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**Joint Statement by Ms. Lim, Mr. Nicholl, Ms. Wongwaisiriwat, and Mr. Yoo on Turkey  
(Preliminary)  
Executive Board Meeting  
January 18, 2023**

We thank staff for a set of informative reports and Mr. Mert and Mr. Akben for their insightful Buff statement. Türkiye's recovery from the pandemic has been remarkable, although policy measures to boost the economy have also increased pre-existing vulnerabilities in the economy. Significant currency depreciation and record-high inflation are worrisome and downside risks to medium-term outlook have increased. In order to achieve a more durable recovery, firm monetary and prudent financial sector policies along with targeted fiscal support is warranted. **We broadly agree with the staff appraisal and offer the following points for emphasis.**

**Policy responses need to be more effectively geared towards addressing the weakening external position in Türkiye.** We observe the notable differences in views between staff and the authorities on several key issues ranging from the growth and inflation projections, reserve adequacy to the appropriate policy mix. While views can understandably diverge on projections of macro variables, the underlying differences in the approach to policy and the assessment of policy effectiveness warrant attention. Notwithstanding the desirable objectives of promoting the use of domestic currency and reallocating credit to more productive sectors, the tools used to achieve them should not be overly complex so as not to lower the efficacy of these tools. Measures like FX-protected deposit scheme incur significant costs on both the government and the central bank, and the true effectiveness of such measures in stemming FX pressure, especially if not complemented by large FX interventions, should be assessed. In this regard, we urge staff to further engage with the authorities regarding the efficacy of these approaches. Broadly speaking, we also encourage carefully phasing out distortive macrofinancial and regulatory measures. Amid unusually large global risks, we see the potential role of Fund lending facilities in providing the necessary insurance for the Turkish economy as well as limiting regional spillovers. *We therefore wonder whether the dialogue on the precautionary or stand-by arrangements is ongoing or whether staff has established a threshold at which it will be brought up for discussion.*

**We welcome continued work on the Integrated Policy Framework that is informed by real country cases, and the case of Türkiye points to the key challenge in designing the mix of**

**interest rate and macroprudential policies that is most effective.** The thorough analysis of macroprudential and regulatory measures in the SIP is useful, but among multiple policy objectives, we think the immediate priority should be to contain inflation especially given its link with the sharp lira depreciation. In this regard, we encourage staff to address the divergence in views regarding the effectiveness of macrofinancial and regulatory measures in curbing lira depreciation, as exchange rate passthrough to inflation is a critical transmission channel. Close and ongoing engagement with the authorities is also needed to better understand the local inflation dynamics and further bridges the differences in views, for instance on the role of fiscal policy in helping to reduce inflation inertia and support the disinflation process.

**A more cautious approach to fiscal stance, along with well-targeted support measures for the vulnerable, should be considered in the short term to preserve fiscal buffer and investor confidence.** While we welcome the authorities' commitment to fiscal discipline and their plan of no expansionary fiscal spending ahead of the elections, precarious economic circumstances may require a careful recalibration of fiscal stance—if nothing else it should involve a substantive review of fiscal priorities. We note that the authorities agreed with the prudent management of fiscal risks arising from SOEs and PPPs. However, unlike staff's more conservative assumptions, the authorities assessed fiscal risks to be contained and had diminished. *Staff's view on this assessment is welcome.*

**A strong commitment by the authorities to accelerating structural reforms is required to achieve a more sustainable and inclusive growth.** We encourage the authorities to boost long-term growth potential by improving the business environment and increasing labor force participation and the quality of human capital, particularly for women. The World Bank's Country Climate and Development Report (CCDR) for Türkiye is a remarkable step and expected to help the country move toward the net zero emission by 2053 by finding out country's climate vulnerabilities and policy priorities. *We would like staff to elaborate on Fund's CD support on climate change that corresponds to the CCDR.*