

PRESS RELEASE

A. A GENERAL EVALUATION

The mood of political uncertainty triggered by recent developments has once again exerted an adverse effect on economic expectations, on exchange rate, and on market interest rates, as was the case in the past. It is deemed useful to evaluate the recent perception of political uncertainty as follows.

1. During the period starting from the last autumn up until the emergence of political ambiguity, the program has started to produce positive results restoring the market sentiment. At the same time, the public opinion has begun building confidence in the current program. It has been widely agreed that the program is correct and could bring the much-sought stability in the Turkish economy.

2. However, we are observing that the recent political developments have started to raise concerns over the sustainability of the current program in the period ahead, and over the likelihood of endangering the benefits obtained from the economic program. The program being implemented has been designed by considering the possible non-economic shocks. Moreover, the recent structural reforms have lessened the vulnerability of the economy to uncertainties and exogenous shocks.

3. Thanks to such structural reforms, fundamental institutional adjustments have been made so as to minimize election-oriented economic policies that are in contradiction with the continuation of economic stability. It should also be kept in mind that, in the current floating exchange rate regime, any shortsighted, politically motivated and destabilizing action that has no economic foundation can be quickly mirrored in the market sentiment. Therefore, it is not rational to pursue economic policies that are focused on economically unjustified short-term gains.

4. Markets should bear in mind that the amendments made in the Central Bank Law, and the new Borrowing Law are among the most important structural reforms. According to the new Central bank Law, achieving price stability has become the Central bank's primary objective, and the Central Bank may use its monetary policy instruments freely in order to realize this objective. In this context, the Central Bank has been setting its monetary policy having price stability in mind only in recent years, and has been informing the public opinion of monetary policy implementations as much transparent as possible.

5. Abandoning this program, which is about to bringing the stability in Turkish economy by laying the foundation of a sustainable growth, seems to be against the public interests. For this reason, the fiscal discipline envisaged in the current economic program must be preserved, and the structural reforms must be sustained. This is compatible with Turkey's short-term and long-term interests. In other words, we have no other option but to strictly adhere to the fundamental principles of the current program in the medium-term.

6. Another significant indicator of the determination in the successful implementation of the program, which is gradually yielding tangible results, is the stage at which the Banks Re-capitalization Program executed by the Banking Regulation and Supervision Agency has reached. This operation will contribute to achieving a permanent recovery and stability of the financial system. This is especially important, since financial stability is vital for the efficiency of monetary policies aiming at price stability. The Central Bank has taken the necessary measures for providing liquidity to the banks under the Re-capitalization Program by considering that financial stability is a main factor supporting price stability. It is no doubt that these arrangements will decrease the mood of uncertainty for the banking sector.

7. In addition, as of end-June, all structural and operational decisions have been taken by the Parliament and the Government within the framework of the current economic program. In this context, the IMF Executive Board is expected to meet on 28 June 2002 and to decide on the release of the credit tranche.

8. For the reasons stated above, the Central Bank does not expect an interruption in the program due to non-economic developments. The more quickly all sections understand this point, the more rapidly the volatility in the markets will disappear. It is thought that there is no reason why we should not reach the year-end inflation target of 35 percent, if the program is implemented as planned without encountering an unexpected shock. It is expected that the market sentiment will keep up its positive trend with the elimination of political uncertainties emerged in the second half of May. The Central Bank is maintaining its positive outlook for the period ahead.

B. FOREIGN EXCHANGE BUYING AUCTION PROGRAM FOR JULY

9. By considering the reverse currency substitution and the better than expected balance of payments position, the Central Bank has been conducting planned FX buying auctions since April in order to build up the Central Bank reserves with the

excess FX supply by avoiding an extra volatility in exchange rates. We are observing a slow-down in the reverse currency substitution, which we consider it to be temporary, due to recent mood of political uncertainty. The balance of payments, on the other hand, is expected to improve. In this context, although we are considering to continue the planned FX buying auctions in the next weeks, it has been decided to temporarily suspend the planned FX buying auctions starting from 1st July 2002, by taking into account of the reduced volume of the FX transactions, from time to time, and somewhat artificial price formation in the FX market. In case of the resumption of the planned FX buying auctions, we will announce it accordingly.

C. TL DEPOSIT BUYING AUCTION PROGRAM FOR JULY

10. With the aim of increasing the efficiency of Turkish lira sterilization operations, the Central Bank will continue conducting 4-week TL deposit buying auctions in July, which were initiated in April 2002 in the Interbank Money Market. In this context, the TL deposit buying auctions will be held every week on Wednesdays and Fridays in July, and the total amount offered in each auction will be TL 200 trillion at the most.

11. The Central Bank will continue using the monetary policy instruments effectively, in order to preserve the benefits of the current economic program, to achieve price stability, and to ensure the smooth operation of the financial system. TL liquidity in the markets will be regulated by using money market instruments at hand. However, if any difficulty emerges in the effective use of these instruments, liquidity might also be sterilized through planned FX sales, as stated in the Letter of Intent.

D. LATE LIQUIDITY WINDOW

12. As has been announced in the Press Release of 2 January 2002 titled "Monetary and Exchange Rate Policy in 2002 and Prospective Developments", the Central Bank will, as the lender of last resort, initiate (O/N) the implementation of "late liquidity window" in the Interbank Money Market between 16:00-16:30 as a new TL liquidity facility from 1st July 2002. Banks may borrow unlimitedly from "late liquidity window" at CBRT's offer rate against collateral, or may lend money to the Central Bank at CBRT's bid rate.

13. Starting from 1 July 2002, the CBRT's offer rate for "late liquidity window"

is set as 65 percent between 16:00-16:30, while there is no change in the CBRT's borrowing quotation of 5 percent. The CBRT's (O/N) borrowing quotation of 48 percent announced between 10:00-16:00, one-week borrowing quotation of 49 percent, and (O/N) lending rate of 55 percent have been left unchanged.

14. Moreover, as has been previously announced, although it is expected that markets will maintain their long positions in TL in the next period, the TL liquidity that might be needed as a result of an unexpected development will be met by intra-day repo auctions.