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CENTRAL BANK OF THE REPUBLIC OF TURKEY

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This report, aimed at informing the public, is based mainly on March 2021 data. Nevertheless, the Report includes developments and evaluations up to its date of publication in Turkish version. The full text is available on the CBRT website. The CBRT cannot be held accountable for any decisions taken based on the information and data provided therein.

Foreword

Uncertainties regarding the course of the global coronavirus pandemic that emerged in 2020 have persisted to some extent since the release of the last volume of the Financial Stability Report. On the other hand, the recovery trend in global economic activity was maintained on the back of the gradual easing of social isolation measures and the expansionary fiscal and monetary policies specific to the period. The strong course in the Turkish economy that started in the third quarter of 2020 was supported by domestic and external demand. While industrial production followed a robust course, the recovery in the services sector remained relatively limited due to pandemic-driven uncertainties and restrictive measures. The improvement in the current account balance is projected to continue in the upcoming period backed by the increase in external demand, the fall in gold imports, and the slowdown in credits due to the tightening of financial conditions.

Indebtedness has increased around the world since 2020 with the economic measures taken against the pandemic. In this period, there were increases in the debt ratios of both households and the corporate sector, but these ratios were still relatively low and below the average of emerging economies. The ongoing improvement in firms' FX positions as well as the strong course in short-term FX debt coverage increase the resilience of firms' financial structure to exchange rate developments. On the household side, consumer loan growth has recently slowed down after it has increased during the pandemic. Maintaining this trend is key to a sustainable inflation and current account balance, and macroeconomic and financial stability. Moreover, loan growth rates are expected to continue decline in the upcoming period.

Asset quality-driven risks remain manageable thanks to banks' prudent provisioning policies coupled with solid capital and liquidity buffers and strong balance sheet structures.

The CBRT will continue to use decisively all available instruments in pursuit of the primary objective of price stability. The stability in the general price level will foster macroeconomic stability and financial stability through a decline in country risk premiums, the reversal in currency substitution, the onset of the upward trend in foreign exchange reserves and a lasting decline in financing costs. The tight monetary stance will serve as a significant buffer against external and temporary volatilities in the context of inflation expectations, pricing behavior and financial market developments.

In this context, I hope that the 32nd volume of the Financial Stability Report, which focuses on the current state and outlook for financial stability as well as global and domestic macroeconomic developments, will be of benefit to all readers.

Prof. Şahap KAVCIOĞLU

Governor

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