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PRESS RELEASE

As is known, the Central Bank has announced through several press releases that, under the floating exchange rate regime the level of exchange rate is determined by supply and demand conditions in the markets, but still the volatility in the exchange rate has been closely observed, and that the Central Bank may directly intervene in the markets, in the event of an excessive volatility that might occur in both directions.

In this regard, the last direct intervention of the Central Bank in the foreign exchange market was on July 11, 2002 with the aim of keeping the excessive volatility in the exchange rate under control.

There has recently been an extreme volatility in exchange rates due to the effect of positive expectations in financial markets, the efforts to meet the liquidity needs arisen before the religious holiday, the additional TL liquidity demand created by successful Treasury borrowing auction, and the weak demand in the foreign exchange market. Therefore, the Central Bank has directly intervened in the foreign exchange market in order to prevent the volatility observed in the exchange rate. Here, it must be underlined that, today's intervention has been made as a result of the excessive volatility in the exchange rates only, and that it should not be interpreted as if the Central bank were uneasy at the actual level of the exchange rates.

On the other hand, as stated in the press release dated November 29, 2002, various comments are appearing in the press claiming that the foreign exchange buying auctions would resume any time. However, as already mentioned in the said press release, the Central Bank may resume the foreign exchange buying auctions in case there is an excess supply of foreign exchange resulting from the reverse currency substitution process, and the strong balance of payments. Moreover, as announced to the public previously, the month of December is a period when there is no excess supply of foreign exchange resulting from the balance of payments because of seasonal reasons. Notwithstanding, the Central Bank and Turkish banking system are continuously monitoring and evaluating the developments in the reverse currency substitution process, and the Central Bank may start to hold programmed foreign exchange buying auctions in the next future.

Finally, it should be noted that, the Central Bank issues warnings with regard to foreign exchange positions from time to time. It is obvious that the risk exposures arising from the foreign exchange positions are higher under the floating exchange rate regime. For this reason, financial institutions, such as banks and other decision-making units in the economy should be extremely cautious in taking exchange rate risk.

Within this framework, it is no doubt that the Central Bank will continue to underline the danger of the risks arising from short or long foreign exchange positions in the light of the past experiences. Managing the exchange rate risk efficiently in the financial system, and making of the mechanisms that will ensure the monitoring of the effective risk management are of utmost importance under the inflation-targeting regime that the Central Bank is currently working on the preparations to implement it. Within this perspective, the Central Bank has long been performing a profound evaluation of the foreign exchange markets, and will continue to do so in the period ahead.