

## Box 2.1

### Supporting the Conversion to Foreign Currency-Protected TL Time Deposits and Participation Accounts and the Conversion to TL Time Deposits

In order to prioritize the Turkish lira (TL) in deposit preferences of savers and to increase the share of TL in banks' balance sheets, the foreign currency-protected deposit and participation account (KKH) scheme was introduced in December. The KKH scheme consists of TL accounts to be opened under the support of the Ministry of Treasury and Finance (MoTF) and conversions from foreign currency (FX) deposits to TL accounts to be supported by the CBRT. Savings of TL depositors are hedged against the exchange rate risk with the KKH scheme supported by the MoTF. The CBRT-supported scheme enables FX deposit account holders to switch to TL deposit accounts. Depositors switching to TL accounts from their foreign currency accounts under the support of the CBRT will be able to continue to hedge their savings against the exchange rate risk by using the MoTF-supported scheme at the end of the maturity period. Details of both schemes are presented in Table 1.

Effective as of 21 December 2021, "Foreign Currency-Protected TL Time Deposit and Participation Accounts", designed to protect the value of TL savings of resident real persons against losses in terms of foreign currency, were introduced by the MoTF. In addition, the CBRT announced that it would provide incentive to encourage the conversion of foreign currency and gold deposits into Turkish lira deposits upon the request of resident real and legal persons holding these accounts. For the conversion from foreign currency accounts to TL accounts, resident real and legal persons will be eligible to benefit from the incentive provided that they already had an FX deposit account or FX participation fund denominated in US dollars, euros or British pounds by 20 December 2021 (for real persons) and 31 December 2021 (for legal persons). For the conversion from gold accounts to TL accounts, the incentive scheme will cover gold accounts held by resident real persons as of 28 December 2021 and by resident legal persons as of 31 December 2021 as well as gold accounts to be opened against wrought or scrap gold after these dates.

The system is based on the encouragement of savers to shift to TL-denominated assets and compensation by the public sector for any losses that may arise from exchange rate differences while providing a return in Turkish lira. Complementing this practice, banks are encouraged to switch to new products with changes in the reserve requirement practice that will increase liquidity facilities. Through these incentives, it was aimed to support financial stability by increasing the share of the Turkish lira in the total deposits/participation funds in the banking system.

As a whole, the KKH scheme supports the efficient use of foreign exchange liquidity in the system, the improvement of banks' balance sheets, and the strengthening of Central Bank reserves. The conversion to Turkish lira accounts and the stabilization of the Turkish lira limit the potential burden of the MoTF-supported scheme on the budget. The CBRT's purchase of foreign currency in exchange for currency-protected TL deposits protects the Central Bank's balance sheet against the exchange rate risk arising from the implementation.

Foreign Currency-Protected TL Time Deposit and Participation Accounts supported by the MoTF, and the support mechanism for conversion to TL time deposits/participation funds backed by the CBRT are similar in terms of the return they provide to the depositors, but there are some differences (Table 1). As a whole, both schemes offer both TL depositors and FX depositors the opportunity to hedge their returns against the currency risk. If FX depositors remain in TL after conversion to TL accounts, they will be able to continue to benefit from currency-protected accounts. Real person depositors are offered a 3-month, 6-month, or 1-year maturity option when converting foreign currency and gold deposit and participation fund accounts into TL deposits as a one-off facility. On the other hand, the option of 9-month maturity (in addition to 3-month, 6-month, and 1-year maturities) has also been introduced for the transition from TL deposits to foreign currency-protected TL time deposits and the renewal of the deposit has been allowed.

An upper limit has been set for the maximum interest rates to be applied by banks in the transition to foreign currency-protected TL time deposits, and it has been stipulated that the minimum interest rate to be applied by banks cannot be below the one-week repo auction rate determined by the CBRT. It has also been stated that the maximum interest rate to be applied by banks could be 300 bp above the minimum interest rate and could be updated by the MoTF. On the other hand, it has been laid down that the interest rate that the banks will apply to the deposit account in case of a switch from foreign currency and gold-denominated accounts to a new financial product cannot be below the one-week repo auction rate determined by the CBRT, but no upper limit has been set for the interest rate to be applied by banks.

Profit share rates to be distributed to participation accounts will be determined within the framework of participation banking principles. It has also been announced that in case the return on the participation account is lower than the cost incurred in the one-week repo transactions conducted by the Central Bank within the scope of open market operations with participation banks, the participation bank may cover the difference within the framework of participation banking principles, and the Central Bank does not pay for the uncovered portion.

It has also been stated that the withholding tax will not be applied to the income obtained from currency-protected TL time deposit and participation accounts in order to encourage the transition to the new financial product.

**Table 1. Principles for the Conversion to Foreign Currency-Protected TL Time Deposits and TL Time Deposits**

	Foreign Currency-Protected TL Deposit	Support Provided for Conversion from Foreign Currency Deposit Accounts to TL Time Deposits	Support Provided for Conversion from Gold Deposit Accounts to TL Time Deposits
Beneficiary	Resident real persons	Resident real and legal persons <sup>1</sup>	
Scope	TL time deposit and participation accounts	TL time deposits and participation funds converted from foreign currency deposit accounts in US dollar, euro, or British pound and foreign currency participation funds	TL time deposits and participation funds converted from gold deposit accounts and gold participation fund accounts
Maturity	3, 6, 9 months and 1 year	Real persons: 3, 6 months and 1 year Legal persons: 6 months and 1 year	
Accounts to be supported	Foreign currency-protected TL time deposit and participation accounts to be opened after 21.12.2021	Real persons: Existing accounts as of 20.12.2021 Legal persons: Existing accounts as of 31.12.2021	<ul style="list-style-type: none"> <li>Gold Accounts: Real persons: Existing accounts as of 28.12.2021 Legal persons: Existing accounts as of 31.12.2021</li> <li>Gold accounts against wrought and scrap gold to be opened after the relevant dates</li> </ul>
Frequency of Use	Renewal at the end of maturity	One-off	
Minimum Rate of Return Applicable by Banks	CBRT's one-week repo auction interest rate	CBRT's one-week repo auction interest rate <sup>2</sup>	

<sup>1</sup> Resident real persons refer to real persons legally resident in Turkey including workers who work abroad and self-employed Turkish citizens; resident legal persons refer to legal persons that have a legal residence in Turkey, excluding banks and other financial institutions determined by the Central Bank.

<sup>2</sup> In case the return on the participation account is lower than the cost incurred in the one-week repo transactions conducted by the Central Bank within the scope of open market operations with participation banks, the participation bank may cover the difference within the framework of participation banking principles, and the Central Bank does not pay for the uncovered portion.

Maximum Interest Rate Applicable by Banks	CBRT's one-week repo rate + 300 basis points	-	-
Exchange rate at the beginning of maturity	The foreign exchange buying rate announced by the CBRT at 11:00 a.m.	The foreign exchange buying rate announced by the CBRT every hour between 10:00 and 15:00	The buying price of one-gram gold in TL, announced by the CBRT every hour between 10:00 and 15:00
Exchange rate at the end of maturity	The foreign exchange buying rate announced by the CBRT at 11:00 a.m.	The foreign exchange buying rate announced by the CBRT at 11:00 a.m.	The buying price of one-gram gold in TL, announced by the CBRT at 11:00 a.m.
Yield at the end of maturity	At the end of the maturity, the interest income is paid by the banks. In case the exchange rate yield is higher than the interest income according to the exchange rate at the beginning of the maturity, the difference is covered by the Ministry of Treasury and Finance, and paid by the banks.	At the end of the maturity, the interest income is paid by the banks. In case the exchange rate yield is higher than the interest income or dividend yield according to the exchange rate at the beginning of the maturity, the difference is covered by the CBRT, and paid by the banks.	At the end of the maturity, the interest income is paid by the banks. In case the price return is higher than the interest income or dividend yield, according to the price at the beginning of the maturity, the difference is covered by the CBRT, and paid by the banks.
Yield in Case of Withdrawal Before Maturity	The account balance is updated based on the lower one of the exchange rates on the account opening and closing dates. No payment is made by the Ministry of Treasury and Finance regarding the exchange rate difference.	In case of withdrawal from the Turkish lira deposit or participation account before the maturity date, no difference will be paid to the account holder by the CBRT. In addition, if there is a decrease in the exchange rate on the date of the withdrawal, the foreign currency amount at the beginning of the maturity is paid in Turkish lira at the rate on the date of the withdrawal.  The account balance is updated based on the lower one of the exchange rates on the account opening and closing dates. No payment is made by the CBRT for the price difference.	
Official Announcement and Related Legislation	<ul style="list-style-type: none"> <li>Press release by the Ministry of Treasury and Finance on 21 December 2021</li> <li>Press Release by the Ministry of Treasury and Finance on the Implementation Principles for Foreign Currency-Protected TL Time Deposits and Participation Accounts dated 24.12.2021</li> </ul>	<ul style="list-style-type: none"> <li>Communiqué on Supporting the Conversion to Turkish Lira Deposit and Participation Accounts, No: 2021/14, CBRT, Replicated Official Gazette dated 21 December 2021</li> <li>Communiqué Amending the Communiqué on Supporting the Conversion to Turkish Lira Deposit and Participation Accounts (No: 2021/14), No: 2021/17, CBRT, Official Gazette dated 31 December 2021</li> <li>Communiqué Amending the Communiqué on Supporting the Conversion to Turkish Lira Deposit and Participation Accounts (No: 2021/14), No: 2022/1, CBRT, Official Gazette dated 11 January 2022</li> </ul>	<ul style="list-style-type: none"> <li>Communiqué on Supporting the Conversion from Gold Accounts to Turkish Lira Deposit and Participation Accounts, No: 2021/16, CBRT, Official Gazette dated 29 December 2021</li> <li>Communiqué Amending the Communiqué on Supporting the Conversion from Gold Accounts to Turkish Lira Deposit and Participation Accounts (No: 2021/16), No: 2021/18, CBRT, Official Gazette dated 31 December 2021</li> <li>Communiqué Amending the Communiqué on Supporting the Conversion from Gold Accounts to Turkish Lira Deposit and Participation Accounts (No: 2021/16), No: 2022/2, CBRT, Official Gazette dated 11 January 2022</li> </ul>