



Krystyna Mitrega-Niestroj

Department of Banking
and Financial Markets
Faculty of Finance and Insurance
University of Economics
in Katowice, Poland
krystyna.mitrega-niestroj@ue.katowice.pl

Blandyna Puszer

Department of Banking
and Financial Markets
Faculty of Finance and Insurance
University of Economics
in Katowice, Poland
blandyna.puszer@ue.katowice.pl

**Monetary policy of the CIVETS countries
in years 2006-2013**

Abstract

CIVETS countries refer to a group of countries consisting of Columbia, Indonesia, Vietnam, Egypt, Turkey and the Republic of South Africa, considered leaders of emerging markets. They are countries with dynamically developing economies, moderate debt level, and they have successfully managed to overcome the last financial and economic crisis within a short period of time. Similarly, as in case of the majority of countries, their monetary policy constitutes a significant element of macroeconomic policy, having influence not only on the condition of the banking sector, but the economy as a whole. Central banks of the CIVETS countries focused on inflation target as the goal of monetary policy. They used first of all the interest rate channel as well as instruments regulating liquidity of interbank money market of a standard character (open market operations, refinanced credits and reserve requirement), as well as non-standard monetary policy instruments in order to execute the policy of supporting liquidity of the banking sector in years 2006-2013.

Keywords: the CIVETS countries, monetary policy, interest rates of the central bank.

JEL Classification: E52, E58.

Introduction

The CIVETS countries refer to a group of countries – economic leaders consisting of Columbia, Indonesia, Vietnam, Egypt, Turkey and the Republic of South Africa. They are considered to be countries which will instigate the subsequent cycle

of emerging markets growth. The above mentioned may be supported, among others, by such factors as: diversified and economically developing economies, more and more open markets as well as increased interest of foreign investors. Countries of the CIVETS group in majority of cases are characterized by young societies, dynamic groups of entrepreneurs, moderate debt levels and which is important – they have overcome crisis much faster than mature economies, and in certain cases they have not even faced the crisis. These countries, however, are not free from social and political problems. It is currently believed the CIVETS countries will support the subsequent cycle of emerging markets growth and they will attract the attention of the world within the next dozens of years. The monetary policy constitutes a significant element of the macroeconomic policy of those countries, exerting an impact not only on the condition of the banking sector but on the economy as a whole.

Global financial crisis strongly affected the world's economy only in the second half of 2008 and it was to a considerable degree ignored by monetary authorities. Central banks took into consideration, at that time, the risk of their monetary policy losing reliability as a consequence of inflation increase (the world's economy faced a considerable increase in prices of relatively often purchased goods, such as food articles and fuel). Thus, with concerns of potential effects of the second round of prices increase, they run their monetary policy assuming a gradual inflation increase in the world's economy. Obtaining new information on inflation processes and more and more common conviction on the possibility of the occurrence of a considerable negative impact of financial markets disorders they demonstrated a tendency to mitigate or prevent against monetary policy tightening, in spite of the current inflation increase. Thus, the respond of central banks (including the CIVETS countries) to the global crisis was initially not intended and uncoordinated. Over the time, as outcomes were spreading such respond was becoming the program one. Central banks had to apply such instruments of their monetary policy so as not to cause "panic" in foreign exchange markets while mitigating the outcomes of the global financial crisis. That is why, in many cases, they supported financial markets and the whole economy "in a non-standard" manner. Resigning from direct control of inflation, interest rates and the restrictive national currency supply, they operated intentionally, however against their functional independency [Pyka 2012, p. 130].

The goal of this article refers to the assessment of instruments applied by central banks of the CIVETS countries within the scope of monetary policy in years 2006-2013. Central banks used standard as well as non-standard instruments.

The following research methods have been used: cause and effect analysis and comparative analysis. Critical analysis of publications presenting research results on the subjects i.e. reports and analyses produced by first of all – the monetary authorities.

1. Goals of the monetary policy of central banks of the CIVETS countries in years 2006-2013

Monetary policy implemented by central banks of CIVETS countries was focused on combating inflation. In general, the strategy allowed central banks to execute a coherent, consequent and transparent policy, leading in that manner to the increase of their reliability, and simultaneously fostering a bigger concentration on the long-term goal of the policy in the course of undertaking everyday decisions and activities.

Since 2000, the Central Bank of Columbia (Banco de la Republica) has been implementing a direct inflation target full strategy within the scope of monetary policy. The main purpose is to maintain low and stable inflation and foster a long-term economic growth and support internal demand. The central bank applying the inflation measure utilizes a safe version of consumption goods and services prices increase index – CPI. The inflation target was announced for the period of one year until 2009 (for instance for 2007 it was established between 3.5%-4.5%, for 2008 it was established between 3.5% and 4.5%, whereas, for 2009 it was established between 4.5% to 5.5%). Since 2010, this has been ranging between 2.0% and 4.0%, with 3.0% in a concrete goal for private purposes. Conducted monetary policy is also intended to prevent against financial disproportions stemming for instance from a high financial leverage and undertaking excessive risks, which usually cause financial crises and considerable production and employment fluctuations [Central Bank of Columbia, 2012, p. 6].

Since 2005, the Bank Indonesia (BI) has also applied the strategy of the direct inflation target within the scope of monetary policy. The main purpose refers to achieving and maintaining the stability of the Indonesian rupiah, which defines the stability of goods and services. In compliance of the Act of the Bank Indonesia, the inflation target is established by the government and it has a medium-term character, since 2013, it has been established for the period of three years. In case of examined years, the inflation rate was established at the following levels: 2006 – 8% with +/- 1%, 2007 – 6% with +/- 1%, 2008 – 5% with +/-1.5, 2009 – 4.5% with +/-1%, 2010 – 2011 – 5% with +/-1%, 2012 – 2014 – 4.5 with +/-1% [Bank Indonesia, 2014].

The State Bank of Vietnam is not an independent institution, and its monetary policy is subjected to the guidelines of the government. The purpose of monetary policy refers to ensuring the stability of the national currency (Vietnamese dong), determined by the inflation rate as well as economy stabilization at the macroeconomic scale. The National Assembly determines annual rates of inflation, measured with the CPI index [State Bank of Vietnam, 2014].

A fundamental and superior goal of monetary policy of the Central Bank of Egypt (CBE) since 2003, has referred to prices stability ensuring. CBE is obliged to achieve, within a medium-term perspective, low inflation level, which is necessary in order to maintain a high investment rate and economic growth. Simultaneously the government has been obliged to maintain fiscal discipline, which is important, in order to achieve inflation target [Central Bank of Egypt, 2014].

The purpose of the monetary policy of the Central Bank of the Republic of Turkey (CBRT) focuses on ensuring prices stability, which will support economic growth. The stability of prices is measured with the inflation rate, which in case of examined years was established on the following levels: 2006 – 5%, 2007-2008 – 4%, 2009 – 7.5%, 2010 – 6.5%, 2011 – 5.5%, 2012-2014 – 5% [Central Bank of the Republic of Turkey, 2014].

The South African Reserve Bank – SARB has been implementing a full strategy of a direct inflation target since 2000. The execution of monetary policy is intended to foster the stable financial system establishment, thanks to which it will become an important condition for achieving an economic growth [South African Reserve Bank, 2014].

2. Interest rates as a standard instrument of exerting influence by central banks in the CIVETS countries

Among a wide range of instruments utilized by the central banking one may differentiate standard instruments (the lender of the last instance, open market operations, reserve requirement, information policy) as well as non-standard instruments (e.g. providing banks with the capital). Effectiveness and efficiency of launched instruments is impinged by the fact of monetary policy's decision function centralization with the operational function decentralization, as well as keeping other elements on the national level of safety net [Bogołębska 2012, p. 54]. Przybylska-Kapuścińska on the other hand points out that the division into standard and non-standard tools of monetary policy stems from a different application of classical tools and this difference may be caused for instance by flexibilization of their operation, extension of deadlines for their use or alleviation of requirements concerning their rendering [Przybylska-Kapuścińska 2012, p. 63].

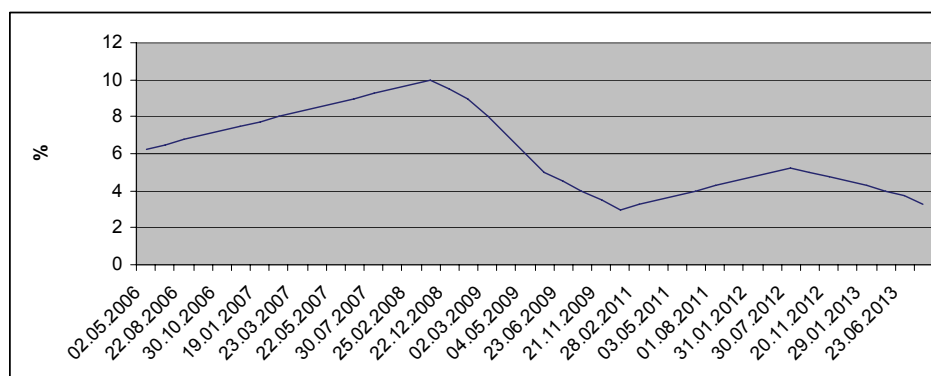
Instruments of monetary policy, their “standard” and “nonstandard” nature in case of the CIVETS countries were dependent first of all on the global crisis phase and its impact on national financial systems and economies.

A standard instrument of the central bank for influencing the economy in the phase of recession refers to the interest rates lowering. Due to time delays, it

is difficult to report explicitly a positive influence of the interest rates reduction on sustaining the activity of the real sphere. We shall add that even before the global financial crisis the effectiveness of the interest rates policy was doubted, mainly due to the short-term market rates loosening. The financial crisis, and in particular, not reported until recently, problems with solvency of numerous banks and financial institutions, caused a considerable exacerbation of that tendency [Bogołębska 2012, p. 55].

Columbia running the policy of a direct inflation target, facing such necessity, could indulge in the implementation of a relatively fast and efficient tool in the form of interest rates lowering (Figure 1).

Figure 1. Modulation of the interest rate of the Central Bank of Columbia in years 2006-2013 (in %)

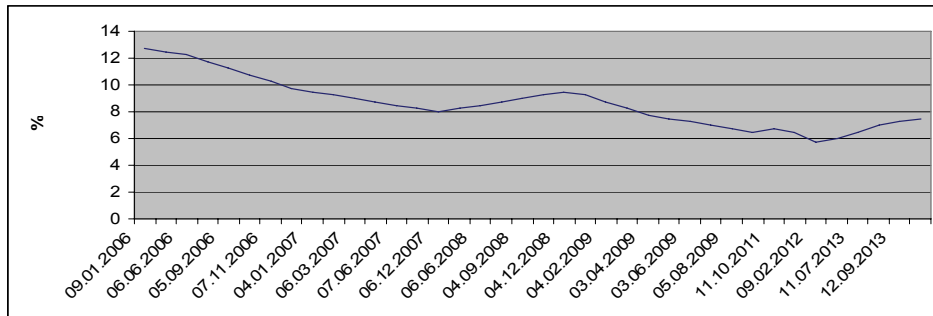


Source: data of the Central Bank of Columbia, <http://www.banrep.gov.co> (access: 11 September 2014).

The Central Bank of Columbia decided to lower interest rates only after several months (since December 2008), for fear of the inflation return and depreciation pressures. On the other hand, we shall emphasize that there were frequent and considerable cuts in interest rates, which soon resulted in the curtailed growth of production. In order to maintain low and stable inflation, at the beginning of 2012, the central bank undertook the decision to increase the interest rates to the level of 5.25%. That decision was intended to regulate the national demand, prevent against the private sector indebtedness and guarantee the economic growth. However, it had an impact on interest rates on savings and credits, which subsequently caused the decrease in consumption and increased debts of households. At the end of 2012, the central bank decided to lower the interest rate, which since March 2013 has remained at the level of 3.25%.

The policy of relatively high interest rate (Figure 2) may be traced in the interest rate policy of the Bank Indonesia.

Figure 2. Base interest rate of the Bank Indonesia in years 2006-2013

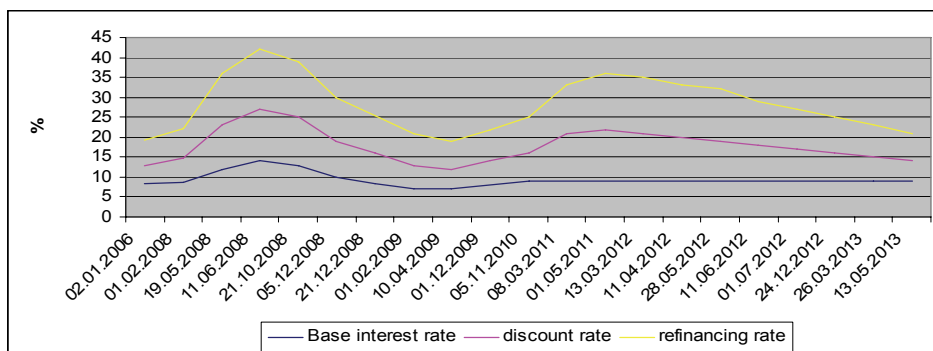


Source: data of the Bank Indonesia, www.bi.go.id (access: 7 September 2014).

Deteriorating situation in the economy since December 2008 and lowering inflation, caused that the Bank Indonesia considerably lowered interest rates – it amounted to 50 base units, whereas the base interest rate achieved the level of 8.25% at the beginning of 2009 [Centrum Studiów Polska-Azja, 2009]. It should be mentioned that monetary policy transmission through the interest rate channel, however didn't function in accordance with the plans of monetary authorities and the reduction in loan interest rates was still limited [Bank Indonesia, 2010, p. 49]. In response, the central bank continued the reduction in interest rates until the February 2012.

In case of Vietnam, in May 2008, it turned out that the situation of the economy is serious – which was reflected by the increasing current account deficit as well as high inflation. The above mentioned caused withdrawing of the foreign interests together with a strong depreciation of the Vietnamese dong. This so called “little financial crisis”, forced the government to undertake fast and decisive actions, first of all interest rates increasing by the central bank (Figure 3), for instance the benchmark rate of the central bank was raised from 8.25% to 14% in June 2008.

Figure 3. Interest rates of the central bank of Vietnam in years 2006-2013

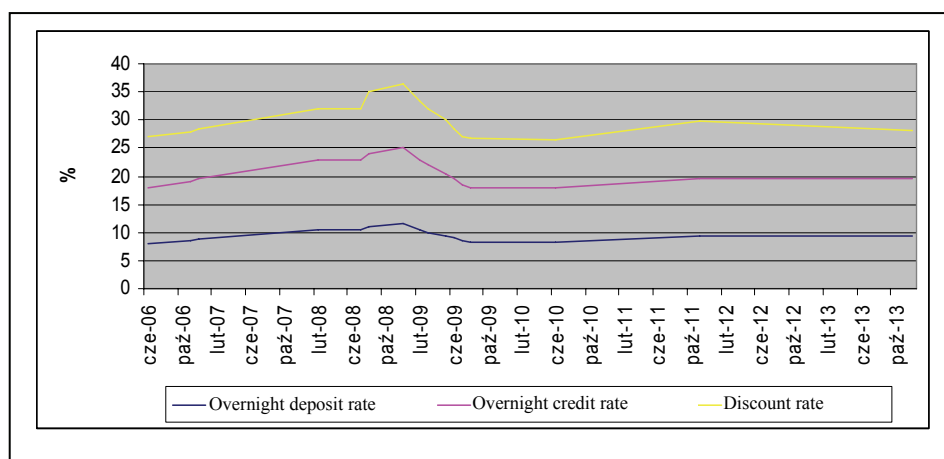


Source: data of the State Bank of Vietnam, www.seacen.org (access: 13 September 2014).

After the period of restrictive monetary policy in 2008, when the State Bank of Vietnam, in order to limit inflation, undertook initiatives to reduce the money supply, among others, increasing the base interest rate three times from 8.25% to 14%. At the beginning of 2008 the central bank changed the direction of the monetary policy. The lowering inflation as well as unfavorable GDP tendencies convinced SBV to lower the base interest rate to 7% in February 2009. The above mentioned was supposed to help banks to moderate interest rates, in order to enable companies, in particular small and mediums sized ones, the access to financing [Vietnamese Bank, 2009, p. 2]. The end of 2009 brought the decision of the central bank on the base rate increasing from 7% to 8% as well as conducting single devaluation and restricting the range to 3% for the exchange rate of dong to fluctuate. The main reason of those decisions referred to counteracting against the outflow of the foreign capital [Wróbel 2009]. The last increase in the base rate was effected in November 2010; the rate reached 9% [State Bank of Vietnam, 2014].

In Egypt, an important role in mitigating outcomes of the global financial crisis was played by monetary policy competently run by the Central Bank of Egypt as well as adopted tasks in the field of economic growth triggering and internal demand supporting. CBE, for the purpose of the execution of adopted goals, makes use of the interest rates (first of all overnight deposits rate and overnight credits rate as well as the discount rate – Figure 4).

Figure 4. Modulation of key interest rates of CBE in years 2006-2013

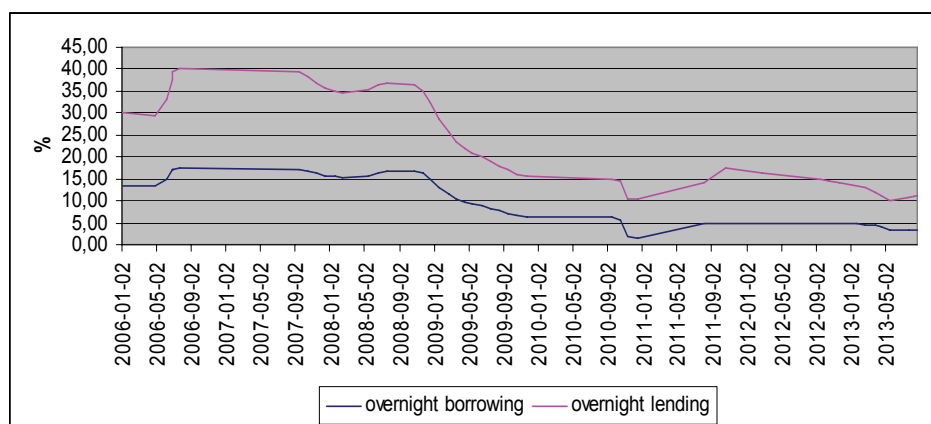


Source: own study on the basis of the Annual Report, Central Bank of Egypt, various years.

Within the period from January to July 2009, the Central Bank of Egypt introduced five cuts in the interest rates lowering the interest rates in aggregate by 300 basis points. Since 2010, interest rates have remained on almost invariable level.

Aiming at prices stability ensuring, the Central Bank of the Republic of Turkey undertook initiatives intended to alleviate the negative influence of the global crisis on the internal market, lowering the interest rate for overnight borrowing and lending (Figure 5). Since April 2010, CBRT applied transitional arrangements for crisis effects mitigation, referring first of all to cuts in the interest rates.

Figure 5. Interest rates of the Central Bank of the Republic of Turkey

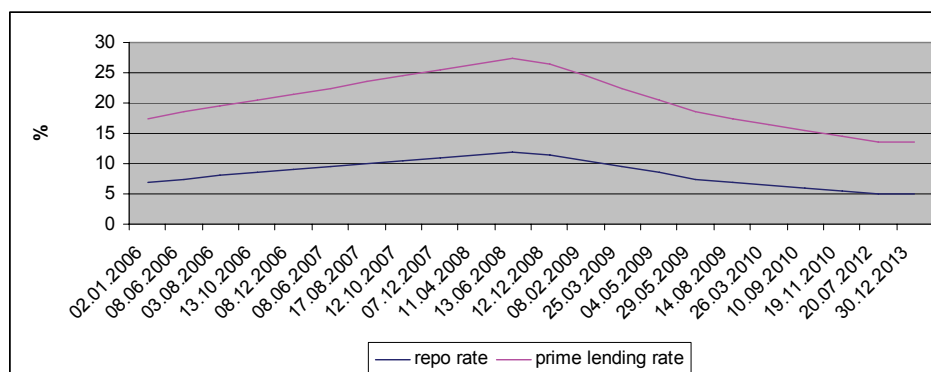


Source: data of the Central Bank of the Republic of Turkey, www.tcmb.gov.tr (access: 12 September 2014).

In October, the Central Bank of the Republic of Turkey, when the key interest rate for overnight borrowing amounted to 16.75%, decided to introduce series of cuts up to 6.5% in November 2009. The same activities were undertaken for overnight lending in the central bank. Simultaneously, the CBRT announced that within a short time perspective, it would be necessary to introduce subsequent, mild cuts in interest rates unless a considerable overcoming of the recession occurred. The scale of interest rates reduction in Turkey was the biggest in the group of countries considered as emerging markets, where the central bank assumes a stringent control over the inflation level. The exiting strategy from transitional arrangements related to alleviating crisis results was adopted in April 2010 and it stipulated an active counteracting negative macroeconomic phenomena – such as accelerated inflow of short-term capital, no balancing of domestic and foreign demands as well as an excessive credits expansion (by 40% in 2010), which were considered as main reasons for a rapid increase in the current account deficit [Central Bank of the Republic of Turkey, 2010, p. 1-12].

In order to counteract any potential negative results of the increasing current account deficit and economy “overheating” and handle a rapid inflow of “hot money” to Turkey, on 16.12.2010 the Monetary Policy Committee of the Central Bank of Turkey decided to lower the short-term interest rates for overnight borrowing – from 1.75% to 1.50%, whereas for overnight lending the interest rate was increased from 8.75% to 9%. At the same time the difference between the amount of the interest rates valid at drawing and granting overnight loans was increased. In August 2011, the Central Bank of the Republic of Turkey decided to maintain for overnight lending rate on the unchanged level of 9% in order to narrow so called interest rates corridor. It undertook the decision to increase overnight borrowing from 1.5% to 5%. This balance reaction of the Central Bank was intended to counteract economic situation variability; in the opinion of economists low interest rates constitute currently some of the best instruments to maintain stability. In February 2012, the Central Bank of the Republic of Turkey lowered the rate of loans granted to commercial banks from 12.5% to 1.5%. In the following months subsequent cuts in rates of overnight borrowing and overnight lending took place with the simultaneous increasing of requirements for minimum reserves denominated in the national and foreign currencies. Interest rates lowering was supposed to trigger the inflow of short-term capital, whereas, the increasing of bank reserves level was intended to counteract against accelerated credits expansion. The CBRT plans to draw the amount of about TRY 300 million and USD 1.65 million from liquid financial assets market, which is supposed to contribute to the financial stability enhancement [Today’s Zaman Online, 2013].

At the time of the global crisis, the monetary policy did not require from the South African Reserve Bank to undertake any extraordinary activities, as it was in case of numerous central banks of developed countries. In the first half of 2008, the main challenge of the monetary authorities referred to a raising inflation, caused by increasing prices of food articles and raw materials, especially crude oil, in international markets. In the second half of 2008, conditions of running monetary policy changed radically, which was caused by problems occurring in the global financial system, and at a later time in economy. The economic downturn, increasing output gap and the lower inflation pressure, caused, among others, by demand drop and raw materials prices decrease, prompted the South African Reserve Bank to reduce interest rates. We shall point out that the inflation rate, in spite of the fact that it started to lower since September 2008, for subsequent 12 months it maintained beyond established by SARB inflation target range, that is, beyond 3%-6% (Figure 6).

Figure 6. The interest rate of the central bank in RPA in years 2006-2013 (in %)

Source: data of the South African Reserve Bank, www.resbank.co.za (access: 12 September 2014).

In December 2008, the central bank resorted to the first cut of its key rate – repo rate (repurchase rate – the rate determining the price of money borrowed by commercial banks from SARB) [South African Reserve Bank, 2014]. Five subsequent cuts were conducted in the following year. In August 2009, repo rate achieved the level equal to 7%. In 2010 three subsequent reductions of the repo rate were executed. In aggregate, from December 2008 to November 2010, the total cut in the rate of SARB amounted to 450 basis points. The Monetary Policy Committee – a body of the SARB responsible for, among others, decisions referring to interest rates, alternated the frequency of its sessions from by-monthly meeting into monthly ones in order to be able to react to changes in the financial sector and economic situation in a faster and more flexible manner. Since 2012, the interest rate has remained on the unchanged level.

3. Standard and nonstandard instruments of monetary policy of the CIVETS in the crisis period

Together with the occurrence of first signals of tension in financial markets after 2007, central banks, including the CIVETS countries, undertook briskly activities aiming at the calming down of the inter-bank market, enhancing financing conditions and access to credits. Due to a limited role of the interest rate channel with regard to financial conditions and credit flows enhancing, central banks resorted to the arsenal of standard instruments of monetary policy.

In years 2006-2013, the Central Bank of Columbia run open market operations and within the whole time it regularly conducted repo overnight operations. Apart from such operations, it decided to conduct several operations of the open

market providing the liquidity of an irregular character, which included the following operations:

- on 27.12.2007 19-day operation for the amount of 1291,570 billion peso;
- from 02.08.2012 to November 2012 7-day operations;
- from November 2012 to March 2013 – three 14-day operations [Central Bank of Columbia, 2014].

Additionally, the central bank expanded the range of accepted assets for financial collaterals, reduced the rate of minimum reserve on national deposits and undertook efforts in order to ensure credit liquidity, which on one hand was supposed to improve access to liquid capital, and on the other hand it was supposed to eliminate any disturbances in the monetary policy transmission.

Standard instruments utilized by the Bank Indonesia to implement monetary policy refer primarily to the open market operations, which may assume the form of liquidity absorbing operations as well as operations ensuring liquidity. In case of liquidity absorbing operations, BI may utilize the following instruments: Bank Indonesia Certificate – SBI, Bank Indonesia Sharia Certificate – SBIS, Reverse Repo of SBN, term deposit, outright sale of SBN, FX Selling against IDR; and liquidity-providing operations such as: repo, outright purchase of SBN, FX Buying against IDR. The BI regularly conducts emissions of SBI and SBIS. Until June 2010, it conducted 1-month SBI emissions, and from 2008 to December 2010 – 3-month SBI emissions, from 2008 to June 2011 – 6-month SBI emissions, in August 2010 it started on regular basis 9-month SBI emissions. Since 2008 to June 2010 1-month SBIS emissions took place, and from July to December 2010 3-month SBIS emission were effected. Since 2010, BI introduced 1-month term deposits. Initiatives undertaken by the Bank Indonesia allowed preventing against further deterioration in that segment of the monetary market. Main activities undertaken within the global crises shall include: the extension of the flexible credit line as well as the extension for possible collaterals used in its case by the central bank [Bank Indonesia, 2009].

The State Bank of Vietnam, similarly as majority of countries, utilizes primarily open market operations as well as the minimum reserve for the execution of monetary policy assumed goals. At the time of the “small financial crisis”, the central bank decided to increase the number administrative tools for loans controlling, increase the minimum reserve of banks (from 10% to 11%), force commercial banks to purchase government bonds as well as limit governmental expenditures. Together with the deterioration of the global economic crisis, the State Bank of Vietnam undertook active measures in order to prevent against the problem of the access to credits. The SBV pumped money through open market operations, simultaneously obliging banks not to exceed a given level of the interest rate for deposit-credit operations (which amounted to 150% of the base rate) [Duc Phu 2013].

In principle until February 2011, the Central Bank of Egypt, as standard instruments, conducted the open market operation intended to absorb liquidity. It utilized for that purpose, primarily transactions of currency sales to banks. Starting from March 2011, the open market transactions assumed the form operations providing liquidity, CBE transferred EGP 14.5 to the bank sector (until the end of June 2011). In response to political changes in Egypt (on 25th January 2011 – Revolution), influencing the level of economic activity and efficiency of financial markets, and finally access to liquidity, CBE conducted 7-day repo operations intended to ensure necessary liquidity to banks. Striving for the bank system reinforcement during subsequent political events and subsequent lack of liquidity, CBE on the turning of 2011/2012 undertook a number of initiatives intended to solve the liquidity problem. First of all, it reduced reserve requirement ratio two times (first from 14% to 12%, and subsequently to 10%). Additionally, the CBE continued operations providing liquidity in the local currency through the expansion of 7-day repo operations as well as it introduced 28-day repo operations (from July to October 2012). The above mentioned decisions, however, did not effect in any positive results, which convinced CBE to instigate auctions for 7-day deposits (from 2 April to 10 June 2013) [Central Bank of Egypt, various years].

The Central Bank of the Republic of Turkey utilizes primarily seven day repo operations to provide liquidity. In 2009 bank reported liquidity deficits, in relation to that fact the CBRT on 19th June 2009 within the scope of the exit strategy, instigated 3-month repo operations [Central Bank of the Republic of Turkey, 2010]. The last operation of such a type was conducted in September 2010. In individual cases it has conducted 14-day and 28-day repo operations since November 2010. Since October 2010, CBRT started the process of increasing the minimal reserve level, which is presented in Table 1.

Table 1. Required minimal reserve level; in years 2005-2013 (in %)

Date	Deposits / other liabilities of the bank								
	Running account and deposits						Other liabilities		
	Upon request	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	Above 1 year	Up to 1 year	1-3 years	Above 3 years
1	2	3	4	5	6	7	8	9	10
In the national currency									
01.01.2005	6	6	6	6	6	6	6	6	6
02.10.2009	5	5	5	5	5	5	5	5	5
01.10.2010	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
12.11.2010	6	6	6	6	6	6	6	6	6
07.01.2011	8	8	7	7	6	5	8	8	89
04.02.2011	12	10	9	7	6	5	9	9	13
01.04.2011	15	15	13	9	6	5	13	13	13
29.04.2011	16	16	13	9	6	5	13	13	5
30.09.2011	16	16	12.5	9	6	5	11	8	5
28.10.2011	11	11	11	8	6	5	11	8	5

Table 1 cont.

1	2	3	4	5	6	7	8	9	10
01.02.2013	11.25	11.25	11.25	8.25	6.25	5	11.25	8	5
01.03.2013	11.5	11.5	11.5	8.5	6.5	5	11.5	8	5
In foreign currencies									
01.01.2005	11	11	11	11	11	11	11	11	11
28.11.2008	9	9	9	9	9	9	9	9	9
30.04.2010	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
06.08.2010	10	10	10	10	10	10	10	10	10
01.10.2010	11	11	11	11	11	11	11	11	11
29.04.2011	12	12	12	12	12	11	12	11.5	11
22.07.2011	12	12	12	12	12	10	12	10	9
05.08.2011	11.5	11.5	11.5	11.5	11.5	9.5	11.5	9.5	8.5
30.09.2011	11	11	11	11	11	9	11	9	6
21.12.2012	11.5	11.5	11.5	11.5	11.5	9	12.5	9.5	6
01.02.2013	12	12	12	12	12	9	12	10	6
01.03.2013	12.5	12.5	12.5	12.5	12.5	9	12.5	10.5	6
24.05.2013	13	13	13	13	13	9	13	11	6

Source: own source on the basis of the data of the Central Bank of the Republic of Turkey, www.tcmb.gov.tr (access: 19 September 2014).

The CBRT's lowering of key interest rates with a simultaneous increase of the required minimum bank reserve level for short term deposits in the national currency is assessed as an activity intended to limit banks' credit activity (in 2010 there was 40% increase in consumption loans) as well as the inflow of the speculative capital, and consequently– leading for the efficient “cooling” of the economy [Today's Zaman Online, 2011].

National inter-bank monetary market in the Republic of South Africa operated at the times of crises with no disruption, which means that the situation was totally different than in inter-bank markets of many developed countries of the world. Additionally, the monetary market allowed banks for sufficient liquidity support. Average daily liquidity needs of commercial banks ranged from ZAR 6.6 billion to ZAR 15 billion within the period from June 2008 to June 2009, whereas liquidity provided by the central bank within the analyzed period of time in weekly refinancing operations ranged from ZAR 8 billion to ZAR 14 billion [South African Reserve Bank, 2009]. In the RSA, the central bank enjoyed contingency plans if the situation deteriorated in financial sector and it informed financial institutions about that, however, no additional liquidity support was needed. Additionally, the central bank intensified supervision over banks, staying with them in permanent contact, in order to monitor conditions of their operation as well as all sources of risk in the ongoing manner.

4. Financial policy instruments providing currency liquidity

The pressure to supplement the anti-crisis policy of the central banks has intensified since the second half of 2008, also among the CIVETS countries. As a result, central banks began implementing the non-standard monetary policy instruments.

Before the global financial crisis, the Central Bank of Columbia would often postpone decisions connected with raising the inflation rate, fearing that higher inflation rates might speed up the inflow of capital and strengthen appreciation tendencies. However, participants of financial markets, taking into consideration the delayed interest rate increase, assumed that it displayed a preference towards inflation reduction, instead of preventing against the national currency getting stronger. As a result of that situation, the central bank implemented regulations limiting the increase in foreign loans and the inflow of capital in the form of portfolio investments in order to ensure the completion of the inflation goals [Vargas and Ravela 2008, s. 161]. The global financial crisis caused the increase of peso exchange rate in February 2009. Consequently, the central bank decided to introduce rules stating that in the case of peso depreciation of at least 2%, the next day the central bank would be introducing USD 400 million into the domestic market [Jara, Moreno and Tovar 2009, p. 16].

In order to regulate the exchange rate variability and maintain the level of international reserves commensurately to the size and needs of the Colombian economy, the central bank continued the policy of accumulating reserves thanks to competitive daily tenders of at least USD 20 million during the global crisis period. The program was being implemented until November 2012. Over USD 33 million was collected in the first half of 2013 and the international reserves reached above USD 43 million at the end of 2013. Such accumulation of reserves allowed maintaining ratios of foreign liquidity at levels equal to those recommended by organisations such as the International Monetary Fund (IMF), ensuring that the country would have a safe position in the case of unexpected outflows of capital.

In order to stabilise the monetary market, the Bank Indonesia implemented actions covering e.g. introduction of regulations ordering to document any purchase of foreign currency of the value exceeding USD 100,000 monthly, as well as the obligation to provide the tax identification number by residents. Markets assumed that this decision marked the beginning of introduction of exchange controls in Indonesia. Moreover, many experts claimed that such a regulation did not make sense as it did not protect the market against the risk of excessive selling of the national currency. The central bank justified this decision stating that it was aimed at limiting the excessive and unjustified purchases of foreign currency [Aglionby, 2008].

In 2008 and 2009 the State Bank of Vietnam repeatedly announced its readiness to sell foreign currency in order to appease the situation on the currency exchange market caused by the pressure to depreciate wrong. However, an unfavourable situation in currency reserves arose, as they decreased from USD 26.4 billion in March 2008 to USD 17.9 billion in November 2009 [Takagi and Thi Hoang Anh 2011]. The central bank does not regularly publish data regarding the state of reserves and the official data do not necessarily reflect their actual level. However, it should be noted that the Vietnamese authorities wanted to keep the dong weak in order to support export and weaken import and at the same time improve the current account balance [Naoc 2009].

The Central Bank of Egypt introduced auction sales at the end of December 2012 as non-standard instruments. They were to provide economy with means of payment and stabilise the Egyptian pound exchange rate at the level balancing supply and demand of the currency. The introduction of the new mechanism was preceded by the CBE directing dollars to the currency exchange market after a week of market deficiencies and increasing prices. The Forex Auction mechanism was the means of last resort introduced by the CBE in order to maintain the Egypt's dollar liquidity. The FX auctions initiated on 30 December 2012 are the newest actions of the CBE regarding the system of the controlled floating exchange rate of EGP introduced in 2003. The new system consists in introducing a certain amount of foreign currency into the market that is sold during auctions to commercial banks whose participation in the purchase of currency might not exceed USD 11 million. The Forex Auction formula is assessed to be the best way to counteract the foreign reserves crisis in Egypt. Many experts stress the fact that the FX Auction system slows the drain on foreign currency in Egypt and increases the pressure on the government to introduce reforms that will restore the trust in the country's economy [Przygoda 2013].

During the global financial crisis, the Central Bank of the Republic of Turkey took actions connected with maintaining the currency fluidity of the banking sector as an example of its financial policy instruments. For example, on 16th October 2008 auctions where foreign currency could be purchased were suspended. In October 2008, the central bank resumed its intermediary functions related to foreign exchange deposits and gradually increased the transaction limits of banks on the Foreign Exchange Deposit Market to USD 10.8 billion. Moreover, the deadline for maturity of deposits at the central bank was extended from one week to one month and the interest rate was decreased from 10% to 7% for USD and 9% for EUR. In February 2009, the deadline for maturity of such deposits was extended to 3 months and the interest rate was decreased to 5.5% for the US Dollar and 6.5% for Euro. Between March and April 2009, the

CBRT resumed currency sales auctions and purchase auctions were resumed in August [Central Bank of the Republic of Turkey, 2010, p. 2-5]. The high inflow of short-term capital into Turkey at the beginning of 2010 caused the CBRT to increase intervention purchases of foreign currency, thus taking USD 60-70 million off the market on a daily basis. It was considered to establish a foreign exchange stabilisation fund with the help of the Turkish Eximbank. The fund could establish a certain level of security for Turkish exporters against fluctuation of the TRY value in comparison to foreign currency [Today's Zaman Online, 2013]. Since November 2010, TRY depreciation against USD could be observed. The results of elections as of 12th June 2011 slightly helped the Turkish currency to strengthen in relation to USD. After that period, the Turkish lira exchange rate began to weaken again, as a result of which the CBRT made frequent interventions after taking USD 21.3 billion off the market. As of 25th July 2011 the central bank suspended any purchases of foreign currency. In order to prevent any further decrease in value of TRY, the central bank started an interventional sale of foreign currency [WPHI, 2011]. In spite of these actions, the value of lira reduced further in comparison to the value of USD. In consequence, the Turkish central bank implement 3 actions simultaneously as of 5th October 2011: it sold USD 750 million in one auction, lowered the average level of the required reserves for deposits in TRY from 13.1% to 12.5% in order to liquidate markets, as well as raise the level of reserves that banks might hold in foreign currency in relation to the level of obligations denominated in TRY 2 times (from 10% to 20%). In consequence, the CBRT level of currency reserves increased by USD 3.6 billion and the USD/TRY exchange rate that reached the record-breaking level for 1 USD – 1.9 TRY, decreased to 1.87. The Central Bank announced further vigorous actions, including multi-volume sales of foreign currency in order to prevent TRY from decreasing (in general, USD 1.35 million was for sale). The majority of economic analysts were sceptical towards the sale of foreign currency, claiming that it was only a temporary measure, when long-term resolutions were needed [Hurriyet Daily News, 2011]. The Turkish domestic financial market has been aggravating since the beginning of the corruption scandal on 17th December 2013. The approximate 11% fall in the value of lira in comparison to dollar is its most substantial symptom (it reflects the continuation of the weakening of the Turkish currency – during 9 months it lost 29% in comparison to USD). The fact that lira is weakening forced the Turkish central bank to make a direct intervention on the currency market for the first time in two years (USD 2-3 million was sold).

In case of the Republic of South Africa the central bank did not recognise the need to intervene on the domestic currency market [Bank for International Settlements, 2013, p. 383].

Conclusions

The global financial and economic crisis of 2008 has caused some important issues in monetary policy to appear. The central banks had to face the important challenges connecting with the problem of function in highly instable internal and external environments. It turned out that the monetary policy tools previously applied could be insufficient during the crisis time and the inflation preventing is not the most important problem.

Between 2008 and 2009, constant financial stability became the main goal of the implemented actions in the context of global disturbances in financial sectors. The CIVETS central banks undertook briskly activities aiming at the calming down of the inter-bank market, enhancing financing conditions and access to financing to support the whole domestic economy.

The choice and use of monetary policy instruments applied by central banks of the CIVETS in the selected period of time should be regarded as positive. The CIVETS central banks used not only the standard monetary instruments to regulate liquidity of interbank money market, but also non-standard monetary policy instruments to support liquidity of the domestic banking sectors amid the global financial crisis. The interest rate policy is a commonly known action of central financial institutions, also implemented by the central banks of the CIVETS countries. However, it consists in fast and significant decreases in the interest rate – even to historically low levels in various countries. From among certain sets of monetary policy instruments, the central banks chose tools changing the structure and the size of the balance sheet, including: currency interventions, credit policy or bank reserves policy. The pressure to supplement the anti-crisis policy of the central banks has intensified especially since the second half of 2008. As a result, the central banks of the CIVETS countries began implementing also the non-standard monetary policy instruments and supported the currency markets.

It might be stated that the actions taken by the central banks of the CIVETS countries allowed for a literally unlimited access to liquidity. The decisions taken by the central banks during the crisis time allowed not only to prevent the financial crisis from spreading but also helped the economies not to fall into recession for a longer period of time.

References

- Aglionby J.: *Rupiah Plunges After Forex Changes*, <http://www.ft.com/intl/cms/s/0/87b80cc0-b19e-11dd-b97a-0000779fd18c.html#axzz2qvcyPGey> (access: 13 November 2008).
- [Bank for International Settlements, 2010] The international banking crisis and domestic financial intermediation in emerging market economies: issues for South Africa. In: The global crisis and financial intermediation in emerging market economies. BIS Papers, Bank for International Settlements, No 54, May 2010.
- [Bank Indonesia, 2009] Annual Report. 2009 Economic Report on Indonesia. Bank Indonesia 2010.
- [Bank Indonesia, 2014] Bank Indonesia, www.bi.go.id (access: 2 September 2014).
- Bogołębska J. (2012): *Instrumenty polityki pieniężnej Europejskiego Banku Centralnego w okresie globalnego kryzysu finansowego*. Acta Universitatis Lodziensis, Folia Oeconomica 264.
- [Central Bank of Columbia, 2012] The Board of Directors' Report to the Congress Of Columbia, Central Bank of Columbia, July 2012, www.banrep.gov.co/en/node/34517.
- [Central Bank of Columbia, 2014] Central Bank of Columbia, <http://www.banrep.gov.co> (access: 11 September 2014).
- [Central Bank of Egypt, various years] Annual Report, Central Bank of Egypt, various years.
- [Central Bank of Egypt, 2014] Central Bank of Egypt, www.cbe.org.eg (access: 3 September 2014).
- [Central Bank of the Republic of Turkey, 2010] Monetary policy exit strategy, Central Bank of the Republic of Turkey, Ankara 2010.
- [Central Bank of the Republic of Turkey, 2014] Central Bank of the Republic of Turkey, www.tcmb.gov.tr (access: 9 September 2014).
- Centrum Studiów Polska-Azja, *Bank Indonezja obcina stopy procentowe*, <http://www.polska-azja.pl/2009/02/07/bank-indonezja-obcina-stopy-procentowe/> (access: 12 sierpnia 2014).
- Duc Phu H.: *Money Market in Vietnam*, <https://sites.google.com/site/hoangcounsel/vietnam-overview/credit-institution-and-finance/moneymarketinvietnam> (access: 21 May 2013).
- [Hurriyet, 2011] Hurriyet Daily News, 6 and 7.10.2011
- Jara A., Moreno R., Tovar C. (2009): *The Global Crisis and Latin America, Financial Impact and Policy Responses*. "BIS Quarterly Review", June.
- Naoc Q.P. (2009): *Impact of the Global Financial and Economic Crisis on Viet Nam. A Rapid Assessment*. Paper prepared for the ILO's Rapid Assessment Study of the Impact of the Financial and Economic Crisis. Hanoi.
- Przybylska-Kapuścińska W. (2012): *Problemy polityki pieniężnej banków centralnych w okresie kryzysu*. „Ekonomia i Prawo”, vol. X, nr 3.
- Przygoda T.: *Centralny Bank Egiptu /CBE/ i funt egipski /EGP/ w warunkach kryzysu rezerw zagranicznych*, WPHI – Kair, <https://cairo.trade.gov.pl/pl/download/file/f,20266> (access: styczeń 2013 r.).
- Pyka I. (2012): *Konsekwencje polityki monetarnej EBC na rynkach finansowych z perspektywy „exit strategy”*. In: K. Opolski, J. Górski (ed.): *Perspektywy integracji ekonomicznej i walutowej w gospodarce światowej. Dokąd zmierza strefa euro?* Wydział Nauk Ekonomicznych Uniwersytetu Warszawskiego, Warszawa.
- [South African Reserve Bank, 2009] Annual Report 2008/2009, South African Reserve Bank, 31 March 2009.

- [South African Reserve Bank, 2014] South African Reserve Bank, www.resbank.co.za (10 September 2014).
- [State Bank of Vietnam, 2014] State Bank of Vietnam, www.seacen.org (access: 3 September 2014).
- Takagi S., Thi Hoang Anh P.: *Responding to the Global Financial Crisis: Vietnamese Exchange Rate Policy, 2008-2009*. "Journal of Asian Economics", 22, p. 507-517.
- Today's Zaman Online, www.todayszaman.com (25 March 2011).
- Today's Zaman Online, www.todayszaman.com (22 January 2013)
- Today's Zaman Online, www.todayszaman.com (18, 21, 23 September 2013)
- Vargas H., Ravela C. (2008): *Capital Flow and Financial Asset in Colombia: Recent Behaviour, Consequences and Challenges for the Central Bank*. In: Financial Globalization and Emerging Market Capital Flow, BIS Paper 2008, No 44.
- [Vietnamese Banks, 2009] Vietnamese Banks. Focus on Asset Quality: Three Stress Scenarios, Vietnam Special Report. Fitch Ratings, 25 February 2009.
- [WPHI, 2011] Biuletyn Informacyjny WPHI Ankara 10/2011, p. 8, za EDI Fortnightly 28.09.2011.
- Wróbel Ł.: *W Wietnamie stopy procentowe w górę*, <http://biznes.pl/wiadomosci/swiat/w-wietnamie-stopy-procentowe-w-gore,1586630,news-detal.html> (access: 25 November 2009).