1.Overview

While the global disinflation process is ongoing, inflation has continued to converge to target rates in many countries. Recent data suggest that the alignment of supply and demand in the labor markets has improved, and inflation persistence in the services sector has started to weaken. Accordingly, central banks in some advanced economies, including the European Central Bank (ECB), have begun to cut policy rates. In the USA, May and June inflation data displayed a significant decline in the underlying trend of services inflation. The favorable inflation outlook, the Federal Reserve's (Fed) assessments after its July meeting, and the latest labor market data have strengthened expectations that the first rate cut will take place in September. In most advanced economies, faster rate cuts are being priced in. While rate cuts continued in some emerging economies, other central banks paused on cutting rates or reduced the pace of rate cuts as inflation and policy rates approached historical averages. The moderate growth outlook and the progress in the disinflation process imply that central banks may take further steps to reduce monetary tightness in the upcoming period. However, factors such as the recent rise in geopolitical risks stemming from the Middle East and policy uncertainties due to election processes have the potential to fuel stickiness in inflation. Therefore, central banks continue to communicate that they will continue their easing cycles cautiously.

In the current reporting period, the global risk appetite remained favorable for a long period but rapidly deteriorated as of mid-July due to geopolitical developments, the Fed's statements that it would act cautiously in the rate-cut process, and the rate hike by the Bank of Japan. The Bank of Japan's rate hike decision at the end of July led to a global selling wave, and risk premiums of emerging markets rose rapidly. Accordingly, Türkiye's risk premium rose recently to 290 basis points from the 260 basis points levels of June and July, while the overall increase remained limited over the reporting period. Meanwhile, the short-term exchange rate volatility of the Turkish lira fluctuated considerably, while long-term volatilities continued to increase. The CBRT's gross international reserves rose to USD 148 billion as of July 26, while the CBRT's swap funding decreased by USD 36.8 billion in the reporting period, and net reserves excluding swaps improved by USD 63.3 billion during the reporting period. The decline in yields of short-term government domestic debt securities (GDDS) continued, while medium and long-term yields remained flat.

As a result of monetary policy decisions and other steps supporting the monetary tightening process, the slowdown in credit growth has become more pronounced. Since the previous reporting period, regulations introduced to increase the share of Turkish lira deposits and other macroprudential decisions to support the transmission mechanism have strengthened the transmission of monetary tightening to demand conditions and continued to improve the funding composition of the banking system. In the current reporting period, deposit rates slightly declined due to the excess liquidity created in the market by residents' and non-residents' preference for Turkish lira assets, the significant decline in interest rates in accounts switching from FX-protected deposits to Turkish lira deposits, and the impact of banks' deposit pricing adjustments reflecting the improved inflation and exchange rate expectations. The weakening TL loan demand and the decline in deposit rates also affected TL loan rates. However, the downward pressure on TL deposit rates from this channel halted as a result of the longer-term sterilization of the excess liquidity in the market through required reserves compared to reverse repo and deposit instruments. In the current reporting period, the FX-protected deposits continued to decline, albeit at a slower pace, while the share of Turkish lira in total deposits continued to rise and exceeded the year-end target, which is 50%. As for commercial loans, the slowdown in TL commercial loan growth became more pronounced, while FX commercial loans accelerated due to supply and demand-side dynamics. However, with a regulation introduced in May, a monthly growth limit was imposed on FX loans, and it was stipulated that required reserves in Turkish lira would be blocked in case the limit was exceeded. In July, the monthly loan growth limit was revised to be even more restrictive, and FX commercial loan growth slowed down due to these regulations. Thus, the goal is to prevent the real sector from taking excessive exchange rate risk.

In the first quarter of the year, economic activity remained strong. In this quarter, GDP grew by 5.7% on an annual basis and 2.4% on a quarterly basis pointing to an acceleration in economic activity. On the expenditures side, the annual contribution of private consumption to growth declined somewhat in the first quarter, although still remaining high. Meanwhile, net exports made a positive contribution to annual growth for the first time since the third quarter of 2022. On the production side, the services sector continued to be the main driver of annual growth.

Indicators for the second quarter point to a slowdown in domestic demand, albeit remaining at inflationary levels. In this period, both the retail sales and the trade sales volume indices posted a quarterly decline, with the decline being sharper in the latter. As of May, the services production index edged down by 0.5% in the second quarter. Survey data for manufacturing industry firms indicate a quarterly decline in domestic market orders in the second quarter. Information on consumption expenditures from interviews with firms also points to a slowdown in domestic demand. On the other hand, two religious holidays and the associated bridge days due to administrative holidays in the second quarter obscured a clear picture regarding the extent of the slowdown in demand. Card spending decreased in April, but when the May-June period was included, it continued to rise on a quarterly basis, albeit at a markedly slower pace. Meanwhile, card spending, especially those considered discretionary, started to slow down (Zoom-In 2.2). Although white goods and automobile sales registered a notable quarterly decline, they remained above their historical trends. Similarly, seasonally adjusted imports of consumption goods dropped in the May-June period, yet hovered above the previous year's average. On the production side, industrial production fell on a quarterly basis as of May. When the typically highly volatile sectors are excluded and the impact of two religious holidays and the associated bridge days is taken into account, the decline in industrial production in the second quarter is assessed to be less pronounced than suggested by the overall index. On the other hand, seasonally adjusted employment continued to rise in the second quarter, diverging from other demand and production indicators. However, given the quarterly increase in the labor under-utilization rate by 1.2 points in May and its already high level, the labor market may not be as strong as implied by the main indicators. As for wage developments, real unit wages were up in the first quarter. Nevertheless, with the ongoing rebalancing in domestic demand, real unit wages are expected to contribute to the disinflation process for the rest of the year.

While the current account balance continued to improve on an annual basis, the quarterly improvement came to a halt due to the widening foreign trade deficit despite the robust outlook in the services balance. In the second quarter of the year, the foreign trade deficit widened on a quarterly basis as imports increased more than exports. In this period, external demand conditions were supportive amid an improving export climate. Accordingly, seasonally and calendar-adjusted exports excluding gold increased, but this increase was curbed by the two religious holidays and the associated bridge days as well as the termination of trade with Israel in the second quarter. Gold exports, on the other hand, increased quarter-on-quarter, contributing to the quarterly rise in total exports. On the imports side, seasonally and calendar-adjusted total imports posted an increase in the second quarter. Imports of consumption goods and intermediate goods made the highest contribution to the quarterly increase. Meanwhile, increases in gold imports and seasonally and calendar-adjusted energy imports remained limited. Although the calendar effects due to the religious holidays and the associated bridge days observed in April and June resulted in a volatile course for foreign trade indicators, the downward trend in imports of gold and consumption goods in May and June was notable. In addition, the nearly flat course of the terms of trade as of May contributed to the foreign trade balance, while the rebalancing trend in foreign trade volumes over the last several quarters came to a halt in the second quarter due to the rise in imports. All core goods groups contributed to the rise in import volumes, while imports of consumption goods posted a stronger increase compared to other groups. The favorable trend in the services balance continued at a stronger pace on the back of travel revenues. On the financing side, the weight of portfolio investments increased, while the net errors and omissions recorded inflows, and reserves increased in the second quarter. Provisional trade data for July point to an improvement in the foreign trade balance driven by the decline in imports despite the flat course of exports.

Consumer inflation was 61.8% in July 2024, remaining within the forecast band given in the previous Inflation Report. Global commodity prices, which had been on an upward course in the first months of the year, started to fall as of late April and hardly changed throughout the second quarter. In this period, the nominal exchange rate maintained a mild course, while the Global Supply Chain Pressure Index remained at its historical average, indicating that there was no significant pressure from global supply conditions. Consequently, producer price pressures on consumer inflation weakened in the second quarter. Aggregate demand conditions, which strengthened in the first quarter of the year, are estimated to have weakened but remained at inflationary levels in the second quarter. Although year-end inflation expectations have declined, they still exceed the forecasts set out in the previous Inflation Report. The decrease in 12- and 24-month-ahead inflation expectations has been more significant. In the services sector, which is characterized by a strong backward-indexation behavior, the rent group with its high level of inertia again stood out. The services sector was the main contributor to the inertia in headline inflation, and the diffusion index for the sector largely maintained its high levels. Core goods prices posted a limited increase throughout this period due to the developments in Turkish lira and domestic demand conditions. On the food inflation front, the significant increases in red meat prices in the previous reporting period have recently given way to a decline, while prices of fresh fruits and vegetables have risen more than their historical averages in June and July. In the second quarter, the impact of the expiry of the free use of 25 cubic meters of natural gas was influential on energy prices. Meanwhile, energy prices surged in July due to the increases in electricity tariffs as well as the automatic tax adjustments in fuel oil and bottled gas. The underlying inflation, which slowed down after January's uptick, followed a favorable course in June and posted a limited increase in July due to the developments in taxes and administered prices. It is projected that the slowdown in underlying inflation, which was interrupted in July, will be restored, and underlying inflation indicators will follow a milder course for the rest of the year.

Inflation is projected to be 38% by the end of 2024 and to fall to 14% by the end of 2025. Year-end inflation forecasts for 2024 and 2025 remained unchanged as the upside and downside effects offset each other. The data published for the second quarter of the year indicate that the slowdown in demand was less pronounced than projected in the previous Inflation Report. While the decline in the underlying trend of inflation was in line with the projections, the decline in inflation expectations was less than anticipated. In this context, the aforementioned factors affected inflation forecasts upwards. On the other hand, the mild course of the Turkish lira on the back of the demand for TL-denominated financial assets by residents and non-residents as well as the downward revisions in the assumptions regarding import and administered prices had a downward impact on the year-end inflation forecast. Medium-term forecasts are based on an outlook in which the tight monetary policy stance would be maintained until the inflation outlook displays a significant and sustained decline, and the coordination among economic policies would be ensured.

The disinflation process that started in June is projected to continue at a stronger pace in the upcoming period. The tightening in financial conditions owing to the notable policy rate hike in March and the additional macroprudential measures, continued in the following period with the contribution of measures to support the monetary policy transmission. Given the lagged effects of these policy measures, the slowdown in demand is anticipated to become more pronounced in the upcoming period, driven by the maintenance of the tight monetary policy stance and the tightening of financial conditions. Forecasts rely on a monetary policy that will remain tight until a significant and sustained decline in the underlying trend of monthly inflation is observed, and inflation expectations converge to the projected forecast range. With the contribution of the forward guidance emphasizing the decisive tight stance, the convergence of inflation expectations to the Inflation Report forecasts in the short term and to the inflation target in the medium term is critical for ensuring permanent price stability. The decisive monetary policy stance is expected to support the downtrend in underlying inflation amid the moderation in domestic demand, the real appreciation in the Turkish lira and the improvement in inflation expectations. All these factors are expected to reinforce disinflation in the upcoming period.

1.1 Monetary Policy Decisions

The CBRT kept the policy rate constant in the May-July period, taking into account the lagged effects of monetary tightening. The weakening in the underlying monthly inflation in April was temporarily interrupted in May. Subsequently, the underlying inflation, which declined more than anticipated in June, gave way to a limited and temporary increase in July. Recent indicators confirm that domestic demand has lost pace, although it is still at an inflationary level. The uptrend and stickiness in services inflation, inflation expectations, geopolitical risks, and food prices keep inflationary pressures alive. The CBRT closely monitors the consistency of inflation expectations and pricing behavior with the projections.

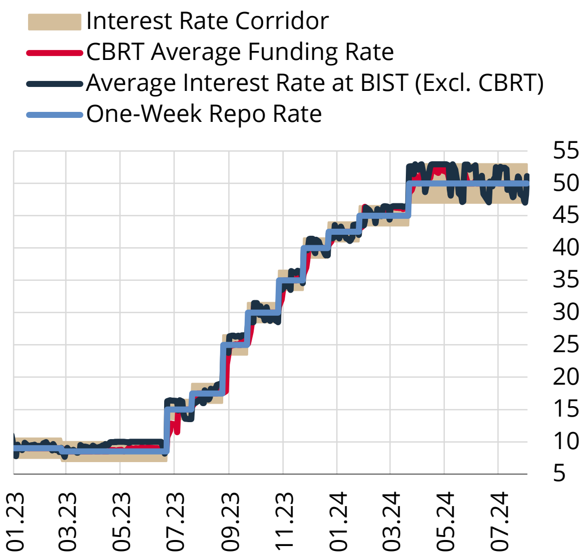
Over the period in which the policy rate has been kept constant, the CBRT has strongly communicated that it remains highly attentive to upside inflation risks. The effects of monetary tightening on credit conditions and domestic demand are closely monitored. Considering the lagged effects of the monetary tightening, the CBRT decided to keep the policy rate unchanged in the May-July period but reiterated that it remains highly attentive to inflation risks. The CBRT has stuck to its clear message that the tight monetary stance will be maintained until a significant and sustained decline in the underlying monthly inflation is observed, and inflation expectations converge to the projected forecast range. The CBRT has also reiterated that the monetary policy stance will be tightened if a significant and persistent deterioration in inflation is foreseen. The decisiveness regarding the tight monetary stance will bring down the underlying monthly inflation through moderation in domestic demand, real appreciation in the Turkish lira, and improvement in inflation expectations. Consequently, the disinflation process will gain strength.

The CBRT continued to take macroprudential decisions to support the monetary transmission mechanism. Accordingly, with the decision announced on May 23, 2024, a monthly growth limit of 2% was introduced for foreign currency loans (excluding investment loans and those used in the earthquake zone) to ensure consistency with TL commercial loan growth limits, and it was decided that Turkish lira required reserves at the amount of loans exceeding the limit would be blocked for one year. With the amendment dated July 20, 2024, the growth limit was lowered to 1.5%, and the scope of the exemption for investment loans was expanded. Moreover, to enhance the functionality of the market mechanism, the maximum fees that can be charged by banks in case of prepayment of commercial loans were amended on June 28, 2024. The amendment aims to improve commercial loan price formation, and the newly introduced early payment fee determination method is sensitive to the level of loan interest and the remaining maturity. Thus, the transmission of expectations regarding the disinflation process to long-term commercial loan interest rates is supported. Through the regulations introduced on June 28, 2024 as part of the simplification of the macroprudential framework to increase the functionality of the market mechanism, the CBRT terminated the additional reserve requirement maintenance based on the leverage ratio.

The CBRT continued to take policy steps supporting Turkish lira deposits in order to strengthen monetary transmission. Accordingly, on May 23, 2024, reserve requirement ratios were increased from 8% to 12% for short-term Turkish lira deposits/participation funds and set at 8% for the ones in longer term. Reserve requirement ratios for FX-protected deposits were raised from 25% to 33% for those with short maturities and from 10% to 22% for those with long maturities. On the other hand, with the changes made in the remuneration and commission rates for reserve requirements, the target for transition from FX-protected deposits to Turkish lira was retained, and the total target including renewal (renewal and TL transition rates) was reduced to 75%. Moreover, legal persons' FX-protected deposits as well as legal and real persons' YUVAM accounts were excluded from calculation of the total target effective from the following calculation date. Also, the remuneration rate applied to reserve requirements for FX-protected deposits when the total target is achieved was decreased to 40% of the policy rate. In addition, the minimum interest rate applicable to FX-protected deposits accounts to be opened or renewed as of July 22, 2024 was reduced from 80% to 70% of the policy rate, and the practice of paying additional return on those accounts was abolished.

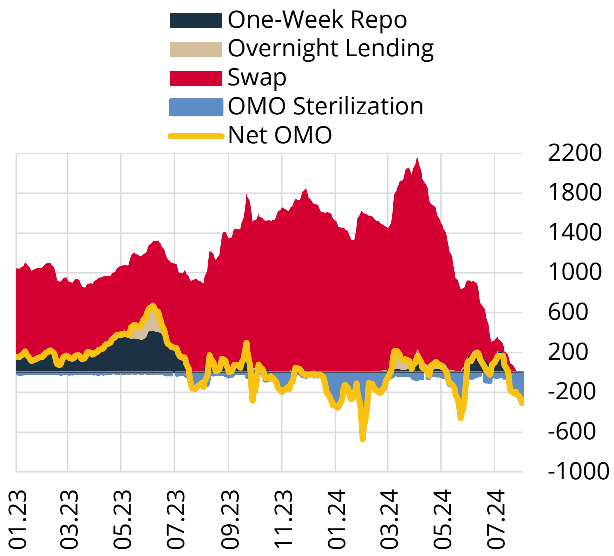
The significant decline in the outstanding amount of the CBRT's swap transactions contributed to the sterilization of excess liquidity in the market. In the current reporting period, overnight rates moved within the CBRT's interest rate corridor depending on the liquidity conditions in the market (Chart 1.1.1). The funding need of the system registered a notable decline led by the CBRT's FX transactions. Excess liquidity in the system was sterilized through deposit buying auctions of the CBRT in the period between May 8 and May 24. At its meeting in May, the MPC decided that the excess liquidity stemming from the surging domestic and foreign demand for Turkish lira financial assets would be sterilized through additional measures. In this framework, reserve requirement ratios for Turkish lira deposits and FX-protected deposits were raised, thereby sterilizing approximately TRY 550 billion liquidity from the system. After this reserve requirement step, the net OMO funding shifted to positive territory again and remained there until July 11 on the back of the continued downtrend in the CBRT's outstanding swap amount throughout the majority of the following period. Due to government expenditures, the net OMO funding moved back to negative territory on July 12, and the CBRT started to sterilize excess liquidity through deposit buying auctions. The amount of swap transactions, which was TRY 1.1 trillion as of May 8, 2024, reached TRY -6 billion as of August 2, 2024, with the effect of FX swap auctions against the Turkish lira. Meanwhile, the net OMO funding increased from TRY -163.7 billion on May 8, 2024 to TRY -89.0 billion on August 2, 2024 (Chart 1.1.2). The CBRT has been sterilizing the excess liquidity in the system through additional deposit buying auctions as well as through FX and gold swap auctions against the Turkish lira, whenever required. Liquidity conditions will continue to be closely monitored and assessed with respect to prospective developments. Sterilization will be implemented effectively by also enriching the toolset whenever needed (Box 1.1).

Chart 1.1.1: CBRT Interest Rates and Short-term Interest Rates (%)



Source: BIST, CBRT.

Chart 1.1.2: CBRT OMO and Swap Transactions (One-Week Moving Average, TRY Billion)



Source: CBRT.

Box 1.1

Developments in Turkish Lira Liquidity and Sterilization Tools

Liquidity, in the context of central banking, corresponds to the monetary aggregate created by the central bank's balance sheets, which is used in the financial system's fund transfers. From the perspective of the balance sheet, liquidity is the indicator of a central bank's net position within the financial system.

Therefore, the positive level of net position of the financial system in their transactions with the central bank defines the "excess liquidity", and the system is in "liquidity shortage" otherwise. Central banks manage liquidity to ensure that the banking system, financial markets, and payment systems operate efficiently by taking into account public sector's revenue and expenditures. The aim of central bank's liquidity operations is to transmit the monetary policy via setting the level of short-term interest rates, and hence the longer-term interest rates through the transmission mechanism. In this setting, the liquidity policy in response to the level of liquidity, whether the system is in liquidity shortage or in excess liquidity, and the policy framework is shaped by the cost, maturity and the tools of monetary policy operations.

In this context, the CBRT effectively uses its liquidity management tools to promote the efficiency of the transmission mechanism and to materialize overnight money market rates around the policy rates, all within the context of achieving its primary objective of price stability. Hence, liquidity conditions are assessed with respect to prospective developments and closely monitored. Any sterilization is implemented effectively by reviewing the toolset in light of the liquidity developments. To that end, this Box discusses the effectiveness of the sterilization tools and the recently extended toolset.

Factors Affecting Turkish Lira Liquidity

The funding need of the banking system (FNS) is affected by:

i) The developments in monetary base, banks' Turkish lira required reserves held in the CBRT, in free and blocked deposit accounts, and banknotes in circulation,

ii) TL operations by the CBRT,

iii) TL transactions of the Republic of Türkiye Ministry of Treasury and Finance (Treasury).

The funding need of the system (FNS) dropped from TRY 1,012 billion (liquidity shortage), at the beginning of the year, to TRY -220 billion (excess liquidity), as of July 31, with the developments in aforementioned factors. Since the beginning of the year, the changes in the monetary base resulted in TRY 865 billion liquidity leakage from the system, the adjustments in RRs corresponded to 683 billion TL, and there was an increased volume of 182 billion TL banknotes in circulation within the total sum. On the other hand, increased demand for TL denominated assets by the residents and non-residents, especially after the second quarter, helped to improve the CBRT's net FX position and the CBRT's operations resulted in the injection of TL liquidity into the system, and thus excess liquidity (Table 1).

The total sterilization via OMO was TRY 349 billion on January 2, and TRY 220 billion, on July 31. While the CBRT operations sterilized the temporary excess liquidity at the beginning of the year when FNS was positive. Currently the operations are aiming at sterilizing the permanent excess liquidity as FNS has been at negative levels since July 12 (Chart 1).

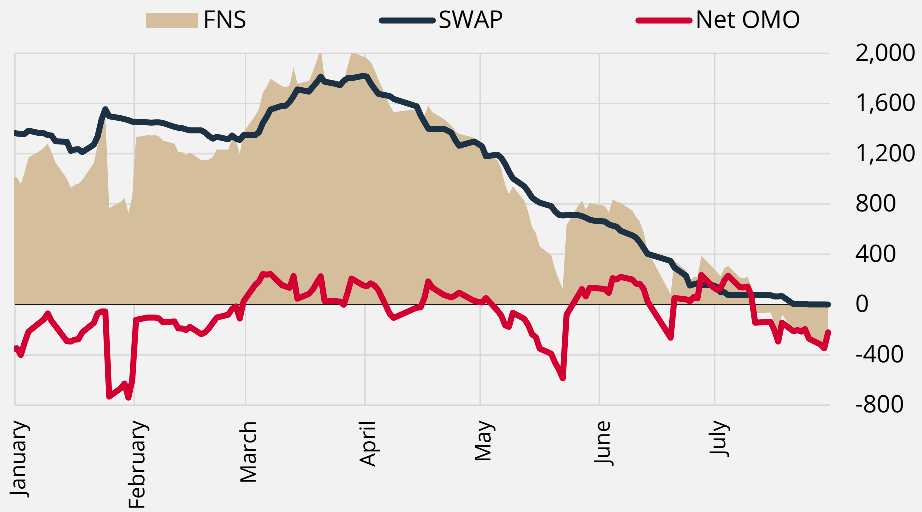
Table 1: Funding Need of the System (TRY Billion)

	2.01.24	31.07.24	Diff.
Funding Need of System	**1.012**	**-220**	**-1.232**
Net OMO	-349	-220	129
OMO Funding	5	5	0
Sterilization	-354	-225	129
Swap Transactions	1,361	0	-1.361
Monetary Base	**1.565**	**2.430**	**865**
Banknotes in Circulation	438	620	182
Free Deposits	939	1,093	154
Blocked Accounts	188	717	529
CBRT Operations			**-2.201**
Treasury Operations*			**104**

Source: CBRT.

* Redemptions to CBRT are excluded.

Chart 1: Funding Need of the System and CBRT Funding (2024, TRY Billion)



Source: CBRT.

Liquidity Level and Its Distribution

TL swap transactions against foreign currency and gold, (TL funding at the spot leg) was reduced from TRY 1,361 billion at the beginning of the year, as the CBRT targeted to avoid the excess TL liquidity considering the injections via FX reserve accumulation operations. Therefore, the CBRT terminated TL funding via swap operations on July 25 2024, which was introduced at the last quarter of 2018. The level of total outstanding FX swaps expired on July 31, 2024.[1]

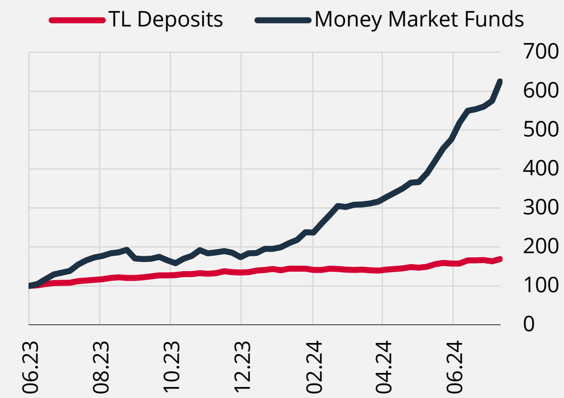
In addition, TL deposit buying auctions were announced to manage the excess liquidity in December 21, 2023. In order to sterilize the excess liquidity, CBRT has used deposit auctions whenever necessary and continued to actively manage the system's liquidity after July 12 as FNS dropped to negative levels.

[1] With the introduction of sell-side gold and FX swap transactions in the upcoming period, the outstanding level of swap transactions is expected to be at negative levels.

The distribution of liquidity within the financial system gained more importance especially after FNS became negative, which indicates a state of permanent excess liquidity, for the effective transmission of monetary policy. Recently, a decoupling in the growth rate of TL deposits in the banks and money market funds is being monitored as the concentration of liquidity accumulation in the funds became significant. The total size of the money market funds increased approximately five-fold (Chart 2), and therefore, the share of reverse repo operations by brokerage houses increased in the BIST Repo-Reverse Repo Market (Chart 3).

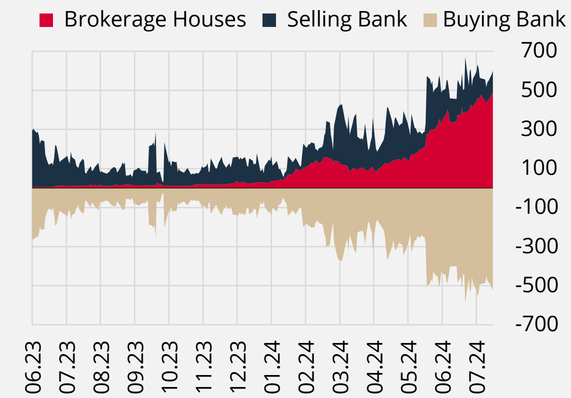
While excess liquidity in the system gradually increases and the CBRT becomes a net borrower, recent developments in liquidity distribution are noteworthy. As highlighted in the Monetary Policy Text for 2024, the general framework of the liquidity management is determined by taking into account the level of the liquidity and its distribution within the system. The CBRT continues to use all liquidity management instruments effectively to ensure efficiency of the monetary transmission mechanism and introduces additional instruments considering recent developments.

Chart 2: TL Deposits and Money Market Funds (June 2023=100)



Source: CBRT, TEFAS.

Chart 3: BIST Repo-Reverse Repo Market Brokerage Houses' and Banks' Distribution (TRY Billion)



Source: BIST, CBRT.

Sterilization Toolset

The sterilization toolset, which is actively used by the CBRT, is given in Table 2. In this framework, the CBRT conducts overnight transactions with the banks and non-bank financial institutions in the BIST Repo-Reverse Repo Market and Committed Transactions Market (CTM), limited by its total OMO portfolio, at the borrowing rate via the quotation method. In addition, the CBRT can sterilize liquidity without any limit from banks by deposit buying in the Interbank Money Market via the overnight quotations and at the borrowing rate. This channel allows the CBRT to sterilize the liquidity within the intraday window of 09.30-14.00 at BIST and CTM and within the intraday window of 10.00-16.00 in the Interbank Market. While the total sterilization volume via quotation varies depending on the liquidity conditions, it was at a daily average of TRY 40 billion, during July 2024 (Chart 4).

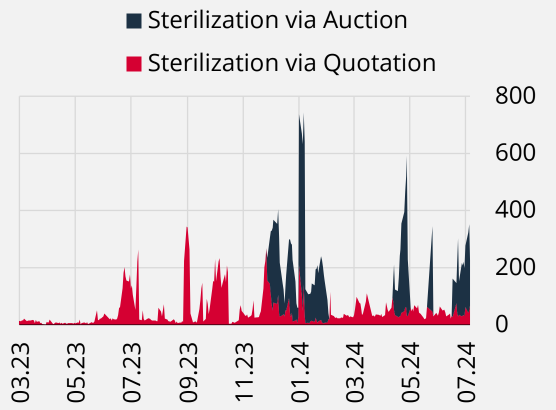
Table 2. Current Sterilization Toolset

Market/Tool	Int. Rate (%)	Maturity	Hours	Method	CBRT Limit
BIST Reverse Repo	CBRT Borrowing	Overnight (O/N)	09.30-14.00	Quotation	OMO Portfolio*
CTM Reverse Repo	CBRT Borrowing	Overnight (O/N)	09.30-14.00	Quotation	OMO Portfolio*
Interbank Money Market Transactions	CBRT Borrowing	Overnight (O/N)	10.00-16.00	Quotation	Unlimited
Deposit Buying Auction	Auction Rate	Up to 91 days	11.00-11.30	Traditional Auction**	Auction Limit-Unlimited

* In nominal terms, the OMO portfolio consists of TRY 168 billion of government securities and TRY 9 billion of lease certificates.
** In traditional auctions, the interest rate is determined by the CBRT taking into account the bids of auction participants.

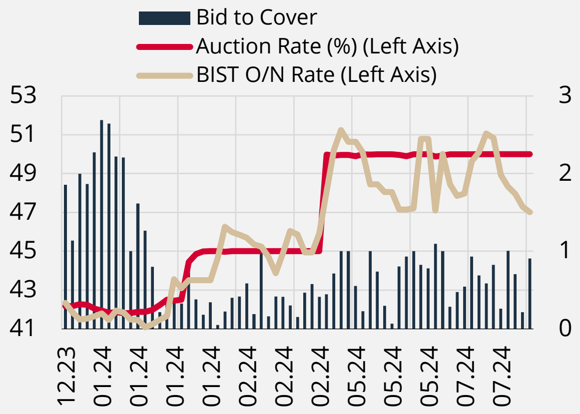
Additionally, the CBRT holds TL deposit buying auctions at varying maturities between 11.00-11.30 to sterilize the excess liquidity. After May 15, the CBRT started to initiate auctions for the different maturities and amounts at the same time, which improved the efficiency of sterilization operations (Chart 5). Considering the level of excess liquidity in the financial system, the demand for shorter maturity auctions is generally higher, and the demand is expected to increase for longer maturity auctions as excess liquidity accumulates.

Chart 4: CBRT Sterilization (TRY Billion)



Source: CBRT.

Chart 5: TL Deposit Buying Auctions (%, Ratio)



Source: CBRT.

Additional Sterilization Toolset

The recent developments in liquidity conditions, which indicate that excess liquidity looms and the distribution of liquidity shifts, have necessitated a review of the efficiency of the sterilization toolset. As a result, the sterilization framework has been extended by enriching the toolset.

The sterilization tools mentioned in the previous section have some shortcomings. Although the CBRT has an extensive framework to sterilize liquidity via quotation, the CBRT's total sterilization is limited by its OMO portfolio at the BIST and CTM, and the CBRT can conduct transactions only with the banks in the Interbank Market.

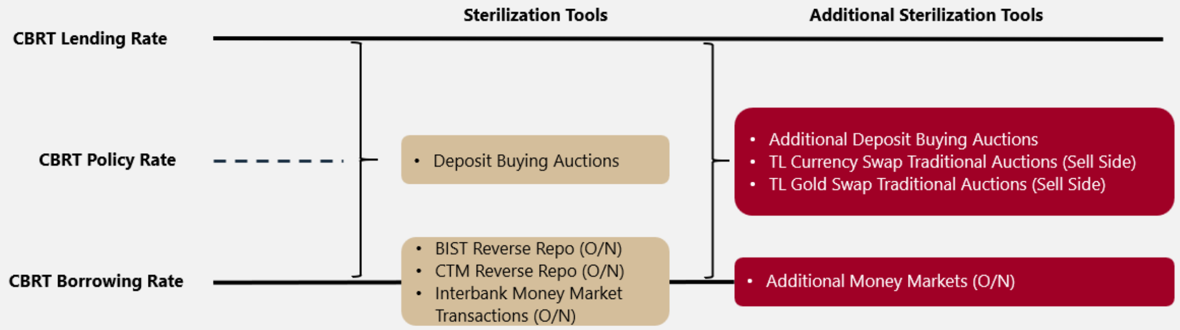
These limitations urged the CBRT to introduce sell-side gold and foreign currency swaps auctions against TL (TL withdrawal at the spot leg) in order to extend its operational maturity span and to enrich its toolset. These swap auctions will be announced at 11.00, and the auctions will be held between 15.00-15.30 for the gold swaps, and 15.00-15.15 for the foreign currency swaps. The interest rates will be determined by the participants' bids via the traditional auction method. Considering the extended framework of sterilization, the total amount of sell-side swap auctions is planned to be kept at a limited level initially and will gradually increase depending on the liquidity conditions. Moreover, the CBRT decided to open additional TL deposit buying auctions on a schedule that has yet to be announced, when deemed necessary. This framework will allow the CBRT to actively sterilize excess liquidity via deposit buying auctions with varying maturities.

Table 3. Additional Sterilization Toolset

Market/Tool	Int. Rate (%)	Maturity	Hours	Method	CBRT Limit
Additional Deposit Buying Auctions	Auction Rate	Up to 91 days	To be announced*	Traditional Auction	Auction Limit-Unlimited
TL Currency Swap Traditional Auctions (Sell Side)	Auction Rate	Weekly**	15.00-15.15	Traditional Auction	Auction Limit-Limited
TL Gold Swap Traditional Auctions (Sell Side)	Auction Rate	Weekly**	15.00-15.30	Traditional Auction	Auction Limit-Limited
Additional Money Markets	CBRT Borrowing	Overnight	09.30-15.30	Quotation	Unlimited

* In July 2024, the TL Markets Implementation Instructions was amended to allow additional auctions to be held at different times of the day.
** Auctions may be organized with shorter or longer maturities depending on liquidity developments.

Scheme 1: Sterilization Tools Used



Also, the CBRT is preparing to operate in additional money markets. This is expected to extend its sterilization framework by accessing banks and non-bank financial institutions' excess liquidity via quotation. The CBRT can only sterilize the excess liquidity from non-bank financial institutions in the BIST Repo-Reverse Repo Market and CTM, where the total sterilization is limited by the OMO portfolio. Therefore, the inclusion of operational ability in additional money markets will allow the CBRT to sterilize unlimited excess liquidity via quotation, both from banks and non-banks. Since the additional markets operate between 09.30-15.30, this is expected to extend the sterilization window and promote the efficiency of sterilization operations.

Liquidity bills, which were employed by the CBRT in the past, constitute an alternative to the abovementioned sterilization toolset. Within the scope of Article 52 of the CBRT Law, the CBRT can issue liquidity bills with a maturity of up to 91 days and used this facility in 2007 with various maturities for sterilization purposes. On the other hand, as stated above, the CBRT can effectively conduct sterilization operations through TL deposit buying auctions up to 91 days and with the same value date or future value date, at various times during the day when needed. Since TL deposit buying auctions are money market instruments, they have higher operational flexibility and the demand for those auctions in terms of investment motive is limited compared to the liquidity bills, which increase the effectiveness of the sterilization. Accordingly, although liquidity bills are included in our sterilization toolkit, they are not preferred under current conditions.

Consequently, the extended sterilization toolset is considered to be more efficient and comprehensive in terms of operating hours, counterparties, and operational limits. Liquidity conditions will continue to be assessed with respect to prospective developments and closely monitored. Also, sterilization will be implemented effectively by further enriching the toolset whenever needed.