



Financial Stability Report

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This report, aimed at informing the public, is based mainly on March 2011 data. However, the report also includes developments and evaluations up to its date of publication in Turkish. The full version of this text is available on the CBRT website. The CBRT cannot be held accountable for any decisions taken based on information and data provided therein.

FOREWORD

Global turmoil has revealed the necessity for central banks to guard financial stability against economic imbalances and accumulated risks in addition to focusing on price stability. Accordingly, the Central Bank of the Republic of Turkey designed a new policy approach and started to implement it by the end of 2010 in order to contain the risks which had accumulated around financial stability due to accelerating short-term capital inflows and credit expansion.

With the objective of achieving price stability, the Central Bank of the Republic of Turkey, one of the authorities responsible for financial stability in Turkey, continues to monitor potential macro-financial risks in the economy and employ the policy tools it holds against such risks, as it has done so far. Primary financial stability objectives are determined as the use of more equity capital, more prudent borrowing, longer maturities for borrowing, a strong FX position and effective risk management. Ensuring financial stability along with price stability requires the use of more than one policy tool. In this context, the Central Bank has diversified policy tools and started using tools such as required reserve ratios and the interest rate corridor beside the policy rate in a mutually complementary manner.

In the post-crisis period, while advanced economies had to cope with persisting problems especially in the labor market and public finance, emerging economies faced strong growth, intensive capital inflows and rapid credit expansion, accompanied by concerns about overheating in some of them.

In current economic conditions, distinguishing between "overheating" and "excessive borrowing" is essential for sound evaluation of the Central Bank's policies. On the back of weak foreign demand as opposed to the strong growth performance experienced in Turkey in 2010, capacity utilization rates lagged behind pre-crisis levels. Therefore, the measures we have taken so far in the context of the new policy mix are primarily aimed at excessive borrowing.

I hope that the twelfth volume of our Financial Stability Report, which includes an analysis of recent developments and the identification of risks in a period that has been dominated by growing uncertainties abroad, will be beneficial to all readers.

Erdem BAŞÇI
Governor