



*Central Bank of
Turkey is
celebrating
its 75th
Anniversary.*

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Central Bank of
Turkey

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75 YEARS OF THE CENTRAL BANK OF TURKEY

The idea of setting up a national central bank came up right after the foundation of the Republic of Turkey in 1923, in order to bolster political independence along with the economic independence and to ease the negative effects of the Great Depression on the Turkish economy. As a consequence, the blueprint of the Law on the Central Bank of Turkey (CBT) was prepared by considering the views of prominent foreign experts of that time and the experiences of other central bank laws. The CBT Law No: 1715 was enacted on 11 June 1930 and the CBT was formally established on 30 June 1930 upon the promulgation of the Law in the Official Gazette. The CBT started its operations on 3 October 1931.

1932. CBT's first employees



The basic aim of the Bank was to support economic development of the country. In order to fulfill this aim, the Bank was to set rediscount ratios and regulate money markets, to execute Treasury operations, and to take, jointly with the Government, all measures to protect the value of the Turkish currency. Furthermore, the Bank was granted with the privilege of issuing banknotes.

According to the CBT Law, the Bank was established as a joint-stock company whose stocks were divided into four categories. The share of the government could not exceed 15 percent of the capital. In this period, the CBT was the treasurer of the state and could give credit to banks under certain conditions. Yet, the CBT Law was amended in time, and the aim of these amendments was to extend more credits to the Treasury and State Economic Enterprises. Thus, the Bank began financing public sector deficits rather than conducting monetary policy in a prudent manner.

The CBT from 1970's to 2001

The introduction and implementation of the 5-year development plans and annual programs between 1960 and 1970 called for the CBT to increase its efficiency and to play a greater role in the monetary policy making process. Accordingly, the new CBT Law No: 1211 was enacted on 14 January 1970. This Law redefined legal tender, organizational structure as well as the duties and responsibilities of the CBT.

According to the amendment made in the capital structure of the Bank, it was stipulated that the share of the Treasury should not be less than 51 percent of the capital.

Regarding the policy implementations, the CBT was provided with the direct authority to set monetary policy and empowered with the implementation of money and credit policies consistent with the development plans and annual programs. The Bank was also given the duty of carrying out open market operations in order to regulate money supply and liquidity. Moreover the CBT was entrusted with extending medium-term credits to government to support

1976. General Assembly Meeting



public investments and economic development. Along with these functions, the CBT continued to regulate the volume and circulation of the Turkish currency, and executed the duties of financial and economic advisor, fiscal agent and treasurer to the government.

“In the Eighties, the CBT pioneered the establishment of the money and foreign exchange markets.”

“In 1990, the CBT announced a monetary program for the first time in its history.”

“In 1997, the granting of short-term advances to the Treasury was abolished.”

The Eighties was a turning point for both the Turkish economy and the CBT. On 24 January 1980, the fixed exchange rate regime was abandoned and limitations on interest rates for loans and deposits were removed in order to liberalize the financial system. Accordingly, the CBT started to determine exchange rates on a daily basis beginning from May 1981.

In the first half of 1980's, the effective use of monetary policy instruments became more important, and the exchange rates started to be



Governor Naim Talu with the employees

determined under market conditions.

These developments revealed the need for advanced and efficient money and foreign exchange markets. Therefore, the CBT pioneered the establishment of the money and foreign exchange markets, and the “Markets and Fund Management Department” was established within the CBT on 22 October 1987. Through these markets, the CBT not only dealt with its own transactions but also acted as an intermediary for the transactions



Markets Department

conducted among other banks. Thus, it is safe to say that the CBT took a major step in the design of modern financial markets.



Money Museum

Another major change affecting monetary policy making was made in 1989, which allowed residents to make foreign exchange transactions. Accordingly, the Turkish currency was declared to be convertible in the beginning of 1990's and a transition to a relatively flexible exchange rate regime was completed. In this period, the CBT assumed a more dominant role in the markets. In 1990, for the first time in its history, the CBT announced a

monetary program in a medium-term perspective.

In a nutshell, the monetary policies pursued during the 1990's can be defined as being passive; with controlled exchange rates under free capital movement and liberalized financial markets. This period also coincided with accelerating inflation together with high public deficits. As a result of macroeconomic instability and weak financial system, the Turkish economy faced a crisis in 1994. Following the 1994 crisis, the CBT conducted tight monetary policy in order to bring stability in financial markets and to increase foreign exchange reserves.

The 1994 crisis also gave rise to debates on the independence of the CBT. The legal status of the CBT and its relations with the Treasury came to the agenda. As a result, the use of the CBT's funds by the Treasury was limited



Vaults

with an amendment made in the CBT Law dated 21 April 1994. In 1997, a mutual understanding was reached between the Treasury and the CBT by signing a protocol that abolished the granting of short-term advances to the Treasury.

The CBT after 2001

However, macroeconomic stability had not been restored by the end of 1990's and Turkey experienced another crisis in early 2001. After the crisis, significant amendments were made in the CBT Law on April 25, 2001, so as to restructure the CBT within the framework of modern central banking. According to the new amendments that have been made in the main duties and powers of the CBT:

- The primary objective of the Bank is defined as “achieving and maintaining price stability”.
- The Bank shall choose on its own discretion the monetary policy strategy to be implemented, and the monetary policy instruments it can use in order to achieve and maintain price stability. As a result, the CBT has obtained instrument independence.
- The Bank shall support the government's policies on economic growth and employment, provided that they do not conflict with the objective of achieving and maintaining price stability.
- The Bank shall not grant credit or advance to the Treasury and to the public sector. Nor shall it buy such institutions' debt instruments in the primary markets.
- The Bank shall enjoy absolute autonomy in exercising the powers and carrying out the duties granted by this Law under its own responsibility.
- The transparency and accountability of the CBT in the monetary policy implementations shall be increased.
- A Monetary Policy Committee (MPC) shall be set up in order to determine the principles and strategy of monetary policy.
- The MPC shall determine the inflation target together with the Government and adopt the monetary policy in compliance with the said target.
- The Bank shall monitor the financial markets, and take precautions for enhancing the stability in the financial system, taking regulatory measures with respect to money and foreign exchange markets. “Financial stability” is set as an auxiliary objective of the CBT.



MPC Meeting Room

In the beginning of 2001, another step was taken in the field of monetary policy making through the introduction of floating exchange rate regime. The CBT does not have any exchange rate target under the floating exchange rate regime, but it intervenes in the market only to dampen excessive volatility in either directions. Between 2002 and 2005, the Bank implemented “implicit inflation targeting regime” in order to bring down inflation to single digits. Under this regime, The CBT used short-term interest rates as main policy instrument to achieve the inflation targets. In this period, the year-end CPI decreased from the level of 70 percent at the end of 2001, to 7.72 percent at the end of 2005. As needed by inflation targeting and in line with the principles of accountability and transparency of the CBT, the Communication Department was established on 10 October 2002 to design and conduct an effective communication strategy. Besides, the Research Department was restructured in a way to enhance modeling and forecasting capabilities.

In the beginning of 2006, the CBT has started to implement a “full fledged inflation targeting regime”. Over the 75 years, the CBT has come a long way in modern central banking by experiencing many changes in its structure, functions and policies. Today, the CBT is in a position to implement its policies in a contemporary structure in line with the principles of transparency and accountability.



Head Office

“The primary objective of the CBT is achieving and maintaining price stability.”

“Financial stability is an auxiliary objective of the CBT.”

AT A GLANCE



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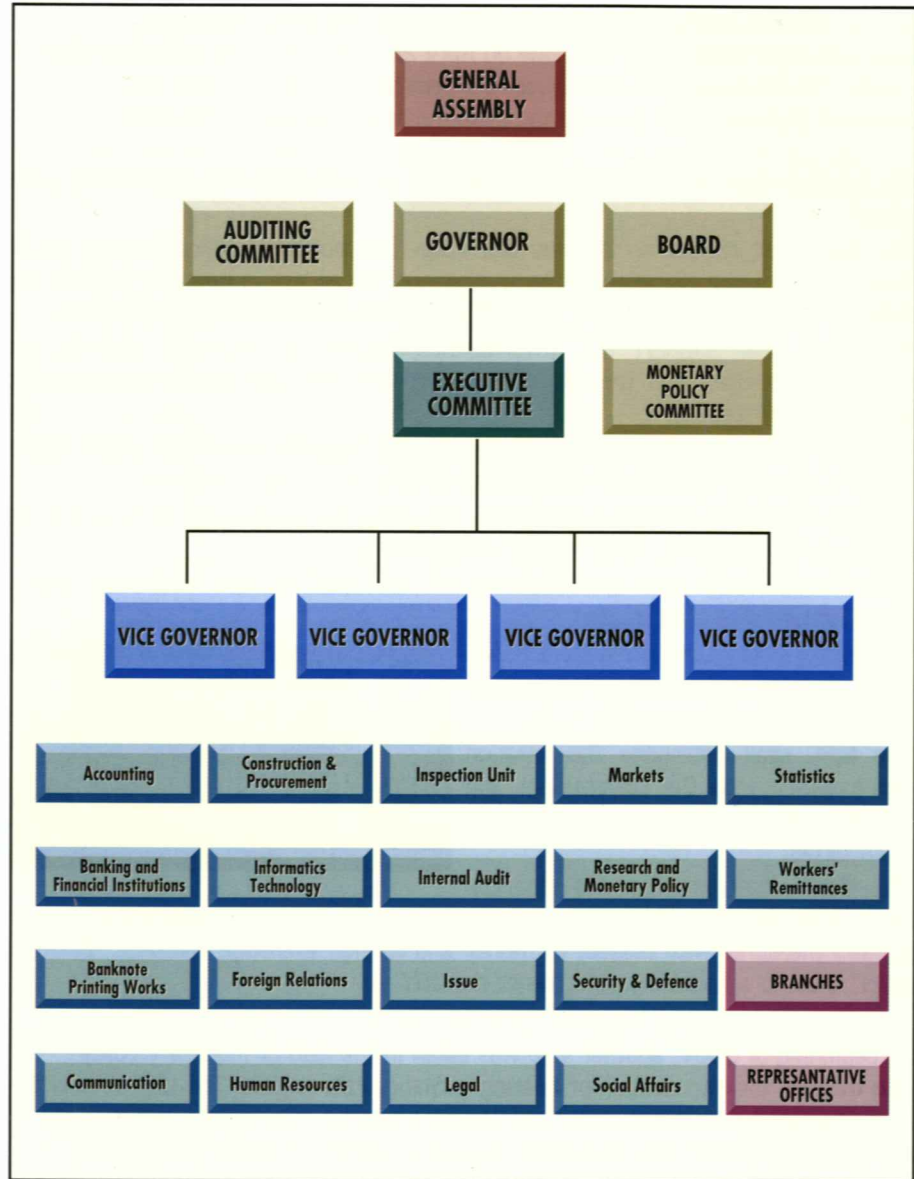
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CBT ORGANIZATION CHART



CBT Interest Rates*	Borrowing	Lending
Overnight (%)	17.50	22.50
CBT Exchange Rates* ¹	FX Buying	FX Selling
Dollar	1.4705	1.4776
Euro	1.9221	1.9314

Central Bank Foreign Exchange Reserves (as of 23 November 2006, Billion USD)	58.2
CPI (% Annual Change October 2006)	9.98

* As of November 27, 2006, ¹ Indicative