

THE CBRT PRESS RELEASE
ON
THE FOREIGN EXCHANGE BUYING AUCTIONS

In its announcement entitled “Monetary and Exchange Rate Policy for 2007” dated 13 December 2006, the Central Bank of the Republic of Turkey shared with the public the general framework of the exchange rate policy envisaged for 2007 and announced that it would continue to hold foreign exchange buying auctions to build up reserves in 2007 as well. In the said announcement, the maximum daily FX amount to be purchased in the auctions for 2007 was set as USD 45 million, with USD 15 million for auction amount and USD 30 million for optional selling amount and it was indicated that foreign exchange buying auctions would continue within the framework of the program announced unless extraordinary differences were observed in foreign exchange liquidity.

The main objective of the foreign exchange buying auctions held by the CBRT is to build up foreign exchange reserves in concord with the functioning and core principles of the floating exchange rate regime. This is because, in emerging economies such as Turkey – even if they implement floating exchange regime –, a strong position in FX reserves is significant in removing the unfavorable effects of potential endogenous and exogenous shocks and in boosting confidence in the country’s economy. In addition, the foreign debt payments of the Treasury need to be realized and the number of non-residents FX deposits accounts, which are special to Turkey and take up a significant part in the liabilities side of the Central Bank balance sheet, need to be gradually reduced in the long-term. Hence, the Central Bank holds foreign exchange buying auctions to build up reserves at times that provide an opportunity for doing so, i.e. when the foreign exchange supply increases more than the foreign exchange demand.

Upon observing the developments in the January-July 2007 period in terms of foreign exchange supply, it is seen that also with the effect of international liquidity conditions, capital inflows to Turkey had a rather robust course and a remarkable portion of this foreign exchange supply was accumulated in the residents’ foreign exchange deposit accounts. Unless dramatic changes in the international liquidity

conditions occur in the upcoming period either, it is considered that with the process of general elections being over and positive expectations on macroeconomic policies being in place, the capital inflows to Turkey will remain strong and residents may not be as willing to increase their foreign exchange deposit accounts as they were in the previous period and thus, the foreign exchange supply will gradually increase compared to the foreign exchange demand.

In this framework, even if an auction program has been announced for 2007, taking into account the developments pertaining to foreign exchange supply explained above and with the aim of accelerating the foreign exchange reserve build-up, the maximum daily amount to be purchased in the auctions to be held as of July 25, 2007 has been increased to USD 120 million, with USD 40 million of auction amount and USD 80 million of optional selling amount. Other auction conditions have not been changed.

The developments pertaining to foreign exchange supply will be closely monitored in the upcoming period and in the event of unforeseen developments, not only that the daily auction/optional selling amounts may be changed in either direction with prior notice, but also may the auctions be suspended for a short or long period.