



Monetary and Exchange Rate Policy for 2020

5 December 2019

Ankara



1. Overview

1. The primary objective of the CBRT is to achieve price stability. The CBRT uses all available instruments in pursuit of the price stability objective. Monetary policy decisions are taken based on inflation expectations, pricing behavior and all other factors affecting inflation. The CBRT will continue to safeguard financial stability as a complementary element of price stability, and act with a data-driven approach that takes into account all macroeconomic indicators, particularly inflation and economic activity.
2. The inflation target has been kept at 5% as per the agreement reached with the government. Monetary policy will be set so as to bring inflation to the target gradually. In periods of significant deviation from the inflation target, the inflation forecasts presented in the CBRT's Inflation Reports act as interim targets. Therefore, the reference values that will guide economic units regarding the future trend of inflation will be the inflation forecasts in the short term and the inflation targets for the medium term. Along the disinflation path drawn in the October Inflation Report, the first objective is to bring down inflation to single digits, and then gradually reduce inflation further to stabilize it around 5%.
3. The uncertainty band around the inflation target, is kept at 2 percentage points in both directions same as the previous years. The CBRT will make detailed evaluations on inflation developments in the Inflation Reports throughout the year. As an element of accountability an "Open Letter" will be submitted to the government, if inflation falls outside the uncertainty band at the end of the year.
4. The CBRT will continue to implement a floating exchange rate regime. Under the current regime, exchange rates are not used as a policy tool. The supply and demand for foreign exchange are mainly determined by economic fundamentals, the monetary and fiscal policies implemented, international developments and expectations. The CBRT has no nominal or real exchange rate target. Nevertheless, if the exchange rates deviate significantly from economic fundamentals and exchange rate movements permanently affect price stability or pose risk to financial stability, the CBRT will not remain indifferent to these developments and respond with the instruments at its disposal. The CBRT will continue to closely monitor exchange rate developments and any risk factors related to it and will take necessary measures and use the relevant instruments in accordance with the principles for the effective use of the CBRT reserves in order to make sure that the FX market operates efficiently.

2. Monetary Policy Developments and Communication

Monetary Policy Developments

5. In 2019, the CBRT determined its monetary stance by taking into account the indicators regarding inflation trend; and set the degree of monetary tightness to ensure sustainability of disinflation and its consistency with the targeted path. The CBRT's inflation forecasts and the underlying trends implied by these forecasts play an important role in CBRT's decision-making process. In the first half of 2019, the CBRT kept one-week repo rate at 24% and took supportive steps regarding the liquidity management. As a result of the tight monetary policy stance and strong policy coordination, the accumulated effects of exchange rates decreased and domestic demand displayed a moderate trend all leading up to a significant improvement in inflation dynamics. On the back of the improvement in inflation outlook, the CBRT delivered gradual rate cuts in July, September and October, eventually bringing the policy rate down to 14%.
6. Throughout 2019, besides these policy decisions, the CBRT enhanced its set of tools to ensure efficient functioning of the markets and to support the transmission mechanism in the face of exchange rate volatility and unhealthy price formations.¹ Accordingly, with the aim of limiting the adverse effects of the supply and demand imbalances that occurred in the offshore swap markets in the last week of March, the CBRT gradually raised the total limit of outstanding swap transactions (where the CBRT buys FX on spot market and sells FX at maturity) at the Turkish Lira Currency Swap Market to 40% of the total transaction limit at the Foreign Exchange and Banknotes Market.
7. As of May, transactions in US dollars and euro with maturities longer than one week started to be conducted in accordance with the monetary policy rates in the BIST Swap Market. Moreover, in August 2019, it was decided that the Turkish lira currency swap transactions, which were currently executed with one-week maturity via quotation method, would also be executed with 1, 3 and 6-month maturities via the traditional auction (multiple-price) method.
8. To support the Primary Dealership System in view of its contributions to the deepening of financial markets and the effectiveness of monetary policy, the Primary Dealer (PD) facility that allows banks to obtain liquidity within the framework of the Open Market operations (OMO) was re-introduced on 17 June 2019. The interest rate applied to this liquidity facility, which can be used through overnight repo transactions within predetermined limits, were set at 100 basis points below the CBRT's policy rate.
9. Banks have intensively used the CBRT's swap facilities in the face of the developments throughout 2019. In this regard, since the majority of the funding need of the system was provided by the swap facilities of the CBRT, funding via OMO gradually declined. In 2019, funding via OMO was mostly done by one-week repo auctions, however weekly repo auctions were suspended twice during the year due to the developments in the financial markets. In both episodes of suspension², the entire CBRT funding was carried out over the CBRT overnight lending rate and overnight repo rates at the BIST converged to the upper bound of the CBRT

¹ The measures that the CBRT introduced regarding the Turkish lira and foreign exchange liquidity are presented in Chapter 3 in detail and shown in chronological order in the table in Annex 1.

² The weekly repo auctions were suspended between 21 March-8 April and 9-21 May.

interest rate corridor. The share of liquidity offered to banks within the framework of the PD facility remained limited within the funding need of the system.

10. The CBRT continued with its efforts to bring out domestic gold savings into the financial system. The existence of an efficient gold swap market is important for the well-functioning of domestic gold market. Accordingly, the Turkish lira Gold Swap Market and the Foreign Exchange Gold Swap Market were opened at the CBRT in May and October, respectively, in order to contribute to the liquidity management of the banks. Transactions in both markets are carried out within banks' pre-determined limits.
11. The CBRT has made some changes on reserve requirements to allow the use of this facility in a more flexible and effective way as a macroprudential tool to support financial stability. In July 2019, with an amendment to the CBRT Law No. 1211, not only banks' liabilities, but also their on and off-balance sheet items deemed appropriate could be subjected to reserve requirements. In this framework, in August, it was decided to use reserve requirements more flexibly and effectively as a macroprudential tool to support financial stability. Accordingly, the reserve requirement ratios for Turkish lira liabilities and the remuneration rates for Turkish lira-denominated required reserves have been linked to the annual growth rates of the total of banks' Turkish lira-denominated standardized cash loans and cash loans under close monitoring, excluding foreign currency-indexed loans and loans extended to banks.

Decision Making Process and the Communication Policy

12. In 2020, the Monetary Policy Committee (MPC) will hold 12 meetings on a preannounced timetable³. Moreover, the dates of the first three meetings of 2021 have been listed in the meeting calendar⁴. The monetary policy decision and a brief statement explaining its rationale will be announced, together with its English translation, on the CBRT website at 2 p.m. immediately after the meeting. The summary of the MPC meeting that contains detailed assessments of the MPC will be released on the CBRT website within five working days following the meeting.
13. Communication policy will be used effectively as a supportive instrument in the upcoming period. The main communication tools of monetary policy are the MPC announcements and the Inflation Report. The Inflation Report, will continue to be published on a quarterly basis and be presented at briefings for the effective communication of monetary policy practices. Moreover, decisions pertaining to Turkish lira and foreign exchange liquidity management will continue to be announced.
14. Achieving sustainable price and financial stability is crucial for social welfare and potential growth. In this respect, a key priority of the communication policy will be to share the importance of achieving price stability and communication channels will be used at utmost level. To this end, the CBRT will continue holding technical meetings with investors, analysts and economists according to a pre-set calendar. Communication with the press, academia and general public, which are important target groups of the CBRT communication policy, will continue effectively. The presentations and speeches on the CBRT's activities, monetary policy implementations and conjunctural economic discussions to be delivered by the Governor before the Plan and Budget Commission at the Grand National Assembly of Turkey and in other platforms will also have an important role in informing the public.
15. The Financial Stability Report will be another important communication tool of the CBRT. Moreover, Monthly Price Developments reports, working papers, research notes in economics and blog posts to be published by the CBRT as well as the conferences to be organized by the CBRT will remain as significant components of the communication policy. As was the case in previous years, the CBRT will continue to use various platforms such as the social media and the Economics for All microsite and to organize meetings, seminars and activities.
16. The CBRT attaches great importance to diversifying and enriching the data set it uses to draw up the monetary policy framework. Data allowing for close analyses of micro-level dynamics and field information, and high-frequency data on the financial sector are also intensely employed in this process. In this respect, the CBRT will continue to meet with corporate and financial sector representatives in the upcoming period to strengthen its communication network.
17. Notwithstanding the recent significant improvement in inflation dynamics, Turkey's inflation rate is still higher than that of peer economies. The cautious stance in monetary policy should be sustained to achieve a lasting disinflation process. Continuation of the downward trend in

³ The 2020 schedule for meetings and reports is given in Annex 2.

⁴ The calendar for the first quarter of 2021 has been announced in order to ensure a healthy pricing in the Overnight Index Swap based on TLREF. Longer disclosure of the monetary policy timetable will increase predictability, especially for short-term derivative product pricing.

inflation is of great importance for reducing the country risk premium and lowering long-term interest rates. The CBRT's objective is to bring down inflation first to single digits, and then to the ultimate target of 5%.

18. A decisive monetary policy stance is a prerequisite for price stability but our experience with the fight against inflation has shown that monetary policy alone will not be sufficient for price stability. Public accord and collective efforts are key to the fight against inflation. Therefore, a holistic effort that incorporates all stakeholders is needed. In addition to appropriate monetary and fiscal stance, it is also important to reduce structural rigidities that delay or hinder the disinflation process. Maintaining structural reforms that would curtail the inertia and volatilities in inflation will significantly contribute to price stability and social welfare.
19. Continuation of fiscal discipline is also essential to achieve price stability and steer the economy into a balanced and sustainable growth path. Sustained fiscal discipline has been among the main factors that have reduced the vulnerability of the Turkish economy to external shocks. In the current conjuncture where global uncertainties remain high, it is crucial to maintain and further improve these gains. A central bank that focuses on price stability as stipulated by its law must closely monitor budget and fiscal policy developments and respond to the repercussions of these policies on inflation when needed. Therefore, fiscal policy developments will continue to be closely monitored in the upcoming period in terms of their impact on the inflation outlook.

3. Turkish Lira and Foreign Exchange Liquidity Developments in 2019

TL Liquidity Developments in 2019

20. The funding need of the system increased throughout the year by approximately TL 18.6 billion to TL 111.7 billion as of 4 December 2019 from TL 93.1 billion at the end of 2018. In this period, mainly monetary base developments, FX sales to energy importing state-owned economic enterprises, and public transactions had an increasing effect, whereas the rediscount credits for exports and foreign exchange earning services as well as declines in the reserve requirement ratios had a decreasing effect on the funding need of the system.
21. A significant portion of the funding need of the system was provided through Turkish lira currency swap transactions executed at the CBRT and the BIST while a limited amount of funding was provided through transactions at the Turkish Lira Gold Swap Market within the CBRT. On the other hand, the net funding via net OMOs amounted to TL 29.5 billion. Swap facilities, where the CBRT acts as a counterparty, provide banks with flexibility in their exchange rate risk and liquidity management, and they also increase the effectiveness of monetary transmission mechanism by contributing to reduce the possible supply-demand imbalances in the swap market and to prevent the divergence of market rates from the monetary policy rates.
22. Under the OMOs, the CBRT provided funding via one-week repo auctions and PD liquidity facility in 2019. Banks continued to use the facility which allows repo transactions to be changed into deposit transactions. In this period, overnight repo rates at the BIST Repo-Reverse Repo Market were formed around the policy rate, i.e. the one-week repo rate. On the other hand, regarding the financial market developments, the CBRT announced through press releases on 22 March and 9 May 2019 that it would suspend the one-week repo auctions for a period.
23. To contribute to the deepening and effectiveness of financial markets as per the articles of the CBRT's "Communique Amending the Communique on Required Reserves" dated 22 December 2018, all repo transactions conducted at the BIST were exempted from the scope of reserve requirements. Thus the need for the Interbank Repo-Reverse Repo Market, in which banks carry out transactions with each other and only on their portfolio accounts, free of the reserve requirement obligation, disappeared. Consequently, it became possible to merge the repo markets, and the BIST closed the Interbank Repo-Reverse Repo Market on 28 December 2018.
24. The BIST started to calculate and publish the Turkish Lira Overnight Reference Rate (TLREF) as of 17 June 2019 following the collaborative efforts by the Ministry of Treasury and Finance, the CBRT, the Banks Association of Turkey, the Turkish Capital Markets Association, Istanbul Clearing, Settlement and Custody Bank, and Borsa Istanbul to create a short-term Turkish lira reference rate with high transaction volume that can be used as a benchmark in debt instruments, financial derivatives, and various financial contracts. In the recent period, TLREF based bonds are issued while derivative products such as interest rate forwards, futures and swap contracts on TLREF are written.
25. To increase flexibility in the banking sector's collateral management, in January 2019, the discount rate for government domestic debt securities (GDDS) and lease certificates issued in

Turkey by the Asset Leasing Company of the Turkish Treasury (ALCTT) accepted as collateral against TL transactions, which used to be 5% for all maturities, has been re-arranged depending on their maturities. Accordingly, the discount rates for securities with a maturity less than two years, securities with a maturity between two and five years, and securities with a maturity longer than five years were set at 1%, 2%, and 3%, respectively.

26. The CBRT started conducting overnight repo transactions as of 17 December 2018 and overnight reverse repo transactions as of 27 May 2019 at the BIST Committed Transactions Market in which TL-denominated lease certificates issued by asset leasing companies founded by the Ministry of Treasury and Finance and by asset leasing companies founded by public enterprises are traded.

FX Liquidity Developments in 2019

27. Banks used the Turkish lira currency swap facility introduced by the CBRT in November 2018 to a limited extent at first. However, banks' utilization of this facility has rapidly increased following the developments in offshore swap markets in March 2019. Accordingly, the total limit of outstanding swap transactions at this market was gradually increased to 40% of the total transaction limits at the Foreign Exchange and Banknotes Market from 10%.
28. The CBRT continued to conduct FX Deposits against TL Deposits auctions in the first three months of 2019, and provided maximum 2.5 billion US dollars of FX liquidity to banks. However, offshore market developments in March 2019 led to a rise in the amount of Turkish lira funding that banks demanded from the CBRT. Consequently, considering that there was no need, FX Deposits against TL Deposits auctions were suspended.
29. After the G20 Summit decision in 2009 stipulating that over-the-counter (OTC) derivative transactions should be included in organized market and electronic platform trading processes, the BIST Swap Market started operating in October 2018 to enable swap transactions which were largely carried out at the OTC market to be included in the central clearing process and conducted at the organized market. The Swap Market contributes to financial stability by increasing the effectiveness of the monetary transmission mechanism and reducing the systemic liquidity risk for banks. At this market, the CBRT conducts US dollar and euro transactions consistent with the monetary policy rates at maturities longer than one week. As of 4 December 2019, the CBRT's swap transactions at the BIST Swap Market amounted to USD 13.3 billion.
30. To contribute to liquidity management of banks, it was decided that Turkish lira currency swap transactions, which are executed with one-week maturity via the quotation method, would also be executed with one, three and six month maturities via the traditional auction (multiple-price) method starting from 5 August 2019. Following this decision, the total limit of outstanding swap transactions conducted via the quotation method at the Turkish Lira Currency Swap Market was reduced to 20% of the banks' total transaction limits at the Foreign Exchange and Banknotes Market on 6 August 2019. In addition, a limit of 20% was defined for transactions to be conducted via the auction method. For transactions via the auction method, there is no transaction limit on a bank basis. In 2019, three auctions were held with one-month and three-month maturities amounting to USD 2.75 billion in total, and the rates occurred were consistent with the market interest rates. The outstanding amount of the Turkish Lira Currency Swap Market transactions conducted via the quotation method stood at USD 306 million as of 4 December 2019, while there is no stock from swap transactions conducted via the traditional auction method.

31. On the other hand, to increase the effectiveness of bank's liquidity management and contribute to bringing gold savings into the financial system, a Turkish Lira Gold Swap Market (for transactions on the buy side) was opened in May and a Foreign Exchange Gold Swap Market (for transactions on both the buy and sell sides) was introduced in October. Transactions at these markets are conducted with banks via the quotation method with one-week maturity. At both markets, the total outstanding gold swap amount has been set at 100 tons which have been allocated to banks based on their transaction limits at the Foreign Exchange and Banknotes Market. As of 4 December 2019, the outstanding amount at the Turkish Lira Gold Swap Market was 13.7 tons. At the FX Gold Swap Market, the outstanding amount on the buy side is 25.9 tons whereas there is no transaction on the sell side. In addition, Gold Against Foreign Exchange Market transactions and purchases of gold domestically produced from ore against Turkish lira have continued in this period. These markets contribute to the formation of a soundly functioning domestic gold market.
32. With the aim of contributing to the effective functioning of foreign exchange markets, the CBRT continued to conduct TL-settled forward FX transactions in 2019, which were started on 31 August 2018, at the Derivatives Market (VIOP) operating under BIST.
33. No foreign exchange sales were made directly or through auctions in foreign exchange markets in 2019, while the foreign exchange demand of USD 5.84 billion of state-owned economic enterprises was provided by the CBRT.
34. Banks have a limit of approximately USD 50 billion in total to borrow FX deposits from the CBRT with one-week and one-month maturities. Moreover, banks are allowed to pledge FX deposits as collateral at one-week, two-weeks and one-month maturities at the CBRT. Amid developments in the offshore reference interest rates, gradual reductions were made in FX deposit buying rates from 2.25% to 1.50% in all maturities; in 1-week FX deposit selling rate for USD from 4.25% to 3.50% and in 1-month FX deposit selling rate for USD from 5.00% to 4.25%.
35. Required reserves and the ROM are the other leading tools that affect FX reserves and FX liquidity. The financial system was provided with approximately USD 8.1 billion under the ROM through reduction in Turkish lira required reserve ratios in February, lowering of the upper limit for the ROM FX facility in May and reduction of Turkish lira required reserve ratios of banks with credit growth within reference values in August. Meanwhile, through the increases in foreign currency required reserve ratios in May, August and September, around USD 11.4 billion liquidity was withdrawn from the market.
36. Remuneration rates applied to USD required reserves, reserve options and notice accounts held at the CBRT were decreased by 100 basis points both in August and September to 0%, while commission rates applied to euro-denominated FX account balances held at the blocked required reserves or notice FX deposit accounts at the CBRT remained intact as 0%.
37. Pursuant to Article 45 of the Central Bank Law, rediscount credits extended in TL to exporters and FX earning services providers through the Export Credit Bank of Turkey (Türk Eximbank) and commercial banks via the acceptance of FX-denominated bills for rediscount have remained as the primary instrument to boost the CBRT's FX reserves in 2019 with its feature of FX reimbursement at the maturity. Through these credits, firms are provided with financing at lower costs, which supports the increase in the export of goods and services. The stable rise in the number of firms utilizing such credits and the ongoing inclusiveness contribute to the balancing of the foreign trade. Moreover, longer maturity rediscount credits granted for

exports towards new markets and hi-tech exports, facilitate diversification of export markets as well as exports of products with high value added.

38. The reference interest rates applied to export rediscount credits, which are 1-month LIBOR/EURIBOR for credits with maturities up to 120 days, and 6-month LIBOR/EURIBOR for credits with maturities from 121 to 360 days, remained unchanged in 2019.
39. The use of rediscount credits is expected to reach approximately USD 25.4 billion by the end of 2019, and its contribution to the CBRT reserves is expected to be approximately USD 22.5 billion. USD 20.5 billion stemming from reimbursements of rediscount credits have already been included in the CBRT reserves.
40. The level and composition of reserves may display fluctuations due to the CBRT's monetary and exchange rate policy tools. In this period, changes introduced to the ROM, which is among the facilities that the CBRT has provided to banks and FX sales to energy-importing state-owned enterprises had a downside effect on reserves, while reimbursements of rediscount credits, increases in FX required reserve ratios and the use of the CBRT swap facilities by banks had an upside effect on reserves.

4. Turkish Lira and Foreign Exchange Liquidity Management in 2020

41. While the sluggish course of global economic activity and downside risks to inflation are becoming more apparent, monetary policies of advanced economies are growing accommodative. This supports the demand towards financial assets of emerging economies as well as the risk appetite. However, protectionist measures in trade and other uncertainties regarding global economic policies are likely to affect the Turkish economy both through capital flows and foreign trade channel. In this respect, concerns regarding global growth and trade wars along with volatility in risk appetite in emerging market assets stand out among the upside risk factors for 2020. The CBRT will continue to use all available instruments effectively in pursuit of the price stability objective throughout 2020. To contribute to banks' TL and FX liquidity management, the CBRT will, as it did in 2019, remain as a stabilizing actor and support financial stability as required by the market conditions. Moreover, the CBRT will maintain its policy to increase reserves as long as the market conditions allow⁵.

TL Liquidity Management Framework in 2020

42. One-week repo auctions will continue to be the main policy instrument of the CBRT in 2020. Accordingly, the Turkish lira liquidity management will address the following objectives:

- To ensure that the average of secondary market overnight interest rates materializes around the one-week repo rate, which is the policy rate, when setting the daily repo auction amount,
- To ensure efficient and stable operation of money markets in accordance with the liquidity management strategy,
- To ensure that the instruments in use foster an effective monetary policy,
- To ensure smooth functioning of payment systems,
- To have an operational structure with sufficient flexibility against unexpected market developments.

In order to attain these objectives and enhance the efficiency of the monetary policy, the liquidity level in the market and the distribution of liquidity in the banking system will also be taken into consideration when outlining the framework of liquidity management.

43. More than one repo auction may be conducted with maturities between 5 and 12 days-when deemed necessary- to facilitate bidding and collateral management and to enable balanced distribution of liquidity across the days of the week. Meanwhile, depending on liquidity conditions, 1-week repo auctions may not be held on some days.

44. To preserve the instrument diversity and operational flexibility in its liquidity management, the CBRT needs to maintain in its OMO portfolio a sufficient amount of GDDS or TL-denominated lease certificates issued by the Asset Leasing Company of the Turkish Treasury (ALCTT) for technical reasons. Taking in the consideration the developments regarding the funding need

⁵ Monetary and liquidity policy tools that can be used in 2020 are indicated in Annex 3; and FX market tools and main characteristics are given in Annex 4.

of the system and distribution of liquidity within the banking system in the coming period with the objective of maintaining operational flexibility on money market interest rates;

- The OMO portfolio, which was set at TL 18.9 billion nominal for 2019, will be set at a maximum of 5% of the CBRT analytical balance sheet total assets for 2020,
- Outright purchase operations will continue to be conducted to reach the above-cited amount, including the TL 5.2 billion nominal portion to be redeemed in 2020.
- Outright purchase operations will be conducted within a balanced and predictable framework by taking into account the CBRT OMO portfolio redemption schedule, liquidity conditions in the market and internal borrowing program of the Ministry of Treasury and Finance. The securities to be purchased by the CBRT will be announced through data vendors at 10:00 a.m. on the first business day of the respective month,
- Buying auctions will be held on Mondays, Wednesdays and/or Fridays with value date as of the next business day,
- Each auction amount will be no more than TL 150 million nominal,
- Other issues related to the auctions will be subject to the existing regulations and may be revised if deemed necessary.

45. In 2020, the CBRT will continue to use required reserves in an effective and flexible way as a fine tuning tool supplementary to its main policy instrument of short term interest rates.

FX Liquidity Management Framework in 2020

46. The CBRT will continue to provide banks with FX liquidity at one-week and one-month maturities at the CBRT FX Deposit Market, with a limit of approximately USD 50 billion in total.

47. Banks will be allowed to place collateral FX and gold deposits with the CBRT with one-week, two-week and one-month maturities within their limits.

48. An appropriate portion of the FX needs of the energy-importing state-owned enterprises will be met directly by the CBRT and the Ministry of Treasury and Finance. Accordingly, the extent of demands to be met will be decided according to market conditions.

49. The CBRT may continue Turkish Lira Currency Swap Market and BIST Swap Market transactions in 2020. Moreover, TL Currency Swap Auctions may be held depending on the market conditions when necessary. FX Deposits Against TL Deposits auctions may be conducted if deemed necessary.

50. To support the banks' liquidity management, gold swap market transactions against TL and FX, gold buying and selling transactions against FX and purchase of gold against TL will also continue in 2020.

51. Depending on market conditions, Turkish lira-settled forward FX transactions at the BIST VIOP may continue.

52. In case of excessive volatility and unhealthy price formations stemming from speculative behaviors due to loss of market depth, the CBRT may intervene in the market directly or through flexible auctions.

53. With objectives of strengthening the transmission mechanism of monetary policy and supporting financial stability, the ROM facility provided to banks by the CBRT may continue to be reduced gradually in 2020.
54. Foreign banknotes against foreign exchange transactions conducted between the CBRT and the banks entitled to operate in the FX markets will continue in 2020.
55. The CBRT will continue to closely monitor FX supply and demand developments and take the necessary measures to ensure sound functioning of the FX market and balancing of the FX liquidity in 2020 as it did in the previous years.
56. The CBRT will maintain its policy to increase reserves in 2020 as the market conditions allow. Accordingly, it is projected that the use of rediscount credits will be around USD 28 billion in 2020, and the contribution of rediscount credits to FX reserves of the CBRT FX reserves by around USD 26 billion.

Annex 1: Policy Actions Taken in 2019

Date	Policy Action
31 December 2018	Starting 7 January 2019, the discount rates for GDDSs and lease certificates domestically issued by the ALCTT accepted as collateral against TL transactions that mature in less than two years, two to five years, and more than five years were set at 1%, 2% and 3%, respectively.
16 January 2019	The policy rate (one week repo auction rate) was left unchanged at 24%.
18 January 2019	Deposits/participation funds of official institutions were excluded from the liabilities subject to reserve requirements, and Provisional Article 6 of the Communiqué on Reserve Requirements was revoked considering the significant decline in the liabilities under this article.
16 February 2019	<p>Turkish lira reserve requirement ratios were reduced by 100 basis points for deposits and participation funds with maturities up to 1 year and for other liabilities with maturities up to (and including) 3 years, and by 50 basis points for all other liabilities subject to reserve requirements.</p> <p>The upper limit of the facility of holding standard gold converted from wrought or scrap gold collected from residents was increased from 5% to 10% of Turkish lira reserve requirements.</p>
6 March 2019	The policy rate (one week repo auction rate) was left unchanged at 24%.
22 March 2019	<p>One-week repo auctions were suspended for a while.</p> <p>The total limit of outstanding swap transactions at the Turkish Lira Currency Swap Market was raised from 10% to 20% of the total transaction limits at the Foreign Exchange and Banknotes Markets. In addition, the Turkish lira interest rate applied on this market was raised from 24% to 25.5%. Meanwhile, trading hours for the same-day value date transactions at this market were extended from 10:00-10:45 to 10:00-12:00, effective from 26 March 2019.</p> <p>FX Deposits against TL Deposits auctions were suspended.</p>
27 March 2019	The total limit of outstanding swap transactions at the Turkish Lira Currency Swap Market was raised from 20% to 30% of the total transaction limits at the Foreign Exchange and Banknotes Markets.
4 April 2019	The total limit of outstanding swap transactions at the Turkish Lira Currency Swap Market was raised from 30% to 40% of the total transaction limits at the Foreign Exchange and Banknotes Markets.
8 April 2019	<p>The Turkish lira interest rate applied on the Turkish Lira Currency Swap Market was lowered to 24%.</p> <p>Given the developments in financial markets, one-week repo auctions resumed.</p>
25 April 2019	The policy rate (one week repo auction rate) was left unchanged at 24%.
2 May 2019	The CBRT opened a Turkish Lira Gold Swap Market. The total limit of outstanding gold swap transactions in this market was set at 100 tons and transactions started on 7 May 2019.
3 May 2019	The coverage of deposits/participation funds of official institutions in reserve requirement implementations was expanded to include deposits/participation funds of official institutions subject to the Public Treasurership Regulation.
9 May 2019	<p>Given the developments in financial markets, one-week repo auctions were suspended.</p> <p>The upper limit for the FX maintenance facility within the reserve options mechanism was lowered from 40% to 30%.</p> <p>Reserve requirement ratios for FX liabilities were increased by 100 basis points for all maturity brackets.</p>
10 May 2019	The Turkish lira interest rate applied on the Turkish Lira Currency Swap Market and the Turkish Lira Gold Swap Market was raised from 24% to 25.5%.
21 May 2019	The Turkish lira interest rate applied on the Turkish Lira Currency Swap Market and the Turkish Lira Gold Swap Market was lowered from 25.5% to 24%.

	Given the latest developments in financial markets, one-week repo auctions resumed.
27 May 2019	Reserve requirement ratios for FX deposits/participation funds were increased by 200 basis points for all maturity brackets.
12 June 2019	The policy rate (one week repo auction rate) was left unchanged at 24%.
14 June 2019	TL and FX reserve requirement ratios for finance companies were set at 0% across all maturities.
17 June 2019	Primary Dealer banks were provided with a liquidity facility that can be used through overnight repo transactions under open market operations, at a rate set 100 basis points below the CBRT's policy interest rate.
19 July 2019	With the amended law no 1211 on the Central Bank of the Republic of Turkey, in addition to liabilities, on- or off-balance sheet items of banks and other financial institutions deemed appropriate by the CBRT can be eligible for reserve requirements.
25 July 2019	The policy rate (one-week repo auction rate) was reduced from 24% to 19.75%.
26 July 2019	The Turkish lira interest rate applied on the Turkish Lira Currency Swap Market and the Turkish Lira Gold Swap Market was lowered from 24% to 19.75%.
	Reserve requirement ratios for FX deposits/participation funds were increased by 100 basis points for all maturity brackets.
1 August 2019	The US dollar buying rate on FX deposits as collateral was lowered from 2.25% to 2%. The US dollar deposit selling rate was lowered from 4.25% to 4% for one-week maturity and from 5% to 4.75% for one-month maturity.
	The US dollar interest rate applied on the Turkish Lira Currency Swap Market was lowered from 2.25% to 2%.
5 August 2019	Turkish lira currency swap transactions were decided to be executed with one, three and six-month maturities via the traditional auction (multiple-price) method. These auctions started on 7 August 2019.
	The remuneration rate of US dollar-denominated required reserves, reserve options and free reserves held at the CBRT was decreased by 100 basis points to 1%.
6 August 2019	The total limit of outstanding swap transactions at the Turkish Lira Currency Swap Market was lowered to 20% of banks' total transaction limits at the Foreign Exchange and Banknotes Markets and a limit of 20% was defined for transactions to be conducted via the auction method.
9 August 2019	With the intention of using reserve requirements more flexibly and effectively as a macroprudential tool to support financial stability, the CBRT decided to change the ratio and the remuneration applied to required reserves. Accordingly, for banks whose loan growth is between 10% and 20% (reference values), reserve requirement ratios for Turkish lira liabilities were set at 2% across all maturity brackets excluding deposits and participation funds with a one-year or longer maturity and other liabilities with a maturity longer than three years. Additionally, the remuneration rate applied to Turkish lira-denominated required reserves was set at 15% for banks with a loan growth between the reference values and at 5% for others.
12 September 2019	The policy rate (one-week repo auction rate) was reduced from 19.75% to 16.50%.
13 September 2019	The Turkish lira interest rate applied on the Turkish Lira Currency Swap Market and the Turkish Lira Gold Swap Market was lowered from 19.75% to 16.5%.
19 September 2019	The remuneration rate for US dollar-denominated required reserves, reserve options and free reserves held at the CBRT were decreased by 100 basis points to 0%.
	The US dollar buying rate on FX deposits as collateral was lowered from 2% to 1.75%. The US dollar deposit selling rate was lowered from 4% to 3.75% for one-week maturity and from 4.75% to 4.5% for one-month maturity.
	The US dollar interest rate applied on the Turkish Lira Currency Swap Market was lowered from 2% to 1.75%.
20 September 2019	Reserve requirement ratios for FX deposits/participation funds were increased by 100 basis points for all maturity brackets.
2 October 2019	The CBRT opened a FX Gold Swap Market. The transactions would be conducted both on the buy or sell side via quotation method with banks authorized in the Foreign Exchange and Banknotes Market within their pre-determined limits.
4 October 2019	The remuneration rate applied to Turkish lira-denominated required reserves was lowered to 10% for banks with a loan growth rate within the reference values and to 0% for others.
24 October 2019	The policy rate (one-week repo auction rate) was reduced from 16.50% to 14%.

25 October 2019	The Turkish lira interest rate applied on the Turkish Lira Currency Swap Market and the Turkish Lira Gold Swap Market was lowered from 16.5% to 14%.
31 October 2019	<p>The US dollar buying rate on FX deposits as collateral was lowered from 1.75% to 1.5%. The US dollar deposit selling rate was lowered from 3.75% to 3.5% for one-week maturity and from 4.5% to 4.25% for one-month maturity.</p> <p>The US dollar interest rate applied on the Turkish Lira Currency Swap Market was lowered from 1.75% to 1.5%. The US dollar interest rate applied on the FX Gold Swap Market was lowered from 2% to 1.75% for the buy side and from 1.75% to 1.5% for the sell side.</p>

Annex 2: Schedule for Monetary Policy Committee Meetings and Reports in 2020

Schedule for Monetary Policy Committee Meetings and Reports in 2020			
MPC Meeting	Summary of the MPC Meeting	Inflation Report	Financial Stability Report
16 January 2020	23 January 2020	30 January 2020	
19 February 2020	26 February 2020		
19 March 2020	26 March 2020		
22 April 2020	30 April 2020	30 April 2020	
21 May 2020	1 June 2020		29 May 2020
25 June 2020	2 July 2020		
23 July 2020	29 July 2020	29 July 2020	
20 August 2020	27 August 2020		
24 September 2020	1 October 2020		
22 October 2020	28 October 2020	28 October 2020	
19 November 2020	26 November 2020		27 November 2020
24 December 2020	31 December 2020		
21 January 2021	28 January 2021	28 January 2021	
18 February 2021	25 February 2021		
18 March 2021	25 March 2021		

Note: The Operational Framework of Monetary Policy for 2021 will be published in December 2020.

Annex 3: Monetary and Liquidity Policy Tools

Transaction	Objective	Instrument	Maturity	Frequency
Main policy instrument	Making sure that secondary market overnight rates materialize around the policy rate (one-week repo rate)	One-week Repo Auctions	One-week 5 - 12 days	Daily
Standing facilities	Keeping the level of money market interest rates within a certain range across the interest rate corridor set by the Bank	TL Deposit Borrowing/Lending at the CBRT's Interbank Money Market	Overnight	Daily
		Primary Dealer Repo Facility	Overnight	Daily
		Repo Quotations Against Lease Certificates	Overnight	Daily
		Repo/Reverse Repo at BIST Repo Markets	Overnight	Daily
Lender-of-last-resort transactions	As the lender of last resort, the CBRT tries to avoid temporary liquidity shortages that may cause interruptions in the payment system and technical payment issues that may obstruct the functioning of financial markets	Late Liquidity Window (LLW) Deposit Lending/Borrowing	Overnight	Daily
		Late Liquidity Window (LLW) Repo	Overnight	Daily
		Intraday Limits	Intraday	Daily
Unconventional instruments	Avoiding excessive interest rate volatility	Intraday Repo Auctions	maximum 91 days	If needed

Annex 4: FX and Gold Market Instrument and Key Features

	FX Deposits against TL Deposits*	TL Currency Swaps	TL Currency Swap Auctions	TL-Settled Forward FX Transactions	TL-Settled Forward FX Transactions at the BIST Derivatives Market (VIOP)	FX Deposit Market Transactions	BIST Swap Market Transactions	TL Gold Swaps	FX Gold Swaps
Participants	Member banks	Member banks	Member banks	Member banks	All VIOP members	Member banks	Banks authorized by the BIST	Member banks	Member banks
Minimum Amount	USD 1 million	USD 1 million	USD 1 million	USD 1 million	USD 1,000	USD/EUR 1 million	USD/EUR 1 million	-	-
Collateral Ratio (%)	10%	10%	10%	2.5%	Set by the VIOP	100%	Set by the BIST	10%	10%
Settlement	When due	When due	When due	When due	Daily	When due	When due	When due	When due
Announced Limit	USD 2.5 billion	20% of FX market limits	20% of FX market limits	USD 8 billion	-	USD 50 billion		100 Tons	100 tons (buying and selling)
Maturity	One-week	One-week	1-month, 3-month, 6-month	1-month, 3-month, 6-month	Set by the VIOP	One-week, one-month	Maximum of 180 days	One-week	One-week
Method	Auction	Quotation	Auction	Auction	Quotation	Quotation	Quotation	Quotation	Quotation

Source: CBRT

*Can be transacted as swaps at a bank's request.