



MONETARY AND EXCHANGE RATE POLICY FOR 2013

Central Bank of the Republic of Turkey

25 December 2012

Ankara

OVERVIEW

New Monetary Policy Strategy

1. Increased volatility in risk appetite and short-term capital flows following the global crisis accompanied by the growing awareness regarding financial stability led the central banks to seek alternative policies. In this context, the Central Bank of the Republic of Turkey (the CBRT) has gradually introduced a new monetary policy framework as of late 2010 through modifying the inflation targeting regime that has been implemented since 2006. The new framework treats financial stability as a supplementary objective without prejudice to price stability.

Table 1: Monetary Policy Framework

	FORMER APPROACH	NEW APPROACH
OBJECTIVES	<i>Price Stability</i>	<i>Price Stability</i> <i>Financial Stability</i>
INSTRUMENTS	<i>Policy rate</i>	<i>Structural Instruments</i> <i>Cyclical Instruments (Policy Rate, Liquidity Management, Interest rate corridor)</i>

2. Table 1 illustrates the objectives and instruments of the CBRT within the context of the former and new policies. The current framework has been considerably improved in terms of objectives and instruments compared to the standard inflation targeting regime that has been implemented since 2006. The newly-constructed regime preserves the main objective of price stability, while risks to financial stability are also taken into consideration in the conduct of monetary policy. Financial stability objective calls for the use of multiple instruments in the monetary policy both in structural and cyclical terms (Table 1). For a better

understanding of the current policy framework, it will be helpful to elaborate the CBRT's approach to financial stability from a macro perspective:

Financial Stability and Monetary Policy

3. By definition, any central bank with a financial stability concern, takes macro financial risks into account while implementing the monetary policy. Having become more common among the central banks after the global crisis, this approach does not ignore macroeconomic imbalances and risks accumulating in the financial system while aiming at achieving price stability.
4. Although financial risks have many underlying factors, amid the recently-emerging globalization, macroeconomic risks and risks to financial stability in open economies like Turkey mostly stem from global developments. Particularly, ongoing accommodative monetary policies due to fragile global economic outlook, abrupt changes in risk perceptions and excessively volatile capital flows have been the main factors that feed into macro financial risks. Given such an environment, it is critical to enhance the resilience of the economy against abrupt changes in the risk appetite and capital movements. In fact, minimizing the effects of the volatility in capital flows on domestic markets was the main emphasis of the CBRT's approach to macroeconomic and financial stability in the last two years.
5. In Turkey, movements in capital flows and global liquidity cycles manifest themselves mainly as fluctuations in credit and foreign exchange rate. In emerging economies like Turkey, a rapid appreciation of the local currency may favorably affect the balance sheets of firms, leading to excessive lending appetite by banks and thus rapid credit growth. Therefore, the new policy framework attaches special importance to variables like credit and the exchange rate. Both the rapid credit growth and excessive appreciation of the exchange rate distort the resource allocation within the economy and negatively affect macroeconomic stability by causing the domestic demand to grow faster than aggregate income. In the economic literature, rapid credit growth also stands out as one of the significant variables that precede financial crises. Meanwhile, excessive appreciation in the foreign exchange rate may create distortions regarding the macroeconomic and financial stability in an open economy by increasing systemic risk through multiple channels, in particular the balance sheet channel. On the

other hand, an abrupt contraction in credit or an excessive depreciation in the local currency is also undesirable from a macroeconomic and financial stability perspective. Therefore, in order to smooth out the effects of the volatility in capital flows, credits should grow at plausible rates and developments in the foreign exchange rate should be consistent with economic fundamentals. The policy framework developed by the CBRT in the last couple of years should be considered from this viewpoint.

6. In short, opting for an alternative policy design that takes financial stability into account since late 2010, the CBRT has diversified its set of instruments. Accordingly, the CBRT developed novel instruments such as the interest rate corridor and the Reserve Option Mechanism in the last couple of years to bolster financial stability without prejudice to price stability.¹

New Policy Instruments

Interest Rate Corridor

7. Monetary policy practices of the CBRT entail the employment of various instruments to affect market rates and liquidity. Through these instruments, fund-needing banks in the market can be provided with short term (in daily, weekly or monthly maturities) liquidity; while those banks with excess funds can lend these funds at an overnight maturity. The margin between the overnight lending and borrowing rates of the CBRT is defined as the “interest rate corridor”. As a requirement of the operational structure, market rates are formed within the interest rate corridor. Meanwhile, under the current structure, as the CBRT provides funding mainly through weekly repo transactions, one-week repo funding rate is called the “policy rate”. Policy rate and the interest rate corridor are revised in the monthly Monetary Policy Committee (MPC) Meetings and announced to the public.
8. Many central banks that implement traditional inflation targeting regime employ the interest rate corridor. Nevertheless, in the traditional structure, rather than being an instrument by itself, the interest rate corridor is usually resorted to with an aim to preventing market rates from significantly deviating from the policy rate.

¹ For details of the design and implementation of the new policy framework, see Başçı and Kara (2011), “Financial Stability and Monetary Policy”, CBRT Working Paper No:11/08; Kara (2012), “Monetary policy in Turkey after the Global Crisis”, CBRT Working Paper No: 12/17.

Accordingly, the interest rate corridor is defined as a symmetrical (generally constant) and a narrow band around the policy rate. In other words, the interest rate corridor assumes a passive role. On the other hand, the CBRT's current system considers the interest rate corridor as an active instrument: The CBRT can adjust the width of the interest rate corridor when necessary, and at the same time can adjust the corridor around the policy rate in an asymmetrical way. In this structure, the interest rate corridor not only facilitates a faster and more flexible reaction to the volatility in short term capital movements, but also can be used as an effective instrument against credit growth.

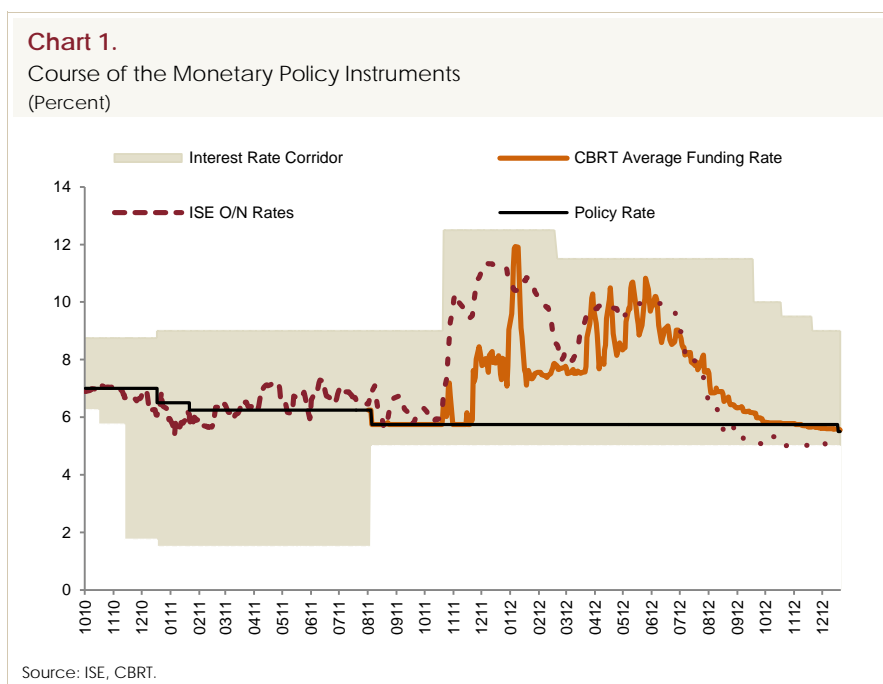
Reserve Option Mechanism

- 9.** The Reserve Option Mechanism (ROM), which is another instrument developed by the CBRT, mainly aims at reducing the adverse impact of the excessive volatility in capital movements on the macroeconomic and financial stability.² By allowing the banks to hold a certain portion of the TL required reserves in foreign exchange (FX) and gold, this mechanism, ensures them to hold foreign exchange and gold reserves voluntarily. Providing the banks with the flexibility to adjust their foreign exchange reserves held at the Central Bank depending on the changes in external financing conditions is expected to alleviate the volatility led by capital flows on the exchange rate and credit volumes. Furthermore, implementation of the ROM will also help the gold savings under the mattress circulate in the economy.
- 10.** The CBRT designed the ROM mainly as an “automatic stabilizer” (in a way that banks can internally adjust the utilization rates of reserve option against external shocks). As this concept enables each bank to make its own optimization given its own constraints, the ROM is considered to be more efficient in an economic sense compared to other instruments used in FX liquidity management. Moreover, parameters of the system can also be used as a cyclical instrument to adapt to permanent changes in domestic and external environment when necessary.

² Alper, Kara and Yörükoğlu (2012) describes the general framework of this mechanism (Alper, K., H. Kara and M. Yörükoğlu (2012). “Reserve Option Mechanism”, The CBRT Research Notes in Economics, No:12/28). Küçükşaraç and Özel (2012) offers a complementary technical analysis regarding the reserve option coefficients (Küçükşaraç D. and Ö. Özel (2012). “Reserve Option Mechanism and Computation of Optimal Reserve Option Coefficients”, CBRT Working Paper, No: 12/32).

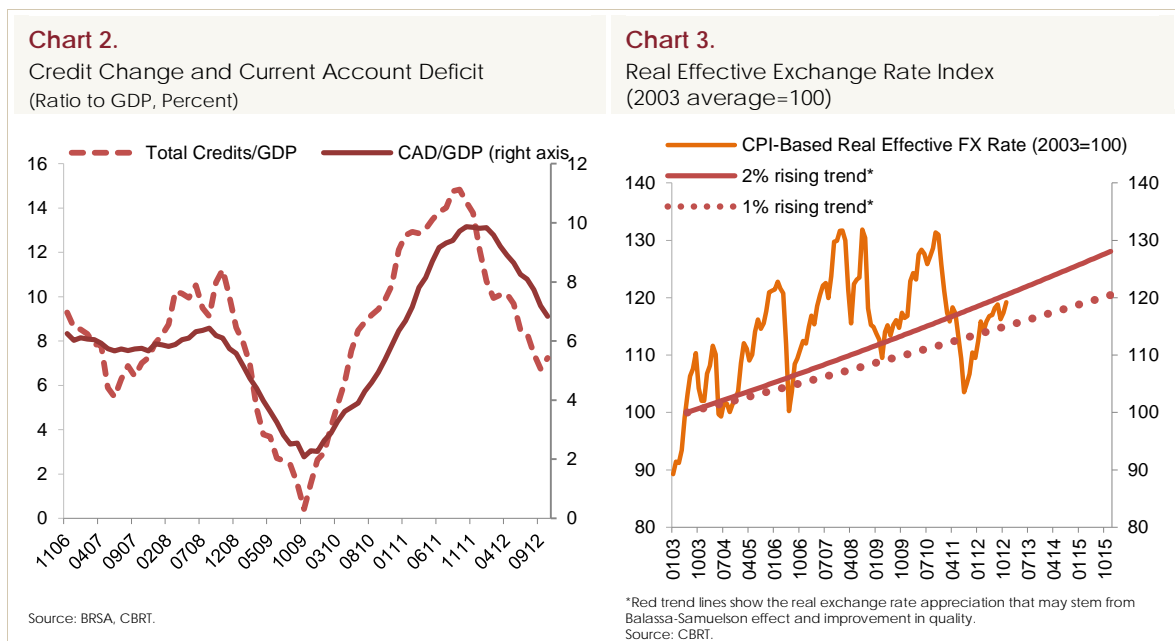
Implementation and Outcomes of the New Policy Mix

11. Following the rapid credit growth trend accompanied by the excessive appreciation of the TL and the deteriorating trend in the current account balance in 2010, the CBRT has focused on reducing macro financial risks since late 2010. In order to contain the deterioration in the current account deficit and provide the economy with a healthier growth composition, the CBRT aimed for a slowdown in credit growth and a re-alignment of the Turkish lira with economic fundamentals. To ensure a slowdown in credits, policy instruments were utilized such as required reserve ratios, liquidity policy, risk weighting of loans, general provisions and loan to value ratio in coordination with other authorities. In order to eliminate the excessive appreciation in the TL, policy rates were reduced and the interest rate corridor was widened downwards to allow a volatile course in the short-term market rates (Chart 1).



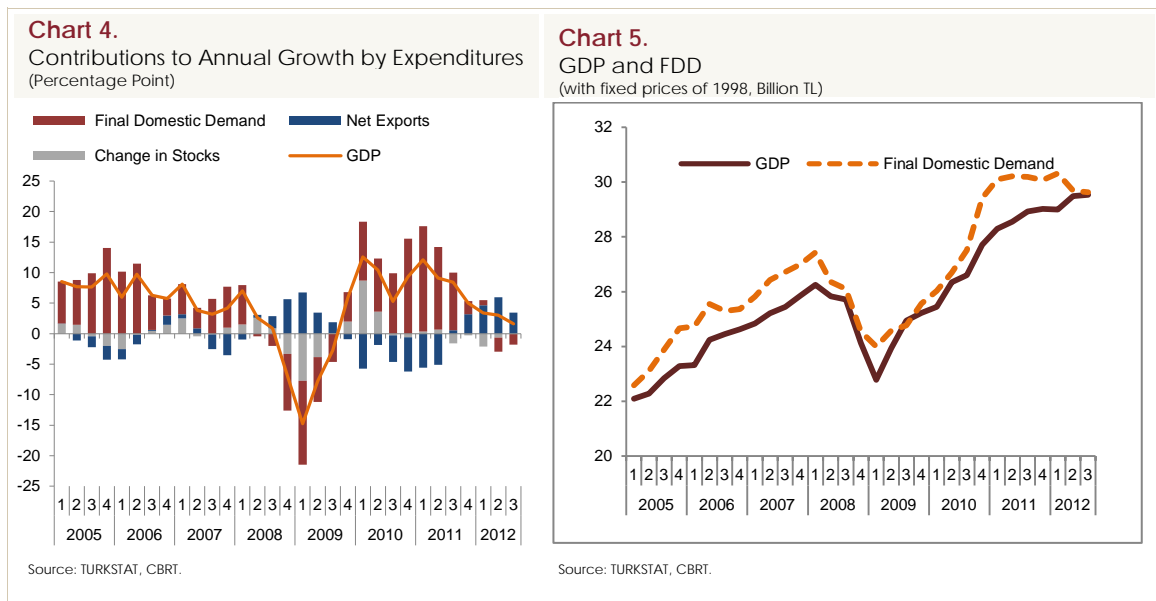
12. Implementation of these policies primarily eliminated the excessive appreciation pressure on the exchange rate, and pulled down credit growth rate to reasonable and healthy levels. The net borrowing of households and firms per aggregate income (change in credit stock/GDP) has receded to levels compatible with financial stability since mid-2011, and the current account balance has exhibited a stable improvement (Chart 2). However, during the second half of 2011, the depreciation in the Turkish lira reached to

undesirable levels after the abrupt deterioration in the global risk appetite following the intensification of the Euro area sovereign debt problems. Thanks to the monetary tightening implemented since the last quarter of 2011, the excessive depreciation in the exchange rate was eliminated (Chart 3). It should be noted that in countries going through real convergence process like Turkey, it is natural to have a slight appreciation trend in the real exchange rate (as illustrated by sample trend lines in Chart 3), through the Balassa-Samuelson effect or quality improvement in goods and services.³



13. Slowdown in credit growth accompanied by the elimination of the excessive appreciation in the Turkish lira led to a change in the growth composition in favor of net exports. Accordingly, final domestic demand has been following a flat course since the second half of 2011, while the GDP has continued to grow with the notable increase in the contribution of net exports (Charts 4 and 5). Thus, the economy assumed a rebalancing process, and macro-financial risks were contained.

³ Arslan and Ceritoğlu (2011) analyze the effect of quality growth on the measured inflation rate (Arslan Y. and E. Ceritoğlu (2011). "Quality Growth versus Inflation in Turkey", CBRT Working Paper, No11/21.



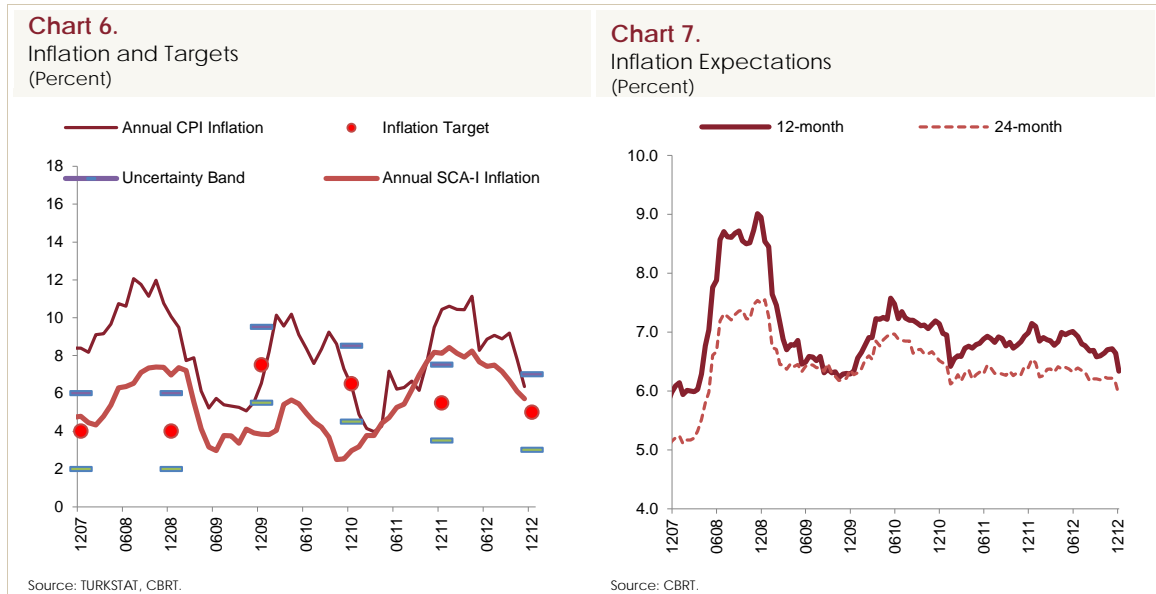
14. As of early 2012, global risk appetite has gradually recovered, and the rebalancing process in the economy has become more pronounced. In view of achieving price stability, the CBRT sustained tight liquidity policy in the first half of the year considering the upside risks to the pricing behavior. As inflation came down, the monetary policy gradually assumed a more accommodative role in the second half through an expansionary liquidity policy. As a consequence, short-term money market rates moved closer to the lower limit of the corridor as of the midst of the year. Following September, decisions taken by the European Central Bank reduced the tail risks. Moreover, the Reserve Option Mechanism was implemented more effectively. Considered together, these developments facilitated a gradual lowering in the upper limit of the interest rate corridor.⁴ In December, the CBRT slightly reduced the policy rate while introducing a modest tightening for reserve requirements in order to balance the risks posed by the accelerating capital inflows.

15. While focusing on containing macro financial risks, the CBRT did not compromise its goal of achieving price stability. Although inflation moved to double digit rates due to the depreciation in the Turkish lira and the increases in commodity prices in 2011, inflation expectations were contained, thanks to the tight monetary stance of the CBRT and its effective communication policy (Charts 6 and 7).⁵ As

⁴ Aggregated scheme of the monetary policy decisions taken in 2012 is presented in Annex 1.

⁵ Başkaya, Gülşen and (2012) point that communication of the monetary policy plays an important role in the stable behavior of inflation expectations during this period (Başkaya S., E. Gülşen and H. Kara. "Inflation Expectations and Central Bank Communication in Turkey", The CBRT Research Notes in Economics, No: 12/12).

cost-push factors receded in time, inflation exhibited a stable downward trend throughout 2012 and has recently converged to the targeted levels.



- 16.** In short, monetary and credit policies implemented for the last couple of years offered significant contributions to the rebalancing process in the economy and thereby alleviated financial and macroeconomic risks. 2011 proved to be the year for the design and implementation of the new policy, and 2012 reaped what was sown in 2011. This period was marked by a more evident rebalancing process besides a stable disinflation trend. What is more, economic activity continued to grow at the same time.
- 17.** As for the policies to be implemented in 2013, the aim is to preserve and advance what has been achieved so far. Assuming that the volatility in import prices and exchange rate stays at low levels, no further deterioration occurs in the global economy, and fiscal discipline is maintained, inflation is expected to materialize at a level close to the target at the end of 2013. On the economic activity front, fuelled both by the accommodative monetary policy decisions taken as of the mid-2012 and the improvement in external financing conditions, domestic demand is expected to assume a stable growth trend in the forthcoming period.
- 18.** The flexible monetary policy adopted by the CBRT and other macroprudential measures taken by the authorities helped credit growth hover around more reasonable levels in terms of financial stability. An average annual rate of increase in credit around 15 percent in the forthcoming period will support price

stability and financial stability, and help the current account balance follow a sustainable course.

I. MONETARY POLICY STRATEGY IN 2013

Monetary Policy Instruments and Goals

- 19.** The main objective of the CBRT is to achieve and maintain price stability. To this end, as was the case for the 2013-2014 period, the inflation target for 2015 was set as 5 percent as per the agreement reached with the government during the preparation of the Medium Term Program (MTP).
- 20.** Being an element of the accountability of the Central Bank, the uncertainty band will be maintained at 2 percentage points in both directions, as usual. Should the inflation rate at the end of each quarter deviate from the year-end target by more than 2 percentage points, the reasons for the deviation as well as the measures taken and those that will be taken to achieve the target rate will be explained via the Inflation Report. The Central Bank will submit an open letter to the government should inflation at the end of the year realize outside the uncertainty band.
- 21.** While aiming at keeping inflation at close levels to the target, the CBRT continues to safeguard financial stability from a macro perspective. In this context, the CBRT will maintain its strategy to contain the volatility led by capital flows on domestic economy. Therefore, the CBRT will not disregard excessively rapid changes in credit or significant exchange rate misalignments. In sum, without prejudice to the price stability, risks to excessive borrowing and macroeconomic imbalances will be taken into consideration in the conduct of monetary policy.
- 22.** So as to achieve price stability and financial stability, instruments developed under the new policy context will remain effective alongside the traditional instruments in the forthcoming period. Accordingly, instruments like policy rate, interest rate corridor, liquidity management, required reserve ratios and ROM will continue to be a part of the toolkit of monetary policy. Moreover, to enhance the

transmission of credit and exchange rate channels, communication channel will be put into use as a supportive instrument when necessary.

Communication Instruments and the Decision Taking Process

- 23.** Main communication documents of the monetary policy are the Inflation Report and Monetary Policy Committee (MPC) announcements. The Inflation Report will be published on a quarterly basis as usual. The MPC will continue to hold monthly meetings based on a pre-announced schedule. The monetary policy decision and the brief statement explaining its rationale will be announced on the CBRT website at 2 p.m. on the day of the MPC meeting. The summary of the MPC meeting that entails detailed assessments of the Committee will be released on the CBRT website within five working days following the MPC meeting⁶. The Report will be presented at press conferences to be held two times in Ankara and two times Istanbul in order to enhance the effectiveness of communication.
- 24.** Financial Stability Report will remain as a significant means of communication of the CBRT in the upcoming period. Furthermore, announcements regarding the monetary and exchange rate policy frameworks, biannual presentations given by the Governor before the Council of Ministers and the Planning and Budget Commission of the Grand National Assembly of Turkey, “Monthly Price Developments” reports released on the subsequent working day of the announcement of the inflation data, meetings with the economists, presentations and speeches delivered by the CBRT officials in Turkey and abroad, and other press releases will play an important role in communicating with the public. Working papers, booklets, research notes in economics, conferences and workshops held by the CBRT will also remain as major components of the communication policy.

⁶ Calendar for the MPC meetings and publication of reports in 2013 is presented in Annex 2.

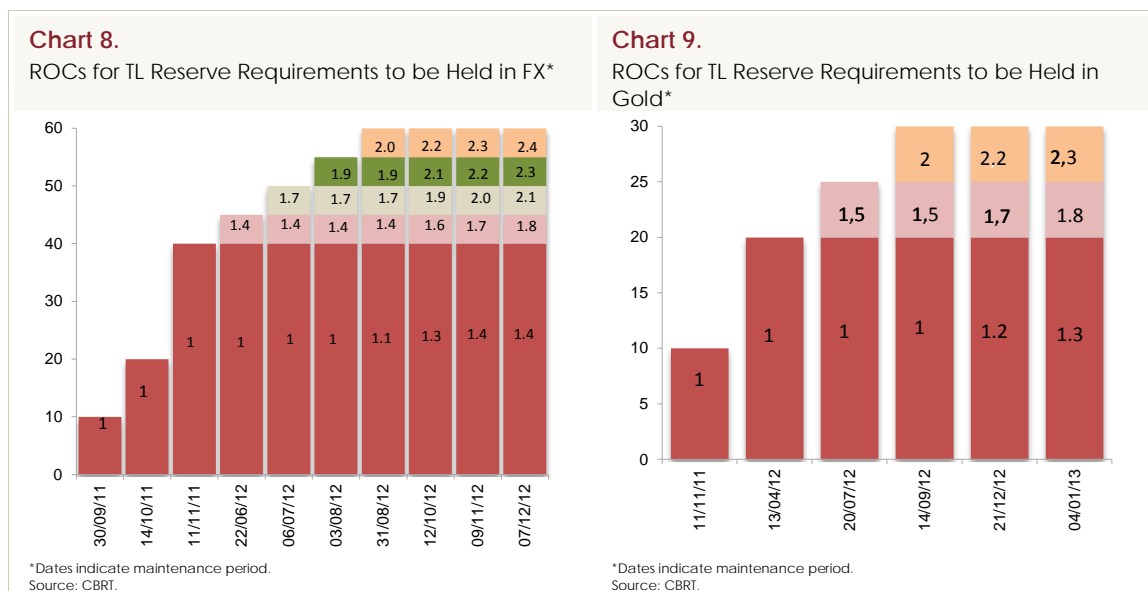
II. OPERATIONAL FRAMEWORK REGARDING EXCHANGE RATES, LIQUIDITY POLICY AND FINANCIAL STABILITY

- 25.** As also stated in the first chapter, the CBRT jointly employs multiple instruments in order to implement a monetary policy strategy that safeguards financial stability without prejudice to the price stability. Accordingly, in 2011 and 2012 instruments like required reserves, the reserve option mechanism (ROM), interest rate corridor and liquidity management were extensively used alongside the one-week repo auction rate, which is the main monetary policy instrument. This chapter mentions the arrangements regarding financial intermediary and Turkish lira liquidity management to bolster financial stability in 2012 and also presents the operational framework for the contemplated policies for 2013.
- 26.** Before moving on to the developments regarding the foreign exchange rate and Turkish lira liquidity, the practice of ROM should be elaborated on as it is the most recent instrument developed by the CBRT and it directly affects liquidity conditions in the market.

Implementations Regarding the Reserve Option Mechanism

- 27.** With a view to bolstering the maintenance of the banking system's FX reserves in a timely, controlled and effective manner, reducing the adverse impact of volatile capital flows on the macroeconomic and financial stability, and bringing in 'under the mattress' gold to the economy, the Reserve Option Mechanism (ROM) has been developed as a monetary policy instrument.
- 28.** The ROM enables the banks to keep a certain ratio of TL reserve requirements in FX and gold. The coefficients showing the amount of FX or gold to be held per unit of TL reserve requirements are defined as the Reserve Option Coefficients (ROC). Since the changes in the facility provided by the ROM as well as those in the ROC influence the ratio of TL reserves held in FX, this policy directly affects the TL and FX liquidity management.
- 29.** Since the ROM is a brand new policy, it is constructed gradually. As a first step, banks were allowed to hold a fraction of their Turkish lira reserve requirements as FX in September 2011, and as gold in October 2011. These fractions were set as 10% initially and gradually raised depending on the market conditions. Limits were

set as 60 percent for FX and 30 percent for gold with the latest revisions in August 2012. ROC was set for the first tranche corresponding to 40 percent and for each additional 5 percent tranches on an increasing scale between 1.4 and 2.4 for FX, and for the first 20 percent and for subsequent 5 percent tranches between 1.3 and 2.3 for gold (Charts 8 and 9).

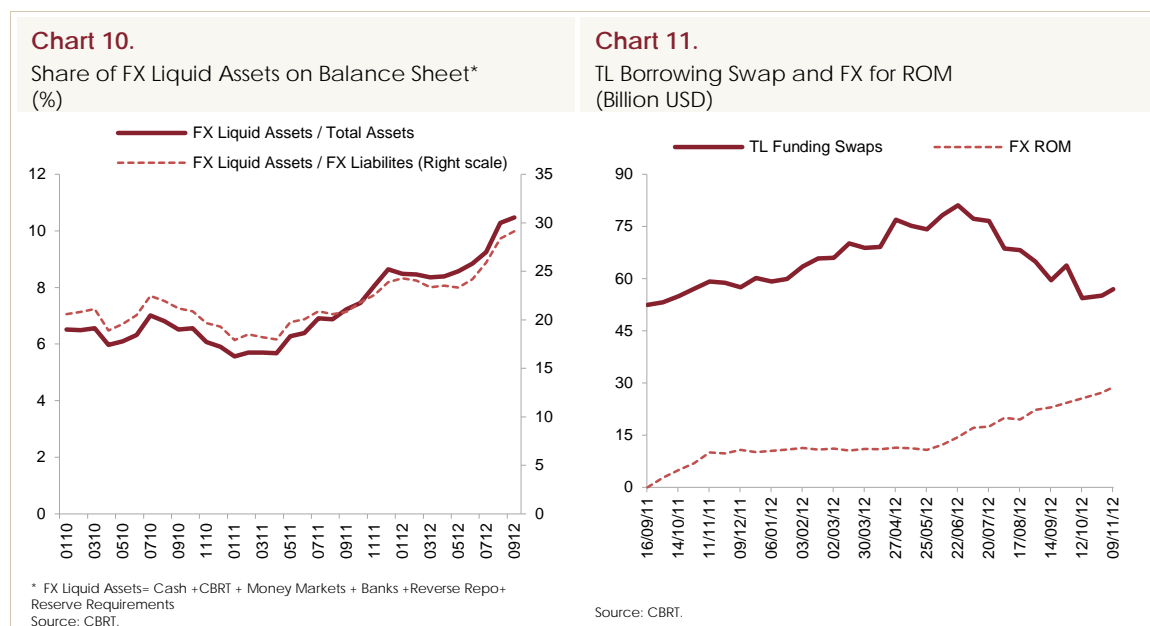


30. Although banks are provided with the facility to meet the TL reserve requirements at a lower cost by the ROM, the extent to which they will make use of this facility varies depending on the relative cost of FX and TL funding. Currently, banks are using the facility at high rates and in a stable manner.

31. Owing to the ROM, the amount held in TL at the CBRT's free accounts against TL reserve requirements declined; while the FX reserves held in blocked accounts increased. Consequently, repo borrowing from the CBRT and the TL liquidity gap in the markets decreased. This decline led the TL interest costs of banks to go down, affecting their net interest incomes positively. Owing to the extensive use of the ROM, the share of banks' FX liquid and equivalent assets in the balance sheet and the coverage ratio of these assets of FX liabilities expanded (Chart 10).

32. A certain part of the amount held in FX and gold for the reserve requirements was financed by liquid assets, and a significant portion was financed by FX borrowing. The ROM led to an elevation of FX holdings. In addition, borrowing swap operations in TL made to meet the banks' TL liquidity requirement went down

(Chart 11) and their average maturity was extended, which also put a cap on the credit growth.



33. The ROM bolsters Turkey’s FX reserves through the banks in a way that enhances the financial stability. Increasing share of banks in gross reserves enables the reserves to be utilized more efficiently against short term capital movements, which, in turn enhances the resilience and efficiency of the financial system. The volatility of short-term capital movements adversely affects the balance sheets besides the debt coverage capacity of the banks. Thus, higher share of banks in gross reserves and optimum use of this share depending on the nature of the shocks improves the efficiency of the financial system in economic terms.

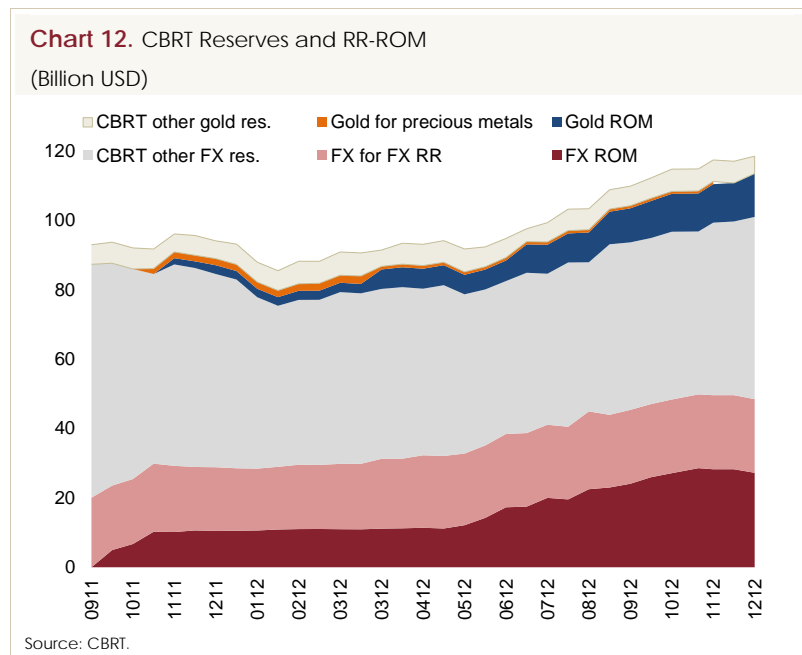
37. Export rediscount credits are extended in Turkish lira with the maturity of 120 days through the acceptance of FX bills for rediscount; and they are repaid to the CBRT in FX.

38. Considering the contribution of export rediscount credits in reducing the current account deficit and strengthening the CBRT’s FX reserves, credit limits were raised several times across the year as follows:

- a. by USD 1.5 billion to USD 4.5 billion on 2 January 2012.
- b. by USD 1 billion to USD 5.5 billion on 9 May 2012.
- c. by USD 500 million to USD 6 billion on 4 December 2012.

Furthermore, lending conditions were eased in 2012. Accordingly, the overall amount of utilized export rediscount credits went up from USD 3.1 billion in 2011 to USD 10.2 billion on 21 December 2012, with an outstanding balance of USD 3.7 billion. As a result, in 2012, export rediscount credits added USD 8.3 billion to the CBRT's net FX reserves.

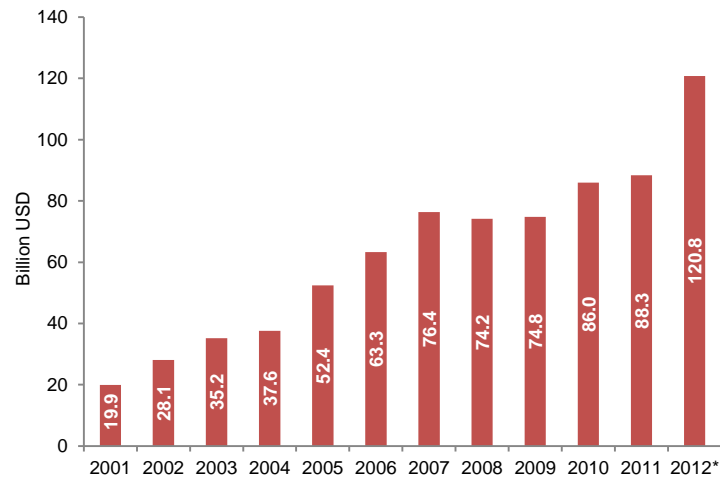
39. The ROM does not change the CBRT's net foreign exchange reserves, but increases its gross reserves. The TL reserve requirements held in FX increased from USD 10.3 billion in end-2011 to USD 27.2 billion on 21 December 2012. Additionally, the TL reserve requirements held in gold went up from USD 2.3 billion to USD 12.5 billion. Thus, the CBRT's gross reserves climbed to approximately USD 120.8 billion by 21 December 2012 (Chart 12).



40. The total accumulation of reserves under the floating exchange rate regime implemented since 2001 exceeded USD 100 billion (Chart 13).

Chart 13.

CBRT Gross Foreign Exchange Reserves
(Inc. Gold)



* By 21 December 2012

Source: CBRT

41. On the other hand, the lending rate for transactions, which the CBRT is a party to, was sustained at 4.5 percent for USD and 5.5 percent for euro in 2012. The CBRT continued to act as an intermediary for FX deposits in 2012, which was resumed on 10 November 2011.

Exchange Rate Policy in 2013

42. The CBRT will continue to implement floating exchange rate regime in 2013. The foreign exchange rate is determined by supply and demand conditions in the market under the floating exchange rate regime. Main determinants of FX supply and demand are the monetary and fiscal policies in practice, economic fundamentals, international developments and expectations. The CBRT does not have a nominal or real exchange rate target under the current exchange rate regime. Nonetheless, with a view to limiting the risks to the financial stability, the CBRT does not remain unresponsive to the excessive appreciation or depreciation of the Turkish lira. Accordingly, changes in the real effective exchange rate indices are closely monitored and policy measures are taken to support financial stability, when necessary.

43. The Reserve Option Mechanism (ROM), which was almost completed in 2012, increases the resilience of the banking system to internal and external shocks by facilitating a more flexible FX liquidity management for the banking sector. Therefore, it should be emphasized that this mechanism reduces the need both

for FX auctions and direct interventions. The ROM will be used as a supportive monetary policy instrument in 2013, depending on global growth conditions and short term capital movements.

- 44.** Intraday FX selling auctions were resumed on 6 January 2012 and were lastly held on 9 January 2012, and have not been held since then as the need did not arise. Therefore, these auctions will be suspended as of 2 January 2013.
- 45.** No FX buying auctions will be held in 2013 unless exceptional circumstances arise.
- 46.** The CBRT will continue to extend export rediscount credits in 2013. If the monthly utilization levels are sustained due to a rise in export rediscount credit limits and borrowing procedures are eased in view of the supportive effect of the export rediscount credits on reserves, export rediscount credits are expected to add around USD 12 billion to FX reserves in 2013.
- 47.** Considering the recent improvements in global liquidity conditions and increased liquidity in FX markets, the maturity of the FX deposits that the banks can borrow from the CBRT within their borrowing limits is lowered from one month to one week, and the lending rate for transactions in the mentioned market, which the CBRT is a party to, was raised to 10 percent for both USD and Euro (from 4.5 percent for USD and 5.5 percent for Euro) on 25 December 2012. Additionally, the CBRT will suspend its intermediary functions in FX deposit market as of 2 January 2013.
- 48.** The CBRT will continue to closely monitor FX supply and demand conditions and will take the necessary measures to ensure the healthy functioning of the FX market and to support the foreign exchange liquidity in 2013 as usual.
- 49.** The CBRT may directly intervene in the market in both directions, in case of unhealthy price formations due to speculative behavior stemming from a loss in the market depth.
- 50.** Moreover, transactions of foreign exchange against foreign exchange banknotes conducted between the CBRT and those institutions entitled to operate in the Foreign Exchange and Banknotes Markets will continue in 2013.

51. In view of the fact that financial stability is one of the prerequisites for price stability, the CBRT has always taken the necessary measures in order to ensure the efficient functioning of the foreign exchange markets in Turkey and will continue to do so. However, it has to be underlined that under the current exchange rate regime, the CBRT does not have any commitments regarding exchange rates. Accordingly, it has to be kept in mind that economic agents should establish and employ mechanisms that will ensure efficient risk management.

TURKISH LIRA LIQUIDITY MANAGEMENT

Decisions on the Interest Rate and Liquidity Policy

52. Inflation has surged due to the excessive depreciation of the TL amid the worsening global risk appetite since August 2011, coupled with soaring unprocessed food prices and hikes in administered/directed goods prices in the last quarter of 2011. The CBRT widened the interest rate corridor upwards in October by increasing its overnight lending rate by 350 bps in order to prevent these developments from deteriorating the pricing behavior. To this end, the amount of OMO (Open Market Operations) funding provided by one-week repo auctions was reduced; which facilitated banks to meet their funding requirements from sources of higher costs within the widened band (additional monetary tightening).

53. In order to avoid any undesired tightening in credit conditions, TL reserve requirement ratios were lowered and due to the gradual introduction of the ROM, the TL liquidity need of the banking system was reduced permanently. In addition, to provide the banks with more flexibility in liquidity management, one-month repo auctions were launched on 27 December 2011.

54. Subsequent to the measures taken in October, in order to prevent second-round effects on inflation, the CBRT implemented additional monetary tightening during eight days as of 29 December 2011. Accordingly, funding at the policy rate was suspended temporarily and weekly funding was provided through intra-day repo auctions via the traditional auction method. On those days, transactions at the ISE and the Interbank Money Market made at the CBRT's lending rate and primary

dealer repo interest rate within the CBRT led the money market interest rate to be close to the upper band of the CBRT's interest rate corridor.

- 55.** In order to avoid deterioration of expectations due to the rise in oil prices and other cost factors, additional monetary tightening was implemented during six days from 22 to 29 March 2012. At the MPC Meeting held on 27 March 2012, the CBRT emphasized that factors affecting inflation would be monitored closely and additional monetary tightening might be repeated, if deemed necessary. Accordingly, additional monetary tightening was put into force in 2012 from April 11 to 17, from May 4 to 11, from May 21 to 25 and from May 31 to June 4. Contributing to the elimination of excessive exchange rate volatility, these monetary tightening operations supported price stability and financial stability.⁷
- 56.** Due to the increase in global risk appetite, improvement in the inflation outlook besides the more evident stabilization process in the economy, monetary policy has gradually proved more supportive since the midst of 2012. Accordingly, the CBRT has reduced the average cost of funding gradually by injecting more liquidity to the market from June onwards.
- 57.** Moreover, considering the partial improvement in the risk perception in global financial markets and the mild course of increase in credits since September, the Committee reduced the overnight lending interest rate from 11.5 percent to 10 percent in September, to 9.5 percent in October and to 9 percent in November. With a view to bolstering financial stability, the Committee also slightly reduced the policy rate by 25 basis points to 5.50 percent in December. The CBRT's weighted average cost of funding remained close to the level of the policy rate in December.

General Principles of Liquidity Management

- 58.** While setting the framework of liquidity management, the CBRT targets the followings:
- i) maintaining the level of short term interest rates within the interest rate corridor and around the level determined by the Committee,

⁷ Akçelik Y., E. Ermişoğlu, A. Oduncu ve T. Taşkın (2012). "Ek Parasal Sıkılaştırma'nın Döviz Kurları Üzerindeki Etkisi", The CBRT Research Notes in Economics, No: 12/30.

- ii) ensuring the efficient and stable operation of money markets in accordance with the liquidity management strategy,
- iii) ensuring the smooth functioning of payment systems,
- iv) ensuring that the instruments in use support the efficiency of the monetary policy,
- v) having an operational structure with sufficient flexibility against unexpected developments in the markets.

In order to attain these objectives and enhance the efficiency of the monetary policy, the liquidity level in the market and the distribution of liquidity in the banking system are also taken into consideration while formulating the outline of the liquidity management.

59. Types and maturities of liquidity management instruments are determined in view of the liquidity level in the market besides the economic conjuncture. So long as the liquidity surplus or liquidity shortage in the market remains at reasonable levels, liquidity management can merely be implemented through OMO with overnight or one-week maturities. However, if the liquidity surplus or shortage reaches excessive levels, the monetary policy transmission mechanism may deteriorate. When the liquidity surplus proves excessive, the banking system may ease credit conditions leading to a rapid growth in credits. However, if the liquidity shortage reaches excessive levels, as the funding will concentrate on short-term maturities, the banking system may act extremely cautiously and tighten credit conditions, leading to a less effective monetary policy. Accordingly, the diversification of both instruments and their maturities depending on the level of liquidity enhances the efficiency of liquidity management.

Factors Affecting the Liquidity and Liquidity Developments in 2012

60. Liquidity in the market is mainly determined by the following factors:

- i) Changes in monetary base,
 - a. Changes in the volume of currency issued,

b. Changes in banks' TL free deposits (Due to the fact that almost all of these accounts consist of required reserves, changes in TL reserve requirements, the ROC scheme, and the utilization rate of the ROM directly affect the said item).

ii) The CBRT's transactions against TL in the market,

a. Net foreign exchange purchase/sale transactions against TL,

b. Interests paid/earned, current expenditures,

c. Export rediscount credits (extended in TL, collected in FX),

d. Government securities (GDDS) and Lease Certificate purchase/sale transactions in the market.

iii) The Treasury's transactions against TL,

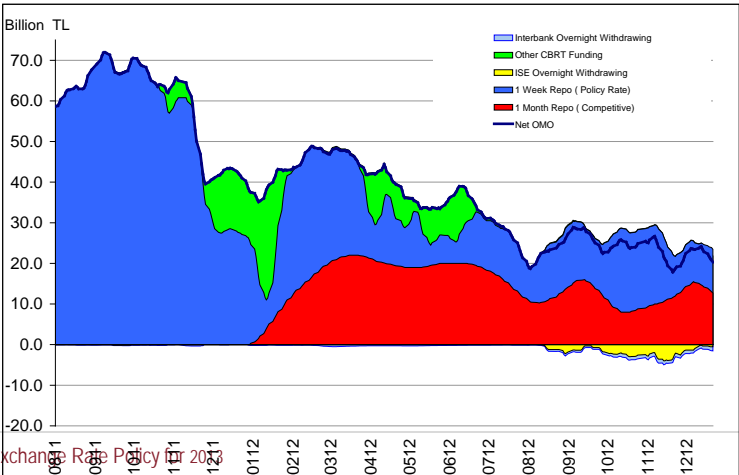
a. The difference between the redemption and issuance of net TL government bonds and lease certificates, excluding redemptions to the CBRT,

b. Primary surplus/deficit inflows/outflows,

c. Privatization and Savings Deposit Insurance Fund (SDIF)-related TL transfers and other public transactions.

61. Meanwhile, as they determine the TL-denominated borrowing requirement, the Treasury's net FX-denominated collections or payments including domestic and external borrowing, the Treasury's redemption to the CBRT and the CBRT's profit transfers indirectly affect the liquidity in the market (Chart 14).

Chart 14. Liquidity in the Market (Two-week moving average)



62. The net liquidity gap in the market became TL 39.0 billion in end-2011. The CBRT provided the market with TL 15.0 billion through one-week quantity repo auctions; TL 17.0 billion through one-week traditional repo auctions; TL 3 billion through one-month traditional repo auctions; TL 4.6 billion through primary dealer repo facility at overnight maturity and repo transactions at the ISE. At the end of the day, the CBRT withdrew TL 0.5 billion via Interbank Money Market transactions. On 21 December 2012, the net liquidity gap in the market was TL 18.6 billion, and the CBRT funded the market with TL 8.6 billion through one-week quantity repo auctions; TL 11 billion through one-month traditional repo auctions; and at the end of the day, the CBRT withdrew TL 0.9 billion via overnight Interbank Money Market transactions (Table 3).

Table 3: Change in Liquidity and Funding by the CBRT (Billion TL)

	30.12.2011	21.12.2012	Change
Liquidity Gap in the Market	39.0	18.6	-20.4
Funding by 1-week Repo Auctions	32.0	8.6	-23.4
Funding by 1-month Repo Auctions	3.0	11.0	8.0
Overnight Funding in OMO, IMM and ISE	4.6	0.0	-4.6
Overnight Withdrawal at the IMM and ISE	-0.5	-0.9	-0.4

63. Based on provisional data, the main items that affected liquidity in the market in 2012 are listed in Table 4.

Table 4: Items Affecting Liquidity (Billion TL)

	30.12.2011	21.12.2012	Impact
Monetary Base	83.9	74.8	9.1
Currency Issued	55.1	60.9	-5.8
Free Deposits	28.8	13.8	14.9
CBRT Transactions Affecting Liquidity			16.1
Net FX Sales to the Market Against TL			-4.8

CBRT Interest Collections and Other Payments			-1.8
CBRT GDDS Purchases			4.4
Export Rediscount Credits			18.3
Public Transactions (Excluding Redemptions to the CBRT)			-4.8
Net GDDS Redemptions in TL (Redemption-Issuance)			11.2
Primary Surplus			-14.5
Privatization in TL and Other Transactions			1.5

64. Accordingly, in the 2 January – 21 December 2012 period, due to the increase in the monetary base besides the CBRT’s transactions, liquidity increased by TL 9.1 billion and TL 16.1 billion, respectively; whereas it decreased due to the Treasury’s transactions by TL 4.8 billion.

Liquidity Policy in 2013 and the Operational Framework

65. Major factors influencing liquidity conditions in the market in 2013 are export rediscount credits extended by the CBRT, change in the monetary base (including the effects of the change in the ROM facility and utilization rate of this facility by the banks), the difference between redemption-issuance of GDDS against TL by the Treasury and lease certificates in TL and the amount of the CBRT’s FX purchase/sale transactions against TL. It is quite likely that rapid changes in the global market outlook of and the risk appetite can lead to sizeable fluctuations in capital inflows towards emerging economies including Turkey. Therefore, uncertainties regarding the utilization of the ROM facility by the banks, and/or the amount of the FX purchase/sales transactions of the CBRT with the market against TL are challenges against clear-cut projections on liquidity conditions in 2013. However, the liquidity gap in the market is envisaged to remain at manageable levels during 2013.

66. Considering all possibilities in liquidity conditions, to be able to control interest rates at the ISE Repo-Reverse Repo Market and the Interbank Repo - Reverse Repo Market and to preserve instrument variety for liquidity management and operational flexibility, the CBRT needs to hold sufficient amount of GDDS and lease certificates, issued by the Asset Leasing Company of the Turkish Treasury

in its open market operations portfolio. Accordingly, in order to minimize operational risks, total nominal amount of the portfolio, which was TL 8.2 billion on 25 December 2012, will be raised to TL 9 billion during 2013. In total, TL 5.4 billion of the current portfolio in nominal terms will be due in 2013. Hence, a nominal sum of securities of TL 6.2 billion is planned to be purchased in 2013. Nevertheless, the right to make additional purchases in case of extreme liquidity shortage is reserved. Accordingly;

- i) Purchases will be performed in months deemed appropriate in 2013 with GDDS or lease certificates to be announced on the Reuters “CBTL” page at 10:00 a.m. on the first working day of the respective month,
- ii) Buying auctions will be held on Wednesdays and Fridays with value dates as the subsequent working days,
- iii) Each auction amount will be nominal TL 100 million at most,
- iv) Other issues related to the auctions will be subject to the current arrangements.

67. The operational framework for the liquidity management of the CBRT for 2013 is formulated as follows:

- i) The CBRT will continue to announce overnight borrowing and lending rates between 10:00 a.m.- 12:00 p.m. and 1:00 p.m. – 4:00 p.m. on working days, between 10:00 a.m.– 12:00 p.m. on half working days, in the Interbank Money Market within the CBRT. In case of liquidity shortages that might arise during the day, banks will be able to borrow at the CBRT’s lending rate against collateral within their limits. In case of excess liquidity, banks will be able to lend Turkish lira to the CBRT at the CBRT’s borrowing rate without any limit.
- ii) The Late Liquidity Window Facility (LON) will continue as currently practiced; banks will be able to borrow from the CBRT against collateral, and lend to the CBRT without any limit between 4:00 p.m. – 5:00 p.m. on working days, between 12:00 p.m. – 12:30 p.m. on half working days and on the last working day of the required reserve maintenance period

between 4:00 p.m. – 5:15 p.m. on working days, between 12:00 p.m. – 12:45 p.m. on half working days.

- iii) The one-week repo auction rate will remain as the policy rate and the CBRT will continue to hold one-week repo auctions as long as the market needs liquidity. Moreover, the interest rate corridor, which was actively used in 2012, will be employed in 2013 as well. Accordingly, the amount of Turkish lira funding through one-week repo auctions will be adjusted downwards or upwards, when deemed necessary.
- iv) One-week repo auctions will continue to be held at the interest rate set by the Committee for one-week repo auctions via the quantity auction method. In this context, to be effective from January 2, 2013, the total amount of bids to be offered by each institution was increased to maximum 30 percent of the announced auction amount. In order to enhance the predictability of the liquidity management, following each MPC meeting, the CBRT will continue to announce the lower and upper limits of daily funding amount via quantity auctions to be effective until the next MPC meeting. On the other hand, due to the lack of an informative value, announcements on minimum funding amount to be provided via one-week repo auctions will be terminated as of 2 January 2013.
- v) With a view to supporting the effectiveness of the liquidity management, in addition to one-week repo auctions, the CBRT will continue to hold one-month (four weeks) repo auctions every Friday. One-month repo auctions will continue to be held through the traditional method. The total amount of bids to be submitted by the banks will be limited to the announced auction amount. Moreover, information about the upper limit of the amounts of the auctions to be announced for each auction will be regularly released to the public. The funding maturity, which is one-month, can be extended up to three months or one-month repo auctions might be terminated, if required due to global conditions.
- vi) When the market needs funding, the CBRT will announce the repo auction amount on the Reuters “CBTF” at 10:00 a.m., and when funding

is not needed, auctions may not be held. One-week and one month maturity repo auctions will be held at 11:00 a.m. on working days, at 10:30 a.m. on half working days and the results will be announced on the Reuters' "CBTG" page within 30 minutes. Institutions are required to notify the securities against their repo operations until 12:00 p.m. on working days, until 11:30 a.m. on half working days and fulfill their liabilities regarding open market operations until 4:45 p.m. on working days, until 12:30 p.m. on half working days.

vii) If deemed necessary, "Intraday Repo Auctions" with one-week maturity via traditional auction method may be announced. The total amount of bids to be submitted will be limited to the announced auction amount.

viii) The CBRT will continue to announce overnight interest rates within the interest rate corridor on a daily basis at ISE - Reverse Repo Market and Interbank Repo - Reverse Repo Market.

ix) Primary dealers will be able to conduct overnight repo transactions under the scope of the OMO, between 10:00 a.m.–12:00 p.m. and 1:00 p.m.– 4:00 p.m. on working days and between 10:00 a.m.– 12:00 p.m. on half working days.

68. In the upcoming period, the CBRT may change its liquidity management strategy according to the emerging needs as usual. In this scope, to bolster the efficiency of interest rates on one-week repo auctions, which is the main monetary policy instrument, and to contain the risks on financial stability, the CBRT will continue to utilize other instruments like borrowing and lending interest rates corridor and required reserves.

III. STRUCTURAL REGULATIONS REGARDING THE BANKING SECTOR AND FINANCIAL STABILITY

The Financial Stability Committee and the BRSA

69. The Banking Regulation and Supervision Agency (BRSA) adopted the Basel II, and the principles thereof were implemented by a prudential approach based on Turkey's financial circumstances. Coordinated structural measures taken by the Financial Stability Committee support financial stability and are of utmost significance.

Basel III and Leverage-Based Reserve Requirements (LBRR)

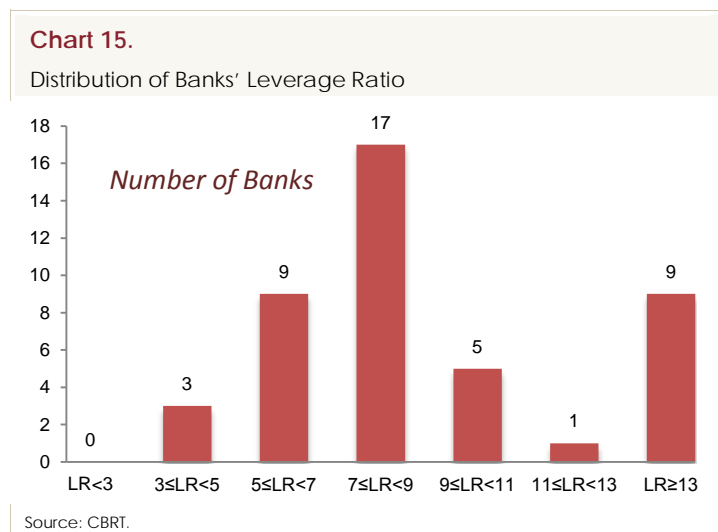
70. Extremely high debt level in the financial system is one of the main reasons of the global financial crisis. Economic literature shows that leverage is cyclical, triggers financial cycles, increases during financial expansion periods, and drops during contractions. As for the Turkish banking sector, higher asset growth is associated with higher leverage. Capital adequacy ratio might be insufficient to assess macro-financial risks in certain periods due to the calculation method of risk weights. The use of leverage ratio along with the Basel II capital adequacy ratio as a supportive instrument will curb the accumulation of risks that emanate from extreme leverage in the banking sector as well as the whole financial system.

71. In this context, as per the Basel III, the leverage ratio will be calculated as the ratio of Tier 1 capital to the sum of assets and off-balance sheet items that is calculated by using certain weights. The Basel Committee set the 2011-2012 period for supervisory monitoring, and the 2013-2017 period for reporting by the banks' to the authorities. In 2015, banks are expected to announce their leverage ratios, and the transition period until 2017 is contemplated to be the testing of leverage ratio of 3%. The mandatory leverage ratio rule will get the final shape based on the results of the parallel run and the Quantitative Impact Studies (QIS) and will be effective from 1 January 1 2018 at an international level.

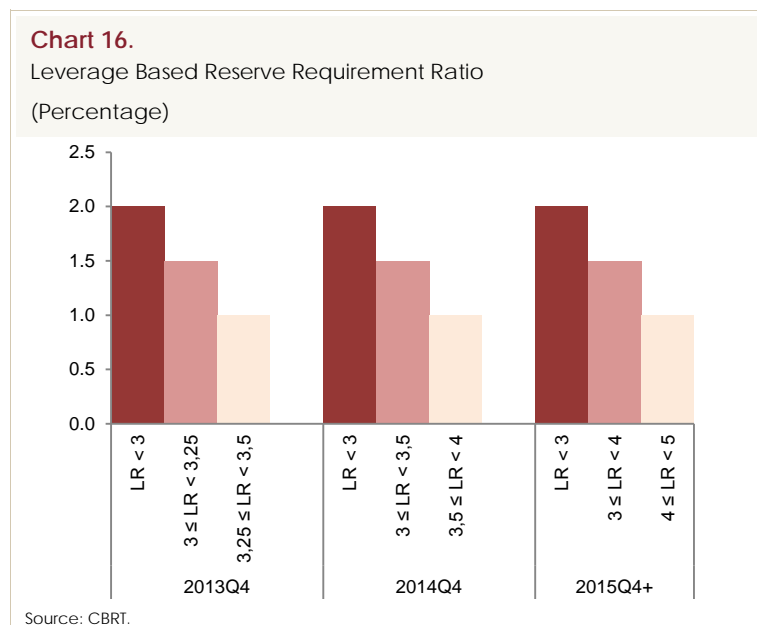
72. In the Monetary and Exchange Rate Policy for 2012, it was highlighted that the most remarkable lesson to be drawn from the recent global economic crisis was that operating of the financial system under a high leverage would cause economic damage in the medium and long term. It was also explained that in order to avert the risks that might stem from operating under high leverage before they emerge, banks that raise the leverage ratios to excessive levels compared to the current circumstances might be subjected to additional reserve requirement. In this context, a countercyclical and macroprudential policy based on leverage

ratios will be put into effect in a gradual way. This policy will be effective in 2013 for monitoring purposes. The leverage ratio, which the additional reserve requirement range will be based on, will be effective following the release of the data regarding the last quarter of 2013, and will be gradually widened until the last quarter of 2015. The leverage ratio subject to the CBRT's policy will be calculated by dividing the sum of tier-1 capital to total liabilities and off-balance sheet items with certain consideration ratios (tier-1 capital/(Total Liabilities+ Off Balance Sheet Items)).

73. The leverage ratio for the Turkish banking sector has hovered around 8 percent since 2005. As of second quarter of 2012, the average leverage ratios of majority of the banks have been greater than 7 percent (Chart 15).



74. According to the leverage-based reserve requirements policy, firstly, an additional reserve requirement of 1 to 2 percent in three stages will be imposed on the banks having an average 3 to 3.5 percent leverage ratio in the last quarter of 2013 to be effective as of 2014. In the following years, the upper limit of the leverage ratio, for which the additional reserve requirement ratio is to apply, will be raised to 5 percent gradually, and will be kept at that level.



75. Leverage ratios will be calculated based on the monthly data of the financial statements, but will be based on the average of the months in a given quarter. Reporting will be made within 3 months following the calculation period, and the banks in the given range will maintain additional reserve requirements for 6 reserve requirement periods following the first maintenance period at the 4th calendar month.

Table 5: Leverage Based Reserve Requirement Implementation

			Reporting Period (Until last reserve requirement reporting period)					
Oct.13	Nov.13	Dec.13	Jan.14	Feb.14	Mar.14	Apr.14	May.14	Jun.14
Calculation Period (Average Leverage Ratio)						Maintenance Period (Six Reserve Requirement Periods)		

76. Scenario analyses were made so as to determine the possible effects of the new application. The baseline scenario assumes growth in tier-1 capital by 10 percent, and in total assets and off-balance sheet transactions by 15 percent. On the other hand, “the excessive risk-taking” scenario assumes growth in tier-1 capital by 10 percent, and in total assets and off-balance sheet transactions by 25 percent. In

the last quarter of 2015, the average leverage ratio for the banking sector is expected to be 6.5 and 4.8 percent as per the baseline and excessive risk taking scenarios, respectively. The assumption that the leverage ratio of many banks will plummet under the excessive risk taking scenario confirms the need to take measures proactively. Accordingly, leverage ratios, which will be effective in 2018 as per the timetable of the Basel III, are projected to impose an additional reserve requirement on the banks with low leverage ratios to contribute to financial stability by preventing a sharp fall in leverage ratios prior to this period and by limiting bank indebtedness. During this transition process, to prevent the formation of two different leverage ratios and to ensure uniformity in the application, the CBRT will continue to work in a coordinated way with the BRSA.

Extension of the Maturity Structure of Liabilities of the Banking Sector

- 77.** Concentration of saving deposits in short term maturities, and the usually longer maturities of the loans extended by banks lead to an asset-liability maturity mismatch in the banking sector. In the context of financial stability-oriented practices, policies to differentiate required reserve ratios based on the maturity structure of deposits and impose lower reserve requirements in favor of long-term liabilities were sustained in 2012 in order to encourage the extension of deposit maturities and to support the issuance of long-term bonds in TL and FX.
- 78.** So as to make the differentiated required reserve ratios policy that aims at extending the maturity of deposits over time more effective, the maximum interest rate for sight deposits was determined as 0.25 percent on 17 December 2010. The said rate has been applicable in case of the withdrawal of time deposits before maturity since then.
- 79.** It is assessed that the current practice regarding withdrawal from an account before maturity is the reason why the depositors who consider long-term investments for their savings favor short-term accounts as they are not entitled to partial withdrawals from their accounts without distorting the original maturity and facing losses in returns. The current practice is also the reason why the funding sources of the banking system which has a short-term funding structure cannot be extended to longer term maturity. Moreover, in case of withdrawal from time deposits and participation accounts with interim interest/dividend payments from

cumulative deposits and participation accounts before their maturities, the withdrawn amount in previous payments should be taken back from the depositors at the anniversary of the account and at the interest and dividend payment periods. This poses practical challenges both for banks and the depositors. In order to remove the concerns and practical challenges that have an adverse effect on the depositors' propensity to save in the long term, some arrangements are contemplated regarding the withdrawal of deposits before maturity in 2013.

80. On the other hand, when necessary, the use of policy instruments for macroprudential purposes by relevant authorities other than the Central Bank will support financial stability.

81. Macroprudential measures taken by the BRSA and other authorities are considered important for their contribution to financial stability and macroeconomic stability by widening the room for maneuver of the monetary policy. In particular, measures taken against rapid credit growth in 2011 by the BRSA constitute a major example for macro-prudential measures that support stability. Therefore, for the successful and timely implementation of the policies for financial stability, it is of utmost importance that the Financial Stability Committee and the institutions effective in the economic management to maintain the coordinated work.

ANNEX 1: 2012 MONETARY POLICY DECISIONS

**Table 1. CBRT Policy Rates
(Percent)**

	Borrowing (overnight)	Lending (overnight)	1-week Repo	Lending (MS)*	Borrowing (LLW)**	Lending (LLW)
January 2012	5.00	12.50	5.75	12.00	0.00	15.50
February 2012	5.00	11.50	5.75	11.00	0.00	14.50
Mart 2012	5.00	11.50	5.75	11.00	0.00	14.50
April 2012	5.00	11.50	5.75	11.00	0.00	14.50
May 2012	5.00	11.50	5.75	11.00	0.00	14.50
June 2012	5.00	11.50	5.75	11.00	0.00	14.50
July 2012	5.00	11.50	5.75	11.00	0.00	14.50
August 2012	5.00	11.50	5.75	11.00	0.00	14.50
September 2012	5.00	10.00	5.75	9.50	0.00	13.00
October 2012	5.00	9.50	5.75	9.00	0.00	12.50
November 2012	5.00	9.00	5.75	8.50	0.00	12.00
December 2012	5.00	9.00	5.50	8.50	0.00	12.00

* The borrowing rate offered to the primary dealers through repo transactions in the open market transactions.

** The CBRT's overnight borrowing and lending rates applied between 4-5 pm in the Interbank Money Market as per the Late Liquidity Window facility.

Table 2. Decisions on Open Market Operations

	Funding Amount on Regular Days of Quantity Auctions	Monthly Repo Auctions (Upper limits for Each Auction Amount)
24 January 2012	TL 3-7 billion	TL 5 billion
21 February 2012	TL 3-7 billion	TL 6 billion
27 March 2012	TL 1-6 billion	TL 5 billion
18 April 2012	TL 1-6 billion	TL 5 billion
29 May 2012	TL 1 -5 billion	TL 6 billion
21 June 2012	TL 1-5 billion	TL 7 billion
19 July 2012	TL 0.5-6.5 billion	TL 5 billion
16 August 2012	TL 0.5-7.5 billion	TL 5 billion
18 September 2012	TL 0.5-7.5 billion	TL 3 billion
18 October 2012	TL 0.5-6.5 billion	TL 4 billion
20 November 2012	TL 0.5-6.5 billion	TL 4 billion
18 December 2012	TL 0.2-6.5 billion	TL 4 billion

Table 3. Periods of Additional Monetary Tightening

	Duration
4-9 January	4 working days
23-29 March	5 working days
12-17 April	4 working days
4-11 May	6 working days
21-25 May	5 working days
31 May-4 June	3 working days

Table 4. Decisions on Holding TL Required Reserves in FX and Reserve Option Coefficients*

	Sep.11	Oct.11	Nov.11	Jun.12	Jul.12	Aug.12	Aug.12	Oct.12	Nov.12	Dec.12
Upper limit*	10%	20%	40%	45%	50%	55%	60%	60%	60%	60%
ROC										
%0-10 (included)	1.0	-	-	-	-	-	-	-	-	-
%0-20 (included)	-	1.0	-	-	-	-	-	-	-	-
%0-40 (included)	-	-	1.0	1.0	1.0	1.0	1.1	1.3	1.4	1.4
%40-45 (included)	-	-	-	1.4	1.4	1.4	1.4	1.6	1.7	1.8
%45-50 (included)	-	-	-	-	1.7	1.7	1.7	1.9	2.0	2.1
%50-55 (included)	-	-	-	-	-	1.9	1.9	2.1	2.2	2.3
%55-60 (included)	-	-	-	-	-	-	2.0	2.2	2.3	2.4

* Dates indicate the maintenance periods. The upper limit for the portion of the required reserves against TL liabilities that can be held in FX.

Table 5. Decisions on Holding TL Required Reserves in FX and Reserve Option Coefficients*

	Nov.11	Apr.12	Jul.12	Sep.12	Dec.12	Jan.13
Upper limit*	%10	%20	%25	%30	%30	%30
ROC						
%0-10 (included)	1.0	-	-	-	-	-
%0-20 (included)	-	1.0	1.0	1.0	1.2	1.3
%20-25 (included)	-	-	1.5	1.5	1.7	1.8
%25-30 (included)	-	-	-	2.0	2.2	2.3

* Dates indicate the maintenance periods. The upper limit for the portion of the required reserves against TL liabilities that can be held in gold.

In 2012, required reserve ratios for TL liabilities were kept unchanged, but those for foreign exchange liabilities were changed in December as followings:

**Table 6. Required Reserve Ratios
(Percent)**

Turkish Lira	
Liabilities	Rates
Demand deposits, notice deposits and private current accounts (*)	11
Deposits/participation accounts with maturities up to 1 month (inc. 1 month) (*)	11
Deposits/participation accounts with maturities up to 3 months (inc. 3 month) (*)	11
Deposits/participation accounts with maturities up to 6 months (inc. 6 months) (*)	8
Deposits/participation accounts with maturities up to 1 year (*)	6
Deposits/participation accounts and cumulative deposits/participation accounts with maturities of 1 year or longer terms (*)	5
Other TL liabilities with maturities up to 1 year (inc. 1 year) (*)	11
Other TL liabilities with maturities up to 3 years (inc. 3 years) (*)	8
Other TL liabilities with maturities longer than 3 years (*)	5
Special fund pools (*)	Ratios for Corresponding Maturities
Foreign Exchange	
Liabilities	Rates
FX demand and notice deposits, FX private current accounts and demand gold deposit accounts besides FX deposit accounts, participation accounts and gold accounts with maturities up to 1 month, 3 months, 6 months and 1 year (**)	11.5
FX deposit accounts, FX participation accounts, gold deposit accounts, cumulative FX deposit accounts and FX participation accounts with maturities up to and longer than 1 year (**)	9.0
Special fund pools	Ratios for Corresponding Maturities
Other FX liabilities with maturities up to 1 year (inc. 1 year) (**)	11.5
Other FX liabilities with maturities up to 3 years (inc. 3 years) (**)	9.5
Other FX liabilities with maturities longer than 3 years (**)	6.0

(*)To be effective as of 28.10.2011, TL required reserve ratios were reduced from 16 to 11 percent for demand, notice deposits and private current accounts besides deposits/participation accounts with maturities up to 1 month (including 1 month); from 12.5 to 11 percent for deposits/participation accounts with maturities up to 3 months (including 3 months); and from 9 to 8 percent for deposits/participation accounts with maturities up to 6 months (including 6 months).

(**)On 18.12.2012, FX required reserve ratios were raised by 0.5 percentage points for demand and notice FX deposit accounts, FX private current and demand gold deposit accounts besides FX deposit, FX participation and gold deposit accounts with maturities up to 1 month, 3 months, 6 months and 1 year, in addition to other FX liabilities with maturities up to 1 year (including 1 year) and 3 years (including 3 years).

Said changes shall be effective as of the liabilities scheme of 21 December 2012 and required reserves calculated by new ratios will be maintained as of 4 January 2013.

Table 7. Decisions on the FX Market*

FX Sale Auctions Against TL (Million USD)			Direct FX Interventions by the CBRT* (Million USD)	Purchas ed Amount	Sold Amount
DATE	BID	SOLD			
03.01.2012	1 205	350	02.01.2012	-	525
04.01.2012	1 148	100	03.01.2012	-	326
05.01.2012	864	100	04.01.2012	-	155
06.01.2012	115	50			
06.01.2012	521	100			
06.01.2012	86	50			
06.01.2012	162	50			
09.01.2012	150	50			
09.01.2012	174	50			
09.01.2012	646	50			
10.01.2012	483	50			
11.01.2012	308	50			
12.01.2012	146	50			
13.01.2012	326	50			
17.01.2012	237	50			
18.01.2012	240	50			
19.01.2012	274	50			
20.01.2012	221	50			
23.01.2012	85	50			
24.01.2012**	289	50			

* No foreign exchange buying auctions were held in 2012.

** On 24 January 2012 it was decided that regular FX sale auctions would be terminated. However, intraday foreign exchange selling auctions were decided to be held as per the guidelines set by the *Press Release on Intraday Foreign Exchange Selling Auctions* of 6 January 2012; and the highest amount that can be sold on a daily basis via intraday auctions was determined to be USD 500 million in total.

ANNEX 2: CALENDAR FOR 2013 MONETARY POLICY COMMITTEE (MPC) MEETINGS, INFLATION REPORTS AND FINANCIAL STABILITY REPORTS

Schedule for the 2013 MPC Meetings and Reports			
MPC Meetings	Summary of the MPC Meeting	Inflation Report	Financial Stability Report
22 January 2013	29 January 2013	29 January 2013	
19 February 2013	26 February 2013		
26 March 2013	29 March 2013		
16 April 2013	24 April 2013	30 April 2013	
16 May 2013	23 May 2013		30 May 2013
18 June 2013	25 June 2013		
23 July 2013	30 July 2013	30 July 2013	
20 August 2013	27 August 2013		
17 September 2013	24 September 2013		
23 October 2013	31 October 2013	31 October 2013	
19 November 2013	26 November 2013		28 November 2013
17 December 2013	24 December 2013		

Note: Monetary and Exchange Rate Policy for 2014 will be published on 24 December 2013.