



# Anadolu Agency's Interview with Governor Murat Çetinkaya

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**How do you assess recent developments in the global economy? How important is the role of global developments in designing current policy framework?**

Global developments affect the economy through various channels, particularly finance and trade. Recently, financial markets have been relatively calm; nevertheless, the slowdown in global growth and concerns over trade policies may curb the risk appetite. We assess all these developments and the possible risks in the formulation of our monetary policy response. I should emphasize that the critical point is to boost the economy's resilience against external shocks. From this point of view, we believe that strong adherence to macroeconomic policy coordination is crucial. The recent policy mix is a reflection of this awareness. We believe that the most important contribution of the Central Bank of Turkey to this process will be to maintain the focus on price stability.

**In your presentation at the latest Inflation Report Briefing, you stated that the Central Bank will maintain the tight monetary policy stance until inflation outlook displays a "significant improvement". How should we interpret this statement?**

We have to see a sustained improvement in the indicators related to underlying trend of inflation and overall pricing behavior. That means, one-off base effects or external cost factors leading to a change in relative prices, would not be enough to declare a "significant improvement". We have to observe simultaneous improvements in various trend indicators and pricing behavior. In this context, with a forward-looking perspective, we closely monitor micro data on pricing behavior and expectations formation. Achieving a significant decline in inflation in a short period is crucial for the improvement in expectations and pricing behavior. Establishing the monetary policy framework and the policy stance with this determination will surely contribute to disinflation process through the expectations channel.

**Views on the course of the economic activity display heterogeneity in the current context. How is your assessment on the potential growth of the economy and developments in the economic activity for the upcoming period?**

We need to differentiate between short-term cyclical developments and long-term structural dynamics in addressing the concept of potential growth. Recent deceleration in the economy largely reflects cyclical developments. It is important first to maintain the rebalancing process through coordinated policies, and then to support this process by structural policies that will bring lasting improvement. The recent steps reflect this perspective. The ongoing efforts in structural areas will support a stable and sustainable growth path.

**What is your evaluation on the relation between the monetary policy stance and the economic activity?**

The determined stance towards price stability supports a balanced growth in current conditions. The coordinated policies implemented to reduce inflation uncertainty contribute to the decline in risk premium, thus improve the Turkish lira-denominated stable funding facilities, and lower long-term interest rates. This, in return, supports the recovery in economic activity and investments. The decisive monetary policy stance has supported the decline in long-term interest rates since September. Increased predictability in pricing will improve financing conditions and further extend maturities, contributing to the advancement of the economy on a sound path.

**In the period ahead, can we expect steps from the CBRT regarding financial stability? How should we interpret the interaction of these steps with the monetary policy?**

A sound functioning of the financial system is key to the effectiveness of monetary policy. We assess that, in the current context, maintaining a strong focus on price stability improves predictability and supports financial stability. Effective functioning of financial intermediation is important in terms of both monetary transmission mechanism and a balanced and efficient distribution of resources.

Accordingly, the Central Bank employs its liquidity and reserve requirement tools when needed. In this sense, we think that the various steps taken last year proved effective in alleviating market volatilities and strengthening the transmission mechanism.

In view of cyclical conditions, liquidity steps can be taken to support financial stability. These tools and associated steps do not have a direct signal with respect to the monetary policy stance. It would be more appropriate to evaluate liquidity-related practices within the context of financial transmission. Our stance on the monetary policy is clear; the tight stance will be maintained until we observe a significant improvement in inflation dynamics.

**How do you evaluate the rapid correction in the current account balance?**

We have been observing a rapid contraction in the current account deficit after the economic rebalancing became evident by mid-2018. Part of the correction in the current account balance is due to the economic slowdown. However, it should be emphasized that the strong course of exports and tourism revenues has also supported the rebalancing process in the recent period. In other words, the improvement cannot only be attributed to weak domestic demand.

Supporting the improvement in the current account balance with structural measures will contribute to a balanced growth and price stability in the long run. In particular, structural steps to boost productivity and competitiveness are important. Reinforcing savings and financial awareness is critical to ensure a lasting improvement in the current account balance. Moreover, macroprudential measures encouraging prudent borrowing would support this process. Looking ahead, we will maintain our efforts to ensure further focus on these issues.