

**PRESS RELEASE ON THE PRACTICES RELATED TO FOREIGN EXCHANGE
MARKETS AND OPEN MARKET TRANSACTIONS**

1. As is known, with the aim of avoiding negative impacts of developments in the global economy on the financial stability of our country, the Central Bank of the Republic of Turkey (CBRT) has taken several measures related to foreign exchange and Turkish Lira liquidity since October 2008. The said measures have provided significant support to restoring financial stability.
2. With the beginning of the normalization process in international markets, the exit strategy, which includes withdrawing measures taken during the crisis, was announced to the public in the press release of 14 April 2010 on the “Central Bank of the Republic of Turkey Monetary Policy Exit Strategy”. In the said press release, the CBRT declared that it plans to take measures related to foreign exchange liquidity to pre-crisis levels as normalization in global markets becomes significant. In this framework, considering the improvement in international liquidity conditions and the increase in foreign exchange liquidity of the banking system in the recent period, the intermediary functioning of the CBRT in the Foreign Exchange and Banknotes Markets Foreign Exchange Deposit Market is suspended. Even though the intermediary functioning of the CBRT in the foreign exchange deposit market is over, the banks will still be able to borrow foreign exchange deposits from the CBRT within their limits. However, the maturity of the said transactions will be one week, as was the case before October 2008.
3. On the other hand, during the global crisis weakening of capital flows all around the world slowed down capital inflows to our country, thus causing an increase in liquidity shortage and as the liquidity shortage became permanent, starting from 19 June 2009 in addition to the 1-week repo auctions, the basic

funding instrument of the CBRT, 3-month repo auctions were introduced. As stated in the 17th paragraph of the exit strategy announcement published on 14 April 2010, “As long as the liquidity shortage continues at high levels, although the amount may change depending on liquidity level, three-month repo auctions will continue to be a regular funding instrument”. In order to implement the existing liquidity management framework effectively, the liquidity shortage funded by 1-week repo auctions should not be below 4-5 billion Turkish Liras (TL). As of 14 October 2010, the outstanding amount funded by repo auctions was 13 billion TL, of which 9 billion TL belongs to 1-week repo auctions. In the upcoming period, due to ongoing FX purchases of the CBRT and the Treasury’s reduction of its cash account balance within the CBRT, the liquidity shortage is expected to decline from time to time. Thus, considering that 3-month repo funding is no longer needed, those auctions have been terminated.

4. To support the primary dealership system, the CBRT has provided overnight or weekly repo facilities since 3 September 2002 at preannounced interest rates to primary dealers. Given the exit strategy framework, as the gradual technical interest rate adjustment process has been achieved, the main funding instrument of the CBRT will be the 1-week repo auctions. On the other hand, since other short-term lending and borrowing options are implemented at overnight maturity, in order to harmonize maturities of similar liquidity management tools, the repo facility, which is extended to primary dealers within the open market operations framework, will only be available at overnight maturity starting from 15 October 2010.