Box 2.2

Findings Obtained from Interviews with Businesses

Within the Central Bank of the Republic of Türkiye (CBRT), studies are carried out under the name of "Economic Lens to the Real Sector", which is based on face-to-face meetings with businesses[1]. This box summarizes the findings from the interviews conducted during the period Jan-Mar 2022.

Information from the interviews indicated a loss of momentum in economic activity in the first quarter of the year compared to the previous quarter. It was observed that the buoyancy in exports reflected positively on production activities, whereas the slowdown in domestic demand limited the increase in production.

It was reported that the general level of prices, disruptions in supply chains, and firms' financing needs were highlighted as factors that put pressure on domestic demand.

It was observed that rising uncertainty perception and cost increases since mid-February due to the escalation of the Russia-Ukraine conflict have become important factors that affect domestic sales negatively. The fact that consumers and companies brought their purchases forward due to volatility in exchange rates in the previous quarter, was said to be another factor that slowed down domestic sales in this quarter. In this context, it was seen that the stable course of the value of the Turkish lira as of February and the positive effects of wage increases on domestic demand remained limited.

It was reported that the trade between companies in export-related sectors and the relatively buoyant consumer demand in certain product groups positively affected domestic sales. In this period, it was pointed out that the demand for some food products increased significantly due to the rise in supply concerns, and it was emphasized that the campaigns organized by the companies had supported the sales, especially of white goods. Apparel sales are reported to be positive in cities with buoyant tourism activities. It was also shared that sales of housing to foreigners continued and demand for investment stood out in the housing sector.

It is projected that overall demand conditions will improve in the second quarter as the postponed demand will step in, pandemic measures will be completely removed, supply problems will wane and tourism will gain strength in the coming months. It was frequently mentioned that a significant recovery in demand conditions is expected to begin by the second half of the year, depending on the improvement in economic parameters.

Similar to the previous quarter, it was widely stated that exports maintained their buoyant outlook.

Türkiye's attraction of higher demand during the pandemic period, exporters' ability to diversify their products and markets, the alleviation of pandemic measures in the main markets, and exchange rate developments were the main factors underlying this outlook. Besides, it was also observed that companies strategically tended to increase their exports with the aim of compensating the slowdown in domestic sales. In this context, it has been evaluated that export maintained its strength despite the regional trade adversity caused by the Russia-Ukraine conflict. It was observed that the positive outlook in exports spilled over into all sectors, especially in textiles, clothing, basic metal, furniture, and the automotive supply industry. It is reported that the USA market has started to gain importance in the apparel and textile sectors, besides Europe. However due to the capacity limit, some companies

[1] The main purpose of this study is to obtain information on periodic production, domestic and international sales, investments, employment, credit conditions, and cost and price developments in a timely manner, to closely monitor economic activity, and to improve the communication between the CBRT and real sector representatives, through meetings with businesses in different sectors. The findings obtained from the interviews constitute a high-quality and timely source of information for monetary policy decisions. Interviews are held with businesses in the manufacturing industry, and trade and services sectors within the framework of the sample created by considering their weight in the total economic activity at sectoral, regional and scale level. This study includes evaluations and inferences based on interviews with businesses and does not reflect the views of the Central Bank of the Republic of Türkiye. The information and findings obtained may differ from the official statistics, information and findings that will be published later.

need additional investment to meet their increasing export potential. Demand has started to normalize in the existing markets in the white goods sector, while the furniture sector targeted the European markets where more value-added sales can be made. While the demand for commercial vehicles in the automotive sector remained relatively robust, there were reports that companies had difficulty in responding to the increasing demand due to supply problems.

Optimistic expectations remain in place for export growth in the second quarter. Some companies stated that production and supply chain disruptions due to the Russia-Ukraine conflict may create new opportunities for companies in Türkiye. Nevertheless, the risk of global inflation suppressing foreign demand, disruptions in raw material supplies and uncertainties regarding the course of the conflict are monitored by companies as risk factors.

Despite the positive effects of buoyant exports, it was observed that the slowdown in domestic demand restrained the increase in production.

It was stated that supply shortages continued, albeit lessening, and put pressure on the production activities of companies especially in the automotive, white goods, furniture, clothing, food, and construction-related sectors. Exporting companies retained to produce with high capacity, and it is stated that this pace will be maintained in the upcoming period as well. Meanwhile production is expected to pick up in the second quarter in line with the improvement in domestic demand expectations.

It is observed that the investment stance of exporting companies is more positive than that of the companies operating in the domestic market.

While it was reported that global and geopolitical uncertainties and long-term financing conditions in particular restrained the capacity-building investment appetite, it was also reported that companies focused more on investments that were ongoing or those deemed obligatory to maintain competitiveness in this period.

On the other hand, the appetite for machinery investments was relatively high in the manufacturing industry companies, chiefly in the textiles, paper and cardboard, glass, ceramics, basic metal, electrical equipment, and automotive supplyindustry. Some manufacturers companies opted for investments that will reduce their dependence on imports. While some reported that software development and R&D investments aimed at increasing efficiency are prioritized by companies, it has been observed that companies in many sectors are planning solar energy investments following the recent increase in energy costs. It was emphasized that companies in the retail and services sector tended to develop e-commerce, while the appetite for opening new stores or renovation investment weakened.

In line with their investment stance, companies aimed to maintain their current employment level in the upcoming periods. Expectations regarding demand conditions and skilled worker shortages are expected to influence employment plans of the companies.

Firms' financing needs continued to rise due to the increase in their working capital needs.

Rising working capital needs are associated with rising raw material prices, higher costs led by energy and labor expenses and cash flow mismatches. Having been reported as tight in January, credit conditions and standards started to ease in February and this easing became more evident in March.

Busines to business conditions, which had tightened significantly in January, eased gradually in the remainder of the quarter. It was stated that there was no further deterioration in maturity and cash flow as of March, and the stability observed in the value of the Turkish lira throughout the quarter caused a relief in trade conditions.

It was emphasized that the increase in energy costs puts pressure on companies.

Energy was the most emphasized cost factor throughout the quarter, and it was followed by rising input costs and labor costs due to global commodity prices. The cost pressure is expected to continue if the Russia-Ukraine conflict is not resolved within short period of time. It was stated that the cost pressure stemming from the exchange rate had decreased significantly compared to the previous quarter. It is considered that the increase in liraization will support this process and will have a positive effect on pricing behavior.