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January 15, 2023

**Statement by Mr. Binzarah and Ms. Alshaikh on Republic of Türkiye
(Preliminary)
Executive Board Meeting
January 18, 2023**

We thank staff for the Informative set of reports and Mr. Mert and Mr. Akben for their helpful Buff statement. Since we broadly share staff's assessment and policy recommendations, we would limit our remarks to the following points for emphasis.

Given the positive output gap and high inflation we agree that macroeconomic policies should be sufficiently tightened in a coordinated manner to restore price stability. To this end, we concur with staff that a tight fiscal stance with targeted measures to support the most vulnerable is needed to help contain domestic demand pressures and preserve the fiscal space. Moreover, and as rightly noted by staff, advancing fiscal governance reforms remain a key priority to address fiscal risks associated with Quasi-fiscal operations and contingent liabilities. Here, we welcome the authorities' commitment to fiscal discipline to maintain fiscal policy longstanding role as an anchor for economic stability.

We share staff's view that decisive interest rate hikes are warranted to control inflation and alleviate pressures on the exchange rate and foreign reserves. Moreover, reforms to strengthen the central bank's independence and its price stability mandate remain vital to enhance monetary policy credibility and anchor inflation expectations. In the same context, and as staff rightly noted, a gradual and careful phasing out of the increasingly complex macro-financial and regulatory measures to manage credit provision would help contain the associated distortions and reinstate interest rate as the primary monetary policy tool.

We note the Financial System Stability Assessment indicating that while financial sector has shown areas of resilience, there are significant risks to financial stability. Therefore, we encourage the authorities to remain vigilant and consider staff's recommendations to

address these risks including by closely monitoring systemic FX liquidity, aligning regulatory and accounting practices with international standards, and addressing gaps identified in the last FSAP to strengthen the regulatory and supervisory frameworks. In the same vein, we welcome the authorities' commitment to strengthen AML/CFT framework in line with FATF action plan and look forward to further progress in this area.

Finally, we underscore the importance of advancing supply side reforms to enhance productivity and boost potential growth. In this regard, we encourage the authorities to improve the business environment, labor market flexibility, the quality of human capital, and female labor force participation.

With these remarks, we wish the authorities well in their reform efforts.