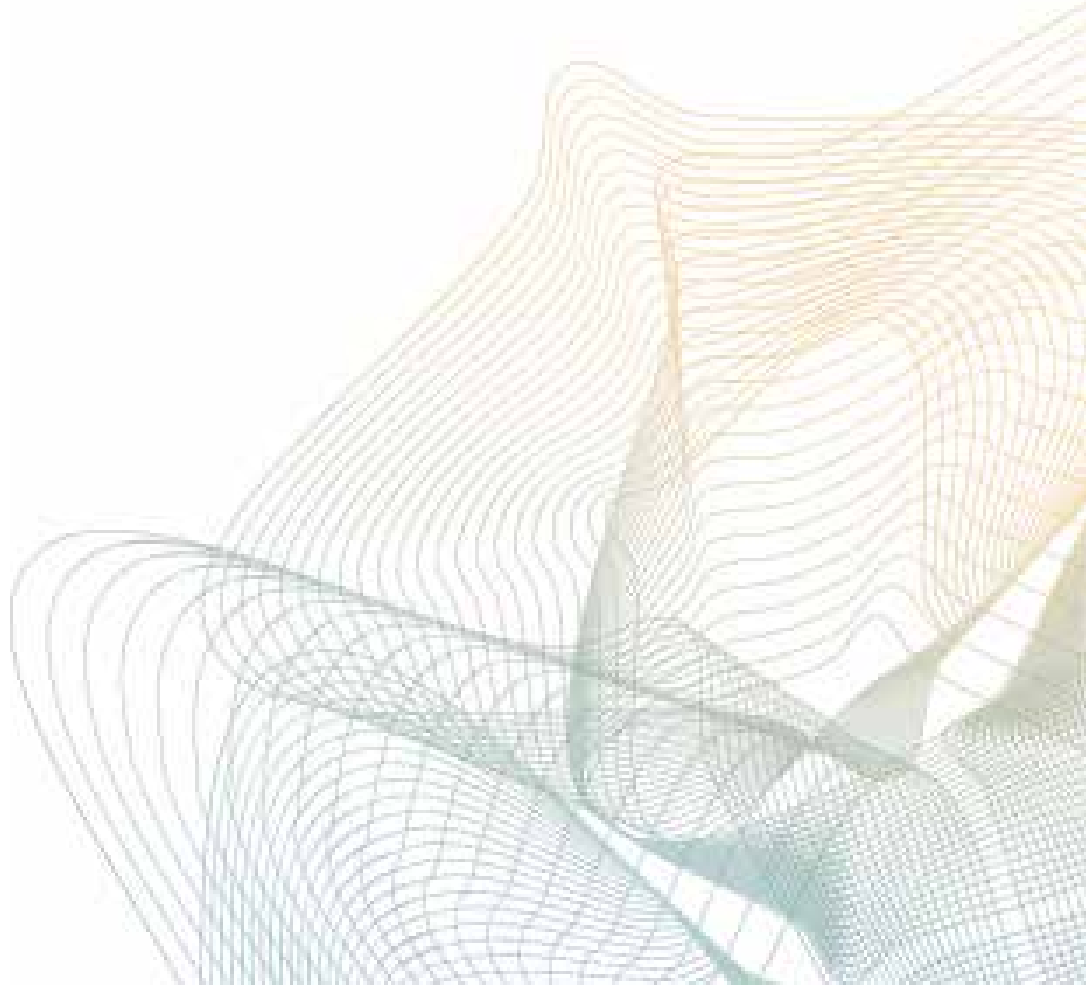




Annual Report 2019



The following award-winning pieces from the photography contests organized by the CBRT are included as separators among sections of the 2019 Annual Report:

- “Return Home” by Abhijit Banerjee
- “Keşanlı Kız” (“The Girl from Keşan”) by Ertuğrul Baştan
(from the International Photography Contest “Economy and Crafts”)
- “Craftman 2” by Hardijanto Budiman
(from the International Photography Contest “Economy and the Human Being”)

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Trade Registry Number: 269

2019 Annual Report Drawn up by the Board for the
Eighty Eighth Accounting Year Submitted to the
General Assembly of Shareholders on 18 May 2020
Ankara
2020

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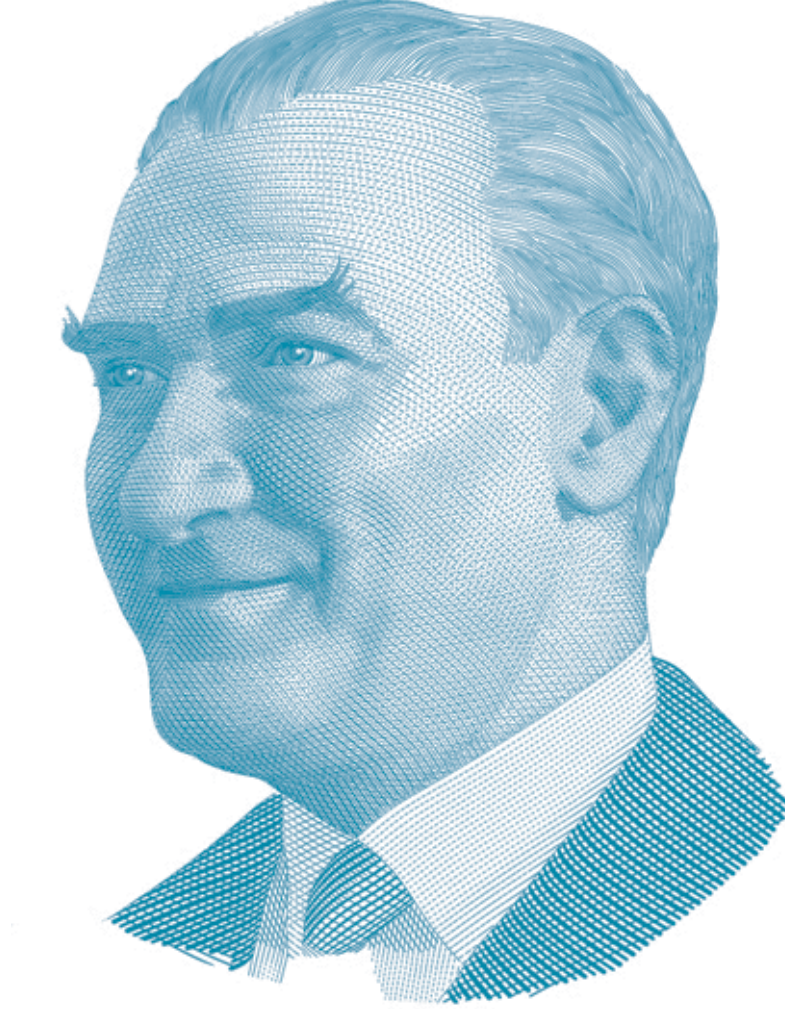
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Abbreviations

AÇMDP	Financial Support Program for Academic Studies	GDDS	Government Domestic Debt Securities
BCBS	Basel Committee on Banking Supervision	GDP	Gross Domestic Product
BES	Right to Information	GNAT	Grand National Assembly of Turkey
BIS	Bank for International Settlements	IFC	Irving Fisher Committee on Central Bank Statistics
BIST	Borsa Istanbul	IILM	International Islamic Liquidity Management Corporation
BKM	Interbank Card Center	IMF	International Monetary Fund
BoE	Bank of England	IMM	Interbank Money Market
BPS	Banknote Processing Systems	IMSG	CPMI-IOSCO Implementation Monitoring Standing Group
BRSA	Banking Regulation and Supervision Agency	IOSCO	International Organization of Securities Commissions
CAR	Capital Adequacy Ratio	ISCB	Istanbul School of Central Banking
CBCDG	Central Bank Counterfeit Deterrence Group	MPC	Monetary Policy Committee
CBRT	Central Bank of the Republic of Turkey	MPTS	Mastercard Payment Transaction Services Turkey
CCD	Consignment Coin Depots	NPL	Non-Performing Loans
CCP	Central Counter-Party	OIC	Organization of Islamic Cooperation
CİMER	Presidency of the Republic of Turkey Directorate of Communications	OMO	Open Market Operations
CPMI	Committee on Payments and Market Infrastructures	PFMI	Principles for Financial Market Infrastructures
DCM	Decentralized Cash Management	REAL	Real Economic Activity Lens
EME	Emerging Market Economies	ROM	Reserve Options Mechanism
EU	European Union	RTGS	Real Time Gross Settlement
EVDS	Electronic Data Delivery System	Takasbank	Istanbul Clearing & Custody Bank
FİKKO	Financial Stability and Development Committee	TCC	Turkish Commercial Code
FinTech	Financial Technologies	TCMA	Turkish Capital Markets Association
Food	Food and Agricultural Product	TL/TRY	Turkish lira
Committee	Markets Monitoring & Evaluation Committee	TPL	Tax Procedure Law
FSB	Financial Stability Board	TURKSTAT	Turkish Statistical Institute
FSB MENA	FSB Regional Consultative Group for the Middle East and North Africa	UYAP	National Judiciary Informatics System
FX	Foreign Exchange	VIOP	Futures and Options Market
		WB	World Bank
		YTH	Domestic Clearing and Settlement System

Foreword



Murat Uysal
Governor

Following the slowdown in the second half of 2018, economic activity assumed a mild recovery trend in the first quarter of 2019 on the back of policy steps and measures taken. Despite decelerated external demand, exports of goods and services remained strong due to competitiveness gains and continued to support growth. Meanwhile, the moderate course of domestic demand and the level of real exchange rates limited imports. Against this background, the current account balance significantly improved and registered a positive value for the first time since 2002. Accordingly, the external financing need declined while the corporate sector started to pay down its debts. The Central Bank of the Republic of Turkey (CBRT) also contributed to this process by using an appropriate composition of its policy tools to bolster predictability in line with its objectives to achieve price stability and support financial stability.

Driven by exchange rate developments and the deterioration in pricing behavior, consumer inflation reached 20.3% by the end of 2018. However, it dropped by 8.5 points in 2019 due to the policies implemented, and closed the year at 11.8%. In 2019, weakening cumulative effects of the Turkish lira depreciation made the largest contribution to disinflation while mild demand conditions and import prices also supported it. On the other hand, real unit labor costs, and tax and administered price adjustments had a curbing effect on disinflation in 2019. The underlying trend of inflation also registered a significant improvement due to the amelioration of inflation expectations and pricing behavior throughout the year.

In 2019, while the policy stance was determined in a fashion to ensure continuation of the disinflation process, macroprudential tools were also used effectively for financial stability purposes. Under the tight monetary policy stance and strong policy coordination focusing on disinflation, the Turkish lira stabilized. Thus, inflation dynamics significantly improved on the back of waning cumulative exchange rate effects and the mild domestic demand. With the improvement in the inflation outlook, the policy rate was reduced from July through end-2019 to 12%.

To support financial stability, the CBRT continued to use an expanded set of tools in addition to the policy rate and liquidity policies in 2019. In this respect, regulations were introduced to use reserve requirements more flexibly and effectively as a counter-cyclical macroprudential tool to support financial stability, along with the main policy tool.

The CBRT also continued to use the communication channels actively in 2019 to reinforce the effectiveness of policies and increase awareness of price and financial stability. Accordingly, all platforms, the CBRT website in particular, were actively employed under the communications policy. Moreover, the Bank reached out to a larger audience to relate its policies by conducting regular meetings with representatives from the sector as well as with Turkish and foreign investors and analysts.

Under the duties assigned to it by law, the CBRT acts with a mission to contribute to social welfare by achieving price stability and supporting financial stability. In line with its vision to be one of the leading central banks of the world with its independence, credibility, efficient organization, qualified human resource, innovative approach, effective communication and advanced technological infrastructure, the CBRT supports the balanced and sustainable growth process in the Turkish economy. Consistent with the mutual agreement reached with the Government during the preparation of the New Economy Program, the target set for the 2020-2022 period is that inflation will converge to 5% towards 2022. Accordingly, the CBRT will continue to use all available policy instruments effectively to achieve this target.

Central Bank of the Republic of Turkey 2019-2021 Strategic Plan

OUR VISION

Our vision is to be one of the leading central banks of the world with our independence, credibility, efficient organization, qualified human resource, innovative approach, effective communication and advanced technological infrastructure.

OUR MISSION

Our mission is to contribute to social welfare by achieving our primary objective of price stability and supporting financial stability.

OUR FOCUS AREAS

1. Research and Communication

2. Operational Structure

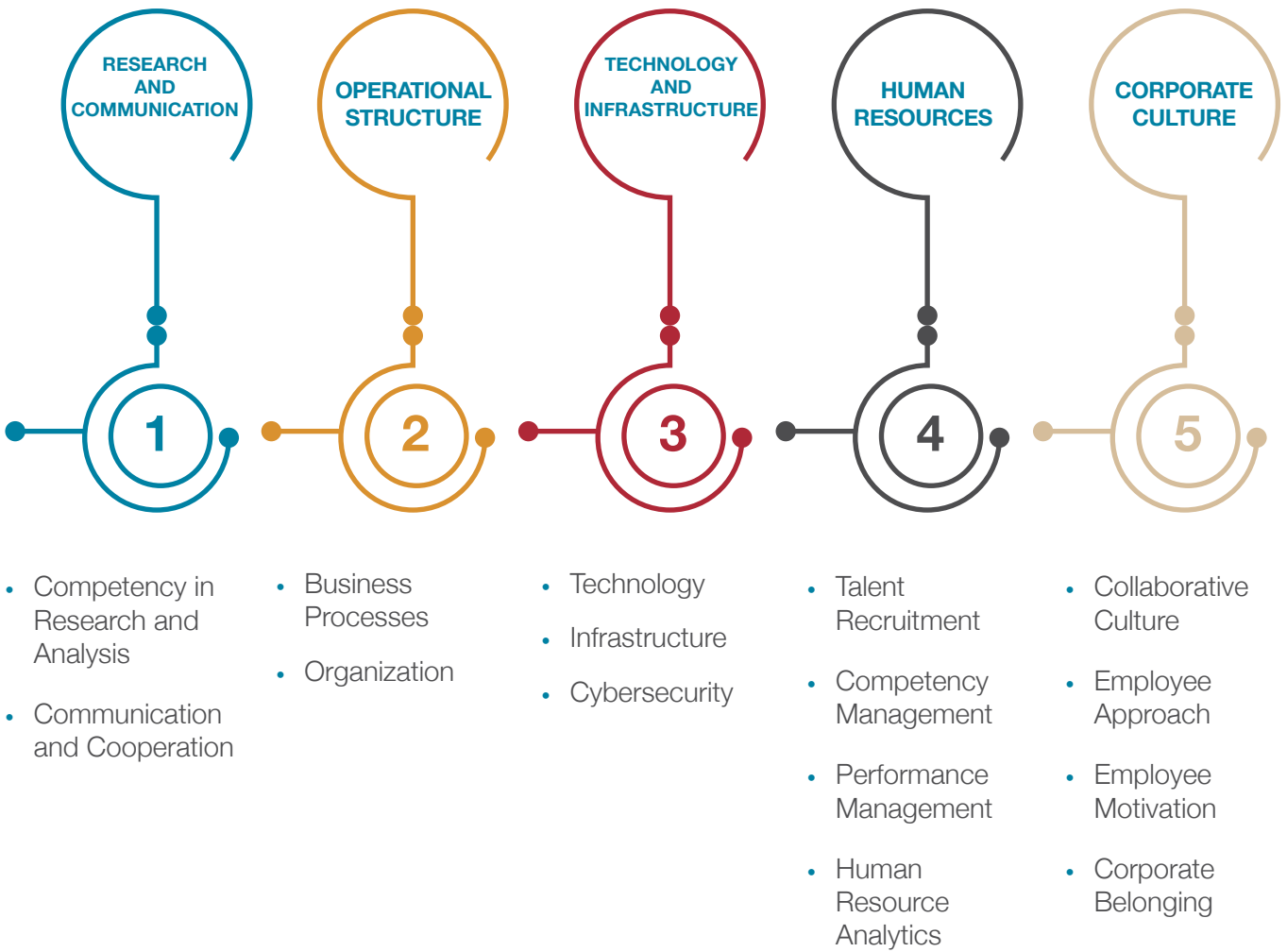
3. Technology and Infrastructure

4. Human Resources

5. Corporate Culture

The CBRT's Five Focus Areas

The CBRT has five focus areas that show the goals it aims to achieve in line with its vision and mission.



A Glance at 2019



**FOCUSING
ON PRICE
STABILITY AND
CONTRIBUTING
TO FINANCIAL
STABILITY**

In line with its objectives of achieving price stability and contributing to financial stability, the CBRT continued to make use of an appropriate mix of monetary policy and liquidity tools to support the predictability of the monetary policy.

- The CBRT uses the one-week repo rate as its policy rate. In line with the improvement in the inflation outlook, the policy rate was reduced to 12% by the end of the year following the strong rate cuts delivered in July, September, October and December.
- Banks intensively used the CBRT's swap facilities in the face of the developments throughout 2019, and the majority of the funding need of the system was provided via the swap facilities of the CBRT. Accordingly, the funding via Open Market Operations (OMO), which was mostly done by one-week repo auctions, declined.
- In August, it was decided that the Turkish lira currency swap transactions, which used to be executed with one-week maturity via the quotation method, would also be executed with one, three and six-month maturities via the traditional auction (multiple-price) method.
- The CBRT continued to take several steps to bring out domestic gold savings into the financial system. To contribute to increasing the effectiveness of banks' liquidity management and bringing out gold savings into the financial system, the Turkish Lira Gold Swap Market on the buy side and the Foreign Exchange Gold Swap Market on the buy and sell sides were opened at the CBRT in May and October, respectively.
- The CBRT determined its monetary policy stance in way to ensure the continuation of the disinflation process, and also made effective use of macroprudential tools such as reserve requirements (RR) for financial stability purposes. It made some changes on reserve requirements to allow the use of this facility in a more flexible and effective way as a countercyclical macroprudential tool to support its main monetary policy tool.
- An amendment to the CBRT Law in July enabled not only banks' liabilities but also their on- and off-balance sheet items deemed appropriate to be subjected to reserve requirements.
- In August, the reserve requirement ratios for Turkish lira (TL) liabilities and the remuneration rates for Turkish lira-denominated required reserves were linked to the annual growth rates of TL cash loans.
- In December, the reserve requirement regulation was revised with a view to supporting financial stability by encouraging the channeling of loan supply to production-oriented sectors rather than consumption-oriented ones. The aim of this revision was to encourage long-term commercial loans that had a strong relation with production and investment, and long-term housing loans that had a weak relation with imports.
- In December, reserve requirement ratios for FX deposits/participation funds (excluding deposits/participation funds obtained from banks abroad) and borrower funds were linked to the real growth rates of TL cash loans.



PLAIN, EFFECTIVE AND BILATERAL COMMUNICATION

The CBRT pursued a plain, effective and bilateral communication policy in 2019.

- A total of 19 new analyses were posted on the corporate “CBRT Blog” that enables the CBRT staff to share their views with the public, open these views for debate and offer timely contributions to the economic agenda.
- The “Economics for All” initiative, which was introduced to raise awareness about the importance of price stability and provide different shareholders with economics training, remained active. To make these trainings nation-wide, the CBRT continued with its “Economics for All in Anatolia” project. Accordingly, events were held on 19-22 February 2019 in Eskişehir, on 3 May 2019 in İzmit, and on 5-6 November 2019 in Amasya.
- On a pre-scheduled basis, technical meetings and teleconferences were held with analysts, strategists, economists, and portfolio managers from Turkish and foreign investment institutions and credit rating agencies. A total of 57 meetings were held with 283 institutions and 418 people.
- With a view to reinforcing communication with the corporate sector and explaining the CBRT policies to the public in a more effective way, Governor Murat Uysal delivered a speech on “Economic Outlook and the CBRT’s Real Sector Studies” at the Assembly Meeting of Ankara Chamber of Industry, and a speech on “External Balance, Sustainable Growth and Price Stability” at the Assembly Meeting of Istanbul Chamber of Industry.
- To examine the structural constituents of the Turkish economy and closely monitor the corporate sector, first-hand information was obtained via face-to-face meetings with a total of 1,919 firms, of which 906 were from the manufacturing industry and 518 were from the wholesale and retail trade sector.
- The Food and Agricultural Product Markets Monitoring Committee (Food Committee), secretarial services of which are undertaken by the CBRT, continued to take decisions regarding the structural and cyclical actions. These actions continued to be designed with a focus on the price stability perspective through cooperation among institutions. Accordingly, the Food Committee convened seven times throughout the year.

A Glance at 2019



MORE INTENSIVE AND EFFICIENT USE OF TECHNOLOGY

The CBRT continued to use technology and automation intensively and efficiently in all business processes.

- The microsite Economics for All, which includes videos, booklets, infographics and tests prepared to increase awareness of the Bank's core functions and main economic concepts, was redesigned in June.
- The design and content plan of the Virtual Museum, which includes information on the Bank's history, banknote printing processes, the series of old and new banknotes, and the CBRT's art collection, were renewed in February. In December, its English version was launched.
- Work was carried out to conduct research and cooperation activities for steering the developments in the Financial Technologies (FinTech) sphere according to Turkey's needs and strategy, to identify the needs of the sector by closely monitoring developments regarding payment systems, payment services and financial technologies, and to contribute to the formation of a robust ecosystem.
- Through joint work with the Republic of Turkey Ministry of Justice, the integration of loan and deposit rates into the National Judiciary Informatics System (UYAP) was completed. This project has enabled various banking data to be inquired via the UYAP platform, expediting access to data required in court case processes.
- Numerous data sets that would help in decision-making processes were included in the Big Data Platform and started to be used.
- To monitor the factors affecting FX market dynamics and FX positions of real and legal persons, high-frequency intraday data platforms were established.
- Software solutions for new instruments devised to address Turkish lira and foreign exchange markets, and software for new securities issuance models devised upon demands from the Republic of Turkey Ministry of Treasury and Finance were successfully developed and introduced in a timely manner.



COORDINATION WITH NATIONAL AND INTERNATIONAL SHAREHOLDERS

In the development and implementation of economic policies under its domain, the CBRT continued to work in coordination with national and international stakeholders.

- Various domestic national platforms were attended.
- International conferences and meetings were held, and activities for regional cooperation were given priority.
- Under the CBRT's bilateral cooperation strategy, a total of 68 activities were held with 33 peer central banks in Turkey and abroad. Of these activities, 52 were working visits.
- Through a new memorandum of understanding signed, the number of central banks that the CBRT officially cooperated with reached 32. Thus, the scope of the CBRT's international cooperation network was widened.
- In 2019, the Istanbul School of Central Banking (ISCB), for the first time, organized international training programs on risk management in Islamic banking and finance, stress testing in Islamic financial institutions, Islamic banking and finance for central banks, organizational transformation in central banks, and inclusive approach to financial risk management in central banks.
- Also for the first time, the ISCB offered financial sector courses on a national level to employees from banks and financial corporations operating in Turkey.



DEVELOPING CULTURAL, ARTISTIC AND SOCIAL SENSITIVITY

Acting with social responsibility and sensitivity, the CBRT continued to engage in cultural, artistic and sports activities.

- Exhibitions of prominent pieces from the CBRT Art Collection were held on 27 March-30 July 2019 in Antalya, on 27 June-30 September 2019 in Ankara, and on 18 November-20 December 2019 in Amasya.
- The CBRT participated in social responsibility activities, and continued to contribute to academic studies through donations and aid.
- In the scope of internal communication activities, theatre tickets for some plays were reserved for employees, and trekking and a photography contest were organized to increase communication among employees as well as their motivation.
- The CBRT held tournaments on various fields of sports in Turkey and abroad while employees also participated in tournaments organized by other institutions.
- To develop a sense of corporate belonging, support arts and artists, and reinforce internal communication, a photography contest on the theme "Autumn-Winter" was organized among the CBRT employees on 22 November-25 December 2019.
- The CBRT employees participated in the tree-planting event that took place simultaneously in 81 provinces on 11 November 2019 under the "Geleceğe Nefes" ("Breath for the Future") campaign run all around Turkey. The employees planted more than 1,200 trees.

2019 in Numbers



3,874

Number of Employees



TRY **153.4** billion
Amount of Banknotes
in Circulation



2.1 billion
Number of Banknotes
in Circulation



556 tons
Gold Holdings



25.7%
Share of Gold Assets
in Reserves



USD **22.7** billion
Contribution of Rediscount
Credits to CBRT's Net FX
Reserves



TRY **73** trillion
Total Amount of Transactions
in CBRT's Payment Systems



1
Number of Memorandum of
Understanding Signed



1,919
Number of Firms Interviewed
under the CBRT's Corporate
Sector Research Program



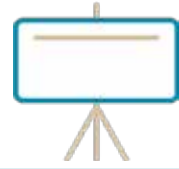
1,500

Number of Students
Participating in CBRT
University Meet-ups



52

Number of Press Releases



112

Number of Students
Receiving Scholarship



559

Number of Students Attending
the CBRT's Introductory /
Internship Programs



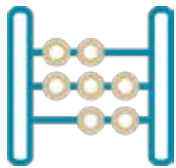
5,131

Number of Participants in the
CBRT's Training Activities



418

Number of Investors, Analysts
and Economists Met



36

Number of Academic
Programs Financially
Supported by the CBRT



674

Number of Participants in
ISCB International Training
Programs



19

Number of New Posts on the
CBRT Blog

PART 1 GENERAL INFORMATION



Photography: "Return Home" by Abhijit Banerjee



Established as a joint stock company on 30 June 1930, the CBRT commenced operations on 3 October 1931 in Ankara.

The CBRT's capital amounts to TRY 25,000 and is divided into four classes of shares designated as (A), (B), (C), and (D). Class A shares belong to the Turkish Treasury and by law cannot amount to less than 51% of the Bank's total capital. Class B shares are held by nationally-owned banks operating in Turkey. Class C shares are held by non-national banks and by privileged companies. Class D shares are held by Turkish commercial enterprises and by real persons and legal entities qualified as Turkish citizens. At end-2019, these shares corresponded to 55.12% (A), 25.74% (B), 0.02% (C), and 19.12% (D) of the CBRT's capital.

The Grand National Assembly of Turkey (GNAT) has delegated its constitutionally-mandated authority to print banknotes to the CBRT indefinitely. Thus, the CBRT is the sole entity in Turkey that is exclusively allowed to print and issue banknotes.

With the amendment to Law No. 1211 made on 25 April 2001, the Bank's primary objective was defined as "to achieve and maintain price stability." The CBRT has also been granted the authority to determine, at its own discretion, the monetary policy it will implement as well as the tools it will use to serve this objective. In this regard, the CBRT has instrument independence. In addition, the Bank introduces regulatory measures concerning money and FX markets that will ensure stability in the financial system. The CBRT is also charged with supporting the government's growth and employment policies insofar as they do not conflict with its primary objective of price stability.

By end-2019, the CBRT had 17 departments, and 21 branches located in various provinces as well as economic consultants and attaches assigned to the Turkish Ministry of Foreign Affairs representative offices in Frankfurt, London, New York, Washington, Beijing, Tokyo, Doha, and Kuala Lumpur. Employing a total of 3,874 people, the CBRT implements its policies within a dynamically changing structure by closely monitoring the developments in Turkey and abroad, and conducts its operations in accordance with the duties and powers vested to it by the CBRT Law No. 1211.

1.1 Governing Bodies

1.1.1 Board



Murat Uysal
Governor



Mehmet Vehbi Çıtak
Member



Prof. Nurullah Genç
Member



Ömer Duman
Member



Derya Yücel
Member



**Prof. Başak Tanınmış
Yücememiş**
Member



Mehmet Aktaş
Member

The CBRT Board consists of the Governor and six members elected by the Bank's General Assembly. Board members serve three-year terms, with one-third of them being replaced every year. The Governor is also the chairman of the Board, which must convene at least once a month upon the Governor's call for a meeting. A quorum of at least two-thirds of the members is required for a meeting to be held, and decisions are made by a majority of participants.

The duties and powers of the Board include deciding on the monetary policies and monetary policy instruments in line with monetary policy strategies and inflation targets; setting rules and making decisions on matters pertaining to the banknotes in circulation; determining principles and procedures and setting rules pertaining to open market operations and foreign exchange and foreign currency transactions, to rediscount and advance transactions and respective interest rates, to reserve requirements, and to the management of national gold and foreign currency reserves; preparing the CBRT's budgets, annual reports, balance sheets, profit & loss statements, and General Assembly agendas; and approving staffing decisions and actions involving the Bank's administration, organization, services, and staff.

In 2019, the Board convened 17 times and passed 133 resolutions.

The terms of office of Sabri Orman and Fatih Güldamlasioğlu expired at the end of the day on 30 April 2019. Accordingly, at the Ordinary General Assembly Meeting of the CBRT held on 15 March 2019, Hayrettin Demircan and Ahmet Keçeci were elected as members of the Board to serve a three-year term beginning on 1 May 2019 and ending at the end of the day on 30 April 2022.

As Mr. Demircan and Mr. Keçeci had not taken office, the CBRT Board elected Başak Tanınmış Yücememiş and Mehmet Aktaş as Board members, to be submitted to the approval of the General Assembly at its first meeting to be held.

As of 31 December 2019, the Board consisted of the Governor Murat Uysal and members Mehmet Vehbi Çıtak, Nurullah Genç, Ömer Duman, Derya Yücel, Başak Tanınmış Yücememiş, and Mehmet Aktaş.

1.1.2 Monetary Policy Committee



Murat Uysal
Governor



Dr. Emrah Şener
Member



Dr. Uğur Namık Küçük
Member



Murat Çetinkaya
Member



Dr. Oğuzhan Özbaş
Member



Ömer Duman
Member



Prof. Abdullah Yavaş
Member

The Monetary Policy Committee (MPC) consists of the Governor (serving as the chairman), the deputy governors, one member elected from and by the Board, and a member appointed upon the recommendation of the Governor.

The duties and powers of the MPC consist of determining monetary policy principles and strategies aimed at ensuring price stability; collaborating with the government to set inflation targets under the monetary policy strategies; preparing periodical reports on the monetary policy objectives and practices to inform the government and the public in line with the principles set, taking measures to safeguard the domestic and international value of the Turkish lira, and setting the exchange rate regime that defines the value of the lira against gold and foreign currencies in cooperation with the government.

The MPC held 8 meetings in 2019, the decisions of which were published on the CBRT's website.

As of 31 December 2019, the MPC consisted of Governor Murat Uysal and deputy governors Emrah Şener, Uğur Namık Küçük, Murat Çetinkaya, Oğuzhan Özbaş, the Board member Ömer Duman and the appointed member Abdullah Yavaş.

1.1.3 Auditing Committee



Assoc. Prof. Mehmet Babacan
Member



Mehmet Kaya
Member



Mehmet Murat Özdiil
Member



Hayrettin Kurt
Member

The Auditing Committee consists of four members elected by the General Assembly. Members serve two-year terms of office.

The Auditing Committee is charged with overseeing all the CBRT operations and accounts. The Committee submits the findings to the Board in writing and also sends a copy to the President's Office. Upon the completion of each year, the Committee prepares a report of the respective year's operations and accounts to be submitted to the CBRT General Assembly.

At the annual meeting of the General Assembly held on 15 March 2019, Hayrettin Kurt was elected as an Auditing Committee Member to replace the seat to be vacated by Zekeriya Kaya while Mehmet Babacan and Mehmet Kaya, whose terms of office would end at the end of the day on 30 April 2019, were re-elected to serve for two years from 1 May 2019 to 30 April 2021 (included).

By 31 December 2019, the Auditing Committee's membership consisted of Mehmet Babacan, Mehmet Kaya, Mehmet Murat Özdil and Hayrettin Kurt.

1.1.4 Executive Committee



Murat Uysal
Governor



Dr. Emrah Şener
Member



Dr. Uğur Namık Küçük
Member



Murat Çetinkaya
Member



Dr. Oğuzhan Özbaş
Member

The Executive Committee consists of the Governor and deputy governors. The Governor and deputy governors are appointed by the President and serve for a four-year term of office. Executive Committee decisions require a majority of all members.

When deemed necessary, the Executive Committee pre-examines issues that require a CBRT Board resolution, and prepares proposals for the Board and also draws up regulations pertaining to the CBRT's administration, organization, and services. Other duties and powers of the Executive Committee include ensuring coordination in the conduct of the CBRT's affairs and making decisions on the appointment, remuneration, dismissal, and retirement of officers and employees other than those staff appointed by the Board.

Upon Murat Çetinkaya's removal from office, Murat Uysal was appointed as the CBRT Governor as of 6 July 2019.

On 31 August 2019, Oğuzhan Özbaş and Murat Çetinkaya were appointed as deputy governors to fill the vacant positions.

As of 31 December 2019, the Executive Committee consisted of Governor Murat Uysal and Deputy Governors Emrah Şener, Uğur Namık Küçük, Murat Çetinkaya and Oğuzhan Özbaş.

1.1.5 Financial Benefits Provided to Senior Management

Pursuant to Articles 19, 22/A, 24, and 33 of the CBRT Law No. 1211, the President has the authority to determine the monthly salaries and representation allowances that are paid to the CBRT governors and deputy governors, the monthly salaries and duty compensations that are paid to the CBRT Board members as well as the Monetary Policy Committee member, and the salaries that are paid to the Auditing Committee members. The gross amount paid to all these members of the CBRT's senior management amounted to TRY 11,199,953.00 in 2019.

1.1.6 Head Office Departments

By 31.12.2019		
Audit	Executive Director	Mehmet Düzgün
Banking and Financial Institutions	Executive Director ^(*)	Dr. Ali Çufadar
Banknote Printing Plant	Executive Director	Mustafa Uğur Sabuncuoğlu
Budget and Financial Reporting	Executive Director	İrfan Yanar
Communications and Foreign Relations	Executive Director ^(*)	Dr. Ferhat Çamlıca
Governor's Office	Director	Mustafa Soner Aksu
Human Resources	Executive Director	Dr. Sinan Binbir
Information Technologies	Executive Director ^(*)	Mehmet Zahit Ateş
Issue	Executive Director	Nurettin Tüysüz
Istanbul School of Central Banking	Executive Director	Ergün Meriç
Legal	Executive Director ^(*)	Sıtkı Eroğlu
Markets	Executive Director ^(*)	Doruk Küçükşaraç
Operations	Executive Director	Dr. Yusuf Bora Enhoş
Payment Systems	Executive Director	Mustafa Ömer Okay
Research and Monetary Policy	Executive Director ^(*)	Çağrı Sankaya
Statistics	Executive Director	Gülbin Şahinbeyoğlu
Structural Economic Research	Executive Director	Dr. Cevriye Aysoy
Support Services	Executive Director ^(*)	Mustafa Aydöner

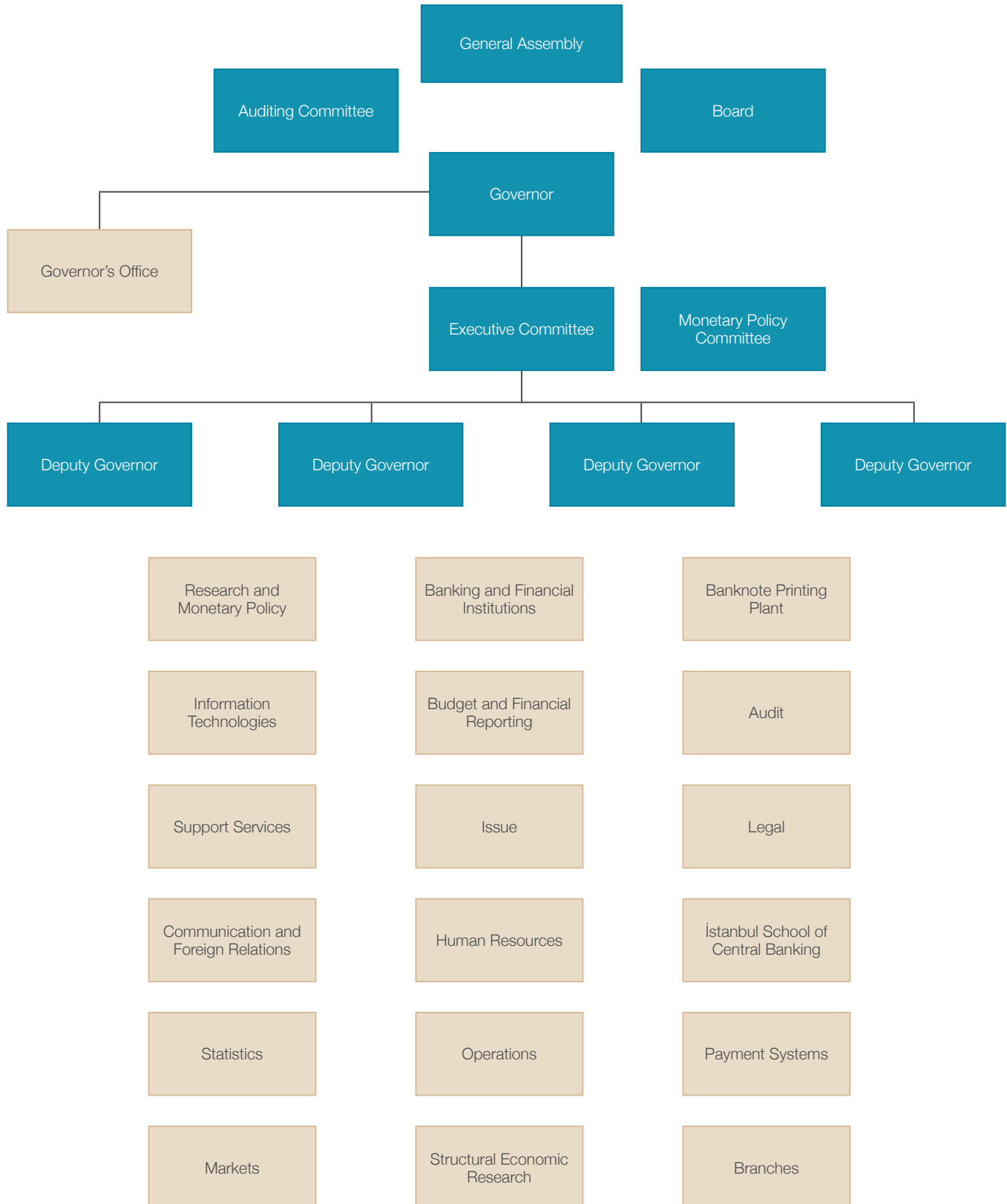
^(*) Acting

1.1.7 Branches

By 31.12.2019		
Adana Branch	Director	-
Ankara Branch	Director	-
Antalya Branch	Director ^(*)	Sibel Nilüfer Erim
Bursa Branch	Director	Lütfi Soylu
Denizli Branch	Director	Mustafa Alpar
Diyarbakır Branch	Director	Cihat Yücel
Edirne Branch	Director ^(*)	Ayşen İşcan
Erzurum Branch	Director	-
Eskişehir Branch	Director	Nilüfer Aydemir
Gaziantep Branch	Director	Oğuzhan Saçkan
İskenderun Branch	Director ^(*)	Mehmet Yıldırım
İstanbul Branch	Director	İsmail Fehmi Ergüder
İzmir Branch	Director	Halil Yeşilbursa
İzmit Branch	Director	Aysel Beycar
Kayseri Branch	Director ^(*)	Vasviye Kahramanlar
Konya Branch	Director	Nezihe Filiz Baysal
Malatya Branch	Director ^(*)	Emel Altay
Mersin Branch	Director ^(*)	Sevim Sağlamyaşar
Samsun Branch	Director	Mehmet Ünal Kekevi
Trabzon Branch	Director	Özgür Aydın
Van Branch	Director	İzzettin Uluat

^(*) Acting

1.1.8 Organization Chart



1.2 Staff

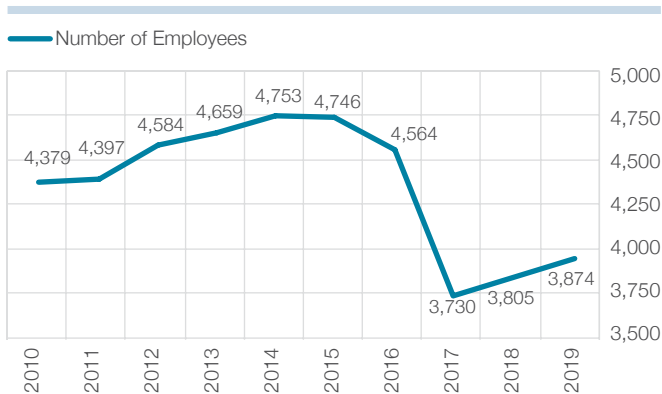
As required both by its strategic role in the Turkish economy and its various duties, the CBRT employs highly-qualified human resources comprised of a variety of professions. At the end of 2019, the number of staff positions held by the Bank amounted to 4,562, 84.92% of which was occupied by 3,874 employees.

In 2019, 74 people left the Bank's employment due to retirement, resignation, dismissal, military service obligations and death while 143 people were hired. Thus, the number of people on the Bank's payroll at the year-end had increased by 69 to 3,874 since 2018 (Chart 1.2.1).

General administrative services accounted for 79.66% of the Bank's staffing. This is followed by technical services with 11.62%, health services with 0.41%, legal services with 0.44%, and supporting services with 7.87%. Of the Bank's staff, 10.38% is employed under contracts, while 89.62% hold permanent positions.

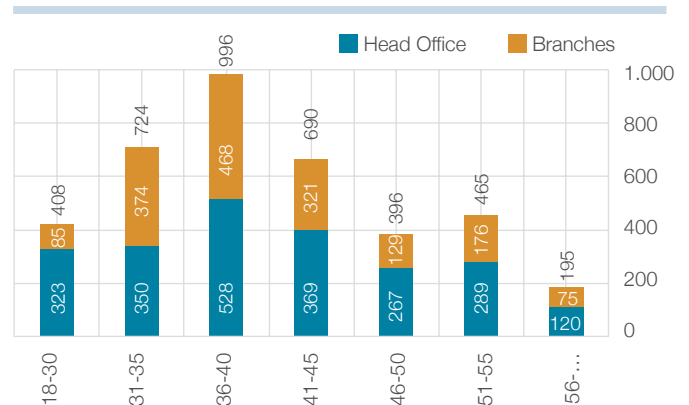
Of the CBRT's staff, 57.98% is employed at the Bank's Head Office and 42.02% works in branches. A breakdown of staff by age groups shows that the 31-40 age group makes up 44.40% of the staff (Chart 1.2.2). On the other hand, 81.75% of the staff hold undergraduate, graduate and post-graduate degrees (Chart 1.2.3).

Chart 1.2.1: Number of Employees from 2010 to 2019



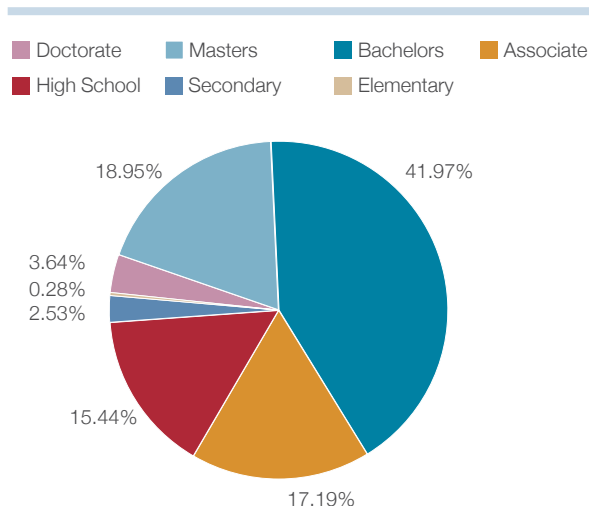
Source: CBRT

Chart 1.2.2: Staff by Age Groups



Source: CBRT

Chart 1.2.3: Staff by Education Level



Source: CBRT

PART 2 ACTIVITIES AND MAJOR DEVELOPMENTS



Photography: “Keşanlı Kız” (“The Girl from Keşan”) by Ertuğrul Baştan



2.1 Price Stability, Financial Stability and Monetary Policy

2.1.1 Overview

Following the slowdown in the second half of 2018, economic activity took a turn for a moderate recovery starting from the first quarter of 2019 on the back of policy actions and measures introduced, with a strengthening sectoral diffusion throughout the year. Domestic demand also registered a gradual recovery backed by the direct and indirect support of the public sector as well as by the improvement in financial conditions. However, investments remained weak due to the lagged effects of increased risk premium and tight financial conditions. Despite the deceleration in external demand, exports of goods and services remained strong due to competitiveness gains, and continued to bolster growth. On the other hand, the levels of domestic demand and real exchange rate curbed imports. Against this background, the current account balance significantly improved and registered a positive value for the first time since 2002. Accordingly, the external financing need decreased and the corporate sector continued to pay down debts rapidly.

Consumer inflation significantly declined in 2019 and stood at 11.8% at the end of the year. The stable course of the Turkish lira driven by the tight monetary policy and coordinated policies, and the decrease in cumulative exchange rate effects constituted the main factors that underpinned the disinflation process. The domestic demand outlook, the weak course of import prices, and the downtrend in medium-term inflation expectations were the other major factors.

In 2019, the CBRT determined its monetary policy stance in a way to ensure the continuation of the disinflation process, and also effectively used macroprudential tools such as reserve requirements for financial stability purposes. The CBRT kept the policy rate unchanged in the first half of the year whereas it delivered a total of 12 points of rate cuts from July onwards taking into account the improvement in the inflation outlook.

2.1.2 Developments in 2019

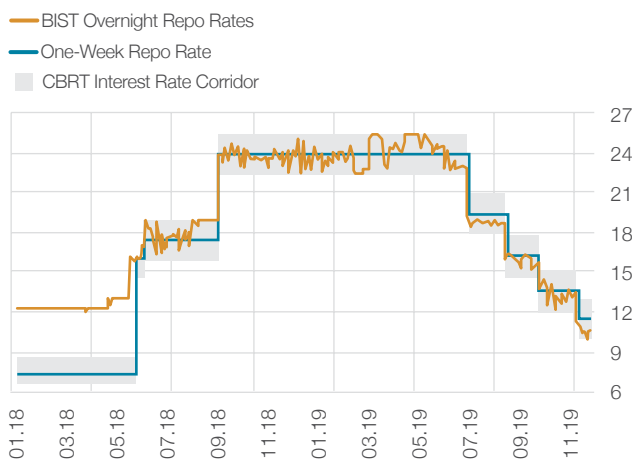
Monetary Policy Developments

After the sharp depreciation of the Turkish lira in August 2018, the CBRT had delivered a strong monetary tightening in September to keep inflation and inflation expectations under control, and raised the policy rate to 24%. It had also emphasized that the tight monetary policy stance would be maintained until the inflation outlook displayed a significant improvement. As the exchange rate stabilized and inflation expectations started to decline by the last quarter of 2018 on the back of coordinated policies in effect, inflation dynamics recorded a visible improvement.

In 2019, the CBRT made its monetary policy decisions taking into account the indicators for the underlying trend of inflation, and determined the extent of monetary tightness in a way to ensure the continuation of the disinflation process and its consistency with the targeted path. The CBRT's inflation forecasts and the underlying trends they imply had an important role in the decision-making process. In the first half of 2019, the CBRT kept the one-week repo auction rate constant at 24% and introduced a series of decisions regarding the liquidity management. The decline in the cumulative exchange rate effects due to the tight monetary policy stance and strong policy coordination, and the mild course of domestic demand led to a marked improvement in inflation dynamics. In the second half of the year, considering the improvement in the inflation outlook, the CBRT reduced the policy rate to 12% via rate cuts in July, September, October, and December (Chart 2.1.2.1).

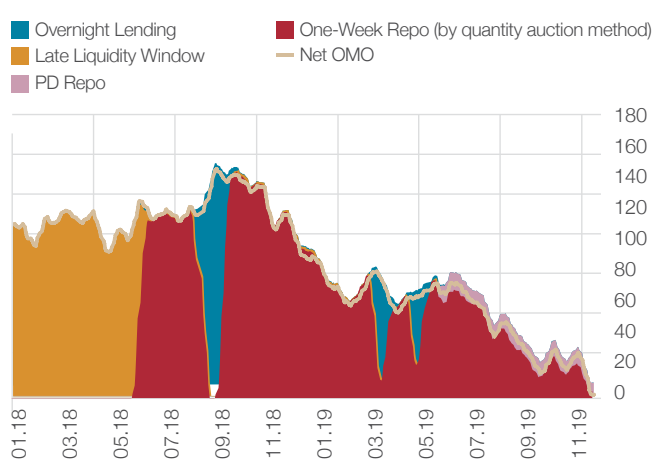
To ensure effective functioning of markets and transmission mechanism in the face of volatilities and unhealthy price formation in financial markets, the CBRT expanded its set of instruments in addition to the policy rate in 2019. Accordingly, to contain the adverse effects of the supply and demand imbalances that occurred in the offshore swap markets in the last week of March, the CBRT gradually raised the total limit of outstanding swap transactions at the Turkish Lira Currency Swap Market. It was noted that banks intensively used the CBRT's swap facilities. In this regard, since the majority of the funding need of the system was met by the swap facilities of the CBRT, net funding via OMO gradually declined (Chart 2.1.2.2).

Chart 2.1.2.1: Short-Term Rates
(%)



Source: BIST, CBRT

Chart 2.1.2.2: CBRT Funding
(2-Week Moving Average, TRY Billion)



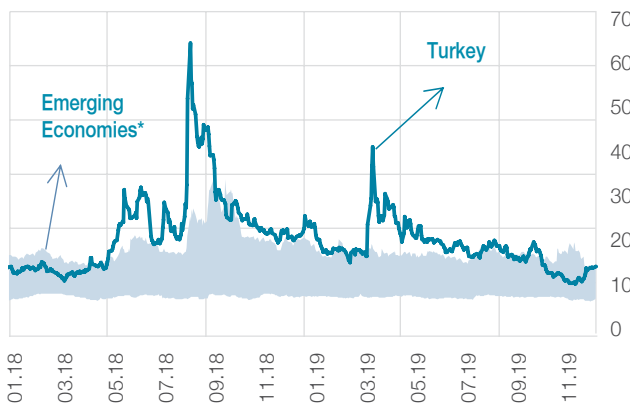
Source: CBRT

In 2019, funding via OMO was mostly done by one-week repo auctions but weekly repo auctions were suspended twice during the year due to the developments in financial markets. In these suspension periods, the entirety of CBRT funding was carried out over the CBRT overnight lending rate and overnight repo rates at the BIST converged to the upper bound of the CBRT's interest rate corridor. As of 17 June 2019, primary dealers were provided with the facility to obtain liquidity within the framework of OMO at an interest rate set at 100 basis points below the CBRT's policy rate. The share of liquidity offered under this facility remained limited within the funding need of the system.

The CBRT made some changes to reserve requirements to allow the use of this facility in a more flexible and effective way as a macroprudential tool to support financial stability. With an amendment to the CBRT Law No. 1211 in July 2019, it became possible that not only banks' liabilities but also their on- and off-balance sheet items deemed appropriate could be subjected to reserve requirements. Accordingly, the reserve requirement ratios for Turkish lira liabilities and the remuneration rates for Turkish lira-denominated required reserves were linked to the annual growth rates of the total of banks' Turkish lira-denominated standardized cash loans and cash loans under close monitoring, excluding foreign currency-indexed loans and loans extended to banks. In December, considering that it would be useful to have a reserve requirement practice that would support financial stability by encouraging channeling of loan supply towards production-oriented sectors rather than consumption-oriented ones, a revision was made in the reserve requirement regulation. Thus, it was intended to encourage long-term commercial loans that have a strong relation with production and investment, and long-term housing loans that have a weak relation with imports.

The implied volatility of the TL, which had reached high levels in August 2018, rapidly declined in the final quarter of the year on the back of coordinated policies. Although this volatility increased in some periods in 2019 due to geopolitical developments, the improving inflation outlook and the tight monetary policy stance kept it on a downtrend (Chart 2.1.2.3). The effective policy steps also had an impact on Turkish lira yields. Accordingly, in the first half of 2019 in which the CBRT emphasized that the tight monetary policy stance would be maintained until the inflation outlook displayed a significant improvement, yields – short-term ones in particular - decreased. Following the rate cuts that the CBRT delivered after July, the yield curve significantly declined across all maturities (Chart 2.1.2.4). In addition to these policy rate cuts, the improvement in inflation expectations and risk premium was also instrumental in the downward shift of the yield curve. The fall in long-term yields supports the view that the current monetary policy stance of the CBRT is consistent with the targeted disinflation path.

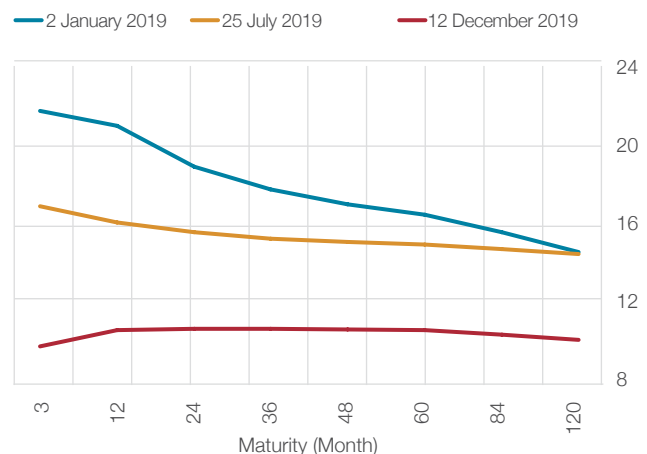
Chart 2.1.2.3: Exchange Rate Volatility Implied by Options (1-Month Forward, %)



Source: Bloomberg

* Emerging economies include Brazil, Indonesia, the Philippines, South Africa, India, Colombia, Hungary, Malaysia, Mexico, Poland, Romania and Chile.

Chart 2.1.2.4: Yield Curve (%)

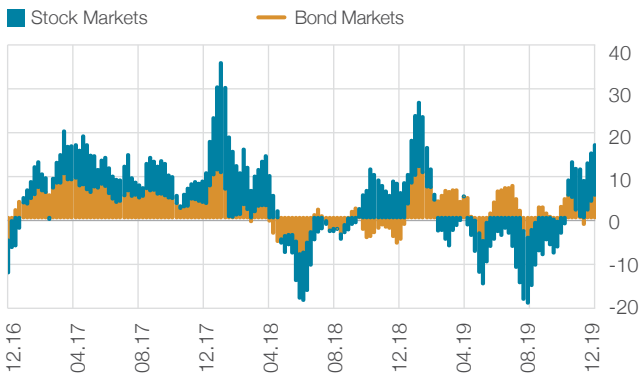


Source: Bloomberg

Starting from early 2019, stock markets of advanced economies were positively affected by the expectations that central banks of advanced economies, the Federal Reserve Board (Fed) in particular, would continue to ease their monetary policies in line with the developments regarding the global growth and inflation outlook. Despite the easing in monetary policies of advanced economies, portfolio flows to emerging market economies (EMEs) followed a fluctuating course throughout the year due to geopolitical developments and the trade tension between the US and China (Chart 2.1.2.5). In 2019, portfolio flows to Turkey registered a similar but weaker trend due to geopolitical uncertainties in particular.

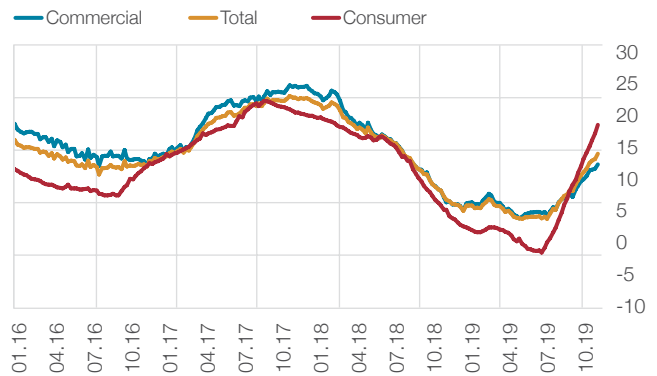
In the period after June 2019, credit demand revived due to the improvement in inflation expectations and financial conditions while the strong liquidity and capital structure of banks supported credit supply. From July onwards, credit utilization significantly accelerated as the policy rate cuts were reflected on credit interest rates. This acceleration started earlier and was stronger in consumer loans relative to commercial loans (Chart 2.1.2.6). The decline in domestic and external funding costs of banks and the recovery in economic activity accelerated as of the second half of the year, which constituted a significant determinant of the increase in loan growth in the final quarter.

Chart 2.1.2.5: Portfolio Inflows to Emerging Economies
(4-Week Cumulative, USD Billion)



Source: EPFR

Chart 2.1.2.6: Annual Credit Growth Rate
(Adjusted for Exchange Rate Effect, % Change, Annual)



Source: CBRT

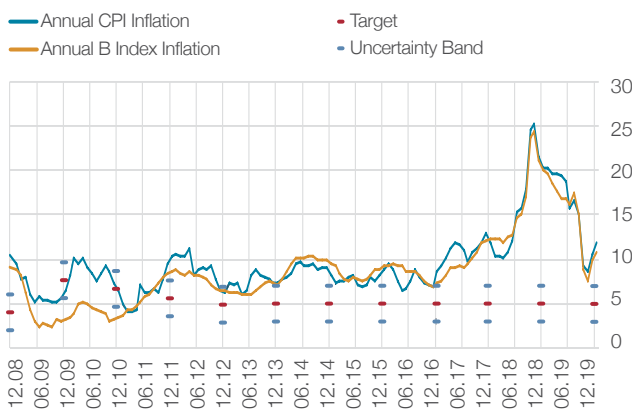
Inflation Developments

Consumer inflation, which materialized at 20.30% at end-2018 due to exchange rate developments and the deterioration in pricing behavior, declined significantly throughout 2019 and stood at 11.84% at the end of the year (Chart 2.1.2.7). Inflation expectations also declined substantially due to the fall in inflation and the monetary tightening (Chart 2.1.2.8). The cumulative effects of the depreciation of the Turkish lira waned and became the major driver of disinflation, while mild demand conditions and import prices also supported the fall in inflation. Meanwhile, real unit labor costs, together with tax and administered price adjustments pulled inflation up in 2019. Thanks to the year-long improvement in inflation expectations and pricing behavior, the trend of inflation also declined considerably and the annual inflation of core indicators B and C receded to 10.76% and 9.81%, respectively, at the end of the year.

Consumer inflation remained relatively flat in the first quarter of 2019, and the improvement in the inflation outlook that had started in the second quarter became evident in the third quarter, driving inflation to single digits in September. Despite a slight rise due to the base effect in the last two months of the year, inflation undershot the October Inflation Report forecast. The main drivers of the fall in annual inflation were the core goods and food groups. Core goods inflation declined due to waning cumulative effects of the exchange rate and the mild course of domestic demand, in addition to the base effect. The food inflation that had risen in response to adverse supply conditions in fresh fruits and vegetables in the first quarter trended down in the rest of the year. This is attributed, in addition to the base effect, to the increase in agricultural product supply, in fresh fruits and vegetables in particular, enabled by weather conditions turning favorable.

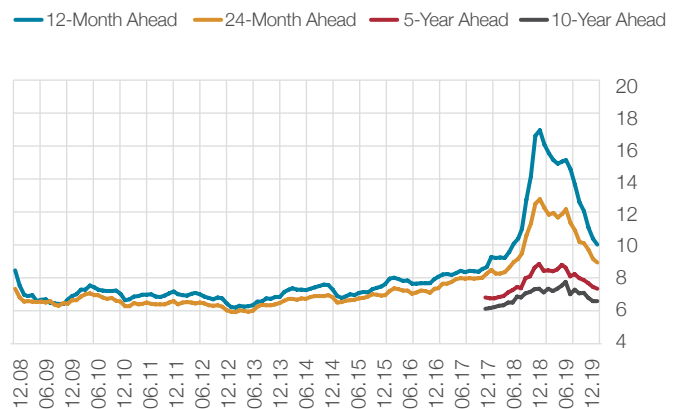
Although annual services inflation declined in the last quarter of 2019, it remained high throughout the year. Real unit labor costs, robust tourism demand, and backward indexation behavior were influential in the outlook for services prices. The outlook for energy prices was led by the developments in administered prices such as electricity, natural gas and municipal water prices in 2019, and the fall in energy inflation in the first half of the year was driven by these items. Although energy prices were up due to the adjustments in electricity and natural gas prices in the third quarter, annual energy inflation declined owing to the base effect. The sliding scale system in fuel products that was implemented from time to time contained price fluctuations throughout the year. In the meantime, price hikes in tobacco products led by ad valorem and specific Special Consumption Tax (SCT) regulations curbed disinflation.

Chart 2.1.2.7: Inflation and Targets
(%)



Source: CBRT, TURKSTAT

Chart 2.1.2.8: Inflation Expectations
(%)



Source: CBRT

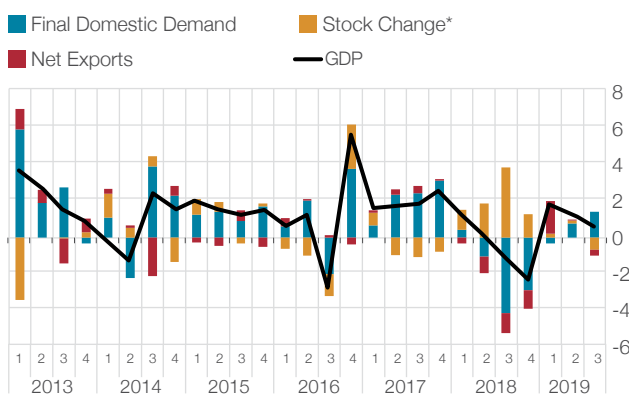
Supply - Demand Developments, External Balance and Labor Market

In the second quarter of 2018, economic activity entered a rebalancing process in terms of speed and composition, followed by a contraction in the second half on the back of tightening financial conditions due to the rise in exchange rate volatility and risk premium. Thus, the growth, which was recorded as 2.8% in 2018, decelerated substantially compared to a year ago. While net exports became the main driver of growth, the decline in domestic demand put a cap on it.

Economic activity has been on a recovery path since the first quarter of 2019 on the back of policy actions and measures taken. The recovery in the first half of the year was driven by both domestic demand and net exports. The main drivers of domestic demand were accommodative fiscal stance, tax incentives for durable consumer goods and consumer spending stimulated by the first quarter's credit growth and wage increases. Investment spending, on the other hand, remained weak due to the high risk premium and tight financial conditions. In the third quarter, economic recovery continued and the annual growth returned to positive territory. The improvement in the sectoral diffusion of the recovery grew strong in this period. Reduced financial volatility and uncertainty as well as rising credit use fueled domestic demand. Although Turkey's competitive advantage remained supportive of exports of goods and services, net exports, along with increased import demand triggered by the recovering domestic demand, contributed negatively to annual and quarterly growth (Chart 2.1.2.9).

The current account balance continued to improve in 2019 (Chart 2.1.2.10). This trend of the current account balance, which declined rapidly on account of the rebalancing process that had started in the second half of 2018, continued throughout the year. The annualized current account balance posted a surplus in June for the first time since 2002, and remained in positive territory as of October. While this outlook diminished the need for external financing, it also speeded up the corporate sector's external debt reduction process. On the foreign trade front, the growth rate of exports declined due to the weakening economic activity and various quota practices in the EU, our largest export market. However, competitiveness gains and firms' orientation to exports as well as their flexibility in product and market diversification enabled compensation of export losses significantly and curbed this deceleration.

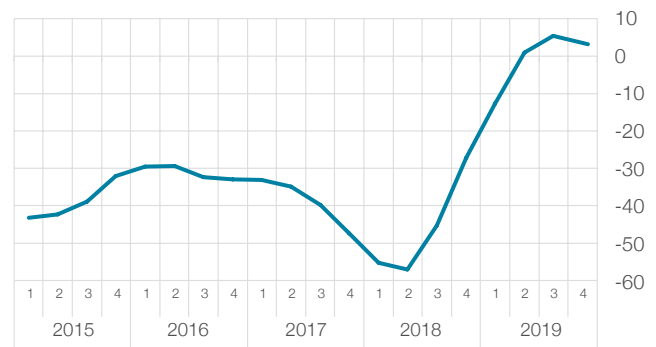
Chart 2.1.2.9: Gross Domestic Product and Final Domestic Demand (Contributions to Quarterly Growth, % Points)



Source: CBRT, TURKSTAT

* Chain index-driven statistical deviation included.

Chart 2.1.2.10: Current Account Balance (12-Month Cumulative, USD Billion)



Source: CBRT

The ongoing contraction in imports ended in the first half of the year thanks to the removal of the low base effect in 2018, and imports started to increase on the back of the economic recovery in the second half. Meanwhile, energy imports fell in line with the decline in oil prices and their negative impact on the current account balance subsided. Tourism revenues continued to increase at a stronger pace in 2019, thereby providing higher positive contribution to the current account balance.

Throughout 2019, the real exchange rate posted a limited decline compared to the preceding year (Chart 2.1.2.11). Following the dramatic depreciation of the Turkish lira in 2018, the level of the real exchange rate in 2019 continued to put pressure on import demand. Against this background, the foreign trade balance hovered below its historical average and contributed significantly to the noticeable improvement in the current account balance.

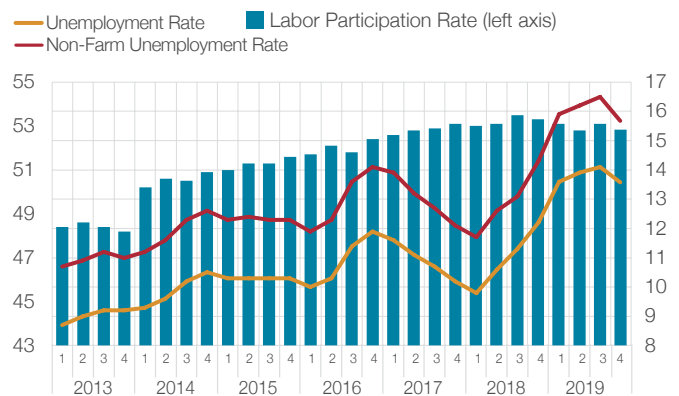
Unemployment rates had trended upwards since the second quarter of 2018 due to the slowing economic activity and remained on the rise in the first three quarters of 2019 on account of the weak non-farm, particularly the construction sector, employment. However, with economic recovery growing strong, the labor market started to improve in the last quarter and unemployment rates declined on the back of the increase in non-farm employment (Chart 2.1.2.12)

Chart 2.1.2.11: Real Effective Exchange Rate
(CPI-Based, 2003=100)



Source: CBRT

Chart 2.1.2.12: Unemployment Rates and Labor Participation Rate
(%, Seasonally-Adjusted)



Source: CBRT, TURKSTAT

2.2 Operational Framework of Monetary Policy

2.2.1 Turkish Lira Liquidity Management

The funding need of the system, which was TRY 93.1 billion as of end-2018, decreased by TRY 9.5 billion throughout 2019 to TRY 83.6 billion by end-2019. In the framework of OMO, the CBRT provided funds via one-week repo auctions and the Primary Dealer Liquidity facility. In this period, the overnight repo rate at the BIST Repo-Reverse Repo Market was around the policy rate, the one-week repo auction rate. Taking into account the developments in financial markets, the one-week repo auctions were halted twice with announcements on 22 March 2019 and 9 May 2019.

Banks continued to use the facility which allows repo transactions to be changed into deposit transactions. The swap facilities with the CBRT acting as a counterparty have provided flexibility for banks in FX risk and liquidity management, supported the effectiveness of the monetary transmission mechanism contributing to decreasing demand-supply imbalances on the swap market and keeping market rates aligned with the policy rate.

To increase flexibility in the banking sector's collateral management, in January 2019, the discount rates for government domestic debt securities (GDDS) and lease certificates issued in Turkey by the Asset Leasing Company of the Turkish Treasury (ALCTT) accepted as collateral against TL transactions, which used to be 5% for all maturities, were re-arranged depending on their maturities. Accordingly, the discount rates for securities with a maturity less than two years, securities with a maturity between two and five years, and securities with a maturity longer than five years were set at 1%, 2%, and 3%, respectively.

An overall Turkish lira portfolio target of nominal TRY 18.9 billion was set for end-2019. The OMO portfolio, which was at nominal TRY 15.40 billion level at the beginning of 2019, purchased TRY 6.60 billion worth of nominal instruments, bringing the year-end OMO portfolio to TRY 19.37 billion.

As of 27 May 2019, the CBRT started to conduct overnight reverse repo transactions in addition to overnight repo transactions at the BIST Committed Transactions Market in which TL-denominated lease certificates issued by the Ministry of Treasury and Finance as well as by asset leasing companies established by the public enterprises are traded.

At the end of a collaborative work work of the Ministry of Treasury and Finance, the CBRT, the Turkish Banks Association (TBB), the Turkish Capital Markets Association (TSPB), Istanbul Settlement and Custody Bank (Takasbank) and Borsa Istanbul, the TLREF-Turkish Lira Overnight Reference Rate started to be calculated and used as of 17 June 2019 in order to meet the need for a Turkish Lira short-term reference rate with high transaction volume that can be used as a benchmark in debt instruments, financial derivatives, and various financial contracts.

2.2.2 Exchange Rate Policy

The floating exchange rate policy continued in 2019. Therefore, exchange rates are determined by supply and demand conditions in the market. Under the current exchange rate policy, the CBRT has no nominal or real exchange rate target. Nevertheless, in order to curb risks to financial stability, the CBRT does not remain indifferent to excessive appreciation or depreciation of the Turkish lira.

In 2019, the CBRT did not conduct FX buying or selling transactions, neither directly nor via auctions.

In the first three months of the year, FX deposit auctions against TL deposits were held and the total maximum temporary FX liquidity provided for banks was USD 2.5 billion. Nevertheless, as a result of developments in international markets in March, the Turkish lira funding amount requested by banks from the CBRT increased, thus it was decided that there was no longer need for FX deposit auctions against TL deposits and those auctions were suspended. Moreover, in the same period, in order to limit the adverse impact of the supply-demand imbalances in foreign swap markets on swap rates, the total TL swap sale limit in the CBRT's TL swap market was increased gradually to 40% from 10% for swap transactions that had not matured.

As of May, swap transactions with maturities longer than 1 week in US dollars and Euro started to be conducted at the Borsa Istanbul Swap Market concurrent with the CBRT's policy rate. As of 31 December 2019, the amount of swap transactions intermediated by the CBRT at the Borsa Istanbul Swap Market was USD 8.8 billion. In August, it was announced that Turkish lira currency swap transactions, which were executed with one-week maturity via quotation method, would also be executed with 1, 3 and 6-month maturities via the traditional auction (multiple-price) method. The total limit of outstanding swap transactions at the Turkish Lira Currency Swap Market was lowered to 20% of banks' total transaction limits at the Foreign Exchange and Banknotes Markets and a limit of 20% was defined for transactions to be conducted via the auction method. In 2019, six auctions were held with a total outstanding amount of USD 5.75 billion. The interest rates at the auctions have been consistent with market rates.

In 2019, the US dollar buying rate on FX deposits as collateral was gradually lowered from 2.25% to 1.50%. The US dollar deposit-selling rate was gradually lowered from 4.25% to 3.50% for one-week maturity and from 5% to 4.25% for one-month maturity.

The Turkish lira-settled forward foreign exchange sale auctions that the CBRT started to hold at the Derivatives Market (VIOP) operating under Borsa İstanbul (BIST) on 31 August 2018, continued in 2019 in line with the market conditions.

In order to increase the effectiveness of banks' liquidity management and contribute to bringing out gold savings into the financial system, the Turkish Lira Gold Swap Market (for transactions on the buy side) was opened in May, and the Foreign Exchange Gold Swap Market (for transactions on both the buy and sell sides) was introduced in October. Transactions at both markets are conducted with banks within their limits and via the quotation method with one-week maturity.

On 31 December 2019, the total stock amount at the Turkish Lira Gold Swap Market was 5 tons. The stock amount at the Foreign Exchange Gold Swap Market was 28 tons on the buy side and there were no transactions on the sell side. In 2019, gold buying and selling against FX and gold buying against Turkish liras continued as well.

The remuneration rate for US dollar-denominated required reserves, reserve options and free deposits held at the CBRT was decreased from 2% to 1% on 5 August 2019; and to 0% on 19 September 2019.

The swap agreement, which had been signed between the Central Bank of the Republic of Turkey (CBRT) and Qatar Central Bank (QCB) on 17 August 2018, was amended on 25 November 2019 and the overall limit was increased from USD 3 billion equivalent of Turkish lira and Qatari riyal to USD 5 billion equivalent of Turkish lira and Qatari riyal.

2.2.3 Reserve Requirements

The CBRT continued to use reserve requirements effectively as a macroprudential tool to support financial stability throughout 2019.

In January, deposits/participation funds of official institutions were excluded from the liabilities subject to reserve requirements, and Provisional Article 6 of the Communiqué on Reserve Requirements was revoked considering the significant decline in the liabilities under this article.

In February, Turkish lira reserve requirement ratios were reduced by 100 basis points for deposits and participation funds with maturities up to 1 year and for other liabilities with maturities up to (and including) 3 years, and by 50 basis points for all other liabilities subject to reserve requirements. Thus, the market was provided with a total liquidity of TRY 3.3 billion and 2.3 billion of FX and gold (Table 2.2.3.1). Moreover, the upper limit of the facility of holding standard gold converted from wrought or scrap gold collected from residents was increased from 5% to 10% of Turkish lira reserve requirements.

In April, the coverage of deposits/participation funds of official institutions excluded from liabilities subject to reserve requirements was expanded to include deposits/participation funds of official institutions subject to the Public Treasurership Regulation.

In early May, the upper limit for the FX maintenance facility within the reserve options mechanism was lowered from 40% to 30% and reserve requirement ratios for FX liabilities were increased by 100 basis points for all maturity brackets (Table 2.2.3.2). At the end of May, reserve requirement ratios for FX deposits/participation funds were increased by 200 basis points for all maturity brackets (Table 2.2.3.2). With these implementations, liquidity at the amount of TRY 7.2 billion and USD 4.4 billion was withdrawn from markets.

In June, the TL and FX reserve requirement ratios for financing companies were set as 0% in all maturities.

In July, reserve requirement ratios for FX deposits/participation funds were increased by 100 basis points for all maturity brackets and as a result, a total of USD 1.4 billion was withdrawn from the market (Table 2.2.3.2).

In July, with the amendment to Law No.1211 on the Central Bank of the Republic of Turkey, in addition to liabilities, on- or off-balance sheet items of banks and other financial institutions deemed appropriate by the CBRT were made eligible for reserve requirements.

In August, the reserve requirement ratios for Turkish lira liabilities and the remuneration rates for Turkish lira-denominated required reserves were linked to the annual growth rates of the total of banks' Turkish lira-denominated standardized cash loans and cash loans under close monitoring, excluding foreign currency-indexed loans and loans extended to banks. Accordingly, the reserve requirement ratio for Turkish lira liabilities for banks with a loan growth between 10% and 20% (reference values) was set at 2% in all maturity brackets excluding deposits and participation funds with 1-year or longer maturity and other liabilities with longer than 3-year maturity (Table 2.2.3.1). Additionally, the remuneration rate applied to Turkish lira-denominated required reserves was set at 15% for banks with a loan growth between the reference values and at 5% for others. With this new method, banks' loan growth rates were calculated in each reserve requirement period and the banks whose loan growth was between the reference values would be subject to the related reserve requirement ratios and remuneration rates in the next three-months (six reserve requirement periods). With this revision, approximately TL 5.4 billion and USD 2.9 billion equivalent of gold and FX liquidity were provided in the market.

Table 2.2.3.1: TL Reserve Requirement Ratios

Date of Effect	Deposits/ Participation Funds								Borrower Funds of Investment Banks		Other Liabilities							
	Maturity up to 3 months		Maturity up to 6 months		Maturity up to 1 year		Maturity of 1 year and longer than 1 year				Maturity up to 1 year (Inc. 1 year)		Maturity up to 3 years (incl. 3 years)		Maturity longer than 3 years			
27.07.2018	8.0		5.0		3.0		1.5		8.0		8.0		4.5		1.5			
08.02.2019	7.0		4.0		2.0		1.0		7.0		7.0		3.5		1.0			
09.08.2019*	2.0	7.0	2.0	4.0	2.0	2.0	1.0	1.0	2.0	7.0	2.0	7.0	2.0	3.5	1.0	1.0		

*TL reserve requirement ratios for banks fulfilling the real credit growth criteria stipulated in Communiqué No.2019/15 and banks fulfilling the criteria stipulated in Communiqué No. 2019/19 that took effect on 29.11.2019, reserve requirement ratios for Turkish lira liabilities were set at 2% across all maturity brackets excluding deposits and participation funds with a one-year or longer maturity and other liabilities with a maturity longer than three years.

In September, reserve requirement ratios for FX deposits/participation funds were increased by 100 basis points for all maturity brackets, by which liquidity at the amount of USD 1.4 billion was withdrawn from the market (Table 2.2.3.2).

In October, the remuneration rate applied to Turkish lira-denominated required reserves was decreased by 500 basis points and determined as 10% for banks with a loan growth rate within the reference values and to 0% for other banks.

In early December, in order to underpin financial stability by encouraging the channeling of loan supply to production-oriented sectors rather than consumption-oriented ones and reduce the need to update the reference rates, a revision was made in the reserve requirement practice based on credit growth. Accordingly, banks will be able to benefit from reserve requirement incentives under the following conditions:

- For banks with a real annual loan growth rate above 15%: If their adjusted real loan growth rate, which is calculated by deducting the entire real changes in commercial loans with a 2-year and longer maturity and housing loans with a 5-year and longer maturity from the numerator of the growth rate formula, is below 15%,
- For banks with a real annual loan growth rate below 15%: If their adjusted real loan growth rate, which is calculated by deducting 50% of the real change in retail loans excluding housing loans with a five-year and longer maturity from the numerator of the growth rate formula, is above 5%.

It was also decided that the real annual growth rate of loans would be calculated based on the last three-month average of the real cash loan stock values, and the calculations would exclude the loans extended to financial institutions.

At the end of December, reserve requirement ratios for FX deposits/participation funds were increased by 200 basis points and, in order to make sure that banks fulfilling the loan growth conditions are not affected by this increase, these ratios were applied 200 basis points lower for banks fulfilling the loan growth condition (Table 2.2.3.2). With this revision, USD 2.9 billion of liquidity was withdrawn from the market.

Table 2.2.3.2: FX Reserve Requirement Ratios

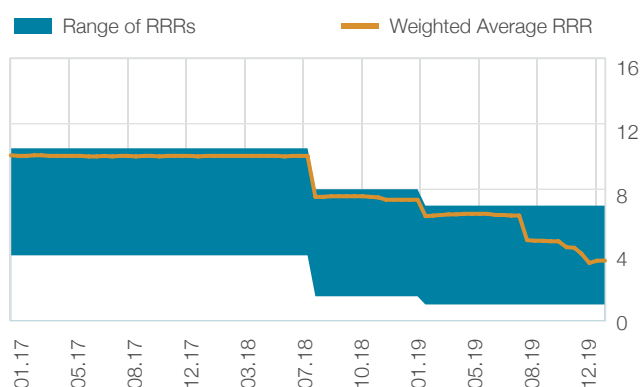
Date of Effect	Deposits/ Participation Funds		Borrower Funds of Investment Banks	Deposits/ Participation Funds				
	Maturity up to 1 year	Maturity of 1 year and longer than 1 year		Maturity up to 1 year (inc. 1 year)	Maturity up to 2 years (inc. 2 years)	Maturity up to 3 years (inc. 3 years)	Maturity up to 5 years (inc. 5 years)	Maturity longer than 5 years
27.07.2018	12.0	8.0	12.0	20.0	15.0	10.0	6.0	4.0
03.05.2019	13.0	9.0	13.0	21.0	16.0	11.0	7.0	5.0
17.05.2019	15.0	11.0	15.0	21.0	16.0	11.0	7.0	5.0
26.07.2019	16.0	12.0	16.0	21.0	16.0	11.0	7.0	5.0
20.09.2019	17.0	13.0	17.0	21.0	16.0	11.0	7.0	5.0
27.12.2019	17.0	19.0	13.0	15.0	17.0	19.0	21.0	16.0

* FX reserve requirement ratios for those banks fulfilling the real loan growth conditions stated in Communiqué No.2019/19 are applied as follows: 17% for deposits/ participation funds (excluding deposits/ participation funds at foreign banks) and Funds of Investments Banks with maturities shorter than 1 year and 13% for deposits/ participations funds (deposits/ participation funds at foreign banks) with maturities longer than 1 year.

After the revision, on 27 December 2019, the weighted average reserve requirement ratios for Turkish lira and foreign exchange liabilities stood at 3.6% and 16.0% (Chart 2.2.3.1 and 2.2.3.2).

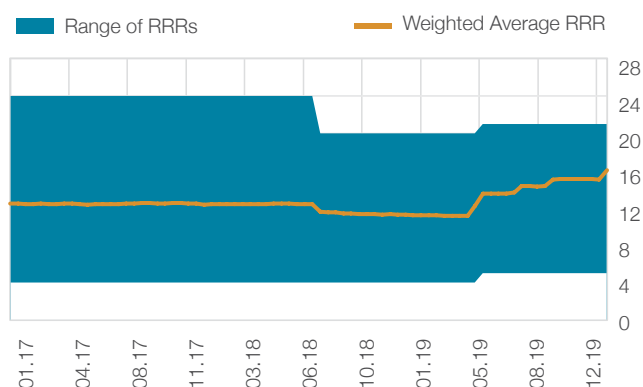
In the maintenance period pertaining to the calculation period starting on 27 December 2019, within the framework of the ROM facility, the rate of utilization was 98.2% for the FX facility, 95.5% for the gold facility, and 81.8% for the scrap gold facility (Charts 2.2.3.3 and 2.2.3.4). On the other hand, banks in Turkey can also maintain standard gold for their precious metal deposit accounts and this facility's utilization rate was 81.3% as of the same maintenance period.

Chart 2.2.3.1: TL Reserve Requirement Ratios (%)



Source: CBRT
Latest Data: 27.12.2019

Chart 2.2.3.2: FX Reserve Requirement Ratios (%)



Source: CBRT
Latest Data: 27.12.2019

Again, the same maintenance period of 27 December 2019, USD 2.8 billion worth of FX and USD 4.9 billion worth of gold were maintained for Turkish lira liabilities within the framework of the ROM facility (Chart 2.2.3. 5). For FX liabilities, USD 51.7 billion worth of FX and USD 2.0 billion worth of gold were maintained within the framework of the ROM facility (Chart 2.2.3.6).

Chart 2.2.3.3: Utilization of ROM's FX Facility (%)

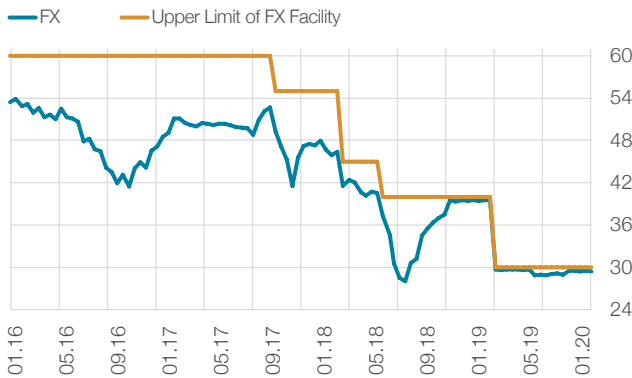


Chart 2.2.3.4: Utilization of ROM's Gold Facility (%)

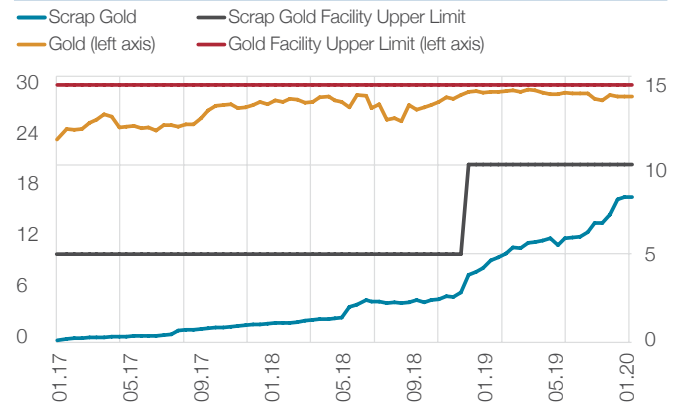


Chart 2.2.3.5: Amount of FX and Gold within ROM (USD Billion)

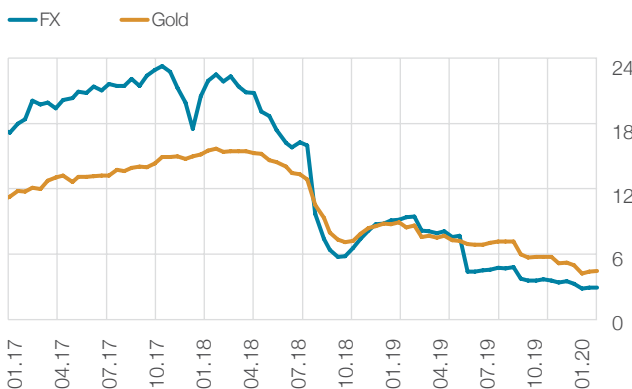
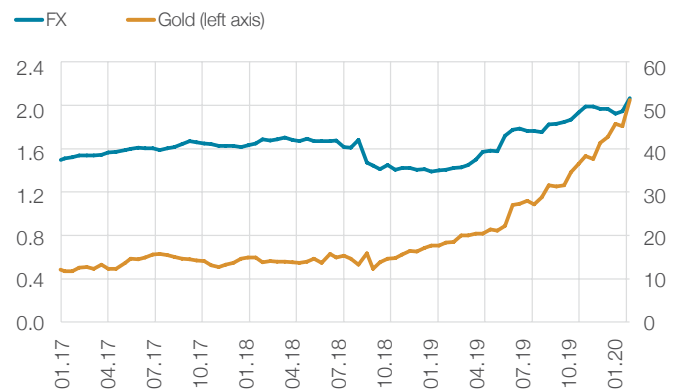


Chart 2.2.3.6: Amount of FX Required Reserves (USD Billion)



2.2.4 Rediscount Credits

The aim of rediscount credits is to facilitate export companies' access to credits with favorable costs and to reinforce the CBRT's reserves. Rediscount credits, which are governed by Article 45 of the Central Bank Law, are extended in Turkish liras to exporters and firms that engage in foreign FX earning services and activities by accepting exporters' FX denominated bills for rediscount through intermediary banks. The loans normally have up to 240-day maturities (360 days for exports of high-tech products and exports to new markets) and are repaid to the CBRT in foreign currency.

The total limit available for rediscount credits is USD 20 billion, USD 17 billion of which is assigned to Turk Eximbank and the remaining USD 3 billion to participation banks and other commercial banks and there has been no change in these limits in 2019. The credit limit, which is USD 400 million for foreign trade capital companies, is USD 350 million for other companies. The entire limit can be used in applications for credits with a maturity of up to 120 days, whereas a maximum of 60% of the limit can be used in credit applications with a maturity of 121 to 360 days. These limits are doubled for firms with a net sales revenue above TL 5 billion in last fiscal year, tripled for firms with a net sales revenue above 15 billion and quadrupled for firms with a net sales revenue above TL 20 billion.

Some arrangements introduced regarding rediscount credits are as follows:

In April:

- An extra period of 6 months was allowed for the conclusion of commitments financed by rediscount credits provided that the firm can document that the unrealized part of the export commitment was intended to be made to either Iraq, Libya or Syria or the firm can document that part of its exports was made to one of the mentioned countries in the last four calendar years.
- The scope of real persons that can offer FX earning health services was expanded and the range of authorization documents to be requested for financing of international freight and passenger transportation was widened.

In May:

- Credit limits were doubled for firms with a net sales revenue above TL 5 billion in the last fiscal year.

In November:

- The licenses requested from firms applying for rediscount credits in the scope of financing of FX earning services were harmonized with the revised legislation of the Ministry of Transportation and Infrastructure.
- Sales of investment goods in free trade zones were included in the scope of export activities, thus these sales were allowed to be used in the conclusion of commitments financed by rediscount credits. In the promotion of exports to new markets, hesitations in closing export commitments were eliminated and flexibility was provided to exporters by allowing the use of exports to an accepted country on the date of relevant customs declaration or credit usage.
- Firms' application periods for conclusion of commitments were extended from 1 month to 3 months, and thus harmonized with the regulations of the Ministry of Trade.
- In December, Implementation Instructions regarding Rediscount Financing for Exports and Foreign Exchange Earning Services (Participation Banks) were issued and participation banks were allowed to act as an intermediary for credit utilization.
- As per the revised Swap Agreement between the CBRT and the People's Bank of China, the "Implementation

Instructions on Rediscount Credits denominated in Chinese Yuan” was updated and accordingly, the interest spreads to be added to the SHIBOR (Shanghai Interbank Offered Rate) rate were increased from 50 basis points to 200 basis points. Moreover, the articles concerning credit utilization practices were harmonized with the related articles of the Implementation Instructions regarding Rediscount Financing for Exports and Foreign Exchange Earning Services.

Rediscount credit utilization, which was USD 22.9 billion in 2018, became USD 24.4 billion in 2019, with an outstanding credit balance of USD 17.3 billion by the end of the year.

Rediscount credits contributed to CBRT's FX reserves by USD 22.7 billion in 2019.

2.2.5 Maximum Interest Rates for Credit Cards

The CBRT announces monthly maximum contractual and overdue interest rates to be applied on credit card transactions for quarterly periods. Table 2.2.5.1 shows these rates applied throughout 2019.

Table 2.2.5.1: Maximum Contractual and Overdue Interest Rates for credit Card transactions (%)

Periods	Turkish lira		FX	
	Contractual Interest Rate	Overdue Interest Rate	Contractual Interest Rate	Overdue Interest Rate
Q1 2019	2.25	2.75	1.80	2.30
Q2 2019	2.15	2.65	1.72	2.22
Q3 2019	2.00	2.40	1.60	2.00
Q4 2019	1.60	2.00	1.28	1.68

2.3 Financial Stability Developments and Activities

2.3.1 Financial Stability Developments

Concerns over global growth, protectionist trends in global trade policies, and geopolitical developments have all fueled uncertainties regarding global economic policies. Central banks of advanced economies leaned towards expansionary monetary policies on the back of the change in growth and inflation outlook, which contributed to improvement in global financial conditions and led to an increase in risk appetite towards emerging market economies (EMEs). Nevertheless, despite the improvement in global financial conditions, the uncertainty on a global scale played an important role in the fluctuations in portfolio flows towards EMEs. Global indebtedness continued to be a major vulnerability in advanced economies as well as in EMEs stemming particularly from increasing indebtedness of the corporate and public sectors. The fact that profitability in the banking sector remained lower compared to the pre-financial crisis period, has been another vulnerability factor. Yield curves that flattened on the back of expansionary monetary policies implemented by advanced economy central banks, weak global economic activity and country or bank-specific factors such as deterioration in asset quality have been the factors that led to this development. Currencies of advanced economies and EMEs have generally displayed a fluctuating trend against the US dollar. The slowdown in global economic activity, high indebtedness, global trade disputes, Brexit uncertainty and geopolitical developments are some of the factors that have threatened financial stability.

As for macroeconomic developments in Turkey, consumer inflation decreased significantly owing to the base effect throughout 2019, demand developments, the tight monetary policy stance, the easing in producer inflation-led pressures, and flatter exchange rates. In the framework of the economic rebalancing process, particularly as of the third quarter of the year, economic activity displayed an uptrend on the back of the fall in uncertainties and market volatility. Leading indicators suggest a similar trend in the fourth quarter. The current account deficit narrowed rapidly as a result of the rebalancing process and export developments. The monetary policy steps taken throughout the year had an easing effect on the financial conditions that had been tightened in the previous year.

Household financial assets continued to grow faster than household financial liabilities, however, recently, growth in assets slowed down while growth in liabilities started to accelerate. As the two growth rates converged, the decline in household leverage ratio slowed down and stood at 38%. The growth in liabilities was driven by the rise in housing loans as well as the realization of pent-up spending through general-purpose loans and personal credit cards after the decline in interest rates. Meanwhile, the rise in household financial assets continued to be driven mainly by TL and FX-denominated savings deposits. The contribution of TL deposits to asset growth has been increasing thanks to the stable outlook of the TL and the decelerating dollarization since June 2019. In addition, Turkey ranked significantly lower than the EME average with a household indebtedness ratio of 14% in 2019.

In 2019, corporate sector indebtedness decreased. This decrease is attributed to the decline in FX loans owing to the amendments made to Decree No.32 Regarding the Protection of the Value of the Turkish Currency, weak investment demand, and the enhanced awareness of FX risk management.

The ratio of the corporate sector's TL debts to GDP slightly increased thanks to incentive packages announced during the year and the amendments to the RR framework supporting TL borrowing. The corporate sector's total loans to GDP ratio continued to hover below G20, EME and the world average in 2019.

The fall in FX loans and the recovery in economic activity led to a decline in the volume of derivative transactions between non-financial firms and banks and the number of firms using derivatives. Publicly listed firms' interest coverage ratio measuring the ability of firms to cover their interest and financial expenses with their operating earnings, which declined in 2018 due to higher exchange rate and interest expenses, showed some improvement in 2019.

In the first two quarters of the year, annual loan growth rates, particularly of consumer loans, remained weak owing to domestic macroeconomic developments and tightening financial conditions. In the following period, both the normalization in financial conditions and improvement in economic activity and expectations had a positive impact on financial intermediation activities. As of the third quarter, there has been a remarkable recovery in almost all loan types and in the whole banking sector in general. . Thus, trend indicators for consumer and commercial loan growth surpassed those of previous periods. Public banks' proactive stance in credit markets, improved liquidity conditions, the incentive programs for investment and business loans led by public banks and the decrease in interest rates have been the key factors behind the recovery in the loan market. Moreover, the countercyclical framework implemented by the CBRT linking reserve requirements with loan growth of banks has underpinned the rise in loans across the banking sector.

In 2019, the Non-Performing Loan (NPL) ratio in commercial loans rose moderately due to the lagged effects of the developments in economic activity on firms' balance sheets. Meanwhile, NPL ratios of retail loans remained low, following the historical trends. In the upcoming period, the recovery in loan growth and economic activity outlook are expected to contribute positively to the asset quality of the banking sector.

The banking sector's short and long-term liquidity indicators are strong and support the credit outlook. The sector's use of external funding sources decreased on the back of the positive trend in FX liquidity indicators and declining FX funding need. This decrease in FX funding need was driven by the decline in FX credit demand and corporate sector's weak investment appetite. The decline in the external borrowing has been a positive development with respect to banks' short-term debt roll-over capacity as well.

As a result of the improvement in inflation expectations and easing in uncertainty perceptions, TL deposits increased and banks, thus, had adequate liquidity to meet the increased credit demand. Moreover, on the back of the recent recovery trend in TL loans coupled with the decline in interest rates, banks' TL borrowing via domestic funds has increased.

The positive outlook in the sector's equity structure is maintained. The capital adequacy ratio of the banking sector is significantly above the minimum ratios stipulated by the Basel Committee (8%) and targeted by the Banking Regulation and Supervision Agency (BRSA) (12%). By November 2019, this ratio was 18.63%. Even if the profitability of the sector is on a downtrend recently, it is still supportive of equity. The downtrend in profitability can be attributed to asset quality developments and rebalancing in economic activity as well as the slowdown in credit growth. The return on equity and the return on assets were 11.2% and 1.2%, respectively.

2.3.2 Financial Stability Activities

Likely risks to financial stability are discussed on various platforms primarily by the Economic Coordination Committee and the Financial Stability and Development Committee and necessary measures are taken to address these risks immediately. In this framework, the CBRT collaborates with the related authorities and acts in coordination with them.

Corporate sector's FX indebtedness remained at the financial stability forefront in 2019. The data monitoring system, which was launched at the CBRT to manage firm-based exchange rate risk, will be important in terms of reinforcing the structure for the oversight of firms' FX risk in the upcoming period. The CBRT continued routine communication with banks in order to closely monitor financial sector developments, the effects of new arrangements, credit supply and demand, banks' asset quality, the external financing outlook as well as expectations and risks.

In 2019, the CBRT continued to share its views and assessments concerning financial stability with the public via its semiannual Financial Stability Report. Moreover to contribute to the economics literature in the field of financial stability, the CBRT also continued to issue working papers and research notes in economics, and to publish papers in international journals, whose findings are supportive of the evaluations stated in the Financial Stability Report in a more academic manner and. The CBRT Blog, which is a platform for CBRT staff to share their views and contribute to the economic agenda, also includes assessments on financial stability issues.

The CBRT has supported international policy reports and meetings in cooperation with other agencies and organizations. The CBRT's bilateral relations with international agencies working in the field of financial stability such as the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) continued in 2019 as well. These relations range from meetings to providing written opinions for reports published by these organizations. The CBRT has also undertaken activities towards establishing and furthering cooperation with related international authorities.

In 2019, the CBRT continued to engage in efforts aimed at enhancing its representation and effectiveness on international financial platforms as well as engaging in efforts contributing to financial stability. The Bank pursued senior level participation at the Plenary, Steering Committee and Standing Committee meetings of the Financial Stability Board (FSB), which aims to enhance global financial stability assuming its duties to coordinate the work of national financial authorities and international standard setting bodies, and developing as well as enforcing strong regulatory, supervisory and other financial sector policies.

The Basel Committee on Banking Supervision (BCBS) is entrusted with the task of setting general standards applicable to bank supervision, consulting member jurisdictions, and establishing new international standards regarding particularly capital adequacy and liquidity frameworks. The CBRT attended the BCBS meetings at the senior level, and participated in and contributed to various BCBS working sub-group meetings at the technical level.

The CBRT also took an active part in the regulatory development and knowledge sharing activities of the Islamic Financial Services Board (IFSB), whose fundamental duty is developing and improving global interest-free financial services sector in line with developments in the international financial system.

Activities carried out with the above-mentioned institutions focused on the development and implementation of financial regulations that would contribute to achieving financial stability. The CBRT conducted these activities in effective cooperation with the related authorities in Turkey.

In addition, the CBRT and the Qatar Central Bank, who co-chaired the FSB Regional Consultative Group (RCG) for the Middle East and North Africa region between July 2017 and June 2019, organized a meeting in Istanbul on 4 May 2019 hosted by the CBRT. The meeting was a fruitful platform to discuss an array of important topics such as ongoing regulation activities of the FSB, regional vulnerabilities and issues pertaining to financial stability, the impact of market fragmentation on financial stability, the effect of interest rate benchmark reforms on MENA financial system and financial stability monitoring frameworks. As of 1 July 2019, the co-chairmanship role for RCG MENA shifted to Saudi Arabian Monetary Authority for a period of two years.

2.4 Financial Infrastructure

2.4.1 CBRT Payment Systems Statistics

In 2019, the total number of transactions conducted via the Interbank Turkish Lira Transfer System was 2.8 million and the total transaction amount was TRY 73 trillion. The number of daily average transaction was 11 thousand and the daily transaction amount was TRY 295.1 billion. The amount of transactions conducted via the Interbank Turkish Lira Transfer System increased by 3.5% compared to the previous year (Chart 2.4.1.1).

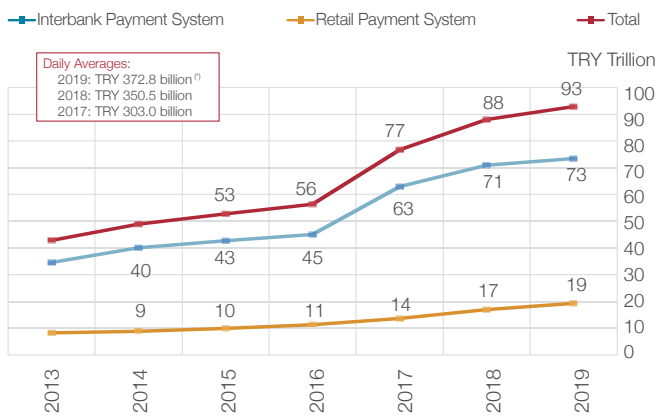
The total number of transactions conducted via the CBRT Retail Payment System in 2019 was 709 million and the total transaction amount was TRY 19 trillion. While the daily number of transactions was 2.8 million, the average daily transaction amount was TRY 77.7 billion. The number of settlements carried out via the Retail Payment System in 2019 was approximately 22.1% higher than in 2018 (Chart 2.4.1.2).

The sum of transactions conducted in both systems in 2019 was TRY 93 trillion.

The number of messages processed in the auction system was, approximately 130 thousand.

With the inclusion of the Emlak Participation Bank in the CBRT's Payment Systems, the number of participants in the system became 53.

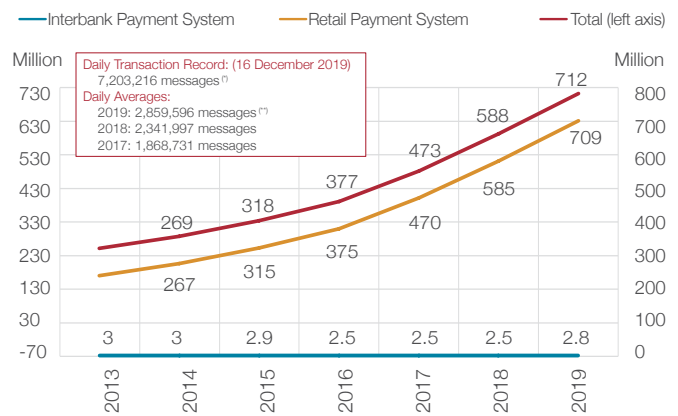
Chart 2.4.1.1: Total Value of Payments Processed through CBRT Payment Systems (TRY Trillion)



Source: CBRT

^(*) TRY 295.1 billion from the Interbank Payment System and TRY 77.7 billion from the Retail Payment System

Chart 2.4.1.2: Total Number of Payment Messages Processed through CBRT Payment Systems (Million Messages)



Source: CBRT

^(*) A total of 7,188,389 messages from the Retail Payment System and 14,827 messages from Interbank Payment System.

^(*) A total of 2,848,380 messages from the Retail Payment System and 11,216 messages from the Interbank Payment System.

2.4.2 Promulgation of Amendments Regarding the Law Amendment of the Law on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions and Some Other Laws

Terms such as “payment system”, “securities settlement system”, “payment service provider”, “payment institution” and “electronic money institution” were defined for the first time in Turkish legislation in the Law on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions (Law No. 6493) that was enacted in 2013. Moreover, Law No. 6493 authorized the BRSA to supervise payment service providers providing payment services to customers or issuing electronic money, and authorized the CBRT with overseeing payment systems and securities settlement systems in which member banks, non-bank payment service providers or other financial institutions conduct transactions among each other.

Nevertheless, the advances and developments in the field of financial technologies since the enactment date of Law No. 6493 affected the field of payments as well and gave way to new payment services and implementations. Thus, the need for change and arrangements that emerged during the implementation phase necessitated a united structure for regulation, licensing and supervision that was divided between the CBRT and the BRSA. Authorizing a single institution with regulatory and supervisory duties regarding payment and securities settlement systems, payment services, payment and electronic money institutions was expected to accelerate the development of financial services and institutions providing these services as well as financial transactions and thus contribute to the general economy in a broader sense.

Accordingly, Law No. 7192 on “Amending Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions Law and Other Laws” was issued in the Official Gazette of 22 November 2019. It was stated that the article concerning the establishment of the Turkish Payment and Electronic Money Institutions Association would be enacted six months after the issue of the Law and other articles would take effect as of 1 January 2020.

The changes that Law No. 7192 introduced can be grouped under three main headings:

- Changes regarding the transfer of the BRSA's authority regarding payments area to the CBRT,
- Changes regarding addition of new payment services definitions commensurate with the implementations worldwide to Law No. 6493,
- Other changes added to address the needs that emerged since Law No. 6493 was enacted in 2013.

Accordingly, the key changes introduced by the Law are summarized below:

- The regulatory and supervisory authority about payment services and payment and electronic money institutions, which was given to BRSA with Law No. 6493, was transferred to the CBRT.
- The new payment service types i.e. “Payment Initiation Service”, “Account Information Service” introduced by the Payment Services Directive-2 have been added to the related legislation.
- The CBRT was authorized to be a shareholder of any systemically important system operator established and to be established in order to ensure uninterrupted operation of the system.
- The CBRT was authorized to determine, and partially or completely release the qualifications as well as the maximum amounts or the rates of fees, charges, commissions and other benefits received by one of the parties of any transaction within the scope of payment services.
- The CBRT was authorized with including services conducted via payment instruments with a limited area of use in the scope of payment services.

- The implementation that stipulated banks to block funds deposited by electronic money institutions at the CBRT was erased from the text of the law.
- The article banning electronic money institutions from extending loans was rearranged to bring it in line with payment institutions and the CBRT was given the regulatory authority to determine which activities shall fall in the scope of credit extension.
- New articles have been added regarding the establishment of the Turkish Payment and Electronic Money Institutions Association.

2.4.3 Coordination Activities Regarding Financial Technologies (FinTech)

The Financial Technologies Permanent Sub-Committee, which was established on 6 April 2018, consists of executives from the Ministry of Treasury and Finance, the Banking Regulation and Supervision Agency (BRSA), the Capital Markets Board (CMB), the Savings Deposit Insurance Fund and the Central Bank of the Republic of Turkey. The Sub-Committee, which is chaired and coordinated by the CBRT, organized two meetings and one workshop in 2019. The outcomes of the meetings and the workshop were compiled in the Financial Technologies Country Report.

As per the authority given to the CBRT with Law No. 7192, several changes have been made in the organizational structure of the CBRT. Accordingly, to be effective as of 1 January 2020, the Financial Technologies Division was established under the Payment Systems and Financial Technologies Department in order to conduct research and cooperation activities, to address growing needs and necessary strategy in the face of FinTech developments worldwide, to monitor developments in the fields of payment systems, payment services and financial technologies, to understand the sector's needs and to contribute to a strong ecosystem.

2.4.4 Licenses Regarding Payment and Securities Settlement Systems' Activities

Approval of Istanbul Settlement and Custody Bank's (Takasbank) Application for Collateral Uniformity

Takasbank operates the Equities Market, Borrowing Instruments Market and the Cheque Clearing System. Takasbank's application for uniformity of assets that can be accepted as collateral and guarantee fund contribution in the central counterparty service in which it acts as buyer against seller and seller against buyer, as well as the methodology regarding valuation of these assets was accepted on 5 November 2019. The "collateral uniformity" is the first step of the "Single Collateral Pool" designed to increase the effectiveness of the collateral management in markets for which Takasbank provides central counterparty services and decrease market participants' operational costs/risks. Takasbank continues with other steps towards the "Single Collateral Pool Project."

Approval of Share Transfer of Mastercard Payment Transaction Services Turkey (MPTS)

Mastercard/Europay U.K. Limited's application to transfer its 99.99% share in Mastercard Payment Transaction Services (MPTS) Turkey to Kartek Holding Inc. has been accepted by the CBRT. After the approval, the company's name has been changed to "Paycore Payment Systems Clearing and Settlement Systems Inc.". The change in the company's name was registered by the Istanbul Trade Registry on 19 June 2019.

Moreover, upon MPTS's application, the Masterpass Service, which allows safe and easy conduct of payment and money transfer transactions via internet and mobile devices, was excluded from the scope of the official authorization given to MPTS. The decision concerning the action was issued in the Official Gazette of 30 May 2019.

Approval of Interbank Card Center (BKM)'s Application for a Collateral Mechanism to Intervene in Case of a Likely Default in the Domestic Clearing and Settlement System

The Domestic Clearing and Settlement System (YTH) operated by the Interbank Card Center (BKM), in which clearing and settlement operations of fund transfers emerging from card transactions between card issuers and institutions accepting payment cards, is included in the "Important Payment System" Category in the framework of the Oversight Framework for Payment and Securities Settlement Systems. The BKM is obliged to take necessary measures to manage credit and liquidity risks stemming from this system as per the Principles for Financial Market Infrastructures, PFMI.

Accordingly, in order to effectively address such risks, the BKM has applied to the CBRT for approval of a collateral mechanism to intervene in case of a likely default in the YTH system. At the end of the evaluations of BKM's proposed collateral mechanism, the CBRT approved implementation of the mechanism with an Executive Committee decision dated 2 July 2019.

2.4.5 Developments Regarding the Oversight of Payment and Securities Settlement Systems

In accordance with the Law No. 6493 and secondary legislation issued pursuant to this law, the CBRT has the authority and responsibility to oversee the payment and securities settlement systems to ensure their uninterrupted operation.

Based on its authorities and responsibilities given by relevant legislations, the CBRT oversees payment and securities settlement systems in a process that begins with the licensing of organizations that set up and manage these systems and continues with the conduct of their operations. As oversight activities are progressive, the CBRT monitors the system operators by checking information and documents collected, conducts on-site visits when it deems necessary to perform more detailed examinations of transactions and documentation. Based on the findings of these oversight activities, the CBRT prepares detailed reports concerning system operators' compliance with the CBRT regulations and international standards.

Accordingly, in the first half of 2019, the CBRT carried out detailed oversight activities regarding the Central Securities Depository of Turkey (CSD) and the BKM, made on-site visits and prepared oversight reports after examining the compliance of these operators' systems with the provisions of the secondary legislations of Law No. 6493 and with the Principles for Financial Market Infrastructures (PFMI) published by the BIS Committee on Payments and Market Infrastructures (CPMI) and by the International Organization of Securities Commissions (IOSCO).

In addition to detailed oversight activities, all transactions and structural changes conducted by system operators are monitored closely.

2.5 Banknotes in Circulation

By the end of 2019, the value of banknotes in circulation increased by 16% year-on-year and reached TRY 153.4 billion. The number of banknotes in circulation increased by 11.7% and reached 2,139 million by end-2019. Over the last five years, the end-year value of banknotes in circulation in Turkey has increased by an average 12.8% and the number of banknotes in circulation by 8.6% on a yearly basis (Chart 2.5.1).

Excluding withdrawn banknotes that are still in the 10-year redemption period, the number of banknotes in circulation was 2,118.3 million by 31 December 2019. As of the end of 2019, the denominations with the highest number of banknotes in circulation were 100 TL and 50 TL banknotes, the share of which made up 53.2% of all the notes in circulation (Chart 2.5.2). As measured by value on the other hand, the two denominations commanding the biggest shares of the total were 100 TL (51.5%) and 200 TL (31.6%) banknotes (Table 2.5.1).

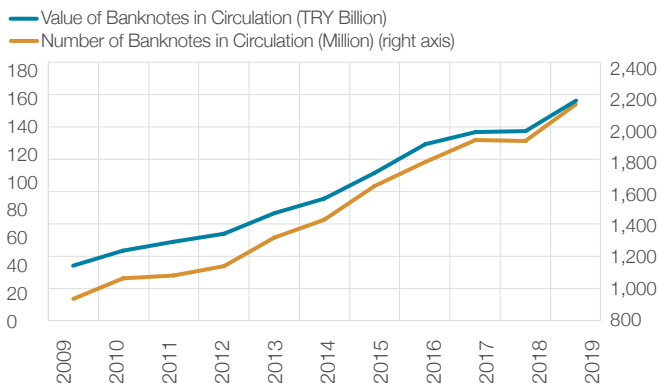
Table 2.5.1: Banknotes in Circulation by 31.12.2019

Denomination	Total Value	% of Total Value	Total Number	% of Total Number
200 TL	48,398,537,100.0	31.56	241,992,685.5	11.31
100 TL	79,008,394,950.0	51.52	790,083,949.5	36.94
50 TL	17,372,836,450.0	11.33	347,456,729.0	16.24
20 TL	4,708,857,220.0	3.07	235,442,861.0	11.01
10 TL	2,368,055,090.0	1.54	236,805,509.0	11.07
5 TL	1,332,386,732.5	0.87	266,477,346.5	12.46
SUBTOTAL	153,189,067,542.5	99.89	2,118,259,080.5	99.03
Other*	173,308,644.5	0.11	20,676,931.0	0.97
TOTAL	153,362,376,187.0	100.00	2,138,936,011.5	100.00

Source: CBRT

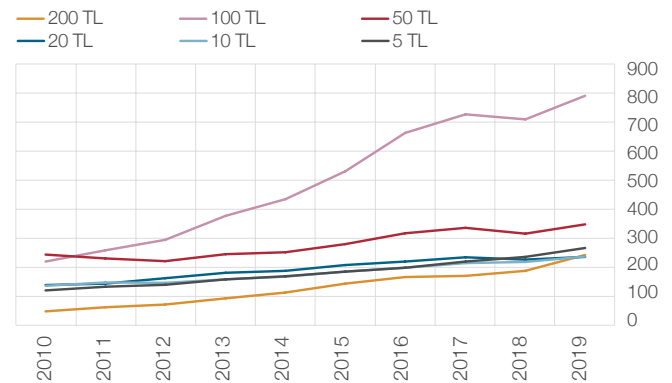
*Withdrawn banknotes that are still in the 10-year redemption period

Chart 2.5.1: Value and Number of Banknotes in Circulation



Source: CBRT

Chart 2.5.2: Number of Banknotes in Circulation by Denomination (Million Banknotes)



Source: CBRT

The “Annual Average Banknotes in Circulation/GDP” ratio, which was 4% in 2009, has changed over years and is projected to be 3.4% in 2019 (Chart 2.5.3).

In 2019, via its 21 branches, 16 banknote depots and 2 cash centers and Decentralized Cash Management depots (MONY), the CBRT conducted a total of TRY 1,139.7 billion worth of transactions, of which TRY 559.3 billion were collections and TRY 580.4 billion were payments.

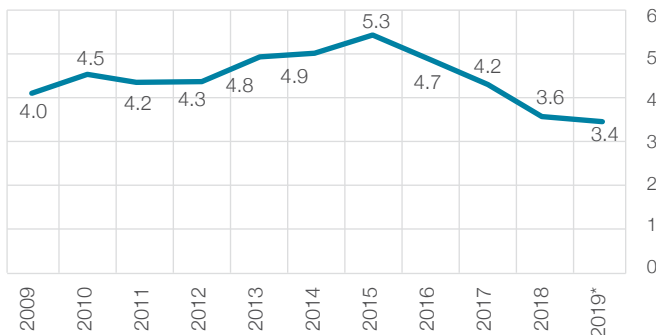
In this period, on a nationwide basis, branches with the largest shares in the total transaction volume were as follows: Ankara Branch 11.3%, Cash Center on the European Side of Istanbul 9.5%, İstanbul Karaköy Branch 7.6%, İzmir Branch 7.5% and Anatolian Side Cash Center of Istanbul 6.6%.

The CBRT has banknote depots in 16 of Turkey’s provinces where it does not have branches, serving to improve the physical quality of banknotes in circulation and meet the markets’ need for different denominations of banknotes in a timely manner. Through these depots, TRY 73 billion worth of collections and TRY 82.2 billion worth of payments were made in 2019. In other words, 13.6% of the CBRT’s total banknote handling operations was performed via these depots last year.

Additionally, 13 new MONY depots started operating, nine, two and two of which were affiliated to the İstanbul, İzmir and Ankara branches, respectively in 2019, totaling to 21. The share of İstanbul province within the transactions conducted by MONY depots was 26.7%.

Lastly, to enhance efficiency of coin cash management, Consignment Coin Depots (CCD) were established in various provinces as per the protocol signed between the General Directorate of Post and Telegraph Organization (PTT) and the CBRT. In 2019, 11 CCD were commissioned: 2 in İstanbul, 1 in Ankara, İzmir, Gaziantep, Adana, Bursa, Antalya, İzmit, Konya and Kayseri provinces. Thus, the total number of CCDs reached 12. In this period, 36% of country-based coin transaction volume of TRY 1.906,9 million was made by CCDs.

Chart 2.5.3: Annual Average Value of Banknotes in Circulation/GDP (%)



Source: CBRT

* 2019 GDP is calculated with annualized 9-month data.

(2009=100)

BY THE END OF 2019, THE VALUE OF BANKNOTES IN CIRCULATION INCREASED BY 16% YEAR-ON-YEAR AND REACHED TRY 153.4 BILLION.

2.6 Foreign Exchange Reserve and Risk Management

The CBRT holds foreign currency reserves in support of a range of objectives that include assisting the government in meeting its FX denominated domestic and foreign debt obligations, maintaining adequate FX liquidity against external shocks, supporting monetary and exchange rate policies, and enhancing market confidence. The CBRT's reserve management implementations are governed by the CBRT Law No. 1211. Regulations and decisions regarding FX and gold reserve management issued by the CBRT Board pursuant to the same law also provide the framework for the reserve management activities.

The CBRT's institutional decision-making framework for reserve management has a three-tier hierarchical structure. As the Bank's top decision making authority, the Board approves the "Guidelines for Foreign Exchange Reserve Management" (the Guidelines) prepared in line with the three priorities cited in the CBRT Law No.1211 as safety, liquidity and return. With the Guidelines, the Board sets the general investment criteria for reserve management and authorizes the Executive Committee and Governor to make decisions about implementation. Decisions made by the Executive Committee or the Governor in accordance with the Guidelines approved by the Board constitute the second tier of the institutional decision making process. At this point, a benchmark portfolio that reflects the CBRT's general risk tolerance and investment strategy is determined and approved. The benchmark portfolio, which sets out the strategic asset allocation preferences of the CBRT, is submitted to the Executive Committee at the end of each year and becomes effective upon its approval to be implemented in the following year. The third and final tier of the institutional decision making process is the implementation of reserve management practices within the preferences and constraints specified by the Guidelines and the benchmark portfolio. Reserve management activities are carried out within an organizational structure based on the segregation of duties principle. Accordingly, the reserve management activities are carried out by the Reserve Management Division, while related risk management activities are carried out by the Corporate Risk Management Division.

Subject to the objectives and limits set by the Guidelines and the benchmark portfolio, reserve management operations are conducted through FX buying-selling transactions in international markets, FX deposit transactions, securities buying-selling transactions, repo and reverse repo transactions, securities lending transactions and other derivative instruments.

Efforts to control risks that the CBRT may be exposed to during the conduct of its reserve management operations begin with the strategic asset allocation process, as early as when defining the benchmark portfolio. Once the currencies, instruments and maturities to be employed in reserve management have been set, the expected return and the financial risks involved are to a large extent identified. Reflecting the CBRT's preferences for strategic asset allocation, the benchmark portfolio consists of target currency composition, target maturities and limits of deviation from these targets, maximum permissible transaction limits, eligible transaction types, the investment universe representing countries and instruments to invest in. When determining the benchmark portfolio, the objective is to generate returns while observing constraints such as protecting capital and ensuring the availability of liquidity, the ultimate aim being the prudent management of the reserves, the country's national wealth. Upon determination of the overall permissible risk level within the framework of the CBRT's risk tolerance by means of the benchmark portfolio, risks are measured, monitored, and reported regularly.

Factors depressing global growth, chiefly the arrangements that limit international trade on a global basis, caused major central banks to opt for looser monetary policies in 2019. These policies along with the developments deteriorating the risk appetite such as the uncertainties over the Brexit and trade disputes between the US and China shaped the CBRT's reserve management strategies in 2019. Accordingly, in 2019, further marked with high financial risks, the conservative approach for reserve management was sustained and all measures were taken to preserve reserves.

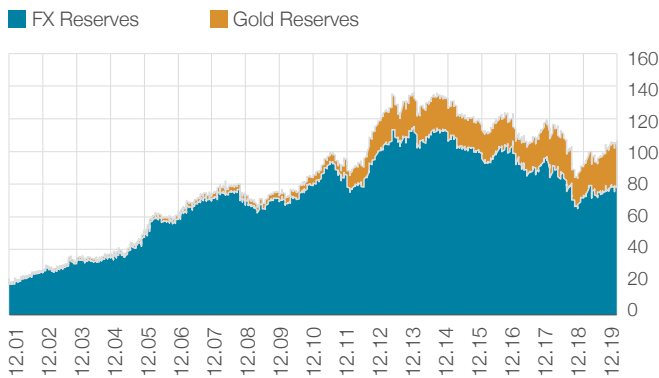
The CBRT's gold holdings were 556 tons by 31 December 2019, accounting for 25.7% of total reserves (Chart 2.6.1). CBRT gold reserves conform to international standards and are managed as per the "Guidelines on Gold Reserve Management" issued by the CBRT Board in accordance with the provisions and conditions stipulated in the Central Bank Law No.1211. Pursuant to these Guidelines, the Bank may engage in outright trading of gold and conduct gold deposit, gold swap, location swap and physical gold transfer transactions. From October 2011 onwards, banks were able to keep a specified portion of their reserve requirements as standard gold according to the ratios determined for types of liabilities.

Gold holdings

556 tons

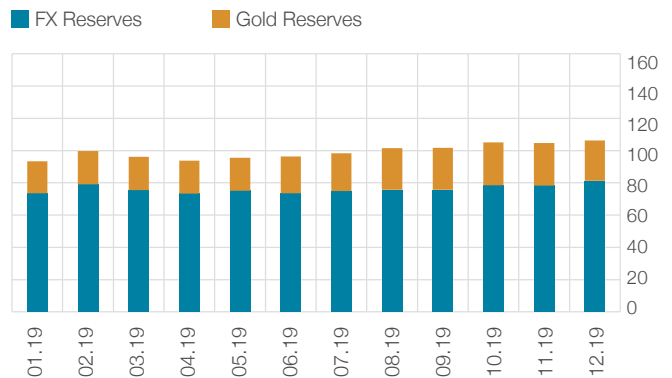
By 31 December 2019, gold holdings reached 556 tons, accounting for 25.7% of total reserves.

Chart 2.6.1: CBRT FX and Gold Reserves between 2001 and 2019 (USD Billion)



Source: CBRT

Chart 2.6.2: CBRT FX and Gold Reserves in 2019 (USD Billion)



Source: CBRT

2.7 Corporate Risk Management Activities

Endeavors to ensure corporate and holistic management of risks that the CBRT may face are carried out by the Markets Department.

Under the financial risk management, credit, market and liquidity risks that the CBRT may be exposed to due to its operations are managed in cooperation with business units. Almost all financial risks resulting from the CBRT's operations emerge in the course of fulfilling legal duties such as implementing monetary and exchange rate policies, managing foreign exchange reserves, and providing certain banking services to the banking sector and the government. Financial risks that the CBRT encounters while implementing monetary and exchange rate policies in its capacity as the monetary authority are a consequence of the policy targets chosen. On the other hand, FX reserve management-related financial risks emerge as a consequence of an investment preference. However, the CBRT manages FX reserves within investment criteria defined in the Guidelines and within objectives and limits set by the benchmark portfolio and endeavors to minimize such risks by managing them in a conservative manner.

The credit risk mainly results from investment transactions performed during FX reserve management; open market operations (OMO), Interbank Money Market (IMM) transactions and transactions of intraday liquidity facility provided to banks within the framework of monetary policy practices. The CBRT's credit risk arising from monetary and exchange rate policy-related transactions was managed by collateralizing the whole amount of transactions, including a specified amount of margin, with securities of very high credit worthiness that can also be traded on secondary markets (such as FX deposits, GDDS and securities issued by advanced countries' treasuries or by international institutions) and by regularly monitoring the current risks and asking for additional collateral.

The FX reserve management-related credit risk is managed based on the principle of minimizing the trading partners' probability of default and the financial loss that may occur in case of default. Accordingly, the CBRT employed a risk management procedure with three pillars to minimize the credit risk it becomes exposed to during its FX reserve management. Firstly, it limited its investments to leading international financial institutions and borrowers with high credit quality that comply with the minimum credit rating criterion defined by the Guidelines based on credit ratings given by international credit rating agencies (CRA). Secondly, the total of transaction limits defined to restrict all credit risks, including the settlement risk, that arise from transactions with financial institutions was limited to a specified ratio of manageable reserves. Thirdly, among the institutions complying with the Guideline-defined minimum credit rating criterion, those which could also conduct transactions by using main and financial analysis methods were identified, and a credit risk limit was defined for each one. The total of these limits was capped by a specified ratio of the CBRT's FX reserves. In this scope, credit risk indicators of all the CBRT's trading partners were closely monitored and reported to the senior management periodically.

During the management of FX reserves, exchange rate, interest rate and price fluctuations in international markets also lead to market risk. Under the market risk management, compliance with the objectives and limits defined by the annually-set benchmark portfolio was monitored and reported to the senior management.

Another important risk encountered during reserve management is the liquidity risk. This risk refers to the probability of incurring loss when meeting sudden unpredictable need for FX liquidity. To manage liquidity risk, compliance with the limits set by the benchmark portfolio is monitored and reported to the senior management.

Other than the FX reserve management, credit, market and liquidity risks on the CBRT's balance sheet, are defined, measured, monitored and reported.

Under the operational risk management, the CBRT engages in activities consisting of defining and measuring

operational risk factors, reporting these risks and making risk assessments on business continuity management. Accordingly, risk-based processes at the CBRT were analyzed in detail by means of risk matrices, noted key risks as well as the controls to contain these risks were assessed and corrective and preventive actions were planned after the residual risks were measured. Additionally, studies were made to increase risk awareness. Regarding the incident record reporting practice, operational risk incidents at the CBRT as well as the measures in effect were monitored and reported. For business continuity management purposes, business impact analyses and risk assessments were made and activities regarding business continuity implementation were carried out in cooperation with business units.

Lastly, the CBRT carried out work to identify, measure and report the risks related to legislative harmonization, and to recommend measures for these risks in cooperation with business units. To help in risk management related to compliance with legislation, inventories were prepared regarding the legislation with which the CBRT has to comply with the contribution of business units. To ensure that the CBRT is protected against risks related to laundering of proceeds of crime and financing of terrorism and that the CBRT's activities are carried out in accordance with the national and international legislation on the prevention of the laundering of proceeds of crime and financing of terrorism, monitoring and controlling activities regarding the transactions and customers in certain risk groups as well as transactions with risky countries were ensured. Following the risk assessments based on these activities, the CBRT contributed to the development of some in-house applications. Moreover, work was carried out with national stakeholders on the prevention of the laundering of proceeds of crime and financing of terrorism crime.

IN 2019, VIA ITS 21 BRANCHES, 16 BANKNOTE DEPOTS AND 2 CASH CENTERS AND DECENTRALIZED CASH MANAGEMENT DEPOTS (MONY), THE CBRT CONDUCTED A TOTAL OF TRY 1,139.7 BILLION WORTH OF TRANSACTIONS, OF WHICH TRY 559.3 BILLION WERE COLLECTIONS AND TRY 580.4 BILLION WERE PAYMENTS.

2.8 Communication Activities

2.8.1 Accountability and Monetary Policy Communication

The CBRT works diligently to guarantee an effective communication strategy to improve the effectiveness of its monetary policy and adhere to the principle of accountability associated with the Bank's instrumental independence.

Keeping the public informed about monetary policy actions along with the rationale thereof facilitates a better understanding of the policies and is also conducive to a more credible monetary policy and better-anchored expectations.

For the CBRT, accountability means being accountable to the public for its decisions, their consequences and its corporate governance. While maintaining price stability and financial stability, the CBRT also makes efforts to be accessible and understandable by each layer of the society to fulfil its responsibility towards society.

Rules governing the CBRT accountability are stated clearly in Article 42 of the CBRT Law. As required by the principle of accountability, the CBRT continued to publish its analytical balance sheet on its website on a daily basis. The Bank issued a report explaining the results of the independent audits of its balance sheet income expenses statement along with the results of the audits. Similarly, the rationale for CBRT policy decisions and the repercussions of such decisions were also publicly announced through regular reports and presentations.

Under the current monetary policy regime, the CBRT's main communication documents are MPC announcements and Inflation Reports. Inflation Reports follow a pre-announced calendar and contain information about international economic developments, the course of inflation and supply and demand as well as overall assessments concerning financial markets, financial intermediation and public finance along with medium term inflation forecasts. These reports also included text boxes dealing with current issues concerning the Turkish economy. Inflation Reports of 2019 were presented at press conferences, in which press members, economists and analysts from Turkey and abroad participated, on 30 January and 31 July in Ankara and on 30 April and 31 October in Istanbul. All press conferences were broadcast live on the website and social media accounts of the CBRT.

MPC meetings were held on the scheduled dates specified in the "Monetary and Exchange Rate Policy for 2019", and the CBRT continued to post on its website the summaries of MPC meetings. Information about the CBRT's leading activities and about changes in implementation that were of significant concern to the public were disclosed by means of 52 press releases in 2019. The Bank announced its Monetary and Exchange Rate Policy for 2019 on 5 December 2018.

According to a pre-announced schedule, the Bank posted Financial Stability Reports on its website on 31 May and 29 November 2019. In the Financial Stability Reports, the CBRT shared its perspective on the financial system with respect to the recent developments in Turkey and abroad with the public.

To promote better public understanding of monthly inflation developments, the CBRT continued to issue a report on Monthly Price Developments on the first business day following the release of inflation figures.

As a part of direct communication activities, Governor Murat Uysal conducted a series of presentations and speeches in Turkey concerning the CBRT's policies and practices and current economic developments. Within this context, Governor Uysal gave an interview to the Anadolu Agency and explained the CBRT's communication policy in the upcoming period. Moreover, to foster communication with the corporate sector and explain the CBRT's policies to the public, Governor Uysal delivered speeches on "the Economic Outlook and the CBRT's Studies on the Corporate Sector" at the Assembly Meeting of Ankara Chamber of Industry and "External Balance, Sustainable Growth and Price Stability" at the Assembly Meeting of the Istanbul Chamber of Industry.

UNDER THE CURRENT MONETARY POLICY REGIME, THE CBRT'S MAIN COMMUNICATION DOCUMENTS ARE MPC ANNOUNCEMENTS AND INFLATION REPORTS.

2.8.2 Communication Activities for the General Public

The Bank's website, its main communication channel, remained in use to meet current technological trends and user demands.

The CBRT continued to use the social media effectively and to enrich the posts with visual content in line with the Social Media Strategy which was updated in 2019. The CBRT's Twitter account, in particular, was used intensively. As a result, the number of followers of the Turkish Twitter account reached 237,000.

A new version of the mobile application that the CBRT uses to enrich digital communication channels was published on Android and iOS markets in August.

The Virtual Museum was established to make the cultural heritage owned by the Central Bank of the Republic of Turkey accessible to a broader audience without being confined by the constraints of physical limitations or distance. The Virtual Museum exhibits old and new banknotes, items that illustrate the Bank's history, and a selection of the Bank's rich art collection. The Virtual Museum is available in Turkish and English.

In its Flickr account, the CBRT continued to share photographs from events and activities organized by the Bank. In addition, the CBRT published a broad range of video content, be it the Governor's speeches or Inflation Reports, Financial Stability Reports, the Monetary and Exchange Rate Policy for 2019 and various CBRT events as well as Economics for All videos, through its YouTube channel.

Having been online since December 2016 to help bank professionals share their views with the public, open these views to discussion, and provide timely contributions to the economic agenda, the CBRT corporate blog continued to feature new analyses. Throughout the year, 19 new analyses were published on the blog. The CBRT Blog is located at www.CBRTblog.org and can be followed on Twitter @CBRTBlog.

The CBRT responded to requests for information sent through the Right to Information Unit (BES) established under the Right to Information Act, the Presidential Communication Center (CİMER) and the Bank's e-mail address, iletisimbilgi@CBRT.gov.tr, which is used for communicating with individuals and institutions outside the Bank. Applications processed duly through the BES totaled 1,616 (854 through e-government), 477 through CİMER, 6 through the Right to Information Unit (BES) of the Ministry of Treasury and Finance and 4,683 through the "iletisimbilgi" address.

Applications received via BES, CİMER and iletisimbilgi@CBRT.gov.tr totaled 1,616 (854 through e-government), 2,097 and about 9,010, respectively.

Additionally, loan and deposit rates from banks were compiled by the CBRT and upon request, such banking sector data covering various topics and periods were shared with public institutions, courts, experts and lawyers in attachments of formal correspondence. Meeting these requests led to an intense load of correspondence and spending of labor, and also made judicial processes longer. Accordingly, to grant access to these data by judicial authorities over the National Judiciary Informatics System (UYAP) without any formal correspondence with the CBRT, integration studies were carried out with the Ministry of Justice and completed with success. Thus, the work load on not only the CBRT, but also the judiciary authorities and all banks was alleviated and judicial processes gained momentum.

IN LINE WITH THE SOCIAL MEDIA STRATEGY, WHICH WAS UPDATED IN 2019, THE CBRT CONTINUED TO HAVE AN ACTIVE PRESENCE ON SOCIAL MEDIA AND ENRICH ITS SOCIAL MEDIA POSTS WITH VISUAL CONTENT.

2.8.3 Activities on Financial Education and Economy Education

The CBRT continues with the Economics for All program it started to raise awareness about the importance of price stability and to teach economics to various types of learners. This program features publications, events and similar communication activities for various target groups and aims to enable all target groups to have access to different levels of tools and content published on its own microsite about the importance of price stability, the role of a central bank in the economy, and current economic issues.

One of the key parts of this initiative is the Economics for All microsite. Launched in 2018 to explain basic economic concepts, the design of Economics for All microsite was renewed in June. The microsite is a pioneer of its kind in Turkey and offers up-to-date content in various forms such as videos, booklets, infographics and tests on the CBRT's main functions and basic principles of economics.

Aiming to raise the level of economic literacy, the microsite featured more than 70 posts on basic economic concepts, central banking and current economic developments.

Course plans, infographics, videos, classroom activities and similar educational materials related to the Economics for All program that may benefit pre-school and primary school teachers are published on the CBRT's website, and the educational informatics network of the Ministry of Education (<http://www.eba.gov.tr/eicerik/CBRT>).

Under the Economics for All initiative, school visits in Ankara continued. Accordingly, on-site training was offered to about 562 students of one primary school and four secondary schools, which introduced them to concepts such as money, functions of money, inflation, price stability and central banking in an age-appropriate way.

Established as a part of the Economics for All initiative that aimed at reaching out to the public all around Turkey, the "Economics for All in Anatolia" project continued with many events and activities targeting students of primary, secondary and higher-level educational establishments as well as teachers and academics in various provinces. Under the project, events were organized on 19-22 February 2019 in Eskişehir, on 3 May 2019 in İzmit and on 5-6 November 2019 in Amasya. As part of our outreach event series, primary, and secondary school teachers participated in Teacher Gatherings. They were informed about the Economics for All program, the CBRT and monetary policy as well as related educational materials that can be used in the classroom. In school visits grades four, seven and eleven were targeted and informative presentations were made to the students. In these seminars, students were informed about money, the CBRT and inflation using age-appropriate presentations, videos, games and contests. Additionally, the Bank conducted University Gatherings for students of Economics and Administrative Sciences in Eskişehir. These events involved presentations by the CBRT directors about central banking and price stability and Q&A sessions. University students showed great interest in these events, which also involved various contests. With these activities, the CBRT reached out to 2,260 participants.

The Bank also continued to organize half-day University Gatherings to inform students of the CBRT's administrative structure and main functions as well as the job placement process and career opportunities at the CBRT, and facilitate a question/answer interaction between students and Bank employees. Organized in both spring and fall semesters, these events attracted up to 1,500 students from various universities.

THE CBRT CONTINUES WITH THE ECONOMICS FOR ALL PROGRAM IT STARTED TO RAISE AWARENESS ABOUT THE IMPORTANCE OF PRICE STABILITY AND TO TEACH ECONOMICS TO VARIOUS STAKEHOLDERS.

2.8.4 Investor Relations

The CBRT continued to organize technical meetings and teleconferences with analysts, strategists, investors, economists and portfolio managers from domestic and foreign investor agencies and Credit Rating Agencies (CRAs) at its Head Office. In 57 meetings in 2019, the Bank met with a total of 418 people representing 283 agencies. In the same period, 12 meetings were held with CRAs, three of which were teleconferences.

Table 2.8.4.1: Meetings held in 2019

Period	Meetings with CRAs	Meetings with Investor Agencies	Number of Investor Agencies	Total Number of Attendants
January-March 2019	2	17	83	124
April-June 2019	5	18	102	144
July-September 2019	3	11	59	88
October-December 2019	2	11	39	62

Apart from these, to meet and make presentations on macroeconomic developments and our monetary policy and bolster bilateral relations with economic and financial attaches of G20 countries operating in Ankara, a meeting was held in February at the CBRT Head Office.

Additionally, informative presentations on investor relations activities at the CBRT were made at the international training event titled “Central Bank Communication: Building Knowledge and Trust in a Changing World” held by ISCB in March (Istanbul School of Central Banking) and also in the international seminar called “Central Banking Seminar on Communication: Enhancing Knowledge and Building Trust” held by the Department of Communications and Foreign Relations in September in Istanbul.

As part of the studies carried out by the Department of Communication and Foreign Relations to measure the perceptions of stakeholders about the CBRT and the monetary policy, analytical studies to measure investor sentiment continued and a variety of training programs and seminars were attended.

2.9 International Cooperation and Events

2.9.1 Relations with International Organizations

Founded on our initiative, the Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries met for the 41st time in Istanbul on 24-26 March 2019. The secretarial work was undertaken and the meeting was hosted by the CBRT. The 42nd meeting was held in Prague on 20-22 November 2019. The main themes of the meetings were determined as global economic and financial developments, matters regarding central bank governance, central banking communication for policy effectiveness as well as inflation targeting regime in advanced and emerging economies and data management concerning monetary policies.

To increase cooperation among the Governors' Club member countries and to help with the preparations of the Governors' Club meetings, the "Monetary Policy and Financial Stability Working Group," established on the initiative of the CBRT and co-chaired by the Bank of Russia and the CBRT, held the third meeting in Istanbul on 28 January 2019, and the fourth one in Prague on 16 September 2019.

Pioneered by the CBRT, "OIC Economic Outlook" and Financial Inclusion" working groups established under the Organization of Islamic Cooperation (OIC) held their second meetings on 17 and 18 June 2019 in Istanbul. Alongside financial inclusion, economic and global developments were handled specifically for the OIC geography in these meetings. Co-chaired by the CBRT and the State Bank of Pakistan, the OIC Economic Outlook Working Group formed OIC financial stress and OIC macro financial fragility indices. Reports compiled as the outputs of the working groups were presented to the Central Bank Governors at the D İSEDAK Central Banks Forum Meeting. This meeting was held from 22 to 24 September 2019 in Bodrum. At this meeting, the network site established by the CBRT was introduced to the member central banks.

As part of the routine Article IV consultations with 189 members, an IMF delegation visited Turkey in September to discuss economic and fiscal policies and the surveillance of the international monetary system. During this visit, meetings were coordinated by the CBRT and the Ministry of Treasury and Finance.

Preparatory work was also carried out on the agendas of the periodical meetings held by the IMF, G20 and the BIS.

2.9.2 Relations with Central Banks

The Bank continued to seek stronger communication and bilateral cooperation with foreign central banks. Accordingly, with the new memorandum of understanding signed with the Central Bank of Somalia, the number of central banks with which the CBRT collaborates officially reached 32 in 2019. Additionally, the memorandum of understanding signed with Bank Indonesia in 2015 was updated in view of the current state of bilateral cooperation.

Efforts to vigorously implement the newly-signed memorandums in their first years continued. To this end, particular attention was given to strengthen collaborations with central banks of Romania, Moldova, Hungary, Sudan and Kosovo, with which the CBRT signed memorandums of understanding in 2018. On the other hand, considering the priorities of CBRT departments as well as the demands from the Bank's global partners, steps were taken to foster collaboration with the central banks with which CBRT doesn't have a memorandum of understanding.

In line with the national policy to encourage the use of local currencies in international trade, and to enhance a wider use of the Turkish lira across the globe, the CBRT continues to work with partner central banks on bilateral swap agreements. As part of these efforts, the swap agreement signed with the People's Bank of China in 2012 for the first time was renewed for a three-year period in May 2019. In addition, an amendment agreement to update the existing swap agreement with Qatar Central Bank was signed during the Republic of Turkey and the State of Qatar High Strategic Committee Meeting held in Doha on 25 November 2019.

Activities in 2019 were programmed with an approach focused on obtaining tangible outputs for the CBRT's strategic objectives, as well as prioritized projects launched by CBRT departments. In this respect, among the CBRT's international partners, more intensive cooperation programs were conducted with the European Central Bank, Banca D'Italia, National Bank of Ukraine and Central Bank of Brazil. Further efforts were made to enhance cooperation and strengthen professional networks with other partners in view of mutual needs. To make use of time and cost advantages that information technologies offer in cooperation activities, some programs were realized through video conferences. Accordingly, within the framework of the bilateral cooperation strategy of the CBRT, 68 cooperation programs were organized in Turkey and abroad with 33 partner central banks, 52 of which were study visits.

Established in 2017 to enhance the effectiveness of the cooperation between the CBRT and foreign central banks and to allow the CBRT departments to benefit more from such cooperation, the "Committee of Cooperation with Central Banks" met four times within the year. At these meetings, the committee assessed the activities held in 2018 and planned for 2019 and discussed expectations from departments regarding cooperation. Moreover, throughout the year, the committee shared periodic updates on cooperation with foreign central banks, assessed department demands and worked on the cooperation planning schedule for 2020.

The Regional Central Banking Forum, which facilitates sharing of experiences on contemporary issues by countries with common geographical, cultural and economic backgrounds in a multilateral platform, convened for the third time in 2019. High level representatives from the central banks of Eastern Europe, the Balkans and the Black Sea Region exchanged information and experiences on this year's topic "Internal Audit: Trends and Challenges".

As part of continuous mutual dialogue at the highest level, bilateral meetings were organized with Governors and Deputy Governors of the central banks of Kosovo, Singapore, Qatar, Indonesia, Russia, China, Italy and Somalia. Items of mutual interest as well as economic outlook and opportunities for bilateral cooperation were the main agendas of these meetings.

Bilateral working committees serve as another mechanism by means of which the CBRT is able to engage in dialogue with foreign central banks. As part of this dialogue the Ninth Meeting of the "Turkish-Russian Working Group on Banking and Financial Cooperation" was hosted by the CBRT in Istanbul on 16-17 July 2019. At this meeting, discussions centered around how to encourage trade in local currencies, accompanied by a strengthened correspondent banking relationship as well as current and future steps to enhance the cooperation between the financial sectors of both countries.

2.9.3 Participation in International Working Groups

As a bureau member of the Organization of Economic Cooperation and Development (OECD) “International Investment Statistics Working Group”, the CBRT attended and contributed to the meeting on 26-28 March 2019 and to the “International Trade of Goods and Services Statistics Working Group” meeting on 27-29 March 2019.

The World Bank’s International Committee on Credit Reporting (ICCR), of which the CBRT has been a member since 2009, held its periodical meeting in France on 4-5 April 2019. These meetings were attended by representatives mostly from central banks and from international credit reporting agencies and unions. Moreover, the CBRT official was selected to participate in the subcommittees on “Innovations in Credit Reporting” and “Management and Administration”, and also contribution was made to the completion of the document on the overall coverage of credit rating.

The CBRT attended the annual meeting of the “G 20 Data Gaps Initiative” held in Washington D.C., USA on 12-13 June 2019 and contributed to the “Progress Report 2019”.

The CBRT participated in and contributed to the 4th Asia Pacific Statistics Week held by the United Nations Economic and Social Commission for Asia and Pacific (ESCAP) Committee on Statistics on 17-21 June 2019 as a member of the Working Group. Being a member of the Economic Statistics Regional Program Executive Group, the CBRT took part in and contributed to the Executive Group Meeting, and chaired the Economic Statistics Capacity Assessment Working Group.

Being a member of the “FinTech -related (Financial Technologies) data issues Working Group” at the BIS-Irving Fisher Committee on Central Bank Statistics (IFC), the CBRT took part in the studies on the effect of the developments in FinTech on central bank statistics. Similarly, the CBRT attended and contributed to the FinTech Statistics seminar on “Bringing Together Demand and Supply to Measure Its Impact” organized jointly by the BIS IFC and Central Bank of Malaysia on 17 August 2019.

The CBRT is a member of the European Committee of Central Balance-Sheet Data Offices (ECCBSO) created to enhance cooperation among balance sheet offices operating under European central banks, develop data processing techniques and analyses and establish comparable datasets. In 2019, the Bank took part in the Working Group Meetings of BACH, FSA and ERICA operating under the ECCBSO and chaired the FSA Working Group. Additionally, the last meeting of the ERICA group in 2019 was hosted by the CBRT.

As Turkey’s representative since 2009, the CBRT participated in and contributed to meetings of the Steering Committee operating under the BIS held by the CPMI in February and May. Additionally, the CBRT took part in activities and meetings of the working groups established at the CPMI. Some working groups in which the CBRT participates published their final reports in 2019 and have been working as required by their task definitions. Accordingly:

- Having published its “Guidance on Cyber Resilience for Financial Market Infrastructures (FMIs)” in June 2016, the Cyber Resilience Working Group, co-chaired by the CPMI and the IOSCO, focused its efforts to encourage and monitor the application of this guide, to facilitate exchange of information among authorities and to improve the capacity in cyber resilience of these authorities. Cyber resilience of the payments and settlement systems of our country regarding the principles set forth in that guidance are monitored closely by the CBRT and assessments are made through detailed analyses.

- CPMI IOSCO Implementation Monitoring Steering Group IMSG started Level 3 Assessment studies on business continuity in 2019, the Assessment Team (AT) of which accommodated one representative from the CBRT. A comprehensive survey within the scope of FPAIP was made on business continuity activities to 38 FPA from various countries in 2019. Following the assessment of the survey data, the final report is planned to be presented in the IMSG executive meeting to be held in March 2020.
- The CBRT participated in a meeting of the CPMI-World Bank (WB) task force on Payment Aspects of Financial Inclusion held on 7-8 May 2019 in Basel and contributed to the report of the meeting.
- In line with the strategy established on the initiative of the CPMI to respond to the increasing threat of high-amount wholesale payments fraud, the endpoints in the CBRT payment systems, related risk factors and preventive measures were identified. Practices are monitored closely.
- The Bank participated in meetings and teleconferences on “The Future of RTGS” of the Real Time Gross Settlement, RTGS Systems Working Group held in 2019. Considering the issues covered in this study, payment and securities settlement systems in our country is monitored closely by the CBRT, and detailed analyses and assessments are made. The policy note on “Access to settlement accounts by non banks: policy issues” and a statistics note on “Survey summary: Non banks’ access to RTGS systems”, which involve the group’s analysis of the participation of non-bank institutions to RTGS systems, were presented in the steering committee meeting in May.
- CPMI WGD I studied innovations in wholesale payments and published the report “Wholesale Digital Tokens” on 12 December 2019.

The CBRT contributed to the studies of the G7 Stablecoins Working Group. Moreover, 16 September 2019, the BIS hosted a conference and senior officials from public authorities worldwide discussed policy and regulatory issues posed by the emergence of “stablecoin” initiatives backed by financial institutions and large technology companies.

A report on the analysis of Stablecoin arrangements within the scope of the PFMI is in progress. Given that cross-border payments are a priority for the G20 in 2020, the “Global Cross Border Payments Task Force” was established at the CPMI with the participation of representatives of many countries including Turkey. The report to be written by the group that launched studies in December is planned to be represented at the G20 Finance Ministers and Central bank Governors Meeting in October 2020.

The CBRT is a member of the “European Banknote Conference” working on banknote printing and cash management organized by the European central banks and printing houses. Accordingly, the Bank conducted studies in the technical sub units of this conference: “Banknote Security Committee”, “Banknote Materials Committee” and “Manufacturing Process Committee”. In addition, representatives from the CBRT also took part in the activities of the “Policy Committee Advisor Group”, which is responsible for assessing the effectiveness of the conference’s management and operations.

As a member, the CBRT attended the annual meeting of the Technical Working Group which is the technical subgroup of the KBA NotaSys Customer Focus Group aiming at establishing technical cooperation among banknote production machinery users. The meeting was organized by KBA NotaSys, the producer and supplier of a great part of the machinery used in banknote production at a global scale.

To enable exchange of views and experience among the users of banknote processing systems (BPS) and the renovation of the systems parallel to technological improvements, representatives from the central banks and banknote printing plants using the BPS machinery established the “BPS International Users Group”. Its technical task force, the “BPS Technical Advisory Group” holds biannual meetings, and as a member, the CBRT attended one of these meetings, which was organized by Giesecke & Devrient, a company of German origin.

The CBRT participated in the Users Meeting held by the Central Bank Counterfeit Deterrence Group (CBCDG), of which it is a member, in Frankfurt-Germany on 18-20 March 2019 and the Plenary Meetings held in Basel Switzerland on 5 December 2019. CBCDG Plenary Meetings are held annually and are attended by the European Banknote Conference delegation presidents of member countries and representatives of members other than the European Banknote Conference. At the meetings, the CBCDG activities are explained, decisions are taken and the CBCDG budget is approved.

Being a member of the BIS IFC Executive Committee, the CBRT attended meetings and contributed to activity reports and presentations.

The final report for the “Workshop on Commercial Property Price Indices” co-organized by the BIS IFC was written jointly by the BIS and the CBRT. The report was published as an IFC Report entitled “Mind the Data Gap: Commercial Property Prices for Policy”.

The CBRT participated in and contributed to the seminar on “Post-crisis data landscape: micro data for the macro world” held on 16 August 2019 by the BIS IFC, Central Bank of Malaysia and the European Central Bank.

Some sessions were chaired and presentations were made at the 62nd World Statistics Congress held by the International Statistical Institute in Malaysia on 19-23 August 2019.

2.9.4 Organizations

National and International Organizations

To foster mutual relations and cooperation with other countries' central banks and international agencies and organizations, the CBRT conducted meetings, conferences, seminars and workshops for the discussion of current issues on the world's and Turkey's economic agendas.

Events attended by the world's leading academicians, central bank and financial industry representatives, central bankers and officials of international organizations last year are highlighted below:

- The CBRT WB Joint Conference titled "Drivers of Firm Performance in Turkey" held in Ankara on 10 January 2019,
- The Governors Club Monetary Policy and Financial Stability Working Group 3rd Meeting held in Istanbul on 28-29 January 2019,
- IILM 29. Executive Committee Meeting held in Istanbul on 31 January 2019,
- Use of Financial Accounts Workshop held jointly with the IFC under the BIS in Istanbul on 18-20 March 2019,
- Financial Technologies Country Report Workshop of the Financial Technologies (FinTech) Standing Working Subgroup held in Ankara on 23 March 2019,
- 41. Governors Club Meeting held in Istanbul on 24-26 March 2019,
- "Conference on Innovative Finance for Growth: The Role of Credit Guarantee Funds" held in Istanbul on 16-18 April 2019,
- Skill Gaining Program Student Meetings held in Istanbul on 20 April 2019, and in Ankara on 21 April 2019
- Statistics Reporting Certificate Program Seminar held in Istanbul on 2-3 May 2019,
- 15th Meeting of the Financial Stability Board Middle East and North Africa (FSB MENA) Regional Consultative Group held in Istanbul on 3-4 May 2019,
- Interinstitutional Coordination and Cooperation in Struggle against Banknote Counterfeiting Meeting held in Ankara on 13 June 2019,
- OIC Member Countries Central Banks and Monetary Authorities Working Group Meeting held in Istanbul on 17-18 June 2019,
- The 18th Regional Payment Systems Workshop held in İzmir on 19-21 June 2019,
- 9th Meeting of the Turkish Russian Banking and Financial Cooperation Working Group held in Istanbul on 16-17 July 2019,
- IILM 31st Executive Committee Meeting held in Istanbul on 18 July 2019,
- 7th European Central Bank CBRT Joint Conference held in Istanbul on 19-20 September 2019,
- "OIC COMCEC Central Banking Forum I" forum in Bodrum on 22-23 September 2019,
- The seminar "CBRT 3rd Regional Central Banking Forum Internal Audit: Trends and Challenges" held in Istanbul on 26-27 September 2019,
- The seminar "Central Banking Seminar on Communication: Enhancing Knowledge & Building Trust" in Istanbul on 27-28 September 2019,
- FSB SCAV Analytical Group on Vulnerabilities (AGV) Meeting held in Istanbul on 1 October 2019,
- IILM 32nd Executive Committee Meeting held in Istanbul on 2-3 October 2019,

CBRT Organizations

The following meetings and workshops were organized to foster collaboration both within and among departments and improve work processes within the CBRT:

- Workshop on banknote issuance for branches in Istanbul on 17-19 April 2019,
- Issue Department Workshop held in Ankara on 22 June 2019,
- Real Economic Activity Lens (REAL) Workshop organized in İzmir on 27-29 June 2019,
- Workshop on banknote issuance for branches in Gaziantep on 12-14 November 2019,
- REAL Year-end General Evaluation Meeting organized in Adana on 18-21 December 2019,

National and International Organizations That the Governor and Deputy Governors Attended

To represent Turkey and exchange views on matters of economy and finance in international platforms the CBRT participated in the following meetings. Moreover, meetings were organized with investor groups throughout the year.

- BIS Meetings held in Basel, Switzerland throughout the year,
- G20 Finance Ministers and Vice-Governors of Central Banks Meetings held in Tokyo on 16-19 January 2019,
- The “BIS Meeting of Emerging Market Deputy Governors” held in Basel on 12-15 February 2019,
- “18th BIS Working Party on Monetary Policy in Central and Eastern Europe” meeting held in Riga on 20-23 February 2019,
- G20 Ministers and Central Bank Governors Meetings held in Washington D.C. on 11-14 April 2019 and 17-20 October 2019,
- IMF WB Spring Meetings held in Washington on 12-14 April 2019,
- “Forum of Innovative Financial Technologies Finopolis 2019” held in Sochi on 8-12 October 2019,
- IMF WB Annual Meetings held in Washington on 18-20 October 2019,
- FSB Plenary Meeting held in Paris on 6-7 November 2019,
- “Roundtable Discussion on Central Bank Independence” held in Frankfurt on 11-13 November 2019,
- The 16th Meeting of FSB MENA Regional Consultative Group held in Riyadh on 16 and 17 November 2019,
- The “6th FSB Regional Consultative Group for the Middle East and North Africa” meeting held in Riyadh on 16-18 November 2019,
- The Governors Club Meeting held in Prague on 20-21 November 2019,
- The “Twenty Fourth Meeting of the Standing Committee on Standards Implementation” held in Paris on 3-4 December 2019.

2.9.5 European Union Harmonization Activities

Turkey's screening process, which is the first phase of EU accession negotiations after Turkey was given a candidate country status by the EU, began on 3 October 2005 and ended on 13 October 2006. The EU harmonization process of Turkey continues, although no significant progress has been made.

The current situation in EU Chapters that directly concern the CBRT is as follows: negotiations on chapters "18. Statistics" and "32. Financial Control" were opened on 26 June 2007, while chapters "4. Free Movement of Capital" and "17. Economic and Monetary Policy" were opened to negotiations on 19 December 2008 and 14 December 2015, respectively. Chapter "9. Financial Services" is one of the eight chapters that were suspended by a resolution passed at the EU summit of 14-15 December 2006, mandating that their negotiations be blocked until the EU Commission verifies that Turkey fulfills its commitments with respect to Southern Cyprus. Nevertheless, in the framework of harmonization with the EU acquis in Chapter 9, on 27 June 2013, Turkey put into force the Law No. 6493 regarding Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions. This Law also provides harmonization with the relevant EU legislation in Chapter "4. Free Movement of Capital." Chapter "33. Financial and Budgetary Provisions" was opened to negotiations on 30 June 2016. However, one more technical criterion has been introduced for the provisional closure of these negotiations in addition to the full implementation of the Annex Protocol.

Since the onset of technical negotiations with the European Commission, three of six closing benchmarks for Chapter "32. Financial Control" have been satisfied. Of these three benchmarks, the CBRT has contributed to the closing criterion of "legal and administrative alignment with the Council Regulation (EC) 1338/2001 laying down measures necessary for the protection of the euro against counterfeiting." Among the chapters with which the CBRT is indirectly involved, Chapter "28. Consumer and Health Protection" was opened to negotiations on 19 December 2007, Chapter "6. Company Law" on 17 June 2008, and Chapter "16. Taxation" on 30 June 2009. Opening benchmarks have been established for Chapter "19. Social Policy and Employment," while Chapter "2. Free Movement of Workers" is still under review by the European Council.

The CBRT continues to provide the Turkish Ministry of Foreign Affairs, Directorate for EU Affairs with information concerning the developments in the chapters for which it is responsible so that the Ministry can monitor the progress being made in Turkey's harmonization with the EU Acquis and forward this information to the European Commission.

Furthermore, the Bank remained in economic and financial dialogue with the EU. On 24 April 2019, an "Economic and Financial Dialogue" meeting of experts was held in Brussels. At the meeting, participants discussed assessments of the progress that Western Balkan countries and Turkey had made in the first phase of their Economic Reform Programs (ERP) and the countries' responses to the assessments and corrections they requested to be made in the European Commission's final declaration.

On 2 May 2019, a meeting of high-level officials was held in Brussels as part of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. During this meeting, participants debated a Draft Joint conclusion prepared by the Economic and Financial Committee (EFC) secretariat concerning candidate countries (Albania, Macedonia, Montenegro, Serbia, Bosnia Herzegovina, Kosovo and Turkey) that had been drawn up at the 24 April 2019 meeting of EFC experts. At this meeting, the text of the joint conclusion was finalized for submission and approval at the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey Meeting.

On 17 May 2019, a meeting of Economic and Financial Dialogue between the EU and the Western Balkans and Turkey was held in Brussels. This meeting, which is the highest-level meeting with respect to economic dialogue between the EU and candidate countries, was attended by economy/finance ministers of member and candidate states. At this meeting, the text of the joint conclusion prepared at the EFC High-Level Officials Meeting that took place on 2 May 2019 was approved.

On the other hand, the spring and fall Economic Forecast by Candidate Countries meetings that are held twice a year in Brussels by the European Commission took place on 4 April and 9 October 2019, respectively. During these meetings, EU Commission economists and other participants discussed economic and financial forecasts, data and information on related matters.

Moreover, the Subcommittee No. 4 on Economic and Monetary Issues, Capital Movements and Statistics, one of the eight subcommittees established on 11 April 2000 with the Decision No. 3/2000 of the EC-Turkey Association Council to monitor the progress regarding the Turkey's harmonization with the EU acquis, held its 16th meeting on 26 September 2019 in Brussels.

2.10 Research and Development Activities

2.10.1 Academic Research and Development Activities

In keeping with the importance that the CBRT attaches to academic studies, working papers and research notes in economics prepared by the CBRT staff continued to be posted on the CBRT website. Thirty six publications were added to the CBRT working papers series of peer reviewed research papers written by the CBRT staff members. In addition, another 14 new additions were made to the series of Research Notes in Economics that the CBRT publishes in order to contribute to discussions on economic issues in a timely fashion and to publicize the results of research about the Turkish economy and monetary policy.

Central Bank Review, a peer reviewed journal prioritizing such topics as macro economy, monetary economics, finance and capital markets, banking and financial intermediation, macro and microprudential arrangements, and international economy and finance was published four times by the CBRT.

Meanwhile, articles that were written with contributions of the CBRT staff were published in journals that are listed in the Social Sciences Citation Index.

The Research and Monetary Policy department held seminars as part of the department's seminar series for the CBRT staff. During these seminars, presentations were given by participants from universities in Turkey and abroad, international organizations, and other central banks.

2.10.2 Research Activities on Structural Economic Developments

The Structural Economic Research Department of the CBRT continued to engage in research on identifying the structural factors that restrain the effectiveness of the monetary policy, to formulate policy proposals within the framework of inter-agency cooperation, and to develop the corporate infrastructure for the work processes the department deals with.

This department's activities in 2019 may be summed up under four headings: (1) Work carried out within the scope of the Food Committee (2) Work related to meetings with the real sector (3) Research on the Turkish economy and monetary policy (4) Coordination with academic circles.

The Food Committee, secretarial services of which are undertaken by the CBRT, met seven times under the chairmanship of Berat Albayrak, PhD, Minister of Treasury and Finance. Aiming at permanent price stability, the committee concentrated its activities on solving structural and cyclical issues in agricultural and food industries.

Structural and circumstantial measures taken within the scope of Food Committee decisions are designed from a price stability perspective in collaboration with institutions. With its long-term corporate experience on the pricing of food products, the CBRT provided guidance in monitoring food prices and identifying priorities in this field. Those who serve on the committee include top management positions from relevant institutions, and therefore a more solution-oriented cooperation could be established, paving the way for concrete policy measures.

Today, central banks design and implement their monetary policies based on a more diverse and richer set of information and incorporate real sector developments more and more into their decision-making process.

In interactions with the real sector, face to face meetings are held with firms' senior decision makers. These meetings make it possible to obtain first-hand information on economic activities and decision-making mechanisms of individual firms, and capture the real sector sentiment towards the economy in good time. Information obtained from these meetings helps make better assessments about cyclical economic activity (production and sales, investment, employment, borrowing conditions, prices, and costs). The significance of these meetings lies in developing an understanding of the reasons behind the outlook signaled by indicators and data of economic activity and in monitoring developments that economic models may fail to detect. In 2019, a total of 1,919 firms were visited, of which 906 were manufacturers and 518 were wholesalers and retailers.

Firm visits aim to promote an exchange of views on monetary policy actions, contribute to the CBRT's communication policy and communicate effectively with the real sector. The views of firms' decision makers about policy actions and their expectations from the public sector were reported to the CBRT senior management without disclosure of their identities. In 2019, firm visits per regional offices were as follows: 656 in Istanbul, 301 in Izmir, 238 in Ankara, 194 in Adana, 189 in Bursa, and 165 in Samsun.

The Bank conducted analysis on structural issues such as Turkey's economic growth, productivity, labor markets, foreign trade, public finance, savings, market structure and competition, research and development, entrepreneurship, human capital, education, migration and energy from the standpoints of financial stability and monetary policy. Seventeen new papers written by the staff of the Structural Economic Research Department were added to the Working Papers series and another nine new additions were made to the series of Research Notes. Moreover, nine articles that were written with contributions of the staff of the Structural Economic Research Department were approved to be published in journals that are listed in the Social Sciences Citation Index. These studies were presented to academics and policy makers at various national and international seminars and conferences.

The same department also held 15 seminars as part of the department's seminar series for the CBRT staff. During these seminars, presentations were made by participants from universities in Turkey and abroad, international organizations, and other central banks.

Detailed work was carried out in order to identify the structural factors that lead to inflation rigidity and persistence, to help work jointly with other relevant agencies and organizations, and to expand the analytical capacities of the CBRT's technical units. In this regard, new protocols were signed with other agencies and organizations to enable data sharing and collaboration, and access was provided to new datasets that would make a major contribution to policy making.

2.10.3 Research and Development Activities on Banknote Printing

A number of research and development studies were carried out to help improve the banknote printing process.

The New Series Banknote Design Project continued its work. A signature change was made to the 5 Turkish Lira banknote of E9 series, version IV.

To verify its compliance with the ISO 9001 Quality, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management standards, the Banknote Printing Plant (BPP) underwent an audit by the Turkish Standards Institution (TSE) on 21-24 October 2019. As a result of the external audit, the BPP's certifications of ISO 9001 Quality, ISO 14001 Environmental Management and OHSAS 18001 Occupational Health and Safety Management were renewed.

2.10.4 Research and Development Activities on Information Technologies

A large number of projects and infrastructure related works were carried out in Information Technologies (IT). Activities for the reinforcement of cyber security continued.

Software solutions for new Turkish lira and foreign currency tools and software for new security issuance models designed at the request of the Ministry of Treasury and Finance were delivered on time and successfully.

The integration of loan and deposit rates with the National Judiciary Informatics System (UYAP) was concluded in collaboration with the Ministry of Justice. With this project, various banking data were made accessible on the UYAP platform, enabling rapid access to crucial data for legal proceedings.

A large number of datasets that contribute to decision making were made accessible on the Big Data Platform. The infrastructure for obtaining and processing high-frequency data from external institutions was built to enable real-time analyses.

On the Payment Systems front, EFT-ESTS system messages were modified in line with the Financial Crimes Investigation Board (MASAK) regulations, suggestions of the Banks Association of Turkey Working Group and technical needs.

A software for the REAL project that enables the fast compilation, safe storing and effective reporting of real sector data was delivered.

A number of applications were launched to monitor group movements and cash withdrawals among the CBRT's branches, cash centers and banknote depots in the Cash Management System (CMS).

As part of the Central Accounting Automation System project to integrate accounting systems used at the CBRT's Head Office and branches and thus enhance system-wide and operational efficiency, applications for Central Payment and Common Liable Service and related subsystems were upgraded.

To provide automation in purchases of goods and services, a Central Purchasing Platform (CPP) was developed.

The Virtual Museum website that was launched to make the cultural heritage owned by the CBRT accessible to a broader audience was updated with a new design and technological infrastructure.

As part of the Banknote Serial Number Tracking Project, "Analytics and Dashboards" were developed using sample datasets obtained from data produced by BPS 2000 banknote processing machines.

2.11 Training Activities

A total of 5,131 people took part in CBRT-organized training activities and 727 CBRT employees benefited from a variety of programs conducted by other institutions and organizations. Besides, a total of 10 CBRT employees took part in training activities organized in the country and abroad as instructor or speaker. Fourteen theses prepared by central bank assistant specialists were examined and found satisfactory by relevant thesis commissions.

Among online education programs, the Bank provided executives and employees with an online foreign language education platform to help improve their knowledge in foreign languages, IT staff with various content platforms to further their occupational development, and relevant staff with online Occupational Health and Safety refresher training.

2.11.1 Training Programs Organized by the CBRT

A total of 4,572 CBRT employees attended in-house training programs, subject matters of which are listed in Chart 2.11.1.1.

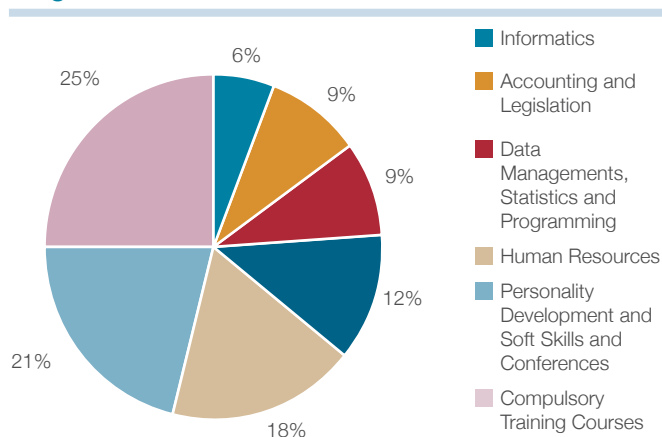
A total of 553 university students took part in last year's CBRT pre-recruitment programs, and another six took part in the CBRT International Internship Program.

In order to improve the quality of statistical reports submitted by banks to the CBRT and ensure better communication with reporting banks, a "Statistical Reporting Certification Program" was held for the second time on 2-3 May 2019 in Istanbul. During this training program, the CBRT explained its data compilation principles, the intended purpose of CBRT statistics and the areas in which these statistics are shared. Moreover, the CBRT gave information on the scope of reports submitted to the CBRT by banks along with the underlying international statistical standards, and discussed commonly encountered problems. The program was attended by staff members of banks, the BRSA, the Participation Banks Association of Turkey, Turkish Capital Markets Association (TCMA), and the CBRT's audit department. A total of 39 participants were certified at the end of the program.

To increase the use of the Electronic Data Delivery System (EDDS), the CBRT organized a number of training programs and events within CBRT Statistics.

In addition, the CBRT held several seminars at the Istanbul School of Central Banking (ISCB) as part of the brand-new training program for five national financial sectors. A total of 156 participants from national banks and finance companies attended these seminars.

Chart 2.11.1.1: Topics of CBRT In-House Training Programs



Source: CBRT

2.11.2 International Training and Technical Support Activities

The ISCB organized a number of training programs jointly with national and international stakeholders, thereby contributing to the CBRT's objectives. In this context, a total of 674 participants representing central bankers and related policy makers from 76 countries as well as employees working at national institutions attended these training programs.

The ISCB organized 24 international training programs in the form of seminars and workshops on issues pertinent to central banking. Of these programs, five concerning risk management in Islamic banking and finance, stress testing for Islamic financial institutions, Islamic banking and finance for central banks, organizational transformation of central banks, and an all-encompassing approach to risk management in central banks were organized for the first time.

Likewise, an international training program on "Innovative Finance for Growth: The Role of Credit Guarantee Funds" was also conducted for the first time by the ISCB in collaboration with the Asian Development Bank Institute and the Turkish Credit Guarantee Fund on 16-18 April 2019 in Istanbul. Panelists of the program included representatives from relevant institutions in Asian economies such as Japan, Indonesia, Korea, Vietnam, Mongolia and Kazakhstan as well as from the Ministry of Treasury and Finance, the Turkish Credit Guarantee Fund and the CBRT. Country-specific implementations and current issues regarding credit guarantee funds were discussed across nine panel sessions that received high interest from national and international institutions.

Other international training programs organized by the ISCB were as follows:

- "Central Bank Communication: Building Knowledge and Trust in a Changing World" seminar on 4-6 March 2019 in Istanbul,
- "Managing Risks in Islamic Banking and Finance" joint workshop with the International Islamic University Malaysia on 18-21 March 2019 in Istanbul,
- "Corporates' Use of Derivatives and Implications for Emerging Market Central Banks" seminar on 25-28 March 2019 in Istanbul,
- "Internal Audit Practices at Central Banks" seminar on 1-4 April 2019 in Istanbul,
- "Sectoral Financial Accounts" seminar on 8-10 April 2019 in Istanbul,
- "Balance of Payments and External Statistics" seminar on 16-19 April 2019 in Istanbul,
- "Monetary Policy Workshop - Innovative Finance for Growth: The Role of Credit Guarantee Funds" joint workshop with the Asian Development Bank Institute and the Turkish Credit Guarantee Fund on 16-18 April 2019 in Istanbul,
- "Stress Testing for Islamic Financial Institutions" joint workshop with the General Council for Islamic Banks and Financial Institutions on 11-13 June 2019 in Istanbul,
- "Balkan School of Central Banking" certificate program on 17-28 June 2019 in Istanbul,
- "Central Bank Policy Mix: Issues, Challenges and Policy Response" joint workshop with Bank Indonesia on 8-11 July 2019 in Istanbul,

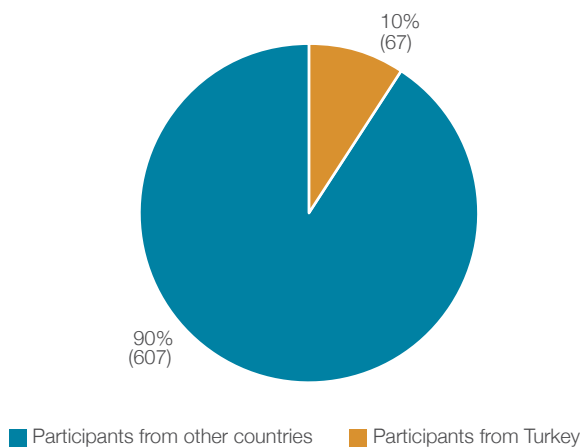
- “Enhancing the Safety and Efficiency of the National Payments System: The Role of the Overseer” joint workshop with Toronto Center on 22-26 July 2019,
- “Making Use of Big Data in Emerging Market Central Banks” seminar on 2-4 September 2019 in Istanbul,
- “Payment Systems and Instruments” seminar on 9-12 September 2019 in Istanbul,
- “Organizational Transformation at Central Banks” seminar on 16-18 September 2019 in Istanbul,
- “Prudential Supervision of the Banking Sector and Macroprudential Regulations” seminar on 23-26 September 2019 in Istanbul,
- “Foreign Exchange Reserve and Risk Management” joint seminar with the Official Monetary and Financial Institutions Forum on 30 September-2 October 2019 in Istanbul,
- “Survey Design and Implementation” seminar on 7-11 October 2019 in Istanbul,
- “Cyber Security in Central Banks” seminar on 16-18 October 2019 in Istanbul,
- “Applied Econometrics for Emerging Market Central Banks” seminar on 11-14 November 2019 in Istanbul,
- “Cash Circulation Management” seminar on 18-21 November 2019 in Istanbul,
- “An Inclusive Financial Risk Management Approach for Central Banks” seminar on 25-27 November 2019 in Istanbul,
- “Islamic Banking and Finance for Central Banks” joint workshop with the Islamic Trade Finance Corporation on 25-28 November 2019 in Istanbul,

- “Understanding Risk Management in Islamic Banking in the Times of Fintech” joint workshop with Toronto Center on 2-6 December 2019 in Istanbul,
- “Financial Market Instruments and Central Banks” seminar on 16-19 December 2019 in Istanbul.

Twenty-four international training programs organized by the ISCB hosted 607 international participants representing 76 countries and 67 participants from Turkey (Chart 2.11.2.1).

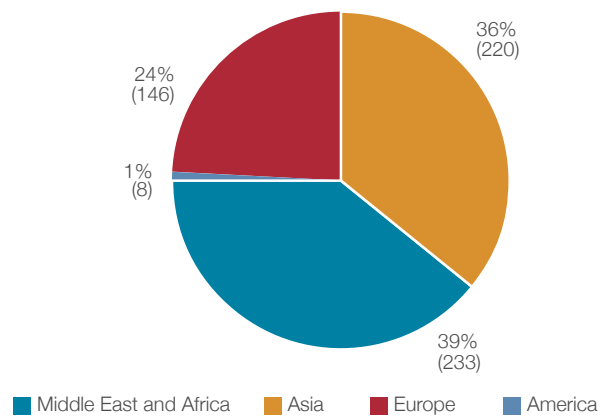
The 607 international participants attending the ISCB’s programs represented countries in Asia, Europe, the Middle East, Africa as well as North and South America (Chart 2.11.2.2).

Chart 2.11.2.1: Breakdown of Participation in ISCB International Training Programs (Number of Participants)



Source: CBRT

Chart 2.11.2.2: Regional Breakdown of Participation from Other Countries in ISCB International Training Programs (Number of Participants)



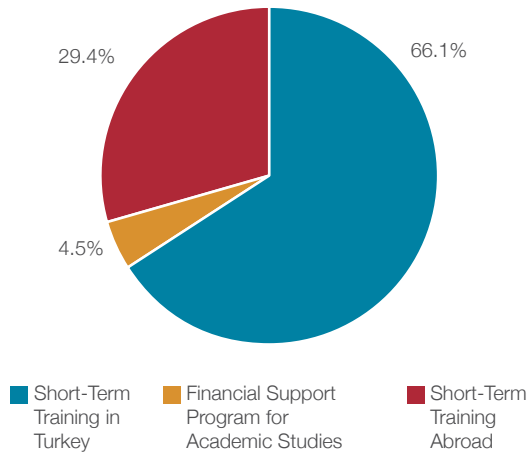
Source: CBRT

2.11.3 Training Programs Organized by Other Institutions and Organizations

A total of 393 CBRT employees attended short-term training programs organized by other institutions and organizations in Turkey, and 175 CBRT employees attended such programs abroad. Additionally, 27 CBRT employees took part in training programs organized by other institutions and organizations under the Financial Support Program for Academic Studies (Chart 2.11.3.1).

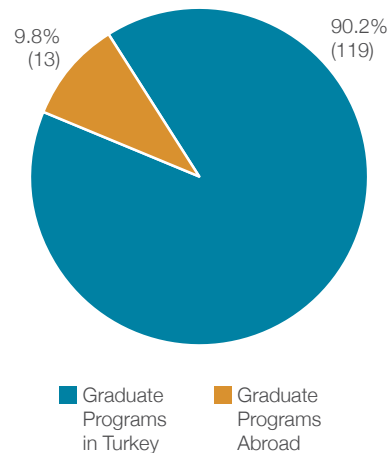
A total of 119 CBRT employees, 23 of whom were recently enrolled, continued their graduate (Master's and PhD) studies in Turkey, while 13 employees, including 7 recently enrolled, pursued such studies abroad (Chart 2.11.3.2).

Chart 2.11.3.1: Non-CBRT Training Programs for CBRT Employees



Source: CBRT

Chart 2.11.3.2: CBRT Employees Attending Graduate Programs (Number of Employees)



Source: CBRT

2.12 Culture, Art and Sports Activities

The CBRT contributes to the promotion of Turkish painting on international platforms via exhibitions held abroad where selected works of art from its art collection are displayed. The Bank also aims to promote its art collection and ensure that Turkey's cultural heritage is passed on to future generations through exhibitions across Turkey.

Accordingly, the CBRT held the exhibition "Our Countryside," which was curated by Prof. Burcu Pelvanoğlu of Mimar Sinan Fine Arts University, Department of Art History, at the Antalya Chamber of Commerce and Industry Education, Research and Culture Foundation on 27 March-30 July 2019. The exhibition hosted a total of 69 works of art by 47 artists selected from the CBRT Art Collection.

As a part of the exhibition, a panel was organized on 4 May 2019, hosted by Prof. Burcu Pelvanoğlu and Dr. İnci Aydın Çolak of Mimar Sinan Fine Arts University. Moreover, activities were held at the exhibition hall for primary school, fine arts high school and university students.

Another CBRT exhibition was held in Ankara at the Erimtan Archaeology and Arts Museum from 27 June to 30 September 2019. Curated by Prof. Mümtaz Sağlam of Dokuz Eylül University, Faculty of Fine Arts, Department of Painting, the exhibition *Anlatı, Yer ve Zaman* (Narration, Place and Time) featured 31 works of art by 23 artists selected from the CBRT Art Collection. A panel was also held, at which Prof. Mümtaz Sağlam gave a speech, as a part of the exhibition. Additionally, creative drama sessions and guided tours were organized for primary school, high school and university students.

Curated by Prof. Burcu Pelvanoğlu, the exhibition *Modernin Dili* (Narrative of the Modern) ran from 18 November-20 December 2019 at the Saraydüzü Barracks National Struggle Museum in Amasya. The exhibition displayed 41 works of art by 36 artists selected from the CBRT Art Collection.

All these exhibitions organized in Antalya, Ankara and Amasya attracted about 20,000 visitors.

Following the CBRT's 2nd International Photography Contest with the theme "Economy and Crafts" organized to promote corporate identity on national and international platforms, bolster cultural and artistic activities, strengthen internal and external communication channels and support photography and photographers, a total of 74 photographs, 14 of them prize-winning, were exhibited at Cer Modern Arts Center on 5-26 February 2019 in Ankara. The contest had received a total of 8,891 submissions by 2,534 photographers from 75 countries.

The Turkish Folk Music, Classical Music and Sufi Music Choirs, consisting of CBRT employees and retirees performed on 2 April 2019, 12 April 2019 and 16 May 2019, respectively, at Hacettepe University Culture Center.

In the context of cultural and artistic activities, the CBRT organized "Mini Concerts" at its Art Center-Atrium to reward employees with art.

To foster employees' sense of belonging, the CBRT awarded their children who demonstrated outstanding academic merit and scored high on secondary and higher education exams with plaques. In addition, as part of 23 April National Sovereignty and Children's Day celebrations, a number of events were organized at the Art Center-Atrium on 19 April 2019 for CBRT employees' children aged 6 to 12 years and students of Saimekadın Primary School.

Among activities of the European Central Banks Culture and Sports Clubs Union, the CBRT participated with its relevant teams in the tournaments of Euro Basket (Belgium), Euro Tennis (Romania) and Euro Futsal (Slovenia). Moreover, the Bank also sent its volleyball and chess teams to the 14th Balkan Countries Central Bank Sports Tournament hosted by the Bulgarian National Bank.

The 13th round of the CBRT-organized traditional “Interbank Chess Tournament,” which hosts 20 teams from ten resident banks in Turkey, was held on 14 December 2019 in Istanbul.

CBRT teams also took part in Ankara Interinstitutional Basketball, Bowling and Table Tennis tournaments, organized by Ankara-based institutions and companies.

In order to strengthen internal communication and employee morale, the Bank organized theater outings, hiking events, photo contests and various athletic events.

Among performances of the Turkish State Theatres in the 2019 season, Cimri (the Miser), Leyla ile Mecnun (Leyla and Mecnun), Keşanlı Ali Destanı (The Legend of Ali of Keşan) were staged exclusively for CBRT employees on 19 February, 1 November and 12 December 2019, respectively.

On 14 September 2019, a simultaneous hiking event was organized for employees from all branches and their family members.

Another event aimed to boost employees’ sense of belonging, support art and artists and enhance internal communication was the “Fall-Winter” themed photo contest held for Bank staff between 22 November and 25 December 2019.

The CBRT organized its 10th Sports Festival on 28-29 April 2019 in Antalya. During the festival that has already become a tradition with increasing interest, a total of 886 athletes competed in 11 fields this year. Including family members of employees, about 1,100 people got to interact in an amicable environment at the sports festival.

An astro turf football tournament was organized in September and December with the participation of the CBRT Head Office and Ankara Branch employees.

THE CBRT CONTRIBUTES TO THE PROMOTION OF TURKISH PAINTING ON INTERNATIONAL PLATFORMS VIA EXHIBITIONS HELD ABROAD WHERE SELECTED WORKS OF ART FROM ITS ART COLLECTION ARE DISPLAYED. THE BANK ALSO AIMS TO PROMOTE ITS ART COLLECTION AND ENSURE THAT TURKEY’S CULTURAL HERITAGE IS PASSED ON TO FUTURE GENERATIONS THROUGH EXHIBITIONS ACROSS TURKEY.

2.13 Corporate Social Responsibility Activities

In addition to fulfilling its obligations and exercising its powers under Law No. 1211, the CBRT also engages in social responsibility activities.

The Financial Support Program for Academic Studies, which has been in place since 2006 to support academic and/or policy-making conferences in the fields of economics and finance, along with other academic and policymaking studies organized in and outside the country, continued in 2019. In this regard, financial support was provided to 36 academic programs that had applied for it.

Founded by the contributions of the CBRT and the Bank of Greece after the 1999 earthquake, the Central Bank Derince Anatolian High School, which had opened its doors to students in the 2001-2002 academic year, had its 18th graduation ceremony on 24 May 2019. During the ceremony, students graduating with honors were awarded with plaques and various presents. The ceremony was attended by CBRT officials, along with provincial dignitaries and students' families. Since 2002, the CBRT has been awarding scholarships to graduates of this high school who have enrolled in a university and who satisfy specific criteria. As of 2019, the number of scholarship recipients reached 112.

To foster a love of trees and forests, raise environmental awareness and ensure a greener future for the next generation, 65 volunteers from the CBRT joined the nation-wide tree-planting campaign, "Breath to the Future", organized by the General Directorate of Forestry across 81 provinces on 11 November 2019, and planted more than 1,200 saplings.

Lastly, in the context of corporate social responsibility activities, the CBRT donated 1,938 miscellaneous furniture items to 53 public institutions.

IN ADDITION TO FULFILLING ITS OBLIGATIONS AND EXERCISING ITS POWERS UNDER LAW NO. 1211, THE CBRT ALSO ENGAGES IN SOCIAL RESPONSIBILITY ACTIVITIES AND MAKES CONTRIBUTIONS TO CHARITIES AND ACADEMIC STUDIES.

PART 3 FINANCIAL STATEMENTS



Photography: "Craftman 2" by Hardijanto Budiman



3.1 Balance Sheet as of 31 December 2019

ASSETS	Note No.	Turkish lira	Foreign currency	Total
1. Gold	3.4.2.1	-	160,904,576,084	160,904,576,084
1.1 International standard (net gram) 553,193,013.48		-	160,904,576,084	160,904,576,084
2. Foreign banknotes	3.4.2.2	-	22,336,577,675	22,336,577,675
3. Foreign correspondents	3.4.2.3	-	443,311,531,935	443,311,531,935
3.1 FX securities		-	200,924,502,192	200,924,502,192
3.2 Deposits		-	82,011,234,133	82,011,234,133
3.3 Other		-	160,375,795,609	160,375,795,609
4. Reserve tranche position	3.4.2.4	-	927,190,940	927,190,940
5. Securities portfolio	3.4.2.5	19,407,464,420	-	19,407,464,420
5.1 Government securities		18,425,983,850	-	18,425,983,850
5.2 Other		981,480,570	-	981,480,570
6. Lending related to monetary policy operations	3.4.2.6	14,698,175,697	-	14,698,175,697
6.1 Open market operations		11,527,205,625	-	11,527,205,625
6.2 Interbank operations		3,170,970,072	-	3,170,970,072
7. Domestic banks	3.4.2.7	-	-	-
8. Credits	3.4.2.8	-	102,640,206,006	102,640,206,006
8.1 Domestic credits		-	102,586,379,378	102,586,379,378
8.1.1 Rediscount credits		-	102,586,379,378	102,586,379,378
8.1.2 Other credits		-	-	-
8.2 Foreign credits		-	53,826,627	53,826,627
9. Share participations	3.4.2.9	-	1,760,394,282	1,760,394,282
10. Treasury liabilities due to SDR allocation	3.4.2.4	-	8,808,044,500	8,808,044,500
11. Fixed assets (Net)	3.4.2.10	621,219,640	-	621,219,640
12. Nonperforming loans (Net)	3.4.2.8	-9,293,901,566	9,293,901,566	-
12.1 Nonperforming loans		-	9,293,901,566	9,293,901,566
12.2 Provisions to nonperforming loans (-)		-9,293,901,566	-	-9,293,901,566
13. Other assets	3.4.2.11	9,740,563,667	857,258,377	10,597,822,044
13.1 Non-standard gold (net gram) 2,832,327.42	3.4.2.1	823,825,377	-	823,825,377
13.2 Coins		122,160,554	-	122,160,554
13.3 Accrued income		86,116,658	-	86,116,658
13.4 Other		8,708,461,078	857,258,377	9,565,719,455
TOTAL		35,173,521,858	750,839,681,364	786,013,203,222

LIABILITIES	Note No.	Turkish lira	Foreign currency	Total
1. Currency issued	3.4.2.12	153,362,376,187	-	153,362,376,187
2. Liabilities related to monetary policy operations	3.4.2.6	4,768,788,392	-	4,768,788,392
2.1 Open market operations		475,136,624	-	475,136,624
2.2 Interbank operations		4,293,651,768	-	4,293,651,768
2.3 Liquidity bills		-	-	-
2.4 Other		-	-	-
3. Deposits	3.4.2.13	83,268,679,529	405,436,313,669	488,704,993,198
3.1 Public sector		32,860,009,754	40,794,985,329	73,654,995,083
3.1.1 Treasury, general and special-budget administrations		32,851,921,888	40,791,462,156	73,643,384,043
3.1.2 Other		8,087,867	3,523,173	11,611,040
3.2. Banking sector		50,094,191,529	362,503,496,184	412,597,687,713
3.2.1 Domestic banks		15,971,005,356	168,479,118,273	184,450,123,630
3.2.1.1 Cash		15,971,005,356	159,813,868,887	175,784,874,243
3.2.1.2 Collateral		-	8,665,249,386	8,665,249,386
3.2.1.2.1 Cash		-	8,462,661,800	8,462,661,800
3.2.1.2.2 Gold (Net Gram) 696,500.00	3.4.2.1	-	202,587,586	202,587,586
3.2.2 Foreign banks		34,123,186,173	-	34,123,186,173
3.2.3 Required reserves in blocked accounts		-	194,024,377,911	194,024,377,911
3.2.3.1 Cash		-	153,105,049,147	153,105,049,147
3.2.3.2 Gold (Net Gram) 140,681,435.79	3.4.2.1	-	40,919,328,764	40,919,328,764
3.2.4 Other		-	-	-
3.3 Other deposits		314,478,246	2,137,832,157	2,452,310,403
3.3.1 FX deposits of nonresident citizens		-	2,137,782,224	2,137,782,224
3.3.2 International institutions		138,101,416	-	138,101,416
3.3.3 Extrabudgetary funds		175,829,500	40,710	175,870,210
3.3.4 Other		547,330	9,223	556,552
4. Foreign banks	3.4.2.3	-	11,967,962,527	11,967,962,527
5. Reserve tranche means	3.4.2.4	-	927,190,940	927,190,940
6. SDR allocation	3.4.2.4	-	8,808,044,500	8,808,044,500
7. Tax obligation	3.4.2.14	11,785,825,597	-	11,785,825,597
7.1 Taxes payable		11,743,894,405	-	11,743,894,405
7.2 Deferred tax liabilities		41,931,192	-	41,931,192
8. Provisions	3.4.2.15	452,601,372	-	452,601,372
9. Capital and reserves	3.4.2.16	5,557,383,428	-	5,557,383,428
9.1 Paid-in capital		25,000	-	25,000
9.2 Inflation adjustments for capital		46,208,524	-	46,208,524
9.3 Reserves		5,511,149,904	-	5,511,149,904
10. Revaluation account	3.4.2.17	50,660,800,568	-	50,660,800,568
11. Profit of the period	3.4.2.20	44,732,806,743	-	44,732,806,743
12. Other liabilities	3.4.2.18	2,431,451,435	1,852,978,335	4,284,429,770
12.1 Treasury gold (net gram) 0,00	3.4.2.1	-	-	-
12.2 Letters of credit		-	161,425,298	161,425,298
12.3 Accrued expense		24,389,256	-	24,389,256
12.4 Other		2,407,062,179	1,691,553,037	4,098,615,216
TOTAL		357,020,713,250	428,992,489,972	786,013,203,222
REGULATING ACCOUNTS	3.4.2.19			1,682,682,315,694

3.2 Balance Sheets as of 31 December 2019 and 2018

ASSETS	Note No.	2019	2018
1. Gold	3.4.2.1	160,904,576,084	105,904,019,148
1.1 International standard		160,904,576,084	105,904,019,148
2. Foreign banknotes	3.4.2.2	22,336,577,675	18,069,286,283
3. Foreign correspondents	3.4.2.3	443,311,531,935	364,548,310,930
3.1 FX securities		200,924,502,192	129,717,482,052
3.2 Deposits		82,011,234,133	49,324,206,589
3.3 Other		160,375,795,609	185,506,622,289
4. Reserve tranche position	3.4.2.4	927,190,940	825,727,273
5. Securities portfolio	3.4.2.5	19,407,464,420	13,703,784,910
5.1 Government securities		18,425,983,850	13,372,059,760
5.2 Other		981,480,570	331,725,150
6. Lending related to monetary policy operations	3.4.2.6	14,698,175,697	109,297,097,563
6.1 Open market operations		11,527,205,625	34,940,725,173
6.2 Interbank operations		3,170,970,072	74,356,372,390
7. Domestic banks	3.4.2.7	-	6,230,499,299
8. Credits	3.4.2.8	102,640,206,006	80,982,290,104
8.1 Domestic credits		102,586,379,378	80,934,618,898
8.1.1 Rediscount credits		102,586,379,378	80,934,618,898
8.1.2 Other credits		-	-
8.2 Foreign credits		53,826,627	47,671,207
9. Share participations	3.4.2.9	1,760,394,282	1,468,826,671
10. Treasury liabilities due to SDR allocation	3.4.2.4	8,808,044,500	7,844,169,143
11. Fixed assets (Net)	3.4.2.10	621,219,640	541,978,591
12. Nonperforming loans (Net)	3.4.2.8	-	-
12.1 Nonperforming loans		9,293,901,566	8,188,811,020
12.2 Provisions to nonperforming loans (-)		-9,293,901,566	- 8,188,811,020
13. Other assets	3.4.2.11	10,597,822,044	12,083,808,730
13.1 Non-standard gold	3.4.2.1	823,825,377	688,884,578
13.2 Coins		122,160,554	83,669,894
13.3 Accrued income		86,116,658	68,490,602
13.4 Other		9,565,719,455	11,242,763,656
TOTAL		786,013,203,222	721,499,798,644

LIABILITIES	Note No.	2019	2018
1. Currency issued	3.4.2.12	153,362,376,187	132,261,722,385
2. Liabilities related to monetary policy operations	3.4.2.6	4,768,788,392	13,597,425,610
2.1 Open market operations		475,136,624	-
2.2 Interbank operations		4,293,651,768	7,306,262,137
2.3 Liquidity bills		-	-
2.4 Other		-	6,291,163,473
3. Deposits	3.4.2.13	488,704,993,198	412,279,674,358
3.1 Public sector		73,654,995,083	39,591,687,989
3.1.1 Treasury, general and special-budget administrations		73,643,384,043	39,583,629,564
3.1.2 Other		11,611,040	8,058,425
3.2. Banking sector		412,597,687,713	368,580,902,886
3.2.1 Domestic banks		184,450,123,630	189,583,160,844
3.2.1.1 Cash		175,784,874,243	162,467,878,244
3.2.1.2 Collateral		8,665,249,386	27,115,282,600
3.2.1.2.1 Cash		8,462,661,800	27,115,282,600
3.2.1.2.2 Gold	3.4.2.1	202,587,586	-
3.2.2 Foreign banks		34,123,186,173	20,316,851,259
3.2.3 Required reserves in blocked accounts		194,024,377,911	158,680,890,783
3.2.3.1 Cash		153,105,049,147	107,724,618,540
3.2.3.2 Gold	3.4.2.1	40,919,328,764	50,956,272,243
3.2.4 Other		-	-
3.3 Other deposits		2,452,310,403	4,107,083,482
3.3.1 FX deposits of nonresident citizens		2,137,782,224	2,396,693,504
3.3.2 International institutions		138,101,416	91,036,932
3.3.3 Extrabudgetary funds		175,870,210	212,338,931
3.3.4 Other		556,552	1,407,014,115
4. Foreign banks	3.4.2.3	11,967,962,527	10,614,051,729
5. Reserve tranche facility	3.4.2.4	927,190,940	825,727,273
6. SDR allocation	3.4.2.4	8,808,044,500	7,844,169,143
7. Tax obligation	3.4.2.14	11,785,825,597	10,807,347,617
7.1 Taxes payable		11,743,894,405	10,776,873,207
7.2 Deferred tax liabilities		41,931,192	30,474,410
8. Provisions	3.4.2.15	452,601,372	416,661,807
9. Capital and reserves	3.4.2.16	5,557,383,428	27,602,160,432
9.1 Paid-in capital		25,000	25,000
9.2 Inflation adjustments for capital		46,208,524	46,208,524
9.3 Reserves		5,511,149,904	27,555,926,908
10. Revaluation account	3.4.2.17	50,660,800,568	45,004,664,079
11. Profit of the period	3.4.2.20	44,732,806,743	56,279,555,434
12. Other liabilities	3.4.2.18	4,284,429,770	3,966,638,778
12.1 Treasury gold	3.4.2.1	-	114,314,724
12.2 Letters of credit		161,425,298	115,917,447
12.3 Accrued expense		24,389,256	49,467,737
12.4 Other		4,098,615,216	3,686,938,870
TOTAL		786,013,203,222	721,499,798,644
REGULATING ACCOUNTS	3.4.2.19	1,682,682,315,694	1,497,251,202,204

3.3 Profit and Loss Statements for 2019 and 2018

	Note No.	2019	2018
Interest income	3.4.2.20	30,964,836,304	30,135,305,125
Interest expense	3.4.2.20	-11,996,210,634	-12,302,501,417
Net interest income/expense		18,968,625,670	17,832,803,707
Fee and commission income	3.4.2.20	827,391,458	713,448,983
Fee and commission expense	3.4.2.20	-55,031,485	-37,264,289
Net fee and commission income/expense		772,359,973	676,184,695
Non-interest income	3.4.2.20	72,665,390,994	75,941,945,672
Non-interest expense	3.4.2.20	-36,625,358,815	-27,569,466,882
Net non-interest income/expense		36,040,032,179	48,372,478,791
Net profit/loss before tax		55,781,017,822	66,881,467,192
Tax expense		-11,048,211,079	-10,601,911,759
Tax provision		-11,051,920,643	-10,610,547,065
Deferred tax income/expense	3.4.2.14	3,709,564	8,635,306
Net profit/loss of the period		44,732,806,743	56,279,555,434

3.4 Explanations

3.4.1 Basis of Preparation of the Financial Statements

The CBRT prepares its books of account in accordance with the tax legislation and the CBRT Law No. 1211, and prepares its statutory financial statements in accordance with the Turkish Commercial Code (TCC) and the CBRT Law No. 1211.

Periodicity, full disclosure, prudence, social responsibility, economic entity, going concern, monetary unit, historical cost, neutrality and documentation, consistency, substance over form, and materiality principles, which are the underlying assumptions of accounting, constitute the basis of the CBRT's accounting practices.

Foreign currency transactions of the CBRT are converted to Turkish liras at the exchange rates prevailing on transaction dates. During the preparation of financial statements, foreign currency-denominated assets and liabilities are converted to Turkish liras using the FX and foreign currency buying rates of the CBRT applicable on the balance sheet date.

Pursuant to Article 61 of the CBRT Law No. 1211, unrealized gains and losses arising from the revaluation of gold and foreign currency due to changes in the value of the Turkish currency against foreign currencies are monitored in the "Revaluation Account" item in the assets and liabilities of the CBRT's balance sheet. In the event of realization, gains or losses are reflected in the profit and loss statement.

The financial statements are presented in Turkish liras.

3.4.1.1 Gold Reserves

The CBRT's gold reserves consist of international and non-international standard gold held at CBRT vaults, foreign banks and the BIST.

With regard to gold reserve management, the CBRT can execute transactions such as direct purchases and sales, gold custody accounts, term gold deposit transactions, FX swaps against gold and gold swaps against FX, location swaps, physical transportation of gold, etc.

Gold deposited by banks and finance companies for the maintenance of required reserves is monitored at banks abroad and the BIST.

Gold is initially recognized at prices prevailing on the recognition date, and measured at fair value in the following periods. Fair value is calculated on the last business day of the respective week and month based on the last available gold price quoted at 10.30 am in the London Bullion Market, with one ounce of gold equaling 31.1035 grams, and is reported on the balance sheet after being converted daily to Turkish liras from these revalued amounts. Fair value differences arising from both price and exchange rate differences are recognized as unrealized gains and losses in the "Revaluation Account" as per Article 61 of the CBRT Law No. 1211.

3.4.1.2 Financial Assets and Liabilities

a) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are securities in Turkish liras and foreign currency held for the purpose of liquidity management and reserve management.

Pursuant to Articles 52 (on open market operations) and 53 (on operations in gold and foreign exchange) of the CBRT Law No. 1211, securities purchased by the CBRT on its own account are classified in this group. After initial recognition, financial assets at fair value through profit or loss are revalued at their fair values at the end of each month, and gains and losses arising from revaluation are transferred to profit and loss accounts. The differences between acquisition costs and fair values of these financial assets are reflected in the "3. Foreign Correspondents" and "5. Securities Portfolio" items on the balance sheet.

Fair value is calculated based on weighted average prices that occur in the BIST for transactions with the same value date. In the absence of these prices, prices of related securities published daily in the Official Gazette by the CBRT are used for the fair value calculation. Foreign currency securities are valued at their fair value using the closing prices in related international markets at the end of each month.

Interest earned during the holding period of financial assets at fair value through profit or loss is recorded within interest income.

b) Loans

Loans extended by the CBRT are recognized when cash is advanced to borrowers. Loans are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial asset, or, where appropriate, through a shorter period, exactly to the net present value of the financial asset.

c) Participation Shares

These are initially recognized at their acquisition costs. Subsequent to the initial recognition, fair values are determined based on market prices or other valuation techniques. Unrealized gains and losses arising from changes in the fair value are monitored in "12. Other Liabilities". Dividends related to participation shares are reflected in the profit and loss statement in the period when the right to receive dividends is established.

d) Repurchase Transactions

Repurchase transactions of Turkish lira securities are undertaken within the scope of the open market operations of the CBRT. Repurchase transactions are recognized as collateralized loans. While the cash receivables are shown in item "6. Lending Related to Monetary Policy Operations / 6.1 Open Market Operations" on the asset side in the amount lent on the transaction date, securities received as collateral are monitored in regulating accounts. Interest received from banks is accrued at month ends using the effective interest method. On the maturity date, the interest income arising from the transaction is reflected in the profit and loss statement.

e) Impairment of Financial Assets

For financial assets other than those at fair value through profit or loss, the expected credit impairment model is used. Calculation of the expected credit loss is based on the transition matrix data published each year by CARs. The rate of loss given default is taken as 45% as suggested by Basel regulations. The expected credit impairment is calculated by using the amount in default, the probability of default and the rate of loss given default.

f) Derecognition of Financial Assets

The CBRT derecognizes an asset when the rights arising from the contract on the cash flow of the financial asset expire or when all risks and rewards arising from the acquisition of this asset are transferred to another party.

g) Financial Liabilities at Fair Value through Profit or Loss

The liquidity bills, which are issued by the CBRT pursuant to Article 52 of the CBRT Law No. 1211 with an aim to effectively regulate money supply and liquidity in the economy within the framework of monetary policy targets, have maturities no longer than 91 days and are tradable in the secondary markets on CBRT's own account and behalf within the scope of open market operations, are classified in this group. The CBRT recognizes liquidity bills at the issuing amount and revalues them at the end of each month, at their fair value according to the prices announced in

the Official Gazette on a daily basis. The differences between the issuing amounts and the fair values are reflected in the profit and loss statement. As of the balance sheet date, there are no liquidity bills issued by the CBRT.

h) Other Financial Liabilities

Other financial liabilities are recognized at amortized cost with interest expense calculated on an effective interest rate.

i) Reverse Repurchase Transactions

Reverse repurchase transactions are recognized as collateralized deposits. While the securities lent as collateral are shown in “5. Securities portfolio” in the assets of the balance sheet, cash debts are monitored in “2. Liabilities Related to Monetary Policy Operations / 2.1 Open Market Operations” item in the liabilities as the amount received on the transaction date. The interest paid to the banks is accrued at month ends using the effective interest method. The interest expense paid for the transaction on the maturity date is reflected on the profit and loss statement.

j) Foreign Exchange Deposits Against Turkish Lira Deposits Transactions

Foreign exchange deposits given are monitored in “7. Domestic Banks” on the asset side and TL deposits received are monitored in “2. Liabilities Related to Monetary Policy Operations / 2.4 Other” on the liability side. Interest amount collected from foreign exchange deposits and paid to TL deposits are accrued at month ends using the effective interest method. The interest income and interest expense arising from these transactions on the maturity date are recorded in the profit and loss statement.

k) TL-Settled Forward Foreign Exchange Sales

At value date, TL receivables and foreign exchange commitments are recognized under the regulating accounts. At month ends, gains and losses are monitored in and “13. Other Assets / 13.4 Other” on the asset side, respectively. TL payments/collections due to the exchange rate difference from transactions on the maturity date are reflected in the profit and loss statement.

Regarding TL-settled forward foreign exchange purchase and sale transactions at the BIST Derivatives Market (VIOP), gains and losses are reflected in the profit and loss statement on a daily basis.

l) Currency Swaps

Foreign currency payables and TL receivables due to currency swap agreements are recognized under the regulating accounts at value date and monitored in “3. Foreign Correspondents / 3.3. Other” on the asset side and “3. Deposits / 3.2 Banking Sector / 3.2.2 Foreign Banks” on the liability side, respectively. Interest collected/paid for the usages within swap agreement is accrued at month ends using the effective interest method. Interest collected/paid on maturity is recorded in the profit and loss statement.

m) Swap Transactions

Sales/purchases of assets (TL, FX or gold) related to swap transactions carried out at the CBRT and BIST are conducted at value date. Payables/receivables are recognized under the regulating accounts at the value date. At month ends, gains and losses are monitored in “12. Other Liabilities/ 12.4 Other” on the balance sheet and in the profit and loss statement. Amounts indicating gains/losses and interest arising from transactions on the maturity date are reflected in the profit and loss statement.

3.4.1.3 Income and Expenses

a) Interest Income/Expenses

As required by the periodicity principle, income and expense are accrued for the interest amounts of undue receivables and payables at month ends, and income and expense accruals are recognized for due receivables and payables whose collections or payments are going to occur in the next period.

b) Fee and Commission Income and Expense

The fee and commission income and expense, which the CBRT pays or receives as a result of the transactions with commercial banks, the Ministry of Treasury and Finance, public administrations within the scope of general budget, other individuals and institutions, are recognized as income or expense in the period of payment or receipt. Income and expense accruals are recognized for payments or collections that are going to occur in the next period.

3.4.1.4 Fixed Assets

Fixed assets consist of land, buildings and additional expenses as a part of buildings' cost, furniture and fixtures, and software products. The land in the balance sheet of the CBRT is carried at acquisition cost, while buildings, furniture and fixtures, and software are carried at cost minus accumulated depreciation in the balance sheet. The difference between the sale proceeds arising from the disposal of fixed assets and the net carrying value of the asset is recognized in the profit and loss statement. Depreciation of fixed assets, other than land, is calculated and reflected in financial statements in accordance with their useful life, specified in the Tax Procedure Law General Communiqués using the prorated depreciation method.

3.4.1.5 Currency Issued

According to the CBRT Law No. 1211, the CBRT has the exclusive privilege of issuing banknotes. The amount of banknotes issued is shown under item "1. Currency Issued" on the balance sheet of the CBRT. The CBRT can replace the banknotes in circulation with new ones when necessary. In financial statements, banknotes in circulation are presented with their nominal values.

Stocks of semi-finished banknotes printed at the CBRT's banknote printing plant are monitored at cost in "13. Other Assets". Expenses associated with banknotes are initially capitalized and are charged to the profit and loss statement upon transfer of banknotes to the auxiliary storage of the CBRT. Costs of finished and semi-finished banknotes include direct costs, depreciation costs, staff costs, transportation costs and other printing costs.

3.4.1.6 Provisions

According to Article 59 of the CBRT Law No. 1211, provisions, the amounts to be deemed appropriate by the Board, may be set aside from the gross annual profit of the Bank in order to cover certain risks which may occur in the following years due to the operations exclusive to the Bank.

3.4.1.7 Employee Benefits

Retirement pay and employee termination benefits are paid on the retirement of employees or in case of layoffs. The amount to be paid is calculated based on the title and tenure of the employee and in accordance with related laws.

Retirement pay and employee termination benefits obligation are calculated according to the net present value of obligations that are expected to arise due to the retirement of employees, and are reflected in financial statements.

3.4.1.8 Taxes

a) Current Taxes

The CBRT, established as a “joint stock company” as per Article 1 of the CBRT Law No. 1211, is a corporate taxpayer. It is responsible for withholding tax on wages, outsourcing payments, interest on deposits, etc. as per Article 94 of the Income Tax Law No. 193, and on the payments made to firms subject to limited tax liability except for commercial, agricultural and other earnings; and on payments made for the transfer or sale of intangible rights as per Article 30 of the Corporate Income Tax Law No. 5520.

The CBRT is a taxpayer of banking and insurance transactions tax.

Revaluation gains from assets and liabilities that are subject to Article 61 of the CBRT Law No. 1211 are not considered as a profit item for the year in which the revaluation is applied, and also not taken as an income item in the calculation of corporate tax base. Revaluation losses from assets and liabilities are not considered as an expense for the year in which the revaluation is applied and also not taken as a loss item in the computation of corporate tax base.

Paid temporary taxes and taxes imposed on repo-reverse repo revenues and deducted from temporary taxes are monitored in item “13. Other Assets / 13.4 Other” on the balance sheet.

The corporate tax for the current period is reflected as expense in the profit and loss statement. Tax-related adjustments during the current reporting period are booked as of the date on which they are made.

b) Deferred Taxes

Deferred tax assets and liabilities arise from the tax effect of the temporary differences between the amounts of assets and liabilities in the financial statements and their book values based on the CBRT Law and tax laws. The deferred tax asset is reflected in the assets and the deferred tax liability is reflected in the liabilities on the balance sheet.

Tax expense of the current year includes the related period’s corporate tax and the change in the deferred tax income.

Pursuant to Article 61 of the CBRT Law No.1211, the calculation of deferred taxes is not done over the “Revaluation Account”, which is not subject to the corporate tax base.

3.4.1.9 Comparative Information and Adjustment of the Financial Statements of the Preceding Year

The CBRT’s financial statements for the current year and the previous year are presented together to allow comparison of the financial position. If necessary, the comparative information is reclassified and any significant differences are explained to be compatible with the presentation of the current financial statements.

3.4.1.10 Custody Operations

Custody assets held by the CBRT on behalf of individuals and financial institutions are monitored in regulating accounts.

3.4.2 Explanations Related to Financial Statement Items

3.4.2.1 Gold

Gold holdings are composed of 553,193,013.48 net grams of gold in international standards equivalent to TRY 160,904,576,084 and 2,832,327.42 net grams of gold in non-international standards equivalent to TRY 823,825,377. While some part of the gold of international standards belongs to the CBRT, the rest is placed with the CBRT by banks to satisfy their reserve requirements. Gold holdings of international standards are stored in the vaults of the CBRT, held with the BIST and foreign correspondents.

Table 3.4.2.1.1: Gold

	2019		2018	
	Net Gram	TRY	Net Gram	TRY
Of international standards	553,193,013	160,904,576,084	488,531,099	105,904,019,148
Owned by CBRT	411,815,078	119,782,659,733	253,290,053	54,908,346,038
at BoE	5,939,153	1,727,492,715	5,939,153	1,287,492,602
at CBRT	34,015,936	9,894,050,862	33,670,645	7,299,139,491
at BIST	371,859,988	108,161,116,156	213,680,255	46,321,713,945
Reserve requirements of banks	140,681,436	40,919,328,764	234,404,638	50,814,356,190
at BoE	42,959,521	12,495,428,120	90,013,832	19,513,244,093
at BIST	97,721,915	28,423,900,645	144,390,806	31,301,112,098
Reserve requirements of financing companies	-	-	654,653	141,916,050
at BoE	-	-	654,653	141,916,050
Lent as collateral	696,500	202,587,586	-	-
At BIST	696,500	202,587,586	-	-
Owned by Treasury	-	-	181,755	39,400,869
at BIST	-	-	181,755	39,400,869
Of non-international standards	2,832,327	823,825,377	3,177,798	688,884,578
Owned by CBRT	2,832,218	823,793,533	2,832,113	613,946,990
Collection (Owned by CBRT)	109	31,844	109	23,733
Owned by Treasury	-	-	345,575	74,913,854

Note: Gold holdings are valued based on 1 ounce of gold = 31.1035 grams using the price 1,523.00 USD/Ounce (2018: 1,281.65) and USD buying rate of TRY 5.9402 as of 31 December 2019 (2018: TRY 5.2609). Accordingly, the price of 1 net gram of gold is (1,523.00 x 5.9402) / 31.1035 = TRY 290.87.

Gold holdings of international standards are held by the CBRT as part of foreign currency reserves and they account for 25.64% (2018: 22.12%) of total foreign currency reserves.

The gold deposited by banks for required reserves, which amounts to 140,681,435.79 net grams equivalent to TRY 40,919,328,764, and the gold lent as collateral, which amounts to 696,500 net grams equivalent to TRY 202,587,586 are also followed under this item.

Gold holdings of non-international standards belong to the CBRT and all are stored in the vaults of the Head Office. These are recognized in the assets of the balance sheet under “13. Other Assets”. The Treasury’s gold holdings of non-international standards, which amounted to 345,574.68 net grams equivalent to TRY 74,913,854 in 2018, had no balance in 2019.

3.4.2.2 Foreign Banknotes

As of the end of 2019, the Turkish lira equivalent of foreign banknotes kept in the vaults of the CBRT branches was TRY 22,336,577,675.

Table 3.4.2.2.1: Foreign Banknotes

	2019	2018
Foreign banknotes	22,336,577,675	18,069,286,283

3.4.2.3 Foreign Correspondents

Item “3. Foreign Correspondents”, which represents the main part of the FX reserves of the CBRT and is presented in the assets of the balance sheet, consists of FX securities carried at fair value, deposit accounts in foreign correspondents, and current accounts.

Table 3.4.2.3.1: Foreign Correspondents (Assets)

	2019		2018	
	TRY	USD Equivalent	TRY	USD Equivalent
FX Securities	200,924,502,192	33,824,534,897	129,717,482,052	24,656,899,400
Deposits	82,011,234,133	13,806,140,220	49,324,206,589	9,375,621,394
Other	160,375,795,609	26,998,383,154	185,506,622,289	35,261,385,369
Demand deposits	152,437,298,467	25,661,980,820	178,435,328,338	33,917,262,890
SDR holding account	7,935,977,193	1,335,978,114	7,070,035,653	1,343,883,300
Other	2,519,949	424,220	1,258,297	239,179
TOTAL	443,311,531,935	74,629,058,270	364,548,310,930	69,293,906,162

Balances of “4. Foreign Banks” in the liabilities of the balance sheet as of the end of 2019 and 2018 are presented below.

Table 3.4.2.3.2: Foreign Banks (Liabilities)

	2019		2018	
	TRY	USD Equivalent	TRY	USD Equivalent
Foreign Banks	11,967,962,527	2,014,740,670	10,614,051,729	2,017,535,351

3.4.2.4 Balances Arising from Turkey's Membership in the International Monetary Fund

Within the framework of the financial relations arising from Turkey's membership in the IMF, Turkey's quota paid in gold and foreign currency is represented on the balance sheet under "4. Reserve Tranche Position" under assets and "5. Reserve Tranche Means" under liabilities. SDR 37,750,000 part of this total SDR 112,775,000 was paid in gold. Turkey's IMF quota reached SDR 4,658.6 million by 18 February 2016.

Table 3.4.2.4.1: Balances Arising from Turkey's Membership in the IMF

	2019		2018	
	TRY	SDR	TRY	SDR
Assets				
Reserve tranche position	927,190,940	112,775,000	825,727,273	112,775,000
Treasury liabilities due to SDR allocation	8,808,044,500	1,071,329,729	7,844,169,143	1,071,329,729
Liabilities				
Reserve tranche facility	927,190,940	112,775,000	825,727,273	112,775,000
SDR allocation	8,808,044,500	1,071,329,729	7,844,169,143	1,071,329,729

SDR 112,307,000, which was allocated to Turkey by the IMF and used by the Ministry of Treasury and Finance, and the General and Special SDR Allocation in the amount of SDR 959,022,729 are monitored under "10. Treasury Liabilities due to SDR Allocations" under assets, and "6. SDR Allocation" under liabilities.

3.4.2.5 Securities

By end-2019, the fair value of securities was TRY 19,407,464,420.

Table 3.4.2.5.1: Securities

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Government bonds and Treasury bills issued by the Ministry of Treasury and Finance	16,197,760,700	18,425,983,850	13,884,021,970	13,372,059,760
Lease Certificates issued by the Ministry of Treasury and Finance Asset Leasing Company	889,822,820	981,480,570	326,810,540	331,725,150
TOTAL	17,087,583,520	19,407,464,420	14,210,832,510	13,703,784,910

3.4.2.6 Lending and Liabilities Related to Monetary Policy Operations

The “6. Receivables Related to Monetary Policy Operations” item on the assets of the balance sheet, which represents cash receivables of the CBRT, had a balance of TRY 14,698,175,697 as of the end of 2019. The income accruals reflected in this item are TRY 4,872,306 for repurchase agreements (2018: TRY 100,419,439) and TRY 4,303,406 for Interbank Money Market operations (2018: TRY 196,678,242).

The “2. Liabilities Related to Monetary Policy Operations” item on the liabilities of the balance sheet, which represents cash debts of the CBRT, had a balance of TRY 4,768,788,392. The expense accruals reflected in this item are TRY 136,624 for reverse repurchase agreements (2018: Null) and TRY 1,251,768 for Interbank Money Market operations (2018: TRY 4,562,137). FX deposits against TL deposits operations did not show a balance as of 31.12.2019.

Table 3.4.2.6.1: Lending/Liabilities Related to Monetary Policy Operations

	2019	2018
Assets		
Lending/Receivables Related to Monetary Policy Operations	14,698,175,697	109,297,097,563
Open Market Operations	11,527,205,625	34,940,725,173
Interbank Money Market Operations	3,170,970,072	74,356,372,390
Liabilities		
Liabilities Related to Monetary Policy Operations	4,768,788,392	13,597,425,610
Open Market Operations	475,136,624	-
Interbank Money Market Operations	4,293,651,768	7,306,262,137
Other	-	6,291,163,473
Receivables Related to Monetary Policy Operations (Net)	9,929,387,305	95,699,671,953

3.4.2.7 Domestic Banks

The “7. Domestic Banks” item represents FX deposit operations with the CBRT as counterparty, FX deposit operations intermediated by the CBRT, and foreign exchange deposits against Turkish lira deposits operations. The domestic banks item had no balance as of 31 December 2019 (2018: TRY 6,230,499,299).

Table 3.4.2.7.1: Domestic Banks

	2019	2018
FX deposits against Turkish lira deposits	-	6,230,499,299
TOTAL	-	6,230,499,299

3.4.2.8 Credits and Claims under Legal Proceedings

Domestic credits, which are extended to banks against rediscounted bills, consist of USD 6,850,762,441 (2018: USD 6,841,369,399), EUR 9,312,705,782 (2018: EUR 7,482,368,624), GBP 27,468,475 (2018: GBP 29,972,474), JPY 345,600,000 (2018: JPY 76,000,000), CNY 17,130,899 (2018: CNY 36,165,706) equivalent to TRY 102,876,835,012 (2018: TRY 81,326,052,136). The year-end balance of domestic credits including accruals is TRY 102,586,379,378 (2018: TRY 80,934,618,898.)

Foreign credits consist of credits extended to the Central Bank of Sudan. In accordance with the Banking Agreement between the CBRT and the Central Bank of Sudan, foreign credits that were extended amount to USD 9,061,417 (2018: USD 9,061,417) equivalent to TRY 53,826,627 (2018: TRY 47,671,207)

Table 3.4.2.8.1: Credits and Claims under Legal Proceedings (TRY)

	2019	2018
Domestic Credits	102,586,379,378	80,934,618,898
Foreign Credits	53,826,627	47,671,207
Claims under Legal Proceedings (Net)	-	-
Claims under Legal Proceedings	9,293,901,566	8,188,811,020
Provisions for Claims under Legal Proceedings	-9,293,901,566	-8,188,811,020
TOTAL	102,640,206,006	80,982,290,104

NOTE: Interest accrued to the claims on the Central Bank of Iraq is USD 8,035,364 (2018: USD 7,336,311) equivalent to TRY 45,682,063 (2018: TRY 36,045,032)

The claims on the Central Bank of Iraq are TRY 8,743,990,667 (2018: TRY 7,701,785,962) equivalent to USD 1,472,002,738 (2018 USD 1,463,967,375). The total of claims arising from the credit extended against bills for the Iraq Bekhme Dam Project is TRY 549,910,899 (2018: TRY 487,025,058) equivalent to USD 92,574,475 (2018: USD 92,574,475). The principal of and the monthly interest accrued on the amount of the loan extended to the Central Bank of Iraq are valued on a daily basis and a provision is set aside for the resulting exchange rate difference as per Article 323 of the Tax Procedure Law No. 213. These provisions are tracked in profit-loss accounts. As the claim amounting to TRY 9,293,901,566 was netted with the provision, the Non-Performing Loans item had no balance as of 31.12.2019.

3.4.2.9 Share Participations

The CBRT has share participations in the BIS, SWIFT (Society for Worldwide Interbank Financial Telecommunications) and the IILM (International Islamic Liquidity Management Corporation).

The share participation in the BIS, which was acquired under the scope of central banking activities, is recognized at fair value calculated as 70% of the net asset value of the BIS.

Table 3.4.2.9.1: Share Participations

Participation	Nature of Business	2019			2018		
		Ownership (%)	TRY	Foreign Currency	Ownership (%)	TRY	Foreign Currency
BIS	Banking regulation services	1.43	1,700,705,508	SDR 10,000,000	1.43	1,415,968,835	SDR 10,000,000
SWIFT	Electronic fund transfer services	0.007	286,774	EUR 43,120	0.007	248,836	EUR 41,280
IILM	Liquidity management	13.33	59,402,000	USD 10,000,000	13.33	52,609,000	USD 10,000,000
	TOTAL		1,760,394,282			1,468,826,671	

Movements in share participations are shown below:

Table 3.4.2.9.2: Movements in Share Participations

	2019	2018
Balance on 1 January	1,468,826,671	1,064,813,130
Fair value changes	291,567,611	404,013,541
Balance on 31 December	1,760,394,282	1,468,826,671

3.4.2.10 Fixed Assets (Net)

The CBRT's fixed assets consist of land, buildings, furniture, fixtures and software products.

Table 3.4.2.10.1: Movements in Fixed Assets

	Land and Buildings	Furniture and Fixtures	Software	TOTAL
Net book value on 1 January	377,084,638	137,061,565	27,832,388	541,978,591
Additions	42,175,989	90,328,879	21,188,276	153,693,144
Disposals (net) (*)	-8,920,572	-272,062	-	-9,192,634
Depreciation charge	-7,734,524	-46,891,179	-10,633,759	-65,259,462
Net book value on 31 December	402,605,531	180,227,203	38,386,906	621,219,640

(*) Disposals are shown net of accumulated depreciation.

2019	Land and Buildings	Furniture and Fixtures	Software	TOTAL
Book value	576,092,613	402,676,617	89,275,567	1,068,044,797
Accumulated depreciation	-173,487,082	-222,449,414	-50,888,661	-446,825,157
Net book value	402,605,531	180,227,203	38,386,906	621,219,640
2018	Land and Buildings	Furniture and Fixtures	Software	Total
Book value	542,837,195	323,882,063	69,102,499	935,821,757
Accumulated depreciation	-165,752,557	-186,820,498	-41,270,111	-393,843,166
Net book value	377,084,638	137,061,565	27,832,388	541,978,591

3.4.2.11 Other Assets

Table 3.4.2.11.1: Other Assets

	2019	2018
Gold of non-international standard	823,825,377	688,884,578
Coins	122,160,554	83,669,894
Income accruals	86,116,658	68,490,602
Charges and commissions due from the Treasury	47,236,207	32,608,323
EFT fees	27,522,275	20,677,860
Other	11,358,176	15,204,419
Other	9,565,719,455	11,242,763,656
Prepaid taxes to be deducted from corporate tax	6,074,105,823	7,222,981,210
Income tax withholding to be deducted from corporate tax	79,199,921	502,021,428
Depots	92,261,261	71,981,094
Prepaid expenses	3,781,891	3,889,674
Other	3,316,370,558	3,441,890,250
TOTAL	10,597,822,044	12,083,808,730

3.4.2.12 Currency Issued

Table 3.4.2.12.1: Currency Issued

	2019	2018
Balance on 1 January	132,261,722,385	131,457,662,382
Banknotes put in circulation	62,303,350,732	48,951,300,434
Banknotes withdrawn, and destroyed banknotes	-41,202,696,930	-48,147,240,431
Balance on 31 December	153,362,376,187	132,261,722,385

The total balance of banknotes in circulation at the end of-2019 was TRY 153,362,376,187.

3.4.2.13 Deposits

Table 3.4.2.13.1: Deposits

	2019	2018
Public sector deposits	73,654,995,083	39,591,687,989
Treasury, general and special budget administrations	73,643,384,043	39,583,629,564
Other	11,611,040	8,058,425
Banking sector deposits	412,597,687,713	368,580,902,886
Domestic banks	184,450,123,630	189,583,160,844
Deposits of banks	9,048,542,622	27,963,987,094
Cash	383,293,235	848,704,494
Collaterals	8,665,249,386	27,115,282,600
Cash	8,462,661,800	27,115,282,600
Gold	202,587,586	-
Free required reserves	175,401,581,008	161,619,173,750
Foreign correspondents	34,123,186,173	20,316,851,259
Required reserves in blocked accounts	194,024,377,911	158,680,890,783
Cash	153,105,049,147	107,724,618,540
Gold	40,919,328,764	50,956,272,243
Other deposits	2,452,310,403	4,107,083,482
Deposits by citizens abroad	2,137,782,224	2,396,693,504
Deposits by international institutions	138,101,416	91,036,932
IMF	95,790,468	67,975,325
Other	42,310,948	23,061,607
Extra budgetary funds	175,870,210	212,338,931
Other	556,552	1,407,014,115
Financing companies	44,266	1,406,364,250
Deposits by embassies	6,270	5,758
Other	506,016	644,107
TOTAL	488,704,993,198	412,279,674,358

3.4.2.14 Tax Liability

The CBRT is subject to corporate tax. The amount of corporate tax to be charged on taxable corporate income is calculated over the tax base generated by adding non-deductible expenses to the profit and deducting non-taxable income and allowances.

Table 3.4.2.14.1: Taxes to be Paid

	2019	2018
Corporate tax	11,051,920,643	10,610,547,065
Other taxes	691,973,763	166,326,142
Obligations as a taxpayer	544,593,009	36,476,712
Obligations as withholding tax collector	147,380,754	129,849,430
TOTAL	11,743,894,405	10,776,873,207

The effective corporate tax rate in 2019 was 22% (2018: 22%). In Turkey, the advance tax is calculated and accrued on a quarterly basis. Advance corporate income tax rate applied in 2019 was 22% (2018: 22%).

For temporary differences arising from the differences in the provisions of the TCC and the tax legislation, deferred tax asset or liability is calculated over the effective corporate tax rate of 22% (2018: 22%).

The breakdown of temporary differences and the resulting deferred income tax assets / liabilities as of the end of 2019 is as follows:

Table 3.4.2.14.2: Temporary Differences and Deferred Income Tax Assets/Liabilities

	2019		2018	
	Total Temporary Differences	Deferred Tax Assets/Liabilities	Total Temporary Differences	Deferred Tax Assets/Liabilities
Total assets	214,026,051	47,085,731	197,167,415	43,376,831
Retirement pay and employment termination benefit obligations	209,545,034	46,099,908	173,605,469	38,193,203
Depreciation adjustment for fixed assets	4,481,017	985,824	23,561,946	5,183,628
Total liabilities	-1,618,489,508	-89,016,923	-1,342,749,835	-73,851,241
Fair value adjustment of the BIS participation share	-1,618,489,508	-89,016,923	-1,342,749,835	-73,851,241
Net Assets/Liabilities	-1,404,463,457	-41,931,192	-1,145,582,419	-30,474,410

Table 3.4.2.14.3: Deferred Tax Asset / Liability Movements

	2019	2018
Balance on 1 January	-30,474,410	-13,916,694
Deferred tax related to profit and loss statement (net)	3,709,564	8,635,306
Deferred tax related to other liability accounts	-15,166,346	-25,193,021
Balance on 31 December	-41,931,192	-30,474,410

3.4.2.15 Provisions**Table 3.4.2.15.1: Provisions**

	2019	2018
Retirement pay and employment termination benefit provisions	209,545,034	173,605,469
Insurance provision for money in transit	243,056,337	243,056,337
TOTAL	452,601,372	416,661,807

The 2019 year-end balance of the insurance provision for the money in transit, which is set aside pursuant to Article 59 of the CBRT Law No. 1211, is TRY 243,056,337.

As per the Turkish Labor Law No. 1475 and the Pension Fund Law No. 5434, employers are obliged to pay retirement pay or employment termination benefits to their employees whose contracts have expired, and who are eligible to retire with a right to receive retirement and employment termination benefits.

Provisions for retirement pay and employment termination benefits are calculated by estimating the present value of the prospective future obligation of the CBRT arising from the retirement of its employees. Accordingly, the actuarial assumptions used in calculating total liabilities are presented below.

The principal actuarial assumption is that the maximum liability for each year of service will increase in tandem with the inflation rate. Therefore, the discount rate applied represents the expected real rate adjusted for future inflation effects. For this reason, provisions in the financial statements as of the end of 2019 have been calculated by estimating the present value of the prospective future liability arising from retiring employees.

The ceiling amount of termination benefit is revised every six months. While calculating the provision for the termination benefit obligation of the CBRT's employees, the ceiling amount of TRY 6,380 (2018: TRY 5,434) that took effect as of 1 July 2019 was taken into account.

The change in the retirement pay and employment termination benefit obligations is shown below:

Table 3.4.2.15.2: Change in Retirement Pay and Employment Termination Benefit Liabilities

	2019	2018
Provision by 1 January	173,605,469	143,394,309
Provision set aside	40,895,614	32,553,264
Retirement pay and employment termination benefit paid	-4,956,049	-2,342,103
Provision by 31 December	209,545,034	173,605,469

3.4.2.16 Capital and Reserves

The CBRT's total capital is TRY 25,000 and it is divided into 250,000 registered shares, each with a value of TRY 0.10.

Table 3.4.2.16.1: Capital and Reserves

	2019	2018
Paid-in capital	25,000	25,000
Inflation adjustment for paid-in capital	46,208,524	46,208,524
Reserves	5,511,149,904	27,555,926,908
Reserves	5,349,978,340	27,394,755,344
Special reserves	161,171,564	161,171,564
TOTAL	5,557,383,428	27,602,160,432

Pursuant to Article 6 of the Law No.7186 on Amendments to the Income Tax Law and Other Laws that took effect on the date of publication (19 July 2019) in the Official Gazette No. 30836 (reiterated) and pursuant to Provisional Article 12 of the CBRT Law No. 1211, all of the accumulated reserve funds plus all of the accumulated extraordinary reserve funds excluding the portion earmarked from last year's profit, totaling TRY 40,769,701,569.60 was transferred to the Ministry of Treasury and Finance.

In line with the decision taken at the CBRT Shareholders Extraordinary General Assembly Meeting on 20 January 2020, the entirety of the reserve funds earmarked from the profit of 2018, totaling TRY 5,349,978,340.19 was distributed along with the profit.

The shareholders of the CBRT by the end of 2019 and 2018 are as follows:

Table 3.4.2.16.2: Shareholders of the CBRT

	2019		2018	
	Share (TRY)	Share (%)	Share (TRY)	Share (%)
Ministry of Treasury and Finance	13,780	55.12	13,780	55.12
T.C. Ziraat Bankası	4,806	19.22	4,806	19.22
Mervak İç ve Dış Ticaret A.Ş.	1,280	5.12	1,280	5.12
Türkiye Garanti Bankası	621	2.48	621	2.48
Türkiye İş Bankası	582	2.33	582	2.33
Türkiye Halk Bankası	277	1.11	277	1.11
Yapı ve Kredi Bankası	139	0.56	139	0.56
Akbank	8	0.03	8	0.03
Türk Ekonomi Bankası	2	0.01	2	0.01
ING Bank	5	0.02	5	0.02
Other	3,500	13.99	3,500	13.99
Paid-in Capital	25,000	100,00	25,000	100,00

3.4.2.17 Revaluation Account

Table 3.4.2.17.1: Revaluation

	2019	2018
Revaluation account	50,660,800,568	45,004,664,079

This item, which shows the unrealized gains and losses, arising from the valuation of gold, FX and banknotes, other assets and obligations in terms of foreign currency in the asset and liabilities of the CBRT due to changes in the value of the Turkish lira against the foreign currencies and changes in gold prices in international markets, had a balance of unrealized gain amounting to TRY 50,660,800,568 at the end of the year.

3.4.2.18 Other Liabilities

Table 3.4.2.18.1: Other Liabilities

	2019	2018
Treasury Gold	-	114,314,724
Letters of Credit	161,425,298	115,917,447
Expense accruals	24,389,256	49,467,737
Other	4,098,615,216	3,686,938,870
Difference arising from accounting policy changes	1,532,030,163	1,271,444,770
Blocked accounts as per the decisions of tax offices and courts	5,554,516	5,523,264
Amounts to be debited to foreign correspondent accounts on next year's value date	367,411,413	182,045,309
Other	2,193,619,124	2,227,924,999
TOTAL	4,284,429,770	3,966,638,778

3.4.2.19 Regulating Accounts

Regulating accounts, which are expressed in terms of Turkish lira, FX and units, had a balance of 1,682,682,315,694 (2018: 1,497,251,202,204) at the end of 2019. The nominal value of the securities received from banks as collateral for repurchase agreements was TRY 8,177,300,161 (2018: TRY 30,326,643,778); the fair value of these securities was TRY 11,592,471,455 (2018: TRY 34,917,974,858), whereas they are shown in their nominal values under regulating accounts.

3.4.2.20 Profit/Loss Accounts

Table 3.4.2.20.1: Profit / Loss Statement

	2019	2018
NET INTEREST INCOME/EXPENSE	18,968,625,670	17,832,803,707
Interest Income	30,964,836,304	30,135,305,125
TL and FX securities portfolio	3,733,945,327	5,070,791,093
Securities purchased under agreements to resell	6,056,497,894	11,713,015,184
Interbank money market operations	7,628,826,996	11,356,862,149
Credits	985,519,059	605,204,985
Banks	12,560,047,029	1,389,431,714
Interest Expenses	-11,996,210,634	-12,302,501,417
FX deposits by citizens abroad	-33	-7,394
Securities sold under agreements to repurchase	-34,025,309	-18,208,996
Interbank money market operations	-1,010,999,739	-381,565,836
Ministry of Treasury and Finance accounts	-5,029,130,606	-4,296,484,972
IMF general resource account (GRA) charges	-84,213,618	-68,391,037
TL required reserves	-2,192,276,758	-2,408,331,065
FX required reserves	-749,009,712	-1,802,137,545
Banks	-2,896,554,859	-3,327,374,573
NET FEE AND COMMISSION INCOME/EXPENSES	772,359,973	676,184,695
Fee and Commission Income	827,391,458	713,448,983
EFT transaction fees and commissions	403,160,771	353,690,326
Commissions to be due from the Ministry of Treasury and Finance	325,389,331	237,905,409
Commission and maintenance fees due from banks	54,444,229	85,646,269
Other fund transfer fees	4,074,004	3,095,660
Fees charged to banks within the context of CMS	40,076,976	32,663,555
Other	246,147	447,764
Fee and commission expenses	-55,031,485	-37,264,289
Commission and maintenance fees paid to banks	-54,145,404	-36,318,246
Other	-886,081	-946,042
NET NON-INTEREST INCOME/EXPENSE	36,040,032,179	48,372,478,791
Non-Interest Income	72,665,390,994	75,941,945,672
Profit on purchase and sale of FX	45,039,037,963	71,655,717,880
Securities portfolio trading income and increase in fair value	3,215,466,397	189,295,750
Dividend income	14,429,106	11,631,728
Other	24,396,457,529	4,085,300,314
Non-Interest Expenses	-36,625,358,815	-27,569,466,882
Loss on purchase and sale of FX	-5,632,188,130	-5,006,626,881
Securities portfolio trading loss and decrease in fair value	-1,126,274,899	-1,666,929,325
Provision expenses for claims under legal proceedings	-1,105,090,546	-2,345,362,647
Wages and salaries	-954,076,364	-766,355,162
Social security costs	-129,205,169	-93,888,834
Operating expenses	-188,336,750	-174,594,461
Banknote paper and ink expenses	-185,839,916	-151,586,286
Depreciation charges	-65,676,997	-55,021,468
Other	-27,238,670,044	-17,309,101,818
PROFIT BEFORE TAX	55,781,017,822	66,881,467,192
DEFERRED TAX INCOME/EXPENSE	3,709,564	8,635,306
REPORTED PROFIT OF THE PERIOD	55,784,727,386	66,890,102,499

3.4.2.21. Profit Distribution

Paragraph 5 of Article 64 of the TCC No. 6102 amended with Law No. 6335 stipulates that natural and legal persons, who are subject to the TCC, are also obliged to conform to the provisions of the Tax Procedure Law No. 213 concerning book keeping and recording time as well as the regulations made based on the powers given by Article 175 and the repeated Article 257 of the same law. According to the aforementioned paragraph, provisions of the Law No. 6102 concerning book keeping, inventory, financial statement preparation, capitalization, provisions, accounts, valuation, maintenance and submission do not impede the implementation of Law No. 213 and the related provisions of other tax laws, nor do they impede the determination of the tax base in compliance with tax laws and the preparation of related financial statements.

The profit of the CBRT for the 2019 period is TRY 55,761,948,959 and it has been stated in its accounting books kept according to the provisions of the Tax Procedure Law No. 213. Taking into account Article 60 of the CBRT Law No. 1211, and the provisions of Article 64 of the TCC No. 6102 amended with Law No. 6335, distribution of the profit shall be made as follows:

Table 3.4.2.21.1: Distribution of Profit (Article 60 of Law No. 1211)

	2019	2018
Reported profit of the period (TCC No. 6102)	55,784,727,386	66,890,102,499
Reporting adjustments	22,778,427	15,371,371
Profit to be distributed (Tax Procedure Law No. 213)	55,761,948,959	66,874,731,127
Tax provisions (-)	11,051,920,643	10,610,547,065
Corporate income tax	11,051,920,643	10,610,547,065
Profit after tax	44,710,028,316	56,264,184,062
Other distributions (-)	5,600,488,157	18,745,588,199
1-Reserves	5,576,194,746	18,724,924,566
2-Shareholders	3,000	3,000
First dividends	1,500	1,500
Second dividends	1,500	1,500
3-Bonus to the personnel (Article 60/c)	24,290,411	20,660,634
The amount to be transferred to the Ministry of Treasury and Finance	39,109,540,159	37,518,595,863

As per the decision made at the Extraordinary General Assembly Meeting of the CBRT held on 20 January 2020, an advance dividend totaling TRY 35,198,588,843.36 was paid to shareholders and the paid amount will be set off during profit distribution.

3.5 Explanations on Operating Expenses

The table below shows the distribution of operating expenses incurred for the operational activities of the Bank in the last two years on the basis of the current expenditure items in real (2003) prices.

Table 3.5.1: Distribution of Expenses (with 2003 prices)

	2019 (TRY)	2018 (TRY)	Change (%)
I- Personnel Expenses	259,012,130	236,900,240	9
II- Other Expenses	45,031,233	48,081,091	-6
III- Banknote Printing Expenses	44,434,241	41,744,932	6
TOTAL	348,477,604	326,726,263	7

In 2019 while personnel expenses and banknote printing expenses increased, other expenses decreased compared to 2018.

- **Personnel expenses:** These expenses cover salaries, fringe benefits, social security payments, social benefits, health and education expenses, travel allowances and outsourcing expenses. The number of Bank staff increased by 2% to 3,890 in 2019 from 3,820 in 2018. Compared to 2018, there was a 9% increase in personnel expenses in real terms. In 2019, the total amount of gross salaries paid to the senior management of the Bank, comprising the Board, the Executive Committee, the MPC and the Auditing Committee members was TRY 11,199,953.
- **Other expenses:** There was a 6% decrease compared to 2018. This decrease stemmed from the decrease in Consulting and Research Expenses, Expenses of Money in Transit, Rent Expenses, Communication Expenses, Taxes, Duties and Charges, Social Expenses, and Representative Office Expenses.
- **Banknote printing expenses:** There was a 6% increase in 2019 due to the rise in banknote production amount and the rise in exchange rates.

While performing the main duties assigned to it by the Bank's Law such as issuing banknotes, determining the monetary policy, achieving price stability and managing FX reserves of the country and keeping up with technological developments, the Bank prepares its budget adhering to the principle of frugality in both operating expenses and investment expenditures.

3.6 Audit at the CBRT and Audit Reports

3.6.1 Audit at the CBRT

Audits Conducted by the Internal Organs of the CBRT

In accordance with Article No. 15 of the CBRT Law, the General Assembly examines and resolves whether to approve the Annual Report submitted by the Board of the Bank, the report of the Auditing Committee, the CBRT's balance sheet and the income statements. In this way, the General Assembly completes the monitoring of the activities of the Bank every year by discharging the Board of the Bank and the Auditing Committee.

On the other hand, in accordance with Article No. 24 of the CBRT Law, the Auditing Committee audits all the operations and accounts of the CBRT and submits to the General Assembly a report to be drawn up on operations and accounts of the Bank at the end of the year. With the authorization entrusted by the CBRT Law, the Auditing Committee submits its written opinions to the Board and also presents a copy thereof to the President.

According to Article No. 64 of the Main Regulation on Organization and Duties of the CBRT, the authority and responsibility for auditing the Bank's transactions are entrusted with the Audit Department.

Article No. 64 of the Main Regulation on the Organization and Duties of the CBRT gives the authority and responsibility for auditing the Bank's transactions to the Audit Department.

Within the scope of the authorities and duties granted by the CBRT Law No. 1211 as well as other legislation, the Audit Department has the duty and authority to conduct audits, examinations and research, and also to carry out investigations and consulting services when needed in the departments, branches and representative offices of the CBRT and also at institutions and organizations other than the Bank.

According to Article No. 6 of the "Audit Regulation of CBRT", audits carried out can be classified into four activities: internal audit, investigation, examination and consultancy, and external audit activities.

According to Article No. 37 of the "Audit Regulation of the CBRT", one or several of the operational, financial, compliance and information systems audits are conducted simultaneously in all departments, branches and representative offices of the CBRT.

Within the scope of the external audit function, banks and financing institutions operating in Turkey are audited to ensure that the liabilities subject to reserve requirements are calculated, the maximum and the weighted average interest rates/profit-loss participation rates are reported, variable interest products and deposits are managed in compliance with regulations related to maturities and types of instruments; that the variable interest rate housing loan contracts are lawful; the incompliance with the credit card regulations and the controls regarding reporting of credit cards, the closure of export rediscount credit accounts, credit cards and overdraft accounts, announced interest rates, actual maximum interest rates, KT (the weighted average interest rates and amounts for credits in TL) and MT (the weighted average interest rates and amounts for credits in TL) forms are in conformity with Trial Balance; and International Bank Account Number (IBAN) applications comply with the relevant regulations, instructions and circulars. In 2019, the Audit Department conducted external audits in 21 banks and 6 financing institutions.

The Audit Department has a total of 65 staff and is composed of 12 chief inspectors, 5 chief auditors, 27 inspectors, 1 auditor, 1 information technologies auditor, 3 authorized assistant auditors, 2 assistant information technologies auditors, 7 assistant auditors and 7 assistant information technologies auditor.

The “Follow-up of Audit Results” activities, which are designed to monitor whether the necessary actions are taken regarding the issues in the audit reports, to inform and receive the opinions of the Board, the Auditing Committee and the Executive Committee, were held in June and December 2019.

Audits Conducted by External Parties

In accordance with Article No. 42 of the CBRT Law, the Governor submits to the Council of Ministers a report on the operations of the Bank and the current and future monetary policy, in April and October each year. The CBRT furnishes information regarding its operations to the Committee on Plan and Budget of the Grand National Assembly of Turkey twice a year.

In accordance with the second paragraph of Article 42 of the CBRT Law, the CBRT may assign external auditors to audit the balance sheet and the income statements of the Bank. Believing that independent external audit activities are one of the most effective instruments with respect to the transparency and accountability principles adopted by central banks operating in compliance with international standards, the CBRT first started to receive external audit services in 2000. The reports prepared at the end of the audit engagements each year are made public via the CBRT’s website.

In addition to these audits mentioned above, the Ministry of Treasury and Finance, the State Supervisory Council, the Turkish Court of Accounts, certain ministries and other authorized government agencies may conduct audits via their auditors at the CBRT on the issues related to their duties, if necessary.

3.6.2 The Report of the Auditing Committee

CENTRAL BANK OF THE REPUBLIC OF TURKEY JOINT STOCK COMPANY 2019 AUDITING COMMITTEE REPORT FOR THE EIGHTY-EIGHTH ACCOUNTING YEAR

The Auditing Committee has audited the activities and resulting statements of the 2019 Accounting Year of the Central Bank of the Republic of Turkey within the framework of the provisions of the related legislation, and concluded that:

1. Gold holdings, and cash, foreign exchange banknotes, coins and securities in the service and reserve vaults of the Head Office and Branches, which were subject to audit and stock-taking during the accounting year, are in conformity with the accounting records as well as the inventory records, and these values are kept and administered in accordance with the regulations and instructions.
2. The conformity of books related to the Bank's accounts with accounting records was examined and it was ascertained that: the records were kept in a timely and orderly manner, properly and per legislation, and that the Bank's operations were in conformity with the Central Bank Law.
3. The balance sheet dated 31.12.2019 and the Income Statement for the period between 01.01.2019-31.12.2019 are in compliance with the Turkish Commercial Code and the Central Bank Law.
4. The financial statements compiled to present the financial position of the Central Bank of the Republic of Turkey on 31.12.2019 and the results of activities relating to the same accounting year that ended on the same date are presented in an accurate, correct and clear manner pursuant to the legislation in force in Turkey and the Central Bank Law.
5. The trial for the legal liability lawsuit filed by the Bank continues.
6. The decisions, dissents and abstaining votes of the Board have been deliberated and no action was deemed necessary.

In conclusion, we hereby submit the "Balance Sheet" and the "Income Statement" dated 31.12.2019 for approval of the General Assembly.

Ankara, 28/02/2020

Mehmet BABACAN
Auditing Committee Member

Mehmet KAYA
Auditing Committee Member

Mehmet Murat ÖZDİL
Auditing Committee Member

Hayrettin KURT
Auditing Committee Member

3.6.3 Independent Audit Report Drawn up in Compliance with the Central Bank Law and Related Legislation*

Independent Auditors' Report

To the Board of the Central Bank of the Republic of Turkey
Ankara

Audit of the Financial Statements

Opinion

We have audited the financial statements of the Central Bank of the Republic of Turkey ("the Bank"), which comprise the balance sheet as at 31 December 2019, the statements of profit or loss, changes in equity and cash flows for the year then ended, and notes, to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation (Note I. A. (2)).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We declare that we are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Turkey. We have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Bank management is responsible for the preparation and fair presentation of the financial statements in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation (Note I. A. (2)), and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless General Assembly either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Additional paragraph for convenience translation to English:

The accounting principles summarized in (Note I. A. (2)), differ from the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of **KPMG International Cooperative**

Erdal Tıkmak, SMMM
Partner

Istanbul, 27 February 2020

* The full text of the Report is accessible at the Bank's web site (www.tcmb.gov.tr), under About the Bank / Organization / Independent Audit Reports

3.6.4 Independent Audit Report Drawn up in Compliance with IFRS^(*)

Independent Auditors' Report

To the Board of the Central Bank of the Republic of Turkey
Ankara

Audit of the Financial Statements

Opinion

We have audited the financial statements of the Central Bank of the Republic of Turkey ("the Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We declare that we are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

As mentioned in Note 3.a, US Dollar amounts presented in the accompanying financial statements are translated from TL at the official US Dollar bid rates announced by the Bank at 31 December 2019 and 2018 for the statement of financial position; and the average of daily official US Dollar bid rates announced by the Bank for the years ended 31 December 2019 and 2018 for the statement of profit or loss, and they do not form part of these financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Bank management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless General Assembly either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of **KPMG International Cooperative**

Erdal Tıkmak, SMMM
Partner

Istanbul, 27 February 2020

* The full text of the Report is accessible at the Bank's web site (www.tcmb.gov.tr), under About the Bank / Organization / Independent Audit Reports

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