Turkey: Central bank tweaks reserve requirement ratios

On the main the policy rate, however, the Central Bank of Turkey reiterated its key guidance that a tight stance will remain in place until there is a significant improvement in inflation.

In an interview held on 14 February, Central Bank of Turkey Governor Murat Cetinkaya signalled he would take liquidity steps to support financial stability in view of current cyclical conditions.

On previous occasions, the CBT used its liquidity and reserve requirement tools, namely (1) adjustments in reserve requirement ratios; (2) changes in coefficients of the reserve option mechanism; (3) swap operations; (4) non-deliverable forward (NDF) programme and (5) rediscount credits available to exporters. The bank thinks that “the steps taken last year proved effective in alleviating market volatilities and strengthening the transmission mechanism.”

In its latest decision announced at the weekend, the CBT cut the Turkish lira (TRY) reserve requirement (RR) ratios by 100 basis points for deposits and participation funds with maturities up to one-year and for other liabilities with maturities up to three years. The ratio for all other liabilities was cut by 50 basis points. The central bank also increased the upper limit of the facility of holding standard gold converted from wrought or scrap gold collected from residents, from 5% to 10% of TRY reserve requirements.
According to the latest data, the weighted average reserve requirement ratio for Turkish lira liabilities is 7.4% while RRs to be maintained for TRY Liabilities are TRY82.9 billion. Banks currently hold TRY24.5 billion in Turkish lira and, for the remaining part, use the flexibility provided by the reserve option mechanism (ROM) which allows lenders to hold FX and gold (as well as scrap gold) against TRY RRs. The total amount under the ROM facility is USD17.3 billion (USD8.9 billion of which is held as FX, USD8.0 billion held as gold and the remaining USD0.4 billion held as scrap gold).

The CBT did not provide any estimate for the amount of liquidity to be released to the financial system with the RR cut. But the governor stood firm that “liquidity tools do not have a direct signal with respect to the monetary policy stance” and should be seen “within the context of financial transmission” while he reiterated the key guidance that the bank’s tight stance would remain in place until a significant improvement in inflation dynamics is observed.

Muhammet Mercan
Chief Economist, Turkey
+90 212 329 0751
muhammet.mercan@ingbank.com.tr
Disclaimer

"THINK Outside" is a collection of specially commissioned content from third-party sources, such as economic think-tanks and academic institutions, that ING deems reliable and from non-research departments within ING. ING Bank N.V. ("ING") uses these sources to expand the range of opinions you can find on the THINK website. Some of these sources are not the property of or managed by ING, and therefore ING cannot always guarantee the correctness, completeness, actuality and quality of such sources, nor the availability at any given time of the data and information provided, and ING cannot accept any liability in this respect, insofar as this is permissible pursuant to the applicable laws and regulations. This publication does not necessarily reflect the ING house view. This publication has been prepared solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice. The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam).