Press Release on Reserve Requirements

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A revision is made to the reserve requirement regulation that links the reserve requirement ratios and remuneration rates to loan growth rates.

The main policy tool of the CBRT is short-term interest rates. Reserve requirements are used flexibly and effectively as a counter-cyclical macroprudential tool to support this main monetary policy tool. In this regard, as previously announced on 19 August 2019, the reserve requirement ratios for Turkish lira liabilities and the remuneration rates for Turkish lira-denominated required reserves have been linked to the annual growth rates of Turkish lira-denominated cash loans.

On the back of the robust capital and liquidity structure of the banking system, the fall in interest rates driven by the improvement in inflation and expectations, and the recovery trend in economic activity, it is expected that

- the favorable outlook in loan supply and demand conditions which started in the second half of 2019 will continue in 2020,
- the loan growth will be consistent with the inflation target and growth projections for 2020 and will be mainly driven by Turkish lira loans.

The cautious monetary policy backed by fiscal policy has significantly improved the inflation trend, while the current reserve requirement practice has supported loan growth and financial stability. At this stage of rebalancing in the economy, it is assessed that it will be useful to have a reserve requirement practice that will underpin financial stability by encouraging the channeling of loan supply to production-oriented sectors rather than consumption-oriented ones and that will reduce the need to update the band width.

In this framework, considering also the low base effect on loans in 2019, a revision is made in the reserve requirements. According to new regulation,

(i) The real change in Turkish lira cash loans will be taken into account in the calculation of loan growth.

(ii) The real annual growth rate of loans will be calculated based on the last three-month average of the real cash loan stock values, and the calculations will exclude the loans extended to financial institutions.

(iii) The real cash loan value will be calculated via dividing the nominal loan amount by the CPI in the relevant period.

(iv) Banks will be able to benefit from reserve requirement incentives under the following conditions:

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a. For banks with a real annual loan growth rate above 15%: If their adjusted real loan growth rate, which is calculated by deducting the entire real changes in the commercial loans with a two-year and longer maturity and housing loans with a five-year and longer maturity from the numerator of the growth rate formula, is below 15%,

b. For banks with a real annual loan growth rate below 15%: If their adjusted real loan growth rate, which is calculated by deducting 50% of the real change in retail loans excluding housing loans with a five-year and longer maturity from the numerator of the growth rate formula, is above 5%.

Thus, long-term commercial loans that have a strong relation with production and investment, and long-term housing loans that have a weak relation with imports will be encouraged.

(v) Loan growth rates will be calculated for every reserve requirement period, and banks with real annual loan growth rates complying with the defined conditions will be subject to related reserve requirement ratios and remuneration rates throughout the following three months (six reserve requirement maintenance periods).

(vi) The implementation will be valid from the calculation period dated 29 November 2019. The rights of banks, which have earned the right to lower reserve requirement ratios and higher remuneration rates under the previous method as of this calculation period, will be reserved.

Contact

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