



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

**CAPITAL FLOW MANAGEMENT AND LIBERALISATION:  
THE ROLE OF INTERNATIONAL CO-OPERATION**

**Erdem Başçı  
Governor**

**October 9, 2012  
Paris, OECD**

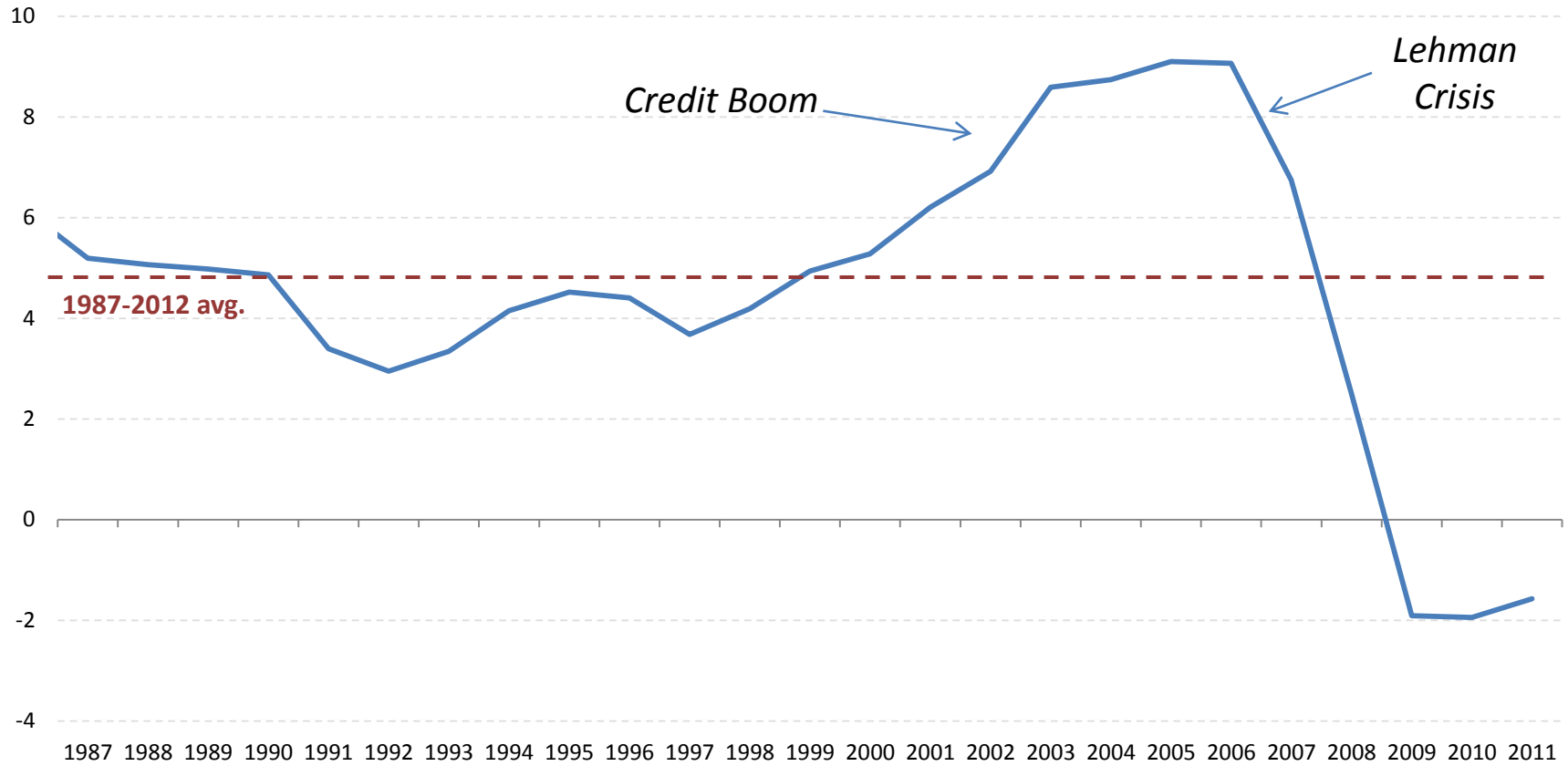
# Rapid Credit Growth

**Rapid credit growth is a leading indicator of financial crises<sup>1</sup>.**

<sup>1</sup>Reinhart, Carmen M., and Kenneth S. Rogoff. (2009). *This Time is Different: Eight Centuries of Financial Folly*. Princeton, NJ: Princeton Press.; Taylor, A. (2012). "The Great Leveraging," NBER Working Papers, No. 18290.

# Credit Impulse (US)

(Change in Household Debt)/GDP  
(Percent)



Source: Bloomberg.

# Monetary Policy

## 1. Interest Rates

## 2. Reserve Requirements

- Liquidity Channel

# Macroprudential Policy

## 1. Reserve Requirements

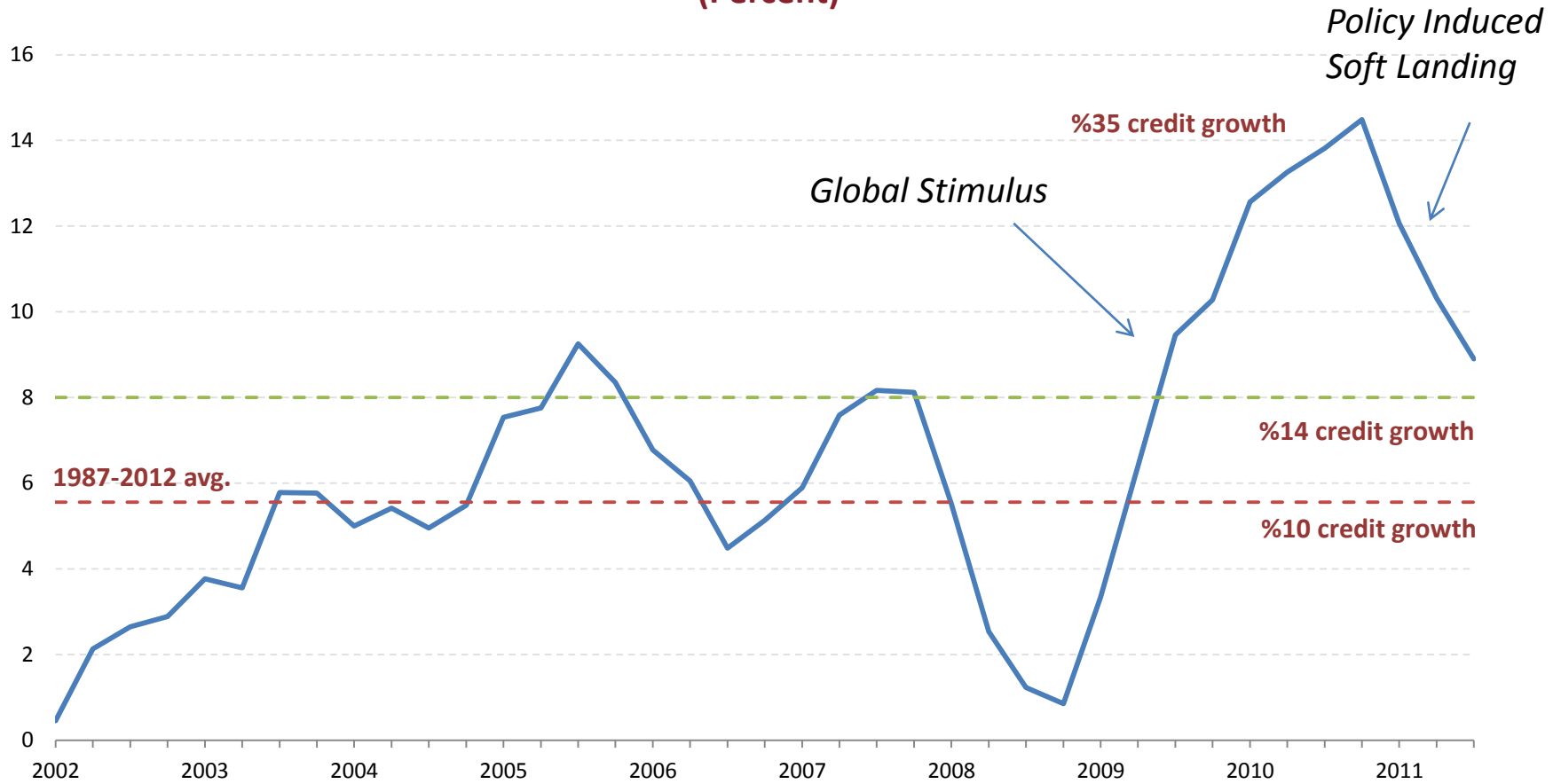
- Cost Channel

## 2. Regulatory Instruments

## 3. Taxes

# Credit Impulse (Turkey)

(Change in Total Debt)/GDP  
(Percent)

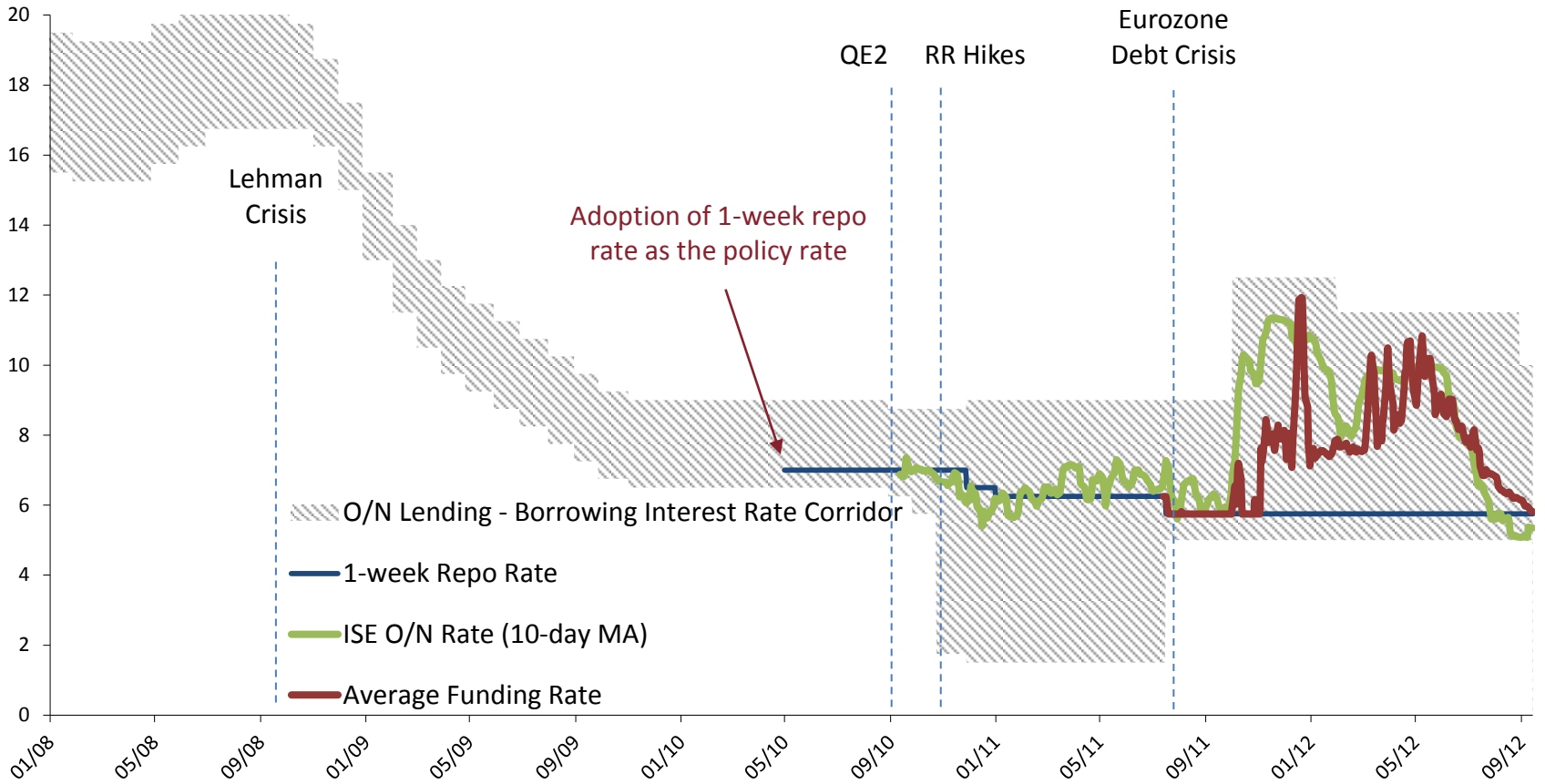


Source: CBRT.

Last Observation: 2012 Q2

# Monetary Policy

## Interest Rate Corridor and Average Funding Rate (Percent)



Source: ISE, CBRT.

Latest Observations: October 3, 2012

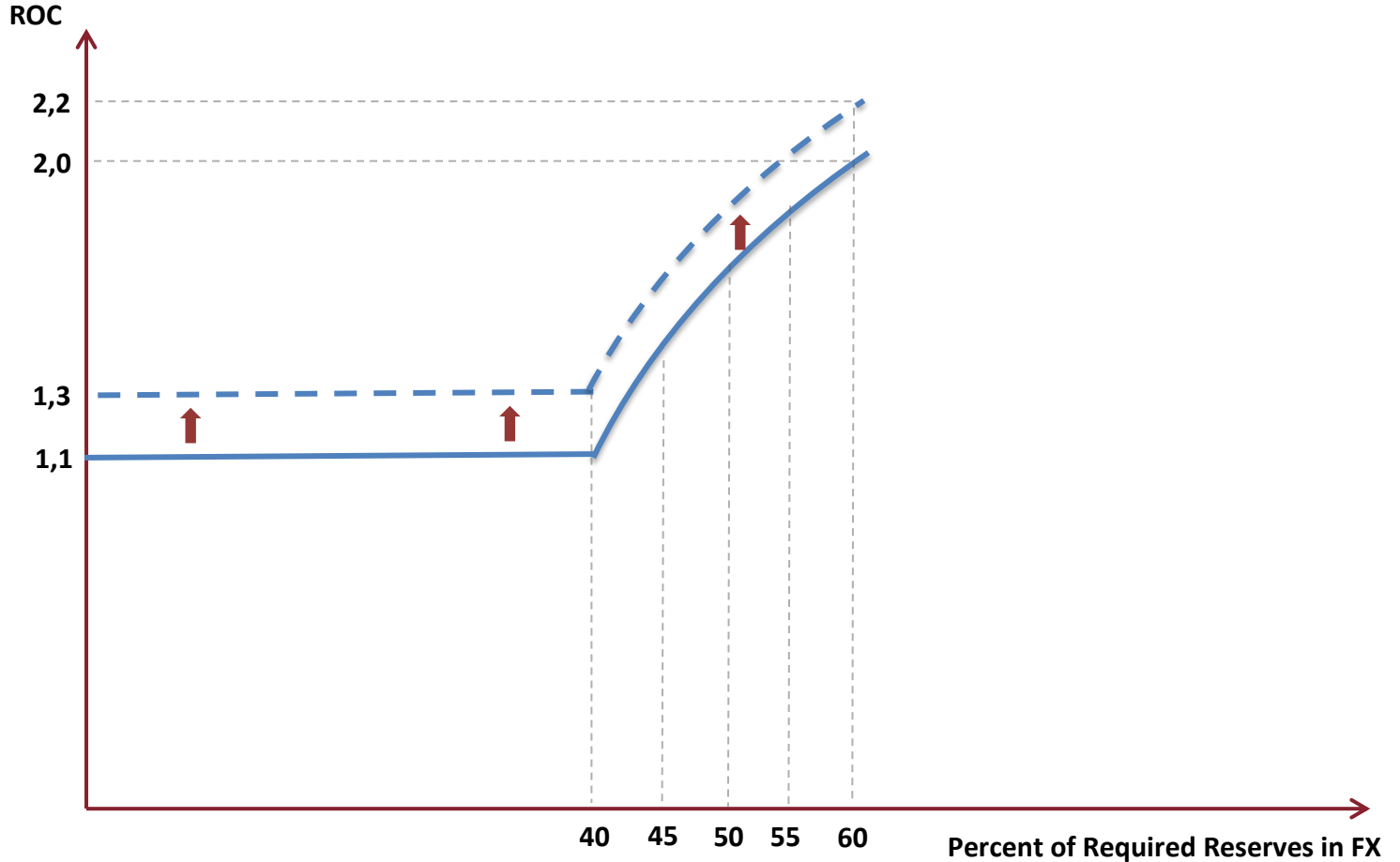
# A Macprudential Tool: Reserve Options

**The banks are allowed to deposit FX or Gold instead of their Turkish lira reserve requirements.**



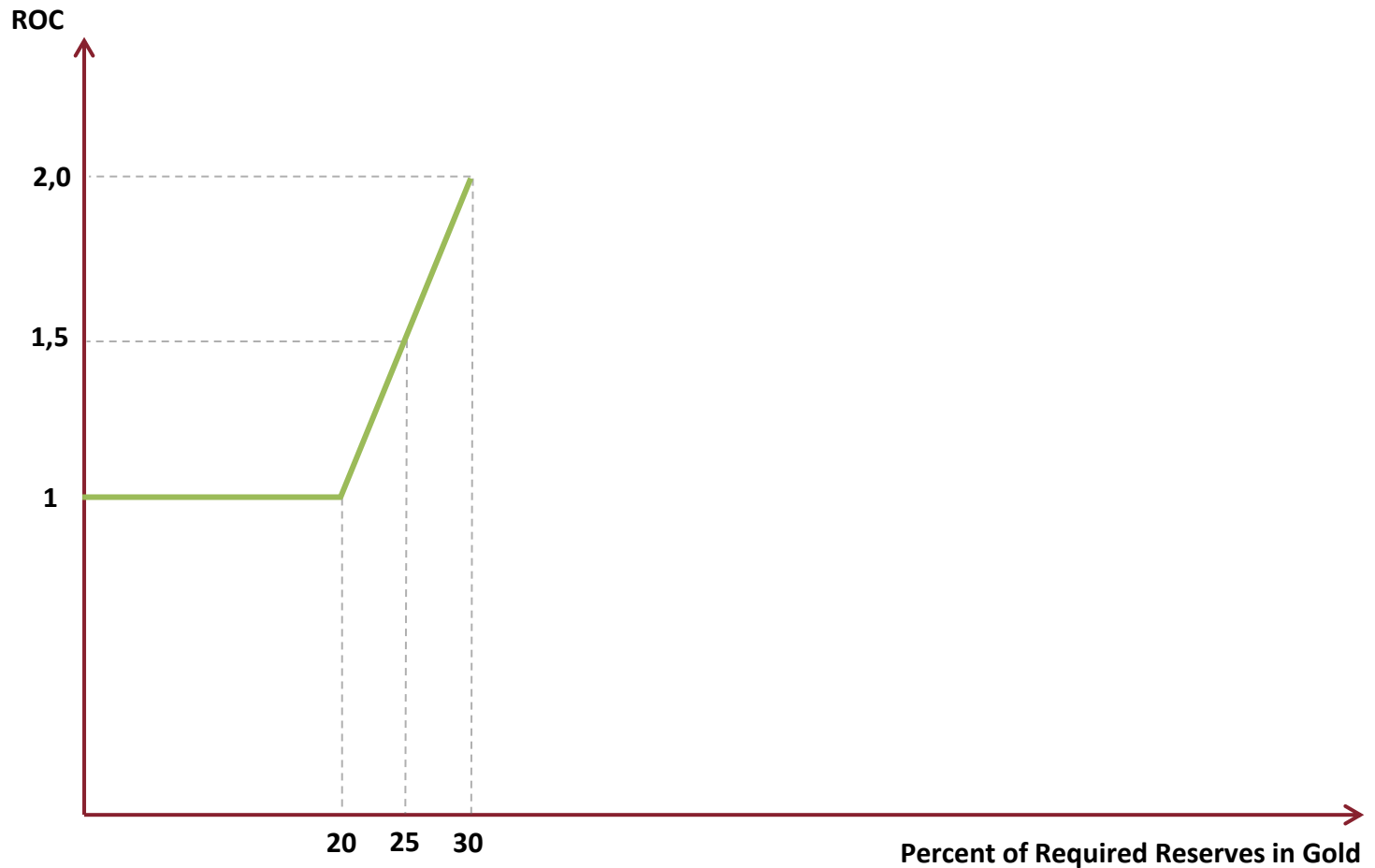
# Reserve Options Mechanism (FX)

## Reserve Option Coefficients (ROC)



# Reserve Options Mechanism (Gold)

## Reserve Option Coefficients (ROC)



# Concluding Remarks

- **Costs of preventing a financial crisis are much less compared to living it.**
- **Use of macroprudential instruments is quite helpful in preventing crises and dealing with short term capital flows.**
- **Under the 'OECD Code of Liberalisation of Capital Movements' capital flow measures are possible only in exceptional situations.**



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