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PRESS RELEASE

A) THE CENTRAL BANK ENDS ITS INTERMEDIATION FUNCTION IN THE INTERBANK MONEY MARKET AND FOREIGN EXCHANGE AND BANKNOTES MARKETS

As stated in the press release dated January 2, 2002 titled “Monetary Policy and Exchange Rate Policy in 2002 and Prospective Developments,” the Central Bank started to phase out its intermediation role both in the interbank money market and the foreign exchange and banknotes market in 2002. By abandoning its intermediation function, the Central Bank aims at enhancing the depth of interbank and foreign exchange markets, enabling the creation of a pricing behavior that fully reflects the risk perceptions. It also aims at avoiding the transmission of confusing messages to the markets with regard to monetary and foreign exchange policies, since from time to time some operations performed in these markets might be perceived as if the Central Bank were the counterpart.

Within this framework, the Central Bank’s gradual withdrawal from the interbank money and foreign exchange deposits markets, which started at July 1, 2002, will be completed as of December 2, 2002. From this date on, the banks’ borrowing limits (matched transaction limits) from other banks under the Central Bank’s intermediary function in these markets will be zero.

Termination of the intermediation function of the Central Bank in the interbank money and foreign exchange markets, will not decrease the amount of Turkish Lira and foreign exchange liquidity provided for the banks from the Central Bank’s own resources. In

other words, banks' borrowing limits will be kept the same for transactions with the Central Bank. Besides, the Central Bank will continue to sterilize excess liquidity via interbank money market at the announced borrowing rates and without any limit on any bank.

Within this framework, we deem it important to reiterate the following issues that have been mentioned in the previous Central Bank announcements.

- a) Banks will continue doing transactions within their limits making use of the Central Bank's bid rates announced for liquidity sterilization purposes and the offer rates for providing liquidity in the interbank money market between 10:00 a.m.-04:00 p.m. Moreover, in order to meet the temporary daily liquidity needs in the system, the Central Bank will continue to provide the "Daylight Overdraft Limit" (DOL) facility to banks within their borrowing limits between 09:00 a.m.-15:00 p.m.
- b) The Central Bank will continue to provide "late liquidity window" facility in the interbank money market between 04:00 p.m. and 04:30 p.m. as the "lender of last resort." Banks' can borrow from the "late liquidity window" at the Central Bank lending rate without any limit, and can lend money at the Central Bank borrowing rate provided that their demands are fully collateralized.
- c) The Central Bank will continue to provide TL liquidity to the primary dealers through open market operations. As known, as of July 22, 2002, the primary dealers are provided with limited liquidity through open market operations, which amounts to a maximum of 10 percent of the TL denominated and non-redeemed Treasury securities that they will purchase from the primary market.
- d) As indicated in the previous press releases, the Central Bank expects the markets to open with excess Turkish lira liquidity for a rather long time. However, in the event of a temporary Turkish lira liquidity shortage that might occur in the periods ahead, the Central Bank will begin to inject liquidity through quick repo tenders.

- e) In line with the arrangements in the interbank money market, the Central Bank has been phasing out its intermediation role in the foreign exchange deposits market. However, the Central Bank will continue performing its intermediation function limited to the foreign exchange deposits of the state-owned banks that were transferred from the Saving Deposits Insurance Fund banks in 2001.
- f) During the working hours of the foreign exchange deposits market, banks may borrow foreign exchange deposits from the Central Bank in line with their borrowing limits.
- g) As of December 2, 2002, the Central Bank's lending rate for EUR and USD transactions with one-week maturity in the foreign exchange deposits market has been reduced to 12 percent from 20 percent.

B) TURKISH LIRA DEPOSIT BUYING AUCTIONS PROGRAM FOR DECEMBER 2002

The Central Bank will continue to conduct Turkish Lira deposit buying auctions in December with a standard maturity of four weeks that was initiated in April 2002 as a supplement to its existing instruments with the aim of enhancing the effectiveness of its efforts to sterilize the excess Turkish lira liquidity in the system.

Similar to the implementation in November, the Central Bank will hold Turkish lira deposit buying auctions each week on Wednesdays and Fridays and the maximum amount at each auction will be limited to 200 trillion Turkish liras.

Considering the expected increase in the money demand before the religious holiday, auctions will not be held on December 4, 2002.

C) FOREIGN EXCHANGE BUYING AUCTIONS

The Central Bank conducted foreign exchange buying auctions between April-June 2002, taking into consideration the reverse currency substitution and the strong balance of payments position in order to build up the Central Bank reserves with the excess foreign exchange. However, as stated in the press release dated June 28, 2002, the Central Bank announced that it suspended these auctions, and will resume only when the necessary conditions are in place.

There are various comments in the press concerning a resume of foreign exchange buying auctions. Therefore, it is important to remind what are the necessary conditions to restart these auctions, which were also announced in the above-mentioned press release. As stated in the said press release, in case there is an excess supply of foreign exchange resulting from reverse currency substitution process and strong balance of payments, the Central Bank will start performing foreign exchange buying auctions. It is highly likely that these conditions will arise, if the current program is strictly carried out along with the removal of political uncertainty and with the continuation of positive expectations.

Within this framework, the Central Bank is monitoring and evaluating the developments in the balance of payments and in the reverse currency substitution process and will inform the public before starting to hold programmed foreign exchange buying auctions.