Chapter 69
Analysis of the Analytical Balance Sheet of Central Bank of Republic of Turkey During 2000 – 2009 Period in Terms of Crises

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ABSTRACT

Today, Central Banks’ primary target is to maintain the price stability. In that context, through their monetary policy, they intervene in the money market with different tools. The Analytical Balance Sheet was created upon summing up and offsetting Balance Sheet of the Central Bank of Republic of Turkey (CBRT) in order to represent specific monetary aggregates. By means of that, CBRT aims to make the balance sheet more understandable and simple. In this chapter, firstly the sub items of the Analytical Balance Sheet are explained; secondly, the economic crises of Turkey during 2000-2009 is mentioned; finally, effects of these crises on the CBRT’s Analytical Balance Sheet, changes in monetary aggregates which are Currency Issued, Reserve Money, Monetary Base, and Central Bank’s Money, and in this context structure of the monetary policy of the CBRT in this period is analyzed.

INTRODUCTION

A commercial bank or a private company’s financial statements are important business tools which allow understanding the details about the performance of it. However, the main goal of a central bank is to maintain the price stability not a profit maximization, therefore to interpret accounting records of a central bank is much more complex (Hawkins, 2002: 71).

The balance sheet of a central bank is an important source of information that is shaped by the interaction of monetary policy and the financial system of this country, and also it is crucial for other units of the economy when making decisions (Parasiz, 2000). A central bank is responsible
for managing monetary policy. A central bank sets targets which are relevant to the assets and liabilities of its own balance sheet and then tries to achieve goals by using the instruments in its hands and by taking into account cyclical developments in economy. That is called monetary policy. Instruments used by a central bank are the reserve requirement ratio, liquidity ratio, open market operations, etc. These affect both a central bank’s balance sheet and the economic activities. Accordingly, the best analysis of the central bank’s monetary policy that is used by the central bank to reach economic targets can be made by observing its balance sheet (Acar, 1999). However, it is very difficult to follow and make comments about central banks’ monetary policies and interventions through its balance sheet. So, the Analytical Balance Sheet was created upon summing up and offsetting balance sheet of the Central Bank of Republic of Turkey (CBRT) in order to represent specific monetary aggregates. It makes the balance sheet more understandable and simple. Moreover, the CBRT’s foreign exchange and Turkish Lira (TL) movements can be seen in a clear manner in its analytical balance sheet (Ardic, 2004: 209). The assets of the Analytical Balance Sheet exhibit how to provide liquidity of economy, while the liabilities show the form of finance of liquidity which is needed in the economy.

Turkey had 3 economic crises during 2000-2009 period. These are “November of 2000” that was banking crisis, “February 2001” which was currency crisis and lastly “2008” that was global economic crisis. It is important how to read CBRT’s Analytical Balance Sheet in terms of these three crises.

In this paper, first of all the CBRT’s Analytical Balance Sheet will be explained and then the economic crises of Turkey during 2000-2009 period will be mentioned, briefly. After that, effects of these crises on the Analytical Balance Sheet, changes in monetary aggregates and in this context structure of the monetary policy of the CBRT in this period will be examined. These monetary aggregates are Currency Issued (CI), Reserve Money (RM), Monetary Base (MB), and Central Bank’s Money (CBM). The main purpose of this study is to analyse both foreign exchange & TL movements and monetary aggregates in the Analytical Balance Sheet, actions and reactions of the CBRT to these economic crises and its monetary policy strategies during 2000-2009 period.

ANALYTICAL BALANCE SHEET OF THE CBRT

Assets

The CBRT must control the size and the composition of its balance sheet in order to enforce effective monetary policy. In this regard, the CBRT prepares Analytical Balance Sheet, which makes it more simple and straightforward. Analytical Balance Sheet consists of assets and liabilities.

Assets side of the CBRT determines the value of money. If the CBRT wants to affect interest rates and financial magnitudes in the market, the size of its balance sheet should be large enough in proportion to the size of the economy (Fazio, 1991: 127). The Central Bank firstly finds the assets and then it would create the source which finances this assets side (Ardic, 2004, 197). The Assets consist of two main items: The Foreign Assets and the Domestic Assets.

The Foreign Assets (FA) includes foreign currency, gold, foreign credit, temporary debtors and affiliates of the CBRT (Istanbul Univ., 2003: 48). Foreign exchange inflows and foreign exchange purchases due to the use of foreign credit lead to an increase in foreign assets (CBRT, 2009). Accumulation of FA of the CBRT can be evaluated as a function of country’s gain of foreign exchange (Iskenderoglu, 1993: 42).

The second part of assets is Domestic Assets (DA). The DA involves Cash Operations, Foreign Exchange Revaluation Account and IMF Emergency Assistance Account.