Number:2002/26

29 March 2002

CENTRAL BANK OF THE REPUBLIC OF TURKEY

PRESS RELEASE

Regulations on required reserves, liquidity requirement and required reserves for special finance houses are revised in regard to our monetary policy by taking into consideration the international practices and based on the amendments in the Central Bank Law No: 1211 brought by Law No:4651, they are rearranged as explained below. The Communiqués on required reserves and liquidity requirement issued in the Official Gazette today shall be effective on date of issue starting from the tables dated 10.5.2002.

I-Objective

1. The main objective of the new regulation is to contribute to the deepening and effectiveness of the interbank TL and FX markets and to the sound progress of the financial sector towards the level of developed economies, without making a concession over the price stability target and weakening the control power of the Central Bank over monetary aggregates. Within this framework, it is targeted to reduce the intermediary costs of financial institutions and to provide more flexibility to enhance their liquidity management. Furthermore, the new regulation provides for a more uniform and simplified approach to required reserves and liquidity requirement.

2. By starting to pay interest for FX required reserves, all of the required reserves shall be remunerated and the funding costs of the financial institutions shall be reduced in this way. In determining the remuneration rates for TL and FX required reserves, the developments in the domestic and

international markets regarding interest rates will be taken into consideration. However, since the required reserves are considered as riskless assets for banks, the remuneration rates shall be kept lower than the market interest rates.

3. Favorable reserve requirement rate for TL liabilities compared to that on FX liabilities shall continue to be implemented.

4. Under the previous regulation, the liquid assets to be maintained for TL deposits and TL and FX other liabilities in the form of free deposits were calculated as weekly averages. Whereas, in the new regulation the coverage on which averaging will be based, is extended. Also, the required reserve maintenance period, which was one week, is increased to two weeks.

5. Extending the coverage on which averaging will be based to include reserve requirement as well as lengthening the maintenance period shall contribute to the effectiveness of banks' liquidity management. In this way, the likelihood of pressure on interest rates, due to the increase in emission resulting from salary payments and due to short term TL liquidity fluctuations resulting from tax payments or auction-redemption differences, should diminish. In the same manner, since banks shall have more flexibility in their FX liquidity management, they shall be able to meet their short-term FX needs from their own FX reserves.

6. Within the framework of the program announced at the beginning of 2002, the Central Bank shall gradually terminate its intermediary function in TL and FX markets. In the meantime, lengthening the maintenance period for reserve requirements and increase in average amount of reserve requirement shall have great importance in creating depth in TL and FX interbank markets. These regulations related to reserve requirements are a part of the regulatory framework formed by the regulations on liquidity management announced by the

Central Bank at the beginning of 2002 in order to contribute to the soundness of short term interest rates.

II- Details of the Communiqué on Reserve Requirements

7. As in current liquidity requirement practice, the TL and FX liabilities of banks and special finance houses subject to reserve requirement shall be determined by using the amounts to be reached after the deduction of items from the total domestic liabilities that are calculated according to accounting standards and recording procedures of these institutions, and also the deposits and the current and share accounts collected in Turkey on behalf of their branches abroad.

8. The cash portion of reserve requirement, liquidity requirement and reserve requirement for special finance houses, which is 6 percent for TL liabilities and 11% for FX liabilities, shall be kept as it was.

9. Considering the fact that special finance houses are subject to the Banking Law No: 4389 and related provisions of Central Bank Law, the reserve requirements for special finance houses and reserve requirement for banks are unified in order to bring uniformity in practices and to apply similar and identical requirements for the same liabilities. Thus, the current and share accounts of special finance houses as well as their other liabilities are subject to reserve requirements. However, since under the previous treatment funds that have been borrowed by special finance houses were exempt from legal requirements, these funds obtained before the issue date of this Communiqué shall be exempt from reserve requirement until their maturity.

10. Considering the shortness of the maturity structure of banks' liabilities, the period for calculation, maintenance and reporting for required reserves has been determined to be two weeks each in order to provide the required time for reporting.

11. In order to facilitate banks' liquidity management and to contribute to the stability of short term interest rates and exchange rates in this way, the coverage of reserves maintained as weekly averages according to the previous liquidity requirement is now extended, and 3 percentage points of reserve requirement rates for TL and FX are also permitted to be maintained as two - week averages.

12. Those banks (development and investment banks) that were not subject to liquidity requirements as most of their liabilities stemmed from public duties are now required to build reserves in order to prevent unfair competition. However, their liabilities stemming from public duties shall be shown under "items to be deducted from liabilities" and excluded from reserve requirement. Although not included under "items deductible from liabilities", the funds obtained before the issuance of the new Communiqué by issuing bonds or by using loans and that were not subject to legal requirements shall be exempt from reserve requirement until their maturity.

13. In addition to the interest paid on TL required reserves maintained for TL deposits since August 8, 2001 according to the previous Communiqué, the required reserves for non-deposit TL liabilities and FX liabilities shall be remunerated beginning from 24.5.2002.

14. In cases where reserve requirements are not fulfilled completely and on time, for the missing portion of FX reserves that should be maintained, penalty interest rate applicable to TL liabilities will be used.

III- The Details of Communiqué on Liquidity Requirement

15. The vault cash in TL and foreign exchange has been excluded from the liquid assets. The liquidity ratio has been determined as 4 percent for TL liabilities and 1 percent for FX liabilities, same as before. Government securities

owned by the banks and maintained in their accounts with the Central Bank of Turkey shall be accepted as liquid assets.

16. In determining liabilities subject to liquidity requirement, liabilities for required reserves shall be used.

17. The one-month period for calculating liabilities and maintaining liquid assets is reduced to two weeks.

18. Due to the fact that a significant portion of the liabilities stem from public duties, the banks (development and investment banks), which were not previously covered by Liquidity Requirement No: 96/1, shall be taken into the coverage of required reserve regulation to avoid unfair competition. However, their liabilities stemming from public duties, shall be shown under "items deductible from liabilities" and excluded from liquidity requirement. Although not included under "items deductible from liabilities," the funds obtained before the issuance of the new Communiqué by issuing bonds or by using loans and that were not subject to legal requirements shall be exempt from liquidity requirement until their maturity.

Comparison Table