



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

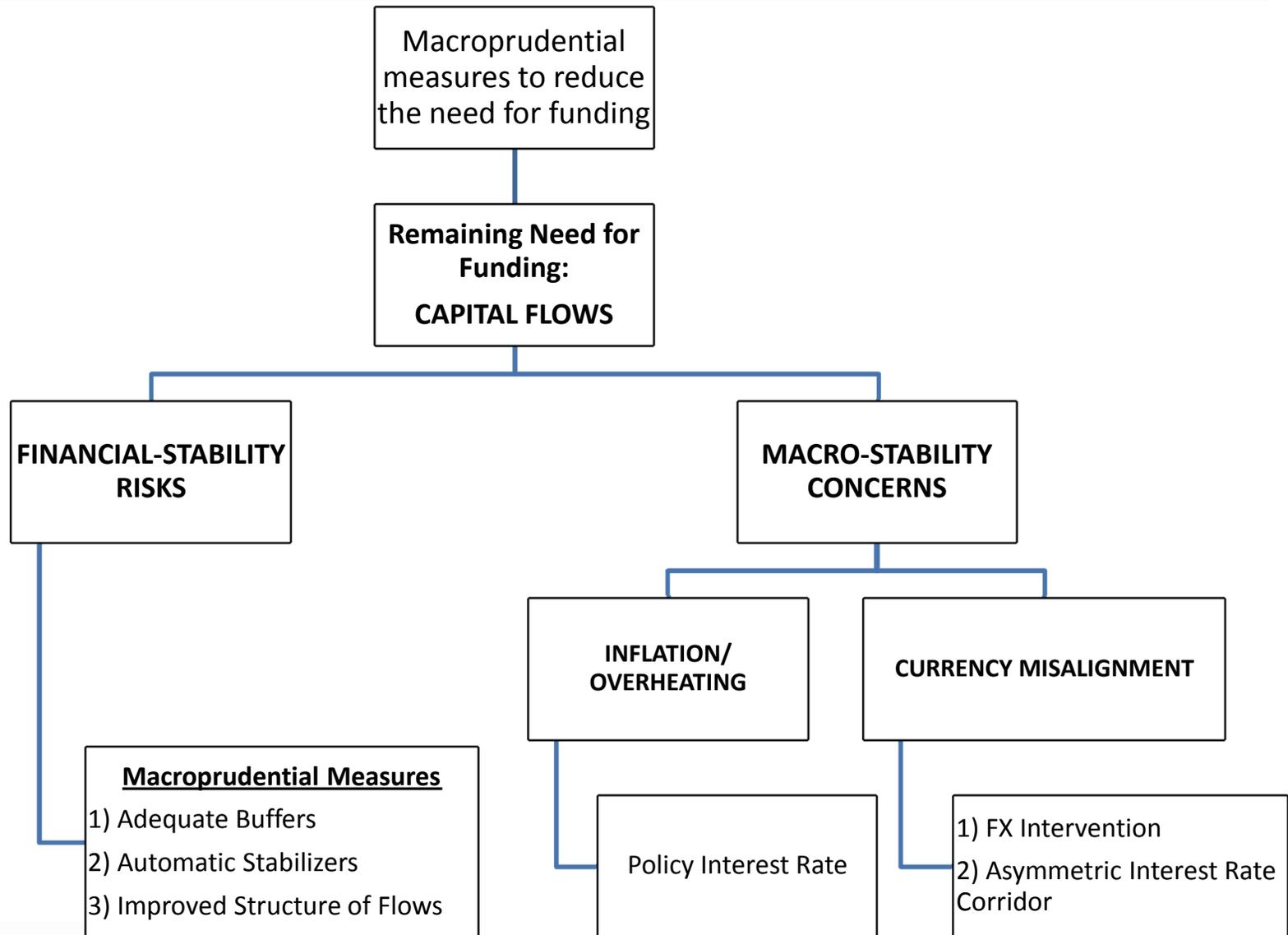
Discussion of ``Managing capital flows: How to combine capital controls, macro prudential tools, FX intervention, and the policy rate`` by Olivier Blanchard, Jonathan D. Ostry, Atish R. Ghosh, and Marcos Chamon.

Monetary Policy and Financial Stability in Emerging Markets

**Erdem Başçı
Governor**

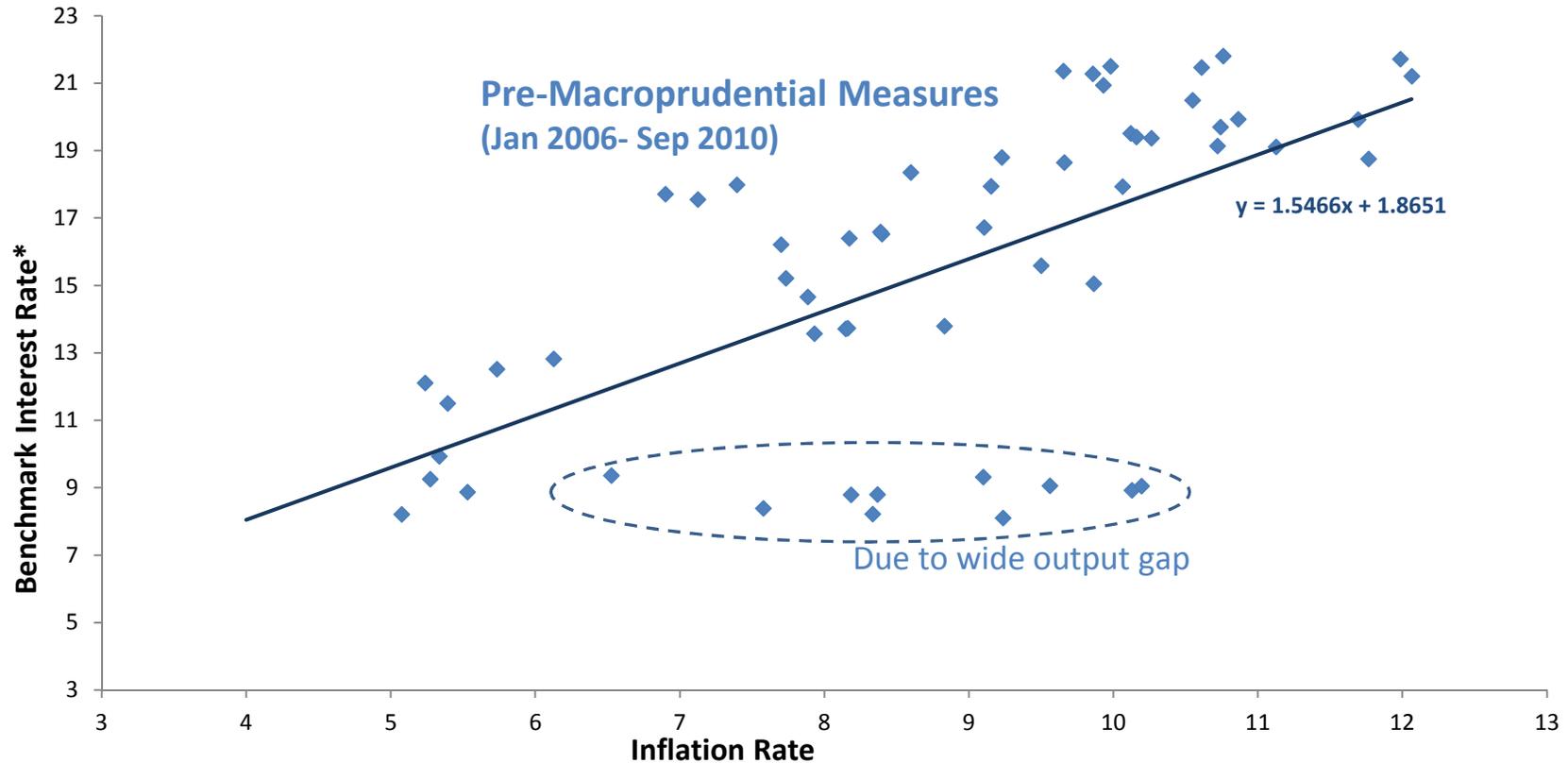
13 June 2014, İstanbul

The Turkish Approach



The slope of the Fisher curve declined significantly after the Global Financial Crisis.

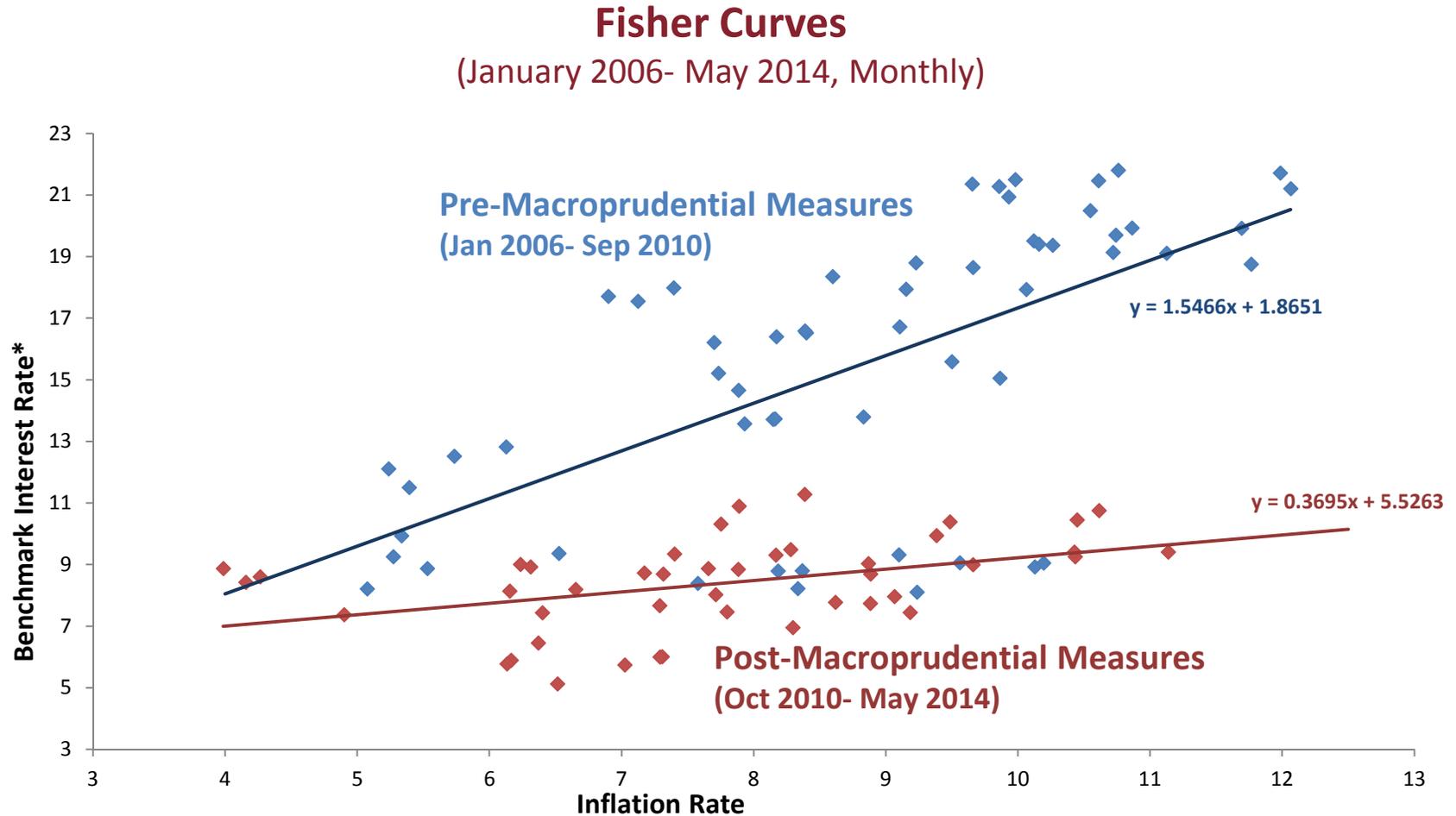
Fisher Curve (January 2006- September 2010, Monthly)



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 Global Financial Crisis.

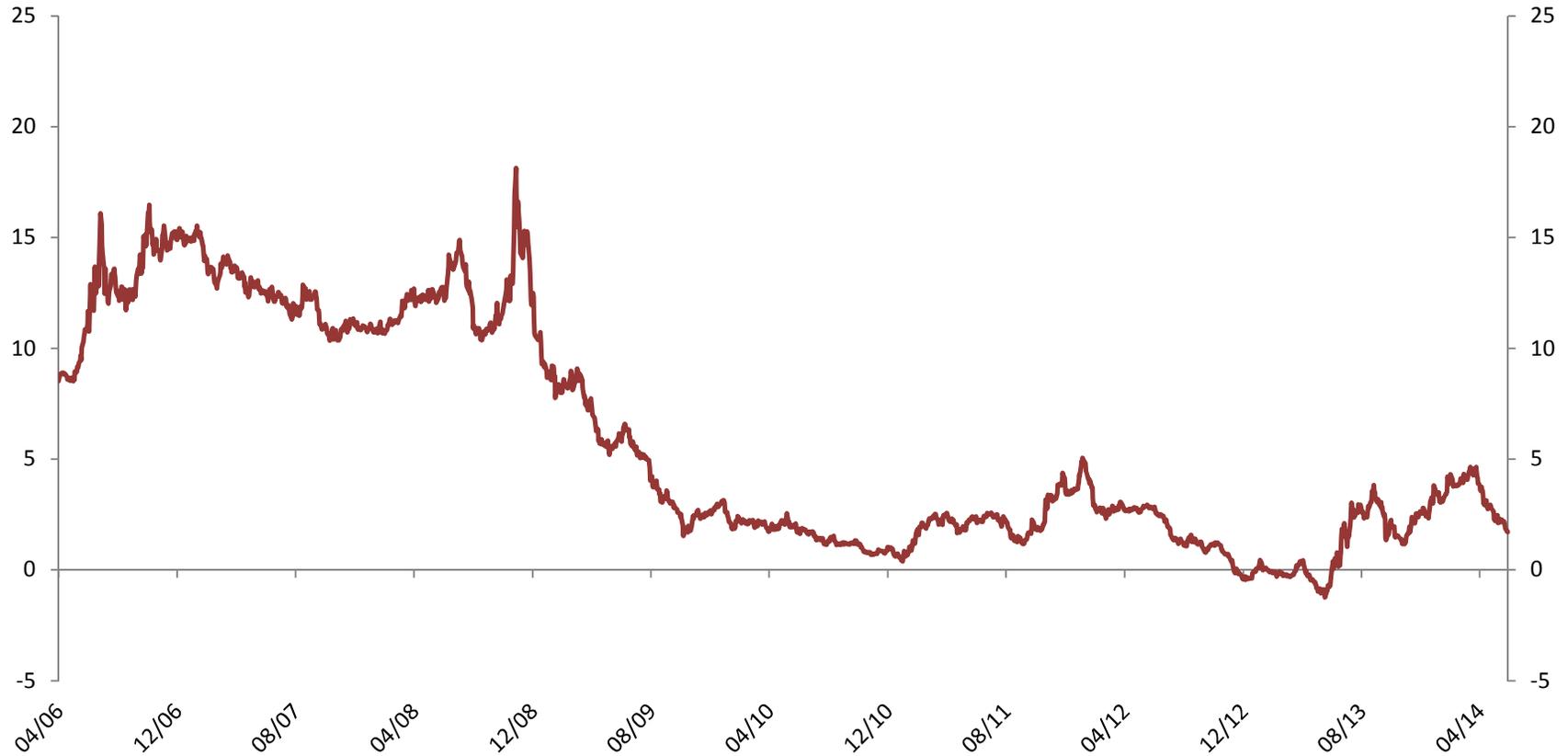


Source: CBRT

* 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.

Neutral real interest rates declined globally after the Global Financial Crisis.

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



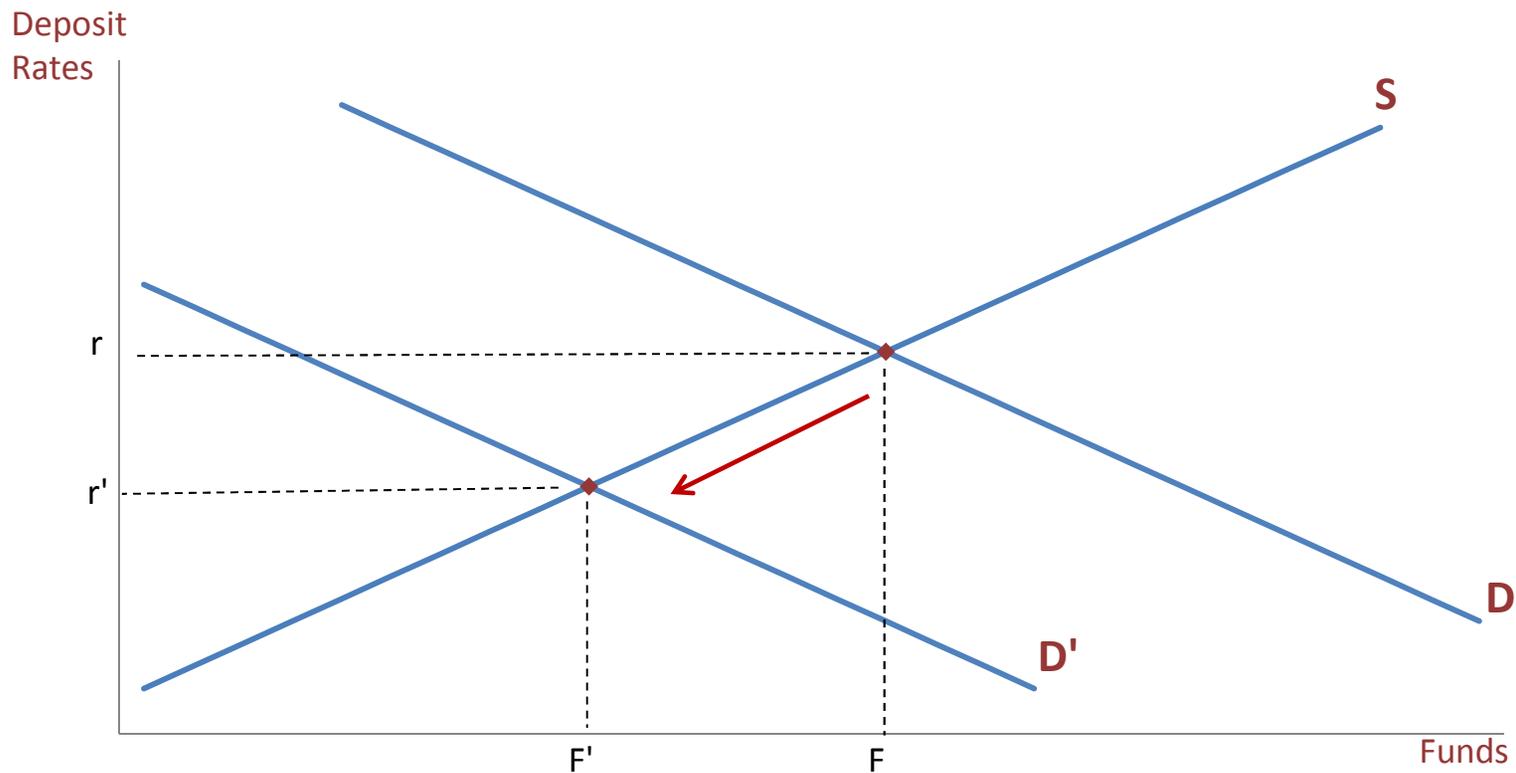
Source: CBRT, BIST

* Calculated as the difference between 2-year bond returns derived from the yield curve and the inflation expectations derived from the CBRT Survey of Expectations. Inflation expectation is 12-months ahead inflation expectation before April 2006. Thereafter, inflation expectation is the compound value of 12-months ahead and 24-months ahead inflation expectations for 24 months.

Last Observation: 30 May 2014

Macprudential measures reduced credit demand, thereby decreased the equilibrium market interest rate.

Impact of Macprudential Measures



Source: CBRT

r indicates rates for competitive equilibrium, r' indicates rate for equilibrium after macroprudential measures.
F represents competitive equilibrium, F' represents equilibrium after macroprudential measures.

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

- Loan-to-Value Restrictions
- Loan-to- Income Restrictions
- Maturity Restrictions
- High Capital Adequacy Ratio Requirements
- High General Provisioning Requirements
- High Reserve Requirements
- Levy on Consumer Loans

The Central Bank used reserve requirements mainly to improve the structure of flows...

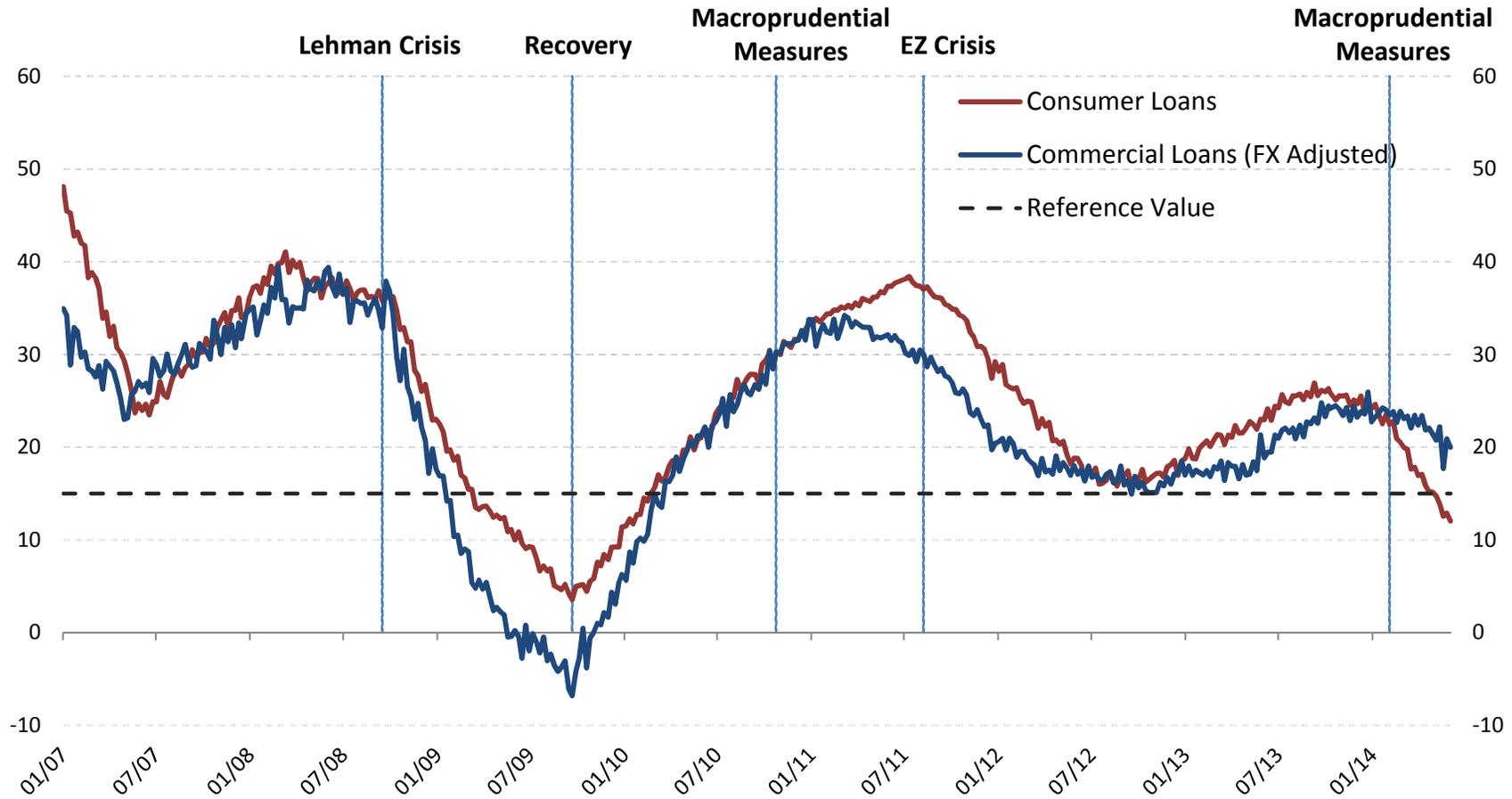
- Maturity-Based Reserve Requirements
- Currency-Based Reserve Requirements
- Leverage-Based Reserve Requirements
- Reserve Options Mechanism

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

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

Macprudential measures stabilized credit growth,

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



Source: CBRT.

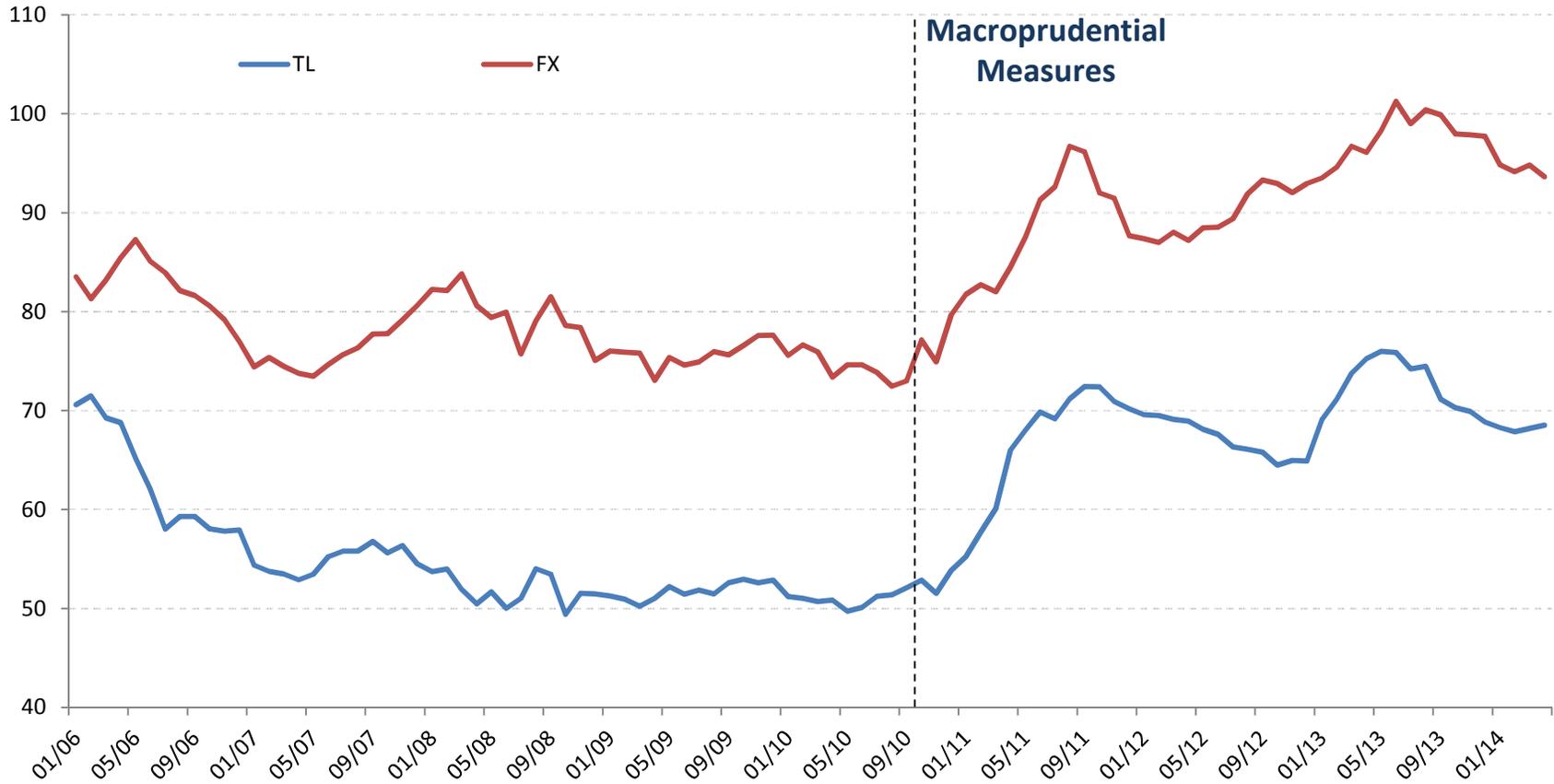
* Including credit cards.

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

Last Observation: 06 June 2014

...increased the maturity of deposits,

Maturity of Deposits (Weighted Average, Days)

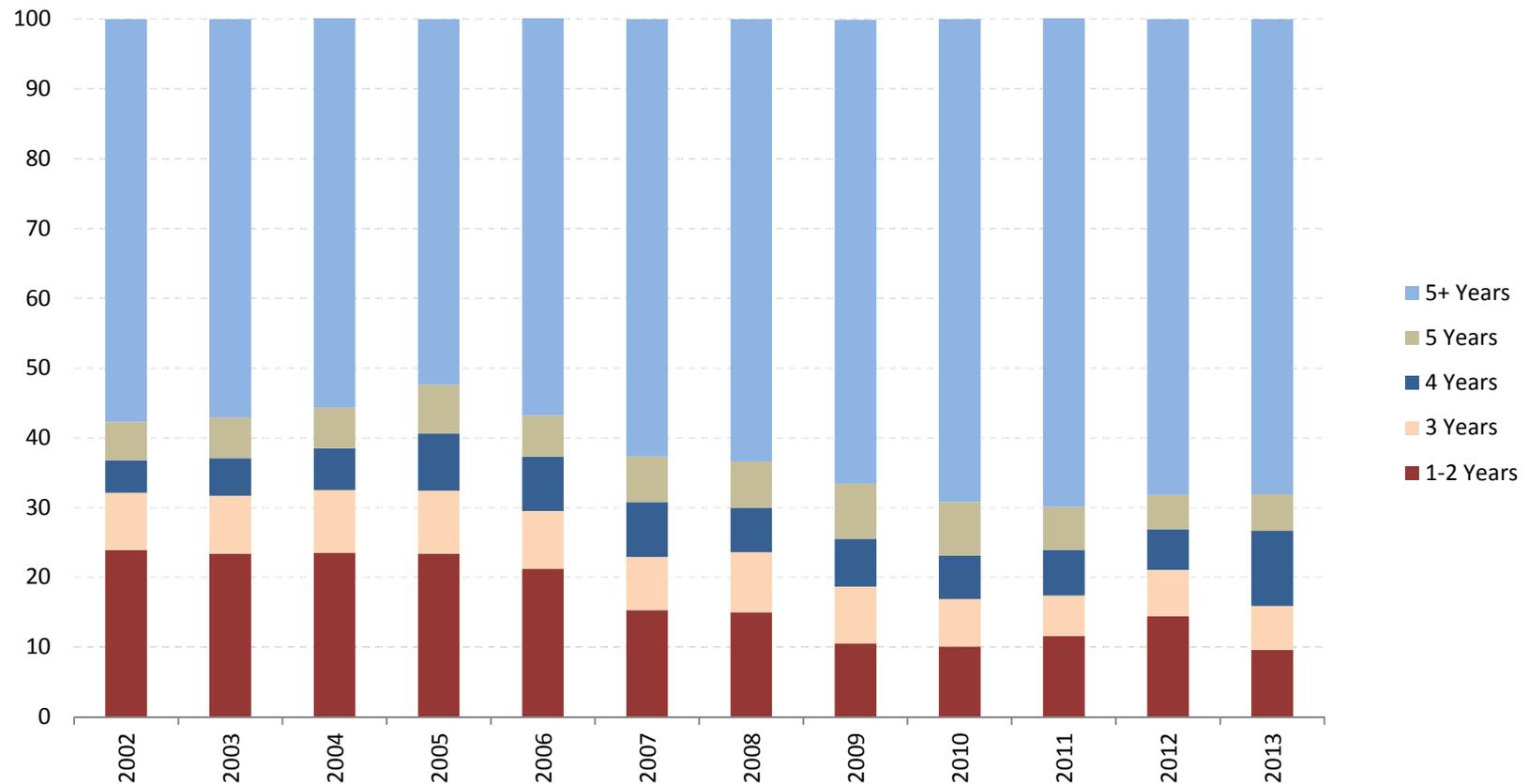


Source: CBRT.

Last Observation: May 2014

...and the maturity of non-bank corporate borrowing,

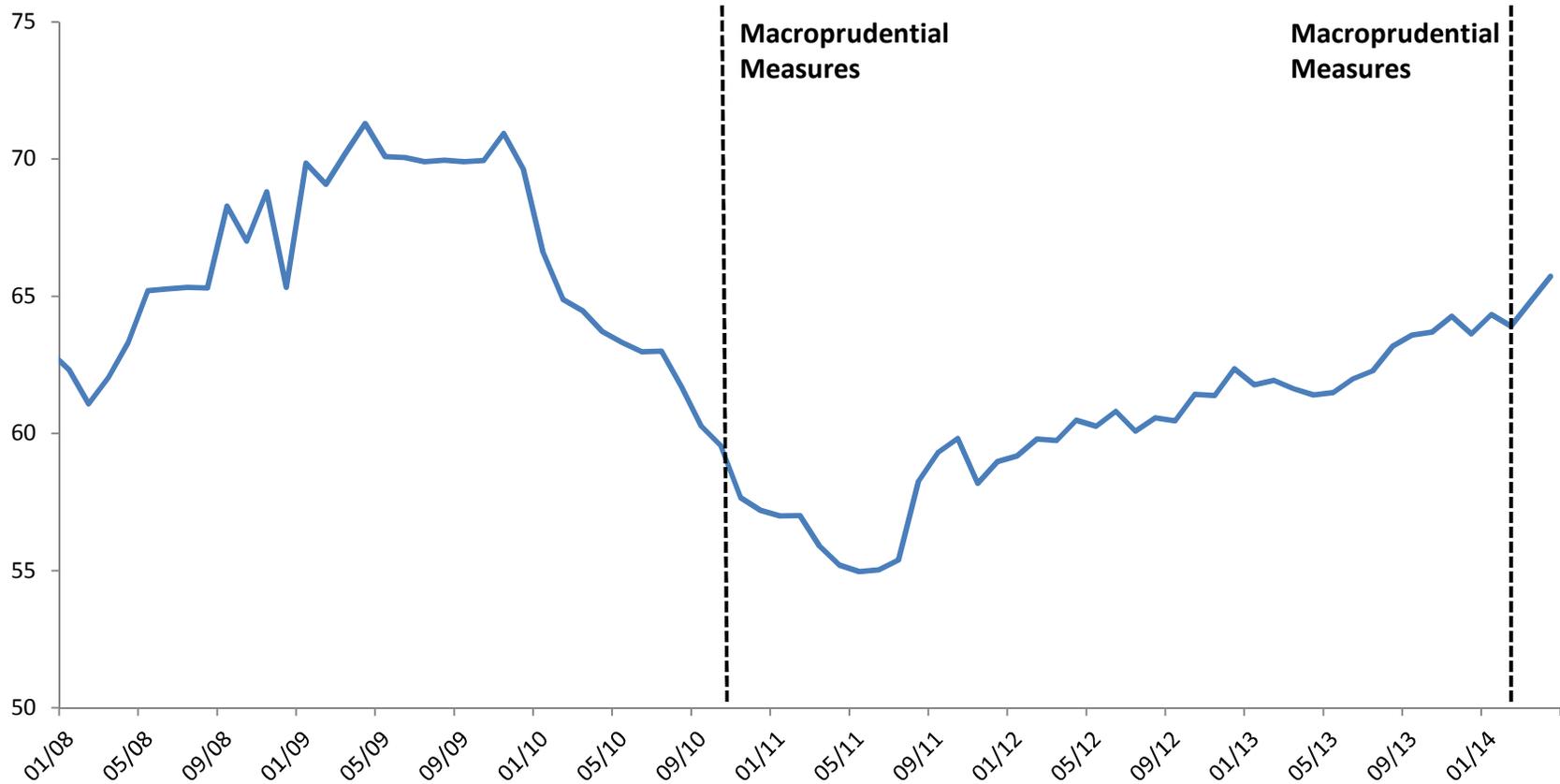
Real Sector External Debt Maturity (Percent)



Source: CBRT.

...contributed to the rebalancing process,

Export/Import Coverage Ratio (3-Month Moving Average *, Percent)

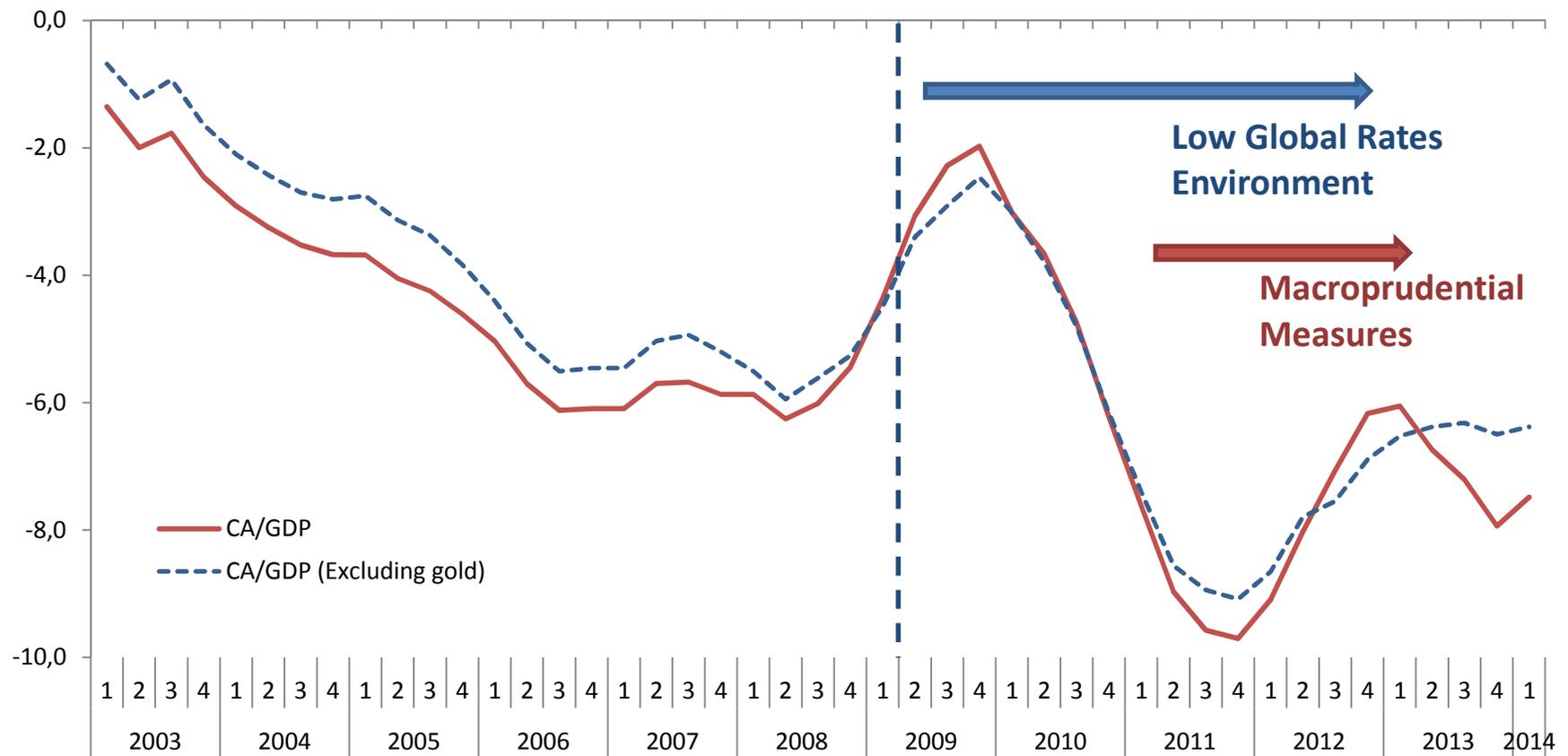


Source: TURKSTAT, CBRT.

* 3-month cumulative exports / 3-month cumulative imports
Last Observation: April 2014

...contained external deficit,

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



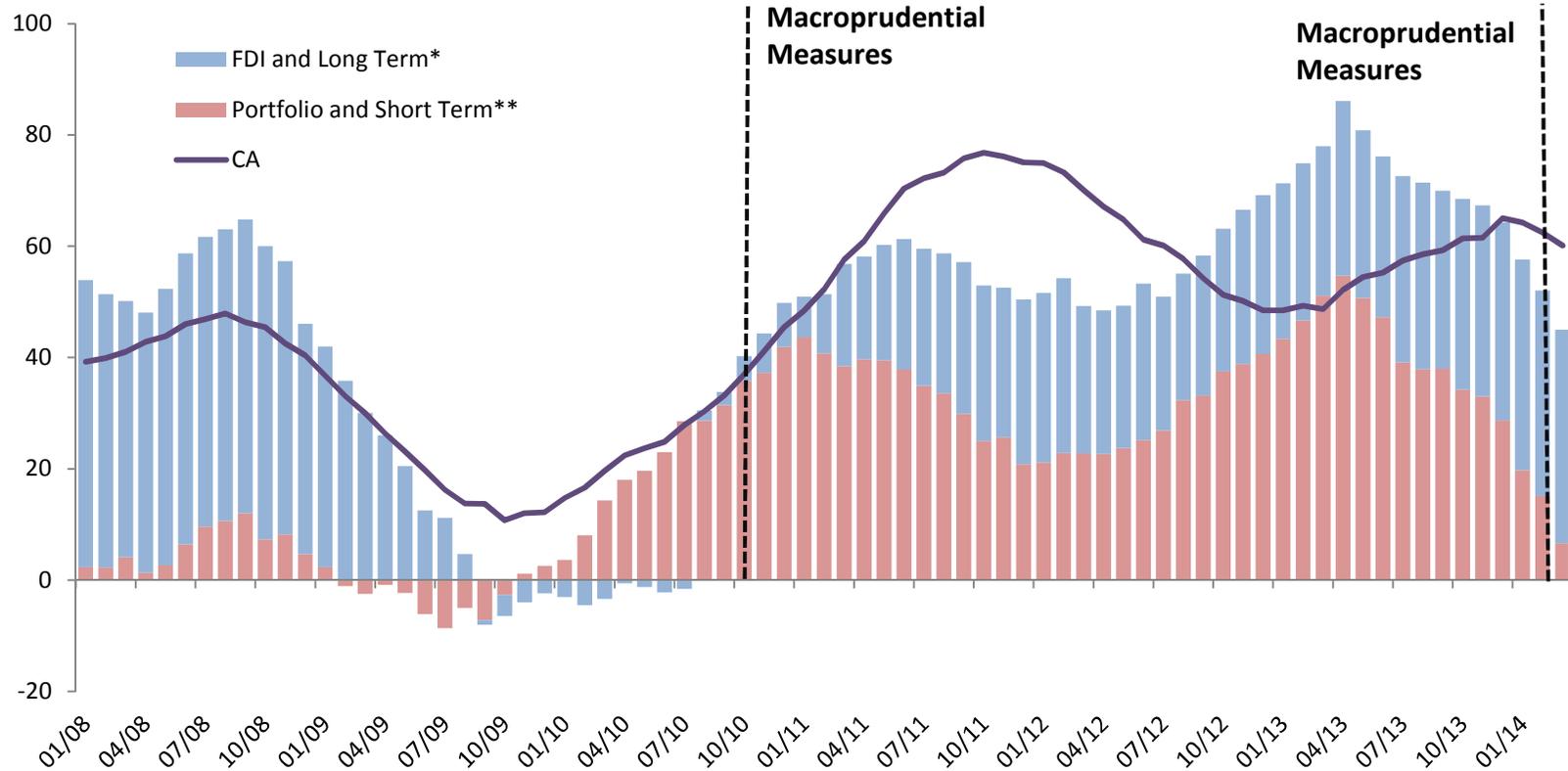
Source: CBRT.

Last Observation: March 2014

* Forecast.

... and improved the composition of external funding.

The Financing Composition of Current Account Deficit (12-Month Cumulative)



Source: CBRT.

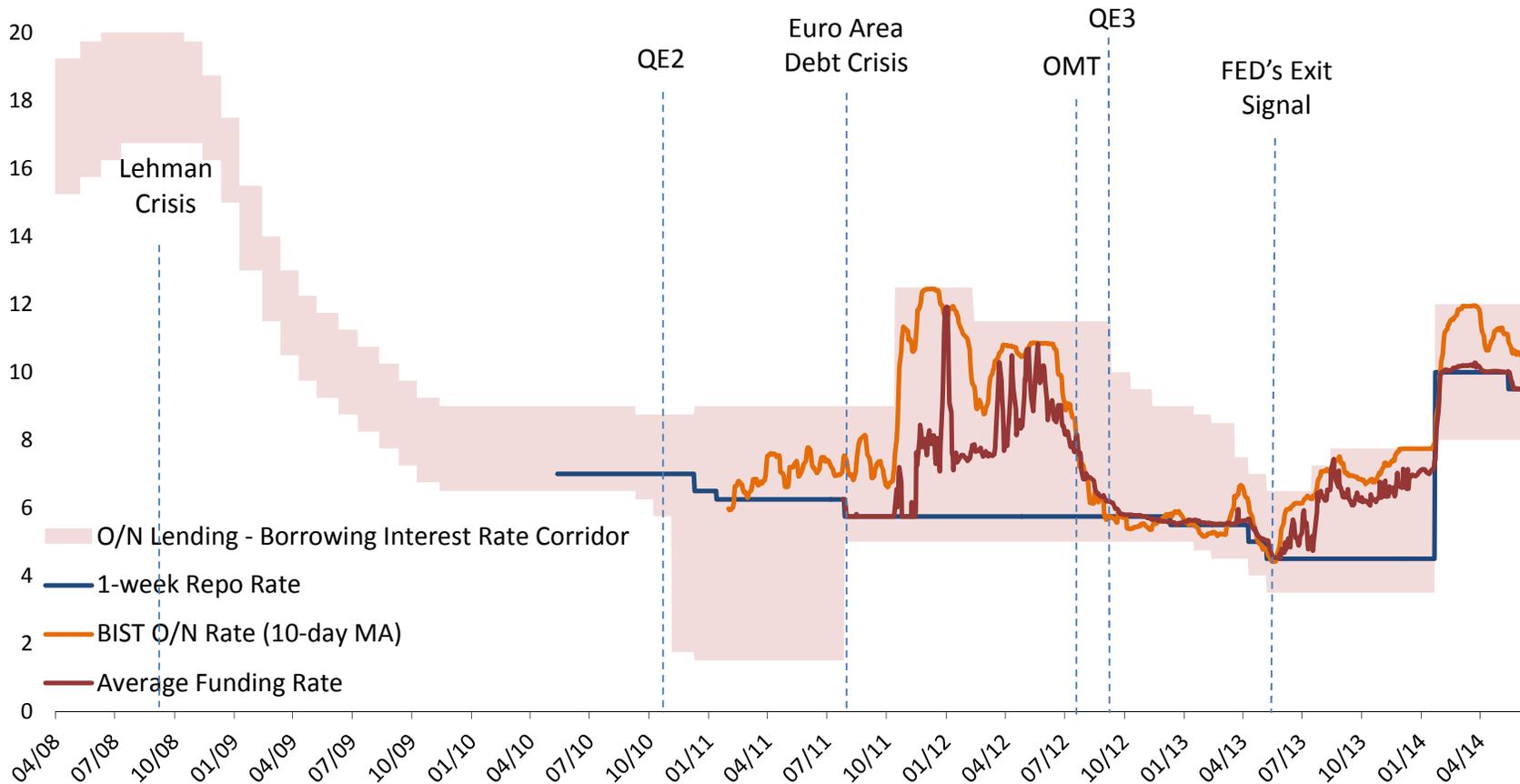
* Long term capital flows consist of long term net loans of banks and real sector and bond issues of banks and Treasury.

** Short term capital flows consist of short term net loans of banks and real sector and deposits at banks.

Last Observation: March 2014

Temporary rate hikes have also been used to stabilize credit, currency...

Monetary Policy Interest Rates (Percent)



Source: CBRT, BIST.

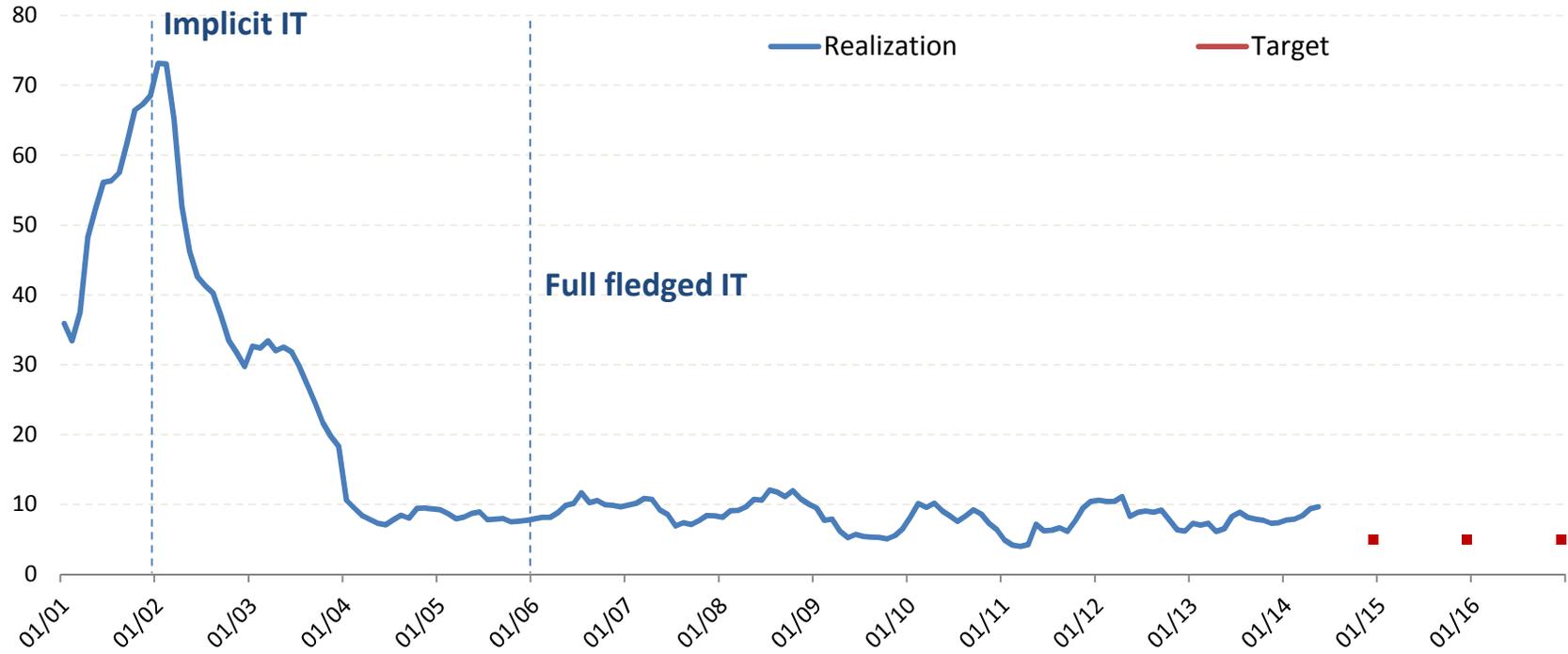
OMT: Outright Monetary Transactions (ECB)

QE: Quantitative Easing (FED)

Last Observation : 12 June 2014

...and thereby inflation.

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: May 2014



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