

PRESS RELEASE ON THE LIQUIDITY SUPPORT FACILITY

1. With transition to floating exchange rate regime in February 2001, the Central Bank of the Republic of Turkey (CBT) adopted short-term policy rates as its main policy instrument. Owing to this regime that provides efficiency as well as room for flexibility, the CBT managed to establish a framework that minimizes any volatilities in short-term interest rates and ensures smooth functioning of the payments system.
2. What is to be emphasized here is that the exchange rate regime adopted by the central banks is the main determinant of their flexibility pertaining to their domestic currency liquidity management. In countries where the movement of capital is free, central banks have more flexibility within the scope of the floating exchange rate regime regarding domestic currency liquidity management compared to those operating under fixed exchange rate or currency-peg regimes. As a matter of fact, thanks to the funding facilities offered by the flexible and efficient liquidity management established by the Central Bank, despite a number of domestic and external shocks experienced in the last eight years, no interruptions whatsoever were observed in the functioning of the money markets and/or payments system. Under the current Turkish lira liquidity management, the facilities offered by the Central Bank to the banking system was made public by the press release on "Monetary and Exchange Rate Policy for 2009" dated 16 December 2008.
3. Meanwhile, Turkish banking system has become quite resilient in the face of exogenous shocks, owing to the effective oversight and supervision functions of the Banking Regulation and Supervision Agency along with the structural reforms undertaken in 2001 and onwards primarily in banking system, a greater emphasis on risk management in the light of past experiences and a prudent liquidity management. Moreover, the Central Bank, within the framework of the CBT Law, pursues a quite flexible strategy with regard to its collateral system and accepts a wide range of securities and FX assets as collateral for the purpose of Turkish lira liquidity facilities. Considering the collaterals accepted by the Central Bank, it is understood that the banking system currently has adequate amount of collateral for liquidity requirements

even under stress test conditions where potential unfavorable scenarios are tested such as interest rate hikes, depreciation of the Turkish currency, and/or fast withdrawal of deposits.

4. Given the resilient structure of Turkish banking system, the flexible collateral system and the Central Bank's Turkish lira liquidity facilities, it is seen that adequate facilities are effectively provided, with no need for other instruments, for the orderly functioning of money markets and maintaining the financial stability in Turkey. Meanwhile, the subparagraph (c) of the paragraph (I) of Article 40 of the CBT Law authorizes the Bank to extend credits to the banks that are the subject of uncertainty and lack of confidence in the event of acceleration of fund withdrawals and uncertainty and lack of confidence in the banking system, in the amount to cover the withdrawal of funds, the conditions of which shall be determined by the Bank.
5. Taking into consideration the resilient structure of the banking system and the effectiveness of the available instruments, the Central Bank does not predict that the use of the mentioned instrument will be necessary, however, as stated in paragraph 50 of the press release on "Monetary and Exchange Rate Policy for 2009" of 16 December 2008, it deems useful to remain cautious of any possible unfavorable conditions and to clearly inform the banking system and the public of credit utilization procedures that are available in case of extraordinary conditions. Within this framework, the Central Bank Regulation on the Liquidity Support Facility governing the principles and procedures set forth for the utilization of credit facilities as stipulated in subparagraph (c) of the paragraph (I) of Article 40 of the CBT Law has been posted at the CBT website. Accordingly, the credits will be available:
 - a. As advance payments, with one month maturities, for a maximum period of one year,
 - b. At the lending rate set for the intraday transactions carried out at the Interbank Money Market; bearing in mind the principle that interest rates applicable to credits of this nature are higher than those applicable to normal open market transactions of the central banks,
 - c. Against collaterals accepted at the Interbank Money Market,
 - d. Being limited to the amount twice as much as the equity capital of the applying bank.