The Relationship Between Central Bank Activities and Price Stability: Case Study on Central Bank of Turkey

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Abstract

Central Banks aim to attain and maintain price stability, through facilitating a wide range of instruments freely, which is called Central Bank independence, with the principle of accountability. In this study, we try to ascertain the relationship between Central Bank actions and the price stability, so called the inflation rate. However, in the literature, there is only one objective scale to be found to evaluate Central Banking success, namely Central Bank Financial Strength. Central Bank Financial Strength and all balance sheet components, scrutinized to show the relationship between them, studying on the Central Bank of the Republic of Turkey, which is supposed to be one of most successful Central Banks through the financial crisis 2008 and 2011. The outcome shows that CBFS has no correlation between price stability, moreover there isn’t any meaningful relationship between any other metric from balance sheet and the inflation rate.

Keywords: Central Bank, Balance Sheet, Inflation.

Contribution of study

Central Bank activities, materialized in balance sheet of Central Bank of Turkey, has no direct effect on inflation.