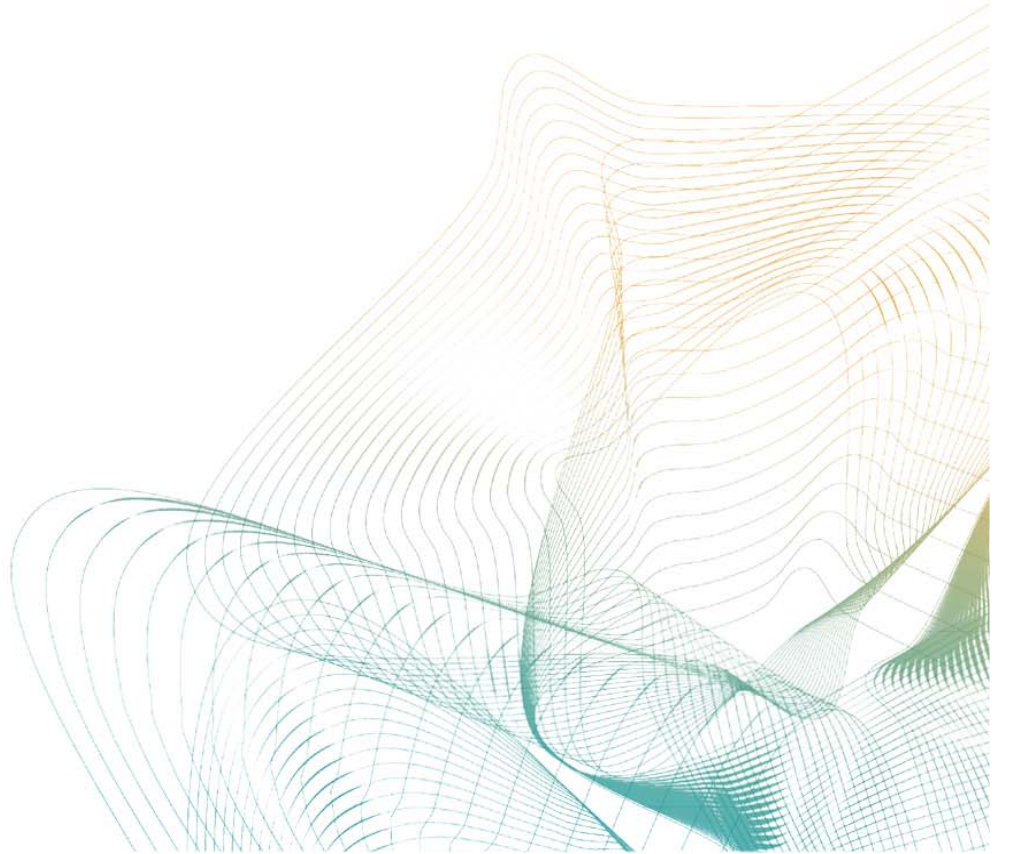




Financial Stability Report

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CENTRAL BANK OF THE REPUBLIC OF TURKEY

Head Office

Hacı Bayram Mah., İstiklal Cad. No:10 06050 Ulus Altındağ Ankara, Turkey

Tel: (+90 312) 507 50 00

Fax: (+90 312) 507 56 40

World Wide Web Home Page: <http://www.tcmb.gov.tr>

E-mail: bankacilik@tcmb.gov.tr

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This report, aimed at informing the public, is based mainly on September 2020 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

Financial stability pertains to the macrofinancial system maintaining its resilience against shocks and sustaining its effective functioning. Undoubtedly, global and domestic macrofinancial instabilities lead to heavy economic and social costs. Therefore, closely monitoring and analyzing global and domestic macrofinancial developments, anticipating financial stability-related risks and vulnerabilities, and taking the necessary macroprudential measures in cooperation with relevant stakeholders in a timely manner before the emergence of the vulnerabilities are among the most important duties of relevant authorities.

Through financial stability reports, central banks analyze the global and domestic macrofinancial developments, assess the outlook of the macrofinancial system and the risks to financial stability in their countries, and share their evaluations with the public. I believe that sharing these analyses and evaluations with the public in line with the fundamental central banking principles of transparency and accountability is very important for reducing the potential risks and taking timely measures to prevent vulnerabilities.

In the year 2020, the largest exogenous shock in recent history was faced on a global scale. Due to the global spread of the coronavirus outbreak, in the first quarter of the year, the growth outlook weakened significantly in the world and in Turkey, and expansionary fiscal and monetary policies were introduced to offset the adverse macrofinancial effects of the pandemic. The recovery in the Turkish economy became evident as of the summer months. On the other hand, the current account deficit widened due to stronger domestic demand and gold imports driven by the rapid growth in credits and monetary aggregates under pandemic-specific conditions, while the trend in deposit dollarization has strengthened. This created pressure on exchange rates and foreign exchange reserves, leading to an increase in risks to price stability and macrofinancial stability.

The primary objective of the Central Bank of the Republic of Turkey is to achieve and maintain price stability. Price stability is considered to be a necessary ingredient, a prerequisite for financial stability. On the other hand, financial stability is one of the most crucial factors for price stability.

Our tight monetary stance focused on achieving and maintaining price stability will support the mitigation of existing macrofinancial risks. In line with the objectives to maintain financial stability and strengthen the financial system, domestic and global developments and risk factors will be closely monitored with a holistic approach. Improvement and effective functioning of financial markets will be secured, and effective policies will be implemented in coordination with relevant stakeholders to prevent the formation of macrofinancial vulnerabilities and reduce the existing ones.

I hope that the 31st volume of the Financial Stability Report, which includes the recent financial stability developments and outlook as well as global and domestic macrofinancial developments, will be of benefit to all readers.

Naci AĞBAL
Governor

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