

PRESS CONFERENCE

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One of the most important aspects of the disinflation program being implemented is to make public the consistency, application procedure and periodical consequences of monetary and fiscal policies, and to present the interaction between them on an operational basis in a transparent manner and with technical details as well. In this context, I would like to convey some decisions taken jointly by the Central Bank of the Republic of Turkey (CBRT) and the Undersecretariat of Treasury.

Just as the method of financing the budget deficit is reflected on the monetary policy practices, so the monetary policy can directly influence the cost and the amount of debt to be financed. For this reason, the credibility of monetary and fiscal policies is closely related with the coordination and synchronization between them.

It is clear that, in order to realize the final targets envisaged by the monetary policy, all practical applications between the CBRT and the Treasury must be made transparent to the public. In other words, "institutional credibility" must absolutely be supported by "operational credibility".

One of the most important tasks of the CBRT is to act as the fiscal agent on behalf of the fiscal authority. The financial relationship between the CBRT and the Treasury is mainly based on the framework of 'short-term advance', 'government securities portfolio', 'revaluation account', 'profit-loss account', and foreign exchange and Turkish lira deposits of the public sector, including funds. The movements in these accounts do affect the management of liquidity and determine the extent of the relationship between the CBRT and fiscal authority as well.

Following the protocol signed between the Treasury and the CBRT in July 1997, the Treasury did not resort to short-term advances until September 1998. In the wake of the Russian Crisis, however, the Treasury began using again this facility in a negligible amount for financing the budget, provided that the amount be totally repaid within the corresponding month. This system is still in practice.

Revaluation account is another important item in our balance sheet. The balance occurring in this item requires a financial transaction between the CBRT and the Treasury at the end of each year. The change in the value of the Turkish lira against foreign currencies, necessitates a revaluation of foreign exchange assets and liabilities, including gold, in the balance sheet. The foreign exchange differences, either positive or negative, arising from the revaluation of foreign assets and liabilities of the CBRT, are monitored in the revaluation account under the "net domestic assets."

This item, which has been negative until December 1996, has turned out to be positive for the CBRT in parallel with the increase in the net foreign exchange assets. The terms and the conditions of the utilization and redemption of the amount recorded in this account are determined between The Prime Ministry and the CBRT at the end of each year according to the CBRT Law (Article: 61). However, in practice, the CBRT has bought government securities from the Treasury for the negative balance of the revaluation account in line with the protocols between the CBRT and the Treasury,. On the other hand, the securities already bought from the Treasury have been subject to early redemption as a result of the positive balance of the revaluation account,.

At the end of 1999, as a result of the positive balance of the revaluation account amounting to 1,510 trillion Turkish liras, after deducting the allowances for the foreign exchange differences, an early redemption of the government securities amounting to 1.337 trillion Turkish liras with their accrued interests was realized as of February 15, 2000. This amounts to 5,8 percent of the domestic debt stock in 1999. This transaction will contribute to the reduction of debt stock in the year 2000. To emphasize the significance of this amount, it is worth mentioning that it corresponds to 1,6 percent of the GNP.

Accordingly, the exclusion of the government securities, which may not be used for direct sales and purchases in the secondary market, is an important and a positive development for the structure of our balance sheet. On the other hand, the balance sheet aggregate of the CBRT has contracted due to the early redemption of the government securities to wipe out the balance of the revaluation account as of February 15, 2000.

As I have pointed out before, another important financial relationship between the CBRT and the Treasury is the transfer of a certain portion of the profits resulting from the CBRT's monetary transactions to the Treasury as a shareholder. The method of transferring the profits, which have reached to substantial amounts between 1997 and 1999, has gained importance recently. In 1999, against the profit of 1998, the government securities have been subject to early redemption. From the total profit of 1999, which is 506 trillion TL, 242 trillion TL, the reserve funds, dividends, taxes and funds share excluded, will be transferred to the Treasury in April 2000. This amount is approximately equal to 0.3 percent of the 1999 GNP. This operation, which has already been foreseen and included in the program, will not affect the monetary policy.

An important point that I would like to stress at this stage is that, there is a consensus between the Treasury and the CBRT for carrying out all financial transactions on a cash basis beginning from the year 2000. From now on, the CBRT is planning to

set up its government securities portfolio only through the direct purchases from the secondary market.

As a requirement of the program, the CBRT has a foreign exchange target and a limit on net domestic assets. Thus, the direct purchases of government securities will be realized only in line with the targets when necessary. A survey of the structure of our current balance sheet reveals that the banking sector is in a debtor position in the open market operations. Therefore, there is no need for the CBRT to form a portfolio immediately for the liquidity management. The transactions of the CBRT will only be directed to form a portfolio for the future.

One of the most important medium term priorities of the authorities is to provide the capital markets and the government securities market with a long-term foresight. After July 2001, there will be a move towards the crawling band regime in the foreign exchange policy implementation. After the January 1, 2003, the monetary policy compatible with inflation targeting will be implemented by ensuring the flexibility of the exchange rate regime. In the inflation-targeting framework, one of the methods for affecting inflationary expectations will be using short run interest rates effectively in line with the decreases in interventions in the foreign exchange market. In this situation, where the interest rate policy comes forward we may face circumstances in which yield curve interventions could be necessary. Therefore, under the inflation targeting regime, the main objective of the CBRT's direct sales and purchases interventions will be to give signals to influence the yield curve.

We will continue to inform you about the implementation and developments of the performance criteria, as well as the operational details when necessary.

Thank you.