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Foreword

Closely monitoring all developments concerning financial stability, we, as the Central Bank of the Republic of Türkiye, share a summary of recent developments with the public in this latest volume of the Financial Stability Report.

In addition to the tight monetary policy in place in our fight against inflation, macroprudential measures we took to support the monetary transmission mechanism have also been contributing to the tightening of financial conditions. As part of the simplification of the macroprudential framework, we abolished the securities maintenance practice and continue our policy of gradually phasing out the FX-protected deposits. In the coming period, we will continue to take further steps to enhance the effectiveness of the market mechanism and to maintain macro financial stability.

Our tight monetary policy stance and macroprudential policy steps have impacted financial markets in a fast and effective way. While the current level of Turkish lira loan rates contributes to the rebalancing in domestic demand, foreign currency loans have recently registered a noticeable growth. To reduce the potential risks that foreign currency loans may pose to the financial system, we decided to include these loans within the loan growth limit regulation as well.

The level of Turkish lira deposit rates encourages savings, thereby increasing the appetite for the Turkish lira. As a consequence, while the decline in FX-protected accounts continues, foreign currency deposit accounts have decreased considerably since April. Against this backdrop, the share of the Turkish lira in the deposit composition has increased significantly.

During this process, enhanced confidence in policies and positive expectations have led to a marked improvement in the country risk premium. Consequently, the corporate and banking sectors have rolled-over their external debt at higher ratios. The tightening in financial conditions has had a limited impact on the asset quality of the banking system. The strong liquidity and capital structure of the banking system will continue to contribute to financial stability.

I hope that the 38th volume of our Financial Stability Report, which includes analyses and evaluations of the current outlook for and risks to financial stability, will be of benefit to all readers.

Fatih KARAHAN, Ph.D.

Governor