

## THE CBRT PRESS RELEASE ON LONG-TERM REPO AUCTIONS

1. As it is known, the press release “Monetary and Exchange Rate Policy for 2009” of December 16, 2008, stated:
  - a. In paragraph 45, “In cases where the liquidity shortage in the market increases and/or becomes pronounced to be permanent, the Central Bank will rearrange its operational framework of liquidity management and opt for a technical interest rate cut”,
  - b. In paragraph 47, “In cases where the liquidity shortage in the market increases and becomes permanent, the funding of the liquidity shortage only by repo auctions with a one-week maturity may have adverse effects on longer-term interest rates and the credit mechanism. In order to eliminate likely negative outcomes, the Central Bank will hold repo auctions with maturities up to 91 days and purchase government securities to prevent funding being concentrated on one-week maturities. Moreover, depending on the permanence of the liquidity shortage, the effectiveness of long-term repo and government securities purchasing transactions, the TRY-denominated required reserve ratios may be reduced to a limited extent”.
2. A reasonable level of liquidity shortage emerged in the market since May 2008. This shortage has been eliminated via regular one-week repo

auctions. As opposed to the ongoing liquidity squeeze in the market, uncertainties regarding long term liquidity developments still persist and no clear projections can be made whether the current liquidity conditions will be permanent or not. Hence, the timing of the technical interest rate cut will be determined at a later date. However, our forecasts based on available data suggest that the liquidity squeeze in the market is expected to last for at least the next three to four months with occasional hikes. Thus, in the last Monetary Policy Committee Meeting, with the aim of enhancing the sound functioning of the banks' liquidity management and transfer mechanism, in addition to the one-week maturity repo auctions which are the basic funding instruments, it was agreed that it would be useful to resort to repo transactions with maturities up to 3 months when necessary,

3. In this context, in addition to the one-week maturity repo auctions, which are the basic funding instruments, the Central Bank will start to use repo transactions with maturities up to 3 months actively beginning from June 19, 2009. Accordingly,
  - a. The basic funding instrument of the Central Bank will continue to be one-week maturity repo auctions, which are to be held regularly.
  - b. For the next one month period, the long-term repo auctions will be held every Friday with three-month maturity, whereas in the subsequent period, they may be held on Fridays with one, two or three-month maturities depending upon the projections of the liquidity shortage. The duration of the liquidity shortage will be determinant in the choice of maturity while the extent of the liquidity shortage will be determinant in setting transaction amounts.
  - c. Long-term repo auctions will not be used as an instrument to contain short-term interest rates, which are an indicator of the Central Bank's monetary policy stance, but rather they will be

utilized in order to meet the structural liquidity need. Therefore, in the case of long-term repo auctions, the auction amount will be announced, auction interest rates will not stand as an indicator of the current stance of monetary policy and interest rates will be determined according to market conditions.

- d. The Central Bank will be able to hold standard one-week maturity repo auctions and long-term repo auctions on the same date. The repo auctions to be announced on Reuters "CBTF" page at 10:00 a.m. will be held at 11:00 a.m. and due attention will be paid to announcing the results no later than at 11:30 a.m. on Reuters "CBTG" page.
- e. Other existing auction rules will be applicable for long-term repo auctions as well.