

Bulletin



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İstanbul School of Central Banking has been opened

In the wake of the financial crisis, rethinking macroeconomic policy, sharing experiences and best practices in a highly interdependent global economy have proven to be vital. Hence, a synergy among policy makers, practitioners and academics is required to explore solutions to economic and financial challenges. New communication venues are essential to provide

discussion platforms for this joint work. Recently founded by the Central Bank of the Republic of Turkey (CBRT), the İstanbul School of Central Banking (İMB) aims to create an ideal setting for such a platform by emphasizing a collaborative effort to promote frontier research and develop human capital in economics and finance, primarily in central banking.

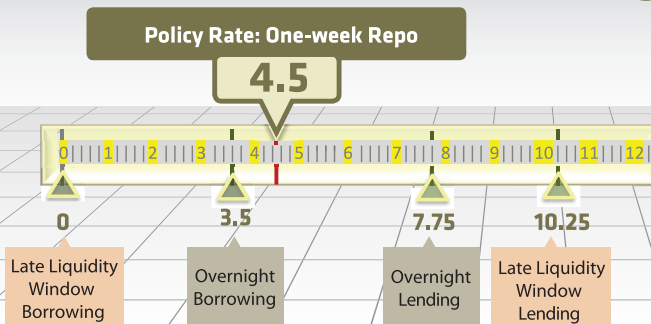


Governor Başçı and Former Governor Yılmaz at the opening ceremony

The grand opening of the İMB took place on 30 April 2013 in İstanbul. The CBRT Governor, Erdem Başçı, and the former CBRT Governor, Durmuş Yılmaz, cut the ribbon for the İMB building. The İMB is set to become a home for collaborative research, training activities and technical cooperation, to contribute to the accumulation of knowledge, the development of human resources, and the conduct of collaborative studies on economics and finance with an emphasis on issues regarding central banking.

The İMB intends to conduct innovative research on central banking, economics, finance and public policy; to cooperate with experts and institutions/agencies; to collaborate with peer central banks and international institutions to organize training programs primarily in fields of interest to central banks; to facilitate effective functioning of technical support projects; to provide technical assistance to countries that demand such assistance and send experts/trainers abroad in this scope; to organize and conduct conferences, workshops, panels, seminars and similar programs in collaboration with peer central banks and international institutions.

CBRT Interest Rates (As of 20 August 2013, %)



CBRT Foreign Exchange Reserves:
108.669 Billion USD
(As of 06.09.2013)
CPI: 8.17 %
(August 2013)

CBRT's Liquidity Management under the New Policy Mix

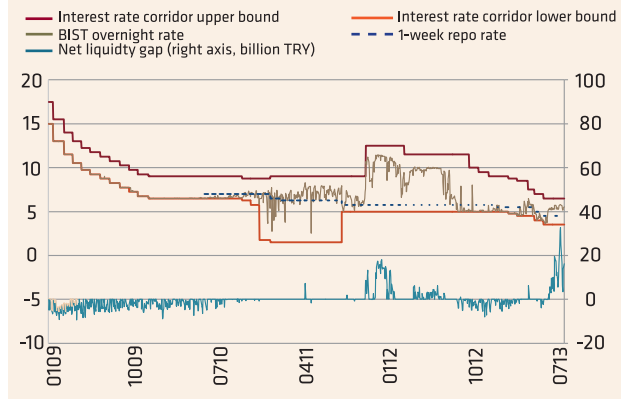
After the global economic crisis, the CBRT adopted a new policy mix effective from the last quarter of 2010 and started to use various policy instruments in order to achieve its targets of price stability and financial stability.

Operational Framework of the New Monetary Policy

In its new monetary policy, the CBRT is able to offer market funding for various terms such as overnight, one-week or one-month. With its main policy instrument (one-week repo rate), the CBRT arranges the level of liquidity it injects to the markets on a daily basis.

By this way, the CBRT can drive the overnight market interest rates close to desired levels within the bounds of the interest rate corridor. On occasions where the overnight liquidity need of the market is not fully met by one-week and one-month funding, banks may get overnight funding from the CBRT via BIST repo/reverse repo transactions. In such cases, banks are funded at the upper limit of the interest rate corridor. As a result, when the CBRT funding is lower than the market need for one week or longer, the liquidity gap in the market, as well as the market interest rates, increase (See Chart-1). This new monetary policy framework gives the CBRT the flexibility to affect market interest rates on a daily basis. By differentiating overnight market interest rates and its average funding rate, the CBRT affects the exchange rate and credit channels separately.

Chart -1: CBRT Interest Rate Corridor, Overnight Interest Rates and Net Liquidity Gap

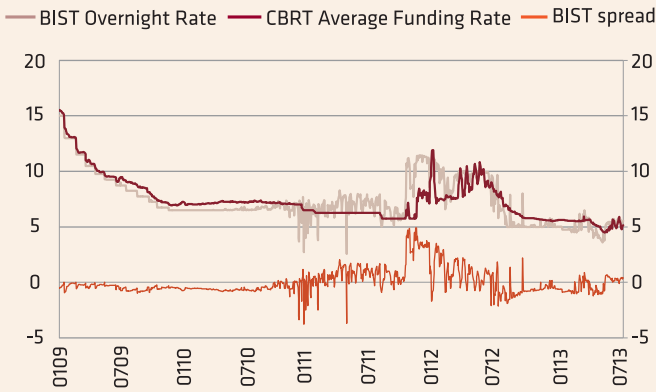


Source: BIST, CBRT

Liquidity Management and Interest Rates

Chart -2: BIST Interest Rate Margin

(BIST Overnight Interest Rate - CBRT Average Funding Rate)



Source: BIST, CBRT

Short-term interest rates are crucial elements of the first level of the monetary transmission mechanism. Under the orthodox inflation targeting regime, overnight interest rates are expected to be close to CBRT policy rates in order to control long-term interest rates. However, under the new monetary policy implemented by the CBRT, the operational framework of the liquidity management has changed and short term interest rates started to be affected by tools other than the CBRT policy rate. Consequently, the margin between BIST overnight interest rate and the CBRT average funding rate has widened and become more volatile (See Chart-2).

Factors Influencing the BIST Interest Rate Margin

Within the operational framework mentioned above, the interaction between supply and demand components, which determine liquidity conditions in the market, is influential on the BIST interest rate margin. The policy variables that explain the BIST interest rate margin are the "net liquidity gap" indicating the overnight funding need of the market, the ratio of weekly and longer term funding provided by the CBRT to required reserves of the banks, the CBRT's overnight lending and borrowing rates and the CBRT's funding maturity structure.

A recent study conducted by the CBRT showed that within the framework of the new monetary policy, effective liquidity management can be a significant tool. The BIST interest rate margin and its volatility have been rising since the third quarter of 2010 as a consequence of the liquidity management stance. The CBRT has been able to affect the BIST interest rate margin by using monetary policy tools like the amount, timing and maturity of funding as well as the interest rate corridor.



Istanbul School of Central Banking



The İMB premises in Fenerbahçe, İstanbul

The İMB will organize courses, seminars and training activities for a target audience of central bankers, public officials and upper level researchers. The content of the courses and training activities will be determined and some will be given more priority, depending on the needs of central banks and other institutions. Cooperation with global and regional research institutions is highly preferred by the İMB in organizing educational and training activities. With

its diverse curriculum, the School envisages attracting an audience from different levels of specialization and practice. The courses will be delivered by visiting world-class scholars as well as specialists from the CBRT.

The İMB's facilities include a seminar room for 55 guests and a fully-equipped classroom for 27 students. The School's building is located in the district of Fenerbahçe, Kadıköy, on the Asian side of İstanbul.

SUMMER WORKSHOP 2013 1-2 JUNE, İSTANBUL

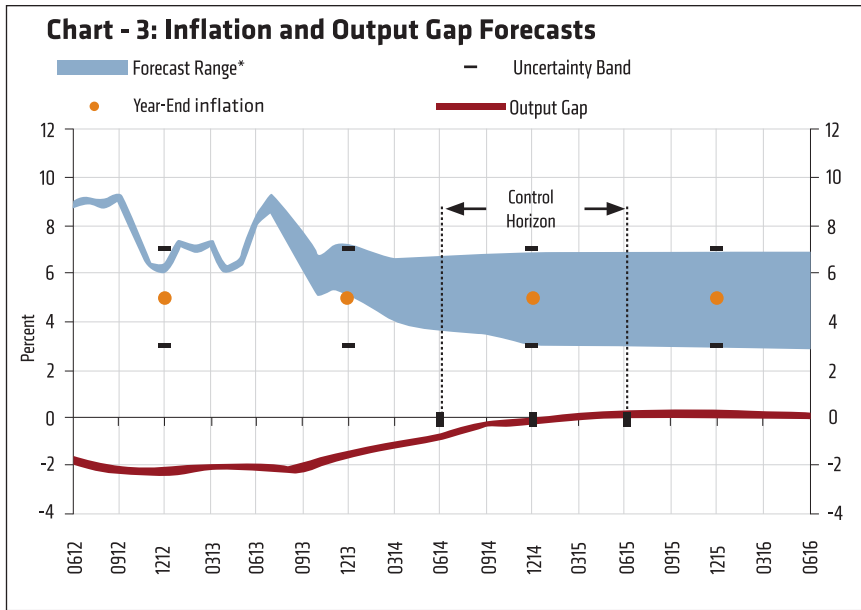


Summer Workshop 2013

In its inaugural year, the İMB organized its first Summer Workshop, a series of seminars and lectures on central banking issues on 1-2 June 2013 in İstanbul.

The Workshop brought together leading scholars from academia and policy makers from other institutions to discuss recent advances in theoretical and empirical work on issues related to macroeconomics and central banking. Nobel Laureate academics were among the speakers at the Workshop.

The opening speech of the Workshop was delivered by the CBRT Deputy Governor Mehmet Yörükoğlu. Moreover, a panel discussion titled "From Quantitative Easing to Short Term Capital Flows: Liquidity Management" was held with the participation of the CBRT Governor, Erdem Başçı, and the President of the Minneapolis FED, Narayana Kocherlakota.



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

The medium-term forecasts envisage an outlook where the cautious and flexible stance of the monetary policy is preserved because of the recently elevated uncertainties regarding global monetary policies and weakening capital flows. In this sense, it is assumed that the liquidity policy will be tight, the interest rate corridor will be actively used when necessary, and the annual credit growth will fall to 15 percent by mid-2014.

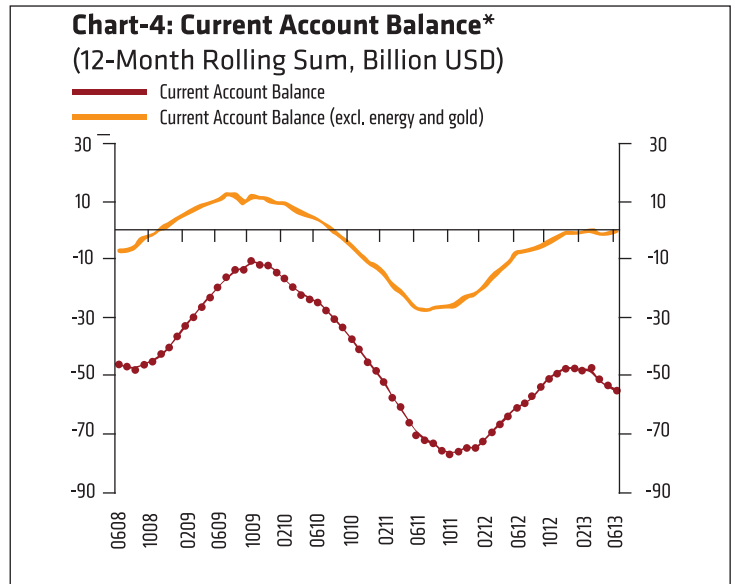
For the latest issue of the Inflation Report, see www.tcmb.gov.tr

Balance of Payments Developments

The recent indicators pertaining to external demand show that exports of goods and services have been relatively flat whereas imports of goods and services increased due to the pick-up in domestic demand and surge in imports of gold in the second quarter of 2013.

The improvement in the current account balance since end-2012 has accordingly come to a halt due to the robust increase in import demand (Chart - 4). Nonetheless, the current account deficit excluding gold and energy remains close to zero.

In this framework, the CBRT foresees a slight deterioration in the rebalancing of demand components and hence a surge in current account deficit. Yet, with the help of the commodity prices outlook as well as the monetary policy stance of the CBRT that oversees macro financial risks, the deterioration in current account deficit is expected to be limited.



* Estimate for June 2013
Source: TurkStat, CBRT.

For the Balance of Payments Statistics compiled by the CBRT, see www.tcmb.gov.tr

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