



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Monetary and Exchange Rate Policy for 2016

Erdem BAŞÇI
Governor

December 9, 2015
Ankara

Overview: Monetary and Exchange Rate Policy for 2016

- The inflation target for 2018 is set at 5 percent.
- The uncertainty band is maintained at 2 percentage points in both directions.
- Inflation which is expected to resume its downward trend at the beginning of 2016, is projected to reach 6.5 percent by the end of the year.
- Improvement in the current account balance will continue.
- Measures that have been taken have increased the resilience of the economy against external shocks.

Decisive monetary policy stance has been the main driver of disinflation.

Inflation Realizations and Targets (Percent)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Target	35	20	12	8	5	4	4	7.5	6.5	5.5	5	5	5	5	5	5	5
Realization	29.7	18.4	9.3	7.7	9.7	8.4	10.1	6.5	6.4	10.4	6.2	7.4	8.2	-	-	-	-

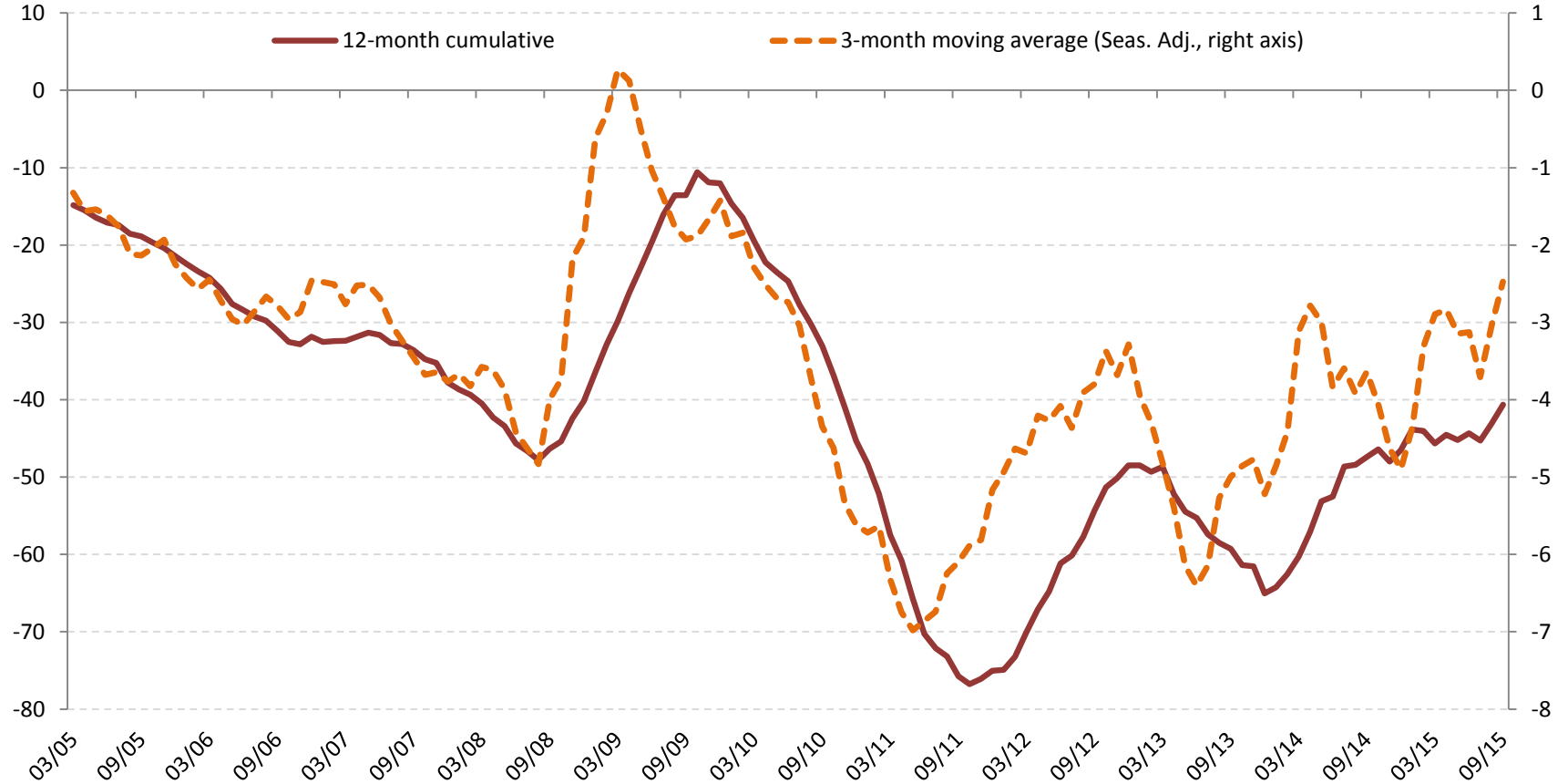
Source: TURKSTAT, CBRT.

*The numbers in the chart shows the peak values during the rising inflation periods.

Last Observation: November 2015.

Improvement in the current account balance will continue.

Current Account Balance (Billion US Dollar)

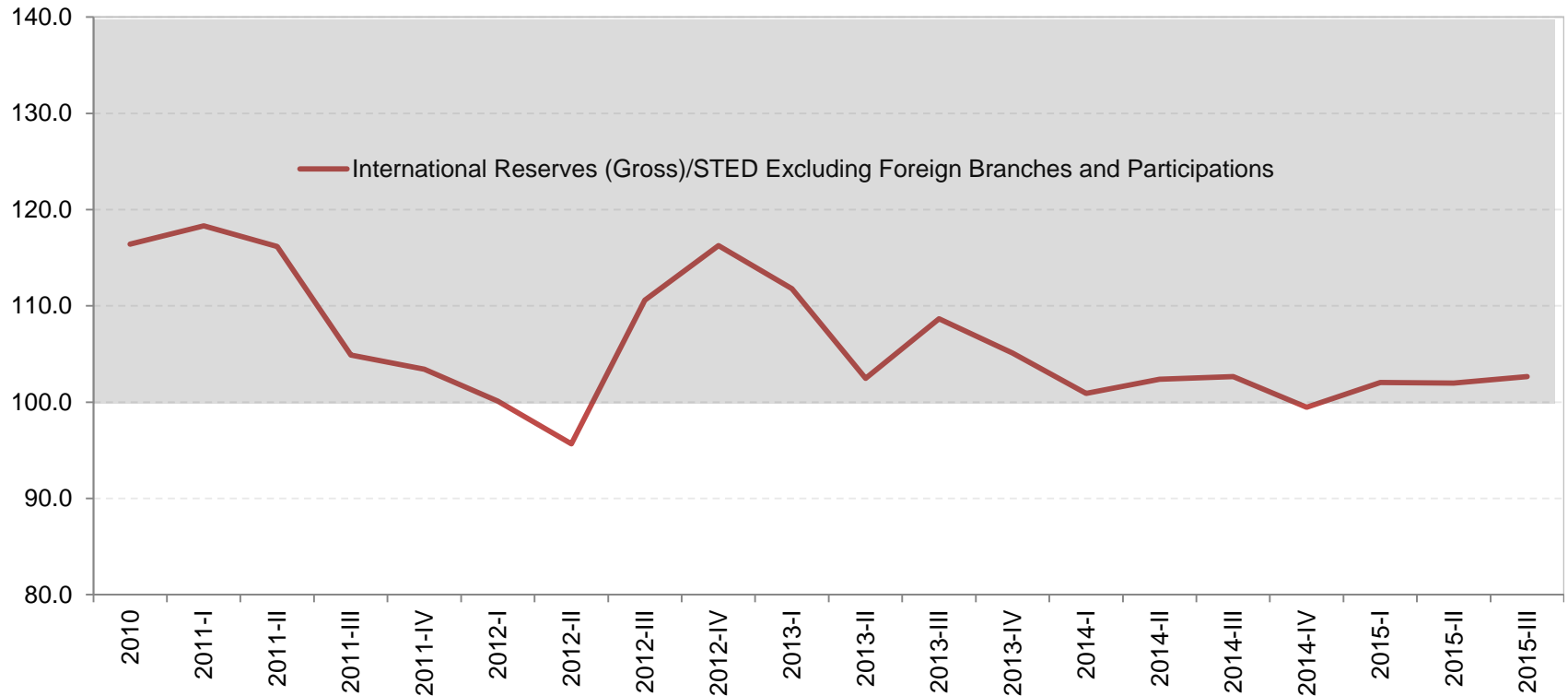


Source: CBRT.

Last Observation: September 2015.

Reserve coverage of short term external debt will improve with the maturity extension of external debt.

The Ratio of International Reserves to Short Term External Debt (STED) Stock Based on Remaining Maturity (%)



Source: CBRT.

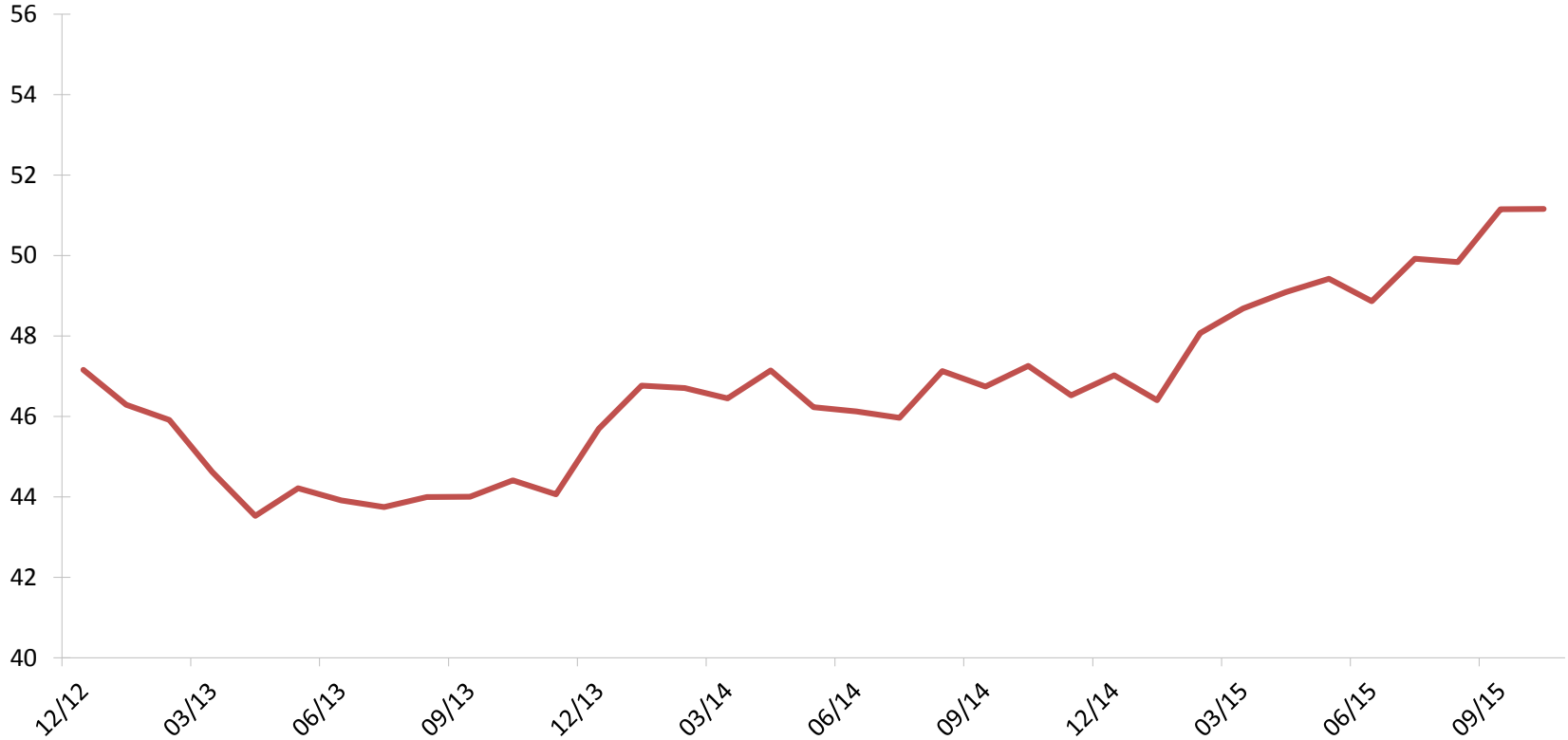
Last Observation: 2015 Q3.

Reserve coverage of short term external debt will improve with the maturity extension of external debt.

$$\text{Ratio} = \frac{\text{Reserves}}{\text{Short Term External Debt}}$$


Weighted average maturity of external debt of banking sector is increasing.

Weighted Average Maturity of External Debt of Banking Sector* (Month)



Source: Financial Stability Report November 2015.

*Includes issue borrowings in addition to credit, deposit and repo borrowings with banks and similar financial institutions as counterparts.

Last Observation: October 2015.

Monetary Policy

Current Monetary Policy Stance* continues to be:

- ✓ Tight for the inflation outlook
- ✓ Stabilizing for FX liquidity
- ✓ Supportive for financial stability

*Roadmap during the normalization of global monetary policies, August 18, 2015.

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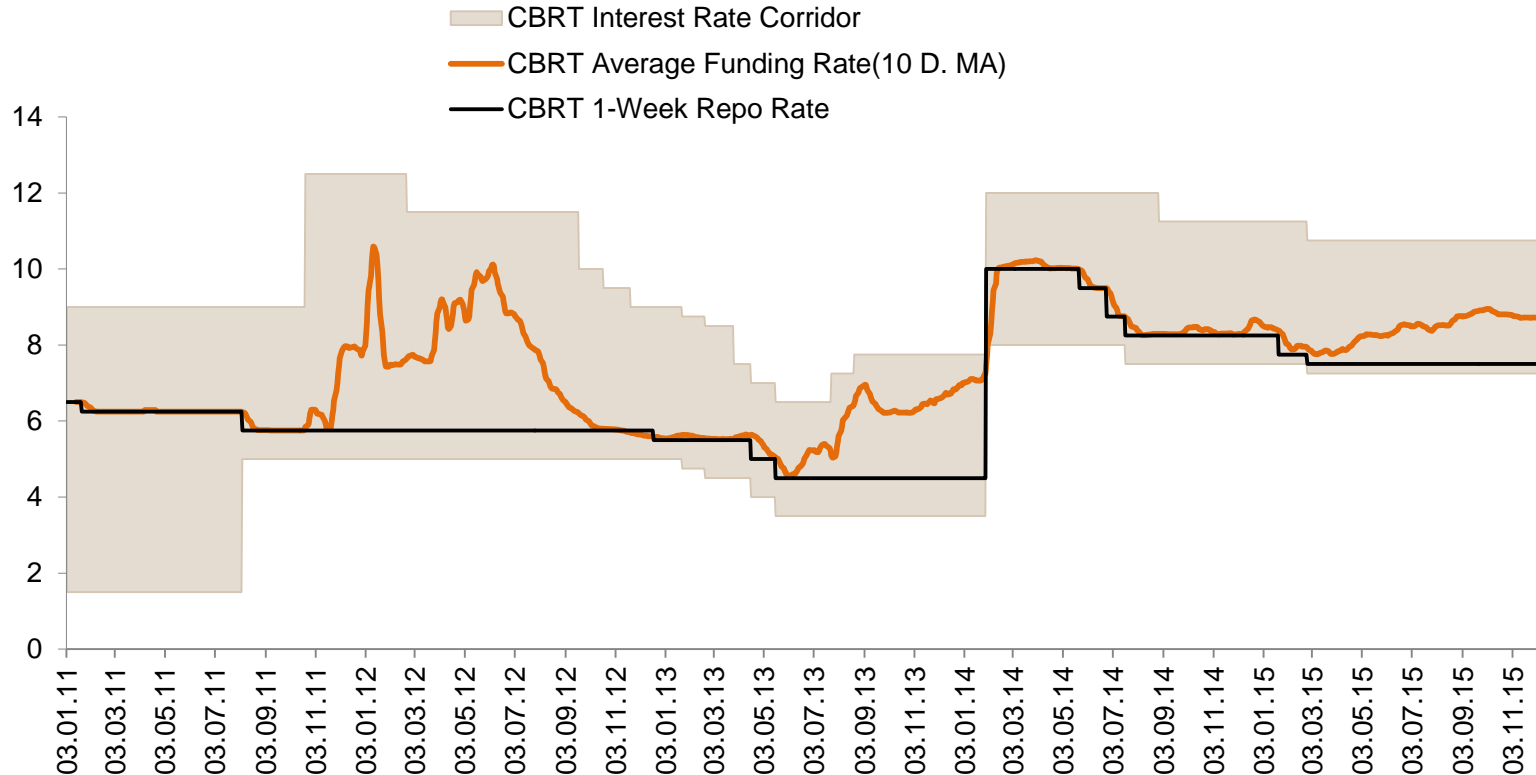
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The interest rate corridor will be made more symmetric around one-week repo interest rate and the width of the corridor will be narrowed.

Interest Rates (Percent)

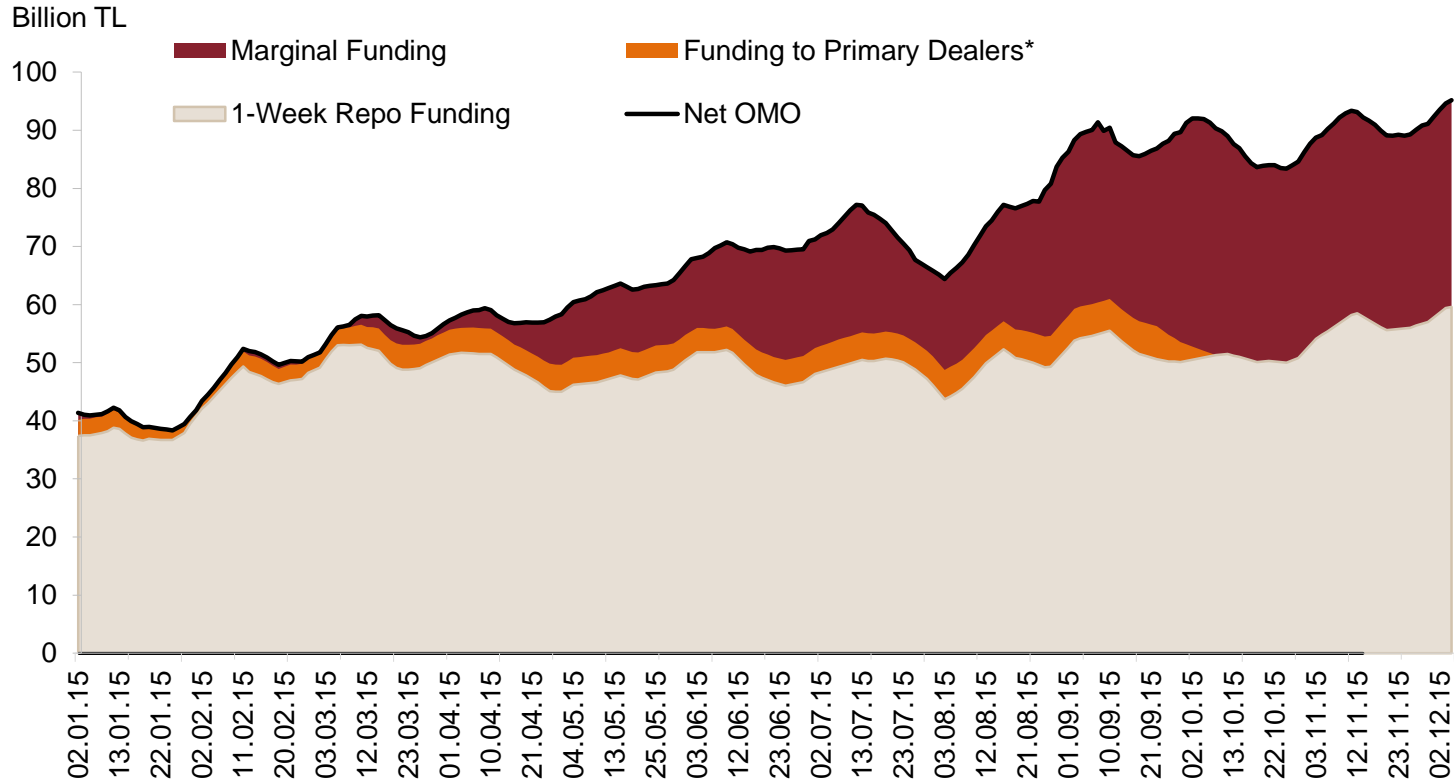


Source: CBRT.

Last observation: December 4, 2015.

One-week quantity repo auctions will be the main method of Central Bank funding in the coming period.

Central Bank Funding* (Two Week Moving Average, Billion TL)



*As of 23 September 2015, the Primary Dealership system has been further supported by allocating higher bid limits at 1-week quantity repo auctions to primary dealers instead of offering a favorable interest rate on borrowing facilities.

Last observation: December 4, 2015.

Source: CBRT.

Road Map During the Normalisation

Framework of Turkish Lira Liquidity Management and Simplification Steps

POLICY		TIMING
Interest Rate Corridor	The interest rate corridor will be made more symmetric around one-week repo interest rate and the width of the corridor will be narrowed.	During Normalization
Funding	The funding provided to primary dealers via repo transactions will be added to their limit of one-week repo auctions without changing the funding cost of primary dealers from the CBRT. Thus, quotation on the interest rate on borrowing facilities provided for primary dealers via repo transactions will be terminated.	Before Normalization
Collateral Conditions	Collateral conditions will be simplified.	Before and During Normalization

*With the beginning of normalization in global monetary policies.

FX Liquidity Measures

POLICY		TIMING
Flexible FX Selling Auctions	Flexibility of FX selling auctions will be increased to reduce the exchange rate volatility.	Before Normalization
Reserve Options	FX liquidity will be provided to the financial system through increases in the remuneration rate of Turkish lira required reserves or adjustments of Reserve Options Coefficients (ROC).	Before and During Normalization
Measures on Foreign Exchange Deposit Market	Borrowing limits via foreign exchange deposit accounts will be increased. After the related changes, size of the FX liquidity that financial system can access from CBRT, which is the sum of FX holdings in ROM and limits of the foreign exchange deposit market, will be considerably above the external debt payments of the banks in the coming year.	Before Normalization

Measures To Support Financial Stability

POLICY		TIMING
Lengthening the Maturity of Noncore FX Liabilities	FX required reserve ratios for the new FX noncore liabilities of the banks will be determined to incentivize maturities of longer than three years, without increasing the costs on the stock of liabilities.	Before Normalization
Supporting Turkish Lira Core Liabilities	If seen necessary, the remuneration rate of Turkish lira required reserves will be revised in the coming period to reduce the intermediation cost of banking sector and to support core liabilities.	Before and During Normalization
Remuneration of FX Required Reserves	The remuneration rate of the USD denominated required reserves, reserve options and free reserves held at the CBRT will be held close to the upper end of the Fed funds target rate range.	Before and During Normalization