

PRESS RELEASE
ON
THE CBRT FOREIGN EXCHANGE BUYING AUCTIONS

The Central Bank of the Republic of Turkey (CBRT) announced the general framework of the monetary and exchange rate policies for 2006 through the press releases on “General Framework of Inflation Targeting Regime and Monetary and Foreign Exchange Policy for 2006” dated 5 December 2005 and on “the CBRT Foreign Exchange Buying Auctions For 2006 and New Turkish Lira Interest Rates” dated 30 December 2005. In these press releases it was stated that:

- Taking into account the likely contribution of a strong foreign exchange reserve position to boost confidence in the current economic program, foreign debt payments of the Treasury and the need to gradually reduce the amount of high-cost remittances accounts in the long-term, which constitute a significant part in the liabilities side of the CBRT’s balance sheet, the CBRT had held foreign exchange buying auctions to build up foreign exchange reserves after 2002;
- The CBRT, which did not have any exchange rate target under the floating exchange rate regime, would make foreign exchange purchases via auctions whose terms are announced annually in advance in order to affect the supply and demand conditions in the foreign exchange market and thus the level of exchange rates at a minimum level, and stick to the basic principles and functioning of floating exchange rate regime within the framework of the moderate reserve-raising strategy;
- The CBRT might, with a prior notice, suspend the auctions temporarily for short or longer periods in cases where the depth of foreign exchange market is lost due to serious exogenous shocks or unforeseen extraordinary developments, causing excessive volatility in exchange rates and unhealthy price formation.

In this context, the CBRT decided to suspend foreign exchange buying auctions starting from 16 May 2006 in line with the decrease in foreign exchange supply due to the global liquidity conditions. However, following the measures taken by the CBRT against the volatility in financial markets in May and June 2006 and the recovery of the global liquidity conditions, the foreign exchange market has become relatively stable. For this reason, the CBRT has decided to resume the suspended foreign exchange buying auctions as of 10 November 2006. Accordingly, the maximum daily amount to be purchased in the auctions will be USD 45 million, with USD 15 million for auction amount, and USD 30 million for optional selling amount. The other rules for the auctions remain the same and will continue to be applied as before. This auction program will continue in 2007 as well, unless extraordinary developments are seen in foreign exchange liquidity conditions.

On the other hand, as was the case before, the CBRT may, with a prior notice, suspend the auctions temporarily for short or longer periods when the depth of the foreign exchange market is lost due to serious exogenous shocks or unforeseen extraordinary developments, when the resulting excessive volatility and unhealthy price formation is observed in exchange rates.