

**THE CENTRAL BANK OF THE REPUBLIC OF TURKEY  
PRESS RELEASE**

**A) FOREIGN EXCHANGE BUYING AUCTION PROGRAM FOR MAY 2002**

As announced with its press release dated March 28, 2002, the Central Bank of the Republic of Turkey (CBRT) has decided to increase the level of foreign exchange reserves via the method of foreign exchange buying auctions, considering the fact that having stronger reserve position in the medium to long term would boost the market's confidence in the existing program, and started foreign exchange buying auctions as of April 1, 2002.

In the said press release it was also stated that, the aim of the foreign exchange buying auctions is to enhance the foreign exchange reserve position of the CBRT at the market rates without targetting any specific exchange rate level, if and when excess foreign exchange supply situation develops, without creating an additional volatility in the foreign exchange rates and without disturbing the foreign exchange positions of banks.

In this respect, during May 2002, the CBRT will continue to hold daily foreign exchange buying auctions amount of USD 20 million, and there will be 22 foreign exchange buying auctions excluding US holiday of May, 27. However, different from the foreign exchange buying auctions methodology of April 2002, an arrangement has been made. This scheme allows the CBRT to compensate the cumulative foreign exchange amounts that could not be bought as a result of either no bidding or insufficient bidding (less than USD 20 million) in an auction, at the following auctions in May 2002.

Therefore, while other implementations remaining the same, in the 'Rules for Foreign Exchange Buying Auction' section of the Press Release dated March 28, 2002, the following amendments have been made:

- During May 2002, foreign exchange buying auctions will be held on each working day for amount USD 20 million.
- However, in order to compensate the cumulative foreign exchange amount that could not be bought as a result of either no bidding or insufficient bidding (less than USD 20 million) to an auction during the month, starting from the following first auction, daily auction amount will be increased to USD 40 million. In other words, even the cumulative foreign exchange amount that could not be bought in the previous auctions were more than USD 20 million, the compensation amount that will be added to the USD 20 million auction amount, will be limited to USD 20 million.
- The amount that will be bought in an auction, including the amount to be compensated, and the maximum bid price will be posted on the CBRT's Reuters page "CBTQ" before the auction.
- The maximum amount that could be bid by an institution, including the amount to be compensated, would be limited to the total amount to be bought.

## **B) TURKISH LIRA DEPOSIT BUYING AUCTION PROGRAM FOR MAY 2002**

The additional Turkish Lira liquidity, which is created in the system by the foreign exchange buying auctions, is being sterilised through money market instruments. Starting from April 2002, to enhance the effectiveness of its sterilisation efforts, the CBRT, as a supplement to the existing instruments, has started Turkish Lira Deposit Buying Auctions in the Interbank Money Market with a four week standard maturity and for a limited amount.

In this respect, considering the foreign exchange buying auctions to be held and the level of Turkish Lira liquidity, the CBRT has decided to continue its Turkish

Lira Buying Auctions through May 2002, and increased the maximum amount to be auctioned at each auction from 100 trillion Turkish Liras to 250 trillion Turkish Liras.

### **C) REPO TRANSACTIONS CONDUCTED WITH THE STATE-OWNED AND SAVINGS DEPOSIT INSURANCE FUND (SDIF) BANKS**

Following the February 2001 crisis, the CBRT began to fund the liquidity needs of the state-owned and SDIF banks through its repo transactions at the prices quoted on the ISE (Istanbul Stock Exchange). The upper limit set for the funding for the needs of the said banks was 7 quadrillion Turkish Liras. However, thanks to the efficient coordination the banks were able to fund themselves at the ongoing market interest rates which in turn reduced their borrowing needs from the CBRT.

On February 8, 2002, by using the IMF money, the Treasury made an early redemption of some portion of the bonds issued to the SDIF banks and with the funds thus generated the SDIF banks paid their repo debts of 3.7 quadrillion Turkish Liras to the CBRT. As a result, the CBRT as of February 8, 2002, were able to close its repo transactions with the SDIF banks.

Starting from February 2002, the state-owned banks gradually reduced their repo transactions with the CBRT due to their improved liquidity situation mostly originating from the contribution of the early Treasury redemptions, and finally on April 17, 2002 they repaid their total borrowings amounting to 300 trillion Turkish Liras.

Therefore, the short term direct financing of the state-owned and SDIF Banks by the CBRT started immediately after the February 2001 crisis came to an end.

From now on, the CBRT will conduct its Turkish Lira transactions with the said banks within the framework of general liquidity management.