

PRESS RELEASE
ON THE FOREIGN EXCHANGE INTERVENTION OF THE
CENTRAL BANK

The Central Bank has announced through several press releases that, under the floating exchange rate regime, the level of exchange rate is determined by supply and demand conditions in the markets, but still the volatility in the exchange rate has been closely observed, and that the Central Bank may directly intervene in the markets in the event of an excessive volatility that might occur in both directions. In this context, the Central Bank directly intervened in the foreign exchange markets in 2002, namely on 11th of July and 24th of December by selling foreign currency and on 2nd of December by buying foreign currency, due to the excessive volatility in exchange rates.

There has recently been an excessive volatility in exchange rates, especially as of end April, due to the ending of Iraq war and investors' tendency toward Turkish lira investment instruments as well as the upsurge in FX selling because of the need for Turkish lira liquidity, resulting from tax payments and lack of foreign exchange demand. Favorable expectations created by inflation figures announced on 3rd of May and the successful borrowing of the Treasury over the amounts to be redeemed has contributed to the reduction in excess TL liquidity.

Hence, the Central Bank has directly intervened in the markets today by buying foreign currency in order to dampen excess volatility. As in all other interventions in both directions, this intervention should not be interpreted as a concern of the Central Bank about the actual level of exchange rates.

Moreover, the Central Bank has initiated to hold foreign exchange buying auctions as of 6th of May due to the excess foreign exchange supply that started at the end of February 2003. The purpose here is to strengthen the international reserve position in a way not to contradict with the floating exchange rate system and without disrupting the long-term trend and natural equilibrium of exchange rate. In this framework, the Central Bank will continue to conduct foreign exchange buying auctions within the principles stated in our announcement of May 5, 2003.