TÜRKİYE CUMHURİYET
MERKEZ BANKASI

MONETARY and EXCHANGE RATE POLICY for 2016

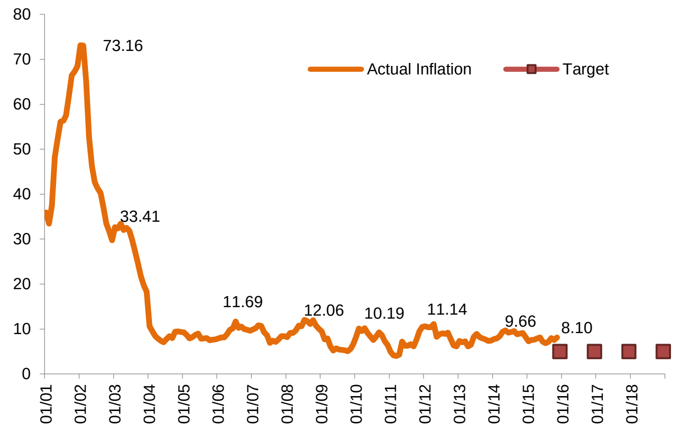
9 December 2015
Ankara

1 OVERVIEW

1. The Central Bank of the Republic of Turkey's (CBRT) main objective is to achieve price stability. To this end, as in the 2016-2017 period, the inflation target for 2018 is set at 5 percent as per the agreement reached with the government during the preparation of the Medium Term Program (Chart 1).

2. Being an element of the accountability of the CBRT, the uncertainty band will be maintained at 2 percentage points in both directions, as in previous years. Should the inflation rate deviate from the year-end target by more than 2 percentage points at the end of each quarter, 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 Bank will submit an open letter to the government if inflation falls outside the uncertainty band at the end of the year.

Chart 1: Actual Inflation Rates and Inflation Targets*
(Percent)



Last Observation: November 2015.
* The numbers in the charts show the peak values during the rising inflation periods.
Source: TURKSTAT, CBRT.

2 MONETARY POLICY FRAMEWORK FOR 2016

3. The CBRT maintains the price stability-oriented monetary policy framework. While aiming to keep inflation close to the target, the Bank will continue to support financial stability. Moreover, the communication policy will be used as a supportive instrument.

4. After May 2013, global monetary policy developments were the key drivers behind the movements in financial markets. In this period, nearly all financial assets were re-priced on a global level while emerging economies witnessed portfolio outflows. The CBRT adopted policies to contain the spillover effects of the global volatility and to improve the deterioration in the inflation outlook by actively using the one-week repo rate, interest rate corridor, Turkish lira and foreign-currency liquidity policies and required reserves.

5. In the post-crisis period, the unconventional policies of advanced economies and the uncertainties over these policies caused emerging market rates to become extremely sensitive to global monetary policy developments and advanced country data releases. The wide interest rate corridor and the tight liquidity policy implemented by the CBRT increased the resilience of the Turkish economy against global shocks and supported price stability and financial stability during this period.

6. The CBRT released a road map on 18 August 2015 regarding the policies to be implemented before and during the normalization of global monetary policies. Accordingly, the Bank announced that the width of the corridor will be narrowed and the interest rate corridor will be made more symmetric around the one-week repo interest rate. Moreover, this announcement also incorporated policies regarding Turkish lira liquidity, foreign exchange liquidity and financial stability to be implemented before and during the normalization. With respect to the Turkish lira liquidity, quotation on the interest rate on borrowing facilities provided for primary dealers via repo transactions was terminated and collateral conditions for Turkish lira transactions were simplified following the announcement of the road map. In addition, it was reminded that foreign exchange deposits can be used as collaterals against Turkish lira

transactions, and new simplified rules were announced regarding the use of this facility.

7. The CBRT has recently adopted a series of measures regarding foreign exchange liquidity in order to contain the effects of the uncertainties surrounding global monetary policies into the foreign exchange market and to cushion the financial system against such uncertainties. Starting from end-2014, the CBRT has gradually lowered the interest rates on FX deposits that the banks can borrow from the CBRT within their borrowing limits at the FX deposit market. Moreover, as stated in the road map regarding the policies to be implemented before and after the normalization of global monetary policies, transaction limits for banks at the CBRT Foreign Exchange and Banknotes Markets were raised. Consequently, the sum of deposit limits allocated to banks and gold and foreign exchange assets held at the CBRT under the ROM reached a level that is considerably above the external debt payments of banks in one year's time. In addition, the flexibility of foreign exchange sales auctions was enhanced against the volatility in global financial markets. Such measures support the confidence in the banking sector and increase the resilience of the system against possible external funding shocks.

8. With a series of measures since end-2014 with regard to foreign exchange required reserves and remuneration rates on the required reserves maintained in Turkish liras, the CBRT aimed to extend the maturity of financial institutions' non-core FX liabilities and to support core liabilities. These measures proved effective in extending the maturity of the external debt of the banking system and suspending the upward trend in the share of non-core liabilities. Macroprudential policies will continue to be implemented over the upcoming period to contain macrofinancial risks and support prudent borrowing. Moreover, the operational framework of the interest rate policy might be simplified gradually. During the simplification process, adjustments will be made in the funding composition in order to maintain the required tightness in monetary policy.

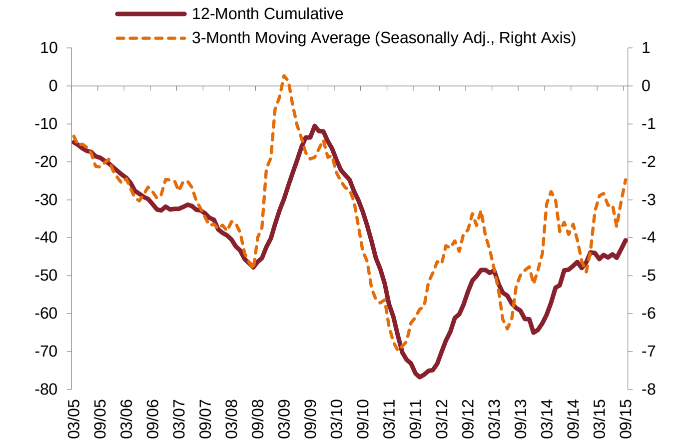
9. After May 2013, the marked depreciation of the Turkish lira had adverse effects on inflation and inflation expectations. In order to contain the deterioration in inflation expectations and pricing behavior, the CBRT has adopted a tight

monetary policy stance since early 2014. Thanks to the tight liquidity policy implemented through most of 2015, the average funding rate was increased gradually and interbank overnight repo rates was materialized at the upper bound of the interest rate corridor. Macroprudential measures and the tight monetary stance limited the rise in inflation in 2015. FX-denominated import prices, especially oil prices, curbed inflation throughout 2015. However, elevated food prices and the delayed effects of the exchange rate depreciation caused inflation to hover significantly above the target throughout year.

10. In addition to the effects of domestic and global market uncertainties on exchange rates and the course of food inflation, repercussions of wage developments on inflation and inflation expectations will be critical for the inflation outlook over the upcoming period. An important structural reform regarding inflation has been the establishment of the Committee on Monitoring and Evaluating Food and Agricultural Product Markets. Measures adopted in coordination with this committee may provide structural and cyclical support to bring food inflation down. Against this background, inflation is expected to hover around current levels for some time due to exchange rate effects and start slowing down afterwards. Conditional on the outlook on policies of revenues and expenditures in public finance, inflation is projected to reach the 5 percent target in the medium term.

11. In the last quarter of 2015, the monetary policy stance has been tight against the inflation outlook, stabilizing for the FX liquidity, and supportive of financial stability. The tight monetary policy stance and macroprudential measures keep annual loan growth at reasonable levels and commercial loans continue to grow at a faster rate compared to consumer loans, supporting the rebalancing of the economy. The improvement in the current account balance is expected to continue in the upcoming period (Chart 2). Favorable developments in the terms of trade and the rising demand from EU members will be positively reflected on the current account balance. Maintaining the rebalancing in the economy and promoting prudent borrowing will cushion the Turkish economy against possible external shocks, and thus, limit repercussions from any upcoming global uncertainties on inflation and macroeconomic stability to a large extent.

Chart 2: Current Account Balance
(Billion USD)



Latest Observation: September 2015.
Source: CBRT.

Communication Tools and Decision-Making

12. Main communication documents of the monetary policy are the Monetary Policy Committee (MPC) announcements and the Inflation Report. In the upcoming period, the Inflation Report will be published on a quarterly basis as usual. The MPC will continue to hold monthly meetings based on a preannounced 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 contains detailed assessments of the Committee will be released on the CBRT website within five working days following the MPC meeting. The Inflation Report will continue to be presented at briefings in order to enhance the effectiveness of communication.

13. The Financial Stability Report will remain a significant means of communication of the CBRT in the upcoming period. Furthermore, announcements regarding the monetary and exchange rate policy frameworks, presentations given by the Governor before the Council of Ministers and the Planning and Budget Commission of the Grand National Assembly of Turkey will also play an important role in communicating with the public.

3 TURKISH LIRA LIQUIDITY MANAGEMENT

General Principles of Liquidity Management

14. 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,

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.

Factors Affecting Liquidity and Liquidity Developments in 2015

15. The funding need of the banking system 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.

ii) The CBRT's Turkish lira transactions in the market,

a) FX purchase/sale transactions against TL,

b) Export rediscount credits,

c) Government securities (GDDS) and lease certificate purchase/sale transactions,

d) Interest paid/earned, current expenditures.

iii) The Treasury's Turkish lira transactions in the market,

a) The difference between the redemption and issuance of GDDS and lease certificates (excluding redemptions to the CBRT),
b) Primary surplus inflows,
c) Privatization and Savings Deposit Insurance Fund (SDIF)-related transfers and other public transactions.

16. As they determine the TL-denominated borrowing requirement of the Treasury, the 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 banking system.

17. Table 1 shows the main factors affecting the funding need of the system for 2015 as of 4 December.

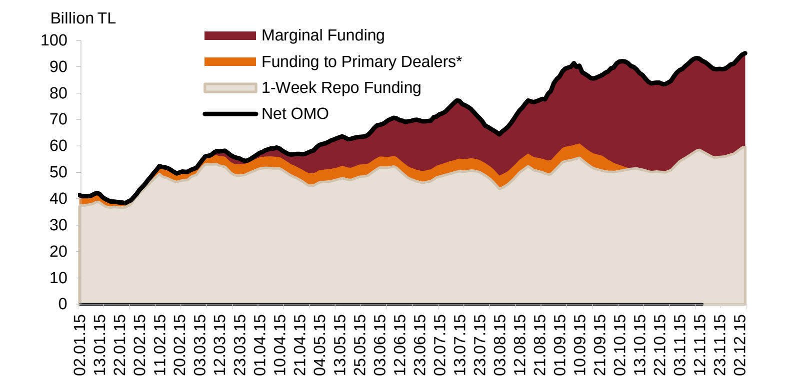
Table 1: Factors Affecting the System's Liquidity (Billion TL)

	31.12.2014	4.12.2015	Effect
Funding Need of the System (A+B+C)*	-46.4	-99.0	-52.6
Money Base (A)	106.7	117.6	-10.9
Currency in circulation	85.1	103.3	-18.1
Free deposits	21.6	14.3	7.3
CBRT Transactions Affecting System Liquidity (B)			-21.7
Net FX sales against TL**			-57.4
Interests earned and Other payments			-4.6
GDDS purchases			3.2
Export rediscount credits (Eximbank and Banks)			37.1
Public Transactions (excl. redemptions to the CBRT) (C)			-20.1
Net TL GDDS redemption (redemption-issue)			19.6
Primary surplus			-33.1
Privatization in TL and Other Transactions			-6.5

(*) The funding need of the system represents the net liquidity need in the market. A negative number means a net liquidity shortage in the market.
(**) Also includes FX sales to energy-importing SOEs by the Treasury.

18. With a view to limiting the effects of cumulative exchange rate movements recorded since early 2015 and volatilities in energy and food prices both on inflation and inflation expectations, the CBRT maintained the tight monetary policy stance through 2015, and has gradually increased the share of marginal funding since mid-March while providing liquidity mainly through one-week quantity repo auctions (Chart 3).

Chart 3: Central Bank Funding
(Two-Week Moving Average)

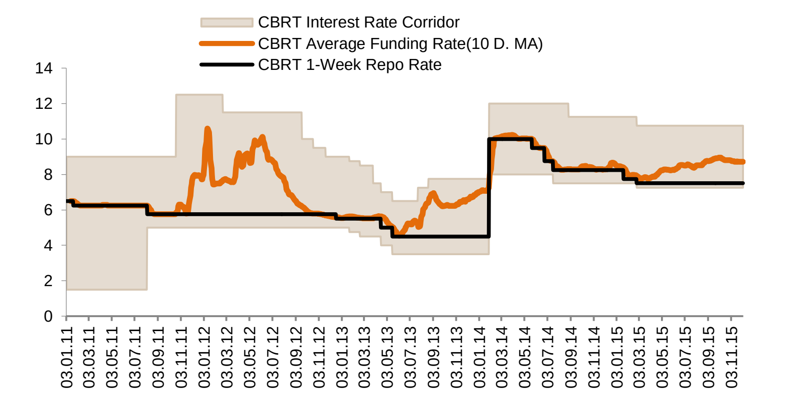


** As of 23 September 2015, the Primary Dealership system has been further supported by allocating higher bid limits at 1-week quantity repo auctions to primary dealers instead of offering a favorable interest rate on borrowing facilities.
Latest Observation: December 4, 2015.
Source: CBRT.

Liquidity Policy in 2016 and the Operational Framework

19. One-week repo auctions will be the main funding tool in the upcoming period. As mentioned in the “Road Map during the Normalization of Global Monetary Policies” document, published on August 18 2015, the interest rate corridor will be narrowed and be made more symmetric around the one-week repo rate (Chart 4).

Chart 4: CBRT Interest Rate Corridor, Weighted Average Funding Cost



Latest Observation: December 4, 2015.
Source: CBRT.

20. The CBRT’s collateral framework for 2016 is as follows;

i) Effective from 28 September 2015, the collateral framework of TL transactions at the CBRT was simplified; the conditions for the use of FX deposits as collateral for such transactions were rearranged, and FX deposits within a certain limit are now being remunerated. As of 4

December 2015, the collateral FX deposit limits are 3 billion US dollars and 900 million euros, with 21.8 percent of the US dollar deposit limits and 40.3 percent of euro deposit limits currently in use.

ii) Changes made to the guidelines for the use of FX deposits as collateral have somewhat lowered banks' need for swap deals with the market. Banks' need for swaps can be further reduced through a rise in the use of this option and in the limits allotted to banks.

iii) In case the remuneration rate on TL-denominated required reserves is gradually increased, a drop in the FX amount maintained by banks within the ROM will be offset by an increase in FX deposits used as collateral against TL transactions. The use and limits of collateral FX deposits may be increased in the upcoming period.

iv) The increase in the ratio of the FX collateral[1] that can be pledged by banks within the CBRT against their borrowings from the CBRT Interbank Money Market is expected to boost the demand for FX-denominated bonds issued abroad by the Treasury. This arrangement is expected to play a stabilizing role against the stress likely to be experienced in credit risk pricing due to global factors.

21. The operational framework of the CBRT's liquidity management in 2016 is as follows;

i) One-week repo auctions will be conducted via the quantity auction method. The upper limit of the total amount of bids to be offered by each institution, which are counterparties to the Open Market Operations, for repo auctions conducted via the one-week quantity auction method will continue to be calculated using the method in place since 28 September 2015. In this context, the maximum bid ratio to be offered by each institution to the one-week quantity auctions shall be determined as twice the of the sum of 98 percent of its share of required reserves to be maintained by the institution within the average of total TL required reserves for the last two maintenance periods and 2 percent of each

[1] The CBRT currently accepts the following foreign currency denominated collateral: eurobonds issued by Turkish Treasury, lease certificates issued by the Asset Leasing Company of the Turkish Treasury, foreign government debt instruments bearing high liquidity and low risk, securities issued by the International Islamic Liquidity Management Corporation, FX deposits and FX banknotes.

primary dealer's share in the total outstanding Turkish lira denominated Treasury securities purchased by all primary dealers from Treasury auctions. Bank-based limits will be effective for two maintenance periods. Limits will be renewed once in four weeks and banks will be notified on the second working day of the reserve maintenance period corresponding to the start of each new maintenance period via the CBRT Payment Systems Auction System (AuS).

ii) The CBRT will continue to announce the details and results of the one-week repo auction through data distribution companies.

iii) On those days where it is deemed unnecessary, repo auctions may not be held, whereas if deemed necessary, traditional repo auctions may be held at maturities no longer than 91 days.

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

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

vi) All participants are entitled to use the overnight repo facility via the quotation method against a TL-denominated lease certificate issued by the ALCTT.

vii) The CBRT will continue to announce overnight borrowing and lending rates in the Interbank Money Market within the CBRT. If they deem it necessary, 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.

viii) The CBRT will continue to announce borrowing and lending rates for the Late Liquidity Window Facility (LON) as currently structured. Banks will be able to borrow from the CBRT or lend to the CBRT against collateral and without any limit.

22. Considering all possibilities in liquidity conditions; to be able to control interest rates at the BIST Repo-Reverse Repo Market and the Interbank Repo-Reverse Repo Market and to preserve the instrument variety for liquidity management and operational flexibility, the CBRT needs to maintain a sufficient amount of TL-denominated lease certificates issued by the Asset Leasing Company of the Turkish Treasury (ALCTT) or GDDSs for technical reasons. In nominal terms, a total of TL 2.7 billion of the open market operations portfolio will be due in 2016. Accordingly;

i) In months deemed appropriate in 2016, the maturing securities will be replaced with GDDSs or lease certificates to be announced through data distribution companies at 10:00 a.m. on the first working day of the respective month,

ii) Buying auctions will be held on Wednesdays and Fridays effective as of the next business day,

iii) Each auction amount will be no more than a nominal of TL 100 million,

iv) Other issues related to the auctions will be subject to the current arrangements.

Moreover, the OMO portfolio size, set at TL 9 billion in 2015 to minimize operational risks, is targeted to remain unchanged in 2016. Yet, the additional purchasing option is reserved.

4 EXCHANGE RATE POLICY

Export Rediscount Credits, CBRT FX Purchases-Sales and Reserve Developments

23. Export rediscount credits extended to exporters in Turkish lira with a maturity up to 240 days through Türk Eximbank and commercial banks through the acceptance of FX bills for rediscount pursuant to the Article 45 of the Central Bank Law remained as an instrument to boost the CBRT's FX reserves in 2015 with its feature that allows reimbursement in FX at the maturity date

24. To spur balanced growth, considering the contribution of export rediscount credits to reduce the current account deficit and to strengthen the CBRT'S FX reserves, credit limits, which were set as USD 15 billion on 20 October 2014,

were raised to USD 17 billion on 23 January 2015. Out of this amount, USD 15 billion was allocated to the Türk Eximbank and USD 2 billion was allocated to commercial banks. Additionally, with the changes introduced on the same day,

i) In addition to exports, FX-earning services (tourism, health, consultancy, software development and engineering, transport, repair and maintenance services) were also made eligible to use rediscount credits.

ii) Türk Eximbank and domestic commercial banks were allowed to intermediate the extension of rediscount credits to finance FX-earning services.

iii) Domestic commercial banks were allowed to intermediate pre-shipment export rediscount credits in addition to post-shipment export rediscount credits.

iv) In addition to post-shipment export receivables, FX-earning services and pre-shipment exports receivables that are transferred to factoring firms have also been subject to rediscount credit facility via Türk Eximbank and other banks.

25. Additionally, with the revisions introduced on 5 June 2015;

i) Bursa, Gaziantep, Denizli, Adana, Kayseri, Trabzon and Antalya branches were decided to be gradually added to current branches to intermediate the extension of rediscount credits, starting with Gaziantep branch.

ii) The export/services commitment performance period was set as 24 months and the additional 6-month period introduced to firms that fulfill 50 percent of their export commitment within the 12-month period was abolished.

26. Among different types of firms, the credit limit per company for Foreign Trade Capital Companies is currently USD 300 million, and USD 250 million for other companies. They were provided with the facility to use whole of these limits in their loan demands with maturities up to 120 days, and maximum 60 percent rather than 50 percent for those with maturities from 121 to 240 days through the change introduced on 5 June 2015.

27. The CBRT applies the interest rates to credits varying according to maturities as follows:

i) 1-month LIBOR/EURIBOR interest rate for credits with maturities up to 120 days,

ii) 6-month LIBOR/EURIBOR interest rate for credits with maturities from 121 to 240 days.

28. The increase in credit distribution by sectors and regions support the exports sector by contributing to the diversification of export markets and export products of our country; and improve the balancing in the foreign trade.

29. As limits were raised and new credit facilities were introduced through changes in arrangements, the number of firms demanding credits as well as the contribution of these credits to the CBRT's reserves is expected to increase. Accordingly,

i) Credit utilization is expected to be around USD 14.5 billion at the end of2015 which in turn is expected to add USD 15.2 billion to the CBRT's FX reserves.

30. Thanks to the raised credit limits and other eased practices, credit utilization may reach USD 15 billion in 2016, and these credits may contribute by around USD 14.1 billion to the CBRT'S FX reserves.

31. Since 2002, export rediscount credits have added USD 52.3 billion to the CBRT's reserves. Within the same period, the CBRT purchased a net of USD 29.1 billion from the market through auctions and interventions, and sold USD 11.2 billion to energy-importing state owned enterprises (Table 2).

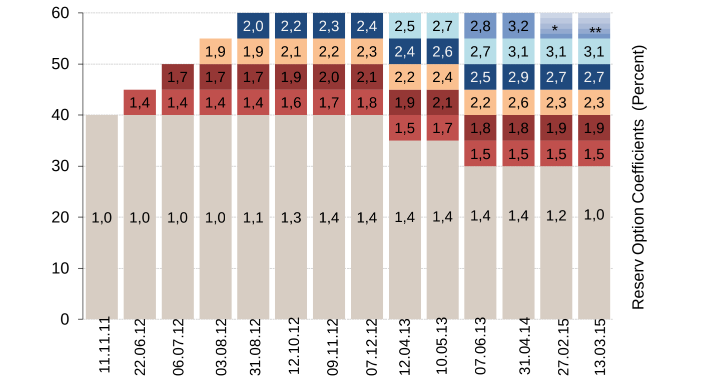
Table 2: Amounts of FX Purchases and Sales by the CBRT
(2002-2015*, million USD)

Year	Auctions		Interventions		FX Sales to Energy-Importing SOEs	Export Rediscount Credits
	Purchase	Sales	Purchase	Sales	Sales	Net
2002	795	0	16	12		25
2003	5.652	0	4.229	0		34
2004	4.104	0	1.283	9		27
2005	7.442	0	14.565	0		25
2006	4.296	1.000	5.441	2.105		4
2007	9.906	0	0	0		2
2008	7.584	100	0	0		5
2009	4.314	900	0	0		1.040
2010	14.865	0	0	0		1.104
2011	6.450	11.210	0	2.390		1.920
2012	0	1.450	0	1.006		8.295
2013	0	17.610	0	0		12.664
2014	0	10.439	0	3.151	1.321	12.999
2015*	0	10,986	0	0	9,841	14,125
Total	**65,408**	**53,135**	**25,534**	**8,673**	**11,162**	**52,269**

*As of 30 November 2015
Source: CBRT

32. Another important instrument that affects foreign exchange reserves and foreign exchange liquidity is the Reserve Options Mechanism (ROM). The CBRT continued to make technical adjustments in reserve option tranches and coefficients, in a way to strengthen the automatic stabilizer feature of the mechanism and also to provide the needed FX liquidity stemming from changes in FX reserve requirement ratios. With the adjustment that was put into effect as of the maintenance period of 13 February 2015, the upper 5 percent tranche was substituted by 5 new tranches of 1 percent each. The adjustments implemented in the coefficients of lowest tranches are made in a way that reserve option coefficients can provide banks with FX liquidity in case the use of the reserve option does not change. Reserve option coefficients (ROCs) were revised as of the maintenance period of 27 February 2015 in a way to provide banks with FX liquidity. Accordingly, the coefficient of the lowest tranche was lowered, while coefficients of the top 5 tranches of 1 percent were increased (Chart 5).

Chart 5. Revisions to Reserve Options Coefficients (ROC)
(Percent)



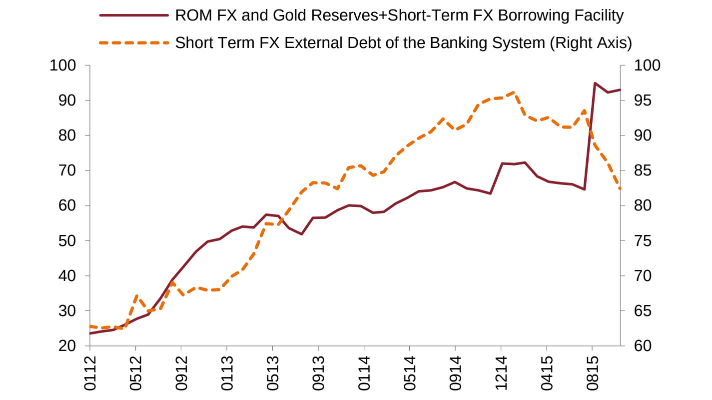
* ROC increases by 0.2 points for each 1 percent tranche above 55 percent.
**ROC increases by 0.8 points for the first 1 percent tranche above 55 percent; and by 0.2 points for each 1 percent tranche that follows..
Source: BRSA.

33. The ROM continues to be utilized steadily and intensively by banks. Through this mechanism, not only total reserves register an increase, but also the impact of capital flow volatility on the foreign exchange market is contained. In addition, FX reserves of the financial sector held at the CBRT under the ROM constitute a guarantee against possible changes in external finance conditions. In fact, FX and gold reserves maintained by banks under the ROM and other FX liquid assets of the banks cover nearly 70 percent of their FX foreign debt due in 1 year.

34. The CBRT continues to use FX liquidity instruments other than the ROM in order to smooth the effects of global financial shocks. In this context, measures taken

by the CBRT regarding FX liquidity in 2015 pushed up the transaction limits of banks at the CBRT FX and banknotes markets by 130 percent. Thus, with the deposit limits allocated to banks, the total of their FX and gold assets held at the CBRT under the ROM reached a level that meets the total foreign debt of banks in a year's time (Chart 6).

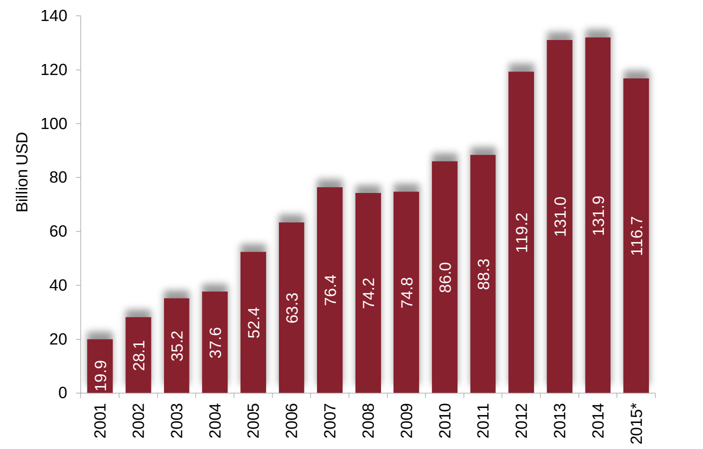
Chart 6. Short term FX Debt of the Banking System and the CBRT's FX Facilities
(Percent)



Latest data: 31 October 2015.
Source: BRSA

35. Under the floating exchange rate regime implemented since 2001, instruments such as direct net FX purchases, export rediscount credits and ROM have been used and the CBRT FX and gold reserves have seen a cumulative increase by around USD 97 billion (Chart 7).

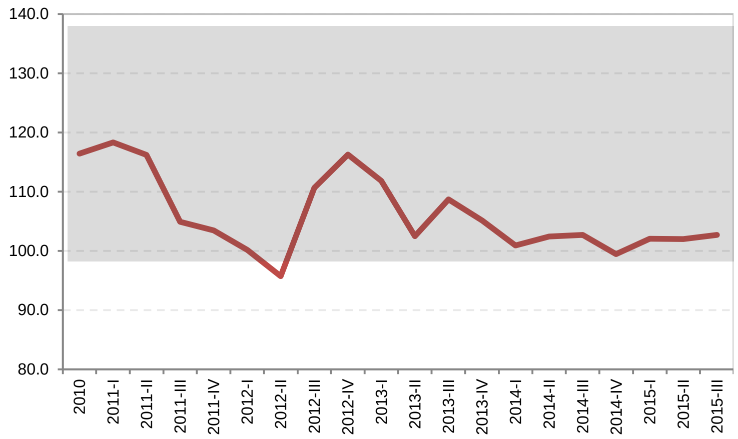
Chart 7. CBRT FX Reserves
(Including Gold)



*As of December 4, 2015.
Source: CBRT.

36. Thanks to these developments in FX reserves and the macroprudential policies implemented since 2011, the ratio of FX reserves to current account deficit and import coverage ratio of FX reserves continue to improve. Export rediscount credits will offer a considerable contribution to the foreign exchange reserve accumulation. Moreover, along with the measures on maturity extension of non-core liabilities, the short term foreign debt coverage ratio of FX reserves will notably increase in 2016 (Chart 8).

Chart 8. Short term Foreign Debt Coverage Ratio of Reserves[1]
(Percent)



(1) Remaining maturity. Branches and affiliates abroad are excluded.
Source: BRSA

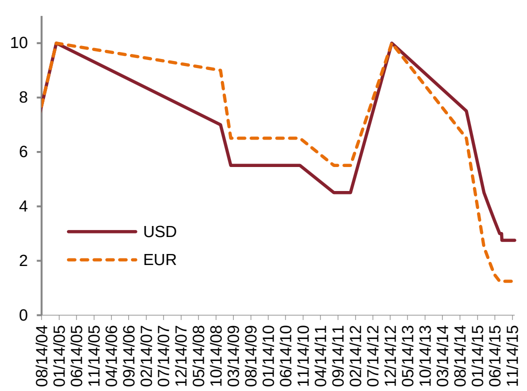
Foreign Exchange Rate Policy in 2016

37. The CBRT will continue to implement floating FX rate regime in 2016. The FX 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 that are being implemented, 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. Moreover, the CBRT also monitors closely the probable excessive fluctuations in the exchange rate due to speculative behavior stemming from a loss in the market depth.

38. Banks are provided with FX liquidity with 1-week maturity at the CBRT FX Deposit Market within the limits introduced to them. This commission rate is announced on a daily basis in consideration of market conditions (Chart 9).

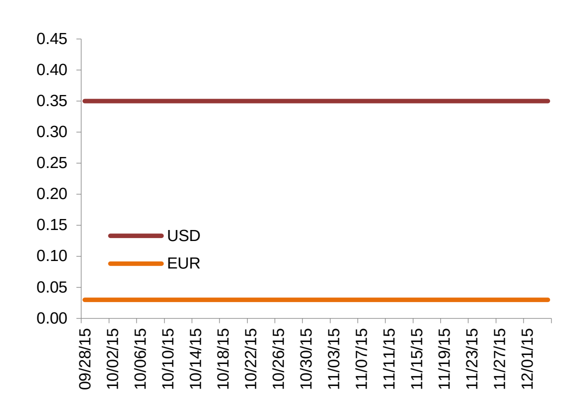
39. Banks are allowed to hold FX deposits of 1-month maturity at the CBRT within the limits introduced to them. These rates are announced on a daily basis in consideration of market conditions (Chart 10).

Chart 9: FX Deposit Lending Rates*



*As of December 4, 2015
Source: CBRT.

Chart 10: FX Deposit Borrowing Rates*

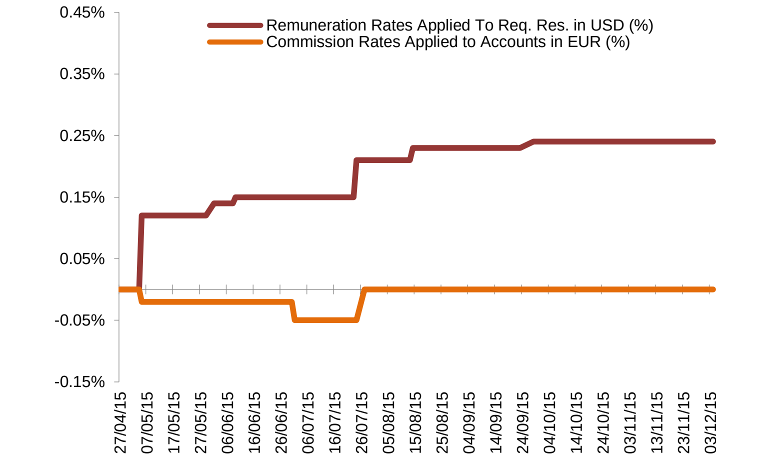


* As of December 4, 2015
Source: CBRT.

40. Given the changing global and local financial market conditions, USD required reserves, reserve options and free reserves held at the CBRT were remunerated starting from 5 May 2015. These rates are announced on a daily basis (Chart 11).

41. Euro-denominated FX balances at blocked required reserves and at the noticed FX deposit accounts of the banks and financing companies held at the CBRT are subject to commission rates of 0 percent (Chart 11).

Chart 11. Interest Rates Paid to FX Required and Free Accounts and Commission Rates Charged on Accounts*



* As of December 4, 2015..
Source: CBRT.

42. A portion, deemed appropriate, of the FX needs of the energy-importing state owned enterprises will continue to be met directly by the CBRT and the Undersecretariat of Treasury.

43. 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 FX liquidity in 2016 as usual.

44. The CBRT may intervene directly or through flexible auctions in the market, in case of unhealthy price formations due to speculative behavior stemming from a loss in the market depth.

45. Moreover, FX transactions against FX banknotes conducted between the CBRT and those institutions entitled to operate in the FX and Banknotes Markets will continue in 2016.

46. To strengthen the automatic stabilizing feature of the ROM, it is possible that a regulation is made such that the average exchange rate pertaining to the days before the start of the maintenance period are used to calculate the amount of FX that will be held under ROM for Turkish Lira liabilities instead of the exchange rate that pertains to the end of the maintenance period.

47. In view of the fact that financial stability is one of the prerequisites for price stability, the CBRT will continue to take the necessary measures in order to ensure the efficient functioning of the FX markets in Turkey. However, it has to be kept in mind that under the current exchange rate regime, economic agents should establish and employ mechanisms that will ensure efficient risk management.

5 MEASURES RELATED TO FINANCIAL STABILITY

48. To spur balanced growth and domestic savings, the CBRT started to remunerate required reserves of banks and financing companies maintained in Turkish lira as of November 2014 and gradually raised remuneration rates in 2015. As also stated in the Monetary and Exchange Rate Policy in 2015, the CBRT's regulation to remunerate Turkish lira required reserves in a way to encourage core liabilities was put into effect in January 2015. Accordingly, financial institutions whose ratio of deposits and equity to loans are higher than the sector average are remunerated at a higher rate unless they worsen their own situation. Since November 2014, the date of the announcement of these measures, the rise in the Credit/Deposit ratio has been replaced by a flat course.

49. In line with the stated objectives, the remuneration of TL required reserves was raised by 50 basis points in April. In the context of measures to support financial stability included in the road map that was announced on 18 August 2015, it was

decided that remuneration rates of TL required reserves would be raised by 150 basis points in total, in three installments of 50 basis points each, on 1 September 2015, on 1 October 2015 and on 1 December 2015 in order to reduce the intermediation costs of the banking system and provide additional support to core liabilities..

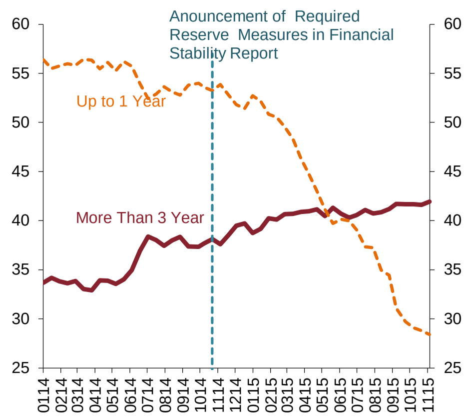
Table 3: Adjustments to FX Reserve Requirement Ratios

FX Reserve Requirement Ratios (%)	Pre-Adjustment	13 February 2015	13 March 2015	9 October 2015 (*)
Core Liabilities				
Maturity up to 1 year	13	13	13	13
Maturity longer than 1 year	9	9	9	9
Non-Core Liabilities				
Maturity up to 1 year	13	**18**	**20**	**25**
Maturity up to 2 years	11	**13**	**14**	**20**
Maturity up to 3 years		**8**	8	**15**
Maturity up to 5 years	6	**7**	7	7
Maturity longer than 5 years		6	6	**5**
Announcement Date	November 2015 FSR	Press Release of 3 January 2015	Press Release of 10 March 2015	Press Release of 29 August 2015

* Flow liabilities beginning from 29 August 2015 will be subject to these rates.
Stock liabilities as of 28 August 2015 will be subject to the rates that will be effective on 13 March 2015 until the end of their original maturities.

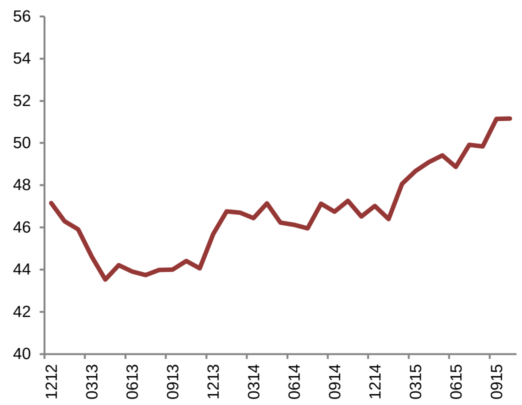
50. To contain macrofinancial risks, required reserve ratios for FX non-core short term liabilities of banks and financing companies were raised in a way to incentivize the extension of maturities of foreign borrowings (Table 3). To this end, the spread between FX liabilities of banks and financing companies with maturities of 1-3 year(s) and those with maturities longer than 3 years was raised to a sizeable extent in 2015. To prevent any deterioration in the cost structures of banks and financing companies, this has been applied to renewed and newly utilized liabilities beginning from 29 August 2015. Thanks to these arrangements, in 2015 banks' foreign borrowings with maturities up to 1 year declined considerably, while those with medium and long-term maturities increased (Charts 12 and 13).

Chart 12. Maturity Distribution of Non-Core FX Liabilities
(Percent)



Latest Data: 20 November 2015.
Source: BRSA.

Chart 13. Average Maturity of the Foreign Borrowing of the Banking Sector [1]
(Months)



(1) Includes issue borrowings in addition to credit, deposit and repo borrowings with banks and similar financial institutions as counterparts.
Latest Data: October 2015.
Source: CBRT.

51. Moreover, through the arrangements introduced on 30 May 2015, the coverage of liabilities subject to reserve requirements of foreign branches of banks incorporated in Turkey has been broadened. Thus, foreign branches of banks have also been encouraged to borrow longer term. To alleviate the adverse effects of this regulation on the current foreign borrowing cost structures, banks were provided with the facility of gradual transition. Moreover, as another facility, foreign branches' loans extended to non-residents have been allowed to be subtracted from total required reserve liabilities and their required reserves maintained in countries they operate have also been allowed to be subtracted from the total required reserves maintained in Turkey.

ANNEX 1: SCHEDULE FOR THE 2016 MONETARY POLICY COMMITTEE MEETINGS AND REPORTS

Schedule for the 2016 MPC Meetings and Reports			
MPC Meetings	Summary of the MPC Meeting	Inflation Report	Financial Stability Report
19 January 2016	26 January 2016	26 January 2016	
23 February 2016	1 March 2016		
24 March 2016	31 March 2016		
20 April 2016	26 April 2016	26 April 2016	
24 May 2016	31 May 2016		31 May 2016
21 June 2016	28 June 2016		
19 July 2016	26 July 2016	26 July 2016	
23 August 2016	31 August 2016		
22 September 2016	29 September 2016		
20 October 2016	27 October 2016	27 October 2016	
24 November 2016	1 December 2016		30 November 2016
20 December 2016	27 December 2016		

Note: Monetary and Exchange Rate Policy for 2017 will be published on 6 December 2016.

ANNEX 2: ROAD MAP DURING THE NORMALIZATION OF GLOBAL MONETARY POLICIES[2]

FRAMEWORK OF TURKISH LIRA LIQUIDITY MANAGEMENT AND SIMPLIFICATION STEPS		
POLICY		TIMING
Interest Rate Corridor	The interest rate corridor will be made more symmetric around one-week repo interest rate and the width of the corridor will be narrowed.	During Normalization[3]
Funding	The funding provided to primary dealers via repo transactions will be added to their limit of one-week repo auctions without changing the funding cost of primary dealers from the CBRT. Thus, quotation on the interest rate on borrowing facilities provided for primary dealers via repo transactions will be terminated.	Before Normalization
Collateral Conditions	Collateral conditions will be simplified.	Before and During Normalization

FX LIQUIDITY MEASURES		
POLICY		TIMING
Flexible FX Selling Auctions	Flexibility of FX selling auctions will be increased to reduce the exchange rate volatility.	Before Normalization
Reserve Options	FX liquidity will be provided to the financial system through increases in the remuneration rate of Turkish lira required reserves or adjustments of Reserve Options Coefficients (ROC).	Before and During Normalization
Measures on Foreign Exchange Deposit Market	Borrowing limits via foreign exchange deposit accounts will be increased. After the related changes, size of the FX liquidity that financial system can access from CBRT, which is the sum of FX holdings in ROM and limits of the foreign exchange deposit market, will be considerably above the external debt payments of the banks in the coming year.	Before Normalization

MEASURES TO SUPPORT FINANCIAL STABILITY		
POLICY		TIMING
Lengthening the Maturity of Noncore FX Liabilities	FX required reserve ratios for the new FX noncore liabilities of the banks will be determined to incentivize maturities of longer than three years, without increasing the costs on the stock of liabilities.	Before Normalization
Supporting Turkish Lira Core Liabilities	If seen necessary, the remuneration rate of Turkish lira required reserves will be revised in the coming period to reduce the intermediation cost of banking sector and to support core liabilities.	Before and During Normalization
Remuneration of FX Required Reserves	The remuneration rate of the USD denominated required reserves, reserve options and free reserves held at the CBRT will be held close to the upper end of the Fed funds target rate range.	Before and During Normalization

[2] Published on the CBRT's web page on August 18, 2015.
[3] With the beginning of the normalization of global monetary policies.