



# **HOW DO CAPITAL FLOWS CHALLENGE MONETARY POLICY IN CESEE?**

**Erdem Başçı  
Governor**

**October, 2011  
Warsaw**

I. Global Monetary Expansion

II. Price Stability

III. Financial Stability

IV. External Balance

I. Global Monetary Expansion

II. Price Stability

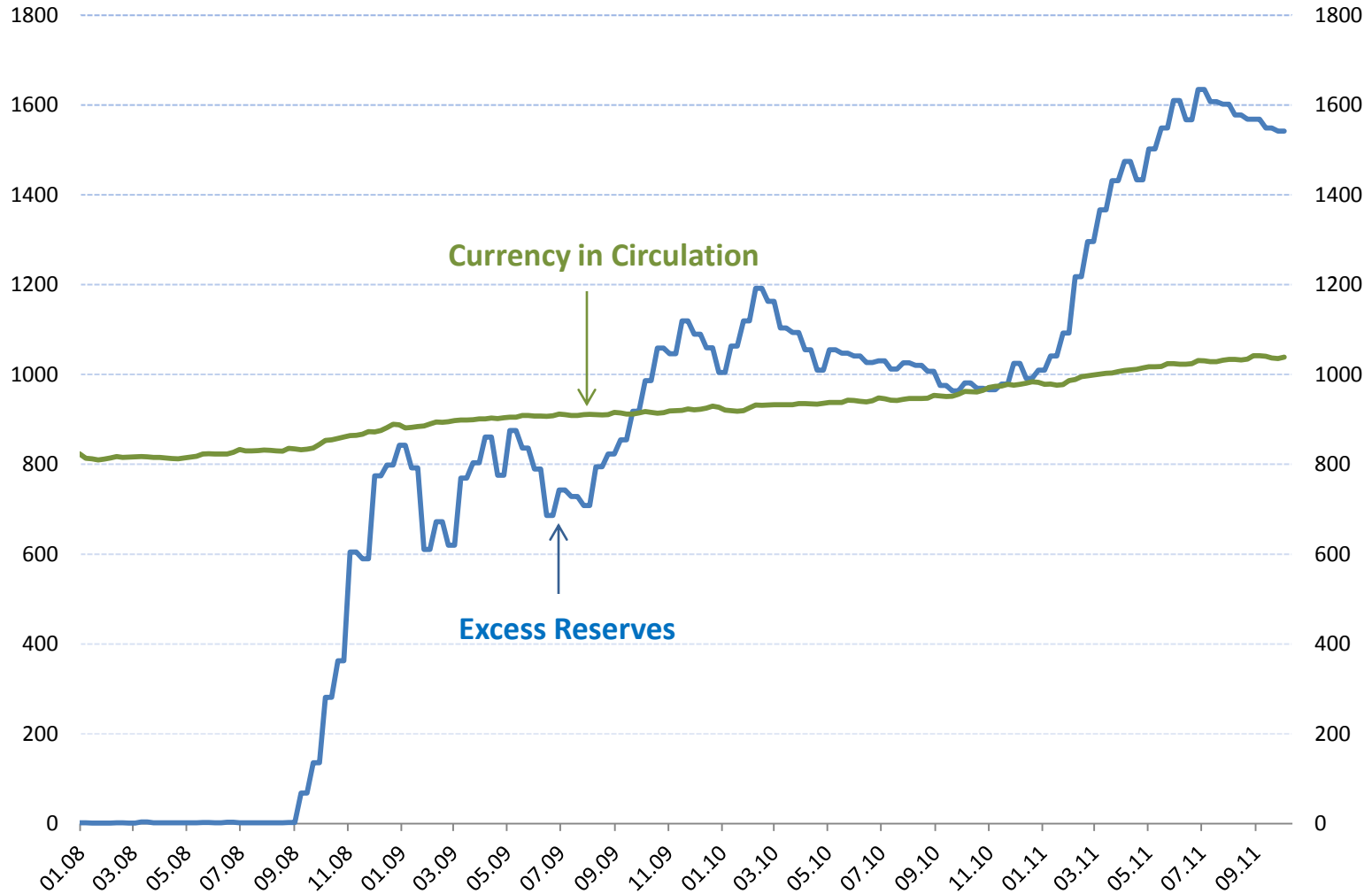
III. Financial Stability

IV. External Balance

## Large-Scale Asset Purchases

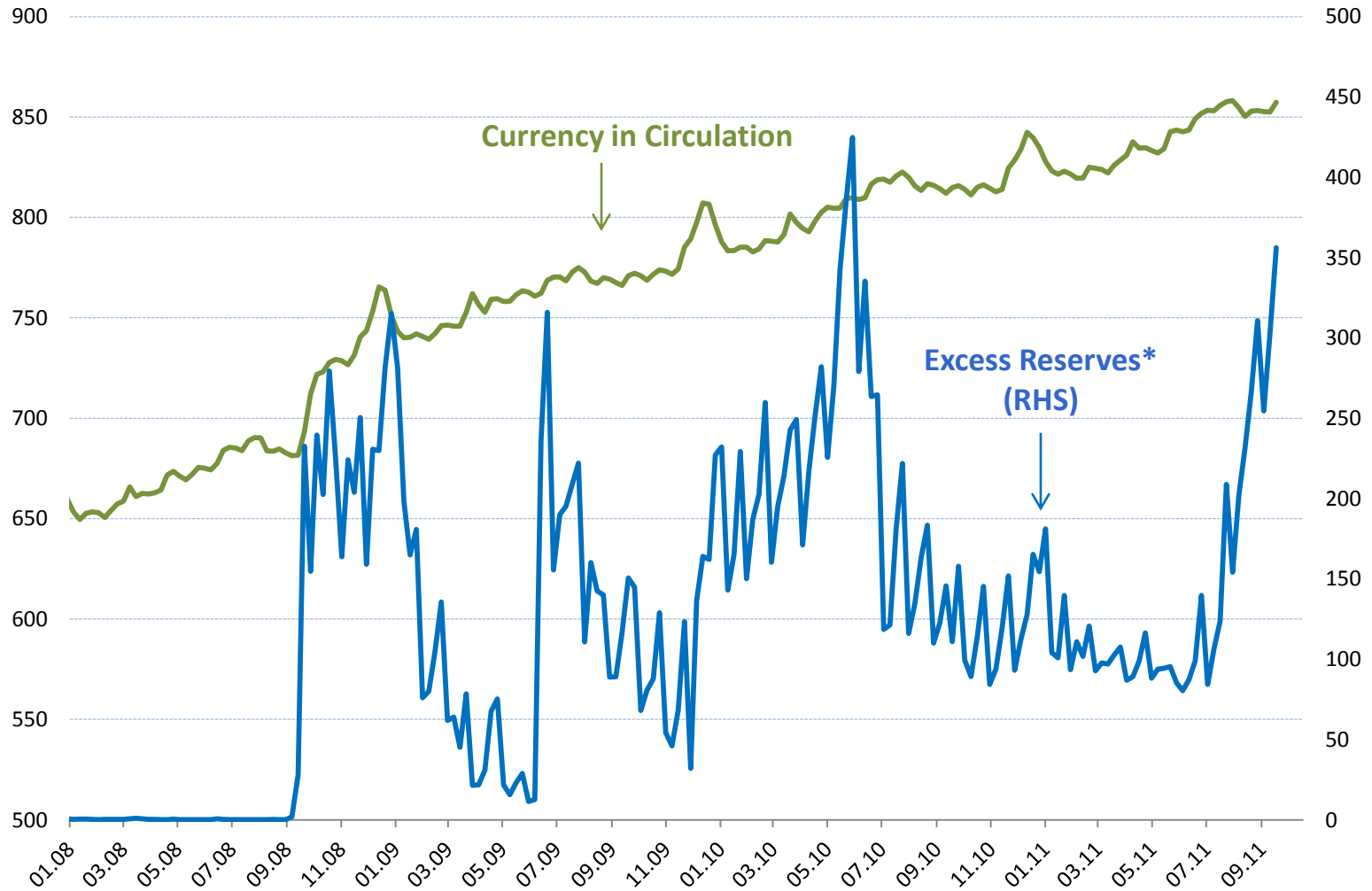
1. Large-Scale Asset Purchase Programs (LSAPP): FED and BoE
2. Unprogrammed Large-Scale Asset Purchases (ULSAP):  
ECB, BoJ, SNB

(Billion USD)



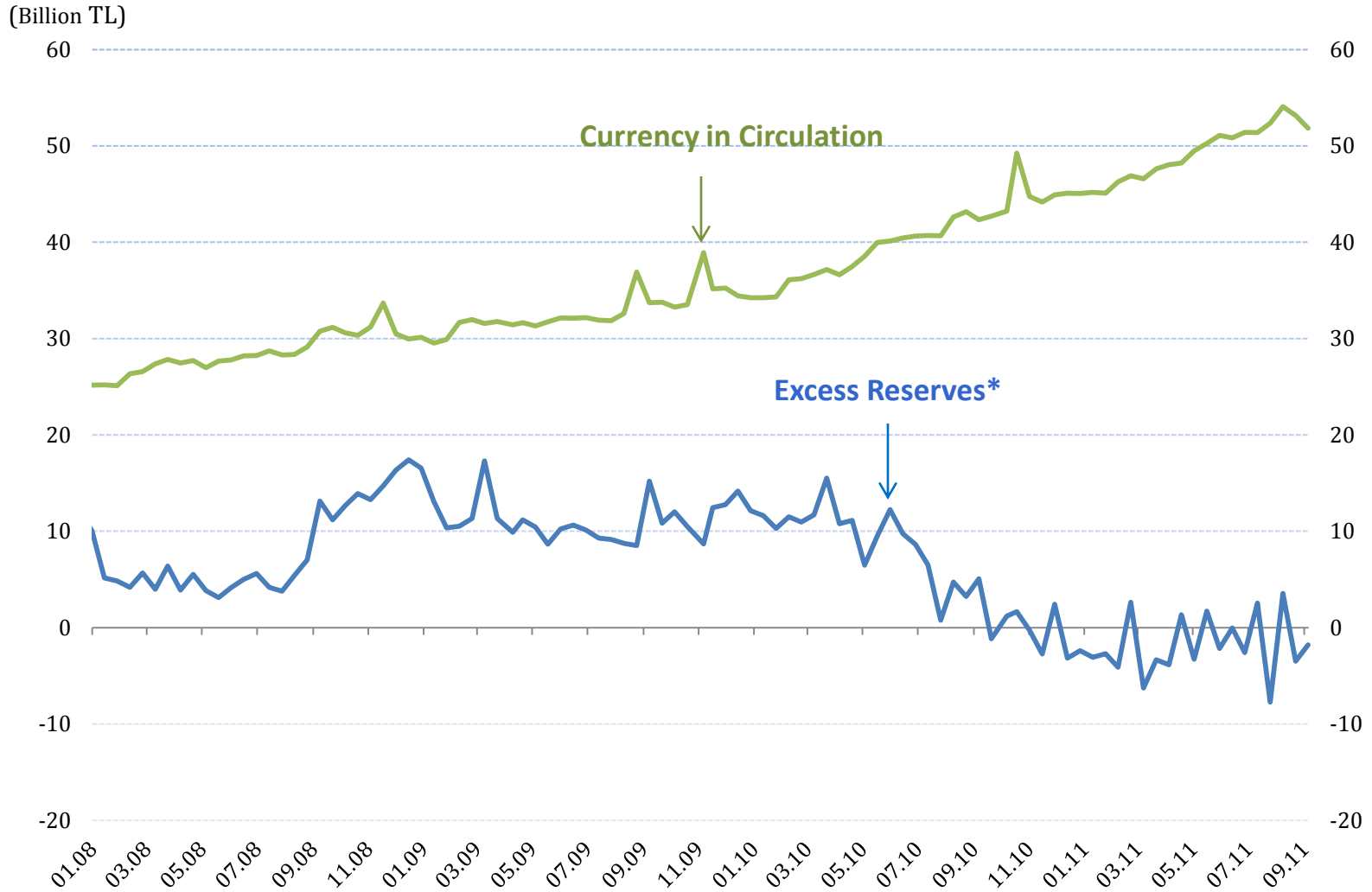
Source: FED, CBRT.

(Billion Euro)



Source: ECB, CBRT.

\*Excess Reserves=ECB Balance Sheet Deposit Facility + Fixed Term Deposits

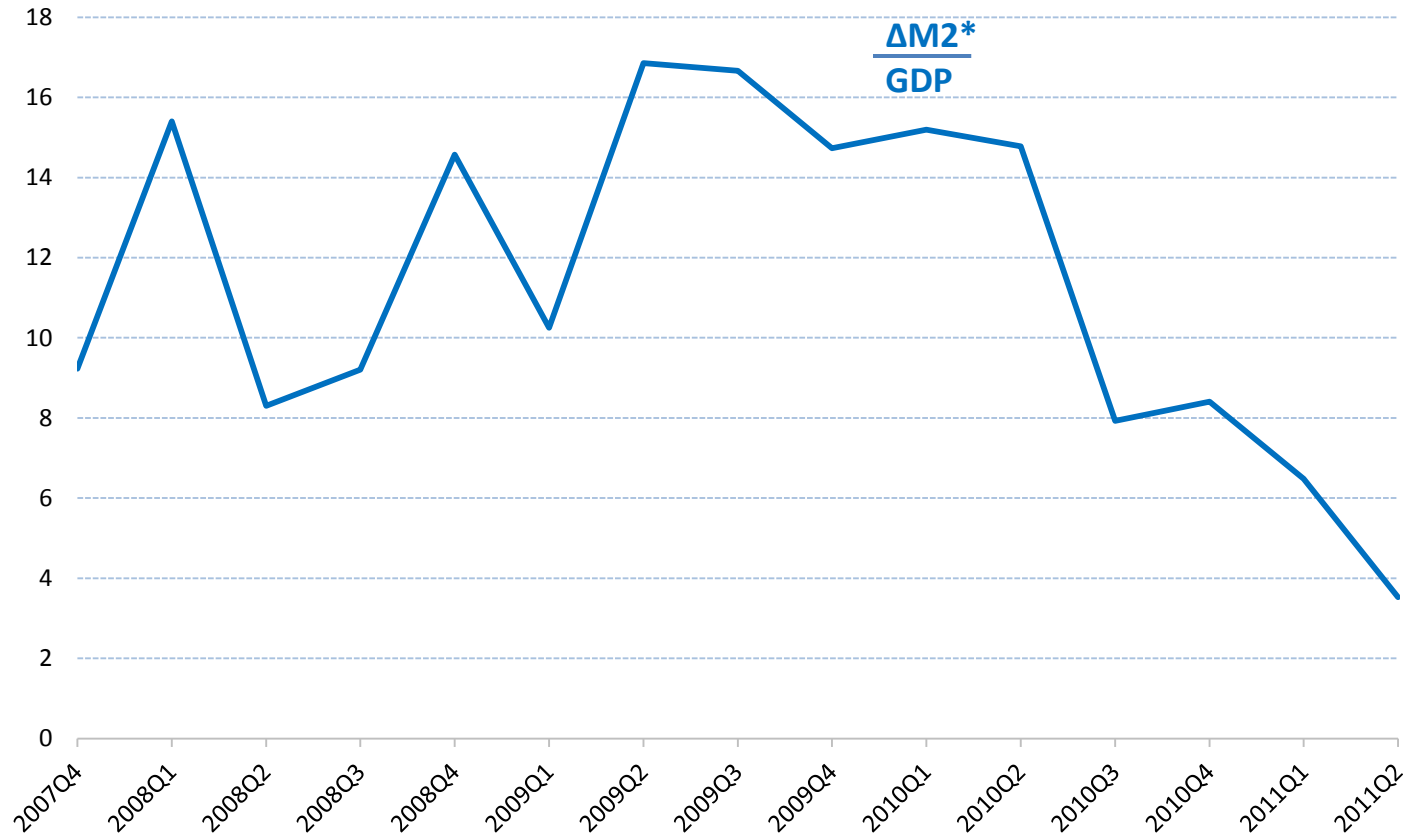


Source: CBRT.

\* Excess Reserves = Sterilization through ON Borrowing + Banking Sector Free Deposit - Banking Sector Required Reserves

## Annual Change in Money Supply

(Percent)



Source: TurkStat, CBRT.

\* Reported M2 excludes foreign currency deposits.



I. Global Monetary Expansion

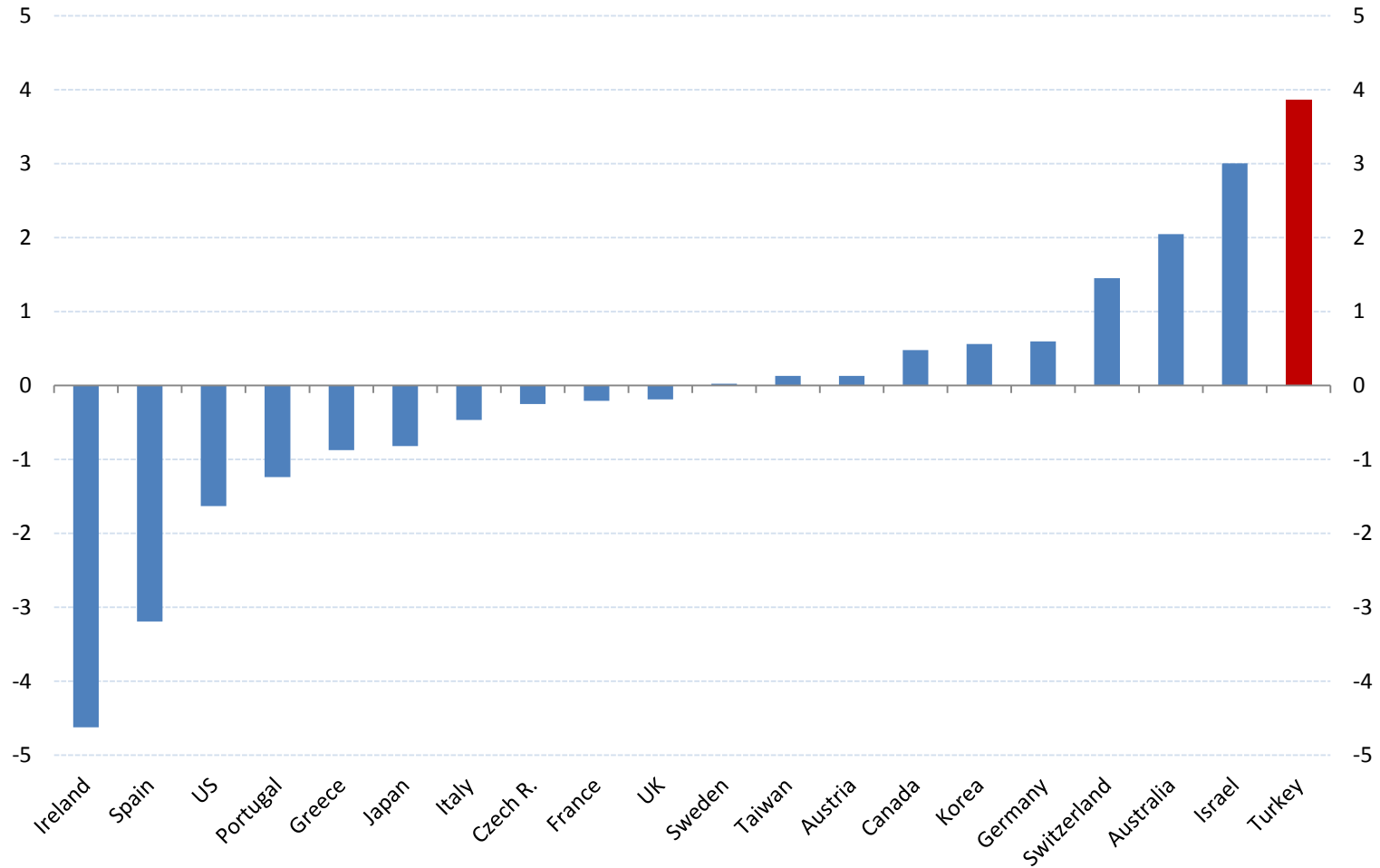
**II. Price Stability**

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## Annual Average Employment Growth\* (2007-2010)

(Percent)

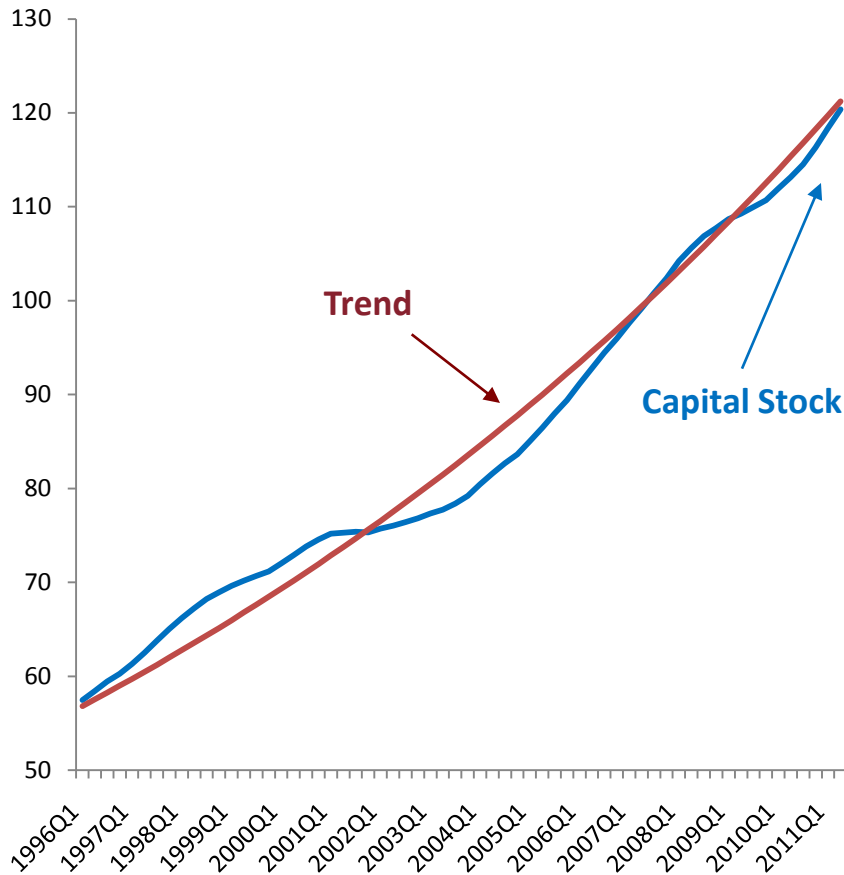


Source: WEO, Turkstat, CBRT.

\*Difference of natural logarithms.

## Capital Stock

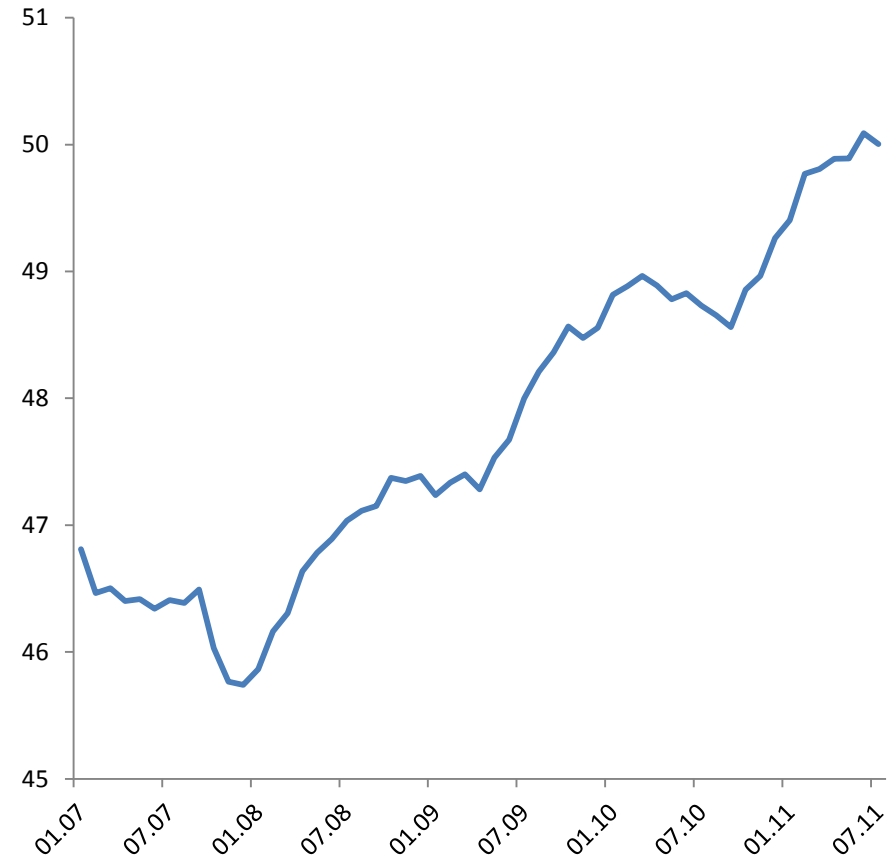
(constant prices, natural logarithm, 2008=100)



Source: TURKSTAT, CBRT.

## Labor market participation rate\*

(percent)



Source: TURKSTAT, CBRT.

\*Seasonally adjusted.

## Policy Dimension

## Current Stance

1. Policy Rate

Accommodative

2. Liquidity Policy

Non-Accommodative

3. Financial Sector Policy

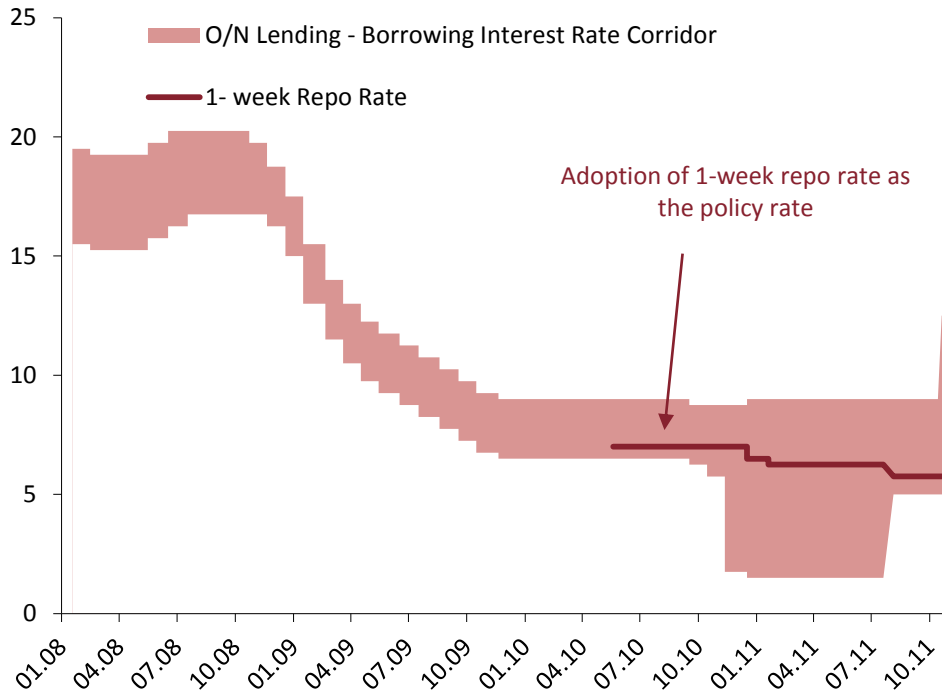
Non-Accommodative

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Net Policy Stance

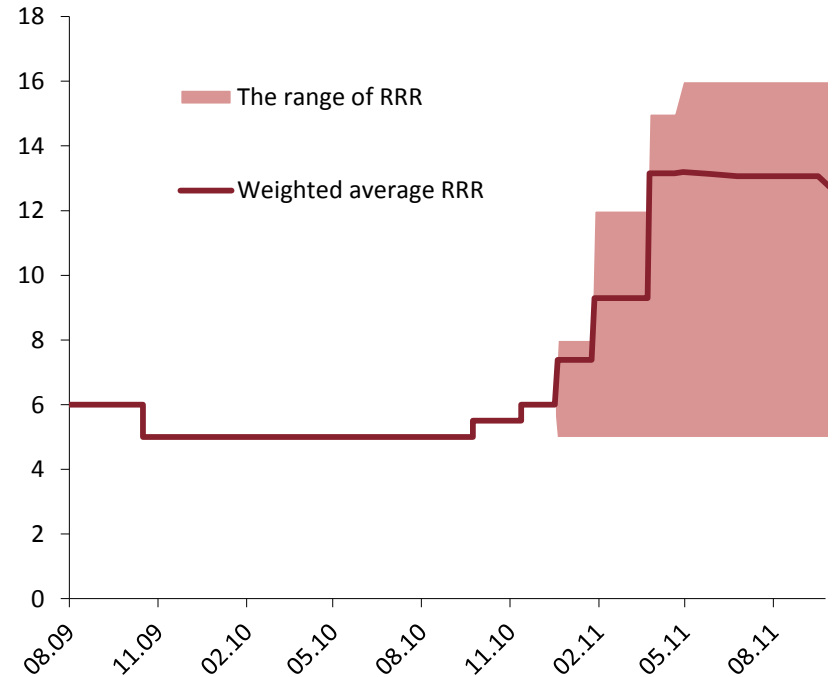
Non-Accommodative

## CBRT Policy Rate



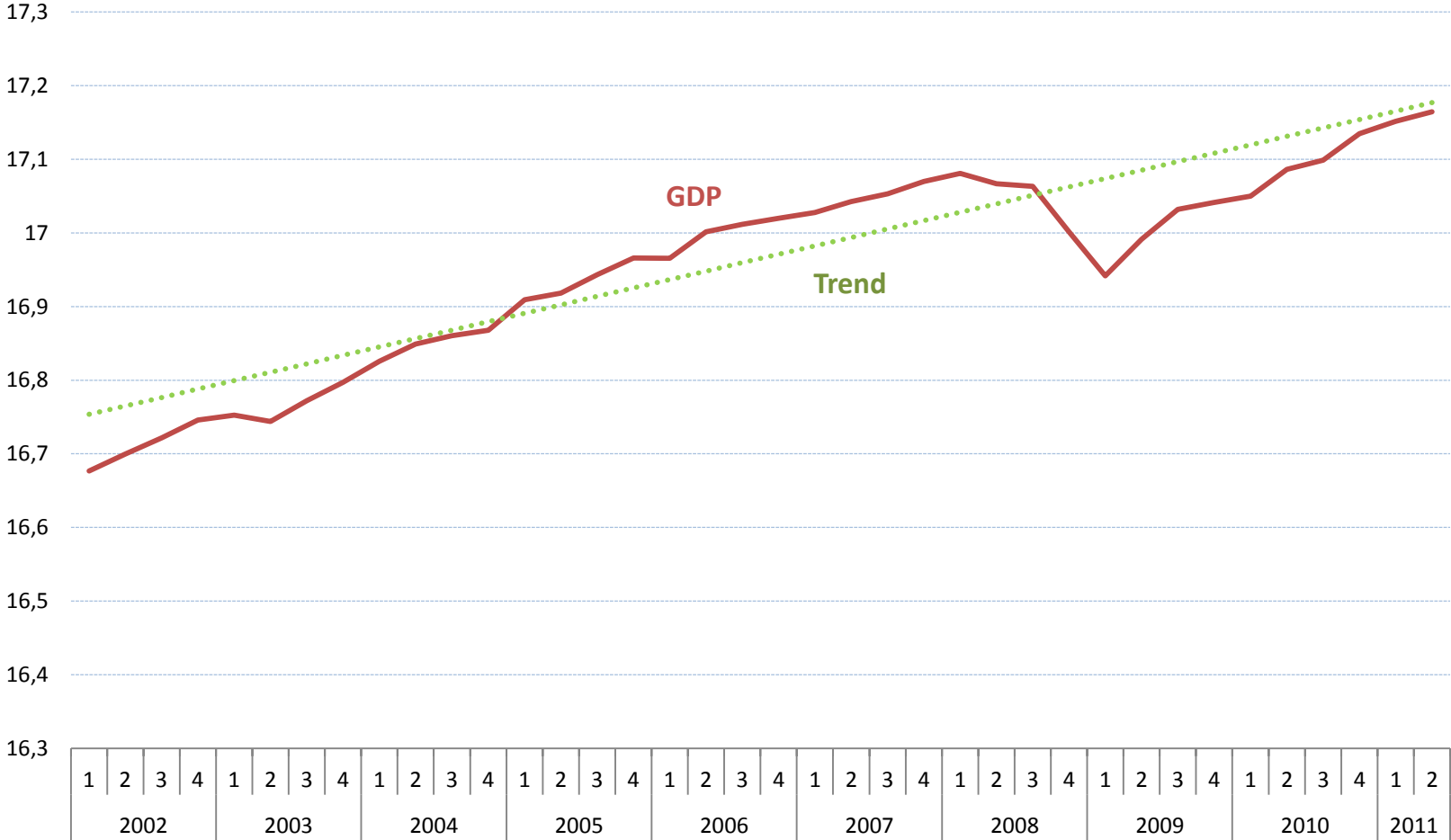
Source: CBRT.

## TL Reserve Requirement Ratios (RRR)



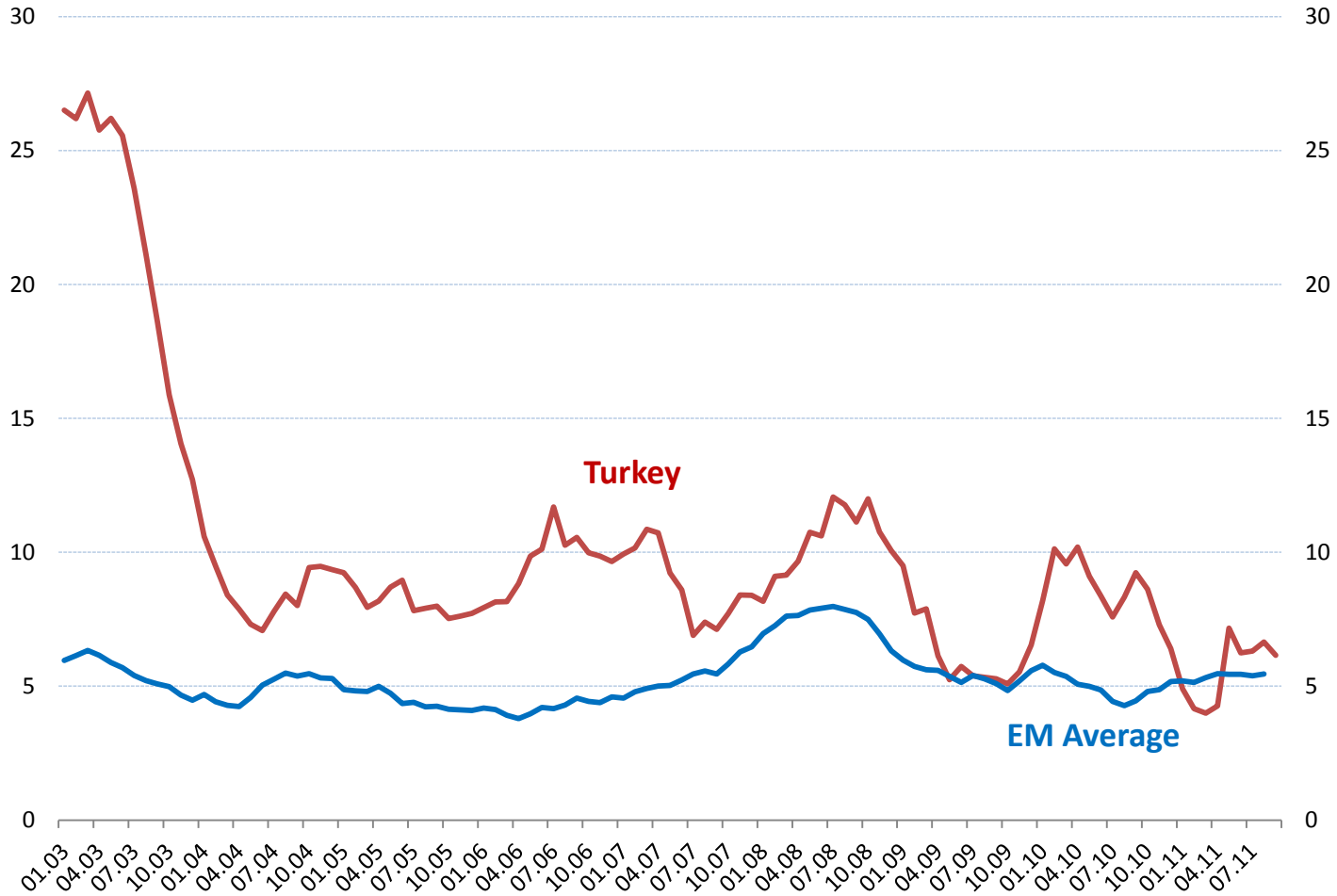
Source: CBRT.

**Actual and Trend GDP**  
(natural logarithm, seasonally adjusted)



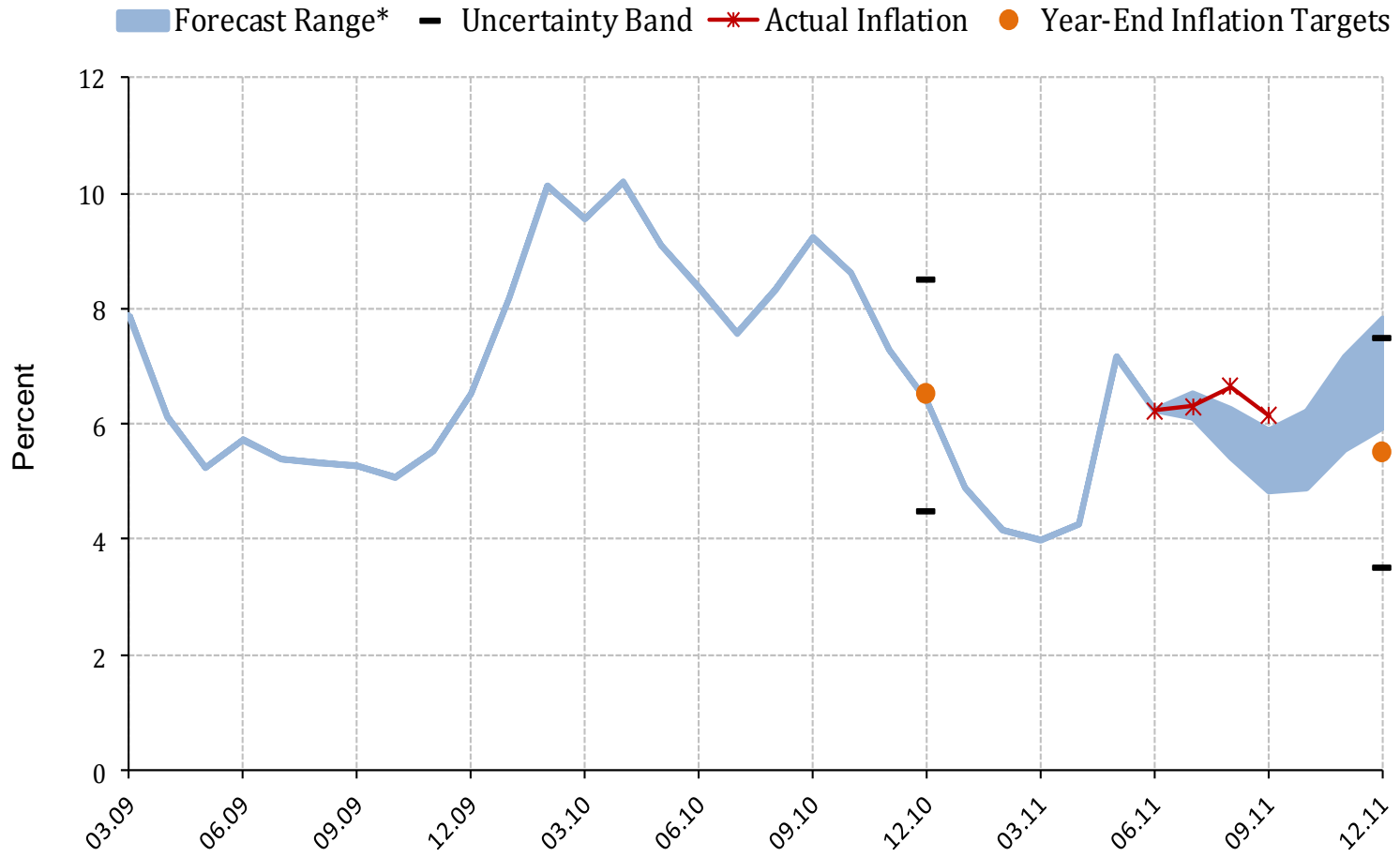
Source: CBRT.

(Percent)



Source: CBRT and Bloomberg.

Average of EM countries: Brazil, Mexico, Czech Rep., Hungary, Poland, S. Africa, China, India, Russia.



Source: CBRT.

\* Shaded region indicates the 70 percent confidence interval for the forecast.



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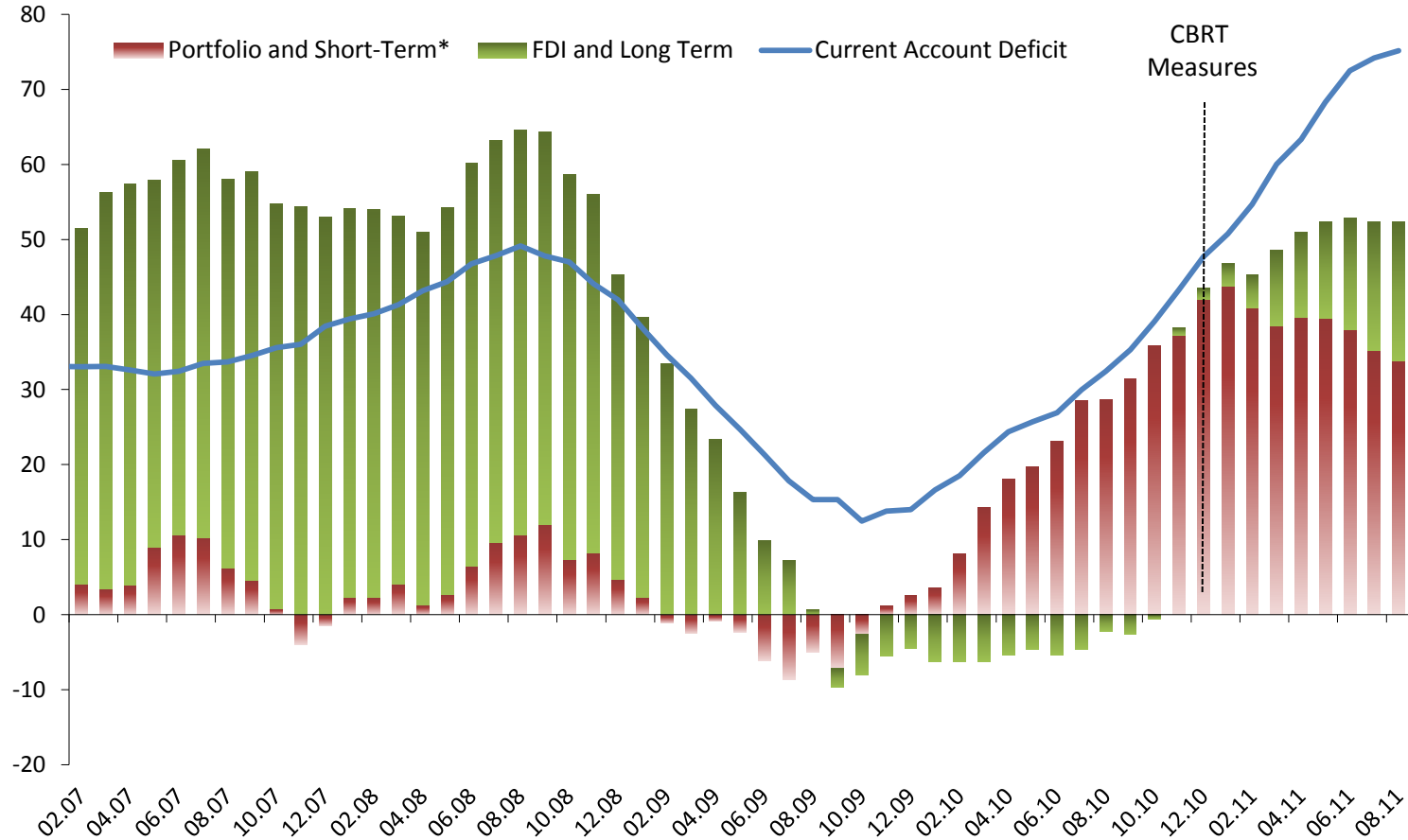
Global monetary expansion (LSAPP and ULSAP) fuels inflows to emerging economies with a tendency towards;

- a) More debt, less equity,
- b) More foreign currency, less domestic currency,
- c) More short term, less long term.

In contrast, emerging economies should provide incentives for financial inflows with a tendency towards;

- a) More equity, less debt,
- b) More domestic currency, less foreign currency,
- c) More long term, less short term.

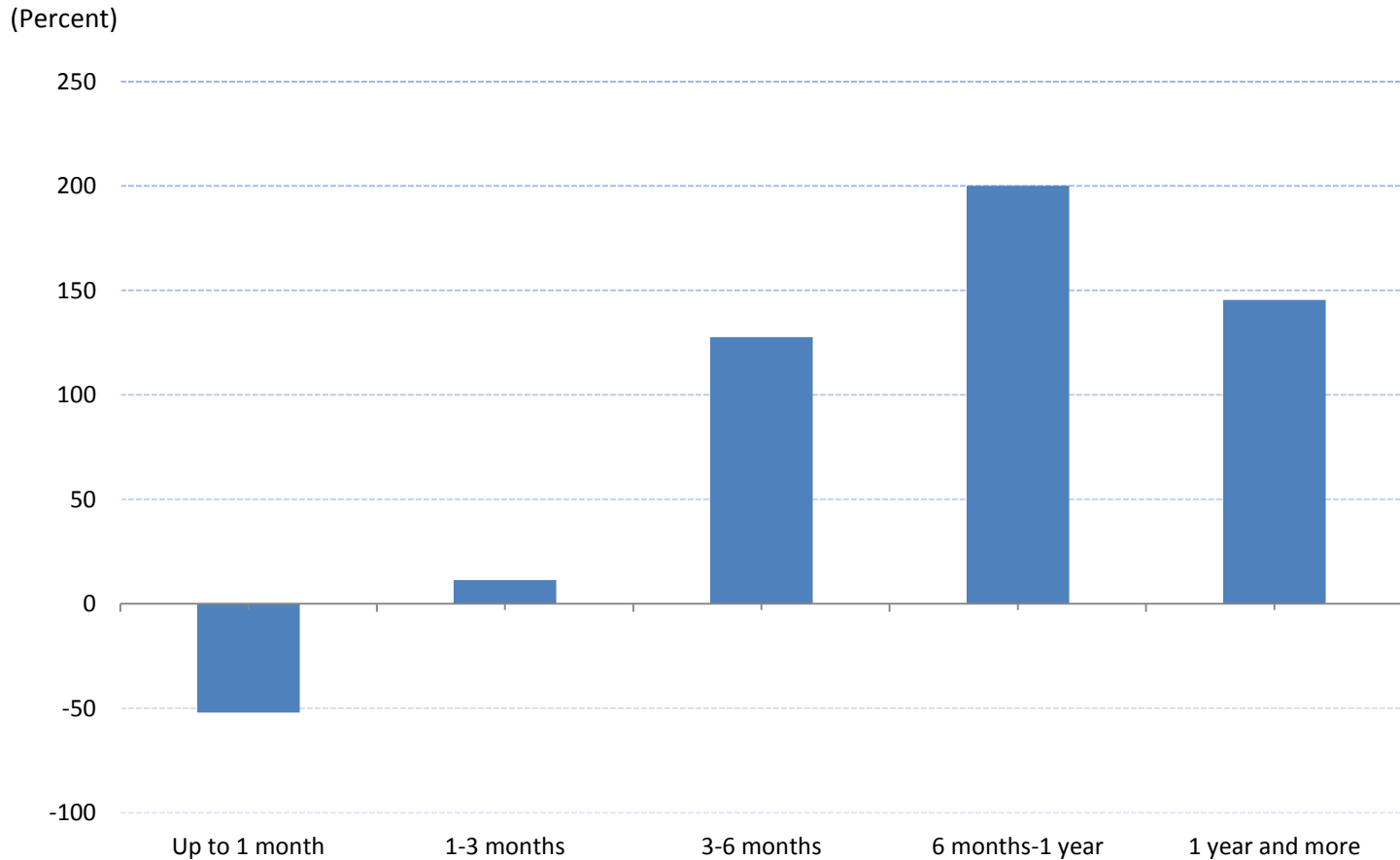
## Main Sources of Current Account Deficit Finance (12-months Cumulative, Billion USD)



Source: CBRT.

\*Short-term capital movements consist of banking and real sector short term net borrowing and deposits in banks.

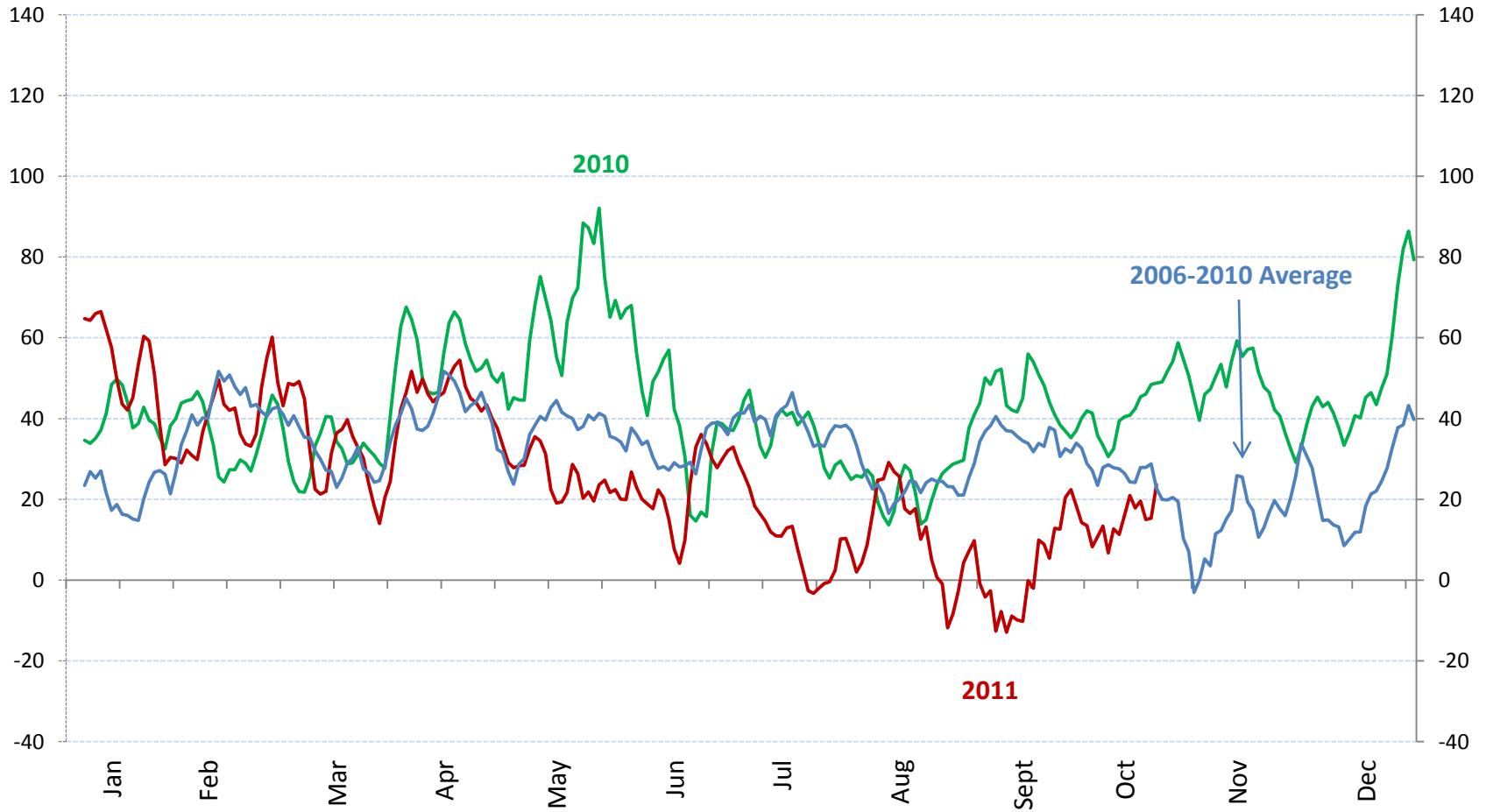
## Percentage Change in Turkish Lira Deposits by Maturity after Reserve Requirement Measures



Source: CBRT.

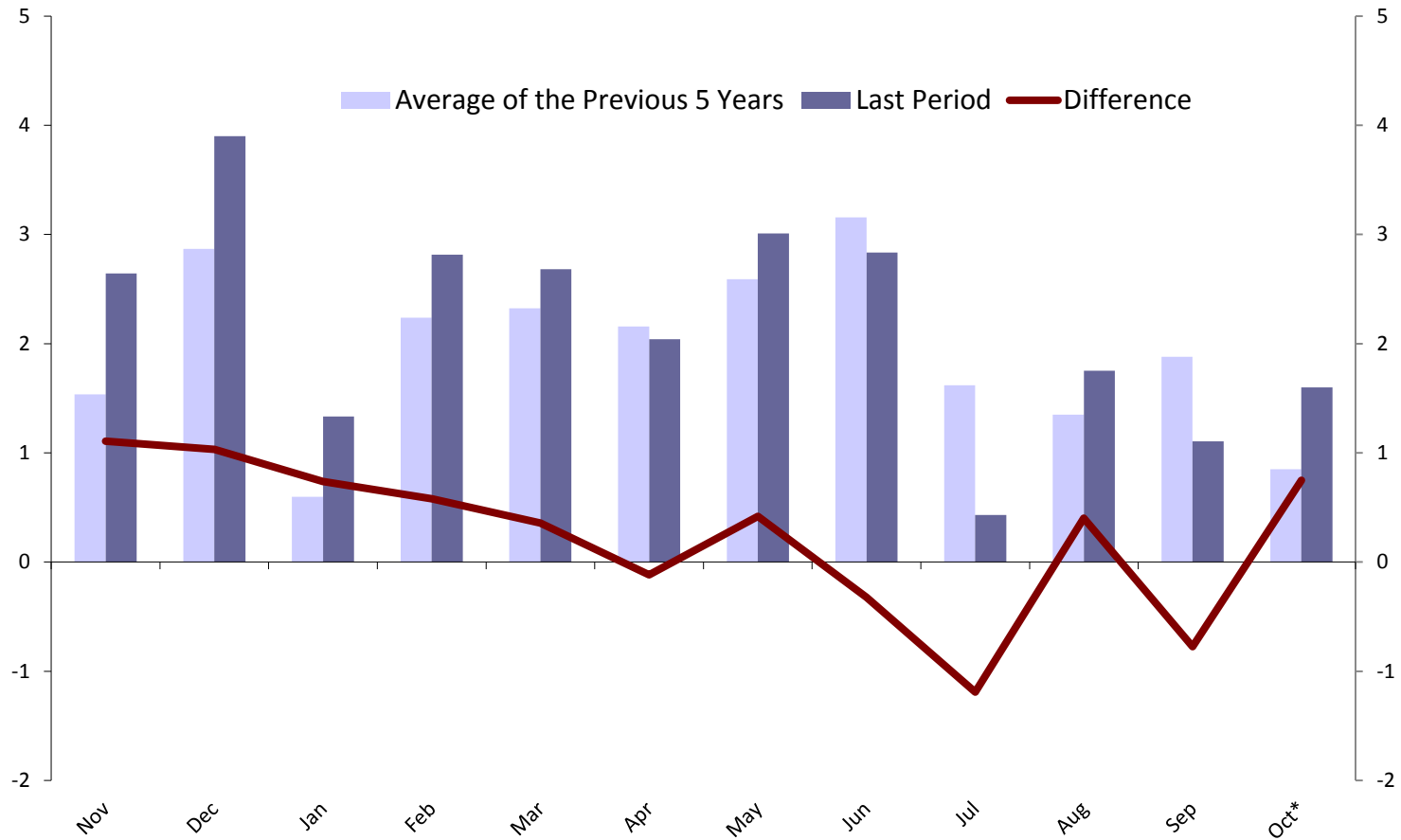
Note: Period covers from November 2010 to September 2011.

## Foreign Currency Loan Growth (Annualized, percent, 20 days moving averages)



Source: CBRT.

**Total Loans\***  
*(monthly change, percent)*



Source: CBRT.

\*Adjusted for the exchange rate effect.

\*\* Monthly percentage change in credit volume as of 11 October, 2011.

I. Global Monetary Expansion

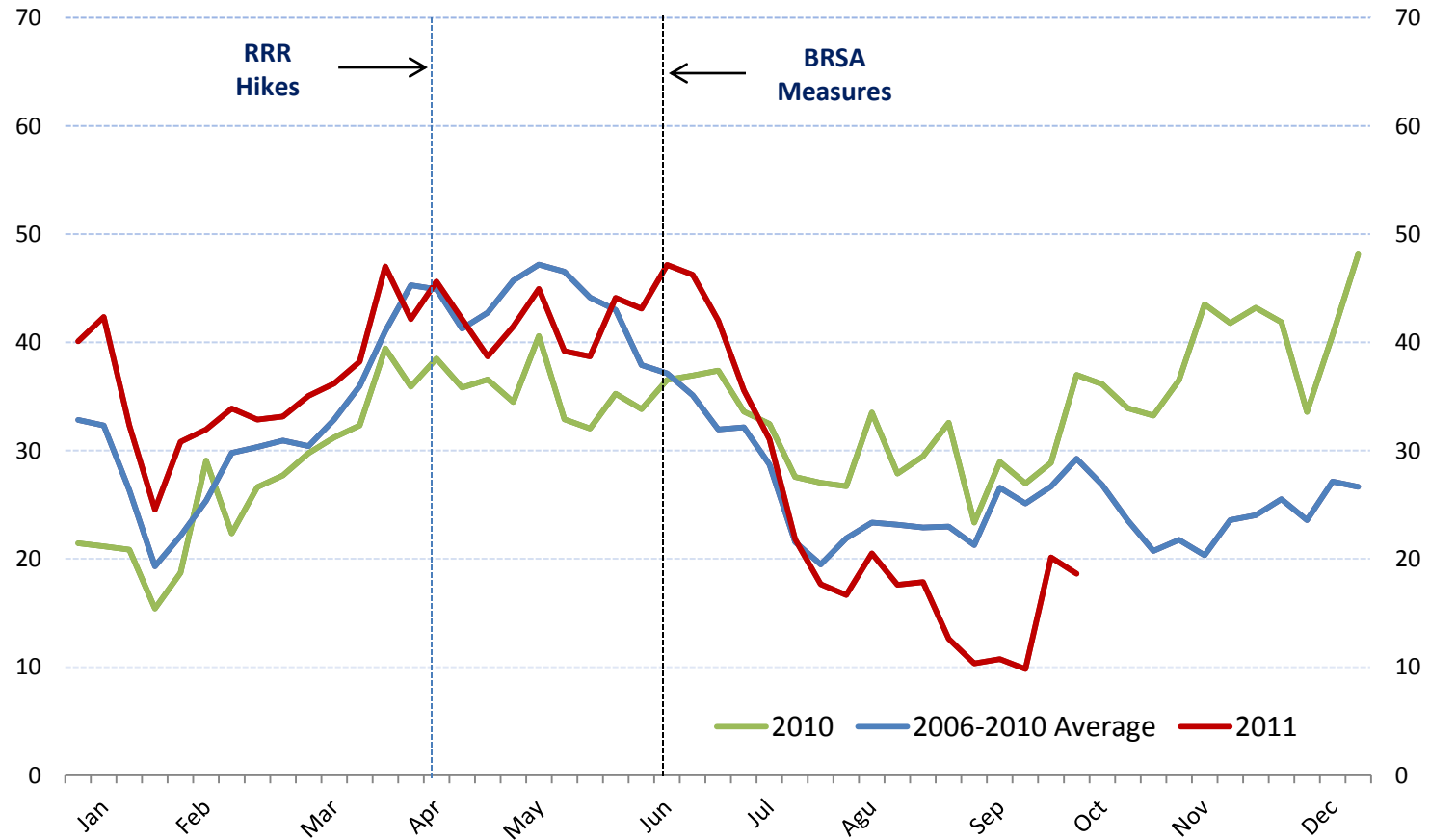
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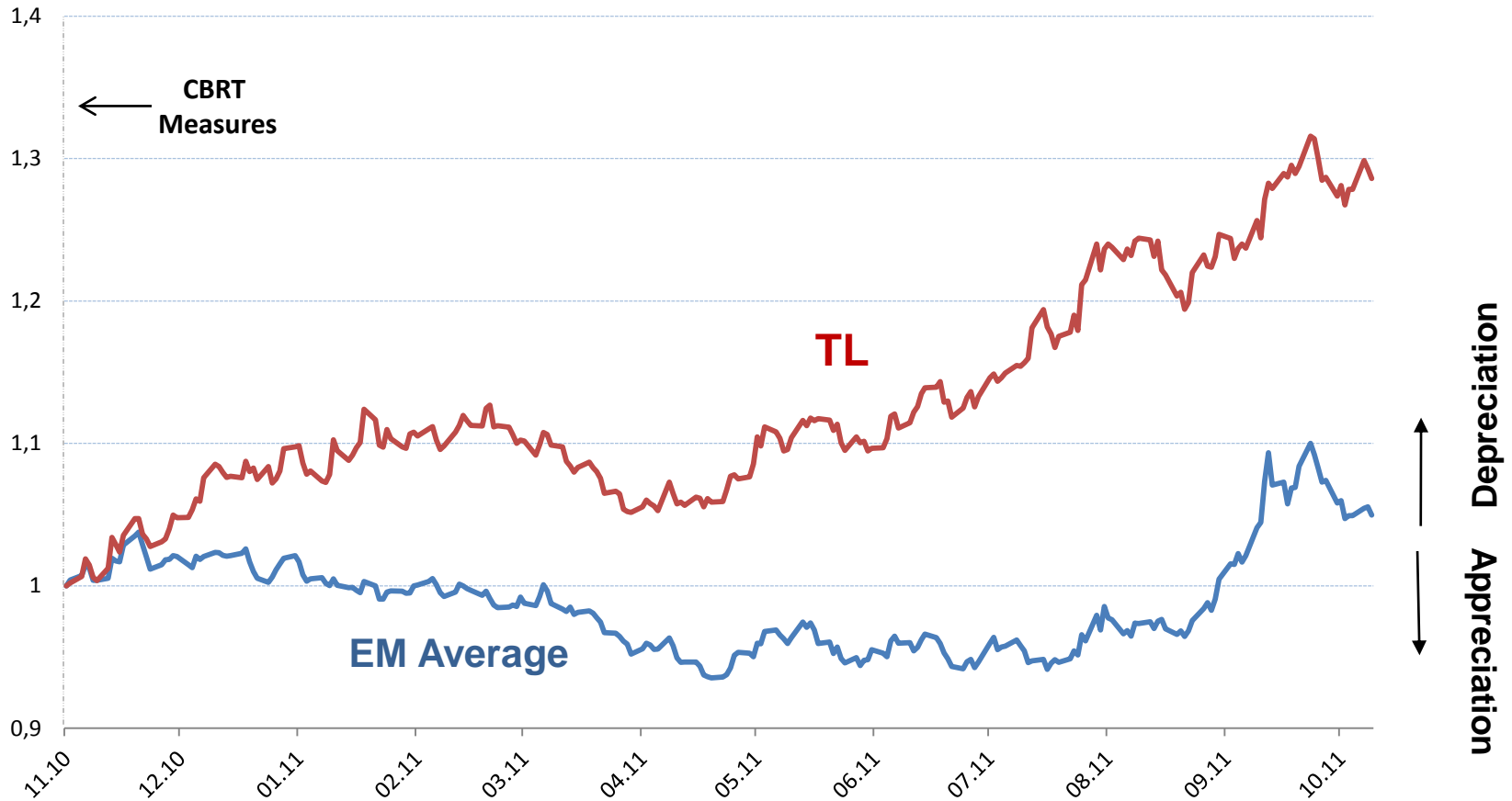


**Consumer Loans**  
(Annualized growth, percent, 4 weeks moving average)



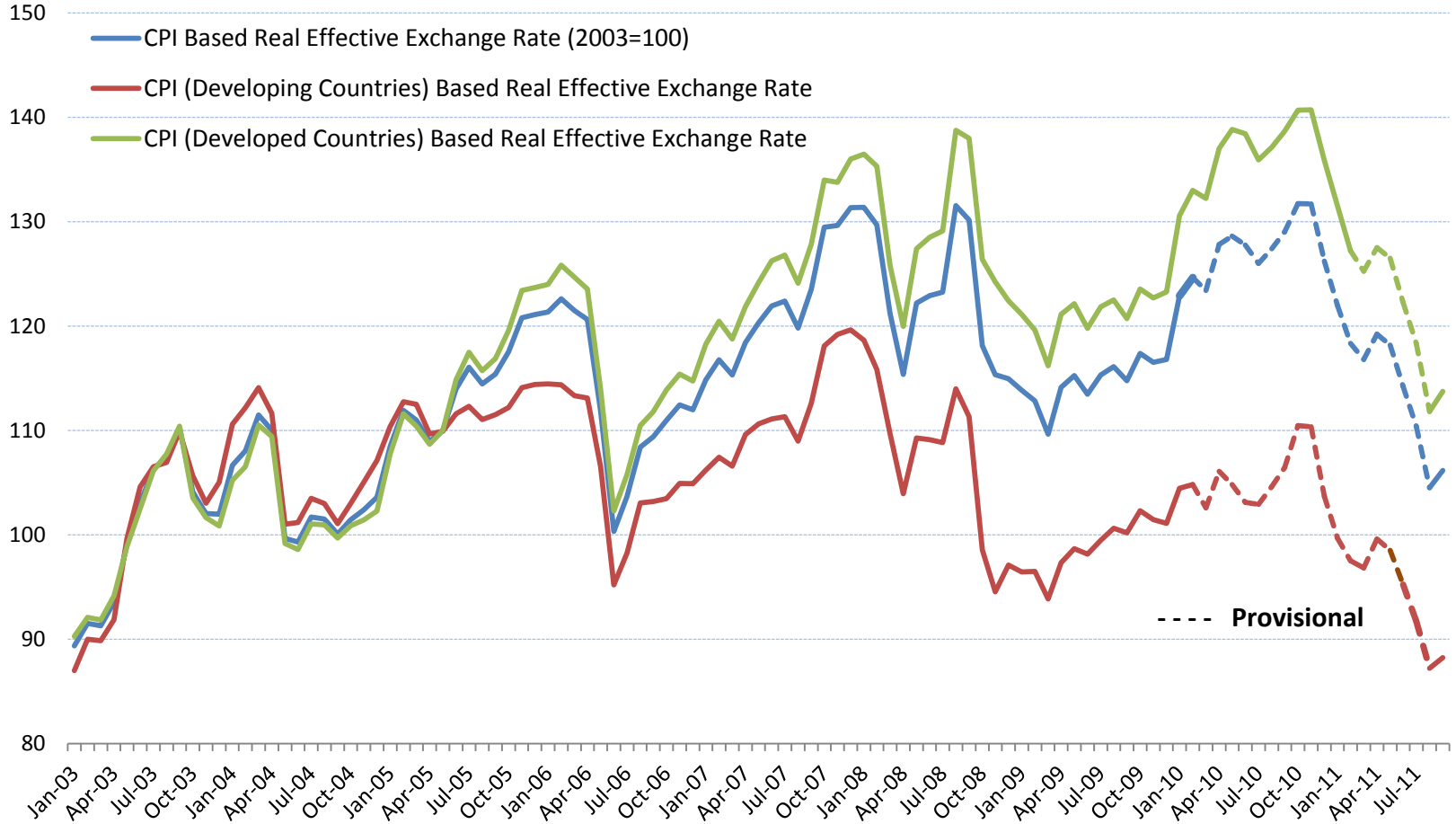
Source: CBRT

### TL and Other EM Currencies Against USD\* (11 Nov. 2010=1)



Average of EM countries: Brazil, Chile, Czech Republic, Hungary, Mexico, Poland, S. Africa, Indonesia, South Korea and Colombia.  
Last observation: October 14, 2011.  
Source: CBRT and Bloomberg.

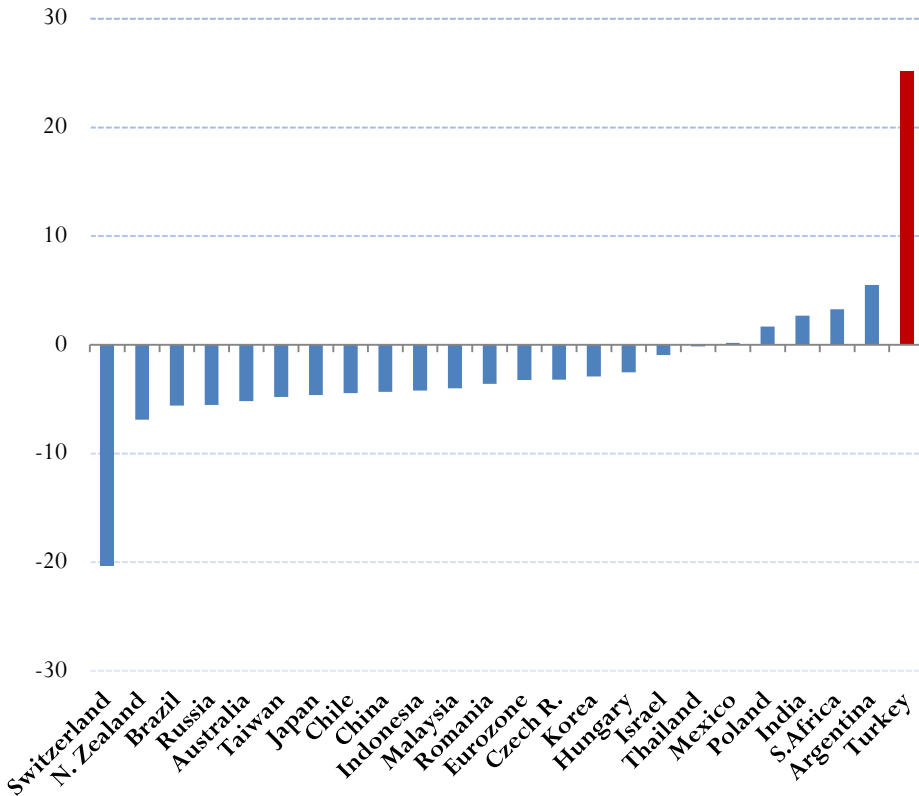
## CPI Based Real Effective Exchange Rate (2003=100)



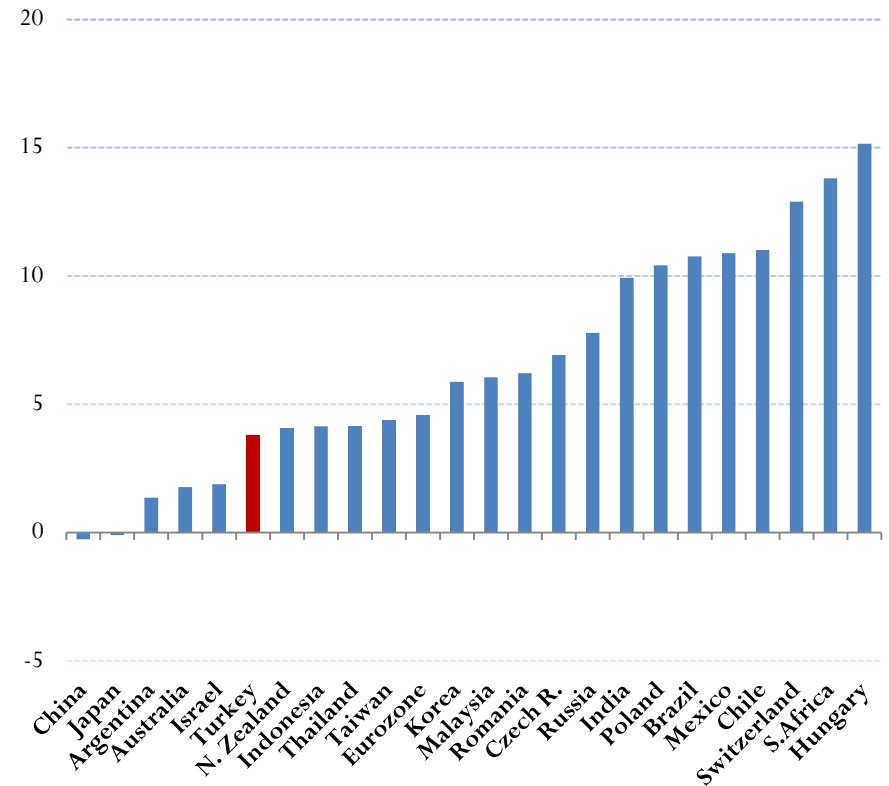
Source: CBRT.

## Percentage Changes in Exchange Rates

01.11.2010 - 22.08.2011



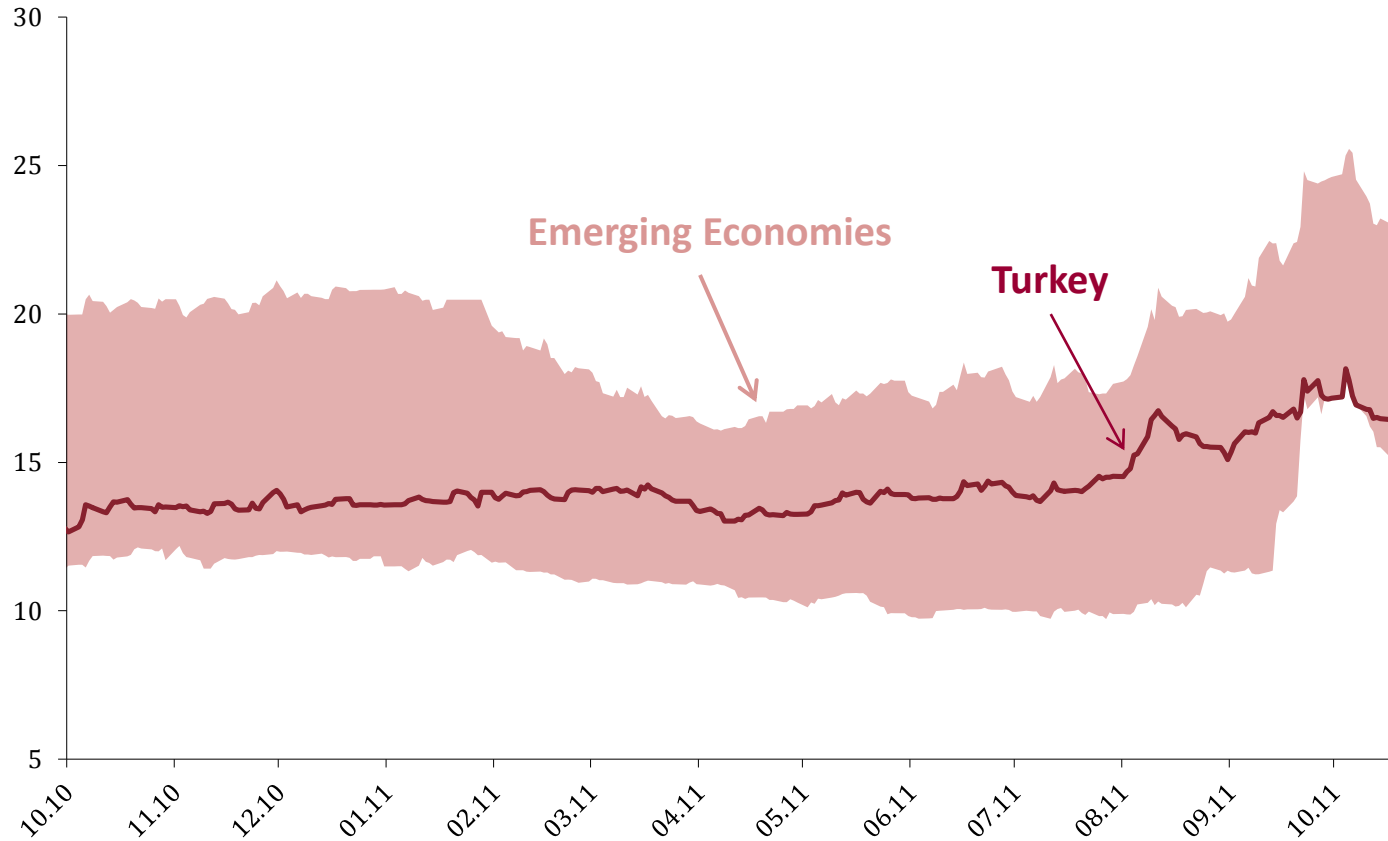
23.08.2011 - 21.10.2011



Source: Bloomberg, CBRT.

Note: Positive change means depreciation against US dollar.

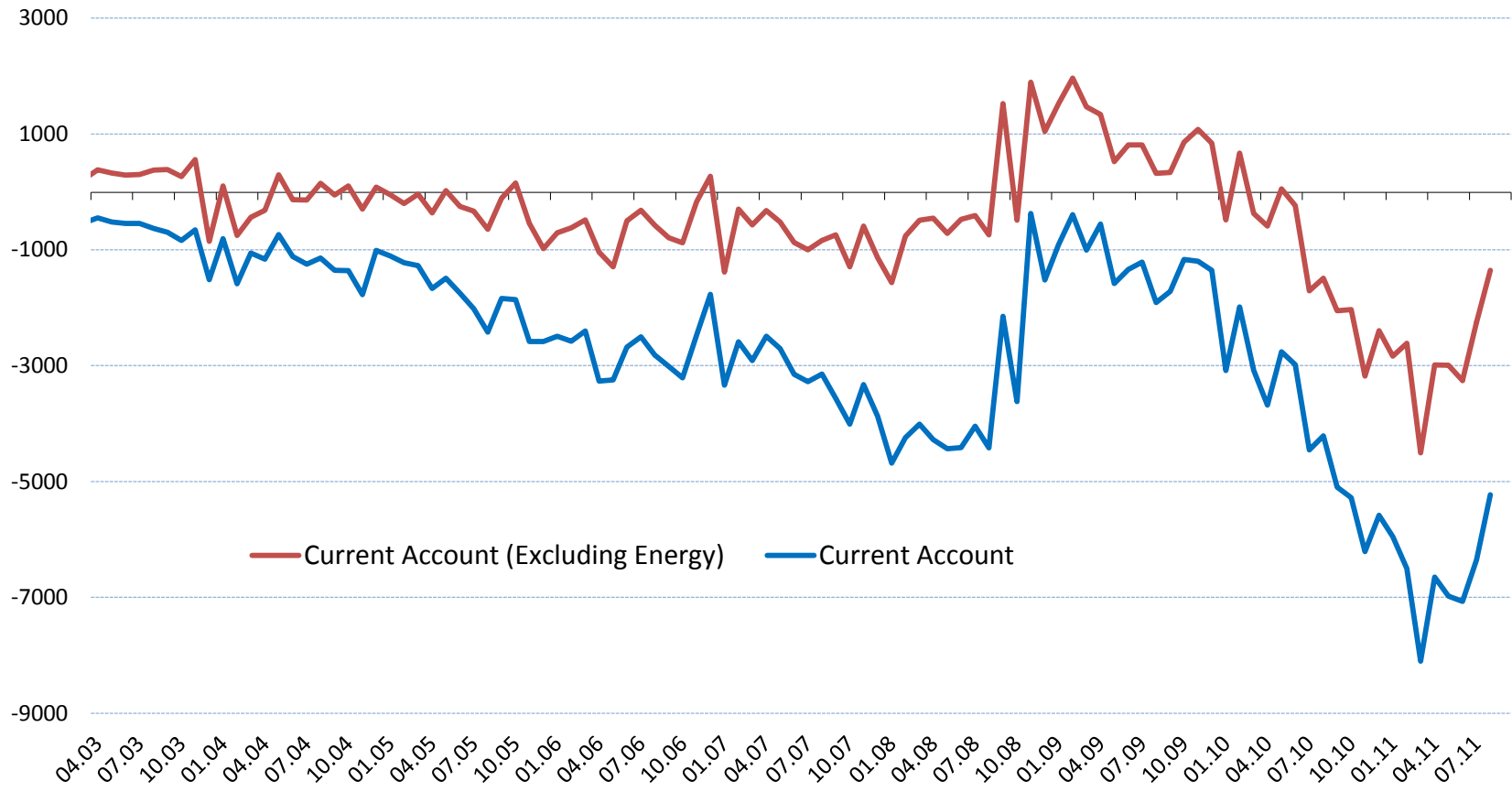
## Exchange Rate Volatility *(percent, implied volatility for the next 12 months)*



Source: Bloomberg, CBRT.

Emerging economies include Brazil, Chile, Colombia, Mexico, Poland, Hungary, Czech R., S.Africa, Indonesia, Korea and Turkey

## Current Account Balance (Seasonally Adjusted, Million USD)



Source: TURKSTAT, CBRT.  
Note: September data is forecast.



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