

Bulletin



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CBRT's Meetings with Banks' Economists

The Central Bank of the Republic of Turkey (CBRT) holds regular meetings with bank economists since May 2011 to communicate technical aspects of its monetary policy. These meetings are closed to the press and attended by one or several Monetary Policy Committee (MPC) members, the CBRT's chief economist, as well as representatives of several departments, such as the Banking and Financial Institutions, Markets and Research and Monetary Policy Departments.

The meetings start with a presentation by the chief economist or the head of the Research and Monetary Policy Department on the latest macroeconomic developments. The presentation also elaborates the latest MPC decision and its rationale. This presentation is then followed by a question-answer session, where members of the MPC and department heads answer questions of economists.

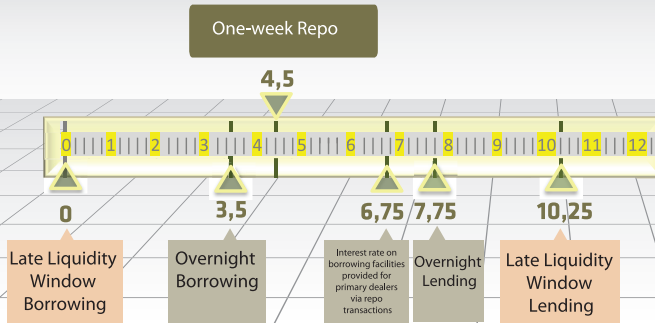
A total of ten meetings were held in Ankara in 2013, attended by more than four hundred Turkish and foreign economists and analysts.

The presentations delivered in CBRT's Economists Meetings are posted on the Bank's website under "Remarks/Technical Presentations" menu. For further information about the meetings and the conditions of attendance, the e-mail address investor@tcmb.gov.tr may be used.



For the presentations at CBRT's meetings with banks' economists, see: www.tcmb.gov.tr

CBRT Interest Rates (As of 19 November 2013, %)



CBRT Foreign Exchange Reserves:

114.28 Billion USD

(As of 29.11.2013)

CPI, Annual % Change: 7.71 %

(October 2013)

Central Bank Macroeconomic Modelling Workshop



The incorporation of financial stability as a supplementary objective of monetary policy in central banks has received increasing interest fueled by the recent global financial crisis. To this end, many central banks have adopted macro-prudential policies and liquidity operations in addition to the traditional interest rate instrument. This practice, however, is not yet firmly grounded in theoretical macroeconomic models and raises a number of questions. To provide answers to these questions, the Central Bank of the Republic of Turkey (CBRT) hosted the 2013 Central Bank Macroeconomic Modeling Workshop (CBMMW) on “Understanding the Mechanisms and Effects of New Policy Instruments” on 7-8 November 2013, in İstanbul. The Workshop brought together distinguished economists from international institutions, central banks and academic institutions to discuss critical issues related to the adoption of new policy instruments in central banks.

In his opening speech, Governor Erdem Başçı noted that monetary policy making has made a new turn following the global financial crisis and now, as he stated, “practice is ahead of theory, and theory is ahead of modeling.” The keynote speech was delivered by Frank Smets from the European Central Bank, who contributed to the Workshop by presenting his joint work with Frédéric Boissay, Fabrice Collard on “Booms and Banking Crises”.



Smets noted that systemic banking crises tend to break out in the midst of a credit boom generated by a sequence of positive supply shocks rather than being the outcome of a big negative wealth shock. He later argued that this result is of particular importance from a policy making perspective as it implies that systemic banking crises are predictable.

In the conference, academicians and central bankers presented their works on prudential policies, balance sheet policies, financial intermediation, sovereign risk and foreign exchange interventions. The papers addressed not only the problems of developed countries but also those of emerging countries such as Turkey and Columbia.



For the web page of the Workshop:

Forward Guidance in Turkey

Following the global financial crisis, most central banks have started to use unconventional monetary policies, such as asset purchases. The use of unconventional monetary policies has also affected the communication practices of the central banks. Especially due to reaching the zero lower bound, central banks such as the Federal Reserve, the Bank of England and the European Central Bank have started using “forward guidance”, a new form of central bank communication where central banks convey messages about the future stance of the monetary policy (longer than the control horizon, which used to be 1-2 years under conventional policies) based on their evaluation of the economic outlook. By this practice, central banks are trying to provide greater clarity about the future path of the monetary policy and exert downward pressure on long term interest rates.

Accordingly, following the global financial crisis, the CBRT has also launched a new policy mix, where reserve option mechanism and the interest rate corridor have been incorporated. Recently, the CBRT has also provided signals as to the future stance of the monetary policy, i.e. forward guidance.

The CBRT communication about signals as to the future stance of the monetary policy can be traced back to 2006, when the CBRT published the first Inflation Report upon transition to full-fledged inflation targeting. In these documents, the CBRT outlined the monetary policy to be implemented to converge inflation to the targets. In addition, signals about the future path of policy rates have been shared with the public via various documents in which the CBRT conveys its policy decisions.

Nonetheless, forward guidance has been used more clearly and thoroughly in statements made by the CBRT recently. In comparison to the forward guidance practices of developed countries that are faced with a policy challenge due to reaching the zero lower bound, the CBRT employs forward guidance to communicate that it will maintain its cautious monetary policy stance until the medium term inflation targets are achieved.



Examples of Forward Guidance in Turkey:

Inflation Report, 2006-I: “...Under the above assessments and assumptions, end-2006 inflation forecasts remain in the 4.7-6.3 percent range. Underlying these forecasts is a short term interest rate path remaining constant for the first couple of months in 2006 and displaying a gradual decline thereafter. It should be once more emphasized that the forecast, and thus the interest rate path, is constructed so as to attain the medium-term targets, under the contemporary information set. This path should not, in any circumstances, be regarded as a commitment of the CBRT; it is subject to change as the economic conditions and assumptions change.”

Decision of the Monetary Policy Committee Meeting (20 August 2013) and Summary of the Monetary Policy Committee Meeting (27 August 2013): “The cautious stance will be maintained until the inflation outlook is in line with the medium term targets. In this respect, additional monetary tightening will be implemented whenever needed.”

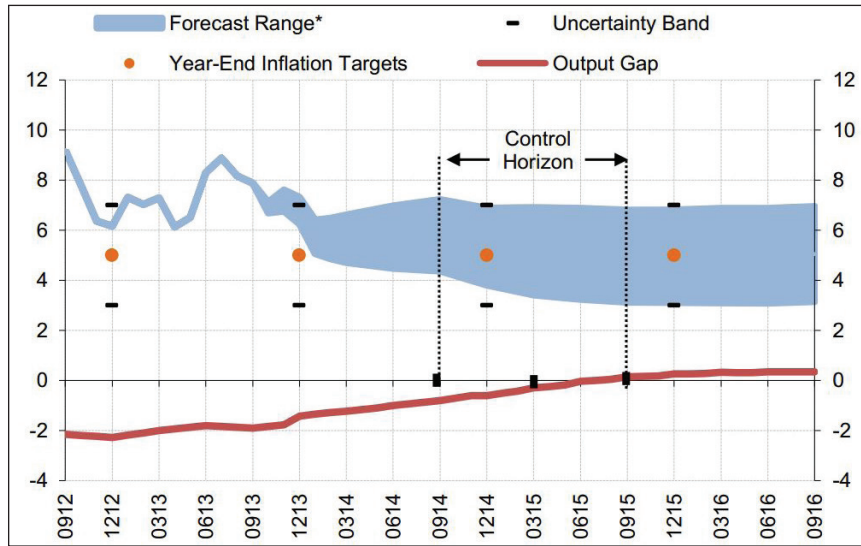
Decision of the Monetary Policy Committee Meeting (17 September 2013) and Summary of the Monetary Policy Committee Meeting (24 September 2013)*: “The cautious monetary policy stance will be maintained and additional monetary tightening will be implemented at the appropriate frequency until the medium term inflation outlook is in line with the medium term targets.”

* Similar statements have been used in October and November 2013 MPC decisions.

Thermometer

Inflation and Output Gap Forecasts

Chart - 1: Inflation and Output Gap Forecasts



* Shaded region indicates the 70 percent confidence interval for the forecast.
Source:CBRT

The CBRT shared its inflation and output gap forecasts with the public via its quarterly Inflation Report at a press conference on 31 October 2013. Accordingly, inflation is expected to be, with 70 percent probability, between 6.3 percent and 7.3 percent (with a mid-point of 6.8 percent) at the end of 2013 and between 3.8 percent and 6.8 percent (with a mid-point of 5.3 percent) at the end of 2014. Inflation is expected to stabilize around 5 percent in the medium-term (Chart - 1). Inflation forecasts for 2013 and 2014 have been revised upward by 0.6 percentage point and 0.3 percentage point, respectively, compared to the forecasts in the previous Inflation Report, in view of exchange rate and oil price developments.

The medium-term forecasts envisage an outlook where the predictability of the monetary policy continues to increase gradually. Additionally, it is assumed that the liquidity policy will be tight and the annual credit growth will fall to 15 percent by mid-2014 with the contribution of the macroprudential measures.

For the latest issue of the Inflation Report, see www.tcmb.gov.tr

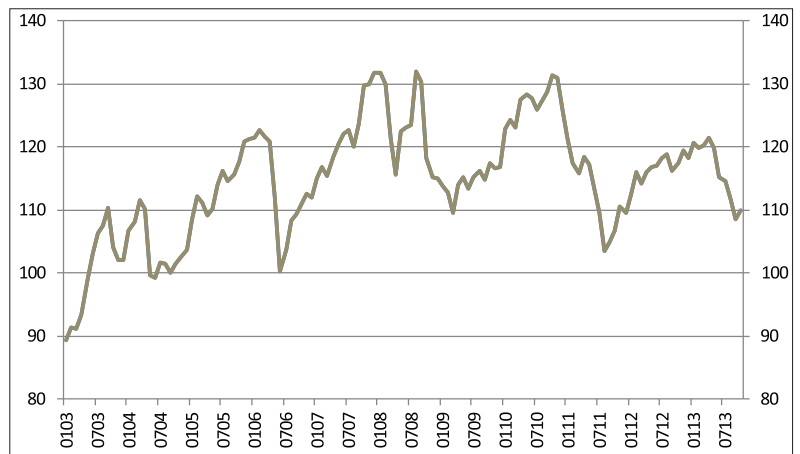


CPI-Based Real Effective Exchange Rate

The Real Effective Exchange Rate (REER) released by the CBRT is computed as the weighted geometric average of the prices in Turkey relative to the prices of its leading trade partners in international markets. An increase in the REER represents an appreciation of the TL in real terms, denoting a rise in the value of Turkish commodities as against foreign commodities.

The CPI-based REER, which reached a maximum (121.41) in April 2013, has showed a marked slowdown since May. Accordingly, the CPI-based REER decreased to 108.61 in September, the lowest figure since October 2011. The October 2013 figure stood at 109.99. Overall, the real effective exchange rate depreciated after the recent nominal exchange rate developments and largely retreated from the levels that can be called excessively overvalued. This is expected to support economic rebalancing over the upcoming period.

Chart - 2: CPI- Based Real Effective Exchange Rate (2003=100)



Last observation: October 2013
Source: CBRT

For the real effective exchange rate statistics compiled by the CBRT, see: www.tcmb.gov.tr



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Owner on behalf of the Central Bank of the Republic of Turkey and Managing Editor

Dr. Tuğrul Gürgür

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Advisor:

Nuri Aksu

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Central Bank of the Republic of Turkey
Communications and Foreign Relations
Department
İstiklal Cad. No: 10 06100 Ulus - Ankara
TURKEY

Phone: +90 312 507 50 00