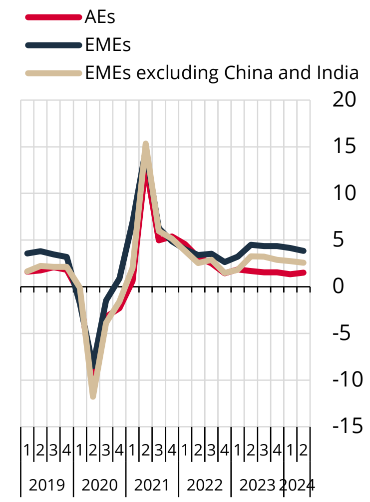
# II. Macroeconomic Outlook

## II.1 International Developments

**Following the rate cuts by central banks of advanced economies, there has been a gradual improvement in expectations for global growth.**

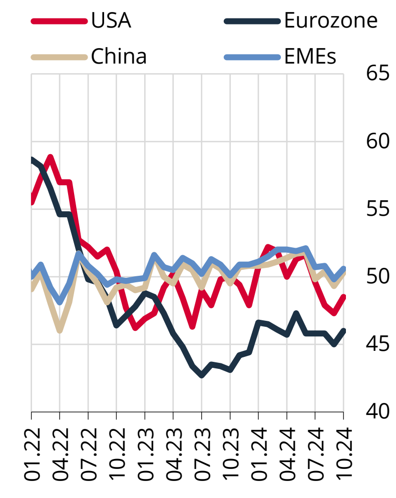
During the period marked by increased monetary tightening, global economic growth rates had moved on an almost flat path. After advanced economies (AEs) started to cut policy rates, global growth expectations have increased (Chart II.1.1). On the other hand, manufacturing purchasing managers' indices (PMI) continued to hover below the threshold level of 50, despite a recent slight increase (Chart II.1.2). The growth outlook for the US diverged positively from that of other AEs, while growth forecasts for the euro area were revised downwards. While global GDP forecasts for end-2025 show a gradual recovery in line with the monetary easing in the AEs, emerging economies (EMEs) continue to have the highest growth rates (Chart II.1.3).

**Chart II.1.1: Countries' Growth Rates** (%)



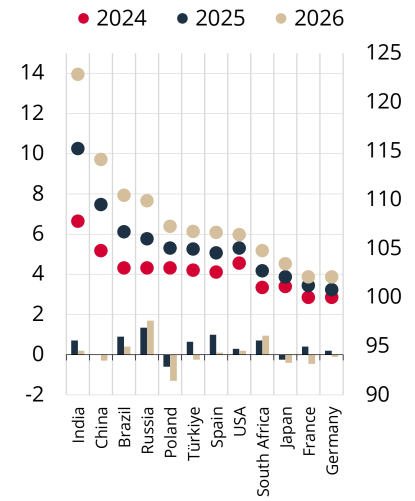

Source: Bloomberg Last Observation: 2024Q2

**Chart II.1.2: Manufacturing PMI** (Index)




Source: Bloomberg Last Observation: 10.24

**Chart II.1.3: Real GDP Projections and Changes in Projections** (Annual, 2023=100, % Change Point, Left Axis)



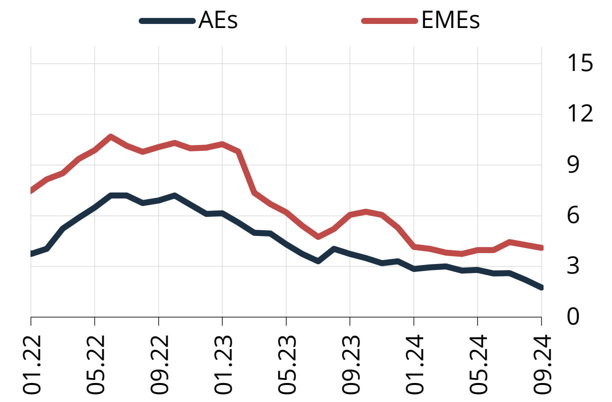

Source: Bloomberg

Note: AEs include the USA, the euro area, Japan, the United Kingdom, Canada, Korea, Switzerland, Sweden, Norway, Denmark, and Israel, while EMEs include China, Brazil, India, Mexico, Russia, Türkiye, Poland, Indonesia, South Africa, Argentina, Thailand, Malaysia, Czechia, Colombia, Hungary, Romania, the Philippines, Ukraine, Chile, Peru, and Morocco. In Chart II.1.3, the Bloomberg data is based on the World Bank method since the Indian fiscal year has a different period than the fiscal years of other countries. The column in Chart II.1.3 shows the difference between current forecasts and forecasts in May 2024.

**While the inflation outlook is improving in advanced economies, the level of monetary tightness is being cautiously reduced.**

While inflation in AEs has converged to the 2% target, it hovers slightly above the 3.5% target in emerging economies (Chart II.1.4). The easing of supply-side cost pressures in the global economy and the weaker demand composition due to monetary tightening steps stand out as the main factors keeping inflation on a moderate downtrend. Although supply-side risks to costs have diminished due to stable commodity prices, ongoing geopolitical uncertainties, fluctuations in the global supply chain and the recent increases in global food prices pose upside risks to global inflation. Even though central banks of advanced economies have started to cut interest rates in response to the decline in global inflation, they are expected to act cautiously on the rate cut path. It is noteworthy that there is a divergence in expectations for interest rate cuts across AEs reflecting several factors including the risks to the inflation outlook (Chart II.1.5).

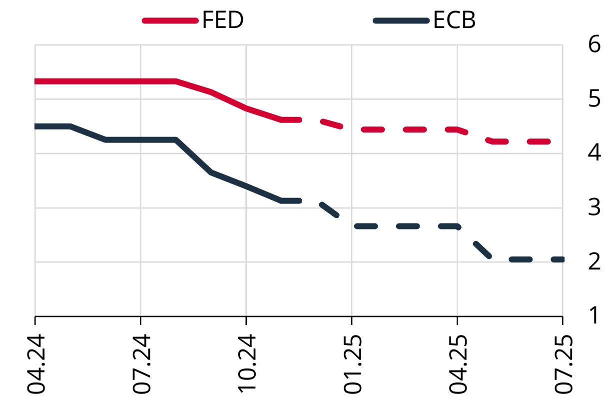
**Chart II.1.4: Inflation Outlook in AEs and EMEs** (Median, %)




Source: FRED, Bloomberg Last Observation: 30.09.24

Note: Inflation rates refer to the annual change in CPI in respective countries. EMEs include Brazil, Mexico, Russia, Poland, Indonesia, S. Africa, Thailand, Czechia, Colombia, Hungary, Romania, Romania and the Philippines. AEs include the USA, the euro area, Japan, the UK, Canada, S.Korea, Switzerland, Sweden, Norway, and Israel.

**Chart II.1.5: Policy Rate Paths Implied by Market Pricing** (%)

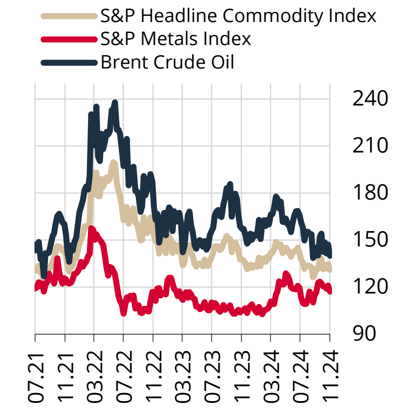



Source: Bloomberg Last Observation: 30.11.24

Note: Dashed lines shows implied policy rates.

Although commodity prices have declined significantly from their highest levels in the first half of 2022, there are divergences across commodity subgroups. In 2024, although metal prices fluctuated, commodity prices in general have been following a moderate course- an almost flat one (Chart II.1.6). Meanwhile, heightened geopolitical risks emanating from the Middle East keep supply-side upside risks to commodity prices alive, particularly to oil prices. Although the FAO's (the Food and Agriculture Organization of the United Nations) global food price index, which measures food prices in the global supply chain, has declined significantly from its post-pandemic peak, recent increases in the food index pose upside risks to the global inflation (Chart II.1.7). Even tough services inflation in advanced economies has declined significantly since the beginning of 2023, it still hovers above historical averages (Chart II.1.8).

**Chart II.1.6: Commodity Indices** (Index, 25.12.2020=100)




Source: Bloomberg Last Observation: 15.11.24

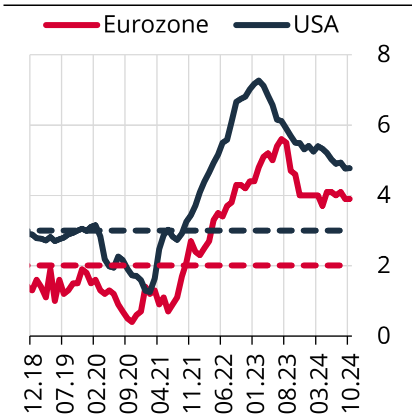
Note: S&P Headline Commodity and Metals Indices are weighted by the futures prices of the most widely traded commodities and metals.

**Chart II.1.7: Global Food Price Index** (Index, 2015=100)


Source: Bloomberg Last Observation: 10.24

Note: Food price index published by the Food and Agriculture Organization of the United Nations is used.

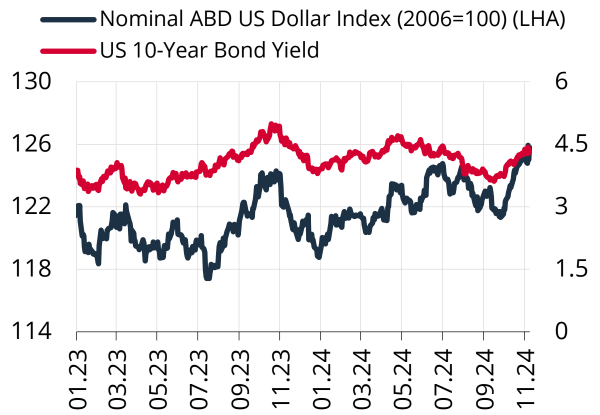
**Chart II.1.8: Services Inflation in AEs** (%)




Source: ECB, FRED Last Observation: 10.24

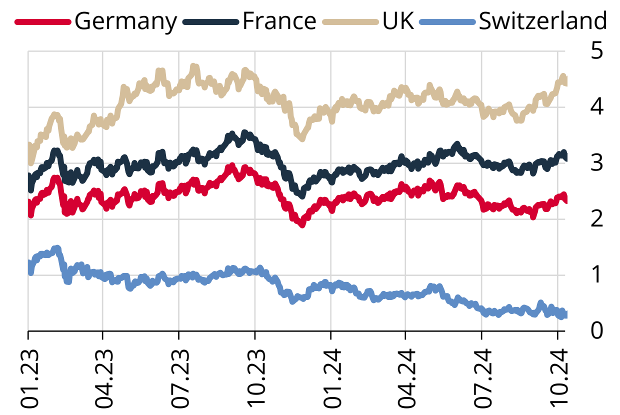
Note: Dashed lines represent the average of the respective services inflation for the 01.07 – 09.24 period.

**Chart II.1.9: US Dollar Index and US 10-Year Bond Yields** (Index, %)




Source: FRED, Bloomberg Last Observation: 08.11.24

**Chart II.1.10: 10-Year Bond Yields in Europe** (%)



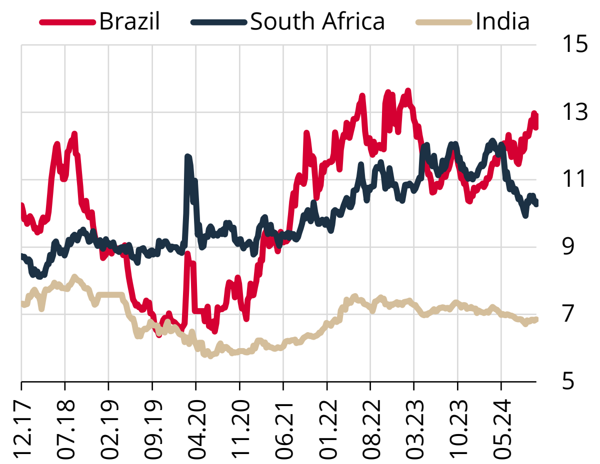

Source: Bloomberg Last Observation: 08.11.24

**Interest rate cuts and related communications by advanced economies have had a positive impact on market indicators. Recent geopolitical uncertainties have limited further improvement in these indicators.**

The Fed's rate cuts have led to a decline in the US dollar index. However, expectations that the Fed will continue to tighten its stance on the interest rate path and that the ECB will continue to ease monetary policy due to the weak growth outlook are supporting the US dollar. Due to escalating geopolitical risks and the divergence between monetary policy stances of the Fed and the ECB, the US dollar index has recently moved upwards again. A similar trend is also observed in the US 10-year bond yields (Chart II.1.9). In addition to falling inflation and sluggish economic growth, the UK, Swiss and European central banks signaled that they would continue to cut interest rates, which has put down pressure on 10-year bond yields. However, geopolitical risks and the stagnation in core inflation somewhat slowed the downward trend (Chart II.1.10).

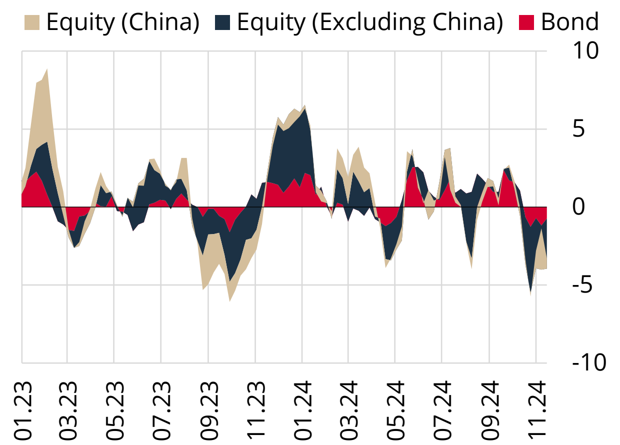
In EMEs, bond yields remain elevated due to diverging monetary policy stances and uncertainties regarding the inflation path (Chart II.1.11). Despite the Fed's interest rate cuts, the ongoing uncertainty over the monetary policy stance and fluctuations in the global risk appetite cause fluctuations in flow of funds to emerging economies (Chart II.1.12).

**Chart II.1.11: 10-Year Bond Years in EMEs** (%)




Source: Bloomberg Last Observation: 18.11.24

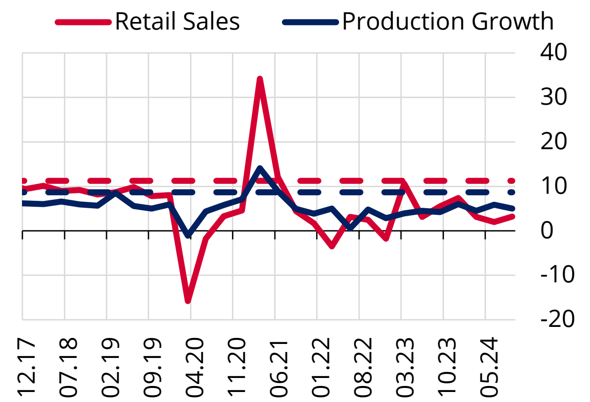
**Chart II.1.12: Weekly Portfolio Flows to EMEs** (4-Week Moving Average, Billion USD)




Source: IIF Last Observation: 15.11.24

The persistently weak domestic demand in the Chinese economy, which is below its historical average, reinforces the expectation that growth will remain below its potential (Chart II.1.13). In response to weak domestic demand and stagnant production data, China has accelerated expansionary fiscal and monetary policy steps to stimulate economic growth, and the decline in Chinese bond yields have accelerated due to the fall in borrowing costs (Chart II.1.14).

**Chart II.1.13: Economic Growth Outlook in China** (Annual Change, %)




Source: Bloomberg Last Observation: 09.24

Note: Dashed lines represent the average of the respective indicator for the 03.07 – 09.24 period.

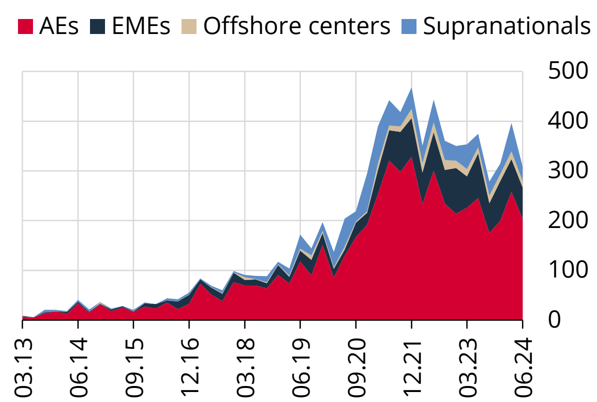
**Chart II.1.14: 10-Year Bond Yields in China** (%)


Source: Bloomberg Last Observation:18.11.24

**Advanced economies continued to have the largest share in environmental, social and governance (ESG) borrowing. Bonds have a large share in advanced economies' debt composition.**

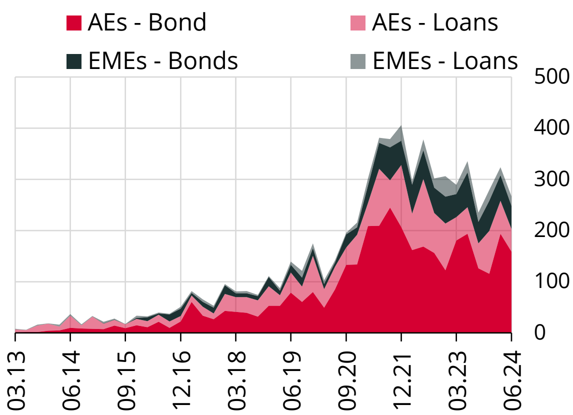
Although ESG borrowing declined slightly compared to the previous reporting period, it increased compared to the end of the second quarter of 2023 (Chart II.1.15). While bonds continued to have a significant share in the ESG debt diversification of AEs, bonds in their debt composition increased compared to the end of the second quarter of 2023 (Chart II.1.16).

**Chart II.1.15: ESG Borrowing** (Billion USD)




Source: IIF Last Observation: 2024Q2

**Chart II.1.16: Breakdown of Bond Issues and Bank Loans for ESG Purposes** (Billion USD)




Source: IIF Last Observation: 2024Q2

Note: Emerging Economies (EMEs), Advanced Economies (AEs), and offshore banking centers are the sum of 141, 35, and 24 different countries, respectively. Detailed information on country lists can be found on the Sustainable Debt Screen on the IIF corporate website. ESG borrowing can be provided in the form of both bonds and bank loans, and Chart II.1.16 analyzes this breakdown in detail for AEs and EMEs.

# Box II.1.I: How Does Türkiye Differ from Other Countries in Indebtedness Indicators?

### Introduction

Debt sustainability is defined as the capacity of a country's economic agents to repay current and future debt obligations without delay. Eroding the debt repayment capacity of economic sectors may lead to unsustainable debt levels. When the debt burden of government and non-financial sectors reach high levels, they face challenges in access to financing, see increases in the risk premium and financing costs, and this debt burden may lead to financial instability in the economy (Das et al., 2010; Mallikamas & Weigert, 2022).

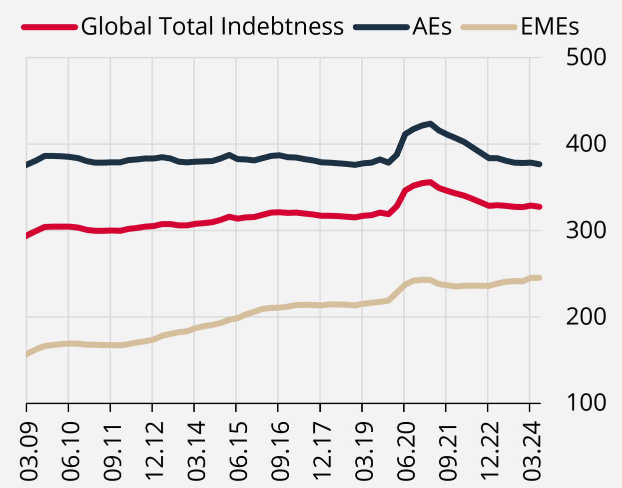
### Global Indebtedness

After the global financial crisis in 2008, global total indebtedness surged in advanced (AEs) and emerging economies (EMEs) due to low financing costs and increased access to financing (Chart II.1.I.1). By the end of the second quarter of 2024, global total indebtedness hovered at USD 311.8 trillion, 3.3 times the global GDP. Recently, international financial institutions and relevant regulatory authorities have pointed to the upward trend in global indebtedness and warned that risks to debt sustainability may increase in the upcoming period (IMF, 2024; OECD, 2024).

In the last decade, the main drivers of debt growth in the AEs were the government and partly the non-financial sectors, while indebtedness growth in EMEs was seen across all segments (Charts II.1.I.2 and II.1.I.3). In the post-pandemic period, while the total indebtedness level of AEs followed a mild course, it continued to rise steadily in EMEs. International reports and relevant authorities state that EMEs have a high burden of maturing debt in the government and non-financial sectors. Refinancing this debt may add to financial stress in EMEs (OECD, 2024).

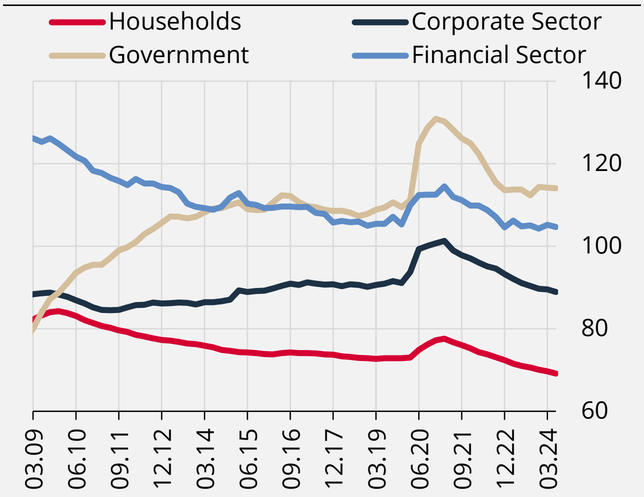
This box presents Türkiye's indebtedness developments in comparison with EMEs across all economic segments. The findings of the study show that Türkiye has diverged positively from global trends in total indebtedness indicators, but FX-denominated indebtedness still hovers at slightly high levels.

**Chart II.1.I.1: Total Indebtedness** (Debt/GDP, %)




Source: IIF Last Observation: 06.24

**Chart II.1.I.2: Indebtedness Levels in AEs** (Debt/GDP, %)



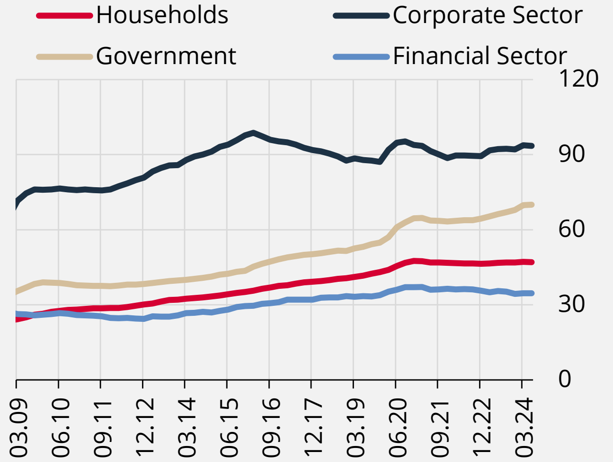

Source: IIF Last Observation: 06.24

### Indebtedness of Türkiye

An analysis of Türkiye's indebtedness composition reveals that, unlike emerging economies, indebtedness indicators across all sectors have declined considerably. While government and corporate sector indebtedness increased in EMEs, Türkiye's government and corporate sector indebtedness have declined by 14 and 30 percentage points, respectively, since end-2021 (Charts II.1.I.3 and II.1.I.4). Household indebtedness also remained low compared to EMEs. While financial sector indebtedness has remained flat in EMEs since end-2021, it has dropped by around 15 percentage points in Türkiye (Charts II.1.I.3 and II.1.I.4).

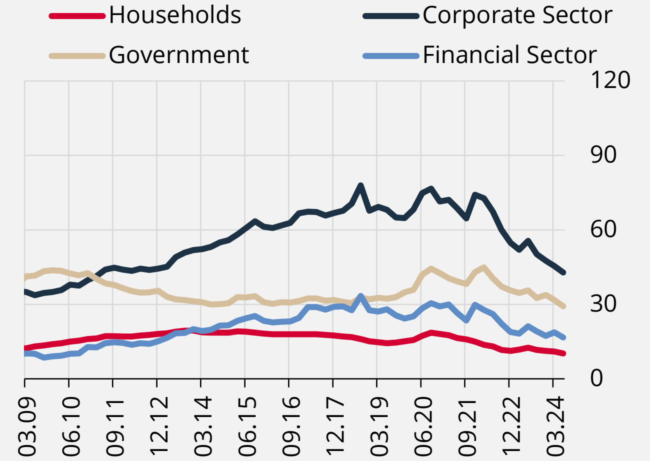
Inflationary pressures reduced fixed-rate debts in real terms and national income increased more than debts amid inflation, leading to a notable decline in the indebtedness of economic sectors. Moreover, the decline in TL financing costs between 2021-2023 and the clearance of FX-denominated loans due to exchange rate volatility contributed to the decline in indebtedness. Therefore, Türkiye has diverged favorably from other EMEs in terms of indebtedness.

**Chart II.1.I.3: Indebtedness of EMEs**
(Debt/GDP, %)




Source: IIF Last Observation: 06.24

**Chart II.1.I.4: Indebtedness of Türkiye**
(Debt/GDP, %)

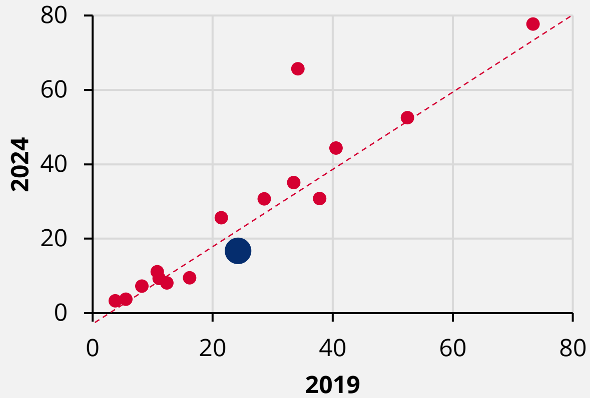



Source: IIF Last Observation: 06.24

In addition to the average indicators across country groups, the following section analyzes Türkiye's position among peer countries. Accordingly, financial sector indebtedness is limited across EMEs and hovers below 40%. Türkiye's financial sector has lower indebtedness than most EMEs, and its indebtedness has declined compared to end-2019 due to favorable domestic funding conditions (Chart II.1.I.5). Moreover, due to fluctuations in the country risk premium and shrinking long-term credit facilities, the financial sector reduced its external financing, which led to a fall in the financial sector's indebtedness.

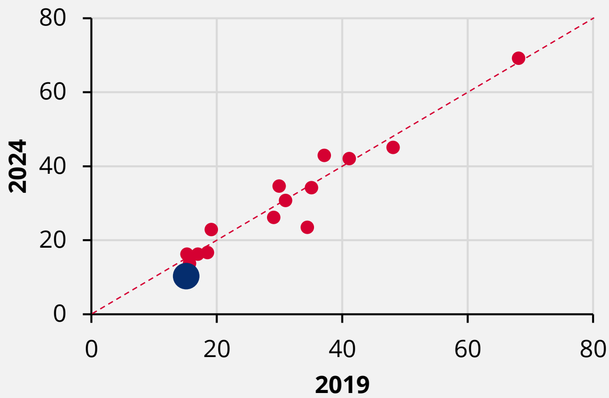
Türkiye's household indebtedness is quite low relative to peer countries. Compared to the pre-pandemic period, household indebtedness mounted in most EMEs, while Türkiye's household indebtedness displays more limited risk than peer countries (Chart II.1.I.6). Individuals' ability to borrow at fixed interest rates and macroprudential measures on personal loans account for the fall in indebtedness. Nevertheless, low household indebtedness holds significant potential for individuals' access to finance and a broad-based financial deepening in the years to come.

**Chart II.1.I.5: Position of Financial Sector Indebtedness Among EMEs** (Debt/GDP, %)




Sources: CBRT, IIF Last Observation: 06.24

**Chart II.1.I.6: Position of Household Indebtedness Among EMEs** (Debt/GDP, %)



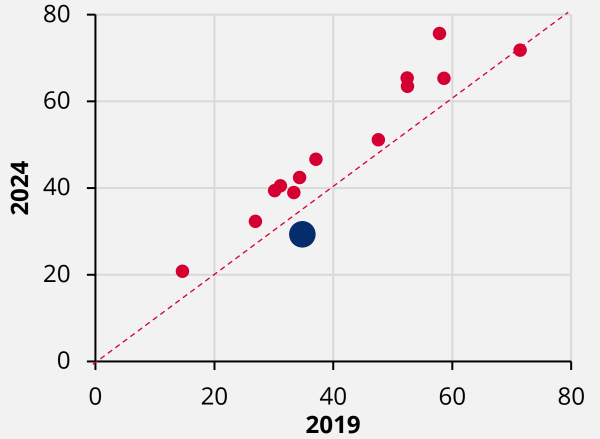

Sources: CBRT, IIF Last Observation: 06.24

Note: EMEs include Brazil, Chile, Colombia, Czechia, Hungary, India, Indonesia, Israel, South Korea, Malaysia, Mexico, Peru, Poland, Russia and South Africa. EMEs are shown with red dots and Türkiye with a blue dot. The 2019 Q4 values of the respective Debt/GDP ratios of countries are shown on the horizontal axis, while the 2024 Q2 values are indicated on the vertical axis. While indebtedness rose between 2019Q4 and 2024Q2 in countries above the dashed line, it decreased in countries below it.

In Türkiye, the low indebtedness of the government has been a noteworthy anchor for the fiscal discipline implemented for many years and has supported financial stability (Chart II.1.I.7). The budget balance was largely maintained, borrowing was made within a specific plan and in line with macro balances, thus preserving the soundness of the balance sheets of banks and funds holding government bonds. Government indebtedness increased in most EMEs compared to the pre-pandemic period, whereas it declined in Türkiye.

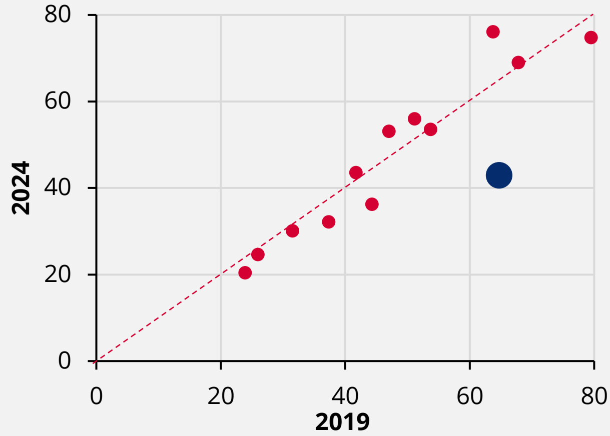
The corporate sector's indebtedness fell significantly compared to the pre-pandemic period (Chart II.1.I.8). In Türkiye, firms' indebtedness levels declined in the post-2019 period and the leverage diverged positively compared to EMEs. In this period, the decline in firms' FX loan balances and their increased profitability led by the inflationary environment were instrumental in the fall in the debt/GDP ratio of the corporate sector. The indebtedness of corporate sector firms operating in Türkiye displays a more favorable outlook compared to EMEs.

**Chart II.1.I.7: Position of Government Indebtedness Among EMEs** (Debt/GDP, %)




Sources: MTF, CBRT, IIF Last Observation: 06.24

**Chart II.1.I.8: Position of Corporate Sector Indebtedness Among EMEs** (Debt/GDP, %)




Sources: CBRT, IIF Last Observation: 06.24

Note: EMEs include Brazil, Chile, Colombia, Czechia, Hungary, India, Indonesia, Israel, South Korea, Malaysia, Mexico, Peru, Poland, Russia and South Africa. EMEs are shown with red dots and Türkiye with a blue dot. The 2019 Q4 values of the respective Debt/GDP ratios of countries are shown on the horizontal axis, while the 2024 Q2 values are indicated on the vertical axis. While indebtedness increased between 2019Q4 and 2024Q2 in countries above the dashed line, it dropped in countries below it.

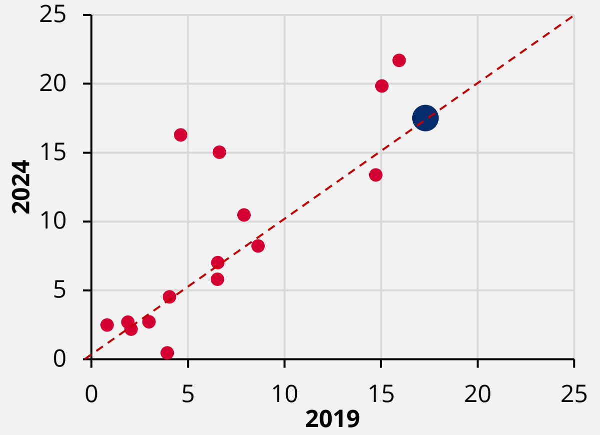
Compared to end-2019, Türkiye's FX-denominated government indebtedness remained flat among EMEs (Chart II.1.I.9). The FX-denominated government debt to GDP ratio of most EMEs is below 20%, with a limited increase compared to the pre-pandemic period. Although Türkiye's FX-denominated government debt followed a flat course in the 2019-2024 period, it is relatively high compared to the distribution of peer countries.

An analysis of the corporate sector debt in EMEs reveals that the ratio of FX-denominated liabilities to GDP remained below 40% and followed a moderate course compared to the pre-pandemic period (Chart II.1.I.10). Firms' FX-denominated borrowing is limited across EMEs. Although the corporate sector's FX debt in Türkiye is higher than that in EMEs, it dropped considerably after 2019. The exchange rate volatility has recently decreased due to the tight monetary policy and the disinflation path, while firms' demand for FX loans grew due to high TL borrowing costs. The corporate sector's FX indebtedness and the risks that may arise from this indebtedness are closely monitored. Therefore, the existing macroprudential framework[1] for FX credit utilization was supported by placing limits on FX credit growth.[2]

[1] With the amendment made to the Decree No. 32 on the Protection of the Value of the Turkish Currency in May 2018 regarding the exchange rate risk management of companies, the FX loan utilization of companies having an FX loan balance below USD 15 million obtained from domestic and foreign financial institutions and foreign partners is associated with the last three years' FX income.

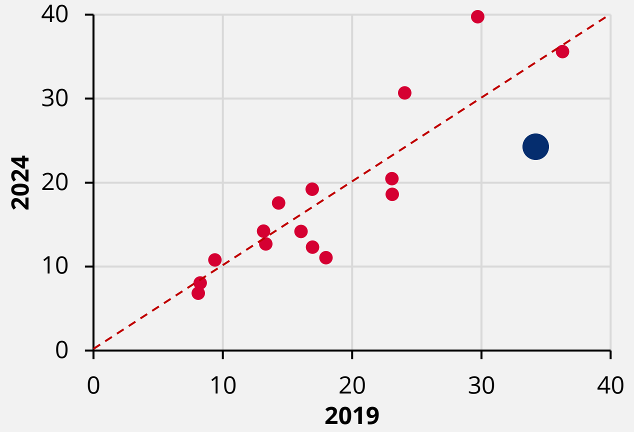
[2] In May 2024, a growth limit of 2% for FX loans was introduced with the regulation on the macroprudential framework, and in July 2024, the monthly growth limit of 2% for FX loans was lowered to 1.5 % with the regulation on the macroprudential framework. The CBRT decided to block Turkish lira-denominated reserve requirements equal to the amount of loans exceeding the limit for one year.

**Chart II.1.I.9: Position of Government Indebtedness in FX Among EMEs** (Debt/GDP, %)




Source: MTF, CBRT, IIF Last Observation: 06.24

**Chart II.1.I.10: Position of Corporate Sector Indebtedness in FX Among EMEs** (Debt/GDP, %)




Source: CBRT, IIF Last Observation: 06.24

Note: EMEs include Brazil, Chile, Colombia, Czechia, Hungary, India, Indonesia, Israel, South Korea, Malaysia, Mexico, Peru, Poland, Russia and South Africa. For local currency indebtedness, EMEs are shown with red dots and Türkiye with a blue dot. The 2019 Q4 values of the respective Debt/GDP ratios of countries are shown on the horizontal axis, while the 2024 Q2 values are indicated on the vertical axis. While indebtedness increased between 2019Q4 and 2024Q2 in countries above the dashed line, it dropped in countries below it.

In sum, changes in the level of indebtedness relative to GDP suggest that indebtedness indicators in AEs have slightly declined from high levels in recent years, while indebtedness in EMEs has remained on the rise. In the same period, indebtedness of all segments fell in Türkiye, while the sustainability of the debt level and composition improved. In the aftermath of the expansionary financial conditions during the pandemic, the corporate sector's indebtedness declined to a large extent, while household indebtedness fell to historically low levels. Government and financial sector indebtedness also declined. On the other hand, although the corporate sector's FX-denominated indebtedness has also receded in the same period , it is still somewhat high compared to other EMEs. This makes corporate sector firms sensitive to exchange rate volatility. Therefore, the macroprudential framework and FX loan growth limits for these loans were supported by the macroprudential framework. The macroprudential framework and policy actions, along with higher predictability, will ensure that the indebtedness of economic sectors follows a path that supports financial stability.

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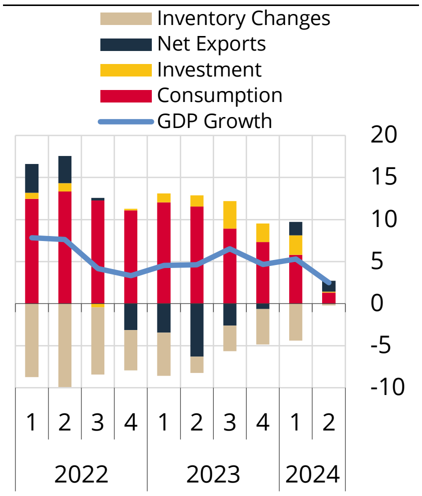
## II.2 Main Domestic Macroeconomic Developments

**The rebalancing in domestic demand became more evident in the second quarter of 2024.**

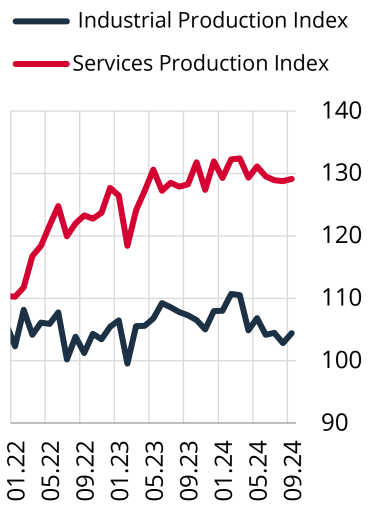
The buoyant domestic demand seen in previous years lost momentum in the second quarter of 2024, with growth reaching 2.5% compared to the same quarter of the previous year. The contribution of consumption and investment expenditures to growth decreased significantly in this period, while net exports have continued to make a positive contribution since the first quarter (Chart II.2.1). The upward trend in production indicators up to the first quarter of 2024 has weakened as of the second quarter. Leading indicators point to a further slowdown in production across services and industrial sectors (Charts II.2.2 and II.2.3).

**Chart II.2.1: Annual GDP Growth and Contribution of Expenditures** (% Points)



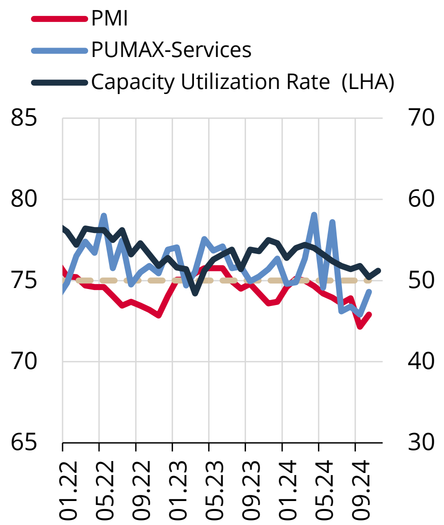

Source: TURKSTAT Last Obsv.: 2024Q2

**Chart II.2.2: Production Indices** (Index, 2021=100)




Source: TURKSTAT Last Obsv.: 09.24
Note: Industrial and services production indices are adjusted for seasonal and calendar effects.

**Chart II.2.3: Selected Leading Indicators of Economic Activity** (Ratio, Index)




Sources: CBRT, ICI, MUSIAD Last Obsv.: 10.24
Note: Manufacturing industry capacity utilization rate and Services Sector Purchasing Managers' Index (PUMAX-Services) are adjusted for seasonal and calendar effects. Dashed line shows the stable state of the Manufacturing Industry Purchasing Managers' Index (PMI). The last observation date for the capacity utilization rate was November 2024.

**The foreign trade deficit continues to narrow, and the favorable outlook in the services balance remains positive, meanwhile the current account balance has improved.**

The foreign trade deficit narrowed further due to the significant decline in gold imports and the normalization in global energy prices (Chart II.2.4). The current account has performed similarly on the back of strong tourism revenues, with the 12-month current account deficit narrowing to around USD 10 billion and the ratio of the current account deficit to GDP falling below 1% (Charts II.2.5 and II.2.6).

**Chart II.2.4: Foreign Trade** (Billion USD, 3-Month MA)

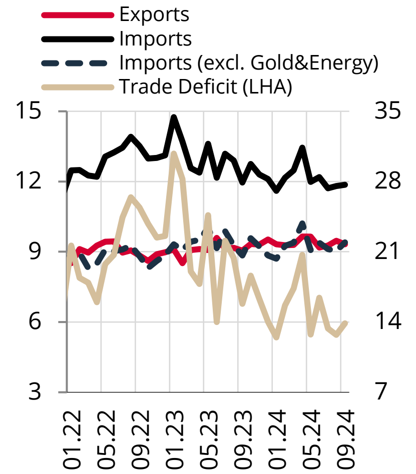



**Chart II.2.5: Main Components of Current Account Balance** (12-Month, Billion USD)

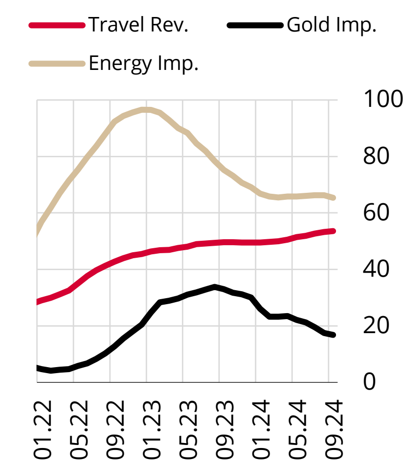
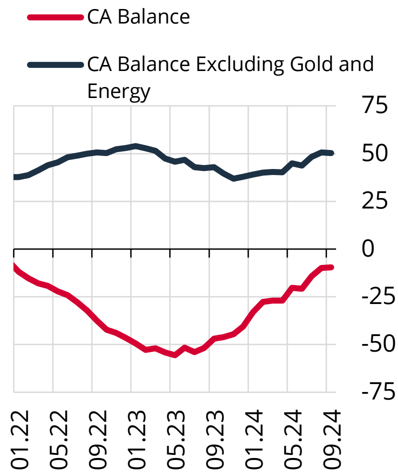



**Chart II.2.6: Current Account Balance** (12-Month, Billion USD)



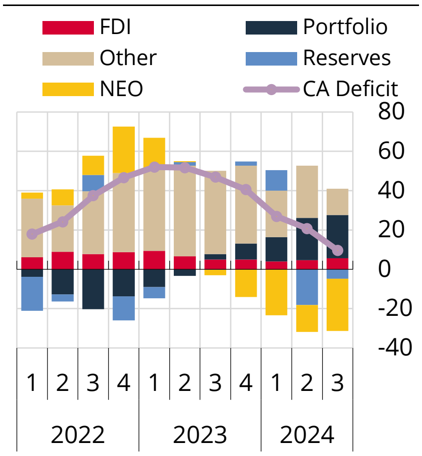

Sources: CBRT, TURKSTAT Last Observation: 09.24

Note: For foreign trade, seasonally/calendar adjusted monthly exports (fob) and imports (cif) data according to the general trade system have been used.

**Along with the decline in the current account deficit, the rise in portfolio investments and external financing transactions have strengthened international reserves.**

Portfolio investments positively contributed to the financing of the 12-month current account deficit in the second and third quarters of 2024. The slight decline in the contribution of reserves was offset by the increase in the net errors and omissions item (Chart II.2.7). Banks have been rolling over their external debt at a high rate in recent months, and as of September, the external debt rollover ratio of banks was 117%. Meanwhile, the external debt rollover ratio of the non-bank sector remained positive, rising to 132%. External borrowing by the private sector continues to positively contribute to the financing of the current account deficit (Chart II.2.8). The confidence in the current disinflationary policies reflects positively on gross reserves. The gross reserves of the CBRT have maintained their upward trend and reached USD 156.6 billion as of November 22 (Chart II.2.9). Net reserves excluding swaps rose to USD 41.8 billion when sell-side FX swaps conducted in domestic markets are added.

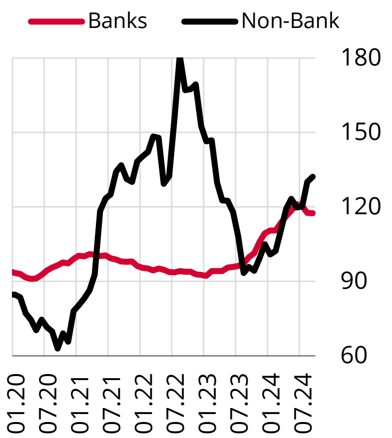
**Chart II.2.7: Financing of Current Account Deficit** (12-Month Cumulative, Billion USD)




Source: CBRT Last Obsv.: 09.24

Note: "Portfolio", "FDI", and "Other" investments items are in net terms. The (-) sign in "Reserves" implies an increase.

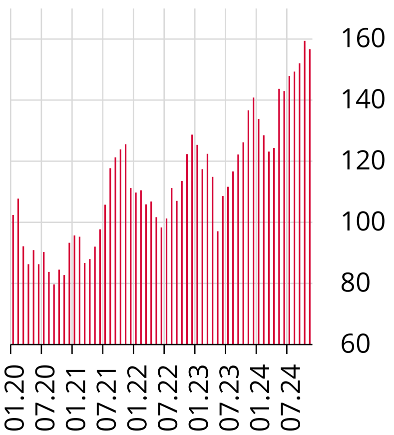
**Chart II.2.8: External Debt Rollover Ratio** (12-Month, %)




Source: CBRT Last Obsv.: 09.24

Note: External debt rollover ratios are calculated on short and long-term total debt in a 12-month window.

**Chart II.2.9: CBRT Gross Foreign Exchange Reserves** (Billion USD)




Source: CBRT Last Obsv.: 22.11.24

Note: Gross reserves include gold and foreign exchange items.

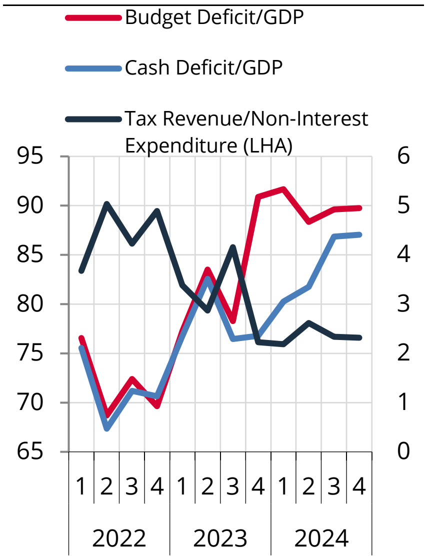
**The annual budget deficit widened due to earthquake-related expenditures and increased current transfers.**

The proportion of primary expenditures covered by tax revenues declined. This decline, in spite of the increase in tax revenues, was due to the fact that transfers to institutions increased primary expenditures (Chart II.2.10). Earthquake expenditures played an important role in determining budget balances in the current reporting period.

**Consumer inflation receded to 48.6%, but the rise in food prices and the rigidity in services prices limited the decline in inflation rates.**

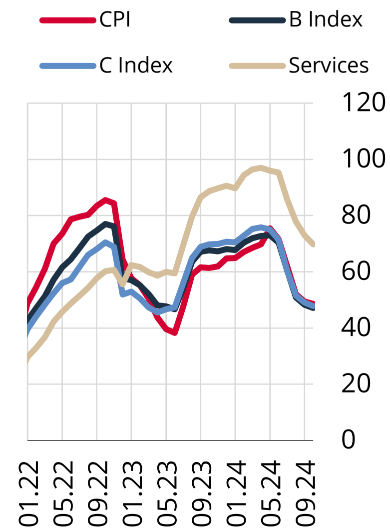
Headline inflation and trend indicators continue to decline. Meanwhile, services inflation is on an improving trend (Chart II.2.11). Monthly inflation developments have been on a downward trend due to mild goods inflation and the slowdown in services inflation but recorded a rise in recent months stemming mostly from food prices (Chart II.2.12). The services inflation outlook continues to be impacted by time-dependent pricing and backward-indexation behaviors. The price increases in rent and education subgroups have contributed to the high levels of inflation. The decline in contract renewal rates and rent renewal reference rates towards the end of the year, along with the continued decline in annual inflation and improvement in expectations, are expected to contribute to the slowdown in rent price increases.

**Chart II.2.10: Central Government Budget Indicators** (12-Month Cumulative, %)



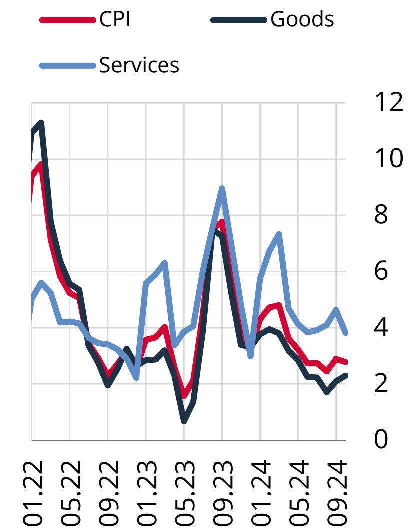

Source: MTF Last Obsv.: 10.24
Note: Estimated value for 2024 Q3 and Q4 GDP.

**Chart II.2.11: Annual Inflation Developments** (Annual % Change)




Source: TURKSTAT Last Obsv.: 10.24
Note: The B index is obtained by excluding unprocessed food products, energy, alcoholic beverages, tobacco and gold items from the CPI, and the C index is obtained by excluding food and non-alcoholic beverages from the B index.

**Chart II.2.12: Monthly Inflation Developments** (Monthly % Change, 3-Month MA)




Source: TURKSTAT Last Obsv.: 10.24

## Box II.2.I: Steps for Effective Functioning of Financial Markets

This box presents, under main headings, a summary of measures and policy steps implemented in the current reporting period to strengthen macro financial stability and contribute to the functioning of market mechanisms.

### Table II.2.I.1: Major Measures and Regulations for Financial markets

**1. Policy Rate and Central Bank's Liquidity Management**

| Announcement/ Regulation Date | Measure/ Regulation |
|---|---|
| 07.06.2024 | FX collateral deposit buying rates was reduced from 4% to 3.75% for the euro for all maturities,<br>FX collateral deposit selling rates for euro were reduced from 6% to 5.75% for one-week maturity, and from 6.50% to 6.25% for one-month maturity,<br>The interest rate paid for the excess amount over the reserve requirement for notice FX deposit accounts was decreased from 4.75% to 4.5%. |
| 27.06.2024 | The one-week repo auction rate was kept unchanged at 50%. |
| 27.06.2024 | In the Turkish Lira Currency Swap Market, the total amount of outstanding swap sales (the CBRT's FX buying at the spot leg and selling FX on the maturity date) transactions was limited to 0.5% of the FX Markets transaction limits. |
| 28.06.2024 | Turkish lira Gold Swap Market transactions conducted via the quotation method were terminated. |
| 19.07.2024 | FX Gold Swap Market transactions conducted via the quotation method were terminated. |
| 23.07.2024 | The one-week repo auction rate was kept unchanged at 50%. |
| 25.07.2024 | Turkish Lira Currency Swap Market transactions conducted via the quotation method were terminated. |
| 26.07.2024 | In order to diversify and effectively use sterilization tools, in addition to the TRY deposit buying auctions held between 11:00-11:30, it was decided to open additional TRY deposit buying auctions during the day when deemed necessary. |
| 02.08.2024 | In order to diversify sterilization tools, the CBRT started to hold sell-side Turkish lira- currency swap auctions (FX sales against TRY by the CBRT on the maturity date). |
| 12.08.2024 | In addition to the additional instruments allowing sterilization through auctions, the CBRT decided to expand the instrument framework to allow borrowing from banks and non-bank financial institutions in other money markets via the quotation method. |
| 20.08.2024 | The one-week repo auction rate was kept unchanged at 50%. |
| 13.09.2024 | FX collateral deposit buying rates for the euro was reduced from 3.75%% to 3.5%% across all maturities. Meanwhile, FX deposit selling rates for euro were reduced from 5.75% to 5.5% for a maturity of one week and from 6.25% to 6% for a maturity of one month. |
| 19.09.2024 | The one-week repo auction rate was kept unchanged at 50 percent. |
| 19.09.2024 | The interest rate applied to FX collateral deposit buying rates for the USD was reduced from 5.50% to 4.75% across all maturities. Meanwhile, FX deposit selling rates for the USD were reduced from 7.75% to 7% for a maturity of one week and from 8.50% to 7.75% for a maturity of one month.<br>The interest rate applied to the amount exceeding the required reserve amount for notice FX deposit accounts was reduced from 4.50% to 3.75%. |
| 17.10.2024 | The one-week repo auction rate was kept unchanged at 50%. |
| 31.10.2024 | In order to diversify sterilization tools, the CBRT started to hold sell-side Turkish lira Gold Swap Auctions (Gold sales against TRY by the CBRT on the maturity date). |
| 21.11.2024 | The one-week repo auction rate was kept unchanged at 50%. |

**2. Reserve Requirements**

| Announcement/ Regulation Date | Measure/ Regulation |
|---|---|
| 28.06.2024 | The CBRT terminated the additional reserve requirement maintenance based on the leverage ratio. |
| 20.07.2024 | - In the scope of the reserve requirement practice based on loan growth, the monthly growth limit for FX loans was lowered from 2% to 1.5%<br>- The scope of the exemption for investment loans was expanded and it was decided to exempt investment loans extended in the scope of the funding provided by international development finance institutions from the growth limits for Turkish lira and FX loans. |

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|---|---|
| 29.08.2024 | - The monthly growth target was increased to 0.8 points for banks with real person TRY deposit shares between 45% and 50%.<br>- The monthly growth target was abolished for banks with real person TRY deposit shares exceeding 60%, and a condition was introduced to keep this share above 60%.<br>- Legal persons' KKM accounts were included in the calculation of the total target for KKM accounts' transition to TRY and renewals.<br>- The upper limit for the remuneration of required reserves, which should be maintained for TRY deposits based on the rate of transition to TRY, was increased to 84% of the policy rate.<br>- The ratio for maintaining TRY required reserves in blocked accounts was increased by 5 points. |
| 21.09.2024 | - Reserve requirement ratios were increased from 12% to 15% for short-term TRY deposits, from 10% to 12% for long-term TRY deposits while the ratio for TRY-denominated required reserves that should be maintained for FX deposits were decreased from 8% to 5%.<br>- It was decided that the remuneration of required reserves that should be maintained for TRY deposits would no longer be conditional on the transition-to-TRY rate.<br>- The maximum commission rate of 5% applied based on the level of transition-to-TRY rate was raised to 8%. |
| 22.11.2024 | - Reserve requirement ratios for short-term TRY deposits were raised from 15% to 17%, and the ratio for TRY-denominated required reserves that should be maintained for foreign currency FX deposits were decreased from 5% to 4%.<br>- The TRY deposit share target for legal persons was abolished.<br>- The total target for KKM accounts' transition to TRY and renewals was reduced from 75% to 70%. |

**3. Rediscount Credits and Advance Loans**

| Announcement/ Regulation | Measure/ Regulation |
|---|---|
| 01.07.2024 | Following the reduction of the minimum rate of export proceeds to be sold to the CBRT from 40% to 30%, the minimum rate of FX selling obligation for rediscount credits for export and FX-earning services was revised as 30%. |
| 09.09.2024 | FX purchases equivalent to a maximum of USD 50,000 during the commitment period, FX sold within five business days after purchase, and FX purchases made with the balance at the end of maturity of conversion accounts and participation accounts were exempted from the firms' no-FX-buying commitment to be eligible for rediscount credits for export and FX- earning services. |
| 8.10.2024 | The daily limit for rediscount credits for export and FX- earning services was raised from TRY 3 billion to TRY 4 billion. |
| 8.10.2024 | The condition of being a net exporter to be eligible to use rediscount credits for export and FX- earning services was cancelled and replaced with the implementation of an exporter score, to be effective as of January 13, 2025. Accordingly, it was decided that:<br>Excluding rediscount credits/ financing extended by Turkish Eximbank, firms with an exporter score above the threshold value will be extended rediscount credit/financing, and the threshold value will be performance score or potential score above 40 points.<br>It was decided that the following conditions will suffice for extending a rediscount credit/ financing without calculating the exporter score:<br>- Firms in the defense industries sector,<br>- Firms seeking to use rediscount credit/ financing for financing FX-earning services,<br>- Firms with a net sales revenue (turnover) of TRY 5 billion or more in the last fiscal year and export revenues of USD 500 million or more in the last fiscal year,<br>- Firms applying with a commitment to export high-tech products,<br>- Firms that will use rediscount credits/financing to finance exports after shipment,<br>- Newly established companies, which will use rediscount credits/financing by declaring a proforma invoice or contract in the current year, provided that an export receivables insurance has been established, will be exempted from the exporter score practice. |
| 11.11.2024 | The interest rate and interest deduction items to be applied to advance loans against investment commitments have been revised to ensure that changes in the policy rate are reflected in the loan rate. Accordingly, it was decided that the base rate would be either 30% or 70% of the policy rate -whichever is the lower- the discount rates to be provided will be determined in proportion to the base rate. |

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|---|---|
| 22.11.2024 | It was decided that companies, which will use rediscount credits for export and FX-earning services and advance loans against investment commitment, shall submit a document stating that they have no finalized SSI premium debt or tax debt. It was stipulated that firms with finalized SSI premium debts or tax debts would pay off these debts first with the rediscount credits and advance loans that they are extended.<br>As for rediscount credits arising from currency swap agreements, it was decided that it would be a prerequisite for the firms not to have SSI premium debts or tax debts before they can utilize the credits. |

**4. Deposits / Participation Funds and Payment Systems**

| Announcement/ Regulation Date | Measure/ Regulation |
|---|---|
| 1.05.2024 | The withholding tax rates for income and earnings from deposits were set as follows:<br>- 7.5% for demand deposit accounts and time deposit accounts with maturities up to (and<br>- including) six months,<br>- 5% for time deposit accounts with maturities up to (and including) one year,<br>- 2.5% for time deposit accounts with maturities longer than one year.<br>The withholding tax rates for income and earnings from bonds and bills issued by banks, and income and earnings from lease certificates with these banks as the fund users were set as follows:<br>- 7.5% of the income provided to those with maturities up to (and including) six months,<br>- 5% of the income provided to those with maturities up to (and including) one year,<br>- 2.5% of the income provided to those with maturities longer than one year,<br>- 7.5% of earnings derived from the disposal of those held less than (and including) six months,<br>- 5% of earnings derived from the disposal of those held for less than (and including) one year,<br>- 2.5% of earnings derived from the disposal of those held for more than one year.<br>It was decided to set the withholding tax rate at 7.5% for income and earnings from asset-based securities, mortgage-based securities, mortgage-backed securities, and asset-backed securities issued by mortgage finance institutions. |
| 20.07.2024 | It was decided that YUVAM accounts can only be opened if the foreign currency amount is received by transfer from abroad or upon submission of a document certifying that the foreign currency amount is brought from abroad in cash. |
| 1.08.2024 | It was decided that the withholding tax rate for KKM accounts, which was previously set at 0%, will be implemented as follows until October 31, 2024:<br>- 7.5% for KKM accounts with maturities up to 6 months (including 6 months)<br>- 5% for KKM accounts with maturities up to 1 year (including 1 year) and the other rates will continue to be applied as they are until October 31, 2024 (including this date). |
| 2.09.2024 | The deadline for conversion of resident real persons' FX deposit account, FX participation fund account and gold account balances in banks into conversion accounts, which was March 31, 2024, was extended until August 31, 2024. |
| 1.11.2024 | The withholding tax ratios to be applied to KKM (FX-protected) time deposit accounts / FX-protected time participation accounts and TRY deposit accounts that are converted from FX deposit accounts/ FX participation fund accounts over the conversion rate:<br>- 10% for accounts with maturities up to 6 months (including 6 months),<br>- 7.5% for accounts with maturities up to 1 year (including 1 year),<br>- 5% for accounts with maturities longer than 1 year,<br>The withholding tax ratios to be applied to TRY deposit accounts that are converted from gold deposit accounts/ gold participation fund accounts over on the conversion rate:<br>- 10% for accounts with maturities up to 6 months (including 6 months),<br>- 7.5% for accounts with maturities up to 1 year (including 1 year),<br>The withholding tax ratios to be applied to deposit accounts:<br>- 10% for demand accounts, notice accounts and time deposit accounts with maturities up to 6 months (including 6 months),<br>- 7.5% for time deposit accounts with maturities up to 1 year (including 1 year),<br>- 5% for time deposit accounts with maturities longer than 1 year, |

| | |
|---|---|
| | The withholding tax ratios to be applied to profit shares paid by participation banks to participation accounts:<br>- 10% for demand accounts, notice accounts, private checking accounts and time deposit accounts with maturities up to 6 months (including 6 months),<br>- 7.5% for time deposit accounts with maturities up to 1 year (including 1 year),<br>- 5% for time deposit accounts with maturities longer than 1 year,<br>The withholding tax rates for income and earnings from bonds and bills issued by banks, and income and earnings from lease certificates issued by asset leasing companies (both acquired between November 1, 2024 and January 31, 2025- this date included) with these banks as the fund users were set as follows;<br>- 10% for income provided to those with maturities up to six months (6 months included),<br>- 7.5% for income provided to those with maturities up to 1 year (including 1 year),<br>- 5% for income provided to those with maturities longer than 1 year,<br>- 10% for earnings derived from the disposal of those held less than (and including) six months,<br>- 7.5% for earnings derived from the disposal of those held for less than (and including) one year,<br>- 5% for earnings derived from the disposal of those held for more than one year.<br>The withholding tax rate will be 10% for income and earnings from mutual funds (excluding variable funds, mixed funds, Eurobonds, external borrowing funds, foreign funds, hedge funds and mutual funds with the term "foreign currency" in their titles) acquired between November 1, 2024 and January 31, 2025. |

**5. Regulations Regarding Loan Extension, Installments, and Debt Repayments**

| Announcement/ Regulation Date | Measure/ Regulation |
|---|---|
| 28.06.2024 | Effective July 01, 2024, the early loan repayment fee calculation method was changed. Accordingly, it was decided to calculate the early repayment fee for fixed rate Turkish lira loans based on the loan interest rate and the remaining weighted average maturity; for fixed rate FX loans or FX-indexed loans based on a fixed interest rate and the remaining weighted average maturity so as not to exceed the rate calculated by the formula determined by the Central Bank, and the early repayment fee for floating rate loans shall be at most 2% of the early repayment amount. |
| 26.09.2024 | As per the decision taken by the BRSA,<br>- It was decided that the minimum amount to be paid from the term debt of credit cards was set at 20% of the term debt for credit cards with a limit of TRY 50 thousand or less, and 40% of the term debt for credit cards with a limit of over TRY 50 thousand. |
| 26.09.2024 | As per the decision taken by the BRSA,<br>Regarding personal credit cards;<br>- The existing debt balances of personal credit cards for which the minimum due amount for the term debt has not been paid as of the date of the decision may be restructured for a maximum of 60 months if requested by the cardholders; and the credit card limits allocated to the cardholder by the relevant bank shall not be increased until 50% of the credit card restructuring debt has been paid,<br>Regarding general purpose loans;<br>- Debt balances of general-purpose loans extended before the date of the decision and whose principal and/or interest payments are more than 30 days overdue as of the date of the decision, may be restructured for a maximum period of 60 months, if requested by the debtor within 1 year from the date of this decision. |
| 27.09.2024 | Effective from November 1, 2024, the maximum monthly interest rates to be applied to personal credit cards have been differentiated based on the term debt balance. Accordingly, over the current reference rate, the maximum monthly contractual interest rates to be applied to credit card transactions (excluding cash withdrawals or utilization transactions) in Turkish lira will be as follows;<br>- 3.5% for personal credit cards with a term debt balance below TRY 25 thousand,<br>- 4.25% for personal credit cards with a term debt balance between TRY 25 thousand and TRY 150 thousand,<br>- 4.75% for personal credit cards with a term debt balance over TRY 150 thousand as well as for corporate credit cards irrespective of their term debt amount.<br>Moreover, the maximum interest rate to be applied in the restructuring of personal credit card debts was limited to the reference rate. |

### 6. Classification of Loans and Receivables, and Legal Ratio Limitations

| Announcement/ Regulation Date | Measure/ Regulation |
|---|---|
| 19.09.2024 | In calculating capital adequacy standard ratios, the additional risk weights have been abolished for vehicle loans extended to consumers for buying passenger cars, for vehicle-backed loans and financial leasing transactions, general purpose loans (excluding overdraft accounts), personal credit cards (including credit card expenditures and cash withdrawals) and loans backed by residential house mortgages provided that the consumer themselves, their spouse or children under the age of 18 own a house, and it was decided to revert to relevant minimum standards set out in the Regulation on Measurement and Assessment of Capital Adequacy of Banks.<br>It was decided that relevant minimum standards would be 35% for the first and other housing loans, and 75% for general purpose loans, vehicle loans and credit cards. |

### 7. Other Regulations

| Announcement/ Regulation Date | Measure/ Regulation |
|---|---|
| 2.07.2024 | In the Capital Markets Law, regarding crypto assets:<br>- Definitions of crypto asset, wallet, crypto-asset service provider, crypto-asset custody service, platform and TUBITAK were added,<br>- The procedures and principles regarding the establishment and operation of crypto-asset service providers were regulated, and the conditions to be sought in the partners of crypto-asset service providers were laid out,<br>- It was stated that the Board was authorized to establish regulatory procedures regarding crypto-assets providing rights specific to capital market instruments,<br>- Principles regarding the activities of crypto-asset service providers, and the transfer and custody of crypto assets were established,<br>- It was stated that crypto-asset service providers would be given a certificate of authorization indicating the activities they will perform, and banks were obliged to receive an opinion of appropriateness from the BRSA,<br>- It was stipulated that the Board was authorized to decide to remove the relevant content and/or block access to unauthorized capital market activities,<br>- Measures to be applied regarding activities of crypto-asset service providers were specified,<br>- The supervision of crypto-asset service providers and sanctions to be imposed were included,<br>- It was decided to regulate the penalties to be applied to unauthorized activity, embezzlement offenses and personal liability issues in crypto-asset service providers. |