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

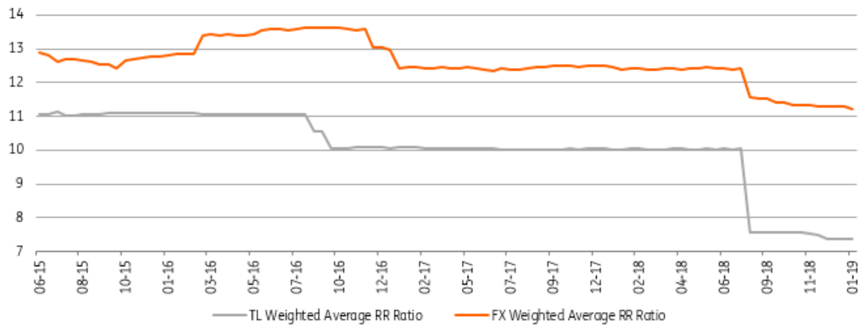
Source: shutterstock

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.

Weighted Average RR Ratio for TL and FX (%)



Source: CBT, ING Bank

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.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer