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CENTRAL BANK OF THE REPUBLIC OF TURKEY

PRESS RELEASE

As is known, the Turkish Parliament has rejected the motion allowing the deployment of foreign troops on Turkish soil and sending the Turkish army to a cross-border operation. By reducing the likelihood of an impending financial aid package, this decision may initially have some repercussions on exchange rates and interest rates, creating volatility.

However, with the current economic program aiming to restructure the economy and to assure a permanent stability, several structural reforms have been realized, and certain stabilization has been achieved in the economy. As a result, the economy has become less vulnerable against exogenous shocks.

The Government has decided to send to the Parliament the 2003 Fiscal Year Budget, which is prepared in line with the primary surplus of 6,5 percent of GNP. The measures envisaged in the Budget, which are destined to increase public revenues and to reduce government spending, are expected to be instrumental in achieving fiscal discipline, and in limiting the negative reflections of a possible military operation against Iraq on domestic economy in the upcoming period. Moreover, these measures show the determination to safeguard the fiscal discipline, and thus to carry on with the strengthened current economic program in the next period. This is an important step towards completing the fourth review of Turkey's ongoing stand-by arrangements with the IMF.

Maintaining financial stability during this period is of utmost importance and the Central Bank will rapidly take all the measures needed to ensure efficient operation of the markets. 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 will meet any additional liquidity need that might emerge in the markets, by making use of current arrangements or by making additional arrangements.

Meanwhile, important achievements were obtained last year on the way to price stability, which is the primary objective of the Central Bank. Therefore, it is highly important to avoid excessive movements in exchange rates that may put these achievements at risk. We strongly believe that players in the financial system will show the common sense needed at this sensitive period we are currently undergoing. However, the Central Bank will closely monitor excessive volatility that might occur in exchange rates due to liquidity shortage in markets, or speculative actions, and will intervene in excessive volatility that may emerge in either way, as it was the case in the past.