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Pathways to Inclusive Growth: Overcoming Challenges in Emerging and Developing African Countries.

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Book of Proceedings

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Analyzing Wealth Inequality in Türkiye: The Effects of Monetary Policies and Financial Inclusion

Mahmud İrfan Karaca[1]

Abstract

This paper examines how recent monetary policies in Turkey have affected wealth inequality through the channel of financial access. Wealth inequality has widened in Turkey in the context of high inflation, negative real interest rates, and unconventional policy tools such as the Currency-Protected Deposit Scheme (KKM). While asset holders and financially included groups have been able to hedge against inflation and currency depreciation, financially excluded individuals have faced rising living costs and eroding real wealth.

The study is based on an online survey of 270 adult residents in Turkey, designed to capture demographic characteristics, levels of financial literacy, use of financial instruments, and perceptions of economic and monetary policies. Respondents were classified into three main groups: users of conventional financial instruments, users of alternative (often interest-free) instruments, and non-users. Descriptive analysis is used to compare wealth outcomes and perceived advantages across these groups.

The findings show that both conventional and alternative instrument users report higher rates of wealth preservation and accumulation than non-users, with users of conventional tools enjoying the largest perceived advantages. Non-users –many of whom cite religious or ethical concerns, lack of savings, or distrust in the system– are more likely to report economic disadvantage. Perceptions of increased wealth inequality are especially strong among participants with higher income, higher education, and high financial literacy; 74.4% of all respondents' state that recent economic and monetary policies have widened the wealth gap.

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The results highlight the indirect role of monetary policy in amplifying wealth inequality by interacting with uneven financial access and cultural-religious preferences. The paper argues that more inclusive financial frameworks, expanded Islamic finance options, and targeted financial literacy initiatives are essential to mitigate policy-induced disparities in wealth distribution.

Keywords: Wealth Inequality, Monetary Policies, Financial Access, Financial Inclusion, Socio-Economic Disparities

Introduction

Background and Context

Wealth inequality has become one of the most pressing socio-economic challenges of the twenty-first century. Deep and persistent gaps in wealth accumulation undermine social cohesion, restrict economic mobility, and exacerbate structural injustices (Piketty, 2014; Stiglitz, 2012). In the literature, wealth inequality is defined as the unequal distribution of assets –such as property, financial assets, and other forms of capital– across individuals or households and is often viewed as more persistent and harder to correct than income inequality (Piketty, 2014).

Over the past two decades, global wealth has become increasingly concentrated. According to Credit Suisse's *Global Wealth Report 2022*, the top 1% of the world population holds nearly half of global wealth, while the poorest half accounts for only a very small share (Credit Suisse, 2022). This pattern is closely related to the fact that returns on capital –including interest, dividends, and capital gains– tend to exceed overall economic growth rates, thereby allowing existing wealth holders to accumulate assets at a faster pace than the rest of society (Piketty, 2014). One key mechanism behind this process is unequal access to financial instruments: affluent individuals benefit disproportionately from financial markets, whereas low-income groups often remain excluded from formal financial systems and the opportunities they provide (Banerjee & Duflo, 2019).

Wealth inequality thus poses serious risks not only for individual well-being but also for macroeconomic performance and political stability. It is associated with slower economic growth, heightened social tensions, and a greater likelihood of political capture by wealthy elites (Stiglitz, 2012; Banerjee & Duflo, 2019). These concerns have intensified the academic and policy interest in understanding how institutions, policies, and financial structures shape the distribution of wealth within and across societies.

In this broader debate, the interaction between monetary policy, financial access, and wealth inequality has received growing yet still insufficient attention. Monetary decisions influence interest rates, credit conditions, and asset prices, and therefore may systematically favor those with greater access to financial instruments. How this channel operates in practice, and how it interacts with cultural and religious preferences regarding finance, remains an open empirical question-especially in emerging economies.

Research Problem and Importance

Despite a rich literature on wealth inequality and financial inclusion, the specific ways in which monetary policies affect wealth inequality *through* financial access remain underexplored. Existing studies primarily focus on macro-level outcomes of monetary policy, such as growth, inflation, or financial stability, while devoting less attention to the micro-level distributional consequences across different groups of households (Bernanke & Gertler, 2001). Moreover, relatively few studies examine how cultural and religious sensitivities shape financial behavior and thereby mediate the effects of monetary policy.

This paper addresses these gaps by asking a central research question: Do recent monetary policies in Turkey disproportionately benefit individuals with access to financial instruments, thereby widening wealth inequality compared with those who remain financially excluded?

The study focuses on the *outcomes* of monetary policy rather than on the motivations or political economy of policy-making. Debates about central bank independence, or the underlying objectives of specific policy decisions, remain beyond the scope of this research. Instead, the analysis concentrates on how policy instruments – such as negative real interest rates, credit expansion, and the Currency-Protected Deposit Scheme – have translated into differential opportunities and outcomes for various groups.

Turkey provides a particularly relevant case for analyzing these issues due to its socio-economic diversity, high and rising levels of wealth inequality, and the implementation of unconventional monetary policies in recent years. Understanding how these policies have interacted with financial access is crucial not only for the academic literature but also for designing more equitable policy frameworks in similar emerging-market contexts.

Hypotheses

Turkey is among the countries where wealth is highly concentrated: recent estimates show that the top 10% of households hold around 70% of total wealth, while the bottom 50% hold less than 5%. This structural inequality suggests that access to financial instruments may play a significant role in how households experience monetary policy outcomes. Based on this framework, the study formulates three hypotheses:

H1: Individuals who use conventional financial instruments (such as interest-bearing deposits, bonds, or investment accounts) are more likely to report higher levels of wealth preservation or accumulation during recent monetary policy cycles than those who do not use any financial instruments.

H2: Individuals with limited or no access to financial services –due to lack of savings, low financial literacy, distrust, or structural barriers– are more likely to experience real wealth losses during periods of high inflation and negative real interest rates.

H3: Cultural and religious sensitivities, especially the avoidance of interest-bearing products, moderate the effects of monetary policy on wealth outcomes; users of alternative/participation finance instruments are expected to report smaller perceived gains compared with users of conventional interest-bearing tools.

Contextual Background: The Case of Turkey

In Turkey, recent monetary policies have had significant impacts on wealth distribution. Following the reduction of interest rates after 2019, high inflation and credit expansion allowed individuals with access to financial instruments to obtain cheap loans and accumulate wealth with minimal risk. This environment fueled demand inflation, disadvantaging those without access to financial instruments as their real wealth diminished due to inflation. The KKM scheme further benefited those who could protect their wealth against currency depreciation while earning interest, creating a low-risk environment for wealth accumulation. In contrast, the recent increase in interest rates post-2023 has provided high returns on deposits, favoring those with substantial savings and further marginalizing those without financial access.

Significance of the Research

This study offers several important contributions to the growing literature on monetary policy and wealth inequality. First, it provides a micro-level perspective on how recent monetary policies in Turkey –characterized by high inflation, negative real interest rates, and unconventional instruments such as the Currency-Protected Deposit Scheme– have produced unequal outcomes across different segments of society. While most existing studies focus on aggregate macroeconomic indicators, this research highlights how individuals with varying levels of financial access experience these policies in markedly different ways.

Second, the study brings attention to the role of cultural and religious preferences in shaping financial behavior. A substantial portion of the population avoids interest-bearing financial products, which limits their participation in wealth-protecting mechanisms. By examining the experiences of both conventional and alternative (often interest-free) financial instrument users, the study contributes to a deeper understanding of how socio-cultural factors interact with economic policy environments.

Third, the findings carry important policy implications. The results suggest that monetary policies can unintentionally amplify wealth inequality when access to financial instruments is uneven or restricted. Expanding financial inclusion, diversifying Islamic finance products, and strengthening financial literacy are essential steps for ensuring that policy outcomes do not disproportionately benefit only financially integrated groups. As such, the study provides valuable insights for policymakers in Turkey and other emerging economies confronting similar structural challenges.

Methodology

This study employs a quantitative, survey-based research design to examine how financial access influences individuals' experiences of monetary policy and perceived wealth outcomes in Turkey. The data were collected through an online structured questionnaire administered to 270 adult residents of Turkey. Participation was voluntary, and respondents provided information on their demographic characteristics, financial literacy levels, use of financial instruments, and perceptions of recent economic and monetary policies.

To capture heterogeneity in financial behavior, participants were classified into three distinct groups: (1) users of conventional financial instruments (e.g., interest-bearing deposits, investment accounts), (2) users of alternative or interest-free instruments (e.g., participation accounts, gold-based savings), and (3) non-users with no engagement in financial instruments.

The survey included Likert-scale items assessing perceived wealth changes, economic differentiation, and the impact of monetary policies on inequality. Descriptive statistical methods were used to compare wealth outcomes, perceived advantages/disadvantages, and policy evaluations across the three groups. This approach enables a micro-level analysis of how financial integration, or the lack thereof, shapes individuals' economic experiences during periods of unconventional monetary policy.

Result and Discussion

The survey results reveal clear differences in economic experiences and perceived wealth outcomes across the three financial access groups. Users of conventional financial instruments reported the most favorable outcomes: 47.3% stated that recent economic conditions created a positive differentiation for them, and 43% indicated that they either partially increased or fully preserved their wealth. This group benefited the most from monetary policy mechanisms such as high interest rates and access to asset-protecting instruments.

Users of alternative or interest-free instruments also reported relatively positive outcomes, though to a lesser extent. More than half (56.2%) stated that they experienced positive differentiation, and a combined 54.3% reported either significant or partial increases in their wealth. These results indicate that participation in the financial system –even through non-interest instruments– provides a measurable degree of economic protection, though the returns remain lower compared to conventional users.

In contrast, non-users of financial instruments showed the weakest economic outcomes. Approximately one-third (34.9%) reported that they were negatively differentiated by recent economic conditions. This group was the most exposed to inflation, currency depreciation, and rising living costs, reflecting the vulnerability created by financial exclusion. Many respondents in this group cited lack of savings, low financial literacy, or religious and ethical concerns as reasons for not participating in financial markets.

Perceptions about the broader effects of monetary policy were also highly polarized. Across all participants, 74.4% stated that recent monetary and economic policies widened the wealth gap in Turkey. This perception was strongest among individuals with higher income, higher education, and high financial literacy-groups that are more directly exposed to financial markets and more aware of policy outcomes. These patterns align with the study's hypotheses, demonstrating that financial access shapes both economic experiences and the interpretation of policy effects.

Overall, the findings indicate that monetary policy interacts with financial access in ways that systematically advantage financially integrated households while leaving excluded groups vulnerable to macroeconomic volatility. These results highlight the distributional consequences of policy choices, particularly in contexts where cultural and religious preferences influence the use of financial instruments.

Conclusion

This study demonstrates that financial access plays a central role in shaping how individuals experience the outcomes of recent monetary policies in Turkey. The results show that users of conventional financial instruments were the most successful in preserving or increasing their wealth during periods of high inflation and unconventional policy interventions, while users of alternative interest-free instruments experienced moderate gains. In stark contrast, individuals who remain outside the financial system faced the greatest vulnerability, reporting higher levels of economic disadvantage and real wealth erosion.

These findings highlight the distributional consequences of monetary policy in an environment where financial access is uneven and where cultural and religious preferences influence financial behavior. When monetary tools disproportionately benefit those with the ability and willingness to utilize financial instruments, wealth inequality is reinforced rather than mitigated. The widespread perception among respondents –nearly three-quarters– that recent policies have widened the wealth gap further underscores this dynamic.

The results suggest that policymakers must consider the interaction between monetary policy and financial inclusion when designing economic strategies. Expanding access to savings and investment tools, diversifying Islamic and interest-free financial products, and improving financial literacy are essential steps for ensuring that policy outcomes do not systematically disadvantage financially excluded groups. Turkey's experience offers valuable lessons for other emerging economies facing similar structural and socio-cultural challenges, demonstrating the need for more inclusive financial frameworks to support equitable wealth distribution.

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