

SU/23/10

January 24, 2023

**The Acting Chair's Summing Up  
Republic of Türkiye—2022 Article IV Consultation  
Executive Board Meeting 23/4  
January 18, 2023**

Executive Directors agreed with the thrust of the staff appraisal. They commended Türkiye for its remarkable recovery from the pandemic, noting the contribution of stimulative policies and a dynamic private sector. However, the policies that buoyed growth also exacerbated vulnerabilities. Directors noted that the policy rate cuts in late 2021 led to significant pressure on the lira, and measures to relieve those pressures, while helping, did not address the root causes of Türkiye's economic problems, with the lira remaining under pressure for much of 2022, inflation reaching multi-year highs, and core reserves remaining deeply negative. The spillovers from Russia's invasion of Ukraine also exacerbated Türkiye's external imbalances and added to inflation pressures.

With high inflation at risk of becoming entrenched, Directors stressed that prompt and sizable interest rate hikes are needed, complemented with steps to strengthen central bank independence. They also emphasized the importance of carefully phasing out regulatory measures, allowing the policy interest rate to act as the primary monetary policy instrument. Directors welcomed the authorities' aim to replenish international reserves as conditions allow.

Directors acknowledged that Türkiye's public debt burden remains low and commended the authorities' commitment to fiscal discipline. Nonetheless, Directors cautioned against rising fiscal risks from growing spending pressures and contingent liabilities, including from FX-protected schemes. They recommended maintaining a tight fiscal stance to preserve buffers and contain domestic demand, while focusing on targeted measures to support the most vulnerable. Directors welcomed the authorities' progress in enhancing fiscal governance but encouraged further steps to increase transparency and strengthen debt management more durably.

In the financial sector, Directors underscored the importance of phasing out regulatory measures to minimize distortions to price formation and capital allocation, while reducing the role of the state in credit provision. They shared the emphasis on strengthening prudential standards and encouraged reversing regulatory forbearance measures to improve asset quality and capital adequacy transparency. Directors recommended integrating crypto assets into the supervisory framework, while taking any further required steps to fully implement the FATF action plans. Directors also broadly supported recommendations in the FSSA, in particular, the importance of increasing attention to FX liquidity monitoring and

contingency planning. They underscored the need to strengthen banking supervision, including by adequately resourcing supervision activities. Directors also encouraged reforming the emergency liquidity assistance framework and strengthening the crisis management framework.

Directors called for targeted structural reforms to foster stronger sustainable growth and increase the economy's resilience to shocks. They welcomed the focus of the consultation on female labor force participation and climate change. Improving the business and regulatory environment, labor market flexibility, and the quality of human capital will be important, as well as closing labor market gender gaps. A comprehensive strategy would help meet Türkiye's climate goals.

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