The Impact of the FX-protected Turkish Lira Deposits on the Turkish Economy: A Short-Term Analysis

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Abstract: Turkey's lowering interest rates policy in the face of surging inflation initially led to a sharp depreciation of Turkish Lira. Government have introduced the exchange rate-protected deposits policy to stop currency depreciation further whereby if the interest rate to be applied by the bank to exchange rate-protected deposits is lower than the percentage change in foreign exchange, the excess amount is paid by the Central Bank and the Ministry of Treasury and Finance depending on the nature of the deposit account. It is officially stated that supporting financial stability, increasing the share of Turkish lira in total deposits in the banking system, stabilization of Turkish Lira, reversion of the dollarization trend in Turkey and alleviation of the pressure of the exchange rate on inflation are aims for the introduction of Fx-protected Turkish Lira Deposits in Turkey. This article analyzes short-term (3 months) effects of this policy on the Turkish Economy.

Key Words: Fx-Protected Deposits, Currency Depreciation, Dollarization, Turkish Economy

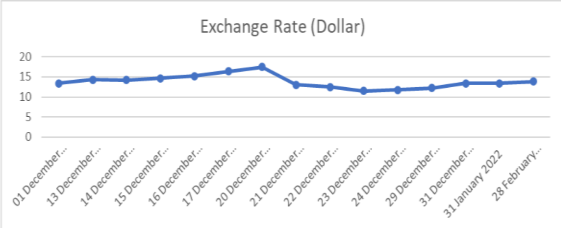
1. INTRODUCTION

Turkey's lowering interest rates policy in the face of surging inflation initially led to currency depreciation. Although Consumer Price Index and Producer Price Index was 36.8% and 79.8%, respectively in 2011, short-term interest rate of the central bank was decreased from 19% to 14%. This situation resulted in a sharp exchange rate depreciation. During the first 20 days of December 2021, US Dollar to Turkish Lira exchange rate increased from 13.3 TL to 17.5TL (see Table 1 and Figure 1).

Table 1: Exchange Rate (Dollar)

	Exchange Rate (Dollar)
01 December 2021	13,3603
13 December 2021	14,2721
14 December 2021	14,2000
15 December 2021	14,6613
16 December 2021	15,2392
17 December 2021	16,3652
20 December 2021	17,5046
21 December 2021	13,0461
22 December 2021	12,4760
23 December 2021	11,4714
24 December 2021	11,7489
29 December 2021	12,2439
31 December 2021	13,3530
31 January 2022	13,4257
28 February 2022	13,8535

Figure 1: Exchange Rate (Dollar)



In order to stop currency depreciation further, Turkey introduced FX-protected Turkish lira deposits and gold-protected Turkish lira deposits on 20 December 2021.

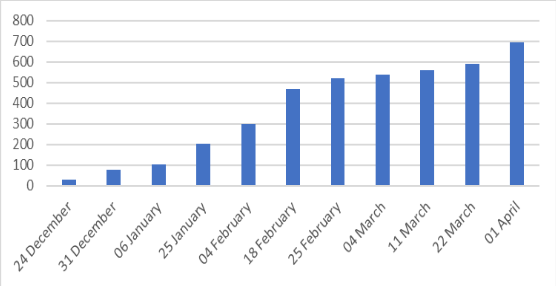
Upon the implementation of FX-protected Turkish Lira deposits, Fx-protected Turkish Lira Deposits increased from 29 billion TL on 24 December 2021 to 203 billion TL on 25 January 2022, to 520 billion TL on 25 February 2022, and to 591 billion TL on 22 March 2022 and reached to 695 billion TL on 01 April 2022 (see Table 2).

Table 2: FX-Protected Turkish Lira Deposits

	Billion TL
24 December	29
31 December	78
06 January	102
25 January	203
04 February	300
18 February	469
25 February	520
04 March	539
11 March	562
22 March	591
01 April	695

Source: Özdabakoğlu (2022)

Figure 2: Fx-Protected Turkish Lira Deposits



As of March 22, 2022, Foreign Exchange-protected Deposits has reached a total size of 591 billion TL, of which 270 billion TL is Treasury-supported Fx-protected Deposits and 321 billion TL is CBRT-supported Foreign Currency/Gold Conversion Fx-protected Deposits. While 97 percent of the account holders included in the system are real persons, 28 thousand 934 legal persons/entities preferred to use their savings in this product (Milliyet Gazetesi, 2022).

Upon the implementation of FX-protected Turkish Lira deposits, foreign currency deposit amount decreased by 25 billion dollars between 22 December 2021 and 28 February 2022 from 261,6 billion dollars to 236,5 billion dollars (see Table 3).

Table 3: Foreign Currency Deposit Amount

	22 December	28 February
	Billion Dollar	Billion Dollar
Foreign Currency Deposit Amount	261,6	236,5
Companies	97,9	77,5
Individuals	163,7	159,0

Source: Özdabakoğlu (2022)

This article evaluates a short-term results of the Fx-protected deposits policy. The next section assesses the regulations on Fx-protected deposits. Section 3 analyses the cost and benefits of Fx-protected deposits. Final section concludes.

2. REGULATIONS ON FX-PROTECTED DEPOSITS

In order to support the conversion of Fx Deposits to TL Deposits, the Central Bank of the Republic of Turkey introduced a Communique on Supporting the Conversion of FX Deposits to TL Time Deposits and TL Participation Accounts numbered 2021/14 and published in the Official Gazette No. 31696 on 21 December 2021 (Resmi Gazete, 2021a).

Article 4 of the Communique regulates the conversion of foreign exchange deposit accounts and participation funds into TL time deposits or participation accounts.

According to Section 1 of Article 4 of the Communique, “Upon their request, domestic resident real persons, who already had an FX deposit account or FX participation fund denominated in US dollars, Euros or British Pounds by 20 December 2021, can convert their accounts into TL time deposit accounts/participation funds at the conversion rate”.

- FX deposit accounts and FX participation funds can be converted into Turkish lira time deposit accounts at the account holder’s request.

- FX deposit account or FX participation fund should be denominated in US dollars, Euros or British Pounds

- The owner of FX deposit accounts and FX participation funds should be real persons. Domestic resident real persons are defined as real persons who have a legal residence in Turkey, including Turkish citizens who are workers, self-employed and self-employed abroad.

- FX deposit accounts and FX participation funds should be opened prior to 20 December 2021.

- Conversion rate is defined as the foreign exchange buying rate announced by the Central Bank at 11:00 on the day when the foreign currency in foreign currency deposit accounts and foreign currency participation fund accounts is converted into Turkish lira.

According to Section 2 of Article 4 of the Communique, “Foreign exchange obtained by the bank as a result of this transaction is purchased at the conversion rate by the Central Bank and Turkish Lira equivalent of the transaction is transferred to the relevant bank by the Central Bank.”

According to Section 3 of Article 4 of the Communique, TL time deposit accounts/participation funds accounts may have maturities of 3, 6 and 12 months.

According to Section 4 of Article 4 of the Communique, the interest rate to be applied by the bank to TL time deposit accounts/participation funds accounts can’t be below the one-week repo auction rate determined by the Central Bank. In the event that the yield to be provided to participation accounts is lower than the cost incurred in one-week repo transactions made by participation banks with the Central Bank within the scope of open market operations, the participation bank covers the difference unilaterally.

Article 5 of the Communique regulates payment of foreign exchange difference at maturity.

According to Section 1 of Article 5, the bank pays the principal and interest or dividend to the holder of a Turkish lira deposit or participation account at the end of maturity regardless of the exchange rate on the day the account is opened and the exchange rate at the end of the maturity.

According to Section 2 of Article 5, "If the exchange rate at the maturity is higher than the conversion rate and the amount calculated over the exchange rate difference is higher than the interest or profit share to be paid by the bank, the amount calculated by deducting the interest or profit share from the amount calculated over the exchange rate difference is transferred to the relevant bank by the Central Bank to be paid to the deposit or participation account holder". The exchange rate at the maturity is defined as the foreign exchange buying rate announced by the Central Bank at 11:00 am at the maturity of the Turkish lira deposit or participation account. Thus,

- The interest/profit share that will be paid to TL time deposit accounts/participation funds and the difference in exchange rates at the beginning and at end of the maturity will be compared, and the deposit and participation fund holder will be paid whichever is higher.
- If the amount to be calculated using the exchange rate applicable at the end of the maturity is greater than the sum of the principal and the interest/profit share, the difference will be covered by the CBRT.

According to Section 3 of Article 5, in case of a withdrawal from an account before maturity, the account holder will not be eligible for the incentive.

According to Section 4 of Article 5, Turkish lira deposit or participation accounts opened within the scope of this Communique can benefit from the support for once.

So far, there has been five amendments on the communique as such the scope of the communique has been changed and extended.

With the amendment made on 31 December 2021 (RG-31/12/2021-31706), definitions of conversion rate and the exchange rate at the maturity were changed. Also, regulation on the minimum payment rate to be applied by a participation bank to TL participation funds accounts is changed.

Section 4 of Article 4 of the Communique is changed as follows "The interest rate to be applied by the bank to TL time deposit accounts/participation funds accounts can't be below the one-week repo auction rate determined by the Central Bank. In the event that the yield to be provided to participation accounts is lower than the cost incurred in one-week repo transactions made by participation banks with the Central Bank within the scope of open market operations, the participation bank may cover the difference and no payment is made by the Central Bank for the difference."

Section 1 of Article 5 the Communique is changed as follows "At the end of the maturity, the principal and interest are paid by the bank to the Turkish lira deposit account holder while the participation account balance at the end of the maturity is paid by the participation bank to the TL participation funds account holder."

With the amendment made on 11 January 2022 (RG-11/1/2022-31716), legal entities residing in Turkey are also included into the scope of the Communique. Domestic legal entities are defined as legal entities residing in Turkey, excluding banks and other financial institutions determined by the Central Bank. However, maturity of their accounts is limited with 6 months and 1 year.

Accordingly,

Section 1 of Article 4 of the Communique is changed as follows "Upon their request, domestic resident real persons, who already had an FX deposit account or FX participation fund denominated in US dollars, Euros or British Pounds by 20 December 2021, and domestic legal entities which already had an FX deposit account or FX participation fund denominated in US dollars, Euros or British Pounds by 31 December 2021, can convert their accounts into TL time deposit accounts/participation funds at the conversion rate".

Section 3 of Article 4 of the Communique is changed as follows, "TL time deposit accounts/participation funds accounts of domestic real persons may have maturities of 3, 6 and 12 months while TL time deposit accounts/participation funds accounts of domestic legal entities persons may have maturities of 6 and 12 months".

With the amendment made on 01 February 2022 (RG-01/02/2022-3173), a new section is added to the Article 4 to determine the maximum interest rates on TL time deposit accounts/participation funds accounts.

According to the Section 5 of Article 4, "The Central Bank is authorized to determine the maximum interest rate to be applied to the bank's deposit account."

Accordingly, the Central Bank announced that the maximum interest rate to be applied by the banks can be determined at most 300 bp above the minimum interest rate. The maximum interest rate can be updated by the Ministry of Treasury and Finance and will be valid for the accounts to be opened after the update date.

With the amendment made on 07 March 2022 (RG-7/3/2022-31771), maturity difference between domestic real persons and domestic legal entities are eliminated. Accordingly,

Section 3 of Article 4 of the Communique is changed as follows, “TL time deposit accounts/participation funds accounts of domestic real persons and domestic legal entities may have maturities of 3, 6 and 12 months”.

With the amendments made on 22 March 2022 (RG-22/3/2022-31786), the opportunity of benefit from the support is extended whereby accounts may be renewed at maturity. For domestic real persons, date limit for FX deposit accounts or FX participation funds that can be included in the protected deposit system is removed.

Section 4 of Article 5 of the Communique is changed as follows “Turkish lira deposit or participation accounts opened by the Central Bank within the scope of this application may be renewed at maturity. The renewed account continues to benefit from the support based on the currency amount converted at the first opening and the conversion rate”.

Section 1 of Article 4 of the Communique is changed as follows “Upon their request, domestic resident real persons, who already had an FX deposit account or FX participation fund denominated in US dollars, Euros or British Pounds in a bank, and domestic legal entities, which already had an FX deposit account or FX participation fund denominated in US dollars, Euros or British Pounds by 31 December 2021, can convert their accounts into TL time deposit accounts/participation funds at the conversion rate”.

With the amendments made on 08 April 2022 (RG-08/4/2022-31803), date limit for domestic legal entities is extended to 31 March 2022 from 31 December 2022.

Section 1 of Article 4 of the Communique is changed as follows “Upon their request, domestic resident real persons, who already had an FX deposit account or FX participation fund denominated in US dollars, Euros or British Pounds in a bank, and domestic legal entities, which already had an FX deposit account or FX participation fund denominated in US dollars, Euros or British Pounds between 31 December 2021 and 31 March 2022, can convert their accounts into TL time deposit accounts/participation funds at the conversion rate”.

In parallel to the conversion of Fx Deposits to TL deposits, the Central Bank of the Republic of Turkey also introduced a Communique on Supporting the Conversion of Gold Accounts to TL Time Deposits and TL Participation Accounts-2021/16 and published in the Official Gazette No. 31704 on 21 December 2021 in order to induce conversion of gold accounts to TL accounts (Resmi Gazete, 2021b). This communique has been also amended according to changes in the Communique on the conversion of Fx Deposits to TL deposits.

In order to encourage non-resident Turkish citizens to repatriate their savings to Turkey, to establish a savings framework allowing non-resident citizens to protect the value of their savings and leveraging the contributions of such savings to Turkey’s economic development and balance of payments, the Central Bank of the Republic of Turkey also introduced a Communique on the Deposit and Participation Scheme for Non-Resident Turkish Citizens (YUVAM) Accounts to Be Held in Domestic Banks-2022/7 and published in the Official Gazette No. 31737 on 01 February 2022 (Resmi Gazete, 2022). Persons residing abroad is defined as citizens of the Republic of Turkey, who have a residence or work permit or right to reside abroad, or whose foreign address is registered in the address registration system, those who are given a Blue Card pursuant to Article 28 of the Turkish Citizenship Law No. 5901 dated 29/5/2009 and foreign real and legal persons who meet the conditions for opening an account in banks.

With the introduction of Foreign Exchange Protected Turkish Lira Deposit and Participation Accounts, Turkish lira deposit accounts and participation accounts are also protected against foreign exchange fluctuations. However, Principles of Codes of Practice for Foreign Currency Protected TL Deposits and Participation Accounts were introduced by the Ministry of Treasury and Finance rather than the Central Bank on 24 December 2021 (T.C. Hazine ve Maliye Bakanlığı, 2021).

Thus, if the interest rate to be applied by the bank to TL time deposit accounts/participation funds accounts and foreign exchange protected deposit/participation accounts are lower than the percentage change in foreign exchange, the excess amount is paid by the central bank for TL time deposit accounts/participation funds accounts and by the Ministry of Treasury and Finance for Foreign exchange protected deposit/participation accounts.

There are differences between the protection extended by the Ministry of Treasury and Finance and the protection extended by the Central Bank.

- While real persons residing in Turkey and abroad and domestic and foreign legal entities benefit from the Central Bank protection, only real persons legally residing in Turkey, including Turkish citizens working and self-employed abroad, can benefit from the Ministry of Treasury and Finance protection.

- While maturities of accounts under the Central Bank protection are 3, 6 and 12 months, maturities of accounts under the Ministry of Treasury and Finance protection are 3, 6, 9 and 12 months.

3. COST AND BENEFITS OF THE FX-PROTECTED DEPOSITS POLICY

There are costs and benefits of the Fx-protected deposits policy. This part of the study evaluates the costs and benefits of the policy.

3.1. Cost of the Fx-Protected Deposits Policy

According to the Fx-protected deposits policy, if the interest rate on the Fx-protected deposits is lower than the exchange rate depreciation during the maturity, the difference will be covered by the government. Otherwise, there will be no excess payment. Hence, the excess amount paid by the Government is the main cost of Fx-protected deposits since it is essentially paid by taxpayers, i.e., whole society.

After being put in effect on 21 December 2021, the first payments are made for account holders who prefer a three-month maturity on 23 March 2002. First accounts opened on 21 December 2021 upon the implementation of Fx-protected deposits policy came to maturity on 21 March 2022. There is no official announcement regarding how much paid to account holders by the Treasury. It can be roughly calculated by making some assumptions.

Assuming that all accounts are USD denominated, all accounts have three months maturity, interest rate paid by the bank is the same, all accounts are opened at the same time, the cost of Fx-protected deposits on 24 December 2021 is calculated as 6.6 billion TL whereas the cost of Fx-protected deposits on 31 December 2021 is calculated as 4.8 billion TL and the cost of Fx-protected deposits on 31 December 2021 is calculated as 0.8851 billion TL (see Table 4).

The reason for the reduction in the cost of Fx-protected deposits is the difference in exchange rate depreciation in three maturities. Exchange rate depreciation was 26,98% at the first maturity while exchange rate depreciation was 9,81% and 3,69% at the following maturities. Hence as the exchange rate depreciation falls at maturity, the cost of Fx-protected deposits decreases.

3.2. Benefits of Fx-Protected Deposits

It is officially stated that supporting financial stability, increasing the share of Turkish lira in total deposits in the banking system, stabilization of Turkish Lira, reversion of the dollarization trend in Turkey and alleviation of the pressure of the exchange rate on inflation are aims for the introduction of Fx-protected Turkish Lira Deposits in Turkey. The positive effects of the Fx-protected deposits policy can be counted as follows:

1) After the Fx-protected deposits policy was put in effect, exchange rate started falling.

US Dollar to Turkish Lira exchange rate fell from 17.5TL on 20 December 2021 to 11.7TL on 24 December 2021.

2) Fx-protected deposits policy leads to decrease in the TL equivalent of Turkey's external debt stock.

As the exchange rate increases, TL equivalent of Turkey's external debt stock also raises. As of 30 September 2021, Turkey's external debt stock was 453,5 billion dollars. Thus, an increase of 1 TL in the dollar exchange rate brings a burden of 453 billion TL to external debt stock of Turkey. Limiting the increase in the exchange rate with Fx-protected deposits policy alleviated the TL equivalent burden of the external debt stock of Turkey.

3) Fx-protected deposits policy caused the central bank's foreign reserves to increase.

In addition to the conversion from FX deposits to TL deposits as a result of Fx-protected deposits policy, other foreign exchange earning practices contributed to the Central Bank's foreign exchange reserves. CBRT-sided swap transactions, which were previously at the level of 48 billion dollars, decreased to 40 billion dollars after the Fx-protected deposits policy application (Sabah Gazetesi, 2022; Milliyet Gazetesi, 2022).

4) The implementation of Fx-protected deposit policy has resulted in a decrease in dollarization in Turkey and supported liralization process in the Turkish Economy.

One of the indicators of dollarization in a country is the ratio of Fx Deposits to Total Deposits. It is also called deposit dollarization. If this ratio increases, it indicates the increase in the dollarization process in a country. Deposit dollarization is harmful for a country' economy since it decreases the effectiveness of the monetary policy transmission mechanism and also increases the cost of disinflation.

The share Fx-deposits in total deposits keeps increasing between 2019 and 2021. While the ratio of Fx Deposits to Total Deposits was 45.64% at the end of January 2019, it increased to 46.58% at the end of January 2020 and reached 59.82% at the end of December 2021. With the implementation of Fx-protected deposit policy, deposit dollarization decreased to 53.17% at the end of February 2022. In other words, the share of foreign currency deposits in total deposits decreased by about 7% (see Table 5).

Table 5: The Share of Fx-Deposits in Total Deposits (Deposit Dollarization)

	Fx Deposits/Total Deposits (%)
January 2019	45.64
January 2020	46.58
January 2021	49.08
December 2021	59.82
February 2022	53.17

Source: https://www.bddk.org.tr/BultenAylik

5) Turkish Lira savings deposits and commercial deposits has increased because of the Fx-protected deposit policy.

Between 31 December 2021 and 29 February 2022, TL savings deposits increased by 13.67% while TL commercial deposits surged by 32.32% (see Table 6).

Table 6: The Share of Fx-Deposits in Total Deposits (Deposit Dollarization)

	TL Saving Deposits (million TL)	TL Commercial Deposits (million TL)
December 2021	1,032,301	703,679
February 2022	1,173,509	931,136
Percentage Change	13.67	32.32

Source: https://www.bddk.org.tr/BultenAylik

6) The implementation of Fx-protected deposit policy has led to increase in the average maturity of TL deposits. This also contributed to alleviation of the problem of maturity mismatch in the banking sector.

Between 31 December 2021 and 29 February 2022, the share of TL deposits with a maturity of more than 3 months increased by 13 points as such it increased from 8.5% to 21.5%. The share of checking accounts and TL deposits with a maturity of up to 1 month, between 1 and 3 months are decreased from 25.3%, 21.6%, and 44.4% to 22.3%, 17.5%, and 38.5%, respectively. On the other hand, the share of TL deposits with maturity of between 3 and 6 moths and between 6 and 12 months increased from 5% and 1.4% to 11,3% and 8%, respectively (see Table 7).

Prior to Fx-protected deposit policy, the average maturity of deposits was 3 months while the average maturity of loans was 1 year in Turkish banking system. Thus, there was a maturity mismatch between maturity of deposits and maturity of loans, which makes banks prone to bank runs. As the maturity of TL deposits increases with the implementation of Fx-protected deposit policy, the problem of maturity mismatch falls.

7) As a result of the Fx-protected Deposits Policy, the ratio of TL loans to TL deposits fell, which is an indicator of the liralization effect of the policy. Between 31 December 2021 and 29 February 2022, as the share of Turkish lira deposits increased in the total deposits, TL loan/deposit ratio fell from 154.4% to 135.28% (see Table 8).

Table 8: The Ratio of TL Loans to TL Deposits

	TL Loans (Domestic Residents/ million TL)	TL Deposits (Domestic Residents/ million TL)	The Ratio of TL Loans to TL Deposits (%)
December 2021	2,831,820	1,833,304	154.46
February 2022	3,013,079	2,227,275	135.28

Source: https://www.bddk.org.tr/BultenAylik

8) Fx-protected deposit policy has resulted in a decrease in the interest rate on commercial loans. While the funding costs of banks decreased with the contribution of the interest cap applied within the scope of KKM, this situation supported the decrease in commercial loan interests. The interest on commercial loans decreased from 28 percent to below 20 percent.

9) As a result of the Fx-protected deposit policy, foreign exchange net position of the Turkish Banking System has improved by 14%. Between 31 December 2021 and 29 February 2022, foreign exchange net position of the Turkish Banking

System increased from 58,288.60 million TL to 66.387,69 million TL (see Table 9).

Table 9: Foreign Exchange Net Position of Turkish Banking System

	Foreign Exchange Net Position (million TL)
December 2021	58,288.60
February 2022	66,387.69
Percentage Change	13.89

Source: https://www.bddk.org.tr/BultenAylik

10) The implementation of the Fx-protected account policy in Turkey have led to a decrease in Turkey's risk premium measured by CDSs.

A credit default swap (CDS) is a financial contract that the seller of the CDS offsets the buyer's credit risk in the case of a debt default by the debtor. Government bonds have risks that the issuer country will not repay the principal or the interest. Maturity of government bonds can be up to 30 years. It is hard to forecast the risks involving for such maturities. Credit default swaps manage this kind of risk and provides insurance against non-payment of bonds. The seller of CDS undertakes the default risk of the buyer of the bond in exchange for a fee (Hayes, 2022). CDS contain information about the default risk of a country. The lower a country's CDS value, the more valuable its bonds. Thus, increase in the CDS value indicate that the risk of the country and the probability of default of the country in that country increase.

Between 2015 and 2021, Turkey's 5 Years CDSs decreased from 265.03 in 2015 to 159.73 in 2017; it increased to 348.03 in 2018 and fell again to 278.33 in 2019. Turkey's 5 Years CDSs keeps increasing after the year 2019. It reached 554.18 in 2021 (see Table 11).

Table 11: Turkey's 5 Years Credit Default Swaps

Year	CDSs (End of the Year)
2015	265.03
2016	266.79
2017	159.73
2018	348.03
2019	278.33
2020	306.47
2021	554.18

Source: http://www.worldgovernmentbonds.com/cds-historical-data/turkey/5-years/

Prior to the implementation of Fx-protected deposits policy, Turkey's 5 Years CDSs reached 575.85 on 20 December 2021 from 401.35 on 8 November 2021. With the implementation of the policy, it decreased to 517.79. However, it increased to 660 on 7 March 2022 upon the outbreak of the Ukraine-Russia War on 24 February 2022. It fell to 550.13 on 5 April 2022, which is below the level on 20 December 2021. Although Turkey's CDSs very high compared to other developed and developing countries, it seems that introduction of Fx-protected deposits has brought a decrease in the Turkey's risk premium due to a decrease in foreign exchange volatility (see Table 12).

Table 12: Turkey's 5 Years Credit Default Swaps

Year	CDSs
08 November 2021	401.35
13 December 2021	512.83
20 December 2021	575.85
14 February 2022	517.79
07 March 2022	660.00
05 April 2022	550.13

Source: http://www.worldgovernmentbonds.com/cds-historical-data/turkey/5-years/

11) Fx-protected deposits policy resulted in an increase in the interest in Turkish lira investment instruments such as stocks and bonds.

With the increasing interest in Fx-protected deposits, the deterioration in exchange rate expectations also improved. Accordingly, it was observed that the interest in Turkish lira investment instruments such as stocks and bonds increased. The breaking of the expectation about the increase in exchange rate with Fx-protected deposits application raised the interest in TL investment instruments, especially stocks.

The BIST-100 Index fell to 1,800 points on 22 December 2021 from its level of 2,265 on 16 December 2021. Upon Fx-protected deposits policy application, the BIST-100 also started to increase. It increased to 2,276 on 1 April 2022 and reached to 2,393 points on 8 April 2022 (see Table 13).

Table 13: BIST-100 Index

Date	Index
16 December 2021	2,265
22 December 2022	1,800
17 January 2022	2,072
22 March 2022	2,178
1 April 2022	2,276
8 April 2022	2,393

Source: https://www.bddk.org.tr/BultenAylik

12) Fx-protected deposits policy resulted in a financial stability in the economy. The financial stability is also strengthened upon the implementation of the policy.

With the effect of the stability created by the Fx-protected deposits policy implementation, the volatility in the financial markets remained limited despite the Russia-Ukraine crisis and the increase in the FED's interest rate.

13) Fx-protected deposits policy ended uncertainty in the market.

Uncertainty in the market is ended in the market upon the Fx-protected deposits policy application. With the reduction of the uncertainties stemming from the exchange rate, the excessive volatility in the markets came to an end and the trading activity returned to normal. In addition to strengthening the confidence in national currency, Fx-protected deposits policy contributed to the increasing predictability, which is the most important element of investment and production.

14) The deterioration in pricing behavior is fixed as a result of Fx-protected deposits policy.

The confidence in the economy is strengthened and the deterioration in pricing behavior is fixed because of the Fx-protected deposits policy. Thus, a suitable environment for the disinflation process was created. The pressure of the exchange rate on inflation is reduced. Thus, the distorting effect of the depreciation in TL on pricing behavior was also brought under control.

4. CONCLUSION

Turkey's lowering interest rates policy in the face of surging inflation initially led to a sharp depreciation of Turkish Lira. Government have introduced exchange rate-protected deposits policy to stop currency depreciation further whereby if the interest rate to be applied by the bank to exchange rate-protected deposits is lower than the percentage change in foreign exchange, the excess amount is paid by the Central Bank and the Ministry of Treasury and Finance depending on the nature of the deposit account.

It is officially stated that supporting financial stability, increasing the share of Turkish lira in total deposits in the banking system, stabilization of Turkish Lira, reversion of the dollarization trend in Turkey and alleviation of the pressure of the exchange rate on inflation are aims for the introduction of Fx-protected Turkish Lira Deposits in Turkey.

There are costs and benefits of the Fx-protected deposits policy. Assuming that all accounts are USD denominated, all accounts have three months maturity, interest rate paid by the bank is the same, all accounts are opened at the same time, the cost of the Fx-protected deposits on 24 December 2021 is calculated as 6.6 billion TL whereas the cost of Fx-protected deposits on 31 December 2021 is calculated as 4.8 billion TL and the cost of the Fx-protected deposits on 31 December 2021 is calculated as 0.8851 billion TL. As the exchange rate depreciation falls at maturity, the cost of the Fx-protected deposits decreases.

On the other hand, the Fx-protected deposits policy has led to exchange rates to fall, a decrease in the TL equivalent of Turkey's external debt stock, an increase in the central bank's foreign reserves, a decrease in dollarization, support liralization process in the Turkish Economy, an increase in Turkish Lira savings deposits and commercial deposits, an increase in the average maturity of TL deposits, alleviation of the problem of maturity mismatch in the banking sector, a fall in the ratio of TL loans to TL deposits, a decrease in the interest rate on commercial loans, an improvement in the foreign exchange net position of the Turkish Banking System, a decrease in Turkey's risk premium measured by CDSs, an increase in the interest in Turkish lira investment instruments such as stocks and bonds, financial stability, ending of uncertainty in the market, fixing of the deterioration in pricing behavior.

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Table 4: FX-Protected Turkish Lira Deposits

	24 December 2021	31 December 2021	06 January 2022
Deposits (Billion TL)	29	78	102
Difference	-	49	24
Maturity Date	24 March 2022	31 March 2022	06 April 2022
Foreign Exchange Rate at Account Opening Date (USD)	11.6738	13.3290	13.6352
Foreign Exchange Rate at Account Opening Date (USD)	14.8234	14,6371	14.7176
Percentage Change in Foreign Exchange Rate (%)	26.98	9.81	7.93
Interest Rate (%)	4.25	4.25	4.25
Foreign Exchange-Interest Difference (%)	22.73	5.56	3.69
Interest Payment	1.2325	2.0825	1.02
Foreign Exchange Rate Difference Payment	6.5917	2.7244	0.8851
Total Payment	7.8242	4.8069	1.9051

Source: https://www.tcmb.gov.tr/kurlar/kurlar_tr.html

Table 7: Maturity of Deposits in the Turkish Banking System

	Checking Accounts (million TL)	Saving Accounts with Maturity of up to 1 Month (million TL)	Saving Accounts with Maturity between 1 and 3 Months (million TL)	Saving Accounts with Maturity between 3 and 6 Months (million TL)	Saving Accounts with Maturity between 6 and 12 months (million TL)	Saving Accounts with Maturity more than 1 year (million TL)	Total (million TL)
29 February 2022	497.949	390.479	859.663	251.952	178.351	48.881	2.227.275
%	0,223569	0,175317	0,385971	0,113121	0,080076	0,021947	
31 December 2021	464.682	397.169	815.668	91.792	26.328	37.664	1.833.304
%	0,253467	0,216641	0,444917	0,050069	0,014361	0,020544	

Source: https://www.bddk.org.tr/BultenAylik