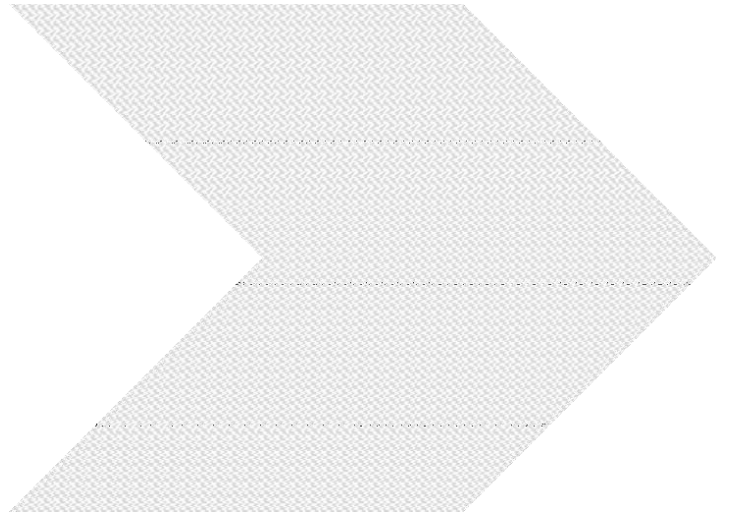


# Bloomberg's Interview with Governor Şahap Kavcıođlu

29 Mart 2021, İstanbul



**Removing three Central Bank governors in the past two years has prompted market players to think the CBRT has lost its independence. How are you going to convince markets that the Central Bank still has instrument independence?**

The Central Bank's monetary policy is shaped by common understanding by the Monetary Policy Committee, which is chaired by me, and composed of a total of seven members. The Central Bank is vested with instrument independence by the Law to use the monetary policy tools to reduce inflation permanently. The CBRT will continue to use the monetary policy instruments independently considering the needs of the day in line with changing global conditions, and in light of domestic macroeconomic developments, primarily the inflation outlook.

**What do you think about the latest surprise decision to increase interest rates by 200 basis points? Do you think the tightening was excessive?**

Changing conditions all over the world prompt central banks to take tough decisions. The Monetary Policy Committee always makes its decisions evaluating the data set specific to the conditions of the time. In principle and ethically, I do not find it appropriate to comment on previous decisions. In the Monetary Policy Committee Meeting in April, we will make our decisions as the Committee by evaluating inflation developments and all available data, as has been and will be the case in each and every other meeting.

**Considering the uptick in inflation, is a rate cut one of the possibilities in the meeting in April? Last month, the CBRT said it did not seem possible to cut rates "for a long time this year." Do you agree with this statement? When do you think is the right time to ease monetary policy?**

I do not approve a prejudiced approach to MPC decisions in April or the following months that a rate cut will be delivered immediately. All in all, monetary policy decisions are made by the Monetary Policy Committee in view of the available information and data set regarding macroeconomic developments. We strictly adhere to the medium-term inflation target of 5% set jointly with the Government, and I am aware of its importance for sustainable growth.

When determining the monetary policy stance, we will take into account the realized and expected inflation as well as global capital flows, real yields in peer countries, and the portfolio preferences of residents.

In the new period, we will continue to make our decisions with a corporate monetary policy perspective to ensure a permanent fall in inflation. In this respect, we will also monitor the effects of the policy steps taken so far.

**In reference to using central bank reserves through state banks to prop up the lira in 2019 and 2020, you have said in one of your articles: "When will the reserves be used if they won't be used when needed?" Would you use central bank reserves to prop up the lira through state banks like in last year, if needed? The CBRT has previously said that it may consider direct FX purchases. What policies will you implement to boost central bank reserves? Is the central bank still considering direct FX purchases?**

Each period should be evaluated in light of its own specific terms and conditions. Turkey had to struggle first with the recent geopolitical developments and then with the challenges brought by the pandemic. In the period ahead, the Central Bank will adhere to the floating exchange rate regime as stated in the Monetary and Exchange Rate Policy document, and exchange rates will be determined by supply and demand balance under free market conditions.

We maintain our goal of boosting FX reserves for monetary policy effectiveness and financial stability. In addition, the Central Bank may use reserve-boosting tools under appropriate conditions, with prior and proper communication thereof.

**In your meeting with bank executives, you have stated that you would maintain the operational framework of the current policy. Does this mean that you will stick to one rate policy and therefore will not provide back-door tightening through late liquidity window or overnight lending rates?**

Yes, we will maintain the operational framework of the monetary policy, and the one-week repo rate will remain our main monetary policy tool. We see that a simplified operational monetary policy framework strengthens the transmission mechanism and facilitates a simpler and clearer communication of the monetary policy decisions and practices.

**Can you please tell us your general view on what is causing inflation in Turkey and how best to fight it?**

We see that in addition to cyclical conditions, structural factors also have an effect on inflation. This can systematize the price changes that fall outside the domain of the Central Bank. Thus, policies that will address the factors with inherent rigidities hindering the monetary fight against inflation, such as the high and volatile course of unprocessed food prices, rigidities in prices of services and the exchange rate pass-through, gain importance.

I think that implementing structural reforms geared towards disinflation, as set out in the Economic Reform Package announced by our Government, is critical to the fight against inflation. In this context, the coordination between monetary policy and other economic policies is of great significance.