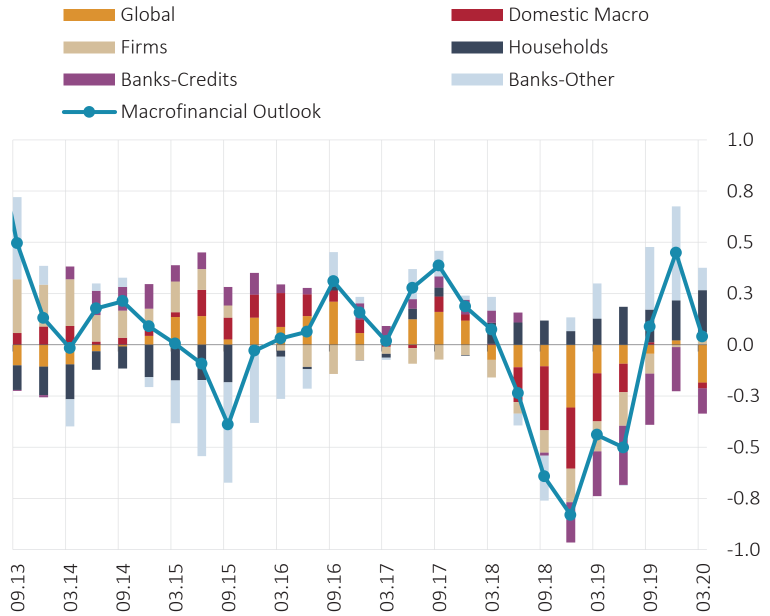
Overview

Economic activity in Turkey continued its robust pace from the last quarter of 2019 until mid-March of 2020, on the back of the improvement in expectations and financial conditions. However, starting from mid-March, the coronavirus outbreak that emerged in China at the end of 2019 and rapidly spread across the globe in the first quarter of 2020, particularly in Turkey's main trade partners in Europe, dampened Turkey's economic activity via foreign trade, tourism and domestic demand channels. The pandemic's impact on economic activity deepened in April. Economic activity slowed and almost came to a standstill in certain sectors, which exerted pressure on corporate sector cash flows and increased the precautionary liquidity demand in the economy. As in many countries, policymakers in Turkey introduced comprehensive policy measures to contain the adverse impacts of the pandemic (Box I.1.I).

The macrofinancial outlook, which rapidly improved in the second half of 2019, turned relatively negative in the first quarter of 2020, particularly in March, mainly due to pandemic-driven volatilities in global financial markets and the deterioration in expectations. Meanwhile, the Macrofinancial Outlook Index constructed using key indicators from the sections of the Financial Stability Report remained moderately above its historical average despite a decline in the first quarter of 2020 (Chart I.1). The tightening in global financial conditions and partial deterioration in bank financials due to the repercussions of the pandemic were the main drivers of this decline. In this period, the persistently low level of household indebtedness and the downtrend in FX indebtedness as well as FX open position of the corporate sector made an upward contribution to the index. Meanwhile, the negative contribution of bank loan indicators to the index eased due to the fall in non-performing loans (NPL) driven by the improvement in credit supply-demand conditions and the strong course of economic activity in early 2020. However, depending on the duration of the economic slowdown and volatilities in domestic and external markets, the macrofinancial outlook is projected to moderately weaken in the upcoming period.

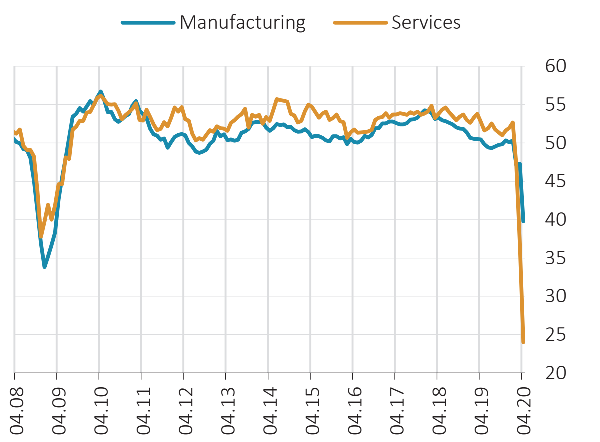
Chart I.1: Macrofinancial Outlook Index (Standardized Index and Contributions)



Note: For details of the index, see November 2019 Financial Stability Report, Box I.1.II.

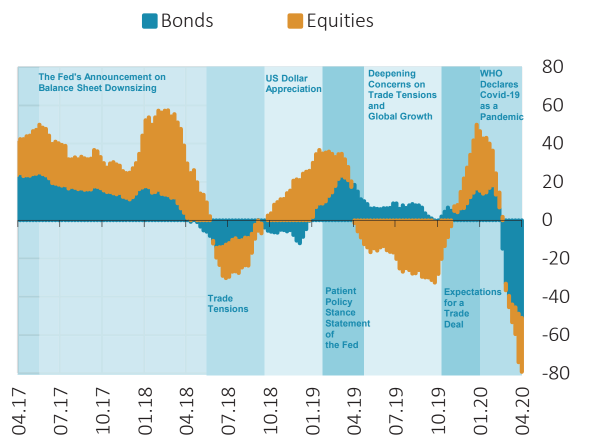
The coronavirus pandemic has significantly weakened the global growth outlook, while uncertainties over the recovery remain high (Chart I.2). Pandemic-related developments and uncertainties have resulted in a decline in global risk appetite, an increase in international market volatility and a tightening in global financial conditions in this period, while emerging economies (EMEs) have witnessed significant portfolio outflows (Chart I.3). With increased concerns over global growth outlook, central banks of advanced economies and EMEs delivered rate cuts and adopted accommodative unconventional monetary policies to facilitate the effective functioning of the financial system. These policy measures and the slowdown in the spread of the outbreak in some countries have contributed to the decline in excessive volatilities in global markets after April 2020.

Chart I.2: Global PMI (Index)



Source: IHS Markit Last Observation: 04.20

Chart I.3: Weekly Capital Flows to EMEs (13-Week Cumulative, Billion USD)



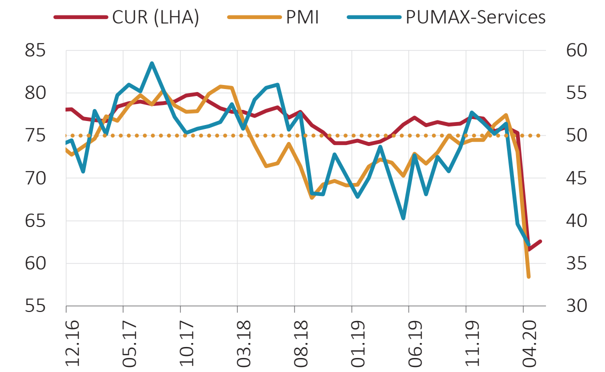
Source: EPFR Last Observation: 29.04.20

It is projected that the global risk appetite may tend to normalize in the period ahead provided that the liquidity support from advanced economies continues. On the other hand, if global trade relations and investment decisions are permanently negatively affected, the positive impact of advanced countries' accommodative economic policies on EMEs may remain limited and the recovery of economic activity in these countries may be slower. Moreover, the uncertainty about the duration of isolation measures introduced to prevent the spread of the outbreak, the weakening global economic activity, and the persistently high levels of indebtedness in both advanced and emerging economies pose risks to financial stability.

Stronger capital and liquidity positions of the global banking system as a result of comprehensive reforms implemented after the 2008 Global Financial Crisis, and the monitoring framework set up for non-bank financial intermediation activities have been the main factors that contributed to the resilience of the global financial system to the effects of the pandemic. During the period impacted by the pandemic, it is critical to maintain a balance between ensuring an effective financial intermediation by financial corporations through comprehensive expansionary monetary policies including unconventional methods, supportive fiscal policies and flexibilities in the regulatory framework; and preserving the achievements gained by the post-crisis reforms. However, it is important that countries act in cooperation and coordination to counter the pandemic and its adverse impacts. In this context, led by the G20 and coordinated by the Financial Stability Board (FSB), countries' policy implementations are closely monitored, and intensive studies are being carried out to analyze the effects of the pandemic on global financial stability and economic activity.

In the last quarter of 2019, economic activity in Turkey gained strength on the back of domestic demand together with improving financial conditions and the acceleration in loan growth. This strong course continued in January and February 2020. Economic activity has weakened since mid-March due to the impact of the coronavirus outbreak on foreign trade, tourism and domestic demand, while inflation expectations, aggregate demand conditions and commodity prices are supportive of the inflation outlook (Chart I.4). The pandemic has strained Turkey's export and tourism opportunities due to its negative impact on global economic activity, trade networks, international transport and supply chains. Meanwhile, the contraction in domestic demand dampens imports and, accompanied by the recent fall in crude oil prices, supports the current account balance. The pandemic-driven uncertainties regarding the global economy, the tightening in global financial conditions and the decline in risk appetite caused portfolio outflows from Turkey similar to other EMEs. At the same time, risk premium and the options-implied exchange rate volatility increased (Chart I.5). It is expected that the improvement in global liquidity conditions, particularly due to expansionary monetary policies implemented by advanced economies, may suppress risk premiums during the post-pandemic normalization process. Additionally, the monetary and fiscal measures implemented to contain the adverse effects of the pandemic-related developments on the Turkish economy, are expected to contribute to financial stability and post-pandemic recovery by supporting the production potential of the economy.

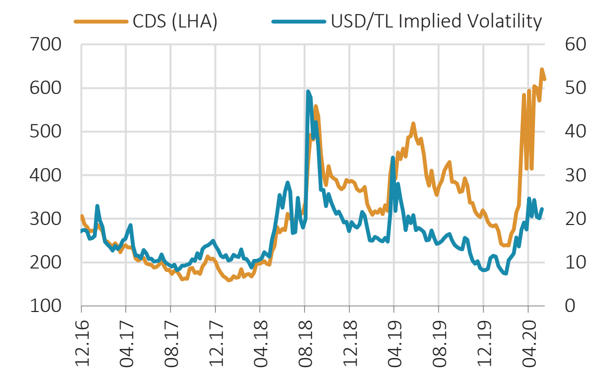
Chart I.4: Selected Leading Indicators Regarding Economic Activity



Sources: CBRT, IHS Markit-ISO, MUSIAD Last Observation: 04.20

Footnote: CUR: Manufacturing Industry Capacity Utilization Rate (%), PMI: Manufacturing Industry Purchasing Managers' Index, PUMAX-Services: Services Sector Purchasing Managers Index. The value 50 in PMI and PUMAX takes the previous month's level as basis. Values above/below 50 indicate a month-on-month increase/decrease in economic activity.

Chart I.5: CDS Premium and Exchange Rate Volatility (5-Year Maturity, Basis Points, 1-Month Maturity)



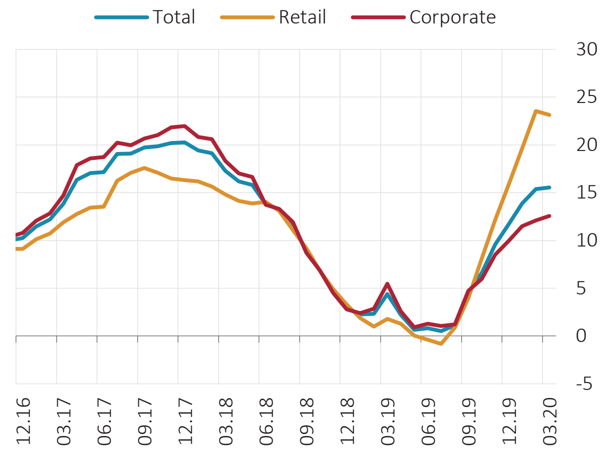
Source: Bloomberg Last Observation: 15.05.20

Loan growth rates accelerated as a result of continuing robust economic activity until mid-March 2020, declining loan rates and supportive liquidity conditions (Chart I.6). In this period, the increase in growth rates was higher in retail loans than corporate loans, and the expansion in loans led by state-owned banks was later followed by private banks as well. The strong trend in consumption expenditures, the recovery in the employment market and low interest rates increased retail loan demand significantly, with general purpose loans in the lead. In fact, to balance the impact of these developments on growth composition, current account balance and inflation, the Central Bank of the Republic of Turkey (CBRT) made an amendment in its required reserves (RR) framework on 7 March 2020 aiming at channeling the loan supply towards efficient and production-oriented sectors rather than to consumption. To this end, the role of loans extended to selected sectors was expanded in the incentive scheme criteria.

The recovery in loans, which started with retail loans in the last quarter of 2019, continues on the back of TL commercial loans. Despite firms' strong loan demand induced by their higher working capital needs and precautionary liquidity motive since mid-March 2020; the social isolation process, elevated uncertainties and expenses that focused on bare necessities relatively lowered the household loan demand. Owing to the set of measures introduced by the CBRT coupled with the Treasury-backed Credit Guarantee Fund (CGF) loan packages, loan growth continued with the lead of state-owned banks, spreading across sectors and firm sizes.

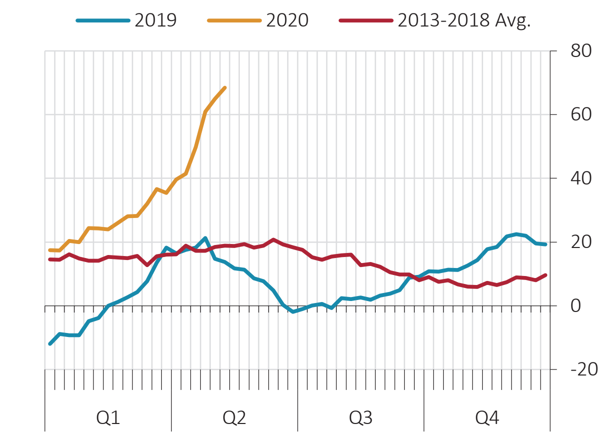
The coronavirus pandemic has affected the outlook for economic activity through various channels, and has also put pressure on the private sector's access to finance since the second half of March 2020. Weakening production activities and consumption trend, the damage incurred by global trade networks and the supply chain, the pause in the easing in financial conditions and mounting risk perceptions posed risks to the credit channel. However, the sound liquidity and capital structure of the banking sector in addition to timely precautions taken by public authorities eased the private sector's access to finance. The CBRT's comprehensive liquidity measures and rate cuts have contained the adverse effects of the pandemic on financial conditions, contributing to the decline in borrowing costs. In fact, high frequency indicators show that measures taken since March 2020 have supported the credit channel. Moreover, with the increases in firms' cash needs and precautionary liquidity demand, the uptrend in loan growth has become more pronounced (Chart I.7). The current acceleration in credit growth is expected to normalize in the upcoming period, once the cash flow cycles in the economy begin to return their regular course.

Chart I.6: Annual Credit Growth (BLTS, %)



Source: CBRT Last Observation: 03.20

Chart I.7: Weekly Total Credit Growth Developments (13-Week Moving Average, BLTS, Annualized %)



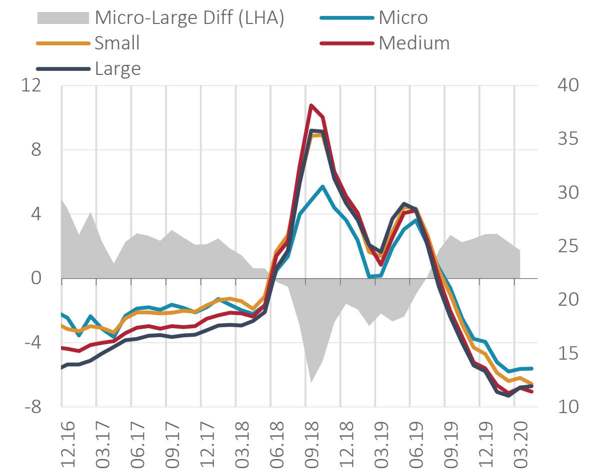
Source: CBRT Last Observation: 08.05.20

The low course of TL commercial loan rates supports commercial loan growth across all firm sizes (Chart I.8). The downtrend in TL loan rates continues in the current Report period, yet the average interest rates inched up in March 2020 amid the deteriorated global risk appetite. According to the latest high frequency data, the CBRT's policy rate cuts and liquidity support, together with the Treasury-backed CGF guarantees resulted in a decline in TL loan rates.

The corporate sector's total financial debt to gross domestic product (GDP) ratio has been decreasing since the second quarter of 2019, coming in at 59% as of February 2020 (Chart I.9). In this Report period, amid an economic rebound and slower foreign currency (FX) borrowing of the corporate sector, firms' total FX debt to GDP ratio continued to fall, converging to its level in the first quarter of 2015. The TL debt to GDP ratio, on the other hand, edged higher in February 2020 due to rising loan demand. The CBRT's policy rate cuts since the third quarter of 2019, as well as loan growth-linked RR policies that aimed to ensure an effective functioning of the credit channel and economic recovery, also contributed to the rise in firms' TL loans. Monetary and fiscal measures, put in place to support the pandemic-stricken economic activity and help the credit market operate smoothly, are expected to mitigate strains on credit and cash flows of corporate sector firms, particularly for SMEs exporting goods and services.

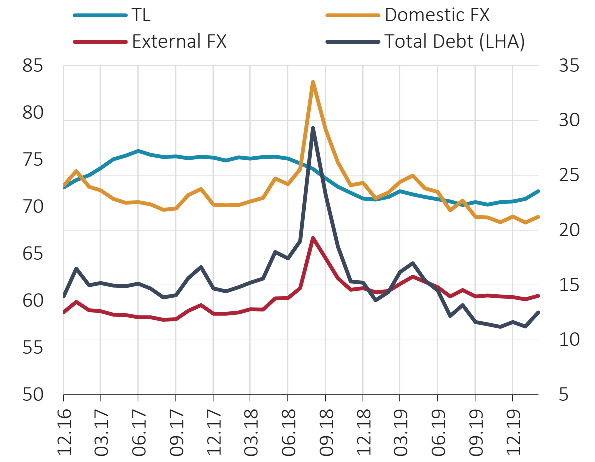
In the current Report period, households' financial assets grew faster than their liabilities. Accordingly, the household financial leverage ratio remained on the decline, falling below 37%. Turkey's household debt to GDP ratio is around 14%, well below the EME average. In this period, as non-essential spending has been postponed due to social distancing and economic shutdown measures, household assets may continue to grow at a faster pace than liabilities for some time, largely through deposit growth.

Chart I.8: Average TL Funding Costs of SMEs and Large Firms (4-Week Moving Average, %, % Difference)



Source: CBRT Last Observation: 10.04.20

Chart I.9: Share of Corporate Sector's Financial Debt in GDP (%)



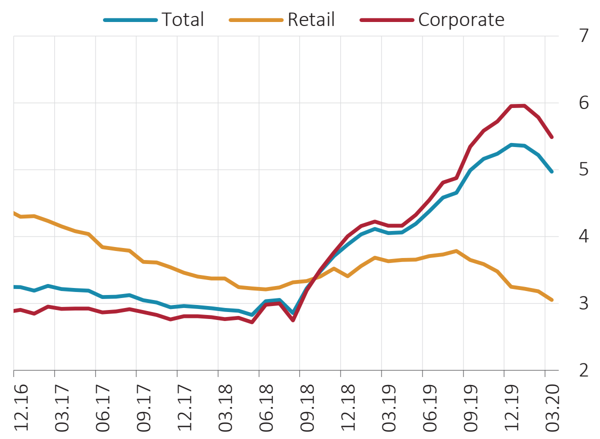
Source: CBRT Last Observation: 02.20

Note: GDP is converted to monthly basis and the value for February 2020 is the estimate of the CBRT. The term financial debt includes domestic and external loans extended to the corporate sector firms and bond issues. End-of-month US dollar (buying) level is used to calculate FX debt.

Following the asset quality review conducted by the BRSA, and its decision to reclassify a balance amounting to TRY 46 billion as NPL by the end of 2019, the banking sector's NPL ratio rose up to 5.4% at end-2019. In early 2020, thanks to the improvement in economic units' repayment capacity amid better income and employment opportunities, improvements in collection of receivables, increased credit volume and accommodative financial conditions, the NPL ratio dropped to 5% as of March 2020 (Charts I.10 and I.11). Both corporate and retail loans saw an improvement in asset quality. To avoid any deterioration in asset quality caused by downside risks from the coronavirus outbreak to household and firm income, timely and comprehensive measures were introduced. For a loan to be classified as non-performing, banks' threshold payment deferral durations have been increased from a minimum of 90 days to 180 days until 31 December 2020, allowing loans with a deferral of up to 180 days to be monitored under stage 1 and stage 2 portfolios. Thus, the negative effects that the pandemic-induced financial market volatility and economic weakening might have on asset quality can be monitored with a lag. However, due to monetary and fiscal measures, it is expected that the credit market will continue to operate smoothly and the decline in interest rates will dampen any possible deterioration in asset quality. The asset quality outlook, supported by the ongoing loan growth and the policy steps, is expected to be shaped by global developments and the course of domestic economic activity.

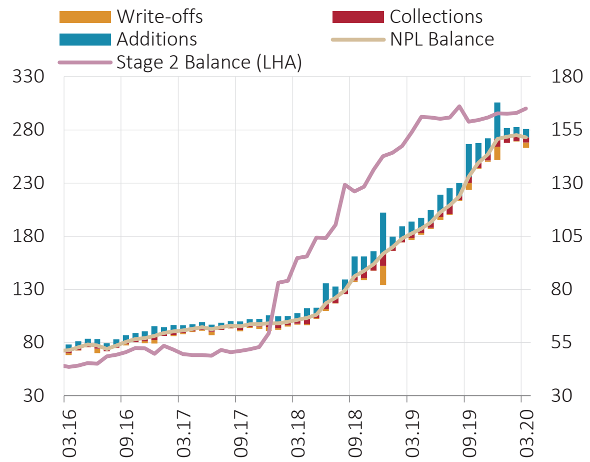
Having shown resilience against liquidity shocks, the banking sector has seen an increase in the share of core financing over the current Report period, largely due to accelerated TL deposits. Since early 2020, the amount of the sector's repo and TL-denominated issuances have increased. As external funds somewhat declined in the current Report period, the share of deposits abroad also increased and the ratio of non-deposit funds to external funds decreased. The decline in TL funding costs have played a role in the increased share of domestic funds, which contributes to the deepening of domestic markets and limits the sector's sensitivities towards external volatilities. Accordingly, the ratio of non-core liabilities to total funds in banks' funding composition went down to 36% (Chart I.12). The reduced use of non-deposit funds, consisting mostly of borrowings from banks, bond issuances and repo transactions, supports financial stability and the financing structure of the sector.

Chart I.10: NPL Ratios (%)



Source: CBRT — Last Observation 03.20

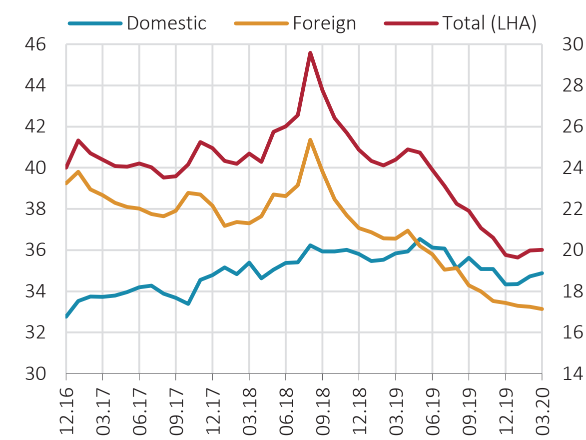
Chart I.11: NPL Balance and Components (TRY Billion)



Source: CBRT — Last Observation: 03.20

The banking sector's use of external funding has declined as the increase in loans and deposits has been predominantly in TL. In the current Report period, the sustained weak course in FX credit demand and historically low FX deposit rates have been main factors curbing banks' need for external funding. The acceleration in TL credit growth, the decrease in funding costs that emerged on the back of policy rate cuts and the difference in funding costs across currency types directed banks to domestic funding rather than foreign funding. In this period, approximately 80% of maturing syndicated loans were renewed. As for costs, despite the rise in risk premium, there was a Libor-driven decline in total borrowing costs (Chart I.13).

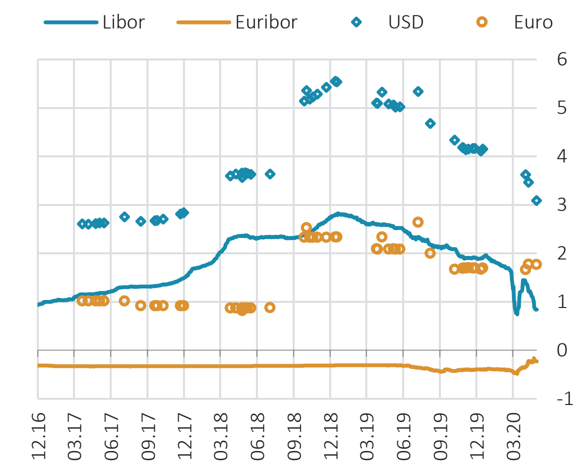
Chart I.12: Ratio of Non-Deposit Funding Sources to External Funding Sources (%)



Source: CBRT — Last Observation: 03.20

Note: External funding sources include all liabilities except equity.

Chart I.13: Cost of Syndicated Loans with a Maturity of 367 days (Transaction-Based, %)



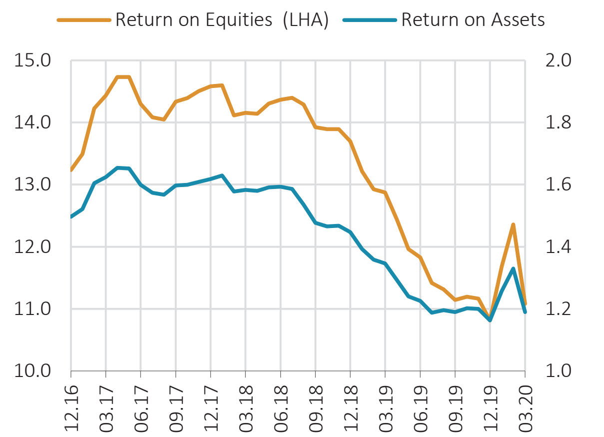
Sources: CBRT, Central Securities Dep. — Last Observation: 30.04.20

Note: Calculated for 10 large-scale banks.

In the first two months of 2020, profitability indicators of the banking sector improved thanks to strong TL credit growth, positive duration gap and favorable asset quality developments. Meanwhile, as the impacts of the coronavirus pandemic started to be observed as of March 2020, banks acted with prudence and increased credit provisions and as a result, their equity and asset profitability ratios regressed back to the end-2019 levels (Chart I.14). The capital adequacy ratio (CAR) increased until the end of 2019 on the back of moderate credit growth levels and banks' strengthened equity structures in the previous Report period. In the first two months of 2020, however, due to the widespread credit growth coupled with the rise in risk-weighted assets, the sector's CAR dropped slightly (Chart I.15). The

BRSA's regulations of 23 March 2020 and 16 April 2020 would attenuate likely fluctuations in CAR during the period marked by the impacts of the coronavirus on economic activity and the recovery period to follow afterwards. Moreover, the fact that the core capital of three public-owned deposit banks has been increased by the Turkey Wealth Fund (TWF) by TRY 21 billion supports the sector's CAR outlook. Meanwhile, an extension of the impacts of the coronavirus epidemic into the second half of the year would pose downside risks to asset quality, banks' profitability and capital adequacy.

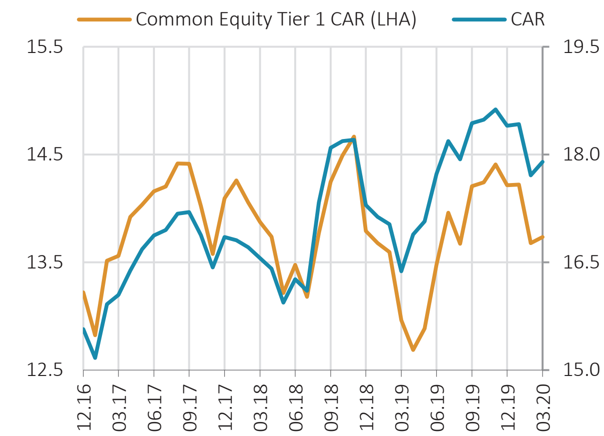
Chart I.14: Asset and Equity Profitability (%)



Source: CBRT Last Observation: 03.20

Note: Profitability ratios are calculated by dividing the one-year cumulative profit by the one-year average value in the denominator.

Chart I.15: CAR and Common Equity Tier 1 CAR (%)



Source: CBRT Last Observation: 03.20

In sum, during this Report period, the strong pace of domestic economic activity has paused and has been replaced by a significant slowdown in the second quarter due to the economic isolation measures required by the coronavirus pandemic and volatilities in financial markets. Monetary and fiscal policy measures, the decline in the FX open position and FX indebtedness of non-financial sector, the increase in the share of domestic funds and core liabilities in banks' financing curb the impacts of the pandemic and contribute positively to financial stability by decreasing sensitivity to external fluctuations. The recovery trend in the financial sector's asset quality may be adversely affected for a while due to pandemic-related factors. On the other hand, the temporary extension of the time brackets for loans to be classified as close monitoring and NPL following a regulation of the BRSA may have lagged impacts on the asset quality. Moreover, the decline in interest rates as well as the employment and production-oriented credit support policies are projected to help limit asset quality-driven risks. Household indebtedness ratio remains below the average of EMEs, while corporate sector's FX indebtedness and FX short position continue to decline. Favorable financing costs, incentive schemes and policy measures will continue to underpin loan growth in the upcoming period. Although individuals' and firms' indebtedness may temporarily increase in the current period, this is expected to normalize as the spread of the pandemic slows down. Banks' strong capital structure and liquidity buffers support the sector's resilience to risks. A likely rebound in the spread of the pandemic, a lasting adverse impact on global trade relations, supply chains, consumption patterns and investment decisions, as well as geopolitical developments are the main risk factors for the upcoming period.

Box I.1.I

Steps Taken Towards Effective Functioning of Financial Markets

In the current Report period, numerous measures and regulations have been implemented to support financial stability and contribute to the effective functioning of markets (Table I.1.I.1). The coronavirus pandemic-related developments have recently weakened the global growth outlook had sharp impacts on supply chains and trade channels, as a result of which many advanced and emerging economy central banks have taken expansionary and coordinated steps. In order to contain adverse effects of the pandemic-related developments on the Turkish economy through the channels of production, trade, tourism and capital flows, the key priority is to sustain the sound functioning of financial markets, the credit channel and firms' cash flows. Accordingly, a variety of actions has been taken considering the likely effects of these developments on the financial sector. In this scope, the CBRT Monetary Policy Committee (MPC) met ahead of schedule in March and gradually implemented a set of measures and regulations on 17 March, 31 March and 17 April 2020 to counter the economic and financial effects of the pandemic, thereby minimizing the likely adverse effects on economic activity via financial markets.

Table I.1.I.1 Main Measures and Regulations for Financial Markets

CBRT Steps on Interest Rates and Liquidity Measures	
Effective Date	**Measure / Regulation**
12 December 2019	The CBRT decided to reduce the policy rate (one-week repo auction rate) from 14% to 12%.
16 January 2020	The CBRT decided to reduce the policy rate (one-week repo auction rate) from 12% to 11.25%.
19 February 2020	The CBRT decided to reduce the policy rate (one-week repo auction rate) from 11.25% to 10.75%.
25 February 2020	It was decided to transfer the unused portion of the total swap position defined for FX swap auctions to the TL Currency Swap Market (Quotation Swap) transaction limits and to distribute the amount to be transferred in proportion to FX Markets transaction limits determined based on banks.
17 March 2020	The MPC meeting to be held on 19 March 2020 was rescheduled for 17 March 2020 to assess the likely economic and financial effects of the coronavirus, and the policy rate (one-week repo auction rate) was reduced to 9.75% from 10.75%.
17 March 2020	As a part of the measures to counter the likely economic effects of the coronavirus pandemic, it was decided to: - increase the liquidity limits of Primary Dealers in the framework of Open Market Operations (OMOs) to support the Primary Dealership System, - allow conventional (multi-price) swap auctions with maturities of one, three and six months, which were then available against US dollars, to be held against euros and gold.
17 March 2020	Banks were offered targeted additional liquidity facilities to secure uninterrupted credit flow to the corporate sector to counter the likely economic and financial effects of the coronavirus pandemic. In this scope, the maximum amount of funds that an eligible bank may receive was linked to the amount of credit that this bank had already provided or would provide for the corporate sector. Accordingly, it was decided that: - Turkish lira liquidity would be provided via repo auctions with maturities up to 91 days with an interest rate 150 basis points lower than the one-week repo rate, the CBRT's policy rate, and with the quantity auction method, and a part of the bid might also be concluded as a deposit transaction at the Interbank Money Market at a bank's request, - TL liquidity would be provided against US dollars, euros and gold with an interest rate 100 basis points lower than the one-week repo rate through TL currency swap auctions with a maturity of 1 year based on the quantity auction method, - The total amount of funds to be provided through these facilities would be limited to 25% of the system's funding need.

31 March 2020	To contain the adverse effects of the coronavirus pandemic on the economy, to increase market depth and to support the effectiveness of the transmission mechanism by providing flexibility to banks in their liquidity management: - It was announced that outright purchase operations under the OMO portfolio could be carried out in a front-loaded manner within the limits identified in the Monetary and Exchange Rate Policy for 2020 and these limits could be revised depending on market conditions, - For a temporary period, the PD banks were allowed to sell the GDDS that they had bought from the Unemployment Insurance Fund to the CBRT under the terms and limits set by the CBRT or to increase at certain ratios the liquidity facility offered under OMO in the scope of the Primary Dealership System. The GDDS purchases were kept out of the scope of the limits set for the OMO portfolio, - Under the Turkish lira and foreign exchange operations conducted at the CBRT, asset-backed securities and mortgage-backed securities were included in the collateral pool, - In the context of the additional targeted liquidity facility enforced on 17 March 2020, the CBRT decided to hold TL currency swaps with a maturity of six months and to provide TL liquidity against US dollars, euros or gold, at an interest rate 125 bp lower than the policy rate, - Bank-based limits applied under the targeted liquidity facility were raised.
3 April 2020	The amount of the CBRT's total swap position to be established via TL Currency Swap auctions was raised to 30% from 20% of the Foreign Exchange and Banknotes Markets transaction limits.
17 April 2020	In the scope of measures to counter likely economic effects of the coronavirus: - The maximum limit for the ratio of the OMO portfolio nominal size to the CBRT analytical balance sheet total assets was revised to 10%, - The CBRT decided to apply the limits offered to PD banks for outright sales of GDDS to the CBRT independent of the repo transaction limits, to offer PD banks a GDDS selling limit equal to the repo transaction limits and to carry out these purchases within the total maximum limit of 10% set for the OMO portfolio.
21 April 2020	The amount of total undue swap sales (the CBRT's foreign currency purchases on spot, sales at maturity) conducted at the TL Currency Swap Market via the quotation method was raised to 30% from 20% of the Foreign Exchange and Banknotes Markets transaction limits.
22 April 2020	The CBRT decided to reduce the policy rate (one-week repo auction rate) from 9.75% to 8.75%.
29 April 2020	In the scope of FX collateral deposit accepted as collateral as part of TL and FX transactions carried out at the CBRT, the separate bank-based EUR and USD limits were consolidated under a single global limit and banks were allowed to use these limits either in EUR or USD according to their choice within this limit.
4 May 2020	The amount of total undue CBRT swap positions conducted via TL currency swap auctions was raised to 40% from 30% of the Foreign Exchange and Banknotes Markets transaction limits.
20 May 2020	The bilateral currency swap agreement concluded between the CBRT and Qatar Central Bank was amended to raise the overall limit of USD 5 billion equivalent of Turkish lira and Qatari riyal to USD 15 billion equivalent of Turkish lira and Qatari riyal.
21 May 2020	The CBRT decided to reduce the policy rate (one-week repo auction rate) from 8.75% to 8.25%
22 May 2020	The amount of total undue CBRT swap positions conducted via TL currency swap auctions was raised to 50% of the Foreign Exchange and Banknotes Markets transaction limits.

Reserve Requirements (RR)[1]

Effective Date	Measure / Regulation
29 November 2019	To channel the credit supply towards production-oriented, rather than consumption-oriented sectors and to support financial stability, the TL RR ratios and the remuneration rates to be applied to RR were linked to the real credit growth calculated based on the last three-month average of the real cash loan stock values. Accordingly, banks with a real annual loan growth rate above 15% benefited from the facility in the case that their adjusted real loan growth rate, which is calculated by deducting the total real changes in the commercial loans with a two-year and longer maturity and housing loans with a five-year and longer maturity from the numerator of the growth rate formula, was below 15%, and banks with a real annual loan growth rate below 15% benefited from the RR incentives in the case that their adjusted real loan growth rate, which is calculated by deducting 50% of the real change in retail loans excluding housing loans with a five-year and longer maturity from the numerator of the growth rate formula, was above 5%.
27 December 2019	RR ratios for FX deposits/participation funds were increased by 200 bp for all maturity brackets and these ratios were applied 200 bp lower for banks that complied with the TL real loan growth conditions.
10 January 2020	Commission was charged for RR amounts: Annual 25‰ for US dollar-denominated RR amount held for deposit/participation fund liabilities denominated in US dollars, and annual 25% for US dollar and euro-denominated RR amount held for non-US dollar deposit/participation fund liabilities.

[1] Effective dates are as of RR liability calculation dates and the effects of the regulations on liquidity are seen during the maintenance period that commences after 14 days.

10 January 2020	Within the scope of the Reserve Options Mechanism (ROM), it was decided to decrease the upper limit of the facility of holding standard gold to 20% from 30% of Turkish lira reserve requirements and to increase the upper limit of the facility of holding standard gold converted from wrought or scrap gold collected from residents to 15% from 10%.
6 March 2020	In view of the likely impacts of the noticeable surge in consumer loans on growth composition, inflation and external balance, as well as the increase in loan growth triggered by TL loans that were extended to facilitate early repayment or early restructuring of FX cash loans, the CBRT revised the RR practice that was linked to the annual real credit growth rate. The banks with an annual real loan growth rate above 15% were allowed to benefit from the RR incentives if their adjusted real loan growth rate, which is calculated by deducting the entire real changes in loans with a longer-than-two-year maturity extended to selected sectors and housing loans with a five-year and longer maturity from the numerator of the growth rate formula, was below 15%. Besides, banks with an annual real loan growth rate below 15% were allowed to benefit from the RR incentives if their adjusted real loan growth rate, which is calculated by deducting 75% of the real change in retail loans excluding housing loans with a five-year and longer maturity and the entire TL loans extended starting from 9 March 2020 to facilitate early repayment or early restructuring of FX cash loans from the numerator of the growth rate formula, was above 5%.
6 March 2020	As a part of the measures taken to counter the likely effects of the coronavirus pandemic, FX RR ratios were reduced by 500 bp across all liability types and maturity brackets for banks that complied with the real credit growth conditions within the scope of the RR practice.
20 March 2020	The remuneration rate applied to RR maintained in terms of TL was reduced to 8% from 10% for banks that complied with the annual real credit growth conditions, and the 0% rate applied for banks that did not comply with the conditions was left unchanged.
Rediscount Credits for Export and Foreign Exchange Earning Services	
Effective Date	**Measure / Regulation**
17 March 2020	To mitigate the likely adverse effects of global economic uncertainties and adversities in international trade on real sector firms; - The maturities for repayments of rediscount credits for export and foreign exchange earning services (rediscount credits), which would be due from 18 March to 30 June 2020, were allowed to be extended by up to 90 days, - An additional 12 months export commitment fulfillment time was offered for the rediscount credits whose export commitment was not fulfilled yet and for the rediscount credits to be used from 18 March 2020 to 30 June 2020, thereby extending the maximum duration for the export commitment fulfillment for these credits to 36 months from 24 months. - The existing maximum maturities for rediscount credits were extended to 240 days from 120 days for short-term credit utilization, and to 720 days for longer-term credit utilization.
31 March 2020	To facilitate goods and services exporting firms’ access to finance and to support the employment capacities of these firms, it was decided to extend TL-denominated rediscount credits to firms that could obtain FX rediscount credits, overseas contracting companies, and firms participating in international fairs. Accordingly, it was decided to: - define a total limit of TRY 60 billion for credits, with a breakdown of TRY 20 billion to be extended via Turk Eximbank, TRY 30 billion to be extended via public banks and TRY 10 billion to be extended via other banks, - set the maximum amounts of credits on a firm basis at TRY 25 million for SMEs and TRY 50 million for other firms, - allocate to SMEs a minimum of 70% of the credits to be extended via banks other than Turk Eximbank, - set the interest rate for these credits 150 bp lower than the CBRT’s policy rate, and the maximum commission rate of intermediary banks at 150 bp, - extend those credits at a maximum maturity of 360 days on condition that the export or foreign exchange earning services commitment as well as the employment level as of March 1, 2020 would be maintained throughout the credit period.
4 May 2020	The condition of maintaining the employment level at March 1, 2020 for TL-denominated rediscount credits as included in the regulation of 31 March 2020 was revised to state that the average of the number of employees as of the ends of March, June, September and December, and as of the end of the month in which the credit would be due would not be lower than the employment level at end-March 2020 throughout the credit period.
Deposits / Participation Funds, Credit Cards and Payment Systems	
Effective Date	**Measure / Regulation**
28 December 2019	The CBRT revised the monthly maximum contractual interest rate for credit card borrowings in Turkish lira as 1.40% and the monthly maximum overdue interest rate as 1.70%, and the same rates for credit card borrowings in FX as 1.12% and 1.42%, respectively.

1 March 2020	In its press release of 10 February 2020, the CBRT limited the fees that banks could charge their commercial clients for products and services offered under four categories as “Commercial Loans”, “Foreign Trade”, “Cash Management” and “Payment Systems” to 51 items. Quantitative or qualitative restrictions were introduced to some fee items, and an obligation to inform was imposed on banks for transparency purposes.
1 March 2020	The BRSA introduced amendments to fees and maximum limits in the “Regulation on Procedures and Principles Regarding the Fees to be Charged on Financial Consumers” published in the Official Gazette No.31035 dated 10 February 2020, which governs fees receivable from individual customers. Accordingly, the maximum fee amounts that can be received from EFT, cash advance and card renewal transactions were limited, and the annual rate of increase of the Regulation-governed maximum limits was set as the annual rate of increase of the consumer price index (CPI) pertaining to the previous year-end, announced by the Turkish Statistical Institute (TURKSTAT).
26 March 2020	A provisional article was added to the Law on Exclusion of the Records Regarding Bad Cheques, Protested Bills and Loans and Credit Card Debts No. 5834 and dated 22 January 2009. Accordingly, records regarding bad cheques, protested bills, credit cards and other credit debts of real and legal persons having default in the payments regarding the capital, interest and/or its ancillaries of the cash or non-cash credits whose payment dates in terms of the capital or installment were before 24 March 2020 as well as of individuals and credit customers kept with the Risk Center of the Banks Association of Turkey (BAT) will not be taken into consideration by credit institutions and financial institutions in financial transactions engaged with those persons on condition that the delayed part of the payments is paid or restructured in full until 31 December 2020. Restructuring of existing credit debts or extension of new credits by credit institutions and financial institutions in this scope will not have any legal or criminal liability for these institutions.
28 March 2020	The CBRT revised the monthly maximum contractual interest rate for credit card borrowings in Turkish lira as 1.25% and the monthly maximum overdue interest rate as 1.55%, and the same rates for credit card borrowings in FX as 1.00% and 1.30%, respectively.
30 March 2020	With the BRSA decision No.8975, the minimum payment amount for personal credit cards was reduced to 20% from 30% of the credit card term debt. The same decision also allowed banks to define unpaid terms by not demanding debt receivables including the minimum payment amount from credit card holders throughout the period in which they delayed their credit card debts, until 31 December 2020.
22 May 2020	To contribute to stable functioning of financial markets and effective operation of the credit system, the BRSA decision of 21 May 2020 No.9033 stipulated a liability concerning individuals and legal persons’ daily purchases of gold of 100 g. or above. Accordingly, the liability of transferring the purchased gold to the buyer’s account and/or making it available within one business day was introduced.

Regulations Regarding Lending and Payment of Debts

Effective Date	Measure / Regulation
19 March 2020	With the BRSA decision No. 8949, the loan-to-value ratio (LTV) was raised to 90% from 80% by reducing the minimum down payment rate for housing loans extended for houses valued below TRY 500 thousand. The aim of the regulation was to contain the negative effect of pandemic on the sector.
19 March 2020	To contain the adverse economic effects of the coronavirus pandemic, the BAT advised that (i) the credit demands of corporate firms, SMEs and individuals be assessed and met in a swift manner by considering the funding opportunities and the credit limit, (ii) opportunities to access loans and credit conditions be improved, (iii) credit channels be kept open, (iv) flexibility be provided with respect to maturity, payment, installment and collateral conditions, and (v) debt restructuring demands be concluded sooner rather than later. The BAT also indicated that it would be more beneficial for customers who proved to be adversely affected by the pandemic to be notified to the Risk Center as such so that a sounder assessment could be made for such customers.
24 March 2020	The Ministry of Treasury and Finance announced that in cases of corporate delinquency in April, May and June due to the pandemic, defaulting firms would be allowed to be recorded in their credit registers as having “default due to force majeure”. According to the General Communiqué on Tax Procedure Law published in the Official Gazette dated 24 March 2020 and No. 31078 (Reiterated), it was found appropriate to accept that tax payers covered by the Communiqué on account of the pandemic were in force majeure between 1 April 2020 and 30 June 2020.
25 March 2020	Within the scope of the Economic Stability Shield Package measures, it was announced that through the public banks, “Business Continuity Support” will be provided with Treasury-backed CGF guarantee provided that the number of registered employees at the end of February 2020 would be maintained.

30 March 2020	With an announcement made on 27 March 2020, the BAT shared the details of the CGF-backed “Cheque Payment Support Loan”, which aims to contribute to the protection of the commercial reputations of the bank customers, and the “Economic Stability Shield Credit Support” aimed at meeting the working capital needs of corporate and commercial customers.
30 March 2020	In order to financially support customers with household income of TRY 5,000 or less through public banks, a “Basic Needs Support” loan package was launched to meet the payments of the middle and low income groups, such as food expenses, rent, electricity, water and natural gas bills.
30 March 2020	With a Presidential Decision published in the Official Gazette dated 30 March 2020 and No. 31084, theCGF limit was raised to TRY 50 billion from TRY 25 billion, and lending priority was given to firms and SMEs which had liquidity needs and collateral deficit as having been negatively affected by the pandemic developments.
1 April 2020	With a Presidential Decision published in the Official Gazette dated 25 March 2020 and No. 31079, principal and interest repayments of loans by tradesmen and craftsmen pertaining to April, May and June were postponed for three months and without interest once they declare themselves adversely affected by the pandemic.
6 April 2020	The Small and Medium Enterprises Development Organization of Turkey (KOSGEB) postponed the repayments of KOSGEB-backed loans for three months, all costs thereof to be borne by KOSGEB.
27 April 2020	The Union of Chambers and Commodity Exchanges of Turkey (TOBB) relaunched its SME financing project named "TOBB Breath Credit". The project loans target enterprises with a turnover below TRY 25 million and 80% of the loans are covered by the Treasury-backed CGF guarantee.
22 May 2020	To reduce the negative effects of the coronavirus pandemic on exporters, the Ministry of Trade announced the "Stock Financing Support Package" for exporters who were left with excess stocks on failure to sell products due to the cancellation of orders and the decrease in demand. Loans within the scope of the package will be extended in TL from the CBRT on CGF guarantee.

Classification of Loans and Receivables and Legal Ratio Limitations

Effective Date	Measure / Regulation
17 March 2020	With the BRSA Decision No.8948, the minimum deferral duration of 90 days for banks’ non-performing loans was extended to 180 days effective till 31 December 2020. Thus, it will be possible to monitor loans with a deferral of up to 180 days under Stage 1 and Stage 2 portfolios. Moreover, the decision abolished the obligation of monitoring for loans that are currently monitored under Stage 3 portfolio and classified as performing loan after being restructured, and whose principal and/or interest payment is delayed more than 30 days during the one-year monitoring period or which are restructured once again during the monitoring period.
19 March 2020	With the BRSA Decision No. 8950, the deferral duration of 90 days regarding the receivables to be liquidated was increased to 180 days for financial leasing and factoring companies and to 240 days for financing companies until 31 December 2020.
23 March 2020	According to the BRSA press release, until 31 December 2020; i) To support CAR: - In calculation of CAR, impairments in the fixed interest rate securities at fair value through other comprehensive income portfolio on 23 March 2020 may not be reflected in equities. - For monetary and non-monetary FX assets and related special provisions (excluding those monitored with historical costs) that are a component of the value at credit risk, the buying exchange rate on 31 December 2019 can be used. ii) With the regulation on FX Net General Position (FXNGP)/Capital ratio: - Value decrements of FX securities on 23 March 2020 may be disregarded in the calculation of the FXNGP, - The facility provided for calculation of CAR may also be used in calculation of equities.
26 March 2020	According to the BRSA Decision No. 8967: - Within the scope of the Regulation on Calculation of Liquidity Coverage Ratio (LCR), the minimum ratio of 100% and 80% in the consolidated or unconsolidated total and FX LCR, respectively, may be disregarded, until 31 December 2020. Therefore, banks were temporarily exempted from issues such as notifying the BRSA about the causes of non-compliance and the measures planned to be taken, as well as the obligation to resolve the non-compliance within two weeks. On the other hand, LCR reporting will continue with the exception of development and investment banks (DIB). - Within the scope of the Regulation on Calculation and Evaluation of Liquidity Adequacy, DIBs are exempted from ratio limitations until 31 December 2020 although their obligation to send account statements continues.
27 March 2020	With the BRSA Decision No. 8970, the minimum deferral duration for loans to be monitored under Stage 2 category was increased to 90 days from 30 days, effective from 17 March 2020 to 31 December 2020.

2 April 2020	With the BRSA Decision No. 8976, in the scope of miscellaneous regulatory actions, the deadline for fulfilling the obligation of reporting, releasing or notifying the BRSA and other related authorities by banks, independent audit institutions, rating agencies, asset management companies and financial leasing, factoring and financing companies was extended by 60 days. Furthermore, apart from the additional time given above in the Regulation on Banks' Credit Transactions, in order to eliminate the problems that may occur in the credit allocations of banks, it was decided that records would be kept regarding missing documents that should be obtained under paragraph (1) of article 11/A of the said Regulation but could not be obtained from loan customers, and incomplete information and documents would be completed in six months' time following the loan allocation, and that missing information and documents among those requested from the existing loan customers pursuant to paragraph (2) of article 11/A would be completed by the end of 2020.
16 April 2020	With the BRSA Decision No.8999, it was decided to apply a 0% risk weight in the calculation of the value at credit risk of banks' receivables from the central government denominated in FX in accordance with the Standard Approach within the scope of the Regulation on Calculation and Evaluation of Capital Adequacy of Banks.
1 May 2020	With the BRSA Decision of 18 April 2020 No. 9000, banks were obliged to calculate the asset ratio on a weekly basis. The asset ratio denotes the ratio of the sum of loans and weighted CBRT swap plus securities to the sum of TL deposits and weighted FX deposits. As of the end of each month, the monthly average of the said ratio should not fall below 100% in deposit banks and 80% in participation banks. Additionally, with the BRSA Decision of 29 April 2020 No. 9003, the ratio was set to be calculated on a solo basis. While an exemption was made for DIBs, along with banks under the Savings Deposit Insurance Fund (SDIF), a compliance period until 31 December 2020 was granted to banks that had an overall deposit of less than TRY 5 billion excluding bank deposits as of 31 March 2020. Moreover, a detailed breakdown of the items included in the numerator and denominator of the ratio was also provided.
5 May 2020	With the BRSA Decision No. 9010, an obligation of calculating a new ratio on daily and solo bases was introduced for banks to support the financing needs arising from the negative effects of the coronavirus pandemic on the production and employment of the real sector. Within the scope of the decision, the sum of TL placements, TL deposits, TL repo and TL loan transactions that banks will engage with financial institutions located abroad are limited to 0.5% of the most recently calculated equity. It was noted that the limitation would be effective until the exceptional conditions arising from the coronavirus pandemic would disappear.

Regulations on Derivative Transactions Engaged with Non-Residents

Effective Date	Measure / Regulation
18 December 2019	In its press release, the BRSA stated that the sum of FX-TL currency swaps, forwards, options and other derivative transactions of banks due in seven days or less with non-residents and involving TL sale at maturity, will not exceed 10% of the most recently calculated legal equity. The regulation excluded the transactions carried out with the credit institutions abroad that are subject to consolidation and their partnerships that have the characteristics of a financial institution.
8 February 2020	With the BRSA Decision No.8860, the ratio of the sum of FX-TL currency swaps, forwards, options and other derivative transactions of banks with non-residents, involving TL purchase at maturity, to the most recently calculated legal equity was reduced to 10% from 25%.
12 April 2020	With the BRSA Decision No.8989, revisions were made to the restrictions introduced in relation to banks' derivative transactions involving both TL purchase at maturity and TL sale at maturity due to increased imbalances and risks in global markets caused by the coronavirus pandemic. Within the scope of the restriction regarding TL purchase at maturity, the ratio of the said transactions to the most recently calculated legal equity was reduced to 1% from 10% and the application of different maturity-based weights utilized in the calculation of the total transaction amount was abandoned. Meanwhile, it was decided that the ratio of the amount of derivative transactions involving TL sale at maturity to the most recently calculated equity should not exceed: (i) 1% for transactions due in seven days, (ii) 2% for transactions due in 30 days, and (iii) 10 % for transactions due in one year. Additionally, for both TL purchases at maturity and TL sales at maturity, any termination of the transaction before maturity or extension of the maturity, the written approval of the BRSA was required.
13 April 2020	The Capital Markets Board of Turkey (CMB) introduced restrictions on the amount of FX-TL derivative transactions engaged by capital market institutions with non-residents due to increased imbalances and risks in global markets caused by the coronavirus pandemic. Within the scope of the restriction regarding TL purchase at maturity, the ratio of the said transactions to the equity capital amount pertaining to the previous month, which constitutes a basis for the most recent capital adequacy statements, was set at 1%. Meanwhile, it was decided that the ratio of the amount of derivative transactions involving TL sale at maturity to the equity capital amount pertaining to the previous month should not exceed: (i) 1% for transactions due in seven days, (ii) 2% for transactions due in 30 days, and (iii) 10% for transactions due in one year. Additionally, for both TL purchases at maturity and TL sales at maturity, any termination of the transaction before maturity or extension of the maturity, the written approval of the CMB was required.

7 May 2020	According to the BRSA Decision No. 9010, to prevent any transaction and practice that may jeopardize savers' rights as well as smooth and confident operating of banks, and to ensure effective functioning of the credit system, no new foreign currency transaction involving a TL leg will be engaged with foreign banks that default in fulfilling the TL obligation and with those banks' group banks established abroad. Also, their matured transactions of this nature will not be renewed.

Other Regulations

Effective Date	Measure / Regulation
31 December 2019	The Communiqué No.2018-32/48 of the Ministry of Treasury and Finance, issued in reference to the Decree No.32 on the Protection of the Value of the Turkish Currency was revised to abandon the obligation of bringing export proceeds to the country within 180 days and converting at least 80% of the proceeds into Turkish lira.
28 February 2020	The CMB announced the ban on short selling transactions on Borsa İstanbul (BIST) equity markets.
3 March 2020	Within the scope of the Decree No. 32, passengers who do not have a citizenship connection with the Turkish State and who have completed the age of 18 at the time of entering the country are allowed to bring their own standard unprocessed gold, which weighs no more than 5 kg, within a calendar year.
13 March 2020	With the BIST Decision of 12 March 2020 and No.2020/20, price margins were reduced to 10%, the circuit breaker triggering rate was reduced to 5% and circuit breaker order collection period was raised to 30 minutes applied in the equities traded in BIST Stars and BIST Main Market.
16 March 2020	The BRSA announced through a press release that as a part of its prudent supervision approach, the business continuity plans prepared by banks on a regular basis were reviewed and all necessary measures were taken.
17 March 2020	With the BIST Decision No.2020/21, the upper limit of the circuit breaker trigger rate applied in the instruments that are traded in the continuous trading method, was removed until further announcement, notwithstanding the lower limit at 5% effective since 13 March 2020.
19 March 2020	Within the scope of the measures taken in response to the coronavirus pandemic, the CMB decided to implement the equity protection rate for margin trades to be completed to 35% (which was formerly 50%) if the collateral rate fell below that rate, effective from the decision date until further announcement. Besides, the CMB also decided to abandon the implementation of article 35 of the CMB Communiqué on Margin Trading, Short Sales and Lending and Borrowing of Securities, with Serial No.V-65. With the same decision, announcement or notification periods were extended for portfolio management companies, brokerage firms, mutual funds (including real estate, venture capital and stock exchange investment funds), pension investment funds, capital market instruments and businesses that are or are not traded on a stock exchange and/or other regulated market places.
14 April 2020	Upon the recommendation of the Financial Action Task Force, the BAT announced that the time of regular reportings to the Financial Crimes Investigation Board regarding money transfers abroad amounting to TRY 1 million or equivalent in foreign currency pertaining only to real person customers was required to be made one day in advance. The same announcement also noted that there would be no restriction or interruption with regard to the processing of transactions.
7 May 2020	The BRSA published the "Regulation on Manipulation and Misleading Transactions in Financial Markets" in the Official Gazette dated 7 May 2020 and No.31120 for the determination of manipulative and misleading transactions and practices in financial markets.
11 May 2020	Turkey Wealth Fund (TWF) announced that it took necessary initiatives to boost the core capital of Ziraat Bank, Halkbank and Vakıfbank by a total of TRY 21 billion to strengthen their capital structures and support capital adequacy.
24 May 2020	The Presidential Decision published in the Official Gazette No.31136 announced that the withholding rate over commercial papers was increased to 15% from 10% for individuals.
24 May 2020	With the Presidential Decision published in the Official Gazette No. 31136, the Banking and Insurance Transactions Tax (BITT) ratio in foreign exchange transactions was increased to 1% from 2%. Regarding foreign exchange sales of banks and authorized institutions among themselves or to each other, foreign exchange sales to the Treasury and Ministry of Finance, foreign exchange sales made to the borrower by a bank for repayment of foreign currency loans, foreign exchange sales to enterprises holding the industrial registry certificate and foreign exchange sales to exporters affiliated to exporter unions, the BITT would apply as 0%.