CENTRAL BANK OF THE REPUBLIC OF TURKEY

EU Member States Economic Counsellors Meeting

Erdem BAŞÇI
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November 2010

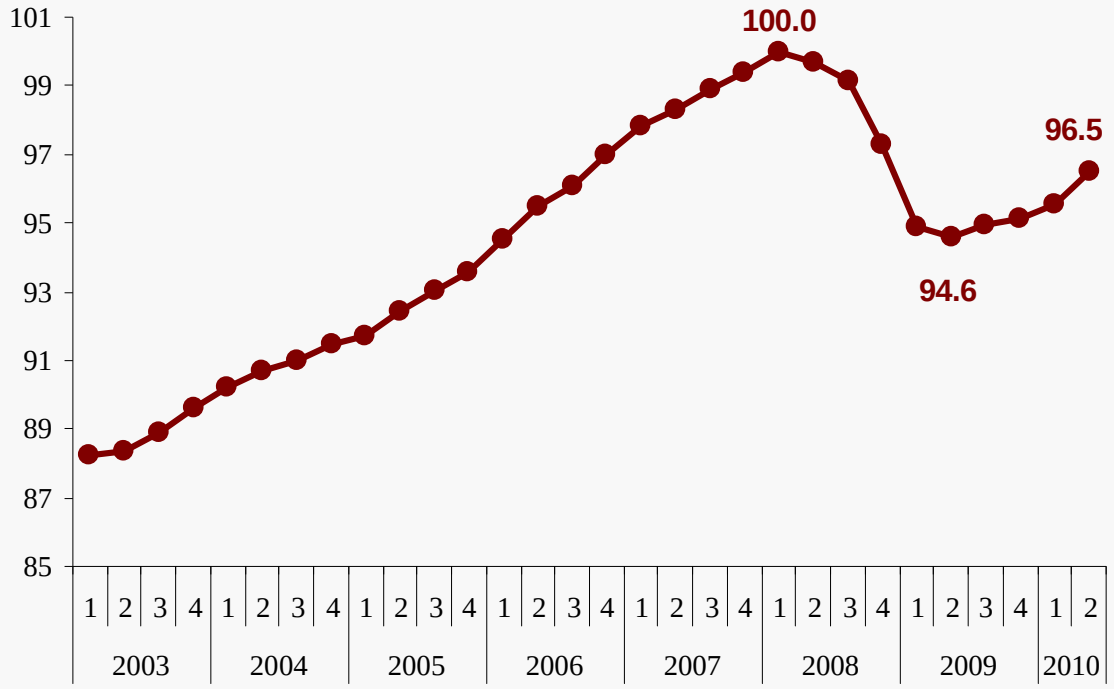
Presentation Outline

1. Value of Stability
2. Price Stability and Financial Stability
3. Elements of Financial Stability
4. Stability and Communications

Growth Performance in EU

Seasonally-adjusted Real GDP in EU

(2008 Q1=100)

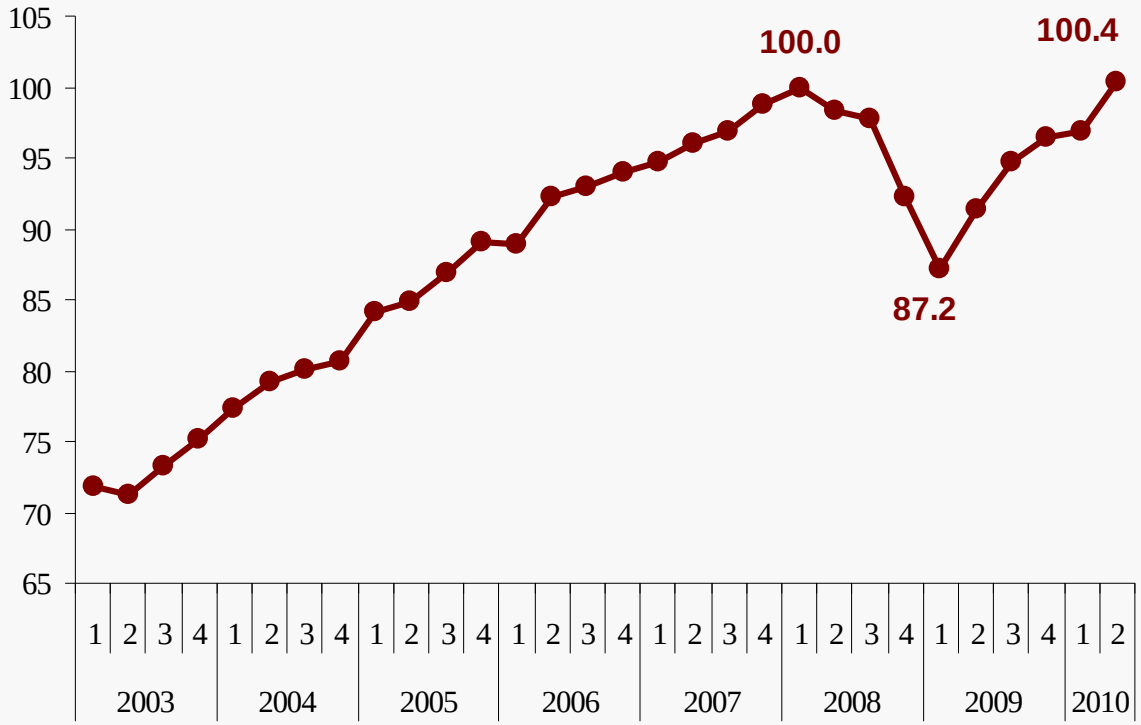


Source: Bloomberg, EuroStat

Growth Performance in Turkey

Seasonally-adjusted Real GDP

(2008 Q1=100)

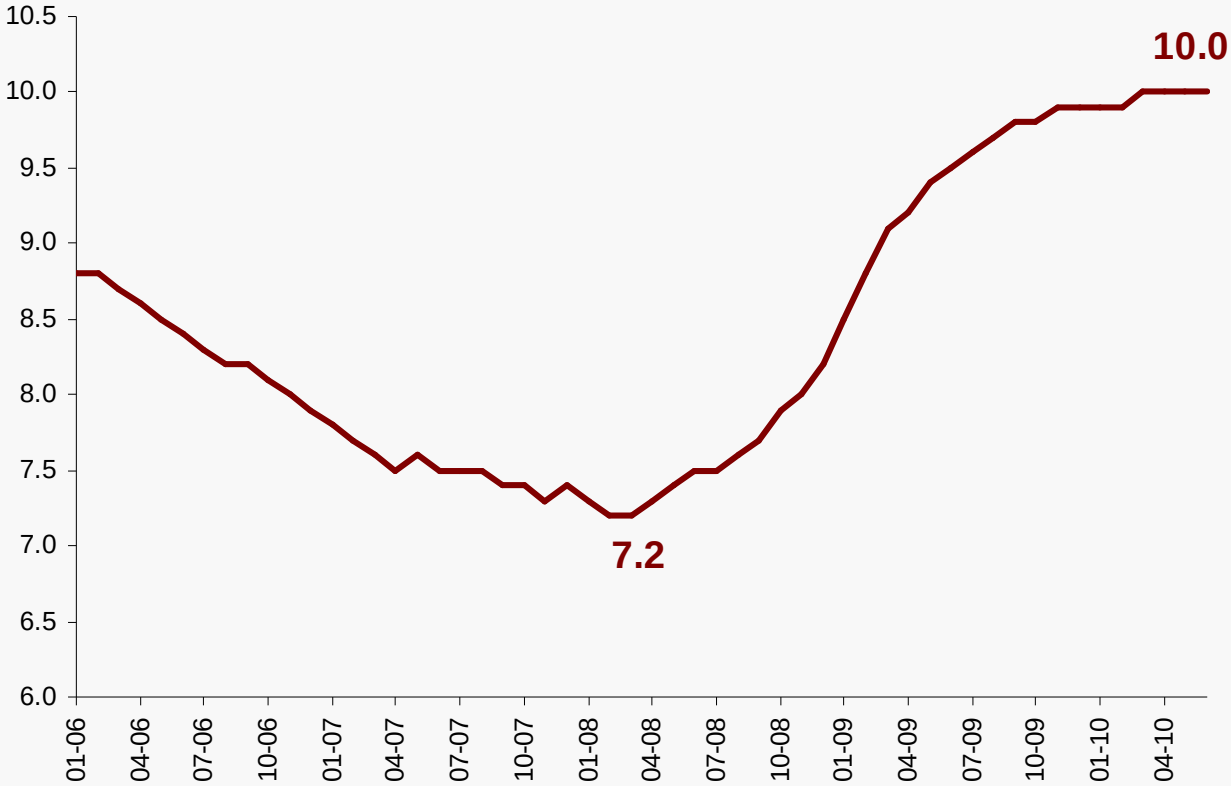


Source: TurkStat, CBT

Unemployment Rate in EU

Seasonally Adjusted Unemployment Rate

(Jan 2006- Sep 2010, percent)

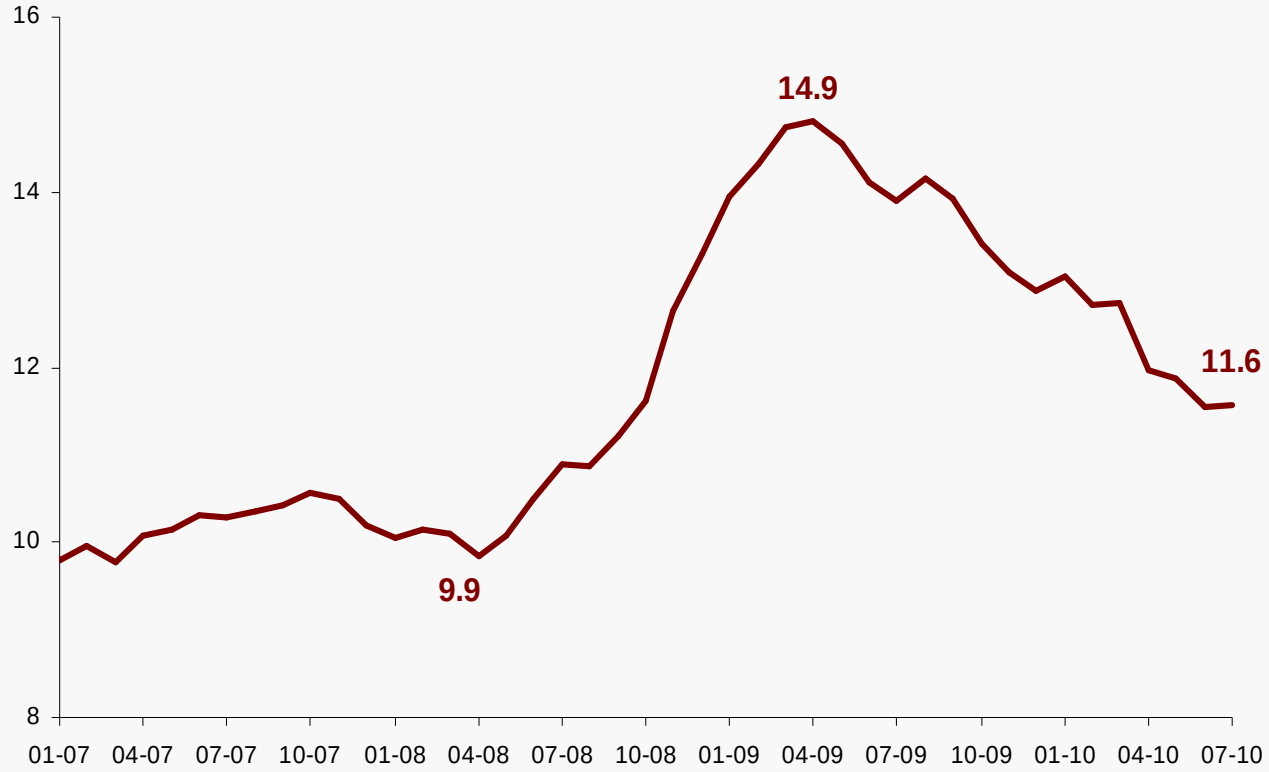


Source: Bloomberg

Unemployment Rate in Turkey

Seasonally Adjusted Unemployment Rate

(Jan 2007- Jul 2010, percent)

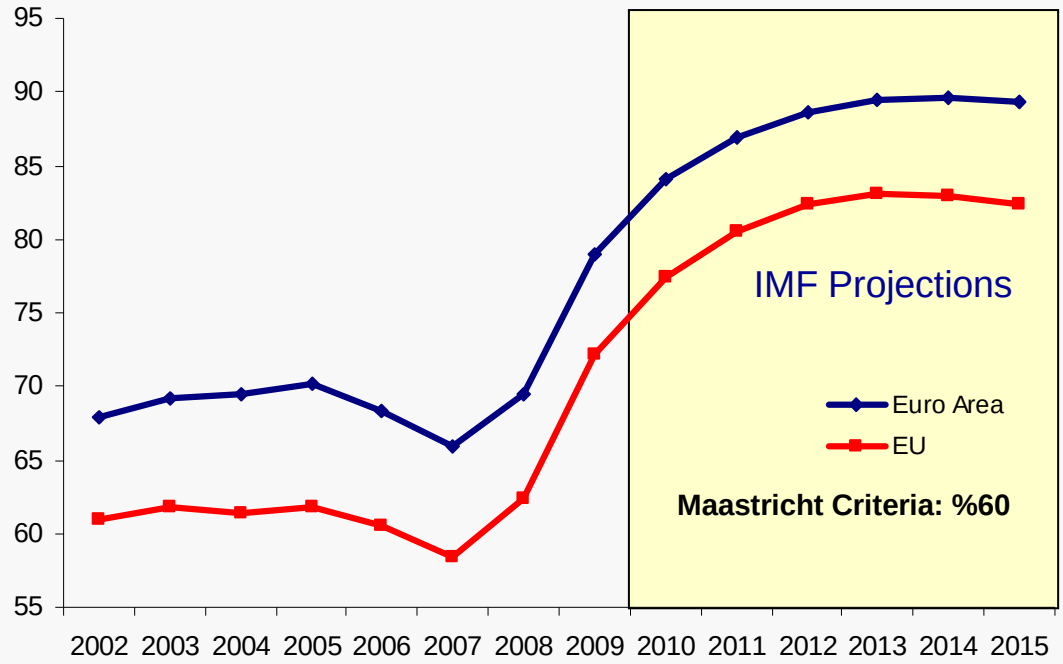


Source: Turkstat, CBT

Public Debt – European Union

Public Debt of European Union

(2002 – 2015, ratio to GDP, percent)

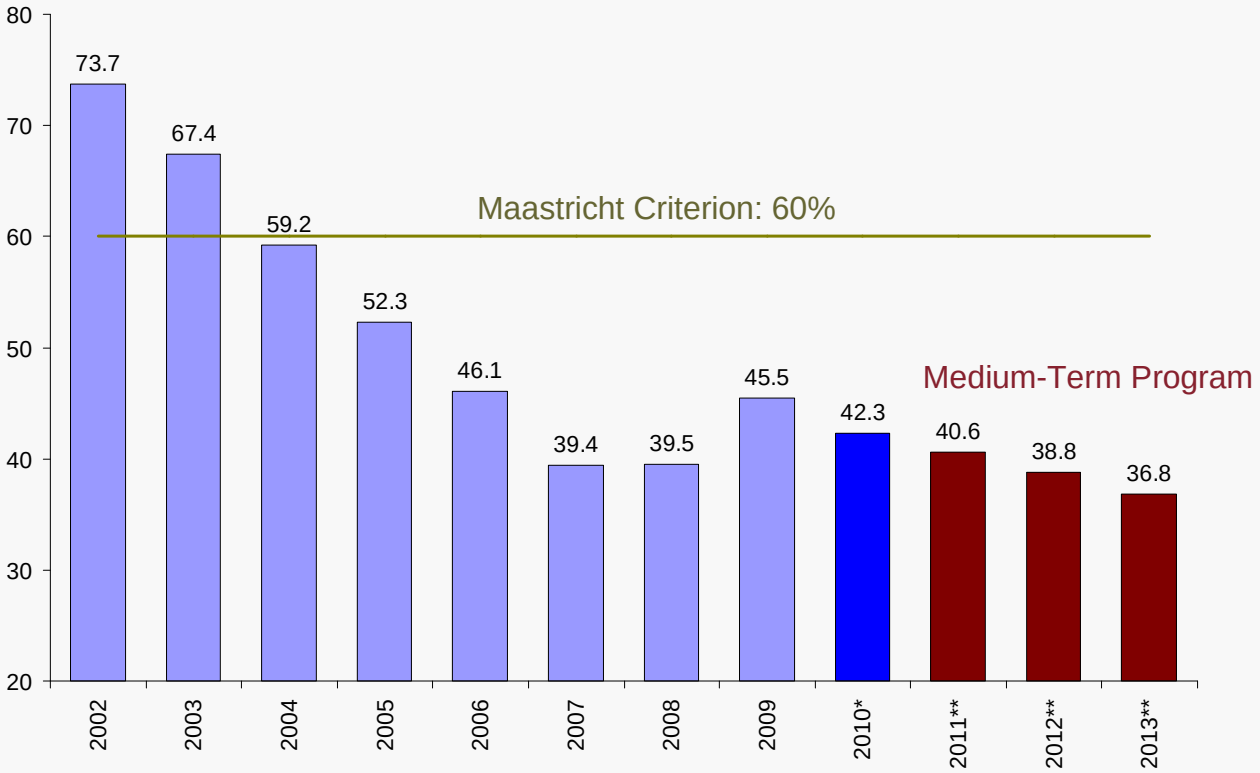


Source: IMF, WEO

Public Debt – Turkey

Public Debt of Turkey

(2002 – 2013, ratio to GDP, percent)



*Estimate

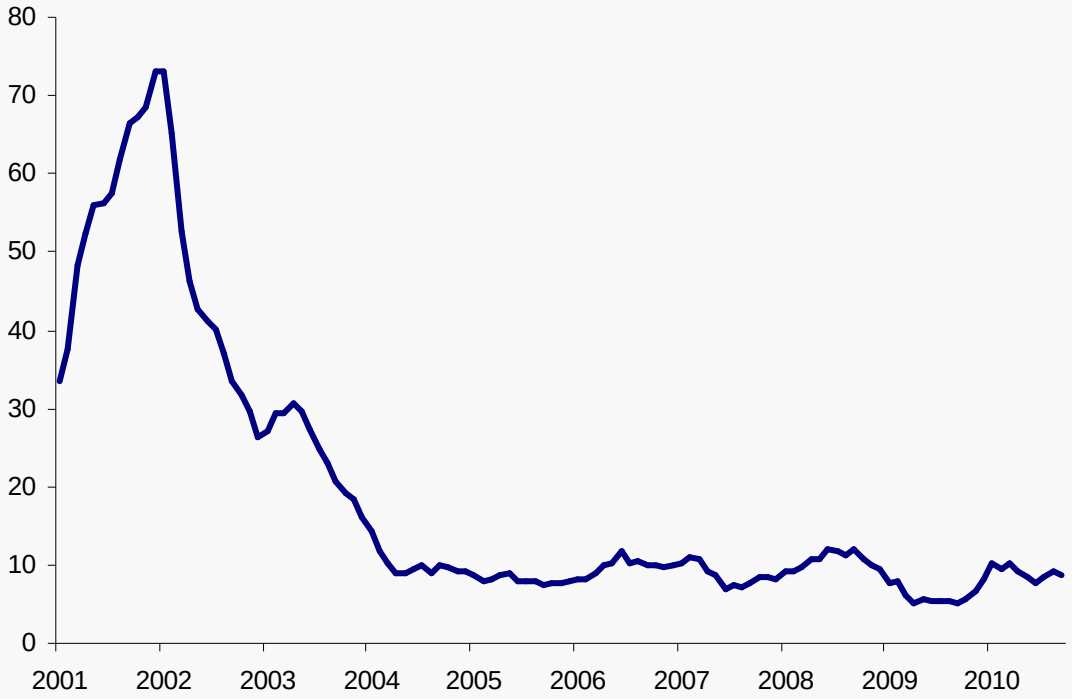
**Medium-Term Program (2010 -2013) Objectives

Source: Undersecretariat of Treasury, CBT

Price Stability - Turkey

Consumer Price Index

(Feb 2001- Oct 2010, annual percentage change)

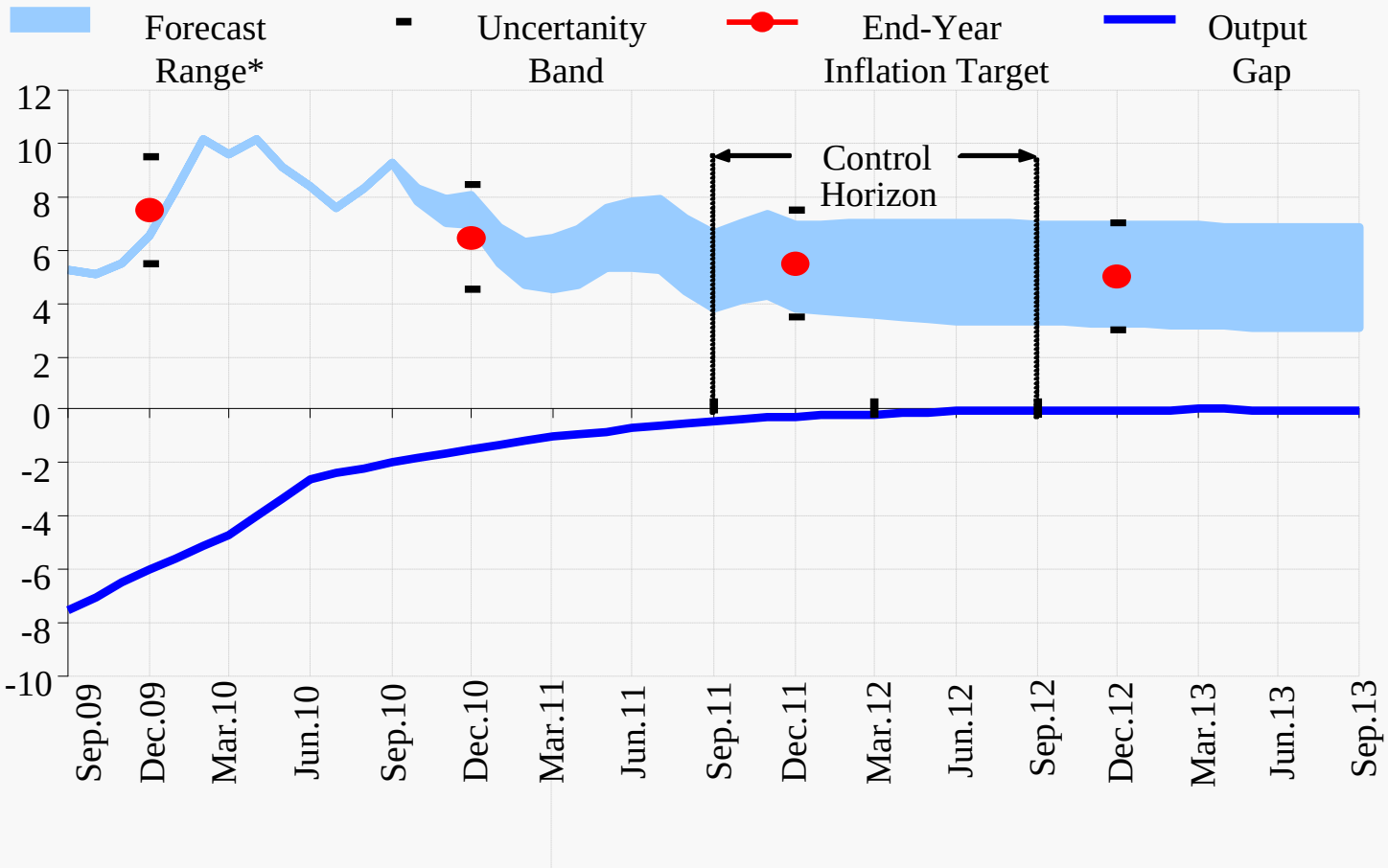


Source: TurkStat

Price Stability - Turkey

Inflation and Output Gap Forecasts*

(Sep 2009- Sep 2013, annual percentage change)



*The shaded region indicates the 70 percent confidence interval for the forecast.
Source: TurkStat

Real Interest Rates

Real Market Interest Rates in Turkiye

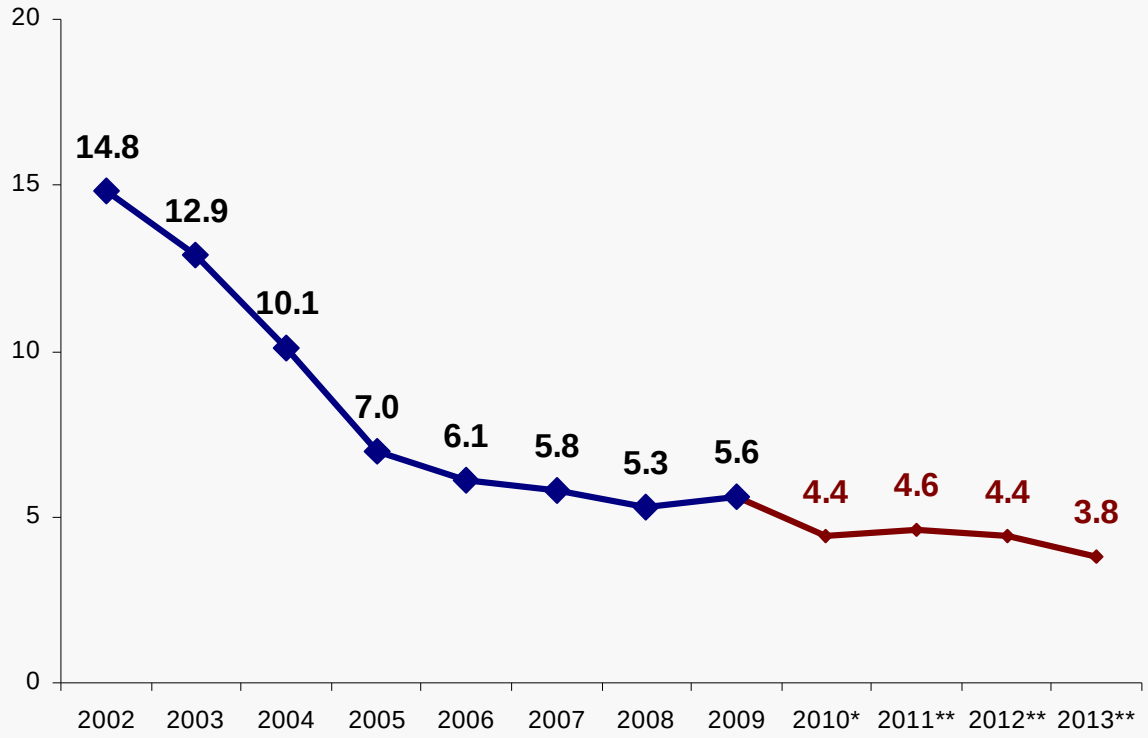
(Benchmark Interest Rate on Government Securities, Aug 2001 – Nov 2010, percent)

* Based on 12-month inflation expectations.
Source: Undersecretariat of Treasury, CBT

Stability and Fiscal Space

Interest Payments

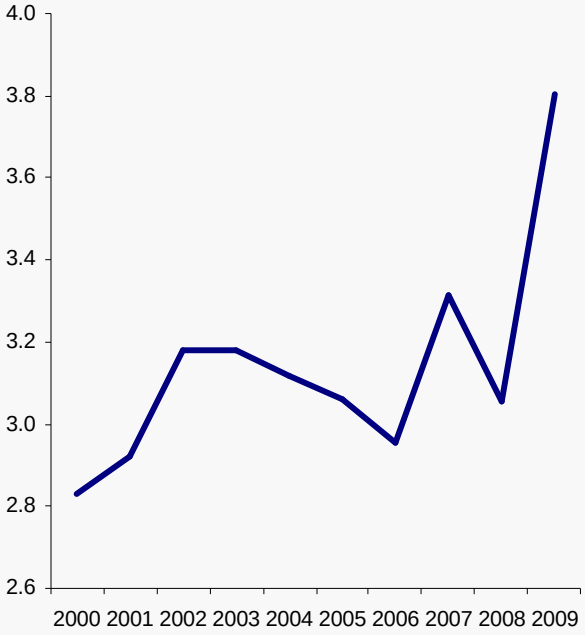
(2002 – 2013, ratio to GDP, percent)



* Forecast
** Medium Term Programme
Source: Undersecretariat of Treasury, CBT

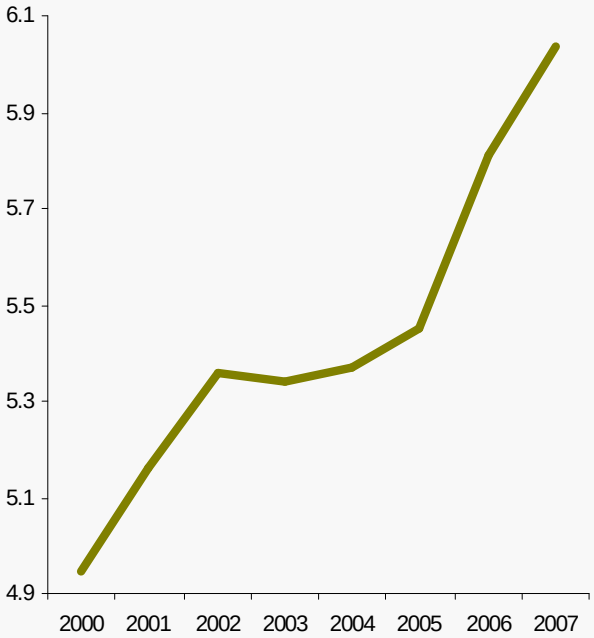
Value of Stability

Educational Expenditures
(2000-2009, ratio to GDP, percent)



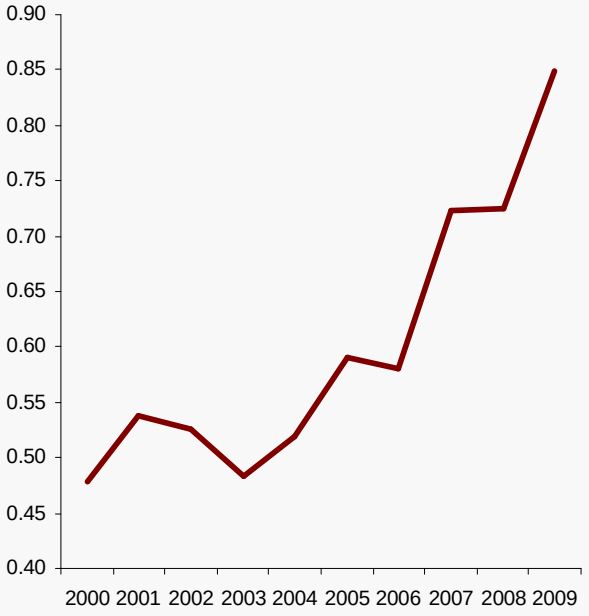
Source: TurkStat

Health Expenditures
(2000-2007, ratio to GDP, percent)



Source: TurkStat

R&D Expenditures
(2000-2009, ratio to GDP, percent)

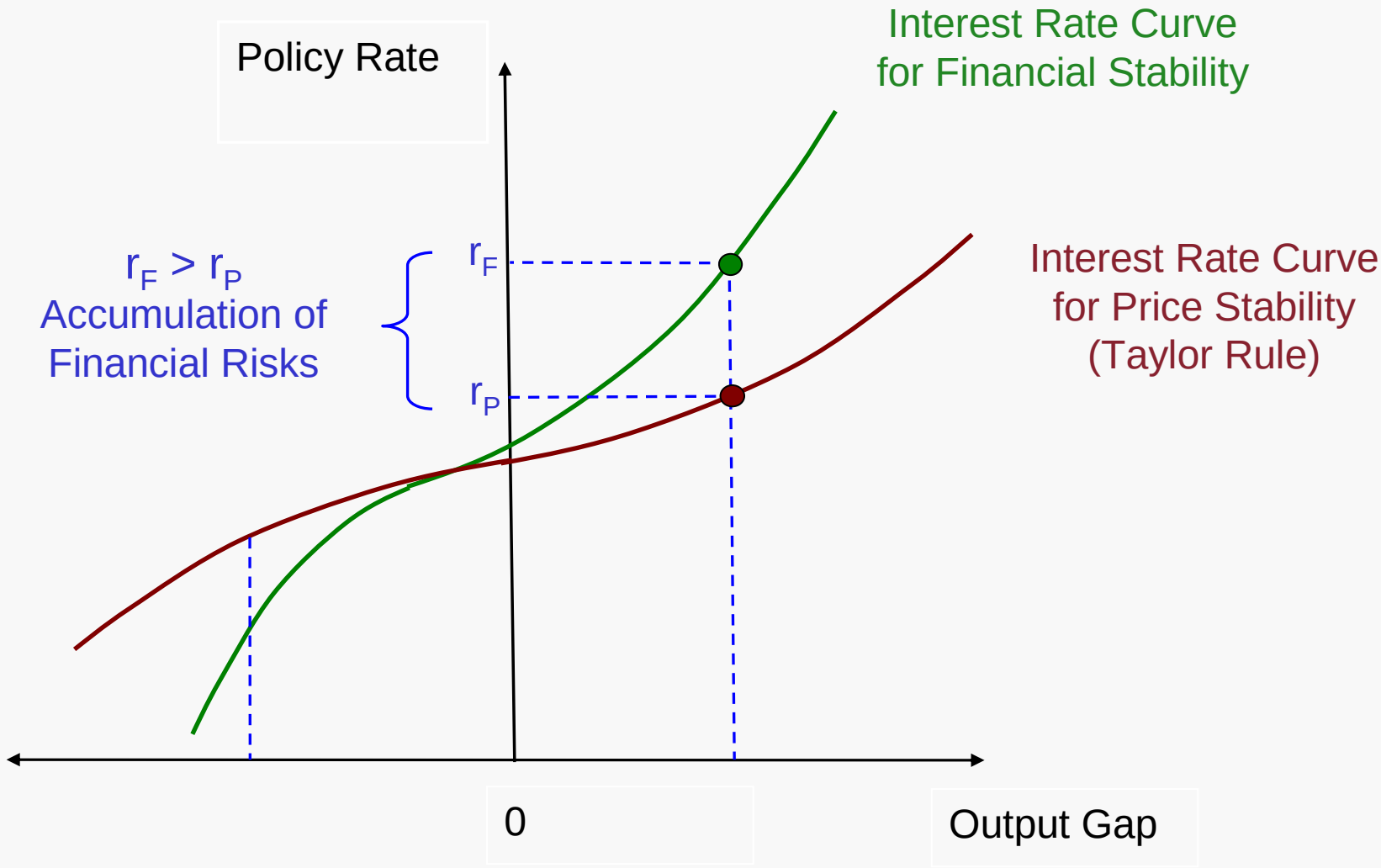


Source: TurkStat

Central Banks and Financial Stability

- **Financial stability has come up to the forefront in the agenda of policy makers due to the developments that took place during and after the global turmoil.**
- **In economy, the level of interest rate required for price stability and the level of interest rate required for financial stability are not always congruent with each other.**
- **In a case where economy expands excessively, interest rate policy that contains inflation could fall short of preventing occurrence of financial risks.**
- **On the other hand, in case of a severe recession, a much lower level of interest rate may be required in order to restore financial stability.**

Central Banks and Financial Stability

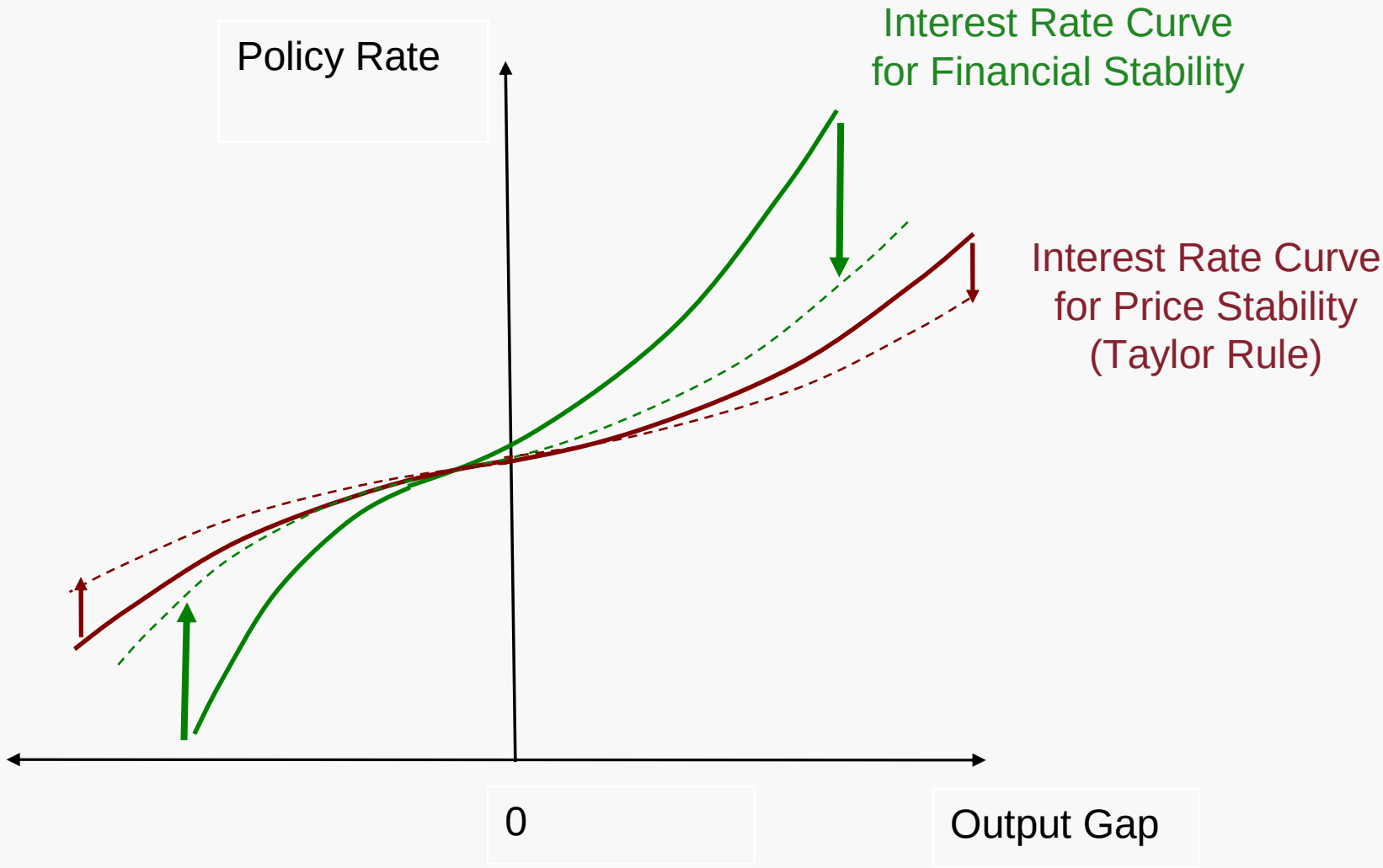


Note: Where macroprudential instruments are not used

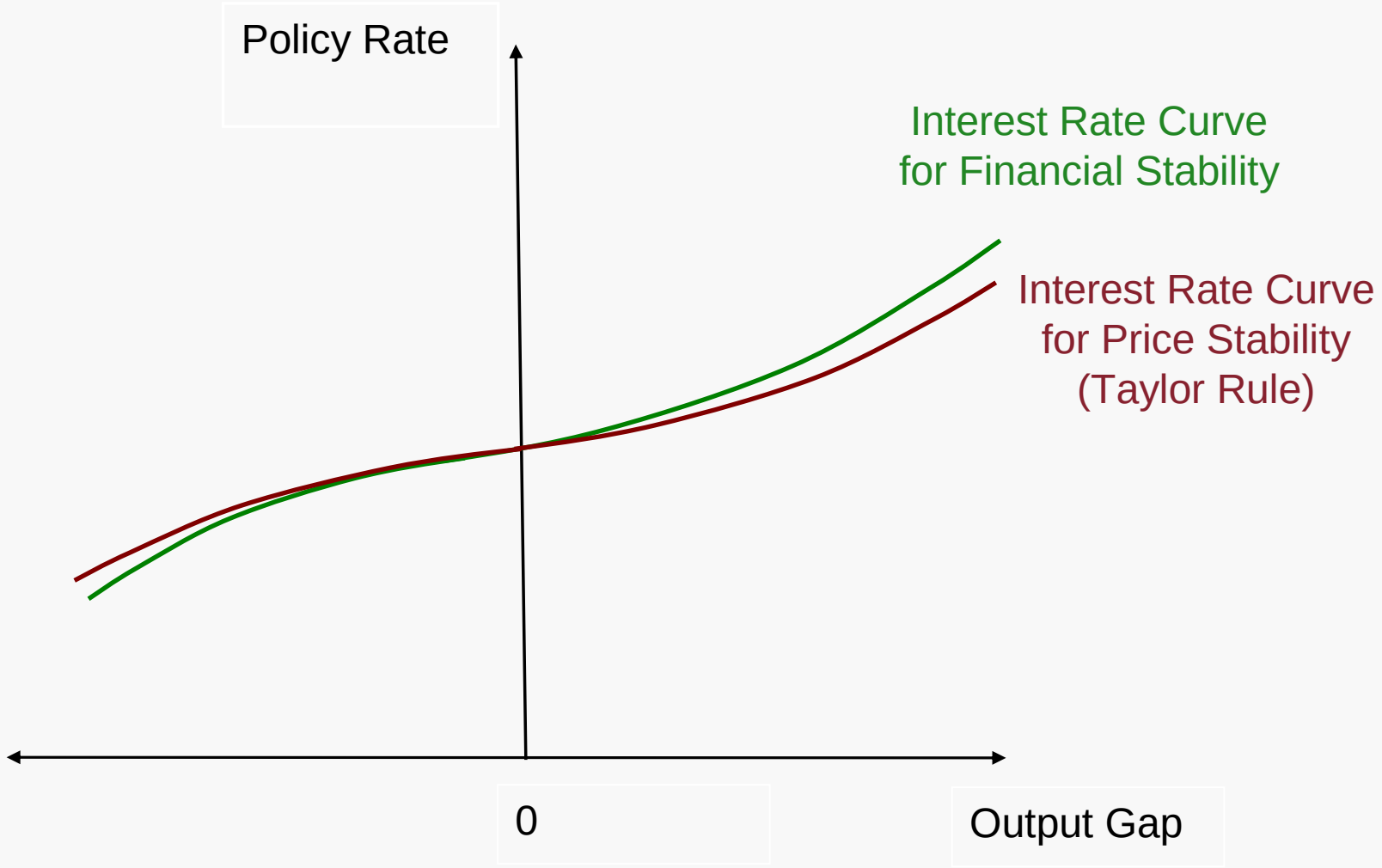
Central Banks and Financial Stability

- **Central Banks of developed countries ignored financial stability while focusing on price stability - the primary factor leading to global turmoil.**
- **For instance, although the Federal Reserve kept inflation at low levels owing to the monetary policy it followed between 2003 and 2007, it caused an excessive increase in debt ratios and asset prices and led to deterioration of financial stability.**
- **Prudent monetary and fiscal policies followed in Turkey since 2002, and cautious policy implementations by institutions responsible for financial stability, primarily the Banking Supervision and Regulation Agency (BRSA), coupled with monetary tightening implemented in the post-2006 period and cautious monetary policy stance adopted after that prevented occurrence of risks in our financial system.**

Cases Where Macroprudential Instruments are Used



Cases Where Macroprudential Instruments are Used



Central Banks and Financial Stability

- **The additional measures we have taken recently should be evaluated as a preparation for the new economic situation, which, in our opinion, will dominate the whole world in the upcoming period.**
- **The main feature of this new economic situation is the occurrence of the risks of overheating, excessive indebtedness and emergence of asset bubbles as a result of intensive capital inflows towards reliable and dynamic emerging market economies, and the probability of elevated levels of current account deficit threatening financial stability.**

Central Banks and Financial Stability

- **“To take precautions for enhancing the stability in the financial system and to take regulatory measures with respect to money and foreign exchange markets” (CBRT Law, Article 4)**
- **As stipulated by its Law, the Central Bank is one of the institutions responsible for financial stability in Turkey.**
- **Unlike other institutions in charge of supervision and regulation, the Central Bank approaches financial stability from a macro perspective.**

Financial Stability: Elements

1. **Debt Ratios:** ***Use of equity capital in higher amounts, more prudent borrowing***
2. **Debt Maturities:** ***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 processes and methods:** ***More effective management of exchange rate risk via instruments such as the Turkish Derivatives Exchange***

Stability and Communications

1. Inflation Report: Four times a year
2. Financial Stability Report: Two times a year
3. Governor Yılmaz's Speech at Turkish Exporters Assembly (September, 2010)
4. Governor Yılmaz's Presentation at the Banks Association of Turkey (October, 2010)

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