

Previously, I often encountered news criticizing the Central Bank's repo operations, especially regarding their timing and interest rates. However, after learning new concepts from this course, I wanted to investigate whether there's a behavioral pattern since the COVID-19 period, using a few news headlines as examples.

From this perspective, I identified a general pattern: regardless of market size, money demand, or interest rates, whenever the Turkish lira got out of control, the Central Bank compromised the long-term health of the economy by repeatedly turning liquidity taps on and off abruptly.

The first example comes from a Bloomberg article that described an event early in the COVID-19 pandemic as a "stealth tightening." Initially, the Central Bank injected 40 billion dollars of liquidity into the market, but six months later, it drastically limited bank liquidity again by adjusting bank limits. During that period, weekly repo auctions were completely stopped, forcing banks into more expensive overnight borrowing.

The second phase of this cycle occurred in 2022, when the Central Bank once again halted repo auctions entirely, cutting off funding. Similar to before, this pause was later followed by significant interest rate hikes.

These sudden policy shifts are hardly surprising in Turkey. They are short-term rescue attempts that negatively affect long-term economic variables, despite the Central Bank's claims of caring deeply about economic stability. Unfortunately, the general public quickly forgets these disruptions.

Another factor affected by these repo decisions is inflation. Each time liquidity is significantly increased and then suddenly restricted, inflation jumps sharply and subsequently falls.

Referring to the balance sheet concepts we learned in class, these repo operations increase the asset side of the Central Bank's balance sheet and simultaneously increase bank deposits on the liability side. It wouldn't be incorrect to say this directly influences inflation.

Economist Mahfi Eđilmez describes this phenomenon as "an attempt to look like interest rates are not being increased." He suggests this harms the Central Bank's credibility even more than openly raising interest rates.

In conclusion, although intervening in the lira through weekly and overnight repo operations might seem effective in the short term, these opaque practices create uncertainty in the market, where transparency should instead prevail.