TÜRKİYE CUMHURİYET MERKEZ BANKASI

Interview with Governor Murat Uysal

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Can you elaborate on the measures the CBRT has taken to tackle the economic and financial impact of the coronavirus? What do you hope to achieve with these measures?

As the Central Bank, we are closely monitoring the impact of the pandemic on both the global and the Turkish economy. To counter its potentially negative impact on the Turkish economy, we introduced a set of measures including a policy rate cut to inject much-needed liquidity into markets and improving the cash flow of firms. Announced on 17 March, 31 March and 17 April, these measures have four main goals.

First, we aim to provide banks with flexibility in Turkish lira and foreign exchange liquidity management and thus enhance predictability. Secondly, we try to secure an uninterrupted flow of credit to the hardest-hit corporate sector. Our third goal is to support the cash flow of exporting firms through rediscount credits.

Lastly, to strengthen the monetary transmission mechanism, we took a number of steps to prop up the Primary Dealership system and the liquidity in the Government Domestic Debt Securities (GDDS) market and to preserve market depth. Due to the COVID19-induced uncertainty and economic agents shifting to liquid assets, we have seen reduced depth for GDDS transactions. As this can cause the monetary policy transmission mechanism to weaken, we decided to boost the liquidity in the GDDS market.

In addition, to have deep capital markets and offer banks that bring high-quality collaterals access to a variety of liquidity facilities, we decided to transfer asset-backed securities and mortgage-backed securities into the collateral pool. I would like to stress that securities to be transferred to the collateral pool will be investment grade and priced at a discount varying by maturity risk.

We are monitoring how Turkey's economy will respond to these measures and deliver dynamic, flexible, and consistent policies. The Bank is capable of making fast decisions and turning them into action. We have a comprehensive and flexible set of tools, and can deploy them as needed.

How much pressure does the pandemic put on Turkey's growth?

The gains from economic rebalancing helped the Turkish economy face this challenge with adequate buffers against adverse shocks. With the first case reported in March, the coronavirus pandemic began dampening domestic economic activity through foreign trade, tourism, transport and related industries. Looking at the first quarter, there were signs of a slowdown by mid-March in the economy after a quite strong January-February period.

In the second quarter, however, we expect the pandemic to have a more pronounced impact on the growth outlook. High-frequency data suggest that the weakening that started in March has continued into April. Our exports of goods have contracted across all destinations, the EU in particular. Travel restrictions imposed to prevent the spread of the coronavirus weigh on tourism and related transport activities, adding another strain on economic activity.

On the consumption side, we have seen the fall in spending, which started with airline transport in mid-March, spread across a majority of expenditure groups by the end of the month. However, the strong weekly declines halted in the first week of April, which we take as a positive signal that we may have seen the trough in consumption expenditures.

We also started observing the curbing effects of the slowdown in domestic and external demand on imports due to the pandemic. I should note that this, coupled with the low levels of oil prices, has contained the impacts of the loss in goods and services export revenues on the current account balance.

We believe that the Turkish economy will start to recover as the rate of spread of the pandemic decelerates. The growth projections of the Central Bank suggest a rapid recovery in the second half of the year following the weak course in the second quarter, once the daily life and business life in Turkey get back to normal. The Turkish economy, thanks to its dynamic structure, can overcome this process in a short time with relatively less damage than other countries.

The exchange rate has increased in the recent period. Meanwhile, oil prices are falling and domestic demand is also negatively affected by the pandemic. In light of these developments, what is your evaluation of the inflation outlook?

We see that core inflation indicators remain mild on the back of the developments in inflation expectations, domestic demand conditions and producer prices. Despite the depreciation in the Turkish lira due to the global developments, we can say that the sharp fall in international commodity prices, crude oil and metal prices in particular, affects the inflation outlook favorably. Furthermore, the disinflationary effect of aggregate demand conditions has increased to some extent. In sum, we envisage that commodity prices and aggregate demand conditions will curb inflation despite the exchange rate developments. Against this background, we assess that risks to the year-end inflation forecast are more on the downside.

At this point, I would like to emphasize once again that the accommodative steps we have recently taken to support the production potential of the economy and thus financial stability are aimed at ensuring that we come through this extraordinary period with minimum damage. We believe that the measures we have taken to support the monetary transmission mechanism are timely, target-oriented and predictable, and therefore pose hardly any risk to the downward path of inflation.

I would like to ask about the meetings held under the IMF/World Bank Spring Meetings this week and the G20 meetings before them. Also, are there any contacts with other central banks regarding bilateral swap agreements?

We recently participated in a number of international video conferences, and shared our views on reducing the financial system's stress and securing the uninterrupted conduct of international trade. At the G20 platform, member states are discussing in particular the possible economic measures as well as the content, amount and coordination of these measures.

Assessments by international organizations suggest that expectations for the global outlook are unfavorable due to the coronavirus outbreak. While uncertainties remain high due to the pandemic, it is envisaged that the global economy will recover gradually on the back of the measures introduced. At the meetings, it was emphasized that it is particularly important for global central banks and fiscal authorities to take action promptly and continue their cooperation in the current period.

As you know, we also have long-standing swap agreements with certain countries to support trade in local currencies. In addition, we maintain close contact with other central banks to further strengthen our cooperation and establish new swap agreements.