

Financial Stability and Macroprudential Policy: Analysis of CBRT's Macroprudential Approaches (2007-2013)

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Abstract

Financial crisis in 2007/2008 (Global Financial Crisis - GFC) gave "crash lesson" to many academics and policymakers in all over the world. GFC was not the only one or/and the last crisis of capitalism in last three decades, but it has done more than ever to change all our knowledge and understanding about financial crises and financial instability. It changed the dilemma that crises with significant and macroeconomic costs could not occur in advanced and developed financial systems. Consequently the main centres of capitalism were bound to prompt a most important reconsideration of systematic outlines and macro policies. GFC has revealed the necessity for essential modification of current financial system and policies. The fundamental structure of the global financial (monetary) system is started to be re-examined. Macroprudential policy was an absent part of the current global policy framework. According to Saporta (2009), in the last three decades, if macroprudential policy had filled the great gap between macroeconomic policy and the financial regulations of individual financial institutions, it had been able to increase the resilience of the financial system and to adequate abundance in the supply of credit to the economy, and especially to the financial system, the GFC most probably would have been less costly. Research and work on macroprudential policy and related issues developed rapidly in last decade mainly after 2009. Before only partial studies and tools existed to advice conclusions on a macroprudential policy outline. In the very new started literature, macroprudential policy discussion concentrates distinctively on employment, utilization and efficiency of macroprudential policy and instruments, besides their effects on macro economy, economic policies and its consequences. As a consequences of GFC, macroprudential policy and tools has fascinated academics, researchers, and policy makers. The GFC has highlighted important shortcomings of the literature on monetary policy, and in particular, huge cavities in the forming of interconnection among the macro economy, the financial system and macroeconomic policies. Above all, new studies on monetary policy experiments to close this disparity. Aim of the paper is delivering an overview of the political economy of macroprudential policy and tools in the context of providing financial stability. We will try to supply general description of macroprudential policy, and then to clarify it in the terms of central banks and GFC. As a last we will explain macroprudential policy approach in monetary policy of Central Bank of Republic of Turkey (CBRT) due to establish financial stability between 2007 and 2013. This paper is structured as follows. The first section overviews development of macroprudential policies and tools. The second section aims to discuss macroprudential policy in the context of macroeconomic policy, while explaining relation between financial stability and macroprudential policy tools. The third section covers criticism of macroprudential policy in the neoliberal framework. The fourth section focuses on central bank's macroprudential policy approach before and after GFC. And the last section includes analysis of macroprudential policy approach of CBRT