

# NEW ROADS FOR THE CENTRAL BANKS

## Unconventional Monetary Policies and Monetary Policy Experimentation

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Developmental Central Banking: Issues, Prospects and Challenges

ADFIMI Development Forum organized under the auspices of QATAR CENTRAL BANK

Ritz Carlton, Doha, Qatar

25-26 April 2016

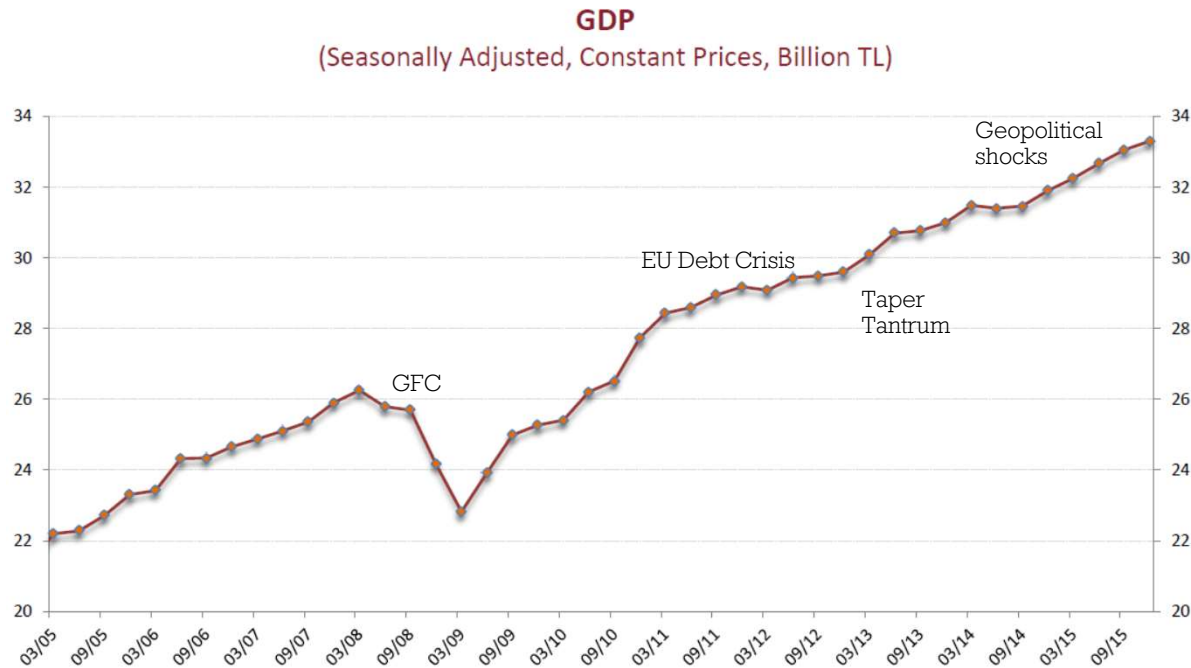
\*Views expressed are my own.

# OVERVIEW

- Turkish Experience of Unconventional Monetary Policy and Monetary Policy Experimentation
  - Fundamentals are in Place
  - From Price Stability via Inflation Targeting (IT) to Financial Stability included IT
  - Expansion of Toolkits (Policy Rate, Interest Rate Corridor, Reserve Req. Policy)
  - Measures contributed to the resilience of the economy (i.e. Steady growth rate, lower CAD)
  - 3-i's of Turkey's G-20 Presidency (inclusiveness, implementation and investment)
  - More room for growth once the announced structural reforms implemented

# TURKISH EXPERIENCE OF UNCONVENTIONAL MONETARY POLICY

- Turkey's GDP performed a steady growth after the global financial crisis in 2008.
- Turkish economy is expected to continue on its balanced growth path.

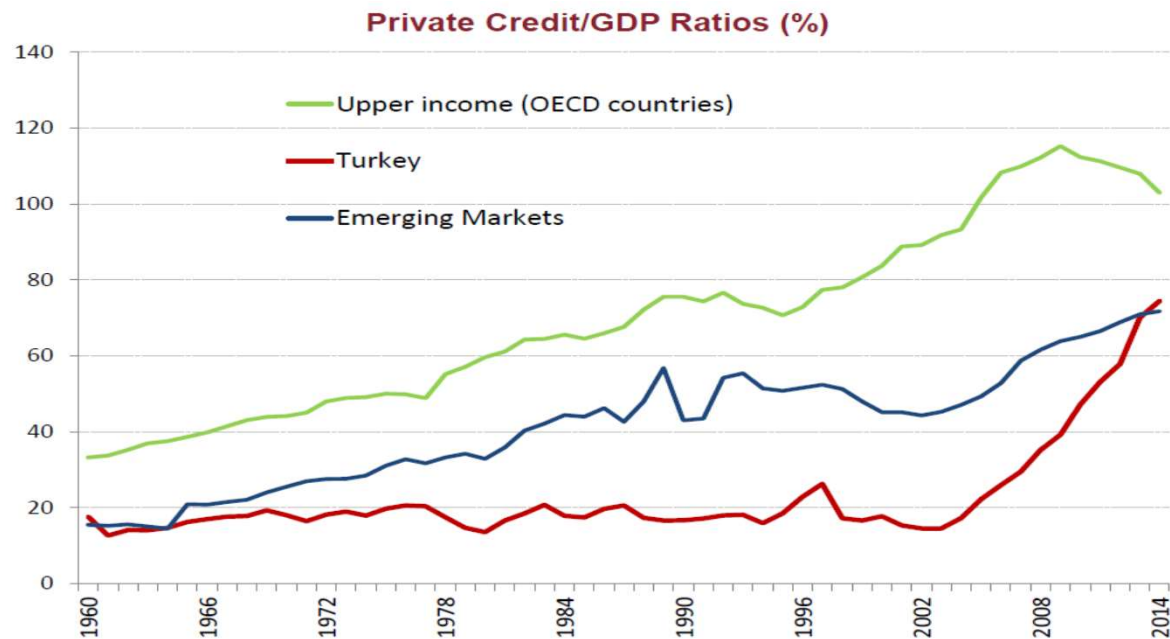


# TURKISH EXPERIENCE OF UNCONVENTIONAL MONETARY POLICY

- 2001 Crisis: Lessons Learned and Future Ahead
  - Restructuring and recapitalization of the banking system
  - Strengthened bank regulation and supervision
  - Foundation of the banking regulation and supervision agency (BRSA)
  - Implementation of tight regulation and supervision
- 2011 Adoption: An explicit roadmap to financial stability
  - By the end of 2010, no institution had the mandate or explicit objective for the policy response to increasing instability on the financial sector
  - The CBRT incorporated financial stability into the inflation targeting framework
  - Redesigned its toolkit in order to respond to macro financial risks (reserve req. and interest rates jointly used)
- 3 Elements of Prudence to enhance growth and stability
  - Monetary Prudence
  - Fiscal Prudence
  - Financial Sector Prudence

# TURKISH EXPERIENCE OF UNCONVENTIONAL MONETARY POLICY

- Level of financial deepening and credit growth since 2002 needed a new set of macroprudential policies in Turkey



Source: World Bank

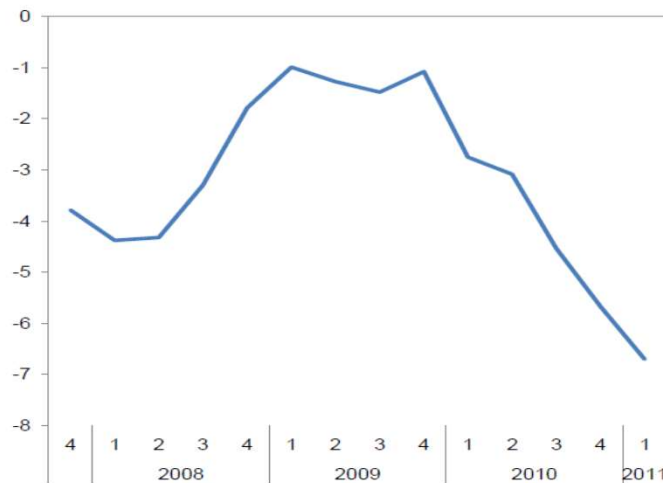
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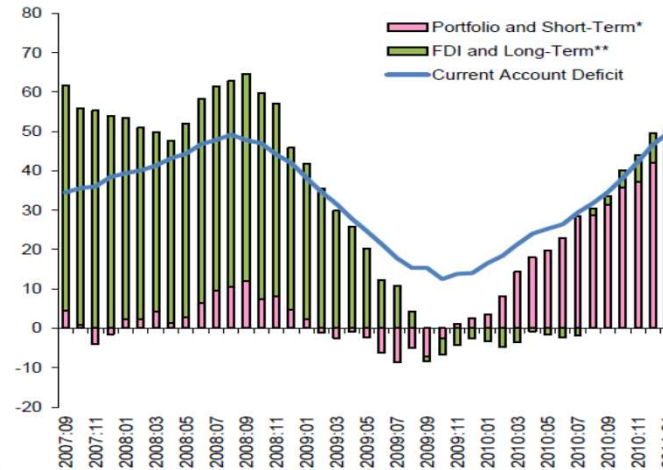
# TURKISH EXPERIENCE OF UNCONVENTIONAL MONETARY POLICY

- By the end of 2010, need for immediate policy action as CAD widened sharply with more short-term finance

**Current Account Balance**  
(Seasonally Adjusted, Quarterly Average, Billion USD)



**Main Sources of External Financing\***  
(12-months Cumulative, Billion USD)



\*Short-term capital movements are sum of banking and real sectors' short term net credit and deposits in banks. Long-term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.  
Source: CBRT.

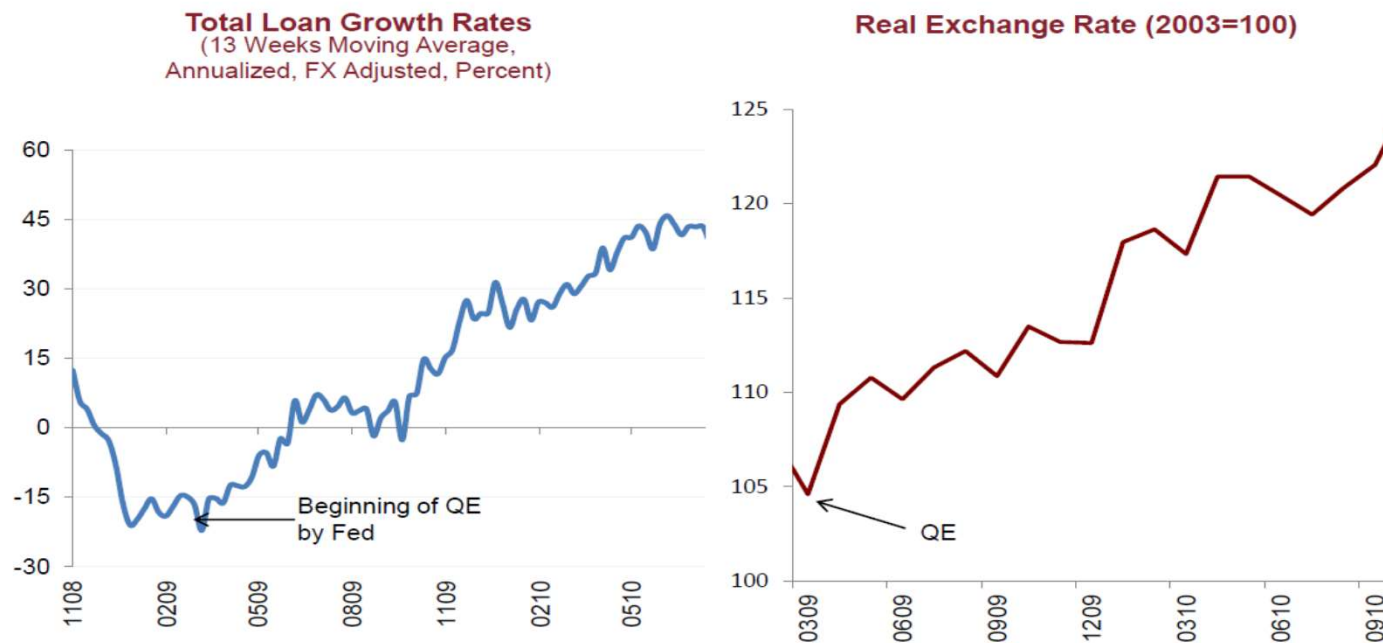
Source: TURKSTAT, CBRT.

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# TURKISH EXPERIENCE OF UNCONVENTIONAL MONETARY POLICY

- Rapid credit growth and currency appreciation after the QE increased the need for a new macroprudential approach



# TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

- Overall, CBRT policies\* are:
  - Tight for the inflation outlook
  - Stabilizing for FX liquidity
  - Supportive for financial stability



Source: TURKSTAT, CBRT.

Numbers in the graph shows peak inflation rates during the rising inflation period.  
Last Observation: March 2016.

- \*Roadmap during the normalization of global monetary policies, August 18, 2015.



# TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

Tight monetary policy stance/ simplification of interest rate policy (i.e. narrower the corridor)

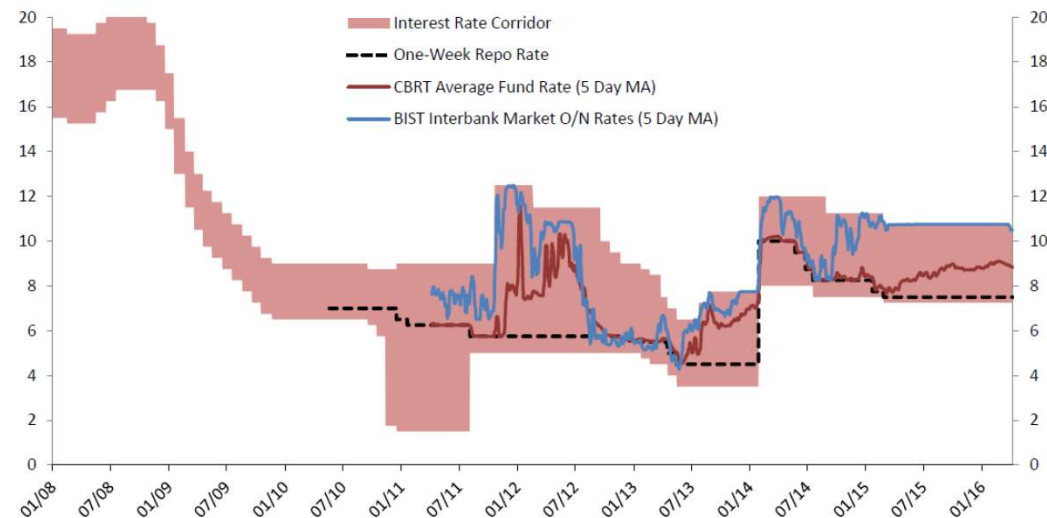
**M2 and Total Credit\***  
(Annual Percentage Change)



Source: CBRT.

\*Total banking credits excluding credit cards and NPLs (Including participation banks).  
Last Observation: April 1, 2016.

**Interest Rate**  
(Percent)



Source: CBRT.

Last Observation: April 6, 2016

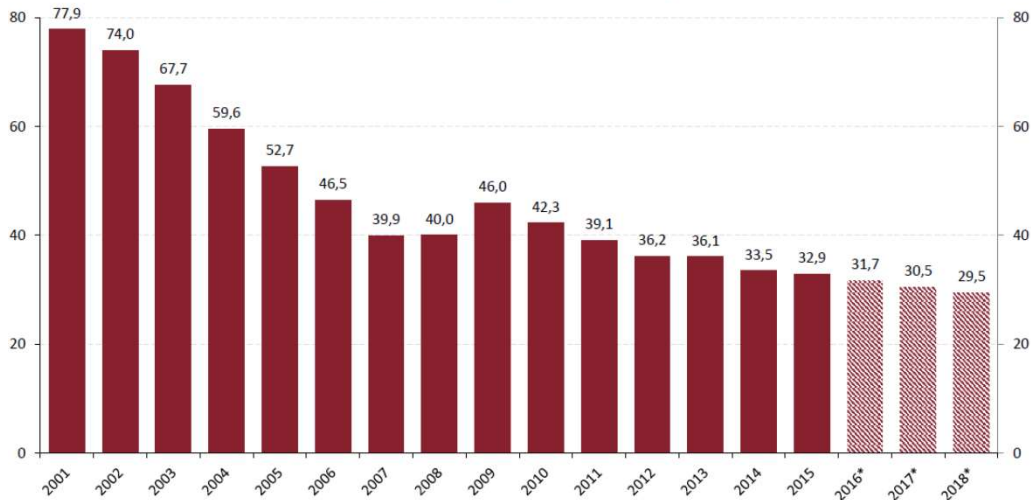
# TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

- **Foreign Currency Liquidity Instruments**
  - Flexible FX selling auctions
  - Increase in limits of collateral FX deposits
  - Increase in interest rates of collateral FX deposits
  - Increase in the ratio of the FX collateral that can be pledged against borrowings from the CBRT Interbank Money Market
  - Favourable funding against foreign currency denominated collateral
  - Adjusting the remuneration rates on EUR/USD denominated required reserves in accordance with global market conditions
  - Decrease in FX deposit lending interest rates
- **Stabilizers**
  - Automatic Stabilizers
  - Reserve Options Mechanism (ROM)
  - FX Collateral Facility (FCF)
- **Rule-Based Stabilizers**
  - TL Liquidity Policy (TLP)
  - Flexible FX Auctions (FXA)

# TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

- Fiscal Prudence relevant to sustain balanced growth

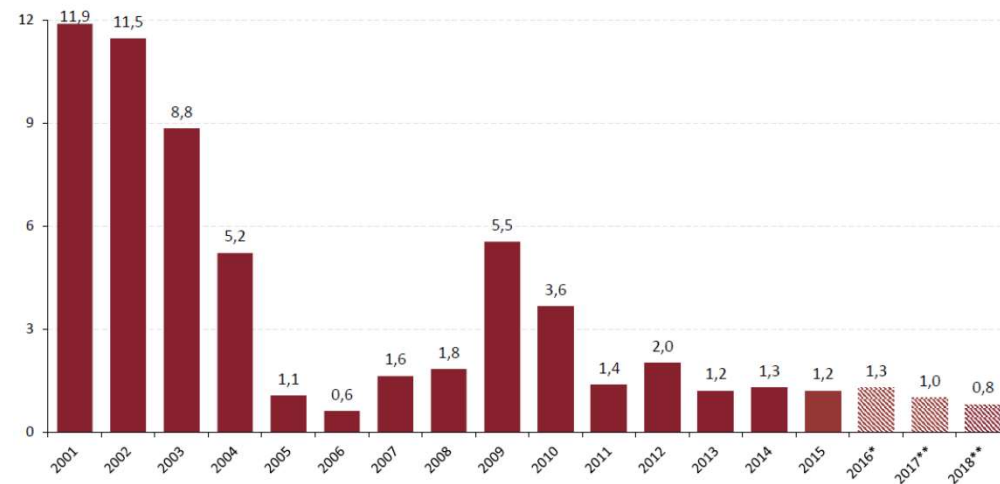
**Gross Public Debt**  
(EU Defined, Percent of GDP)



Source: Undersecretariat of Treasury, Medium Term Program (2016-2018).

\*Medium Term Program (2016-2018) target.  
Last Observation: 2015.

**Budget Deficit\***  
(12-Month Cumulative, Central Government Budget Deficit/GDP)



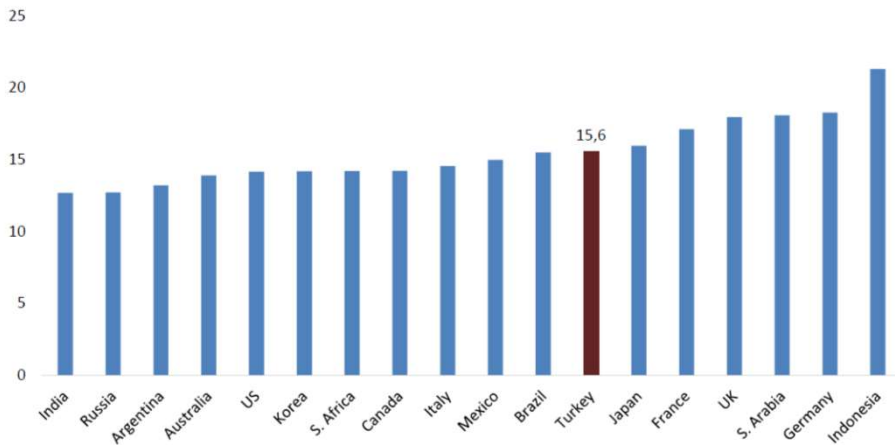
Source: Ministry of Finance, Medium Term Program (2016-2018).

\* Medium Term Program (2016-2018) target.  
Last Observation: 2015.

# TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

- Financial Sector Prudence
  - Banks are well capitalized, liquid and profitable.
  - Macroprudential policies have improved both the pace and the composition of credit.

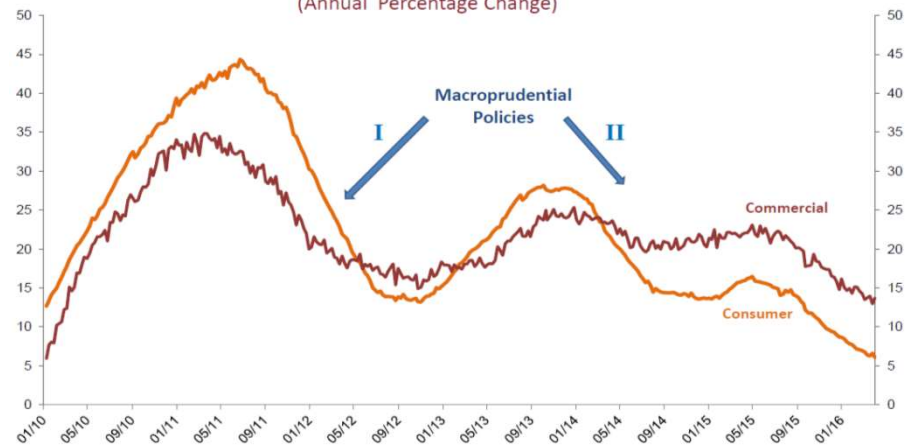
Capital Adequacy Ratios in G20 Countries  
(Percent)



Last Observation: For Korea 2014 Q2, for Italy and UK 2015 Q2, for Brazil and Japan 2015 Q3 and for others 2015 Q4.

Source: IMF

Loan Growth Rates\*  
(Annual Percentage Change)



Source: CBRT.

Last Observation: April 1, 2016.  
\*Inclusive of loans extended by all types of banks (deposit banks, Participation banks, and development/investment banks). FX adjusted.

# TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

- Real interest rates in Turkey have come down significantly thanks to a combination of prudent policies over the last decade.



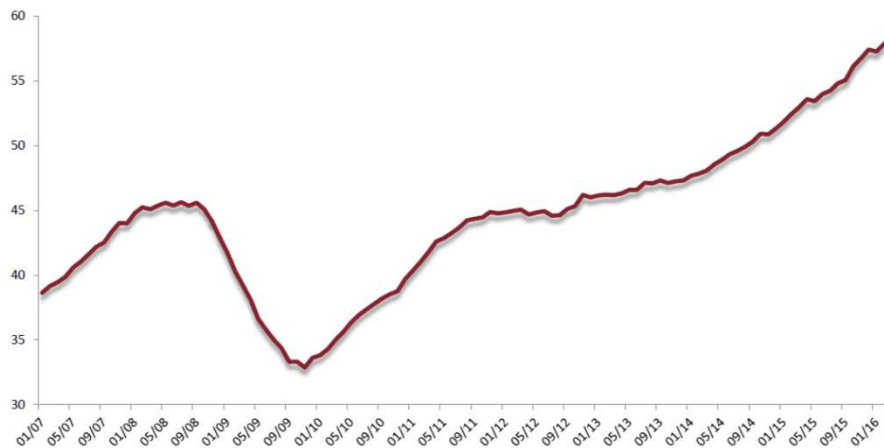
Source: CBRT, BIST.

\*Calculated by using the formula  $[(1 + \text{benchmark interest rate}) / (1 + \text{inflation expectations}) - 1]$ .  
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: April 11, 2016

# TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

- Recovery in the European economies will support growth and rebalancing.
- Turkey's exports to major EU trade partners continue to grow at a solid pace.
- The share of Turkey in EU imports has been on the rise.

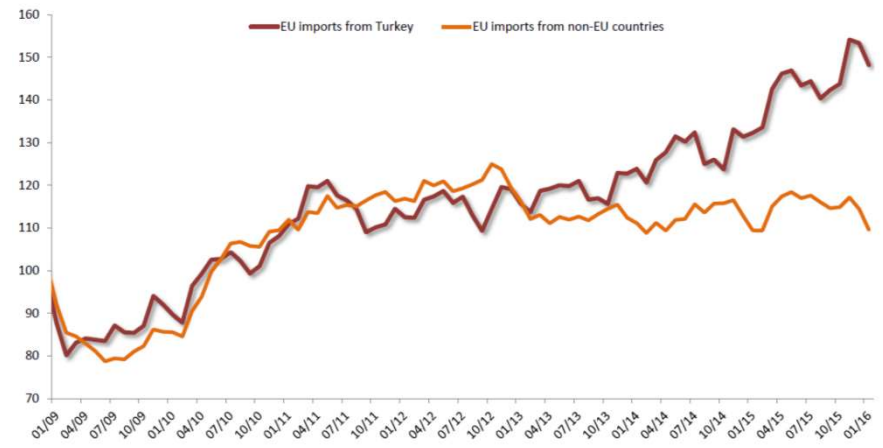
**Exports to European Union**  
(12-Month Cumulative, Billion Euros)



Source: TURKSTAT.

Last Observation: February 2016.

**Imports of European Union**  
(6-Month Moving Average, Nominal, 2010=100)



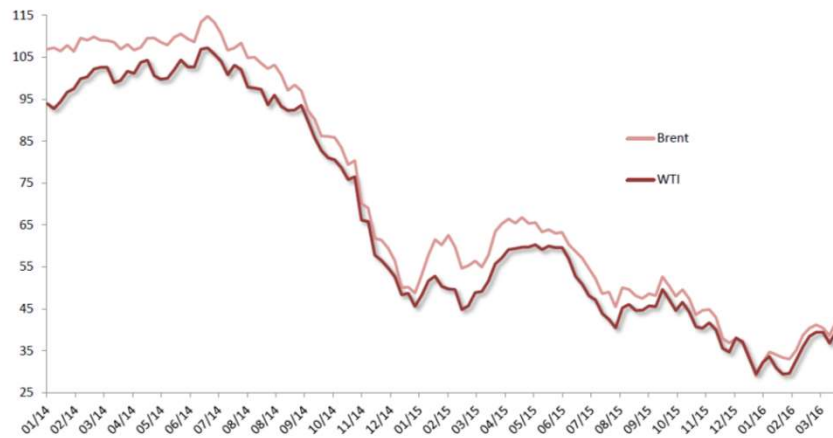
Source: EUROSTAT.

Last Observation: January 2016.

# TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

- The favorable impact of lower oil prices on the current account balance will be more pronounced in the upcoming period.

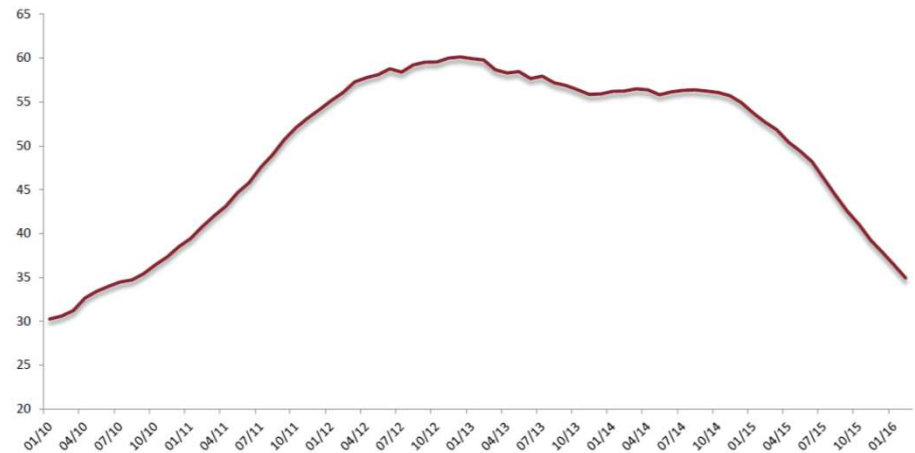
**Crude Oil Prices**  
(US Dollar per Barrel, Weekly)



Source: Bloomberg.

Last Observation: April 8, 2016.

**Energy Imports of Turkey**  
(12-Month Cumulative, Billion USD)



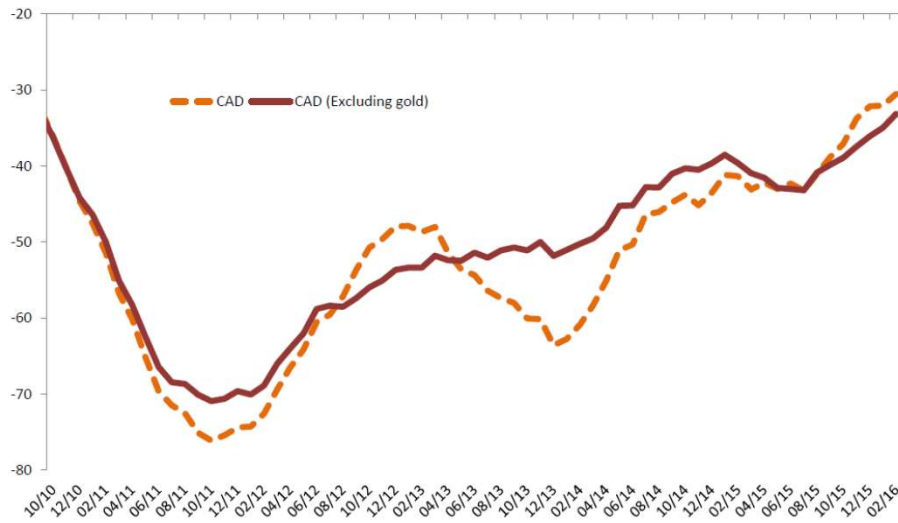
Source: TURKSTAT

Last Observation: February 2016.

# TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

- The current account deficit is financed mainly through long term borrowing and FDI inflows.

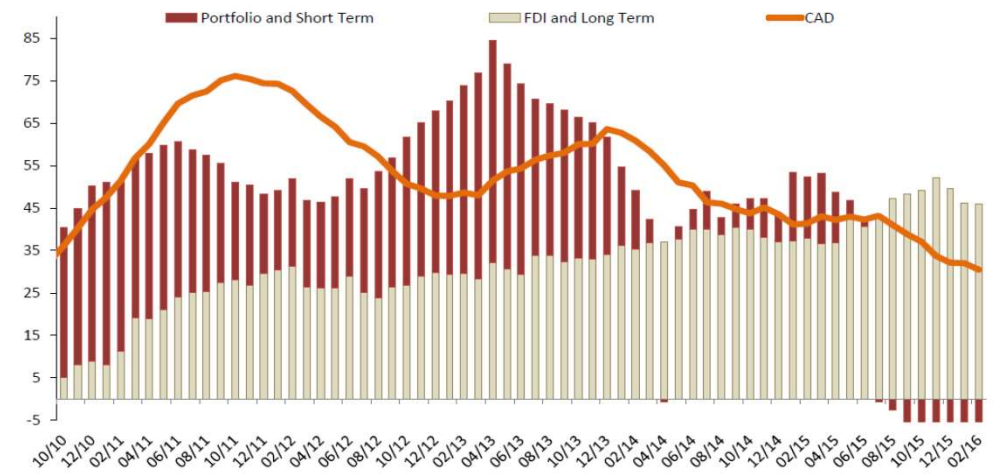
**Current Account Balance (CAB)**  
(12-Month Cumulative, Billion USD)



Source: CBRT.

Last Observation: February 2016.

**Main Sources of External Finance**  
(12-Month Cumulative, Billion USD)



Source: CBRT.

\*Long term inflows are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

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

Last Observation: February 2016.



# FINAL REMARKS

- Bringing inflation down to single digits has removed one of the most important obstacles to growth.
- Improvements in price stability and financial stability improve balanced growth prospects in Turkey.
- A multi-instrument monetary policy supports financial stability by smoothing out the fluctuations in credit and currency.
- The flexible monetary policy adopted by the CBRT as well as the strong balances helps Turkey to take timely measures against external shocks.
- **The improvement in the external balance is on track.**
- **Real Pillars of Growth in Turkey**
- Reforms to improve:
  - Human capital and the labor market
  - Technology and innovation
  - Physical infrastructure
  - Domestic savings