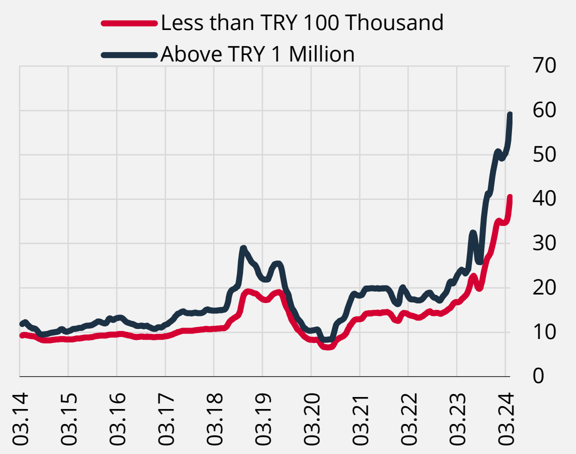
Box 2.1

The Difference Between High- and Low-Volume Deposit Rates and Its Reasons

The size of TL savings deposits is an important factor in determining the interest rate offered by banks. The analysis of deposits below TRY 100 thousand as low-volume deposits and deposits over TRY 1 million as high-volume deposits reveals that banks offered lower interest to low-volume deposits compared to high-volume deposits during the last decade (Chart 1). The bargaining power of the depositors is higher when the volume of their deposits is high since the bank will be more affected by the withdrawal of higher volume of deposits relative to lower amounts. In addition, because holders of large deposits are more likely to have higher financial literacy and to invest in alternative instruments compared to deposits, their elasticity of deposits is higher. On the other hand, although convincing more low-volume deposit holders to keep their savings in the bank may bring an operational burden, increasing the number of low-volume deposit holders is important for banks in terms of reducing their liquidity risk. For this reason, compared to the high-volume deposits group whose bargaining power is relatively higher, it is considered that, when necessary, banks may tend towards the low-money deposit group and offer them similar interest rates to that of the high-volume deposit group in order to increase liquidity and reduce possible volatility in liquidity despite its operational burden.

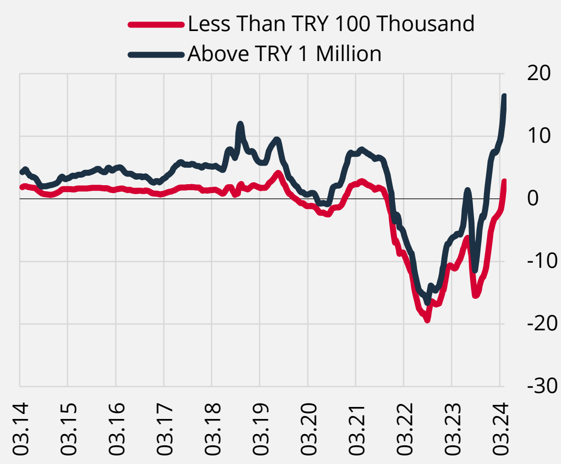
The difference between the nominal interest rates of high- and low-volume deposit holders changes over time (Chart 1). While the difference between high- and low-volume deposit rates was 3.7 percentage points between 2014 and 2022, this gap widened to 10.7 percentage points in the following period. The rise in inflation expectations after 2022 has an increasing impact on the difference between the nominal interest rates of these groups. While the difference between the interest rates of high- and low- volume deposits in real terms adjusted for 12 month-inflation expectations was 3.3 percentage points on average between 2014 and 2022, this difference increased to 7.8 percentage points between 2023 and 2024 (Chart 2).

Chart 1: High- and Low-Volume Nominal Interest Rates of TL Savings Deposits (Four-Week Average, %)



Source: CBRT.

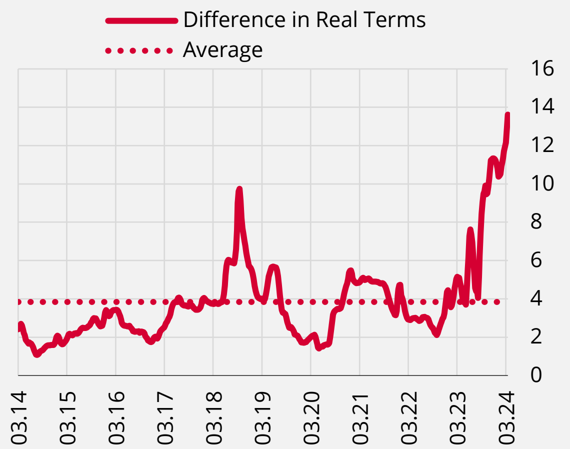
Chart 2: High- and Low-Volume Real Interest Rates of TL Savings Deposits (Four-Week Average, %)



Source: CBRT.

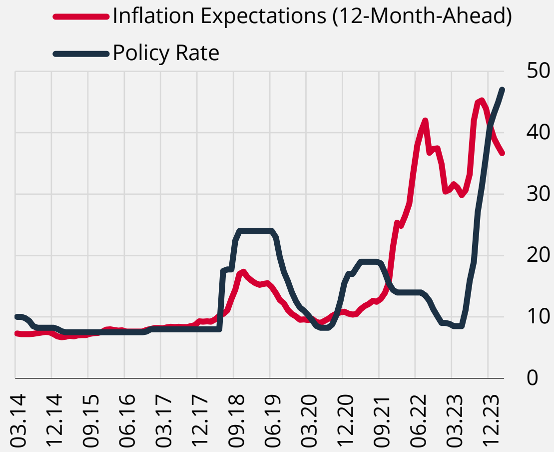
It is noteworthy that the divergence between high- and low-volume deposit rates in real terms was above the long-term average for three time periods in the last decade (Chart 3). The first interval is between June 2018 and July 2019, when the 2018 exchange rate shock was experienced, inflation expectations increased and a tight monetary policy was implemented (Chart 4). The second is the time interval between November 2020 and October 2021, including the period between November 2020 and March 2021 during which monetary policy was gradually tightened and then inflation expectations began to increase with policy interest rate cuts. The third interval covers January 2023 and onwards when monetary policy also tightened as in the other two periods. In addition, the difference between the deposit rates of the two groups in the last period is higher than during the other two periods. In sum, it is seen that the interest rate differences between high- and low-volume deposits increase in periods when monetary policy tightens and banks' funding costs increase. As it is known, banks' asset durations are higher than their liability durations which creates a maturity mismatch problem. In periods when interest rates increase, banks' profitability is negatively affected due to maturity mismatches. In addition, depositors' Turkish lira and FX preferences change in periods when exchange rate volatility increases and inflation expectations deteriorate. In these periods, banks may prefer to gain customers with high-volume deposits by offering them higher interest in order to mitigate the decrease in their profitability while maintaining their TL and FX liquidity positions. In October 2022, commission rates began to be collected on the required reserves held for FX deposits according to the banks' TL deposit share, while in January 2023, the security maintenance rate was differentiated according to the TL deposit share. Therefore, it is assessed that targets to increase the share of TL deposits[1] may have an impact on the increase in the difference between high- and low-volume deposit real interest rates during the period from October 2022 to June 2023 when monetary policy begin to tighten. It is evaluated that banks may have preferred to make use of high-volume deposits to reach their targets urgently during this period.

Chart 3: High- and Low-Volume Real Interest Rate Difference for TL Savings Deposits* (Four-Week Average, % Points)



Source: CBRT.
* 12-month ahead inflation expectations are used for the calculation of real interest rates.

Chart 4: Inflation Expectations and Policy Rate (%)

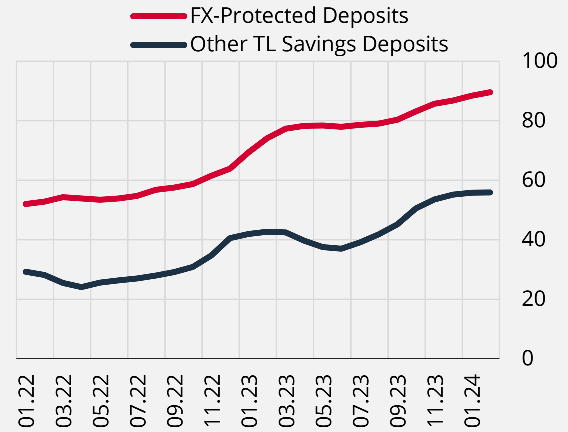


Source: CBRT.

It is seen that after 2023, the gap between high- and low- volume deposit interest rate increased considerably and reached 13.6 percentage points as of 5 April. It is assessed that the goal to transition away from FX-protected accounts to TL deposits, which was implemented in August 2023, was also effective in the increase in this period. The share of high-volume deposits in total deposits is higher in FX-protected accounts (Chart 5). In addition, with the effect of the target to transition to TL deposits, the interest paid by banks on other TL deposits is higher compared to the interest rates on exchange rate-protected accounts (Chart 6). In sum, it is considered that the difference between high- and low-volume deposit rates has widened as a result of the fact that banks offer much higher interest rates in order to convince the customers with high-volume deposits, whose share in the transition from exchange rate-protected accounts to TL accounts is relatively higher, under the influence of the transition targets to TL deposits.

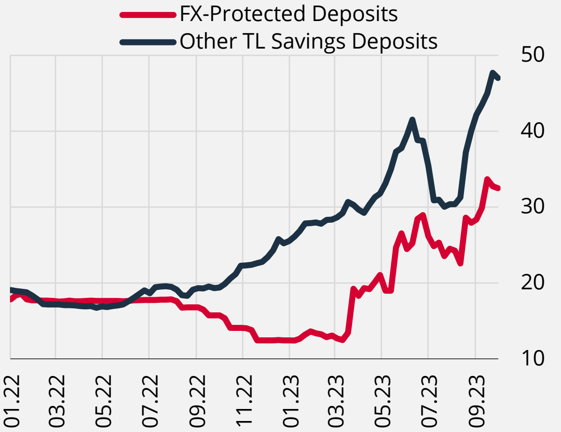
[1] In the TL share targets before August 2023, FX-protected deposits were accepted as TL deposits.

Chart 5: Share of High-Volume TL Savings Deposits Over Total TL Savings Deposits (%)



Source: CBRT.

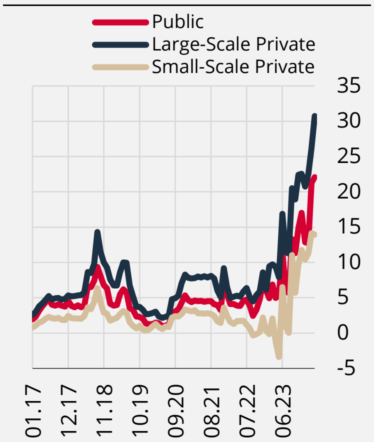
Chart 6: Interest Rate of FX-Protected Accounts and Other TL Savings Accounts* (%)



Source: CBRT.
* Other TL deposits include both the interest rate for those who switch from FX-protected deposits to TL deposits and the interest rates of customers who continue to invest their savings in standard TL deposits.

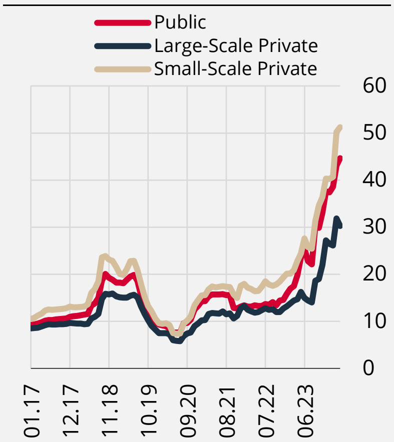
The divergence of interest rate paid by banks on high- and low-volume deposits may be closely related to the liquidity positions of banks, their sizes, ownership structure and business models. For this purpose, participation banks and development and investment banks were excluded from the analysis, and the data of 19 deposit banks, which constitute 84% of the asset size of the banking sector, were employed in the analysis. To examine the effect of banks' size and ownership structure, banks are grouped as public deposit banks, large-scale private deposit banks and small-scale private deposit banks. To analyze the effect of banks' liquidity positions on the divergence of deposit rates, two different variables were used: liquid asset ratio and TL market funding share. Liquid asset ratio is the ratio of cash values, free securities not subject to repo and collateral, foreign free deposits, receivables from money markets, receivables from domestic banks, reverse repo receivables and required reserves to assets. TL market funding share is the ratio of TL funding obtained through swap and open market transactions to its assets. Banks with liquidity ratios above the median value were grouped as banks with high liquid ratio, and the others were grouped as banks with low liquid ratio, and the divergence in deposit interest rates of these two groups was examined.

Chart 7: High- and Low-Volume TL Savings Deposits Nominal Interest Rate Difference, by Banks' Groups (Four-Week Average, % Points)



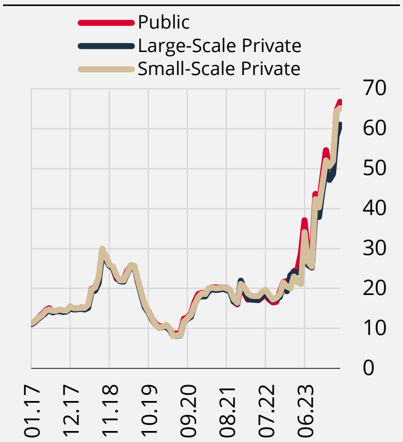
Source: CBRT.

Chart 8: Low-Volume TL Savings Deposits Nominal Interest Rate Difference, by Banks' Groups (Four-Week Average, % Points)



Source: CBRT.

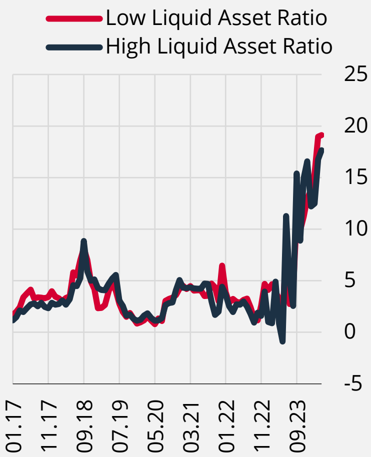
Chart 9: High-Volume TL Savings Deposits Nominal Interest Rate Difference, by Banks' Groups (Four-Week Average, % Points)



Source: CBRT.

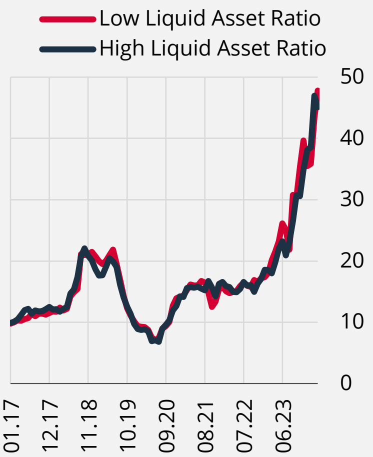
It is considered that banks' ownership and size are also an important determinant in the difference between high- and low-volume deposit rates. In the entire period examined, the deposit rate difference in small-scale private deposit banks is lower compared to other bank groups, while the deposit rate difference in large-scale private banks is higher. However, it is seen that the dispersion in terms of banking segments resulted from the differences in interest rates applied to low-volume deposits rather than to high-volume deposits. Large-scale private banks offer lower deposit interest for deposits with low-volume compared to other banks, and this has an impact on the divergence (Chart 7 and Chart 9).

Chart 10: High- and Low-Volume TL Savings Deposits Nominal Interest Rate Difference by Banks' Liquid Asset Ratio (Four-Week Average, % Points)



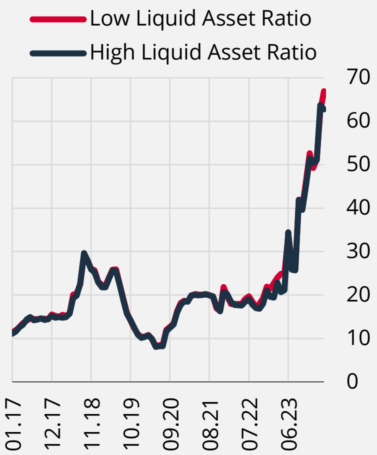
Source: CBRT.

Chart 11: Low-Volume TL Savings Deposits Nominal Interest Rate Difference, by Banks' Liquid Asset Ratio (Four-Week Average, % Points)



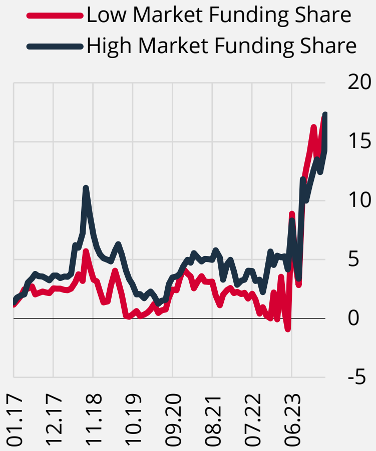
Source: CBRT.

Chart 12: High-Volume TL Savings Deposits Nominal Interest Rate Difference by Banks' Liquid Asset Ratio (Four-Week Average , % Points)



Source: CBRT.

Chart 13: High- and Low-Volume TL Savings Deposits Nominal Interest Rate Difference by Banks' Market Funding Share (Four-Week Average, % Points)

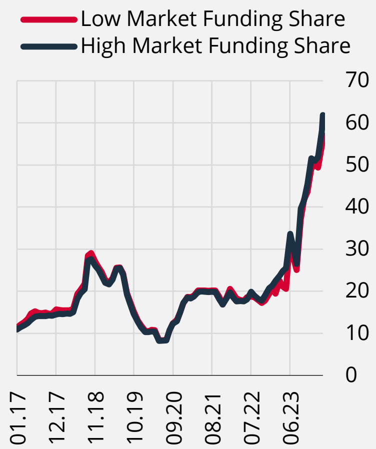


Source: CBRT.

Chart 14: Low-Volume TL Savings Deposits Nominal Interest Rate Difference by Banks' Market Funding Share (Four-Week Average, % Points)

Source: CBRT.

Chart 15: High-Volume TL Savings Deposits Nominal Interest Rate Difference by Banks' Market Funding Share (Four-Week Average , % Points)



Source: CBRT.

It is seen that there is no differentiation between high- and low-volume deposit rates of banks with low and high liquid asset ratios (Charts 10-12). On the other hand, the deposit rate difference of banks with a high TL market funding share is higher compared to that of banks with a low TL market funding share until June 2023. Similar to bank groups, this difference between high- and low-deposit rates is influenced by the divergence in low-volume deposit interest rates rather than the divergence in interest rates offered for high-volume deposits. It is seen that banks with a high share of TL market funding offered lower interest rates for low-volume deposits until June 2023 compared to other banks. The fact that these banks preferred to meet their liquidity needs through market funding during this period reduced their demand for TL deposits and caused them to pay lower interest on low-volume deposits. On the other hand, it is seen that this divergence disappears after June 2023. It is assessed that the increase in the balance of FX-protected deposits due to the depreciation in TL and the increase in TL liquidity in the market may be effective in this situation (Charts 13-15).

In sum, it is observed that the interest rate paid by banks to high- and low-volume deposit holders increases in periods when monetary policy tightens, inflation expectations deteriorate and exchange rate volatility increases. It is evaluated that the concentration of FX-protected deposits in the high-volume deposit group and the introduction of targets for switching from these accounts to TL deposits in August 2023 also contributed to the difference in deposit rates in the following period. In addition, it is seen that the ownership structure, size and TL market funding share of the banks are also effective in the interest rate difference according to the deposit volume. It is assessed that this deposit rate difference will decrease as the share of FX-protected deposits decreases and inflation expectations improve with the contribution of policies to reduce FX-protected deposits. Receiving similar interest rates on high-volume deposits increases low-volume depositors’ preferences for savings rather than consumption, which will contribute positively to the inflation outlook.