

29 June 2011

THE CBRT PRESS RELEASE ON THE FOREIGN EXCHANGE BUYING AUCTIONS

The Central Bank of Turkey holds foreign exchange buying auctions to increase the level of foreign exchange reserves without conflicting with the main principles and the mechanism of the floating foreign exchange rate regime at times when foreign exchange supply increases relative to foreign exchange demand. In this framework, as it is stated in the press release of 21 December 2010 on “Monetary and Exchange Rate Policy for 2011”, the CBRT has continued accumulating foreign exchange reserves by purchasing USD 50 million daily, starting from 1 January 2011. As stated in the said press release, although the aim is to hold auctions in line with the pre-announced program, in case of unforeseen crucial developments pertaining to foreign exchange supply, amendments to auction programs can be made with prior notice. Thus, taking into account the slowdown in capital flows, the daily amount to be purchased in auctions was decreased from USD 50 million to USD 40 million, starting from 31 May 2011.

It is stated in the May 2011 Financial Stability Report that, in case the capital flows to developing countries continue to weaken, the daily amount to be purchased via foreign exchange buying auctions may continue to be gradually decreased, leading to a decline in the Turkish lira liquidity supplied to the market from this channel, which in turn would decrease the need for additional increases in the required reserve ratios in the second half of 2011 in terms of credit growth.

Recently, mounting concerns about the sustainability of the government debt of some European countries and global growth continue to adversely affect the risk appetite, which in turn lead to a slow down in capital flows towards developing countries, including Turkey. Taking this into consideration, the daily amount to be purchased in auctions was decreased from USD 40 million to USD 30 million within the framework of the flexible foreign exchange buying auction method announced in the press release of 1 October 2010, starting from today.

Our program related to foreign exchange buying auctions may again be evaluated in line with the liquidity developments in the foreign exchange market. Accordingly, daily auction amounts may be changed in either direction with prior notice, while auctions may also be suspended for a short or long period of time if needed.