



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**International Economics Association Roundtable on
“ Capital Flows and Capital Account Management:
Country Experiences”**

**Erdem Başçı
Governor**

**November 1, 2012
İzmir**

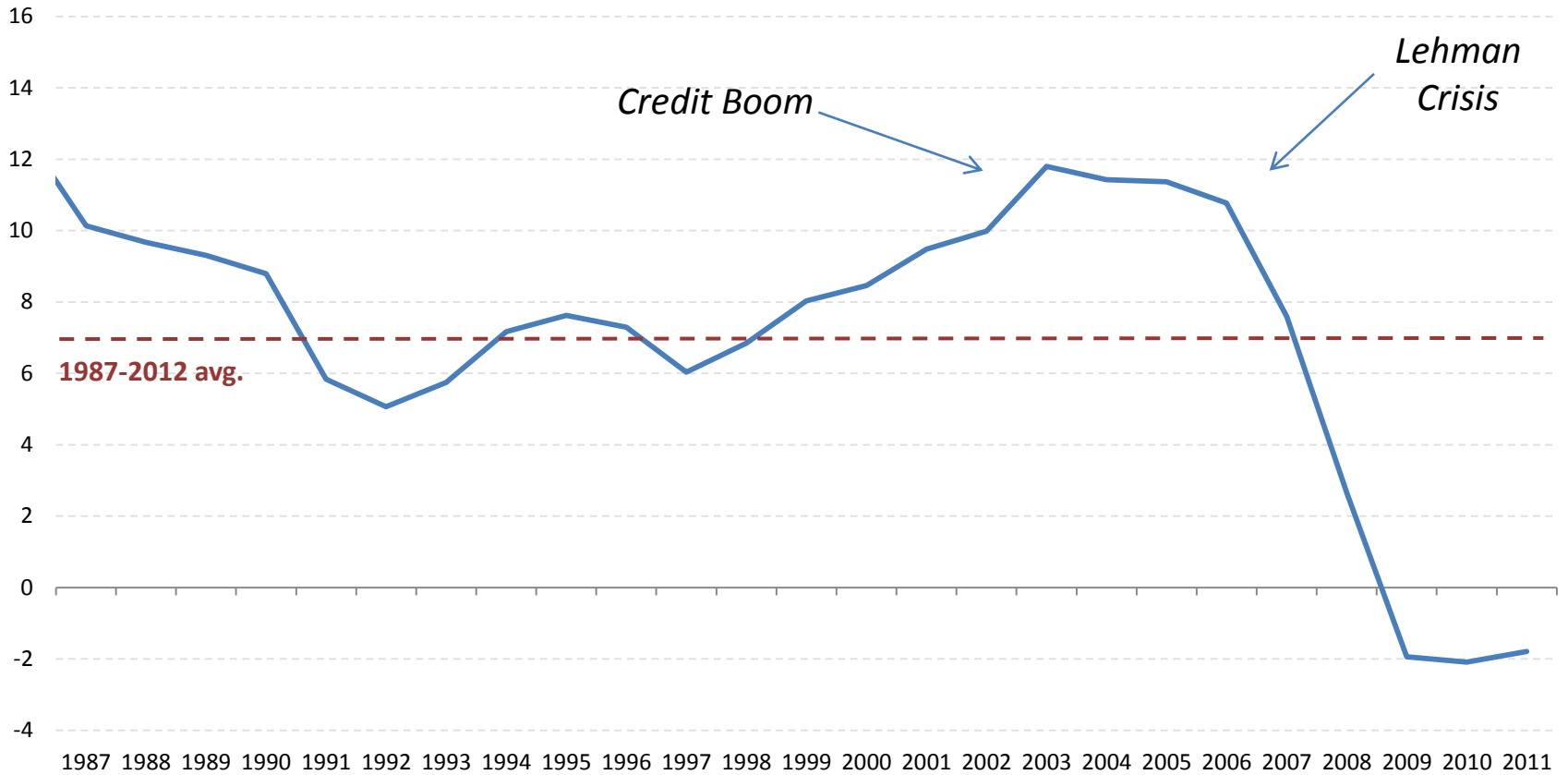
Rapid Credit Growth

- Rapid credit growth is a leading indicator of financial crises¹.

¹Reinhart, 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 Growth (US)

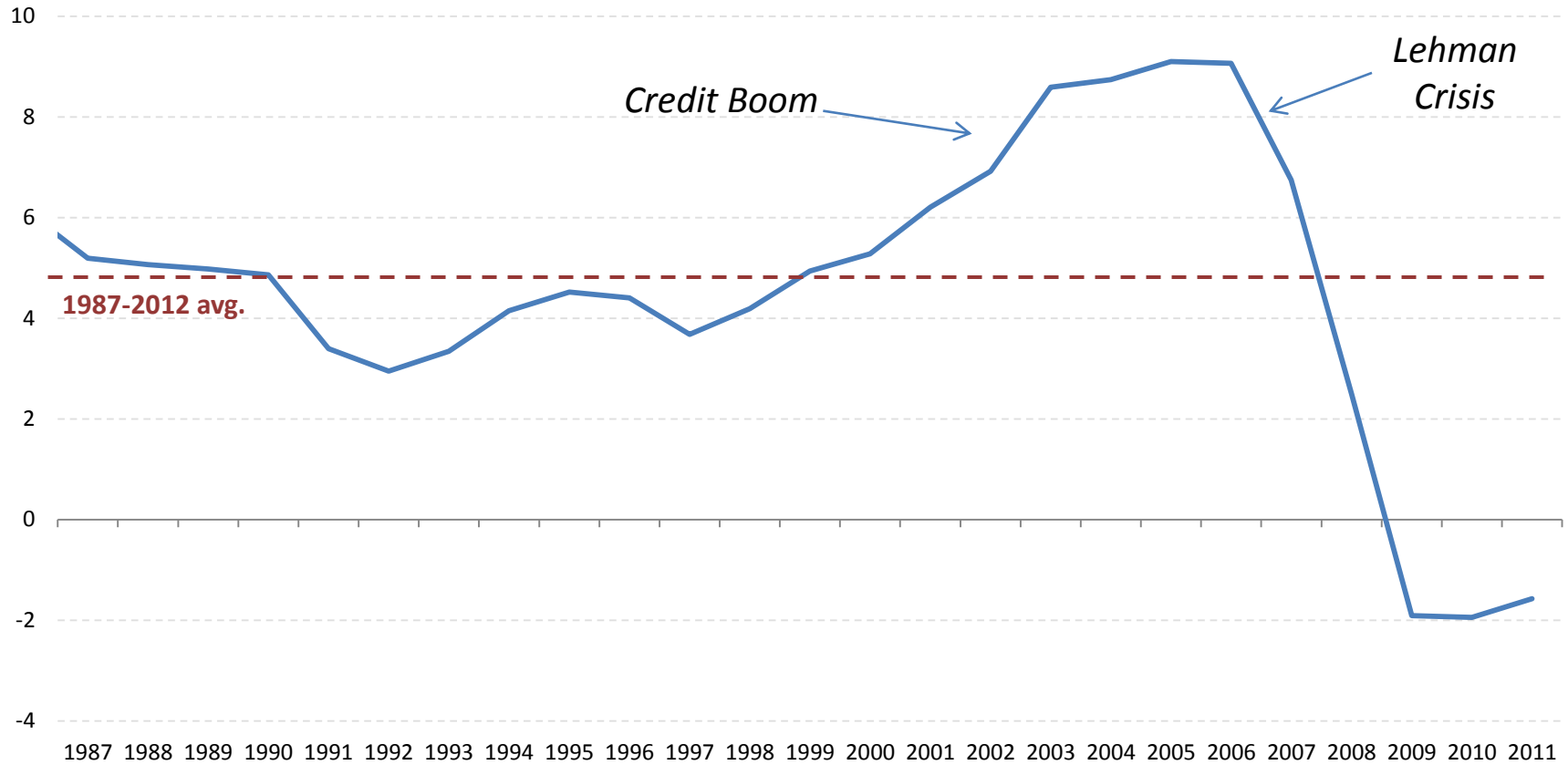
Annual Change in Household Debt (Percent)



Source: Bloomberg.

Credit Impulse (US)

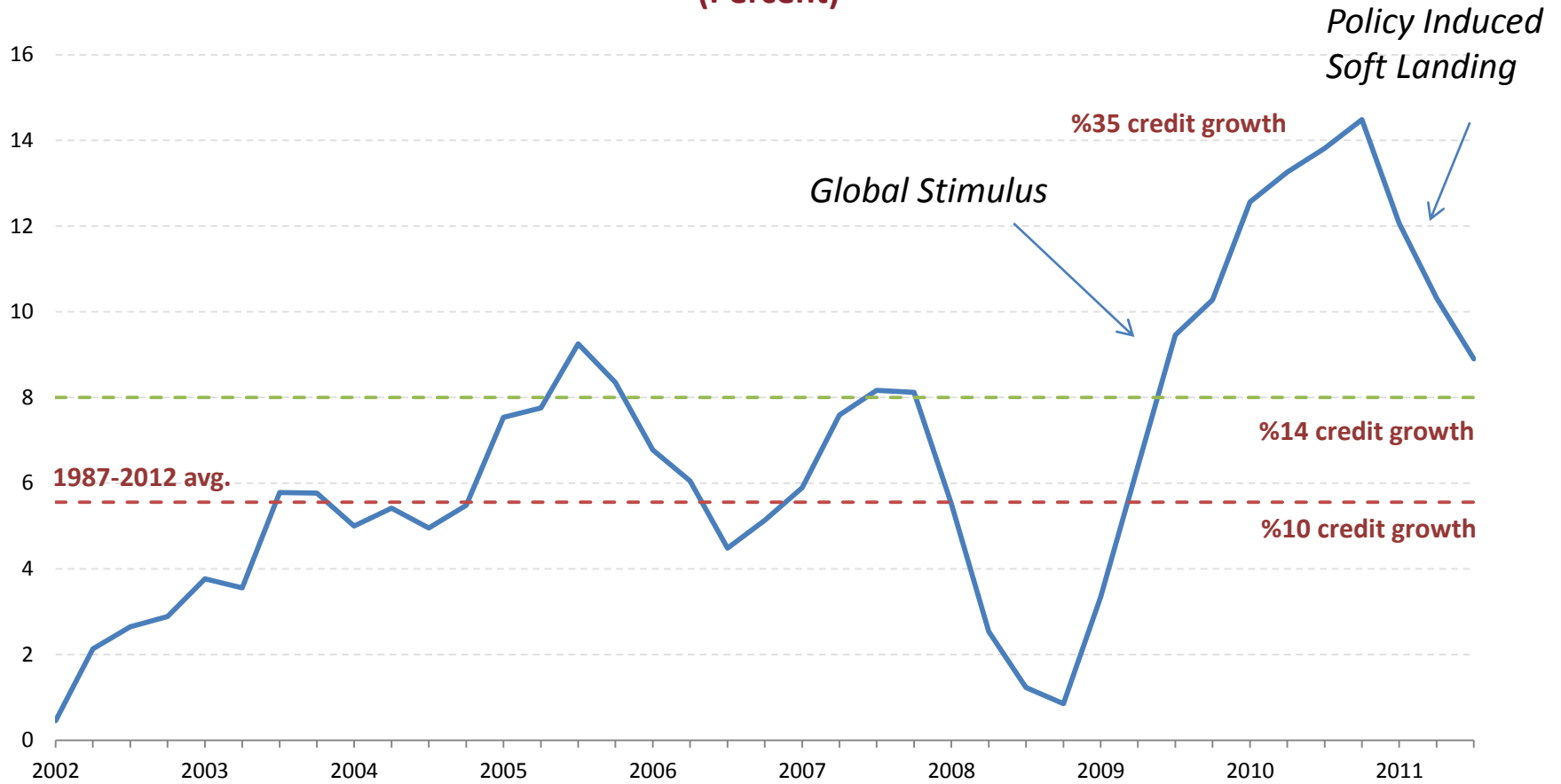
(Change in Household Debt)/GDP
(Percent)



Source: Bloomberg.

Credit Impulse (Turkey)

(Change in Total Debt)/GDP
(Percent)

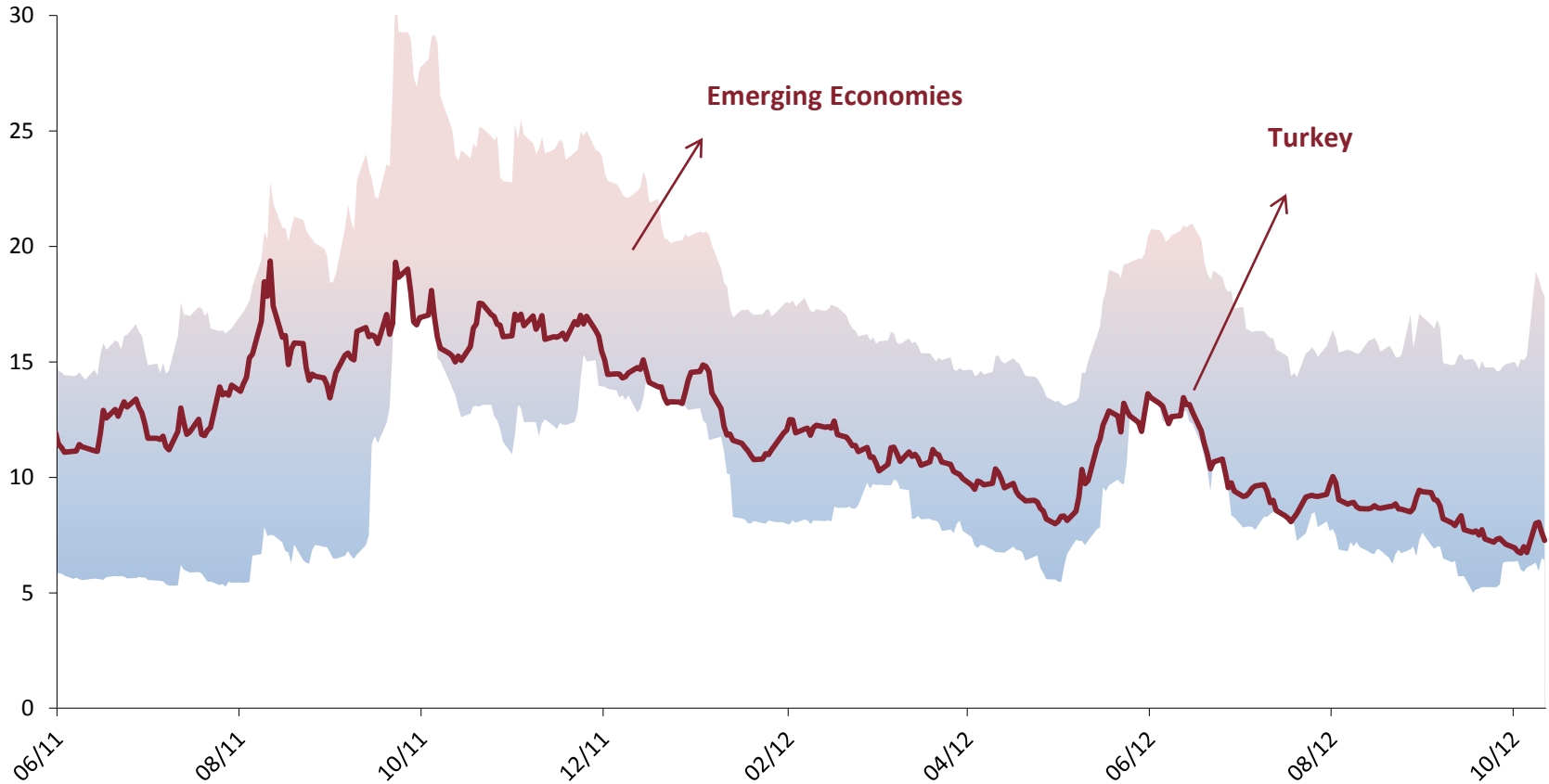


Source: CBRT.

Last Observation: 2012 Q2

FX Volatility

Implied Volatility (1-Month, Countries with CAD)

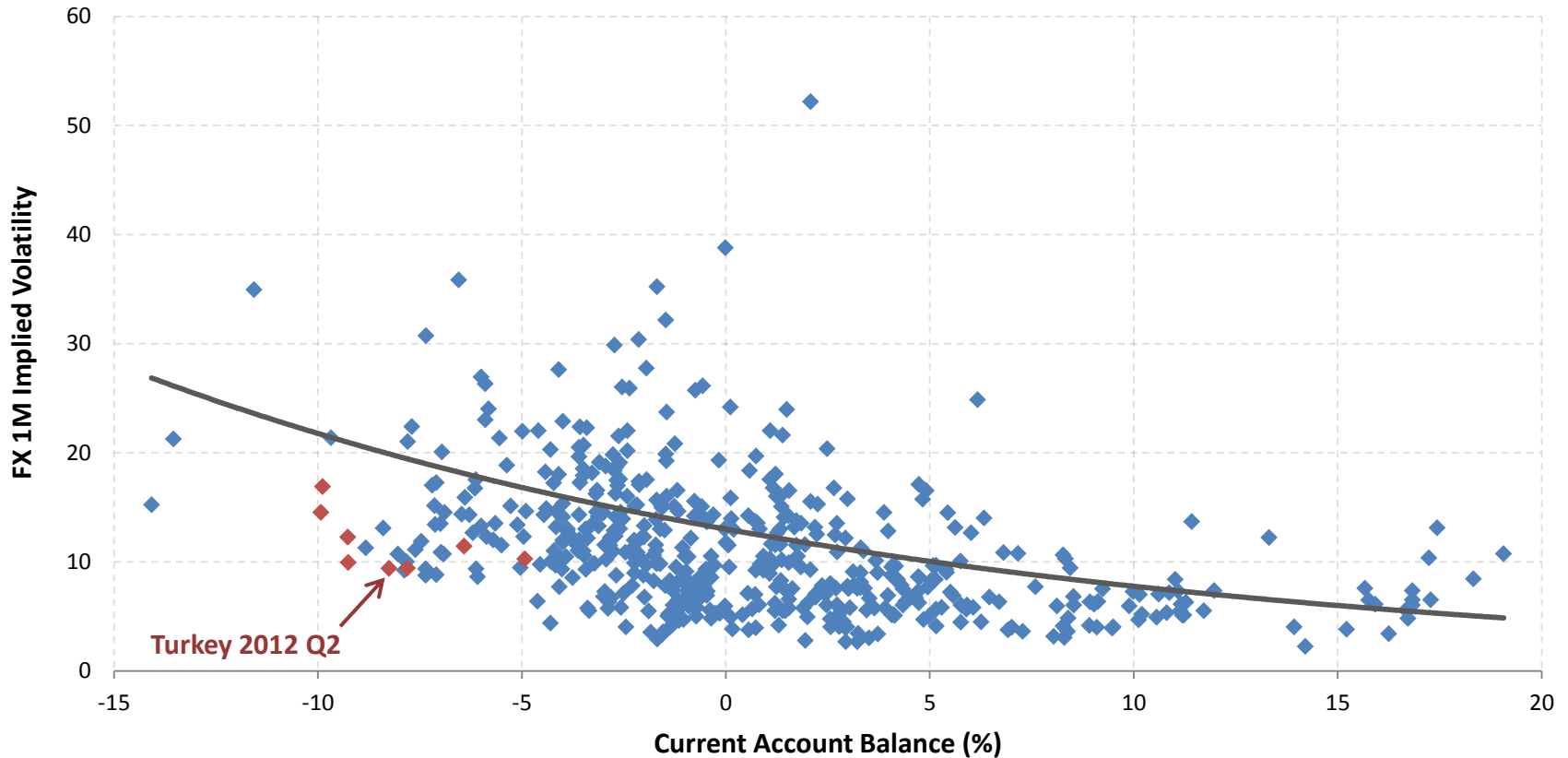


Source: Bloomberg, CBRT.

Countries with a current account deficit: Poland, Brazil, Chile, South Africa, Indonesia, Columbia, Mexico, Czech Rep., Romania and Turkey.

FX Volatility & Current Account Deficit

Implied Volatility and CAB in Emerging Markets** (1-Month, Ratio to GDP)



Source: IMF, CBRT.

** Argentina, Brazil, Chile, Colombia, Czech Rep., Hungary, India, Indonesia, Malaysia, Mexico, Peru, Philippines, Romania, Russia, S. Africa, Taiwan, Thailand and Turkey.
Red markers indicate data on Turkey from 2010Q2 to 2012Q2.

Monetary Policy

1. Interest Rates
2. Reserve Requirements
(Liquidity Channel)

Macroprudential Policy

1. Reserve Requirements

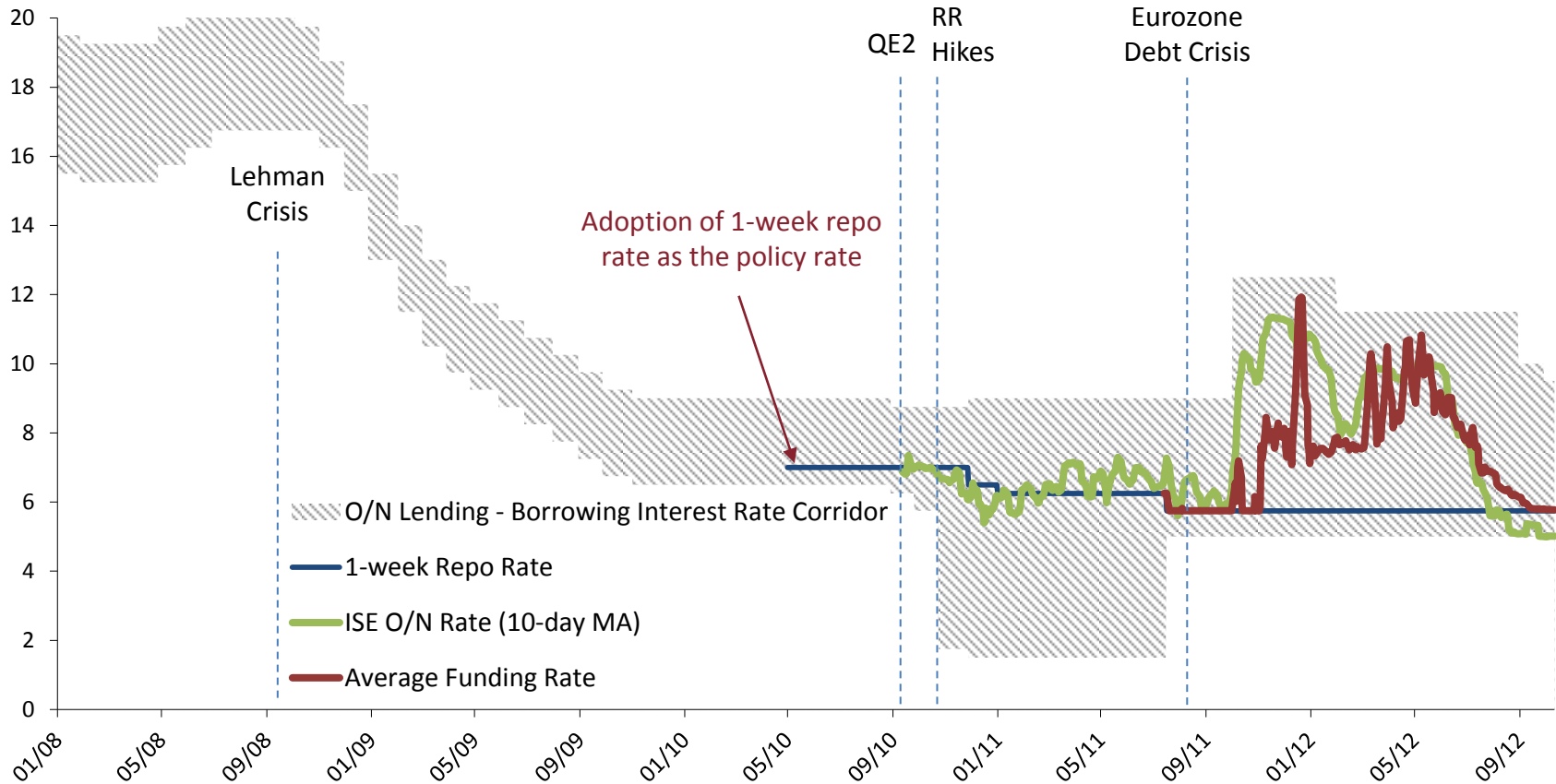
(Cost Channel)

2. Regulatory Instruments

3. Taxes

A Monetary Policy Instrument: Wide Interest Corridor

Interest Rate Corridor and Average Funding Rate (Percent)



Source: ISE, CBRT.

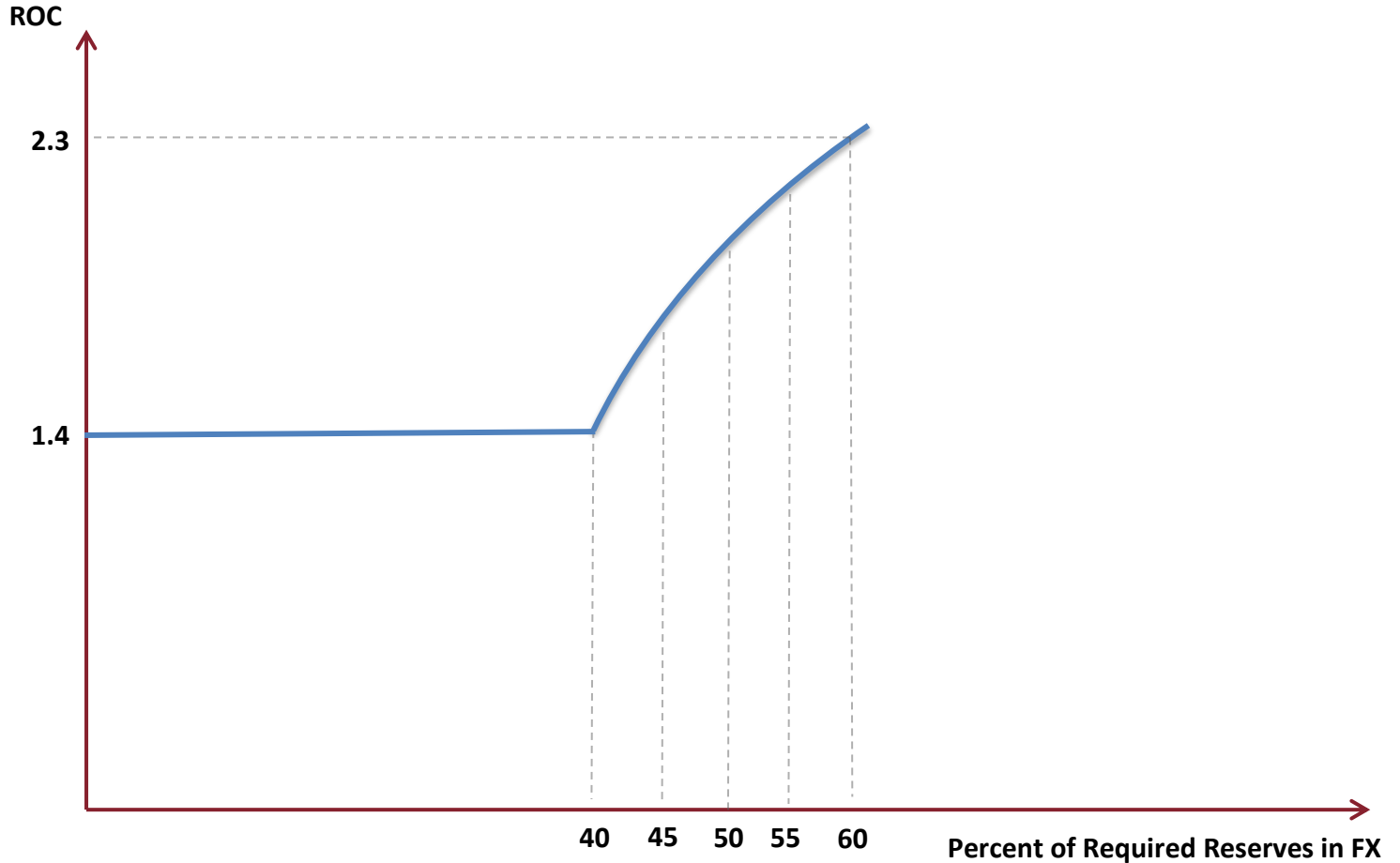
Latest Observations: October 30, 2012

A Macprudential Instrument: Reserve Options Mechanism

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

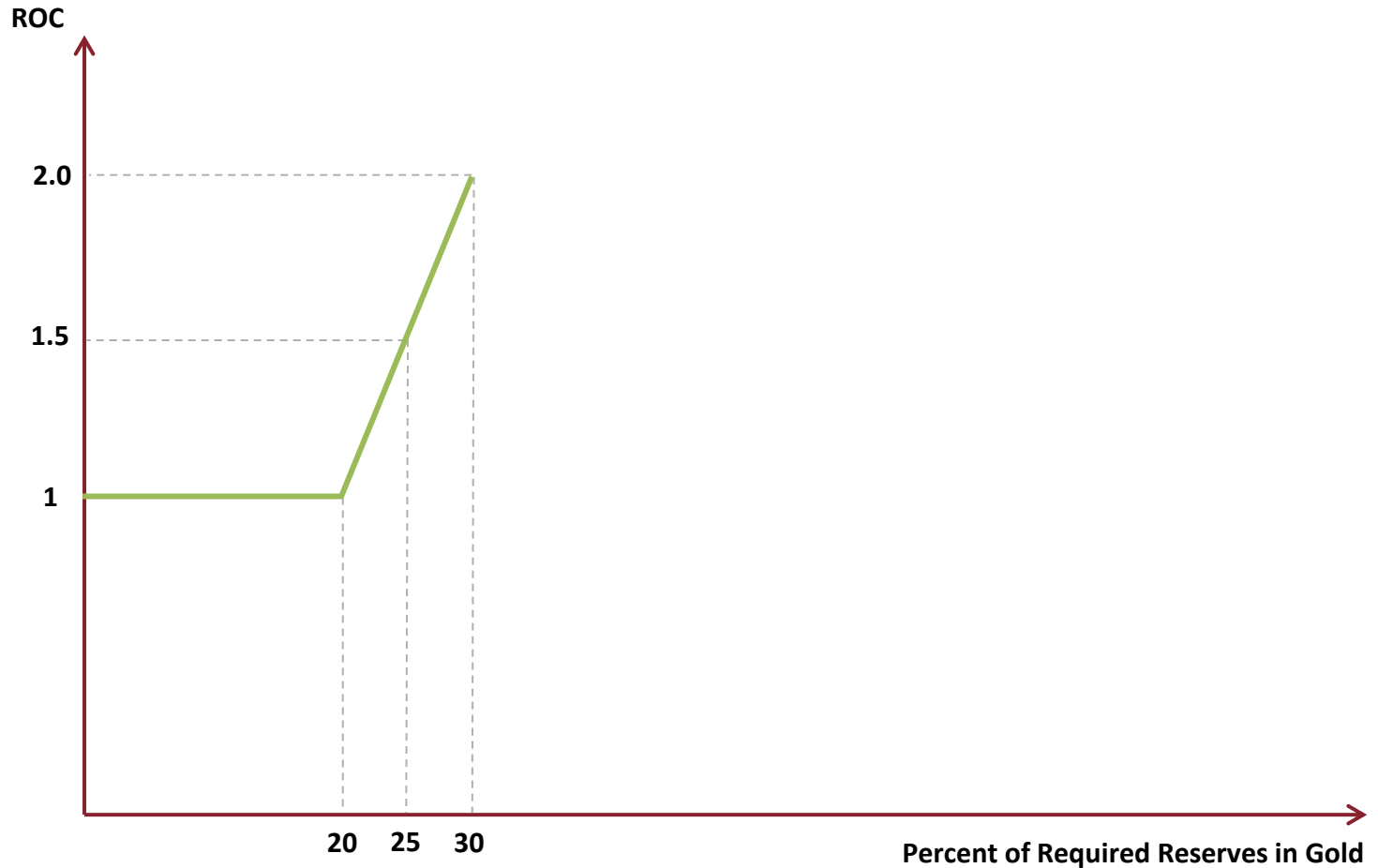
Reserve Options Mechanism (FX)

Reserve Option Coefficients (ROC)



Reserve Options Mechanism (Gold)

Reserve Option Coefficients (ROC)



Concluding Remarks

- The cost of preventing a financial crisis is much less compared to living it.
- Use of macroprudential instruments is quite helpful in preventing crises and dealing with short term capital flows.



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