Box 2.3

Global FX Reserves Developments

The CBRT is responsible for keeping and managing foreign exchange and gold reserves in order to handle the foreign currency domestic and foreign debt payments of the Treasury, to increase the confidence in the national economy in international markets, and to increase the resilience of the economy against the shocks that may occur on global markets. The amount of foreign exchange reserves and the diversity of their sources become increasingly important at times of increased global uncertainty. Diversified reserve management is one of the most important elements of the Liraization Strategy, which is the integrated policy framework of the CBRT, and aims to strengthen foreign exchange reserves and diversify reserve sources. The Liraization Strategy aims to gradually increase the weight of Turkish lira-denominated items in both assets and liabilities of the banking system, and to create an overall Turkish lira-weighted structure in the financial system. In this context, throughout 2022 the CBRT took policy steps covering macroprudential regulations, collateral, liquidity and reserve management that complement monetary policy and strengthen monetary transmission. The steps taken in the field of reserve management are also an important component of the integrated policy framework.

In line with these targets, the Reserve Option Mechanism (ROM) FX facility, which strengthen structural dollarization by providing banks with ease of access to TL liquidity with their FX assets, has been terminated and the amount of Turkish lira funding made through the swap channel has been reduced (total TL equivalent swap transaction stock was USD 49.4 billion at the end of 2021 and decreased to USD 47.1 billion as of December 23, 2022). The Monetary Policy and Liraization Strategy for 2023 states that the Liraization Strategy, which is the integrated policy framework of the CBRT, will be strengthened and continued to be implemented in 2023, and the amount of funding from swap transactions will be gradually reduced in the total funding.

In 2022, CBRT reserve resources have been diversified and international reserves have been strengthened with the steps taken such as the sale of export revenues to the CBRT at a certain rate, the sale of foreign currency obtained from YUVAM accounts to the CBRT, the foreign exchange sales made to the CBRT within the scope of the Citizenship Law, the sale of foreign currency obtained from real estate sales to foreign real persons, and foreign exchange transactions to the CBRT with the Extended Housing Finance Package.

In 2022 the global economy was recovering from the pandemic when geopolitical risks and fresh global uncertainties emerged. While the negative impact of the pandemic on global supply and supply chains has not yet disappeared, war caused 2022 to be a challenging year in many respects for all economies, especially for developing countries. With the outbreak of conflict, supply chains that were still in recovery suffered a significant blow, and trade in commodities, industrial and agricultural products was interrupted to a significant extent. The price movements caused by the decrease in energy supply, and disruptions and restrictions in the supply chains meant even countries that do not carry risks geographically were still adversely affected. While the improvement of supply chains has been helped by the efforts of surrounding countries, especially Türkiye, another important risk factor has emerged in the financial markets. In this period, the rapid and drastic change in monetary policies of developed countries' central banks, especially the US central bank, in response to rising inflation, increased the pressure on developing countries through exchange rate, interest and credit channels.

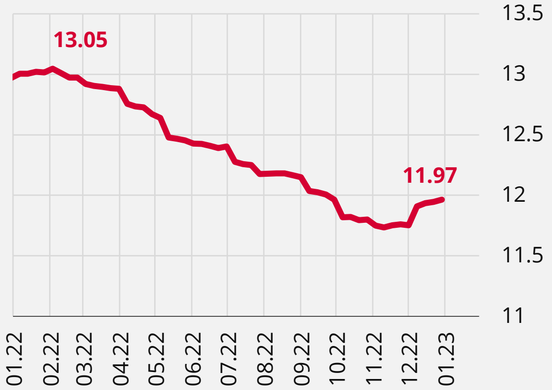
Factors such as proximity to the conflict zone, high energy imports and the need for foreign capital determined the level of sensitivity of the national economies to the shocks. Against this backdrop, countries tried to minimize the macroeconomic effects of shocks by adopting various policies including interest rate hikes, exchange rate intervention, public support, and macroprudential and capital flow measures. As a result, macroeconomic indicators in developing countries worsened in general reflecting rising interest rates, local currencies lost value despite exchange rate interventions, and inflation has risen while growth slowed.

In 2022 (Chart 1) the global reserves of central banks decreased from 13.1 trillion US dollars to 12 trillion US Dollars.

With the new perspective announced and put into practice at the beginning of 2022, Türkiye adopted a policy stance that aims to strengthen financial stability and create the necessary ground for permanent price stability by minimizing the sensitivity of growth and inflation dynamics to foreign capital flows. As a result of the strong contributions of the instruments put into practice within the framework of the Liraization Strategy to the CBRT reserve management, Türkiye managed to increase its international reserves in 2022, the most turbulent period of recent years, and the CBRT reserves rose from 111 billion USD to 129 billion USD (Chart 2).

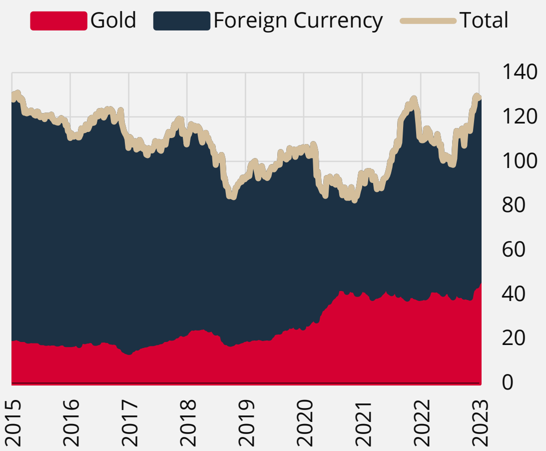
When global international reserve movements are considered in more detail, in addition to capital outflows due to the deterioration in risk appetite and reserve losses due to rising energy imports, foreign exchange interventions that aim to reduce exchange rate pressure are also important in the decline in international reserves. It is common for developing countries to receive data on reserve changes at low frequency and with a delay, and details of reserve movements are not shared. For this reason, it is difficult to estimate the exchange rate intervention amounts on a country basis. Nevertheless, countries such as Thailand, the Philippines, India, Chile, Korea and Czechia announced that they intervened in the foreign exchange market in 2022. The fact that the reserve losses of the countries known to intervene directly or indirectly in the foreign exchange market are relatively large shows that those interventions were effective in the change in reserves (Table 1). At this point, it is noteworthy that the CBRT's foreign exchange and gold reserve changes are significantly different from those of developing countries. The increase in the CBRT's international foreign exchange reserves despite the record-breaking energy imports and portfolio outflows of non-residents, and the fact that the Turkish lira is among the most stable emerging market currencies in this period, reflect the effectiveness of the reserve policies implemented within the scope of the Liraization Strategy.

Chart 1: Global International Reserves
(Excluding Gold, Trillion USD)



Source: Bloomberg.

Chart 2: CBRT International Reserves
(Billion USD)



Source: CBRT.

Table 1: Developing Country Central Banks Changes in International Reserves (%)

	Change in Reserves in 2022 (%)	2022 Year-End International Reserves (Billion USD)	2021 Year-End International Reserves (Billion USD)	Change in Reserves in 2022 (Billion USD)
Türkiye* **	**16%**	**129**	**111**	**18**
S.Africa*	5%	61	58	3
Poland*	0%	167	166	1
Mexico**	-2%	199	202	-3
Malaysia*	-2%	115	117	-2
Colombia*	-2%	57	59	-1
China*	-4%	3307	3427	-120
Hungary*	-5%	41	43	-2
Indonesia*	-5%	137	145	-8
Russia**	-8%	582	631	-49
Peru*	-8%	72	79	-6
South Korea*	-9%	423	463	-40
Brazil***	-10%	325	362	-38
India**	-11%	563	634	-71
Philippines*	-12%	96	109	-13
Thailand**	-12%	217	246	-29
Czechia*	-19%	141	174	-33
Chile*	-24%	39	51	-12
Total	**-6%**	**6670**	**7076**	**-406**

Source: Bloomberg.
*,**,*** Shows the frequency at which central banks announce their balance sheet positions as monthly, weekly and daily, respectively.

In summary, with the diversified reserve management strategy, which is one of the leading elements of the Liraization Strategy implemented by CBRT in 2022, foreign exchange reserves have been increased despite the unfavorable global conditions and a more active reserve management framework has been provided by diversifying the reserve resources. FX reserves, which are strengthened with sustainable and diversified resources, will contribute to permanent price stability and financial stability by reducing the sensitivity of the Turkish lira to domestic and foreign shocks.