



REPUBLIC OF TÜRKİYE

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF TÜRKİYE

October 2024

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with the Republic of Türkiye, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 27, 2024 consideration of the staff report that concluded the Article IV consultation with the Republic of Türkiye.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 27, 2024, following discussions that ended August 21, 2024, with the officials of the Republic of Türkiye on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 12, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Türkiye.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2024 Article IV Consultation with Türkiye

FOR IMMEDIATE RELEASE

Washington, DC – October 11, 2024: On September 27, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Türkiye.

A decisive shift in economic policies over the past year has tightened Türkiye's overall policy stance. The Central Bank of the Republic of Türkiye (CBRT) has brought the ex ante real policy rate into positive territory while reducing regulatory complexity. Tax and expenditure measures underpin efforts to restore fiscal prudence and the commitment to stronger incomes policies has strengthened credibility.

The policy turnaround has reduced economic imbalances and revived confidence. Headline inflation has fallen as tighter financial conditions are weighing on domestic demand. Market sentiment has sharply improved, with domestic and foreign investors shifting into lira-denominated assets while lower commodity prices, buoyant exports, and reduced gold imports have strengthened the current account, supporting a large improvement in both the gross and net reserves position. The financial and corporate sectors appear to have weathered the policy tightening and financial liberalization so far. Credit default swaps (CDS) spreads are now at about half their mid-2023 levels.

Under the authorities' gradual policy adjustment, inflation is expected to further decline. Contractionary ex ante real policy rates, moderating wage growth, and more contractionary fiscal policy in 2025 are expected to reduce inflation to 43 percent this year and 24 percent in end-2025. After a strong first quarter, growth has weakened and is expected to fall to 3 percent in 2024 and 2.7 percent in 2025, recovering toward 4 percent in the medium term. Disinflation and improved confidence will support a narrowing of the current account deficit to about 2 percent of GDP and reserves to around 100 percent of the IMF's adequacy metric.

Risks around the baseline are significant and tilted to the downside. They include stronger-than-expected wage and price inertia, a reversal of capital flows, higher global energy prices, and escalating geopolitical tensions. Significant financial and external vulnerabilities remain. The authorities' gradual approach to fighting inflation prolongs the period during which risks might occur.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment²

The Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the decisive policy tightening since mid-2023, which has helped to significantly reduce macroeconomic imbalances and risks. However, with inflationary pressures still high, and significant downside risks, they urged the authorities to press ahead with coordinated fiscal, monetary, and incomes policies to anchor inflationary expectations and entrench macroeconomic stability.

While noting sustainable public debt levels, Directors recommended a larger and more frontloaded fiscal consolidation to support disinflation efforts and further strengthen buffers. They supported strengthening tax administration, rationalizing tax expenditures, broadening the tax base, energy subsidy reform, limiting capital spending to essential projects, and enhancing risk monitoring while protecting earthquake related spending. Directors also urged further efforts to address fiscal risks arising from contingent liabilities in state owned enterprises, public private partnerships, and pension costs.

While noting the challenges, Directors considered that phasing out backward looking indexation and shifting toward setting wages in line with inflation expectations could significantly help reduce inflation.

Directors called for continued tight, data dependent monetary policy until inflation converges to target levels. They agreed that the central bank should stand ready to tighten further if needed to ensure that the path of disinflation stays on track. Directors highlighted that further strengthening the monetary transmission mechanism and central bank independence and communication would enhance policy credibility.

Directors encouraged foreign exchange intervention to focus on smoothing potentially destabilizing exchange rate movements that could dislodge inflation expectations, and to be scaled back as inflation recedes. They highlighted the need to effectively manage volatile capital flows and agreed that capital flow measures should be discontinued gradually as FX liquidity risk and inflation recede.

Directors underscored the importance of ongoing vigilance and further reforms to maintain financial stability. They supported continued implementation of the 2023 FSAP recommendations and efforts to align the supervisory and regulatory framework with Basel III standards. Directors commended the authorities for recent improvements to the AML/CFT framework and exit from the FATF grey list, while noting that further progress was needed, including to mitigate virtual assets risks.

Directors called for advancing structural reforms to achieve more inclusive, greener, and higher medium-term growth. Further energy and labor market reforms, including to boost female participation, remain important priorities.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing ups can be found here:

<http://www.IMF.org/external/np/sec/misc/qualifiers.htm> .

Türkiye: Selected Economic Indicators, 2019–29

Population (2023): 85.4 million
 Per capita GDP (2023): US\$13,243
 Quota: SDR 4,658.6 million

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Proj.										
Real sector	<i>(Percent)</i>										
Real GDP growth rate	0.8	1.9	11.4	5.5	5.1	3.0	2.7	3.2	3.4	3.7	3.9
Contributions to real GDP growth											
Private consumption	0.9	1.9	9.2	11.7	9.5	1.1	0.3	1.9	2.0	2.0	2.0
Public consumption	0.5	0.3	0.4	0.6	0.3	0.4	0.5	0.5	0.4	0.5	0.4
Investment (incl. inventories)	-3.0	4.8	-3.2	-7.5	-1.6	0.6	2.6	1.1	1.2	1.6	1.7
Net exports	2.4	-5.2	5.0	0.7	-3.1	0.9	-0.6	-0.2	-0.2	-0.3	-0.2
Output gap	-2.1	-4.6	1.1	1.5	1.9	0.7	-0.3	-0.5	-0.5	-0.2	0.0
GDP deflator growth rate	13.9	14.8	29.0	96.0	68.2	60.0	31.4	20.4	16.6	15.3	15.2
Inflation (period-average)	15.2	12.3	19.6	72.3	53.9	60.9	33.0	19.2	16.0	15.0	15.0
Inflation (end-year)	11.8	14.6	36.1	64.3	64.8	43.0	24.0	17.2	15.3	15.0	15.0
Unemployment rate	13.7	13.1	12.0	10.4	9.4	9.3	9.9	9.6	9.5	9.3	9.2
Fiscal sector	<i>(Percent of GDP)</i>										
Nonfinancial public sector overall balance	-5.0	-4.7	-3.0	-2.7	-5.4	-5.3	-3.7	-3.1	-3.2	-3.1	-3.1
General government overall balance (headline) 1/	-3.0	-4.0	-2.6	-0.8	-5.2	-5.3	-3.5	-3.0	-3.0	-3.0	-3.0
General government gross debt (EU definition)	32.4	39.4	40.4	30.8	29.3	25.2	26.0	26.0	26.0	25.9	25.6
External sector	<i>(Percent of GDP)</i>										
Current account balance	2.0	-4.3	-0.8	-5.1	-4.0	-2.2	-2.1	-2.0	-1.9	-1.9	-1.9
Gross external debt	54.5	59.8	53.9	50.5	45.2	41.3	39.8	40.9	40.4	39.9	39.3
Gross financing requirement	18.0	24.8	21.0	22.9	21.2	19.1	20.0	20.5	20.1	20.0	19.8
Monetary conditions (Percent)											
Real average cost of CBRT funding to banks	5.4	-1.7	-1.9	-59.4	-35.4	...	...	...	...	...	...
Growth of broad money (M2)	27.3	33.9	53.0	59.2	70.1	...	...	...	...	...	...
Growth of credit to private sector	10.9	34.7	37.0	54.7	54.0	...	...	...	...	...	...

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ Headline (or authorities' definition), which includes items excluded from the IMF 'program' definition.



REPUBLIC OF TÜRKİYE

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

September 12, 2024

KEY ISSUES

Context. A significant tightening of macroeconomic policy since mid-2023 has substantially reduced crisis risks. Tighter financial conditions are weighing on domestic demand and inflation has fallen. Tax and expenditure measures partly dampened an expansionary fiscal impulse and the commitment to stronger incomes policies has strengthened credibility. Market sentiment has improved, with investors shifting into lira while lower commodity prices, buoyant exports, and reduced gold imports have strengthened the current account and boosted international reserves. Türkiye's sovereign ratings have been upgraded and country risk premia have halved. While now subsiding, still-high inflation expectations and sequential inflation suggest an insufficiently tight policy stance to reach the midpoint of the authorities' inflation forecast range.

Outlook and Risks. Under the authorities' gradual adjustment, staff expects inflation to fall to 43 percent at the end of this year, just above the Central Bank of the Republic of Türkiye's forecast range. Growth is slowing after a strong first quarter, and is expected to fall to 3.0 percent in 2024. A recovery should start in early 2025, but growth would remain below trend at 2.7 percent, as inflation falls to 24 percent and the policy stance neutralizes. Growth should recover toward 4 percent in the medium term. Disinflation and improved confidence will support a narrow current account deficit and sustain the reserves position. Risks around the baseline remain significant and tilted to the downside. Strong price inertia or external shocks could derail disinflation, and significant financial and external vulnerabilities remain.

Policies. A tighter policy stance would more swiftly and sustainably reduce inflation and reduce risks. More decisively contractionary fiscal policy would weigh on aggregate demand while forward-looking incomes policies would contribute to re-anchor expectations. Tight monetary policy will be needed until sequential inflation is on a sustainable downward path, supported by prudent exchange rate policy. Following up on the 2023 FSAP recommendations would support financial stability and help manage capital flow volatility. A rapid disinflation would, on balance, likely involve lower risks than a more gradual adjustment and strengthen long-term growth and financial stability, albeit potentially at greater short-term cost to output. Throughout disinflation, it will be necessary to modernize fiscal policy and reduce fiscal risks. Other structural reforms encompass decarbonization policies, reducing informality and improving the functioning of the labor market, and increasing female labor force participation.

Approved By
Kristina Kostial (EUR)
and Rishi Goyal (SPR)

Discussions took place in Istanbul and Ankara during May 29–June 11, 2024 with follow-up discussions August 20–21. The team consisted of J.P. Walsh (Head), F. Boumediene, S. Domit, A. Roitman, and J. Yao (all EUR), A. Ceber (FAD), B. Versailles (SPR), and M. Leika (MCM), and G. Di Bella, R. Çeçen and D. Kesimal (Senior Res. Rep. office). M. Mert and Y. Akben (OED) also participated in the mission, and K. Kostial (EUR) joined several meetings. The mission met with Minister of Treasury and Finance Şimşek, Central Bank Governor Karahan, other senior officials, and private sector representatives. J. Lee, M. Murillo, and S. Mengüç assisted with the mission and with the preparation of the staff report.

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CONTEXT

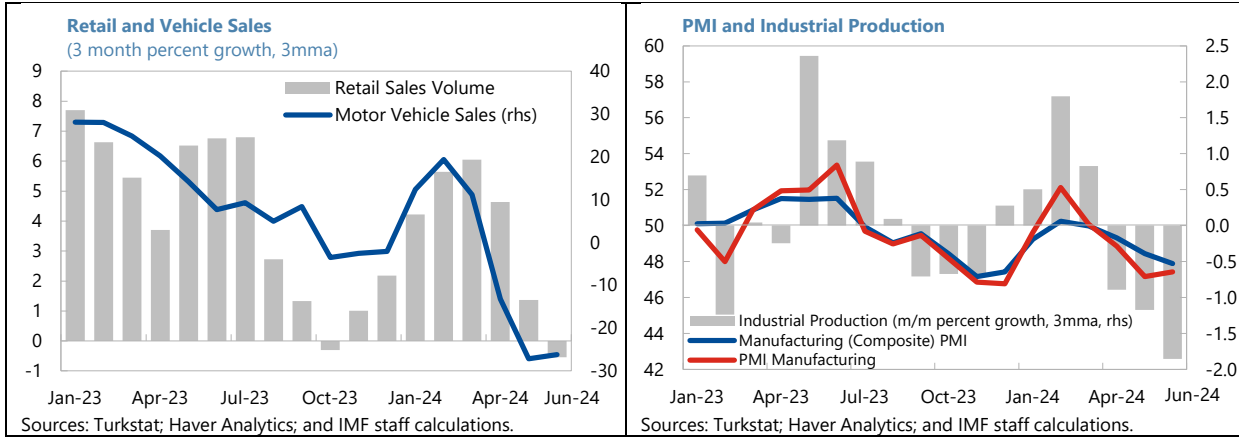
1. Economic imbalances and crisis risks were high in spring 2023. As inflation rose in 2021, the CBRT repeatedly cut policy rates, pushing inflation above 80 percent before a large real appreciation in early 2023 pulled it down to around 40 percent. The resulting negative real interest rates encouraged borrowing in lira and capital flight. The authorities responded with financial repression to maintain exchange rate and financial stability and to keep government bond yields artificially low. Monetary policy at that time was the main driver of inflation. But in early 2023, fiscal policy was also substantially loosened, due to reconstruction and relief efforts after the February earthquake as well as energy subsidy, pension, and public sector wage increases. As a result, the economy overheated and the current account deficit (CAD) widened to 7.0 percent of H1/2023 GDP. Gold imports increased as households hedged against inflation, and inflation expectations unmoored. Despite financial repression, the CBRT lost around US\$30 billion in international reserves between January and May 2023.

2. A policy turnaround since last summer has reduced imbalances and risks. Fiscal measures reduced, but did not fully reverse, overall stimulative policies. Monetary policies have been tightened and many financial repression measures have been unwound in line with the September [Medium Term Program](#) (MTP) and some of staff's advice (Annexes I and II). The economy is showing clear signs of cooling and inflation has started to ease. Market sentiment has also improved markedly, with all the major ratings agencies upgrading Türkiye's sovereign risk ratings and CDS spreads at half their mid-2023 levels. However, the current policy stance appears insufficiently tight to reach the midpoint of the authorities' forecast range, and financial and external risks remain.

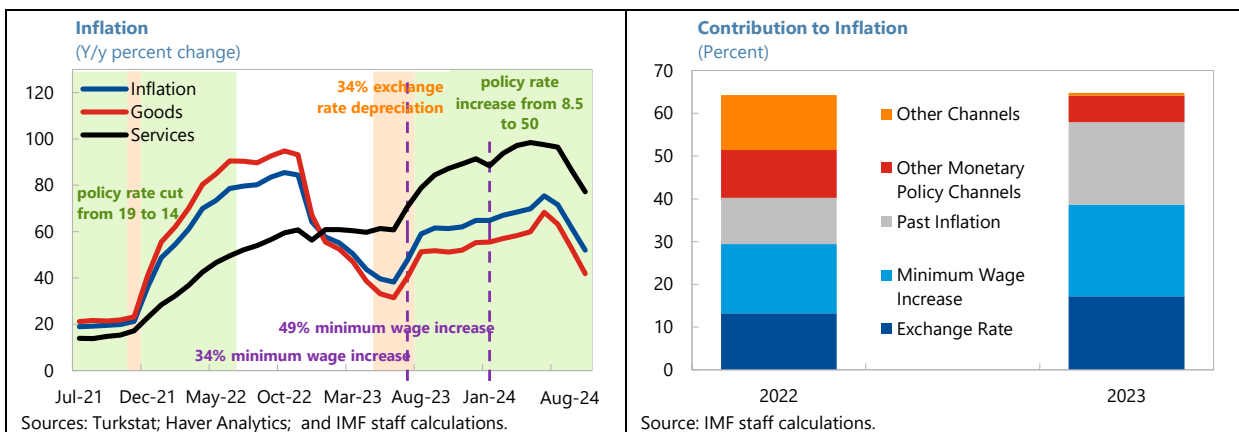
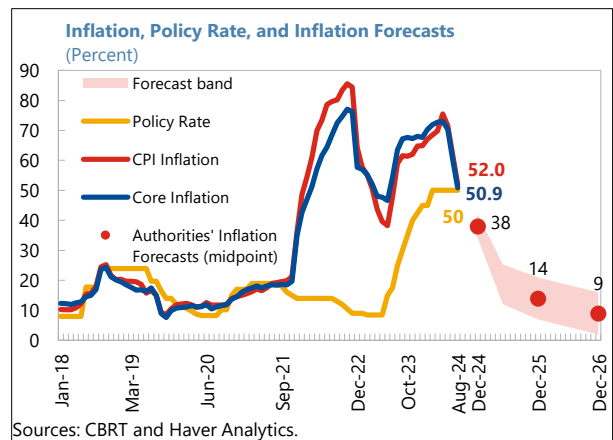
THE SETTING

3. Growth is starting to slow. The economy grew by 5.1 percent in 2023, led by strong domestic demand. Despite monetary tightening since 2023:H2, sequential GDP growth (q/q, seasonally adjusted) accelerated from 0.2 percent in 2023:Q3 to 1.4 percent in 2024:Q1, partly buoyed by strong external demand. Activity is now cooling markedly: sequential GDP growth in 2024:Q2 was 0.1 percent; retail sales are falling steadily; industrial production has been shrinking; and vehicle sales have fallen by around a third. The unemployment rate, at 9.2 percent in June, has begun to rise from recent lows.

4. Inflation has recently begun to fall but remains high and sticky. Inflation was pushed to 75 percent in May 2024 by a large mid-2023 depreciation, stimulative incomes policies through early 2024, and tax increases. Base effects and tightening brought it down to 52 percent (50.9 percent core) in August. Sequential inflation has also slowed, particularly when adjusted for administered price changes, but still averaged around 2.4 percent in recent months.



5. The monetary policy rate has been in positive real territory since December 2023. The policy rate rose gradually from 8½ percent in May 2023 to 50 percent in March 2024—with falling inflation expectations, the ex-ante real rate now stands at 20 percent.¹ Monthly caps on credit growth to most sectors of 2 percent monthly for lira exposures and (since mid-July) 1.5 percent monthly for FX have also contributed to suppress demand (Annex III).² However, as credit demand has weakened, caps on lira loans appear non-binding for an increasing number of lending institutions. Liquidity forecasting and management have improved and better CBRT communication has provided explicit guidance about where monthly inflation and expectations need to converge before policy easing begins.

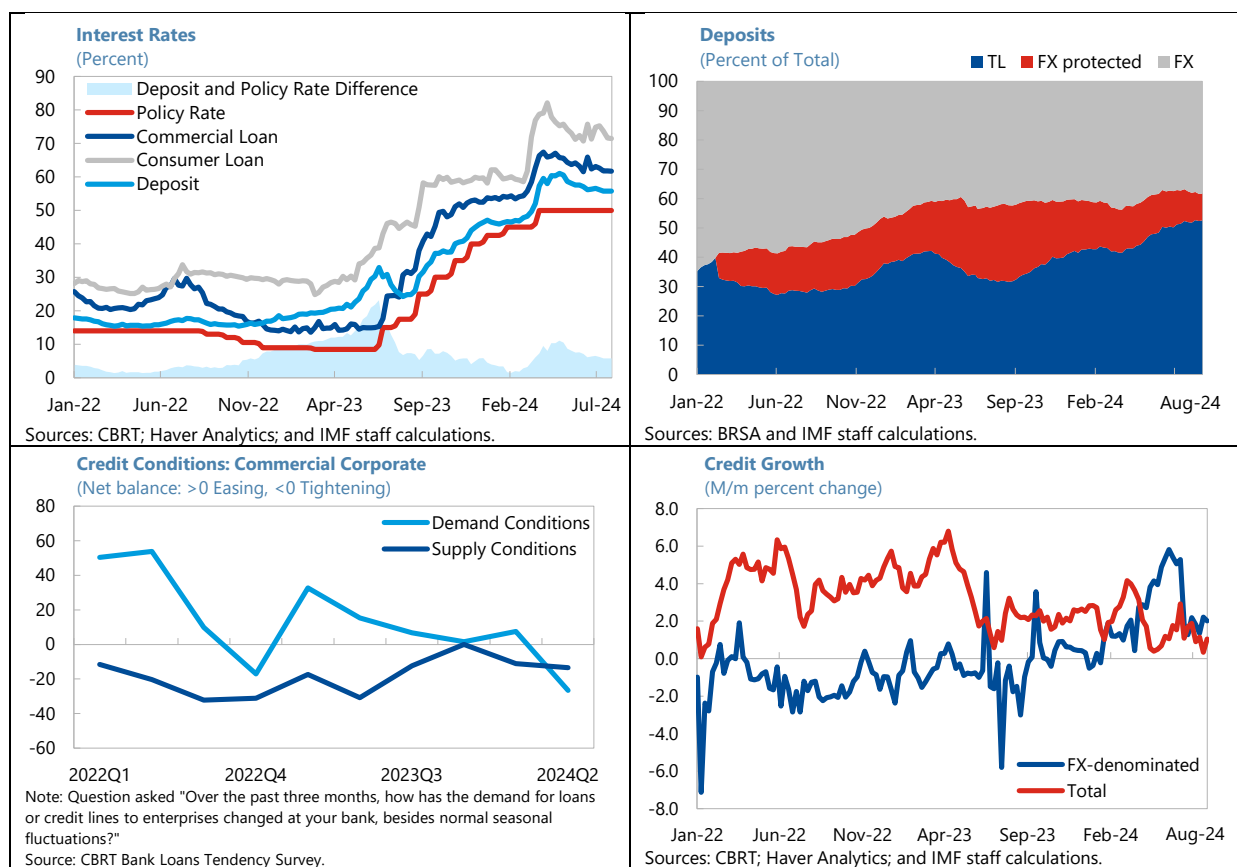


¹ The policy rate is not compounded; a compounded rate would yield a higher real rate. This and other ex-ante real rate calculations use the CBRT’s one-year ahead market participants’ inflation forecast. There is a wide range of inflation expectations, which call for caution when considering ex-ante real rates (see [CBRT](#)).

² FX credit is around one-third of the total.

6. The authorities have largely unwound pre-2023 regulatory distortions. Interest rate caps on loans, required holdings of government bonds at below-market rates, and most other repressive measures have been abolished. Limits on offshore swaps and export surrender requirements—both capital flow management measures (CFMs)—are still used to contain pressures on the lira and strengthen international reserves. Also exports and investment are excluded from credit growth caps, favoring them over imports and consumption.

7. Monetary policy transmission has improved and dollarization is falling. Deposit and lending rates have broadly tracked the policy rate. CBRT requirements that banks reduce their share of FX-protected deposits (KKMs) boosted rates on lira deposits. By end-July, sight deposit rates were around 54 percent, or around 24 percent in ex-ante real terms, high enough to encourage depositors to move from FX into lira. The CBRT absorbed resulting increased lira liquidity including via higher reserve requirements (RRs), raising banks' costs.³

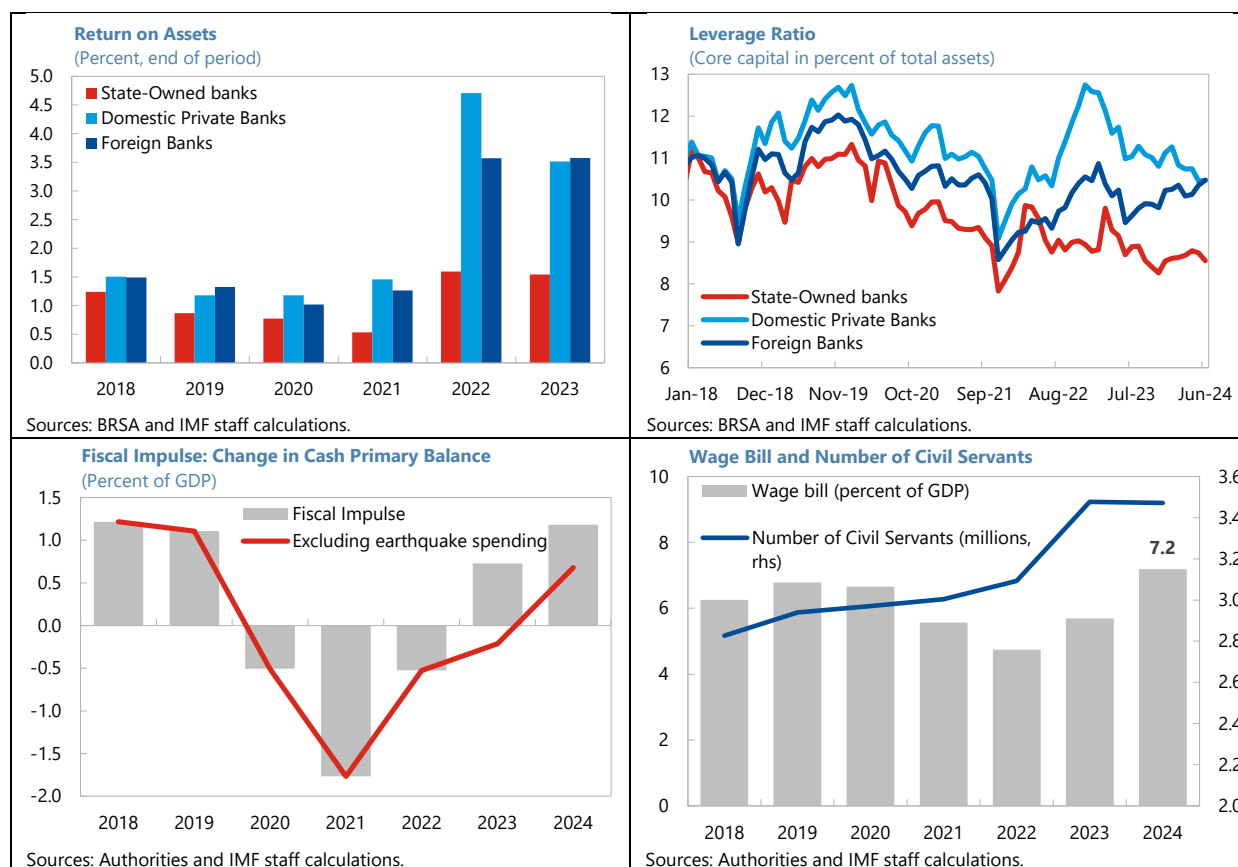


8. Credit is rapidly falling as a share of GDP. Higher RRs and rising deposit rates have forced up lending rates, with new consumer loan rates above 70 percent and corporate rates around 60 percent. With caps on credit growth since March 2024, banks' appetite for liquidity has been limited, pushing some longer-term deposit rates below the policy rate in recent months. From an average m/m growth rate of 4.7 percent in 2023:H1, credit is now growing at around 1.3 percent

³ Not all RRs are remunerated; remuneration are set as percentages of the policy rate.

m/m, well below inflation and recently below even the growth caps. The composition of credit has also shifted to FX-denominated loans since March 2024 as capital inflows increased.

9. Private banks have adapted well to the new environment and systemic risks have receded since the last Article IV consultation, but state-owned banks (SOBs) are in a weaker position. Policy rate increases led to fair-value losses on domestic lira securities at all banks. However, private banks held more CPI-linked securities and their higher funding costs have been compensated by interest rate liberalization, leading to marginally higher profitability and CARs around 17.5 percent,⁴ comfortably above the 12 percent target ratio.⁵ SOBs—45 percent of the system’s assets—had larger and longer-dated bond portfolios, and are more exposed to weaker sectors, such as SMEs, yielding lower CARs of around 16.2 percent. Overall, the financial sector has shrunk: banking sector assets in 2023 were 89 percent of GDP, down from 103 percent in 2018. Systemic risks have been reduced since last year, though liquidity risks in lira arising from dedollarization and in FX from inflows and the recent increase in the FX share of lending should be closely monitored.



⁴ The 2022 FSAP found that regulatory revisions led CARs to be overstated by up to 4 percentage points.

⁵ Except for credit cards.

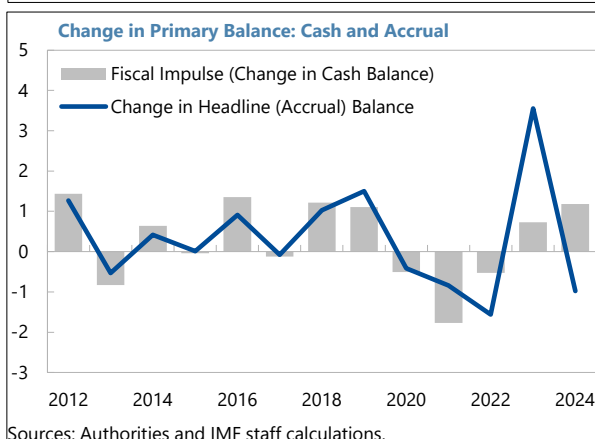
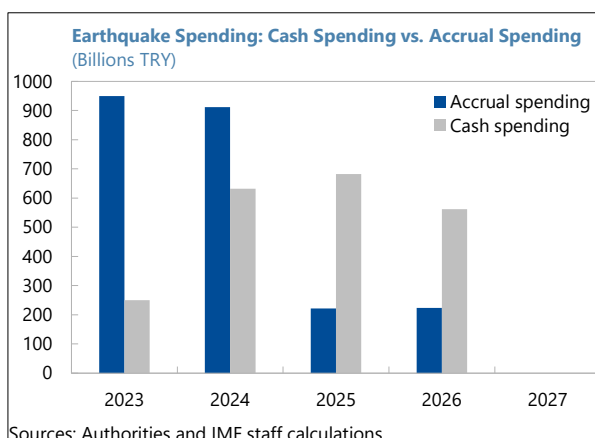
10. Despite major tightening since mid-2023, fiscal policy this year is projected to be stimulative. In the first half of 2023, a large increase in the wage bill, pensions, and subsidies raised spending by over 3 percent of GDP. In mid-year, VAT rates, special consumption taxes on petroleum and motor vehicles, and CIT rates were increased, adding around 2¼ percent of GDP to fiscal revenue (on an annualized basis). Together with earthquake recovery spending of 1 percent of GDP, this implied an annual cash stimulus of around 0.7 percent of GDP. In 2024, the authorities tightened other current and non-earthquake capital expenditure; in August introduced minimum corporate taxation; and in July began to reduce energy subsidies—together amounting to net savings of around 0.5 percent of GDP. However, with a wage bill of 7.2 percent of GDP—a 10-year high—and continued earthquake spending, fiscal policies will remain stimulative (Box 1).

Box 1. Earthquake Spending and the Fiscal Stance

The February 2023 earthquakes had large humanitarian and infrastructure impacts, but less so on growth. Over 45,000 people appear to have lost their lives. The World Bank estimated damage and losses of around 9.0 percent of GDP; around 80 percent was concentrated on residential and non-residential building, with the remaining damage to infrastructure. The impact on 2023 growth was likely below one percent of GDP as the affected region only contributes a small share of GDP. The large loss of housing stock likely exacerbated pre-existing pressures on rents.

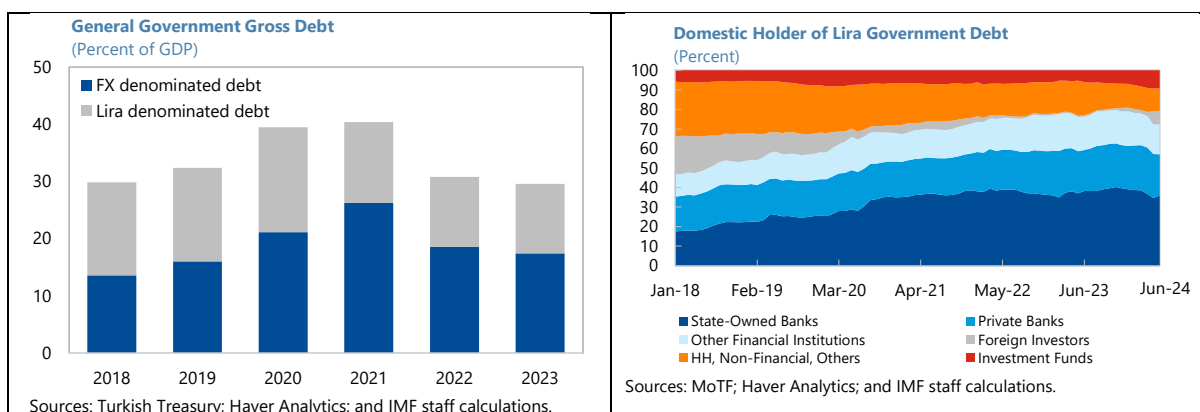
The authorities allocated almost 7 percent of GDP in earthquake-related expenditures to the medium-term budget. Four fifths of the spending was allocated to investment mostly to rebuild housing stock. The remainder was to support the emergency response to vulnerable households.

Earthquake-related cash spending in 2023 was less than what reported in the accrual fiscal accounts. Expenditure statistics are recorded on an accrual, rather than cash, basis. Around 1.0 of the 3.6 percent of GDP in the reported 2023 accrual spending occurred in cash terms (the accrual exceeded the budget target, primarily from larger transfers to the disaster response agency (AFAD)). Additional accrued spending (2.6 percent of GDP) reflects a combination of allocated and committed expenditure rather than expenditure that occurred but is not yet paid; it will not expire. The authorities noted that there are no arrears. Cash spending related to earthquake reconstruction is expected to accelerate this year as reconstruction efforts are ramped up, though spending is likely to remain below the full allocation in the 2024 budget.

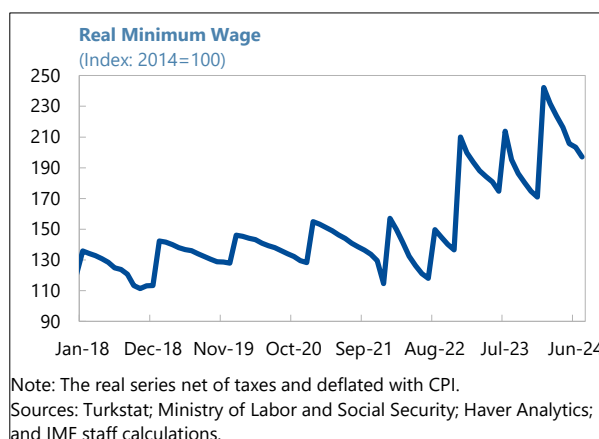


There are thus large differences in measuring the fiscal impulse on an accrual or cash basis. Measured as the change in the accrual primary balance, the fiscal impulse was 3.6 percent in 2023 with a contraction of 1 percent in 2024. On a cash basis, which is relevant to measure the impact of fiscal policies on demand in this instance, the 2023 impulse was 0.7 percent, while the 2024 impulse is estimated at 1.2 percent.

11. Public debt remains at sustainable levels (Annex IV). Inflation contributed to a fall in debt from 40 percent of GDP at end-2021 to below 30 percent at end-2023. However, the average cost of new domestic fixed-rate borrowing in June was 36 percent, up from 10 percent at the beginning of 2023 when financial repression suppressed interest rates. Maturities have also shortened, reflecting higher borrowing costs. Nonetheless, the immediate impact of the higher borrowing cost on the fiscal position is limited as a significant portion of domestic fixed-interest domestic debt is around five years and much of the stock is in FX. However, the large exposure to foreign currency debt implies exchange rate risks. Furthermore, the overall fiscal position is also exposed to risks from quasi-fiscal activities and contingent liabilities (¶45 and Box 2).⁶



12. Incomes policies are now more aligned with the disinflation program. Public sector wage and ad hoc salary increases, along with a 34 percent minimum wage hike in July 2023, added strongly to inflation pressures last year (Box 3). Another increase of 49 percent in January 2024 further slowed disinflation. In early 2024, the authorities stated that they would return to annual minimum wage adjustments.



⁶ For instance, the CBRT posted a 3 percent of GDP loss in 2023, in part reflecting compensation for losses on FX-protected deposits, when the exchange rate depreciated above deposit rates. As policy rate hikes brought deposit rates above monthly depreciation, these specific costs have dissipated as has revenue from liquidity injections (Box 5).

Box 2. Fiscal Risks

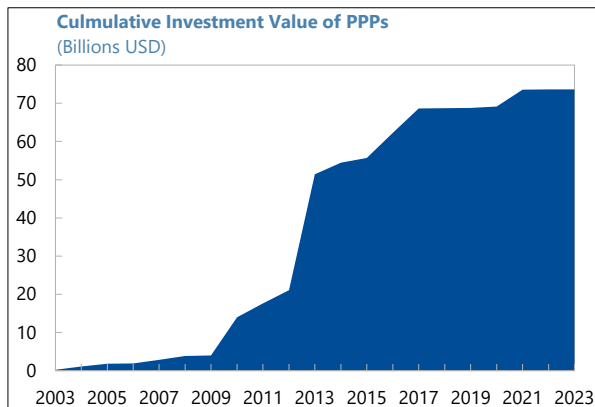
Beyond recent expansionary measures, Türkiye's fiscal position is exposed to contingent liabilities from Public-Private Partnerships (PPPs), losses at SOEs, and recent changes to pension eligibility.

Türkiye's large PPP portfolio presents numerous contingent liabilities. There were 198 PPP projects during 2003–23, with a total investment of US\$74 billion.¹ The government provides guarantee mechanisms, including the Treasury's debt assumption commitments amounting to 1.5 percent of GDP (cumulative up to 2024 covering eight PPP projects); repayment guarantees amounting to 1.4 percent of GDP at end-2023; and minimum revenue guarantees or indexation to the nominal exchange rate, estimated at a cost of 0.4 percent of GDP in 2023. Information on the size, structure, and risk composition of the overall PPP portfolio is relatively limited, as no single agency is responsible for monitoring and managing the fiscal costs and risks of the overall portfolio. A PPP law, currently in draft, is expected to address some of these limitations.

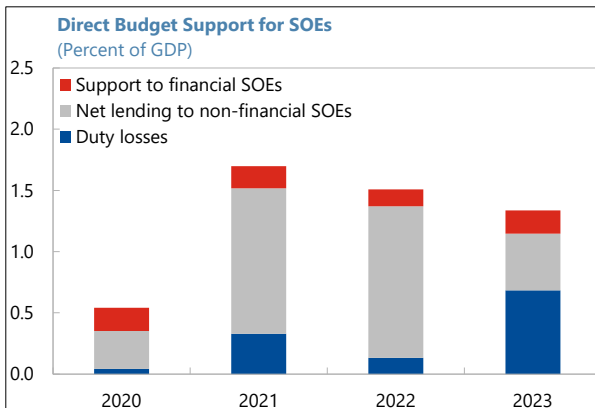
Financial information on SOEs suggests rising fiscal costs, mainly related to subsidized energy bills.

While the budget covers 20 SOEs (text chart on costs), there are over 400 SOEs.² Some large public enterprises, including Turkish Airlines, Turkish Post, and the Housing Development Administration of Türkiye (TOKI) are not included, as well as other SOEs within the Turkish Wealth Fund portfolio. SOBs have been recapitalized in recent years through the issuance of non-cash debt securities; in 2023 the central government issued 112 billion lira securities that were then on-lent to the banks and as of June 2024 there were 190 billion lira (0.4 percent of GDP) outstanding debt securities for the recapitalization. In addition, the government lends to nonfinancial SOEs and compensates various utilities and other firms for duty losses. There is no one document that consolidates all SOE activities. An updated SOE law aims to address these concerns, although the timeline and the content of the law remain unclear.

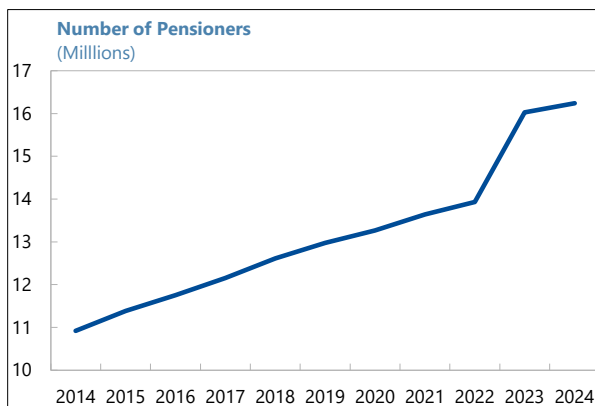
The 2023 early retirement scheme is another fiscal risk. The law allows for early retirement, provided workers were registered prior to 1999. The authorities estimate that this increased the pensionable population by 4.1 million people, of which around 2.1 million people have already taken advantage of the change at an annualized cost of around 1 percent of GDP. Some cost might be mitigated as those that retired early continue to work and contribute to premium revenues of the fund while drawing a pension. Still, the scheme increases overall pension costs in the short term (though it does not affect the long-term actuarial viability of the pension fund as there were no permanent changes to other parameters).



Sources: Authorities and IMF staff calculations.



Source: Authorities and IMF staff calculations.



Sources: Authorities and IMF staff calculations.

1/ Around 70 percent of 2017 public sector investments are estimated to be from PPPs. Includes only investment cost, and not fees associated with the PPP.

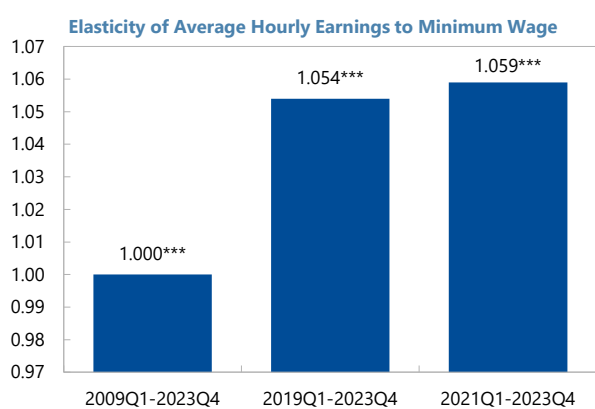
2/ The budget covers these SOEs subject to Decree Law 233. The Decree does not apply to the SOBs, enterprises owned by local governments, or to other SOEs that operate under separate laws (statutory corporations).

Box 3. Minimum Wage and Inflation

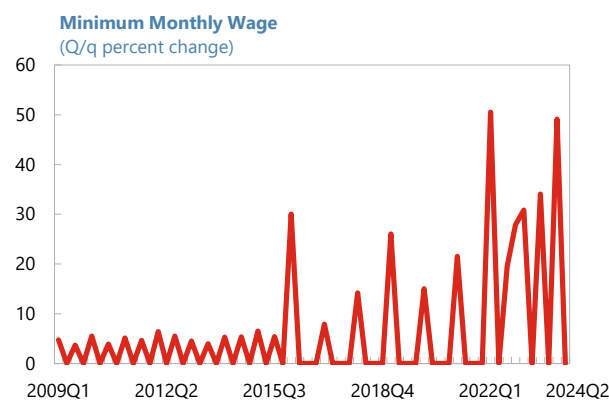
Minimum wage adjustments play an important role in wage setting. Around 43 percent of formal workers in nonagricultural sectors currently earn salaries at or below the minimum wage. More broadly, economy-wide nominal wage increases can be largely explained by minimum wage adjustments and past inflation (CBRT 2023), with the elasticity of average hourly earnings to minimum wage at around 1. The impact is also fast, with most of the passthrough completed within the same quarter (CBRT 2021).

The impact on employment is less clear. Studies on the impact of the minimum wage on the labor market have shown mixed results (IMF 2016). Since firms can make minimum wage hikes less binding by shifting workers to the large informal sector, the level of employment may be largely unaffected.

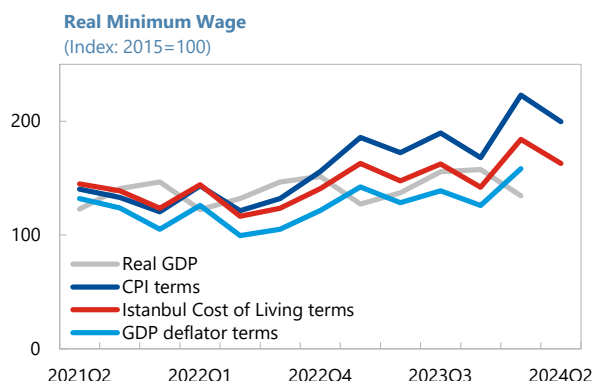
Minimum wage adjustments have increased in size and frequency in recent years. After hovering below 20 percent for most of the past two decades, minimum wage hikes have picked up sharply since 2022. The frequency of adjustments, which had previously fallen, has also increased. These adjustments have minimized real wage cuts as inflation reached multi-year highs. Still income inequality has been rising.



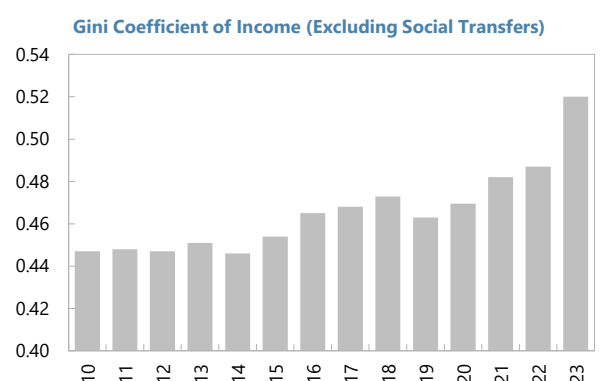
Sources: Haver Analytics and IMF staff calculations.



Sources: Ministry of Labor and Social Security; and Haver Analytics.



Sources: Turkstat; Ministry of Labor and Social Security; Istanbul Chamber of Commerce; Haver Analytics; and IMF staff calculations.

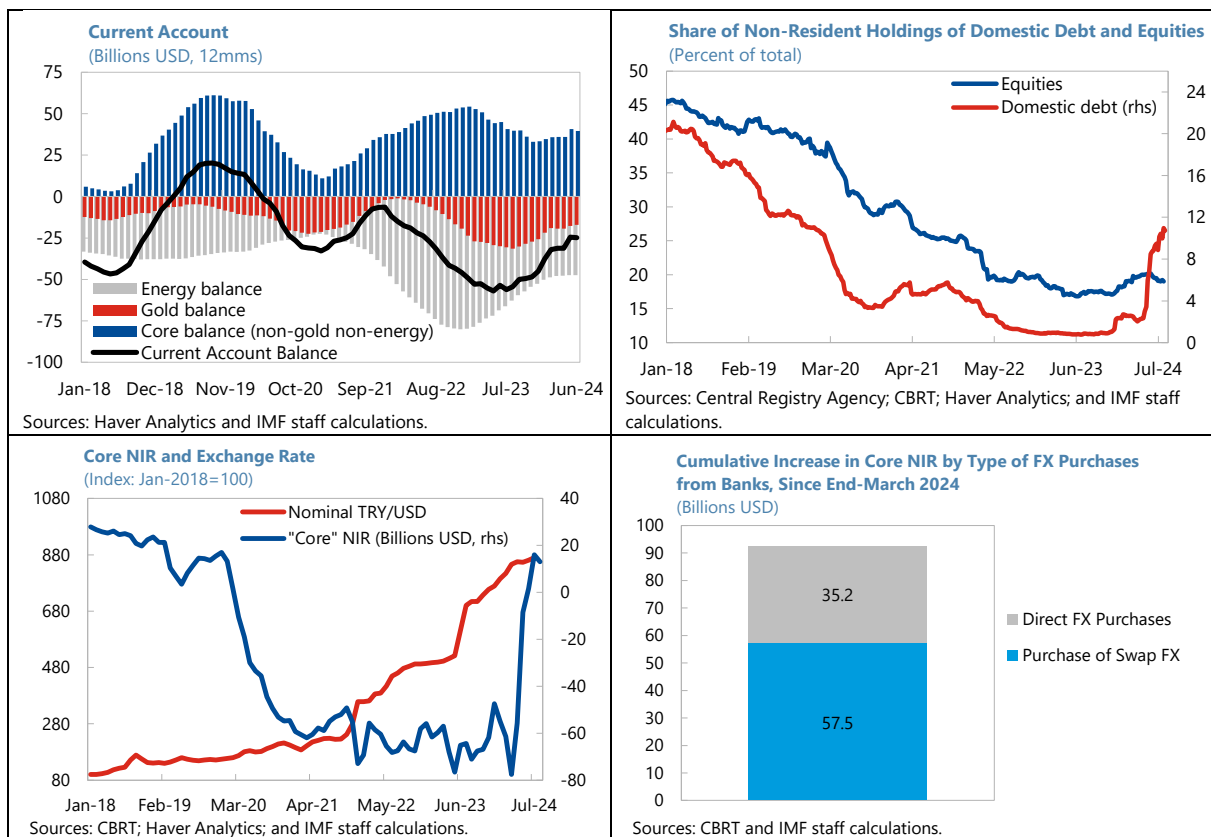
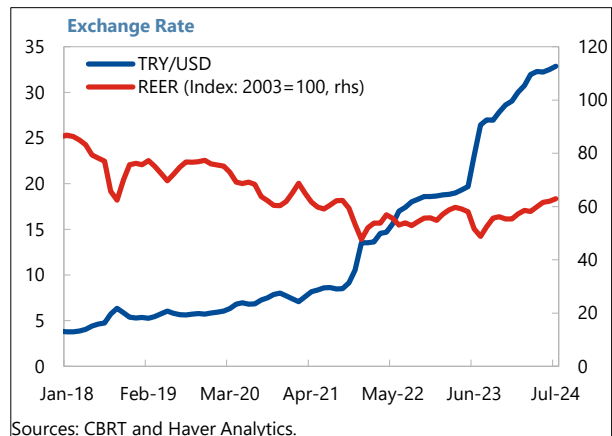


Sources: Turkish Statistical Institute and IMF staff calculations.

Pass-through from minimum wage hikes to inflation is fast and substantial. Minimum wage earners have a high marginal propensity to consume. With earnings close to subsistence levels and a near-binding budget constraint, they spend a high fraction of any extra lira they receive. CBRT estimates for 2005–20 show that a 1 percent increase in the minimum wage typically raised CPI inflation by around 0.06 to 0.08 points within two quarters, with the estimated impact being twice as large when broader wage effects are included (CBRT 2021). The passthrough to inflation appears to have increased in recent years (CBRT 2023). Staff also estimates that minimum wage hikes have added around 20 and 10 percentage points to 2023 and 2024 CPI inflation, respectively.

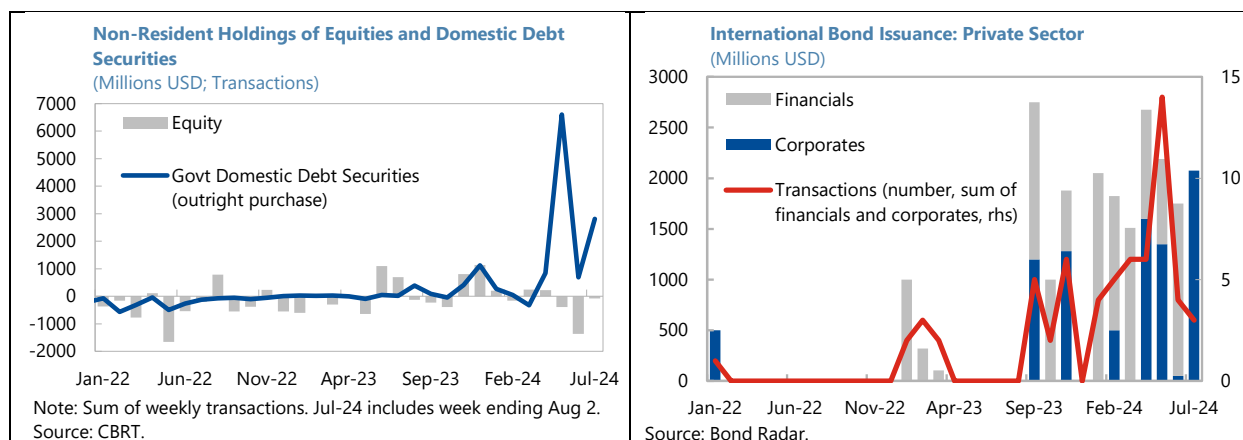
Minimum wage adjustments also complicated disinflation. These adjustments have been backward-looking, that is, based on previous-year inflation, adding to inflation inertia and slowing progress toward re-anchoring inflation expectations. Second round effects are also likely larger when demand remains strong, making it easier for companies to pass on the higher wage costs to their prices instead of reducing profit margins.

13. The lira has remained strong. The lira was allowed to depreciate by around 30 percent between end-May and end-July 2023. Since then, the CBRT has noted that interventions would only smooth volatility, though communications have emphasized the importance of real exchange rate appreciation for reducing inflation. For 2023, the external position is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies. Based on the EBA CA model the implied REER overvaluation is in the range of 8.7–13.3 percent, with a midpoint of 11.0 percent (Annex V). As this assessment averages the 2023:H1 overvaluation with a depreciation and as substantial rebalancing of the current account took place in 2023:H2, some of this overvaluation may have been corrected. This year, the lira has been weakening at an average monthly rate of around 1.8 percent, pushing up its real value by about 12.3 percent by August 2024, partly due to improved terms of trade.



14. The current account has strengthened and reserves increased. Falling prices for imported fuel, lower demand for gold, and macro policies aimed at external rebalancing brought the CAD down from 5.1 percent in 2022 to around 2.8 percent in 2024:H1. Since March, domestic depositors,

speculative carry trade investors, and portfolio managers have shifted into lira assets. “Core” net reserves—net reserves excluding off-balance sheet swaps with banks and Treasury FX deposits—had fallen to -US\$75 billion in March, but rose to US\$9 billion by September 9; gross reserves are at slightly above 100 percent of the ARA metric.



OUTLOOK AND RISKS

A. Slow Disinflation and a Subdued Medium-Term Outlook

15. The outlook assumes macroeconomic policies broadly in line with announced and observed policies.

- Monetary policy** is expected to tighten into 2025 as the gap between a constant nominal rate and falling inflation expectations widens. As sequential inflation falls, the authorities are expected first to lift credit growth caps, and then to gradually lower the policy rate. Improvements to the CBRT’s liquidity management toolkits, and continued efforts to improve communications, are expected to gradually enhance monetary policy effectiveness in 2025. **Financial policies** that favor investment and exports would remain in place.
- On fiscal policy**, no further measures are assumed *for 2024*, while revenue and spending would stay in line with trends observed so far. Overall, the cash fiscal impulse is estimated to remain around 1.2 percent of GDP, partly because some of the unspent earthquake-related overhang from 2023 is expected to be used. *In 2025*,

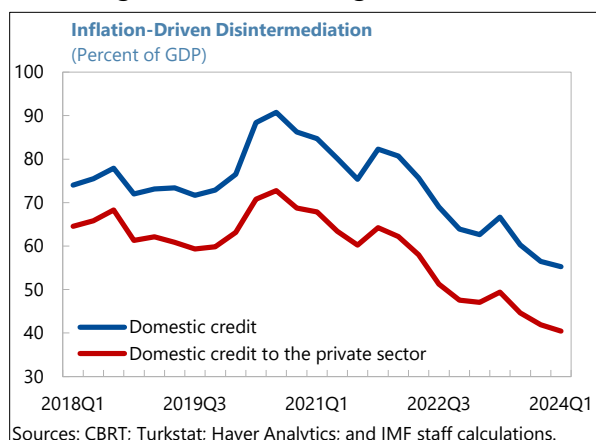
Central Government Fiscal Accounts					
(Percent of GDP)					
	2022	2023	2024	2025	
	Actual	Actual	MTP 1/ Proj.	Proj.	
Total revenue	17.4	18.6	19.6	19.7	20.0
Tax revenue	15.7	17.0	17.2	18.0	18.3
Non-tax revenue	1.7	1.7	2.4	1.7	1.7
Total primary expenditure	17.6	22.4	22.4	22.5	20.4
Current expenditure	14.0	16.4	17.6	18.4	18.0
Capital Expenditure	1.8	2.0	2.5	1.7	1.7
Capital Transfers	0.3	3.2	1.6	1.6	0.1
Net Lending	1.4	0.7	0.7	0.7	0.6
Primary balance	-0.2	-3.7	-2.8	-2.8	-0.4
Primary balance (cash)	-0.2	-0.9	n.a	-2.1	-1.4
Net interest payments	1.3	1.9	n.a	2.5	3.2
Overall balance	-1.5	-5.6	n.a	-5.2	-3.6
Overall balance (cash)	-1.5	-2.8	n.a	-4.6	-4.6
Overall balance (authorities definition)	-1.0	-5.2	-4.9	-5.2	-3.4
Cash fiscal impulse	-0.5	0.7	n.a	1.2	-0.8
Accrual earthquake spending	0.0	3.6	2.3	2.1	0.0
Cash/accrual difference	0.0	2.8	n.a	0.6	-0.9

1/ The MTP figures are presented on the IMF definition of the deficit where information is available. These are based on published numbers and IMF staff calculations.

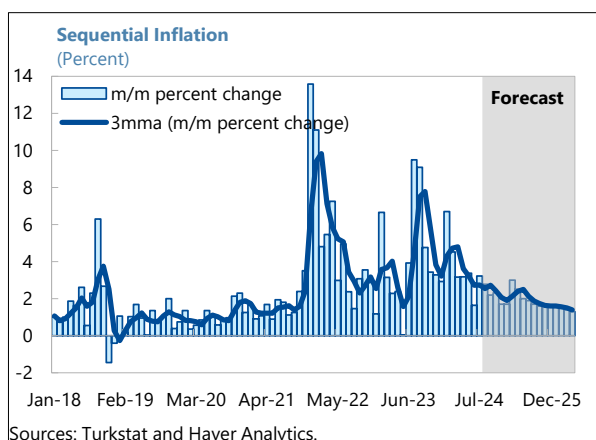
the main assumption is a freeze in civil service hiring and full revenue impact of the May tax package together with waning earthquake spending (under capital transfers). On a cash basis, there would be a negative fiscal impulse of 0.9 percent. Over the *medium term*, the deficit would converge to the authorities' announced 3 percent target. Debt is expected to stay stable at around 26 percent in 2029.

- **On incomes policy**, the forecast assumes minimum wage increases each January will be mainly backward-looking.

16. Growth would start to recover in 2025:Q1. Falling credit and eroding real incomes would, despite the expansionary fiscal stance, lead to sequential contractions for Q3–4, reducing annual growth to 3 percent in 2024. A modest recovery would keep 2025 growth at around 2.7 percent. Over the medium term, growth would increase to 3.5–4 percent with a larger contribution from stronger external demand. This is well below Türkiye's average historical performance of around 5 percent, reflecting distorted capital allocations from a prolonged high inflation environment and a now smaller financial sector.



17. Inflation would continue to fall but remain above the CBRT forecast range. Tight financial conditions would further dampen sequential inflation, with end-2024 headline around 43 percent. With continued tight policies and moderate capital inflows, inflation would fall slowly into the mid-20s by end-2025 and, with continued rebuilding of confidence, further in the medium term.



18. The current account is expected to improve further, and the reserves position to strengthen. The CAD is estimated at -2.2 percent of GDP in 2024, reflecting the slowdown in economic activity, low global energy prices, continued strong goods and services exports, and lower gold imports. Foreign investors would continue to invest in Turkish equities and bonds and gross international reserves rise slightly above the ARA metrics of 100 at end-2024. In the medium term, falling inflation and high rates will attract more inflows, and the combination of financial policies supporting exports with stable global growth would result in a further CAD contraction and reserves staying above the ARA metric.

Selected Economic Indicators										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(Percent change)									
GDP growth	1.9	11.4	5.5	5.1	3.0	2.7	3.2	3.4	3.7	3.9
MTP (authorities' projections)				5.1	3.5	4.0	4.5	5.0		
Inflation (end-year)	14.6	36.1	64.3	64.8	43.0	24.0	17.2	15.3	15.0	15.0
CBRT (authorities' projections) 1/					38.0	14.0	9.0			
	(Percent of GDP)									
Current account balance	-4.3	-0.8	-5.1	-4.0	-2.2	-2.1	-2.0	-1.9	-1.9	-1.9
MTP (authorities' projections)				-4.0	-1.7	-2.0	-1.6	-1.3		
Overall fiscal balance (IMF definition)	-4.6	-3.7	-1.5	-5.6	-5.2	-3.6	-3.1	-3.1	-3.1	-3.1
Overall fiscal balance (authorities definition)	-3.5	-2.8	-1.0	-5.2	-5.2	-3.4	-2.9	-2.9	-2.9	-2.9
MTP (authorities' projections) 2/				-5.2	-4.9	-3.1	-2.8	-2.5		
Overall fiscal balance (cash)	-4.5	-2.7	-1.5	-2.8	-4.6	-4.6	-3.7	-3.1	-3.1	-3.1
Primary balance (cash)	-2.5	-0.7	-0.2	-0.9	-2.1	-1.4	-0.2	0.1	-0.1	-0.4
Fiscal impulse (cash) 3/	-0.5	-1.8	-0.5	0.7	1.2	-0.8	-1.2	-0.3	0.3	0.2
General Government Gross Debt	39.4	40.4	30.8	29.3	25.2	26.0	26.0	26.0	25.9	25.6
MTP (authorities' projections)				29.3	25.6	25.3	25.1	24.8		

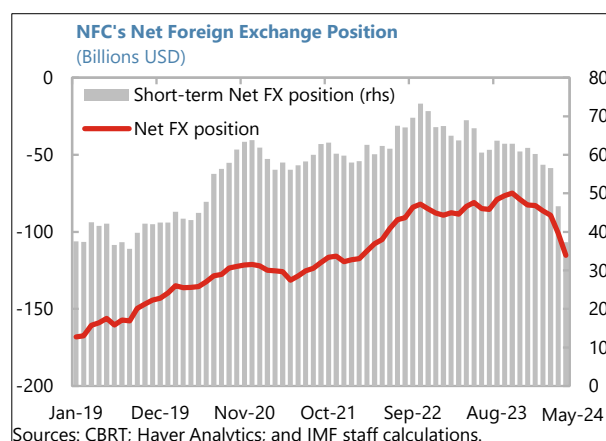
1/ CBRT projections differ from that of the Finance Ministry. Projection is midpoint of forecast range.
2/ Based on the authorities definition of the deficit and differs due to the inclusion of one-off revenue items.
3/ Change in cash primary balance
Sources: CBRT; MoTF; and IMF staff calculations.

B. Lower Risks but Tilted to the Downside

19. The authorities' approach to fighting inflation bears significant downside risks. The gradual policy tightening prolongs the period during which shocks, such as commodity price volatility or the intensification of the Gaza/Israel conflict and Russia's war in Ukraine, might derail disinflation (Annex V). While domestic demand is slowing, policies may still be insufficiently tight to firmly reduce wage pressures and pricing power given sticky expectations. Further, any reversal of policies or wage adjustment above targeted inflation ranges could further unmoor expectations. A sharp deceleration in activity could impact the financial health of NFCs, leading to higher NPLs and potential insolvencies, and tighten credit conditions, exacerbating the slowdown. On the other hand, should falling headline inflation improve confidence faster, capital inflows could accelerate, leading to a real appreciation that would push down inflation, or pricing power may weaken faster than expected, pushing sequential inflation down more quickly.

20. Financial and external risks remain.

Credit risks could rise with tighter monetary policy, especially if growth declines, and higher policy rates could drag down asset prices. The CBRT's transition from quantity measures to a decisively binding policy rate will need to be carefully managed. Banks have taken advantage of demand for Turkish risk by increasing FX bond issuance, exposing banks to FX conversion and funding risks in the event of deposit withdrawal. While NFC's net FX positions have improved substantially and they hold substantial short-term FX assets, positions did worsen in late 2023 and 2024:H1, and remain vulnerable to lira



volatility. Finally, geopolitical developments or a loss of confidence could trigger foreign investors to unwind their lira positions, corporates and banks would find it harder to roll over debt, and—most significantly—domestic savers could liquidate lira deposits to buy FX. While core NIR has improved significantly, the current level remains low relative to standard metrics.

Authorities' Views

21. For this year, authorities project growth similar to staff, but lower inflation. They also expect growth to bottom out toward end-2024, and gradually rebound thereafter to a level above staff's forecast in 2025. They forecast rebalanced demand and real exchange rate appreciation bringing down inflation against tailwinds from inflation inertia. The authorities highlighted that rebalancing growth and contained demand for gold will contribute to moderating imports, and thus expect a CAD below 2 percent of GDP over 2024–25. In this regard, they underscored the importance of a lower CAD to sustainably accumulate international reserves. For 2025, they noted both upside and downside risks to growth, as strengthened policy credibility can reduce the growth costs of disinflation but acknowledged the negative impact of the expected contractionary fiscal stance. They acknowledged risks around the inflation outlook, especially related to services inflation and global factors.

POLICY DISCUSSIONS

22. With growth cooling, inflation is likely to subside, but a tighter policy stance would more swiftly and sustainably bring it down. Cross country experience suggests that despite short-term costs and risks associated to weaker economic activity, faster disinflations deliver higher long-run growth and stability.⁷ Tighter policy would reduce wage and price pressures more firmly, bringing down inflation expectations faster and thus further reducing price pressures. The authorities have also made important progress in improving their policy toolkit—e.g., improved central bank communications, simplification of financial regulations—to manage shocks. More decisively contractionary fiscal policy would produce a more coherent policy mix, which with forward-looking incomes policies, and tight financial conditions supported by prudent exchange rate policy would reduce risks, support external rebalancing, and boost medium-term growth (“Staff scenario,” Box 4).

⁷ The early literature (e.g., [Bruno and Easterly \(1998\)](#)) has established that growth falls sharply during discrete high inflation crises and recovers rapidly after inflation falls, while financial sector performance is impaired by increases in inflation—both expected ([Boyd, Levine and Smith, 2001](#)) and unexpected increases ([Agarwal and Baron, 2024](#)).

Box 4. Staff Scenario—A More Secure Disinflation

Staff's proposed policy mix has three pillars: front-loaded fiscal consolidation, forward-looking incomes policy, and proactive monetary tightening.

- With monetary policy having long and variable lags, contractionary **fiscal policies** are the linchpin. With multipliers estimated at around 0.4–0.5, fiscal measures of 2.5 percent of GDP would substantially reverse the 2024 fiscal stimulus and make fiscal policies decisively contractionary in 2025. The strong signaling effect of this tightening, in a context of tighter monetary conditions, would reduce inflation expectations and weigh on aggregate demand. The net effect of these measures on inflation could be 3–5 percentage points, arguing for strong policy coordination.¹
- Setting **wages and contracts** based on forward-looking inflation expectations would tackle inflation inertia.
- While **monetary policy** must remain data dependent, policy tightening should ensure sufficiently contractionary real ex-ante policy rates to put sequential inflation on a downward path consistent with the CBRT's mid-point forecast for end-2025 and high enough to attract more capital inflows and help rebuild reserve buffers.

Inflation would fall toward the CBRT's central point forecast in 2025. A rapid fall in inflation would be driven by weaker aggregate demand, less inertia from eliminating backward indexation, a real exchange rate appreciation, and lower inflation expectations as a result of the tighter policy stance. Inflation would fall to 14 percent at end-2025 and be in single digits from 2027.

- **Growth would stall in 2025.** In 2025, still-tight financial conditions would induce more savings and further cool credit growth, particularly for investment and exports, as incentives to support lending in those sectors is reduced. Fiscal consolidation would directly reduce incomes, and a significantly more negative impulse would weigh heavily on growth, widening the output gap. As backward-looking wage indexation is eliminated, initially high inflation would also erode real earnings and further bring down aggregate demand. Growth would fall below one percent in 2025. With interest rates higher and inflation falling faster than the baseline, foreign inflows would increase and reserves be built more quickly, stemming depreciation pressures. Real appreciation in the near term would boost imports, but the effect would be offset by lower aggregate demand, leaving the CAD broadly unchanged.
- **A more frontloaded consolidation has a greater chance of reaching the authorities' central forecast.** While weaker economic activity poses risks for corporates and banks, the slow transition so far has given them time and space to adjust, and little stress has so far been visible. A more abrupt slowdown would constrain firms' pricing power, easing demand for higher wage increases. With wage inertia a central challenge for disinflation, this would help bring expectations down, further reducing pressures on prices and wages while further strengthening CBRT credibility.
- **Soon after macro stabilization would pave the way for higher and more sustainable growth.** With inflation under control, reduced economic uncertainty and regained confidence would boost consumption and investment, engendering a recovery in 2026. Growth in 2027 would rise to 4 percent. Faster disinflation would increase confidence while faster removal of remaining financial distortions and higher inflows would improve capital allocation in the medium term, raising productivity growth and increasing potential output growth to around 4–5 percent.

Box 4. Staff Scenario—A More Secure Disinflation (Concluded)**Selected Economic Indicators**

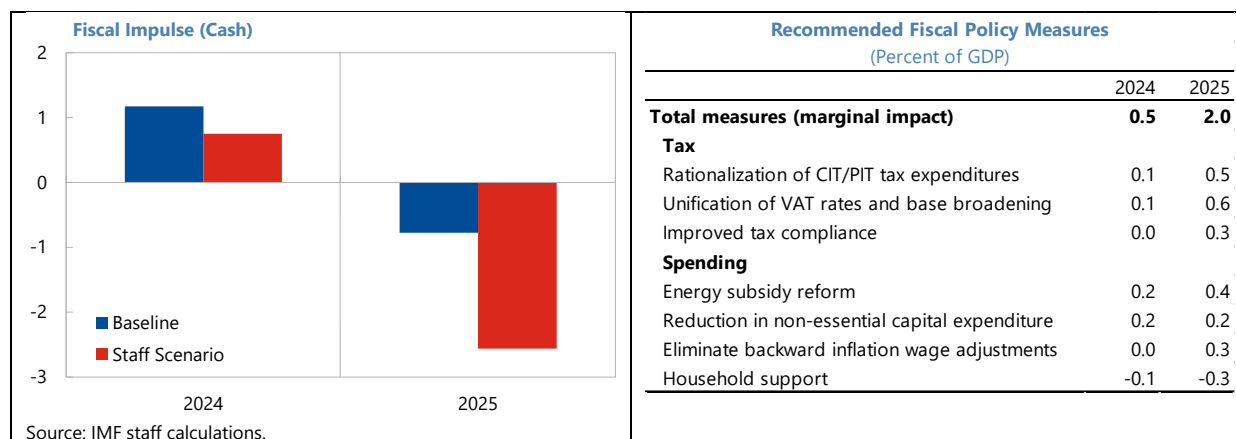
	2023	Baseline			Alternative Scenario		
		2024	2025	2026	2024	2025	2026
Real sector							
Real GDP growth rate	5.1	3.0	2.7	3.2	2.5	0.8	2.5
Inflation (end-year)	64.8	43.0	24.0	17.2	40.0	14.0	11.0
Output gap	1.9	0.7	-0.3	-0.5	0.2	-2.6	-3.5
Fiscal sector							
		<i>(Percent of GDP, unless otherwise indicated)</i>					
Central government overall balance (cash)	-2.8	-4.6	-4.6	-3.7	-4.1	-1.8	-3
Cash fiscal impulse (change in cash primary balance)	0.7	1.2	-0.8	-1.2	0.8	-2.6	1.2
General government gross debt (EU definition)	29.3	25.2	26.0	26.0	24.8	23	23
External sector							
Current account balance	-4.0	-2.2	-2.1	-2.0	-2.3	-2.3	-2.1
Gross international reserves (USD bn)	140.9	164.5	173.5	183.7	169.5	183.5	188.7

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ The estimated fiscal multipliers in Türkiye are usually small. For example, [Sen and Kaya \(2020\)](#) estimate that the tax multipliers range from -0.83 to -0.27 and spending multipliers from 0.02 to 0.98, depending on the fiscal instruments.

A. Bringing Inflation Down**Fiscal Policy: Supporting Disinflation**

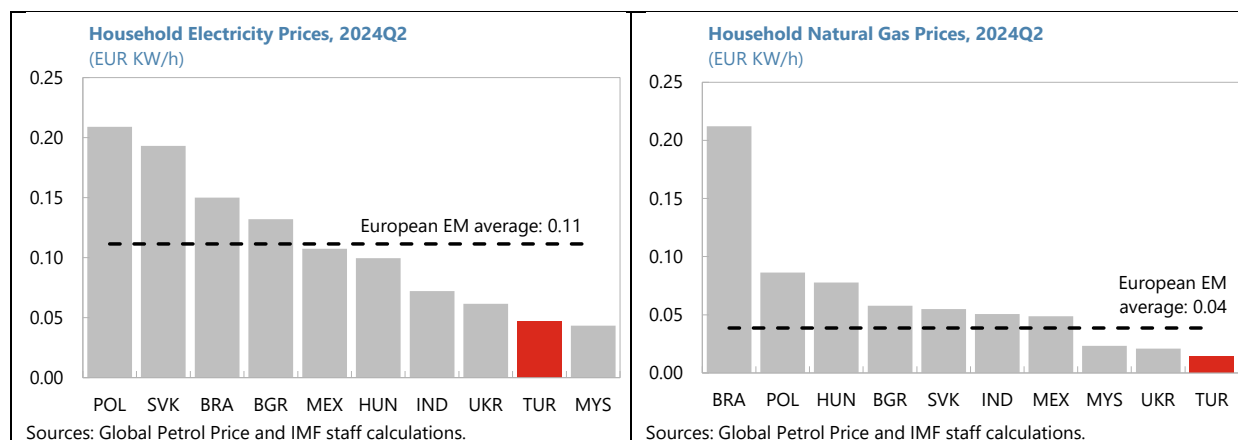
23. Further fiscal restraint in 2024 would help dampen demand. While admittedly difficult to enact in the last quarter, measures would signal the policy direction for next year and some could reduce the cash impulse. Staff recommends rationalizing tax expenditure (estimated at 5.3 percent of GDP in 2024) and possibly unifying VAT rates. While earthquake expenditure needs to be protected, further limiting spending on non-essential capital projects and postponing those that have not yet started would also reduce demand. Close monitoring of earthquake spending and published quarterly fiscal targets would provide early feedback on the cyclical stance.



24. Additional measures next year would improve tax structure and efficiency. Measures to unify the VAT rate and revenue administration reforms would boost revenue; a broad tax policy diagnostic would be useful before implementing such reforms.⁸ Non-earthquake capital spending

⁸ Staff assessed in 2017 that unification of VAT rates could raise revenue between 0.2–1.8 percent of GDP.

can be further held back as long as reconstruction continues. Backward-looking indexation in wage contracts should be replaced with forward-looking expectations. Remaining energy subsidies should be phased out, while supporting vulnerable households through targeted cash transfers.⁹ A two-year phasing-out would not compromise disinflation efforts as the effect of price increases would be counterbalanced by the impact of limited disposable income on demand.



Incomes Policy: Reducing Inertia and Re-Anchoring Expectations

25. The shift toward tighter income and price-setting policies should continue. The minimum wage has increased in real terms and is a key determinant of both inflation expectations and aggregate demand. The authorities should continue annual adjustments, with increases in line with inflation expectations to reduce wage-price feedback and also being mindful of competitiveness. More broadly, backward-looking indexation should be minimized or discontinued. For administered prices, one-off adjustments might be needed and future increases should be aligned with production and/or maintenance costs.

Authorities' Views

26. The authorities expect fiscal policy to be neutral in 2024 and contractionary in 2025. They signaled their commitment to continue strengthening tax policy and expenditure management. They noted that ongoing efforts to control expenditures in the context of the revised MTP will lead to a smaller fiscal impulse than projected by staff in 2024 and agreed that as earthquake relief spending declines, the fiscal stance will turn contractionary in 2025. They see space to raise revenues given large tax expenditures and informality. In this regard, they emphasized that tackling informality is a key priority. The authorities expect ongoing and future policy actions to strengthen tax collections and highlighted that possible changes in tax measures will need to consider their inflationary impact. In this regard, they highlighted the importance of policy coordination to tackle inflation. They agreed that untargeted energy subsidies are costly but argued that a full subsidy overhaul would only be implemented after a safety net protecting disadvantaged households is in place. Wages will be raised as mandated by law, via contracts renegotiated every

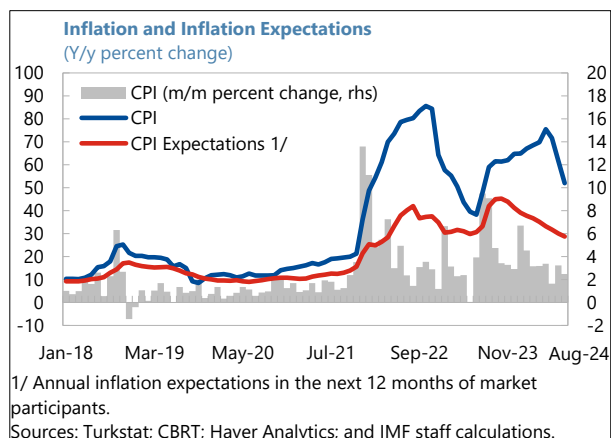
⁹ As of June 2024, natural gas and electricity tariffs were subsidized by 71 and 55 percent, respectively.

other year. The authorities noted that with inflation declining, they will continue annual minimum wage adjustments.

Monetary Policy: Tighter For Longer

27. Reaching the midpoint of the end-2025 CBRT forecast band will require tighter financial conditions, which will partly come from falling inflation expectations. With domestic demand falling, credit growing below the caps, and sequential inflation entering the band consistent with reaching the end-2025 forecast, financial conditions are quite restrictive at the moment. Reaching the end-2025 midpoint of the authorities' inflation forecast range, however, will require further tightening to ensure real ex-ante rates remain sufficiently

contractionary. Future changes should be data-dependent, and some tightening is likely to occur organically through falling inflation expectations; this would add to an envisaged tighter fiscal stance. But should sequential monthly inflation not continue to fall to the 1.1 percent average path needed to reach 14 percent (midpoint of the 2025 CBRT forecast range), further policy tightening would be called for.



28. The CBRT should continue to improve the functioning of monetary policy. Credit growth caps and still-high dollarization have diminished the effectiveness of the policy rate (Box 5). Once inflation is on a clear downward path, and before reducing the rate, credit growth caps should be removed. Meanwhile, with RRs quite high, the CBRT should further develop deposit auctions and gradually lengthen deposits' terms as a more market-friendly way to absorb surplus liquidity. Should inflows accelerate further, potentially adding to future external financing needs, additional financial stability policies would help mitigate their macroeconomic impact and build buffers against systemic risks (Annex VIII). In turn, the recent reserve accumulation, thanks to increased inflows in 2024:H1 and benign CAD dynamics, is building much-needed buffers in case the external position weakens again.

29. Policies to strengthen central bank independence and monetary policy communication would complement these efforts. Clearer communications about how targets will be reached and the CBRT's response function would help address sticky expectations. Transparent arrangements for senior CBRT appointments and dismissals would strengthen central bank independence and support monetary policy credibility.

Box 5. Tightening Monetary Policy

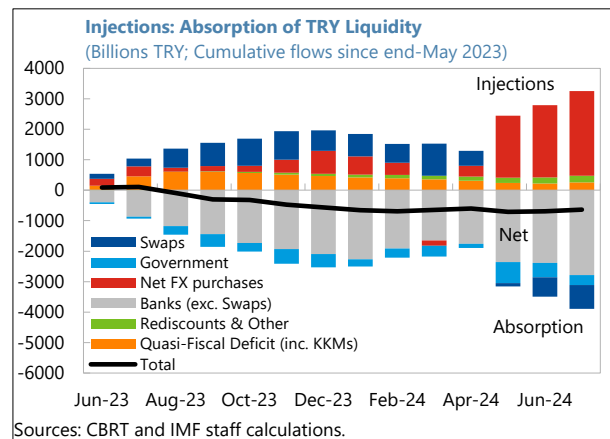
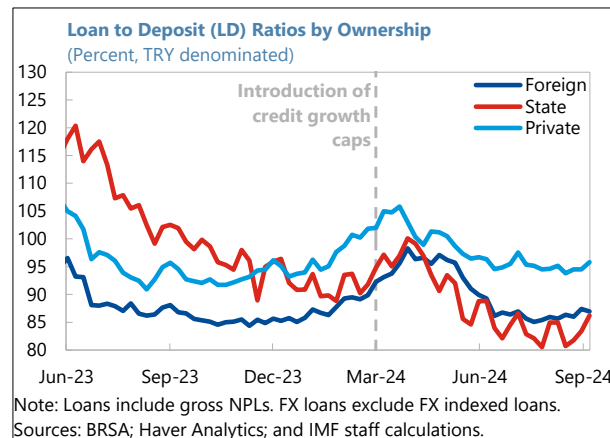
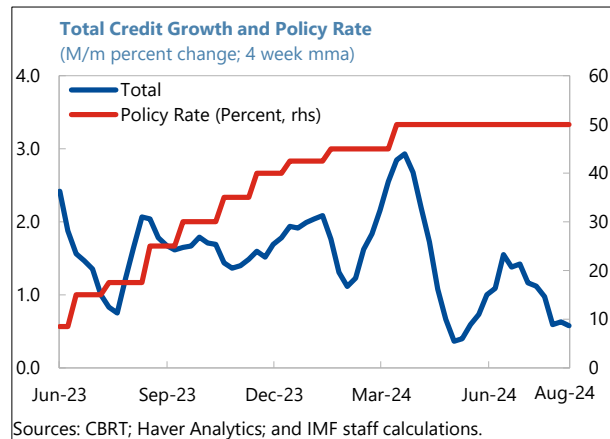
The CBRT's one-week repo rate is its main policy rate, but caps on credit growth introduced in March 2024 and tightened in July have brought to the fore challenging tradeoffs between disinflation and financial stability.

Caps have complemented policy rate hikes in slowing credit growth. In early 2024, transmission from the policy rate to credit growth and aggregate demand was weak because of still-negative real policy rates. In response, the CBRT moved in March 2024 to control monetary aggregates not just by increasing the rate and broadening the base for required reserves, but also more directly via growth caps on loans.¹ These caps cover most but not all bank lending, and with the lira lending rates now broadly following the policy rate, credit has fallen rapidly in real terms, likely contributing to cooling aggregate demand in Q2.

The use of the policy rate and credit caps is weakening the transmission of monetary policy by influencing both the price and quantity of credit. As the caps limited the growth of banks' balance sheets, they reduced bank demand for lira funding. With lower lira funding costs, lending rates also rose less. These caps thus undermine the role of the policy rate as the main policy instrument and blur the monetary stance. They are also more difficult to incorporate into central bank communications and forward guidance.

The need to manage excess liquidity in the wake of inflows further complicates monetary policy and adds to financial stability risks. The move in 2024:Q2 of domestic depositors and carry trade investors into lira, and the CBRT's need to prevent excessive appreciation, led to reserves accumulation, which in turn caused a sharp rise in lira liquidity. Liquidity was absorbed largely by raising RRs and unwinding swaps, reducing quasi-fiscal revenues, and further lowering net liquidity absorption despite a decline in KKM payouts. These changes were triggered by higher policy rates and a relatively stable lira, but by injecting liquidity into the system, they complicate monetary policy. The CBRT managed the liquidity surge by raising RRs, but these are now approaching a level that could undermine bank profitability at a time when funding costs have risen with the policy rate and opportunities for lending are constrained by growth targets.

1/ Initially the ceiling was 2 percent on lira lending. A 2 percent ceiling was added in May 2024 for FX lending, and reduced to 1.5 percent in July.



Exchange Rate Policy: Smoothing Volatility and Rebuilding Buffers

30. Exchange rate intervention should focus on smoothing potentially destabilizing exchange rate movements that could dislodge inflation expectations. Intervention should not be used to substitute for warranted adjustment of macro policies, including appropriate monetary and fiscal policy settings. But it can be useful when large shocks interact with frictions – such as high dollarization and strong inflation passthrough – to generate sharp increases in external financing premia or a jump in inflation expectations that can undermine price stability. Moreover, Türkiye’s FX market is shallow, and, until confidence in the lira has further increased, external shocks could be misinterpreted as permanent, leading to a disorderly and destabilizing jump in FX demand. Hence, to avoid destabilizing inflation expectations during policy normalization, intervention to smooth sharp changes in the exchange rate is warranted. In this context, the CBRT’s responses to capital outflows in 2024:Q1 and the subsequent strong reversal in Q2, are commendable. Until sequential inflation is on a sustainable downward trend, the CBRT should continue to prioritize smoothing exchange rate movements in a manner consistent with disinflation and without undue real appreciation. The CBRT should avoid intervening against persistent shocks, which could lead to an unsustainable appreciation followed by a correction. Such shocks should be addressed more sustainably through tighter policies and by allowing the currency to find a floor. Excessive real appreciation would first be visible in trade data and the financial performance of externally-exposed corporates; these should be monitored closely. The CBRT should continue to replenish reserves buffers opportunistically.

31. When sequential inflation has declined, interventions should be scaled back. Lower inflation, inflation expectations close to the CBRT range, and more comfortable reserve buffers will improve confidence in the lira. Similarly, disinflation will encourage capital inflows, reducing frictions in the FX market and lessening the need to smooth exchange rate volatility. Further relaxation of the export surrender requirement or reducing minimum FX-protected deposits rollover rates would support greater liquidity and price discovery in the market.

32. Measures to limit FX outflows are being dismantled. Türkiye retains two CFMs: surrender requirements for goods exports (relaxed in June from 40 to 30 percent) and measures that limit the scale of offshore derivative transactions aimed at limiting swaps. Surrender requirements should continue to be gradually discontinued. Lira short selling should continue to be banned until financial liberalization is largely achieved.

Financial Policies: Improving Efficiency

33. Financial liberalization should focus on reinforcing policy tightening and improving transmission. The [2023 FSAP](#) noted that dismantling complex and distorting repression measures should be carefully sequenced, to avoid jeopardizing financial stability. Many of these measures have now been removed, and the banking system appears to operate more smoothly with risks broadly contained. Nevertheless, the CBRT should continue to improve liquidity forecasting and management, including by moving toward targeting the overnight rather than one-week rate to smooth adjustments. The FSAP suggested simplifying collateral and haircut rules to improve access

to CBRT funding; developing a unified master repo agreement in line with the ISDA standard, and removing individual banks' limits on participation.

Authorities' Views

34. The authorities strongly believe the current stance will bring inflation into the CBRT's forecast range. Consistent with current guidance, they reiterated that the CBRT will keep the tight monetary stance until a significant and sustained decline in the underlying trend of monthly inflation is observed, and inflation expectations converge to their target range. The CBRT highlighted three disinflation channels: domestic demand moderation; real exchange rate appreciation; and re-anchoring inflation expectations. The authorities expect further improvements in inflation expectations but noted that these may remain high for households and sticky for corporates. They remain ready to tighten further if inflation and inflation expectations do not converge to the target range. They agree that interventions should be fully sterilized and emphasized that improvements to systemic liquidity management, including the development of deposit auctions, are ongoing.

35. The authorities consider that low exchange rate volatility contributes to anchoring expectations and reiterated that the CBRT does neither target an exchange rate level or a pace of depreciation. The CBRT explained that the real exchange rate appreciation is a natural consequence of the tight policy stance and policy credibility. As market conditions permit, they plan to bring down the stock of FX-protected deposits at a faster pace.

36. The authorities highlighted the significant progress in financial liberalization and noted that further liberalization would be taken as market conditions allow. On the policy toolkit, the CBRT explained that credit growth caps transmit faster and more directly to domestic demand, and so allow for a swifter tightening of the policy stance, especially in light of imperfect monetary transmission. They noted that credit growth caps on FX loans helped extend tight financial conditions from lira to FX markets. Nevertheless, the CBRT stated that the macroprudential policy framework will be viewed as complementary to the policy rate. They emphasized that they will continue simplifying the macroprudential framework and introduced new tools to improve transmission, including swap facilities and deposit auctions.

B. Safeguarding Stability and Boosting Medium-Term Growth

Financial Stability During and After Disinflation

37. Risk management and dealing with problem assets should be further improved. The FSAP noted that bank regulations were not fully in line with Basel standards and that insufficient resources and intrusiveness at the Banking Regulation and Supervision Agency (BRSA) undermined supervision. Changes to the supervisory approach, such as the new Supervisory Review and Evaluation Process, are welcome. Going forward, measures such as further improving loan quality reporting practices and risk management would bring the supervisory framework closer in line with Basel, mitigate credit risks related to the slowing economy, and improve capital allocation. Regulatory forbearance that obscures asset quality transparency should be phased out. In addition,

the CBRT's emergency liquidity assistance framework should be modified to eliminate any overlap with liquidity provision in the event of financial stress, and deposit insurance regulations be brought in line with FSB Key Attributes.

38. Macroprudential policies should focus on systemic liquidity and credit risks. Lira RRs continue to be used to support preferred sectors, tighten financial conditions, and support liraization targets. They should be simplified and focused on managing systemic liquidity. With FX liquidity risks still high, FX RRs (as well as risk weights on FX-denominated securities) should be set commensurate with FX liquidity risks. Measures such as differential growth caps, complex risk weights, and RRs that divert credit toward export, investment, and other preferred sectors, should be lifted.

39. Dedollarization should take second priority to disinflation. FX-protected deposits present quasi-fiscal risks in the event of a major depreciation and undermine market discipline by shifting FX risk away from the private sector. As inflation falls and the FX reserves position improves, these should be slowly made less generous and further unwound. In the meantime, tolerating dollarization while bringing inflation down will likely raise the likelihood of success for both policies, and systemic FX liquidity risk can be managed with macroprudential policy.

Authorities' Views

40. The authorities stressed that banks have adequate capital and liquidity buffers and highlighted efforts to simplify the macroprudential policy framework. They noted that regulatory changes (in line with FSAP recommendations) are contributing to strong bank lending portfolios, effective NPL workouts, and diminishing impact of declining loan portfolio growth on NPL ratios. They noted that the BRSA requires banks to comply with leverage ratio standards not subject to forbearance. They explained that the debt servicing capacity of both households and corporates has not been significantly affected by policy rate increases, given plentiful cash buffers and moderate leverage. On the macroprudential framework, they highlighted the elimination of the securities maintenance requirement and of loan rate caps. They emphasized that tight monetary policy has contributed to declining dollarization, while restrictions on FX loans to unhedged borrowers have limited systemic FX liquidity risks. They noted that while the stability of FX inflows is uncertain, FX liquidity risks are mitigated by banks not being exposed to FX maturity transformation risks as FX inflows are either sold to the CBRT or invested into liquid FX-denominated assets.

Ensuring Fiscal Sustainability and Reducing Risks

41. The authorities' medium-term deficit target is appropriate to manage sizable fiscal risks. The 3-percent target is transparent and easily communicated. With some fiscal space still available, this would allow further spending on health and toward climate mitigation. Public debt would stay at low levels (Annex IV) and is robust to shocks, while gross financing needs (GFN) are manageable. Under macro stress scenarios, GFN would rise to around 8 percent in the medium term, (against 6 percent of GDP in the baseline) while contingent liability shocks on top of macro stress would raise the GFN to a peak of over 13 percent of GDP in the year of the shock, falling to an

annual average of around 9 percent. Debt would increase to 32 percent of GDP by end-2029 against the baseline of 26 percent. Possible risks stem from policy normalization, which will increase debt service. Also, cumulative PPP investment is over 8 percent of GDP, recapitalization of SOEs could prove necessary, and more citizens could avail themselves of the 2023 early retirement scheme (Box 2). And a large increase in commodity prices would increase costs while energy subsidies remain in place exposing the government to commodity risk.¹⁰ Lastly, natural disasters, including earthquakes and climate-related losses, consistently add to fiscal costs.

42. **Modernizing fiscal policy would help guard against risks:**

- **Revenue administration.** Estimating tax potential, improved institutional structures at revenue administration agencies, and implementing compliance risk plans should be key first steps.
- **Fiscal governance reforms,** including the oversight and management of PPPs, should be accelerated. Timely publication of SOE financial statements and comprehensive and consolidated information on their quasi-fiscal operations would improve the assessment of risks. New guarantees should ideally be eschewed or costed transparently and systematically.
- **Pensions.** Ad-hoc increases to pensions and the enactment of early retirement schemes should be avoided. A review of the pension system would ensure that the most vulnerable are protected, while ensuring the long-term fiscal viability of the system.

43. Public spending should become more efficient, transparent, and accountable. An assessment of public financial management through an updated Fiscal Transparency Evaluation (FTE) would support such efforts. While certain public officials must submit an interest declaration, there is limited information on the monitoring and enforcement of compliance with conflict-of-interest regulations.¹¹ Türkiye has an asset declaration system for public officials, but both interest and asset declarations are not made publicly accessible. There is also no centralized body to collect and verify these declarations following a decentralized approach. Finally, the efficiency, integrity, and value for money of post-earthquake spending should be assessed through a performance audit by the independent Public Procurement Authority.

Authorities' Views

44. The authorities are committed to a 3 percent of GDP deficit anchor in the medium term and agreed with staff that public debt would remain sustainable under a variety of shocks. They acknowledged fiscal risks from SOEs and PPPs, while noting that they are transparently reported, manageable, and sufficiently safeguarded. PPP-related demand guarantees that have been called are budgeted annually and included in the budget targets. Treasury debt assumption commitments for PPPs are reported monthly, and these commitments have never been triggered. Moreover, the size of new annual Treasury debt assumption commitments is limited by law. The

¹⁰ If energy prices return to their 2022 highs, this could add over 1 percent of GDP in transfers to energy SOEs.

¹¹ [Anti-Corruption and Integrity Outlook 2024 – Country Notes: Türkiye.](#)

authorities are committed to modernizing the legal frameworks for both PPPs and SOEs and corresponding laws are currently under consideration. The new framework for SOEs will aim to expand coverage of their reporting and monitoring beyond the limited subset currently included. The authorities noted that allocations for earthquake relief cannot be diverted to other purposes and that are subject to the same audit process as other expenditure categories.

Structural Reforms to Support Growth

Climate Mitigation and National Energy Plan

45. Türkiye is developing plans to reduce greenhouse gas (GHG) emissions. It was the world's 14th largest GHG emitter in 2022, though its per-capita emissions are below the EU average. Its energy efficiency, measured as total emissions relative to production, has improved at a slower pace than most of its peers with many Turkish companies not operating at the energy efficiency frontier (Annex IX). The share of fossil resources is expected to decline to 70 percent by 2035 (from 83 percent in 2020) as the National Energy Plan (NEP) aims to increase renewables in primary energy consumption to about one quarter by 2035. However, there are no plans to reduce power generation through coal plants before 2050.

46. Existing mitigation policies are helping to limit emissions' growth, but further efforts are needed to achieve Türkiye's net zero emissions target of 2053. Existing policies include promotion of renewables through feed-in tariffs, net metering and tendering; tax incentives for EVs; vehicle registration fees by vehicle size and the Zero Carbon Buildings for All initiative which aims for the decarbonization of new buildings by 2030 and all buildings by 2050. In its Nationally Determined Contribution (NDC), updated in 2023, Türkiye committed to reducing emissions by 41 percent through 2030 compared to a Business as Usual (BAU) scenario. The CPAT tool estimates that this NDC is non-binding.¹² However, additional policies are needed to achieve carbon neutrality as planned in 2053. First, the power sector should be decarbonized by scaling up renewable energy and retiring most existing coal power plants and mines before 2050, while compensating affected workers. Second, energy efficiency can be improved by making building standards and codes more stringent and well-enforced, perhaps alongside improving earthquake-resilience. Promoting more energy-efficient modes of transportation, national schemes to support energy efficiency in factories, and a coordinated shift toward industrial electrification would also help, with an important role for carbon pricing. Third, adopting sustainable forest management to grow carbon-absorbing areas would maximize Türkiye's considerable carbon sequestration potential.

47. Plans for an emission trading system (ETS) are to be aligned with the EU. An ETS would substantially help Türkiye in reaching its mitigation targets, while phasing out energy subsidies would help getting carbon prices right. The EU's carbon border adjustment mechanism (CBAM), which will be phased in from 2026, will levy charges on the carbon content of imported steel, aluminum, cement, fertilizers, and electricity. Aligning Türkiye's ETS, both in coverage and pricing, will avoid charges. ETS coverage should include the industrial and power sectors and introduce

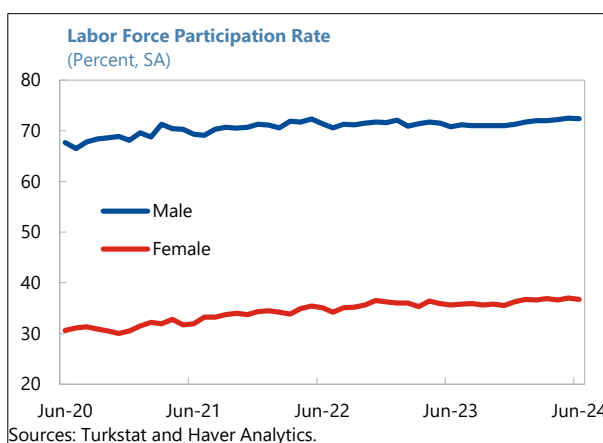
¹² Parry, I., Minnett, D., Zhunussova, K. (2023). Climate Mitigation Policy in Türkiye. IMF Working Papers, 2023/108.

binding ceilings on emissions consistent with Türkiye’s mitigation goals. Ideally, emission allocations should be auctioned off, with the carbon price increased in a predictable and gradual manner through consistently declining emission caps. Including a price floor would further reduce uncertainty about ETS pricing and thus help businesses. Such a set-up would also raise revenue which could support economic activity and strengthen social safety nets.

National Employment Strategy

48. Labor market reforms should focus on reducing informality and increasing flexibility and female participation. Despite recent improvements, informality remains high and female labor force participation extremely low, while labor mobility continues to be impaired by burdensome procedures and a lack of fixed-term contracts. Reform priorities to increase female participation include increasing the supply of affordable and well-targeted public childcare services, better targeting subsidies and allowances for childcare for low-income workers, and building on recent tax measures which increased labor supply incentives for women (Annex X).

49. On informality and flexibility,¹³ priorities include: reassessing severance pay reform, making formal fixed-term and temporary work contracts more flexible, and reducing administrative, regulatory, and the tax burden on SMEs, among which informality is most prevalent. Taken together, these would boost medium-term growth and make it more inclusive, facilitate business efficiency, improve tax collection, and better protect workers.



Legal Reforms

50. A robust governance framework could further build investor confidence. The 12th Development Plan (2024–26) establishes strategic objectives to strengthen bureaucratic and legal predictability in the business and investment environment to make the economy more competitive; reform measures include improving the quality and quantity of judges and prosecutors and streamlining judicial processes. A new anti-corruption strategy document is also under preparation and will be published. In the absence of a dedicated anti-corruption agency, robust coordination through the Ministry of Justice among relevant public institutions is critical for the effectiveness of anti-corruption efforts. Türkiye is undertaking its 2nd Review Cycle under the United Nations Convention against Corruption, and is encouraged to timely implement the recommendations.

¹³ Domit, S. and Kesimal, D. (2024). Labor Market Gender Gaps in Türkiye: A Bird’s Eye View. IMF Working Papers, 2024/171.

Financial Issues

51. Türkiye was removed from the Financial Action Task Force (FATF) “Gray list” of jurisdictions with strategic anti-money laundering and combatting the financing of terrorism (AML/CFT) deficiencies in June. The authorities have been recognized as implementing all of the action plan items agreed upon with the FATF, the international standard setter for AML/CFT purposes. Notably, the authorities made important legal and regulatory updates, including addressing shortcomings related to politically exposed persons. The authorities also amended AML/CFT legislation in 2021 to bring virtual asset service providers (VASPs) into the AML/CFT regulatory regime and enacted a new virtual assets (VA) regulation that now requires registration of VA Service Providers (VASP), of which there are around 80 in Türkiye.¹⁴ The authorities have also updated the national money laundering and terrorism financing risk assessment.

52. The CBRT is developing a central bank digital currency (CBDC). The authorities have completed the first phase of their CBDC pilot, focusing on, among other things, digital transactions and identification. In the second phase, the CBRT will focus on introducing a digital lira to the payments infrastructure as well as interoperability.

Authorities’ Views

53. The authorities assess potential growth to be higher than assumed by staff and conveyed their commitment to policies to make growth greener and more evenly distributed. In this regard, they

- Noted that they are on track to meet their updated NDC, consistent with net zero emissions in 2053. They emphasized that the design of a domestic ETS is underway, that it will cover the main sectors included in the EU’s CBAM and that a pilot phase is planned for 2025. While there are no plans to close existing coal plants, coal’s share in energy production is projected to gradually fall, in accordance with the NEP.
- Acknowledged that employment reforms remain important. They emphasized that while informality remains high, it has declined. They highlighted ongoing work to improve labor market flexibility, including cooperation with ILO to bring women into the labor force, part-time contracts for home workers, and grant schemes for SMEs to promote entrepreneurship. They are working on tailored programs to deal with informality in sectors with high informality, such as agriculture and construction. The authorities consider increasing female labor force participation as a priority, but acknowledged the need to further increase targeted public spending for childcare services.
- Noted that they continue to work towards improving the governance framework. While there is no dedicated anti-corruption agency, a coordination mechanism by the Ministry of Justice is

¹⁴ According to the authorities, VA trading was around US\$ 170 billion 2023.

already in place. So far, no recommendations have been issued for the review of the implementation of United Nations Convention against Corruption.

- Noted that risks from digital finance are contained. The new crypto law will help gather more information and address future risks. Development of a retail CBDC is being undertaken in various independent stages to minimize risks to the financial system.

STAFF APPRAISAL

54. A bold policy shift since mid-2023 has reduced economic imbalances and crisis risks.

The CBRT significantly tightened monetary policy while gradually dismantling financial distortions. Substantial tax and expenditure measures helped dampen an expansionary fiscal impulse, which partly reflected critical earthquake-related spending. Minimum wage indexation now takes place once a year, down from semiannual adjustments. This policy shift generated a remarkable revival in market sentiment since the spring and net international reserves have strengthened significantly. The financial and corporate sectors have so far weathered the policy tightening and financial liberalization.

55. As the economy is cooling, inflation is now moderating from high levels. Although fiscal policies will move to contractionary territory only in 2025, the policy mix will continue to weigh on demand. After peaking at 75 percent (y/y) in May 2024, inflation is projected to gradually decrease to about 25 percent in 2025. Growth would decline to 3.0 percent in 2024, further to 2.7 percent in 2025, and recover to its potential thereafter. The external position in 2023 is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies. However, the CAD is projected to fall from 4.0 of GDP in 2023 to 2.2 percent in 2024 with reserves increasing to above 100 percent of the reserve adequacy metric.

56. The authorities' gradual approach to fighting inflation bears significant downside risks. In particular, gradual fiscal tightening will prolong the period during which adverse shocks might materialize and runs the risk of failing to bring down sequential inflation. A reversal of confidence or capital flows, higher global energy prices, or rising geopolitical tensions could further complicate disinflation efforts. Also, a growth slowdown needed to curb inflation may raise credit risks in the financial system, while FX borrowing and carry trade flows have added to potential FX liquidity risks. Nevertheless, tighter policies could create a virtuous cycle under which reduced pricing power at firms eases wage pressures, lowering inflation inertia and thus further reducing wage and price pressures.

57. A tighter policy stance would result in more rapid and more sustainable disinflation, though at some cost for short-term growth. More decisively contractionary fiscal policies over 2024–25, forward-looking incomes policies, and tighter financial conditions, supported by prudent exchange rate policy, would lower risks, support rebalancing, and boost medium-term growth.

58. A larger and more front-loaded fiscal consolidation would cool down demand faster.

Measures of 2½ percent of GDP, frontloaded to the extent possible, would move the fiscal impulse in 2025 into significantly contractionary territory, reversing fiscal stimulus from previous years. Policies should include rationalizing tax expenditures, broadening the tax base, energy subsidy reforms, and limiting spending to essential capital projects as long as earthquake reconstruction continues.

59. Tackling backward-looking indexation would more swiftly re-anchor inflation

expectations. The decision to return to annual minimum wage adjustments is welcome, as their frequency and magnitude are a signal on the desired speed of disinflation. In general, backward indexation should be eliminated. Administered prices adjustments should also be aligned with production and/or maintenance costs.

60. Falling inflation expectations may not be sufficient to bring the end-2025 inflation

forecast within reach. Monetary policy should remain data-dependent and ex-ante real rates sufficiently contractionary to ensure sequential inflation is on a downward trend aligned with the CBRT's end-2025 midpoint forecast. As inflation expectations fall, the real policy rate will rise, but if inflation stays outside the envelope consistent with the end-2025 forecast, nominal increases would also be called for. Credit growth caps should be discontinued before nominal easing. Inflows should be fully sterilized, and systemic liquidity forecasting and management improved. Additional clarity on the CBRT's reaction function to shocks would help re-anchor inflation expectations. Macroprudential policies can focus on mitigating systemic financial risks. CFMs should be discontinued gradually as FX liquidity risk recedes and inflation falls.

61. Policies to strengthen central bank independence and communication would help

improve monetary policy efficacy and credibility. It is important that measures to tighten the policy stance and re-anchor expectations be complemented with policies to strengthen central bank independence and communication of monetary policy.

62. Exchange rate policy should focus on smoothing destabilizing exchange rate

movements. Given strong passthrough and high dollarization, a sharp lira depreciation can push up prices, potentially undermining inflation expectations and hindering price stability. FX intervention to smooth such exchange rate volatility is thus warranted while policies normalize, but intervening against persistent shocks could lead to an unsustainable real appreciation followed by a correction. As sequential inflation falls, intervention can be scaled back. Reserves accumulation should be opportunistic.

63. Maintaining financial stability in a context of higher rates and lower growth and preserving financial integrity in the face of emerging risks will require continued vigilance and further reform.

The authorities should continue to bring the supervisory framework more closely in line with Basel, notably for risk management and reporting practices. The CBRT's emergency liquidity assistance policies should be strengthened. Recent improvements to the AML/CFT framework are commendable, and work in this area should be continued. The authorities should continue efforts to understand and mitigate money laundering and terrorism risks,

particularly those related to the virtual asset sector. Going forward, regulation and oversight of VAs activity should be strengthened.

64. While public debt is sustainable under a range of policy shocks, there is scope for structural fiscal reforms. The authorities should continue to address tax compliance gaps, improve tax administration, reduce tax expenditures, and review their transparency policies and public financial management framework. Risk monitoring would be enhanced by a PPP law in line with best international practice, defining roles, responsibilities, and procedures for contract management of PPPs, and reporting requirements for contingent liabilities arising from SOEs and PPPs in primary legislation, as well as timely SOE financial statements.

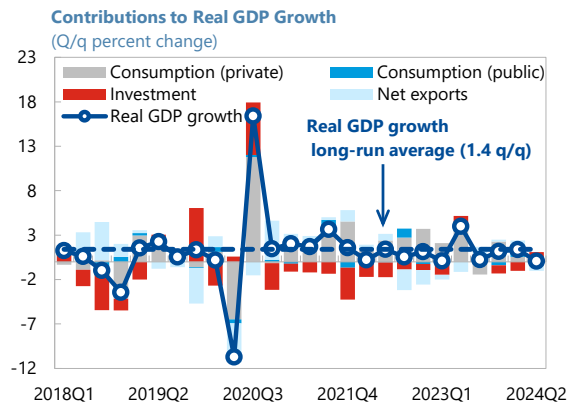
65. Accelerating structural reforms will enhance medium-term growth and make it more inclusive and greener. Investing in the transition to a low-carbon economy, including through further decarbonizing the power sector, would help Türkiye achieve its carbon emission reduction objectives. ETS implementation in line with the EU's would preserve competitiveness. Labor market reforms should aim to boost female labor force participation, reduce informality, and increase labor market flexibility.

66. It is recommended that the next Article IV consultation with Türkiye be held on the standard 12-month cycle.

Figure 1. Türkiye: Real Sector Developments

After a long period of resilience, economic activity is now weakening.

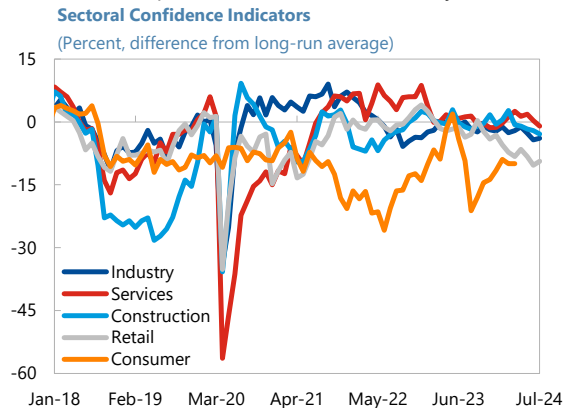
Until 2024Q2, growth had been resilient...



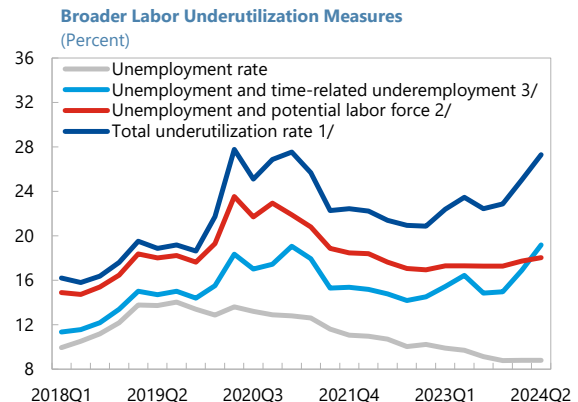
...but demand indicators have markedly weakened since March.



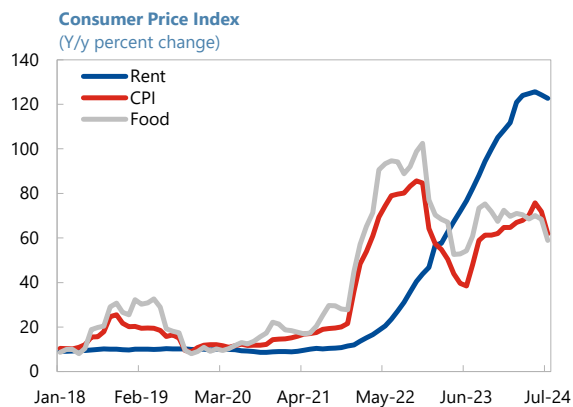
Consumers are pessimistic about the economy.



Headline unemployment is now rising.



Inflation remains high and surging for some services categories such as rents.



While inflation expectations have come down, they remain deanchored.



Sources: Bloomberg Financial Markets L.P.; CBRT; Consensus Forecast; European Commission; Turkstat; and IMF staff calculations.

1/ Ratio of the sum of time-related underemployment and unemployed people to the labor force.

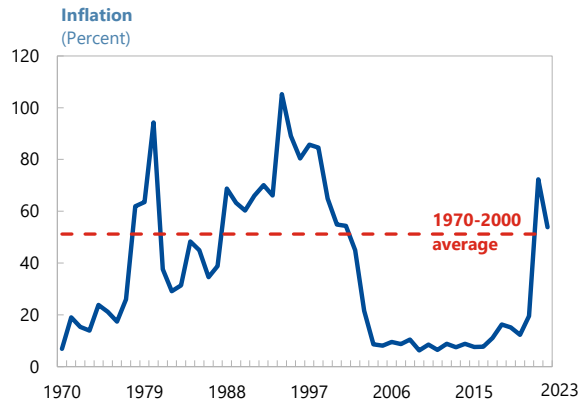
2/ Ratio of the sum of unemployed and potential labor force to the sum of labor force and potential labor force.

3/ Ratio of the sum of unemployed, time-related underemployment, and potential labor force to the sum of labor force and potential labor force.

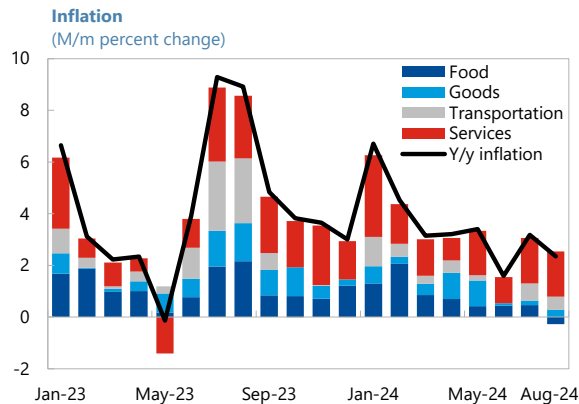
Figure 2. Türkiye: Inflation Developments

Inflation, driven by both external and domestic factors, remains high but has fallen from recent peaks.

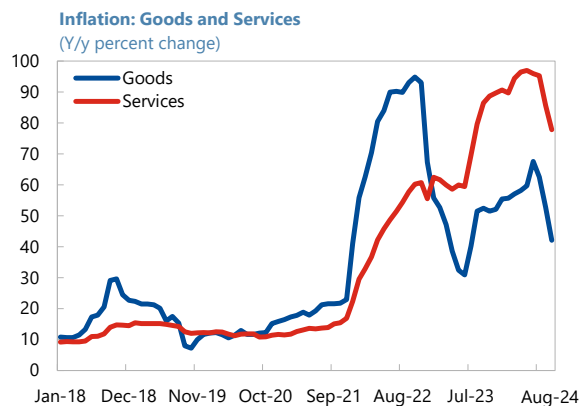
Average inflation has been very high during the past five decades...



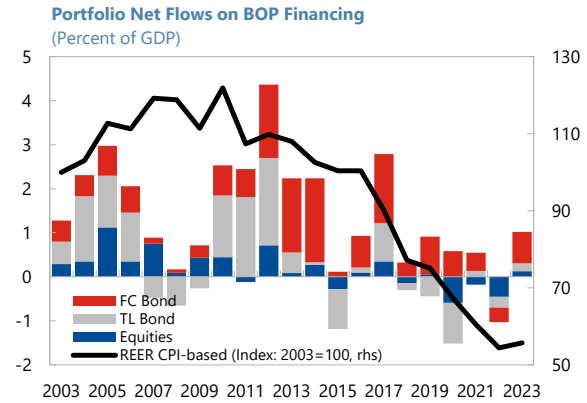
But recently domestic factors have also been significant, as evidenced by strong inflation in services...



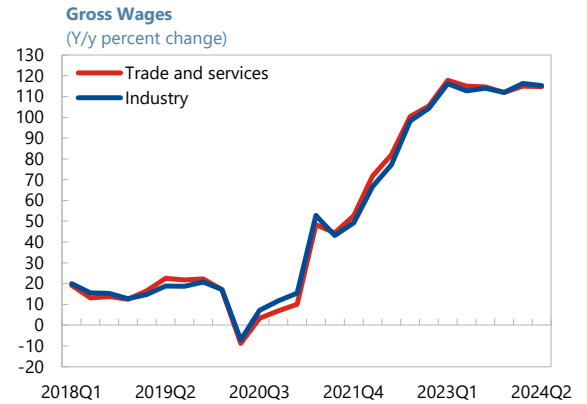
...which so far has had more of an effect on goods inflation.



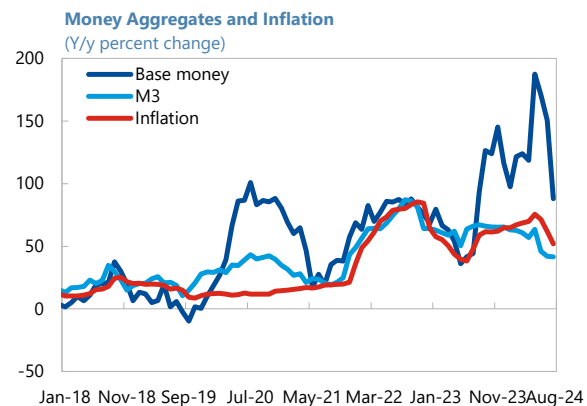
...with capital flow-driven real exchange rate shifts often the major driver.



...fueling demand for higher wages, though this has now begun to slow in 2024:H1...



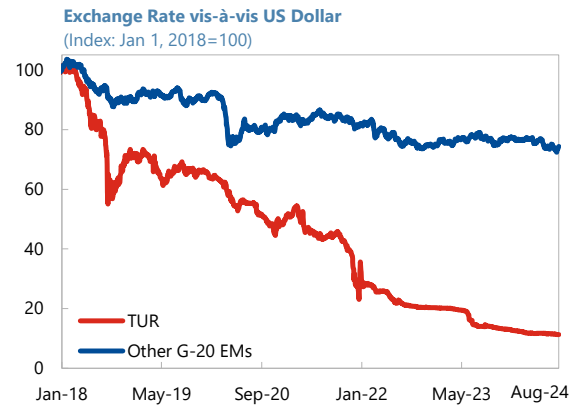
But with money growth also now slowing, sequential pressures should begin to ease.



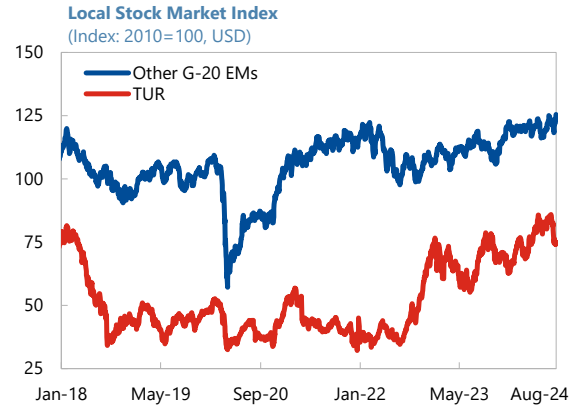
Sources: Central Bank of the Republic of Türkiye; Consensus Forecasts; Country authorities; Eurostat; Haver Analytics; Turkstat; and IMF staff calculations.

Figure 3. Türkiye: Financial Markets

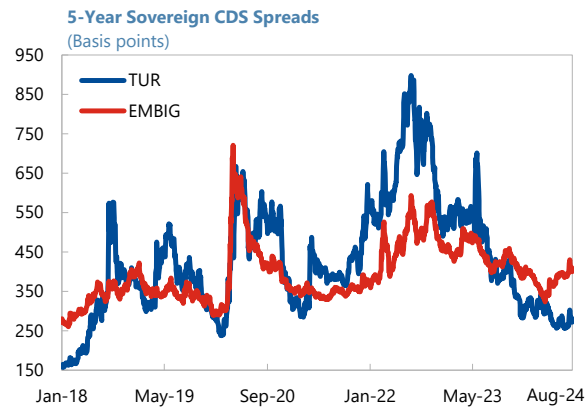
Unwinding distortionary financial measures has proceeded smoothly and risk premia have fallen. After the sharp adjustment in mid-2023, the pace of depreciation has been slow.



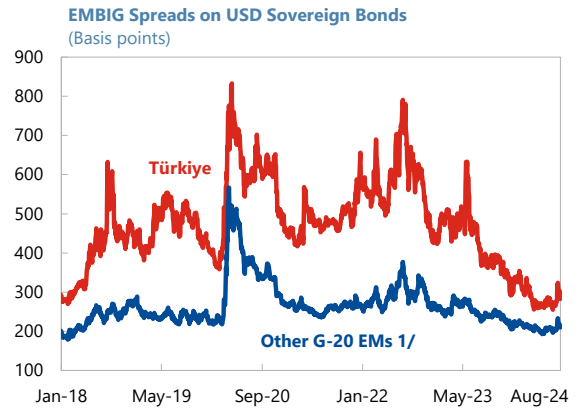
Local equity markets recovered since mid 2023...



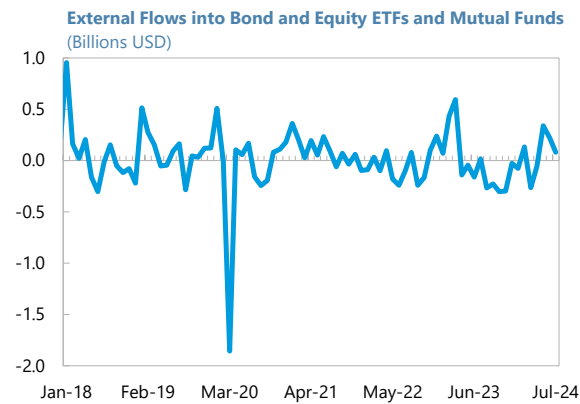
...CDS spreads have fallen over the past year...



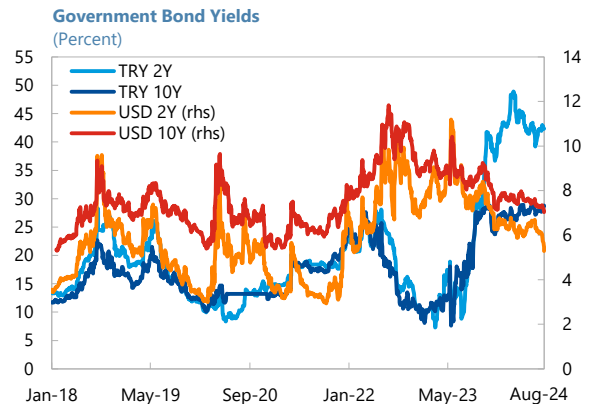
...as did external bond yields...



...and portfolio flows have rebounded this year...



...despite some government bond yields remaining relatively low.

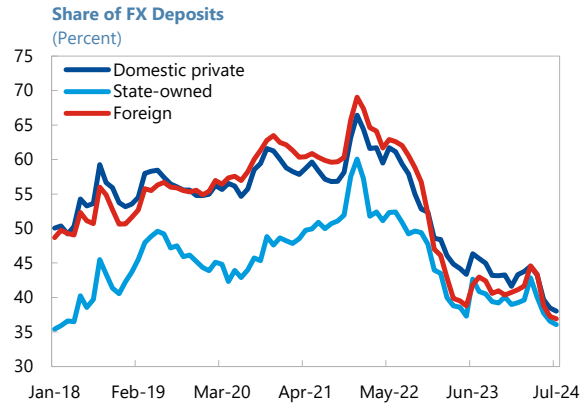


Sources: Bloomberg Finance L.P.; Haver Analytics; and IMF staff estimates.
1/ Excludes Russia.

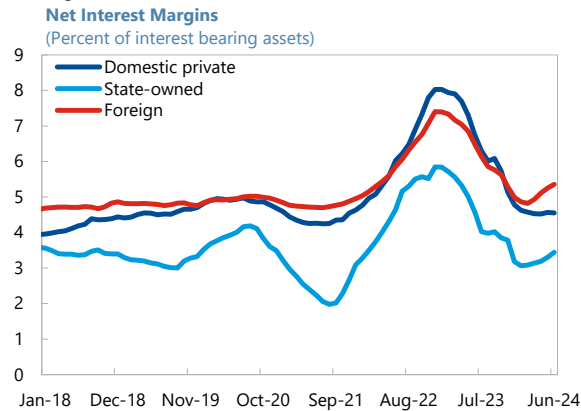
Figure 4. Türkiye: Financial Sector

A variety of measures have so far kept the financial sector stable.

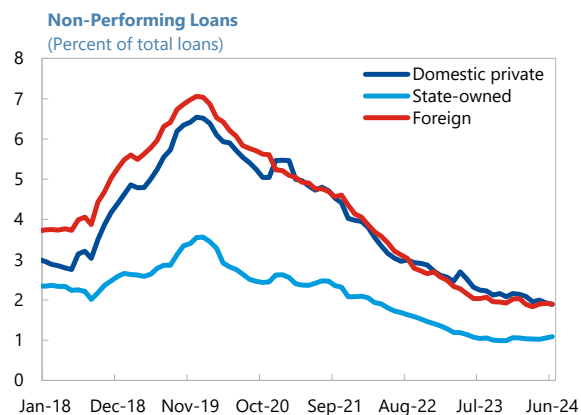
Dollarization remains high but recently has ticked downward...



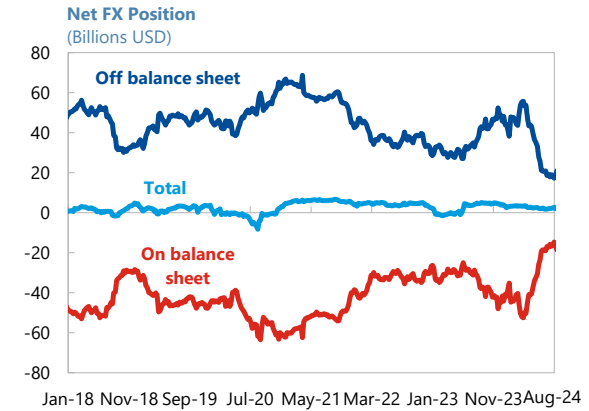
Net interest margins have fallen to their pre-COVID averages...



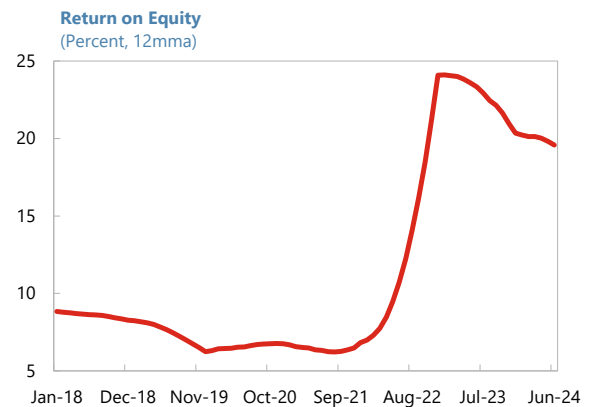
NPLs are low, partly due to rapid nominal credit growth and recently negative real rates that facilitated repayment.



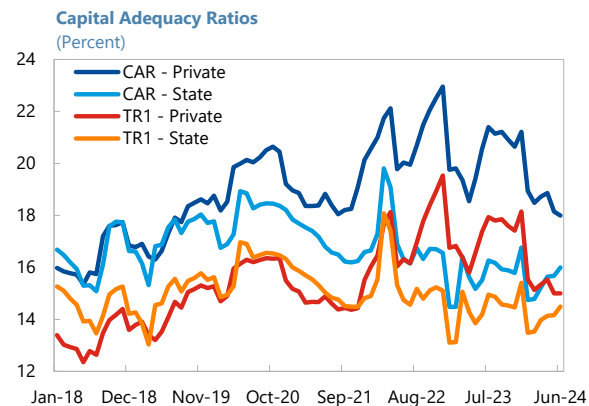
...while the net FX position of the banking system has remained broadly balanced once off-balance sheet swaps are included.



...as a result, system-wide ROE is going up yet it is still negative in real terms.



Capital ratios have fallen from their peaks due to FX and fair value securities valuation adjustments but have since stabilized also due to higher average ROE.

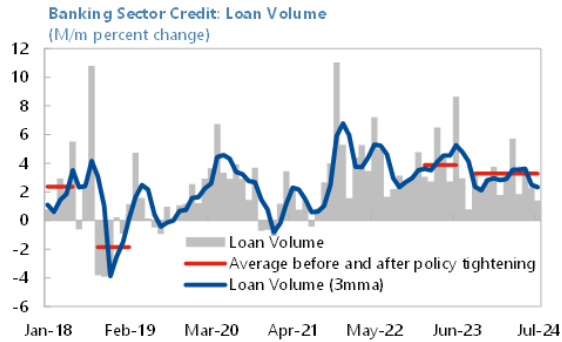


Sources: BRSA; CBRT; and IMF staff calculations.

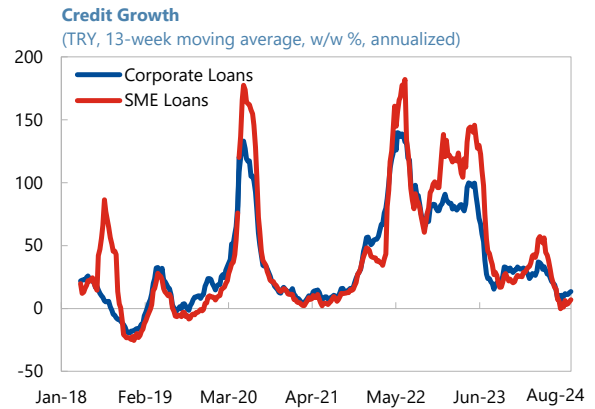
Figure 5. Türkiye: Credit Growth Developments

Credit growth has slowed.

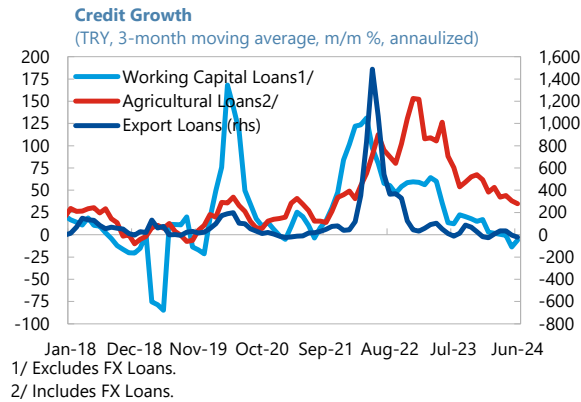
Credit began to fall rapidly after the introduction of growth caps in 2024Q1...



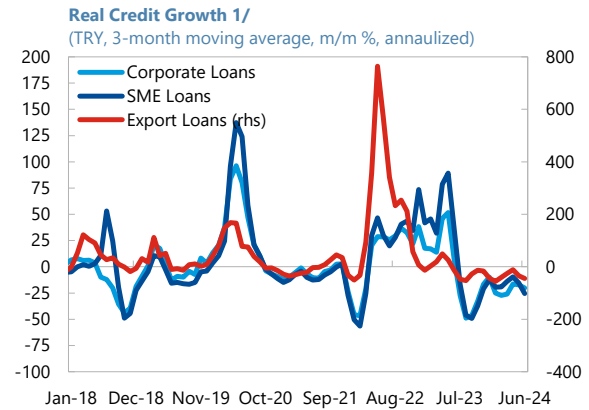
...with corporate loan growth flat in nominal terms.



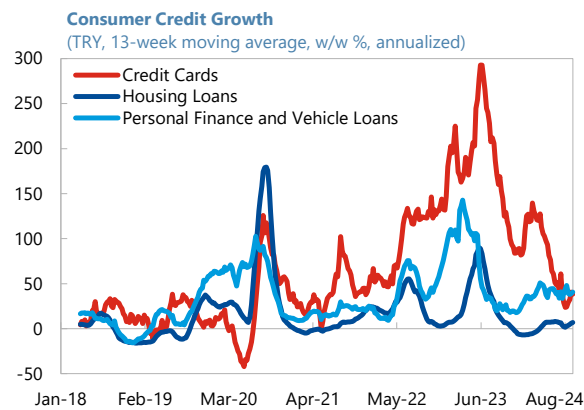
Credit growth for export loans in lira has remained weak, despite the policy support for exporters.



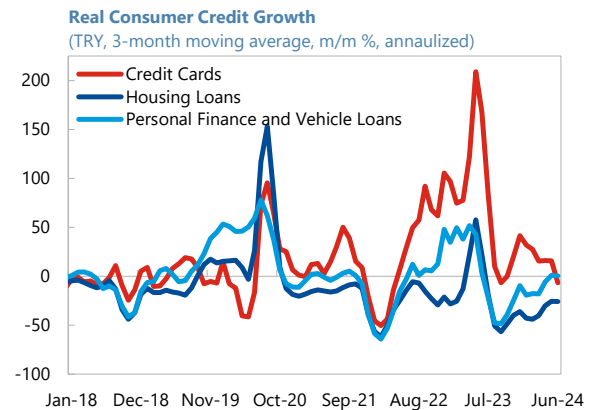
In real terms, NFC credit is contracting rapidly.



Credit card lending, housing and personal loan growth have all slowed...



...with housing and personal loans growth particularly weak.



Sources: BRSA; CBRT; and IMF staff calculations.
1/ Deflated by current CPI.

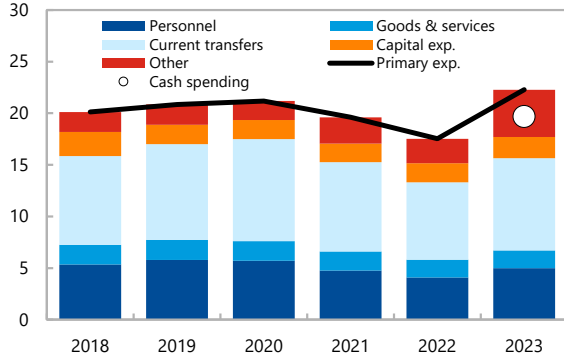
Figure 6. Türkiye: Fiscal Stance

Midyear tax increases in 2023 only partly reversed a large expansionary stance due largely to earthquake spending. A hangover of accrued but unspent cash will boost the fiscal impulse in 2024.

Accrued expenditure increased significantly in 2023 partly reflecting earthquake recovery funds that were unspent...

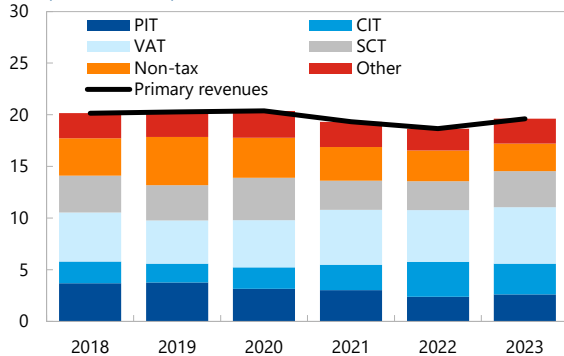
...driven by very high nominal growth in wages.

Central Government: Primary Expenditure Components
(Percent of GDP)



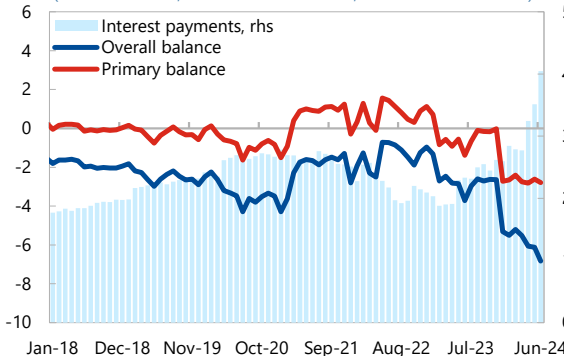
Revenues increased in 2023 following tax rate increases for VAT and consumption taxes

Central Government: Primary Revenue Components
(Percent of GDP)

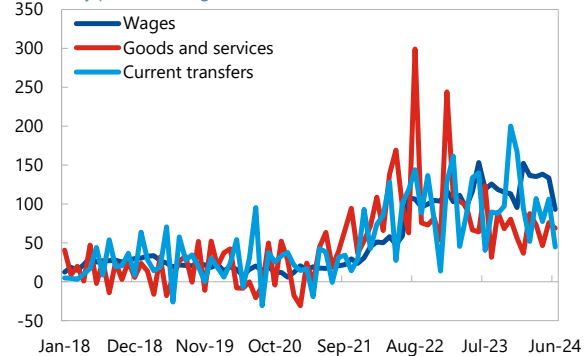


...which expanded the accrual deficit at the end of 2023 though some of this was unspent.

Central Government Fiscal Balance
(Percent of GDP; 12-month cumulative, authorities' definition)

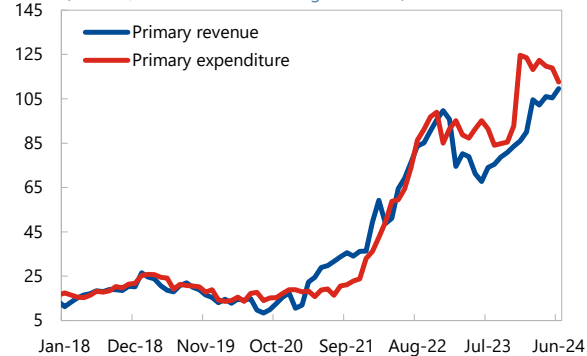


Central Government: Current Expenditure
(Y/y percent change)



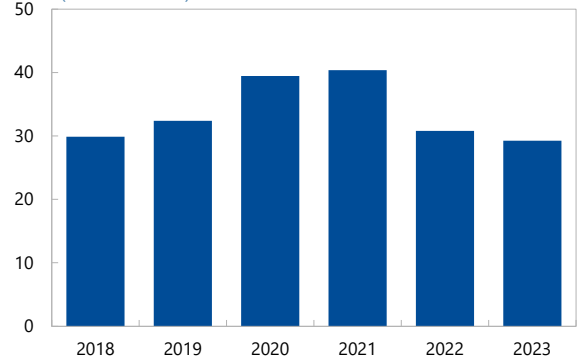
The high growth in primary expenditure in December 2024 was driven by capital transfers...

Central Government: Primary Revenue/Expenditure
(Percent, 12-month cumulative growth rate)



Debt levels remain relatively low as high growth and low interest rates pushed down nominal debt and financing costs.

General Government Gross Debt, EU Definition
(Percent of GDP)

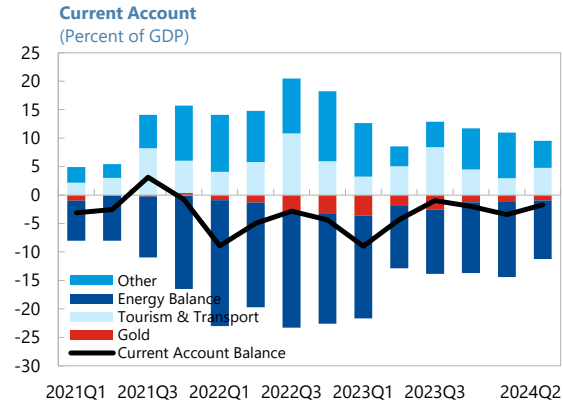


Sources: Ministry of Treasury and Finance and IMF staff calculations.

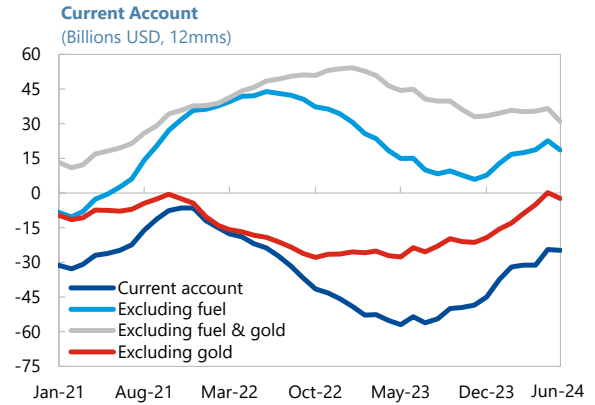
Figure 7. Türkiye: External Sector

The current account deficit has narrowed since 2023:H2, helping rebuild international reserves.
Reserves positions have recovered very strongly since the March 2024 policy rate increase.

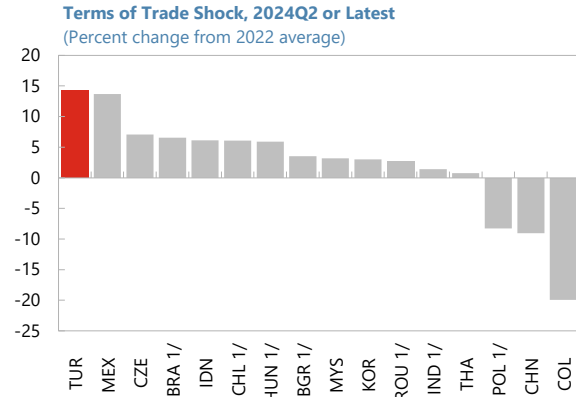
The current account deficit has started to narrow...



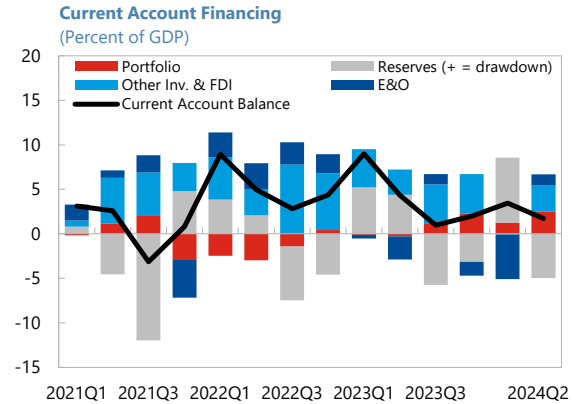
...driven by reduced energy and gold imports...



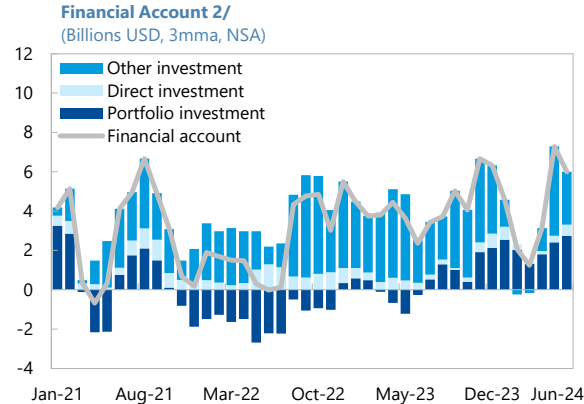
...supported by a significant improvement in the terms of trade.



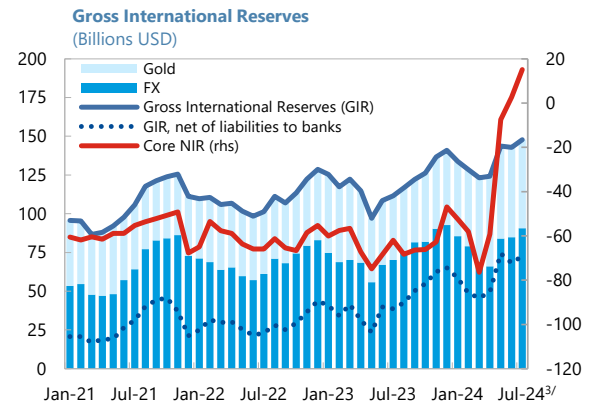
A rebound in capital inflows has helped finance the current account deficit and rebuild reserves...



...particularly since March...



...leading to very rapid accumulation of reserves.



1/ Data refers to 2024Q1.

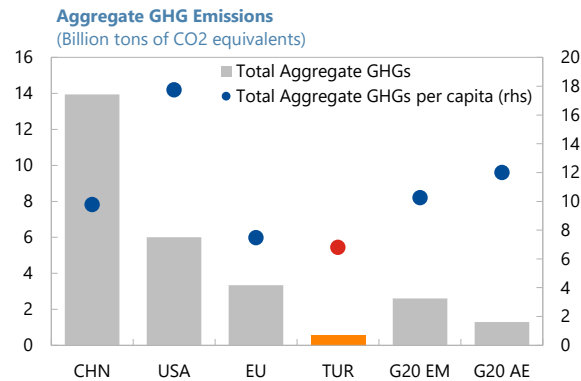
2/ Excludes changes in reserve assets.

3/ As of July 26, 2024.

Sources: CBRT; MOTF; and IMF staff calculations.

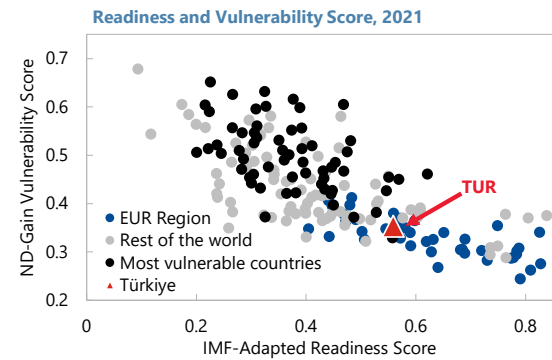
Figure 8. Türkiye: Climate Change

Türkiye is one of the largest emitters but has low emissions per capita compared to peers.



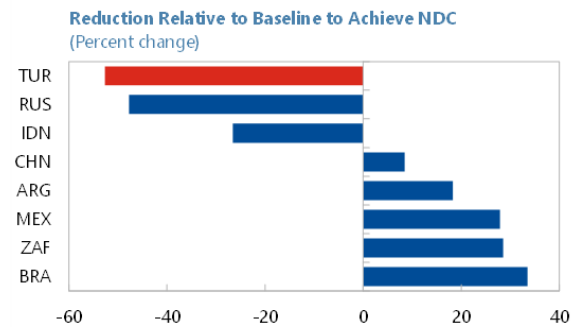
Sources: UNFCCC and IMF staff calculations

Türkiye is not among the most vulnerable countries but lags European peers in readiness to climate change.



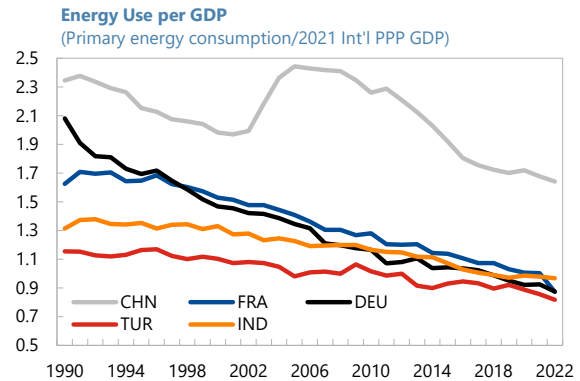
Sources: IMF-Adapted ND-GAIN (2021) from IMF Climate Change Indicators Dashboard.

Türkiye's 2030 NDC target is expected to be met without additional mitigation action...



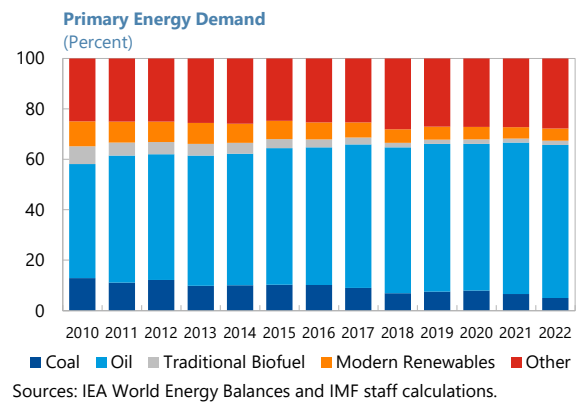
Note: Bars show the percentage differences in emissions in 2030 between a business-as-usual scenario and their 2030 NDC target. A negative number implies the NDC is not binding.
Sources: IMF staff using CPAT tool.

Energy efficiency of production is relatively high, but improvement has been less than in other countries.



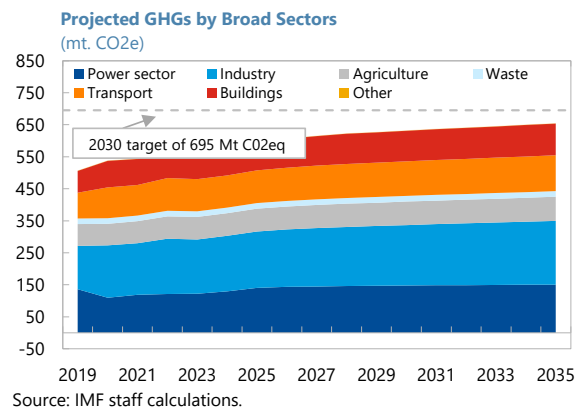
Sources: Our World in Data and IMF staff calculations.

Its share of renewables remains low.



Sources: IEA World Energy Balances and IMF staff calculations.

...while GHG emissions are expected to rise in the next decade.



Source: IMF staff calculations.

Table 1. Türkiye: Selected Economic Indicators, 2019–29

Population (2023): 85.4 million
 Per capita GDP (2023): US\$13,243
 Quota: SDR 4,658.6 million

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Proj.										
Real sector											
	(Percent)										
Real GDP growth rate	0.8	1.9	11.4	5.5	5.1	3.0	2.7	3.2	3.4	3.7	3.9
Final domestic demand	-2.1	4.1	11.5	12.5	11.1	2.1	2.1	4.3	4.4	4.5	4.6
Private consumption	1.5	3.2	15.4	18.9	13.6	1.9	0.6	3.1	3.3	3.3	3.5
Public consumption	3.9	2.2	3.0	4.2	2.4	2.9	2.9	3.0	2.8	2.9	2.8
Investment	-12.5	7.3	7.2	1.3	8.4	2.6	6.4	8.1	8.1	8.1	8.1
Exports	5.3	-14.6	25.1	9.9	-2.8	3.7	4.3	2.2	1.7	3.1	2.4
Imports	-5.0	6.8	1.7	8.6	11.8	0.7	6.3	3.0	2.3	4.0	3.2
Contributions to real GDP growth 1/											
Private consumption	0.9	1.9	9.2	11.7	9.5	1.1	0.3	1.9	2.0	2.0	2.0
Public consumption	0.5	0.3	0.4	0.6	0.3	0.4	0.5	0.5	0.4	0.5	0.4
Investment (incl. inventories)	-3.0	4.8	-3.2	-7.5	-1.6	0.6	2.6	1.1	1.2	1.6	1.7
Net exports	2.4	-5.2	5.0	0.7	-3.1	0.9	-0.6	-0.2	-0.2	-0.3	-0.2
GDP deflator growth rate	13.9	14.8	29.0	96.0	68.2	60.0	31.4	20.4	16.6	15.3	15.2
Nominal GDP growth rate	14.8	16.9	43.7	106.9	76.8	64.8	34.9	24.3	20.6	19.6	19.7
Inflation (period-average)	15.2	12.3	19.6	72.3	53.9	60.9	33.0	19.2	16.0	15.0	15.0
Inflation (end-year)	11.8	14.6	36.1	64.3	64.8	43.0	24.0	17.2	15.3	15.0	15.0
Unemployment rate	13.7	13.1	12.0	10.4	9.4	9.3	9.9	9.6	9.5	9.3	9.2
Output gap (percent of potential GDP) 1/	-2.1	-4.6	1.1	1.5	1.9	0.7	-0.3	-0.5	-0.5	-0.2	0.0
Fiscal sector											
	(Percent of GDP)										
Central government											
Primary revenue	17.8	18.7	18.1	17.4	18.6	19.7	20.0	20.0	20.0	20.0	20.0
Primary expenditure	20.8	21.2	19.8	17.6	22.4	22.5	20.4	19.6	19.9	20.1	20.4
Net interest payments	2.1	2.0	1.9	1.3	1.9	2.5	3.2	3.5	3.2	3.0	2.7
Primary balance	-3.0	-2.6	-1.7	-0.2	-3.7	-2.8	-0.4	0.4	0.1	-0.1	-0.4
Primary balance (cash)	-3.0	-2.5	-0.7	-0.2	-0.9	-2.1	-1.4	-0.2	0.1	-0.1	-0.4
Central government overall balance	-5.1	-4.6	-3.7	-1.5	-5.6	-5.2	-3.6	-3.1	-3.1	-3.1	-3.1
Central government overall balance (cash)	-5.1	-4.5	-2.7	-1.5	-2.8	-4.6	-4.6	-3.7	-3.1	-3.1	-3.1
Central government overall balance (authorities) 2/	-2.9	-3.5	-2.8	-1.0	-5.2	-5.2	-3.4	-2.9	-2.9	-2.9	-2.9
General government gross debt (EU definition)	32.4	39.4	40.4	30.8	29.3	25.2	26.0	26.0	26.0	25.9	25.6
External sector											
Current account balance	2.0	-4.3	-0.8	-5.1	-4.0	-2.2	-2.1	-2.0	-1.9	-1.9	-1.9
o/w Nonfuel current account balance	6.4	-1.0	4.4	3.8	0.7	1.3	1.4	1.4	1.4	1.3	1.1
Gross international reserves (billions of US dollars)	105.7	93.6	111.2	128.7	140.9	164.5	173.5	183.7	197.9	209.0	222.9
Ratio to ARA Metric for emerging markets (percent)	88.8	78.1	88.9	96.0	95.5	100.2	99.2	99.9	102.8	103.1	103.7
Gross financing requirement	18.0	24.8	21.0	22.9	21.2	19.1	20.0	20.5	20.1	20.0	19.8
Gross external debt 3/	54.5	59.8	53.9	50.5	45.2	41.3	39.8	40.9	40.4	39.9	39.3
Net external debt	33.0	39.7	33.2	31.5	27.9	25.1	24.2	24.8	24.2	23.8	23.4
Net international investment position	-40.6	-53.3	-30.7	-40.8	-28.0	-22.7	-23.0	-24.7	-25.2	-25.6	-26.0
Short-term external debt (by remaining maturity)	19.3	22.8	20.0	21.5	20.1	19.4	18.8	19.2	19.0	18.8	18.5
Terms of trade (year-on-year percent change)	2.3	1.2	-8.8	-11.7	15.9	2.8	1.9	1.1	0.8	0.8	0.6
REER (CPI-based, 2003=100)	75.1	67.3	60.4	54.4	55.7	63.1	66.3	63.1	63.1	63.1	63.1
Monetary conditions											
	(Percent)										
Real average cost of CBRT funding to banks	5.4	-1.7	-1.9	-59.4	-35.4	...	...	...	...	...	...
Nominal growth of M2 broad money	27.3	33.9	53.0	59.2	70.1	41.0	31.9	24.3	20.6	22.3	23.1
Memorandum items											
GDP (billions of U.S. dollars)	760	717	808	906	1130	1344	1455	1477	1566	1661	1764
GDP (billions of Turkish lira)	4,318	5,049	7,256	15,012	26,546	43,758	59,036	73,392	88,474	105,827	126,700
Real effective exchange rate (year-on-year percent change)	-2.7	-10.4	-10.2	-10.0	2.4	13.4	5.1	-4.8	0.0	0.0	0.0
GDP per capita US\$	9,208	8,600	9,601	10,659	13,243	15,666	16,877	17,049	17,983	18,989	20,088
Population (million)	83.2	83.6	84.7	85.3	85.4	85.8	86.2	86.7	87.1	87.4	87.8

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ Staff estimates.

2/ Authorities national definition of the fiscal balance, which includes one-off revenues, expenditures and financing items removed from IMF staff definition.

3/ The external debt ratio is calculated by dividing external debt in US\$ by staff-estimated GDP in US\$. GDP in US\$ is calculated as GDP in TL divided by the annual average exchange rate.

Table 2a. Türkiye: Summary of Balance of Payments, 2019–29
(Billions of U.S. dollars, unless otherwise noted)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Proj.					
Current account balance	15.0	-31.1	-6.4	-45.8	-45.0	-29.1	-30.2	-29.7	-29.5	-31.6	-33.3
Balance on goods and services	26.0	-22.7	3.3	-36.7	-34.3	-13.7	-14.4	-13.0	-12.2	-13.1	-14.4
Goods, net	-16.8	-37.9	-29.3	-89.6	-86.9	-68.7	-70.6	-70.9	-70.6	-73.1	-76.1
Exports of goods	182.2	168.4	224.7	253.4	251.0	271.1	288.2	296.6	305.3	318.3	329.0
Imports of goods	199.0	206.3	254.0	343.0	337.9	339.8	358.7	367.6	375.9	391.5	405.1
of which fuel imports	41.7	28.9	50.7	96.5	69.1	64.0	70.8	70.6	71.6	73.2	73.4
of which gold imports	11.3	25.2	5.5	20.4	30.0	15.6	14.0	13.2	13.2	13.2	13.2
Services, net	42.8	15.2	32.6	52.9	52.6	54.9	56.2	57.9	58.4	60.0	61.6
Credit	71.7	39.1	62.6	93.0	101.7	115.9	121.6	125.0	126.6	131.4	136.1
Debit	28.9	24.0	30.0	40.1	49.1	60.9	65.5	67.1	68.2	71.4	74.4
Primary income, net	-11.8	-8.6	-10.7	-8.8	-11.2	-16.2	-16.6	-17.5	-18.1	-19.2	-19.6
of which interest expenditure	-8.1	-6.1	-5.6	-5.7	-10.6	-8.5	-9.2	-9.7	-10.1	-10.6	-12.4
Secondary income net	0.9	0.2	1.0	-0.4	0.6	0.9	0.9	0.8	0.8	0.8	0.8
Capital account	0.0	0.0	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-9.7	-8.1	1.1	22.9	-9.4	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	5.3	-39.2	-5.4	-22.9	-54.6	-29.1	-30.2	-29.7	-29.5	-31.6	-33.3
Direct investment, net	-6.5	-4.4	-6.4	-8.7	-4.7	-7.9	-12.7	-13.3	-13.0	-13.2	-13.7
Portfolio investment, net	2.8	9.6	-0.8	13.7	-8.3	-18.6	-8.0	-8.1	-8.1	-8.1	-8.1
of which government eurobonds, net	-6.8	-4.6	-3.9	-5.0	-4.9	0.4	3.3	1.2	1.0	-0.8	-2.2
Other investment, net	2.7	-12.5	-21.5	-40.2	-39.5	-26.1	-18.5	-18.5	-22.6	-21.4	-25.4
of which short-term borrowings	4.3	-3.3	2.3	-0.2	-5.7	-6.3	-2.3	-2.7	-3.1	-3.6	-4.1
Reserve assets	6.3	-31.9	23.3	12.3	-2.0	23.6	9.0	10.2	14.2	11.1	13.9
						<i>(Percent of GDP)</i>					
Current account balance, of which	2.0	-4.3	-0.8	-5.1	-4.0	-2.2	-2.1	-2.0	-1.9	-1.9	-1.9
Nonfuel current account balance	6.4	-1.0	4.4	3.8	0.7	1.3	1.4	1.4	1.4	1.3	1.1
Goods and services balance	3.4	-3.2	0.4	-4.0	-3.0	-1.0	-1.0	-0.9	-0.8	-0.8	-0.8
						<i>(Percent year-on-year)</i>					
Export value growth	3.9	-18.3	38.5	20.6	1.8	9.7	5.9	2.9	2.4	4.1	3.4
Import value growth	-8.4	1.0	23.4	34.9	1.0	3.5	5.9	2.5	2.2	4.2	3.6
Oil price (US\$ per barrel)	61.4	41.8	69.2	96.4	80.6	78.6	73.7	70.6	68.7	67.8	67.5
Gross international reserves (USD bn)	105.7	93.6	111.2	128.7	140.9	164.5	173.5	183.7	197.9	209.0	222.9
Ratio to ARA Metric for emerging markets (percent)	88.8	78.1	88.9	96.0	95.5	100.2	99.2	99.9	102.8	103.1	103.7
Net international reserves (USD bn)	40.6	13.5	8.1	27.6	35.0	58.2	67.2	77.4	91.6	102.7	116.6
Ratio of external debt service to exports (percent)	63.1	73.7	58.8	48.2	58.3	60.9	65.8	67.2	68.0	68.4	69.7

Sources: Turkish authorities; and IMF staff estimates and projections.

Table 2b. Türkiye: Summary of Balance of Payments, 2019–29
(Percent of GDP, unless otherwise noted)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Proj.					
Current account balance	2.0	-4.3	-0.8	-5.1	-4.0	-2.2	-2.1	-2.0	-1.9	-1.9	-1.9
Balance on goods and services	3.4	-3.2	0.4	-4.0	-3.0	-1.0	-1.0	-0.9	-0.8	-0.8	-0.8
Goods, net	-2.2	-5.3	-3.6	-9.9	-7.7	-5.1	-4.8	-4.8	-4.5	-4.4	-4.3
Exports of goods	24.0	23.5	27.8	28.0	22.2	20.2	19.8	20.1	19.5	19.2	18.6
Imports of goods	26.2	28.8	31.4	37.9	29.9	25.3	24.6	24.9	24.0	23.6	23.0
of which fuel imports	5.5	4.0	6.3	10.7	6.1	4.8	4.9	4.8	4.6	4.4	4.2
of which gold imports	1.5	3.5	0.7	2.3	2.7	1.2	1.0	0.9	0.8	0.8	0.7
Services, net	5.6	2.1	4.0	5.8	4.7	4.1	3.9	3.9	3.7	3.6	3.5
Credit	9.4	5.5	7.8	10.3	9.0	8.6	8.4	8.5	8.1	7.9	7.7
Debit	3.8	3.3	3.7	4.4	4.3	4.5	4.5	4.5	4.4	4.3	4.2
Primary income, net	-1.6	-1.2	-1.3	-1.0	-1.0	-1.2	-1.1	-1.2	-1.2	-1.2	-1.1
of which interest expenditure	-1.1	-0.9	-0.7	-0.6	-0.9	-0.6	-0.6	-0.7	-0.6	-0.6	-0.7
Secondary income net	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-1.3	-1.1	0.1	2.5	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	0.7	-5.5	-0.7	-2.5	-4.8	-2.2	-2.1	-2.0	-1.9	-1.9	-1.9
Direct investment, net	-0.9	-0.6	-0.8	-1.0	-0.4	-0.6	-0.9	-0.9	-0.8	-0.8	-0.8
Portfolio investment, net	0.4	1.3	-0.1	1.5	-0.7	-1.4	-0.5	-0.5	-0.5	-0.5	-0.5
of which government eurobonds, net	-0.9	-0.6	-0.5	-0.6	-0.4	0.0	0.2	0.1	0.1	0.0	-0.1
Other investment, net	0.4	-1.7	-2.7	-4.4	-3.5	-1.9	-1.3	-1.3	-1.4	-1.3	-1.4
of which short-term borrowings	0.6	-0.5	0.3	0.0	-0.5	-0.5	-0.2	-0.2	-0.2	-0.2	-0.2
Reserve assets	0.8	-4.4	2.9	1.4	-0.2	1.8	0.6	0.7	0.9	0.7	0.8
Current account balance, <i>of which</i>	2.0	-4.3	-0.8	-5.1	-4.0	-2.2	-2.1	-2.0	-1.9	-1.9	-1.9
Nonfuel current account balance	6.4	-1.0	4.4	3.8	0.7	1.3	1.4	1.4	1.4	1.3	1.1
Goods and services balance	3.4	-3.2	0.4	-4.0	-3.0	-1.0	-1.0	-0.9	-0.8	-0.8	-0.8
						<i>(Percent year-on-year)</i>					
Export value growth	3.9	-18.3	38.5	20.6	1.8	9.7	5.9	2.9	2.4	4.1	3.4
Import value growth	-8.4	1.0	23.4	34.9	1.0	3.5	5.9	2.5	2.2	4.2	3.6
Oil price (US\$ per barrel)	61.4	41.8	69.2	96.4	80.6	78.6	73.7	70.6	68.7	67.8	67.5
Change in terms of trade	2.3	1.2	-8.8	-11.7	15.9	2.8	1.9	1.1	0.8	0.8	0.6
Gross international reserves (USD bn)	105.7	93.6	111.2	128.7	140.9	164.5	173.5	183.7	197.9	209.0	222.9
Ratio to ARA Metric for emerging markets (percent)	88.8	78.1	88.9	96.0	95.5	100.2	99.2	99.9	102.8	103.1	103.7
Net international reserves (USD bn)	40.6	13.5	8.1	27.6	35.0	58.2	67.2	77.4	91.6	102.7	116.6
Ratio of external debt service to exports (percent)	63.1	73.7	58.8	48.2	58.3	60.9	65.8	67.2	68.0	68.4	69.7

Sources: Turkish authorities; and IMF staff estimates and projections.

Table 3. Türkiye: External Financing Requirements and Sources, 2019–29
(Billions of U.S. dollars, unless otherwise noted)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Proj.					
Gross external financing requirements	137.1	178.0	169.8	207.2	240.0	256.2	290.8	303.2	315.2	331.6	349.3
Current account deficit	-15.0	31.1	6.4	45.8	45.0	29.1	30.2	29.7	29.5	31.6	33.3
Government eurobonds (amortization)	4.4	4.7	6.1	6.3	5.8	10.4	14.3	12.2	12.0	10.2	8.8
Medium- and long-term debt amortization	54.7	46.3	45.7	36.8	40.5	40.5	42.2	44.1	46.4	49.0	51.8
Government 1/	2.2	1.8	1.9	1.8	1.9	2.0	2.1	2.2	2.2	2.3	2.4
Banks	30.6	26.4	25.8	22.9	21.9	23.3	24.5	25.4	26.4	27.7	29.2
Other sectors	21.8	18.1	18.1	12.0	16.7	15.1	15.6	16.5	17.8	19.0	20.3
Short-term debt amortization	93.0	95.9	111.6	118.4	148.6	176.2	204.1	217.2	227.3	240.8	255.4
Government 1/ 2/	5.9	8.5	21.3	26.1	32.8	46.4	46.5	46.5	46.4	46.4	46.4
Banks	52.3	52.3	55.7	49.2	62.3	68.5	84.3	92.9	100.7	110.0	120.4
Other sectors	34.7	35.2	34.6	43.1	53.5	61.4	73.4	77.8	80.2	84.4	88.6
Available financing	137.1	178.0	169.8	207.2	240.0	256.2	290.8	303.2	315.2	331.6	349.3
Sale of assets (net) 3/	-15.1	-1.0	-15.7	-8.2	-8.4	-13.1	-7.7	-8.4	-9.1	-11.0	-9.9
Foreign direct investment (net)	6.5	4.4	6.4	8.7	4.7	7.9	12.7	13.3	13.0	13.2	13.7
Portfolio flows	8.0	-1.9	9.1	-2.9	17.0	34.3	27.9	26.1	26.1	24.4	22.9
Government eurobonds (drawings)	11.2	9.3	10.0	11.3	10.7	10.0	11.0	11.0	11.0	11.0	11.0
Domestically-issued government bonds (net)	-3.1	-6.4	1.1	-2.2	2.0	11.6	7.2	4.8	4.2	2.0	0.6
Banks' equity and bonds (net)	-0.1	-0.8	-3.2	-8.9	3.7	9.2	4.4	4.5	4.7	4.9	4.9
Other sectors' equity and bonds (net)	0.1	-4.0	1.2	-3.1	0.6	3.4	5.2	5.8	6.2	6.5	6.4
Medium and long-term debt financing	42.5	36.5	50.6	40.0	44.4	46.7	49.6	55.2	58.6	60.6	66.1
Government 1/	1.3	1.3	1.6	3.0	2.6	2.8	2.9	3.0	3.1	3.2	3.3
Banks	22.5	21.4	24.3	17.3	25.3	26.6	26.5	27.4	29.0	31.0	32.7
Other sectors	18.6	13.8	24.7	19.6	16.5	17.4	20.2	24.7	26.5	26.5	30.1
Short-term debt financing 4/	95.9	111.6	118.4	148.6	176.2	204.1	217.2	227.3	240.8	255.4	270.3
Government 1/	8.5	21.3	26.1	32.8	46.4	46.5	46.5	46.4	46.4	46.4	46.4
Banks	52.3	55.7	49.2	62.3	68.5	84.3	92.9	100.7	110.0	120.4	131.8
Other sectors	35.2	34.6	43.1	53.5	61.4	73.4	77.8	80.2	84.4	88.6	92.2
Official transfers	0.6	0.1	0.4	-0.7	-0.8	0.4	0.3	0.3	0.4	0.4	0.4
Other	5.7	-3.5	24.3	33.3	4.1	-0.1	0.0	0.0	0.0	0.1	0.1
GIR change (- denotes increase)	-6.3	31.9	-23.3	-12.3	2.0	-23.6	-9.0	-10.2	-14.2	-11.1	-13.9
Memorandum items:											
Net public sector financing (incl. IMF, excl. reserves)	9.0	17.2	8.8	12.3	18.3	0.8	-2.2	-0.2	0.2	2.0	3.5
Government debt rollover rate (in percent)	167	214	129	138	147	101	96	99	100	103	105
Banks' loan rollover rate (in percent)	90	98	90	110	111	121	110	108	109	110	110
Other sectors' loan rollover rate (in percent)	95	91	129	133	111	119	110	111	113	111	112
Gross external financing requirements (percent of GDP)	18.0	24.8	21.0	22.9	21.2	19.1	20.0	20.5	20.1	20.0	19.8
International Investment Position (percent of GDP)	-40.6	-53.3	-30.7	-40.8	-28.0	-22.7	-23.0	-24.7	-25.2	-25.6	-26.0

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ Includes CBRT and the general government, excluding eurobonds issuance.

2/ The increase in government amortization in 2021 largely reflects swaps held by the CBRT, which are assumed to be rolled over.

3/ Includes sales and purchases of portfolio assets by the government, banks, and other private sectors; and sale of assets classified under Other Investments.

4/ Includes currency and deposits of non-residents.

Table 4. Türkiye: Public Sector Finances, 2019–29
(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Proj.					
Central Government											
Primary revenue	17.8	18.7	18.1	17.4	18.6	19.7	20.0	20.0	20.0	20.0	20.0
Tax revenue	15.6	16.5	16.1	15.7	17.0	18.0	18.3	18.3	18.3	18.3	18.3
Personal income taxes	3.8	3.1	3.0	2.4	2.6	2.9	2.9	2.9	2.9	2.9	2.9
Corporate income taxes	1.8	2.1	2.5	3.4	3.0	3.2	3.5	3.5	3.5	3.5	3.5
VAT	4.2	4.6	5.3	5.0	5.5	6.0	6.0	6.0	6.0	6.0	6.0
Special consumption tax	3.4	4.1	2.8	2.8	3.5	3.4	3.4	3.4	3.4	3.5	3.5
Other	2.4	2.6	2.4	2.1	2.4	2.4	2.5	2.5	2.5	2.5	2.5
Nontax revenue	2.2	2.2	2.0	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Primary expenditure, of which:	20.8	21.2	19.8	17.6	22.4	22.5	20.4	19.6	19.9	20.1	20.4
Personnel	6.8	6.7	5.6	4.7	5.7	7.2	6.9	6.5	6.6	6.6	6.6
Goods and services	1.9	1.9	1.8	1.7	1.7	1.6	1.6	1.7	1.8	1.8	1.8
Current transfers	9.2	9.9	8.9	7.5	9.0	9.6	9.6	9.2	9.3	9.4	9.4
Transfers to households	1.0	1.1	1.1	1.4	1.2	1.2	1.1	1.1	1.2	1.3	1.4
Social security institutions	4.5	4.9	3.7	2.6	3.4	3.5	3.7	3.7	3.7	3.7	3.7
Agricultural subsidies	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Transfers of revenue shares	2.3	2.5	2.4	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Capital transfers	0.4	0.3	0.4	0.3	3.2	1.6	0.1	0.1	0.1	0.1	0.1
Capital expenditure	1.9	1.9	1.8	1.8	2.0	1.7	1.7	1.6	1.6	1.8	1.9
Net lending	0.6	0.6	1.4	1.4	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Primary balance 1/	-3.0	-2.6	-1.7	-0.2	-3.7	-2.8	-0.4	0.4	0.1	-0.1	-0.4
Primary balance (cash)	-3.0	-2.5	-0.7	-0.2	-0.9	-2.1	-1.4	-0.2	0.1	-0.1	-0.4
Net interest expenditure	2.1	2.0	1.9	1.3	1.9	2.5	3.2	3.5	3.2	3.0	2.7
Central government overall balance	-5.1	-4.6	-3.7	-1.5	-5.6	-5.2	-3.6	-3.1	-3.1	-3.1	-3.1
Accounts payable/receivable	0.0	0.1	1.0	0.0	2.8	0.6	-0.9	-0.6	0.0	0.0	0.0
Central government overall balance (cash)	-5.1	-4.5	-2.7	-1.5	-2.8	-4.6	-4.6	-3.7	-3.1	-3.1	-3.1
Financing (net)	5.1	4.5	2.7	1.5	2.8	4.6	4.6	3.7	3.1	3.1	3.1
Currency and deposits	-0.7	-1.5	0.1	-2.2	-1.2	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5
Non-program revenues	2.2	1.1	0.9	0.6	0.4	0.1	0.2	0.2	0.2	0.2	0.2
Domestic	2.9	4.4	1.2	2.5	3.2	4.9	5.0	3.9	3.4	3.2	3.1
External	0.7	0.5	0.4	0.6	0.4	0.2	0.0	0.1	0.1	0.2	0.2
Memorandum items:											
Central government overall balance (authorities) 2/	-2.9	-3.5	-2.8	-1.0	-5.2	-5.2	-3.4	-2.9	-2.9	-2.9	-2.9
General government overall balance	-4.8	-4.7	-3.0	-1.1	-5.3	-5.2	-3.6	-3.0	-3.1	-3.0	-3.0
Cash fiscal impulse (change in cash primary balance)	1.1	-0.5	-1.8	-0.5	0.7	1.2	-0.8	-1.2	-0.3	0.3	0.2
State Economic Enterprises overall balance (SEE)	-0.2	0.0	0.1	-1.6	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
General government gross debt (EU definition)	32.4	39.4	40.4	30.8	29.3	25.2	26.0	26.0	26.0	25.9	25.6

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ IMF program definition which excludes several items from non-tax revenue and the primary balance, including privatization proceeds, transfers from CBRT, dividend payments from Ziraat Bank and interest receipts.

2/ Headline or authorities' definition which includes items excluded from the IMF 'program' definition.

Table 5. Türkiye: Monetary Survey, 2019–29
(Billions of lira, unless otherwise noted; end of period)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Proj.					
Net Foreign Assets	101	-33	399	822	738	779	707	591	598	251	-58
Claims on Non-Residents	1,069	1,195	2,470	3,716	6,087	8,426	11,095	13,131	15,746	18,565	21,556
Central Bank	638	698	1,466	2,442	4,202	6,044	8,065	9,683	11,778	14,007	16,437
Other Depository Corporations	430	497	1,004	1,273	1,885	2,382	3,029	3,448	3,968	4,558	5,119
Less: Liabilities to Nonresidents	968	1,229	2,071	2,894	5,349	7,647	10,388	12,540	15,148	18,314	21,614
Central Bank	23	40	169	310	899	1,113	1,411	1,602	1,810	2,040	2,246
Other Depository Corporations	945	1,188	1,902	2,584	4,450	6,534	8,977	10,938	13,338	16,274	19,367
Net Domestic Assets	2,440	3,437	4,808	7,470	13,368	19,111	25,532	32,027	38,724	47,852	59,264
Net Claims on Central Government	524	889	1,193	2,121	3,141	5,288	8,243	11,122	14,093	17,495	21,446
Claims on Other Sectors	2,822	3,767	5,080	7,813	12,378	17,580	22,905	28,616	34,301	42,842	54,030
Claims on State and Local Government	36	40	40	54	93	131	172	214	258	316	389
Claims on Public Nonfinancial Corporations	32	36	72	166	203	286	378	470	566	692	852
Claims on Other Financial Corporations	85	112	173	335	578	816	1,076	1,338	1,613	1,973	2,428
Claims on Private Sector	2,670	3,579	4,794	7,258	11,504	16,348	21,279	26,594	31,864	39,860	50,360
Other items, net	-906	-1,220	-1,465	-2,464	-2,151	-3,758	-5,617	-7,711	-9,670	-12,485	-16,213
Broad Money	2,541	3,403	5,207	8,292	14,106	19,890	26,238	32,619	39,322	48,103	59,206
Currency in Circulation	138	170	216	307	403	568	749	931	1,122	1,373	1,690
Transferable Deposits	618	1,072	1,934	2,804	4,504	6,351	8,378	10,415	12,556	15,360	18,905
Other Deposits	1,735	2,115	3,009	5,149	9,169	12,929	17,055	21,202	25,560	31,268	38,484
Securities	50	46	48	31	30	42	56	70	84	103	126
						<i>(Annual percentage change)</i>					
Net Foreign Assets	-253.4	-133.2	-1,293.3	106.1	-10.2	5.6	-9.3	-16.3	1.0	-58.0	-123.1
Central Bank	28.8	6.9	97.0	64.4	54.9	49.3	34.9	21.4	23.3	20.1	18.6
Other Depository Corporations	-5.3	34.3	29.9	45.9	95.7	61.9	43.2	25.9	25.1	25.0	21.6
Net Domestic Assets	18.4	40.8	39.9	55.4	79.0	43.0	33.6	25.4	20.9	23.6	23.8
Claims on Private Sector	12.4	34.1	33.9	51.4	58.5	42.1	30.2	25.0	19.8	25.1	26.3
Corporates	11.4	32.5	38.0	50.4	53.9	42.1	30.2	25.0	19.8	25.1	26.3
Households	16.1	39.1	21.1	55.0	74.5	42.1	30.2	25.0	19.8	25.1	26.3
Broad Money	27.3	33.9	53.0	59.2	70.1	41.0	31.9	24.3	20.6	22.3	23.1
						<i>(Billions of USD; end of period)</i>					
Net Foreign Assets	17	-5	31	44	25	21	15	11	10	4	-1
Central Bank	104	90	100	114	112	135	144	154	168	179	193
Other Depository Corporations	-87	-94	-69	-70	-87	-114	-129	-143	-158	-176	-194
Net Domestic Assets	410	468	370	399	454	525	553	611	654	717	806
Claims on Private Sector	449	487	369	388	391	449	461	507	538	597	685
Corporates	345	370	289	302	295	339	348	383	406	451	517
Households	104	117	80	86	96	110	113	124	132	146	168
<i>Memorandum Items:</i>											
Base Money (Billions of TL)	566	927	1,789	2,633	4,490	6,332	8,353	10,384	12,518	15,313	18,848
Base Money Multiplier (Broad Money/Base Money)	4.5	3.7	2.9	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Velocity (GDP/Broad Money)	1.7	1.5	1.4	1.8	1.9	2.2	2.3	2.3	2.3	2.2	2.1
Claims on Private Sector (Percent of GDP)	61.8	70.9	66.1	48.4	43.3	37.4	36.0	36.2	36.0	37.7	39.7

Sources: International Financial Statistics; and IMF staff estimates and projections.

Table 6. Türkiye: Financial Soundness Indicators, 2013–24
(Percent, unless otherwise noted)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024Q2
Capital Adequacy												
CAR	15	16	16	16	17	17	18	19	18	19	19	17
CT1R	13	14	13	13	14	14	15	16	15	17	17	15
RWA / Assets	84	83	83	82	76	77	77	67	58	62	59	65
Asset Quality												
NPLs / Gross Loans	3	3	3	3	3	4	5	4	3	2	2	2
Provisions / Gross NPLs	76	74	75	77	79	68	65	75	80	87	82	79
Profitability												
Total Int. Income / Int. Bearing Assets (av) 1/ 2/	8	8	8	8	9	11	11	8	10	13	15	11
Cost / Income (Efficiency) 3/	71	74	76	72	73	77	78	...	...	...	...	...
ROAA 1/ 4/	2	1	1	2	2	1	1	1	1	4	3	1
ROAE 1/ 4/	14	12	11	14	16	15	11	11	15	50	43	15
Funding and Liquidity												
Loan-to-Deposit ratio	111	118	119	119	123	118	103	104	92	86	79	84
Loan-to-Deposit ratio (TL)	127	133	142	134	148	138	130	152	151	107	89	86
Loan-to-Deposit ratio (FX)	84	92	89	99	90	96	78	64	60	61	64	80
Non-Core / Core Liabilities 5/	52	55	56	56	57	57	47	51	53	40	38	48
Non-Core / Core Liabilities (TL) 5/	29	30	32	29	32	33	28	41	49	26	21	30
Non-Core / Core Liabilities (FX) 5/	103	113	101	106	101	94	71	62	57	61	71	85
Leverage Ratio 1/ 6/	5	6	5	5	5	5	6	5	4	5	5	5
Liquid Assets / Assets 7/	24	23	22	21	23	21	23	25	30	28	30	30
Assets / Liabilities (3 months, int. sensitive)	79	75	74	76	73	78	71	72	88	94	100	98
FX Risk												
FX Assets / FX Liabilities (on-balance sheet) 6/	91	91	91	94	88	91	88	86	89	92	88	95
NOP / Regulatory Capital	-1	-2	1	-1	1	3	0	4	6	2	4	2
NOP before hedging / Regulatory Capital	-29	-28	-30	-22	-43	-34	-41	-58	-57	-28	-45	-20
Balance Sheet												
	<i>(Percent of GDP)</i>											
Total Assets	95	97	100	104	104	103	104	121	127	96	89	64
o/w Gross Loans	57	60	63	66	67	64	62	71	68	50	44	32
Liabilities	84	86	89	93	93	92	93	109	117	86	81	58
o/w Deposits	52	51	53	55	55	54	59	68	73	59	56	38
Shareholders' Equity	11	11	11	11	11	11	11	12	10	9	8	6
Off-Balance Sheet												
	<i>(Percent of GDP)</i>											
o/w Commitments	89	83	88	94	103	95	93	99	106	73	71	49
o/w Contingencies	18	19	20	21	21	21	19	20	23	17	16	12
Miscellaneous												
Deposit Interest Rate (Percent) 8/	8	9	11	10	13	23	10	16	20	19	47	56
Loan Interest Rate (Percent) 9/	13	13	16	15	18	32	15	22	26	28	58	73

Sources: BRSA data; and IMF staff calculations.

1/ Current year data are annualized using 12-month rolling sums.

2/ Net of NPL provisions.

3/ Other non-interest income added to expenses when <0.

4/ Net income as a share of average assets or equity over last 12 months.

5/ Core liabilities include deposits and shareholders' equity.

6/ Proxied by T1 Capital over last 2 months average balance sheet assets and average off-balance sheets exposures (>3 percent).

7/ Liquid assets as reported by the BRSA in their liquidity position table.

8/ On TRY only, excluding sight and interbank.

9/ Consumer Loans (Personal+Vehicles+Housing).

Annex I. Authorities' Response to Past IMF Policy Recommendations

IMF 2022 Article IV Recommendations	Authorities' Response
Monetary Policy	
Increase interest rates promptly and sizably and reinstate interest rates as the primary monetary policy instrument. Accompany this with a credible commitment to the central bank's price stability target.	The CBRT gradually increased the policy rate from 8½ percent in May 2023 to 50 percent in March 2024. The policy rate corridor was also widened from 300 to 600 bps, effectively increasing the interbank rate ceiling. A forecast range for inflation through 2026 has been clearly communicated in the CBRT's "Inflation Report" and policy statements have emphasized the commitment to tight monetary policy until underlying inflation declines and inflation expectations converge to the CBRT's projected forecast range.
Implement policies to strengthen central bank independence, including by restoring earlier arrangements for senior appointments and introducing transparent procedures for dismissal, backed by law. Strengthen the CBRT's financial autonomy, by reviewing the rules governing profit transfers to the budget.	No change.
Limit FX interventions to the most extreme cases of exchange rate volatility and replenish reserves over time in a transparent manner.	The CBRT does not target a level or pace of depreciation and intervenes to smooth volatility.
Phase out FX-protected deposit schemes.	FX-protected deposits have been gradually phased out with KKMs being completely eliminated, while DDMs have decreased to 64 billion USD on June 14, 2024 from about 80–90 billion USD on June 2, 2023. ¹
Gradually discontinue the export surrender requirement.	The export surrender requirement was decreased from 40 percent to 30 percent in June 2024.
Phase out measures aimed at increasing bank holdings of government securities.	The security maintenance requirement was discontinued.
Financial Policy	
Scale back the role of the Credit Guarantee Fund and the scope of non-commercial activities of state-owned banks.	No change.
<p>¹ Both DDMs and KKMs are lira deposits with interest rates effectively tied to the pace of exchange rate depreciation. DDMs are converted from FX, however, while KKMs originate in lira.</p>	

IMF 2022 Article IV Recommendations	Authorities' Response
Tighten prudential standards and unwind regulatory forbearance.	Regulatory reporting standards have been improved. Some forbearance remains.
Realign regulatory and accounting practices with Basel and other international standards. Make recognition of loan losses more timely by drawing on capital buffers as needed and enhance monitoring of restructured loans.	Some steps have been taken such as implementation of a Net Stable Funding Ratio and Large Exposure Standard, but other gaps remain with Basel.
Strengthening the operational autonomy and resources of the BRSA.	No change.
Curtail reliance on increasingly complex macrofinancial and regulatory measures to manage credit provision.	Interest rates caps have been removed as have many of the complex measures noted in the previous Article IV consultation that led to high compliance costs and distortion of capital allocation. But credit growth caps have been tightened to curb credit growth. However, these have become less binding due to tighter monetary policy.
Integrate crypto assets into the supervisory framework and close data gaps.	The Bill on Amendments to the Capital Markets Law has come into effect and establishes a licensing and registration requirement for crypto asset service providers, including digital payment providers and platform intermediaries.
Address AML/CFT weaknesses identified by the FATF in October 2021 and take necessary measures to exit the Grey List.	Türkiye satisfactorily implemented an action plan agreed upon with the FATF and exited the FATF Grey List in June 2024.
Fiscal Policy	
Tighten the fiscal stance, to help preserve fiscal space and limit quasi-fiscal risks.	Reconstruction and relief efforts after the February earthquake significantly loosened fiscal policy in early 2023. The fiscal stance was tightened in July 2023 with increases VAT rates, special consumption taxes on petroleum and motor vehicles, and CIT rates. Further fiscal saving measures were announced in May 2024.
Gradually replace natural gas subsidies with better-targeted measures.	Price increases began in mid-2024.
Continue to strengthen budget execution, including by introducing supplementary budgets when needed (as opposed to bypassing budget targets) to enhance public financial management.	No change.

IMF 2022 Article IV Recommendations	Authorities' Response
Strengthen the oversight and management of PPPs by publishing regular PPP monitoring reports and finalizing the draft 2019 PPP legislation to manage PPP risks centrally.	The authorities are working on a draft PPP law, although no timeline is available.
Achieve public debt management goals of lengthening borrowing maturities and limiting domestic FX borrowing without relying on macrofinancial and regulatory measures to artificially extend debt maturities and lower borrowing costs.	The security maintenance requirement for banks was eliminated and bond yields are now closer to market rates, aided by tighter monetary policy and financial liberalization measures that have improved the monetary policy transmission mechanism. The authorities have reduced domestic FX borrowing in favor of TL borrowing.
Structural Policy	
Enhance business efficiency by simplifying startup and closure processes, cutting regulatory barriers, and implementing automatic pricing mechanism for energy pricing.	An action plan is expected to be published soon on competitiveness and regulatory burdens, with the main focus on sustainability and transformation.
Improve the quality of human capital by upgrading education and on-the-job training.	Reforms under consideration are the transformation of educational system and private sector cooperation.
Improve labor market flexibility by updating wage policies, streamlining employment incentives, and reforming severance pay to reduce employer burdens and increase worker mobility.	No change
Increase female labor force participation, including by improving the supply, targeting, and affordability of public childcare services and introducing better-targeted subsidies and tax allowances/credits to support childcare services usage by low-income mothers.	<p>The 2022 Minimum Living Allowance reform made the tax system more progressive and helped increase female labor force participation by increasing the basic non-taxable allowance for all workers and removing the dependent spouse minimum living allowance.</p> <p>The authorities reported ongoing efforts toward streamlining existing schemes and the Ministry of Labor is working on a grant scheme that provides support to women with young children, with unclear impact on labor market gender gaps.</p>
Strengthen Türkiye's resilience to climate change and facilitate its transition to a low-carbon economy that is less dependent on imported fossil fuel and based on a more sustainable growth model, including by raising carbon prices.	The National Energy Plan aims to significantly increase Türkiye's dependence on renewable energy sources. A ETS is under consideration.

Table 1. Republic of Türkiye: Main Recommendations

Recommendations	Agency	Time *	Implementation Status
<i>Systemic Risk and Macroprudential Policies</i>			
Rationalize heterodox and idiosyncratic policy measures while realigning financial incentives to reduce distortions; activate countercyclical capital buffer.	CBRT, BRSA	ST	<p>Monetary policy has been tightened to put inflation on a downward path, anchor inflation expectations, and contain the deterioration in pricing behavior. The tightening was accompanied by a simplification of the macroprudential framework, including the abolishment of all Security Maintenance Regulations, to improve functioning of the market mechanism and macro financial stability.</p> <p>The CBRT started remunerating Turkish lira required reserves in accordance with targets for transitioning from KKM accounts to TL deposits and KKM renewals. The reserve requirement applied based on leverage ratios has also been abolished.</p> <p>The BRSA has been using forbearance measures and macro prudential tools for the same purpose. In addition, there have been plans to establish a working group within the Agency to determine a countercyclical capital buffer.</p>
Refocus the systemic risk monitoring framework to ensure clarity of financial stability as the primary objective of the Financial Stability Committee (FSC).	FSC	ST	<p>The implementation of the recommendation is completed.</p> <p>The Systemic Risk Monitoring Working Group (SRMG) under the FSC, which is chaired by the CBRT, has resumed the use of its former heatmap study. Additionally, an early warning exercise framework is being considered.</p>
Strengthen FX systemic liquidity analysis incorporating systemic FX availability, contingency planning, and consider interlinkages when discussing macroprudential policy options.	FSC (SRMG)	ST	<p>The implementation of the recommendation is completed.</p> <p>The Crisis Management and Resolution Working Group (CMRG), chaired by the BRSA, has become operational. Contingency planning is under the mandate of this WG.</p> <p>The SRMG and the CMRG will cooperate to assess FX liquidity risks and design macroprudential policy measures and contingency plans.</p>

Table 1. Republic of Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
Banking and Insurance Supervision and Regulation			
Amend the Banking Law to confirm financial stability as the primary objective of the BRSA and enshrine policy independence, operational autonomy and adequacy of resources to provide a stable cadre of experienced staff and modern tools.	MOTF, BRSA	MT	The aim of the Banking Law (BL) (Article 1) includes regulating principles and procedures to ensure confidence and stability in financial markets. Additionally, according to the Article 93 of the BL, the BRSA has legislative tools to establish confidence and stability in financial markets, the sound operation of the credit system, the development of the financial sector and the protection of the rights and interests of depositors.
Restore and/or enhance, as applicable, the standards for intrusive, effective supervision for all banks, notably for liquidity, FX, sovereign and concentration risk, credit risk, including problem assets and provisions, and interest rate risk in the banking book. Revisions must include aligning regulations with international minimum standards, or higher.	BRSA	ST	<p>The BRSA is committed to adopting a regulatory and supervisory framework that is in line with the Basel framework.</p> <p>Regulation on the calculation of The Net Stable Funding Ratio of banks, which is aligned with Basel III, came into effect on 1 January 2024. A "Regulation on Determination of Group of Connected Clients and Loan Limits", which is aligned with the BCBS' supervisory framework for measuring and controlling large exposures came into effect on 1 January 2024.</p> <p>In addition, working groups were established within the BRSA in order to make the necessary legislative amendments to ensure full compliance of the capital adequacy framework of the Turkish banking sector with international banking standards/Basel III.</p> <p>The legislative amendments to be prepared as a result of these studies are planned to be published on January 1, 2025 in line with the schedule announced by the European Union.</p> <p>A "Draft Communiqué on Calculation of the Risk Weighted Exposure Amount for Operational Risk", aligning the calculation of RWA for operational risk standard published by BCBS is currently being reviewed.</p>

Table 1. Republic of Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			In addition, in order to align the calculation of interest rate risk in the banking book with the standard published by the BCBS, current regulation and guidelines are planned to be amended. The reports “Draft Regulation on Measurement and Evaluation of Interest Rate Risk in the Banking Book with Standardised Approach” and “Draft Guide on Management of Interest Rate Risk in the Banking Book” have been published for comments.
Intensify supervisory engagement and monitoring using meaningful reporting practices, accompanied by robust, timely intervention and follow up with banks.	BRSA	ST	<p>The BRSA continuously assess the viability and the risk profiles of banks through on-site and off-site supervision. Through these supervisory assessments, the BRSA determines whether there is a need to take prompt corrective action stated in Banking Law articles 67–71. Based on this assessment, the BRSA may intensify supervision work conducted in the bank, by increasing the scope and the frequency of on-site supervision.</p> <p>From the off-site /monitoring perspective, there has been no major change since the 2023 FSAP. Off-site findings and outputs are shared with the relevant departments during the supervision process. Current monitoring and reporting practices in the banking system are regarded as sufficient, while the improvement of the intensity, coordination and effectiveness of the supervisory process is an ongoing process.</p>
Enhance the risk-based, forward-looking perspective of the CAMELS process, integrating Pillar 2 assessments (ICAAP and SRP), off-site work, stress-testing and ICT/Cyber dimensions.	BRSA	MT	<p>Following the 2023 FSAP, the BRSA initiated an action plan to increase its compliance with the Basel Core principles for effective banking supervision and has taken FSAP recommendations into account in the revision of its supervisory framework. Within the context of its revision efforts, the BRSA has i) abandoned the CAMELS approach and adopted SREP as its supervisory framework, ii) embedded key risk indicators in detail into supervisory manuals to enable consistent risk assessment, iii) developed a quantitative assessment method for material risks instead of previous qualitative perspective, and iv) simplified the way risk assessments factor into the overall rating of bank.</p> <p>From the off-site/Monitoring perspective, there has been no major change since the last FSAP. Off-site findings and outputs are intensively shared with the relevant departments in the supervisory process. Bank and sector-level off-site activities and stress testing studies continue to be conducted regularly. A technical assistance program with the World Bank on climate risk assessment and stress testing, including relevant catastrophic risks, has been</p>

Table 1. Republic of Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			ongoing. The stress testing team is participating in these studies to increase technical capacity in this area.
Set financial stability as the legal objective of insurance supervision, ensure transparency of the nomination, appointment and dismissal processes of IPRSA's board members; and introduce a formal Own Risk and Solvency Assessment process.	Presidency, IPRSA	MT	<p>One of the primary objectives of the Insurance Law No. 5684 is to ensure that the insurance industry operates effectively in a safe and stable environment. To this end the law attaches great importance to the financial capacity of insurance companies. At the moment, Insurance Law No. 5684 is being revised in order to set financial stability as the legal objective of insurance supervision. In this context, all stages of the activities of insurance companies are being redrafted including their establishment, business processes and market exit procedures. For instance, if the financial structure of an insurance company weakens to the extent that it jeopardizes the rights and interests of the insured, that company will face more serious sanctions and an early warning system will be introduced with the new law.</p> <p>On the other hand, according to Presidential Decree No. 47, the chairman and the board members of IPRSA are appointed by the President. Nomination, appointment and dismissal processes of IPRSA's board members are regulated by Presidential Decree No. 3 on "Appointment Procedures for Upper Level Public Administrators and Public Institutions and Organizations".</p>
Systemic Liquidity			
Strengthen the CBRT's operational autonomy, focus interest rate policy on inflation. Implement the interest rate corridor through monetary operations on the interbank money market solely.	CBRT	ST	<p>The CBRT is committed to making its policy decisions so as to create the monetary and financial conditions necessary to ensure a decline in the underlying trend of inflation and to reach the 5 percent inflation target in the medium term.</p> <p>The CBRT employs all liquidity management instruments to ensure efficiency of the monetary transmission mechanism. To this aim, the liquidity level in the market and the distribution of liquidity in the banking system is also considered in the framework of liquidity management. Liquidity management operations strengthened with diversified monetary policy tools.</p>

Table 1. Republic of Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
Limit FX interventions to the most extreme cases of exchange rate volatility. Define a volatility- based FX rule. Build FX reserves over time.	CBRT	MT	Türkiye implements an exchange rate regime in which the exchange rate is determined by supply and demand conditions in the market. The CBRT has no nominal or real exchange rate target and does not conduct transactions to determine the level or direction of the exchange rates. Reserve accumulation is one of the main priorities of the CBRT, as long as market conditions allow. CBRT FX reserves were 147.6 billion USD as of June 21, 2024.
Finalize review of the ELA framework.	CBRT	ST	Review of the framework is ongoing.
Cyber Resilience			
Ensure FSC discusses ICT/cyber risks regularly and facilitates coordination among member agencies. Integrate ICT/cyber risk supervision within overall supervisory process.	MOTF, BRSA, CBRT, CMB	ST	<p>ICT and cyber risks are closely monitored by financial regulatory and supervisory authorities.</p> <p>In addition, the FSC is monitoring developments on ICT/cyber risks closely to ensure smooth coordination.</p> <p>With respect to capital markets, under current regulations, capital market institutions are required to have penetration tests and information systems independent audit reports in order to control their information system infrastructures. In consequence of review of the reports generated as a result of these audits, feedback is provided to the relevant institutions, thus improving the information systems infrastructures. Penetration test and information systems independent audit reports shall be sent to the CMB within one month after they are completed. CMB analyzes these reports to supervise ICT infrastructures of institutions.</p> <p>Furthermore, in order to take the necessary measures against cyber threats at the national level, several issues are planned to be carried out within the scope of the National Cyber Security Strategy and Action Plan prepared by the Ministry of Transport and Infrastructure. The actions that the CMB is responsible for are as follows:</p> <ul style="list-style-type: none"> • Sectoral regulations to be made regarding the minimum cyber security criteria that institutions, organizations and businesses operating in critical infrastructure sectors will comply with.

Table 1. Republic of Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			<ul style="list-style-type: none"> • Sectoral cyber risk assessments will be carried out in critical infrastructure sectors. (Capital market institutions are already making ICT risk assessments to comply with the CMB's regulation.) • Periodic cyber security exercises will be carried out. • Periodic cyber security awareness trainings will be carried out. (This is already being carried out periodically in capital markets.) <ul style="list-style-type: none"> ○ Human resources related to cyber security will be improved. This can be achieved with both trainings and by participating in independent audits as an observer. ○ Finally, critical infrastructures in capital markets are obliged to comply with the ICT guidance published by the Digital Transformation Office of the Presidency of the Republic of Türkiye in 2020.
Factor ICT/cyber risks in the financial stability analysis, develop a crisis management plan to address potential large-scale cyber-attacks.	BRSA, CBRT	MT	<p>The CBRT has an incident response plan for cyber-attacks (including the crisis management plan). The corporate business continuity plan also includes a cyber-attack scenario and the precautions to be taken.</p> <p>Potential large-scale risks are evaluated at regular intervals and risk calculations are made. Necessary precautions are taken by foreseeing the effects on the systems.</p> <p>Additionally, BRSA is working with the sector on developing a crisis management plan in the medium term.</p>
Financial Integrity			
Take steps to exit the FATF grey list by demonstrating effectiveness and addressing all areas identified in the FATF's action plan, including with respect to politically exposed persons.	MASAK BRSA, CBRT	ST	All related authorities have addressed the FATF action items rigorously in order to further strengthen the effectiveness of its AML/CFT regime. As a result of these efforts, the FATF has announced that Türkiye is no longer subject to increased monitoring and Türkiye was removed from the Grey List on June 28, 2024.

Table 1. Republic of Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
Monitor key financial integrity risks stemming from the grey listing, and other cross-border regulatory actions.	MASAK, MOTF, BRSA, CBRT	MT	<p>The BRSA monitors all emerging risks and related developments that may have an effect on the functioning of banks through its on-site and off-site supervision functions. During the period that Türkiye was subject to increased monitoring by FATF, the BRSA was in constant dialogue with the banking industry from the start, in order to assess the impact of this decision and take necessary actions without any delay. The BRSA also worked with MASAK very closely during that time to address action items required by FATF.</p> <p>Türkiye updated its National Risk Assessment in 2023. Within the NRA, cross border risks were evaluated based on information requests sent and received as well as cross border aspects of actual ML/TF cases evaluated in the case pool and abused sectors. In this regard, supervision activities in relation to the sectors which pose higher ML/TF risks have been enhanced. Moreover, in relation to TFS, particularly UNSCR 1373(2001), Türkiye requested that several countries freeze assets, and also froze assets jointly with counterparties.</p> <p>These achievements were acknowledged by the FATF, which led to Türkiye's exit from the grey list based on FATF Plenary's decision in June 2024.</p>
Implement FATF Recommendation 15 to address virtual asset risks.	MASAK	ST	<p>A regulation to mitigate the risks emanating from the activities of VASPs was issued by the CBRT on 16 April 2021. Accordingly, it was set out that cash transfers to and from their customers can only be carried out through bank accounts opened in customers' names and identity numbers. In addition, the CBRT prohibited the direct and indirect use of VAs in payments and providing services for direct and indirect use of VAs in payments. Furthermore, on 1 May 2021, VASPs have been designated as obliged parties, where they are subject to the general preventive measures (customer due diligence, identification of beneficial owner, suspicious transaction reporting, record keeping, retaining and submitting documents). In this regard, MASAK requested customer and transaction information from the VASPs, which accounted almost 99% percent of the VASP activities in Türkiye. Moreover, a risk assessment study was conducted in 2022 by MASAK taking into account (i) capital adequacy risk of the sector, (ii) asset security risk, (iii) susceptibility risk of prices to manipulative attacks, (iv) the scale of the sector, (v) the fit and proper risk regarding founders and partners of companies due to the lack of legislation on the licensing of the sector, (vi) the risk regarding company foundation and partners due to the lack of legislation for licensing, (vii) risks of initial coin offering and (viii) personal data security. Accordingly, it was</p>

Table 1. Republic of Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			<p>decided that the sector posed high ML/TF risk. The risk of the sector was assumed higher for ML in comparison to TF risks.</p> <p>Based on the NRA, Türkiye also prepared typology reports and disseminated to competent authorities, relevant regulatory and supervisory agencies.</p> <p>Law No. 7518 (Amending the Capital Markets Law to Regulate Crypto Asset Service Providers) came into effect on 2 July 2024. The Law defines crypto asset service providers as crypto asset platforms, institutions providing crypto asset custody services and other institutions designated by regulations under the Law, with respect to services in relation to crypto assets including initial sale and dissemination. The Law regulates crypto asset service providers, the activities of crypto asset platforms, custody of crypto assets, purchase, sale and transfer transactions in crypto assets by persons residing in Türkiye, requirements for CMB authorization for the establishment and operation of crypto asset service providers, and gives the CBM authority over the regulation of principles and procedures with which service providers must comply. Under the Law, related secondary regulations will be published within six months following the date of entry into force of the Law (i.e., by 2 January 2025).</p> <p>During the transition period, institutions currently operating as crypto asset service providers must declare their operations as well as their intentions to carry on performing these operations or their plans for dissolution. Institutions that plan to take up activities as crypto asset service providers must also declare their intention to the CMB. Following the entry into force of related secondary regulation, institutions will not be allowed to operate as crypto asset service providers without being licensed by the CMB.</p>
<i>Crisis Management and Resolution</i>			
Introduce resolution planning and consider extending recovery planning to all banks; extend recovery	SDIF, BRSA	ST	Regulation on recovery planning has been in effect as of February 2021 and recovery planning and requirements cover domestic systemically important banks (D-SIBs) in the country as recommended by FSB Key Attributes. Since recovery planning is a new concept for Turkish banks, currently, there has not been any additional study to extend recovery requirements to all banks

Table 1. Republic of Türkiye: Main Recommendations (Concluded)

Recommendations	Agency	Time *	Implementation Status
requirements to entire groups and foreign affiliates.			and to entire groups and foreign affiliates.
Enhance SDIF resolution powers in line with the FSB Key Attributes and empower SDIF to start preparations in the run up to resolution. Introduce a full P&A concept beyond insured deposits for all banks regardless of SDIF shareholding status.	SDIF, MOTF	ST	No change
End the use of SDIF funds for all loss coverage, liquidity, and recapitalization purposes and introduce loss absorbance principles in line with the liquidation hierarchy. Introduce resolution funding and the least-cost concept for SDIF funds.	SDIF, MOTF	ST	No change
* Immediate (I) = within one quarter; short-term (ST) = within one year; medium-term (MT) = over one year			

Annex III. Financial Liberalization Measures Since July 2023¹

Decision	Date
Decisions to change Monetary policy operational Framework	
The Committee has also decided to adjust the monetary policy operational framework by setting the Central Bank overnight borrowing and lending rates 300 basis points below and above the one-week repo auction rate, respectively.	March 2024
Decisions to Simplify the Macroprudential Framework	
Gradually terminating the securities maintenance based on the loan interest rate / profit rate.	July 2023 August 2023 October 2023 December 2023
Terminating the additional FX RR maintenance and additional/reduced securities maintenance based on the share of TL and KKM deposits.	August 2023
Terminating the securities maintenance based on the conversion ratio of FX deposits to KKM.	August 2023
Terminating the minimum interest rate applied to KKM accounts converted from Turkish Lira (TL) deposits.	September 2023
Terminating the securities maintenance practice as well as the document against expenditure regarding TL commercial loans extended by banks.	October 2023
Terminating the securities maintenance practice regarding the securities issued by the real sector and purchased by banks.	October 2023
Facilitating reporting processes for companies by simplifying the summary FX position report.	November 2023
Terminating the RR practice for TL commercial loans extended by financing companies.	November 2023
Reducing the securities maintenance ratio applied to FX liabilities. The securities maintenance ratio applied to liabilities subject to securities maintenance will be reduced from 4% to 1%. The implementation regarding securities maintenance based on loan growth was terminated in April.	December 2023 April 2024
Macroprudential Arrangements in Turkish Lira (TL) Deposits	
Excluding the KKM accounts from the TL deposit share target, switching to the target of increasing this ratio for real persons, and revising the target values.	August 2023 September 2023 October 2023 December 2023
Moving towards targets regarding gradual reduction of KKM accounts through transition to TL time deposits and ensuring renewal of KKM accounts converted FX deposits and revising the target values.	August 2023 December 2023

¹ Source: CBRT Monetary Policy Report December 29th, 2023 as well as multiple CBRT press releases in 2024 (<https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases>).

Decision	Date
Terminating the securities maintenance in the regulations about the share of TL deposits and the regulations about KKM and revising the implementation of commissions on FX deposits accordingly.	October 2023 December 2023
Allowing the interest rate for KKM accounts converted from FX deposits to be set at a level not lower than 85% of the one-week repo auction rate.	November 2023
Quantitative Tightening Decisions	
Sterilizing TL liquidity by introducing the RR practice to KKM accounts, increasing this ratio for short maturities by maturity-based differentiation in September and raising it for all maturities in November.	July 2023 September 2023 November 2023
Increasing the RR ratios on FX-denominated deposits/participation funds.	August 2023 November 2023
Introducing additional RR to be maintained in TL for FX-denominated deposits/participation funds.	November 2023
Launching Turkish lira deposit buying auctions.	December 2023
The RR ratios for FX-protected accounts with maturities up to 6 months was reduced from 30% to 25%. The additional RR ratio for FX-denominated deposits/participation funds maintained in Turkish liras was increased from 4% to 8%.	January 2024
To strengthen the monetary transmission mechanism, increase the share of Turkish lira deposits, and support the transition from FX-protected deposits to Turkish lira deposits, RRs of eligible deposit banks maintained for their Turkish lira deposit and FX-protected deposit accounts with a maturity longer than one month will be subject to remuneration every three months. On the other hand, participation banks will be provided with a discount on the amount of their Turkish lira RRs to ensure a similar effect.	February 2024
Portions of banks' lira required reserves are subject to blocked accounts. Banks with asset sizes larger than 100 billion liras (US\$3.11 billion) will be required to impose a block on 15% of lira required reserves. Those with more than 500 billion liras (US\$15.57 billion) will impose it on 25% of lira required reserves.	March 2024
Selective Credit Decisions	
Facilitating access to rediscount credits by exempting FX purchases for import payments from the commitment not to buy FX during the rediscount credit term and abolishing the condition of selling additional export value, and increasing the daily limits of rediscount credits to TL 1.5 billion which is 5 times of the initial level.	July 2023
Reducing the loan growth limit from 3% to 2.5% for TL commercial loans (excluding loans for export, investment, agriculture, tradesmen, public institutions-organizations and the earthquake zone) and from 3% to 2% for vehicle loans in the securities maintenance practice.	July 2023 August 2023
Setting higher maximum interest rates to be applied to TL cash withdrawals or TL cash utilization via credit cards and overdraft accounts from those applied to other credit card transactions.	July 2023
Increasing the daily limit for rediscount credits by 2 times to TRY 3 billion.	September 2023

Decision	Date
Terminating the securities maintenance based on the interest rate/profit rates for TL commercial loans, while retaining it for export and investment loans and general purpose loans.	October 2023
Setting a cap on the total interest cost for export and FX earning services rediscount credits.	November 2023
Allocating a total limit of TRY 300 billion for 3 years, with a maximum annual limit of TRY 100 billion to the ALAIC program and restructuring the implementation framework.	November 2023
Extending the loan growth-based security maintenance and the exemptions for the earthquake zone, which will expire at the end of 2023, to June 2024.	December 2023
Setting a cap for the reference rate used in determining the maximum interest rates to be applied to credit card transactions and overdraft accounts and the maximum commission rates of member merchants.	December 2023
The monthly growth limit for TL commercial loans, previously set at 2.5 percent, has been reduced to 2 percent. The monthly growth limit for general purpose loans, previously set at 3 percent, has been revised down to 2 percent. The 2 percent limit for vehicle loans remains unchanged.	March 2024

Annex IV. Public Debt Sustainability

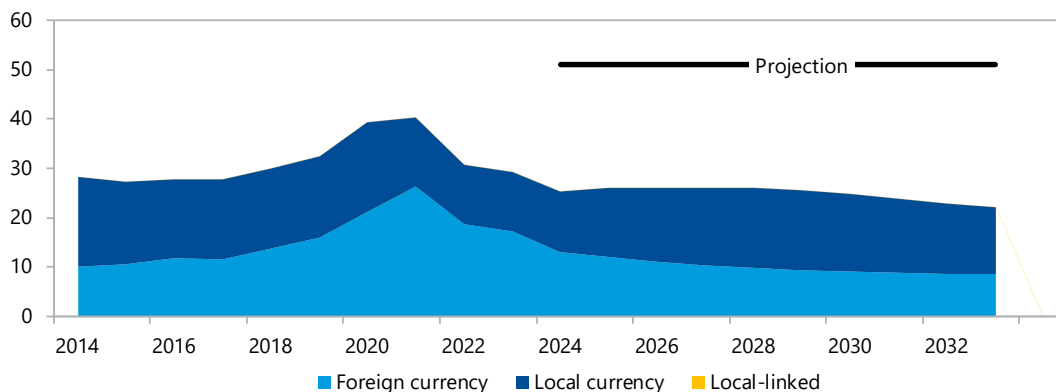
Table 1. Republic of Türkiye: Risk of Sovereign Stress			
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is judged to be low, reflecting a low level of vulnerability in the near term, moderate vulnerability in the medium term and low risk of sovereign stress in the long term.
Near term 1/			
Medium term	Low	Moderate	Medium-term risks are assessed to be moderate, consistent with the mechanical signal. Debt is expected to be around 26 percent of GDP by 2029. Gross financing needs are expected to trend upward, although manageable, as the authorities are expected to borrow more in higher interest TL rather than domestic FX.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	Cont. Liabty.	...	
Long term	...	Moderate	Long-term risks related to demographics, pensions, large amortization needs, and climate mitigation appear moderate. Türkiye's age dependency ratio is low at 47 and not projected to rise significantly indicating long-term costs related to aging and health will have a moderate impact on debt over the longer-term.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Not required for surveillance countries
Debt stabilization in the baseline			No
DSA Summary Assessment			
Türkiye is low risk of overall risk of sovereign stress. Debt levels increase slowly as the authorities are committed to maintaining Maastricht deficit targets, growth is expected to remain strong and real interest rates are expected to be slightly positive in line with stable long-term inflation trends. Risks to the baseline reflect a rapid increase in interest costs if financial repression measures are unwound, and currency depreciation given the large FX exposure. The stress scenario includes an additional domestic interest rate shock above the standardized shock to reflect this risk. Contingent liabilities are high in Türkiye stemming from PPPs, and SOEs. Long-term risks are moderate reflecting small negative primary balances, while demographics remain favorable			
Source: Fund staff.			
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.			
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.			
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.			

Table 2. Republic of Türkiye: Debt Coverage and Disclosures

										Comments					
1. Debt coverage in the DSA: 1/										CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?															n.a.
2. Subsectors included in the chosen coverage in (1) above:															
Subsectors captured in the baseline										Inclusion					
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes	No states.			
				2	Extra budgetary funds (EBFs)						Yes				
				3	Social security funds (SSFs)						Yes				
				4	State governments						No				
				5	Local governments						Yes				
				6	Public nonfinancial corporations						No				
				7	Central bank						No				
				8	Other public financial corporations						No				
3. Instrument coverage:										Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	
4. Accounting principles:										Basis of recording		Valuation of debt stock			
										Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:										Consolidated		Non-consolidated			
Color code:										Chosen coverage		Missing from recommended coverage		Not applicable	
Reporting on Intra-Government Debt Holdings															
Issuer		Holder		Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp.	Total			
CPS	NFPS	GG: expected	CG	1	Budget. central govt							0			
				2	Extra-budget. funds							0			
				3	Social security funds							0			
				4	State govt.							0			
				5	Local govt.							0			
				6	Nonfin pub. corp.							0			
				7	Central bank							0			
				8	Oth. pub. fin. corp							0			
Total				0	0	0	0	0	0	0	0	0			
<p>1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector. 2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable. 3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities. 4/ Includes accrual recording, commitment basis, due for payment, etc. 5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes). 6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity. 7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.</p>															
<p>Commentary: While general government has good coverage, timely more detailed reporting of the rest of the public sector including non-financial corporations makes wider reporting more difficult. Coverage is consistent with Staff Report tables, and the authorities own reporting.</p>															

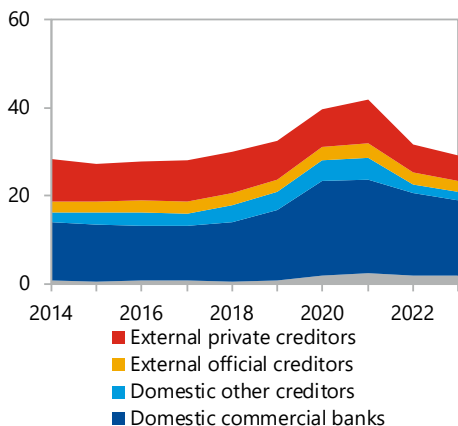
Table 3. Republic of Türkiye: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



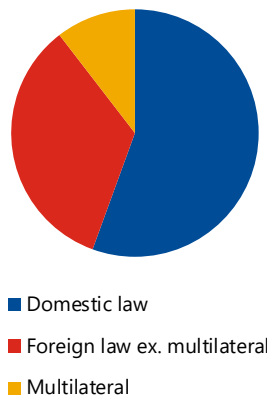
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



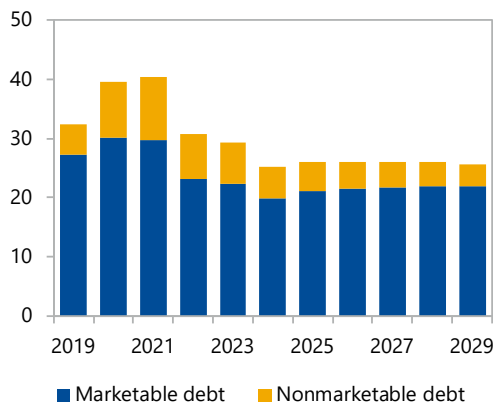
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (Percent)



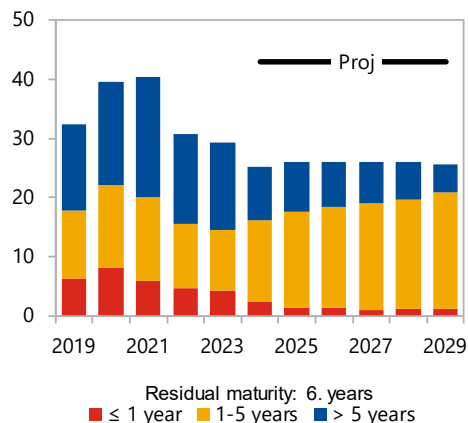
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



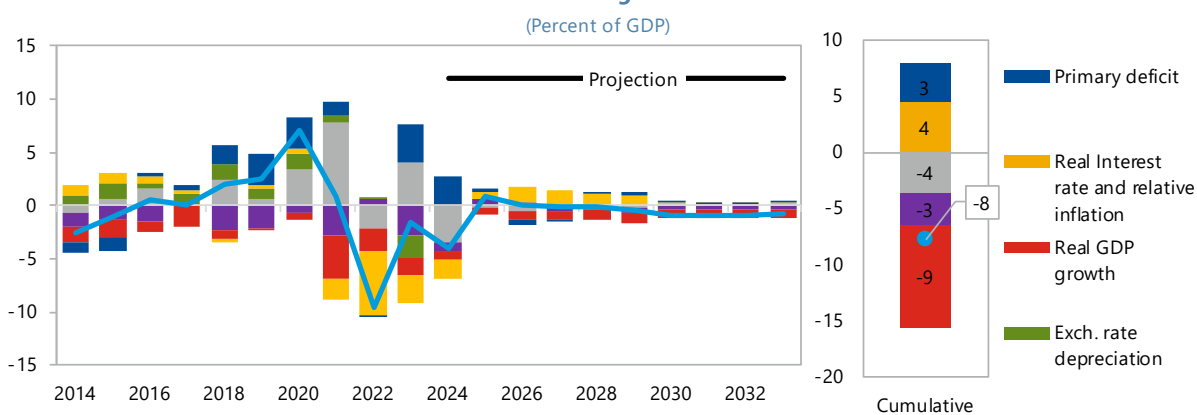
Note: The perimeter shown is general government.

Commentary: 56 percent of debt is domestic, which includes around 12 percent of FX debt. The authorities plan to issue more TL debt going forward. Short-term borrowing had reduced in 2023, and this is anticipated going forward.

Table 4. Republic of Türkiye: Baseline Scenario

	Actual		Medium-term projection					Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	29.3	25.2	26.0	26.0	26.0	25.9	25.6	24.7	23.8	22.9	22.2
Change in public debt	-1.5	-4.0	0.8	0.0	-0.1	0.0	-0.4	-0.9	-0.9	-0.9	-0.7
Contribution of identified flows	-5.7	-0.6	1.0	0.4	0.1	0.0	-0.1	-1.1	-1.1	-1.0	-0.9
Primary deficit	3.5	2.8	0.3	-0.5	-0.1	0.1	0.3	0.1	0.1	0.1	0.1
Noninterest revenues	27.0	28.4	28.5	28.1	28.2	28.2	28.2	28.2	28.2	28.2	28.2
Noninterest expenditures	30.6	31.2	28.8	27.7	28.1	28.3	28.6	28.3	28.3	28.3	28.3
Automatic debt dynamics	-6.4	-2.5	0.0	0.6	0.6	0.3	-0.1	-0.8	-0.8	-0.8	-0.6
Real interest rate and relative inflation	-2.7	-1.7	0.7	1.4	1.4	1.2	0.9	0.1	0.0	0.0	0.1
Real interest rate	-9.3	-7.6	-2.1	-0.3	0.1	0.0	-0.2	-1.0	-1.0	-1.0	-0.9
Relative inflation	6.5	5.9	2.7	1.8	1.3	1.1	1.1	1.1	1.0	1.0	1.0
Real growth rate	-1.5	-0.9	-0.7	-0.8	-0.9	-0.9	-1.0	-0.9	-0.8	-0.8	-0.8
Real exchange rate	-2.2	...	...	...	...	...	...	...	...	...	...
Other identified flows	-2.8	-0.9	0.7	0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Other transactions	-2.0	-0.1	1.4	1.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Contribution of residual	4.1	-3.4	-0.2	-0.4	-0.1	0.0	-0.2	0.2	0.2	0.2	0.2
Gross financing needs	7.6	7.4	5.4	5.1	5.9	6.4	6.5	5.5	5.4	4.7	4.6
of which: debt service	4.9	5.4	5.8	6.2	6.7	6.9	6.8	6.1	6.0	5.3	5.2
Local currency	3.0	2.8	3.6	4.2	4.8	5.2	5.3	4.7	4.6	4.0	3.9
Foreign currency	2.0	2.6	2.2	2.0	1.9	1.7	1.5	1.4	1.4	1.3	1.3
Memo:											
Real GDP growth (percent)	5.1	3.0	2.7	3.2	3.4	3.7	3.9	3.5	3.5	3.5	3.5
Inflation (GDP deflator; percent)	68.2	60.0	31.4	20.4	16.6	15.3	15.2	16.0	16.0	16.0	16.0
Nominal GDP growth (percent)	76.8	64.8	34.9	24.3	20.6	19.6	19.7	20.1	20.1	20.1	20.1
Effective interest rate (percent)	15.0	17.4	20.2	18.9	17.1	15.6	14.4	11.3	10.9	11.1	11.5

Contribution to Change in Public Debt



Commentary: Debt is expected to increase as real interest rates return to positive. The primary balance is expected to remain slightly positive as the authorities are committed to meeting Maastricht deficit criteria. Other transactions between 2024-2026 represents the cash payment of accrued earthquake spending and the build up of currency and deposits consistent with long-run trends. Interest revenues increase with historical trends.

Table 5. Republic of Türkiye: Medium-Term Risk Assessment

	Value	Contrib ^{1/}	Percentile in peer group ^{2/}	
Final Fanchart (Percent of GDP)				
Debt fanchart module				
Fanchart width (percent of GDP)	39.1	0.6		
Probability of debt non-stabilization (percent)	63.3	0.5		
Terminal debt-to-GDP x institutions index	15.5	0.3		
Debt fanchart index (DFI) 1.4				
Risk signal: 3/ Moderate				
Gross Financing Needs (Percent of GDP)				
Gross financing needs (GFN) module				
Average baseline GFN (percent of GDP)	6.1	2.1		
Initial Banks' claims on the gen. govt (pct bank assets)	18.5	6.0		
Chg. In banks' claims in stress (pct banks' assets)	3.3	1.1		
GFN financeability index (GFI) 9.2				
Risk signal: 4/ Moderate				
Triggered stress tests (stress tests not activated in gray)				
Banking crisis	Exchange rate	Contingent liab.	Natural disaster	
Medium-Term Index (Index number)				
Medium-term risk analysis				
	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.4	0.3	0.5	0.2
GFN financeability index	9.2	0.2	0.5	0.1
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Moderate		
Prob. of missed crisis, 2024-2029, if stress not predicted: 9.1 pct.				
Prob. of false alarms, 2024-2029, if stress predicted: 42.0 pct.				
<p>Commentary: The two mechanical signals suggest moderate medium-term risk. The stress scenario includes an additional shock reflecting an unwinding of negative real interest rates. GFN increase under stress scenarios. A contingent liability shock of 5 percent of GDP capturing the risks of PPPs/SOEs is included. Bank claims on the government increase but within the capacity of banks to absorb.</p>				
Source: IMF staff estimates and projections.				
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.				
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.				
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.				
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.				
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.				

Table 6. Republic of Türkiye: Realism of Baseline Assumptions

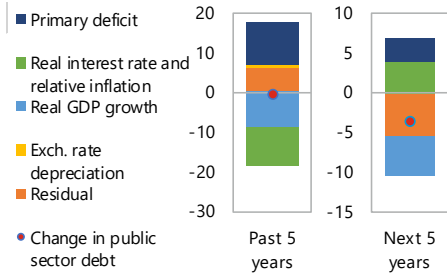
Forecast track Record 1/	t+1	t+3	t+5	Comparator group:
Public debt to GDP				Emerging Markets, Non-Commodity Exporter, Surveillance
Primary deficit				
r - g				
Exchange rate depreciation				
SFA				
	real-time	t+3	t+5	

Color code:
 Optimistic > 75th percentile
 50-75th percentile
 25-50th percentile
 Pessimistic < 25th percentile

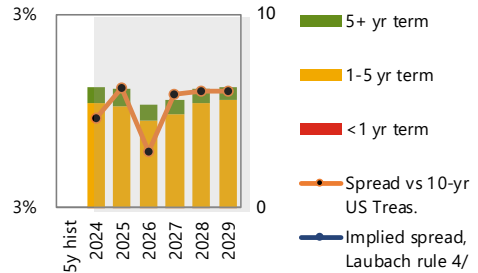
Historical Output Gap Revisions 2/

Public Debt Creating Flows

(Percent of GDP)

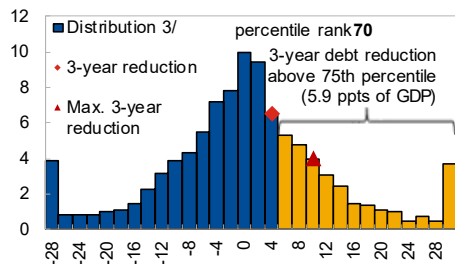


Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



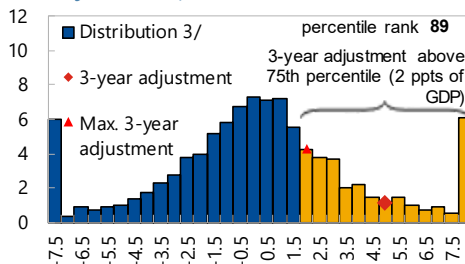
3-Year Debt Reduction

(Percent of GDP)



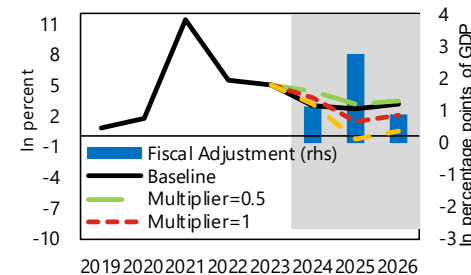
3-Year Adjustment in Cyclically-Adjusted

Primary Balance (percent of GDP)



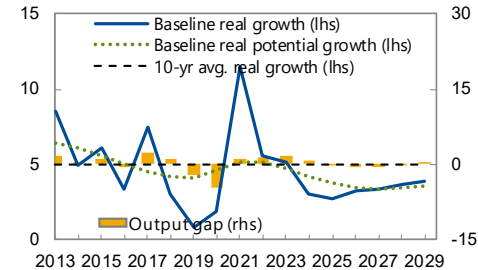
Fiscal Adjustment and Possible Growth Paths

(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(in percent)



Commentary: The realism tool suggests consistent upward revisions to the exchange rate depreciation, and to the output gap (3-5 years ahead). Past public debt changes were influenced by negative real interest rates, while this is not anticipated going forward. The three-year debt reduction is within the normal range, while the reduction in the primary balance approaches the higher end of experienced outcomes. While the REER overvaluation is not unwound, it does not exceed 5 percent.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Table 7. Republic of Türkiye: Triggered Modules

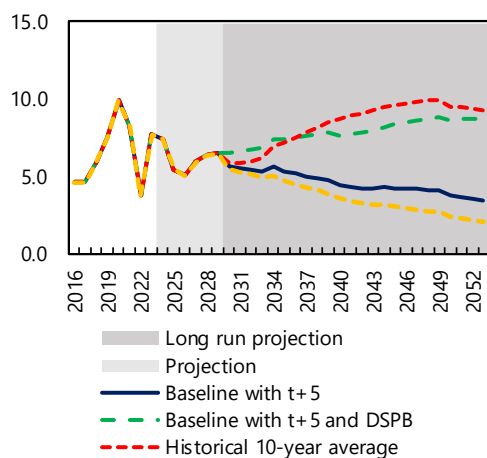
Large amortizations Pensions Climate change: Adaptation Natural Resources
 Health **Climate change: Mitigation**

Long-Term Risk Assessment: Large Amortization incl. Custom Scenario

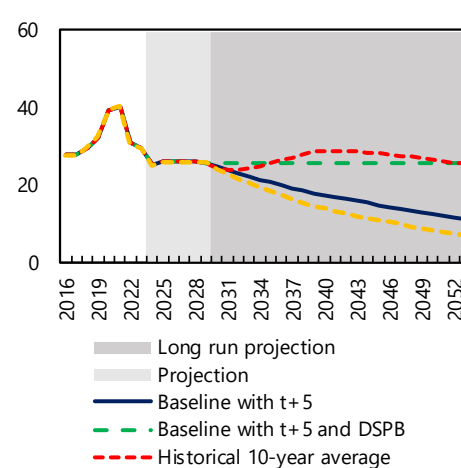
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Historical average assumptions	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Overall Risk Indication		■

Variable	2029	2033 to 2037 average	Custom Scenario
Real GDP growth	3.9%	3.5%	3.6%
Primary Balance-to-GDP ratio	-0.3%	-0.1%	-0.2%
Real depreciation	-2.2%	0.1%	-4.5%
Inflation (GDP deflator)	15.2%	16.0%	16.9%

GFN-to-GDP ratio



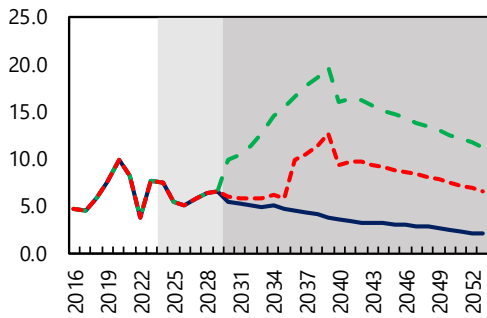
Total public debt-to-GDP ratio



Commentary: Long-term projections show a steady increase in both GFN and the debt to GDP ratios reflecting negative primary balances small real depreciation. The custom scenario reflects averages of key drivers over the 2023-2029 projection period.

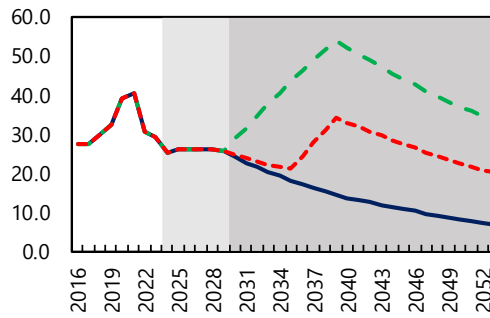
Table 8. Republic of Türkiye: Climate Change: Mitigation

GFN-to-GDP ratio



— Baseline: Custom
 - - With climate mitigation (standardized scenario)
 - - With climate mitigation (customized scenario)

Total public debt-to-GDP ratio



— Baseline: Custom
 - - With climate mitigation (standardized scenario)
 - - With climate mitigation (customized scenario)

Commentary: Türkiye is among the largest 25 global emitters of carbon dioxide. Estimates suggest that mitigation needs to meet net zero commitments are around 4.5 percent of GDP annually for 10 years. This would significantly add to the debt burden and gross financing needs.

Annex V. External Sector Assessment

<p>Overall Assessment: <i>The external position in 2023 is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies.</i> The assessment is mainly driven by the sizable CA gap, but also supported by the low level of reserves, large external financing needs, and the size and composition of the NIIP with a high debt component, all of which contribute to external vulnerabilities. The CA deficit narrowed in 2023 H2 reflecting lower energy prices, declining gold imports, and demand compression from financial tightening, improved further in 2024 H1 and is expected to continue improving the medium term. However, Türkiye's vulnerability to shocks remains high amid a low net reserves position and elevated gross external financing needs.</p> <p>Potential Policy Responses: Strengthening the policy framework would help underpin Türkiye's external sustainability going forward. Tightening of the monetary and fiscal policy stance would contain demand and improve the CA balance. Accelerating financial liberalization would reduce market distortions and improve monetary policy transmission. Open trade policies, including removing discretionary credit allocation that favors exports, could enhance competition and facilitate external rebalancing. Collectively, these policies would improve confidence and help sustain capital inflows which would allow for a much-needed accumulation of international reserves.</p>						
Foreign Asset and Liability Position and Trajectory	<p>Background. Türkiye's NIIP averaged –39 percent of GDP over 2019–23. The NIIP improved from –40.8 percent of GDP at end-2022 to –28.0 percent of GDP at end-2023, mainly driven by valuation effects including a large decrease in direct investment (equity) liabilities in dollar terms. Debt liabilities account for around 70 percent of gross liabilities. External debt declined from 52 percent of GDP in 2022 to 45 percent of GDP in 2023. The private sector holds 50 percent of Türkiye's external debt, while the public sector (general government and central bank) holds the remainder. About 45 percent of the external debt is short-term (on a remaining-maturity basis).</p> <p>Assessment. The size and composition of its gross external liabilities, coupled with low reserves, increase Türkiye's vulnerability to liquidity shocks, sudden shifts in investor sentiment, and any global upswing in interest rates. The NIIP is expected to stabilize over the medium term and hover around –26 percent of GDP in 2029 due to a projected improvement in the CA balance. External debt is sustainable over the medium term but is subject to risks, particularly from a large depreciation in the REER.</p>					
	2023 (% GDP)	NIIP: –28.0	Gross Assets: 29.4	Debt Assets: 11.3	Gross Liab.: 57.4	Debt Liab.: 37.8
Current Account	<p>Background. The CAD averaged 2.4 percent of GDP over 2019–23. Despite favorable energy prices, the CAD in 2023 remained significant at 4.0 percent of GDP, following a deficit of 5.1 percent of GDP in 2022, as non-energy surplus declined from 3.8 percent of GDP in 2022 to 0.7 percent of GDP in 2023, due to a significant slowdown in exports amidst robust imports. In 2023:H2 however, the CAD narrowed to around -1.4 percent of GDP, reflecting lower energy prices, declining gold imports, and demand compression from financial tightening. The improvement in the current account between 2022 and 2023 thus reflects an increase in savings, driven by the reduction in private consumption, which outweighed the increase in investment. In 2024:H1, the CAD continued to perform well at around 2.8 percent (compared to 7.0 percent of GDP in 2023:H1) due to falling prices for imported fuel, lower demand for gold, and macro policies aimed at external rebalancing.</p> <p>Assessment. The EBA CA model estimates a cyclically adjusted CA balance of –3.3 percent of GDP and a CA norm of –0.3 percent of GDP in 2023. Overall, the CA gap is assessed in the range of –3.6 percent to –2.3 percent of GDP, with a midpoint of –3.0 percent of GDP.</p>					
	2023 (% GDP)	CA: –4.0	Cycl. Adj. CA: –3.3	EBA Norm: –0.3	EBA Gap: –3.0	Staff Adj.: 0.0	Staff Gap: –3.0
Real Exchange Rate	<p>Background. The CPI-based REER depreciated by an annual average of 8.3 percent over 2019–22. Following several years of depreciation, the average REER appreciated by 2.4 percent in 2023. Reflecting higher PPI inflation, the average PPI-based REER appreciated by around 8 percent in 2023. At end-July 2024, the CPI-based REER and the PPI-based REER had appreciated by 13.0 percent and 5.3 percent respectively relative to the 2023 average, as inflation picked up driven by a large minimum wage hike in January.</p> <p>Assessment. Consistent with the staff CA gap, staff assesses the REER to be overvalued in the range of 8.7 to 13.3 with a midpoint of 11.0 percent (applying an estimated REER elasticity of 0.27). The EBA REER index</p>					

	and level models suggest the REER was undervalued in 2023 by 45.7 and 55.7 percent, respectively, although the models' residuals are very large for Türkiye.
Capital and Financial Accounts: Flows and Policy Measures	<p>Background. Net capital inflows increased to 4.7 percent of GDP in 2023 from 3.9 percent of GDP in 2022, driven by an increased borrowing in the banking sector. Portfolio investments also turned positive after the May 2023 election, and recorded a net inflow of 0.7 percent of GDP in 2023. Direct investment recorded a moderate net inflow of 0.4 percent of GDP. Inflows continued increasing during 2024, reaching US\$21.7 billion in inflows by end-June, mainly driven by portfolio inflows.</p> <p>Assessment. With annual gross external financing needs projected at around 20 percent of GDP on average over 2024–29, Türkiye remains vulnerable to adverse shifts in global investor sentiment. The authorities' policy normalization since May 2023 has contributed to a rebound in capital flows, but increasing and sustaining the capital inflows, including to lira-denominated assets, would require further strengthening policy credibility and accelerating financial liberalization to reduce market distortions. As conditions improve, CFMs on capital outflows will need to be phased out.</p>
FX Intervention and Reserves Level	<p>Background. The de jure exchange rate is free floating while the de facto classification is assessed as a crawl-like arrangement. Gross international reserves increased to \$141 billion in 2023 from \$129 billion in 2022 supported by capital inflows and lower current account deficit. Reserves fell subsequently as depreciation pressures increased in early 2024, but improved substantially to above \$145 billion by mid-August 2024 as local elections did not derail ongoing reforms and monetary policy was further tightened in March.</p> <p>Assessment. Gross international reserves were at 96 percent of the IMF's ARA metric as of the end of December 2023, close but still below the floor of the recommended 100–150 percent range. However, international reserves net of off-balance sheet swaps and other short-term liabilities turned positive in mid-June 2024, even though quality of reserves remains an issue, with non-SDR basket currencies accounting for a large share (about 15 percent). Given the shallow FX market, interventions may be needed to avoid excessive exchange rate volatility, while not preventing warranted macroeconomic adjustments. Going forward, significant reserves buildup is needed, but the accumulation of reserves should be opportunistic given the uncertain market environment.</p>

Annex VI. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Domestic			
<p>Reversal of policy normalization. Should policies prove too tight and growth fall too much, political support could wane, leading to a return to populist policies. These policies would include looser monetary policy, further wage increases, and potentially also tax cuts and ad hoc pay increase for civil servants.</p>	Medium	<p>High. A reversal of policies would dampen confidence, lead to greater depreciation, and refuel inflation.</p>	<p>Authorities should stay the course on economic policies. Bringing inflation down should remain the key policy priority. Policies should preserve all the efficiency gains achieved by correcting financial and economic distortions since June 2023. Furthermore, policies should avoid creating new distortions, amplifying vulnerabilities. Reining in public sector imbalances, normalizing monetary and financial policies would further support restoring macroeconomic and financial stability.</p> <p>In the event of sudden instability, macroprudential buffers, especially for FX liquidity, can be released though these will need to be built up further.</p>
External			
<p>Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.</p>	High	<p>High. An intensification of regional conflicts could lead to higher energy and food prices, disrupt trade and financial flows, and undermine Türkiye's external stability.</p> <p>An influx of refugees would lead to fiscal strains and potentially upward pressure on rents and thus inflation.</p>	<ul style="list-style-type: none"> • Tighter fiscal and monetary policies to anchor inflation expectations and limit second-round effects of commodity price shocks. • Increase temporary transfers to vulnerable households as needed to alleviate the impact of higher inflation. • Use exchange rate as a shock absorber.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
			<p>In the medium term, diversify energy sources and support the green transition.</p> <p>Bringing down inflation to facilitate residential investment is key but in the short run, to accommodate higher refugee flows, fiscal savings should offset any additional outlays related to refugees.</p>
<p>Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.</p>	<p>High</p>	<p>Medium. Türkiye relies on oil and gas imports to meet its energy demand. Increases in energy prices would worsen its current account balance and international reserves position.</p>	<p>See previous risk for short-term response.</p> <p>For the medium term, support a green transformation in line with the European Green Deal and diversify energy sources.</p>
<p>Abrupt growth slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than- envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs</p>	<p>Medium</p>	<p>High. A slowdown in European trading partners' growth would affect trade and deteriorate Türkiye's current account balance. It would slow Türkiye's rebalancing toward external sources of growth and potentially reduce domestic price pressures.</p>	<p>The immediate response to a slowdown would be to ensure that the financial system continues to support adjustment (see first risk) and that fiscal policies can support increased social spending without adding to the fiscal impulse.</p> <p>Allowing the exchange rate to act as a shock absorber while smoothing volatility during this adjustment would be the key policy response. Ensuring continued operation of the financial system and releasing macroprudential buffers is also important (see first risk).</p>

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
			Achieve and maintain macro stability. Continue structural reforms to enhance productivity.
Monetary policy calibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	Medium	Medium. Monetary policy miscalibration outside Türkiye could generate exchange rate pressures and disrupt financial flows.	The authorities should react to the potential for a sudden stop by managing systemic risk via macroprudential policy that can be released under this risk and by bringing down inflation quickly and sustainably through tightening policies to reduce vulnerabilities.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	Medium	Medium. Global and systemic financial instability could generate depreciation pressures or complicate rollover of external debt.	Exchange rate policy should be the first line of defense (see global slowdown risk). Response to a sudden stop should be as in the previous risk on monetary policy calibration.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	Medium. While Türkiye has so far benefited from close links with the United States and European allies as well as Russia, the Gulf States, and other countries, a more fragmented world order might undermine some of these links.	Continue support for trade openness and investment and make trade more resilient by diversifying trade partners, including for energy. Participate in global initiatives for supporting multilateralism.

Annex VII. Data Issues

Table 1. Türkiye: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	B	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	B	A	A		
Granularity 3/	A		A	A	A		
Consistency			A	A		B	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. While data is assessed to be adequate for surveillance for all but one subcategory, the overall rating of B reflects that some shortcomings remain. Notably, there are data gaps concerning PPPs and the public sector's contingent liabilities, which are both of particular relevance for the analysis of public sector finances and fiscal sustainability in Türkiye. In addition, it would be useful to introducing a flash estimate for GDP, given that NA data is published with a 2-month lag.</p>							
<p>Changes since the last Article IV consultation. Financial transactions data has been improved, including the registration of Virtual Asset Service Providers (VASP).</p>							
<p>Corrective actions and capacity development priorities. Capacity development priorities include making employment data consistent with national accounts and improving general government financial statistics and financial transparency.</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics</p>							
<p>Other data gaps. Data gaps concerning PPPs and public sector's contingent liabilities should be addressed.</p>							

Table 2. Türkiye: Data Standards Initiative

Türkiye subscribes to the Special Data Dissemination Standard (SDDS) since August 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Table 3. Türkiye: Table of Common Indicators Required for Surveillance
As of 8/21/2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data 6/	Frequency of Reporting 6/	Expected Frequency 6/ 7/	Türkiye 8/	Expected Timeliness 6/ 7/	Türkiye 8/
Exchange Rates	May 2024	5/17/2024	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	June 2024	8/6/2024	M	M	M	W	1W	1W
Reserve/Base Money	June 2024	8/6/2024	M	M	M	W	2W	1W
Broad Money	June 2024	8/6/2024	M	M	M	M	1M	NLT 1M
Central Bank Balance Sheet	June 2024	8/6/2024	M	M	M	W	2W	1W
Consolidated Balance Sheet of the Banking System	March 2024	4/30/2024	W/M	W/M	M	M	1M	NLT 1M
Interest Rates 2/	May 2024	5/16/2024	D/W/M	D/W/M	D	D	...	1D
Consumer Price Index	July 2024	8/7/2024	M	M	M	M	1M	3D
Revenue, Expenditure, Balance and Composition of Financing 3/-General Government 4/	April 2024	5/15/2024	Q	Q	A	Q	2Q	6M
Revenue, Expenditure, Balance and Composition of Financing 3/-Central Government	April 2024	5/15/2024	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt 5/	April 2024	5/15/2024	M	M	Q	M	1Q	NLT 3W
External Current Account Balance	June 2024	8/13/2024	M	M	Q	M	1Q	6W
Exports and Imports of Goods and Services	June 2024	8/13/2024	M	M	M	M	8W	NLT 30D
GDP/GNP	2024Q1	July 2024	Q	Q	Q	Q	1Q	NLT 3M
Gross External Debt	April 2024	5/15/2024	Q	Q	Q	Q	1Q	1Q
International Investment Position	March 2024	7/3/2024	M	M	Q	Q	1Q	2M

1/ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

2/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

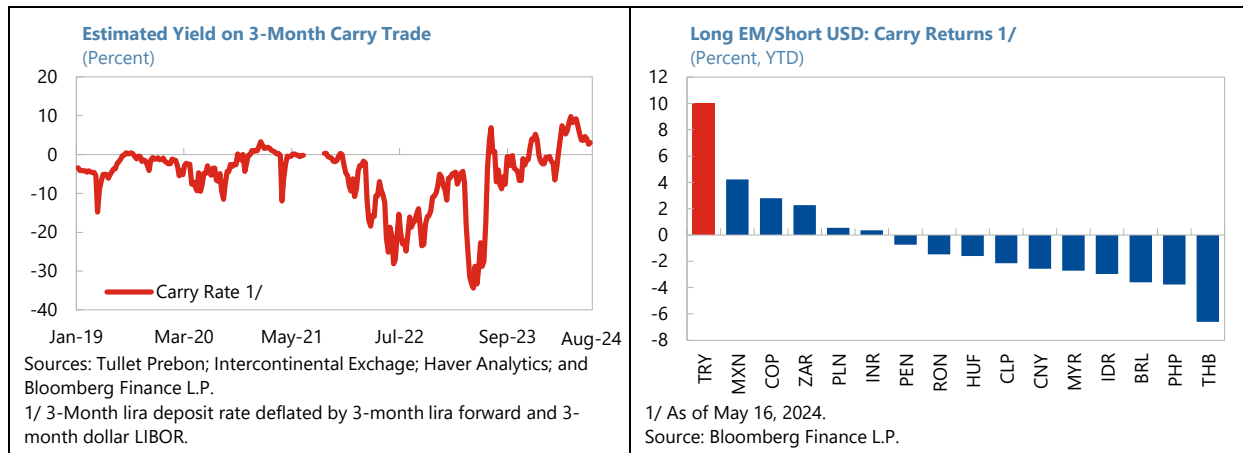
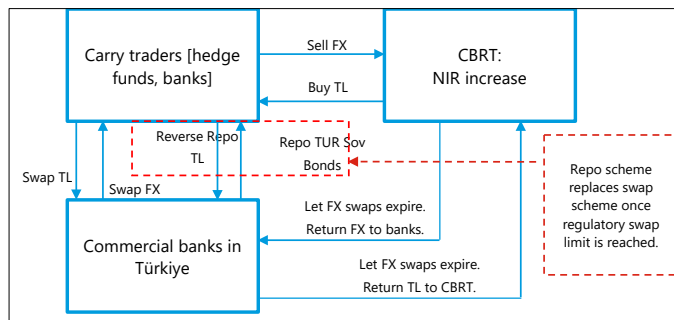
7/ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

8/ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VIII. How Should Türkiye Respond to an Acceleration in Capital Inflows?

1. Higher rates from policy normalization mean that short-term capital inflows could reaccelerate. During 2024:Q2, Türkiye received around US\$21.7 billion in inflows, which, along with household conversion of FX deposits into lira, boosted domestic liquidity and the CBRT’s reserve position. In addition to reversing sizeable outflows before the March local elections, this acceleration also reflected improved confidence and an opportunity for domestic banks to reduce lira funding costs.

2. The lira-dollar carry trade was among the most profitable among emerging markets this year. Higher lira deposit rates and low exchange rate volatility during Q2 led domestic and foreign investors to sell or swap FX for lira. This demand pushed offshore lira funding costs to 10–15 percentage points lower than from the CBRT or domestic interbank market. The CBRT largely sterilized these inflows by raising lira RRs to keep domestic lira market rates (deposits, swaps) high, and opportunistically rebuilt its reserves position.



3. A jump in short-term capital inflows presents policy challenges and increases risks. The authorities have worked hard to regain investor confidence and encourage inflows. While a real appreciation will help improve the reserves position and lower goods inflation, it can also add to current account pressures, exacerbate overheating, and limit the room for further monetary policy tightening amid high services inflation. Short-term capital inflow surges can also fuel balance sheet vulnerabilities and could be followed by sudden stops, as well as credit and asset price booms and busts.

4. Allowing FX volatility, while smoothing sharp adjustments, can help slow short-term inflows. Allowing at least a gradual adjustment of the exchange rate can reduce carry trade returns and avoid structural vulnerabilities associated with a rapid reversal.

5. If capital inflows were to reaccelerate, a comprehensive policy response would be needed:

- **Tighter fiscal policy. Monetary tightening would attract more inflows, exacerbating appreciation pressures.** This would increase the need for fiscal policy to become more active in demand management.
- **FX intervention should be used carefully to avoid impairing the transmission of monetary policy.** Exchange rate appreciation in response to an interest rate differential is a key transmission mechanism for monetary policy. Moreover, allowing FX volatility, while smoothing sharp adjustments, can help slow short-term inflows. Allowing adjustment of the exchange rate can reduce carry trade returns and avoid structural vulnerabilities associated with a rapid reversal. FX intervention should be used to address price and financial stability risks that arise from inflow surges.
- **Macro- and microprudential measures to manage financial risks.** Efforts should focus on making FX funding for banks more costly and managing excessive FX credit growth and FX leverage of banks, households, and corporates,¹ including: a) closely monitoring banks' non-core funding ratios, funding concentration, and on- and off-balance sheet FX assets and liabilities; b) introducing targeted capital and liquidity requirements linked to banks' FX exposures; c) implementing corporate prudential tools to contain risks from FX debt and mismatches; d) further hiking RRs on short-term FX liabilities with low or zero remuneration rate; e) requiring banks to hold FX term deposits at the central bank; and f) taxing FX denominated short-term debt. Some of these measures could be classified as CFMs and their introduction could be in line with the Fund's Institutional View should inflows rise enough to be classified as a surge, and key conditions about duration and limits be met.

¹ A surge in FX inflows would lead to additional non-core (wholesale, short-term) funding to banks, who would need to invest FX into less liquid securities or loans to be able to maintain positive interest margins on FX assets.

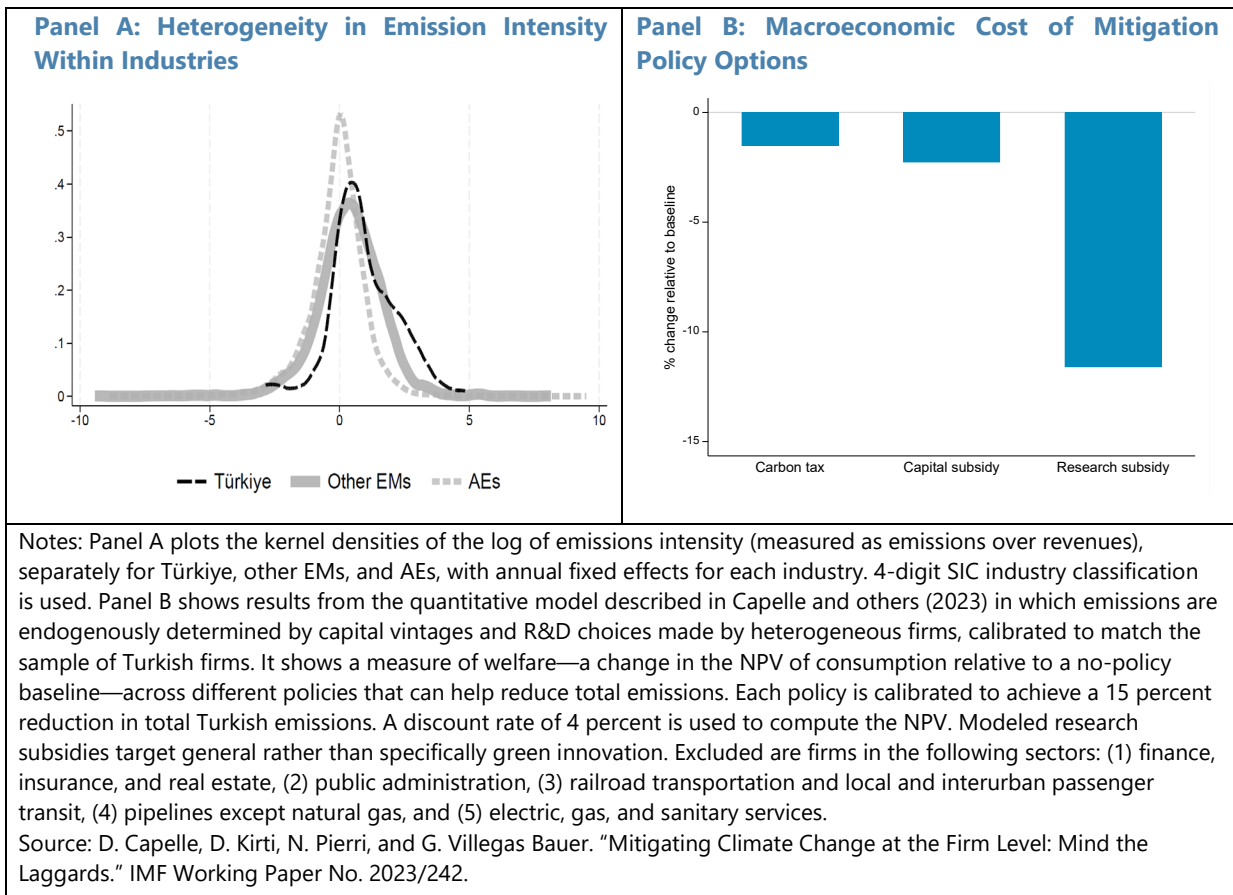
Annex IX. Greening the Corporate Sector

1. Environmental performance varies widely within firms in the same industry:

- Capelle, Kirti, Pierri and Villegas Bauer, 2023, point to significant room for improvement at firms with poor environmental performance. Such firms operate older physical capital stocks, are less knowledge intensive, have worse management practices, and are less productive.
- Across a large, global sample of listed firms, emission intensities for firms at the 90th percentile of the within-industry distribution are twelve times larger than for firms at the 10th percentile.

2. Improvements at Turkish laggard firms can help in achieving climate goals. Panel A compares the distributions of emissions scaled by revenues for Turkish (listed) firms with firms in other emerging economies (EMs) and in advanced economies (AEs), after removing granular-industry specific components. It suggests that Turkish firms' environmental performance somewhat lags that of firms in other EMs.

3. Subsidies can help cut emissions, but at larger macroeconomic costs than carbon pricing. Panel B estimates the cost, in terms of the net present value of consumption (NPV), of reducing emissions by 15 percent in Türkiye through carbon taxes, subsidies targeting upgraded capital stocks, or subsidies for research and development. There are two reasons why subsidies have higher costs. First, subsidies are comparatively weak levers to cut emissions as they do not directly incentivize lower emissions; rather, they lead to lower emissions indirectly through the utilization of upgraded capital stocks or the increased investment in research. Second, subsidies may misallocate resources in the economy, and larger subsidies induce stronger misallocation.



Annex X. Reducing Gender Gaps with Taxation—Lessons from Recent Reforms

The 2022 Minimum Living Allowance reform not only made the tax system more progressive, but it also improved labor supply incentives for women. While the full impact will take time to materialize, empirical analysis suggests that the reform already started to increase female labor force participation (LFP) and incentives for women to work in the formal sector.

1. **Türkiye’s low female LFP and high share of women in informal employment stand out internationally.** At around 37 percent, Türkiye’s female LFP rate is low in absolute terms and relative to male participation (72 percent), despite recent improvements and a full recovery from the pandemic. LFP gender gap is among the largest in the G20, and it is much bigger than in most emerging markets (EMs). Also, informality rates are more prevalent among women than men, unlike in many large EMs.
2. **Some features of Türkiye’s tax system exacerbated labor supply disincentives for women.** While gender biases in the labor market are driven by several factors, fiscal policy can also play a role in providing the right incentives.¹ Taxation of labor income is directly linked to labor supply decisions. Since women tend to be both over-represented in lower-paying jobs (especially after motherhood), a lower personal income tax (PIT) rate and a higher share of childcare costs covered by net earnings would increase their incentives to re-enter employment after childbirth.² Until recently, Türkiye’s Minimum Living Allowance (MLA) system, while designed to support lower income families with PIT credits, also exacerbated labor supply disincentives for married secondary earners, who are typically women.³
3. **The 2022 replacement of the MLA improved labor supply incentives for women through:**

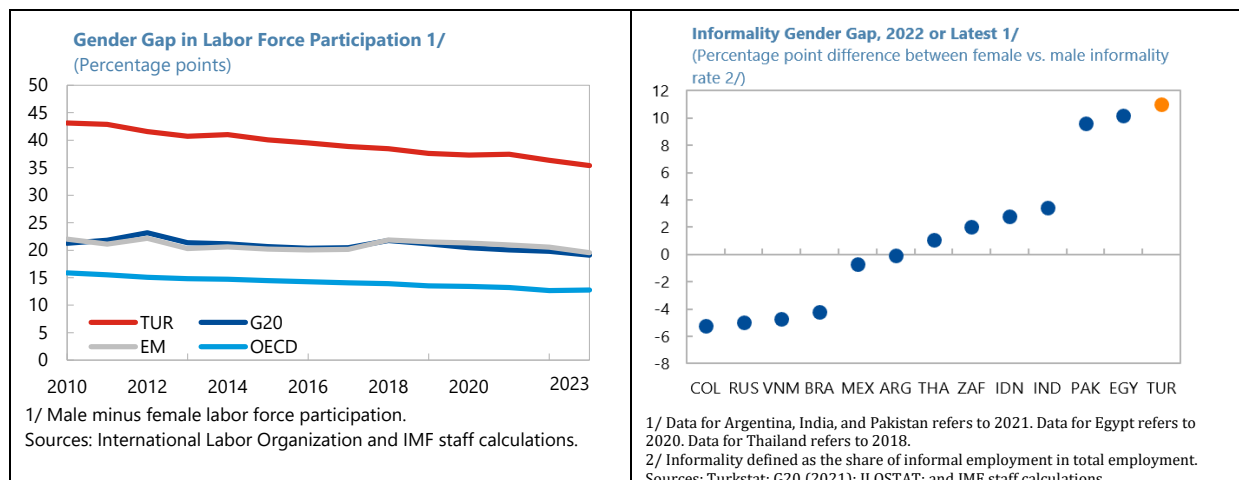
An increase of the basic non-taxable allowance for all workers. Individuals earning less than the minimum wage are now effectively exempt from PIT, regardless of their family structure. As a result, the PIT credit available to households with a secondary earner increased significantly, and the tax credit available to married and unmarried working women was equalized.

¹ Domit, S. and Kesimal, D. (2024). Labor Market Gender Gaps in Türkiye: A Bird’s Eye View. IMF Working Papers, 2024/171.

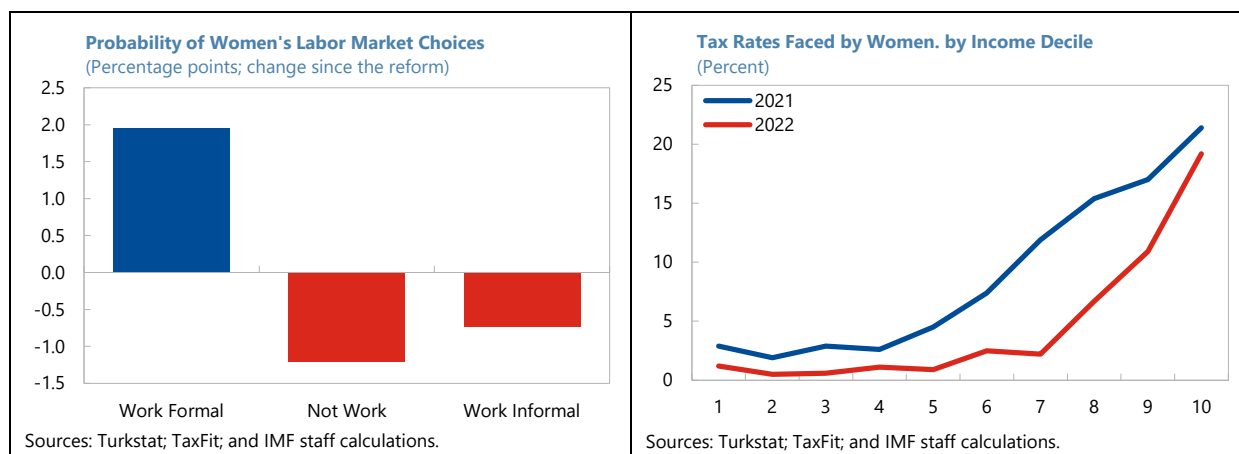
² Coelho, M. et al (2022). Gendered Taxes: The Interaction of Tax Policy with Gender Equality. IMF Working Papers, 2022/26.

³ Before 2022, a primary earner with a non-working spouse would benefit from a tax credit of 60 percent of the minimum wage PIT, which would fall to 50 percent if their spouse started working. The secondary earner, typically, women, would then benefit from a tax credit of 50 percent of the minimum wage PIT. The household would receive additional allowances, up to 85 percent, in the presence of children.

The removal of the dependent spouse minimum living allowance. This should encourage labor supply by married women, as working would no longer entail forgone tax benefits to the household.



4. Empirical analysis suggests a positive impact of this change. While it is early to gauge the full effects of the reform, econometric analysis comparing labor force micro data for 2022 and 2021 indicates that the reforms are associated with a narrower gender gap in labor force participation rates, driven primarily by the increase in the basic non-taxable allowance. The results also suggest that the reforms increased the probability that women choose to work formally, while lowering the probability that they choose to stay at home or work informally.⁴



⁴ Gaafar, Y., MacDonald D., and Osorio-Buitron, C (2024). The unintended gender effects of the MLA reform. IMF Working Papers, Forthcoming.



REPUBLIC OF TÜRKİYE

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

September 12, 2024

Prepared By

European Department

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FUND RELATIONS

(Data as of July 31, 2024)

There is no outstanding Fund credit.

Membership Status: Türkiye became a member of the Fund on March 11, 1947.

General Resources Account

	SDR Million	Percent Quota
Quota	4,658.60	100.00
Fund holdings of currency	4,545.83	97.58
Reserve position in Fund	112.89	2.42

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	5,536.39	100.00
Holdings	5,511.06	99.54

Outstanding Purchases and Loans: None.

Latest Financial Arrangements

	Approval Date	Expiration Date	Amount Approved	Amount Drawn
In millions of SDRs				
Stand-By	05/11/05	05/10/08	6,662.04	6,662.04
Stand-By	02/04/02	02/03/05	12,821.20	11,914.00
Stand-By	12/22/99	02/04/02	15,038.40	11,738.96
<i>Of Which:</i> SRF	12/21/00	12/20/01	5,784.00	5,784.00

Projected Payments to the Fund¹

(In millions of SDRs; based on existing use of resources and present holdings of SDRs).

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	--	--	--	--	--
Charges/Interest	<u>0.51</u>	<u>1.04</u>	<u>1.04</u>	<u>1.04</u>	<u>1.04</u>
Total	<u>0.51</u>	<u>1.04</u>	<u>1.04</u>	<u>1.04</u>	<u>1.04</u>

Safeguard Assessments: An assessment of the central bank's safeguards framework was conducted under the last SBA and completed on June 29, 2005. While it uncovered no material weaknesses in the central bank's safeguard framework, a few recommendations were made to address some

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

remaining vulnerabilities in the areas of internal audit and controls. Those recommendations have been implemented.

Exchange Rate Arrangements: The currency of Türkiye is the Turkish lira. The *de jure* exchange rate arrangement is free floating; while the *de facto* exchange rate arrangement is classified as crawl-like. Türkiye has accepted the obligations of Article VIII, Sections 2 (a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for those maintained solely for the preservation of national or international security, which have been notified to the Fund in accordance with Executive Board Decision No. 144–(52/51).

Article IV Consultations: Board discussion of the last Article IV staff report took place on January 18, 2023. The Article IV staff report (IMF Country Report No. 23/303) was published on January 18, 2023.

FSAP: Financial stability assessments under the Financial Sector Assessment Program (FSAP), every five years, are a mandatory part of Article IV surveillance. Three FSAP missions to Türkiye took place in 2022, and the Aide Memoire was presented to the authorities. The FSAP findings were summarized in the accompanying Financial System Stability Assessment (FSSA), which was discussed at the Board together with the Article IV staff report, on January 18, 2023.

Resident Representative:

The IMF currently has a resident representative office in Ankara. Mr. Gabriel Di Bella has been the senior resident representative since January 2023.

ROSCs

Standard or Code Assessed	Date of Issuance	Document Number
Fiscal Transparency	June 27, 2000	N/A
Corporate Governance	December 11, 2000	Prepared by the World Bank
Data ROSC ^{1/}	March 14, 2002	Country Report No. 02/55
Fiscal ROSC	November 25, 2003	Country Report No. 03/363
Fiscal ROSC	March 24, 2006	Country Report No. 06/126
FSSA and related ROSC	November 9, 2007	Country Report No. 07/361
Data ROSC	September 3, 2009	Country Report No. 09/286
FSSA and related ROSC	September 7, 2012	Country Report No. 12/261
BCP ^{2/}	March 7, 2014	N/A
IAIS ^{3/}	March 7, 2014	N/A
FSSA and related ROSC	February 3, 2017	Country Report No. 17/35
BCP	February 8, 2017	Country Report No. 17/46
CPMI IOSCO	February 8, 2017	Country Report No. 17/45
IAIS	February 8, 2017	Country Report No. 17/47
^{1/} Report on Observance of Standards and Codes (ROSC). ^{2/} Basel Core Principles for Effective Banking Supervision (BCP). ^{3/} International Association of Insurance Supervisors (IAIS).		

Recent Technical Assistance

Dept.	Timing	Purpose
MCM	February 2012	Stress testing framework for the financial sector supervisor
FAD	September 2012	G-20 budget institutions
MCM	October 2012	Early warning system and stress testing
FAD	November 2012	Measurement of structural fiscal balances
STA	January 2013	National account statistics
MCM	December 2013	Stress testing
STA	December 2013	Monetary and financial statistics
STA	March 2014	Government finance statistics
STA	March 2014	National accounts statistics
FAD	April 2014	Performance-based budgeting
FAD	May 2014	Tax revenue modeling
STA	May 2014	Financial sector accounts
STA	July 2014	Government finance statistics—public sector debt statistics
STA	April 2015	National accounts statistics
FAD	June 2015	Fiscal transparency evaluation
STA	January 2016	Compilation system for independent annual estimates of GDP
STA	April 2016	Government finance statistics—GFSM2014 and ESA10
FAD	December 2017	Public-Private Partnerships (PPP)
FAD	January 2018	VAT Policy Issues
MCM	September 2018	Stress testing (follow up)
STA	November 2019	Commercial Property Price Index
STA	November 2019	Consumer Price Index
FAD	June 2024	Tax Compliance and tax administration

RELATIONS WITH THE WORLD BANK GROUP

International Bank for Reconstruction and Development (IBRD)

- 1. The partnership between Türkiye and the World Bank Group (WBG) is outlined in the Country Partnership Framework (CPF).** The current CPF covers the FY24–28 period and it is fully aligned with the WBG mission of ending extreme poverty and promoting shared prosperity on a livable planet and with the Government of Türkiye’s 12th National Development Plan (NDP) 2024–28. It aims to accelerate progress toward the SDGs and support recovery and reconstruction from recent shocks. The CPF outlines how the WBG will further scale up impact in one of its largest country portfolios to meet priority country and global challenges. As of July 2024, Türkiye is in the top two IBRD countries by active portfolio size, the third largest country exposure for the International Finance Corporation (IFC), and the third largest country portfolio for the Multilateral Investment Guarantee Agency (MIGA). IBRD, IFC and MIGA plan to further scale up impact in Türkiye, working as One WBG through purposeful collaboration, coordination, and deployment of collective knowledge and instruments.
- 2. There are 34 active IBRD operations for US\$13.6 billion.** The portfolio includes one Global Environment Facility (GEF)-financed project and six trust-funded projects, including almost \$600 million in European Union trust funds through the Facility for Refugees in Türkiye. Portfolio indicators are strong with a moderate level of risk, disbursements on par with peers, satisfactory closing of operations, no effectiveness lag, and no disconnect with Independent Evaluation Group (IEG) reviews. The CPF proposed IBRD financing for the FY24–28 period is set at \$6 billion, although the amount is likely to increase as over \$2 billion of this envelope has already been delivered to date.
- 3. The WB Program for FY24 supported the Government’s goals on:** (i) support for the recovery and reconstruction of the February 6, 2023 earthquakes affected areas; (ii) the country’s energy transition; and (iii) enhancing resilience (earthquakes, climate change and pandemics). The climate response related lending pipeline in FY24 has been particularly rich and focused on both adaptation and mitigation projects that are directly linked to the implementation of Türkiye’s Nationally Determined Contribution (NDCs), achieving 96% climate co-benefits in all FY24 operations approved by the Board.
- 4. The WB Program continues to support the Government’s strategy to boost human capital, expand opportunities for vulnerable population, and prepare and respond to pandemics.** The WBG portfolio has expanded significantly to support to firm-led job creation in vulnerable regions impacted by a high influx of refugees; mitigating learning loss through hybrid and online education to address COVID and future shocks; and boosting the Government’s health system response to COVID. The Bank is in discussions with authorities regarding boosting investments on skills and jobs, particularly for vulnerable youth and women.
- 5. As part of the EU’s response to the Syrian refugee crisis, the WBG was entrusted with managing a total of US\$650 million of the EU-funded Facility for Refugees in Türkiye (FRiT).** In the first tranche agreed in 2016, three projects for a combined total of US\$205 million were targeted

towards education, employment and entrepreneurship. The second tranche (US\$395 million) of the FRiT supported socio-economic and municipal services projects. In addition, the Trust Fund portfolio includes projects funded by GEF funds.

6. The advice and analytics (ASA) portfolio is strategically consolidated and is an essential part of the WB program. This will contribute upstream to informing the Government's thinking on national plans and policies in areas such as unemployment, clean energy transition and green growth, social inclusion, refugees, skills and entrepreneurship, and seismic, disaster and climate resilience. Ongoing core ASAs inform on the causes of high and increasing unemployment rate despite high growth and recent upward trends in poverty and inequality. In addition, extended core ASAs provide an overarching framework for greening the recovery of Türkiye's economy from the pandemic and earthquakes, and an assessment of labor policies that shape human capital utilization. around core and extended core ASAs.

International Finance Corporation

7. IFC portfolio implementation continued to perform satisfactorily. IFC's own-account investment program reached US\$4,495 million between FY20 and FY24 in line with the expected CPF deliverables. In addition, IFC mobilized a cumulative US\$3,268 million during the same period, bringing IFC's long term finance commitments to US\$7,764 between FY20 and FY24 (total Long-Term Finance (LTF) commitments, FY20: US\$973m, FY21: US\$1,062m, FY22: US\$1,079m, FY23: US\$1,963m, FY24: US\$2,687). IFC also committed a cumulative US\$3.9 billion (FY20-FY24) to Turkish banks under its Global Trade Finance Program (GTFFP), broadening access to finance for private companies. IFC continues to maintain a high level of exposure to Türkiye at around US\$5.1 billion at end FY24, representing its 3rd largest country exposure globally.

Multilateral Investment Guarantee Agency

8. Türkiye is Multilateral Investment Guarantee Agency's (MIGA) third largest country by gross exposure, representing about 6 percent of MIGA's gross portfolio. As of end-FY24, MIGA's gross exposure in Türkiye totaled about US\$1,815 million across 15 projects in the infrastructure, financial, and services sectors. Approximately 40 percent of the portfolio stems from MIGA non-honoring guarantees to state-owned enterprises and sub-sovereigns, with the remainder being political risk insurance guarantees, in support of PPPs in the healthcare sector and electricity distribution. MIGA's exposure in Türkiye remains significant, and going forward MIGA will seek to deploy its political risk insurance and trade finance guarantees to de-risk investment projects in the earthquake-affected areas aiming to re-build better and promote sustainable economic activity.

Statement by Mr. Yigit Korkmaz Yasar, Alternate Executive Director for the Republic of Türkiye, Mr. Yahya Akben, Advisor to the Executive Director and Mr. Mehmet Esat Mert, Advisor to the Executive Director
September 27, 2024

On behalf of our Turkish authorities, we would like to thank Mr. Walsh and his team for the comprehensive and informative report and for the candid and fruitful engagement during the 2024 Article IV consultation.

Macroeconomic Context and Recent Developments

Türkiye’s economic performance after the pandemic was characterized by strong growth and employment recovery. GDP grew by an average of 8.5 percent in 2021 and 2022. Unemployment fell from 13.1 percent at end 2020 to 10.4 percent at end 2022. However, external uncertainties from geopolitical conflicts and pro-growth domestic policies increased vulnerabilities by reducing reserve buffers and increasing dollarization. Inflation reached last two decades highs. The devastating earthquakes in early 2023 have added to Türkiye’s economic strains, particularly on the budget, with significant resources allocated to relief efforts. Against this backdrop, presidential and parliamentary elections were held in May 2023.

After the elections, the new government, in close coordination with the Central Bank of the Republic of Türkiye (CBRT), started to implement a comprehensive policy program, mainly aimed at achieving price stability. The program consists of three main pillars: (i) monetary policy normalization and simplification of macroprudential measures, (ii) restoring fiscal health to support the CBRT’s efforts since inflation expectations have been de-anchored and to build buffers, and (iii) structural transformation to support more inclusive and sustainable long-term growth. The policy program has full political support, as achieving price stability and returning inflation back to low single digits are among the government’s top economic priorities.

The CBRT significantly tightened the monetary policy stance and unwound a number of pre-2023 regulations to achieve simplification. All securities maintenance regulations were abolished to improve the functioning of the market mechanism and macro-financial stability. FX surrender requirements for goods exports were eased. In addition, the CBRT took measures to support Turkish lira deposits and introduced new macroprudential measures to strengthen the monetary transmission mechanism. Over the same period, the CBRT has maintained effective communication with the markets that the tight monetary stance will be maintained until a significant and sustained decline in the underlying monthly inflation is observed, and inflation expectations converge to the projected forecast range.

On the fiscal front, the authorities introduced revenue enhancing measures to offset the stimulative effect of earthquake related spending. The increase in the corporate income tax (CIT) and value-added tax, the introduction of a minimum CIT for multinational corporations (will be put into effect in 2025), and the imposition of special consumption taxes on petroleum products are some of these measures. In addition, other measures, such as a freeze on public sector hiring and a freeze

on new building/vehicle construction/purchases have been taken to ensure efficiency and control in public spending.

The authorities' policy program is bearing fruits, and the rebalancing of the economy is becoming more pronounced. After reaching 75 percent in May 2024, inflation came down to 52 percent in August. The growth rate has started to slow down in the first quarter of 2024. Significant improvement has been observed in de-dollarization. The share of FX deposits, including the FX protected deposit schemes, in total deposits declined to 46.5 percent as of September 13, 2024 from a peak of 68.4 percent in August 2023. The 12-month rolling current account deficit (CAD), reaching USD 57 billion in May 2023, decreased to USD 19.1 billion as of July 2024. These developments are aligned with the broader strategy aiming for a more balanced external position and allowing the CBRT to increase its reserve buffers. Total official reserves and net international reserves, except all swaps, increased to USD 153.5 billion and USD 26.5 billion (highest level in almost 5 years) respectively as of September 13, 2024. The central government's overall deficit was 5.2 percent of GDP at the end of 2023, lower than the Medium-Term Program (2024-26) projection of 6.4 percent of GDP, despite the significant earthquake-related expenditures. In addition, with the coordinated efforts of various ministries and institutions, Türkiye was removed from the Financial Action Task Force's (FATF) grey list in June 2024. Against this backdrop, market sentiment has improved remarkably, CDS spreads have halved from their mid-2023 levels, and all major ratings agencies have upgraded Türkiye's sovereign risk ratings.

Outlook: Medium-Term Program for 2025-2027

Based on a prudent, realistic, and consistent macroeconomic framework, the Medium-Term Program (MTP) unveiled in early September aims to further strengthen macroeconomic and financial stability, maintain fiscal discipline, and achieve price stability by reducing inflation to single digits in the medium term. Policies and structural reforms will be implemented in close coordination with relevant ministries and institutions, supporting the CBRT's efforts to contain inflation. The objectives of the MTP also include improving R&D and innovation capacity, ensuring technological transformation with a focus on the transition to a green and digital economy, strengthening human capital, further activating the labor market, improving the business and investment environment, and reducing informality in the economy.

The authorities expect economic growth to be more robust than forecasted by staff as well as more positive developments in the overall fiscal balance, external deficit, and the inflation rate over the medium term. The authorities project growth to decline to 3.5 percent in 2024, in accordance with the implemented policies prioritizing disinflation, before rising to 4 percent and 4.5 percent in 2025 and 2026, respectively, on the back of estimated gains in total factor productivity through structural reforms, increased private sector competitiveness, improved investor confidence, and measures to strengthen the ease of doing business. In line with the expected growth developments, labor market reforms such as skill development and promotion of flexibility will support the employment outlook.

On the fiscal front, the authorities project the central government’s overall deficit to improve to 4.9 percent of GDP in 2024, slightly lower than staff’s projection, mainly due to the higher cost-saving impact of the expenditure control in May and the reduction of energy subsidies in July and August. The authorities will continue to pursue a prudent fiscal policy over the MTP period. The effects of revenue-enhancing measures will be fully felt in 2025, and declining earthquake-related expenditures will turn the fiscal impulse negative. As a result, the fiscal deficit is projected to improve to 3.1 percent and 2.8 percent in 2025 and 2026, respectively.

As underlined by staff, the monetary policy stance has been contractionary since March 2024, and measures are in place to contain credit growth. The slowdown in domestic demand amid tight financial conditions contributes to mitigating inflation. The MTP year-end inflation projections are 41.5 percent in 2024, 17.5 percent in 2025, and 9.7 percent in 2026. Incomes policies have played an important role in reducing inflation in 2024, as the government has returned to annual wage adjustments for the minimum wage and refrained from excessive pension increases for retirees. The authorities are committed to maintaining this practice. On the other hand, while the authorities fully recognize the inflationary impact of the backward-looking indexation of wage adjustments, the social support will not be sufficient to shift to a forward-looking incomes policy, as backward-looking indexation has been the longstanding practice and helps ensure that workers maintain their purchasing power, especially during periods of high and volatile inflation, while reducing the risk of social unrest. Gradually reducing inflation expectations and aligning wages could be a more sustainable strategy in the long term.

On the external sector, prudent macroeconomic policies and measures, favorable energy prices, normalization in gold trade and robust tourism receipts contribute to a better-than-expected current account performance. The authorities project a significantly better CAD to GDP ratio than staff of around 1.7 percent at end-2024. Given the uncertain external environment and increased fragmentation, the authorities are committed to maintaining the current account deficit at sustainable levels to avoid vulnerabilities and to keep the external financing needs at reasonable levels. Capital inflows continued to increase, with the highest monthly inflow of USD 15.8 billion in July 2024, allowing the CBRT to build up international reserves to more comfortable levels. These inflows also helped to stabilize the exchange rate, which has historically fueled inflation. The CBRT has been successful in sterilizing these inflows. The capital inflows are expected to continue through 2024, further strengthening Türkiye’s reserves and stabilizing its financial position. Against this background, and contrary to staff’s assessment of a weaker external position in 2023 than the level implied by medium-term fundamentals and desirable policies, Türkiye’s external position improved significantly in 2024.

Monetary and Exchange Rate Policy

The CBRT is committed to maintaining the tight monetary stance until a significant and sustained decline in the underlying trend of monthly inflation is observed and inflation expectations converge to the projected forecast ranges. Domestic demand’s contribution has been declining and the rebalancing of demand is expected to strengthen further. The composition of growth has become more balanced in the second quarter. In this period, the contribution of final domestic demand to growth declined significantly on an annual basis, while net exports continued to make a

positive contribution to growth. Leading indicators from both production and expenditure side for the third quarter suggest that the deceleration of growth is continuing. According to the CBRT, the output gap is expected to become negative in the third quarter and will remain in negative territory for the rest of the year. To manage inflation expectations, the CBRT has strengthened its communication on its restrictive monetary policy stance and will continue to take the necessary steps by carefully assessing the totality of the data, their implications for the outlook, and the balance of risks. Moreover, the CBRT demonstrates a strong commitment to price stability which anchors inflation expectations and restores confidence in the economy.

The CBRT does not have a nominal or real exchange rate target and does not engineer a certain degree of real exchange rate appreciation. The increased attractiveness of Turkish lira financial assets as a result of tight monetary policy leads to a real appreciation of the lira, which supports disinflation. Achieving price stability will address macroeconomic imbalances and facilitate sustainable, long-term reserve accumulation. In the face of the increasing capital inflows, the CBRT has significantly increased its reserve buffers. In line with this, the CBRT has eliminated swaps with domestic banks and is now reviewing deposit arrangements with international counterparties to reduce foreign exchange liabilities. The CBRT closely monitors and assesses liquidity conditions and effectively sterilizes temporary excess liquidity through reserve requirements, Turkish lira deposit purchase auctions, and overnight transactions in the Borsa Istanbul repo and the interbank money markets.

Macroprudential measures are being implemented to enhance the effectiveness of monetary transmission. Monthly growth limits for certain Turkish lira and FX loans have been introduced to tighten financial conditions. As a result of the limits and weaker loan demand, consumer and commercial loan growth has moderated since the second quarter. The gradual approach allows the CBRT to assess the economy's reaction at each stage and adjust its strategy accordingly. Recent developments in loan growth confirm that financial conditions are tight enough to support the disinflation process. The targets for the renewal and conversion of FX-protected accounts have been changed and the minimum interest rate has been lowered, accelerating the decline in FX-protected account balances. The CBRT expects the share of Turkish lira deposits to increase further as a result of these measures.

Fiscal Policy

Fiscal discipline will remain the linchpin of the macroeconomic policy. Prudent fiscal policies have improved fiscal buffers over the years, and public debt levels are among the lowest among the G20, with the debt-to-GDP ratio remaining below 30 percent. While the average cost of domestic fixed-rate borrowing has increased, the authorities have shortened the maturity of new issues to limit their impact on the debt stock. In addition, the improvement in credit spreads on external borrowing contributed positively to the debt stock. Overall, the authorities are less concerned than staff about the exchange rate risk of the debt stock, as the central government debt stock denominated in foreign currency was 16.3 percent of GDP in 2023 and 13.4 percent of GDP as of the second quarter of 2024. On the other hand, the central government deficit has widened, mainly due to the earthquake relief spending in 2023, despite the introduction of several revenue-enhancing measures to limit their stimulative effect. While the central government deficit is expected to improve in 2024 compared to the previous year, it

is still high by historical standards. However, the authorities see this as temporary and expect a gradual reduction of the budget deficit in their policy program period (2025-2027) from 3.1 percent to 2.5 percent.

The support of fiscal policy to monetary policy in disinflation will be more visible in 2025. The authorities are mindful of a gradual fiscal consolidation that would leave longer periods to achieve targets, which could raise concerns among investors and rating agencies. However, they observe opposite and positive developments from investors and credit rating agencies. All three major agencies—Fitch, S&P, and Moody's—upgraded Türkiye's ratings, making it the only country to receive upgrades from all three in 2024. These developments indicate that the authorities are on the right track. Efforts to increase the efficiency and fairness of the tax system, broaden the tax base, and reduce tax evasion and informality will continue with greater determination and effectiveness. Tax expenditures will be analyzed, and ineffective exceptions, exemptions, and discount will be eliminated. The authorities will continue to take measures to control current expenditures and rationalize capital expenditures, and to phase out energy subsidies. In addition to earthquake-related expenditures, disaster risk management measures and better targeted social spending programs aimed at improving social welfare, reducing inequality, and supporting vulnerable groups will be important priority areas. In addition, revenue and expenditure policies will be put in place to ensure the allocation of the necessary resources to support the green and digital transformation.

Fiscal structural reforms will accompany the fiscal consolidation process. The authorities plan to update public procurement legislation in line with international norms and standards with a procurement approach that supports and prioritizes digitalization, innovation, and sustainability. To strengthen the long-term financial sustainability of the social security system, the authorities will take measures to increase the premium base and collection.

The authorities closely monitor and assess the risks related to quasi-fiscal activities and contingent liabilities. Regarding public-private partnerships (PPPs), Türkiye has a healthy portfolio spanning in various sectors, including health and transport. The authorities consider the risks to be manageable. Looking at the cumulative investment figures or adding up the debt assumption commitments and guarantees overstates the risks. The authorities aim to balance the benefits of PPP investments with the need to protect its fiscal position. However, the authorities concur with staff on the need to strengthen the oversight and management of PPPs and improve regular reporting and are working on a new PPP law to strengthen the overall PPP framework. Regarding state-owned enterprises (SOEs), the authorities plan to further strengthen the accountability and transparency of the SOEs to mitigate fiscal risks.

Financial Stability

The financial system remains sound, well capitalized and liquid. The ratio of non-performing loans (NPL) is at historically low levels. While lending rates are rising, limited credit growth and high provisioning further mitigate the risk of NPL deterioration. In addition, the CBRT is closely monitoring the liquidity in the financial system. Contrary to staff's view, the authorities see the risks from the recent increase in the FX share of lending as well contained, as this increase is mostly due to large corporations

or companies with FX income streams. Furthermore, households cannot borrow in FX. The monthly limits have been introduced to overcome excessive FX loan growth risk of firms.

Significant progress has been made in improving the efficiency of the financial system and achieving simplification, as outlined by staff. The authorities have taken several steps to strengthen the regulatory and supervisory framework, including the new supervisory review and evaluation process. The Bill on Amendments to the Capital Markets Law, which integrates crypto assets into the supervisory framework and fills data gaps, has been enacted. Work on sub-regulations is ongoing. The authorities have successfully implemented the action plan agreed upon with the FATF, addressed identified AML/CFT weaknesses, and exited the FATF Grey List in June 2024. The authorities are committed to making further progress in financial liberalization over the MTP period. The macroprudential policy framework, including credit growth caps, FX-protected deposit schemes, export surrender mechanism, and restrictions on offshore derivative transactions, is seen as complementary to the monetary policy and has worked well. However, as disinflation continues, the need for these measures will diminish, and they will eventually be phased out in line with the CBRT's objective of simplifying and strengthening the transmission mechanism. In addition, the authorities will intensify their efforts to bring the supervisory and regulatory framework in line with the Basel III framework. In this context, the regulations on the Large Exposures (LEX) and (Net Stable Funding Ratio) NSFR Standards were entered into force at the end of 2023.

To improve competition, efficiency, and financial inclusion in the financial sector, several ongoing initiatives are being prioritized. Efforts to deepen capital markets are underway to help real sector companies diversify their funding sources. This includes facilitating access to sustainable financing instruments. The legal framework for participation insurance (Islamic insurance or takaful) will be developed to expand access to Sharia-compliant financial products. Additionally, participation banking (Islamic banking) and pension plans will be broadened. This will offer more inclusive financial services to segments of the population seeking products aligned with Islamic principles. To improve the digital finance and fintech ecosystem, regulatory frameworks will be revised. This will enhance the environment for fintech innovations, encouraging competition and driving the development of more efficient financial products and services, especially in digital payment solutions. The CBRT is progressing to the second phase of its Digital Currency Pilot Project. This phase focuses on integrating the digital lira into payment infrastructures and ensuring its interoperability with other financial systems. As financial technology grows, cybersecurity measures are being enhanced to protect payment systems and electronic money institutions.

Structural Reforms

The authorities are committed to strengthening the reform process to promote inclusive and sustainable growth. To strengthen competitiveness, they aim to increase R&D investment to raise total factor productivity and promote innovation across sectors. Ongoing governance reforms, such as measures to improve anti-corruption and transparency frameworks, simplify procedures to open businesses, and streamline judicial processes, will help improve the business environment and attract more foreign direct investment.

These efforts will be complemented by labor market reforms with measures to increase the flexibility of the labor market in the context of sectoral transformations, changing demands on the workforce, and working styles, and new generation work models. The economic and physical accessibility of institutional and childcare facilities will be improved, as the Workforce Adjustment Program will be implemented to provide young people who are neither in education nor in employment with the knowledge, skills, work habits and discipline to enable their transition to the labor market. The authorities will also continue to focus on improving access to quality education and addressing skills mismatches to increase the resilience of the labor market. By focusing on these areas, the MTP aims to strengthen the inclusion and economic participation of women and youth, reduce informality, and ensure that diverse perspectives and talents contribute to the country's growth. Together, these initiatives create a more dynamic and resilient economy that is better equipped to face global challenges.

Türkiye is implementing a comprehensive climate change mitigation and adaptation agenda to achieve net-zero emissions by 2053. The National Energy Plan, which provides a clear and holistic framework, aims to significantly expand renewable energy sources, achieve energy sustainability, and enhance energy security by building resilience to volatile energy prices, and reducing energy costs. In this context, at COP28, the authorities announced an ambitious plan to add 60 GW of expand solar and wind power capacity by 2035, doubling its current capacity. This will also support the broader green transformation needed for sustainable economic growth. In addition, the authorities plan to complete legislative work to establish a national green taxonomy in line with the European Union's taxonomy. In this vein, a carbon pricing mechanism will be established to maintain competitiveness, to minimize the impact of the carbon border adjustment mechanism, and thereby to support the transition to a low-carbon economy. Moreover, the authorities launched the Water Efficiency Campaign in January 2023 to raise public awareness on water security and sustainable resource management.