

MONETARY POLICY AND LIRAIZATION STRATEGY FOR 2023

30 December 2022



Main Framework of Monetary Policy and Liraization Strategy for 2023

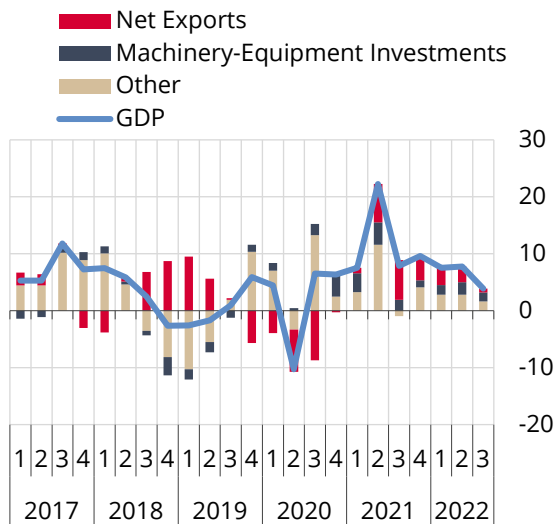
- 1.** The primary objective of the Central Bank of the Republic of Türkiye (CBRT) is to achieve and maintain price stability. In line with this objective, all available instruments will continue to be used. Financial stability will be safeguarded as a supporting factor for permanent price stability. The Liraization Strategy, the integrated policy framework of the CBRT, will be maintained and further strengthened.
- 2.** Under the inflation targeting regime, the medium-term inflation target of 5% set jointly with the Government has been maintained. The forecasts announced via Inflation Reports will serve as interim targets, and the monetary policy will be formulated to bring inflation to the medium-term target gradually.
- 3.** The CBRT's main policy instrument is the one-week repo auction rate. Ensuring that market rates remain consistent with policy rates, the CBRT will continue to implement policies that support the effectiveness of the monetary transmission mechanism.
- 4.** Policies to be implemented under the Liraization Strategy will continue to be used in a strengthened manner to permanently increase the weight of the Turkish lira (TL) in both assets and liabilities of the banking system. Accordingly, the liraization target in deposits is set at 60% for the first half of 2023. Conditions for banks' use of funding, collateral and credit channels will be calibrated in line with the liraization targets.
- 5.** In TL liquidity management, the share of funding via Open Market Operations (OMO) will be increased gradually, and OMO will be the main component of the funding channel.
- 6.** Activities that increase investments, employment, production, exports and current account surplus will be supported by targeted loan policies in a manner consistent with the inflation path envisaged for 2023.
- 7.** The floating exchange rate regime will continue, and exchange rates will be determined under free market conditions according to supply and demand.
- 8.** Strengthening foreign currency reserves is essential for effective monetary policy and financial stability. In this respect, the CBRT will continue to diversify its reserve sources and build up reserves.
- 9.** The first payment transactions on the Digital Turkish Lira Network were executed successfully. In 2023, the CBRT will expand the Digital Turkish Lira Collaboration Platform to involve selected banks and financial technology companies, and will unveil advanced phases of the pilot study with extensive participation.
- 10.** Committed to the principles of transparency, predictability and accountability, the CBRT will continue its policy communication and data dissemination.

1. Developments in 2022

1.1. Macroeconomic Outlook

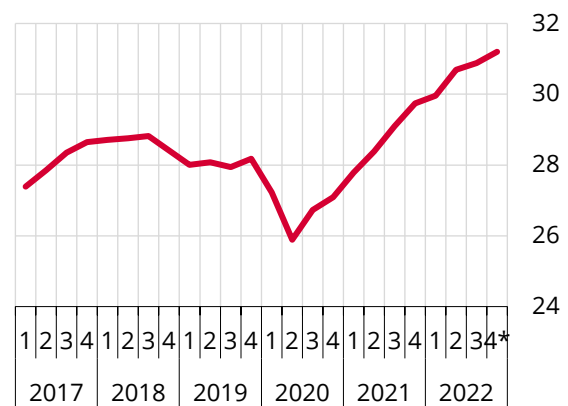
- Economic activity remained strong in first three quarters of 2022. In the second quarter of the year, despite the negative supply shocks further intensified by the Russia-Ukraine War and increasing uncertainties, economic activity maintained its strong course. Annual growth rates in the first and second quarters were 7.5% and 7.7%, respectively. On the other hand, the annual growth rate stood at 3.9% in the third quarter amid the weakening global demand. The contribution of sustainable components to growth rates was high throughout the year. In the first three quarters, the contribution of the rise in net exports and machinery-equipment investments accounted for 62% of the average annual growth rate. Net exports contributed to annual growth for the last seven consecutive quarters. Meanwhile, machinery-equipment investments increased by 14.3% on an annual basis, continuing its annual growth into the twelfth quarter (Chart 1).

Chart 1: Contributions to Annual Growth From Expenditures (% Points)



Source: CBRT, TURKSTAT.

Chart 2: Employment (Seasonally Adjusted, Million People)



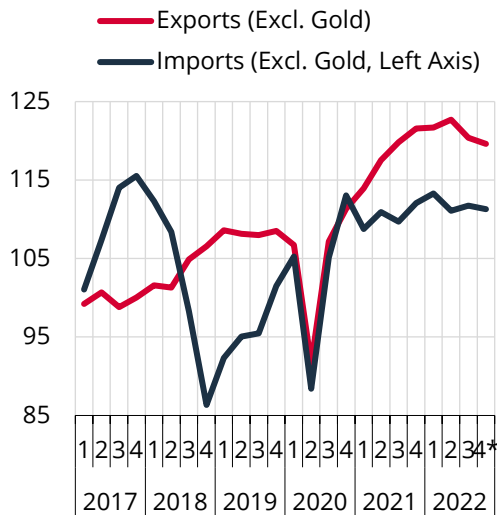
Source: TURKSTAT.

* As of October.

- In the first half of 2022, the positive outlook of the economic activity also positively affected the labor market. While employment in the industrial sector increased on the back of external demand in this period, the strong course of tourism contributed to the rise in employment in the services sector. Having increased quarterly by 0.7% in seasonally adjusted terms in the first quarter, total employment rose by 2.5% (by approximately 734,000 people) in the second quarter of the year compared to the previous quarter (Chart 2). Given the sectors that contributed to employment growth in this period, particularly the industrial sector with a 3.3% quarterly increase, it is seen that growth dynamics are supported by structural gains. In the third quarter, the quarterly increase in employment decelerated in line with the limited loss of momentum in economic activity. In this period, the seasonally adjusted employment edged up by 0.6% quarter-on-quarter.

3. The export volume index continued to increase in the first quarter of 2022 on the back of the ongoing recovery in global economy in the post-pandemic period, and rose also in the second quarter despite the effects of the Russia-Ukraine War (Chart 3). Meanwhile, the import volume index remained relatively flat in the first half of the year in spite of the buoyant course of economic activity. Notwithstanding the more balanced outlook on the volume side, the foreign trade deficit widened due to the deterioration in the terms of trade driven by commodity prices, energy in particular. Annual growth of exports to European countries, the main export market of Türkiye, remained high in the first half of the year but decelerated in the third quarter due to the weakening of external demand and the decline in the parity. Nevertheless, total exports maintained their high levels achieved in the post-pandemic period. On the other hand, imports continued to increase due to gold imports that gained pace in the second half of the year and high energy imports. In this period, services revenues remained on the rise backed by travel and transport revenues, and continued to support the current account balance. Against this background, despite the strong contribution of the services balance, the annualized current account deficit continued to increase driven by energy prices. On the other hand, when the cyclical effects on international prices are excluded, the current account surplus capacity of the economy increased throughout the year (Chart 4).

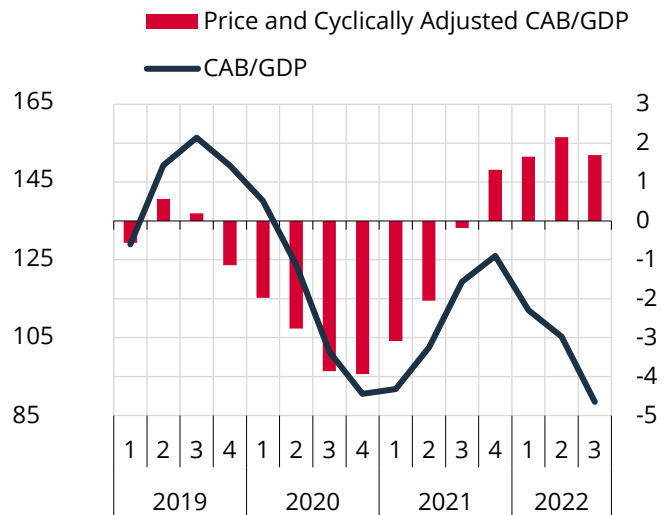
Chart 3: Foreign Trade Volume Indices
(Seasonally Adjusted, 2015=100)



Source: CBRT, TURKSTAT.

* As of October.

Chart 4: Current Account Balance*
(12-Month Cumulative)



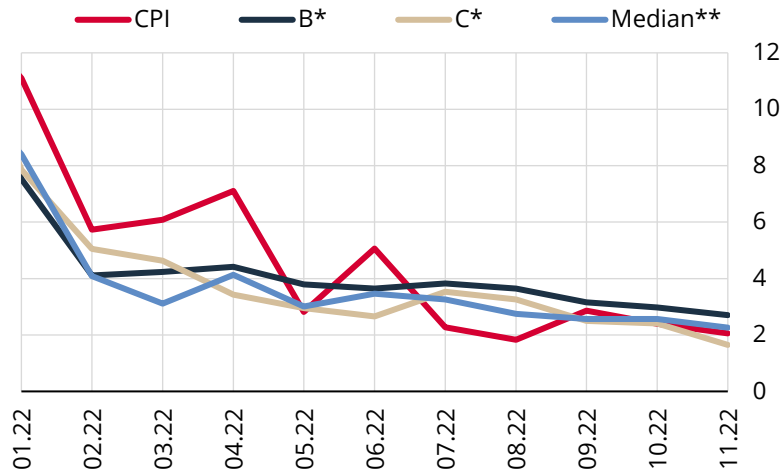
Source: CBRT, TURKSTAT.

* CAB: Current Account Balance, GDP: Gross Domestic Product.

4. In the first half of 2022, the ongoing supply constraints became more pronounced driven by geopolitical developments, and global commodity, particularly energy, and food prices posted sharp increases. The rise in annual inflation continued, albeit at decelerating pace, throughout the year due to negative supply shocks as well as the effects of price formations detached from economic fundamentals that were observed in FX markets in the final quarter of 2021. On the other hand, in 2022, the impact of aggregate demand conditions on annual inflation remained relatively limited.
5. In the second half of the year, the impact of negative global supply shocks waned to a large extent thanks also to the constructive policies that Türkiye pursued for the continuity of supply, particularly the one regarding the grain corridor. The effects of the strong actions taken as part of the Liraization Strategy became more evident, contributing to stability in TL and FX markets. Due to both the supportive outlook in external factors that constitute

the main driver of inflation and the effects of the policies implemented, monthly inflation rates further decelerated in the second half of the year (Chart 5). The slowdown in the rates of price increases was also reflected in core, underlying trend and diffusion indices, and expectations declined markedly.

Chart 5: Monthly Consumer Inflation (Seasonally Adjusted, %)



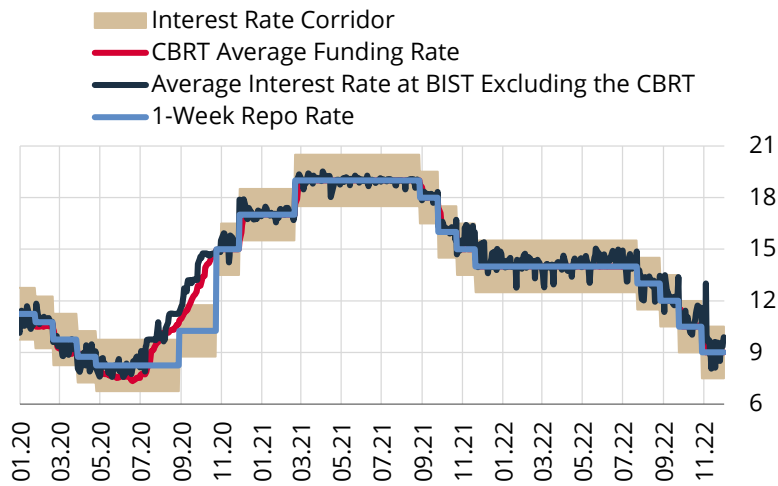
Source: CBRT, TURKSTAT.

* The B index is the CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold, and the C index is the CPI excluding energy, food, non-alcoholic beverages, alcoholic beverages, tobacco and gold.

** Median: Median value of monthly inflation distribution of seasonally adjusted 5-digit sub-indices.

1.2. Monetary Policy and Liraization Strategy Developments

6. To reshape price stability on a sustainable basis, the CBRT conducted a comprehensive review of the policy framework prioritizing the Turkish lira in all its policy tools, and introduced the Liraization Strategy, the CBRT's integrated policy framework.
7. The Liraization Strategy was designed in light of impact analyses on the steps to be taken. In this period, a strong policy mix was created including macroprudential, collateral, liquidity and reserve management steps that complemented monetary policy and strengthened the monetary transmission.
8. The CBRT kept the policy rate unchanged in the January-July period (Chart 6). On the other hand, risks of a global recession in 2022 gradually intensified in the second half of the year due to geopolitical developments and global financial conditions. To limit the effects of these risks on domestic supply, investments and current account surplus capacity and to ensure the continuation of gains in industrial production and employment, the CBRT initiated a rate-cut cycle in August with a proactive approach. The CBRT noted that domestic financial conditions should be supportive of production through the financing cost channel in particular. Accordingly, the policy rate was cut by a total of 500 basis points, bringing it down to 9% as of November.
9. Considering the increasing risks regarding global demand, the CBRT evaluated that the policy rate cuts were adequate and decided in November to end the rate-cut cycle that started in August. Accordingly, the policy rate was kept constant at 9% in December.

Chart 6: Short-Term Interest Rates (%)

Source: Borsa Istanbul (BIST), CBRT.

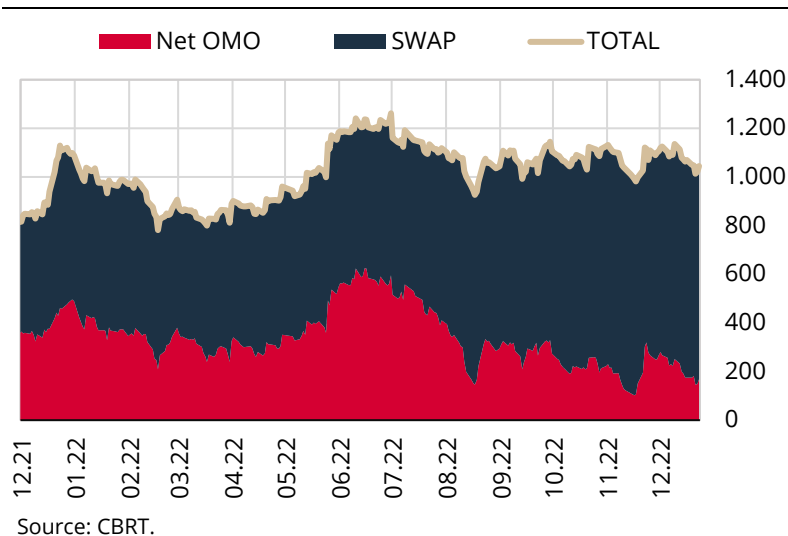
10. With the Liraization Strategy introduced in 2022, the CBRT has adopted a policy stance that aims to reshape price stability on a sustainable basis. In light of past experiences and global implementations, instead of an approach that increases financial vulnerabilities while temporarily suppressing inflation, a holistic framework has been adopted that also focuses on structural factors to achieve permanent price stability. In this context, via the Inflation Report published in January 2022, the CBRT publicly announced the Liraization Strategy which aims to ensure that the TL-denominated assets are the main store of value in the financial system, the share of the Turkish lira in balance sheets increases, TL-denominated assets are used predominantly as collateral in the CBRT funding, and the Turkish lira is the only medium of exchange in domestic commercial transactions.
11. Increasing the weight of the Turkish lira in the financial system via liraization steps, the diversified reserve management, and targeted loan and liquidity implementations constituted the main components of the CBRT's integrated policy framework.
12. With a view to increasing the weight of the Turkish lira in the financial system, reserve requirement ratios, remuneration and commission implementations regarding reserve requirements, and the securities maintenance were used actively.
13. Through the strategy to diversify reserve sources, a stable upward trend was achieved in international reserves via contributions from various channels such as conversion deposit accounts, Deposit and Participation Scheme for Non-Resident Turkish Citizens (YUVAM) accounts, cross-country currency swap agreements, selling a certain portion of export proceeds to the CBRT, FX sales to the CBRT under the Citizenship Law, FX sales to the CBRT arising from real estate sales to foreign real persons, and FX sales to the CBRT from Extended Housing Finance Package transactions. Strengthened international reserves prevented price formations that are detached from economic fundamentals, thereby supporting the stability of the Turkish lira and the deceleration in the inflation trend.
14. Under the targeted loan policy, regulations were made to ensure that loan growth is compatible with price stability and loans support the potential growth and the current account balance. While the steps taken brought about the targeted change in loan composition, a more balanced growth rate was achieved in TL loans. The share of consumer loans in TL loans decreased, and the share of investment and export loans in commercial loans increased. In addition, as a positive implication of the CBRT's targeted loan policy, the amount of loans used by Small and Medium-Sized Enterprises (SMEs) and their share in total loans grew.

15. In 2022, the CBRT continued to support the policy of placing TL assets as the first choice of collateral for TL liquidity operations. The Reserve Options Mechanism, which was inconsistent with this main objective and caused structural dollarization by facilitating access to TL liquidity through FX assets, was terminated, and compensating instruments in favor of Turkish lira was developed with the Liraization Strategy. Accordingly, decisions were taken to increase the demand for TL assets in reserve requirement, securities maintenance, liquidity and collateral management implementations, which reinforced the monetary transmission mechanism.
16. On the back of targeted liquidity steps taken, yields of Government Domestic Debt Securities (GDDS) decreased across all maturities, the spread between the policy rate and loan and bond rates declined significantly, and the monetary transmission mechanism was reinforced.

1.3. Liquidity, Reserves and Targeted Loan Policies

17. In 2022, developments in the monetary base, foreign exchange transactions against TL, and the increase in the Ministry of Treasury and Finance (MTF)'s net borrowing amount had an upward effect on the funding need of the system, while FX-Protected Deposit (KKM) transactions and export proceeds had a downward effect. The funding need of the system was around an average of TL 1.026 billion throughout 2022 due to the balanced impact of the components. The funding need that was on a steady course throughout the year decreased by TL 44 billion compared to end-2021 and was recorded at TL 1,044.7 billion as of 23 December 2022 (Chart 7).

Chart 7: CBRT Funding (TL Billion)

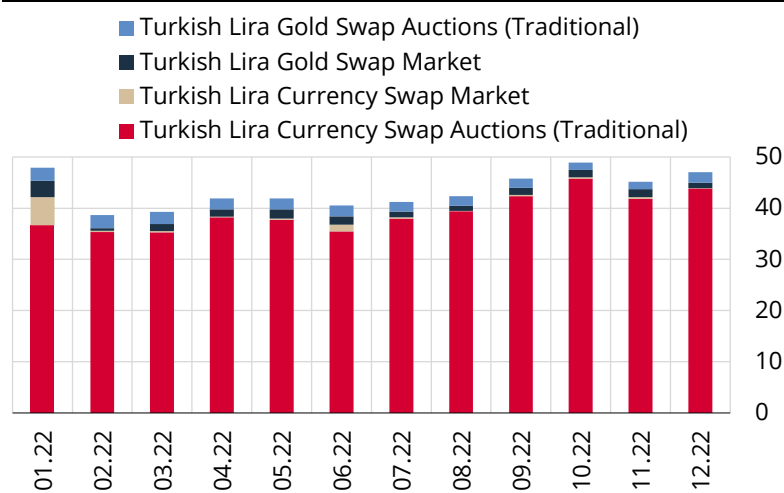


18. The funding need of the system is met via OMO and swap transactions against foreign currency and gold (Chart 7). The net OMO funding, which was TL 490 billion at the end of 2021, decreased by TL 321.5 billion to TL 168.5 billion by 23 December 2022. The amount of CBRT swap transactions, which was TL 598.7 billion at end-2021, increased by TL 277.5 billion to TL 876.2 billion by 23 December 2022. The outstanding volume of FX swap transactions increased from USD 43.2 billion at end-2021 to USD 43.9 billion by 23 December 2022. The outstanding amount of TL gold swap transactions decreased from USD 6.1 billion at the end of 2021 to USD 3.2 billion by 23 December 2022. The outstanding amount of TL swap transactions decreased from USD 49.4 billion at the end of 2021 to USD 47.1 billion, by 23 December 2022.

- 19.** In 2022, the CBRT funding under the OMO was mostly provided through one-week repo quantity auctions, while the funding under the CBRT's swap transactions against foreign currency was provided via the quotation method with one-week maturity and via the traditional auction method with 2-week, 1-month, 2-month and 3-month maturity. In 2022, no funding was provided through TL swap auctions with 6-month maturity. In 2022, the BIST Swap Market was not used for CBRT swaps, bringing the outstanding amount in this market down to zero by 13 January 2022. Since then, all swap transactions have been conducted in the markets at the CBRT.
- 20.** The CBRT purchased nominal TL 3.9 billion worth of GDDS and TL 0.3 billion worth of lease certificates via the traditional auction method, and nominal TL 68.9 billion via the auctions that started to be held as of 8 April 2022 as part of the primary dealership outright purchase facility, totaling a purchase of nominal TL 73.1 billion. The bid limit for primary dealer banks in auctions organized under the primary dealership outright purchase facility was adjusted directly proportionate to their participation in the MTF's fixed-coupon GDDS issues since early 2022. The GDDS portfolio, standing at nominal TL 63.8 billion at the end of 2021, reached nominal TL 121.4 billion as of 23 December 2022, and accounted for 3.86% of the CBRT's analytical balance sheet size.
- 21.** In 2022, to increase the weight of TL-denominated assets in securities accepted as collateral against the CBRT's TL funding within the context of the Liraization Strategy, the application guidelines for collateral management were revised, introducing significant changes to the blockage composition and discount rates of the collateral system. Accordingly:
- The regulation on the types of securities within the collateral system ensured that the GDDS basket consists only of TL-denominated GDDS zero- coupons, with fixed coupons, at floating rates and indexed to the TL overnight reference rate (TLREF) or of lease certificates issued domestically by the Asset Leasing Company of the Turkish Treasury (ALCTT).
 - The regulation on the minimum GDDS holding requirement in the collateral system, the 10% ratio applied to Interbank Money Market transactions at the CBRT was increased to 30% effective from 27 December 2021.
 - On 27 May 2022, for uniformity purposes in the application of collateral management principles, the collateral system applicable to the CBRT's swap transactions was amended. Accordingly, the minimum GDDS holding requirement was also revised as 30% for such transactions.
 - In the subsequent period, the minimum GDDS holding requirement for transactions conducted in aforementioned markets was raised to 45% as of 24 June 2022 and to 50% as of 22 July 2022.
 - The regulation on discount rates made within the context of the Liraization Strategy raised the collateral discount rates for indexed securities as well as FX and gold assets pledged as collateral from 5% to 15% on 27 May 2022, 30% on 24 June 2022, 50% on 22 July 2022 and 60% on 2 September 2022. Introduced as part of the Liraization Strategy, this regulation aimed to increase the share of TL-denominated assets in the collateral system.
 - The CBRT revised the set of securities it accepts as collateral for OMO repo transactions. Accordingly, as of 24 June 2022, the CBRT terminated the acceptance of gold and FX-denominated (USD and euro) GDDS and lease certificates issued by the MTF and ALCTT for institutional investors in repo transactions.

22. Due to the significant increase in TL deposits owing to the Liraization Strategy, the amount of required reserves maintained in TL increased by TL 70.9 billion as of the maintenance period of 24 November-8 December 2022 compared to the end of the previous year.
23. In 2022, within the framework of TL currency swap transactions against FX, the CBRT provided funding through TL currency swap auctions conducted via the traditional method and TL Currency Swap Market transactions conducted via the quotation method (Chart 8). As of 23 December 2022, the outstanding amount of FX swap auctions conducted via the traditional method was USD 43.8 billion, whereas the outstanding amount of TL Currency Swap Market transactions conducted via the quotation method was USD 87 million.
24. TL Gold Swap Market and FX Gold Swap Market transactions, which were started in 2019 to increase the effectiveness of banks' liquidity management and to promote making use of gold savings within the financial system, as well as the TL gold swap auctions initiated in 2020, continued in 2022. As of 23 December 2022, the amount of TL Gold Swap Market transactions conducted via the quotation method was net 18.8 tons, the outstanding amount of FX Gold Swap Market transactions was net 17.5 tons and the outstanding amount of the TL gold swap auctions was net 37 tons.

Chart 8: CBRT's TL Currency Transactions (Outstanding, USD Billion)



Source: CBRT.

25. The TL-settled FX forward selling transactions, which were introduced in December 2021 to help exporters and importers manage their exchange rate risk, were terminated in February 2022 as they attracted insufficient bids. The TL-settled FX forward transactions at the BIST Derivatives Market (VIOP) continued in 2022. As of 23 December 2022, the short position amount at the VIOP was USD 500 million.
26. The contribution to the CBRT's FX reserves from the repayments of rediscount credits against FX bills amounted to USD 17.4 billion, and FX sales due to rediscount credit disbursements added USD 4.4 billion to reserves. The contribution of rediscount credits to reserves is expected to rise to USD 22.3 billion by the end of the year.
27. Banks' FX-denominated liabilities subject to reserve requirements declined significantly due to the regulations introduced to support the conversion to TL deposits. Accordingly, as of the maintenance period of 25 November-8 December 2022, the amount of reserve requirements maintained in FX decreased by USD 8.1 billion compared to the end of the previous year.

- 28.** The CBRT continued to strengthen its international reserves by diversifying reserve sources through different channels such as conversion accounts launched in December 2021 and the following practices that came into play in 2022:
- Sale of a portion of export proceeds to the CBRT,
 - YUVAM accounts,
 - FX sales to the CBRT under the Citizenship Law,
 - FX sales to the CBRT arising from real estate sales to foreign real persons, and
 - FX sales to the CBRT from Extended Housing Finance Package transactions.
- 29.** CBRT reserves, which stood at USD 111.1 billion at end-2021, reached USD 128.4 billion as of 23 December 2022 on the back of the diversification of reserve sources in 2022. Similarly, gold reserves strengthened and reached 779.5 tons as of 23 December 2022, up from 657.7 tons at end-2021.
- 30.** The swap agreements signed with other central banks are intended to encourage bilateral trade through a swap-financed trade settlement facility and financial cooperation for the economic development of the respective countries. In this context, on 19 January 2022, the CBRT and the Central Bank of the United Arab Emirates signed a currency swap agreement with a limit of 18 billion dirhams and TL 64 billion. The currency swap agreement with the People's Bank of China, which had expired, was renewed on 6 June 2022 for a period of 3 years.
- 31.** To support the Liraization Strategy and to ensure that loans feed into commercial activity as appropriate, the CBRT introduced new regulations in 2022, thereby strengthening its macroprudential toolkit.¹
- 32.** These regulations increase the demand for TL-denominated financial assets and the Turkish lira, and contribute to the stability of the Turkish lira as well as the disinflation process. By adopting a selective approach prioritizing investment and exports, which increase production potential and contribute to the current account balance, financial conditions in these areas are supported in a positive way, while also facilitating access to financing for SMEs, which have high job creation potential and ensure broad-based growth. Moreover, the monetary transmission mechanism is strengthened by narrowing the spread between the loan rate and the CBRT policy rate.
- 33.** Deposits converted from FX and gold to TL were exempted from the reserve requirement implementation. Likewise, the reserve requirement ratios applied to banks' FX deposits was differentiated based on real person TL deposit conversion rates. Furthermore, conversion to TL deposits was underpinned by charging a commission on those required reserves maintained for banks' FX deposit liabilities.
- 34.** In April, TL-denominated commercial loans became subject to reserve requirement implementation. The regulation is based on a framework intended for limiting the use of loans other than SME loans, tradesman loans, export loans, investment loans and agricultural loans to encourage lending for activities that will support production, investment and employment in line with intended purposes.
- 35.** As effects of the reserve requirement implementation introduced for FX deposits on FX liquidity and the demand for the Turkish lira was limited, new conditions were introduced for establishing long-term fixed income securities at the CBRT in order to reinforce the macroprudential framework in favor of the Turkish lira demand and to affect banks' loan supply. The scope of the implementation stipulating maintaining securities was extended to include loans to strengthen the monetary transmission mechanism.

¹ For detailed information and regulations on implementations, see Annex 1, Table 3: Targeted Loan Policies.

36. In 2022, the rediscount credit facility for export and FX-earning services was revised in line with the policy priorities of the CBRT. In order to diversify reserve sources and contribute to the stability of the FX market, steps were taken to transition to TL rediscount credits, and existing policies in TL rediscount credits were supported by introducing an implementation stipulating an additional 30% of FX sales from export income. Accordingly, the use of rediscount credits extended via acceptance of TL-denominated and FX-denominated bills for rediscount increased to TL 197.7 billion, and TL 122.1 billion, respectively. Moreover, rediscount credit limits have been converted to TL in line with the Liraization Strategy, and the general limits for rediscount credits have been determined in TL to be effective as of the beginning of 2023.
37. Swap-based rediscount credits were introduced to support trade with local currencies. In this context, a facility was put into practice for swap-based rediscount credits in Republic of Korea won and United Arab Emirates dirham.
38. In order to increase accessibility of Advance Loans against Investment Commitment (ALIC), the number of intermediary banks was increased. With the redesigned program, credits were also allowed to be used for industry and tourism investments that will reduce the current account deficit, and a facility was introduced allowing the reduction of the loan interest rate according to various criteria such as the region of investment, domestic machinery/domestic input, foreign financing ratio. With this implementation, while financing of long-term investments with Turkish lira is reinforced, liraization is supported by making contracts and sales in TL with commitments received from investors.
39. The reference rate, which is used in calculating the maximum commission rates that can be applied to contracted merchants by banks and determining the maximum interest rate to be applied to credit card transactions, was revised. Accordingly, the reference rate shall be the lower one of the following two rates: the rate calculated over the weighted average flow interest rate applied by banks to all TL deposit types with maturities of 32-45 days and rate to be determined by adding 10% to the policy rate determined by the CBRT.

1.4. Innovations in Payment Systems and Financial Technologies

40. The CBRT has signed bilateral memorandums of understanding with ASELSAN, HAVELSAN and TÜBİTAK-BİLGEM, and established the Digital Turkish Lira Collaboration Platform. At the first phase of the pilot study, the Digital Turkish Lira Network has been established and first transactions have been carried out successfully.
41. The CBRT has launched the open banking services in the payments area, which is considered an essential component of the digital economy roadmap of the Liraization Strategy. Banks have started to provide services via the Open Banking Gateway (GEÇİT) infrastructure that was developed by the Interbank Card Center allowing parties to provide standard open banking transactions.
42. The Security Overlay Service (SIPER), which is a vital overlay service for the Instant and Continuous Transfer of Funds (FAST), has become operational. The SIPER allows very fast information and document sharing in detection of illicit transactions, fraud in particular.

2. Policy Framework for 2023

2.1. Outline for Monetary Policy and Liraization Strategy

43. The primary objective of the CBRT is to achieve and maintain price stability. In line with this purpose, the CBRT will decisively use the available instruments within the Liraization Strategy, the CBRT's integrated policy framework. The CBRT will continue to safeguard financial stability, which is a supportive factor for permanent price stability.
44. The CBRT's main policy instrument is the one-week repo auction rate. Ensuring that market rates remain consistent with policy rates, the CBRT will continue to implement policies that support the effectiveness of the monetary transmission mechanism.
45. The CBRT will further develop and maintain targeted loan and liquidity management implementations so that financial conditions can efficiently support sustainable components of growth such as investment, employment, production and exports.
46. CBRT will ensure a balanced and stable development of loans without sudden changes. In this framework, while the share of long-term TL assets in the collateral structure will continue to increase, the growth rate and composition of loans will be kept in line with the inflation path envisaged for 2023. Policies regarding loans, liquidity and collateral will continue to be implemented towards these objectives.
47. Policies in the framework of the Liraization Strategy will be further strengthened and implemented to achieve permanent increase in the weight of the TL on both asset and liability sides of the banking system. The funding composition of the CBRT will be revised in a way to decrease the share of currency swaps with a focus on liraization.
48. The steady increase in international reserves will be maintained with the source diversification policy in reserve management. The rise in international reserves will support the stability of the Turkish lira.

Inflation Target, Decision-Making Process and Communication Policy

49. The medium-term inflation target of 5% set jointly with the Government has been maintained. The monetary policy will be formulated to bring inflation to the target gradually.
50. While converging to the medium-term inflation target, the targets announced via Inflation Reports will serve as interim targets and a reference to inflation expectations. Hence, the figures envisaged to provide economic agents with guidance on the future course of inflation are the inflation forecasts in the short term and the inflation target in the medium term. In 2023, the CBRT will continue to implement the inflation targeting regime in a manner to create a foundation for sustainable price stability.
51. The uncertainty band, which is an element of the CBRT's accountability, has been maintained at 2 percentage points in both directions around the inflation target, the same as the previous years. Throughout the year, comprehensive evaluations of inflation developments will be shared with the public via Inflation Reports. If the realized inflation falls outside the uncertainty band at the end of the year, the CBRT will submit an Open Letter to the Government pursuant to the accountability principle.
52. Monetary policy decisions will be made by taking into account a detailed analysis of prices on macro and micro levels, inflation expectations and pricing behavior, demand factors that monetary policy can affect, supply-side developments, domestic and external balance, structure of production and loans, liquidity, liraization and developments in all other factors affecting price stability.

- 53.** Decisions will be made based on an up-to-date information set, a data-driven approach and impact analysis, taking into account all macro and micro level economic indicators, particularly inflation, economic activity, liquidity and credit developments.
- 54.** The seven days prior to the Monetary Policy Committee (MPC) meeting is called the “silent period” and no external communication is carried out during this period. In this period, the departments responsible for providing technical data for the decision-making process submit detailed analyses and evaluations to the MPC.
- 55.** In 2023, the MPC will hold 12 meetings on a preannounced timetable.² The monetary policy decision and a brief statement explaining its rationale will be announced, together with its English translation, on the CBRT website at 2 p.m. immediately after the meeting. The summary of the MPC meeting that contains detailed assessments of the MPC will be released on the CBRT website within five working days following the meeting.
- 56.** The monetary policy communication will continue in line with the principles of transparency, accountability and predictability.
- 57.** The main communication tools of the monetary policy are the MPC announcements and the Inflation Report. The Inflation Report will continue to be issued four times a year, and briefings will be held for effective communication of monetary policy actions.
- 58.** The presentations on the CBRT’s activities, monetary policy actions and current developments, which will be delivered by Governor of the CBRT before the Committee on Plan and Budget of the Grand National Assembly of Turkey, will have an important role in informing the public.
- 59.** Moreover, the speeches and presentations to be delivered in other platforms by the Governor, Deputy Governors and CBRT staff assigned for technical issues will continue to be an important part of the communication policy.
- 60.** The Financial Stability Report will remain another important communication tool of the CBRT. In addition, the Monthly Price Developments report, which summarizes monthly inflation developments by sub-components, will continue to be used as another communication tool to contribute to healthier interpretation of monthly price developments in the period between the announcement of official price statistics and the MPC meeting.
- 61.** Moreover, announcements regarding reserve requirement adjustments as well as the Turkish lira and FX liquidity management within the scope of the monetary policy and Liraization Strategy will remain important components of the communication regarding the operational framework.
- 62.** The CBRT will continue its communication with key target groups such as the press, academia and the general public. The CBRT will provide information on the policy framework and macroeconomic outlook to real sector and financial sector representatives, domestic and international institutions and all stakeholders of CBRT policies in order to achieve face-to-face interaction. In order to expand its sphere of influence, the CBRT will continue to carry out effective communication with international institutions and platforms as well as with international stakeholders such as other central banks.
- 63.** The CBRT working papers, research notes in economics, blog posts, and presentations delivered on various occasions regarding the CBRT’s activities and monetary policy practices will have a major role in the CBRT's communication policy.

² The 2023 schedule for meetings and reports is given in Annex 2.

64. In addition to and in support of its other communication channels, the CBRT will continue to use its social media accounts as effective communication channels. These accounts are used to announce the CBRT's policy decisions and their rationales, practices, publications and corporate news. In this context, the CBRT will be sharing various content summarizing CBRT announcements, reports and monetary policy instruments via social media. Moreover, via social media posts, the CBRT will help different target audiences to be informed about different topics such as economic analyses, concepts and events organized by the CBRT.
65. The CBRT will continue to work with all stakeholders in high coordination to enhance the effectiveness of the monetary policy implemented. The CBRT will continue to share its structural and early warning analyses and findings with the public and relevant institutions regarding the causes of inflation other than monetary policy.
66. The research agenda that the CBRT will set to shape policy decisions based on recent and real-time data as well as robust scientific analyses and to contribute to sustainable price stability will be shared with the public; and academic support activities will be used in the most effective way to enhance policy design processes.

2.2 Liquidity, Reserves and Targeted Loan Policies

67. Liquidity management as a supporting tool for the effectiveness of the monetary policy transmission mechanism, and in this context, the CBRT funding amount, the instruments used, the distribution of liquidity, the maturity structure and the collateral framework for funding facilities are of critical importance. In this framework, the size of the OMO and swap transactions, which are the components of the current TL liquidity management, their share in the total funding, their distribution by type of facility, and the collateral structure will continue to be reviewed in the scope of TL liquidity management for 2023. In 2023, in the framework of the Liraization Strategy, the share of fixed income TL-denominated assets in the collateral structure applicable to OMO funding facility will be increased further and the amount of funding provided by the CBRT in return for swap transactions in the total funding amount will be gradually reduced. Conditions for banks' use of funding and collateral channels will be calibrated in line with the liraization targets.
68. The main policy instrument of the CBRT is the one-week repo auction rate. Accordingly, the goals of the TL liquidity management are:
- To ensure that the average of secondary market overnight interest rates materializes around the one-week repo rate when setting the daily repo auction amount,
 - To ensure efficient and stable functioning of money markets in accordance with the liquidity management strategy,
 - To employ the CBRT funding facilities and the collateral structure as a reinforcing factor for the Liraization Strategy,
 - To ensure that the instruments in use bolster the effectiveness of monetary policy,
 - To ensure uninterrupted functioning of payment systems.

In order to attain these objectives and enhance the efficiency of the monetary policy, the liquidity level in the market and the distribution of liquidity in the banking system will also be considered when outlining the framework of liquidity management.

- 69.** More than one repo auction may be conducted with maturities between 5 and 12 days - when deemed necessary- to enable balanced distribution of liquidity across the days of the week. If an unprecedented liquidity shortage emerges within the day, intra-day repo auctions with one-week maturity via the quantity method may be held between 1 p.m. and 4 p.m.
- 70.** In order to maintain instrument diversity and operational flexibility in liquidity management, the CBRT is required to hold a sufficient amount of GDDS or TL-denominated lease certificates issued by the (ALCTT) in its OMO portfolio for technical reasons. Furthermore, outright purchase operations can also be conducted to support the GDDS market's liquidity and enhance the monetary policy transmission mechanism. With an aim to maintain operational flexibility on money market interest rates and taking into account the funding needs of the system as well as the liquidity distribution in the banking system, the CBRT's nominal OMO portfolio, will be set at 7% of total assets of the CBRT weekly statement for 2023, reserving the option to make additional purchases.

Accordingly,

- Outright purchase operations will be conducted to reach the above-cited amount, including the nominal amount of TL 26.9 billion in the CBRT's portfolio that will be due in 2023,
 - Outright purchases will be conducted within a balanced and predictable framework in consideration of the CBRT OMO portfolio redemption schedule and liquidity conditions in the market,
 - The securities to be purchased by the CBRT will be announced through data vendors at 10:00 a.m. on the first business day of the respective month,
 - Purchase auction days will be determined in consideration of market conditions with settlement date of the next business day,
 - Auction amount of each auction will be determined in view of market conditions,
 - Other issues related to the auctions will be subject to the existing regulations, yet may be revisions on the auction amount, security type, and auction method may be made if deemed necessary.
- 71.** Structural adjustments to the collateral system applicable to the CBRT funding facilities within the scope of the Liraization Strategy will be further reviewed in 2023, in view of market conditions and liquidity developments. To this end, arrangements will be made to increase TL-denominated assets in the CBRT market operations collateral pool, and the discount rates of CPI-indexed, FX-indexed and gold-indexed securities subject to the collateral system will be increased further.
- 72.** The implementation of the floating exchange rate regime will continue and exchange rates will be determined by supply and demand balances under free market conditions. The CBRT has no commitment to any exchange rate level and will not conduct FX buying or selling transactions to determine the level or direction of the exchange rates. To ensure that the FX market operates efficiently, the CBRT will closely monitor exchange rate developments and related risk factors and continue to take the necessary measures and employ due instruments.
- 73.** Effectiveness of the monetary policy and increasing FX reserves is significant in terms of financial stability. Priorities in FX reserve management will remain as safe investment, liquidity and returns, respectively. Moreover, reserve sources will be diversified further.

74. A required portion of the FX demand of the state-owned enterprises will be met directly by the CBRT and the Ministry of Treasury and Finance according to market conditions. Accordingly, the amount of FX sales may be reduced gradually as long as the market conditions allow.
75. The CBRT will conduct weekly TL gold swap and TL currency swap transactions via the quotation method and swap auctions via the traditional method with domestic banks under the scope of TL and FX liquidity management. On the other hand, a gradual reduction is targeted in the amount of swap transactions conducted by the CBRT.
76. In 2023, the CBRT may continue gold buying and selling transactions against FX in its spot market and at the BIST Precious Metals and Diamond Market to contribute to banks' gold liquidity management. Moreover, the CBRT may employ location swap transactions as long as market conditions allow.
77. Foreign banknotes against foreign exchange transactions conducted between the CBRT and the banks entitled to operate in FX markets will continue.
78. The CBRT will continue to provide banks with FX liquidity at one-week and one-month maturities at the CBRT FX Deposit Market, with a limit of approximately USD 50 billion in total.
79. Banks will be allowed to pledge collateral FX deposits and gold deposits with the CBRT with varying maturities up to three months within their limits.
80. The CBRT will continue gold ore purchases against TL with a view to accumulating reserves.
81. In addition to current agreements, negotiations to sign swap agreements with other central banks will continue.
82. In 2023, the CBRT will continue to use required reserves in pursuit of price stability and financial stability to ensure the smooth functioning of the monetary transmission mechanism and to contain the risks to macrofinancial stability.
83. The policies to be implemented as part of the Liraization Strategy will continue to be strengthened and used to increase the weight of the Turkish lira on both the asset and liability sides of the banking system on a permanent basis. Accordingly, the liraization target for deposits for the first half of 2023 has been set as 60%.
84. Within the scope of the Liraization Strategy, mechanisms that support TL deposits will be prioritized. The support provided to FX and gold conversion accounts as well as to YUVAM accounts through regulations such as reserve requirements and maintenance of securities will continue. Moreover, by considering incentives mainly for TL deposits not included in the KKM, further steps will be taken to invigorate the attraction of TL deposits.
85. Targeted loan policy will be maintained through macroprudential measures, and the parameters of required reserves and securities maintenance may be calibrated. Policy instruments will be employed to enhance price stability and financial stability in pursuit of the objective of ensuring credits grow in line with financial stability and loans feed into economic activity. Moreover, financial conditions will be promoted in targeted areas that increase the production potential and contribute to employment and the current account balance.

86. In terms of financial stability, it is important that the development of FX loans on balance sheets moves in tandem with FX deposits and that the ratio of FX loans to FX deposits remains balanced. Accordingly, policies may be introduced that require the funding of TL loans only with TL-denominated facilities and the use of FX deposits to fund FX loans to the maximum extent.
87. Maintenance of TL-denominated fixed-income securities has become an important element in the CBRT's macroprudential toolkit and will remain in place in 2023. Considering its effects on the credit supply behavior and liquidity management of the financial system, this practice underpins the objectives of macroprudential policies and enhances the effectiveness of the monetary policy transmission mechanism.
88. By increasing the weight of TL-denominated fixed-income and long-term securities in banks' balance sheets, the weight of CPI-indexed or other indexed securities on the balance sheet, and the inflationary pressures to stem from monetary expansion in turn, will be mitigated. As required by the Liraization Strategy, the share of TL-denominated fixed-income and long-term securities in banks' assets is expected to reach 5% in 2023, and gradually climb to 10% in the short-medium term.
89. With a view to maintaining the effectiveness of monetary policy and achieving the targets set by policy decisions, loan rates need to converge to the policy rate. Accordingly, macroprudential steps will remain in effect in 2023, which will set interest rates on commercial loans extended in targeted areas that contribute to production capacity and sustainable current account balance in a way to support firms' access to finance. Moreover, policies to ensure that resources finance production rather than consumption will step in to support the attainment of inflation targets in a permanent manner.
90. Rediscount credits for exports and FX-earning services as well as ALIC will continue to be extended predominantly in TL against expenditures and within certain limits in targeted areas that will contribute to potential production and sustainable current account balance.

2.3 Innovations in Payment Systems and Financial Technologies

91. In 2023, the Digital Turkish Lira Collaboration Platform will be expanded to involve selected banks, and financial technology companies and will unveil advanced phases of the pilot study with extensive participation.
92. Within the scope of the Liraization Strategy, direct participation of payment and electronic money institutions in the FAST system, which is an important element of the digital economy roadmap, will be ensured. Along with the use of the TR-QR Code, FAST merchant payments and innovative applications that support person-to-person payments will be launched in the first quarter of 2023.
93. In the second phase of the FAST security overlay service SIPER platform, smart-layered strategic products will be developed with machine learning and artificial intelligence algorithms on the data collected in a centralized structure. The system, which will also detect illegal uses, will be made available to all stakeholders in the payments ecosystem in the second half of 2023.

Annex 1: Monetary Policy and Liraization Strategy Decisions Taken in 2022

Table 1. Policy Rate Decisions	Date
The one-week repo auction rate, which is the policy rate, was kept constant at 14%.	January-July 2022
The one-week repo auction rate, which is the policy rate, was reduced from 14% to 13%.	18 August 2022
The one-week repo auction rate, which is the policy rate, was reduced from 13% to 12%.	22 September 2022
The one-week repo auction rate, which is the policy rate, was reduced from 12% to 10.5%.	20 October 2022
The one-week repo auction rate, which is the policy rate, was reduced from 10.5% to 9%.	24 November 2022
The one-week repo auction rate, which is the policy rate, was kept constant at 9%.	22 December 2022

Table 2. Policy Steps for Liraization³	Date
Encouraging the conversion of FX and gold deposits of real and legal persons to TL deposits	January 2022
Charging commissions on required reserves held for FX deposits based on the performance of conversion to TL deposits	January 2022
Easing credit conditions for firms using rediscount credits against their commitment of conversion into TL deposits	February 2022
Determination of required reserve ratios for FX deposit accounts according to TL deposit conversion performance	April 2022
Introducing a securities maintenance rule for FX deposit accounts and setting the maintenance rate based on the conversion performance	June 2022
Introducing differentiation in securities maintenance and reserve requirement commission rates based on the share of TL deposits in total deposits	August 2022

Table 3. Targeted Loan Policies	Date
Providing additional interest rate discounts to firms using TL rediscount credits in return for their commitments of employment, exports and being net FX sellers	February 2022
Improving the conditions for disbursement of ALIC to enhance liraization, import substitution and SME expansion	March 2022
Introducing reserve requirements for TL-denominated commercial cash loans, excluding various targeted areas	April 2022
Substituting the reserve requirement facility for TL-denominated commercial loans for securities maintenance, excluding targeted areas	August 2022
Introducing securities maintenance based on TL commercial loan rates and loan disbursement against expenditure	August 2022

³ Details of the regulations are available in the Financial Stability Reports and Inflation Reports published in 2022.

Table 4. Adjustments to the Collateral System	Date
Introducing the GDDS basket which consists of TL-denominated zero-coupon, fixed-coupon, floating-rate and TLREF-indexed GDDS or lease certificates issued domestically by the ALCTT; setting the minimum GDDS holding requirement for the CBRT's swap transactions at 30%	May 2022
Raising the minimum requirement for GDDS in the collateral system to 45%, arranging discount rates, ending the acceptance of FX and gold-indexed securities as collateral for repo transactions	June 2022
Raising the minimum GDDS requirement in the collateral system to 50%, increasing the discount rates of indexed securities and FX and gold-denominated assets to 50%	July 2022
Increasing the discount rates of indexed securities as well as FX and gold-denominated assets to 60% in the collateral system	September 2022

Table 5. Reserve Management Policy Steps	Date
Selling 25% (in the first phase) and 40% (as of April) of FX proceeds from exports and FX-earning services to the CBRT	January 2022
Boosting reserves by selling FX to the CBRT that are obtained from YUVAM accounts opened for non-residents	February 2022
Banks' selling FX-denominated payments of persons with no citizenship ties with the Republic of Türkiye for real estate purchases in Türkiye to the CBRT	June 2022

Table 6. Innovations in Payment Systems and Financial Technologies	Date
Establishment of the Digital Turkish Lira Cooperation Platform	March 2022
Establishment of the infrastructure for payment with TR-QR Code	June 2022
Payments area Open Banking services made available through GEÇİT	December 2022
Development and introduction of SIPER	December 2022
Establishment of the Digital Turkish Lira Network and successful execution of the first payments	December 2022

Annex 2: Schedule for MPC Meetings and Reports in 2023

MPC Meetings	Summary of the MPC Meeting	Inflation Report	Financial Stability Report
19 January 2023	26 January 2023	26 January 2023	
23 February 2023	2 March 2023		
23 March 2023	30 March 2023		
27 April 2023	3 May 2023	11 May 2023	18 May 2023
25 May 2023	1 June 2023		
22 June 2023	3 July 2023		
20 July 2023	27 July 2023	27 July 2023	
24 August 2023	31 August 2023		
21 September 2023	28 September 2023		
26 October 2023	2 November 2023	2 November 2023	16 November 2023
23 November 2023	30 November 2023		
21 December 2023	28 December 2023		
25 January 2024	1 February 2024	8 February 2024	
22 February 2024	29 February 2024		
21 March 2024	28 March 2024		

Note: Monetary Policy and Liraization Strategy for 2024 will be published in December 2023.

Annex 3: Monetary and Liquidity Policy Instruments

Transaction	Objective	Instrument	Maturity	Frequency
Main policy instrument	Ensuring that secondary market overnight rates materialize around the policy rate (one-week repo rate)	One-week repo auctions	One-week 5-12 days	Daily
Standing facilities	Ensuring that the possible volatility level of money market interest rates remains within the interest rate corridor set by the CBRT	TL deposit borrowing/lending at the CBRT's Interbank Money Market	Overnight	Daily
		Primary dealer repo facility	Overnight	Daily
		Repo quotations against lease certificates	Overnight	Daily
		Repo/reverse repo at BIST Repo Markets	Overnight	Daily
Lender of last resort transactions	As the lender of last resort, the CBRT tries to avoid temporary liquidity shortages that may cause interruptions in the payment system and technical payment problems that may obstruct the effective functioning of financial markets	Late liquidity window deposit lending/borrowing	Overnight	Daily
		Late liquidity window repo transactions	Overnight	Daily
		Intraday limits	Intraday	Daily
Unconventional instruments	Avoiding excessive interest rate volatility	Intraday repo auctions	Weekly	When needed

Annex 4: FX Market Instruments and Key Features

	TL Currency Swaps	TL Currency Swap Auctions (Traditional Method)	TL-Settled FX Forward Transactions at the VIOP	TL-Settled FX Forward Transactions	FX Deposit Market Transactions	BIST Swap Market Transactions	TL Gold Swap Auctions (Traditional Method)	TL Gold Swaps	FX Gold Swaps
Participants	Member banks	Member banks	All VIOP members	Member banks	Member banks	Banks authorized by the BIST Regulation	Member banks	Member banks	Member banks
Minimum amount	USD 1 million	USD/EUR 1 million	USD 1.000	USD 100.000	USD/EUR 1 million	USD/EUR 1 million	1 kg	1 kg	1 kg
Collateral ratio (%)	10%	10%	Set by the VIOP	2.5%	100%	Set by the BIST	10%	10%	10%
Settlement	At maturity	At maturity	Daily	At maturity	At maturity	At maturity	At maturity	At maturity	At maturity
Announced limit	30% of FX market limits		-	-	USD 50 billion		100 tons	169 tons	168 tons (buying), 100 tons (selling)
Maturity	1- week	2-week, 1-month, 2-month, 3-month	Set by the VIOP	1-month, 3-month	1-week, 1-month	Maximum 180 days	1-month, 3-month, 6-month	1-week	1-week
Method	Quotation	Auction	Quotation	Auction	Quotation	Quotation	Auction	Quotation	Quotation