

Box 1.1

Liraization Strategy in the Policy Review Process

The primary objective of the CBRT is to achieve and maintain price stability. Structuring the financial system on Turkish lira instruments will enable a sustainable foundation for price stability. In order to achieve the ultimate goal, it is important that loans and monetary aggregates grow at a rate consistent with sustainable price stability and that the share of the Turkish lira in these aggregates is increased. In this context, the "Liraization Strategy" constitutes one of the essential elements of the CBRT's policy review process.

The liraization strategy is created with a holistic approach that focuses on the use of the Turkish lira in the system through new financial products, collateral diversification and regulations regarding liquidity management practices.

Within the scope of this strategy, the CBRT has recently implemented a set of practices. Encouraging the conversion of foreign currency and gold deposits into TL in December 2021 was an important step taken towards strengthening the preference for TL by depositors. In its first month, this facility enabled to increase the TL share in banks' balance sheets and extended the funding maturity of banks. This financial product helps support financial stability by strengthening bank balance sheets.

In line with the principle of holding only Turkish lira required reserves for Turkish lira liabilities, the facility for holding FX for TL required reserves was terminated in October 2021, and it is planned to terminate the facility for holding standard and scrap gold for Turkish lira liabilities in 2022. In accordance with the aforementioned principle, it is planned to encourage securing Turkish lira funding only with Turkish lira instruments.

The elements of liquidity management such as funding amount, instruments used, allocation in the banking system, maturity, and collateral structure are important for the efficiency of the monetary policy transmission mechanism. In this regard, the size of the OMO and swap transactions, which are the main components of Turkish lira liquidity management, their share in total CBRT funding and the collateral structure are under review within the scope of the liraization strategy.

As a first step, it was decided that banks should pledge at a higher rate of GDDS and/or lease certificates issued domestically by the Asset Leasing Company of the Turkish Treasury (ALCTT) as collateral for their transactions carried out in the CBRT Interbank Money Market. In the upcoming period, additional steps are planned to increase the use of TL-denominated assets as collateral in the funding structure. In addition, the reduction of the share of foreign currency denominated collateral pledged against the CBRT TL funding operations is on the agenda.

In March 2020, the CBRT launched the Turkish lira rediscount credit program in order to facilitate export companies' access to Turkish lira financing, to reduce foreign currency liabilities in company balance sheets, and to support employment. In September 2021, the requirement that rediscount credits are extended to net exporter companies was introduced, which strengthens the supportive role of rediscount credits for balance of payments and financial stability. By allowing rediscount credits to be used only in specified Turkish lira-denominated expenditures, it has been ensured that there will be no foreign currency demand originating from the funding by the Central Bank and that the rediscount credits are used in line with their purpose.

Within the scope of the pandemic measures, the Advance Loans against Investment Commitment was announced in June 2020, to support investments in sectors with high productivity, thereby reducing imports and boosting exports with long-term Turkish lira loans. Practices that support the potential production growth and finance this in Turkish lira constitute the essential element of the liraization strategy. Within the scope of the vision announced in the 2022-2024 Medium-Term Program, efforts are continuing to increase the effectiveness of the use of long-term Turkish Lira Advance Loans in domestic production and green investments.

Providing an effective intermediary function of financial system is only possible by bringing savings together with production, investments and exports in areas with high productivity. The use of the loans provided to the real sector by the financial system in accordance with their determined purposes is essential for financial stability and hence for the strength of the Turkish lira.

Balanced growth in commercial and retail loans is a requirement for price stability and financial stability. In this sense, the effective implementation of the intermediary function by the financial system will increase the potential growth, improve the current account balance and limit the risks to price stability. By implementing its strategy with a holistic approach, the CBRT will continue using its instruments without compromising financial stability, in order to increase the weight of Turkish lira in the balance sheets of households, corporates, banks and all other financial institutions.

Within the framework of the liraization strategy in the CBRT's policy review process, the focus of all measures to be implemented in the near, medium and long term will be to ensure the liraization of the financial system in order to maintain price stability on a sustainable basis.