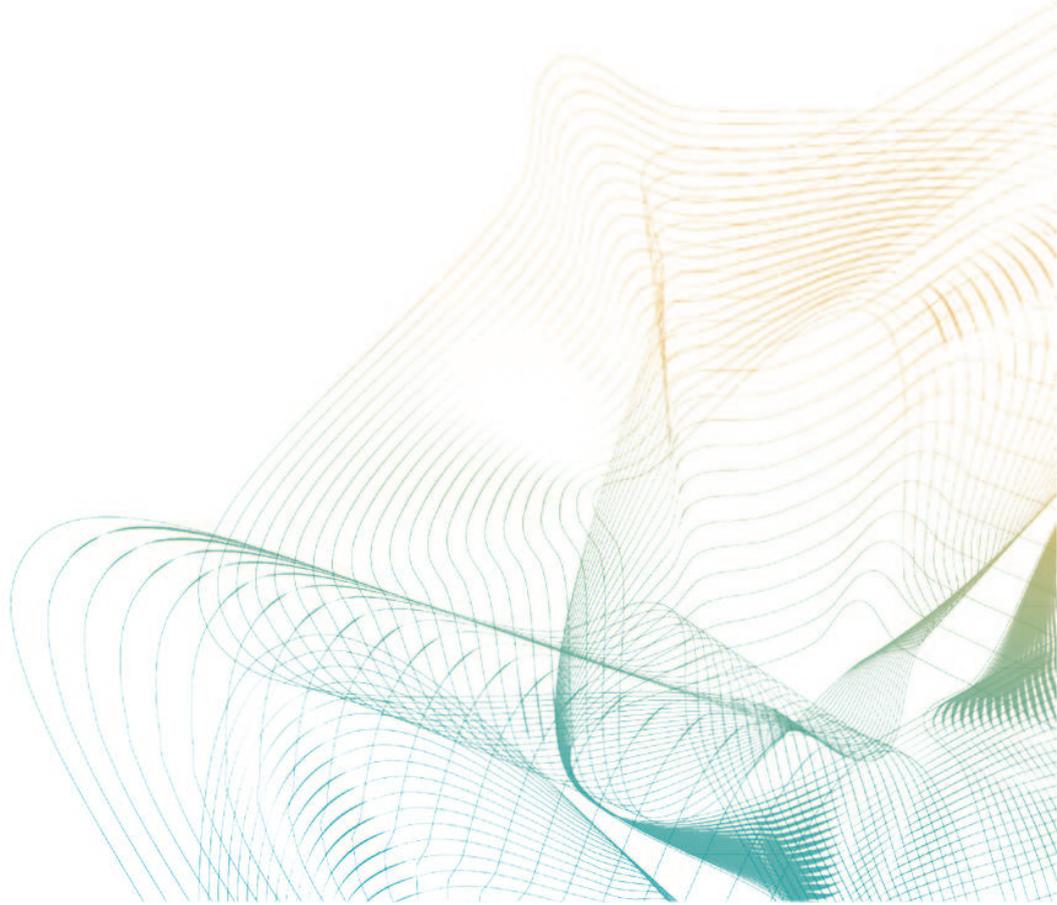


Financial Stability Report

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CENTRAL BANK OF THE REPUBLIC OF TURKEY

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This report, aimed at informing the public, is based mainly on March 2020 data. Nevertheless, the Report includes developments and evaluations up to its date of publication in Turkish version. The full text is available on the CBRT website. The CBRT cannot be held accountable for any decisions taken based on the information and data provided therein.

Foreword

Macroeconomic indicators for Turkey have improved significantly since the second half of 2019 and this trend continued in early 2020. While inflation and inflation expectations receded noticeably in this period, interest rates fell and the dollarization process halted due to residents' increased demand for Turkish lira assets. Thanks to an effectively operating credit mechanism, loans started to increase especially in terms of Turkish lira and the recovery in economic activity gained strength.

Starting from March, the global growth outlook weakened significantly due to the coronavirus outbreak that spread across the world. Developments and uncertainties regarding the outbreak led to weaker global risk appetite and heightened international market volatility, while advanced and emerging economies started to implement expansionary monetary and fiscal policies to contain the adverse effects of the pandemic and to support credit conditions.

Economic activity in Turkey started to weaken from mid-March onwards due to the impact of the pandemic on foreign trade, tourism and domestic demand. Meanwhile, inflation expectations, aggregate demand conditions and commodity prices have had a positive impact on the inflation outlook. In this period, the Central Bank of the Republic of Turkey supported financial sector liquidity and credit conditions with its comprehensive policy steps taken in coordination with other public authorities and aimed to contain the effects of the pandemic on Turkish economy. These measures are expected to contribute to financial stability and post-pandemic recovery by supporting the production potential of the economy. The strong capital and liquidity structure of the banking sector, along with the timely policy steps, underpins the resilience of the sector to risks. The Central Bank of the Republic of Turkey continues to use all available instruments effectively with a data-oriented approach to achieve price stability and financial stability objectives.

I hope that the 30th volume of the Financial Stability Report, which includes the recent financial stability developments and outlook as well as global and domestic macrofinancial developments, will be of benefit to all readers.

Murat UYSAL
Governor