



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

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Turkish Lira Liquidity Management and Funding Need of the System

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CBRT Reserves (31 March 2017)

Gross FX Reserves	Gold
USD 88.5 Billion	USD 17.1 Billion

Inflation (March 2017)

11.29%

CBRT Policy Rates (16 March 2017)

Late Liquidity Window Overnight Borrowing Rate

0%

Overnight Borrowing Rate

7.25%

One-Week Repo Rate

8.00%

Overnight Marginal Funding Rate

9.25%

Late Liquidity Window Overnight Lending Rate

11.75%

Turkish Lira Liquidity Management and Funding Need of the System

I. WHY DOES THE CENTRAL BANK PROVIDE TURKISH LIRA LIQUIDITY?

The Central Bank of the Republic of Turkey (CBRT), responsible for exclusively implementing the monetary and exchange rate policies in our country, provides Turkish lira (TL) liquidity to the market through various transactions it conducts as per Articles 40 and 52 of the CBRT Law No. 1211. The CBRT conducts these operations for two reasons: First, the CBRT endeavors to effectively regulate the money supply and the liquidity in the economy within the framework of monetary policy targets. In this context, it provides banks and financial institutions with the facility of short-term borrowing and lending in TL at the interest rates it sets.

Additionally, the CBRT, as lender of last resort, should eliminate the temporary liquidity shortages that may cause interruption in the payment system and the technical payment problems which may obstruct the efficient functioning of the financial markets. To this end, the CBRT provides intraday or end-of-day credit facilities to the system against collateral.

At the Monetary Policy Committee (MPC) meetings, where decisions on monetary and exchange rate policies are made, the CBRT sets the policy rates with a medium-term perspective. At the MPC meetings, the CBRT sets;

- Marginal Funding Rate and Borrowing Rates,
- One-Week Repo Rate,
- Late Liquidity Window Borrowing and Lending Rates.

The CBRT uses these rates in its transactions with banks and intermediary institutions and takes into account the "Funding Need of the System" in the course of these operations.

II. WHAT IS THE FUNDING NEED OF THE SYSTEM? WHAT ARE THE DETERMINING FACTORS?

The liquidity conditions of the financial system may change cyclically depending on global or domestic factors, causing either liquidity excess or liquidity shortage. The funding need of the system (FNS) refers to the amount of liquidity that the Central Bank should provide in case of a liquidity shortage in the financial system.

Within the framework of the liquidity management, the CBRT aims to ensure formation of short-term interest rates at the level deemed appropriate in an environment that secures uninterrupted functioning of payment systems as well as effective and stable operation of money markets. For this purpose, the TL liquidity level in the market and its distribution in the financial system are taken into consideration. While a decline in the TL liquidity in the market increases the funding need of the system, an increase in the TL liquidity decreases the funding need. The CBRT meets the funding need of the financial system through the operations it conducts within the scope of the monetary policy.

The factors that affect the TL liquidity in the financial system are given in the following table. The (+) sign in the first column denotes that the relevant factor increases the TL liquidity, whereas the (-) sign denotes the opposite.

The funding need of the system **tends to increase** during the periods in which;

- TL reserve requirement ratios are raised,
- Household cash demand goes up due to a rise in economic activity and inflation,

Factors Affecting the TL Liquidity and Funding Need of the Financial System (FNS)

	TL Liquidity	FNS
A. Maturing Monetary Policy Transactions		
1. Maturing repo transactions	(-)	(+)
2. Maturing reverse repo transactions	(+)	(-)
3. Liquidity bill issues/redemptions	(-)/(+)	(+)/(-)
4. Maturing TL deposit buying transactions	(+)	(-)
5. Maturing TL deposit selling transactions	(-)	(+)
B. Changes in Monetary Base		
6. Increase/decrease in the currency issued	(-)/(+)	(+)/(-)
7. Increase/decrease in banks' free deposits	(-)/(+)	(+)/(-)
C. CBRT's Transactions in TL		
8. FX purchases/sales	(+)/(-)	(-)/(+)
9. Interest payments/collections	(+)/(-)	(-)/(+)
10. Current expenditures	(+)	(-)
11. Export rediscount credits	(+)	(-)
12. Security purchases/sales	(+)/(-)	(-)/(+)
D. Public Sector's Transactions in TL		
13. The difference between the redemption and issuance of TL securities (net) (excluding redemptions to the CBRT)	(+)/(-)	(-)/(+)
14. Primary surplus/deficit	(-)/(+)	(+)/(-)
15. Privatization and other transactions	(-)	(+)

Source: (1) Monetary and Exchange Rate Policy reports, miscellaneous years, (2) Güler (2009: p.38)

- The market has to make sizeable tax payments to the Treasury, and
- During balance sheet periods of banks,

whereas it **tends to decrease** during the periods in which;

- TL reserve requirement ratios are reduced,
- Household cash demand goes down due to a fall in economic activity and inflation,
- There is a sizable cash transfer from the Treasury to the market due to public sector salary payments and
- On days following the balance sheet periods of banks.

MONETARY BASE

The monetary base consists of the sum of two items on the CBRT's Analytical Balance Sheet: Currency Issued and Deposits of the Banking Sector. The Currency Issued refers to the cash in possession of the public and at bank vaults, whereas the Deposits of the Banking System refers to the banks' TL required reserves and free deposits held at the CBRT.

III. HOW DOES THE CENTRAL BANK MEET THE FUNDING NEED OF THE SYSTEM?

1. Overnight:

- via the Interbank Money Market,
- via the Repo and Reverse Repo Facility at Borsa İstanbul,
- within the scope of the Late Liquidity Window Facility for late liquidity needs.

2. Weekly:

- with liquidity operations conducted through quantity-based one-week repo auctions.

The CBRT closely monitors the excessive volatility in the market and takes additional measures against unhealthy price formations inconsistent with economic fundamentals. In this context;

- On 10 January 2017, banks' borrowing limits at the Interbank Money Market established within the CBRT were lowered to TL 22 billion, effective 11 January 2017, and foreign exchange reserve requirement ratios were reduced by 50 basis points for all maturity brackets,
- The CBRT has not held weekly repo auctions since 12 January 2017,
- On 13 January 2017, banks' borrowing limits at the Interbank Money Market were lowered

to TL 11 billion, effective 16 January 2017,

- On 17 January 2017, the CBRT decided to open Foreign Exchange Deposits against Turkish Lira Deposits Market.

Moreover;

- On the days deemed necessary, the amount of the CBRT funding at Borsa İstanbul repo markets can be limited. Banks can meet their end-of-day liquidity needs without any limit at the CBRT's Late Liquidity Window (LON) lending rate.

LATE LIQUIDITY WINDOW OPERATIONS

The Late Liquidity Window operations include the following facilities that the CBRT provides at the end of the day:

- the borrowing facility provided for banks in order to avoid possible problems in the payment system,
- the borrowing facility provided by purchasing securities from the institutions authorized to conduct open market operations with an agreement to sell them back for an agreed upon price at some specified future date, and
- the lending facility provided for banks to enable them to make use of their excess liquidity.



Publications from the CBRT

Research Notes in Economics:

- Linkages Between Credit Spreads and Credit Ratings (Murat Duran, Doruk Küçükşarac, Research Notes No. 17/01, 21 March 2017)

For all Research Notes in Economics, please [click here](#)

Working Papers

- Disentangling Age and Cohorts Effects on Home-Ownership and Housing Wealth in Turkey (Evren Ceritoğlu, Working Paper No. 17/06, March 2017)
- The Impact of Syrian Refugees on Natives' Labor Market Outcomes in Turkey: Evidence from a Quasi-Experimental Design (Evren Ceritoğlu, Hatice Burcu Gürcihan Yüncüler, Huzeyfe Torun, Semih Tümen, Working Paper No. 17/05, February 2017)
- Rebalancing Turkey's Growth by Improving Resource Allocation and Productivity in Manufacturing (Aslıhan Atabek, Dan Andrews, Rauf Gönenç, Working Paper No. 17/04, February 2017)
- Mean-Reversion in Unprocessed Food Prices (Kurmaş Akdoğan, Working Paper No. 17/03, February 2017)
- Rise of Services and Female Employment: Strength of the Relationship: (Şerife Genç İleri, Gönül Şengül, Working Paper No. 17/02, February 2017)
- Self-Insurance and Consumption Risk-Sharing between Birth-Year Cohorts in Turkey (Evren Ceritoğlu, Working Paper No. 17/01, January 2017)

For all Working Papers, please [click here](#)

Inflation Report 2017-I

The first Inflation Report of 2017 was presented at a press conference held in Ankara on 31 January 2017. The Report covers international economic developments, inflation developments, supply and demand developments, financial markets and financial intermediation, public finance and the CBRT's medium-term projections.

The Report also includes boxes on: "Recent Global Uncertainties and its Implications", "Pass-Through from Import Prices and Exchange Rate to CPI and Subcategories", "An Economic Uncertainty Indicator for Turkey", "Alternative Indicators for Output Gap", "The Weakening Real External Trade-GDP Relationship and Loan Growth", "Open Market Operations, Portfolio Size of Securities and Outright Purchasing Transactions", "The Sensitivity of Fiscal Multiplier to Business Cycles" and "An Evaluation of End-2016 Inflation Forecasts".

The press conference was webcast live with English interpretation on the CBRT website.

To access Inflation Report 2017-I, please [click here](#)

At a Glance...



"CBRT Productivity Workshop", 27-28 March 2017 / İzmir

The Productivity Workshop organized by the Structural Economic Research Department was held on 27-28 March 2017 in İzmir.

The workshop, organized with the anticipation that policy-oriented research on productivity has become more relevant than ever and that further research is needed on the interaction of productivity with economic growth, provided an effective platform for discussion of productivity at a technical level with the participation of policy makers, representatives of international organizations and distinguished academics.

For more information, please [click here](#)



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