

Financial Stability and Inflation Targeting in Turkey

Kuwait Financial Forum 2010

**Requirements for Rebuilding Banking and
Financial Regulatory Systems
in Light of the Global Crisis**

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Kuwait, October 2010

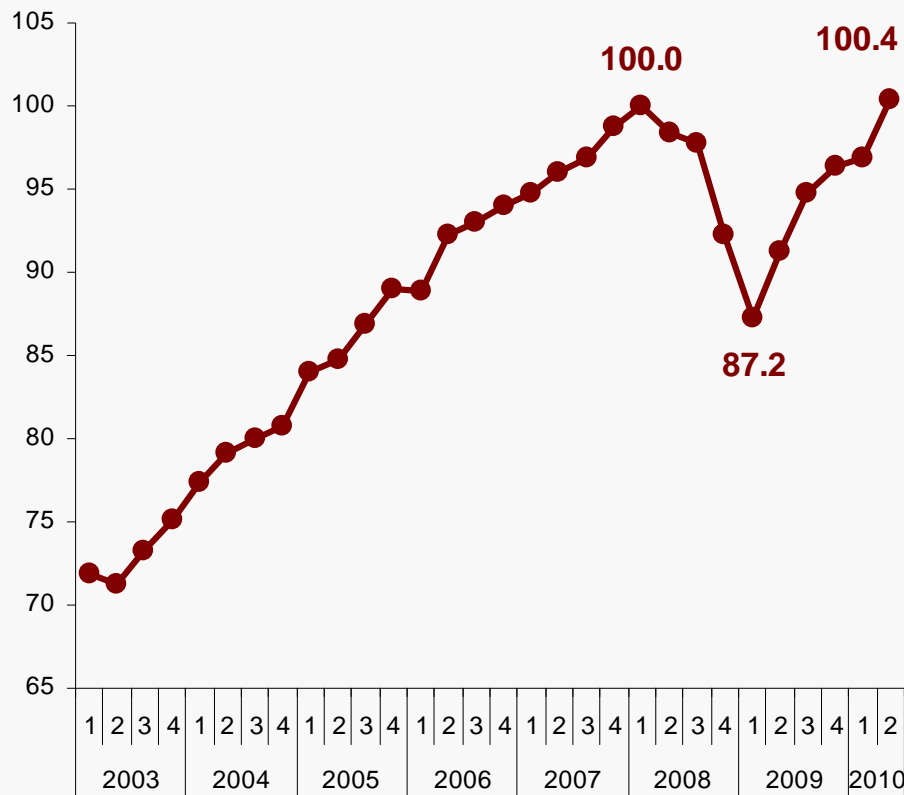
Presentation Outline

- I. Economic Outlook and Risks (Turkey)**
- II. Central Banks and Financial Stability**
- III. Financial Stability: Objectives**
- IV. Financial Stability: Instruments**
- V. Communications**

Economic Outlook and Risks (Turkey)

Seasonally Adjusted GDP

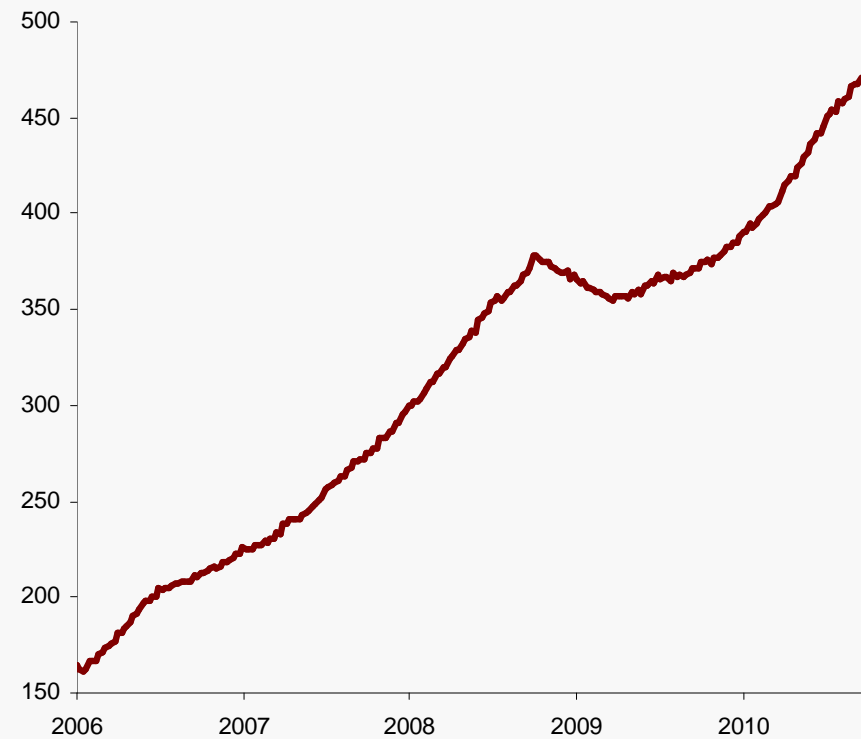
(2003 Q1 – 2010 Q2, constant prices, 2008 Q1 = 100)



Source: TurkStat, CBT

Total Credit Volume*

(Jan 2006 – Sept 2010, billion TL)



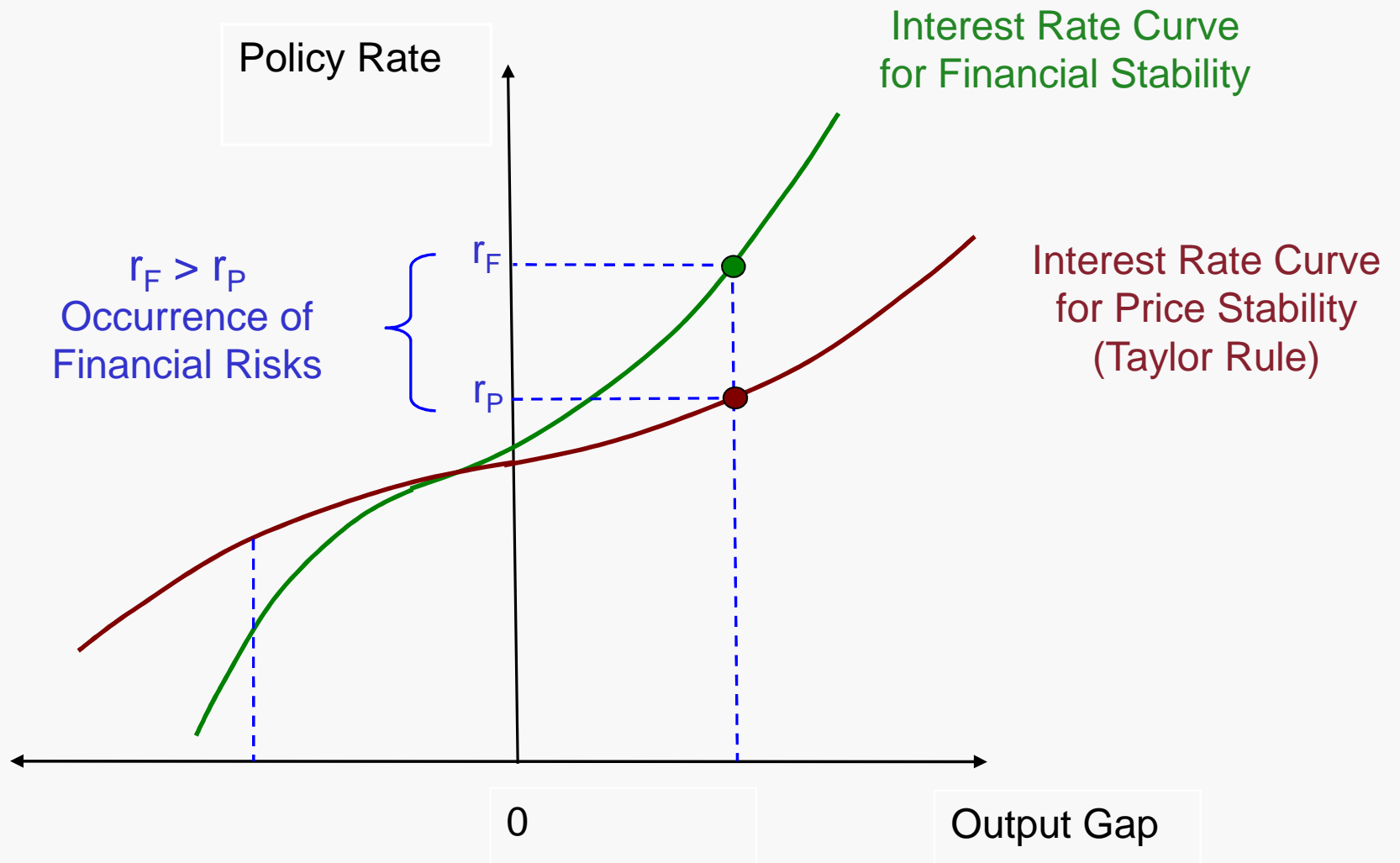
* Total credits extended by deposit, development, investment and participation banks along with consumer financing firms; exchange rate adjusted

Source: BRSA, CBT

Economic Outlook and Risks (Turkey)

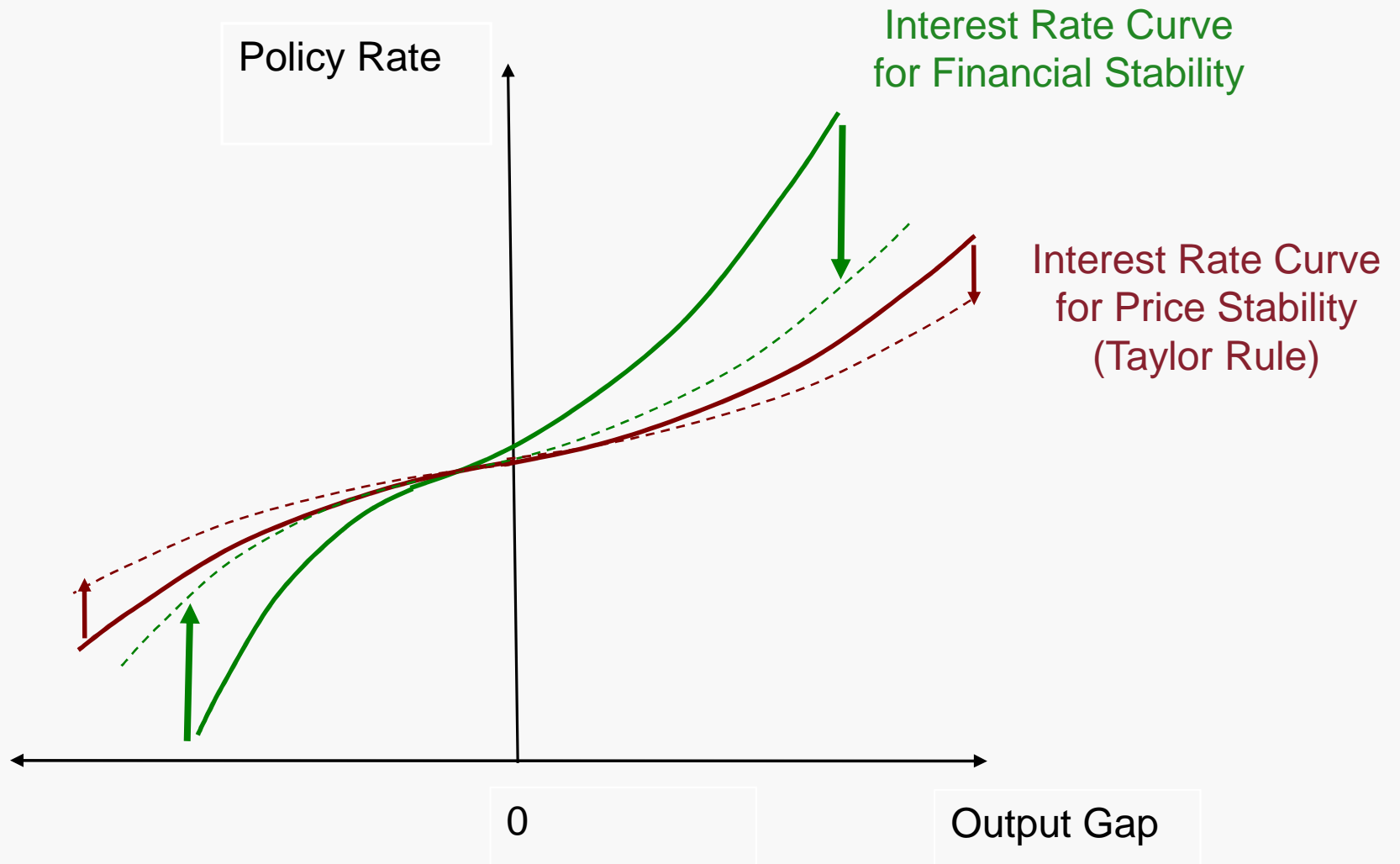
“ [...] Should the divergence in the growth rates between domestic and external demand continue in the forthcoming period, it would be necessary to utilize other policy instruments such as reserve requirement ratios and liquidity management facilities more effectively.” (Inflation Report, July 2010)

Central Banks and Financial Stability

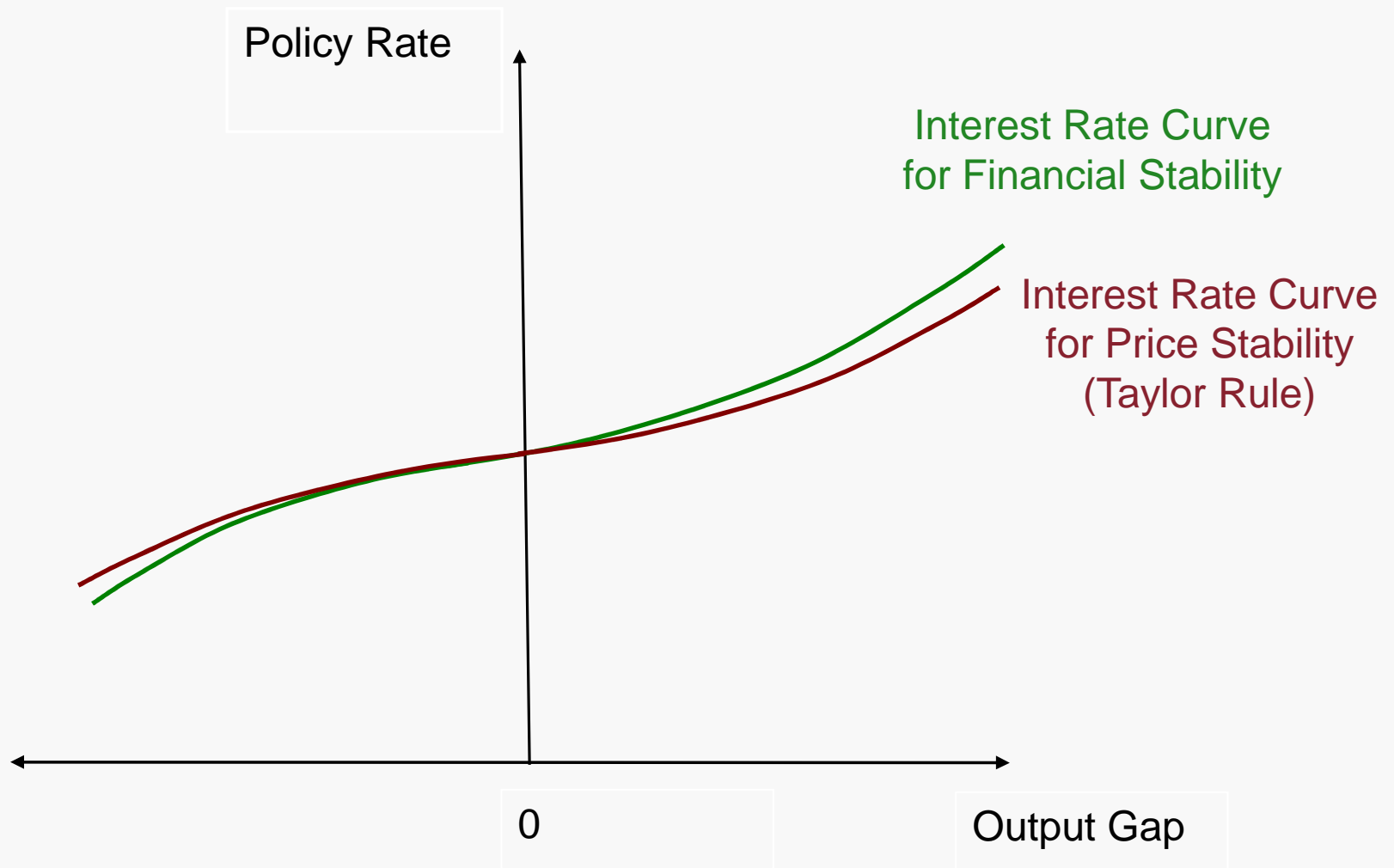


Note: Where non-interest instruments are not used

Case Where Macroprudential Instruments are Used



Case 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 world economic and financial outlook.**
- **The main feature of this new outlook is the potential risks of overheating, excessive credit growth and emergence of asset bubbles as a result of increasing capital inflows towards reliable and dynamic emerging market economies.**

Financial Stability: Objectives

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

Financial Stability: Instruments

- 1. Primary Government Expenditures**
- 2. Taxes**
- 3. Capital Adequacy Ratios (Basel III)**
- 4. Liquidity Adequacy Ratios (Basel III)**
- 5. Required Reserve Ratios**
- 6. Central Bank's Liquidity Management**

Central Bank's Policy Instruments

Instruments for Price Stability (in the order of priority):

1. Short Term Interest Rates
2. Liquidity Management
3. Required Reserve Ratios

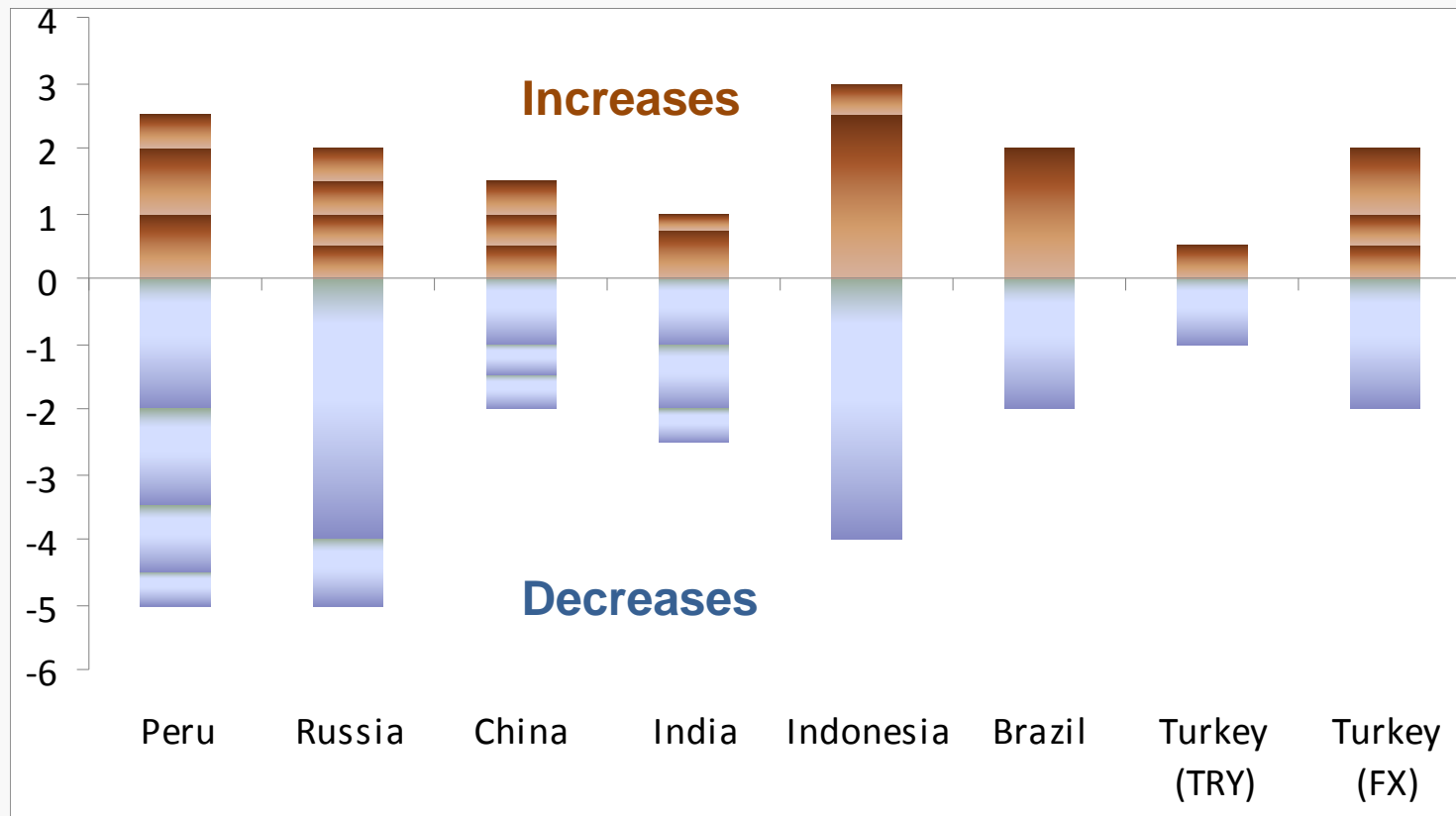
Central Bank's Policy Instruments

Instruments for Financial Stability (in the order of priority):

1. Required Reserve Ratios
2. Liquidity Management
3. Short Term Interest Rates

Required Reserves

The Use of Required Reserves as a Policy Instrument



Required Reserves

Transmission Channels:

1. Liquidity

2. Cost of Intermediation

Central Bank's Liquidity Management Instruments

1. FX Purchases

2. Weekly Repo Auctions

3. 3-Month Repo Auctions

4. Corridor System

- [...] the difference between borrowing and lending rates, or the difference between these and the policy rate (one-week repo auction rate) will be determined as an element of the operational framework of monetary policy (Exit Strategy 2010, paragraph 16.b.iii)

Communications

An Integrated Approach:

- **Inflation Report**
- **Financial Stability Report**
- **Monetary and Exchange Rate Policies**
- **Monetary Policy Committee Summaries**

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