



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

Speech

Central Bank of the Republic of Türkiye

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Governor

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Esteemed Shareholders, Distinguished Guests,

Before I begin my speech, I wish God's mercy upon Mr. Adnan Bahar, one of the shareholders of our Bank, who passed away in February, and I would like to offer my condolences to his loved ones.

It is with great pride that we mark the 90th anniversary of our Bank's starting operations. I would like to thank the distinguished participants who are present here for accepting our invitation.

Before moving on to the agenda items, I would like to share with you our evaluations of the macroeconomic outlook. Then I will explain our "Liraization Strategy" and give a brief account of some of our main activities in the last part of my speech.

Despite heightened uncertainties in some periods due to the pandemic, global economic activity was robust throughout 2021. These developments had a similar impact on Türkiye: Despite the limiting effects of the pandemic, economic activity remained strong in the first half of 2021, on the back of domestic and external demand, and maintained its strength in the second half of the year thanks to the increasing impact of external demand. The spread of vaccination across the domestic population throughout the year facilitated the recovery in the services and tourism sectors, which were adversely affected by the pandemic, and led to a more balanced composition of economic activity.

Against this background, the 2021 growth was recorded at 11%, remaining above its long-term trend. The share of sustainable components in the composition of growth increased.

Recent capacity utilization levels and other leading indicators suggest that domestic economic activity remains strong, albeit with regional variations, with the help of robust external demand. We believe that the direct repercussions of geopolitical tensions on exports will be limited.

We anticipate that Türkiye's geopolitical position and exporters' ability to diversify their products and markets will make up for export losses brought on by the recent conflict and play a supportive role in our export performance.

Distinguished Guests,

In 2021, strong economic activity reflected positively in the labor market, pulling unemployment rates down. In the first quarter of the year, the non-farm employment regained its pre-pandemic levels on the back of the industrial sector despite the limited contribution from the services sector. In the second quarter, the labor force participation rate increased slightly quarter-on-quarter, while employment growth played a role in lower unemployment rates. In the third and final quarters of the year, the labor market continued to improve in line with the economic activity outlook.

Esteemed Guests,

In 2021, global inflation surged due to pandemic-related supply constraints, rising commodity

prices, and imbalances between supply and demand. The increases in energy and non-energy commodity prices are becoming one of the main determinants of global inflation dynamics. Oil prices seem to be trending up due to factors such as geopolitical tensions and ongoing supply constraints, as well as the waning of uncertainty in demand, brought on by the new variant.

Like energy prices, the determining effect of food prices on inflation dynamics remains significant all over the world. Higher input costs, climatic conditions, drought, specific restrictions on food exports in some countries and stock shortages lead food prices to hover at high levels on a global scale. We witness the implications of these developments in international food and agricultural commodity prices in Türkiye as well.

Against this background, the high trajectory of producer prices in advanced and emerging economies, as in Türkiye, is critical for inflation dynamics. International commodity prices, lingering problems in supply chains and energy prices induce producer prices to rise further. The gap between producer and consumer inflation has recently remained above long-term trends in many advanced and emerging economies.

Distinguished Guests,

The increase in inflation in the recent period has been driven by the temporary effects of price formations that are not supported by economic fundamentals, supply-side factors such as the rise in global energy, food and agricultural commodity prices as well as supply constraints, and demand developments. The rise in energy costs caused by the recent conflict also play an important role.

We expect the disinflation process to start on the back of measures taken and decisively pursued for sustainable price and financial stability along with the decline in inflation owing to the base effect and the resolution of the ongoing regional conflict. Accordingly, we kept the policy rate unchanged in the January-March 2022 period.

We closely monitor the cumulative effects of the decisions taken. In this period, to create an institutional basis for sustainable price stability, a comprehensive review of the policy framework continues with the aim of encouraging permanent and strengthened liraization in all our policy tools.

I would like to note that the "Liraization Strategy" is an essential element of the policy review process. The "Liraization Strategy" is created with a holistic approach that focuses on the use of the Turkish lira in the system through new financial products, collateral diversification and regulations regarding liquidity management practices.

Within the scope of this strategy, we have recently introduced a set of practices. As you know, in December 2021, we took a step towards strengthening the preference for Turkish lira deposits by supporting the conversion of foreign currency and gold deposits into Turkish lira. More recently, we introduced YUVAM accounts for non-residents living abroad and their companies to invest

their savings in their homeland. With the complementary product of the Ministry of Treasury and Finance, unhealthy price formations in exchange rates were prevented.

During the CBRT's policy review process, the focus of all actions to be taken in the near, medium and long term as part of the liraization strategy will be to promote the conversion into liras in the financial system in order to achieve more sustainable price stability.

Distinguished Shareholders, Esteemed Guests,

After touching on these cyclical developments, I would like to, in the final part of my speech, give a brief account of our other major activities over the past year.

Over the past year, we continued to make use of technology and automation in all business processes effectively and intensively, and we took further steps to strengthen the financial infrastructure. We continued to cooperate and foster relations with national and international stakeholders on issues within the remit of our Bank. Accordingly, we engaged in an active interaction with our stakeholders through the meetings we organized, the events we attended and bilateral cooperation activities.

As an institution with strong social awareness, in addition to fulfilling our main duties, we remained sensitive to cultural and environmental issues, took part in social responsibility activities, and continued to contribute to academic studies. Last November, we established the Green Economy and Climate Change Division to follow national and international developments in the field of climate change and to work on financial issues arising from climate change.

Distinguished Guests,

To conclude my remarks here, I would like to thank my valuable colleagues who work tirelessly to support the Bank's activities, and I pay my respects to all of you.