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PRESS RELEASE ON REQUIRED RESERVES

In addition to other measures regarding Turkish lira and foreign exchange (FX) liquidity taken to alleviate the impact of global financial crisis that began to deepen in October 2008 on the domestic economy, the Central Bank of the Republic of Turkey (CBRT) had reduced the required reserve ratios for Turkish lira and FX liabilities by 1 and 2 percentage points to 5 and 9 percent on December 5, 2008 and October 16, 2009, respectively.

In its press release of April 14, 2010 on the monetary policy exit strategies, the CBRT announced that the measures related to FX liquidity would be gradually taken to the pre-crisis levels at a controlled pace, and if the liquidity shortage decreases noticeably and/or credit conditions improve, the Turkish lira and FX required reserve ratios might be increased gradually and at a controlled pace, and the required reserve ratios might be used more actively as a policy tool to mitigate the macroeconomic and financial risks.

In this context, the FX required reserve ratio was increased by 0.5 percentage point to reach 10 percent to be effective as of the calculation periods of April 30, 2010 and August 6, 2010, and thus FX liquidity was reduced approximately by USD 1.4 billion.

This time, taking the recent increase in credit volumes into account, the Turkish lira required reserve ratio was increased by 0.5 percentage point from 5 percent to 5.5 percent and FX required reserve ratio was increased by 1 percentage point from 10 percent to 11 percent. Thus, the FX and Turkish lira liquidity will be reduced approximately by USD 1.5 billion and TL 2.1 billion, respectively.

Moreover, the Turkish lira and FX required reserves had been remunerated since August 8, 2001 and May 24, 2002, respectively. However, the remuneration of FX required reserves was terminated on December 5, 2008.

It is stated in Paragraph 19 of the monetary policy exit strategy announcement that "The main policy instrument of the Central Bank is the short-term interest rates. However, one of the lessons learned during the crisis is that other monetary policy instruments may be required to reduce the macroeconomic risks, especially when the economy is overheated. In this context, depending on future developments, – for example if the credit expansion speed exceeds desired levels – the required reserve ratios may be used more actively as a policy tool to reduce the macroeconomic risks". In this framework, to use the required reserve ratios as one of the policy tools to mitigate the macroeconomic and financial risks more actively in the future, the remuneration of Turkish lira required reserves is also terminated.