TÜRKİYE CUMHURİYET MERKEZ BANKASI

Value of Financial Stability

Erdem Başçı

Governor, Central Bank of Turkey

Summer Workshop, June 2013

Istanbul School of Central Banking

Overview

- Bringing inflation down to single digits has removed one of the most important obstacles to growth.
- The fall in inflation to the 5 percent target in the forthcoming period will bring additional benefits regarding financial stability.
- A multi-instrument monetary policy supports financial stability by smoothing out the fluctuations in credit and currency.
- Liquidity policy is among the most effective instruments on both credit and currency.

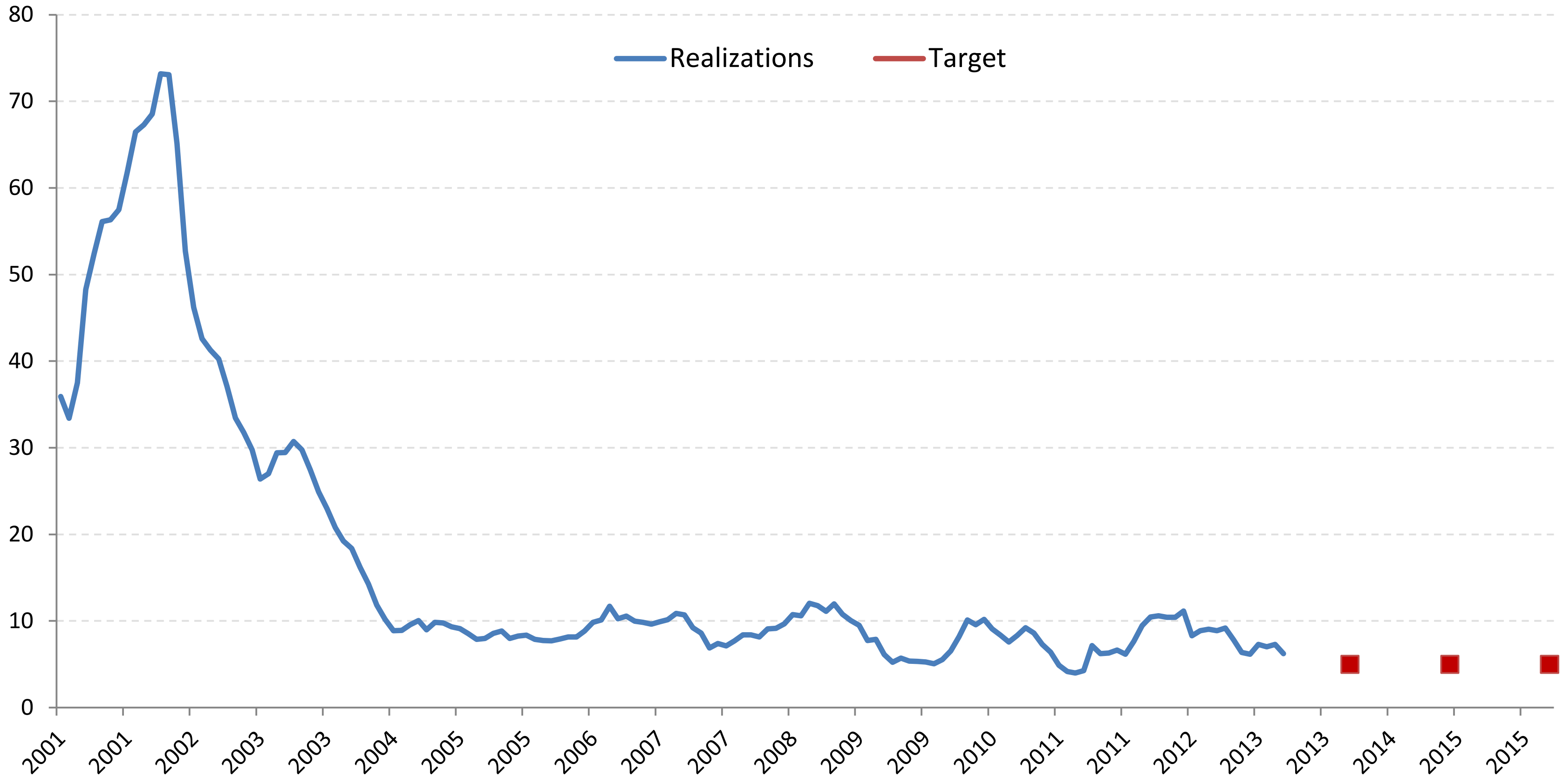
Three Pillars of Growth

I. Price Stability

II. Financial Stability

III. Productivity Growth

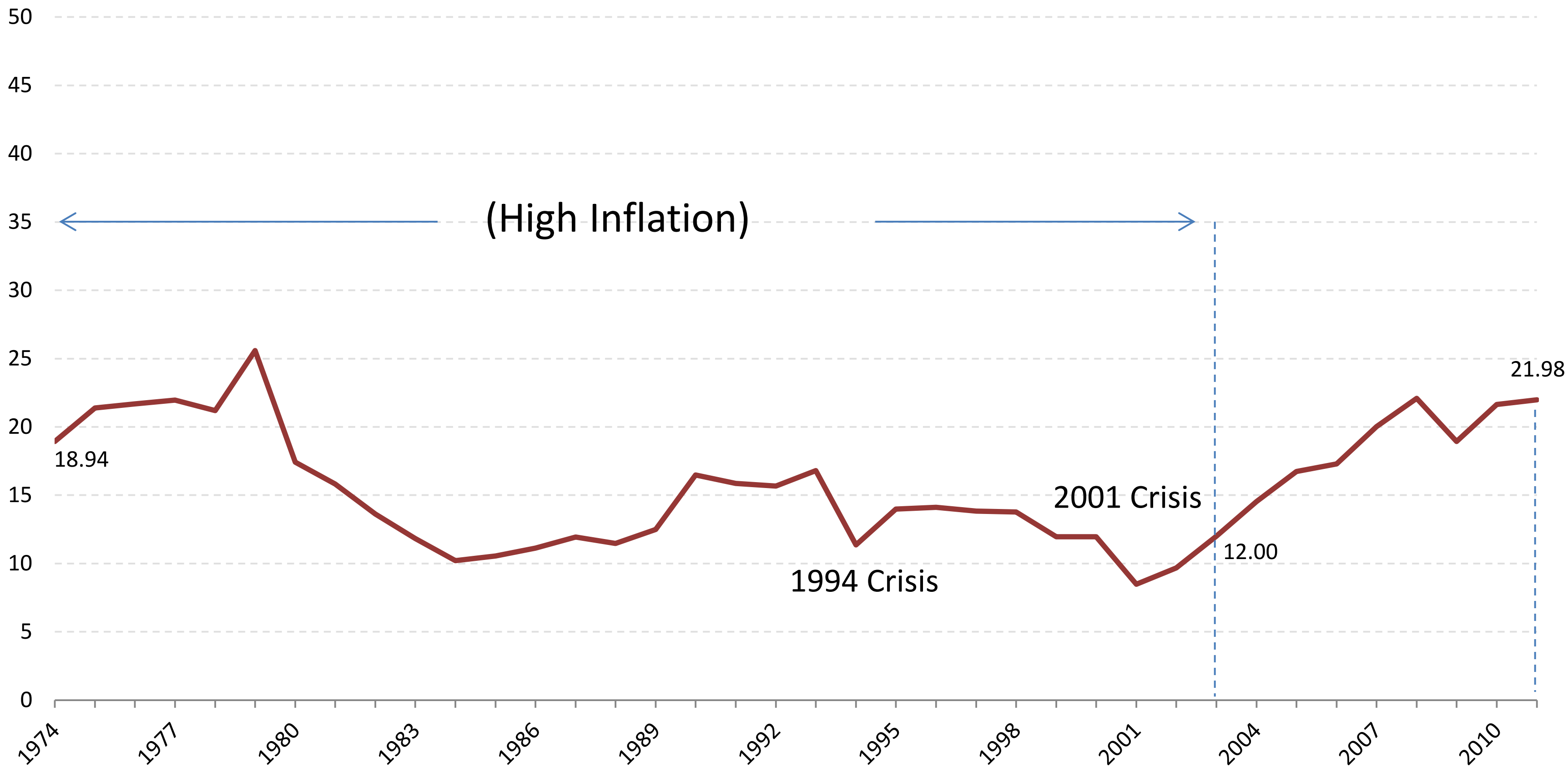
Price Stability



Source: CBRT.

Costs of Inflation and Financial Crises

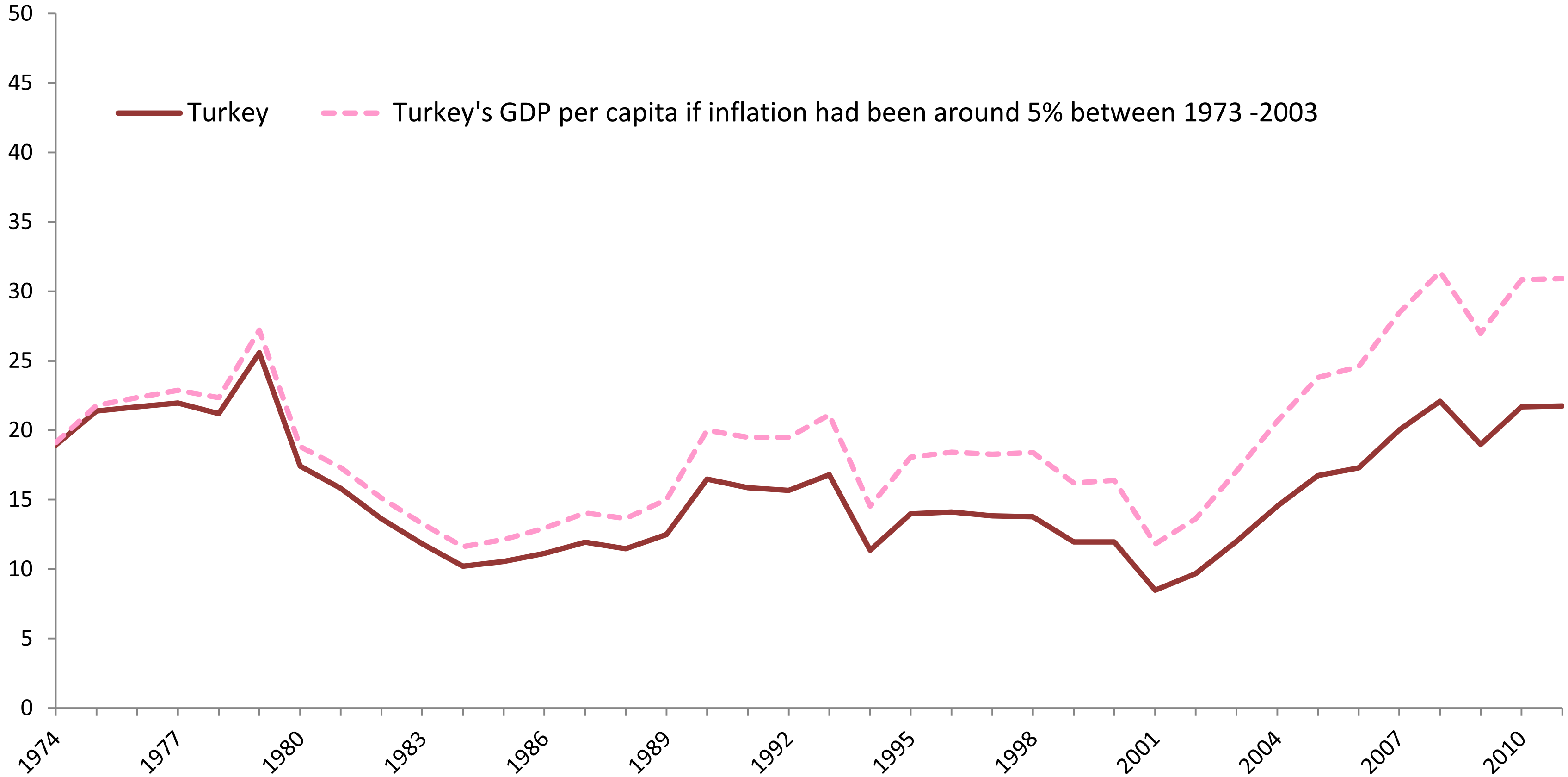
Per Capita Income in Turkey with Respect to the US
(Percent)



Source: UN, CBRT

A Counterfactual

Per Capita Income with Respect to the US
(Percent)

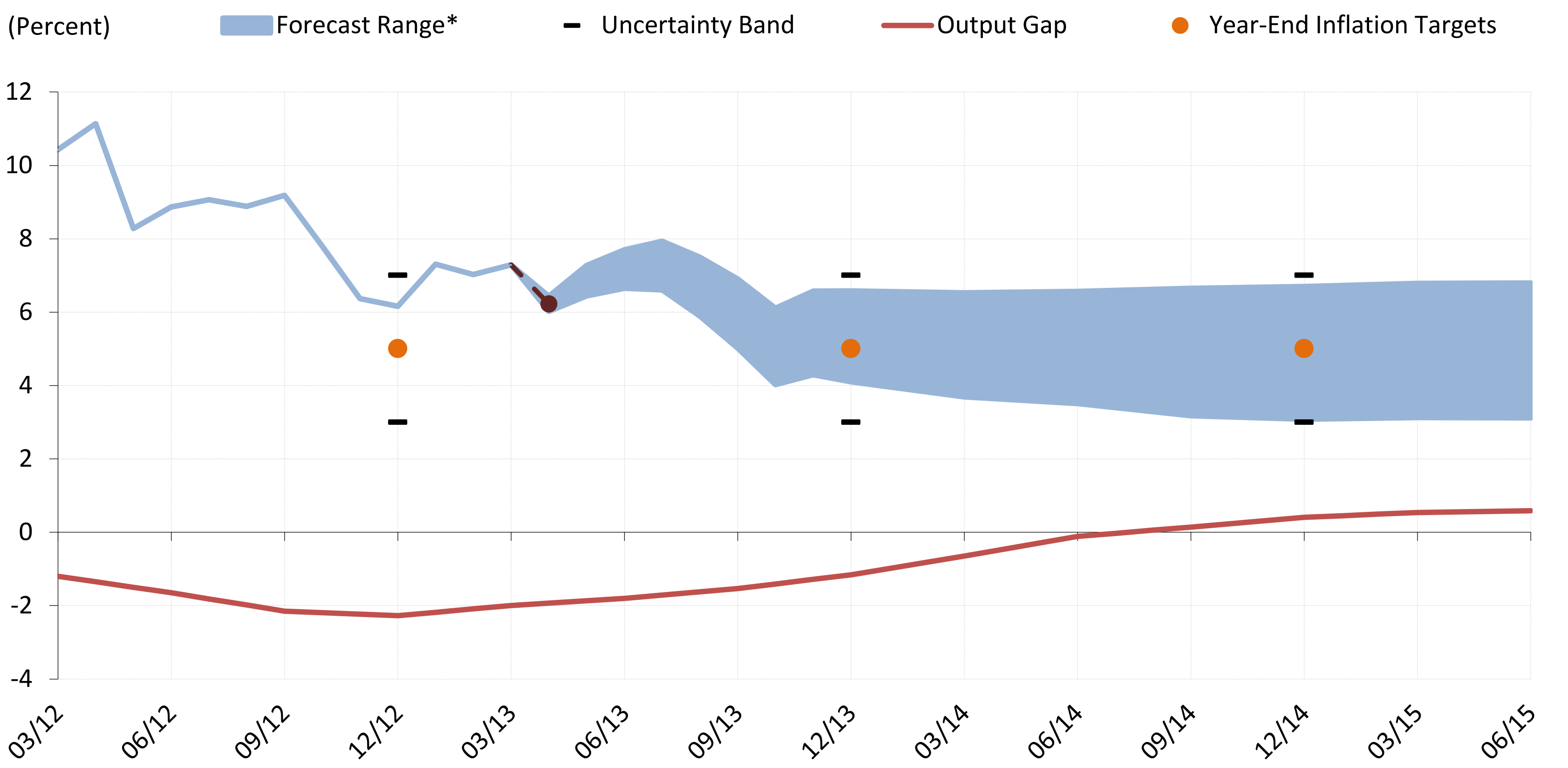


*Average inflation in Turkey between 1973 and 2003 is 54.5 percent.

An inflation which is higher on average by 10 percentage points leads to a reduction in GDP growth rate by 0.25 on average according to Barro, Robert J. (1995). "Inflation and Economic Growth."

Source: UN, CBRT.

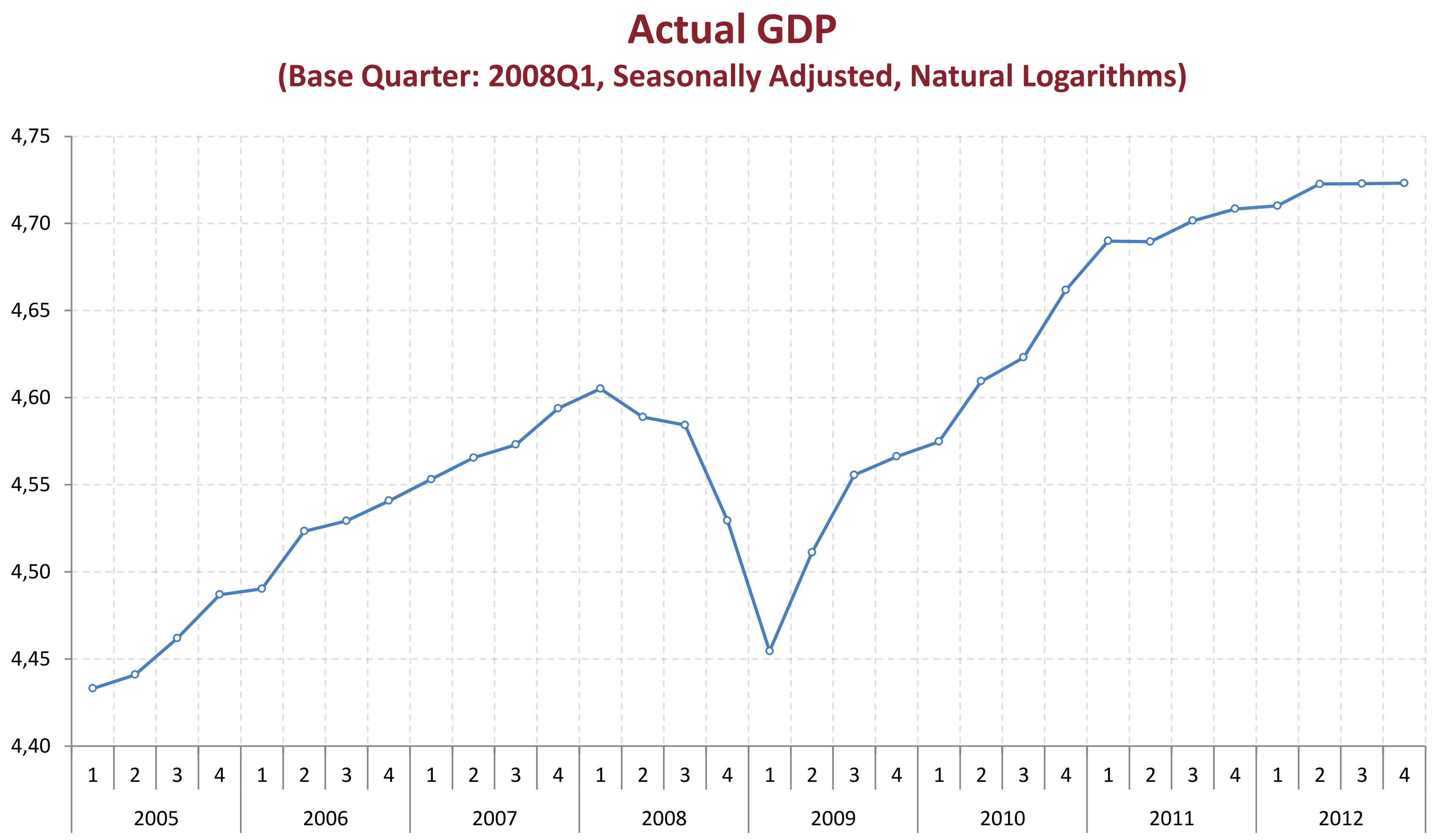
Inflation Forecasts and Realizations



Source: CBRT.

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

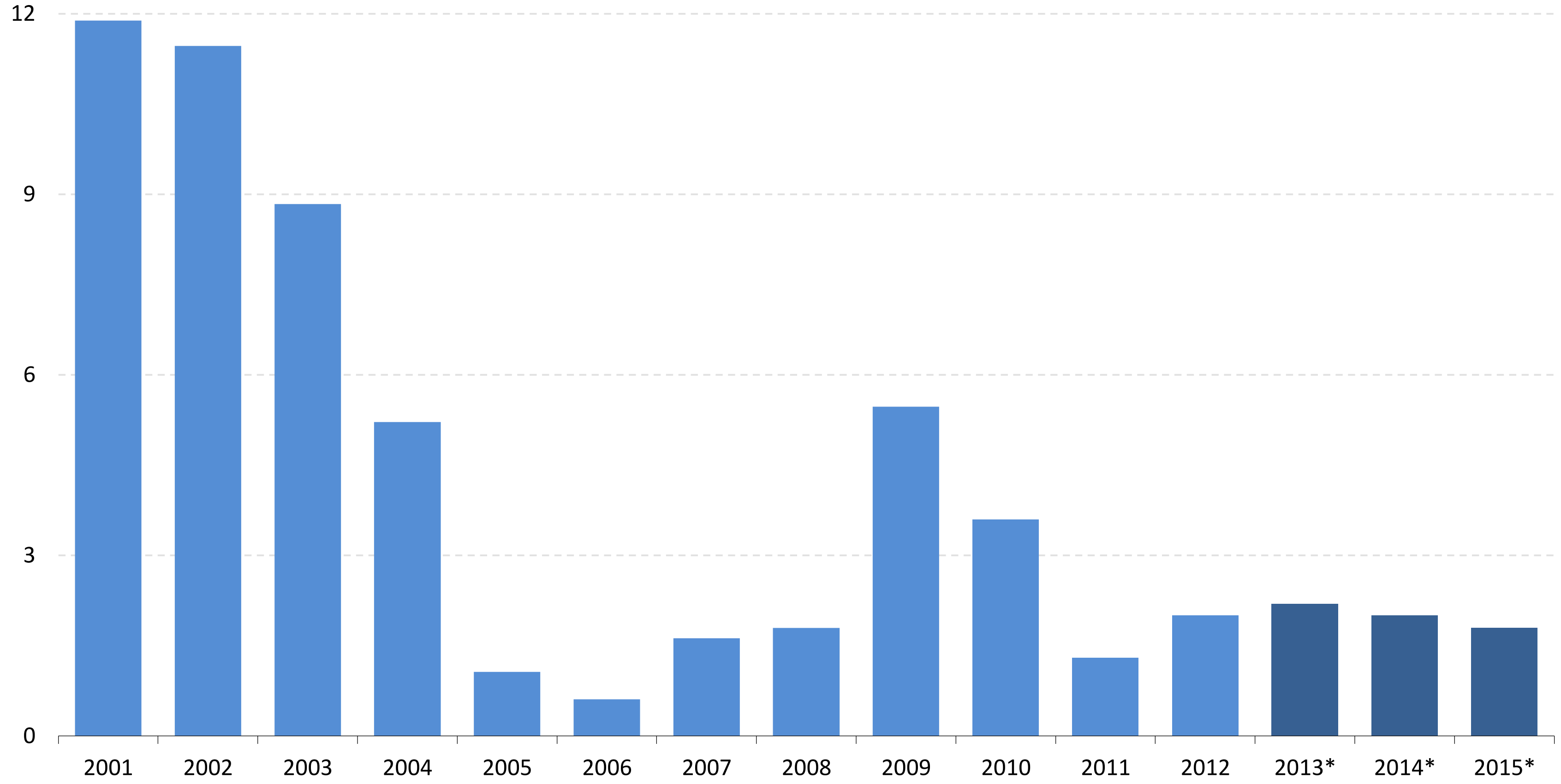
Growth



Source: TURKSTAT, CBRT.

Fiscal Policy

Budget Deficit to GDP
(Percent)

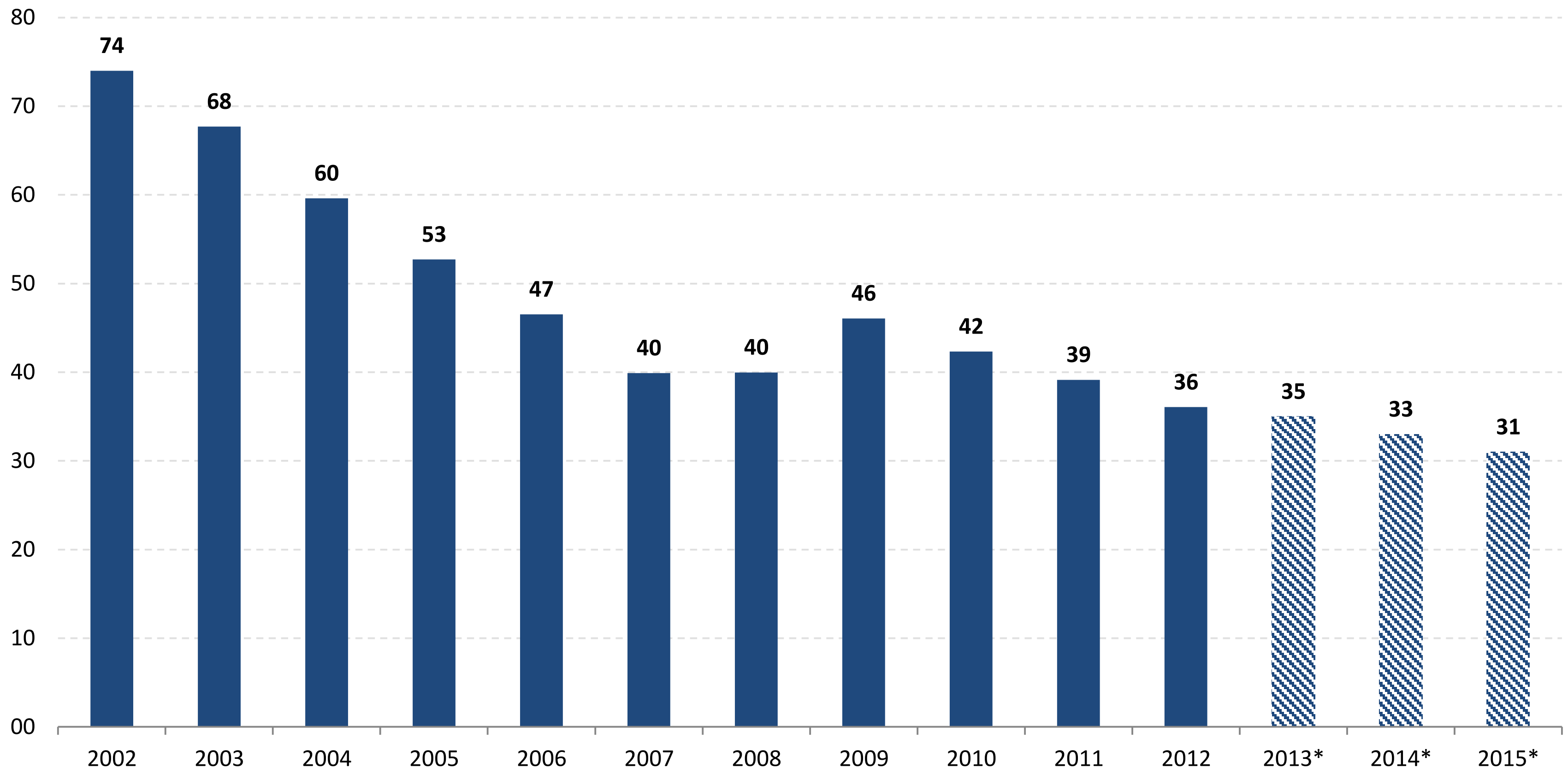


Source: Ministry of Finance

*Medium Term Program projections.

Fiscal Policy

EU Defined Public Debt to GDP
(Percent)

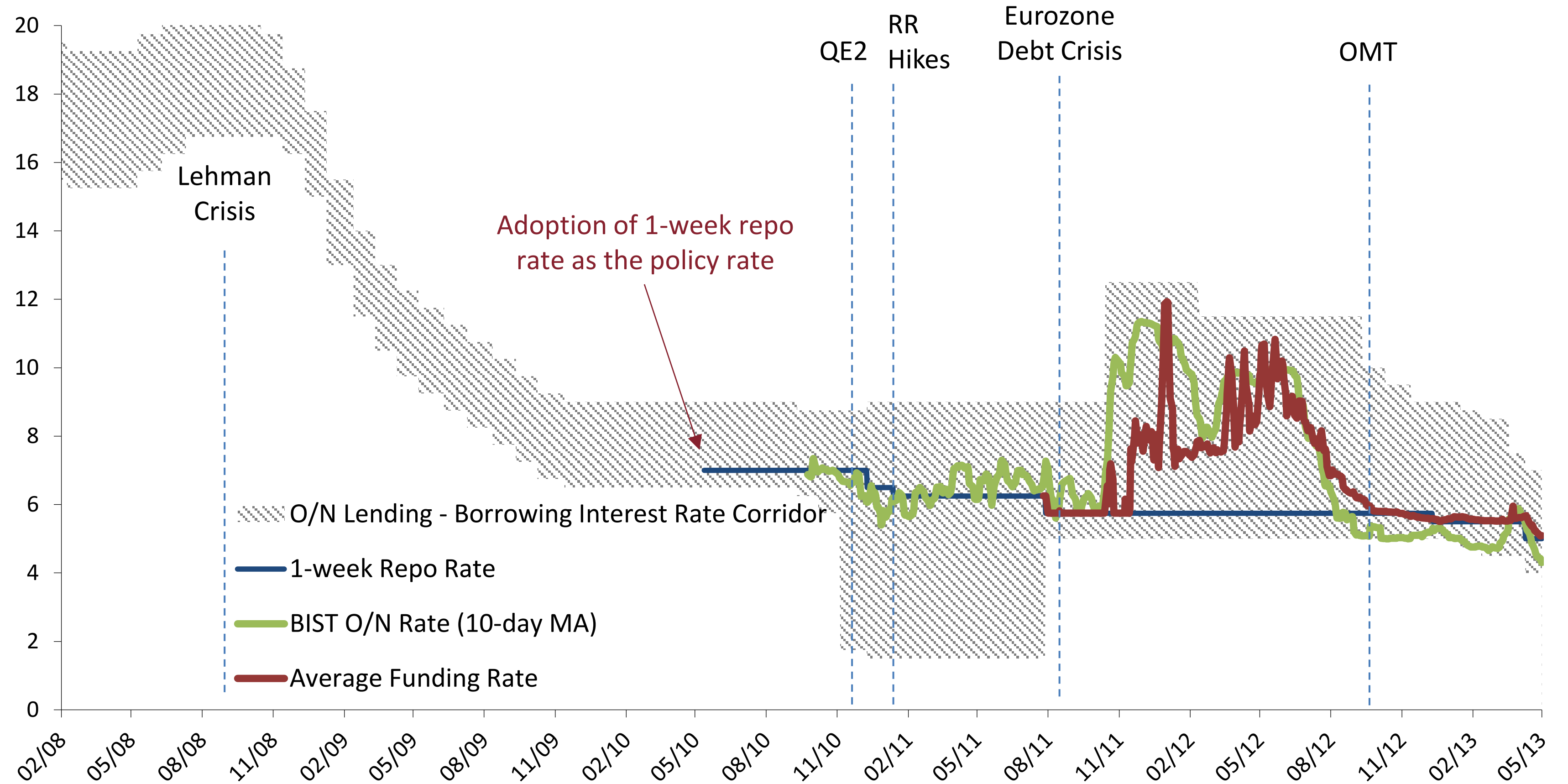


*Medium Term Program projections.

Source: Ministry of Finance

Monetary Policy

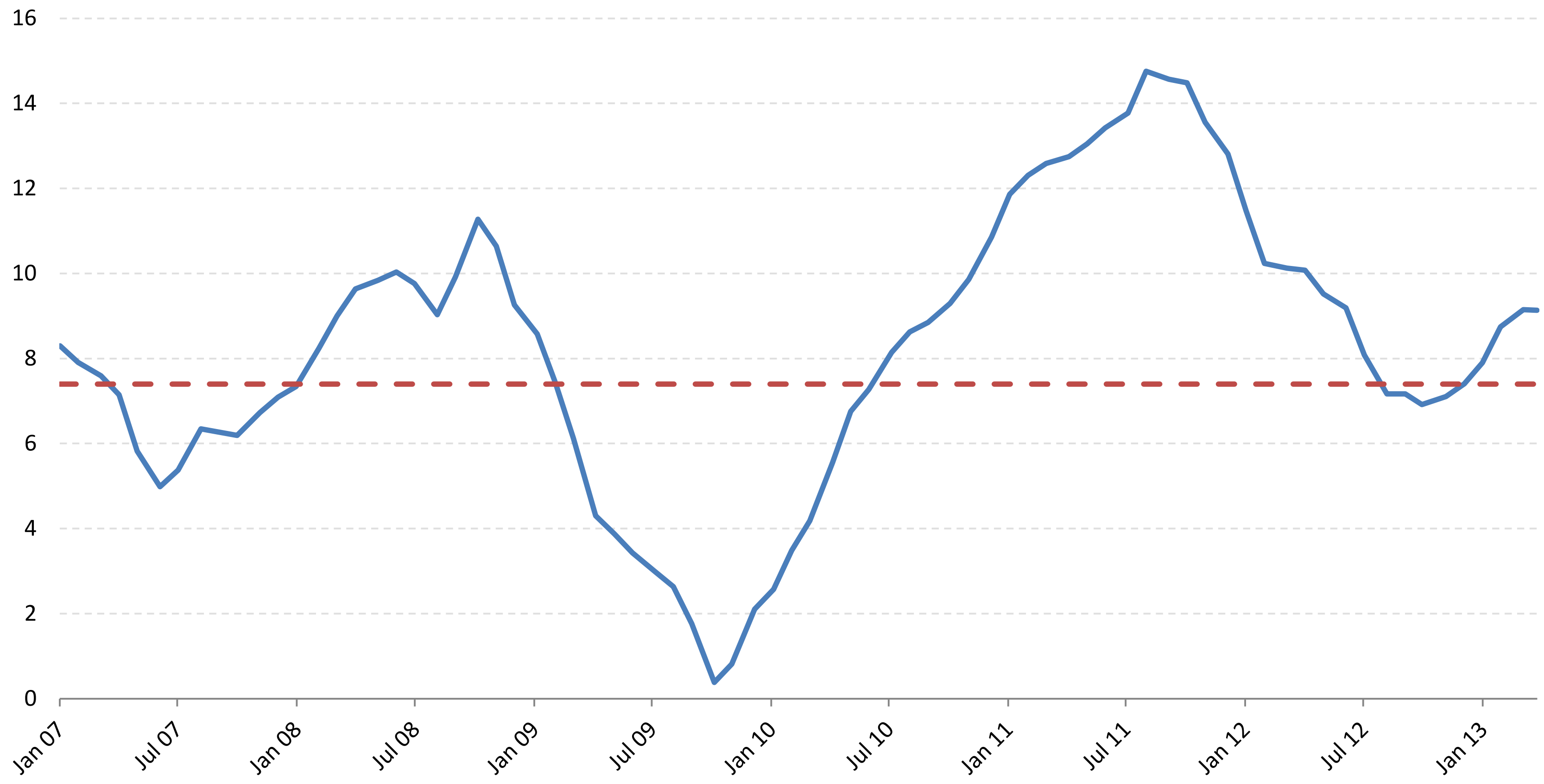
Interest Rate Corridor and Average Funding Rate
(Percent)



Source: BIST, CBRT.

The Credit Cycle in Turkey

Total Loans*
(Ratio of Annual Change to GDP, Percent)

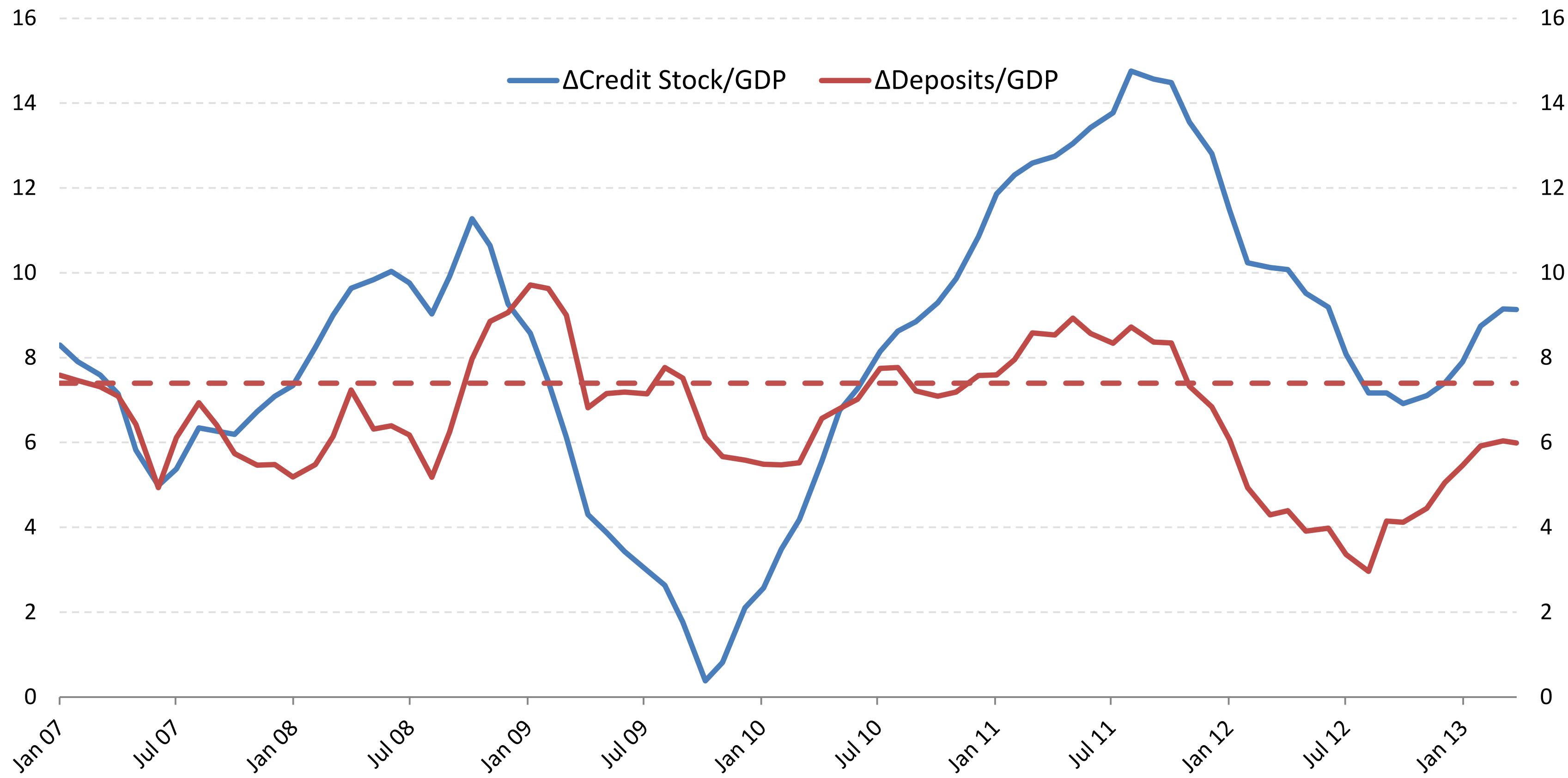


Source: CBRT.

*Participation banks are included.

The Credit Cycle in Turkey

Total Loans and Total Deposits*
(Ratio of Annual Change to GDP, Percent)

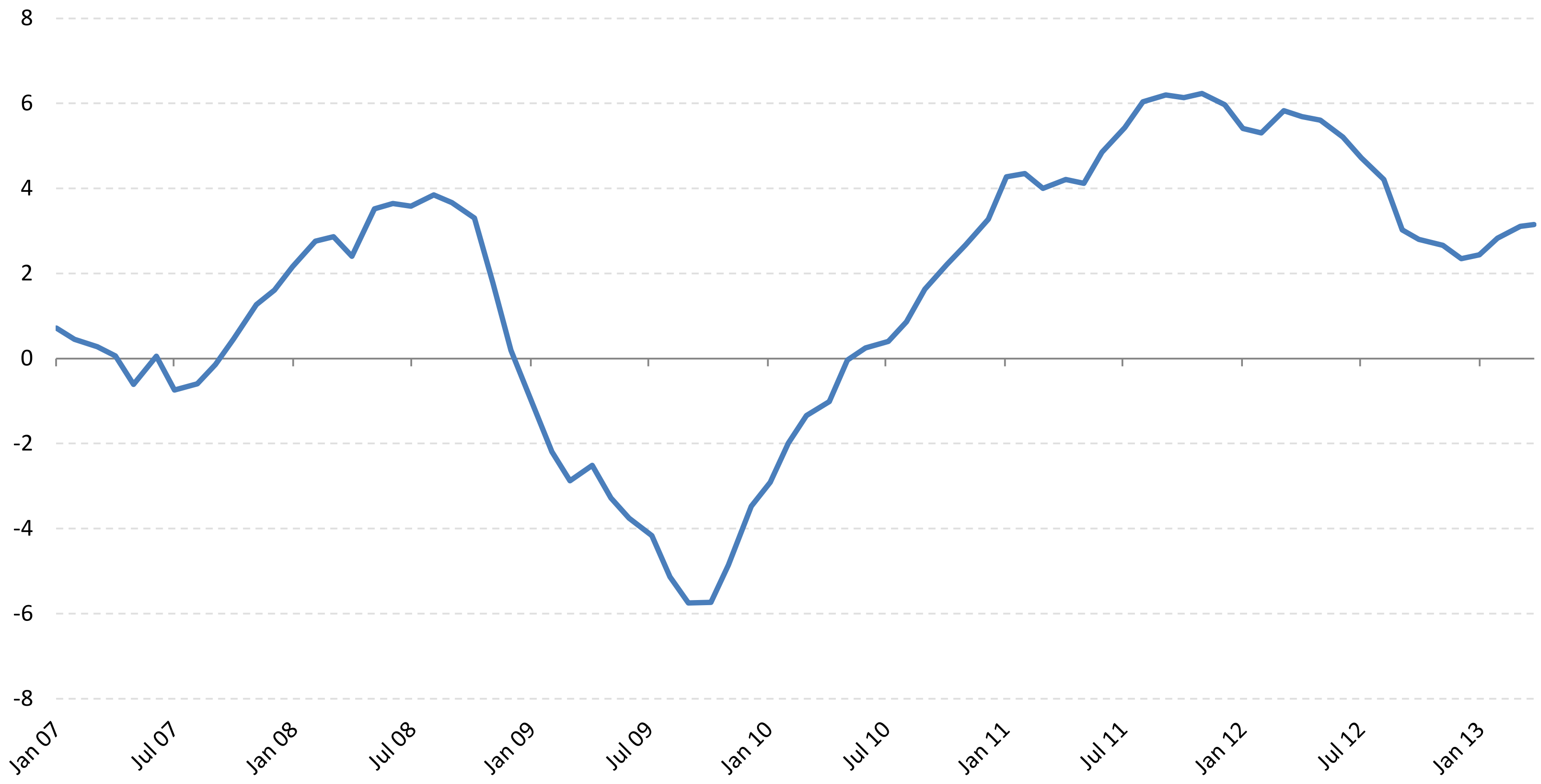


Source: CBRT.

*Participation banks are included, interbank deposits are excluded.

The Credit Cycle in Turkey

Difference Between Total Loans and Deposits*
(Ratio of Annual Change to GDP, Percent)

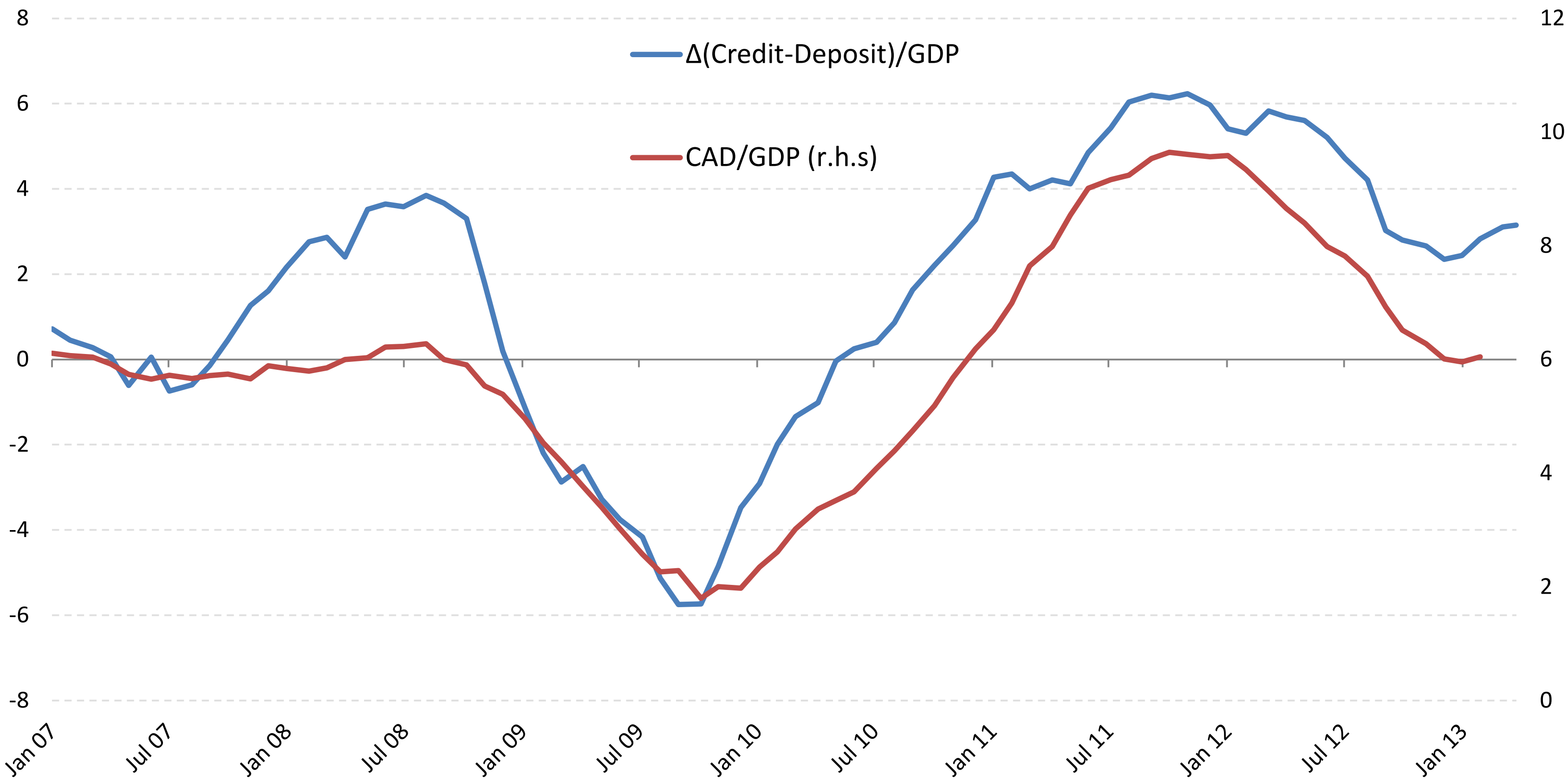


Source: CBRT.

*Participation banks are included, interbank deposits are excluded.

The Credit Cycle in Turkey

Difference Between Total Loans and Deposits* and Current Account Deficit
(Annual Change, Percent)

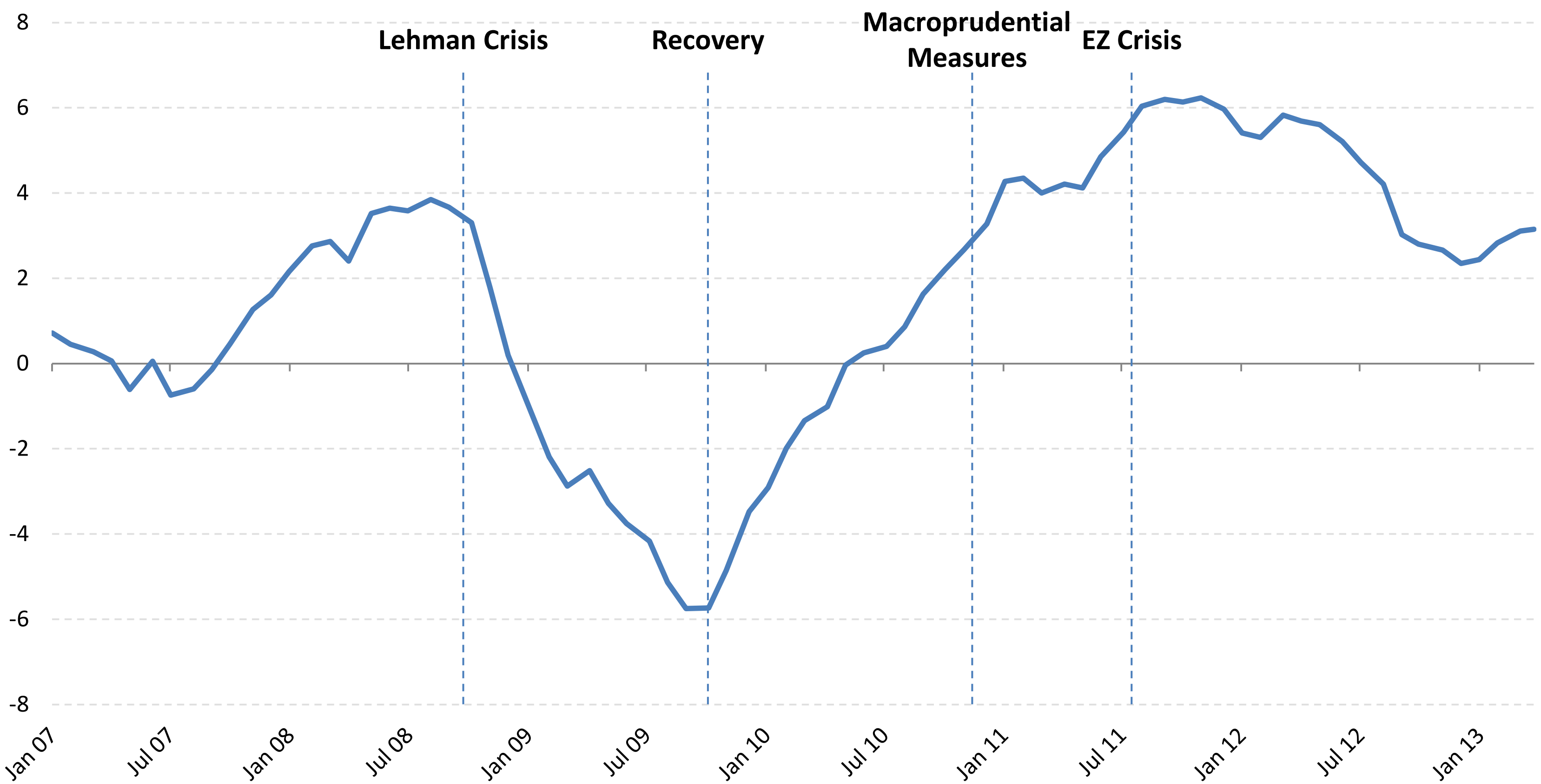


Source: CBRT.

*Participation banks are included, interbank deposits are excluded.

The Credit Cycle in Turkey

Difference Between Total Loans and Deposits*
(Ratio of Annual Change to GDP, Percent)



Source: CBRT.

*Participation banks are included, interbank deposits are excluded.

Macroprudential Measures

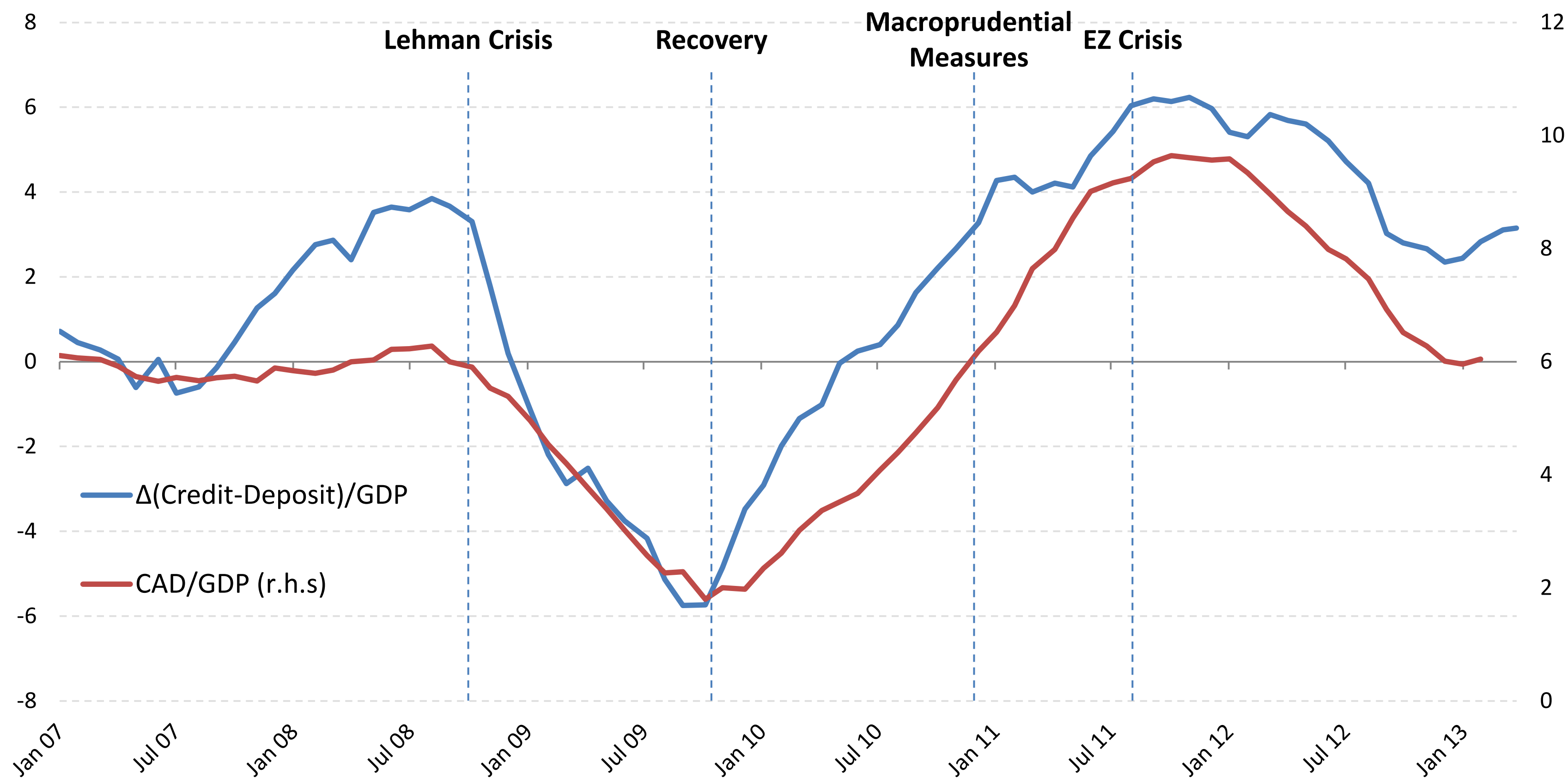
- Loan-to-Value Restrictions
- Risk Weights on Consumer Loans
- General Provisioning Requirements
- Levy on Consumer Loans
- Reserve Requirements

Reserve Requirements

- Maturity-Based Reserve Requirements
- Currency-Based Reserve Requirements
- Leverage-Based Reserve Requirements
- Reserve Options

The Credit Cycle in Turkey

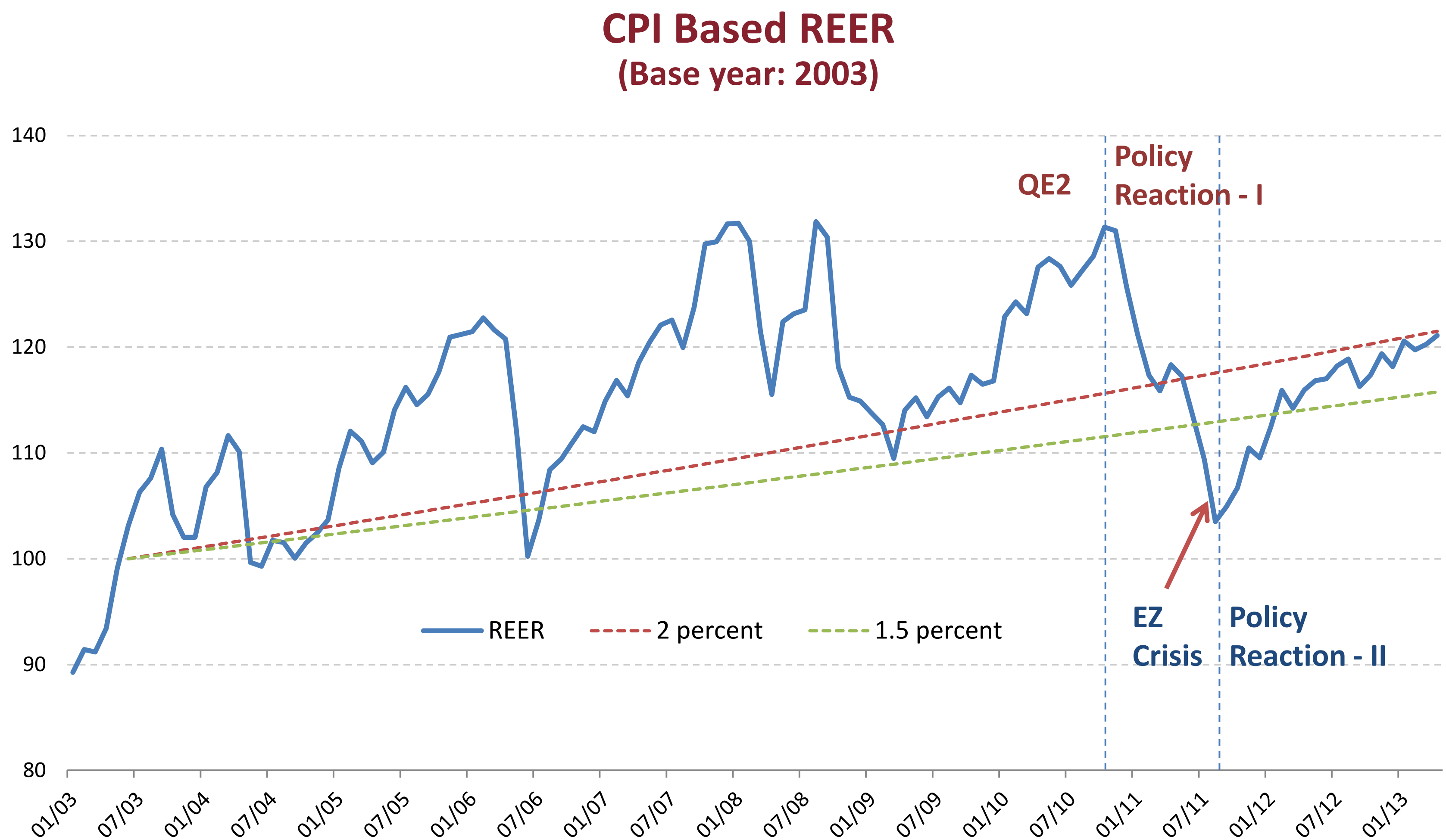
Difference Between Total Loans and Deposits* and Current Account Deficit
(Annual Change, Percent)



Source: CBRT.

*Participation banks are included, interbank deposits are excluded.

Real Effective Exchange Rate (REER)



Source: CBRT.

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