Household Borrowing, Foreign Currency Demand and Exchange Rate Stability in Türkiye

Abstract

In Türkiye, the exchange rate is not only a financial market indicator but also a key variable shaping household savings behavior, consumption decisions, investment preferences and expectations about the future. In periods of high inflation and exchange rate volatility, households tend to protect their purchasing power by turning to foreign currency, gold and other alternative assets. This behavior strengthens dollarization and creates additional pressure on the Turkish lira.

This article discusses whether recent housing projects, savings-based finance systems and long-term Turkish lira-denominated payment models can indirectly reduce foreign currency demand by binding households to TL-based debt obligations. The central argument is that when households are committed to long-term TL debt payments, their ability to allocate disposable income to dollar investment weakens. Therefore, TL-denominated borrowing may function as an indirect mechanism to limit dollarization and reduce exchange rate pressure.

1. Introduction

The USD/TRY exchange rate has become one of the most important macroeconomic indicators in Türkiye. It directly affects inflation expectations, purchasing power, corporate costs and financial stability. Due to past episodes of currency depreciation and high inflation, households in Türkiye closely monitor the U.S. dollar as a signal of future price movements.

When people expect the Turkish lira to lose value, they often prefer to hold their savings in foreign currency, especially in U.S. dollars. This preference is not only an individual investment decision. When it becomes widespread across society, it increases foreign currency demand and creates further pressure on the exchange rate.

In this context, recent developments such as TOKİ housing projects, savings finance companies similar to Eminevim, and long-term payment systems may be interpreted from a broader macroeconomic perspective. These mechanisms do not only help individuals acquire houses or vehicles. They may also shape household financial behavior by directing income toward Turkish lira-denominated debt payments rather than foreign currency accumulation.

The main question of this article is therefore: Can long-term TL-denominated household borrowing act as an indirect tool to limit foreign currency demand and support exchange rate stability?

2. Household Foreign Currency Demand and Dollarization

Dollarization is one of the structural challenges of the Turkish economy. In an inflationary environment, households often see the U.S. dollar as a store of value. If people believe that the dollar will provide a higher return than the euro, gold or Turkish lira assets by the end of the year, demand for dollars may increase significantly.

This behavior is strongly linked to expectations. When households expect further depreciation of the Turkish lira, they try to protect their savings by shifting into foreign currency. However, when many individuals act in the same way, the collective demand for foreign currency increases and may contribute to further exchange rate depreciation.

Therefore, household investment preferences have macroeconomic consequences. A single individual buying dollars may not affect the market. However, if millions of households move in the same direction, this behavior can become a serious source of exchange rate pressure.

3. TL-Denominated Borrowing as a Constraint on Dollar Demand

From this perspective, TL-denominated household borrowing can be evaluated as a mechanism that indirectly limits foreign currency demand. When households enter long-term payment plans for housing, vehicles or savings finance systems, a significant part of their monthly income is allocated to installment payments.

As a result, the amount of disposable income that could otherwise be directed toward dollar or gold investment declines. In other words, even if households believe that the dollar will be a profitable investment, their actual capacity to buy dollars may be limited by existing TL debt obligations.

This distinction is important. Investment willingness and investment capacity are not the same. A household may want to buy dollars because it expects the currency to appreciate, but if its income is already tied to housing payments, credit card debt, rent or savings finance installments, it may not have enough free cash flow to do so.

In this sense, TL-denominated borrowing does not directly change exchange rate expectations. However, it may reduce the practical ability of households to act on those expectations.

4. Housing Projects, Savings Finance Models and Economic Behavior

TOKİ housing projects and savings-based finance systems can be interpreted not only as social housing or ownership mechanisms but also as tools that influence the allocation of household income. These systems generally require regular, long-term payments in Turkish lira. This creates a financial commitment that shapes household behavior over time.

When individuals are tied to a long-term TL payment schedule, their financial priority becomes debt repayment rather than speculative investment. This may reduce short-term foreign currency demand, especially among middle-income households whose disposable income is limited.

Similar mechanisms can also be seen in vehicle financing or installment-based asset acquisition models. When people commit to TL-denominated payment obligations, they may become less able to convert income into foreign currency or gold. Therefore, these systems may indirectly support the policy objective of reducing dollarization.

5. The Election Period Perception and Changing Expectations

In Türkiye, election periods are often associated with the expectation of expansionary economic policies. Many people believe that before elections, public spending may increase, credit conditions may loosen and more liquidity may enter the market. This perception is commonly expressed as “the taps will be opened.”

In previous periods, such expectations could lead households to increase consumption or shift additional liquidity into foreign currency and gold. However, the current period may produce a different outcome. If a large part of the household sector is already tied to TL-denominated debts, additional liquidity may not necessarily flow into dollar demand.

Instead, households may use income increases, credit opportunities or temporary liquidity to pay installments, close debts or maintain existing financial commitments. This means that even if liquidity expands before an election, its impact on foreign currency demand may be weaker than in previous cycles.

This represents a potential change in household behavior. In the past, excess liquidity could quickly move toward foreign currency. This time, households may be more financially constrained by TL-based obligations, reducing their ability to increase dollar demand.

6. The Dollar’s Expected Return and Household Investment Capacity

The expectation that the U.S. dollar may generate higher returns than the euro or gold by the end of the year can be a strong factor directing households toward dollar investment. However, expected return alone is not enough to create actual demand. Households must also have sufficient disposable income.

If household budgets are pressured by rent, credit card debt, housing payments, savings finance installments or other TL liabilities, the attractiveness of the dollar may remain theoretical. People may believe that the dollar is the most profitable investment option, but they may still be unable to allocate funds to it.

This situation can reduce the transmission of exchange rate expectations into actual market demand. In other words, even if the expectation of dollar appreciation remains strong, household debt obligations may prevent this expectation from fully turning into foreign currency purchases.

7. Potential Implications for Exchange Rate Stability

The spread of TL-denominated household debt may have a short-term limiting effect on foreign currency demand. If households allocate a larger share of their income to TL debt payments, the amount of money available for dollar purchases declines. This may help reduce individual demand pressure on the exchange rate.

However, this mechanism also carries risks. Rising household indebtedness can weaken consumption, reduce financial flexibility and increase vulnerability if incomes do not rise sufficiently. If households become overburdened with debt, financial stress may increase and consumer confidence may decline.

Therefore, TL-denominated household borrowing may help limit dollarization in the short run, but it cannot be considered a permanent solution to exchange rate instability. Lasting stability requires lower inflation, credible monetary policy, fiscal discipline, stronger institutions and renewed confidence in the Turkish lira.

8. Policy Evaluation

The idea of limiting foreign currency demand through TL-based borrowing should be evaluated carefully. On one hand, it may reduce the ability of households to direct savings into dollars and gold. On the other hand, if this process increases household debt beyond sustainable levels, it may create new financial risks.

A healthier policy framework should focus not only on restricting households' ability to buy foreign currency but also on making the Turkish lira a more attractive and trustworthy asset. This requires predictable monetary policy, lower inflation expectations, transparent communication and stronger confidence in economic institutions.

In other words, forced or indirect de-dollarization through debt obligations may provide temporary relief, but voluntary confidence in the Turkish lira is the real long-term solution.

9. Conclusion

In Türkiye, long-term TL-denominated household borrowing can be interpreted as an indirect mechanism that may reduce foreign currency demand. Housing projects, savings finance systems and installment-based payment models bind households to Turkish lira obligations and reduce the amount of disposable income that can be allocated to dollar or gold investment.

This is particularly important in a period when the U.S. dollar is expected by many households to generate higher returns than the euro or gold. Even if people see the dollar as a profitable investment, their ability to act on this expectation may be limited by existing TL debt commitments.

As election periods approach, the traditional expectation that "liquidity will increase and the taps will be opened" may produce a different result this time. Instead of directing additional income toward foreign currency, households may prioritize debt repayment and installment obligations. This could reduce individual demand pressure on the exchange rate.

However, this mechanism should not be seen as a permanent solution. TL-denominated borrowing may temporarily limit dollarization, but long-term exchange rate stability depends on confidence. The real objective should not be to prevent households from buying foreign currency through financial constraints, but to create an economic environment in which households willingly prefer to hold Turkish lira.

Such confidence can only be achieved through low inflation, credible monetary policy, fiscal discipline, institutional reliability and sustainable economic growth.