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The Changing Dimension of the Inflation Targeting Regime in Turkey after the Global Financial Crisis

Bilge Köksel¹, Yusuf Akan¹¹Gaziantep University, Turkey

ABSTRACT

In 2001-2005 period, implicit inflation targeting regime has been implemented. In this period the pre-conditions of the inflation targeting regime such as flexible exchange rate regime and the independency of central bank have been provided. Since 2006 explicit inflation targeting regime is begun to adopt in order to provide price stability. But after the global financial crisis, the monetary policy has begun to take into account financial stability as well as price stability. In order to contain macro financial risks that emerged from global imbalances, the CBRT (Central Bank Republic Of Turkey) adopted a new monetary policy strategy by improving the inflation targeting regime. Under the new strategy that has been in place since the last quarter of 2010, the CBRT has developed policies that aim at reducing macro financial risks without prejudice to price stability. To this end, in addition to money market rates, the conventional monetary policy tool, the CBRT actively used reserve requirement ratios, Reserve Options Mechanism (ROM), interest rate corridor and other liquidity policies. The aim of this study is to explain the changing dimension of the inflation targeting regime in Turkey after the global financial crisis. The main objective of the CBRT is directed from price stability to the price and financial stability together. It means in the practice the inflation targeting regime becomes more flexible than the traditional inflation targeting regimes. Financial stability is a pre-condition for the sustainable economic growth and welfare and also is important for the CBRT for achieving price stability.

KEYWORDS Inflation Targeting Regime; Price Stability; Financial Stability

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