

CENTRAL BANK OF TURKEY

Managing Foreign Inflows: Turkey's Experience

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Presentation Outline

- I. Public Debt Management Strategies**
- II. Monetary Policy Response**
- III. Financial Stability Outcomes**

Surge in Capital Flows

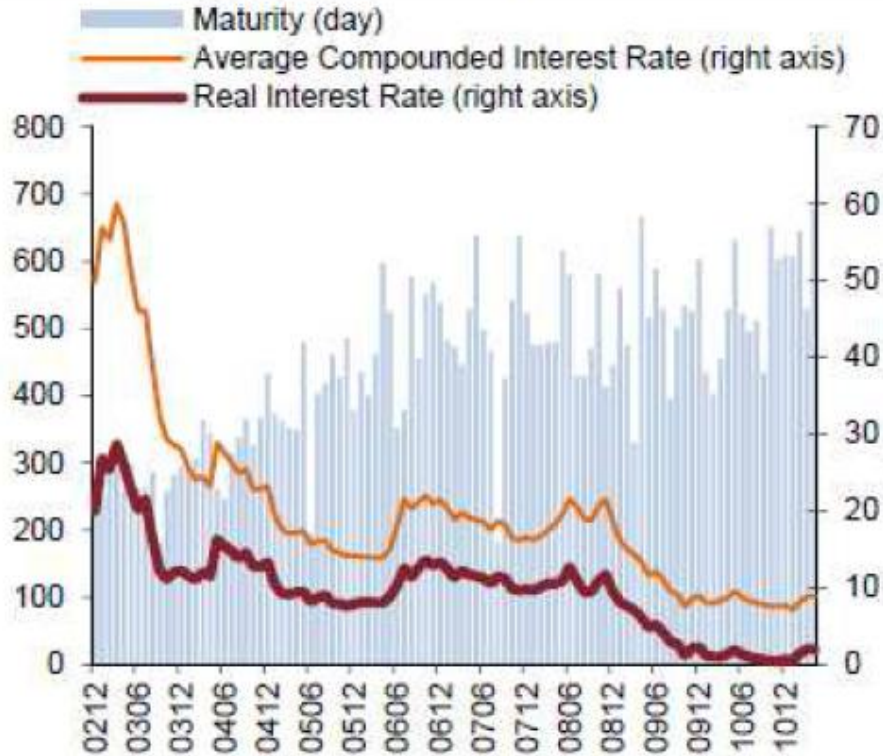
- **Global Push Factors**
 - **Ample liquidity condition**
 - **Low interest rates across advanced economies**
- **Country Specific Pull Factors**
 - **Upgrades by credit rating agencies and decreasing country risk perception**
 - **Buoyant growth prospect**
 - **Sound fiscal position**
 - **Reduced political uncertainty**

Public Debt Management Strategies

- **Public debt management strategies:**
 - **By adopting the Primary Dealership System, primary and secondary markets were strengthened.**
 - **Through the benchmark security issuance policy, secondary market liquidity of the securities was enhanced and an efficient yield curve was generated.**
 - **The auction schedule and financing program have been announced in order to ensure transparency and predictability.**

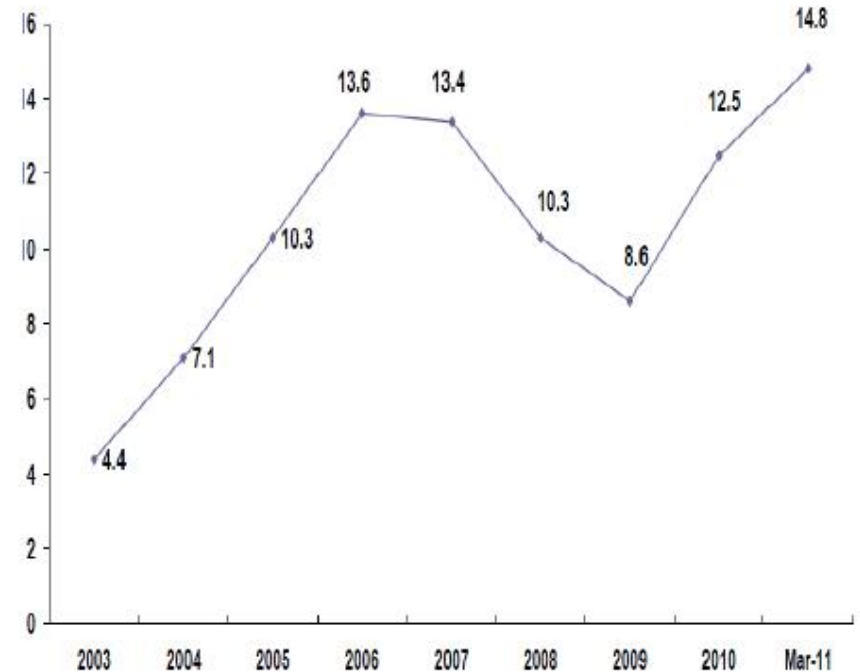
Public Debt Management Strategies

Average Maturity of Borrowing and Interest Rates at Discount Auctions



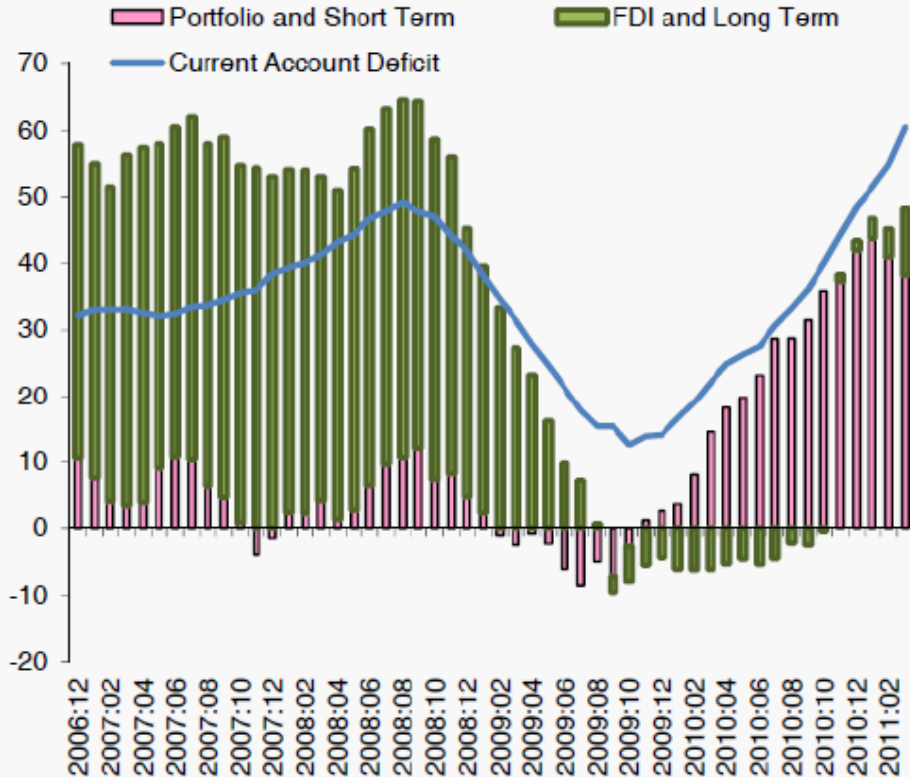
Source: Treasury, CBRT.

Share of Foreign Residents in Domestic Debt Stock (%)



Capital Flows and Credit Growth

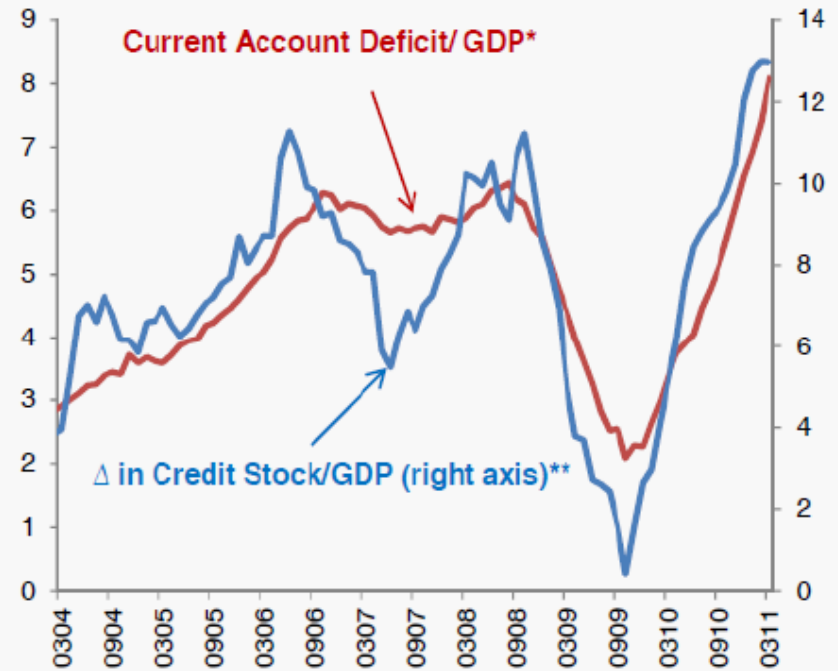
Main Sources of Current Account Deficit Finance
(12-months cumulative, billion USD)



*Short-term capital movements are sum of banking and real sectors' short term net credits and deposits in banks.

Source: CBRT.

Credit Use and Current Account Deficit



*12-months cumulative current account deficit / GDP

** Rate of annual change in credit stock / GDP

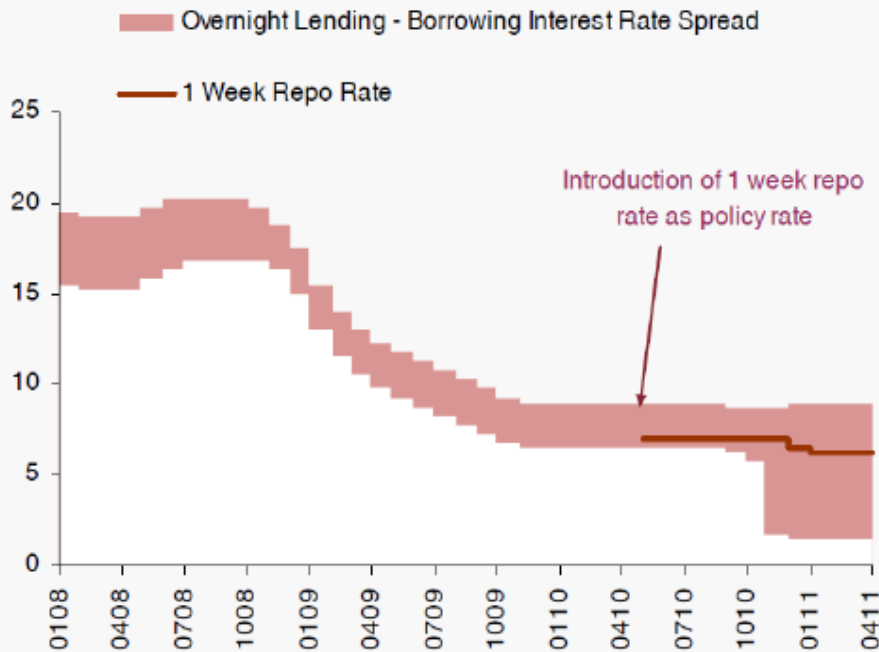
Source: BRSA, CBRT.

New Policy Mix

- It does not seem to be possible to simultaneously ensure price stability and financial stability by means of policy rates alone.
- **Solution:** Using macroprudential instruments in coordination with all the relevant public authorities.
- **New Policy Mix:** A lower policy rate, higher reserve requirement ratios and a wider interest rate corridor.
- The monetary policy stance in this framework was determined not by policy rates alone, but as a combination of all the policy instruments.

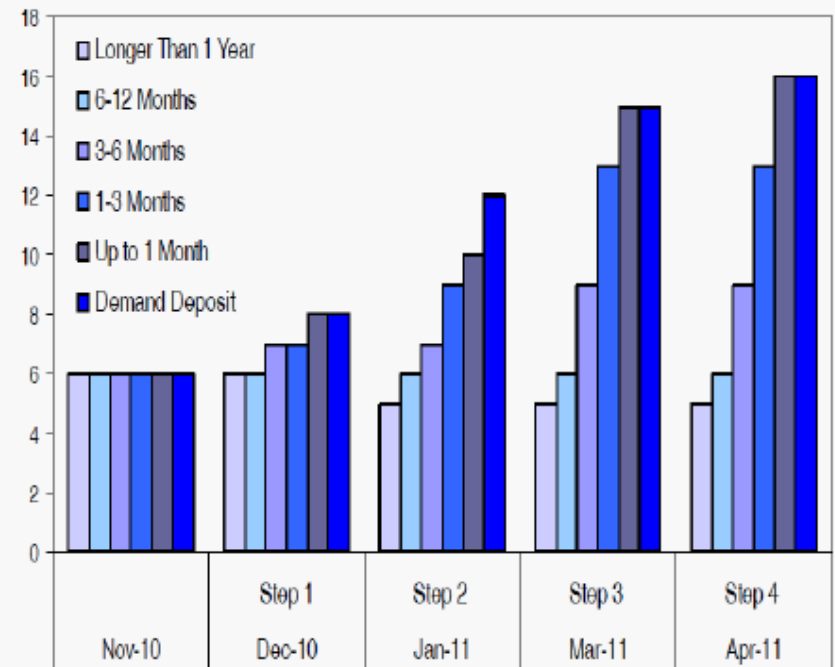
The Policy Rate and TL Reserve Requirements

**CBRT Policy Rates
(Percent)**



Source: CBRT

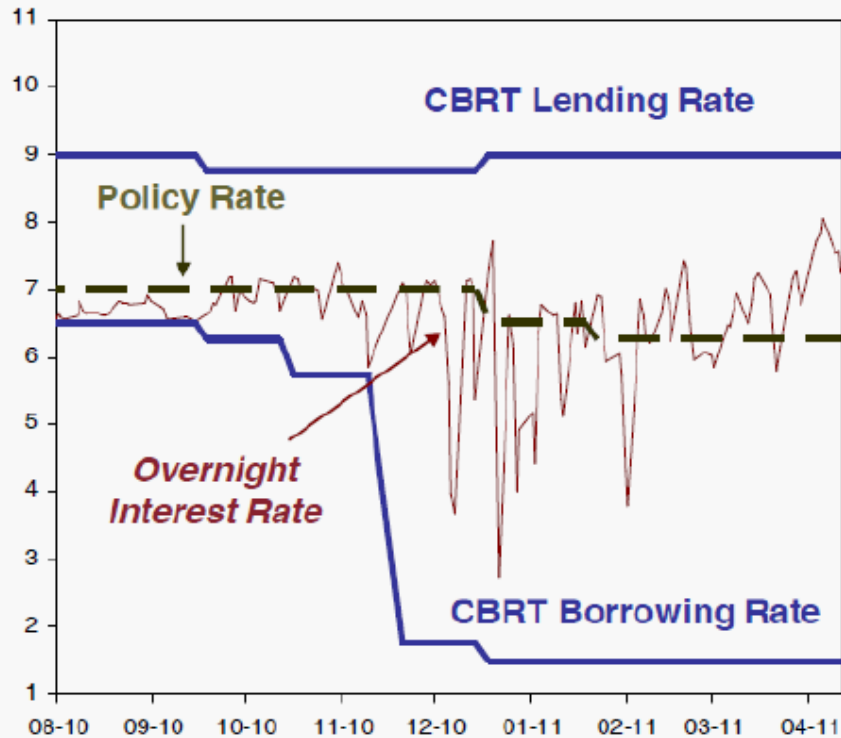
**TL Reserve Requirement Ratios
(Percent)**



Source: CBRT

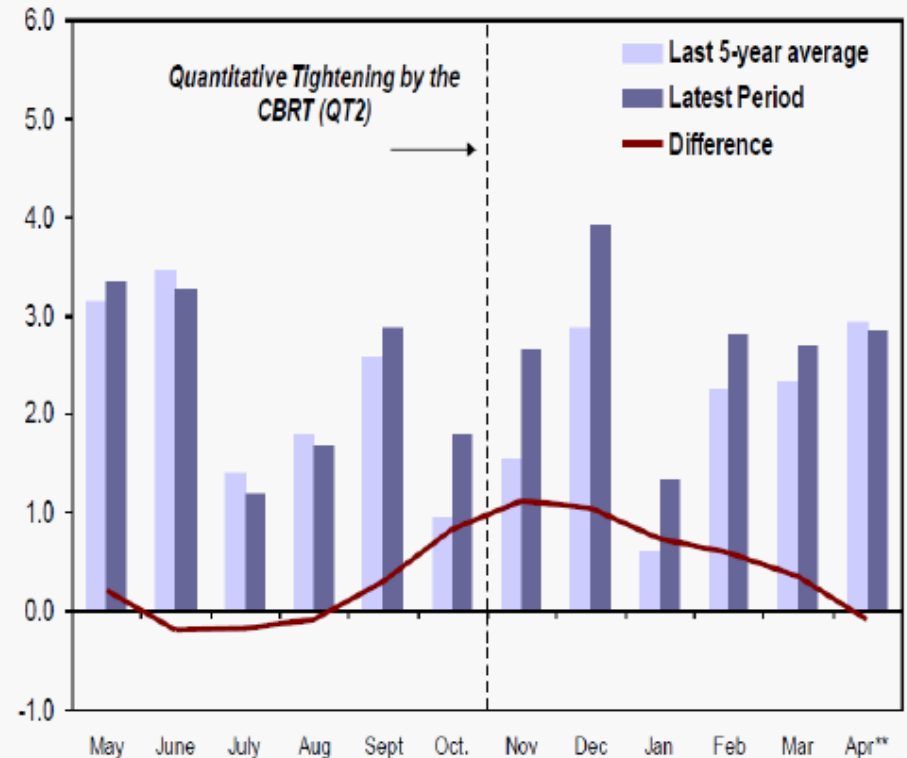
Outcome: O/N Interest Rates and Total Loans

Overnight Interest Rates
(percent)



Source: ISE, CBRT

Total Loans*
(monthly change, percent)



*Adjusted for the exchange rate effect using a basket of 30% euro, 70% US dollar.

** Monthly percentage change in credit volume as of 19 April of the respective year.

Source:CBRT

Conclusion

- **The new policy mix is country-specific and tailored to current economic climate.**
- **Monetary policy in Turkey will focus on building price stability on a permanent basis, while also observing financial stability.**