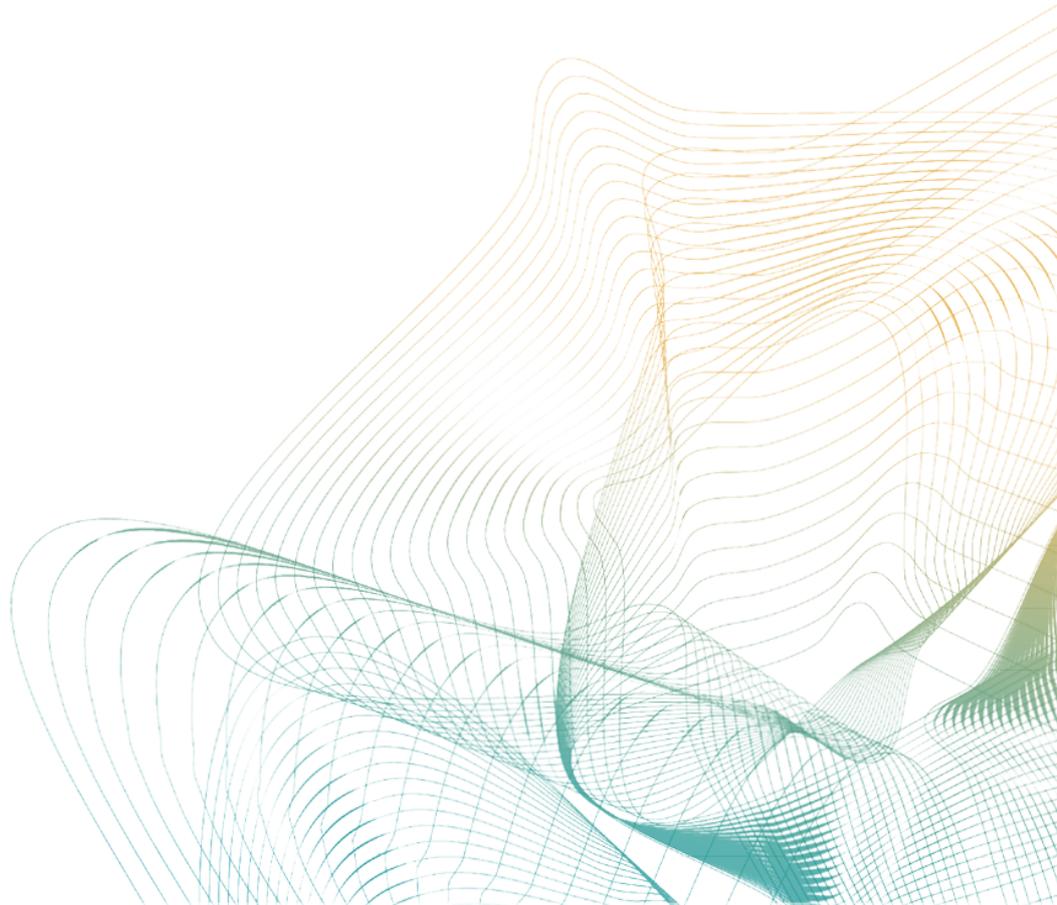




Anadolu Agency's Interview with Governor Murat Uysal

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In the press release regarding your appointment as the new Governor of the Central Bank, you gave us some messages. One of them was related to communication policy. You made a commitment that “communication channels will be utilized at the maximum level”. What are the steps that you are thinking of taking in the period ahead regarding the communication of the monetary policy?

Communication policies are essential in terms of the effectiveness of the policies implemented by the Central Bank in pursuit of price stability and in terms of accountability. The Central Bank of the Republic of Turkey (CBRT), particularly after the amendment to its law in 2001, developed strong corporate communication channels and invested a great deal in this field. In the new period, altogether with my colleagues, we will try to take these endeavors much further. I believe that establishing effective, transparent and inclusive communication with the public concerning our Bank's activities on various platforms will provide major contributions to achieving our targets.

We are engaged with certain improvements to increase corporate transparency and strengthen our policy communication. In this context, I can mention a few practices that may come up at the top of the agenda. For instance, we will share more information on the monetary policy decision-making process and the reasons underlying the decisions taken. We will strengthen our data sharing practices regarding Central Bank market operations. Moreover, we will also be sharing more concrete information on a more frequent basis through various media regarding the Central Bank's approach to monetary policy and general issues. Apart from these, we are working on preparations for a range of aspects of our general communication practices. Accordingly, investors, financial institutions and corporate sector representatives, but above all the financial press, will continue to be our major stakeholders. We aim to sustain our activities to explain the importance of price stability as well as the Central Bank's role in this process to all segments of the society. We will announce our communication framework in detail in the period ahead.

In your first statement, there was also an emphasis on financial stability in addition to price stability. How should we read this?

A highly inclusive and advanced financial system is a prerequisite for the smooth functioning of the monetary transmission mechanism. Economic actors' access to financing means is a key factor for a stable macroeconomic outlook, particularly for production and exports. Moreover, price stability and financial stability are integral parts of one inseparable whole. Financial stability cannot be achieved unless price stability is established. On the other hand, in an economy that lacks strong financial stability, achievement of lasting price stability is out of the question. Therefore, as the CBRT, we closely monitor the interaction between the financial sector and the corporate sector and update our macroprudential tool kit by observing the soundness of the financial system. In the upcoming period, we will be using all available instruments, particularly reserve requirements, to contribute to financial stability.

In the meantime, we will continue contributing to long-term structural efforts towards financial stability. Availability of alternative financing sources and increased instrument diversity will underpin the financing and saving decisions of households and other economic actors, primarily the corporate sector. In this regard, we, as the Central Bank, will be contributing more to steps towards deepening capital markets.

Then you are of the opinion that there is no contradiction between price stability and growth?

These two concepts do not contradict each other; in fact, they support each other. Sound and inclusive growth strengthens the sustainability of price stability. Price stability reduces uncertainties and lowers interest rates, thereby underpinning the growth potential. I assess that continuity of the disinflation process in the current period in particular is essential to a reduced country risk premium and a strengthened economic recovery.

Can we expect a noticeable change in the monetary policy strategy in the new period?

I would like to indicate that the design of monetary policy processes in the new period will be based on a data-focused approach that takes into account all macroeconomic indicators, primarily inflation and economic activity. Additionally, we will continue to closely monitor micro dynamics and field data. In order to enhance effectiveness of the monetary policy, we will work in tandem with all parties that will provide input to the processes, primarily the financial sector, corporate sector and public sector.

What are your assessments of recent inflation developments and your monetary policy stance in the new period? How will the course of the monetary policy be in the upcoming period?

We see that inflation has been on the decline since October on the back of the monetary policy and other measures taken. Besides, inflation expectations are also on the decline in line with the decline in the level and volatility of inflation in the recent period. Both inflation dynamics and pricing behavior have started to improve. We expect that the disinflation process will remain in place on account of reduced cost pressures and weakened domestic demand conditions in 2019.

All these developments suggest that there is room for maneuver in monetary policy. Thus, the Monetary Policy Committee will analyze all data releases and give the most appropriate decision guided by common sense and consultation. Needless to say, to achieve an ever-improving inflation outlook it is crucial to maintain a cautious monetary policy, but the level of tightness here can be best described through real rates rather than nominal rates. I can affirm that, by closely watching all factors affecting the inflation outlook, we will develop a framework that is built upon both expectations and our own projections and maintains a reasonable rate of real return.

There have been growing hopes of monetary easing across major central banks recently. How do you think this will affect an emerging economy such as Turkey?

Amid sharply weakening global economic activity and foreign trade and marked downside risks to inflation across advanced economies, we see mounting hopes of policy easing by major central banks, with the Fed and the ECB in the lead. Hopes of global monetary easing appear to boost the demand and the investor appetite for emerging market economy (EME) financial assets. Nevertheless, we are monitoring any development regarding protectionist trade policies and other global uncertainties.

Looking at the domestic macroeconomic outlook, how do you see growth and the balance of payments?

Recent data point to a moderate economic recovery driven by private and public expenditure as well as net exports. Despite the subdued global economic growth, both trade of goods and tourism and transport remain on the rise. Turkey's market share in world exports has been growing since 2013, which is evidence of improved competitiveness for Turkey. These developments have led to a rapid improvement in the current account balance. We expect the current account balance to approach zero by the end of the year.

Reserve adequacy has been a hot topic lately. Do you have any plans to increase reserves?

Recently, there has been some improvement in reserve adequacy indicators thanks to the narrowing in the current account deficit and the downtrend in short term indebtedness. We still maintain our intention to increase international reserves as an insurance against external shocks provided that the necessary conditions are fulfilled. Currently, we already have the capacity to accumulate reserves via the rediscount credits. Nevertheless, foreign exchange sales to energy importing public institutions decrease reserves. We may take some steps towards increasing our reserves in the upcoming period depending on the global conjuncture and trend of capital flows.

A draft omnibus bill was sent to the Parliament on 8 July 2019, what are your evaluations of the sections regarding the CBRT in this draft bill?

The draft bill includes proposals on rearrangement under three main headings: reserve requirements, high-frequency data collection from financial institutions, and reserve funds. The regulation regarding reserve requirements will expand the Central Bank's mandate pertaining to reserve requirements, taking into account the in-balance sheet and off-balance sheet items deemed appropriate. With the change to be introduced, the Central Bank's tool kit will be expanded and therefore the CBRT's contribution to financial stability will increase. Similarly, access to high-frequency data will reinforce the CBRT's dataset and support the CBRT's new data-oriented monetary policy decision-making processes. Lastly, the rearrangement regarding reserve funds will harmonize the legal infrastructure with the Turkish Commercial Code.

Fitch has downgraded Turkey over doubts about the Bank's independence. What is your view here?

We should make a distinction between instrument independence and goal independence while making evaluations about central bank independence. Central bank independence essentially means instrument independence. This means that a central bank determines the instruments and methods that it will implement to fulfill its duties at its own discretion. The concept of instrument independence has been clearly described in the Central Bank Law. Accordingly, the Bank is authorized to determine and implement the monetary policy instruments at its own discretion to fulfill the duties entrusted to it. There has been no change in this statement.

Allow me one last question before we finish. You mentioned a press conference earlier. Do you have a date in mind?

What I wanted the most when I assumed this position was to have this meeting. I find the media quite essential to our communication, but I've had a busy schedule since day one. The MPC meeting is approaching, so is the Inflation Report. We intend to meet with members of the press at the press conference for the Inflation Report to be held at the Bank.