

### Monetary Policy in the New Regulatory Environment

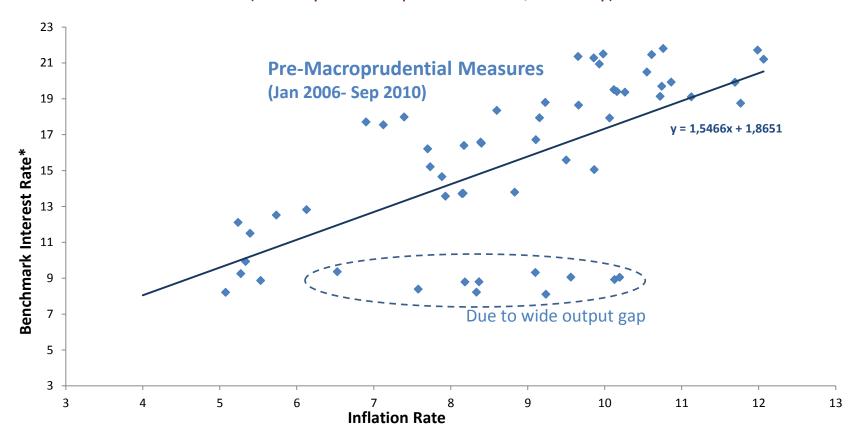
Erdem Başçı Governor

26 May 2014, Sintra ECB Forum on Central Banking

## The slope of the Fisher curve declined significantly after the Lehman crisis.

#### **Fisher Curve**

(January 2006- September 2010, Monthly)



\* Between 01.02.2006 and 04.12.2006 benchmark rate represents the closest maturity to 2-year government bond yield, thereafter it shows the 2-year government bond yield.

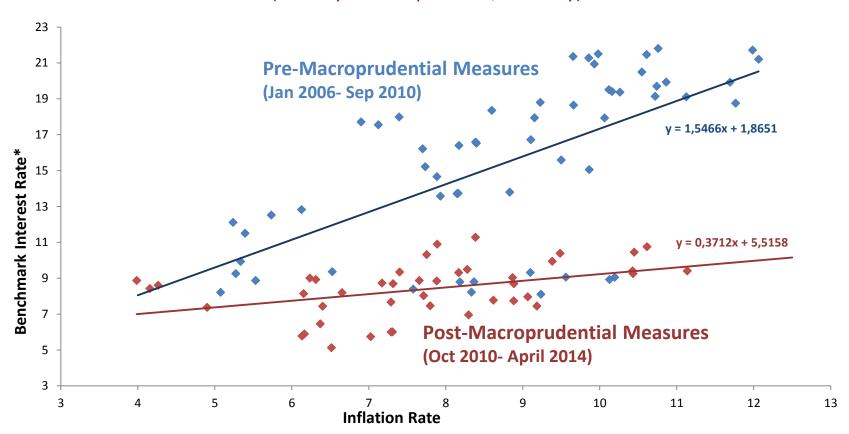


Source: CBRT

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#### **Fisher Curves**

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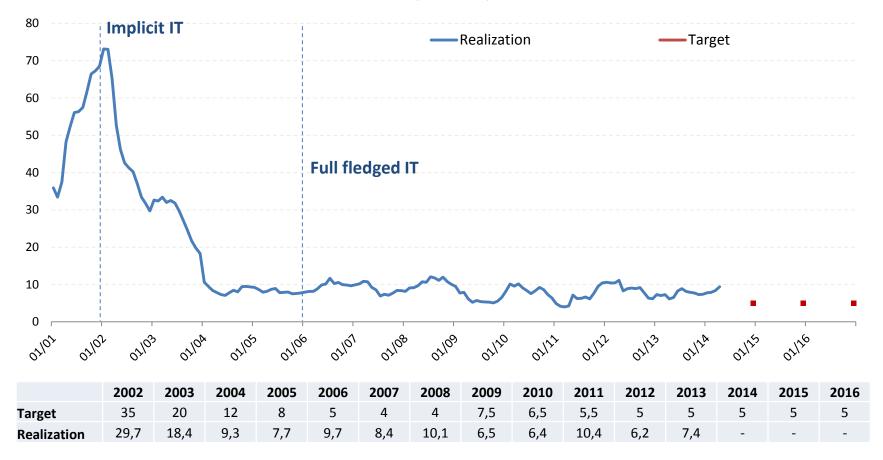


Source: CBRT

#### Turkey is in a disinflation process.

#### **Inflation Realizations and Target**

(Percent)

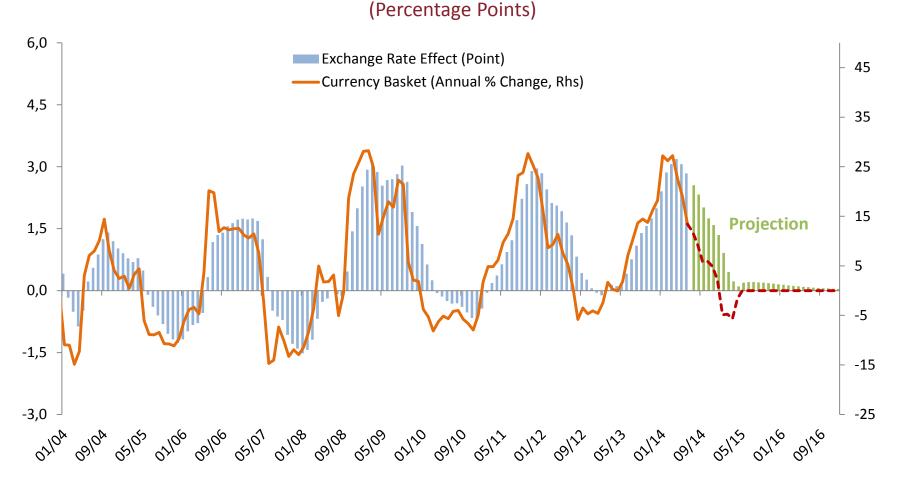


Source: TurkStat, CBRT. Last observation: April 2014



# Inflation fluctuations are largely due to the volatility of international capital flows.

### The Effect of Exchange Rate on Annual Consumer Inflation\*



Last Observation: April 2014

\*The currency basket is assumed to be constant after May 2014.

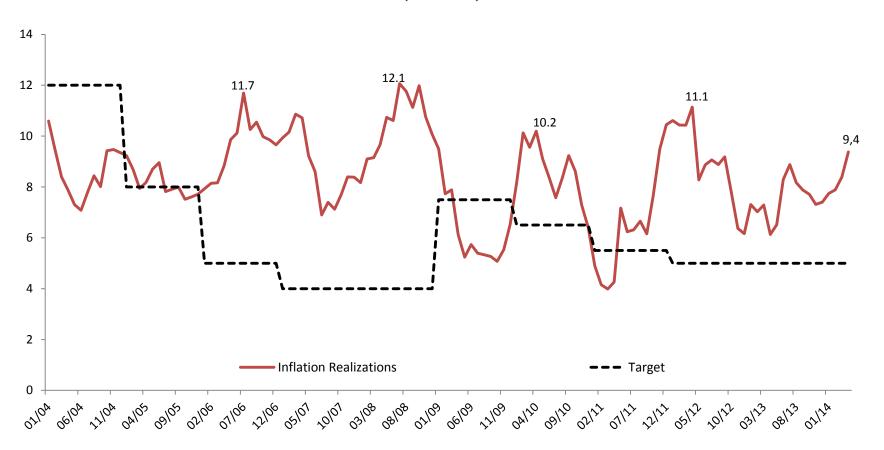
Source: TurkStat, CBRT.



## Exchange rate pass-through is one of the the main drivers of inflation fluctuations.

#### **Inflation Realizations and Target**

(Percent)



Source: TurkStat, CBRT. Last Observation: April 2014



### Volatility in the real exchange rate has been quite sizeable.

#### **CPI Based Real Effective Exchange Rate**

(2003=100)



Source: CBRT.

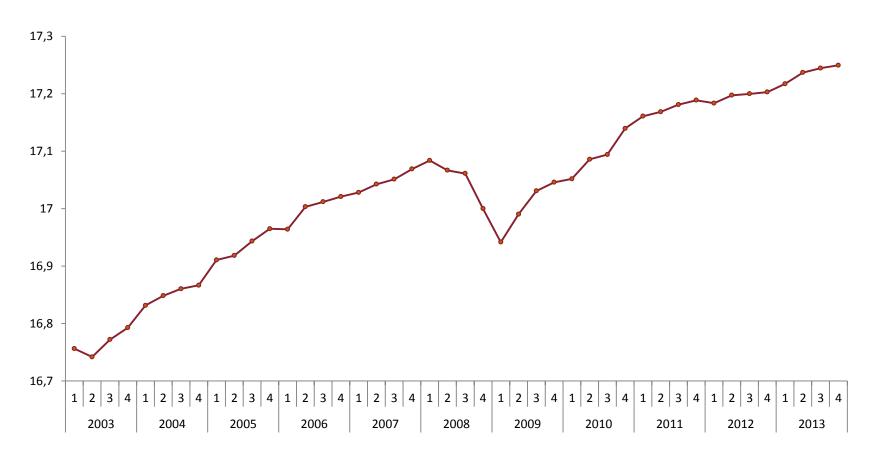
Last observation: April 2014



### Post-Lehman recovery has been quite remarkable...

#### **Gross Domestic Product\***

(Constant Prices, Seasonally Adjusted)



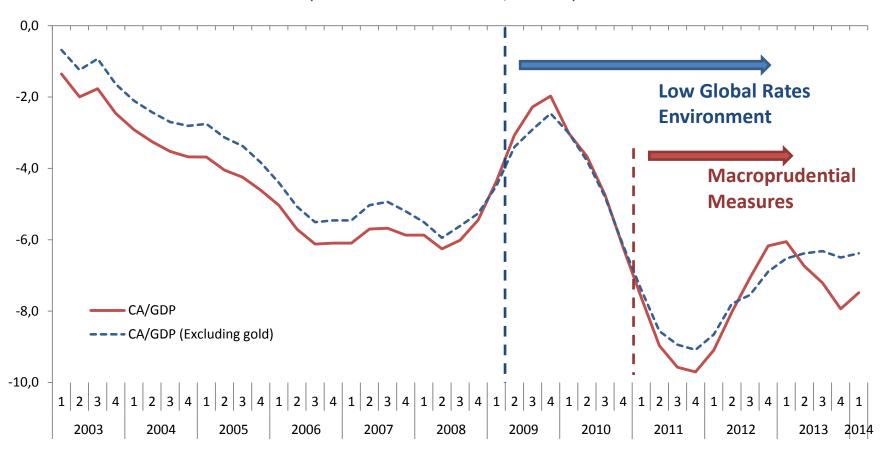
Source: Turkstat \* Natural Logarithm



#### ...while leading to a higher external deficit.

#### **Current Account Balance**

(12-Month Cumulative, % GDP)



Source: CBRT.

Last Observation: March 2014

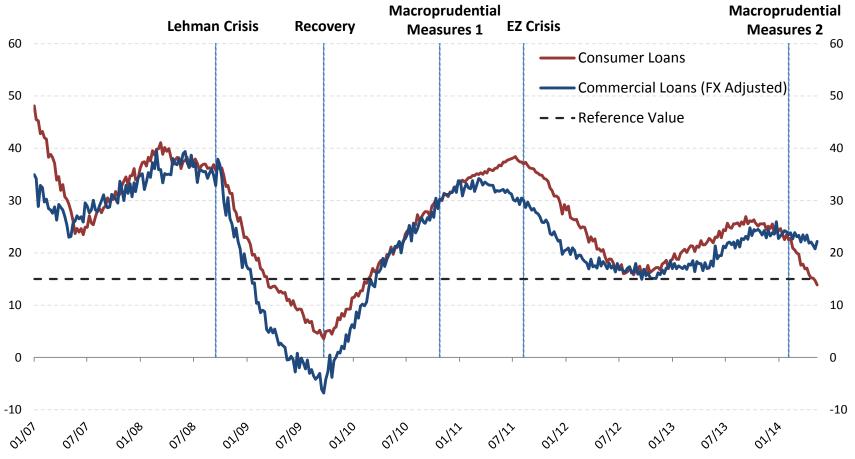
\* Forecast.



#### Another main determinant of inflation volatility is the credit cycle.

#### **Consumer\* and Commercial Loans\*\***

(YoY Growth, Percent)



\* Including credit cards.

 $\hbox{\tt **Total banking sector (including participation banks, excluding nonperforming loans)}$ 

Last Observation: 16 May 2014

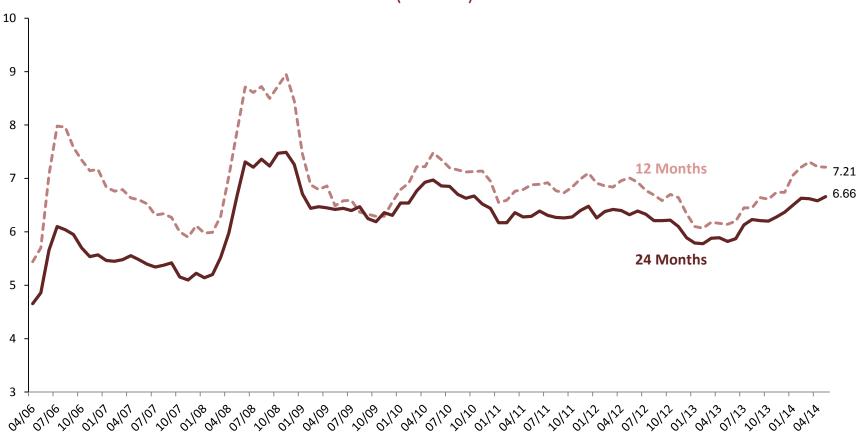
Source: CBRT.



#### Inflation expectations remain quite stable, but are above the target.







Source: TURKSTAT, CBRT.

\*CBRT Expectation Survey. Last Observation: May 2014



#### Interest rate dilemma makes macroprudential measures necessary.

#### **Interest Rate Dilemma for EMEs**

#### **Price Stability**

#### **Currency Stability**

Needs compatibility with **low** global interest rates

#### **Credit Stability**

Requires **higher** domestic rates than global interest rates

#### **Resolution**

Stance

**Interest Rate** 

Lower

Macroprudential Policy

Tighter



#### Neutral real interest rates declined globally after the Lehman crisis.

## 2-Year Real Interest Rates of Turkish Treasury Securities\* (Percent)



\* Calculated as the difference between 2-year bond returns derived from the yield curve and the 24-month ahead inflation expectations derived from the CBRT Survey of Expectations.

Last Observation: 16 May 2014



Source: CBRT, BIST

### Macroprudential policies have been tightened during the post-Lehman recovery.

- Loan-to-Value Restrictions
- Loan-to- Income Restrictions
- Risk Weight on Consumer Loans
- General Provisioning Requirements
- Reserve Requirements
- Levy on Consumer Loans



## The Central Bank used reserve requirements mainly as a structural instrument...

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

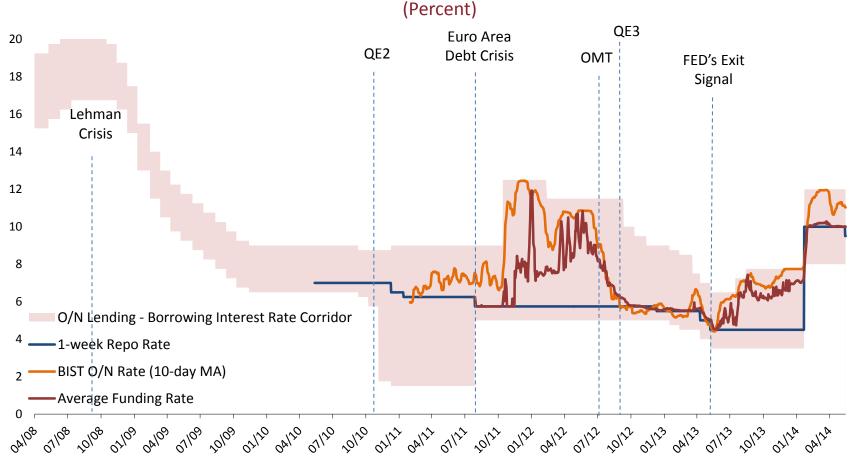


### ...while using monetary policy instruments as cyclical stabilizers.

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

# Temporary rate hikes have also been helpful in stabilizing credit and currency.





**OMT: Outright Monetary Transactions (ECB)** 

QE: Quantitative Easing (FED)

Last Observation: 23 May 2014

Source: CBRT, BIST.





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