

26 June 2006

PRESS RELEASE
ON
THE FOREIGN EXCHANGE SALE AND NEW TURKISH LIRA DEPOSIT
PURCHASE AUCTIONS HELD BY THE CENTRAL BANK OF THE REPUBLIC OF
TURKEY

The Central Bank of the Republic of Turkey (CBRT) has decided to implement a strong monetary tightening and the Monetary Policy Committee increased the policy rates on June 26, 2006. Parallel to the increase in policy rates, The CBRT has also decided to sterilize the excess liquidity in the money markets to enhance the effectiveness of the decision on monetary tightening. .

The Monetary Policy Committee has stated that proper functioning of the foreign exchange market is an important prerequisite to achieve the target on price stability. So the Committee has expressed its support for effective intervention in the market to provide foreign exchange liquidity via its available instruments.

Parallel to turmoil in the international financial markets, the financial markets of Turkey have experienced excessive fluctuations in the foreign exchange markets in the recent period. It is observed that the decline in the foreign exchange liquidity both triggers the excessive fluctuations and also encourages speculative behaviors in the market.

Following the assessments of Monetary Policy Committee, the CBRT has decided to hold “Foreign Exchange Sale Auction” and “ New Turkish Lira Deposit Purchase Auction” effective as of June 26, 2006 within the framework of the following principles.

A) FOREIGN EXCHANGE SALE AUCTIONS

Adhering to the principles of the floating exchange rate regime, the CBRT will be more vigilant against excessive fluctuations incoherent with the economic fundamentals and that undermine the stability in the financial markets and triggered by the exogenous factors,

uncertainties and speculative behaviors. Accordingly, the CBRT will provide foreign exchange liquidity to the market via auctions, in case where the foreign exchange markets experience a decline in liquidity and/or poor price formations. In case where foreign exchange sale auctions fail to meet the need for liquidity in foreign exchange markets the CBRT will not hesitate to intervene in the markets via direct foreign exchange sales. The markets and the public will be informed about the amounts of foreign exchange sales at 10.00 a.m. before auctions are held. The daily maximum amount set for the auction held on June 26, 2006 is USD 500 million.

Guidelines for Foreign Exchange Sale Auctions are as follows:

1. The institutions authorized to operate in the Foreign Exchange and Banknotes Markets may attend the auction.
2. The auction number will be posted on Reuters page CBTQ at 1:30 p.m. and institutions may submit their offers between 1:40 – 2:00 p.m. The offers shall be sent via Electronic Fund Transfer (EFT).
3. The auction will be held under the method of multiple price auctions.
4. The results for auctions will be posted on Reuter's page CBTQ.
5. The minimum amount that can be offered will be USD 1 million and multiples thereof.
6. The maximum amount offered by each institution will be limited as 20 percent of the total auction amount.
7. Institutions will not be able to change their offer amounts and prices during the auction.
8. In case there is more than one offer for the price where the auction is finalized, the distribution will be made on pro-rata basis.
9. The institutions that do not fulfill their obligations arising from the auctions will be subject to the sanctions specified in the Implementation Instructions of the Foreign Exchange and Banknotes Markets.

B) NEW TURKISH LIRA DEPOSIT PURCHASE AUCTIONS

The excess liquidity withdrawn by the CBRT from the system varies between USD 10-15 billion. In order to enhance the effectiveness and flexibility of monetary policy, it has been decided that New Turkish Lira Deposit Buying Auctions, the details of which are given below, are initiated for 1 and 2-week standard maturities in addition to the transactions already executed in the Interbank Money Market.

Guidelines for New Turkish Lira Deposit Purchase Auctions are as follows:

1. From June 26, 2006 onwards, New Turkish Lira Deposit Purchase Auctions for 1 week and 2 week maturities will be held every working day of the week
2. The total amount that will be bought in both auctions will not exceed YTL 500 million. The allocation of the total amount among the auctions will be determined by the CBRT according to the offers received.
3. The method of multiple-price auctions will be introduced in the YTL deposit purchase auctions.
4. All banks eligible to make transactions in the Inter-bank Money Market are allowed to participate in the auctions.
5. The notice for the auction will be announced on Reuters page "CBTY" and the results of the auction will be announced on Reuters page "CBTZ"
6. The banks will submit offers between 10:00-11:00 a.m.
7. The minimum amount of offers will be YTL 1 million and multiples thereof.
8. The banks will not be able to change the amounts and interest rates for their offers during the auction process.
9. The interest rates to be offered will be on a yearly basis and expressed in figures either without decimal or in percentage points as XX.00, XX.01, XX.02, XX.03, etc.
10. If there is more than one offer for the interest rate that the auction is awarded to, the distribution will be made on pro-rata basis. Any figure thus obtained will be rounded downward as 50 thousand New Turkish Liras and multiples thereof.
11. The banks willing to participate in the auction will submit their offers via EFT system with "HABR-TKLF" message. The auction code for these messages is

determined as “7” and the auction number will be announced on Reuters page “CBTY” on each auction day.

12. The winner banks are obliged to transfer the amounts offered to the CBRT with the message MERV-PAR1, reference “IHL” and explanation “Inter-Ihale Bedeli” until 5:30 p.m. at the latest on the value date.
13. No transaction commission will be charged in the auctions.
14. In case a bank fails to fulfill its obligations arising from these auctions, the current practice for the Interbank Money Market will be applied in terms of default interest rate and administrative sanctions. The bank will be subject to the CBRT’s implementation instructions and the Interbank Money Market Commitment Agreement signed by banks in case it fails to fulfill its obligations within the specified time.
15. An early notice will be published by the CBRT if a change is made in the guidelines governing the YTL deposit purchase auctions or if the auctions are terminated.