

PRESS RELEASE ON AMENDMENTS RELATED TO OPEN MARKET REPO AUCTIONS

As is known, one-week repo auctions, the main funding instrument of the Central Bank of the Republic of Turkey (CBRT), have been conducted via “quantity” auction method since 20 May 2010, and the issues regarding the auctions were announced to the public in the press release of 20 May 2010. Accordingly, under the current circumstances, each institution may bid up to the announced auction amount and if the total amount of bids is less than or equal to the announced auction amount, all bids are allocated in their full amount. If the total amount of bids is higher than announced auction amount, the auction amount is distributed to the institutions via multiplying each institution’s total bid amount with the ratio of auction amount to total bid amount.

The increases in reserve requirement ratios, which were recently started to be used actively, caused significant squeeze in liquidity conditions of Turkish Lira market in 2011. With this development, from time to time it is observed that institutions bid beyond their needs at the repo auctions. For instance, while the average ratio of total bid amount to announced auction amount was 3.3 in the period from 20 May 2010 till the end of the year, this ratio has increased to 7.5 in the auctions conducted so far in 2011. Nevertheless, none of the banks’ borrowing amount has exceeded the 17 percent of the announced auction amount in the auctions conducted since 15 April 2011, the date when the liquidity conditions in the market were considerably squeezed due to reserve requirement rate hikes.

In this perspective, each institution’s bid for the repo auction is limited by 20 percent of the announced auction amount starting from 5 August 2011 with the objective of ensuring, by closely monitoring all market developments, that institutions bid according to their needs thereby enhancing efficiency of the liquidity management and facilitating a more balanced distribution of central bank liquidity across the system. For example, the maximum bid amount per institution can be 2 billion Turkish lira in a 10 billion Turkish lira auction. If the total amount of bids received in a

10 billion Turkish lira auction is assumed to be 16 billion Turkish lira, then the institution will be allocated for 1.25 billion Turkish lira.

For intra-day repo auctions, which could be conducted in emergence of liquidity shortage due to some unforeseen reasons, the 20 percent limit will not be valid and the bid amount of each institution will be restricted with the announced auction amount. The other terms related to quantity auctions will remain valid.

The CBRT will continue to provide the amount of liquidity needed by the market in all market conditions as before, and continue to pay attention to a more balanced provision of liquidity across institutions.