NEW ROADS FOR THE CENTRAL BAN

Unconventional Monetary Policies and Monetary Policy Experimentation

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*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
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
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
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

  *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)
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
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.
Real interest rates in Turkey have come down significantly thanks to a combination of prudent policies over the last decade.
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.
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.
TOOLS FOR ENHANCING GROWTH AND DEVELOPMENT

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

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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