



## **SCREENING CHAPTER 17 ECONOMIC AND MONETARY POLICY**

### **AGENDA ITEM IV: LEGAL INDEPENDENCE**

**Country Session: The Republic of TURKEY  
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## I. ESTABLISHMENT

- The Central Bank of the Republic of Turkey (CBRT) was established in 1930
- In that period main laws of the Turkish legal system were enacted with the adoption and codification of European laws. Likewise, the CBRT Law was mainly received from the Netherlands
- Even in 1930 the main objective of the CBRT Law was to establish an “independent” Central Bank



## II. LEGAL BASIS

- Presently governed by Law No.1211 adopted in 1970
- Established as a joint-stock company, with the exclusive privilege of issuing banknotes
- The share-holders of the CBRT are the Treasury (54 %), banks, commercial institutions and other legal and natural persons



## III. MAIN DECISION-MAKING BODIES

**A- General Assembly**

**B- Board**

**C- Monetary Policy Committee**

**D- Executive Committee**



## III. MAIN DECISION-MAKING BODIES

### A- GENERAL ASSEMBLY

- Meeting of the shareholders
- A governing body of the CBRT which exists as a result of its joint-stock nature
- Convenes once a year, in April
- Chaired by the Governor
- Elects the Board and the Auditing Committee members (Auditing Committee members are appointed for 2 years)



## III. MAIN DECISION-MAKING BODIES

### B- BOARD

- Decision-making body, which fulfils the same duties of the “executive board” of a company,
- The Board has full authority and control over the CBRT and deals with all the operations concerning the Bank with the exception of those assigned to the Monetary Policy Committee,
- In practice, the Board delegates its powers/duties to the Executive Committee and to related Departments,
- Composed of the Governor and six members elected by the General Assembly,



## III. MAIN DECISION-MAKING BODIES

### C- MONETARY POLICY COMMITTEE

- Consists of the Governor, Vice Governors, a Board member and a member appointed by a joint decree (bearing the signature of the President of the Republic in addition to the signatures of the Prime Minister and the Minister in charge of Economic Affairs)
- Chaired by the Governor
- Treasury may be represented in the meetings in a non-voting capacity
- Convenes at least once a month





### III. MAIN DECISION-MAKING BODIES

#### Duties and Powers of the Monetary Policy Committee:

- to determine the principles and strategy of monetary policy in order to achieve and maintain price stability
- to determine the inflation target together with the Government
- to provide information to the public and to the Government by preparing reports regarding monetary policy targets and its implementation
- to take necessary measures to protect the value of Turkish Lira and to establish the exchange rate regime jointly with the Government



## III. MAIN DECISION-MAKING BODIES

### D- EXECUTIVE COMMITTEE

- Composed of Vice Governors under the chairmanship of the Governor
- Prepares proposals to be submitted to the Board, ensures the coordination in the operations of the CBRT
- Takes decisions on all issues where the authority has been delegated by the Board



## IV. OBJECTIVES

- The primary objective of the CBRT is to achieve and maintain price stability
- The CBRT supports the growth and employment policies of the Government without prejudice to its primary objective



## V. INDEPENDENCE

- A- INSTITUTIONAL INDEPENDENCE
- B- OPERATIONAL INDEPENDENCE
- C- PERSONAL INDEPENDENCE
- D- FINANCIAL INDEPENDENCE



## V. INDEPENDENCE

### A- INSTITUTIONAL INDEPENDENCE

Defined in Article 4 of Law No.1211 (corresponding to Article 108 of the EC Treaty and Article 7 of the Statute):

*“The Bank shall enjoy absolute autonomy in exercising the powers and carrying out the duties granted by this Law under its own responsibility.”*



## V. INDEPENDENCE

### A- INSTITUTIONAL INDEPENDENCE

Third parties,

- do not have a right to give instructions to the CBRT
- do not have a right to approve, suspend, annul, override, defer or censor decisions of the CBRT
- are not allowed to participate in decision-making bodies with a right to vote



## V. INDEPENDENCE

### B- OPERATIONAL INDEPENDENCE

According to Article 4 of Law No. 1211:

- *The Bank shall determine the monetary policy and the monetary policy instruments that it is going to use on its own discretion*
- *The Bank shall be the ultimate body authorized and responsible to implement monetary policy*
- *The Bank shall be authorized to take precautions for enhancing the stability in the financial system, and to take regulatory measures with respect to money and foreign exchange markets*



## V. INDEPENDENCE

### C- PERSONAL INDEPENDENCE

#### 1) Governor/Vice Governors

- They are appointed for a renewable term of office of five years
- They may be relieved from office through the same procedure applied for their appointment only if they violate the prohibitions stated in Article 27 of Law No. 1211 and if there is no longer any possibility for them to perform the duties entrusted by the Law





## V. INDEPENDENCE

### C- PERSONAL INDEPENDENCE

#### 2) Board members

- In accordance with Article 20, the tenure of Board members is three years
- They may be dismissed from office in case they act against paragraph 2 of Article 19 of Law No.1211 or pursuant to relevant provisions of Turkish Commercial Code through majority votes of the General Assembly



## V. INDEPENDENCE

### C- PERSONAL INDEPENDENCE

#### 3) Appointed member of the Monetary Policy Committee

- In accordance with Article 22/A, the tenure of the appointed member is five years
- He/she may be relieved from office through the same procedure applied for his/her appointment if he/she acts against paragraph 2 of Article 19 of Law No.1211



## V. INDEPENDENCE

### C- PERSONAL INDEPENDENCE

#### 4) Right of judicial review

- Governors, Vice Governors and other members of the decision-making bodies may not be relieved from office for reasons other than those mentioned in the Organic Law of the CBRT
- The Constitution (Art. 125) warrants that “*recourse to judicial review shall be available against all actions and acts of the administration*”. Accordingly, members of decision-making bodies (except the Board) have a right to have any decision to that effect reviewed by an independent judicial court
- Election and the dismissal of the Board members are subject to private law (Turkish Commercial Code). Therefore, in the event of the dismissal of the Board members, they do not have the same right of judicial review



## V. INDEPENDENCE

### C- PERSONAL INDEPENDENCE

#### 5) Safeguards against conflicts of interest

- Governors, Vice Governors and other members of the decision-making bodies of the CBRT may not have any duty outside the CBRT whether of a legislative, official or private nature unless otherwise permitted by any special law
- They are not allowed to engage in trade, they cannot become shareholders of banks or companies



## V. INDEPENDENCE

### D- FINANCIAL INDEPENDENCE

- The CBRT is not subject to the Budget Law
- The budget of the CBRT is prepared, approved and implemented exclusively by the Bank



## VI. PROHIBITION OF PUBLIC FINANCING

Article 56 of Law No. 1211 prohibits the financing of government deficits through central bank credits, by stating and stipulating that the CBRT may not grant advance and extend credit to the Treasury and to public institutions and may not purchase debt instruments issued by the Treasury and public institutions in the primary market



## VII. PROHIBITION OF PRIVILEGED ACCESS

According to the Communiqué on Liquidity Requirement No. 2002/2 of the CBRT, banks were obliged to hold Government securities for their liabilities

As of 16 November 2005, implementation of the liquidity requirement was abolished. Thus, banks shall no longer be obliged to hold government securities with the CBRT. In this way, an important step has been taken in the harmonization of financial regulations with the EU *acquis*



## VIII. LENDER OF LAST RESORT

### a) Late Liquidity Window Facility

Even though the CBRT, as the lender of last resort, may provide unlimited “*late liquidity window facility*” to the banks against collateral, the rate of this facility is determined well above the market rate aiming to discourage banks using this facility. In addition, the use of this facility is closely monitored and the BRSA\* is informed by the CBRT when this facility is heavily used by a bank. The CBRT also has the right to “suspend or limit” the use of this facility in accordance with monetary conditions and its monetary policy goals

\*Banking Regulation and Supervision Agency





## VIII. LENDER OF LAST RESORT

### b) Advance to the Savings Deposit Insurance Fund (SDIF)

The CBRT may grant advance to the SDIF in accordance with the procedures and conditions that it shall determine (Article 4 of Law No. 1211 and Article 131 of Banking Law No. 5411)

Article 15/b of the former Banking Law (No.4389) which used to **oblige** the CBRT to grant advance to the Fund has been repealed

Article 131 of the New Banking Law authorizes the CBRT to grant advance to the Fund but **does not** oblige it to do so



## IX. AUDITING

### Internal Audit

Internal auditing is being performed regularly by the Internal Audit Department of the CBRT.

### External Audit

Article 42/paragraph 2 states that;

*“The Bank may have the balance sheet and the income statements audited by independent external auditing institutions.”*

The CBRT is regularly audited each year by independent external auditors.



## X. ACCOUNTABILITY

Article 42/paragraphs 3 and 4 constitute the main statutory footing of accountability of the CBRT:

*“The Governor shall submit a report to the Council of Ministers on the operations of the Bank and the monetary policy followed and to be followed, each year in April and October. The Bank shall furnish information regarding its operations to the Planning and Budget Commission of the Grand National Assembly of Turkey twice a year.*

*The Bank shall prepare periodical reports concerning monetary policy targets and implementations and disclose these information to public. The periods of the reports to be prepared, their scope and disclosure procedure shall be determined by the Bank. The Bank shall submit information to the Government in writing and inform the public disclosing the reasons of incapability to achieve the determined targets in due time published or the occurrence of the possibility of not achieving and the measures to be taken thereof.”*



**THANK YOU FOR YOUR ATTENTION**