III. Non-financial Sector

In the current Report period, Turkey's household indebtedness ratio, which is around 18%, continued to remain below the EME average of 51%. In this period, owing to tighter credit conditions and decreased prudential cash and cash-equivalent asset holding behavior, growth in households' financial assets and liabilities decelerated and the two remained close. Due to these developments, the household financial leverage ratio hovers flat at around 36%.

Recently, households' savings preferences have been favoring TL-denominated assets, and investments in savings deposits, precious metals and equity securities have been the key driver of the rise in financial assets. The share of TL deposits in total savings deposits increased to 50.4% in March 2021 as household preferences counterbalanced exchange rate movements. As for financial liabilities, the biggest contribution came from general-purpose loans and personal credit cards that displayed a relatively strong rise in this period.

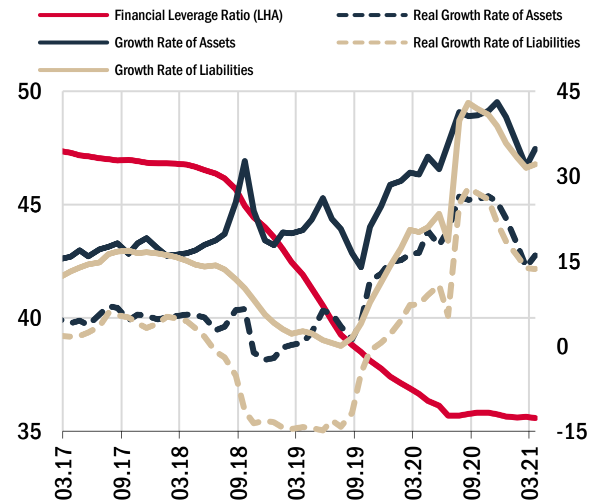
In this reporting period, the corporate sector's financial debt to GDP ratio decreased due to the tightening in financial conditions. The corporate sector's financial debt to GDP increased until third quarter of 2020 as the banking sector effectively met the pandemic-driven financing need in TL and with the effect of the rise in exchange rates on FX debt stock. With the effect of the financial tightening that started in the third quarter, the financial debt to GDP ratio decreased from 71% in October to 63% in February 2021. The corporate sector has a long FX position in the short-term, and in this reporting period, the sector's short-term net FX position increased by USD 8 billion and was reached at USD 26 billion as of February 2021. Meanwhile, the corporate sector's net FX open position continues to decline owing to the rise in FX deposits and the ongoing decline in FX debts. Compared to the same period of the previous year, net FX open position decreased by USD 15 billion and was recorded at USD 155 billion as of February 2021. The ratio of the corporate sector's short-term FX assets covering short-term liabilities continued to increase, reaching 127%. The ongoing decline in firms' FX open position, the rise in short-term long position and FX debt coverage ratios increase the resilience of the corporate sector's financial structures to exchange rate developments.

As of the third quarter of 2020, the corporate sector's indebtedness ratio continued to hover below EME, G20 and global averages. Globally, there has been a rise in indebtedness ratios due to pandemic-led economic measures. In Turkey, the increase has been slightly higher compared to peer countries; nevertheless, the Turkish corporate sector's total financial indebtedness ratios are significantly lower than those of G20, EME and global averages.

III.1 Household Developments

Household financial assets and liabilities grew at a slower pace in the current reporting period mainly due to tightened credit conditions following the credit expansion during the pandemic and the weakened preference for holding precautionary cash and cash equivalent assets (Chart III.1.1).

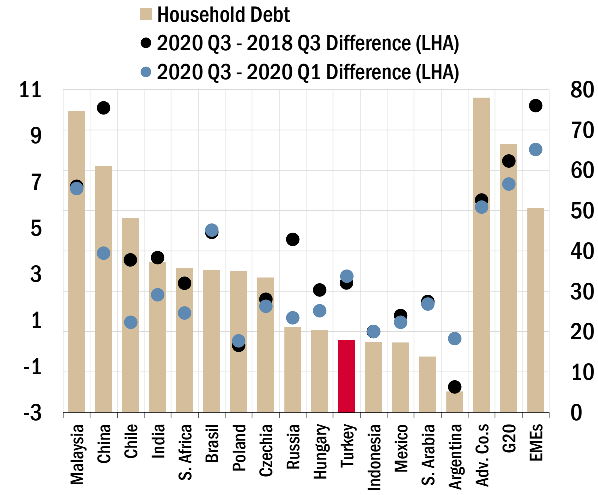
Chart III.1.1: Household Financial Asset and Liability Growth Rates and Financial Leverage Ratio (Annual % Change, % Share)



Sources: CBRT, BRSA, MKK, TOKİ Last Observation: 03.21

Note: The leverage ratio refers to the ratio of average liabilities to average financial assets in the last 12 months. Real growth rates have been calculated using the CPI.

Chart III.1.2: Household Indebtedness of Countries (%, % Points)



Sources: BIS, CBRT Last Observation: 09.20

Note: Spreads denote the six-month and two-year change in indebtedness. Revised data for India.

Due to assets and liabilities growing at a similar pace since July 2020, the household financial leverage ratio remained horizontal at 36%, below the 10-year average of 47%. The low leverage ratio indicates that the increases in assets and liabilities was balanced in this period. In the current reporting period, savings deposits and preferences for stocks and precious metals prevailed on the assets front, while general-purpose loans and personal credit cards (PCC) were key drivers on the liabilities front.

Table III.1.1: Changes and the Contributions in Household Financial Assets (%)

	09.20		03.21		Percentage Change	Contibution to Change (Point)
	Billion TL	Percentage Share	Billion TL	Percentage Share		
Total Assets	**2438.1**	**100**	**2682.4**	**100**	**10.0**	**10.0**
TL Savings Deposits	820.3	33.6	900.4	33.6	9.8	3.3
FX Savings Deposits	820.3	33.6	887.1	33.1	8.1	2.7
- *(Billion USD)*	105.0		106.5		1.4	
Precious Metal Deposits	227.1	9.3	258.4	9.6	13.8	1.3
- *(Billion USD)*	29.1		31.0		6.7	
Bonds and Bills	58.3	2.4	58.8	2.2	1.0	0.0
- Public Sector	36.0	1.5	37.0	1.4	3.0	0.0
- Private Sector	22.3	0.9	21.8	0.8	-2.3	0.0
Mutual Funds	239.7	9.8	262.5	9.8	9.5	0.9
Pension Mutual Funds	139.7	5.7	150.2	5.6	7.5	0.4
Other Mutual Funds	100.0	4.1	112.4	4.2	12.4	0.5
Equity Securities	167.8	6.9	238.8	8.9	42.3	2.9
Repo	3.5	0.1	5.7	0.2	62.1	0.1
Currency in Circulation	100.9	4.1	70.6	2.6	-30.1	-1.2

Sources: CBRT, MKK, PMC Last Observation: 03.21

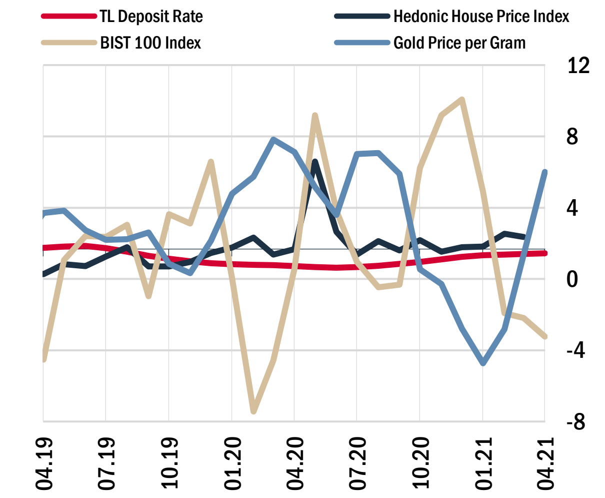
Note: Month-end exchange rates have been used in the calculations. Pension mutual funds show the total funds of participants in the Individual Pension System (IPS) and the Auto Enrollment System (AES), minus the state contribution.

The total household debt to GDP ratio in Turkey, which was around 18% as of September 2020, is markedly below the EME average of 51% (Chart III.1.2). Following the loan growth triggered by the measures taken to mitigate the economic impact of COVID-19, household indebtedness in Turkey rose by 2.6 percentage points from two years earlier and by 2.9 percentage points from early 2021. Other EMEs have experienced a similar increase due to the pandemic.

In the current reporting period, household financial assets were up 10% from the previous reporting period (Table III.1.1). In this period, depositors preferred more TL, with TL savings deposits growing by 10% and contributing 3.3 percentage points to the increase in assets. The number of real people investing in the BIST index increased significantly and stock values went up by 22% on average, which contributed 2.9 percentage points to the increase in household assets. Precious metal deposit accounts held by households at banks grew by more than 20% percent in dollar terms in the last quarter of 2020. However, after a decrease of around USD 4.7 billion in March, their contribution to the increase in assets was 1.3 percentage points. Household FX deposits registered a similar change in March, and the contribution of FX deposits to the growth in household assets was 2.7 points due to the depreciation of the Turkish lira despite a decrease of nearly USD 6 billion in one month.

The relative returns on savings deposits and alternative investment instruments and the perceived uncertainty affect individuals' savings preferences. With the tightening of financial conditions, deposit rates have increased in the current reporting period. Returns on alternative investment instruments remain volatile, while current period returns are formed around the deposit rates (Chart III.1.3).

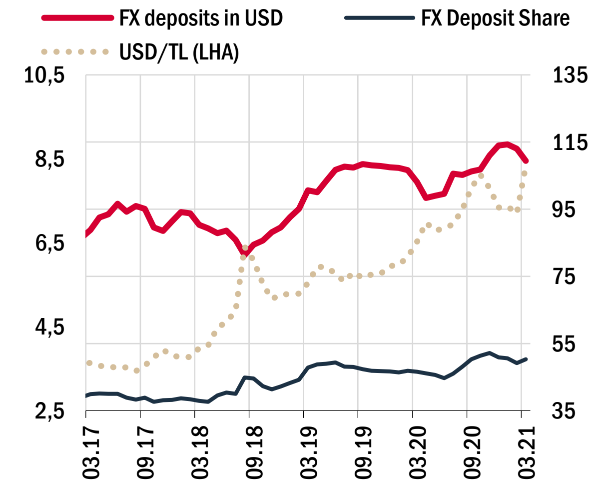
Chart III.1.3: Monthly Returns on Deposit and Alternative Investment Instruments (%)



Source: CBRT Last Observation: 04.21

Note: Series show the monthly percentage change and the monthly interest on TRY deposits. Three-month MA is calculated using data from the month before and after the respective month.

Chart III.1.4: Breakdown of Resident Households' Savings Deposits by TL and FX (Billion USD, % Share, TRY)



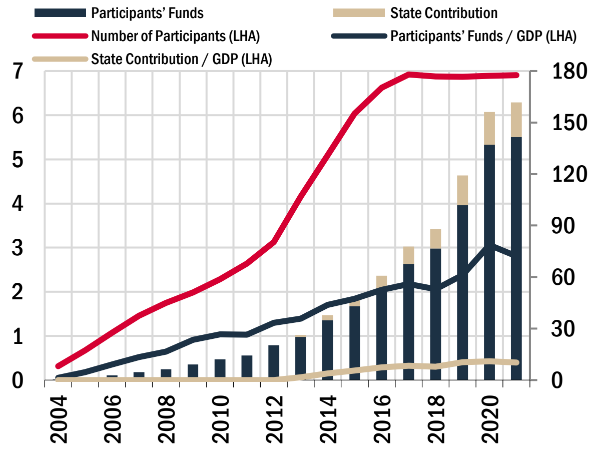
Source: CBRT Last Observation: 03.21

Note: Month-end exchange rate data have been used in the calculations.

The share of FX deposits in total savings deposits began to moderately decrease at the end of 2020, to 50.3% as of March 2021 (Chart III.1.4). This was driven by the recent weakening of FX savings deposits and the relatively strong course in TL deposits, coupled with households moving FX savings in a stabilizing direction recently. TRY 60 billion increase of March 2021 in TL savings deposits and the weakening of approximately USD 11 billion in FX deposits (including precious metal deposit accounts) after 19 March 2021, which is the biggest decrease of the last decade, played a major role in these developments.

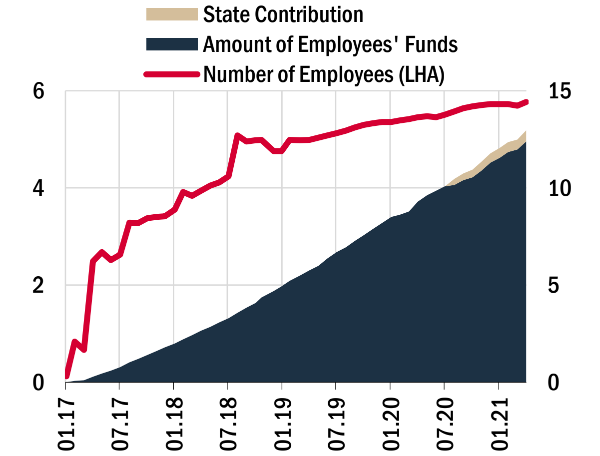
The funds in the PPS, in which individuals invest their savings, remain on the rise thanks to the state contribution since 2013, although the number of participants in the system has barely changed since 2017 (Chart III.1.5). In the last period when the pandemic dragged on economic activity, the number of participants remained unchanged, but the upward trend in the amount of funds lost momentum. Including those under the age of 18 in the system over the upcoming period will give a significant boost to the number of participants and the amount of funds (Box III.1.I).

Chart III.1.5: Individual Pension System
(Billion TRY, %, Million People)



Source: PMC Last Observation: 04.21

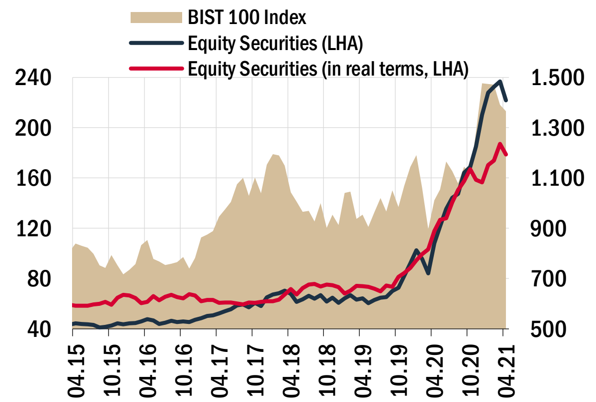
Chart III.1.6: Auto Enrollment System
(Billion TRY, Million People)



Source: PMC Last Observation: 04.21

In the same period, funds accumulated in the AES remained on a similar steady upward trend. The first participants of the AES completed their 3-year terms as of August 2020 and began receiving 15% of the state contribution. The total amount of funds, including the state contribution in the AES, increased by 39% in the last one year and amounted to about TRY 13 billion (Chart III.1.6).[1] As of 30 April 2021, the amount of funds in the PPS, including state contribution, is up 23% from a year earlier to TRY 162 billion.

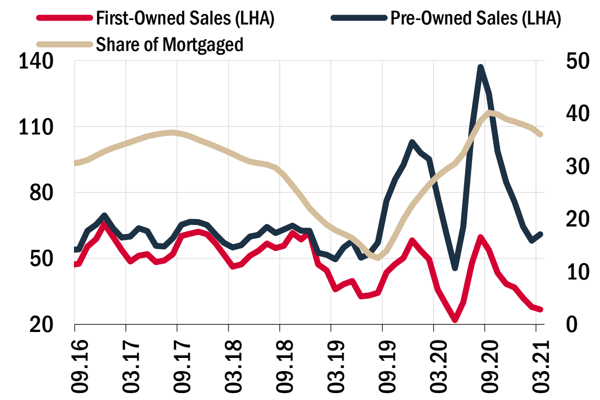
Chart III.1.7: BIST 100 Index and Household Equity Securities Portfolio (Index, Billion TRY)



Source: TURKSTAT Last Observation: 04.21

Note: Real equity portfolio has been adjusted for value changes in the stock market index.

Chart III.1.8: Housing Sale Statistics
(%, Thousand, 3-month MA)



Source: TURKSTAT Last Observation: 03.21

Note: The mortgaged sale share is the share of mortgaged sales in total housing sales over the last 12 months.

In the first quarter of 2020, there was a decrease in the BIST 100 index due to massive portfolio outflows from EMEs, and despite having fluctuated in the following period, the index maintained its upward trend throughout the reporting period, compensating for these losses (Chart III.1.7). In the same period, constituting approximately 10% of household assets, the stock portfolio moved in tandem with the index, while the real portfolio also registered an increase. On the other hand, having been approximately 1.1 million at the beginning of 2019, the number of investors in the equity market hit approximately 1.2 million in January 2020 before reaching 2.2 million in January 2021, posting an annual increase of 75%. This uptrend continued in 2021, and the number of investors rose to about 2.6 million as of April.

Household financial liabilities increased by 6.1% in the current reporting period (Table III.1.2). Although vehicle loans saw the fastest growth in this period, the effect of the said growth on the change in liabilities was quite limited as they account for a small share in liabilities. Nearly half of the contribution to the increase

[1] AES is a scheme complementing the PPS and offers some additional government incentives. Unlike the PPS, participation in the system is automatic and there is no restriction against leaving the system. For details, see Financial Stability Report November/2020, Issue 31, Box III.1.II. Reported PPS figures do not include AES savings, which is a separate savings system.

in liabilities came from general-purpose loans, which have the largest share in total liabilities. In addition to the 2.7 percentage point contribution from general-purpose loans, personal credit card (PCC) balances added 2.3 percentage points to the increase in household liabilities. Meanwhile, the banking sector continued to have a share of over 90% in household liabilities.

Table III.1.2: Changes and the Contributions in Household Financial Liabilities (%)

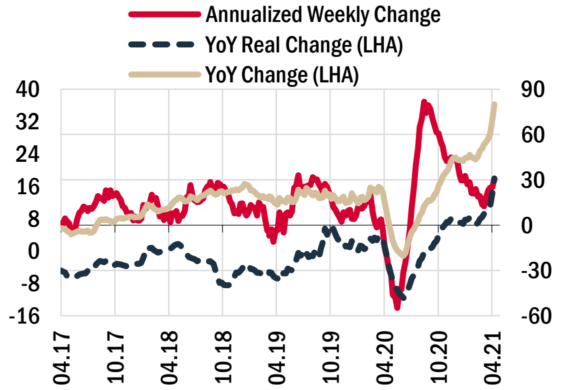
	09.20		03.21		Percentage Change	Contributions to Change
	Billion TL	Percentage Share	Billion TL	Percentage Share		
Total Liabilities (Based on Type)	**883.2**	**100.0**	**937.2**	**100.0**	**6.1**	**6.1**
Housing	302.1	34.2	304.1	32.5	0.7	0.2
Vehicle	19.5	2.2	26.5	2.8	35.6	0.8
General Purpose	391.7	44.3	415.9	44.4	6.2	2.7
Personal Credit Cards	140.2	15.9	160.4	17.1	14.4	2.3
Asset Management Comp' Rec.	29.8	3.4	30.3	3.2	1.7	0.1
Total Liabilities (Based on Counterparty)						
Banks	817.6	92.6	864.3	92.2	5.7	5.3
Financing Companies	12.2	1.4	16.2	1.7	32.5	0.4
TOKİ	23.7	2.7	26.4	2.8	11.4	0.3
Asset Management Comp'	29.8	3.4	30.3	3.2	1.7	0.1

Sources: CBRT, TOKİ Last Observation: 03.21

Note: Liabilities include NPLs as well. Latest TOKİ data from 10.20.

In June-July 2020, used home sales exceeded their long-term average amid a housing stimulus by mostly state-owned banks offering relatively affordable loan rates, but weakened significantly in the following period due to tightening financial conditions. Convergence to the stimulus-era average of new home sales, on the other hand, was replaced by a weakening in the current reporting period (Chart III.1.8). The recent decrease in the share of mortgage sales is consistent with the decrease in house sales.

Chart III.1.9: Change in PCC Balance (%)



Sources: CBRT, TURKSTAT Last Observation: 04.21
Note: Real change is calculated by deflating with the CPI. Annualized weekly change is 13 weeks, other series are 3-week MA.

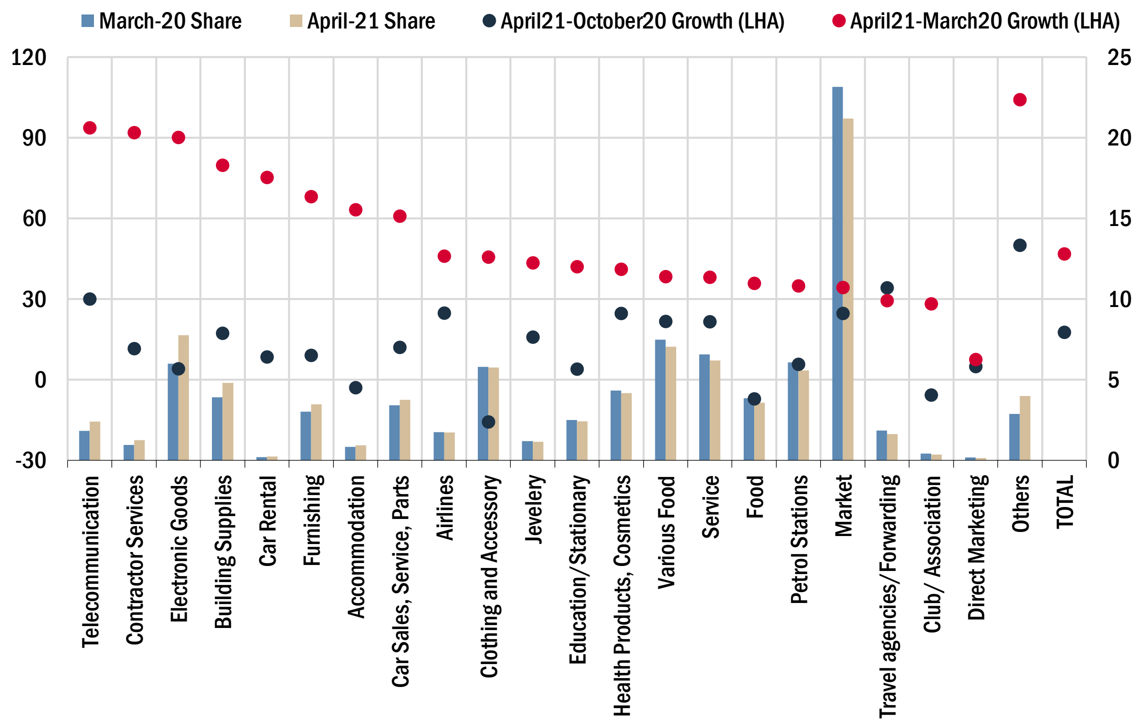
Table III.1.3: Digital Banking Developments (Online and Mobile) (Million People, Million Transactions, Trillion TRY)

	Active Digital Customers		Online Financial Transactions		Mobile Financial Transactions	
	Legal	Real	Number	Volume	Number	Volume
2016			149	1	158	0.3
2017	1.6	33.4	137	1.3	280	0.6
2018	1.9	42.3	133	1.4	393	0.9
2019	2.1	51.0	120	1.4	559	1.5
2020	2.8	62.8	123	2.0	859	3.1

Source: BAT Last Observation: 12.20
Note: Data from 27 banks with online services and 21 banks with mobile services. Fourth-quarter data have been used for each year.

With the marked contribution of the low base effect from the reduced spending in the initial phase of the pandemic, PCC balances have grown by 36% year-on-year as of April (Chart III.1.9). In addition to this base effect, the increased use of credit cards due to a growing interest in contactless and online shopping during the pandemic also added to the balances. While PCC balances in the reporting period covering the last six months were more balanced, April 2021 expenditures increased by 50% in total and by nearly 100% for some items, compared to March 2020, when pandemic-related shutdowns were not in place (Chart III.1.10). A sectoral breakdown for the same period reveals that the share of electronics, building supplies and telecommunication posted a notable increase, whereas the share of supermarket spending, which has the highest weight in total expenditures, decreased. Meanwhile, amid increased use of credit cards during the pandemic, about 86 million contactless payment transactions accounted for TRY 3.8 billion worth of spending in March 2020, while 213 million transactions involved a spending of TRY 14 billion in October. In March 2021, the amount spent through 258 million transactions reached TRY 18 billion. Moreover, the circular announced in April 2021 enabled banks to accept customers via mobile devices and computers by remote ID verification as of May, which is a step that both supports competition and reduces costs for banks. With this regulation, digital banking activities, which saw a pandemic boom, are expected to gain momentum (Table III.1.3).

Chart III.1.10: Debit Card and Credit Card Expenditures (%)



Source: CBRT Last Observation: 04.21

Note: Columns represent the share of the relevant item in total expenditure. Growth figures are percentage changes. Balances are weekly flow data. Average of the weeks in the respective month.

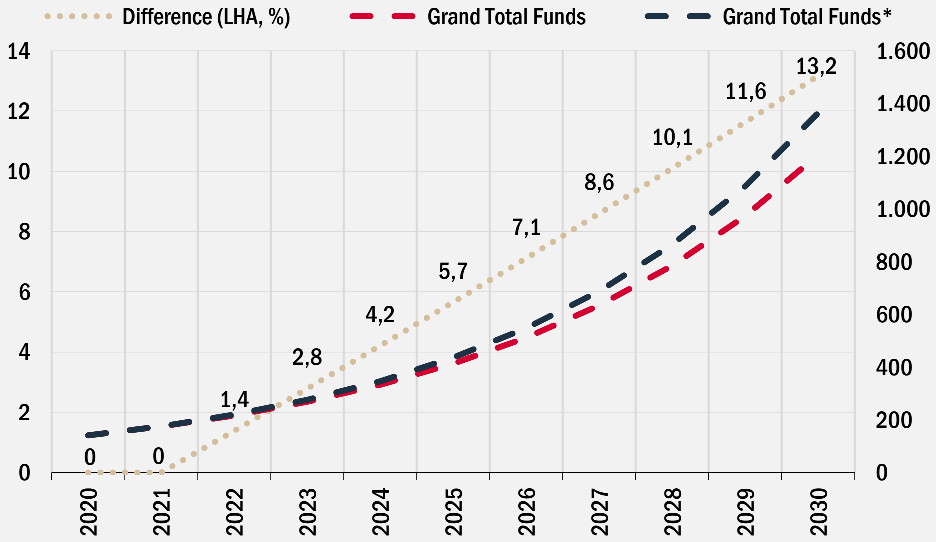
Box III.1.I

Including Under-18s in the Private Pension System

A private and voluntary retirement savings scheme, the PPS aims to enable individuals to obtain additional income that supports the social security system by channeling the contributions they make during their active working life to long-term investments so that they can maintain their living standards during their retirement. A new regulation has been in preparation to expand the scope of the PPS by including the population under the age of 18 in the system.[1] Expanding the number of potential PPS participants to the total population of Turkey will help children and young people develop an awareness of saving and support the closure of Turkey's savings gap. Another key objective is to contribute to financial stability by building more resilience against financial fluctuations as capital markets deepen.

Those under the age of 18 account for approximately 27% of Turkey's population of 84 million as of the end of 2020, with 23 million. As of April 2021, the 12.6 million participants registered in the PPS and AES suggest that the rate of participation in the system is about 21%. It is likely that individuals, who receive higher state contribution in return for paying higher premiums, have the motivation to open separate accounts for each family member and receive more state contribution. This might lead to the rate of participation under the age of 18 may be similar to the participation rate in adult population. In case of the young population is automatically included in the system in a way similar to the AES, around 5 million new participants can be integrated into the system over the medium term, generating about TRY 3 billion of funds in the first year. Based on this assumption, it is predicted that there will be significant growth in the total funds of the system in the medium to long run, up to TRY 1.36 trillion from a predicted TRY 1.21 trillion in 2030 (Chart III.1.I.1).

Chart III.1.I.1: Projected Progress of Funds in the Pension System
(TRY Billion, %)



Sources: PMC, author's calculations

Note: "Grand Total Funds*" and "Difference" series are calculated with the assumption that participants under the age of 18 will be included in the system in way similar to the AES.

It is important that individuals acquire the habit of saving at a young age, these savings be at their disposal whenever needed later during higher education, and the system contributes to the deepening of the market by becoming more widespread. In fact, there are various programs in advanced economies that help people under the age of 18 gain the habit of saving.[2] According to Finlayson (2007), the UK's CTF program helps foster the habit of saving for future generations through the provision of financial education in the school curriculum by granting children access to a financial asset with which they can start saving. Emmerson and Wakefield (2001) suggest that opening a savings account for a child from birth will not only help them gain the habit of saving but also enable them to make more original and successful plans for the future. Coronado and McIntosh (2000) emphasize that it is critical to support such youth-oriented reforms with savings-promoting education programs. On the other hand, it is widely acknowledged in the literature that the PPS is an effective method of establishing the habit of saving in a country. In fact, as stated by Garvy (1950), changes in saving habits occur gradually, and developing a saving culture might be possible if retirement schemes covering a significant portion of the population remain in effect for a few years.

Such initiatives to increase national savings will affect macro indicators such as current account balance, sustainable growth and deeper financial markets positively in the long run, reduce structural fragilities, and contribute to financial stability by ensuring the resilience of financial markets against possible shocks.

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[1] In this context, with Law no. 7319 of 25 May 2021 on Amending the Laws on Insurance and Some Other Fields and a Legislative Decree, the requirement to have juridical capacity to participate in the PPS was repealed.

[2] The UK government supports savers with a program called Child Trust Fund (CTF), which was launched in 2005. The CTF helps individuals understand the benefits of saving and investment and contributes to their financial education. Children acquire the habit of saving and start their adult life with some savings. The system prevents the withdrawal of funds before the age of 18 and provides a tax exemption for withdrawals after the age of 18.
In the US, there are "Qualified Tuition Plans" that encourage families of all income levels to save for the higher education of their children and relatives.

III.2 Corporate Sector Developments

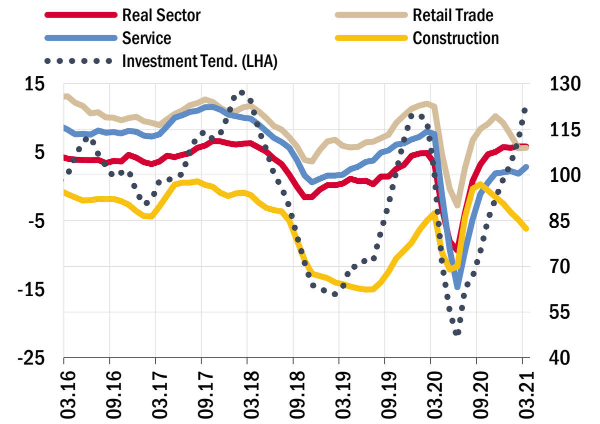
Following the significant recovery seen in the third quarter of 2020 on the back of the phasing out of pandemic measures and the strong credit impulse, economic activity remained strong in the last quarter of 2020. The tightening in financial conditions and the partial lockdown measures in place since November have been mirrored in sectoral confidence indices in the current reporting period (Chart III.2.1). While pandemic restrictions caused economic activity in our foreign trading partners in the EU to slow down, their effect was mainly limited to the services sector and our exports to the region remained strong. The continued strong course in exports supported the real sector confidence index, and as of March, the index started to hover close to pre-pandemic levels.

The uncertainty posed by the global course of the pandemic on tourism and other services sectors, as well as the persistence of restrictions, have kept the services sector confidence index below pre-pandemic levels. Nevertheless, the services sector confidence index posted a limited increase in March on the back of the normalization steps. A partial recovery was seen in the tourism sector which was affected relatively more by pandemic restrictions, and the CGF loan support to the sector continued in the current reporting period (Box I.1.I).

The construction sector confidence index rose well above pre-pandemic levels due to the acceleration driven by housing loan campaigns in June and July 2020. However, the index fell below its pre-pandemic level again in response to the stagnation in house sales driven by termination of campaigns and tightening financial conditions, as well as to the rise in the prices of raw materials such as iron-steel.

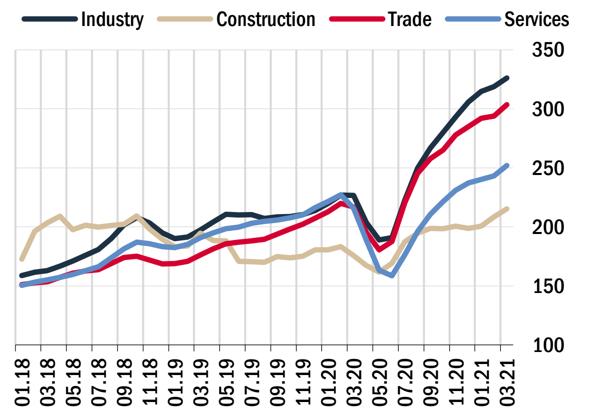
The 12-month-forward investment trend in the manufacturing industry has started to increase due to the pent-up demand as of the third quarter of 2020. The index remained strong despite tightening financial conditions in the following period and rose to match its pre-pandemic level. The strength of exporting sectors and the need for capacity increase are considered instrumental in this development.

Chart III.2.1: Real Sector Confidence Indices and Investment Trend
(Seasonally-Adjusted, 3-Month MA)



Sources: TURKSTAT, CBRT — Last Observation: 03.21

Chart III.2.2: Real Sector Turnover Indices
(Seasonally and Calendar Effect-Adjusted, 3-Month MA, 2015=100)

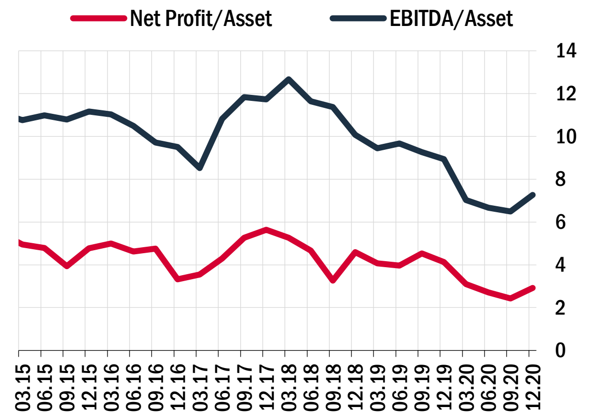


Source: TURKSTAT — Last Observation: 03.21

Turnover indices differ by sectors. While the strong course in the industry and trade turnover index continued in the current reporting period on the back of the domestic demand, the improvement in the services sector remained weak due to the course of the pandemic, whereas the relatively low course in the construction sector persisted (Chart III.2.2).

An analysis for BIST-quoted corporates reveals that earnings before interest, taxes, depreciation and amortization (EBITDA) as well as their net profitability, which had started to decline in the second quarter of 2020 due to the pandemic and high input costs, increased in the last quarter of the year on the back of the domestic and external demand (Chart III.2.3). The EBITDA/Asset ratio that receded below 7% due to the pandemic rose to 7.26% at the end of the year. Meanwhile, the Net Profitability/Asset ratio, after hitting its lowest level at 2.43% in September, converged towards its pre-pandemic levels at 3% at the end of the year. An analysis by a sectoral breakdown indicates that the manufacturing industry profitability ratios continued to hover significantly above the services sector profitability ratios, whereas all profitability ratios posted a mild recovery in the last quarter of the year (Chart III.2.4).

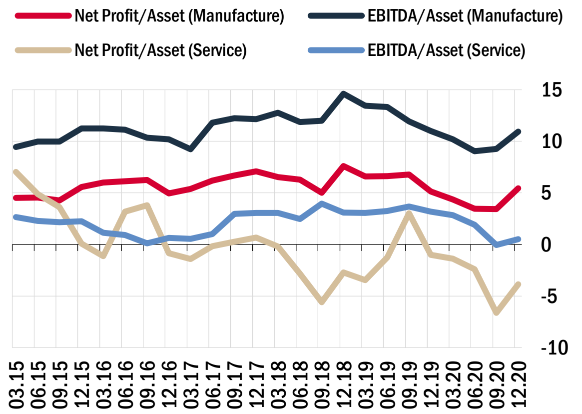
Chart III.2.3: BIST Firms' Profitability Indicators (% Ratio)



Source: FINNET Last Observation: 12.20

Note: EBITDA: Net Profit + Financial Expenses + Tax Expenses + Depreciation and Amortization Costs. 266 corporate sector firms were included in the analysis.

Chart III.2.4: BIST Firms' Profitability by Sectors (% Ratio)

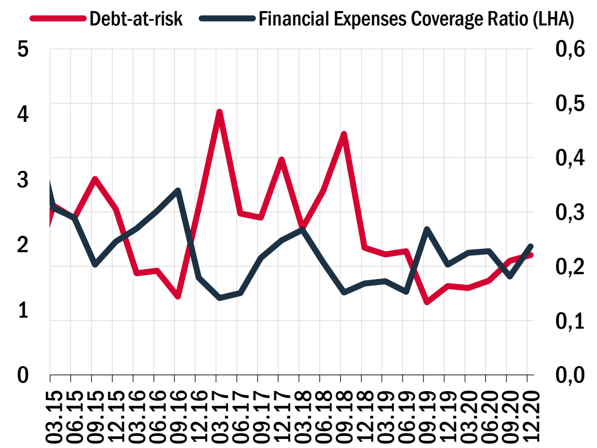


Source: FINNET Last Observation: 12.20

Note: As of the latest data, 164 corporate sector firms operating in the manufacturing and services sectors were included in the analysis.

The financial expenses coverage ratio that shows the capacity of firms' operating incomes to cover interest and exchange rate-driven financial expenses declined until the end of the third quarter due to the exchange rate increases despite supportive measures taken to counter the pandemic (Chart III.2.5). The financial expenses coverage ratio has increased since the third quarter of the year due to decreased volatility in exchange rates despite increased TL credit costs. Calculated as the debt share of firms with operating income failing to cover interest expenditures, the debt-at-risk ratio has been on the rise since the third quarter of 2019. Despite having shown an increase due to the credit expansion amid supportive policies of the pandemic period, the ratio of the debt-at-risk to the total financial debts of BIST corporate sector firms is quite limited at 0.2%.

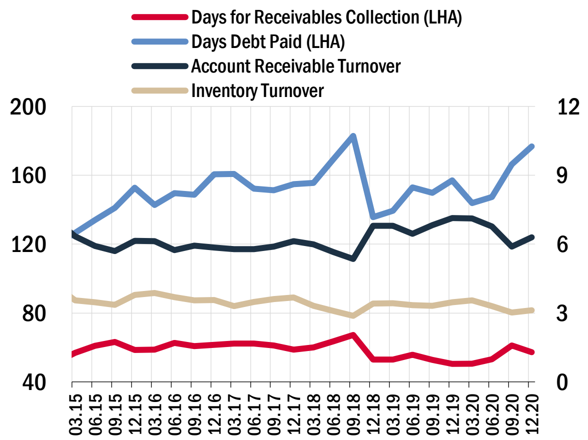
Chart III.2.5: BIST Firms' Interest Coverage and Debt-at-Risk Ratios (%, Ratio)



Source: FINNET Last Observation: 12.20

Note: Financial Expenses Coverage ratio (FECR)= EBITDA / Financial Expenses. Exchange rate driven exchange expenses are also included in financial expenses. Debt-at-risk ratio= Ratio of the entire debt of firms with a FECR less than 1.5 to firm debts in the total sample.

Chart III.2.6: Firms' Activity and Liquidity Indicators (Value, Day)



Source: FINNET Last Observation: 12.20

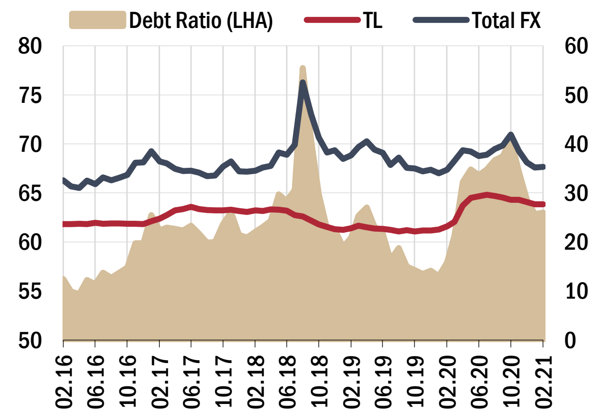
Note: As of the latest data, 266 corporate sector firms were included in the analysis.

The slowdown in economic activity that started with the pandemic in March 2020 has also affected the activities and liquidity ratios of BIST firms (Chart III.2.6). With the deepening of the pandemic effects, the receivables collection period, which had been 50.5 days in the first quarter of 2020, increased to 61 days as of the third quarter. In the last quarter, the receviables collection period receded to 57 days as economic activity revived. Likewise, accounts receivable and inventory turnover rates slowed down from the onset of the pandemic in the first quarter of 2020 until the last quarter, and rallied posting a slight increase in the fourth quarter of 2020. On the other hand, debt repayment times also increased progressively with the pandemic and reached 177 days by the end of 2020. While firms found opportunity to create liquidity as their payment maturities for purchase of goods were extended, nevertheless this indicates an increase in the working capital need for corporate sector firms. During the pandemic, the measures to sustain the access of corporate sector firms to finance and the arrangements for the continuity of firm's cash flows (FSR May 2020, Box I.1.I, FSR November 2020, Box I.1.I) limited the effects of the pandemic, and in the fourth quarter, played a role in the improvements, albeit limited, in firms' financial soundness indicators.

The corporate sector's financial debt to GDP ratio rose by 14 points to 71% from January 2020 to October 2020, due to the banking sector's effective coverage of the pandemic-led increase in the financing need, and the effect of the exchange rate increase on the FX debt stock. Nevertheless, due to the tightening in financial conditions that started in the third quarter of 2020, the ratio decreased to 63% in February 2021 (Chart III.2.7). The decline of total indebtedness in the current reporting period was driven by the decrease in the exchange rate until March as well as firms' ongoing propensity to reduce their FX debts. The ratio of FX loans to GDP decreased by 7 points to 35% in February 2021 from 42% in October 2020. The decline in TL loans, on the other hand, was limited to 1 point for the same period, and the TL loan ratio stood at 28%.

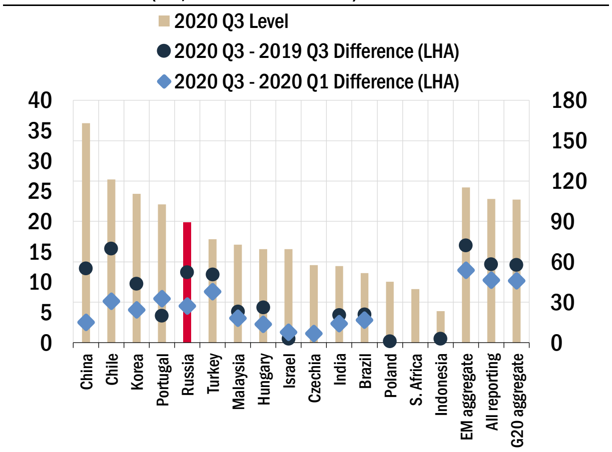
The Treasury-backed CGF guaranteed loans supported the access of corporate sector firms, and SMEs in particular, to credits and the continuity of cash flows during the pandemic. Of the 14-point increase in the corporate sector financial debt to GDP ratio in the first ten months of 2020, 4 points stemmed from the CGF-guaranteed loans. The CGF-guaranteed cash credit balance, which reached TRY 343 billion on 30 September 2020 with the utilization of these loans, decreased to TRY 288 billion as of 31 March 2021 due to the decrease of lending and repayments in the current reporting period. Within the scope of these loans, repayments of TRY 90.3 billion and TRY 82.9 billion are expected in the remainder of 2021 and in 2022, respectively.

Chart III.2.7: Non-financial Firms' Financial Debts to GDP Ratio (Ratio, %)



Source: CBRT Last Observation: 02.21
Note: The annual GDP values at monthly frequency have been calculated by the CBRT. The latest GDP data is CBRT estimate. Calculation of FX debts is based on the CBRT's month-end US dollar buying rate. Financial debts are composed of domestic and external loans used by corporate sector firms.

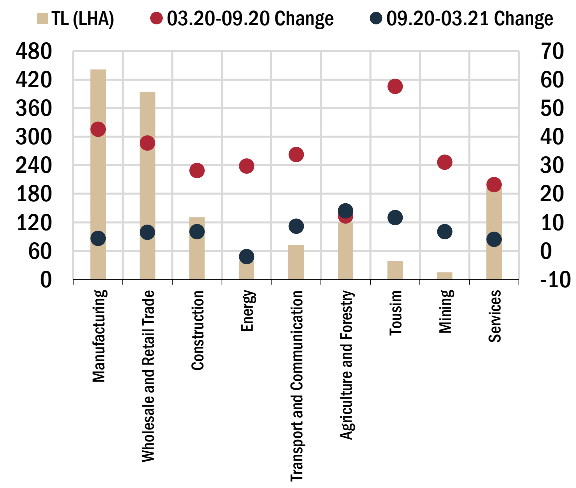
Chart III.2.8: International Comparison of Corporate Sector Total Financial Debts / GDP Ratio (%, % Difference)



Source: BIS Last Observation: 09.20
Note: The total financial debt definition includes domestic and external loans used by firms and bond issues, as well as performing and non-performing loans and interest rediscounts.

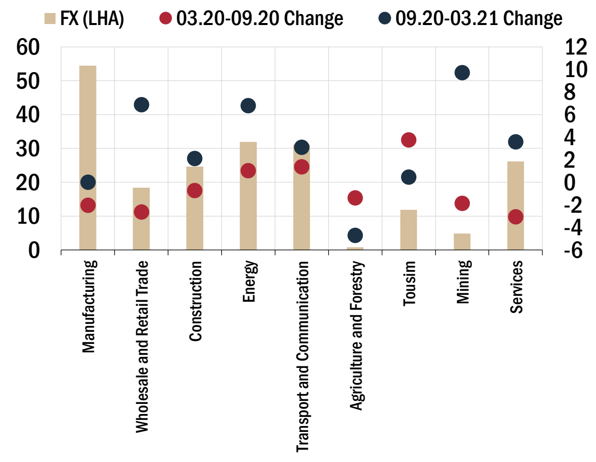
In the third quarter of 2020, the corporate sector indebtedness ratio remained below the EMEs, G20 and global averages (Chart III.2.8). In September 2020, while the sector's total financial debt to GDP ratio was 77% in Turkey, it was 106%, 115% and 107% in the G20, EMEs and in the world, respectively. Indebtedness ratios increased all over the world in 2020 due to pandemic-led economic measures. Although this increase was slightly higher in Turkey compared to peer countries, it remains below the average by country groups.

Chart III.2.9: Sectoral Breakdown and Periodic Changes in TL Loans
(% Change, TRY Billion)



Sources: CBRT, BAT Last Observation: 03.21
Note: Loans include domestic loans and intermediated external loans via domestic banks. Changes denote the rate of change between the stock loan balance of 03.21 and the stock loan balance of 03.20 of the related sector.

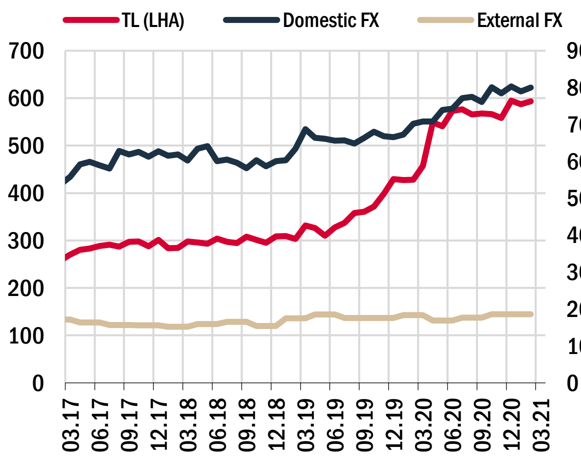
Chart III.2.10: Sectoral Breakdown and Periodic Changes FX Loans
(% Change, Currency Basket FX)



Sources: CBRT, BAT Last Observation: 03.21
Note: Loans include domestic loans and intermediated external loans via domestic banks. Changes denote the rate of change between the stock loan balance of 03.21 and the stock loan balance of 03.20 of the related sector.

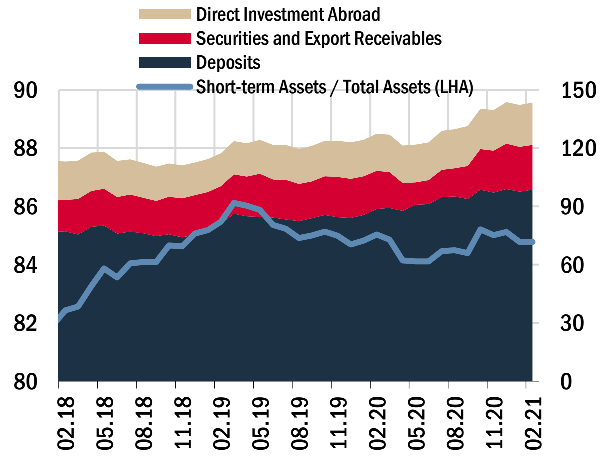
The manufacturing industry, wholesale and retail trade, as well as the general services sectors continued to have more weight in TL corporate loans as of March 2021 (Chart III.2.9). In the previous reporting period, the TL loan growth propped up by the pandemic-specific stimulus, boomed across all sectors with the tourism in the lead. In the current reporting period though, the increase in TL loans remained more limited due to tightening financial conditions, and the total TL loan stock balance grew by 6%. The TL loan growth in the pandemic-hit tourism sector posted a more rapid increase in the current reporting period compared to other sectors.

Chart III.2.11: TL-FX Breakdown of Commercial Deposits (USD Billion, TRY Billion)



Sources: CBRT, BRSA Last Observation: 03.21
Note: Precious Metal–Deposits are shown in FX commercial deposits. Commercial deposit values show amounts including participation banks.

Chart III.2.12: Non-financial Firms' FX Assets
(USD Billion, %)



Source: CBRT Last Observation: 02.21
Note: Securities, as they are small in amount, are included in the Export Receivables and shown as Securities and Export Receivables.

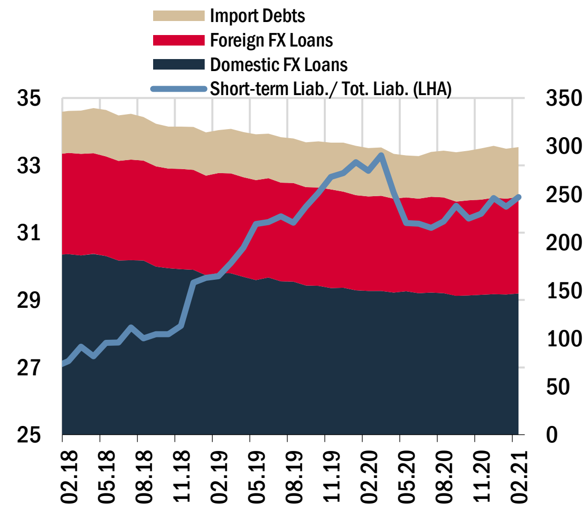
On the FX loans front, the manufacturing industry, energy, transport and communication sectors have relatively high balances (Chart III.2.10). In the previous reporting period, the percentage increase in the FX stock loan balance, as in TL loans, was relatively higher in the tourism sector, compared to other sectors. In the current reporting period, the mining, energy, and wholesale and retail trade sectors have weighed on the FX loan growth. The change in the stock balance of FX loans in agriculture and tourism sectors decreased compared to the previous reporting period.

The bulk of the corporate sector's financial assets is composed of deposits. In February 2021, the corporate sector had a total of TRY 1.3 trillion equivalent of TL and FX commercial deposits, consisting of TRY 594 billion and USD 99 billion, respectively (Chart III.2.11). Since end-2019, the total FX commercial deposits of the sector have been on the rise, approximately USD 19 billion of which is being held at foreign banks. The increase in TL commercial deposits that started in early May 2020 continues, albeit at a slower pace.

The corporate sector’s total FX assets went up by 13% year-on-year and by 9% compared to the previous reporting period, reaching USD 143 billion (Chart III.2.12). Moreover, the sector’s export receivables that declined in the second quarter of 2020 as a result of the pandemic’s effect on foreign trade, started to rise as of the second half of the year and supported the corporate FX asset growth. The short-term FX assets at USD 122 billion as of February 2021 account for 85% of total FX assets.

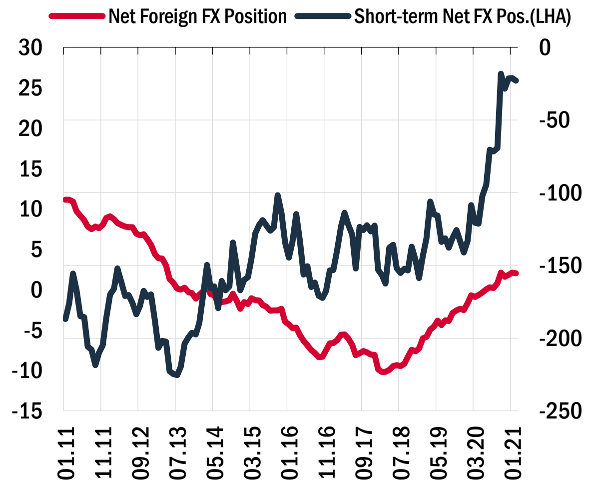
Due to an approximately USD 5 billion increase in domestic and foreign FX loans compared to the previous reporting period, and import debts that remained flat, the corporate sector’s FX liabilities followed a stable course and increased by 1.8% to USD 299 billion in the same period (Chart III.2.13). Of these FX liabilities, 32% is composed of debts with a remaining maturity of less than one year.

Chart III.2.13: Non-financial Firms’ FX Liabilities (USD Billion)



Source: CBRT Last Observation: 02.21

Chart III.2.14: Non-financial Firms’ Short-Term and Net FX Position (USD Billion)



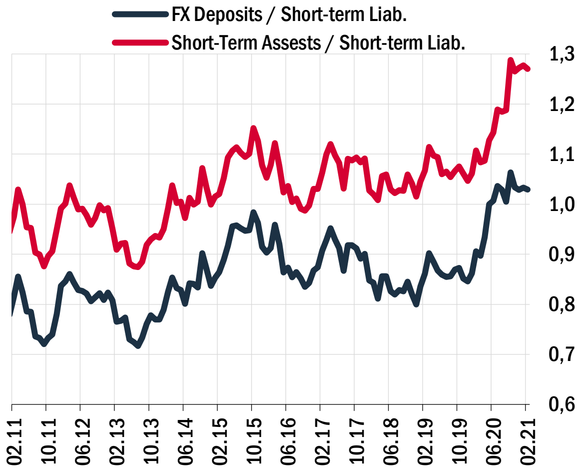
Source: CBRT Last Observation: 02.21

Note: Corporate sector FX liabilities cover domestic FX loans (including FX-indexed credits), credits extended from abroad, and import debts. On the assets side are domestic and foreign FX deposits, securities, export receivables and direct capital investments abroad. The net FX position indicates on-balance sheet values.

The decline in the FX short position of the corporate sector due to the increase in FX assets continued in the current reporting period, and as of February 2021, the net FX short position decreased by USD 15 billion year-on-year to USD 155 billion (Chart III.2.14). In the short term, the sector has an FX long position, which draws attention with a sharp increase since the beginning of 2020. In the current reporting period, the ratio of short-term FX assets covering short-term liabilities also followed a strong course, reaching 127%. The continued improvement in these FX position indicators increases the resilience of the non-financial firms’ financial structures against exchange rate developments (Chart III.2.15).

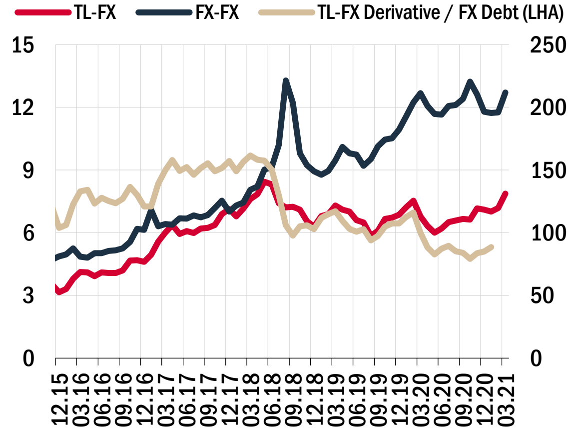
The volume of derivative transactions that the non-financial corporates engages in with banks (the nominal contract amount) increased by TRY 25 billion to TRY 347 billion in March 2021 (Chart III.2.16). Out of this, the TL-FX derivatives transactions, which are important in terms of exchange rate risk management, amounts TRY 131 billion. The ratio of TL-FX derivatives transactions to FX debts that had been on the decline since 2018 posted a limited increase in the current reporting period and stood at 5.66% as of February 2021. The volume of FX-FX derivatives transactions that the non-financial corporates carries out with domestic banks had shown fluctuations since October 2020, and increased by TRY 5 billion to TRY 212 billion in March 2021 compared to the previous reporting period.

Chart III.2.15: Short-Term FX Liabilities Coverage Ratios (Ratio)



Source: CBRT Last Observation: 02.21

Chart III.2.16: Currency Breakdown of Derivative Transactions (TRY Billion, %)



Source: CBRT Last Observation: 03.21