

**PRESS RELEASE ON
THE FOREIGN EXCHANGE BUYING AUCTIONS**

1. In its press release of 10 December 2009 on “Monetary and Exchange Rate Policy for 2010”, the Central Bank of the Republic of Turkey (CBRT) announced the general framework of the exchange rate policies envisaged for 2010 and declared that the foreign exchange buying auctions held with the aim of building up foreign exchange reserves would continue. As stated in the said press release, although there is no exchange rate level to maintain in a floating exchange rate regime, a strong foreign exchange reserve position is very important for emerging economies like our country to curb the unfavorable effects of potential internal and external shocks and to boost confidence in the country. Therefore, the CBRT holds foreign exchange buying auctions to build up reserves at times when foreign exchange supply increases relative to foreign exchange demand.
2. The financial crisis, which started in 2007 and deepened after September 2008 affected our country's financial markets. The said crisis once again underlined the importance of having a strong foreign exchange reserve position. During the crisis measures were immediately taken to alleviate problems of the banking system related to foreign exchange liquidity through our strong reserves accumulated over the years. The problems related to foreign exchange liquidity in this period were not country-specific. Therefore, while countries signed mutual agreements in order to eliminate liquidity problems, international institutions also systemically tried to establish mechanisms that would eliminate potential liquidity problems of this extent. However, foreign exchange reserves are still the most significant safeguard for a country in terms of financial stability.
3. Hence, on 4 August 2009, the CBRT resumed foreign exchange buying auctions, which had been suspended during the crisis. In its press release of 2

August 2010 it announced that in order to accelerate foreign exchange reserve accumulation, the maximum daily amount to be purchased in auctions would be increased to an auction amount of USD 40 million and an optional selling amount of USD 40 million; from an auction amount of USD 30 million and an optional selling amount USD 30 million, respectively.

4. As meticulous as it has been in minimizing the impact on supply and demand conditions in the foreign exchange market, the Central Bank has been buying foreign exchange via transparent foreign exchange buying auctions with preannounced terms and conditions. . Although the aim is to run auctions in line with the pre-announced program, in case of unexpected significant developments pertaining to foreign exchange supply, amendments to auction programs can be made with prior notice. Despite several changes to auction programs, the aim is to keep auction programs untouched as much as possible.
5. However, the whole world is undergoing an extraordinary period. There may be abrupt changes in the outlook of global financial markets and the risk appetite, which may, in turn, cause significant fluctuations in capital flows towards emerging countries, including Turkey. Therefore, in order to benefit from capital inflows more effectively with a view to strengthening foreign exchange reserves and to enhancing resilience against volatile capital flows, the CBRT decided to alter the method of foreign exchange buying auctions to be effective as of 4 October 2010. Accordingly;
 - i. The daily foreign exchange buying auctions will continue to be held as announced in the CBRT's press release of 2 August 2010. In other words, within the framework of the daily foreign exchange buying auctions, the maximum daily amount to be purchased in auctions will be USD 80 million, with USD 40 million of auction amount and USD 40 million of optional selling amount, as long as the amounts set on 3 August 2010 are kept unchanged.
 - ii. However, in case liquidity conditions improve on the back of developments in global financial markets and capital inflows strengthen, the CBRT may raise the maximum daily amount to be purchased

through auctions in order to accelerate foreign exchange reserve accumulation. In case the CBRT decides to accelerate foreign exchange purchases, the maximum additional amount to be purchased in any week will be posted on Reuters page CBTQ, at 11.00 on the first working day of the respective week.

- iii. In addition to the regular foreign exchange buying auctions, the portion of preannounced amount that may be bought within the day will be posted on Reuters page CBTQ at 13.30 and the auction will be held between 13.35-13.45. However, on days when the CBRT makes additional purchases, successful bidders will not have the right to sell an optional amount.
- iv. For example, in addition to the regular foreign exchange buying auctions, in order to accelerate reserve accumulation in a period of expected strong capital inflows, the procedure below will be followed;
 - a. If a decision is made to buy an additional amount of USD 300 million in a week, this amount will be announced to the public on the first working day of that week at 11.00.
 - b. If it is decided to buy 20 percent of the additional amount in the first working day of the week, at 13.30 it will be announced that, in addition to the 40 million that has been bought regularly, an additional 60 million will be bought, which amounts to USD 100 million.
 - c. The auction will be held between 13.35-13.45.
 - d. However, in contrast to the regular foreign exchange buying auctions, the successful bidder will not have the right to sell an optional amount.
 - e. In this auction, up to USD 100 million will be bought, in which case the additional amount to be purchased will be USD 60 million.
 - f. Accordingly, for the rest of the week, a maximum of USD 240 million will be bought in total, in addition to the regular foreign exchange buying auction amounts.
 - g. If no decision is made for an additional purchase the following day, only the regular foreign exchange auction will be held. In

other words, in the auction, which will be held the next day, USD 40 million will be purchased and an optional amount of USD 40 million will be granted to successful bidders. As no additional purchase has been made that day, again a maximum amount of USD 240 million in total may be bought during the rest of the week.

- h. If the CBRT decides to make an additional purchase other than the regular foreign exchange buying auctions, the additional amount will be announced to the public at 11.00 on the first working day of the next week.
- 6. It was decided to hold an additional foreign exchange purchase within the week beginning with 4 October 2010, to accelerate reserve accumulation and USD 300 million is set as the maximum additional amount to be purchased.
- 7. Although guidelines for foreign exchange buying auctions have not been changed, these guidelines are explained again below for informational purposes:
 - i. Only banks authorized to operate in the Foreign Exchange and Banknotes Markets in the CBRT are eligible to participate in auctions.
 - ii. No auction will be held on days when payments systems are closed in the USA even if it is a working day in Turkey, on half-working days and on days when direct foreign exchange intervention by the CBRT takes place prior to the start of the auction.
 - iii. Auctions will be held under the multiple price auction method.
 - iv. The minimum amount that can be bid for the auction is USD 1 million and multiples thereof. The maximum amount that can be bid is limited to the total amount to be bought in the auction.
 - v. Banks will not be able to change their bid amounts and prices during the auction.
 - vi. If there is more than one bid at the price where the auction is finalized, the distribution will be made on pro-rata basis.
 - vii. The banks willing to participate in the auctions will send their bids through the EFT (Electronic Fund Transfer) System by stating the amount and price.

- viii. After the auction has been finalized, the total bid amount, average price, maximum price and minimum price related to the auction will be posted on Reuters page CBTQ. Following this announcement, banks may exercise their right to sell the optional amount till 14.00 in the regular foreign exchange buying auctions in which no additional purchase is made. The optional amount used will also be announced on the same page.
 - ix. No transaction commission will be charged in the auctions.
 - x. Institutions that do not fulfill their obligations arising from the auctions will be subject to sanctions specified in the Instructions of the Foreign Exchange and Banknotes Markets.
8. As in previous cases, developments pertaining to foreign exchange supply will be closely monitored in the upcoming period and in the event of unforeseen developments, not only daily auction/optional selling amounts may be changed in either direction with prior notice, but also auctions may be suspended for a short or long period.