

YEDİTEPE UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES

**AN ANALYSIS OF THE CAUSES OF THE PERIODIC
ECONOMIC CRISES IN TURKEY AND THEIR IMPACT ON THE
BANKING SECTOR**

Alev Sıcakyüz

Istanbul - 2023

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TURKEY AND THEIR IMPACT ON THE BANKING SECTOR

A Thesis/Dissertation Submitted

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in

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DECLARATION OF ORIGINALITY

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Alev Sıcakyüz

ABSTRACT

AN ANALYSIS OF THE CAUSES OF THE PERIODIC ECONOMIC CRISES IN TURKEY AND THEIR IMPACT ON THE BANKING SECTOR

This thesis provides a comprehensive examination of the periodic economic crises that have occurred in Turkey since World War II, with a specific focus on their causes and the resultant impacts on the country's banking sector. It explores how these economic upheavals have left their distinct marks on Turkey's financial and banking institutions. A key part of this study involves a detailed review of the concept of crisis as portrayed in academic literature, alongside an extensive research into the various classifications and typologies of crises. The thesis investigates the major crises experienced globally, with a selection of examples from both developed and developing countries, to draw parallels with the Turkish context.

A significant portion of the thesis is dedicated to analyzing the financial impacts of crises on the Turkish banking sector. Through an examination of data and economic theories this research aims to provide valuable insights into the complex dynamics between economic crises and the Turkish banking sector. The objective is to develop a comprehensive understanding of the environment in which economic crises transpire in Turkey. The underlying causes of crises have been examined, and their effects on the economy and banking sector have been analyzed, along with the examination of measures taken and the outcomes of the crises.

Keywords: Crisis typology, Economic crises, Economic development in Turkey, Macro economic indicators in Turkey, Turkish banking sector

ÖZET

TÜRKİYE'DEKİ PERİYODİK EKONOMİK KRİZLERİN NEDENLERİNİN VE BANKACILIK SEKTÖRÜ ÜZERİNDEKİ ETKİLERİNİN ANALİZİ

Bu tez, II. Dünya Savaşı'ndan bu yana Türkiye'de meydana gelen periyodik ekonomik krizlerin kapsamlı bir incelemesini sunmaktadır, özellikle bu krizlerin nedenlerine ve ülkenin bankacılık sektörüne olan sonuçlarına odaklanmaktadır. Ekonomik buhranların Türkiye'nin finansal ve bankacılık kurumları üzerinde nasıl belirgin izler bıraktığını araştırır. Bu çalışmanın önemli bir bölümü, akademik literatürde kriz kavramının nasıl tasvir edildiğine dair detaylı bir inceleme ile birlikte, krizlerin çeşitli sınıflandırmaları ve tipolojileri üzerine kapsamlı bir araştırmayı içermektedir. Tez, Türkiye bağlamıyla paralellikler çizmek için gelişmiş ve gelişmekte olan ülkelerden seçilmiş örneklerle, küresel olarak yaşanan büyük krizleri araştırmaktadır.

Bu tezin önemli bir kısmı, krizlerin Türk bankacılık sektörü üzerindeki finansal etkilerini analiz etmeye ayrılmıştır. Verilerin ve ekonomik teorilerin incelenmesi aracılığıyla, bu araştırma ekonomik krizler ile Türk bankacılık sektörü arasındaki karmaşık dinamiklere değerli içgörüler sunmayı amaçlamaktadır. Amacımız, Türkiye'de ekonomik krizlerin meydana geldiği ortamı kapsamlı bir şekilde anlamaktır. Krizlerin temel nedenleri incelenerek ekonomi ve bankacılık sektörü üzerindeki etkileri analiz edilmiş ve alınan önlemler ile krizlerin sonuçları incelenmiştir.

Anahtar Kelimeler: Kriz Tipolojisi, Ekonomik Krizler, Türkiye'de Ekonomik Gelişme, Türkiye'de Makro Ekonomik Göstergeler, Türk Bankacılık Sektörü

DEDICATION

Canım Kızlarım;

Leal Selin Sıcakyüz ve Sena Ladin Sıcakyüz'e

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ABBREVIATIONS

AE	: Advanced Economy
AIG	: American International Group
AKP	: Justice and Development Party
ATM	: Automated Teller Machine
BCBS	: Basel Committee on Banking Supervision
BDDK	: Banking Supervision and Regulation Board
BRSA	: Banking Regulation and Supervision Agency
CAB	: Current Account Balance
CBRT	: Central Bank of the Republic of Turkey
CDO	: Collateralized Debt Obligation
CDS	: Credit Default Swap
CMO	: Collateralized Mortgage Obligation
COVID	: Coronavirus
CPI	: Consumer Price Index
CSR	: Corporate Social Responsibility
CUA	: Customs Union Agreement
DFA	: The Doss-Frank Act
DIBS	: Government Domestic Debt Securities
DM	: Deutsche Mark
DP	: Democratic People's Party

ECU	: European Currency Unit
EM	: Emerging Markets
EME	: Emerging Market Economy
EMDE	: Emerging Market and Developing Economy
EMS	: European Monetary System
EMU	: European Monetary Union
ERM	: Exchange Rate Mechanism
ERPE	: Exchange Rate Pass-Through Effects
EU	: European Union
FDI	: Foreign Direct Investment
FED	: Federal Reserve System
FSOC	: Financial Stability Overnight Council
FX	: Foreign Exchange
GATT	: General Agreement on Tariffs and Trade
GDP	: Gross Domestic Product
GFC	: Global Financial Crisis
GIR	: Gross International Reserves
GNP	: Gross National Product
G20	: Group of Twenty (Countries)
IMF	: International Monetary Fund
ISI	: Import Substitution Industrialization

IT	: Inflation Targeting
KKM	: FX Protected Deposit Mechanism
LCU	: Local Currency
LDC	: Least Developed Countries
MTP	: Medium Term Program
NBFI	: Non-Bank Financial Institutions
NAFTA	: North American Free Trade Agreement
NEP	: New Economic Plan
NPL	: Non-Performing Loans
OECD	: Organisation for Economic Co-operation and Development
PPI	: Producer Price Index
PSBR	: Public Sector Borrowing Requirement
QoQ	: Quarter-on-Quarter
R&D	: Research and Development
SBA	: Stand-by Arrangement
SCAP	: Supervisory Capital Assessment Program
SCT	: Special Consumption Tax
SDIF	: Saving Deposit Insurance Fund
SEE	: State Economic Enterprises
SND	: Structured Notes with Defaults
TARP	: Troubled Asset Relief Program

TBB	: The Bank Association of Turkey
TBTF	: Too Big To Fail
TFP	: Total Factor Productivity
TL	: Turkish Lira
TMSF	: Savings Deposit Insurance Fund
TRY	: Turkish Currency
UK	: United Kingdom
US	: United States
USA	: United States of America
USD	: United States Dollar
USSR	: Union of Soviet Socialist Republics
VAT	: Value-Added Tax
WB	: World Bank
WPI	: Wholesale Price Index

1. INTRODUCTION

This thesis presents a detailed examination of the periodic economic crises after World War II that have shaped the landscape of Turkey's economy, particularly focusing on their causes and consequential impacts on the nation's banking sector. Since the establishment of the Republic in 1923, Turkey's economy has navigated through various tumultuous periods, each leaving its distinct mark on the financial and banking institutions. By dissecting the intricate factors that have led to these periodic economic upheavals, this study aims to provide a comprehensive understanding of the underlying mechanisms and triggers. Furthermore, it explores how these crises have redefined the operational and strategic paradigms of Turkey's banking sector, thereby influencing the broader economic framework. This analysis not only offers insights into the historical and contemporary economic challenges faced by Turkey but also sheds light on the resilience and adaptability of its banking sector in the face of these recurrent economic adversities.

Before initiating the detailed analysis of the various crises that have unfolded in Turkey and their consequential impacts on the banking sector during those same timelines, a comprehensive preliminary examination was conducted. This preliminary phase involved a thorough review of the concept of crisis, exploring how it is defined and categorized within the academic literature. Additionally, an extensive research was undertaken to study the different classifications and typologies of crises, aiming to gain a deeper understanding of their characteristics and distinctions. This foundational research was essential in setting the stage for a more informed and nuanced exploration of the specific crises in Turkey and their intricate relationship with the banking sector's dynamics during those periods.

In order to better analyze the economic crises experienced in Turkey, seven major crises in the world were examined. These crises were selected from both developed and developing countries. Here, we can also say that the causes and consequences of the economic crises in developing countries are very similar to each other, and similar structural problems in developing countries and their structures depending on foreign economies trigger economic fragilities, causing crises to occur. The banking sector is one of the most important sectors that we can call the heart of the economy. It has also

been determined from examples of crises in foreign countries that if economic crises spread to the banking sector, they become deeper, more difficult to manage, and last longer. For this purpose, a separate section has been added to examine the effects of world crises specifically on the banking sector.

After forming a typology of crises for developed and developing countries, I will analyze the causes of the various crises in Turkey in the post-WWII period and critically evaluate the policies implemented. Especially in the case of major crises, the policies introduced have the effect of changing the production and accumulation regime of the country. The effects of the changes caused by the crises and of the political measures introduced on production, international trade, monetary and fiscal policies, the society, in general, and, ultimately, the banking system will be analyzed and evaluated. The crises experienced in the developed and developing countries will be examined in order to better analyze the role the international bodies play during the crises and the development of the new accumulation regimes.

The importance of this thesis stems from its comprehensive examination of crises spanning a significant 75 year period. It encompasses crises from various historical periods, including the most recent one in 2018, which has raised concerns about the likelihood of future financing crises. By providing a historical overview of major global economic crises, our analysis is grounded in a solid foundation that helps us understand the dynamics at play. This long-term perspective enables us to gain valuable insights into how the Turkish banking sector has been affected by and responded to economic crises throughout its history.

Generally speaking, monetary emergencies have had extensive ramifications for the society, remembering the changes for industry, global exchange, and the country's monetary frameworks. The banking industry is severely restricted during financial crises, particularly when it comes to lending to businesses. During a financial crisis, banks are less likely to lend, which makes financing problems worse. According to Campello et al. (2009), businesses reduce their capital and R&D investments as a result. It is also known that they are more likely to steer clear of appealing investment projects.

Banks are institutions that make money by transferring excess funds to those in need. The structural changes brought about by financial liberalization in the 1980s and the merger between the banking and financial sectors in the 1990s gave rise to the banking sector, which is regarded as a fundamental and integral component of the international financial system. However, the Turkish banking industry was structurally unstable prior to the 2000s, which led to financial crises in November 2000 and February 2001.

In analyzing the banking industry, various types of ratios are evaluated to determine the effects the crises. The analysis of the banking sector is a crucial undertaking, particularly in the context of crisis periods. This process is pivotal for gauging the sector's overall health and its ability to withstand financial upheavals. Although the consequences of crises in Turkey are the almost same, such as low growth, high inflation, and currency depreciation, they differ in terms of the reasons for their emergence. The ongoing current account deficit and external financing need in Turkey is one of its most important vulnerabilities.

The essence of this thesis lies in the investigation of Turkey's historical experience with economic crises. We meticulously examine important events such as the 1958 Crisis, the devastating effects of the 1978-1979 Oil Crisis, the collapse of the Turkish economy in 1994, the ups and downs of the 2000/2001 financial crisis, and the resilience shown in the 2008-2009 Global Crisis. Along with newer challenges such as the Financial Crisis and the 2018-2020 foreign exchange and debt crisis and the deep repercussions of the COVID-19 pandemic, economic developments after 2018 are also analyzed in detail. In each crisis period section in the thesis, in addition to the analyses provided, the development and change of macroeconomic and market data of that period are highlighted with tables and graphs. Here are the economic data with tables and graphs and their developments for the relevant crisis periods.

- Gross Domestic Product (GDP), Growth Rate
- GDP per capita
- Inflation
- USD/TRY Rate,
- Devaluation Rate

- TRY Interest Rate
- Population
- Labor Force
- Unemployment Rate
- Current Account deficit, Current Account Deficit to GDP
- Budget Deficit, Budget deficit to GDP
- Total Export, Total Import, Trade Deficit, Export to Import Rate
- Gross External Debt of Turkey, Short Term Debt, Long Term Debt
- Short Term External Debt by Borrower
- Long Term External Debt by Borrower

The thesis also traces the remarkable journey of the Turkish banking sector by recording its evolution, growth, challenges and transformation stages. This historical context provides a background for understanding the sector's resilience and adaptability in turbulent times and sheds light on the profound effects of various financial crises on the Turkish banking sector as it progressed.

The historical development of the Turkish banking sector and the crisis periods of the sector are discussed parallel to each other, and the developments in the sector and important events of the sector are analyzed. Through a comprehensive examination of historical data, economic theories, and real-world case studies, this thesis aims to provide insight into the complex dynamics between economic crises and the Turkish banking sector and to illuminate the important role of this sector in the country's economic resilience.

While analyzing the banking sector, firstly the number of banks, number of branches and number of employees were examined according to the field of activity in the sector. The changes and developments of the sector, especially during the relevant crisis periods, were followed in the balance sheet items below.

- Distribution of Assets and Liabilities
- Net Interest Gain,
- Net Profit/Loss

To effectively discern the impact of crises and evaluate financial stability, a set of financial ratios is employed. These ratios provide a multifaceted view of a bank's performance and resilience.

The impact of crises on the balance sheet is intended to be revealed by the fundamental banking indicators listed below.

- Equities,
- Quality of Assets
- Liquidity
- Profitability
- Income/Expense

In summary, this thesis aims to understand the environment in which economic crises occur from a broad perspective, examine the underlying causes of the crises, analyze their impact on the economy, study the actions taken, and explore the outcomes separately.

Apart from the introduction and conclusion, the thesis has four main chapters and two appendices. The second chapter begins with a literature review that primarily focus on the definition and typology of economic crises. Here, a brief description of types of crises is provided, and an examination of first and second generation crisis models is conducted. The chapter also examines various important economic crises that have occurred in different countries around the world and their effects on the banking sectors of those countries. The primary purpose of including this study in the thesis is to gain a broader perspective by examining various international examples before analyzing the crises in Turkey.

The third chapter of the thesis contains an introductory section on the history of economic crises in Turkey. In this chapter, eight specific topics related to Turkish economic crises are examined, each highlighting the characteristic features of the relevant crisis period. Each section discusses the economic conditions under which the crises emerged, their impacts, and outcomes. In these sections, the changes in economic

indicators are provided, focusing exclusively on the period in question, illustrated through tables and graphs of macroeconomic indicators.

The fourth chapter narrates the history and development of the banking sector in Turkey. The evolution of the banking sector is also depicted through graphs. Hence, therefore, an effort is made to describe the development of the banking sector from a comprehensive perspective.

In the fifth chapter of the study, a detailed analysis is presented on the impact of economic crises on the banking sector, structured under six principal categories. This comprehensive section includes extensive and detailed tables for each identified period, which meticulously illustrate the banking sector's evolution, development, and financial state during these times. These tables serve as a crucial tool in understanding the nuances of how the banking sector has adapted and transformed in response to various economic crises.

Finally, I also would like to mention the Appendices to the thesis. The initial appendix, offers a detailed compilation of macroeconomic data pertinent to each crisis period discussed in the thesis. This data, crucial for understanding the economic fluctuations and trends, is systematically organized and presented in a series of tables and graphs for clarity and ease of analysis.

The second appendix encompasses a substantial collection of the 467 regulations issued since 2018 by various Turkish institutions, including the Central Bank of the Republic of Turkey, the Ministry of Treasury and Finance, the Banking Regulation and Supervision Agency, Capital Market Board, Borsa İstanbul, the Savings Deposit Insurance Fund, and the Presidential Decrees. In the relevant section of the thesis, these regulations are categorized and classified through summary tables, providing explanatory information about the respective period.

2. LITERATURE ON ECONOMIC CRISES

2.1 Clasification of Economic Crises

Financial instabilities can occur whenever there are monetary activities that pose a growing threat to a country's economy. Any instability, bubble, or shock can result in an imbalance that leads to the economic crisis. Kibritçioğlu (2001) defines economic crises as severe fluctuations beyond any acceptable limit of change in prices and/or quantities in a number of goods, services, production factors or foreign exchange markets. According to Fink (1986) and Kash and Darling (1998), on the other hand, a crisis is an unanticipated occurrence that has the potential to disrupt operations, endanger people's physical and mental health, and jeopardize the viability of entities that are no longer capable of dealing with the situation using normal managerial procedures. There are different sorts of crises, like debt crises, balance of payment crises, fiscal crises, currency crises. They are categorized differently, but they all share significant similarities, and one type can lead to another (Kovoor-Misra et al., 2001; Richardson et al., 1994)

The issue is not whether such occurrences will occur, but rather when they will occur, how one may react to them, and how to reduce their negative impacts, claim Kash and Darling (1998). The literature emphasizes the need for crisis planning. Negative results from crises usually include declining demand and revenues, increased costs, disruption of routine business operations, mistakes in decision-making and communication, staff layoffs, investments canceled, unpleasant living and working conditions, and organization dissolution. A simultaneous introduction of new products, management programs, markets, and cost-cutting measures may be possible as a result of these developments. The chance to learn how to solve problems and gain experience is one of the most important benefits for managers.

When it comes to the economy, it goes without saying that a crisis signal needs to be looked at to see if a country is on the verge of disaster. International credit institutions, participants in the financial market, and policymakers all want to establish a sustainable economy that fosters communal prosperity, so these signals are crucial.

The literature discusses a variety of classification strategies for economic crises. The real sector crisis and the financial crisis, which are examined under two distinct titles, are the primary distinctions between them (Bayraktutan, 2006). Since economics is a human-based science with many subfields and balance mechanisms, it is incorrect to separate the types of crises. For instance, the real sector and financial structure will be affected by an inflation crisis. Inflation, unemployment, and financial crises involving banking, foreign exchange, balance of payments on foreign debt, the stock market, and labor markets are the basis for classifying crises as real sector crises. These markets include those for products, services, and labor. As these concepts are intertwined, there is a chance that one of them could be the cause or effect of another, which implies that categorizing crises is a challenging task. Real crises in a sector manifests itself as significant declines in employment and production. A financial crisis, by contrast, is a collapse of a financial market that can disrupt the efficiency of markets and have negative effects on the real economy (Delice, 2003).

In their analysis, Reinhart and Rogoff (2011) classify economic crises into two distinct categories: crises defined by events and those identified by numerical thresholds. Crises defined by events are those triggered by specific, tangible occurrences, such as political turmoil, sudden shifts in economic policies, or major financial decisions, which directly impact the economy. These events are often clear and identifiable, marking a distinct change or disruption in the economic landscape. On the other hand, crises defined by numerical thresholds are recognized when key economic indicators reach or surpass certain predefined levels. This category is more data-driven, relying on quantitative measures such as inflation rates, debt-to-GDP ratios, or currency devaluation rates. A crisis is declared when these indicators cross a critical benchmark, signaling an economic disturbance or instability. The subcategories under these two main types include various forms of economic distress, such as inflation crises, currency collapses, and financial crises. These can be categorized as event-driven or threshold-driven, depending on whether they are instigated by specific events or by the crossing of numerical boundaries in economic data. This framework allows for a nuanced understanding of the different triggers and characteristics of economic crises.

2.1.1 Real sector crises

When there is a real sector crisis, there is a decrease in production or employment, resulting in a decrease in the quantity of goods and services produced, and a contraction in the labor market, which causes unemployment and/or stagnation. On the other hand, real sector crises can be sparked by political instability, erroneous economic policies, weak financial infrastructure, natural disasters, or wars, depending on the observed economy's economic structure and commercial relationships with other economies. The continuous rise in the cost of goods and services is known as inflation. According to Kibritçioğlu (2001), if this reaches a certain level, an inflation crisis will ensue. The international definition of inflation is very similar to Kibritçioğlu's definition. Inflation is generally defined as the sustained increase in the general price level of goods and services in an economy over a period of time. This increase is usually measured using a price index, such as the Consumer Price Index (CPI) or the Producer Price Index (PPI).

According to Kibritçioğlu, there are several factors that contribute to persistent inflationary pressure or shocks. These factors include issues like consistent and high public sector deficits leading to an expansion of the money supply, continuous exchange rate increases that drive up imported input prices and hinder production, and elevated inflation expectations among economic actors. Moreover, long-term political instability in the country and the government's commitment to reducing inflation also play a role, as well as the decline in the determination and confidence in the government's ability to address these challenges.

Inflation cannot be solely attributed to money supply growth. Inflation may arise from factors like rising oil prices, or it can result from supply shortages, as witnessed during the COVID-19 pandemic.

Inflation outcomes has stemmed in large part from structural economic changes, including improved monetary and fiscal policy frameworks as well as international trade and financial liberalization. Lower and more stable inflation has often been associated with better growth and development outcomes, partly by reducing

uncertainty, fostering a more efficient allocation of resources, and helping preserve financial stability. (Ha, J., Ivanova, A., Ohnsorge, F., & Unsal, D. F. 2019).

2.1.2 Financial crises

In his pioneering definitions of financial crises Minsky's (1977) characterized financial vulnerability as forced liquidation, credit crunch, and ultimately a dramatic decline in asset prices, all of which could inevitably result in a contraction, or crisis, leading to depression. The normal operation of the financial system is what gives rise to this contraction or crisis. Failure to fulfill debt obligations causes financial instability, according to Minsky (1982). Kindleberger (1978) defined a financial crisis as a sharp, unexpected and widespread decline in asset prices, particularly in the stock market or the housing market, accompanied by a sharp contraction in credit availability and a surge in uncertainty and risk aversion. The insufficiency of the cash flows or asset values that are determined by the market is the primary factor that prevents the obligations from being met (Akalin and Tokucu, 2002). Financial crises, cause disruptions to the financial markets by making moral hazard and adverse selection issues significantly worse, making it difficult for the financial markets to allocate funds to those who have the best investment opportunities. Accordingly, misinformation and lack of information lead market agents to wrong channels which result in a crisis.

There are numerous explanations for financial crises in the literature. They are organized under the following four headings: crises involving money, banking, foreign debt, and the entire financial system.

2.1.3 Currency crises

A currency crisis can occur when, as a result of speculations based on a variety of factors, foreign funds begin to leave the country rapidly and economic agents begin demanding more foreign currency. Consequently, the central bank is forced to devalue or fluctuate the national currency because it is unable to defend the parity rate against speculative attacks. Currency crises occur when the national currency loses value or when the central bank spends a lot of international reserves, or has to quickly raise

interest rates to protect the currency from attacks (Eichengreen and Rose, 1998). According to Paul Krugman (2007, p. 1), 'there is no generally accepted formal definition of currency crisis, but we know them when we see them'. Krugman continues his explanations in the first paragraph of his book, *Currency Crisis*; 'the key element is a sort of circular logic, in which investors flee a currency because they fear that it might be devalued and in which much of the pressure for such devaluation comes precisely from that capital flight'. In 2001, Kibritçioğlu identified five factors that contribute to currency crises: wrong economic policies and weak macroeconomic indicators; inadequate financial resources; asymmetric information phenomenon and moral hazard; creditors and international financial institutions' erroneous perceptions and predictions of the market; shock-inducing events like political assassinations, terrorist attacks, and natural disasters. Nearly every currency crisis is preceded by at least one of these factors (Kibritçioğlu, 2001).

2.1.4 Banking crises

When banks fail to meet their obligations because of bankruptcies or bank failures, or when the banking sector crisis must be prevented by government intervention, banking crises occur. Due to the impact that a crisis in the banking sector has on the economy as a whole, crises in this sector are considered to be significantly more serious than others. This is because the institutions that control how the economy's resources are distributed are the banks. According to Ersoy (2012), in developing nations like Turkey where the banking industry dominates financial intermediation, the terms "Banking Crisis" and "Financial Crisis" may have similar meanings.

Typically, a banking crisis occurs when three things happen simultaneously: Banks are unable to fulfill their obligations; customers of banks panic and withdraw their deposits out of mistrust and fear that they will not be reimbursed; the government steps in to rescue or expropriate after a significant amount of credit is not repaid. It is difficult to distinguish between the actual effect of bank crises and the causal relationship between production and banking crises because they frequently occur simultaneously with a decline in economic activity and growth. There are two ways that banking crises affect

production and national income. First, an unexpected contraction in the money stock because of the banking crisis causes an economic recession. Secondly, as the banking system weakens, some banks withdraw from the market and the existing banks, under capital pressure, cause a decrease in loan supply.

The decrease in credit supply leads to a reduction in the expenditures of households and businesses, which in turn causes a decrease in production. The factors that lead to banking crises, as identified by Goldstein and Turner in 1996, include volatility in both internal and external macroeconomic variables, a rise in the banking system's liabilities as a result of maturity and exchange rate mismatch, excessively high loan and capital inflow rates, abrupt declines in asset values, inadequate methods of financial liberalization, excessive government involvement and a lack of control over loans; wrong regimes for exchange rates, transparency and deficiencies in the legal structure (Goldstein and Turner, 1996).

2.1.5 External debt crises

A country's inability to pay its public and private sector external debts due to a lack of foreign currency liquidity is what causes external debt crises. In their research paper on *The Asian Liquidity Crisis* (1998), Roberto Chang and Andres Velasco highlighted that a key distinguishing factor in crises is the aspect of international illiquidity. The key issue of external debt crises is a mismatch of assets and liabilities. A country's financial system is internationally illiquid if its potential short-term obligations in foreign currency exceed the amount of currency it can have access to on short notice.

Government declarations are the first step in crises involving external debt. A government may declare an external debt crisis in order to signal to creditors and other stakeholders that it is in need of assistance, such as debt relief or restructuring. There is a link between external debt crises and liquidity crises because an economy experiencing a liquidity crisis may have trouble paying its external debt. It is generally accepted that the declaration by the state that it is unable to fulfill its obligations related to the repayment of external debt, either entirely or in part, is what precipitates an

external debt crisis. This disruption may be brief or last for some time, but creditors view this situation as a crisis (Çalışkan and Callon, 2010).

2.1.6 Systematic financial crises

The financial system's structure deteriorates significantly and becomes fragile as a result of systemic crises. Changes in social, political, and economic life lead to systematic crises. The fact that these crises start in different places, trigger one another, and ultimately cause the system to break down completely is their main characteristic. For instance, a crisis in the foreign exchange market could have a negative impact on the banking industry and lead to a crisis in the banking industry (Delice, 2003).

Economic crises have persisted for centuries, and they can manifest in various forms, including real sector crises, financial crises, or a combination of both. The Tulip Crisis, which unfolded in the Netherlands during the 16th century, stands as one of the earliest documented systematic crises in history (Hendricks, D., Kambhu, J., & Mosser, P., 2007). A more in-depth examination of the subprime crisis necessitates not only a thorough understanding of hedge funds, rating agencies, and the use of derivatives and complex financial instruments – topics that are increasingly explored in academic literature and official documents. The crisis also gives rise to a broader conceptual issue surrounding the concept of systemic risk (Kessler, 2009)

2.2 Typology of Crises

A classification would unquestionably be helpful in determining common features of various crises. The problems that they create and, more importantly, how to deal with them needs to be analyzed. According to Hart, Heyse, and Boin (2001), such a typology could also help crisis researchers deal with the future defiance brought on by the simultaneous emergence of classic crises and the crises of the so-called post-industrial, post-national crises by allowing for a more integrative approach to the analysis. This is in addition to its obvious application in practice. Any categorization

strategy faces a challenge in the face of a transitory issue because terminology that is useful today may become obsolete tomorrow.

We shall begin by discussing the characteristics of a useful typology which will be followed by an examination of the general application of an adequate typology of crises. Then, the aforementioned characteristics will be used to illustrate and explain previous crises. Classifying crises is the initial step in managing them effectively, as it enables us to name and analyze them. In this context, analysis doesn't just entail theoretical research but also encompasses practical measures. Hopefully, a well-structured typology can serve as a framework for meaningful progress in this regard. The value of such a typology lies in its ability to facilitate the generation of comprehensive insights into crises and the accompanying remedial actions. However, as previously mentioned, finding a truly sufficient typology is a rare occurrence. Therefore, it becomes imperative to contemplate the precise criteria that determine the sufficiency of a typology (Gundel, S.,2005). Consequently, these criteria will be presented and discussed, and a matrix with four quadrants (for the four crisis classes) will be launched as the subsequent step. After a comprehensive discussion of the various types of crises, the entire issue will be reevaluated. Such a classification would undoubtedly be helpful in identifying common characteristics among crises if one is interested in learning how various types of crises occur, what difficulties are associated with them, and, most importantly, how they can be addressed.

Finally, any typology should be practical, with a manageable number of subsets and sufficient variations between them to avoid classifications that are solely for scientific purposes. Crisis typology should enable the categorization of all current and future crises into one of two mutually exclusive classes, as well as the facilitation of crisis management. Previous typologies can now be discussed using the above-mentioned systematic framework.

Consequently, a four-quadrant matrix is utilized to approximate the risk of encountering various kinds of crises, their frequency, and, ultimately, the most effective responses to these crises. Conventional crises, fundamental crises, intractable crises, and unexpected crises are the four types of crises that have been identified (Gundel, 2005). Because the typology's utility is likely to be its most significant attribute, each of the four subgroups

will receive generally valid proactive and reactive countermeasures. Since both organizational and regulatory methods are commonly used to cope with crises, two levels of intervention will be examined. The amount of space provided here is too limited to allow for a thorough exposition, but Gundel (2005), has a full overview of the potential countermeasures.

The first quadrant contains conventional crises. They are recognizable for their influence and predictability. Disasters in technological systems of any size bear the brunt of responsibility for such events because engineering research hazards are frequently simple to anticipate and control. Even though social or natural disasters are rarely recognized as such, conventional crises can be traced back to the use of potentially risky or even poorly structured technology systems.

There are some general guidelines for avoiding or mitigating conventional crises, despite the fact that they differ in some ways. Organizations confronted with such occurrences could implement an integrated quality and crisis management system, allowing them to implement a wide range of cost-effective countermeasures due to the known risks and the integrative approach required to deal with traditional crises (Pun and Hui, 2002).

The synchronization of economic, safety, and quality goals may all be accomplished simultaneously, in addition to the advantage of potentially generating surpluses during disaster-free periods by affecting service quality. As a consequence of this, not only ought to this concept be regarded as a feasible choice for either preventing or resolving conventional crises, but it ought to also be used as the foundation for any strategy for corporate crisis management.

In addition to organizational countermeasures, regulatory policy is a crucial tool for achieving high reliability. Based on the well-known catastrophic potential of the systems or operations in question, regulations to combat traditional crises have been in place since the relevant activities were carried out.

Unexpected crises are uncommon in comparison to conventional crises because they are susceptible to influence but otherwise unanticipated. Nonetheless, they are more

dangerous because influence options are available, but due to a lack of preparation, rescue squads must first implement them.

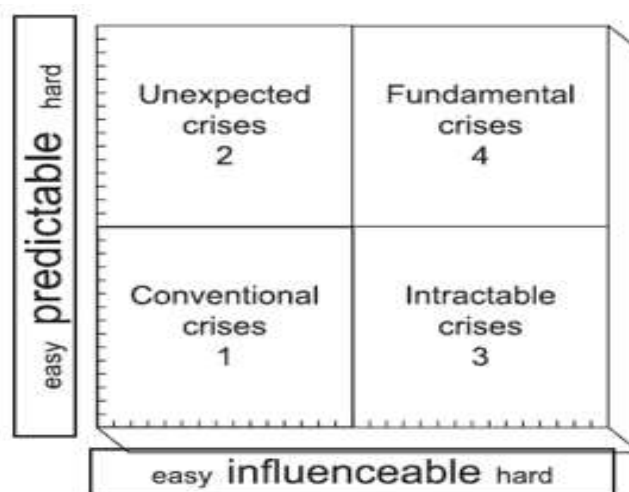
While our thesis primarily focuses on financial crises and delves into them extensively, it's worth briefly discussing technology-related crises within the broader context of crises. Technology systems that exhibit abnormal behavior or natural systems that evolve over thousands of miles in spheres that humans cannot see through are the causes of unexpected disasters.

The fact that their occurrence are unpredictable necessitates the absence of preventative measures is one thing that all unexpected crises have in common. Increasing information flow to discover coherences prior to a crisis and preparing emergency managers to deal with unexpected and previously unknown disasters should be the most important responsibilities of those in charge of organizations, particularly rescue teams and regulatory agencies.

It is possible to adequately anticipate intractable crises, but intervention is nearly impossible due to the systems' characteristics, which make it difficult to prepare for responses, or the conflicts of interest that surround them, which prevent proactive countermeasures. In addition to their unusual influence, intractable disasters frequently inflict significantly more damage than unanticipated disasters, giving the impression that they are more deadly. In addition, some of these effects last for a long time.

Because they cannot be controlled or predicted, fundamental crises are the most dangerous. Because basic crises occur unexpectedly or are even beyond comprehension, responses are either unknown or insufficient, and readiness cannot be achieved. Fundamental crises have enormous destruction potential because of their combination of unpredictability and limited, if not nonexistent, impact options. There is a high level of expert uncertainty in addition to the fact that it is impossible to estimate all of the characteristics needed for disaster preparation, such as time, location, probability, or countermeasures. Conventional or unanticipated disasters, on the other hand, are discrete events that take place over a long period of time and space. Fundamental disasters, on the other hand, typically begin quickly but last for a long time, changing along the way.

Figure 1: Crises Matrix (Gundel, 2005)



The post-war era has witnessed numerous currency crises, characterized by significant exchange rate depreciations over a short period. Extensive research has explored the causes and consequences of currency crises, especially in countries with fixed or heavily managed exchange rates. Scholars have categorized models in this field into first-, second-, and third-generation (Burnside, C., Eichenbaum, & Rebelo, S, 2016).

First-generation models attribute the collapse of a fixed exchange rate regime to unsustainable fiscal policies. Krugman's (1999) and Flood and Garber's (1984) classic models fall under this category, with roots tracing back to Henderson and Salant's (1978) work on speculative attacks in the gold market. These early models have been extended to incorporate consumer optimization and the government's intertemporal budget constraints, as seen in the works of Obstfeld (1986), Calvo (1987), Drazen and Helpman (1987), and Wijnbergen (1991). For an in-depth review of first-generation models, Flood and Marion (1999) provide a comprehensive analysis.

A number of first-generation models captured the idea that currency crises had a significant predictability component prior to 1990. International reserves were depleted as a result of fiscal deficits funded by domestic credit creation, laying the groundwork for a speculative attack on a fixed exchange rate. The observational proof from the 1970s and 1980s backs up the expectations of original models. The belief that currency crises are primarily the result of governments' inability to discipline fiscal and monetary policies was called into question during the 1990s by speculative attacks, particularly in

Europe. Excessive expansionary policies were not the cause of many nations' crises. In these instances, higher domestic interest rates were the result of expectations that the exchange rate peg would be abandoned. Consequently, governments concerned about unemployment, highly indebted businesses, or fragile banking systems may have found the fixed exchange rate prohibitive. Changes in expectations could, in a way that is self-fulfilling, set off currency crises. Late exploration on money emergencies has focused on a different arrangement of markers. Although the broad focus appears to have improved the ability to predict some crises, it is challenging to apply these findings to a variety of countries or time periods. To be sure, late experimental proof backings the view that free capital business sectors sabotage our capacity to foresee emergencies. If currency crises involve significant and potentially lucrative jumps in financial variables, free financial markets will either force the jumps promptly upon recognition or limit them so they do not fulfill the criterion. This will make the jumps unpredictable, profitable, and anathema to free capital markets.

Speculative attacks on government-controlled exchange rates were brought to international attention in the 1990s by currency crises in Europe, Mexico, and Southeast Asia. Both theoretical and empirical research has been carried out in an effort to gain a deeper comprehension of these events. First-generation models demonstrate how the private sector attempts to profit from undoing the inconsistent policies by driving the economy into crisis with a combination of a fixed exchange rate policy and pre-crisis fundamentals that were excessively expansionary.

Second generation models of currency crises in economics focus on the interaction between the behavior of market participants and the fundamentals of the economy. These models seek to explain how market expectations and self-fulfilling prophecies can cause a currency crisis, rather than solely relying on macroeconomic fundamentals. One of the key second generation models of currency crises is the model proposed by Paul Krugman in 1979. Krugman's model suggests that a currency crisis can occur when investors begin to doubt the government's ability to maintain the exchange rate of the currency. This can lead to speculative attacks on the currency, causing a sudden devaluation.

Another important second generation model of currency crises is the model proposed by Maurice Obstfeld and Kenneth Rogoff in 1995. This model suggests that a currency crisis can occur when a country's fiscal and monetary policies are unsustainable in the long term. If investors believe that the government will not be able to meet its debt obligations or maintain its currency peg, they may begin to sell off the currency, causing a devaluation.

There are two ways in which these attacks differ significantly from those studied by the previous generation:

- 1) The state of the banking system and business cycle, in addition to borrowing restrictions imposed by the monetary policies of partner nations, restricted authorities and prevented them from supporting exchange-rate parties in traditional ways.
- 2) The economic fundamentals predicted by first-generation models appeared unrelated to recent speculative attacks, particularly in Europe.

(The original assault model proposed by Salant and Henderson (1978), Krugman (1979), and Flood and Garber (1980).). Age'nor and Aizenman's (2006) model has been extensively expanded and make a survey available.

2.2.1 First-generation models

The original money emergency models were created in the mid-1980s. The idea is easy to understand. According to the model, there is a problem with the fundamentals of the economy, leading to the implementation of a policy that is not based on a stable exchange rate (such as excessive monetary growth). The exchange rate will eventually plummet if this strategy continues. When exactly will it fall is the inquiry.

Take into consideration an economy as represented by the four logarithmic equations (Flood and Marion, 1999):

$$m - p = -a i \quad (\text{money market; "a" is parameter})$$

$$m = d + r \quad (\text{sum of domestic credit shown as "d" and reserves shown as "r" is money supply})$$

$$p = p^* + s \quad (\text{purchasing power parity, where "s" is the rate of exchange})$$

$$i = i^* + (\text{change in } s) \quad (\text{uncovered interest parity})$$

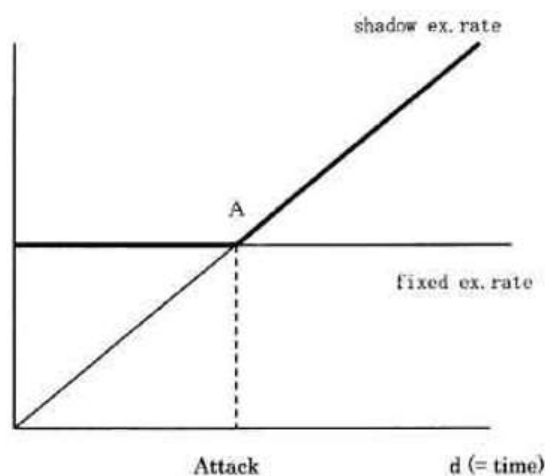
The exchange rate (s) is initially assumed to be fixed and that domestic credit (d) is increased at a constant rate regardless of the exchange rate.

Assume that the exchange rate (s) is initially fixed, and that domestic credit (d) grows at a constant rate regardless of the exchange rate.

The interest rate (i), purchasing power parity (p), and exchange rate (s) are all fixed prior to the speculative attack. First equation: m is also fixed if p and i are both fixed. When there is a speculative attack, international reserves fall to zero (r = 0), and the currency rate begins to float because the nominal money stock is fixed while d is always increasing. The government loses international reserves (r) at the same rate as it issues d. The exchange rate falls at the same rate as d, while domestic credit (d) grows at the same rate as before.

When will the speculative assault probably going to happen? Take for instance the shadow exchange rate, which is a fictitious exchange rate that will come into effect immediately following the attack. Assuming that this level is lower than the underlying fixed-rate, hypothesis will make the nearby money fortify while the dollar deteriorates, wiping out the need to procure dollars. If the shadow exchange rate is higher than the fixed rate, everyone wants to attack because the attack will make the home currency weaker and the dollar stronger. The actual attack will occur exactly where the fixed rate and the shadow exchange rate overlap due to speculation rivalry. There is no sudden shift in the exchange rate from fixed to floating. Before this point, attacking is pointless. Since everyone else has already attacked, it is pointless to attack after this point.

Figure 2: Graph of the shadow exchange rate



Source: Kaminsky et. al, 1998

In other words, this paradigm is irrelevant in terms of the origin of the crisis. It's no surprise that the central bank will be attacked if it continues to produce money too quickly. The sole question is timing, which is governed by currency traders' competitiveness and expectations. The policy message is clear: avoid large budget deficits and rapid money expansion. Currency attacks will be thwarted by sound macroeconomic policies.

2.2.2 Second-generation models

The clarification of the second-generation models of money emergencies is somewhat more troublesome. An attack could occur despite sound economic fundamentals. To put it another way, you can't always protect yourself from attacks with good policy. The inherent insecurity of the private currency market is exemplified by these models.

The idea is based technically on the policy reaction function's nonlinearity. The model usually only has one solution if the policy is linear, which means that it is the same

before and after the attack. Nevertheless, if it is not linear, then there may be several equilibrium states, including one with and one without the attack (before to and following the attack, policy is altered).

This can occur, for instance, when the government aims to accomplish two things at once. It wants a fixed exchange rate on the one hand, but it also wants to keep unemployment low (or interest rates low, protect bank balance sheets, limit the burden of external debt, etc.). Tight cash assists with keeping the conversion scale stable, however it intensifies different issues. While the public authority can keep trade rates stable through close macroeconomic approach, it might decide not to do as such. However, in the event of a significant attack, the cost of maintaining the exchange rate would become prohibitive, and the government would switch to the alternative regime of floating the currency in order to accomplish the domestic objective. To put it another way, a policy of sacrificing currency stability for domestic gain and a strategy of fixing the exchange rate under domestic pressure are both viable options. The likelihood of market attacks will determine which one is realized. The first option is chosen if the market does not attack; The second choice is made if the market does launch an attack. An ultimate choice is made by the market, not the public authority.

The explanation that came before is just an example. Numerous additional methods for modeling policy nonlinearity yield results that are similarly ambiguous. Another thing to think about: Although second-generation models are capable of demonstrating the existence of multiple equilibria, they are unable to indicate which outcome—an attack solution or a non-attack solution—is more likely to emerge experimentally. To put it another way, rather than attempting to explain market psychology, the theory accepts it as a given.

Attack that is self-fulfilling: A currency crisis will occur if the market decides to attack. There won't be a crisis if the market doesn't strike. A crisis can erupt from any rumor or piece of news that, whether true or false, affects market sentiment. In this regard, it doesn't matter whether the country's policies are good or bad.

Currency traders and international investors might behave like a herd of buffalo when it comes to herding. Everyone will unquestioningly follow the leader if they act in that

manner. They run the risk of all falling off a cliff as a result. Their actions are not supported by evidence or logic. Although they don't know much about trendy assets, investors put their money into them.

Others begin to believe what one person (for example, a market analyst) says about country A's difficulties. Since certain individuals accept it, increasingly more individuals will begin to accept it until everybody is negative about the nation, yet the underlying expert might be inaccurate, and the nation might be fine.

The policy implications of the first-and second-generation models are vastly different. The crisis is triggered by fundamental faults in first-generation models. Attacks are encouraged by bad policy, so fix it. However, the second-generation model suggests that private industry behavior is inherently unstable. A free economy may not be such a wonderful thing if financial markets are inherently unstable and harmful. Rather than allowing markets to operate freely, the government should regulate them.

2.3 Brief History of World Crises

Despite the development of economics and finance and the publication of hundreds of study papers, the scientific community finds it paradoxical that financial crises have become more frequent and have more severe impacts since the turn of the 20th century. The 17th and 18th centuries witnessed the first global economic crises. Crises in these centuries were just random fluctuations that happened outside the production activities as a whole. Simultaneously, the financial vacillations that happened in this period contrast from the variances brought about by the construction of the entrepreneur framework, emerging from repetitive speculative assaults that occasionally happen in discount exchange or protections. As a result, these fluctuations are not regarded as genuine economic changes. The effects of the economic crisis have also grown as a result of the shift in the structure of the economy (Parasız and Bildirici, 2006).

The financial or banking crises are cited as the most damaging phenomena to countries' economies. Reinhart and Rogoff, 2009 show that they have caused the greatest impairment to the GDPs of major economies. Vague (2019) summarized the essential

features of financial crisis as widespread over lending that leads to widespread overcapacity that leads to widespread bad loans and bank failures.

Below I discuss the essential features of the major economic crises beginning with the Great Depression and concentrating on the last 40 years.

2.3.1 1929 World Economic Crisis (Great Depression)

In the 1920s, a production boom was experienced in the USA, which was victorious after the First World War. The rapid and unhealthy growth that occurred in those years caused changes in the lifestyle of US citizens. There was an increase in worker wages and consumption. The workers working in Henry Ford's mass production factory gained the power to buy the cars they produced, as a result of increased production and cheaper prices. In addition, people whose financial situation improved began to buy stocks from the stock market. This caused the stocks to be overvalued. However, in October 24, 1929 the bubble in the stock market exploded. The crash of the stock market led to the 'Great Depression', one of the most severe economic crises globally. In the period starting from the 1875 until the First World War, a period known as the second Industrial Revolution, the extraordinary growth of countries, the acceleration of industrialization and the development of technology caused the technology-based markets to have a say in place of labor-intensive markets. This fundamental change in the markets could not be fully managed and with the First World War, the economies of the countries were damaged and paved the way for the emergence of the crisis (Özpek, 2014).

On October 24th, 1929, known as 'Black Thursday', the New York Stock Exchange collapsed. The decrease in industrial production and the ensuing Great Depression affected all industrialized countries of the world, especially North America and Europe between 1929 and 1939. The Great Depression is seen as the biggest economic crisis in history up to that time (Cochrane, 1958). In addition, investment and consumption expenditures fell as a result of bankruptcies in banks with the collapse in the stock market, and the GDP of the USA fell by approximately 35% between 1929 and 1933 (Aktan and Şen, 2001). Again, between the same years, the unemployment rate in the

USA increased from 3.2 percent to 24.9 percent and approximately ten thousand banks stopped their activities. During the 1929-1939 World Economic Crisis, countries that went into depression from a deflationary process tried to bring their economies back to life by making hard moves to their economies.

Cochrane (1958) summarized the reasons that caused the crises in the following way: The economy was significantly impacted by a wave of bankruptcies resulting from the merger and subsequent monopolization of American companies during the First World War. Approximately 200 major holdings gained substantial control, influencing nearly 50% of the American economy.

President Hoover did not take the necessary measures to balance the budget in the economy, based on the liberal economy that prevailed in the 1920s. As a result of the reduction in government expenditures and tax increases in order to balance the state's budget, unemployment increased. As a result of the tight monetary policy caused by the government's insistence on sticking to the gold standard, economic activities stopped, and the real sector shrank. However, because of the social cost of the 1929 crisis, even President Hoover approved state intervention in the economy. But it was too late, and the intervention was not successful.

Since the USA could not receive the war reparations demanded from Germany and England after World War I as gold, she tried to collect her receivables as goods and services. However, this approach had unintended consequences, particularly affecting her own goods and services sector. As a last resort, the USA decided to impose a customs wall, hoping to protect its domestic industries. Unfortunately, this move backfired and led to a decline in her own exports. Moreover, the USA encountered difficulties in collecting loans that had been extended to various countries around the world. These challenges underscored the complex economic dynamics of the time.

When we look at the results of the crisis; the bill of the crisis was brought to President Hoover and Franklin D. Roosevelt was elected president in the first election. With President Roosevelt, some regulations were introduced in the banking sector. State guarantees were given to deposits and 500 new regulations were made to improve the banking system. In addition, in order to increase the profitability of the real sector,

prices were allowed to be increased under the supervision of the state, and an increase was made in the minimum wage to prevent the demand from being affected. Finally, the unemployment problem was tried to be solved by reducing the working hours (Cochrane, 1958).

2.3.2 The Latin American debt crisis in the 1980s

Throughout the Latin American history, economic crises have always been a common and long-standing occurrence. These crises have taken numerous forms, ranging from external debt to currency (or a combination of the two in many cases), and have always been followed by large increases in the quantity of capital streaming into the region (Alqifari, 2017).

Overall, the crisis of the 1980s was dubbed the worst since the Great Depression of the 1930, because it engulfed and afflicted all the region's 18 countries (excluding Columbia) due to foreign debt spirals and issues in the international private banking system (Hsu, 2017). These Latin American economies shrank massively and had to make budget cuts to deal with the balance of payments during these period. The period was dubbed "the Lost Decade" by many due to the coincidence between the crisis in Latin America and the international financial booms where fundholders were looking for places to invest all over the world (Alqifari, 2017).

The origins of the 1980s crisis may be traced back to the 1950s and 1960s when the US banks were rapidly expanding in the region and the international economy was experiencing unprecedented growth, with three groups of protagonists: Latin American nations, the IMF, and the World Bank (Haldane and Scheibe, 2004). The first group, namely the Latin American countries such as Brazil, Mexico, and Argentina, were short-sighted borrowers who spent more than they should have on infrastructure and consumption, unable to recognize the consequences of their actions (Alqifari, 2017). With the relaxation of policies to open the gates, Latin American governments were keen to borrow from commercial banks, mostly in the United States that received a flood of cash from oil-rich countries, particularly those in the Middle East, notably after 1973. Some of the countries that Latin American nations owed money to Saudi Arabia,

Kuwait, United Arab Emirates, Iraq, Iran, Libya and Qatar (Issawi, 1978). Between 1975 and 1982, the amount of debt owed to American commercial banks in Latin America increased at a cumulative annualized rate of 20.4% (Pazarbasioglu et al., 2017), more than quadruple increase from USD 75 billion to USD 315 billion (Alqifari, 2017). In other words, the amount paid by regional governments to pay loans has increased five and a half fold, from USD 12 billion in 1975 to almost USD 66 billion in 1982 (Haldane and Scheibe, 2004).

Because the countries needed to get these monies from somewhere else, the lenders were the second category. Even though crude oil prices in international markets quadrupled between 1973 and 1974, several less-developed nations (LDCs) continued to grow at an average annual rate of 5% to 6% even after the crisis, which was an astounding performance at the time (Haldane and Scheibe, 2004). Many multinational (especially the US) banks were particularly interested in such growth rates while establishing their presence in the region. The development of a new international mechanism known as the Eurodollar market, which provided the US banks with access to the funds needed to make large-scale loans to the developing world, was prompted by the rapid multinational perspective as well as the global nature of supplying financial services (Pazarbasioglu et al., 2011). The rise in crude oil prices since 1973 has not only increased bank loans to Latin America and the rest of the developing world, but it also brought severe inflationary pressures throughout the world. Most importantly, however, it produced a major balance of payments crisis for the developing world due to rising import costs and oil prices. As a result, Latin American countries became foreign capital borrowers to balance their domestic deficits (Hsu, 2017). The oil crisis of the 1970s, which was blamed for causing problems in many countries, was a blessing for credit institutions because they were making much more money than ever before due to higher oil prices. Concurrently, numerous multinational credit institutions launched extensive marketing campaigns in Latin American countries to promote their financial products and services, coinciding with a relaxation of banking prudential restrictions, allowing the credit glut to worsen (Alqifari, 2017). The bad news came with a downturn in demand in 1974-1975 as a recession-driven by rising oil prices, as many developing countries were directly harmed by their reliance on exports of more agricultural and mineral products for less in return (Hsu, 2017).

As is well known, the time and availability of 'limitless' cash is limited. In 1979, real interest rates began to rise, indicating that Latin American countries were borrowing due to low-interest-rate systems. It was followed by additional pressure from exchange rate deterioration due to volatility because of heavy investments in infrastructure projects in USD, implying that the borrower Latin American countries were required to carry more debt and bear higher costs associated with the debt in their currency (Hsu, 2017). Furthermore, the situation deteriorated as it became clear that Latin American countries would be unable to repay foreign lending institutions. When Mexico's Finance Minister announced, in 1982, that his country would be unable to pay its debt on time, international capital markets' fears were heightened. It was in that year that banks had realized how deep they had sunk and had begun, as the first course of action, to avoid lending to Latin American countries (Alqifari, 2017).

The problem with the debt granted to the Latin American countries by international financial markets was that it was short-term, requiring refinancing in a short period. These Latin American countries needed to find a way to restructure their obligations to avoid bankruptcy, which is where the third group of characters came in. When the US government pressed the Latin American governments to accept reforms, it imposed stringent conditions such as IMF intervention (Haldane and Scheibe, 2004). The IMF intervened, imposed conditions such as significant cuts in government spending, and took necessary steps to ensure that the Latin American countries fully settled their loans (Alqifari, 2017). The austerity policies of the IMF in the Latin American crisis aimed to reduce public financing and expenditure programs to assist them to pay their debts. Therefore the IMF would not be blamed for the most widespread and unsung cause of suffering in such nations. As a result, despite the divisive mood, one may conclude that the IMF succeeded in making the best of a terrible situation (Hsu, 2017). Here, it has been suggested that although the IMF's intervention might be controversial or divisive, their efforts were aimed at managing and alleviating the challenging economic situation.

2.3.3 The European Monetary System (ERM) crisis (1992-1993)

As the region sought political and economic integration in the 1950s, the European project included the goal of creating a single market. In 1979, the European Monetary System (EMS) was established with the primary objective of preventing exchange rate fluctuations and inflation among its member nations. It had functions that were comparable to those of the gold standard.

With a +/- 2.5 fluctuation margin, seven member nations (Belgium, Germany, Denmark, France, Italy, Luxembourg, and the Netherlands) connected their currencies to the German Mark in 1988 through an adjustable fixed exchange rate system (crawling peg). Spain, the United Kingdom, and Portugal later joined this union. Exchange rates stabilized and inflation rates converged across nations. Capital movement in these nations increased as a result of the stability.

However, a state of panic was created by a number of political incidents and distorted macroeconomic indicators, resulting in speculators' expectations of a devaluation and a self-fulfilling crisis. The ERM crisis, which led to second-generation crisis modeling, was triggered by a number of different factors, according to the literature. Due to the structure of their national economies, the UK, Italy, and Spain joined the EMS later than Germany and had higher interest and inflation rates. Speculators could find low-interest German capital and invest it in British banks at a high interest rate for profit.

The result was an appreciation of the pound, peso, and lira, which led to an increase in current account deficits. In 1990, because of West Germany's consolidation with East Germany, monetary guide moves expanded the financial plan shortfalls while keeping up with tight money related strategies. Until 1992, financing costs, expansion, current shortage, and development figures in Germany proceeded with their vertical pattern. The Deutsche Mark (DM) gained approximately 30% against the US dollar at the same time. EMS members frequently adopted deflationary policies or devalued their currencies as a result of all of these factors. Despite this, they stuck with the ERM out of concern for high rates of inflation and unemployment. This situation strengthened the perception that policies will not be successful across the union and revealed contradictions in the EMS's monetary policies.

In 1992, financial panics were triggered by Denmark's referendum rejecting the Maastricht agreement and the significant political or economic setback in France, both events contributing to increased uncertainty and instability, thereby decreasing the reliability of the European Exchange Rate Mechanism (ERM) system (Yay, Yay, and Yılmaz, 2001). Finland, which was not a member of the exchange rate mechanism (ERM) but was tied to the European Currency Unit (ECU), was forced to devalue its currency by 12 percent in September 1991. As an external shock, the disintegration of the Soviet Union had an impact on Finland's exports. The British pound and the Italian lira had both fallen below their respective ERM floors by August 1992. On September 13, Italy devalued the lira, depleted its reserves, and increased interest rates to 30%. According to the available literature, the United Kingdom only marginally increased its rates on Black Wednesday, September 16, 1992. The pound and the lira both left the ERM that evening. The same evening, the ERM agreement devalued the peseta. France spent 32 billion dollars in a single week to defend the rate. Denmark, Spain and Portugal all devalued while Sweden took significant decisions to combat the deepening financial crisis and announced them to the public, followed by Norway doing the same in December. In January 1993, Ireland lost value as the attacks continued. France had exhausted its reserves by July and was unable to spend any more to defend the rate. Germany reduced interest rates and some European national currencies were no longer pegged to the ERM at the crisis's conclusion (Eichengreen, 2000). The first-generation crisis model (canonical models) does not account for the circumstances of this crisis.

Krugman portrays the ERM emergency of 1992 - 1993 as one of the exemplary episodes of a speculative assault. This indicates that the ERM crisis exemplifies the model that builds on the (canonical) model of the first generation of crises. The ERM nations did not have particularly high interest rates and had access to capital markets, in contrast to the first crisis models. By raising interest rates, they could have stabilized their currencies. The governments, on the other hand, were torn between a long-term political commitment to monetary union and the current political threats of unemployment and inflation. The ERM crisis arises as a result of this dilemma's combination of self-fulfilling perception and uncertainty (Krugman, 1996). The ERM crisis was evaluated by Akdiş (2000) in four ways:

- The most prominent effects of crises are based on speculation. The ERM crisis is linked to George Soros in numerous studies.
- It is common knowledge that foreign exchange reserves do not serve a preventative role in a world with high capital movements. The British and Italian central banks' foreign currency reserves were sufficient for the industrialized European nations. They could also get credit from Germany because of the terms of the ERM.
- Emergencies are sudden and unexpected. The reserves cannot be used to predict when the crisis will occur, as was the case with the first-generation crisis models. Before the collapse, currencies that are vulnerable to speculative movements outside of the band begin to expand.
- The nations who left the ERM system experienced less of a crisis than the nations that stayed, and the actions they conducted were successful.

2.3.4 Mexican financial crisis in 1994-1995

The Mexican economy appeared to be stable in the first half of 1990s, with inflation falling sharply because of the fixed exchange rate. Mexican Peso was pegged to a powerful foreign currency, the USD, before the financial, or the "Tequila" crisis, of 1994-1995, and was backed up in a pile of USD in terms of international reserves. Import tariffs were quickly reduced partly due to the Uruguay round of trade negotiations under the General Agreement on Tariffs and Trade (GATT) (Musacchio, 2012), and partly due to the loosened trade barriers with the United States, Mexico's largest trade partner, because of membership in the North American Free Trade Agreement (NAFTA) (Musacchio, 2012). However, in 1994, the Mexican economy began to show signs of weariness, as a series of internal and external events occurred, causing a shift in investors' opinions and expectations of the country, setting the stage for a catastrophic disaster (Odebunmi, 2016).

The first issue was Mexico's enormous current-account deficit, which created a macroeconomic imbalance. The enormous inflows were not used to finance investments in plant and equipment, which would help Mexico enhance its export potential while

also allowing the government to reduce its current account deficit (Odebunmi, 2016). From 1990 to 1994, a total of USD 95 billion in private capital inflow was spent on direct investments, USD 28 billion on stock market purchases, and USD 45 billion on government bond purchases (Whitt, 1996). This large infusion of cash into Mexico boosted domestic consumption, imports, and short-term financial investments, and was not expected to flow out of the country without warning in the event of a financial collapse. Nonetheless, the U.S. Federal Reserve slowly raised interest rates for the US dollar from 3% in November 1994 to 5.5% in November 1994, causing investors to reassess the situation and their objectives in terms of profitability and growth potential (Odebunmi, 2016).

Secondly, the political climate in Mexico influenced investors' perceptions, as disturbances and violence led to the emergence of a group of rebels known as the Zapatista Army of National Liberation, named after a 1911-1920 Mexican Revolution hero, who took control of some of the largest cities in the southern state of Chiapas in January 1994. The assassination of a presidential candidate of the ruling party, Luis Donaldo Colosio, on March 23, was just the start of a series of more political assassinations, abductions of high-profile executives, the unexpected appointment of a new Minister of Finance by the new President of Mexico, a gradual rise in the interest rates for USD, and ongoing violence in Chiapas for a massive movement of capitulation, were the main political shocks that caused financial distress (Haber, Musacchio and Rojas-Suarez, 2012; Odebunmi, 2016).

The Mexican government attempted to respond by issuing government-issued debt indexed to the value of the US dollar to accumulate foreign reserves and persuade foreign and domestic investors to keep their money in the country as a way out of the crisis — a successful step that allowed the exchange rate to remain stable throughout 1994, despite a credit boom and a higher inflation rate than the US. However, such pressures on the Peso peg resulted in an increase in interest rates — for example, on short-term bonds, interest rates increased to 16.4% in May from 9.5% in February (Whitt, 1996) — as well as a worsening foreign deficit due to the deterioration in the real exchange rate, which required Mexico to borrow more, which made investors nervous due to the possibility of a Peso depreciation (Haber, Musacchio and Rojas-

Suarez, 2012; Odebunmi, 2016). Apart from the Central Bank of Mexico's entry into the foreign exchange market to sell USDs in exchange for Pesos, the composition of governmental debts had been converted into dollar-denominated securities from Pesos to avoid exchange rate deterioration (Odebunmi, 2016), resulting in a rapid dropout in international reserves and a drastic increase in short-term debt, leaving the economy essentially illiquid and financially vulnerable (Selim, 2005).

The Central Bank of Mexico attempted a gradual devaluation of the peso on December 20, 1994, by holding a conference with high-profile entrepreneurs and union leaders using a bandwidth in which the currency rate was permitted to move. Even though it is unclear whether any information from the meeting was leaked, foreign investors were concerned about the government's ability to repay its dollar-denominated debt, which resulted in a USD 5 billion outflow from Mexico in two days and prompted the government to float the Peso (Haber, Musacchio and Rojas-Suarez, 2012; Odebunmi, 2016).

2.3.5 The Asian financial crisis in 1997s

The Asian financial crisis, also known as the Asian Contagion, was a major financial crisis that affected many countries in Asia in the late 1990s. The crisis started in Thailand in July 1997 and quickly spread to other countries in the region. The countries affected by the crisis were Thailand, Indonesia, South Korea, Malaysia, Philippines. Other countries that were impacted to a lesser extent included Hong Kong, Singapore, Taiwan, and China. The crisis had severe economic and social impact on these countries, including sharp drops in currency values, stock market crashes, high unemployment, and social unrest. Actually, the Southeast Asian countries had shown substantial growth, high living standards and moderate inflation for three decades, undergoing an unprecedented transformation from underdeveloped to recently industrialized economies, challenging the "new world order". Massive short term capital inflows increased the values of assets, notably in stocks, financial instruments, as well as land prices (Agénor and Aizenman, 2006; Odebunmi, 2016). Nonetheless, the financial boom did not last long, as it was snuffed out by a dramatic drop after the mid-

1990s in semiconductor prices, as well as the depreciation of the Chinese Renminbi and Japanese Yen against the US dollar (Moreno, 1998). As a result of these events, the Southeast Asian region's nominal export growth fell dramatically from 24.8% in five nations (Thailand, Indonesia, South Korea, Malaysia, Philippines) in 1995 to 7.2% in 1996, with a further drop in early 1997 (Radelet and Sachs, 2000).

In addition to these unfavorable events, the financial crisis was triggered by a moral hazard issue. Businesses and industries were free to borrow massive amount of money from these countries' governments. This exacerbated the situation because easy access to credit and large sums of money through political and bureaucratic networks caused these businesses and industries to pay little attention to the costs, returns, and/or repayment obligations of any project (Hussain, Mlambo and Oshikoya, 2002). This ethical issue was unexpectedly revealed in coupled short-term investments, as reflected in total obligations in financial institutions, where USDs were borrowed at a low rate of interest and local currencies were provided at a high rate of interest without any hedging instrument, owing to the prolonged exchange rate pegs. As a result of the moral hazard, five countries' total commitments to foreign banks increased from USD 209.9 billion in 1995 to USD 260.2 billion in 1996, and then to USD 274.4 billion by the middle of 1997 (Radelet and Sachs, 2000).

Depositors and foreign lenders to the banks in East Asia, knew that there were likely to be government bailouts to protect them. Thus they were provided with little incentive to monitor banks, with the result that these institutions had an incentive to take on excessive risk by aggressively seeking out new loan business. The asymmetric information view of the Asian crisis suggests several guiding principles for resolution of these crises: (1) the financial system needs to be restarted so that it can resume its job of channeling funds to those with productive investment opportunities; (2) the faster the liquidity is provided the better it is; (3) balance sheets of financial and non-financial firms need to be restored so that asymmetric information problems lessen; and (4) steps need to be taken in order to limit the moral hazard created by intervention to resolve crises. (Mishkin, 1999).

2.3.6 Russian crisis (1998)

Russia had to pursue economic liberalization policies to tackle economic contraction, fiscal deficits, and inflation following the fall of the Union of Soviet Socialist Republics (USSR). The fundamental causes of the Russian economic crisis were the shadow economy, corrupt ties between the government and a group of oligarchs, and the debt spiral brought on by massive budget deficits and high-interest short-term borrowing (Kryshtanovskaya and White, 2005). The main problem of Russian Crisis was the introduction of capitalism into Russia before the establishment of the institutions necessary for the smooth and rational operation of a capitalist economy. For example, laws should be introduced to prevent the state economic enterprises falling in the hands of their managers, who turned out to be, what we call today, the oligarchs. Laws should be introduced, like the anti-trust laws in the U.S., preventing the oligarchs from accumulating money and power. A well functioning legal system should be introduced. A safety net for the public should be introduced that would prevent the public from falling in the hands of wild capitalism. In any case, the occurrence that hypothetically set off the emergency is George Soros' article on the degrading of the ruble (<https://www.independent.co.uk/news/business/russia-rebuffs-soros-on-call-for-devaluation-1171543.html>).

The high interest rates on short-term debt that rose prior to the crisis are a result of international capital's cautious approach to the Russian economy, in contrast to their panic in the Asian crisis. Russia's economy was in turmoil at the start of the 1990s. Following the Soviet Union's dissolution in 1991, the new state's economy began with inherited issues: an estimated budget deficit of 20% of the GDP; 65 billion dollars in external debt, most of which was accumulated in just six years; approximately only \$2.6 billion in gold-stock and foreign reserves of only a few hundred million dollars, enough to cover only hours of imports; Russia was not paying back its debt. Trade with Eastern Europe, particularly in oil, gas, and military exports, had decreased, which contributed to the crisis in the balance of payments (Lipton and Sachs, 1992). In addition to the problems caused by the fall of the USSR, tight monetary policies and liberalization changes at the end of 1994 caused the downward trend in inflation. Additionally, some improvement in growth rate had been achieved. The liberalization of foreign trade and

the transfer of most state-owned businesses to the private sector resulted in structural changes. However, a serious issue existed due to the high rate of the informal economy, the inability to effectively collect taxes, and the financial structure's lack of transparency (Eroğlu and Albeni, 2002).

The decline in inflation in Russia by 1997 and the partial growth in its GDP did not last long. The Russian government suffered greatly during the first half of 1998 due to the decline in oil revenues. Oil prices, which were 22 USD per barrel at the beginning of 1997, diminished to 16 USD towards the end of that year and to 9.41 dollars by the end of 1998. On the other hand, the anticipated goal of privatizing various state monopolies like Rosneft and Gazprom was not achieved due to the intensification of the conflict between Russian financial groups. The problem of kleptocracy in the newly established Russian democracy was also brought about by other privatizations at the same time. Oligarchs gained wealth by exploiting the economy. These earnings were transferred abroad rather than remaining at least partially in the Russian economy and contributing to the resolution of economic problems.

Russia began disrupting payments on nearly 180 billion dollars of foreign debt in January 1998, where 149 billion dollars was owed by the public sector and 30 billion dollars by the private sector. Between August 17 and September 7, 1998, the ruble corridor was scrapped, and its devaluation was 70% on the black market. According to İşcan and Hatipoğlu (2010), the Russian government announced a 90-day moratorium on making payments on foreign debt. The Russian crisis was categorized as a currency crisis by Chiodo and Owyang (2002). They argued that, within the scope of crisis modeling, it could be explained in various ways by the first, second, and third-generation crisis models. They said that first-generation crisis models could explain fiscal deficits and third-generation crisis models could explain financial sector fragility. According to the findings of the research, the crisis was sparked by four factors: monetary policy, fiscal deficits and debt, a fixed exchange rate, and expectations of imminent default (Chiodo and Owyang, 2002).

2.3.7 2008 Great Recession

The asset bubble crisis known as the Great Recession started in the United States of America and spread worldwide, despite similar crises were experienced numerous times in history. The fact that this crisis was much more devastating and widespread sets it apart from previous crises of a similar nature. In the United States, price increases for real estate began in 2002 and peaked in 2006. The fundamental supposition was that property costs would continuously go up. This is not the case, however, if asset prices are inflated. Due to falling real estate prices, problems arose with the repayment of subprime mortgages with mortgage loans that were higher than property values. Moreover, bad loans also increased with an increase in unauthorized loans.

The prices of some assets go down when credit expansion slows down. At the end of 2006, housing prices in the United States reached their highest point. The availability of mortgage loans was the primary factor in this significant price increase for the asset. After the year 2000, securitization of collateral mortgage obligations (CMOs) accelerated and was divided into risk groups. A significant amount of money was generated by mortgage loans funded by CMOs and collateralized debt obligations (CDOs). A property that was registered as a mortgage and whose value was anticipated to rise daily was regarded as a guaranteed payback. Negative amortization mortgages with adjustable interest rates were available to anyone, regardless of their credit score. Financial depth was another consequence of securitization: mortgage-related securities have grown at least twice as fast as mortgages (Aliber and Kindleberger, 2015).

Derivative transactions, which is a type of credit crisis, were the source of the global crisis of 2008. Those transactions can be defined as financial contracts between two parties that derive their value from the performance of an underlying asset, such as a stock, bond, commodity, or currency. These transactions are used to manage financial risks or to speculate on future market movements. The banks that were Lehman Brothers' creditors suffered a significant loss as a result. The phrase used by Timothy Geithner to describe the dangers posed by the dark banking system is: 'Because they lack toolkits like deposit insurance, which the banking system uses to lower risks, and because they are growing long-term, risky, and relatively low liquidity assets that are funded by very short-term liabilities, many of the organizations and tools in this parallel

financial system are susceptible to a classic attack' (Geithner 2009). Krugman (2015) made a reference to Geithner's speech in his book and said, 'As a result, several clients had their financing completely withdrawn or their margin requirements increased, requiring further deleveraging.' Krugman (2015) compared this logic of deleveraging to the one that led to the crises in Asia in the late 1990s that became self-fulfilling. He provided additional examples of the collapse of shadow banking, citing auction-rated securities, which were the cause of the loss of \$330 billion in credit and the reduction to \$700 billion in asset-backed commercial paper from \$1.2 trillion in credit.

The most prominent episode in the series of runs on the shadow financing system occurred in March 2008 when Bear Stearns experienced a dramatic collapse. Short-term financing for Bear Stearns evaporated rapidly, leaving the firm in a precarious position. Converting its long-term assets into liquid cash at a fair value proved to be a slow and challenging process, and without access to short-term funding, the firm faced an uncertain future. To address this crisis, the Federal Reserve played a pivotal role by facilitating a deal for JPMorgan Chase to acquire Bear Stearns. While such arrangements were not entirely unprecedented, what set this deal apart was the Federal Reserve's decision to absorb \$30 billion of Bear Stearns's toxic assets onto its own balance sheet, marking an unprecedented move in response to the financial turmoil (Mishkin, 2011).

On September 15, 2008, Lehman Brothers, one of the largest financial institutions in the United States, declared bankruptcy, incurring a significant financial burden on the economy. The government and the FED declined to save Lehman Brothers because it was unable to uphold its end of the bargain with other banks and failed to make the required payments. In 2007, a single sector of the financial market marked the beginning of the global financial crisis's first phase. The world's greatest currency crisis began when Lehman Brothers failed in September 2008 (Krugman, 2015). Eventually, by October 2008, consumer credit was the first to be affected, with rejected credit applications and insufficient access to credit or reduced credit card limits. A worldwide financial crisis was the result of the second phase, which began with the collapse of Lehman Brothers. (Mishkin, 2011).

After the failure of Lehman Brothers in September 2008, there ensued a period characterized by a run from short-term bank creditors. This situation made it increasingly challenging for banks to renew their short-term debt obligations. It's worth noting that there was also a simultaneous rush from borrowers who opted to draw down their credit lines, resulting in a notable surge in commercial and industrial loans that were reflected on the bank balance sheets. The banking crisis that unfolded in the autumn of 2008 plunged economies worldwide into a deep recession. The origins of this crisis can be traced back to the credit expansion period that reached its zenith in mid-2007. Subsequently, it was exacerbated by the collapse of subprime mortgages and various securitized financial products. This chain reaction of events further amplified apprehensions surrounding the financial institutions' solvency and liquidity, ultimately evolving into a full-fledged banking panic (Erkens, Hung, & Matos, 2012).

American International Group (AIG), which insured loans, was the first to be affected by this bankruptcy and the insurance firm AIG collapsed on September 16, 2008. The problem then spread to the entire American financial system, which ran out of liquidity and offered loans like subprime. The Federal Reserve stepped in on behalf of financial institutions, particularly AIG, to stop this liquidity crisis from spreading to other sectors. The Federal Reserve intervened by extending an \$85 billion loan to prevent AIG from sinking (with the cumulative loans from both the Fed and the U.S. government eventually reaching over \$170 billion). However, the atmosphere of panic led to a worldwide crisis, particularly in developed markets with investment funds in the United States. The primary reasons behind the crisis were the development of unaided subprime advances, the opportunistic behavior by lowering lending standards and selling lower quality collateralized assets to unsuspecting third parties in securitization, and moral peril. In general, it may be said, however, that credit expansion longer able to be sustained is the cause of all asset bubbles.

Following these developments, U.S. Treasury Secretary Hank Paulson introduced the Troubled Asset Relief Program (TARP) on September 19, 2008, through a now-infamous three-page document (<https://home.treasury.gov/news/press-releases/hp1279>). Initially, the proposal granted the U.S. Treasury broad authority, with limited congressional oversight, to allocate \$700 billion towards acquiring subprime mortgage

assets from distressed financial institutions. This substantial sum of money was later utilized to infuse capital into the banking sector. It quickly became apparent that the original bill would face rejection in Congress, which indeed occurred on September 29. Eventually, after further deliberation and revisions, the bill was successfully passed on October 3, 2008.

The U.S. economy had already shown signs of decline in the third quarter of 2008, experiencing a negative growth rate of -1.3 percent on an annual basis. However, it was during the fourth quarter of 2008 that the recession, which had officially begun in December 2007, escalated to become the most severe economic contraction in the United States since World War II. Real U.S. GDP contracted significantly in the fourth quarter of 2008 and the first quarter of 2009, plummeting at annual rates of -5.4 percent and -6.4 percent respectively. Concurrently, the unemployment rate surged, surpassing 10 percent by October 2009.

The repercussions of this economic downturn were not confined to the United States alone; it triggered a worldwide recession. Global economic growth witnessed a steep decline, with rates plummeting to -6.4 percent in the fourth quarter of 2008 and -7.3 percent in the first quarter of 2009.

According to Mishkin (2011), there are three crucial and interrelated issues that defined the Great Recession:

- The financial crisis led to a widening of credit spreads, such as the difference between interest rates on Baa-rated corporate bonds and Treasury bonds. As a result, conventional monetary policy lost much of its effectiveness.
- The drop in asset prices during a financial crisis led to a decrease in the value of collateral, making it more challenging for non-financial firms to secure loans. Furthermore, the worsening financial condition of financial institutions, which possess the expertise to address adverse selection and moral hazard issues, results in reduced lending (deleveraging). This reduction in lending, in turn, contributes to a decline in overall spending.
- The overall increase in uncertainty that accompanies a financial crisis also triggers a rise in asymmetric information. This added uncertainty further

impedes the capacity of financial markets to efficiently allocate funds to households and businesses with viable investment prospects.

When examining the measures taken in response to significant economic crises in the United States, it becomes evident that the Federal Reserve (FED) has swiftly initiated unconventional policies from the point of view of 'mainstream' economic policies. In response to the economic challenges, the Federal Reserve adopted a strategy of targeting a lower federal funds rate. The initiative began in the September 2007 meeting, when the Federal Reserve reduced its federal funds rate target by half a percentage point, moving it from 5.25 percent to 4.75 percent. Subsequently, they continued to lower the rate gradually. By April 2008, the rate had reached 2 percent, and by December 2008, the target range for the federal funds rate had reached 0 to 0.25 percent. The first unconventional form of monetary policy, liquidity provision, entails the expansion of Fed lending to both banks and other financial institutions. The second category of unconventional monetary policy from the point of 'main-stream' economies is asset purchases, which operates under the premise that direct purchases of specific bond classes can stimulate an increase in bond prices, subsequently reducing the interest rates that households and businesses need to pay. A more extensive asset purchase program, declared in November 2008 and concluded in March 2010, involved the direct acquisition of \$1.25 trillion worth of mortgage-backed securities. Another nonconventional approach to monetary policy involves the management of expectations. In March 2009, the Fed Open Market Committee amended its policy statement

(<https://www.federalreserve.gov/newsevents/pressreleases/monetary20090318a.htm>) to include a commitment to maintain "exceptionally low" interest rates "for an extended period." There is theoretical backing for the idea that such a commitment to keeping short-term interest rates low for an extended duration can effectively lower long-term interest rates and elevate inflation expectations. Consequently, this helps in reducing the real interest rate, as supported by the research of Eggertsson and Woodford (2003, 2004) and Woodford (2003).

Financial markets showed signs of recovery during the first half of 2009. The injection of substantial liquidity seemed to have a positive impact on the interbank lending

market, as evidenced by the TED spread (3 month treasury – libor spread) declining from its peak of over 400 basis points in October to below 100 basis points in January 2009. Remarkably, this spread even dropped to levels lower than those seen before the crisis, falling to less than 20 basis points by May 2009. Although credit spreads also started to decrease during this period, the Baa–Treasury spread declined at a slower rate compared to the improvement observed in the interbank market.

A pivotal factor in the financial market's resurgence was the U.S. Treasury's mandate, disclosed in February 2009, which compelled the 19 largest banking institutions to participate in the Supervisory Capital Assessment Program (SCAP), more commonly referred to as "stress tests." These stress tests constituted a supervisory evaluation led by the Federal Reserve, conducted in collaboration with the Office of the Comptroller of the Currency and the FDIC. Their primary objective was to scrutinize the balance sheet health of these banks, ensuring that they possess adequate capital to endure adverse macroeconomic scenarios.

The Treasury publicly disclosed the results in early May 2009, and they were positively received by market participants. This reception enabled these banks to secure significant amounts of capital from private capital markets, as mandated by the stress tests. Notably, the stress tests played a crucial role in enhancing the quantity of information available in the marketplace, consequently mitigating issues related to asymmetric information and concerns regarding adverse selection and moral hazard.

After the global recession of 2008-2009, economics profession faced significant criticism from prominent scholars. In 2009, Krugman admonished his fellow economists for their "blindness to the possibility of catastrophic failures in the market economy". Similarly, Galbraith (2009) presented a strong critique of the economics profession, contending that both explicit and implicit intellectual agreements hindered leading figures in the field (who were often associated with prestigious American universities) from fostering a meaningful dialogue that incorporated alternative perspectives. Consequently, this led to a limited intellectual discourse primarily among academicians who shared similar viewpoints (Verick, & Islam, 2010).

2.4 Contribution of Crises to the Developments in Banking

In this thesis, it has been conclusively established that the various global economic crises under examination have exerted profound and far-reaching impacts on the banking sector. These crises, marked by their scope and severity, have significantly influenced the operational, financial, and strategic aspects of banks worldwide. In the subsequent section, I will delve into a detailed discussion of these effects. This exploration will not only focus on the immediate consequences these crises have had on the banking sector's stability and performance but will also consider the broader, more systemic changes they have prompted within the industry.

The impact of economic crises on the banking sector is contingent upon the measures, policies, and actions implemented by governments and economic management. In a general categorization, financial crises can be divided into two parts. The first part consists of currency crises and balance of payments crises, while the second part includes banking crises and debt crises (Laeven, 2011). However, it is worth noting that there have been cases, both globally and in Turkey, where a crisis originating in the banking sector evolved into a more extensive economic crisis.

Banking crises have several detrimental effects, including restricting the actions of households and businesses, accelerating declines in investments and consumption, and disrupting the proper functioning of the financial sector's credit and payment systems. Additionally, they expedite capital flight abroad, eroding trust in financial institutions, particularly banks (Altıntaş, 2004). A lack of trust in the banking system and the presence of a fragile banking infrastructure lead to the gradual failure of banks. Such circumstances do not allow banks with weak capital to expand their resources. Consequently, a decline in banking loans becomes inevitable, which, in turn, diminishes the capital available to other sectors. This reduction in bank loans adversely impacts investment and consumption levels for both businesses and households (Demirgüç-Kunt and Detragiache, 1998).

The primary purpose of the financial system is to facilitate the allocation of resources across both space and time, all within an environment characterized by uncertainty and transaction costs (Levine, 1997). The financial system channels resources from savers to

investors, enabling savers to maintain liquidity for their savings, even when those savings are earmarked for long-term investments. A properly functioning financial system not only selects the most productive utilization of savings but also actively monitors their allocation, ensuring their ongoing productive use. The selection and monitoring functions within financial markets primarily revolve around the provision and processing of information. But information is imperfect, hence financial markets are characterized by market failure and imperfections (Stiglitz, 1994). The prevalence of market failures in the financial sector has frequently been disregarded and overlooked in the quest for financial sector liberalization.

Various approaches exist for defining a banking crisis. Caprio and Klingebiel characterize the loss of all or a significant portion of a bank's capital within the system as a systemic banking crisis. In a broader sense, banking crises encompass situations that have adverse effects on banks, including instances like government takeovers, mandates for mergers or closures, and substantial withdrawals of bank deposits (Hoggart, 2001).

Banks are susceptible to a range of risks. When an economic crisis triggers a banking sector crisis or originates from the banking sector, it typically gives rise to the following risks.

- Liquidity Risk
- Credit Risk
- Capital Requirement Risk
- Reputation Risk

To summarize these risks briefly:

Liquidity Risk

Liquidity risk is defined as the risk stemming from a bank's inability to fulfill its obligations when they become due without incurring unacceptable losses (Federal Deposit Insurance Corporation and Office of Thrift Supervision Comptroller of the Currency, 2001). This risk can have a detrimental impact on both a bank's earnings and

its capital. As a result, ensuring the availability of ample funds to meet the future demands of providers and borrowers at reasonable costs becomes a top priority for bank management. Liquidity risk is the risk that an institution faces, stemming from its incapacity to fulfill its obligations or finance the growth of assets as they become due, all without incurring intolerable costs or losses. In simpler terms, liquidity risk can be described as the risk of not being able to sell or convert an asset into cash quickly and at a reasonable price (Muranaga and Ohsawa, 2002). This definition highlights two crucial dimensions of liquidity risk:

(1) The ability to convert assets into cash as needed.

(2) Achieving a fair market value for those assets.

Banks encounter liquidity risk when they cannot sell their assets at a fair price. The pricing becomes uncertain under pressured selling conditions when the bank urgently needs to liquidate its assets. This situation can lead to losses and a substantial decrease in earnings.

Credit Risk

Credit risk is one of the most significant risks faced by banks, involving the possibility of losing the principal amount due to borrower defaults. In simpler terms, in cases of credit risk, banks are unable to recover the amounts owed by their customers. Notably, credit risk has been identified as a primary factor contributing to numerous critical banking crises in developing economies (Demirgüç, Kunt and Detragiache, 2005).

In times of economic crises, several adverse events unfold: unemployment rises, businesses may face bankruptcy, and individuals struggle to meet their debt obligations. These factors combine to expose banks to credit losses, leading to a deterioration in the quality of their assets and an overall increase in losses.

Capital Requirement Risk

Banks are mandated to maintain a minimum level of capital to ensure that they can absorb losses and continue operating as viable entities. Nonetheless, the losses incurred by banks in their trading portfolios significantly surpassed the minimum capital requirements (Basel Committee on Banking Supervision (BCBS), 2009c)

The 2008 crisis left a profound impact on the banking industry, underscoring the imperative to promptly identify early warning signs of distress within the financial sector. Financial institutions, primarily banks, distinguish themselves from other businesses due to distinct accounting rules, transparency requirements, and economic roles. Banks bridge the gap between borrowers and lenders by transforming small, low-risk, and highly liquid deposits into larger, riskier, and less liquid loans. In most cases, banks' assets have a longer-term and less liquid nature compared to their liabilities. Frequent marking-to-market of assets by banks would significantly elevate the likelihood of them appearing insolvent (Amel-Zadeh and Meeks, 2009). Furthermore, the primary source of operating income for banks is the interest earned through lending activities (Carapeto, Moeller, Faelten, Vitkova, & Bortolotto, 2011).

Reputation Risk

Banks hold a pivotal role within the financial sector, and any disruptions or crises in their operations can have a direct impact on the real economy. Consequently, such situations can lead to a loss of institutional prestige due to relatively minor oversights or errors.

Corporate reputation is characterized as a relatively consistent, issue-specific collective perception of a company's past actions and future outlook when measured against a particular standard (Walker, 2010). On the other hand, Corporate Social Responsibility (CSR) is conceptualized as a concept in which companies voluntarily incorporate social and environmental considerations into their business operations and interactions with stakeholders (European Commission, 2011). Consequently, CSR encompasses the particular social and environmental concerns that, alongside other commercial and

business aspects, contribute to the overall reputation of the company (Ruiz & Garcia, 2021).

The selection of banks as the industrial context for this study is driven by the imperative faced by bank managers to rectify the negative impact that the financial crisis has had on the perceptions of their customers. Following the financial crisis, researchers and practitioners have brought attention to the intricate interconnections between CSR and reputation (Forcadell and Aracil, 2017).

It has been previously affirmed that the global economic crises investigated in this thesis had significant impacts on the banking sector. In the following section, I will be discussing the effects of these crises on the banking sector.

Great Depression

The Great Depression of 1929 marked a period of profound economic collapse that had devastating repercussions on both the United States and the global economy. Among the most severely affected sectors during this era was the banking industry, which faced a catastrophic downturn. The Great Depression witnessed the demise of over 9,000 banks, ultimately resulting in the loss of customer deposits and a pervasive crisis of confidence. Bank failures, in turn, triggered a cascading financial breakdown throughout the economy.

Throughout the Depression, a multitude of businesses faced bankruptcy, inflicting substantial losses upon banks' loan portfolios. The non-repayment of loans inflicted severe damage upon the financial stability of banks. Fearing the potential bankruptcy of their banks, many individuals initiated withdrawals of their deposits, which, in turn, prompted bank panics and exacerbated liquidity issues. Consequently, banks found themselves unable to meet their deposit obligations, further intensifying the cycle of bank failures.

The next significant blow to aggregate demand occurred in the autumn of 1930 when the first of four waves of banking panics swept across the United States. A banking panic unfolds when numerous depositors lose faith in the financial stability of banks and

simultaneously request their deposits to be paid out in cash. Banks, typically holding only a fraction of deposits as cash reserves, must hastily liquidate loans to obtain the necessary cash. This rapid liquidation process can even lead to the failure of previously solvent banks.

The United States witnessed widespread banking panics in the autumn of 1930, the spring of 1931, the autumn of 1931, and the autumn of 1932. The final wave of panics persisted through the winter of 1933, culminating in the national "bank holiday" declared by President Franklin Roosevelt on March 6, 1933. This bank holiday resulted in the closure of all banks, permitting their reopening only after they were deemed solvent by government inspectors. These panics took a significant toll on the American banking system, with one-fifth of the banks in existence at the outset of 1930 having failed by 1933 (Cole & Ohanian, 1999).

The Great Depression of 1929 catalyzed the establishment and reinforcement of banking regulations, providing the groundwork for regulatory measures designed to avert future financial crises. This pivotal era prompted significant economic reforms in the United States, giving rise to crucial legal regulations like the Glass-Steagall Act, officially known as the Banking Act of 1933.

Up until its repeal in 1999 by the Gramm-Leach-Bliley Act, the Glass-Steagall Act was the foundational characteristic of the American banking system by imposing a strict segregation between commercial and investment banking. Glass-Steagall Act effectively put an end to the extensive involvement of commercial banks in the securities business, a practice believed to have played a role in the stock market crash and the subsequent banking system collapse. The primary objective of this law was to separate the activities of banks and their securities affiliates. As barriers created by the Glass-Steagall Act gradually weakened, and banks cautiously re-entered the securities sector, concerns resurfaced regarding the suitability of this role for commercial banks. The problems of the 1930s were often cited as evidence supporting the idea that banks should refrain from engaging in investment banking (White, 1986).

The development of securities affiliates, as outlined in the context of the Gramm-Leach-Bliley Act (1999), represented an effort by commercial banks to broaden their range of

activities beyond the limited scope allowed by regulation. This diversification enabled banks to pursue new business opportunities as their more traditional activities stagnated and capitalize on significant synergies in the provision of financial services. Therefore, these measures were implemented with the purpose of supervising and reorganizing the banking and financial sectors, ultimately enhancing their stability and ability to withstand potential crises.

The Latin American Crisis

The Latin American Crisis of 1980 had significant repercussions on the banking sector in Latin America, giving rise to a multitude of challenges. Many Latin American countries had relied heavily on foreign loans to finance their external debt. However, when the crisis erupted, these nations found themselves unable to meet their debt obligations. Consequently, banks faced substantial losses in their loan portfolios linked to Latin American countries. The economic collapse within these nations also resulted in the bankruptcy of many businesses, further exacerbating loan losses for banks. The deterioration of their loan portfolios placed many banks in financial distress. During the crisis, people began withdrawing their funds from banks due to concerns about the health of these financial institutions and the potential loss of their deposits. This pattern of withdrawals triggered bank panics and liquidity problems among banks in the region.

Latin American countries faced a crucial need for international assistance during this challenging period, and some received financial support from organizations like the International Monetary Fund (IMF). This assistance played a vital role in helping these nations stabilize their economies and undertake comprehensive restructuring of their banking sectors. Following the crisis, numerous Latin American countries implemented a series of reforms aimed at fortifying the banking sector and ensuring long-term financial stability. These reforms encompassed more rigorous supervision of banks and elevated capital requirements. The Latin American Crisis of 1980 profoundly impacted the banking sector in the region, with factors such as debt-related issues, business bankruptcies, bank panics, and international aid collectively shaking the foundations of the banking industry. However, this crisis also marked the outset of substantial financial

reforms and the restructuring of the banking sector in many Latin American nations, contributing to greater resilience and stability in the years that followed.

Between 1976 and 1980, there was a notable influx of new banks into the market, averaging to around 65 per year, primarily hailing from Europe, Japan, and the Middle East. Consequently, even as the annual rate of credit expansion to the region by the United States banks decreased from 29% in 1975-1977 to 8% in 1978, non-United States banks saw their rate rise from 30% to 50%. Consequently, the average global expansion of bank credit remained virtually unchanged, hovering at nearly 30% per year (Devlin, 1989). It was only around 1981 that the entire system, burdened by its substantial credit exposure on one side and the escalating demand for debt refinancing on the other, began to exhibit overt signs of strain. Recognizing the emerging issues, individual banks started to shorten repayment periods and raise margins on variable interest rates. However, at the collective level, this approach only served to intensify debtors' demands for refinancing and further exacerbated stress within the system (Devlin & French-Davis, 2023).

The European Monetary Mechanism Crisis

The European Monetary Mechanism (ERM) Crisis of 1992-1993 was a crisis that had significant implications for Europe's exchange rates and economic stability, and it had notable repercussions for the banking sector as well. At the heart of this crisis lay the inability of the British Pound to sustain its value within the ERM, ultimately leading to the UK's exit from the ERM. This exit, in turn, posed challenges not only for the other ERM countries, but also for banks operating within the system. Throughout the crisis, many ERM countries grappled with challenging economic conditions due to fluctuations in exchange rates. These fluctuations made it arduous for banks to meet their loan obligations to ERM countries, resulting in heightened loan losses. Some banks during this period either miscalculated the foreign exchange risk associated with the ERM or faced problems in managing these risks. Consequently, certain banks went bankrupt or encountered severe financial difficulties as a result of the crisis.

In response to the crisis, numerous central banks expended substantial amounts of their foreign exchange reserves to defend their countries' currencies. These interventions depleted central banks' foreign exchange reserves, limiting their capacity to intervene in future situations. The ERM Crisis, overall, precipitated economic contractions in several European countries. This economic downturn had adverse implications for banks, affecting their operational capacity and profitability.

Subsequent to the crisis, numerous European countries initiated discussions on implementing more stringent oversight of the banking sector and introduced reforms aimed at bolstering financial stability. In summary, the European Monetary Mechanism Crisis of 1992-1993 had several adverse factors that impacted the banking sector negatively. These factors encompassed credit losses, bank bankruptcies, central bank interventions, and economic contractions, collectively determining the crisis's effects on the banking sector. Following the crisis, many European nations undertook a range of reforms and regulatory measures with the goal of fortifying the banking sector and enhancing overall financial stability.

Policy-makers faced what economists refer to as the 'international finance trilemma,' which posited that a country can, at most, have two of the following: fixed exchange rates, free movement of capital, and an independent monetary policy. In 1992, the Maastricht Treaty ratified the establishment of the modern European Union and the single market, which resulted in the elimination of almost all significant capital controls across Europe. This laid the foundation for the inherent vulnerability of currency pegs in a context characterized by high capital mobility. Only a handful of countries have managed to maintain currency pegs under such conditions (Buiter & Pesenti, 2001).

The Mexican Crisis

The Mexican Crisis of 1994-1995 was a period of severe financial turmoil that had profound implications for both the Mexican economy and the banking sector operating within Mexico. The Mexican banking system exhibited signs of deterioration starting from 1992, as evidenced by the escalating volume of non-performing loans. Interestingly, this didn't raise significant concerns at the Banco de México, as they believed that the requisite regulatory steps had been implemented to ensure the banking

system's viability. Having established that the banking system was indeed in a state of decline prior to the peso devaluation in December 1994, it became essential to provide a more comprehensive overview of the Mexican economy to examine the potential connections between the banking crisis and the balance-of-payments crisis (Desmet, 2000).

A prominent characteristic of this crisis is its origin in Mexico's foreign debts. The crisis rendered companies and individuals in Mexico incapable of servicing their debt, primarily due to exchange rate fluctuations. This, in turn, resulted in substantial losses in the loan portfolios of banks, adversely impacting their financial stability. Consequently, the crisis led to the bankruptcy or severe financial difficulties of numerous Mexican banks.

Banks faced a capital shortfall due to credit losses and exchange rate volatility. The fluctuations in Mexico's exchange rates during the crisis had a detrimental effect on banks' foreign exchange positions. Some banks incurred losses as a consequence of significant changes in exchange rates. Throughout the crisis, Mexico received financial aid from both the IMF and the United States, which played a crucial role in facilitating Mexico's economic recovery and the restructuring of its banking sector.

Following the crisis, Mexico implemented a comprehensive set of reforms and regulations aimed at bolstering its banking sector and ensuring financial stability. These measures included enhanced supervision of the banking sector and the imposition of stricter capital requirements. Factors such as credit losses, bank bankruptcies, fluctuations in exchange rates, and international assistance played pivotal roles in shaping the impact of the crisis on the banking sector. Subsequently, Mexico took significant steps to fortify its banking sector and promote greater financial stability.

The Asian Financial Crisis

The 1997 Asian Financial Crisis marked a period of significant economic turmoil that deeply impacted numerous Asian countries, and the banking sector bore the brunt of this crisis. One of the primary catalysts for this crisis was the influx of speculative

capital and excessive borrowing. Throughout this turbulent period, many Asian countries grappled with substantial credit losses as companies and individuals found themselves unable to meet their debt obligations. Banks were compelled to absorb these loan losses, which dealt a severe blow to the financial stability of the banking sector. Consequently, numerous Asian banks either went bankrupt or faced severe financial challenges due to credit losses and a dearth of capital. These developments triggered liquidity problems for banks and eroded customer confidence, culminating in bank panics.

The financial crisis in East Asia was characterized by widespread issues affecting both banks and Non-Bank Financial Institutions (NBFIs). In countries like Korea, Indonesia, and Thailand, there was a noticeable deterioration in the quality of loan portfolios held by banks and NBFIs as borrowers began to default on their repayments. By early 1998, estimates indicated that non-performing bank loans averaged around 30-35% of the total outstanding loans in Indonesia, and approximately 25-30% in both Korea and Thailand (World Bank, 1994).

All three of these countries experienced failures within their banking and/or NBFI sectors. In Thailand, for instance, the operations of 58 finance companies were suspended in June and August of 1997, and subsequently, 56 of them were closed down in December of the same year. The authorities took measures to assist several distressed banks during the crisis, including the effective nationalization of six banks through the conversion of central bank loans into equity. In Indonesia, 16 banks were closed in November 1997, and in 1998, interventions were carried out in 54 banks. These banks were placed under the jurisdiction of the Indonesian Bank Restructuring Agency, which was established in February 1998, and ten of them were subsequently closed down.

By the end of 1998, a significant portion of the financial sector in Korea had undergone substantial changes. Out of the 30 commercial banks operating in Korea, 16 had been closed down. Additionally, the Korean government infused substantial capital into two major commercial banks, intervened in five other commercial banks, and reached voluntary agreements for the recapitalization of another seven banks. These measures were taken to address the challenges posed by the financial crisis in Korea. Preliminary estimates of the costs associated with recapitalizing failed banks and NBFIs amounted

to 19% of GDP in Indonesia and 30% of GDP in both Korea and Thailand. These figures underscore the significant financial challenges and resources required to address the repercussions of the financial crisis in these countries (Brownbridge, Kirkpatrick, 1999).

Korea's banking sector faced two major challenges during the crisis: insufficient capitalization and a portfolio of poor-quality assets. The root cause of these issues lay in the numerous bankruptcies among chaebols, which had a detrimental impact on the balance sheets of banks. These balance sheets were burdened with a significant number of non-performing loans. To address these pressing concerns, the government had to intervene with public funds. Although the injection of public funds was bound to generate public controversy, the government had little choice if it aimed to establish a functional financial system for the nation. Once the decision was made to infuse public funds for the rehabilitation of the financial system, the primary question to be addressed was the precise definition of "non-performing loans." Prior to the crisis, only loans that were in arrears were considered problematic. After the Korean banking crisis, the implementation of public funds into the financial system necessitated a reevaluation of the criteria for "non-performing loans." This led to a more inclusive definition, extending beyond just loans in arrears, as part of a larger strategy to bolster risk management and strengthen the banking sector's stability post-crisis (Ubide, Baliño, 1999).

Russia Crisis

The 1998 economic crisis in Russia had far-reaching repercussions, impacting numerous financial and economic institutions globally, and notably, it wrought significant consequences upon the banking sector. During the initial stages of the transition period in Russia, the banking sector found itself at the forefront of privatization efforts. Gosbank underwent a division and privatization process, with the exception of Sberbank (savings) and Vneshekonombank (international exchange). The late 1980s saw the establishment of numerous new commercial banks due to the banking reform of 1988, leading to a substantial influx into the Russian savings market in the early 1990s. However, by the mid-1990s, a significant number of these new banks

were compelled to exit the market, either abruptly or due to their inability to meet depositors' claims (Buchs 1999).

According to Buchs (1999), the Central Bank of Russia revoked approximately 1000 bank licenses between 1995 and 1998. These actions had a profound impact on the lives of many Russian households, resulting in the loss of their deposits and the associated plans, such as overseas vacations or home renovations. Additionally, Bernstam and Rabushka (1998) argue that the Russian banking 'system' had been collectively insolvent since 1992. They contend that (privileged) banks were sustained through injections of inflationary credit, preferential sales of high-interest Government Short Term bonds, and the sale of shares in state-owned natural resource firms to banks at low prices (Carree, M. A. 2003).

This crisis began because of economic troubles in Russia, especially the drop in the value of the ruble. This devaluation, along with economic uncertainties, caused many banks to lose a lot of money. In 1998, a significant number of companies and individuals faced difficulties in meeting their loan obligations. This resulted in a decline in the quality of banks' loan portfolios, contributing to a surge in non-performing loans. The crisis eroded the financial stability of banks, leading to the insolvency of some institutions. These bank failures exacerbated mistrust within the banking sector, prompting depositors to withdraw their funds. To mitigate their losses and address capital shortfalls, many banks required government or central bank support, resulting in state intervention in the banking sector. Some banks either went bankrupt or had to merge, altering the competitive landscape and structure of the banking sector.

The Russian Economic Crisis of 1998 prompted Russia to reevaluate its financial sector and implement reforms. This included the implementation of stricter controls and regulations, as well as the reinforcement of banks' capital adequacy rules. While the crisis undeniably dealt a significant blow to the banking sector, severely shaking its financial stability, it also served as a catalyst for the sector to establish a more robust structure and expedite financial reforms.

The 2008 Great Recession

The 2008 Great Recession triggered a profound financial collapse and global economic downturn, with a profound impact on the banking industry in the United States. The primary catalyst for this crisis was the subprime mortgage crisis, which subsequently led to issues within mortgage-backed securities and other intricate financial instruments.

The crisis gave rise to complications in recovering numerous high-risk loans, particularly subprime mortgage loans. Banks incurred substantial losses due to the devaluation of these risky loans and the related financial instruments. Numerous banks, both large and small, faced bankruptcy or encountered severe financial distress as they grappled with the challenges of managing troubled assets and toxic securities. These difficulties led to widespread capital shortfalls within the financial industry. Mistrust among financial institutions and investors resulted in liquidity issues for many banks. The interbank lending market faltered, making it challenging for banks to secure short-term funding.

Many significant mortgage companies experienced failure during this crisis, including the Federal National Mortgage Association (Fannie Mae) and the Federal Home Mortgage Corporation (Freddie Mac), both of which were taken over by the government. Additionally, Countrywide, a major player, was acquired by Bank of America in a government-orchestrated deal.

Due to the bundling of many high-risk subprime mortgages with other loans into mortgage-backed securities and more general asset-backed securities (often referred to as derivatives), the repercussions were unparalleled. Banks that held these securities began to face insolvency. In March 2008, Bear Stearns was taken over by the Federal Deposit Insurance Corporation and sold to J.P. Morgan Chase, while Washington Mutual met a similar fate a few months later. Other prominent banks also faced failure and were acquired. Ultimately, Lehman Brothers filed for bankruptcy when the government chose not to bail it out due to concerns about moral hazard, as mentioned earlier.

Consequently, the markets for mortgages and mortgage-backed securities began to freeze as worries about the risky nature of these financial products came to light. In

response, mortgage companies and banks tightened their lending practices, leading to a freeze in credit markets. Additionally, the American International Group (AIG), a multinational finance and insurance corporation known for its extensive range of insurance products, financial services, teetered on the brink of collapse during this tumultuous period. (Campbell, 2011)

In response to the crisis, the U.S. government executed extensive interventions to halt the economic turmoil and restore stability to the financial system. Banks received financial assistance through initiatives like TARP (Troubled Asset Relief Program), and several major financial institutions were either rescued or placed under government control. Subsequent to the crisis, the United States instituted significant reforms and regulations, including the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act. These measures were designed to fortify the financial system by imposing more stringent oversight of the banking sector and mitigating risks.

The Dodd-Frank Act is a federal law in the United States that entrusts the government with regulating the financial industry. Enacted in July 2010, this legislation introduced regulatory processes aimed at curbing risk through the promotion of transparency and accountability. Given that the Great Recession of the late 2000s was, in part, attributed to insufficient regulation and heavy reliance on large banks, one of the primary objectives of the Dodd-Frank Act was to subject banks to more rigorous oversight. This Act also established the Financial Stability Oversight Council (FSOC), which was tasked with addressing ongoing issues within the financial sector and preventing a recurrence of such a recession.

The Dodd-Frank Act (DFA) encompasses several significant goals, one of which is the elimination of implicit guarantees, including the too-big-to-fail (TBTF) policy. By putting an end to federal government intervention aimed at rescuing large, intricately connected firms, the DFA seeks to reestablish and enhance market discipline. Structured Notes with Defaults (SNDs) serve as valuable instruments for assessing the impacts of the DFA. SNDs, which are uninsured debt instruments treated as Tier 2 capital securities, have market-determined rates and a substantial trading volume. They have undergone extensive scrutiny in previous research, enabling us to draw comparisons between our findings and prior studies (Balasubramnian, Cyree, 2014).

As a result, the 2008 American Great Recession severely impacted the banking industry in the United States. Factors such as the credit crisis, bank failures, liquidity problems, and government intervention played a significant role in shaping the effects of the crisis on the banking sector. Following this crisis, there were substantial enhancements in financial regulations and supervision, and a heightened emphasis on risk management within the banking sector.



3. HISTORY OF ECONOMIC CRISES IN TURKEY

The period from 1908 to 1922 is frequently cited as a turning point in the formation of a national entrepreneurial class. Similarly, Turkey's first wave of import-substituting industrialization (ISI) policies are seen as pivotal in the 1930s, when the government played a significant entrepreneurial role. The 1930s Economic crisis gave an open door to a few fringe nations, like Turkey, to encounter their most memorable significant influx of modern development. On the other hand, the breakthrough came in the 1950s. By establishing a domestic heavy industry base, mainly in the public sector, the preceding decades laid the groundwork for long-term economic growth, fueled by an expanding private entrepreneurial class and a managerial elite in the public and private sectors. On the other hand, major economic and structural transformations occurred following World War II.

Yet, despite all these changes, Turkey experienced slow growth. The post-war period saw an annual growth rate of 4 to 5% on average. In terms of performance over the long term, there have been brief periods of strong growth that have not been sustained.

The major economic crises that occurred in Turkey after the Second World War, which constitute the central focus of this thesis, had significant adverse impacts on the banking sector. However, it is important to note that the effects of these crises vary based on the unique conditions and underlying causes of each period.

In this third chapter of the thesis, these crises are comprehensively examined, delving into their specific historical contexts and impacts. Subsequently, in the fifth part, the thesis conducts an in-depth analysis of how these crises influenced the Turkish banking sector and contributed to its development during the respective periods.

Although a more detailed analysis will be provided later, it's worth briefly mentioning that the effects on the banking sector become particularly prominent during two significant crisis periods; the two banking crises in 1994 and 2000. The outcomes of these crises were highly detrimental to the Turkish economy. Throughout these periods, Gross Domestic Product growth rate of Turkey significantly declined, while unemployment and inflation rates experienced dramatic increases. Consequently, these

crises underscored the critical importance of effective credit risk management in banks (Yüksel, 2017).

Rapid expansion in certain periods were followed by economic crises, which significantly slowed the average rate of growth. Turkey's experience is somewhat similar to that of Latin America in terms of prolonged import-substituting industrialization and forced transition to export-oriented growth following a significant economic disaster. Like many countries in Latin America, Turkey has gone through significant political and economic upheavals. Turkey has not been able to keep growing at the same rate as did the "tigers" of East Asia, during their crucial take-off period, when their per capita incomes caught up to those of developed nations. Turkey remains one of the "emerging markets" with a long way to go before it catches up to the living standards of advanced economies, despite a significant shift in its economic structure over the past six decades. Turkey experienced persistent inflation for more than three decades, beginning in the early 1970s. Events similar to those in Latin America also occurred in Turkey, including terrible military interventions and costly failures of democratic regimes. Nonetheless, Turkey is an illustration of "stable instability" by Latin American standards, because it did not experience the terrible hyperinflationary waves that Brazil and Argentina did (Öniş, 2010). On the other hand, while military pauses in Turkey were less prolonged than in Latin America, they were more costly in terms of their effects.

The experience of the post-communist EU members of Eastern Europe is comparable to Turkey's. A pattern of externally driven economic growth based on significant inflows of foreign money and a potent external anchor in the form of membership in the EU are the most important components in this setting. Conversely, the new worldwide monetary crisis has uncovered the model's blemishes. Compared to Turkey and the new EU members, nations with more balanced economic frameworks and high domestic saving ratios have fared better in weathering the storm.

Lastly, the Turkish case demonstrates the connection between long-term economic performance and democratic quality. Economic and political stability is more difficult to maintain in countries like Turkey, than it is in countries with deeply ingrained authoritarian regimes (like China) or fully consolidated democracies. Long-term growth

performance suffers as a result. By and large, Turkey's popularity-based imperfections have been a wellspring of monetary and political insecurity, as well as a drag on the country's financial execution.

Turkey's post-war advancement experience can be separated into four particular strategy times. To undo the statist and protectionist policies of the interwar period, the Turkish economy underwent a liberal transformation in the 1950s. Integration with the post-war international economy, which was being rebuilt as a producer and exporter of agricultural products under US hegemony, was the primary focus, particularly in the early part of the decade. The second phase reflects a shift toward national developmentalism, and strong internal market protectionism based on the ISI, which began with successive five-year plans in the 1960s and 1970s. The housing market became institutionalized during this time.

The third phase encompasses Turkey's encounter with neoliberal policies and the Washington Consensus's logic from the 1980s to the 1990s. The ideas were meant to help developing nations deal with economic crises. In conclusion, The Washington Consensus recommended structural reforms that increased the role of market forces in exchange for immediate financial assistance. Free trade, which focuses on the liberalization of key economic industries, and free exchange rates are two examples.

The fourth and final stage of neoliberalism is the regulatory phase, which places a greater emphasis on strong regulatory institutions and social protections for policymakers. This phase reflects Turkey's confrontation with the growing post-Washington consensus (Stiglitz, 2001). While the Washington consensus focused on market perfection, the post-Washington consensus focuses on market limitations and ways to fix them. Major policy shifts frequently accompany severe political and economic crises, which have far-reaching human repercussions. At every level, a crisis signifies the end of the previous model, paving the way for a new policy coalition to support a revised development model.

Up until recently, the growth of Turkey was supported by foreign capital and a partnership between the state and national capital. The fact that these four major policy phases correspond to various stages of domestic capital transformation is one of their

most obvious characteristics. Starting from the early 1950s, Turkish capital was gradually transformed from its agrarian and commercial orientation towards a domestic, market-based industrial capital by the 1960s and 1970s. The third phase, which lasted from the 1980s to the 1990s, saw a shift toward focusing on exports. The fourth phase, which began after the 1990s, saw a growing "trans nationalization" of Turkish domestic capital.

The 1994 Turkish Crisis was marked by the swift devaluation of the Turkish Lira and the repercussions of soaring inflation. Throughout this period, the banking sector incurred significant losses attributed to fluctuations in exchange rates. Banks grappled with losses stemming from their foreign exchange positions, and the economic instability of the period further escalated loan losses. The 2001 Turkish Crisis was a tumultuous period in the Turkish economy, marred by economic instability and political uncertainty. During this time, numerous banks either went bankrupt or faced severe financial difficulties. The banking sector bore the brunt of the crisis, grappling with substantial loan losses and a shortage of capital. Consequently, the crisis necessitated a comprehensive restructuring of the Turkish banking sector.

In contrast, the 2008 Global Economic Crisis also had repercussions on the Turkish banking sector. The worldwide financial collapse cast a shadow of global economic uncertainty and liquidity problems over Turkish banks. Nevertheless, the Turkish banking sector exhibited greater resilience to the crisis and managed to rebound swiftly.

To provide a final brief example for comparison, let's consider the 2018 Turkish Lira Crisis, marked by the swift devaluation of the Turkish Lira and soaring inflation. Throughout this period, the banking sector grappled with the repercussions of exchange rate fluctuations and rampant inflation. Managing depreciation and credit risks in their foreign exchange positions became a challenging task for banks.

3.1 The 1958 Crisis and the Transformation Process in the Turkish Economy

In the years following the Second World War, a combination of internal and external pressures and influences shaped Turkish economic strategies and policies. The

establishment of parliamentary democracy in 1946 and the economic and political influence of the United States had a significant impact on the Turkish economic decision-making in the years following World War II. The new competitive political system was influenced by popular demands regarding economic policy. The political opposition, primarily organized within the new Democrat Party, had voiced severe criticism of the current governments led by the Republican People's Party. The need for a more liberal economic system was also emphasized by American economic advisors. Democrat Party gained prominence because of developing agricultural sector. The United States also strongly supported a strategy that emphasized agricultural development. Due to internal and external pressures, the Republican People's Part also implemented market-oriented policies. In macroeconomic management, they remained conservative. The conservatism of macroeconomic policy ended when the Democratic Party took power in 1950. The Democrat Party's highest political goal was to push for rapid economic growth. With some initial impressive economic successes, the Democrats pursued expansionist economic policies. Due to increased cropland, agricultural mechanization, excellent international prices for exported goods, favorable weather, and foreign assistance, the early 1950s saw unprecedentedly strong economic growth. Near the end of the 1950s, there were a few negative shocks, such as weakening trade terms and poor weather. The Democrats responded to these crises by borrowing money from overseas and funding the deficit, as opposed to making adjustments. They rejected the recommendations to take the required actions to stabilize the Turkish economy. They appeared to be convinced that they had the right economic policies and strategy in place to create a compelling success narrative.

The 1950s marked a significant shift in the Turkish economy, characterized by efforts to depart from the statist and protectionist policies of the inter-war period. Particularly in the early years of the decade, there was a strong focus on aligning with the post-war global economy, which was being rebuilt under U.S. leadership. During this time, Turkey aimed to position itself as a producer and exporter of agricultural goods, seeking integration into the international economic landscape. The strategic shift in policy for the industrial sector during this transitional period aimed to safeguard the emerging industrial sector from foreign competition. Turkey adopted several measures to achieve

this objective, which included raising tariffs and implementing additional trade barriers, reinforcing capital controls, and maintaining subsidies to bolster the domestic industry.

The focus, particularly at the start of the decade, was timed to the establishment of the U.S.-controlled post-war global economy as a manufacturer and distributor of agricultural goods. Due to the insufficiency of export earnings and the constant rise in imports, the liberalization strategy has led to an increase in foreign trade deficits and foreign loans.

First Five-Year Development Plan (1958-1962). This plan aimed to promote industrialization, modernize the agricultural sector, and achieve rapid economic growth. The key objectives of the plan included increasing investments in infrastructure, expanding industrial production, improving transportation networks, and enhancing education and healthcare services. The government also introduced import substitution policies to reduce dependency on foreign goods and promote domestic industries. Additionally, the plan emphasized regional development to reduce regional disparities and stimulate economic growth across the country.

Turkey experienced a major economic crisis known as the "1958 İhtilali" or the "1958 Revolution." This crisis was characterized by high inflation, budget deficits, and a deteriorating currency value. The crisis was triggered by a combination of factors, including excessive government spending, increased importation, and a decline in foreign reserves. During this period, Turkey faced significant economic challenges, with rising inflation eroding the purchasing power of the Turkish lira.

By 1958, Turkey was experiencing difficulty paying back its unfamiliar obligations' principal and interest and needed to pronounce an unfamiliar obligation ban. Contrary to popular belief, liberal policies led to significant inflation, budget deficits, and deficits in international trade. Turkey made its first and largest stabilization decisions in 1958 as a result of the failure of the fixed exchange rate policy, the increase in imported goods, the decline throughout agricultural production since 1954, loss of momentum in development, an increase in inflation, a shortage of foreign currency, and the United States' reduction in foreign aid. Following the August 4th decisions, the Turkish Lira lost value, resulting in the USD/TL exchange rate increasing from 2.80 TL to 5 TL. The

1958 financial crisis was followed by a military takeover and a significant restructuring of the development paradigm. The import substitution approach and the standardization of development planning were made possible by the coup of 1960.

In current US and European monetary history, the period 1950-1973 is viewed as a "Golden Age" since it consolidated very fast development with somewhat gentle recurrent motions and low expansion.

As a result of the stabilizing decisions made in 1958:

- Efforts were undertaken to limit the Central Bank's resources to control the money supply.
- Financing of State Economic Enterprises (SEEs) by the Central Bank has been constrained.
- Efforts were undertaken to increase SEE products to reduce SEE losses.
- Budget imbalances were reduced by decreasing government spending.

Imports surged because of the increasing liberalization in foreign trade transactions, while exports did not grow as projected.

The crisis resulted in political instability and contributed to the resignation of the government at the time. The public protests and social unrest highlighted the dissatisfaction of the population with the economic conditions and government policies. Turkey sought financial assistance from international organizations such as the International Monetary Fund (IMF) and the World Bank. This assistance came with conditions and required implementing economic reforms and restructuring programs.

Table 1: GDP in TRY and USD, GDP per capita, GDP Growth Rate for Turkey Between 1957 and 1963

Year	GDP (TL)	GDP (constant 2015 USD; in billions)	GDP per capita (constant 2015 USD)	GDP Growth Rate (%)
1957	-	-	-	-
1958	-	-	-	-

1959	-	-	-	-
1960	68.100	68,945	2.506	-
1961	71.900	69,742	2.468	1,16
1962	80.300	73,628	2.536	5,57
1963	93.200	80,303	2.692	9,07

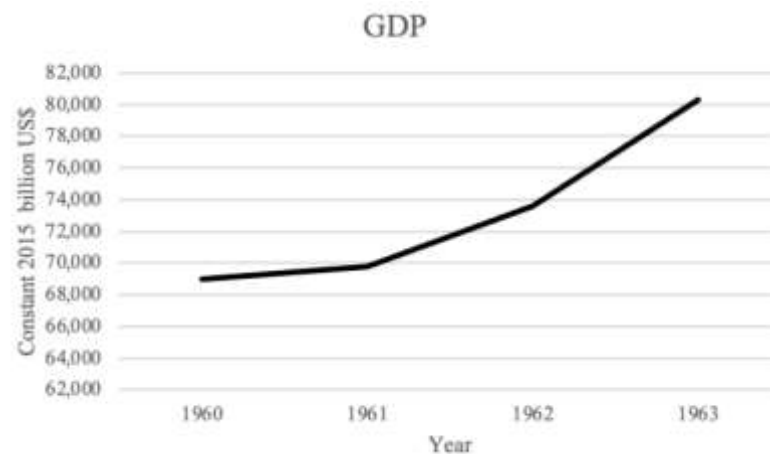
Source: World Development Indicators

Table 2: Yearly Rates of Inflation, FX Rates, Devaluation Rate and TL Interest Rate for Turkey Between 1957 and 1963

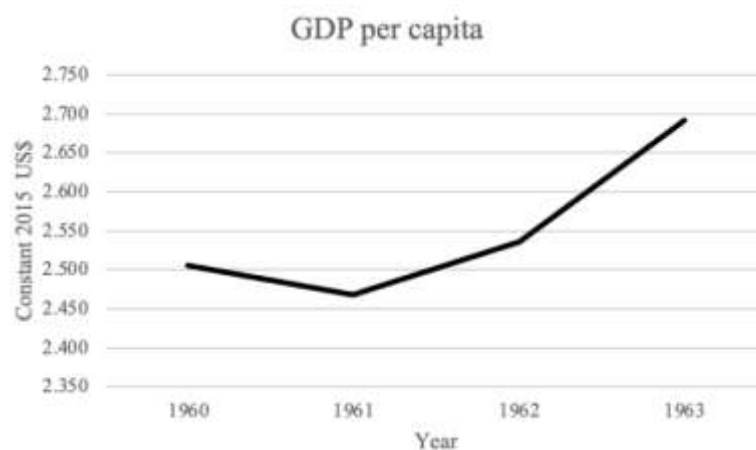
Year	Rate of Inflation (%)	FX Rates	Devaluation Rate (%)
1957	11,63	0,000003	-
1958	12,40	0,000003	0,00
1959	26,65	0,000003	0,00
1960	5,66	0,000005	73,93
1961	3,17	0,000009	84,80
1962	3,89	0,000009	0,00
1963	6,36	0,000009	0,00

Source: World Development Indicators

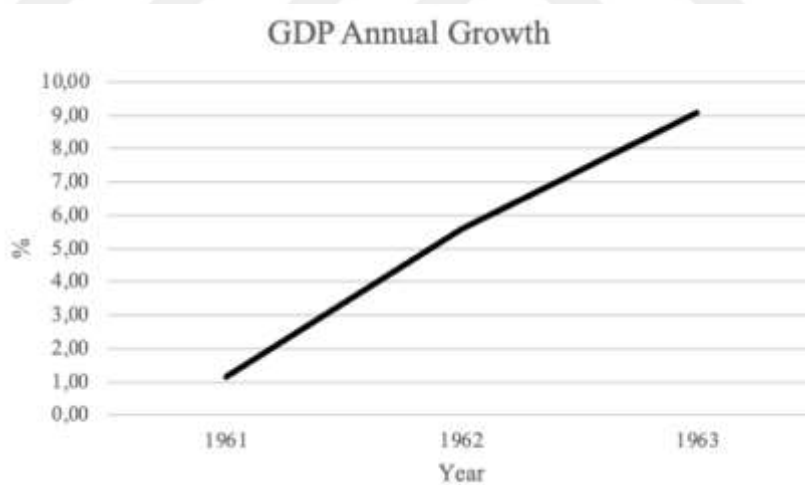
Figure 3: GDP in constant 2015 USD between 1960 and 1963



Source: World Development Indicators

Figure 4: GDP per capita in constant 2015 USD between 1960 and 1963

Source: World Development Indicators

Figure 5: GDP Annual Growth between 1960 and 1963

Source: World Development Indicators

Figure 6: Inflation between 1960 and 1963

Source: World Development Indicators

3.2 The Turbulent Effects of the 1978-1979 Oil Crisis on Turkish Economy

Despite the political consequences, the economic consequences of the coup of 1960 had overall been very good as far as government financing was concerned, but led unintentionally to some commercial stagnation. Although, economically, there was much change in Turkey's actual situation, steps had been taken which had the potential to give it an entirely new image in the future. The economy was stagnant in the first half of the 1960s and although remedial measures taken by the Government contributed towards some recovery, exports and investments failed to reach the planners' targets. In the mid-1960s, although progress had been satisfactory and industrial expansion continued at the rate of 11-12 percent and agriculture improved more slowly, there was a serious balance of payments crisis looming ahead. The government was expected to reduce imports haphazardly, restrict foreign exchange and subsidise exports, which would increase prices and cause industrial inefficiency. With the restrictions on foreign, and especially American, aid both economic and military, it seemed unlikely that the Turkish Government would be able to meet the planned growth rate unless they were able to expand exports, which seemed unlikely without moving in a direction away from industry to natural resources. This, of course, had to be a comparatively long-term policy.

However, in the late 1960s, the economy was still in serious difficulties, and even if the right economic objectives were being pursued, it would be a long-term process. The Turkish economy continued to be troubled by a shortage of foreign exchange and debt servicing obligations. The Government's efforts to remedy the situation by severe import restrictions and export incentives were having some success by the end of the year. Yet, despite these difficulties real gross national product was expected to rise. The external balance of the Turkish economy had been kept afloat over the decade by the aid from the OECD. However, by the end of 1960s, the character of Turkey's economy and society had changed almost beyond recognition. Before the 1960s, Turkey had been predominantly agrarian with a small industrial sector dominated by the state. By the end of the decade, a substantial private industrial sector had emerged so much so that industry's contribution to the GNP almost equalled that of agriculture. However, there was still a long distance to be covered before Turkish economy could recover (Economic Developments in Turkey According to British Annual Reports (1960-1970)).

In the late 1970s, the economic situation in Turkey was at its worst since the Ottoman Empire's fall. Short-term loans from foreign lenders were used to cover the deficits, as a result of Turkish authorities' failure to adequately mitigate the effects of a rapid rise in global oil prices in 1973-74. By 1980, inflation had reached around 100 percent, joblessness had expanded to practically 15 percent and the public authority lacked the ability to pay the interest on unfamiliar credits. The government's import-substitution development strategy appeared to be the only thing that could sustain Turkey's crisis-free development. The capacity of Turkish leaders to carry out the necessary reforms was questioned by numerous observers (Öniş, 2004).

The global fourfold surge in oil prices in 1974 (I. Oil Crisis) harmed economies. Stagflation emerged as a phenomenon. For the first time in history, the rise in inflation and unemployment led to the abandoning of the theories that had guided economic policy in previous decades. Since the conclusion of the decade, supply-side measures largely superseded Keynesian doctrines. The country's economy experienced economic obstacles, notably infrastructure, because of the first wave of crises in 1974, the Cyprus Peace Operation, and the embargo put on Turkey.

In this period, imports surged due to foreign dependency on import substitution industrialization, and foreign deficits of less developed nations extended due to wholesale import substitution policies of less developed countries, contrary to predictions of import substitution policies. Turkey's foreign deficit has grown, and the country's balance of payments has always been negative.

Turkey's external debt increased from decade to decade, reaching almost US\$16.2 billion in 1980, or more than one quarter of the country's annual gross domestic product. The country's persistent current account deficits were typically sustained by borrowing from outside sources. In that year, debt payment costs accounted for 33 percent of all goods and services exported. In 1978 and 1979, due to the worsening fiscal balance of payments crisis caused by the ISI model, a restructuring was carried out in collaboration with the IMF, World Bank, and OECD.

After a severe economic crisis in 1978 and 1979, the military took control in 1980. The coup in Turkey in 1980 accelerated the country's radical neoliberal transformation. As a result of the 1980 military intervention, Turkey's "democratic capital" was undermined by imposing an authoritarian constitutional framework, de-institutionalizing the party system, and causing a significant setback in the country's bid for EU membership in the long run.

The main policies encompassed various strategic measures, including export-oriented growth policies that offered incentives and support to export-oriented industries with the objective of augmenting foreign exchange earnings, stimulating economic activity, and reducing the trade deficit. Fiscal discipline emerged as a priority, wherein measures were adopted to control budget deficits and reduce public debt. This involved tightening public expenditures, enhancing tax collection mechanisms, and implementing fiscal reforms to ensure sustainable fiscal management.

Examination of the generals' economic record reveals the superficial nature of this positive appraisal — even within its very limited premises. By further lowering an already depressed economy and severely constraining nominal income growth, the regime brought down inflation. Government-controlled wages and salaries climbed by an average of 25 percent in 1981, but by less in 1982 and later, apart from a likely small

improvement in the lowest income groups as a result of the income tax reform. Farmers lost ground as well because agricultural price assistance hikes were kept below inflation. If the 1978-79 period was marked by a scarcity of commodities, the 1980-82 period was marked by a scarcity of buyers.

The seeming quick expansion in exports occurred during the years 1977-1980, which were marked by severe foreign exchange shortages. It's a well-kept secret that during this period, a significant proportion of under-invoiced and smuggled export revenues found their way to a very profitable black market in foreign exchange. Official trade data after 1980 reflected the resurfacing of this previously undocumented flow to some extent.

Turkey's heavy reliance on imported oil rendered the country vulnerable to the price shocks resulting from the oil crisis. The substantial increase in energy costs permeated throughout the economy, spurring inflationary pressures and leading to a depreciation of the Turkish lira. This depreciation, coupled with rising import costs, posed challenges to Turkey's external competitiveness and further worsened the trade deficit

On a worldwide scale, the Oil Crisis has resulted in a two-fold increase in oil prices. Unemployment reached 20 percent after the crisis, while inflation reached 65 percent. The January 24 Decisions were implemented to help resolve the problem. The Turkish lira declined by nearly 48 percent because of the devaluation. From a fixed exchange rate, a managed floating exchange rate policy was implemented, and foreign capital inflows were welcomed.

The Turkish economy's export performance appeared excellent at first glance: a 62 percent increase in export earnings in 1981 comprised a doubling of processed and manufactured product exports. In 1982, a lower 22 percent gain in overall sales was supported by a 50 percent increase in processed and manufactured goods. Turkish businesspeople were unwilling to finance inventories at the current loan rates, but they were unable to find purchasers at home, so they hurried to find outlets elsewhere. Continuous lira depreciation, as well as attractive export incentives such as the selective provision of cheap loans, tax refunds for export-oriented companies, and preferential access to foreign exchange, boosted the export drive.

Turkey's heavy reliance on imported oil rendered the country vulnerable to the price shocks resulting from the oil crisis. The substantial increase in energy costs permeated throughout the economy, spurring inflationary pressures and leading to a depreciation of the Turkish lira. This depreciation, coupled with rising import costs, posed challenges to Turkey's external competitiveness and further worsened the trade deficit.

The geographical dispersion of the Turkish export drive is one of its peculiarities. Iran, Iraq, and Libya increased their imports, accounting for 65 percent of the overall rise in exports in 1981. The surge in shipments to the two Gulf countries mirrored their economies' wartime demands; Libya's imports derived from the regime's large construction activities. In 1982, when 45 percent of Turkey's exports went to the Middle East and North Africa, Iran alone accounted for 53 percent of the rise. With most countries in the region seeing a drop in oil output and revenues, as well as the uncertain conclusion of the Gulf war, these markets were not assured to last.

One of the generals' economic triumphs, according to partisans, is the development of the foreign investment. Foreign investment authorizations totaled \$337 million in 1981 and \$167 million in 1982, compared to only total of \$228 million in total foreign investment before. Second, the real flow of investments, estimated at \$50 million per year by the Organization for Economic Cooperation and Development, is almost always significantly below the authorizations. Third, the majority of the movement was due to uncollected loans without government guarantees that had accrued throughout the 1978-80 era, rather than fresh money.

Signs of a sustained economic recovery in Turkey are hard to come by. Increased capacity utilization, thanks to the outlawing of strikes, and regained import capabilities improved industrial production in 1981 on most fronts. Over a dismal 1980 baseline, industrial output increased by 7.2 percent. In 1982, however, reduced manufacturing efficiency increases and a decline in mining output limited the growth to 3.2 percent. Construction did not pick up while financing rates fluctuated between 50 and 70 percent. Real investment has remained flat, indicating potential production restrictions.

Both effective allocation of production factors and meaningful integrations into the international division of labor were hindered by the strategy. The rise of the informal

labor market and the extremely low TFP growth rates during this period are the best examples of this. Turkey began a trend toward economic liberalization in 1980. Notwithstanding its gradual development, it achieved considerable strides toward lifting trade restrictions, incentives, and interest limits, as well as liberating foreign trade, lowering capital restrictions, promoting FDI, and enlarging the private sector. Despite their modest beginnings, both foreign trade and foreign direct investment (FDI) saw significant growth as a result. TFP in the business sector — but not in agriculture— started to increase, and Turkey started to exhibit notable TFP growth. TFP actually increased its contribution to economic growth when compared to the prior period, showing better economic resource allocation. The rapid industry-led expansion phases that are followed by balance of payments crises, the exchange rate of the Turkish lira, and austerity measures meant to reduce domestic demand for imported goods are what distinguish boom-and-bust cycles, which allow for the reinstatement of external debt as well as another cycle of subpar growth performance.

An outward-looking, free-market-based industrialization strategy replaced an inward-looking, import-substituting growth strategy in Turkey's economic policy in the 1980s. A fixed exchange rate was used until 1981. After that, interbank foreign exchange and actual market conditions determined exchange rates. In 1984, it became easier to save foreign currency, which led to an increase in foreign currency deposit accounts with Decree No.32 on the Protection of the Value of Turkish Currency (<https://ms.hmb.gov.tr/uploads/sites/2/2018/12/Decree-No.32-on-the-Protection-of-the-Value-of-Turkish-Currency.pdf>). As financial liberalization and restrictions on capital movement were lifted in 1989, capital movements in the form of hot money toward the nation increased. Due to financial deregulation policies and public industry debt, capital moved speculatively from the real industry to the financial industry as interest rates rose. After the 1990s, Turkey went through a progression of emergencies that are normal for an open economy. The government developed a high-interest, low-exchange-rate policy centered on short-term foreign capital financing, which allowed for unlimited capital flows. Periods of expansion were fueled by short-term capital inflows. A notable aspect of the crises is that they occurred following the liberalization of the capital movements. It was observed that these policies, which were implemented as the crises worsened, had an effect. Speculative attacks and a decrease in the Central

Bank's reserves are the results of financial market instability, pessimism regarding expectations, and a lack of trust. During these times of emergency, confidence in the TL was debilitated, and there was an enormous expansion in the utilization of unfamiliar monetary standards as a substitute. Speculative assaults dissolved the Central Bank's stores and constrained the TL to be degraded by leaving the pertinent swapping scale component during the 1994 and February 2001 emergencies in Turkey.

Capital flow reversals appear to have been brought on by an increased exposure to devaluation risk brought on by rising current account deficits, particularly in the 1980s, and in many previous crises (Rodriguez, 1993, Taylor, 1998). The introduction of a credible exchange rate-based stabilization program, which led to a favorable interest rate spread in favor of the home nation, typically sparked capital inflows. After a crawling peg, slow price adjustments frequently led to real currency appreciation and a larger current account deficit, which raised devaluation risk and eventually caused a capital flow reversal. The capital account was not the cause of the Turkish crisis, as this simplified explanation suggests. We contend that the primary source of capital inflows was speculative holdings in domestic debt instruments, most of which were held by local banks, and that the capital flow reversed once expectations of gains in domestic asset prices subsided.

External Balance

Governments became more aware of the viability of external imbalances following the implementation of a comprehensive stabilization program in January 1980 because of the three decades of persistent current account imbalances. In its early stages of implementation, the export-led growth program was quite successful. The economy became more open almost immediately: The ratio of total exports to GDP increased from 4.1 percent to 18.7 percent between 1980 and 1988. During the same time period, the ratio of total imports to GDP increased at a slower rate, rising from 11.3 to 16.4 percent. The external balance has improved significantly as a result. The ratio of the external deficit to GDP decreased to a surplus of 1 percent from 7 percent of GDP in 1980 in 1988. The real depreciation of the Turkish lira (about 40 percent) and numerous

tax breaks for exporters were the primary drivers of the export-led growth policy during this time. After 1987, the policy shift began to hurt the economy's external balance. As currency depreciation was stopped in 1989, the Turkish lira increased by only 22 percent in real terms, and it continued to increase at a slower rate in 1990. Consequently, total imports increased while total exports decreased. In 1989, the external deficit reached 2 percent of GDP, and in 1990, it reached 4 percent.

1982 Bankers Crisis

The rise in interest rates eventually forces institutions known as bankers to borrow money at a higher interest rate in order to repay the interest on the borrowed funds. The practice of raising interest rates has become increasingly common in this setting. Free interest policies, banker bankruptcies, individual bank practices, and management styles all contributed to the 1982 "Bankers Crisis."

Table 3: GDP in TRY and USD, GDP per capita, GDP Growth Rate for Turkey Between 1975 and 1982

Year	GDP (thousand TRY)	GDP (constant 2015 USD; in billions)	GDP per capita (constant 2015 USD)	GDP Growth Rate (%)
1975	645	154,22	3.887	7,17
1976	823	170,35	4.206	10,46
1977	1.056	176,15	4.256	3,41
1978	1.582	178,80	4.228	1,50
1979	2.778	177,68	4.114	-0,62
1980	5.231	173,33	3.931	-2,45
1981	7.901	181,75	4.041	4,86
1982	10.492	188,23	4.096	4

Source: World Development Indicators

Table 4: Yearly Rates of Inflation, FX Rates, Devaluation Rate and TL Interest Rate for Turkey Between 1975 and 1982

Year	Rate of Inflation(%)	FX Rates	Devaluation Rate (%)	TL Interest Rate (%)
1975	21,23	0,00001	3,70	9,00
1976	17,46	0,00002	11,15	9,00
1977	25,99	0,00002	12,14	9,00
1978	61,90	0,00002	34,88	10,00
1979	63,54	0,00003	27,98	10,75
1980	94,26	0,00008	144,67	26,00
1981	37,61	0,00011	46,27	31,50
1982	29,14	0,00016	46,16	31,50

Source: World Development Indicators, Federal Reserve Economic Data

Table 5: Current Account Balance, Current Account Balance to GDP for Turkey Between 1975 and 1982

Year	Current Account Balance (current billion USD)	Current Account Balance to GDP (%)
1975	-1,6	-3,68
1976	-2,0	-3,97
1977	-3,1	-5,35
1978	-1,3	-1,94
1979	-1,4	-1,58
1980	-3,4	-4,95
1981	-1,9	-2,73
1982	-1,0	-1,47

Source: World Development Indicators

Table 6: Goods Export, Goods Import, Trade Balance and Export to Import Rate for Turkey Between 1975 and 1982

Year	Goods Export (billion USD)	Goods Import (billion USD)	Trade Balance (billion USD)	Export to Import Rate
1975	1,40	4,50	-3,10	0,31
1976	1,96	4,87	-2,91	0,40
1977	1,75	5,51	-3,75	0,32
1978	2,29	4,37	-2,08	0,52
1979	2,26	4,82	-2,55	0,47
1980	2,91	7,51	-4,60	0,39
1981	4,70	8,57	-3,86	0,55
1982	5,89	8,52	-2,63	0,69

Source: World Development Indicators

Figure 7: GDP in constant 2015 USD between 1975 and 1982



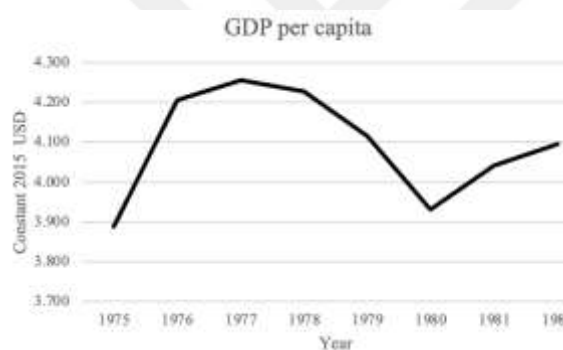
Source: World Development Indicators

Figure 10: FX Rates, LCU per USD, between 1975 and 1982



Source: World Development Indicators (FX rates are showed for hundred thousand)

Figure 8: GDP per capita in constant 2015 USD between 1975 and 1982



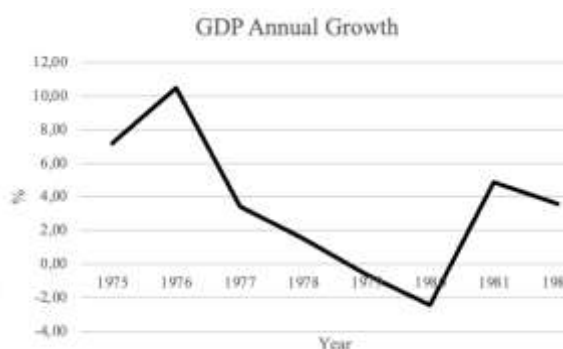
Source: World Development Indicators

Figure 11: Current Account Balance between 1975 and 1982



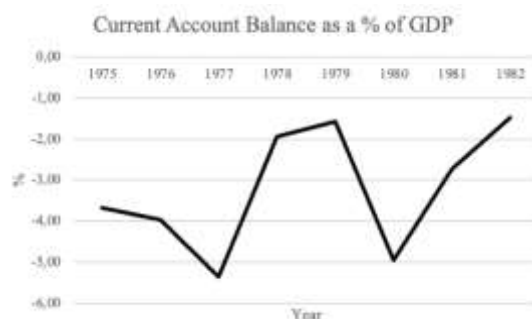
Source: World Development Indicators

Figure 9: GDP Annual Growth between 1975 and 1982

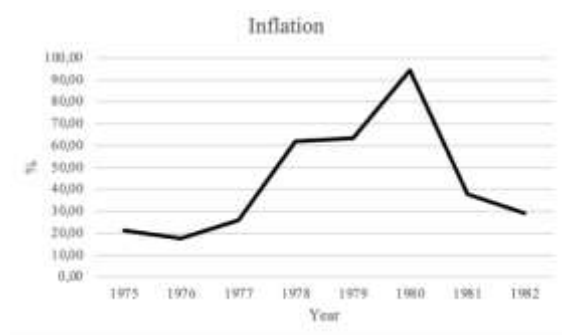


Source: World Development Indicators

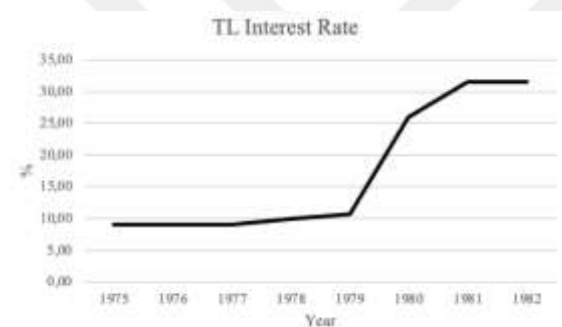
Figure 12: Current Account Balance as a % of GDP between 1975 and 1982



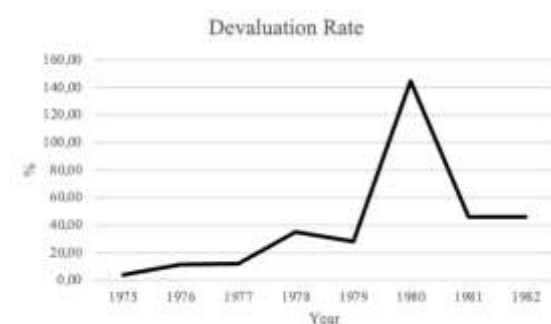
Source: World Development Indicators

Figure 13: Inflation between 1975 and 1982

Source: World Development Indicators

Figure 14: TL Interest Rate between 1975 and 1982

Source: Federal Reserve Economic Dat

Figure 15: Devaluation Rate between 1975 and 1982

Source: World Development Indicators

3.3 Turkey's Economic Unraveling in 1994: A Consequence of Fiscal Imbalances and Unsustainable Policies

During the early 1990s, inflation emerged as one of the most pressing concerns within the Turkish economy, which was simultaneously contending with a multitude of substantial structural hurdles that cast substantial barriers on its stability and growth trajectory. The nation struggled with a precarious fiscal balance, grappling with budget deficits and a mounting burden of public debt that strained the overall economic fabric and contributed to the inflationary environment.

Turkey was facing economic challenges in the early 1990s, and in 1994, the government under Prime Minister Tansu Çiller implemented economic reforms to stabilize the economy. These reforms included measures to control inflation, reduce government spending, and attract foreign investment. The government's efforts to suppress interest rates simultaneously put upward pressure on the exchange rate. The pressure on the exchange rate and the interest rates increased the demand for the United States Dollar. An outflow of capital from the Turkish Lira to the United States Dollar occurred; banks rushed to foreign exchange markets to close their foreign exchange positions.

In this period, the resulting crises were caused especially by the public sector enterprises. While the level of these deficits was sustainable at the beginning of the period, they became increasingly unsustainable. The growth of deficits and the need for public borrowing increased the financial pressure on money and capital markets.

As a result of the increase in financial pressure, almost all domestic savings were used to finance deficits. This process was an unsustainable form of public deficit and debt. With large budget deficits and high real interest rates in budget financing, because of domestic borrowing, domestic debt also reached an unsustainable level.

In addition, the absence of political authority in Northern Iraq after the war caused an increase in terrorist activities in Southeastern Anatolia. As a result of terrorism, social and political balances of the country as well as economic balances began to be disturbed. The government's security expenditures began to increase further disrupting the budget, causing inflation.

Toward the end of 1993, the banking sector was compelled to urgently reorganize foreign currency-denominated assets and obligations as a result of the government's intention to reverse policies, including lower interest rates and higher depreciation as well as the cancellation of Treasury auctions. The circumstances that ultimately resulted in the economy's collapse in 1994 were set in motion by this swift adjustment, which sparked a demand for foreign currency. The disinflationary efforts of monetary officials were unsuccessful as a result of the government's failure to implement the necessary budgetary reforms. Due to the unsustainable nature of fiscal policies and the external deficit, the economy entered a severe crisis at the beginning of 1994. The impact of the crisis on the Turkish economy was devastating. The Turkish Lira depreciated by 70 percent against the United States Dollar in the first quarter of 1994. As a result of the intervention of the Central Bank in the foreign exchange market, the Central Bank lost half of its international reserves. However, this did not stop the growing demand for foreign currency, so the Central Bank increased its lending rates. Overnight interest rates meanwhile increased to unprecedented levels, to almost 700 percent from stable pre-crisis levels of approximately 70 percent. In the aftermath of the crisis, the Turkish economy recorded the highest level of annual output loss in the history of the Turkish Republic, of approximately 6 percent. The main reason behind this contraction in the economy was the high devaluation of the Turkish Lira. Firms which had foreign-currency denominated loans could not afford to pay these loans; as a result, there were many bankruptcies which caused a drastic decrease in output.

With the deterioration of the public budget balance, public reforms were not made. Thus, the structural problems of the public increased. As a result, liberalization of financial markets and more sensitive and fragile economic activities triggered the 1994 Crisis, which broke out in the form of a domestic debt crisis. 1994 Crisis can be called “the first important financial crisis and the economy contracted to 4,67 percent. The ratio of public sector total net debt stock to GNP reached 61 percent while this ratio was 29 percent in 1990.

Unlike the crises experienced in Latin American countries caused by of external shocks, the crisis in Turkey was experienced because of internal imbalances. Prior to 1994, the public sector's expenditures consistently exceeded its receipts. As a result, the

Central Bank was forced to finance the public debt. Turkey experienced hyperinflation for the first time, and the economy was unable to recover due to insufficient changes.

In February 1994, the government declared that it would devalue the Turkish Lira by approximately 10 percent, undermining public trust in government policy. The exchange rate fell by another 70 percent over the next two months because of increased capital outflows and faster currency substitution. The overall inflation rate in the first four months of 1994 was more than 60 percent. This crisis prompted the economic stability program dated 5 April 1994 which included a slew of measures aimed at reducing public-industry deficits and reining in central bank lending. The stabilization package increased public revenues by taking additional taxes, introduced measures keeping public expenditures and wage increases below inflation and preventing the appreciation of TL against the dollar measures had been taken.

This situation, however, significantly affected the government's ability to implement essential fiscal measures to stabilize the Turkish economy. Consequently, although tight monetary policy and fiscal measures were supposed to be implemented after the 1994 economic crisis, the government failed to achieve neither of these successfully.

It was backed by an IMF standby agreement. The economic stability program increased public revenues by taking additional taxes, introduced measures keeping public expenditures and wage increases below inflation and preventing the appreciation of TL against the dollar measures had been taken.

The deficit was cut in half because of rapid price increases in the public industry, one-time tax cuts, and limits on public-industry compensation increases. Following the coalition government's collapse in September, the IMF agreement was cancelled as growth quickly returned to 7.5 percent and inflation fell from more than 125 percent in April 1994 to 70 percent by mid-1995. Turkey's fragile deficiencies PSBRs, hyperinflation and nominal rates of interest, and a fairly robust lira were sustained throughout the following two years, preventing another collapse despite political upheaval and subpar economic management. Continuous capital inflows aided GDP growth in 1996 and 1997, which was 7 percent and 7.5 percent, respectively.

A shift in policy posture and cumulative structural flaws in the vulnerable banking system were the obvious causes of the harsh landing. Short positions held by privately owned commercial banks were virtually eliminated prior to April 5, 1994. The depreciation had little effect on these banks as a result. Commercial banks' interest revenue also significantly increased. The ratio of net interest earnings to net interest expenses reached 2,5 during this time. Private banks were able to achieve a respectable net income by closing the gap between noninterest expenses and income thanks to the higher interest margin. A full-coverage age insurance scheme for bank deposits was implemented on April 5, 1994, when the stabilization program began, and the International Monetary Fund (IMF) Board approved a stand-by arrangement two months later. However, the stand-by agreement was terminated in 1995 after the government made it abundantly clear from the beginning that it did not support the April 5 program. The situation was not significantly stabilized in the subsequent two years.

The crisis had a significant impact on commercial banks despite these precautions. Three banks were liquidated, and numerous banks were on the verge of losing assets. Capital adequacy ratios for all banks decreased significantly, and state banks lost 90 percent of their assets. The industry has almost stopped expanding credit, and nonperforming loans increased by 65 percent. The financial crisis of 1994 marked a turning point in the history of state banks. Nonparametric methods were used by Ertugrul and Zaim (1996) to examine the effectiveness of the Turkish banking system within the framework of neoclassical theory. Between 1980 and 1993, the study found, the system's global efficiency in terms of credit extension and deposit collection increased significantly before declining in 1994. These data demonstrate that system efficiency has benefited from liberalization efforts. From 1981 to 1993, state banks were more effective than private banks at extending credit and collecting deposits. The inefficiency index of state banks decreased from 10.7 percent to 4.1 percent under the constant-returns-to-scale assumption, while the inefficiency index of privately owned banks decreased from 24.5 percent to 13.7 percent during the same period. In terms of credit extension and deposit collection, private banks became more effective than state banks following the financial crisis of 1994. The government's implicit decision regarding how to allocate resources is the source of state banks' inefficiency. As

recently expressed, state banks lost over 90 percent of their net resources during the 1994 emergency. These banks' income statements were negatively impacted by the depreciation and additional government measures. The overall gain to-add up to resources proportion tumbled from 3.1 percent in 1993 to 0.1 percent in 1994 and remained fundamentally lower than the confidential banks' proportion in resulting years. The net interest margin of privately held banks was nearly three times higher than that of state-controlled banks.

The housing industry, small and medium-sized businesses, and the agricultural sector all received concessionary loans from state-owned commercial banks. These banks were unable to alter their usual loan-extending strategies or reduce the volume of concessionary loans, despite rising market interest rates for fund-raising. The state-owned banks' concerns about liquidity and capital adequacy were exacerbated by the Undersecretariat of the Treasury's poor duty loss recovery. The costs of raising money for these banks have gone up as a result. Market inefficiencies were created when state banks charged higher interest rates to attract deposits. At long last, the moves made during and after the 1994 adjustment program neglected to diminish the weakness of the monetary framework. Because to the substantial dollar profit margins on treasury bills and government bonds, governments and commercial banks swiftly reverted to the alluring hot money program during the 1994 crisis. This policy involved short-term borrowing from abroad and lending domestically. With market risk, exchange rate risk, and prudent asset and debt management being disregarded in favor of massive fiscal deficits and significant government borrowing as a result of higher interest rates, the banking sector became significantly involved in deficit financing. The excessive risk-taking by privately owned banks made the system more vulnerable to even small shocks. Long-term budgetary imbalances, insufficient banking system regulation and supervision, poor risk management, and implicit and explicit government guarantees made it difficult to provide the prerequisites for a sound financial system.

The second phase of Turkey's neoliberal reforms began in the 1990s. Overall, it was a challenging time marked by persistent economic issues and severe political unrest. Turkey was made vulnerable to the risks of financial globalization after the decision to establish complete currency convertibility in August 1989. An unstable and lopsided

pattern of development was helped to be created by Turkey's exposure to financial globalization, as well as significant macroeconomic volatility and a poorly regulated financial system. As a result, growth became reliant on highly speculative and reversible short-term capital inflows. The fundamental imbalances in the Turkish economy were made worse by a number of unfavorable events, besides a major earthquake in the summer of 1999, circumstances which essentially amounts to a simulated civil conflict in the country's south, and an unstable external environment marked by a number of financial catastrophes across many emerging economies (Alper and Onis, 2003; Demir, 2004). Before the financial crisis of 2001, efforts were made to brighten the picture (Cizre and Yeldan, 2005). In the beginning of 1994, the first neoliberal crisis involved the IMF. The usual mix of fiscal and monetary discipline, along with the significant depreciation of the Turkish lira, aided to equilibrium the Turkish economy, at least for the foreseeable future, by exporting goods and services, lowering imports, and luring a fresh wave of foreign investment capital. The crisis of 1994 was not severe enough to cause significant structural changes in the Turkish economy, despite the fact that real wages significantly decreased following the crisis.

After the crisis's smooth recovery, many of the key characteristics of the early 1990s disequilibrium remained, including large budget deficits, persistent inflation rates, and a heavy reliance on short-term capital inflows. To cover huge budget deficits, weak coalition governments continued to borrow heavily. As a result of adapting to this unfavorable environment, major industrial firms and financial institutions began to make money by lending to the government at exorbitant interest rates in order to finance expanding budget deficits. Indeed, the IMF's 1994 introduction of blanket guarantees to the financial sector contributed to instability. The deposit insurance program, with its 100 percent guarantee, was one of the causes of moral hazard and excessive risk-taking prior to the financial crisis of 2000–2001. The Customs Union Agreement (CUA) with the EU, which came full circle toward the finish of 1995, was a turning point for the Turkish economy, speeding up exchange progression, uncovering the homegrown business to more prominent outside contest, and sending off a progression of huge administrative changes (Hoekman and Togan, 2005). The conditions attached to signing the CUA directly influenced the creation of the Competition Board. The CUA's issue

was that it was unable to provide Turkey with a sufficient external anchor to support a massive economic and political revolution without promising full EU membership.

Turkey faced a much less favorable EU environment in the middle of the 1990s than its East European rivals, such as Poland and Hungary. In the absence of an explicit promise of full membership, policymakers lacked the motivation to pursue large-scale economic and political changes, and Turkey was denied access to financial resources under the CUA due to the Greek veto. At the same time, it was abundantly clear that the economy was heading in an unsustainable direction and that, if the issue was not resolved, a catastrophe would sooner or later occur. Consequently, Turkey entered into a one-of-a-kind standby agreement with the IMF in December 1999. This was the first time in Turkey's postwar history that the country was willing to accept IMF discipline without an explicit crisis.

Table 7: GDP in TRY and USD, GDP per capita, GDP Growth Rate for Turkey Between 1991 and 1997

Year	GDP (million TRY)	GDP (constant 2015 USD; in billions)	GDP per capita (constant 2015 USD)	GDP Growth Rate (%)
1991	630	290,82	5.257	0,72
1992	1.093	305,46	5.425	5,04
1993	1.982	328,84	5.739	7,65
1994	3.868	313,49	5.376	-4,67
1995	7.762	338,18	5.702	7,88
1996	14.772	363,14	6.023	7,38
1997	29	390,66	6.375	7,58

Source: World Development Indicators

Table 8: Yearly Rates of Inflation, FX Rates, Devaluation Rate and TL Interest Rate for Turkey Between 1991 and 1997

Year	Rate of Inflation (%)	FX Rates	Devaluation Rate (%)	TL Interest Rate (%)
1991	65,98	0,00	59,92	48,00
1992	70,08	0,01	64,73	48,00
1993	66,09	0,01	59,84	48,00
1994	105,21	0,03	169,55	55,00

1995	89,11	0,05	54,84	50,00
1996	80,41	0,08	77,57	50,00
1997	85,67	0,15	86,56	67,00

Source: World Development Indicators, Federal Reserve Economic Data

Table 9: Population, Labor Force and Unemployment Rate for Turkey Between 1991 and 1997

Year	Population	Labor Force	Unemployment Rate (%)
1991	54.840.590	20.041.385	7,7
1992	55.748.948	20.178.525	7,9
1993	56.653.804	19.234.777	8,4
1994	57.564.204	20.657.052	8
1995	58.486.456	20.944.086	7,1
1996	59.423.282	21.251.639	6,1
1997	60.372.568	21.215.774	6,3

Source: World Development Indicators

Table 10: Current Account Balance, Current Account Balance to GDP for Turkey Between 1991 and 1997

Year	Current Account Balance (current billion USD)	Current Account Balance to GDP
1991	0,3	0,17
1992	-1,0	-0,61
1993	-6,4	-3,57
1994	2,6	2,01
1995	-2,3	-1,38
1996	-2,4	-1,34
1997	-2,6	-1,39

Source: World Development Indicators

Table 11: Goods Export, Goods Import, Trade Balance and Export to Import Rate for Turkey Between 1991 and 1997

Year	Goods Export (billion USD)	Goods Import (billion USD)	Trade Balance (billion USD)	Export to Import Rate
1991	13,67	20,95	-7,28	0,65
1992	14,89	22,94	-8,05	0,65
1993	15,61	29,66	-14,04	0,53

1994	18,39	22,52	-4,13	0,82
1995	21,98	35,09	-13,11	0,63
1996	32,14	42,33	-10,19	0,76
1997	32,20	47,16	-14,96	0,68

Source: World Development Indicators

Table 12: Gross External Debt, Short Term Debt and Long Term Debt for Turkey Between 1991 and 1997

Year	Gross External Debt (million USD)	Short-Term Debt (million USD)	Long-Term Debt (million USD)
1991	53.623	9.117	44.506
1992	58.595	12.660	45.935
1993	70.512	18.473	52.039
1994	68.705	11.187	57.518
1995	75.948	15.500	60.448
1996	79.299	17.072	62.227
1997	84.356	17.691	66.665

Source: Central Bank of the Republic of Turkey

Table 13: Short-Term External Debt by Borrower for Turkey between 1991 and 1997

Year	Short-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
1991	9.117	281	557	8.279
1992	12.660	400	572	11.688
1993	18.473	65	667	17.741
1994	11.187	36	828	10.323
1995	15.500	250	993	14.257
1996	17.072	0	984	16.088
1997	17.691	204	889	16.598

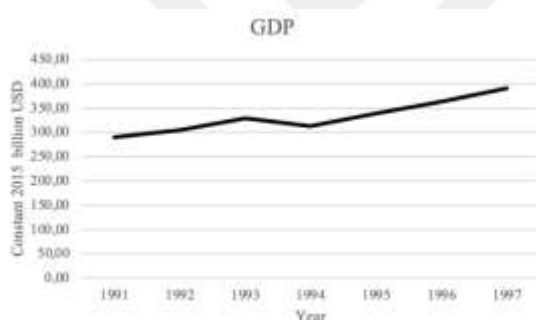
Source: Central Bank of the Republic of Turkey

Table 14: Long-Term External Debt by Borrower for Turkey between 1991 and 1997

Year	Long-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
1991	44.506	34.999	6.658	2.849
1992	45.935	36.076	6.158	3.702
1993	52.039	39.575	6.626	5.838
1994	57.518	41.705	8.949	6.863
1995	60.448	41.753	11.178	7.517
1996	62.227	40.192	11.397	10.637
1997	66.665	38.864	10.876	16.925

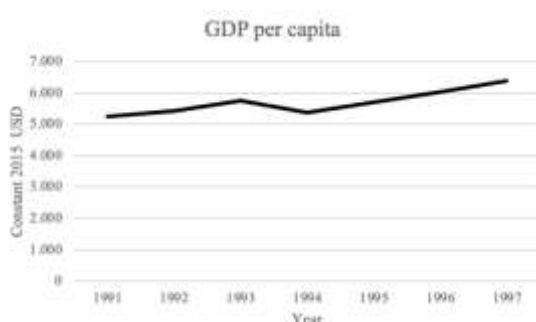
Source: Central Bank of the Republic of Turkey

Figure 16: GDP in constant 2015 USD between 1991 and 1997



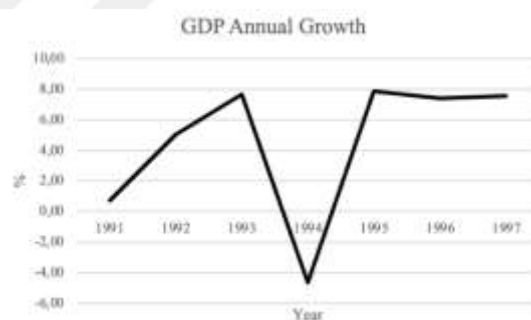
Source: World Development Indicators

Figure 17: GDP per capita in constant 2015 USD between 1991 and 1997



Source: World Development Indicators

Figure 18: GDP Annual Growth between 1991 and 1997



Source: World Development Indicators

Figure 19: FX Rates, LCU per USD, between 1991 and 1997



Source: World Development Indicators

Figure 20: Current Account Balance between 1991 and 1997



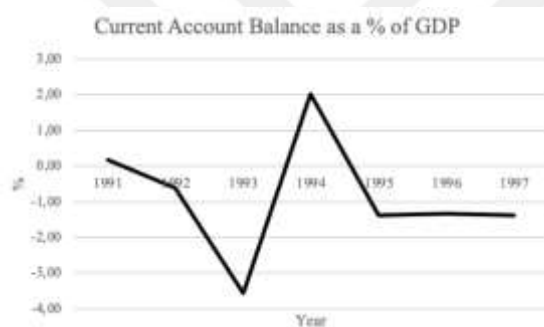
Source: World Development Indicators

Figure 23: TL Interest Rate between 1991 and 1997



Source: Federal Reserve Economic Data

Figure 21: Current Account Balance as a % of GDP between 1991 and 1997



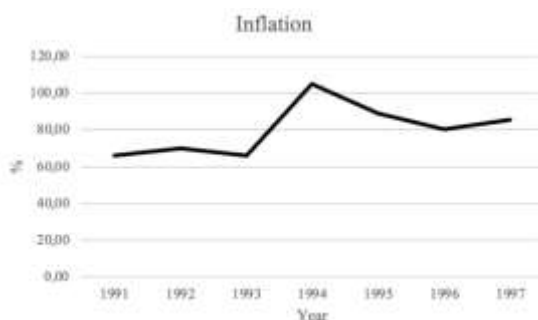
Source: World Development Indicators

Figure 24: Devaluation Rate between 1991 and 1997



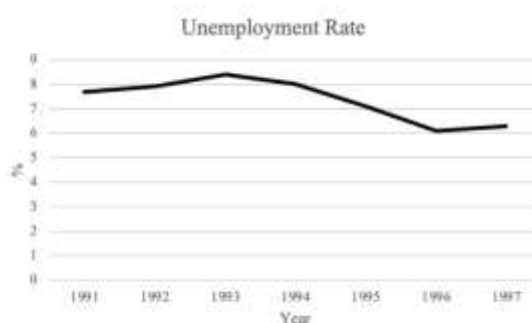
Source: World Development Indicators

Figure 22: Inflation between 1991 and 1997



Source: World Development Indicators

Figure 25: Unemployment Rate between 1991 and 1997



Source: World Development Indicators

3.4 A Tale of Economic Turmoil: An Analysis of Turkey's 2000/2001 Financial Crisis

The financial business' essential blemishes, as well as an inadequate administrative and administrative system, have been connected to macroeconomic insecurity. In 1997, the banking industry became the main source of government funding, investing short-term deposits and investments in government debt. While subsidized lending caused significant losses for state banks, a number of insolvent commercial banks were allowed to continue operating under a blanket government guarantee. Toward the end of 2000, freely possessed banks represented over 40 percent of absolute financial resources. State-owned businesses still dominated many economic sectors, were frequently ineffective, and strained the budget of the government. Political insecurity has hampered numerous attempts to stabilize the economy. The national budget was further strained by populist initiatives like periodic reductions in retirement age and tax amnesty. The worst financial and economic disaster in Turkish history, the financial and economic crisis of 2000/2001, was the culmination of the boom-bust cycle, which sparked a flurry of reforms.

Through the close of 1999, the sustainability of government debt to GDP had replaced the principles of the economy as the most urgent worry. The domestic debt ratio significantly increased from 22.2 percentage points at the end of the year 1998 to 29.6 percentage points at the end of the year 1999 as a result of weak financial regulation, increasing real mortgage rates, and a decline in GDP. The central government's primary balance decreased from a 4.7 percent surplus in 1998 to a near-balance in 1999 as a result of contraction, quake-related revenue losses, and a significant increase in noninterest spending. The functional financial account of the centralized administration decreased from -1.1 percent of GNP during 1998 to -6.8 percent in 1999, and the actual rate of interest (former) on borrowings has been almost 30 percent. The normalization strategy from 2000 was implemented as soon as it became evident that the existing course could not be maintained.

IMF and Turkish officials have been in constant communication since the end of 1997, holding numerous official meetings to talk about the possibility of a disinflationary

program. A staff-monitored agreement with the IMF was reached in June 1998 due to improved transparency in fiscal operations and the resulting adjustment in the primary budget balance. The program had remained on course for the majority of its existence, despite significant consequences from the Russian crisis. With a few exceptions, the International Monetary Fund (IMF) issued favorable quarterly assessments for 1998 and the first half of 1999. A standby agreement and financial support from the IMF were the outcomes of the agreement's most recent renewal in July 1999. The IMF's strategy called structural changes "prior actions" from the beginning. The coalition government's actions toward pension reform, passage of new banking legislation, and amendment of the constitution to allow international arbitration to settle disputes over the sale of public-industry assets fulfilled the prerequisites. The open loop bargaining process between the two sides appeared to be coming to an end before the end of 1999. The IMF encouraged the public authority to carry out another administration activity plan, a record monetary change plan for 2000, as well as a commitment from the alliance to execute different financial changes to lessen public-industry shortfalls before very long.

Moody's upgraded Turkey's outlook to positive in early November 1999. This "initial optimism" arose from two fundamental factors: the assumption of a stabilization program, and the hope for improved Turkey - EU relations. These two events were confirmed in the first week of December 1999, when Turkey signed a Letter of Intent with the IMF on December 9 and was named as an official member being considered for European Union enlargement at the Helsinki Summit on December 10-11.

The main pillars of the IMF stand-by arrangement (SBA) were an exchange rate anchor, i.e. a crawling peg with a preannounced exit strategy that would mitigate the typical risks of real appreciation for exchange-rate based stabilizations, "currency-board rules" which excluded the possibility of sterilized foreign exchange intervention, fiscal consolidation through a large upfront adjustment in the primary fiscal deficit and a comprehensive agenda of structural reforms. Initially, the program was successful. Inflation started to fall, though more slowly than anticipated. Interest rates meanwhile came down much further than projected. This, together with the steady real exchange rate appreciation, fueled a boom in domestic demand and led to a widening of the current account deficit. Meanwhile, fiscal consolidation and structural reforms (the only

policy levers available under the quasi-currency-board rules) lagged behind, fueling market unease about the SBA program.

Turkey implemented a currency basket stabilization strategy at the start of the new millennium. This plan, which pre-announced the exchange rate parity, was backed by stand-by credits from the IMF. The nation pledged to bring inflation down to 25 percent in 2000 and to 12 percent in 2001. The program was also complemented by a tight fiscal and monetary policy, giving the Central Bank the appearance of a currency board by allowing it to increase domestic liquidity solely through capital inflows. Economic actors responded favorably to the initiative: In 2000, capital inflows reached a record high of 15.2 billion USD, interest rates decreased significantly (from more than 80 percent to around 40 percent), and low-cost bank credit led to a sharp increase in consumption. However, the Turkish lira was overvalued by approximately 15 percent compared to the fixed exchange rate parity as a result of the inability of inflation to fall. This led to a downturn in the current account, with a loss of 9.8 billion US dollars, equivalent to 4.9 percent of the total GDP. Additionally, the trade balance showed a net loss of 27 billion US dollars by the end of 2000.

The primary factor that contributed to the crisis in Turkey was the rapid expansion of the current account deficit. Given the emergencies' mathematical markers, this translation is unquestionably right. In 2000, the current account deficit exploded from 1.3 billion dollars in 1999 to 9.8 billion dollars. The current account deficit, which has reached 4.8 percent of GDP, is one of the most obvious signs of a crisis. However, the primary concern here was to investigate the primary causes of the deterioration, rather than the deterioration itself, which is only a result. The facts do not support Mr. Kemal Derviş's claim that the primary cause of the current account deficit was poor fiscal management. The public sector did not experience a deficit that was greater than what was planned or anticipated, as evidenced by the consolidated central budget and other fiscal accounts, and the Turkish government met its overall expenditures in 2000 and 2001 through a strongly contractionary strategy.

The financial records were in accordance with the designated values, as corroborated by the data from the 2000 and 2001 consolidated budget income and expenditure reports. In both 2000 and 2001, budgetary revenue realizations exceeded their targets by 5.1

percent and 3.6 percent, respectively. On the other hand, it was discovered that expenses were 0.2 percent lower than their anticipated limit in 2000 and only slightly higher in 2001, at 1.7 percent. As a result, the public sector achieved its fiscal goals in both years, bringing its primary (non-interest) budget surplus to 6.1 percent of GDP in 2000 and to 6.7 percent in 2001. This "achievement" throughout the trade balance was the direct outcome of the significant decrease in public investments and also other public spending, the implementation of hitherto unheard-before earthquake taxes in 2000, and both.

Throughout the course of 2000, when currency risk was removed and the overall procedure for producing cash was focused on short-term, fast cash flow, the temptation of unchecked amounts of speculated profits released all its fury. However, international investors will begin to withdraw their financial capital from Turkey when "market confidence in the program wanes." Short-term speculative activity by non-residents resulted in 5.3 billion dollars in losses for Turkish financial markets in the final week of November 2000 alone. In point of fact, by November, net flows of non-resident foreign capital would decrease to -8.7 billion dollars as a result of this sudden trend shift.

Another indication of the external fragility of the 2000 disinflation program was discovered to be the domestic economy's current account balance. Toward the end of 1999, the ongoing record deficiency to the Central Bank's global stores had ascended to practically 5.9 percent. Throughout the year 2000, this metric had been steadily falling, reaching 28 percent in June and 49.7 percent by the end of the year. As a percentage of GDP, the current account deficit grew from 0.7 percent in 1999 to 5 in 2000. Consequently, the disinflation program, which had begun in a relatively stable external environment, resulted in a catastrophic decline in the Turkish economy's external balances throughout the year 2000.

Early progress in lowering interest rates and inflation was a bit of a surprise after the program began in January 2000; the former exceeded and the latter undershot their intended and projected courses, respectively. The nominal exchange rate decreased by 6.4 percent in the first quarter of 2000, as anticipated. Combined expansion, as estimated by the discount evaluating file (WPI), had arrived at 13.5 percent toward the finish of the principal quarter, more than most of the way to the year's ultimate objective

of 20 percent. Early high inflation was partly caused by the lag effect of quick pricing changes in the civil service and VAT rate hikes immediately before the program started. At 19 percent and 12 percent, respectively, accumulated inflationary and devaluation rates have remained far under program assumptions. As a result, inflation convergence accelerated in the second quarter. Consensus projections indicated that year-end inflation would exceed the target by nearly 30 percent by the end of August. In addition, core inflation, particularly private manufacturing, which had historically been closely linked to exchange rate movement, showed periodic monthly increases despite the market-disturbing gradual decline in the rate of depreciation. By the end of the third quarter, the real exchange rate had increased by 6 percent as a result of these changes. In just three months, nominal yields on government debt, which stood at 80 percent in November 1999, had more than halved. Risk premiums for currency depreciation and debt default have decreased as a result of the exchange rate anchor and strict fiscal policy. As a result of the arbitrage opportunity, more capital poured in, and interest rates dropped quickly and sharply due to increased liquidity. Alper (2001) claims that the incorporation of the no-sterilization rule into monetary policy sped up this process. An all-too-common investment strategy utilized by local banks has served as the primary link between capital inflows and lower bond yields ever since capital account liberalization in 1989 and 1990. In order to buy Turkish lira-denominated state debt, global banks provided sponsored borrowings and short-term bank borrowings. Huge currency imbalances both on and off their account balances led to a rise in short-term external borrowing of \$4.4 billion in 2000. Markets, on the other hand, were concerned that relying exclusively on year-to-date growth figures would lead to underestimating the adjustment operation and the resulting misalignment of the Turkish lira. The outcomes, in terms of interest rates and fiscal tightening, were applauded by observers. Despite later playing a significant role in the crisis's development, risky trends in bank balance sheets did not appear to be a significant cause for concern. On the fiscal front, the central government's primary surplus appeared on track to exceed budgeted levels by the year's end.

The total cost of the lending program and other quasi-fiscal obligations to state banks had increased to \$20 billion by the end of 2000. These "duty losses" represented 14 percent of the banking system's total assets and slightly more than 10 percent of GDP.

Turkey experienced a severe liquidity crisis more than a year after the International Monetary Fund (IMF) launched the three-year stabilization package, putting the disinflation and fiscal adjustment programs in jeopardy. Only \$6.4 billion in net foreign exchange outflows occurred between November 20 and December 5, 2000, and overnight interbank interest rates reached 1,700 percent on December 1. The IMF intervened on December 6 with a financial package worth \$10 billion, preventing a speculative attack that could have ruined the balance of payments and increasing the Central Bank's foreign exchange reserves.

Following every emergency, a reflective exertion is made to forestall comparable debacles later on. Turkey's liquidity crisis in 2000 was not an exception. Hristov (2001) put the liquidity emergency on the horrible showing of the worldwide economy in 2000. The stabilization program was adversely affected by three significant external factors: an increase of 100 basis points in US interest rates, an increase in international energy prices, and a decline in the value of the euro in comparison to the US dollar. A currency board would have prevented the IMF from bailing out Turkey, according to other analysts, who criticized the design of the disinflationary program (Hanke, 2003). However, the Turkish government has been criticized by others for delaying some privatization projects. The "no sterilization" rule, which may have been a "design flaw" in the program because it initially resulted in interest rate undershooting, was one of the three main contributors to the 2000 liquidity crisis. The IMF's lack of support for the program in terms of providing adequate exchange rate risk insurance, ineffective government policies in maintaining a steady stream of good news, and the "no sterilization" rule also contributed. These elements, in addition to the structure of the unstable financial system (Alper, 2001) and adverse external circumstances sparked the crisis.

During the year 2000, three external events occurred that could have harmed the stabilization program's success.

In an effort to slow the US economy throughout the year 2000, the Board of Governors of the Federal Reserve System increased the official interest rate—also known as the federal funds rate—by 100 basis points to 6.5 percent. Changes in interest rates in industrialized countries and financial crises in emerging economies were significantly

correlated, according to Eichengreen and Rose's (1998) board information for more than 100 third world countries from 1975 to 1992. Eichengreen and Rose discovered that in developed nations, interest rates significantly rise in the years prior to an emerging market banking crisis.

The rise in oil prices in 2000 was the second occurrence. Since crude oil is the most important import for production and consumption, rising oil prices have an effect on inflation targets for the stabilization program. Oil costs rose from \$17.8 per barrel in January 2000 to \$35 in October 2000, then, at that point, consistently tumbled to \$28.5 per barrel toward December's end. As a result, the problem of current account deficits got worse throughout the year.

Finally, the strengthening of the US dollar against the euro was an unpleasant shock. The US\$/Euro exchange rate began the year at 1.01, fell to 0.84 in favor of the US dollar, and concluded the year at 0.94. In Turkey, purchases of intermediate inputs and raw materials are made in US dollars, whilst exports to the eurozone (54 percent of exports in 1999, particularly to Germany, a major trading partner) are made in euros. The current account deficit may have worsened because of the fluctuation in the US\$/Euro exchange. External causes, on the other hand, were not the "crucial" cause of Turkey's liquidity issue. It is contended that the stabilization program's architecture has key features that would expose the financial system to vulnerability, which, when combined with potentially adverse external variables, might result in a liquidity crisis. The intrinsic mechanisms of exchange rate stabilization systems that lead to fragility and failure are then discussed.

According to Calvo and Vegh (1999), the "conventional view" of an exchange rate-based stabilization program's crisis transmission is defined by the following channels:

The outline of the first channel is as follows.

- A change in the rate of the foreign currency is announced by the monetary authority.
- The general public lacks faith in the policy and anticipates a further devaluation in the not-too-distant future.

- Because it will be more expensive to purchase these goods in the future, the current account imbalance grows as a result of rising demand for imported goods.
- The rate of inflation gets closer and closer to the rate of devaluation over time. As a result, domestically produced goods remain more expensive, perpetuating the current account deficit.
- When the Central Bank's reserves reach a certain level, dollarization begins. The amount of foreign reserves has decreased as a result of the ongoing current account deficits. The level of foreign exchange reserves decreases with dollarization. The speculative assault begins.
- The exchange rate anchor-based stabilization policy has to be abandoned by the Central Bank.

The titles in the second channel can be listed as follows.

- The announcement includes structural reforms as well as a disinflationary program based on the exchange rate anchor and fiscal policy measures.
- This outcome in capital inflows on the grounds that the normal profit from interest in Turkey can be exhibited to be equivalent to the normal profit from speculation at home in addition to the gamble premium at the underlying balance for an unfamiliar financial backer. There are two components to the risk premium: exchange rate risk and sovereign risk (default risk). The risk of fluctuations in the rate of the foreign currency is eliminated by the stabilization scheme. Due to planned structural reforms and fiscal policy measures, it also lowers the probability of default.
- As a result of an increase in capital inflows and a decrease in the risk premium, both nominal and real interest rates are lowered. This is because the stabilization plan requires the Turkish Central Bank to act as a kind of currency board.
- Because the government can borrow at a lower cost thanks to the lower interest rate, sovereign risk is reduced. The burden of future interest is reduced, which increases inflows.

- The interest rate, as a result, drops below the intermediate-term equilibrium level. Until further progress is made, and the sovereign risk is reduced, capital inflows will be suspended.
- Lower genuine financing costs energize expanded utilization and venture, bringing about a quicker development rate.
- By requiring more goods and intermediate foreign inputs to be imported, increased consumption and investment harm the current account. If foreign exchange reserves are not replenished by fresh inflows, speculative attacks occur. The exchange rate cannot be used as a benchmark by the central bank anymore.

Another channel could be set up as follows (the first seven steps are the same as the previous one):

- Because of occasional or outer elements, as well as "change exhaustion" or deferred adjustments, liquidity in the framework is diminished, and repo and interbank market rates rise, demonstrating a drop in the worth of resources on business banks' monetary records.
- Banks sell government assets when overnight rates rise because they need money and can't get it from the interbank market because their credit lines have been cut because they are more vulnerable.
- Due to the Central Bank's limited net domestic assets, the monetary authorities are unable to intervene as government bond prices fall. Short-term funding demands face increased pressure as a result of margin calls. The interbank market becomes dysfunctional, and the entire financial system becomes more vulnerable. A liquidity issue exists.
- The perception that financially troubled institutions are a burden on the national budget raises the sovereign risk.
- Foreign reserves are reduced as a result of capital outflow, which raises exchange rate risk and sets off a speculative attack.
- The monetary authority needs to give up using the anchor for the exchange rate.

Each of these three routes could very well be blamed for the crises' emergence. The latter two channels, however, are more significant in the situation of the Turkish liquidity crisis of 2000.

A process of rebuilding state capacity and the establishment of a type of "competitive state," which had been largely absent during the previous two decades of the neoliberal experiment, were both facilitated by the great financial crises of 2000 and 2001. In this postponed transition, the international context was once more crucial. The developing 'Post-Washington Agreement's feeling in the last part of the 1990s implied that international associations, the IMF for example, was attaching more importance to institutional change than they previously were (Öniş and Şenses, 2005). As a result of this sensitivity, conditionality has been redefined to place a greater emphasis on institutional and regulatory reforms rather than a simple fixation on enforcing short-term macroeconomic discipline at all costs. The IMF's idea of a competitive state, on the other hand, is bound to be limited because it places too much emphasis on the state's regulatory role and ignores the crucial role that governments can play in development and wealth distribution. Late monetary emergencies bring up significant issues inside the system of the design organization contention in the global political economy (Pauly, 2007). The structural contexts in which nations find themselves are, without a doubt, crucial when examining the post-crisis adjustment process. For instance, Turkey's 2001 geostrategic and regional context, which included close ties to the United States and the European Union, was crucial in terms of creating opportunities for rebuilding state capacity and a relatively smooth recovery from a severe financial crisis. In addition, the country's debt burden and these foreign relationships severely restricted the use of unconventional instruments like capital controls or more radical options like direct negotiations with external creditors. However, the post-crisis paths that emerged in various national contexts cannot be explained by structural explanations alone. It is necessary to take into consideration the specific responses of political and policy actors to the opportunities presented and constraints imposed by the particular structural environments in which they operate, as well as the role of agency in shaping likely post-crisis outcomes.

The Standby Reserve Facilities (SRFs), on the other hand, could not have been used to alleviate the liquidity bottleneck during the crisis in November 2000. The second attack took place in February 2001 as a result of the persistence of high interest rates in the early months of 2001. There is debate regarding the Letter of Intent's requirement for "no sterilization" in monetary and exchange rate policy (Özatay, Garber, Ghosh, 2002). Interest rate undershooting was, as previously stated, the primary factor that contributed to the financial system's vulnerability and the dramatic rise in the current account deficit. The maturity mismatch risk was exacerbated by the real return on savings and government securities, which led to these two adverse outcomes. If "some division" of the underlying capital flood had been sanitized, permitting the financing cost to diminish all the more steadily, the liquidity emergency brought about by loan fee undershooting might have been stayed away from.

In January and February 2001 the debt roll-over capacity of the Treasury was seriously tested by the very high interest rates on the market at around 60-70 percent compared with an annual ceiling of 12 percent for the depreciation of the lira. In this unsustainable situation, a public disagreement between the Prime Minister and the President on the measures to be taken was followed by a massive attack on the Turkish lira on February 21, 2001. The authorities decided to let the lira float, which led to a depreciation of around 40 percent against the dollar immediately after the announcement. The financial turmoil and the breakdown of the peg had dire consequences for the real economy. In 2001, real GDP declined by 5.7 percent and investments collapsed in volume terms by 30 percent, while industrial output dropped by 8.7 percent.

"Would the Turkish Central Bank have decontaminated these flows if the disinflation program's sterilization clause had not been included?" is the response to the query. It isn't generally a positive explanation. The monetary authority might have been hesitant to "disinfect" for two reasons:

- 1) The Turkish economy was emerging from a downturn and required more substantial activity. Since prices were sticky, the fall in real interest rates increased consumption and investment. Naturally, these short-term benefits have been tragically outweighed by the costs in terms of lost output since 2001.

- 2) The stabilization program's eventual implementation was largely influenced by the rising proportion of interest payments on existing government debt. Since the lower the interest rate, the less the Turkish government would have to pay in interest in the future, the monetary authorities were reluctant to sterilize.

Naturally, this policy had some drawbacks, such as raising interest rates on new government securities in 2001, which put the budget projections for 2002 in jeopardy. To sum up, the three significant "inside" reasons that might have added to the liquidity emergency in 2000 are the following:

- a. As stated in the Letter of Intent, the government's inability to maintain capital inflows and maintain the positive news about structural reforms.
- b. In terms of providing adequate insurance to eliminate exchange rate risk, the IMF's support for the program is insufficient; and
- c. The Letter of Intent's "no sterilization" criterion resulted in initial interest rate undershooting and subsequent liquidity constraints. The crisis appears to have been influenced by these factors, as well as the weak structure of the banking system and unfavorable external conditions.

The fact that the IMF program went far beyond standard measures for fiscal stabilization made it particularly significant. Long-term structural and institutional reforms were required by the initiative, such as the establishment of a separate regulatory body to oversee the banking sector. The influence of new ideas linked with the growing "Post-Washington Consensus" in the 1999 program was a reflection of the IMF's educational process during the Asian Crisis in September 1997. Consequently, it is essential to emphasize Turkey's significant learning process prior to the massive collapse in 2001. In retrospect, however, a number of factors have slowed this shift's rate and scope. Because the economy was not in a crisis at the time, the IMF lacked the political power to implement its institutional reforms. Additionally, Öniş and Rubin (2003) estimate that the program only received \$4 billion in funding.

The Turkish economy recovered swiftly from the 2001 crisis as a result of a clear medium term roadmap, strong external anchors in the form of IMF program and the prospect of EU accession, and bold domestic reforms. Macroeconomic stability was

attained first and foremost by means of tight fiscal and monetary policies. It was complemented by structural reforms in the area of enterprise restructuring and privatization, business environment, trade liberalization, labor market and in particular by a thorough reform of the banking sector. As a result, foreign and domestic investments shot up, increasing labor productivity and the sectoral transformation of the economy and spurring real convergence.

Table 15: GDP in TRY and USD, GDP per capita, GDP Growth Rate for Turkey Between 1997 and 2003

Year	GDP (billion TRY)	GDP (constant 2015 USD; in billions)	GDP per capita (constant 2015 USD)	GDP Growth Rate (%)
1997	28,84	390,66	6.375	7,58
1998	71,89	400,05	6.427	2,31
1999	107,16	386,99	6.125	-3,39
2000	170,67	413,83	6.455	6,64
2001	245,43	390,03	5.994	-5,96
2002	359,36	415,18	6.292	6,43
2003	468,02	439,11	6.567	5,61

Source: World Development Indicators

Table 16: Yearly Rates of Inflation, FX Rates, Devaluation Rate and TL Interest Rate for Turkey Between 1997 and 2003

Year	Rate of Inflation (%)	FX Rates	Devaluation Rate (%)	TL Interest Rate (%)
1997	85,67	0,15	86,56	67,00
1998	84,64	0,26	71,68	67,00
1999	64,87	0,42	60,62	60,00
2000	54,92	0,63	49,29	60,00
2001	54,40	1,23	96,03	60,00
2002	44,96	1,51	22,98	55,00
2003	21,60	1,50	-0,42	43,00

Source: World Development Indicators, Federal Reserve Economic Data

Table 17: Population, Labor Force and Unemployment Rate for Turkey Between 1997 and 2003

Year	Population	Labor Force	Unemployment Rate (%)
1997	60.372.568	21.215.774	6,3
1998	61.329.676	21.764.624	6,4
1999	62.287.397	22.203.014	7,2
2000	63.240.194	21.414.874	6
2001	64.192.243	21.768.238	7,8
2002	65.145.367	22.073.032	9,8
2003	66.089.402	21.909.698	9,9

Source: World Development Indicators

Table 18: Current Account Balance, Current Account Balance to GDP and Budget Deficit to GDP Ratio for Turkey Between 1997 and 2003

Year	Current Account Balance (current billion USD)	Current Account Balance to GDP	Budget Deficit to GDP Ratio(%)
1997	-2,6	-1,39	-
1998	2,0	0,72	-
1999	-0,9	-0,36	-
2000	-9,9	-3,62	-7,68
2001	3,8	1,86	-11,64
2002	-0,6	-0,26	-11,18
2003	-7,6	-2,40	-8,59

Source: World Development Indicators, Republic of Turkey Ministry of Treasury and Finance

Table 19: Goods Export, Goods Import, Trade Balance and Export to Import Ratio for Turkey between 1997 and 2003

Year	Goods Export (billion USD)	Goods Import (billion USD)	Trade Balance (billion USD)	Export to Import Rate
1997	32,20	47,16	-14,96	0,68
1998	30,85	44,78	-13,93	0,69
1999	29,14	38,80	-9,67	0,75
2000	30,92	52,88	-21,96	0,58
2001	34,81	38,09	-3,28	0,91
2002	40,71	47,11	-6,40	0,86
2003	52,47	65,88	-13,41	0,80

Source: World Development Indicators

Table 20: Gross External Debt, Short Term Debt and Long Term Debt for Turkey between 1997 and 2003

Year	Gross External Debt (million USD)	Short-Term Debt (million USD)	Long-Term Debt (million USD)
1997	84.356	17.691	66.665
1998	96.351	20.774	75.577
1999	103.123	22.921	80.202
2000	118.602	28.301	90.301
2001	113.592	16.403	97.189
2002	131.887	18.679	113.208
2003	148.493	27.290	121.203

Source: Central Bank of the Republic of Turkey

Table 21: Short-Term External Debt by Borrower for Turkey between 1997 and 2003

Year	Short-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
1997	17.691	204	889	16.598
1998	20.774	1.602	905	18.267
1999	22.921	1.581	686	20.654
2000	28.301	2.461	653	25.187
2001	16.403	1.019	752	14.632
2002	18.679	915	1.655	16.109
2003	27.290	1.341	2.860	23.089

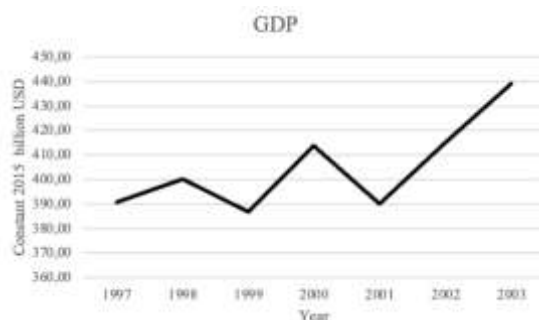
Source: Central Bank of the Republic of Turkey

Table 22: Long-Term External Debt by Borrower for Turkey between 1997 and 2003

Year	Long-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
1997	66.665	38.864	10.876	16.925
1998	75.577	39.737	12.081	23.760
1999	80.202	42.526	10.320	27.357
2000	90.301	47.621	13.437	29.244
2001	97.189	46.110	23.599	27.480
2002	113.219	63.618	20.347	29.253
2003	121.203	69.502	21.513	30.187

Source: Central Bank of the Republic of Turkey

Figure 26: GDP in constant 2015 USD between 1997 and 2003



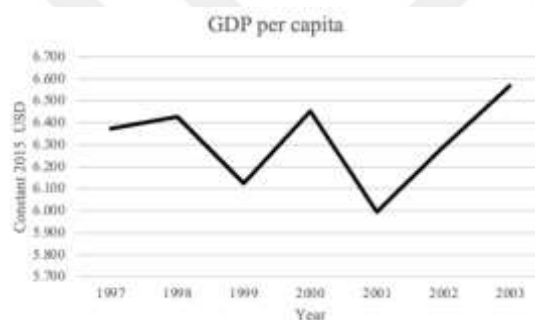
Source: World Development Indicators

Figure 29: FX Rates, LCU per USD, between 1997 and 2003



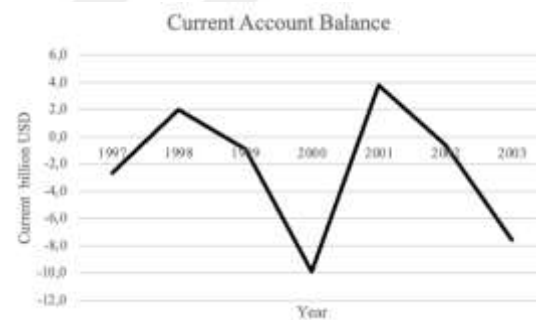
Source: World Development Indicators

Figure 27: GDP per capita in constant 2015 USD between 1997 and 2003



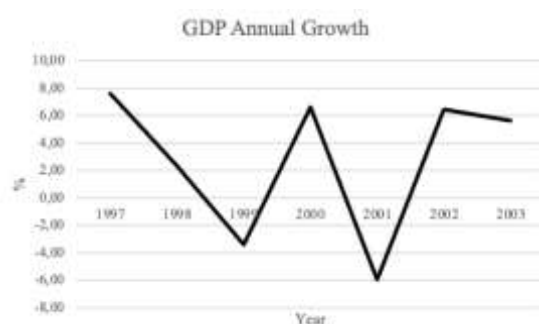
Source: World Development Indicators

Figure 30: Current Account Balance between 1997 and 2003



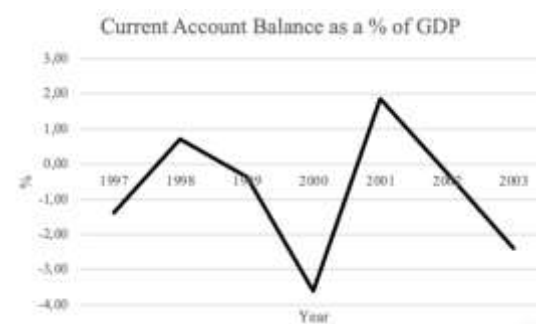
Source: World Development Indicators

Figure 28: GDP Annual Growth between 1997 and 2003

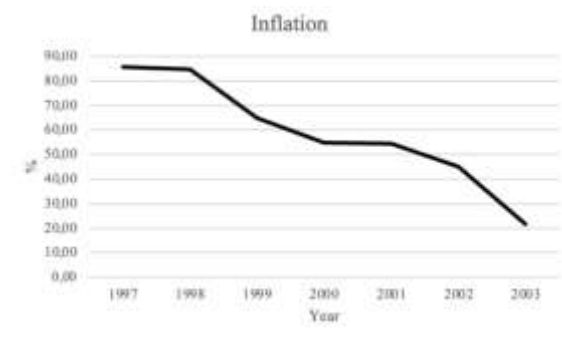


Source: World Development Indicator

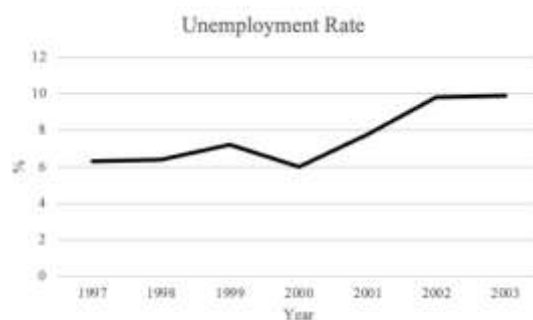
Figure 31: Current Account Balance as a % of GDP between 1997 and 2003



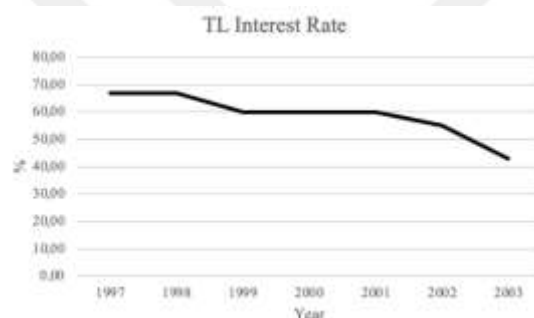
Source: World Development Indicators

Figure 32: Inflation between 1997 and 2003

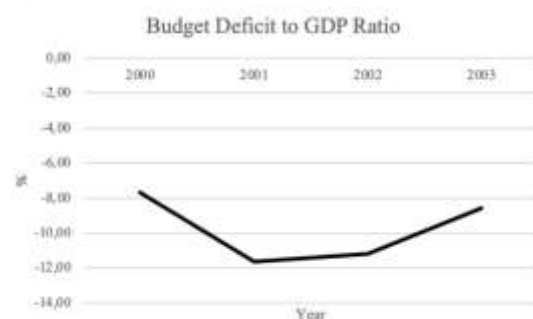
Source: World Development Indicators

Figure 35: Unemployment Rate between 1997 and 2003

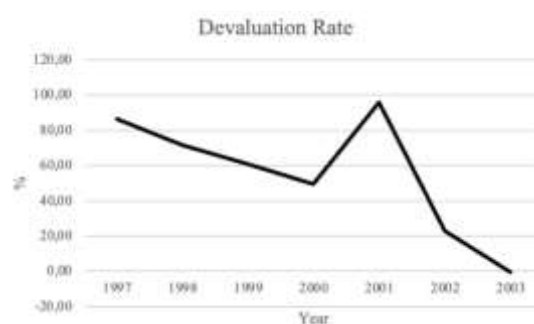
Source: World Development Indicators

Figure 33: TL Interest Rate between 1997 and 2003

Source: Federal Reserve Economic Data

Figure 36: Budget Deficit to GDP Ratio between 1997 and 2003

Source: Republic of Turkey Ministry of Treasury and Finance

Figure 34: Devaluation Rate between 1997 and 2003

Source: World Development Indicators

3.5 The 2008-2009 Global Financial Crisis: Turkey's Economic Vulnerability and Resilience

Turkey enjoyed strong and uninterrupted expansion until 2007. This was possible thanks to important improvements in macroeconomic policy. Budget deficits were significantly reduced and public debt, as a percentage of GDP, declined. The central bank was made independent and an explicit inflation targeting framework was introduced. These reforms were instrumental for successfully starting disinflation. Prior to the 2008–09 crisis, Turkey already showed some signs of growth moderation. After growing on average at 7.3 percent between 2002 and 2005, GDP growth gradually decelerated to 4.7 percent in 2007.

According to Krugman (2009), in 2008, the financial difficulties that had begun the financial crisis in the United States in 2007 grew into a fully-fledged global crisis. Turkey was one of the nation's hardest hit by the worldwide monetary emergency.

Starting from the last quarter of 2008 in particular, the developments in the global financial markets had a considerable impact on Turkey. The figures show that crisis did not pass by Turkey at all. It rather brought about the recession of 2008-2009. The reversal of capital flows set off a sharp decline in the GDP growth, reaching down to -7 percent in 2009. Once the positive effects of the global trends in growth and capital inflows were removed, unlike the period after the 2001 crisis, now the vulnerability of the Turkish economy came to the fore.

A series of economic events in the final months of 2008 harmed a number of nations worldwide, resulting in the 2008 Economic Crisis. This crisis, in contrast to the 1929 Great Depression, became particularly evident in September 2008. The abrupt depreciation of the US real estate market, which led to an increase in personal bankruptcies in held sales sparked this crisis. The global crisis of 2008 began in the United States and spread to other nations as a result of its integration. The recession and terrorist attacks of the 2000s were devastating. After the Federal Reserve cut interest rates in 2001, the economy continued to grow until the middle of 2007. With regards to subprime housing mortgage loans, the public emergency, which started in the US in 2008, extended to nations impacted by the worldwide monetary emergency. The

mortgage market crisis in the United States can be traced back to the housing market. Prices begin to rise first, followed by a gradual rise in risk. The risk is quickly transferred to a different party by the banks that purchase it. They were able to transfer and spread it all over the world. Local mortgages with portfolio ensuring mortgages, investment banks, and credit scores that were higher than those provided by rating agencies. Consequently, the crisis became known as a "global crisis," and a number of institutions were forced into bankruptcy. The global financial crisis of 2001 had strengthened Turkey's banking system and left the country without a mortgage system. As a result, inflation has increased and interest rates on real public debt have increased. Investment and spending fell as a result of the climate of economic uncertainty created by the global financial crisis.

When the global financial crisis began in 2008, Turkey had a high unemployment rate, a declining growth rate, political uncertainty due to elections and referendums, rising foreign debt stocks, and a sinking national currency. The rate of growth slowed to 0.8 percent. The budget deficit had grown, inflation had been aimed at 4 percent. The private sector's savings gap has widened, and unemployment has reached 11 percent.

Turkey's mortgage industry had not yet matured, and the global financial crisis had not affected domestic real estate and housing loans. Regulators' agreements struck after the 2001 crisis shielded the industry from the 2008 catastrophe. The banking industry had followed international standards and had been audited. However, the possibility of the United States' bubble was spreading around the world and causing catastrophes in other countries.

Before the financial crisis of 2008-09, Turkey's growth appeared to be slowing. The slowdown was caused by three factors all working together, and it was most evident in private consumption and investment (Rawdanowicz, 2010). First, lower employment and profits were leaking into the domestic economy as a result of the ongoing decline in traditional labor-intensive export industries, such as the clothing industry, in comparison to other emerging economies, particularly China. Furthermore, the adjustment costs associated with ongoing changes in the export structure (toward medium-technology activities) were leaking into the domestic economy. This effect was made worse by a slight drop in global demand after 2005. Second, in response to the

inflationary shock brought on by higher food prices and exchange rate depreciation in the second half of 2006, monetary policy was tightened (by a total of 425 basis points for the borrowing rate). Thirdly, the shock to the price of oil in 2007 had a significant impact on Turkey. This was especially true given the country's high energy intensity and significant reliance on imported energy.

Foreign demand and oil prices were the primary driving forces, despite the fact that changes in export market shares and monetary policy helped explain GDP in the lead up to the crisis. Both in terms of speed and size, the global recession of 2008 had a significant impact on Turkey. It spread through trade and financial markets. The main channel includes net capital surges, money devaluation, a 60 percent drop in stock costs from their top in late 2007, rising gamble premia, and fixing liquidity in the financial business, as in numerous other arising nations. Industrial output and investment both saw sharp declines as a result of the sudden drop in exports. Before the crisis's climax, a sharp drop in consumer and business confidence compounded the unusually large shock to foreign demand caused by the global environment's deterioration and enormous uncertainties. Businesses reduced their investment, inventory levels plummeted, and households immediately reduced their consumption.

Turkish private sector have been harmed by the convergence of three variables, in addition to global shocks and uncertainties. Concerns about debt rollovers in the face of global liquidity constraints, a decrease in the risk appetite of overseas investors, and the cautiousness of local banks in extending credit may have influenced businesses' responses. Indeed, Banks significantly tightened credit conditions and debt restructuring was one of the primary reasons for an increase in business loan demand. External debt of the non-financial private sector was rapidly rising prior to the crisis, albeit from a low base. Since 2004, its contribution to GDP has nearly doubled, reaching approximately 16 percent (\$122.4 billion) in 2008. Half of this debt had maturities set for 2009 and 2010, with 33 percent due in 2009 and 17 percent due in 2010 of the total debt (Yörükoğlu, Atasoy, 2010). However, statistical factors played a part in the dramatic drop in rollover ratios. Second, the uncertainty was exacerbated by concerns regarding fiscal policy following the May 2008 expiration of the IMF Stand-By Arrangement. Third, due to the waiting impacts of past emergencies, introductory disturbing financial

news might have ignited a flood of over-cynicism among money managers and customers.

The crisis in Turkey from 2008 to 2009 was similar in some ways to the previous crises, but it also had significant differences. The most significant distinction of this crisis from others is that it was not a crisis resulting from Turkey's own production. Prior emergencies, for instance, saw starkness measures pointed toward decreasing financial plan and current record deficiencies, as well as expansions in loan fees, money rates, and expansion. During the financial crisis of 2008-09, interest rates and inflation decreased, numerous economic stimulus programs were implemented, and budget deficits increased. There was no attempt to reduce the current account deficit, as in previous crises; Adjustment was brought about by a significant drop in private demand, lower import prices, and a few unanticipated inflows of foreign currency.

Turkey's economy continued to shrink at a rate of 14.3 percent in the first quarter of 2009, which was the worst on record since 1945, when the crisis's consequences started to be seen in 2008. The country's unemployment rate, a major systemic issue, has risen to 13.1 percent. Moreover, as in the 2001 emergency, the outpouring of short - term monetary capital flooded, seriously debilitating the economy.

The sharp decline in imports, which outpaced the decline in exports in 2009, reflects the slowdown in domestic demand. As a result, the trade imbalance for that year decreased significantly.

Since the middle of 2008, the recent global crisis has had a significant impact on the Turkish economy through the flow of foreign trade. Exports significantly influenced the negative GDP growth rates in 4Q08, 1Q09, and 2Q09, contributing 34 percent, 20 percent, and 36 percent to the declines, respectively. Published data indicates that exports decreased once more during the Q3 of 2009.

Beginning in October 2008, the value of Turkish exports dropped dramatically. The drop in the value of imports was more pronounced, resulting in smaller CA deficits starting in 4Q08. Turkey continuously imports energy. Energy shipments (oil and gas and chemicals, fossil fuels, and coal) totaled \$5.1 billion in July 2008, when the costs of

crude oil reached an all-time peak. In December 2008 and January 2009, crude oil prices reached their lowest point, but they rebounded in subsequent months, and the energy import bill decreased to \$ 1.9 billion in April 2009. Imports and CA deficiencies started to ascend from Walk 2009, attributable to the accompanying variables:

- In an effort to boost demand, the authorities lowered the special consumption tax (SCT) and VAT rates on vehicles and consumer items starting throughout the middle of the month of March 2009. The CBRT's reduction of the rate of interest further increased the demand.
- In April of 2009, the TL rediscovered its value.
- The price of energy began to rise.
- The number of net portfolio investments started to rise, which made it easier to finance imports.

The actual exchange rate depreciated by 30 to 40 percent during the crises of 1994 and 2001. A similar devaluation occurred in 2009, but the depreciation was significantly shorter-lived in this crisis. The Turkish lira had begun to gain value by the second quarter of 2009. This is certainly linked to the present crisis's faster recovery of capital inflows. The rapid and sizable deterioration in economic growth triggered a prompt monetary and fiscal policy response. The improved macroeconomic framework and better economic situation prior to the crisis were instrumental in making counter-cyclical policies possible. The swiftness of monetary policy measures was particularly important for calming the markets in the early phase of the crisis and was appreciated by the domestic market participants. The monetary policy stance was loosened substantially. The Central Bank of the Republic of Turkey cut the main policy interest rate by 1 000 basis points since October 2008, to 15 percent in 2009. On the fiscal front, the government implemented an anti-crisis package. It primarily envisaged spending measures (infrastructure investment, reductions in contributions to the pension and health care funds, hike in public servants' salaries, and transfers to sub-national governments).

Rodrik (2009) claims that Turkey's experience with the global financial crisis taught other nations valuable lessons. Regardless of whether an administration follows

phenomenal monetary strategy, it can become vulnerable notwithstanding worldwide monetary market patterns. Nonetheless, a nation's economy was protected from both internal and external shocks by the monetary and fiscal policies in place in previous years. In this regard, the financial crisis quickly brought the Turkish economy back to life, and high economic growth resumed in 2010. Monetary policy remained unchanged, foreign capital entered the economy, the government's fiscal deficit did not rise, and economic growth rebounded strongly.

Table 23: GDP in TRY and USD, GDP per capita, GDP Growth Rate for Turkey Between 2006 and 2012

Year	GDP (billion TRY)	GDP (constant 2015 USD; in billions)	GDP per capita (constant 2015 USD)	GDP Growth Rate
2006	789,23	561,98	8.074	7,11
2007	880,46	590,33	8.377	5,03
2008	994,78	595,14	8.345	0,85
2009	999,19	566,44	7.843	-4,70
2010	1.160,01	614,17	8.391	8,49
2011	1.394,48	682,96	9.208	11,11
2012	1.569,67	715,66	9.507	4,79

Source: World Development Indicators

Table 24: Yearly Rates of Inflation, FX Rates, Devaluation Rate and TL Interest Rate for Turkey Between 2006 and 2012

Year	Rate of Inflation (%)	FX Rates	Devaluation Rate	TL Interest Rate
2006	9,60	1,43	6,32	27,00
2007	8,76	1,30	-8,79	25,00
2008	10,44	1,30	-0,11	25,00
2009	6,25	1,55	19,09	15,00
2010	8,57	1,50	-3,04	14,00
2011	6,47	1,67	11,45	17,00
2012	8,89	1,80	7,23	13,50

Source: World Development Indicators, Federal Reserve Economic Data

Table 25: Population, Labor Force and Unemployment Rate for Turkey Between 2006 and 2012

Year	Population	Labor Force	Unemployment Rate(%)
2006	68.756.810	22.239.126	9,00
2007	69.581.848	22.626.117	9,20
2008	70.418.604	23.361.213	10,00
2009	71.321.399	24.207.113	13,10
2010	72.326.988	25.218.298	11,10
2011	73.443.863	26.285.363	9,10
2012	74.653.016	26.780.195	8,40

Source: World Development Indicators

Table 26: Current Account Balance, Current Account Balance to GDP and Budget Deficit to GDP Ratio for Turkey Between 2006 and 2012

Year	Current Account Balance (current billion USD)	Current Account Balance to GDP (%)	Budget Deficit to GDP Ratio(%)
2006	-31,2	-5,59	-0,69
2007	-36,9	-5,42	-1,93
2008	-39,4	-5,12	-2,64
2009	-11,4	-1,75	-5,84
2010	-44,6	-5,74	-3,40
2011	-74,4	-8,87	-0,68
2012	-47,3	-5,45	-1,82

Source: World Development Indicators, Republic of Turkey Ministry of Treasury and Finance

Table 27: Goods Export, Goods Import, Trade Balance and Export to Import Rate for Turkey Between 2006 and 2012

Year	Goods Export (billion USD)	Goods Import (billion USD)	Trade Balance (billion USD)	Export to Import Rate
2006	93,78	134,67	-40,89	0,70
2007	115,38	162,21	-46,83	0,71
2008	140,91	193,82	-52,92	0,73
2009	109,73	134,49	-24,76	0,82
2010	120,99	177,32	-56,33	0,68
2011	142,39	231,55	-89,16	0,61
2012	161,95	227,32	-65,37	0,71

Source: World Development Indicators

Table 28: Gross External Debt, Short Term Debt and Long Term Debt for Turkey Between 2006 and 2012

Year	Gross External Debt (million USD)	Short-Term Debt (million USD)	Long-Term Debt (million USD)
2006	215.630	49.348	166.282
2007	259.924	51.794	208.130
2008	285.010	56.376	228.634
2009	276.436	56.136	220.300
2010	308.176	93.083	215.093
2011	320.617	97.012	223.605
2012	357.253	114.771	242.482

Source: Central Bank of the Republic of Turkey

Table 29: Short-Term External Debt by Borrower for Turkey between 2006 and 2012

Year	Short-Term Debt by Borrower (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
2006	49.348	1.750	2.563	45.035
2007	51.794	2.163	2.282	47.349
2008	56.376	3.248	1.874	51.254
2009	56.136	3.598	1.764	50.774
2010	93.083	4.290	1.553	87.240
2011	97.012	8.564	1.239	87.209
2012	114.771	13.324	1.036	100.411

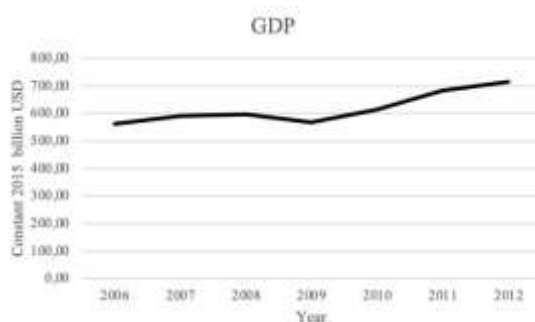
Source: Central Bank of the Republic of Turkey

Table 30: Long-Term External Debt by Borrower for Turkey between 2006 and 2012

Year	Long-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
2006	165.596	70.016	13.114	82.465
2007	207.351	71.598	13.519	122.233
2008	228.634	75.315	12.192	141.127
2009	220.300	80.149	11.398	128.752
2010	215.093	85.103	10.011	119.978
2011	223.605	87.770	8.094	127.740
2012	242.482	93.656	6.043	142.783

Source: Central Bank of the Republic of Turkey

Figure 37: GDP in constant 2015 USD between 2006 and 2012



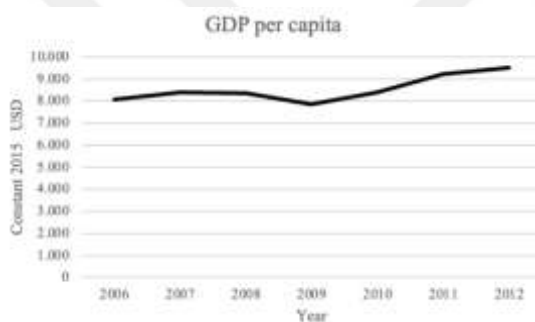
Source: World Development Indicators

Figure 40: FX Rates, LCU per USD, between 2006 and 2012



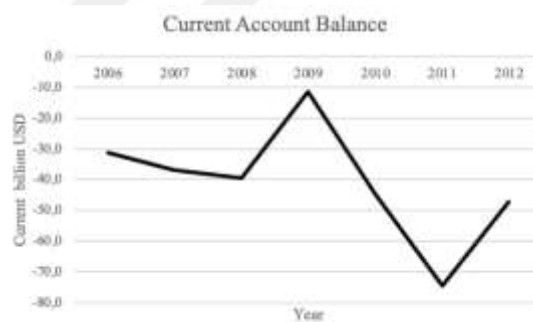
Source: World Development Indicators

Figure 38: GDP per capita in constant 2015 USD between 2006 and 2012



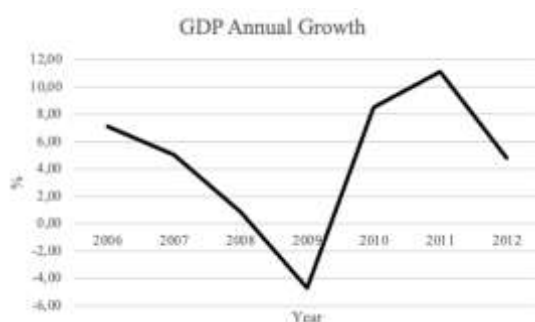
Source: World Development Indicators

Figure 41: Current Account Balance between 2006 and 2012



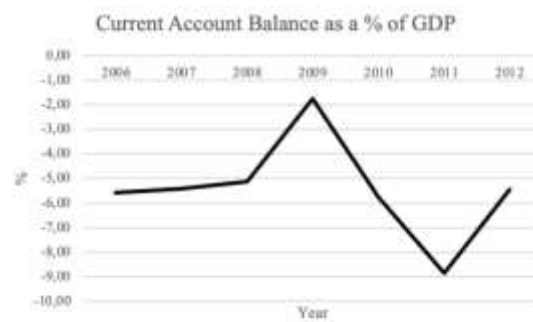
Source: World Development Indicators

Figure 39: GDP Annual Growth between 2006 and 2012

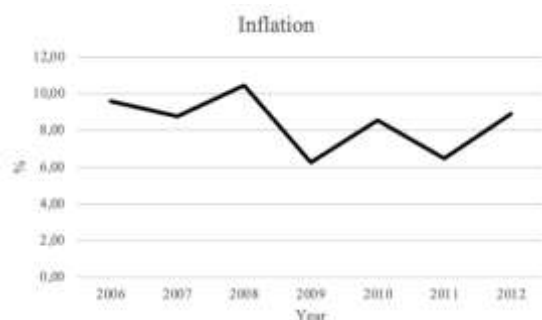


Source: World Development Indicators

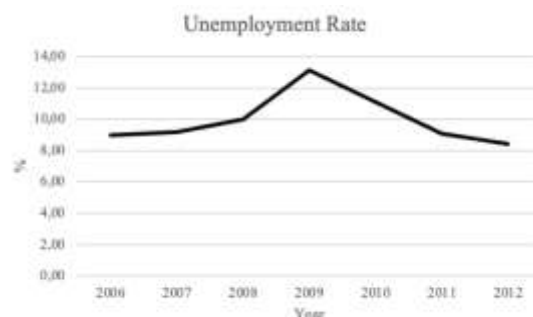
Figure 42: Current Account Balance as a % of GDP between 2006 and 2012



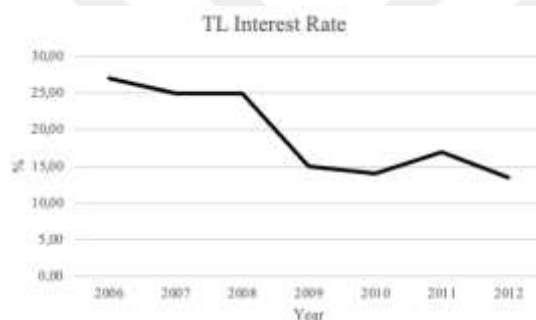
Source: World Development Indicators

Figure 43: Inflation between 2006 and 2012

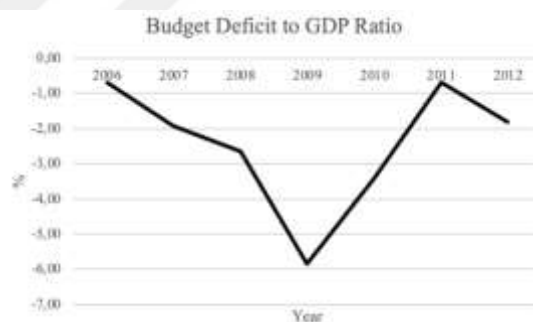
Source: World Development Indicators

Figure 46: Unemployment Rate between 2006 and 2012

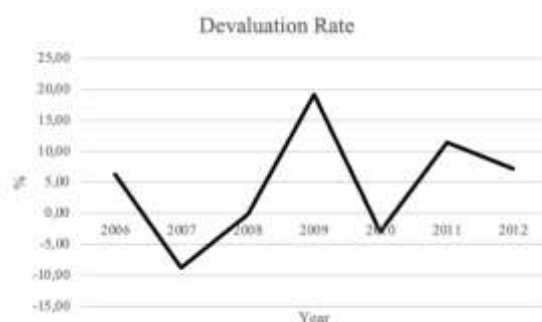
Source: World Development Indicators

Figure 44: TL Interest Rate between 2006 and 2012

Source: Federal Reserve Economic Data

Figure 47: Budget Deficit to GDP Ratio between 2006 and 2012

Source: Republic of Turkey Ministry of Treasury and Finance

Figure 45: Devaluation Rate between 2006 and 2012

Source: World Development Indicators

3.6 Navigating the 2018-2020 Foreign Exchange and Debt Crisis: Geopolitical Turbulence and the Pastor Branson Impact

Excluding the 2008 global crisis, Turkey experienced its most significant exchange rate crisis under the floating exchange rate regime between 2018 and 2021. This crisis marked the first major instance of an exchange rate challenge within this period. Furthermore, this crisis turned into a partial economic crisis and took Turkey step by step back to the period of high inflation. When examined in terms of new generation crisis theories, in this crisis Turkey is in debt and the crisis appears to be a currency crisis.

The country experienced a complex economic and political climate characterized by a mix of both positive and challenging aspects. Economically, Turkey had undergone a period of relatively strong economic growth in the years leading up to the crisis. The economy was diversifying, with a focus on sectors such as manufacturing, construction, and services. Foreign direct investment was flowing into the country, and infrastructure projects were being developed to support growth.

However, there were also underlying vulnerabilities. The country's dependence on external financing, combined with a large current account deficit, made it susceptible to shifts in global investor sentiment. Inflation, although not as high as in previous decades, remained a concern. The political landscape was also influenced by geopolitical dynamics, including Turkey's role in regional conflicts, its relationship with neighboring countries, and its involvement in international organizations. There were concerns about the state of democracy and the rule of law, with debates over media freedom and civil liberties.

The crisis started with the rapid rise of the exchange rates, capital outflows, low growth, high inflation and budget deficit, high interest and foreign debt, policy uncertainty and elections, migration crisis, tensions and disagreements with European Union countries and the United States of America. Tensions with the United States over Pastor Branson, who was arrested and formally accused of espionage and having ties to illegal organizations, were the root cause of the currency crisis in August 2018. At this point, the Lira had lost nearly 20 percent of its value. The central bank increased interest rates

by 625 basis points in response to the crisis. Murat Uysal took over as governor of the Central Bank about a year later due to Çetinkaya's refusal to soften policy as requested by President Erdoğan and the administration. Interest rates were lowered by 15.75 percent on average by the incoming governor between July 2019 and September 2020. To prevent the Lira from falling as a result of this easing, the foreign currency reserves held by the Central Bank were drained. When the pandemic struck in March 2020, the Turkish economy was already experiencing inflationary pressures and growing fiscal and current account deficits. However, in contrast to the Great Recession that lasted from 2007 to 2009, there was not much room for lenient policy.

In 2018's second and third quarters, capital flows to Turkey slowed sharply and investor confidence in Turkish assets was lowered. This was brought on by a combination of a more hostile foreign environment and growing economic imbalances within the country. Turkey suffered particularly due to its accumulated macro imbalances (large current account imbalance, rampant inflation, burning economic) and perceived policy inadequacies from a general trend away from emerging economies. Turkey's market volatility decreased after the turmoil in August, but the economy remained unstable. Due to its extensive external exposure, Turkey was more susceptible to market concerns and monetary tightening from other countries. The external shock that occurred in the summer of 2018 had substantial real-world repercussions, including a sharp acceleration of inflation from already high levels. After July, there was a significant increase in the difference between producer and consumer price inflation, which suggests that despite declining demand, suppliers have not passed on price increases to customers. Supply-side adjustments are the result of high manufacturing costs and falling demand. In 2018-2019, as corporations experienced heightened stress from falling demand and finance, the function of external demand also differed significantly from the 2008-2009 crisis. Both local and external demand fell in 2008 - 2009. As the exchange rate depreciation enhanced external competitiveness, employment, and turnover data in 2018 suggest to a rebalancing towards tradable industries. On the other hand, however, non-tradable industries, particularly construction and energy, became extremely vulnerable.

Turkey was been going through a financial and economic crisis in 2018, which was the result of an excessive current account deficit and foreign currency debt. During this

period, the Turkish economy faced formidable challenges including a severe depreciation of the Turkish lira against the major foreign currencies, particularly the US dollar and the Euro. This currency devaluation, in turn, escalated import costs, contributed to substantial inflationary pressures, and diminished the purchasing power of citizens. Concurrently, the country grappled with persistently high levels of inflation, triggering widespread economic uncertainty.

Furthermore, the crisis was exacerbated by a burgeoning current account deficit, which rendered Turkey dependent on external financing to meet its import obligations. The magnitude of this vulnerability became pronounced as global market conditions fluctuated and investor confidence waned. Heightened concerns surrounding the autonomy of the Central Bank of the Republic of Turkey and its capacity to implement effective monetary policy strategies further amplified uncertainties, diminishing investor trust in the stability of the economy.

The economic downturn was eased by automatic stabilizers. There was a slight expansion in fiscal policy. Seasonally adjusted unemployment rate rose to 11.2 percent in the third quarter, up from 10.7 percent in the second quarter, which suggests that spending on social insurance has grown in the latter half of 2018. Due to the effect of the foreign currency-based debt's revaluation, the outstanding central government debt as a percentage of the GDP increased by roughly 3 percent in the third quarter of 2018. Although the realization of contingent obligations, the full extent of which cannot be predicted, has reduced this fiscal headroom, central government debt remained manageable at US\$56 billion or 31.4 percent of the GDP.

Capital formation, labor productivity, and Total Factor Productivity (TFP) all contributed to economic growth. Turkey's labor force is dynamic and adaptable. The Turkish economy has profited in the past from a young, competent labor force supported by a reliable infrastructure. On the other hand, prior to the outbreak, the unemployment rate had been steadily increasing. The length of the pandemic was important since extended periods of unemployment affected the workforce permanently by discouraging more people from entering it. Since the crisis began in August 2018, the jobless rate increased. However, stimulus measures implemented during the pandemic were most likely to blame for the current rise in labor force participation.

The import of energy is one of the primary causes of the trade deficit and, subsequently, the current account deficit. The deficit between imports and exports for Turkey in 2019 was estimated to be close to 42 billion dollars. The decline in oil prices throughout the epidemic was extremely beneficial to an oil-importing country like Turkey, helping to reduce the current account deficit year after year. However, the depreciation of the TL prevented an excessively low price for imported oil. In addition, it was anticipated that the drop in oil prices would last a short time, and that economies would recover once the COVID shock had subsided.

In 2020, the CBRT's net foreign exchange reserves decreased significantly. By the end of October, gross reserves remained at \$42.3 billion USD. To put things in perspective, gross reserves peaked at an average of 89 billion USD between 2008 and 2018. The CBRT and the public sector increased short-term debt to offset some of the drop in FX stock, despite the rapid decrease in gross and net reserves. We observe a decrease in short-term external debt when examining the private sector's short-term funding, which is offset by an increase in short-term external funding for the public sector and the CBRT. The flow of capital into Turkey was decreasing for some time. Short-term capital outflows were exacerbated by the pandemic's currency rate volatility and restrictive measures. Notwithstanding the fact that a decline in short-term funding puts pressure on the exchange rate, low funding levels diminished the likelihood of future financial market and exchange rate instability.

2018-20 Turkish currency and debt crisis was a long-running economic crisis in Turkey that has had international ramifications due to financial contagion. Income disparity, very high inflation, ever-increasing debt, and matching credit defaults characterized the Turkish lira's unprecedented fall. It was considered to have merged his unconventional beliefs. With the lira losing its value in oscillations, the crisis became obvious, and in the next stage, with unpaid debts and economic contraction, it took on a deeper dimension. When the inflation rate remained in double digits, stagflation developed. The crisis put a stop to President Erdogan's transitory period of economic prosperity, which was fueled by a construction boom fueled by easy credit and state expenditures.

The Turkish currency and debt crisis, which began in 2016, had the greatest social and economic impact on foreign exchange rates and the Central Bank's foreign exchange

reserves. According to data from the Central Bank, the dollar rate rose to 6.95 TL on April 20, 2020, from 3.78 TL on January 1, 2018. The Euro increased from 4.54 to 7.53 Turkish Liras during the same period.

The markets pay close attention to the Central Bank's foreign exchange reserves, which significantly decreased after 2018 due to Central Bank's selling foreign exchange to stabilize the Turkish Lira. From January 2018 to January 2020, Central Bank's net foreign exchange reserve decreased from 77.9 billion dollars to 33.9 billion dollars. Over the previous decade, Turkey had experienced a major credit boom fueled by foreign capital inflows. Foreign investors had lent money to the private industry, particularly to firms and banks.

Turkey's Central Bank took several steps to limit loan expansion in anticipation of a credit bubble. The key vulnerability in Turkey's situation is not only the size of the credit boom or the industry in which it is concentrated (construction), but also the form of the debt — specifically, significant levels of liability dollarization in the business industry. Firms in emerging markets frequently borrow in dollars, usually for a short period, which leaves them vulnerable to currency fluctuations and a rollover problem. Foreign currency debt accounted for 58 percent of the total debt in 2018, according to the Central Bank's financial stability assessment reports issued in May and November of each year. Although the reports claimed that much of this debt has a long maturity, it was unclear what this meant in the absence of a flow-of-funds accounting system that allows corporate-industry debt maturity and currency structure to be easily tracked. According to another Central Bank report (Alp 2013), as of 2011, construction enterprises (at the center of the corruption investigation) owed up to 70 percent of their total debt in foreign currency, while manufacturing firms owed roughly 50 percent of their total debt in foreign currency. Much of the debt in the construction industry was short-term to cover working capital needs.

Kalemli-Ozcan (2012) emphasized the importance of high levels of liabilities dollarization, particularly in relation to its impact on balance sheet outcomes. When the asset side of the balance sheet is denominated in domestic currency while foreign debt dominates the liability side, the vulnerability arises that this foreign debt cannot be serviced or refinanced in cases of sudden and sharp depreciation of the domestic

currency. As a result, firms' net worth decreases. This was the main idea behind the Central Bank's involvement in controlling the value of the Turkish Lira. A fundamental concern was how far the Turkish Central Bank can protect the Lira in the absence of significant reserves (on the scale of Asian central banks), especially given the recent political crisis that was worsening by the day.

Borrowing in a foreign currency is especially dangerous for industries like construction, whose earnings are denominated in Turkish liras. The loans of these companies become more challenging to repay if the value of the Turkish lira relative to other currencies declines, and foreign investors become hesitant to engage in the Turkish private sector. The Turkish government maintained a lax monetary policy during the credit boom, allowing the economy to grow consistently but failing to manage inflation. The Turkish Lira has been depreciating against other currencies as a result of annual inflation of 16 percent, which worried investors. In fact, the Turkish Lira had started the year of 2018 at about 3.8 Turkish Liras to the dollar, dropped to 4 Turkish Liras to the dollar by April, and depreciated even more in August.

Borrowing from overseas can benefit emerging market countries like Turkey, and lending to these countries can benefit investors in richer countries. Several variables influence economic growth, including factory expansion, infrastructure, and capital equipment. Emerging market countries are frequently unable to fund the level of investment required for rapid expansion on their own and must borrow from abroad. Foreign investors are generally eager to invest in these developing market countries due to their higher profit rates. This is especially true when richer countries, such as the United States, have extremely low-interest rates and limited development prospects, making investing in less developed countries more appealing.

While borrowing heavily from developing markets has obvious advantages, governments frequently experience boom-and-bust cycles. Countries in emerging markets have a long history of boom-bust cycles and subsequent crises. Investors and borrowers alike have held the belief that "this time it is different" and that the circumstances were really different from those of the previous crisis. A lot of people thought that emerging market nations had learned their lessons from the financial crises of the 1980s and 1990s, which were brought on by large fiscal deficits, rigid exchange

rates, and high levels of sovereign debt. Indeed, macroeconomic policy for emerging markets has advanced significantly since the turn of the century. However, the current crisis in Turkey demonstrated that countries with low government debt and flexible exchange rates can experience a crisis if the private sector borrows heavily in foreign currencies and if loose monetary policy causes inflation to rise and the domestic currency to depreciate. Money bumbles happen while developing business sector legislatures or endeavors get in dollars as opposed to their home cash, and these jumbles oftentimes assume a part in emergencies. Emerging market governments and businesses find it easier to borrow in US dollars rather than their home currency because lenders are protected from being reimbursed in a currency that may lose value. Short-term debt may also be preferred by lenders. In these circumstances, the lower interest rates benefit emerging market borrowers. When their loan repayments are made in dollars and their receipts are made in local currency, they are more susceptible to fluctuations in the exchange rate. They will be doomed if they are unable to refinance their debt. During the Asian and Latin American crises of the 1980s and 1990s, this kind of liability dollarization was crucial.

Turkey's primary macroeconomic vulnerability is short-term private sector borrowing in US dollars. Money supporting is a system utilized by specific organizations to shield themselves from Lira deterioration (basically, purchasing an insurance policy to safeguard against this result). However, large corporations are the only ones who can afford to hedge because it is so costly. Due to their vulnerability, lenders are less likely to extend Turkish companies' debts. Furthermore, rising interest rates in the United States and Europe, as well as the potential for even higher rates as the Federal Reserve and the European Central Bank work to cool potentially overheating economies, make emerging market debt less attractive than it was when interest rates in richer countries were at their lowest point.

In most cases, the first thing the central bank does in a crisis is to raise interest rates, but this did not happen in Turkey. By increasing interest rates and making domestic debt more appealing, central banks can attempt to limit money outflows and protect the currency. Moreover, this establishes the independence of the central bank, giving investors assurance that the currency will not depreciate further. On the other hand,

higher interest rates impede economic expansion and increase the cost of borrowing for businesses. The country's inflation rate of 16 percent demonstrated that Turkey's monetary policy was exceedingly expansive. President Erdogan who sees interest rate increases as 'the mother and father of all evils', gave himself the power to select the head of the Central Bank, following his election as president at the end of June 2018.

Furthermore, there is a political component to this dilemma. In 2003, President Erdogan was appointed Prime Minister by the AKP government. Since then, economists and financial markets have praised Turkey's steady growth of 5 percent per year on average. Unfortunately, during this time of populist policies under an autocratic government, there were no significant structural, institutional, or legal reforms. These reforms would have addressed underlying economic deficiencies but may have delayed development in the near future and compromised the popularity of the government. In the absence of domestic structural reform, loose monetary policy has the potential to temporarily boost economic growth and the popularity of the government, but it also has the potential to cause a long-term asset price bubble. The erosion of institutions under Erdogan's presidency was also a problem in Turkey. These institutions may have contributed to greater economic stability by reducing economic mismanagement and financial and economic volatility. The US administration did not start the crisis, but it did not end it. When there is a crisis in an emerging market, the United States usually tries to calm markets down. President Trump has done precisely the opposite by imposing tariffs on Turkish steel. The lira was already in free fall prior to President Trump's proposal to double tariffs, and it continued to fall following his remarks. The move taken by President Trump supported President Erdogan's claim that the United States was waging an economic war on Turkey, adding to the immediate negative effects of the tariff increase. The Turkish government is less likely to address the root causes of the crisis at home if it delegated responsibility to a foreign power.

Turkey's economy experienced a surprising "V-shaped" economic recovery following the 2018 economic crisis, when borrowing costs skyrocketed and the value of the Lira plummeted. In the first three months of 2019, the economy returned to quarterly growth above 1 percent. However, enormous amounts of low-cost loans were used to restimulate a consumer and construction boom, resulting in a quick turnaround. This so-

called "triple C" economy had a rapid growth surge akin to that of a steroid-administered professional sprinter. Additional warning signs were also on the way. As per measurements, homegrown credit in Turkey expanded by around 13 percent in 2019. The expansion of credit continued rapidly. Mortgage-backed home sales increased by 600 percent in December alone, and government spending increased the 2019 budget deficit by 70 percent.

The largest government debt buybacks in more than a decade was initiated by the Turkish Central Bank, filling a void left by foreign investors and contributing to the strongest bond rally of the year in the developing world. Policymakers purchased approximately 1.9 billion Turkish liras (\$318 million) worth of local-currency government bonds through auctions as part of a program designed to manage the banking system's liquidity since the beginning of January 2020, which was roughly a third of the total acquisitions made the previous year, according to data on the website of the central bank. Benchmark bond yields have decreased by 200 basis points during the same time period, outperforming peers by four times.

By aggressively lowering interest rates below inflation and purchasing lira-denominated bonds for approximately a third of the total purchases made the previous year, Turkey's central bank fueled this credit expansion. To increase borrowing through public and private banks, it also linked bank lending to reserve requirements, which is the amount of money banks must keep at the central bank. Banks maintained a 2 percent savings reserve for funds with 'real' credit growth, including inflation, ranging between 5 percent and 15 percent. Reserve management measures and bond purchases, which are essentially quantitative easing, have all contributed to the overall improvement of lending conditions. Commercial banks have lowered deposit rates on Lira accounts below inflation in an effort to promote spending over saving. Mortgages, credit card borrowing, leasing deals, general company borrowing, and low lending rates have also contributed to the economy's growth.

As a result, as in 2017 and 2018, the government's economic strategy included a stimulus. It appeared to be making no significant modifications to move growth away from consumption and toward production. Furthermore, governance was a serious challenge once again. Because President Recep Tayyip Erdogan has a near-monopoly

on policymaking, he oversaw all domestic and foreign policies. When Murat Cetinkaya, the previous governor of the central bank, did not share his wish for a quicker rate reduction timeline, the president removed him in July 2019.

Despite the commonalities, the financial turmoil was substantially different in four keyways from its predecessor. Firstly, foreign investors played a minor role. By prohibiting currency swap agreements, Turkey had effectively locked off foreign investors from Lira-denominated assets since 2018. Non-resident ownership of Lira bonds fell to less than 10 percent from 20 percent in 2018, which was unsurprising. Secondly, considering the \$191 billion in short-term external debt obligations including current account deficit and the 12 month repayment of long-term foreign debt, indirect internal capital controls by the Turkish government confined the majority of commercial transactions to the Lira rather than the US currency or euro. Thirdly, Turkish Central Bank was regularly intervening to reduce Lira volatility, converting the currency from a "free float" to a "controlled float". The Central Bank spent USD reserves in an unsuccessful attempt to prop up the Lira. Finally, the Turkish government was increasingly interfering in the country's bond and stock markets in an effort to keep asset values stable. To sustain rallies or reverse a bear market, government-controlled local funds and state banks had invested in sovereign debt.

All these strategies share a common assumption: that by restricting the involvement of foreign investors, the recurrence of the crisis can be prevented. Yet, when the credit bubble comes to an end, Turks would likely increase lira conversions to US dollars; 51percent of all Turkish bank deposits were denominated in US dollars, and the number was growing. If Turkey's limited foreign currency reserves were unable to match domestic demand for the dollar, the government would be forced to enact comprehensive and precise capital controls and permit a double-digit devaluation of the lira from its current level. This would have serious repercussions for the political stability and economic climate of the country.

It should have restored fiscal and monetary discipline, address the private sector's excessive foreign debt, and prioritize productivity-enhancing economic and institutional reforms in order to regain the trust of global financial markets and Turks alike.

To address the 2018-2020 economic crisis in Turkey, the government implemented a range of policies, which included raising interest rates to stabilize the currency, providing fiscal stimulus to boost economic activity, initiating structural reforms to enhance the business environment and attract investment, supporting the banking sector, and improving transparency in communication. Efforts to diversify trade partnerships and promote exports were also made. Social assistance programs were introduced to mitigate the crisis's impact on vulnerable populations. These measures collectively aimed to stabilize the economy, restore investor confidence, and promote sustainable growth.

Table 31: GDP in TRY and USD, GDP per capita, GDP Growth Rate for Turkey Between 2016 and 2022

Year	GDP (billion TRY)	GDP (constant 2015 USD; in billions)	GDP per capita (constant 2015 USD)	GDP Growth Rate (%)
2016	2.609	893,04	11.022	3,18
2017	3.111	960,03	11.695	7,47
2018	3.724	988,64	11.939	2,83
2019	4.312	996,39	11.935	0,89
2020	5.048	1.015,72	12.072	1,79
2021	7.249	1.131,04	13.342	11,35
2022	15.007	1.193,99	13.991	5,57

Source: World Development Indicators

Table 32: Yearly Rates of Inflation, FX Rates, Devaluation Rate and TL Interest Rate for Turkey between 2016 and 2022

Year	Rate of Inflation (%)	FX Rates	Devaluation Rate (%)	TL Interest Rate (%)
2016	7,78	3,02	11,03	8,75
2017	11,14	3,65	20,79	8,75
2018	16,33	4,83	32,35	18,50
2019	15,18	5,67	17,51	12,75
2020	12,28	7,01	23,53	15,75
2021	19,59	8,85	26,28	15,75
2022	72,31	16,55	86,98	14,33

Source: World Development Indicators, Federal Reserve Economic Data

Table 33: Population, Labor Force and Unemployment Rate for Turkey Between 2016 and 2022

Year	Population	Labor Force	Unemployment Rate (%)
2016	79.821.724	30.831.360	10,9
2017	81.101.892	31.954.592	10,9
2018	82.319.724	32.826.049	10,9
2019	83.154.997	33.368.909	13,7
2020	83.614.362	31.643.711	13,1
2021	84.775.404	33.317.079	11,98
2022	85.341.241	34.427.719	10,03

Source: World Development Indicators

Table 34: Current Account Balance, Current Account Balance to GDP and Budget Deficit to GDP Ratio for Turkey Between 2016 and 2022

Year	Current Account Balance (current billion USD)	Current Account Balance to GDP	Budget Deficit to GDP Ratio(%)
2016	-26,7	-3,11	-1,15
2017	-40,0	-4,76	-1,54
2018	-20,2	-2,79	-1,96
2019	10,8	0,70	-2,89
2020	-31,9	-4,94	-3,47
2021	-7,2	-1,68	-2,78
2022	-48,8	-5,38	-0,95

Source: World Development Indicators, Republic of Turkey Ministry of Treasury and Finance

Table 35: Goods Export, Goods Import, Trade Balance and Export to Import Rate for Turkey between 2016 and 2022

Year	Goods Export (billion USD)	Goods Import (billion USD)	Trade Balance (billion USD)	Export to Import Rate
2016	152,65	192,57	-39,92	0,79
2017	169,21	227,79	-58,58	0,74
2018	178,91	219,64	-40,73	0,81
2019	182,20	198,98	-16,78	0,92
2020	168,38	206,25	-37,87	0,82
2021	224,69	254,00	-29,31	0,88
2022	253,40	343,09	-89,68	0,74

Source: World Development Indicators

Table 36: Gross External Debt, Short Term Debt and Long Term Debt for Turkey Between 2016 and 2022

Year	Gross External Debt (million USD)	Short-Term Debt (million USD)	Long-Term Debt (million USD)
2016	405.869	90.509	315.360
2017	450.919	109.998	340.921
2018	426.753	93.492	333.261
2019	415.764	96.578	319.186
2020	432.970	113.966	319.004
2021	442.582	121.580	321.002
2022	444.392	134.546	309.846

Source: Central Bank of the Republic of Turkey

Table 37: Short-Term External Debt by Borrower for Turkey between 2016 and 2022

Year	Short-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
2016	90.509	17.081	399	73.029
2017	109.998	19.426	1.753	88.819
2018	93.492	20.828	5.914	66.750
2019	96.578	23.444	8.452	64.682
2020	113.966	24.892	21.344	67.730
2021	121.580	22.219	26.052	73.309
2022	134.546	24.846	29.428	80.272

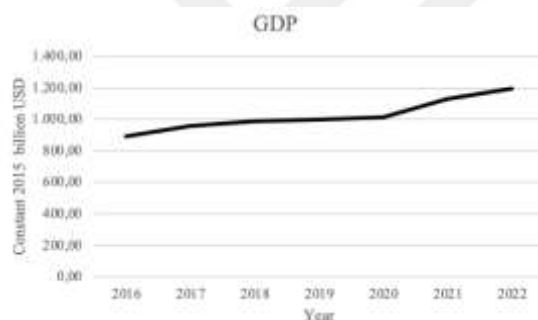
Source: Central Bank of the Republic of Turkey

Table 38: Long-Term External Debt by Borrower for Turkey between 2016 and 2022

Year	Long-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
2016	315.360	106.631	703	208.026
2017	340.921	117.835	0	223.086
2018	333.261	122.390	0	210.871
2019	319.186	137.734	0	181.452
2020	319.004	153.518	0	165.486
2021	321.002	157.677	0	163.324
2022	309.846	154.323	0	155.523

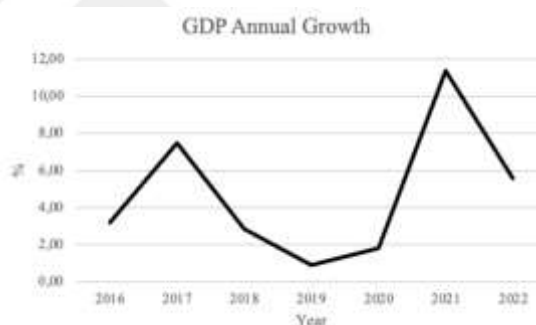
Source: Central Bank of the Republic of Turkey

Figure 48: GDP in constant 2015 USD between 2016 and 2022



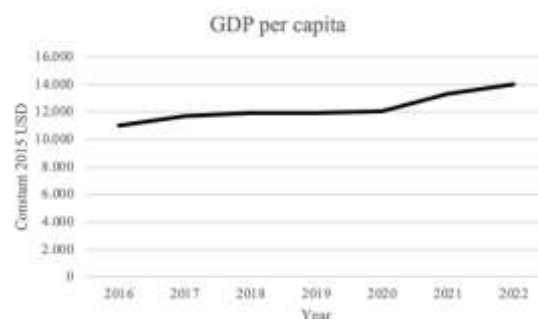
Source: World Development Indicators

Figure 50: GDP Annual Growth between 2016 and 2022



Source: World Development Indicators

Figure 49: GDP per capita in constant 2015 USD between 2016 and 2022



Source: World Development Indicators

Figure 51: FX Rates, LCU per USD, between 2016 and 2022



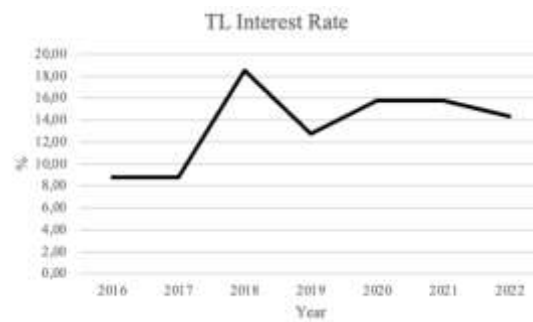
Source: World Development Indicators

Figure 52: Current Account Balance between 2016 and 2022



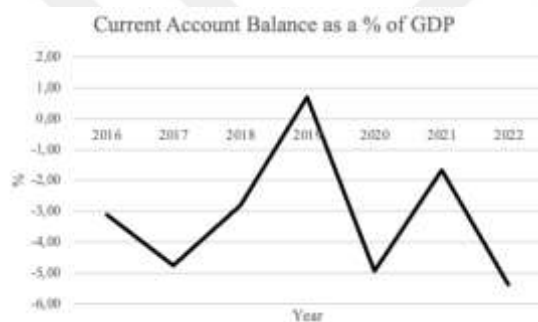
Source: World Development Indicators

Figure 55: TL Interest Rate between 2016 and 2022



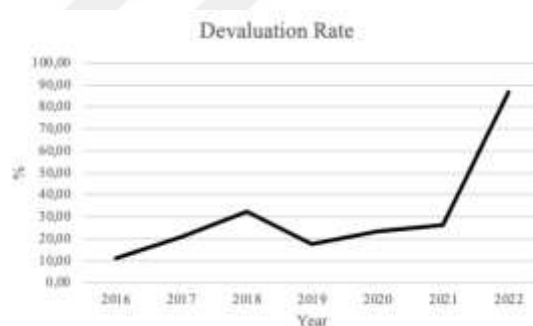
Source: Federal Reserve Economic Data

Figure 53: Current Account Balance as a % of GDP between 2016 and 2022



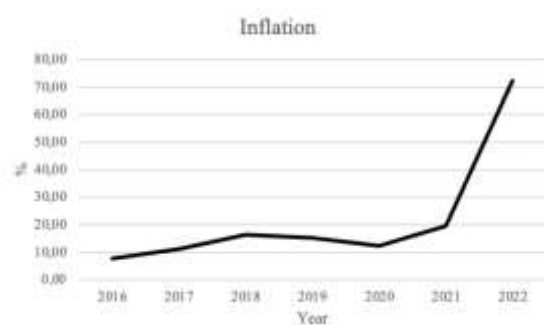
Source: World Development Indicators

Figure 56: Devaluation Rate between 2016 and 2022



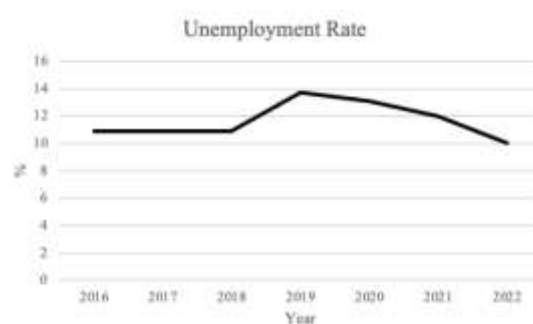
Source: World Development Indicators

Figure 54: Inflation between 2016 and 2022



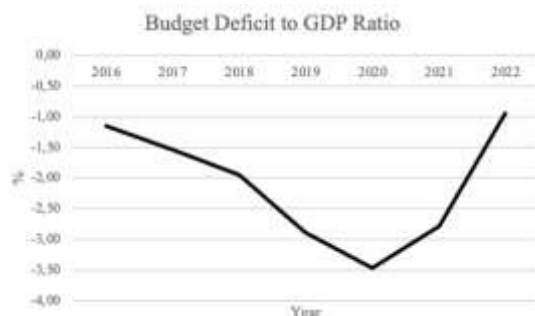
Source: World Development Indicators

Figure 57: Unemployment Rate between 2016 and 2022



Source: World Development Indicators

Figure 58: Budget Deficit to GDP Ratio between 2016 and 2022



Source: Republic of Turkey Ministry of Treasury and Finance

3.7 Turkish Economy's Response to and Repercussions of the COVID-19 Pandemic

Before the COVID-19 pandemic, Turkey had been implementing a series of economic policies to promote growth and stability. The government focused on infrastructure development, encouraging foreign investment, and promoting key industries such as manufacturing and tourism. Structural reforms aimed at improving the business environment, enhancing labor market dynamics, and reducing public debt were also underway. The country was working on attracting foreign direct investment through streamlined regulations and incentives. The government's commitment to fiscal discipline and prudent monetary policy helped maintain macroeconomic stability. Additionally, efforts were being made to diversify trade relationships and strengthen ties with various trading partners. However, despite these positive aspects, Turkey still faced challenges such as high inflation and external vulnerabilities that had the potential to impact the economy.

COVID-19 had a significant impact in Turkey, as well as around the world. The pandemic spread quickly in November and December, according to recent estimates of total COVID-19 cases before a new round of restrictions were imposed in late December to slow the virus's spread. The expansion of COVID-19 in late 2020 followed a similar pattern to that of several European countries.

At the onset of the COVID-19 pandemic, Turkey swiftly enacted a series of economic policies to address the unfolding crisis. The government implemented fiscal stimulus packages to provide financial relief to businesses and individuals impacted by lockdowns and reduced economic activity. Monetary measures, including interest rate cuts and liquidity injections by the Central Bank, aimed to maintain market stability and support credit flow. These policies were crucial in mitigating the initial shocks of the pandemic, as disruptions in global supply chains and decreased consumer spending posed significant challenges to the economy. The immediate response from policymakers sought to safeguard financial stability, provide support to affected sectors, and ensure public health measures were effectively communicated.

COVID-19 shocks had an effect on the Turkish economy through standard supply and demand channels. Employees who got the virus and were unable to report to work as well as early pandemic lockdown decisions all contributed to the decline in supplies. Demand was most significantly impacted by the "fear factor," which mirrored the changed consumption patterns of households with fewer social connections. In addition, supply chain disruptions and the depreciation of the Turkish Lira, both of which increased the cost of borrowing money, had an effect on industries that are more tightly linked to the rest of the world through trade linkages or external borrowing.

Through significant monetary policy easing and moderate fiscal accommodation, Turkey responded to the COVID crisis. The Central Bank of the Republic of Turkey set its policy rate for the beginning of 2020 at 11.25 percent, while the headline inflation rate was 12.15 percent. Due to the easing that followed the COVID-19 outbreaks, the policy rate swiftly dropped far below the rate of inflation. Dollarization happened after the actual policy rate further declined into the negative range. Selling central bank reserves can reduce the detrimental effects of dollarization on the currency rate. The risk premium, on the other hand, indicated that such policies were risky and unsustainable.

Following a decline of 9.8 percent growth rate in the second quarter of 2020, the combination of expansionary monetary and fiscal policies undertaken during the pandemic resulted in a 6.7 percent growth rate in the third quarter of 2020. The question at this point was whether the upward trend could be maintained. The accommodating measures implemented in the early stages of the epidemic were unsustainable since they

exacerbated key vulnerabilities in the Turkish economy by raising production costs through a weaker Lira, widening the budget and current account deficits, and depleting CBRT reserves. As a result, after August 2020, actions to reverse these accommodating policies were inescapable. Turkey's growth rate was projected to decline as the country tightened its policy. However, the longer-term impact should be favorable if the policy reversal was compatible with Turkey's macroeconomic fundamentals. The financial markets have reacted positively to the tighter policy stance. The Lira began to trade at around 8 TL/USD, with capital inflows from equity and bond holdings increasing by \$6 billion in the second half of November. Longer-term predictions were difficult to make when financial markets were so volatile and pandemic-related news so unknown. Nonetheless, to provide a clearer assessment of the pandemic's impact and corresponding policy measures, we will review the main dangers and opportunities for the Turkish economy in the post-COVID era, allowing us to better estimate Turkey's prospects.

The Turkish stimulus plan, which was designed to halt the COVID-related recession, included credit expansion in significant amounts. To fight the decrease brought on by the exchange rate crisis in August 2018, the government had previously announced a credit-driven growth strategy. During COVID-19, loan growth increased considerably. This was a result of the government's low interest rate policies and support for lending through the Credit Guarantee Fund, in addition to the increasing financial needs of enterprises. A financial crisis or signs of stress can both be indicated by rapid credit expansion.

In comparison to other countries, Turkey's economic development in 2020 was high, but poverty spread, and unemployment increased. Apart from China, Turkey's GDP rose by 1.8 percent in 2020, making it the fastest-growing G20 country. This followed one of the biggest economic recoveries in the second half of 2020, which was mostly achieved in the third quarter but continued into the fourth. Despite efforts to help employment and homes, the labor market and poverty levels have worsened. Early in 2021, indicators of domestic demand showed symptoms of slowing growth, however, supply-side metrics like industrial output remained strong.

Turkey launched a massive economic stimulus program primarily aimed at credit channels as a response to COVID-19. Turkey's COVID-19 stimulus plan amounts to approximately 12 percent of GDP when tax deferrals and contingent liabilities are taken into account. This is comparable to the stimulus packages of the United States, Australia, and Canada and is higher than the G20 average for developing market countries. Although the program employed a variety of fiscal strategies, Turkey received its assistance primarily through the banking sector and was accounted for as future contingent liabilities to the government rather than as direct fiscal costs incurred by the budget. The increase of credit, loose monetary policy, and other regulatory measures all contributed to a spike in economic activity in the latter half of 2020. Policy interest rates were kept below inflation and several financial regulatory measures were implemented to encourage banks to lend more, with the exception of government initiatives to recapitalize state banks and a partial credit guarantee fund. One of the world's largest credit expansions occurred in 2020 as a result of these policies working together.

The prompt financial reaction to the Coronavirus emergency was more modest and more centered, yet it gave basic help to organizations and people. Despite the fact that on-budget fiscal spending was significantly lower than the accumulation of contingent liabilities, it contributed to the accomplishment of important, specialized fiscal objectives. Payments to furloughed workers and those placed on unpaid leave, increased lump-sum social support for households, and enhanced unemployment benefits were among the primary things supported by fiscal expenditure. As the economy slowed, some tax and government fee payments were postponed, easing the financial burden on businesses.

The economy's recovery was aided by the initial wave's reopening. While effective in preventing the spread of COVID, Turkey's COVID-19 restrictions were less disruptive than a complete lockdown. Mobility restrictions and business operations were eased in June and July following the initial wave. Reopening was estimated to have accounted for between one third and half of the rebound in economic activity based on global reopening experiences and high-frequency energy consumption statistics as a proxy for

economic activity. This suggests that other variables, particularly stimulus, played a key role.

Dangers to the economy have surfaced in view of the recuperation. Policy frameworks aimed at ensuring a strong recovery in 2020 exacerbated growing imbalances and risks, particularly domestic inflation, currency devaluation, and the loss of external reserves. Inflation reached an 18-month high of 16.2 percent in March 2021. In 2020Q2, Turkey's Central Bank used overseas reserves to finance the majority of the country's rising current account deficit in the face of capital outflows, falling exports, and rising imports. The Lira began to fall, ending the year more than 30 percent lower, adding to inflationary pressures. As reserves, net of short-term liabilities, reached new lows, the Central Bank limited further reserve losses.

To address increasing vulnerabilities, monetary and credit policies were significantly strengthened near the end of 2020. The government made a number of significant policy changes to stabilize the economy and correct the imbalances that resulted as the economy became more vulnerable. The real interest rate returned to positive territory as a result of the Central Bank's gradual increase in its policy interest rate between September 2020 and March 2021. Furthermore, the Central Bank expanded straightforwardness by embracing a solitary strategy rate, giving more forward direction in Monetary Policy Committee declarations, and distributing higher-recurrence market information. The "Asset Ratio," which required commercial banks to actively employ their assets, and reserve requirements tied to real credit growth, were two regulations that were repealed by the Central Bank and the Banking Regulation and Supervision Agency (BRSA).

Unpredictability had died down by 2021, and gambles were being tended to. Portfolio flows began to return to Turkey as a result of these improved policy frameworks. The Lira stabilized and appreciated significantly in comparison to its low point in October 2020, and country risk premia as measured by CDS spreads began to decrease. In contrast, price swings and market turmoil in Turkey erased previous gains in March 2021. The swapping scale and Lira resource markets were rocked by critical unpredictability following the substitution of the Central Bank Governor in Spring the second change in the Bank's authority in four months-in the midst of fears that it flagged

a conditioning financial strategy position toward cost steadiness. The five-year CDS's spread increased by 200 basis point in just two days, and close to 500 basis points on 22nd March 2021, and the Turkish Lira fell 9.3 percent that day. Because of commitments to monetary policy, volatility diminished for the time being. The current account ran a significant deficit in 2020 as a result of the loan bubble and a sharp decline in tourism revenue. The third quarter's economic recovery was fueled by domestic spending and investment, the majority of which went toward purchasing imported goods. A rapidly increasing import bill was fueled by this demand and increased demand for gold imports as a safe investment. The current account deficit increased from 0.7 percent of GDP in 2019 to 4.94 percent of GDP in 2020 as a result of this and the significantly lower exports of goods and services, particularly tourism. Exports began to improve later in the year as supply chains were reestablished after a significant disruption in the first half of the year.

Banks and corporations were under pressure to balance their books as corporate debt grew. The outbreak of COVID-19 put an end to the corporate deleveraging process that had been going on since 2018. The non-financial corporate sector's debt rose to 9 percent of GDP in the first six months of 2020, the highest rate among developing markets. The number of illiquid businesses increased in the second quarter of 2020, and indicators of corporate fragility remained elevated throughout the year. The corporate sector continues to pose the greatest threat to banks that are susceptible to currency and asset quality shocks.

Policy buffers have been depleted as a result of sustained macroeconomic pressures since 2018, rendering the Turkish economy vulnerable. The banking industry's continued health is now more dependent on macroeconomic buffers like overseas reserves, despite the fact that external funding requirements remain high. For instance, the Gross International Reserves (GIR) of the Central Bank were insufficient to cover the Central Bank's foreign exchange obligations to the commercial banking sector. Due to its lack of resources to smooth excessive external volatility, Turkey might be less able to weather major bouts of volatility. Events of this nature would undoubtedly have negative effects on economic prospects as well as households, businesses, and the

financial sector. Given these dangers, the Central Bank ought to fundamentally raise GIR, bringing savings net of transient outpourings back into a positive area.

The Central Bank must clearly commit to containing inflation in order to restore macroeconomic stability. While Turkey has focused on a firm financial strategy position to accomplish long haul expansion decrease, changes in Central Bank lead representatives expanded vulnerability about the future course of the strategy, taking care of into breaking down expansion assumptions and market unpredictability. It would be to the Central Bank's advantage to maintain its unwavering commitment to price stability and inflation targeting as its primary goals.

There is the potential to provide significant, targeted assistance to households and businesses in order to promote a more equitable recovery despite the fact that there is limited fiscal space. Despite Turkey's difficult year of 2020, which saw a moderate fiscal deficit, the budget may benefit in the future from substantial public support in the form of guarantees and capitalization of state banks. Because of this and Turkey's persistently high exposure to risk on foreign markets, authorities must exercise caution to avoid significant increases in public debt. Turkey would face difficulties as a result of an adverse cost shock to financing, even though interest rates are currently low. However, in order to achieve a recovery that is likely to remain shaky throughout the year, it may be necessary to maintain key, targeted-budget fiscal support measures after COVID-19.

GDP quickly recovered in the second half of 2020 as a result of policy responses to the pandemic and its economic impact. In the second quarter of 2020, GDP contracted at its most rapid pace in ten years, with a decrease of 11 percent quarter-on-quarter. However, credit expansion and reopening fueled a rapid recovery in GDP. Gross domestic product expanded by 16 percent in the second from last quarter, owing for the most part to private utilization. Investment and exports also had a significant impact. Due to exports, Turkey was one of the few countries that experienced positive overall growth in the fourth quarter, with 1.8 percent growth in 2020. The recovery was aided by both services and industry in the second half.

Although loan support was the primary focus of Turkey's overall fiscal assistance package, it was one of the largest among G20 emerging market nations. At 11.5 percent of GDP, Turkey's fiscal stimulus package was the 12th largest among all G-20 nations and the second largest among developing markets, behind only Brazil. However, in contrast to the majority of other economies, Turkey relied heavily on indirect fiscal measures, with contingent liabilities (loan guarantees and quasi-fiscal operations) accounting for 75 percent of the economic assistance package. Because of these policies, lending increased significantly, primarily through state-owned banks. Direct budgetary actions were frequently well-targeted and efficient, despite their small size. This package provided aid to workers who were furloughed, public payments to workers who were on unpaid leave, additional transfers of social support to households, assistance with rent and income for small businesses, and tax and social security contribution deferrals for businesses.

To sum up, The coronavirus pandemic had a profound impact on the Turkish economy, leading to a notable economic contraction as lockdowns and reduced consumer spending curtailed activity. The tourism sector, a vital economic contributor, suffered due to travel restrictions, while disrupted supply chains affected trade. Currency depreciation heightened import costs and inflation. Government responses, including stimulus packages and financial aid, strained public finances. Financial markets experienced volatility, and the crisis exacerbated existing social inequalities. The adaptation to remote work and digital technologies emerged as long-term trends. The pace of economic recovery hinged on vaccination efforts, policy effectiveness, and the ability to restore confidence in key sectors such as tourism.

Turkey was particularly hard hit by capital outflows in 2020, which prompted the central bank to reduce reserves. Following the first wave, many emerging markets (EMs) experienced capital outflows. Turkey, Brazil, and South Africa were particularly hard hit, experiencing a "sudden stop." In the long run, capital outflows are likely to rise as a result of Turkey's extremely loose monetary policy and high inflation. The Central Bank began using international reserves at an unprecedented rate as Turkey faced the full impact of capital flight. More than \$40 billion in reserves were used in the first three quarters of the year, according to official balance of payments data. Despite this,

the lira lost 14 percent against a trade-weighted basket of currencies in the first half of the year. The lira was still under pressure, and by the end of the year, it had depreciated by 30 percent in 2020Q4 when compared to 2019Q4, making it the worst-performing of thirteen EM currencies. This was despite the fact that reserves were still running low.

3.8 The Era of Unorthodox Economic Policies

Prior to commencing this section, it is essential to recap the preceding decade in the prior sections and analyse the growing momentum in the implementation of economic policies.

Turkey has experienced a sustained decline, both in economic and political spheres. The erosion of its macroeconomic indicators commenced in 2011, became discernible by 2013, resulted in evident authoritarianism by 2016, culminated in an economic crisis in March 2018, and escalated into a profound depression by March 2020, coinciding with the global economic impact of the pandemic. Throughout this extended period of upheaval, the government has pursued a multitude of economic policies, often marked by inconsistency, posing a challenge for corporations and investors. Nevertheless, all government policies share two overarching objectives: the promotion of economic activity and the preservation of the financial stability of the banking sector.

Since the outset of the economic crisis in March 2018, the central bank has seen four different individuals assuming the role of governor. Despite occasional references to distant objectives, like those set for 2053 or 2071, which suggest long-term planning, a cohesive and lasting strategy was noticeably absent. The government has fallen significantly short of meeting its 2023 targets, announced in 2018, which included the ambitious goal of increasing the GDP to \$2 trillion; by 2021, the actual GDP had reached to only \$815 billion. Rather than prioritizing long-term planning, the government's primary focus appeared to be on more immediate goals.

In July 2018, the presidential system in Turkey was officially inaugurated, marked by President Erdoğan's unveiling of his 16-minister cabinet. A significant development during this period was the appointment of Erdoğan's son-in-law, Mr. Berat Albayrak, as

the Minister of Treasury and Finance, a role which consolidated control over both public finance and the Treasury for the first time since 1980. Essentially, Mr. Albayrak, through his role, consolidated authority over two key financial areas of the government — public finance (which deals with government revenues and expenditures) and the Treasury (which is responsible for managing the government's money, including its revenues, expenditures, and debt). This consolidation of control indicates a centralization of power in these financial sectors under him. Mr. Albayrak also played a pivotal role in key appointments within the central bank and the banking and capital markets regulatory agencies, effectively becoming the country's most influential minister despite his limited experience. His appointment raised concerns due to his previous advocacy for interventionist policies as a columnist for a government-aligned newspaper and his perceived overconfidence.

The Central Bank of Turkey is characterized by a lack of autonomy from the governmental apparatus, a circumstance that bears significant ramifications for the Turkish economy. President Erdoğan, in contravention of established economic principles, orchestrates reductions in interest rates, dismisses central bank governors diverging from the ruling party's economic stance, and initiates legal action against economic scholars who voice critique of governmental policies or provide accurate assessments of inflation metrics. This intertwining of institutional roles stands as a primary source of detriment to the economic landscape of Turkey.

One of Albayrak's initial challenges was addressing a currency crisis that emerged shortly after his appointment. Despite not having direct control over the Central Bank of the Republic of Turkey, he used President Erdoğan's authority to prevent interest rate hikes, which exacerbated the country's economic fragility. The U.S. President Donald Trump, especially during this period, implemented various economic sanctions with the aim of weakening Turkey's economy. One of the most significant ones was increasing additional customs duties on steel and aluminum imports. These economic pressures led to the depreciation of the Turkish Lira and economic uncertainty. The situation was further complicated by President Trump's attempts to leverage Turkey's economic vulnerability in his pursuit of the extradition of an American pastor, Andrew Brunson, who was detained in Turkey on terrorism-related charges. Erdoğan resisted, leading to

open threats from President Trump, resulting in increased financial market volatility and a sharp depreciation of the Turkish Lira.

In response to these challenges, the CBRT, under the chairmanship of Mr. Murat Çetinkaya (2016-2019), eventually implemented a dramatic policy rate hike in September 2018, and Brunson was released from detention in October 2018. However, these measures came too late to prevent a recession, primarily due to the erosion of purchasing power among the population.

As a result, Albayrak lost the support of both the investors and the public early in his tenure, prompting him to resort to unconventional monetary policy tools in the lead-up to the politically significant local elections in March 2019. This included gaining indirect control over the CBRT's international reserves through a protocol that violated central bank regulations, and covertly selling foreign exchange reserves through state banks. While this temporarily stabilized the financial situation, it depleted Turkey's foreign exchange reserves, which could have been critical in more significant crises. Despite the government's electoral losses in the local elections, Albayrak continued to employ these measures, pressuring private and foreign banks to increase credit, ultimately extending his influence over the CBRT's policy interest rate and banking regulations. During Mr. Murat Uysal's relatively short tenure as the head of the Central Bank from 2019 to 2020, the bank maintained a stable policy approach without enacting significant changes.

The economic environment worsened with the onset of the COVID-19 pandemic in early 2020, leading to a sudden and severe financial shock globally. Turkey, heavily reliant on external financing, used its remaining foreign exchange reserves to offset the capital outflow. However, the lack of confidence in Albayrak's economic management persisted, leading to a further depreciation of the Lira and heightened market volatility. Eventually, both the CBRT governor and Minister Albayrak were replaced by pro-market figures, Mr. Naci Ağbal (2020 -2021) and Mr. Lütü Elvan (2020-2021), respectively, leading to the adoption of conventional monetary policies and a brief period of market optimism.

Despite this positive turn, the abrupt removal of CBRT Governor Ağbal on March 20, 2021 without a convincing explanation sent shockwaves through the markets, eroding investor confidence. This incident highlighted the potential for unpredictable domestic political decisions in Turkey to disrupt global financial stability.

Ağbal's successor, Şahap Kavcıoğlu, favored negative real interest rates, resulting in severe market volatility and a sharp depreciation of the Turkish lira. The Minister of Treasury and Finance was also replaced with Nureddin Nebati, who lacked a background in economics, furthering unconventional policies.

Efforts to stabilize the currency, such as the introduction of an FX-protected deposit mechanism (*Kur Korumalı Mevduat (KKM)*) and the sale of foreign exchange reserves, temporarily calmed the markets but came at a high cost to the state budget. Despite these measures, investment confidence remained low, prompting state banks to increase lending to stimulate economic activity. However, this approach contributed to an inflationary spiral and undermined confidence in the CBRT's ability to combat inflation.

The autonomy of Turkey's central bank has witnessed a decline in recent years, marked by President Erdoğan's readiness to dismiss central bankers and finance ministers who diverged from his directives. Since 2020, three officials have been removed from their positions, (Murat Çetinkaya (2016-2019), Murat Uysal (2019-2020), Naci Ağbal (2020-2021)) with no transparent justification, fueling speculation that their reluctance to reduce interest rates may have been the principal motive behind their terminations. President Erdoğan contends that elevated interest rates are the underlying cause of inflation, rather than a remedy for it. His argument asserts that maintaining lower interest rates will stimulate consumer spending, foster business investments, and promote job creation. It is the increased output that will ultimately reduce inflation.

Erdoğan's distinctive economic perspective not only reflects his deeply entrenched ideological beliefs but also aligns with the idiosyncratic dynamics of Turkey's crony-capitalist economic framework. On the ideological front, Erdoğan's worldview transcends traditional Islamic principles, particularly the prohibition of *riba* (interest or usury), and delves into the realm of anti-Semitic conspiracy theories to which the Turkish president ascribes. He has frequently voiced his opposition to what he terms the

"interest rate lobby," thinly veiling his reference to a purported group of Jewish financiers supposedly intent on sabotaging Turkey's economy to gain control over the nation.

On the non-ideological side, a meticulously orchestrated network of patronage underpins the Turkish president's ruling coalition. This coalition relies on President Erdoğan's capacity to inflate and sustain the real estate bubble that forms the core of his intricate financing system for his political endeavors and the distribution of benefits. This delicate order necessitates continuous monetary stimulus to boost consumption and ensure the financial stability of the president's inner circle of business associates.

External factors, such as the conflict in Ukraine in late February 2022, drove up import costs, particularly energy and commodity prices, while the depreciation of the Turkish Lira failed to boost exports as anticipated. These developments, combined with a lack of confidence in economic management, led to rising inflation expectations and a preference for holding savings in foreign currencies. Consequently, tourism revenues could not offset capital outflows, and Turkey's external debt position became increasingly precarious.

Following the two and a half to three year long Covid-19 crisis, the global economy now faced a new supply shock arising from the Ukraine-Russia war and its associated consequences of supply chain problems (TÜSİAD, *Some Thoughts on Turkey's 2022 Macroeconomic Outlook*). These unfolding events carried the potential to instigate both immediate and enduring transformations. The Turkish business community has articulated that geopolitical dynamics are poised to exert a heightened influence on the Turkish economy in the forthcoming periods, highlighting the significance of these geopolitical factors in shaping economic outcomes.

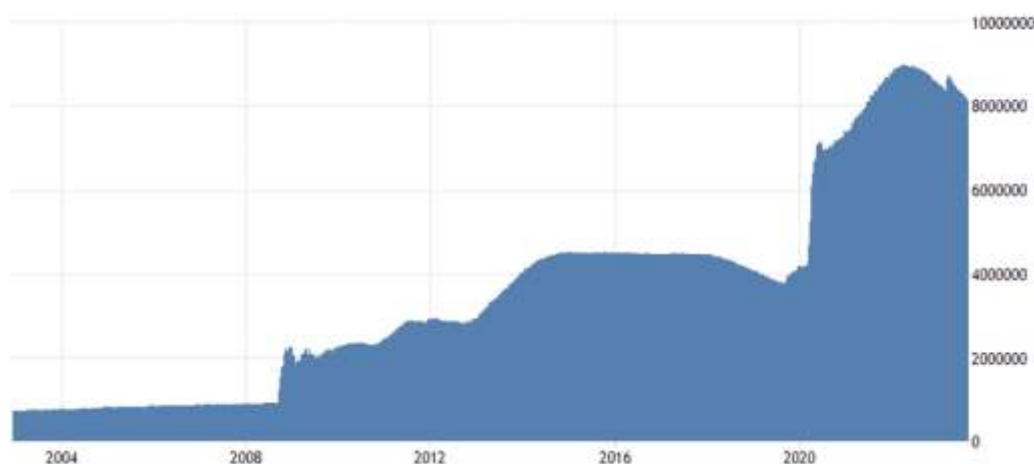
When we review TÜSİAD's expectations during this period, they were anticipating the continuation of global inflation. Potential shortages in essential goods, energy resources, and various food items were expected to exert upward pressure on prices. However, nations were anticipated to grapple with the challenges of adapting to the evolving dynamics of the global supply chain. Moreover, the Ukraine conflict was seen as introducing a significant element of uncertainty into an already evolving landscape

characterized by supply chain disruptions, spikes in energy costs, and inflationary forces.

This emerging period catalyzed into swifter and more pronounced polarization among global economies. On one end, the United States and European economies converged, while on the other, nations like China, India, Russia, and Iran aligned themselves. There was even the possibility of these groups establishing their payment systems and forging future trade agreements. The alteration in the growth trajectories of the European, U.S., and Chinese economies, and the eventual paths they settled upon, assumed increasing significance. For instance, the U.S. economy, projected to grow by 3.5-4 percent in 2022 following its 5.7 percent growth in 2021, had to grapple with high inflation. Consequently, the Federal Reserve (FED) continued its aggressive interest rate hikes and monetary tightening measures, including balance sheet reductions. Simultaneously, fiscal policy adopted an expansionary stance, supporting the economy through infrastructure investments. This policy combination entailed loose fiscal policy alongside a tight monetary policy approach.

The expansion of the FED's balance sheet, which commenced in 2008, expanded from USD 1 trillion to USD 4 trillion in its initial phase and surged to USD 9 trillion amidst the 2020 Covid-19 crisis. This indicates a profound shift in the expansive monetary policy observed over the past 14 years.

Figure 59 : United States Central Bank Balance Sheet



Source: Trading Economics, Federal Reserve

This transformation will have distinct repercussions for economies worldwide moving forward. The existing theoretical and empirical literature regarding this matter generally acknowledges that in Emerging Market Economies, interest rates tend to be set at higher levels to effectively manage exchange rate fluctuations and control inflation (Gallagher and Magalhães 2014; Botta 2021)

Economic growth plays a pivotal role in influencing exchange rates and, subsequently, inflation dynamics. Changes in economic growth are closely linked to shifts in inflation, demonstrating a proportional relationship (Talha, M., Sohail, M., Tariq, R., & Ahmad, M. T. 2021). In other words, fluctuations in exchange rates exert significant influence on domestic inflation (Kantur and Özcan 2022). This influence prompts central banks operating under Inflation Targeting (IT) frameworks in Emerging Market Economies (EMEs) to consistently adjust their monetary policies in response to exchange rate movements. Consequently, effectively managing exchange rates becomes a critical policy consideration for IT central banks in EMEs (Bofinger and Wollmershäuser 2003; Edwards 2006; Rodrik 2008; Gabor 2010; Kantur and Özcan 2022).

Upon closer examination of the concept of inflation targeting, it can be defined as follows: The inflation targeting model is an economic policy framework adopted by central banks, wherein the primary objective is to achieve and maintain a specific, predetermined level of inflation within a given target range over a defined time horizon. This monetary policy strategy involves setting an explicit inflation target, typically communicated to the public, and utilizing various monetary tools and policy instruments to influence interest rates and control the money supply in a manner that aligns with the objective of achieving the target inflation rate. Central banks under an inflation targeting regime often adjust their policy rates in response to deviations of actual inflation from the target, as well as to other economic indicators like output or employment. The primary principles of the inflation targeting model include transparency and accountability, as central banks are required to provide clear communication regarding their inflation targets and the strategies they employ to attain them. This approach is designed to anchor inflation expectations in the economy, thereby helping to stabilize overall price levels and promote economic stability.

The management of exchange rates in Emerging Market Economies emerges as one of the paramount macroeconomic variables (Aizenman, 2011). Consequently, government policies pertaining to their exchange rates continue to be of utmost importance in comprehending the stance of monetary policy and the dynamics of inflation. As Frieden (2016, p. 2) aptly notes, governments make a fundamental decision regarding their currency policy: whether to peg the currency or allow it to float, and whether to strive for currency strength or weakness. While some proponents advocate for capital account management as a government exchange rate policy to contain exchange rate appreciation (McCauley 2008; Shin 2010; Grabel 2011), others highlight the risks associated with allowing the currency to depreciate in EMEs (Mishkin and Schmidt-Hebbel 2001; Bahmani-Oskooee 2018; Toporowski 2021). This underscores the significant conclusion that exchange rate determination is increasingly influenced by the government's economic policy choices.

For an extended period, the field of economics has been preoccupied with the discussion regarding the relationships between prices and interest rates (Cucciniello 2022). This inquiry traces its roots back to the insights of Knut Wicksell, a renowned Swedish economist (Wicksell 1936). Wicksell's work revolved around the distinction between the natural real rate of interest and the market rate of interest (Woodford and Walsh 2005; Fontana 2007). Knut Wicksell (1851-1926) introduced a theory for determining real interest rates that continues to influence the perspectives of most economists today. As per Wicksell (1898, 1907), the real interest rate experiences fluctuations around an unobservable equilibrium point known as the "natural rate of interest." This natural rate serves to balance ex ante savings and investment and is equivalent to the marginal product of capital of newly produced capital goods particularly in a closed economy context. When the real rate aligns with the natural rate, price levels remain stable. However, if the real rate surpasses (falls below) the natural rate, the economy contracts (expands), leading to deflation (inflation) (Brzoza-Brzezina, M., & Cuaresma, J. C. 2008).

The concept of real interest rate, introduced by Knut Wicksell (1936), is an important term used in economic theory and policy analysis. Wicksell called the real interest rate the "natural rate of interest". The definition of the natural rate of interest is an economic

theory also put forward by Knut Wicksell. According to this theory, which represents the economic equilibrium point, there is an equilibrium point in an economy where savings and investment are equal, prices are stable and full employment is achieved. The interest rate at this equilibrium point is called the "natural interest rate". The natural rate of interest refers to a level at which savings and investment balance each other in the economy. Nominal interest rate is the real interest rate expressed in currency and represents the cost of lending or borrowing money over a certain period of time. According to Wicksell's theory, the difference between the natural rate of interest and the nominal interest rate in the economy is significant. If the nominal interest rate is higher than the natural rate of interest, then savings may exceed investments in the economy.

Conversely, if the nominal interest rate is lower than the natural interest rate, then there may be a lack of demand in the economy and unemployment may increase. The concept of the natural interest rate provides guidance to monetary policy makers in assessing economic conditions and making appropriate monetary policy decisions, but determining and estimating the natural interest rate is a complex process and can vary depending on economic conditions. These disparities, in turn, contribute to both inflationary and deflationary circumstances. In cases where the market interest rate remains below the natural rate of interest, an upsurge in demand ensues, resulting in inflation. When the market interest rate surpasses the natural rate of interest, it leads to reduced investments, which subsequently diminishes aggregate demand and prices. Wicksell also advocated that targeting inflation should be the primary goal of monetary policy.

In the contemporary global landscape, the prevailing policy approach in use is predominantly centered on Inflation Targeting monetary policy. Following the 2000s, many emerging economies made the choice to embrace flexible exchange rate systems and embarked on the implementation of Inflation Targeting frameworks. These regimes placed significant emphasis on the management of expectations and the manipulation of aggregate demand as pivotal components of their monetary policy approaches. Within this framework, the central bank fine-tunes its policy rate, adjusting it upward or downward, in order to adeptly oversee and regulate levels of inflation.

Furthermore, the application of Taylor-type rules encapsulates the foundational principles of Inflation Targeting for contemporary central banks (Ingves 2022). In theory, the IT framework posits that inflation is driven by an abundance of demand, and that monetary policy possesses the capability to curb such excessive demand within the economy by making well-considered decisions regarding interest rates (Benlialper and Cömert 2016).

The Taylor Rule is an economic formula or guideline that suggests how a central bank, such as a country's central monetary authority (e.g., the Federal Reserve in the United States), should adjust its target short-term interest rate to achieve specific macroeconomic goals, typically price stability and full employment. It was introduced by John B. Taylor in his 1993 article entitled "Discretion versus Policy Rules in Practice".

The basic form of the Taylor Rule is as follows:

$$i = r^* + \pi + 0.5(\pi - \pi^*) + 0.5(y - y^*)$$

Where:

- i is the target nominal interest rate set by the central bank.
- r^* is the equilibrium real interest rate (the interest rate that would prevail when the economy is at its potential).
- π is the current inflation rate.
- π^* is the central bank's target inflation rate.
- y is the deviation of the current output (real GDP) from potential output.
- y^* is the desired level of output, typically representing full employment or the economy's potential output.

The coefficient of 0.5 in the formula shows how effective deviations in inflation and GDP deficit are in monetary policy decisions. Taylor's rule is considered a guideline

used to ensure economic stability and keep inflation under control. However, because each economy is different, the applicability and effectiveness of this rule may vary.

The Taylor Rule provides guidance to central banks on how they should adjust their policy interest rate (usually the short-term policy rate, like the federal funds rate in the U.S.) based on the current inflation rate and the output gap (the difference between actual and potential output). It suggests that central banks should raise interest rates when inflation is above target or when the economy is overheating (output is above potential) and lower rates when inflation is below target or when the economy is operating below potential.

The Taylor Rule is a widely used framework for monetary policy analysis and decision-making, but central banks often adapt it to suit their specific economic conditions and policy objectives.

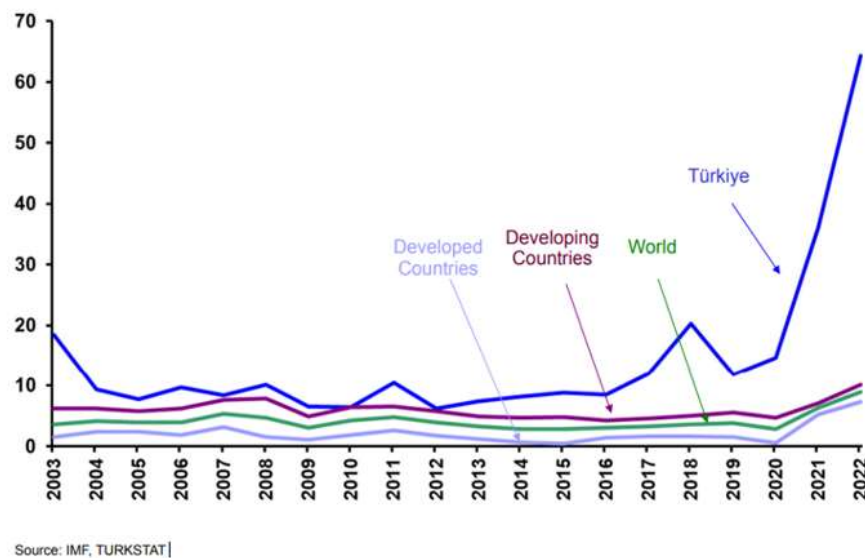
When we compare Taylor's Rule and Wicksell's 'natural rate of interest', Taylor's rule naturally allows monetary policy to be made by taking into account deviations in certain economic variables. This involves a more detailed analysis of economic conditions and variables and allows central banks to base their decisions on this information. It can also be used to adjust nominal interest rates as economic conditions change. This allows for appropriate response to economic fluctuations and different periods. Taylor's Rule offers a more concrete and operational approach.

In Inflation Targeting economies, the initial phase of combating inflation involves the determination of the interest rate. When the central bank decides to lower interest rates, it stimulates aggregate demand by influencing market interest rates and shaping expectations. Conversely, when the central bank raises interest rates, it has the effect of reducing aggregate demand. In line with the overarching goal of the IT framework, a well-calibrated monetary policy that maintains an appropriate interest rate level can effectively manage aggregate demand and achieve the desired inflation outcome.

Inflation stands out as a significant and persistent macroeconomic challenge within Turkey. A clear illustration of this is evident when we contrast Turkey's inflation trajectory with the average inflation rates observed in both developed and developing

nations. Hence, It is aimed to delve deeper into the issue of inflation, which has exhibited a noticeable upward trajectory since 2018, within this section. Specifically, it is crucial to thoroughly examine non-traditional economic policies employed in the battle against inflation and to make meaningful comparisons within the relevant literature.

Figure 60: Inflation Developments in the World



The management of inflation in Turkey can be defined by the period following 2001. Turkey adopted implicit inflation targeting between 2002 and 2004. The transition from implicit inflation targeting to a full-fledged approach took an additional year, resulting in the full implementation of inflation targeting at the start of 2006. Subsequently, the primary goal of the Turkish central bank was officially defined as "to attain and sustain price stability." The management of inflation in Turkey can be best characterized by the period that ensued after 2001. During this period, Turkey embraced an implicit inflation-targeting approach between 2002 and 2004. The key consideration here is that within the Inflation Targeting (IT) framework, inflation is attributed to demand-pull factors, and it operates under the assumption of a uniformity in addressing inflation between Emerging Market Economies (EMEs) and Advanced Economies (AEs). In other words, the IT framework posits that the drivers of inflation are largely analogous in both EMEs and AEs, allowing central banks in IT regimes to manage inflation by utilizing interest rates as a primary policy instrument.

Nevertheless, as highlighted by Benlialper and Cömert (2016), it is worth noting that in Emerging Market Economies, the primary drivers of inflation dynamics are cost-push factors. This contrasts with the conventional assumption within the Inflation Targeting framework, which primarily focuses on demand-pull inflation. This discrepancy underscores the potential challenges faced by IT central banks in EMEs when it comes to implementing monetary policies to combat inflation driven by supply-side factors within the IT framework.

However, according to standard economic theory, it is assumed that policymakers cannot simultaneously pursue an independent monetary policy while effectively controlling the exchange rate when dealing with an open capital account. This concept is famously known as the "impossible trinity." Consequently, policymakers are left with a choice between maintaining an independent monetary policy or exerting control over the exchange rate once the capital account is opened (Kaltenbrunner and Paineira 2017; Akyüz 2014). In today's open economies with floating exchange rate regimes, the link between inflation and the exchange rate is largely influenced by Exchange Rate Pass-Through Effects. If we explain this; the pass-through between floating exchange rates and inflation reflects a complex relationship. This pass-through is shaped by a number of economic factors and dynamics. First, the exchange rate reflects market participants' expectations of future economic conditions. In particular, expectations of high inflation may reduce confidence in the local currency and increase the demand for foreign currency, which may lead to a depreciation of the local currency and an increase in the exchange rate. However, the impact of such exchange rate changes on the economy may take time, as the impact on prices and inflation may be felt with a delay.

In addition, the relationship between exchange rate changes and inflation is also shaped through foreign trade and imports. When the value of a country's local currency falls, exports usually increase and imports decrease. This means that the exchange rate can increase the cost of imports, thus affecting inflation. In addition, central banks' exchange rate interventions and monetary policy decisions can affect the relationship between the exchange rate and inflation. Unexpected exchange rate fluctuations or volatility in international financial markets can lead to exchange rate shocks, which can lead to economic imbalances and inflation changes. As a result, the pass-through

between exchange rate and inflation in open economies is shaped in a complex way by a number of factors and constitutes an important component of economic analysis. Policymakers try to direct monetary policy and economic stability by taking these factors into account.

Exchange rate volatility has a notable impact on domestic prices through its influence on import prices (Hyder and Shah 2004). The extent of this impact depends on the elasticity of demand and supply for imported goods. When the exchange rate depreciates, it can result in higher domestic prices, subsequently contributing to inflation (Şen, 2020).

Therefore, the adoption of an inflation targeting-based monetary policy in Emerging Market Economies presents a complex challenge, as central banks are tasked not only with tracking exchange rate fluctuations but also factoring in external variables like the external debt position that can have an impact on the domestic economy. Nevertheless, it is a widely acknowledged practice for central banks in EMEs to maintain elevated interest rates as a means to address exchange rate fluctuations and manage inflation.

This highlights another significant consequence, wherein an erroneous choice in monetary policy can result in abrupt movements in the exchange rate, subsequently leading to inflation through Exchange Rate Pass-Through Effects.

Kohler (2019) emphasizes that foreign currency borrowing is another noteworthy characteristic of Emerging Market Economies. Similarly, Ahmed (2021) demonstrate a strong connection between government debt levels and policy interest rates in the context of EMEs. Arellano (2020) argues that the transmission mechanism of interest rates to inflation is contingent on sovereign risk, underscoring that default risk shapes monetary distortions and influences monetary policy. Furthermore, the related literature suggests that inflation expectations can also impact exchange rates.

Anticipating an increase in inflation can drive up the demand for foreign assets as the domestic currency depreciates. This heightened demand for foreign assets, as opposed to domestic ones, can result in an appreciation of the exchange rate. In economies with

substantial foreign debt and a heavy reliance on imports, such an appreciation of the exchange rate can elevate the price level by increasing the cost of imported goods.

There is a growing body of empirical research exploring the relationship between exchange rates and inflation. Many of these studies have highlighted the significant impact of exchange rates, the prices of imported raw materials, and domestic costs on inflation (Kara 2017; Bahmani-Oskooee 2018; Baylan and Pazarıcı 2020).

In the case of Turkey, empirical investigations suggest that inflation is heavily influenced by exchange rate fluctuations, primarily due to the country's reliance on imported raw materials and energy resources. Koç (2021) conducted a study on inflation in Turkey using a time-varying parameter, the Phillips curve model. His findings indicate that movements in the exchange rate and inflation expectations are the primary drivers of inflation in Turkey. Notably, he observed a significant increase in Exchange Rate Pass-Through Effects after the third quarter of 2018.

Let's offer a more detailed exposition of the factors examined by the Phillips Curve model. It is a fundamental economic model that explores the relationship between inflation and unemployment. Initially, the Phillips Curve model posited an inverse link, suggesting that lower unemployment led to higher inflation and vice versa. The inflation-unemployment tradeoff is a proposition regarding the effects of monetary policy. It is the argument that changes in monetary policy impose these two variables in adverse aspect (Mankiw, 2000). The Philips curve is a main ingredient in macroeconomics, ensuring a constitutive equation that states the inflation rate as a function of the unemployment rate (Karahan and Uslu, 2018). However, subsequent modifications introduced the concept of expectations, revealing that the inflation-unemployment relationship depends on whether actual inflation aligns with people's expectations. This led to the recognition of the "natural rate of unemployment," representing the level of unemployment consistent with stable inflation. In the short run, policymakers may navigate trade-offs between inflation and unemployment, but in the long run, this trade-off fades, emphasizing the importance of maintaining price stability to achieve sustainable employment levels.

The Monetarist perspective on the Phillips Curve carries significant implications for macroeconomic policy. The Phillips curve can be evaluated in different ways in short-term and long-term periods in the economy. In the short-term perspective, this curve highlights the inverse relationship between unemployment and inflation, meaning that low unemployment is associated with high inflation. However, in the long-term perspective the relationship between unemployment and inflation is more complex and may change under the influence of economic policy and structural factors. The long-run Phillips curve is associated with concepts such as the natural level of unemployment and sustainable inflation targets and can provide guidance to economic policy makers for long-term inflation control. Central banks, for instance, use it to target specific inflation rates while considering the natural rate of unemployment to attain both stable prices and full employment. Nonetheless, it's important to acknowledge that the Phillips Curve is a simplified model, and its relationship has evolved over time, subject to changing economic conditions and expectations. Consequently, it remains a topic of ongoing debate and refinement within economic theory.

Inflation in Turkey maintained a period of relative stability between 2003 and 2007. However, following the onset of the Global Financial Crisis in 2008 (GFC), inflation rates began to ascend. Despite sporadic exchange rate depreciations, a low-interest rate environment, and expansive fiscal policies implemented post-GFC, inflation surged by 7.5 percent (Year-on-Year) between 2009 and 2013. Notably, during 2010 and 2011, mounting current account deficits coupled with rapid economic expansion exerted upward pressure on inflation.

In response to the escalating inflation during this period, the Central Bank of the Republic of Turkey adopted a stringent monetary policy stance, involving interest rate hikes and the implementation of contractionary fiscal measures to curb the inflationary trends.

During the span from 2014 to 2016, the price level registered an average increase of 8.1 percent per year. To attain the desired target inflation rate and alleviate the strains on the Turkish Lira, the Central Bank of the Republic of Turkey implemented a rigorous monetary policy approach. This involved a substantial rise in the policy rate, ascending from 4.5 percent to 10 percent.

It's noteworthy that the escalation of the exchange rate and the worsening of inflation expectations played pivotal roles in precipitating this shift in Turkish monetary policy. The elevation of interest rates during this timeframe attracted foreign capital inflows, which, in turn, acted as a deterrent to the appreciation of the exchange rate.

Subsequently, the Central Bank of the Republic of Turkey aligned its policy rate with the fluctuations in inflation. In 2015, factors such as the ascent of the exchange rate, surges in energy prices, unprocessed food prices, and core goods group prices all contributed to the price inflation. In response to this, the CBRT opted to raise its policy rate once again.

Further developments included depreciation pressures on the exchange rate, influenced by the Federal Reserve's tightening of monetary policy in 2016. This, in turn, resulted in an upswing in the prices of imported goods, thereby contributing to inflationary pressures. However, political instability within the country led to an economic slowdown during this period, subsequently causing a decline in inflation.

Between 2017 and 2018, inflation in Turkey witnessed a significant surge, climbing from 9.2 percent to 20.3 percent, with an average annual rate of inflation of 13.7 percent. The primary catalyst for this inflationary spike can be attributed to the implementation of growth-oriented policies after 2017, which resulted in a surge in external debt levels and heightened pressure on the exchange rate (Akçay et al. 2019). Consequently, the Central Bank of the Republic of Turkey once again raised its policy interest rate to combat inflation.

However, it's crucial to note that the dynamics shifted in 2018. As observed by Orhangazi and Yeldan (2021), "the 2018 economic crisis was characterized by a prolonged recession with persistent low (negative) rates of growth, dwindling investment performance, debt repayment problems, secularly rising unemployment, spiraling currency depreciation, and high inflation." In this year, Turkey grappled with a significant currency crisis prompted by a sudden outflow of both foreign and domestic capital. This crisis precipitated a substantial depreciation of the Turkish Lira, with the currency experiencing a significant devaluation, losing up to 35 percent of its value against the US dollar.

To reiterate, the expansion of credit experienced a sudden and substantial interruption, leading to the emergence of debt repayment challenges among both small and large entities within the Turkish economy. The critical turning point in the Turkish currency crisis can be traced back to August 2018, coinciding with heightened political tensions between the USA and Turkey, due to the arrest of the American pastor Andrew Brunson in Turkey. It cannot be emphasized enough that these circumstances triggered an abrupt capital outflow, involving both foreign and domestic capital. The so-called Brunson crisis subsequently evolved into what is now known as the Turkish currency crisis, leaving the country grappling with a significant cycle of exchange rate volatility and high inflation. Consequently, the intricate relationship between exchange rates, inflation, and interest rates entered into a new phase. Following the 2018 crisis, the rapid depreciation of the Turkish Lira swiftly escalated into a full-blown debt crisis, primarily driven by mounting foreign borrowing costs and the implications of Exchange Rate Pass-Through Effects (ERPE).

During this period, numerous firms encountered severe difficulties and sought bankruptcy protection as a result of the unfolding crisis. It is imperative to recognize that the crisis that began in August 2018 holds great significance in comprehending the present state of the Turkish economy, particularly the turmoil surrounding the Turkish lira and the alarming surge in inflation in 2022. Since 2018, Turkey has been grappling with profound economic challenges, exacerbated by the economic repercussions of the COVID-19 pandemic, which have left the nation in a precarious financial predicament, serving as the precursor to the ongoing lira crisis.

The aftermath of the Turkish currency crisis was marked by political instability, a surge in the exchange rate, and a climate of uncertainty, all of which contributed to a rapid spike in inflation, reaching 24.5 percent. In response, the Central Bank of the Republic of Turkey adopted a stringent monetary policy approach, significantly raising its policy rate in 2018, from 17.75 percent to 24 percent, in an effort to stabilize the plummeting Turkish Lira.

Furthermore, the Turkish economy contended with diminishing demand conditions during this period. Combining a rigorous monetary stance with shrinking demand, inflation declined from its peak of 25.2 percent to 20.3 percent. Consequently, the

central bank's assertive tightening of monetary policy played a pivotal role in alleviating the pressure on the Turkish Lira and successfully managing inflation. In essence, the CBRT's resolute monetary policy was a strategic response to the escalating exchange rates and inflation, driven in part by the disruptions in inflation expectations during the Brunson crisis of 2018.

From the beginning of 2019 to the end of 2020, the inflation rate exhibited a decline, dropping from 20.35 percent to 14.6 percent. However, despite this downward trend, the average inflation rate for the same period experienced an increase, averaging 13.9 percent. In response to this diminishing inflation, the central bank lowered its policy rate. Notably, exchange rates remained relatively stable during this period, with a notable exception being the last quarter of 2019.

Taking into account the evolving landscape of inflation and exchange rates, the central bank maintained a tightening monetary policy approach until the third quarter of 2019 as a means of managing expectations. However, starting from that point and extending through August 2020, the central bank embarked on a consistent trajectory of reducing its policy rate, despite the simultaneous increase in both exchange rates and inflation.

As the policy rate dipped below the inflation rate, real interest rates turned negative during this period. The Central Bank of the Republic of Turkey rapidly depleted its reserves, primarily due to policies promoting credit-based growth and the imposition of capital adequacy ratios on banks.

However, in the subsequent period following August 2020, notably between November and December 2020, the central bank implemented a significant policy shift, elevating its policy rate to 17 percent from an initial 10.25 percent. Several factors culminated in the adoption of this more stringent monetary policy approach. These factors include the appreciating exchange rate, mounting inflation, deteriorating international net reserves, and heightened economic uncertainty. The tightening of monetary policy during this period effectively curbed both inflation and exchange rate pressures.

Between January 2021 and January 2022, USD/TL cross rate surged from 7.4 to 13.6 and the inflation rate skyrocketed from 15 percent to a staggering 49 percent. During

this challenging period, the Central Bank of the Republic of Turkey notably reduced its policy rate, transitioning from 17 percent to 14 percent. It is crucial to reiterate that, contrary to conventional practice, the Turkish monetary authority chose to lower the policy rate instead of raising it in response to the escalating inflation and exchange rates.

This ultra-loose monetary policy stance had adverse repercussions on both domestic and international expectations. In conjunction with the deterioration in market sentiments, this policy contributed to a swift escalation in the exchange rate, reaching a rate of 28 Turkish Lira to 1 US Dollar in August 2023. Concurrently, inflation surged to 49 percent. These developments, marked by extensive credit expansion and expanding current account deficits, heightened the nation's vulnerability to the looming risk of a sudden halt in capital inflows.

Collectively, these unfolding events pose critical inquiries regarding the execution of monetary policy, warranting a deeper investigation into the economic crisis that unfolded within the Turkish economy. Consequently, it becomes imperative to scrutinize the policy choices made by the central bank in reaction to the rapid devaluation of the lira and the alarming surge in inflation.

The outset of this inquiry takes us to a pivotal moment in the independence of the Central Bank of the Republic of Turkey. It all began on May 28, 2018 (No:2018-21) (<https://www.tcmb.gov.tr/wps/wcm/connect/a1a0f74a-9628-4e0a-a572-0fd68f20e54c/DUY2018-21.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-a1a0f74a-9628-4e0a-a572-0fd68f20e54c-mfvWtAg>) when the CBRT issued a statement that marked a significant departure from instrument independence. The statement explicitly indicated the intention to simplify the operational framework of monetary policy, signifying a shift away from the prior level of autonomy and independence.

Consequently, in response to these developments and despite the unprecedented crisis, the Central Bank of the Republic of Turkey made the unconventional move of lowering the country's interest rate for the fourth consecutive time. This policy shift took the interest rate from 19 percent in September 2021 down to 14 percent by December 2021.

It is important to highlight that Turkey was contending with inflation levels hovering around 20 percent at the time when the CBRT initiated this 500 basis point monetary easing.

Despite the mounting inflationary pressures, Turkey maintained its interest rates unchanged since that time, making it the sole country among all Emerging Market Economies to cut policy rates. Remarkably, Turkey's interest rate remained at 9 percent, a substantial margin below the official inflation rate of 83.45 percent. The Central Bank of the Republic of Turkey has adhered to an ultra-loose monetary policy as part of its strategy to combat the surging Turkish inflation. According to the World Bank (2022a), real policy rates in Turkey have plunged significantly into negative territory.

As of 2022, Turkey boasts the highest inflation rate among all emerging market economies, coupled with an interest rate that remains at 9 percent. This combination places Turkey in the unique position of having the most negative interest rate among its peers. To provide some perspective, in December 2021, the disparity between the annual inflation rate and the policy interest rate stood at -22 percent. However, by August 2022, this gap had further widened, plummeting to an astonishing -69 percent. It can be argued that Turkey's approach to monetary policy stands in stark contrast to all accepted economic analysis and the strategies adopted by other emerging markets.

The series of rate cuts and the persistence of an ultra-loose monetary policy had the consequence of a considerable depreciation of the Turkish lira. This depreciation, in turn, fueled a significant surge in inflation. In essence, it appeared that the Central Bank of the Republic of Turkey had essentially neutralized the effectiveness of monetary policy in taming inflation.

So, what drove Turkey to adopt this contrarian approach? The answer can be traced to the economic policy direction chosen by the Turkish government, often referred to as the "Türkiye Economy Model" (<https://ms.hmb.gov.tr/uploads/2020/10/New-Economy-Program-2021-2023.pdf>). This chosen model appears to prioritize factors other than conventional inflation control through monetary policy, contributing to this distinct policy stance.

Indeed, the "Türkiye Economy Model" signifies a departure from conventional economic policies, as it aligns with the Turkish government's strategic decisions. This novel economic model revolves around the belief that maintaining low-interest rates will serve as a catalyst for fostering new investments and enhancing production. The ultimate goal is to boost exports, spur economic growth, and generate additional employment opportunities. This approach stands as a distinct paradigm shift from the traditional focus on combating inflation through higher interest rates, emphasizing instead the stimulation of economic activity and employment as central objectives.

To underscore this perspective, President Recep Tayyip Erdoğan has articulated the government's vision. He stated that Turkey is in the process of adopting a new economic model built upon five fundamental pillars: investment, production, employment, exports, and achieving a current account surplus. This new roadmap is expected to lead Turkey's economy toward a complete recovery in the long term and aims to position the country among the top 10 economies globally. This statement reinforced the government's commitment to prioritizing economic expansion, job creation, and export growth over conventional monetary policies that focus solely on inflation control through higher interest rates.

The steps required for Turkey to enter the ranks of the world's top economies and maintain this ranking are far beyond the scope of this thesis. In addition to measures that would increase investments and savings propensity, progress in other areas should also be made with the steps to be taken in this regard. Among these, we can list the improvement of the quality of education and the increase in research and development expenditures as priorities.

To surpass countries ahead in GDP and foster growth, Turkey, within its free market economy framework, needs to motivate participants in the system to work productively. Incentives can be effective only when the institutional structure functions properly. Unfortunately, Turkey's institutional structure is one of the most problematic areas in terms of growth (Sağsan, 2019)

In Vedit İnal's (2012) article titled 'Can Turkey be Among the Ten Great Economies of the World In 2023?', the conclusion regarding this issue was as follows: The aim is to

identify the factors that promote rapid growth and an increase in per capita national income according to the growth theory. According to the growth theory, these factors include an increase in savings and investments, leading to the development of capital stock; an increase in the level of human capital; an increase in research and development efforts, thus contributing to technological advancement and an institutional framework conducive to capitalist development. If a country is to progress rapidly and catch up with other nations, it can only be achieved through the development of these mentioned factors.

In the new economic model, it's evident that monetary policymakers do not operate within the framework of setting interest rates solely for the purpose of conducting monetary policy, as is typical in an inflation targeting approach. Rather, their mandate involves actively reducing the country's interest rates, even in the presence of surging inflation rates. However, it's important to acknowledge that for Turkish central bankers, executing such a monetary policy strategy in the context of rising inflation rates presents a formidable challenge. This unconventional approach represents a significant departure from conventional monetary policy practices.

The fundamental issue lies in the belief of a negative correlation between the interest rate and aggregate investment spending. While this proposition holds true at a micro level, it does not apply at a macro level. On a macro scale, this proposition can only be validated in the short run, assuming that prices and/or the capital stock in the economy remain constant. In the long run, when prices are allowed to fluctuate, a change in the interest rate impacts prices, and the negative relationship between the interest rate and the volume of investment cannot be demonstrated. This is a critical flaw in the neoclassical theory of investment, as highlighted in İnal (2024).

The primary risk associated with this policy stance was the potential loss of control over the exchange rate, potentially leading to a significant depreciation of the Turkish lira. By prioritizing low interest rates and discouraging policies based on higher rates to attract foreign capital, the model might expose the economy to vulnerabilities related to exchange rate volatility and external financial inflows.

Consequently, the implementation of the Türkiye Economy Model in 2021 represented a significant shift in the government's policy stance. In this regard, the government deliberately decided to abandon the use of a contractionary monetary policy to stabilize the currency in response to the heightened exchange rate fluctuations. Instead, the government adopted a deliberate strategy that allowed the exchange rates to assume an undervalued position, in accordance with the guiding principles of the Türkiye Economy Model.

The liraization strategy, which was implemented by the Turkish central bank, played a crucial role as a fundamental pillar within its new economic model. According to Şahap Kavcıoğlu, the Governor of the Central Bank of the Republic of Turkey (2021-2023), the liraization strategy was designed to gradually increase the importance of Turkish lira-denominated assets and liabilities in the financial activities of households, businesses, and the banking sector.

The Turkish central bank had commenced a policy of interest rate reduction in September 2021, lowering rates from 19 percent to 14 percent. However, this move had the unintended consequence of heightening inflation expectations and setting off a sharp upward trajectory in both exchange rates and inflation. Consequently, the exchange rate against the dollar surged from 8.60 Lira in September 2021 to 18 Lira in August 2022, while inflation soared from 19.58 percent to 36.08 percent during the period characterized by monetary policy easing.

To forestall the reversal of the dollarization trend in Turkey and its potential repercussions on inflation dynamics, the government implemented a initiative referred to as Exchange Rate-Protected Turkish Lira Deposits, *Kur Korumalı Mevduat*, abbreviated as *KKM* in Turkish. This mechanism assures Turkish depositors a return commensurate with the appreciation of the exchange rate. In this way, the Turkish government seeks to discourage a migration from Turkish deposits to foreign currency deposits and is prepared to compensate for any fluctuations in the exchange rate that might occur.

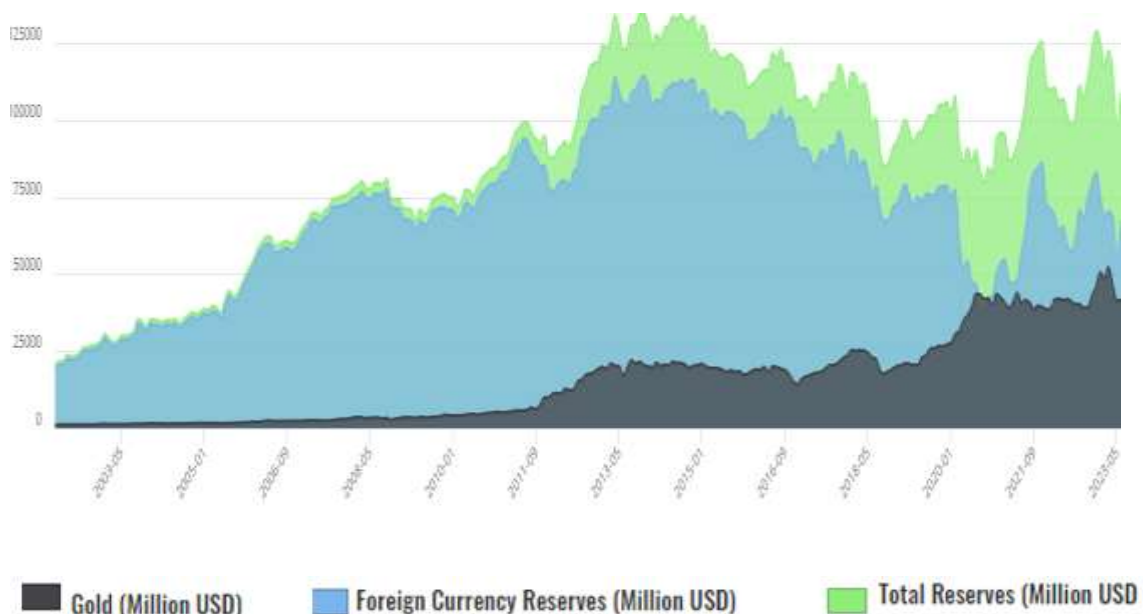
While concerns initially arose about the potential negative impact of this scheme on the fiscal budget, given that the public sector (comprising the central bank and the Ministry

of Treasury and Finance) was responsible for compensating for excess amounts due to foreign exchange differences, the introduction of KKM has, in fact, resulted in a significant reduction in the exchange rate. This outcome underscores the effectiveness of the decision to implement KKM as a potent tool for managing exchange rate pressures.

On December 27, 2021, Central Bank Governor Şahap Kavcıoğlu, in a speech, mentioned that a government initiative, referred to as KKM, aimed to achieve several positive outcomes at once, with an example of killing 5 birds with one stone. According to him, KKM was expected to stabilize exchange rates, reduce inflation, prevent dollarization, boost the Central Bank's international reserves, and lower interest rates.

The primary impetus behind the liraization strategy can be attributed to the dwindling reserves held by the central bank. Central bank reserves including gold were around 108 billion USD in June 2023. Foreign exchange reserves currently stand at approximately 67 billion USD, while gold reserves have reached a level of approximately 41 billion USD. However, once the required reserve amounts of the banks and the central bank's swap transactions are factored in, the foreign exchange reserves are calculated as a negative 60 billion USD.

Figure 61: Central Bank Gross Reserves (in USD)



Source: Central Bank of the Republic of Turkey

The foremost structural challenge at hand pertains to the depletion of reserves, coupled with a diminishing ratio of gross reserves to the external debt stock. This decline has accentuated the economic fragility of the nation. While the ratio of gross reserves to long-term debt stock witnessed an increase from 20 percent in 2002 to 28 percent in 2012, it regressed to approximately 15 percent by the first quarter of 2023. Similarly, the ratio of reserves to short-term external debt stock, which stood at 143 percent in 2002, dwindled to 44 percent in 2023. The proportion of private sector external debt within the overall external debt has exhibited a progressive growth trend. It escalated from 19 percent in 2002 to 36 percent in 2017, ultimately settling at 25 percent as of the first quarter of 2023.

Table 39: External Debt Ratios (%)

%	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 Q1
Gross External Debt Stock / GDP	55	47	41	35	39	38	36	43	40	38	41	42	44	46	47	52	53	55	60	54	51	49
Private Sector Gross External Debt Stock / GDP	19	17	17	18	23	25	25	28	27	26	28	29	31	33	32	36	35	32	32	29	26	25
Gross External Debt Stock / Export(FOB) (*)	366	314	263	239	252	242	216	271	271	238	235	251	250	267	272	274	240	229	253	194	180	186
Private Sector Gross External Debt Stock / Export(FOB) (*)	126	113	109	122	150	159	146	176	182	160	160	174	176	189	188	189	156	135	135	102	94	93
CBRT Reserves (Gross) / Gross External Debt Stock(**)	20	23	22	29	28	28	25	26	26	24	28	27	26	23	23	19	17	19	12	17	18	15
CBRT Reserves (Gross) / Short Term Gross External Debt Stock(**)	143	123	98	116	123	142	126	126	87	81	87	78	75	89	102	77	78	82	45	61	56	44

Source: Republic of Turkey Ministry of Treasury and Finance. (*) Source for export data is CBRT's Balance of Payments Statistics. October 2022. (**) Source for reserves data is CBRT's International Investment Position Statistics. October 2022.

If we analyze Turkey's total external debt figures, foreign debt has increased by 260 percent since 2002, reaching 476 billion USD in June 2023. The maturity distribution of external debt is composed of 34 percent short-term and 66 percent long-term obligations. As of the first quarter of 2023, public debt, which includes the central bank, and private sector debt share an equal burden. The escalation in the external debt liability of the private sector, which constituted a mere 35 percent share of foreign

borrowing in 2002, stands as a significant contributory factor to the economic vulnerability observed in Turkey.

Table 40: Gross External Debt Stock of Turkey (Billion USD)

Billion USD	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total	132	148	166	176	216	260	286	277	309	321	358	405	417	403	406	450	426	414	429	437	459	476
Short Term	19	27	37	44	49	52	56	56	93	97	115	142	143	105	90	110	93	96	112	119	149	161
Long Term	113	121	129	132	166	208	229	221	216	224	243	263	274	298	315	341	333	318	317	319	310	315
Public Sector	65	71	76	71	72	74	79	84	89	97	107	119	121	117	124	137	143	161	179	181	187	198
Short Term	1	1	2	2	2	2	3	4	4	9	13	20	20	17	17	19	21	23	25	22	29	33
Long Term	64	70	74	68	70	72	75	80	85	88	94	99	101	100	107	118	122	138	154	158	158	165
CBRT	22	24	21	15	16	16	14	13	12	9	7	5	2	1	1	2	6	8	21	26	33	39
Short Term	2	3	3	3	3	2	2	2	2	1	1	1	0	0	0	2	6	8	21	26	33	39
Long Term	20	22	18	13	13	14	12	11	10	8	6	4	2	1	1	0	0	0	0	0	0	0
Private Sector	45	53	69	90	128	170	193	180	208	215	244	281	293	285	281	311	277	244	229	231	239	238
Short Term	16	23	32	39	45	47	51	51	87	87	100	121	122	88	73	89	66	64	65	70	87	88
Long Term	29	30	37	51	83	123	142	129	121	128	143	160	171	197	208	223	210	180	164	160	152	150

Source: Republic of Turkey Ministry of Treasury and Finance, CBRT

All these factors have heightened Turkey's vulnerability and led to a negative economic outlook. In such circumstances, domestic residents experienced an elevated demand for foreign exchange, prompting them to shift their investments into foreign currencies. There was a rapid surge in foreign currency deposit accounts held by domestic residents, culminating in a historically high level of 237 billion USD in 2021. The share of foreign currency deposits within the total deposit base reached 65 percent in the banking sector.

Through the implementation of the KKM investment product, the objective of economic management was to mitigate the demand for foreign currency and diminish the proportion of foreign exchange in investment portfolios. Through this product, investors were presented with a complimentary option to safeguard themselves against currency risk. The objective was to curtail the demand for foreign currency by channeling investors towards KKM instead of resorting to interest rate hikes as a measure against inflation. Consequently, an attempt was made to implement a policy of managing foreign exchange rates without depleting foreign currency reserves to rein in the escalation of exchange rates. Nonetheless, the unconventional measures adopted to discourage the shift to foreign currency by maintaining low interest rates, alongside

unconventional practices that deviate from traditional economic policies in the battle against inflation, failed to yield the intended outcomes. Although KKM experienced rapid growth, the reduction in foreign exchange deposit accounts did not exhibit a corresponding decrease, and there was no substantial augmentation in the central bank's gross foreign exchange reserves.

When we look at the changes in foreign currency deposits and reserves from December 2021, when KKM was introduced, to June 2023, something interesting emerges. Despite KKM attracting around 132.7 billion USD, there was a drop of 68.8 billion USD in foreign currency deposits held by local residents during this period.

Table 41: FX Protected Deposit, FX Deposit of Resident, Central Bank Gross Reserves and Central Bank FX Reserves between 2021 and 2023

	31.12.2021	30.12.2022	27.06.2023
(Billion USD)			
FX Protected Deposit (KKM)	6.370	75.787	132.722
FX Deposit of Resident	237.070	191.943	168.308
Central Bank Gross Reserves (FX + Gold)	111.051	121.230	108.585
Central Bank FX Reserves	72.563	75.380	67.155

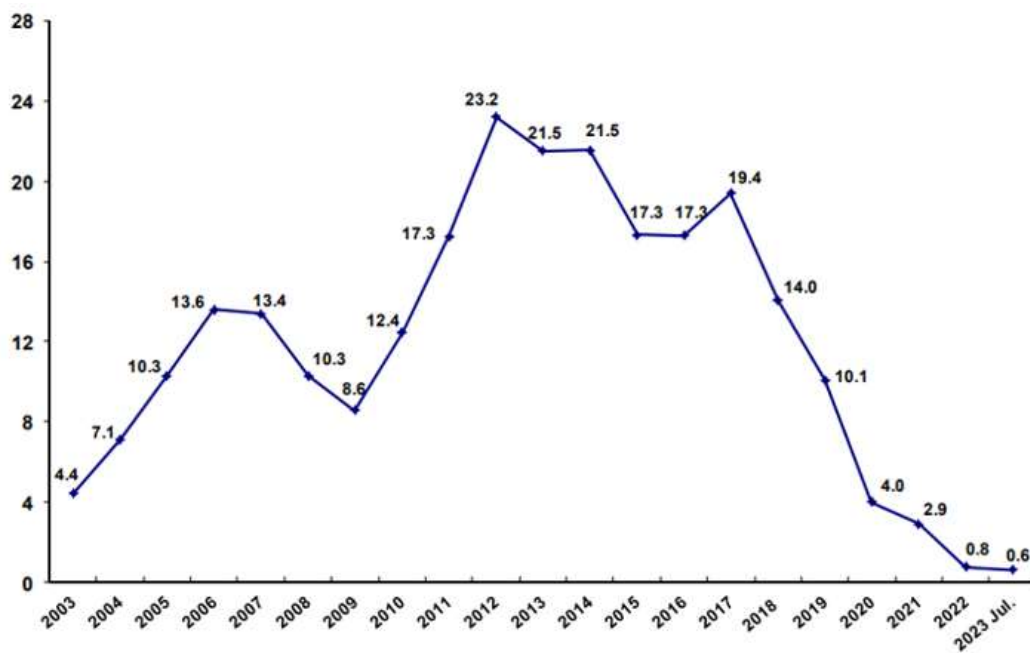
Source: Central Bank of the Republic of Turkey, Banking Regulation and Supervision Agency

The portion of foreign currency deposits in the overall deposits within the banking sector appears to have declined from 65 percent in 2021 to 42 percent as of June 2023. Nonetheless, when we account for exchange rate-protected deposits, the proportion of foreign currency and foreign exchange-indexed foreign currency deposits in the total deposits has reached 70 percent. This situation shows that domestic residents continue to direct their investments to foreign currency in an environment of low nominal interest rates and negative real interest rates. Moreover, it is evident that the exchange rate-protected deposit product does not contribute to an augmentation of reserves.

At the same time there has been a noticeable waning of foreign investor interest in Turkish markets. The proportion of foreign investors within the domestic debt stock has

exhibited a precipitous decline since the year 2018, ultimately plunging to less than 1 percent by the midst of 2022.

Figure 62: Share of Foreign Residents in Domestic Debt Stock (%)



Source: The Central Bank of the Republic of Turkey

Drawing from the Turkish experience, the interplay between interest rates, exchange rates, and inflation is intricately tied to the government's economic policy decisions concerning the implementation of monetary policy. The case of Turkey is particularly compelling for several reasons. Firstly, the Turkish economy has faced significant challenges since 2018, characterized by a profound economic downturn, driven by substantial currency depreciation and soaring inflation. Secondly, the Turkish government has adopted a new economic policy framework known as the "Türkiye Economy Model," which emphasizes the reduction of interest rates, thereby introducing tensions in the implementation of monetary policy.

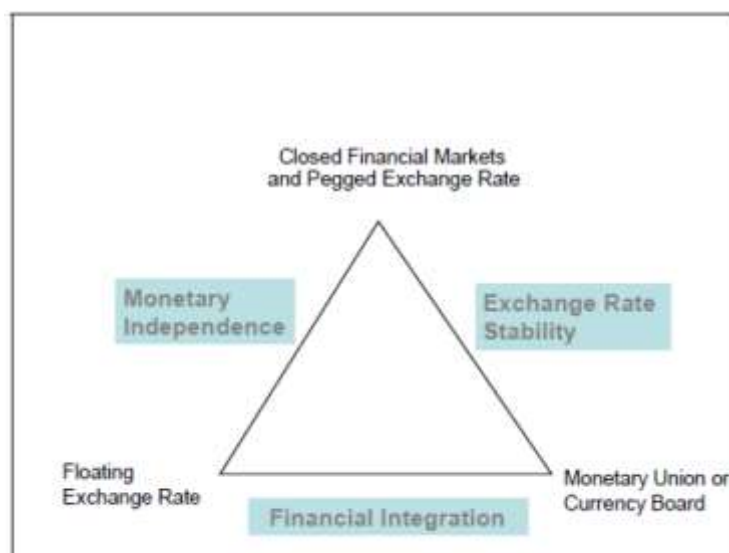
The macroeconomic policy "trilemma" for open economies, also known as the impossible trinity, states that a country may simultaneously choose at most two of the following three goals: monetary independence, exchange rate stability and capital account openness. The trilemma policy trade-offs are conveniently represented via a

triangle, where each side of the triangle represents full attainment of one of the three goals. Therefore, as shown, being at any vertex of the triangle represents full attainment of two of the three goals, at the expense of abandonment of the third (Cortuk, O., Singh, N. 2011).

Undoubtedly, an economy cannot simultaneously occupy all three corners of the Trilemma Framework triangle. Nevertheless, given the potential desirability of each of these three objectives, policymakers may endeavour to achieve partial progress on each, positioning themselves somewhere within the triangle's interior. For instance, a country might opt for a managed float exchange rate system, coupled with certain capital controls, even if it entails relinquishing some degree of monetary independence when dealing with international capital movements.

In practice, the pursuit of these three policy goals to a partial extent has often defined policymaking, particularly for emerging market economies. This "mixed" approach to the trilemma has been marked by ongoing policy adjustments in response to the rapidly evolving global landscape, alongside efforts to implement market-oriented economic reforms. However, policymakers have not always had a precise roadmap for navigating these trade-offs.

Figure 63: The Trilemma Framework



Source: Cortuk, O. and Singh, N. (2011)

The selection of exchange rate regimes has undergone significant evolution over the past century. In the early twentieth century, the decision was fairly straightforward: embrace the gold standard, as all advanced nations had already done. Floating exchange rates and fiat currency were typically associated with spendthrift nations. However, as we progress into the twenty-first century, the choice is becoming increasingly evident: transition to floating exchange rates, as most advanced countries have already done so. The challenges faced by member nations in determining an exchange rate parity compatible with balance of payments stability, along with the currency crises that accompanied the realignments of parities during the early years of the Bretton Woods system as noted by Bordo (1993), laid the groundwork for the enduring debate on fixed versus flexible exchange rates. Milton Friedman (1953), in response to the traditional Nurkse (1947) perspective, presented a modern argument in favor of floating exchange rates. According to Friedman, a floating exchange rate system offers the advantages of monetary independence, insulation from real economic shocks, and a less disruptive adjustment mechanism in the presence of nominal rigidities when compared to pegged exchange rate systems (Edwards, S. 2020).

Mundell (1963) expanded upon Friedman's analysis by considering a world characterized by capital mobility. In this framework, the choice between fixed and floating exchange rates depends on the nature of the shocks, whether real or nominal, and the extent of capital mobility. In an open economy with capital mobility, a floating exchange rate provides protection against real shocks, such as changes in export demand or terms of trade. Conversely, a fixed exchange rate is preferable in the case of nominal shocks, such as shifts in money demand.

The Mundell-Fleming model introduced two significant concepts into the theory of exchange rate regime choice: the impossible trinity, also known as the trilemma mentioned above, and the optimal currency area. According to the trilemma, countries can only select two out of three possible outcomes: open capital markets, monetary independence, and fixed exchange rates. Historically, the gold standard thrived by embracing open capital markets and fixed exchange rates while placing less emphasis on monetary independence. Its downfall occurred during the interwar period when monetary policies aimed at achieving full employment became crucial. The Bretton

Woods system maintained pegged exchange rates and monetary independence by permitting extensive capital controls but eventually collapsed due to the growing challenge of restricting capital mobility (Obstfeld and Taylor 1997).

More recently, the trilemma has given rise to the bipolar perspective that, in a world characterized by high capital mobility, the only feasible choices for exchange rate regimes are super hard pegs (such as currency unions, dollarization, or currency boards) or a floating exchange rate. Indeed, advanced countries today predominantly adopt either floating exchange rates or participate in currency unions like the European Monetary Union (EMU).

When considering the concept of monetary policy independence, it refers to the ability and authority of a country's central bank to make and implement monetary policy decisions autonomously, without undue influence or interference from the government or other external entities. Monetary policy typically involves actions related to interest rates, money supply, and other financial instruments with the goal of achieving macroeconomic objectives, such as price stability, full employment, and economic growth.

Monetary policy independence is essential for central banks to effectively pursue their objectives, particularly in the case of inflation targeting. It allows central banks to make interest rate decisions and adjust monetary conditions to control inflation without being swayed by short-term political considerations.

Central bank independence encompasses three critical domains in which government influence must be either eliminated or significantly restricted: personnel autonomy, financial self-sufficiency, and policy freedom (Eijffinger and de Haan, 1996). Personnel autonomy pertains to the government's involvement in appointment procedures, where various criteria come into play. These criteria include governmental representation within the central bank's governing body, appointment protocols, the duration of appointments, and procedures for the removal of board members. It becomes evident that politicians can exert influence over the central bank when the government can finance its expenses either directly or indirectly through central bank credits. Policy independence encompasses the latitude granted to the central bank in devising and

executing monetary policies. DeBelle and Fischer (1995) have noted the significance of distinguishing between goal independence and instrument independence within this context. Concerning goal independence, two interrelated aspects bear importance: firstly, the extent to which the central bank can exercise its discretion, and secondly, whether the central bank prioritizes monetary stability as its primary objective. When the central bank is entrusted with multiple objectives, such as attaining both low inflation and low unemployment, it enjoys broad discretion. In such cases, the central bank possesses substantial goal independence as it is free to establish the ultimate objectives of monetary policy. Conversely, the central bank's discretionary authority may be constrained by assigning either general or specific goals related to price stability. Lastly, a central bank equipped with instrument independence can freely select the means by which it pursues its objectives. However, if the government's approval is necessary for the central bank's utilization of policy instruments, instrument independence is absent.

Examining the facet of financial integration, which constitutes an integral aspect of the trilemma framework; in theory, financial globalization should facilitate efficient international allocation of capital and promote international risk sharing. These benefits should be much greater for developing countries. These countries are relatively capital scarce and labor rich, so access to foreign capital should help them increase investment and grow faster. Developing countries also have more volatile output growth than advanced industrial economies, which makes their potential welfare gains from international risk sharing much greater.

The Turkish economy transitioned to an open growth paradigm after 1980. Turkey adopted an export-driven growth strategy and this strategy aimed to promote industrial development and domestic production through policy restructuring. By liberalizing capital movements, efforts were made to attract foreign capital to finance investments, thereby fostering industrialization. Despite these initiatives, the Turkish economy faced challenges in achieving its desired goals during these periods. Chief among these challenges were structural issues such as export dependence on imports and adverse effects stemming from external economic conditions.

When considering the remaining two facets within the context of the Turkish trilemma framework, it becomes evident that Turkey maintains monetary independence and adheres to a floating exchange rate system.

The fundamental roles of monetary policy independence and inflation targeting by the Central Bank of Republic of Turkey are explicitly outlined as follows on its official website: ‘Monetary policy refers to decisions taken to influence the availability and cost of money in order to achieve targets such as economic growth, employment growth and price stability. Central banks are responsible for the implementation of monetary policies. The CBRT Law sets the primary objective of the Central Bank as to achieve and maintain price stability in Türkiye. Hitting the inflation target is a very important factor in terms of monetary policy management. To meet inflation targets, the Central Bank manages aggregate demand and inflation expectations by using policy rates and other monetary policy instruments. The Bank’s inflation forecasts are another important instrument for steering inflation expectations in the inflation targeting regime. Inflation forecasts of the Central Bank are announced through Inflation Reports published in January, April, July, and October.’

Particularly, since the 1990s, the prevalence of excessive financialization and the choice of exchange rate regime have played pivotal roles in shaping exchange rate, banking, and financial crises, particularly within late-capitalist nations, Turkey included. Despite various measures such as exchange rate adjustments and the liberalization of capital movements initiated after 1980, the Turkish economy transitioned to a floating exchange rate system following the 2001 crisis. In this context, the exchange rate under a floating regime is predominantly influenced by market forces, unless a managed or "dirty" floating exchange rate regime is employed. Consequently, the exchange rate becomes intricately linked to market dynamics, and when the monetary authority lacks control over exchange rates, it becomes challenging to mitigate the excessive volatility experienced in these rates. It should be noted that the sharp fluctuations in exchange rates can be attributed to a multitude of factors, encompassing economic and political variables. In the academic discourse, changes in exchange rates are defined differently based on the exchange rate regime in place. For instance, within the floating exchange

rate regime, an increase in the exchange rate signifies depreciation, while a decrease is denoted as appreciation (Hepaktan, 2009).

Evaluating the consequences of exchange rate shocks on domestic price levels assumes a pivotal role in the realm of monetary policy, particularly within the context of countries employing inflation targeting frameworks. This impact of exchange rates on domestic price levels is commonly referred to as "exchange rate pass-through" to commodity prices, denoted as ERPT for brevity. ERPT is quantified as the percentage alteration in local currency (import) prices stemming from a 1 percent modification in the exchange rate (Knetter, 1997).

ERPT holds particular significance in the context of emerging small open economies, where exchange rates exhibit sensitivity to capital flows, and significant fluctuations in exchange rates can exert a substantial influence on inflation dynamics. Under a floating exchange rate regime, wherein exchange rates are permitted to experience considerable oscillations, domestic price levels can undergo substantial adjustments. These adjustments can significantly complicate the task of achieving the inflation target.

Recognizing that volatile exchange rates can pose significant hurdles to maintaining price stability, it becomes imperative to comprehend the dynamics governing ERPT and ascertain its magnitude. Such understanding is vital not only for shaping monetary policy but also for economic forecasting and the formulation of macroeconomic policies.

In spite of the persistent upward trajectory observed in inflation rates, the central bank embarked on a policy of interest rate reduction. Commencing in September 2021, the central bank progressively lowered interest rates from 19 percent to 9 percent, a policy stance that continued through December 2023.

The failure to implement traditional macroeconomic policies in the fight against inflation, coupled with the decision to reduce interest rates rather than increase them, resulted in a rapid increase in inflation rates and a significant appreciation of exchange rates. Consequently, Consumer Price Inflation surged to 85 percent by October 2022, while Producer Price Inflation soared to 157 percent during the same period.

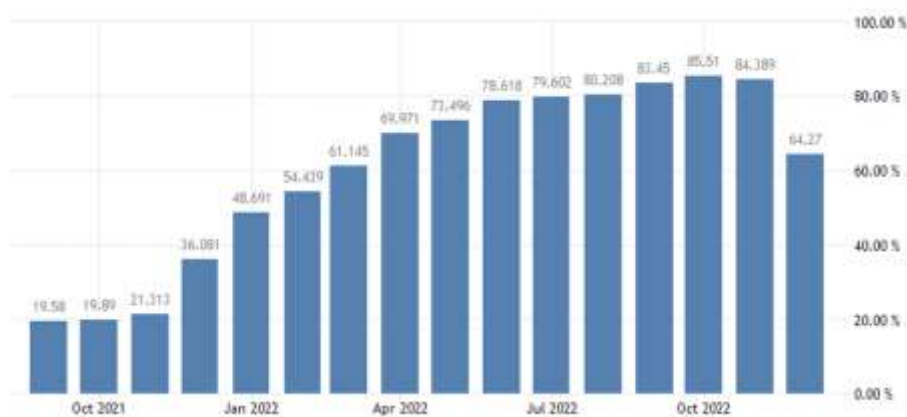
In an inflationary environment, despite public foreign exchange sales from the reserves aimed at mitigating the impact of interest rate reduction policies on exchange rates, there was a notable increase in exchange rates, rising from 8 TL to 18.60 TL within the same period, indicating that the depreciation of the local currency could not be prevented. This situation posed an upward risk to inflation due to the pass-through effect of exchange rate increases. There has been an increase in the foreign exchange demand from both domestic and foreign investors.

Figure 64: Turkish Lira Central Bank Policy Rate



Source: Trading Economics, Central Bank of the Republic of Turkey

Figure 65: Consumer Price Change



Source: Trading Economics, Turkish Statistical Institute

Figure 66: Producer Price Change

Source: Trading Economics, Turkish Statistical Institute

Managing Market Dynamics Through Regulatory Periods

Between 2018 and July 2023, the economic management adopted a diverse range of measures with the objectives of stimulating economic growth, mitigating dollarization, and controlling inflation, all without resorting to interest rate increases. Over the course of this period, more than 450 circulars and regulations were issued by the institutions and agencies below to facilitate the implementation of these strategies.

- Banking Regulation and Supervision Agency
- Borsa İstanbul
- Capital Market Board
- Central Bank of Republic of Turkey
- Ministry of Treasury and Finance
- Presidential Decree
- Saving Deposit Insurance Fund

The following table illustrates the distribution of these circulars and publications by year, commencing in 2018. It is notable that the highest number of regulatory measures were implemented in 2020. Furthermore, from 2018 onwards, the institutions that issued the most regulations were the Central Bank of Republic of Turkey (CBRT) and Banking Regulation and Supervision Agency (BRSA) respectively.

Table 42: Total Number of Publication by Publishing Institution between 2018 and 2023

Publishing Institution	2018	2019	2020	2021	2022	2023 (August)	Total Number of Publication
Central Bank of Republic of Turkey	18	41	51	26	47	40	223
Banking Regulation and Supervision Agency	5	8	59	23	23	20	138
Ministry of Treasury and Finance	3	8	11	19	16	3	60
Presidential Decree		1	10	8	2	7	28
Capital Market Board		3	5	1	2	1	12
Borsa İstanbul		2	2				4
Saving Deposit Insurance Fund					2		2
Total	26	63	138	77	92	71	467

Source: Central Bank of Republic of Turkey, Banking Regulation and Supervision Agency, Ministry of Treasury and Finance, Presidential Decree, Capital Market Board, Borsa İstanbul, Saving Deposit Insurance Fund

By classifying these circulars based on their content, we can organize them into the following 11 primary categories:

- 1) Decision No. 32 on the Protection of the Value of Turkish Currency
- 2) Legislation and Reporting Regarding General Banking System Operations
- 3) Government Budget Related Issues
- 4) Regarding Interest Rate and Liquidity
- 5) Real Sector Related Issues
- 6) Loan Market Related Issues
- 7) Regulations Regarding the Liraization Strategy
- 8) Capital Markets Issues
- 9) Sustainability Issues
- 10) Issues Affecting Relations with Foreign Financial Institutions
- 11) Central Bank Required Reserve Practices Regulations

We can clarify the meanings of these titles as follows:

Decision No. 32 on the Protection of the Value of Turkish Currency

The Council of Ministers issued this decision on August 7, 1989. This decision was formulated to safeguard the stability of the Turkish currency. It outlines the valuation of the Turkish currency concerning foreign currencies, the handling of all foreign currency-related transactions and documents (including securities and other capital market instruments), as well as the management of foreign currencies and Turkish currency and their corresponding documents. The decision also establishes regulatory and restrictive principles for a wide range of economic activities, encompassing imports and exports (including securities and other capital market instruments), transactions involving precious metals, stones, and goods, exports, imports, specific export and import processes, invisible transactions, and foreign exchange transactions related to capital movements (<https://www.mevzuat.gov.tr/MevzuatMetin/20.5.8914391.pdf>).

Legislation and Reporting Regarding General Banking System Operation

The banking sector operates within a tightly regulated framework, which involves regular reporting and communication with higher supervisory authorities. This category encompasses various circulars and notifications that pertain to the content or structure of these reports and communications.

Government Budget Related Issues

This category encompasses decisions that impact budget revenues and expenditures within the context of fiscal policies.

Regarding Interest Rate and Liquidity

This category includes a broad spectrum of decisions that exert substantial influence on interest rates and market liquidity, effectively shaping the financial landscape.

Real Sector Related Issues

These regulations encompass a variety of aspects that oversee societal operations and interactions with the real sector. While they may not be numerous in quantity, their scope ranges from wage regulations to events of societal significance, such as earthquakes or pandemics like the coronavirus.

Loan Market Related Issues

Business-related regulations encompass a wide range of rules that shape the operations of both society and interactions with the financial sector. While these regulations may not be numerous, they cover diverse aspects, from overseeing wage policies to addressing significant societal events like earthquakes or the impact of a pandemic such as the coronavirus.

Regulations Regarding the Liraization Strategy

Turkey is actively embracing the evolving global landscape and capitalizing on emerging opportunities. The "Turkey Economy Model" represents a new approach aimed at reinforcing recent economic achievements. This model is grounded in domestic resources, emphasizing sustainable economic growth through investments, job creation, production, and exports while maintaining enduring price stability. Central to this model is the liraization strategy, a cornerstone implemented by the Central Bank of the Republic of Turkey (CBRT). The liraization strategy seeks to progressively elevate the presence of Turkish lira-denominated assets and liabilities in the portfolios of households, businesses, and financial institutions, ultimately transitioning the entire financial system toward a Turkish lira-dominated framework. In this context, monetary policy aligns with the overarching goal of ensuring sustainable price stability. Considerations include the continuity of production, components of the current account balance, loan growth, composition, utilization, and fostering stable pricing dynamics in foreign exchange markets. (<https://tcmbblog.org/wps/wcm/connect/blog/tr/main+menu/analizler/liralasma+stratejisi>)

Capital Markets Issues

This category consists of circulars and regulations pertaining to capital market instruments and institutions, including securities, investment funds, equity markets, and stock exchanges.

Sustainability Issues

Sustainability refers to an approach that meets the current needs of an organization or society while also considering the needs of future generations. This approach includes economic, social and environmental dimensions. A framework of criteria has emerged

to assess companies' conduct concerning their impact on the environment, their interactions with stakeholders, and the effectiveness of their governance. This framework is commonly referred to as ESG, which stands for Environmental, Social, and Governance standards.

Issues Affecting Relations with Foreign Financial Institutions

Generally, these regulations pertain to the oversight and restriction of dealings conducted with foreign-resident institutions. They may encompass transactions like foreign exchange operations involving non-residents, money market activities, or derivative transactions such as swaps and forwards. In an open economy, the implementation of these regulations tends to diminish the interest of foreign investors in Turkish assets.

Central Bank Required Reserve Practices Regulations

Required reserves serve as a pivotal monetary policy instrument. As part of its new strategy initiated in the last quarter of 2010, the Central Bank has crafted policies aimed at mitigating macroeconomic financial risks, particularly during periods characterized by a positive inflation outlook. In addition to the primary policy tool, which is one-week repo auctions, reserve requirements have been actively deployed. Liabilities subject to these reserve requirements are recalculated every two weeks, commencing on Fridays. Compliant with accounting standards and banks' recording systems, the subsequent balance sheet items, including foreign branches' liabilities but excluding obligations to the Central Bank, the Treasury, domestic banks, and the Turkish-based headquarters and branches of internationally established banks, fall within the scope of these requirements. These encompass Turkish lira and foreign currency liabilities. (<https://www.tcmb.gov.tr/wps/wcm/connect/TR/TCMB+TR/Main+Menu/Temel+Faaliyetler/Para+Politikasi/Zorunlu+Karsilik+Oranlari/>)

These regulations, among which we have analyzed 467, are categorized in the tables below. In addition, the historical order of these regulations with summary explanations is included in the appendices.

As can be seen from the figures in the table, the most published during this period was The Subject Matter of Circulars and Regulations, with 138 in Loan Market Related

Issues, 85 in Regarding Interest Rate and Liquidity and 74 in Regulations Regarding the Liraization Strategy.

Table 43: The Subject Matter of Circulars and Regulations

Publishing Institution	The Subject Matter of Circulars and Regulations											Total Number of Publication
	Loan Market Related Issues	Regarding Interest Rate and Liquidity	Regulations Regarding the Liraization Strategy	Legislation and Reporting Regarding General Banking System Operation	Central Bank Required Reserve Practices Regulations	Capital Markets Issues	Real Sector Related Issues	Issues Affecting Relations with Foreign Financial Institutions	Government Budget Related Issues	Decision related No. 32 on the Protection of the Value of Turkish Currency	Sustainability Issues	
Central Bank of Republic of Turkey	32	72	54	13	42	2		5		3		223
Banking Regulation and Supervision Agency	84	6	5	30		3		9			1	138
Ministry of Treasury and Finance	15	5	8	3		2	12	1	7	5	2	60
Presidential Decree	6	1	6	2		2	7		3		1	28
Capital Market Board	1	1				9		1				12
Borsa İstanbul						4						4
Saving Deposit Insurance Fund				2								2
Total	138	85	73	50	42	22	19	16	10	8	4	467

Source: Central Bank of Republic of Turkey, Banking Regulation and Supervision Agency, Ministry of Treasury and Finance, Presidential Decree, Capital Market Board, Borsa İstanbul, Saving Deposit Insurance Fund

The circulars and regulations published under these various titles aim to achieve different objectives. Upon scrutinizing the 467 published circulars and regulations, we can categorize them into eight distinct content categories.

These publications are categorized based on the areas they impact or their content, as follows:

- Corona Virus Precautions
- Decisions Affecting Exports and Export Revenues
- Decisions Regarding Earthquake
- Monetary Expansion Effect
- Monetary Tightening Effect
- Normalization From Previous Measures
- Various Rules and Regulations Regarding Financial System and Reporting

In the content analysis conducted here, it's evident that various rules and regulations related to the financial system and reporting have the highest number, totaling 147 pieces. This is followed by 107 and 84 circulars and regulations, respectively, which

pertain to monetary tightening or monetary loosening. It is observed that when effective monetary policy is not implemented or unorthodox policies are invoked, efforts are made to address the control and supervision of market liquidity through regulatory measures.

Table 44: The Content and Effect of the Circular and Regulations

The Subject Matter of Circulars and Publications	The Content and Effect of the Circular and Regulations							Total Number of Publication
	Corona Virus Precautions	Decisions Regarding Earthquake	Various Rules and Regulations Regarding Financial System and Reporting	Monetary Expansion Effect	Decisions Affecting Exports and Export Revenues	Normalization From Previous Measures	Monetary Tightening Effect	
Loan Market Related Issues	37	11	19	13	11	18	29	138
Regarding Interest Rate and Liquidity	4		7	49		9	16	85
Regulations Regarding the Liraization Strategy	2	1	36	4	6	5	20	74
Legislation and Reporting Regarding General Banking System Operation	1	4	45					50
Central Bank Required Reserve Practices Regulations	1		1	26		1	13	42
Capital Markets Issues	5		8	8			1	22
Real Sector Related Issues	1	2	15					18
Issues Affecting Relations with Foreign Financial Institutions	4		4	5		1	2	16
Government Budget Related Issues	1		6	1			2	10
Decision No. 32 on the Protection of the Value of Turkish Currency			2	1	4		1	8
Sustainability Issues			4					4
Total	56	18	147	107	21	34	84	467

Source: Central Bank of Republic of Turkey, Banking Regulation and Supervision Agency, Ministry of Treasury and Finance, Presidential Decree, Capital Market Board, Borsa Istanbul, Saving Deposit Insurance Fund

The 2023 elections were anticipated as a pivotal moment for Turkey both domestically and internationally. The Justice and Development Party (AKP) entered the elections amidst challenging circumstances. Gradually declining since 2018, the economic stability reached a critical point by September 2021. The situation deteriorated significantly following the introduction of the subsequent New Economic Plan (NEP) in September 2021, which moved away from orthodox principles. When the new economic plan was put into action, inflation stood at 20 percent, the Central Bank held net international reserves of 30 billion USD, the current account deficit amounted to 30 billion USD, and the exchange rate for the USD was 8.5 TL.

To sum it up again, the primary goal of the New Economic Program is to enhance the competitiveness of the Turkish Lira (TL) through a low-interest rate policy, achieved by devaluing the currency to boost exports. The Central Bank has boldly initiated a cycle of interest rate reductions, aiming to bolster the country's export capabilities and overall economic competitiveness. The program's objective was to enhance exports through the depreciation of the Turkish Lira (TL), thereby mitigating the current account deficit by boosting revenue. Consequently, the aim was to achieve an improvement in the current account balance by bolstering the TL's strength and augmenting the international reserves held by the Central Bank. Consequently, the implemented policy failed to produce the desired outcomes. The devaluation of the Turkish Lira (TL) led to higher costs for importing intermediate goods and hindered competitiveness in the export sector. When we examine the exchange rates, inflation, and the current account deficit levels, it becomes evident that none of these objectives were met.

Following the May 2023 elections, clear indications emerged that unorthodox policies were starting to phase out. The initial shift in economic management occurred with the appointments of the Mehmet Şimşek as the Treasury and Finance Minister, Hafize Gaye Erkan as the Central Bank Governor and Cevdet Akçay as the Deputy Governor of the Central Bank. These appointments marked the beginning of a more orthodox and moderate approach to economic policies. Serving in Erdoğan's cabinets from 2009 to 2018, Şimşek was recognized for his commitment to international collaboration, investor confidence, market stability, central bank independence, structural reforms, and fiscal discipline. His tenure was characterized by a deep respect for these principles. After Şimşek assumed his role, Turkey embarked on a path of more rational and pragmatic policymaking. He emphasized that this course of action was driven by the fundamental principles of stability, transparency, and predictability, emphasizing that there were limited alternatives available (<https://twitter.com/memetsimsek/sta>).

Following Şimşek's appointment, Princeton-educated Hafize Gaye Erkan replaced Şahap Kavcıoğlu. She had previously taken on risks at Goldman Sachs and had experience as a senior manager at First Republic. The addition of Hafize Gaye Erkan, who had a strong educational background and a track record of success in inflation

control programs, was seen as a signal of the government's commitment to orthodox economic principles.

On June 22, in a political move, the Central Bank raised interest rates by 6.5 percentage points, aligning with anticipated measures. Subsequently, on July 20, an additional 2.5 point interest rate increase was implemented. The Central Bank indicated its readiness to contemplate further interest rate hikes if deemed necessary. On July 27th, during the first Inflation Report meeting, President Erkan signaled that the year-end inflation estimate for 2023 had been revised upward from the previous 22 percent mentioned in the old report to 58 percent, indicating that the Central Bank was in alignment with the markets and speaking the same language. In August, the Monetary Policy Committee of the Central Bank maintained its stance of increasing interest rates by 500 basis points, reaffirming its commitment to a return to orthodox policies in the battle against inflation.

Furthermore, on September 5th, the Presidential Strategy and Budget Directorate of the Republic of Turkey unveiled the medium term program (https://www.sbb.gov.tr/wp-content/uploads/2023/09/Orta-Vadeli-Program_2024-2026.pdf) .

We can outline the key aspects underpinning a shift towards orthodox policies in the program as follows:

- The commitment to inflation targeting will persist.
- The floating exchange rate system will be upheld.
- Macroprudential measures imposed on financial institutions will undergo simplification.
- Steps will be taken to reduce the share of exchange rate-protected deposits (KKM) within the overall deposit framework.

When examining the revisions made to last year's program, it becomes evident that this year's program is more firmly grounded, exhibits greater internal coherence, and establishes priorities with increased accuracy.

Most importantly, there is a notable adjustment in the 2023-2025 inflation projections compared to the previous Medium-Term Program (MTP), which were

difficult to take seriously. For each year, these forecasts have been raised by more than twice, marking a significant stride toward enhancing the credibility of the specified targets.

Table 45: GDP in TRY and USD, GDP per capita, GDP Growth Rate for Turkey Between 2018 and 2023

Year	GDP (billion TRY)	GDP (constant 2015 USD; in billions)	GDP per capita (constant 2015 USD)	GDP Growth Rate (%)
2018	3.724	988,64	11.939	2,83
2019	4.312	996,39	11.935	0,89
2020	5.048	1.015,72	12.072	1,79
2021	7.249	1.131,04	13.342	11,35
2022	15.007	1.193,99	13.991	5,57
2023-June	10.145	-	-	3,80

Source: World Development Indicators, Turkish Statistical Institute

Table 46: Yearly Rates Inflation, FX Rates, Devaluation Rate and TL Interest Rate for Turkey between 2018 and 2023

Year	Rate of Inflation (%)	FX Rates	Devaluation Rate (%)	TL Interest Rate (%)
2018	16,33	4,83	32,35	18,50
2019	15,18	5,67	17,51	12,75
2020	12,28	7,01	23,53	15,75
2021	19,59	8,85	26,28	15,75
2022	72,31	16,55	86,98	9,75
2023-June	38,20	23,09	39,50	15,00

Source: World Development Indicators, Turkish Statistical Institute, Federal Reserve Economic Data

Table 47: Population, Labor Force and Unemployment Rate for Turkey Between 2018 and 2023

Year	Population	Labor Force	Unemployment Rate (%)
2018	82.319.724	32.826.049	10,9
2019	83.154.997	33.368.909	13,7

2020	83.614.362	31.643.711	13,1
2021	84.775.404	33.317.079	11,98
2022	85.341.241	34.427.719	10,03
2023-June	85.279.553	34.914.000	9,7

Source: World Development Indicators, Turkish Statistical Institute

Table 48: Goods Export, Goods Import, Trade Balance and Export to Import Rate for Turkey Between 2018 and 2023

Year	Goods Export (billion USD)	Goods Import (billion USD)	Trade Balance (billion USD)	Export to Import Rate
2018	178,91	219,64	-40,73	0,81
2019	182,20	198,98	-16,78	0,92
2020	168,38	206,25	-37,87	0,82
2021	224,69	254,00	-29,31	0,88
2022	253,40	343,09	-89,68	0,74
2023-June	250	350,2	-100,20	0,71

Source: World Development Indicators, Central Bank of the Republic of Turkey

Table 49: Gross External Debt, Short Term Debt and Long Term Debt for Turkey between 2018 and 2023

Year	Gross External Debt (million USD)	Short-Term Debt (million USD)	Long-Term Debt (million USD)
2018	426.753	93.492	333.261
2019	415.764	96.578	319.186
2020	432.970	113.966	319.004
2021	442.582	121.580	321.002
2022	444.392	134.546	309.846
2023-June	475.768	164.814	310.954

Source: Central Bank of the Republic of Turkey

Table 50: Short-Term External Debt by Borrower for Turkey 2018 - 2023

Year	Short-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
2018	93.492	20.828	5.914	66.750
2019	96.578	23.444	8.452	64.682
2020	113.966	24.892	21.344	67.730

2021	121.580	22.219	26.052	73.309
2022	134.546	24.846	29.428	80.272
2023-June	164.814	31.083	46.234	87.497

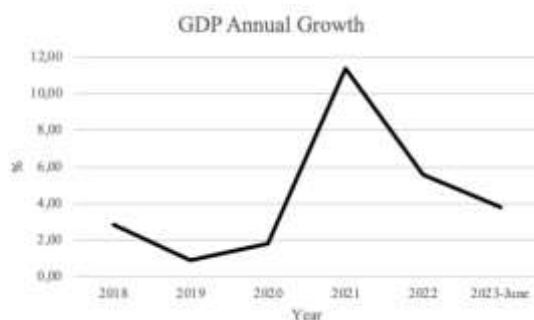
Source: Central Bank of the Republic of Turkey

Table 51: Long-Term External Debt by Borrower for Turkey between 2018 and 2023

Year	Long-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
2018	333.261	122.390	0	210.871
2019	319.186	137.734	0	181.452
2020	319.004	153.518	0	165.486
2021	321.002	157.677	0	163.324
2022	309.846	154.323	0	155.523
2023-June	310.954	163.596	0	147.357

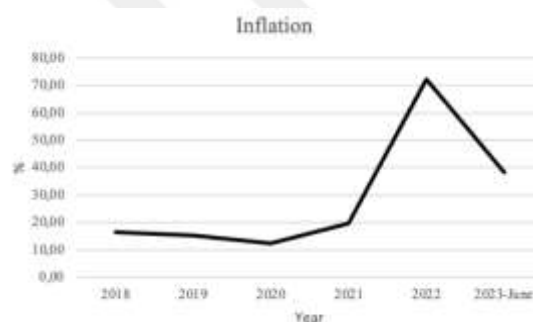
Source: Central Bank of the Republic of Turkey

Figure 67: GDP Annual Growth between 2018 and 2023



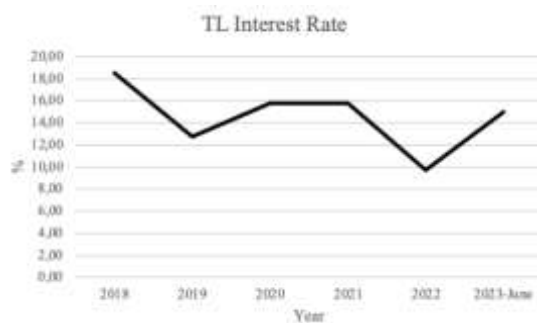
Source: World Development Indicators, Turkstat

Figure 68: Inflation between 2018 and 2023

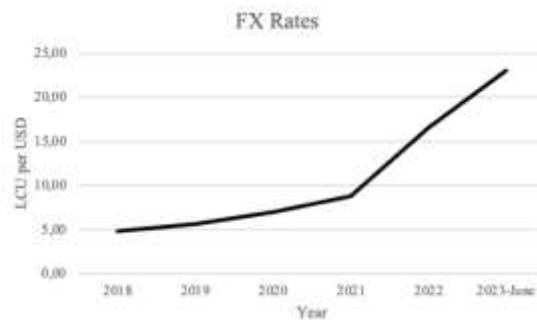


Source: World Development Indicators, Turkstat

Figure 69: TL Interest Rate between 2018 and 2023

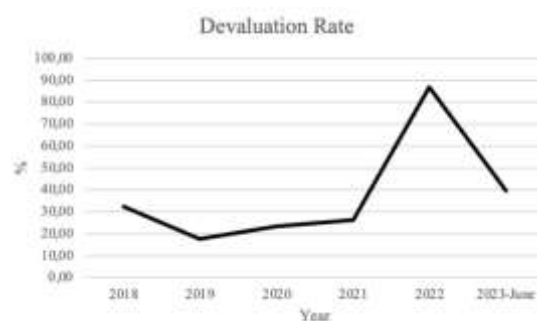


Source: Federal Reserve Economic Data



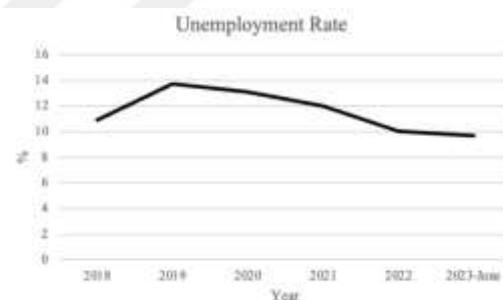
Source: World Development Indicators, Turkstat

Figure 70: Devaluation Rate between 2018 and 2023



Source: World Development Indicators

Figure 72: Unemployment Rate between 2018 and 2023



Source: World Development Indicators, Turkstat

Figure 71: FX Rates, LCU per USD, between 2018 and 2023

4. HISTORY OF THE TURKISH BANKING SECTOR

In comparison to other countries and societies, the Ottomans were slow to meet with and engage in banking due to both customary and religious reasons, such as the Turks' interest in military service which was regarded as an honorable profession, and their religious belief considering interest to be sinful (haram). However there was a developed commercial life in the Ottoman society, which required banks and banking transactions within the empire's borders. Banking operations such as lending to tradesmen and merchants, which would later be turned into banking activities, were carried out by money changers and bankers with origins in non-Muslim Armenian, Greek, and Jewish minorities (Sümer, 2016).

Banking operations did not emerge in the Ottoman Empire until the Tanzimat Period (meaning reorganization to define an Ottoman Reform Movement) in 1839. Following the Tanzimat's proclamation, the first true bank in Turkey was created in 1847 under the name of Istanbul Bank which operated for a brief period with a narrow sphere of activity. The Ottoman treasury experienced major issues such that the state's expenditures surpassing its revenues; the state's resource demands being fulfilled by first exporting kaimes (Ottoman banknotes) and subsequently borrowing from Istanbul's money changers and bankers in exchange for the taxes to be collected (Turkish Bank Association, 1998) in the future. This trend was formally stated because of Westernization initiatives, Tanzimat, and Islahat (meaning reform to define another Ottoman Reform Movement) edicts. It was specified in the Islahat Edict on February 18, 1856, that institutions analogous to banks could be founded which would lead to a substantial increase in the number of projects to establish a central bank in the Ottoman Empire. Following such a verdict, Galata bankers and international investors presented numerous bank schemes to the Ottoman administrators. However, the Ottoman administration's reservations about foreign capital, conflicts of interest between domestic and foreign investors, bureaucratic conflicts, the imposition of international political and economic conditions, and other factors contributed to these demands, which were ultimately unsuccessful for a variety of reasons. However, the process was completed by the establishment of the Ottoman Bank in 1863 (Bayraktar, 2011) which

can be linked to the fact that the Ottoman Empire's foreign borrowing prospects were improved by the 1856 Paris Peace Treaty (Keskin, 1998).

The Ottoman Bank stands apart from other foreign banks operating within the Ottoman Empire due to a unique privilege granted to it through the 1863 Agreement. This privilege allowed the bank the authority to issue currency. This recognition was attributed to the understanding that empowering banks in a similar manner to central bank was necessary, given that the establishment of central banks was already underway in Western European countries during the same period. The decline in the value of kaimes, the speculation on this currency, and its not being adopted by the public caused the government to prompt some actions and remove kaimes from the market in the early 1860s. In 1863, an agreement was made with the Ottoman Bank for the withdrawal of kaimes from the market, the stabilization of exchange rates as well as meeting the need for short-term loans by the Empire. (Akgüç, 1989).

The first national capital bank established in the Ottoman Empire was the "Country Funds" (*Memleket Sandıkları*). The institution, which had the characteristics of an agricultural credit fund, was established by Mithat Pasha in 1861. In 1868, the "Safety Fund" (*Emniyet Sandığı*) was established also by Mithat Pasha, to collect savings, and in 1907 these banks were merged with Ziraat Bank, which again was founded by Mithat Pasha in 1888. Ziraat Bank, which became a public institution established by law in 1916, is one of the most rooted national institutions that passed from the Ottoman Empire to the Republican period and survived until today (Yıldırım, 2006).

When examined, it can be seen that foreign-owned banks dominated the market between 1856 and 1923. With the proclamation of the 2nd Constitutional Monarchy in 1908 and the rise of nationalist sentiments, however, the establishment of several local and single branch banks by the national capital began. With the commencement of the First World War in 1914, this process increased. The major reason for the rise of the national banking movement is that money accumulates within the country. It entails putting available capital to work to expand national trade. The established national banks' credit activities are primarily commercial credit, trade credit, agricultural credit, real estate credit, and consumer loans (Artun, 1983). The founders of many of these

institutions were traders and farmers who sold raw materials to Europe or imported industrial goods from these countries (Akgüç, 1989).

Between 1911 and the foundation of the Turkish Republic in 1923, 21 banks with national capital were created, but they struggled to maintain their operations in the face of foreign banks' domination of the credit market. Only 18 of these banks were able to make a transition to the Republican period because of their insolvency and liquidation. The necessity of establishing national banks was underlined by all those who attended the Izmir Economy Congress which convened between February 17th and March 4th, 1923, with the participation of officials from the government and leaders from agriculture, trade, and industry. "The private industry is not strong enough to establish banks, thus government should assist in the establishment of banks" according to comments stated in congress (Akgüç, 1989). Therefore, Turkey began to build national banking to revitalize industrial and commercial activities. Banks like *Türkiye Sanayi ve Maadin Bankası* and *Emlak ve Eytam Bankası* were created with government incentives in this environment as the state played a prominent and leading role in the financial system's development. Following the foundation of the republic, these banks with significant public capital were founded as part of the establishment of the national banking industry, those banks along with existing foreign-owned banks as well as the private banks established later, comprised the Turkish banking industry (Yıldırım, 2006). However, many banks were forced to cease operations due to the severe effects of the global economic crisis of 1929-1930 on banking, and the number of banks plummeted from 60 in 1932 to 40 in 1945, while the total number of branches fell from 483 to 411 in Turkey.

The founding of the Central Bank of Turkey in 1930 was one of the most significant financial reforms during the Republican era. The golden and foreign currency resources needed to form a central bank could not be created with domestic resources due to the period's foreign conjuncture, which limited foreign financing opportunities, so efforts to establish a central bank did not begin until the early half of the 1920s.

Following the Great Depression, a large portion of single-branch local banks was shut down in the early 1930s due to the decrease in incomes in the agricultural industry and the decline in commercial activities. However, Turkey adopted to protect the status quo

by founding huge state banks such as *Sümerbank*, *Belediyeler Bankası*, *Etibank*, *Denizbank*, and *Halk Bank* during this time with statuses of special purposes to operate as well as to meet the financial needs of institutions included in the industrial plans of the public. These functions encompassed both operational aspects and the provision of financial resources to institutions included in the public industrial plans. In essence, these state banks were designed not only to serve as operational entities but also to fulfill the specific financial requirements of institutions that were part of Turkey's larger industrial development strategies. From 1933 to 1944, some compulsory investments required for industrialization but unaffordable for the private industry due to their relatively low return were made by the state because of savings through the budgetary opportunities (Zarakolu, 1973).

Between 1945 and 1959 Turkey was confronted with a challenge in the need for money and credit due to an increase in investments, the number of modern businesses, national income and population, the growth of cities as well as the expansion of production. Thus, Turkey, although started to use banking to assist industrial production in the early 1930s, speeded up the process due to rising inflation during the war years and the new government's acceptance of a sharp change in economic policies for development from nationalization to privatization and a liberal approach to development during the first half of 1950s (Zarakolu, 1973; Gormez, 2008). Therefore, economic sovereignty was replaced by the promotion of private industry, the shift in industrialization strategy and the acceleration of economic development leading to private business banking significant growth through the establishments of *Yapı ve Kredi Bankası* (1944), *Garanti Bankası* (1946), *Akbank* (1948), *Pamukbank* (1955) and *Türkiye Sınai Kalkınma Bankası* (1950) during this period. Because the government set the interest rates and fee rates to be taken from banking transactions, and the Central Bank had the authority only to make transactions in foreign currency, branch banking and deposit collecting based rivalry grew in prominence throughout those years leading to regional banks' collapse expedited by the growth of branch banking.

However, the gains in welfare were quickly reversed in the second half of the decade, as a lack of fiscal discipline led to an economic downturn in the late 1950s and early 1960s. Despite the 1958 Stabilization Program of devaluating the Turkish lira from 2.8

TL to 9 TL per dollar, inflation was not reduced and foreign trade deficits and external debt were not eliminated. The program resulted in a shift to a mixed economy practice, in which the state's public participation in the economy to foster development expanded by employing a policy of prioritizing industries, creating money, and disbursing it as a credit (Görmez, 2008). Thus, 15 banks closed their doors between 1960 and 1964, while the remaining ones were liquidated. The Central Bank established a bank liquidation fund, which was transferred to the Savings Deposit Insurance Fund in 1983.

Although there were interruptions in the five-year development plans, the 1960s and the second half of the 1970s are referred to as the planned period. More than four plans were implemented until 1983, but not all of them were successful because even the best-conceived plans were constantly plagued by a lack of funding (Görmez, 2008). 'The Borrowing Money Law' (*Borç Para alma Kanunu*) introduced in the late 1970s, imposed limits on banks' loan interest rates, forcing them to interact with "bankers," institutions that operate on market interest rates. It held significant implications for the country's financial landscape. This legislative initiative was primarily undertaken to address various economic challenges while establishing a robust framework for the borrowing and lending practices within the nation. By introducing this law, the government aimed to foster economic growth, ensure financial stability, and encourage responsible borrowing and lending behaviors. These objectives were aligned with the broader goals of driving economic development, safeguarding consumer interests, and controlling the expansion of credit.

The impact of the "Borrowing Money Law" on the financial system was multifaceted. It ushered in a new era of regulated borrowing practices, as financial institutions came under stringent oversight and regulation. This move facilitated the targeted allocation of credit, directing funds towards priority sectors like agriculture, industry, and small businesses. The law not only mitigated the risks associated with unchecked borrowing but also emphasized transparency and disclosure in lending transactions. Financial intermediaries were compelled to adapt their lending strategies and internal processes to align with the law's provisions. Furthermore, the law's influence extended to interest rates, potentially affecting borrowing costs as the demand and supply dynamics of credit underwent transformation. In essence, the "Borrowing Money Law" of 1970 played a

pivotal role in reshaping Turkey's financial landscape, striking a balance between facilitating economic growth and maintaining the stability of the financial system.

Thus, the planned period was the one in which government participation in the financial industry gradually intensified. With the effect of macroeconomic oscillations due to non-economic causes, banking in the following 40 years was abused under the mismanagement of governments and private organizations (Bozdemir, 2007). It is also important to note that apart from a few circumstances, no new foreign and/or new commercial bank was established throughout the planned period since there was no permit given by the governments. As a result, the limited industrial resources were allocated through existing banks as outlined in the plans in a constrained competitive environment. Thus, private banks operating in an environment where there was no product or price competition as well as no risk stemming from interest rates or foreign exchange rates tried to expand their deposits with negative real interest by opening additional branches, and/or merging with minor banks to lower their fixed costs. In the 1960s, several minor banks that had been created in the 1950s were liquidated.

"Irrationally prioritizing a group (holding) company in credit allocation" is a term used to describe the transformation of the majority of private commercial banks into holding banks during this time period (Görmez, 2008). The practice of 'holding banking', where a capital group owns a substantial portion of a bank's capital was endorsed by the state in the anticipation that it would stimulate private industry investments. However, the problems with the balance of payments at the end of the 1970s caused economic stagnation, highlighting the need for a new industrialization strategy that could meet the industry's needs for foreign exchange. The import substitution industrialization model of production was abandoned in favor of a development policy centered on international expansion and export production for the local market in 1980.

It is reasonable to consider January 1980 and May 2001 period to be composed of two significant turning points in the Turkish banking industry's history. According to Isik and Hassan (2002), the banking sector in Turkey was closed, protected, closed, and uncompetitive prior to the 1980s. A series of reforms were implemented to improve the industry's efficiency and competitiveness through a financial liberalization program that was implemented in 1980 for the first time since the republic's founding. These reforms

included the removal of restrictions on market entry, which made it simpler to enter the banking business, reductions in reserve and liquidity requirements, and financial taxes to attract some of the unused resources and money from the informal economy to the industry through a new tool. These reforms led to an increase in the number of banks and the size of their assets, as well as the beginning of market-based interest rate determination. As a result, banks began operating in a market that was more competitive, increased their investments in technological infrastructure, and hired more professionals (Isik and Hassan, 2002; Günalp and Çelik, 2006; Erdem and Erdem, 2008).

Following the 1980s, the financial system grew because of liberalization and economic growth and intermediary institution activities increased. Most importantly, however, banking system crises arose as a threat to the financial system because of globalization. Liberalization of system admission increased competition in the banking industry and reduces each bank's share while maintaining the industry's share. Bankers have undertaken brokerage services between banks and fund markets, rather than mediating between individuals who have a surplus and those who demand money. Following a period of bank rate wars, a shift to Ponzi financing (borrowing at a higher rate to pay interest on borrowed money) was inescapable, resulting in the system's demise. In 1982, this episode was dubbed the "bankers' crisis." Because of a combination of free interest rate policies, banker bankruptcies, and certain bank practices and management styles, many banks' financial structures have been undermined. In 1985, domestic borrowing garnered a lot of attention. Government Domestic Debt Securities (DIBS), which were promptly introduced to the market, have proven to be an appealing investment vehicle for banks. Banks resorted to buying DIBS instead of giving loans when interest rates on credit rose, and the private industry was cut out of the system while the public was financed. The rulings that went into force in 1989 paved the way for convertibility to the Turkish lira. The opening of the industry to worldwide markets, as well as the liberalization of resource procurement from international markets, has been added to the agenda. "Investors began to transfer their assets away from the Turkish lira and toward foreign currencies when money markets and foreign currency markets developed. The agreements between the Treasury and the Central Bank of the Republic of Turkey, on the other hand, were insufficient to achieve this new organization. As a result of being

taken off guard, the banking system failed to exhibit regulated asset-liability management, and banks used foreign currency sources in ways that went beyond basic liquidity management norms (Küçükkocaoğlu, 2008).

The Turkish banking industry faced real problems in the 1980s and 1990s, despite reforms and changes to the law and structure. These problems included high foreign exchange rates, interest rates, and moral hazard as a result of unstable macroeconomic performance, an ineffective public financial supervision system that was broken up into different institutions, and political weights, especially on government banks. These issues contributed to a significant industry crisis in the years 2000 and 2001 (Sayılğan and Yildirim, 2009; Aysan and Ceyhan, 2008). The Saving Deposit Insurance Fund (SDIF) (*Tasarruf Mevduatı Sigorta Fonu*) was forced to take control of approximately one-fourth of the industry's banks during this time due to the financial difficulties that many banks faced and a renewed IMF program that brought about the recovery after a failure (December 1999-February 2001) (Sayılğan and Yildirim, 2009; Aysan and Ceyhan, 2008), in contrast to the substantial consolidation of the Turkish banking industry that occurred between 1999 and 2003 (Steinherr et al., 2004). For instance, including participation banks, there were only 51 banks in 2005, down from 85 in 2000. As a result of mergers, transfers, and liquidations, the number of branches dropped from 7,983 to 6,568; and employees, from 174,730 and 138,725. According to Temiz and Gökmen (2010), the Turkish economy experienced a significant contraction during this time as a result of high inflation and interest rates, large current account and trade deficits, and a sharp decline in real estate investment. After a Banking Act was passed in June 1999, the Banking Regulation and Supervision Agency (BRSA) was established in September 2000. In May 2001, it launched a new program called the "Banking Industry Restructuring Program" to address the causes of the crises and restructure the banking industry because the fragile structure of banks was the primary cause of the crises in November 2000 and February 2001 (Aysan and Al, 2006). The Turkish government's "Program for Transition to a Strong Economy" included this program as an essential component. The "Banking Industry Restructuring Program" of BRSA was launched to ensure a banking industry that is more effective, competitive, and dependable while also reducing the negative effects of financial crises on the financial system. The initiative is based on four pillars in this sense:

- i) state bank restructuring,
- ii) private bank strengthening,
- iii) enhancing the legal and regulatory environment, and
- iv) resolution of banks transferred to the SDIF.

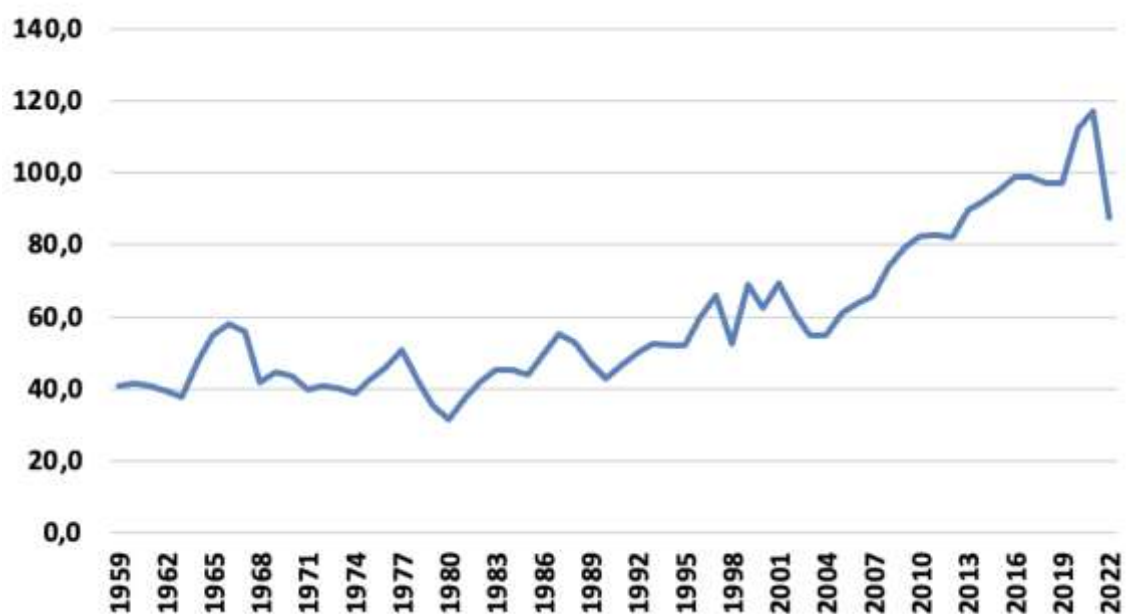
This initiative can be regarded as the second and possibly the most significant breakpoint in Turkish banking history following the 2001 financial crisis (Sayilgan and Yildirim, 2009; Fukuyama and Matousek, 2011) due to its significant upheaval and growth, particularly in the financial and banking sector and the Turkish economy (Saltoglu, 2013). The program's success led to banks increasing their capital and achieving high capital-adequacy ratios; state-owned banks being rebuilt and recapitalized; good governance and risk principles being implemented; a rise in foreign ownership; and Turkish banks, which had previously been used to fund open shortfalls due to high interest rates, returning to their traditional role of promoting the flow of savings from savers to borrowers, particularly within the banking industry (Sayilgan and Yildirim, 2009; Fukuyama and Matousek, 2011).

The banking industry holds a significant position within the economic landscape, governed by robust regulatory and supervisory entities. These institutions provide effective oversight and management across a comprehensive array of banking operations and transactions, contributing to the industry's integral role in the broader financial system. Over the years, the size of the banking sector's balance sheet and its relative contribution to the gross national product have both shown a significant increase in Turkey. This can be observed in the growth from 40 percent in 1959 to a substantial 117 percent by 2021. Total asset size of the banking sector reached 701 billion USD at the end of 2022. (The Banks Association of Turkey, 2021).

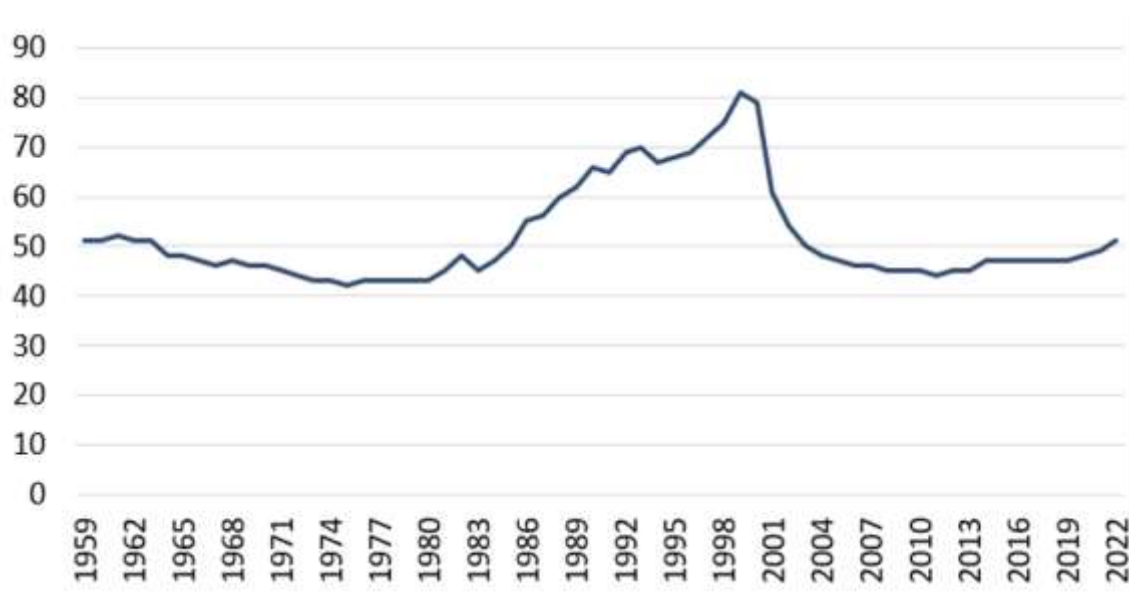
The number of banks in the sector has changed over time. On average, there were 52 banks since 1959. By the end of 2022, there are 51 banks. The lowest count was 42 banks in 1975, while the highest count reached 81 banks in 1999. In the context spanning from 1959 to the present, a notable transformation is evident in the composition of banks. The count of public banks has notably declined, dwindling from 14 to 3. Similarly, the tally of private banks has witnessed a significant reduction, settling at 8 by 2022. Conversely, foreign banks have undergone a contrasting

trajectory, displaying a swift expansion since the 1980s and culminating in a substantial total of 21. The count of development and investment banks remained at 2 until 1980. However, there has been a notable increase since the 1980s, reaching a total of 16 banks by the year 2022. The number of employees in the banking sector is 188.000 people.

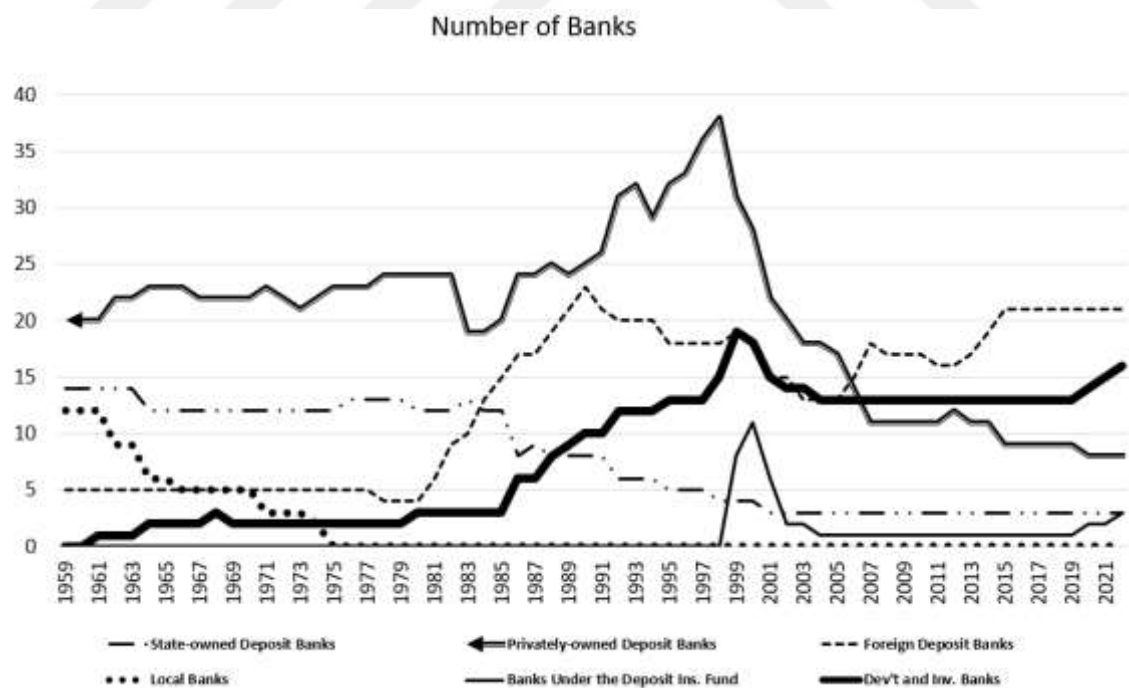
Figure 73: Banking Sector Share in GDP between 1959 and 2022



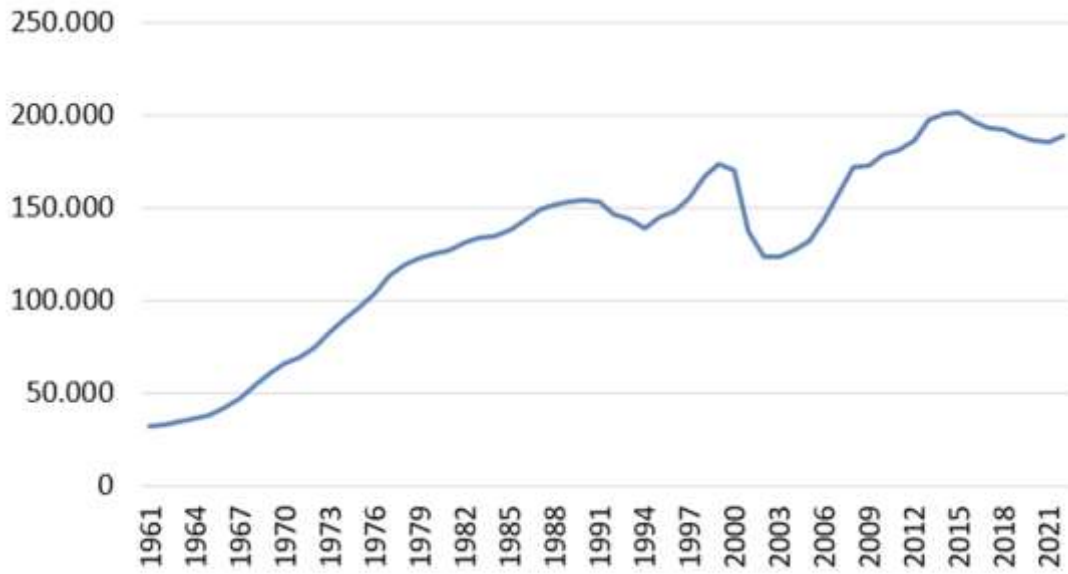
Source: The Banks Association of Turkey (TBB)

Figure 74: Number of Total Banks between 1959 and 2022

Source: The Banks Association of Turkey (TBB)

Figure 75: Number of Total Banks between 1959 and 2022

Source: The Banks Association of Turkey (TBB)

Figure 76: Number of Employees between 1961 and 2021

Source: The Banks Association of Turkey (TBB)

5. EFFECTS OF THE FINANCIAL CRISES ON THE TURKISH BANKING INDUSTRY

5.1 Banking Growth and Challenges (1959-1963)

After World War II, banking and other economic activities flourished. Financial expansion drove private banking forward. When the governments of the Democratic Party (DP) are taken into account, the number of bank branches increased from 444 in 1946 to 1653 up until the enactment of the new Banking Law in 1958. It is possible to interpret this rise in the number of banks and branches as evidence of rising profit margins. Moreover, it also demonstrates the increased profitability banks bring to conglomerate groups' overall operations. The DP's provinces-friendly approach to enforcing its rule unquestionably played a role, particularly in increasing the number of branches in the provinces.

The course of capital accumulation led to the establishment of new banks by private capital. Furthermore, as highlighted by Uygur Kocabaşoğlu (Kocabaşoğlu, 2001), Turkey's largest private bank, İş Bank, began to play a more significant role and strengthened its position in the economy. This change was due to the increased emphasis on enhanced commercial relations and integration with global capital. New businesses funded by foreign capital piqued the interest of İş Bank particularly. Additionally, credit and foreign aid were provided, resulting in an increase in the number of İş Bank affiliates. Public industry banking was prevalent from the 1920s until the late 1940s. The three private banks founded at the end of this time period developed private banking sector. *Emlak ve Kredi Bankası*, which was founded particularly to serve real estate sector in 1946, replaced *Yapı ve Kredi Bankası*, which was founded in 1944. The foundation for the growth of private industry banking in the second half of the 1940s was laid by *İş Bank*, *Garanti Bankası*, which was established as a commercial bank in Ankara but relocated its headquarters to Istanbul, and *Akbank*, which used the initials A and K to represent its landowner and merchant founders from Adana and Kayseri. The majority of banking industry activity occurred after the DP took power in 1950, with the exception of the establishment of *Yapı Kredi*, *Garanti*, and *Akbank*. Factors like the expansion of the gross national product and population, escalating urbanization, increase in the industrial sector's contribution to the national

economy, and the evolution of market-driven production for post-war markets collectively intensified the need for money and credit in the economy. Consequently, investments in the banking sector increased in profitability compared to previous years. Private banking sector gained prominence during this period as a result. Turkey's postwar banking industry was marked by the expansion of branch banking, the establishment of state-led development banks like the Industrial Development Bank of Turkey (*Türkiye Sınai Kalkınma Bankası*, 1950), and the growth of private banking sector. A banking industry that thrived on deposits naturally evolved into branch banking. Before each new bank branch opened, an in-depth report on the demographic and socioeconomic characteristics of the area was frequently written by bank inspectors. According to *İş Bankası Tarihi* by Kocabaşoğlu and his associates (2001), 65 official applications for new bank branches were submitted to İş Bank headquarters between March 1948 and March 1953. The remaining applications came directly from notable individuals in the local community or from political parties, chambers of commerce and industry, ministries, municipalities, and other organizations that satisfied their requirements. The deposit, and personnel costs were taken into account by the banks when discussing the opening conditions for their branches. In the 1950s, there was a rise in banking fees and a rise in the number of bank branches. It has been alleged that rising banking fees increased credit costs, which in turn led to lower earnings. It's also important to point out that the rise of banking operations has accelerated the downfall of regional banks.

The imposition of various banking charges on customers has led to the escalation of credit costs within the banking sector. Consequently, this upward trend in credit costs has exerted downward pressure on the overall earnings of banks. These charges encompass a range of fees and costs associated with services such as account maintenance, fund transfers, and credit facilities. The augmentation of credit costs can be attributed to factors such as interest on loans, provisioning for potential defaults, and other credit-related expenses. As these charges accumulate, they contribute to an increase in the overall financial burden borne by banks, ultimately translating into reduced profitability. This complex interplay between banking charges and credit costs underscores the delicate balance banks must navigate to maintain competitive pricing while also safeguarding their earnings. According to Kocabaşoğlu et. al (2001), the

expanding profit margins of the banking industry may have contributed to the rise in the number of banks and branches in the 1950s. Enacted in 1951, Law No. 5841 was a significant legislative measure that established regulations governing interest rates in the financial sector. The legal limit on interest rates was set at 7 percent for deposits and 9 percent for lending. In any case, an absence of satisfactory monetary administration exacerbated the contrast among legitimate and genuine loan fees. As a result, the deposit rate increased from 7 percent in 1951 to 9.8 percent in 1956. The proportion of overall interest and commission revenue to borrowing at private commercial banks has also been increasing. The ratio was 8.8 percent in 1953, but by 1958, it had increased to 13.3 percent. Besides, the Central Bank was permitted to bargain in unfamiliar monetary forms. The competition for deposits and the number of new bank branches were influenced by these factors. The 1950s saw an acceleration in the development of national capital concentration and intensification. The process was first noticed by businesses and banking, then by industry.

The number of banks was 51 between 1959 - 1963 and there were 32,055 employees in the industry.

Table 52: Number of Banks, Branches and Employees between 1959 and 1963

Year	Number of Banks							Number of Branches(Including branches abroad)							Number of Employees						
	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Insurance Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Insurance Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Insurance Fund	Development and Investment Banks	Total
1959	14	20	5	12	-	0	51	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1960	14	20	5	12	-	0	51	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1961	14	20	5	12	-	1	52	797	843	61	14	-	1	1716	14,510	15,862	1,691	82	-	110	32,055
1962	14	22	5	9	-	1	51	843	797	61	14	-	1	1716	16,352	14,668	1,707	66	-	120	32,913
1963	14	22	5	9	-	1	51	907	847	64	7	-	2	1827	16,499	15,737	1,677	36	-	159	34,108

Source: The Banks Association of Turkey (TBB)

The balance sheet of the banking industry increased with an average rate of 9 percent between 1959-1963 in Turkish Lira. However, with the high devaluation rate in 1960 and 1961 with 82.6 percent and 76.03 percent respectively total asset size of the banking industry shrunk from 6.3 billion USD to 2.5 billion USD.

Table 53: Banking sector (in TRY) between 1959 and 1963

million TRY						
Year	Total Assets	Yearly Change (%)	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
1959	17,8					
1960	19,4	9,0	0,48	0,002	0,33	0,33
1961	20,2	4,2	0,51	0,002	0,15	0,15
1962	22,8	12,8	0,58	0,003	0,18	0,18
1963	25,1	10,4	0,73	0,003	0,30	0,30

Source: The Banks Association of Turkey (TBB)

Table 54: Banking sector (in USD) between 1959 and 1963

million \$						
Year	Total Assets	Yearly Change (%)	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
1959	6.348					
1960	2.153	-66,1	52,9	0,17	36,26	36,26
1961	2.243	4,2	57,1	0,23	16,92	16,92
1962	2.530	12,8	64,0	0,30	19,84	19,84
1963	2.794	10,4	81,2	0,35	33,16	33,16

Source: The Banks Association of Turkey (TBB)

Loans had the biggest portion in the banking industry with 52,1 percent in 1959 and it fell gradually to 46,9 percent in 1963. On the liability side of the balance sheet, other liabilities were as large as deposits with 40,6 percent and 41,4 percent respectively. While the profit's proportion was 2 percent of assets in 1959 it fell to as much as 0,8 percent in 1961 and 1962. Those figures were near the lowest level in Turkish banking history.

Table 55: Balance sheet distribution (%) between 1959 and 1963

Year	Assets						Liabilities					
	Liquid Assets	Loans	Fixed Assets	Other Assets	Total		Deposit	Non-deposit Resources	Other Liabilities	Equities	Profit	Total
1959	24,2	52,1	12,3	11,4	100,0		41,4	2,7	40,6	13,4	2,0	100
1960	23,3	50,5	12,8	13,3	100,0		40,6	2,4	41,8	13,7	1,5	100
1961	24,2	43,6	14,7	17,5	100,0		42,3	4,3	35,5	17,1	0,8	100
1962	22,5	46,0	15,7	15,8	100,0		42,6	4,1	36,2	16,3	0,8	100
1963	21,8	46,9	15,7	15,6	100,0		42,9	3,9	36,0	15,9	1,4	100

Source: The Banks Association of Turkey (TBB)

Table 56: Assets and the others between 1959 and 1963

Year	Equities/ T. Assets	Equities/ (Deposit+ Non-Deposit Resources)	Net Working Capital/ T. Assets	Asset Quality		Liquidity		Profitability			Income Expense Structure			
				Loans/ T. Assets	Fixed Assets/ T. Assets	Liquid Assets/ T. Assets	Liquid Assets/ (Deposit+ Non-Deposit Resources)	Average Return on Assets	Average Return on Equity	Net Profit for the Period/Paid in Capital	Net Interest Income/ T. Assets	Interest Income/ Interest Expenses	Non- Interest Income/ Non- Interest Expenses	Total Revenues/ Total Expense
1959	15,4	35,0	3,1	52,1	12,3	24,2	54,9	-	-	-	-	-	-	-
1960	15,2	35,3	2,4	50,5	12,8	23,3	54,2	1,6	11,6	15,9	2,5	190,5	86,4	120,0
1961	17,9	38,5	3,3	43,6	14,7	24,2	52,0	0,8	5,4	6,1	2,6	206,7	70,3	109,0
1962	17,1	36,6	1,4	46,0	15,7	22,5	48,1	0,9	5,2	6,0	2,7	213,9	69,9	109,8
1963	17,3	36,9	1,6	46,9	15,7	21,8	46,7	1,4	9,0	9,2	3,1	225,0	71,3	114,3

Source: The Banks Association of Turkey (TBB)

10 of the banks still operating in the Turkish banking system were operating between 1959-1963. Their shares in the industry have shown in the table. *Ziraat* and *İş Bank* were the banks with the largest share in the industry.

Table 57: Market Share of Banks in Turkey between 1959 and 1963

Banks	1959	1960	1961	1962	1963	1964
Türkiye Cumhuriyeti Ziraat Bankası A.Ş.	25,6	24,2	22,8	23,7	23,8	20,8
Türkiye İş Bankası A.Ş.	11,8	12,4	13,1	13,3	13,5	11,7
Türkiye Garanti Bankası A.Ş.	1,0	1,0	1,1	1,1	1,1	0,9
Akbank T.A.Ş.	1,5	1,4	1,5	1,6	2,0	2,0
Türkiye Vakıflar Bankası T.A.O.	1,4	1,2	1,2	1,3	1,4	1,4
Yapı ve Kredi Bankası A.Ş.	5,2	5,2	5,4	5,3	5,4	4,2
Türkiye Halk Bankası A.Ş.	0,7	0,8	1,0	0,9	0,9	1,0
Türk Ekonomi Bankası A.Ş.	0,0	0,0	0,0	0,0	0,0	0,0
Şekerbank T.A.Ş.	0,5	0,5	0,5	0,6	0,8	0,5
İller Bankası A.Ş.	4,8	5,1	5,4	4,9	4,9	3,8
Türkiye Sınai Kalkınma Bankası A.Ş.	-	-	2,8	2,5	2,1	1,7

Source: The Banks Association of Turkey (TBB)

5.2 Turkish Banking in the Face of Economic Transformation: 1977-1981

The number of banks had increased to 45 in 1981 from 43 in 1977 with the participation of two foreign capital deposit banks which were *Arap Türk Bankası* and Citibank.

Table 58: Number of Banks, Branches and Employees between 1977 and 1981

Year	Number of Banks							Number of Branches(Including branches abroad)							Number of Employees						
	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Fund	Development and Investment Banks	Total
1977	13	23	5	-	-	2	43	2,009	3,094	109	-	-	6	5,218	54,341	56,680	2,154	-	-	389	113,564
1978	13	24	4	-	-	2	43	2,173	3,181	104	-	-	6	5,464	58,931	58,091	1,800	-	-	391	119,213
1979	13	24	4	-	-	2	43	2,353	3,285	104	-	-	6	5,748	61,076	59,216	1,818	-	-	379	122,489
1980	12	24	4	-	-	3	43	2,469	3,374	105	-	-	6	5,954	62,480	60,596	1,842	-	-	394	125,312
1981	12	24	6	-	-	3	45	3,545	2,569	123	-	-	7	6,244	61,977	62,152	2,034	-	-	401	126,564

Source: The Banks Association of Turkey (TBB)

Between 1978 and 1980, the banking industry's balance sheet in Turkish Lira saw an average annual growth rate of 45 percent. However, with the high devaluation rate in those years with the average of 69 percent especially as high as 145 percent in 1980, total asset size of the banking industry contracted from 29.2 billion USD in 1977 to 18.6 billion USD in 1980.

Table 59: Banking sector (in TRY) between 1977 and 1981

million TRY						
Year	Total Assets	Yearly Change	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
1977	562		14,74	1,51	2,04	2,04
1978	695	23,6	21,65	2,12	-0,27	-0,27
1979	1.013	45,7	31,97	2,39	-0,74	-0,74
1980	1.663	64,2	72,63	8,62	22,41	22,41
1981	2.987	79,6	100,11	30,96	49,09	49,09

Source: The Banks Association of Turkey (TBB)

Table 60: Banking sector (in USD) between 1977 and 1981

million USD						
Year	Total Assets	Yearly Change	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
1977	29.212		765,69	78,63	105,84	105,84
1978	27.799	-4,8	866,05	84,83	-10,95	-10,95
1979	28.932	4,1	913,45	68,32	-21,15	-21,15
1980	18.631	-35,6	813,73	96,61	251,04	251,04
1981	22.574	21,2	756,67	234,00	371,02	371,02

Source: The Banks Association of Turkey (TBB)

Although loans had the biggest portion in the banking industry with 53.4 percent between 1977 and 1981. On the liability side of the balance sheet, other liabilities had been beginning to decline from 43.4 percent in 1977 to 18.6 percent in 1981.

Table 61: Balance sheet distribution (%) between 1977 and 1981

Year	Assets					Liabilities					
	Liquid Assets	Loans	Fixed Assets	Other Assets	Total	Deposit	Non-deposit Resources	Other Liabilities	Equities	Profit	Total
1977	27,8	56,7	5,5	10,1	100	43,5	8,4	43,4	3,8	0,9	100
1978	32,4	51,4	5,5	10,6	100	46,6	8,4	41,3	2,9	0,8	100
1979	32,8	51,1	5,5	10,6	100	48,5	7,4	39,2	4,3	0,6	100
1980	31,2	53,7	4,8	10,3	100	49,0	6,2	39,3	4,1	1,4	100
1981	27,3	54,1	4,1	14,4	100	55,4	19,6	18,6	4,6	1,8	100

Source: The Banks Association of Turkey (TBB)

The Turkish banking industry suffered losses in 1978 and 1979. The ratios of net working capital to total assets were - 1.9 percent and -0.6 percent. Net profit for the period to paid-in-capital were -1.4 percent in 1978 and -2.3 percent in 1979.

Table 62: Assets and the others between 1977 and 1981

Year	Equities/ T. Assets	Equities/ (Deposit+ Non- Deposit Resources)	Net Working Capital/ T. Assets	Asset Quality		Liquidity		Profitability			Income Expense Structure			
				Loans/ T. Assets	Fixed Assets/ T. Assets	Liquid Assets/ T. Assets	Liquid Assets/ (Deposit+ Non- Deposit Resources)	Average Return on Assets	Average Return on Equity	Net Profit for the Period/Paid in Capital	Net Interest Income/ T. Assets	Interest Income/ Interest Expenses	Non- Interest Income/ Non- Interest Expenses	Total Revenues/ Total Expense
1977	4,7	9,0	-0,8	56,7	5,5	27,8	53,4	1,0	23,7	11,6	3,1	170,9	50,4	104,4
1978	3,7	6,7	-1,9	51,4	5,5	32,4	59,0	0,9	27,8	-1,4	3,4	182,6	44,3	99,6
1979	4,9	8,8	-0,6	51,1	5,5	32,8	58,6	0,7	19,4	-2,3	3,7	177,6	47,3	99,3
1980	5,5	10,0	0,7	53,7	4,8	31,2	56,5	1,8	42,6	40,1	5,4	181,8	55,8	111,1
1981	6,5	8,6	2,3	54,1	4,1	27,3	36,5	2,4	53,2	48,7	4,3	137,9	71,8	111,0

Source: The Banks Association of Turkey (TBB)

12 of the banks still operating in the Turkish banking system were operating between 1977-1981. Their shares in the industry are shown in the table. After Ziraat Bank and İş Bank, Yapı Kredi Bank and Akbank seem to have increased their market share in the banking industry by 8.3 percent and 9 percent respectively.

Table 63: Market Share of Banks in Turkey between 1977 and 1981

Banks	1977	1978	1979	1980	1981
Akbank T.A.Ş.	7,8	9,6	9,3	9,2	9,0
Arap Türk Bankası A.Ş.	0,0	0,1	0,2	0,4	0,6
İller Bankası A.Ş.	1,9	2,2	2,3	1,6	2,0
Şekerbank T.A.Ş.	0,8	0,8	0,7	0,8	0,6
Türkiye Cumhuriyeti Ziraat Bankası A.Ş.	18,9	19,2	19,8	22,4	20,8
Türkiye Garanti Bankası A.Ş.	1,6	1,9	2,2	2,1	2,1
Türkiye Halk Bankası A.Ş.	3,1	3,6	4,1	4,1	4,3
Türkiye İş Bankası A.Ş.	14,9	16,8	16,3	14,3	14,4
Türkiye Kalkınma ve Yatırım Bankası A.Ş.	0,2	0,3	0,3	0,4	0,4
Türkiye Sınai Kalkınma Bankası A.Ş.	1,5	2,0	2,6	2,9	2,4
Türkiye Vakıflar Bankası T.A.O.	2,7	2,7	2,9	3,5	3,6
Yapı ve Kredi Bankası A.Ş.	7,4	8,2	7,5	7,5	8,3

Source: The Banks Association of Turkey (TBB)

Unsustainable domestic economic policies led to worsening macroeconomic conditions, including increased reliance on short-term foreign borrowing for current account and fiscal deficits, growing foreign debt, rising inflation, and low growth rates. Additionally, political instability intensified, marked by escalating violence between the right and left factions. These issues were further compounded by inefficient and costly import-substituting industrialization, largely due to supply-side shocks from the oil crises of 1973–74 and 1977–78.

In January 1980, following the crisis, the Turkish government implemented a significant program of structural adjustment and refocused its development strategy. The World

Bank and the International Monetary Fund (IMF) gave this effort a lot of support. The program aimed to boost economic growth by increasing domestic savings, increasing economic and financial efficiency, and attracting capital from abroad. As part of this agenda, Turkey also implemented neoliberal austerity measures that combined tight fiscal and monetary policies to reduce real income, reduce domestic demand, and lower inflation.

The global economy and the process of globalization have significantly influenced Turkey, giving the decisions made on January 24, 1980 a renewed and more profound significance. Economic liberalization and the presence of political corruption in certain countries have also played a role in shaping the dynamics of financial crises.

5.3 Transformative Challenges and Accomplishments: Turkish Banking Industry in the 1990s

The number of foreign capital deposit banks increased to 20 in 1994 from 4 in 1978 and the number of Development and Investment Banks increased to 12 in 1994 from 2 in 1978. There were 67 banks in the Turkish banking industry in 1994.

Table 64: Number of Banks, Branches and Employees between 1992 and 1996 (TBB, 2023)

Yıllar	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Savings Deposit Insurance Fund.	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Savings Deposit Insurance Fund.	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Savings Deposit Insurance Fund.	Development and Investment Banks	Total
1992	6	31	20	-	-	12	69	3.001	3.077	109	-	-	19	6.206	78.223	63.337	3.010	-	-	2.253	146.823
1993	6	32	20	-	-	12	70	3.008	3.105	108	-	-	20	6.241	76.553	62.764	2.408	-	-	2.258	143.983
1994	6	29	20	-	-	12	67	2.917	3.063	105	-	-	19	6.104	74.462	59.161	3.256	-	-	2.167	139.046
1995	5	32	18	-	-	13	68	2.875	3.240	104	-	-	21	6.240	72.699	63.010	2.985	-	-	6.099	144.793
1996	5	33	18	-	-	13	69	2.886	3.429	104	-	-	23	6.442	70.284	68.592	3.170	-	-	6.107	148.153

Source: The Banks Association of Turkey (TBB)

The balance sheet of the banking industry shrunk by 27.3 percent in 1994 on a USD basis while it showed 93 percent increase on a TRY basis.

Table 65: Banking sector (in TRY) between 1992 and 1996

million TRY						
Year	Total Assets	Yearly Change (%)	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
1992	553.929		37.649	-6.715	14.083	11.727
1993	1.047.988	89,2	85.853	-24.166	33.809	28.182
1994	2.018.938	92,6	177.473	-73.036	44.800	33.077
1995	4.102.383	103,2	258.564	-45.110	138.990	104.794
1996	8.959.111	118,4	683.535	-124.456	320.810	254.562

Source: The Banks Association of Turkey (TBB)

Table 66: Banking sector (in USD) between 1992 and 1996

million USD						
Year	Total Assets	Yearly Change (%)	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
1992	64.743		4.400	-785	1.646	1.371
1993	72.485	12,0	5.938	-1.671	2.338	1.949
1994	52.672	-27,3	4.620	-1.901	1.166	861
1995	68.946	30,9	4.346	-758	2.336	1.761
1996	83.337	20,9	6.358	-1.158	2.984	2.368

Source: The Banks Association of Turkey (TBB)

In 1994, Loans' share in the balance sheets declined to 39 percent and fixed assets had increased by almost 1 percent. On the liabilities side of the balance sheet, non-deposit resources had decreased remarkably to 17.3 percent in 1994 from 26.2 percent the year before.

Table 67: Balance sheet distribution (%) between 1992 and 1996

Year	Assets						Liabilities					
	Liquid Assets	Loans	Fixed Assets	Other Assets	Total		Deposit	Non-deposit Resources	Other Liabilities	Equities	Profit	Total
1992	38,4	41,8	7,9	11,9	100		55,1	22,2	14,0	6,0	2,6	100
1993	41,4	41,4	7,1	10,0	100		52,0	26,2	12,5	6,7	2,7	100
1994	39,3	39,0	8,0	13,6	100		63,1	17,3	11,1	6,3	2,2	100
1995	36,9	42,5	7,6	13,0	100		65,0	14,3	11,8	6,1	2,8	100
1996	36,4	43,1	7,3	13,2	100		68,6	14,2	8,3	6,0	2,9	100

Source: The Banks Association of Turkey (TBB)

Although the net interest income to net interest expenses ratio was around the industry's average rates in 1994, the ratio of non-interest income to non-interest expenses declined sharply to-11.3 percent mainly due to the decreasing volume of the loan transactions.

Table 68: Assets and the others between 1992 and 1996

Year	Equities/ T. Assets	Equities/ (Deposit+ Non- Deposit Resources)	Net Working Capital/ T. Assets	Asset Quality		Liquidity		Profitability			Income Expense Structure			
				Loans/ T. Assets	Fixed Assets/ T. Assets	Liquid Assets/ T. Assets	Liquid Assets/ (Deposit+ Non- Deposit Resources)	Average Return on Assets	Average Return on Equity	Net Profit for the Period/Paid in Capital	Net Interest Income/ T. Assets	Interest Income/ Interest Expenses	Non- Interest Income/ Non- Interest Expenses	Total Revenues/ Total Expense
1992	8,6	11,1	0,7	41,8	7,9	38,4	49,6	3,3	52,0	62,0	8,9	143,2	33,4	111,5
1993	9,4	12,0	2,2	41,4	7,1	41,4	53,0	3,5	54,7	87,9	10,7	167,4	15,0	117,9
1994	8,5	10,6	0,5	39,0	8,0	39,3	49,0	2,9	45,4	58,4	11,6	150,5	-11,3	109,5
1995	8,9	11,3	1,4	42,5	7,6	36,9	46,6	3,8	61,2	100,2	8,4	140,3	41,8	116,4
1996	8,9	10,8	1,6	43,1	7,3	36,4	44,0	4,0	65,4	119,0	10,5	147,2	25,3	116,6

Source: The Banks Association of Turkey (TBB)

42 of the banks still operating in the Turkish banking system were operating between 1992-1996. Their shares in the industry are shown in the table. Banks with a share of around 5 percent or more in the industry were *Ziraat Bank*, *İş Bank*, *Halk Bank*, *Yapı Kredi Bankası*, *Akbank*, *Garanti Bankası* and *Vakıflar Bankası*.

Table 69: Market Share of Banks in Turkey between 1992 and 1996

Banks	1994	1995	1996	1997	1998
Türkiye Cumhuriyeti Ziraat Bankası A.Ş.	17,64	16,93	18,18	16,35	16,12
Türkiye Halk Bankası A.Ş.	7,01	7,50	7,87	7,91	8,47
Yapı ve Kredi Bankası A.Ş.	6,90	7,12	6,22	6,40	6,59
Akbank T.A.Ş.	5,98	5,72	5,22	6,04	6,53
Türkiye İş Bankası A.Ş.	9,47	9,14	7,62	6,96	6,41
Türkiye Garanti Bankası A.Ş.	4,16	3,90	4,49	6,15	6,39
Türkiye Vakıflar Bankası T.A.O.	5,25	5,65	5,56	5,11	4,81
Türk Eximbank	3,58	3,83	3,09	2,79	2,44
QNB Finansbank A.Ş.	0,50	0,90	1,00	1,40	1,40
Türk Ekonomi Bankası A.Ş.	0,64	0,78	1,11	0,99	0,90
Şekerbank T.A.Ş.	0,83	0,74	0,74	0,69	0,84
İller Bankası A.Ş.	1,11	0,94	0,82	0,76	0,79
Citibank A.Ş.	0,25	0,33	0,27	0,68	0,55
ICBC Turkey Bank A.Ş.	0,34	0,37	0,47	0,57	0,53
Alternatifbank A.Ş.	0,15	0,42	0,63	0,50	0,47
Türkiye Sınai Kalkınma Bankası A.Ş.	1,51	1,07	0,81	0,62	0,45
Türkiye Kalkınma ve Yatırım Bankası A.Ş.	1,33	0,90	0,63	0,54	0,34
HSBC Bank A.Ş.	0,07	0,15	0,15	0,29	0,34
Burgan Bank A.Ş.	0,40	0,48	0,57	0,49	0,32
Denizbank A.Ş.	0,00	0,00	0,00	0,11	0,31
ING Bank A.Ş.	0,14	0,13	0,20	0,25	0,25
JPMorgan Chase Bank N.A.	0,13	0,21	0,28	0,33	0,18
Arap Türk Bankası A.Ş.	0,17	0,21	0,20	0,23	0,16
Deutsche Bank A.Ş.	0,12	0,12	0,12	0,16	0,15
Société Générale (SA)	0,13	0,14	0,14	0,25	0,14
Birleşik Fon Bankası A.Ş.	0,02	0,03	0,05	0,04	0,14
Adabank A.Ş.	0,04	0,06	0,11	0,08	0,10
Anadolubank A.Ş.	0,00	0,00	0,00	0,09	0,10
Turkish Bank A.Ş.	0,09	0,10	0,11	0,09	0,08
Turkland Bank A.Ş.	0,05	0,08	0,05	0,03	0,08
Fibabanka A.Ş.	0,25	0,21	0,03	0,06	0,05
Standard Chartered Yatırım Bankası Türk A.Ş.	0,05	0,03	0,06	0,04	0,05
İstanbul Takas ve Saklama Bankası A.Ş.	0,00	0,00	0,03	0,03	0,04
Bank Mellat	0,06	0,04	0,04	0,03	0,03
Diler Yatırım Bankası A.Ş.	0,00	0,00	0,00	0,00	0,02
Pasha Yatırım Bankası A.Ş.	0,03	0,04	0,02	0,03	0,01
Bank of America Yatırım Bank A.Ş.	0,00	0,00	0,00	0,00	0,00
Habib Bank Limited	0,00	0,00	0,00	0,00	0,00
Aktif Yatırım Bankası A.Ş.	0,00	0,00	0,00	0,00	0,00
BankPozitif Kredi ve Kalkınma Bankası A.Ş.	0,00	0,00	0,00	0,00	0,00
GSD Yatırım Bankası A.Ş.	0,00	0,00	0,00	0,00	0,00
Nurol Yatırım Bankası A.Ş.	0,00	0,00	0,00	0,00	0,00

Source: The Banks Association of Turkey (TBB)

Turkish banks engaged in significant offshore borrowing between 1992 and 1993, putting the majority of their foreign funds into a portfolio of government securities denominated in Turkish Lira (TL). As a result, the percentage of foreign exchange-related liabilities in total liabilities grew over time, eventually reaching to about 50 percent in 1994. 43 percent, then 47 percent, in 1993 and 1994. This approach involved

primarily financing TL assets with debt in foreign currencies (FX). As a result, the banking industry came into 1994 with a lot of unfilled positions and government paperwork. Turkish banks put a lot of effort into closing their enormous open positions, which had increased to as much as 6 percent of their balance sheets in 1993 due to the fragile state of the economy. This scenario would not be a concern for the profitable banking sector if capital markets were widely available. The downgrading of Turkey's credit rating, however, severely limited banks' access to global markets. Turkish banks were forced to pay close to \$7 billion in net foreign debts in 1994, which made their issues even worse. This was in addition to the Turkish Lira's (TL) rapid devaluation and rising interest rates. Since the significant reduction in bank balance sheets that occurred in 1994, the portfolio mix of Turkish banks has undergone significant shifts. The average proportion of significant assets (such as loans and liquid assets) and liabilities (such as core deposits and purchased funds) can be seen in the percentages. The proportion of liquid assets in the assets of state and international banks appears to have increased while the proportion of loans has decreased. The most prominent finding is that during the emergency, all classifications expanded the extent of center stores while diminishing the extent of non-store (purchased) reserves. As a result of this change in bank liabilities, Turkish banks are forced to rely on domestic sources of funding because international and major institutional investors are concerned about providing non-deposit funds. According to Isik & Hassan (2002), banks needed to expand their workforce between 1995 and 1996 in order to compete for scarce core deposits. This required them to have extensive branch networks. Consequently, this finding appears to support the reversal of the downsizing trend that Turkish commercial banks experienced after 1994.

Following a decline in their market share and a decrease in the average proportion of loans within their asset composition from 36 percent to 26 percent, foreign banks promptly responded to the crisis by curtailing their financial investments in the country. Foreign banks exchanged riskier commercial and industrial loans for lucrative and less risky government assets in response to the increased risk in the economic environment during the 1990s. Consequently, liquid assets, primarily Turkish government securities, make up more than half of their assets. This fixation in venture protections compares to the underlying inspiration of unfamiliar banks, who entered the market generally to put

resources into Turkish government papers, which are consistently needing reserves. In addition, foreign banks started using more deposit funds and less purchased funds after 1994. The proportion of their purchased funds decreased sharply from 47 percent to 17 percent while the percentage of their core deposits surged from 26 percent to 53 percent. A foreign bank may have chosen to remain in the country and possibly even grow by entering the local deposit markets if core deposits accounted for more than twice as much of its liabilities as other types of deposits. They consequently boosted their workforce by 35 percent in 1994 and 6 percent in 1996 to better compete with domestic banks for the limited transaction deposits. Banks began to make advances in foreign currency in reaction to the crisis in order to reduce their exposure to foreign trade risk. It should be highlighted, nevertheless, that this tactic really transfers the risk of currency swings on the borrowers rather than totally eliminating it.

The stability of financial markets and the avoidance of a potential systemic risk were given top emphasis throughout the crisis, especially following the collapse of three domestic private banks. In April 1994, the Central Bank fully insured all savings accounts, both TL and non-TL, in order to temporarily "cool" the system. In addition, bank store insurance premiums increased as a result of this development. Bank reserve and liquidity requirement rates were also cut in an effort to boost TL demand. Following the stabilization program, the IMF approved a stand-by credit of US\$ 742 million with the stipulation that structural reforms be finished as soon as possible to address lingering macroeconomic imbalances. The administration swiftly launched a stabilization program that was approved by international organizations. The program's primary objective was to reduce government spending while simultaneously increasing government revenues in order to reduce the enormous and persistent budget imbalance. Stability in the banking industry appears to have been established as a result of the state's decisive and persistent adoption of necessary short-term measures. The 80 percent inflation rate, which was still high but significantly lower than the 126 percent inflation rate in 1994, shows that inflationary expectations have subsided as the economy finally recovered, as evidenced by the remarkable 8.1 percent growth in gross domestic product in 1995. The capital that had withdrawn the monetary framework started to return, switching the decrease in the financial business, as confirmed by a 31 percent increment in complete financial resources in 1995, contrasted with a 30 percent

decrease in 1994. In a similar vein, it appears that the nation's other financial and economic indices improved in 1995 and 1996.

5.4 The Evolution of Turkish Banking (1999-2002)

Number of banks reached 81 in 1999 and this was the highest figure seen in the history of the Turkish Banking System. However, with the 2000-2001 economic crisis, the number of banks decreased by 33 percent to 54 in 2002. This decrease continued in the following years, as the number of banks operating in the banking industry fell to 44 in 2011.

Table 70: Number of Banks, Branches and Employees between 1999 and 2002

Year	Number of Banks							Number of Branches(Including branches abroad)							Number of Employees						
	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Insurance Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Insurance Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Insurance Fund	Development and Investment Banks	Total
1999	4	31	19	-	8	19	81	2.865	3.960	121	-	714	31	7.691	72.007	76.386	4.185	-	15.980	5.430	173.988
2000	4	28	18	-	11	18	79	2.834	3.783	117	-	1.073	30	7.837	70.191	70.954	3.805	-	19.895	5.556	170.401
2001	3	22	15	-	6	15	61	2.725	3.523	233	-	408	19	6.908	56.108	64.380	5.395	-	6.391	5.221	137.495
2002	3	20	15	-	2	14	54	2.019	3.659	206	-	203	19	6.106	40.158	66.869	5.416	-	5.886	4.942	123.271

Source: The Banks Association of Turkey (TBB)

The balance sheet of the banking industry shrank by 25.8 percent on a USD basis in 2001.

Table 71: Banking sector (in TRY) between 1999 and 2002

million TRY						
Year	Total Assets	Yearly Change	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
1999	72.120.858		4.792.823	-2.210.444	833.804	-305.750
2000	104.088.037	44,3	4.500.573	-2.027.335	-2.424.791	-3.148.857
2001	166.392.917	59,9	13.047.691	-6.684.278	-4.298.199	-5.163.874
2002	212.675.488	27,8	12.799.014	-2.369.791	5.263.681	2.356.998

Source: The Banks Association of Turkey (TBB)

Table 72: Banking sector (in USD) between 1999 and 2002

million USD						
Year	Total Assets	Yearly Change	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
1999	133.533		8.874	-4.093	1.544	-566
2000	154.947	16,0	6.700	-3.018	-3.610	-4.687
2001	115.020	-25,8	9.019	-4.621	-2.971	-3.570
2002	129.700	12,8	7.805	-1.445	3.210	1.437

Source: The Banks Association of Turkey (TBB)

Shares of loans in the banking industry declined sharply to 24.6 percent in 2001. This was an historical low level for the Turkish banking history. In the same year, the share of fixed assets in the total assets of the banking industry hit an historical high level with 33.6 percent.

On the liabilities side, the remarkable ratios of the balance sheet of the banking industry for this period were the share of equities which was the lowest level in the banking history with 2.7 percent in 1999. The other historical level of ratio was seen deposit's share in the balance sheet distribution with an historical high level of 70.4 percent.

Table 73: Balance sheet distribution (%) between 1999 and 2002

Year	Assets					Liabilities					
	Liquid Assets	Loans	Fixed Assets	Other Assets	Total	Deposit	Non-deposit Resources	Other Liabilities	Equities	Profit	Total
1999	35,9	30,1	9,4	24,7	100	66,9	17,2	10,0	2,7	3,1	100
2000	32,2	32,9	14,8	20,2	100	65,8	19,0	8,3	4,8	2,1	100
2001	33,3	24,6	33,6	8,5	100	70,4	16,0	6,4	5,8	1,3	100
2002	56,6	26,5	8,5	8,3	100	67,0	14,8	6,2	10,7	1,4	100

Source: The Banks Association of Turkey (TBB)

When we look at the banking industry indicators between 1999-2002, we see that there are many historical levels. The ratio of net working capital to total assets was at its lowest level at -3.5 percent in 1999 and continued at negative levels in the following two years. The loans to total assets ratio was at the historically low level of 24.6 percent in 2001 while the ratio of fixed assets to total assets was at the historically high level of 33.6 percent in the same year. The average return on assets and the average return on equity were at the highest level in 1999. However, net profit for the period to paid-in-

capital ratios were below zero between 1999-2001 and the figure for 2000 was at -71.9 percent which was the historically low level of Turkish banking history.

Table 74: Assets and the others between 1999 and 2002

Year	Equities/ T. Assets	Equities/ (Deposit+ Non- Deposit Resources)	Net Working Capital/ T. Assets	Asset Quality		Liquidity		Profitability			Income Expense Structure			
				Loans/ T. Assets	Fixed Assets/ T. Assets	Liquid Assets/ T. Assets	Liquid Assets/ (Deposit+ Non- Deposit Resources)	Average Return on Assets	Average Return on Equity	Net Profit for the Period/Paid in Capital	Net Interest Income/ T. Assets	Interest Income/ Interest Expenses	Non- Interest Income/ Non- Interest Expenses	Total Revenues/ Total Expense
1999	5,9	7,0	-3,5	30,1	9,4	35,9	42,6	4,2	110,6	-12,7	8,8	129,5	21,3	103,9
2000	6,9	8,2	-1,7	32,9	14,8	32,2	37,9	2,4	61,4	-71,9	3,5	127,7	16,3	95,8
2001	7,2	8,3	-0,8	24,6	33,6	33,3	38,5	1,6	29,8	-63,4	4,7	145,2	-24,9	106,6
2002	12,1	14,8	3,5	26,5	10,3	56,6	69,3	1,5	16,3	24,0	6,0	147,4	72,9	129,0

Source: The Banks Association of Turkey (TBB)

42 of the banks still operating in the Turkish banking system were operating between 1992-1996 Their shares in the industry are shown in the table. Banks with a share of around 5 percent and more in the industry were *Ziraat Bank*, *İş Bank*, *Halk Bank*, *Yapı Kredi Bank*, *Akbank*, *Garanti Bank* and *Vakıf Bank*. For this period *Akbank*, *Garanti Bank* and *Yapı Kredi Bank* have increased their market share. *Akbank's* share in the banking industry increased to 11.5 percent in 2002 from 6 percent in 1999, *İş Bank's* share was 6.6 percent in 1999 rose to 11.2 percent in 2002.

Table 75: Market Share of Banks in Turkey between 1999 and 2002

Banks	1999	2000	2001	2002
Türkiye Cumhuriyeti Ziraat Bankası A.Ş.	16,69	15,75	17,62	17,72
Akbank T.A.Ş.	6,04	7,07	10,23	11,50
Türkiye İş Bankası A.Ş.	6,61	7,49	9,85	11,16
Türkiye Garanti Bankası A.Ş.	6,28	6,35	9,70	9,20
Yapı ve Kredi Bankası A.Ş.	6,79	7,21	9,23	8,85
Türkiye Halk Bankası A.Ş.	9,91	10,32	9,30	8,19
Türkiye Vakıflar Bankası T.A.O.	4,70	4,70	5,61	5,99
QNB Finansbank A.Ş.	1,86	1,93	2,07	2,32
Türk Eximbank	2,34	2,21	2,67	2,16
ING Bank A.Ş.	0,19	0,17	1,84	1,65
Birleşik Fon Bankası A.Ş.	0,25	0,25	1,20	1,65
Denizbank A.Ş.	0,52	0,56	1,19	1,59
HSBC Bank A.Ş.	0,46	0,70	1,47	1,49
Türk Ekonomi Bankası A.Ş.	0,91	0,99	0,96	1,12
Şekerbank T.A.Ş.	0,67	0,81	1,10	1,03
İller Bankası A.Ş.	0,83	0,87	0,95	0,87
Türkiye Sınai Kalkınma Bankası A.Ş.	0,36	0,31	0,40	0,75
Citibank A.Ş.	0,56	0,61	0,79	0,69
Alternatifbank A.Ş.	0,64	0,62	0,66	0,59
Anadolubank A.Ş.	0,24	0,47	0,56	0,54
ICBC Turkey Bank A.Ş.	0,46	0,55	0,74	0,51
Burgan Bank A.Ş.	0,27	0,30	0,21	0,27
Türkiye Kalkınma ve Yatırım Bankası A.Ş.	0,28	0,23	0,24	0,21
Turkish Bank A.Ş.	0,08	0,09	0,14	0,14
Arap Türk Bankası A.Ş.	0,19	0,23	0,11	0,14
Adabank A.Ş.	0,08	0,06	0,08	0,13
Standard Chartered Yatırım Bankası Türk A.Ş.	0,04	0,04	0,05	0,10
Deutsche Bank A.Ş.	0,38	0,22	0,05	0,10
İstanbul Takas ve Saklama Bankası A.Ş.	0,04	0,05	0,08	0,10
Société Générale (SA)	0,18	0,14	0,06	0,07
Turkland Bank A.Ş.	0,07	0,06	0,04	0,06
Bank Mellat	0,04	0,03	0,04	0,05
JPMorgan Chase Bank N.A.	0,25	0,20	0,11	0,05
Nurol Yatırım Bankası A.Ş.	0,04	0,04	0,03	0,03
GSD Yatırım Bankası A.Ş.	0,03	0,04	0,02	0,03
Aktif Yatırım Bankası A.Ş.	0,01	0,01	0,03	0,03
BankPozitif Kredi ve Kalkınma Bankası A.Ş.	0,01	0,01	0,01	0,02
Diler Yatırım Bankası A.Ş.	0,02	0,01	0,02	0,02
Habib Bank Limited	0,01	0,02	0,01	0,01
Fibabanka A.Ş.	0,07	0,08	0,01	0,01
Pasha Yatırım Bankası A.Ş.	0,01	0,01	0,01	0,01
Bank of America Yatırım Bank A.Ş.	0,00	0,01	0,01	0,00

Source: The Banks Association of Turkey (TBB)

These concerns were exacerbated by the banking system's high exposure to credit and default risks, as well as currency and interest rate mismatches. At the end of October 2000, the Savings Deposit Insurance Fund (SDIF) bought ownership of two small banks, *Etibank* and *Bank Kapital*. This led to rumors about *Demirbank* going out of business because *Demirbank* was *Etibank*'s partner. The Turkish central bank raised interest rates in the beginning of November as a result of these occurrences, which

raised tensions in the Turkish financial system. Banks started covering their short money positions simultaneously, as they do consistently, to figure out some kind of harmony sheets toward the year's end. This accelerated the demand for liquidity and raised interest rates once again, further weakening illiquid banks, which began distress sales of their treasury bonds in an effort to obtain liquidity. On November 20, amid rumors of illiquid banks, the main banks froze their loan lines to the interbank market. International investors began to flee the country as a result of rising interest rates (the overnight rate was above 4.000 percent). At this point, the liquidity issue in the banking system began. To safeguard the banking sector and limit interest rate increases, the Central Bank bailed out illiquid banks and delayed its currency board promise. The IMF's announcement of a 7.5 billion USD Supplementary Reserve Facility on December 6 was the only reassurance that the operators received. Demirbank, the primary source of liquidity issues in the Turkish banking system, was taken over by the SDIF on the same day.

However, the fixed exchange system's viability was questioned by operators as a result of the significant deterioration in the financial structures of the state banks and SDIF banks and their excessive requirements for short-term credits. Rumors of political unrest set off the second shock. The country's cash was exposed to a wild speculative surge, driving it to drift. An issue with financial liquidity that was already present was made worse by the currency crisis.

Even though the country's macroeconomic fundamentals did not justify such a large-scale crisis, the financial crisis began with a rumor. The speculative attack on the Turkish lira began on February 19, 2001, when financial markets perceived a disagreement between the Prime Minister and the President of the Republic as a hint of political instability. In the days that followed the tragedy, Turkey preserved fixed exchange rate parity by mobilizing its reserve assets (5 billion U.S. dollars in 3 days) and increasing nominal interest rates to 8000 percent, both of which were essential to the nation's strategic planning (overnight rate). Due to widespread investor skepticism, on February 22, 2001, the government was forced to allow the currency to float. In just one day, the Turkish lira lost more than 35 percent of its value against the US dollar, losing 70 percent of its value until April 2001. The speculative attack on the Turkish lira

was indeed sparked by political unrest rumors, but the attack was driven by the complete incompetence of the Turkish banking system. Banks are crucial to the economy because they oversee the payment system and are at the center of the monetary circuits. They also play a crucial role in saving money's mobilization and distribution. Consequently, its structure is a significant contributor to systemic risk.

5.5 Stability and Sustainability: Turkish Banking During the Global Crisis (2007-2010)

Number of banks were 45 in Turkey and did not change during 2008-2009 global crisis.

Table 76: Number of Banks, Branches and Employees between 2007 and 2010

Year	Number of Banks							Number of Branches(Including branches abroad)							Number of Employees						
	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Insurance Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Insurance Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Banks	Saving Deposit Insurance Fund	Development and Investment Banks	Total
2007	3	11	18	-	1	13	46	2.203	3.625	1.741	-	1	48	7.618	41.056	75.124	36.707	-	325	5.322	158.534
2008	3	11	17	-	1	13	45	2.416	4.290	2.034	-	1	49	8.790	43.333	82.158	40.567	-	267	5.273	171.598
2009	3	11	17	-	1	13	45	2.530	4.390	2.062	-	1	44	9.027	44.856	82.270	39.676	-	261	5.339	172.402
2010	3	11	17	-	1	13	45	2.744	4.582	2.096	-	1	42	9.465	47.235	83.633	42.013	-	252	5.370	178.503

Source: The Banks Association of Turkey (TBB)

Balance sheet of banking industry shrunken by 5 percent in 2009 in USD basis.

Table 77: Banking sector (in TRY) between 2007 and 2010

million TRY						
Year	Total Assets	Yearly Change (%)	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
2007	561.171.879		25.747.821	1.601.690	17.571.296	14.331.479
2008	705.870.774	25,8	30.852.398	-1.687.618	15.822.325	12.774.065
2009	798.532.678	13,1	41.818.169	677.325	24.066.733	19.477.317
2010	961.875.772	20,5	38.744.610	569.597	26.218.050	21.360.250

Source: The Banks Association of Turkey (TBB)

Table 78: Banking sector (in USD) between 2007 and 2010

million USD						
Year	Total Assets	Yearly Change (%)	Net Interest Gain	Income from FX, Capital Markets and Derivatives	Income Before Tax and Provisions	Net Profit/Loss
2007	484.061		22.210	1.382	15.157	12.362
2008	463.839	-4,2	20.274	-1.109	10.397	8.394
2009	536.901	15,8	28.117	455	16.181	13.096
2010	625.570	16,5	25.198	370	17.051	13.892

Source: The Banks Association of Turkey (TBB)

There was no significant change in the distribution of balance sheet items in the banking industry during the 2008-2009 global crisis period.

Table 79: Balance sheet distribution (%) between 2007 and 2010

Year	Assets					Liabilities					
	Liquid Assets	Loans	Fixed Assets	Other Assets	Total	Deposit	Non-deposit Resources	Other Liabilities	Equities	Profit	Total
2007	44,7	50,0	3,4	1,9	100	63,6	16,3	7,0	10,5	2,6	100
2008	43,7	52,0	2,8	1,5	100	64,2	17,7	6,4	9,9	1,8	100
2009	48,0	47,7	2,8	1,4	100	63,5	17,2	5,9	10,9	2,4	100
2010	43,0	52,9	2,6	1,5	100	63,9	16,8	5,9	11,2	2,2	100

Source: The Banks Association of Turkey (TBB)

When we examine the selected ratios in this period, no change is observed in the banking industry ratios, as is the case with the balance sheet structure.

Table 80: Assets and the others between 2007 and 2010

Year	Equities/ (Deposit+ Non-Deposit Resources)			Asset Quality		Liquidity		Profitability			Income Expense Structure			
	Equities/ T. Assets	Equities/ (Deposit+ Non-Deposit Resources)	Net Working Capital/ T. Assets	Loans/ T. Assets	Fixed Assets/ T. Assets	Liquid Assets/ T. Assets	Liquid Assets/ (Deposit+ Non-Deposit Resources)	Average Return on Assets	Average Return on Equity	Net Profit for the Period/Paid in Capital	Net Interest Income/ T. Assets	Interest Income/ Interest Expenses	Non-Interest Income/ Non-Interest Expenses	Total Revenues/ Total Expense
2007	13,1	16,4	9,7	50,0	3,6	44,7	55,9	2,7	21,8	47,0	4,6	159,2	81,6	137,2
2008	11,7	14,3	8,9	52,0	2,8	43,7	53,3	2,0	16,4	34,6	4,4	157,9	64,1	131,6
2009	13,3	16,5	10,5	47,7	2,8	48,0	59,5	2,6	20,6	48,9	5,2	200,1	73,6	157,2
2010	13,4	16,6	10,8	52,9	2,6	43,0	53,3	2,4	18,1	47,6	4,0	204,2	76,5	153,4

Source: The Banks Association of Turkey (TBB)

42 of the banks still operating in the Turkish banking system were operating between 2007-2009. Their shares in the industry are shown in the table. During this period, there was no change in the names of 7 banks with a market share of more than 5 percent.

These banks were Ziraat Bank, İş Bank, Halk Bank, Yapı Kredi Bank, Akbank., Garanti Bank, and Vakıf Bank.

Table 81: Market Share of Banks in Turkey between 2006 and 2009

Banks	2007	2008	2009	2010
Türkiye Cumhuriyeti Ziraat Bankası A.Ş.	14,42	14,79	15,59	15,70
Türkiye İş Bankası A.Ş.	14,29	13,82	14,18	13,70
Türkiye Garanti Bankası A.Ş.	12,04	12,60	13,21	12,90
Akbank T.A.Ş.	12,15	12,13	11,94	11,80
Yapı ve Kredi Bankası A.Ş.	8,97	9,03	8,08	8,80
Türkiye Vakıflar Bankası T.A.O.	7,56	7,39	8,11	7,70
Türkiye Halk Bankası A.Ş.	7,17	7,24	7,60	7,60
QNB Finansbank A.Ş.	3,72	3,76	3,67	4,00
Denizbank A.Ş.	2,66	2,72	2,66	2,90
Türk Ekonomi Bankası A.Ş.	2,10	2,09	1,89	2,00
HSBC Bank A.Ş.	2,39	2,08	1,73	1,80
ING Bank A.Ş.	2,23	2,34	1,91	1,80
Şekerbank T.A.Ş.	1,08	1,14	1,12	1,20
İller Bankası A.Ş.	1,00	0,98	1,00	1,00
Türkiye Sınai Kalkınma Bankası A.Ş.	0,87	0,88	0,86	0,80
Citibank A.Ş.	0,75	0,77	0,61	0,70
Türk Eximbank	0,74	0,70	0,81	0,70
Anadolubank A.Ş.	0,54	0,48	0,48	0,50
Alternatifbank A.Ş.	0,46	0,53	0,45	0,40
Burgan Bank A.Ş.	0,49	0,49	0,48	0,40
Deutsche Bank A.Ş.	0,13	0,10	0,24	0,30
ICBC Turkey Bank A.Ş.	0,52	0,42	0,27	0,30
Aktif Yatırım Bankası A.Ş.	0,02	0,04	0,07	0,20
Bank Mellat	0,04	0,05	0,05	0,20
BankPozitif Kredi ve Kalkınma Bankası A.Ş.	0,20	0,24	0,20	0,20
İstanbul Takas ve Saklama Bankası A.Ş.	0,22	0,20	0,19	0,20
Turkland Bank A.Ş.	0,11	0,14	0,14	0,20
Türkiye Kalkınma ve Yatırım Bankası A.Ş.	0,15	0,15	0,16	0,20
Arap Türk Bankası A.Ş.	0,06	0,11	0,12	0,10
Birleşik Fon Bankası A.Ş.	0,15	0,12	0,10	0,10
Fibabanka A.Ş.	0,21	0,17	0,13	0,10
JPMorgan Chase Bank N.A.	0,03	0,03	0,02	0,10
Société Générale (SA)	0,10	0,07	0,05	0,10
Turkish Bank A.Ş.	0,13	0,12	0,13	0,10
Adabank A.Ş.	0,01	0,01	0,01	-
Bank of America Yatırım Bank A.Ş.	0,05	0,01	0,03	-
Diler Yatırım Bankası A.Ş.	0,01	0,02	0,01	-
GSD Yatırım Bankası A.Ş.	0,03	0,01	0,01	-
Habib Bank Limited	0,01	0,01	0,01	-
Nurol Yatırım Bankası A.Ş.	0,02	0,02	0,02	-
Pasha Yatırım Bankası A.Ş.	0,00	0,00	0,00	-
Standard Chartered Yatırım Bankası Türk A.Ş.	0,05	0,01	0,01	-

Source: The Banks Association of Turkey (TBB)

Despite being severely impacted by the worldwide crisis, Turkey quickly recovered in 2010. This recovery was the consequence of a disciplined economic policy implemented prior to the global financial crisis. Prior to the global financial crisis,

Turkey overcame its persistent inflation issue and entered a macroeconomic growth era. Due to banking reforms, Turkey's financial sector did not experience the same consequences of the global financial crisis as those of other nations. However, the real economy was severely impacted by the crisis, and several structural issues remain unresolved.

During the period of 1999 to 2002, Turkey's banking industry underwent a substantial reconfiguration, catalyzed by a series of legislations formulated in conjunction with the International Monetary Fund. Within this period, the closure of a state-owned bank occurred in tandem with the assimilation of 18 financially troubled private banks into the fold of the Savings Deposit Insurance Fund (SDIF). Subsequent to remedial measures, the SDIF-oversighted banks underwent a disposition process through either divestiture or dissolution. The banking landscape experienced a noteworthy transformation, where the initial count of 81 banks in 1999 included eight managed by SDIF. However, by June 2009, this number dwindled to merely one bank under SDIF's purview, marking a total of 45 banks in the system. Between 2002 and 2008, a discernible trend emerged, wherein private commercial banks with resident ownership reached their lowest levels. Coinciding with this, the augmentation of foreign banks entering the Turkish market exhibited a parallel trajectory. Notably, this phenomenon was propelled by the acquisition of 20 Turkish banks by international banking entities.

As of September 2009, no banks were transferred to the SDIF, no changes in ownership, no liquidations have occurred, and so the number of banks has not decreased. Furthermore, as we will demonstrate later, bank profitability did not fall. As a result, banks in Turkey are in better form now than they were in the past and when compared to banks in other nations.

There are three other measures we may look at to evaluate how financial upheaval affects banks. The first is the credit to deposit ratio, which fell significantly in 2001 - 02 and then rose sharply when normalcy restored but has been declining more slowly since mid-2008. The second is the ratio of non-performing loans/credits; while this ratio has increased, it is still far lower than it was during the previous crisis. The third factor is the profit/assets ratio, which shows that profitability has improved.

5.6 Banking Trends and Challenges: The Post-2018

Number of banks were between 47-48 in Turkey in 2018-2021 crisis.

Table 82: Number of Banks, Branches and Employees between 2017 and 2020

Year	Number of Banks							Number of Branches(Including branches abroad)							Number of Employees						
	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Insurance Banks	Saving Deposit Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Insurance Banks	Saving Deposit Fund	Development and Investment Banks	Total	State-owned Deposit Banks	Private Equity Deposit Banks	Foreign Capital Deposit Banks	Local Insurance Banks	Saving Deposit Fund	Development and Investment Banks	Total
2016	3	9	21	-	1	13	47	3.702	4.132	2.905	-	1	41	10.781	57.586	73.742	59.804	-	231	5.336	196.699
2017	3	9	21	-	1	13	47	3.677	4.013	2.809	-	1	50	10.550	58.502	73.460	56.079	-	225	5.238	193.504
2018	3	9	21	-	1	13	47	3.718	3.963	2.718	-	1	54	10.454	60.195	72.025	54.478	-	220	5.395	192.313
2019	3	9	21	-	1	13	47	3.707	3.785	2.644	-	1	62	10.199	60.365	69.071	54.000	-	223	5.178	188.837
2020	3	8	21	-	2	14	48	3.701	3.643	2.529	-	2	64	9.939	61.592	67.498	52.155	-	243	5.124	186.612
2021	3	8	21	-	2	15	49	3.715	3.573	2.434	-	2	68	9.792	61.874	66.133	51.420	-	254	5.567	185.248
2022	3	8	21	-	3	16	51	3.745	3.495	2.347	-	3	71	9.661	62.226	67.377	51.084	-	300	5.700	188.687

Source: The Banks Association of Turkey (TBB)

In terms of USD valuation, the balance sheet of the banking industry contracted by 10 percent during the year 2018.

Table 83: Banking sector (in TRY) between 2017 and 2022

million TRY						
Year	Total Assets	Yearly Change (%)	Net Interest Gain	Income from FX, Capital Markets and	Income Before Tax and Provisions	Net Profit/Loss
2016	2.595.347.984		90.064.151	-4.131.211	44.365.930	36.423.822
2017	3.095.039.170	19,3	111.362.788	1.184.827	56.398.997	47.083.488
2018	3.656.359.182	18,1	142.799.584	-40.705.599	57.187.985	51.686.788
2019	4.201.885.172	14,9	159.377.502	-6.464.998	51.071.995	46.604.647
2020	5.663.536.186	34,8	205.514.378	-611.355	63.683.333	54.786.103
2021	8.489.361.144	49,9	254.958.638	-58.492.906	96.024.274	87.483.257
2022	13.114.858.302	54,5	719.960.839	61.856.947	492.090.619	401.717.278

Source: The Banks Association of Turkey (TBB)

Table 84: Banking sector (in USD) between 2017 and 2022

million USD						
Year	Total Assets	Yearly Change (%)	Net Interest Gain	Income from FX, Capital Markets and	Income Before Tax and Provisions	Net Profit/Loss
2016	737.482		25.592	-1.174	12.607	10.350
2017	820.552	11,3	29.524	314	14.952	12.483
2018	692.361	-15,6	27.040	-7.708	10.829	9.787
2019	707.388	2,2	26.831	-1.088	8.598	7.846
2020	763.342	7,9	27.700	-82	8.583	7.384
2021	636.909	-16,6	19.128	-4.388	7.204	6.563
2022	701.393	10,1	38.504	3.308	26.317	21.484

Source: The Banks Association of Turkey (TBB)

There was no significant change in the distribution of balance sheet items in the banking industry during the 2018-2021 global crisis period whereas loans' proportions were at the highest level during this period with the historical high level of the Turkish banking industry with 66.9 percent in 2017.

Table 85: Balance sheet distribution (%) between 2016 and 2022

Year	Assets					Liabilities					
	Liquid Assets	Loans	Fixed Assets	Other Assets	Total	Deposit	Non-deposit Resources	Other Liabilities	Equities	Profit	Total
2016	29,6	66,1	2,5	1,7	100	56,4	24,9	7,6	9,7	1,4	100
2017	28,7	66,9	2,6	1,7	100	55,4	25,7	7,8	9,6	1,5	100
2018	29,9	64,7	2,8	2,6	100	55,7	23,6	9,6	9,7	1,4	100
2019	32,0	62,3	3,0	2,8	100	58,9	20,5	9,4	10,1	1,1	100
2020	33,8	60,5	2,8	2,9	100	58,4	22,5	9,0	9,1	1,0	100
2021	40,5	54,7	2,6	2,1	100	59,0	23,5	9,5	7,0	1,0	100
2022	40,0	54,0	3,0	3,0	100	64,3	16,3	9,3	7,0	3,1	100

Source: The Banks Association of Turkey (TBB)

When we examine the selected ratios in this period, no change is observed in the banking industry ratios, as is the case with the balance sheet structure.

Table 86: Assets and the others between 2016 and 2022

				Asset Quality		Liquidity		Profitability			Income Expense Structure			
		Equities/ (Deposit+ Non- Deposit)	Net Working Capital/ T. Assets	Loans/ T. Assets	Fixed Assets/ T. Assets	Liquid Assets/ T. Assets	Liquid Assets/ (Deposit+ Non- Deposit Resources)	Average Return on Assets	Average Return on Equity	Net Profit for the Period/Paid in Capital	Net Interest Income/ T. Assets	Interest Income/ Interest Expenses	Non- Interest Income/ Non- Interest Expenses	Total Revenues/ Total Expense
Year	Equities/ T. Assets	Resources)	T. Assets	T. Assets	T. Assets	T. Assets	T. Assets	Assets	Equity	in Capital	T. Assets	Expenses	Expenses	Expense
2016	11,1	13,7	8,6	66,1	2,5	29,6	36,5	1,5	13,5	51,0	3,5	190,7	61,0	146,8
2017	11,1	13,8	8,5	66,9	2,6	28,7	35,5	1,6	14,3	61,9	3,6	186,7	48,8	144,7
2018	11,1	14,0	8,3	64,7	2,8	29,9	37,8	1,4	13,4	59,8	3,9	167,0	53,0	140,3
2019	11,2	14,1	8,2	62,3	3,0	32,0	40,2	1,2	10,6	50,9	3,8	165,0	51,9	138,1
2020	10,1	12,5	7,3	60,5	2,8	33,8	41,7	1,1	10,3	49,6	3,6	203,8	52,0	156,0
2021	8,0	9,7	5,4	54,7	2,6	40,5	49,1	1,3	14,2	74,7	3,0	172,2	67,3	147,2
2022	10,1	12,5	7,1	54,0	3,0	40,0	49,6	3,6	37,7	248,8	5,5	222,1	108,8	192,1

Source: The Banks Association of Turkey (TBB)

We see that the share of public banks is gradually increasing in the industry. One of the four largest banks with a share of over 5 percent in the industry is *İş Bank* as a private bank while the others are state-owned banks: *Ziraat Bank*, *Vakıf Bank* and *Halk Bank*.

Table 87: Market Share of Banks in Turkey between 2016 and 2022

Banks	2016	2017	2018	2019	2020	2021	2022
Türkiye Cumhuriyeti Ziraat Bankası A.Ş.	13,78	14,03	14,69	15,46	16,64	16,15	17,63
Türkiye Vakıflar Bankası T.A.O.	8,19	8,74	9,06	9,98	12,34	11,86	12,82
Türkiye İş Bankası A.Ş.	12,01	11,71	11,39	11,14	10,49	10,91	10,74
Türkiye Halk Bankası A.Ş.	8,92	9,87	10,35	10,88	12,01	10,62	10,61
Türkiye Garanti Bankası A.Ş.	10,95	10,51	9,83	9,31	8,70	8,93	8,79
Yapı ve Kredi Bankası A.Ş.	9,74	9,62	9,52	9,22	8,12	8,68	8,45
Akbank T.A.Ş.	10,44	10,21	8,96	8,58	7,88	8,35	8,20
QNB Finansbank A.Ş.	3,91	4,07	4,31	4,32	4,01	4,37	4,59
Denizbank A.Ş.	3,97	3,91	3,76	3,72	3,52	3,64	4,01
Türk Eximbank	2,63	2,76	3,81	3,88	3,61	3,80	2,64
Türk Ekonomi Bankası A.Ş.	3,07	2,77	2,65	2,55	2,47	2,29	2,10
Türkiye Sınai Kalkınma Bankası A.Ş.	0,92	0,93	1,05	1,00	0,91	0,99	0,88
ING Bank A.Ş.	1,91	1,71	1,60	1,36	1,08	0,97	0,75
İller Bankası A.Ş.	0,84	0,81	0,88	0,86	0,83	0,74	0,71
Türkiye Kalkınma ve Yatırım Bankası A.Ş.	0,27	0,29	0,43	0,46	0,50	0,57	0,70
HSBC Bank A.Ş.	0,94	0,80	0,90	0,83	0,77	0,89	0,67
İstanbul Takas ve Saklama Bankası A.Ş.	0,31	0,34	0,32	0,40	0,45	0,53	0,65
Fibabanka A.Ş.	0,59	0,65	0,56	0,52	0,48	0,53	0,57
Odea Bank A.Ş.	1,47	1,07	0,86	0,78	0,71	0,65	0,53
Şekerbank T.A.Ş.	0,92	1,01	0,86	0,73	0,66	0,60	0,48
ICBC Turkey Bank A.Ş.	0,32	0,42	0,42	0,43	0,44	0,46	0,46
Burgan Bank A.Ş.	0,53	0,54	0,54	0,45	0,41	0,45	0,44
Alternatifbank A.Ş.	0,63	0,62	0,66	0,69	0,63	0,57	0,44
Aktif Yatırım Bankası A.Ş.	0,37	0,36	0,37	0,42	0,37	0,41	0,37
Citibank A.Ş.	0,32	0,27	0,28	0,31	0,34	0,32	0,30
Anadolubank A.Ş.	0,48	0,49	0,39	0,42	0,45	0,41	0,30
MUFG Bank Turkey A.Ş.	0,33	0,31	0,43	0,26	0,24	0,28	0,28
Intesa Sanpaolo S.p.A.	0,22	0,34	0,33	0,34	0,36	0,41	0,24
Nurol Yatırım Bankası A.Ş.	0,05	0,05	0,07	0,08	0,08	0,08	0,13
Arap Türk Bankası A.Ş.	0,19	0,16	0,16	0,12	0,10	0,11	0,09
Deutsche Bank A.Ş.	0,13	0,10	0,07	0,07	0,08	0,07	0,09
Turkland Bank A.Ş.	0,22	0,16	0,10	0,09	0,05	0,06	0,06
Birleşik Fon Bankası A.Ş.	0,11	0,08	0,09	0,08	0,06	0,06	0,05
Pasha Yatırım Bankası A.Ş.	0,02	0,03	0,04	0,04	0,04	0,04	0,05
Bank of America Yatırım Bank A.Ş.	0,01	0,01	0,01	0,01	0,02	0,03	0,04
Turkish Bank A.Ş.	0,06	0,05	0,04	0,03	0,03	0,03	0,02
Bank of China Turkey A.Ş.	-	-	0,04	0,04	0,04	0,03	0,02
Golden Global Yatırım Bankası A.Ş.	-	-	-	-	0,00	0,01	0,02
Bank Mellat	0,02	0,03	0,03	0,02	0,02	0,02	0,01
JPMorgan Chase Bank N.A.	0,02	0,02	0,01	0,02	0,01	0,01	0,01
Destek Yatırım Bankası A.Ş.	-	-	-	-	-	-	0,01
Rabobank A.Ş.	0,05	0,05	0,05	0,04	0,03	0,03	0,01
D Yatırım Bankası A.Ş.	-	-	-	-	-	0,005	0,01
BankPozitif Kredi ve Kalkınma Bankası A.Ş.	0,06	0,05	0,03	0,02	0,02	0,02	0,01
GSD Yatırım Bankası A.Ş.	0,01	0,01	0,01	0,01	0,01	0,01	0,01
Habib Bank Limited	0,01	0,01	0,01	0,01	0,01	0,01	0,01
Standard Chartered Yatırım Bankası Türk A.Ş.	0,003	0,003	0,002	0,003	0,002	0,002	0,002
Diler Yatırım Bankası A.Ş.	0,01	0,005	0,004	0,004	0,004	0,003	0,002
Türk Ticaret Bankası A.Ş.	-	-	-	-	-	-	0,002
Société Générale (SA)	0,01	0,02	0,02	0,004	0,002	0,002	0,001
Adabank A.Ş.	0,002	0,002	0,002	0,001	0,001	0,001	0,0005

Source: The Banks Association of Turkey (TBB)

Even though the financial system had appropriate buffers when the previous period of instability began, cracks began to surface as a result of real industry advances and tighter international finance. Turkish banks were exposed to external market volatility risks due to structural imbalances such as maturity and currency mismatches.

The Turkish Lira (TL) decreased by 31percent against USD in 2018, falling even more in the first eight months before beginning to rise again after the interest rate hike in September. Hundreds of businesses have filed for bankruptcy, and the official unemployment rate has increased to levels not seen since the financial crisis of 2008. In the months that followed the reform of the banking industry's debt restructuring

framework in October 2018, banks were able to restructure debts totaling \$20 billion USD, leading to new securitization campaigns.

The recalculation of risk-weighted assets, mark-to-market securities portfolios, and open positions on the balance sheet has increased the impact that changes in interest rates and exchange rates have had on banks' balance sheets. Until now, banks have been able to weather liquidity issues thanks primarily to ongoing access to external loans and liquidity injections from the Central Bank. Beyond the reported Non-Performing Loans (NPLs), the main concern is the deterioration in asset quality: while distressed assets make up close to 13 percent of outstanding loans, nonperforming loans (NPLs) make up approximately 3.7 percent.

In August 2020, there was a turning point in policy. The government declared that moving forward, a competitive TL was favored and allowed the exchange rate to adapt to market conditions. Moreover, the macroprudential policies that had initially promoted loan expansion were subsequently reversed. The BRSA resulted in a reduction in banks' asset ratio from 100 percent to 95 percent and an easing of restrictions that encouraged them to lend more. By the end of November, the BRSA forecasted that the property ratio will be totally abolished by January 2021.

Non-performing loans (NPLs), which are loans where the borrower is in default and has not completed payments within a certain time window, are one of the biggest hazards to the banking sector (typically 90 days). Globally, NPL ratios were expected to increase as a result of COVID-19 due to lax lending regulations and a declining economy. High capital adequacy ratio economies are predicted to be less impacted by this scenario. The capital adequacy ratio, which compares a bank's available capital to its credit exposures, assesses a bank's ability to withstand losses before failing. The Turkish government imposed stringent capital adequacy requirements on banks following the financial crisis of 2001.

During the exchange rate crisis in August 2018, the NPL ratio increased due to the private sector's significant ownership of foreign debt, which accounts for approximately 35 percent of GDP. COVID-19 shocks further deteriorated the exchange rate, despite significant sales of foreign exchange (FX) through central bank reserves. The Turkish

Lira has lost its worth making it perhaps of the most terrible impacted cash in the globe. As a result, low-interest rate policies had less of an impact on the private sector's burden of foreign debt.

The rise in TL loans in Turkey did not correlate with a corresponding rise in TL deposits, in contrast to industrialized economies where the epidemic caused a rise in bank deposits as a result of increased demand for safe haven assets. Instead, the climate of low interest rates brought about dollarization, which raised the demand for gold and the amount of foreign exchange reserves. On TL-denominated assets and liabilities, the loan-to-deposit ratio exceeded 140 percent as a result. There has also been a net outflow from the banking system as a result of the reduction in TL deposits not being completely offset by a rise in FX deposits, which has increased net borrowing requirements. Banks can exchange their FX deposits for TL at the CBRT, however due to micro prudential policies like the active ratio, accepting FX deposits became more expensive and put more stress on bank balance sheets. Banks that did not lend were penalized by the active ratio. Figure 7 dispels any lingering questions by demonstrating that the banking sector's net FX position followed a V-shaped trend and is currently at levels before COVID.

After August 2020, Turkey changed its policy stance and allowed the currency rate to fall, as previously stated. NPL may face additional strain as a result of this in the future. Given the high capital asset ratios, the number of NPLs would still be manageable even if they doubled.

6. DISCUSSION AND CONCLUSION

Financial crises on a global scale typically have significant impacts on a country's economic growth and stability. There are various discussions regarding classification strategies for economic crises, encompassing both entire economies and specific sectors within countries. The primary objective of this thesis was to investigate the causes and consequences of economic crises in Turkey and to analyze their effects on the Turkish banking sector. An examination over time reveals that while the reasons behind economic crises in Turkey may vary, their outcomes tend to exhibit notable similarities.

Although the vulnerabilities of the Turkish economy have experienced fluctuations since World War II, the impact of these crises on the economy share remarkable similarities. While the specific indicators of fragility may differ in each period, they often involve increasing exchange rates, inflation, budget deficits, and current account deficits. An analysis of the measures implemented by economic authorities reveals that these measures often constitute short-term solutions aimed at promptly addressing the situation.

When we delve into the various crises we have identified and labeled as significant periods of economic turmoil in the Turkish economy within this thesis, we find that while the underlying causes of these crises may differ, there are common factors that contribute to their exacerbation. These factors typically include a loss of confidence in the Turkish Lira, inflation, a growing current account deficit, and financial difficulties.

Regrettably, even when a particular crisis period is successfully navigated, it often fails to bring about structural improvements to the economy. This is primarily because governments tend to implement impractical solutions driven by political considerations and growth goals, rather than addressing the root causes of these recurring issues.

Medium-term planning in the Turkish economy began to be officially implemented from the mid-20th century onwards. Particularly starting in the 1960s, Turkey formulated and executed five-year development plans. These five-year development plans aimed to outline Turkey's goals for economic growth, industrialization, and social development.

Furthermore, from the 1980s onwards, Turkey also initiated the practice of Medium-Term Programs (MTPs) (<https://www.sbb.gov.tr/orta-vadeli-programlar/>). MTPs typically cover periods of three years and encompass economic programs with objectives such as ensuring economic stability, controlling inflation, and maintaining fiscal discipline. These programs have aimed to play a significant role in shaping Turkey's economic policies and objectives.

Governments aspire to create a robust, steady, sustainable, and inclusive economic landscape within their medium-term programs. These programs are designed to address structural issues by establishing a sound macroeconomic framework conducive to growth. However, despite prioritizing these objectives, there is often a misalignment between policy intentions and actual outcomes.

Within these programs, policies and measures have been established with the intent of attaining stable and sustainable economic growth, enhancing employment opportunities, upholding price stability, and securing a lasting enhancement in the balance of payments.

Medium-Term Programs, typically prepared a year in advance for the following 3 years, still exhibit considerable deviations within this relatively short forecasting period. In our analysis of the comparison between forecasts and actual outcomes in MTPs, a recurring pattern emerges: program targets rarely come close to the real figures and consistently display significant deviations. The economic policies outlined in the MTP's are primarily focused on employing monetary and fiscal policy tools. Its aims are to attain sustainable growth, establish price stability, address unemployment, achieve a balanced current account, manage the budget, mitigate income distribution disparities, and reduce the public sector's debt burden, all of which are determined in the social process.

When we assess the objectives of prior programs in contrast to their actual accomplishments, it becomes evident that the Turkish economy has consistently fallen short of achieving significant success, and its vulnerability persists amid economic crises. This failure to meet program goals can primarily be attributed to two critical factors: a lack of adequate systematic implementation and adherence to the program's

guidelines, and programs being formulated without due consideration for the economic realities within the country.

When we examine the alignment between the forecasts and actual outcomes in medium-term programs, it becomes evident that program targets are seldom achieved and, in most cases, exhibit substantial disparities from the actual figures.

It is evident that the prominent fiscal and monetary policies within economic strategies fall short in guaranteeing both stable growth and low inflation, which serve as fundamental benchmarks for a robust and healthy economy. When we juxtapose the growth and inflation objectives, which represent the paramount goals of Medium-Term Programs (MTPs) with the actual outcomes, it becomes notably apparent that there is an imperative need to adopt and emphasize structural reforms beyond fiscal and monetary policies. These reforms are essential in mitigating the emergence of economic crisis vulnerabilities that have recurred in Turkey within intervals of less than a decade.

As we analyze the medium-term programs, it becomes apparent that their fundamental principles and objectives exhibit a considerable degree of similarity. Following the 2001 crisis, ‘Transition to the Strong Economy Programme’ was initiated with the primary objectives of fiscal discipline, price stability, and sustained growth. Turkey's fiscal policy approach is reflected in the medium-term program. In the 2006-2009 Medium-Term Program, maintaining macroeconomic stability was prioritized, and fiscal, monetary, and revenue policies were aligned. During this period, a focus was placed on maintaining a primary surplus to reduce the public debt-to-GNP ratio and control the increase in the current account deficit (MTP, 2006).

In the aftermath of the 2008 global crisis, fiscal policy was implemented in coordination with revenue and monetary policies to achieve the medium-term fiscal targets outlined in the 2010-2012 medium-term program. This approach encompassed aspects related to revenue, expenditure, public sector deficit, and debt (MTP, 2010).

The subsequent period, as defined in the 2012-2014 medium-term program (MTP, 2012), saw fiscal policy aimed at fostering private sector-led growth while maintaining macroeconomic stability and addressing the current account deficit. This involved

adhering to revenue, expenditure, and debt targets. In line with the objectives of supporting economic and financial stability, boosting domestic savings, reducing the current account deficit, and enhancing the economy's growth potential, fiscal policies were structured according to the 2014-2016 medium-term program (Tuncer and Akıncı, 2018)

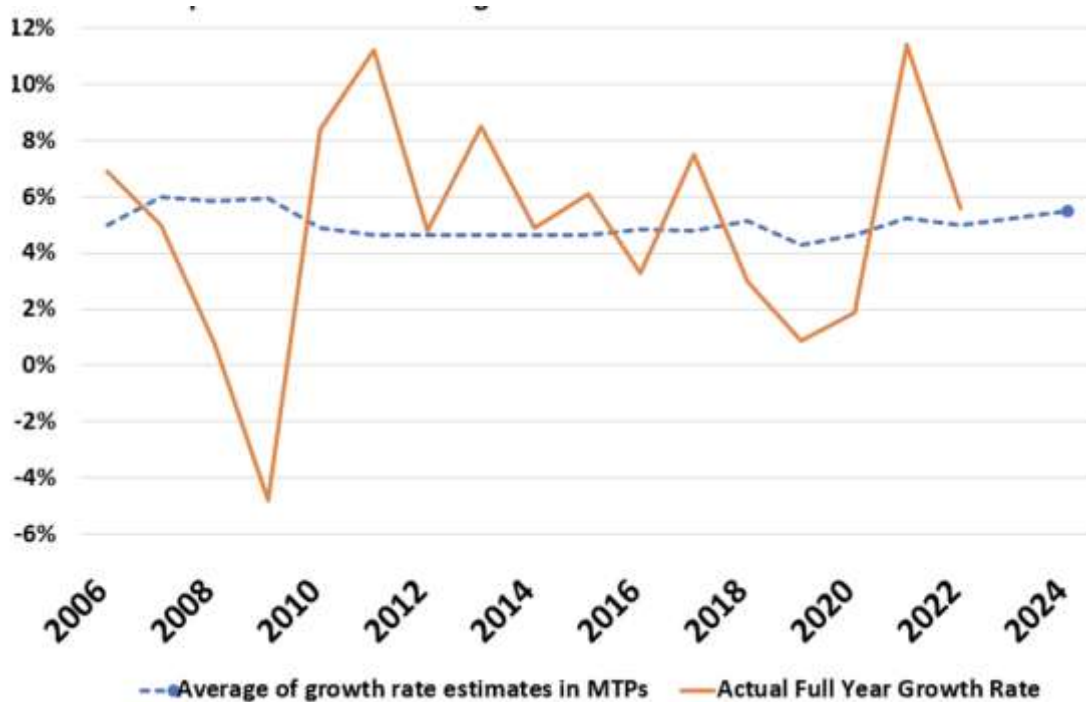
Upon reviewing the 17 medium-term programs unveiled since 2005, it becomes evident that the 3-year growth objectives within these programs have remained remarkably consistent, hovering around the level of 5 percent.

Nevertheless, it is observed that the volatility in the actual growth figures for the respective years is considerably high, with noteworthy fluctuations both upwards and downwards.

Table 88: Growth Rate Targets of Medium Term Programs

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2006-2008 MTP	5,0%	5,0%	5,0%																
2007-2009 MTP		7,0%	7,0%	7,1%															
2008-2010 MTP			5,5%	5,7%	5,7%														
2009-2011 MTP				5,0%	5,5%	6,0%													
2010-2012 MTP					3,5%	4,0%	5,0%												
2011-2013 MTP						4,0%	5,0%	5,0%											
2012-2014 MTP							4,0%	5,0%	5,0%										
2013-2015 MTP								4,0%	5,0%	5,0%									
2014-2016 MTP									4,0%	5,0%	5,0%								
2015-2017 MTP										4,0%	5,0%	5,0%							
2016-2018 MTP											4,5%	5,0%	5,0%						
2017-2019 MTP												4,4%	5,0%	5,0%					
2018-2020 MTP													5,5%	5,5%	5,5%				
2019-2021 MTP														2,3%	3,5%	5,0%			
2020-2022 MTP															5,0%	5,0%	5,0%		
2021-2023 MTP																5,8%	5,0%	5,0%	
2022-2024 MTP																	5,0%	5,5%	5,5%
Average of growth rate estimates in MTPs	5,0%	6,0%	5,8%	5,9%	4,9%	4,7%	4,7%	4,7%	4,7%	4,7%	4,8%	4,8%	5,2%	4,3%	4,7%	5,3%	5,0%	5,3%	5,5%
Actual Full Year Growth Rate	6,9%	5,0%	0,8%	-4,8%	8,4%	11,2%	4,8%	8,5%	4,9%	6,1%	3,3%	7,5%	3,0%	0,9%	1,9%	11,4%	5,6%		
Difference between average MTPs growth rate and realization	1,9%	-1,0%	-5,0%	-10,7%	3,5%	6,5%	0,1%	3,8%	0,2%	1,4%	-1,5%	2,7%	-2,2%	-3,4%	-2,8%	6,1%	0,6%		

Source: Republic of Turkey Ministry of Treasury and Finance

Figure 77: Comparison of MTP Average Growth Rate Forecasts and Realization

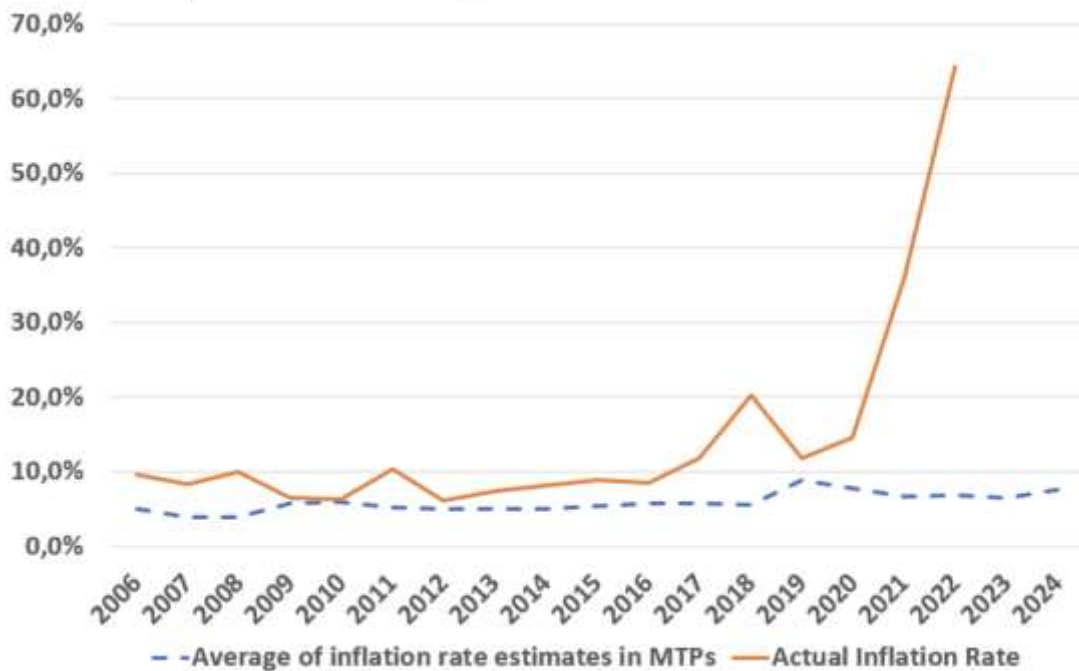
Source: Republic of Turkey Ministry of Treasury and Finance

As we examine the inflation targets and their actual outcomes within the medium-term programs covering the same period, it becomes evident that the discrepancies from the set targets are significantly more pronounced. Additionally, it is noteworthy that the realized inflation has consistently exceeded the initial forecasts.

Figure 78: Inflation Rate Targets of Medium Term Programs

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2006 -2008 MTP	5,0%	4,0%	4,0%																
2007 -2009 MTP		4,0%	4,0%																
2008 -2010 MTP			4,0%	4,0%															
2009 -2011 MTP				7,5%	6,5%	5,5%													
2010 -2012 MTP					5,3%	4,9%	4,8%												
2011 -2013 MTP						5,3%	5,0%	4,9%											
2012 -2014 MTP							5,2%	5,0%	5,0%										
2013 -2015 MTP								5,3%	5,0%	5,0%									
2014 -2016 MTP									5,3%	5,0%	5,0%								
2015 -2017 MTP										6,3%	5,0%	5,0%							
2016 -2018 MTP											7,5%	6,0%	5,0%						
2017 -2019 MTP												6,5%	5,0%	5,0%					
2018 -2020 MTP													7,0%	6,0%	5,0%				
2019 -2021 MTP														15,9%	9,8%	6,0%			
2020 -2022 MTP															8,5%	6,0%	4,9%		
2021 -2023 MTP																8,0%	6,0%	4,9%	
2022 -2024 MTP																	9,8%	8,0%	7,6%
Average of inflation rate estimates in MTPs	5,0%	4,0%	4,0%	5,8%	5,9%	5,2%	5,0%	5,1%	5,1%	5,4%	5,8%	5,8%	5,7%	9,0%	7,8%	6,7%	6,9%	6,5%	7,6%
Actual Inflation Rate	9,7%	8,4%	10,1%	6,5%	6,4%	10,5%	6,2%	7,4%	8,2%	8,8%	8,5%	11,9%	20,3%	11,8%	14,6%	36,1%	64,3%		
Difference between average MTPs inflation rate and realization	4,7%	4,4%	6,1%	0,8%	0,5%	5,2%	1,2%	2,3%	3,1%	3,4%	2,7%	6,1%	14,6%	2,9%	6,8%	29,4%	57,4%		

Source: Republic of Turkey Ministry of Treasury and Finance

Figure 79: Comparison of MTP Average Inflation Rate Forecast and Realization

Source: Republic of Turkey Ministry of Treasury and Finance

We can further illustrate the government's inability to achieve its program objectives, as demonstrated by indicators like inflation and growth, by considering additional factors such as the current account deficit and exchange rate levels. One of the most significant conclusions to be drawn from this is that the failure to meet targets erodes trust in these programs.

The success of a state-prepared medium-term program, designed to attain specific economic objectives and strategies, hinges on the trust and acceptance of this program by all sectors and participants within society. The establishment of this trust can be gauged by the historical performance of such programs in accomplishing their intended goals. When society lacks confidence in the government's economic program, the likelihood of the program's success diminishes significantly. An economic program that lacks the trust of domestic and international institutions, investors, and consumers is predisposed to a low probability of effective implementation and goal achievement. Consequently, when an economic program is not trusted, deviations from growth targets can lead to adverse consequences, including fluctuations in exchange rates, increased

costs, inflation, current account deficits, budget shortfalls, and a rise in the country's borrowing expenses.

Another critical concern revolves around the execution of structural reforms aimed at strengthening domestic savings, amplifying private investments and exports, cultivating growth with a well-defined direction, expediting industrial and technological structural transformations, elevating productivity levels, and enhancing competitiveness in international markets. These initiatives must be undertaken resolutely, firmly anchored within the framework of prioritizing dedicated programs. More radical and reformist practices are needed to prevent vulnerabilities of Turkish economy.

In this doctoral thesis, we conducted separate examinations of significant crises in Turkey's history, meticulously documenting their causes, progression, and resultant consequences. Additionally, we dedicated a section to analyze the evolution of the Turkish banking sector during these same time periods, recognizing its pivotal role in driving significant financial developments within the sector. Furthermore, we explored how these developments impacted various financial indicators.

Within the scope of the intermediary role, the democratic participation of banks in the state's decision-making processes regarding the banking sector should be ensured by bank associations. With democratic participation, the decisions taken by the state will be more comprehensive. In addition, the reasons for the existence of the regulations will be internalized by banks. Internalization of the decisions taken by the state by banks will make traditional measures to prevent banking crises more effective.

Strengthening and developing a robust banking sector is vital for maintaining financial stability in Turkey. Banks must have strong capital structures, high profitability, and low risks to sustain themselves during periods of heightened economic fragility or crisis. Being able to read well the reasons for the emergence of economic crises, which is one of the risks brought by financial globalization, can enable the measures to be taken to yield more effective results. When the situation of the Turkish banking sector is evaluated in the global financial crises experienced in the last forty years, it is seen that the fragilities experienced are mostly caused by foreign factors, except for the 2000 and 2001 crises, because the Turkish economy is an open economy.

It is impossible for Turkey, like other developed and developing countries, not to be affected by global financial crises. Global financial crises trigger the risks of banks. The point to be noted here is to interpret financial crises correctly, to achieve realism in risk measurements and to quickly take effective measures that can be overcome with the least damage. Particularly, the serious implementation of the decisions taken by Basel (https://www.bis.org/basel_framework) after the crisis is important in terms of reducing the fragility rates of all financial institutions, especially the banking sector.

Banks still manage the interest, exchange rate and liquidity risks they are exposed to. Hedge transactions should be carried out, it should not be forgotten that unhedged risks are exposed to high risk to banks. While it may provide profit, it may also result in high losses. Banks are the main supporters of the sector, can achieve a sustainable development by managing their risks well. They need to offer their support to their stakeholders and the real sector through the life cycle. Exchange rate, liquidity and interest rate of the sector. Although it can be seen that it is open to risk, the risk here is recognized and closely needs to be monitored.

While the primary focus of this thesis has been on the effects of financial crises on the Turkish banking industry, it has also explored Turkey's reactions to economic turmoil. Throughout the course of the Republic's history, we have witnessed the internationalization of the Turkish economy, the shifting dynamics between core and periphery regions within the country, and the evolving relationships between financial institutions and macroeconomic variables.

Financial crises hold profound implications for global growth and stability, and the central aim of this thesis has been to dissect the causes and consequences of these economic disruptions within Turkey. Through the establishment of a typology of crises for both developed and developing nations, I have scrutinized the origins of various crises within Turkey's post-World War II era and critically assessed the policies implemented in response. It is important to note that during major crises, these policies can fundamentally alter a country's production and accumulation regime, with ripple effects on production, international trade, monetary and fiscal policies, society at large, and ultimately, the banking system.

To better understand the Turkish experience, we have compared it with major crises in both developed and developing countries, shedding light on the roles played by international bodies during such crises and the development of new accumulation regimes. Monetary crises, as observed throughout history, bring about far-reaching transformations in industry, international trade, and the nation's financial frameworks. One sector particularly susceptible to the ramifications of financial crises is the banking industry, with lending to businesses severely restricted during such periods. This further exacerbates financial challenges, as banks become more risk-averse and are less inclined to support investment projects.

While the primary focus of this thesis has revolved around the profound effects of financial crises on the Turkish banking sector, it has also sought to illuminate Turkey's reactions to these economic cataclysms. Throughout the Republic's history, we have observed the progressive internationalization of the Turkish economy, the dynamic interplay between core and periphery regions within the nation, and the evolving relationships between financial institutions and macroeconomic variables.

Financial crises are renowned for their far-reaching implications for global economic growth and stability, and the central objective of this thesis has been to dissect the causes and consequences of these economic disruptions within Turkey. Through the establishment of a comprehensive typology of crises for both developed and developing nations, we have meticulously examined the origins of various crises within Turkey's post-World War II era. Simultaneously, we have critically assessed the policies and measures implemented in response to these crises. It is of paramount importance to acknowledge that, especially during major crises, the policies introduced often have the effect of reshaping the production and accumulation regime of the country, with profound consequences spanning across production sectors, international trade dynamics, monetary and fiscal policies, the broader society, and, ultimately, the intricately linked banking system.

To deepen our understanding of the Turkish experience, we have conducted a comparative analysis with major crises in both developed and developing countries. This comparative lens has allowed us to shed light on the pivotal roles played by

international institutions during these crises and the resultant development of new accumulation regimes within Turkey.

Monetary crises, as history has attested, usher in extensive transformations across industries, international trade networks, and a nation's financial infrastructure. Among the sectors most susceptible to the reverberations of financial crises is the banking industry, with lending to businesses contracting significantly during these periods. This credit squeeze exacerbates the prevailing financial challenges, as banks become increasingly risk-averse, disinclined to support investment projects, and hesitant to extend credit to businesses and individuals alike.

The primary objective of this research has been to meticulously compare the performance of Turkey's banking sector. To this end, we adopted a comprehensive literature review approach, evaluating a wide array of banking ratios to gauge the impact of the crisis. Drawing from existing literature, this study has systematically assessed key indicators within the Turkish banking industry, including the deposit loan/foreign exchange ratio, profitability, capital adequacy ratio, non-performing loan rates, net interest margin, and return on equity, both prior to and following the crisis.

During the 2000-2001 crisis, Turkish banking sector underwent significant learning and developed numerous precautionary and structural measures in response to crises in banking and finance, facilitating a paradigm shift in the sector. As a candidate economy to the European Union, Turkey has been declared a market economy and the current challenging target is to adapt the productivity and efficiency to the European levels. Turkish economy is now facing the challenging task of sustainable growth under low and stable inflation and support domestic demand to get rid of the risk of recession without increasing the risk premium.

In conclusion, after reviewing existing literature, this thesis explores the connections between crises worldwide and in Turkey since 1958. It looks into how these crises have influenced changes in the banking sector. The research confirms that economic turmoil has led to significant transformations and growth in the banking sector, emphasizing the banking industry's vital role in the national economy. This study highlights the importance of having a strong and adaptable banking sector, especially when facing

financial volatility or crises, whether they originate at home or abroad. The banking sector is crucial for effectively dealing with these challenges, emphasizing the need for continued resilience and adaptability within the industry.



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APPENDIX A: ECONOMIC INDICATORS AND GRAPHS

Table A.1: GDP in TRY and USD, GDP per capita, GDP Growth Rate for Turkey Between 1957 and 2023

Year	GDP (billion TRY)	GDP (constant 2015 USD; in billions)	GDP per capita (constant 2015 USD)	GDP Growth Rate
1957	-	-	-	-
1958	-	-	-	-
1959	-	-	-	-
1960	68.100	68.945.010.375	2.506	-
1961	71.900	69.742.062.533	2.468	1,16
1962	80.300	73.627.691.738	2.536	5,57
1963	93.200	80.303.003.242	2.692	9,07
1964	100.600	84.686.789.800	2.766	5,46
1965	107.700	87.077.946.329	2.775	2,82
1966	126.900	96.841.835.388	3.010	11,21
1967	140.800	101.424.885.168	3.071	4,73
1968	157.500	108.299.459.838	3.196	6,78
1969	175.200	112.719.318.501	3.246	4,08
1970	196.500	116.364.107.779	3.274	3,23
1971	242.500	122.841.742.167	3.378	5,57
1972	289.100	131.963.709.916	3.549	7,43
1973	364.000	136.268.807.577	3.583	3,26
1974	495.800	143.892.331.135	3.703	5,59
1975	644.600	154.215.329.123	3.887	7,17
1976	823.200	170.348.071.606	4.206	10,46
1977	1.056.300	176.151.267.924	4.256	3,41
1978	1.581.900	178.798.703.479	4.228	1,50
1979	2.778.100	177.682.796.507	4.114	-0,62
1980	5.230.600	173.334.275.830	3.931	-2,45
1981	7.901.000	181.752.512.799	4.041	4,86
1982	10.492.200	188.228.768.885	4.096	3,56
1983	13.905.800	197.585.773.032	4.202	4,97
1984	21.997.100	210.847.761.163	4.383	6,71
1985	35.095.500	219.790.522.564	4.469	4,24
1986	51.079.300	235.202.302.384	4.683	7,01
1987	74.721.900	257.512.508.136	5.025	9,49
1988	129.224.500	263.488.695.661	5.040	2,32
1989	227.323.900	264.253.455.972	4.957	0,29
1990	393.060.200	288.739.568.787	5.315	9,27
1991	630.116.900	290.819.299.368	5.257	0,72
1992	1.093.368.000	305.463.897.616	5.425	5,04
1993	1.981.867.100	328.835.750.523	5.739	7,65
1994	3.868.429.100	313.485.213.103	5.376	-4,67
1995	7.762.456.100	338.182.414.808	5.702	7,88

Year	GDP (billion TRY)	GDP (constant 2015 USD; in billions)	GDP per capita (constant 2015 USD)	GDP Growth Rate
1996	14.772.110.200	363.139.142.331	6.023	7,38
1997	28.835.883.200	390.656.605.096	6.375	7,58
1998	71.892.898.315	400.048.576.871	6.427	2,31
1999	107.164.345.107	386.994.318.102	6.125	-3,39
2000	170.666.714.837	413.825.561.819	6.455	6,64
2001	245.428.759.559	390.030.564.890	5.994	-5,96
2002	359.358.871.420	415.178.651.612	6.292	6,43
2003	468.015.146.386	439.106.252.848	6.567	5,61
2004	577.023.497.304	482.120.822.058	7.112	9,64
2005	673.702.942.744	525.474.596.539	7.648	9,01
2006	789.227.555.109	561.984.508.900	8.074	7,11
2007	880.460.879.159	590.328.242.181	8.377	5,03
2008	994.782.858.415	595.139.562.416	8.345	0,85
2009	999.191.848.059	566.435.065.085	7.843	-4,70
2010	1.160.013.978.258	614.169.138.941	8.391	8,49
2011	1.394.477.165.521	682.956.761.671	9.208	11,11
2012	1.569.672.114.915	715.660.096.423	9.507	4,79
2013	1.809.713.086.703	776.389.702.523	10.139	8,49
2014	2.044.465.875.822	814.741.142.370	10.430	5,17
2015	2.338.647.493.683	864.313.960.482	10.852	6,09
2016	2.608.525.749.333	893.035.841.215	11.022	3,18
2017	3.110.650.154.919	960.031.367.600	11.695	7,47
2018	3.724.387.935.570	988.639.200.797	11.939	2,83
2019	4.311.732.766.200	996.386.278.399	11.935	0,89
2020	5.048.220.066.900	1.015.716.493.490	12.072	1,79
2021	7.248.788.983.000	1.131.035.829.094	13.342	11,35
2022	15.006.574.156.844	1.193.987.700.341	13.991	5,57
2023- June	10.144.691.405.459	-	-	3,80

Source: World Development Indicators, Turkish Statistical Institute

Table A.2: Yearly Rates of Inflation, FX Rates, Devaluation Rate and TL Interest Rate for Turkey Between 1957 and 2023

Year	Rate of Inflation (%)	FX Rates	Devaluation Rate	TL Interest Rate
1957	11,63	0,000003	-	-
1958	12,40	0,000003	0,00	-
1959	26,65	0,000003	0,00	-
1960	5,66	0,000005	73,93	-
1961	3,17	0,000001	84,80	-
1962	3,89	0,000001	0,00	-
1963	6,36	0,000001	0,00	-
1964	1,12	0,000001	0,00	7,50
1965	4,56	0,000001	0,00	7,50
1966	8,47	0,000001	0,00	7,50
1967	13,97	0,000001	0,00	7,50
1968	6,05	0,000001	0,00	7,50
1969	4,92	0,000001	0,00	7,50
1970	7,92	0,000001	27,78	9,00
1971	19,01	0,000001	29,71	9,00
1972	15,42	0,000001	-5,14	9,00
1973	13,94	0,000001	0,00	8,75
1974	23,90	0,000001	-1,58	9,00
1975	21,23	0,000001	3,70	9,00
1976	17,46	0,000002	11,15	9,00
1977	25,99	0,000002	12,14	9,00
1978	61,90	0,000002	34,88	10,00
1979	63,54	0,000003	27,98	10,75
1980	94,26	0,000008	144,67	26,00
1981	37,61	0,00011	46,27	31,50
1982	29,14	0,00016	46,16	31,50
1983	31,39	0,0002	38,70	48,50
1984	48,39	0,0004	62,64	52,00
1985	44,96	0,001	42,35	52,00
1986	34,61	0,001	29,22	48,00
1987	38,86	0,001	27,09	45,00
1988	68,81	0,001	65,93	54,00
1989	63,27	0,002	49,17	54,00
1990	60,30	0,003	22,95	45,00

Year	Rate of Inflation (%)	FX Rates	Devaluation Rate	TL Interest Rate
1991	65,98	0,004	59,92	48,00
1992	70,08	0,007	64,73	48,00
1993	66,09	0,011	59,84	48,00
1994	105,21	0,030	169,55	55,00
1995	89,11	0,046	54,84	50,00
1996	80,41	0,08	77,57	50,00
1997	85,67	0,15	86,56	67,00
1998	84,64	0,26	71,68	67,00
1999	64,87	0,42	60,62	60,00
2000	54,92	0,63	49,29	60,00
2001	54,40	1,23	96,03	60,00
2002	44,96	1,51	22,98	55,00
2003	21,60	1,50	-0,42	43,00
2004	8,60	1,43	-5,02	38,00
2005	8,18	1,34	-5,75	23,00
2006	9,60	1,43	6,32	27,00
2007	8,76	1,30	-8,79	25,00
2008	10,44	1,30	-0,11	25,00
2009	6,25	1,55	19,09	15,00
2010	8,57	1,50	-3,04	14,00
2011	6,47	1,67	11,45	17,00
2012	8,89	1,80	7,23	13,50
2013	7,49	1,90	6,00	10,25
2014	8,85	2,19	14,96	9,00
2015	7,67	2,72	24,28	9,00
2016	7,78	3,02	11,03	8,75
2017	11,14	3,65	20,79	8,75
2018	16,33	4,83	32,35	18,50
2019	15,18	5,67	17,51	12,75
2020	12,28	7,01	23,53	15,75
2021	19,59	8,85	26,28	15,75
2022	72,31	16,55	86,98	9,75
2023-June	38,20	23,09	39,50	15,00

Source: World Development Indicators, Turkish Statistical Institute, Federal Reserve
Economic Data

Table A.3: Population, Labor Force and Unemployment Rate for Turkey Between 1957 and 2023

Year	Population	Labor Force	Unemployment Rate (%)
1957	25.514.825	-	-
1958	26.155.927	-	-
1959	26.808.632	-	-
1960	27.472.345	-	-
1961	28.146.910	-	-
1962	28.832.827	-	-
1963	29.531.365	-	-
1964	30.244.261	-	-
1965	30.972.994	-	-
1966	31.717.507	-	-
1967	32.477.992	-	-
1968	33.256.464	-	-
1969	34.055.390	-	-
1970	34.876.303	-	-
1971	35.720.599	-	-
1972	36.587.261	-	-
1973	37.472.336	-	-
1974	38.370.283	-	-
1975	39.277.258	-	-
1976	40.189.567	-	-
1977	41.108.297	-	-
1978	42.039.992	-	-
1979	42.994.041	-	-
1980	43.975.971	-	7,2
1981	44.988.414	-	7,2
1982	46.025.411	-	7,6
1983	47.073.472	-	7,5
1984	48.114.155	-	7,4
1985	49.133.937	-	6,9
1986	50.128.541	-	7,7
1987	51.100.924	-	8,1
1988	52.053.765	-	8,7
1989	52.992.487	-	8,6
1990	53.921.760	19.672.893	8,0

Year	Population	Labor Force	Unemployment Rate (%)
1991	54.840.590	20.041.385	7,7
1992	55.748.948	20.178.525	7,9
1993	56.653.804	19.234.777	8,4
1994	57.564.204	20.657.052	8,0
1995	58.486.456	20.944.086	7,1
1996	59.423.282	21.251.639	6,1
1997	60.372.568	21.215.774	6,3
1998	61.329.676	21.764.624	6,4
1999	62.287.397	22.203.014	7,2
2000	63.240.194	21.414.874	6,0
2001	64.192.243	21.768.238	7,8
2002	65.145.367	22.073.032	9,8
2003	66.089.402	21.909.698	9,9
2004	67.010.930	21.875.152	9,7
2005	67.903.469	22.316.274	9,5
2006	68.756.810	22.239.126	9,0
2007	69.581.848	22.626.117	9,2
2008	70.418.604	23.361.213	10,0
2009	71.321.399	24.207.113	13,1
2010	72.326.988	25.218.298	11,1
2011	73.443.863	26.285.363	9,1
2012	74.653.016	26.780.195	8,4
2013	75.928.564	27.839.270	9,0
2014	77.231.907	28.689.600	9,9
2015	78.529.409	29.780.340	10,3
2016	79.821.724	30.831.360	10,9
2017	81.101.892	31.954.592	10,9
2018	82.319.724	32.826.049	10,9
2019	83.154.997	33.368.909	13,7
2020	83.614.362	31.643.711	13,1
2021	84.775.404	33.317.079	12,0
2022	85.341.241	34.427.719	10,0
2023-June	85.279.553	34.914.000	9,7

Source: World Development Indicators, Turkish Statistical Institute

Table A.4: Current Account Balance, Current Account Balance to GDP and Budget Deficit to GDP Ratio for Turkey Between 1957 and 2023

Year	Current Account Balance (current billion USD)	Current Account Balance to GDP	Budget Deficit to GDP Ratio (%)
1957	-	-	-
1958	-	-	-
1959	-	-	-
1960	-	-	-
1961	-	-	-
1962	-	-	-
1963	-	-	-
1964	-	-	-
1965	-	-	-
1966	-	-	-
1967	-	-	-
1968	-	-	-
1969	-	-	-
1970	-	-	-
1971	-	-	-
1972	-	-	-
1973	-	-	-
1974	-0,56	-1,57	-
1975	-1,65	-3,68	-
1976	-2,03	-3,97	-
1977	-3,14	-5,35	-
1978	-1,27	-1,94	-
1979	-1,41	-1,58	-
1980	-3,41	-4,95	-
1981	-1,94	-2,73	-
1982	-0,95	-1,47	-
1983	-1,92	-3,12	-
1984	-1,44	-2,40	-
1985	-1,01	-1,51	-
1986	-1,47	-1,93	-
1987	-0,81	-0,92	-
1988	1,60	1,76	-
1989	0,94	0,88	-
1990	-2,63	-1,74	-

Year	Current Account Balance (current billion USD)	Current Account Balance to GDP	Budget Deficit to GDP Ratio (%)
1991	0,25	0,17	-
1992	-0,97	-0,61	-
1993	-6,43	-3,57	-
1994	2,63	2,01	-
1995	-2,34	-1,38	-
1996	-2,44	-1,34	-
1997	-2,64	-1,39	-
1998	2,00	0,72	-
1999	-0,93	-0,36	-
2000	-9,92	-3,62	-7,68
2001	3,76	1,86	-11,64
2002	-0,63	-0,26	-11,18
2003	-7,55	-2,40	-8,59
2004	-14,20	-3,47	-5,05
2005	-20,98	-4,14	-1,02
2006	-31,16	-5,59	-0,59
2007	-36,95	-5,42	-1,56
2008	-39,43	-5,12	-1,75
2009	-11,36	-1,75	-5,28
2010	-44,62	-5,74	-3,46
2011	-74,40	-8,87	-1,28
2012	-47,28	-5,45	-1,87
2013	-55,09	-5,83	-1,02
2014	-38,02	-4,14	-1,14
2015	-26,63	-3,16	-1,01
2016	-26,67	-3,11	-1,15
2017	-39,96	-4,76	-1,54
2018	-20,15	-2,79	-1,96
2019	10,80	0,70	-2,89
2020	-31,89	-4,94	-3,47
2021	-7,23	-1,68	-2,78
2022	-48,75	-5,38	-0,95
2023-June	-	-	-

Source: World Development Indicators, Republic of Turkey Ministry of Treasury and Finance

Table A.5: Goods Export, Goods Import, Trade Balance and Export to Import Rate for Turkey Between 1957 and 2023

Year	Goods Export (billion USD)	Goods Import (billion USD)	Trade Balance (billion USD)	Export to Import Rate
1957	-	-	-	-
1958	-	-	-	-
1959	-	-	-	-
1960	-	-	-	-
1961	-	-	-	-
1962	-	-	-	-
1963	-	-	-	-
1964	-	-	-	-
1965	-	-	-	-
1966	-	-	-	-
1967	-	-	-	-
1968	-	-	-	-
1969	-	-	-	-
1970	-	-	-	-
1971	-	-	-	-
1972	-	-	-	-
1973	-	-	-	-
1974	1,53	3,59	-2,06	0,43
1975	1,40	4,50	-3,10	0,31
1976	1,96	4,87	-2,91	0,40
1977	1,75	5,51	-3,75	0,32
1978	2,29	4,37	-2,08	0,52
1979	2,26	4,82	-2,55	0,47
1980	2,91	7,51	-4,60	0,39
1981	4,70	8,57	-3,86	0,55
1982	5,89	8,52	-2,63	0,69
1983	5,91	8,90	-2,99	0,66
1984	7,39	10,24	-2,85	0,72
1985	8,26	11,16	-2,91	0,74
1986	7,58	10,58	-3,00	0,72
1987	10,32	13,48	-3,16	0,77
1988	11,93	13,64	-1,71	0,87
1989	11,78	15,89	-4,11	0,74
1990	13,03	22,45	-9,43	0,58

Year	Goods Export (billion USD)	Goods Import (billion USD)	Trade Balance (billion USD)	Export to Import Rate
1991	13,67	20,95	-7,28	0,65
1992	14,89	22,94	-8,05	0,65
1993	15,61	29,66	-14,04	0,53
1994	18,39	22,52	-4,13	0,82
1995	21,98	35,09	-13,11	0,63
1996	32,14	42,33	-10,19	0,76
1997	32,20	47,16	-14,96	0,68
1998	30,85	44,78	-13,93	0,69
1999	29,14	38,80	-9,67	0,75
2000	30,92	52,88	-21,96	0,58
2001	34,81	38,09	-3,28	0,91
2002	40,71	47,11	-6,40	0,86
2003	52,47	65,88	-13,41	0,80
2004	68,83	91,27	-22,44	0,75
2005	78,51	111,45	-32,94	0,70
2006	93,78	134,67	-40,89	0,70
2007	115,38	162,21	-46,83	0,71
2008	140,91	193,82	-52,92	0,73
2009	109,73	134,49	-24,76	0,82
2010	120,99	177,32	-56,33	0,68
2011	142,39	231,55	-89,16	0,61
2012	161,95	227,32	-65,37	0,71
2013	167,40	249,28	-81,89	0,67
2014	173,29	239,87	-66,57	0,72
2015	154,87	203,87	-49,01	0,76
2016	152,65	192,57	-39,92	0,79
2017	169,21	227,79	-58,58	0,74
2018	178,91	219,64	-40,73	0,81
2019	182,20	198,98	-16,78	0,92
2020	168,38	206,25	-37,87	0,82
2021	224,69	254,00	-29,31	0,88
2022	253,40	343,09	-89,68	0,74
2023-June	250	350,2	-100,20	0,71

Source: World Development Indicators, Central Bank of the Republic of Turkey

Table A.6: Gross External Debt, Short Term Debt and Long Term Debt for Turkey Between 1957 and 2023

Year	Gross External Debt (million USD)	Short-Term Debt (million USD)	Long-Term Debt (million USD)
1957	-	-	-
1958	-	-	-
1959	-	-	-
1960	-	-	-
1961	-	-	-
1962	-	-	-
1963	-	-	-
1964	-	-	-
1965	-	-	-
1966	-	-	-
1967	-	-	-
1968	-	-	-
1969	-	-	-
1970	-	-	-
1971	-	-	-
1972	-	-	-
1973	-	-	-
1974	-	-	-
1975	-	-	-
1976	-	-	-
1977	-	-	-
1978	-	-	-
1979	-	-	-
1980	-	-	-
1981	-	-	-
1982	-	-	-
1983	-	-	-
1984	-	-	-
1985	-	-	-
1986	-	-	-
1987	-	-	-
1988	-	-	-
1989	43.911	5.745	38.166
1990	52.381	9.500	42.881

Year	Gross External Debt (million USD)	Short-Term Debt (million USD)	Long-Term Debt (million USD)
1991	53.623	9.117	44.506
1992	58.595	12.660	45.935
1993	70.512	18.473	52.039
1994	68.705	11.187	57.518
1995	75.948	15.500	60.448
1996	79.299	17.072	62.227
1997	84.356	17.691	66.665
1998	96.351	20.774	75.577
1999	103.123	22.921	80.202
2000	118.602	28.301	90.301
2001	113.592	16.403	97.189
2002	131.898	18.679	113.219
2003	148.493	27.290	121.203
2004	165.958	36.705	129.253
2005	175.763	43.563	132.200
2006	214.944	49.348	165.596
2007	259.145	51.794	207.351
2008	285.010	56.376	228.634
2009	276.436	56.136	220.300
2010	308.176	93.083	215.093
2011	320.617	97.012	223.605
2012	357.253	114.771	242.482
2013	405.186	142.004	263.182
2014	416.852	142.761	274.091
2015	402.836	104.778	298.058
2016	405.869	90.509	315.360
2017	450.919	109.998	340.921
2018	426.753	93.492	333.261
2019	415.764	96.578	319.186
2020	432.970	113.966	319.004
2021	442.582	121.580	321.002
2022	444.392	134.546	309.846
2023-June	475.768	164.814	310.954

Source: Central Bank of the Republic of Turkey

Table A.7: Short-Term External Debt by Borrower for Turkey between 1957 and 2023

Year	Short-Term Debt by Borrower(million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
1957	-	-	-	-
1958	-	-	-	-
1959	-	-	-	-
1960	-	-	-	-
1961	-	-	-	-
1962	-	-	-	-
1963	-	-	-	-
1964	-	-	-	-
1965	-	-	-	-
1966	-	-	-	-
1967	-	-	-	-
1968	-	-	-	-
1969	-	-	-	-
1970	-	-	-	-
1971	-	-	-	-
1972	-	-	-	-
1973	-	-	-	-
1974	-	-	-	-
1975	-	-	-	-
1976	-	-	-	-
1977	-	-	-	-
1978	-	-	-	-
1979	-	-	-	-
1980	-	-	-	-
1981	-	-	-	-
1982	-	-	-	-
1983	-	-	-	-
1984	-	-	-	-
1985	-	-	-	-
1986	-	-	-	-
1987	-	-	-	-
1988	-	-	-	-
1989	5.745	0	799	4.946
1990	9.500	0	855	8.645

Year	Short-Term Debt by Borrower(million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
1991	9.117	281	557	8.279
1992	12.660	400	572	11.688
1993	18.473	65	667	17.741
1994	11.187	36	828	10.323
1995	15.500	250	993	14.257
1996	17.072	0	984	16.088
1997	17.691	204	889	16.598
1998	20.774	1.602	905	18.267
1999	22.921	1.581	686	20.654
2000	28.301	2.461	653	25.187
2001	16.403	1.019	752	14.632
2002	18.679	915	1.655	16.109
2003	27.290	1.341	2.860	23.089
2004	36.705	1.840	3.287	31.578
2005	43.563	2.133	2.763	38.667
2006	49.348	1.750	2.563	45.035
2007	51.794	2.163	2.282	47.349
2008	56.376	3.248	1.874	51.254
2009	56.136	3.598	1.764	50.774
2010	93.083	4.290	1.553	87.240
2011	97.012	8.564	1.239	87.209
2012	114.771	13.324	1.036	100.411
2013	142.004	19.757	833	121.414
2014	142.761	20.474	342	121.945
2015	104.778	16.997	176	87.605
2016	90.509	17.081	399	73.029
2017	109.998	19.426	1.753	88.819
2018	93.492	20.828	5.914	66.750
2019	96.578	23.444	8.452	64.682
2020	113.966	24.892	21.344	67.730
2021	121.580	22.219	26.052	73.309
2022	134.546	24.846	29.428	80.272
2023-June	164.814	31.083	46.234	87.497

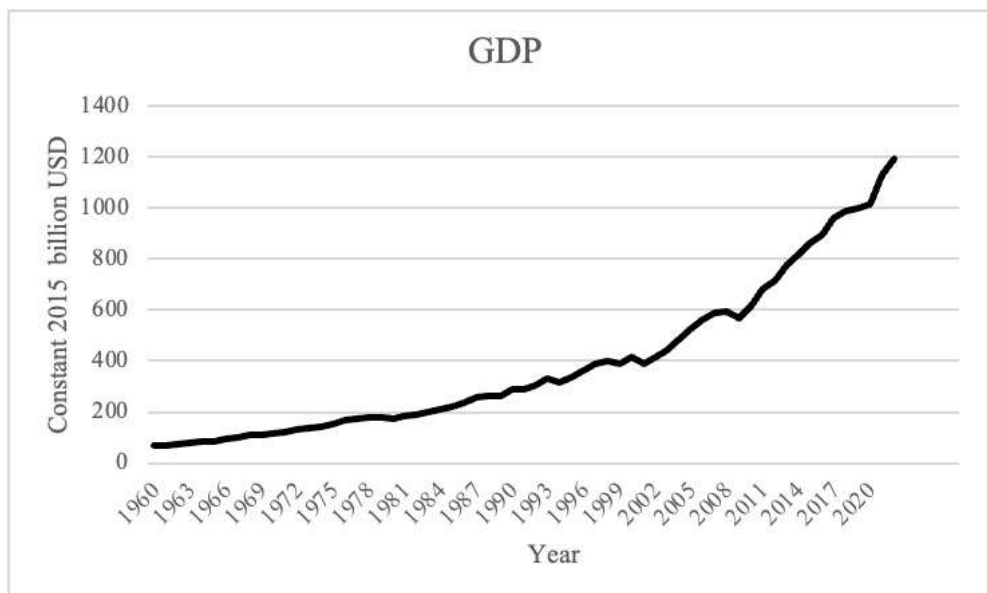
Source: Central Bank of the Republic of Turkey

Table A.8: Long-Term External Debt by Borrower for Turkey between 1957 and 2023

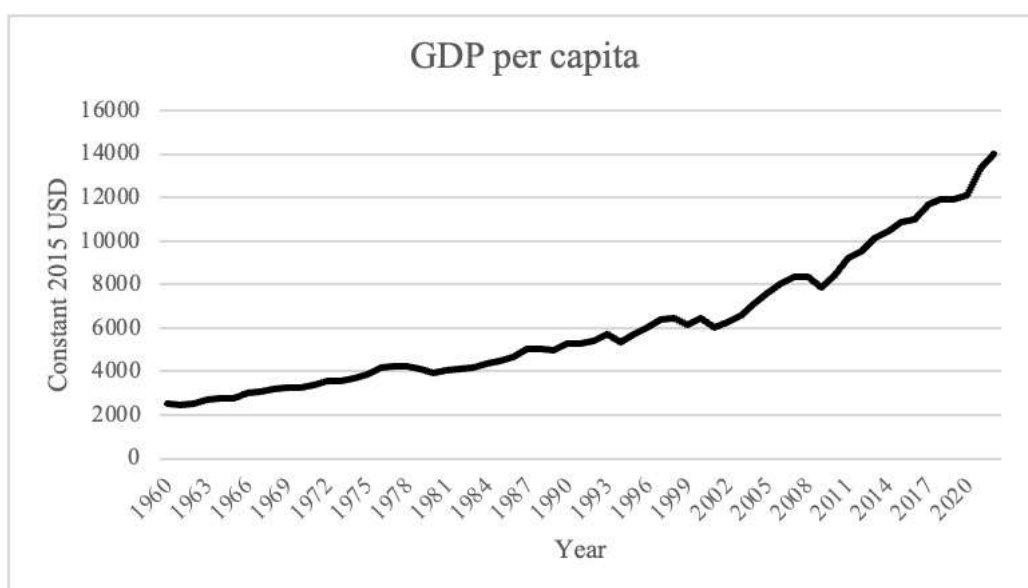
Year	Long-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
1957	-	-	-	-
1958	-	-	-	-
1959	-	-	-	-
1960	-	-	-	-
1961	-	-	-	-
1962	-	-	-	-
1963	-	-	-	-
1964	-	-	-	-
1965	-	-	-	-
1966	-	-	-	-
1967	-	-	-	-
1968	-	-	-	-
1969	-	-	-	-
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1974	-	-	-	-
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1976	-	-	-	-
1977	-	-	-	-
1978	-	-	-	-
1979	-	-	-	-
1980	-	-	-	-
1981	-	-	-	-
1982	-	-	-	-
1983	-	-	-	-
1984	-	-	-	-
1985	-	-	-	-
1986	-	-	-	-
1987	-	-	-	-
1988	-	-	-	-
1989	38.166	29.446	7.028	1.692
1990	42.881	33.268	7.487	2.125

Year	Long-Term Debt (million USD)	Public Sector (million USD)	Central Bank (million USD)	Private Sector (million USD)
1991	44.506	34.999	6.658	2.849
1992	45.935	36.076	6.158	3.702
1993	52.039	39.575	6.626	5.838
1994	57.518	41.705	8.949	6.863
1995	60.448	41.753	11.178	7.517
1996	62.227	40.192	11.397	10.637
1997	66.665	38.864	10.876	16.925
1998	75.577	39.737	12.081	23.760
1999	80.202	42.526	10.320	27.357
2000	90.301	47.621	13.437	29.244
2001	97.189	46.110	23.599	27.480
2002	113.219	63.618	20.347	29.253
2003	121.203	69.502	21.513	30.187
2004	129.253	73.923	18.122	37.207
2005	132.200	68.398	12.662	51.140
2006	165.596	70.016	13.114	82.465
2007	207.351	71.598	13.519	122.233
2008	228.634	75.315	12.192	141.127
2009	220.300	80.149	11.398	128.752
2010	215.093	85.103	10.011	119.978
2011	223.605	87.770	8.094	127.740
2012	242.482	93.656	6.043	142.783
2013	263.182	99.178	4.392	159.612
2014	274.091	100.792	2.133	171.165
2015	298.058	99.890	1.143	197.024
2016	315.360	106.631	703	208.026
2017	340.921	117.835	0	223.086
2018	333.261	122.390	0	210.871
2019	319.186	137.734	0	181.452
2020	319.004	153.518	0	165.486
2021	321.002	157.677	0	163.324
2022	309.846	154.323	0	155.523
2023-June	310.954	163.596	0	147.357

Source: Central Bank of the Republic of Turkey

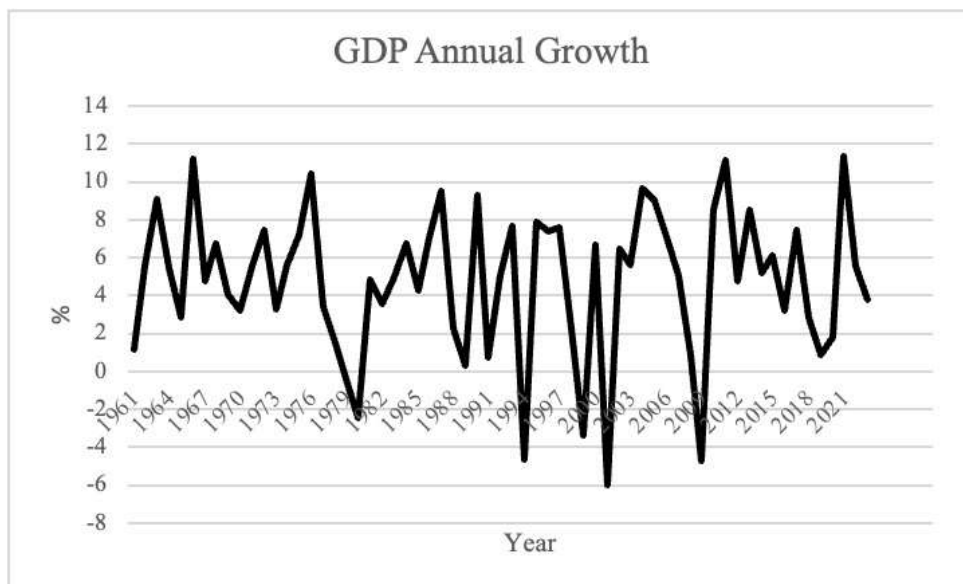
Figure A1: GDP in constant 2015 USD between 1960 and 2022

Source: World Development Indicators

Figure A2: GDP per capita in constant 2015 USD between 1960 and 2022

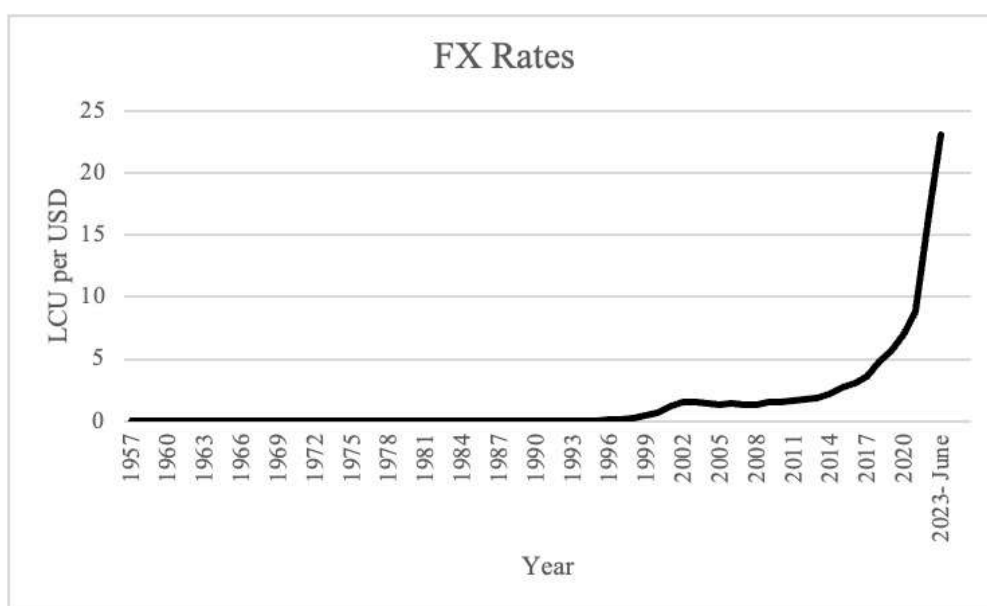
Source: World Development Indicators

Figure A3: GDP Annual Growth between 1961 and 2023

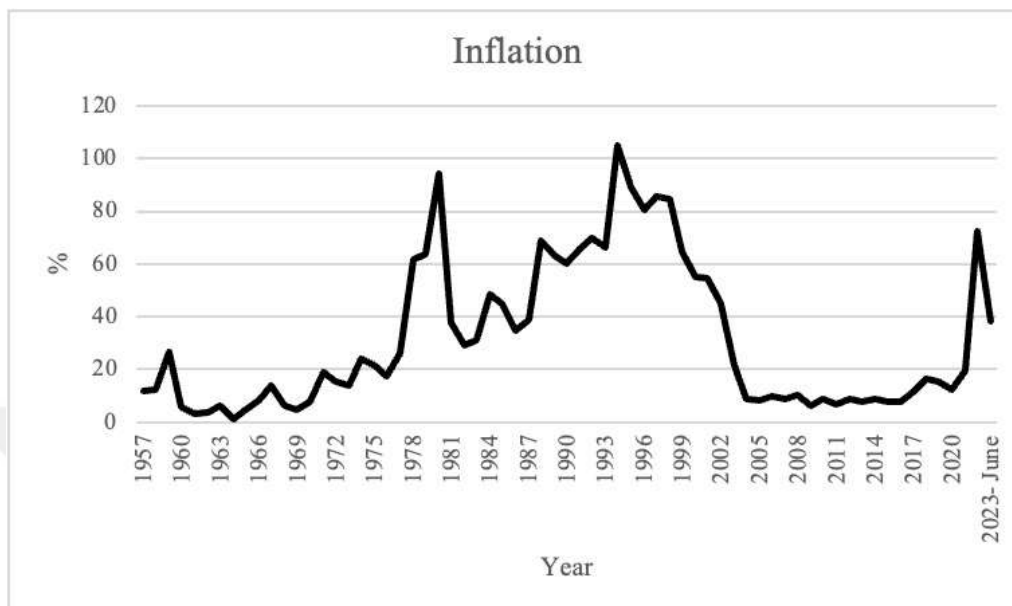


Source: World Development Indicators

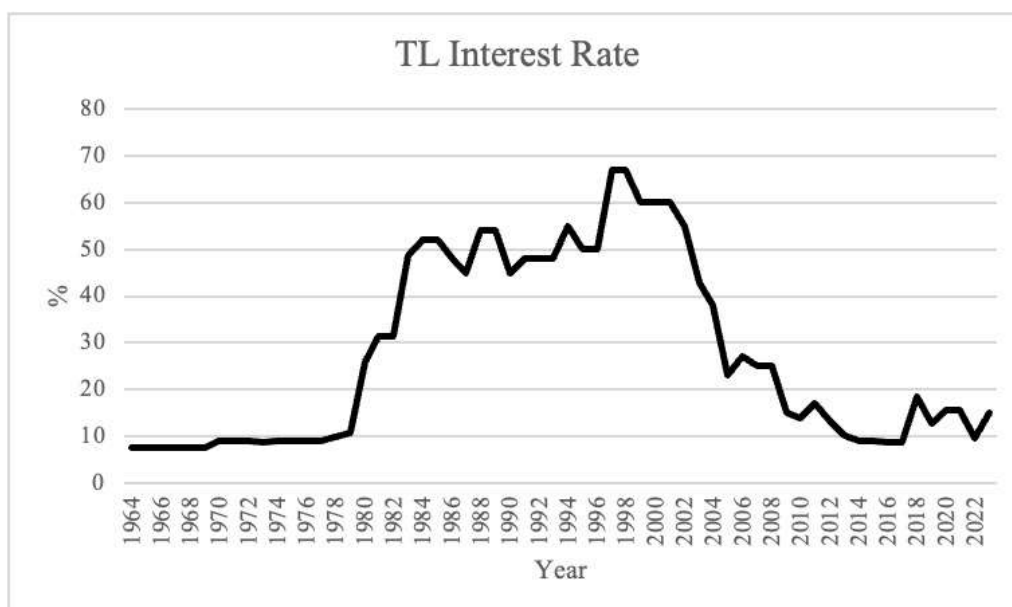
Figure A4: FX Rates, LCU per USD, between 1957 and 2023



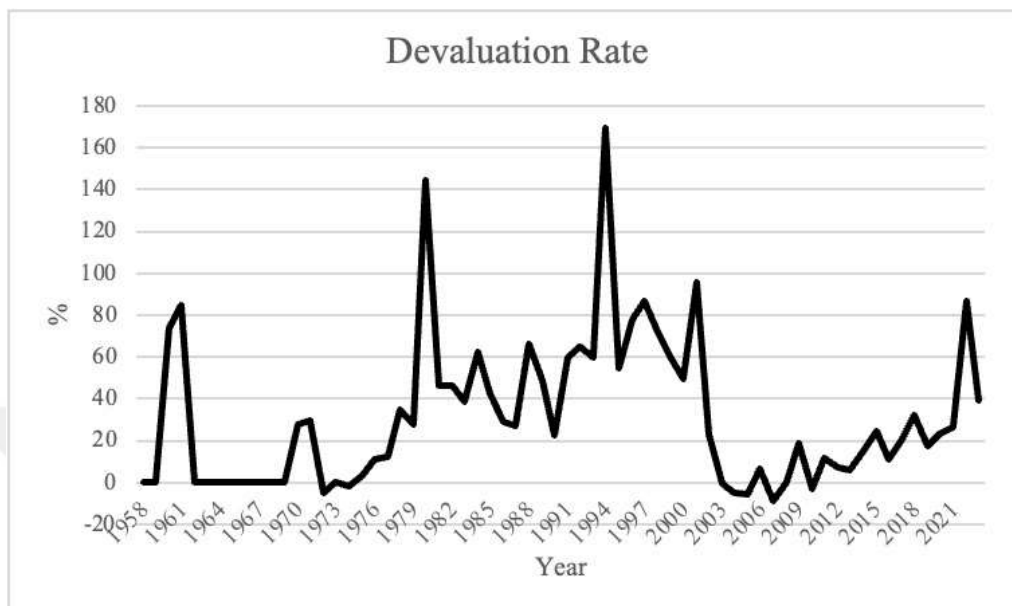
Source: World Development Indicators

Figure A5: Inflation between 1957 and 2023

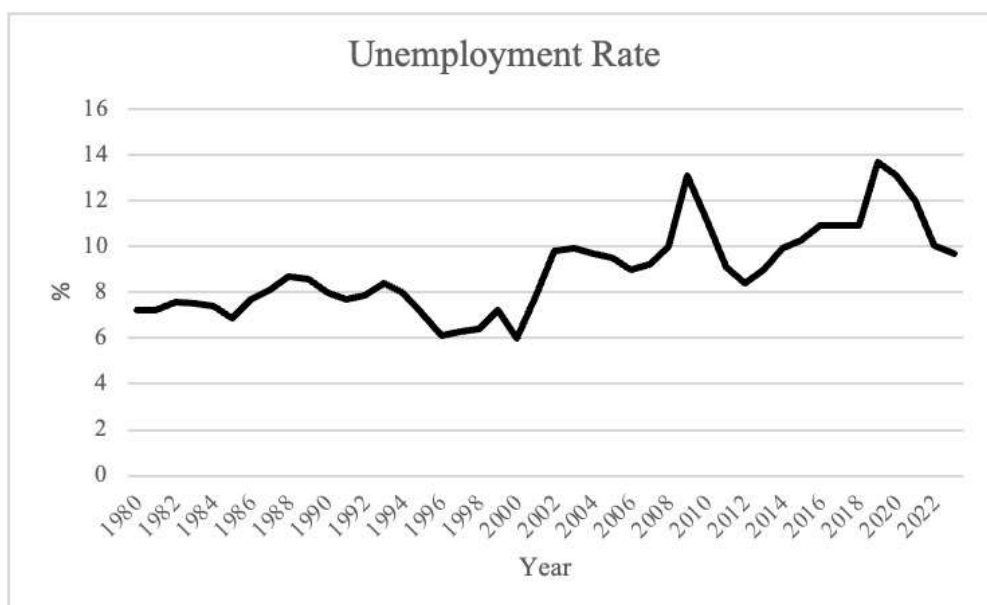
Source: World Development Indicators

Figure A6: TL Interest Rate between 1964 and 2023

Source: Federal Reserve Economic Data

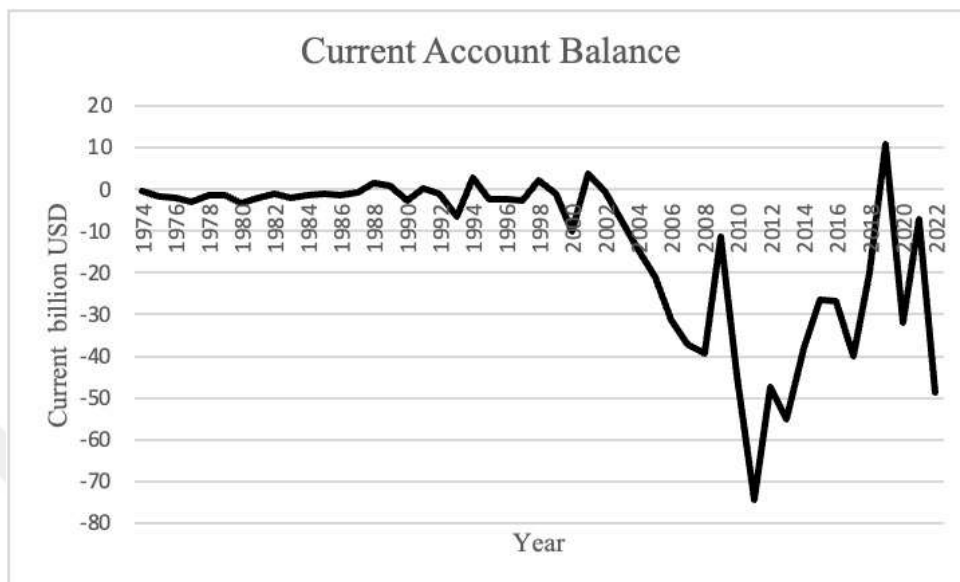
Figure A7: Devaluation Rate between 1958 and 2023

Source: World Development Indicators

Figure A8: Unemployment Rate between 1980 and 2023

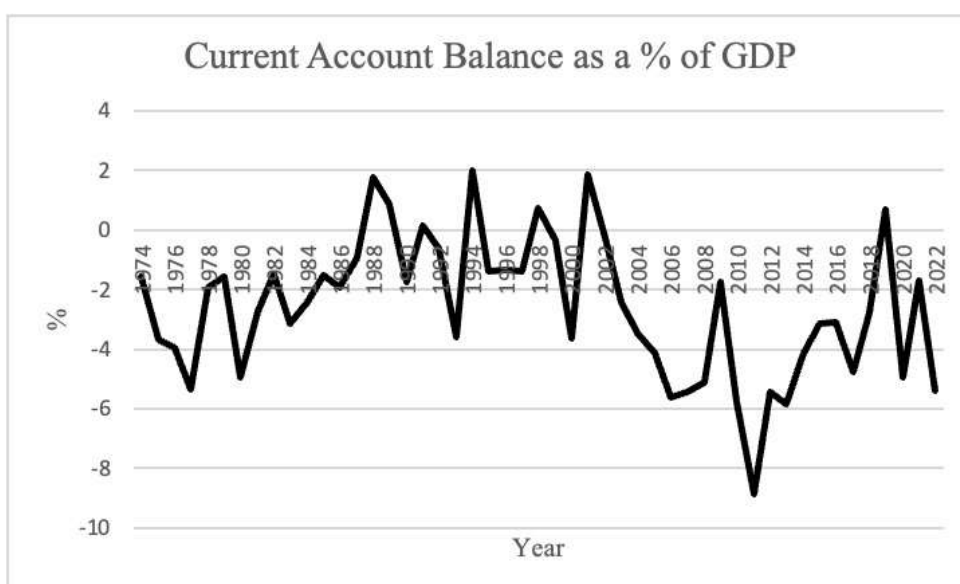
Source: World Development Indicators

Figure A9: Current Account Balance between 1974 and 2022

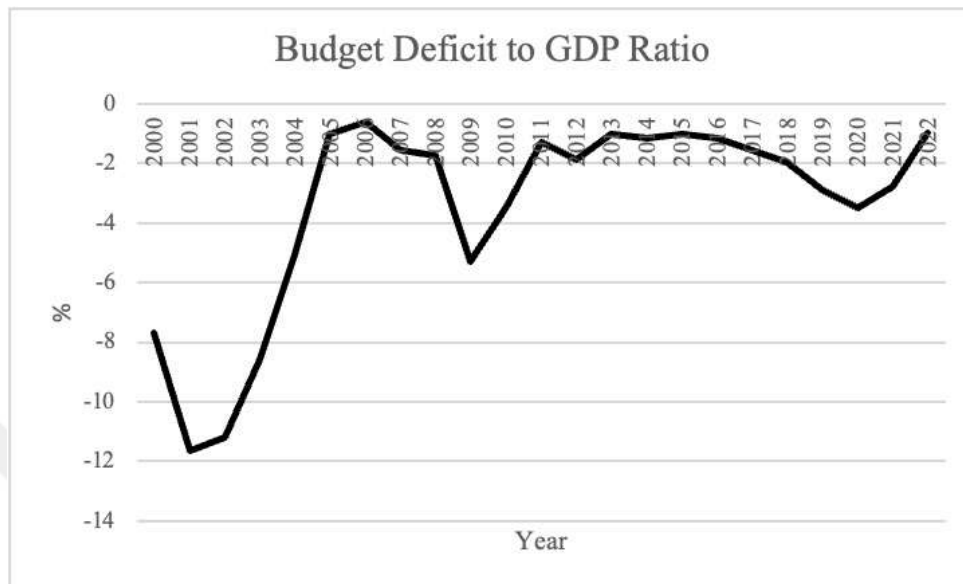


Source: World Development Indicators

Figure A10: Current Account Balance as a % of GDP between 1974 and 2022



Source: World Development Indicators

Figure A11: Budget Deficit to GDP Ratio between 2000 and 2022

Source: Republic of Turkey Ministry of Treasury and Finance

APPENDIX B: CIRCULARS AND REGULATIONS

Table A9: Circulars and Relations

No:	Date	Description of the Regulation	Publishing Institution	The Subject Matter of Circulars and Relations	The Content and Effect of Circular and Regulations
1	02.05.18	Firms with foreign currency loan balances below 15 million US dollars have been associated with their foreign exchange earnings over the past three years, and the use of foreign currency-indexed loans has been discontinued.	Ministry of Treasury and Finance	Decision No.32 on the Protection on the Value of the Turkish Currency	Monetary Tightening Effect
2	07.05.18	As part of the Reserve Option Mechanism, the foreign exchange facility ratio upper limit has been reduced from 55% to 45%. As a result, approximately 2.2 billion US dollars in foreign exchange has become available for use by banks	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect

3	24.05.18	The interest rate on TL deposits in exchange for foreign exchange deposits auctions has been increased from 13.50% to 16.50%. Following this, during the current reporting period, TL interest rates were raised to 17.75% on June 8, 19.25% on August 14, and finally to 24% on September 14. The auction amounts were also increased from 1.25 billion US dollars on May 9 to 1.5 billion US dollars. This amount was updated to 1 billion US dollars on September 27, 750 million US dollars on October 19, and 500 million US dollars on November 6	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
4	25.05.18	Rediscount credits granted prior to this date, and maturing by July 31, may be repaid at the fixed exchange rate and in Turkish Lira, provided that the repayment is made on time.	Central Bank of Republic of Turkey	Loan Market Related Issues	Monetary Expansion Effect
5	28.05.18	It has been decided to complete the simplification process of the monetary policy operational framework, and it has been announced that the new implementation will be effective as of June 1st.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
6	30.05.18	A change has been made in the method of determining the interest rate to be applied to Turkish lira required reserves. Previously, it was decided to set a fixed rate as 400 basis points below the CBRT one-week repo auction interest rate, and this rate has been determined as 7% starting from June 1, 2018.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect

7	06.08.18	The foreign exchange facility ratio upper limit within the Reserve Option Mechanism has been reduced from 45% to 40%. With this change, approximately 2.2 billion US dollars in foreign exchange has become available for use by banks.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
8	13.08.18	It has been announced that all necessary liquidity for intraday and overnight maturities will be provided to banks within the framework of available facilities. The discount rates for collateral received in exchange for TRY transactions have been updated according to the type and maturity of the collateral, allowing flexibility in collateral management for banks. The deposit limits for collateral that banks can use for TRY transactions have been increased from 7.2 billion euros to 20 billion euros. In addition to the primary funding tool, one-week repo auctions, it has been announced that traditional method repo or deposit sale auctions with maturities of up to 91 days may be held on days when needed. It has also been stated that on days when the banking system has a high funding need, multiple repo auctions with different maturities, between 6 and 10 days, can be conducted. In one-week repo auctions, if requested by banks, a portion or the entirety of winning bids can be concluded as deposit transactions in the Interbank Money Market at the same interest rate and maturity. The CBRT has resumed its intermediary activities in the foreign exchange deposit market. Additionally, as of this date, there has been a pause in one-week repo funding, and it resumed on September 14.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

9	13.08.18	The maturity of TRY purchase transactions with non-residents by banks has been limited to up to 50% of the banks' most recently calculated equity. As of August 15, this ratio has been reduced to 25%. On August 17, non-swap derivative transactions have also been restricted.	Central Bank of Republic of Turkey	Issues Affecting Relations with Foreign Financial Institutions	Monetary Expansion Effect
10	13.08.18	The reserve requirement ratios for Turkish Lira and foreign currency have been reduced, providing approximately 10 billion Turkish Lira, 6 billion US dollars, and 3 billion US dollars equivalent in gold liquidity to the financial system. The maximum average facility limit for foreign currency obligations has been increased to 8%. Within the Reserve Option Mechanism, the possibility of establishing reserve requirements in euros, in addition to US dollars, has been introduced for Turkish Lira obligations.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
11	15.08.18	The Banking Regulation and Supervision Agency has published a regulation regarding the restructuring of debts in the financial sector.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Expansion Effect
12	29.08.18	The borrowing limits for overnight transactions in the Interbank Money Market, operated within the framework of the CBRT, have been updated to twice the limits before August 13th.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
13	31.08.18	It has been announced that transactions can be carried out not only through Turkish lira-settled forward foreign exchange selling auctions within the CBRT but also within the Futures and Options Market (VİOP) operated within Borsa Istanbul (BİST).	Central Bank of Republic of Turkey	Capital Market Issues	Monetary Expansion Effect

14	31.08.18	The decision to open a foreign exchange (FX) against Turkish Lira (TL) swap market within the CBRT has been made. It has been stated that transactions will be conducted through the quotation method with banks authorized to operate in the Foreign Exchange and Banknote Markets within their limits.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
15	31.08.18	For a period of 3 months, the withholding rates applied to foreign currency deposit accounts have been increased, while they have been decreased for Turkish lira deposit accounts.	Central Bank of Republic of Turkey	Loan Market Related Issues	Monetary Expansion Effect
16	04.09.18	A regulation has been made regarding the repatriation of export proceeds into the country.	Central Bank of Republic of Turkey	Decision No.32 on the Protection on the Value of the Turkish Currency	Decisions Affecting Exports and Export Revenues
17	08.09.18	The derivative transactions conducted by banks with their overseas credit institutions or financial institution-like consolidated partners have been exempted from restrictions.	Banking Regulation and Supervision Agency	Issues Affecting Relations with Foreign Financial Institutions	Monetary Expansion Effect

18	11.09.18	A Financial Restructuring Framework Agreement has been established for the restructuring of loans for financial institutions with a total outstanding loan amount of 100 million TL and above, which are not in legal follow-up processes and do not have a bankruptcy decision. The Agreement, prepared by the Turkish Banks Association (TBB) and signed by the parties, was approved by the Banking Regulation and Supervision Agency (BDDK) on September 19, 2018, and came into effect. Some amendments were made on November 21, 2018.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Expansion Effect
19	13.09.18	It has been decided that contracts denominated in foreign currency or indexed to foreign currency between residents will be rearranged in Turkish Lira within 30 days.	Ministry of Treasury and Finance	Loan Market Related Issues	Monetary Expansion Effect
20	17.09.18	The restrictions have been differentiated based on maturity periods. Accordingly, for the calculation of transactions included in the 25% limitation, it has been deemed appropriate to consider 75% of transactions with maturities of 90-360 days and 50% of transactions with maturities of 360 days and above.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Expansion Effect
21	18.09.18	The interest rate paid on Turkish lira required reserves has been increased from 7% to 13%.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect

22	08.10.18	A Turkish Bank Association recommendation has been issued regarding the extension of the maturity period, with up to 24 months of grace period, for companies with a total credit balance, including both cash and non-cash loans, below 25 million TL and maturing on April 30, 2019, which are not subject to bankruptcy proceedings and currently have unstructured loans dating back to June 30, 2018.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Expansion Effect
23	23.10.18	The interest rate applied to required reserves, reserve options, and free accounts held in U.S. dollars has been increased from 1.5% to 2%.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
24	31.10.18	Transactions involving the CBRT started on November 1, 2018, and the limits for banks were restricted to 10% of the Foreign Exchange and Banknote Markets transaction limits.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
25	01.12.18	As of August 31, 2018, the withholding tax rates for income/corporate taxes on interest and profit shares derived from Turkish Lira deposits and foreign currency deposit accounts, which were set for a temporary period of 3 months, have been discontinued. Therefore, the withholding tax rates used before the regulation have been re-implemented.	Ministry of Treasury and Finance	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

26	28.12.18	With the aim of contributing to the deepening and efficiency of financial markets, all repo transactions conducted within Borsa Istanbul (BİST) are exempt from mandatory reserves. Operational steps related to the change have been completed, and the Repo-Reverse Repo and Interbank Repo-Reverse Repo Markets within BİST have been unified	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
27	11.01.19	The temporary sixth article of the Regulation on Mandatory Reserves has been abolished, and the same mandatory reserve ratios have been applied to foreign currency liabilities excluding deposits/participation funds that have occurred both before and after 28.08.2015.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
28	19.01.19	The exemption of official institution deposits from mandatory reserves has been abolished.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
29	08.02.19	The required reserve ratios for Turkish lira have been reduced by 100 basis points for deposits/participation funds with maturities up to 1 year and other liabilities with maturities up to 3 years (including 3 years). For other maturity groups, there is a reduction of 50 basis points.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
30	16.02.19	The upper limit for the possibility of collecting Turkish lira required reserves in gold from domestic residents has been increased from 5% to 10%	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect

31	26.02.19	The installment count for credit card purchases has been increased from 6 to 12 for computers and transportation, from 9 to 12 for travel and health expenses, and from 9 to 12 for general credit.	Ministry of Treasury and Finance	Loan Market Related Issues	Monetary Expansion Effect
32	03.03.19	The period for the implementation of bringing export proceeds into the country and converting at least 80% of these proceeds into Turkish Lira, as stipulated in the communiqué regarding export proceeds related to Decree No. 32, has been extended for an additional 6 months, updated to September 4, 2019. In line with this development, the implementation period of our Bank's Export Circular dated November 6, 2018, regulating the principles and procedures for bringing export proceeds into the country, has also been extended by 6 months.	Central Bank of Republic of Turkey	Decision No.32 on the Protection on the Value of the Turkish Currency	Decisions Affecting Exports and Export Revenues

33	08.03.19	The Public Finance Management Regulation has come into effect instead of the General Communiqué on Public Treasury Management. The ceiling for deposit interest rates and the expected profit rates for participation accounts applicable to all maturities in public banks for the evaluation of financial resources of public institutions has been reduced by 5 points each. This ceiling is determined as a certain percentage of the weighted average TL deposit interest rate announced by the CBRT. A ceiling has also been imposed on the reverse repo interest rates applicable to the financial resources that public institutions envisage as reverse repos, and the ceiling applied to deposit and participation accounts has been taken as a basis.	Ministry of Treasury and Finance	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
34	12.03.19	The Capital Markets Board (SPK) has decided that a minimum of 50% of the total value of money market funds should be invested in deposit/participation accounts. With the same decision, the amount that can be invested in a single bank is limited to 6% of the total fund value	Capital Market Board	Capital Market Issues	Various Rules and Regulations Regarding Financial System and Reporting
35	21.03.19	As of March 21, 2019, the withholding tax rates applied to Foreign Exchange Deposit Accounts have been updated to 20% for accounts with maturities up to 1 year and 18% for maturities exceeding 1 year	Ministry of Treasury and Finance	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
36	25.03.19	Taking into account the developments in the financial markets, a temporary pause has been announced for one-week repo auctions. The auctions resumed on April 8, 2019.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

37	25.03.19	The total swap selling limit for outstanding transactions in the foreign exchange for Turkish lira swap market within the CBRT has been increased from 10% to 20%	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
38	25.03.19	There has been a pause in the auctions for foreign exchange deposits against Turkish lira deposits.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
39	28.03.19	The total limit for outstanding swap sales in the foreign exchange for Turkish lira swap market within the CBRT has been increased from 20% to 30%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
40	04.04.19	The total limit for outstanding swap sales in the foreign exchange for Turkish lira swap market within the CBRT has been increased from 30% to 40%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
41	04.04.19	The minimum payment amount for credit cards has been set at 30%.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
42	22.04.19	Variable interest rates are now applicable to TL deposits with a maturity of 3 months or longer.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
43	24.04.19	The Ministry of Treasury and Finance has issued a special series of government debt security(DİBS) with a nominal amount of 3.7 billion euros with an explicit 5-year maturity to the Turkey Wealth Fund Market Stability and Balance Fund. The net amount of this special series of DİBS is 3.3 billion euros for public banks, and the nominal amount of 400 million euros is issued for state-owned participation banks to strengthen their capital.	Ministry of Treasury and Finance	Capital Market Issues	Monetary Expansion Effect

44	01.05.19	A decision has been made to apply a 0% withholding tax on deposit interest rates with a variable interest rate for maturities longer than 1 year, linked to the inflation rate.	Ministry of Treasury and Finance	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
45	02.05.19	The CBRT has decided to open a TL-denominated gold swap market. The total outstanding amount for gold swap purchases in this market has been set at 100 tons.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
46	03.05.19	The maximum ratio for required reserves in foreign currency has been reduced from 40% to 30%. The required reserve ratios for foreign currency have been increased by 100 basis points across all maturity segments.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
47	10.05.19	Considering the developments in financial markets, a temporary pause has been announced for one-week repo auctions. The auctions resumed on May 21, 2019.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
48	17.05.19	The required reserve ratios for foreign currency deposits and participation funds have been increased by 200 basis points across all maturity segments.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect

49	27.05.19	The Capital Markets Board has decided, through a revision in the 'Guide for Pension Investment Funds,' that at least 10% of the portfolio of standard funds should be invested in shares of BIST Sustainability Index, BIST Corporate Governance Index, and participation indices calculated by BIST. Additionally, at least 25% of the portfolio of money market funds should be invested in government bonds (DİBS). Existing funds have been given a transition period until July 31, 2019, to comply with the new portfolio limitations.	Capital Market Board	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
50	13.06.19	The installment count for TV purchases with credit cards has been increased from 3 to 9.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Expansion Effect
51	13.06.19	The general installment limit for commercial credit cards has also been raised from 12 to 18.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Expansion Effect
52	14.06.19	For finance companies, the required reserve ratios for both TL and foreign currency have been set at 0% across all maturities. Therefore, finance companies no longer have an obligation to establish required reserves starting from the obligation period dated June 14, 2019, with a maturity of June 28, 2019	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect

53	17.06.19	With the aim of supporting the Primary Dealer System, considering its contributions to the deepening of financial markets and the effectiveness of monetary policy, the Central Bank has provided liquidity through overnight repo transactions at an interest rate 100 basis points below the CBRT policy rate to Primary Dealer Banks within certain limits as part of open market operations, effective from June 17, 2019.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
54	19.06.19	The decision has been made to apply one-day value date for transactions of individuals amounting to 100,000 USD and above.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Expansion Effect
55	01.07.19	For TL-denominated credit card transactions, the maximum monthly nominal interest rate is set at 2.00%, and the maximum monthly default interest rate is set at 2.40%. For foreign currency-denominated credit card transactions, the maximum monthly nominal interest rate is set at 1.60%, and the maximum monthly default interest rate is set at 2.00%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
56	19.07.19	With the amendment to Law No. 1211 on the Central Bank of the Republic of Turkey, it is now possible to consider not only the liabilities of banks and other financial institutions deemed appropriate by the Central Bank but also items within and outside the balance sheet in reserve option mechanism.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect

57	25.07.19	The Central Bank has decided to reduce the policy rate, which is the one-week repo auction rate, from 24% to 19.75% as of July 25, 2019.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
58	26.07.19	The required ratio rates applied to FX deposits/participation funds have been increased by 100 basis points across all maturity periods.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
59	02.08.19	Short-Term Imputed Rate of Interest based Futures Contracts have started trading on the Borsa Istanbul Futures and Options Market."	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Expansion Effect
60	05.08.19	With the aim of increasing flexibility in the management of TL and foreign exchange liquidity, it has been decided to conduct traditional auctions for 1, 3, and 6-month maturities through the Central Bank of the Republic of Turkey (CBRT) Foreign Exchange Market, which has been conducting 1-week maturity foreign exchange for Turkish Lira swap transactions through quotation method. Additionally, the total swap sale limit for outstanding transactions in the CBRT's foreign exchange for Turkish Lira swap market has been reduced from 40% to 20%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

61	05.08.19	The Central Bank of the Republic of Turkey (CBRT) has decided to conduct foreign exchange for Turkish Lira swap transactions with 1-week maturity through the quotation method in the CBRT Foreign Exchange Market. Additionally, these transactions will also be conducted with maturities of 1, 3, and 6 months through the traditional auction (multiple price) method.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
62	07.08.19	With the amendment made in Presidential Decree No. I regarding the Presidency Organization, the Ministry of Treasury and Finance has been granted additional duties and powers, including: (i) enabling the Treasury to participate in companies domestically or abroad by the decision of the President, (ii) monitoring and evaluating domestic and international developments in financial markets, conducting studies to develop the financial sector and strengthen financial stability, (iii) regulating, implementing, monitoring the implementation, and determining the principles for the development of activities related to insurance and private pension systems.	Presidential Decree	Capital Market Issues	Monetary Expansion Effect

63	09.08.19	In order to use mandatory reserves more flexibly and effectively as a macroprudential tool to support financial stability, changes have been made to the Turkish lira (TL) reserve requirements and the interest/profit-sharing rates paid on TL reserves. Accordingly, for banks with an annual TL loan growth between 10% and 20% (reference values), the TL reserve requirement ratio is set at 2% for all maturity periods, excluding deposits/participation funds with a term of 1 year or longer and other liabilities with a term of 3 years or longer. Additionally, the interest/profit-sharing rate applied to TL reserves is determined at 15% for banks with loan growth within the reference values and 5% for other banks.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
64	31.08.19	Regarding the export proceeds under the Decree No. 32, the period for the practice of bringing export proceeds into the country and converting at least 80% of these proceeds into Turkish Lira has been extended by 6 months, updated to March 4, 2020, within the scope of the Communiqué on the export proceeds related to Decree No. 32. In line with this development, the implementation period of the Export Communiqué dated November 6, 2018, regulating the principles and procedures for bringing export proceeds into the country, has also been extended by 6 months.	Ministry of Treasury and Finance	Decision No.32 on the Protection on the Value of the Turkish Currency	Decisions Affecting Exports and Export Revenues
65	12.09.19	The Central Bank has decided to reduce the policy interest rate, which is the one-week repo auction interest rate, from 19.75% to 16.50%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

66	16.09.19	The rules for the Turkish Lira Overnight Reference Interest Rate have been updated to redefine the calculation and publication hours of the Turkish Lira Overnight Reference Interest Rate, clearly specify how the calculation will be made in case of data insufficiency, and add Istanbul Clearing, Settlement and Custody Bank Inc. to the institutions represented in the Turkish Lira Overnight Reference Interest Rate Committee	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Expansion Effect
67	18.09.19	A request has been made for the reclassification of predominantly energy and construction sector loans totaling 46 billion TL.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Expansion Effect
68	19.09.19	The interest rate applied to reserves held in USD, reserve options, and free accounts at the Central Bank has been reduced by 100 basis points and set at 0%	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
69	20.09.19	The reserve requirement ratios for foreign currency deposits/participation funds have been increased by 100 basis points across all maturity periods.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect

70	25.09.19	With the amendment to the Regulation on Premiums to be Collected by the Savings Deposit Insurance Fund for Insured Deposits and Participation Funds, the coverage of insured savings deposits and individual participation funds has been increased from 100,000 TL to 150,000 TL. Changes have also been made to the insurance premium rates and the determination of premium categories.	Banking Regulation and Supervision Agency	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
71	01.10.19	For TL-denominated credit card transactions, the maximum monthly contractual interest rate is set at 1.60%, and the maximum default interest rate is 2.00%. For foreign currency-denominated credit card transactions, the maximum monthly contractual interest rate is determined as 1.28%, and the maximum default interest rate is 1.68%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
72	02.10.19	With the aim of increasing the efficiency of liquidity management by banks, it has been decided to open the Foreign Exchange for Gold Swap Market within the CBRT, and transactions will be carried out by authorized banks in the Foreign Exchange and Cash Markets within their limits, through the quotation method, in both buying and selling directions.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
73	03.10.19	In 2017, with the amendment to the Capital Markets Law and within the framework of the authority given to the Capital Markets Board, the Crowdfunding Communiqué Based on Equity has come into effect.	Capital Market Board	Capital Market Issues	Monetary Expansion Effect

74	04.10.19	In order to align with global stock markets and enhance interaction, the continuous trading method has been applied without interruption between 10:00 - 18:00 for securities traded on the Equity Market, replacing the 'midday single price' and 'midday break' segments previously implemented between 13:00 - 14:00 as of October 4, 2019.	Central Bank of Republic of Turkey	Capital Market Issues	Monetary Expansion Effect
75	04.10.19	Interest/profit rates to be paid on mandatory reserves denominated in TL have been set at 10% for banks with credit growth within the reference values, and 0% for other banks	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
76	10.10.19	The discount rate applied in rediscount transactions has been reduced from 18.50% to 17.25%, and the interest rate applied in advance transactions has been reduced from 19.50% to 18.25%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
77	16.10.19	Short selling transactions in shares of certain banks have been temporarily prohibited in the stock market. For the shares subject to sale for these banks, a custody requirement has been applied, and the sale can only be made through investment firms where the relevant securities are held, effective from October 16, 2019. The custody requirement and the condition of selling through investment firms were lifted on October 21, 2019.	Borsa İstanbul	Capital Market Issues	Monetary Expansion Effect

78	24.10.19	The Central Bank of the Republic of Turkey (CBRT) has decided to reduce the policy interest rate, the one-week repo auction interest rate, from 16.50% to 14%.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Expansion Effect
79	26.10.19	The installment count for jewelry expenses on credit cards has been increased from 0 to 4.	Banking Regulation and Supervision Agency	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
80	26.10.19	The installment count for jewelry expenses on credit cards has been increased from 4 to 8.	Banking Regulation and Supervision Agency	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
81	01.11.19	The commission rate applied to merchants for the next day transfer of transaction amounts in goods and services purchases is capped at 1.60%. For installment purchases of goods and services, the maximum rate is increased by 0.89 points for each additional installment.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
82	04.11.19	The company shares traded on the Borsa Istanbul Equity Market's Star Market and Main Market have been reclassified, taking into account new criteria, so that shares with similar size, depth, and liquidity will be traded together.	Borsa İstanbul	Capital Market Issues	Monetary Expansion Effect

83	21.11.19	The dual structure between the Central Bank of the Republic of Turkey (TCMB) and the Banking Regulation and Supervision Agency (BDDK) in the field of payment service providers and electronic money institutions has been changed. The powers held by the BDDK have been transferred to the TCMB to ensure the integrity of the law. To meet the needs arising in this area, Law No. 6493 on Payment and Securities Reconciliation Systems, Payment Services and Electronic Money Institutions, and Amendments to Some Laws was prepared and enacted by the Grand National Assembly of Turkey on November 12, 2019	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

84	29.11.19	In order to encourage directing credit supply towards production-focused sectors rather than consumption and to support financial stability, the TL reserve requirements and the interest/profit-sharing rates for reserves have been associated with the annual real credit growth calculated by taking into account the three-month average of the real cash loan stock values. Accordingly, banks with an annual real credit growth rate above 15% should have an adjusted real credit growth rate, calculated by deducting the entire growth rate part of the real change in 2 years or longer-term commercial loans and 5 years or longer-term housing loans from the growth rate formula, below 15%. Banks with an annual real credit growth rate below 15% should have an adjusted real credit growth rate, calculated by deducting 50% of the real change in individual loans other than 5 years or longer-term housing loans from the growth rate formula, above 5%, to benefit from reserve requirement incentives.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
85	12.12.19	The policy rate, the one-week repo auction interest rate, has been reduced from 14% to 12%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

86	18.12.19	According to the Banking Regulation and Supervision Agency's press release, it has been stated that as of December 18, 2019, the total of banks' transactions involving forward, swap, option, and other derivative transactions with non-residents, which involve Turkish lira sales with a maturity of 7 days or less, will not exceed 10% of their latest calculated legal capital. The regulation excludes transactions with consolidated foreign credit institutions and financial institutions	Banking Regulation and Supervision Agency	Issues Affecting Relations with Foreign Financial Institutions	Monetary Expansion Effect
87	19.12.19	According to the Capital Movements Circular, banks and financial institutions are allowed to restructure the foreign exchange and foreign exchange-indexed loans of borrowers who are unable or will be unable to meet their obligations solely due to financial difficulties.	Ministry of Treasury and Finance	Decision No.32 on the Protection on the Value of the Turkish Currency	Monetary Expansion Effect
88	27.12.19	The mandatory reserve ratios for foreign currency deposits/participation funds have been increased by 200 basis points across all maturity periods. For banks meeting the conditions of the December 27, 2019 Turkish lira real credit growth, these ratios will be applied 200 basis points lower.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
89	31.12.19	In accordance with Decree No. 32 on the Protection of the Value of Turkish Currency, the Ministry of Treasury and Finance has amended the regulation (2018-32/48) regarding the repatriation of export proceeds. The requirement for converting at least 80% of export proceeds into Turkish Lira within 180 days has been lifted.	Ministry of Treasury and Finance	Decision No.32 on the Protection on the Value of the Turkish Currency	Decisions Affecting Exports and Export Revenues

90	10.01.20	A yearly commission rate of 0.025% has been decided to be applied to the required reserve amount held in U.S. dollars for U.S. dollar-denominated deposit/participation fund liabilities. Similarly, for liabilities denominated in currencies other than U.S. dollars and euros, a yearly commission rate of 0.025% will be applied to the required reserve amount held in U.S. dollars and euros.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
91	10.01.20	As part of the Reserve Option Mechanism (ROM), the maximum ratio for the possibility of establishing TL mandatory reserves in standard gold has been reduced from 30% to 20%, and the maximum ratio for the possibility of establishing TL mandatory reserves in standard gold, which is processed or scrap gold collected from domestic residents, has been increased from 10% to 15%.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
92	16.01.20	One-week repo auction interest rate, which is the policy rate, has been reduced from 12% to 11.25%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
93	08.02.20	With Banking Regulation and Supervision Agency's (BDDK) Decision No. 8860, the ratio of the total amount of currency swap, forward, option, and other derivative transactions involving forward TRY buying with foreign residents to the latest calculated legal equity of banks has been reduced from 25% to 10% as of February 8, 2020.	Banking Regulation and Supervision Agency	Issues Affecting Relations with Foreign Financial Institutions	Monetary Expansion Effect
94	19.02.20	The policy interest rate for the one-week repo auction has been reduced from 11.25% to 10.75%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

95	25.02.20	The unused portion of the total swap position allocated for the Currency Swap transactions (Döviz Karşılığı TL Swap) can be transferred to banks' limits in the TL Swap Market (Kotasyon Swap). The amount to be transferred will be distributed based on the individual bank's limits in the Foreign Exchange Markets in proportion to the determined ratios.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
96	28.02.20	The Capital Markets Board (SPK) has announced the prohibition of short selling transactions on the Borsa Istanbul Inc. (BIST) equity markets.	Capital Market Board	Capital Market Issues	Monetary Expansion Effect
97	01.03.20	As of the press release by the Central Bank of the Republic of Turkey (CBRT) on February 10, 2020, the fees that banks can charge for products and services offered to commercial customers have been restricted under the categories of "Commercial Loans," "Foreign Trade," "Cash Management as of March 1, 2020," and "Payment Systems," totaling 51 items. Certain fee items have been subject to quantitative or qualitative limitations, and banks are obliged to provide information for the purpose of transparency.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

98	01.03.20	As of February 10, 2020, the Banking Regulation and Supervision Agency (BDDK) has made changes to the "Regulation on Principles and Procedures Regarding Fees to be Taken from Financial Consumers" published in the Official Gazette with number 31035. Within this scope, the maximum fee amounts that can be charged for EFT, cash advance, and card renewal transactions have been restricted. The annual increase rate for the maximum limits regulated in the Regulation is determined as the annual Consumer Price Index (CPI) increase rate announced by the Turkish Statistical Institute (TÜİK) for the previous year's end.	Banking Regulation and Supervision Agency	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
99	03.03.20	32 Sayılı Karar kapsamında, T.C. Devleti ile vatandaşlık bağı bulunmayan ve yurda giriş tarihinde 18 yaşını doldurmuş olan yolculara beraberlerinde bir takvim yılı içerisinde en fazla 5 kg ağırlığında kendilerine ait olan standart işlenmemiş altını yurda getirme serbestliği tanınmıştır.	Ministry of Treasury and Finance	Decision No.32 on the Protection on the Value of the Turkish Currency	Various Rules and Regulations Regarding Financial System and Reporting

100	06.03.20	The mandatory reserve requirement application based on the annual real credit growth rate has been updated, considering the significant increase in consumer loans and the potential effects on the composition of growth, inflation, and external balance, as well as the impact of early repayment or restructuring of foreign currency cash loans on the credit growth caused by TL loans granted for the purpose. Banks with a growth rate above 15% will benefit from mandatory reserve incentives if the adjusted real credit growth rate, calculated by deducting the entire real change in 2 years or longer-term loans granted to selective sectors and 5 years or longer-term housing loans from the growth rate formula's numerator, is below 15%. Additionally, banks with an annual real credit growth rate below 15% will benefit from mandatory reserve incentives if the adjusted real credit growth rate, calculated by deducting 75% of the entire real change in individual loans, excluding 5 years or longer-term housing loans, and all TL loans granted for the purpose of early repayment or restructuring of foreign currency cash loans starting from March 9, 2020, from the growth rate formula's numerator, is above 5%.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect
101	06.03.20	In response to the potential impacts of the Coronavirus pandemic, measures have been taken, and as part of these measures, the reserve requirement ratios (RRR) for foreign currency liabilities have been reduced by 500 basis points for banks that meet the conditions of real credit growth in the reserve requirement system, across all types of obligations and maturity periods.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Expansion Effect

102	13.03.20	With the decision numbered 2020/20 dated March 12, 2020, by Borsa İstanbul (BIST), the price margins in the Star Market (Yıldız Pazar) and Main Market (Ana Pazar) have been reduced to 10%, and the circuit breaker triggering rate has been set at 5%. Additionally, the order collection period after the circuit breaker has been extended to 30 minutes in these markets.	Borsa İstanbul	Capital Market Issues	Various Rules and Regulations Regarding Financial System and Reporting
103	13.03.20	With the decision numbered 2020/21 by Borsa İstanbul (BIST), the upward limit on the circuit breaker triggering rate, which has been applied at 5% for continuous trading on the equity market since March 13, 2020, has been lifted until a second announcement.	Borsa İstanbul	Capital Market Issues	Various Rules and Regulations Regarding Financial System and Reporting
104	16.03.20	The Banking Regulation and Supervision Agency (BDDK) has announced, through a press release, that within the framework of a prudent supervisory approach, banks' business continuity plans, routinely prepared by banks, are re-examined to ensure that all necessary measures are taken.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Corona Virus Precautions
105	17.03.20	The Monetary Policy Committee (MPC) held its meeting on March 17, 2020, bringing forward the originally scheduled meeting on March 19, 2020, to assess the potential economic and financial impacts of the coronavirus. The policy rate, which is the one-week repo auction interest rate, was reduced from 10.75% to 9.75%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

106	17.03.20	As part of measures taken against the possible economic impacts of the coronavirus: The limits on the liquidity facility granted to Market Makers (PY banks) within the framework of Open Market Operations (OMO) are increased to support the Market Making system. Traditional auctions held for 1, 3, and 6-month maturity foreign exchange swap transactions will also be available for euro and gold transactions.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Corona Virus Precautions
107	17.03.20	In response to the potential economic and financial impacts of the coronavirus, targeted additional liquidity facilities have been provided to banks to ensure uninterrupted credit flow to the real sector. Within this framework: TL liquidity is provided through quantity auction method at an interest rate 150 basis points (bp) below the CBRT policy rate, with maturities up to 91 days. Part of this may also be concluded as an interbank deposit transaction in the Interbank Money Market if demanded. TL liquidity is provided through quantity auction method via 1-year maturity foreign exchange (FX) indexed Turkish lira (TRY) swap auctions, at an interest rate below the CBRT policy rate by 100 bp, with settlements in US dollars, euros, or gold. The total amount of funds that can be provided through these facilities is limited to approximately 25% of the system's funding needs.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Corona Virus Precautions

108	17.03.20	BDDK's Resolution No. 8948 has extended the minimum delay period for banks' non-performing loans, which is currently 90 days, to 180 days until December 31, 2020. Consequently, loans with a delay period of up to 180 days will be classified in Group I and Group II as of March 17, 2020. Additionally, the requirement for monitoring loans in Group III, which were "restructured and classified as performing again, and delayed by more than 30 days in principal and/or interest payments during the one-year monitoring period, or restructured again within this monitoring period," has been lifted in this group.	Central Bank of Republic of Turkey	Loan Market Related Issues	Corona Virus Precautions
109	17.03.20	In order to mitigate the potential effects of the increasing global economic uncertainties and challenges in international trade on real sector firms due to the coronavirus out break:Between March 18 and June 30, 2020, an extension of up to 90 days has been granted for the repayment of rediscount credits (rediscount credits) with maturities during this period related to exports and foreign exchange-generating services. For existing credit commitments or rediscount credits to be utilized between March 18 and June 30, 2020, an additional commitment closing period of 12 months has been provided, extending the commitment closing period from 24 months to 36 months. The maximum maturities for existing rediscount credits have been extended from 120 days to 240 days for short-term uses starting from March 20, 2020, and up to 720 days for longer-term uses."	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions

110	19.03.20	As part of the measures taken due to the coronavirus outbreak, the Capital Markets Board (SPK) has decided that the provision regulating the minimum equity protection ratio of 35% and the completion of the collateral ratio to 50% when it falls below this ratio in margin trading will be applied to be completed to 35% until a second announcement is made after the decision date. Additionally, the application of Article 35 of the Communiqué on Margin Trading, Short Selling and Lending and Borrowing of Capital Market Instruments (Serial: V, No: 65) has been suspended until a second announcement is made. With the same decision, the declaration or notification periods of portfolio management companies, intermediary institutions, investment funds (including real estate, venture capital, and stock investment funds), pension investment funds, capital market instruments traded on a stock exchange and/or other organized markets or not traded but subject to capital market legislation, have been extended.	Banking Regulation and Supervision Agency	Capital Market Issues	Corona Virus Precautions
111	19.03.20	With the Banking Regulation and Supervision Agency's Decision Numbered 8950, the minimum delay period for receivables that are currently subject to liquidation, which is 90 days until December 31, 2020, has been extended to 180 days for financial leasing and factoring companies and to 240 days for finance companies.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions

112	19.03.20	With the Banking Regulation and Supervision Agency's Decision Numbered 8949, the minimum down payment rate for houses below 500,000 TL has been reduced on March 19, 2020, and the loan-to-value ratio (LTV) has been increased from 80% to 90%. This regulation aims to limit the negative impact of the coronavirus on the sector.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
113	19.03.20	The Turkish Banking Association (TBB), in order to limit the adverse economic effects of the coronavirus pandemic, has recommended the rapid evaluation and meeting of credit requests for corporate firms, SMEs, and individual customers, taking into account resource opportunities and credit limits; improving access to credit and credit conditions; keeping credit channels open; providing flexibility in terms of maturity, payment, installment payments, and collateral conditions; and expeditiously concluding restructuring requests. It has also advised that reporting to the Credit Bureau indicating customers negatively affected by the pandemic should be based on the impact of the coronavirus rather than the economic activities of these customers, aiming for a more accurate assessment.	Capital Market Board	Loan Market Related Issues	Corona Virus Precautions
114	20.03.20	The interest/profit rate applied to mandatory reserves in Turkish lira has been reduced from 10% to 8% for banks that meet the conditions of annual real credit growth, while there has been no change in the rate, which is 0%, for banks that do not meet the conditions.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Corona Virus Precautions

115	23.03.20	As part of the BDDK press release until December 31, 2020: i) To support Capital Adequacy Ratio: -The value losses in the securities portfolio as of March 23, 2020, may not be reflected in equity in the calculation of the Capital Adequacy Ratio. -For monetary or non-monetary (except for those followed at historical cost) foreign currency assets, which are part of the credit risk-based amount and related special provisions, the possibility of using the exchange rate on December 31, 2019, for foreign currency purchases, has been introduced. ii) With the regulation regarding the Foreign Currency Net General Position (FCNGP)/Equity ratio: -The value loss provisions in FC securities as of March 23, 2020, may not be taken into account in the calculation of FCNGP. -The Capital Adequacy Ratio calculation option may be utilized in the equity calculation.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
116	24.03.20	The Ministry of Treasury and Finance has announced that it will be possible to annotate the credit records of companies that defaulted in April, May, and June due to the impact of the coronavirus as 'force majeure.' According to the General Communique of the Tax Procedure Law published in the Official Gazette numbered 31078 (Repeated) on March 24, 2020, it is deemed appropriate to accept that taxpayers covered by the Communique due to the pandemic are in a force majeure situation between April 1, 2020, and June 30, 2020.	Ministry of Treasury and Finance	Loan Market Related Issues	Corona Virus Precautions

117	25.03.20	As part of the Economic Stability Shield Package measures, it has been announced that 'Keep on Business Support Loans,' supported by the Treasury and guaranteed by the Credit Guarantee Fund (KGF), will be provided through public banks, on the condition of preserving the number of registered employees as of the end of February 2020.	Presidential Decree	Loan Market Related Issues	Corona Virus Precautions
118	26.03.20	With the Banking Regulation and Supervision Agency's Decision No. 8967: Until December 31, 2020, compliance with the minimum levels of 100% for total and 80% for foreign currency in the Liquidity Coverage Ratio (LCR) calculation, as stipulated in the Regulation on the Calculation of Liquidity Coverage Ratio, may not be adhered to, both on a consolidated and non-consolidated basis. Therefore, temporary exemptions have been granted to banks regarding the reporting of reasons for non-compliance and the measures planned to address them, as well as the obligation to rectify non-compliance within two weeks. However, liquidity coverage ratio reporting will continue, except for development and investment banks. Although development and investment banks are still obliged to submit reporting forms under the Regulation on the Measurement and Evaluation of Liquidity Adequacy, exemptions have been granted until December 31, 2020, regarding ratio limitations.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

119	26.03.20	On January 22, 2009, a temporary article was added to the Law No. 5834 Regarding Disregarding Records of Bounced Checks, Protested Bills, and Credits and Credit Card Debts. According to this, individuals and legal entities who delay payments related to the principal, interest, and/or other expenses of their cash and non-cash loans and whose maturity date for the installment or principal is before March 24, 2020, will not be taken into account in the records held by the Risk Center of the Turkish Banks Association (TBB) regarding bounced checks, protested bills, credit cards, and other credit debts as of March 26, 2020. This exclusion from consideration will apply if the overdue portion of these debts is paid in full or restructured by December 31, 2020. Financial transactions with these individuals in credit and financial institutions will not be taken into account. The restructuring or granting of new credits by credit and financial institutions in this context will not create legal or criminal liability for these institutions.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
120	27.03.20	BDDK's Decision No. 8970, dated March 27, 2020, has extended the minimum delay period for loans to be classified in the Second Group to 90 days from March 17, 2020, until December 31, 2020. Previously, the minimum delay period was 30 days.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions

121	28.03.20	The Central Bank of the Republic of Turkey (CBRT) has set the following maximum monthly interest rates for credit card transactions: Maximum monthly contractual interest rate for transactions in Turkish Lira (TRY): 1.25% Maximum monthly default interest rate for transactions in Turkish Lira (TRY): 1.55% Maximum monthly contractual interest rate for transactions in foreign currency: 1.00% Maximum monthly default interest rate for transactions in foreign currency: 1.30%"	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Various Rules and Regulations Regarding Financial System and Reporting
122	30.03.20	The Turkish Banking Association (TBB) has announced measures to mitigate the potential adverse effects of the coronavirus pandemic on the economy. These measures include the 'Check Payment Support Credit,' which is backed by the Credit Guarantee Fund (KGF) and aims to contribute to the protection of the commercial reputation of bank customers. Additionally, details of the 'Economic Stability Shield Credit Support' have been shared, targeting the fulfillment of the working capital needs of corporate and commercial customers. The announcement was made on March 27, 2020.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
123	30.03.20	Through public banks, a 'Basic Needs Support' credit package has been implemented to financially support households with a monthly income of 5,000 TL or less. This package aims to cover essential expenses such as food, rent, electricity, water, and gas bills for the middle and low-income groups.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions

124	30.03.20	As per the Presidential Decree published in the Official Gazette dated March 30, 2020, and numbered 31084, the Credit Guarantee Fund limit has been increased from 25 billion TL to 50 billion TL. This increase is aimed at providing liquidity to companies, particularly those adversely affected by recent developments, and SMEs facing collateral shortages	Presidential Decree	Loan Market Related Issues	Corona Virus Precautions
125	30.03.20	With the Banking Regulation and Supervision Agency's Decision No. 8975, the minimum payment amount for individual credit cards has been reduced from 30% to 20% of the statement balance. The same decision allows banks to define grace periods, including the minimum amount, during which they will not request payments from cardholders who defer their card debts until December 31, 2020.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions

126	31.03.20	As part of the measures to mitigate the adverse effects of the coronavirus outbreak on the economy, enhance market depth, and provide flexibility in bank liquidity management to support the effectiveness of the transmission mechanism, the following decisions have been made: Direct purchase transactions within the Open Market Operations portfolio can be front-loaded within the limits set in the 2020 Monetary and Exchange Rate Policy text. These limits can be updated according to market conditions. Temporarily, Market Maker banks are allowed to evaluate the State Domestic Debt Securities (DIBS) they purchased from the Unemployment Insurance Fund beyond the limits set for the Open Market Operations portfolio. This includes selling to the Central Bank of the Republic of Turkey (CBRT) or increasing the liquidity facility granted within the framework of Open Market Operations by TCMB, under specified conditions and amounts. Within the TCMB for TL and forex transactions, Asset-Backed Securities, Asset-Based Securities (VDMK), and Mortgage-Backed Securities (İTMK) are included in the collateral pool. In the targeted additional liquidity facility implemented on March 17, 2020, 6-month foreign exchange for Turkish lira swap auctions will be organized, and banks involved will be provided with TL liquidity against ABD dollar, euro, or gold collateral at an interest rate below the CBRT policy rate by 125 basis points. Individual limits applied in the targeted liquidity facility have been increased.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Corona Virus Precautions

127	31.03.20	In the context of the coronavirus outbreak, to facilitate the access of companies engaged in the export of goods and services to financing and to support the employment capacities of these companies, it has been decided to provide Turkish lira rediscount credits for companies that can use foreign currency rediscount credits, companies providing contracting services abroad, and companies participating in international fairs. In this regard: A total limit of 60 billion TL has been allocated, with 20 billion TL for Türk Eximbank, 30 billion TL for public banks, and 10 billion TL for other banks. The maximum limit per company is set at 25 million TL for SMEs and 50 million TL for other companies. At least 70% of the credits to be provided through banks other than Eximbank will be allocated to SMEs. The interest rates of the credits will be below the CBRT policy rate by a maximum of 150 basis points, and the maximum commission rates of intermediary banks will be 150 basis points. The credits will be provided for a maximum term of 360 days, with the condition that the level of employment at the end of March 2020 is maintained throughout the term of the credit, and with the commitment of export or foreign exchange-generating service	Central Bank of Republic of Turkey	Loan Market Related Issues	Corona Virus Precautions
128	01.04.20	Within the scope of the Presidential Decree published in the Official Gazette dated March 25, 2020, and numbered 31079, the credit debts of tradesmen and craftsmen declaring that they are affected by the pandemic have been postponed for 3 months without interest for the principal and interest payments of April, May, and June.	Presidential Decree	Loan Market Related Issues	Corona Virus Precautions

129	02.04.20	With the Banking Regulation and Supervision Agency's (BDDK) Decree No. 8976, an additional 60 days have been granted to banks, independent audit firms, rating agencies, asset management companies (AMC), and financial leasing, factoring, and financing companies to fulfill their reporting, publication, or notification obligations to the BDDK and other relevant authorities within the framework of various regulations issued by the BDDK. Additionally, to address potential disruptions in banks' credit allocation processes, the deadline specified in the Banking Procedures and Principles Regulation is extended until April 2, 2020. Furthermore, for the effective execution of the necessary documents and information collection from credit customers, records of missing documents covered by Article 11/A (1) of the Regulation will be maintained, and the missing information and documents from existing credit customers should be completed within 6 months following the credit allocation. Also, for information and documents requested from existing credit customers under Article 11/A (2), any deficiencies should be completed by the end of 2020.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
130	03.04.20	The total CBRT swap position amount to be created through FX Swap transactions has been increased from 20% to 30% of the FX and Cash Markets transaction limits.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Various Rules and Regulations Regarding Financial System and Reporting

131	06.04.20	The Small and Medium Enterprises Development and Support Administration (KOSGEB) has deferred the repayments of loans supported by KOSGEB for 3 months. KOSGEB has assumed the costs associated with the deferral.	Ministry of Treasury and Finance	Loan Market Related Issues	Corona Virus Precautions
132	12.04.20	With the Banking Regulation and Supervision Agency's Decision No. 8989, changes have been made to the limits of derivative transactions involving both forward purchases of Turkish Lira (TRY) and forward sales of TRY due to the increased imbalance and risks in global markets caused by the coronavirus pandemic. For transactions involving forward purchases of TRY, the ratio of these transactions to the latest calculated legal equity has been reduced from 10% to 1%, and the application of different weights based on the maturity for the calculation of the total transaction amount has been eliminated. On the other hand, for forward sales of TRY, it has been decided that the ratio of the transaction amount to the latest calculated equity shall not exceed 1% for those with 7 days remaining maturity, 2% for those with 30 days remaining maturity, and 10% for those with 1 year remaining maturity. Additionally, obtaining written approval from the Board is now required for both early termination and maturity extension for both forward purchases and forward sales of TRY.	Banking Regulation and Supervision Agency	Issues Affecting Relations with Foreign Financial Institutions	Corona Virus Precautions

133	13.04.20	As a result of the increased imbalance and risks in global markets due to the coronavirus pandemic, the Capital Markets Board (SPK) has imposed restrictions on the amounts of foreign exchange (forex) to Turkish Lira (TRY) derivative transactions conducted by capital market institutions with non-residents. For transactions involving forward purchases of TRY, the ratio of these transactions to the latest equity amount based on the capital adequacy tables has been set at 1%. On the other hand, for forward sales of TRY, it has been decided that the ratio of the transaction amount to the equity amount for the previous month shall not exceed 1% for those with 7 days remaining maturity, 2% for those with 30 days remaining maturity, and 10% for those with 1 year remaining maturity. Additionally, obtaining written approval from the SPK is now required for both early termination and maturity extension for both forward purchases and forward sales of TRY.	Capital Market Board	Issues Affecting Relations with Foreign Financial Institutions	Corona Virus Precautions
134	14.04.20	TBB (Turkish Banks Association) has announced that, in line with the recommendations of the Financial Action Task Force, the regular reporting of overseas money transfers to the Financial Crimes Investigation Board for individual customers, which was previously scheduled for the same day, will now be shifted to one day prior. The announcement emphasizes that there will be no restrictions or interruptions in transactions.	Banking Regulation and Supervision Agency	Regulations Regarding Liraization Strategy	Corona Virus Precautions

135	16.04.20	BDDK (Banking Regulation and Supervision Agency) has decided that a 0% risk weight can be applied in the calculation of credit risk based on the Standard Approach in the Banking Regulation and Supervision Agency Regulation on the Measurement and Evaluation of Capital Adequacy, to the receivables in foreign currency from the Republic of Turkey Central Administration owned by the Republic of Turkey	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
136	17.04.20	As part of the measures taken against the potential economic impacts of the coronavirus: -The maximum ratio of the Open Market Operations portfolio nominal size to the CBRT analytical balance sheet total assets has been updated to a maximum of 10%. -The limits on the direct sale of government bonds to the CBRT for Market Makers, independently applied from the repo transaction limits, are to be implemented equally for government bond sales limits, and these purchases are to be carried out through quantity auctions within the maximum 10% limit set for the Open Market Operations portfolio.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Corona Virus Precautions
137	22.04.20	The policy rate, the one-week repo auction interest rate, has been reduced from 9.75% to 8.75%	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

138	27.04.20	The Union of Chambers and Commodity Exchanges of Turkey (TOBB) has relaunched the 'TOBB Breath Loan,' a Small and Medium-sized Enterprises (SMEs) financing project. The project is aimed at businesses with an annual turnover of less than 25 million TL, and 80% of the loans are covered by the Treasury-backed Credit Guarantee Fund	Ministry of Treasury and Finance	Loan Market Related Issues	Corona Virus Precautions
139	29.04.20	As part of the TL and forex transactions carried out within the CBRT, the limits for collateral forex deposits accepted as collateral are combined on a bank-specific basis for EUR and USD, providing banks with a single global limit and the flexibility to use their limits in either EUR or USD within this limit.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Various Rules and Regulations Regarding Financial System and Reporting

140	01.05.20	BDDK's decision numbered 9000, dated April 18, 2020, introduced the obligation for banks to calculate the weekly active ratio. The active ratio represents the ratio of loans and weighted CBRT swaps to securities in total, to the total of TL deposits and weighted foreign currency deposits. The ratio's monthly average at the end of each month should not fall below 100% for deposit banks and 80% for participation banks. Additionally, BDDK's decision numbered 9003, dated April 29, 2020, regulated the calculation of the ratio on a solo basis. While exemptions were granted to Development and Investment Banks and banks under the Savings Deposit Insurance Fund (SDIF), banks with total deposits excluding deposits as of March 31, 2020, below 5 billion TL were given until December 31, 2020, for compliance. Furthermore, details were provided regarding the items included and excluded from the numerator and denominator of the ratio.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
141	04.05.20	The total TCMB swap position amount, which is conducted through Currency Swap transactions not yet matured, has been increased from 30% to 40% of the limits for Foreign Exchange and Cash Markets transactions.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Various Rules and Regulations Regarding Financial System and Reporting

142	04.05.20	The employment condition regarding the preservation of the employment level until the maturity of TL-denominated rediscount loans, which was included in the regulation on March 31, 2020, has been amended. The employment condition is now defined as the average number of employees at the end of March, June, September, and December, as well as at the end of the month corresponding to the maturity of the loan, not falling below the employment level at the end of March 2020 throughout the term of the loan.	Central Bank of Republic of Turkey	Loan Market Related Issues	Corona Virus Precautions
143	05.05.20	BDDK's Decision Numbered 9010 introduces a new calculation obligation for banks on a daily and solo basis with the aim of supporting the financing needs arising from the adverse effects of the coronavirus pandemic on the real sector's production and employment. The decision, effective as of May 5, 2020, limits the total TL placements, TL deposits, TL repos, and TL loans that banks will make to financial institutions located abroad to 0.5% of their last calculated equity. It is stated that the limitation will be applied until the extraordinary conditions arising from the coronavirus pandemic are resolved.	Banking Regulation and Supervision Agency	Issues Affecting Relations with Foreign Financial Institutions	Corona Virus Precautions
144	07.05.20	BDDK published the 'Regulation on Market Manipulation and Deceptive Transactions in Financial Markets' in the Official Gazette numbered 31120 dated May 7, 2020. The regulation aims to identify manipulation and deceptive transactions in financial markets.	Banking Regulation and Supervision Agency	Capital Market Issues	Corona Virus Precautions

145	07.05.20	As part of the Board Decision No. 9010, foreign banks that are delayed in fulfilling their Turkish Lira obligations and their group banks established abroad with a leg in Turkish Lira will not be able to conduct new foreign exchange transactions of this nature, and such transactions with maturing dates will not be renewed to prevent actions and practices that may jeopardize the rights of depositors and the regular and secure operation of banks and to ensure the effective operation of the credit system.	Banking Regulation and Supervision Agency	Issues Affecting Relations with Foreign Financial Institutions	Corona Virus Precautions
146	11.05.20	The Turkey Wealth Fund has announced the initiation of necessary efforts to increase the core capital of Ziraat Bank, Halk Bank, and Vakıflar Bankası by a total of 21 billion TL to strengthen their capital structures and support their adequacy.	Ministry of Treasury and Finance	Capital Market Issues	Corona Virus Precautions
147	20.05.20	Turkey's Central Bank and the Qatar Central Bank have amended the bilateral currency swap agreement signed on August 17, 2018. The revised swap agreement now has a total amount of 15 billion US dollars equivalent in Turkish lira and Qatari riyals, increased from the initial 5 billion US dollars equivalent.	Central Bank of Republic of Turkey	Issues Affecting Relations with Foreign Financial Institutions	Monetary Expansion Effect
148	21.05.20	The policy rate, which is the one-week repo auction interest rate, has been reduced from 8.75% to 8.25%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

149	22.05.20	The Ministry of Trade of the Republic of Turkey has announced the 'Inventory Financing Support Package' to alleviate the negative impacts of the coronavirus pandemic on exporters who have accumulated stocks due to order cancellations and a decrease in demand, making it easier for them. The loans within this package will be provided in Turkish Lira through the Credit Guarantee Fund and the Central Bank's resources	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
150	22.05.20	With the Banking Regulation and Supervision Agency's Decision No. 9033 dated May 21, 2020, a requirement has been introduced for individuals and legal entities to settle and/or make available the gold purchased in daily transactions of 100 grams or more to the account holder on the next business day value date, aiming to contribute to the stable functioning of financial markets and the efficient operation of the credit system	Ministry of Treasury and Finance	Loan Market Related Issues	Corona Virus Precautions
151	24.05.20	The withholding tax rate for individual investors in financial bonds has been increased from 10% to 15%, as stipulated in the Presidential Decree published in Official Gazette number 31136.	Presidential Decree	Capital Market Issues	Corona Virus Precautions

152	24.05.20	As per the Presidential Decree published in Official Gazette number 31136, the Banking and Insurance Transaction Tax (BITT) rate for foreign exchange transactions has been increased from 0.2% to 1%. However, for transactions such as interbank foreign exchange sales, foreign exchange sales to the Ministry of Treasury and Finance, foreign exchange sales by banks to borrowers for the repayment of foreign currency loans, foreign exchange sales to enterprises holding an industrial registration certificate, and foreign exchange sales to exporters' associations, a BITT rate of 0% has been determined.	Presidential Decree	Regulations Regarding Liraization Strategy	Corona Virus Precautions
153	27.05.20	The total CBRT swap position through FX Swap auctions with no maturity has been increased to 50% of the FX and cash markets transaction limits.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Various Rules and Regulations Regarding Financial System and Reporting

154	01.06.20	With the Banking Regulation and Supervision Agency's decision numbered 9042 dated May 29, 2020, the following measures have been taken: Banks with total deposits excluding deposits as of June 1, 2020, below 25 billion TL are granted an extension until December 31, 2020, to comply with the Asset Ratio. In the numerator of the Asset Ratio, the 'Loans' item, which includes SME loans, project finance loans, and export credits, is weighted by a factor of 1.1. Short-term loans with a maturity of less than 3 months are not included in the 'Loans' item. Banks' TL repo transactions and 6-month maturity or less TL financial bonds they issue with customers are considered in the 'TL Deposits' item. Banks' foreign currency repo transactions with customers are considered in the 'Foreign Currency Deposits' item. In calculating the denominator of the Asset Ratio, a factor of 1 is applied to the total of the 'Foreign Currency Deposits' item up to foreign currency loans, and a factor of 1.75 is applied to the portion exceeding foreign currency loans."	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
155	01.06.20	The withholding discount period in deposit was extended until the end of July.	Ministry of Treasury and Finance	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

156	02.06.20	With the Capital Markets Board's (SPK) Decision numbered 33/673, special regulations regarding free (foreign exchange) funds have been established as follows: Foreign exchange-denominated bonds and lease certificates issued abroad by the Ministry of Treasury and Finance and domestic issuers can only be included in the portfolios of free (foreign exchange) funds by purchasing them in the primary issuance stage. These instruments cannot be included in fund portfolios through purchase transactions on secondary markets abroad. The total of foreign exchange-denominated bonds and lease certificates issued abroad by the Ministry of Treasury and Finance and domestic issuers included in the portfolios of free (foreign exchange) funds cannot exceed 30% of the total value of the fund. There is no maximum investment limit for foreign exchange-denominated bonds and lease certificates issued domestically by the Ministry of Treasury and Finance included in the portfolios of free (foreign exchange) funds. Foreign assets and transactions, including foreign exchange, can be included in the portfolios of free (foreign exchange) funds up to a maximum of 3% of the total value of the fund."	Capital Market Board	Capital Market Issues	Various Rules and Regulations Regarding Financial System and Reporting

157	02.06.20	BDDK, through the decision published in Official Gazette number 31143, has extended the application deadline for all kinds of deposits, participation funds, trusts, and receivables that have become time-barred as of 2019 and are not claimed by the beneficiaries or heirs until September 15, 2020, taking into account the economic and social impacts of the COVID-19 pandemic. In this context, the deadline for transferring these amounts, along with interest and profit shares, to the Savings Deposit Insurance Fund has also been extended until September 30, 2020.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
158	03.06.20	Under the Presidential Decree published in Official Gazette number 31144, the withholding tax rate for the gains arising from the portfolio management of Free (foreign currency) funds has been set at 15 percent (previously 0 percent)	Presidential Decree	Loan Market Related Issues	Corona Virus Precautions
159	05.06.20	In the context of the allocated 60 billion TL facility for Turkish lira rediscount credits, it has been decided that 20 billion TL will be utilized as investment-commitment-based advance credits to support investments in selective sectors critical for our country. These credits, with a maximum term of 10 years and a fixed interest rate below 150 basis points of the CBRT policy rate, the one-week repo interest rate, will be limited to 400 million TL per company, except for exceptional and specific investment projects	Central Bank of Republic of Turkey	Loan Market Related Issues	Corona Virus Precautions

160	09.06.20	BDDK, with Decision Number 9053, has extended the installment periods for credit cards from 12 months to 18 months for domestic spending related to airlines, travel agencies, and accommodation	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
161	13.06.20	The Capital Markets Board has made the issuance limit of Mortgage Finance Institutions independent of their capital. In addition, it has been decided that no Board fee will be charged for debt instrument issuances by these institutions until the end of 2021, and thereafter, half of the fee will be collected. The Capital Markets Board has lifted the short selling ban for shares listed on the BIST-30 index.	Capital Market Board	Capital Market Issues	Corona Virus Precautions
162	18.06.20	The discount interest rates applied in rediscount and advance transactions against promissory notes with a maturity of up to 3 months have been reduced by 375 basis points and set at 9% and 10%, respectively.	Central Bank of Republic of Turkey	Loan Market Related Issues	Corona Virus Precautions
163	26.06.20	With Law No. 7247 published in Official Gazette No. 31167, amendments have been made to various laws. With the amendment to Article 76 of the Banking Law, it is stated that contracts regarding the scope of activities of banks can be concluded in writing, at a distance, or through electronic means, which the BRSA determines to replace written form, and through methods that allow the verification of customer identity. This opens the way for contracts to be signed using current technological and digital methods.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions

164	26.06.20	In order to provide flexibility to banks in meeting the demand for period-specific loans, it has been decided that the condition that the adjusted real credit growth rate, which banks with an annual real credit growth rate of over 15% must provide to benefit from reserve requirement incentives, should be less than 15% will not be applied until the end of the year	Central Bank of Republic of Turkey	Loan Market Related Issues	Corona Virus Precautions
165	09.07.20	As part of the measures to limit the economic impact of the Covid-19 pandemic, the Banking Regulation and Supervision Agency (BDDK) has increased the credit card limit, previously set at 1,300 TL for individuals who cannot declare their monthly or annual average income or whose income cannot be determined by banks, to 2,000 TL. The decision also states that the provisions regarding the closure of credit cards that have not been paid three times within a year may not be applied by card-issuing institutions until December 31, 2020.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
166	10.07.20	Yearly real credit growth conditions for the interest/usury rate applied to mandatory reserves denominated in TRY have been reduced from 8% to 7% for banks that meet the conditions, while there is no change in the rate of 0% for banks that do not meet the conditions.	Central Bank of Republic of Turkey	Loan Market Related Issues	Corona Virus Precautions

167	23.07.20	According to the Presidential decree published in Official Gazette number 31194, the loan debts of craftsmen and tradesmen within the scope, who suffered damage due to the COVID-19 pandemic, that will mature between July 1 and September 30, 2020, and not paid off as of July 1, will be deferred for three months without the need for an application, by accruing interest according to the relevant legislation, without changing the number of installments and as long as the number of employees is not reduced during the deferral period.	Presidential Decree	Loan Market Related Issues	Corona Virus Precautions
168	24.07.20	Supporting financial stability, the foreign currency reserve requirement ratios have been increased by 300 basis points for all banks, in all liability types and maturity periods.	Central Bank of Republic of Turkey	Loan Market Related Issues	Corona Virus Precautions
169	28.07.20	With Banking Regulation and Supervision Agency's Decision No. 9109, International Development Banks (IDB) are exempted from the access restrictions to Turkish Lira (TRY) imposed by the Board's decisions dated April 12, 2020, and May 5, 2020, provided that they declare in writing and commit to the Turkish banks that they will only use the TRY liquidity obtained from the domestic market to lend to domestic resident companies, purchase TRY-denominated securities, and ensure that excess TRY liquidity is deposited in domestic banks, and with the condition of obtaining the positive opinion of the Banking Regulation and Supervision Agency.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions

170	01.08.20	With the Banking Regulation and Supervision Agency's Decision No. 9125 dated August 10, 2020: The minimum asset ratio values are determined as 95% for deposit banks and 75% for participation banks. The conversion of all foreign currency items in the pay and numerator parts of the asset ratio to Turkish Lira using the average CBRT exchange rate in the previous calendar month. Inclusion of funds allocated to Real Estate Investment Funds and Venture Capital Investment Funds in the ""Securities"" item in the pay part of the asset ratio. The application of a 1.75 coefficient to the sources that can be included in the ""Foreign Currency Deposits"" item in the denominator part of the asset ratio, obtained from foreign individuals and legal entities, is not mandated.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Corona Virus Precautions
171	05.08.20	The interest rate applied to mandatory reserves, reserve options, and free accounts held in US dollars at the CBRT has been reduced by 100 basis points and set at 1%.	Central Bank of Republic of Turkey	Loan Market Related Issues	Corona Virus Precautions
172	06.08.20	The gradual reduction of targeted additional liquidity facilities has been announced.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect

173	06.08.20	BDDK has decided that non-resident banks located outside the International Development Banks, who open accounts to obtain TL liquidity with the aim of purchasing TL-denominated securities and depositing excess TL liquidity in domestic banks, and who provide a written declaration and commitment to BDDK, provided that BDDK approves, will be exempt from the access restrictions to TL introduced by the Board's decisions dated April 12, 2020, and May 5, 2020, for the following transactions conducted in those accounts: FX swap transactions with TL buying direction at maturity, Swap transactions with TL buying direction at maturity in BIST FX Swap Market, Repo and reverse repo transactions in BIST repo markets, TL deposit transactions with domestic banks."	Banking Regulation and Supervision Agency	Issues Affecting Relations with Foreign Financial Institutions	Monetary Tightening Effect
174	08.08.20	With the Presidential Decree published in the Official Gazette numbered 31207, foreign-resident institutions engaging in at least one of the activities considered financial activities under the Banking Law are exempted from the 1% tax levied on the sales amount in foreign exchange transactions.	Presidential Decree	Regulations Regarding Liraization Strategy	Normalization From Previous Measures
175	10.08.20	Within the framework of liquidity management, the liquidity facility limits granted to Market Maker (PY) banks through Open Market Operations have been halved.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect
176	12.08.20	Liquidity facility limits granted to market maker banks within the framework of Open Market Operations have been reset to zero.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect

177	17.08.20	Within the framework of the Monetary Tightening Effect measures taken in the context of liquidity management, traditional method repo auctions were held with a total amount of 10 billion TL between August 17-24, 2020.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect
178	19.08.20	The borrowing limits for banks in the Interbank Money Market, operated within the CBRT, have been halved for overnight transactions	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect
179	21.08.20	The 'Regulation on the Generation and Use of TR QR Code in Payment Services' containing Turkey's national QR code standards has been published in the Official Gazette numbered 31220 and has come into effect. With this regulation, a standardized QR code structure and rules have been established for the payment ecosystem to facilitate interoperability among actors, support innovative initiatives, and contribute to the widespread use of QR codes in payments.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
180	24.08.20	It has been announced that traditional repo auctions will continue on the days when needed, and details of the auctions will be shared through data platforms. With the increase in the share of traditional repo auctions, it is stated that the funding amount provided by the Central Bank of the Republic of Turkey (CBRT) in the repo markets within Borsa Istanbul may be reduced on days deemed necessary.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect

181	04.09.20	BDDK, with its Decision No. 9131, has reduced the general maturity limit for consumer loans from 60 months to 36 months for banks lending in the framework of the Regulation on Credit Transactions of Banks and for financial leasing, factoring, and financing companies lending in the framework of the Regulation on the Establishment and Operation Principles of Financial Leasing, Factoring, and Financing Companies	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
182	04.09.20	The foreign currency reserve ratios of banks that meet the conditions of real credit growth have been increased by 700 basis points for all maturity periods for precious metal deposit accounts and by 200 basis points for all other liabilities. In addition, in line with the recent steps taken in the framework of TL liquidity management, the TL reserve ratios of banks that meet the conditions of real credit growth have been increased by 200 basis points for all deposits/participation funds with maturities of up to 6 months and other liabilities with maturities of up to 1 year, and by 150 basis points for other liabilities with maturities of up to 3 years.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
183	24.09.20	Policy interest rate for one-week repo auction has been increased from 8.25% to 10.25%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect

184	25.09.20	The changes to the Regulation on Bank Cards and Credit Cards announced by the Banking Regulation and Supervision Agency (BDDK) have been published in the Official Gazette with number 31255 and have come into effect. In addition to definitional changes, the regulation includes provisions regarding general transaction terms for bank and credit cards, as well as regulations on issuing credit cards and credit card limits. The regulation also establishes a framework for remote card agreements.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
185	25.09.20	The Banking Regulation and Supervision Agency (BDDK) has increased the limits for banks on the ratio of their own funds to the Turkish lira buying and selling transactions with maturity in the spot, 7-day, 30-day, and 1-year periods, which they carry out with non-residents through Turkish lira buying and selling transactions, forward, options, and other derivative transactions, from the levels introduced on April 12, 2020 to 10%, 2%, 5%, and 20%, respectively	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures
186	30.09.20	With the Presidential Decree published in the Official Gazette numbered 31260, the Banking and Insurance Transactions Tax, which is levied on foreign exchange transactions, has been reduced from 1% to 0.2%	Presidential Decree	Regulations Regarding Liraization Strategy	Normalization From Previous Measures

187	30.09.20	With the change published in the Official Gazette numbered 31260, the withholding tax rates on interest and profit share from deposits and participation accounts denominated in Turkish Lira have been amended. Accordingly, for a limited period of three months (until December 31, 2020), the withholding tax rates on TL deposit interest are as follows: 5% for demand and notice accounts as well as up to 6 months (including 6 months) maturity accounts (the previous rate was 15%), 3% for accounts with up to 1 year (including 1 year) maturity (the previous rate was 12%), and 0% for accounts with maturity exceeding 1 year (the previous rate was 10%), and 0% for accounts with maturity exceeding 1 year with variable interest rates linked to inflation	Ministry of Treasury and Finance	Loan Market Related Issues	Normalization From Previous Measures
188	01.10.20	BDDK's decision dated September 28, 2020, and numbered 9170 set the minimum Asset Ratio value at 90% for deposit banks and 70% for participation banks	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures
189	09.10.20	The TL interest rate applied in swap transactions has been increased from 10.25% to 11.75%	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Normalization From Previous Measures

190	16.10.20	The Turkish Banking Association (TBB) has announced a 10 billion TL 'tourism support package' with the guarantee of the Credit Guarantee Fund (KGF) to reduce the impacts of the coronavirus pandemic and support the preservation of production and employment capacities. Under the package, loans will have a maximum term of 48 months, with a grace period of up to 12 months, not exceeding October 16, 2020. The interest rate is set to be a maximum of 14.5% for fixed-rate loans and TLREF + 200 basis points for variable-rate loans. The guarantee limit per beneficiary is 32 million TL, and the credit limit is 40 million TL	Ministry of Treasury and Finance	Loan Market Related Issues	Normalization From Previous Measures
191	16.10.20	The interest/profit rates applied to Turkish lira-denominated reserve requirements have been increased from 7% to 9% for banks meeting the conditions of annual real credit growth, and from 0% to 2% for banks that do not meet the conditions.	Central Bank of Republic of Turkey	Loan Market Related Issues	Normalization From Previous Measures
192	16.10.20	The commission rates applied to reserve requirements for foreign currency-denominated deposit/participation fund liabilities have been halved. In this context, it has been decided to apply an annual commission rate of 1.25% for U.S. dollar-denominated deposit/participation fund liabilities and an annual rate of 0.125% for non-U.S. dollar-denominated deposit/participation fund liabilities	Central Bank of Republic of Turkey	Loan Market Related Issues	Normalization From Previous Measures

193	26.10.20	Public deposit banks announced on October 26, 2020, that they would launch the 'Micro Enterprises Support Package' for SMEs. Accordingly, businesses with a turnover of up to 3 million TL are provided with the opportunity to use KGF-backed loans with a term of up to 48 months and an annual interest rate of 11.5%.	Ministry of Treasury and Finance	Loan Market Related Issues	Normalization From Previous Measures
194	01.11.20	With the Banking Regulation and Supervision Agency's Board Decision dated October 26, 2020, and numbered 9238, the long-term foreign currency loans granted by domestic banks to other banks in the domestic market and syndication loans have been included in the 'Loans' item in the asset ratio part of the bank's balance sheet at the original maturities at the time of disbursement, with a coefficient of 1.00, in proportion to the amount of the loan directly disbursed or the share of the participating bank in the syndication, respectively	Ministry of Treasury and Finance	Loan Market Related Issues	Normalization From Previous Measures

195	01.11.20	The maximum interest rates applicable to credit card transactions will be determined through a method that reflects current market conditions, is predictable, and rule-based. Accordingly, the maximum interest rates for credit card transactions will be determined based on the weighted average deposit interest rates of banks as an indicator of funding cost, with reference to the reference rate calculated by our Bank. In this context, the monthly maximum nominal interest rate for transactions in TRY will be determined by adding 55 basis points to the reference rate, and for transactions in foreign currency, it will be 80% of the rate in TRY; the monthly maximum default interest rate will be determined by adding 30 basis points to the monthly maximum nominal interest rate	Banking Regulation and Supervision Agency	Regarding Interest Rate and Liquidity	Normalization From Previous Measures
196	03.11.20	The borrowing limits for banks in the Interbank Money Market within the CBRT have been set to zero, and overnight repo transactions conducted through the quotation method against TL-denominated lease certificates within the framework of Open Market Operations have been suspended.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Normalization From Previous Measures
197	03.11.20	The Turkish lira interest rate applied in swap transactions has been increased from 11.75% to 13.25%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Normalization From Previous Measures

198	11.11.20	The Banking Regulation and Supervision Agency (BDDK) has increased the limits on the ratio of banks' equity to the notional value of Turkish lira selling transactions in swap, forward, option, and other derivative transactions with non-residents for the remaining maturity of 7 days, 30 days, and 1 year, respectively, to 5%, 10%, and 30%	Banking Regulation and Supervision Agency	Issues Affecting Relations with Foreign Financial Institutions	Normalization From Previous Measures
199	12.11.20	TCMB has completed preparations to launch a new payment system. This new system, named FAST (Funds' Instant and Continuous Transfer), enables instant money transfers between different bank accounts, 24/7. The FAST System is planned to be launched as a pilot application on December 18, 2020, and gradually opened for public use. The goal is for the system to become widespread, covering all financial institutions in a short period.	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
200	19.11.20	Policy interest rate, the one-week repo auction interest rate, has been increased from 10.25% to 15%	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Normalization From Previous Measures
201	20.11.20	As part of the simplification of the operational framework of monetary policy, the funding provided through 1-month traditional repo auctions and overnight lending facilities will be conducted through the 1-week repo quantity auctions, which is the main policy tool of the Central Bank, until November 26, 2020. The overnight borrowing interest rate will be applied at the policy interest rate of 15% for the period until November 26, 2020.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Normalization From Previous Measures

202	20.11.20	The TL interest rate applied in swap transactions has been increased from 13.25% to 15%	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Normalization From Previous Measures
203	25.11.20	The total CBRT swap position amount, realized through FX Turkish Lira swap auctions with outstanding maturity, has been increased from 50% to 60% of the limits for Foreign Exchange and Cash Markets transactions	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Normalization From Previous Measures
204	27.11.20	The decision has been made to transition to a simple reserve requirement system to enhance the effectiveness of the monetary transmission mechanism. Accordingly: The application of reserve requirements and interest/profit-sharing rates differentiated according to real credit growth is abolished. Reserve requirements and interest/profit-sharing rates are applied to all sectors at the same rates. In this context, reserve requirements for Turkish lira and foreign currency are determined as follows: The interest/profit-sharing rate paid for Turkish lira-denominated reserve requirements is set at 12% for all sectors. The commission rate applied to reserve requirements for deposits/participation funds denominated in US dollars is set at 0%, down from the previous rate of 1.25%	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Normalization From Previous Measures

205	08.12.20	With the Board's Decision dated 20.05.2019 and numbered 8374, the practice introduced regarding the transfer and/or delivery of foreign exchange (including cash) purchased in amounts of 100,000 USD or more by individuals, with a settlement date of one business day, is abolished. Additionally, with the Board's Decision dated 21.05.2020 and numbered 9033, the practice introduced regarding the transfer and/or delivery of gold purchased in amounts of 100 grams or more by individuals and legal entities, with a settlement date of one business day, is also abolished.	Banking Regulation and Supervision Agency	Regulations Regarding Liraization Strategy	Normalization From Previous Measures
206	08.12.20	Exclusion of the value depreciation provisions of the securities owned by banks in their portfolios as of 23/3/2020 from being taken into account in the calculation of the Foreign Exchange Net General Position / Equity Standard Ratio within the scope of the Regulation on the Calculation and Implementation of the Foreign Exchange Net General Position / Equity Standard Ratio by Banks on a Consolidated and Non-Consolidated Basis,	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

207	08.12.20	As specified in the Board Decision dated 17.03.2020 with the number 8948, the 90-day delay period envisaged for the classification of loans as non-performing under Articles 4 and 5 of the Regulation on the Classification of Loans and the Principles and Procedures Regarding the Reserves to be Set Aside for These Loans is applied as 180 days, and provisions to be set aside for loans that continue to be classified in Group 2 despite the 90-day delay are continued to be allocated according to the banks' own risk models used in the calculation of the expected credit losses within the scope of the Turkish Financial Reporting Standards 9.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures
208	08.12.20	As stated in the Board Decision dated 19.03.2020 with the number 8950, the 90-day delay period specified in the first paragraph of Article 6 (a) and the sixth paragraph of the Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring, and Finance Companies is applied as 180 days for companies allocating expected credit losses within the scope of Turkish Financial Reporting Standards 9, and as 240 days for financial leasing companies. The provision continues for companies to set aside reserves according to their own risk models for receivables that are not transferred to the 'Receivables to be Liquidated' account despite the 90-day delay.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures

209	08.12.20	As stated in the Board Decision dated 27.03.2020 with the number 8970, the 30-day delay period specified in Article 4 of the Regulation on the Classification of Loans and the Principles and Procedures Regarding the Reserves to be Set Aside for These Loans is applied as 90 days for loans classified in the Second Group and as 30 days for loans continuing to be classified in the First Group despite the 30-day delay. The provision continues for reserves to be set aside for loans continuing to be classified in the First Group, according to the banks' own risk models used in calculating the expected credit losses within the scope of Turkish Financial Reporting Standards 9.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures
210	08.12.20	As of the Board Decision dated 09.06.2020 with the number 9054, the obligation stated in the second paragraph of Article 16 of the Regulation on the Classification of Loans and the Principles and Procedures Regarding the Reserves to be Set Aside for These Loans (Provisions Regulation) that requires the disposal of commodities and real estate within 3 years from the acquisition date is not enforced	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures
211	08.12.20	Within the scope of the put option application, loans for which collateral is acquired by the bank as a payment for the credit or paid in kind are exempted from the provision of the fourth paragraph of Article 6 of the Regulation on the Classification of Loans and the Principles and Procedures Regarding the Reserves to be Set Aside for These Loans	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures

212	08.12.20	For the restructured non-performing receivables to be classified as a restructured receivable under the Second Group, the monitoring period specified as 'one year' in the fifth paragraph of Article 7 (b) of the Regulation on the Classification of Loans and the Principles and Procedures Regarding the Reserves to be Set Aside for These Loans will be applied as 'six months'.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures
213	08.12.20	As of 31.12.2020, an additional period of 60 days is granted to various regulations regarding banks, independent audit firms, rating agencies, asset management companies, financial leasing, factoring, and financing companies for the notification and reporting periods. For customers with loans of 100 million TL and above, as required by the legislation, an extension of time is provided until 31.12.2020 to complete the most recent audited financial statements and other documents to be obtained from credit customers by independent audit firms	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
214	08.12.20	Recording the deficiencies regarding the documents required under Article 11/A(1) of the Regulation on Credit Transactions of Banks, and completing the missing information and documents within 6 months after the allocation of credit in cases where they cannot be obtained from credit customers. In accordance with paragraph (2) of Article 11/A, completing the missing information and documents requested from existing credit customers by the end of 2020	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

215	08.12.20	Granting exemption until 31.12.2020 to deposit and participation banks for providing Liquidity Coverage Ratio (LCR) and to development and investment banks for providing Liquidity Adequacy Ratio (LAR) regarding their liquidity levels, as stated in the decision dated 26.03.2020 and numbered 8967	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
216	08.12.20	As of the decision dated 30.03.2020 and numbered 8975, it has been decided that banks can define grace periods, including the minimum amount, during the period they defer card debts by not demanding payments from cardholders	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures
217	08.12.20	As of the decision dated 09.07.2020 and numbered 9093, it has been decided to leave it to the discretion of card issuing institutions to block the cash usage or cash usage with goods and services of credit cards with unpaid minimum payment amount, in accordance with the sixth paragraph of Article 22 of the Regulation on Bank Cards and Credit Cards	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures
218	08.12.20	Pursuant to the Regulation on the Measurement and Evaluation of Banks' Capital Adequacy, in the calculation of the basis amount for credit risk; when calculating the revalued amounts and related specific provision amounts of items, other than those denominated in foreign currency measured at historical cost, those items are valued in accordance with Turkish Accounting Standards, and the simple arithmetic average of the Central Bank exchange rates for the last 252 business days preceding the calculation date can be used.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

219	08.12.20	In case the net valuation differences of the securities in the 'Fair Value Reserves Reflected in Other Comprehensive Income Securities' portfolio are negative, these differences may not be taken into account in the calculation of the equity amount to be calculated in accordance with the Regulation on Bank Equity and used for the capital adequacy ratio.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
220	08.12.20	As of the date of 16/04/2020 and as specified in the Board Decision numbered 8998, banks are exempted from the provisions of the first and second paragraphs of Article 5 of the Regulation on the Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts with the Standard Shock Method until 31/12/2020.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

221	08.12.20	As of the date of 29/05/2020 and as specified in the Board Decision numbered 9041, until 31/12/2020; it is left to the discretion of banks to conduct the fair value calculations required for financial collaterals at least every 6 months in accordance with the fourth paragraph of Article 20 of the Regulation on Credit Risk Mitigation Techniques. Additionally, the application of other Board Decisions regarding the acceptance of fair values as of 31/12/2019 in the valuation of financial collaterals is terminated from 31/12/2020 onwards. This is aimed at enhancing the transparency of indicators related to the financial structure of the banking sector and more effectively managing potential risks	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures
222	17.12.20	The installment periods for credit cards have been revised as follows: For non-precious metal and non-ingot-related jewelry expenses, reduced from eight months to six months, For electronic goods purchases, excluding televisions priced up to three thousand five hundred Turkish Liras, reduced from six months to four months, For furniture and appliance purchases, reduced from eighteen months to twelve months.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect

223	17.12.20	The installment periods for credit cards have been revised as follows: For non-precious metal and non-ingot-related jewelry expenses, reduced from eight months to six months, For electronic goods purchases, excluding televisions priced up to three thousand five hundred Turkish Liras, reduced from six months to four months, For furniture and appliance purchases, reduced from eighteen months to twelve months. Pursuant to the sixth paragraph of Article 12/A of the Regulation on Credit Transactions of Banks (Credit Regulation) and the fifth paragraph of Article 11/A of the Regulation on the Principles of Establishment and Activities of Financial Leasing, Factoring, and Finance Companies (Financial Institutions Regulation), the credit term limits specified in the third paragraph of Article 12/A of the Credit Regulation and the second paragraph of Article 11/A of the Financial Institutions Regulation, are amended as follows: For vehicle purchase loans with a final invoice value exceeding three hundred thousand Turkish Liras, reduced from forty-eight months to thirty-six months, For vehicle purchase loans with a final invoice value exceeding seven hundred fifty thousand Turkish Liras, reduced from forty-eight months to twenty-four months, For vehicle-backed loans, reduced from forty-eight months to thirty-six months	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect

224	22.12.20	On December 22, 2020, with Presidential Decree No. 3321, significant changes have been made to the withholding tax rates applied under Temporary Article 67. The 15% withholding tax applied to portfolio gains exempted from corporate tax for Foreign Exchange funds has been terminated as of the 2021 period. The temporary low withholding tax rates applied to income from deposit and participation accounts have been extended until December 31, 2021. Similar to the temporary low withholding tax rates applied to income from deposit and participation accounts, the withholding tax rates on income and gains from bonds and bills issued by banks and lease certificates issued by asset leasing companies, for which banks are the fund users, have been reduced.	Presidential Decree	Regarding Interest Rate and Liquidity	Normalization From Previous Measures
225	24.12.20	The Central Bank of the Republic of Turkey (CBRT) has raised the interest rate on weekly swap transactions from 15% to 17%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect
226	31.12.20	With the Banking Regulation and Supervision Agency's Decision No. 9271 dated November 24, 2020, the calculation of the active ratio has been terminated.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Normalization From Previous Measures

227	31.12.20	As of January 4, 2021, the Central Bank of the Republic of Turkey (CBRT) has started publishing daily flow and stock data for swap transactions with banks in the domestic markets and for TL-settled forward foreign exchange transactions in the Borsa Istanbul Derivatives Market.	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
228	08.01.21	The new-generation 24/7 instant retail payment application, the Funds Settlement System (FAST) System, developed within the Central Bank of the Republic of Turkey (TCMB), has been launched and is now available for use.	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
229	28.01.21	The International Reserves and Foreign Currency Liquidity table, which is published monthly, will now also be released on a weekly basis to provide more up-to-date information to the public.	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

230	10.02.21	According to the regulation covering repo and reverse repo transactions that banks conduct among themselves or with real and legal persons, transactions conducted in compliance with interest-free banking standards have also been included.	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
231	10.02.21	Banks have determined carat values for physical gold collected by affiliated jewelers and precious metal experts who provide valuation and collection services on behalf of banks for recording receivables to customers' gold-denominated deposit/special current/participation accounts.	Banking Regulation and Supervision Agency	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
232	17.02.21	Short-time work allowance support has been extended until March 31, 2021.	Presidential Decree	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
233	23.02.21	The mandatory reserve ratios for TRY in all maturity and liability types will be increased by 200 basis points. The maximum ratio for mandatory reserves in foreign currency will be reduced from 30% to 20%, and for mandatory reserves in standard gold, it will be reduced from 20% to 15%. The interest/profit rate applied to mandatory reserves in TRY will be increased by 150 basis points to 13.5%	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect

234	26.02.21	MASAK Secondary Regulations have been published. These include: Decision on Putting into Effect the Decision Regarding the Implementation of UN Security Council Resolution 1718 (2006) and Subsequent Resolutions, and Resolution 2231 (2015 Regulation on Measures Regarding the Prevention of Money Laundering and Financing of Terrorism Guidelines on Enhanced Measures Published Regulation on the Implementation Principles and Procedures of the Law on the Prevention of the Financing of Terrorism Regulation on Compliance Program Regarding Obligations on the Prevention of Money Laundering and Financing of Terrorism"	Ministry of Treasury and Finance	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
235	19.03.21	The Turkish lira interest rate in the TCMB Foreign Exchange Swap Market and Turkish Lira Swap Market for Gold against Turkish Lira has been increased from 17% to 19%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect
236	14.04.21	Enhanced Measures Guide Published	Ministry of Treasury and Finance	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

237	16.04.21	As part of the Economic Reforms Action Plan, the 'Individual Banking Analysis and Rating Model (BAM)' has been developed.	Ministry of Treasury and Finance	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
238	30.04.21	Crypto assets cannot be used directly or indirectly in payments. In addition, services related to the direct or indirect use of crypto assets in payments will not be provided."	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
239	30.04.21	The last day of presentation falls between April 30 and May 31, inclusive; during this period, the checks will not be presented, and they can be presented in the remaining presentation period after June 1.	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
240	30.04.21	Between April 30 and May 31, inclusive, no execution and bankruptcy proceedings can be initiated, no precautionary attachment decisions can be made, and ongoing proceedings regarding receivables based on promissory notes due within this period will be suspended	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
241	30.04.21	The ban on layoffs has been extended until June 30th, starting from May 17th, through a Presidential Decree	Presidential Decree	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

242	30.04.21	The Capital Markets Board (SPK) has decided to extend the balance sheet reporting deadlines by 30 days to comply with the full lockdown period	Capital Market Board	Capital Market Issues	Various Rules and Regulations Regarding Financial System and Reporting
243	30.04.21	Micro-businesses facing income loss and disrupted cash flow, supported through KOSGEB, will receive up to 30,000 Turkish Liras, and small businesses up to 75,000 Turkish Liras in interest-free and repayment-free support for a period of 3 years.	Presidential Decree	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
244	20.05.21	Due to the disruption in commercial activities caused by the COVID-19 pandemic, grant support will be provided by the Ministry of Commerce to tradesmen and craftsmen as well as individual merchants in line with the Presidential Decree dated May 20, 2021, and numbered 3998. As of May 17, 2021, income taxpayers who are tradesmen, craftsmen, and individual merchants can benefit from this support. The applications of citizens who meet the specified support conditions will be accepted, and support ranging from 3,000 to 5,000 TL will be provided.	Presidential Decree	Real Sector Related Issues	Corona Virus Precautions

245	21.05.21	The Banking Regulation and Supervision Agency has decided to grant operating permission to D Investment Bank Inc., which was granted establishment permission by the decision dated 19.03.2020 and numbered 8953	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
246	25.05.21	The name of the Financial Stability and Development Committee has been changed to the 'Financial Stability Committee' and restructured.	Presidential Decree	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

247	01.06.21	The '2021 Relief Loan,' implemented as of June 1, 2021, in collaboration with 10 banks, TOBB, and KGF. With the Relief Loan Package, working capital financing will be provided to businesses with an annual turnover below 10 million TL, experiencing a 25% loss in turnover in 2020 compared to 2019, and registered with the Chamber of Commerce, Maritime Trade, Industry, Trade and Industry, or the Commodity Exchange. Small and medium-sized enterprises (SMEs) with a turnover not exceeding 1 million TL in 2020 can borrow a maximum of 50,000 TL, while SMEs with a turnover between 1-10 million TL can borrow a maximum of 200,000 TL. The 2021 Relief Loan offers a 6-month grace period for repayments, and the loan repayments will be made in 12 equal installments. The program includes Treasury-backed KGF guarantee, and the annual interest rate is set at 17.5%	Ministry of Treasury and Finance	Loan Market Related Issues	Monetary Expansion Effect
248	04.06.21	The regulation, which determines the principles regarding the sharing and transfer of information in the nature of the bank secret and customer secret, was published. (Effective Date: January 2022)	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

249	29.06.21	As part of the actions aimed at improving the asset quality of the banking sector under the goal of strengthening the financial sector in the Economic Reform Package, the 'Credit Lifecycle Project' has been implemented, and operational restructuring and firm rehabilitation functions in the banking sector have been established for non-performing loans in close monitoring. In this context: The 'Guide on Credit Allocation and Monitoring Processes' has been prepared to enhance the effectiveness of banks' allocation and monitoring practices. The 'Non-Performing Loan Resolution Guide' has been prepared to improve and develop practices related to the management and reduction of non-performing loans in bank balances.	Ministry of Treasury and Finance	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

250	30.06.21	As of June 30, 2021, the expiration date of the following practices, which was stated to expire, has been extended until September 30, 2021. These include: The use of the simple arithmetic average of the Central Bank's buying rates for the last 252 business days before the calculation date in the calculation of credit risk-based amounts. Applying a 180-day delay period instead of the prescribed 90 days for the classification of loans as non-performing. Applying a 90-day delay period for the classification of loans in the Second Group, which was originally prescribed as 30 days for loans in the First Group. Allowing the definition of payment-free periods by not demanding receivables, including the minimum amount, for unpaid cards. Allowing the decision on whether to close the cash usage or cash usage for unpaid credit cards to be left to the discretion of the card-issuing institutions."	Central Bank of Republic of Turkey	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
251	30.06.21	The adverse records of individuals reported to the Risk Center of the Turkish Banking Association for bouncing checks, protested promissory notes, credit cards, and other credit debts due to their inability to pay on time will not be taken into account if these individuals and credit customers fulfill their obligations in terms of their past payment performance	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

252	01.07.21	The non-recognition of the net valuation differences of items in the 'Fair Value Reserves Reflected in Other Comprehensive Income Securities' portfolio if the valuation differences are negative, in determining the CET1 capital, The non-inclusion of the value depreciation provisions of items in the portfolios of securities in the calculation of the Net General Position in Foreign Exchange, The non-application of the obligation to dispose of commodities and real estate within 3 years from the acquisition date, The non-application of the classification as 3rd Group-Limited Recovery Potential loans for loans that are restructured, classified as live receivables, and have principal and/or interest payments more than thirty days overdue within the one-year monitoring period or are restructured again within this monitoring period, The exemption of collateral acquired by the bank as payment for credit from the obligation to be classified under the repurchase right application, The application of the "six months" monitoring period instead of the stipulated "one year" for the classification of restructured non-performing receivables as a restructured receivable under the Second Group	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
253	01.07.21	As a macro-prudential measure, it has been decided to increase the risk weights of individual credit cards and consumer loans. Changes will also be made to the maturity limits of certain consumer loans, creditworthiness ratios, and credit card installment limits	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect

254	01.07.21	The Banking Regulation and Supervision Agency (BDDK) has redefined the installment periods for certain consumption expenditures, including jewelry purchases made with credit cards. According to the new regulations, installment options for jewelry expenses, excluding printed and bullion gold, have been set at 3 months. In the case of television purchases, the restricted amount has been increased from 3,500 TL to 5,000 TL.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
255	01.07.21	The Central Bank of the Republic of Turkey (CBRT) has made changes to the reserve option coefficients (ROC). Within the scope of the amendment: The maximum limit for the possibility of TL ROCs being established in foreign currency has been reduced from 20% to 10%. The mandatory reserve ratios applied to foreign currency deposits/participation funds have been increased by 200 basis points across all maturity periods. With this decision, it is expected that, in the initial stage, the amount of mandatory reserve facilities in TL will increase by approximately 13.2 billion TL, and the facilities in foreign currency will increase by around 2.7 billion USD. The conversion of the amounts in foreign currency deposit/participation fund accounts to TL deposit/participation funds after this date is exempted from the mandatory reserve obligation. Additional interest/margin will be applied to TL-denominated mandatory reserves, increasing the share of TL within the total deposit/participation fund in the banking system."	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect

256	09.07.21	As of August 4, 2021, the transaction amount limit for the Instant and Continuous Transfer of Funds (FAST) System will be increased from 1,000 TL to 2,000 TL, considering the smooth operation and widespread use of the system	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
257	15.07.21	The Presidential Decree extending the implementation period of the temporary Article 32 of the Banking Law for 2 more years has come into effect with its publication in the Official Gazette. According to the temporary Article 32 of the Law, borrowers in credit relationships with financial institutions operating in Turkey, and determined in Framework Agreements prepared in accordance with the regulation issued by the BDDK, are aimed to be allowed to continue contributing to employment and fulfilling their repayment obligations by taking measures related to the loans provided by these institutions	Presidential Decree	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
258	15.07.21	All banks and non-bank financial institutions subject to BRSA supervision and inspection, as well as institutions operating in money-capital markets and insurance sector, will be able to sell not only their non-performing loans but also their performing loans to asset management companies. In addition, the minimum paid-in capital amount for asset management companies has been increased from 20 million Turkish Liras to 50 million Turkish Liras.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

259	15.07.21	The Presidential Decree regarding the extension of the implementation period of the temporary 32nd article of the Banking Law has been published in the Official Gazette and entered into force. According to the temporary 32nd article of the Law, flexibility in restructuring has been extended	Presidential Decree	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
260	16.07.21	The Ministry of Trade has published a circular regarding the 'Green Deal Action Plan,' establishing the 'Green Deal Working Group' to monitor the implementation of the action plan and ensure the necessary coordination	Ministry of Treasury and Finance	Sustainability	Various Rules and Regulations Regarding Financial System and Reporting
261	16.07.21	The Green Deal Action Plan has been published.	Ministry of Treasury and Finance	Sustainability	Various Rules and Regulations Regarding Financial System and Reporting
262	18.07.21	Decision has been made to suspend the execution of the sentences of those convicted of the crime of issuing a dishonored check. Moreover, the deadline for paying one-tenth of the unpaid amount of the check has been set as June 30, 2022	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
263	28.07.21	A decision has been made to suspend the execution of the sentences for individuals convicted of the crime of issuing a dishonored check. Additionally, the deadline for paying one-tenth of the unpaid amount of the check has been set as June 30, 2022	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

264	28.07.21	Employers will be provided with a minimum wage support of 2.50 Turkish liras per day, amounting to 75 Turkish liras per month, offset against the insurance premiums they are required to pay. This support will be covered by the Unemployment Insurance Fund.	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
265	28.07.21	Employers will receive a daily support of 2.50 Turkish liras, amounting to 75 Turkish liras per month, offset against the insurance premiums they are required to pay. This support will be covered by the Unemployment Insurance Fund	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
266	29.07.21	To support sectors affected by the pandemic, the duration of the reduced VAT rates applied in accommodation, food and beverage, transportation, workplace rental, and other services for the past year has been extended by an additional 2 months.	Ministry of Treasury and Finance	Government Budget Related Issues	Corona Virus Precautions
267	15.09.21	As of October 1, 2021, the opportunity for mandatory reserves in foreign exchange for Turkish lira will be terminated, reducing from 10% to 0%. Additionally, as of the same date, mandatory reserve ratios applied to foreign currency deposits/participation funds will be increased by 200 basis points across all maturity periods. (Net impact from banks to the CBRT is around \$5 billion: TRY 13.9 billion and \$3.4 billion)	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect

268	16.09.21	The application allowing the classification of loans as non-performing assets with a 90-day delay, to be applied as 180 days, and the continued allocation of provisions for loans classified in the Second Group despite a 90-day delay, based on the banks' own risk models used for calculating expected credit losses under Turkish Financial Reporting Standards 9, has been terminated.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
269	16.09.21	The practice of allowing companies to continue to allocate provisions based on their own risk models for receivables that have not been transferred to the 'Credits to be Liquidated' account despite a 90-day delay has been terminated.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
270	16.09.21	The practice of allowing banks to continue allocating provisions based on their own risk models for loans classified in the Second Group despite the 30-day delinquency period has been terminated.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
271	16.09.21	The practice of allowing banks to define grace periods during which they do not demand payments, including the minimum amount, from cardholders as they defer credit card debts has been terminated.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
272	16.09.21	The practice of leaving it to the discretion of card-issuing institutions to suspend cash withdrawals or cash withdrawals for the purchase of goods and services has been terminated.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect

273	16.09.21	The practice of leaving it to the discretion of card-issuing institutions to suspend cash withdrawals or cash withdrawals for the purchase of goods and services has been terminated.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
274	16.09.21	The total rediscount loan limit has been raised to 30 billion dollars, with 20 billion allocated to the Turkish Eximbank and 10 billion to be used for loans through other banks	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues
275	16.09.21	The general maturity limit for consumer loans has been reduced from 36 months to 24 months for loans with amounts exceeding 50,000 TL.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
276	16.09.21	The calculation of the credit risk based on the amount of calculation continues to use the simple arithmetic average of the Central Bank exchange rates for the last 252 business days before the calculation date.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
277	23.09.21	TCMB policy interest rate was reduced by 100 basis points to 18%.	Ministry of Treasury and Finance	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
278	01.10.21	Withholding tax reduction on TL deposits extended. (Net effect is around 150 bps)	Ministry of Treasury and Finance	Regarding Interest Rate and Liquidity	Monetary Tightening Effect
279	21.10.21	TCMB policy interest rate was further reduced by 200 basis points to 16%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect

280	09.11.21	The Paris Agreement has come into effect	Presidential Decree	Sustainability	Various Rules and Regulations Regarding Financial System and Reporting
281	09.11.21	The maximum ratio for mandatory reserves in standard gold for Turkish lira has been reduced from 15% to 10%. This possibility will be gradually reduced and phased out. Mandatory reserve ratios for foreign currency deposits/participation funds have been increased by 200 basis points across all maturity periods.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
282	18.11.21	The Central Bank of the Republic of Turkey (CBRT) has lowered the policy interest rate by 100 basis points to 15%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
283	25.11.21	On November 24, 2021, a Memorandum of Understanding was signed between the Central Bank of the Republic of Turkey (CBRT) and the Central Bank of the United Arab Emirates to enhance cooperation in central banking matters.	Central Bank of Republic of Turkey	Issues Affecting Relations with Foreign Financial Institutions	Various Rules and Regulations Regarding Financial System and Reporting
284	30.11.21	On November 27, 2021, a Memorandum of Understanding was signed between the Central Bank of the Republic of Turkey (CBRT) and the Central Bank of Turkmenistan to enhance cooperation in central banking matters.	Central Bank of Republic of Turkey	Issues Affecting Relations with Foreign Financial Institutions	Various Rules and Regulations Regarding Financial System and Reporting
285	01.12.21	Due to unhealthy price formations in exchange rates, direct intervention was made in the market by selling.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect

286	01.12.21	Due to unhealthy price formations in exchange rates, transactions were made on Borsa Istanbul Derivatives Market	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Various Rules and Regulations Regarding Financial System and Reporting
287	01.12.21	The regulation governing the authorization and activities of payment institutions and electronic money institutions, as well as the principles and procedures for the provision of payment services to payment service providers and the issuance of electronic money, has been published. According to the regulation, companies wishing to issue electronic money must have a minimum capital requirement of 5 million lira	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
288	02.12.21	The Additional Employment Support Package: For each additional employment that exceeds the average number of employees in the previous calendar year (2020 or 2021), beneficiaries can benefit from a credit support of 100,000 TL against the commitment. Each beneficiary can benefit from a maximum of 400,000 TL guarantee, with a maximum of 80,000 TL for each additional employment commitment	Ministry of Treasury and Finance	Loan Market Related Issues	Monetary Expansion Effect
289	16.12.21	The Monetary Policy Committee has decided to reduce the policy rate, the one-week repo auction interest rate, from 15% to 14%.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

290	17.12.21	The interest/profit rates applied to mandatory reserves in TL and the additional interest/profit payments to increase the share of TL in the total deposit/participation funds in the banking system have been reduced by 100 basis points.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
291	19.12.21	To prevent individuals who invest their savings in TL deposits from being adversely affected by exchange rate volatility, the "Currency Hedged TL Time Deposit" product has been introduced. The product will compare the interest earned on TL time deposit accounts by individuals with the exchange rate change ratio at the account opening and maturity dates. The account will be credited with interest based on the higher ratio, and no withholding tax will be applied to this deposit product. The maturity options are 3, 6, 9, and 12 months. The minimum interest rate is the Policy Rate, and the maximum interest rate is the minimum interest rate plus a maximum of 300 basis points.	Ministry of Treasury and Finance	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
292	20.12.21	Support will be provided for residents in Turkey who are individuals and hold foreign exchange deposit accounts or participation funds in US dollars, Euros, and British Pounds to convert these accounts into time deposits in Turkish Lira (3, 6, 12 months).	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

293	21.12.21	The decision has been made to determine the installment period for consumer loans used for the purchase of "renewed products," such as mobile phones. For mobile phones with a price of 5,000 TL and below, the installment period is set at twelve months, while for those with a price above 5,000 TL, it is set at six months. Additionally, the maximum loan amount considered for determining the installment period in consumer loans used for the purchase of mobile phones is increased from 3,500 TL to 5,000 TL. The installment period for these loans is determined as twelve months for phones with a price below 5,000 TL and three months for those with a price above 5,000 TL.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
294	22.12.21	According to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks, in the calculation of credit risk based amounts, the amounts of assets, excluding items measured in foreign currency at historical cost, are determined based on their values determined in accordance with Turkish Accounting Standards and the related specific provisions. This includes using the simple arithmetic average of the Central Bank's foreign exchange buying rates for the last 252 business days before the calculation date when calculating these values and the related specific provisions. The decision has been made to continue this practice.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

295	23.12.21	The decision has been made to continue the practice of not considering the negative net valuation differences of securities in the "Securities Reflected in Other Comprehensive Income Due to Fair Value Differences" portfolio when calculating the equity amount to be used in the calculation of the capital adequacy ratio, as per the Regulation on Bank Equity.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
296	24.12.21	The "Sustainable Banking Strategic Plan" prepared regarding the action "3.2.5. Determining a roadmap for the development of sustainable banking" within the "Green Deal Action Plan" has been approved.	Banking Regulation and Supervision Agency	Sustainability	Various Rules and Regulations Regarding Financial System and Reporting
297	24.12.21	The threshold for defining small and medium-sized enterprises (SMEs) in the Capital Adequacy Regulation has been determined as 220,000,000 TL for domestically resident SMEs, and the retail credit limit has been set at 10,000,000 TL.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
298	27.12.21	Transactions conducted in the BIST Swap Market will be shifted to 2-week traditional method swap auctions.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect

299	27.12.21	In traditional swap auctions, the maximum bid amount that each bank can offer in the auction has been limited to 30% of the total auction amount. The transfer of the unused portion of the total swap position allocated for the auctions to the swap transaction limits conducted through quotation method by banks has been terminated, and the maturity structures have started to be shortened in a measured manner.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect
300	27.12.21	In the Interbank Money Market, in transactions such as TL Repo Sale, Late Liquidity Window, and Intraday Limit, banks are required to have collateral in the form of government bonds and/or lease certificates issued domestically by DİBS and/or HMKVŞ, amounting to at least 30% of the amount they borrow against their borrowings.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Tightening Effect
301	27.12.21	In order to increase the efficiency and operational flexibility in the collateral management of banks, it has been decided that collateral currency deposits can be established with same-day value date.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Various Rules and Regulations Regarding Financial System and Reporting
302	29.12.21	The Central Bank has decided to support deposit and participation account holders when gold deposits and participation funds are converted into Turkish lira time deposits upon the request of the account holder.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

303	30.12.21	The insured deposit and participation fund amount, currently set at 150,000 TL, has been increased to 200,000 TL as of the beginning of the 2022 calendar year. With this decision, the Insurance and Risk Monitoring Department is authorized to carry out the necessary procedures.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
304	30.12.21	The Regulation Amending the Regulation on the Principles of Insurance Connected with Consumer Loans has been published. With the amendment, if the borrower submits the existing policy or participation certificate to the credit institution within 1 month from the start date, the current policy or certificate will be canceled from the start date, and the premiums paid will be refunded uninterruptedly within 5 business days from the submission date.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
305	01.01.22	The minimum wage was net 4,253 TL for the year 2022. The minimum wage increase was 50.54 percent. The minimum wage of 2022 was gross 5.004 TL and the cost to the employer was 5.879 TL.	Presidential Decree	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

306	01.01.22	With the activity principles of digital banks, the regulation on Service Model Banking entered into force. In order for these banks to obtain an activity permit, it will have to have a minimum of 1 billion TL. Digital banks will not be able to go to the organization and cannot open a physical branch. The sum of the cash consumer loans that digital banks can use to a customer will not exceed 4 times the net income of the concerned customer and 10 thousand TL if it cannot be detected. With the activity principles of digital banks, the regulation on Service Model Banking entered into force. In order for these banks to obtain an activity permit, it will have to have a minimum of 1 billion TL. Digital banks will not be able to go to the organization and cannot open a physical branch. The sum of the cash consumer loans that digital banks can use to a customer will not exceed 4 times the net income of the concerned customer and 10 thousand TL if it cannot be detected.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
307	01.01.22	The minimum wage of wage revenues was exempted from income tax. The wages that hit the remaining amount after deducting workers' social security institution premium and unemployment insurance premium from the monthly gross amount of the minimum wage are exempted from income tax.	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

308	04.01.22	The export fee will be sold to the bank that regulates the document to be sold to the CBRT on the date when 25 percent of the export fee is issued to the acceptance certificate or foreign exchange purchase document. The scope of the CBRT instruction was determined as foreign currencies according to the export circular, export fee acceptance certificate or export fee connected to the Foreign Currency Purchase-Service Certificate.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Decisions Affecting Exports and Export Revenues
309	10.01.22	The maximum limit that can be evaluated in the deposit/participation accounts of the money market funds was increased from 25 percent to 50. According to this decision, the money market funds that can be evaluated in a single bank will not overcome 6 percent of the total amount. On the other hand, the amount of funds that can be evaluated in the participation accounts will not exceed 20 percent of the total in a single bank.	Capital Market Board	Capital Market Issues	Various Rules and Regulations Regarding Financial System and Reporting
310	11.01.22	In addition to real persons, it was decided to provide support to deposit and participation fund owners if the deposit accounts and participation funds in foreign exchange and gold of domestic residents in foreign currency and gold turn into deposits and participation accounts	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

311	11.01.22	Procedures and principles regarding remote identity determination methods to be implemented in this process by providing remote customer acquisition to non -bank financial institutions have been issued. However, the Regulation also sets the principles of the establishment of a contract relationship in a way to replace the written form or not, whether or not it is distant or not for the services to be provided following the detection of customer identity.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
312	14.01.22	The Central Bank postponed its 1.5 percent commission application for 3 months for the euro and dollar accounts in banks that could not transform from foreign exchange to TL. The date of January 21 for the commission implementation by the Central Bank was postponed to 15 April.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
313	19.01.22	Bilateral money exchange agreement was signed between the CBRT and the Central Bank of the United Arab Emirates for the UAE Dirham (AED) for TL currencies. The nominal size of the SWAP agreement is mutually 18 billion dirhams and TL 64 billion.	Central Bank of Republic of Turkey	Issues Affecting Relations with Foreign Financial Institutions	Various Rules and Regulations Regarding Financial System and Reporting
314	20.01.22	The Monetary Policy Committee has left a one -week repo tender interest rate with a policy interest rate at 14 percent.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
315	20.01.22	The obligation to be from the same bank for the return of the foreign exchange and the exchange rate protected TL account was abolished.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

316	20.01.22	Corporate taxpayers and income tax taxpayers holding a book on the basis of balance sheet were exempted from the income and institutional tax of exchange rate/valuation difference, interest/dividend and exchange rate support due to foreign exchange and gold accounts to be converted into KKM. (Receiving a commission according to the transformation performance of TL deposit from the necessary provisions for YP deposit)	Ministry of Treasury and Finance	Government Budget Related Issues	Monetary Expansion Effect
317	22.01.22	Law No. 7351, which allows the Treasury to be covered by the Treasury, has been issued.	Ministry of Treasury and Finance	Government Budget Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
318	24.01.22	Following the deduction in the Iranian gas, BOTAS was raided by 72 hours of electric energy in the Organized Industrial Zones of Turkey Electricity Transmission AS (TEİAŞ) after the gas cutting of the gas and industry.	Ministry of Treasury and Finance	Issues Affecting Relations with Foreign Financial Institutions	Various Rules and Regulations Regarding Financial System and Reporting
319	01.02.22	In order to encourage the assessment of the savings of our citizens living abroad in our country, he decided to open up the accounts of “Citizens established abroad (Yuvam)” accounts at the presence of domestic banks.)	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

320	04.02.22	The Regulation on Measurement and Evaluation of Capital Competence of Banks was amended. With the amendment, the adjustment amount, which should be added to the standard ratio of the capital adequacy calculated during the 3 -year transition process by the banks who permitted to use internal rating approaches, was ruled. In this way, the possible sharp increases in the standard rates of capital adequacy calculated by banks that started to use the internal rating -based approach were gradually spread to years and the risk of model risk was reduced.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
321	08.02.22	Until April 30, 2022, companies that will use chief loans, 10 percent of foreign exchange deposits, May 1- July 31 July, 20 percent of the companies that will use the chief loan to turn the foreign exchange deposits to TL came to TL.	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues
322	10.02.22	Improvement of credit conditions in case of committing the transformation of companies to TL deposits	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues
323	12.02.22	Value added tax to be applied in basic foodstuffs has been reduced from 8 percent to 1 percent.	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

324	13.02.22	60 billion TL KGF bail investment, export and business expenditures support packages were announced. The Investment Support Package Planning to invest in SME and non - SMEs all businesses, investment and investment -related business expenditures can be used in the Investment Support Package with a maturity of up to 120 months. Export Support Package SMEs operating in exporter or foreign currency -earning sectors and SMEs with export potential will be able to use loans with a maximum 24 -month maturity, including a maximum of 6 months of payment. Business Expenditures Support Package SMEs and non - SME companies will benefit from the loan amount of 5 million pounds, and non -SME enterprises will benefit from the loan of 20 million pounds.	Ministry of Treasury and Finance	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues
325	13.02.22	The gold accounts entering the system have the opportunity to open physical back and open the KKM account.	Ministry of Treasury and Finance	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
326	21.02.22	Vehicle loan limits and credit rates that could be used increased. Accordingly, the final invoice value of 400,000 TL or less for the purchase of vehicles used for the purchase of 48 months, the value of 400,000-800,000 TL for the purchase of vehicles for 36 months was decided to be determined as 36 months.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect

327	28.02.22	The regulations on the increase of the value added tax (VAT) from 18 percent to 8 percent and the low consumption limit to 8 kWh per day and the monthly 240 kWh were published in the Official Gazette.	Ministry of Treasury and Finance	Government Budget Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
328	01.03.22	The system they can deposit in their accounts by opening a “quarter account” or “winning quarter account” was opened in banks and finance participation banks, including the quarter, half, full, two and a half and five gold types produced by the Mint, in the Banks and Finance Participation Banks. .	Ministry of Treasury and Finance	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
329	22.03.22	With the Communiqué published in the Official Gazette of the Central Bank, making changes in the Communiqué on the Support of Transformation of TL Deposit and Participation Accounts, the restriction of the current accounts for the inclusion of foreign exchange deposits of domestic people in the KKM system was abolished as of December 20, 2021. . According to the regulation, the domestic resident legal persons as of December 31, 2021 in the banks existing in the dollar, euro and pound of foreign exchange deposit account and foreign exchange fund account balances, if the account holder requests the transformation will be converted to TL.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
330	22.03.22	The citizens of the Republic of Turkey living abroad to benefit from the exchange rate protected deposit system issued abroad citizens in the deposit participation system (Yuvam) by changing, foreign companies and individuals to be included in the system.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

331	30.03.22	The withholding arrangement was extended for 3 months (June 2022).	Ministry of Treasury and Finance	Government Budget Related Issues	Monetary Tightening Effect
332	30.03.22	With the arrangement published in the Official Gazette, VAT received from cleaning products and food and drinking services was reduced from 18 percent to 8 percent. While the VAT of the houses less than 150 m2 in houses is increased from 1 percent to 8 percent; VAT of houses larger than 150 m2 was reduced from 18 percent to 8 percent. VAT rate from seeds and saplings certified by the Ministry of Agriculture and Forestry was reduced to 1 percent. Agricultural machines used in milk, eggs and fruit production were included in 8 percent VAT. VAT rate in land and land deliveries was reduced from 18 percent to 8 percent. Second -hand motor vehicle trading companies and yachts, quotas, boats and navigation ships VAT rate was increased to 18 percent.	Ministry of Treasury and Finance	Government Budget Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
333	07.04.22	In order to support the market construction system, market -making banks have the opportunity to sell the State Domestic Debt Debt (DIBS) with fixed coupons in TL to the CBRT.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
334	13.04.22	Exports and foreign exchange - earning services, which were used before 4 April 2022 and are open export commitments as of this date, are one of the reeskont loans; For those who have been declared to be closed by export of goods or services to Russia and/or Ukraine, the closure of additional export contract for twelve months has been given.	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues

335	15.04.22	The obligation to sell 25 percent of the foreign exchange revenues of the exporters to the CBRT was increased to 40 percent from 18 April 2022.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Decisions Affecting Exports and Export Revenues
336	15.04.22	Interest/NEMA ratio to be applied to the necessary provisions established in TL has been determined as zero percent and the application of additional interest/nemea payment to TL required provisions depending on the transformation of accounts of domestic realized real persons has been terminated.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
337	18.04.22	In the event that the foreign currencies obtained from foreign exchange -earning services/transactions are sold to banks with a regulation made in the invisible transactions circular, at least 40 percent of these currencies have to be sold to the CBRT.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Decisions Affecting Exports and Export Revenues
338	19.04.22	The Communiqué on the Amendment of the Communiqué No. 32 on the Protection of Turkish Currency Assessment and the obligations of payment to the securities sales contracts must be fulfilled and accepted in Turkish currency.	Central Bank of Republic of Turkey	Decision No.32 on the Protection on the Value of the Turkish Currency	Various Rules and Regulations Regarding Financial System and Reporting

339	20.04.22	Total limit of Tourism companies in return for foreign exchange -earning service income, investing in tourism development zones, using domestic inputs and providing at least 20 percent international financing commitments increased by 150 billion TL and 50 billion TL of this limit operating in the field of tourism The investment to be used by companies has been allocated to advanced advance loans. For companies with SME status, 250 million TL and TL 1.5 billion has been allocated for other companies. The policy interest rate has been allowed to benefit from investment commitment loans with a discount of up to 500 basis points in total.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues
340	23.04.22	As of April 1, 2022, the amount of cash commercial loans used in four weeks of weekly periods (deducting loans) at the rate of 10 percent of the compulsory counterparts at the same periods and as of 31 May 2022, the loan growth rate is above 20 percent compared to the date of December 31, 2021 It was decided that the banks would establish a compulsory equivalent for 6 months on March 31, 2022 and 31 December 2021 for 20 percent of the difference between the current credit balances. (Except for various targeted areas, commercial cash loans in TL) are subjected to compulsory response)	Central Bank of Republic of Turkey	Loan Market Related Issues	Monetary Tightening Effect

341	23.04.22	It was decided to differentiate the YP deposit/participation fund requirements according to the real person transformation rate and to apply additional 500 basis points to banks with an additional 500 basis and 300 basis points for banks with an additional 5 percent to 10 percent. (Determining the necessary provision rates for YP deposit accounts according to the transformation performance of TL deposit).	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
342	25.04.22	The limit within the scope of the application of export fees to the country has been reduced from 30 thousand dollars to 15 thousand dollars.	Ministry of Treasury and Finance	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
343	25.04.22	It is stated that it is necessary to ensure that the YP transaction requests are carried out through branches, treasury units, mobile and internet banking channels in order to make new transactions from foreign currency (YP) transaction platforms, which are directly accessed by all customers by BRSA, and to ensure the continuity of customer satisfaction.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
344	01.05.22	It was decided to determine the turnover border for SME as 250.000.000 TL in terms of domestic resident SMEs.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

345	01.05.22	Agricultural loans, loans to be used to the enterprises entering SMEs, export and investment loans, loans to be exercised to institutions and organizations, corporate credit cards and banks to be exercised to banks or financial institutions to be used as of 01.05.2022 to apply 200 percent risk weight to apply to the application of 200 percent risk weight to be used decided.	Ministry of Treasury and Finance	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
346	01.05.22	In accordance with the Regulation on Measurement and Evaluation of Capital Competence of Banks (Regulation); As of 31.12.2021, it was decided to maintain the application for the use of the simple arithmetic average of the Central Bank exchange exchange rates for the last 252 working days.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
347	09.06.22	Consumer loans of 50-100.000 TL amount are limited to 24 months and consumer loans greater than 100.000 TL are limited to 12 months maturity.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
348	09.06.22	The minimum payment amount for credit cards with a limit of 25,000 TL is 20 percent of the period debt; The minimum payment amount for credit cards above 25,000 TL was determined as 40 percent of the period debt.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect

349	10.06.22	The Capital Markets Board (CMB) announced that in order to encourage funding from abroad in the public offering in Turkey and to promote companies to provide funds through export of capital market vehicles abroad, the relevant issuances have been reduced to the relevant issues.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
350	10.06.22	The requirement rate applied to commercial cash loans in Turkish Lira, which was shared with the press release dated 23 April 2022, was increased to 20 percent.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
351	11.06.22	Consumer loans received bank and insurance transactions tax (BSMV) was increased from 5 percent to 10 percent.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
352	13.06.22	For exporters who will use TL choice loans, the maturities were extended and interest rates were withdrawn. Accordingly, TL reeskontun maximum maturity will be 360 days and 720 days for the defense industry. TL Reeskont interest rates, 0-90 days for the policy interest rate of 300 basis points, 91-180 days for the policy interest of 200, 181-720 days for the policy interest will be less than 100 basis points. Companies that use TL choice will be committed to selling 40 percent of the revenues of goods or services up to the term of credit to the CBRT, 30 percent to a bank and not to buy foreign exchange for 1 month following the sale.	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues

353	14.06.22	Banks for foreign currency obligations will be regulated in TL bonds. The CBRT said that the lease certificates issued by the Asset Rental Company of the Undersecretariat of Treasury and the Undersecretariat of Treasury will be accepted as securities. In addition, the coefficient determined according to the remaining time and the amount of securities will be multiplied and long-term assets will be encouraged to be encouraged.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
354	15.06.22	In order to encourage their ability to evaluate their savings in Turkish Lira assets and to expand the investor base, demand collection procedures will be carried out as of 15 June 2022.	Ministry of Treasury and Finance	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
355	16.06.22	With the Republic of Turkey, people who do not have citizenship bonds in the domestic real estate purchases to make foreign exchange payments to the CBRT by banks to be sold by banks	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
356	23.06.22	In the loans to be used for consumers to obtain housing and in housing - secure loans except for vehicle loans, the amount of loan was changed to the value of the housing taken as collateral. Accordingly, there will be no loan opportunities for houses with a value of more than 10 million TL and 70 percent loan will be used in houses between 2 and 5 million TL.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect

357	23.06.22	In case of derivative transactions with domestic residents other than banks and financial organizations, commercial cash loans in TL and YP; In the SYR calculation, it was decided to apply five hundred risk weights without considering credit risk reduction techniques, credit rating notes and real estate mortgages.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
358	24.06.22	As an application complementary to the application that increases the weight of TL fixed assets in the collateral pool, banks will establish a long -term fixed interest rate in TL in addition to deposit/participation funds in YP. The Central Bank of the Republic of Turkey (CBRT) went to regulate the TL bonds that the banks will hold for foreign currency obligations. The CBRT said that the rent certificates issued by the Asset Rental Company of the Undersecretariat of the Treasury and the Undersecretariat of Treasury will be accepted as securities. In addition, the coefficient determined according to the remaining time and the amount of securities will be multiplied and long -term assets will be encouraged to be encouraged. (Introduction of securities for YP deposit accounts and determining the facility ratio according to the conversion performance)	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect

359	27.06.22	While the amount of foreign exchange receivables of banks from the CBRT was calculated, the risk weight was determined as 0.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
360	28.06.22	The withholding application for TL deposit and KKM accounts has been extended to December 2022.	Presidential Decree	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
361	06.07.22	With the amendment made in the Communiqué on the support of the CBRT's transformation to TL deposit, it has been decided to convert the foreign exchange deposit accounts available in banks on any date between 31 December 2021 and 30 June 2022.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
362	07.07.22	To be subject to independent audit, Foreign currency (including gold) cash assets are more than 15 million TL, Foreign currency cash assets exceed 10 percent of the active total or the larger than the last 1 -year net sales revenue , TL commercial loan constraint has been introduced to companies that meet the requirements at the same time.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect

363	22.07.22	Steps have been taken to increase the weight of TL gender assets in the collateral system. As of July 22, 2022, the ratio of the CBRT biased SWAP and the minimum DIBS possession for interbank money market transactions has been increased from 45 percent to 50 percent. The collateral rates of assets subject to foreign exchange and gold in foreign currency and gold have been increased from 30 percent to 50 percent.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
364	16.08.22	Apart from the targeted areas, the implementation of a necessary provision facility application for commercial loans in TL in terms of TL	Central Bank of Republic of Turkey	Loan Market Related Issues	Monetary Tightening Effect
365	18.08.22	The CBRT has reduced its policy interest from 14 percent to 13 percent.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
366	20.08.22	30 % DİBS collateral was brought to 20 % ZK for unpopular loans. Commercial loan increase was limited to the quantity (10 % in the last five months of 2022) and the price (23 % and 28 %). 30 % DIBS collateral has been introduced if the component loans were not used.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
367	24.08.22	CPI -indexed values in the collateral system of the discount rate was increased from 50 percent to 60 percent.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

368	31.08.22	The draft of the Regulation on the Amendment of the Regulation on Remote Identity Determination Methods to be used by Banks and the establishment of the contract relationship in electronic environment was published. The legal person's customer admission issues were organized to be remote customers of legal institutions.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
369	31.08.22	The CBRT also included legal person and company accounts in transformation from foreign currency to TL covering individual accounts. The range has been expanded in the obligation to oblige 5 percent for banks whose transformation target is below 10 percent and 3 percent additional requirements for banks with a 10-20 percent of 10-20 percent. (According to the share of TL deposit in the total deposits, the difference in the securities and the necessary provision commission rates)	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
370	01.09.22	The rate of TL in deposits is 50 percent for individual, commercial and total items.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect

371	18.10.22	The ratio of securities made in the implementation of the securities value facility was updated to 5 percent. Instead of the transformation rate, since the beginning of 2023, the Turkish Liras was applied to the application of the Menkul Assessment Facility according to the targets based on the share of the deposit in the total deposits. (Implementation of securities due to TL commercial loan interest rates and expenditure credit users)	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
372	21.10.22	The “15 million TL” and “10 percent” threshold values specified in the Annex-1 of the Decision dated 07.07.2022 within the scope of coordinated macro-cautious steps to be taken to strengthen financial stability and to work effectively by using the resources more efficiently ; It was decided that the banks within the scope of the decision and the financial rental, factoring and financial institutions will be applied as “10 million TL” and “5 percent inda until a board decision was made in the opposite direction as of 01.11.2022.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
373	03.11.22	In the fourth sentence of the first paragraph of Article 35 of the Law no. .	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

374	03.11.22	If the restrictions in the last paragraph of Article 4 are not complied with or if the activity restrictions or restrictions imposed by the Board in accordance with the first paragraph of Article 10 are not complied with, if they are not less than one million Turkish Liras and not less than twice the interest provided, the contradiction to the restrictions and restrictions provided is not less than twice the benefit Up to 100 percent of the amount constituting, the following paragraph has been added to the first paragraph of Article 146 of the Law No. 5411.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
375	03.11.22	Provisional Article has been added to the law on the fact that the records regarding unrequited checks and protests and credit and credit card debts are not taken into consideration. The principal and/or installment payment date is before 1/10/2022; The said debts regarding the checks of real and legal persons who disrupt their payments regarding the principal, interest and/or individuals of the cash and non -cash loans used in the principal, interest and non - commercial activities and credit customers' checks, protested deeds, credit cards and other credit debts In the event that all of the delayed portion is paid or restructured until 1/7/2023, the financial transactions with these persons shall not be taken into consideration by credit institutions and financial institutions. The reconstruction of current loans and the use of new loans by credit institutions and financial institutions will not have legal and criminal responsibility for these organizations.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

376	03.11.22	Half of the principal monitoring balance of the receivables caused by all kinds of individual -qualified credit agreements that are taken from the banking Law as of 15/8/2022 from the banks as of 15/8/2022 from the banks, and from any kind of individual -qualified credit agreements found below 2,500 Turkish Liras; The remaining principal shall be paid through the asset management company which is the subsidiary of the Fund from the amount transferred from the budget of the Ministry of Treasury and Finance to the insurance fund, provided that they waive the follow -up of the receivables of interest, expenses, attorney fees and similar receivables. In favor of the money is exempted from bank and insurance transactions tax.	Saving Deposit and Insurance Fund	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
377	03.11.22	In cases where the employers are not given food in the workplace or outbuilding, the part of the day for the days of work is not exceeding 51 Turkish Liras. If the payment exceeds this amount, the exceeding part and other interests provided for this purpose will be taxed as a fee.	Ministry of Treasury and Finance	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
378	24.11.22	The Monetary Policy Committee reduced the one -week repo tender interest rate from 10.5 percent to 9 percent.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect

379	24.11.22	In the decision taken regarding the change of risk weights of derivatives and derivatives of derivatives: a) Banks and financial organizations that will perform these transactions for the forward transactions that are not excreted until the maturity date, while calculating the cost of the capital adequacy rate, the amount of five hundred risk weights is calculated. not; b) However, despite the obligation to swap the principal as of the date of maturity, the principal exchange transactions are not paid in the form of a YP (or vice versa) and the parties to make the final payments to each other during the payment days of the principal. It has been explained that five hundred risk weights are required to be applied to TL and commercial cash loans to be used to domestic residents other than the banks and financial institutions that perform these transactions and to be used in commercial cash loans in the type of YP.	Banking Regulation and Supervision Agency	Issues Affecting Relations with Foreign Financial Institutions	Monetary Tightening Effect
380	24.11.22	The CBRT increased the rate of commission to be implemented by the banks of the Bank with low TL deposit. 8 percent commission shall be applied to the necessary equivalents of banks with TL deposit/participation share rate of less than 50 percent. This rate was 3 percent in the previous regulation. 3 percent commission will be taken from the necessary equivalents of the banks with a share of TL 50 to 60 percent, while no commission will be applied to banks with a deposit rate of TL above 60 percent. (New rates will be applied from the date of calculation on December 23rd.)	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

381	01.12.22	The Central Bank opened the open banking service for use (Payments Area Open Banking Services Open the Passage)	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
382	09.12.22	The CBRT has developed the “Safety Layer Service ((trench), which is an important layer service for fast and provides very fast information and document transfer in its illegal uses, especially fraud.	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
383	10.12.22	With the regulation made by the banking regulation and supervisory institution, the net foreign exchange position of the banks was withdrawn from 20 percent to 5 percent. Banks' net foreign exchange ground will not overcome 5 percent of their own resources.	Banking Regulation and Supervision Agency	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

384	15.12.22	Inveo Yatırım Bankası A.Ş. was given permission to establish on September 23, 2021.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
385	22.12.22	One -week repo tender interest rate with a policy interest rate was kept constant at 9 percent.	Central Bank of Republic of Turkey	Regarding Interest Rate and Liquidity	Monetary Expansion Effect
386	22.12.22	According to the Regulation on the premiums to be collected by the insurance funds subject to insurance issued in the Official Gazette on 22 December 2022 and the premiums to be collected by the Savings Deposit Insurance Fund, the beginning of the 2023 calendar year; It was decided to determine the deposit and participation fund amount subject to the insurance of 200 thousand TL as 400 thousand TL.	Saving Deposit and Insurance Fund	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
387	26.12.22	There are 24 banks member of the fast system, which is operated by the CBRT and opened for use on January 8, 2021. In 2023, payment and electronic currency organizations will also participate in the fast system.	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

388	28.12.22	CBRT, in order to end the end of the option products applied by banks, by preventing the use of exchange rate protected deposits in derivative transactions; With the application instruction sent to the banks, it has an obstacle to the removal of these products. In the article sent to the banks by the Central Bankası, it is stated that the exchange rate difference will not be paid to the banks who do not comply with this rule.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
389	28.12.22	Money Market Funds, the Reverse Repo Agreement was restricted at the Pay Deed Repo Market. According to this decision of the CMB, these agreements will not be shown as collateral and credit transactions will not be made.	Capital Market Board	Capital Market Issues	Monetary Tightening Effect
390	28.12.22	Bag by the Law of the Treasury and Finance of the Ministry of Finance to add 200 billion pounds to the borrowing authority of 293 billion borrowing authority was increased to 493 billion pounds.	Ministry of Treasury and Finance	Government Budget Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
391	29.12.22	The first payment transactions on the Digital Turkish Lira Cooperation Platform.	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting

392	31.12.22	In addition to the banks, other financial institutions were included in the scope of securities regulation and in the first stage, the obligation of the securities of the securities was made to factoring companies according to the interest rate they applied to factoring receivables in TL.	Central Bank of Republic of Turkey	Loan Market Related Issues	Monetary Tightening Effect
393	31.12.22	According to the loan interest rate and the loan growth rate of the banks, the duration of securities implementation applications has been extended until 29 December 2023.	Central Bank of Republic of Turkey	Loan Market Related Issues	Monetary Tightening Effect
394	31.12.22	The scope of banks' assets and obligations subject to the securities facility has been expanded. The funds provided by repo transactions in the genus of foreign currency in domestic people and real sections on the obligations side, the customers providing foreign currency funds and financial derivative transactions are carried out by the realization of foreign currency obligations subject to the securities. And the qualifications determined by our Bank will be subject to the securities value facility.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
395	31.12.22	The application of a securities that supports the development of foreign currency loans in a balanced manner by taking into account the decline in foreign currency funding items was introduced.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect

396	31.12.22	The possibilities of establishing TL necessity in gold has been terminated as of 23 June 2023.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
397	07.01.23	The CBRT increased the rate of securities. For the first half of the Central Bank for the first half of 2023, the securities, which is 50 percent in the context of the lialization target, was determined as 60 percent. It has been decided to apply the MKT ratio to banks with exceeding 60 %target in TL shares in the Safety Facility (MKT) application.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
398	07.01.23	Increasing the ratio of CBRT Securities, this ratio is for shares calculated for real and legal entities: 7 points increased for banks below 50 percent, 2 points increased for banks with 50 percent to 60 percent, 5 percent to 70 percent 5 percent Score discount, 70 percent and more than 7 points discount will be applied.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
399	10.01.23	The scope of the obligations subject to the securities value facility with the amendment of the Communiqué published in the Official Gazette; It has been expanded to cover the transactions carried out in order to remove foreign currency obligations subject to the securities by making financial derivative transactions with foreign currency repo transactions in foreign currencies made with real people and foreign currency transactions made with real segment.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect

400	15.01.23	The CBRT reset the necessary provision rates in TL deposits longer than 3 months. In addition, it was decided to implement the necessary response rates as zero percent for the increase in foreign currency obligations that were directly provided directly from abroad. The establishment of the aforementioned changes will be valid as of the 20 January 2023 calculation date, which will start on February 3, 2023.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
401	15.01.23	The CBRT reset the necessary provision rates in TL deposits longer than 3 months. In addition, it was decided to implement the necessary response rates as zero percent for the increase in foreign currency obligations that were directly provided directly from abroad. The establishment of the aforementioned changes will be valid as of the 20 January 2023 calculation date, which will start on February 3, 2023. (SUPERATORS, PARTICIPATION FUND TL REQUIRED REQUIRED RESPONSIBILITY, 8 percent up to 3 months.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
402	20.01.23	The CBRT will pay 4.5 percent interest to accounts in terms of foreign currencies to be kept in Turkey, except for the necessary provision obligations.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect

403	26.01.23	According to a statement made by the CBRT, the companies' foreign currencies from abroad to the CBRT during the sale of the CBRT in exchange for the commitment to be given, the Turkish Lira will be able to receive 2 percent of the amount of foreign exchange transformation support. Companies will be able to evaluate the rest of the foreign currency brought to the CBRT after selling at least 40 percent of the foreign currency they brought abroad to the CBRT.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Decisions Affecting Exports and Export Revenues
404	26.01.23	According to the article sent to the banks by the CBRT, the interest limit in the exchange rate protected deposit transactions to which the CBRT is the opposite party was abolished. (In the exchange rate -protected deposit, the upper limit of 3 points was implemented above the policy interest rate. The CBRT policy interest was 9 percent, while the upper limit of 12 percent in exchange rate -protected deposits was).	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
405	06.02.23	In order to avoid fees from the money transfers made to the donation accounts of our aid organizations, especially AFAD and Red Crescent for the earthquakes that occurred in our country, the CBRT was sent to banks.	Central Bank of Republic of Turkey	Legislation and Reporting Regarding General Banking System Operation	Decisions Regarding Earthquake

406	06.02.23	The CBRT provides interest-free maturity extension up to 180 days to repayments of reeskont loans and investment commitment loans between the 1st (6th February 2023-30 April 2023) of the companies in the earthquake zone. 2. Export and Foreign Export and Foreign Export Services Raeskont loans used before February 6, 2023 (including) were given additional export and foreign exchange -earning service commitment time.	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Regarding Earthquake
407	06.02.23	The Union of Banks of Turkey has taken some decisions in order to alleviate the problems in the earthquake regions, to maintain banking services uninterruptedly and to provide support to be needed in case of coordination with BRSA. These are: 1. In line with the needs and demands of the bank customers, the maturity of the debts that have arrived in banks or their maturity within 6 months is to shift to 6 months after 6 February 2023; 2. Payment of debts to be evaluated in the particular customers and advice to the bank members to provide financing opportunities; 3. Information of the Risk Center members in order to show the necessary sensitivity to carry out the necessary sensitivity to carry out the required sensitivity regarding the Regulation of Credit Risks, Credit Payment, Deed and check of customers who have an account in the residence/workplace address or branch in the neighborhood where the force majeure is happening; 4. It has been decided that the bank customers who documented their influenced by disaster should not be informed about the transmission of the banks to the banks.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Regarding Earthquake

408	07.02.23	BDDK, Earthquake and Disaster Region for 10 relevant provinces (Adana, Adiyaman, Diyarbakir, Hatay, Gaziantep, Kahramanmaras, Kilis, Malatya, Osmaniye, Sanliurfa) 1. Settled people, including the maturity of loans to be used or restructured, including the implementation of unpaid periods to be determined by banks; 2. To determine the maturities of loans to be restructured to residents in the provinces of the earthquake/disaster region by companies, including the implementation of unpaid periods; 3. It has been decided to increase the installment periods in credit cards to the credit cards to be realized by credit cards within the scope of the Regulation on Debit Cards and Credit Cards by the member workplaces settled in the provinces of the earthquake/disaster region.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Regarding Earthquake
409	08.02.23	The Ministry of Treasury and Finance, in order to avoid any disruptions about the expenditure competence and realization officer in the provinces affected by the earthquake, the determination of the expenditure authority by the relevant senior executive in case the current expenditure authority cannot perform the task; 2. It would be appropriate to determine the realization tasks by the expenditure authorities.	Ministry of Treasury and Finance	Real Sector Related Issues	Decisions Regarding Earthquake
410	09.02.23	The CMB has stopped the transactions of Turkey Electronic Fund Plant Platform (TEFAS) and the Private Pension Fund Plant Platform (Befas) transactions.	Capital Market Board	Capital Market Issues	Various Rules and Regulations Regarding Financial System and Reporting

411	10.02.23	If the consumer and vehicle loans used by banks, financial leasing, factoring and financing companies are postponed at the request of the customers, the postponement period is not taken into consideration at the maturity limits determined in the relevant legislation,	Banking Regulation and Supervision Agency	Loan Market Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
412	10.02.23	The supply of additional documents that must be taken by credit rating notes to be taken from credit customers is left to the old man.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Regarding Earthquake
413	10.02.23	Postponing the periods of the valuation of the guarantees of the real estate in the nature of the loans used to customers affected by the earthquake disaster,	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Regarding Earthquake
414	10.02.23	The periods related to the information and documents that must be deposited to banks by the companies subject to independent audit regarding loan uses to be extended to the companies in the provinces in the earthquake zone	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Regarding Earthquake
415	10.02.23	Extending the flexibility provided for the credit maturity limit and credit card installment limit until 01.01.2024,	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Regarding Earthquake
416	10.02.23	In the case of telephone banking transactions, in cases where two component verification cannot be made during the authentication process, the security question, primarily PIN, the demographic information of the customer or other information in the bank to implement the authentication process by using the other information in the bank	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Decisions Regarding Earthquake

417	10.02.23	To ensure that the password will be entered in the first contactless transactions to be made in card payments in order to prevent the use of cards other than the information of the customers, and to maintain the existing application for subsequent transactions	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Decisions Regarding Earthquake
418	10.02.23	Banks, whose shares are traded on the stock exchange, are not considered as a discount pen from the core capital, which they have acquired by reimbursement from 6 February 2023 to 1 January 2024.	Banking Regulation and Supervision Agency	Capital Market Issues	Various Rules and Regulations Regarding Financial System and Reporting
419	10.02.23	The high risk weights applied to individual credit cards and consumer loans in the earthquake zone do not apply until 1 January 2024 in terms of those used to real persons in the earthquake regions after 6 February 2023.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Regarding Earthquake
420	10.02.23	It has been decided by the Board that the high risk weights imposed on commercial cash loans should not be applied until January 1, 2024 in terms of those who were used to customers affected by the earthquake disaster after 6 February 2023.	Banking Regulation and Supervision Agency	Regulations Regarding Liraization Strategy	Decisions Regarding Earthquake

421	10.02.23	According to a statement made by the CBRT, the companies' foreign currencies from abroad to the CBRT during the sale of the CBRT in exchange for the commitment to be given, the Turkish Lira will be able to receive 2 percent of the amount of foreign exchange transformation support. Companies will be able to evaluate the rest of the foreign currency brought to the CBRT after selling at least 40 percent of the foreign currency they brought abroad to the CBRT.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Decisions Affecting Exports and Export Revenues
422	10.02.23	BDDK, 1st Earthquake/Disaster Region on behalf of the residents in the provinces of the credit cards issued as a twenty percent of the debt debt, 2nd earthquake/disaster region on behalf of the residents in the provinces of the provinces of the total credit cards that can be made periodic limit on behalf of the total credit cards that can be made periodic limit. Increasing the limitations regarding the monthly average net income taken into consideration in determining the limit (in such a way that the monthly average net income of the person concerned for the first year does not exceed the eight and eight times for the second and next years); 3. The minimum payment amount unpaid credit cards, cash use or cash use of the provisions of the provinces of the cards in the earthquake/disaster region of the provinces in the provinces in the provinces of the earthquake/disaster region may not be implemented and banks in the earthquake/disaster region during the period of the time they shifted card debts In the provinces, the minimum amount, including the minimum amount of card holders to define unpaid periods, 4. Earthquake	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Regarding Earthquake

	Disaster region for the residents in the disaster or annual average income level in the event of a average level of credit cards that can be acquired by real persons to increase the limit determined by 2000 TL to 5000 TL to increase the limit to 5000 TL , 5. In case the consumer and vehicle loans used by the banks/companies are postponed at the request of the principal and interest payments at the request of the customers, the periods related to the valuation of the guarantees of the loans used to the customers affected by the earthquake/disaster disaster were postponed.6. The provision of credit rating grades from loan customers to the eldest of the banks, 7. The addition of the additional documents that must be obtained from the loan customers within the scope of Article 11/A of the Regulation on the Credit Transactions of the Banks to the old man of the banks, 8. 06.02.2023, depending on the demands of the customers, the principal and the principal. The interest payments of interest payments for minimum 6 months (provided that the customer's short -term demands are reserved), the remarking is not sought for customer demand in case of interest/dividends without demanding interest/dividend, The relevant periods were extended for companies in the provinces in the earthquake/disaster region. 10. The flexibility provided for the credit maturity limit and the credit card installment limit were extended until 1/1/2024. 11. In the Cebe Order "transaction, it was decided to increase the daily transaction limit to 5,000 TL, the weekly transaction limit to 10,000 TL and the monthly transaction limit to TL 15.000.			

423	11.02.23	As a result of the earthquakes that took place on 06 February 2023, the state of emergency was declared for three months. In this context, it is appropriate to ensure that the password will be entered in the first contactless transactions to be made in the first contactless transactions to be made in card payments in order to prevent the use of cards in the provinces in the provinces in question, and to continue the existing application for subsequent transactions.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Decisions Regarding Earthquake
424	13.02.23	The CBRT reported that if the maturity of the people in the earthquake zone has arrived or the maturity of the future loans will be exempted from the maturity of 6 months, these loans will be exempted from Mekul value facilities and necessary provisions for 6 months, and that the loans in question will not be subject to expenditure documents within the same period.	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Regarding Earthquake
425	14.02.23	Amendment was made in the Regulation on the State Contribution in the Private Pension System. Accordingly, the minimum of 70 percent of the state contribution fund portfolio paid by the Ministry or the Undersecretariat of Treasury asset rental companies issued by the Turkish Lira debt vehicles, income partnership or rental certificates were required to be evaluated to 50 percent.	Ministry of Treasury and Finance	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

426	23.02.23	The Ministry of Commerce was given the authority to regulate installment limitations in retail trade in disaster periods. The Ministry regarding the installment periods of the Regulation on the provisions of the Retail Trade prepared by the Ministry of Commerce was authorized to change the limitations included in this article with disaster periods and other extraordinary situations at the level of the district, province, regional or country level or to bring additional limitations on this issue.	Ministry of Treasury and Finance	Real Sector Related Issues	Decisions Regarding Earthquake
427	24.02.23	BRSA, housing loans by going to the limit update, previously 2 million pounds or less for the houses determined up to 90 percent of the loan usage limit of 5 million pounds or less changed to houses.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
428	10.03.23	It has been decided to include the consumer loans to be exercised by the banks according to the credit phase/dividend ratio of the consumers. In this context, the interest/dividends from the consumer loans to be exercised to consumers to the Central Bank announced by the Central Bank of the Central Bank of the annual compound reference rate of 1.8 to 2.0 (including) in the first stage, and those who are higher than 2.0 times to the second stage It was decided to be subject to.	Central Bank of Republic of Turkey	Loan Market Related Issues	Monetary Tightening Effect
429	21.03.23	The Central Bank asked banks to make a monthly report on the Central Bank regarding foreign exchange positions, except for banks and financial institutions with a loan balance of TL 5 million or more.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

430	30.03.23	The CBRT brought foreign currency obligation to open a foreign exchange or Turkish Lira deposit and participation account, with at least 1 month term. As a result of this transaction, the foreign currency, the maturity of the central bank will be purchased by the Central Bank and the Turkish Lira will be transferred to the relevant bank was expressed.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
431	31.03.23	In the KKM accounts, the interest ceiling was removed. Paragraph 1 and 2 of the decision to support deposits and participation accounts against the exchange rate increases dated 23/2/2022 were amended and paragraph 3 and 4 were abolished. a) The interest rate for exchange rate protected accounts shall be determined between banks and beneficiaries, not less than one -week repo tender interest rate determined by the CBRT. b) The minimum interest rate to which deposit banks will apply to the KHHs is a one - week repo tender interest rate determined by the CBRT.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect

432	03.04.23	On the application instruction for the transformation of the Turkish Lira of Gold Accounts by the CBRT to the transformation into deposits or participation accounts a) Domestic real persons in banks, domestic residents of the legal entities in the banks as of 31/12/2021, the gold account in the banks, if the account holder requested transformation It is converted to Turkish Lira over its price. B) If the legal entities who transfer their gold accounts to another bank on the specified dates are requested, the gold account balances shall be converted to Turkish Lira at the transformation price. C) Turkish Lira deposit or participation account shall be opened by the Bank for 3 months, 6 months or 1 year term deposit or participation account for real persons in Turkey and legal entities. D) Banks can transform by using the price of the last announced by the Central Bank on the last working day after 17:00 (from 13:30 on half working days) from gold accounts through mobile or internet banking. . E) The gold account is opened on behalf of the Central Bank for the banks who wish to participate in the system and the gold that the bank purchased (in 995/1000 and 1000/1000 purity) in relation to the demands collected by the bank is transferred to this account for 1000/1000 purity and at 17:00 on the same working day. (It is notified to the Central Bank until 13:30 on half working days). F) Turkish Lira amounts in return for gold purchase transactions are sent to the EFT center of the bank by the Central Bank.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

433	03.04.23	If the legal entities transferred their accounts in terms of US Dollar, Euro and British pound between 31/12/2021 and 31/3/2023, the exchange deposit account and foreign exchange participation fund account balances are converted to Turkish Lira via Turkish Lira. . B) B) The Turkish Lira deposit or participation account is opened for 3 months, 6 months or 1 year term deposit or participation account for real persons and domestic legal entities by the Bank. .The end -end rate is higher than the transformation rate. In case; a) Interest/profit share amount> exchange rate difference is paid by the bank to the account holder to the principal + interest and participation account holder. b) Interest/profit share amount <If the exchange rate difference is paid by the bank to the account holder + interest/profit share + “exchange difference - interest/profit divide” amount, and the “Exchange Difference - Interest/Profit Divine” amount is paid to the bank by the Central Bank. E) At the end of the maturity, the account owner can be renewed in foreign currency and at the end of the maturity. F) The account owner continues to benefit from the support to be selected by the end of the maturity of the Turkish Lira at the end of the maturity within the scope of the renewed account.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
434	06.04.23	The CBRT increased the discount rate (bonds) to the CPI (bonds) from 70 percent to 80 percent.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect

435	07.04.23	CBRT, securities, amendments were made in the communiqué on the necessary provisions. TL of TL in total deposits will be applied to banks with an additional 5 points of foreign currency will be applied to banks. The share of TL in the balance sheet is increased to 7 points for banks that are less than 60 percent. The ratio was applied as 8 points for banks with a 50 percent.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
436	07.04.23	The CBRT also made a regulation on loans in the accumulation with his regulations on the securities. The CBRT tightened the requirement of securities in high -interest loans. For loans exceeding the upper limit of the reference interest rate coefficient in loans, additional securities obligation was increased from 90 percent to 150 percent. Note: " With the regulation made in August, the credit growth rate of the credit growth rate and the interest rates in loans to comply with the policy interest in the aim of making the annual compound reference rate determined by the CBRT for 1.4 times the loans applied to the banks obliged to make a 20 percent valuation facility. Credit interest, the reference coefficient of 1.8 times and if the ratio of the facility was determined as 90 percent. With the new regulation, this facility rate was increased to 150 percent.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

437	24.04.23	In order to make the KKM attractive, the Corporate Tax Exemption will also apply for foreign currencies and the Corporate Tax Exemption will also apply to foreign currencies. With the arrangement introduced by the article, the companies' earnings, exchange rate differences, interest and profit divide earnings are exempted from corporate tax.	Presidential Decree	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
438	27.04.23	Due to the earthquake disaster in our country, as of the year 2022, deposits, participation funds, entrusted and receivables for the rights holders or heirs of the Fund for the acceptance, withdrawal and statute of limitations, participation funds, trust and receivables about the procedures and receivables In accordance with the third paragraph of Article 8 of the Regulation, the deadline of application, which is 15.06.2023 as 15.09.2023, and the interest and profit shares of the amounts related to 2022, which are not sought by the right holder or his heirs, are in the Central Bank of the Republic of Turkey until 30.03.2023. It was decided to transfer them to their accounts to the banks to be determined by the Fund Board.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Decisions Regarding Earthquake

439	15.05.23	Credit card limit on a customer basis for those with a certain amount of individual credit cards and cash withdrawal and jewelry expenditures made by 30 percent of the loan type was decided to be subject to securities. For commercial loans subject to the securities facility according to the type of loan, according to the loan growth brought, other commercial loans and consumer loans are included in the basis of the specified loan types. It was announced that the securities were decided to be established as blocked for a year.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
440	16.05.23	The Central Bank has changed its thresholds from the foreign currency to the banks for additional transformation obligation to TL. Real person accounts between 26 May-28 July 2023 between the dates that can not provide an additional 10 percent transformation of banks, the missing part for 6 months will establish securities. Thus, the transformation target, which was previously 5 percent, will be 15 %. After July 28, the additional transformation rate from foreign currency to TL will rise to 30 percent. The bank can not attach, until this date until the target of an additional 10 percent securities will make the block.	Presidential Decree	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting

441	25.05.23	With the arrangement published in the Official Gazette, the definition of SME was changed. In the definition of small and medium -sized business (SME), the annual revenue ceiling was increased from 125 million TL to TL 250 million. The annual revenue limit in the definition of "micro business" of the regulation is from 3 million TL to TL 5 million, the annual revenue limit in the definition of "small business" from 25 million TL to TL 50 million, which is in the definition of "medium -sized business" The revenue limit was increased from 125 million TL to 250 million TL.	Banking Regulation and Supervision Agency	Legislation and Reporting Regarding General Banking System Operation	Various Rules and Regulations Regarding Financial System and Reporting
442	25.05.23	The BRSA changed to the Regulation on the Remote Identity Detection Methods to be used by banks and the establishment of a contract relationship in electronic environment. With the new regulation made by the BRSA, it will be possible to be a bank customer as a bank customer through remote identity detection of legal entities registered in the trade registry as well as real persons.	Presidential Decree	Real Sector Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
443	26.05.23	The application period was extended for 1 month for the structuring of the debts to the state. The decision was published in the Official Gazette and entered into force. According to the President's decision, the application, notification and declaration periods stipulated within the scope of the law were extended until June 30 and the first installment payment periods were extended until 31 July.	Banking Regulation and Supervision Agency	Regarding Interest Rate and Liquidity	Monetary Tightening Effect

444	26.05.23	The aim of the "Regulation on Calculating Banks' Regulation on Net Stable Funding Rate Calculation of Banks by the BRSA is to determine the procedures and principles to ensure that the risk of funding that may be exposed to consolidated and non -consolidated basis in the long run from the deterioration of liquidity levels. 1 The existing stable fund, the obligation of banks and the permanent part of the equity; The required stable fund will express the expected part of the banks' in -house assets and non -balance sheet debts. 3. Net stable funding rates calculated monthly as of the calculation periods of equity calculation periods will not be less than a three -month simple arithmetic average as of March, June, September and December periods. It will be exempt from attaching the minimum rates determined.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
445	01.06.23	The inclusion of any additional payment to be made under the name of additional benefit/return on the exchange rate difference to the accounts to be opened/renewed as of the date of the date of exchange rate difference and notification to the CBRT; The exchange rate difference payments should be made by the CBRT on the sum of interest and additional interests/return, and in the accounts to be opened/renewed from this date, the additional benefit/return should be given in TL and the decision to pay the additional interests/returns at the end of the maturity.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting

446	02.06.23	In relation to the foreign exchange sales made by the banks at the end of the maturity, the foreign exchange rate rate they reported to the CBRT cannot exceed 1 percent of the rate of drying rate at the end of the maturity.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Normalization From Previous Measures
447	22.06.23	The Monetary Policy Committee (Board) decided to increase the tender interest rate of one week with a policy interest rate from 8.5 percent to 15 percent.	Central Bank of Republic of Turkey	Loan Market Related Issues	Monetary Tightening Effect
448	23.06.23	The CBRT changed the fees and credit card interest rates to be charged from commercial customers. According to the decision in the Official Gazette, the July reference interest rate, which was previously announced as 0.81, will be applied as 1.36 percent. The monthly maximum contract interest rate to be applied in credit card transactions in TL is determined by adding 55 basis points to the reference rate. In this case, according to the July reference interest rate, the maximum contract interest rate will be 1.91 percent in July.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Normalization From Previous Measures

449	25.06.23	Within the framework of the simplification decisions taken at the MB PPK meeting, the obligation of the securities value facility was changed. With the decision taken, the obligation of the Turkish Lira in the balance sheets of the banks was reduced from 60 percent to 57 percent. The rate of securities, which is 10 percent, was reduced to 5 percent. The ratio of securities is lower than the shares calculated for real and legal entities; a) 7 points increased for banks that are less than 57.00 percent, B) 2 points discount for banks with 70.00 percent and above, applied.	Presidential Decree	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
450	27.06.23	From the interests carried out in foreign exchange deposit accounts and the profit shares paid by the participation banks to the calculation of foreign exchange participation; In demand, notice and special current accounts, the ratio in futures accounts was increased to 25 percent. Previous Decision: It was 20 percent up to 1 year and 18 percent more than 1 year. The rates available in TL deposits were 5 percent up to 6 months, 3 percent up to 1 year, 0 percent for more than one year and 0 percent in KKM. In addition, the phrase '30 .06.2023 ', which includes the provisional article 2, 3, 4, and 5 of the President's decision No. 7332, has been changed to '31 .12.2023'.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Monetary Tightening Effect
451	02.07.23	The CBRT postponed the foreign exchange notification obligation of companies that use the loan over 50 million by going to postpone the foreign exchange notification obligation until 2024.	Central Bank of Republic of Turkey	Loan Market Related Issues	Monetary Tightening Effect

452	03.07.23	In case of interest rate hikes in the credit configuration of banks, the application of the acceptance of the new loan has ended.	Presidential Decree	Government Budget Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
453	07.07.23	1. In consumer loans, bank and insurance transactions tax (BMSV) were increased from 10 percent to 15 percent. 2. Overseas telephone fee was increased from 6,091 lira to 20,000 TL. 3. Notary, passport and visa fees of a 50 percent raise came. 4. VAT rate of 82 percent was increased to 10 percent. 18 percent VAT was increased to 20 percent.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
454	07.07.23	The communiqué on the support of the transformation to TL deposits and participation accounts has been amended. Domestic resident real persons in banks, domestic resident legal entities at any time between 31/12/2021 and 30/6/2023 in banks existing in banks, Euro and British pounds in foreign exchange deposit account and foreign exchange account balances , if the account holder requests, the transformation is converted to Turkish Lira over the dry. (The difference between the old state: The difference between the today's regulation and the previous state is stated below. On any date between 31/12/2021 and 31/3/2023 30/6/2023 US dollar, Euro and British pound existing in banks existing foreign exchange deposit account and foreign exchange fund account balances, if the account holder requests the transformation of the transformation dry.)	Presidential Decree	Government Budget Related Issues	Monetary Tightening Effect

455	14.07.23	Additional motor vehicles tax was decided to pay additional payment. Motor Vehicle Tax (MTV), until the end of 2023, the new registered vehicles and the vehicles registered to existing traffic was brought to the floor.	Presidential Decree	Government Budget Related Issues	Various Rules and Regulations Regarding Financial System and Reporting
456	14.07.23	Supports met by the Ministry of Treasury and Finance are met from the CBRT resources. (It was decided to transfer the KKM payments to the Central Bank.	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues
457	20.07.23	The CBRT exporter increased the daily limit of banks to a 5 -fold TL 1.5 billion TL for the reeskont loan of the exporter.	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Monetary Tightening Effect
458	21.07.23	For KKM accounts, the necessary provision rate was 15 percent in all maturity.	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues
459	25.07.23	According to the credit growth, it was decided to determine the monthly growth limit of 2.5 percent for commercial loans which are 3 percent within the scope of the securities asset facility. Export, investment, agriculture and tradesmen.	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues

460	25.07.23	In order to support the efficient use of financial resources, it was decided to determine the growth limit of 3 percent in vehicle loans as 2 percent, and to protect the 3 percent limit by not changing consumer loans. In addition, the monthly maximum interest rate applied to credit card cash uses and credit deposit accounts within the scope of control of inflation and domestic demand has been increased to 2.89 percent. ** Export and investment loans and implementations for earthquake zones have been excluded from measures.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Decisions Affecting Exports and Export Revenues
461	25.07.23	According to the interest rate, the application of the securities value facility in order to simplify export and investment loans to be excluded from the first stage between 1.8 and 2.0 times in TL commercial loans to remove the interest limit of the interest limit (1.8) as a single stage (1.8) was decided to apply. . . Note: " With the regulation made in August, the credit growth rate of the credit growth rate and the interest rates in loans to comply with the policy interest in the aim of making the annual compound reference rate determined by the CBRT for 1.4 times the loans applied to the banks obliged to make a 20 percent valuation facility. Credit interest, the reference coefficient of 1.8 times and if the ratio of the facility was determined as 90 percent. With the new regulation, this facility rate was increased to 150 percent.)	Central Bank of Republic of Turkey	Loan Market Related Issues	Decisions Affecting Exports and Export Revenues

462	25.07.23	Decisions were taken to support the financing of exporters: 1. The daily limit of reeskont loans has been increased to TL 1.5 billion. 2. It has been decided to increase the SME share in reeskont loans and to take into account the export increase performance in users. 3 a. 30 percent additional export costs have been abolished in the use of chief loans. (The old decision of 13 June 2022 will undertake to sell 30 percent to a bank and not to buy foreign currency for 1 month following its sale.) B. The exemption of foreign exchange purchases within the scope of import payments has been exempted from the commitment of not receiving foreign currency given during the Raeskont loan term.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect
463	31.07.23	Capital adequacy standard ratio calculations of risk weights taken into consideration consumer loans, individual credit cards, passenger vehicles to be used to consumers and vehicle loans for vehicle loans and vehicle guaranteed loansIt has been decided to increase financial rental transactions with consumers. In addition, the installment times implemented in credit cards should not be applied to the expenditures related to airlines, travel agencies and accommodation and not to install installments in the said expenditures.	Banking Regulation and Supervision Agency	Loan Market Related Issues	Monetary Tightening Effect

464	20.08.23	The goal of converting the KKM accounts to standard TL deposit was introduced about the application of securities. Baklar who cannot meet the criteria in this regard will be obliged to the additional securities.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
465	20.08.23	Domestic resident real persons and domestic resident legal persons as of 30/6/2023 as of the US dollar, Euro and British pound in foreign exchange deposit account and foreign exchange fund account balances, if the account holder requests the Turkish Lira via Turkish Lira translated. "	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting
466	20.08.23	30/6/2023 of the real people in the domestic people, domestic residents of legal entities in the banks as of 31/12/2021, the gold account, if the account holder requests the transformation price is converted to the Turkish Lira. "	Central Bank of Republic of Turkey	Central Bank Required Reserve Practices Regulations	Various Rules and Regulations Regarding Financial System and Reporting
467	20.08.23	The necessary provision rates applied to foreign exchange deposits were increased. The ZK ratio for demand, notice and mature foreign exchange accounts up to 1 month, 29 percent, 3 months, 6 months, and up to 1 year, the term foreign exchange account of 25 percent, 1 year and longer -term foreign exchange account ZK rate was 19 percent.	Central Bank of Republic of Turkey	Regulations Regarding Liraization Strategy	Various Rules and Regulations Regarding Financial System and Reporting