



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **Prudence as a Fuel of Balanced Growth**

**Erdem BAŞÇI**

**Governor**

**Central Bank of the Republic of Turkey**

**Budapest, September 30, 2015**

**Conference of the Hungarian Economic Association and  
the Magyar Nemzeti Bank**

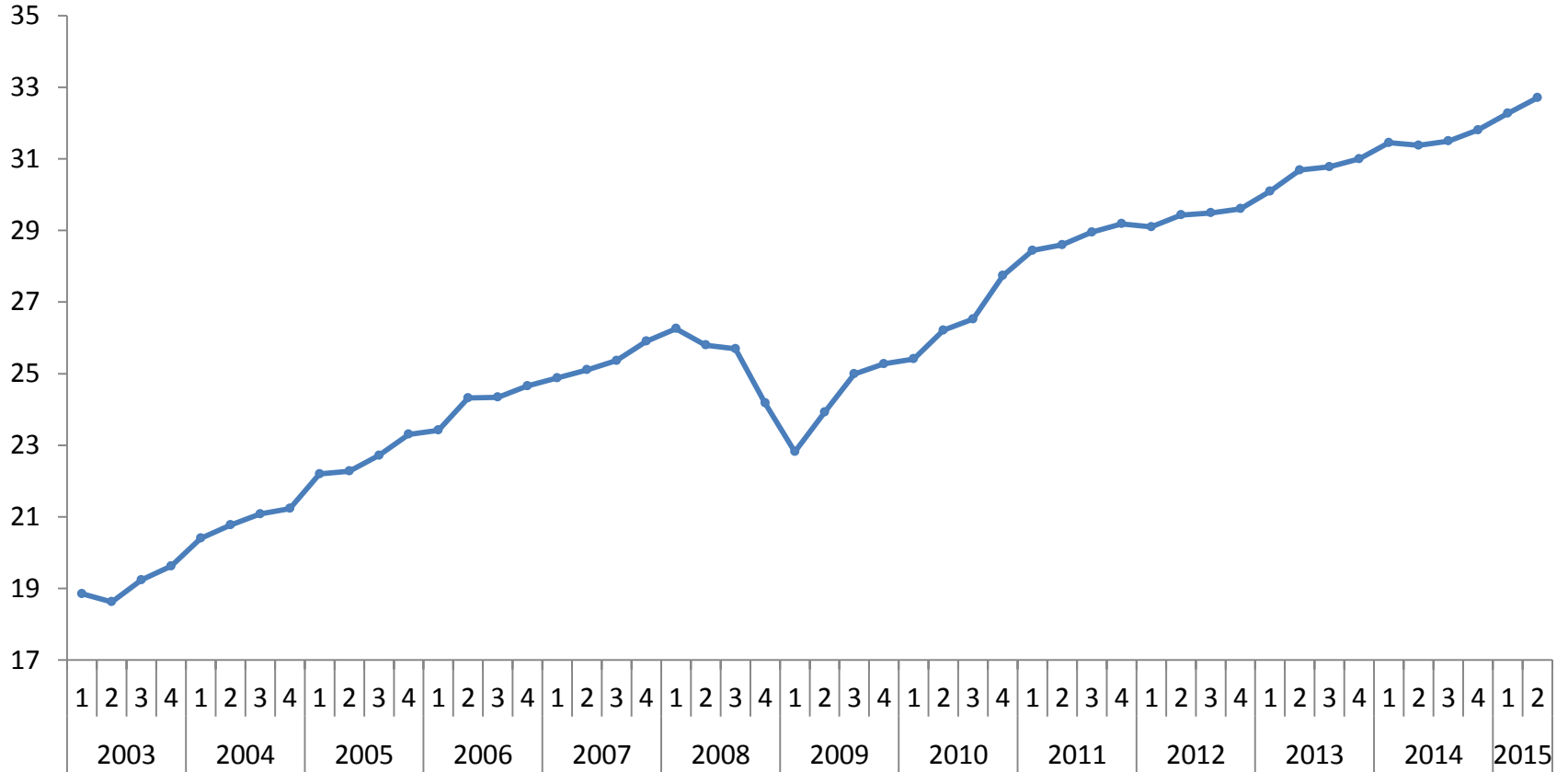
# Overview: Prudence as a Fuel of Balanced Growth

- Economic convergence to the European Union is on track.
- Global interest rates have been falling since 1980s.
- Real interest rates in Turkey have been falling since 2001 thanks to prudential policies.
- Macroprudential policies have improved both the pace and the composition of credit.
- Macroprudential policies have been essential in containing the current account deficit.
- The improvement in the current account balance is expected to continue in the forthcoming period.

# GDP continues to grow moderately in Turkey.

## GDP

(Seasonally adjusted, constant prices, billion TL)

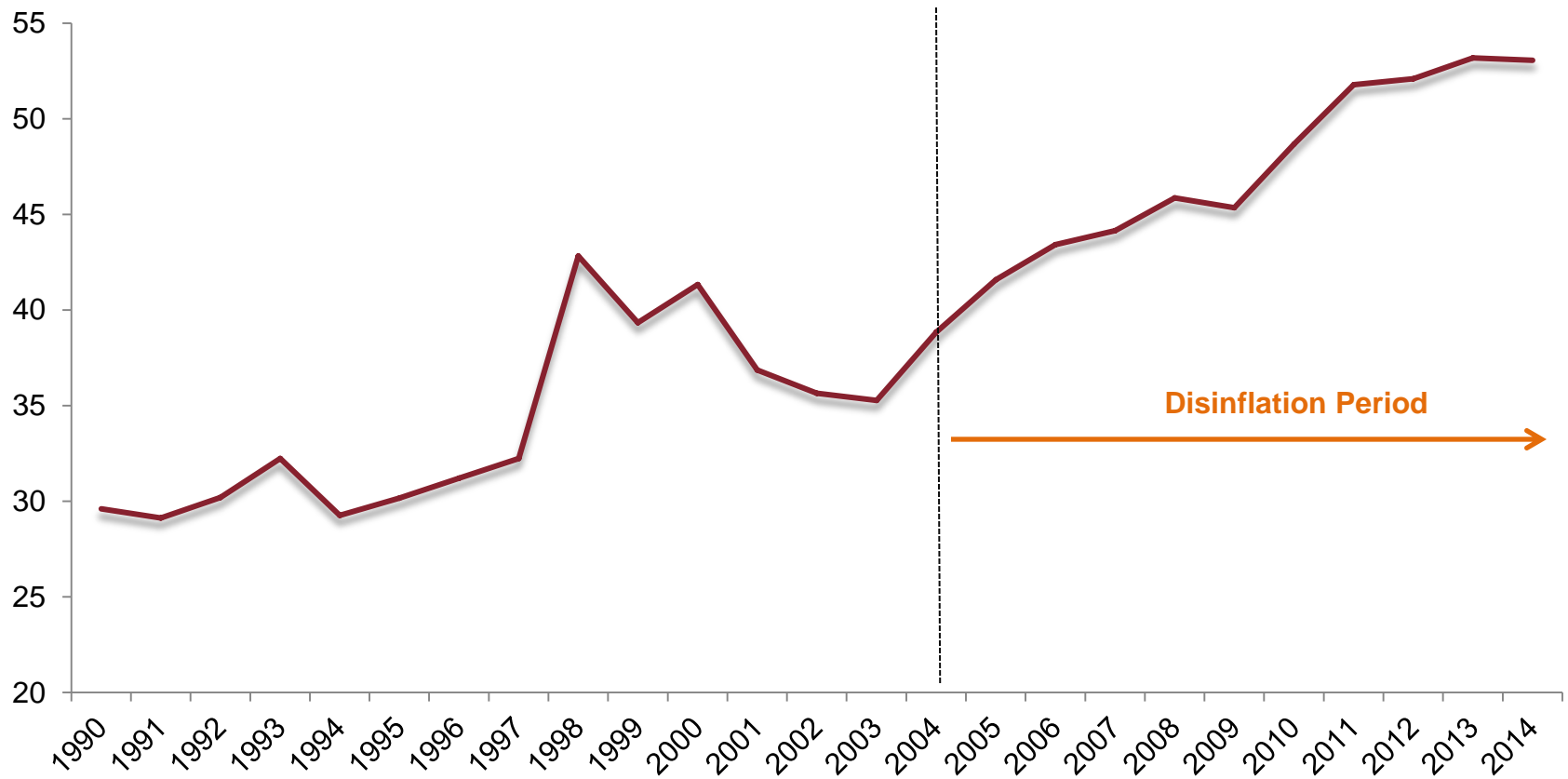


Source: TURKSTAT.

Last Observation: 2015 Q2

# Economic convergence to the European Union is on track.

**Turkey/European Union GDP Per Capita**  
(Purchasing power parity adjusted, percent)



Source: World Bank.

Last Observation: 2014.

# Global interest rates have been falling since 1980s.

## US 10 Year Government Bond Yield (Percent)



Source: Bloomberg.

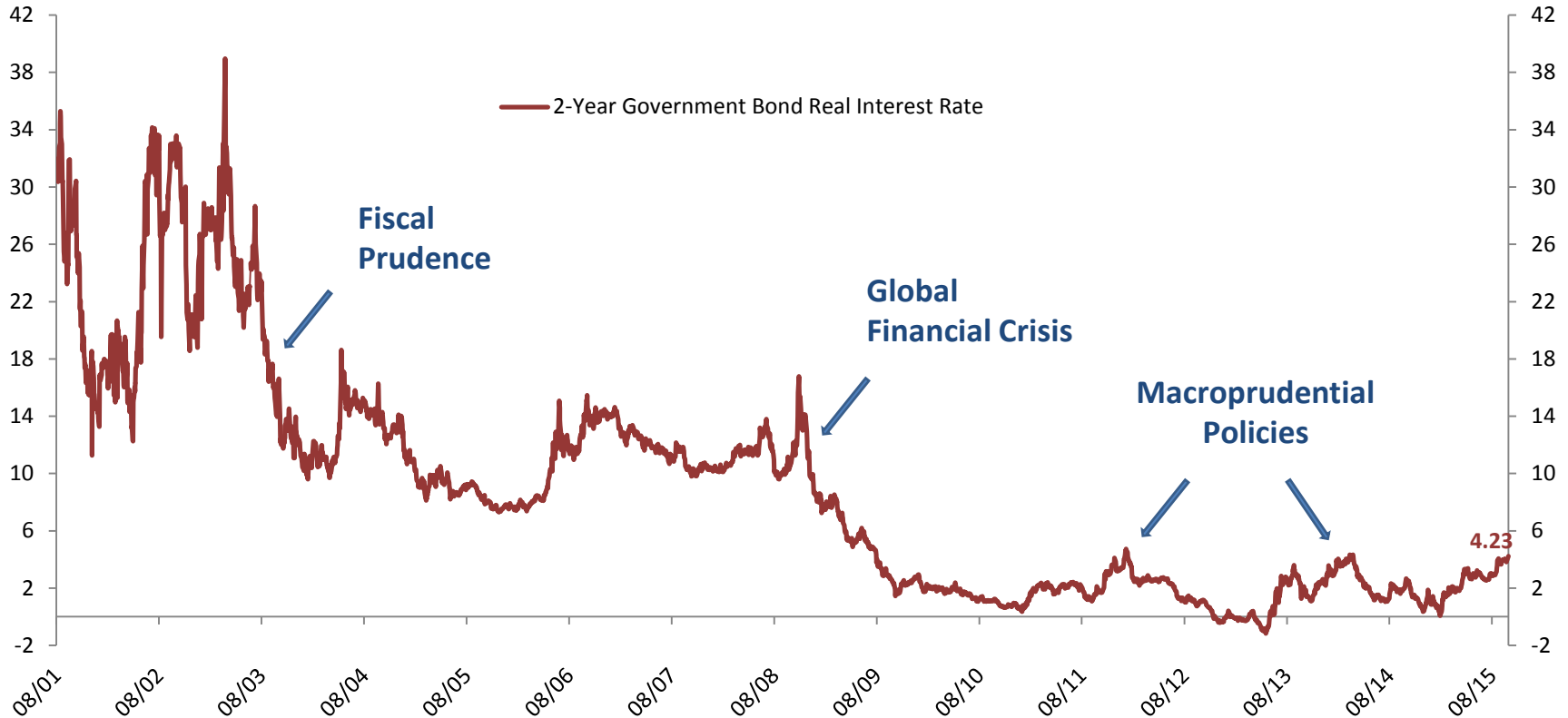
Last Observation: September 2015.

# Determinants of Equilibrium Real Interest Rates

1. Real growth expectations
2. Prudential policies:
  - Fiscal
  - Financial

# Real interest rates in Turkey have been falling since 2001...

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



\*Calculated by using the formula  $[(1 + \text{benchmark interest rate}) / (1 + \text{inflation expectations}) - 1]$ .

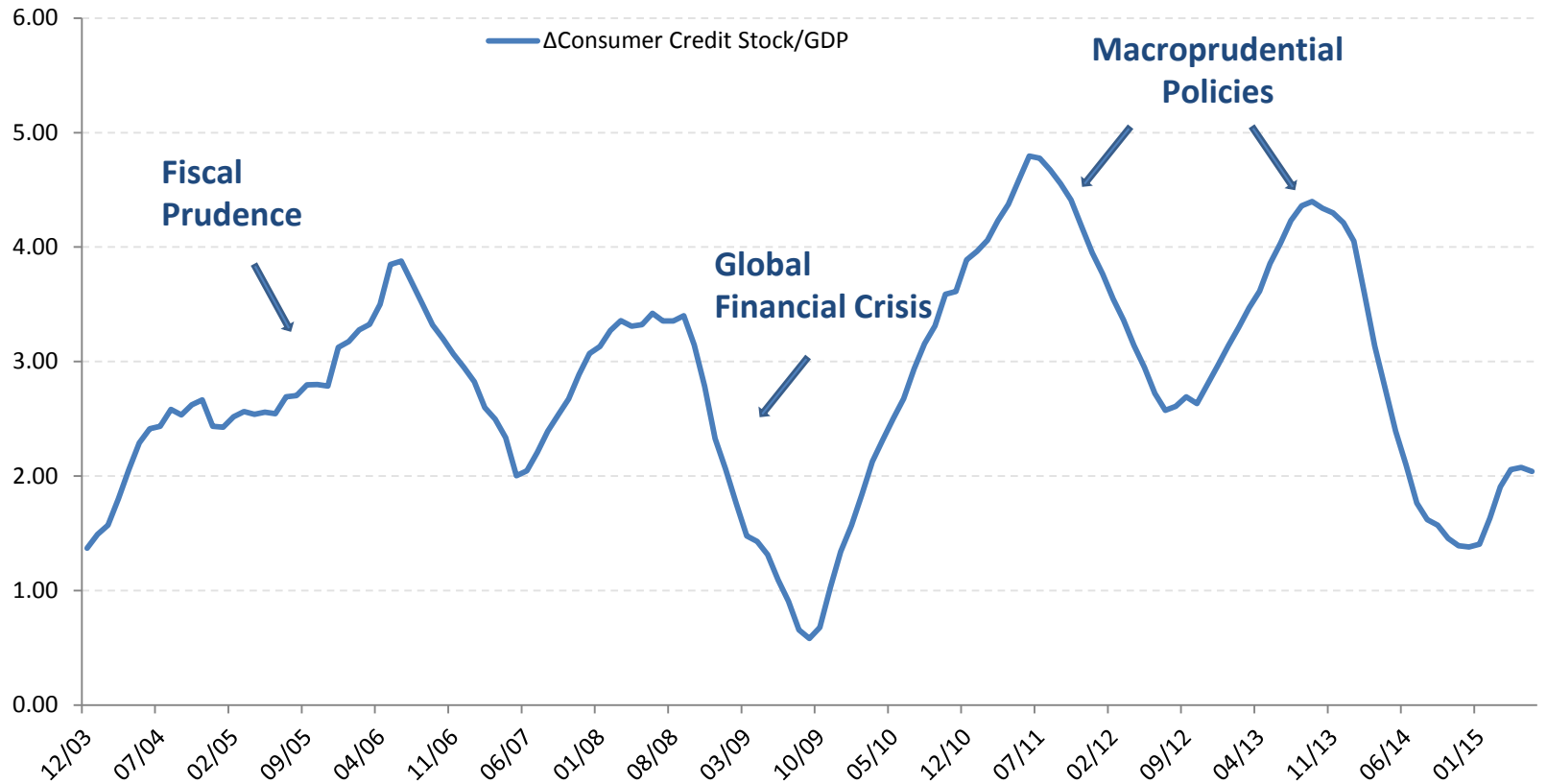
Inflation expectation is 12-months ahead inflation expectation before April 2006. Thereafter, inflation expectation is the compound value of 12-months ahead and 24-months ahead inflation expectations for 24 months.

Source: CBRT, BIST.

Last Observation: September 28, 2015

...thanks to the use of prudential policies.

## Consumer Loans (Change YoY, % of GDP)



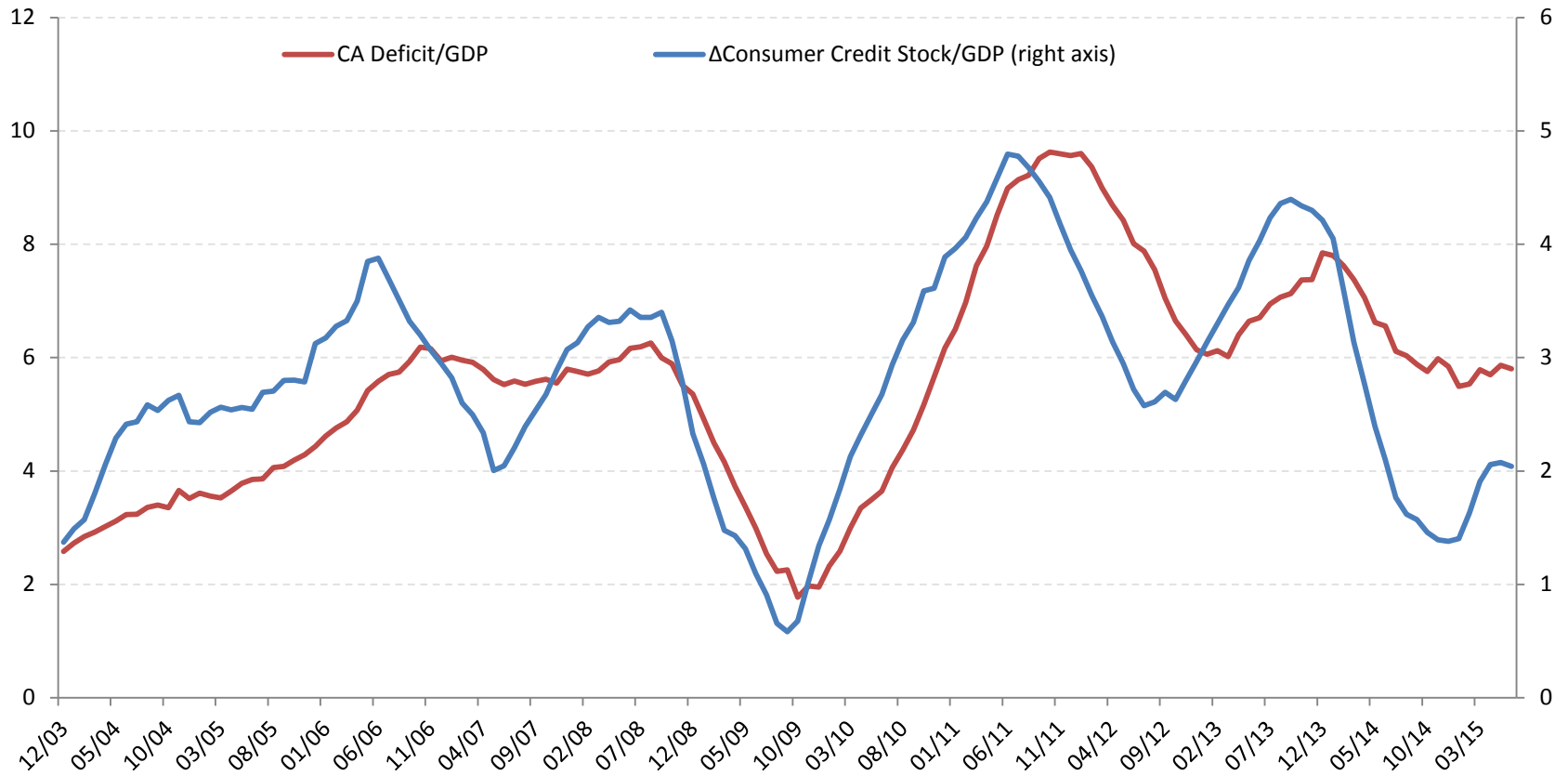
Source: BRSA, TURKSTAT, CBRT.



# Macprudential policies have been essential in containing the current account deficit.

## Consumer Loans and the Current Account

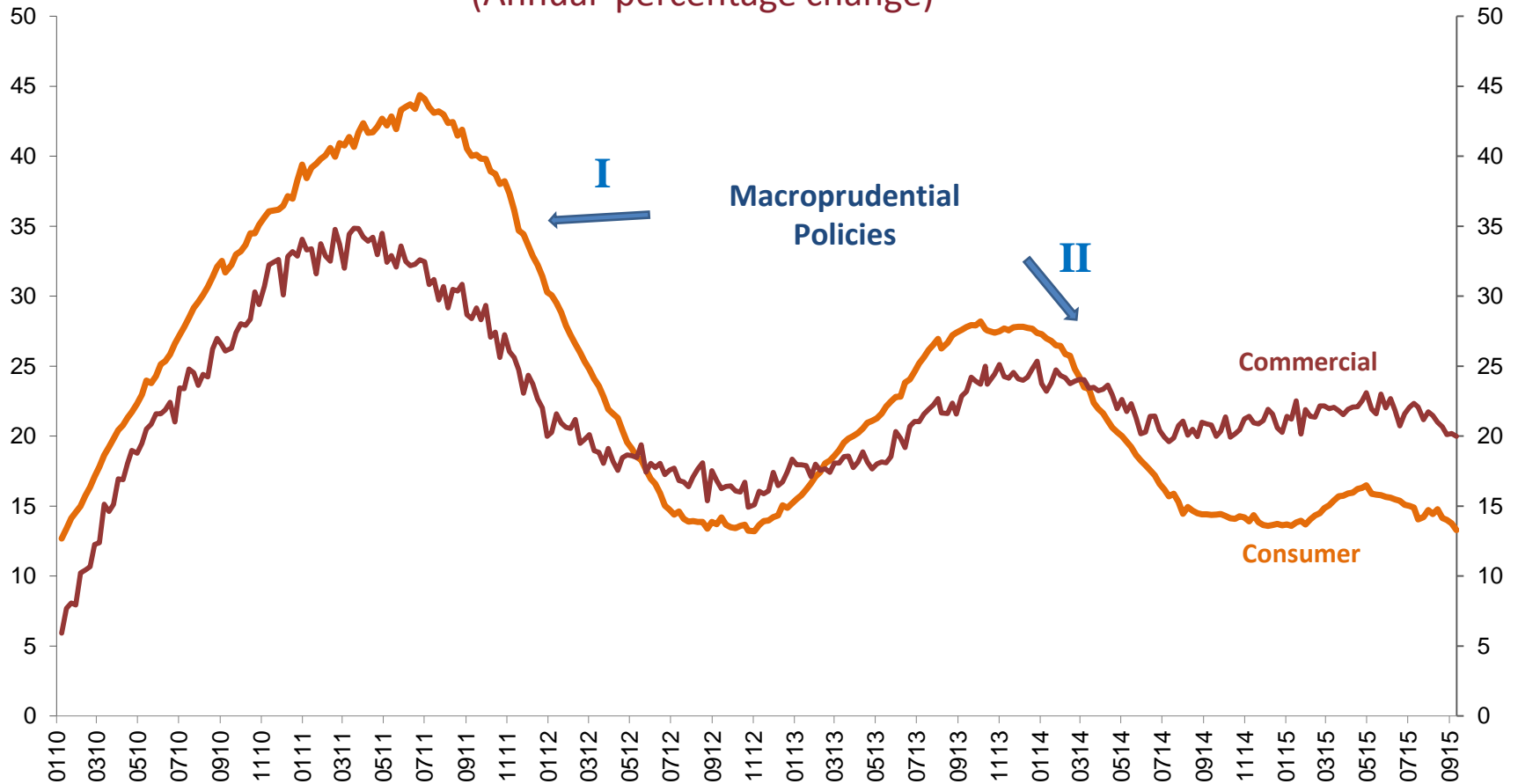
(Change YoY, % of GDP for Consumer Loans, % of GDP for Current Account Deficit)



Source: BRSA, TURKSTAT, CBRT.

# The two rounds of macroprudential policies have succeeded in improving both the pace and the composition of credit.

## Loan Growth Rates (Annual percentage change)



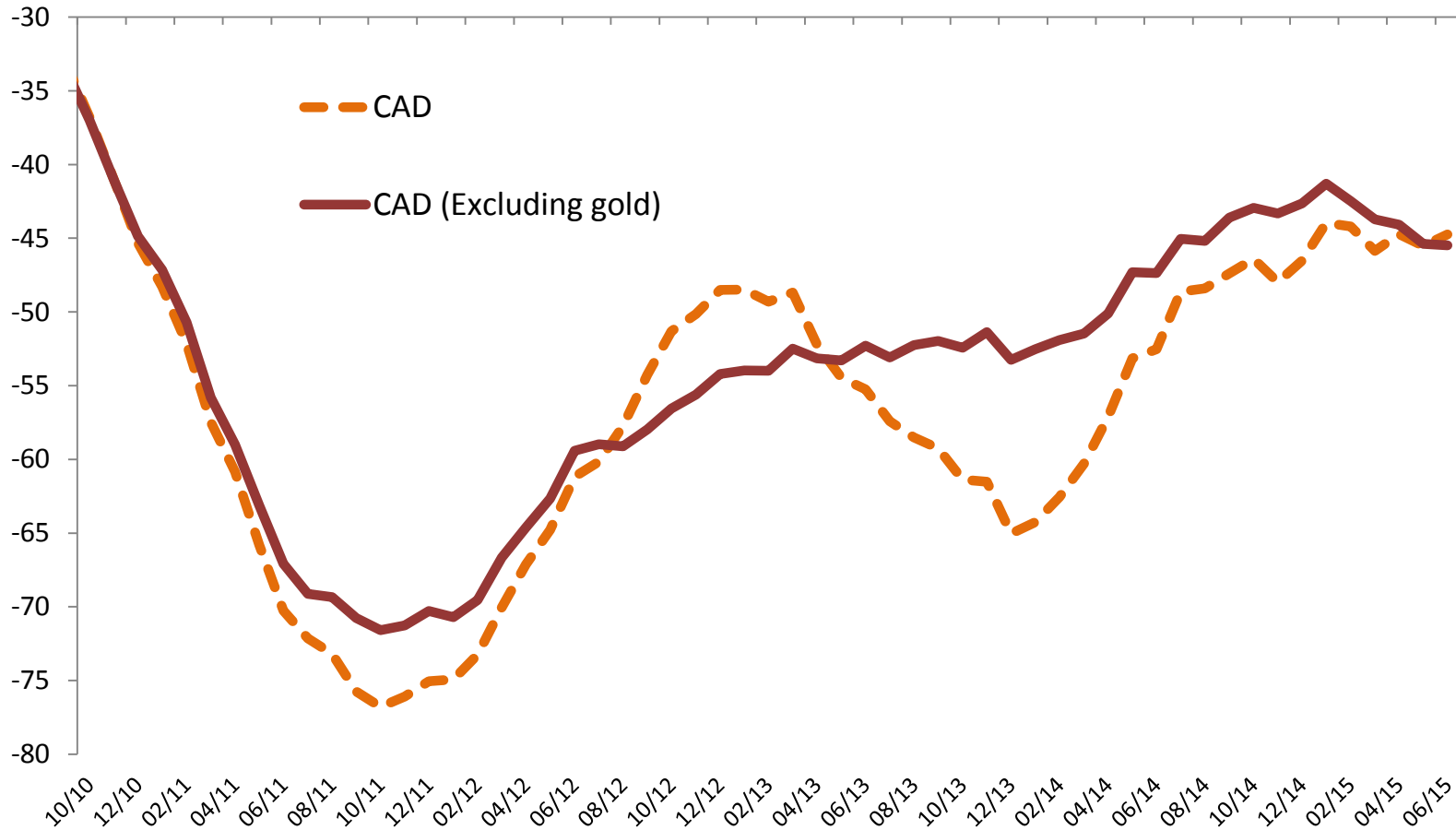
Source: CBRT.

Last Observation: September 11, 2015.

Inclusive of loans extended by all types of banks (deposit banks, Participation banks, and development/investment banks). FX adjusted.

The improvement in the current account balance will become more pronounced with the August figure and is expected to continue throughout the year.

### Current Account Balance (CAB) (12-Month cumulative, billion USD)



Source: CBRT.

Last Observation: June 2015.

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