

Press Release on Reserve Requirements

1 July 2021

No: 2021-27

In line with its main objective of price stability, the Central Bank of the Republic of Turkey revised the reserve requirement regulation to improve the effectiveness of monetary transmission mechanism.

To improve the effectiveness of monetary transmission mechanism;

- The upper limit of the facility for holding FX will be decreased from 20% to 10% of Turkish lira reserve requirements. The facility will be terminated on 1 October 2021.
- Reserve requirement ratios for FX deposits/participation funds will be increased by 200 basis points for all maturity brackets.

As a result of this decision, Turkish lira and FX denominated required reserves are expected to increase initially by approximately TRY 13.2 billion and USD 2.7 billion, respectively. In addition,

- FX deposits/participation funds available as of 25 June 2021 and converted to Turkish lira deposits/participation funds after this date will be exempt from reserve requirement liabilities,
- Additional remuneration rate will be applied to Turkish Lira denominated required reserves to increase the share of Turkish lira in the total deposit/participation funds in the banking system.

These changes will be effective from the calculation date of 19 July 2021 with the maintenance period starting on 6 August 2021.

The technical details of the implementation can be found in the attachment.

Contact

For further information, you may send an e-mail to basin@tcmb.gov.tr.

DETAILS ABOUT IMPLEMENTATION

1. The upper limit of the facility for holding FX for Turkish lira reserve requirements will be decreased from 20% to 10% to be effective from the calculation date of 19 July 2021 with the maintenance period starting on 6 August 2021. The said facility will be terminated by decreasing the limit to 0% as of the calculation date of 17 September 2021 with the maintenance period starting on 1 October 2021.
2. Reserve requirement ratios for FX deposits/participation funds will be increased by 200 basis points for all maturity brackets to be effective from the calculation date of 19 July 2021 with the maintenance period starting on 6 August 2021.
3. Based on the deposits/participation funds subject to reserve requirements available on 25 June 2021;
 - a. The amount of Turkish lira deposits/participation funds with 1-month or longer maturity converted from FX deposits/participation funds will be exempt from reserve requirement liabilities, as long as the amount remains in the Turkish lira accounts.
 - b. Part of Turkish lira denominated required reserves, which will be calculated by multiplying the amount specified in Article (3.a) by the highest reserve requirement ratio for Turkish lira deposits/participation funds, will be remunerated by 19%.
4. Additional remuneration will be applied gradually for Turkish lira denominated required reserves remaining from the amount specified in Article (3.b), provided that both conditions are met at the same time, as shown in the table below.

Indicator 1: Ratio of “FX deposits/participation funds” to “total deposits/participation funds” as of the calculation date

Indicator 2: Ratio of “Turkish lira deposits/participation funds with 1-month or longer maturity converted from FX deposits/participation funds and remaining in the Turkish lira accounts from 25 June 2021 until the liability calculation date” to “the amount of FX deposits/participation funds as of 25 June 2021”

Indicator 1	Indicator 2	Remuneration Rate for TL-denominated Required Reserves*
if the conditions are not met		13.5 %
at least 5% decrease since 25 June 2021	at least 5 %	15 %
at least 15% decrease since 25 June 2021	at least 15 %	17 %
≤ 40%	at least 20 %	19 %

*These rates have been determined according to the current policy rate level.

5. Decrease in FX deposits/participation funds via derivative transactions and decrease/increase in FX deposits/participation funds sent abroad or received from abroad will not be considered in calculations.
6. Data required in the scope of the implementation will be reported from the required reserve calculation date of 19 July 2021. Detailed information about the procedures

and principles regarding the implementation will be provided in the Reserve Requirements Implementation Instructions document.