

NEW TURKISH LIRA

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As known by all, as of January 1, 2005, six zeroes were deleted from the Turkish currency, the Türk Lirası (TL—Turkish Lira), and the Yeni Türk Lirası (YTL—New Turkish Lira) became the new currency unit of Turkey.

The changeover to the New Turkish Lira is clear evidence that the vicious cycle that is believed to have trapped the Turkish economy has been broken at last. The New Turkish Lira is also a symbol of attaining a lasting economic stability, towards which great efforts have been made.

The facts that urged transition to a new currency unit stand as proof of the importance of the issue.

The high inflationary process, which started in the 1970s, obliged expression of economic values in terms of billions, trillions and even quadrillions. In this process, the cash demand of economy was met by new banknotes in larger denominations that were put into circulation almost every two years since 1981. As a result of this process, Turkey was the country where the highest-denominated banknotes were circulated. This fact did not only undermine the reputation of the Turkish currency but also adversely affected the currency's functions as a medium of exchange and store of value.

Removing six zeros from the currency coupled with the success of driving inflation down to single digit numbers is a very important step from the point of its effects on the reputation of the Turkish currency.

Meanwhile, deleting zeros from the currency has eliminated the technical as well as operational problems arising from the use of figures with multiple zeros. Therefore monetary expressions have been simplified and taking records and making transactions became easier.

In sum, the changeover to New Turkish Lira was necessary both for the prospective positive effects on the currency's reputation and for technical reasons. The New Turkish Lira is also

symbol and evidence of Turkey's determination to drive down inflation and sustain price stability.

With the transition to YTL at the beginning of the year, both TL and YTL are in circulation for 2005. Meanwhile, since both currencies are in circulation through the year, starting from January 1, 2005, it is a legal obligation to show the prices of goods and services both as TL and YTL on price tags and lists.

It is obvious that dropping 6 zeros from the Turkish Lira has been contributing not only the prestige of the currency in Turkish Citizens' eyes but also on the international level as well. With this operation, the trust of people in our currency has been renewed; and this trust creates substantial investment increases in financial instruments issued in New Turkish Lira.

All technical preparations had been completed in order to minimize the problems, which might emerge during the transition to YTL. Thankfully other countries' experiences have served as a blueprint for us. Communication activities were carried out to ease and shorten the adaptation process of Turkish people to YTL and to minimize the problems. Thanks to intensive and careful preparations, great public support for the operation has been achieved and the changeover has been very smooth and successful. No major problem has emerged during transition to YTL.

Some people in Turkey had argued that the switch to YTL might lead to an increase in prices, due to a rounding effect. Thanks to competitive market conditions, the prices are pulled down rather than pulled up in some retail markets. During the year 2005, the inflation rate has decreased consistently as a result of sound monetary and fiscal policies and no serious rounding problem has been observed. Furthermore, removing zeros has not had a positive or negative impact on exchange rates or interest rates other than effecting expectations positively.

As a matter of fact, the downward trend in inflation, which has been going on for the last three years, continued throughout 2005 as well. By the end of July 2005, inflation became 7.8 percent, which was 9.3 percent at the end of 2004. Thanks to coherent implementation of strict monetary and fiscal policies, as well as ongoing comprehensive structural adjustments, inflation has not exceeded the targeted levels for the last three years. The year-end inflation target for 2005 is 8 percent and end-year inflation is expected to be in line with the target. In order to attain absolute

price stability, the determined implementation of the economic program in recent years should be carried on with the same determination.

For more information on the YTL visit: www.ytl.gen.tr.

YTL Facts:

- The new currency unit is the New Turkish Lira (Yeni Türk Lirası—YTL). The sub-unit of the YTL is the New Kuruş (Yeni Kuruş—YKr).
- 1,000,000 TL = 1 YTL
- Denominations for YTL Banknotes: 1, 5, 10, 20, 50 and 100 YTL. Denominations for coins: 1, 5, 10, 25, 50 YKr and 1YTL.
- Turkish Lira banknotes and coins will be withdrawn from circulation as of January 1, 2006. They can be converted into new banknotes only by the Central Bank (Türkiye Cumhuriyet Merkez Bankası—TCMB) for a period of 10 years.
- Security features on some banknotes include: raised print, security thread, hidden images, watermarks, see-through images, micro-lettering, fine-line printing, fluorescent inks, sequence and serial number features, and special banknote paper.