



**SCREENING CHAPTER 17  
ECONOMIC AND MONETARY POLICY**

**AGENDA ITEM VI:  
PROHIBITION OF PRIVILEGED ACCESS OF THE PUBLIC  
AUTHORITIES TO FINANCIAL INSTITUTIONS**

**Country Session: The Republic of TURKEY  
23 March 2006**



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- I. PRIVILEGED ACCESS**
- II. STATE BANKS**
- III. THE RELATIONSHIP BETWEEN TREASURY AND CBRT**



## I. PRIVILEGED ACCESS

### Privileged Access of the Public Authorities to the Capital Market Institutions

#### Pension Funds

Implementing Regulation on the Principles Applicable to the  
Establishment and Operations of Pension Investment Funds  
(Art. 22)

- Pension funds' participants have to invest minimum 30 % of  
their contribution to the funds investing minimum 80 % on  
government borrowing instruments including reverse repo



## I. PRIVILEGED ACCESS

### Brokerage Houses

Communiqué Serial: V, No: 46 on Principles Regarding Intermediary Activities and Intermediary Institutions (Art.14)

Board Decision (17.6.1999; 56/746)

- Brokerage Houses have to deposit a collateral consisting of government borrowing instruments and/or letter of guarantee and/or units of mutual funds other than the mutual funds founded by these brokerage houses to the ISE Settlement and Custody Bank



# I. PRIVILEGED ACCESS

## Membership on an Exchange

Regulation on Istanbul Stock Exchange (Art. 12)

Regulation on Derivative Exchanges (Art. 24)

Regulation on Istanbul Gold Exchange (Art. 16)

- The exchange members are obliged to deposit collateral consisting of cash or government borrowing instruments or irrevocable and unconditional letter of guarantee in the name of the exchange to a bank envisaged in the relevant regulation



# I. PRIVILEGED ACCESS

## Investor Protection Fund

### Regulation on Investor Protection Fund (Art. 11)

- Assets of the Fund shall be invested in government bonds, treasury bills, deposits or in reverse repurchase agreements in the state-owned banks



## I. PRIVILEGED ACCESS

The aims of these regulations are;

- to protect investors
- to enhance the soundness of capital market institutions
- to cover the losses deliberately caused by the exchange members to the relevant persons in the course of transactions on the exchange



## II. STATE BANKS

### Commercial Banks:

- T.C. Ziraat Bankasi (Agricultural Bank)
- Halkbank

### Investment and Development Banks:

- Kalkinma Bankasi (Turkish Development Bank)
- Türkiye İhracat Kredi Bankasi (Turk Eximbank)





## II. STATE BANKS

### The Role of the Treasury

The Treasury holds 100 % of the Bank's shares, thus the Board of Directors and auditors are appointed by the Treasury

The Board of Directors is independent in its decision making process

### The Role of Ziraat Bank

Ziraat Bank is a commercial bank, operating in line with Banking Law and the Law No.4603 setting the legal framework of financial and organizational restructuring of state banks

The bank is the largest one in the sector. Due to having the largest branch network in Turkey, it also operates as the agent of the Central Bank

The bank is specialized in agricultural credits and acts as the intermediary bank for government's subsidized lending policies



## II. STATE BANKS

### The Role of the Treasury

The Treasury holds 99,9 % of the Bank's shares, thus the Board of Directors and auditors are appointed by the Treasury

The Board of Directors is independent in its decision making process

### The Role of Halkbank

Halkbank is a commercial bank, operating in line with Banking Law and the Law No.4603 setting the legal framework of financial and organizational restructuring of state banks

The bank is specialized in credits to artisans-craftsmen and SMEs and acts as the intermediary bank for government's subsidized lending policies



## II. STATE BANKS

### The Role of the Treasury

The Treasury holds 99,1 % of the Bank's shares. The Board of Directors and auditors are appointed by the Treasury

### The Role of Kalkinma Bank

Kalkinma Bank is an investment bank, operating in line with Banking Law and the Law No.4456 setting activities of the bank

### The Role of the Treasury

The Treasury holds 100 % of the Bank's shares. The Board of Directors and auditors are appointed by the related Ministry

### The Role of Turk Eximbank

Eximbank is an investment bank, operating in line with Banking Law and the Law No.3332 setting activities of the bank



## II. STATE BANKS

### Security Holding of State Banks as of end 2005

(Provisional Figures)

<b>Banks</b>	<b>Special Issue Securities (Euro Billion)</b>	<b>Percentage of Bank Assets (%)</b>	<b>Other Securities (Euro Billion)</b>	<b>Percentage of Bank Assets (%)</b>	<b>Total Government Securities as a Percentage of Assets (%)</b>
Ziraat Bank	11,85	30,9	9,84	25,8	56,7
Halkbank	6,83	40,4	1,82	10,7	51,1



## II. STATE BANKS-Non Cash Securities

- Treasury issued Inflation Indexed securities for the unpaid duty losses of State Banks in years 1999 and 2000 (Budget Law)
- Later in year 2001 these Inflation Indexed securities were converted to Treasury Auction Indexed securities
- Meanwhile Repo Indexed and FX Denominated were issued in order to strengthen the financial structure and help to meet the liquidity needs of State Banks
- The issuance of these non cash securities was once and for all.
- Maturity date is the year 2010 for the latest principal and interest payment
- The stock of these securities in the portfolio of the State Banks is declining as Treasury redeems
- Detailed information of non cash domestic debt stock could be found at;  
<http://www.hazine.gov.tr/english/kaf/2006non-cash-stock.htm>



### III. CBRT-Non Cash Securities

- In year 2001 CBRT bought some of the non cash securities held by State Banks in order to meet their immediate cash need
- Treasury converted these securities to Inflation Indexed Securities with CBRT having no spread
- By an amendment on its law, CBRT is prohibited to purchase any Government Borrowing Securities at the primary market
- The outstanding amount of these securities held by CBRT is 11,5 Billion Euro as of 31.1. 2006
- Maturity date is the year 2010 for the latest principal and interest payment
- Detailed information of maturity, amount, interest and coupon period of non cash domestic debt stock of CBRT could be found at;  
<http://www.hazine.gov.tr/english/kaf/2006non-cash-stock.htm>



## IV. CBRT-TREASURY

### The Relationship Between Treasury and The Central Bank (CBRT)

#### The Role of Treasury

- ✓ At least 51 percent of the Central Bank's A class shares shall be owned by the Treasury (Art 7)
- ✓ Preference of Treasury is an important factor in the nomination of the CBRT Board which is selected by the General Assembly.
- ✓ One of the members of the Auditing Council is selected by Treasury (Art 23)
- ✓ The Undersecretary of Treasury participates in Monetary Policy Committee meetings without a right to vote (Art 22/A)

#### The Role of the Central Bank

- ✓ The Central Bank is the advisor to the government in fiscal and economic issues (Art 4)
- ✓ The Central Bank can undertake financial agency task in international fiscal and economic relationship (Art 4)
- ✓ The Central Bank is the fiscal agent of the government. It provides all kinds of services like money transferring and money orders at no cost. CBRT does not pay interest to the deposits which are in the scope of Treasurer (Art 41)
- ✓ The Central Bank cannot give credit or advance to Treasury or any other public institutions. CBRT also cannot buy borrowing instruments of these institutions in the primary market. (Art 50,51,56)
- ✓ The Central Bank acts as agent of Treasury in organizing Treasury Auctions.
- ✓ It uses Treasury borrowing instruments in open market operations (Art 41)
- ✓ It participates the meetings which are held between Treasury and Market Makers (Art 52)



## IV. CBRT- Treasury Account

### Law No. 1211, Article 41

- CBRT is the fiscal agent of the Government
- Including Treasury, Central Government Institutions have to deposit all of their funds in CBRT with no interest.
- Ziraat Bank serves as the agent of CBRT since CBRT has only 21 branches and offices all over the country.
- Treasury does not pay fee to CBRT for banking operations and other services





## V. PUBLIC DEPOSITS MONITORING SYSTEM

### Law No. 5234, Article 31

- Institutions excluding Central Government (i.e. public institutions, boards and agencies other than the departments and administrations under the Central Government) have to deposit all of their cash funds in the CBRT, Ziraat Bank, Halkbank or Vakif Bank
- They can invest their idle cash on interest bearing bank deposit accounts (CBRT or Ziraat Bank, Halkbank or Vakif Bank) or buy government securities
- They can invest their funds in currencies other than TL if and only if they have FX liabilities



**THANK YOU FOR YOUR ATTENTION**