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THE CBRT PRESS RELEASE ON FOREIGN EXCHANGE BUYING AUCTIONS

As known, the Central Bank of the Republic of Turkey (CBRT) holds foreign exchange buying auctions in order to build up foreign exchange reserves in concord with the core principles and functioning of the floating exchange rate regime, during periods when the increase in foreign exchange supply outpaces that of demand. In this context, the foreign exchange liquidity of the banking system is closely monitored, as the foreign exchange liquidity developments are one of the leading factors taken into consideration while setting the amount to be bought via auctions as well as deciding on the suspension of these auctions.

The foreign exchange liquidity within the banking system is regulated by *the Liquidity Arrangement* put into force for the Turkish banking system in June 2007 by the Banking Regulation and Supervision Agency. The mentioned arrangement enables close monitoring of foreign exchange liquidity developments. At present, the foreign exchange liquidity ratios of all banks operating in Turkey are above the legal limit of minimum 80 percent.

Although the Turkish banking system does not have problem of any sort pertaining to foreign exchange liquidity, *the Foreign Exchange Deposit Market* within the CBRT was re-opened on 9 October 2008 with a view to limiting the impacts of the problems in global money markets on the Turkish economy, which has enabled the conduct of foreign exchange deposit transactions among banks in terms of both US dollar and Euro. Furthermore, considering the level of the banks' balance sheet aggregates, transaction limits in *the Foreign Exchange and Foreign Currency Markets* were revised as of 14 October 2008.

The Foreign Exchange Deposit Market enables the banks that currently hold high liquidity to lend the banks in temporary need of liquidity in a convenient and safer fashion. The existence of such a market is an important confidence factor in the current conjuncture. In fact, the operating principles and details of *the Foreign Exchange Deposit Market*, which is specific to Turkey, have been shared with international community in the IMF-World Bank meetings held on 11-12 October 2008 along with G-20 meetings and have captured the attention and support of all participants.

The main objective of resuming the operations of this market is to prevent the decline in the flow of foreign exchange liquidity in Interbank Foreign Exchange Market due to the current uncertainty in the global money markets. Therefore, *Foreign Exchange Deposit Market* will operate until the global uncertainties and their implications on our markets fade out and it is intended to function as a "*market of last resort".*

Meanwhile, in addition to the flow ensured through the *Foreign Exchange Deposit Market,* Foreign Exchange buying auctions will be suspended starting from 16 October 2008 in order to further enhance the liquidity conditions of Turkish banks. The aim is to keep the liquidity, which is permanently withdrawn from the foreign exchange market through foreign exchange buying auctions, in the system.

Our strategy for foreign exchange buying auctions will be revised in line with the upcoming developments in international markets and in case the Central Bank decides to resume holding foreign exchange buying auctions, it will announce its decision to the public in '*Monetary and Exchange Rate Policy of The Central Bank of The Republic of Turkey for 2009*', which will be published in December 2008.