in standards, while other factors had no effect. Meanwhile, rules and conditions applied to commercial loans (profit margins on riskier loans, fees and commissions other than interest, collateral requirements and the size of loan or the loan limit) were tightened.

Survey respondents reported an uptick in demand for commercial loans, particularly in SME loans in the last quarter of 2017 (Chart 5.2.11). As for maturity and currency denomination of loans, the demand for short-term and TL-denominated loans witnessed a notable increase. However, the demand for FX-denominated loans declined further. The need for debt restructuring and inventory buildup provided an impetus for loan demand as before, while fixed investments weighed on loan demand.

Commercial loan standards are expected to remain unchanged in the first quarter of 2018 (Chart 5.2.11). However, loan standards for SMEs are expected to ease, while FX-denominated commercial loans are likely to tighten. On the other hand, the demand for commercial loans is expected to accelerate above historical averages especially in SME loans, short-term loans and TL-denominated loans.

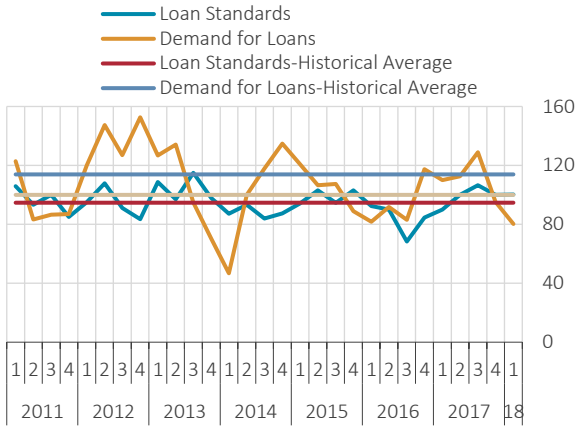
Chart 5.2.11: Commercial Loan Standards and Demand*



Source: CBRT.

* Index values above 100 indicate easing in loan standards and increased loan demand. The first-quarter data for 2018 is forecast.

Chart 5.2.12: Consumer Loan Standards and Demand*



Source: CBRT.

* Index values above 100 indicate easing in loan standards and increased loan demand. The first-quarter data for 2018 is forecast.

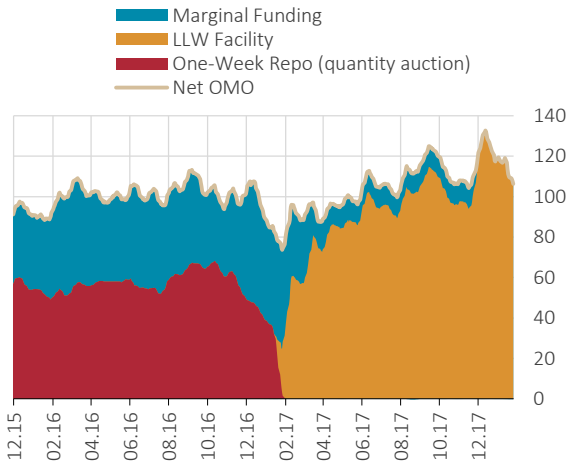
Responses related to consumer loans indicate that loan standards remained unchanged in the last quarter of 2017 (Chart 5.2.12). The demand for mortgage loans declined, whereas that for personal loans increased in this period. On the personal loans front, the demand was mainly spurred by spending on durable goods and personal savings. In the first quarter of 2018, standards for consumer loans are expected to remain unchanged, while the demand for consumer loans is likely to shrink (Chart 5.2.12).

5.3 Monetary Policy

Market Developments

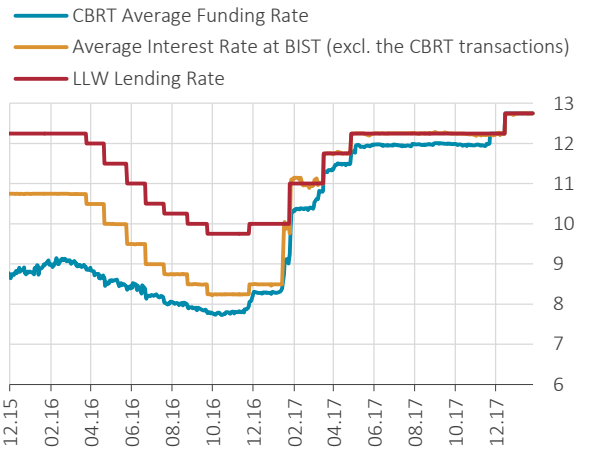
The overnight borrowing limits within the Interbank Money Market were reduced to zero effective from 22 November 2017, causing the CBRT funding to be completely provided through the LLW facility (Chart 5.3.1). The average rate for non-CBRT transactions at the BIST Interbank Repo and Reverse Repo Market has hovered close to the LLW lending rate since January 2017 (Chart 5.3.2). Short-term market rates to near the CBRT funding rate is considered as a positive indicator for the effectiveness of the monetary policy (Box 5.1). The predictability of the monetary policy has also been enhanced during 2017.

Chart 5.3.1: CBRT Funding (2-Week Moving Average, Billion TL)



Source: CBRT.

Chart 5.3.2: Short-Term Interest Rates (5-Day Moving Average, %)

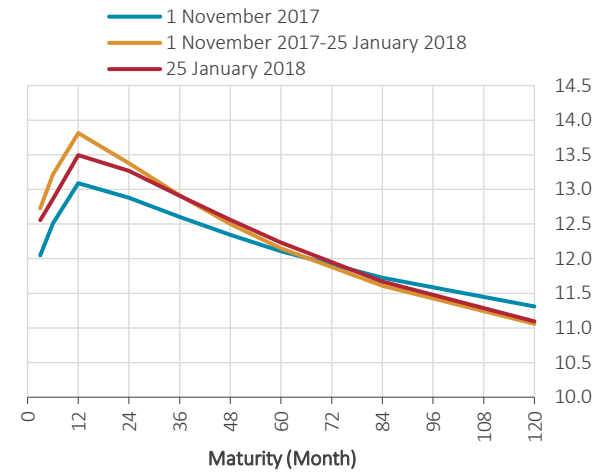


Source: BIST, CBRT.

Amid recently waning geopolitical risks, long-term currency swap rates saw a limited decline compared to the previous reporting period, while short-term and medium-term currency swap rates increased in tandem with the tighter monetary policy (Chart 5.3.3). Accordingly, short-term currency swap rates

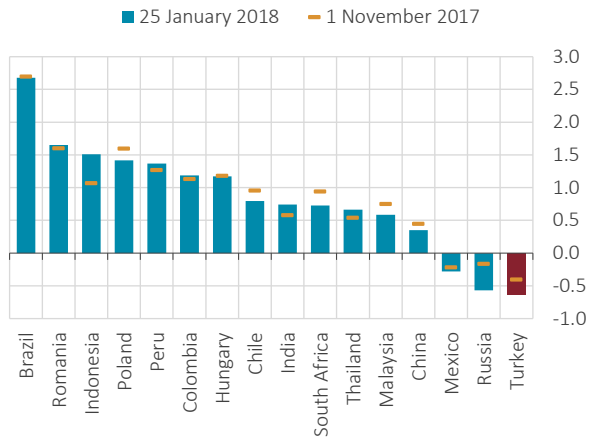
continued to hover above long-term rates. In the current reporting period, Turkey's yield curve slope remained the most negative among emerging economies (Chart 5.3.4).

Chart 5.3.3: Swap Yield Curve (%)



Source: Bloomberg.

Chart 5.3.4: Yield Curve Slopes in Emerging Economies* (% Point)

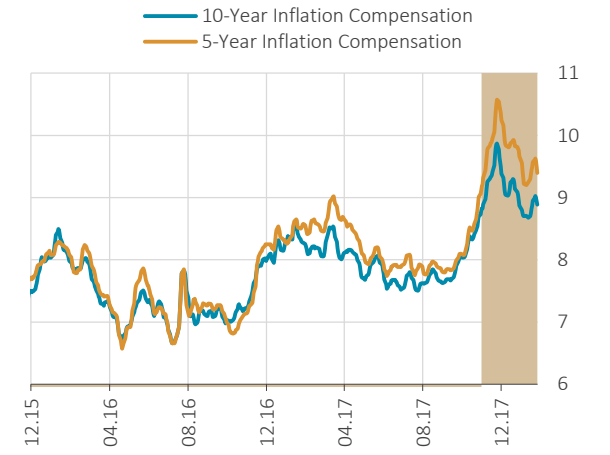


Source: Bloomberg.

* Yield curve slope is calculated as the difference between 5-year bond yields and 6-month bond yields. Swap rates are used instead of bond rates to calculate the yield curve slope for Turkey.

Following a persistent downtrend until the end of September 2017 due to the CBRT's tight monetary policy stance, long-term inflation compensation has picked up amid geopolitical tensions, volatile exchange rates and higher headline inflation. Despite the elevated levels in inflation, long-term inflation compensation has recently declined on the back of the tighter monetary policy and alleviating geopolitical risks (Chart 5.3.5). The distribution of 24-month-ahead inflation expectations obtained from the CBRT Survey of Expectations indicates a limited uptick and a heightening uncertainty in January compared to October (Chart 5.3.6).

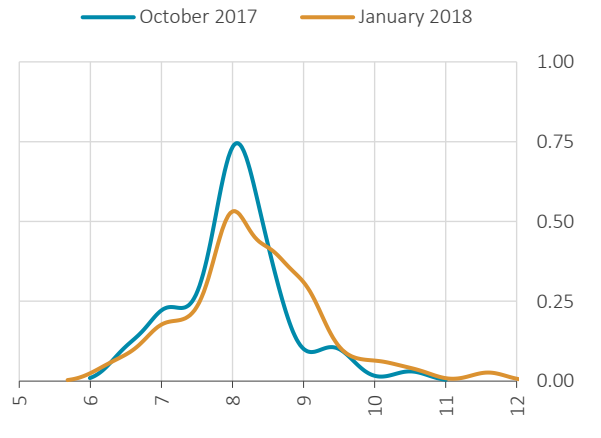
Chart 5.3.5: Inflation Compensation* (5-Day Moving Average, %)



Source: Bloomberg.

* Shaded area denotes the current reporting period.

Chart 5.3.6: 24 Distribution of 24-Month-Ahead Inflation Expectations* (%)

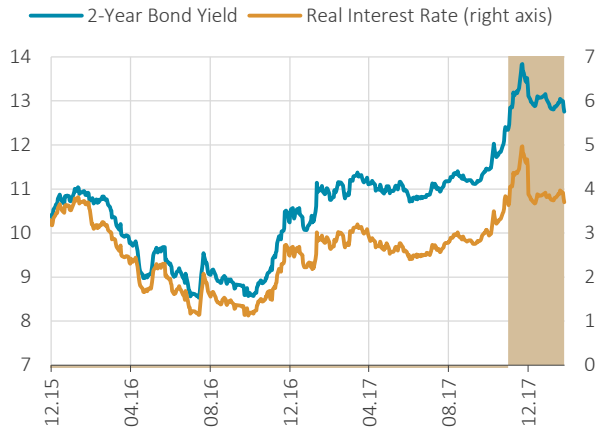


Source: CBRT.

* Kernel probability density functions are constructed using CBRT Survey of Expectations.

The upsurge in 2-year bond yields, which started in September 2017, reversed as of late November, yet still hovering above the previous Report's readings (Chart 5.3.7). Two-year real interest rates receded to previous Report's readings due to elevated inflation expectations. Turkey still scores high among emerging economies in the ranking of 2-year real interest rates (Chart 5.3.8).

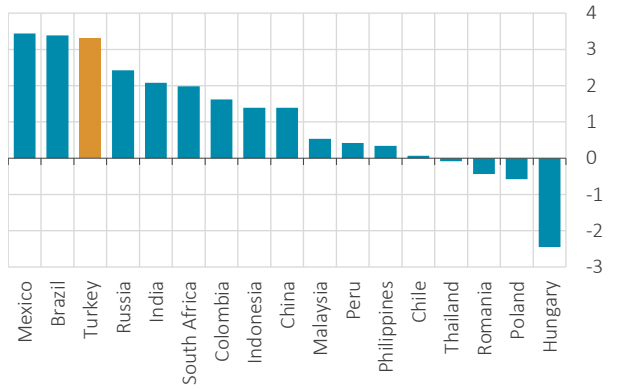
Chart 5.3.7: 2-Year Bond Yields and the Real Interest Rate in Turkey* (%)



Source: Bloomberg, CBRT.

* Real interest rate is calculated as the difference between 2-year bond yield and the 24-month-ahead inflation expectations derived from the CBRT Survey of Expectations. Shaded area denotes the current reporting period.

Chart 5.3.8: Real Interest Rates* (%)



Source: Bloomberg, Consensus Forecasts, CBRT.

* Real interest rate is calculated as the difference between 2-year bond yield and the 24-month-ahead inflation expectations derived from the Consensus Forecasts for respective countries.

Monetary Policy Reaction

The CBRT strengthened monetary tightening gradually to contain the worsening in the inflation outlook in 2017. Accordingly, at the January 2017 MPC meeting, the CBRT overnight lending rate was raised from 8.5 percent to 9.25 percent, and the LLW lending rate was increased from 10 percent to 11 percent. Moreover, the CBRT took some liquidity measures to safeguard price stability and financial stability against the negative repercussions of excessively volatile exchange rate. Accordingly, one-week repo auctions have not been held since 12 January, and the share of LLW funding within the CBRT funding was raised gradually. In addition, some measures were taken to facilitate flexibility in the foreign exchange management. To this end, FX required reserve ratios were reduced, Foreign Exchange Deposit Market against Turkish Lira Deposits was launched, and repayment of rediscount credits in Turkish lira denomination was facilitated. Highlighting the lagged effects of exchange rate developments, the CBRT raised the LLW lending rate to 11.75 percent in March and to 12.25 percent in April considering that inflation outlook poses risks to the pricing behavior.

Coordinated policy decisions made in the first half of 2017 targeted to alleviate cost-side inflationary pressures stemming from the exchange rate without causing any additional tightening in financial conditions. Backed by accommodative incentives and measures, economic activity grew stronger. However, aggregate demand and credit conditions delayed the improvement in inflation. Noting the presence of persistent risks to pricing behavior due to the high levels of inflation, expected inflation and the core inflation outlook, the CBRT opted for an increasingly more cautious tone on monetary policy through the statements communicated in the second half of 2017.

In November 2017, the CBRT took some liquidity measures to safeguard price stability and financial stability against the negative repercussions of excessively volatile exchange rate and price formations detached from economic fundamentals. Accordingly, the overnight borrowing limits within the Interbank Money Market were reduced to zero effective from 22 November 2017, causing the CBRT funding to be completely provided through the LLW facility. Apart from these measures, on 6 November 2017, the upper limit for the FX maintenance facility under the ROM was lowered to 55 percent from 60 percent and all tranches were reduced by 5 points, providing the banking system with FX liquidity. In addition, facilitation of repayments of certain credits under export rediscount credits by Turkish lira over the fixed exchange rate also boosted the FX liquidity in the market. Moreover, the CBRT launched Turkish Lira-

Settled Forward Foreign Exchange Sale Auctions on 20 November 2017 for the effective management of the real sector's exchange rate risk (Box 5.2). Highlighting that high levels of inflation coupled with cost-side pressures pose risks to expectations and the pricing behavior, the CBRT raised the LLW lending rate to 12.75 percent at the December 2017 MPC meeting.

Predictability of the monetary policy improved remarkably throughout 2017. The CBRT will continue to employ liquidity instruments within an eligible composition to bolster predictability in pursuit of price stability. As also stated in the January 2018 MPC decision, the tight stance in monetary policy will be maintained decisively until the inflation outlook displays a significant improvement, independent of base effects and temporary factors, and becomes consistent with the targets.

Box 5.1

Effectiveness of the CBRT on Money Market Rates

Under an ideal structure with full competition entailing perfectly functioning money markets and offering equal conditions to all market players with respect to market access and cost, changes in central bank rates are expected to be completely passed through to market rates, adjusted for term premium and credit risk (Duffie and Krishmamurthy, 2016). However, in practice, the absence of perfect competition as well as the presence of various arrangements and divergence among market players' behavior (creditor vs borrower) lead to deviations in the transmission of monetary policy decisions to market rates. These deviations, which are supposed to be zero under an optimum structure of a fully effective monetary transmission, are interpreted as a less effective transmission.

This box discusses the CBRT's effectiveness on money market rates in the light of recent developments by using the Money Market Rate Deviation Index derived by Talaslı and Ünalmış (2018). The index is calculated as the sum of the deviation of money market rates, which are crucial to banks' short-term funding, from the CBRT's weighted average funding rate in absolute value weighted by the volume.[1]

Given their relative importance regarding the banks' short-term funding, in addition to BIST Repo and Reverse Repo Market overnight repo rates, one-week currency swap rates are also used to measure the Money Market Rate Deviation Index for Turkey.[2] One-week currency swap rates are adjusted for term premium using USD/TRY forward implied rates, which yields the overnight rate for a currency swap.[3] The overnight weighted interest rates in BIST Repo and Reverse Repo Market and Interbank Repo and Reverse Repo Market as well as the one-week currency swap rates were used in the calculation of the index. In using BIST Interbank Repo and Reverse Repo Market, CBRT transactions were excluded, and the repo rate for non-CBRT repo transactions was included in the index.

The analysis of the index since 2010 reveals that the CBRT policies had a considerable effect on the deviation of market rates from the funding rate (Chart 1). After 2010, active use of the interest rate corridor and liquidity management (setting of funding composition on a daily basis) policies led to dramatic deviations in short-term rates. The index trended downwards as of early 2014 amid the developments in the funding composition and termination of the additional monetary tightening and receded below historical averages since the second half of 2016.

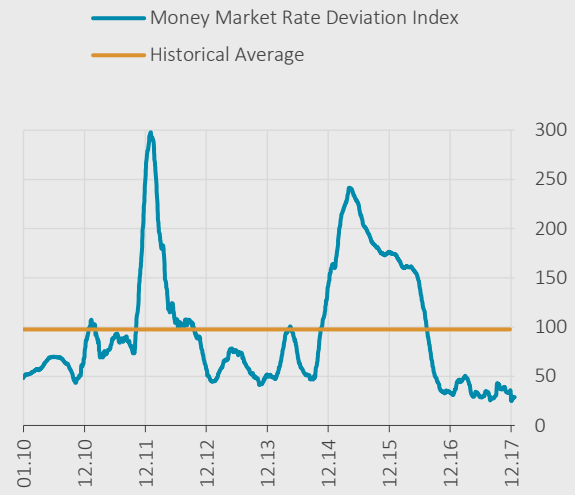
Throughout 2017, the index continued to fluctuate well below its historical average on the back of CBRT's actions, which increased predictability of the monetary policy stance and liquidity measures. The CBRT gradually resorted to the LLW facility and provided funding completely through this channel as of 22 November 2017, which further alleviated the uncertainty regarding the liquidity management.

[1] Talaslı and Ünalmış (2018) derive other indices with different scopes by using alternative market rates as well.

[2] Kara (2015) and Küçük et al. (2016) emphasize that BIST repo rates are crucial in the monetary transmission mechanism of Turkey. Ünalmış (2015), on the other hand, also considering the banks' borrowings from non-CBRT resources in money markets, includes non-CBRT repo rate and cross currency swap market volume and rate in the calculation of effective funding rate.

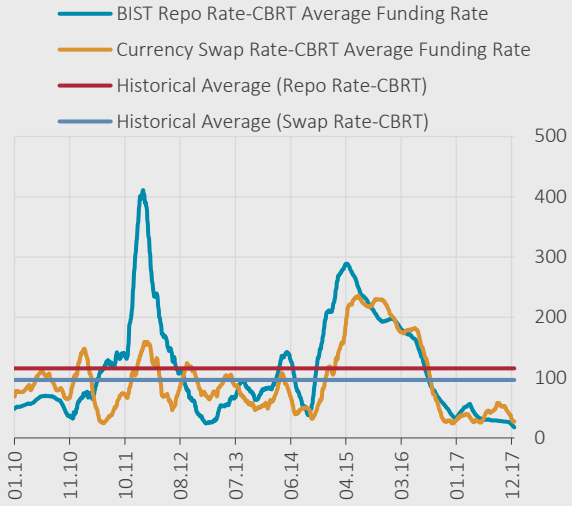
[3] In addition to maturity premium, Duffie and Krishnamurty (2016) also make an adjustment for credit risk in some rates, which are used for the derivation of the index. However, due to absence of a reliable credit risk indicator for Turkey, the rates employed in this study could not be adjusted for credit risk.

Chart 1: Evolution of Money Market Rate Deviation Index (3-Month Moving Average, Basis Points)



Source: BIST, CBRT.

Chart 2: Components of Money Market Rate Deviation Index* (3-Month Moving Average, Basis Points)



Source: BIST, CBRT.

* The deviations are in absolute value.

Chart 2 depicts the main index components and shows that the BIST repo rate deviates significantly from the CBRT average funding rate due to the implementation of the interest rate corridor policy. Moreover, transactions implemented through the Foreign Exchange Deposit Market against Turkish Lira Deposits by the CBRT since 18 January 2017 have contributed positively to the downtrend in the index by facilitating a more concerted movement of the cross currency swap market rates with other money market rates.

Effective functioning of the interest rate channel of the monetary policy requires a strong pass-through of the policy rate to short-term money market rates, because the pass-through to short-term money market rates constitutes the first step of the transmission to other market rates (bond rate, loan rate, deposit rate etc.). Struggling with strong cost and demand-side inflationary pressures in recent years in pursuit of the price stability objective, the CBRT has opted for a gradual tightening in the monetary policy in addition to the efforts to bolster predictability of the liquidity policy. In this regard, the recent slump in the index is considered a positive indicator of the effectiveness and predictability of the monetary policy.

References

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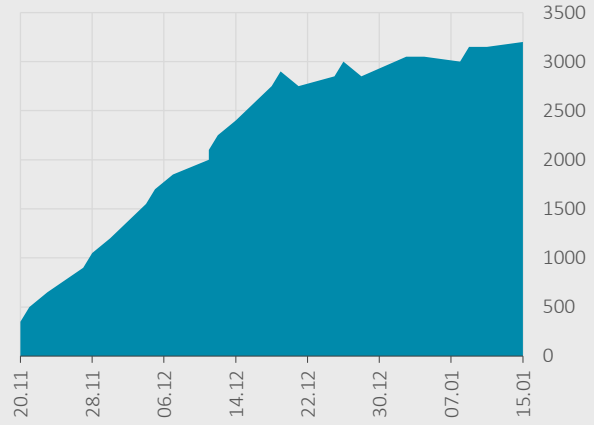
Box 5.2

Recent Developments in Turkish Lira-Settled Forward Foreign Exchange Sale Auctions

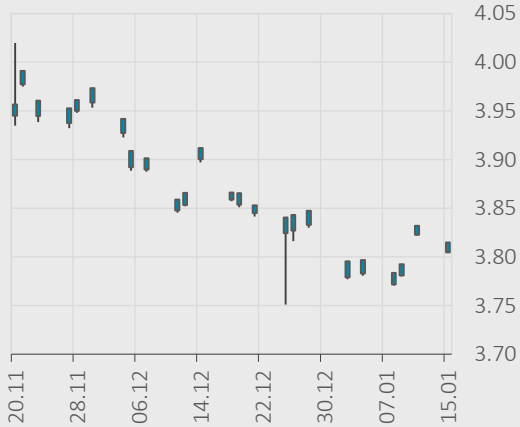
The CBRT launched Turkish lira-settled forward foreign exchange sale auctions on 20 November 2017 in order to enhance financial deepening in FX markets and support the corporate sector in effective management of their exchange rate risk. As announced by the auction calendar, the total amount of FX sale position has not exceeded 3 billion USD until end-2017 and stood at 2.85 billion USD as of 28 December 2017 (Chart 1).

Chart 1: Turkish lira-Settled Forward Foreign Exchange Sales Position (Million USD)



Source: CBRT.

Chart 2: Bid Dispersion of 1-Month Forward Auctions*



Source: CBRT.

* Charts denote the lowest, weighted average, the highest prices in the auctions and the 1-month forward USD/TRY rate at 4 pm on the auction day. The length of boxes in the chart indicates the difference between the average auction price and the forward exchange rate.

The principal amount is not exchanged between the parties on the settlement date. If the spot exchange rate remains below the auction rate on the day of the settlement, banks pay the difference between the spot exchange rate and forward exchange rate to the CBRT in TL and vice versa. The CBRT is FX-seller while banks are FX-buyer in these auctions. As these auctions do not entail any FX trading, they do not change the level of the CBRT's gross and net FX reserves.[1] Moreover, these forward transactions are expected to have virtually no effect on the CBRT's profit/loss position given their relatively marginal volume. If the spot USD/TRY rate remains below the auction rate on the settlement day of the transaction, the CBRT will generate profits; but if it remains above auction rate, the CBRT's profits will be balanced by the long position due to FX net reserves it holds.

As transactions do not entail the exchange of the principal amount, they may only act to limit the brought-forward FX demand rather than meeting the FX demand in the spot market. When institutional corporations with future FX payments demand FX for hedging against depreciating TL, both the level and volatility of exchange rates in the spot FX market can increase. These auctions, however, are expected to support the corporate sector's exchange rate risk management capacity and alleviate the short-term volatility in exchange rates by restricting the

[1] For further details, see Küçük et al. (2017).

institutional FX demand brought forward in times of stress in FX markets.

The bid dispersion of 1-month forward auctions suggests that bids had a wider variation on 20 November, the first auction day, and on 25 December 2017, the Christmas holiday for international markets, whereas auction bids have less variation on other days (Chart 2).

In sum, given the competitive formation of both the amount of bids and prices under the Turkish lira-settled forward foreign exchange sale auctions offered by the CBRT, these transactions are considered to be a potentially effective tool for market management. In the period ahead, these auctions are expected to act as stabilizers in the market as they increase depth in FX markets.

References

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