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PRESS RELEASE

GENERAL FRAMEWORK OF

MONETARY AND EXCHANGE RATE POLICY IN 2004

I. MONETARY POLICY

General Evaluation

1. In 2002 and 2003 significant achievements were obtained on the way to the economic stability, especially on the inflation front. The primary objective of the Central Bank of Turkey is to promote these achievements even further, and to attain permanent price stability in the medium-term. In the coming period, the Central Bank will continue to set monetary policies in line with these objectives, and the consistency of the future course of inflation with the targets will be taken as the basic criterion.

2. One of the outstanding characteristics of the process experienced in 2002 and 2003 was that high growth rates were attained along with the declining inflation. When this process is more closely analyzed, it is observed that the growth dynamics have come mainly from private sector and become permanent as specified in the program. In other words, determined actions against inflation, tight monetary and fiscal policies, and the developments led by this process have paved the way for a private sector-based growth.

3. Another striking point is that thanks to the achievement of inflation targets set for 2002 and 2003, the quality of inflation target as a reliable nominal anchor has improved for 2004 and later. In other words, the inflation target is

becoming a significant reference aggregate for economic agents, which they can use in eliminating future uncertainties while making their investment and consumption decisions. This, in turn, will reinforce the real economy.

4. A monetary authority, focused only on inflation in monetary policy decisions, will improve its credentials by giving explicit and understandable signals, thus increasing the chance of success of disinflation efforts. The results achieved in Turkey in the last two years have demonstrated the efficiency of this approach. Moreover, the most apparent common aspect of the central banks, which have achieved permanent price stability, is their independence and policies involving explicit signals and systematic behaviors.

5. Another common aspect of the countries that have succeeded to achieve price stability is that their public sector debt dynamics are laid on a solid base, which is not vulnerable. Hence, risk premium does not display high volatility and the relationship between short-term interest rates, the key policy tool of central banks, and long-term interest rates becomes more evident. This enhances the efficiency of the instruments used by an independent and inflation-focused central bank for attaining its targets. Moreover, in countries with chronic and high inflation, the steps taken towards establishing a solid base for public balances have a favorable effect on expectations, thus decreasing inertia and supporting the downward process in inflation.

6. In an economy where the vulnerability against external shocks is low, the targets committed by the central banks may become more reliable. If this reliability reflects on the decisions of the economic agents for the future, the costs of fight against inflation will diminish. In this context, sustaining the achievements that have been attained in Turkey in recent years in laying the debt dynamics on a solid base will eliminate the major factor that leads to uncertainty and thus will pave the way for permanent price stability.

7. It has been emphasized for years that price stability is merely a tool, and that the ultimate objective of economic policies is to raise the social welfare standard. It has also been underlined that this will only be achieved by a rapid and sustainable growth, and price stability is a "must" in order to achieve this objective. The 2002-2003 period will always be remembered as the period during which this opinion has been widely accepted, and the inflation has received the most serious blow in the last 25 years. The consistency of budget and incomes policy with the targeted inflation is a prerequisite for the maintenance of this trend in 2004.

8. The point attained in the fight against inflation can be evaluated as a story of success in Turkey's last 25-year past. However, Turkey has still a long way to go in order to achieve price stability by all means. Price stability can be interpreted as a level of inflation risk that can be neglected in the decision-making process of economic agents. In this framework, it should not be overlooked that the point we have reached is still far from price stability. Furthermore, countries, where inflation displays substantial drops in a short time, usually undergo a mood of early triumph when the inflation rate declines to single digits. And then comes relaxation. The Central Bank will keep on making every effort to prevent such thing from happening in Turkey.

9. The sustainability of fiscal discipline and structural reforms, whose importance has been constantly underlined, will continue to stand as a significant factor in the forthcoming period. The economic transformation initiated by the 2001 program should be carried on by social and institutional transformations. Particularly the steps towards increasing the productivity in public sector are of great importance with respect to its contribution to the quality of fiscal discipline. Besides, further measures for the development of competitiveness atmosphere, deepening of financial system by sustaining the banking reforms,

enhancement of investment environment for domestic and foreign investors and the improvement of good governance will help in overcoming the obstacles on the way to sustainable growth and price stability.

Inflation and Monetary Policy Implementations in 2003

10. In 2003, the Central Bank continued to set short-term interest rates, its primary policy instrument, by analyzing likely future movements of variables that affect inflation within the framework of various scenarios. In the first quarter of 2003, when the inflation was in an upward trend, it was emphasized that this had stemmed from the external and temporary factors and was foreseen that the inflation would re-enter in downward trend with the end of the "extraordinary" period. This prospect was announced to public as well. Hence, the developments following the first quarter of 2003 confirmed these prospects. The Central Bank's optimistic outlook reinforced the recovery in expectations. In this context, under the assumption that the economic program would be strictly implemented under a long-term perspective with the elimination of external uncertainties to a great extent, and that there would be no deviation from fiscal discipline and structural reforms, short-term interest rates were cut six times during April-October period. Accordingly, overnight borrowing interest rate, which was 44 percent in April, declined to 26 percent.

11. At this point we should underline the fact that if the current monetary policy is pursued consistently with the targeted inflation, the volatility created by external shocks will be temporary. Hence, CPI inflation that exceeded the path consistent with the year-end inflation resulting from the volatilities that emerged in the markets due to external shocks and costs, which rose accordingly, reached 19.3 percent by the end of November, rapidly coming so close to the 20 percent target, thanks to the elimination of the aforementioned

unfavorable developments as well as monetary and fiscal policies consistent with the target.

12. The decline in inflation in June-December period stemmed from a number of factors. These factors were the relative stability achieved in the markets, the appreciation of Turkish lira against foreign currencies, the recovery in cost conditions due to the increases in the productivity and the moderate real wages, the slowdown in food and agriculture prices, the pricing and incomes policies in public sector that were highly consistent with the inflation target, sluggish domestic demand pressure, the improving competitiveness atmosphere and the changes observed in investor and consumer sentiment.

13. All these developments, which did not only lay the groundwork for the aforementioned conditions but also supported the disinflation process, resulted from the implementation of monetary and fiscal policies compatible with the economic program. The effects of the budget discipline, and the inflation-oriented and independent monetary policy on the economic stability have manifested themselves in various ways: Firstly, implementation of an incomes and budget policy consistent with the targets became the most evident signal of seriousness in disinflation efforts. Thanks to such an attitude, even in periods marked by a rapid rise in inflation, inflation prospects for the next twelve months continued their downward trend. Secondly, monetary policy and fiscal policies implemented in line with the program targets contributed to the restoration of atmosphere of confidence, and decreased risk premium by eliminating doubts on debt sustainability. These developments have contributed to the decline in long-tem interest rates, strengthened Turkish Lira, and therefore, supported disinflation efforts on the cost side. Lastly, fiscal and monetary discipline has provided a limited revival in domestic demand, and helped to avoid a pressure on inflation on the demand side.

14. Consequently, 2002 and 2003 were the years when it became evident that there was no magical formula for reducing inflation, but implementation of a credible economic program coupled with monetary and fiscal policies compatible with the program targets could render significant achievements in the long run.

Monetary Policy in 2004 and the Risks

15. The Central Bank will continue with implicit inflation targeting under floating exchange rate regime in 2004 as well. Within this framework, the monetary aggregates would be monitored, however, the first place would be given to attaining targeted inflation rate. In other words, as was reiterated in the Central Bank reports and presentations before, considering the difficulty in predicting the money demand during disinflation process, developments pertaining to base money would not be considered as a final target but they would rather be evaluated from the point of the information they provide for the future inflation targets.

16. The end-year inflation target for 2004 has been set as 12 percent. On the eve of 2004, the gap between the expected inflation rate and the targeted rate came down to 1.9 percentage points. This figure was 15.1 percent for 2002, and 4.7 percent for 2003. These figures show that in 2004 the confidence that the downward trend would continue as planned is getting established. This confidence would undoubtedly make a positive impact on the wages, prices, rents and interest rates in the contracts to be signed in the near future.

17. Certainly, macroeconomic stability and price stability are not isolated from political and institutional stability. Therefore, sustainable price stability requires structural reforms. Accordingly, the Central Bank will not only do whatever it takes to further the achievements attained in the last two years, but also issue

all necessary warnings about the obstacles that might risk attaining price stability.

18. Within this framework, any steps towards enhancing the effectiveness of monetary policy will contribute to achieving and maintaining price stability. In particular, the continuation with the reforms intended for increasing productivity in public sector and for enhancing the quality of primary surplus will create a positive atmosphere, and calm down fluctuations in risk premium, and this will, in turn, enhance the effectiveness of the short-term interest rates used by the Central Bank as the main policy instrument in disinflation efforts. Actually, it is observed that the Central Bank's power to influence expectations and longer-term interest rates will increase in periods marked by favorable developments in macroeconomic and political environment. Therefore, any efforts and steps that could help economic agents to have a greater perspective will contribute to the sustained disinflation efforts.

19. The second important part of the structural reforms from the viewpoint of monetary policy is the deepening of the finance sector reforms. Thus, the Central Bank's influence on inflation through its main policy instrument, and the predictability of this mechanism will be reinforced. Undoubtedly, it is not possible to eliminate all of the uncertainties of the monetary policy transmission mechanism in an ever-changing world. However, strengthening of the public debt dynamic and enhancing the operation of financial system will exert a positive impact on the transmission mechanism, and this can only be achieved through carrying out the necessary structural reforms.

20. Although inflation has been significantly reduced, and expectations have been restored, there are still certain risks for inflation in the years ahead. Despite the remarkable decline in the ratio of public debt to national product, the debt dynamics are not yet at a desired level. Such a structure might make a negative

impact on the inflation expectations in the event that the economic instability persists for a long time, or there is a likelihood of a deviation from the program targets.

21. The local elections to be held in March 2003 bear some risks by raising certain doubts about the recurrence of past populist policies. The only way to drive off such doubts is to continue to keep the wage and incomes policies in line with the program. Any negative signal pertaining to this issue can exert a negative impact on expectations about inflation and current account deficit and general macroeconomic balance. Moreover, wages and incomes policy that is not harmonized with macroeconomic targets, even if measures intended for compensating these effects are taken, would increase uncertainty and risk perception, and thus lead to deterioration in expectations and unfavorable consequences about inflation.

22. Meanwhile, the prospective course of food and agricultural prices can always be accepted as a risk element for inflation. The downward trend in the rate of increase in the prices of these groups contributed to the decline in inflation in the 2^{nd} and 3^{rd} quarters of 2003. The likelihood that this downward trend might not continue in 2004 due to supply-induced shocks remains as a risk factor for inflation. Meanwhile, despite improvements in expectations on the way to overcome inertia in inflation, it is observed that backward-looking pricing behavior has not been entirely abandoned. At this point, it is of utmost importance that economic agents make price decisions in compliance with the targeted inflation rate.

23. In economies where fixed exchange rate regime has been abandoned in favor of floating exchange rate regime, it has been observed that under inflation-focused credible policies, the relationship between the exchange rate and inflation starts weakening. Likewise, although floating exchange rate regime does not have a long

history in Turkey, the preliminary studies indicate that the coefficient of the exchange rate pass-through has already started to decline. However, exchange rates still hold good as one of the most important determinants among inflation dynamics. Thus, the course to be followed by the exchange rates will continue to be an important factor for 2004 inflation as well. If the fiscal and monetary policies compatible with the economic program are implemented in 2004 and the structural reforms are sustained, we do not expect any development that might jeopardize the inflation target. However, exchange rate volatility may still remain as a risk factor unless structural reforms required to enhancing the quality of public finances discipline in the medium and long run are carried out.

II. LIQUIDITY MANAGEMENT AND EXCHANGE RATE POLICY

General Assessment

24. The Central Bank deems stability and developments in finance markets as a supportive goal for an effective implementation of policies pertaining to price stability. Therefore, the Central Bank, whose primary objective is to achieve and maintain price stability, will continue to conduct liquidity policy in line with the final goal of price stability and to make all necessary contributions to the stability and development of finance markets.

25. It is now generally accepted that the floating exchange rate regime has had a significant role in establishing a more stable economy and decreasing vulnerability to internal and external shocks. Floating exchange rate regime, which was considered as a “won’t work for us” regime –although implemented in approximately 82 countries in 2001, seems now to be established. Meanwhile, it has become clear that exchange rate, which is a policy instrument in currency peg regime, and therefore a “cause”, results from the economic fundamentals, the current stability program and expectations, but especially from the balance

of payments expectations. At this point, it will be beneficial to clarify once again the two points regarding the Central Bank's exchange rate policy, which is sometimes debated in the public.

26. The first point is related to the volatility interventions. It is not relevant to try to measure excessive volatility in exchange rates through a mechanical way. For instance, just looking over the recent volatility data would not be a healthy approach to estimating the central banks' intervention timing, since the central banks have to consider the prospective impacts of their steps in the future. Within this framework, such considerations as "If the Central Bank had been sincere in the volatility criteria, than it should have intervened by now", or "Last intervention did not take place due to volatility, the Central Bank intervened just by looking at the level" would be inaccurate and unjust, so long as these considerations depended on the past volatility data only. While making intervention decisions, the Central Bank does not only take into account the magnitude of current or past volatility, but also try to foresee the future magnitudes of volatility under conditions where intervention has taken place or not.

27. The second point is related to foreign exchange purchasing auctions. Theoretically, in a genuine floating exchange rate regime, the foreign exchange reserve level is not supposed to be significant. Departing from this assumption, the Central Bank's efforts to implement floating exchange rate regime and at the same time to increase reserves through foreign exchange purchasing auctions might seem contradictory at first glance. However, there is no contradiction. Especially in developing economies, a strong foreign exchange reserve position contributes to overcoming the negative impacts of internal and external shocks, realizing external debt service systematically and increasing confidence of international financial markets in the country. The geographical position of Turkey, its external debt service and the foreign exchange deposits

held at the Central Bank, which carries an obligation to the workers residing abroad, make the foreign reserves even more significant, even if under the floating exchange rate regime. Of course this significance is not as much as it is in the fixed exchange rate regime or currency peg regime.

28. Another point to be considered regarding the foreign exchange purchasing auctions is the foreign exchange denominated assets of the economic agents accumulated over the years due to past instabilities. Dollarization, is expected to lose ground over time due to drastic changes in the corrupt economic structure, which is actually the main reason of dollarization. This process is actually called the "**reverse currency substitution**" and at this point, the difference between the "**reverse stock dollarization"** and the **"reverse flow dollarization"** should be identified. Generally, at the outset of a **reverse currency substitution** process, or may be for a certain period, **reverse flow dollarization** is expected to dominate. In other words, even though there is no decline in the FX-denominated financial assets held in the portfolios of economic units, the real value of these assets, for instance the ratio of FX-denominated financial assets to national income might decrease in time and come down to a marginal level. If just the opposite is noticed for the national currency denominated financial assets during the same period, then it can be asserted that a **reverse flow dollarization** is taking place. This also means that relative foreign exchange demand is decreasing. Meanwhile, dissolving FX- denominated financial asset stocks would mean an increase in relative foreign currency supply as well as a decrease in foreign currency demand. In both cases, at a certain price level, it can be denoted that an excess foreign exchange supply is developed. Thus, the Central Bank does not decide on foreign exchange purchasing auctions just by looking at the stock values.

Liquidity Management and Exchange Rate Policy in 2003

29. Following the February 2001 crisis, the Central Bank purchased government securities worth TL 14 quadrillion from state-owned banks and the banks transferred to Saving Deposits Insurance Fund (SDIF) in order to meet their short-term liquidity needs, and this, in turn, created a substantial amount of excess liquidity in the market. This excess liquidity prevailed throughout 2002 and was TL 9.7 quadrillion by the end of the year.

30. Excess liquidity persisted and varied between TL 5 quadrillion and TL 14 quadrillion throughout 2003. The Turkish lira created through purchasing of foreign exchange by the Central Bank, interests disbursed as a result of excess liquidity withdrawn through open market operations and interests disbursed for reserve requirements have been the factors that pushed up excess liquidity. Especially, the creation of excess liquidity through the Central Bank's intensive purchase of foreign exchange as a result of **reverse currency substitution** and foreign exchange inflow facilitated the Turkish lira borrowing and net foreign currency debt payment back of the Treasury, and in a sense has provided the Treasury an opportunity to sterilize excess liquidity. Thus, foreign exchange debt payment back by the Treasury, disbursement of government security coupons held at Central Bank portfolio by the Treasury and the rise in demand for base money have been the factors that decreased excess liquidity. As a result of these factors, excess liquidity became approximately TL 8.3 quadrillion by the end of the year.

31. The Central Bank sterilized excess liquidity in the market in an active manner, by means of Turkish lira deposit operations in the Interbank Money Market and of the reverse repo transactions carried out within the framework of the open market operations at the Repo and Reverse Repo Market of the Istanbul Stock

Exchange Market and also ensured that the short-term money market interest rates remained at the pre-determined levels consistent with the inflation target. In addition to the four week-maturity Turkish lira deposit auctions, the Central Bank started two week-maturity Turkish lira deposit purchase auctions in November, with the aim of extending the maturity of the excess liquidity it has sterilized and bringing more flexibility to debt management. Central Bank also lifted the limitation on the auction amount to facilitate the setting of the amount to be purchased in the auctions flexibly according to the market liquidity.

32. The uneven distribution of market liquidity among the money markets and the banks has exerted pressure on the money market interest rates from time to time, especially in May-July period when excess liquidity declined. Nevertheless, the liquidity facility provided to the primary dealer banks by the Central Bank prevented excessive volatility in the money market interest rates. Within this framework, the primary dealer banks resorted to the Central Bank's limited repo facility three times within the said period.

33. The Central Bank, whose legal task is to achieve price stability, gives utmost importance to the supporting objective of maintaining financial stability, and thus effectively uses immediate tools when faced with threat to financial stability. Within this framework, the Central Bank minimizes market volatility with the help of certain measures and announcements. The Central Bank extended foreign exchange deposit facility to the banks that were experiencing temporary shortage of foreign exchange liquidity during the Iraq War in March, and eased the interest rates for such transactions. Similarly, following the terrorist attacks in Istanbul in November, the Bank extended unlimited borrowing facility to the banks, temporarily pulled down the lending interest rate, and thus reduced the tension and potential volatility in the markets, by also helping payment systems to work smoothly.

34. The Central Bank attaches utmost importance to the formation of exchange rates under market conditions with the minimum intervention possible. This is because greater stability in exchange rates cannot be achieved through artificial practices or frequent interventions, but through strengthened macroeconomic fundamentals and reduced fragility of the economy. Within this framework, in 2003, the Central Bank continued with the effective implementation of the floating exchange rate regime that was initiated following the February 2001 crisis and let exchange rates be formed under market conditions. The Bank has not performed any foreign exchange buying or selling operations intended at determining the level or direction of the exchange rates. The Bank's foreign exchange buying or selling operations aimed at controlling excessive volatilities. In the May-October 2003 period, due to either excessive volatility in the exchange rates or those developments that could cause excessive volatility in the exchange rates, the Central Bank intervened in the foreign exchange market in the form of foreign exchange buying operations. The Bank did not resort to foreign exchange selling operations in the said period.

35. Strong international reserves are crucial in the sense that they not only enhance market confidence and effectiveness of the Central Bank monetary policy, but also facilitate domestic and external borrowing. Within this framework, the Central Bank intends to increase international reserves at times of foreign exchange surplus, acting in a manner not to conflict with the floating exchange rate regime. 2003 was a year of excessive foreign exchange surplus. Together with increased confidence in the economic program, there has been a decline in foreign exchange deposit accounts coupled with an intense foreign exchange and banknote inflow from March onwards, while the demand for Turkish lira instruments was especially bolstered by foreign investors from August onwards. With the aim of strengthening its international reserves, the Central Bank sterilized the foreign exchange surplus by means of auctions in harmony with the floating regime. In order to increase the effectiveness of the auction method,

the Central Bank made certain revisions in the amounts as well as in the method of the auctions in line with the formation of a foreign exchange surplus and in consultation with the market participants. Thus, the Bank mopped up a total of US dollar 9.9 billion of foreign exchange, of which US dollar 4.2 billion came from interventions and US dollar 5.7 billion from the auctions. The Turkish lira liquidity created in return equals to Turkish lira 13.9 quadrillion. The amount of foreign exchange bought by the Central Bank in 2003 is the highest ever bought by the Bank in one single year.

36. In 2003, the Central Bank continued its contributions to the deepening and effective functioning of the financial markets by reducing the intermediation costs of the banking sector. With the aim of reflecting the developments in the market interest rates, a rule has been laid down for the determination of the interest rate applied to the Turkish lira required reserves. The rule provided that the interest rate applied to the Turkish lira required reserves should be kept within 75 to 80 percent of the weighted average of the simple interest rates applicable to deposits in the banking sector. Besides, effective from 2 January 2004, the Central Bank abandoned the practice of charging commission from transactions, other than those realized under the Daylight Overdraft Limit facility, in the Interbank Money Market. With this change, the discrepancies between the Central Bank quotations and the secondary market interest rates caused by the commissions and taxes will be avoided and the operational costs of banks will be reduced.

37. The amount of excess liquidity in the markets may fluctuate once in a while depending on (i) net foreign exchange borrowing of the Treasury, (ii) Central Bank's sterilization of excess liquidity that emerged as a result of reverse currency substitution, inflow of non-system foreign exchange and foreign investment, (iii) the amount of credit to be extended to the Saving Deposits Insurance Fund against payment to the wronged Imarbank depositors, however,

it is expected that the excess liquidity will continue the course of the average of 2003.

38. As a preparation for inflation targeting strategy and within the framework of the modern banking practices, important changes were introduced in the operational structure of the monetary policy in 2002 and the said practices were strengthened in 2003. Therefore, no substantial changes are envisaged in the liquidity management strategy in 2004. Excess liquidity in the market will continue to be sterilized by means of **Turkish lira deposit transactions** in the Interbank Money Market and reverse repos at the Istanbul Stock Exchange Repo-Reverse Repo Market under the open market operations. Although no liquidity shortage is expected in 2004, standard and daylight repo auctions will be actively used and short-term interest rates will be formed in line with the Central Bank's interest rates.

39. At this point, it would be helpful to reiterate the current market arrangements and the ones that are envisaged to be introduced in 2004:
    a. Within the framework of daily transactions and "Late Liquidity Window" facility, Central Bank will continue to announce lending and borrowing interest rates in line with the inflation target. Thus, short-term money market interest rates will be formed within the certain band. Within this framework, the banks will be able to carry out lending or borrowing operations with the Central Bank within their limits at the Interbank Money Market between 10:00-16:00 hours and at the ISE Repo-Reverse Repo Market between 10:00- 14:00 hours.
    b. The Central Bank will continue to provide temporary liquidity to the banks between 09:00 a.m. – 3:00 p.m., restricted with limitations of transactions within the framework of "Daylight Overdraft Limit".
    c. The Central Bank will continue to provide liquidity to the banks that are in need of temporary liquidity, without any limitations, between 16:00-16:30

hours, through "Late Liquidity Window Facility" within the framework of the "Lender of Last Resort" function, provided the subject banks keep adequate securities.

d. The liquidity facility provided to the primary dealer banks through repo transactions conducted within the framework of the open market operations will continue and the interest rates for the subject operations will be lower than that applicable to the Central Bank's daily lending operations.
e. The Central Bank will continue to hold Turkish lira deposit auctions that it introduced to extend the maturity of the term of sterilized liquidity and to activate monetary policy.
f. Although excess liquidity is expected to continue in 2004 as well, in the event of a Turkish lira liquidity shortage, normal repo tenders and quick repo tenders will be resumed.
g. Banks will be able to buy foreign exchange deposits from the Central Bank within the described lending limits at the Foreign Exchange Market at the Foreign Exchange and Banknotes Market. Moreover, the intermediation transactions at the mentioned market will continue to be limited with the volume of deposits that they took over from the banks taken into the receivership of SDIF in 2001.

40. As was observed in 2002 and 2003, the above-mentioned market arrangements do not only serve to an effective liquidity management, but also to preventing the negative impacts of possible exogenous shocks on the markets and excessive volatility in short-term Turkish lira interest rates. In order to activate monetary policy, the Central Bank may imply new arrangements in addition to the above-mentioned ones when it deems necessary.

41. The floating foreign exchange regime will continue in 2004 and exchange rates will be determined under market conditions. However, in case of excessive

volatility, the Central Bank may intervene in the foreign exchange market in a limited manner by selling or buying foreign exchange, as it did in 2003. Moreover, the Central Bank will continue to build up its foreign exchange reserves as long as the developments in balance of payments and reverse currency substitution process allow. The build up will be handled by means of preannounced transparent auctions that rely on mechanisms established in collaboration with the market actors. In case of an adverse situation, the Central Bank may, with a prior notice, suspend the auctions before the end of the period. It should be reiterated here that the foreign exchange reserves has reached quite a satisfactory level and the Central Bank will not resort to any undue interventions. The Central Bank will continue to attach utmost importance to having a strong reserve position and prudent management of this reserve, which is the national wealth of Turkey.

42. Though emphasized several times by the Bank, we want to highlight once more the risks of bearing open or excessive foreign exchange position under floating exchange rate regime. In floating exchange rate regimes, the rates may display severe ups and downs due to exogenous shocks, economic developments and changes in expectations. The tendency to hold open or excessive foreign exchange positions further aggravates the severity of these fluctuations. For this reason, the economic agents are recommended to refrain from holding foreign exchange position risk and to balance their FX positions with forward transactions. Therefore, utilization and popularity of the forward transactions market is very important. The Central Bank provided great support to taxation and infrastructure arrangements of forward transactions market and actively participated in the publicity campaign for it. The Central Bank welcomes the contribution made by this publicity campaign on the development of forward transactions market in 2003. However, the current developments are not considered to be adequate. Therefore, the Central Bank will continue to provide support to the forward transactions market in the fields of technical assistance and publicity in 2004 as well.