MONETARY POLICY RESPONSES TO THE GLOBAL FINANCIAL CRISIS: WHAT DID EMERGING ECONOMIES DO DIFFERENTLY?

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ABSTRACT

In comparison to the past, the 2010-2018 global financial crisis has given many developing countries the legitimacy and capabilities to adopt countercyclical policies. It made them better confront the global downturn and thereby comply with the developing countries. This paper documents policy responses and explores additional factors that allow these countries to withstand negative external shocks partially. The following characteristics include: i) monetary and exchange policy, (ii) fiscal policy and (iii) internal and external financial positions. This Paper analyses the economic situation at home and around the world, evaluates inflationary trends and their viewpoints, and examines the reasons for monetary policy decisions in a straightforward manner. At the international level, in part due to lower oil prices and moderation of economic growth, inflation moderated during the first quarter of the year, in some of the world's leading economies. There is still inflation in advanced economies, which helps them to delay their monetary policy mechanism for a while. The implementation of the monetary policy therefore refers to the selection of the inflation target for medium-term reasons and is consolidated by the effectiveness of a flexible rate regime; using financial control tools of indirect value (MSO) and using indicative variables which favor the decision of the market as well as by reinforcing the monetary policy. In contrast to the past, many emerging countries faced the 2008-2009 global financial crisis with the credibility and capacity required to conduct countercyclical policies. This allowed them to better cope with the decline and thus behave in a similar way to developed countries.

Keywords: Economic Growth, Financial Crisis, Cyclical Policies, Monetary Policies.

INTRODUCTION

The Iraq's economy faces a crucial macroeconomic scenario with very high inflationary records coexisting with an extreme and ongoing recession process, leading to substantial unemployment, precariousness and poverty. On the other hand, the currency shortage has created a noticeable weakness for its external market, which in the past has seriously affected its overall output as has happened in others (Monal, 2011). In the middle of the last decade the new manifestation of external restriction was created with the decline in international commodity prices, the shortcomings of our own industry and technological policies and the recession that began to show global business and trade. In addition, the decrease in access to voluntary loans and a revived domestic capital flight were added to these constraints in trade currency flows, as the vulnerability of an unsustainable external debt process was unfolded (Ahmed at al., 2020). This same path has followed the rate of inflation, with the diagnostic and policy errors tending to underestimate the difficulties in leading to a sustainable decrease in an inflationary mechanism based on systemic and apparent inertial elements, after an important increase in inflation over the same time in previous government years. This misunderstanding meant that the issue would be overcome by using monetary instruments exclusively. At the same time, the theory that the currency

market has been completely deregulated and the financial opening has been described as being uncontextual without the abundance of external funding. The reduction of national and provincial taxes led finally to a partial economic vision and an unnecessarily "offensive" conception, degrading the fiscal image. This led to a serious balance of payments crisis, heavy domestic currency depreciation and the consequent recession deepening, as well as an increased inflation, and a mixture of inconsistent politics (monetary / finance / fiscal) (Ammr, 2018) which has a strong economic and social effect (Ahmed & Safaa, 2020). At the end of its term, a range of steps were late ordered by the previous national government to limit access to the exchange market, critical for alleviating the crisis and worsening the balance of payments; local debt maturities were repressed compulsively; while the fiscal deficit (that can be finance from foreign debt no longer) was protected by the monetary debt. In this context, the new Government has taken a series of social, output, regulatory and fiscal consolidation steps aimed at resolving and stabilizing macroeconomic crisis in the nearest possible timeframe [2] and, thus, to redefine political objectives with the goal of laying the foundations for an economic growth process that is sustainable. These steps are distilled into the Law of SSRP, which provides for requirements for the stabilization of fiscal and public debt, with a solidary approach in the implementation of progressive taxation schemes (Ahmed & Safaa, 2020). It is also aimed at promoting economic growth, improving the wages of the most distressed industries so as to recompose their level of consumption and relieve the fiscal debts of SMEs (Ammr, 2018). In addition, the government introduces active income policies, including price agreements through a care pricing policy, and retaining tariffs for up to 180 days, as long as the current renegotiation process is done, under the Iraqi Development and Solidarity Pledge recently signed by members of businesses, unions and social organizations. Similarly, the national Food and Nutrition Protection Policy has introduced various steps to minimize the situation for the most disadvantaged social sectors through a set rise in social income and benefits (Ammr, 2018; Marian et al., 2010; Silvia, 2012; Ali et al., 2013; Barik et al., 2021; Zhang et al., 2021; Hamad et al., 2021; Khalaf et al., 2020; Thivagar et al., 2020; Antony et al., 2020).

The article is organized as follows: After this introduction, the paper briefly discusses some mainstream and heterodox perspectives on the possibility of anticipating monetary policy in crisis episodes and the reaction to the crisis, in addition to the issue of lags. In the next section, the quantitative and qualitative results, found from reading the minutes of the monetary policy committees, are presented and discussed. The last section concludes the work.

The Contagion Effect of the Global Crisis on Emerging Countries

In the first half of 2008, the financial crisis that began in mid-2007 at the center of the system, the United States (specifically, in the subprime mortgage market), began to spread to some emerging countries, but only in mid-September, when it became a systemic phenomenon (after the bankruptcy of the Lehman Brothers investment bank), its practically widespread overflowing was observed for these countries, whose companies and banks had no connection with the bonds linked to those mortgages.

The contagion effect of the crisis on emerging regions occurred through several transmission channels - which stem from the multiple interdependence relationships between emerging and advanced economies -, involving either the current account (falling commodity prices and world demand and increasing profit remittances by companies and banks), or the financial account (lower inflow of direct investment, outflow of portfolio investments, interruption of commercial credit lines and strong contraction of bank loans). Thus, the "detachment" hypothesis defended by several analysts - according to which the emerging Asian and Latin American countries, with favorable external and fiscal situation, high foreign exchange reserves and inflation under control, would be able to sustain their economic dynamism after the outbreak of the crisis.

Supporters of this hypothesis disregarded not only the existence of these multiple relationships, but also the hierarchical and asymmetric nature of the International Monetary and Financial System (IMFS). The adverse developments of the SMFI asymmetries summarized above were evident in the most acute moment of the crisis - specifically, from 09/15/2008 to the end of 2008 -, when the flight towards quality had much more destabilizing effects on the markets of emerging countries. Considering a large sample of advanced and emerging economies, in the last quarter of 2008, while emerging currencies depreciated, on average, 9.9% against the dollar, the currencies of advanced countries appreciated 12.7%, also against the dollar. At that time, not even emerging economies with sound macroeconomic fundamentals were unscathed by the contagion effect of the crisis (Foote et al., 2004).

Finally, it is worth mentioning that, if, at the height of the crisis, the contagion effect of the crisis affected all emerging currencies in an almost indiscriminate way, regardless of the so-called fundamentals (according to their common denominator, their subordinate position in the SMFI), throughout 2009, the situation of current transactions and public accounts and the proportion of foreign or domestic indebtedness in foreign currency affected not only the trajectories of exchange rates, but also the radius of maneuver and the effectiveness of countercyclical macroeconomic policies.

Qualitative Analysis of the Colom Minutes

Copom's discussion of the analysis of the situation must be qualified by the fact that the crisis started in the USA. Given the asymmetry of countries in the hierarchy of the world economy, the domestic dynamics are important for the Central Bank, but not so important for the global dynamics. Even so, it is important to see how the institution analyzed developments in the external scenario during the period, since the exchange rate and capital flows are considered by Copom in its policy decision. Throughout 2004, the agency saw the external economic environment as favorable. In the minutes of the 94th meeting, in March, Copom evaluated the external scenario as positive, with prospects for growth and high international liquidity. On US monetary policy, the committee showed at the last meeting in 2004 that it did not expect an abrupt increase in interest rates in the USA, only gradual increases, which in fact occurred, as usual. During 2005, the Copom assumed that high international liquidity and stability in the markets were conditioned by the US macroeconomic framework and the Fed's responses to it. In this sense, the Copom continued to attribute a low probability of changes in US monetary policy that would create turbulence in the financial markets. At the 112th meeting in September, the committee cited a possible reversal in property prices in the United States as a risk to continued global growth, along with the price of oil. But it does not discuss how this reading affected monetary policy decisions. What actually happened, as usual. During 2005, the Copom assumed that high international liquidity and stability in the markets were conditioned by the US macroeconomic framework and the Fed's responses to it. In this sense, the Copom continued to attribute a low probability of changes in US monetary policy that would create turbulence in the financial markets. At the 112th meeting in September, the committee cited a possible reversal in property prices in the United States as a risk to continued global growth, along with the price of oil. But it does not discuss how this reading affected monetary policy decisions. What actually happened, as usual. During 2005, the Copom assumed that high international liquidity and stability in the markets were conditioned by the US macroeconomic framework and the Fed's responses to it. In this sense, the Copom continued to attribute a low probability of changes in US monetary policy that would create turbulence in the financial markets. At the 112th meeting in September, the committee cited a possible reversal in property prices in the United States as a risk to continued global growth, along with the price of oil. But it does not discuss how this reading affected monetary policy decisions. Copom assumed that high international liquidity and stability in markets were

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Global growth receded significantly last year, reaching its lowest level after the crisis, with major indicators such as industrial production and trade retreating in parallel. Growth is expected to pick up in 2020, partly due to continued monetary support. But the recovery will depend on the recovery of a few emerging market and developing economies, most of which are beginning to recover from deep recessions or severe slowdowns. However, the growth rate in emerging market and developing economies will not be sufficient to achieve significant progress in poverty reduction.

1) The lowest post-crisis growth level in 2019: By most criteria, 2019 was the worst year for the global economy since the global financial crisis in Global scenario
2) A slight recovery in 2020: The global growth rate is expected to recover to 2.5% in 2020, with growth in advanced economies declining to 1.4% and growth in emerging market and developing economies recovering to 4.1%. Aggregate growth rates are calculated using weights of GDP in 2010 dollar prices and market exchange rates. Shaded area indicates
3) An evolving landscape of macroeconomic policy: In the face of weak economic activity, macroeconomic policies adopted a more stimulus-focused approach last year. Although monetary policy is expected to remain accommodative, support provided through fiscal measures is expected to decline this year. The Bank for International Settlements, the Consensus Economics Foundation for Macroeconomic Surveys, the International Monetary Fund, and the World Bank. Note: Gross growth rates are calculated using weights of nominal GDP in US dollar terms. Fiscal incentives through fiscal measures are the negative change in the basic balance of public finance that is adjusted according to the fluctuations of the economic cycle. Base interest rates are the change from December to December. The sample includes 35 advanced economies and 77 emerging market and developing economies for fiscal stimulus, 16 advanced economies and 21 emerging market and developing economies for basic interest rates. Base interest rates for 2020 are based on the Consensus Forecasts December 2019 report of central bank interest rates. When not available, the change in short-term returns is used
4) A fragile recovery in emerging market and developing economies: The recovery will not be based on a broad base. But it will be mostly due to the recovery of a small number of large economies in the emerging market and developing countries group that are recovering from a deep recession or a sharp slowdown. The main drivers of recovery include the eight largest countries in the emerging market and developing economies group, which contribute 90% of the increase in the growth rate in this group between 2019 and 2020 (namely, Argentina, Brazil, India, Iran, Mexico, the Russian Federation, Saudi Arabia and Turkey). Aggregate growth rates are calculated using weights of GDP in 2010 dollar prices and market exchange rates. The shaded area indicates forecasts, while the green lines indicate simple averages 2000-2019.

5) Average per capita growth is not sufficient to reduce poverty: Average per capita growth was not sufficient to achieve poverty alleviation goals in sub-Saharan Africa, the region where most low-income countries are concentrated and most of the world's poor live.

DISCUSSION

Monetary Policy and Inflation

International inflation decreased, broadly speaking, as oil goods rates decreased in the first quarter of 2019. In the advanced economies, the deceleration which began in late 2018 was lower than the targets of their respective central banks, mainly connected with lower fuel prices. The decline in the international price of oil and its derivatives as well as the poor domestic demand in some of these economies affected lower inflation in emerging and developed markets economies (Monal, 2011).

In the USA, inflation was below the 2.0 percent medium-term target of the Federal Reserve (FED). In March, inflation was 1.86 per cent, mainly ascribed to lower energy products rates. In this relation, the FED has indicated that it will maintain a cautious approach to future interest rate adjustments for federal funds in line with economic outlook changes and risk. At meetings at the end of January and March the FED agreed to retain, as expected by the market, the target rate of federal funding range between 2.25% and 2.5%; as well, market expectations indicate that the federal fund rate is likely to continue to be retained or to decrease, including the use, for the remainder of the year. The Fed also announced during its March meeting that, as long as the economic and monetary conditions are changing in accordance with its expectations, the Fed will continue to reduce its balance sheet, which started in October 2017; in this context, it will adjust the cut-off plan as follows: the monthly cap on repayment of its shares in t by May A monthly 0 billion. At about US $ 497.7 billion in March 2019 compared to September 2017, the balance sheet had fallen.

In February, inflation was 1.49 percent at the Eurozone because of the European Central Bank's target value (2.0 percent), mostly as a result of the lower price of the energy item. According to the ECB, over the rest of the year inflation is going to continue to decline, especially in response to the prospects for a short-term moderation of economic growth. With that in mind, during its meetings held in January and March the Governing Council, the ECB, retained at 0.00%, did not make changes to the monetary policy interest rate, and confirmed that its current status will be continued for the rest of the year, so that inflation is consistently converged to levels close to its 2.0% goal. With regard to non-conventional monetary-policy initiatives, the Monthly Asset Buying Program ended in December 2018 in line with the plan of the central bench, and agreed, in a longer period after the date of the increase in monetary-policy interest rates and, in any case, for the time required to m, to re-invest securities acquired. In addition, it announced, in March, a new quarterly long-term funding operation, to be carried out over two years from September 2019 to March 2021. By 28 February 2019, businesses are allowed to receive funding up to 30,0% of machine loan amounts.

In the UK inflation in early months of the year was close to the target (2.0%) and in February was 1.90%. This is largely the product of low oil derivatives prices. In this setting, in order to meet domestic inflation pressure, the Bank of England expects that inflation will remain lower than 2.0% in 2019 and will be above that 2.020. For that reason, at its meetings in February and March the Monetary Policy Committee agreed to keep the interest rate on monetary policy at 0,75%, as well as the acquisition of corporate bonds in international reserve of up to 10,0 billion pounds and of British government bonds at 435,0 billion pounds. Furthermore, he noted that the conduct of monetary policy would largely depend on the economic outlook which is determined by the nature and timing, particularly in relation to the new trade conditions between the Union and the United Kingdom, of the materialization of Brexit.

In Japan, inflation decreased to 0.20% in February 2018, by 2.0%, below the target of the Bank of Japan as early as November 2018. (BOJ). This behavior has been related to moderation in domestic price levels of energy even though there have been inflationary pressures in the food sector. In this context, in its January and March meetings the BOJ Policy Committee stated that inflation could gradually increase to 2,0% mainly because of the continuing positive production gap and medium and long-term inflation expectations, thereby excluding possibility of starting the process of the normalization of their monetary policy in the pipeline.

In the major Latin American economies operated under the explicit goal of inflation, inflation rhythm so far this year has moderated, mainly as a result of the loss of some supply pressures, because some of the economies still have pressure on demand which allowed a number of central banks to continue their monetary policy;

As far as the central banks of the region's monetary policy rates are concerned, only the central bank of Honduras raised its interest rate by 25 base points at its January meeting by 5.75%, in view of internal shocks that would trigger inflationary pressures. For their part, during the first three months of the year, the central banks in Guatemala, Costa Rica and the Dominican Republic retained their reference levels (2.75 percent, 5.25 percent and 5.50 percent respectively).

Because the policy's position is adaptive, the impact of monetary policy on aggregate demand was adequate due to the fact that overall inflation below the target had been preferred. This explains why, between September 2015 and October 2017, the monetary authority decided to retain a leading rate for monetary policy by 3.00 per cent and subsequently decrease it by 25 basic points in November 2017 and preserve this rate for the leading monetary policy rating decisions taken in 2018 and so far, at that stage, in the Monetary Board meetings. It is necessary to note that liquidity surpluses were partly offset by rises in Central Government deposits and reserve requirements at the Banco de Guatemala. The circulating medium (M1) and the means of payment (M2) must, as expected, consistently increase demand in the explicit inflation targeting scheme; that is, unlike previous monetary aggregates, the growth of the aforementioned monetary aggregates has to be endogenous in monetary policy.

Transformation of the New Keynesian Approach: A New Consensus

New Keynesian theorists admit that the shocks that cause economic fluctuations are supply and demand biased. However, what matters to these economists is not the problems that increase the effects of shocks, but how the economy will respond to these shocks. Because the adjustment process is very slow in market economies, particularly during major shocks with lasting effects, New Keynesian analysis supports political intervention with some form of restricted discretion.

Cukierman (2012) showed in their models that monetary policy has effects on real variables due to nominal price rigidity in the short run. To this end, while a short-term positive relationship is established between production and inflation, the negative relationship between exante interest rates and production has been revealed. It was emphasized that the monetary policy implemented within this framework was more pro-active after 1980. On the other hand, New Keynesian theorists basing their analysis on microeconomic foundations caused them to get closer to their opponents, the New Classical Economics.

This consensus, which aims at explaining cyclical fluctuations and creating optimal policies, has been called the New Neo-Classical Synthesis. Post-Keynesian Economics, which is its criticism of this synthesis and its alternative policy suggestions, expressed the approach as “New Consensus”.

According to Cukierman (2012), this analysis; the need for macroeconomic models that take into account intertemporal optimization and the inclusion of costly price adjustment in these macroeconomic models consists of basic elements such as the widespread use of the

Rational Expectations Hypothesis and the importance of imperfect competition. In the model, no role is given to the money supply. Because the New Consensus accepts money internally at this point, partially getting closer to Post-Keynesian Economics. However, it objects to the view that aggregate demand existing in the Post-Keynesian approach can also be used as a policy tool in the long run.

Within the framework of the New Accord, the optimal policy is to stabilize price stability around the target inflation rate and production stability around the potential output level. The new target found, according to Trifonova (2012), is the equilibrium real interest rate that can keep the economy at the potential output level. Because the money supply is determined by the money demand, and the causality relationship between money and the general level of prices is reversed. Within the framework of the New Accord, the transmission channel of monetary policy is from interest rates to expenditures. By changing interest rates, the central bank affects both interest-sensitive expenditures directly and the total demand indirectly through portfolio effect. However, public finance must be disciplined in order for this process to take place. Because a loose public finance causes inflationary pressures by stimulating total demand (Andryushin, 2008).

According to the new synthesis, monetary policies should be implemented in a proactive and preventive manner, as delays in monetary policy implementation reduce policy effectiveness. When inflationary or deflationary symptoms emerge, monetary policy should be intervened. The interest rate, which is used as a monetary policy tool, is adjusted in response to the deviations of inflation and production from their target values. Thus, monetary policy reacts systematically to economic developments and becomes internalized. The flexibility of this strategy stems from its ability to provide balancing responses to short-term macroeconomic developments. According to Trifonova (2012), inflation targeting is a policy that has additional objectives such as output stability in terms of monetary policy and allows less volatility in macro variables instead of inflation. Inflation targeting enables monetary authorities to focus on domestic conditions and react to shocks, thus granting independence in managing monetary policy.

Post-Shock Monetary Policy

Fluctuations in the economy, defined as shock, generally depend on changes in aggregate supply and aggregate demand. Economists call the external events that cause these curves to shift as the shocks faced by the economy. These shocks drive the economy into volatility by pushing output and employment levels beyond their natural levels. In the next stage, how the economy reacts to shocks becomes important.

In the expansion period of the conjuncture, while the level of production and employment increases with the increase in demand, investments also increase due to the confidence in the markets. As inflation has risen in the last period of the enlargement, anti-inflationary policies are implemented. Thus, the period of decline in economic activity, that is, the period of recession or stagnation begins. In this period, firms reduce their investments as they anticipate the approaching recession. The recession in the economy intensifies and the crisis environment becomes evident. Since the risk of non-repayment of loans taken by company's increases in this period, banks are reluctant to lend by raising loan rates. The crisis period is a period of decline in economic activities for a long time (Nastase et al., 2010; Silvia, 2012; Ali et al., 2013; Barik et al., 2021).

In Keynesian literature, it is seen that entrepreneurs slow down their investment activities as the main reason for demand shocks. In order for the economy to reach its long-term equilibrium and hence recover from post-shock recession, monetary and especially fiscal policies are assigned important tasks. In this process, while fiscal policy was brought to the fore in the old Keynesian interpretations, monetary policy became more important with the New Keynesian Economics. Although the new Keynesians do not completely ignore the aggregate supply shocks, they see aggregate demand shocks as the main reason for the

business cycle movements. In the neo-Keynesian perspective, since economic decision-making units look after their own interests, it is not possible to achieve the supply-demand balance automatically. Therefore, instability occurs in the economy and intervention is required in the economy (Barik et al., 2021; Zhang et al., 2021).

Monetary Policy against Fluctuations in Asset Prices

The traditional approach to discussing the interaction between asset prices and monetary policy and the need to use monetary policy in line with financial stability is clear: Price stability provides the necessary and sufficient conditions for financial stability. Nastase (2010) argues that central banks should not interfere with the bubbles in asset prices, and it is not possible for central banks to detect these bubbles. While emphasizing that there is no systematic relationship between the changes in asset prices and monetary policy, he claims that monetary policy cannot have an active effect on financial markets. Since financial fluctuations are negatively reflected in the economy due to balance sheet disorders, it is sufficient to implement policies to correct structural disorders.

In another study, Matar et al., (2013) state that fluctuations in asset prices will disrupt the balance sheets of economic units through the balance sheet, in this case financial institutions that want to maintain capital adequacy will limit loans and finally turn financial assets into liquidity in order to reduce the credit risk on their balance sheets. Abdulzahra et al., (2020) emphasized in their study that the central bank should use not only the consumer price index but also asset prices when implementing the monetary policy. Matar et al., (2013) made on asset price volatility and states that asset prices may play an early warning role for inflation.

Reflections of the Last Global Crisis on Monetary Policy

Asset prices and financial stability, which gradually increased their importance in the economy during the 2000s, became the main item of the economic agenda with the financial crisis experienced worldwide in 2008.

The widespread use of capital movements, the abolition of regulations in financial markets and the adoption of a floating exchange rate reduce the power of national central banks. These fluctuations reduce the effectiveness of monetary policies implemented by central banks. Because while the independence of central banks has been increased with the institutional regulations in the face of the increasing pressure of financial developments, the same regulations have not been reflected in policy efficiency. According Hasan et al (2020), fluctuations arising from monetary and financial factors limit the monetary policy effectiveness of central banks, as policies developed under certain conditions lose their effectiveness when conditions change.

Criticism of Inflation Targeting During the Global Crisis

In 2007, illustrating the effect of the US economy and a global phenomenon in 2008 during the international financial crisis, many countries which Turkey is included, also called the New Consensus approach was to implement the New Keynesian-based inflation targeting strategy. However, the framework of the monetary policy carried out with the financial crisis has started to be questioned, and this questioning process has subsequently brought criticisms of inflation targeting.

The fact that inflation targeting, which is defined as demand-side monetary policies and thinks that price instabilities are largely due to demand, adheres to inflation rates and output gap measured only by the consumer price index in determining interest rates has received great criticism during the global crisis. The narrow nature of inflation targeting in the economic order of the 2000s with complex financial features led to the ignoring of asset

prices while creating monetary policy. The excess liquidity, which occurred due to the loose monetary policies followed in the period of 2002-2006, (Antony et al., 2020; Thivagar et al., 2019; Wong et al,. 2021; Al-Ghamdi, 2021; Tripathi, 2021; Sahin et al., 2021) when the world economy was in an upward trend, increased asset prices and caused instability in financial markets (IMF, 2009). Therefore, not only inflation rates should be chosen as an indicator within the framework of monetary policy, financial indicators should also be taken into consideration and the controls in financial markets should be increased.

One of the reasons why central banks lost their policy effectiveness during the global crisis is that instruments such as central banks' ease of liquidity are suitable for dealing with problems arising from the banking sector, but they are helpless against financial markets. In the same period, central banks, which adopted inflation targeting a rate for the benchmark interest rate, introduced liquidity to the market as a monetary policy response to the crisis. However, according to Hasan et al., (2020), in an environment where a positive value for interest rates is determined, it is not possible for this monetary policy response to get economies out of recession. Because the central bank's provision of liquidity to the markets increased the reserves of the banks, surplus reserves flowed into the interbank market, thereby dropping borrowing interest rates and creating a downward pressure on the central bank's benchmark interest rates. Trying to maintain the interest rate determined, the central bank had to withdraw the liquidity it had put on the market.

One of the most important requirements of the inflation targeting strategy is the independence of the central bank. On the other hand, it does not seem possible for the central bank to act independently in today's economic conditions due to the complex financial relations brought about by rapid globalization and the role interest rates play in this process. Hasan et al., (2020) makes a similar emphasis in his study and states that it is not easy for central banks to carry out independent monetary policies due to the point where financial markets have come. On the other hand, according to Hasan et al., (2020), the fact that consumer goods are mostly included in price indexes and financial assets such as real estate and stocks are neglected, damaging the reliability of inflation targeting. Because changes in asset prices are not reflected in inflation. Thus, central banks that focus on inflation cannot foresee the cyclical fluctuations caused by changes in asset prices and the crisis that this may cause.

Reflections of the Developments in Asset Prices on Monetary Policy

Financial instability causes disruptions in the transmission mechanism of monetary policy, thus reducing the effectiveness of monetary policy and the policy interest rate loses its instrument quality. For this, there is a need for a separate instrument set targeting financial stability and a financial stability policy. If short-term interest rates are used against financial instability caused by fluctuations in asset prices, there is a risk of deviation from the inflation target. However, as asset prices directly affect financial stability, they cause various restrictions on monetary policy. It is stated that in an environment where financial stability cannot be achieved, the price stability target will not be successful and financial stability also supports economic growth indirectly.

Hussein, et al., (2017) emphasized that speculative inflation in both financial assets and real estate prices and the price collapses that may occur afterwards may disrupt financial stability and thus price stability, while the crisis has not yet occurred. Because it is clear that there are financial risks that can be created by speculative increases in asset prices. In this context, although the demand for money is unstable, there has been a tendency in central banks to closely monitor the developments in money supply and to use interest rate increases to prevent the increase in asset prices when necessary.

On the other hand, the existence of unlimited capital movements in a financial structure dominated by the developments in asset prices makes flexible exchange rate implementation inevitable for central banks that want to have control over monetary policy.

However, this mandatory choice causes serious problems especially in the economies of developing countries due to exchange rate fluctuations. The rapid development of financial markets, increasing exchange rate volatility, may hurt economies through foreign trade shocks. Sudden increases in exchange rates can increase the value of liabilities and distort the balance of payments. The structural transformation in financial markets has weakened the link between monetary policy and the real economy.

New Monetary Policy after the Global Crisis

The first focus of the post-global financial crisis debate was on current monetary policy, while the second focus was on how monetary policy should be conducted during and after the crisis. Çiçek & Alçın (2010) found that inflation targeting, which is the current monetary policy practice, did not play a role in the emergence of the crisis, but it was extremely effective on the deepening of the crisis. In this context, it is necessary to discuss two prominent suggestions in the monetary policy literature after the global financial crisis.

Monetary policy stance and inflation risk balance

Projections and inflation expectations indicate that inflationary rhythm will remain within the tolerance margin for a monetary policy interest rate-level target set by the Monetary Board (4%+/- 1%) in the subsequent time horizon. In addition to such threats to the inflation trajectory that can influence their forecasts and expectations and consequently may have consequences for policy decisions, however, the uncertainty inherent in any forecasting phase must be considered. Monetary, consistent with the monetary authority's determination to preserve equilibrium at a general price level and the basic functioning of the Central Bank.

In this context, certain external and internal factors derived from the current economic situation were taken into account. In the monetary policy horizon, the materializing of these factors would deviate from the projected inflation course, both upwards and downwards.

On the one hand, the upside risks include I the external stimulus could prove more robust, provided that the growth of world economic activity continues to be robust, boosting world demand and placing pressure on Guatemala's inflationary foreign commodity prices, while promoting increased demand (Thivagar et al., 2020).

The Central Bank is of the opinion that it should provide extra-ordinary support both for the financial sector, if debt-payment is required and under the prudent limitations which respect the equilibrium on the money market, for local monetary financing, both in the event of the mentioned economic and social emergency and in the critical sense of access to the external voluntary loan market.

Likewise, the executive branch has found it necessary to delay the national budget for the year in light of the fact that the Government is bound to restore the sustainability of public debt. In such cases, a monetary policy approach cannot be adopted where clear targets for expanding aggregates and inflation are defined before certain concepts can be advanced.

Level of interest. With inertial parts in the current inflationary mechanism and the low depth of the local loan market, it proved futile and finally counterproductive to try and minimize inflation solely by asking for the applicability of too high real interest rates. The goal of this initiative is to reduce inflation gradually but sustainably, based on a cautious monetary policy approach consistent and coordinated with the rest of the National Government's economic and income policy. It is predicted that, in this context, the deceleration will be substantially lower than in 2019 as a result of monetary, exchange-rate and fiscal policy competition, market agreements and short- and long-term strategy coordination across various institutional sectors (Thivagar, 2020). Monetary policy should encourage cautious monetary aggregate growth, preventing imbalances affecting the inflation mechanism, directly or indirectly.. Furthermore, foreign exchange policy would favor the protective accumulation of international reserves dependent on the legitimate entry into the external sector of foreign currency. Internal credit brokering is still at very low relative levels, and needs to be extended in a strategic context that addresses not only the short, but also the

medium- and long-term needs of households and development. The policies implemented so far will allow a new macroeconomic structure to be defined, which is focused on internal market recovery and export growth. This will induce investment and productivity increases to be coupled with transformation by growing demand and employment. Output needed to ensure consistency over time.

In this process, tools such as the ratio of loan to value in order to manage the total risk over time, direct control for loans given to certain sectors, taking anti-cyclical measures and preparing buffer capital during loan expansion to be used when necessary came to the fore. In order to manage the total risk at every point of time, limitations on the requirement of loan / deposit ratio, liquidity requirement, taxation of capital for systemically important banks and cash mismatch were used as tools (Hussein et al., 2017). The policy interest rate is mostly used when there is a deviation in the inflation target and fluctuations in production. Therefore, according to the macro-prudential policy, a division of labor is made between the regulatory instruments and the policy interest rate (Abdulzahra et al., 2020).

With the global financial crisis in 2008, it was once again understood how important the real economy, which is closely related to financial markets and today's economic conditions, is in macroeconomic terms. Because, the financial crisis that took place in an environment where price stability was relatively attained on a global scale revealed that price stability alone is not sufficient for macroeconomic stability.

Before the global crisis, the view that the strategy that increased the effectiveness of monetary policy in open economies where capital movements were free was an inflation targeting strategy that incorporated a flexible exchange rate regime could eliminate shocks and reduce the distortions in macro variables. Since it was considered sufficient for a central bank focusing only on price stability to estimate the net effect of the change in policy rate on inflation, it was not necessary to affect the credit and exchange rate channels separately. Because until the mid-2000s, which channel was used for central banks and how these channels affect macro financial risks were not of primary importance.

As a matter of fact, developments in the non-bank financial sector both prepared the process leading to the global financial crisis and rendered the traditional monetary policies implemented by the central banks ineffective to exit the crisis. While these developments caused central banks to move out of the traditional framework, they also showed that monetary policies alone are not sufficient for macroeconomic stability and fiscal policies should also be actively implemented. It has been argued that central banks and the policy rate alone will not be sufficient to ensure financial stability together with price stability, thus macro prudential policy has been included in the monetary policy set. The increasing frequency of financial crises after the 1990s and the 2008 financial crisis have made it necessary to take these steps in terms of monetary policy applications (Thivagar et al., 2020).

Therefore, variables related to the financial and real sector should be included in the implementation process of monetary policy and existing models should be rearranged accordingly. Because central banks, which carry out inflation-oriented monetary policies, cannot foresee the conjuncture wave and thus the crisis that will be caused by the fluctuations in asset prices. However, although the framework presented by traditional monetary policy is easy to criticize, it seems difficult in the short term to formulate a new monetary policy set. In terms of monetary policy, diversification of the purpose, intermediate purpose and instrument framework may cause central banks to experience credibility and governance problems and to emerge policy contradictions. At this point, it is inevitable for central banks to cooperate with other supervisory and regulatory institutions in order to combat crises. Therefore, it is necessary to implement the macroeconomic policy framework in a three-pronged structure, namely monetary policy, fiscal policy and financial policy.

Flexible inflation targeting, which is correctly applied and uses all information about financial conditions, has gained importance as the most effective monetary policy strategy that can be applied before, during and after the crisis in the literature. Because financial instability causes disruptions in the transmission mechanism of monetary policy, thus the

effectiveness of monetary policy decreases and policy interest loses its instrument quality. Accordingly, it is recommended that the inflation targeting strategy be flexible in a way that also considers financial stability; it focuses on how the interest response equation will change when a financial variable is added to the traditional inflation targeting model and the use of more than one monetary policy tool (Thivagar et al., 2020).

However, in the face of economic crises, monetary policy can react unexpectedly and therefore there is no single truth that can be defended within the framework of monetary policy. The monetary policy framework may change according to the macroeconomic conditions of the countries and their positions in the international economy. In this context, the New Keynesian monetary policy framework in developing countries at the desired location to open outside the small country such as Turkey and can give the expected results. Because in economics, some assumptions are very strongly embedded in thoughts, and it often goes unnoticed that they are just assumptions.

CONCLUSION

There are thus forecasts of economic growth for 2019 between 3.0 percent and 3.8 percent and inflation of approximately the key value of the target (4.0 percent +/- 1 percentage points) for the first quarter of 2019 as planned. For its part, the nominal currency remains stable, determined by currency flows and historically low interest rates.

Monetary policy has continued to accommodate, i.e. to favor economic growth and to permit projections and inflation expectations. There are no big downside risks expected to impact on key macroeconomic variables in the near-projected horizon. The Monetary Authority repeated its pledge to take the steps required to preserve general price stability.

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