

PRESS RELEASE REGARDING THE COMMUNIQUÉS ON REQUIRED RESERVES AND LIQUIDITY REQUIREMENT

Due to the comprehensive changes in the regulation of the financial sector under the new Banking Law No. 5411 and the amendment of the article related to required reserves and liquidity requirement of the Central Bank Law No. 1211, Communiqués No.2002/1 and 2002/2 on Required Reserves and Liquidity Requirement, which had been published in the Official Gazette No. 24710 dated 29/3/2002, are revised as explained below, also by taking into consideration the practices in the European Union, as well as other international practices.

"The Communiqué No. 2005/1 on Required Reserves", which is published in the Official Gazette No. 25995 dated 16/11/2005, will basically come into force starting from the required reserve table dated 16/12/2005 and "the Communiqué on Liquidity Requirement" is repealed as of 16/11/2005. Within this context;

1. Implementation of the liquidity requirement, which had become ineffective for a long time, has been abolished. Article 46 of the new Banking Law (No. 5411) requires from banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures to be set by the Banking Regulation and Supervision Board. Within this framework, a comprehensive liquidity arrangement will be put into force by the Banking Regulation and Supervision Agency, following the consent of the Central Bank of the Republic of Turkey (CBRT).

Meanwhile, it is stated in the EU Commission's "Turkey 2005 Progress Report" dated November 9, 2005 that the obligation for banks to hold government securities with the Central Bank contradicts the principle of "the prohibition of privileged access of the public sector to financial institutions". With the abolishment of the already ineffective liquidity regulation, banks shall no longer be obliged to hold government securities with the CBRT and thus, an important step has been taken in the harmonization of financial regulations with the acquis.

2. As it is known, in the "Monetary and Foreign Exchange Policy for 2005" made public by the CBRT on December 20, 2004, it was announced that with liquidity squeeze in the markets, in order to enable the banks to manage their liquidity in a flexible and efficient manner, the total amount of the YTL required reserves was planned to be maintained on average, whereas only half of it was allowed to be maintained on average under the current practice. The practice of maintaining the total amount of the YTL required reserves on an average basis, which was not initiated until now - as intensive FX interventions of 2005 postponed the predicted liquidity squeeze -, shall begin as of end-2005. This practice will further reduce the likelihood of short-term liquidity fluctuations in YTL in the forthcoming period, which might stem from the temporary increases in liquidity resulting from salary payments as well as from tax payments or auction-redemption differences, to put pressure

on interest rates. Thereby, it will contribute to the achievement of further stability in the short-term interest rates and the effective use of interest rates as a policy tool in 2006 when inflation targeting will start.

3. The provision in Article No. 40/II of the Central Bank Law regarding the imposition of sanctions for required reserves, is amended by Article No. 168 Paragraph F of Banking Law No. 5411, also having taken into account the authority given by the European Council to the European Central Bank regarding the sanctions applicable to the required reserves. This states that "The Bank shall be authorized to require institutions to hold non-interest bearing deposits in accounts with the Bank or to accrue default interest on the institutions which do not deposit their required reserves and liquidity requirement when due or maintain them deficiently, for the deficient portion, in accordance with the procedures and conditions to be determined thereof". Based on this provision, the related article of the Communiqué pertaining to the imposition of sanctions on required reserves was revised. Now, it is foreseen that for the deficient amount of required reserves; deposits amounts of double the amount of the YTL required reserves and three-fold the amount of the FX required reserves shall be held in YTL and FX respectively, in the blocked accounts with the Bank, in the form of non-interest bearing deposits, taking into consideration the periods of deficiency, otherwise default interest is imposed to deficient amounts based on maintenance period.

In this way, in cases of non-compliance, with the maintenance of non-interest bearing deposits instead of collection of the whole default interest in a single cash payment, likely negative impacts on the liquidity and financial position of the banks will be minimized and pressure on interest rates will be prevented.

4. The provision of the repealed Banks Act No. 4389, which authorized the Savings Deposits Insurance Fund (Fund) Board to "postpone or reduce the legal reserve requirement liabilities, including default interests, of those banks, the majority or all shares of which were transferred to the Fund", has been revised under Banking Law No. 5411 in a way to authorize the Fund Board to abolish only the default interests on required reserves and liquidity requirement that are among the revenues of the Fund.

The aforementioned provision, which was an exception to the authority of Central Bank to regulate required reserves, has been repealed by the Banking Law that has recently entered into force. In this context, this Communiqué introduces that credit institutions, the management, supervision and the shareholder rights except dividends of which are transferred to the Fund according to the Banking Law, are exempt from required reserves as of the transfer date to the Fund. Thereby, the exemption regarding banks, which were transferred to the Fund and whose reserve requirements had already been abolished by the Fund Board in accordance with the repealed Banking Law, continues.

5. In order to prevent unfair competition between the banks which evade their liabilities on the date of calculation of the required reserves and those banks which fully comply; based on the examination and inspection results, the CBRT may ask the former to calculate their liabilities as an average of the balance of days between the two liability computation dates instead of the one-day balance.

6. The required reserve ratios, which are 6 percent for YTL liabilities and 11 percent for foreign currency liabilities, are maintained.

7. Since the name of special finance houses has been changed to “participation banks” and participation banks have been included in the definition of bank according to Banking Law No. 5411, the expression “special finance houses” is not mentioned in this Communiqué.