



NORMALIZATION OF GLOBAL MONETARY POLICIES, FRAMEWORK OF INTEREST RATE CORRIDOR AND TURKISH LIRA LIQUIDITY MANAGEMENT AND SIMPLIFICATION STEPS

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CBRT POLICY RATES (24 December 2015)

CBRT Overnight Late Liquidity Window Borrowing Rate: 0%	CBRT Overnight Borrowing Rate: 7.25%	One-Week Repo Rate: 7.5%	CBRT Overnight Marginal Funding Rate: 10.75%	CBRT Overnight Late Liquidity Window Lending Rate: 12.25%
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CBRT RESERVES (25 December 2015)

GROSS FX RESERVES

95.7 BILLION USD

GOLD

17.5 BILLION USD

INFLATION (December 2015)

8.81 Percent

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Due to economic conditions brought about by the global financial crisis in 2008, interest rates in advanced economies dropped to zero or close-to-zero levels. However, since the policy implementations fell short of reviving the domestic demand, non-conventional monetary policies were adopted. Thus, the global crisis led to a change in the conventional central banking concept; advanced economies' central banks injected very high amounts of liquidity to the markets through policies such as large-scale asset purchases and long-term funding.

AFTER THE GLOBAL FINANCIAL CRISIS

In this period, capital inflows to Turkey increased as a result of the rapid recovery in the economy. As of end-2010, the CBRT introduced a policy framework that, in addition to the policy rate, includes an interest rate corridor, an active liquidity policy, reserve requirements and a reserve options mechanism.

Interest Rate Corridor and Active Liquidity Policy

To affect market interest rates and/or market liquidity, the CBRT may provide short-term (daily or weekly) liquidity to the market when needed and borrow from those with excess reserves at an overnight maturity. The interest rate corridor is defined as the range between the interest rate at which the CBRT can borrow from banks and the interest rate at which it can lend to banks at an overnight maturity.

In addition, the CBRT may provide funding to banks via one-week repo auctions. In this system, the amount of one-week funding can be changed on a daily basis, thereby shaping the market interest rate to form at a desired level within the corridor. In the system, the width of the interest rate corridor determines the range at which short-term market interest rates may fluctuate through the CBRT's liquidity operations.

Reserve Options Mechanism (ROM)

The ROM facility introduced by the CBRT to minimize the likely unfavorable effects of volatile capital flows on macro-financial stability allowed banks to maintain a portion of their Turkish lira required reserves as FX and gold. Accordingly, banks can use their FX assets to meet their Turkish lira needs to a certain extent, thereby willingly increasing their FX and gold reserves. In this way, the ROM mechanism functions as an automatic stabilizer and an effective FX liquidity instrument in that it helps reduce the exchange rate volatility in domestic markets triggered by capital flows. Banks adjust their ROM utilization ratio depending on external financing conditions, which is an important factor in terms of preventing the volatility that capital flows may create in variables such as credit volume and exchange rate.

ADJUSTING TO THE NORMALIZATION PROCESS IN GLOBAL MONETARY POLICIES

Uncertainties in the global economy started increasing with the Fed's signal to exit from quantitative easing policies in May 2013. These uncertainties led to severe capital outflows and currency depreciation in emerging economies, including Turkey.

In 2015, the TL started to depreciate due to domestic and foreign developments. In response to these developments, the CBRT tightened its liquidity stance to mitigate the adverse impacts of exchange rate developments on inflation.

The CBRT issued a press release on 18 August 2015 titled "Road Map during the Normalization of Global Monetary Policies" about the policies that can be implemented before and after the normalization in the monetary policies of advanced economies. It was stated in the document that the interest rate and Turkish lira liquidity policy will be simplified and 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 following the normalization of global monetary policies.

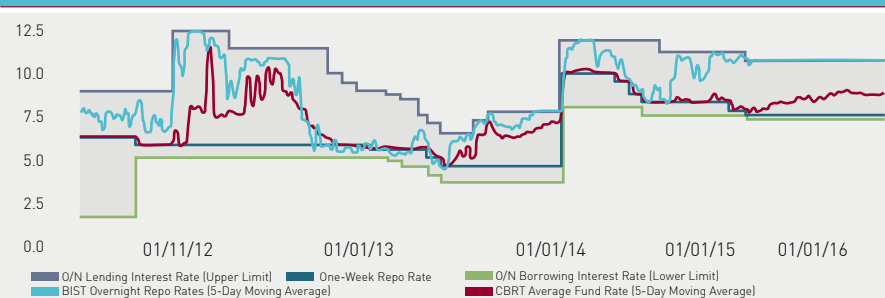
In this framework, on 16 September 2015, the CBRT announced the changes in its Turkish lira liquidity policy via a technical presentation titled "Briefing on Simplification of the Collateral Framework and Changes in the Primary Dealer Liquidity Facility". Accordingly, effective as of 23 September 2015, the practice of offering favorable interest rate on borrowing facilities provided for primary dealers was terminated and effective as of 28 September 2015, the collateral conditions for Turkish lira operations were simplified.

The policy document, "Monetary and Exchange Rate Policy for 2016" that was announced at a press conference on 09 December 2015, stated that one-week repo auctions would be the main funding tool in the upcoming period and as was mentioned in the "Road Map During the Normalization of Global Monetary Policies" document, the interest rate corridor would be narrowed and made much symmetric around the one-week repo rate.

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COMPONENTS OF THE INTEREST RATE CORRIDOR (LATEST OBSERVATION: 16 DECEMBER 2015)



PUBLICATIONS FROM THE CBRT

RESEARCH NOTES IN ECONOMICS

- Stronger Balance Sheet Lower Premium: Determinants of Real-Sector Firms' Borrowing Costs in Turkey (in Turkish) (Fatih Altunok, Salih Fendođlu CBT Research Notes in Economics No. 15/22, 11 November 2015)
- A Statistical Approach for Forecasting Annual Changes in Industrial Production (in Turkish) (Özgür Özel, Mahmut Günay CBT Research Notes in Economics No. 15/21, 06 November 2015)
- Interest Rate Corridor, Liquidity Management and the Effective Funding Rate in Money Markets (in Turkish) (Deren Ünalmiş CBT Research Notes in Economics No. 15/20, 04 November 2015)
- The Relationship of Consumer and Commercial Credits with Current Account Deficit in Turkey (in Turkish) (Zeynel Harun Aliođulları , Yusuf Soner Başkaya , Yunus Emrah Bulut , Mustafa Kılınc CBT Research Notes in Economics No. 15/19, 27 October 2015)
- The Relation between the Working Status of Women Before and After Marriage in Turkey (in Turkish) (Ayşe Arzu Yavuz, Devrim Yavuz CBT Research Notes in Economics No. 15/18, 23 October 2015)
- What Drives the Consumer Confidence in Turkey? (Tuđrul Gürgür, Zübeyir Kılınc CBT Research Notes in Economics No. 15/17, 01 October 2015)
- Consumer Confidence Indices and Financial Volatility (Hatice Gökçe Karasoy CBT Research Notes in Economics No. 15/16, 08 September 2015)
- Estimating the Bridging Day Effect on Turkish Industrial Production (Çađlar Yüncüler CBT Research Notes in Economics No. 15/15, 08 September 2015)

For Research Notes in Economics, please visit: www.tcmb.gov.tr (Publications/Research/ Research Notes in Economics)



CBRT WORKING PAPERS

- Compulsory Schooling and Early Labor Market Outcomes in a Middle-Income Country (Huzeyfe Torun Working Paper No. 15/34, November 2015)
- "I Just Ran Four Million Regressions" for Backcasting Turkish GDP Growth (Mahmut Günay Working Paper No. 15/33, November 2015)
- Has the Forecasting Performance of the Federal Reserve's Greenbooks Changed over Time? (Ozan Ekşi, Cüneyt Orman, Bedri Kamil Onur Taş Working Paper No. 15/32, November 2015)

- Importance of Foreign Ownership and Staggered Adjustment of Capital Outflows (Özgür Özel, M. Utku Özmen, Erdal Yılmaz Working Paper No. 15/31, November 2015)
- Sources of Asymmetry and Non-linearity in Pass-Through of Exchange Rate and Import Price to Consumer Price Inflation for the Turkish Economy during Inflation Targeting Regime (Süleyman Hilmi Kal, Ferhat Arslaner, Nuran Arslaner Working Paper No. 15/30, November 2015)
- Selective Immigration Policy and Its Impacts on Natives: A General Equilibrium Analysis (Şerife Genç İleri Working Paper No. 15/29, November 2015)
- How Does a Shorter Supply Chain Affect Pricing of Fresh Food? Evidence from a Natural Experiment (Cevriye Aysoy, Duygu Halim Kırılı, Semih Tümen Working Paper No. 15/28, October 2015)
- Decomposition of Labor Productivity Growth: Middle Income Trap and Graduated Countries (Gökhan Yılmaz Working Paper No. 15/27, October 2015)
- Estimating Income and Price Elasticity of Turkish Exports with Heterogeneous Panel Time-Series Methods (İhsan Bozok, Bahar Şen Dođan, Çađlar Yüncüler Working Paper No. 15/26, October 2015)
- External Shocks, Banks and Monetary Policy in an Open Economy: Loss Function Approach (Yasin Mimir, Enes Sunel Working Paper No. 15/25, September 2015)
- Not All Credit is Created Equal: Mortgage vs Non-mortgage Debt and Private Saving Rate in Turkey (Cengiz Tunç, Abdullah Yavaş Working Paper No. 15/24, September 2015)
- A Computable General Equilibrium Analysis of Transatlantic Trade and Investment Partnership and Trans-Pacific Partnership on Chinese Economy (Buhara Aslan, Merve Mavuş Kütük, Arif Oduncu Working Paper No. 15/23, September 2015)

For CBRT Working Papers, please visit: www.tcmb.gov.tr (Publications/Research/ Research Notes in Economics)



"INFLATION REPORT", 2015-IV

The fourth Inflation Report of 2015 was presented at a press conference held in Istanbul on 28 October 2015. The Report covers international economic developments, inflation developments, supply and demand developments,

developments in financial markets, financial intermediation and public finance, and presents CBRT's medium-term forecasts.

There are several boxes in the Report: Determinants of Consumer Confidence Index in Turkey, Estimating Income and Price Elasticity of Turkish Exports with Heterogeneous Panel Time Series Methods, Use of Leading Indicators in Forecasting Unemployment Rates, Projections on Labor Force Participation Rate, The Relationship between Loans and Private Savings, The Relationship of Consumer and Commercial Loans with the Current Account Deficit: Evidence for Turkey and Other Countries, Public Debt Stock and Budget Deficit Developments: An International Comparison.

A live webcast of the press conference in Turkish and simultaneous interpretation to English was available on the CBRT website.

For the Inflation Report 2015-IV, please visit: www.tcmb.gov.tr (Publications/Reports/ Inflation Report)



FINANCIAL STABILITY REPORT NOVEMBER 2015

The second Financial Stability Report of 2015 was issued on 30 November 2015. The Report describes in detail the macro-financial developments and measures towards financial stability and explains the macroeconomic outlook, developments regarding the non-financial sector as well as the financial sector.

The Report had special topics on:

- Inflation, Inflation Volatility and Financial Constraints in Turkey
- Risk and the Strength of Financial Amplification: Evidence From Loan-Level Data
- Reserve Requirement Ratios and Credit Growth
- Resolution Through Creditors and Shareholders: Bail-in

For the Financial Stability Report November 2015, please visit:

www.tcmb.gov.tr (Publications/Reports/ Financial Stability Report)



AT A GLANCE...



G20 LEADERS' SUMMIT UNDER THE TURKISH PRESIDENCY

The Turkish Presidency of the Group of 20 (G20) hosted the G20 Leaders' Summit on 15-16 November 2015, in Antalya, Turkey. The Summit was chaired by President Recep Tayyip Erdoğan. On 16 November 2015, the G20 Leaders issued the "G20 Leaders' Communiqué" and the "Antalya Action Plan" drawn in line with the Turkish Presidency's priorities. For the first time in G20 history, a third statement, the "G20 Statement on the Fight against Terrorism" was issued.

During the Summit, the risks and uncertainties were evaluated with respect to reinforcing the global economy and lifting the potential while several discussions were held on geopolitical uncertainties, shortfall in global demand and structural problems. In the meetings, macroeconomic policies necessary for sustainable and stable growth as well as fiscal policies and transparency issues supporting growth and employment were discussed in detail.

In the Leaders' Communiqué, the Leaders stated that they were firm in their resolve to ensure growth was robust and inclusive. The Leaders stated that their aim was

to deliver more and better quality jobs and recognized that advancing inclusive growth and entrenching confidence require the use of all policy tools and strong engagement with all stakeholders.

The Leaders reiterated their commitment to act collectively to lift the actual and potential growth of their economies, to create jobs, to enhance resilience, promote developments and increase the inclusiveness of policies. The Leaders reaffirmed their previous commitments in the past G20 summit communiqués.

For the first time in G20 history, a third statement was issued in the 2015 Antalya Summit in addition to the Summit Communiqué and the Action Plan. The Leaders issued the "G20 Statement on the Fight against Terrorism", in which they condemned the heinous terrorist attacks in Ankara on 10 October 2015 and in Paris on 13 November 2015 and reaffirmed their solidarity and resolve in the fight against terrorism.

The Leaders stated that they remained united in combating terrorism; the spread of terrorist organizations and significant rise globally in acts of terrorism directly undermined the maintenance of international peace and security and endangered the ongoing efforts to

strengthen the global economy and ensure sustainable growth and development. The Leaders also condemned all acts, methods and practices of terrorism, which cannot be justified under any circumstances, regardless of motivation, in all their forms and manifestations, wherever and by whomever.

CONFERENCE ON MACROPRUDENTIAL POLICY: EFFECTIVENESS AND IMPLEMENTATION CHALLENGES" CONFERENCE

In the framework of the G20 Turkish Presidency, the Central Bank of the Republic of Turkey jointly organized the Conference on "Macprudential Policy: Effectiveness and Implementation Challenges" with the International Monetary Fund and the Bank for International Settlements on 26-27 October 2015, in Istanbul.

The Conference provided a forum for policy makers and academics to share their experiences and knowledge on the effectiveness of macroprudential policies, their interaction with other policies such as monetary and fiscal policies as well as the challenges implementing them.

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