

SU/21/70

May 27, 2021

**The Acting Chair's Summing Up  
Turkey—2021 Article IV Consultation  
Executive Board Meeting 21/53  
May 27, 2021**

Executive Directors broadly agreed with the thrust of the staff appraisal. They noted that, as in other countries, the COVID-19 pandemic has taken a severe toll on Turkey. But while the initial collapse in economic activity was similar to other countries, the recovery has been exceptional. Directors commended Turkey for this remarkable recovery, which was driven by rapid money growth and credit provision by state-owned banks, and extensive liquidity support, while public debt has remained contained. Directors noted that these policies helped the strong recovery, but also fueled inflation and external imbalances, and exacerbated pre-pandemic vulnerabilities notably low reserves, large external financing needs, and dollarization. Going forward, Directors underscored the need to adopt policies to reduce vulnerabilities, mitigate scarring, and improve prospects for durable growth, while also responding to pandemic-related needs in the short term. Directors also strongly commended Turkey for hosting many refugees.

Directors underscored the importance of strongly committing to, and delivering, a firm monetary policy stance to bring inflation towards target. They welcomed the shift in that direction and encouraged a further timely and well-calibrated tightening if inflation expectations increase further. Directors also emphasized the importance of strengthening central bank independence, rebuilding high-quality reserves, further simplifying the operational framework, and improving policy communication.

Noting the relatively tight fiscal targets for 2021, Directors generally saw scope for additional targeted and temporary support in 2021 to help vulnerable sections of society and to minimize scarring. The support should be accompanied by a credible consolidation plan to lower debt over time, to be legislated now and enacted when the recovery is entrenched. At the same time, some Directors saw merit in firm fiscal restraint to reduce persistent imbalances and boost policy credibility. Directors encouraged further steps to strengthen debt management, better monitor quasi-fiscal operations and extra budgetary institutions, and enhance fiscal transparency more broadly.

In the financial sector, Directors called for further reining in and refocusing state-owned bank credit growth, as well as carefully monitoring bank foreign exchange liabilities. They encouraged gradually reversing regulatory flexibility and loan deferrals as the pandemic recedes. Most Directors agreed that, once the pandemic fades, a third-party asset quality review would help in better understanding underlying bank health. Additional reforms to strengthen regulatory, resolution, and AML/CFT frameworks would also help financial stability.

Directors called for focused structural reforms to minimize long-term adverse effects of the pandemic. They recommended focusing on female labor force participation and youth employment, increasing labor market flexibility, and ensuring that viable but temporarily insolvent firms are restructured while winding down unviable firms.

It is expected that the next Article IV consultation with Turkey will be held on the standard 12-month cycle.