



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Monetary Policy in the New Regulatory Environment

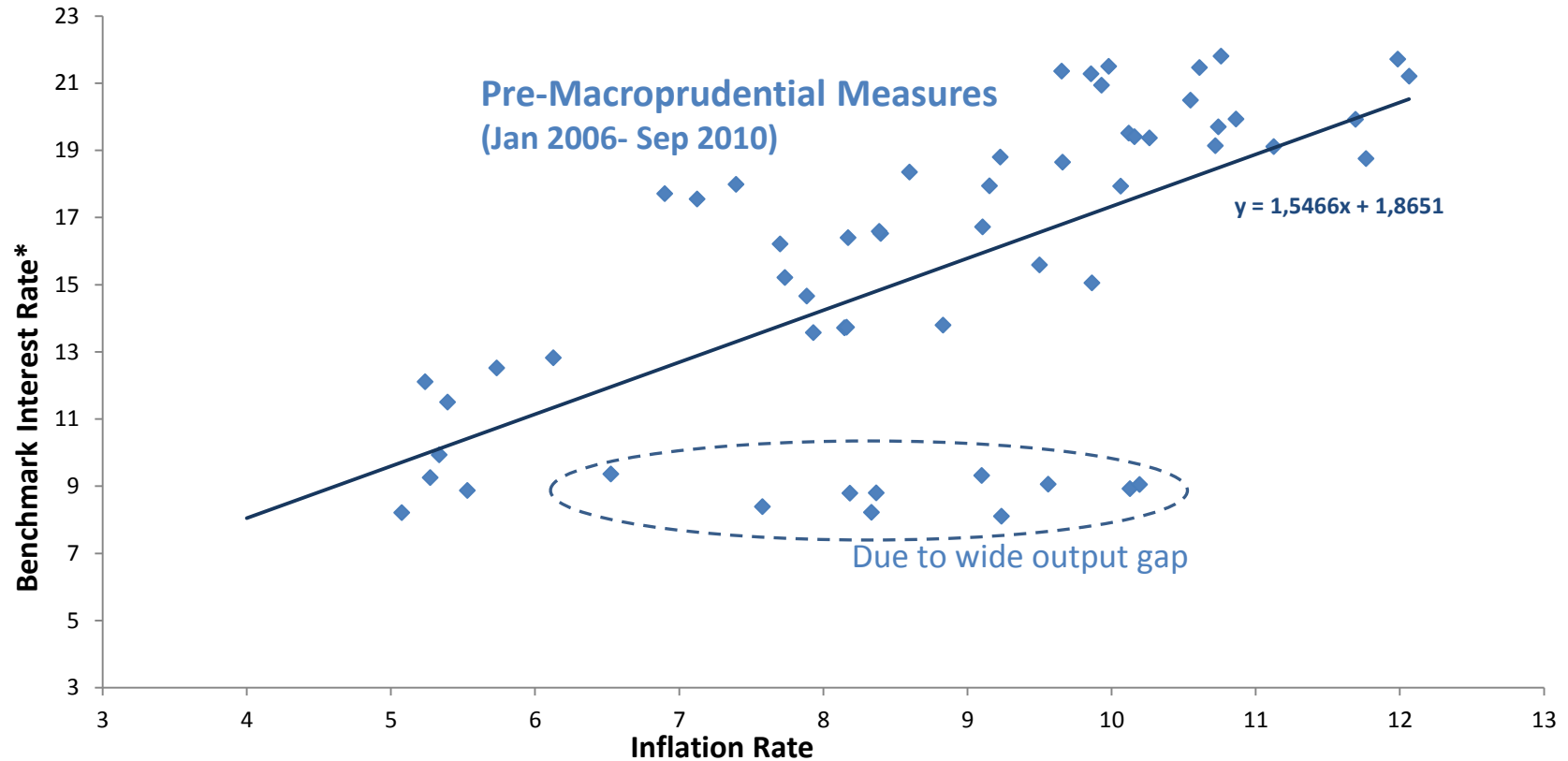
**Erdem Başçı
Governor**

**26 May 2014, Sintra
ECB Forum on Central Banking**

The slope of the Fisher curve declined significantly after the Lehman crisis.

Fisher Curve

(January 2006- September 2010, Monthly)



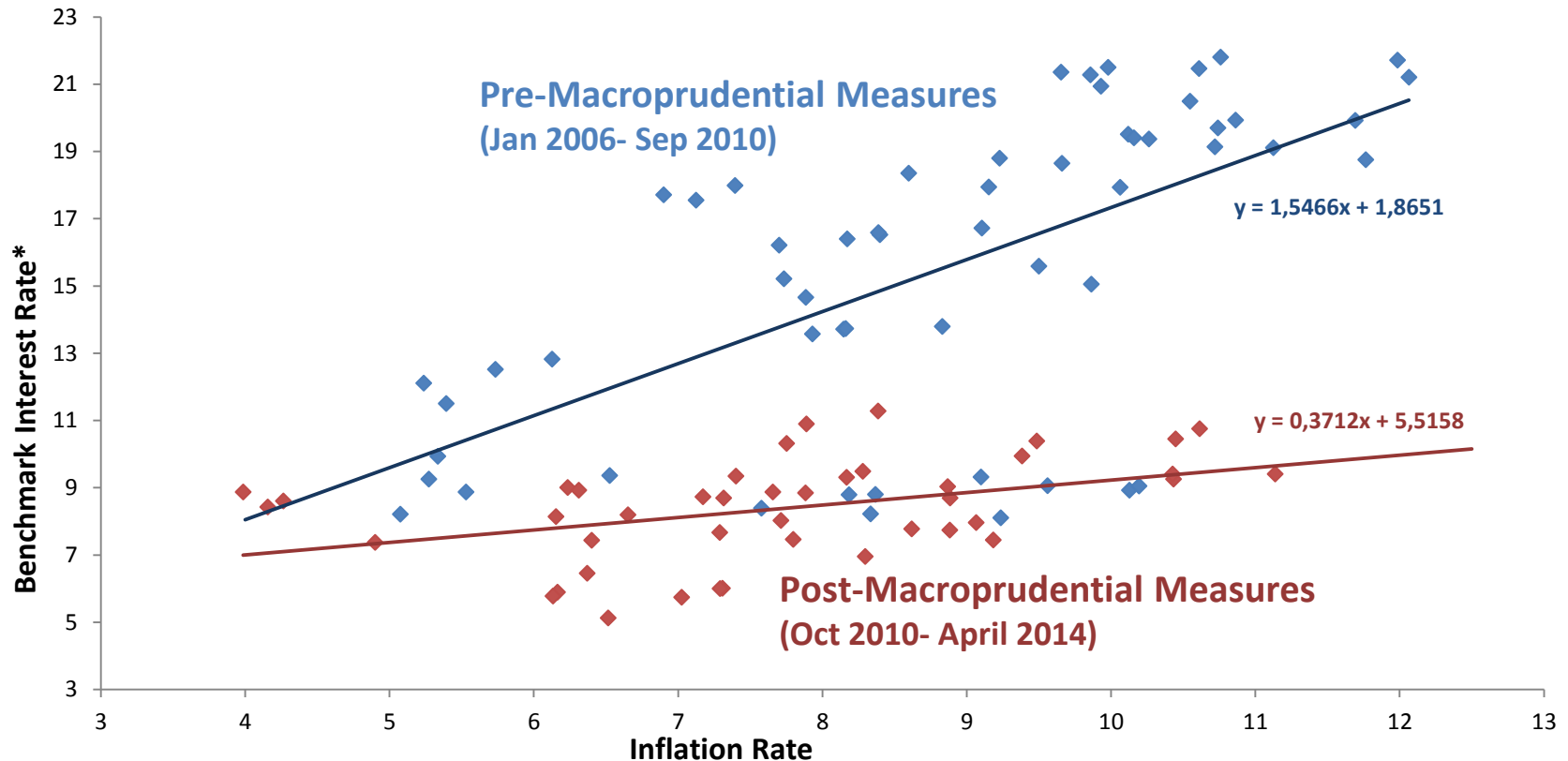
Source: CBRT

* Between 01.02.2006 and 04.12.2006 benchmark rate represents the closest maturity to 2-year government bond yield, thereafter it shows the 2-year government bond yield.

The slope of the Fisher curve declined significantly after the Lehman crisis.

Fisher Curves

(January 2006- April 2014, Monthly)

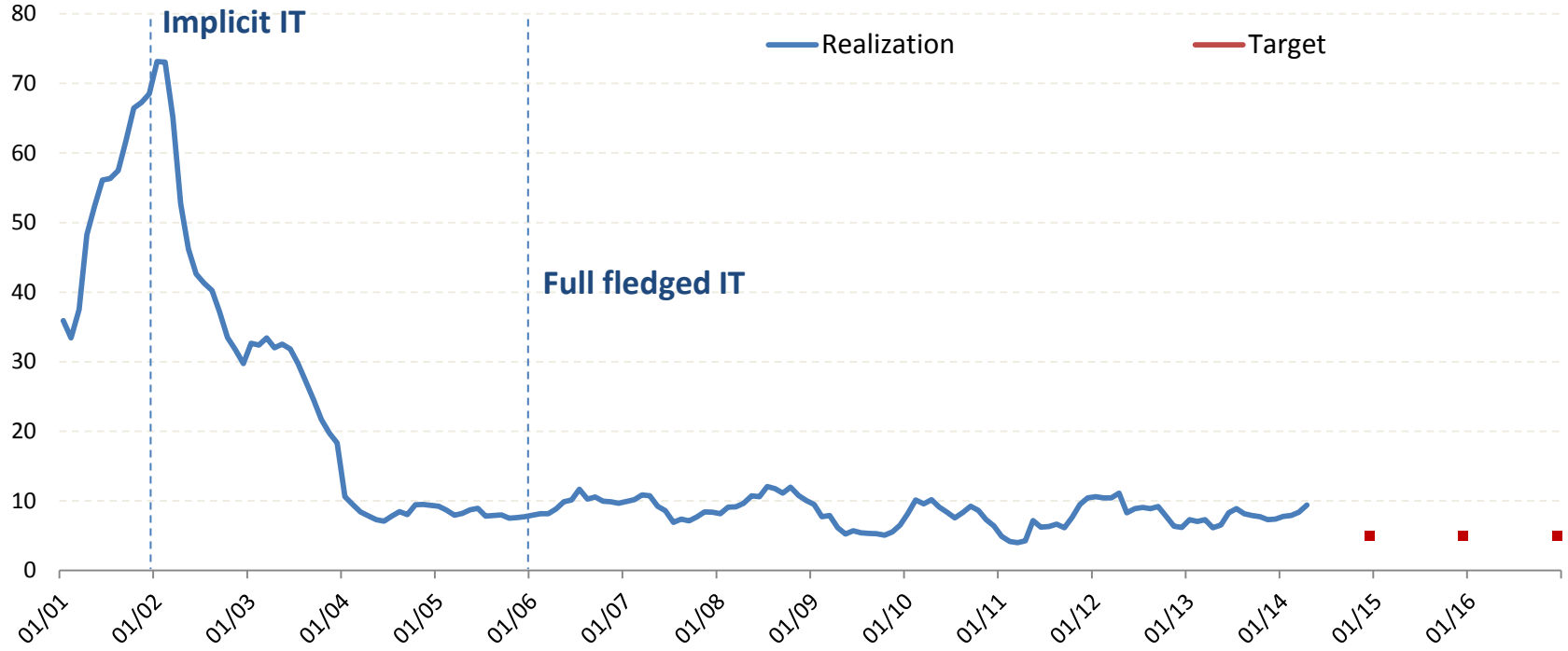


Source: CBRT

* Between 01.02.2006 and 04.12.2006 benchmark rate represents the closest maturity to 2-year government bond yield, thereafter it shows the 2-year government bond yield.

Turkey is in a disinflation process.

Inflation Realizations and Target (Percent)



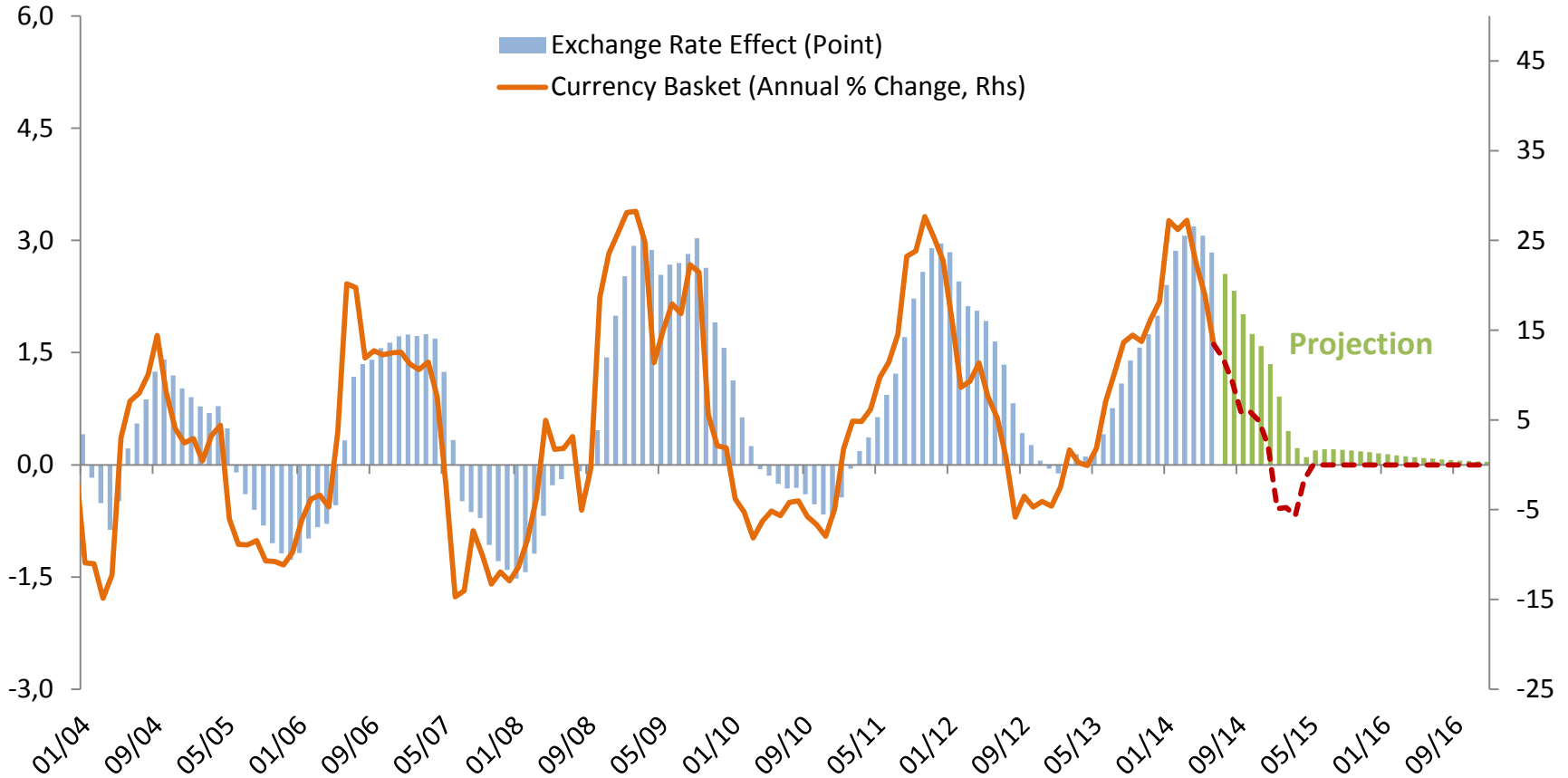
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Target	35	20	12	8	5	4	4	7,5	6,5	5,5	5	5	5	5	5
Realization	29,7	18,4	9,3	7,7	9,7	8,4	10,1	6,5	6,4	10,4	6,2	7,4	-	-	-

Source: TurkStat, CBRT.

Last observation: April 2014

Inflation fluctuations are largely due to the volatility of international capital flows.

The Effect of Exchange Rate on Annual Consumer Inflation* (Percentage Points)



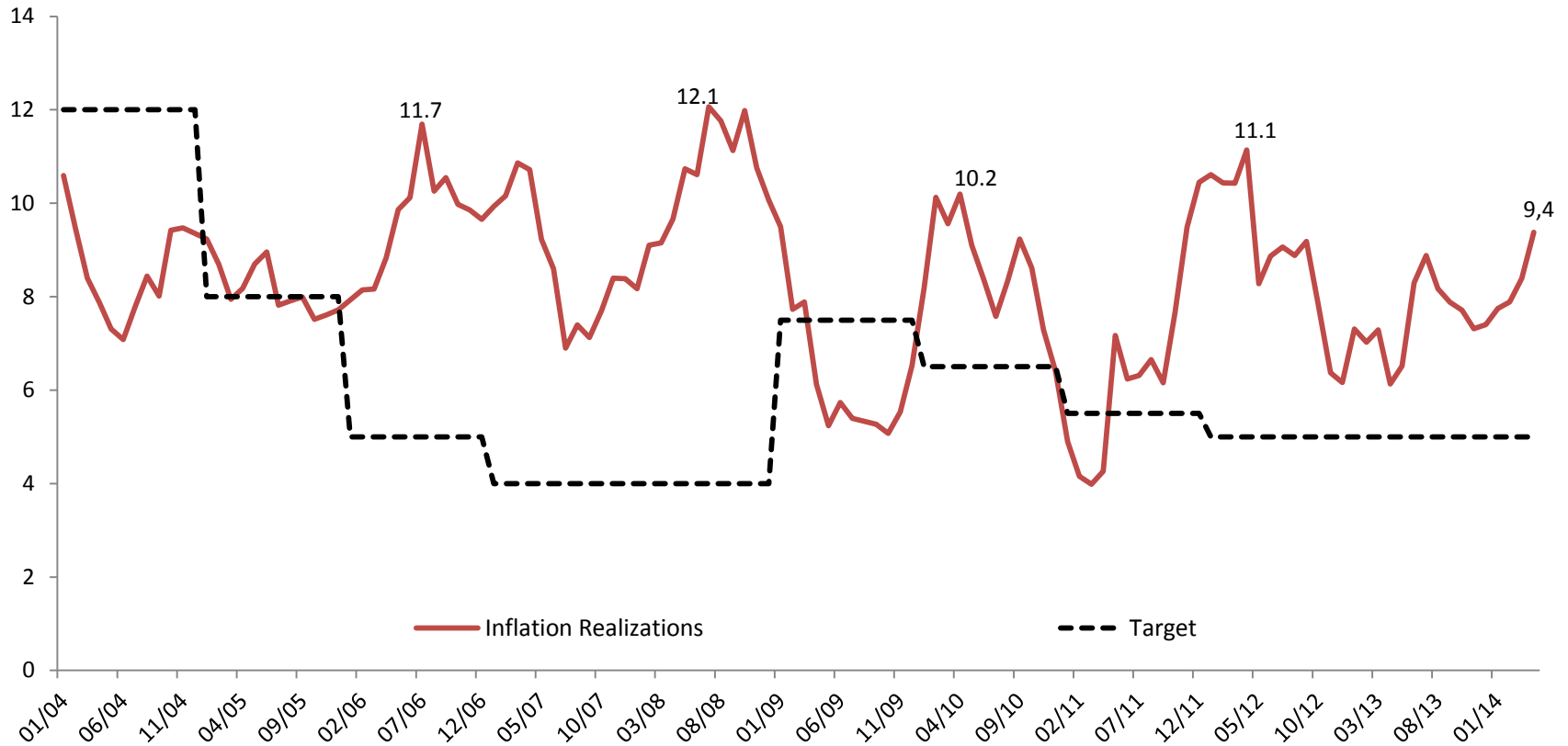
Source: TurkStat, CBRT.

Last Observation: April 2014

*The currency basket is assumed to be constant after May 2014.

Exchange rate pass-through is one of the the main drivers of inflation fluctuations.

Inflation Realizations and Target (Percent)

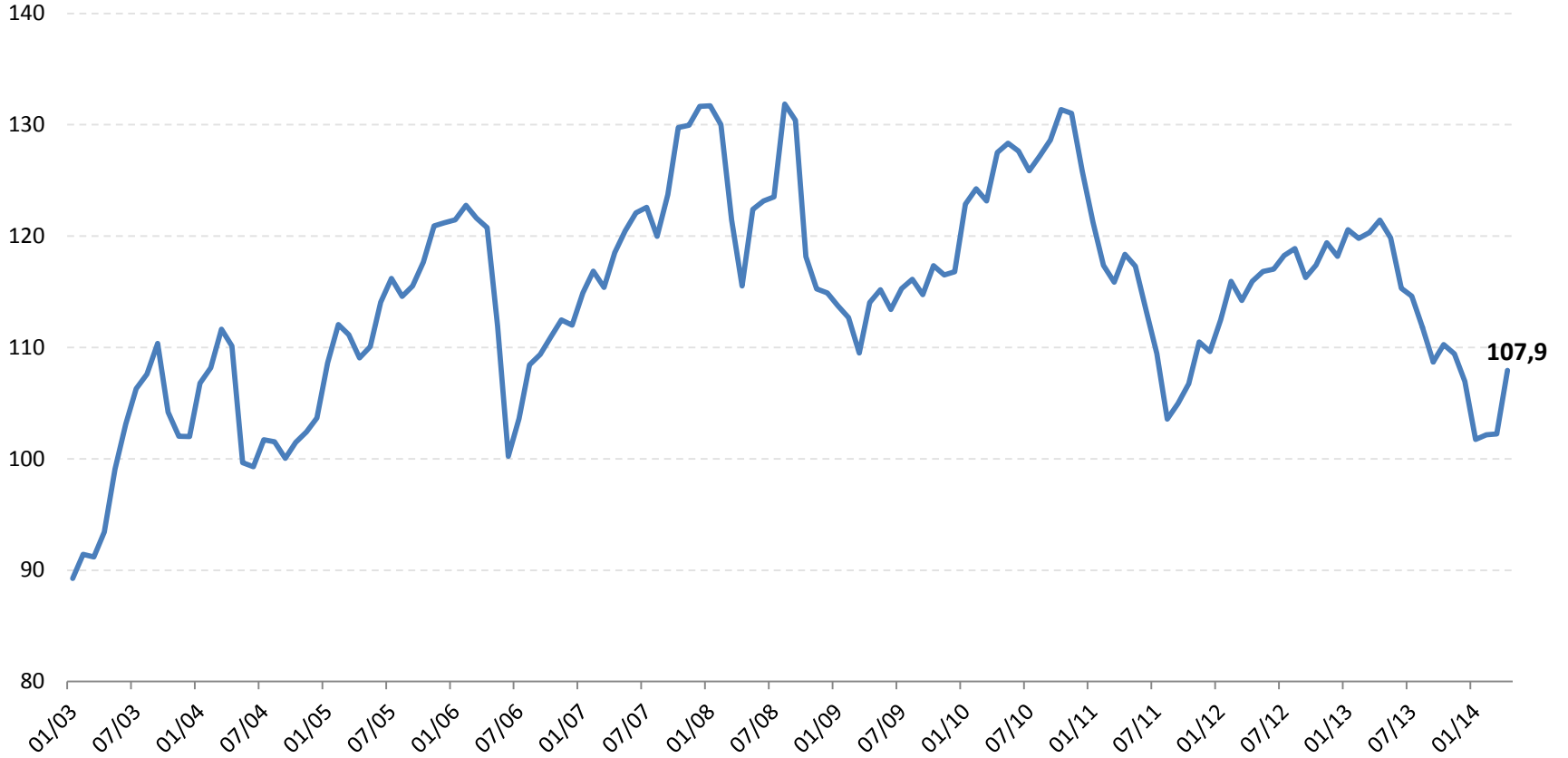


Source: TurkStat, CBRT.

Last Observation: April 2014

Volatility in the real exchange rate has been quite sizeable.

CPI Based Real Effective Exchange Rate (2003=100)

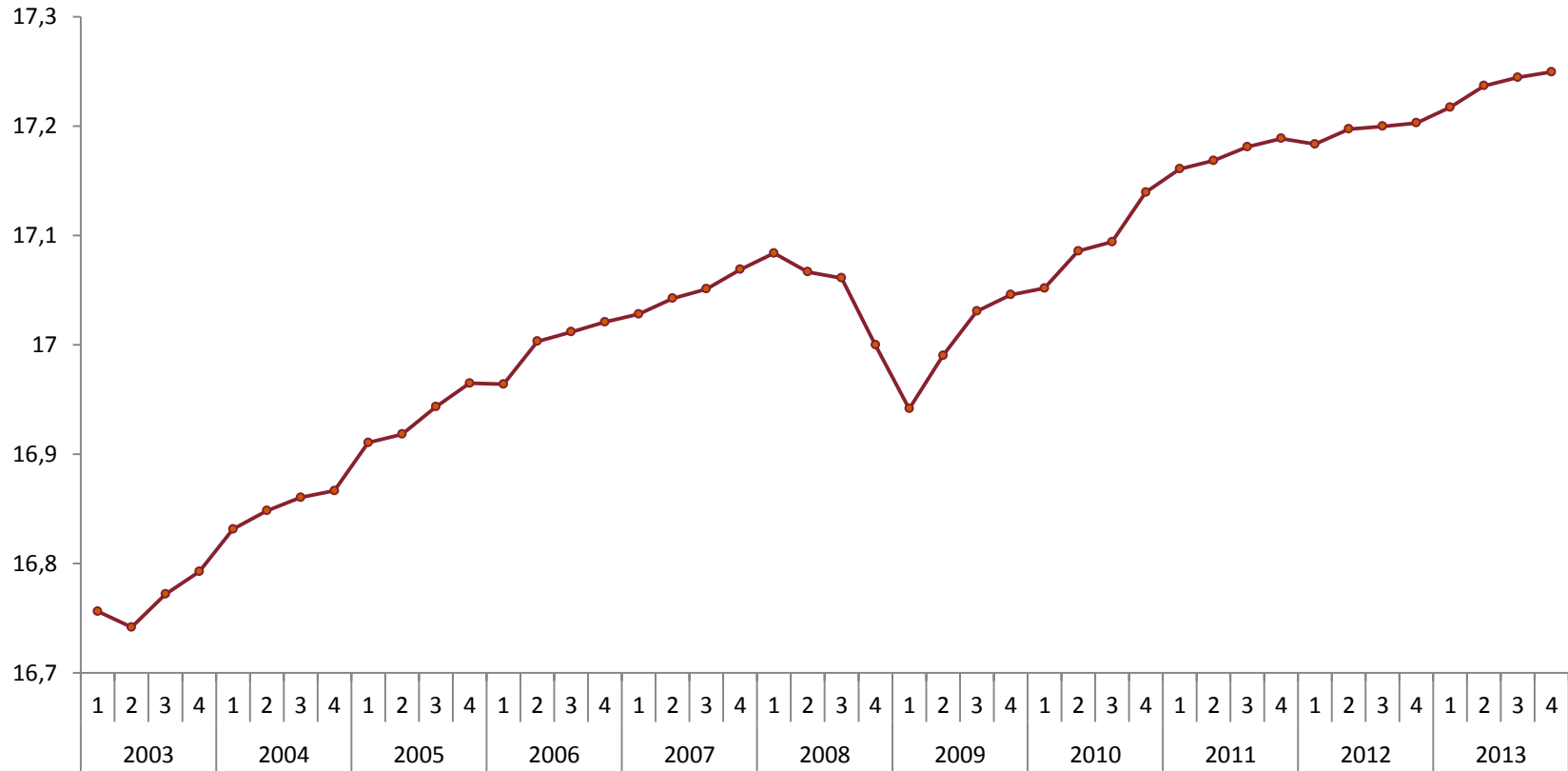


Source: CBRT.

Last observation: April 2014

Post-Lehman recovery has been quite remarkable...

Gross Domestic Product* (Constant Prices, Seasonally Adjusted)

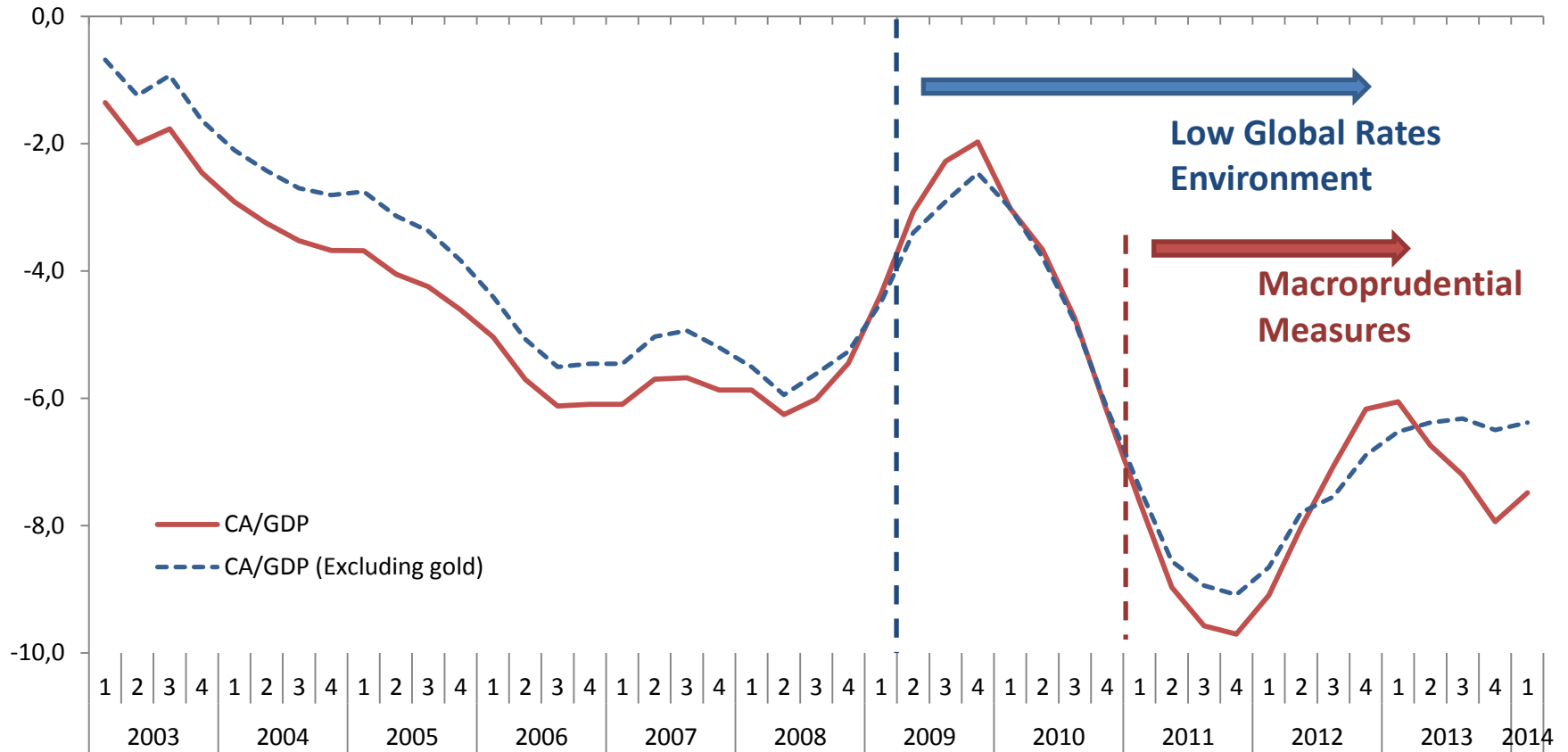


Source: Turkstat

* Natural Logarithm

...while leading to a higher external deficit.

Current Account Balance (12-Month Cumulative, % GDP)



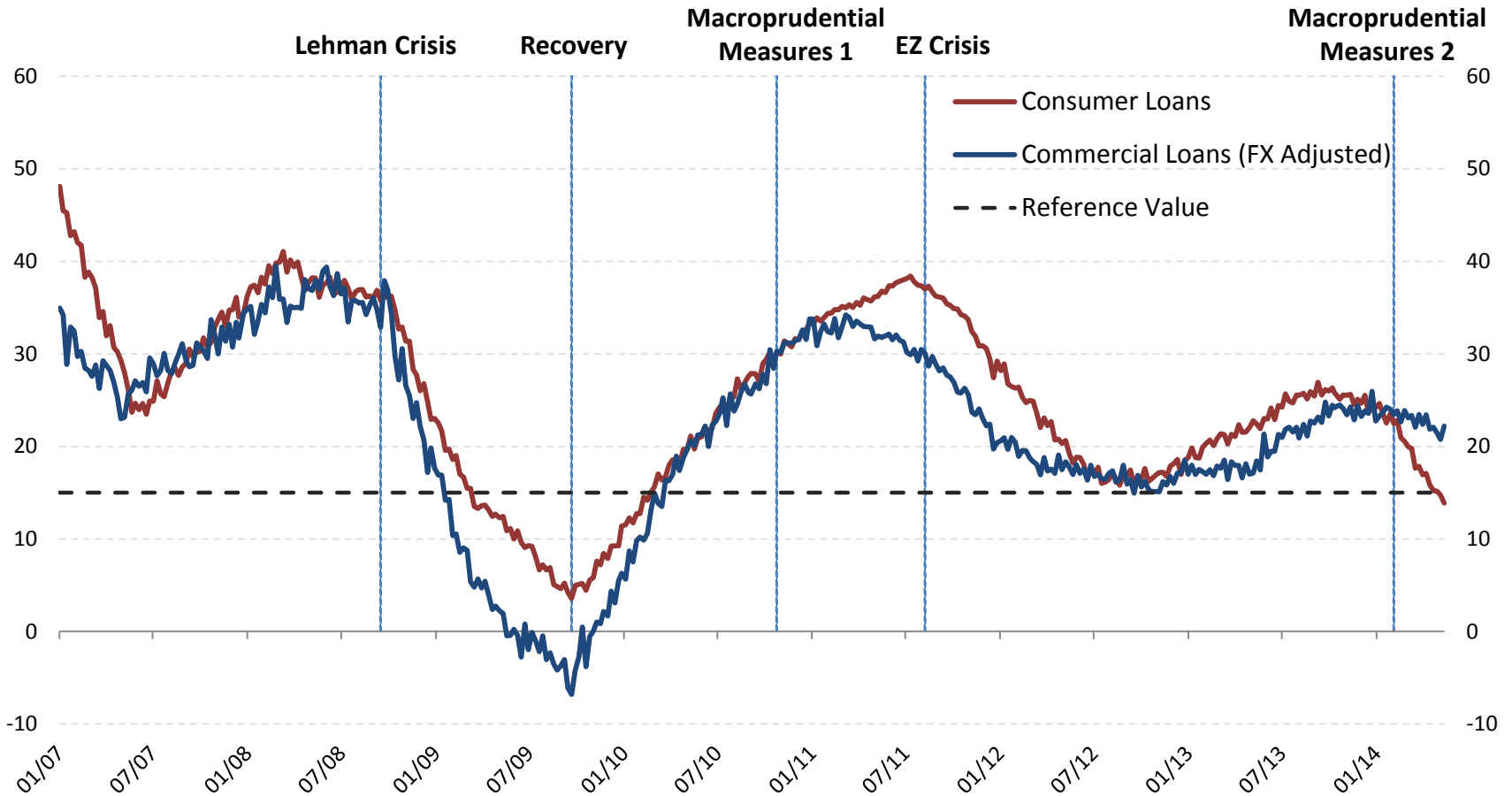
Source: CBRT.

Last Observation: March 2014

* Forecast.

Another main determinant of inflation volatility is the credit cycle.

Consumer* and Commercial Loans** (YoY Growth, Percent)



Source: CBRT.

* Including credit cards.

**Total banking sector (including participation banks, excluding nonperforming loans)

Last Observation: 16 May 2014

Inflation expectations remain quite stable, but are above the target.

12 and 24 Months CPI Expectations* (Percent)



Source: TURKSTAT, CBRT.

*CBRT Expectation Survey.
Last Observation: May 2014

Interest rate dilemma makes macroprudential measures necessary.

Interest Rate Dilemma for EMEs

Price Stability



Currency Stability

*Needs compatibility with **low** global interest rates*

Credit Stability

*Requires **higher** domestic rates than global interest rates*

Resolution

Interest Rate

Macroprudential Policy

Stance

Lower

Tighter

Neutral real interest rates declined globally after the Lehman crisis.

2-Year Real Interest Rates of Turkish Treasury Securities* (Percent)



Source: CBRT, BIST

* Calculated as the difference between 2-year bond returns derived from the yield curve and the 24-month ahead inflation expectations derived from the CBRT Survey of Expectations.

Last Observation: 16 May 2014

Macroprudential policies have been tightened during the post-Lehman recovery.

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

The Central Bank used reserve requirements mainly as a structural instrument...

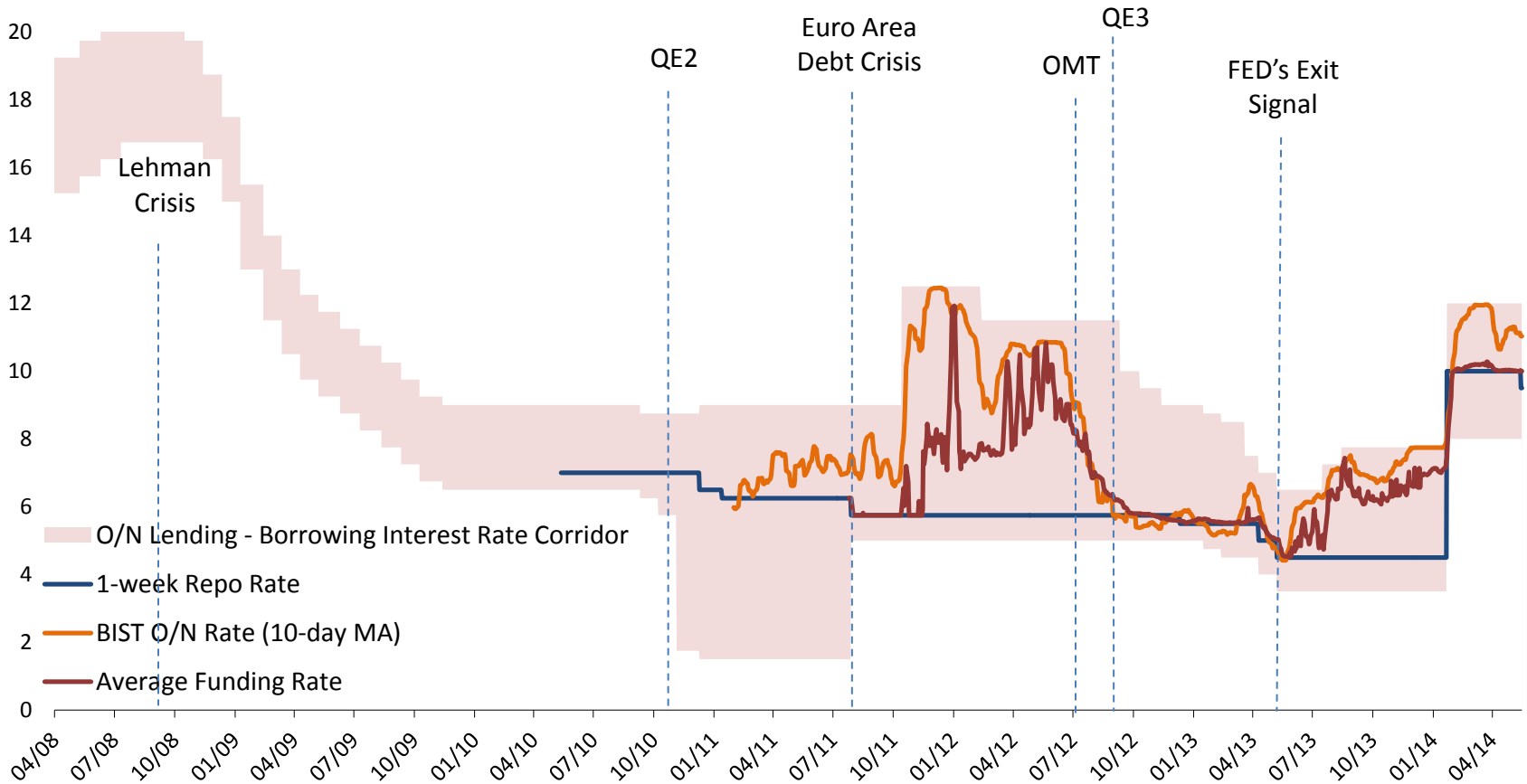
- Maturity-Based Reserve Requirements
- Currency-Based Reserve Requirements
- Leverage-Based Reserve Requirements
- Reserve Options Mechanism

...while using monetary policy instruments as cyclical stabilizers.

- Policy Rate
- Interest Rate Corridor
- TL Liquidity Management
- FX Liquidity Management

Temporary rate hikes have also been helpful in stabilizing credit and currency.

Monetary Policy Interest Rates (Percent)



Source: CBRT, BIST.

OMT: Outright Monetary Transactions (ECB)

QE: Quantitative Easing (FED)

Last Observation : 23 May 2014



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