



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **Stresses in Emerging Markets: Causes and Possible Solutions**

**Erdem Başçı  
Governor**

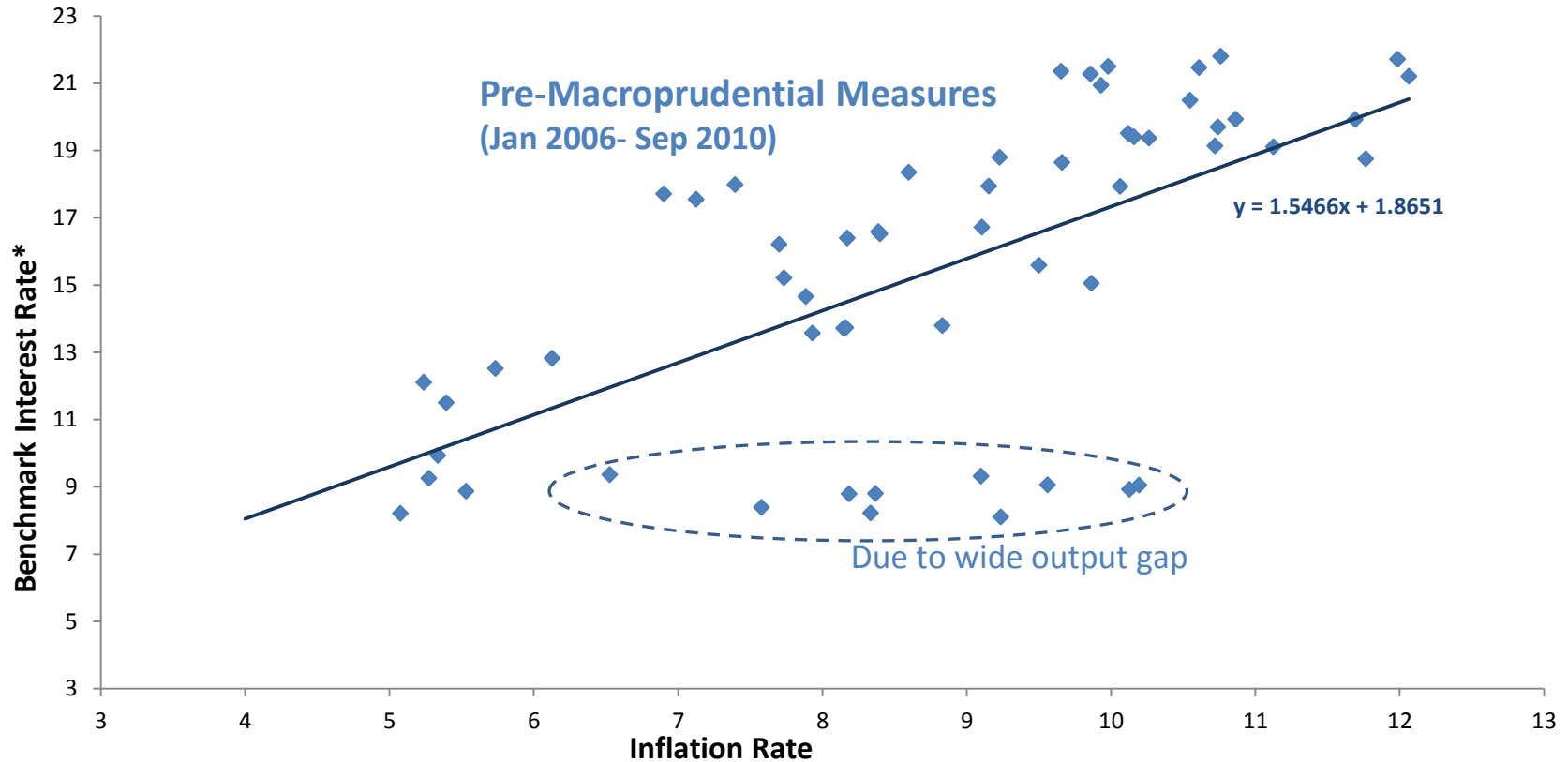
**30 May 2014, Versailles**

**71<sup>st</sup> Plenary Meeting of the Group of Thirty**

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

## Fisher Curve

(January 2006- September 2010, Monthly)



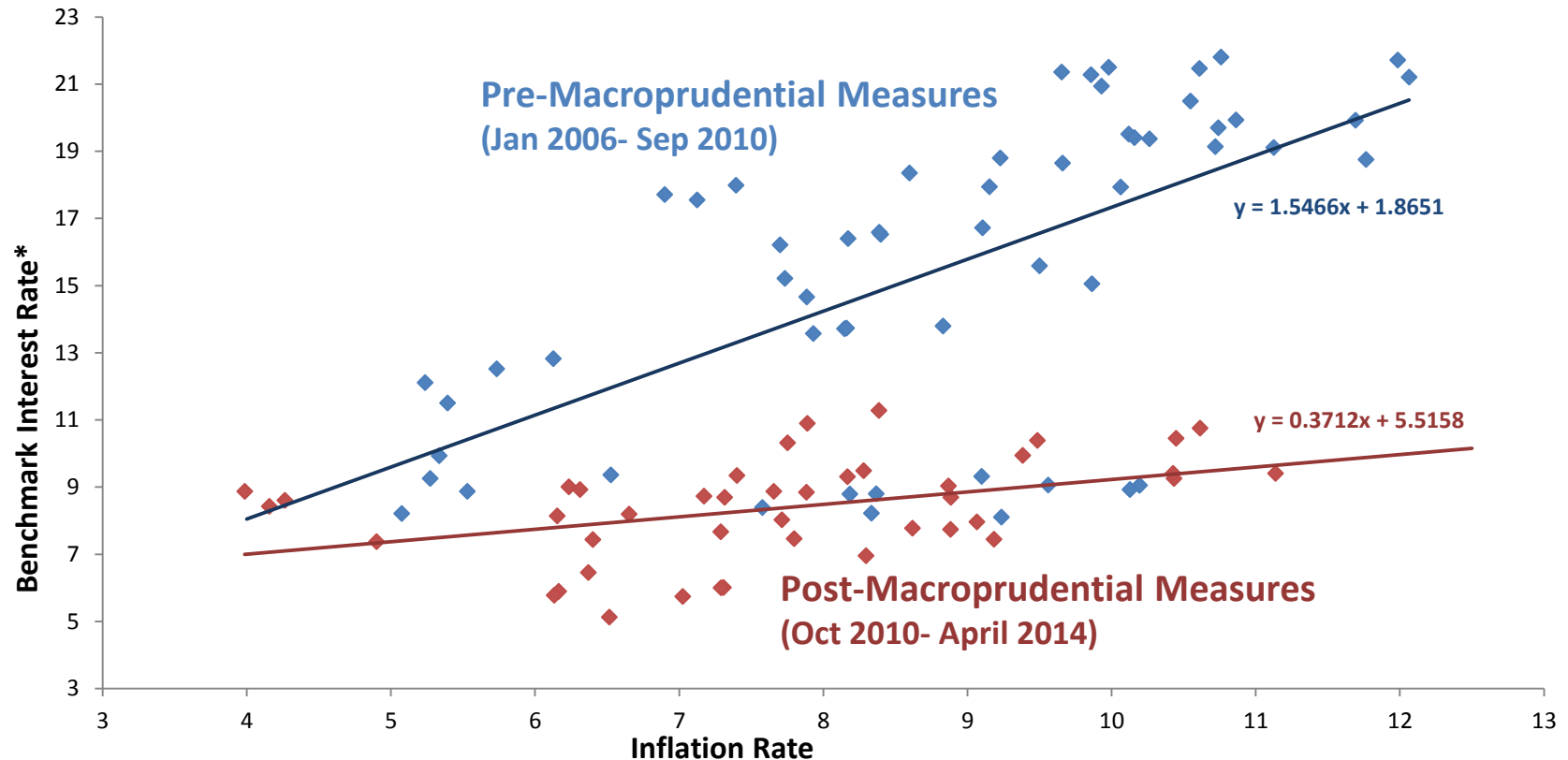
Source: CBRT

\* 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.

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

## Fisher Curves

(January 2006- April 2014, Monthly)

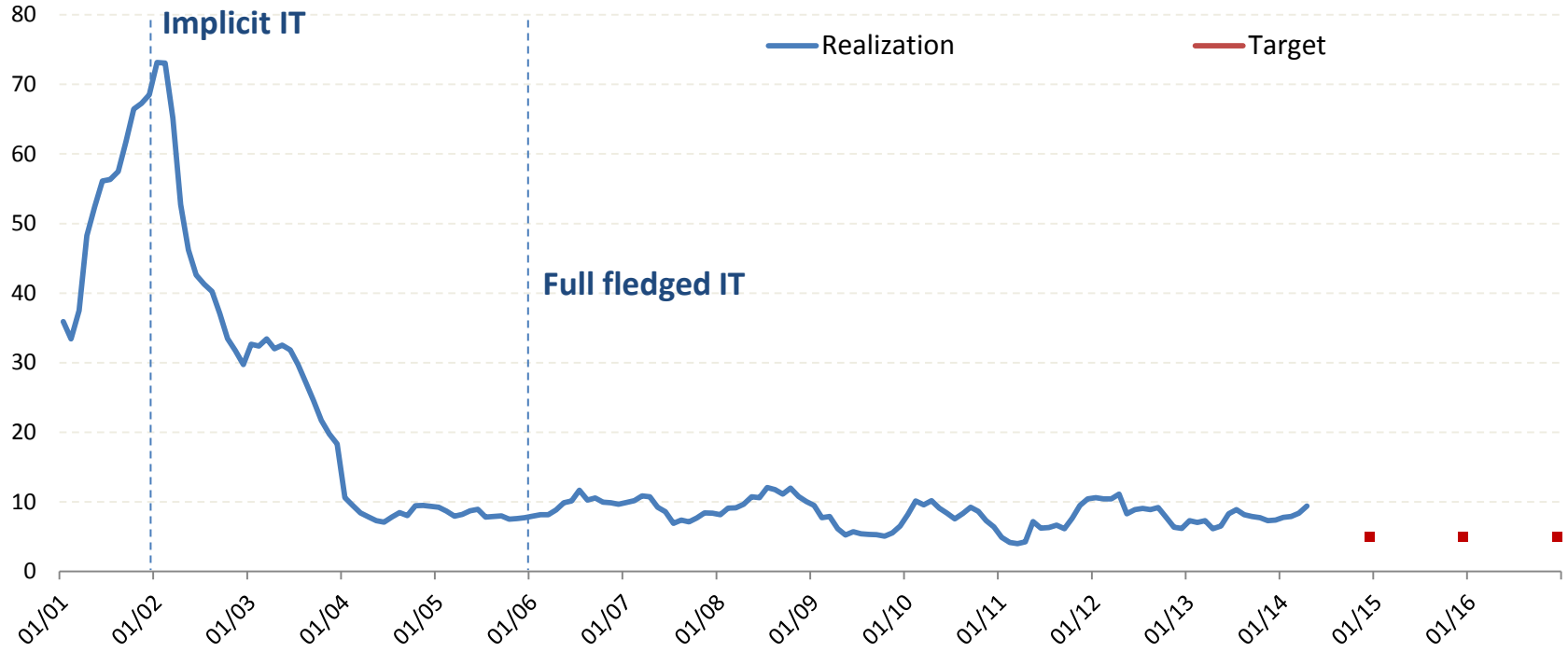


Source: CBRT

\* 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.

# Turkey is in a disinflation process.

## Inflation Realizations and Target (Percent)



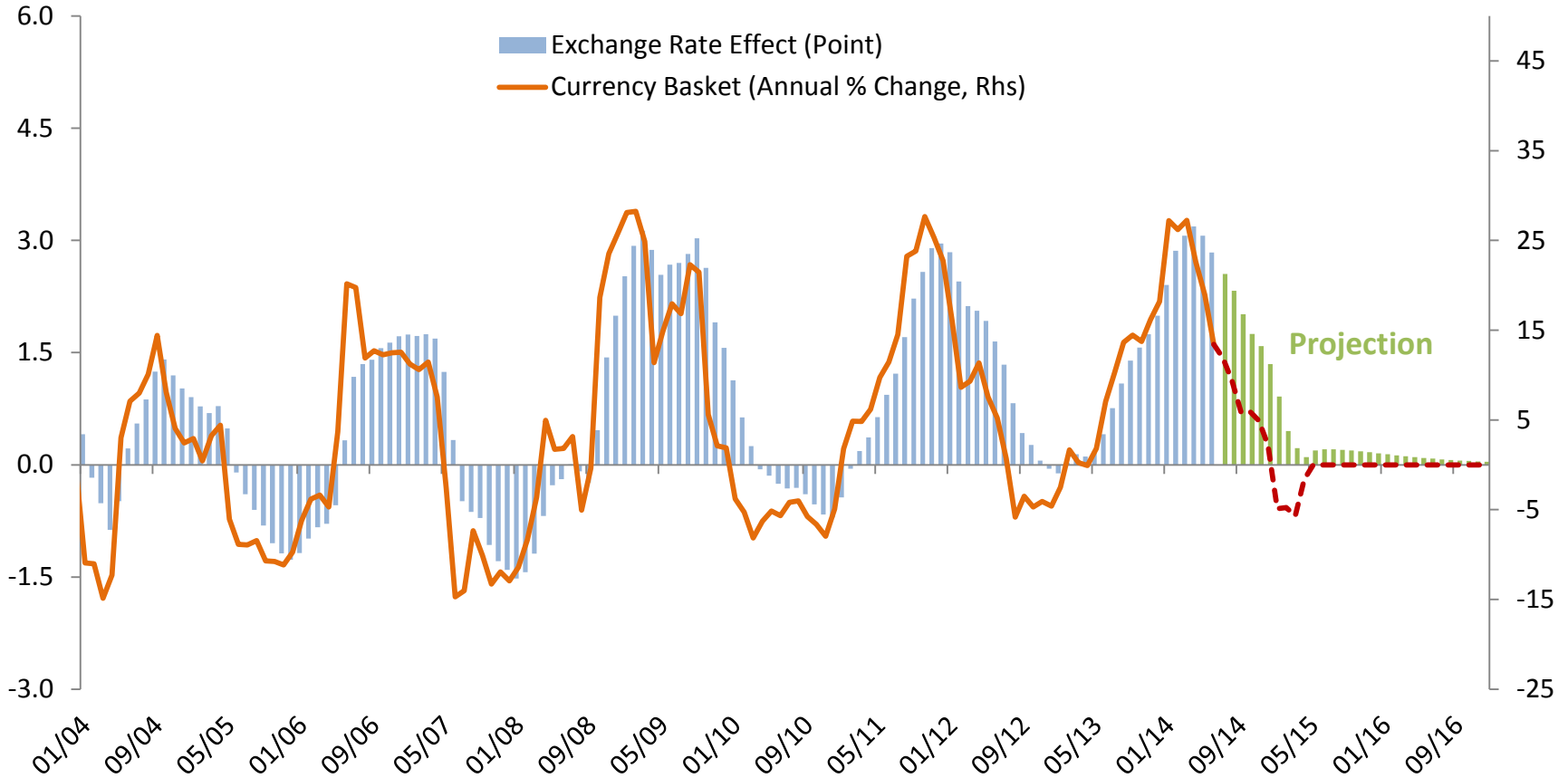
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Target</b>	35	20	12	8	5	4	4	7,5	6,5	5,5	5	5	5	5	5
<b>Realization</b>	29,7	18,4	9,3	7,7	9,7	8,4	10,1	6,5	6,4	10,4	6,2	7,4	-	-	-

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\* (Percentage Points)



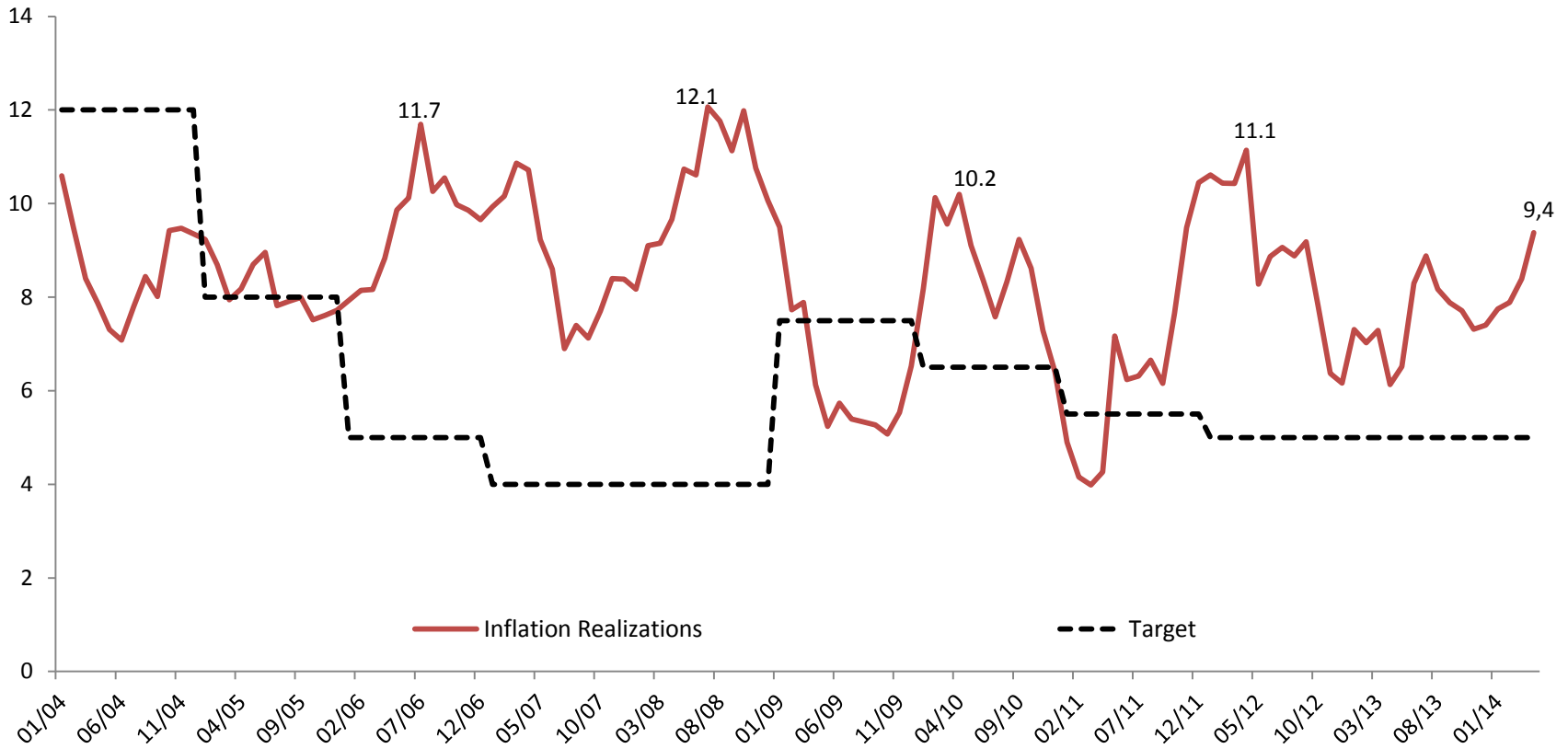
Source: TurkStat, CBRT.

Last Observation: April 2014

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

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

## Inflation Realizations and Target (Percent)

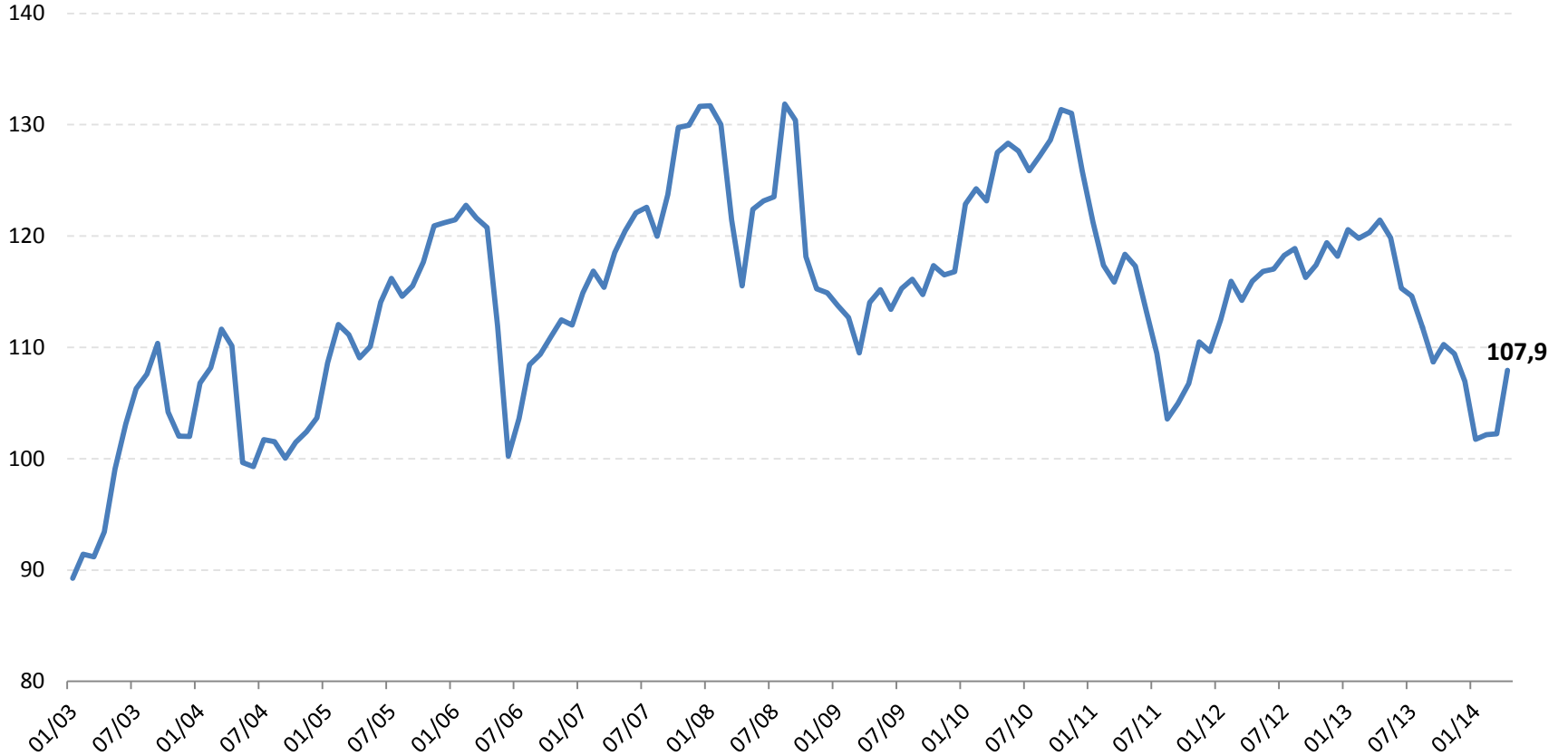


Source: TurkStat, CBRT.

Last Observation: April 2014

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

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

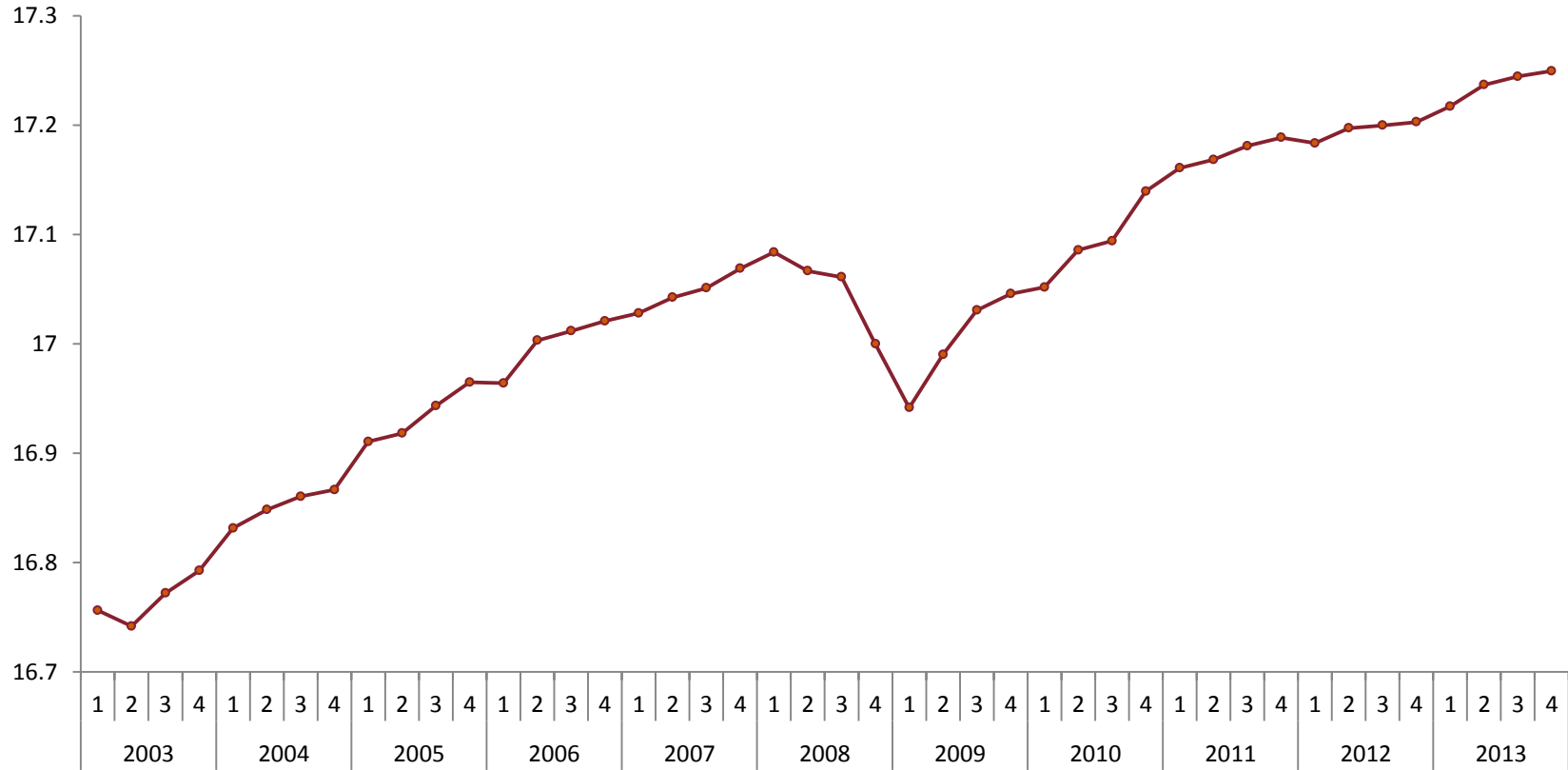


Source: CBRT.

Last observation: April 2014

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

## Gross Domestic Product\* (Constant Prices, Seasonally Adjusted )



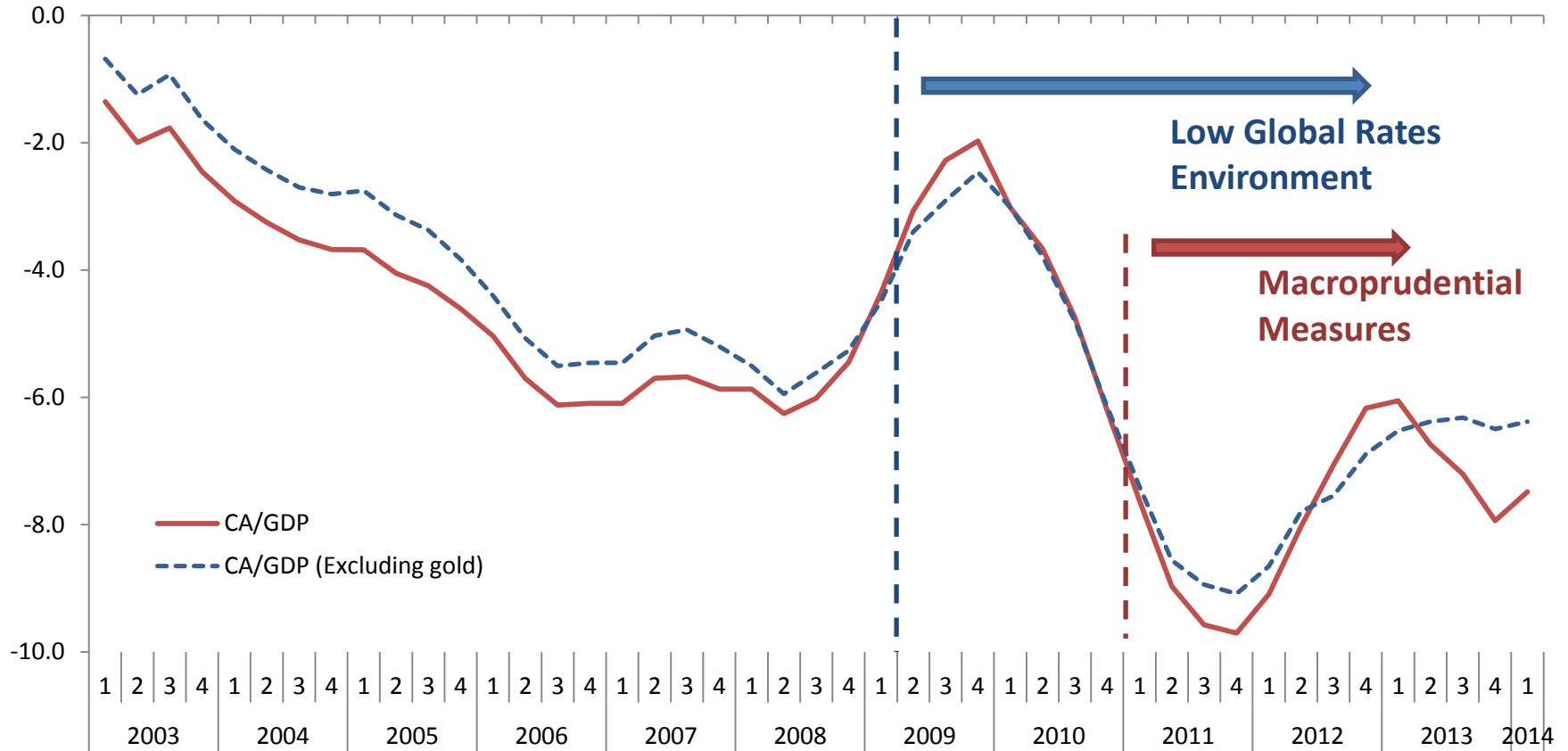
Source: Turkstat

\* Natural Logarithm



...while leading to a higher external deficit.

### Current Account Balance (12-Month Cumulative, % GDP)



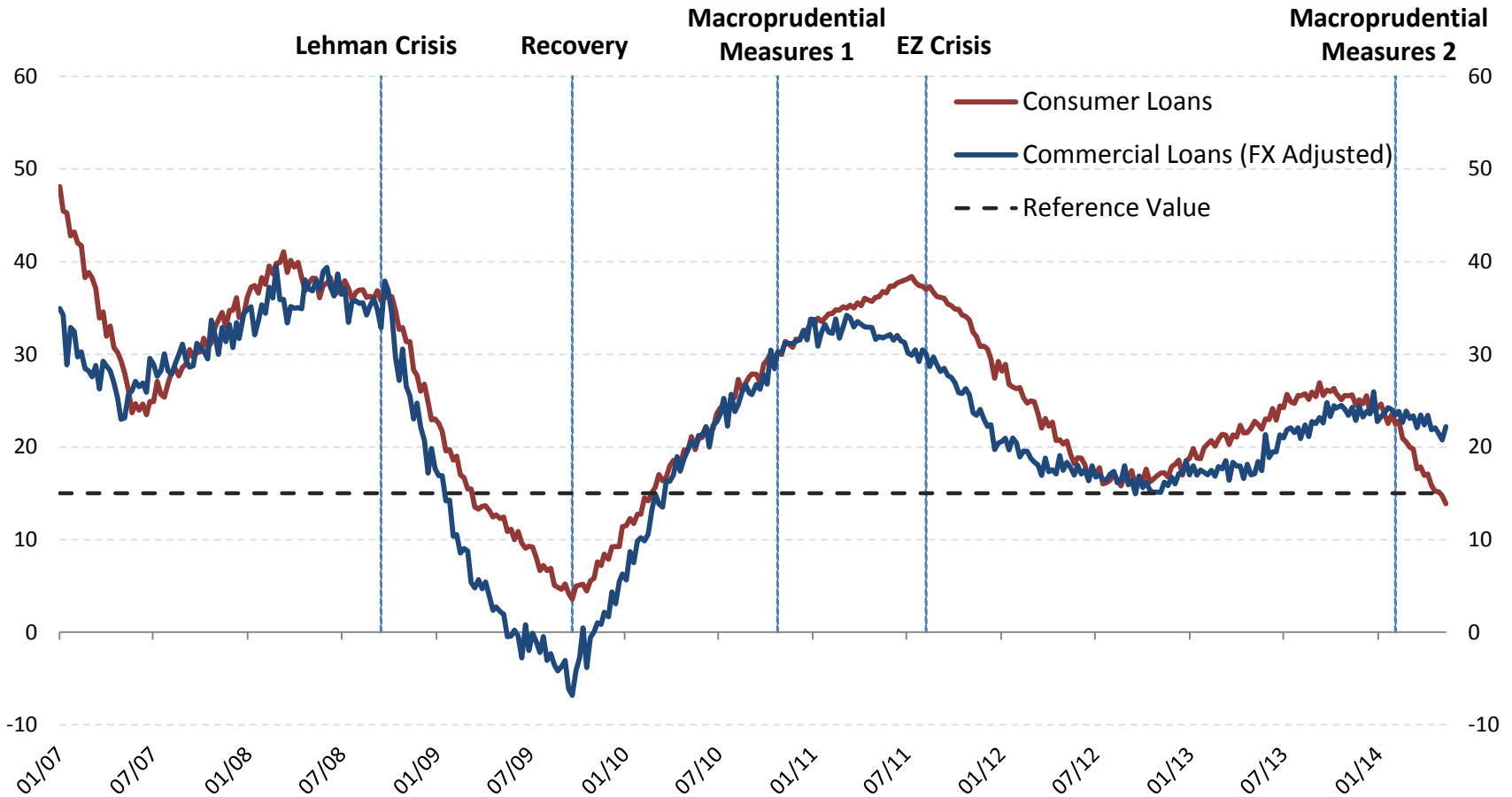
Source: CBRT.

Last Observation: March 2014

\* Forecast.

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

## Consumer\* and Commercial Loans\*\* (YoY Growth, Percent)



Source: CBRT.

\* Including credit cards.

\*\*Total banking sector (including participation banks, excluding nonperforming loans)

Last Observation: 16 May 2014

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

## 12 and 24 Months CPI Expectations\* (Percent)



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

Interest Rate

Macroprudential Policy

### Stance

Lower

Tighter

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

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



Source: CBRT, BIST

\* 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

## 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

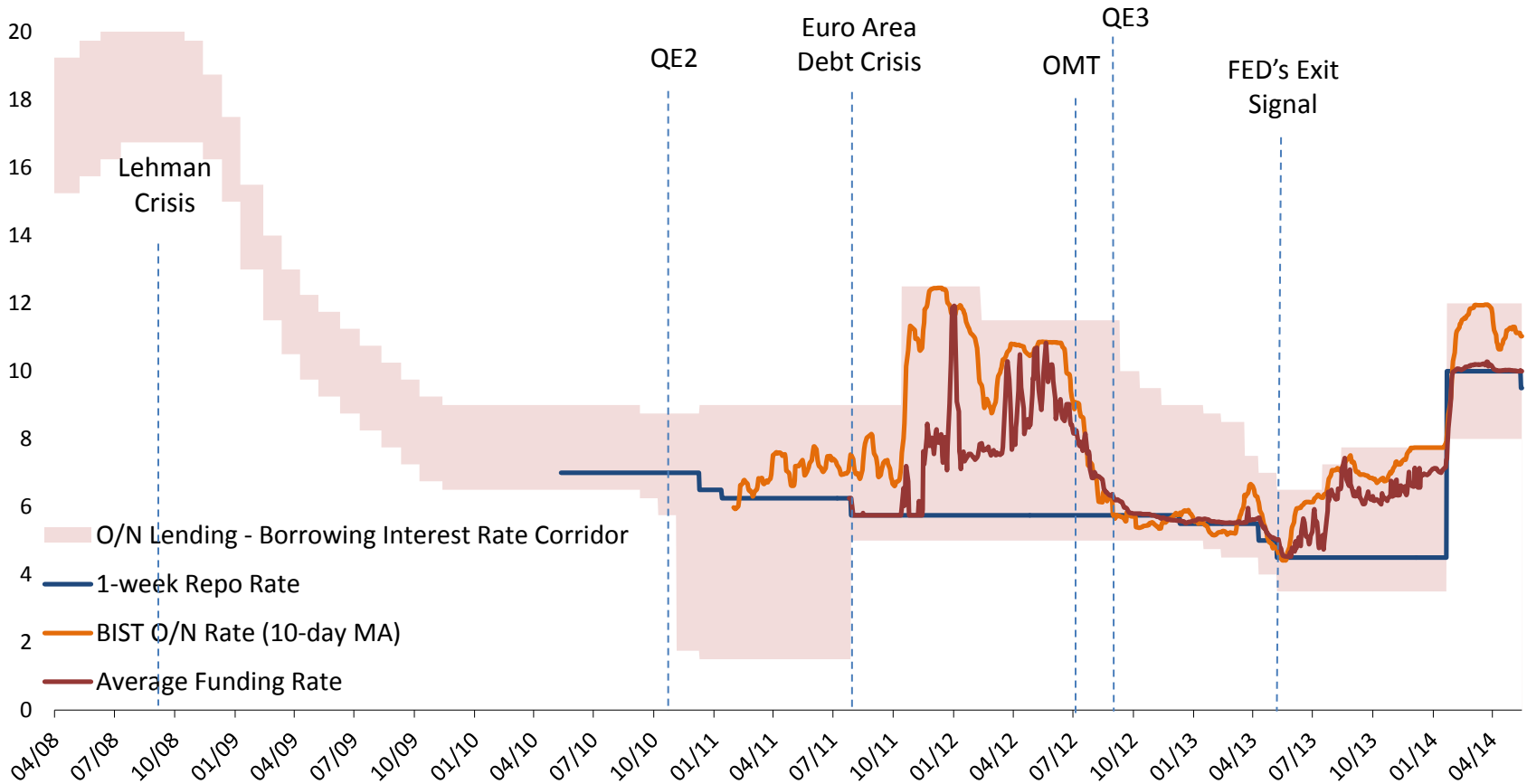
**...while using monetary policy instruments as cyclical stabilizers.**

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



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

## Monetary Policy Interest Rates (Percent)



Source: CBRT, BIST.

OMT: Outright Monetary Transactions (ECB)

QE: Quantitative Easing (FED)

Last Observation : 23 May 2014



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