

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
PRESS RELEASE

Effective from April 1, 2002, the Central Bank of the Republic of Turkey (CBRT) has decided on the following arrangements concerning the Determining the Indicative Exchange Rates, Foreign Exchange Buying Auction, Turkish Lira Deposit Buying Auction and Quick Repo Tenders.

A) DETERMINING THE INDICATIVE EXCHANGE RATES

As known, currently the indicative foreign exchange selling rate for 1 USD is determined by averaging the averages of the buying and selling rates as quoted for 1 USD by banks in the interbank foreign exchange market at 15.30 local time. The exchange rates of the currencies other than the USD, announced by the CBRT, are determined by using the respective cross rates ruling in the international markets at 15.30 local time.

From 1 April 2002 onwards, in determining the indicative exchange rates as announced by the CBRT at 15.30 on each business day, the following method, the details of which are given below, will be employed.

Rules For Determining the Indicative Exchange Rates:

1. Effective from 1 April, 2002, in order to determine the indicative exchange rates, the CBRT will make 6 observations at the hours indicated in the table below by taking the average value of the averages of the buying and selling rates as quoted by banks in the interbank foreign exchange market

for 1 USD between 10.30 and 15.30 hours. The arithmetic average of the 6 observed values thus obtained will be the CBRT's indicative foreign exchange selling rate of 1 USD to be announced at 15.30. Similarly, the respective cross rates of the currencies for which the CBRT announces indicative exchange rates, will be collected at the exact times shown in the said table and their average values will be used in the calculations.

Averaging Hours	
10.30	1 st average
11.30	2 nd average
12.30	3 rd average
13.30	4 th average
14.30	5 th average
15.30	6 th average

2. The indicative foreign exchange buying rate for 1 USD obtained from the indicative foreign exchange selling rate determined at 15.30 in the manner explained above, as well as the average USD/EUR cross rate will be posted on the CBRT's Reuters page of "CBTR".
3. For the sake of transparency and letting the public be informed about, the 6 observed averages that are determined in the manner explained above, as well as the USD/EUR cross rates, will be posted in the "Market Data" section of the CBRT internet-site in the following day.

B) FOREIGN EXCHANGE BUYING AUCTION

With its press release of January 2, 2002, the CBRT has informed the public of general framework for its monetary and foreign exchange policies as well as its expectations for 2002. In the said press release, it was stated that, similar to other country experiences that has implemented economic programs under the floating exchange rate regime, a possible reverse currency substitution as well as excess foreign exchange supply due to strong balance of payment position, contrary to the developments in 2001, seem to be a strong possibility in the periods ahead. It was also announced that under these circumstances the

use of instruments by the CBRT to enhance its foreign exchange reserves without violating the floating exchange rate regime and without effecting long term trend and natural equilibrium level of the exchange rate might also be possible. Besides, in the Letter of Intent dated January 18, 2002, it is also stated that there could be foreign exchange purchases for the aim mentioned above.

Considering the developments in 2002, due to strong external support provided by international institutions, the on going fiscal discipline and structural reforms, the steps taken to strengthen the capital structure of the banking system, the declining trend in the inflation and changing by international credit rating institutions of the credit rating outlook of Turkey to positive, a relative stability in the foreign exchange markets seems to have been achieved. During this period, the CBRT did not intervene in the foreign exchange markets. Thus, the market participants as well as the public have come to understand that, in consistence with the economic fundamentals, the volatility in the foreign exchange markets could be balanced without the CBRT interventions.

In this respect, there are signs that the reverse currency substitution process is in progress. Excluding the interbank deposits, when the foreign exchange deposits at the banks from October 2001, which is the date from then on the Turkish Lira began to appreciate, until now are examined, despite the gradual return into the banking system of the foreign exchange that left the system during the crisis and went into hoarding and of the foreign exchange assets of the residents held abroad, no increase can be detected in the level of foreign exchange deposits. That is, the total foreign exchange deposits standing at USD 42.8 billion at end-September 2001, remained the same with USD 42.9 billion (provisional data) as of March 8, 2002. The Turkish Lira equivalents of the foreign exchange deposits on the said dates, in the same order, are 65.7 and 58.5 quadrillion Turkish Liras, which show 11 percent nominal and 27 percent real decreases. Though the decrease in the Turkish Lira equivalents of the foreign exchange deposits can somewhat be accounted for by the appreciation of the Turkish Lira, nevertheless the USD amount remaining at the same level is

important. In this respect, developments during the Euro changeover period sheds some light what has actually happened. With the press release of March 4, 2002, the public was informed about the details of the CBRT's banknotes shipment of 12 legacy currencies in the context of the Euro-changeover. It was stated that DEM 4.8 billion worth of banknotes were shipped abroad between August 2001 and February 2002 by the **CBRT alone**. Approximately 60 percent of the banknotes shipped, which is equal to DEM 2.9 billion, were sold to the CBRT in exchange for foreign exchange. In other words, more than half of the banknotes that flowed back to the banking system from "hoarding" during the period mentioned above chosen to remain in the banking system.

In order to evaluate the reverse currency substitution, it is utmost importance to examine which Turkish Lira instruments were most favored instruments for the funds following back into the system during the period where the level of foreign exchange deposits remained the same. Despite the slowdown in the economic activity, during the period from September 28, 2001 to March 15, 2002, the total amount of Turkish Lira deposits, repoes, mutual funds in Turkish Lira and Government Debt Securities (GDS) that are owned by individual and institutional investors and are held in the bank accounts have increased to 76.5 quadrillion Turkish Liras from 60.3 quadrillion Turkish Liras, exhibiting 27 percent nominal and 3 percent real increase. Of the 16.2 quadrillion Turkish Lira increase taken place in the investment instruments during the period, a sizeable amount of 7.9 quadrillions Turkish Lira is accounted for by the increase in investment instruments held in the banking system and owned, not by banks, but individuals and institutional investors. The GDS held in the banks by the investor groups mentioned above increased to 21.2 quadrillion Turkish Liras on March 15, 2002 from 13.3 quadrillion Turkish Liras on September 28, 2001, meaning 59 percent nominal and 29 percent real increase. It is believed that why the bulk of the Turkish Lira investments during the period is concentrated in the GDS is the tax incentives provided for it. This process is also considered as important for returning to Turkish Lira investment instruments, the capacity of the Treasury to

reach individual investors, the growth potential of financial system and limiting the burden of public borrowing on the banking system.

The evidence cited in the above analysis and confirming the trend of the reverse currency substitution, it is believed, will continue in strength as the targets of the economic program being implemented are achieved. When the balance of payments forecasts and their realisations are considered, a better development in the capital account balance is expected.

In view of the above analysis, the CBRT has decided to increase the level of foreign exchange reserves via the method of foreign exchange buying auctions presented below. It is obvious that the CBRT's having stronger reserve position in the medium to long term would boost the market's confidence in the existing program. However, with the foreign exchange buying auctions explained in detail below, the CBRT does not target any specific reserve level to be achieved. The aim here is to enhance the foreign exchange reserve position of the CBRT 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.

It goes without saying that, as stressed in the previous press releases, the CBRT is vigilant of the developments in the foreign exchange market and will stand ready to intervene in the foreign exchange market in both directions if and when necessary. That is when there is high volatility in the market.

Rules for Foreign Exchange Buying Auction:

1. In advance, the public will be informed of the monthly foreign exchange buying auctions and the amounts thereof. In this regard, it has been decided that in April 2002, foreign exchange buying auctions will be held and the daily auction amount is USD 20 million. However, no auctions will be held on days where Turkish market is open but USA markets are

- closed. Similarly, on half day official holidays, since no indicative rates are determined, there will not be any auction.
2. Only banks and special finance houses (institutions) authorised to participate in the Foreign Exchange and Banknotes Markets in the CBRT are allowed to participate in the auctions.
 3. Auctions are to be held under the multiple price auction method.
 4. The maximum bid price in the auction will be the price determined as the arithmetic average of the first five observations obtained in the manner explained in the section “Rules for Determining the Indicative Exchange Rates” above. The maximum price thus obtained will be posted on the CBRT’s Reuters page “CBTQ” at 14.40.
 5. Institutions may bid between 14.40 and 15.00.
 6. Minimum amounts that can be bid for is USD 1 million and its multiples thereof. The total maximum amount that can be bid is limited to the total amount to be bought.
 7. Institutions can send in more than one bid but they can not change their bid amounts and prices during the auction.
 8. If there are more than one bid at the price the auction is cut, the distribution will be made on pro-rata basis.
 9. Institutions willing to participate in the auctions will send in their bids by stating their price and amounts through the telephone numbers 3091966-89 of the Foreign Exchange and Banknotes Markets Division.
 10. Auction results showing the total bid amount, average, maximum and minimum prices will be posted on the CBRT’s Reuters page of “CBTQ” at 15.30.
 11. No transaction commission will be charged.
 12. Institutions who will not fulfill their obligations arisen from the auctions, will be subject to the sanctions as were specified in the Standing Order of the Foreign Exchange and Banknotes Markets.

C) TURKISH LIRA DEPOSIT BUYING AUCTION

Since the beginning of 2002, the additional liquidity created in the system by the use of the IMF credit by the Treasury for domestic financing needs, market conditions permitting, have been mopped up through the reverse repo and the interbank money market operations. For a rather long time, markets are opened with excess Turkish Lira liquidity and as of today the total liquidity withdrawn from the system with overnight (O/N) and 1 week maturities is about 6.8 quadrillion Turkish Liras.

In addition to the existing liquidity, the additional liquidity to be created in the system by the foreign exchange buying auctions described above will also be sterilised through the use of the same money market instruments. In order to enhance the effectiveness of its sterilization efforts, the CBRT will supplement its existing instruments in the Interbank Money Market within itself. The new instrument is a standart Turkish Lira Deposit Buying Auction with a 4 week maturity. The instrument, the details of which are given below, will be for a limited amount and will not effect the liquidity level of the system in a substantial way.

Rules for Turkish Lira Deposit Buying Auction:

1. In advance, the public will be informed of the monthly Turkish Lira Deposit Buying Auction program and the amounts thereof. In this regard, starting from April 3, 2002, in April 2002, on Wednesdays of each week, Turkish Lira Deposit Buying Auctions with 4 weeks maturities are to be held and the total amount to be auctioned at each auction will be maximum 100 trillion Turkish Liras.
2. The auctions are to be held under the multiple price auction method.
3. All banks participating in the Interbank Money Market are allowed to participate in the auctions.
4. Auction announcements will be made on Reuters page of "CBTY" and the auction results on page "CBTZ".
5. Banks may bid between 10.00 and 11.00.

6. Minimum amount that can be bid for is 1 trillion Turkish Liras and its multiples thereof.
7. During the auction hours, banks cannot change their bid amounts and prices.
8. Interest rates bid will, on a yearly basis, be a whole, a quarter, a half and three quarters of a whole number. Any fractional numbers other than these are not allowed.
9. If there are more than one bid at the price the auction is cut, the distribution will be made on pro-rata basis. Any figure thus obtained will be rounded downward as 50 billion Turkish Liras and its multiples thereof.
10. Banks willing to participate in the auctions will send their bids by stating their interest rate and amounts through the telephone numbers 3091940-49 of the Interbank Money Market Division.
11. Banks, whose bids are accepted, are obligated to pay the amounts won to the CBRT till 17.30 at the latest on the value day by a MERB-PAR1 message with the reference "IHL" and explanation "Inter-lhale-Bedeli".
12. No transaction commission will be charged.
13. Banks, which can not fulfill their obligations arising from the auctions, will be subject to the existing default interest rates and the administrative sanctions. The failed bank will be treated according to the CBRT's standing orders and the undertakings signed and given by banks to the CBRT.

D) QUICK REPO TENDERS

As was explained above under the heading of Turkish Lira Deposit Buying Auctions, since the Turkish Lira Deposit Buying Auctions are to be held for limited amount, these transactions will not cause a decrease in the daily excess liquidity. However, in the periods ahead, due to the CBRT and the Treasury operations, depending on the lengthening of the maturities of the liquidity withdrawn from the system, may lead to the reduction in the level of the excess liquidity. Under these circumstances, in order to alleviate the temporary liquidity

shortage that may develop, the CBRT will inject liquidity into the system through the quick tenders to be held at any time between 11.00-15.00. Although not expected in the near future, in case the liquidity shortage begins to develop, the CBRT will in advance announce to the public the details of the intended quick tender.