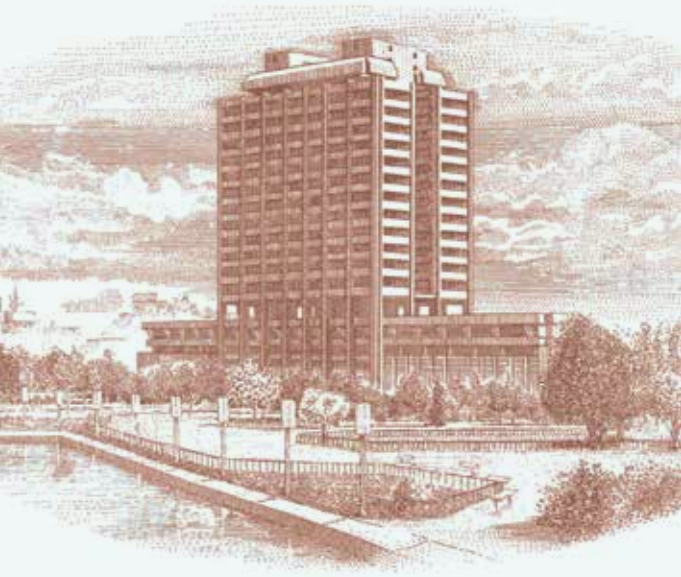




**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**



**CENTRAL BANK OF THE  
REPUBLIC OF TURKEY**

**2014**

# CENTRAL BANK OF THE REPUBLIC OF TURKEY

The Central Bank of the Republic of Turkey (CBRT) is responsible for conducting monetary and exchange rate policies in Turkey.

The CBRT has the primary objective of achieving price stability. The Bank is also responsible for taking measures to sustain the stability of the financial system.

Moreover, the CBRT is in charge of printing banknotes, circulating money, establishing and overseeing payment systems and last but not least, managing Turkey's international reserves.





The CBRT was established as a joint stock company on 11 June 1930. Shares of the Bank are divided into four classes. Class A shares belong solely to the Treasury and - as stipulated by the CBRT Law - cannot constitute less than fifty one per cent of the capital. Class B and Class C shares are allocated to national banks operating in Turkey, banks other than national banks, and privileged companies. Finally, Class D shares are allocated to Turkish commercial institutions and to real and legal persons of Turkish nationality.

The Bank determines, at its own discretion, the monetary policy to pursue and the policy instruments to use in achieving price stability. This implies that the CBRT enjoys **instrument independence**, as is often the case with central banks of many advanced economies. In order to attain its objective of price stability, the CBRT has implemented a **full-fledged inflation targeting regime** since 2006.

2014  
2015  
2016 > 5%

The medium term inflation target determined by the CBRT and the government jointly is 5 percent.

In terms of instruments, the Bank makes effective use of the one-week repo rate, the interest rate corridor - formed between the overnight borrowing and lending rates - and the required reserves.

# INFLATION AND PRICE STABILITY

The Law stipulates the primary objective of the CBRT as follows: “The primary objective of the Bank shall be to achieve and maintain price stability”.

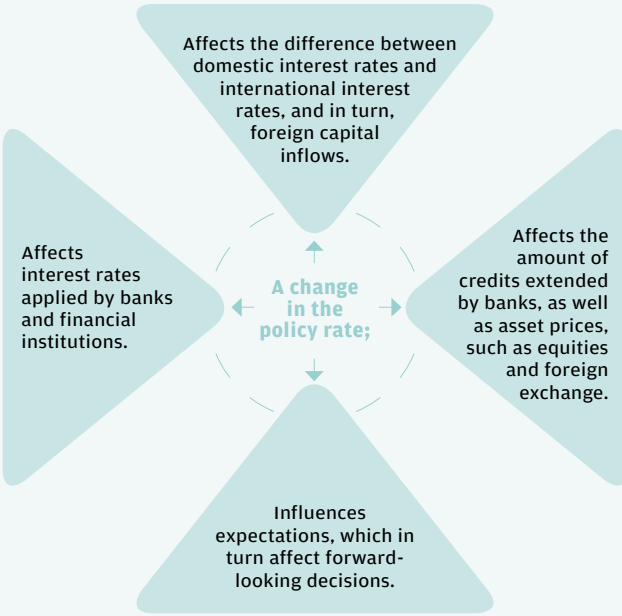
In achieving this objective, the Bank determines, at its own discretion, the monetary policy instruments to be utilized. In addition, it supports the growth and employment policies of the government provided that they do not conflict with the objective of price stability.



## Monetary Policy Committee

In 2001, the Monetary Policy Committee (MPC) was established by an amendment made to the CBRT Law. Since then, monetary policy decisions have been made by the MPC. The Committee is chaired by the Governor and composed of the Deputy Governors, a member of the Board, elected by the Board, and a member who is appointed by a joint decree at the recommendation of the Governor.

Changes in policy rates by the Monetary Policy Committee of the CBRT affect inflation through four channels.



It may take some time for an economy to adapt to changes in interest rates. Some channels in monetary transmission mechanism work faster than others. This depends on many factors, including how long it takes policy changes to affect contracts, individuals' consumption patterns, etc. Another point to note: in economies where backward looking pricing behavior dominates, policy changes bring about relatively weaker results.

## Inflation Report

The quarterly **Inflation Report**, first published in January 2006, is the CBRT's main communication tool under the inflation targeting regime. The Report presents the MPC's evaluations pertaining to the inflation outlook, the monetary policy stance, macroeconomic developments, supply and demand conditions and risks to the inflation outlook, as well as CBRT's forecasts for the medium term inflation and the output gap. The report is published in January, April, July and October each year.

# FINANCIAL STABILITY



Besides achieving price stability, sustaining a sound financial system is also one of the main tasks of modern central banks.

Any disturbances in the financial system may harm economic growth, raise unemployment, endanger price stability and reduce the effectiveness of monetary policy actions. That is why central banks should be ready to step in to tackle situations that may jeopardize financial stability and/or the overall economy.

In this framework, the CBRT, along with other relevant bodies, is authorized to take not only measures to enhance stability in the financial system, but also regulatory action with respect to money and foreign exchange (FX) markets. In particular, the Bank tries to contain the macro financial risks stemming from global imbalances.

Accordingly, the current conjuncture created by the global financial crisis has led the CBRT to design and adopt a policy mix, in which the interest rate corridor - the range between the overnight borrowing and lending rates -, and required reserves are employed alongside the policy rate. Also in providing efficient functioning of liquidity management and in limiting the negative effects of volatility in capital flows, the Bank uses the reserve option mechanism (ROM) which is an automatic stabilizer.

## Financial Stability Report

In its biannual Financial Stability Report, the CBRT reveals its macro perspective on financial markets and evaluates recent developments and risks pertaining to financial stability. The report is published in May and November each year.

## PAYMENT SYSTEMS

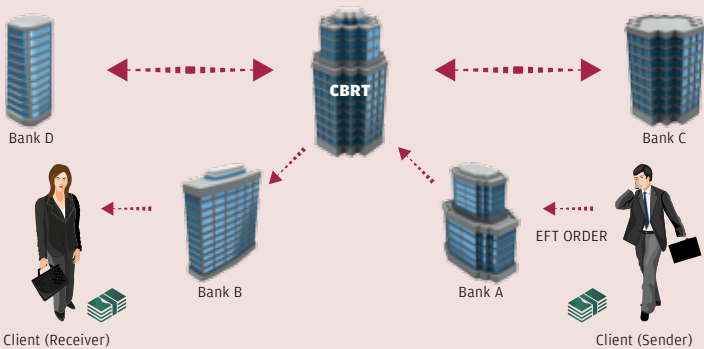
Smoothly functioning, efficient payment systems are of vital importance not only for the financial system and monetary policy, but also for economic institutions and individuals.

Any problems in payment systems may harm banks, the corporate sector, individuals and, consequently, the whole economy. Although, payment systems can sometimes be taken for granted in crisis-free times (i.e. when everything functions smoothly), they are strategically important for Turkey's economy.

The CBRT is responsible for establishing and securing the uninterrupted functioning of payment, security transfer and settlement systems, to enable the safe and fast transfer of money and securities. In this framework, the CBRT ensures the flawless operation of the Electronic Funds Transfer System (EFT), the Electronic Security Transfer System (ESTS) and the cheque clearing system.

**The EFT** provides real time transfer and real time gross settlement of Turkish lira interbank payments. The high volume share of small amount payments in the total payments was creating huge risk in the settlement of high valued and urgent payments. In order to eliminate this risk, a functional separation was performed on 7 December 2012 to differentiate banking payments and consumer payments. **The ESTS** provides electronic transfers and of securities settlements in book entry form. Both systems operate in real time. **The cheque clearing system**, which enables interbank settlement of cheques, saves time and labor for those who prefer cheques as their instrument of payment.

### PAYMENT FLOWS IN EFT



# EXCHANGE RATE POLICY

One of the main responsibilities of the CBRT is to determine the exchange rate regime jointly with the government. The CBRT is responsible and authorized for the design and the implementation of the exchange rate policy in line with the agreed exchange rate regime.

Exchange rate policy implementations are determined in line with monetary policy targets, which means that the exchange rate policy may be altered if and when the monetary policy changes.

The floating exchange rate regime has been adopted after the economic crisis of 2001. Under the regime, exchange rates are determined by **supply** and **demand** conditions in the market. Conditions determining FX supply and demand are:

- Monetary and fiscal policies,
- Economic foundations,
- Global economic developments,
- Expectations.

Under the floating exchange rate regime, the exchange rate is not used as a policy instrument and the CBRT has no nominal or real exchange rate target. Any intervention by the CBRT in the FX markets is not aimed at determining the level or direction of exchange rates. The Bank is involved in interventions solely to prevent excessive volatility in exchange rates.





# MANAGEMENT OF INTERNATIONAL RESERVES

International reserves are readily convertible assets controlled by monetary authorities and used for international payments.

The CBRT is in charge of managing the gold and FX reserves of Turkey. The reasons for holding international reserves are to:

- Establish and maintain confidence in monetary and exchange rate policies,
- Provide FX liquidity for the Treasury's domestic and foreign debt services,
- Reduce the economy's susceptibility to internal and external shocks,
- Boost the confidence of international markets in the Turkish economy.

While managing the international reserves, the CBRT first and foremost safeguards the country's interests. To this end, adhering to the principles of preserving the capital and providing liquidity to the market, international reserves are invested only in instruments which carry the lowest risk. In line with this conservative approach to reserve management, the Bank employs an effective risk management strategy designed to identify, assess and contain potential risks. The level of international reserves is published on the CBRT website on a regular basis.



---

## BANKNOTE PRINTING

Currency is a country's symbol of sovereignty and independence. The privilege of printing banknotes was initially vested with the Grand National Assembly of Turkey. The Grand National Assembly, however, has transferred the sole privilege of printing and issuing banknotes exclusively and indefinitely to the CBRT.

Turkish lira banknotes are designed and printed at the Banknote Printing Plant. In this sense the CBRT is one of the few central banks to have its own banknote printing facility.

Banknote designs are inspired by important places, figures, events and eminent persons that contributes to the historical and cultural heritage of Turkey. In their design and printing, the CBRT gives utmost importance to banknotes' security features.

The CBRT, through its 21 branches nationwide, puts new banknotes into circulation and replaces worn-out banknotes. In 16 other cities, where the CBRT has no branches, but the Ziraat Bank does, the banknote depots and two cash centers located in Istanbul serve both the banks and the participation banks. The CBRT is not only responsible for printing banknotes, but also for determining the volume of currency in circulation.





Currently there are six denominations of banknotes in circulation. The reverse side of the banknotes carries portraits of prominent Turkish personalities who are internationally renowned.

As for coins; in Turkey, coins are minted and put into circulation by the Turkish State Mint, which is a body of the Undersecretariat of Treasury.

## FOR FURTHER INFORMATION

All publications, announcements and statistical data published by the CBRT as well as speeches and presentations made by the Governor, Deputy Governors and other Senior officials, and other detailed information about the Bank are accessible on the Bank's website ([www.tcmb.gov.tr](http://www.tcmb.gov.tr)).

By subscribing to the Bank's mailing list, you can receive regular e-mail updates in accordance with your preferences.



Central Bank of the Republic of Turkey  
(Türkiye Cumhuriyet Merkez Bankası) Head Office  
İstiklal Cad. 10 Ulus, 06100 Ankara, Turkey  
Phone: (+90 312) 507 50 00 Facsimile: (+90 312) 507 56 40  
World Wide Web Home Page: <http://www.tcmb.gov.tr>  
e-mail: [info@tcmb.gov.tr](mailto:info@tcmb.gov.tr)