

ahap Kavcolu: Recent economic and financial developments in Turkey

Speech by Mr ahap Kavcolu, Governor of the Central Bank of the Republic of Türkiye, at the 89th Ordinary Meeting of the General Assembly, Ankara, 30 March 2021.

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Esteemed Shareholders, Distinguished Guests

On the occasion of this meeting, I would like to express my pleasure to be here with you today as the Governor of the Central Bank.

I believe that we will duly fulfill our responsibility with all my colleagues at the Central Bank in the period ahead, and I wish that the new period will be beneficial to our country, our nation and our Bank.

Today, we are holding this meeting under safety measures due to the coronavirus pandemic going on for the past year, which has deeply affected both our daily lives and world economies.

I salute all the stakeholders and audience attending our General Assembly meeting either in this hall or in front of their screens.

The pandemic that has been going on for over a year has caused, among other things, economic challenges and uncertainties all over the world. As you know, the measures that have been put in place to curb the spread of the pandemic since the first quarter of 2020 have adversely affected growth performance of economies all over the world. For this reason, countries have tried to mitigate the potential impact of the pandemic on their economies through expansionary monetary and fiscal policies.

At this point we see an improvement in the global growth outlook and an increase in international commodity prices on the back of positive developments in the vaccination process, in addition to expansionary policies. However, despite the ongoing vaccination efforts, the ongoing uncertainties regarding the vaccination process and the course of the pandemic keep the risks to the global economy alive.

Distinguished Guests,

At my first General Assembly meeting, let me briefly share with you some important issues regarding the monetary policy.

Under the duties and powers set forth by law and in line with its main objective of achieving a permanent fall in inflation, the Central Bank of the Republic of Turkey will continue to use the monetary policy tools effectively.

We are strictly committed to the medium-term inflation target of 5%, defined as price stability and set jointly with the Government. We are going to use the monetary policy tools appropriately to achieve this target.

I would like to underline that we are determined to bring inflation down to 5% in 2023 and keep it there permanently, consistent with the medium-term framework we set out in the January Inflation Report. I am aware that the low inflation environment that we target is a prerequisite for sustainable economic growth as well as employment growth. We will remain determined and resolute to reach this target with our corporate capacity, strong analytical capability and sense of responsibility.

The Central Bank will continue to use all available instruments independently and effectively in pursuit of its primary objective.

In the period ahead, the one-week repo rate will remain our main policy tool, and we will continue to implement the monetary policy within a simplified operational framework.

The inflation-focused monetary policy will be our strongest weapon that will serve as a shield against global fluctuations and financial market volatilities. Our determination to fight with inflation will secure the strength and prestige of the Turkish lira.

In the current period, high levels of inflation and inflation expectations require a tight monetary policy stance. The monetary stance will continue to be determined in view of inflation developments and inflation expectations, and at a degree of tightness that will rapidly restore the disinflation process and ensure its sustainability until we achieve our medium-term targets. Until there are strong indicators that point to a permanent fall in inflation, we will continue to set the policy rate at a level above inflation, in a manner to maintain the strong disinflationary effect.

To sum up, we will make our decisions with a data-centered perspective, taking into account all macroeconomic data flow, inflation in particular. In the new period, we will make the best use of our corporate capacity to ensure a permanent fall in inflation.

It should be noted that the stability to be achieved in the general level of prices will positively affect macroeconomic and financial stability through the fall in country risk premiums, the start of reverse currency substitution, the uptick in foreign exchange reserves, and a permanent decline in financing costs. Accordingly, it will set the ground for a sound and sustainable increase in investments, production, and employment.

Dear shareholders,

In the upcoming period, implementing the reforms set out in the Economic Reform Package announced by our Government will be crucial to reinforcing confidence and stability and thus, to achieving both a permanent fall in inflation and sustainable growth.

On the other hand, like before, we will continue to use our communication channels actively to enhance the effectiveness of our policies and get the views and suggestions of our stakeholders.

In line with the transparency and predictability principles, we will share our decisions with the public.

As I end my speech, I would like to thank you all for your participation.