

Box 5.1

The CBRT's Bond Purchases in Response to The Pandemic

Emerging market economies (EMEs) have announced a series of measures for bond markets in response to the pandemic and have launched local currency bond purchase programs varying in size. The CBRT also shared the details of changes made in the bond purchase program as announced in the Monetary and Exchange Rate Policy for 2020, with press releases of 31 March and 17 April 2020. In this box, details of the CBRT's bond purchases and the course of the bond yields are presented in comparison with the other EMEs that launched bond purchase programs. When compared with other EMEs, the decline in the Turkish bond yields proves more notable and is attributed to the CBRT's rate cuts as well as the BRSA's asset ratio regulation announced on 18 April.

Bond Purchase Programs in EMEs

In response to the pandemic shock, central banks of many emerging market economies have launched local currency bond purchase programs to ensure effective functioning of the markets and to maintain market depth (Table 1).

Table 1: Bond Purchase Programs Announced by EMEs in Response to the Pandemic

Country	Security Type	Announcement	Country	Security Type	Announcement
Indonesia	Government	01/04	Hungary	Government, Mortgage Backed	07/04
Philippines	Government	10/04	Mexico	Government	21/04
South Africa	Government	25/03	Poland	Government	17/03, 08/04
India	Government	18/03,20/03	Romania	Government	20/03
Colombia	Government, Bank Bond	23/03	Chile	Government	19/03, 08/04
Korea	Government	19/03, 09/04	Thailand	Government, Corporate Bond	19/03, 22/03, 07/04
Turkey	Government	31/03, 17/04			

Source: BIS.

The recent bond purchase programs of EMEs are quite different from those of advanced economies in many aspects.¹ Firstly, purchases in EMEs, which are smaller in scale compared to the programs implemented in advanced economies, were made primarily to prevent unhealthy price formation in the bond markets and to strengthen the transmission mechanism rather than monetary accommodation. In addition to government bonds, central banks of advanced economies also implemented large-scale corporate bond purchases, which are primarily aimed at providing financial and credit support to firms.

The CBRT's Bond Purchase Program

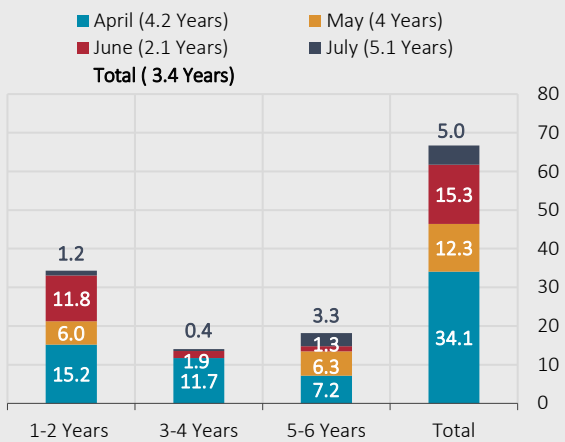
In the press release of 31 March 2020 on the additional measures taken against the economic and financial effects of the coronavirus, the CBRT announced that the outright purchase operations under the Open Market Operations (OMO) portfolio executed within the limits determined in the Monetary and Exchange Rate Policy for 2020 may be carried out in a front-loaded manner and these limits may be revised depending on market conditions.

¹ For a recent comparison of the bond purchase programs, see Arslan et al (2020).

In addition, it was stated that for a temporary period, the Primary Dealer (PD) banks would be able to sell the Government Domestic Debt Securities (GDDS) that they bought from the Unemployment Insurance Fund to the CBRT under the terms and amounts set by the CBRT, out of the scope of the limits set for the OMO portfolio.

With the press release of 17 April 2020, the maximum limit for the ratio of the OMO portfolio nominal size to the CBRT analytical balance sheet total assets, set at 5% for 2020 in the Monetary and Exchange Rate Policy for 2020 text, was revised to 10%. The same press release announced that the limits offered to PD banks for outright sales of GDDS to the CBRT would be applied independent of the repo transaction limits and that the GDDS selling limit for PD banks would be equal to the repo transaction limits. It was also announced that these purchases would be carried out within the total maximum limit of 10% set for the OMO portfolio.

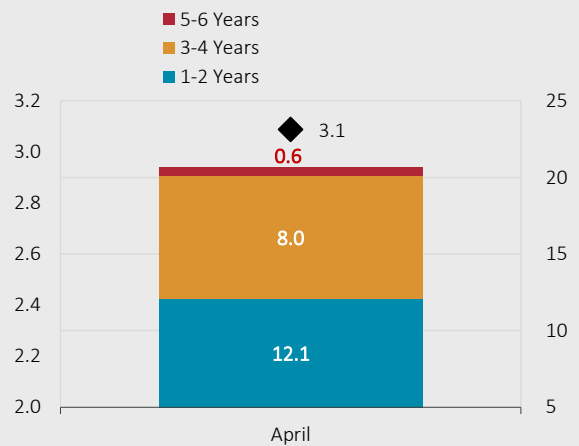
Chart 1: CBRT Outright Purchases* (Net Amount, Billion TRY, Years)



Source: CBRT. Last Observation: 24 July 2020

* Weighted average maturity of the securities purchased is shown in parentheses next to the relevant month.

Chart 2: CBRT's Bond Purchases From Unemployment Insurance Fund (Net Amount, Billion TRY, Years)



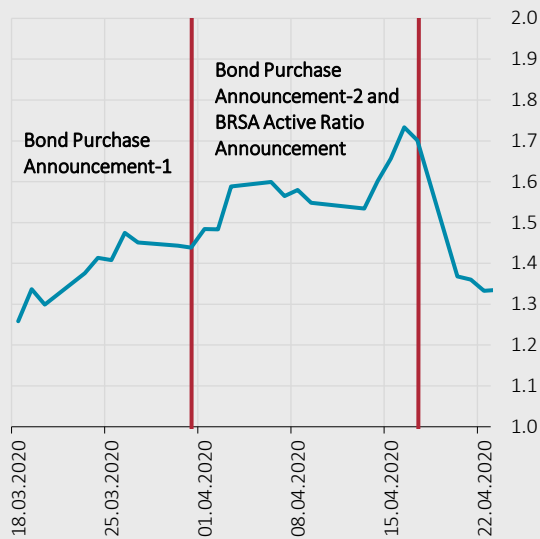
Source: CBRT.

Last Observation: 24 July 2020

As of 24 July 2020, the CBRT's purchases of government securities, which started in April, reached a total of 67 billion TL (nominal 56 billion TL) (Chart 1). Purchases from the Unemployment Insurance Fund reached 20.7 billion TL, and the nominal equivalent of these transactions which is 12.2 billion TL, is excluded from the 10% limit (Chart 2). The CBRT purchased the highest amount of government securities in April and due to the Unemployment Insurance Fund transactions, all purchases were concentrated mostly on 1-2 year bonds (Chart 1). The weighted average maturity of all GDDS purchases of the CBRT in the April-July period is approximately 3.5 years.

When compared with other EMEs that launched bond purchase programs, Turkey's two-year bond yields fell more significantly (Chart 3). In addition to the CBRT's purchases, the banks' increased demand for government bonds after the BRSA's active ratio announcement on 18 April and policy rate cuts are also considered to have been effective in this decline (Chart 4).

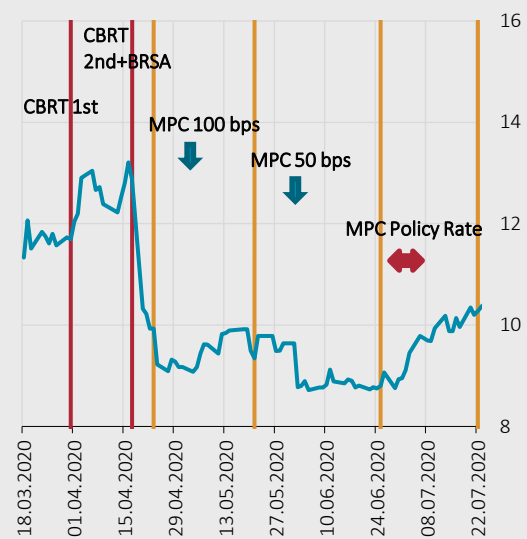
Chart 3: Relative 2-Year Bond Yield (Turkey/EME Yields For The Period Excluding MPC Meetings*)



Source: Bloomberg. Last Observation: 22 April 2020

* Emerging market economies that announced bond purchase programs: Indonesia, Philippines, S. Africa, India, Colombia, Korea, Hungary, Mexico, Poland, Romania, Chile, Thailand. Bond yields are normalized to 1 as of 01.01.2015.

Chart 4: Turkey 2-Year Bond Yield (The Period Including MPC Meetings, %)



Source: Bloomberg.

Last Observation: 24 July 2020

References

Arslan, Y., Drehmann, M. and Hofmann, B. (2020). Central bank bond purchases in emerging market economies. BIS Bulletin No. 20, 2 June 2020.

Central Bank of the Republic of Turkey, 31 March 2020, Press Release on Additional Measures Taken against the Economic and Financial Impacts of the Coronavirus, No. 2020-21:

<https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases/2020/ANO2020-21>.

Central Bank of the Republic of Turkey, 17 April 2020, Press Release on Additional Measures Taken against the Economic and Financial Impacts of the Coronavirus, No. 2020-22

<https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases/2020/ANO2020-22>.

CBRT Open Market Operations, Outright Purchases Through Auction:

<https://www.tcmb.gov.tr/wps/wcm/connect/en/tcmb+en/main+page+site+area/open+market+operations/outright+purchases+auctions>.