



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

**International Economic Association  
World Congress**

**Erdem Başçı  
Governor**

**July, 2011  
Beijing, China**

- Fixed exchange rate regimes
- Fixed income debt securities



The “Fixed but not” Syndrome

“Enhance exchange rate flexibility to reflect underlying economic fundamentals. Market-oriented exchange rates that reflect underlying economic fundamentals contribute to global economic stability.”

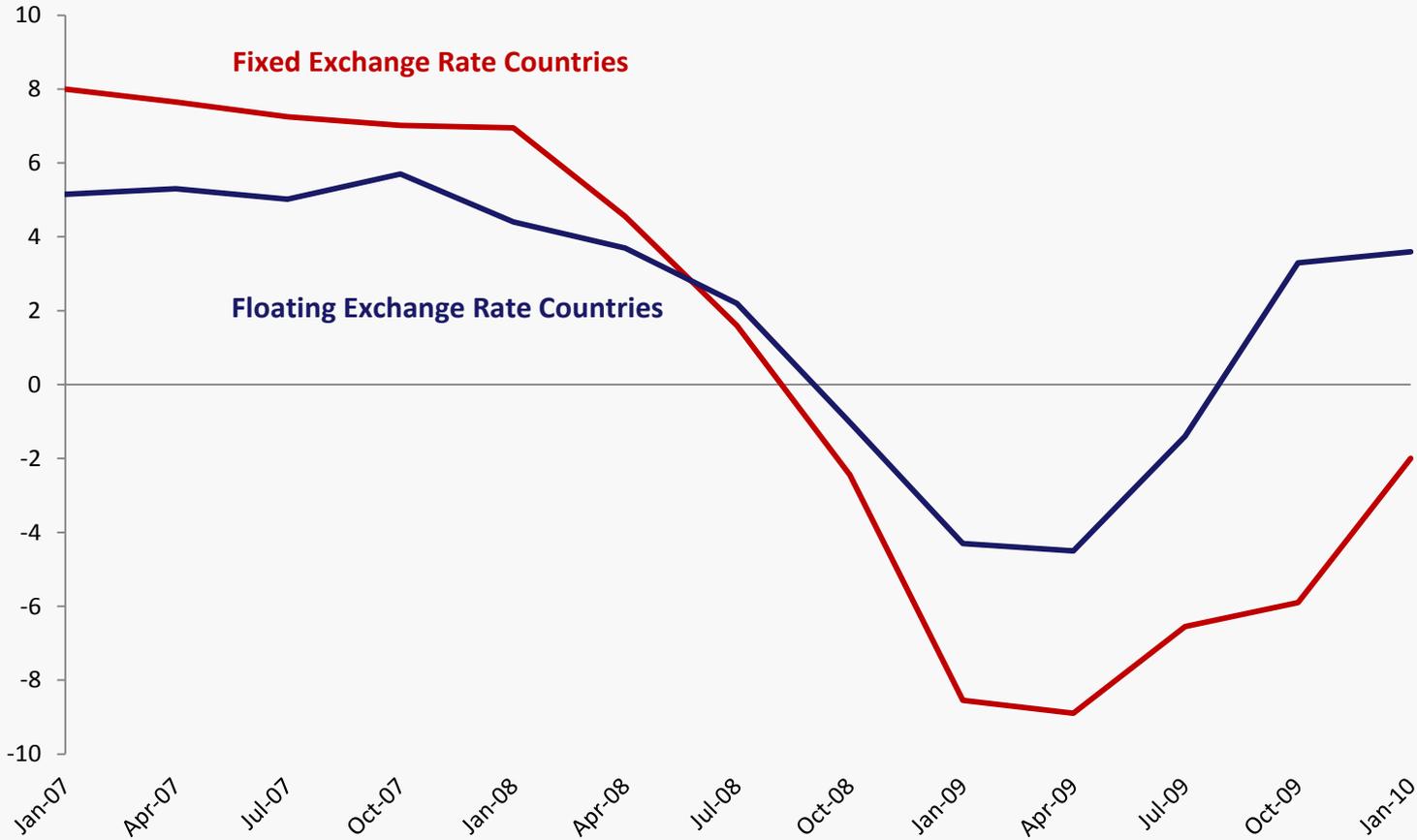
(The G20 Toronto Summit, June 2010)

- More equity capital is required from banks. (G20, FSB, Basel Committee)
- Contingent Convertibles (CoCos):

“The Group of Governors and Heads of Supervision (GHOS), the oversight body of the Basel Committee on Banking Supervision (BCBS) will continue to review contingent capital, and support the use of contingent capital to meet higher national loss absorbency requirements than the global minimum, as high-trigger contingent capital could help absorb losses on a going concern basis.”

(GHOS-BCBS Consultative Document, June 2011)

## Real GDP Growth for Selected Countries



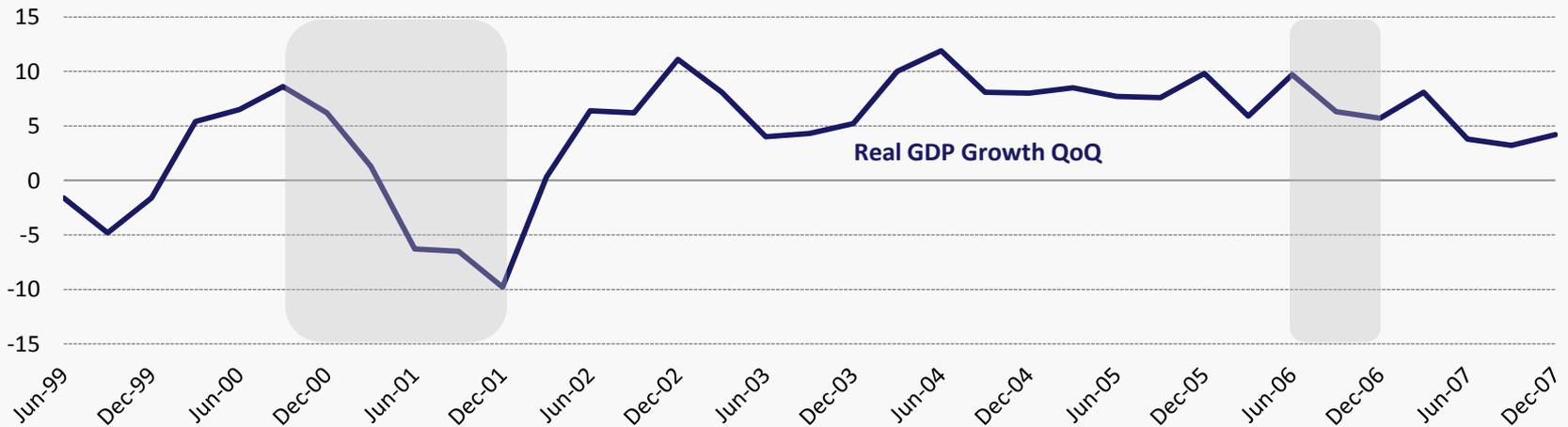
Note: Median growth rates are reported for each group of countries.

Fixed Exchange Rate Countries : Belarus, Bulgaria, Denmark, Hong Kong, Russia, Lithuania, Estonia, Latvia

Floating Exchange Rate Countries : Indonesia, Peru, Norway, Poland, Israel, South Africa, Colombia, Switzerland, Brazil, Canada, Chile, United States, Czech Republic, Korea, Iceland, United Kingdom, Slovak Republic, Romania, Hungary, Sweden, Thailand, Mexico, Japan, Turkey

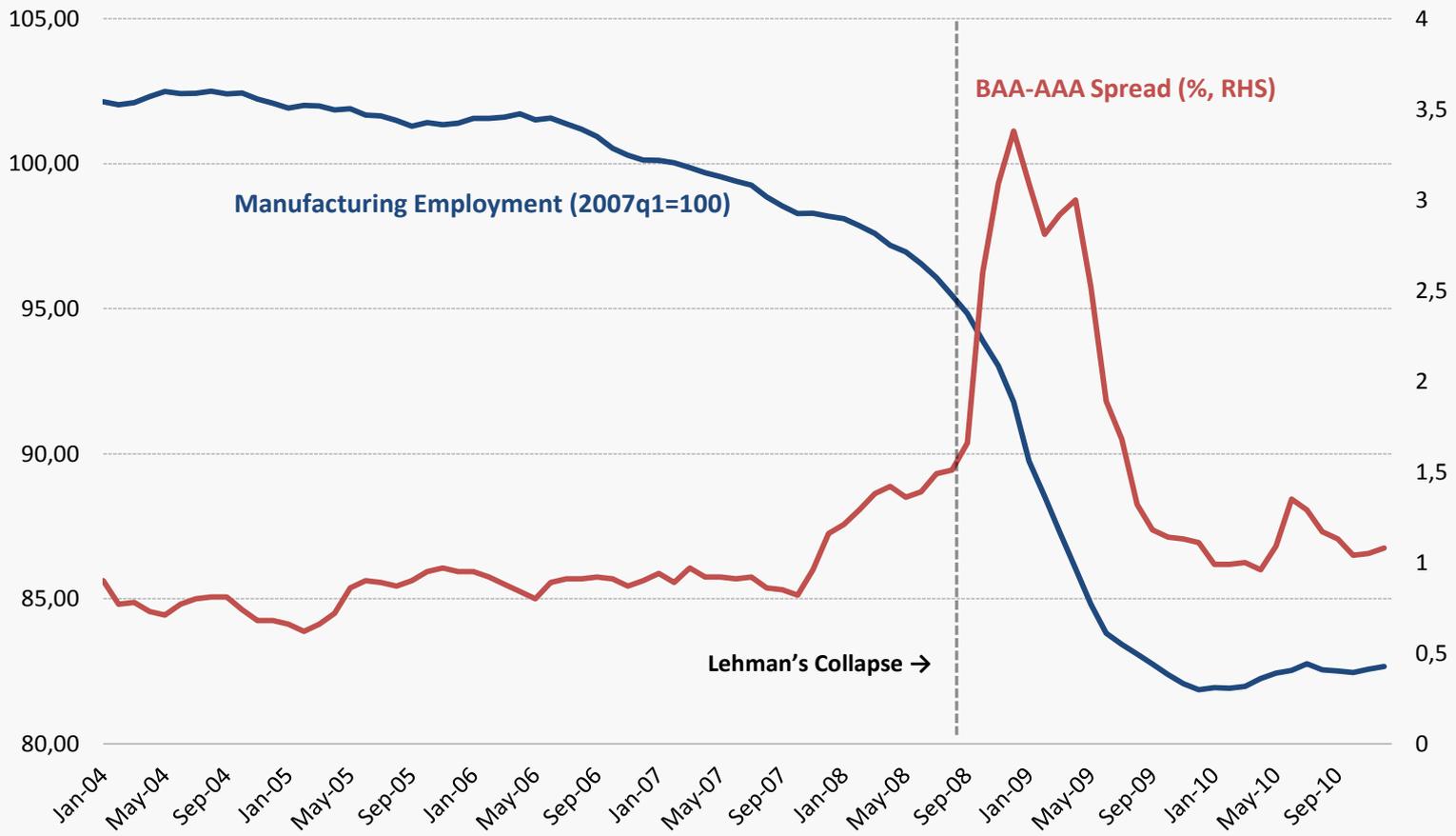
Source: IMF, IFS, TurkStat, CBRT.

## Turkish Experience



Source: TurkStat, CBRT.

## United States



Source: BLS, Moody's, CBRT.

- A 1 percentage point increase in spread (Baa-Aaa) leads to a slow down in employment growth rate at the magnitude of 2.3 percentage points.

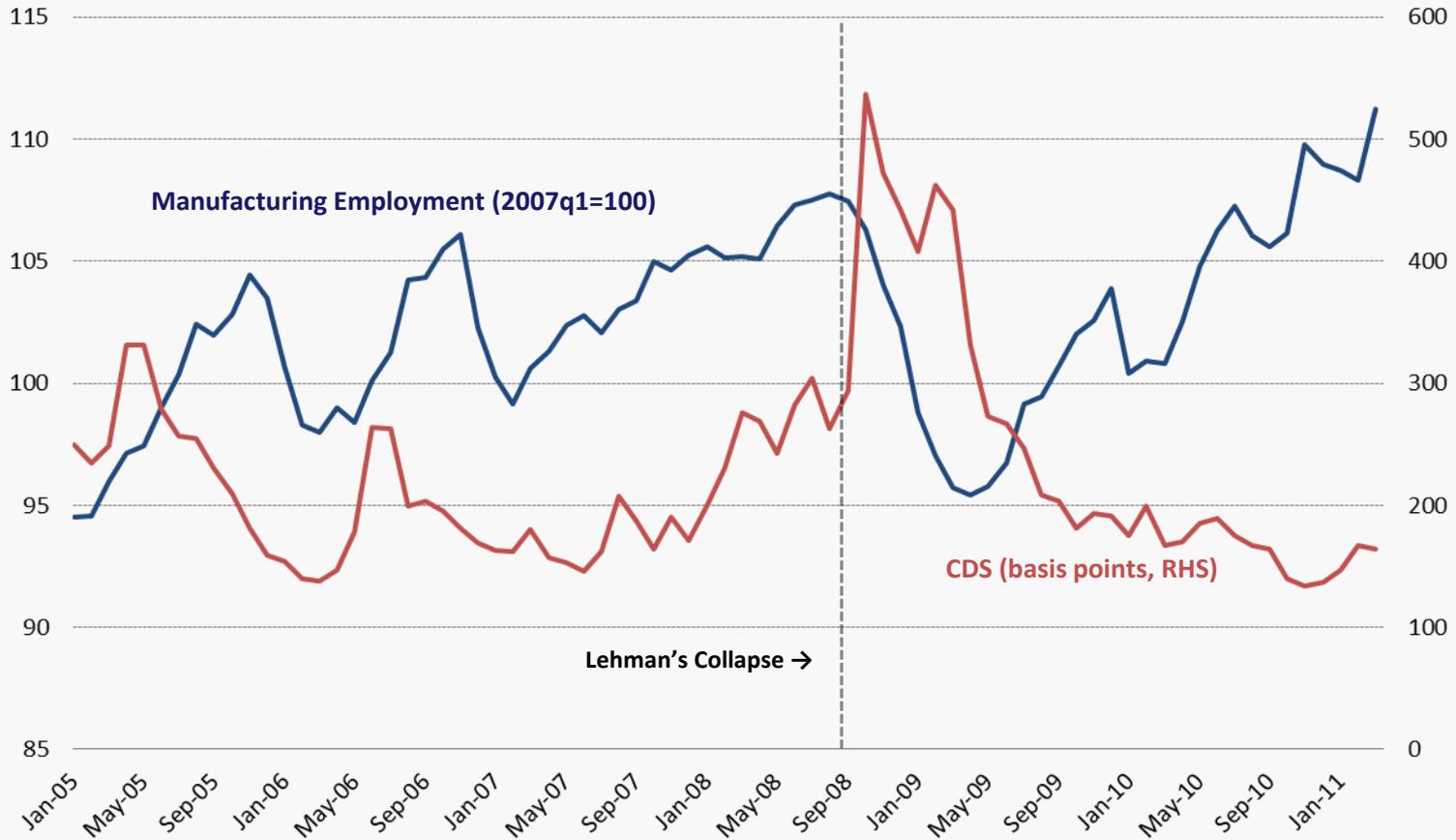
*(Başcı, Başkaya and Kılınc, 2011)*

A spread shock affects the permanent income expectations of both the borrowers and lenders

1. Lender: “Fixed but not” impact on interest income
2. Borrower: Higher cost and lower availability of leverage implies lower profit income

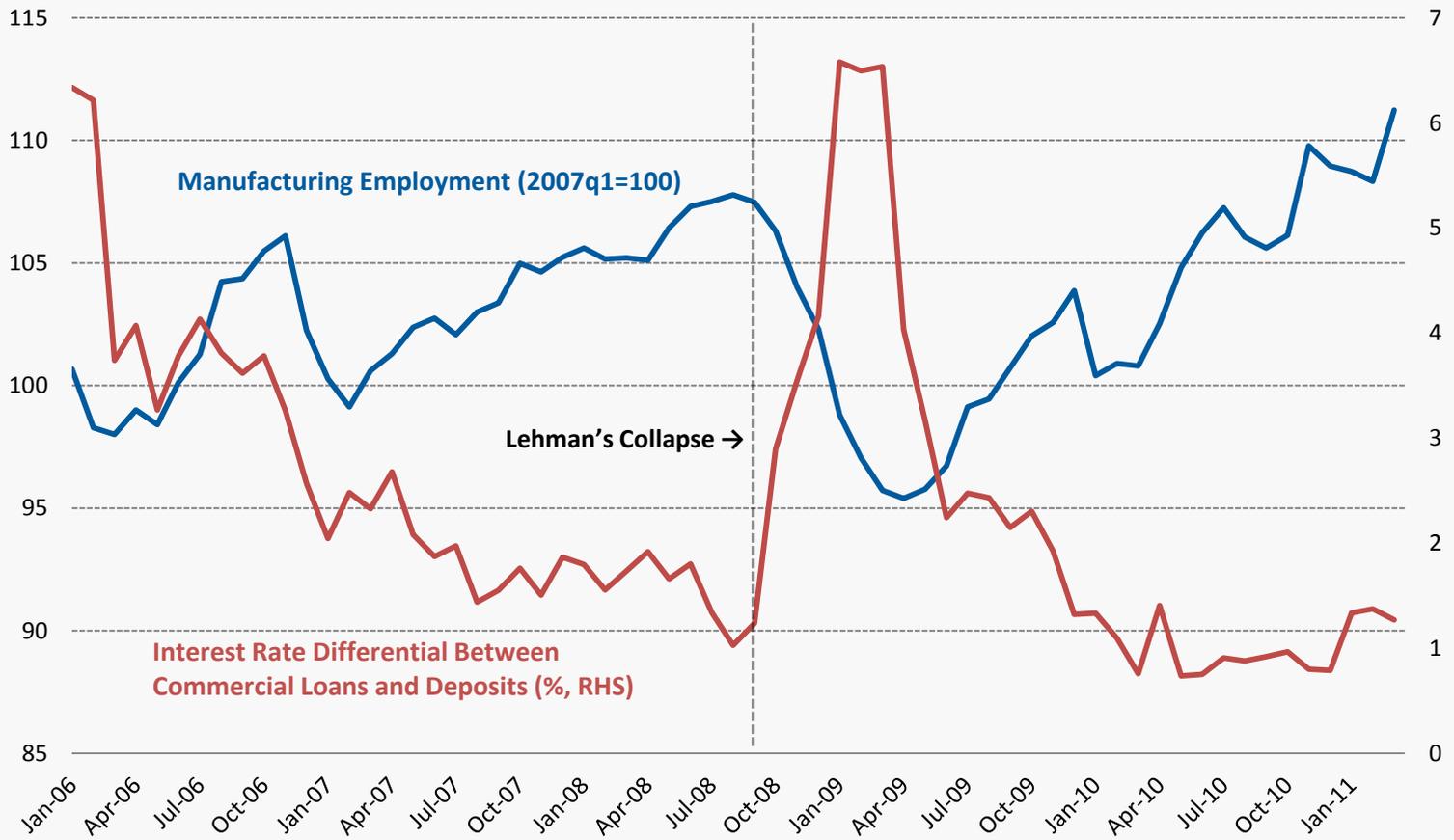
... and hence affects both labor demand and total expenditure sharply!

## TURKEY (with CDS data)



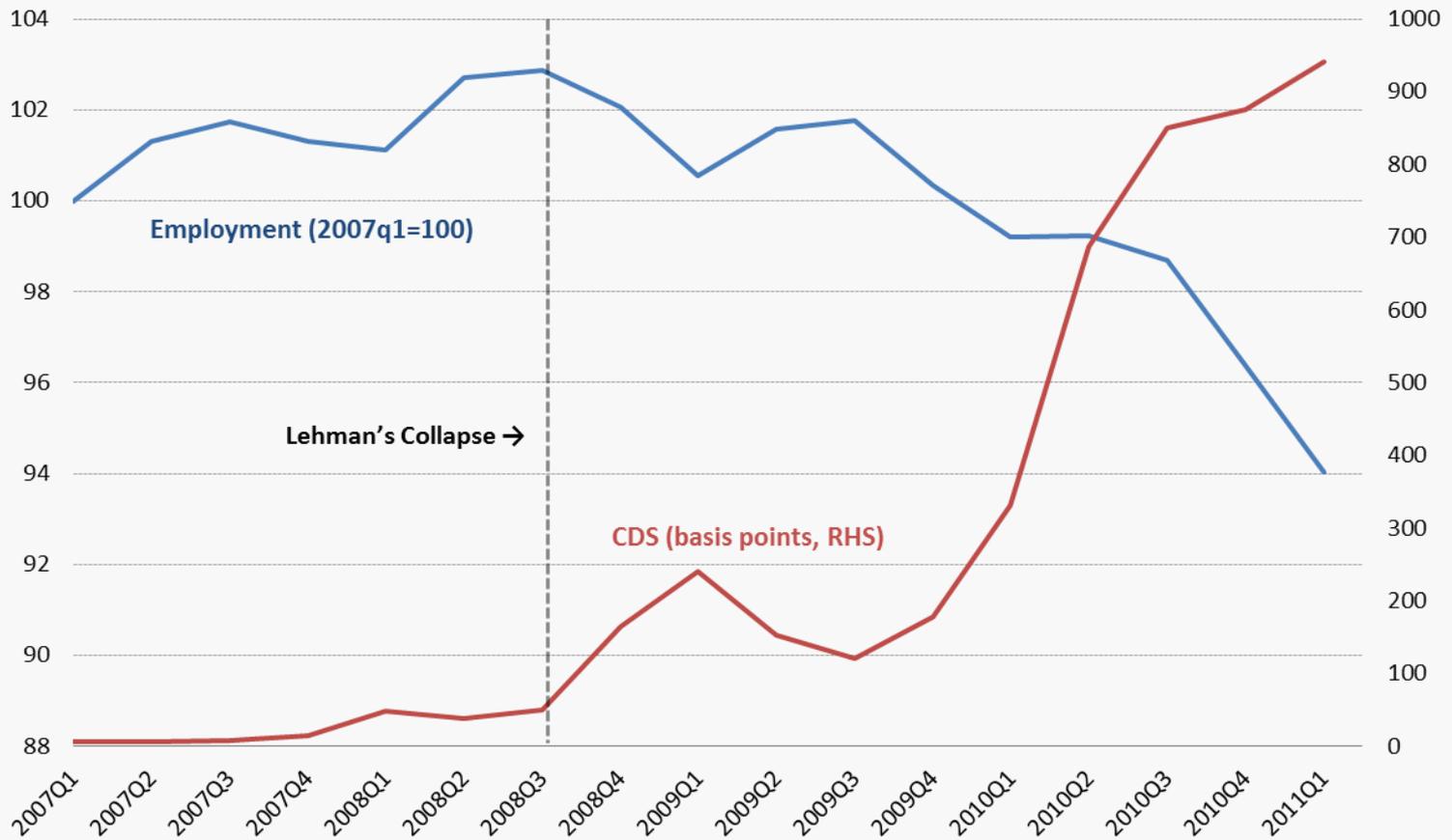
Source: BRSA, TurkStat, CBRT.

## TURKEY



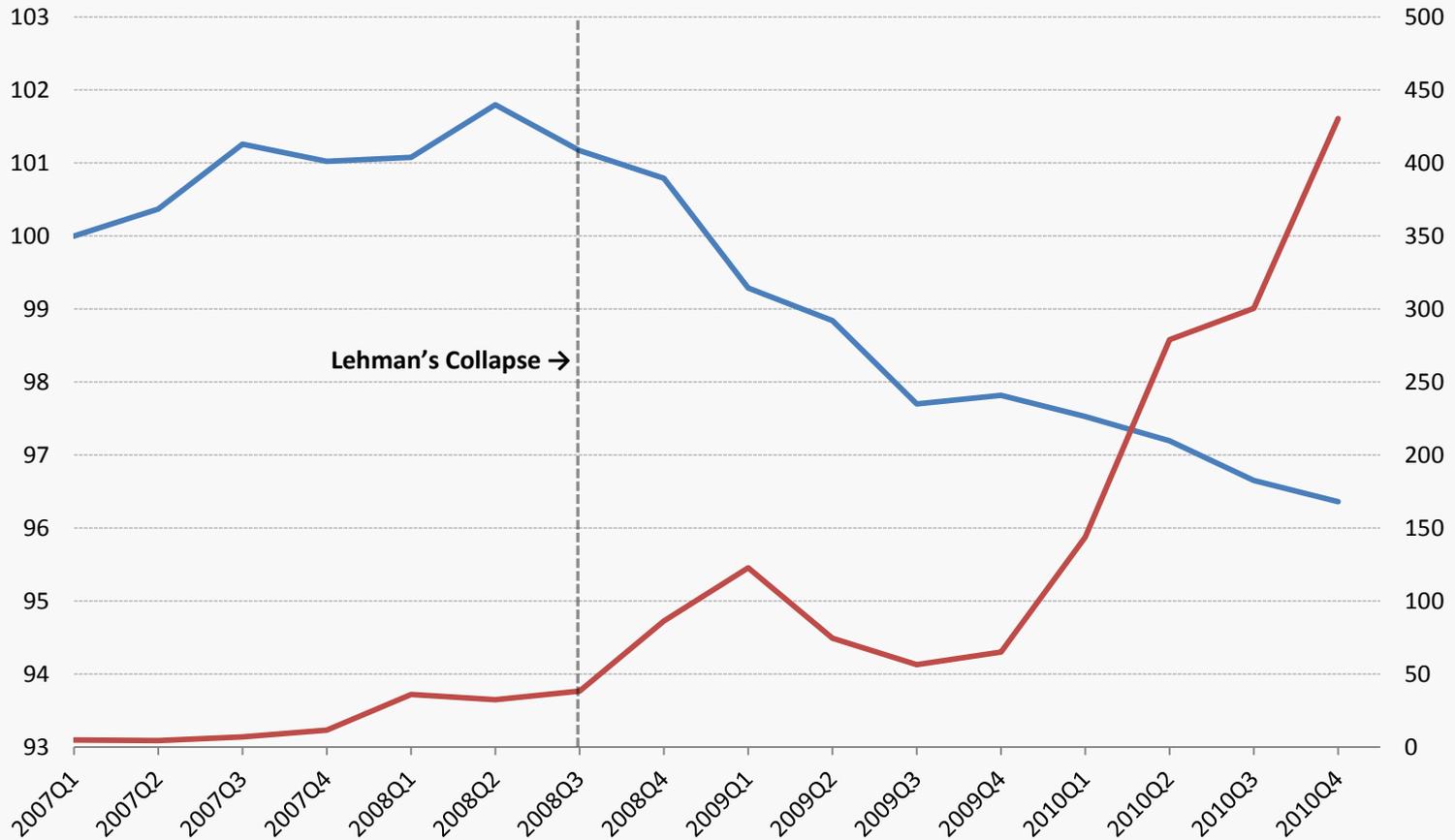
Note: Weighted average, flow interest rates.  
Source: BRSA, TurkStat, CBRT.

## Greece



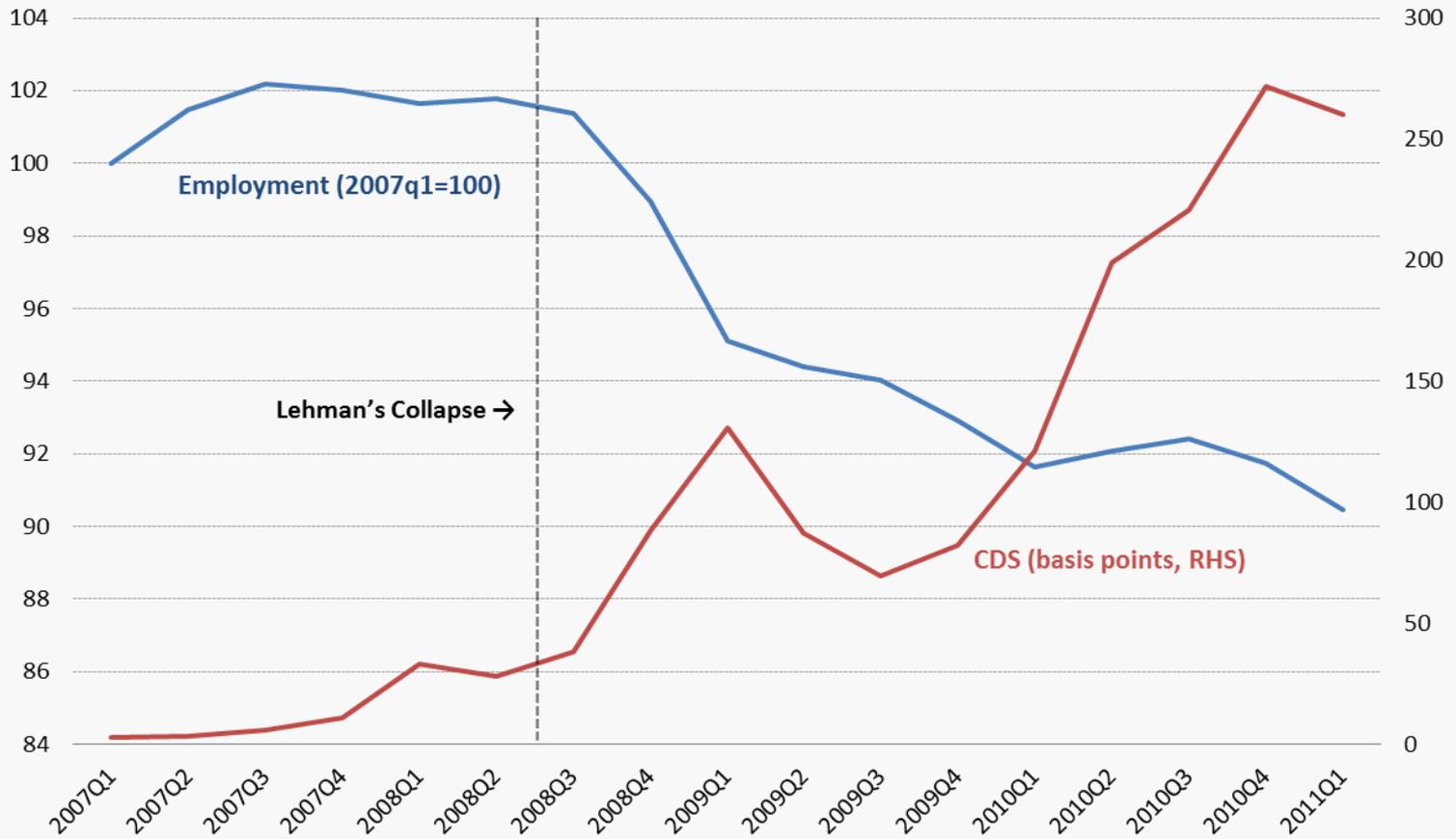
Source: OECD, Bloomberg, CBRT.

## Portugal



Source: OECD, Bloomberg, CBRT.

## Spain



Source: OECD, Bloomberg, CBRT.

1. Promote floating exchange rate regimes
  - Aim to minimize currency exposure
  - Intervene only to excessive moves until that aim is accomplished
2. Promote equity like contracts
  - Aim to avoid excessive exposure to leverage
  - Intervene to reduce spread shocks until that aim is accomplished

1. **Debt Ratios:** Use of more equity, more prudent borrowing
2. **Debt Maturities:** Extending maturities of domestic and foreign borrowing and deposits
3. **FX Positions:** Strengthening FX positions of public and private sectors
4. **Risk management:** More effective management of all types of risks by all agents in the economy



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