

25 February 2005

THE CBRT PRESS RELEASE
ON
THE REPURCHASE AUCTIONS

1. In our press release of 20 December 2004 entitled “Monetary and Exchange Rate Policy for 2005” the guidelines for liquidity management in 2005 were announced and the following points were specified in “Liquidity Management” section:

- a)** The level of liquidity of the New Turkish Lira (YTL) is strongly influenced by the Treasury’s borrowing in foreign currency and the Central Bank’s foreign currency purchasing. While YTL liquidity increases as a result of the Central Bank’s foreign currency purchasing, the net foreign currency debt reimbursement by the Treasury has no sterilizing effect on the YTL liquidity, since the Treasury’s debt repayments are made without borrowing YTL. Obviously, it is not possible to make a precise prediction of what course these two factors affecting liquidity will take. However, in the overall scenario created by the Central Bank, YTL liquidity will continue to decrease gradually, leading to a liquidity shortage in the first quarter of 2005.
- b)** In the event of a liquidity shortage in the market, the Central Bank will mainly regulate the liquidity by holding “one-week” repo auctions.

2. Recently, it has been observed that the amount of the Central Bank’s foreign currency buying and the Treasury’s net foreign currency debt reimbursement has turned out to be higher than that predicted in the main scenario stated in our above-mentioned press release. However, due to the strong demand for bonds in line with improved expectations, the Treasury’s issue of long dated bonds in large volume with better terms, and with the help of higher tax revenues, the increase of the Treasury’s account reserves held at the Central Bank has lowered the level of liquidity in the market. The ensuing liquidity shortage is expected to return to liquidity surplus once the Treasury starts making disbursements from Central Bank accounts in the upcoming period.

3. Nevertheless, since the liquidity is not spread evenly within the banking system, there can be fluctuations in money market interest rates when the liquidity declines below a certain level, even if it does not turn to negative liquidity. The Central Bank has decided to hold a repo auction with one-week maturity on 25 February 2005 in order to ease the pressures of this temporary liquidity shortage on the money market interest rates. The details of repo auctions will be announced on CBTF page on the Reuters system at 10:00 a.m. as usual.

4. On the other hand, there is no need for the time being to fully implement the liquidity management strategy, the utilization of which was announced in our press release dated 20 December 2004, in case of a permanent liquidity shortage, considering the nature of the current liquidity shortage explained above. The Central Bank will continue to hold repo auctions in the next period when there is a substantial, albeit a temporary, liquidity shortage.