

March 20, 2003

CENTRAL BANK OF THE REPUBLIC OF TURKEY

PRESS RELEASE

The Central Bank has put the following measures into effect with the aim of minimizing the adverse effects of the military operation to Iraq that started on March 20, 2003 on domestic markets, preserving what we have accomplished so far on the way to achieving price stability, and maintaining the banking and financial stability.

A) TL Money Market

Currently, the amount of liquidity in the Turkish lira money markets is adequate to meet the liquidity needs of the financial system. However, the Central Bank has made the following arrangements in order to meet an additional liquidity need that might emerge in the markets:

- The interest rate charged for funding the banks without any limit via the “*Late Liquidity Window*” facility at the Interbank Money Market operating under the Central Bank, currently operating between 16:00-16:30 has been decreased by 5 points to 56 percent.
- On the other hand, when necessary, the Central Bank will also provide O/N funding at the Istanbul Stock Exchange Repurchase Market at 51 percent.

B) Foreign Exchange Market

The foreign exchange balance, and the level of foreign exchange liquidity in the banking system have been strengthened as a result of the Central Bank’s strict implementation of the floating exchange-rate regime that was initiated in February 2001, and due to the fact that banks have attached great importance to their exchange-rate risk management. The Central Bank has taken the following measures for the smooth functioning of the foreign exchange market in order to meet the additional demand for foreign exchange that might occur in the market due to extraordinary conditions we face today.

- Banks will be provided with one-week maturity foreign exchange deposit facility within their limit of borrowing in the Foreign Exchange Deposit Market at the Central Bank. As of today, the interest rate to be applied to the said deposits has been cut down to 8 percent from 12 percent.
- All necessary preparations have been made and the amount of foreign currency banknotes held at the branches of the Central Bank has been increased to meet demand for foreign currency banknotes that might emerge in this period. In this context, the demand for foreign currency banknotes against foreign exchange of all the institutions authorized to operate in the Foreign Exchange and Foreign Banknotes Markets with the Central Bank will be met.
- The current economic program had important achievements on the way to price stability which is the main target of the Central Bank and it is of utmost importance to minimize the volatility in foreign exchange that might risk those achievements. We have no doubt that the players in the financial system will show the common sense needed at this sensitive period. Nonetheless, the Central Bank will closely monitor the excessive volatility that might occur in exchange rates due to liquidity shortage in the market, or speculative actions and as before, will directly intervene in the event of an excessive volatility that might occur in both directions.