



## Major Monetary and Exchange Rate Policy Implementations in 2016

In the aftermath of the global financial crisis, the CBRT's flexible monetary policy framework incorporating a wide interest rate corridor, an active liquidity policy and reserve requirement system accompanied by the macroprudential measures introduced jointly with other authorities have alleviated the Turkish economy's susceptibility to volatilities and have supported price stability and financial stability.

(Page 2)

### NEWS AND PUBLICATIONS FROM THE CBRT

- Research Notes in Economics
- CBRT Working Papers
- Inflation Report 2016-I

(Page 3)

### AT A GLANCE ...

- EU Chapter on Economic and Monetary Policy Opened for Negotiations
- Informative Sessions for University Students

(Page 4)

### CBRT POLICY RATES (24 March 2016)

Late Liquidity Window Borrowing Rate: 0%	Borrowing Rate: 7.25%	One-Week Repo Rate: 7.5%	Marginal Funding Rate: 10.50%	Late Liquidity Window Lending Rate: 12%
---	--------------------------	-----------------------------	----------------------------------	--

### CBRT RESERVES (1 April 2016)

#### GROSS FX RESERVES

95.3 BILLION USD

#### GOLD

18.9 BILLION USD

### INFLATION (March 2016)

7.46%

# MAJOR MONETARY AND EXCHANGE RATE POLICY IMPLEMENTATIONS IN 2016

The unconventional monetary policy implementations adopted by advanced economies in the aftermath of the global financial crisis and growing uncertainties pertaining to these policies have led to serious volatility in the portfolio flows to emerging market economies. In this period, the CBRT's flexible monetary policy framework incorporating a wide interest rate corridor, an active liquidity policy and reserve requirement system accompanied by the macroprudential measures introduced jointly with other authorities have alleviated the Turkish economy's susceptibility to volatilities and have supported price stability and financial stability.

Taking into account the global and domestic conditions, the policies were designed to be:

- (i) Tight for the inflation outlook,
- (ii) Stabilizing for FX liquidity,
- (iii) Supportive of financial stability.

The uncertainties pertaining to the normalization process of global monetary policies are expected to be reduced in the upcoming period provided that global recovery reaches the desired level. In this framework, the CBRT released a road map on 18 August 2015 regarding the policies to be implemented before and after the normalization of global monetary policies.

The policies explained in the road map are presented under three main headings:

- (i) interest rates and Turkish lira liquidity,
- (ii) FX liquidity, and
- (iii) policies towards financial stability.

The content of the first title of the road map, the "Framework of Turkish Lira Liquidity Management and Simplification Steps" is presented in Table 1.

## Framework of Turkish Lira Liquidity Management and Simplification Steps

It was indicated in the road map that with the start of the normalization of global monetary policies, the interest rate corridor would be made more symmetric around the one-week repo interest rate and the width of the corridor would be narrowed.

However, due to the intensification of concerns over global growth during the period following the Fed rate hike in December 2015, uncertainties related to normalization of monetary policies increased. In this context, as announced in the Monetary Policy Committee

decision of 22 December 2015, the simplification process would begin once those uncertainties showed a persistent decline.

**TABLE 1. FRAMEWORK OF TURKISH LIRA LIQUIDITY MANAGEMENT AND SIMPLIFICATION STEPS**

	POLICY	TIMING
<b>Interest Rate Corridor</b>	The interest rate corridor will be made more symmetric around the one-week repo interest rate and the width of the corridor will be narrowed.	During Normalization
<b>Funding</b>	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
<b>Collateral Conditions</b>	Collateral conditions will be simplified.	Before and During Normalization

## FX Liquidity Measures

FX liquidity measures provide significant assurance for the banking sector and increase its resilience against a possible external financing shock. A series of measures regulating the FX liquidity have been taken recently to contain the effects of uncertainties regarding global monetary policies on the FX market and to prop up the financial system in the face

of such uncertainties. "FX Liquidity Measures" set forth by the road map are given in Table 2.

Another important instrument that affects FX reserves and FX liquidity is the reserve options mechanism (ROM)\*. In 2015, technical adjustments were made to reserve option tranches and coefficients to strengthen the automatic stabilizing feature of the mechanism and to meet the FX liquidity needs of the banking sector.

**TABLE 2. FX LIQUIDITY MEASURES**

	POLICY	TIMING
<b>Flexible FX Selling Auctions</b>	Flexibility of FX auctions will be increased to reduce the exchange rate volatility.	Before Normalization
<b>Reserve Options</b>	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
<b>Measures on Foreign Exchange Deposit Market</b>	Borrowing limits via foreign exchange deposit accounts will be increased. After the related changes, the size of the FX liquidity that the financial system can access from the 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

\*For further details: [www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Publications/CBRT Bulletin/Issue 25)

## Measures to Support Financial Stability

Following the measures taken as of end-2014, the maturity of the banking sector external debts started to extend and the share of non-core liabilities ceased to increase. In line with the road map, the CBRT continues to implement macroprudential measures geared towards containing macrofinancial risks and encouraging prudent borrowing. "Measures to Support Financial Stability",

set forth by the road map are given in Table 3.

### Overview

Amid an economic environment fraught with prolonged global uncertainties, it is important to contain negative spillovers into the Turkish economy. The effective use of the measures presented in the road map announced in August 2015 has alleviated the excessive fluctuations in exchange rates and loan rates.

The current tight monetary policy supports financial stability by reducing the economy's sensitivity to global shocks. The CBRT maintains the view that the tight monetary policy may be implemented within a narrower interest rate corridor, should the global volatility decline persistently or policy measures that would maintain and improve the gains in external balance and financial stability be implemented effectively.

**TABLE 3. MEASURES TO SUPPORT FINANCIAL STABILITY**

	POLICY	TIMING
<b>Lengthening the Maturity of Noncore FX Liabilities</b>	FX required reserve ratios for the new FX noncore liabilities of the banks will be determined to encourage maturities of longer than three years, without increasing the costs on the stock of liabilities.	Before Normalization
<b>Supporting Turkish Lira Core Liabilities</b>	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
<b>Remuneration of FX Required Reserves</b>	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

## PUBLICATIONS FROM THE CBRT

### CBRT Research Notes in Economics

- Capacity Utilization in the Services Sector (in Turkish) (Evren Erdoğan Coşar, No. 16/04, 17 February 2016)
- How Consistent have Consumer Confidence Indices been with the Consumption Indicators Recently? (in Turkish) (Çağlar Yüncüler, No. 16/03, 10 February 2016)
- Quality Adjustment in Turkish House Price Index: The Hedonic House Price Index (in Turkish) (Timur Hülagü, Erdi Kızılkaya, Ali Gencay Özbekler, Pınar Tunar, No. 16/02, 01 February 2016)
- Credit Demand Indicators (in Turkish) (S. Tolga Tiryaki, No. 16/01, 19 January 2016)
- Budget Rigidity (in Turkish) (Cem Çebi, No. 15/23, 17 December 2015)

For CBRT Research Notes in Economics, please visit: [www.tcmb.gov.tr \(Publications/Research/ Research Notes in Economics\)](http://www.tcmb.gov.tr/Publications/Research/Research%20Notes%20in%20Economics)



### CBRT Working Papers

- Liquidity Management of Non-Financial Firms: Cash Holdings and Lines of Credit Evidence from Turkey (Yavuz Arslan, Yunus Emrah Bulut, Tayyar Büyükbaşaran, Gazi Kabaş, No. 16/04, February 2016)

- A Hedonic House Price Index for Turkey (Timur Hülagü, Erdi Kızılkaya, Ali Gencay Özbekler, Pınar Tunar, No. 16/03, February 2016)
- In Pursuit of Understanding Markups in Restaurant Services Prices (Mustafa Utku Özmen, No. 16/02, January 2016)
- Immigration and Prices: Quasi-Experimental Evidence from Syrian Refugees in Turkey (Binnur Balkan Konuk, Semih Tümen, No. 16/01, January 2016)
- In Search of the Drivers of the Turkish Consumer Confidence (Tuğrul Gürgür, Zübeyir Kılınc, No. 15/38, December 2015)
- Imported Intermediate Goods and Product Innovation: Evidence from India (Murat Seker, Daniel Rodriguez-Delgado, Mehmet Fatih Ulu, No. 15/37, December 2015)
- Liquidity Crises, Liquidity Lines and Sovereign Risk (Yasin Kürşat Önder, No. 15/36, December 2015)
- Quantifying the Effects of Loan-to-Value Restrictions: Evidence from Turkey (Yavuz Arslan, Gazi Kabaş, Ahmet Ali Taşkın, No. 15/35, December 2015)

For CBRT Working Papers, please visit: [www.tcmb.gov.tr \(Publications/Research/ Research Notes in Economics\)](http://www.tcmb.gov.tr/Publications/Research/Research%20Notes%20in%20Economics)



### Inflation Report 2016-I

The first Inflation Report of 2016 was presented at a press conference held in Ankara on 26 January 2016. The Report covers international economic developments, inflation developments, supply and demand developments, developments in financial markets, financial intermediation and public finance as well as the CBRT's medium-term forecasts.

The Report includes boxes on: Impacts of Base Effects on the CPI Inflation in 2016, A Bayesian Approach to Analyzing Inflation Dynamics in Turkey, Recent Changes in Turkey's Export Market Shares, Consumer Confidence Indices and Financial Volatility, The Effect of the Minimum Wage Hike on Wages, The Relationship Between Credit and GDP Growth at Sectoral Level, and Sources of Revisions in end-2015 Inflation Forecasts.

A live webcast of the press conference with simultaneous English interpretation was also broadcast on the CBRT website.

To access Inflation Report 2016-I, please visit: [www.tcmb.gov.tr \(Publications/Reports/Inflation Report\)](http://www.tcmb.gov.tr/Publications/Reports/Inflation%20Report)



## AT A GLANCE ...

### EU Chapter on Economic and Monetary Policy Opened for Negotiations

The EU accession process that began in 1959 with Turkey's application for membership of the European Economic Community recorded a milestone in the Summit of Heads of State and Government on 10-11 December 1999, where Turkey was officially granted candidate status. Following the fulfillment of Copenhagen political criteria by Turkey, the EU decided to officially open accession negotiations with the country in the Intergovernmental Conference (IGC) held on 3 October 2005.

The accession negotiations are based on the union acquis comprising 35 chapters. To date, 15 chapters have been opened to negotiations, one of which has been closed provisionally. Negotiations on 14 chapters are suspended at the moment due to political blockage of the Council of the European Union and the Greek Cypriot Administration of Southern Cyprus. The CBRT directly contributes to the accession negotiations regarding Chapters 4-Free Movement of Capital, 9-Financial Services, 17-Economic and Monetary Policy, 18-Statistics, 32-Financial Control and 33-Financial and Budgetary Provisions, whereas, it is indirectly involved in the studies related to Chapters 2-Freedom of Movement for Workers, 6-Company Law, 16-Taxation, 19-Social Policy and Employment, 28-Consumer and Health Protection.

Chapter 17-Economic and Monetary Policy (EMP) was opened to negotiations in the IGC held on 14 December 2015 in Brussels. The introductory and detailed screening meetings on the EMP chapter were held in Brussels on 16 February 2006 and 23 March 2006, respectively. The screening report prepared by the European Commission was approved on 24 January 2007. The EU did not set any opening benchmark for negotiations and requested Turkey to present its "Negotiation Position Document" (NPD). Turkey submitted its NPD to the EU on 9 March 2007.

Despite the absence of a pre-set benchmark, the EMP chapter was not

opened to negotiations in the IGC on 26 June 2007 due to the blockage of some EU countries.

However, a change in the EU's stance in 2012 sped up the efforts for opening of this chapter. Following mutual consultations in early 2015, Turkey resubmitted its updated NPD to the European Commission on 20 March 2015. In response, the EU submitted to Turkey its Common Position Document related to the chapter on 30 November 2015. With the IGC held on 14 December 2015, the chapter was opened to negotiations.

The Economic and Monetary Policy Chapter essentially covers issues on independence of central banks, prohibition of direct financing of the public sector by the central banks, and prohibition of privileged access of the public sector to financial institutions. Moreover, coordination of economic governance processes of the European Union and, in later steps, participation in the euro area are also addressed within the framework of the chapter.

In the context of negotiations, two closing benchmarks were set for Chapter 17, in addition to the full implementation of the obligations of the Additional Protocol:

1. Turkey should regulate its legal framework to ensure full Central Bank independence, the prohibition of financing of the public sector by the Central Bank, the prohibition of privileged access by public authorities to financial institutions, and the full integration of its Central Bank into the European System of Central Banks (ESCB), including the compatibility of the Central Bank's objectives with the objectives of the ESCB.

2. Turkey should align its legal framework to ensure compliance with requirements for national budgetary frameworks as laid down in Council Directive 2011/85/EU.

Turkey's level of alignment with the acquis on economic and monetary policy is high. Given that the level of the administrative capacity in the same field is also high, the negotiation process regarding Chapter 17 is expected to progress at a satisfactory pace.

As mentioned above, the main objective set by this chapter is to ensure alignment with the EU legislation by reinforcing the Central Bank's independence. To this end, changes to be undertaken to strengthen the corporate, functional, individual and financial independence are envisaged to be completed one year ahead of Turkey's accession to the EU and to be implemented with the acquisition of the membership status.

### Informative Sessions for University Students

The Central Bank of the Republic of Turkey organizes informative sessions for university students at its Head Office facilities in Ankara. Within the scope of these sessions, the CBRT delivers presentations on its administrative structure and primary duties, general framework of the monetary policy, main communication tools and career opportunities. During the fall of 2015, the CBRT hosted a total of 360 students from 9 universities. The timetable of sessions for Spring 2016 was announced in early February:

11 March 2016 Friday	(13:30-17:00)
29 April 2016 Friday	(13:30-17:00)
13 May 2016 Friday	(13:30-17:00)
27 May 2016 Friday	(13:30-17:00)

Universities can apply via the CBRT website.

**For more information, please visit:**  
[www.tcmb.gov.tr](http://www.tcmb.gov.tr) [Education&Academic/Informative Sessions for University Students] (the page is in Turkish)



### EDITORIAL BOARD:

**Owner on behalf of the CBRT and Managing Editor:** Assoc. Prof. Yusuf Soner Başkaya

**Editorial Board:** Mustafa Aycan, Dr. Eyup Kahveci, Tangül Hınçal, Arzu Topçu, Sevgi Serpil Atalay Güven, Canan Binal Yılmaz, Emrah Uslu, Duygu Konukçu, Cansu Gör

**Central Bank of the Republic of Turkey**  
Communications and Foreign Relations Department  
Anafartalar Mah. İstiklal Cad. No: 10  
06050 Ulus Altındağ Ankara  
Free edition of CBRT.

### ISSUE: 38 / MARCH 2016

Published quarterly by the Central Bank of the Republic of Turkey

### SOCIAL MEDIA



CentralBank\_TR



TurkiyeCumhuriyetMerkezBankasi



TCMerkezBankasi



Merkez\_Bankasi