

MONETARY AND EXCHANGE RATE POLICY FOR **2022**

29 December 2021

Main Framework of Monetary and Exchange Rate Policy for 2022

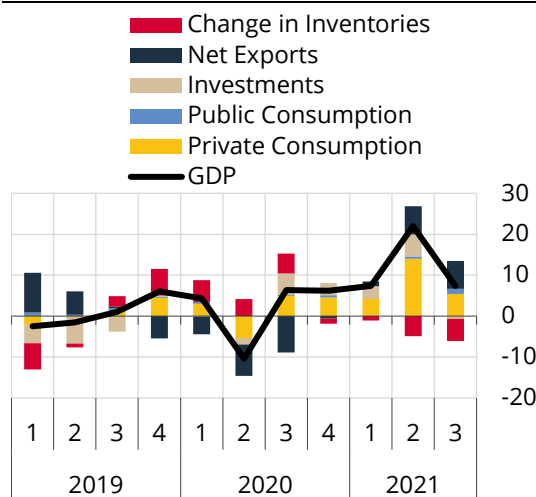
- 1.** The primary objective of the Central Bank of the Republic of Turkey (CBRT) is to achieve and maintain price stability. The medium-term inflation target of 5% set jointly with the Government has been maintained. The monetary policy will be formulated to bring inflation to the target gradually.
- 2.** In 2022, the CBRT will continue to implement the inflation targeting regime in a manner to create a foundation for sustainable price stability.
- 3.** The CBRT's main policy instrument is the one-week repo auction rate.
- 4.** The CBRT will use reserve requirements as a supporting instrument in pursuit of the price stability and financial stability objectives. In this framework, the Reserve Options Mechanism will be completely terminated in 2022, and costs of foreign currency liabilities will be increased while mechanisms to promote Turkish lira deposits will be prioritized.
- 5.** The CBRT will also continue to safeguard financial stability, which is a supporting factor for price stability. Accordingly, in 2022, the CBRT will use the policy instruments at its disposal in the most effective way to ensure the smooth functioning of the monetary transmission mechanism and to limit the risks to macrofinancial stability.
- 6.** The implementation of the floating exchange rate regime will continue, and exchange rates will be determined by supply and demand factors balancing under free market conditions.
- 7.** For effective monetary policy and financial stability, the CBRT aims to strengthen its foreign exchange reserves. The CBRT will continue to build up reserves in 2022 as long as market conditions are suitable.
- 8.** Committed to the principles of transparency, predictability and accountability, the CBRT will continue its policy communication and data dissemination in 2022.

1. General Framework for Monetary Policy

1.1. Macroeconomic Outlook and Monetary Policy Developments in 2021

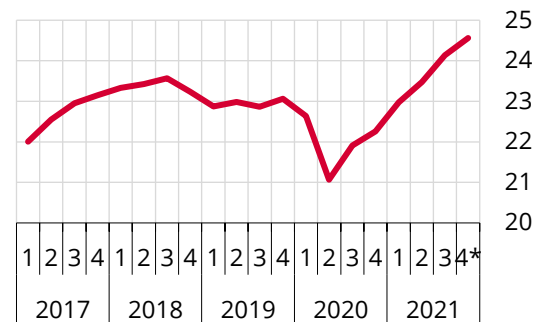
1. Despite the constraining effects of the pandemic in the first quarter of 2021, economic activity remained strong with the help of robust domestic and external demand (Chart 1). With the easing of pandemic restrictions in early March, economic activity revived in services and related sectors. Although economic activity lost some momentum in the second quarter of the year following the pandemic restrictions and the tightening in financial conditions, it remained above its long-term trend. In the third quarter, domestic demand and net exports continued to contribute to annual growth, and annual and quarterly growth rates in this period stood at 7.4% and 2.7%, respectively. The spread of vaccination throughout the domestic population facilitated the recovery in services, tourism and related sectors, which were adversely affected by the pandemic, and led to a more balanced composition in economic activity.

Chart 1: Contributions to Annual Growth From Expenditures (% Points)



Sources: CBRT, TURKSTAT.

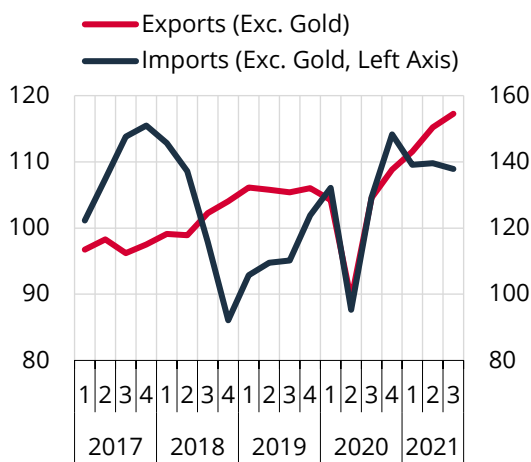
Chart 2: Nonfarm Employment (Seasonally Adjusted, Million People)



Source: TURKSTAT.
* As of October.

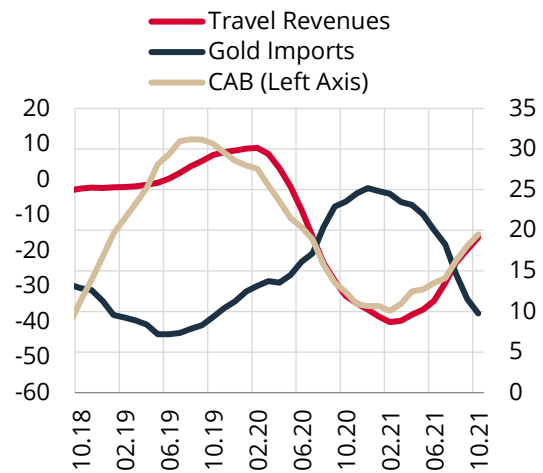
2. The strong course in economic activity also affected the labor market positively. Nonfarm employment started to recover backed primarily by the industrial sector, and reached pre-pandemic levels in the first quarter of 2021 despite the limited contribution from the services sector (Chart 2). In the third quarter of the year, services employment continued to increase with the help of related sectors boosted by the reopening and the favorable course in tourism while the industrial sector employment continued to increase on the back of strong exports. With the recovery in services employment, nonfarm employment and all sub-components exceeded their pre-pandemic levels.
3. While exports remained robust in 2021 due to the rapid recovery in global demand, imports were almost flat despite the recovery in economic activity (Chart 3). Services revenues registered a significant recovery in the third quarter driven by the acceleration in vaccination and the lifting of restrictions. Thus, despite the rise in commodity prices, the real rebalancing in foreign trade, the decline in gold imports and the recovery in services revenues led to an improvement in the current account balance (Chart 4).

Chart 3: Foreign Trade Volume Indices
(Seasonally Adjusted, 2015=100)



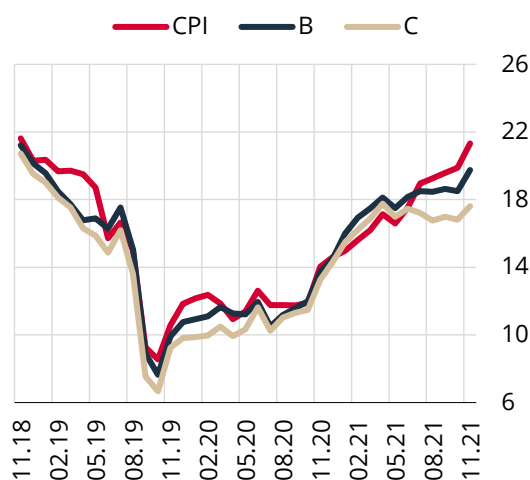
Sources: CBRT, TURKSTAT.

Chart 4: Current Account Balance, Travel Revenues, and Gold Imports
(12-Month Cumulative, Billion USD)



Source: CBRT.

4. In the first quarter of 2021, demand and cost factors, supply constraints in some sectors, and the rise in international food and commodity prices were influential in inflation (Chart 5). In the second quarter of the year, the rise in international food and commodity prices, exchange rate developments, and the course of inflation expectations affected inflation unfavorably. Consumer inflation increased in the third quarter of the year driven by supply-side factors such as the rise in food and import prices and disruptions in supply chains, the rise in administered prices, and demand developments due to the reopening. Meanwhile, the increase in annual producer inflation persisted in 2021. This was mainly due to exchange rate developments as well as the increases in commodity prices, energy prices in particular, and supply constraints.
5. The rise in inflation in the fourth quarter has been driven by exchange rate developments, supply-side factors such as the rise in import prices and disruptions in supply processes, increases in administered prices, and demand developments (Table 1).

Chart 5: CPI and Core Indicators
(Annual % Change)

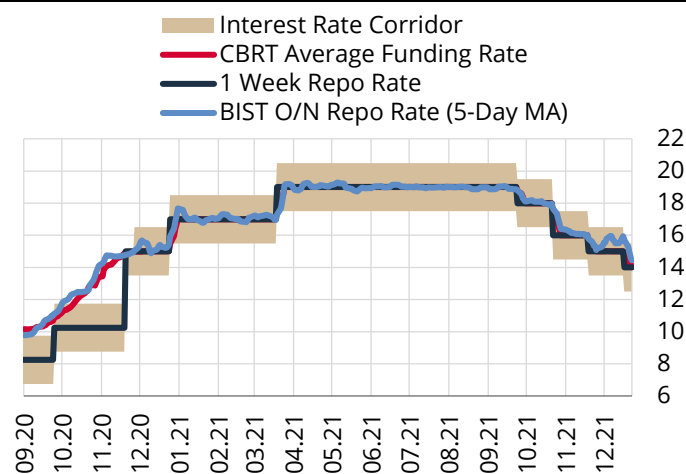
Source: TURKSTAT.

Table 1: Contributions to Annual Consumer Inflation (% Points)

	Jan. 21	Apr. 21	July 21	Oct. 21	Nov. 21
CPI	14.97	17.14	18.95	19.89	21.31
Core Goods (Inc. Gold)	6.2	6.7	6.3	5.3	5.6
Food and Nonalcoholic Beverages	4.3	4.4	6.1	6.8	6.9
Alcoholic Beverages and Tobacco	0.1	0.2	0.1	0.4	0.4
Energy	1.0	2.1	2.6	3.1	3.9
Services	3.4	3.8	3.9	4.3	4.6

Sources: CBRT, TURKSTAT.

6. The CBRT delivered a strong front-loaded monetary tightening in March, and raised the policy rate to 19% from 17% (Chart 6). In the second quarter of 2021, the CBRT communicated that the monetary stance would continue to be determined at a degree of tightness that would restore the disinflation process as soon as possible and ensure the attainment of the medium-term targets. Accordingly, it kept the policy rate constant in the April-August period.
7. The CBRT evaluated the analyses to decompose the impact of demand factors that the monetary policy can affect, core inflation developments and supply shocks, and reduced the policy rate by a total of 500 basis points in the September-December period. Thus, in December, the CBRT decided to complete the use of the room implied by transitory effects of supply-side factors and other factors beyond monetary policy's control on price increases.
8. While the decelerating impact of the monetary tightening delivered in March on credits began to be observed in the second quarter of the year, there was a significant increase in the use of personal loans starting from end-May. This increase is largely attributed to deferred demand strongly coming into play following the full reopening. The macroprudential framework was strengthened with the decisions taken by the Banking Regulation and Supervision Agency (BRSA) in July and September to put the personal loan growth on a moderate track. There has been a recovery in the commercial loan growth following the revisions in the monetary policy stance since September.
9. Announced with a press release on 1 July 2021, the CBRT revised the reserve requirement regulation to improve the effectiveness of the monetary transmission mechanism in line with its main objective of price stability. Accordingly, it decided to exempt from the reserve requirement obligation the Turkish lira deposits/participation funds converted from FX deposits/participation funds, and to apply additional remuneration rate to Turkish lira-denominated required reserves to increase the share of the Turkish lira in total deposits/participation funds in the banking system.

Chart 6: Short-Term Interest Rates (%)

Sources: BIST, CBRT.

10. With a view to increasing the share of the Turkish lira in total deposits/participation funds in the banking system, the CBRT announced on 21 December 2021 that it decided to provide support to deposit and participation fund holders in the event that resident real persons, who already had an FX deposit account or FX participation fund by 20 December 2021, converted their accounts/funds into TRY time deposit accounts or participation accounts, and to exempt these TRY accounts/funds from the reserve requirement obligation.

1.2. Monetary Policy in 2022

Inflation Targeting Framework and Practice in 2022

11. The primary objective of the CBRT is to achieve and maintain price stability. The CBRT will continue to use all available instruments in pursuit of this objective. Monetary policy decisions are made by taking into account headline and core inflation developments, inflation expectations, demand factors that monetary policy can affect, supply-side developments, pricing behavior, and developments in all other factors affecting inflation. The CBRT will adopt a data-driven approach that takes into account all macroeconomic indicators, with inflation and economic activity in the lead, and prioritizes sustainable price stability.
12. The CBRT's main policy instrument is the one-week repo auction rate. The CBRT will also use reserve requirements as a supporting instrument in pursuit of the price stability and financial stability objectives.
13. The medium-term inflation target of 5% set jointly with the Government has been maintained. The monetary policy will be formulated to bring inflation to the target gradually. While converging to the medium-term inflation target, the targets announced by the CBRT via Inflation Reports will serve as interim targets and a reference to inflation expectations. Hence, the figures envisaged to provide economic agents with guidance on the future course of inflation are the inflation forecasts in the short term and the inflation target in the medium term. In 2022, the CBRT will continue to implement the inflation targeting regime in a manner to create a foundation for sustainable price stability.

14. The uncertainty band, which is an element of the CBRT's accountability, has been maintained at 2 percentage points in both directions around the inflation target, the same as the previous years. Throughout the year, comprehensive evaluations of inflation developments will be shared with the public via Inflation Reports. If the realized inflation falls outside the uncertainty band at the end of the year, the CBRT will submit an "Open Letter" to the Government pursuant to the accountability principle.
15. The CBRT will also continue to safeguard financial stability, which is a supporting factor for price stability. Monetary policy focusing on price stability is also deemed to be critical for containing macrofinancial risks in 2022. Accordingly, in 2022, the CBRT will use the policy instruments at its disposal in the most effective way to ensure the smooth functioning of the monetary transmission mechanism and to limit the risks to macrofinancial stability.
16. The monetary policy stance will be set by taking into account the evaluations on the source and permanence of risks, along with the extent to which they can be contained by monetary policy, and with a focus on bringing inflation down permanently in a cautious manner and achieving the price stability objective. Accordingly, the policy stance will continue to be determined by taking into account inflation developments, inflation expectations, as well as the temporary factors projected to bear effect on these in the short term, and at a degree of tightness that will restore the disinflation process as soon as possible and ensure its sustainability until the medium-term targets are achieved.
17. The cumulative impact of policy decisions will be closely monitored in the first quarter of 2022 and during this period, all aspects of the policy framework will be reassessed in order to create a foundation for sustainable price stability.

Decision Making Process and Communication Policy

18. In decision-making processes, the CBRT will adopt a data-driven approach with a medium-term perspective and take all factors affecting inflation into account. In this framework, a detailed data set affecting the headline and core inflation, the underlying trend of inflation, demand factors that the monetary policy can have an effect, supply-side developments and analyses to decompose the impact of supply shocks, and the pricing behavior is monitored. Therefore, comprehensive analyses on the drivers of inflation including international financial conditions, monetary and credit developments, supply and demand indicators, cost factors, economic cycles and expectations will be taken into account.
19. The seven days prior to the Monetary Policy Committee (MPC) meeting is called the "silent period" and no external communication is carried out during this period. In this period, the staff responsible for contributing to the decision-making process submit detailed analyses and evaluations to the Monetary Policy Committee.
20. In 2022, the MPC will hold 12 meetings on a preannounced timetable.¹ 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.
21. The monetary policy communication will continue in line with the principles of transparency, accountability and predictability. The main communication tools of the monetary policy are the MPC announcements and the Inflation Report. The Inflation Report will continue to be issued four times a year, and briefings will be held for effective communication of monetary policy actions as before.

¹ The 2022 schedule for meetings and reports is given in Annex 2.

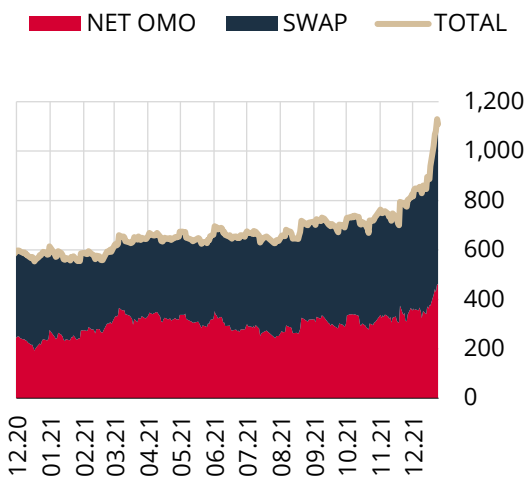
- 22.** The Governor of the CBRT will continue to deliver presentations on the CBRT's activities, monetary policy actions and current developments before the Committee on Plan and Budget of the Grand National Assembly of Turkey twice a year. Moreover, the speeches and presentations to be delivered by the Governor in other platforms will continue to be an important part of the communication policy.
- 23.** The Financial Stability Report will remain another important communication tool of the CBRT. In addition, the "Monthly Price Developments" report, which summarizes monthly inflation developments by sub-components, will be another pillar of the communication policy. Moreover, announcements regarding reserve requirement adjustments as well as the Turkish lira and foreign exchange liquidity management within the scope of the monetary and exchange rate policy will remain important components of the communication regarding the operational framework.
- 24.** Strengthening the cooperation and mutual understanding with national/international institutions, organizations, platforms and other central banks are essential to making and implementing the economic policies that fall within the CBRT's mandate. Additionally, direct and effective communication with investors who invest or intend to invest in Turkey, and with economists and analysts who closely follow the Turkish economy is also critical for a better understanding of the CBRT policies. Accordingly, the "Investor Relations and International Organizations Department" was established at the CBRT.
- 25.** Pre-scheduled meetings with real sector representatives, investors, analysts and economists will continue to keep these groups informed on the policy framework and the macroeconomic outlook. The CBRT will continue its communication with key target groups such as the press, academia and the general public.
- 26.** The CBRT working papers, research notes in economics, blog posts, and presentations delivered on various occasions regarding the CBRT's activities and monetary policy practices will have a major role in the CBRT's communication policy. As in previous years, the Bank will continue to use social media and the Economics for All microsite, and hold meetings, seminars and events.
- 27.** Structural factors have a major effect on inflation overshooting the target. Sustaining the structural reforms that will reduce inflation inertia and volatility will contribute significantly to price stability and social welfare. Accordingly, the CBRT will continue its efforts to analyze structural elements and raise public awareness in this regard, and will use all available communication tools in a holistic manner.
- 28.** A strong policy coordination and a holistic approach involving all stakeholders are essential to achieving price stability. Endorsement of inflation targets by all stakeholders and commitment to the price stability efforts with a common understanding and public accord, along with the determination of macro policies in a coordinated manner, will strengthen the effectiveness of the monetary policy. Accordingly, fiscal policy stance and its coordination with the monetary policy, as well as sustaining the fiscal discipline, remain crucial.
- 29.** The research agenda that the CBRT will set to shape policy decisions based on recent and real-time data as well as robust scientific analyses and to contribute to sustainable price stability will be shared with the public.
- 30.** In line with the agenda, researchers will be invited and joint studies will be conducted for research and development studies that will enable national and global academic and practical capacity to contribute to the solution of structural problems.

2. Developments in TRY and FX Liquidity in 2021

TRY Liquidity Developments in 2021

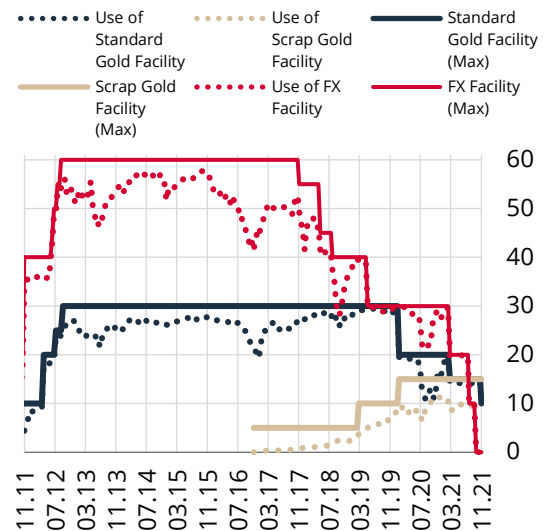
31. The funding need of the system increased by approximately TRY 494.8 billion compared to the end of the previous year and was recorded at TRY 1.109.2 billion on 24 December 2021 (Chart 7). In 2021, developments in the monetary base, foreign exchange transactions against TRY, and the increase in the Treasury's net borrowing amount made an increasing effect on the funding need of the system, while rediscount credits had a reducing effect.

Chart 7: CBRT Funding (Billion TRY)



Source: CBRT.

Chart 8: ROM Regulations (%)



Source: CBRT.

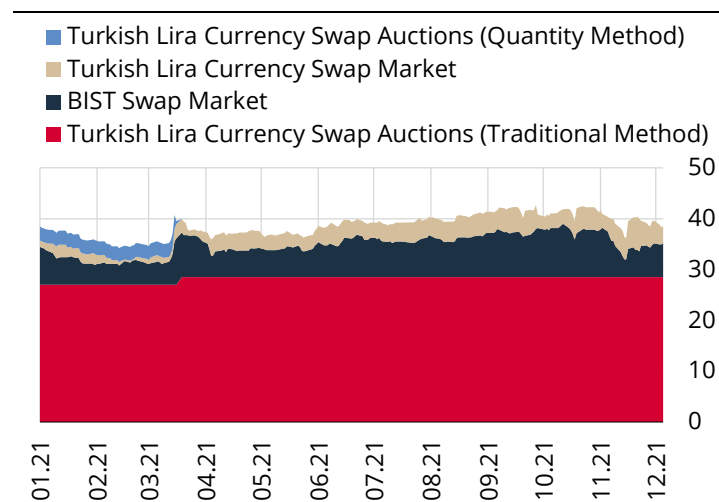
32. The funding need of the system is met via Open Market Operations (OMO) net impact and swap transactions against foreign currency and gold (Chart 7). The amount of swap transactions, which was TRY 338 Billion at the end of 2020, increased by approximately TRY 313 Billion and reached TRY 651 billion by 24 December 2021. Net OMO, which was TRY 276.6 billion at the end of 2020, increased by TRY 181.2 billion and reached TRY 457.9 billion as of 24 December 2021.
33. In 2021, the CBRT provided funding through one-week repo quantity auctions with maturities of one week generally, under the OMO.
34. In 2021, the CBRT did not make outright purchases of Government Domestic Debt Securities (GDDS) from the market.
35. In 2021, the CBRT expanded the set of assets that it accepts as collateral for repo operations in OMO. In this context, in addition to the Turkish lira-denominated GDDS and lease certificates issued by the Ministry of Treasury and Finance (MTF) and the Asset Leasing Company of the Turkish Treasury (ALCTT), in repo transactions, banks were allowed to pledge gold and foreign currency-denominated (USD and euros) GDDS and lease certificates issued by the MTF and ALCTT for institutional investors (US dollar and Euro) as collateral against repo.
36. Various steps have been taken regarding reserve requirements in order to increase the efficiency of the monetary transmission mechanism. Turkish lira reserve requirement ratios were increased by 200 basis points effective from the maintenance period of 5 March 2021. Moreover, the upper limit of the facility for holding FX for TRY reserve requirements was decreased from 30% to 20% by the maintenance period of 5 March

2021, from 20% to 10 % by maintenance period of 6 August 2021, and from 10% to 0% by the maintenance period of 1 October 2021 and terminated. The upper limit of the facility for holding standard gold for TRY reserve requirements was decreased from 20% to 15% by maintenance period of 5 March 2021, from 15% to 10 % by maintenance period of 12 November 2021 (Chart 8). With these decisions, TRY-denominated required reserves were increased by approximately TRY 60 billion.

FX Liquidity Developments in 2021

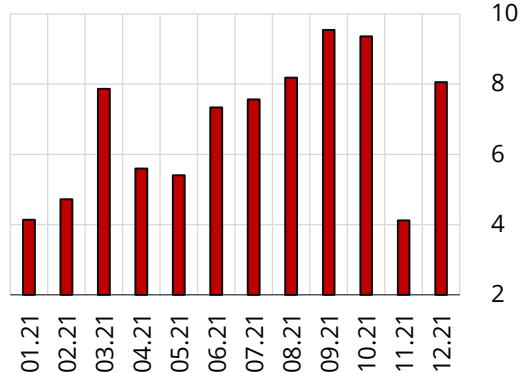
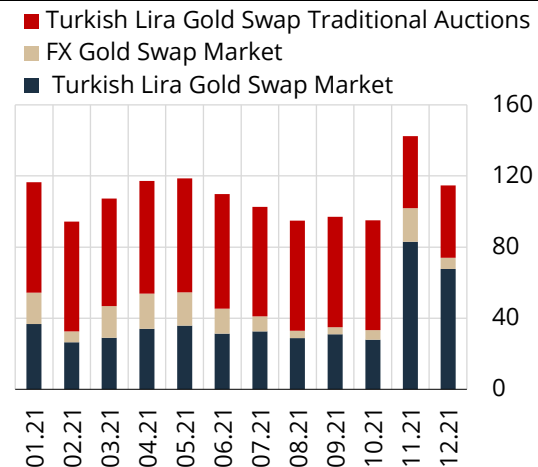
37. In 2021, in the framework of swap transactions against FX, the CBRT provided funding through Turkish lira currency swap auctions conducted via the traditional method, BIST Swap Market transactions and Turkish lira currency swap transactions.

Chart 9: CBRT's TRY Currency Transactions
(Outstanding, Billion USD)



Source: CBRT.

38. In 2021, the CBRT continued to conduct Turkish lira currency swap transactions conducted via the traditional auction method and Turkish lira currency swap market transactions conducted via the quotation method. As of 24 December 2021, the outstanding amount of the Turkish lira currency swap market transactions conducted via the traditional auction method was USD 28.5 billion, the outstanding amount of the Turkish lira currency swap market transactions conducted via the quotation method was USD 7.9 billion. Meanwhile, the outstanding amount of Turkish lira currency swap transactions conducted via the quantity auction method decreased to 0 on 22 March 2021 and no auctions were conducted in the rest of 2021.
39. The CBRT continued to conduct US dollar and euro transactions consistent with the monetary policy rates at the BIST Swap Market in 2021. As of 24 December 2020, the CBRT's swap transactions at the BIST Swap Market amounted to USD 8.1 billion (Chart 10).
40. On 27 December 2021, steps were taken to ensure the balance between the OMO and swaps, to shorten the maturity structure in a measured way, and to improve the distribution of winning banks in swap auctions.

Chart 10: CBRT BIST Swap Market Transactions (Billion USD)**Chart 11: CBRT Gold Swap Transactions (Net Tons)**

- 41.** TRY Gold Swap Market and FX Gold Swap Market transactions, which were started in 2019 to increase the effectiveness of banks' liquidity management and to contribute to the inclusion of gold savings into the financial system, continued in 2021 as well. As of 24 December 2021, the amount of TRY gold swap market transactions conducted via the quotation method was net 67.7 tons, the amount of FX gold swap market transactions was net 6.3 tons and the outstanding amount of the TRY gold swap auctions was net 40.7 tons (Chart 11).
- 42.** In 2021, the CBRT continued to conduct TRY cash-settled FX futures transactions that were launched on 31 August 2018 at the BIST Derivatives Market (VIOP) operating under the BIST, depending on market conditions. In this framework, the trade volume, which was USD 1.4 billion at the beginning of 2021, was reduced gradually throughout the year, nevertheless a rise was observed in the outstanding amount due to transactions in December. As of 24 December 2021, the short position amount at the VIOP was USD 978 million.
- 43.** As of 24 December 2021, the amount of rediscount credits extended in TRY to exporters and FX-earning services providers via the acceptance of FX-denominated bills for rediscount was approximately USD 18.9 billion, while the amount of rediscount credits extended via the acceptance of TRY-denominated bills for rediscount was USD 0.7 billion. In 2021, the contribution of rediscount credits to CBRT reserves was USD 20.7 billion, which is expected to reach USD 21 billion by the end of the year.
- 44.** Some changes have been made in the upper limits of the facility that allow keeping TRY required reserves in FX and standard gold and simultaneously, the FX reserve requirement ratios were increased, which in turn led to a USD 10 billion rise in FX reserve requirements in 2021 (Annex 1).
- 45.** The swap agreements signed with other central banks are intended to encourage bilateral trade through a swap-financed trade settlement facility and financial cooperation for the economic development of the respective countries. To this end, three swap agreements were signed in 2021: On 4 June May 2021, the limit of the bilateral currency swap agreement that was signed between the CBRT and People's Bank China on 30 May 20219, was increased to TRY 46 billion and the Chinese yuan 35 billion. On 12 August 2021, a swap agreement was signed between the CBRT and the Bank of Korea allowing for the exchange of local currencies between the two central banks of up to TRY 17.5 billion or KRW 2.3 trillion. Lastly, an extension agreement was signed between the CBRT and the Central Bank of Qatar on 17 September 2021 for a period of three years as the original swap agreement had expired.

3. Turkish Lira and Foreign Exchange Liquidity Management in 2022

46. The amount of funding, instruments used, distribution, maturity and collateral structure are important factors to make sure that liquidity management supports the effectiveness of the monetary policy transmission mechanism. In this framework, the size of the OMO and swap transactions, which are the main components of the current TRY liquidity management, their share in total funding, their distribution by facility and the collateral structure will be revised within the scope of TRY liquidity management for 2022; the share of OMO funding and Turkish lira assets in the collateral structure will be increased, and swap transaction amounts will be gradually reduced.

TRY Liquidity Management Framework in 2022

47. The main policy instrument of the CBRT is quantity repo auctions with one-week maturity. 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, i.e. 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 uninterrupted functioning of payment systems.

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 considered when outlining the framework of liquidity management.

48. More than one repo auction may be conducted with maturities between 5 and 12 days - when deemed necessary- to enable balanced distribution of liquidity across the days of the week. If an unprecedented liquidity shortage emerges within the day, intra-day repo auctions with one-week maturity via the quantity method may be held between 1 p.m. and 4 p.m.
49. In order to maintain its instrument diversity and operational flexibility in liquidity management, the CBRT is required to keep in its OMO portfolio a sufficient amount of GDDS or TRY-denominated lease certificates issued by the Asset Leasing Company of the Turkish Treasury (ALCTT) for technical reasons. With an aim to maintain operational flexibility on money market interest rates and taking into account the funding needs of the system as well as the developments in the liquidity distribution in the banking system, the CBRT has decided on the following points:
- a. The CBRT's nominal OMO portfolio, which was set at TRY 64 billion for 2021, will be set at 5% of total assets of the CBRT analytical balance sheet for 2022, reserving the option to make additional purchases.
 - b. Outright purchase operations will be conducted to reach the above-cited amount, including the TRY 15.5-billion nominal in the CBRT's portfolio that will be due in 2022.
 - c. Outright purchases will be conducted within a balanced and predictable framework by considering the CBRT OMO portfolio redemption schedule, liquidity conditions in the market and domestic 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.

- d. Outright purchase auctions will be held on Mondays, Wednesdays and/or Fridays with settlement date of the next business day.
 - e. The nominal auction amount of each auction will not be more than TRY 150 million.
 - f. Other issues related to the auctions will be subject to the existing regulations, yet may be revised if deemed necessary.
50. The set of securities accepted as collateral by the CBRT against TRY and FX transactions will be expanded by taking into account the developments in the global financial system to support the deepening of the domestic financial markets, the liquidity of the GDDS market and the effective liquidity management of the banks. In this context, it is planned to include bonds issued for sustainable financing and similar debt instruments in the CBRT's collateral pool. To this end, arrangements will be made to support TRY assets in the CBRT collateral pool and steps will be taken to promote the importance of GDDS within the OMO funding structure.
51. The CBRT will use reserve requirements as a supporting instrument in pursuit of the price stability and financial stability objectives. In this framework, in 2022, the Reserve Options Mechanism will be completely terminated, and costs of foreign currency liabilities will be increased while mechanisms to promote Turkish lira deposits will be prioritized. The practices of maintaining required reserves in standard gold converted from wrought or scrap gold collected from residents to bring gold savings under the mattress into the economy, will remain in effect in 2022. Comprehensive studies will be carried out to increase the amount of gold collected from this channel.

FX Liquidity Management Framework in 2022

52. The implementation of the floating exchange rate regime will continue and exchange rates will be determined by supply and demand balances under free market conditions. The CBRT has no commitment to any exchange rate level and will not conduct FX buying or selling transactions to determine the level or direction of the exchange rates. To ensure that the FX market operates efficiently, the CBRT will closely monitor exchange rate developments and related risk factors and continue to take the necessary measures and employ due instruments.
53. CBRT will aim to strengthen the effectiveness of the monetary policy as well as boosting FX reserves for the sake of financial stability. The CBRT will continue to boost reserves in 2022 as long as the market conditions allow. Instruments will be employed to this end via transparent methods according to a specified schedule and under eligible conditions. Accordingly, USD 16.6 billion is guaranteed to be included in the CBRT net reserves through rediscount credits in 2022, and the contribution to reserves in 2022 is expected to be higher than 2021 in line with the arrangement that took effect on 1 October 2021.
54. A required portion of the FX demand of the state-owned enterprises will be met directly by the CBRT and the Ministry of Treasury and Finance according to market conditions. Accordingly, the amount of FX sales may be reduced gradually as long as market conditions allow.
55. In order to help exporting and importing companies to manage exchange rate risk, depending on market conditions, TRY-settled foreign exchange forward sales will be carried out at the CBRT via auctions and at the VIOP.

- 56.** In 2022, the CBRT will conduct weekly TRY gold swap and TRY currency swap transactions via the quotation method and swap auctions via the traditional method with domestic banks under the scope of TRY and FX liquidity management. On the other hand, the amount of swap transactions conducted by the CBRT will be gradually lowered.
- 57.** In 2022, the CBRT may continue gold buying and selling transactions against FX in its spot market and at the BIST Precious Metals and Diamond Market to contribute to banks' gold liquidity management. Moreover, the CBRT may employ TRY and FX gold swap transactions, TRY gold swap auctions and location swap transactions with banks in 2022.
- 58.** Foreign banknotes against foreign exchange transactions conducted between the CBRT and the banks entitled to operate in FX markets will continue in 2022.
- 59.** In 2022, 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.
- 60.** Banks will be allowed to pledge collateral FX deposits and gold deposits with the CBRT with varying maturities up to three months within their limits in 2022.
- 61.** In 2022, the CBRT will continue gold ore purchases against TRY with a view to accumulating reserves.
- 62.** In 2022, negotiations to sign swap agreements with other central banks will continue.

Annex 1: Policy Actions Taken in 2020

Announcement Date	Policy Action
24 December 2020	The Monetary Policy Committee (MPC) decided to increase the policy rate (one-week repo auction rate) from 15% to 17%.
25 December 2020	The Turkish lira interest rate applied on the Turkish Lira Currency Swap Market and the Turkish Lira Gold Swap Market was raised from 15% to 17%.
21 January 2021	The MPC decided to keep the policy rate (one-week repo auction rate) unchanged at 17%.
18 February 2021	The MPC decided to keep the policy rate (one-week repo auction rate) unchanged at 17%.
24 February 2021	TRY reserve requirement ratios were increased by 200 basis points for all liability types and maturity brackets; the upper limit of the facility for holding FX was decreased from 30% to 20% of TRY reserve requirements; and the upper limit of the facility for holding standard gold was decreased from 20% to 15% of TRY reserve requirements, and the remuneration rate applied to TRY-denominated required reserves was increased by 150 basis points to 13.5%.
25 February 2021	In swap and forward FX transactions with participation banks, the facility to withdraw unilaterally from the transaction was given to the CBRT, taking into account the demands of these banks.
4 March 2021	It was decided to facilitate the use of government bonds and lease certificates issued by the Turkish Ministry of Treasury and Finance and ALCTT to institutional investors in US dollars, euros and gold as securities against repo transactions carried out within the scope of open market operations by the CBRT.
18 March 2021	The MPC decided to increase the policy rate (one-week repo auction rate) from 17% to 19%.
19 March 2021	The Turkish lira interest rate applied on the Turkish Lira Currency Swap Market and the Turkish Lira Gold Swap Market was raised from 17% to 19%.
15 April 2021	The MPC decided to keep the policy rate (one-week repo auction rate) unchanged at 19%.
6 May 2021	The MPC decided to keep the policy rate (one-week repo auction rate) unchanged at 19%.
15 June 2021	The bilateral currency swap agreement, which was signed on 30 May 2019 between the CBRT and People's Bank of China (PBoC), was increased by 35.1 billion Turkish lira and 23 billion Chinese yuan, reaching a total of 46 billion Turkish lira and 35 billion Chinese yuan. The increased amount was recorded in the CBRT's accounts as of 15 June 2021. The core objectives of the agreement were to facilitate bilateral trade in respective local currencies and to support financial stability of the two countries.
17 June 2021	The MPC decided to keep the policy rate (one-week repo auction rate) unchanged at 19%.

1 July 2021	<p>The upper limit of the facility for holding FX was decreased from 20% to 10% of Turkish lira reserve requirements, and it was announced to be terminated on 1 October 2021. Reserve requirement ratios for FX deposits/participation funds were increased by 200 basis points for all maturity brackets.</p> <p>Moreover, it was decided to exempt FX deposits/participation funds from reserve requirement liabilities that were available as of 25 June 2021 and converted to Turkish lira deposits/participation funds after this date; and to apply additional remuneration rate to TRY-denominated required reserves to increase the share of TRY in the total deposit/participation funds in the banking system.</p>
14 July 2021	<p>The MPC decided to keep the policy rate (one-week repo auction rate) unchanged at 19%.</p>
12 August 2021	<p>The MPC decided to keep the policy rate (one-week repo auction rate) unchanged at 19%.</p> <p>The CBRT and the Bank of Korea signed a Turkish Lira-Korean Won bilateral swap agreement allowing for the exchange of local currencies between the two central banks of up to TRY 17.5 billion or KRW 2.3 trillion, with an effective period of 3 years.</p>
15 September 2021	<p>The upper limit of the facility for holding FX was terminated by decreasing its limit from 10% to 0% on 1 October 2021 and the reserve requirement ratios for FX deposits/participation funds were increased by 200 basis points for all maturity brackets, to be effective on the same date.</p>
17 September 2021	<p>The conditions for utilization and repayment of rediscount credits for export and foreign exchange earning services were changed as follows:</p> <ul style="list-style-type: none"> - The total rediscount credit limit was increased to USD 30 billion. Of this limit, USD 20 billion was allocated to the credits to be extended via the Export Credit Bank of Turkey (Turk Eximbank), and USD 10 billion was allocated to the credits to be extended via other banks. - The total limit can be used for rediscount credits in Turkish lira. - Credits can be extended to net exporter firms excluding certain exceptions. - Credits can only be used for payments of the specified expenditures in Turkish lira. - Credit repayments can be made only with export proceeds. -The maximum commission rates that can be charged by intermediary banks was set as 100 basis points. - For firms that make a commitment to sell additional export proceeds to the CBRT, the interest rate applicable to the credit can be discounted.
23 September 2021	<p>The MPC decided to reduce the policy rate (one-week repo auction rate) from 19% to 18%.</p>
24 September 2021	<p>The Turkish lira interest rate applied on the Turkish Lira Currency Swap Market and the Turkish Lira Gold Swap Market was reduced from 19% to 18%.</p> <p>Remuneration rates that are determined at the policy rate level, in line with the practice of additional remuneration rate applied to TRY-denominated required reserves to increase the share of TRY in the total deposit/participation funds in the banking system were reduced by 100 basis points.</p>

21 October 2021	<p>The MPC decided to reduce the policy rate (one-week repo auction rate) from 18% to 16%.</p> <p>All remuneration rates determined in line with the practice of additional remuneration rate applied to TRY-denominated required reserves to increase the share of TRY in the total deposit/participation funds in the banking system were reduced by 200 basis points.</p>
22 October 2021	<p>The Turkish lira interest rate applied on the TRY Currency Swap Market and the TRY Gold Swap Market was reduced from 18% to 16%.</p>
8 November 2021	<p>To enhance the operational flexibility of banks in TRY and FX liquidity management, banks operating in the TRY Currency Swap Market and/or TRY Currency Swap Auctions (Traditional Method) were allowed to conclude their transactions as mutual deposits instead of swaps on their demand.</p> <p>The total outstanding gold swap amount in the TRY Gold Swap Market was increased from 119.5 tons to 140.5 tons, and the total outstanding gold swap amount in the FX Gold Swap Market was increased from 133.5 tons to 150.5 tons.</p>
9 November 2021	<p>The upper limit of the facility for holding standard gold for TRY reserve requirements was decreased from 15% to 10%. This facility was announced to be gradually decreased and terminated. In addition, the reserve requirement ratios for FX deposits/participation funds were increased by 200 basis points for all maturity brackets.</p>
12 November 2021	<p>The total limit of outstanding gold swap transactions at the TRY Gold Swap Market was increased from 140.5 tons to 169 tons, and the total limit of outstanding gold swap transactions at the FX Gold Swap Market was increased from 150.5 tons to 151 tons.</p>
18 November 2021	<p>The MPC decided to reduce the policy rate (one-week repo auction rate) from 16% to 15%.</p>
19 November 2021	<p>The Turkish lira interest rate applied on the TRY Currency Swap Market and the TRY Gold Swap Market was reduced from 16% to 15%.</p> <p>All remuneration rates determined in line with the practice of additional remuneration rate applied to TRY-denominated required reserves to increase the share of TRY in the total deposit/participation funds in the banking system were reduced by 100 basis points.</p>
1 December 2021	<p>The CBRT directly intervened in the market via selling transactions due to unhealthy price formations in exchange rates and conducted transactions at Borsa Istanbul Derivates Market (VIOP).</p>
3 December 2021	<p>The CBRT directly intervened in the market via selling transactions due to unhealthy price formations in exchange rates.</p>
10 December 2021	<p>The CBRT directly intervened in the market via selling transactions due to unhealthy price formations in exchange rates.</p>
13 December 2021	<p>The CBRT directly intervened in the market via selling transactions due to unhealthy price formations in exchange rates.</p>
16 December 2021	<p>The MPC decided to reduce the policy rate (one-week repo auction rate) from 15% to 14%.</p>

17 December 2021	<p>The Turkish lira interest rate applied on the TRY Currency Swap Market and the TRY Gold Swap Market was reduced from 15% to 14%.</p> <p>The CBRT directly intervened in the market via selling transactions due to unhealthy price formations in exchange rates.</p> <p>All remuneration rates determined in line with the practice of additional remuneration rate applied to TRY-denominated required reserves to increase the share of TRY in the total deposit/participation funds in the banking system were reduced by 100 basis points.</p>
21 December 2021	<p>The CBRT decided to provide support to resident real persons, who already had an FX deposit account or FX participation fund denominated in US dollars, euros or British Pounds as of 20 December 2021, if these FX deposit accounts and FX participation funds are converted into Turkish lira time deposit /participation accounts (3,6,12 months).</p> <p>Accordingly,</p> <ul style="list-style-type: none"> - The interest/profit share that will be paid to TRY time deposit accounts/participation accounts to be opened and the difference in exchange rates at the beginning and at end of the maturity will be compared, and the deposit and participation account holder will be paid whichever is higher. - Regardless of the exchange rate on the day the account is opened and the exchange rate at the end of the maturity, the principal and the interest/profit share will be paid to the client by the bank. - If the amount to be calculated using the exchange rate applicable at the end of the maturity is greater than the sum of the principal and the interest/profit share, the difference will be covered by the CBRT. - In case of a withdrawal from an account before maturity, the account holder will not be eligible for the incentive.
27 December 2021	<p>As of 27 December 2021, it was decided to shift the transactions in the BIST Swap Market to traditional swap auctions with a maturity 2 weeks.</p> <p>In swap auctions held via the traditional method, the bid amount that each bank can submit in the auction was limited to a maximum of 30% of the total auction amount, and the transfer of the unused portion of the total swap position determined for auctions to the banks' limits for swap transactions held via the quotation method was terminated and a measured shortening was introduced to maturity structures.</p> <p>It was decided that banks should pledge at an amount minimum of 30% GDDS and/or lease certificates issued domestically by the ALCTT as collateral for their Deposit Selling, Late Liquidity Window and Intraday Limit borrowings on the Interbank Money Market (IMM).</p> <p>To enhance the efficiency and operational flexibility of banks in collateral management, it was decided to enable the maintenance of collateral FX deposits with the same value date as well.</p>

Annex 2: Schedule for Monetary Policy Committee Meetings and Reports in 2022

MPC Meetings	Summary of the MPC Meeting	Inflation Report	Financial Stability Report
20 January 2022	27 January 2022	27 January 2022	
17 February 2022	24 February 2022		
17 March 2022	24 March 2022		
14 April 2022	21 April 2022	28 April 2022	
26 May 2022	2 June 2022		27 May 2022
23 June 2022	30 June 2022		
21 July 2022	28 July 2022	28 July 2022	
18 August 2022	25 August 2022		
22 September 2022	29 September 2022		
20 October 2022	27 October 2022	27 October 2022	
24 November 2022	1 December 2022		25 November 2022
22 December 2022	29 December 2022		
19 January 2023	26 January 2023	26 January 2023	
23 February 2023	2 March 2023		
23 March 2023	30 March 2023		

Note: The Monetary and Exchange Rate Policy for 2023 will be published in December 2022.

Annex 3: Monetary and Liquidity Policy Instruments

Transaction	Objective	Instrument	Maturity	Frequency
Main Policy Instrument	Ensuring 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	Ensuring that the possible volatility level of money market interest rates remains within the interest rate corridor set by the CBRT	TRY 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 problems that may obstruct the effective functioning of financial markets	Late Liquidity Window (LON) Deposit Lending/Borrowing	Overnight	Daily
		Late Liquidity Window (LON) Repo Transactions	Overnight	Daily
		Intraday Limits	Intraday	Daily
Unconventional Instruments	Avoiding excessive interest rate volatility	Intraday Repo Auctions	Weekly	When needed

Annex 4: FX Market Instruments and Key Features

	TRY Currency Swaps	TRY Currency Swap Auctions (Tradition al Method)	TRY Cash Settled FX Futures Transactions at the BIST Derivatives Market (VIOP)	TRY Cash Settled FX Transactions	FX Deposit Market Transactions	TRY Gold Swap Auctions (Tradition al Method)	TRY Gold Swaps	FX Gold Swaps
Participants	Member banks	Member banks	All VIOP members	Member banks	Member banks	Member banks	Member banks	Member banks
Minimum Amount	USD 1 million	USD 1 million	USD 1.000	USD 1 million	USD 1 million /EUR	1 kg	1 kg	1 kg
Collateral Ratio (Percent)	10%	10%	Set by the VIOP	2.5%	100%	10%	10%	10%
Settlement	When due	When due	Daily	When due	When due	When due	When due	When due
Announced Limit	30% of FX market limits	60% of FX market limits	-		USD 50 billion	100 Tons	169 Tons	151 tons (buying), 100 tons (selling)
Maturity	One week	2 Weeks, 3 Months, 6 Months	Set by the VIOP	1 month, 3 Months	1 Week, 1 Month	1 Month, 3 Months, 6 Months	One week	One week
Method	Quotation	Auction	Quotation	Auction	Quotation	Auction	Quotation	Quotation