

Box 5.1

Monetary and Macroprudential Measures Taken Against the Pandemic in Turkey

In order to contain possible adverse effects of the global uncertainty caused by the coronavirus pandemic on the Turkish economy, the CBRT and other related institutions have taken certain measures. This box analyzes these measures in two categories as “monetary measures” and “macroprudential measures”, summarizes the objectives of the steps taken, and discusses the channels through which these measures can be effective.

Monetary Measures

The CBRT cut the policy rate by 100 basis points to support price stability and financial stability at the MPC meeting held on 17 March 2020, earlier than the originally planned date of 19 March 2020. In addition to the rate cut, the CBRT announced a comprehensive set of measures towards meeting liquidity needs and regulating firms’ cash flows.

All of the monetary measures taken are mainly aimed at supporting financial stability by easing the tightening observed in financial conditions due to the pandemic. The funding facilities announced by the CBRT in the scope of monetary measures provides banks with flexibility in the Turkish lira and foreign exchange liquidity management and they aim to increase the market depth in the Turkish bond market and to enable sound asset pricing. On the other hand, the CBRT's widening of the scope of securities to be accepted as collateral will contribute to increasing the liquidity of similar security issues and to deepening the capital markets.

Moreover, banks have been offered targeted additional liquidity facilities to secure uninterrupted credit flow to the corporate sector. With the aim of achieving a more effective credit flow, the maximum amount of funds that an eligible bank may receive from this new liquidity facility has been linked to the amount of credit that this bank has already provided or will provide for the corporate sector.

The CBRT announced the measures listed below to enhance predictability by providing banks with flexibility in Turkish lira and foreign exchange liquidity management:

- The CBRT will provide banks with as much liquidity as they need through intraday and overnight standing facilities.
- In addition to one-week repo auctions, i.e. the CBRT’s main policy instrument, the Bank may inject liquidity into the market through repo auctions with maturities up to 91 days on the days needed.
- To support the Primary Dealership System, liquidity limits of Primary Dealer (PD) banks in the framework of Open Market Operations (OMOs) have been increased.
- Under the Turkish lira and foreign exchange operations conducted at the CBRT, asset-backed securities and mortgage-backed securities have been included in the collateral pool.
- Conventional (multi-price) swap auctions with maturities of one, three and six months, which were available against US dollars, may also be held against euros and gold.

The CBRT raised the total limit of outstanding swap auctions from 20 percent to 30 percent of the total transaction limit at the Foreign Exchange and Banknotes Market by taking into account the volatility and high liquidity premium in the offshore swap market in order to provide additional flexibility in banks’ TL and FX liquidity management.

In addition, the CBRT introduced some measures regarding the Government Domestic Debt Securities (GDDS) market as listed below:

- Outright purchase operations under the Open Market Operations (OMO) portfolio can be carried out in a front-loaded manner and these limits may be revised depending on market conditions.
- For a temporary period, the Primary Dealer banks will be able to sell the GDDS that they have bought from the Unemployment Insurance Fund to the CBRT under the terms and limits set by the CBRT, or will be able to increase at certain ratios the liquidity facility offered under OMO in the scope of the Primary Dealership system.
- The maximum limit for the ratio of the nominal size of the OMO portfolio to the total assets in the CBRT analytical balance sheet has been increased to 10% from 5%.
- The limits offered to PD banks for outright sales of GDDS to the CBRT will be applied independent of the repo transaction limits and that PD banks will be offered a GDDS selling limit that is equal to the repo transaction limits.

The steps taken towards the GDDS market are intended to maintain market depth by supporting the Primary Dealership system, to enhance the effectiveness of the monetary transmission mechanism by reinforcing the mechanism and to support financial stability by containing the likely impacts of the liquidity need of the Unemployment Insurance Fund on market.

Macprudential Measures

In addition to the monetary measures announced by the CBRT, a number of macro-prudential policy measures have been introduced by the CBRT and other related institutions in order to curb the adverse effects of the pandemic.

The first set of these measures are related to commercial loans and export loans. The objective of these measures is to encourage real sector firms to continue business and prevent possible losses in employment by facilitating these firms' access to financing means. Measures towards commercial and export loans can be summarized as follows:

- In order to ease goods and services exporters' access to finance and to support sustainability of employment, the CBRT has decided to extend the limit of rediscount credits for export and foreign currency earning services up to TRY 60 billion.
- In the scope of the credit support to be provided by state banks, the "Keep Business Going Credit Support Package" will be extended with a maturity of 36 months at an annual interest rate of 7.5% with a payment-free period of 6 months.
- The total amount of collateral provided by Credit Guarantee Fund has been increased from TRY 250 billion to TRY 500 billion. The amount to be provided to the fund by the Ministry of Treasury and Finance has been raised from TRY 25 billion to TRY 50 billion. Limits of collateral per firm have been increased as well.
- The scope of credits extended by "KOSGEB" and state-backed commercial receivable insurance has been extended, credit limits have been increased.

Secondly, to prevent payment difficulties and compensate household income losses, the following measures have been introduced regarding consumer loans:

- A deferral option has been offered for personal finance loans, vehicle loans and credit card balances, and the minimum payment amount of credit cards has been reduced.
- Under the "Personal Finance Support Package" announced by three state banks, it has been decided to extend loans at reasonable interest rates to households with monthly income less than TRY 5,000. Accordingly, retail customers will be able to use loans up to TRY 10,000 with a maximum maturity of 36 months with six months of payment-free period.

Finally, the objective of the regulations put into practice towards banking and non-banking financial institutions was to prevent the possible liquidity shortages that firms may experience during the pandemic and likely negative effects that may arise on balance sheets of both firms and banks due to exchange rate volatility, and hence to contribute to the smooth operation of the credit channel. Measures taken in this realm can be summarized as follows:

- FX reserve requirement ratios have been reduced by 500 basis points in all liability types and all maturity brackets for banks that meet real credit growth conditions within the context of the reserve requirement practice.
- The BRSA has granted certain exemptions to banks for reporting liquidity and capital adequacy liabilities until the end of this year.
- The delinquency period of 90 days stipulated for loans to be classified as non-performing loans has been extended to 180 days. The delinquency period of loans to be classified under receivables to be liquidated has been extended from 90 days to 180 days for factoring and financing companies and to 240 days for financial leasing companies
- The delinquency period for loans to be classified under the second group has been extended from 30 days to 90 days.
- The limit applied by the BRSA for the swap and other derivative transactions of the banks with non-residents with remaining maturity of 7 days where banks pay TRY at the maturity, has been reduced to 1% from 10% of their regulatory capital. In addition, it has been decided that the limit for these transactions be applied as 2% for transactions with a remaining maturity of 30 days and 10% for transactions with a remaining maturity of 1 year. BRSA also has set the total limit of currency swaps and other derivative transactions to be made by Turkish banks with non-residents where banks receive TL at the maturity to 1% of the banks' regulatory capital.
- Likewise, the Capital Markets Board (CMB) also restricted the capital market institutions' swap and other derivative transactions with non-residents where the local institution receives TRY at the maturity, to 1% of their regulatory capital. In addition, for swap and other derivative transactions with non-residents where the local capital market institution pays TRY at the maturity, the limit has been reduced to 1% for remaining maturity of 7 days; 2% with a remaining maturity of 30 days and 10% for transactions with a remaining maturity of 1 year.
- The BRSA has defined a new ratio called the "Assets Ratio". With this regulation, banks are encouraged to increase domestic loans, securities issued by domestic residents, FX lent to the CBRT via swap agreements as well as the ratio of TL deposits to FX deposits on their balance sheets.

To sum up, minimizing the effects of the pandemic-related developments on firms and households is of great importance with respect to supporting the growth potential and financial stability. In this framework, coordinated policy steps are being taken by relevant institutions to ensure effective functioning of financial markets, the credit channel and uninterrupted credit flow to the corporate sector.

References

Central Bank of the Republic of Turkey, 17 March 2020, Press Release on Interest Rates, No. 2020-15:
[https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases/2020/ANO2020-15.](https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases/2020/ANO2020-15)

Central Bank of the Republic of Turkey, 17 March 2020, Press Release on the Measures Taken against the Likely Economic and Financial Impacts of the Coronavirus, No. 2020-16: <https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases/2020/ANO2020-16>.

Central Bank of the Republic of Turkey, 31 March 2020, Press Release on Additional Measures Taken against the Economic and Financial Impacts of the Coronavirus, No. 2020-21: <https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases/2020/ANO2020-21>.

Central Bank of the Republic of Turkey, 17 April 2020, Press Release on Additional Measures Taken against the Economic and Financial Impacts of the Coronavirus, No. 2020-22: <https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Announcements/Press+Releases/2020/ANO2020-22>.

T.C Ziraat Bankası A.Ş. , Halkbank A.Ş. , Türkiye Vakıflar Bankası T.A.O. , 25 March 2020, Joint Press Release, Keep Business Going Support Package: https://www.ziraatbank.com.tr/tr/Bankamiz-ZB/basin-odasi/BasinBultenleri/ziraat_bankasi_halkbank_vakifbank_ortak_basin_aciklamasi_25.03.2020_1D85B.pdf.

T.C Ziraat Bankası A.Ş. , Halkbank A.Ş. , Türkiye Vakıflar Bankası T.A.O. , 30 March 2020, Joint Press Release, Personal Finance Support Package: https://www.ziraatbank.com.tr/tr/Bankamiz-ZB/basin-odasi/BasinBultenleri/ziraat_bankasi_halkbank_vakifbank_ortak_basin_aciklamasi_25.03.2020_1D85B.pdf.

Executive Order on Executive Order on Changes in Support to Credit Guarantee Institutions by the Ministry of Treasury and Finance (in Turkish) (Decision no: 2325). (2020, 20 March). Official Gazette (Number: 31084): <https://www.resmigazete.gov.tr/eskiler/2020/03/20200330-8.pdf>.

Executive Order on Executive Order on Changes in Financial Support Provided by KOSGEB in Favorable Conditions in Order to Support and Develop Small Medium Enterprises (in Turkish) (Decision no: 2350). (2020, 3 April). Official Gazette (Number: 31088): <https://www.resmigazete.gov.tr/eskiler/2020/04/20200403-10.pdf>.

Notification on Changes in Notification on the Tariff and Instructions of State Supported Small and Medium Enterprises Trade Receivables Insurance (in Turkish) (2020, 25 March). Official Gazette (Number: 31079): <https://www.resmigazete.gov.tr/eskiler/2020/03/20200325-9.htm>.

BRSA, 17 March 2020, Board Decision on Changes in Past Due Time for Classification of Loans Under Non Performing Loans and on Restructuring (in Turkish). Decision no: 8948: https://www.bddk.org.tr/Contentbddk/dokuman/mevzuat_0949.pdf.

BRSA, 19 March 2020, Board Decision on Changes in Past Due Time for Classification of Loans under Accounts of Receivables to be Liquidated by Non-bank Financial Institutions (in Turkish). Decision no: 8950: https://www.bddk.org.tr/Contentbddk/dokuman/mevzuat_0951.pdf.

BRSA, 23 March 2020, Press Release: https://www.bddk.org.tr/Contentbddk/dokuman/duyuru_0798_01.pdf.

BRSA, 26 March 2020, Board Decision on Exemptions of Liquidity Coverage Ratio Obligations of Banks (in Turkish). Decision no: 8967: https://www.bddk.org.tr/Contentbddk/dokuman/mevzuat_0954.pdf.

BRSA, 27 March 2020, Board Decision on Changes in Past Due Time for Classification of Loans Under Second Category (in Turkish). Decision no: 8970:

https://www.bddk.org.tr/Contentbddk/dokuman/mevzuat_0955.pdf.

BRSA, 27 March 2020, Board Decision on Disregarding Original Loan Term Structure for Deferment of Personal Finance and Vehicle Loans (in Turkish). Decision no: 8971:

https://www.bddk.org.tr/Contentbddk/dokuman/mevzuat_0956.pdf.

Directive on Changes in Directive on Bank Cards and Credit Cards (in Turkish) (2020, 28 March). Official Gazette (Number: 31082): <https://www.resmigazete.gov.tr/eskiler/2020/03/20200328-13.htm>.

BRSA, 12 April 2020, Press Release:

https://www.bddk.org.tr/Contentbddk/dokuman/duyuru_0807_01.pdf.

BRSA, 18 April 2020, Board Decision on the Ratio of Transformation of Bank Deposits to Credit (in Turkish). Decision no: 9000:

https://www.bddk.org.tr/Contentbddk/dokuman/mevzuat_0962.pdf .

CMB, 13 April 2020, Press Release: <https://www.spk.gov.tr/Duyuru/Dosya/20200413/0>.