DISINFLATION PROGRAM FOR THE YEAR 2000:

IMPLEMENTATION OF EXCHANGE RATE AND MONETARY POLICY

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THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

In this press conference, I would like to explain the Stand-By Agreement, which can be qualified as an extension of the Staff Monitored Program signed with the International Monetary Fund in July 1998, in the context of the monetary and exchange rate policy.

1. As you will recall, we have passed several hard tests in the international and national arena since July 1998, and have gained enormous experience in the area of budgetary, monetary and structural reforms as required under the Staff Monitored Program signed with the International Monetary Fund.

2. In our negotiations with the International Monetary Fund in June, the ongoing Staff Monitored Program was envisaged to be a bridge towards a program-tied, fiscally supported Stand-By Agreement. The macroeconomic policies for 2000-2002 period, which were framed and studied therein, are finalized.

3. The fundamental goals of this agreement, which is to last for three years are:

   - To bring down the consumer price inflation to 25 percent by the end of 2000, 12 percent by the end of 2001, and 7 percent by the end of 2002, via simultaneous implementation of consistent, powerful, credible, and persistent fiscal, income, monetary, and exchange rate policies, all supported by relevant structural reforms,

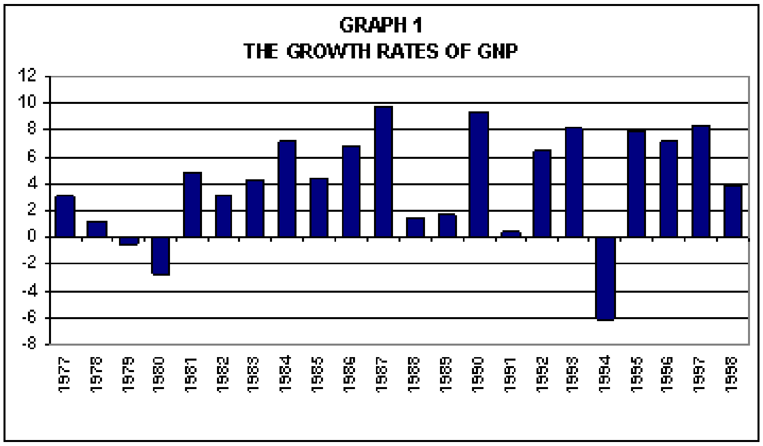
   - To reduce real interest rates to plausible levels,

   - To increase the growth potential of the economy,

   - To provide a more effective and fair allocation of the resources in the economy.

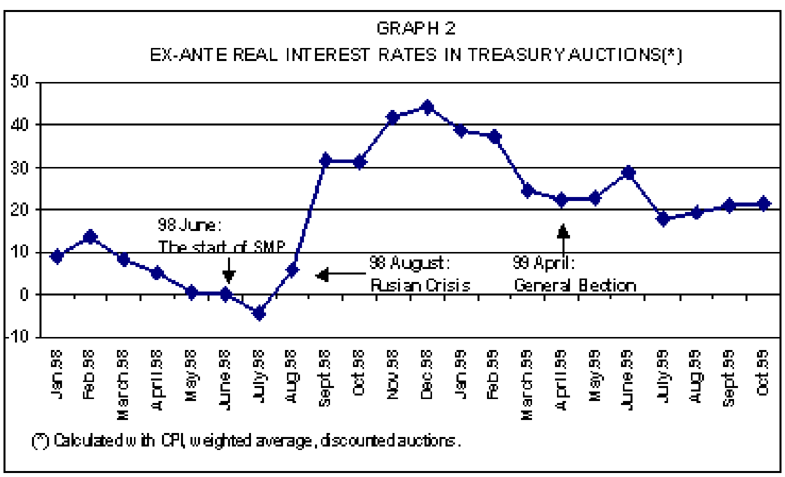
4. As we all know, high-inflation phenomenon is the foremost problem of our economy that has remained unresolved for 25 years. Hence, in the very beginning of my speech, I want to touch on some unfavorable effects of the inflation that are closely observed by our whole nation.

5. The primary effect of the inflation on the economy is the unstable economic growth dynamic (Graph 1). If we examine the real growth rates since 1977, we can see that the periods characterized by three subsequent years of high growth rates are very rare, so that years of recovery are immediately followed by years of depression. This unstable growth environment brought about by the inflation impedes the efficient utilization of the resources in the economy.

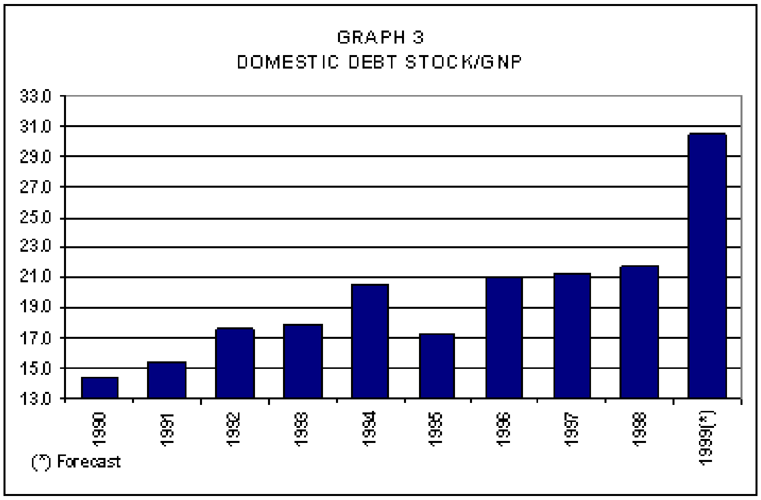


6.The unfavorable effects of the inflation-driven uncertainty environment on both domestic and foreign investments to our country also reduced the potential economic growth rate of the Turkish economy. Many countries that were less developed than Turkey at the end of the 1960s, have got ahead of our country by attaining higher economic growth rates thanks to low inflation

7.Erosion of the credibility of our national currency through volatile and chronic inflation has also led to high real interest rates (Graph 2). This, in turn, not only negatively affected the economic growth by reducing the investment demand, but also switched the capital away from economic activity oriented towards production, pursuing speculative profit in financial activities. This situation hinders to a great extent the availability of new employment facilities in our country, which is characterized by young population, and the improvement of efficiency of labor as well.



8.On the other hand, high real interest rates caused primarily by uncontrolled public deficits have further deteriorated the fiscal position of the public sector. This vicious circle not only increased the total debt of the public sector rapidly, but also complicated the sustainability of the fiscal balance over time (Graph 3).



9.It is misleading to define inflation solely as an economic problem. Such a persistent inflation is also an important social problem when the adverse effects on income distribution are taken into consideration. Inflation has a negative impact on a large part of the society. Lack of productive investments leads people to work in low-income and marginal jobs, which further deteriorate the income distribution.

10.At this point, we should all come to terms with the reality that it is now impossible to live with inflation any longer.

11.There are no further possibilities to solve budget deficit problem by creating inflation. It widens budget deficits by raising the interest rates. The public sector, which gained most from inflation in the past, has now turned into the most suffering sector.

12.We should understand that in a one-digit inflation economy, both public and private sectors would operate more effectively and the members of the society would benefit evenly from the consequent increased productivity.

13.On the threshold of a new Millennium, we all should accept that we must absolutely bring the inflation down in order to have a place among the developed countries and that the international confidence can only be achieved by low inflation.

HIGHLIGHTS OF THE PROGRAM

14. At this stage of my speech, let me share with you the main points of the program that aim at breaking the habit of getting along with inflation which has existed for 25 years:

15.The disinflation program will operate on three main pillars:

a)The first pillar is a tight fiscal policy that consists of increasing the primary surplus, realizing the structural reforms and speeding up the privatization.

b)An income policy in line with the targetted inflation is the second pillar.

c)Monetary and exchange rate policy actions constitute the third pillar which aim to support the contribution of the first two in decreasing both inflation and interest rates, and to provide a long-term perspective to the economic agents.

16.There is no doubt that an inflationary period of 25 years brings about considerable rigidities in the economy. In order to eliminate these rigidities, it is not sufficient to have only a powerful program. There should also be a determined political support throughout the program period. I am pleased to state that the program enjoys a strong political support. This is exactly the most important factor for a successfully implementation of the program.

17. Taking measures in order to eliminate high public sector deficit quickly and permanently forms the basis of the program. Increasing revenues by tax implementations and at the same time tightening expenditures are supposed to make improvements in the budgetary performance in the year 2000. Moreover, continuation of structural reforms in 2000 put into force one by one in the preceding months is believed to contribute to a permanent improvement in the public finance.

18. In addition to tight fiscal policies and structural reforms, privatization in the year 2000 will also contribute to decrease real interest rates and domestic debt stock.

19. It is expected that total public sector primary surplus will be 2.2 percent of GNP as a consequence of the 2000 fiscal policies. This implies that the primary surplus of the consolidated budget, including the earthquake expenditures will be 3.9 percent of GNP.When earthquake expenditures are excluded, the ratio will be 5 percent of GNP. Initially, this is considered as an important and a sufficient amount. As a result of this practice, it will be possible to stabilize the ratio of cash domestic debt to GNP at 27 percent and total debt stock to GNP at 61 percent.

20. There will be similar announcements by the authorities on fiscal and incomes policy implementations, the related targets and detailed explanations concerning these policies.

21. At this point, I would like to present a detailed information on the monetary policy and liquidity management, which are in our Banks responsibility, as the monetary authority.

22. First of all, I would like to explain the exchange rate policy to be implemented in the following years and its effect on inflationary process.

EXCHANGE RATE POLICY

23. Main features of the Central Banks exchange rate policy are as follows:

- The exchange rate basket will be announced on a daily basis covering one-year period.
- The exchange rate basket composed of 1 US dollar + 0.77 EURO will continue to be valid.

24. The exchange rate basket has consisted of 1 US Dollar + 0,77 EURO till now. This basket will be valid during this program.

25. Before explaining the depreciation rate of basket, as all of you may be anxious to learn it, I want to mention through which channels the exchange rate policy will affect the economic process.

26. During economic history, one of the important component of the programs, which were implemented for fighting high and rigid inflation in many developing countries was to preannounce exchange rate for the future. Preannounced exchange rates affect economic framework through many channels. These channels can be summarized as follows:

27. The point behind reducing inflation with minimum cost is to decrease inflationary expectations.

28. The crucial problem of countries, experiencing high and chronic inflation, is the determination of future inflation by past inflation. Any backward indexed contract (like wage, rent etc.) for protecting from inflation has created a down-ward rigidity. This situation, which called as inertia, is closely related to credibility of implementation of the program.

29. In this framework, to decrease inflation with a minimum cost, the behavior of backward-looking indexation must be given up. Preannounced exchange rate will give a great support to this. The persistency of backward looking indexation for price and wage determination will lead to the contraction of production and employment. The success of the program depends on the credibility, continuity and acceptance of the program by the different groups of the society.

30. There will be positive impacts of decreasing the uncertainty in the exchange rates system throughout medium to long term both in goods markets and financial markets.

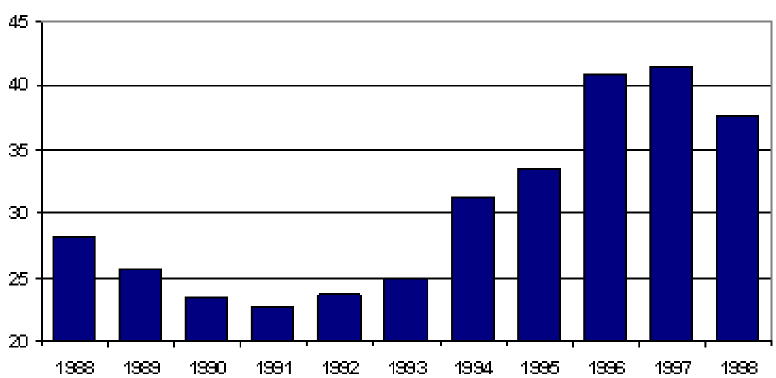
31. Preannounced exchange rate basket and foreign inflation will determine the price of the tradable goods. In this circumstance, the firms in private manufacturing sector (consists of 55 percent of WPI) that produce mostly tradable goods will recognize immediately starting a period of increasing competition. These firms should take into consideration the targeted inflation in their price and wage settings.

32. The high shares of non-tradable good and services in CPI and the backward indexation mechanism in the price setting of these sectors have emphasized the confidence in the program once more.

33. The expected improvement in the financial structures of the public institutions with the program will allow these institutions to make price adjustments in line with the exchange rate path and this will eliminate the pressure on inflation that comes from the public sector. Therefore, with the public sector that makes price adjustments compatible with the targeted inflation, reaching the performance criterias that are valid for the whole public sector will be one of the most important factors for the success of the disinflation program.

34. The pre-announcement of the exchange rates is closely linked with the financial markets. With the trade liberalization in 1980 and later the liberalization of the capital movements in 1989, the integration process of the Turkish economy with the world capital and goods market became complete (Graph 4). Theoretically, in an economy with liberalized financial markets, the factors that determine the domestic interest rates are the foreign interest rates, the expected rate of increase in the exchange rates and the risk premium. On the other hand, the high level of public sector borrowing requirement, volatility in the inflation rate, exchange rate risk, political risks and the other institutional factors result in the higher level of risk premium on the domestic interest rates. As a result of the improvement in the public sector borrowing requirement and the shift in the exchange rate policy from the managed float to a pre-announced basket determined according to the targeted inflation will lead to the elimination of the substantial amount of the risk premium on interest rates. Therefore, we expect that the nominal interest rates will decrease to a level that is compatible with the exchange rate path.

GRAPH 4
THE SHARE OF FOREIGN TRADE IN GNP



35. The elimination of the risk premium resulting from the exchange rate uncertainties will certainly increase the volume of the capital inflows. The capital inflows will lead to the fall in the interest rates and assist for the financial deepening by increasing the real credit stock in the economy. The rise in the availability of financial resources for the private sector firms as a result of the financial deepening and low interest rates will affect the inflation rate positively as a result of the lower production costs.

36. Another important effect of the capital inflows will be observed on the economic growth. The fall in the interest rates and the higher volume of funds in the economy will affect the economic growth positively. However, it will be closely linked to securing the long-term capital inflows, if the negative effects of business cycles on the growth rate of the

economy, which stem from the capital inflows and outflows, are to be avoided.

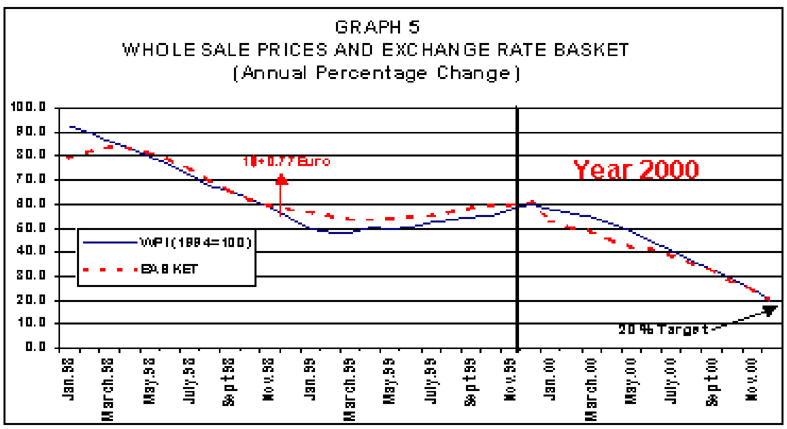
37.Therefore, the acceptance of the program by whole society, believing that it is a long-term program, will in turn lead to stable and sustainable economic growth. It is clear that the stable and sustainable growth will contribute to the lower unemployment rates.

38.Having stated the effects of the predetermined exchange rates on the inflation and the growth, I want to carry on with the implementation of the exchange rates policy.

39.In the last years, the exchange rate policy in practice has been shaped according to the variables such as short-term inflationary expectations, the balance of payments and the public balance. From now on, the exchange rate policy of the Central Bank of the Republic of Turkey (CBRT) will be implemented according to the targeted inflation rate.

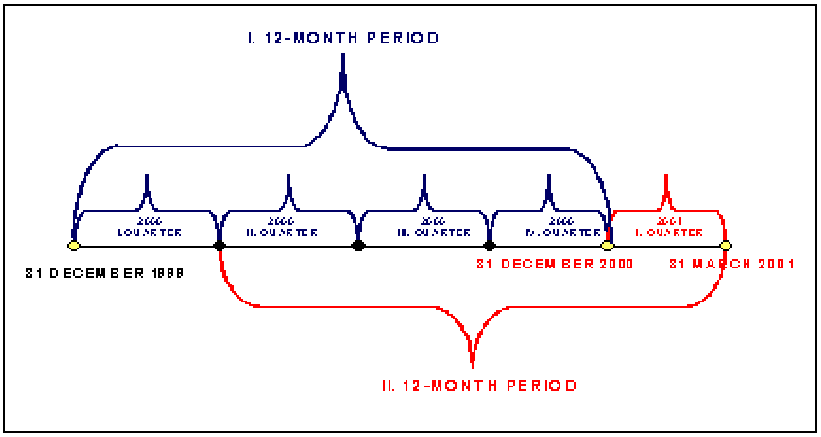
40.I want to state that during the implementation of the program the exchange rate policy will be designed in two different exchange rate regimes and in two different periods. In the first 18 months which is between January 2000 and June 2001, nominal value of the basket will be increased according to the targeted inflation rate and in the following period the exchange rate policy will be carried out with respect to a progressively widening band.

41.In the first 12 months between January 2000 and December 2000, CBRT will conduct an exchange rate policy that is compatible with the target of 20 percent WPI inflation rate for the end of year. In other words, we are committing that the rate of increase in the exchange rate basket in year 2000 will be 20 percent (Graph 5).



42.In the first 18 months between January 2000 and June 2001, at the end of every three months CBRT will announce the rate of increase in the exchange rate basket that will be compatible with the targeted inflation rate for the additional three months period while keeping the pre-announced rates for the previous 9 months unchanged (Diagram 1). Accordingly, at the end of every 3-months period, the rate of increase in the exchange rate basket for the following 12 months will be publicly known.

DIAGRAM 1



43.The Path of the basket that will be implemented throughout the next year is as follows (Table 1):

TABLE 1

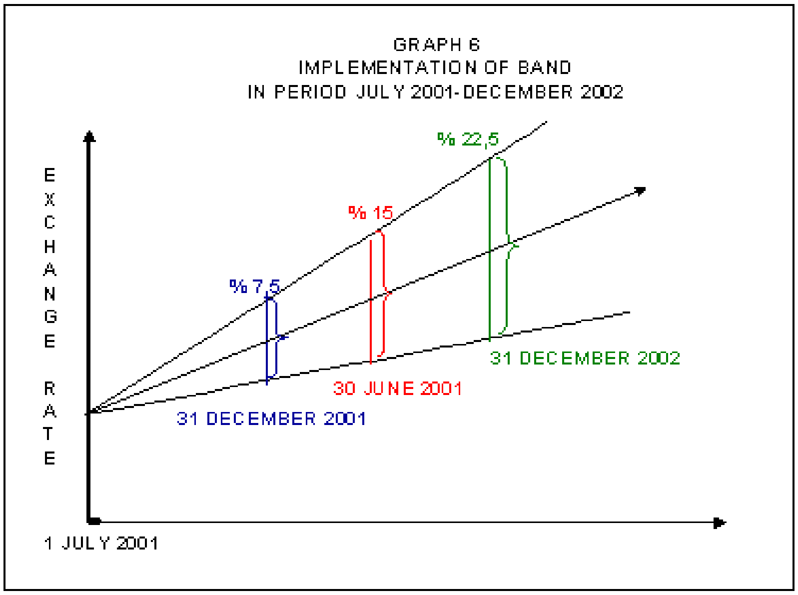
RATE OF INCREASE OF THE FX BASKET CONSISTING OF 1 US DOLLAR + 0.77 EURO

	Value of the basket in the end of month (1 USD + 0.77 EURO)	PERCENTAGE CHANGES IN THE BASKET		
		montly rate of increase(%)	cumulative rate of increase(%)	daily rate of increase(%)
December 1999	959,020.46			
January 2000	979,159.89	2.1	2.100	0.067
February	999,722.25	2.1	4.244	0.072
March	1,020,716.42	2.1	6.433	0.067
April	1,038,068.59	1.7	8.243	0.056
May	1,055,715.76	1.7	10.083	0.054
June	1,073,662.93	1.7	11.954	0.056
July	1,087,620.55	1.3	13.410	0.042
August	1,101,759.61	1.3	14.884	0.042
September	1,116,082.49	1.3	16.377	0.043
October	1,127,243.31	1.0	17.541	0.032
November	1,138,515.75	1.0	18.717	0.033
December 2000	1,149,900.90	1.0	19.904	0.032

NOTE: BASKET=USD+0.77*EURO
BASKET=USD+(0.77*USD*CURRENT CROSS PARITY)
BASKET=USD*(1+0.77*CURRENT CROSS PARITY)
USD=BASKET/(1+0.77*CURRENT CROSS PARITY)
EURO=USD*CURRENT CROSS PARITY

44.Besides, it has been decided to present you the daily values of the basket as a table for the purpose of removing the uncertainty and sustaining a yearly perspective to all the agents of the economy. The "TABLE" that contains the values of exchange rate basket is presented in Appendix 2.

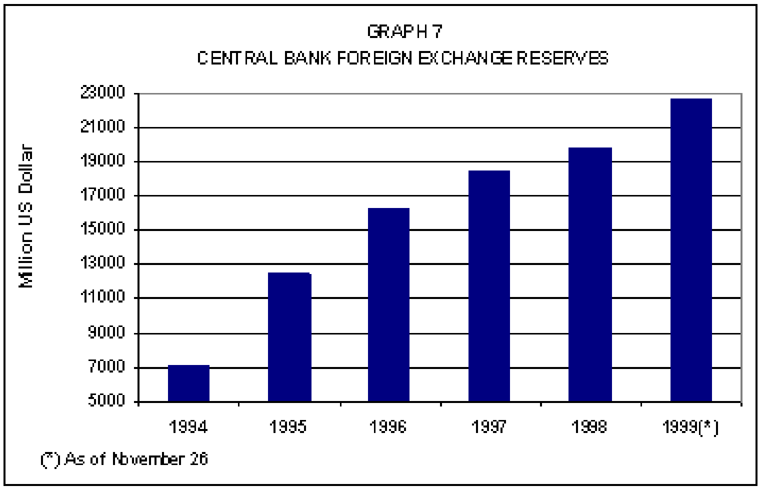
45.The period covering the second 18-month, i.e. in the period July 2001-January 2002, a progressively widening symmetrical band system will be introduced. Total width of the band in question will be increased gradually. In this framework the total width of the band will be gradually widened to 7.5 per cent by end-2001, 15 per cent by July 1, 2002, 22.5 per cent by end-2002. In this mechanism, the central bank will not intervene to the movements of exchange rate within the band (Graphic 6).



46.As can be deduced, as a Central Bank, while we are committing ourselves for the course of exchange rates, we are also pre-announcing the gradual exit strategy from this commitment.

47.Our belief for the applicability of the announced exchange rate policy is perfect. In the framework of the program, with the permanent strengthening of fiscal policy and with the trust constituted in the domestic and foreign markets by the implementations of the central bank, our belief is intensified.

48.As of today, the central bank foreign exchange reserves amount to 22.6 billion dollars and it is expected that these reserves will continue to increase with the implementation of the program and with the financial support of international institutions in the context of the new program. This situation is one of the most important elements, making the announced exchange rate policy applicable (Graphic 7).

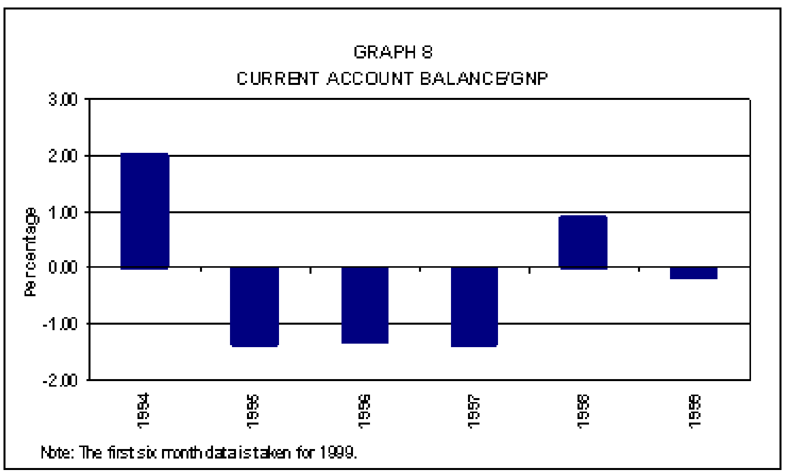


49.The clear exposition of how the exchange rate policy that will form the base for reducing inflation and inflationary expectations, is going to be arranged gradually after first 18 months, will eliminate the criticisms towards this kind of system in the long run.

50.The consideration of the course of exchange rates within the 12-month periods (detailed daily) beforehand, will facilitate the foresight of individuals in the economy and will enable them to make future contracts and plans in a more secure environment.

51. With that application; the future developments of exchange rates will be known and this will minimize the uncertainty about inflation and inflationary expectations. That process will also contribute to decrease real interest rates. CBRT believes that the exchange rate policy eliminate the rigidities rapidly that exist on inflationary expectations.

52.I again declared that, the existence of permanent improvements in the fiscal and income policies and sustainable structure of current account balance enables the success of pre-announced exchange rate policy (Graph 8).



GRAPH 8
CURRENT ACCOUNT BALANCE/GNP

Note: The first six month data is taken for 1999.

53.I believe that the exchange rate policy is the most important tool of Central Bank in reaching to lower inflation targets, which is the final objective of CBRT in the new century.

MONETARY POLICY

54.Now I wish to mention briefly about monetary policy, main policy tools and monetary targets that will be determined in Stand-By agreement with IMF.

55. The main monetary and exchange rate policy tools of CBRT are foreign exchange market interventions, open market operations, interbank operations, and required reserve and liquidity ratios.

56. The most important tool of CBRT at reaching its final objective of inflation is to follow the preannounced path of the basket without permitting any deviations from that.

57. As in the case of Staff Monitored Program, we will continue to follow the reflection of exchange rate and monetary policy in the context of the main aggregates from the balance sheet of CBRT. Monetary policy and balance sheet of CBRT are designed by imposing a floor to net international reserves in addition to a ceiling restriction for the net domestic assets item, which are fundamental aggregates of our balance sheet.

58. The definition of net domestic assets in the balance sheet of CBRT is same with the one that is used in the Staff Monitored Program. However, the net foreign assets item is calculated by deducting foreign exchange deposits of the banking sector from the net foreign assets aggregate that is used in the Staff Monitored program. In some aspects the net international reserve item indicates the net foreign exchange reserve position of CBRT. Detailed information about these definitions is given in the appendix 1.

59. The operational rules of monetary policy in the first 18 months of Stand-By agreement will be discussed now.

Net Domestic Assets

60. CBRT is ready to buy all supplied foreign exchange at the predetermined exchange rate that means injecting Turkish lira to the market by buying foreign exchange. This is the reflection of our exchange rate policy on the liquidity policy. CBRT 's Turkish lira funding process will be kept up during the first 18 months period through purchasing foreign exchange.

61. This funding principle will be strengthened by imposing restriction on net domestic assets and by decreasing volatility of net domestic assets.

62. Accordingly, the ceiling to the net domestic assets at the end of each quarter is fixed at -1200 trillion TL as a performance criterion by the end of year 1999 when the effect of the revaluation account is excluded. (Table 2)

TABLE 2

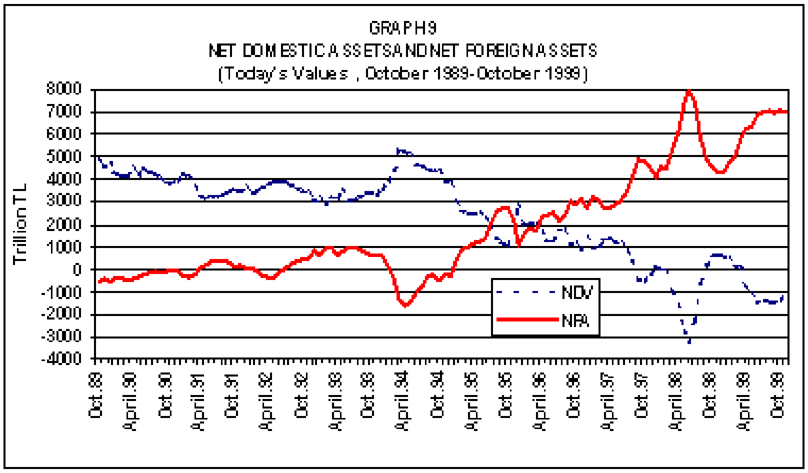
NET DOMESTIC ASSETS
(Trillion TL)

30 SEPTEMBER	**1999 (Realization)**	-1,400.5
31 DECEMBER	**1999**	-1,200.0
31 MARCH	**2000**	-1,200.0
30 JUNE	**2000**	-1,200.0
30 SEPTEMBER	**2000**	-1,200.0
31 DECEMBER	**2000**	-1,200.0

63. During the period, net domestic assets will fluctuate roughly within a parallel band whose upper and lower limits will be determined as ±5 percent of previous end-quarter base money figures. For example, net domestic assets will fluctuate in the interval of 1010 and 1390 trillion TL in the January- March 2000 period if the monetary base is assumed to be realized TL 3800 trillion at the end of 1999. Thus, permitting volatility in the net domestic assets to some extend, sudden and extreme fluctuations in the interest rates can be avoided.

64. Recently, we have limited the net domestic assets through decreasing the credits to public sector and we have

been successful in that (graph 9). Today, I want to state again that in our monetary policy implementation, we will not provide credits to the public sector which causes an increase in net domestic assets. Also, we will abandon the policy of decreasing net domestic assets through sterilization that we have implemented during the periods of surge in foreign exchange inflows.



65.The mechanism of exchange rate band will introduce more flexibility to net domestic assets after the second half of the year 2001. Thus, in line with this flexibility, the strength of monetary policy in reaching to the inflation target will continue via increasing the influences of monetary policy on interest rates.

Open Market Operations

66.In 2000, the composition of the net domestic assets will be permitted to change, while the level of the net domestic assets fluctuates within the band mentioned above. In this framework, the Central Banks strategy in open market operations will tend to compensate the changes in public sector deposit or credit accounts. Therefore, during the period, we are expecting an intensive interaction between open market operations under net domestic assets and credits to public sector items. However, an exception of this situation can be observed in the religious days due to excessive liquidity need.

Interbank Money Market

67.Finally, as to foreign exchange operations and liquidity management, we have to emphasize that the Central Bank will follow a policy of reducing the volume of its own transactions in the interbank money market. In this framework, the Central Bank will determine the bid and offer quotations according to the developments in the money and repo markets outside itself.

Required Reserves

68.On the other hand, reserve requirement policy will be implemented in a more flexible way in order to facilitate the banks temporary liquidity needs and to channel them to engage more efficient liquidity management in their operations.

69.Currently the banks are keeping their reserve requirements in a blocked account at the central bank and can never use these accounts for their liquidity management. With the new implementation this ratio which is still 8 percent, decreased to 6 percent for the reserve requirement that the banks will keep in the blocked accounts, the remaining 2 percent will be kept as free deposits for the obligation of liquidity ratio and in the context of weekly averages. Therefore the banks will be able to use the 2 percent of their liabilities freely within the week with the requirement of holding the average amount throughout the week.

70. With current figures, this will enable the banking sector to use TL 350 trillion of funds on average for their cash management purposes.

71. With the flexibility introduced to reserve requirements, the banks will be able to meet the liquidity needs especially in paydays.

72. When we list the new arrangements that we have introduced into the system, it can be observed that we are trying to push the banks to manage their liquidity positions more actively. While the central bank reduces the injection of Turkish lira liquidity in return of TL transactions, the Bank absolutely guarantees of injecting liquidity through foreign exchange operations in terms of not only quantity but also price. In the same way, we are giving an opportunity to banks to make their liquidity management more effectively by bringing flexibility in the reserve requirement obligation.

73. When the Central Bank balance sheet is taken into account, keeping net domestic assets unchanged indicates that base mone will change only in return for the change in net foreign assets (newly defined).

74. It can be seen that this system brings an automatic mechanism that keeps foreign exchange reserves above a certain level. When there is an excess demand for foreign exchange, the withdrawal of Turkish lira from the market will not be compensated by increasing net domestic assets. This, in return, will cause the demand for Turkish lira to increase and at least the demand for foreign exchange will vanish.

75. As a result of this system, interest rates reflect the market conditions compeletly. In brief, the interest rates gain importance as a factor that brings the system into equilibrium.

Net International Reserves

76. Net international reserves is a new definition. This definition is different from the concept of gross or usable reserves. The net international reserve levels that we are planning to keep above, for each quarter, are 12000 million, 12750 million, 12700 million and 13500 million US dollar respectively (Table 3). The related details are given in the Appendix. These levels are determined by setting certain margins and by taking into account the automatic mechanism. We do not expect that the net international reserve stock will approach to these floor levels. In the event the net international reserves show a tendency to fall below these limits, the Central Bank will take the necessary measures to break these trends.

TABLE 3

NET INTERNATIONAL RESERVES
(Million US Dollar)

		FLOOR
30 SEPTEMBER	1999 (Realization)	17,923
31 DECEMBER	1999	12,000
31 MARCH	2000	12,000
30 JUNE	2000	12,750
30 SEPTEMBER	2000	12,750
31 DECEMBER	2000	13,500

Performance Criteria

77. Here, I would like to give some information about the balance sheet targets of the Stand-by agreement for the year 2000.The targets that we determined for the net international reserves and net domestic assets represent the floor (minimum) and the ceiling (maximum) values respectively. While the net international reserves item is accepted to be a performance criterion in the context of the Agreement until the first half of the year 2000, it will be an indicative floor in the second half of the year.

78. On the other hand, the net domestic assets item is a performance criterion during the year 2000. As I mentioned above, the net domestic assets will fluctuate within a band. This band is introduced in order to provide some flexibility into the system (this is not a performance criterion for the program). It is possible that the net domestic assets can fall below or rise above the limits of the band in certain days.

79. You can find the details of the monetary, exchange rate and liquidity policies that I try to explain here, in the annexes that we distribute to you. These notes cover the definitions of the net international reserves, net domestic assets and base money and the new reserve requirement application.

As a result;

80. I would like to finish my speech by mentioning a few points about the expected success of the disinflation program in year 2000. The program, on which we have been working for nearly two years, is yet to be started. In a technical point of view, this program reflects the efforts spent on it, with its powerful content and consistent structure.

81. So far the political will has shown their support by implementing structural reforms and approving some critical decrees in the parliament. Here it is worth mentioning that parliament has taken important decisions, which can be stated as difficult to approve.

82. The International Monetary Fund and the World Bank, besides their technical contribution in designing the program, have proved their support through aids and project credits.

83. From now on, all we have to do is to support the program. We should not forget that this program is the most serious and maybe the last chance to get rid of inflation, which has been the most important problem of the Turkish economy for the last 25 years.

I kindly present you my best regards.

APPENDIX 1

I. THE DEFINITION IN THE BALANCE SHEET OF CBRT AND PERFORMANCE CRITERIA

DEFINITIOS

There is only basic difference between the balance sheet introduced by the Stand Monitored Program and the new format of the Stand-By agreement. The new Net Foreign Assets item is calculated by subtracting the Foreign Exchange Deposits of Banking Sector, which was formerly under the Reserve Money (X) item, from the old definition of Net Foreign Assets. In this respect, general definitions of the basic items of the Stand-By balance sheet can be written as follows;

Base Money = Currency issued + Required Reserves of TL deposits of the Banking Sector + Free Deposits

Net Domestic Assets = Base Money Net Foreign Assets

The detailed definitions of the above main balance sheet items are as follows:

Base Money: is equal to the total of currency issued, required reserve of TL deposits of the banking sector and free deposits.

Net Domestic Assets: is equal to the total of cash credits to the public sector (net), deposits of public funds, deposits of non-bank sector, cash credits to the banking sector, open market operations, revaluation account, IMF emergency assistance account and others.

Net Foreign Assets: can be derived by adding to the net international reserves. net medium-term FX credits, deposits under the Dresdner scheme of original maturity of two years or longer[1] and others, which include the Turkish Defense Funds.

Net International Reserves contains three main items. The first of these called Gross Foreign Assets is the total of gold, foreign banknotes and correspondent accounts. The second main item, Gross International Reserve Liabilities, consists of overdrafts, letters of credit, short-term credits, Dresdner account covering only 1-year original maturity, FX deposits of banking sector and International Monetary Fund account. The third and last item is the net forward position, which is zero at the moment.

THE PERFORMANCE CRITERIA

As it is stated before in the document, a ceiling has been imposed on the Net Domestic Assets item. This value, which is the same for all periods, can be seen in the table presented below.

NET DOMESTIC ASSETS
(Trillion TL)

30 SEPTEMBER	1999 (Realization)	-1,400.5
31 DECEMBER	1999	-1,200.0
31 MARCH	2000	-1,200.0
30 JUNE	2000	-1,200.0
30 SEPTEMBER	2000	-1,200.0
31 DECEMBER	2000	-1,200.0

However, **for the calculation of net domestic assets as a performance criterion in the Stand-By agreement,**

A-) Revaluation account should be subtracted,

B-) With respect to December 31, 1999, the average of December 10, 1999 and January 20, 2000 and the exchange rate on December 31, 2000 should be taken into account

C-) For the year 2000, the average of the last 5 working days of the each month in the table will be the basis,

On the other hand, a minimum level has been imposed for the Net International Reserves. This item is a performance criterion for the first six months of the year 2000 and an indicator floor value for the second six months of the year 2000.

NET INTERNATIONAL RESERVES
(Million US Dollar)

		FLOOR
30 SEPTEMBER	1999 (Realization)	17,923
31 DECEMBER	1999	12,000
31 MARCH	2000	12,000
30 JUNE	2000	12,750
30 SEPTEMBER	2000	12,750
31 DECEMBER	2000	13,500

However, while the Net International Reserves is calculated,

a) With respect to December 31, 1999, the average of December 10, 1999 and January 20, 2000 and the exchange rate on December 31, 2000 will be taken into account

b) During the year 2000, the value of all the foreign exchange assets and liabilities in terms of US dollar included in the Net Foreign Assets (and therefore Net International Reserves) will be calculated according to the Program Cross Rates Table which will be announced in the Letter of Intent. The values of the balance sheet items in terms of US dollar will be converted into Turkish lira according to current TL/USD rate. As it is stated above, the TL values of the Net Foreign Assets will be calculated according to the current TL/USD rate at the end of each quarter during the year 2000.

Therefore, while the CBRT weekly statement and Analytical Balance Sheet are derived according to the currently daily cross rates, the balance sheet in the stand-by agreement will be calculated according to the fixed cross rates announced in the program and the end period values of targets are calculated by taking into account these values.

The remaining technical details related to the targets will be announced in the Letter of Intention.

CENTRAL BANK BALANCE SHEET IN THE FRAME WORK OF STAND-BY AGREEMENT ON 2000

In Billions of TL	1998	SEPTEMBER 1999
I- BASE MONEY (a+b+c)	2,111,129	3,171,639
a-Currency Issued	1,328,542	1,870,281
b. Required Reserves of Banking Sector(TL)	694,261	1,183,157
c. Free Deposits	88,325	118,201
II-NET FOREIGN ASSETS (A+B+C)	1,486,185	4,572,174
A-Net International Reserves (1+2+3)	4,445,862	8,240,505
1-Gross Foreign Assets	6,343,358	11,000,882
2-Gross International Reserve Liabilities	-1,897,496	-2,760,377
- FX Deposits of Banking Sector	-1,375,261	-2,204,693
- IMF	-121,305	-65,461
-Other Liabilities	-400,930	-490,223
3- Net Forward Position	0	0
B- Medium Term FX Credits (net)	391,647	594,661
C-Other	-3,351,324	-4,262,992
III-NET DOMESTIC ASSETS	624,944	-1,400,535
A- Cash Credits to the Public Sector (net)	-114,545	-494,730
a-Cash Credits to the Public Sector	768,807	576,389
b-Public Sector Deposits (TL)	-212,932	-163,850
c-FX Deposits of Non-bank Sector	-670,420	-907,269
B-Deposits of Public Funds	-16,546	-37,552
C-Deposits of Non-bank Sector	-18,017	-12,558
D-Cash Credits to the Banking Sector	7,544	7,680
E-Open Market Operations	1,830,591	905,250
F-Other (Net)	-683,690	-910,138
G-Revaluation Account	-380,393	-858,487
H-IMF Emergency Assisance (Treasury)		

Note: IMF Emergency Assistance (Treasury) item was introduced on 18 th October 1999

II. THE AMENDMENT CONCERNING THE APPLICATION OF RESERVE REQUIREMENT AND LIQUIDITY REQUIREMENT

As it is known, banks hold required reserves in a blocked account with CBRT for their stock of TL deposit as of the last day of every week. Besides this, banks hold liquid assets for deposits and other TL liabilities on a weekly average base.

By the last amendment, the reserve requirement ratio has been decreased from 8 to 6 percent. On the other hand, 2 percent of TL deposits will be held as free deposits with the Central Bank. As a liquid asset without causing any change in the total of the legal requirements. The new implementation will start on 24th of December 1999.

"The Legal Requirement Table" is shown below;

THE RESERVE REQUIREMENT RATIO (RR) AND LIQUIDITY RATIO (LR)

TL Denominated LR **FX Denominated LR**

	RR				TOTAL	RR				TOTAL
		Free Deposits	Government Securities	Vault Cash			Free Deposits	Government Securities	Vault Cash	
Deposits	%6	%2	%4	%2	%14	%11		%1	%2	%14
Other Liabilities		%8	%4	%2	%14		%11	%1	%2	%14
Excess Open Position		%8								

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[1] The maximum maturity of the foreign exchange credit letters accounts deposited to the Central Bank of The Republic of Turkey by December, 1999 is 3 years. For this reason it is represented as 3 years in the balance sheet.

APPENDIX 2

TABLE OF DAILY BASKET VALUE