FREQUENTLY ASKED QUESTIONS

Monetary Policy and Inflation Targeting

What is an Open Letter?

An Open Letter is a written statement prepared by the Central Bank in line with the principles of transparency and accountability, which, in case of a breach or a probable breach of the inflation target, explains the reasons for the breach as well as the measures to be taken to normalize inflation. Open Letters are submitted to the Government and are made public. The inflation targets are set as "point targets" on the year-end inflation targets calculated by the annual percentage change of the Consumer Price Index (CPI). Moreover, as stipulated in Article 42 of the CBRT Law, "The Bank shall submit information to the Government in writing and inform the public, in due time, disclosing the reasons of the failure to achieve (or the occurrence of the possibility of not achieving) the pre-determined targets and the measures to be taken thereof". However, the Article does not specify how much deviation from the target will require the implementation of the accountability mechanism. In order to clarify the mechanism and facilitate its functioning, the Central Bank establishes a symmetrical uncertainty band around the point target. Thus, when the deviation exceeds the uncertainty band, the CBRT is committed to write an "Open Letter" to the Government explaining the reasons for the deviation and the measures to be taken to reconverge with the target.

How are the ratio(s) for the reserve requirements the banks have to hold at the Central Bank determined?

Reserve requirements are one of the monetary policy instruments. In the framework of Article 40 of Law No. 1211 on the Central Bank of the Republic of Turkey, all practical procedures and principles pertaining to issues including but not limited to the ratio(s) applicable for and the liabilities subject to reserve requirements held in cash at the CBRT accounts are determined by communiqués issued by the CBRT.

According to the communiqués in force, the amounts calculated by subtracting the deductible items from the domestic liabilities of banks, the deposits and participation funds that they accept in Turkey on behalf of their branches abroad, and the credits used by banks and tracked by their branches abroad constitute the Turkish lira and foreign exchange liabilities subject to reserve requirements.

The reserve requirement ratios to be applied to the Turkish lira and foreign exchange deposits and other liabilities of the banks are calculated based on the target monetary aggregates stipulated by the monetary policy framework and the liquidity conditions on the market; moreover, factors such as the Central Bank reserves as well as account owners' preferences for Turkish lira or FX deposits are also taken into account while calculating these ratios. The reserve requirement ratios are accessible at the "Data-Banking Data" menu and the arrangements regarding reserve requirements are accessible via the "Legislation-Banking" menu on the CBRT website.

Who determines the inflation targets and for how long are these targets valid?

The inflation targets are jointly set by the Central Bank and the Government for three-year periods. However, the Bank shall determine, at its own discretion, the monetary policy that it shall implement and the monetary policy instruments that it shall use to achieve these targets. In other words, the Central Bank has instrument independence in monetary policy implementation.

Concurrent with the three-year budget implementation, a three-year target horizon is set to ensure consistency among inflation targets and enhance coherence with other macroeconomic projections.

What does the Central Bank do if it misses the inflation targets? How does the Central Bank's accountability principle work?

Article 42 of the Central Bank Law stipulates that "The Bank shall submit information to the Government in writing and inform the public disclosing the reasons of the failure to achieve the pre-determined targets in due time or the occurrence of the possibility of not achieving the targets and the measures to be taken thereof". In order to clarify the accountability mechanism and facilitate its functioning, the Central Bank establishes a symmetrical uncertainty band around the year-end point target. Thus, the accountability mechanism will be implemented should the deviation from the target exceed the uncertainty band.

As inflation targets are set as year-end targets and as part of its accountability responsibility, should the year-end inflation exceed the target by a significant margin, the Central Bank shall write a detailed letter to the Government. Moreover, to enhance accountability responsibility, should quarterly inflation rates exceed the uncertainty band set around the end-year target, the Central Bank announces in Inflation Reports the reasons for the deviation and the measures that have been already taken as well as those yet to be taken to achieve the target.

Moreover, the Governor's biannual presentations on the Central Bank's activities and monetary policy implementations before the Council of Ministers and the Planning and Budget Commission of the Grand National Assembly of Turkey are part of the accountability mechanism.

What is the Central Bank's main policy instrument?

The monetary policy, which the Central Bank implements to achieve price stability and to keep macro-financial risks under control, calls for the use of multiple policy instruments simultaneously. The Central Bank uses a policy mix comprising the interest rate of one-week repo auctions, the interest rate corridor between overnight borrowing and lending rates and reserve requirements.

How does the Central Bank set policy rates?

Monetary policy decisions are made by the members of the Monetary Policy Committee who vote at monthly meetings held according to a pre-announced schedule. Interest rate decisions are made with a medium-term perspective focusing on the future inflation outlook. The Central Bank does not instantly react to the temporary impacts of large exogenous shocks on inflation, but extends the policy reactions over time by focusing on medium-term targets. In this framework, while making policy rate decisions, the Monetary Policy Committee uses a large set of data comprised of the total supply-demand balance,

indicators pertaining to the fiscal policy, monetary indicators and credit aggregates, wage-employment-unit price-productivity developments, pricing behaviors of the public sector and the private sector, inflation expectations, exchange rates and the factors that might affect them, analysis of probable exogenous shocks, and projections established by using the economic forecast systems within the Bank.

How can I learn the Central Bank's inflation and interest rate projections?

The up-to-date inflation forecasts are presented in the quarterly Inflation Reports that are the main communication tool of the CBRT's monetary policy. In this report, a general overview of the factors affecting inflation is presented along with the signals that do not contain any numerical data but incorporate qualitative information pertaining to the interest rate policy that might be implemented in the future. The past Inflation Reports are accessible via http://www.tcmb.gov.tr/research/parapol/enfrapor.html.

When and how does the Central Bank announce its policy rate decisions?

The policy rate decisions made at the Monetary Policy Committee meetings and a brief statement explaining their rationale are announced on the CBRT website at 2 p.m. on the day of the MPC meeting. The English translation of the decision is also posted on the CBRT website on the MPC meeting day.

Financial Stability

How is the Central Bank's mandate about financial stability defined in the Law?

The Central Bank Law stipulates that the Central Bank's fundamental duties and powers are; to take precautions for enhancing stability in the financial system and to take regulatory measures with respect to the money and foreign exchange markets (Article 4-I/g), to monitor the financial markets (Article 4-I/h), and to request and gather statistical information from banks, other financial institutions as well as from establishments and institutions authorized to regulate and supervise the institutions in order to monitor financial markets (Article 4-II/g).

Why does the Central Bank publish Financial Stability Reports?

On the international level, central banks review their structures to directly and effectively monitor financial stability, work on new analysis techniques and issue Financial Stability Reports to share their evaluations with the public. The aim of issuing these reports is to make information accessible to concerned parties and to contribute to financial stability. To this end, the Central Bank of Turkey, with a macro perspective, closely monitors vulnerabilities in the financial system, evaluates the risks that could destabilize the system and issues the biannual Financial Stability Report to share its analyses and views with the public to allow a timely and effective management of the risks as well as to make sure that healthier assessments are made in the domestic and international markets. Moreover, the Central Bank strives to enhance transparency, accountability and predictability, and in this regard, the Financial Stability Report is one of the basic policy readings of the Central Bank.

CBRT's Exchange Rate Policy and Reserve Management

How does the Central Bank determine its exchange rate policies and how does it use its authority to implement these policies?

According to Article 4 of Law No. 1211 on the Central Bank of the Republic of Turkey, the Central Bank determines the exchange rate regime jointly with the Government as part of its primary mandates; however, the Central Bank uses its own discretion to implement the exchange rate policy.

The Central Bank determines the exchange rate policy that it will implement in accordance with its monetary policy targets and may change the exchange rate policy if the monetary policy is changed. Since February 2001, the Central Bank has been implementing a monetary policy in which short-term interest rates are used as the main policy instrument to achieve the inflation target and has been pursuing an implicit inflation targeting strategy and will continue to do so until an explicit inflation targeting strategy is adopted. The Central Bank has been implementing a floating exchange rate regime, and thus, it does not buy or sell foreign exchange to determine the level or direction of exchange rates but only intervenes with the sole aim of avoiding excessive fluctuations in exchange rates.

What is the role that the Central Bank plays in foreign exchange markets?

As stipulated in Article 4 of Law No. 1211 on the Central Bank, the exchange rate regime shall be determined jointly with the Government. Nevertheless, deciding on the exchange rate policy to be implemented is exclusively the Central Bank's responsibility. Turkey implemented an implicit inflation targeting strategy from 2001 till 2006, and in 2006 a formal inflation targeting strategy was adopted; in both periods a floating exchange rate regime was the prevailing foreign exchange regime. In a floating exchange rate regime, exchange rates are neither a target nor a policy instrument. The only variable that the Central Bank sets as a target is inflation and the main policy instrument that the Central Bank uses to achieve its targets is the short-term interest rate.

In this framework,

i. Under the current floating exchange rate regime, the exchange rates are determined by supply and demand conditions in the market and the Central Bank has no exchange rate target whatsoever.
ii. As there is no exchange rate level to be maintained, the importance of foreign exchange reserves is quite low compared to fixed exchange rate or currency peg regimes. However, in developing countries like Turkey, having a strong foreign exchange position contributes to alleviating the adverse impacts of domestic and external shocks on the economy. Moreover, taking into account the Treasury's external debt repayments and the need to gradually decrease the level of high-cost workers' remittances that count for an important part of liabilities on the CBRT balance sheet, the Central Bank, with the aim of building up reserves, occasionally holds foreign exchange buying auctions during times when the foreign exchange supply grows faster than the foreign exchange demand.
iii. The Central Bank, which has been implementing a moderate reserve-raising strategy, holds foreign exchange buying auctions in a way to influence the supply-demand conditions in the markets on the least possible level and suspends FX buying auctions when there is excessive FX liquidity shortage.

iv. Moreover, as stated repeatedly in the Central Bank press releases, fluctuations in exchange rates are always monitored very closely, and the Central Bank can directly intervene in the market in case of excessive volatility in either direction. A decision for intervention is not simply based on past data, but on a comprehensive evaluation of all materialized and potential fluctuations.

Corporate

What is the legal status of the Central Bank?

The Central Bank "was established and organized in the form of a joint stock company with Law No. 1211", "has not been defined as a central or decentralized government establishment, or even as an independent government authority", "has been excluded from the definition of subsidiary-affiliated and related institutions", "is exempt from hierarchical governance and trusteeship" and "has been excluded from the scope of Budget Laws". Thus, the Bank has been vested with a sui generis legal status, which can be defined as independence.

Who are the shareholders of the Central Bank?

The shares of the Central Bank of the Republic of Turkey are divided into (A), (B), (C) and (D) classes.

Class (A) shares belong exclusively to the Treasury and cannot be less than 51 percent of the capital.

Class (B) shares have been allocated to national banks operating in Turkey.

A maximum of 15,000 shares has been allocated as Class (C) shares to banks other than the national banks and to chartered companies. Class (D) shares have been allocated to Turkish commercial institutions and to legal and real persons of Turkish nationality.

General information on the Bank's shares as well as other information regarding the holders of class (A), (B), (C) shares and class (D) shareholders with shares above a certain ratio, the amount of their shares and the ratio of these shares to the total capital can be obtained from Annual Reports and Independent Audit Reports via the Publications/Periodical Publications link on the Bank's website (www.tcmb.gov.tr).

What portion of the profit of the Central Bank is transferred to the Treasury?

The profit of the Central Bank is allocated in accordance with Article 60 of Law No. 1211 on the Central Bank of the Republic of Turkey. Pursuant to this Article, the annual net profit of the Central Bank is allocated as follows: 20 percent of it to the reserve fund, 6 percent of the nominal value of its share capital to the shareholders as the first dividend, a maximum of 5 percent of the remaining amount to the Bank personnel in an amount that would not exceed the sum of their 2-month salaries and 10 percent of the same remaining amount to the extraordinary reserve fund, and a maximum of 6 percent of the nominal value of its share capital to the shareholders as a second dividend upon the decision of the General Assembly. The remaining balance after this allocation is transferred to the Treasury. Detailed information on the allocation of the profit can be accessed via "Publications/Periodical Publications/Annual Report" on the Bank's web site (www.tcmb.gov.tr).

Is the Central Bank audited? How?

As a joint stock company, the Central Bank is inspected via internal and external audits.

Internal Audit

Pursuant to Article 15 of the Central Bank Law, the General Assembly examines and approves the Annual Report submitted by the Board and the report of the Auditing Committee as well as the balance sheet and the income statements of the Bank. The General Assembly performs the audit of the Bank's annual activity by rendering decisions as to the acquittal of the Board and the Auditing Committee every year.

Pursuant to Article 24 of the Central Bank Law, the Auditing Committee audits all the operations and accounts of the Bank and submits its report to the General Assembly at the end of each year. The Auditing Committee, in the scope of the power granted by the Central Bank Law, submits its opinions in writing to the Board and also presents a copy thereof to the Prime Ministry.

The Audit Department, which has been granted the power and duty to audit the Bank's operations by Article 49 and Article 50 of the Regulation on the Organization and Duties of the CBRT, inspects the units, branches and representative offices of the Bank as well as other institutions and organizations in the scope of the power and duties entrusted to the Bank by Law No.1211 and other legislation; undertakes examinations and research; carries out investigations when needed, and offers consultancy services.

External Audit

Article 42 of the Central Bank Law provides the legal basis for the external audit of the Bank. According to this Article, the Prime Minister has the power to have the operations and accounts of the Bank audited.

Pursuant to Article 42 of the Central Bank Law, the Governor submits a report to the Council of Ministers on the operations of the Bank and the monetary policy followed and to be followed, in April and October each year. The Bank also provides the Planning and Budget Commission of the Grand National Assembly of Turkey with information on its operations twice a year.

Pursuant to Paragraph 2 of Article 42 of the Central Bank Law, the Bank may have its balance sheet and income statements audited by independent external auditing institutions. The independent external auditing practice, which is deemed to be one of the most effective tools for the "transparency" and "accountability" principles of central banks functioning at international standards, was initiated at the Central Bank of the Republic of Turkey in 2000. Reports based on the results of independent audits conducted each year are disclosed to the public via the Bank's website.

Apart from the internal and external audits, the Undersecretariat of Treasury, the State Supervisory Council, some ministries and other public authorities may have their inspection staff conduct audits at the Bank on issues related to their duties when deemed necessary.

What is implied by the statement that "The Central Bank of the Republic of Turkey is independent"?

When we say "The Central Bank of the Republic of Turkey is independent", the implication is that the Central Bank has "instrument independence". It is clearly stated in Article 4 of the Central Bank Law that the primary objective of the Bank is to achieve price stability. Because the primary objective of the monetary policy has been set as achieving price stability, the CBRT does not have "goal independence". The same Article continues with the sentence "The Bank shall determine on its own discretion the monetary policy that it shall implement and the monetary policy instruments that it shall use in order to achieve and maintain price stability". In other words, the Bank has the capacity to directly determine the monetary policy it will implement and the monetary policy instruments it will use to achieve the price stability objective. This means that the Central Bank, just like various central banks in advanced economies, enjoys an instrument independence granted to it by law.

What does the "Valuation Account" item in both the assets and liabilities of the Central Bank's balance sheet mean?

Pursuant to Article 61 of Law No. 1211 on the Central Bank, unrealized revenues and expenses stemming from the revaluation of the gold, foreign banknotes and foreign exchange in the assets and liabilities of the Bank due to changes in the value of the Turkish lira against foreign currencies are recorded in the Valuation Account item in the assets and liabilities of the CBRT's balance sheet. Unrealized expenses are displayed in the assets of the balance sheet while unrealized revenues are shown in the liabilities of the balance sheet. In cases where these revenues and expenses realize, the realized amounts are transferred to profit and loss accounts.

If the change in the value of Turkish lira equivalents of foreign exchange assets is higher than the change in the value of Turkish lira equivalents of foreign exchange liabilities, then the valuation account is in favor of the Bank and is displayed in the liabilities of the balance sheet. In other words, there is an unrealized profit from the exchange rate.

If the change in the value of Turkish lira equivalents of foreign exchange liabilities is higher than the change in the value of Turkish lira equivalents of foreign exchange assets, then the valuation account is to the Bank's disadvantage and is displayed in the assets of the balance sheet. In other words, there is an unrealized loss from the exchange rate.

Explanations for the balance sheet of the Central Bank of the Republic of Turkey can be obtained via the "Publications/Books/Booklets" link and the "Publications/Periodical Publications/Annual Reports" link on the Bank's website (www.tcmb.gov.tr).

What are the differences and similarities between the balance sheets of the Central Bank and commercial banks?

The fundamental differences between the balance sheets of the Central Bank and commercial banks are as follows:

Pursuant to Article 4 of Law No. 1211 on the Central Bank, the privilege of issuing banknotes in Turkey rests exclusively with the Central Bank, and the banknotes put into circulation are monitored via the "Banknotes in Circulation" item in the liabilities of the Central Bank Balance Sheet.

Pursuant to Article 41 of Law No. 1211 on the Central Bank, the Central Bank has been entrusted with the duty to act as the treasurer for the Government. In the conduct of relations with the International Monetary Fund (IMF), of which Turkey has been a member since 1947, the Undersecretariat of Treasury has been assigned as the fiscal agent and the Central Bank as the depository. In this framework, financial relations originating from Turkey's membership of the IMF (assets and liabilities of our country) are displayed solely in the balance sheet of the Central Bank.

Pursuant to Article 61 of Law No. 1211 on the Central Bank, unrealized revenues and expenses arising from the revaluation of gold and foreign exchange in the assets and liabilities of the Bank due to the changes in the value of the Turkish lira are shown in the "Valuation Account" item included in the assets and liabilities of the CBRT's balance sheet. Unrealized expenses are displayed in the assets of the balance sheet while unrealized revenues are shown in the liabilities of the balance sheet. In cases where these revenues and expenses realize, the realized amounts are transferred to profit and loss accounts. However, in commercial banks, unrealized revenues and expenses are transferred directly to profit and loss accounts.

** Detailed information on Central Bank balance sheet items can be obtained via the "Publications/Periodical Publications/Annual Reports link on the Bank's website (www.tcmb.gov.tr).

Markets

What is the role of the Central Bank in Government Domestic Debt Securities (GDDS) auctions?

In the framework of Law No. 1211 on the Central Bank and Law No. 4749 on the Regulation of Public Financing and Debt Management, the Central Bank, in its capacity as the fiscal agent of the Treasury, is responsible for holding GDDS auctions on behalf of the Treasury. The properties of securities and the conditions for the issue of these securities are determined and disclosed to the public by the Treasury, and the offers are received by the Central Bank. After receiving all the offers, the Central Bank conveys the offer lists to the Treasury as well as its suggestion for the amount of securities to be auctioned. Once the Treasury sets the final amount of the sale, the results of the auctions are disclosed to the public by the Central Bank. The Central Bank also receives all the collaterals and returns the collaterals of rejected participants on the day of auction, and collects the auction amount and delivers the securities to the participants on the day of issue.

How can individual investors participate in Government Domestic Debt Securities (GDDS) auctions from Central Bank branches?

Individual investors, who apply to Central Bank branches with their identity numbers and identity cards until the end of the offer time (until 12:00 hrs. at present) on the day of the auction, can directly submit their offers. The participant must define the nominal amount of securities he would buy and the price he would offer for these securities. Those who are willing to participate in the auctions can refer to the securities interest and price calculation formulas in the "calculators", "securities mathematics" links on

the Bank's website. The minimum nominal amount to be offered in GDDS auctions in TL is 100 TL whereas the minimum nominal amount to be offered in GDDS auctions in foreign currency is USD 10,000 or EUR 10,000.

Individual investors participating in the auctions are obliged to deposit 1% of the total nominal amount of their offer or offers as collateral with the Central Bank.

- In TL-denominated and FX-indexed GDDS auctions, the participant whose offer has been accepted should deposit the difference amount (total amount to be paid minus the total amount of collateral) in the related account on the value (issue) date. Participants whose offers are rejected are paid back the collateral they have deposited on the day of the auction.
- In FX-denominated GDDS auctions, the collateral is deposited in terms of TL as calculated over the Central Bank's FX buying rate. If the participant's offer is accepted, the total amount of the collateral he/she has deposited in TL is refunded on the value date, while he/she has to deposit the whole amount of the FX-denominated offer accepted. If the participant's offer is rejected, the collateral he/she has deposited in TL is paid back on the same day the auction is finalized.

Collaterals of the participants, whose offers are accepted but who fail to fulfill the obligations of the auction, are transferred to the Treasury as revenue. The investor, whose collateral has been transferred to the Treasury as revenue, has to participate in at least 4 auctions with 20% of the offer amount deposited as collateral. If the participant who has deposited 20% of the offer amount as collateral for the auction fails to deposit the remaining amount of the accepted offer after the auction, he/she has to deposit 100% of the offer amount in the following auctions. In order to be eligible to participate in an auction with 1% of collateral again, the participant should have the consent of the Treasury after having participated in at least 4 auctions with increased collateral.

The auction participants are exempt from stamp duty on government domestic borrowing securities (GDDS).

Following the setting of the final auction amount by the Treasury, the Central Bank discloses the auction results to the public. Upon the finalization of all transactions regarding the auction, related data are announced on the website of the Central Bank (www.tcmb.gov.tr).

What is the function of the Interbank Money Market within the CBRT?

The Interbank Money Market (Interbank) operating under the CBRT was established on 2 April 1986 to encourage reserve movements among banks, to ensure efficient utilization of resources in the banking system and to bring together the banks willing to invest their short term excess cash with those willing to meet their short term cash needs without having to sell off their long term assets. In this market, the banks can carry out TL deposit purchase and sale transactions within their limits at predetermined maturities. Until 2 December 2002, the CBRT used to act as an intermediary (blind broker) in this market and the trading banks used to carry out their transactions via the CBRT (accepting the CBRT as a counterparty), without knowing each other's identities. The CBRT's gradual abandonment of its intermediary functions at the Interbank Money Market started on 1 July 2002 and was completed on 2 December 2002. Since then, the CBRT has been engaged in a kind of open market operation in this market by borrowing and lending TL deposits at its policy rates within the framework of the monetary policy in place.

Relations with Institutions, Organizations and the European Union

What are the duties of the Central Bank during the European Union harmonization process?

Article 109 of the Treaty of Maastricht and Paragraph 1, Article 14 of the Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB) stipulate that "Each Member State shall ensure, at the latest at the date of the establishment of the ESCB, that its national legislation including the statutes of its national central bank is compatible with this Treaty and the Statute of the ESCB." Therefore, the Law on the Central Bank of the Republic of Turkey will need to be fully harmonized with the Statute of the ESCB before the accession of Turkey to the EU. Particularly with regard to the chapters that fall under its area of responsibility, the Central Bank of Turkey has various obligations to fulfill before the accession. Of these, the most important are strengthening the Bank's (individual, institutional, operational and financial) independence in the context of "Chapter 17: Economic and Monetary Policy" and publishing a set of statistical data (financial accounts, balance of payments, money and finance) released by the Bank in compliance with EU and ECB criteria in the context of "Chapter 18: Statistics".

Moreover, the Decision of the Council of Ministers No. 2008/14481 on the Turkish National Program for Adoption of the Acquis and the Implementation, Coordination and Monitoring of the Turkish National Program for Adoption of the Acquis was published in the Official Gazette of 31.12.2008. Within the scope of the Turkish National Program for Adoption of the Acquis, in the context of the Chapter on Free Movement of Capital and Financial Services, the responsibility of drafting the "Law on Payment Systems" regarding payment systems and services as well as electronic monetary institutions, to be enforced during the period of 2009-2011, was assigned to the Bank.

In relation to which chapters does the Central Bank participate in the European Union negotiation process?

"Accession negotiations" between Turkey and the EU officially started on 3 October 2005, in line with the decision taken in the meeting of the European Council on 17 December 2004 in Brussels. The first stage of the accession negotiations, the "screening procedure", started with the Intergovernmental Conference (IGC) held on 3 October 2005 and was completed on 13 October 2006.

The screening procedures have been carried out in 33 chapters. The Central Bank of the Republic of Turkey participated in screening meetings related to 12 chapters. The 6 that directly relate to the Bank and for which the Bank has contributed to the presentations given in the meetings are; "Chapter 4: Free Movement of Capital", "Chapter 9: Financial Services", "Chapter 17: Economic and Monetary Policy", "Chapter 18: Statistics", "Chapter 32: Financial Control" and "Chapter 33: Financial and Budgetary Provisions". The Bank only participated in the relevant screening meetings in the 6 other chapters that do not directly relate to the Bank. These chapters are: "Chapter 2: Freedom of Movement for Workers", "Chapter 6: Company Law", "Chapter 16: Taxation", "Chapter 19: Social Policy and Employment", "Chapter 28: Consumer and Health Protection" and "Chapter 30: External Relations".

Following the screening procedures, a "Negotiation Position Document" is prepared on each chapter by each candidate country, including information on the alignment of the national legislation with the acquis, harmonization schedule, transition phase after full membership/request for temporary

exceptions and justifications thereof as well as information on the institutional structure. In this framework, the Bank primarily contributes to the document with respect to the chapters in which it is directly involved.

Based on the Position Documents, the Bank will also participate in the "active negotiation" process in which studies will be carried out to adjust the national legal system to the EU legal system. Accordingly, regulations regarding alignment with the European System of Central Banks (ESCB), of which the Central Bank of Turkey will become a part upon the country's accession to the EU, and particularly the additional amendments to the Law on the Central Bank of the Republic of Turkey, geared towards further strengthening the Bank's independence, will be concluded before the accession.

What are the relations of the Central Bank with the European Union Institutions?

The CBRT has extensive bilateral relations with the EU institutions, primarily with the European Commission and the ECB.

The CBRT regularly participates in the Commission's meetings each year, with regard to the topics related to the Bank's field of activity. The CBRT also participates in European Economic Forecast meetings, which are held twice-yearly (one in spring and one in autumn) at expert level in Brussels and which are used as a basis for periodic reports and statistics, published annually, regarding candidate countries.

The CBRT has also relations with the Economic and Financial Committee (EFC), which has an autonomous structure within the EU, yet which functions jointly with the Commission. In this framework, the CBRT participates in expert-level meetings held annually in Brussels. In these meetings, the Pre-Accession Economic Programmes (PEPs) of candidate countries are evaluated and the final declaration, which is drafted to be adopted in ECOFIN Council meetings, is shaped. Afterwards, the CBRT participates in the "EFC Senior Level Economic Dialogue" meetings in Brussels in which the final declaration that has been prepared at the expert level is finalized. Lastly, the EU and candidate countries hold the ECOFIN Ministers Dialogue, which brings together the Economy and Finance Ministers of the EU and candidate countries. The central bank governors of the said countries have also been participating in these meetings alongside the ministers since 2004.

The CBRT has had long-standing bilateral relations with the ECB. In this context, the regular "Senior Level Policy Dialogue" meetings have been held since 2002. In addition to mutual visits, the CBRT also participates in the workshops of the Central Bank Governors of Euro-Mediterranean (EuroMed) countries organized jointly by the ECB and the European Commission on an annual basis.

On which platforms does the CBRT participate in activities during the pre-accession period?

The CBRT takes part in "Euro-Mediterranean Partnership Meetings" that are held in two stages as expert-level workshops and central bank governors' meetings. The meetings constitute a platform that is distinct from the "Barcelona Process", which was launched in 1995 in a conference held in Barcelona by the Ministers of Foreign Affairs of the EU members and Mediterranean partners including Algeria, Morocco, Palestine, Israel, Lebanon, Egypt, Syria, Tunisia, Turkey and Jordan, to initiate bilateral and

multilateral cooperation among the countries. However, the partnership meetings cover common fields of interest of the countries involved in the "Barcelona Process" and of the Eurozone. Another platform, in which the CBRT provides participants, is the "European Banking Congress" that is jointly organized by the municipality of Frankfurt-am-Main, Deutsche Bank, Commerzbank and Dresdner Bank to discuss the European agenda with policymakers, businessmen and bankers.

Which Pre-Accession Financial Assistance Programmes does the CBRT benefit from within the framework of the Turkey-EU Financial Cooperation process?

The CBRT benefits from Technical Assistance and Information Exchange TAIEX projects to meet its short-term technical assistance needs relating to the studies on legislative alignment, implementation and establishment of administrative infrastructure to be carried out by the institutions of candidate countries. Additionally, the CBRT also obtains short term technical assistance from the Support Activities to Strengthen the European Integration (SEI) that are organized to meet such needs for legislative alignment and preparation of projects by institutions.

Furthermore, technical assistance is also provided through the MATRA Programme developed by the Netherlands to assist candidate countries in the implementation of the EU acquis through bilateral cooperation projects.

What is the main relation of the Central Bank with the Undersecretariat of Treasury?

According to Article 41 of Law No. 1211 on the Central Bank of the Republic of Turkey, the Bank, in its capacity as the fiscal agent of the Government, carries out the financial servicing of government domestic borrowing securities (GDDS) on behalf of the Treasury. In this framework, the Bank acts as an intermediary in the issuing of securities in the primary market and carries out repayment of matured securities. Moreover, the Bank, acting as Treasurer of the State, is responsible for executing all types of collections and disbursements of the State both within the country and abroad, as well as money transfers and remittances of all types free of charge. In addition, within the context of its mandate as the fiscal and economic advisor to the Government, the Bank serves as a consultant to the Treasury in financial and economic matters, primarily in the management of domestic debt.

Why was the implementation of the provision of short-term advances to the Treasury terminated?

The Treasury's use of short-term advances from the CBRT to meet its financing need means the issue of fiduciary notes by the Bank, and impairs economic stability in the long run by increasing inflationary pressures. Therefore, this practice that conflicts with the CBRT's primary objective of achieving price stability and with the principle of implementing monetary policies at the Bank's own discretion was gradually limited from 1994 and was fully abandoned with the CBRT Law of 25.04.2001.

What portion of the profit of the Central Bank is transferred to the Treasury?

The profit of the Central Bank is allocated in accordance with Article 60 of Law No. 1211 on the Central Bank of the Republic of Turkey. Pursuant to this Article, the annual net profit of the Central Bank is

allocated as follows: 20 percent of it to the reserve fund, 6 percent of the nominal value of its share capital to the shareholders as the first dividend, a maximum of 5 percent of the remaining amount to the Bank personnel in an amount that would not exceed the sum of their 2-month salaries and 10 percent of the same remaining amount to the extraordinary reserve fund, a maximum of 6 percent of the nominal value of its share capital to the shareholders as a second dividend upon the decision of the General Assembly. The remaining balance after this allocation is transferred to the Treasury. Detailed information on the allocation of the profit can be accessed via "Publications/Periodical Publications/Annual Report" on the Bank's web site (www.tcmb.gov.tr).

Other

How is the present / past value of a certain amount of backdated / new dated New Turkish lira calculated?

The present / past value of a certain amount of backdated /new dated New Turkish lira can be calculated by using the "Inflation Calculator" button in the "Calculation Tools" section on the Bank's web site. The Inflation Calculator is based on the Turkish Consumer Price Index (CPI) of the Turkish Statistical Institute (TURKSTAT). Calculations are based on the most recent consumption basket of goods and services available for the relevant time interval.

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