



REPUBLIC OF TÜRKİYE

February 2026

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF TÜRKİYE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Republic of Türkiye, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 6, 2026 consideration of the staff report that concluded the Article IV consultation with the Republic of Türkiye.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 6, 2026, following discussions that ended on November 14, 2025, with the officials of the Republic of Türkiye on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 26, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Türkiye.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2025 Article IV Consultation with Türkiye

FOR IMMEDIATE RELEASE

Washington, DC – February 13, 2026: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Türkiye.¹

Since the 2024 Article IV, Türkiye’s disinflation program has shown successes. Inflation fell from 49.4 percent (y/y) in September 2024 to 30.9 percent in December 2025 on the back of strong fiscal consolidation, prudent income policies, and a tight monetary policy stance. Following a temporary deceleration in mid-2024, GDP growth has remained strong, forecast at 4.1 percent in 2025. Lira demand has strengthened, bolstering international reserves, and the current account deficit remains adequately financed.

The current policy mix continues to balance disinflation with steady growth. Tight monetary policy, moderate wage growth, and broadly neutral fiscal policy are expected to support gradual disinflation. End-2026 inflation is expected at 23 percent (y/y), as domestic demand remains strong. Boosted by further policy rate cuts and rising confidence, growth is expected at 4.2 percent for 2026. The current account deficit would remain adequately financed, while depositor confidence and strong gold prices would allow reserves to stay at around 80 percent of the IMF’s adequacy metric.

While growth should remain solid and inflation will fall, this approach bears risks and costs. External risks remain elevated due to persistent global trade uncertainty and regional conflicts. The materialization of an adverse shock, like an increase of energy prices or a negative weather event, could further extend the period of still-high inflation. Moreover, the gradual approach to disinflation has weighed on the financial sector and slowed productivity growth.

Executive Board Assessment²

Executive Directors commended the authorities for the important successes of their disinflation policies, which have reduced macroeconomic imbalances and improved confidence while preserving solid growth. Noting that inflation remains well above target and the economy is highly vulnerable to shocks, Directors stressed the need for a tighter macroeconomic policy mix combined with ambitious structural reforms to entrench disinflation, further strengthen external buffers, and support inclusive medium-term growth.

¹ Under Article IV of the IMF’s Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country’s economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country’s authorities. An explanation of any qualifiers used in summings up can be found here:

<http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Directors commended the authorities for their strong fiscal effort in 2025. They noted that continued tightening, bringing the budget deficit temporarily below the 3 percent medium-term target, is needed to support disinflation. Directors emphasized the role of measures to broaden the tax base and improve compliance, together with further efforts to streamline expenditures through phasing out energy subsidies. They called for carefully sequenced and well communicated measures to minimize second-round inflationary impacts while mitigating the impact on vulnerable households. As fiscal space expands, additional resources could be redirected to social priorities. Directors also supported full alignment of wage policies with inflation targets, as well as stronger oversight of PPPs and SOEs.

Directors generally called for tighter monetary policy to achieve decisive disinflation, while emphasizing the need for policy rate adjustments to remain data dependent and mindful of their macro-financial implications. To bolster policy credibility and strengthen transmission, Directors emphasized the importance of a simplified monetary policy framework firmly centered on the policy rate, with enhanced central bank independence and communication. Directors recommended limiting FX interventions to smoothing volatility, while gradually allowing greater exchange rate flexibility as inflation expectations become better anchored and reserve buffers recover.

Directors noted that the financial sector remains robust, supported by the authorities' swift and effective response to market stress. They stressed that continued vigilance is warranted, particularly for still high FX liquidity risks. Directors supported ongoing efforts to strengthen the supervisory and resolution frameworks along with enhanced oversight, including of crypto assets.

Directors urged structural reforms to foster productivity, resilience, and medium-term growth. Top priorities include improvements in labor, education, and governance and legal frameworks, support for SMEs, and raising the share of renewables in the energy mix.

Türkiye: Selected Economic Indicators, 2021–31

Population (2024): 85.7 million
 Per capita GDP (2024): US\$15,882
 Quota: SDR 4,658.6 million

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Proj.										
Real sector	<i>(Percent)</i>										
Real GDP growth rate	11.8	5.4	5.0	3.3	4.1	4.2	4.1	4.0	4.0	4.0	4.0
Contributions to real GDP growth											
Private consumption	8.9	9.5	6.8	2.9	2.6	3.5	2.5	2.2	2.4	2.3	2.5
Public consumption	0.6	0.6	0.3	-0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.4
Investment (incl. inventories)	-2.7	-5.6	1.0	-0.5	2.3	0.3	1.1	1.4	1.2	1.3	1.2
Net exports	5.0	0.9	-3.0	1.0	-0.9	0.0	0.2	0.1	0.0	0.0	0.0
Output gap	1.4	1.5	1.4	0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0
GDP deflator growth rate	29.3	95.5	68.3	59.3	34.0	22.2	19.5	17.7	14.7	13.7	14.1
Inflation (period-average)	19.6	72.3	53.9	58.5	34.9	25.9	20.9	17.0	15.0	15.0	15.0
Inflation (end-year)	36.1	64.3	64.8	44.4	30.9	23.0	19.0	15.0	15.0	15.0	15.0
Unemployment rate	12.0	10.4	9.4	8.7	8.3	8.3	8.7	9.1	9.1	9.1	9.1
Fiscal sector	<i>(Percent of GDP)</i>										
Nonfinancial public sector overall balance	-2.9	-2.6	-5.6	-5.6	-3.6	-4.1	-4.2	-3.8	-3.7	-3.5	-3.4
General government overall balance (headline) 1/	-2.6	-0.8	-5.1	-4.7	-3.5	-3.8	-3.9	-3.5	-3.3	-3.2	-3.1
General government gross debt (EU definition)	38.9	29.4	28.2	23.6	23.1	24.7	25.7	25.5	25.6	26.2	25.7
External sector	<i>(Percent of GDP)</i>										
Current account balance	-0.8	-5.0	-3.6	-0.8	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5
Gross external debt	51.7	48.7	42.7	38.1	34.5	35.6	36.2	35.2	34.4	33.9	33.3
Gross financing requirement	20.5	22.5	20.5	17.3	16.5	18.2	18.3	17.9	17.7	17.6	17.3
Monetary conditions (Percent)											
Real average cost of CBRT funding to banks	-1.9	-59.4	-35.4	-9.5	...	...	...	...	...	...	...
Growth of broad money (M2)	53.0	59.2	70.1	36.9	40.0	...	...	...	...	...	...
Growth of credit to private sector	37.0	54.7	54.0	37.5	...	...	...	...	...	...	...

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ Headline (or authorities' definition), which includes items excluded from the IMF 'program' definition.



REPUBLIC OF TÜRKİYE

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

January 26, 2026

KEY ISSUES

Context and Outlook. Since the 2024 Art. IV consultation, the authorities have aimed to balance disinflation with steady growth. Following a fiscal expansion in 2024, the deficit was reduced substantially in 2025 and, despite policy rate cuts, real interest rates remain high. Inflation (31 percent y/y in December) is falling slowly, and growth remains solid (4.0 percent y/y in 2025:Q1-Q3). With unchanged policies, including further rate cuts expected by markets, inflation is likely to continue to recede but remain in double digits and above the CBRT's targets, and activity would fall short of its potential. Inflation would likely stay above targets and limit economic growth. Türkiye's elevated inflation is also taking a toll on the financial sector and inequality, while productivity growth has been lackluster. Inflation risks remain on the upside, while a volatile external environment will require vigilance, particularly on FX risks. Delayed reanchoring of inflation expectations would also raise the probability of a shock that could reignite inflation and undermine confidence.

Policy Recommendations. A decisive announced shift toward tighter overall policies would bring inflation into single digits in 2027. This would entail a growth cost in the near term, but risks would fall too. Structural reforms aimed at improving productivity would put Türkiye on a more robust and resilient trajectory.

Fiscal Policy. The 2025 fiscal contraction is welcome, but further consolidation is required to lean against still-strong aggregate demand. Continuing consolidation into 2026 and 2027 with appropriately designed measures to support disinflation would reduce demand and price pressures. Over time, spending for social needs could be increased while remaining within the authorities' deficit target of 3 percent of GDP.

Monetary Policy. Returning rates to end-2024 levels and postponing further cuts until sequential inflation is in line with the CBRT's target would help reduce credit growth and inflation expectations. The monetary policy framework should be simplified by phasing out credit growth targets and scaling back FXI as inflation expectations become better anchored. Enhancing central bank independence and simplifying communications would increase policy predictability and credibility.

Financial Stability. Financial risks are broadly manageable. Addressing rising FX risks requires keeping interest rates high and appropriate macroprudential settings.

Structural Reforms. Improved productivity can help offset the costs of tighter policies. These should include reforms to improve skills, better support SMEs, and further strengthen Türkiye's legal and governance frameworks, while reducing vulnerabilities to external shocks.

Approved By
Kristina Kostial
and Rishi Goyal (SPR)

The mission took place in Istanbul and Ankara during October 30–November 14, 2025. The staff team comprised J.P. Walsh (head), F. Boumediene, T. Iyer, A. Roitman, and J. Yao (all EUR), A. Ceber (FAD), W. Shi (MCM), B. Versailles (SPR), and G. Di Bella, R. Çeçen, and D. Kesimal (IMF Ankara office). Y. Yaşar (OED) participated in the mission. The mission met Minister of Treasury and Finance Şimşek, Central Bank Governor Karahan, other senior officials, and private sector representatives. M. Murillo and M. Ma (both EUR) supported the mission.

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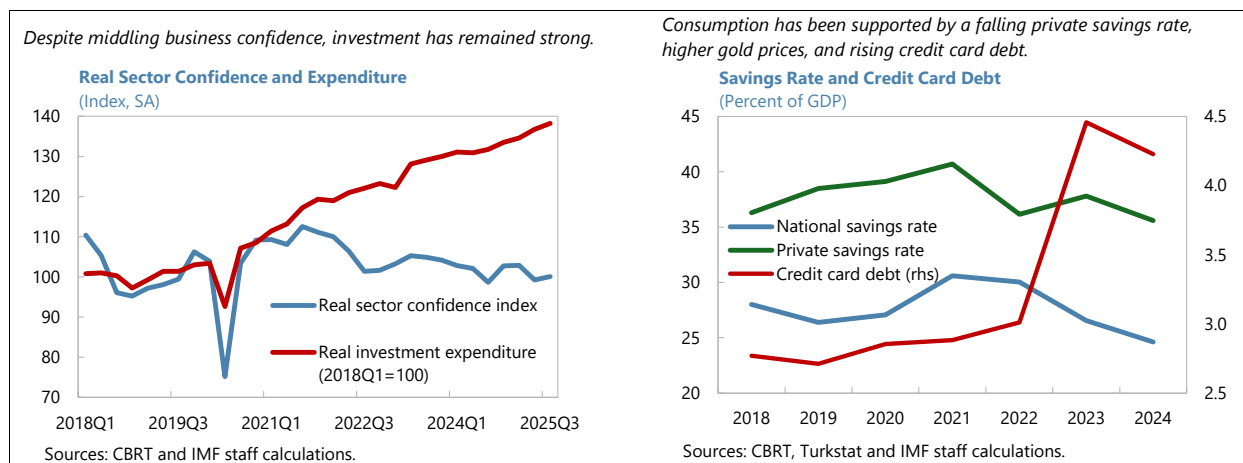
CONTEXT

- 1. Since the 2024 Article IV, Türkiye's disinflation program has shown successes.** Fiscal consolidation in 2025 offset most of the larger-than-expected 2024 expansion. Along with prudent income policies and a broadly tight monetary policy stance, this contributed to a fall in inflation from 49 percent in September 2024 to 31 percent in December 2025. Following a temporary deceleration in mid-2024, GDP growth has remained strong. Lira demand has strengthened, bolstering international reserves, and the current account deficit remains adequately financed.
- 2. But Türkiye's gradual disinflation path carries notable risks and costs.** External risks remain elevated due to persistent global trade uncertainty and regional conflicts. A significant stress episode in March 2025 triggered capital outflows, weakening the lira and draining reserves, but the authorities' capable response quickly restored normalcy (Box 1). Tight policies have not yet dampened aggregate demand sufficiently to bring inflation down decisively. The resulting persistent inflation and sustained high interest rates have weighed on the financial sector, while government borrowing costs and income inequality have risen. Combined with labor market mismatches and a challenging business environment, these factors have slowed productivity growth.

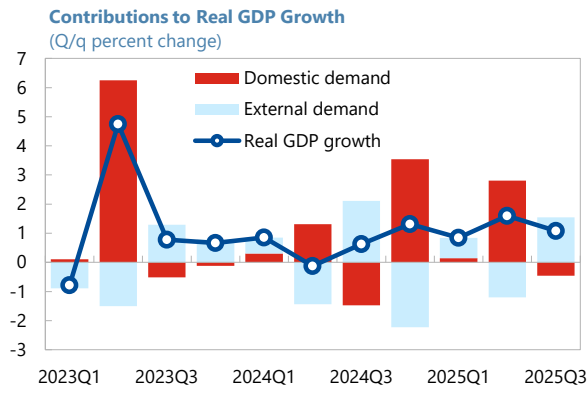
SUCCESSES AMID POCKETS OF VULNERABILITY

Over the past year, the authorities have sought to balance disinflation with growth. But inflation expectations still remain above the CBRT's ambitious end-year targets. External buffers have improved, confidence in the banking system remains high, and low energy prices have supported stability, but external risks remain elevated and FX risks are growing.

- 3. Growth in recent quarters has been resilient and broad-based.** After a brief contraction in 2024:Q2 and despite financial volatility in March, growth reached 4.9 percent y/y in 2025:Q3. Domestic demand has yet to experience sustained weakness: consumption has been supported by high household inflation expectations and wealth effects from gold price increases, while investment has been buoyed by earthquake reconstruction. With still-strong domestic demand, growth is projected at 4.1 percent for 2025.

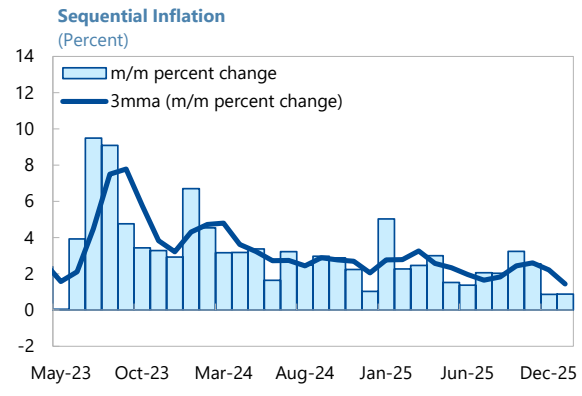


While volatile, domestic demand remains strong...



Sources: Turkstat and IMF staff calculations.

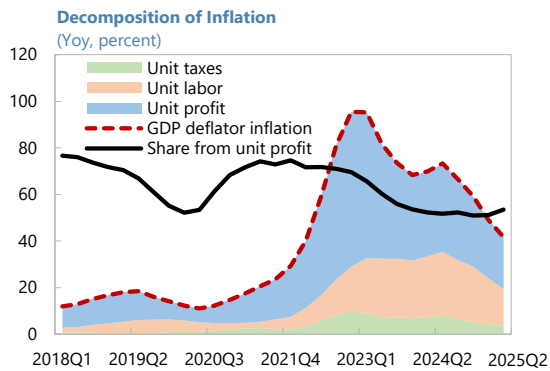
...bringing inflation down only gradually.



Sources: Turkstat and Haver Analytics.

4. While inflation is slowly falling, it remains high, particularly for services, and entrenched. End-2025 inflation was 31 percent, down from 44 percent in 2024. Services inflation, especially rents, has exceeded that of goods, raising the share of services in headline CPI inflation from 30 to 55 percent since 2021. Persistence has also increased, again particularly in services, though corporate profits have declined from earlier peaks. After falling throughout 2024, inflation expectations have now largely stabilized: markets expect end-2026 inflation at around 23 percent, above the CBRT’s 16 percent target.

Firms’ profits rose strongly at the beginning of the current inflationary episode, but have now mostly fallen back.



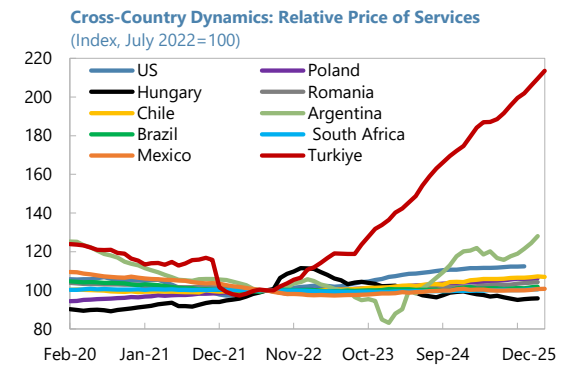
Source: IMF staff calculations.

Inflation persistence has risen and is falling only slowly....



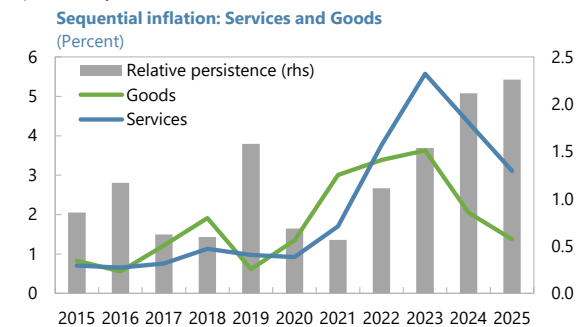
Source: IMF staff calculations.

Services inflation, however, has been unusually strong.

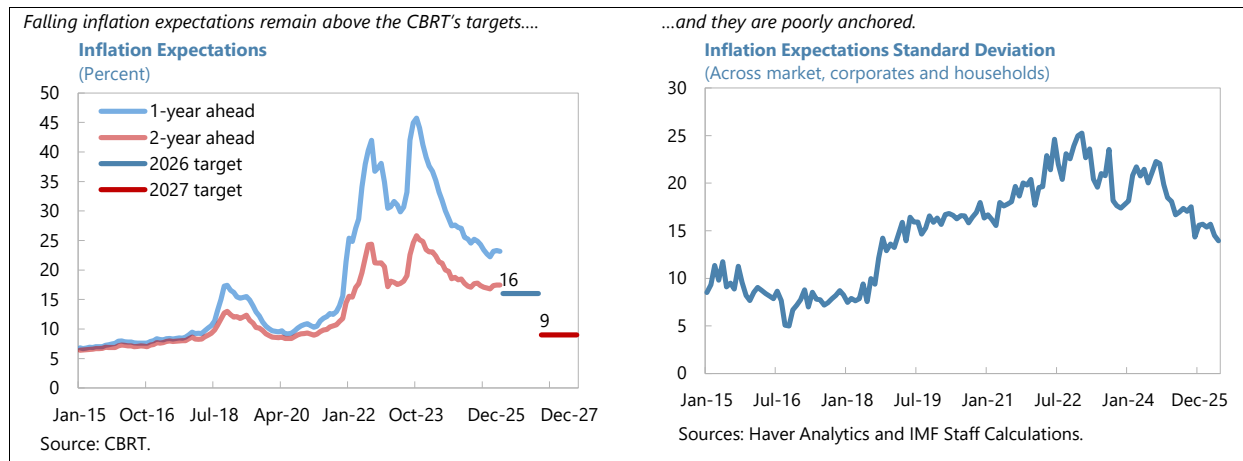


Sources: Haver Analytics and IMF staff calculations.

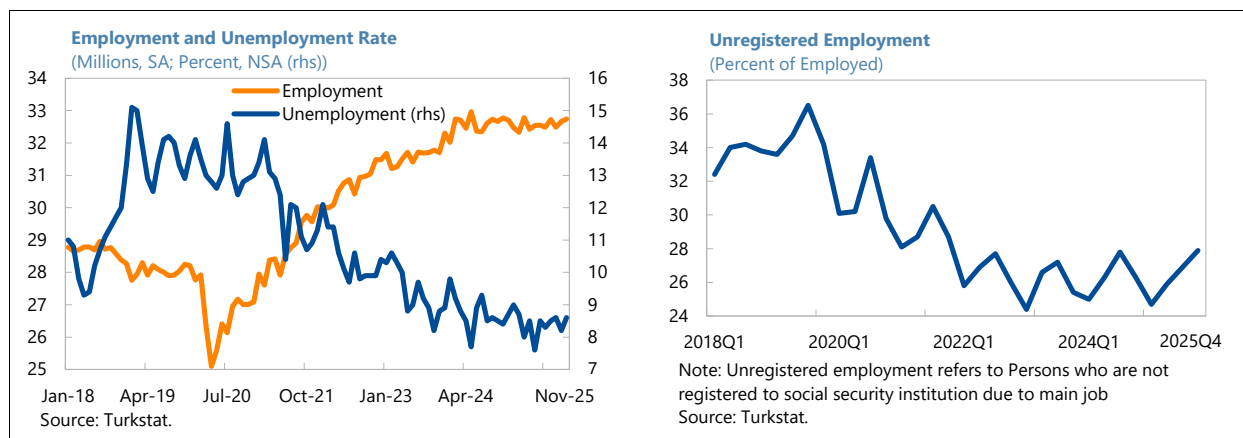
...particularly for services inflation.



Notes: Average mom inflation per year. Relative persistence is defined as the ratio of services sequential inflation to goods sequential inflation. Sources: Haver Analytics and IMF Staff Calculations.

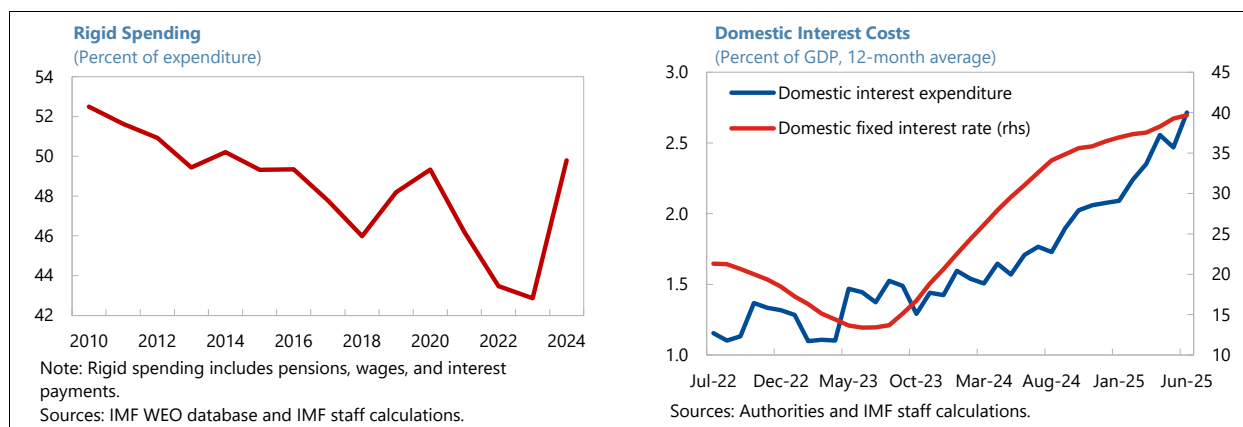


5. The labor market is showing resilience. The minimum wage, which covers over 40 percent of non-farm employment, is widely viewed as the main tool in fighting poverty. It was raised by 30 percent in January 2025, and in January 2026 by 27 percent, to around half the average wage. Nonetheless, formal sector employment is at historical highs and unemployment and unregistered employment is low. Labor force participation remained broadly constant in 2025, at around 54 percent, and hours of work have ticked upward.



6. Fiscal policy added to aggregate demand in 2024, but turned strongly contractionary in 2025. The 2024 overall deficit was 5.0 percent of GDP, as tax revenues weakened. Together with a faster-than-anticipated drawdown of accrued resources earmarked for reconstruction spending related to the 2023 earthquakes, the cash fiscal impulse reached 1.7 percent of GDP—substantially higher than the 2024 Article IV forecast (Annex I).¹ In 2025, revenue strength together with expenditure restraint has made fiscal policy more contractionary, with the January-November cash deficit falling from 4.0 in 2024 to 2.9 percent in 2025.

¹ See Box 1 of [IMF Staff Country Reports 2024, 312 \(2024\)](#) for a discussion of the focus on the cash primary balance.



- **Tax revenues** improved in 2025, including from policy changes to withholding taxes on financial assets,² compliance improvements, and above-inflation increases in some excises and fees.³
- Following large **public wage** increases in 2024, wage growth was modest in 2025. **Earthquake-related cash spending** is expected to fall from 1.6 to 1.2 percent of GDP.

7. Real rates remain high despite rate cuts, though credit growth remains resilient. A rate-cutting cycle began in December 2024, which was temporarily reversed in March. The ex-ante real policy rate has fallen from around 22.5 percent at the 2024 Art. IV to 14.7 percent in December, but dedollarization requirements have slowed the transmission of rate cuts.⁴ Nevertheless, the stance remains tighter than expected last year. Ex ante real lending rates are around 17 percent for corporates and 24 percent for consumers, while financial reforms continue to improve transmission (Annex II). Both high rates and ceilings on FX- and lira-denominated credit growth have also helped contain credit, but real credit growth has risen in the past 12 months.⁵

Text Table 1. Türkiye: Outturns for 2024

	2024 Article IV	2024 Outturns
Real sector (Percent)		
Real GDP growth rate	3.0	3.3
Output gap	0.7	0.1
GDP deflator growth rate	60.0	59.3
Inflation (period-average)	60.9	58.5
Inflation (end-year)	43.0	44.4
Unemployment rate	9.3	8.7
Fiscal sector (Percent of GDP)		
Central government overall balance	-5.2	-5.0
Primary balance	-2.9	-2.9
Primary revenue	19.7	18.6
Primary expenditure	22.5	21.5
Cash fiscal impulse (change in cash primary balance)	1.2	1.7
External sector (Percent of GDP)		
Current account balance	-2.2	-0.8
Gross external debt	41.3	38.1
Gross financing requirement	19.1	17.3

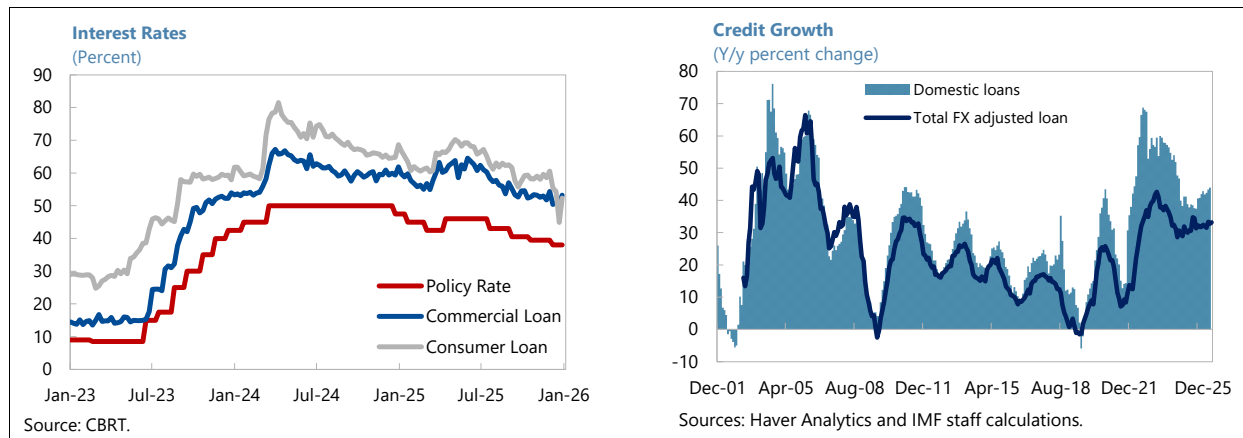
Sources: Turkish authorities; and IMF staff estimates and projections.

² In December 2024, withholding taxes were increased on dividends from 10 to 15 percent. In July 2025, withholding taxes rose between 12 and 17.5 percent on lira deposits up to 1 year, with taxes on longer maturities kept at 10 percent. PIT revenues also increased as deposits migrated into higher taxed short-term lira deposits.

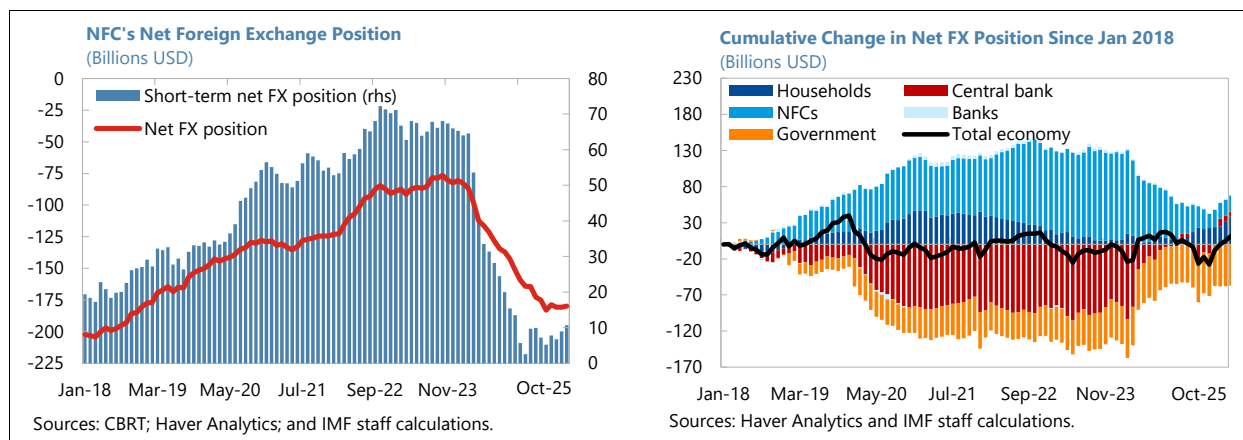
³ Several fees and specific taxes are indexed to past PPI inflation and thus raised the GDP share of revenues.

⁴ Growth targets for the share of Turkish lira deposits in total deposits were reintroduced for legal entities while reduced for real persons.

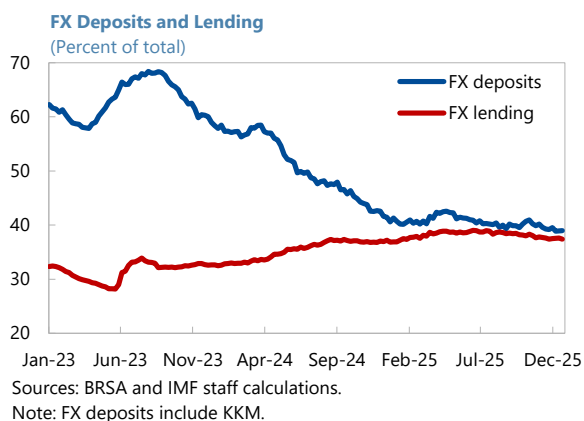
⁵ FX credit converted at prevailing exchange rates. Conversion at contracted exchange rates reduces growth to around 31 percent.



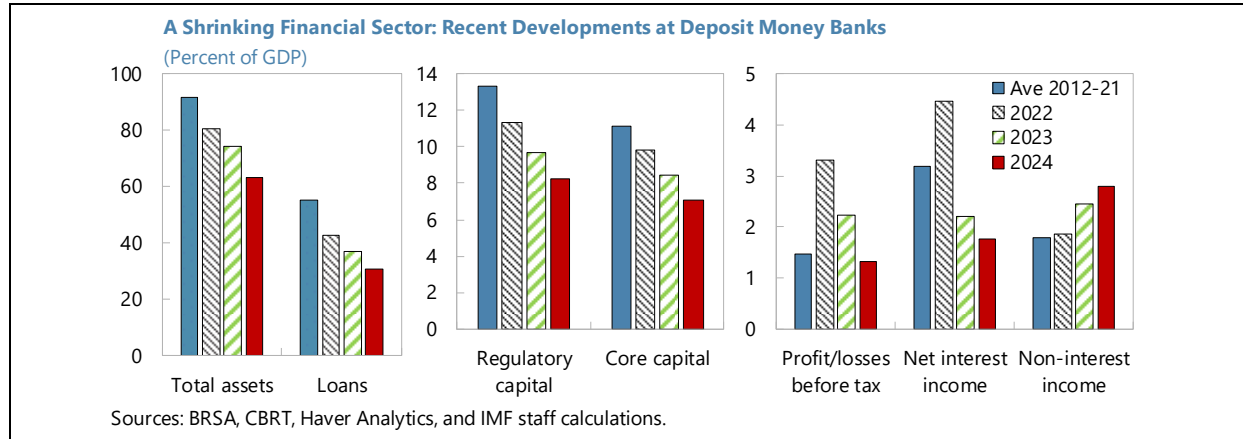
8. The foreign exchange (FX) positions of non-financial corporations (NFCs) have deteriorated. Higher lira borrowing costs relative to FX have incentivized FX borrowing by NFCs, leading their net FX position to worsen from -\$129 billion in September 2024 to -\$182 billion in October 2025. During the same period, the short-term positive FX cash position fell by \$15 billion. Overall, Türkiye’s national cumulative net FX position has deteriorated slightly since September 2024, with corporate borrowing outweighing an increase in households’ FX deposits.



9. The banking sector has remained resilient, but pockets of vulnerability—especially related to FX liquidity—are growing. Overall, banks remain profitable with capital levels and liquidity buffers adequate, and non-interest income partly compensating for reduced lending profitability. NPLs, especially for SMEs and retail credit, have begun to rise but are still around 2 percent of total loans, and credit portfolio quality and provisions appear strong. Despite growth ceilings, domestic lending in FX continues to rise faster than lira lending. The share of FX deposits has now stabilized, and FX-protected



deposits (KKM) have fallen since September 2024 from 8.4 to less than 0.1 percent of total deposits as new accounts have been barred, and banks' FX positions are closed.



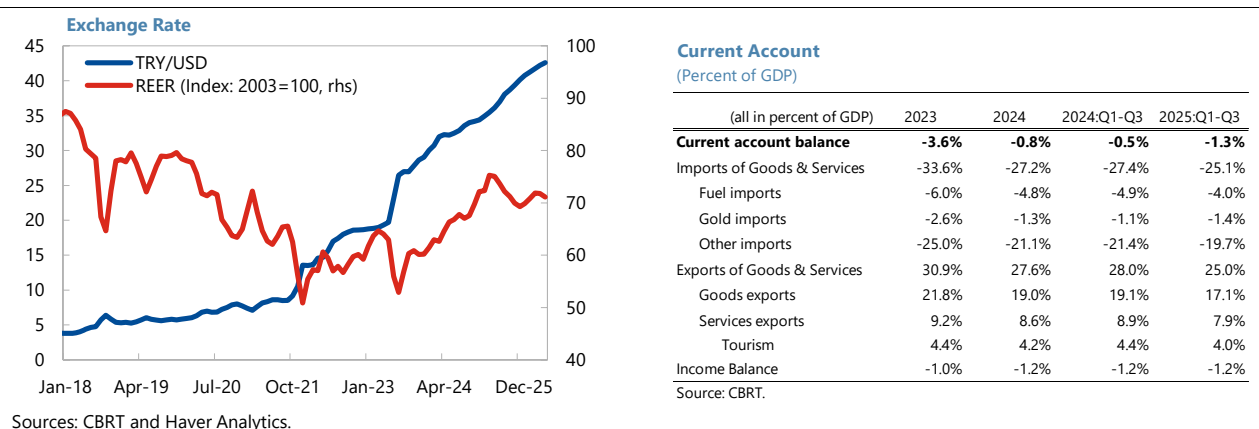
10. Last year's lira overvaluation has moderated. The Fund's External Sector Assessment

indicates that, on a preliminary basis, the external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies (Annex III). A successful disinflation program would reduce overvaluation, while the ongoing renewable energy transition will structurally help reduce the current account deficit (₺139). Indicators suggest that the March devaluation – particularly given ongoing Euro strength - helped ease exchange rate pressures, though summer 2025 tourism receipts slightly lagged competitors. Manufactured goods exports have also been resilient to recent increases in production costs overall, although some labor-intensive sectors, including textiles, are showing strain.

High Frequency Indicators of Exchange Rate Pressure 1/

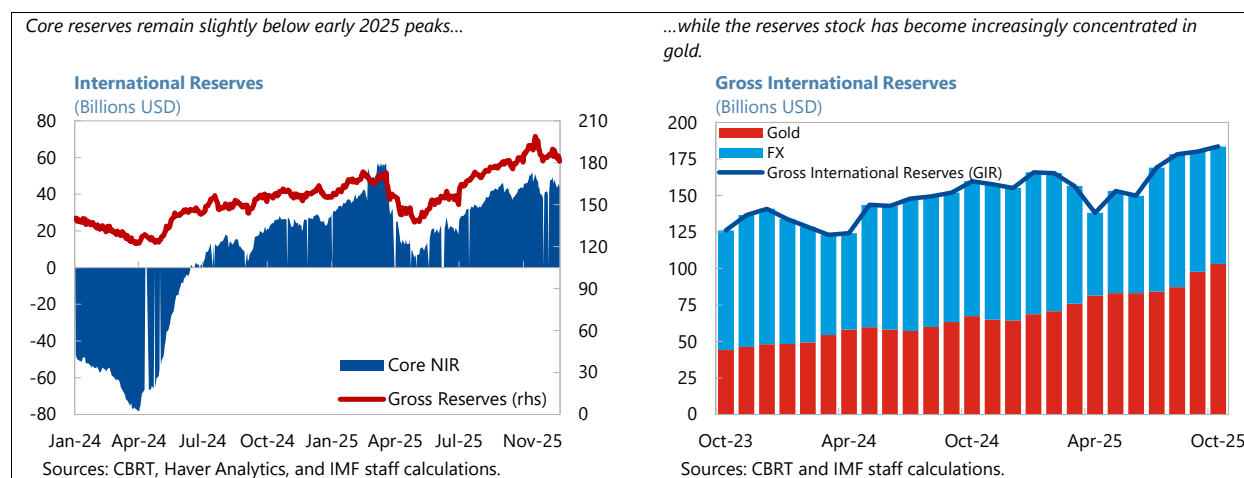
	23:Q4	24:Q1	24:Q2	24:Q3	24:Q4	25:Q1	25:Q2	25:Q3	25:Q4
Price and cost pressures 2/	0.1	0.0	0.1	-0.1	0.0	-0.2	0.0	-0.1	0.0
Trade volumes (goods) 3/	-0.4	-0.2	0.0	-0.2	0.4	-0.1	0.0	-0.2	0.2
Tourism 4/	1.1	-0.6	-0.6	0.7	0.5	-1.2	-0.7	0.5	
Financial indicators 5/	0.1	0.3	0.1	0.7	0.4	0.5	0.4	-0.4	0.2

1/ Values are average z-scores of 3mma changes for a group of indicators in each category.
 2/ Includes real effective exchange rate, relative non-domestic PPI and relative ULCs.
 3/ Includes developments in Turkish export market shares, growth in exports and imports of goods and manufacturing, and the percentage change the export share of imports.
 4/ Based on international tourism receipts relative to competitors.
 5/ Includes stock price developments of largest exporters relative to all share (XUTUM), and TL deposit share.



11. Transient factors helped the external sector in 2024, but were slightly weaker in 2025.

In 2024, lower energy prices, subdued import demand, and lower gold demand brought the current account deficit below 1 percent of GDP.⁶ Global trade tensions do not yet appear to have harmed Türkiye in 2025, but imports are now growing faster than exports, and still-permissive global conditions and, since April, falling country risk have facilitated rising FX borrowing and short-term inflows. At end-2025, gross international reserves were around 80 percent of the Fund's ARA metric, with most of the improvement driven by increases in gold prices. Core reserves, at over \$50 billion, are above last year's Article IV level, but below early 2025 levels.⁷



OUTLOOK: SLOW DISINFLATION AND GROWTH BELOW POTENTIAL

12. The authorities are expected to continue balancing disinflation and growth in a subdued global context.

- Continued expenditure restraint and the phaseout in earthquake-related spending are projected to shrink the **fiscal deficit**, more than offsetting higher interest costs. Staff anticipate accrual deficits of 3.6 percent of GDP in 2025 and 3.9 percent of GDP in 2026,⁸ with a cash stimulus of -1.3 and -0.2 percent of GDP, respectively. In 2028, the deficit would decline to around 3½ percent of GDP, above the 3 percent target of the authorities' Medium-term Plan (MTP),

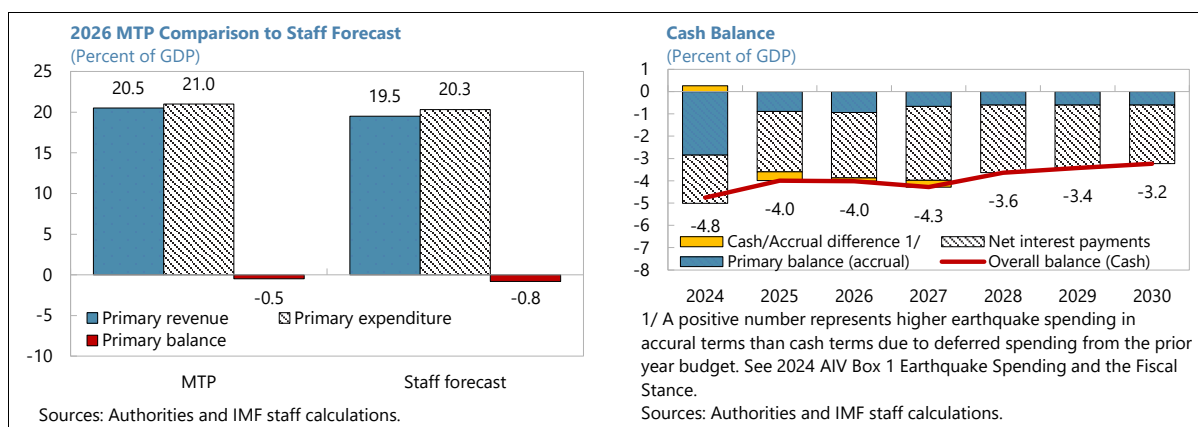
⁶ Errors and omissions in the balance of payments, historically both large and volatile, reached \$-10.9 billion in 2024.

⁷ Core Net International Reserves are defined as GIR less all CBRT's FX liabilities, including swaps.

⁸ For 2026, staff adjust nominal expenditure announced by the authorities to account for higher inflation; despite a higher nominal GDP, tax revenues are projected to be lower than estimated by the authorities based on announced policies. Beyond 2026, staff assume unchanged policies with revenues growing with nominal GDP and borrowing costs falling gradually as inflation declines.

which is based on higher revenue projections, including from unidentified revenue measures, and a lower interest bill.⁹

- **Monetary policy forecasts** are based on market expectations of an end-2026 policy rate of 30 percent, falling further in the medium term, while the authorities are expected to continue to rely heavily on quantitative tools, including credit growth ceilings.
- **Minimum wage increases** are expected at slightly below previous-year inflation.
- **External demand** is expected to remain relatively subdued, in line with the December 2025 WEO, with trading partner growth around 1.6 percent and stable energy prices.



13. For 2026, this policy path would continue to generate solid growth but inflation would stay above the CBRT’s target. Falling policy rates and rising confidence from receding inflation should support investment and sustain consumption, with growth of 4.2 percent. Inertia and strong demand will keep inflation high, but with backward-looking expectations a key factor in inflation dynamics and fiscal policy neutral, gradual disinflation would continue. Headline CPI inflation would reach 23 percent at end-2026 (CBRT target: 16 percent). The current account deficit would remain adequately financed, while sustained depositor confidence, and still-strong gold prices, would allow reserves to stay at around 80 percent of the ARA.

Text Table 2. Türkiye: Inflation and Growth: Forecasts vs. Targets

		End-2024	End-2025	End-2026	End-2027	End-2028
Inflation	IMF Forecasts	44	31	23	19	15
	Authorities' Targets	44	24	16	9	5
Growth	IMF Forecasts	3.3	4.1	4.2	4.1	4.0
	Authorities' Forecasts	3.3	3.3	3.8	4.3	5.0

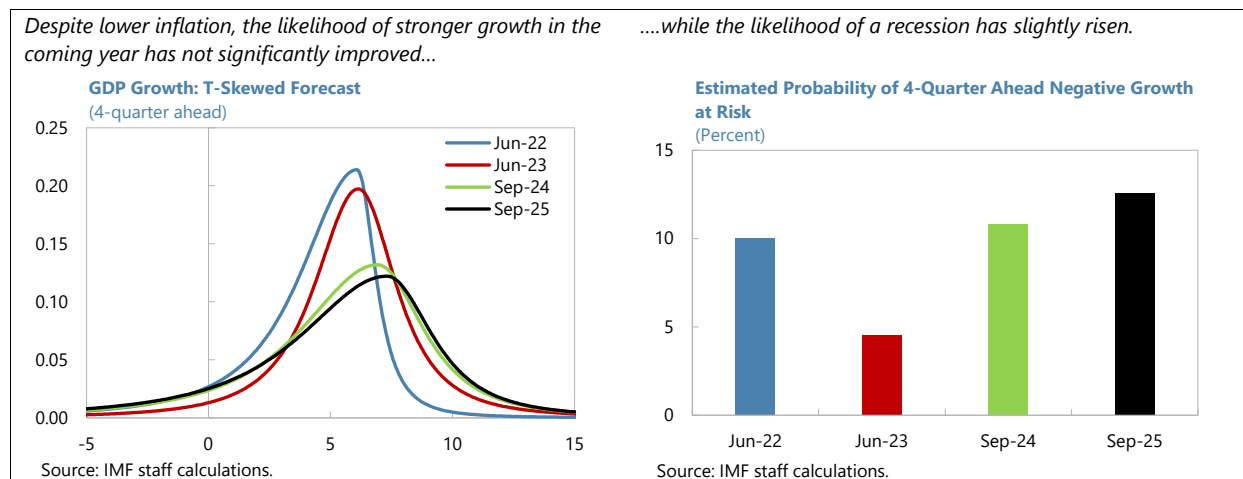
14. In the medium term, inflation is expected to remain in double digits and growth solid but subpar. Since sacrifice ratios generally rise as inflation falls, reducing inflation more quickly and durably would require tolerating a higher short-term growth cost. The relatively slow disinflation

⁹ The authorities forecast an increase in the tax-to-GDP ratio during 2026–28 of 0.7 percent of GDP.

path is expected to bring inflation down somewhat, but it would remain around 15 percent. This will make it more challenging to break inertia and reanchor inflation expectations and, without structural reforms, keep growth still below its pre-GFC average. As inflation comes down and becomes more anchored, rebalancing would allow investment to assume a more prominent role and the economy would rely more on external demand, keeping the current account deficit moderate.

RISKS

15. Still-high inflation means the Turkish economy will remain highly exposed to risks (Annex IV). With demand too strong to substantially lower pressures, inflation sensitive to energy and food prices, exchange rate pass-through high, still-unanchored inflation expectations, and policies insufficiently tight to bring inflation to single digits, even a minor price shock could easily propagate into much higher inflation. A growth-at-risk analysis also shows tail risks higher both than in the last Article IV and right after the 2023 elections, indicating that a soft landing might be difficult to achieve. While consumption and investment have so far been strong, a gold price correction could weaken consumption, household savings rates have little room to fall and corporate FX leverage cannot continue to rise, potentially stalling growth, while reform fatigue could sap support for tight policies. On the other hand, slowing growth could reduce price pressures, and rent increases may now have run their course, bringing inflation down more quickly. More generally, falling inflation would facilitate financial deepening, allow for lower rates, and boost confidence and growth.



16. The economy remains exposed to a volatile external environment (Annex V). A risk-off episode, triggered for example by geopolitical or global financial volatility, could lead to foreign investors unwinding carry trades or portfolio positions, or lower corporate rollover rates. This could pressure reserves, which are increasingly sensitive to gold prices. Renewed idiosyncratic stress, or a large depreciation, could trigger deposit flight from the financial system, pressuring the lira and eroding reserves. Retail deposits, so far stable, are sensitive to exchange rate shocks, while crypto markets, especially stablecoins, present a rapidly growing alternative inflation hedge. The current

account deficit is exposed to energy prices, which could be affected by geopolitical uncertainty and conflicts.

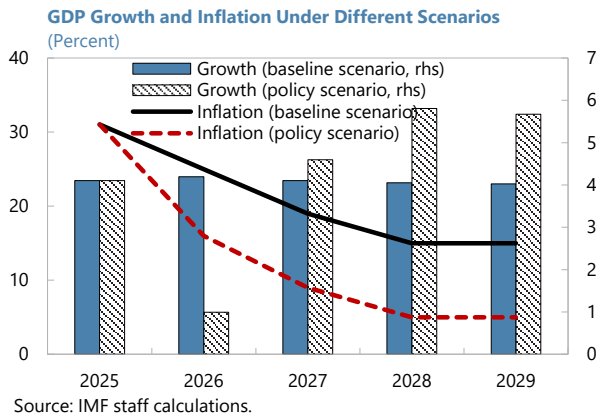
17. The outlook for goods trade is clouded by numerous factors. Although U.S. trade is relatively small (exports to US are 6 percent of the 2024 total), trade-weighted average tariffs now stand at 23.5 percent, the same as the EU, with higher rates for aluminum (45 percent) and steel (50 percent). Turkish exports are exposed to risks from slower European demand, the European Union's CBAM, which could harm competitiveness, in high-emissions intensity sectors such as steel, cement and aluminum, and competition with China in third markets. Still, Türkiye's proximity and close trade links to the EU could support exports under greater global fragmentation, especially if military procurement rules are relaxed, and higher U.S. tariffs on other countries could present an opportunity for Turkish firms.

Authorities' Views

18. The authorities also forecast solid growth, but remain confident in the CBRT's inflation targets. Under the MTP, growth rises steadily toward 5 percent in the medium term, while inflation gradually declines to the CBRT's targets. The authorities assert that the current stance of monetary policy, and a strengthening fiscal consolidation larger than that projected by staff, would suffice to contain domestic demand, thereby limiting inflationary pressures. At the same time, TFP-enhancing reforms and accelerating investment will raise potential GDP, widening an output gap consistent with ongoing steady disinflation. The authorities emphasize that recent improvements in productivity suggest that growth is increasingly supply-driven, allowing the economy to expand without generating commensurate inflationary pressures. The CBRT further conjectures that declining inflation inertia, particularly in rents and education, and an ongoing shift toward forward-looking pricing by both the public and private sectors, will cool inflation via the expectations channel, reinforcing the disinflationary impact of productivity-led growth and putting the end-2026 16 percent inflation target within reach. Domestic and external appetite for lira positions is expected to keep contributing to reserves and help the CBRT contain FX-related inflationary pressures. The authorities shared staff's assessment of external sustainability, adding that weaker labor-intensive exports would be compensated for by stronger high value-added goods and still-strong tourism, and felt competitiveness is not yet at risk. The main risks to the outlook are volatility in food prices that could put additional pressure on anchoring inflation expectations and the potential upside risk to oil prices. The CBRT reiterated that it stands ready to take necessary measures in case of a deterioration in inflation outlook.

POLICY DISCUSSIONS: A MORE ROBUST AND RESILIENT TRAJECTORY

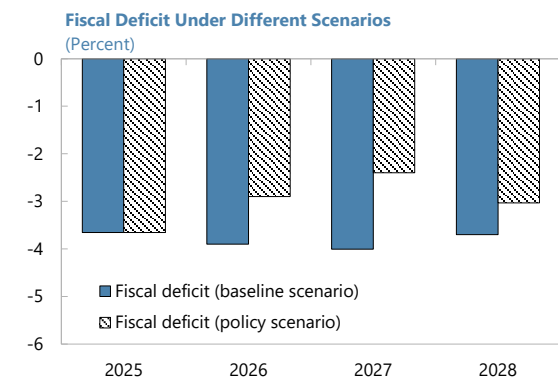
The CBRT's inflation targets are unlikely to be achieved under the current policies (**baseline scenario**). A tighter overall policy stance would bring inflation in line with these targets and rebuild buffers, though some output loss cannot be avoided. Most importantly, greater stability and confidence would catalyze a stronger rebound in 2027–8, while lowering risks. Structural reforms aimed at reversing declining productivity would help counteract the negative impact on growth. This, together with a stronger social safety net, would offset the costs of prolonged high inflation on the economy and firmly put Türkiye on a more robust and resilient trajectory.



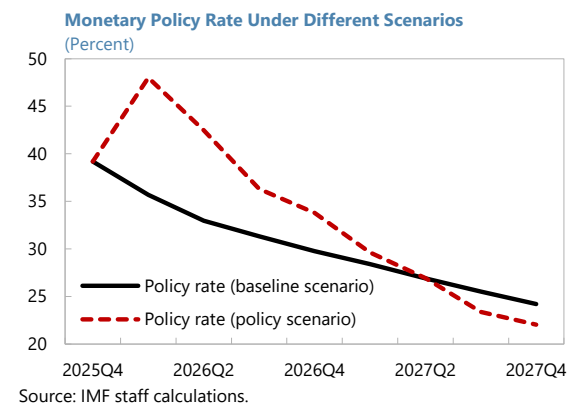
A. Macro Policy Settings: Faster and More Durable Disinflation

A **policy scenario** would achieve faster and more durable disinflation (Annex VI). Further fiscal revenue improvements would constitute most of the adjustment, and open fiscal space for improving Türkiye's social safety net in the medium term, also allowing incomes policies to become more forward-looking. On monetary policy, there is a need to raise the policy rate while exploring whether complementary policies can help to address the drivers of persistent services inflation. The policy shift should be announced, including a clear discussion of key objectives and tradeoffs, to convey to market participants that a change is underway, while helping further strengthen credibility and thus resilience.

A tighter fiscal stance in 2026–27 would allow for some expansion in the medium term...



...while an initial rate increase would allow for a steeper cutting cycle in 2026:H2.



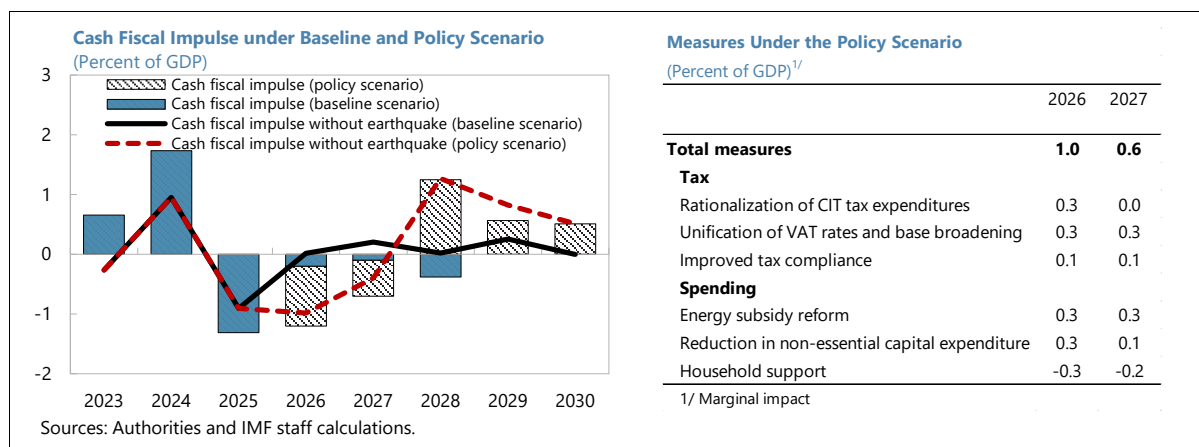
Text Table 3. Türkiye: Policy Scenarios vs. Baseline Scenarios
(Percent)

		2025	2026	2027	2028	2029					
Inflation	Baseline	31	23	19	15	15					
	Policy	31	16	9	5	5					
Growth	Baseline	4.1	4.2	4.1	4.0	4.0					
	Policy	4.1	1.0	4.6	5.8	5.7					
Overall balance	Baseline	-3.6	-3.9	-4.0	-3.7						
	Policy	-3.6	-2.9	-2.4	-3.0						
Current account	Baseline	-1.4	-1.4	-1.4	-1.5						
	Policy	-1.4	-0.6	-1.5	-1.9						
		2026Q1	2026Q2	2026Q3	2026Q4	2027Q1	2027Q2	2027Q3	2027Q4		
Policy rate	Baseline	35.4	33.6	31.6	30.0	28.5	27.4	26.3	25.4		
	Policy	48.0	42.5	36.3	33.8	29.6	26.9	23.4	22.0		
Growth	Baseline	0.9	1.7	0.7	0.3						
	Policy	0.2	-0.7	-0.4	0.1						

Source: IMF staff calculations.

Fiscal Policy

19. Further fiscal tightening in 2026–27 is paramount for faster disinflation. Even though staff assess that there is some fiscal space (consistent with the 2024 AIV), bringing the overall deficit temporarily below 3 percent would lean against demand and reduce price pressures. Fiscal savings of around 1.0 percent of GDP above the baseline in 2026—while protecting earthquake reconstruction—would generate an impulse of around -1.2 percent of GDP.¹⁰ Additional savings of 0.6 percent in 2027 combined with the full year effect of 2026 measures would result in an impulse of -1 percent of GDP. Given Türkiye’s low risk of debt distress and important spending needs, the deficit could rise back to the authorities’ 3 percent of GDP target in the medium term (¶23).



¹⁰ Both the baseline and policy scenarios assume defense spending to stay at around 2.3 percent of GDP.

20. Lower tax expenditures and improved tax compliance should be the centerpiece of the consolidation.

- **CIT.** Generous tax expenditures and incentives compared with OECD peers account for 1.1 percent of GDP.¹¹ Aggregate collections are also low by international standards.¹² World Bank analysis suggests that the return on such incentives has not been high, presenting opportunities to rationalize deductions by around 0.3 percent of GDP over 2026–27.¹³
- **VAT.** Reduced rates of 1 and 10 percent in addition to the standard rate (20 percent) lower revenue applied to the theoretical tax base. A harmonized rate applied across a broader base could, according to IMF technical assistance (TA), yield over 1½ percent of GDP. Jumpstarting this effort could increase revenue by 0.6 percent of GDP in 2026–27.¹⁴ To compensate for impacts on vulnerable households staff propose to recycle some revenues toward direct cash transfers (₺20).
- **Compliance.** Improvements last year, including from digitalization and more audits, have likely increased tax collection. Formalizing arrangements between the three domestic revenue administration agencies, and further implementing the authorities' informality and AI strategies could improve revenue by 0.2 percent of GDP in 2026–27, and more in later years.

21. Expenditure reductions are also feasible.

- **Energy subsidies.** Transfers to SOEs for losses on subsidized electricity and gas—and thus the savings from a full phase out— are projected at 0.6 percent of GDP in 2025 and 2026.¹⁵ In parallel, support to vulnerable households in the form of cash transfers should be provided. Block tariffs, which tend to benefit the rich, should be avoided.
- **Non-essential capital expenditure.** Slower absorption of non-earthquake non-essential capital spending could lead to temporary saving of in 0.4 percent of GDP in 2026–27, ideally by delaying planned projects until earthquake rebuilding is phased out.
- Expenditure restraint could be complemented by strengthening **procurement practices**, including by broadening use of e-procurement to make it more transparent.¹⁶ An expansion of

¹¹ The largest exemptions include sector-specific reduced rates, corporate income reduction from R&D investments and free trade zones, and the exclusion of some funds and partnerships from CIT.

¹² [OECD Economics Department Working Papers No. 1665 \(pp. 21\)](#).

¹³ [World Bank, Public Finance Review](#).

¹⁴ Assuming the 1 percent rate increases to 10 percent, and the 10 percent rate to 15 percent.

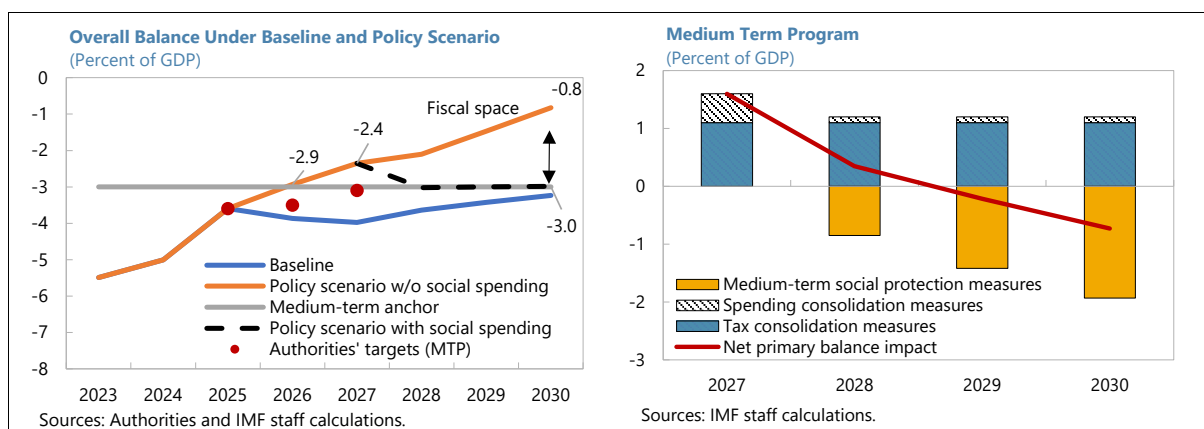
¹⁵ There are also indirect costs, which include revenue forgone on VAT and additional financing costs from larger deficits. For the first 9 months of 2025, the average subsidy rates for electricity and gas were 57 and 65 percent respectively.

¹⁶ [World Bank, Country Partnership Framework](#).

expenditure reviews currently underway would help to target expenditure consolidation over the medium and long term.

22. Proper sequencing and communicating measures would minimize second-round effects on inflation and pave the way for inclusive growth.

- **Start with non-inflationary policies.** Rationalizing non-essential capital expenditure,¹⁷ further improving tax compliance and reducing CIT exemptions would fall into this group. While containing the potential impact on inflation, such policies preserve the productive capacities of the economy and help formalize the informal economy.
- **Once durable disinflation is underway, implement subsidy and VAT reforms.** Raising natural gas and electricity tariffs in 2026:H2 would limit the impact in that year. At that time also raising discount VAT rates for most products to 15 percent would further reduce the inflationary impact. Full harmonization to a unified 20 percent VAT could be achieved over time. By removing distortions of firms’ input choices, unification of VAT rates would be also conducive to high long-term growth.¹⁸
- **Support for vulnerable households.** Türkiye’s social infrastructure e.g., the Integrated Social Assistance System (ISAS) that processes applications and payments for social programs, while monitoring beneficiaries—can be leveraged to compensate adversely affected low-income households. Staff estimate this could cost up to 0.5 percent of GDP.
- **Communicate expected impacts.** If household subsidy reform were phased in beginning July 1, 2026, a 50 percent reduction of electricity subsidies along with the above VAT changes would add around 3.1 percentage points to the 2026 price level.¹⁹ The one-off nature of these should be communicated in advance and within the overall disinflation strategy.



¹⁷ This reduction is assumed to reverse in 2028.

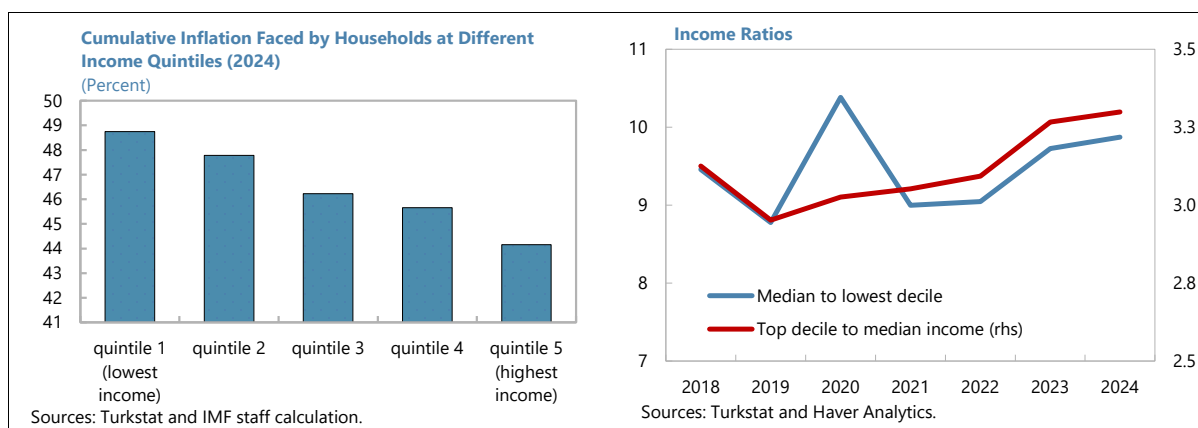
¹⁸ See, for example, [Acosta-Ormaechea and Morozumi \(2021\)](#).

¹⁹ For every 10 percent increase in the final tariffs for natural gas and electricity, the CPI is estimated to increase by 0.4 percentage points.

23. Following successful disinflation, spending could be further reoriented toward better supporting households.

As noted in the 2024 Article IV, the authorities' 3 percent deficit target is appropriate, as it is transparent, easily communicated, and consistent with fiscal sustainability (Annex VII). Receding inflation, lower interest payments,²⁰ and higher revenue would create fiscal space of about 1.0 percent of GDP in 2028 compared to the baseline. As sustained inflation has disproportionately raised the cost of living for the poor and income inequality has worsened, fiscal policy could be made more redistributive.²¹ Improving the safety net takes time and argues for initiating this process now.

- **Cash transfers could be increased.** Social assistance amounted to 1.4 percent of GDP in 2021, compared to a 5.6 percent OECD average.²² The ISAS could support new programs and broadened to identify vulnerable households outside the current safety net. A program of periodic cash transfers, which in Türkiye have high target accuracy, would allow covering basic needs for the most vulnerable and could reach households not covered by current in-kind programs.²³ Program design should minimize labor market disincentives.
- **Changes to taxes and subsidies could increase parental employment.** Türkiye has unusually large tax wedges for households with children. Targeted tax credits for childcare expenses would be inexpensive and promote greater labor force participation, particularly for women.²⁴ Wage subsidies for low earners would reduce informality and poverty.



24. Fiscal risks remain well under control even under the baseline scenario.²⁵ While interest rates have risen and the maturity profile has shortened, public debt is forecast to stay at low levels

²⁰ Interest costs are cumulatively 2 percentage points of GDP lower over the policy scenario horizon than under the baseline.

²¹ Current support comes mainly from universal health insurance and in-kind and cash transfers; [OECD Türkiye Economic Survey 2025](#).

²² [World Bank, 2023](#).

²³ [World Bank Public Finance Review](#), p.159–165.

²⁴ [IMF Working Paper 2025/187](#).

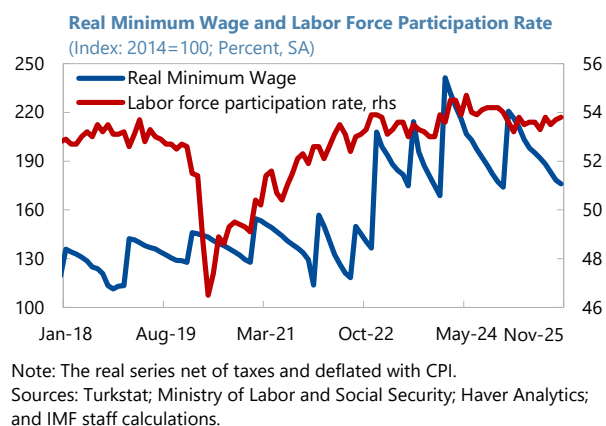
²⁵ [IMF Country Report No. 24/312 and DSA Annex](#).

and is robust to shocks under the baseline scenario. Baseline gross financing needs (GFN) are manageable at around 6 percent of GDP in the medium term, rising to around 8 percent under a stress scenario. Contingent liabilities include higher subsidies from commodity price shocks, potential SOE recapitalization, and assumption of PPP liabilities. Under a separate contingent liability scenario, GFN would rise to a peak of over 11 percent of GDP, with debt rising to 33 percent of GDP by end-2030 against the baseline of 26 percent. Unexpected shocks from natural disasters, including earthquakes, are also fiscal risks. As noted in 2024 Article IV, governance reforms such as the updating of the PPP and SOE frameworks would improve financial management and the timely publication of quasi-fiscal operations would help strengthen the governance and reporting of fiscal risks. Once finalized, the 2025 Fiscal Transparency Evaluation could provide further suggestions for the enhancement of fiscal risk reporting going forward.

Incomes Policies

25. Stepped-up support for vulnerable households will facilitate forward-looking

minimum wage policies. As noted in the 2024 Article IV, addressing backward-looking indexation in contracts—particularly government wage contracts, which cover around 10 percent of the labor force—can help reduce inflation inertia. Cross-country analysis shows that minimum wages as high as Türkiye’s can depress employment in the medium-to-long term.²⁶ As the safety net is expanded and inflation expectations become better anchored, the minimum wage should be adjusted in line with forecast inflation.



Authorities' Views

26. The authorities believe their fiscal stance will contribute to disinflation without further measures. The fiscal balance is anticipated to continue to improve by 0.1 percent of GDP in 2026. In addition to the keeping budgetary expenditures under control; phasing out energy subsidies and removing inefficient tax expenditures are among the government priorities, though the timing must be consistent with the disinflation program. The authorities are less supportive of tax increases due to their potential inflationary impact. They agree that social expenditures need to be scaled up and support provided to vulnerable households. The authorities anticipate the medium-term deficit falling slightly below 3 percent. There are ongoing reforms to enhance PFM frameworks through improved professionalization of management, board selection, and legal frameworks. Fiscal risks are transparently reported and contained, with the publication of guarantees provided by the Treasury.

²⁶ [Chen and Yao \(2025\)](#).

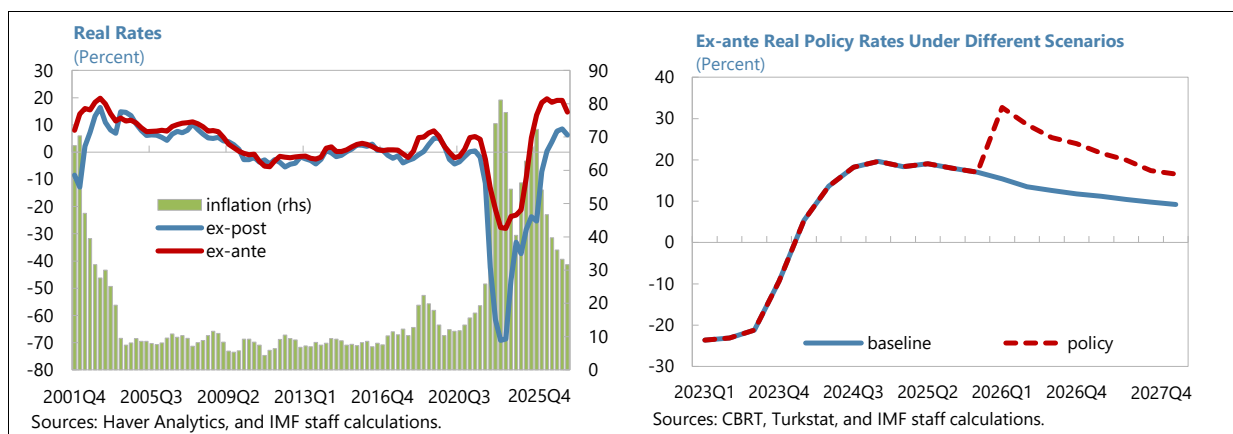
27. The authorities expect incomes and price policies to be more supportive of disinflation. While acknowledging the impact of backward-looking indexation on inflation, the authorities believe this will recede as inflation slows. They estimate that the effect of annual minimum wage increase would be diminishing over time. They also indicate that administrative price adjustments in 2026 would further support disinflation process.

Monetary Policy

28. Türkiye’s distinctive disinflationary strategy presents challenges (Annex VIII). Monetary policy traction is weakened by low leverage, easy substitution by borrowers into FX and, for large companies, borrowing from abroad. Moreover, backward-looking indexation in contracts, and wage setting at all levels, including public sector wages, contributes to inertia. In this challenging context, the CBRT combines credit growth ceilings and dedollarization targets with policy rates to affect demand, the exchange rate, and expectations. However, the direct effect of the policy rate on credit and thus demand and pricing power, while not insignificant, is relatively weak. Also, while further appreciation would directly reduce prices, its economywide impact has fallen in light of the rising share of services inflation. Further, the expectations channel is weakened by indexation and complex communications. For these reasons, disinflation requires a significant fiscal component, and also a monetary program that makes the most of the policy rate tool, by being clearly centered on bold and forward-looking rate management and stepped-up communication.

29. The policy rate should be raised, and kept above current levels until sequential inflation has converged toward the CBRT’s target. Credit has grown in real terms, accelerating in 2025 despite rising ex-post real interest rates and credit growth ceilings. This is common in disinflationary episodes, when inflation expectations often fall more slowly than headline inflation, depressing ex ante real rates.²⁷ Strong credit growth shows that monetary policy is still not tight enough to bring sequential inflation to levels consistent with the CBRT’s targets. A higher real policy rate trajectory would support faster disinflation and raise the likelihood of reaching these targets. This could be achieved by returning the policy rate closer to the 2024 terminal rate (around 48 percent) and keeping the real rate high until sequential inflation is in line with targets. Real ex-ante rates should then be comparable to levels observed during Türkiye’s successful 2002–05 disinflation and loosening could then resume. By 2027, a nominal rate path below the baseline scenario would be consistent with lower and stabilizing inflation.

²⁷ [Kaminsky, G., and L. Leiderman, “High real interest rates in the aftermath of disinflation: is it a lack of credibility?,” *Journal of Development Economics*, vol. 55, issue 1, pages 191–214.](#)



30. Lifting quantity restrictions and distortionary financial regulations would enhance the primacy of the policy rate in the CBRT’s toolkit, improving transmission and facilitating communication. Several liquidity and regulatory measures have improved monetary transmission, but credit growth ceilings should be phased out before reducing the policy rate. Sufficiently high interest rates to bring down inflation will also contain FX demand, allowing dedollarization targets to be lifted. The CBRT should enhance liquidity forecasting and management, shift the main monetary policy operation (7-day repo) to a fixed-rate full allotment, and clarify its operational target by focusing on the overnight rate. Sequencing should prioritize first liberalizing flows within the financial system before allowing flows in and out of the system—including into FX cash, gold, and crypto.

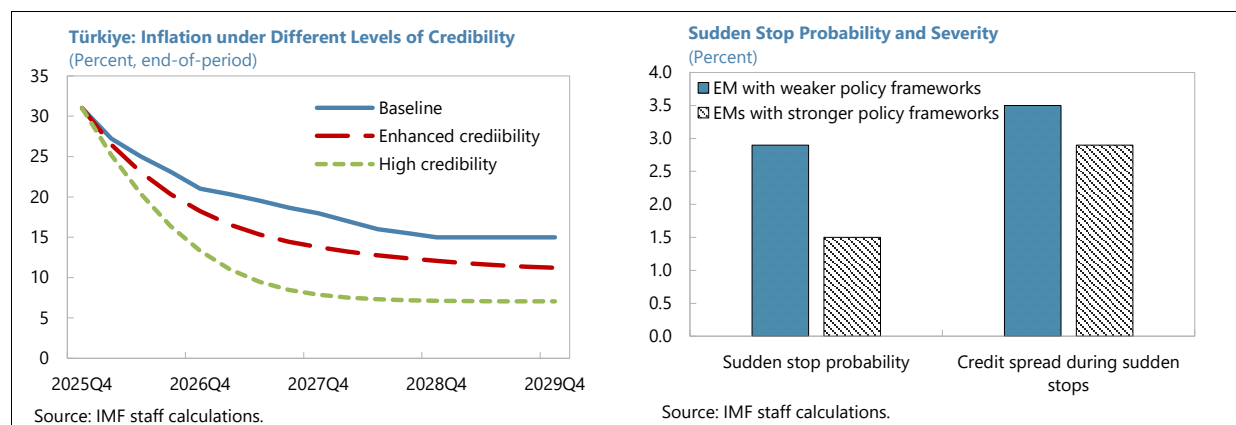
31. Strengthening communications on how monetary policy will achieve inflation targets would help re-anchor expectations and build credibility. In August, the CBRT revised its communication strategy to better guide markets by distinguishing between interim inflation targets and forecasts. Building on this, future deviations from targets and corrective actions to get back on course should be clearly explained. Forward guidance could also be more hawkish, stating the policy rate will remain sufficiently contractionary until inflation and expectations align with the targets, with further hikes not ruled out. Additional steps include explicitly stating the conditions for rate adjustments and focusing CBRT communications on inflation, i.e., by removing dedollarization targets from reports.

32. Stronger central bank independence would improve policy predictability. Enhancing the CBRT’s independence would help reaffirm its commitment to achieve its targets and contribute to reanchoring expectations. As noted in the 2022 Article IV, restoring earlier arrangements for senior appointments and introducing transparent procedures for dismissal, backed by law, as well as strengthening the CBRT’s financial autonomy, by reviewing the rules governing profit transfers to the budget, would strengthen independence and add to institutional predictability.

33. Fund research shows that the greater policy credibility resulting from the above would improve resilience to external shocks.²⁸ In Türkiye, policy rate transmission has weakened in

²⁸ [World Economic Outlook, October 2025, Chapter 2.](#)

recent years as higher inflation feeds into wage contracts and expectations, necessitating tighter policies than in the past to achieve disinflationary goals. A tighter policy stance would help build credibility. This greater credibility is key to bringing inflation down faster, and anchoring expectations would hedge against upside inflation risks. Going forward, this would reduce the damage from global risk-off episodes and increase policy flexibility in a stress event (Box 2).



Exchange Rate Policy

34. While foreign exchange interventions (FXI) have helped smooth volatility and stabilize inflation, the resulting lower exchange rate flexibility is raising risks. In March, the CBRT intervened, taking into consideration the sensitivity of inflation expectations to exchange rate shifts. More generally, however, while low volatility vis-à-vis the dollar has supported depositor confidence, it also encourages unstable inflows and raises the risk of a sustained overvaluation that could reduce competitiveness and lead to a sudden adjustment.

35. Exchange rate intervention should focus on smoothing potentially destabilizing exchange rate movements that could dislodge inflation expectations. Intervention should not be used to substitute for warranted adjustment of macro policies, including appropriate monetary and fiscal policy settings. However, when large shocks interact with frictions—such as Türkiye’s shallow FX market, high dollarization, and strong inflation passthrough—to generate sharp increases in external financing premia or a jump in inflation expectations that can undermine price stability, temporary FXI can be useful. Persistent shocks should be addressed more sustainably through tighter policies, with monetary policy being the primary policy lever to counter a de-anchoring of inflation expectations.

36. Interventions should be gradually scaled back as inflation expectations become better anchored. Lower inflation, inflation expectations close to CBRT targets, and comfortable reserve buffers will improve confidence in the lira. The higher real interest rate path in the policy scenario would boost lira yields, reducing deposit flight risks. Other measures to reduce frictions in the FX market will also lessen the need to smooth exchange rate volatility. For instance, further relaxation of the export surrender requirement or reducing minimum FX-protected deposits rollover rates would support greater liquidity and price discovery in the market. Should hot money inflows revive,

pre-announced ceilings on reserves accumulation would introduce more lira volatility, reducing carry trade attractiveness while rebuilding buffers.

Authorities' Views

37. While acknowledging that disinflation has slowed, the CBRT reiterated its commitment to tight monetary policy. The CBRT agrees that the policy rate is the main tool of monetary policy, but believes that quantitative measures to restrict credit growth and encourage high shares of lira bank deposits are an important complement to lowering inflation and better anchoring inflation expectations. Despite upward revisions to the output gap, the CBRT considers demand moderation well into contractionary territory, and expects that in 2026, planned fiscal consolidation, sustained improvements in inflation expectations, and a decline in services inflation will bring down underlying inflation. The CBRT noted that it will continue adopting a prudent, data-dependent approach when deciding on policy steps and their size, and stands ready to tighten the monetary stance in case of significant deviations in inflation outlook from its targets.

38. The authorities reaffirmed their commitment to a market-determined exchange rate. They emphasized that exchange rate interventions are limited to periods of excess volatility that could cause inflation expectations to destabilize. The CBRT highlighted that recent steps—including the termination of FX-protected deposit accounts, measures to boost lira deposits, and active liquidity management—have reduced frictions and strengthened the monetary transmission mechanism.

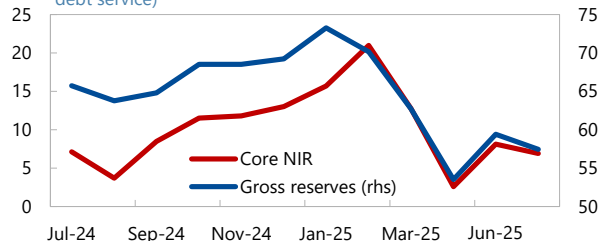
Financial Sector

39. Overall financial risks have fallen since last year and are manageable, while financial frameworks continue to improve. Systemic liquidity management faced a stress test in March: the quick and effective measures taken to address imbalances point to the effectiveness of the CBRT's surveillance and toolkit. Since then, the decision to remunerate required reserves based on average cost of funding is welcome. While credit risks do not appear systemic, rising NPLs mean that credit risk management, especially at state banks, where the 2023 FSAP indicated poorer practices, is increasingly important (Annex IX). The BRSA's new processes for restructuring personal credit card and loan debt are voluntary and appropriate, and the BRSA should continue to work closely with banks to recognize and address credit risk upfront while bringing frameworks in line with Basel. In line with the 2023 FSAP, the financial safety net could also be improved via strengthening bank resolution frameworks, finalizing the review of the emergency liquidity assistance framework, and clearly distinguishing it from standard liquidity operations. Streamlining collateral rules, developing a master repo agreement, and other measures would also help liquidity management.

40. The financial system does, however, remain vulnerable to systemic FX liquidity risk, with the bank-CBRT nexus still significant. The CBRT has commendably reduced floors for converting maturing FX protected deposits to lira, but buffers against liquidation of short-term FX liabilities are below last year's levels. As reserves continue to be rebuilt, interest rates calibrated on monetary policy considerations should be sufficiently high to help contain systemic risk from

dollarization and further support reserves accumulation. At the same time, FX reserve requirements should be set commensurate with potential risks. Supervisors should continue to ensure that all FX borrowing is hedged and closely monitor rollover given that short-term liabilities constitute a large share of total external debt. Remaining capital flow measures (CFMs)—including export surrender requirements and limits on swap transactions - hinder market deepening and discourage exports. They should be discontinued gradually as FX liquidity risks recede and inflation expectations become more anchored, though lira short selling should continue to be banned until financial liberalization is largely achieved.

Reserves Coverage of Short-Term FX Liabilities
(Percent of resident FX deposits and non-financial corporate FX debt service)



Note: Core NIR excludes swaps. NFCs' FX debt service includes short-term FX debt and long-term FX debt owed to external lenders with remaining maturity of one year.

Sources: CBRT, Haver Analytics, and IMF staff calculations.

41. Türkiye has taken important steps to address crypto risks, but further action is needed, given the scale of crypto activity and exposure of the sector to illicit flows. The regulatory framework for crypto asset activities is still new and risk mitigation measures (including monitoring of crypto flows and detection of unlicensed activity) could be further sharpened. Data collection by the Capital Markets Board is welcome. Monitoring flows between banks and crypto assets, particularly stablecoins, is important, but data gaps could be closed via increased reporting requirements on crypto service providers and collection of data household and corporate exposure to crypto assets. The authorities should implement effective and risk-based supervision of crypto asset service providers and integrate this into macroprudential oversight, including liquidity stress tests. CFMs should be reviewed and amended as necessary to cover crypto assets. The CBRT is continuing Phase 2 of its evaluation of a central bank digital currency aimed at improving payments efficiency. Further steps should be undertaken cautiously, to minimize potential disruptions to the financial system.

Authorities' Views

42. The authorities remain vigilant in monitoring risks to financial stability and are ready to act if needed. They noted that growth ceilings on FX credits were tightened in early 2025 to contain FX risks, while fast-growing credit card balances also reflect increasing use of non-cash payment and thus enhanced financial inclusion. NPLs, though rising, remain moderate and well provisioned, while restructured loans are only a small share of banks' portfolios. The authorities assess systemic liquidity risks as manageable as long as lira rates continue to attract deposits, and note that the CBRT's improved reserves position provides assurance against adverse shocks. They view risks related to crypto assets as manageable and reiterated their commitment to strengthen monitoring and supervision of the sector. They also introduced caps on stablecoin transfers to curb illicit flows and noncompliance risks together with fines for license application refusals.

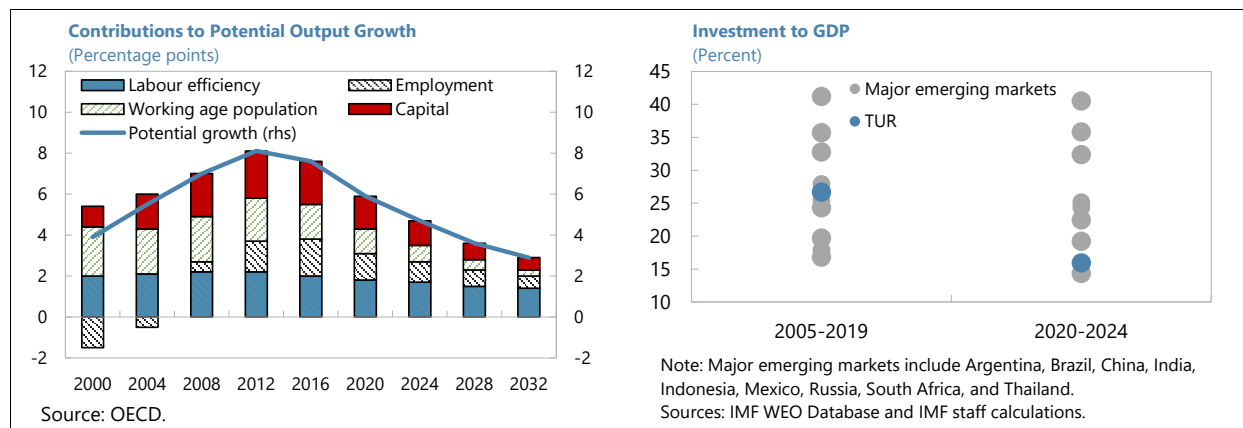
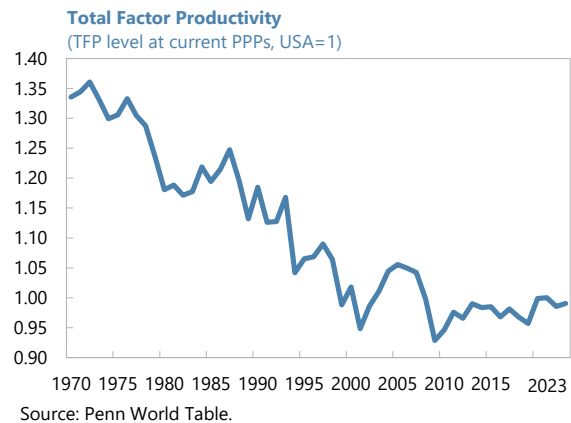
43. The authorities continue to improve financial stability frameworks. The BRSA reaffirmed its commitment to align its supervisory practice with international standards, as illustrated by the

recent harmonization of risk weights with Basel standards, the decision to phase out, as of January 1, 2026, the forbearance measures in capital adequacy calculations (i.e., use of a fixed exchange rate for risk-weighted assets and mark-to-market losses for fair value through other comprehensive income securities exclusion from capital) and the transition to Supervisory Review and Evaluation Process (SREP). Moreover, the Net Stable Funding Ratio and large exposures framework in effect since January 2024 have been assessed as compliant with Basel standards under the Regulatory Consistency Assessment Programme (RCAP) conducted by the Basel Committee.

B. Making Growth More Robust

Reforms aimed at raising productivity would mitigate the impact of tighter macro policies. Türkiye will also need to address the costs of prolonged high inflation on the financial system and productivity while reducing its vulnerability to external shocks. Reforms should aim at improving productivity and enhancing resilience.

44. Slow productivity growth and shifting demographics make a case for productivity reforms that will also offset tighter macro policies. TFP in Türkiye has been stagnant in recent years, at a time when working age population growth is already decelerating (Annex X). Sustained high inflation, through policy uncertainty and corrosive effects on the financial sector, has weighed on investment (Annex V). Bringing down inflation durably would reduce uncertainty and help mobilize the financial sector to support growth. Other reforms—to boost the labor market, improve governance and legal frameworks, and facilitate SME investments—would help cushion the blow of tight macro policies, while external vulnerabilities could be tackled by focusing on energy investment.²⁹

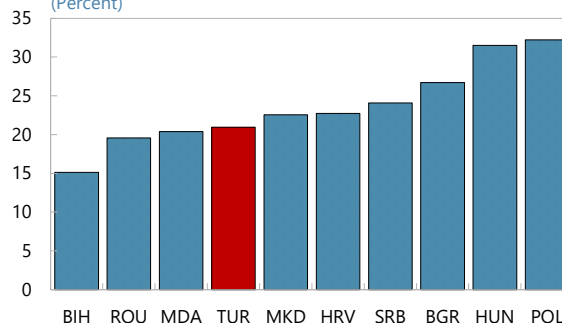


²⁹ [OECD Economic Surveys: Türkiye 2025](#).

45. Labor productivity could be increased via upskilling and enhancing competition.

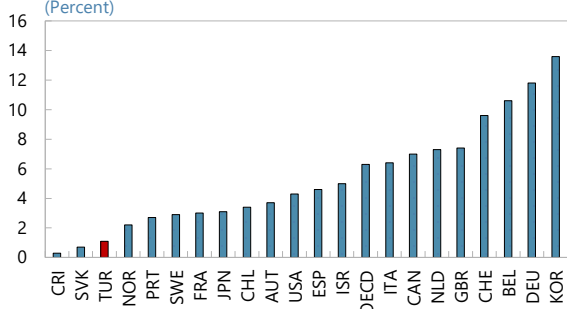
While levels of educational attainment in Türkiye are similar to comparators, incentives for tertiary education could be refocused toward labor market gaps. In 2024, university graduates had a higher unemployment rate than the general population, and only 56 percent reported careers related to their fields of study. These mismatches between education and the labor market could be addressed via better information for graduates about job prospects in different fields, deepening linkages between universities and the private sector, and providing clear information to students on employment prospects across different fields. Restrictions on occupational licensing could be relaxed to reduce barriers to entry in service industries, and looser foreign participation requirements could make some industries more competitive.

Educational Attainment: Population Aged 25+ with Post-secondary Degrees (Percent)



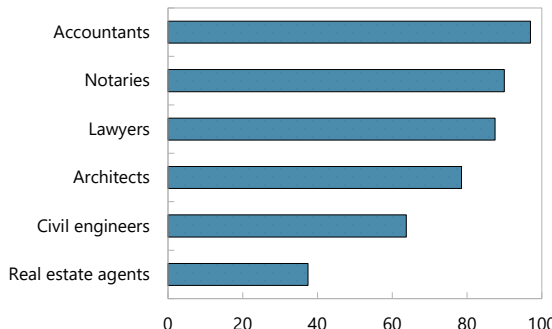
Sources: World Bank and IMF staff calculations.

Higher Education Expenditure on R&D Financed by the Business Sector (Percent)



Source: OECD.

Professional Services Regulation in Türkiye (100=most restrictive)



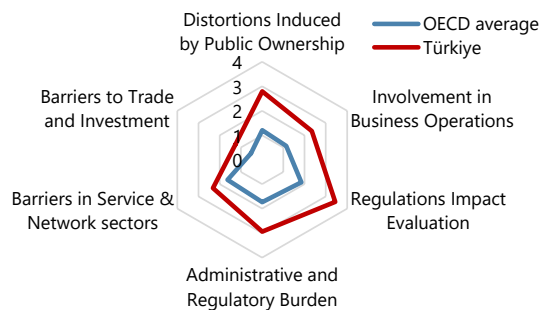
Source: OECD.

46. Stronger legal and governance frameworks would also support economywide productivity.

Improving the framework for property rights and contract enforcement would increase certainty and predictability, making investments more secure. Measures to improve judicial integrity would build investor confidence and help attract longer-term capital flows, while improvements in product market regulations would lower entry costs. Türkiye needs to continue to address anti-corruption issues—further work should include adopting a national anti-corruption strategy, and enhancing the legal

Product Market Regulations 2023-24

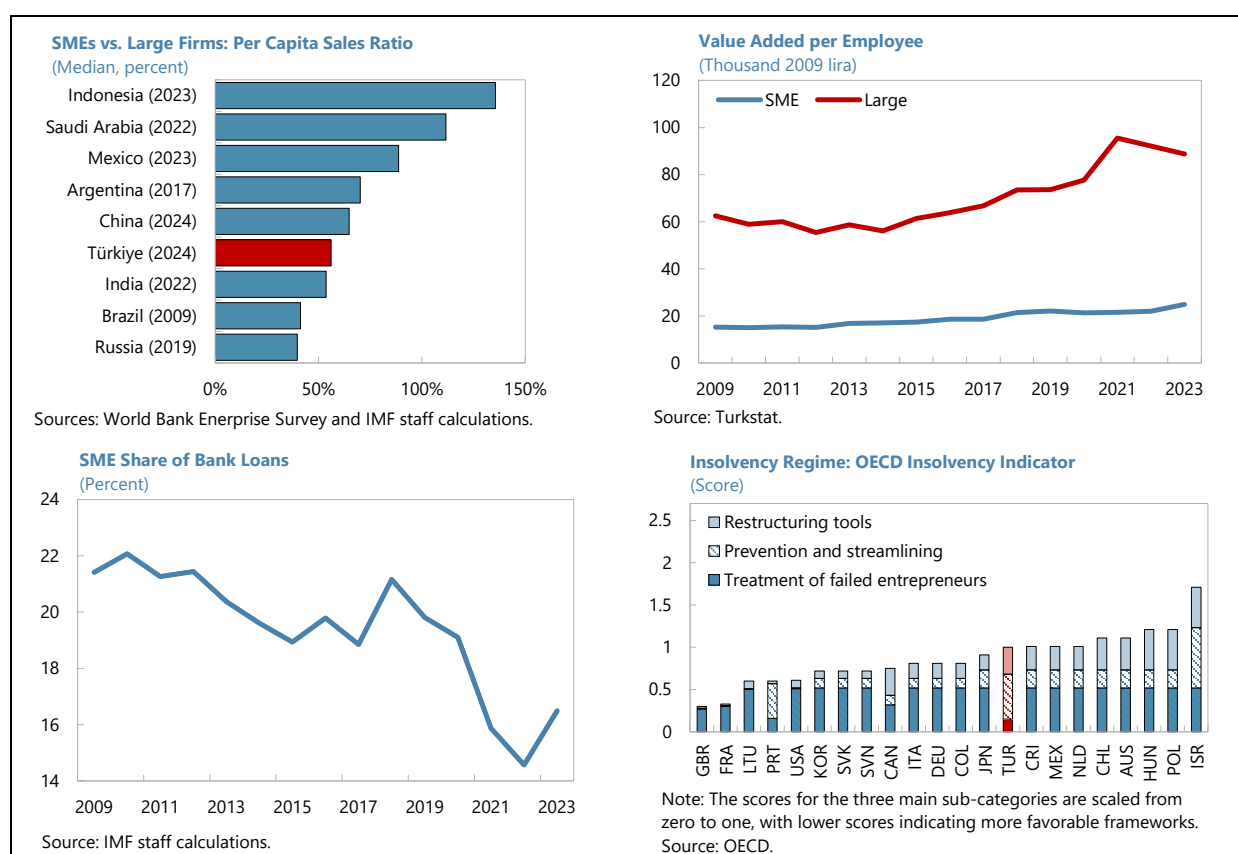
(0--most competition friendly; 6--least competition friendly)



Sources: OECD PMR economy-wide indicators and IMF staff calculations.

anti-corruption framework, as there is no dedicated anti-corruption agency.³⁰ Türkiye is also undertaking its 2nd Review Cycle under the United Nations Convention against Corruption, and is encouraged to timely implement the recommendations.

47. Targeted measures toward SMEs, which account for a large part of the economy, would also pay dividends. SMEs account for over 99 percent of enterprises and employ over 70 percent of the labor force, but productivity is lower and access to finance worse than for large firms. Relaxation of stringent regulations on product and labor markets are key to SME productivity growth, and an SME-specific insolvency framework would mobilize bank lending. As noted in the 2023 FSAP, other steps would include developing better monitoring and evaluation frameworks for the government’s SME Development Organization (KOSGEB) including by simplifying application procedures, overhauling monitoring and evaluation, and expanding its range of services.



48. Finally, reducing Türkiye’s exposure to global energy prices would improve resilience. Türkiye has made substantial progress in increasing the share of renewables in electricity production in recent years, with wind and solar now accounting for 22 percent of total generation. This has reduced the elasticity of the current account to energy prices.³¹ Further progress toward the ambitious target of quadrupling wind and solar installed capacity between 2024–35 would help

³⁰ OECD Economic Surveys: Türkiye 2025.

³¹ [OECD Economic Surveys: Türkiye 2025](#).

reduce dependence on hydrocarbons for electricity generation and structurally improve the current account balance. Preliminary estimates show this could amount to 0.5 percent of GDP over the medium-to long-term (see chart). The climate law, passed in July 2025, paves the way for Türkiye's ETS which will help in setting right incentives and reduce potential negative effects of the EU CBAM.

Authorities' Views

49. The authorities note that TFP has risen since the pandemic, and see little evidence of broad-based erosion in competitiveness. They observe that in the short term, labor intensive sectors may be under pressure, but in the medium term, structural reforms, including human capital development through talent identification and aligned education, digital and green transformations, would enhance productivity and raise potential growth by about 0.5 percentage points through the end of 2028. The authorities agreed with staff on the potential for the green transition to reduce external vulnerabilities through lower dependence on fossil fuel imports and the related negative consequences of volatility of world hydrocarbon prices.

STAFF APPRAISAL

50. Türkiye's disinflation policies continue to achieve important successes, but still-high inflation does entail costs. Fiscal discipline and stepped-up tax compliance have strengthened the budget balance. Inflation has gradually fallen and confidence in the lira has been supported by high real policy rates. The current account deficit remains well-financed, and reserves have reached US\$184 billion. However, despite contractionary policies, still-elevated inflation is coming down only slowly as growth remains solid. This continued high inflation impairs financial sector deepening and productivity growth. It also adds to income and wealth disparities, including an asset price appreciation that disproportionately benefits high-income households.

51. Amid strong growth momentum, inflation is expected to fall only slowly, while the Turkish economy would remain exposed to risks. As nominal policy rates fall and the fiscal stance becomes less restrictive, GDP growth is projected to remain solid in 2026 and 2027. Still-positive real policy rates coupled with quantitative measures are expected to keep monetary policy contractionary, but inflation is projected to remain above CBRT targets. In the medium term, inflation is forecast to persist in double digits, keeping growth below the pre-GFC trend. The longer it takes to reanchor inflation expectations at the CBRT's targets, the higher the likelihood of a shock that could refuel inflation, undermine confidence, and jeopardize growth and financial stability. Even without a shock, a complex external environment warrants continued vigilance.

52. Bringing inflation down decisively and reducing risks will require tighter, coordinated fiscal and monetary policies, supported by improved social safety nets. While continued fiscal consolidation and higher policy rates may entail short-term growth sacrifices—due to necessary demand compression and higher real policy rates—a tighter stance will ultimately lower vulnerabilities and facilitate a return to stronger, more sustainable growth. Greater exchange rate flexibility and prudent incomes policies are essential components, and structural reforms can help reduce the cost of disinflation while boosting productivity. These higher short-term costs will be

counterbalanced by a return to the pre-COVID growth trajectory and lower external and domestic vulnerabilities.

53. Türkiye should continue last year's welcome fiscal consolidation. Enhancing revenue through tax policy reforms, increased compliance, and streamlining expenditures—while initially focusing on noninflationary measures—would help reduce the fiscal deficit and domestic demand pressures. Gradually phasing out energy subsidies and reforming tax structures should occur after durable disinflation is underway, while ensuring support for vulnerable populations amid cost-of-living pressures. As fiscal space expands from lower inflation and higher revenues, resources can be redirected to social priorities, such as targeted cash transfers and reforms encouraging greater labor force participation. While risks from PPPs and SOEs are deemed low, modernizing legal frameworks and including them in fiscal statistics would improve governance and transparency.

54. Achieving the CBRT's inflation targets will require higher real policy rates, complemented by a framework firmly centered on the policy rate. Real rates must be increased to bring inflation down more decisively. Moreover, while the CBRT's use of quantitative tools and exchange rate intervention has preserved financial stability and gradually brought inflation down, the complex framework blurs the monetary stance, and complicates communication. A simpler framework, clear communication about rate triggers, and measures to protect central bank independence are also essential for reanchoring inflation expectations and improving policy predictability.

55. Exchange rate policy should focus on smoothing excessive volatility that could dislodge inflation expectations. Foreign exchange intervention (FXI) has helped smooth lira volatility and respond to shocks that could destabilize inflation, but a sustained period of lira strength will eventually raise the risk of overvaluation and sudden adjustments. Macro adjustment aimed at bringing down inflation will reduce the need for FXI by helping reanchor inflation expectations. As this occurs and as reserve buffers recover, greater lira flexibility should be allowed. If high rates attract speculative inflows, reserve accumulation ceilings can add volatility, reduce carry trade attractiveness, and strengthen buffers.

56. Fully aligning wage and price setting with the disinflation strategy will reduce inflation inertia. Backward-looking indexation in wage setting at all levels, including of public sector wages, should be phased out in favor of adjustments in line with inflation targets. Regulated and administered prices (including public service tariffs) should be aligned in a forward-looking manner with underlying costs, avoiding one-off catch-up adjustments.

57. Türkiye's financial sector remains robust, supported by the authorities' swift and effective responses to market stress, but vigilance is warranted, particularly for FX liquidity risks. Banks remain profitable, despite a fall since 2023, capital and liquidity buffers are adequate and non-performing loans are well provisioned. The stabilization of FX deposits and the phase-out of FX-protected accounts have further supported financial stability. However, risks from high dollarization and rising corporate FX debt are elevated, and gross reserves remain below relevant IMF metrics. Continued strengthening of supervisory frameworks and the financial safety net, along

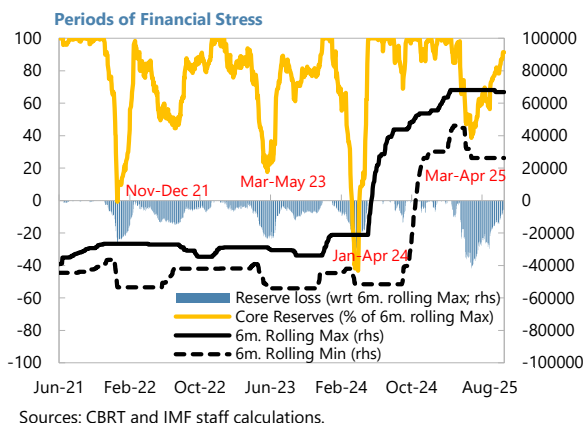
with enhanced oversight—including of crypto assets—are crucial for maintaining sector resilience. Capital flow measures should be phased out cautiously.

58. Türkiye should mitigate the negative impacts of disinflation on growth by implementing productivity-boosting reforms and reducing external vulnerabilities. Reforms in labor, education, and legal frameworks would enhance economic productivity. Targeted support for SMEs through regulatory changes and improved access to finance would foster inclusive growth. Additionally, increasing renewable energy capacity and enacting climate policy would reduce Türkiye's exposure to global energy price shocks and strengthen the current account, supporting overall economic resilience.

59. It is recommended that the next Article IV consultation with Türkiye be held on the standard 12-month cycle.

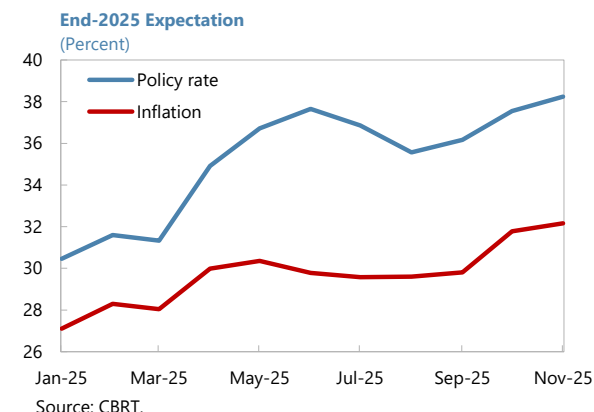
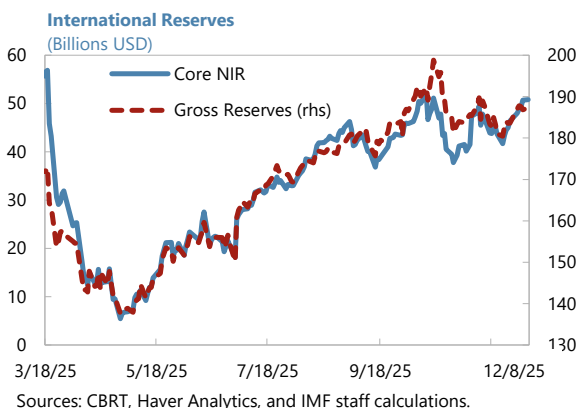
Box 1. Türkiye: Financial Stress: The March 2025 Episode

In March 2025, Türkiye experienced a significant stress episode. Following political developments, market volatility rose. An increase in risk premia led foreign investors to liquidate around US\$18 billion in lira assets over two weeks, including 70 percent of their carry trade positions. Domestic investors also withdrew around US\$19 billion of lira deposits (5 percent). The exchange rate fell by 4 percent on March 19, then stabilized. CBRT core reserves fell from US\$56.9 billion on March 18 to US\$29.1 billion on March 25, the fastest pace of reserves loss among recent periods of financial stress.



The policy response was broad. After the initial depreciation, the CBRT continued to intervene to stabilize the exchange rate and thus inflation expectations, while tighter liquidity conditions and higher rates aimed at restoring confidence in the lira.

- On March 20, **monetary policy** was effectively tightened by 400bps as the CBRT widened the policy rate corridor while suspending repo auctions.¹ After auctions resumed in mid-April, the policy rate was increased by 250 bps, to 46 percent. Overall, lira funding costs rose by 650 bps.
- To absorb **excess liquidity**, the CBRT introduced FX forwards and liquidity bill auctions, and undertook large-scale bond buybacks. Reserve requirements on lira liabilities were raised (April 14), and remuneration on reserves was aligned with average funding costs (April 28).
- Complementary **regulatory measures** included extensions of temporary capital market restrictions such as short-selling bans and eased share buyback rules.²



The decisive response swiftly restored confidence. Reserves bottomed out quickly, with core reserves rising within a week and gross reserves rebounding strongly, as the CBRT used swap lines with banks to absorb liquidity. The episode also left monetary policy significantly tighter than earlier forecast. Before March, the CBRT survey of market expectations placed the policy rate at around 30 percent by end-2025; afterward, expectations shifted upward to about 36 percent. Nevertheless, foreign investor confidence was damaged, with CDS spreads jumping from 250bp to 370bp before gradually falling to around 230bp in early December, and foreign holdings of government securities still well below early March peaks. While gross reserves, largely due to gold price increases, have more than recovered, core reserves remain below pre-crisis levels.

¹ Repo auctions are set at a 7-day tenor. Their suspension pushed banks into the overnight borrowing market at the top of the policy corridor.

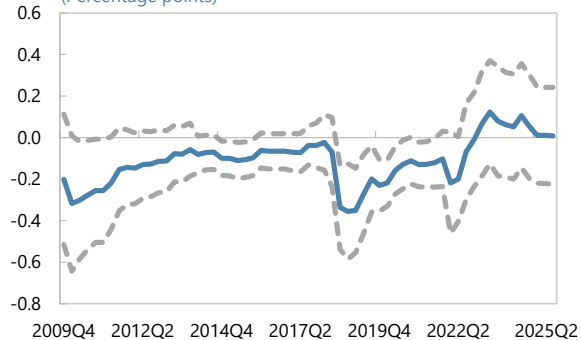
² These measures have been lifted since.

Box 2. Türkiye: Sounder Policy Frameworks, Better Tradeoffs

Emerging Markets (EMs) with better policy frameworks face more favorable monetary tradeoffs in response to risk-off shocks.¹ Since the Global Financial Crisis, external resilience has improved among most EMs, reflecting both benign external conditions and improvements in policy frameworks. Staff research finds that EMs with better policy frameworks face both fewer and less severe sudden stops, and that credibility allows them to tighten less in response to shocks. By contrast, EMs with less credibility must raise rates higher and more quickly, leading to larger output losses for a given reduction in inflation.

Monetary policy effectiveness through the expectations channel in Türkiye has weakened in recent years. In earlier disinflation episodes, a 1 point increase in the ex-ante real policy rate led to a 0.2 percentage point reduction in headline inflation.² With inflation expectations recently becoming more deanchored, this has dampened the effectiveness of monetary policy, meaning that even at current high real rates, monetary policy is less contractionary than in the past. While monetary policy still operates through the exchange rate and demand channels, the diminished impact through the expectations channel worsens the tradeoff between rate increases and declines in inflation.

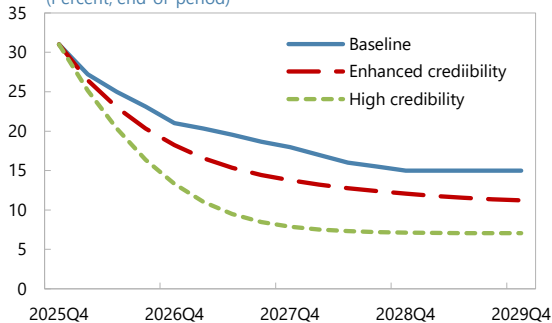
Estimated Effects of Ex-ante Real Policy Rate on Inflation (Percentage points)



Source: IMF staff calculations.

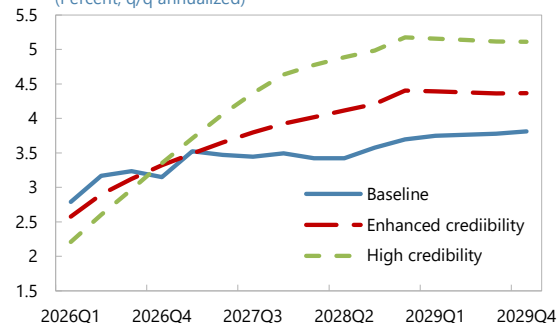
Improved credibility from more proactive and tighter monetary policy would thus bring down inflation faster at a lower long-term growth cost. Such policies would enhance policy credibility, and reanchor inflation expectations closer to the CBRT’s targets. Staff simulations suggest that under enhanced credibility, where inflation expectations have become more forward-looking and less adaptive (i.e., economic agents place a higher weight on expected inflation and a lower weight on past inflation), inflation would come down more quickly to single digits, and growth rise back Türkiye’s historical average. Under high credibility with inflation expectations anchored at the target, inflation would come down even faster, reaching single digits in 2 years—growth would also rise significantly.

Türkiye: Inflation under Different Credibility Scenarios (Percent, end-of-period)



Source: IMF staff calculations.

Türkiye: Growth under Different Credibility Scenarios (Percent, q/q annualized)



Source: IMF staff calculations.

This would also improve Türkiye’s resistance to external shocks. At the moment, shocks to the exchange rate feed quickly into inflation, necessitating a strong CBRT policy response. Enhanced credibility would allow the CBRT to “see through” such shocks, allowing a one-off impact to inflation that does not raise expectations and necessitate a potentially contractionary policy response.

¹ Risk-off shocks are episodes where financial markets are under stress. See 2025 October World Economic Outlook, Chapter 2; Erceg, Lindé, and Trabandt (2024); Gürkaynak, Levin, and Swanson (2010).

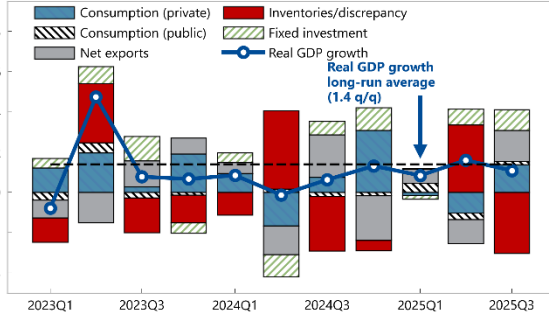
² To analyze transmission over time, a 10-year rolling quarterly window is used to estimate the effect of the ex-ante real policy rate on inflation.

Figure 1. Türkiye: Real Sector Developments

Policy tightening has been balanced with maintaining growth.

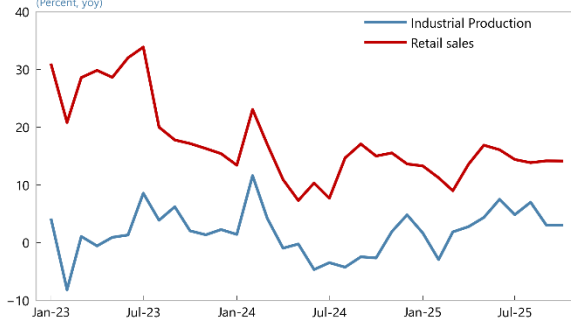
Growth has avoided a hard landing.

Contributions to Real GDP Growth
(Percent, q/q)



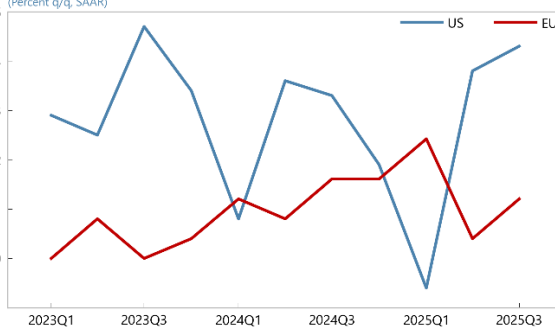
Industrial production and retail sales have maintained momentum...

Production Indicators
(Percent, yoy)



External demand has remained robust...

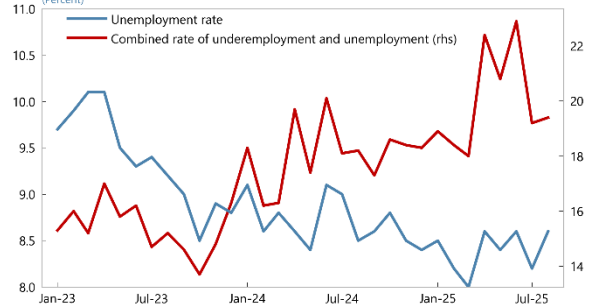
Major Trading Partner GDP Growth
(Percent q/q, SAAR)



Sources: Turkstat, Haver Analytics and IMF staff calculations.

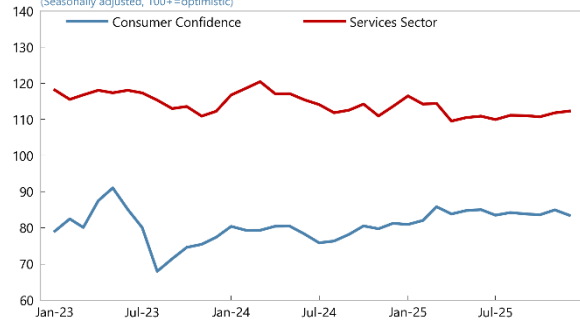
The unemployment rate has stayed at a low level, though underemployment has inched up.

Labor Utilization
(Percent)



...while economic confidence indices indicate persistently strong demand in the service sector.

Economic Confidence Index
(Seasonally adjusted, 100+ = optimistic)



...even as reliance on the external sector has fallen.

Exports and Imports Share of the Economy
(Percent q/q, SAAR)

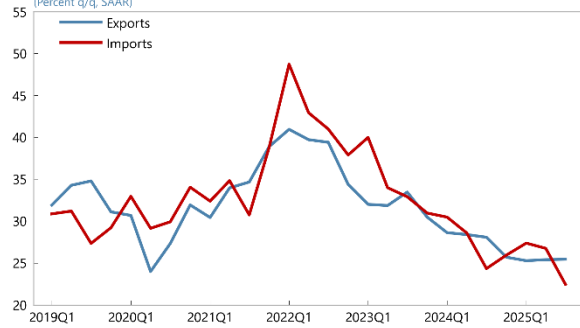
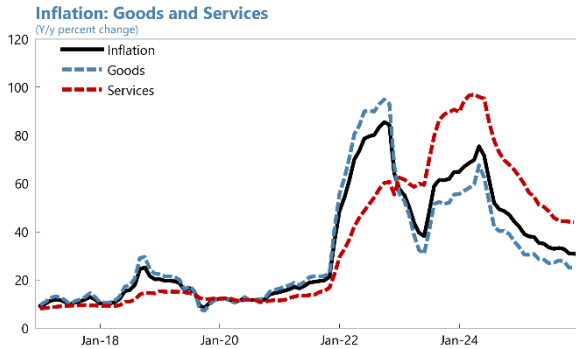


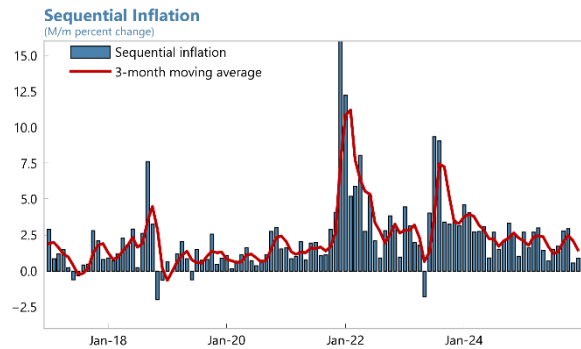
Figure 2. Türkiye: Inflation Developments

Balancing growth and tightening has led to slow disinflation.

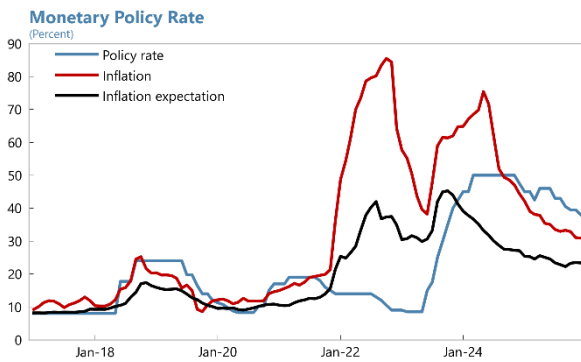
Headline inflation has come down, but services inflation remains sticky.



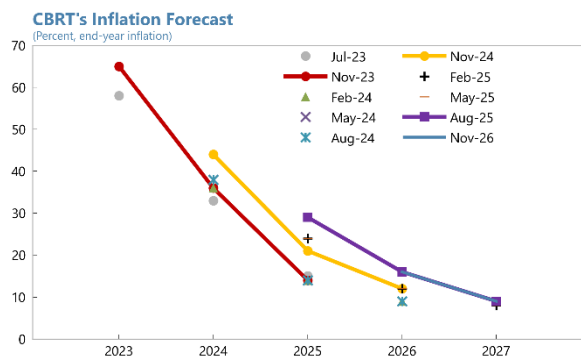
On a sequential basis, the pace of decline has slowed.



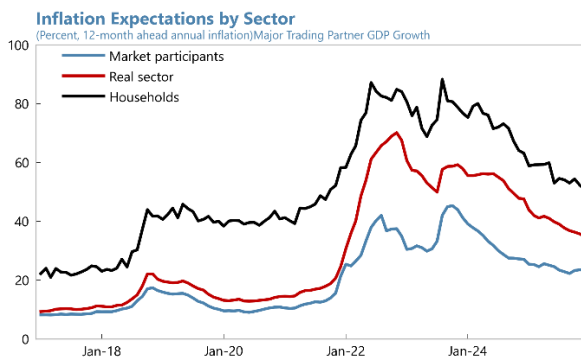
Despite cuts, the monetary policy rate remains above headline inflation.



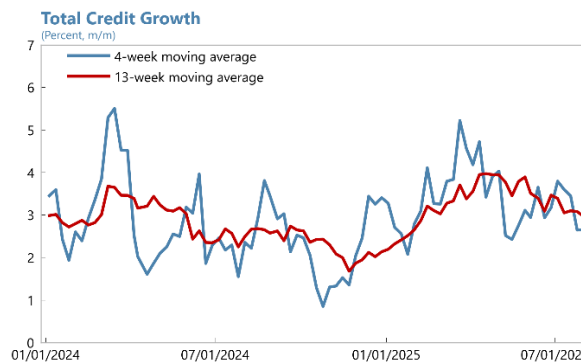
But CBRT has revised its mid-point inflation forecast up frequently.



Inflation expectations remain unanchored, with wide variations among different sectors.



And credit growth remains high.

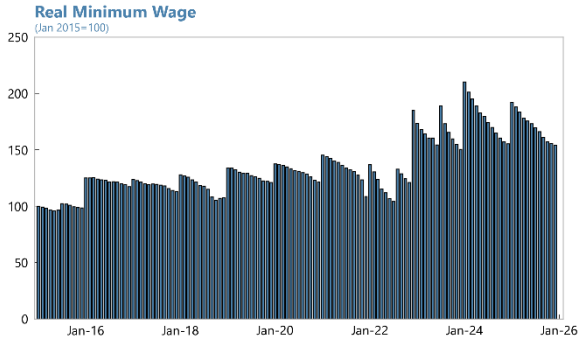


Sources: BRSA, CBRT, Haver Analytics and IMF staff calculations.

Figure 3. Türkiye: Labor Market Developments

Moderate growth means that the labor market has not loosened significantly, while structural challenges remain.

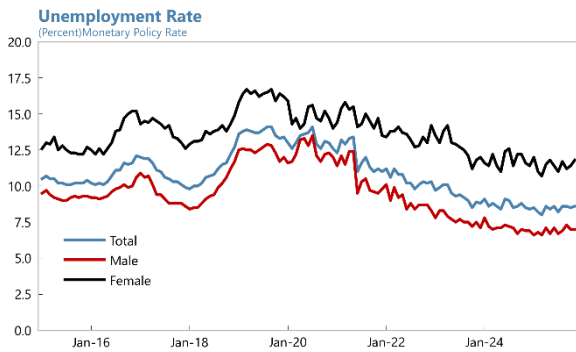
Recent minimum wage increases have been sizeable in real terms since 2022.



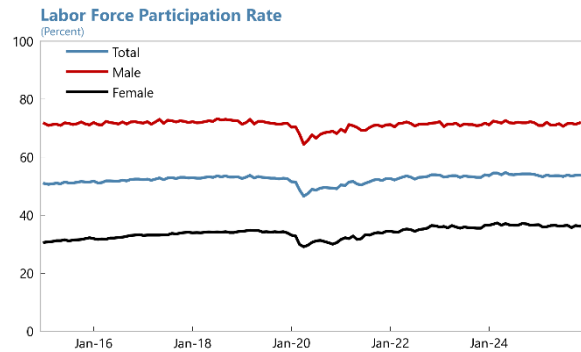
Following large increases in 2022–24, the real labor cost has moderated.



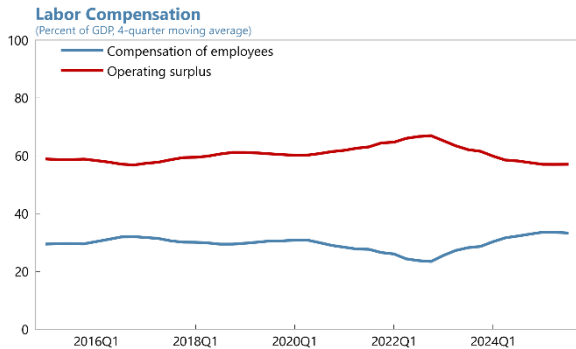
Unemployment rates remain at the lowest level in a decade.



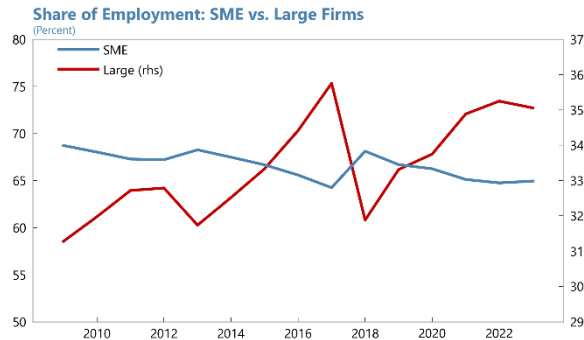
However, there is not much improvement in women's labor participation.



Compensation of employees has recovered from the early stage of the recent high inflation episode, but remains low compared to corporate profits.



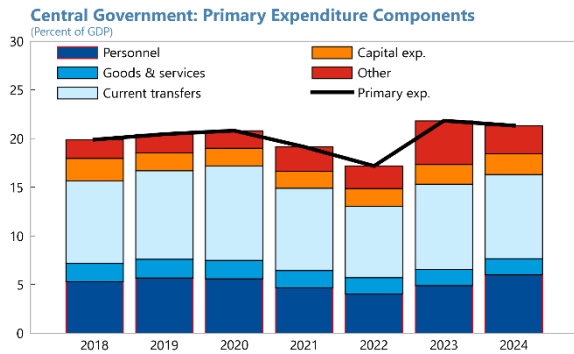
SMEs account for the majority of employment, but they have been losing employment share to large corporations.



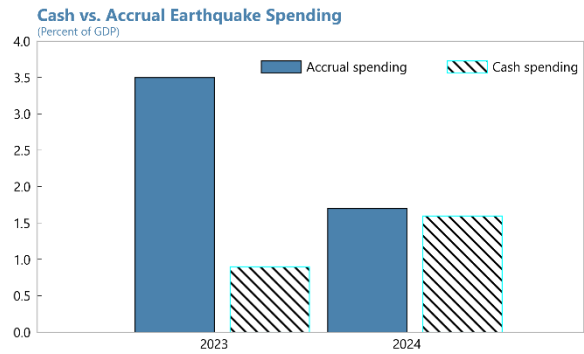
Sources: Turkstat, Haver Analytics and IMF staff calculation.

Figure 4. Türkiye: Fiscal Stance

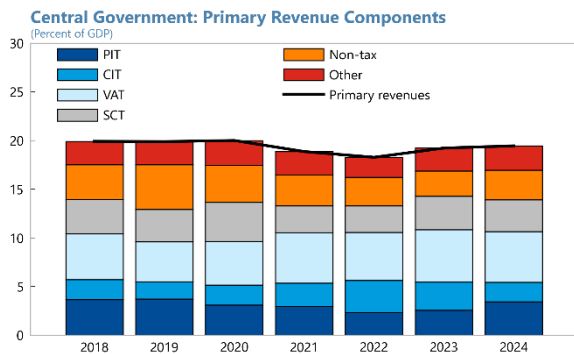
Accrued spending continued to outpace cash spending as earthquake allocations could not be fully utilized.



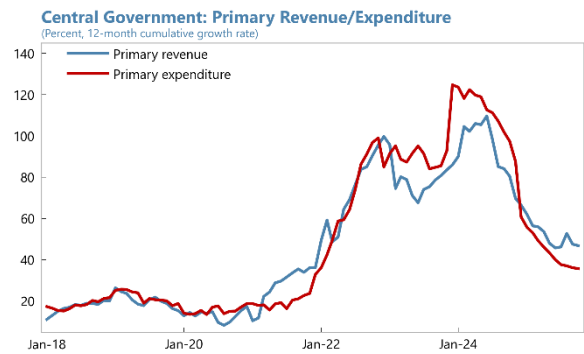
Cash spending for the earthquake has taken time to be utilized indicating higher cash spending going forward.



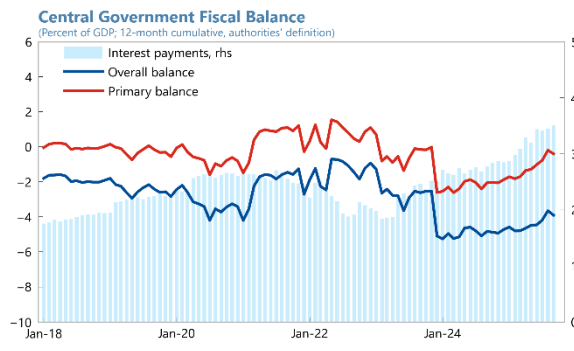
Revenue has modestly recovered from recent lows...



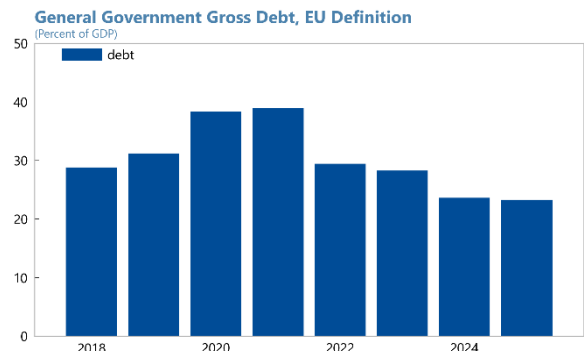
...and is now outpacing expenditure growth.



The 2025 fiscal balance thus improved...



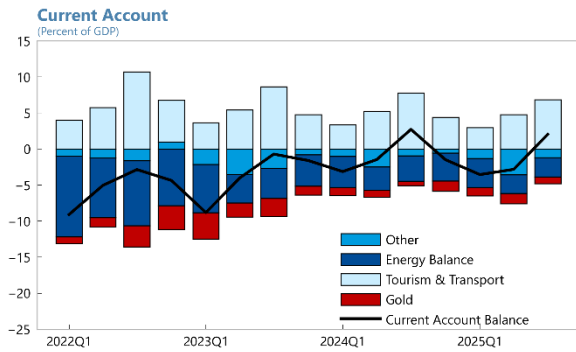
...and the overall debt position remains modest.



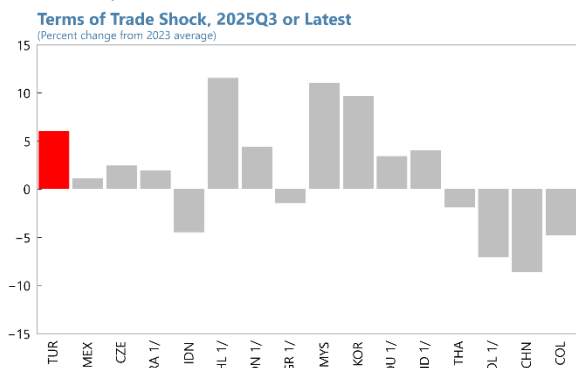
Sources: Ministry of Treasury and Finance and IMF staff calculations.

Figure 5. Türkiye: External Sector

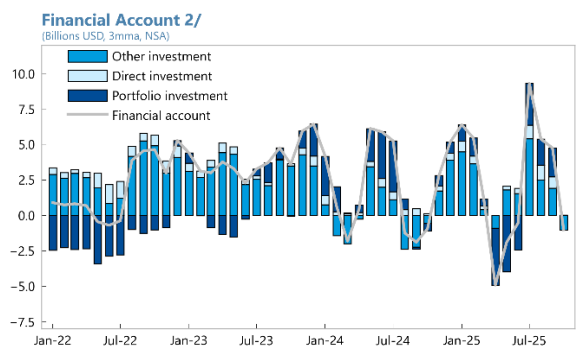
The current account has been moderate...



Türkiye's terms of trade have been relatively positive and stable compared to some other EM.



Portfolio inflows returned in 2025:H2...



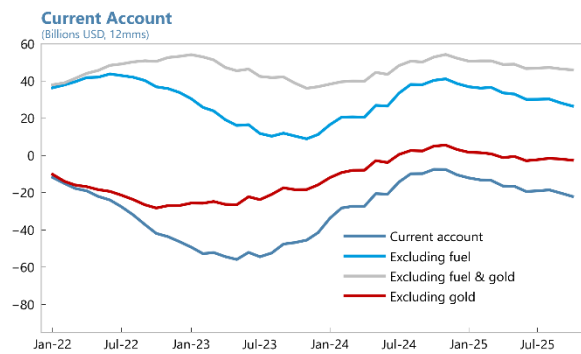
Sources: CBRT; MOTF; and IMF staff calculations.

1/ Data refers to 2025Q1.

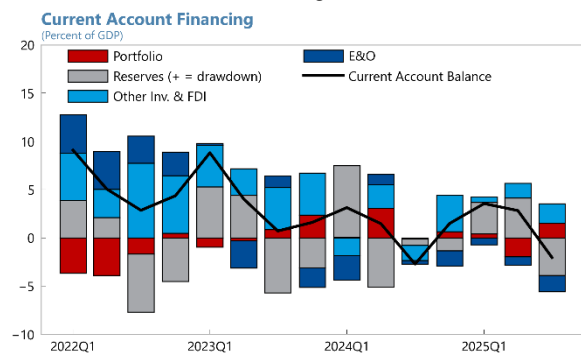
2/ Excludes changes in reserve assets.

3/ As of Nov 28, 2025.

...though reserves-generating flows have weakened.



Sources of funding have been quite varied, while long-term FDI inflows have not strengthened.



...but gold has been the main driver of reserves growth.

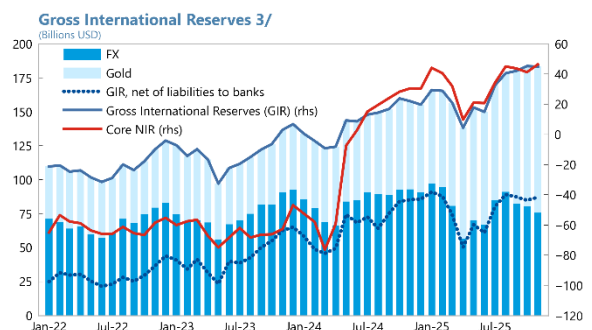
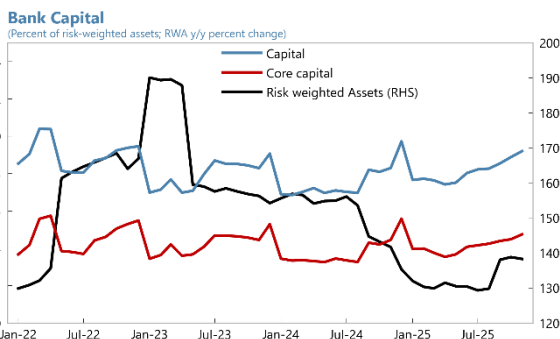
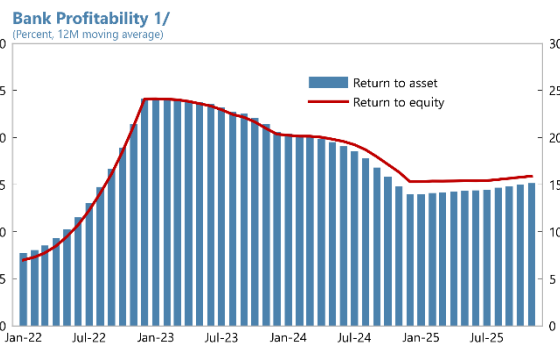


Figure 6. Türkiye: Financial Sector

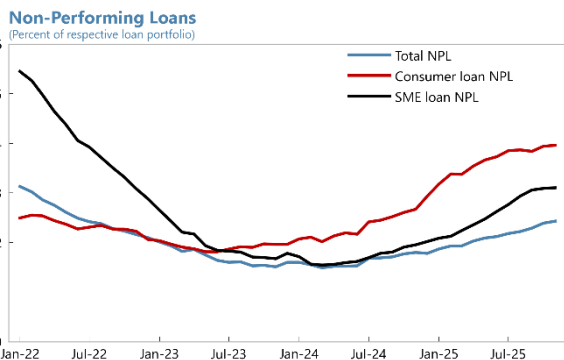
Bank capital has remained stable despite the fast credit expansion...



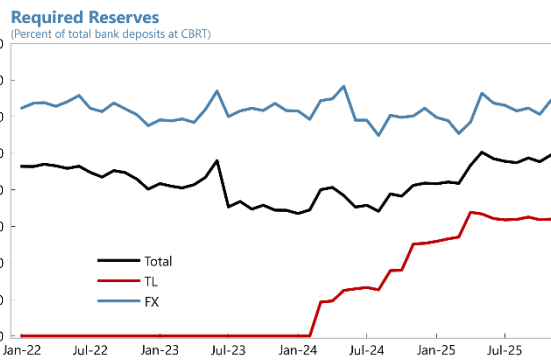
...as profitability has stayed robust since mid-2022.



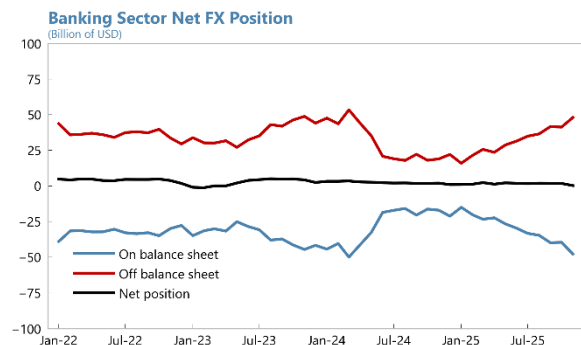
Despite moderate overall NPLs, credit risks have started to build up in consumer and small and medium-sized enterprise portfolios.



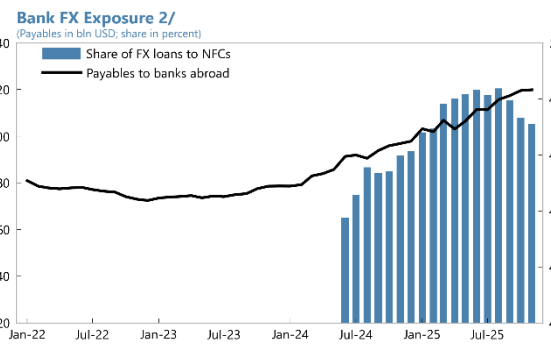
Banks continued to maintain liquidity buffers consistent with reserve requirements.



The net FX position of the banking system has been broadly balanced after incorporating off-balance sheet transactions...



...but FX risks have been increasing reflected by the upward trend of payables abroad and the higher share of FX loans to non-financial corporates.



Sources: BRSA, CBRT, Haver Analytics, and IMF staff calculations.

1/ Return to assets is calculated as the ratio of profits/losses before tax to average total assets, and return to equity is calculated as the ratio of profits/losses before tax to average shareholder equity.

2/ NFC refers to non-financial corporates. Separate data for NFC loans in lira (TL) and foreign currency (FX) start in June 2024.

Table 1. Türkiye: Selected Economic Indicators, 2021–31

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Proj.										
Population (2024): 85.7 million											
Per capita GDP (2024): US\$15,882											
Quota: SDR 4,658.6 million											
Real sector											
	(Percent)										
Real GDP growth rate	11.8	5.4	5.0	3.3	4.1	4.2	4.1	4.0	4.0	4.0	4.0
Final domestic demand	11.6	11.5	8.6	3.3	4.4	5.1	4.2	3.9	4.0	3.8	3.9
Private consumption	15.6	16.2	10.5	4.3	3.8	5.2	3.5	3.2	3.5	3.4	3.7
Public consumption	4.2	4.5	2.3	-0.8	1.2	2.5	2.8	2.9	2.8	2.9	3.0
Investment	7.2	4.4	7.3	2.7	7.7	6.2	6.4	6.1	5.9	5.1	5.0
Exports	25.1	10.5	-2.3	0.1	1.8	2.2	3.4	3.2	2.7	3.4	3.0
Imports	2.1	8.3	12.1	-4.4	6.8	2.3	3.0	3.0	2.8	3.7	3.3
Contributions to real GDP growth 1/											
Private consumption	8.9	9.5	6.8	2.9	2.6	3.5	2.5	2.2	2.4	2.3	2.5
Public consumption	0.6	0.6	0.3	-0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.4
Investment (incl. inventories)	-2.7	-5.6	1.0	-0.5	2.3	0.3	1.1	1.4	1.2	1.3	1.2
Net exports	5.0	0.9	-3.0	1.0	-0.9	0.0	0.2	0.1	0.0	0.0	0.0
GDP deflator growth rate	29.3	95.5	68.3	59.3	34.0	22.2	19.5	17.7	14.7	13.7	14.1
Nominal GDP growth rate	44.6	106.2	76.8	64.6	39.5	27.4	24.4	22.4	19.3	18.3	18.6
Potential output growth	5.3	5.4	5.1	4.7	4.4	4.2	4.1	4.0	4.0	4.0	3.9
Inflation (period-average)	19.6	72.3	53.9	58.5	34.9	25.9	20.9	17.0	15.0	15.0	15.0
Inflation (end-year)	36.1	64.3	64.8	44.4	30.9	23.0	19.0	15.0	15.0	15.0	15.0
Unemployment rate	12.0	10.4	9.4	8.7	8.3	8.3	8.7	9.1	9.1	9.1	9.1
Output gap (percent of potential GDP) 1/	1.4	1.5	1.4	0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0
Fiscal sector											
	(Percent of GDP)										
Central government											
Primary revenue	17.7	17.0	18.2	18.6	19.4	19.6	19.5	19.5	19.5	19.5	19.5
Primary expenditure	19.4	17.2	21.9	21.5	20.3	20.5	20.2	20.1	20.1	20.1	20.1
Net interest payments	1.9	1.3	1.8	2.2	2.7	3.0	3.3	3.1	2.9	2.7	2.6
Primary balance	-1.7	-0.2	-3.7	-2.9	-0.9	-0.9	-0.7	-0.6	-0.6	-0.6	-0.6
Primary balance (cash)	-0.7	-0.2	-0.9	-2.6	-1.3	-1.1	-1.0	-0.6	-0.6	-0.6	-0.6
Central government overall balance	-3.6	-1.5	-5.5	-5.0	-3.6	-3.9	-4.0	-3.7	-3.5	-3.3	-3.3
Central government overall balance (cash)	-2.6	-1.5	-2.7	-4.8	-4.0	-4.1	-4.3	-3.7	-3.5	-3.3	-3.3
Central government overall balance (authorities) 2/	-2.7	-0.9	-5.1	-4.7	-3.6	-3.8	-3.9	-3.5	-3.3	-3.1	-3.1
Fiscal impulse (change in cash primary balance)	-1.7	-0.5	0.7	1.7	-1.3	-0.2	-0.1	-0.4	0.0	0.0	0.0
General government overall balance	-3.0	-1.1	-5.2	-4.5	-3.3	-3.7	-3.8	-3.4	-3.3	-3.1	-3.0
General government gross debt (EU definition)	38.9	29.4	28.2	23.6	23.1	24.7	25.7	25.5	25.6	26.2	25.7
External sector											
Current account balance	-0.8	-5.0	-3.6	-0.8	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5
o/w Nonfuel current account balance	4.3	3.7	1.0	2.8	1.6	1.6	1.6	1.5	1.4	1.3	1.2
Gross international reserves (USD bn - eop) 4/	111.2	128.7	140.9	155.2	184.1	190.5	197.5	197.7	200.3	201.2	201.6
Ratio to ARA Metric for emerging markets (percent)	95.3	71.6	71.8	73.3	79.5	80.2	79.1	75.4	72.6	70.2	...
Gross financing requirement	20.5	22.5	20.5	17.3	16.5	18.2	18.3	17.9	17.7	17.6	17.3
Gross external debt 3/	51.7	48.7	42.7	38.1	34.5	35.6	36.2	35.2	34.4	33.9	33.3
Net external debt	25.8	24.1	22.0	19.3	18.9	19.2	19.4	19.0	18.6	18.7	18.7
Net international investment position	-28.7	-38.8	-28.7	-25.5	-21.6	-23.0	-24.1	-24.0	-24.2	-24.5	-24.7
Short-term external debt (by remaining maturity)	20.7	20.6	19.7	16.3	16.8	17.3	17.8	17.4	17.0	16.8	16.5
Terms of trade (year-on-year percent change)	-7.6	-13.2	16.7	3.0	1.6	0.5	-0.3	-0.2	0.0	0.2	0.0
Monetary conditions											
	(Percent)										
Real average cost of CBRT funding to banks	-1.9	-59.4	-35.4	-9.5	...	...	...	...	...	...	...
Nominal growth of M2 broad money	53.7	60.1	70.4	36.9	40.0	27.4	25.0	20.3	20.9	20.9	18.4
Memorandum items											
GDP (billions of U.S. dollars)	828	925	1153	1358	1576	1574	1599	1705	1806	1897	1999
GDP (billions of Turkish lira)	7,434	15,326	27,091	44,587	62,179	79,188	98,518	120,574	143,851	170,112	201,828
Real effective exchange rate (year-on-year percent change)	-9.5	-8.4	3.7	10.7	7.5	-4.7	-3.6	0.0	0.0	0.0	0.0
GDP per capita US\$	9,601	10,659	13,243	15,882	18,320	18,209	18,406	19,543	20,613	21,555	22,570
Population (million)	84.7	85.3	85.4	85.7	86.2	86.6	87.0	87.4	87.8	88.2	88.7

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ Staff estimates.

2/ Authorities national definition of the fiscal balance, which includes one-off revenues, expenditures and financing items removed from IMF staff definition.

3/ The external debt ratio is calculated by dividing external debt in US\$ by staff-estimated GDP in US\$. GDP in US\$ is calculated as GDP in TL divided by the annual average exchange rate.

4/ Historical numbers include valuation changes (this includes 2025).

Table 2a. Türkiye: Summary of Balance of Payments, 2021–31
(Billions of U.S. dollars, unless otherwise noted)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
					Proj.						
Current account balance	-6.2	-46.3	-41.5	-10.4	-22.5	-22.3	-23.1	-24.6	-26.3	-28.2	-29.7
Balance on goods and services	3.5	-37.1	-30.6	5.4	-7.1	-5.8	-5.5	-5.9	-6.6	-7.5	-8.1
Goods, net	-29.3	-89.6	-86.3	-56.0	-65.3	-62.6	-64.1	-65.8	-67.8	-69.5	-71.5
Exports of goods	224.7	253.4	251.0	257.5	276.8	285.3	295.7	307.0	318.3	333.7	348.2
Imports of goods	254.0	342.9	337.3	313.4	342.1	347.9	359.8	372.8	386.1	403.3	419.7
of which fuel imports	50.7	96.5	69.1	65.6	64.3	60.7	62.7	64.8	65.7	66.6	69.1
of which gold imports	5.5	20.4	30.0	17.1	21.2	22.3	23.7	25.3	27.1	27.4	27.4
Services, net	32.8	52.5	55.7	61.4	58.2	56.8	58.5	59.8	61.2	62.1	63.4
Credit	62.9	93.3	105.5	117.2	120.4	120.1	123.7	127.0	131.0	135.7	140.3
Debit	30.0	40.8	49.9	55.8	62.1	63.3	65.2	67.2	69.8	73.6	76.9
Primary income, net	-10.7	-8.8	-11.4	-15.9	-16.2	-17.2	-18.3	-19.5	-20.5	-21.5	-22.4
of which interest expenditure	-5.7	-5.7	-10.6	-13.3	-13.3	-13.3	-13.6	-14.3	-15.2	-15.9	-16.3
Secondary income net	1.0	-0.4	0.6	0.1	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Capital account	-0.1	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	9.7	28.8	-9.7	-10.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	3.4	-17.5	-51.4	-21.4	-22.5	-22.3	-23.1	-24.6	-26.3	-28.2	-29.7
Direct investment, net	-6.2	-8.9	-4.7	-5.1	-6.7	-8.9	-10.0	-10.4	-10.8	-11.1	-11.5
Portfolio investment, net	7.6	18.5	-5.7	-12.0	-1.7	-11.4	-10.5	-6.7	-8.7	-9.3	-9.8
of which government eurobonds, net	4.0	4.1	-5.0	-0.5	2.1	1.5	1.2	-0.3	-1.7	-2.7	-3.6
Other investment, net	-21.3	-39.4	-39.0	-4.9	-15.7	-8.0	-9.5	-7.6	-9.4	-8.6	-8.8
of which short-term borrowings	2.4	-0.1	-5.6	-8.0	-4.1	-6.9	-4.4	-5.2	-5.5	-6.2	-5.7
Reserve assets	23.3	12.3	-2.0	0.6	1.6	6.1	7.0	0.2	2.6	0.9	0.4
					<i>(Percent of GDP)</i>						
Current account balance, of which	-0.8	-5.0	-3.6	-0.8	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5
Nonfuel current account balance	4.3	3.7	1.0	2.8	1.6	1.6	1.6	1.6	1.4	1.3	1.2
Goods and services balance	0.4	-4.0	-2.7	0.4	-0.4	-0.4	-0.3	-0.3	-0.4	-0.4	-0.4
					<i>(Percent year-on-year)</i>						
Export value growth	38.5	20.5	2.9	5.1	6.0	2.1	3.5	3.5	3.5	4.5	4.1
Import value growth	23.4	35.1	0.9	-4.6	9.5	1.7	3.4	3.5	3.6	4.6	4.1
Oil price (US\$ per barrel)	69.2	96.4	80.6	79.2	67.9	62.1	62.2	63.2	64.4	65.3	65.8
Gross international reserves (USD bn - eop) 1/	111.2	128.7	140.9	155.2	184.1	190.5	197.5	197.7	200.3	201.2	201.6
Ratio to ARA Metric for emerging markets (percent)	95.3	71.6	71.8	73.3	79.5	80.2	79.1	75.4	72.6	70.2	...
Net international reserves (USD bn) 1/	8.1	27.6	35.0	65.9	75.6	84.2	91.2	91.4	94.0	94.8	95.3
Ratio of external debt service to exports (percent)	58.8	48.3	57.7	63.6	63.1	68.4	68.2	69.0	69.3	69.0	68.7

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ Historical numbers include valuation changes (this includes 2025).

Table 2b. Türkiye: Summary of Balance of Payments, 2021–31
(Percent of GDP, unless otherwise noted)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Proj.										
Current account balance	-0.8	-5.0	-3.6	-0.8	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5
Balance on goods and services	0.4	-4.0	-2.7	0.4	-0.4	-0.4	-0.3	-0.3	-0.4	-0.4	-0.4
Goods, net	-3.5	-9.7	-7.5	-4.1	-4.1	-4.0	-4.0	-3.9	-3.8	-3.7	-3.6
Exports of goods	27.1	27.4	21.8	19.0	17.6	18.1	18.5	18.0	17.6	17.6	17.4
Imports of goods	30.7	37.1	29.2	23.1	21.7	22.1	22.5	21.9	21.4	21.3	21.0
of which fuel imports	6.1	10.4	6.0	4.8	4.1	3.9	3.9	3.8	3.6	3.5	3.5
of which gold imports	0.7	2.2	2.6	1.3	1.3	1.4	1.5	1.5	1.5	1.4	1.4
Services, net	4.0	5.7	4.8	4.5	3.7	3.6	3.7	3.5	3.4	3.3	3.2
Credit	7.6	10.1	9.2	8.6	7.6	7.6	7.7	7.5	7.3	7.2	7.0
Debit	3.6	4.4	4.3	4.1	3.9	4.0	4.1	3.9	3.9	3.9	3.8
Primary income, net	-1.3	-1.0	-1.0	-1.2	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
of which interest expenditure	-0.7	-0.6	-0.9	-1.0	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Secondary income net	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	1.2	3.1	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	0.4	-1.9	-4.5	-1.6	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5
Direct investment, net	-0.8	-1.0	-0.4	-0.4	-0.4	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Portfolio investment, net	0.9	2.0	-0.5	-0.9	-0.1	-0.7	-0.7	-0.4	-0.5	-0.5	-0.5
of which government eurobonds, net	0.5	0.4	-0.4	0.0	0.1	0.1	0.1	0.0	-0.1	-0.1	-0.2
Other investment, net	-2.6	-4.3	-3.4	-0.4	-1.0	-0.5	-0.6	-0.4	-0.5	-0.5	-0.4
of which short-term borrowings	0.3	0.0	-0.5	-0.6	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Reserve assets	2.8	1.3	-0.2	0.0	0.1	0.4	0.4	0.0	0.1	0.0	0.0
Current account balance, <i>of which</i>	-0.8	-5.0	-3.6	-0.8	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5
Nonfuel current account balance	4.3	3.7	1.0	2.8	1.6	1.6	1.6	1.5	1.4	1.3	1.2
Goods and services balance	0.4	-4.0	-2.7	0.4	-0.4	-0.4	-0.3	-0.3	-0.4	-0.4	-0.4
	<i>(Percent year-on-year)</i>										
Export value growth	38.5	20.5	2.9	5.1	6.0	2.1	3.5	3.5	3.5	4.5	4.1
Import value growth	23.4	35.1	0.9	-4.6	9.5	1.7	3.4	3.5	3.6	4.6	4.1
Oil price (US\$ per barrel)	69.2	96.4	80.6	79.2	67.9	62.1	62.2	63.2	64.4	65.3	65.8
Change in terms of trade	-7.6	-13.2	16.7	3.0	1.6	0.5	-0.3	-0.2	0.0	0.2	0.0
Gross international reserves (USD bn - eop) 1/	111.2	128.7	140.9	155.2	184.1	190.5	197.5	197.7	200.3	201.2	201.6
Ratio to ARA Metric for emerging markets (percent)	95.3	71.6	71.8	73.3	79.5	80.2	79.1	75.4	72.6	70.2	...
Net international reserves (USD bn - eop) 1/	8.1	27.6	35.0	65.9	75.6	84.2	91.2	91.4	94.0	94.8	95.3
Ratio of external debt service to exports (percent)	58.8	48.3	57.7	63.6	63.1	68.4	68.2	69.0	69.3	69.0	68.7

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ Historical numbers include valuation changes (this includes 2025).

Table 3. Türkiye: External Financing Requirements and Sources, 2021–31
(Billions of U.S. dollars, unless otherwise noted)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
								Proj.			
Gross external financing requirements	169.5	207.8	236.7	235.4	259.7	286.3	292.4	306.1	319.2	333.0	346.5
Current account deficit	6.2	46.3	41.5	10.4	22.5	22.3	23.1	24.6	26.3	28.2	29.7
Government eurobonds (amortization)	6.1	6.3	5.8	8.4	13.1	12.5	12.2	10.7	9.3	8.3	7.4
Medium- and long-term debt amortization	45.9	37.2	41.1	40.9	44.0	51.3	48.3	49.6	51.0	52.5	54.0
Government 1/	1.9	1.8	1.9	1.9	2.1	2.1	2.2	2.2	2.3	2.3	2.4
Banks	25.9	23.0	22.0	24.9	26.7	29.4	30.5	31.7	33.0	34.3	35.6
Other sectors	18.2	12.3	17.1	14.1	15.2	19.8	15.6	15.7	15.8	15.8	15.9
Short-term debt amortization	111.3	118.1	148.3	175.7	180.1	200.2	208.8	221.2	232.5	244.1	255.5
Government 1/ 2/	21.3	26.1	32.8	46.4	34.7	34.9	34.8	34.8	34.8	34.8	34.7
Banks	55.7	49.2	62.3	68.4	82.0	89.7	96.9	103.1	109.6	114.2	119.1
Other sectors	34.2	42.9	53.3	61.0	63.3	75.6	77.1	83.2	88.1	95.1	101.6
Available financing	169.5	207.8	236.7	235.4	259.7	286.3	292.4	306.1	319.2	333.0	346.5
Sale of assets (net) 3/	-14.4	-4.6	-7.4	-28.7	-18.4	-11.5	-9.5	-14.1	-11.5	-8.2	-7.3
Foreign direct investment (net)	6.2	8.9	4.7	5.1	6.7	8.9	10.0	10.4	10.8	11.1	11.5
Portfolio flows	7.3	-2.2	13.2	32.1	25.7	31.0	25.8	24.1	23.5	18.9	18.5
Government eurobonds (drawings)	10.0	11.3	10.7	11.1	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Domestically-issued government bonds (net)	1.1	-2.2	2.0	16.0	5.3	5.8	5.0	5.0	4.4	4.4	4.4
Banks' equity and bonds (net)	-5.1	-7.5	1.1	2.6	4.4	8.2	3.2	3.3	3.3	2.3	2.3
Other sectors' equity and bonds (net)	1.3	-3.8	-0.6	2.4	5.0	6.0	6.6	4.8	4.8	1.2	0.8
Medium and long-term debt financing	50.6	39.7	44.5	54.3	47.4	55.1	51.9	53.3	54.9	56.4	58.1
Government 1/	1.6	3.0	2.6	2.6	2.7	2.8	2.9	2.9	3.0	3.1	3.2
Banks	24.3	17.3	25.4	35.3	28.9	31.7	33.0	34.3	35.6	37.0	38.5
Other sectors	24.7	19.3	16.5	16.4	15.8	20.6	16.1	16.1	16.2	16.3	16.4
Short-term debt financing 4/	118.1	148.3	175.7	180.1	200.2	208.8	221.1	232.5	244.1	255.5	266.1
Government 1/	26.1	32.8	46.4	34.7	34.9	34.8	34.8	34.8	34.8	34.7	34.7
Banks	49.2	62.3	68.4	82.0	89.7	96.9	103.1	109.6	114.2	119.1	124.6
Other sectors	42.9	53.3	61.0	63.3	75.6	77.1	83.2	88.1	95.1	101.6	106.9
Official transfers	0.4	-0.7	-0.8	-0.2	0.3	0.2	0.4	0.4	0.4	0.4	0.4
Other	24.9	30.1	4.0	-6.9	-0.2	0.1	0.0	0.0	0.1	0.2	0.1
GIR change (- denotes increase)	-23.3	-12.3	2.0	-0.6	-1.6	-6.1	-7.0	-0.2	-2.6	-0.9	-0.4
Memorandum items:											
Net public sector financing (incl. IMF, excl. reserves)	8.8	12.3	18.3	-8.4	-0.9	-0.8	-0.2	1.4	2.8	3.8	4.8
Government debt rollover rate (in percent)	129	138	147	85	98	98	99	102	105	108	110
Banks' loan rollover rate (in percent)	90	110	111	126	109	108	107	107	105	105	105
Other sectors' loan rollover rate (in percent)	129	131	110	106	116	102	107	105	107	106	105
Gross external financing requirements (percent of GDP)	20.5	22.5	20.5	17.3	16.5	18.2	18.3	17.9	17.7	17.6	17.3
International Investment Position (percent of GDP)	-28.7	-38.8	-28.7	-25.5	-21.6	-23.0	-24.1	-24.0	-24.2	-24.5	-24.7

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ Includes CBRT and the general government, excluding eurobonds issuance.

2/ The increase in government amortization in 2021 largely reflects swaps held by the CBRT, which are assumed to be rolled over.

3/ Includes sales and purchases of portfolio assets by the government, banks, and other private sectors; and sale of assets classified under Other Investments.

4/ Includes currency and deposits of non-residents.

Table 4. Türkiye: Public Sector Finances, 2021–31
(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Proj.										
Central Government											
Primary revenue	17.7	17.0	18.2	18.6	19.4	19.6	19.5	19.5	19.5	19.5	19.5
Tax revenue	15.7	15.4	16.6	16.4	17.3	17.5	17.4	17.4	17.4	17.4	17.4
Personal income taxes	3.0	2.3	2.6	3.4	4.4	4.2	4.0	4.0	4.0	4.0	4.0
Corporate income taxes	2.4	3.3	2.9	2.0	1.9	2.0	2.1	2.1	2.1	2.1	2.1
VAT	5.2	4.9	5.4	5.2	5.2	5.3	5.4	5.3	5.3	5.3	5.3
Special consumption tax	2.8	2.7	3.4	3.3	3.2	3.3	3.3	3.3	3.3	3.3	3.4
Other	2.4	2.1	2.4	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Nontax revenue	2.0	1.7	1.6	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Primary expenditure, of which:	19.4	17.2	21.9	21.5	20.3	20.5	20.2	20.1	20.1	20.1	20.1
Personnel	5.4	4.6	5.6	6.7	6.6	7.0	6.9	6.8	6.8	6.8	6.8
Goods and services	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Current transfers	8.7	7.4	8.9	8.8	8.9	8.9	8.8	8.8	8.8	8.8	8.8
SEE's duty losses	0.6	0.3	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Transfers to households	1.1	1.4	1.2	0.8	0.8	1.0	1.0	1.0	1.0	1.0	1.0
Social security institutions	3.6	2.6	3.3	3.4	3.4	3.2	3.2	3.2	3.2	3.2	3.2
Agricultural subsidies	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Transfers of revenue shares	2.4	2.3	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Capital transfers	0.3	0.3	3.2	1.4	0.5	0.7	0.4	0.4	0.4	0.4	0.4
Capital expenditure	1.8	1.8	2.0	2.1	2.1	1.8	1.8	1.8	1.8	1.8	1.8
Net lending	1.4	1.4	0.6	0.7	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Primary balance 1/	-1.7	-0.2	-3.7	-2.9	-0.9	-0.9	-0.7	-0.6	-0.6	-0.6	-0.6
Primary balance (cash)	-0.7	-0.2	-0.9	-2.6	-1.3	-1.1	-1.0	-0.6	-0.6	-0.6	-0.6
Net interest expenditure	1.9	1.3	1.8	2.2	2.7	3.0	3.3	3.1	2.9	2.7	2.6
Central government overall balance	-3.6	-1.5	-5.5	-5.0	-3.6	-3.9	-4.0	-3.7	-3.5	-3.3	-3.3
Accounts payable/receivable	1.0	0.0	2.8	0.3	-0.4	-0.2	-0.3	0.0	0.0	0.0	0.0
Central government overall balance (cash)	-2.6	-1.5	-2.7	-4.8	-4.0	-4.1	-4.3	-3.7	-3.5	-3.3	-3.3
Financing (net)	2.6	1.5	2.7	4.8	4.0	4.1	4.3	3.7	3.5	3.3	3.3
Currency and deposits	0.1	-2.1	-1.3	0.6	-0.7	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3
Non-program revenues	0.9	0.6	0.0	0.0	0.0	0.2	0.2	0.2	0.3	0.2	0.2
Domestic	1.2	2.4	3.2	3.6	4.5	4.1	4.3	3.5	3.2	3.0	2.9
External	0.4	0.6	0.4	0.3	0.2	0.2	0.2	0.3	0.4	0.4	0.5
Memorandum items:											
Central government overall balance (authorities) 2/	-2.7	-0.9	-5.1	-4.7	-3.6	-3.8	-3.9	-3.5	-3.3	-3.1	-3.1
General government overall balance	-3.0	-1.1	-5.2	-4.5	-3.3	-3.7	-3.8	-3.4	-3.3	-3.1	-3.0
Cash fiscal impulse (change in cash primary balance)	-1.7	-0.5	0.7	1.7	-1.3	-0.2	-0.1	-0.4	0.0	0.0	0.0
State Economic Enterprises overall balance (SEE)	0.1	-1.6	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.9	...
General government gross debt (EU definition)	38.9	29.4	28.2	23.6	23.1	24.7	25.7	25.5	25.6	26.2	25.7

Sources: Turkish authorities; and IMF staff estimates and projections.

1/ IMF program definition which excludes several items from non-tax revenue and the primary balance, including privatization proceeds, transfers from CBRT, dividend payments from Ziraat Bank and interest receipts.

2/ Headline or authorities' definition which includes items excluded from the IMF 'program' definition.

Table 5. Türkiye: Monetary Survey, 2021–31
(Billions of liras, otherwise noted; end of period)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Proj.										
Net Foreign Assets	399	822	738	652	1,676	1,860	2,179	2,014	2,079	1,837	1,207
Claims on Non-Residents	2,470	3,716	6,087	7,889	11,117	15,253	18,744	21,614	25,023	29,806	31,779
Central Bank	1,466	2,442	4,202	5,537	7,982	10,793	13,166	14,858	16,933	19,994	21,115
Other Depository Corporations	1,004	1,273	1,885	2,352	3,135	4,460	5,578	6,756	8,091	9,813	10,664
Less: Liabilities to Nonresidents	2,071	2,894	5,349	7,237	9,441	13,392	16,565	19,601	22,944	27,970	30,572
Central Bank	169	310	899	708	861	1,131	1,334	1,505	1,695	1,995	2,104
Other Depository Corporations	1,902	2,584	4,450	6,529	8,580	12,261	15,232	18,096	21,249	25,974	28,468
Net Domestic Assets	4,808	7,470	13,368	18,656	25,359	32,569	40,842	49,735	60,465	73,769	88,296
Net Claims on Central Government	1,193	2,121	3,141	4,727	7,498	10,707	14,993	19,245	23,866	29,024	34,893
Claims on Other Sectors	5,080	7,813	12,378	17,347	23,871	29,868	37,047	45,690	56,662	70,155	86,574
Claims on State and Local Government	40	54	93	141	198	252	315	379	458	554	656
Claims on Public Nonfinancial Corporations	72	166	203	389	545	695	868	1,044	1,262	1,526	1,806
Claims on Other Financial Corporations	173	335	578	771	1,080	1,376	1,719	2,068	2,500	3,022	3,577
Claims on Private Sector	4,794	7,258	11,504	16,045	22,048	27,545	34,144	42,198	52,442	65,054	80,535
Other items, net	-1,465	-2,464	-2,151	-3,417	-6,011	-8,006	-11,197	-15,200	-20,064	-25,411	-33,172
Broad Money	5,207	8,292	14,106	19,308	27,034	34,430	43,021	51,749	62,544	75,606	89,503
Currency in Circulation	216	307	403	580	812	1,034	1,292	1,554	1,878	2,271	2,688
Transferable Deposits	1,934	2,804	4,504	7,013	9,820	12,506	15,627	18,797	22,718	27,463	32,511
Other Deposits	3,009	5,149	9,169	11,679	16,352	20,825	26,022	31,301	37,831	45,731	54,137
Securities	48	31	30	36	50	64	80	96	116	141	166
	<i>(Annual percentage change)</i>										
Net Foreign Assets	-1,293.3	106.1	-10.2	-11.7	157.1	11.0	17.1	-7.6	3.3	-11.7	-34.3
Central Bank	97.0	64.4	54.9	46.2	47.4	35.7	22.5	12.8	14.1	18.1	5.6
Other Depository Corporations	29.9	45.9	95.7	62.9	30.3	43.3	23.7	17.5	16.0	22.8	10.2
Net Domestic Assets	39.9	55.4	79.0	39.6	35.9	28.4	25.4	21.8	21.6	22.0	19.7
Claims on Private Sector	33.9	51.4	58.5	39.5	37.4	24.9	24.0	23.6	24.3	24.0	23.8
Corporates	38.0	50.4	53.9	37.4	37.4	24.9	24.0	23.6	24.3	24.0	23.8
Households	21.1	55.0	74.5	45.7	37.4	24.9	24.0	23.6	24.3	24.0	23.8
Broad Money	53.0	59.2	70.1	36.9	40.0	27.4	25.0	20.3	20.9	20.9	18.4
	<i>(Billions of USD; end of period)</i>										
Net Foreign Assets	31	44	25	18	39	33	33	27	25	18	12
Central Bank	100	114	112	137	166	171	178	178	180	181	181
Other Depository Corporations	-69	-70	-87	-118	-127	-138	-145	-151	-156	-163	-170
Net Domestic Assets	370	399	454	529	591	578	615	663	716	742	842
Claims on Private Sector	369	388	391	455	514	489	514	563	621	654	768
Corporates	289	302	295	339	382	364	382	419	462	487	572
Households	80	86	96	117	132	125	132	144	159	168	197
<i>Memorandum Items:</i>											
Base Money (Billions of TL)	1,789	2,633	4,490	6,585	9,221	11,743	14,673	17,650	21,332	25,787	30,526
Base Money Multiplier (Broad Money/Base Money)	2.9	3.1	3.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Velocity (GDP/Broad Money)	1.4	1.8	1.9	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Claims on Private Sector (Percent of GDP)	64.5	47.4	42.5	36.0	35.5	34.8	34.7	35.0	36.5	38.2	39.9

Sources: International Financial Statistics; and IMF staff estimates and projections.

Table 6. Türkiye: Financial Soundness Indicators, 2014–25
(Percent, unless otherwise noted)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025Q2
Capital Adequacy												
CAR	16	16	16	17	17	18	19	18	19	19	20	18
CT1R	14	13	13	14	14	15	16	15	17	17	17	15
RWA / Assets	83	83	82	76	77	77	67	58	62	59	57	60
Asset Quality												
NPLs / Gross Loans	3	3	3	3	4	5	4	3	2	2	2	2
Provisions / Gross NPLs	74	75	77	79	68	65	75	80	87	82	77	73
Profitability												
Total Int. Income / Int. Bearing Assets (av) 1/ 2/	8	8	8	9	11	11	8	10	13	15	23	11
Cost / Income (Efficiency) 3/	74	76	72	73	77	78	...	...	...	...	...	...
ROAA 1/ 4/	1	1	2	2	1	1	1	1	4	3	2	1
ROAE 1/ 4/	12	11	14	16	15	11	11	15	50	43	31	15
Funding and Liquidity												
Loan-to-Deposit ratio	118	119	119	123	118	103	104	92	86	79	85	85
Loan-to-Deposit ratio (TL)	133	142	134	148	138	130	152	151	107	89	82	84
Loan-to-Deposit ratio (FX)	92	89	99	90	96	78	64	60	61	64	90	87
Non-Core / Core Liabilities 5/	55	56	56	57	57	47	51	53	40	39	50	51
Non-Core / Core Liabilities (TL) 5/	30	32	29	32	33	28	41	49	26	21	32	30
Non-Core / Core Liabilities (FX) 5/	113	101	106	101	94	71	62	57	61	71	91	93
Leverage Ratio 1/ 6/	6	5	5	5	5	6	5	4	5	5	5	5
Liquid Assets / Assets 7/	23	22	21	23	21	23	25	30	28	30	30	30
Assets / Liabilities (3 months, int. sensitive)	75	74	76	73	78	71	72	88	94	100	97	97
FX Risk												
FX Assets / FX Liabilities (on-balance sheet) 6/	91	91	94	88	91	88	86	89	92	88	94	94
NOP / Regulatory Capital	-2	1	-1	1	3	0	4	6	2	4	1	2
NOP before hedging / Regulatory Capital	-28	-30	-22	-43	-34	-41	-58	-57	-28	-45	-19	-22
Balance Sheet												
						(Percent of GDP)						
Total Assets	97	100	104	103	102	102	119	124	94	87	73	64
o/w Gross Loans	60	63	66	67	63	60	70	66	49	43	36	31
Liabilities	85	89	92	92	91	91	107	114	84	79	67	58
o/w Deposits	51	53	55	54	53	58	67	71	58	55	42	37
Shareholders' Equity	11	11	11	11	11	11	12	10	9	8	7	5
Off-Balance Sheet												
						(Percent of GDP)						
o/w Commitments	83	88	94	103	94	91	97	103	71	69	57	57
o/w Contingencies	19	19	21	21	21	19	19	23	16	16	14	12
Miscellaneous												
Deposit Interest Rate (Percent) 8/	9	11	10	13	23	10	16	20	19	47	56	56
Loan Interest Rate (Percent) 9/	13	16	15	18	32	15	22	26	28	58	65	68

Sources: BRSA data; and IMF staff calculations.

1/ Current year data are annualized using 12-month rolling sums.

2/ Net of NPL provisions.

3/ Other non-interest income added to expenses when <0.

4/ Net income as a share of average assets or equity over last 12 months.

5/ Core liabilities include deposits and shareholders' equity.

6/ Proxied by T1 Capital over last 2 months average balance sheet assets and average off-balance sheets exposures (>3 percent).

7/ Liquid assets as reported by the BRSA in their liquidity position table.

8/ On TRY only, excluding sight and interbank.

9/ Consumer Loans (Personal+ Vehicles+Housing).

Table 7. Türkiye: Selected Financial Ratios by Types of Banks

	Dec-2018	Dec-2019	Dec-2020	Dec-2021	Dec-2022	Dec-2023	Dec-2024	Mar-2025	Jun-2025
Non-performing loans (Percent of total loans excluding interbank loans)									
State banks	2.7	3.8	2.7	2.2	1.5	1.1	1.4	1.5	1.7
Domestic private banks	4.6	7.1	5.8	4.2	2.8	2.2	2.2	2.5	2.5
Foreign banks	5.7	7.9	5.7	4.5	2.9	2.1	2.3	2.4	2.7
Provisions (Percent of non-performing Loans)									
State banks	38.8	28.3	38.1	41.5	261.2	173.1	114.9	110.9	81.7
Domestic private banks	43.1	29.4	43.0	57.6	133.8	152.3	81.2	67.6	63.5
Foreign banks	33.8	27.5	43.2	56.2	161.7	163.5	134.7	116.7	81.9
Shareholder Equity (Percent of total assets)									
State banks	10.0	9.6	8.5	6.5	7.8	7.5	7.5	7.4	7.3
Domestic private banks	11.8	12.3	11.4	9.2	12.7	11.0	9.5	9.0	9.1
Foreign banks	11.1	11.4	10.3	8.1	10.1	9.9	10.8	10.1	10.3
Profits/losses before tax (Percent of shareholder equity) 1/									
State banks	8.7	5.5	7.7	4.5	16.6	11.8	11.8	12.5	13.6
Domestic private banks	9.2	6.7	7.5	8.8	26.2	22.5	10.9	10.9	10.9
Foreign banks	10.1	9.0	8.2	10.5	26.0	25.8	21.6	21.6	21.4
Total interest income (Percent of interest-bearing assets) 1/									
State banks	5.5	6.4	4.5	5.2	6.6	7.5	14.7	15.0	15.2
Domestic private banks	6.6	7.7	5.6	6.2	8.3	9.0	14.9	15.1	15.3
Foreign banks	7.1	8.3	5.3	6.2	7.7	8.6	15.9	16.2	16.5
Cost-to-income ratio (Percent) 1/									
State banks	56.0	75.4	68.2	80.8	54.4	66.9	73.1	68.4	65.9
Domestic private banks	63.9	72.8	70.4	70.9	39.5	48.4	75.8	76.2	75.9
Foreign banks	65.3	69.5	71.8	70.2	49.2	51.0	58.1	58.0	58.4

1/ Calculated as 12-month moving average.
Sources: BRSA, CBRT, Haver Analytics, and IMF staff calculations.

Annex I. Implementation of 2024 Article IV Recommendations

IMF 2024 Article IV Recommendations	Authorities' Response
Monetary Policy	
Ensure real ex-ante rates remain sufficiently contractionary. Remove credit growth ceilings before reducing the policy rate.	Real ex-ante rates have declined from 22.5 percent in September 2024 to 18.2 percent in September 2025. Credit growth ceilings remain in place to curb credit growth though they appear to have become less effective over time.
Develop CBRT deposit auctions and gradually lengthen deposits' terms to absorb surplus liquidity.	During 2025, the CBRT has implemented 30-day deposit auctions. In response to financial volatility in March, it exceptionally and only temporarily extended in April lira deposit auction maturities up to 8 weeks.
Improve communications about how targets will be reached and the CBRT's response function.	In August 2025, the CBRT revised its communication strategy to distinguish between its inflation forecasts and targets. Year-end targets are expected to be explicit policy commitments and to remain unchanged unless exceptional circumstances arise.
Limit FX interventions to cases of exchange rate volatility and transparently replenish reserves over time.	The CBRT does not target a level or pace of depreciation, nor reserves, and intervenes to smooth volatility.
Phase out FX-protected deposit schemes.	The CBRT terminated the opening and renewal of FX-protected deposit accounts of real persons in August 2025, excluding YUVAM accounts (available to Turkish citizens residing abroad who convert their foreign currency into TL).
Financial Policy	
Continue with cautious financial liberalization to reinforce policy tightening and enhance transmission.	Liraization floors, i.e., requirements that a certain amount of dollar deposits be rolled over into lira upon maturity, have been reduced. Other distortionary measures have been removed. The CBRT considers credit growth ceilings as facilitating transmission.
Continue to improve liquidity forecasting and management and modify the CBRT's emergency liquidity assistance framework to eliminate any overlap with liquidity provision in the event of financial stress.	The CBRT is reviewing the Emergency Liquidity Assistance (ELA) framework.
Simplify collateral and haircut rules to improve access to CBRT funding; develop a unified master repo agreement in line with the ISDA standard, and remove individual banks' limits on participation.	The CBRT considers it premature to remove participation limits since this may completely discourage interbank trading.
Further improve loan quality reporting practices and risk management to bring the supervisory framework closer in line with Basel.	Risk weights have been harmonized with Basel standards. The newly adopted Net Stable Funding Ratio and large exposures framework have been assessed by the Basel Committee to be compliant with its standards.

IMF 2024 Article IV Recommendations	Authorities' Response
Lira reserve requirements (RRs) should be simplified and focused on managing systemic liquidity. FX RRs should be set commensurate with FX liquidity risks.	Measures such as additional reserve requirements based on leverage ratios and the securities maintenance requirements linked to credit growth have been removed.
FX-protected deposits should be gradually phased out.	The CBRT terminated the opening and renewal of FX-protected deposit accounts of real persons in August 2025, excluding YUVAM accounts (available to Turkish citizens residing abroad who convert their foreign currency into TL).
Fiscal Policy	
Significantly tighten the 2025 and 2026 fiscal stance to support disinflation efforts	Compliance measures and ongoing expenditure control have improved the 2025 stance more than expected, laying the groundwork for further progress in 2026.
Phase out energy subsidies while compensating vulnerable households through increased cash transfers.	No action.
Structural Policy	
Improve labor market flexibility by updating policies and incentives.	No action.
Align Türkiye's Emission Trading Strategy (ETS) with the EU's, auction off emission allocations, and establish an emissions price floor.	Türkiye's Climate Law entered into force in 2025, with a pilot phase for an Emissions Trading System (ETS) to start in 2026, which will introduce a carbon pricing mechanism.

Annex II. Changes in Financial Measures Since June 2024

Decision	Date
Central Bank's Liquidity Management	
FX collateral deposit buying rates were reduced from 4.00% to 3.75% for the euro for all maturities. FX collateral deposit selling rates for euro were reduced from 6.00% to 5.75% for one-week maturity, and from 6.50% to 6.25% for one-month maturity. The interest rate applied to the FX excess reserves was reduced from 4.75% to 4.50%.	June 7, 2024
In the Turkish Lira Currency Swap Market, the total amount of outstanding swap sale (the CBRT's FX buying at the spot leg and selling FX on the maturity date) transactions were limited to 0.5% of the FX Markets transaction limits.	June 27, 2024
Turkish lira Gold Swap Market transactions conducted via the quotation method were terminated.	June 28, 2024
FX Gold Swap Market transactions conducted via the quotation method were terminated.	July 19, 2024
Turkish Lira Currency Swap Market transactions conducted via the quotation method were terminated.	July 25, 2024
In order to diversify and effectively use sterilization tools, in addition to the TRY deposit buying auctions held between 11:00-11:30, it was decided to open additional TRY deposit buying auctions during the day when deemed necessary.	July 26, 2024
In order to diversify sterilization tools, the CBRT started to hold sell-side Turkish lira- currency swap auctions (FX sales against TRY by the CBRT on the value date).	August 2, 2024
In addition to the additional instruments allowing sterilization through auctions, the CBRT decided to expand the instrument framework to allow borrowing from banks and non-bank financial institutions in other money markets via the quotation method.	August 12, 2024
FX collateral deposit buying rates for the euro was reduced from 3.75% to 3.5% across all maturities. Meanwhile, FX deposit selling rates for euro were reduced from 5.75% to 5.5% for a maturity of one week and from 6.25% to 6% for a maturity of one month.	September 13, 2024
FX collateral deposit buying rates for the USD were reduced from 5.50% to 4.75% across all maturities. Meanwhile, FX deposit selling rates for the USD were reduced from 7.75% to 7% for a maturity of one week and from 8.50% to 7.75% for a maturity of one month. The interest rate applied to the FX excess reserves was reduced from 4.50% to 3.75%.	September 19, 2024
In order to diversify sterilization tools, the CBRT started to hold sell-side Turkish lira Gold Swap Auctions (Gold sales against TRY by the CBRT on the value date).	October 31, 2024
Haircuts on collateral applicable to the Open Market Operations, Interbank Money Market and Foreign Exchange Market operations were revised for the CPI-indexed GDDS and lease certificates from 80% to 30%.	December 5, 2024
FX collateral deposit buying rates were reduced from 3.50% to 3.25% for the euro for all maturities.	December 13, 2024
FX collateral deposit buying rates were reduced from 4.75% to 4.50% for the USD for all maturities. The interest rate applied to the FX excess reserves was reduced from 3.75% to 3.50%.	December 19, 2024
The total interest cost of rediscount credits for export and foreign exchange earning services was reduced to 29.93%.	December 26, 2024
FX collateral deposit buying rates were reduced from 3.25% to 2.75% for the euro for all maturities. FX collateral deposit buying rates were reduced from 4.50% to 4.25% for the USD for all maturities. The interest rate applied to the FX excess reserve was reduced from 3.50% to 3.00%.	January 31, 2025
FX collateral deposit buying rates were reduced from 2.75% to 2.50% for the euro for all maturities.	March 12, 2025
The CBRT initiated Turkish lira-settled foreign exchange forward selling transactions to ensure the sound functioning of the foreign exchange market, prevent possible volatilities in exchange rates and stabilize foreign exchange liquidity.	March 20, 2025
The CBRT started to issue liquidity bills with maturities up to 91 days.	March 21, 2025
The one-week repo auctions that were suspended on March 20, 2025 were resumed.	April 17, 2025
FX collateral deposit buying rates were reduced from 2.50% to 2.25% for the euro for all maturities.	April 22, 2025
FX collateral deposit buying rates were reduced from 2,25% to 2.00% for the euro for all maturities.	June 11, 2025
FX collateral deposit buying rates were reduced from 4.25% to 4.00% for the USD for all maturities. The interest rate applied to the FX excess reserves was reduced from 3.00% to 2.75%.	September 18, 2025

Decision	Date
FX collateral deposit buying rates were reduced from 4.00% to 3.75% for the USD for all maturities.	October 30, 2025
Reserve Requirements	
The CBRT terminated the additional reserve requirement maintenance based on the leverage ratio.	June 28, 2024
In the scope of the reserve requirement practice based on loan growth, the monthly growth limit for FX loans was lowered from 2% to 1.5%. The scope of the exemption for investment loans was expanded and it was decided to exempt investment loans extended in the scope of the funding provided by international development finance institutions from the growth limits for Turkish lira and FX loans.	July 20, 2024
Reserve Requirements	
The monthly growth target was increased to 0.8 points for banks with real person TRY deposit shares between 45% and 50%. The monthly growth target was abolished for banks with real person TRY deposit shares exceeding 60%, and a condition was introduced to keep this share above 60%. Legal persons' KKM accounts were included in the calculation of the total target for KKM accounts' transition to TRY and renewals. The upper limit for the remuneration of required reserves, which should be maintained for TRY deposits based on the rate of transition to TRY, was increased to 84% of the policy rate. The ratio for maintaining TRY required reserves in blocked accounts was increased by 5 points.	August 29, 2024
Reserve requirement ratios were increased from 12% to 15% for short-term TRY deposits, from 10% to 12% for long-term TRY deposits while the ratio for TRY-denominated required reserves that should be maintained for FX deposits were decreased from 8% to 5%. It was decided that the remuneration of required reserves that should be maintained for TRY deposits would no longer be conditional on the transition-to-TRY rate. The maximum commission rate of 5% applied based on the level of transition-to-TRY rate was raised to 8%.	September 21, 2024
Reserve requirement ratios for short-term TRY deposits were raised from 15% to 17%, and the ratio for TRY-denominated required reserves that should be maintained for foreign currency FX deposits were decreased from 5% to 4%. The TRY deposit share target for legal persons was abolished. The total target for KKM accounts' transition to TRY and renewals was reduced from 75% to 70%.	November 22, 2024
The duration for the application of the reserve requirement ratio of 0% for foreign currency liabilities with maturities longer than six months was extended until the end of 2025, and the scope was narrowed to include liabilities other than deposits/participation funds with maturities longer than one year.	December 19, 2024
The total target for KKM accounts' transition to TL and renewals has been reduced from 70% to 60%. The remuneration of reserve requirements maintained for KKM accounts was terminated for new KKM accounts or for those to be renewed.	December 20, 2024
Regarding the loan growth-based reserve requirement practice <ul style="list-style-type: none"> • The monthly growth limit for foreign currency commercial loans was reduced from 1.5% to 1%. • The 2% monthly growth limit for Turkish lira commercial loans was differentiated as 2.5% for SME loans and 1.5% for other commercial loans. • Turkish lira SME loans extended through the Small and Medium Enterprises Development Organization (KOSGEB) or in the scope of funding provided by international development finance institutions to support sustainability were exempted from the loan growth limit. • The scope of the loans made available for the earthquake region, which were exempt from the loan growth-based limits, was narrowed. 	January 4, 2025
Among banks' Turkish lira liabilities with maturities up to one year (including one year), the reserve requirement ratios were raised from 8% to 12% for <ul style="list-style-type: none"> • Funds from repo transactions abroad • Loans obtained from abroad, and • Deposits/participation funds from banks abroad. 	February 4, 2025
<ul style="list-style-type: none"> • KKM accounts held by legal entities were excluded from the targets for KKM accounts' renewal and transition to TL. 	February 15, 2025
Regarding the loan growth-based reserve requirement practice <ul style="list-style-type: none"> • The monthly growth limit for foreign currency commercial loans was reduced from 1 % to 0.5%. 	March 1, 2025

Decision	Date
<ul style="list-style-type: none"> Loans extended to the earthquake region, which were exempt from FX loan growth limits, were excluded from the exemption, and the scope of investment loans was limited to the purchase of machinery and equipment only. 	
The target for transition from the KKM to the TL and the real person TL share target were suspended temporarily.	March 27, 2025
The loan growth limits started to apply to overdraft accounts with more than three installments (excluding education and training fees), which were exempted from the loan growth-based reserve requirements for general purpose loans extended to consumers.	March 28, 2025
Reserve Requirements	
<ul style="list-style-type: none"> The ratio for maintaining TRY required reserves in blocked accounts was increased by 10 points. The decision to temporarily suspend the KKM-to-TL transition target was extended for another period. 	April 11, 2025
For required reserves maintained for Turkish lira deposits, the CBRT decided to apply a remuneration rate at 84% of its weighted average funding cost (WAFC).	April 26, 2025
<ul style="list-style-type: none"> Reserve requirement ratios for FX deposits were raised by 200 basis points for all maturities. Financial Stability Report – May 2025 |Financial Sector 80. The reserve requirement ratio for funds that are derived from FX repo transactions with residents of a maturity up to one year was raised by 400 basis points and the calculation method was changed. Banks were introduced a monthly growth target of 0.3 points for their legal person TL deposit shares lower than 60%. <p>The remuneration rate applied to required reserves maintained for Turkish lira deposits was raised from 84% to 86% of the CBRT's WAFC.</p>	May 3, 2025
The decision to temporarily suspend the KKM-to-TL transition target was extended for another period.	May 10, 2025
<p>The reserve requirement ratio of 12% applied to maturities up to one year for TL-denominated funds from repo transactions abroad and loans obtained from abroad was revised and differentiated by maturity as follows:</p> <ul style="list-style-type: none"> 18% for maturities up to one month, and 14% for maturities up to three months. 	May 24, 2025
The decision to temporarily suspend the KKM-to-TL transition target was extended for another period.	June 9, 2025
<ul style="list-style-type: none"> The growth targets for real-person TRY deposit shares were increased for banks with a share below 60%, while a monthly growth target of 0.4 points has been introduced for banks with a share between 60% and 65%. The reserve requirement ratio applied to KKM accounts with maturities up to 6-month was increased from 33% to 40%. The KKM-to-TL transition target was abolished. It was allowed to open variable interest rate TL deposit accounts with maturities longer than 1 month, which were previously only openable with a minimum maturity of 3 months. The reserve requirement ratio was set at 10% across all maturities for accounts applying floating interest rates indexed to the Consumer Price Index, Producer Price Index, or the Turkish Lira Overnight Reference Rate (TLREF). TRY-denominated required reserves that should be maintained for FX deposits were decreased from 4% to 2.5%. 	June 21, 2025
The total target for KKM accounts' transition to TRY and renewals was reduced from 60% to 40%.	July 4, 2025
Within the scope of the loan growth-based reserve requirement practice, calculation periods were extended from four weeks to eight weeks. Accordingly, loan growth limits for eight-week periods were set at twice as large as the existing four-week limits.	August 16, 2025
It was decided to terminate the opening and renewal of KKM accounts (excluding YUVAM accounts). With the termination of KKM accounts, the total target for KKM accounts' transition to TRY and renewals was abolished.	August 23, 2025
<p>Monthly increase targets for real persons' TRY deposit shares were revised as follows:</p> <ul style="list-style-type: none"> Banks between 60%–65%: 0.3 points Banks between 50%–60%: 0.6 points 	October 17, 2025

Decision	Date
<ul style="list-style-type: none"> Banks below 50%: 1 point 	
Regulations Regarding Loan Extension, Installments, and Debt Repayments	
<ul style="list-style-type: none"> Effective July 01, 2024, the early loan repayment fee calculation method was changed. Accordingly, it was decided to calculate the early repayment fee for fixed rate Turkish lira loans based on the loan interest rate and the remaining weighted average maturity; for fixed rate FX loans or FX-indexed loans based on a fixed interest rate and the remaining weighted average maturity so as not to exceed the rate calculated by the formula determined by the Central Bank, and the early repayment fee for floating rate loans shall be at most 2% of the early repayment amount. 	June 28, 2024
<p>As per the decision taken by the BRSA, It was decided that the minimum amount to be paid from the term debt of credit cards was set at 20% of the term debt for credit cards with a limit of TRY 50 thousand or less, and 40% of the term debt for credit cards with a limit of over TRY 50 thousand.</p>	September 26, 2024
<p>As per the decision taken by the BRSA, regarding personal credit cards;</p> <ul style="list-style-type: none"> The existing debt balances of personal credit cards for which the minimum due amount for the term debt has not been paid as of the date of the decision may be restructured for a maximum of 60 months if requested by the cardholders; and the credit card limits allocated to the cardholder by the relevant bank shall not be increased until 50% of the credit card restructuring debt has been paid. <p>Regarding general purpose loans;</p> <ul style="list-style-type: none"> Debt balances of general-purpose loans extended before the date of the decision and whose principal and/or interest payments are more than 30 days overdue as of the date of the decision, may be restructured for a maximum period of 60 months, if requested by the debtor within 1 year from the date of this decision. 	September 26, 2024
<p>Effective from November 1, 2024, the maximum monthly interest rates to be applied to personal credit cards have been differentiated based on the term debt balance. Accordingly, over the current reference rate, the maximum monthly contractual interest rates to be applied to credit card transactions (excluding cash withdrawals or utilization transactions) in Turkish lira will be as follows;</p> <ul style="list-style-type: none"> 3.5% for personal credit cards with a term debt balance below TRY 25 thousand 4.25% for personal credit cards with a term debt balance between TRY 25 thousand and TRY 150 thousand 4.75% for personal credit cards with a term debt balance over TRY 150 thousand as well as for corporate credit cards irrespective of their term debt amount. <p>Moreover, the maximum interest rate to be applied in the restructuring of personal credit card debts was limited to the reference rate.</p>	September 27, 2024
<p>As per the decision taken by the BRSA (Decision No. 11240),</p> <ul style="list-style-type: none"> For personal credit cards whose term debt has not been fully or partially paid or has been restructured as of the decision date, balances (including future-dated transactions) may be restructured for a maximum of 48 months, upon the cardholder's request within three months from the decision date. <p>For general-purpose loans (including overdraft accounts) extended before the decision date with overdue principal and/or interest payments or previously restructured, balances may be restructured for up to 48 months without additional credit extension, upon request within three months.</p> <p>The maximum interest rate to be applied in the restructuring of personal credit card debts was limited to the reference rate.</p>	July 10, 2025
<p>Effective from August 1, 2025, the current 3.5% interest rate for personal credit cards with a term debt balance below TRY 25 thousand has been remained the same, while other monthly maximum interest rates applied to Turkish Lira-denominated credit card transactions has been reduced by 25 basis points. Accordingly, over the current reference rate, the maximum monthly contractual interest rates to be applied to credit card transactions in Turkish lira will be as follows;</p> <ul style="list-style-type: none"> 4% for personal credit cards with a term debt balance between TRY 25 thousand and TRY 150 thousand, 4.50% for personal credit cards with a term debt balance over TRY 150 thousand as well as for corporate credit cards irrespective of their term debt amount. <p>4.75% for cash withdrawals or utilization transactions and overdraft accounts.</p>	July 25, 2025

Decision	Date
Effective from October 1, 2025, the maximum monthly contractual interest rate applied to Turkish Lira cash withdrawals or utilization transactions and overdraft accounts has been reduced by 25 basis points to 4.50 percent.	
Classification of Loans and Receivables, and Legal Ratio Limitations	
In calculating capital adequacy standard ratios, the additional risk weights have been abolished for vehicle loans extended to consumers for buying passenger cars, for vehicle-backed loans and financial leasing transactions, general purpose loans (excluding overdraft accounts), personal credit cards (including credit card expenditures and cash withdrawals) and loans backed by residential house mortgages provided that the consumer themselves, their spouse or children under the age of 18 own a house, and it was decided to revert to relevant minimum standards set out in the Regulation on Measurement and Assessment of Capital Adequacy of Banks. It was decided that relevant minimum standards would be 35% for the first and other housing loans, and 75% for general purpose loans, vehicle loans and credit cards.	September 19, 2024
Regarding consumer loans for purchase of mobile phones: <ul style="list-style-type: none"> The maximum term was set at 12 months for mobile phones priced at or below TL 20,000 and three months for mobile phones priced above TL 20,000. The maximum term for “refurbished products” was set at 12 months for mobiles priced at or below TL 25,000 and three months for those priced above TL 25,000.	December 5, 2024
<ul style="list-style-type: none"> Effective from January 1, 2025, the regulation-stipulated exchange rate used in calculating the value at credit risk was replaced by the CBRT’s FX buying rate of June 28, 2024. 	December 19, 2024
The maximum loan amount for consumer loans with a maximum term: <ul style="list-style-type: none"> up to 36 months was raised from TL 50,000 to TL 125,000, up to 24 months was raised from TL 50,000 – 100,000 to TL 125,000 – 250,000 up to 12 months was raised from TL 100,000 to TL 250,000. Besides, the same term limits were decided to be used for loan restructuring.	February 13, 2025
The limits on maximum terms and loan-to-value ratios determined based on the final invoice value for loans extended for electric motor vehicles produced by taxpayers under Provisional Article 12 of the Corporate Tax Law were revised as minimum TL 2,500,000 and maximum TL 7,500,000.	March 6, 2025
For loans that development and investment banks can extend, limits on the ratio of the total risk amount of such loans to Tier 1 capital were set.	March 13, 2025

Annex III. External Sector Assessment

Overall Assessment: On a preliminary basis, *the external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies.* The assessment is mainly driven by the negative CA gap, as well as reserves, which despite recent recovery, remain low. The 2025 CA deficit is expected to widen to 1.4 percent of GDP—after narrowing substantially to below 1 percent of GDP in 2024—as lower energy prices did not offset recovering gold imports, subdued external demand, and robust other import growth. External financing needs have fallen further (as percent of GDP) and the NIIP has become less negative. However, macro policies remain insufficiently tight to bring down inflation sustainably to the central bank’s inflation target, even in the medium term. Moreover, external vulnerabilities remain present as shown by the March 2025 stress episode that led to substantial reserve losses, while at end-2025 core reserves had still not recovered to early 2025 levels.

Potential Policy Responses: Strengthening the policy framework would help underpin Türkiye’s external sustainability going forward. Tightening of the monetary and fiscal policy stance would contain demand, bring down inflation, make medium-term growth more sustainable and help pave the way for lower CA deficits over the medium-term. Collectively, these policies would improve confidence and help sustain capital inflows which would allow for a welcome accumulation of international reserves.

Foreign Asset and Liability Position and Trajectory	<p>Background. Türkiye’s NIIP averaged -34.9 percent of GDP over 2020–24. The NIIP improved from -25.5 percent of GDP at the end of 2024 to -21.5 percent of GDP at the end of 2025Q3, mainly driven by valuation effects, including the appreciation of the euro vis-à-vis the USD and especially the gold price increase. External debt declined slightly from 38.1 percent of GDP in 2024 to 36.9 percent of GDP at end-2025Q3.² The public sector (including the CBRT) holds 46.6 percent of Türkiye’s external debt. At end-2025Q3, 39.8 percent of external debt was short term (on a remaining-maturity basis).</p> <p>Assessment. Given the size and composition of gross external liabilities, Türkiye is vulnerable to liquidity shocks, sudden shifts in investor sentiment, and global upswings in interest rates, even though reserves have improved substantially during 2025 (+19 percent in USD terms) despite the March stress episode. The FX exposure of Türkiye’s nonfinancial corporations deteriorated substantially, after significant improvement in recent years, with the short-term net FX position also deteriorating, but still in positive territory, providing some liquidity buffer. The NIIP is expected to deteriorate somewhat over the medium term to around -24.7 percent of GDP as the CA deficit stabilizes around 1.5 percent of GDP, with world oil prices subdued and robust export earnings. However, reversal of recent valuation effects (e.g., in the gold market) could negatively affect the NIIP trajectory. External debt is sustainable over the medium term but is subject to risks, particularly from a large depreciation in the REER and roll-over risk from the high share of ST debt in total external debt.</p>					
2025Q3 (% GDP)	NIIP: -21.5	Gross Assets: 25.9	Debt Assets: 9.6	Gross Liab.: 47.3	Ext. Debt: 36.9	
Current Account	<p>Background. The CA deficit averaged 2.9 percent of GDP over 2020–24. The CA deficit in the first three quarters of 2025 increased to 1.3 percent of GDP, following a deficit of 0.5 percent of GDP over the same period in 2024 as lower oil prices could not make up for a deterioration in the non-oil trade balance. The expected deterioration in the current account in 2025 reflects mainly a widening of the private sector S-I balance, which is not expected to be outweighed by public sector savings.</p> <p>Assessment. The EBA CA model estimates a cyclically adjusted CA balance of -1.0 percent of GDP and a CA norm of 1.2 percent of GDP in 2025. Overall, the CA gap is assessed in the range of -2.8 to -1.6 percent of GDP, with a midpoint of -2.2 percent of GDP.</p>					
2025 (% GDP)	CA: -1.4	Cycl. Adj. CA: -1.0	EBA Norm: 1.2	EBA Gap: -2.2	Staff Adj.: 0.0	Staff Gap: -2.2

Real Exchange Rate	<p>Background. The CPI-based REER depreciated by an annual average of 6.0 percent over 2020–23. In 2024, it appreciated by 10.7 percent compared to the 2023 average as domestic inflation slowed and capital inflows were not fully sterilized. In 2025, the CPI-based REER appreciated by a further 7.6 percent relative to the 2024 average, but depreciated by 1.7 percent between end-December 2024 and end-December 2025. Reflecting lower PPI inflation, the average PPI-based REER appreciated by 1.2 percent in 2025.</p> <p>Assessment. Consistent with the staff CA gap, staff assesses the REER to be overvalued by 8.7 percent. The range goes from 6.3 percent to 11.1 percent overvaluation (applying an estimated REER elasticity of 0.25). The EBA REER index and level models suggest the REER was undervalued in 2025 by 24.1 and 38.3 percent, respectively, although the models’ residuals are very large for Türkiye.</p>
Capital and Financial Accounts: Flows and Policy Measures	<p>Background. Net capital inflows were 1.6 percent of GDP in 2024, while in the first three quarters of 2025 inflows from FDI and other investments were about 1.4 percent of GDP, with net portfolio inflows close to zero.</p> <p>Assessment. Even though projections of annual gross external financing needs as a percentage of GDP have decreased, they are still relatively high—at about 17.5 percent of GDP on average over 2026–31. Hence, Türkiye remains vulnerable to adverse shifts in global investor sentiment. The authorities’ policy normalization efforts since May 2023 have contributed to a rebound in capital flows. However, as the March 2025 capital outflow episode has shown, to sustain capital inflows, including into lira-denominated assets, a further strengthening of policy credibility and carefully reducing market distortions is needed. As conditions improve, CFMs on capital outflows will need to be phased out.</p>
FX Intervention and Reserves Level	<p>Background. The de jure exchange rate is free floating while the de facto classification, as of the 2024 Article IV consultation, is assessed as a crawl-like arrangement. Gross international reserves reached US\$184 billion at end 2025, up from \$155 billion at end 2024, with the bulk of the increase coming from surging gold prices.</p> <p>Assessment. Gross international reserves were at 73 percent of the IMF’s ARA metric at the end of December 2024 (for a de facto crawl-like exchange rate arrangement¹), and rose to 79.5 percent by end-2025—still below the recommended 100 to 150 percent range. International reserves net of off-balance-sheet swaps and other short-term liabilities were negatively impacted by the March 2025 outflow episode. This shows quality of reserves remains an issue, as does the fact that non-SDR basket currencies account for a large share (about 16 percent by the end of 2025) of FX reserves. Given the shallow FX market, interventions may be needed to avoid excessive exchange rate volatility, while not preventing warranted macroeconomic adjustments. Going forward, significant reserves buildup is needed, but the accumulation of reserves should be opportunistic given the uncertain market environment.</p>
<p>¹ The calculation of the IMF’s ARA metric differs depending on the de facto classification of the exchange rate arrangement. Türkiye has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF’s Articles of Agreement.</p> <p>² For quarterly GDP ratios: for stock variables (e.g., NIIP), the ratio is calculated using GDP in USD on a four-quarter moving basis. For flow variables (e.g., current account), the ratio is calculated using the equivalent time period.</p>	

Annex IV. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
External			
<p>Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.</p>	High	<p>Medium. An intensification of regional conflicts could disrupt trade and financial flows, reduce investor risk appetite and undermine Türkiye's external stability.</p> <p>An influx of refugees would lead to fiscal strains and potentially upward pressure on rents and thus inflation.</p>	<p>Allow the exchange rate to be a shock absorber to maintain competitiveness.</p> <p>Tighten fiscal and monetary policies to anchor inflation expectations, maintain the disinflation path and facilitate residential investment.</p> <p>To accommodate higher refugee flows, fiscal savings should offset any additional outlays related to refugees.</p> <p>Increase temporary transfers to vulnerable households as needed to alleviate the impact of higher inflation.</p>
<p>Financial Market Volatility and Correction. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.</p>	High	<p>Medium. Global and systemic financial instability could generate depreciation pressures or complicate rollover of external debt.</p>	<p>Allow the exchange rate to act as a shock absorber while smoothing volatility during this adjustment would be the key policy response.</p> <p>Systemic risk should be managed as in previous entry.</p>
<p>Fiscal Vulnerabilities and Higher Long-Term Interest Rates. Rising public debt and</p>	High	<p>Medium. Reduced risk appetite and lower interest</p>	<p>Monetary policy should be tightened to strengthen lira demand, anchor inflation</p>

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
External			
deficit levels may put upward pressure on long-term interest rates and increase the risk of sovereign bond market disruptions. These developments could amplify capital flow volatility, tighten financial conditions, threaten sovereign debt sustainability, and trigger global spillovers. To the extent that major economies are affected, market imbalances (such as reduced investor capacity to absorb sovereign debt) could emerge, exacerbating risks from a close sovereign-financial nexus.		differentials due to higher returns on foreign sovereign debt could lead to capital outflows and complicate rollover of external debt.	<p>expectations and restore confidence.</p> <p>The exchange rate should act as a shock absorber.</p> <p>Fiscal policy should be tightened to strengthen confidence in public finances and facilitate rollover of external debt.</p> <p>Systemic risk should be managed via macroprudential policy that can be released under this risk and by bringing down inflation quickly and sustainably through tightening policies to reduce vulnerabilities.</p>
<p>Escalating Trade Measures and Prolonged Uncertainty.</p> <p>Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.</p>	High	<p>Medium to Low.</p> <p>While Türkiye has so far benefited from close links with the United States and European allies as well as Russia, the Gulf States, and other countries, escalating trade measures might undermine some of these links.</p>	<p>Continue support for trade openness and investment and make trade more resilient by diversifying trade partners, including for energy.</p> <p>Participate in global initiatives for supporting multilateralism.</p> <p>Continue to prioritize disinflation policies to maintain price competitiveness.</p>

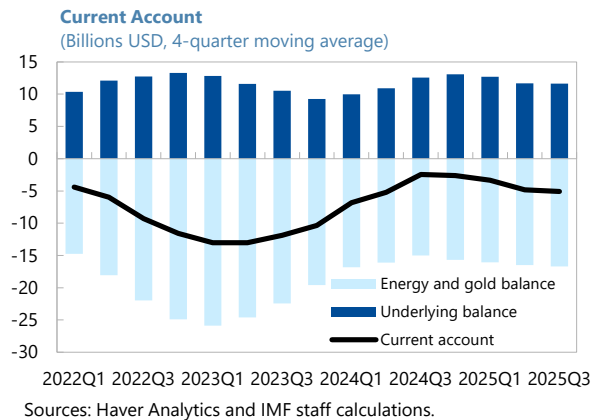
Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Domestic			
Lira deposit flight from the financial system. This could be triggered by political uncertainty, a price shock or a large depreciation.	Medium to Low	High. Lira deposit flight would pressure the exchange rate, raising inflation and inflation expectations, and would undermine confidence.	Monetary policy should be tightened to strengthen lira demand, anchor inflation expectations and restore confidence. Excess liquidity should be absorbed as needed. FXI should be used to smoothen excess volatility, while gradually allowing the exchange rate to adjust.
Premature loosening of economic policies. A shift in policy priorities, possibly from reform fatigue, could lead to populist policies. These policies would include a fiscal expansion particularly on the expenditure side, minimum wage increases far exceeding ex post inflation, and looser monetary policy.	Medium to Low	High. This would dampen confidence, lead to a greater depreciation and in turn refuel inflation. Higher inflation would slow growth, and reduce resilience and inclusivity.	Stay the course on or tighten economic policies. Bringing inflation down should remain the key policy priority. Policies should preserve the efficiency gains achieved by correcting financial and economic distortions since June 2023. Furthermore, policies should avoid creating new distortions, amplifying vulnerabilities. Reining in public sector imbalances, normalizing monetary and financial policies would further support restoring macroeconomic and financial stability. In the event of sudden instability, monetary policy should be tightened to strengthen lira demand; macroprudential buffers can be released and FXI should be used to smoothen excess volatility.

Annex V. Recent External Developments

The new economic program implemented since mid-2023 has strengthened external buffers. This Annex discusses the potential impact of shifts in cyclical factors, investors’ perceptions, and emerging crypto risks.

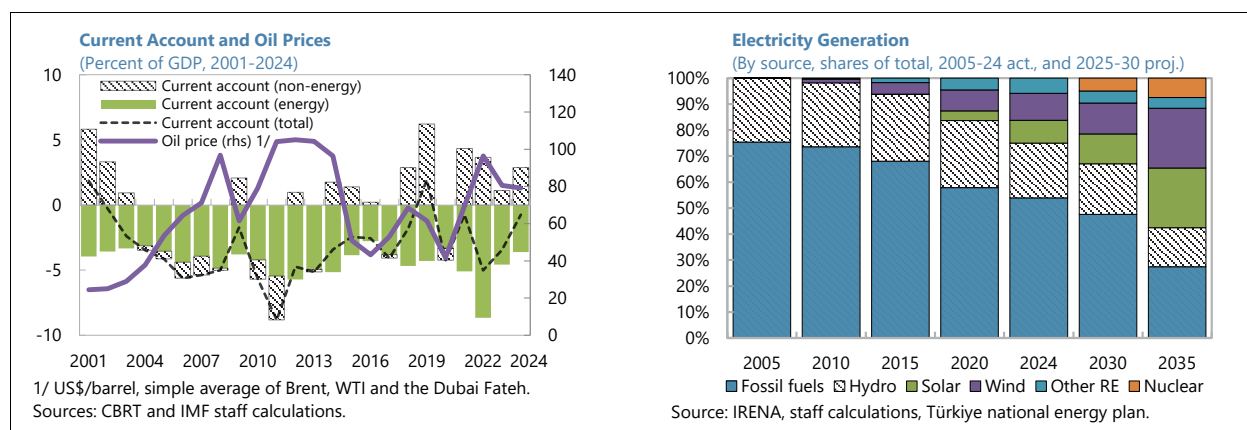
1. Policies and favorable external conditions have kept the current account deficit low, but the underlying balance has been more subdued.

Financial policies aimed at rebalancing the economy toward external demand have contributed to import compression, while supporting exports. Nevertheless, still-strong demand in recent quarters has led import growth to outpace export growth. As both grow more slowly than GDP, Türkiye’s main source of reserves accumulation, the current account excluding energy and gold outflows (“underlying balance”), has fallen in recent quarters relative to GDP.



2. Energy prices remain an important risk.

Türkiye’s substantial hydrocarbon imports are a key determinant of the current account. In 2022, for example, the non-energy current account surplus was almost 4 percent of GDP and with oil prices close to \$100 per barrel, net energy imports were close to 9 percent of GDP. While net energy imports have fallen in recent years, they still push the current account into deficit. A US\$ 10 increase in oil prices would raise the current account deficit by about US\$ 2.6 billion (about 0.2 percent of 2024 GDP).¹ This risk would be mitigated by a planned increase in renewables generation.



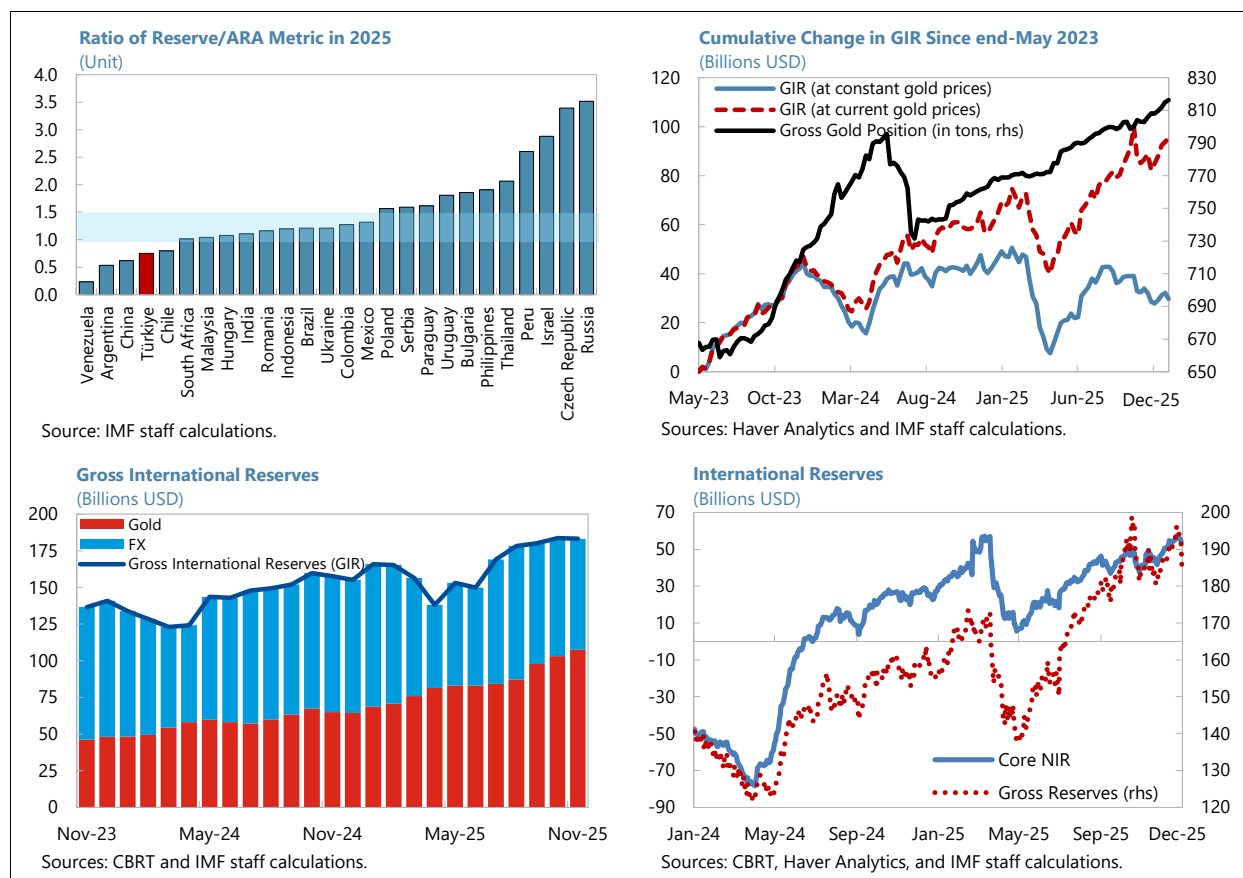
3. Gross reserves have shown a steady upward trend since March, though they remain below IMF thresholds.

Reserves have recovered since March, and stood at US\$194 billion on

¹ CBRT blog (July 10, 2025).

January 8, 2026, compared to US\$ 172 billion on March 18, 2025. The [IMF’s reserves adequacy metric](#) indicates that the 2025 GIR level is below the recommended 100–150 percent threshold. Core reserves have almost fully recovered (currently US\$ 55 billion compared to US\$57 billion on March 18), while banks have increasingly lent out FX deposits rather than swapping them to the CBRT.

4. Higher gold prices have helped offset a fall in non-gold reserves. GIR are now comfortably above end-September 2024 levels. This is largely due to a shift of reserves toward gold, which has appreciated in dollar terms.² Since core NIR excludes gold liabilities, the effect of gold price there has been somewhat smaller. Following the March market stress episode, FX securities and CBRT deposits abroad fell by US\$ 19 billion and US\$ 14 billion, respectively, while gold holdings were broadly unchanged. The large proportion of gold in CBRT reserves raises the sensitivity to the price of gold, and could affect liquidity.



5. Crypto accounts, especially stablecoins, have grown rapidly. Similar to dollarization, macroeconomic volatility and elevated inflation tend to boost demand for crypto as a store of value and a digital substitute for foreign currency.³ Türkiye now ranks 11th globally in crypto asset

² If the gold price had remained constant, GIR would have fallen by about US\$ 21 billion.

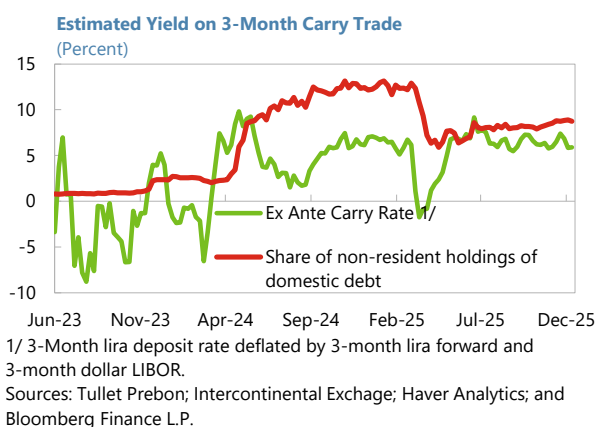
³ [Bouri and others, 2017](#); [Haq and others, 2021](#); [Jabbour and others, 2025](#); [He and others, 2022](#).

adoption, with between a quarter and half of Turkish households now holding some form of crypto asset, and participation rising.⁴

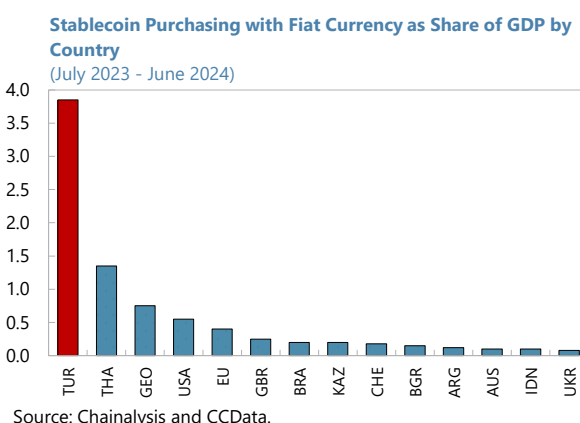
- Stablecoins, which aim to maintain a peg to an underlying asset such as the US dollar, are particularly popular with a large number of holders citing higher returns than on bank deposits as a key attraction.⁵ Altcoin trading volumes have also risen significantly in the past year. The ease with which residents could convert lira deposits into offshore crypto assets is an important new risk.
- The decentralized and pseudonymous design of crypto trading weakens traditional controls, including CFMs, over outflows into crypto. Moreover, there are no real world frictions such as exist for cash and gold that might impede the potential migration of lira deposits into crypto assets.

6. Domestic investors have proved faithful in recent episodes.⁶

After the policy rate was raised to 50 percent in March 2024, positive carry trade returns attracted significant capital inflows and supported the exchange rate, while domestic investors shifted into lira deposits from FX-protected deposits (KKMs). Returns declined after the start of the rate cut cycle in December 2024 and turned negative in March due to a rise in expected exchange rate depreciation. Domestic and foreign investors reacted differently, with (significantly larger) domestic lira deposits more stable. Since then, ex ante carry trade returns have returned to high levels. However, carry trade returns remain sensitive to shocks to expected lira depreciation and tight monetary policy is instrumental in preventing this.



7. Still, the reserves position remains vulnerable to potential shifts in investor sentiment. Nonresident financial asset holdings, including FX deposits, equities, and government bonds, are around US\$ 80 billion. In addition, carry trade positions—that have proven to be volatile—remain significant. A repeat of the March episode (when foreign investors liquidated

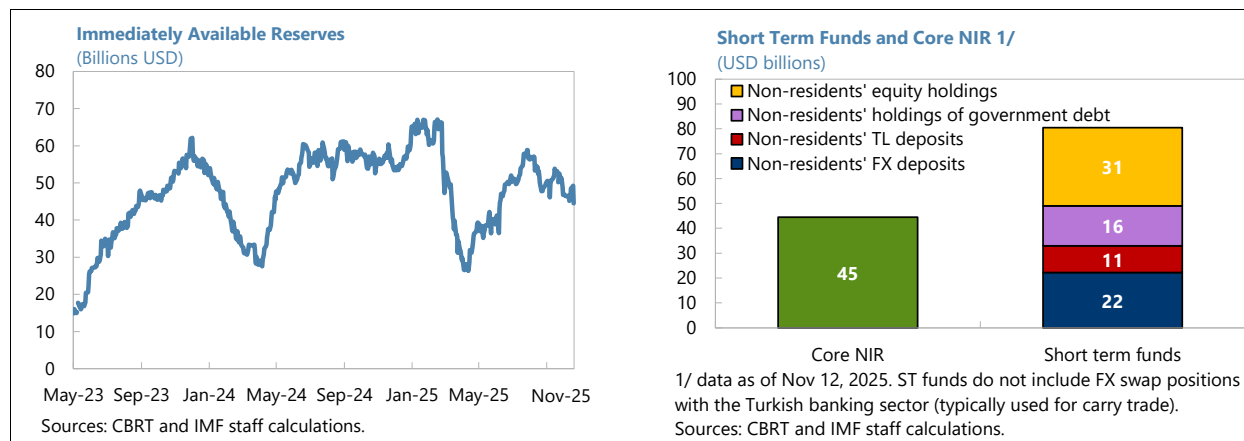


⁴ [GWI Research, 2023](#); [KuCoin, 2023](#). [Chainalysis, 2024](#).

⁵ [Stablecoins: The Emerging Market Story](#).

⁶ Ex ante carry trade returns are calculated using the 3-month TRY forward rate and the interest differential between the 3-month USD Libor and the 3-month TRY deposit rates.

around \$19 billion) amounts to about half of the CBRT’s core reserves, but a larger shift could force core reserves into negative territory. A shift among domestic investors from lira deposits (around US\$350 billion) into domestic FX deposits would pressure the lira but not the gross reserves position as the CBRT could use FX swaps with the banking sector to shore up its gross reserves position. However, liquidation into gold, cash, or crypto would require unwinding swaps with the CBRT and hence would affect gross reserves.

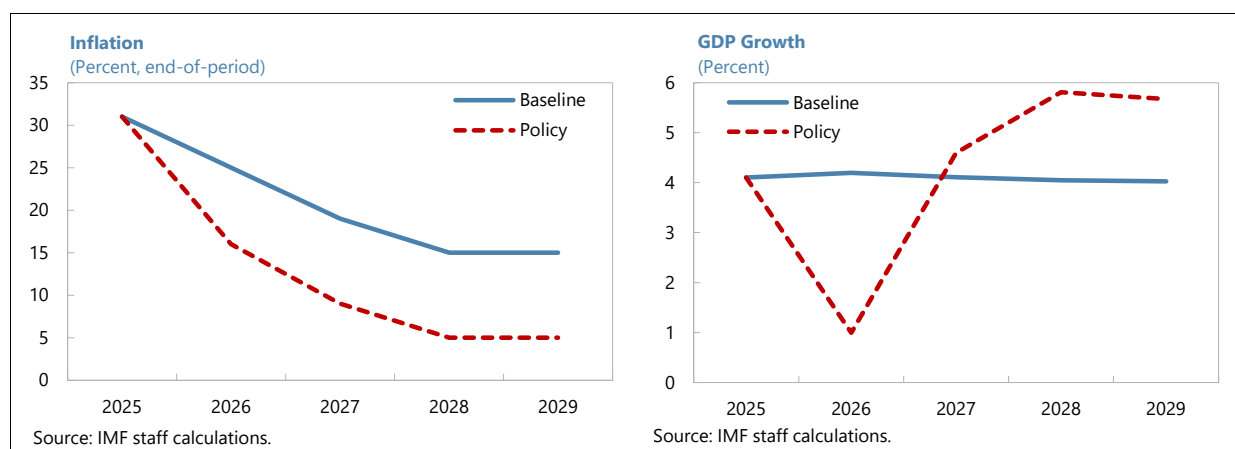


Annex VI. Policy Scenario

This Annex describes the assumptions and outcomes of the Policy Scenario that would deliver the CBRT's inflation targets. The policy mix includes tighter monetary and fiscal policies, forward-looking income policies, and the elimination of distortionary quantitative measures. Inflation would decline faster and to lower levels. Growth would fall below the baseline in the near term, but rebound in outer years to higher levels. Most importantly, the economy would be substantially less prone to risks.

A. Assumptions

1. The policy scenario considers a different tradeoff between inflation and growth, with substantially lower risks. The baseline policy mix is unlikely to bring inflation sustainably down to single digits. With elevated inflation in the medium term, future shocks could lead to disruptive spikes in inflation with high macroeconomic costs. To disinflate durably, demand must be brought down more decisively through a mix of consistent monetary, fiscal, and incomes policies. In this policy scenario, faster. In this policy scenario, the authorities' interim inflation targets—16 percent in 2026 and 9 percent in 2027—are achieved and the long-term inflation target of 5 percent is reached in 2028. Faster disinflation would entail a higher initial growth cost, but subsequently put Türkiye on a higher growth trend. Lower inflation sets the stage for more sustainable and inclusive long-term growth, and cumulative growth is higher than in the baseline. Importantly, with less volatile inflation, inflation expectations would be anchored, substantially reducing the possibility of a spike in inflation and accompanying growth cost.



2. Demand compression is quantified based on the sacrifice ratio. The sacrifice ratio is the cumulative sum of forgone annualized output accruing from a disinflation of one percentage point. It is used to calculate the amount of output gap that is needed to bring the inflation path from the baseline to the policy scenario. The sacrifice ratio varies by country and time. Empirical evidence shows that the sacrifice ratio tends to be lower for emerging markets than advanced economies, and when initial inflation is higher. For advanced economies, the sacrifice ratio is typically above 1, while for emerging markets, it is usually below 1. Türkiye's experience suggests that its sacrifice ratio

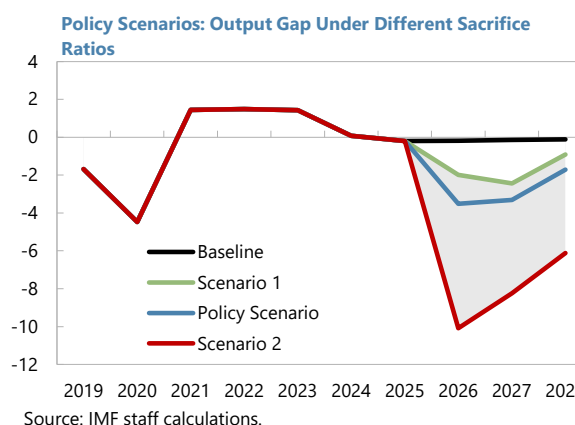
is unusually low. For its early 2000s and in 2018 disinflation episodes, the estimated sacrifice ratios are 0.1 and 0.2, respectively.

Sacrifice Ratio Estimates Across Countries and Time				
Source	Country and Period	Initial Inflation	End Inflation	Sacrifice Ratio
Ball (1994)	US 1980Q1–1983Q4	12.1	3.3	1.8
Ball (1994)	France 1981Q1–1986Q4	13.0	2.6	0.6
Gibbs and Kulish (2017)	Argentina 2006Q1–2008Q4	31.3	14.9	-3.1
Gibbs and Kulish (2017)	Indonesia 1998Q3–2000Q4	37.9	6.3	0.6
Gibbs and Kulish (2017)	Mexico 1987Q3–1994Q1	127	8.9	0.2
Gibbs and Kulish (2017)	Russia 1999Q3–2007Q1	58.0	9.6	0.6
IMF staff estimate	Türkiye 2018Q3–2019Q4	19.4	10.3	0.2
IMF staff estimate	Türkiye 2002Q1–2004Q2	70.4	7.4	0.1

3. A moderate sacrifice ratio is chosen to calibrate the policy path that achieves the authorities' targets under the policy scenario.

A scenario calibrated on Türkiye's past disinflationary episodes (scenario 1) would generate only a modest contraction, with the output gap falling to -2 percent between 2026–27. However, a durable disinflation into single digits, as in other EMs, would likely require a higher ratio. The Policy Scenario is therefore calibrated according to more standard sacrifice ratios of 0.2 in 2026, rising to 0.3 as inflation declines toward single digits in 2028, and would result in an output gap of -3.5 percent that year.

That said, with expectations highly entrenched, a higher growth cost than under the Policy Scenario cannot be ruled out. Using upper-bound EM sacrifice ratios, reaching 1 toward the end of the scenario, the output gap needed to reach inflation targets would be substantial, rising to -10 percent in 2026–27 (scenario 2).



4. Monetary and fiscal policies are calibrated based on the demand compression needed under the policy scenario.

The pass-through of the monetary policy rate is assumed to be around its historical average of 0.2—where 1 percentage point increase in the ex-post policy rate leads to a

reduction in output of 0.2 percentage points. The fiscal multiplier is assumed to be 0.75, based on staff estimates as well as the latest [research](#) from the CBRT. Since both monetary and fiscal policies contribute to the demand compression, their relative contributions are determined based on historical patterns.

5. Financial liberalization and incomes policies are assumed to be implemented in a way that facilitates disinflation. Distortive financial measures, in particular quantitative limits on credit growth, are assumed to be removed to ensure the proper functioning of the monetary policy transmission, improve transparency, and boost confidence. Incomes policies are set in a forward-looking manner, consistent with inflation targets.

B. Policy Calibrations

6. Fiscal consolidation measures of 1.0 percent in 2026 and an additional 0.5 percent in 2027 would be implemented. The overall balance would improve to -2.9 percent of GDP in 2026, compared to -3.9 percent of GDP in the baseline, and then converge toward the authorities' MTP target of -3 percent of GDP.

7. Forward-looking income policies would be set in keeping with the inflation targets. As inflation is expected to reach 16 percent at end-2026, 9 percent at end-2027, and 5 percent at end-2028, the minimum wage should be set accordingly, increasing at the beginning of each year by 16 percent, 9 percent, and 5 percent in the next three years. Backward-looking indexation of rents and wages would be eliminated.

8. Monetary policy would be tightened initially and remain tight for an extended period. In tandem with the fiscal consolidation above, staff's modeling suggests that a real ex-ante policy rate of about 34 percent at the beginning of 2026, which gradually falls to about 16 percent by end-2027, is needed to achieve the disinflation path. Under the baseline scenario, the policy rate is expected to decline to 36 percent in 2026Q1 and inflation expectations would likely remain at 21 percent, implying a real ex-ante policy rate of 15 percent. In the policy scenario, the higher ex-ante policy rate would be achieved from both a policy rate hike and lower inflation expectations. The policy rate would rise back to its end-2024 level of 48 percent, an increase of 950 basis points. The 12-month ahead inflation expectation in 2026Q1 would fall below 14 percent. Once this has happened, potentially as soon as 2026:H2, the policy rate could go down in tandem with inflation to keep the real rates at the same level until inflation reaches single digits.

C. Macroeconomic Outturn

9. Growth would slow down to 1 percent in 2026 but rebound to 4.6 and 5.8 percent in 2027 and 2028, respectively. The initial slowdown in economic activity is driven by fiscal consolidation and tight monetary policy. A technical recession during 2026:Q2-Q3 is expected. As inflation is brought down quickly, economic and policy uncertainty would be reduced, raising

confidence. The output gap would close more quickly while potential growth would rise toward its historical average of 5 percent.

10. The external position would improve in 2026 and widen moderately in 2027 and 2028.

The slowdown in growth compresses imports in 2026 while the real depreciation boosts exports, reducing the current account deficit to 0.6 percent of GDP. As growth rebounds in subsequent years, the current account widens gradually to a long-term level of -1.9 percent of GDP. Gold imports would remain at a subdued level as confidence improves. Higher real policy rates in the policy scenario induce higher foreign currency net inflows. Both gross and core net international reserves would be higher owing to keener interest of foreign investors and dampened foreign currency demand among Turkish households.

11. Government borrowing costs increase initially but decline as inflation falls. As the monetary policy rate stays initially at a higher level, its effect on bond yields dominates. However, as the policy rate falls in tandem with a rapidly declining inflation, bond yields decline. Rising confidence would also lower the risk premium, contributing further to the fall in bond yields. As inflation becomes stable, government debt maturity would lengthen, allowing the borrowing cost to fall to a lower level compared to the baseline.

12. Tighter fiscal policy raises government debt levels moderately in 2026–28. Fiscal consolidation, interest rates, and inflation shape the dynamics of the public debt. In the near term, less fiscal deficit contributes to the decline in public debt, while higher interest rates and lower inflation means a smaller nominal GDP, raising the debt-to-GDP ratio. The latter dominates, raising the public debt by 0.6 percentage points of GDP in 2026 and by 1.3 percentage points by 2028. In the medium term, the smaller nominal GDP is expected to keep the debt-to-GDP ratio at a slightly higher level than that in the baseline.

Annex VII. Debt Sustainability

Annex VII. Table 1. Türkiye: Risk of Sovereign Stress

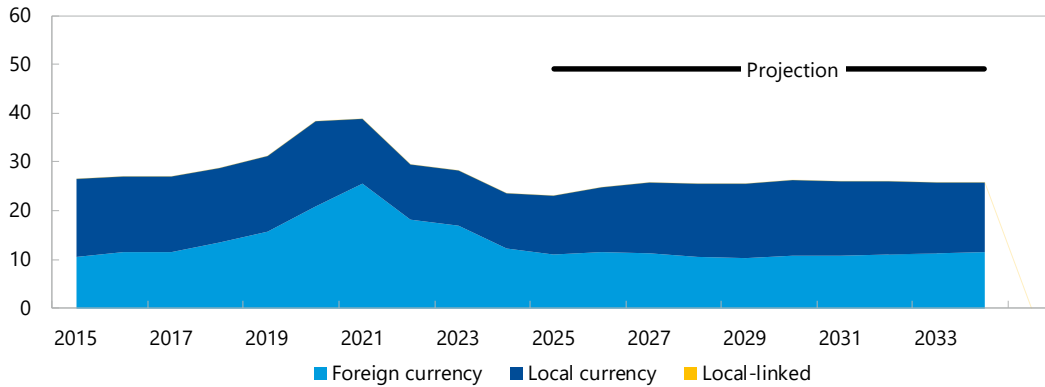
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is judged to be low, reflecting a low level of vulnerability in the near term, low vulnerability in the medium term while risk of sovereign stress in the long term is moderate.
Near term 1/			
Medium term	Moderate	Low	Medium-term risks are assessed to be low, consistent with the mechanical signal. Debt is expected to be around 26 percent of GDP by 2030. Gross financing needs are expected to trend upward as the authorities are expected to borrow more in higher interest TL rather than domestic FX.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	Cont. Liabty.	...	
Long term	...	Moderate	Long-term risks related to demographics, pensions, large amortization needs, and climate mitigation appear moderate. Türkiye's age dependency ratio is low at 47 and not projected to rise significantly indicating long-term costs related to aging and health will have a moderate impact on debt over the longer-term.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Not required for surveillance countries
Debt stabilization in the baseline			No
DSA Summary Assessment			
Türkiye is low risk of overall risk of sovereign stress. Debt levels increase slowly as the authorities are committed to maintaining Maastricht deficit targets, growth is expected to remain strong and real interest rates are expected to be slightly positive in line with stable long-term inflation trends. Risks to the baseline could stem from contingent liabilities related to PPPs, SOEs, and commodity price shocks. Long-term risks are moderate reflecting small negative primary balances, while demographics remain favorable			
Source: Fund staff.			
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.			
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.			
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.			

Annex VII. Figure 1. Türkiye: Debt Coverage and Disclosures

										Comments		
1. Debt coverage in the DSA: 1/		CG	GG	NFPS	CPS	Other						
1a. If central government, are non-central government entities insignificant?							n.a.					
2. Subsectors included in the chosen coverage in (1) above:												
Subsectors captured in the baseline										Inclusion		
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes	No states.
				2	Extra budgetary funds (EBFs)						Yes	
				3	Social security funds (SSFs)						Yes	
				4	State governments						No	
				5	Local governments						Yes	
				6	Public nonfinancial corporations						No	
				7	Central bank						No	
				8	Other public financial corporations						No	
3. Instrument coverage:		Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/						
4. Accounting principles:		Basis of recording		Valuation of debt stock								
		Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/						
5. Debt consolidation across sectors:		Consolidated			Non-consolidated							
Color code:		■ chosen coverage		■ Missing from recommended coverage		■ Not applicable						
Reporting on Intra-Government Debt Holdings												
		Holder		Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSEs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
Issuer												
CPS	NFPS	GG: expected	CG	1	Budget. central govt							0
				2	Extra-budget. funds							0
				3	Social security funds							0
				4	State govt.							0
				5	Local govt.							0
				6	Nonfin pub. corp.							0
				7	Central bank							0
				8	Oth. pub. fin. corp							0
Total				0	0	0	0	0	0	0	0	0
<p>1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.</p> <p>2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.</p> <p>3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.</p> <p>4/ Includes accrual recording, commitment basis, due for payment, etc.</p> <p>5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).</p> <p>6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.</p> <p>7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.</p> <p>Commentary: While general government has good coverage, timely more detailed reporting of the rest of the public sector including non-financial corporations makes wider reporting more difficult. Coverage is consistent with Staff Report tables, and the authorities own reporting.</p>												

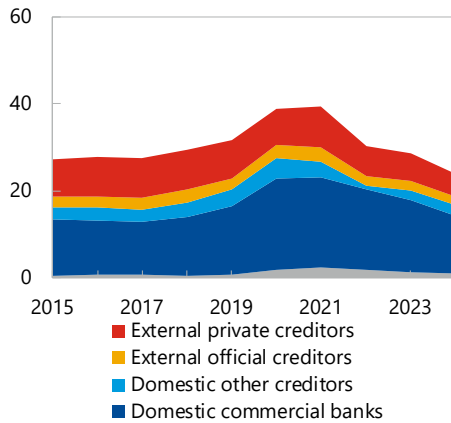
Annex VII. Figure 2. Türkiye: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



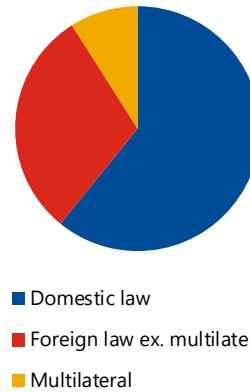
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



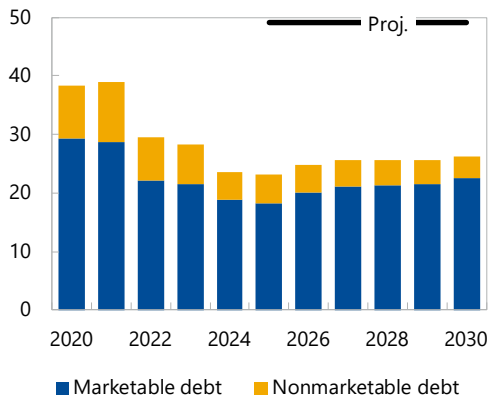
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (Percent)



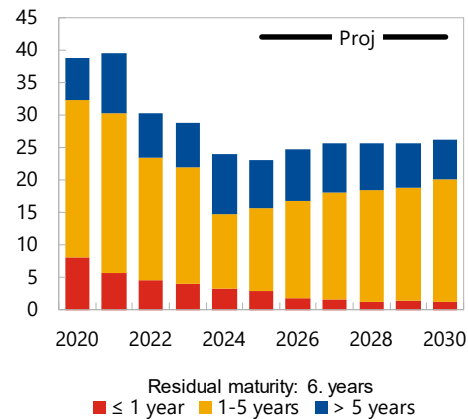
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



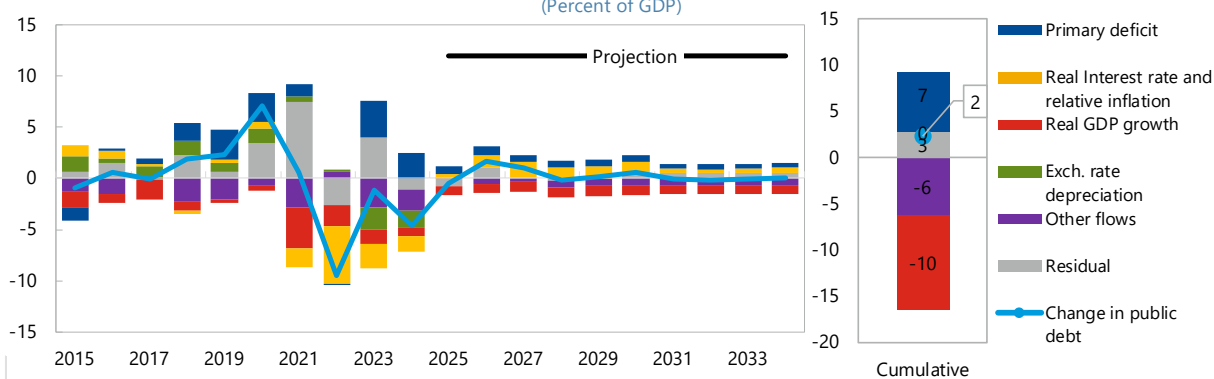
Note: The perimeter shown is general government.

Commentary: 56 percent of debt is domestic, which includes around 12 percent of FX debt. The authorities plan to issue more Lira debt going forward. Short-term borrowing had reduced in 2024, while borrowing between 1-5 years is expected to slightly increase.

Annex VII. Figure 3. Türkiye: Baseline Scenario
(Percent of GDP, unless indicated otherwise)

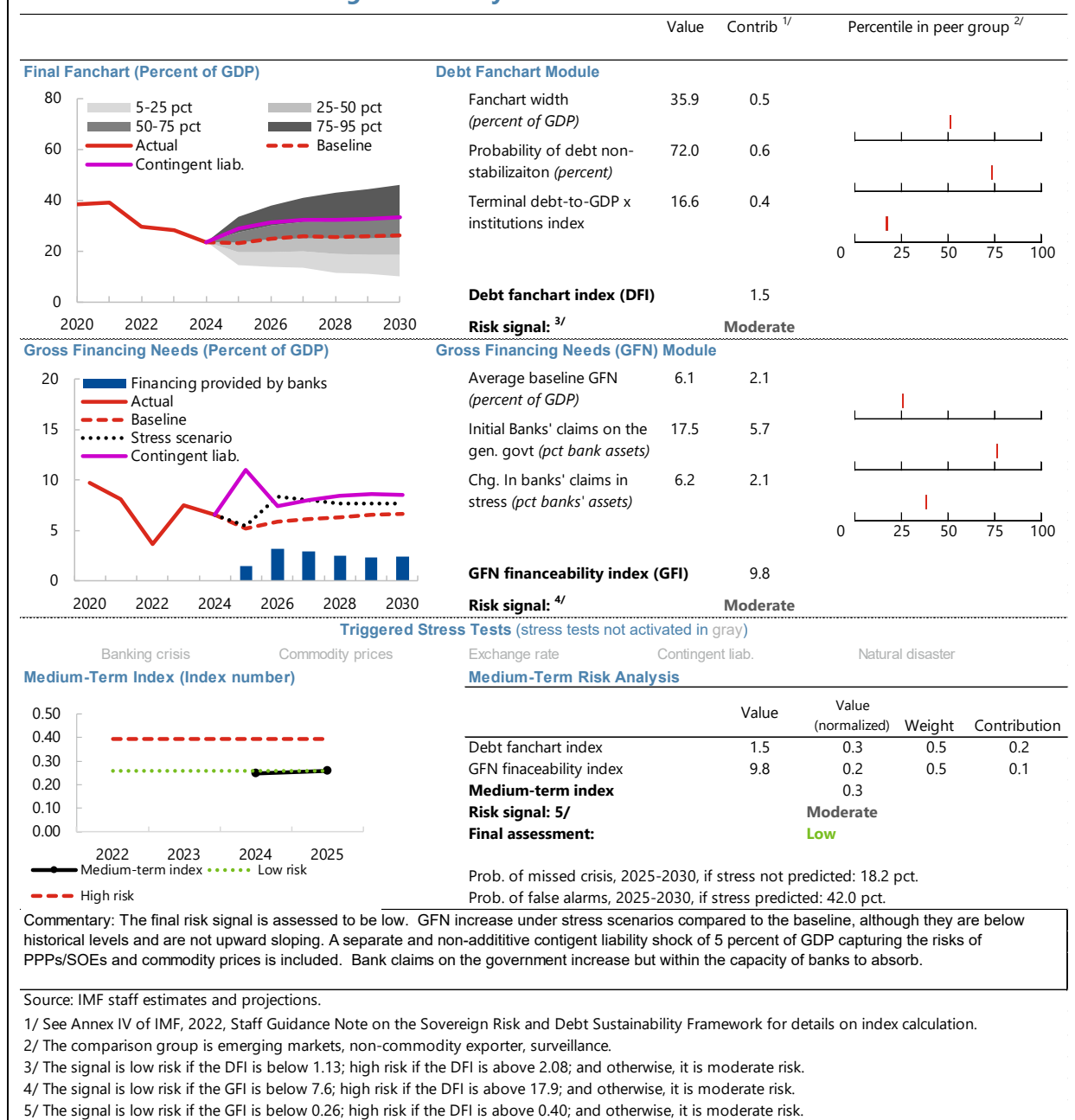
	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	23.6	23.1	24.7	25.7	25.5	25.6	26.2	26.1	25.9	25.8	25.8
Change in public debt	-4.6	-0.5	1.6	1.0	-0.1	0.1	0.6	-0.1	-0.2	-0.1	0.0
Contribution of identified flows	-3.6	0.2	0.6	0.9	0.1	0.1	0.0	-0.6	-0.7	-0.6	-0.5
Primary deficit	2.5	0.7	0.9	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Noninterest revenues	27.4	28.3	28.7	28.5	28.4	28.4	28.4	28.4	28.4	28.4	28.4
Noninterest expenditures	29.9	29.0	29.5	29.1	29.0	29.0	29.0	28.9	28.9	28.9	28.9
Automatic debt dynamics	-4.0	-0.5	0.3	0.6	0.1	0.2	0.1	-0.4	-0.5	-0.4	-0.3
Real interest rate and relative inflation	-1.5	0.4	1.2	1.5	1.1	1.2	1.1	0.5	0.4	0.4	0.5
Real interest rate	-7.2	-2.3	-0.5	-0.1	-0.3	0.0	0.0	-0.6	-0.6	-0.6	-0.5
Relative inflation	5.7	2.7	1.7	1.6	1.4	1.1	1.0	1.0	1.0	1.0	1.1
Real growth rate	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9
Real exchange rate	-1.6	...	...	...	...	...	...	...	...	...	...
Other identified flows	-2.1	0.0	-0.5	-0.3	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Other transactions	-1.1	1.0	0.4	0.6	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Contribution of residual	-1.0	-0.8	1.0	0.1	-0.2	0.0	0.6	0.5	0.5	0.5	0.5
Gross financing needs	6.6	5.2	5.9	6.1	6.3	6.6	6.6	6.0	5.9	5.2	5.2
of which: debt service	5.1	5.5	5.9	6.3	6.5	6.7	6.8	6.3	6.1	5.5	5.5
Local currency	2.8	3.5	3.9	4.5	4.7	5.1	5.3	4.9	4.7	4.1	4.1
Foreign currency	2.3	2.0	2.1	1.8	1.8	1.6	1.5	1.4	1.4	1.4	1.4
Memo:											
Real GDP growth (percent)	3.3	4.1	4.2	4.1	4.0	4.0	4.0	3.5	3.5	3.5	3.5
Inflation (GDP deflator; percent)	59.3	34.0	22.2	19.5	17.7	14.7	13.7	13.1	13.1	13.1	13.1
Nominal GDP growth (percent)	64.6	39.5	27.4	24.4	22.4	19.3	18.3	17.1	17.1	17.1	17.1
Effective interest rate (percent)	17.3	20.5	19.5	19.2	16.4	14.9	13.9	10.6	10.3	10.3	10.7

Contribution to Change in Public Debt
(Percent of GDP)

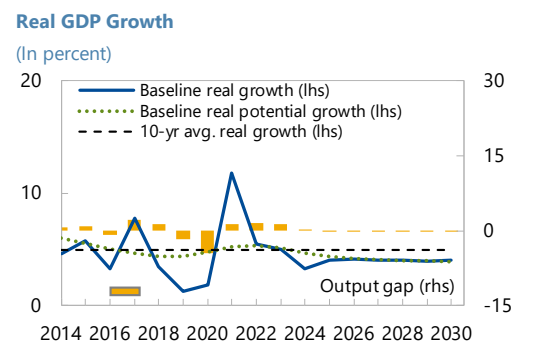
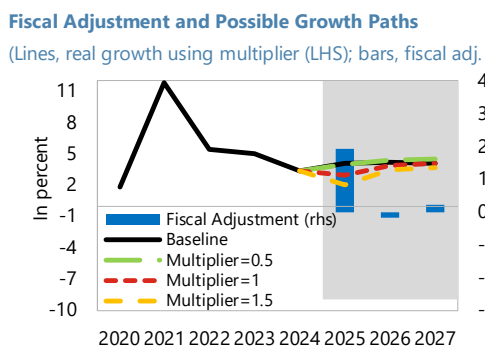
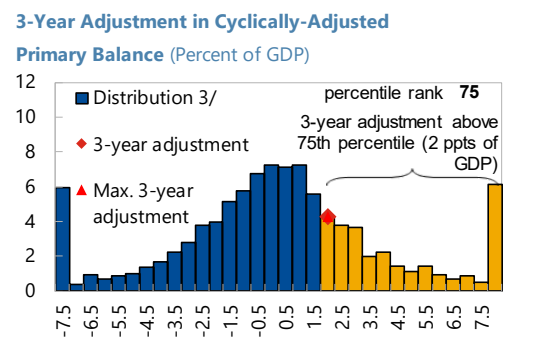
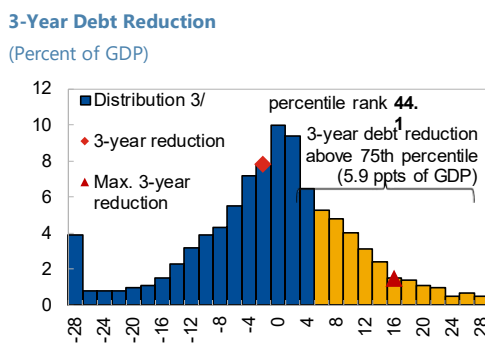
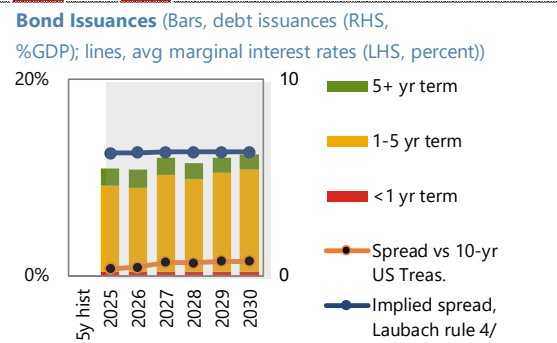
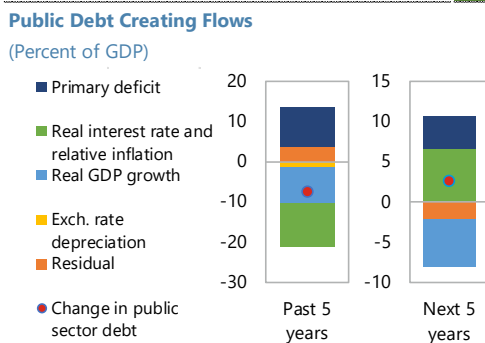
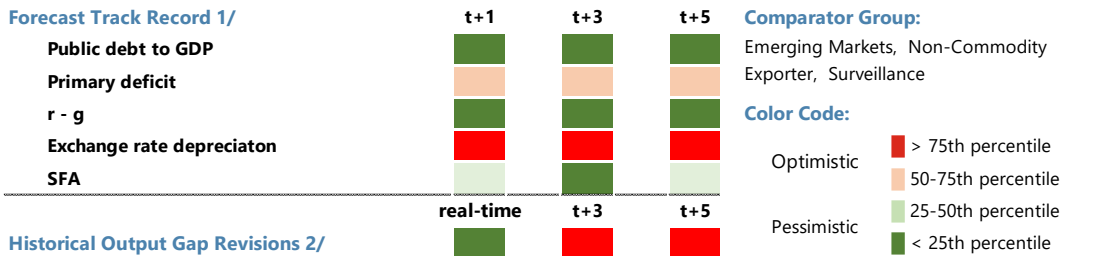


Commentary: Debt is expected to increase as real interest rates return to positive. The primary balance is expected to improve as the authorities are committed to meeting Maastricht deficit criteria. Other transactions between 2024-2028 represents the cash payment of accrued earthquake spending and the build up of currency and deposits consistent with long-run trends. Interest revenues increase with historical trends.

Annex VII. Figure 4. Türkiye: Medium-Term Risk Assessment



Annex VII. Figure 5. Türkiye: Realism of Baseline Assumptions



Commentary: The realism tool suggests consistent upward revisions to the exchange rate depreciation, and to the output gap (3-5 years ahead). Past public debt changes were influenced by negative real interest rates, while this is not anticipated going forward as the authorities have unwound financial repression policies. The three-year debt reduction is within the normal range, while the reduction in the primary balance approaches the higher end of experienced outcomes. While the REER overvaluation is not unwound, it does not exceed 5 percent.

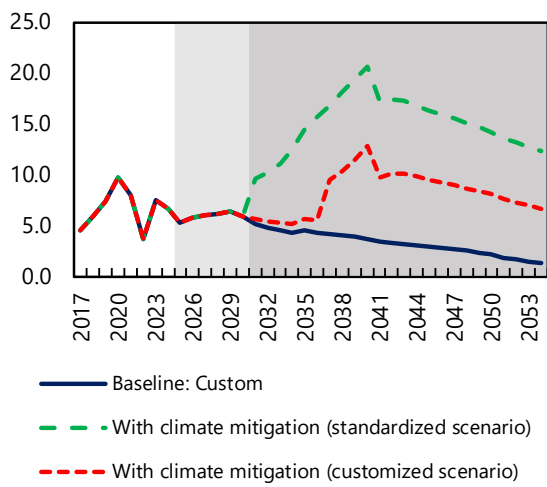
1/ Projections made in the October and April WEO vintage.
 2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.
 3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
 4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex VII. Figure 6. Türkiye: Triggered Modules

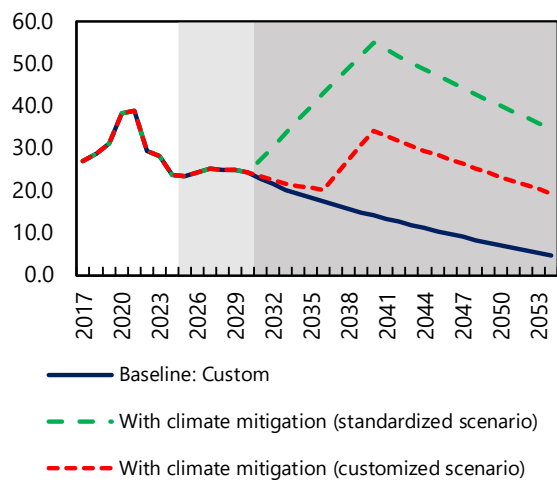


Annex VII. Figure 7. Türkiye: Climate Change: Mitigation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Türkiye is among the largest 25 global emitters of carbon dioxide. Estimates suggest that mitigation needs to meet net zero commitments are around 4.5 percent of GDP annually for 10 years. This would significantly add to the debt burden and gross financing needs.

Annex VIII. Inflation Drivers and Monetary Policy

This Annex summarizes recent evidence from Türkiye and cross-country experience to discuss the effectiveness of monetary policy tools, and place the current Turkish model in the context of past successful disinflationary frameworks.

A. Background

1. Changing monetary frameworks make it challenging to estimate the drivers of inflation and channels of disinflation over the past decades. Two episodes of significant disinflation featured money-based stabilization in the early 2000s and broadly conventional tightening under inflation targeting (IT) in 2018. During that time, there were significant changes in the monetary regime. In 2006, Türkiye formally adopted IT; between 2021 and 2023, monetary policy under the Turkish Economic Model (TEM) heavily relied on distortionary quantitative restrictions; and since May 2023, monetary policy has been gradually tightened.

2. Türkiye’s disinflationary strategy appears unprecedented. The current monetary framework and strategy stand out compared to Türkiye’s past disinflationary episodes as well as those of other countries. While the CBRT’s inflation targets are intended to act as the main nominal anchor, with the policy rate as the leading monetary instrument, additional targets and instruments pose challenges to measure, assess, and communicate the monetary stance. This in turn creates challenges to provide predictability and reanchor inflation expectations.

B. The Effect of Alternative Monetary Instruments on Inflation

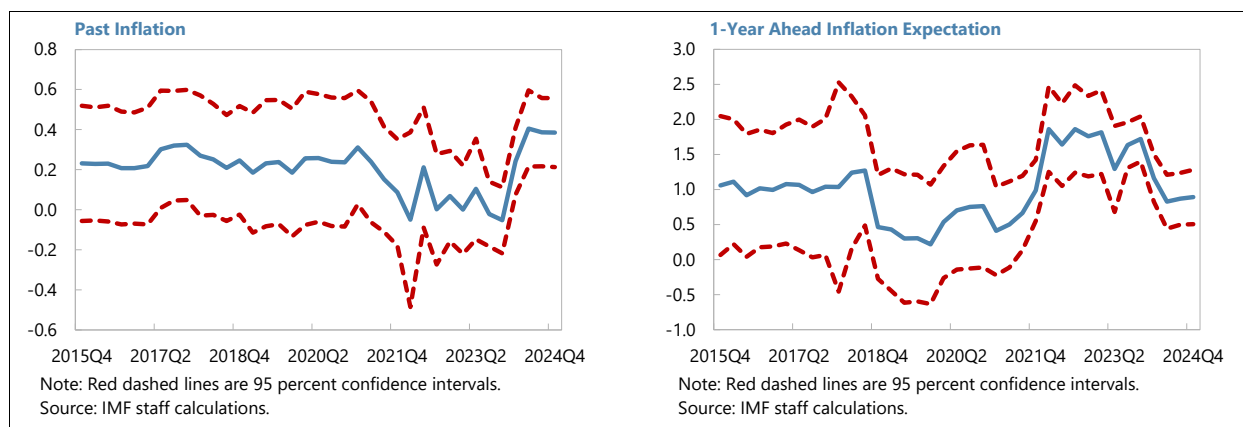
3. An extensive literature on Turkish inflation and monetary policy finds a strong role for the exchange rate, operating largely through goods inflation, and expectations. [Öğünç and others \(2018\)](#) relied on a Bayesian VAR to also show that exchange rate shocks are a crucial driver of inflation. [Kilinc \(2014\)](#), using a structural VAR found that positive interest rate shocks appreciate the domestic currency and reduce inflation and domestic activity. Also using a VAR, [Özmen and Topaloğlu \(2017\)](#) found significant heterogeneity in pass-through coefficients across CPI subcomponents, with exchange rate pass-through from the exchange rate significantly stronger for goods than services. The CBRT’s own August 2025 Inflation Report finds that: i) monetary policy has statistically significant impacts only on a subset—mainly core goods, and notably not services—of CPI components and ii) for the subset of items that are classified as sensitive to monetary policy, policy lags are short (around 2 months). Other recent CBRT papers like [Caraiani et. al. \(2025\)](#), and [Akarsu and others \(2025\)](#) focus on how financial conditions, uncertainty, and monetary policy shape inflation expectations and firms’ behavior, and find that inflation expectations are a key determinant in firms’ borrowing, pricing, and export decisions, underscoring the importance of persistence in inflation. Finally, [Öğünç and others \(2013\)](#) analyze many models to forecast inflation in Türkiye, including a suite of VARs, and find a Phillips curve-motivated time varying parameter model produces among the best results across the sample. The analysis below uses similar specifications.

4. This analysis uses two complementary approaches to quantify inflation drivers.

A reduced-form Phillips curve estimation under a rolling window is used to identify the changing relationship between inflation and its various drivers. A structural VAR approach is used to quantify the causal impact of main policy tools.

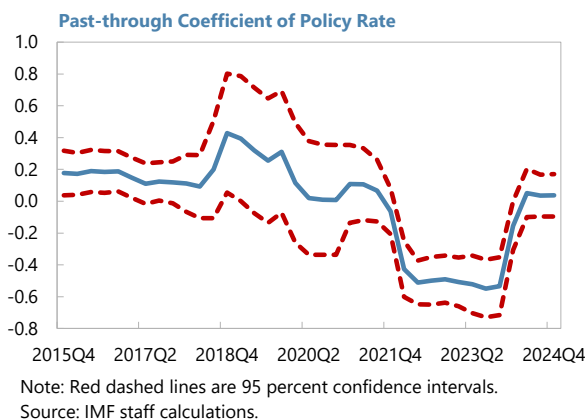
5. Reduced-form Phillips curve (PC) estimations identify past inflation, inflation expectations, and the nominal exchange rate as the main inflation drivers.

The average coefficients on past inflation and inflation expectations hover around 0.2 and 1 respectively. In terms of monetary instruments, the nominal exchange rate seems to have recently become a stronger inflation driver. The direct impact of the output gap and oil prices on inflation is not significant.



6. An augmented Phillips Curve adding wages, and the monetary policy rate suggest at best a modest direct impact on inflation from the policy rate.

The impact of the policy rate on inflation is—for most of the sample period considered—not significantly different from zero. During 2020–22 (when the overall policy stance was expansionary) there was a negative and significant relationship between the policy rate and inflation. However, the interest rate coefficient is not significantly different from zero once more recent quarters are included in the sample.



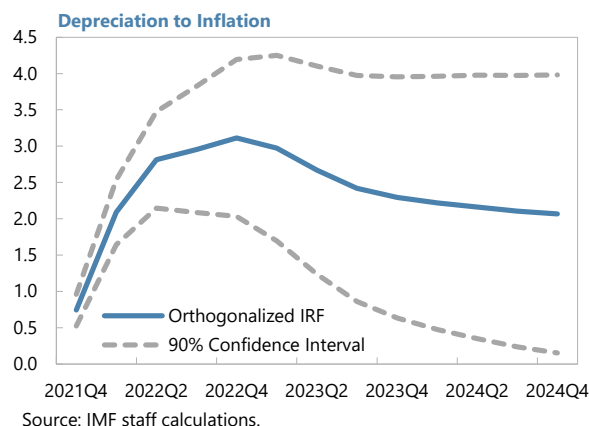
7. Recursive VAR estimations yield four main results.¹

¹ Since 2018, Türkiye was hit by multiple successive shocks—a currency crisis in 2018, COVID in 2020, expansionary and unconventional policies between 2021 and 2023. Breaking the sample pre and post 2018, VAR results are broadly unchanged. Variables used are oil price inflation in lira, the minimum wage, nominal depreciation rate, credit growth, headline inflation, policy rate, and inflation expectations. This identification scheme, similar to [Öğünç and other, \(2018\)](#), assumes that macroeconomic variables are observed by the Central Bank before it sets its policy rate. The model is estimated on quarterly data starting in 2006:Q1 until 2024:Q4. Impulse responses are cumulative.

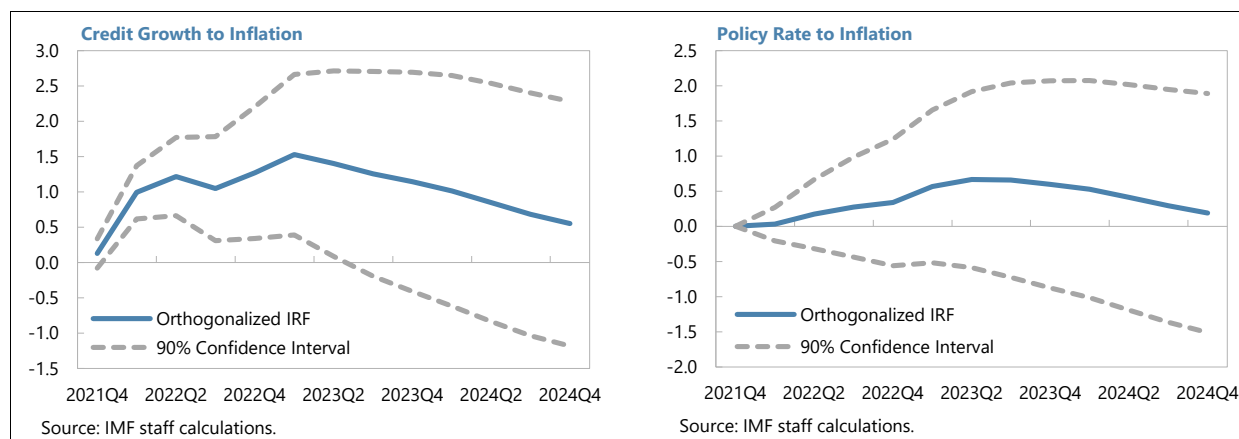
- **Result 1: Depreciation raises inflation and inflation expectations.** The impact is about 3 times larger on inflation than on inflation expectations. The model also suggests a positive correlation between depreciation and an increase in the policy rate. An important caveat is that during most of the sample (pre-pandemic), inflation was significantly lower, inflation expectations better anchored, and inflation inertia smaller than current levels.

- **Result 2: Faster credit growth pushes up inflation.** The impact of a credit growth shock on inflation is broadly comparable to the impact of a depreciation and is around a third of the initial shock.

- **Result 3: The direct impact of policy rate changes on inflation is small.** Overall, the effect of the policy rate on inflation is not statistically significantly different from zero. A small impact on inflation expectations seems to be short-lived and after several quarters not significantly different from zero. The model also suggests there is no impact of changes in the policy rate on credit growth. These results appear broadly consistent with the evidence between May 2023 and December 2024, which suggests that the impact of the policy rate hike on credit growth and sequential inflation has been modest.



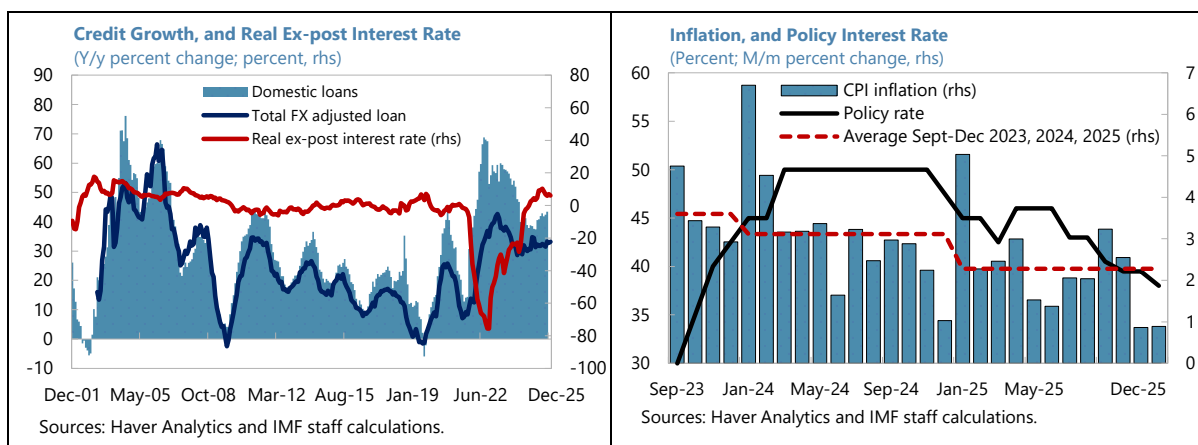
- **Result 4: Bringing down inflation expectations brings down inflation.** The model suggests that the impact on inflation is larger than the size of the shock to inflation expectations itself. Despite the fact that (as suggested by the model) higher inflation expectations tend to be associated with an increase in the policy rate, this has not always been the case in recent years.



C. Monetary Tightening Outcomes and Challenges Ahead

8. Despite the commendable monetary tightening since May 2023, neither credit growth nor the real ex-post policy rate are currently at levels observed during past successful

tightening episodes in Türkiye. The CBRT introduced (and subsequently lowered) credit growth ceilings as part of its monetary tightening efforts, but credit has continued to grow (as opposed to contractions observed during past disinflations). In addition, past disinflations in Türkiye featured sustained and high real ex-post policy rates. The needed correction that started in May 2023 was gradual and ex-post real rates only turned positive by end-2024. Consequently, sequential inflation has remained above the levels observed during past disinflations and what is needed to reach the CBRT’s targets.



9. Cross-country experiences suggest that in some cases certain monetary instruments can complement a nominal anchor, though only temporarily. Generally, successful disinflation programs have, over time, reduced reliance on the exchange rate as an anchor and on multiple anchors, especially as restrictions are removed and multiple targets start to come into conflict. In Türkiye’s case, the recent tightening cycle started amid very challenging initial conditions. In 2023, the CBRT’s credibility was perceived as damaged, raising uncertainty about monetary policy effectiveness and expectations were deanchored. Further, weak transmission from the policy rate limited its effectiveness to curb credit growth and re-anchor inflation expectations. Given the importance of the nominal exchange rate for expectations formation, export surrender requirements and dedollarization targets were thus useful to help contain FX demand. Impaired interest rate transmission also motivated the use of credit growth ceilings. Looking ahead, lifting credit and FX-related quantitative measures would improve transmission and restore the policy rate’s leading role in the CBRT’s toolkit.

10. Past successful disinflations have been predicated on a well-defined exchange rate regime. Inflation stabilization experiences between the 70s and 90s in Latin America and Israel have typically relied on a well-defined exchange rate regime. The Israeli program in 1985 is a successful example of an exchange rate-based stabilization, while the Peruvian program in 1990 is an example of a money-based stabilization. More recently, the Turkish program in 2001–02 is another successful example of money-based stabilization. Simple frameworks are easier to assess and communicate, facilitating the reanchoring of expectations. Successful disinflation programs have thus included a transparent and well-defined exchange rate regime (whether predetermined or floating) alongside a single main monetary policy instrument with a strong impact: typically the nominal exchange rate

(with a strong link to prices) or money aggregates (with a strong link to activity), as opposed to policy rates, where such effects could be more complex.^{2,3}

11. These anchors also provide policy predictability and a clear policy stance during the stabilization process. They thus act as a coordination mechanism for all nominal variables in credibly re-anchoring inflation expectations that feed the price/wage formation processes of households and corporates as well as contracts indexation. Programs, including in Türkiye in 2002, have relied on such anchors to reduce inflation to single digits. Countries have then adopted IT only after pre-conditions were met.⁴

12. A disinflation strategy mixing different approaches could be less effective to re-anchor expectations and slower compared to a more conventional approach. Türkiye's current framework combines an IT regime relying on a policy rate and forward guidance with credit growth ceilings and other financial measures that aim to affect money supply growth. In addition, FX interventions and export surrender requirements have been used to affect inflation and exchange rate expectations. This makes the overall policy stance more difficult to gauge and communicate. A communication strategy that better reflects the complexities of the current framework could help improve the CBRT's forward guidance and its impact on inflation expectations. Here, too, measures to protect central bank independence would help generate a faster and thus more sustainable disinflation.

² See for example [Calvo and Vegh 1994](#)

³ This characterization abstracts from detailed monetary operations and associated instruments which are outside of the scope of this annex. For specific details on monetary operations one useful reference is: <https://www.elibrary.imf.org/downloadpdf/book/9781557754899/ch002.pdf>

⁴ See for example [Comments on Macri's Macro by Federico Sturzenegger by Rafael Di Tella : SSRN](#).

Annex IX. Table 1. Türkiye: Main Recommendations

Recommendations	Agency	Time *	Implementation Status
Systemic Risk and Macroprudential Policies			
Rationalize heterodox and idiosyncratic policy measures while realigning financial incentives to reduce distortions; activate countercyclical capital buffer.	CBRT, BRSA	ST	<p>The CBRT has set the monetary policy rate in a way to initiate a strong monetary tightening process in order to establish disinflation as soon as possible, anchor inflation expectations, and contain the deterioration in pricing behavior. The CBRT continues to use interest rates as its main policy tool within a tight monetary policy framework. This stance is supported by macroprudential measures to strengthen the monetary transmission mechanism, enhance market functioning, and maintain macro-financial stability.</p> <p>For instance, policies targeting credit growth are designed to ensure that both the pace and composition of credit expansion support the disinflation process and macroeconomic balances. Furthermore, policies supporting transition to the Turkish lira have contributed to the de-dollarization process, thereby reinforcing the monetary transmission mechanism. Moreover, the effects of monetary tightening and simplification steps within the macroprudential framework have led to a strong upward trend in the Central Bank's international reserves. The Central Bank's current level of reserves eliminates liquidity risks of foreign exchange market.</p> <p>On the other hand, as the effects of the existing macroprudential framework on inflation, interest rates, exchange rates, reserves, expectations, and financial conditions are evaluated, a gradual simplification of macroprudential policies has been underway. Measures such as additional reserve requirements based on leverage ratios and the securities maintenance requirements linked to credit growth have been removed. With the termination of the securities maintenance requirement, the share of banks in domestic public debt stock dropped considerably.</p> <p>As of February 2024, the CBRT started remunerating Turkish lira required reserves according to targets for transition from KKM accounts to TL deposits and KKM renewals. The CBRT terminated the opening and renewal of KKM accounts, effective August 23, 2025. Thus, the targets for KKM accounts' transition to TL deposits and KKM renewals has been abolished, accordingly the remuneration practice continues without any condition.</p> <p>The BRSA has been using forbearance measures and macro prudential tools effectively for the same purpose. However, there have been plans on establishing a working group within</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
Systemic Risk and Macroprudential Policies			
			the Agency to determine countercyclical capital buffer. The BRSA decides to phase out as of January 1, 2026 the forbearance measures in capital adequacy calculation (FX rate fixation for credit RWA and mark-to-market losses for fair value through other comprehensive income (FVOCI) securities exclusion from capital).
<p>Refocus the systemic risk monitoring framework to ensure clarity of financial stability as the primary objective of the Financial Stability Committee (FSC).</p>	FSC	ST	<p>The Systemic Risk Monitoring Group (SRMG), operating under the Financial Stability Committee and chaired by the CBRT, has been reactivated. A Technical Sub-Working Group was established to develop a systemic risk index and a heat map for the Turkish economy.</p> <p>Responsibilities were allocated among member institutions according to systemic risk blocks: the CBRT for the corporate sector block, the Ministry of Treasury and Finance for the real economy block, the CBRT together with the Capital Markets Board for the financial markets block, the Savings Deposit Insurance Fund for the public sector block, the Banking Regulation and Supervision Agency for the banking sector block, and the Presidency of Strategy and Budget for the household block.</p> <p>Through four successive meetings in 2024, risk blocks and sub-indicators were identified, refined, and consolidated. Following consensus among the member institutions, the CBRT aggregated the results into a composite systemic risk index and developed a heat map for the Turkish economy.</p> <p>The systemic risk index and heat map, finalized by the Technical Sub-Working Group, have been presented to the SRMG, and are being updated on a periodic basis under the coordination of the CBRT.</p>
<p>Strengthen FX systemic liquidity analysis incorporating systemic FX availability, contingency planning, and consider interlinkages when discussing macroprudential policy options.</p>	FSC (SRMG)	ST	<p>Crisis Management and Resolution Working Group (CMRG), which is chaired by BRSA has started to operate. Contingency planning is especially under the mandate of this WG. Two sub-working groups for “crisis management” and “resolution” has been operationalized under the FSC’s Crisis Management and Resolution Working Group. The sub-working group on “Crisis Management” is currently developing and reviewing crisis scenarios with the participation of the relevant institutions. At the end of the process, action plans addressing these scenarios will also be approved through the protocol to be signed.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			All the work related to FX liquidity analysis and interlinkages between systemic liquidity and contingency planning when discussing macroprudential policy options is being carried out with the cooperation between SRMG and CMRG.
Banking and Insurance Supervision and Regulation			
Amend the Banking Law to confirm financial stability as the primary objective of the BRSA and enshrine policy independence, operational autonomy and adequacy of resources to provide a stable cadre of experienced staff and modern tools.	MOTF, BRSA	MT	The aim of Banking Law (BL) (Article 1) includes to regulate the principles and procedures of ensuring confidence and stability in financial markets. Additionally, according to the Article 93 of the BL, BRSA has legislative tools for the establishment of confidence and stability in financial markets, the sound operation of the credit system, the development of the financial sector and the protection of the rights and interests of depositors.
Restore and/or enhance, as applicable, the standards for intrusive, effective supervision for all banks, notably for liquidity, FX, sovereign and concentration risk, credit risk, including problem assets and provisions, and interest rate risk in the banking book. Revisions must include aligning regulations with international minimum standards, or higher.	BRSA	ST	The BRSA is committed to adopt a regulatory and supervisory framework that is in line with the Basel framework. Also, the BRSA follows the EU regulations to enhance risk sensitivity and reinforce the Turkish banking sector's resilience and sustainability in line with global best practices. "Regulation on Calculation of The Net Stable Funding Ratio of Banks" which is aligned with Basel III: the net stable funding ratio standard published by Basel Committee on Banking and Supervision (BCBS) was published in the Official Gazette dated May 26, 2023 and numbered 28948 to enter into force as of 1 January 2024. "Regulation on Determination of Group of Connected Clients and Loan Limits" which is aligned with the Supervisory framework for measuring and controlling large exposures published by BCBS was published in the Official Gazette dated December 21, 2023 and numbered 32406 to enter into force as of 1 January 2024. As of April 2025, the implementation of the Basel Committee's large exposures framework and net stable funding ratio standard including its disclosure requirement in Türkiye have been assessed as compliant in RCAP (Regulatory Consistency Assessment Programme).

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			<p>In addition, BCBS has published the “Basel III: Finalizing Post Crisis Reforms” in December BCBS 2017. In this context, working groups were established within the BRSA in order to make the necessary legislative amendments to ensure full compliance of the capital adequacy framework of the Turkish banking sector with international banking standards/Basel III: Finalizing Post Crisis Reforms. In this context, draft regulations on calculation of credit risk with standardized approach and internal ratings-based approaches, calculation of market risk with simplified standardized approach, calculation of operational risk and output floor, prepared in alignment with the standards published by the BCBS, is at stage of public consultation to receive comments. Other working groups’ studies are in progress. The legislative amendments resulting from these studies are planned to be fully implemented in the first half of 2026.</p> <p>In addition, in order to align with the interest rate risk in the banking book standard published by the BCBS, “Regulation on Measurement and Evaluation of Interest Rate Risk in the Banking Book with Standardised Approach” was published in the Official Gazette dated May 12, 2025 and numbered 32898 to enter into force as of October 1, 2025 and “Guideline on Management of Interest Rate Risk in the Banking Book” will also enter into force as of October 1, 2025.</p> <p>Moreover, with aim of reinforcing climate-related financial risk framework, “Communiqué on the Calculation of Green Asset Ratio of Banks”, a taxonomy-based metric to objectively assess banks’ contributions to the green transition, was published in the Official Gazette dated April 11, 2025 and numbered 32867. The Communiqué was prepared in line with the EU’s Green Taxonomy Regulation. Complementing this initiative, the “Guideline on the Effective Management of Climate-Related Financial Risks” entered into force as of July 1, 2025, prepared in alignment with the BCBS’s guideline on “Principles for the effective management and supervision of climate-related financial risks”.</p> <p>On the other hand, the BRSA reviews its supervisory approach regularly and revise it in order to further increase its compliance level with the international standards. Please see below for details of latest revision made shortly after the completion of FSAP mission.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
Intensify supervisory engagement and monitoring using meaningful reporting practices, accompanied by robust, timely intervention and follow up with banks.	BRSA	ST	<p>As noted at the time at the time of the 2024 Article IV consultation and the last FSAP, the BRSA continuously assesses the viability and the risk profiles of banks through on-site and off-site supervision. Through these supervisory assessments, the BRSA determines whether there is a need to take prompt corrective action stated in Banking Law articles 67–71. Based on this determination, the BRSA may intensify supervision work conducted in the bank, by increasing the scope and the frequency of on-site supervision.</p> <p>From the off-site /Monitoring perspective, there has been no major variance since the last FSAP discussions. Off-site findings and outputs are intensively shared with the relevant departments in the supervisory process. Within the given circumstances of the Agency and the banking system, current monitoring and reporting practices are regarded as sufficient at the current extend. However, improvement of the intensity, coordination and the effectiveness of these practices with the supervisory process is an ongoing process.</p>
Enhance the risk-based, forward-looking perspective of the CAMELS process, integrating Pillar 2 assessments (ICAAP and SRP), off-site work, stress-testing and ICT/Cyber dimensions.	BRSA	MT	<p>BRSA has started to take actions right after FSAP 2022 was finalized towards increasing its compliance with the Basel Core principles for effective banking supervision and has taken FSAP recommendations into account in its revision of supervisory framework. Within the context of its revision efforts, the BRSA has;</p> <ul style="list-style-type: none"> • renounced CAMELS approach and adopted SREP as supervisory framework, • embedded key risk indicators in detail into supervisory manuals to enable consistent risk assessment, • developed quantitative assessment method for material risks instead of previous qualitative perspective, <p>simplified the way risk assessments factored into overall rating of bank. From the off-site/Monitoring perspective, there has been no major variance since the last FSAP discussions. Off-site findings and outputs are intensively shared with the relevant departments in the supervisory process. Bank and sector-level off-site activities and stress testing studies continue to be conducted at optimum intensity with available resources. On the other hand, there has been a technical assistance program running with the World Bank on climate risk assessment and stress testing including relevant catastrophic risks.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			The first phase of the project had been completed with the banking sector climate risk exposure assessment study. The stress testing team is participating in these studies to increase technical capacity in this area.
Set financial stability as the legal objective of insurance supervision, ensure transparency of the nomination, appointment and dismissal processes of IPRSA's board members; and introduce a formal Own Risk and Solvency Assessment process.	Presidency, IPRSA	MT	<p>One of the primary objectives of the Insurance Law No. 5684 is to ensure that the insurance industry operates effectively in a safe and stable environment. For this end the law attaches great importance to the financial capacity of the insurance companies. At the moment the Insurance Law No. 5684 is being revised in order to set financial stability as the legal objective of insurance supervision. In this context, all stages of the activities of insurance companies are being redrafted including their establishment, business processes and market exit procedures. For instance, if the financial structure of an insurance company weakens to the extent that it jeopardizes the rights and interests of the insured, that company will face more serious sanctions and an early warning system will be introduced with the new law.</p> <p>On the other hand, according to the Presidential Decree No. 47, the chairman and the board members of IPRSA are appointed by the President. Nomination, appointment and dismissal processes of IPRSA's board members are regulated by the Presidential Decree No. 3 on Appointment Procedures for Upper Level Public Administrators and Public Institutions and Organizations.</p>
Systemic Liquidity			
Strengthen the CBRT's operational autonomy, focus interest rate policy on inflation. Implement the interest rate corridor through monetary operations on the interbank money market solely.	CBRT	ST	<p>Within the liquidity management framework, the CBRT aims to effectively implement monetary policy and ensure the smooth functioning of payment systems. The CBRT closely monitors developments in liquidity conditions and reviews the adequacy of the toolkit used to effectively manage liquidity and ensure the healthy functioning of the transmission mechanism.</p> <p>In this regard, the level and distribution of TL liquidity within the system are also considered. A diversified set of liquidity tools strengthens the transmission of the monetary policy stance.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
Limit FX interventions to the most extreme cases of exchange rate volatility. Define a volatility- based FX rule. Build FX reserves over time.	CBRT	MT	The CBRT has no nominal or real exchange rate target and does not conduct transactions to determine the level or direction of the exchange rates. Reserve accumulation is one of the main priorities of the CBRT as long as market conditions allow.
Finalize review of the ELA framework.	CBRT	ST	The CBRT is currently reviewing the Emergency Liquidity Assistance (ELA) framework.
Cyber Resilience			
Ensure FSC discusses ICT/cyber risks regularly and facilitates coordination among member agencies. Integrate ICT/cyber risk supervision within overall supervisory process.	MOTF, BRSA, CBRT, CMB	ST	<p>ICT and cyber risks are closely monitored by financial regulatory and supervisory authorities. Additionally, FSC is monitoring developments on ICT/cyber risks closely to ensure smooth coordination.</p> <p>The Crisis Management sub-working group (under the FSC's Crisis Management and Resolution Working group) added cyber risk scenario as a new and separate crisis scenario in order to improve cooperation within the related Agencies and resilience against cyber risks. The protocol which covers all crises management scenarios has not been finalized yet.</p> <p>With respect to capital markets, under current regulations capital market institutions are required to have penetration tests and information systems independent audits in order to control their information system infrastructures. In consequence of review of the reports generated as a result of these audits, feedback is provided to the relevant institutions, thus improving the information systems infrastructures. Penetration test results and information systems independent audit reports shall be sent to the CMB within one month after they are completed. CMB analyzes these reports to supervise ICT infrastructures of institutions.</p> <p>Taking into account recent technological developments and the inclusion of crypto asset service providers within the scope of the Capital Markets Law, the existing communique on management of information systems has been replaced with a new one named "Procedures and Principles Regarding Information Systems Management". With respect to this, communique on the independent audit of the information systems has also updated.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			<p>To overcome the specific risks related to the nature of crypto assets, CMB has worked with The Scientific and Technological Research Council of Türkiye (TÜBİTAK) and advanced technological requirements has prepared by TÜBİTAK with respect to the crypto asset service providers and published as of 30/04/2025.</p> <p>Furthermore, in order to take the necessary measures against cyber threats at the national level, several issues are planned to be carried out within the scope of the National Cyber Security Strategy and Action Plan prepared by the Ministry of Transport and Infrastructure. The actions that CMB is responsible for are as follows:</p> <ul style="list-style-type: none"> • Sectoral regulations will be made regarding the minimum cyber security criteria that institutions, organizations and businesses operating in critical infrastructure sectors will comply with. (As described above CMB has already a regulation related to the management of ICT in capital market institutions. Annual penetration tests and independent audits are being carried according to this regulation.) • Sectoral cyber risk assessments will be carried out in critical infrastructure sectors. (Capital market institutions are already making ICT risk assessments to comply with the CMB's regulation. <p>Furthermore, in order to comply with this action, a draft risk assessment questionnaire was prepared and sent to the critical infrastructure operators to get feedback. When this draft questionnaire is finalized, it will be sent to all relevant capital market institutions and sectoral risk assessments could be determined more precisely cause all institutions' risk assessments will be made on the same grounds.)</p> <ul style="list-style-type: none"> • Periodic cyber security exercises will be carried out. • Periodic cyber security awareness trainings will be carried out. (This is already being carried out periodically in capital markets.) <p>CMB made Turkish Capital Markets Association to organize sector wide information/cyber security trainings at least once a year. Such trainings are organized also within The Capital Markets Board in a yearly fashion.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			<p>Human resources related to cyber security will be improved. This can be achieved with both trainings and by participating in independent audits as an observer.</p> <p>Finally, critical infrastructures in capital markets are obliged to comply with the ICT guidance published by the Digital Transformation Office of the Presidency of the Republic of Türkiye in 2020.</p> <p>Information security and compliance processes at the CBRT have been comprehensively updated. Initially, all policies and processes underwent a thorough review to ensure alignment with the ISO 27001:2022 standard, and the certification has been successfully renewed. This has not only facilitated a smooth transition of the certificate but also strengthened the risk-based approach, enhanced the visibility of leadership and management responsibilities, and enabled the effective implementation of a continuous improvement cycle.</p> <p>From a risk management perspective, an integrated Information Technology Security Risk Management model has been designed, leveraging the COBIT, ISO 27001, ITIL, and CBDDO-BİGR methodologies published by the Digital Transformation Office. This methodology provides a framework fully aligned with both national and international standards, encompassing technical, governance, process, and human dimensions in the protection of information assets.</p> <p>Furthermore, the Information and Communication Security Guide published in 2019 by the Digital Transformation Office is being fully implemented at CBRT. Within this scope, the level of compliance is regularly measured through annual internal audits, and findings are reported to the relevant authorities. This ensures adherence to not only legal requirements but also the strategic security expectations of the state. Newly enacted laws and regulations, including Türkiye's Cybersecurity Law published on March 19, 2025, are closely monitored, and our compliance processes are continuously updated accordingly.</p> <p>As a result of these efforts, information security and compliance processes at CBRT have been modernized, risk management has become more measurable, employee behavior is monitored through data-driven methods, and a sustainable security ecosystem aligned with national and international standards has been established.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
Factor ICT/cyber risks in the financial stability analysis, develop a crisis management plan to address potential large-scale cyber-attacks.	BRSA, CBRT	MT	<p>The CBRT have an incident response plan for cyber attacks (includes the crisis management plan.). How the process works is stated in our Incident Management Procedure. The corporate business continuity plan also includes the cyber attack scenario and the precautions to be taken.</p> <p>Potential large-scale risks are evaluated at regular intervals and risk calculations are made. Necessary precautions are taken by foreseeing the effects on the systems.</p> <p>Additionally, the BRSA is working with the sector on developing a crisis management plan in the medium term. The Crisis Management sub-working group added cyber risk scenario as a new and separate crisis scenario in order to improve resilience against cyber risks. The protocol which covers all crises management scenarios has not been finalized yet.</p>
Financial Integrity			
Take steps to exit the FATF grey list by demonstrating effectiveness and addressing all areas identified in the FATF’s action plan, including with respect to politically exposed persons.	MASAK BRSA, CBRT	ST	All related authorities has addressed the FATF action items rigorously in order to further strengthen the effectiveness of its AML/CFT regime. As a result of these efforts, FATF has announced that Türkiye is no longer subject to increased monitoring and delisted Türkiye from the Grey List as of June 28, 2024.
Monitor key financial integrity risks stemming from the grey listing, and other cross-border regulatory actions.	MASAK, MOTF, BRSA, CBRT	MT	<p>BRSA monitors all emerging risks and related developments that may have an effect on safe and sound functioning of banks through its on-site and off-site supervision functions. During the period that Türkiye is subject to increased monitoring by FATF, the BRSA has been in constant dialogue with the banking industry from the start, in order to assess the impact of this decision and take necessary actions without any delay. The BRSA also has worked with MASAK very closely during that time to address action items required by FATF.</p> <p>Türkiye updated her National Risk Assessment in 2023 in line with the AML/CFT Strategy Document promulgated via Presidential Decree No 2021/16 Within the NRA, cross border risks were evaluated based on information requests sent and received as well as cross border aspects of actual ML/TF cases evaluated in the case pool and abused sectors. In this regards, supervision activities in relation to the sectors which pose higher ML/TF risks have been enhanced.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			<p>Moreover, in relation to TFS, particularly UNSCR 1373(2001), Türkiye managed to convince several countries to implement freezing decisions upon her requests and Türkiye conducted several joint asset freezing decisions with her counterparties.</p> <p>These achievements were also confirmed by the FATF which led Türkiye's exit from the grey list based on FATF Plenary's decision in June 2024.</p> <p>Following the exit process from the Grey List, Türkiye has carried on improving her level of compliance with the FATF standards. Similar to the 2021–25 AML /CFT Strategy Document, a dedicated PF Strategy Document (2025–29) was prepared and initially adopted by the Audit and Cooperation Commission on 19.12.2024. The PF Strategy has been further promulgated to the public via a new Presidential Circular no 2025/5 on 29.03.2025. Audit and Cooperation Commission which is established in accordance with the Law No 7262, art. 4 on Countering Financing of Proliferation and MASAK which carries out the Secretariat duties of the Commission have together identified and assessed the PF risks and brought together its very first PF NRA report of the country.</p> <p>In terms of ML/TF, Türkiye has updated her ML/TF NRA through an improved methodology which employs both qualitative and quantitative data. After being discussed in the Threat and Vulnerability Working Groups established within the AML/CFT Strategy Document; the final report has been endorsed by H.E. Mr. Mehmet ŞİMŞEK on 28 June 2025.</p> <p>Summary versions of thee ML/TF and PF NRAs have been uploaded to MASAK website https://en.hmb.gov.tr/national-risk-assessment.</p> <p>Within the NRA reports, both domestic and cross border aspects of the ML/TF/PF risks were assessed and MASAK delivered the full version of the report to all stakeholders for the purpose of prioritization of risky areas in operational and supervisory works.</p> <p>In addition, Türkiye's Fifth Round of FATF Mutual Evaluation Process has been started. In this regard, Türkiye has submitted technical compliance and effectiveness contributions to the FATF. In November 2025, an onsite visit will be held in Ankara and İstanbul. In accordance with the evaluation schedule, it is anticipated to be brought before the June 2026 FATF Plenary for approval.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
<p>Implement FATF Recommendation 15 to address virtual asset risks.</p>	<p>MASAK</p>	<p>ST</p>	<p>To mitigate the risks emanating from the activities of VASPs, first of all, Central Bank of Republic of Türkiye (CBRT), issued a regulation on 16 April 2021. Accordingly, it was set out that cash transfers to and from their customers can only be carried out through bank accounts opened in customers’ names and identity numbers. In addition, the CBRT prohibited the direct and indirect use of VA’s in payments and providing services for direct and indirect use of VA’s in payments.</p> <p>Furthermore, on 1 May 2021, VASPs have been designated as obliged parties, where they are subject to the general preventive measures (customer due diligence, identification of beneficial owner, suspicious transaction reporting, record keeping, retaining and submitting documents). In this regard, MASAK requested customer and transaction information from the VASPs which accounted almost 99% percent of the VASP activities in Türkiye. Moreover, a risk assessment study was conducted in 2022 by MASAK taking into account (i) capital adequacy risk of the sector, (ii) asset security risk, (iii) susceptibility risk of prices to manipulative attacks, (iv) the scale of the sector, (v) the fit and proper risk regarding founders and partners of companies due to the lack of legislation on the licensing of the sector, (vi) the risk regarding company foundation and partners due to the lack of legislation for licensing, (vii) risks of initial coin offering and (viii) personal data security. Accordingly, it was decided that the sector posed high ML/TF risk. The risk of the sector was assumed higher for ML in comparison to TF risks. (For more information please see Türkiye’s Third Enhanced Follow Up Report, criterion 15.3, page 10–11); access via https://www.fatf-gafi.org/content/dam/fatf-gafi/fur/T%C3%BCrkiye-Follow-Up-Report-2023.pdf.coredownload.pdf</p> <p>Based on the NRA, Türkiye also prepared typology reports and disseminated to competent authorities, relevant regulatory and supervisory agencies. A summary of these reports which demonstrate the risks of misuse of VAs and VASPs in Türkiye is attached (Annex 1 and 2).</p> <p>In terms of legislative measures, regulatory measures on financial services and licensing procedures of CASPs and compliance with AML/CFT preventive measures have been further improved since 2024.</p> <p>The Law No 7518 Amending the Capital Markets Law to regulate crypto asset service providers has entered into force upon publication in the Official Gazette on 2 July 2024. The Law defines crypto asset service providers as crypto asset platforms, institutions providing crypto asset custody services and other institutions designated by regulations under the Law, with respect to services in relation</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			<p>to crypto assets including initial sale and dissemination of crypto assets. The Law regulates crypto asset service providers, the activities of crypto asset platforms, custody of crypto assets, purchase, sale and transfer transactions in crypto assets by persons resident in Türkiye, requirements for CMB authorization for the establishment and operation of crypto asset service providers, and the authorities of the CMB with respect to the regulation of principles and procedures with which service providers must comply.</p> <p>During the transition period, institutions currently operating as crypto asset service providers must declare their operations as well as their intentions to carry on performing these operations or their plans for dissolution. Institutions that plan to take up activities as crypto asset service providers must also declare their intention to the CMB.</p> <p>In this scope, the CMB has issued communiqués on the procedures and principles regarding the establishment, launching of operations, partners, managers, organization, capital adequacy, risk management, transfer and custody of crypto assets, information systems and technology infrastructure and obligations to be complied with while operating of CASPs etc. in accordance with the Law. (Official Gazette dated 13/3/2025).</p> <p>In terms of the AML/CFT preventive measures, MASAK carried out several legislative amendments in order to ensure that CASPs' obligations are commensurate with their risks. With the amendment on the Regulation on Measures (RoM) (Official Gazette-25/12/2024-32763); CASPs have been identified as financial institutions, Travel Rule has been adopted regarding crypto asset transfers carried out by CASPs. Also, as financial institutions, CASPs have been included within the scope of enhanced measures in order to mitigate risks.</p> <p>In addition, with the amendment on the Regulation on Compliance (Official Gazette-25/12/2024-32763); CASPs are required to prepare a risk based compliance programme and appoint compliance officer to conduct this program. In the scope of compliance program, CASPs are also required to conduct risk identification, assessment, monitoring and mitigation efforts for the risks of breach, non-implementation and avoidance of asset freezing orders under TF Law No. 6415 and PF Law No. 7262, as well as enhanced controls for the implementation of such sanctions. Furthermore, financial institutions have to take several additional measures when establishing business relationships with CASPs and similarly CASPs are required to take additional measures when establishing business</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Continued)

Recommendations	Agency	Time *	Implementation Status
			<p>relationships with their customers and carrying out transactions requiring customer identification. In this scope MASAK also published a General Communique No 29 regarding the implementation of enhanced measures. (Official Gazette dated 28/6/2025)</p> <p>Moreover, MASAK updated the AML/CFT NRA in 2025 and in this regard MASAK conducted new risk analysis for the Crypto Assets (CA) sector and Crypto Asset Service Providers (CASPs) to identify their ML/TF risks. As a result of this, the CASP sector has been determined as high risk. Türkiye also prepared its first National Risk Assessment on Proliferation of Weapons of Mass Destruction in 2025. Within the scope of this Assessment, risks of the CASPs were also analyzed. As a consequence of this, it has been assessed that PF risk level of the sector is medium.</p> <p>In terms of proliferation of financing of weapons of mass destructions, in 2025 Türkiye has also conducted her very first NRA and based on the results, the CASP sector has been identified to pose Medium level PF risk based on the inherent risk level of the sector; as no violation on UNSCRs related to DPRK sanctions have been observed in Türkiye till now.</p> <p>Training activities related to the risk level of the sector was also prioritized. MASAK organized a workshop on “Combating ML and TF for Crypto Asset Service Providers” on November 2024 with participation of CASPs. At the workshop, MASAK has provided information on the obligations in the legislation. Also the work of updating the MASAK guide prepared for CASPs is ongoing. A similar training was also held in November 2025.</p>
Crisis Management and Resolution			
<p>Introduce resolution planning and consider extending recovery planning to all banks; extend recovery requirements to entire groups and foreign affiliates.</p>	<p>SDIF, BRSA</p>	<p>ST</p>	<p>Regulation on recovery planning has been in effect as of February 2021 and recovery planning and requirements cover domestic systemically important banks (D-SIBs) in the country as recommended by FSB Key Attributes. Nonetheless, work has been initiated on legislative amendments aimed at expanding the scope of banks covered by the recovery plan</p> <p>Two sub-working groups for “crisis management” and “resolution” has been operationalized under the Financial Stability Committee’s Crisis Management and Resolution Working Group. The sub-working group on “Crisis Management” is currently developing and reviewing crisis scenarios with the participation of the relevant institutions. At the end of the process, action plans addressing these scenarios will also be approved through the protocol to be signed.</p>

Annex IX. Table 1. Türkiye: Main Recommendations (Concluded)

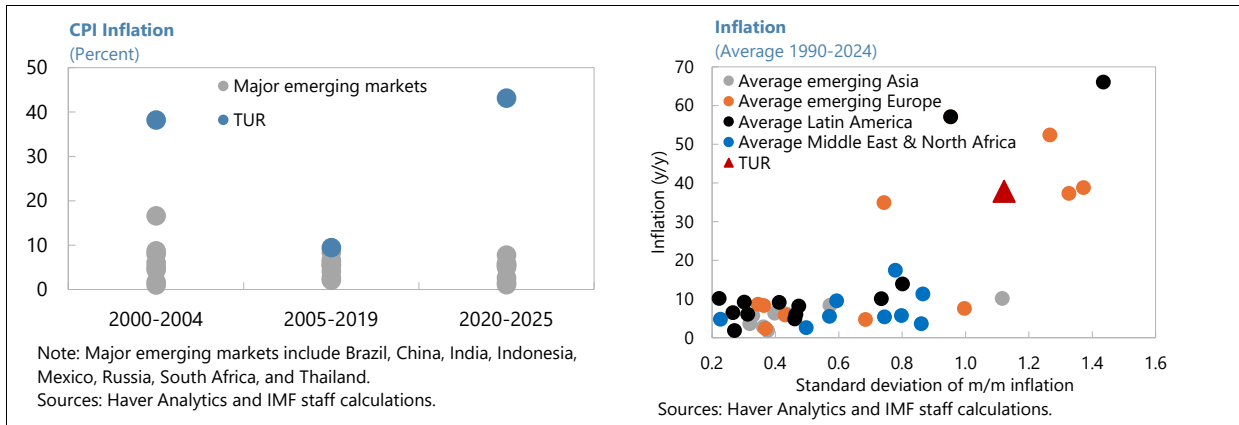
Recommendations	Agency	Time *	Implementation Status
			Additionally, the sub-working group for “resolution” currently works on the draft amendments to the Banking Law No. 5411 taking into account the FSAP recommendations and the FSB Key Attributes. Once the key members of the group, BRSA and SDIF, will finalize their work, the draft amendments will be shared with other group members to receive their opinion.

* Immediate (I) = within one quarter; short-term (ST) = within one year; medium-term (MT) = over one year

Annex X. Consequences of Sustained High Inflation

Türkiye has been grappling with persistently high and volatile inflation in recent years. In addition to the long-term effects this has had on investment and potential growth, it has had far-reaching consequences on the country's social, fiscal, and financial landscape. This Annex discusses the impact of persistently high inflation on income inequality, public debt, and the financial sector.

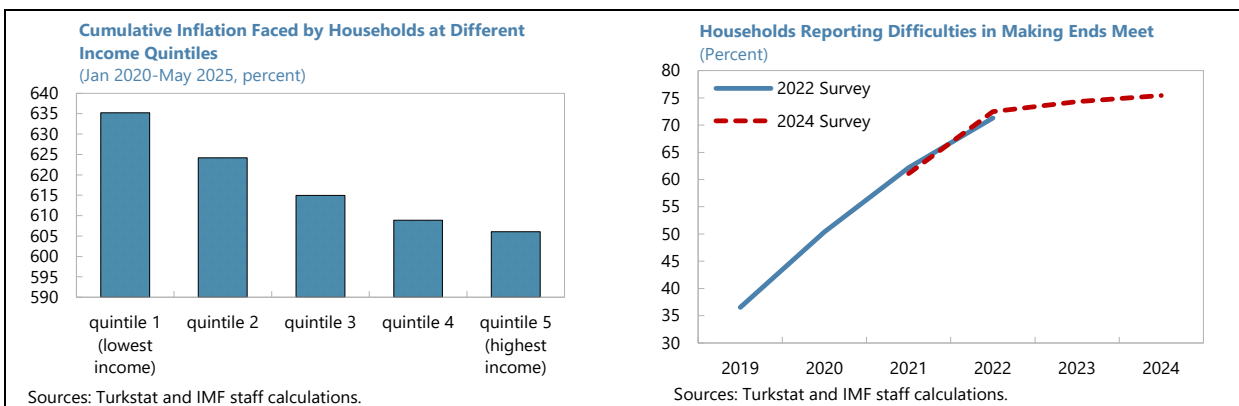
1. Türkiye's average rate of inflation stands out across major EMs. During most of the past 25 years, including during periods when inflation was relatively low, Turkish inflation has been among the highest in major EMs, and by far the highest since the COVID-19 pandemic.



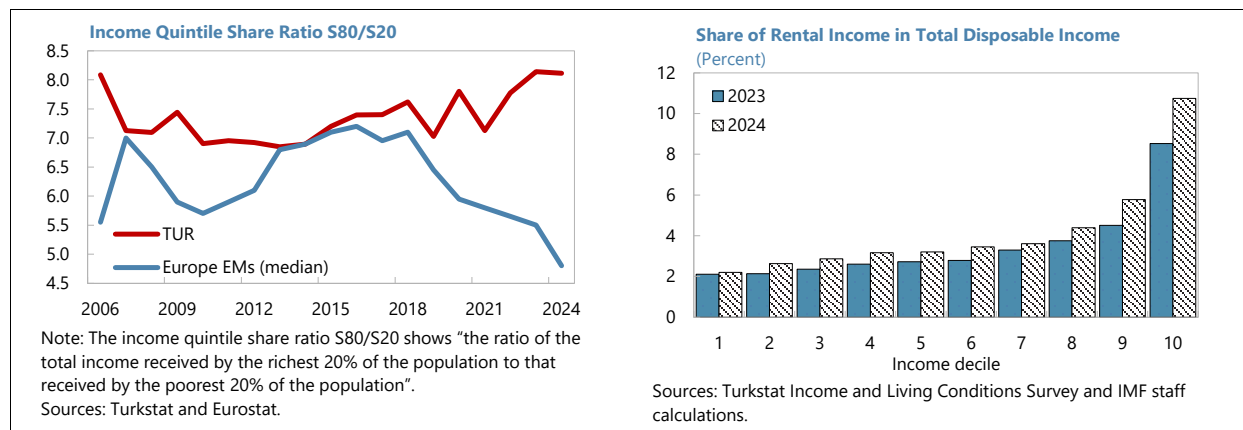
A. Income Inequality

2. Persistently high inflation has disproportionately harmed low-income households.

The poorest 20 percent of Turkish households spend an average of 64 percent of their income on essentials such as food, housing, and rent, compared to just 35 percent for the wealthiest 20 percent. As prices for food and housing have outpaced overall inflation since 2020, poorer families have faced a significantly higher effective inflation rate. This widening inflation burden has resulted in a marked decline in living standards for many, with a growing number of households reporting difficulty managing basic expenses since 2019.

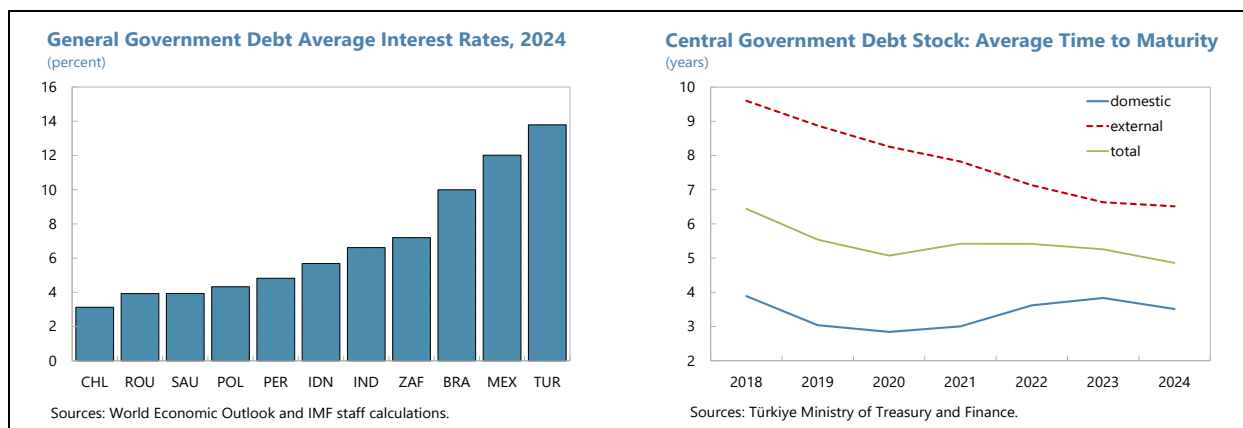


3. Income inequality has risen. Since 2020, real incomes at the 75th percentile have grown by 5.4 percent, while those at the 25th percentile have risen by only 0.9 percent, despite multiple increases in the minimum wage. In contrast to many emerging European countries, where lower wage inflation disproportionately benefited lower-income groups and helped reduce inequality, in Türkiye these gaps have widened. In addition, rental income has lopsidedly accrued to high income households. The combination of higher living costs for the poor and more robust income gains among higher earners has translated into greater social and economic stratification.



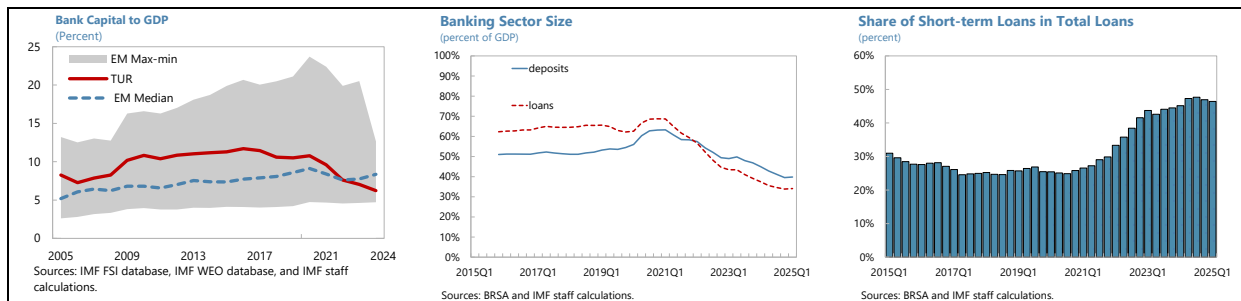
B. Public Debt

4. High inflation has raised the cost and shortened the maturity of public debt. As Türkiye has raised policy rates, the cost of government borrowing inevitably increases. When inflation is high and uncertain, lenders grow cautious about making long-term commitments, instead favoring shorter-term investments to limit their exposure to risk. This shift has resulted in a reduced average maturity for public debt, forcing the government to refinance more frequently and making it more vulnerable to fluctuations in interest rates. In 2024, Türkiye stood out among major emerging market economies for having one of the highest average interest rates on public debt. Since the inflation surge in 2018, the average maturity of central government debt has steadily declined, with the decrease in external debt maturity particularly pronounced, raising refinancing risks.



C. Financial Sector

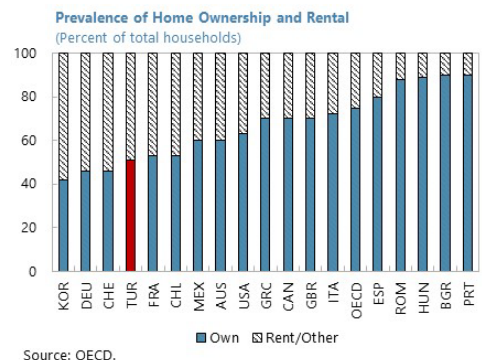
5. High inflation has eroded banking sector capital and asset duration. For most of the past two decades, capital in the Turkish banking sector exceeded that of the average EM. The Turkish banking sector’s ability to lend peaked as a share of GDP around 2017—since then bank capital has fallen steadily, to below the EM average. In recent years, the banking sector has been shrinking both in terms of deposits and loans, as high inflation has eroded household wealth and debt. Banking sector loans have also moved toward short-term lending. The contraction of the banking sector has diminished the sector’s ability to support investment, particularly at long maturities.

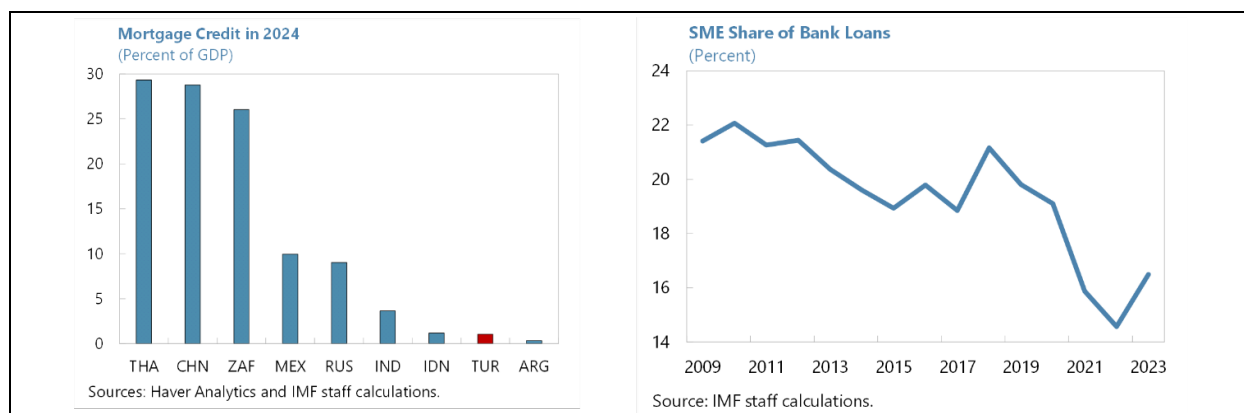


6. A shrinking banking sector has impeded financial inclusion and slowed SME growth.

Türkiye’s mortgage market has been particularly small compared to peers. Limited access to mortgage finance places owner-occupied housing—both an important inflation hedge and a potential source of household collateral—out of reach for a greater proportion of Turkish households compared to most other EMs. Households are thus less able to shield themselves from inflationary shocks or leverage their assets for productive investment, a consequence with long-term welfare implications.

Moreover, the share of bank loans extended to SMEs is declining. The lack of long-term, affordable funding options stifles SME growth and innovation, perpetuating their low productivity and limiting their ability to compete and expand.





D. Policy Implications

7. Action is needed to address the adverse impact of inflation. First and foremost, inflation needs to be brought down to single digits. Without this, Türkiye might experience further increases in inequality, debt service and financing needs might further increase, and the financial sector will not be able to provide the long-term funding needed for households and businesses to invest, grow, and boost productivity. Complementary measures would help make progress on these issues. Targeted support for the most vulnerable households can help mitigate the social costs of adjustment, while licensing and educational systems can be improved to raise labor productivity. Creating a level playing field for SMEs, including through improving access to finance for SMEs, addressing informality in the economy, and continuing to improve legal frameworks would help foster fairer competition, lower financial risks, and broaden the tax base.

Annex XI. Data Issues

Annex XI. Table 1. Türkiye: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	B	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. While data is assessed to be adequate for surveillance for all but one subcategory, the overall rating of B reflects that some shortcomings remain. Notably, there are data gaps concerning PPPs and the public sector's contingent liabilities, which are both of particular relevance for the analysis of public sector finances and fiscal sustainability in Türkiye. In addition, it would be useful to introducing a flash estimate for GDP, given that NA data is published with a 2-month lag. Errors and Omissions in the Balance of Payments data were large in 2024, partly due to unregistered gold and crypto asset transactions. The authorities have taken measures to address this.</p>							
<p>Changes since the last Article IV consultation. Financial transactions data has been further improved, including on crypto assets.</p>							
<p>Corrective actions and capacity development priorities. Capacity development priorities include making employment data consistent with national accounts and improving general government financial statistics and financial transparency. Data gaps concerning PPPs and public sector's contingent liabilities should be addressed.</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics</p>							
<p>Other data gaps. Not applicable for this Article IV.</p>							

Annex XI. Table 2. Türkiye: Data Standards Initiatives

Türkiye subscribes to the Special Data Dissemination Standard (SDDS) since August 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Annex XI. Table 3. Türkiye: Table of Common Indicators Required for Surveillance

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁵	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Türkiye ⁸	Expected Timeliness ^{6,7}	Türkiye ⁸
Exchange Rates	Dec-25	12/10/2025	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Oct-25	11/20/2025	M	M	M	W	1W	1W
Reserve/Base Money	Oct-25	11/28/2025	M	M	M	W	2W	1W
Broad Money	Oct-25	11/28/2025	M	M	M	M	1M	NLT 1M
Central Bank Balance Sheet	Dec-25	12/9/2025	M	M	M	W	2W	1W
Consolidated Balance Sheet of the Banking System	Dec-25	12/4/2025	W/M	W/M	M	M	1M	NLT 1M
Interest Rates ²	Dec-25	12/4/2025	D/W/M	D/W/M	D	D	...	1D
Consumer Price Index	Nov-25	12/3/2025	M	M	M	M	1M	3D
Revenue, Expenditure, Balance and Composition of Financing ³ -General Government ⁴	Jun-25	9/30/2025	Q	Q	A	Q	2Q	6M
Revenue, Expenditure, Balance and Composition of Financing ³ -Central Government	Oct-25	11/20/2025	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Oct-25	11/20/2025	M	M	Q	M	1Q	NLT 3W
External Current Account Balance	Sep-25	11/12/2025	M	M	Q	M	1Q	6W
Exports and Imports of Goods and Services	Sep-25	11/12/2025	M	M	M	M	8W	NLT 30D
GDP/GNP	2025Q3	12/1/2025	Q	Q	Q	Q	1Q	NLT 3M
Gross External Debt	Jun-25	9/30/2025	Q	Q	Q	Q	1Q	1Q
International Investment Position	Sep-25	11/19/2025	M	M	Q	Q	1Q	2M

¹ Includes net market value of derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



REPUBLIC OF TÜRKİYE

January 26, 2026

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department

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FUND RELATIONS

(Data as of November 30, 2025)

There is no outstanding Fund credit.

Membership Status: Türkiye became a member of the Fund on March 11, 1947.

General Resources Account

	SDR Million	Percent Quota
Quota	4,658.60	100.00
Fund holdings of currency	4,545.83	97.58
Reserve position in Fund	112.89	2.42

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	5,536.39	100.00
Holdings	5,513.62	99.59

Outstanding Purchases and Loans: None.

Latest Financial Arrangements

	Approval Date	Expiration Date	Amount Approved	Amount Drawn
In millions of SDRs				
Stand-By	05/11/05	05/10/08	6,662.04	6,662.04
Stand-By	02/04/02	02/03/05	12,821.20	11,914.00
Stand-By	12/22/99	02/04/02	15,038.40	11,738.96
<i>Of Which:</i> SRF	12/21/00	12/20/01	5,784.00	5,784.00

Projected Payments to the Fund¹

(In millions of SDRs; based on existing use of resources and present holdings of SDRs).

	Forthcoming				
	2025	2026	2027	2028	2029
Principal	--	--	--	--	--
Charges/Interest		<u>0.65</u>	<u>0.66</u>	<u>0.66</u>	<u>0.65</u>
Total		<u>0.65</u>	<u>0.66</u>	<u>0.66</u>	<u>0.65</u>

Safeguard Assessments: An assessment of the central bank's safeguards framework was conducted under the last SBA and completed on June 29, 2005. While it uncovered no material weaknesses in the central bank's safeguard framework, a few recommendations were made to address some

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

remaining vulnerabilities in the areas of internal audit and controls. Those recommendations have been implemented.

Exchange Rate Arrangements: The currency of Türkiye is the Turkish lira. The *de jure* exchange rate arrangement is free floating; while the *de facto* exchange rate arrangement is classified as crawl-like. Türkiye has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF’s Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for those maintained solely for the preservation of national or international security, which have been notified to the Fund in accordance with Executive Board Decision No. 144–(52/51).

Article IV Consultations: Board discussion of the last Article IV staff report took place on January 18, 2023. The Article IV staff report (IMF Country Report No. 23/303) was published on January 18, 2023.

FSAP: Financial stability assessments under the Financial Sector Assessment Program (FSAP), every five years, are a mandatory part of Article IV surveillance. Three FSAP missions to Türkiye took place in 2022, and the Aide Memoire was presented to the authorities. The FSAP findings were summarized in the accompanying Financial System Stability Assessment (FSSA), which was discussed at the Board together with the Article IV staff report, on January 18, 2023.

Resident Representative:

The IMF currently has a resident representative office in Ankara. Mr. Gabriel Di Bella has been the senior resident representative since January 2023.

ROSCs

Standard or Code Assessed	Date of Issuance	Document Number
Fiscal Transparency	June 27, 2000	N/A
Corporate Governance	December 11, 2000	Prepared by the World Bank
Data ROSC ^{1/}	March 14, 2002	Country Report No. 02/55
Fiscal ROSC	November 25, 2003	Country Report No. 03/363
Fiscal ROSC	March 24, 2006	Country Report No. 06/126
FSSA and related ROSC	November 9, 2007	Country Report No. 07/361
Data ROSC	September 3, 2009	Country Report No. 09/286
FSSA and related ROSC	September 7, 2012	Country Report No. 12/261
BCP ^{2/}	March 7, 2014	N/A
IAIS ^{3/}	March 7, 2014	N/A
FSSA and related ROSC	February 3, 2017	Country Report No. 17/35
BCP	February 8, 2017	Country Report No. 17/46
CPMI IOSCO	February 8, 2017	Country Report No. 17/45
IAIS	February 8, 2017	Country Report No. 17/47
^{1/} Report on Observance of Standards and Codes (ROSC). ^{2/} Basel Core Principles for Effective Banking Supervision (BCP). ^{3/} International Association of Insurance Supervisors (IAIS).		

Recent Technical Assistance

Dept.	Timing	Purpose
MCM	February 2012	Stress testing framework for the financial sector supervisor
FAD	September 2012	G-20 budget institutions
MCM	October 2012	Early warning system and stress testing
FAD	November 2012	Measurement of structural fiscal balances
STA	January 2013	National account statistics
MCM	December 2013	Stress testing
STA	December 2013	Monetary and financial statistics
STA	March 2014	Government finance statistics
STA	March 2014	National accounts statistics
FAD	April 2014	Performance-based budgeting
FAD	May 2014	Tax revenue modeling
STA	May 2014	Financial sector accounts
STA	July 2014	Government finance statistics—public sector debt statistics
STA	April 2015	National accounts statistics
FAD	June 2015	Fiscal transparency evaluation
STA	January 2016	Compilation system for independent annual estimates of GDP
STA	April 2016	Government finance statistics—GFSM2014 and ESA10
FAD	December 2017	Public-Private Partnerships (PPP)
FAD	January 2018	VAT Policy Issues
MCM	September 2018	Stress testing (follow up)
STA	November 2019	Commercial Property Price Index
STA	November 2019	Consumer Price Index
FAD	June 2024	Tax Compliance and tax administration
FAD	November 2025	Public Financial Management

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- As of December 12, 2025, Türkiye has collaborations with the World Bank Group, the European Bank for Reconstruction and Development, and the European Investment Bank.
- Further information can be obtained from the following hyperlinks.

International Financial Institution	Hyperlink
The World Bank Group	https://www.worldbank.org/ext/en/country/turkey
The European Bank for Reconstruction and Development (EBRD)	https://www.ebrd.com/home/what-we-do/where-we-invest/turkiye.html
The European Investment Bank	https://www.eib.org/en/projects/country/turkey

**Statement by Mr. Yigit Korkmaz Yaşar, Executive Director for the Republic of Türkiye and Mr. Murat Erinc Bayrakci, Advisor to the Executive Director
February 6, 2026**

On behalf of our Turkish authorities, we would like to thank Mr. Walsh and his team for their comprehensive report and for the candid engagement during the 2025 Article IV consultation. We extend our warmest congratulations to Ms. Weber on her appointment as the new Mission Chief for Türkiye.

Macroeconomic Context and Recent Developments

The authorities' economic program aims to support sustainable and inclusive growth by ensuring price stability and is anchored on (i) the normalization of monetary policy and the streamlining of macroprudential frameworks, (ii) the strengthening of fiscal balances, rebuilding buffers and credibility, and (iii) the advancement of structural reforms to promote more sustainable long-term growth. The authorities underscore that the program enjoys strong political commitment, demonstrating the government's prioritization of achieving price stability and returning inflation to single digit levels.

This new economic program, implemented since mid-2023, is steadily yielding results, with the rebalancing of the economy becoming more pronounced. Türkiye has demonstrated an impressive growth performance over the past 20 years; however, growth has moderated in line with the current program's objectives. Türkiye's growth in 2025 is expected to be slightly above the MTP projection of 3.3 percent, while remaining below potential and therefore supportive of disinflation. Moreover, the composition of growth continues to support disinflation and the expansion of production capacity, with a strong contribution from investment. In 2025, seasonally adjusted average employment realized 32.6 million and the unemployment rate decreased to 8.4 percent, the lowest level since 2012.

As a result of the coordinated measures, inflation has declined significantly, falling from 49.4 percent in September 2024 to 30.9 percent in December 2025. Over this period, the Ministry of Treasury and Finance (MoTF) and Central Bank of the Republic of Türkiye (CBRT) harmoniously have deployed a wide range of policy instruments to keep disinflation on track and contain financial risks. The CBRT has introduced a distinction between inflation forecasts and targets as well as year-end interim targets, thereby enhancing the prominence of a clear nominal anchor. Despite recent policy rate reductions, the tight monetary stance has been maintained. Considering both the phasing out of the FX Protected Deposit Scheme and the rise in reserves, Türkiye has made remarkable progress in its foreign exchange position, now surpassing USD 280 billion.

The current account deficit (CAD) remains at sustainable levels and well-financed, reflecting improving access to external finance. Gross international reserves reached a historical peak of USD 215.6 billion by January 23, 2026, from USD

155 billion at the end-2024. In addition, reserve requirement ratios were increased to limit short-term foreign capital inflows to reduce the economy's vulnerabilities and strengthen macro-financial stability.

On the fiscal front, efforts focused on strengthening fiscal discipline, enhancing the efficiency and effectiveness of public spending, strengthening the fight against informality, and reinforcing fairness and efficiency in the tax system. The budget deficit has declined to 2.9 percent in 2025 from 4.7 percent of GDP in 2024, helping to contain aggregate demand while the primary balance recorded a surplus of TRY 255 billion. In 2025, budget revenues expanded by 9.7 percent in real terms, whereas budget expenditures registered a more moderate increase of 0.6 percent. On the expenditure side, lower transfers to the social security institutions and public enterprises helped contain overall spending despite the rise in interest expenditures. Overall, the fiscal outturn underscores the authorities' strong commitment to discipline and consolidation.

The financial system remains robust, and the authorities have demonstrated strong capacity to act swiftly and decisively in periods of stress. The banking sector continues to display a very strong outlook, supported by a robust capital structure, high asset quality, and solid profitability. As of December 2025, the annualized return on equity and return on assets stood at 31.5 percent and 2.3 percent, respectively. Over the same period, the capital adequacy ratio reached 19.7 percent, well above the regulatory minimum of 8 percent. The sector carries no material foreign exchange risk, reflecting a broadly balanced net FX position, while non-performing loans remain at sustainable levels, with the NPL ratio at a low 2.5 percent as of December.

External sector developments remained broadly favorable despite a challenging global environment. In 2025, exports increased by 4.4 percent to a record USD 273.4 billion, while imports rose by 6.2 percent to USD 365.4 billion, driven mainly by gold, resulting in a foreign trade deficit of USD 92 billion. The export to import coverage ratio stood at 74.8 percent, rising to 85.2 percent when energy is excluded and 91.2 percent when both energy and gold are excluded. Tourism continued to boost external balances, with 63.9 million visitors in 2025 and tourism revenues reaching USD 65.2 billion.

Structural reforms are an important item of the economic program. Türkiye has continued to make notable strides in raising the share of renewables within its electricity generation mix. Wind and solar power capacity reached 40 gigawatts (32.6 percent of total electricity production) supporting the resilience of the current account. Looking ahead, the authorities' ambitious objective of expanding renewable energy capacity to 120 gigawatts by 2035 would further reduce dependence on hydrocarbons and strengthen the external position. In addition, the recently enacted climate law establishes the foundation for an Emissions Trading System, which is expected to mitigate potential adverse effects arising from the EU's Carbon Border Adjustment Mechanism.

Outlook: Medium-Term Plan for 2026-2028

The Medium-Term Plan (2026-2028) prioritizes price stability, financial stability, and competitiveness as the core pillars of Türkiye's macroeconomic framework.

The overarching aim is to achieve balanced, sustainable, and inclusive growth with strengthened productivity and fair income distribution.

Amidst a challenging global environment, the Turkish economy has maintained an uninterrupted annual growth streak for 21 consecutive quarters as of the third quarter of 2025, while overall risks have declined compared to last year. Growth is projected to accelerate to 3.8 percent in 2026, driven by expected gains in total factor productivity through structural reforms, increased private sector competitiveness, improved investor confidence, and measures to strengthen the ease of doing business.

In line with the expected growth developments, labor market reforms such as skill development and promotion of flexibility will support the employment outlook.

During the MTP period, employment is projected to increase by an average of 842,000 annually, with the unemployment rate expected to decline to 7.8 percent in 2028.

On the fiscal front, the authorities project the central government's overall budget deficit to improve to 3.5 percent of GDP in 2026, lower than staff's projection of 3.9 percent of GDP, mainly due to higher revenue projections and a lower interest bill. The authorities will continue to pursue a prudent fiscal policy over the MTP period. The effects of revenue-enhancing measures will be fully felt and as a result, the fiscal deficit is projected to improve to 3.1 percent and 2.8 percent in 2027 and 2028, respectively. Digitalization and centralization of services for public procurement by the State Supply Office supports cost effectiveness. In addition, a reduction of the government contribution rate within the private pension system (BES) from 30 percent to 20 percent would further support public finances.

The monetary policy stance has been contractionary since March 2024. The MTP projects year-end inflation at 16 percent in 2026, while staff forecast inflation at 23 percent for the same year. Items with backward indexation, notably private school fees and rents, have continued to push up services inflation. Against this backdrop, the introduction of a price-cap mechanism for private schools will help contain inflation persistence. Given the prominence of rental inflation within services, the authorities' announcement of 500,000 new affordable and sustainable social housing units across all 81 provinces by 2027-2028 underscores a strong supply-side response. Leading indicators already suggest a downward trend in rent inflation.

The authorities are committed to maintaining the current account deficit at sustainable levels to avoid vulnerabilities and to keeping the external financing needs at reasonable levels. On the external sector, prudent macroeconomic policies and measures, favorable energy prices, improved renewable energy capacity, parity developments and robust tourism receipts contribute to a sound current account performance. The authorities and staff project almost the same CAD to GDP ratio of

around 1.4 percent at end-2025 and 1.3 percent in 2026 (staff 1.4 percent). Considering the high share of exports to the European Union, Euro/Dollar parity works in favor of external balance.

Monetary and Exchange Rate Policy

Staff's analysis, indicating that a sharp increase in the monetary policy rate - from 37 to 48 percent - would accelerate disinflation, warrants careful consideration from an institutional perspective. Anchoring a specific policy-rate level can be controversial and may lead to misinterpretation by market participants, as the Fund's advisory practice generally relies on principles-based, data-dependent guidance rather than numerical values that can quickly become outdated in a fast-changing environment. Staff advice would be more appropriately framed in terms of the desired policy stance—its direction, persistence, and conditionality. Additionally, a policy decision of such magnitude should be evaluated more thoroughly against its significant macro-financial implications. These include the likelihood of a sharp rise in short-term government borrowing costs, higher budgetary interest expenditures, sharp declines in government bond valuations, and the resulting mark-to-market losses on bond portfolios—alongside liquidity pressures for affected holders, implications on FX market, and potentially significant investor losses that could undermine confidence.

The transmission of monetary policy is strengthening as de-dollarization requirements are gradually phased out and as the elimination of FX protected deposits has materially reduced structural distortions. The share of foreign currency and FX protected deposits declined further in 2025 to 39 percent of total deposits, having fallen sharply from 68.4 percent in August 2023, and the FX protected deposit scheme was successfully wound down.

Fiscal Policy

The fiscal position strengthened significantly in 2025, with the cash deficit improving from 4.7 percent of GDP to 3.4 percent, outperforming expectations, and primary expenditure falling by almost one percentage point of GDP. Türkiye has already delivered one of the fastest fiscal adjustments among comparable emerging markets, underpinned by strong gains in tax compliance, higher withholding revenues, and above inflation increases in selective excises. On the expenditure side, energy subsidies are being phased out in a measured and rational manner to avoid abrupt price shocks while inflation is still declining, and rigid components such as pensions and public wages have already begun to normalize following post-pandemic adjustments.

Türkiye's low indebtedness continues to be one of its most significant macro-financial strengths. The EU defined general government debt-to-GDP ratio is 24.5 percent as of the third quarter of 2025, well below the 60 percent Maastricht benchmark and considerably lower than the EU average of 82.1 percent. Moreover, Türkiye's overall indebtedness level of 94 percent of GDP, compared with the 236 percent

average for emerging markets and 311 percent globally, further demonstrates broad-based resilience relative to international peers.

Market indicators have strengthened in tandem with improved policy credibility and sustained investor demand. Türkiye's 5-year CDS declined to 204 bps on January 1, 2026—its lowest level in eight years—reflecting reduced sovereign risk perceptions and the positive impact of policy normalization initiated after May 2023. Access to international capital markets has remained orderly and supportive in the recent period. In 2025, the Treasury raised USD 13 billion through 6 issuances in international capital markets, while for 2026 USD 3.5 billion has already been secured via a successful dual-tranche USD issuance in early January.

The authorities underscore that debt management continues to be conducted with prudence, predictability, and transparency. Against this backdrop, the domestic debt rollover ratio—realized at 133 percent in 2025—is announced to decline to 106 percent in 2026. In addition, the domestic debt roll-over ratio for the first quarter of 2026 was announced at 80 percent, which provides room for achieving the overall roll-over target for the year. This planned adjustment is expected to ease refinancing pressures, foster a more balanced financing outlook, and complement the authorities' broader macroeconomic efforts to strengthen disinflation and support market normalization.

Financial Stability

Türkiye's financial system remains robust, well capitalized, and supported by a strong supervisory framework. The rise in the net FX position of nonfinancial corporates reflects relative pricing conditions rather than speculative positioning, while a substantial share of these firms continue to generate FX revenues through exports and tourism, providing a natural hedge that subdues balance sheet risks. Banks' FX liquidity buffers remain adequate, with a regulatory capital ratio of 19.7 percent in 2025 and the NPL ratio contained at 2.5 percent despite the global tightening cycle.

The recent uptick in SME and retail NPLs remains manageable and well provisioned, and the Banking Regulation and Supervision Agency (BRSA) has already issued guidance to ensure early recognition of credit deterioration, underscoring vigilance in supervision. Credit growth, while still elevated in nominal terms, has decelerated significantly in real terms, indicating that monetary transmission is strengthening—particularly following the elimination of FX protected deposits—which has materially reduced structural distortions.

On crypto assets, the authorities introduced licensing requirements, enhanced monitoring of crypto related flows and set limits on stablecoin transfers to contain risks from unregulated platforms and potential capital flight channels.

Structural Reforms

The authorities remain firmly committed to advancing a reform agenda that supports inclusive and sustainable growth. Notwithstanding that productivity and total factor productivity have not grown as desired in recent years, renewed investment in digital infrastructure, expanded R&D incentives, and targeted support for high technology and export-oriented sectors are beginning to yield measurable improvements.

Labor market mismatches, including elevated graduate unemployment, are being addressed through expanded vocational education partnerships, strengthened university–industry coordination, and targeted sectoral training programs. Türkiye has recently launched a TRY 445 billion, five pillar youth employment support package aimed at expanding job opportunities for young people, which is projected to create 800,000 additional placements. Recent childcare investments expanded parental support schemes, and efforts to formalize flexible work arrangements are expected to boost female participation rates, especially among younger cohorts. Productivity challenges in labor intensive sectors are being tackled through digitalization incentives, SME support programs, and measures to reduce entry barriers in professional services.

Investments in the Middle Corridor will boost economic diversification and productivity. Similarly, the Development Road Project responds to shifting global supply chains, heightened geopolitical risks, and the growing demand for resilient land-based trade routes. Overall, these two major infrastructure projects reinforce Türkiye's strategic role as a central hub connecting Europe with additional suppliers, offering a vital opportunity for geopolitical counterbalancing while strengthening long-term growth potential.