Reserv Options Mechanism in Turkey

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Abstract

After the 2008 crisis, we have learnt that price stability is a necessary but not a sufficient target. In order to provide financial stability together with price stability, Central Bank Republic of Turkey (CBRT) has begun to implement new policy instruments such as Reserv Options Mechanism (ROM), interest rate corridor and liquidity management. Among these unconventional monetary policy tools, ROM acts as an automatic stabilizer of large fluctuations in the exchange rate. This mechanism allows domestic banks to hold their domestic currency required reserves in foreign currency or gold up to a certain fraction. Advantages of the ROM are: i) reducing the volatility created by short term capital flows, ii) strengthening the gross foreign currency reserves of CBRT, iii) providing flexibility to the banks to manage liquidity and iv) reducing the credit level sensitivity regarding the capital flows.

After the crisis, it is recognised that the foreign currency reserves of the central bank is very important factor against crisis. For that reason in this study, ROM is explained in briefly and than the relation between ROM and current account deficit is empirically tested. The main purpose of this study to investigate the ROM and current account deficit in Turkey in 2011:11 and 2017:11 period by using OLS method. The period has started since at the end of 2011. Because aftermath of the 2008 crisis, ROM has started in September 2011 in terms of foreign currency and November 2011 in terms of gold.

Key Words: Unconventional Monetary Policy, Reserv Options Mechanism (ROM), Financial Stability, Central Bank Republic of Turkey (CBRT).