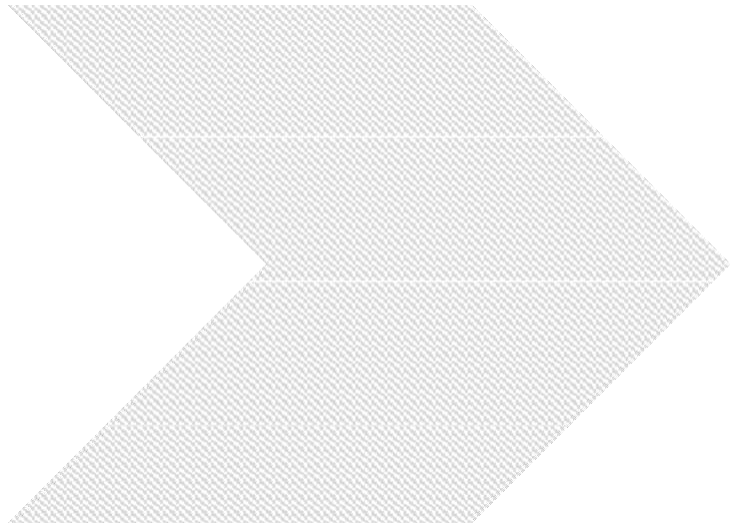


Anadolu Agency's Interview with Governor Şahap Kavcıođlu

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Mr. Governor, quite a lot of news regarding the sale of reserves has come up on the agenda recently. There is a range of speculation surrounding this matter. What is your evaluation of the issue as the Central Bank?

The new type of coronavirus (Covid-19) pandemic, which sparked an unprecedented crisis all over the world, has obliged all countries to take extraordinary measures. During this period, the IMF provided to various countries emergency aid amounting to USD 110 billion, while the fiscal measures taken by countries to counter the pandemic totaled USD 16 trillion and the balance sheet expansion of central banks reached USD 10 trillion.

In extraordinary circumstances driven by the pandemic, Turkey, like many emerging economies, has recently seen an increase in capital outflows, a decrease in direct investments, and a surge in gold demand, in addition to the fact that foreign exchange (FX) earning activities such as tourism and exports have almost come to a halt. This has created a high volume of FX demand in the economy. Given also the recently high geopolitical risks peculiar to Turkey, it became necessary to meet the foreign exchange liquidity need in the economy for the sake of macro financial stability.

Against this backdrop, the external deficit that emerged as a result of the challenging period that our economy went through in 2019 and 2020, a current account deficit reaching USD 30 billion due to the significant decrease in tourism revenues, foreign capital outflows of USD 31 billion, the decline in the corporate sector's FX position by USD 50 billion, and households shifting to FX and gold by an amount reaching USD 54 billion exerted intense pressure on exchange rates and FX reserves. In brief, it is obvious that remedying the FX shortage in the economy has arisen from the unavoidable and extraordinary conditions.

As a result, transactions were carried out within the scope of maintaining financial stability, financing the balance of payments and foreign exchange supply-demand dynamics. In this way, the production, employment and export capacity of the Turkish economy was preserved, and necessary measures were taken to ensure that the real sector, financial sector and public institutions do not have any problem in accessing FX liquidity and international payments.

Safeguarding the economy has been the priority during the fight against the pandemic. The measures taken, coupled with the steps taken on the monetary and fiscal policy fronts, led Turkey to become one of the two G20 countries that completed 2020 with growth on positive territory despite all the negative effects of the pandemic. The corporate sector's liquidity cycle saw no interruption, the banking system's strong balance sheet structure was preserved, and thus, macrofinancial stability was supported.

On which grounds and how, then, were these actions taken?

First of all, I think that the public discussion of these issues based on false and incomplete information is harming the Central Bank of the Republic of Turkey.

A protocol was concluded with the Prime Ministry Undersecretariat of Treasury and the CBRT on 21 February 2017 to set the principles regarding the coordination required for conducting FX purchase-sale transactions using the Treasury's accounts at the CBRT in compliance with the monetary and exchange rate policies framework. The protocol is based on the first paragraph of Article 2 of the Law No. 4059 on the Structures and Duties of the Undersecretariat of Treasury, as well as Article 2, Article 4/Paragraph (I-b), Article 41 and Article 53/Paragraph (a) of the Law No. 1211 on the Central Bank of the Republic of Turkey.

The aim of the protocol is to enhance the effectiveness of the current monetary and exchange rate policy and to contribute to financial stability. In line with protocol, FX transactions via

state-owned banks were held since 2017 whenever needed. It helped prevent unhealthy pricing in the system and ensure a supply-demand balance and liquidity in FX markets.

Could you elaborate on how these foreign exchange sales were made? Because some ask to whom they were sold?

Although they know exactly how the market functions, we see some experts raising questions about to whom the reserves were sold.

These FX transactions were carried out on trading platforms at then-prevailing market conditions and market prices. The transactions were made on automated trading platforms, where details of the buyer and the seller are not disclosed until the transaction is made, at prevailing market quotations and without having to find a counterparty. Therefore, granting privilege to any group, bank or company regarding FX transactions is out of the question. The counterparties that engage in these transactions on automated trading platforms are local and foreign primary dealers. It is technically impossible to select a certain counterparty and ignore market dynamics while making transactions at non-market prices on these trading platforms. That's why details of a counterparty cannot be disclosed anywhere in the world, not just by the Central Bank of the Republic of Turkey.

So, what happened to the Turkish lira you bought in return?

We all know that FX transactions are two-way transactions. You sell foreign currency and buy Turkish lira, and vice versa. Since Turkish lira was withdrawn from the market through these FX selling transactions, the amount of funding provided by the CBRT to banks increased by the same amount. The withdrawal of the Turkish lira from the market occurred on the same day as the value date of the FX selling transactions. The Turkish lira liquidity thus withdrawn from the market was injected into the market by the CBRT through open market operations and swap transactions. Therefore, a large part of the foreign currency that left the Central Bank and indirectly ended up as foreign currency deposits in the banking system returned to the Central Bank's balance sheet through swap transactions. In terms of the balance sheet's asset and liability equilibrium, no asset has been lost whatsoever.

On the matter of data sharing, I would like to re-emphasize that the CBRT shares all information and data within its duties and responsibilities in an extremely transparent way and in accordance with international standards. In this context, the analytical balance sheet is announced every day, and market participants are provided with detailed data on the level of CBRT reserves.

Nevertheless, some accusations have been made recently regarding the CBRT reserves, which can harm the Bank's reputation and cause domestic and international investors to lose trust and risk premiums to increase. As the CBRT, we reserve our legal rights to respond to false and misleading news and statements about us.