BANCO DE ESPAÑA
Eurosistema

ECONOMIC BULLETIN
2023/Q3

Türkiye: macro-financial situation

https://doi.org/10.53479/30732

Article 01
21/06/2023

Rationale

Türkiye is identified annually as a material country for the Spanish and euro area banking systems. Moreover, both are linked to Türkiye by major trade and financial flows. It is therefore important to monitor the country's macro-financial situation and main weaknesses.

Takeaways

- The Turkish economy has continued to post very high, albeit slowing, inflation rates since late 2022, and economic activity has slowed, against a background of sizeable external financing needs, foreign currency debt and low international reserves.
- Fiscal policy kept the country's accounts healthy in 2022, although a significant downturn is expected in 2023. In terms of monetary policy, the Central Bank of the Republic of Türkiye cut the policy interest rate again in February, with the real interest rate standing at -35.2% in April.
- The banking system remains healthy, although some indicators have worsened. Furthermore, to keep credit growth in check and encourage more widespread use of the lira in the financial system, the macroprudential and regulatory measures introduced in 2021 and 2022 remained in place and were strengthened.

Keywords

Turkish economy, macroeconomic imbalances, inflation, current account balance, capital flows, monetary policy, Turkish lira, international reserves, bank lending.

JEL classification

F31, F32, F34.

Authors:

Paula Sánchez
International Economics and Euro Area Department. Banco de España

Alejandro Melgar
International Economics and Euro Area Department. Banco de España

Pedro del Río
International Economics and Euro Area Department. Banco de España

Introduction

In accordance with the guidance provided by the European Systemic Risk Board (ESRB),[1] Türkiye has been identified for another year by the Banco de España as a material country for the Spanish banking system,[2] largely due to the BBVA Group's credit exposures to this country through its subsidiary bank Garanti (of whose capital it holds an 85.97% stake).

Garanti is Türkiye's second-largest private bank and the fifth largest if state-owned banks are also included. As at 31 March 2023, Garanti's assets accounted for 9% of total BBVA Group assets and its contribution to the BBVA Group's net profit was 11.6% (€277 million), compared with 6.9% for 2022 as a whole (the profit increase was mainly the result of the revaluation of fixed assets due to a change in Turkish tax law). Meanwhile, it is worth remembering that hyperinflationary accounting has been applied since 1 January 2022,[3] which had a negative impact on the net profit in Q1 of -€493 million (-€2,073 million in 2022 as a whole).

The Spanish and Turkish economies are also linked by major bilateral trade and financial flows. With regard to foreign trade, by 2022 data, 1.7% of total Spanish exports went to Türkiye, while the stock of Spanish foreign direct investment (FDI) in Türkiye amounted to 1.25% of the total in 2022. Türkiye is also a material country for the banking systems of the overall euro area and is likewise relevant in terms of trade. The flow of exports from the euro area to Türkiye accounted for 1.5% of the total in 2022 (see Table 1).

This article first analyses economic and financial developments in Türkiye since end-2022, which have been particularly shaped by the impact of economic policies in an environment of very high inflation. It goes on to examine the economic policies implemented over this period and ends with a review of the state of the Turkish banking system.

Economic and financial developments

Very high inflation continued to be the most notable feature of the Turkish economy, although it has been falling significantly following the year-on-year peak of 85% in October 2022. In May 2023 it had eased to 39.6%, still far from the medium-term annual target rate set by the Central Bank of the Republic of Türkiye (CBRT) (5% ± 2 pp) (see Chart 1.a). By component, the easing of inflation is largely the result of energy and food prices, which have corrected significantly from their highs

1 European Systemic Risk Board (2015).

2 This identification exercise is based on the Banco de España's competence to set countercyclical capital buffer rates for domestic banking institutions according to their credit exposures to material third countries in response to certain financial stability risks. The methodology for identifying material third countries can be found in Banco de España (2017).

3 In line with IAS 29 (International Financial Reporting Standards: Financial Reporting in Hyperinflationary Economies), the audit firms publicly declared that hyperinflation accounting should be applied in Türkiye as from 30 June 2022, with effect as from 1 January 2022.

Table 1
Exposure to Türkiye of Spain and the euro area (a)

	€bn		% of GDP		% of the total		Ranking	
Relevance of Türkiye for:	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain
Exports of goods	86.2	7.1	0.61	0.51	1.46	1.70	15	13
Imports of goods	80.5	10.1	0.57	0.72	1.32	2.04	18	10
Exports of services	12.6	0.6	0.09	0.04	0.63	0.52	31	27
Import of services	11.2	0.7	0.08	0.05	0.60	0.91	29	17
International investment position FDI: assets	49.4	7.3	0.34	0.52	0.27	1.25	44	17
International investment position FDI: liabilities	21.1	0.0	0.14	0.00	0.14	0.00	47	79
International investment position portfolio investment: assets	17.6	0.2	0.12	0.01	0.08	0.02	51	42
International investment position portfolio investment: liabilities	0.2	0.0	0.00	0.00	0.00	0.00	64	53
Credit exposure to Türkiye of banks reporting to the BIS (b)	95.5	54.6	0.68	3.90	0.90	2.87	26	12
Turkish banks' claims on euro area and Spanish residents	6.0	0.0	0.04	0.00	0.08	0.00	20	24
Turkish residents' debt with euro area and Spanish banks (c)	95.5	54.6	10.55	6.03	64.86	37.09	—	1

SOURCES: BIS, IMF, World Bank, OECD, Ministerio de Industria, Comercio y Turismo and Banco de España.

a Data for 2022 (trade balance and IIP in FDI for Spain), 2021 (services balance and IIP in FDI for the euro area) and June 2022 (IIP in portfolio investment).
b Euro area and Spanish data for 2022 Q3.
c Turkish data for 2022 Q3.

of 2022. Meanwhile, core inflation has fallen much less, standing at 46.6% in May, compared with 70.5% in October 2022. Although inflation expectations have been revised downwards, they remain very high and outside the short, medium and long-term target range. According to the CBRT's survey of market participants,[4] one-year-ahead expectations stood at 29.8% (see Chart 1.b), two-year-ahead at 17.7% and five-year-ahead at 8.2%.

As well as smaller rises in commodity prices, the recent easing of inflation is also down to base effects, owing to the stabilisation of the exchange rate in the wake of the lira's sharp depreciation between end-2021 and mid-2022, which caused import prices to surge. The easing of global supply chain issues and reduced transportation costs have also contributed to lower inflation. However, certain internal factors have continued to exert upward pressure on inflation, such as the resilience of private consumption supported by robust nominal credit growth, as well as increases to the minimum wage[5] (a 55% hike in January 2023) and public sector wages[6] (up 30% in the first half of 2023).

4 Central Bank of the Republic of Türkiye (2023a).

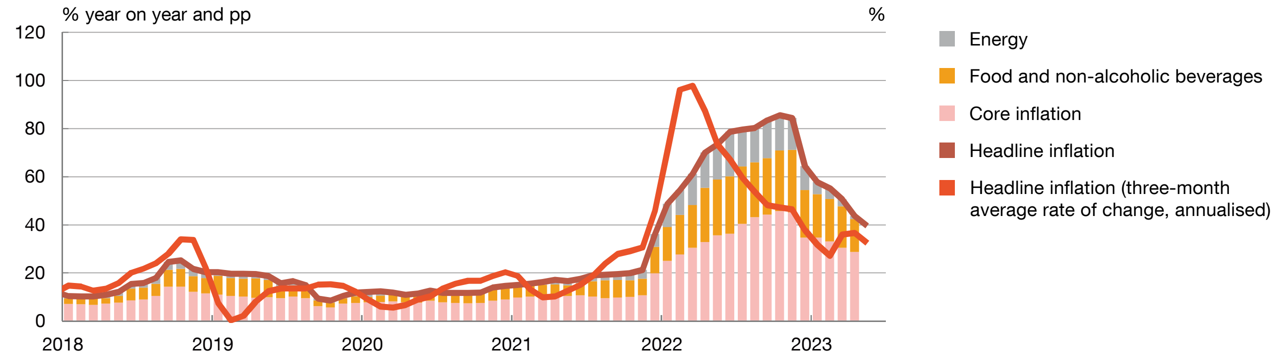
5 The minimum wage, which affects nearly two-thirds of overall formal employment, has been raised four times since 2021: 20% in January 2021, 50% in January 2022, 30% in July 2022 and 55% in January 2023. Organisation for Economic Co-operation and Development (2023).

6 The number of public sector employers in Türkiye rose to slightly over two million in March 2023 – 6.7% of formal employment.

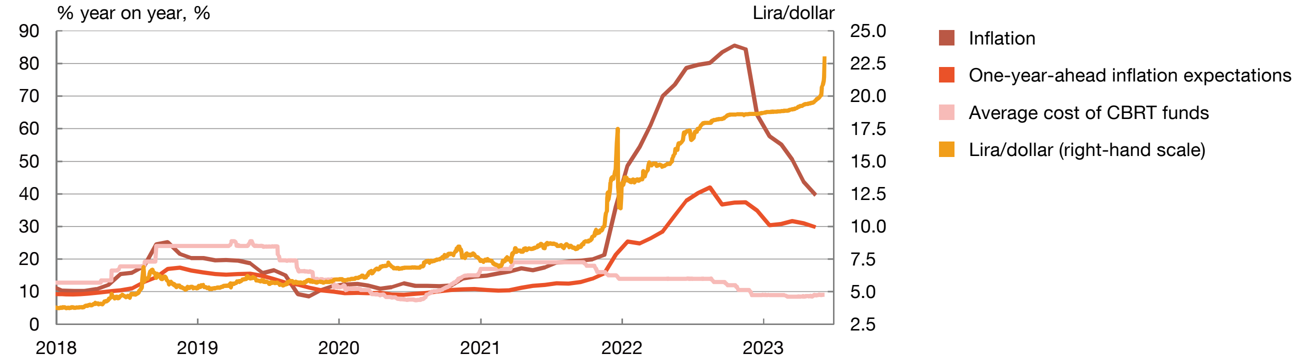
Chart 1

Inflation has been slowing since late 2022 owing to a strong base effect and falling energy prices

1.a Contributions to year-on-year inflation (a)



1.b Inflation, policy interest rate and exchange rate



SOURCES: Thomson Reuters, CBRT and Turkish Statistical Institute.

a The contribution of the components is measured as the rate of change of each component multiplied by its weight in the CPI.

DOWNLOAD

Beyond the inflation expectations based on the CBRT's surveys, major international organisations expect the easing in inflation to slow down in the next two years or even come to a halt, settling between 45% and 50% in 2023 and between 35% and 40% in 2024, with upside risks predominating (according to the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD)).[7] With the lira recently coming under increased pressure, uncertainty surrounds future movements of the exchange rate. This is compounded by the potentially inflationary impact of new government spending measures (e.g. the 36% increase to the minimum pension announced for mid-2023 and another minimum wage hike – of 45% – in July) and the possible adverse effect on food prices of the February earthquakes, which struck major agricultural areas.

Turkish financial markets have shown more stable performance since summer 2022 (see Charts 1.b, 2.b and 3.a). For example, the Turkish lira lost just 5% of its value against the US dollar between early 2023 and May 2023 in comparison with the 50% depreciation between

7 International Monetary Fund (2023a) and Organisation for Economic Co-operation and Development (2023).

September 2021 and June 2022. However, the lira has again depreciated in recent weeks as a result of the May elections and their outcome. Following the Ministry of Finance's announcement of possible changes in economic policies that are yet to be defined, the financial markets reacted with an uptick on the stock market and a marked drop in sovereign bond spreads. The lira, however, has continued to fall against the dollar in response to the need to correct the significant real effective exchange rate appreciation resulting from high inflation – a cumulative 35% (with producer prices) between early 2022 and April 2023 (see Chart 2.a). This has led to a notable drop in the economy's competitiveness.

The Turkish authorities' "liraisation" strategy, which is intended to boost the share of the lira in financial assets and liabilities,[8] has contributed to the increased stability of the lira and other financial assets and the drop in deposit dollarisation (a standard way of protecting savers). In addition to the measures introduced in 2021 and 2022 as part of this strategy,[9] the target ratio of lira bank deposits to total deposits was raised from 50% to 60% in January 2023. Likewise, the cost of foreign currency deposits was increased, with the percentage requirement for holdings of government-issued lira-denominated bonds rising from 5% to 10% of said deposits[10] and the reserve requirement for lira deposits with a maturity beyond three months being lowered to zero.

In this setting, the downward trend in foreign currency bank deposits has continued, falling from 53% of the total in October 2022 to 40.1% at mid-May 2023. If the foreign exchange-protected deposits (which have been rising since late 2023 and whose upper interest rate limit was removed in late March 2023) introduced as part of the liraisation strategy are included here, the percentage drop is smaller, falling from 70% to 64.2%, although the 6 pp rebound in April-May should be noted (see Chart 3.c).

The growth rate of housing prices has slowed somewhat, although they continue to rise steeply (see Chart 3.b) outpacing inflation (133% year on year in March 2023). Housing prices are affected by demand for an asset sheltered from the effects of inflation and have been driven mainly by purchases without a mortgage (which accounted for nearly 80% of the total in Q1), but also by other factors, such as rising construction costs and the moderation of the housing supply.

In terms of economic activity, the Turkish economy slowed down in 2022 H2 and 2023 Q1, with year on year GDP growth of around 4%, following much more robust growth in 2022 Q1 – around 7.5% year on year (see Table 2 and Chart 4.b). This was the result of a sharp decline in investment and the negative contribution of net exports, weighed down by the real appreciation of the exchange rate, while private consumption remained more buoyant, thanks to positive performance from employment and wages, as noted above, as well as the broad fiscal impulse resulting from, among other factors, the measures put in place to protect households from high energy prices and the pre-election measures approved in early 2023.

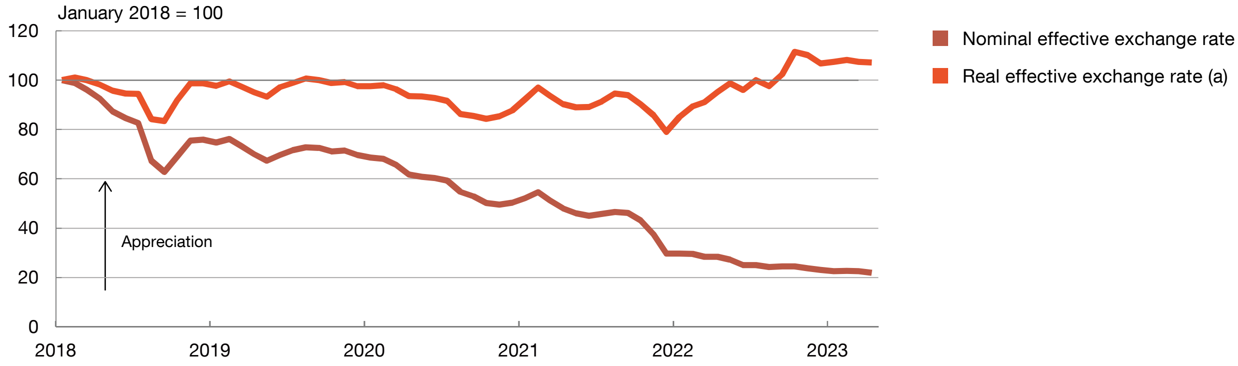
8 Sanchez Pastor (2023) and Central Bank of the Republic of Türkiye (2022a).

9 Such as foreign exchange-protected deposits and the requirement for Turkish firms to convert 40% of their foreign income to lira with the CBRT.

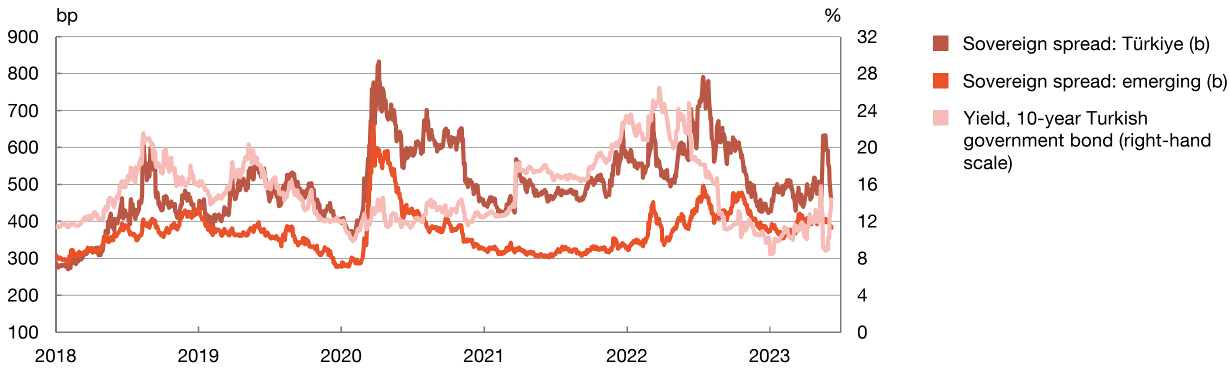
10 A certain discount is triggered when the proportion exceeds 60% or 70%. Central Bank of the Republic of Türkiye (2023b).

Chart 2
An appreciating exchange rate and easing of financial tensions

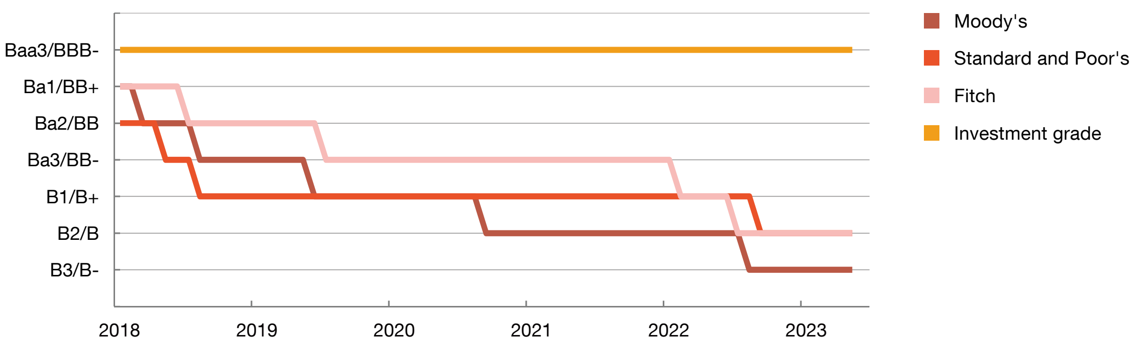
2.a Turkish lira effective exchange rates



2.b Country risk indicators



2.c Sovereign rating



SOURCE: Thomson Reuters.

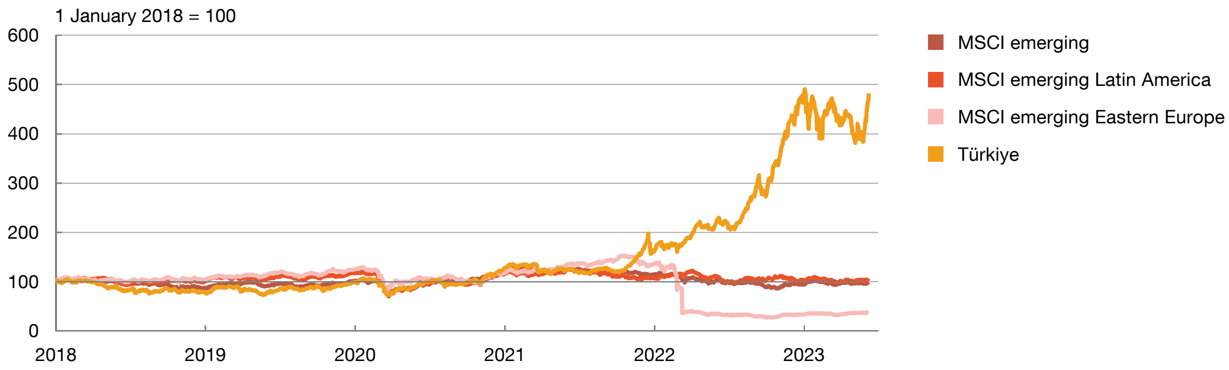
a Constructed using the Producer Price Index.
b JPM EMBI Global-Stripped Spread.

DOWNLOAD

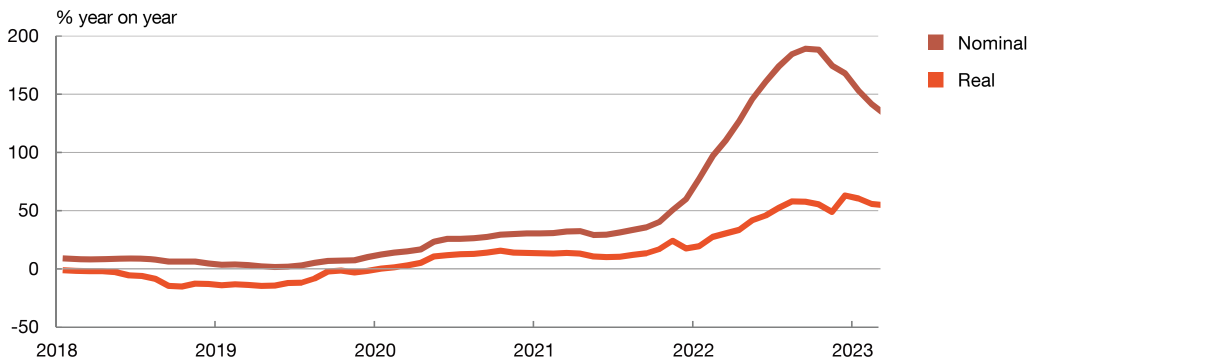
The more moderate growth rate in activity looks likely to continue in upcoming quarters as a result of the expected softening of domestic demand and weaker growth in external demand. In addition, the disruptions caused by the earthquakes in the south-east of the country in early

Chart 3
Moderation in stock market growth, easing housing prices and falling foreign currency deposits

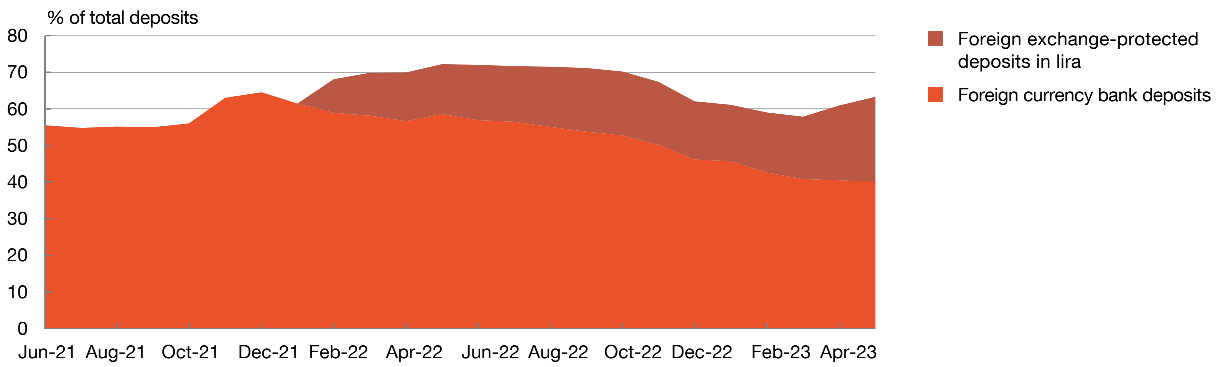
3.a Stock market indices



3.b House prices



3.c Dollarisation of deposits



DOWNLOAD

SOURCES: Thomson Reuters and Turkish Banking Regulation and Supervision Agency.

February will likely hamper GDP growth in 2023 by around 0.8 pp, according to IMF forecasts,[11] while reconstruction spending will lift GDP in 2024 by around 0.6 pp. Against this background, the IMF expects Türkiye's GDP growth to slow from 5.6% in 2022 to 2.5% in 2023, before picking up in 2024 to 3.5% (see Chart 4.c).

11 International Monetary Fund (2023b).

Table 2
Main economic indicators (a)

	2020	2021	2022	2022 Q2	2022 Q3	2022 Q4	2023 Q1
GDP	1.9	11.4	5.6	7.8	4.0	3.5	4.0
GDP (q-o-q)			0.7	1.8	-0.1	0.9	0.3
Domestic demand	7.3	6.5	5.2	5.3	3.6	6.9	7.3
Private consumption	3.2	15.3	19.7	22.4	20.4	16.1	16.2
Government consumption	2.5	2.6	5.2	1.6	4.7	9.0	5.3
Fixed capital investment	7.4	7.4	2.8	5.3	-0.8	2.6	4.9
Exports	-14.4	24.9	9.1	16.4	12.4	-3.3	-0.3
Imports	6.7	2.4	7.9	5.8	11.9	10.2	14.4
Consumer prices	12.3	19.6	72.3	74.1	81.1	77.4	54.3
Core inflation	11.2	18.3	57.3	55.3	65.3	63.2	50.2
Retail sales (IBGE)	3.3	15.5	10.2	12.9	7.8	14.7	28.1
Consumer confidence index (b)	81.0	79.0	71.3	66.1	70.9	76.1	80.6
Total credit	29.0	21.7	53.6	52.2	64.8	57.3	56.9
Industrial production	2.2	16.5	6.2	11.5	3.3	0.4	-0.5
Total employment	-4.8	7.7	6.8	8.4	6.0	5.4	5.2
Unemployment rate (% of labour force)	13.1	12.0	10.5	10.7	10.0	10.2	9.9
Wages	7.0	39.7	87.5	72.5	103.7	107.4	115.7
Current account balance (% of GDP)	-4.4	-0.9	-5.3	-3.0	-4.6	-5.3	-5.6
Trade balance (% of GDP)	-5.3	-3.6	-9.9	-6.9	-9.0	-9.9	-10.1
International reserves ($bn)	128.0	156.7	166.4	143.5	153.0	166.4	161.3
Central government primary balance (% of GDP)	-0.8	-0.2	1.1	1.6	0.6	1.1	-0.5
Central government total balance (% of GDP)	-3.4	-2.7	-0.9	-1.3	-0.9	-0.4	-2.0
Public sector gross debt (% of GDP)	35.9	37.9	26.9	33.6	29.3	26.9	26.2
Sovereign spread (bp)	574.2	487.6	576.3	578.2	657.6	499.4	474.9
Exchange rate against $ (period average)	7.0	8.8	16.6	15.8	17.9	18.6	18.9
Exchange rato against € (period average)	8.0	10.4	17.4	16.8	18.1	19.0	20.2
Policy interest rate (1-week repo auction)	17.0	14.0	9.0	14.0	12.0	9.0	8.5

SOURCES: CBRT and Thomson Reuters.

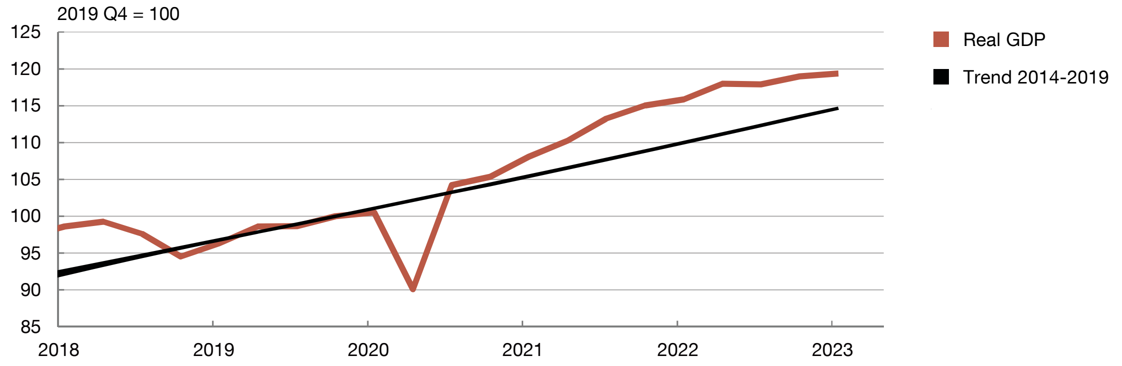
a Year-on-year change, unless otherwise indicated.
b Levels.

In terms of Türkiye's external vulnerabilities, the current account deficit widened significantly in 2022 – a pattern that continued in early 2023, reaching as high as 6.2% of GDP in March in 12-month cumulative terms. This represents a marked deterioration with respect to the average of 2.7% of GDP in the period 2015-2021 (see Chart 5.a). The downturn in recent months can broadly be explained by greater buoyancy of imports relative to exports (affected by the lira's loss of real competitiveness), despite the significant drop in the energy deficit owing to the fall in energy prices and strong tourism receipts. Within imports, it is worth noting the growing importance of gold imports (increasingly sought-after as a safe-haven asset), which grew to slightly more than 3% of GDP in Q1, although this factor is expected to decline given the restrictions put in place in February 2023. The external deficit in 2022 was fundamentally financed by inflows of other investments (mainly commercial loans), alongside a significant volume of

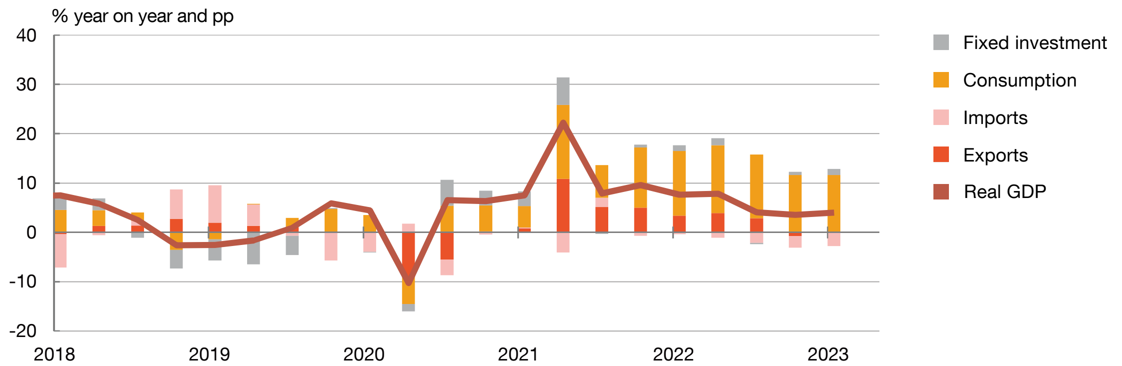
Chart 4

The Turkish economy has slowed since 2022 H2 and the outlook for growth is down

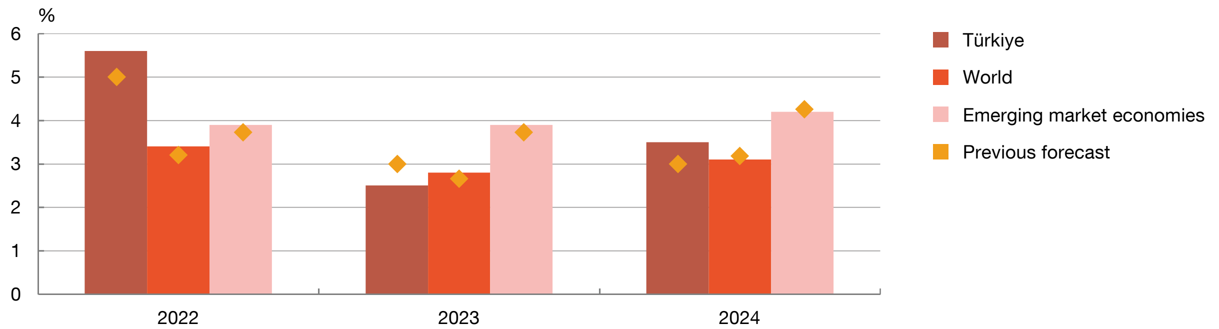
4.a Real GDP and trend



4.b GDP and contributions to growth



4.c GDP growth forecasts (a)



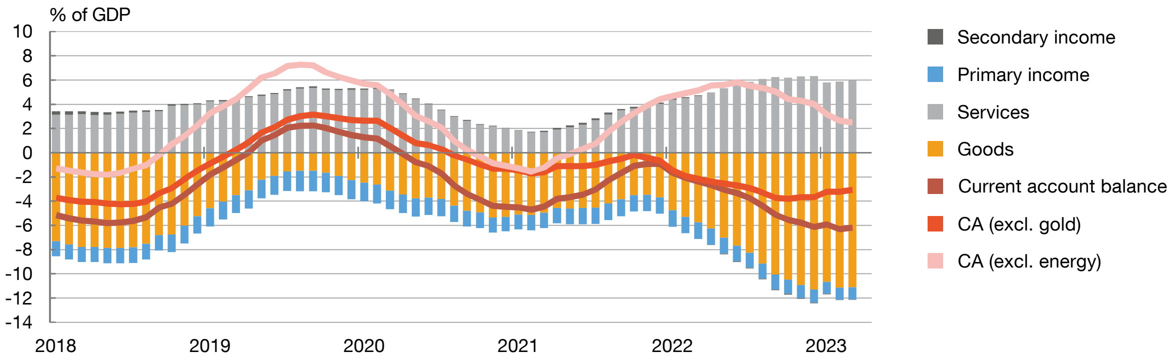
SOURCES: Turkish Ministry of Treasury and Finance, Turkish Statistical Institute and IMF.

a April 2023 IMF forecasts in the World Economic Outlook (the diamonds denote the October 2022 forecasts).

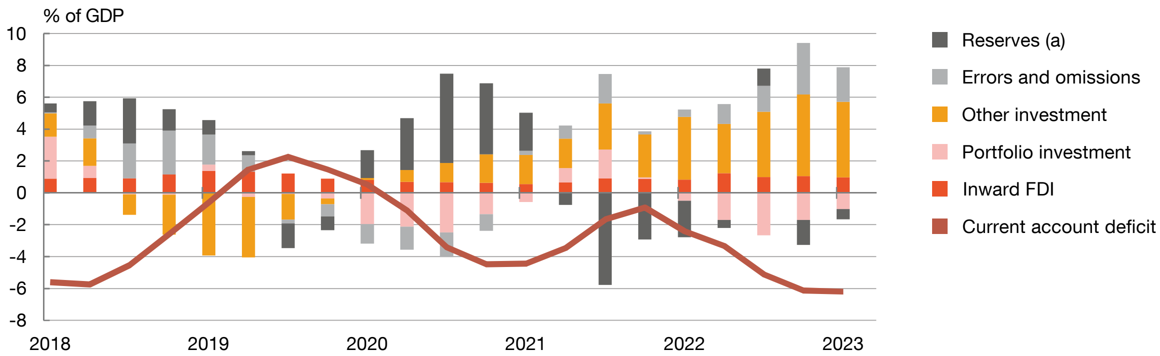
DOWNLOAD

Chart 5
The current account deficit is widening

5.a Current account – 12-month cumulative



5.b Current account balance and financing – four-quarter cumulative



SOURCES: Thomson Reuters, CBRT, Turkish Ministry of Treasury and Finance and Turkish Statistical Institute.

a A negative change indicates a rise in reserves.

DOWNLOAD

errors and omissions[12] and, to a much lesser extent, inflows of foreign direct investment (see Chart 5.b).

Türkiye's negative net international investment position has improved in the last two years, from -54% of GDP at beginning-2021 to -28% at end-2023. This is mainly the result of the fall in the value of its liabilities, particularly in terms of foreign direct investment (see Chart 6.1), although Türkiye is still heavily dependent on external financing. Gross external debt stood at 52.4% of GDP at end-2022 (53.8% in 2021), of which half is accounted for by the public sector.

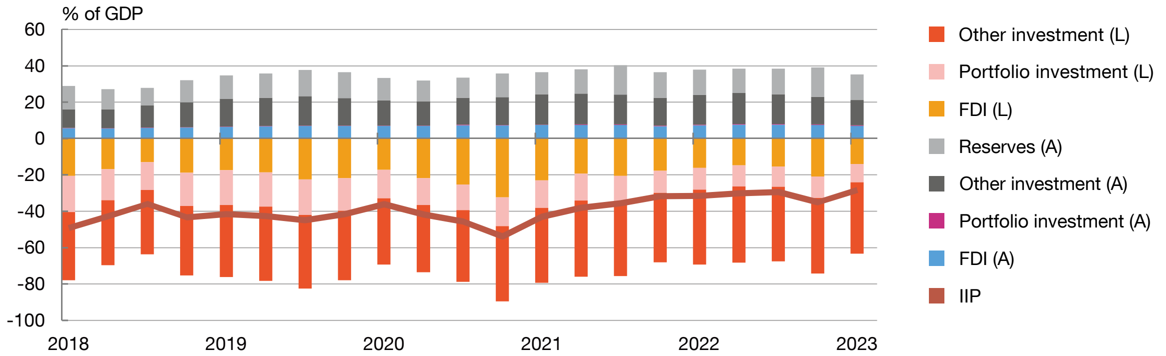
In terms of the exchange rate exposure of Turkish non-financial corporations, the liraisation strategy has led to a narrowing of the gap between corporate long-term financial assets and liabilities denominated in foreign currencies, owing to reduced domestic bank lending in such

12 It is thought that this item's sharp rise in 2022 was the result of, among other things, capital repatriation from offshore locations (not recorded under other items) by Turkish residents and capital brought in by citizens of other countries (Russia). In the early months of 2023, the contribution of errors and omissions has fallen significantly and, in turn, international reserves can be seen to have fallen (see Chart 8.b).

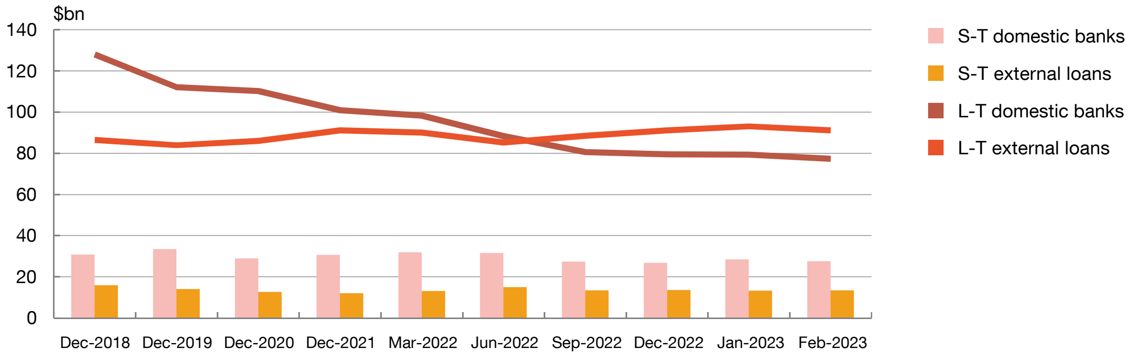
Chart 6

The country remains highly dependent on external financing, although the situation of non-financial corporations is improving

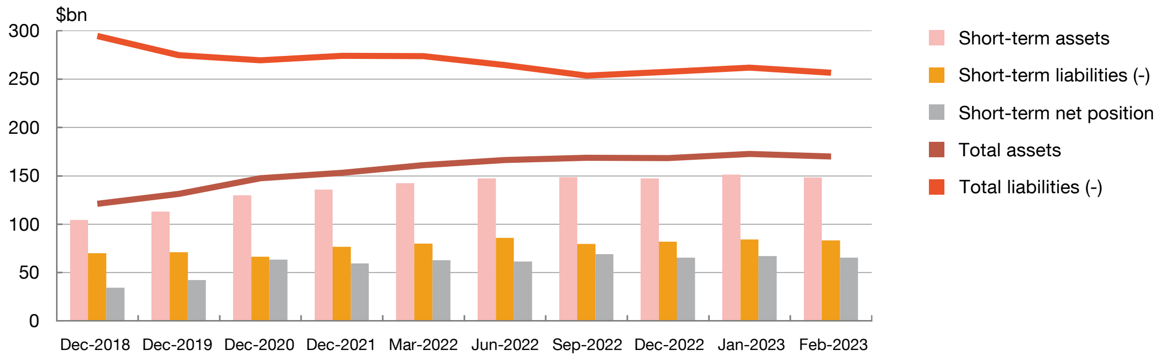
6.a External position (a)



6.b Non-financial corporations' foreign currency liabilities by maturity (b)



6.c Non-financial corporations' foreign currency assets and liabilities



SOURCES: Thomson Reuters, CBRT, Turkish Ministry of Treasury and Finance and Turkish Statistical Institute.

a (A) assets; (L) liabilities.
b Short-term external loans include long-term external loans falling due within a year. However, short-term domestic loans do not include long-term bank loans falling due within a year.

DOWNLOAD

currencies, given measures such as the ban on lending in foreign currencies to firms whose foreign currency assets exceed TRY 10 million or 5% of their total assets. In the short term, although the share of bank deposits in foreign currency has also dropped as a result of the liraisation measures, firms' foreign currency financial assets continue to outweigh their financial liabilities (see Charts 6.b and 6.c). That said, the currency mismatch risk remains for some firms that have foreign currency debt but have income in lira.

Economic policies

The 2022 performance of Türkiye's fiscal accounts was strongly affected by rising inflation and robust activity, which drove an increase in nominal GDP and revenue above expenditure, such that the general government deficit appears to have dropped from 4% of GDP in 2021 to 1.6% in 2022, according to the IMF's most recent estimations,[13] while the central government deficit fell by nearly 50% in the same period (see Chart 7.a). The general government debt ratio appears to have dropped from 41.8% of GDP in 2021 to 31.2% in 2022, according to the IMF.

However, in 2023 Q1, the public deficit recorded a marked downturn. This is expected to continue throughout the rest of the year owing, among other factors, to the downturn in the economy itself and to the easing of inflation, which will act as a drag on government revenue, along with the fiscal stimulus measures approved or announced prior to May's presidential elections (such as the above-mentioned hikes to public sector wages and minimum pensions, the early retirement plan and tax cuts). In addition, there will be increased outlay on reconstruction in the wake of the earthquake (adding 2.5 pp to GDP in 2023-24, according to the IMF).[14] Thus, the general government deficit could stand at around 6.5% of GDP in 2023, according to the IMF's April outlook, compared with 5.6% in its October 2022 projections. According to the IMF, the general government debt will rise to 35% of GDP. Furthermore, the public accounts are subject to several future contingencies, such as the need to cover potential losses incurred by state-owned enterprises or the cost of foreign exchange-protected deposits, which shift exchange rate risk onto the public sector.

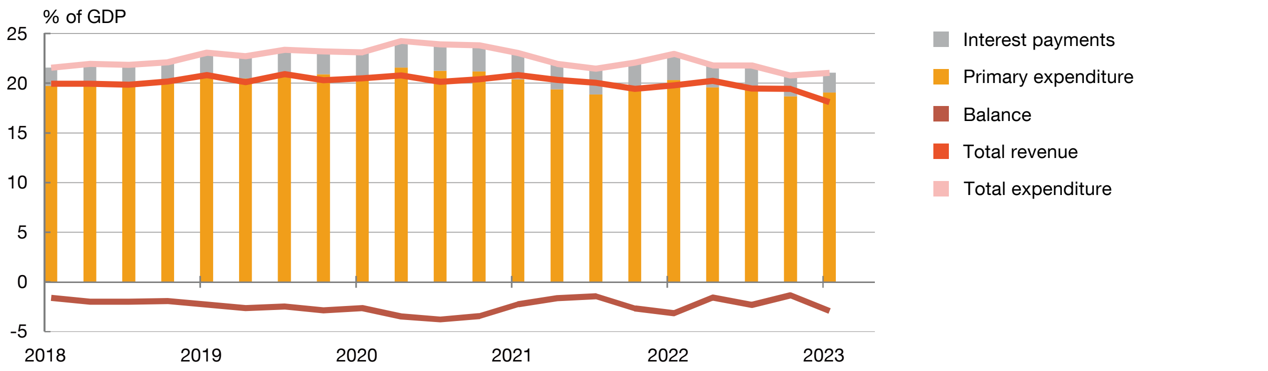
Government debt instruments have undergone changes in recent years, with maturity dates being pushed back (see Chart 7.b) and long-term interest rates in local currency falling significantly. These shifts are partly the result of the macroprudential and regulatory measures introduced in connection with the liraisation and credit monitoring measures and they caused the government debt held by the banks to increase to 78.2% of the central government's domestic debt in March 2023, reinforcing the sovereign-bank nexus (see Chart 7.c). Notable among these measures are the hike in the percentage of government debt required as collateral for CBRT lira-denominated financing (to 50%), the replacement of reserve requirements for corporate loans (introduced in 2022) with the requirement to hold lira-denominated bonds (affecting loan stock as well as the

13 Data from the Fiscal Monitor April 2023 (International Monetary Fund, 2023c). In its October 2022 projections, the IMF forecast a deficit of 4.2% of GDP in 2022 and government debt of 37.5% of GDP.

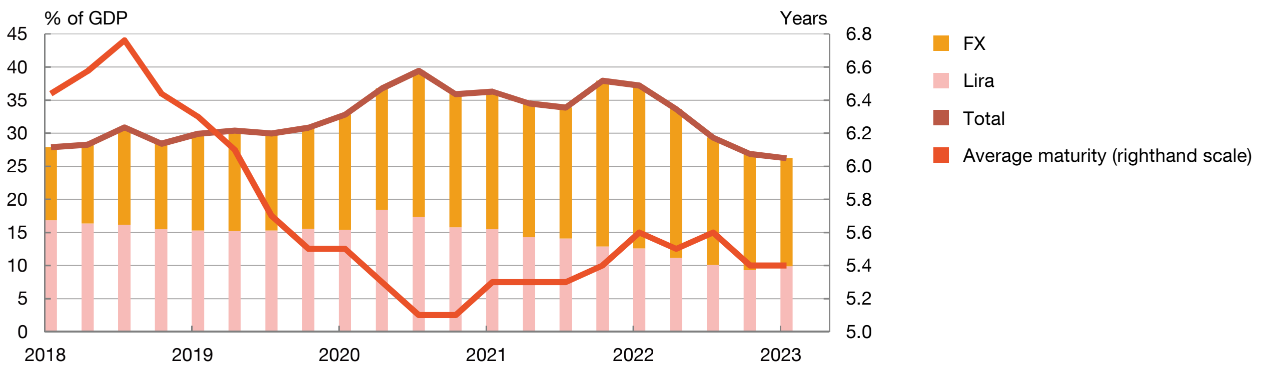
14 International Monetary Fund (2023b).

Chart 7
Public finances improved in 2022 and are healthy but worsen in 2023

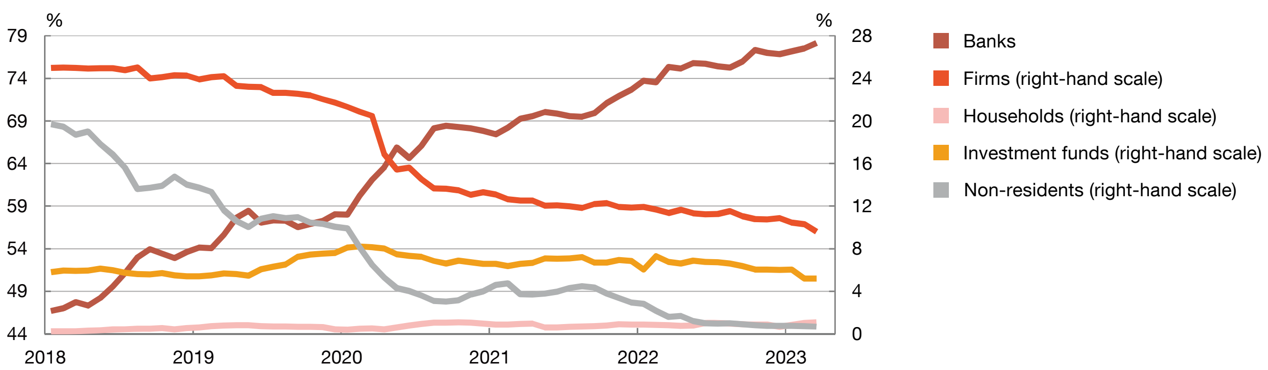
7.a General government balance – four-quarter cumulative



7.b Gross central government debt



7.b Gross central government debt



SOURCES: Thomson Reuters and Turkish Ministry of Treasury and Finance.

DOWNLOAD

flow of new loans), and the obligation (as part of the deposit reserve requirements) to hold a percentage of lira-denominated bonds that varies (and rises) in line with the ratio of foreign currency deposits to total deposits. Nonetheless, the proportion of foreign currency debt has grown, now accounting for around two thirds of the total, (see Chart 7.b).

In terms of monetary policy, the CBRT cut the policy rate again in February 2023 by 50 basis points (bp) to 8.5%, following an accumulated reduction of 500 bp between August and November 2022 (see Chart 8.a). Thus, in spite of easing inflation, real interest rates remain deep in negative territory, at -31.1% ex post and -21.3% ex ante (with one-year-ahead inflation expectations). This gives an idea of the highly expansionary nature of the monetary policy (according to the IMF, the natural real interest rate would be around 3-4%)[15] and stands in contrast to what can be seen in other emerging market economies (see Chart 8.b).

Furthermore, as noted in the previous report,[16] the CBRT introduced a measure in August 2022 to narrow the widening gap between its policy interest rate and corporate lending rates, by forcing credit institutions to hold a certain percentage of the amount lent in lira-denominated bonds – the percentage varying according to the difference between these two interest rates.[17] However, other interest rates, such as those on deposits or loans to consumers, have risen sharply in recent weeks, straying ever further from the policy rate (see Chart 8.a).

In spite of the measures introduced under the liraisation strategy[18] and tourism's strong showing, the central bank's foreign exchange reserves remained very low in 2022 (although there was a slight increase over the course of the year) and even entered negative territory once net reserves were considered excluding swaps with commercial banks and other central banks. Furthermore, they fell even further in early 2023 (see Chart 8.b), partly since they were used to finance the current account deficit. In addition, readily available reserves are fairly scarce – 35% are gold and 15% are currencies considered less easily convertible – and are largely held by commercial banks (deposits and swaps).

The banking sector

The Turkish banking sector remains healthy, although indicators have performed unevenly since mid-2022. In addition, the macroprudential and regulatory framework has become more complex, which could distort price setting and portfolio allocation.

With respect to indicators of the banking system's health, the liquidity position remains comfortable, with loan-to-deposit and asset-to-short term liabilities ratios holding relatively stable in recent months (see Chart 9.a). The non-performing loan ratio has continued to decrease (to 1.8% in March), although provisions have continued to increase (see Chart 9.b). The sector's profitability improved significantly in 2022. Return on assets[19] rose from 1.32% in December 2021 to 3.66% in December 2022. Lastly, the solvency ratio remains above the regulatory limits, although the capital adequacy ratio fell to 17% in January 2023. It later rallied

15 International Monetary Fund (2021).

16 Sánchez Pastor, Paula (2023).

17 They must hold 20% of the amount lent when the compound annual interest rate is more than 1.4 times the benchmark rate. If the rate applied is more than 1.8 times the benchmark rate, they must hold 90% of the amount lent.

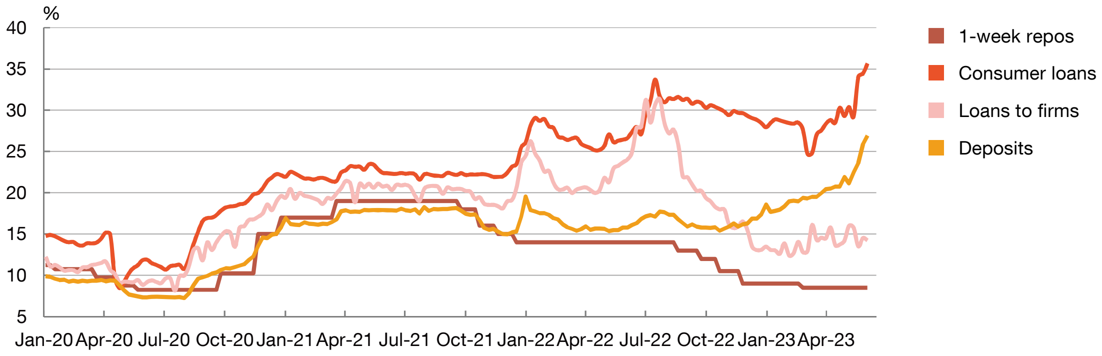
18 Central Bank of the Republic of Türkiye (2023c).

19 Ratio of total income to total assets, calculated as the annual cumulative profit divided by 12 months' average equity or assets.

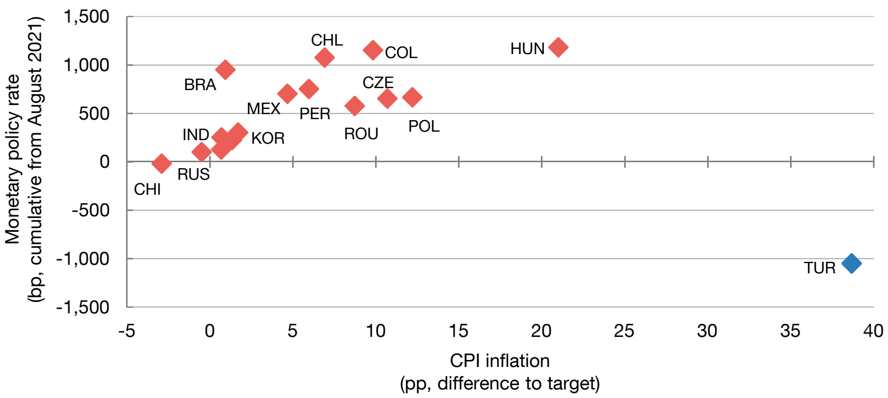
Chart 8

The CBRT has lowered its policy interest rate, against a backdrop of soaring inflation and scarce international reserves

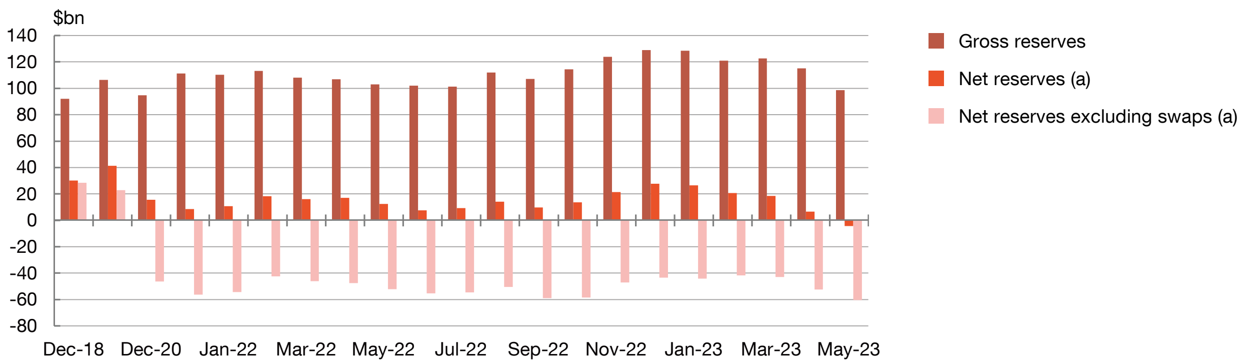
8.a Interest rates in Turkish lira



8.b Monetary policy rates and inflation in emerging market economies



8.c CBRT reserves



SOURCES: Thomson Reuters, CBRT and Turkish Statistical Institute.

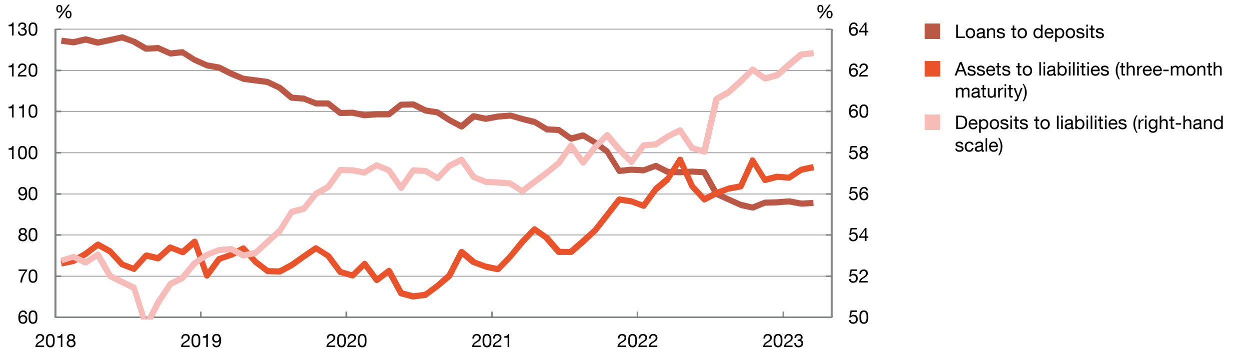
a Gross reserves = gold and foreign currency. Net reserves = gross reserves - reserve requirements (gold and foreign currency) - public sector foreign currency deposits. Net reserves excluding swaps = net reserves - gold swaps and foreign currency swaps.

DOWNLOAD

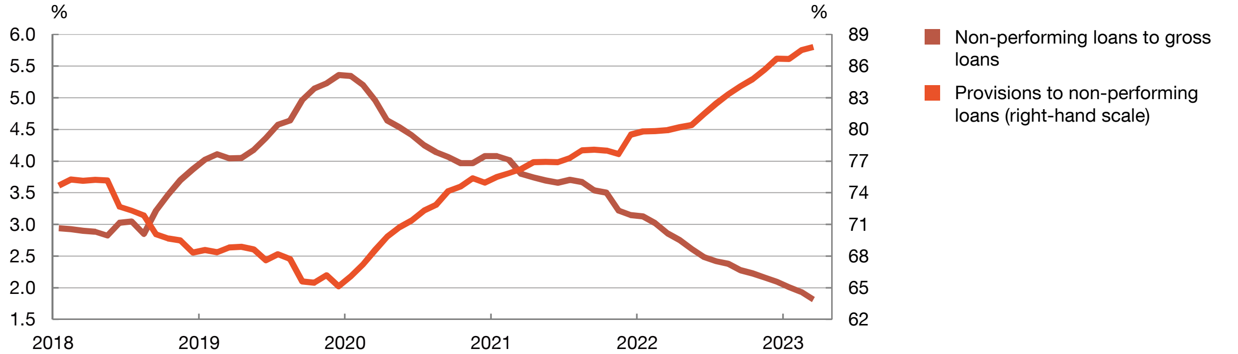
to 17.7% in March following the Turkish government's capital injection of $5.8 billion into state-owned banks, the least capitalised ones, in order to allow them to continue granting loans (see Chart 9.c).

Chart 9
The banking sector remains healthy

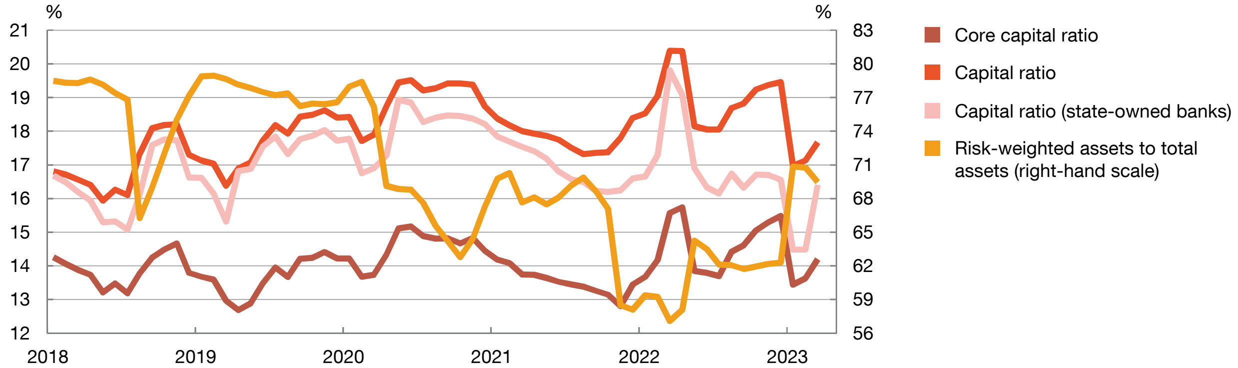
9.a Liquidity and leverage



9.b Non-performing loans



9.c Solvency



DOWNLOAD

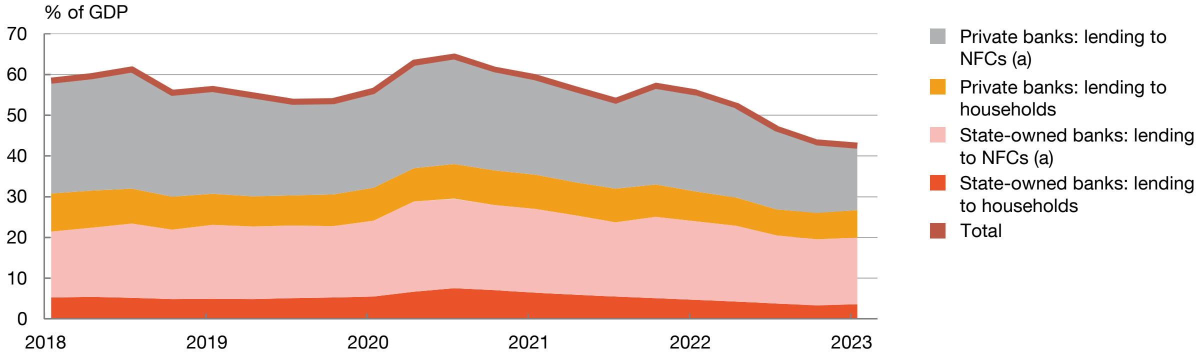
SOURCE: Turkish Banking Regulation and Supervision Agency.

With regard to credit developments, lending by both state-owned and private banks to households has risen in real terms since late 2022,[20] although unevenly across components. While some items, such as mortgage and general purpose loans, have fallen, these declines have been more than offset

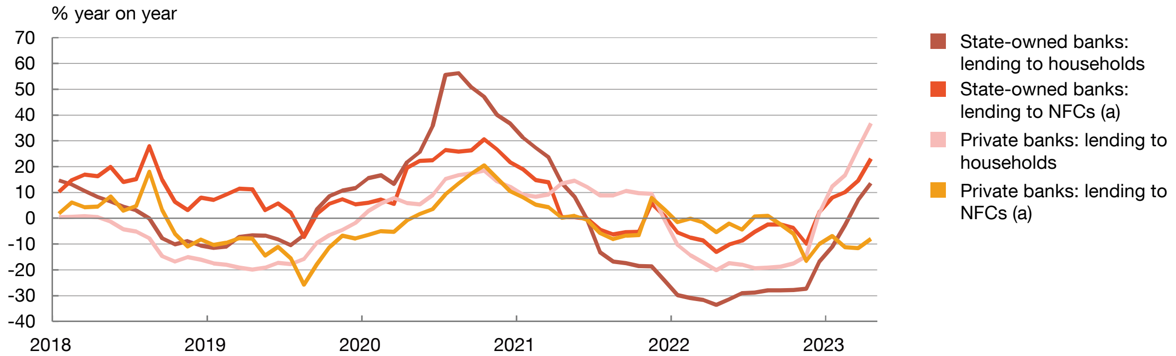
20 Mortgages account for 25% of total consumer credit, credit cards 28%, general-purpose loans 44% and auto loans 3%.

Chart 10
Measures to control credit growth remain in place

10.a Stock of bank credit



10.b Real change in bank lending



SOURCES: Thomson Reuters and Turkish Ministry of Treasury and Finance.

a Non-financial corporations.

DOWNLOAD

by the rise in auto loans and credit card use. Thus, macroprudential measures[21] were introduced in June 2022 to reduce the maturity periods of consumer loans, increase the minimum monthly payment on credit cards for amounts over TRY 25,000 and cut the loan-to-value ratio for mortgages. Loans to firms from state-owned banks rose, but this was not the case for loans from private banks, which continued to fall, influenced by the control measures in place (see Charts 10.a and 10.b).

REFERENCES

Banco de España (2017). "Box 3.2. Material third countries for the purposes of the countercyclical capital buffer". In *Financial Stability Report - Banco de España,* 11/2017. https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinancera/17/IEF_Noviembre2017Ing.pdf

Central Bank of the Republic of Türkiye. (2022a). *Monetary Policy and Liraization Strategy for 2023,* 30 December 2022. https://www.tcmb.gov.tr/wps/wcm/connect/1c1885ca-b730-452a-86d3-c22b33dc0eac/2023%2BPara%2BPolitikas%C4%B1%2Bve%2BLirala%C5%9Fma%2BStratejisi_123022_0945_ENG.pdf?MOD=AJPERES

21 Central Bank of the Republic of Türkiye (2022b).

Central Bank of the Republic of Türkiye. (2022b). “Box 1.1. Recent Credit, Collateral and Liquidity Policy Steps”. In *Inflation Report - CBRT,* 2022 III. https://www.tcmb.gov.tr/wps/wcm/connect/01670d57-4bd2-4e31-9200-05313a15bade/Box_1.1_2022_iii.pdf?MOD=AJPERES

Central Bank of the Republic of Türkiye. (2023a). *Survey of Market Participants,* May. https://www.tcmb.gov.tr/wps/wcm/connect/7d0b1e66-2858-4b82-80fe-78592a41945f/SMP_Report.pdf?MOD=AJPERES

Central Bank of the Republic of Türkiye. (2023b). Press releases (2023-01 & 2023-05). https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases

Central Bank of the Republic of Türkiye. (2023c). “Box 2.3. Global FX Reserves Developments”. In *Inflation Report - CBRT,* 2023 I. https://www.tcmb.gov.tr/wps/wcm/connect/8f0cc92d-4980-4a0f-ae0e-0dfc3e36e170/Box+2.3._2023_i.pdf?MOD=AJPERES

European Bank for Reconstruction and Development (2022). *Regional Economic Prospects, a Cold Winter Ahead? Confronting the Energy Crunch,* September. https://www.ebrd.com/what-we-do/economic-research-and-data/rep.html

European Systemic Risk Board (2015). *Decision ESRB/2015/3 on the assessment of materiality of third countries for the Union's banking system in relation to the recognition and setting of countercyclical buffer rates.* https://www.esrb.europa.eu/pub/pdf/recommendations/2016/Decision_ESRB_2015_3.en.pdf

International Monetary Fund (2021). *Turkey Staff Report for the 2021 Article IV Consultation.* https://www.imf.org/en/Publications/CR/Issues/2021/06/11/Turkey-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-50205

International Monetary Fund (2023a). *World Economic Outlook,* April 2023. https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023

International Monetary Fund (2023b). *Regional Economic Outlook for Europe,* April 2023. https://www.imf.org/en/Publications/REO/EU/Issues/2023/04/09/regional-economic-outlook-for-europe-april-2023

International Monetary Fund (2023c). *Fiscal Monitor,* April 2023. https://www.imf.org/en/Publications/FM/Issues/2023/04/03/fiscal-monitor-april-2023

Organisation for Economic Co-operation and Development (2023). *OECD Economic Surveys: Türkiye 2023.* https://www.oecd-ilibrary.org/docserver/864ab2ba-en.pdf

Sánchez Pastor, Paula. (2023). “Turkey: macro-financial situation”. *Economic Bulletin - Banco de España,* 1/2023. https://repositorio.bde.es/handle/123456789/27331

World Bank (2023). *Global Rapid Post-Disaster Damage Estimation (GRADE) Report.* https://documents1.worldbank.org/curated/en/099022723021250141/pdf/P1788430aeb62f08009b2302bd4074030fb.pdf

How to cite this document

Paula Sánchez, Alejandro Melgar and Pedro del Río. (2023). “Türkiye: macro-financial situation”. *Economic Bulletin - Banco de España*, 2023/Q3, 01. https://doi.org/10.53479/30732

Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.
© Banco de España, Madrid, 2023
ISSN 1695-9086 (online edition)