Monetary Policy Which Aimed at Financial Stability of the Central Bank of the Republic of Turkey (CBRT), since 2010

Havva ARABACI
Trakya University, Edirne, Turkey. arabacih@hotmail.com

Monetary policy is effort to manage variables such as Money supply and interest rate for achieving macro-economic objectives as price and financial stability, economic growth, ensuring the balance of payments.

Since the end of 2010, the Central Bank of the Republic of Turkey (CBRT) has designed and adopted a new monetary policy. Nonetheless, financial stability has been adopted as a supportive objectives; as for this purpose, additional policy instruments such as interest rate corridor (Weekly Repo Interest and liquidity management) and required reserves have been developed.

Then new policy design aimed to provide a framework to increase the economy's resilience especially resulting from fragility caused by balance of payments equilibrium, credit expansion and capitalflows. In this study, new monetary policy tools aimed for financial stability which Implemented by the CBRT since the end of 2010 has been tried to explained.

Key Words: Monetary policy, financial stability, central bank, national bank, interest rate corridor, required reserves.

Introduction

Monetary policy can be described as redirection efforts of The Central Banks by using several policy tools such as money supply and interest rates in accordance with general economic policy objectives (price stability, the functioning of the financial system stability and sustainable economic growth) (Uzunoglu and Sonmezler, 2013);

In order to achieve the overall objective of economic policy objective must be directed toward this goal of monetary policy. Monetary authorities determine intermediate objectives (targets). (Erce, 1996, p. 2).

The choice of monetary intermediate target, is done in the framework of the overall objectives sought to reach. Intermediate target variable which controlled by the Central Bank has to be a consistent and stable relationship with overall objectives. The aim of monetary policy indicators is to measure the impact of the monetary policy on the interim goals.

Central Bank (may affect the size in a short period of time), called intermediate indicators of monetary policy which is completely under their control. Intermediate indicators can be gathered in two groups;

i. Reserve money, the monetary base, monetary aggregates such as the central bank money,
ii. Foreign exchange and interest rates, (Paya, 1994, p. 105).

Monetary aggregates which reflecting changes in the level of nominal GDP is called the main indicators and they can be gathered in three groups;

i. Demanded money stock size
ii. Liquidity aggregates,
iii. Aggregates such as interest rates (Paya, 1994, p. 104).

Central Bank monetary policy tools can control intermediate indicators more directly than the main indicator by using open market operations, reserve requirements and rediscount policy. Because, monetary aggregates are variables that can steer monetary policy which directly controlled by the central bank. The exchange rate is a variable directly affected by the financial innovation and interest rates are variable, which is politically the most subject to pressure. (Ercel, 1996, p. 6).

The aggregates such as demanded money stock, liquidity and interest rates are not direct control of The Central Bank. The central bank can influence the aggregates in an indirect way on long term.

Central Bank main monetary policy tools; (Uzunoglu and Sonmezler, 2013)

i. Open market operations,
ii. Direct trading,
iii. Rediscount policy,
iv. Currency trading
v. Reserve ratios

The Central Bank could change the monetary base by open market operations. If the Central Bank purchases foreign or currency bonds, the monetary base expands and the money supply in the economy increases. If the Central Bank sells foreign currency or bonds, monetary base become narrow and money supply decreases. (Ocal, Colak, Togay and Eser, 1997).

Open market operations also affects the liquidity of bonds (promissory notes). “Continuous purchase of securities(bonds) by The Central Bank increases the liquidity of the securities so individuals use their idle money stock.” (Urganci, 1982, p. 209) Individuals who use idle Money increases the velocity of the money stock; increase in money velocity causes an increase in expenditure. On the other hand, Central Bank affects the bond prices by using open market operations and this could lead to a change in interest rates.

Purchasing or selling securities from market by Central Bank has an impact on interest rates through bond yields.(purchased bonds from the market). By purchasing bonds on the market, bond prices rise and interest rates fall; by selling bonds on the market, bond prices fall and interest rates rise. (Akdis, 1996, p. 51).

Open market operations is divided into two parts as dynamic (offensive) and protective (defensive).

By affecting the amount of money in the market with dynamic open market operations it is aimed to change the level of the monetary base and reserves (Ocal, Colak, Togay and Eser, 1997).

Protective open market operations is to take action to protect the current order of bank reserves (Paya, 1994, p. 106). By using protective open market operations it is attempted to influence the actions of other monetary variables such as treasury bonds and bank bond holders.

Central Bank may affect the volume of bank loans by determining the discount rate. When the Central Bank aims to increase the volume of currency in circulation through the bank system, it will increase the volume of discount credits by lowering the discount rate. Lowering the discount rate encourages banks to demand more credit. When Central Bank wants to narrow the volume of money in circulation, it can reduce the volume of discount credits by raising the discount rate. Raising the discount rate is to reduce the net demand for loans in the bank. Raising the discount rate could reduce the demand for bank loans.

Changing the discount rate may lead to a change of discount rate. Because, a bank who rediscounts often demands slightly higher interest rate than applied by the Central Bank. Lowering the discount rate will increase the lending source and strengthen its cash balance situation so it would increase the lending capacity of the banks to be given. Lowering the
discount rate by The Central Bank is also means the reduction in the discount rate of the banks. This will increase the customer's credit request. Indirectly recording will expand the volume of money. Indirectly dematerialized money volume will expand.

Raising the discount rate is also mean raising the discount rate of the banks. The rise in the discount rate will reduce the demand for loans and indirectly will narrow the volume of dematerialized money.

Banks deposit a portion of the deposits they collect to The Central Bank according to the ratio of required reserves.

“Central Bank can affect excess reserves (the monetary base) held by banks by changing the reserve ratio, thus that may affect the banking system of dematerialized monetary expansion” (Parasız, 1997, p. 306).

Banks which collect deposits in our country are obliged to keep disponible values against commitments. Disponible values are values that can be converted into a high liquidity or money easily. The Central Bank may change the money supply by changing the liquidity ratio which can be defined as the amount of cash banks are required to keep the mandatory safe. When liquidity ratio rises, the opportunity to create deposit money reduces.

According to the Central Bank Law one of the Bank's main task is "to stabilize the financial system and to take regulatory measures relating to money and foreign exchange markets"

Other essential tasks related to The Central Bank's financial stability are; to monitor the financial markets, give opinion to the government on issues related to financial systems, to adjust reserve requirements and procedures and principles related to general reserves, to determine the maturity of term deposits and participate in special types of accounts with financial institutions, to establish, operate and control the payment and settlement systems.

Financial Stability And Monetary Policy

The further deterioration of the current account balance and financing of the current account deficit with short-term capital inflows and portfolio investments has raised concerns about financial stability by increasing the fragility of the economy against sudden changes in global risk appetite.

The Central Bank of the Republic of Turkey has additionally been appointed to take stabilizing measures for the financial system with the revised Law on the Central Bank in 2001 additional to the main objective of price stability.

The search for alternative policies has been raised against the risks caused by short-term capital inflows, rapid credit expansion, deteriorating current account balance. In this context, the Central Bank of the Republic of Turkey (CBRT) from the end of 2010, has adopted a new monetary policy framework. “In this regard, the revised general financial stability framework of inflation targeting was adopted as a supporting objective and additional policy tools have been developed for this objective. The new policy design, especially the external balance, credit expansion and to increase the resilience of the economy against vulnerabilities arising from capital flows aimed at creating a framework.” (Kara, 2012).
Central Bank's Policy Objectives and Tools


After the 2008-2009 global financial crisis, the Central Bank has started to implement a new policy composition. In this composition, financial stability priority was adopted as a supporting objective while maintaining price stability. In this context, within the framework of credit policy, reserve and other macro-prudential tools, week repo interest in the context of rate policy, as part of the policy interest rate corridor liquidity and funding strategy is used as a combination of the complementary means. (CBT. Financial Stability Report, 2015).

Interest Rate Corridor And Mandatory Provisions

An interest rate corridor refers to corridor between the Central Bank's overnight borrowing and lending interest rates. Central Bank interest rate corridor is basically the control mechanisms laid down in the lending and borrowing area. Interest rate corridor is basically holding the balance and cash flow which ensures that the value of the national currency against the local currency as well as a system connected to the Central Bank. New Economists. (b. t.)

CBT uses a variety of tools to influence market interest rates and liquidity. With these tools, those who need short-term (daily or weekly) liquidity can be provided and funds can be borrowed in overnight maturity of the surplus.

The interest rate area which the CBT can borrow and lend from banks at overnight maturity is called as "interest rate corridor". On the other hand, the Central Bank is able to fund banks via one-week repo funding. The one-week repo interest rate and the interest rate corridor made with tender amount will be announced to the public after reviewed in The Monetary Policy Committee (MPC) meeting.

Required reserve is a monetary policy tool. In the context of new strategy which is adopted by Central Bank, since the last quarter of 2010, policies has been developed to reduce macro financial risks. In this regard, in addition to the mandatory provisions of a week repo auction, which is main policy tool, reserves has been put to use in an active way.

Required reserves are used to influence the basic credit supply. In periods of increased capital inflows, accelerating credit growth may foster macro-financial risks cause of relaxation in supply conditions and falling interest rates. In this cases, increasing the reserve requirement ratio may limit the supply of credit. In the period of increased risk perception and suddenly weakened capital inflows, lowering the reserve requirement may reduces the risk of a sudden stop in loans. Mandatory provisions affects credit mainly through two channels; (i) direct cost channel, (ii) liquidity channel (Basç and Kara, 2011).
Loans and Exchange Rate

Two intermediate variables to facilitate communication has been brought to the fore by CBT: credit and foreign exchange. Announcement of both variables without delay, (easily observation of them) and the establishment of direct interaction with the ultimate tool made it possible the communication of the policies to be more healthy. Thus, policy tools are presented in more understandable context and can be observed in relation to the path to the ultimate goal. Making a monetary policy communication with loans and exchange rate, is also very important in terms of facilitating new framework of intelligibility which particularly in the area of financial stability. (Kara, 2012).
In the present system, during periods of strong capital flows, interest rate volatility could be dramatically increased by expanding interest rate corridor downwardly. During periods of weak capital flows, interest rate volatility could be decreased by expanding interest rate corridor upwardly. (Kara, 2012).

Financial Stability

Turkey's economy, supported by bank loans which was accelerated in 2010-2011, has experienced periods of high growth based on domestic demand. Credit supported high growth rate brings current account deficit to risky level due to rapidly increasing imports. On the other hand, the difficulties experienced in international markets has raised the question of financing and quality of the current account deficit. This situation has led to an increasing importance of this idea that can not be continued with high growth rate. Following the global crisis, the current account deficit was financed largely on external borrowing and the so-called hot money portfolio investments and net errors and omissions. Especially, since the end of 2011, it has started a new policy under the name of "soft landing" (Uzunoglu, 2015, p. 110-112).

CBT has adopted two intermediate targets as a basis to limit accumulated macro-financial imbalances in order to reduce short-term capital inflows and to slow down credit expansion. In this regard, it has been decided that reserve requirements and interest rate corridor (the difference between overnight lending and borrowing rates) will be used as active monetary policy tools, in addition to the policy interest rate, without compromising price stability in order to financial stability oversight (Bascı and Kara, 2011).

In this context, in order to limit the macro financial risks, The Central Bank has redesigned the inflation targeting regime by allowing usage of different policy instruments in complementary form. First, the difference between overnight lending and borrowing rates (interest rate corridor) was extended. Afterwards, an operational framework that allows adjusted cyclical volatility in short-term interest rates in the money market has been established. Thus, the average yield is decreased by increasing the volatility of short-term interest rates and and discouraging short-term capital inflows aimed with that. (CBT. The Central Bank and Financial Stability).

When short-term interest rates and funding composition as a whole dealt with the basic terms of the monetary policy stance following two interest rate rises to the fore (Kara, 2015, p. 6):

i. The average funding rate of the Central Bank: The Central Bank's short-term liquidity represents the weighted average interest given the market through various channels. Central Bank's short-term funding composes major part of short-term funding of the banks. This interest rate may be significantly important for pricing of deposits, loans and other financial instruments for banks.
ii. **Interbank overnight market interest**: This interest rate is available for banks and financial institutions which makes overnight transactions on the Istanbul Stock Exchange repo-reverse and repo market. The level of the overnight market interest rate is not directly determined by the Central Bank, however it can be largely controlled by the Central Bank interactively with corridor parameters. This interest which banks adopts while lending and borrowing from each other creates references to other short-term funding (such as swaps) available within the market and also of great importance in terms of the monetary transfer mechanism.

The main monetary policy tool of the Central Bank is the short-term interest rates. Liquidity management level which may result in the identification of short-term interest rate is an important factor in determining the effectiveness of monetary policy. The Central Bank, in determining the general framework of liquidity management is targeting the following objectives;

i) Ensuring the establishment of short-term interest rates at a level deemed appropriate by Board,

ii) Ensuring the efficient and stable operation of money markets consistent with the current liquidity management strategy,

iii) Ensuring the smooth functioning of payment systems,

iv) To support the effectiveness of the use of monetary policy tools,

v) To have sufficient resilience to unexpected developments in the operational structure of the market,

When determining the general framework of liquidity management to reach these objectives and to enhance the effectiveness of monetary policy, liquidity level in the market and the distribution of liquidity in the system are also considered.

Liquidity in the market is mainly determined by the following factors:

i) Changes in the monetary base,

ii) Turkish lira money market operations which conducted by the Central Bank,

a. Net foreign currency buying / selling transactions in exchange for TL

b. Paid / collected interest for open market operations, TL denominated interest paid on required reserves and current expenditures,

c. Export rediscount credits (It will be charged in foreign currency granted as TL)

d. Government securities purchase / sale transactions conducted by the market.

iii) TL money market transactions by the Treasury,

a. TL denominated government securities issued notice of redemption, excluding redemptions to the Central Bank,

b. Primary surplus / deficit input / outputs,

c. Privatization and the Savings Deposit Insurance Fund (SDIF) TL transfers and other transactions with the public.

On the other hand, Treasury's total foreign currency net collection including domestic and foreign debt, repayments by the Treasury to the Central Bank and Treasury profit transfers of the Central Bank indirectly affect liquidity in the market due to determination of the Treasury's TL denominated borrowing requirement.

CBT announced policies that can be applied after and prior to the normalization of global monetary policies with roadmap which was published on August 18, 2015. In this context, Turkish Lira liquidity management framework and its simplification process and foreign currency liquidity measures have been raised within normalization, before normalization and during normalization process.
Table 1
Turkish Lira Liquidity Management Framework And Its Simplification Steps

<table>
<thead>
<tr>
<th>Policy</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Corridor</td>
<td>Normalization Process</td>
</tr>
<tr>
<td>Interest rate corridor will be made more symmetrical depending on the repo rate and it will be narrowed</td>
<td></td>
</tr>
<tr>
<td>Funding</td>
<td>Before Normalization Process</td>
</tr>
<tr>
<td>The total funding facilities provided for primary dealer banks will be added to the weekly repo auctions of term limits account without changing cost of funding which is provided by CBT. Thus, the interest rate borrowing facilities provided for primary dealer banks will be removed.</td>
<td></td>
</tr>
<tr>
<td>Guarantee Requirements</td>
<td>Normalization Process and Before Normalization Process</td>
</tr>
</tbody>
</table>

Source: Central Bank of the Republic of Turkey. Road Map in the normalization process of the Global Monetary Policy.

Table 2
Currency Liquidity Measures

<table>
<thead>
<tr>
<th>Policy</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexible Currency Exchange Auctions</td>
<td>Normalization Process</td>
</tr>
<tr>
<td>Currency flexibility of the foreign exchange selling auctions will be increased in order to reduce the exchange rate volatility.</td>
<td></td>
</tr>
<tr>
<td>Reserve Options</td>
<td>Normalization Process and Before Normalization Process</td>
</tr>
<tr>
<td>Foreign Exchange Deposit Market Measures</td>
<td>Before Normalization Process</td>
</tr>
<tr>
<td>Currency storage limits will be increased.</td>
<td>Before Normalization Process</td>
</tr>
<tr>
<td>Foreign Exchange liquidity in the financial system which can access The CBT (In the form of the current total amount of foreign currency exchange and storage facilities in ROM) with future regulations, our banks will be set at a level to meet or exceed the payment abroad of next year.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Central Bank of the Republic of Turkey. Road Map in the normalization process of the Global Monetary Policy.

As well as rate corridor, to control Turkish Lira liquidity and the supply of credit in the market, reserve has been used as a macro-prudential measures. To achieve this objectives, the practice of paying interest on required reserves was terminated, the weighted average rate of the money was started to transfer and the scope of liabilities subject to required reserves was expanded. According to The Central Bank of the Republic of Turkey’s Communiqué on the Mandatory Provisions, liabilities subject to required reserves is as follows;
a) Deposits / participation funds,  
b) Funds provided under repurchase agreements,  
c) Credits used (except for those provided by the Treasury guarantee)  
d) The securities issued (net),  
e) Subordinated liabilities (other than those considered in the calculation of own funds),  
f) Monitored loans from foreign branches  
g) Domestic deposits of non-residents / participation funds tracked from branches abroad  
h) Net liabilities of foreign offices and branches, excess amount of subparagraph which was mentioned at (e) and (b)  
i) Debts from credit card payments.

In addition, in order to strengthen financial stability, compulsory reserve ratios were differentiated according to maturities which is to be higher in the short term by extending the maturity of liabilities of the banking system. Required reserve ratio is subject to these obligations are as follows: (CBT. Mandatory Provisions).

**Table 3**

**Required Reserve Ratio (%) Turkish lira**

<table>
<thead>
<tr>
<th>Deposits and Participation Funds (Foreign Banks Deposits / Participation Funds Except)</th>
<th>Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Demand deposits, notice, 1 month and up to 3 months (incl 1 month and 3 month) term</td>
<td>11,5</td>
</tr>
<tr>
<td>- up to 6 months (including 6 months) term</td>
<td>8,5</td>
</tr>
<tr>
<td>- 1 year maturity</td>
<td>6,5</td>
</tr>
<tr>
<td>- 1 year and longer-term</td>
<td>5</td>
</tr>
</tbody>
</table>

**Other Liabilities (Foreign Banks Deposits / Participation Funds Included)**

<table>
<thead>
<tr>
<th>Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>11,5</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>5</td>
</tr>
</tbody>
</table>

**Table 4**

**Required Reserve Ratio (%) Foreign Currency**

<table>
<thead>
<tr>
<th>Deposits and Participation Funds (Foreign Banks Deposits / Participation Funds Except)</th>
<th>Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Demand deposits, notice, up to 1 month, up to 3 months up to 6 months and 1 year term</td>
<td>13</td>
</tr>
<tr>
<td>- 1 year 1 year and long-term</td>
<td>9</td>
</tr>
</tbody>
</table>

**Other Liabilities (Foreign Banks Deposits / Participation Funds Included) (**)**

<table>
<thead>
<tr>
<th>Ratios</th>
<th>Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Existing Oblg.</th>
<th>New Oblg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1 year (including 1 year) term</td>
<td>20</td>
</tr>
<tr>
<td>Up to 2 year (including 2 year) term</td>
<td>14</td>
</tr>
<tr>
<td>Up to 3 year (including 3 year) term</td>
<td>8</td>
</tr>
<tr>
<td>Up to 5 year (including 5 year) term</td>
<td>7</td>
</tr>
<tr>
<td>5 years and more term</td>
<td>6</td>
</tr>
</tbody>
</table>
The interest payments on the Turkish Lira reserve requirements which is in force since August 2001 in Turkey was abolished in October 2010. Paying interest on reserve requirements which is in force since December 2002 was abolished in December 2008 as well. On the other hand, reserve option mechanism has been developed to ensure positive impact of the cost of the banking system and liquidity channels and to provide more flexibility in liquidity management to banks. In this regard, opportunities was provided to the banks such as keeping a certain percentage of foreign currency reserve for Turkish Lira liabilities and keeping a certain percentage of the money out of gold for Turkish Lira and foreign currency liabilities. The Central Bank has moved to a flexible monetary policy closely overseeing financial stability within the framework of the main objective of price stability. (CBRT Central Bank and the Financial Stability).

In the period after May 2013, the developments on the global monetary policy has been the main determinant of movements in financial markets. In this period, all financial assets on global scale experienced repricing and outputs have been observed in portfolio flows to developing countries. In this process, CBT has implemented policies to limit the negative effects of the volatility of the global economy and to correct the deterioration in the inflation outlook by actively using tools such as one-week repo rate, the interest rate corridor, the Turkish Lira and foreign currency liquidity policies and Reserve Option Mechanism (ROM). (TCMB. 2016 Year of the Monetary and Exchange Rate Policy. 2015, p. 3).

CBT, began to interest payments for reserve requirements of banks and finance companies that have established as the Turkish Lira since November of 2014 to promote balanced growth and to strengthen domestic savings. Practice of paying interest on required reserves that are established as the Turkish Lira has continued in 2015 mainly by increasing the interest rate.

CBT announced policies that can be applied after and prior to the normalization of global monetary policies with roadmap which was published on August 18, 2015. In this regard, it is devoted to politics which to be applied before and during normalization of financial stability.

**Table 5**

**Supporting Financial Stability Measures**

<table>
<thead>
<tr>
<th>Policy</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extension of the maturity of the Non-Core foreign currency obligations</td>
<td>The required reserve ratio for foreign currency non-core liabilities will be determined in a manner that promotes long-term of three years without increasing the cost on existing stocks of the banks.</td>
</tr>
<tr>
<td>Supporting Core Requirement of Turkish Lira</td>
<td>If deemed necessary, in the coming period, interest which partially paid to Turkish lira required reserves will be discussed to reduce the cost of intermediation in the banking sector and to support the core obligations.</td>
</tr>
<tr>
<td>Payment of interest on foreign currency reserve requirements</td>
<td>Interest rates which paid to required reserves held in US dollars, reserve options and free accounts can be kept at levels close to the upper band of the Fed's interest rate policy.</td>
</tr>
</tbody>
</table>

Source: Central Bank of the Republic of Turkey. Road Map in the normalization process of the Global Monetary Policy.
Some regulatory measures have been taken to limit the impact of the uncertainty of the global monetary policy on the foreign exchange market and to support the financial system in the face of this uncertainty. Since the end of 2014, Central Bank has lowered the banks' foreign exchange deposits received from Central Bank interest rates gradually within the framework of their borrowing limits in the Foreign Exchange Deposit Market. Also, as it is given in the road map which published policies that can be applied after and prior to the normalization of global monetary policies, effective limits of the banks in the foreign exchange markets were raised. In this context, the sum of the gold and foreign exchange assets held for the CBRT under the ROM has reached the level which is to meet or exceed all of its one year debt in future with allocated storage limits to banks. In addition, the flexibility of the foreign exchange selling auctions against volatility in global financial markets has increased (TCMB. 2016 Year of the Monetary and Exchange Rate Policy. 2015, p. 4).

Result

Following the global crisis, Turkey's economy, supported by bank loans, has experienced periods of high growth based on domestic demand. Due to rapidly increasing imports, credit supported high growth increased the current account deficit to dangerous levels and finance and quality of the current account deficit has brought the issue to the agenda with difficulties in international markets. Financing of the current account deficit in Turkey is provided with largely external debt and the so-called hot money portfolio investments and net errors and omissions. The search for alternative policies has been raised against risks caused by Short-term capital inflows, deteriorating current account balance and rapid credit expansion in Turkey. In this context, the Central Bank of Turkey (CBT) has been implemented the new monetary policy framework since the end of 2010. In order to limit accumulated macro-financial imbalances CBT has adopted essentially two interim targets as to reduce short-term capital inflows and credit to slow the expansion. In this regard, without compromising price stability, in addition to the policy rate, it is decided to use reserve requirements and interest rate corridor as active monetary policy as tools in order to oversight financial stability.

In the period after May 2013, to limit the negative effects of the volatility of the global economy, CBT has implemented policies to correct the deterioration in the inflation outlook by using actively one-week repo rate, the interest rate corridor, the Turkish Lira and foreign currency liquidity policies and Reserve Option Mechanism (ROM). The interest payments on the Turkish Lira reserve requirements was abolished In October 2010; practice of paying interest on required reserves was abolished in December 2008 to promote balanced growth and to strengthen domestic savings. Central Bank began to pay interest to the reserve requirements which banks and finance companies have their facilities as Turkish Lira since November of 2014. Practice of paying interest on required reserves that are established as the Turkish Lira has continued in 2015 mainly by increasing the interest rate.

To limit the impact of the uncertainty of the global monetary policy on the foreign exchange market, measures that regulates foreign currency liquidity have been taken in order to support the financial system. CBT announced policies that can be applied after and prior to the normalization of global monetary policies with roadmap which was published on August 18, 2015. In this context, Turkish Lira liquidity management framework and its simplification process and foreign currency liquidity measures are located within normalization, before normalization, and during normalization process.
References


