III. Non-Financial Sector

In the current Report period, household financial assets continued to grow more strongly than household financial liabilities. Accordingly, the household leverage ratio that had been on the decline for a long time decreased further to below 37%. The largest contribution to this decrease on the assets side came from TL savings deposits. On the other hand, investors' limited inclination towards gold, which is considered a safe haven, occurred due to heightened uncertainty and decreasing risk appetite led by the coronavirus pandemic. Thus, despite a relatively low share in the household portfolio, contribution of precious metal deposit accounts to household assets raised on account of the increase of prices in international markets. While the largest contribution to growth in liabilities came from general-purpose loans that posted a significant increase, they were followed by housing loans. The growth in liabilities is attributed to the base effect, cuts in loan rates, the limited improvement posted in employment conditions in the pre-pandemic period and the Basic Need Support Loans that started to be extended as a part of public incentives during the pandemic. With a household indebtedness ratio of 14%, Turkey continues to rank significantly lower than the EME average.

Regarding corporate sector developments, the recovery trend seen in the manufacturing industry production in 2019 continued until March 2020, when the coronavirus outbreak started to take its toll on Turkey. The improvement in corporate sector confidence indices continued in the first quarter of the year, particularly in the construction sector with a more visible uptrend compared to other sectors due to the base effect. While domestic market orders accelerated in line with the economic activity and turned positive, the pandemic-driven contraction in the global demand started to affect muted export orders. Significant declines started to be seen in manufacturing industry capacity utilization rates and real sector confidence indices in the second quarter due to the reverberations of the pandemic. Accordingly, given the receding external and domestic demand, it is assessed that investment expenditures can be delayed for an extended period despite measures supporting financial conditions, and increased public incentives.

In the current Report period, corporate sector firms' FX debt burden continued to decline and the net FX short position decreased by USD 29 billion to USD 170 billion from USD 199 billion of the same period last year, mainly driven by the decline in FX loans obtained from the domestic market. Total FX loans consist mostly of loans with maturities longer than five years, which continues to be a favorable factor for management of the corporate sector's foreign exchange rate risk. The share of domestic TL loans with shorter than one-year maturity reduced on the back of relatively longer maturities offered by credit support packages. Due to the effects of the pandemic, since the second half of March, the easing in financial conditions has partially weakened, and the financial sector's risk perception has increased over the likelihood of loss of income and cash flow problems to be incurred by the corporate sector. In the meantime, credit costs declined and the demand for TL commercial loans further increased on the back of the CBRT policy actions and the announcement of credit support packages. In the period ahead, it is expected that the favorable credit supply conditions will remain in place and the credit mechanism will continue to function effectively.

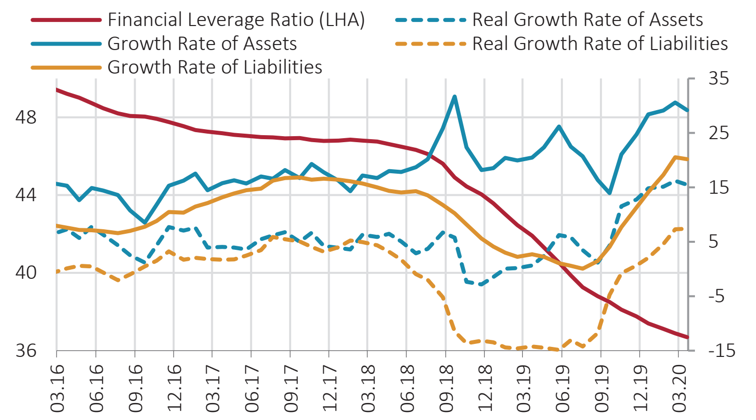
III.1 Household Developments

About three quarters of the financial assets of households are composed of savings deposits, while retail loans account for almost all liabilities. In this Report period, annual rates of growth in household assets and liabilities were high with the contribution of base effect. By March 2020, the annual real growth in household financial assets and liabilities stood at 15% and 7%, respectively (Chart III.1.1). Growth was mainly driven by deposits on the assets side and by the increase in general-purpose loans on the liabilities side.

Due to the coronavirus outbreak, the easing in financial conditions halted amid increased uncertainties in global markets while the risk perception regarding the financial markets and products of EMEs rose. Movement restrictions and the associated changes in consumer behavior as well as the increased level of consumer prudence have led to a fall in aggregate demand. Consequently, the rebound in retail loans was replaced by an inertia as of mid-March 2020. In this context, as individuals spent most of their time at home in line with the social isolation practice and cut down on their expenditures other than on basic needs, the rise in individuals' liabilities lost pace starting from March. Given the other country examples regarding the spread and control of the outbreak as well as its evolution in Turkey, it is projected that the impact of the pandemic-led developments may ease off in Turkey in the second half of the year.

The growth in assets has outpaced the growth in liabilities since 2014 with the contribution of macroprudential policies. Accordingly, the rapid decline in the household financial leverage ratio observed particularly since 2018 continued, albeit at a slower pace in the current Report period. This ratio fell below 37% as of March 2020.

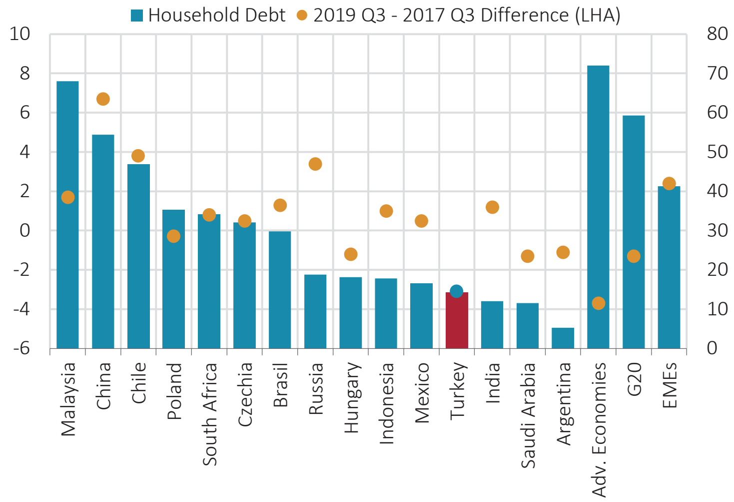
Chart III.1.1: Growth Rates of Households' Financial Assets and Liabilities, and Financial Leverage Ratio (Annual % Change, % Share)



Sources: CBRT, BRSA, CMB, MKK, TOKİ Last Observation: 03.20
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. Monthly average exchange rate data are used in calculations. The last observation is 01.20 for TOKİ and 02.20 for asset management companies.

On the other hand, Turkey's total household indebtedness, which stood at 14.2% as of September 2019, remains well below the average of EMEs that is 41.3% (Chart III.1.2). This ratio is considered to support financial stability. The accumulated gains from macroprudential policies implemented since 2009 to address household indebtedness have played an important role in achieving this low level. The change over the last two years reveals that household indebtedness in Turkey is on a downtrend and diverges positively from selected EMEs.

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



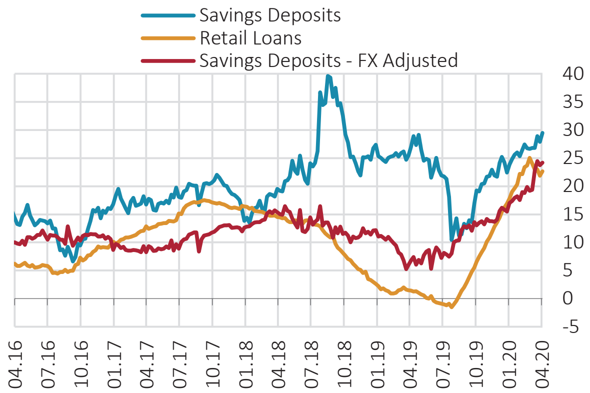
Sources: BIS, CBRT Last Observation: 09.19

Note: Spreads denote the two-year change in household indebtedness. Household indebtedness denotes the formula: total of bonds and loans of households and non-profit institutions serving households/GDP.

The annual growth rate of retail loans, which constitute the most important component of household financial debts, was around 22.6% by 17 April 2020 while the nominal growth rate of savings deposits continued to increase and came close to 30% in this Report period (Chart III.1.3). In this Report period, policy rate cuts led by the continued improvement in the inflation outlook spilled over into loan rates through the transmission mechanism. Consumer loan rates continued to decrease amid the dwindling funding costs of the financial sector (Chart III.1.4). Against this background, loan rates started hovering below their historical average but the increased risk perception driven by the pandemic in March 2020 created a slight upward pressure on interest rates for a temporary period. Meanwhile, the CBRT's rate cuts and comprehensive liquidity measures in March and April 2020 helped contain the adverse impact of the pandemic on funding costs while incentivized credit schemes led by public banks facilitated low-income households' access to credits. The downtrend in savings deposit rates continued, albeit at a slower pace. As of March 2020, TL savings deposits grew by 27% in annual terms while the TL equivalent of FX savings deposits rose by 18.1% (Table III.1.1). Due to the determining effect of the increase in TL savings deposits, the FX-adjusted growth of savings deposits accelerated in the current Report period and converged to 25%.

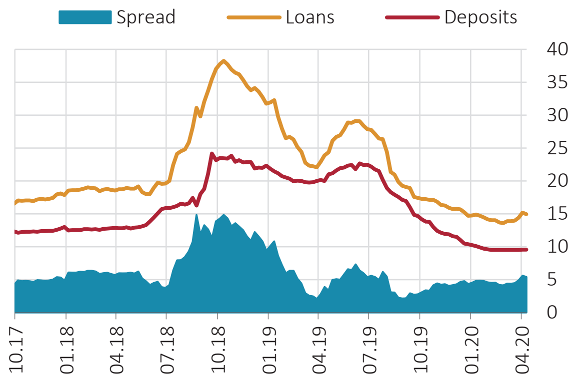
In line with these developments, the consumer loan-savings deposits rate spread increased modestly. Additionally, postponed demand started to transform into spending in the pre-pandemic period due to the fall in loan rates. This transformation became visible through the growth of housing and general-purpose loans in particular. With the emergence of the first pandemic cases in Turkey in March, households widely adopted social isolation practices and cut down on their expenditures other than on basic needs. This started curbing the retail loan growth that decelerated due to demand-driven factors. However, it is projected that the Basic Needs Support Loans launched by public banks as of 30 March 2020 under the Treasury-backed CGF guarantees will contribute to growth rates of general-purpose loans.

Chart III.1.3: Household Annual Loan and Deposit Growth (%)



Sources: CBRT, BRSA Last Observation: 17.04.20
Note: FX savings deposits have been adjusted for exchange rate with the (0.6 * USD + 0.4 * euro) currency basket.

Chart III.1.4: Consumer Loan and Savings Deposit Rate Developments (%)



Source: CBRT Last Observation: 10.04.20
Note: Weighted average interest rates applied to loans and TL savings deposits opened and renewed in the respective period by banks.

As of March 2020, household financial assets rose by almost 30% on an annual basis (Table III.1.1). The largest contribution to this rise came from TL savings deposits by 11 points. Due to the markedly slackened deposit dollarization observed since June 2019, the growth in the TL equivalent of FX savings deposits remained rather limited at 18% and stood below the total growth in assets. Nevertheless, following the TL savings deposits, this item made the second largest contribution to the growth in household assets with 6.6 points, on the back of the depreciation in the TL. The volatilities and uncertainties in financial markets caused by the coronavirus outbreak boosted the demand for gold in international markets. Depositors' preference for gold savings that also increased in Turkey consistent with global tendencies, coupled with the surge in international gold prices, pushed the annual growth in this item above 100%. Accordingly, it made a contribution of 4.3 points to the growth in household financial assets, including the price impact.

Table III.1.1: Households' Financial Assets

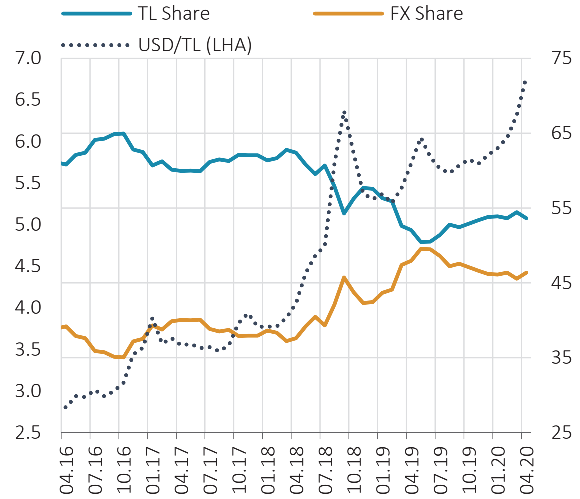
	03.19		03.20		Percentage Change	Cont. to Change (Point)
	Billion TL	Perc. Share	Billion TL	Perc. Share		
Total Assets	**1493.2**	**100**	**1929.1**	**100**	**29.2**	**29.2**
TL Savings Deposits	607.6	40.7	771.9	40.0	27.0	11.0
FX Savings Deposits	547.4	36.7	646.3	33.5	18.1	6.6
- *(Billion USD)*	100.6		102.4		1.8	
Precious Metal Deposits	47.5	3.2	111.8	5.8	135.3	4.3
- *(Billion USD)*	8.7		17.7		102.8	
Bonds and Bills	42.9	2.9	44.2	2.3	3.0	0.1
- Public Sector	13.6	0.9	17.8	0.9	31.2	0.3
- Private Sector	29.3	2.0	26.4	1.4	-10.1	-0.2
Mutual Funds	139.8	9.4	203.0	10.5	45.2	4.2
Pension Mutual Funds	85.6	5.7	113.9	5.9	33.1	1.9
Other Mutual Funds	54.2	3.6	89.1	4.6	64.4	2.3
Equity Securities	63.2	4.2	84.2	4.4	33.2	1.4
Repo	1.8	0.1	2.6	0.1	42.2	0.1
Currency in Circulation	42.9	2.9	65.1	3.4	51.8	1.5

Source: CBRT, CMB, MKK Last Observation:03.20
Note: Exchange rate is obtained by the averages of daily data in the respective month. Pension mutual funds show the total funds of participants in the PPS and the AEPS, excluding state contribution.

In the current Report period, TL savings deposits consistently increased whereas FX deposits took a downturn particularly in the first quarter of 2020. Despite the rise in the exchange rate and FX volatility as well as the fall in TL deposit rates, the share of TL savings deposits in total deposits continued to trend upwards (Chart III.1.5). In addition, it is assessed that the deposit dollarization may be contained by the fall in inflation rate driven by the impact of the improvement in inflation expectations, decline in commodity prices and the output gap on consumer prices. On the other hand, the recent increase in TL savings deposits is attributed to the fact that households preferred to boost their cash assets by using Basic Needs Support Loans to pre-finance their future fixed payments as well as to the fact that they postponed their expenditures other than the basic consumption ones. Another factor that is believed to be in play is that public transfer payments made during the pandemic period have not been fully translated into spending yet due to social isolation practices. The precautionary credit demand is projected to decrease in the upcoming period once the pandemic is taken under control and the economic activity resumes its normal course, while the rate of growth in TL savings deposits is expected to decelerate and rebalance on the back of increased spending.

A breakdown of household deposits by amount reveals that TL deposits grew at a higher rate in the last six-month and one-year periods as of March 2020 (Chart III.1.6). In both periods, the growth was not limited to high-amount deposits but was diffused.

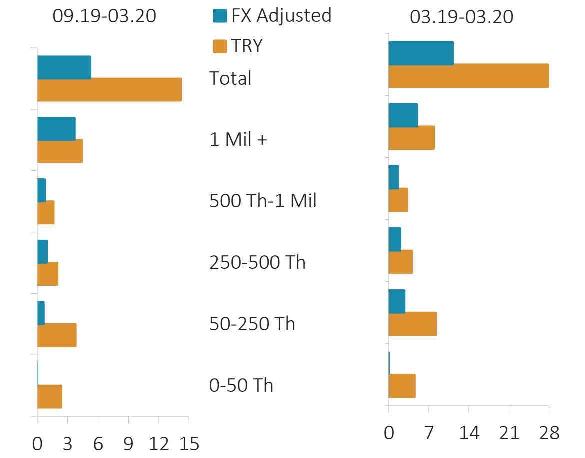
Chart III.1.5: Breakdown of Resident Households' Savings Deposits by TL and FX (% Share, TRY)



Source: CBRT Last Observation: 10.04.20

Note: Monthly average exchange rate data is used in calculations.

Chart III.1.6: Change in Households' Deposits by Amounts (% Point)

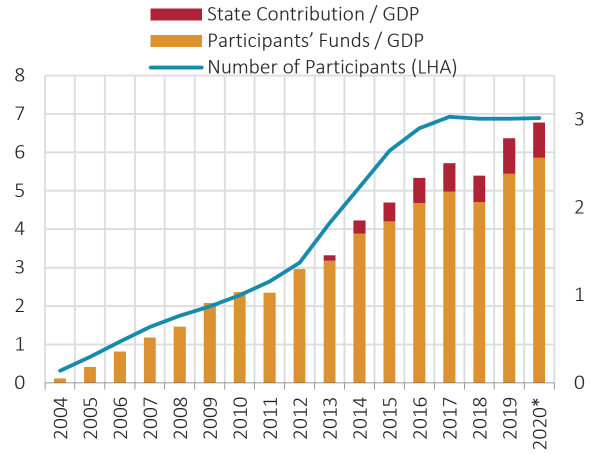


Source: CBRT Last Observation: 03.20

Note: FX deposits held by residents have been adjusted for the exchange rate effect with the (0.6 USD + 0.4 euro) currency basket. Moreover, monthly average exchange rate data is used in calculations.

Boosted by the state contribution provided under the private pension system (PPS) since 2013 to encourage domestic savings, households' savings in the PPS system grew further in this Report period (Chart III.1.7). The number of PPS participants and the amount of pension funds did not register any unusual change as of March when economic activity decelerated due to the rapid spread of the outbreak. This indicates that individuals stayed in the system and maintained their PPS savings in this period. The number of people in the system has been stable at around seven million since end-2017, as the number of new entrants and the number of people leaving the system after retirement have balanced out. Additionally, new inclusions in the system through the Auto-Enrollment Pension Scheme (AEPS) also offset the effect of exits from the system on the total amount of accumulated funds in the system. As of 17 April 2020, the amount of PPS funds increased year-on-year by 34% to TRY 109.7 billion. The number of people enrolled in the system via the AEPS, which was introduced in 2017 to boost individual savings, reached almost five and a half million while the amount of funds thus formed in this system consistently increased to more than TRY nine billion (Chart III.1.8).

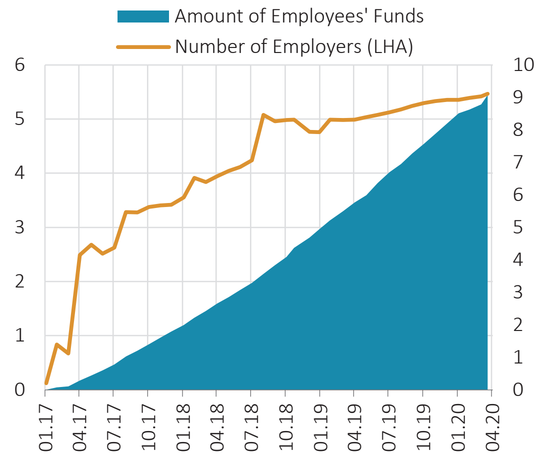
Chart III.1.7: Private Pension System (%, Million People)



Source: PMC *Last Observation: 17.04.20

Note: State contribution is paid by the Government for private pension contracts at the amount of 25% of the amount paid by the contractor depending on the period of enrollment in the system. The latest GDP data is as of 2019Q4.

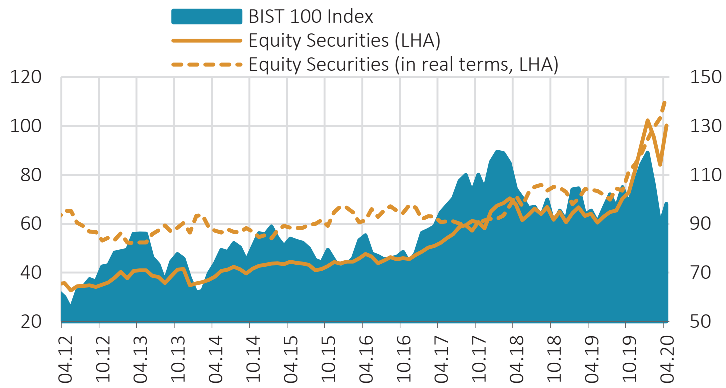
Chart III.1.8: Auto-Enrollment Pension Scheme (Billion TRY, Million People)



Source: PMC Last Observation: 17.04.20

The BIST 100 index, which had increased in the second half of 2019, dropped in the first quarter of 2020 due to large capital outflows across the EMEs in general (Chart III.1.9). In the same period, households' equity securities portfolio maintained its end-2019 value while their equity securities investments adjusted for price movements continued to increase.

Chart III.1.9: BIST 100 Index and Household Equity Securities Portfolio (Thousand, Billion TRY)



Source: CBRT Last Observation: 22.04.20

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

Households' financial liabilities rose year-on-year by 20.2% by March 2020 while the share of general-purpose loans in liabilities significantly increased in the current Report period (Table III.1.2). The rise in liabilities was mainly driven by the base effect and credit conditions as well as the improvement in employment conditions in the pre-pandemic period. While general-purpose loans contributed by 13.3 points to this rise, housing loans constituted another important item with their contribution of 4.6 points. Changes in personal credit card (PCC) balances contributed to liabilities to a more limited extent, and vehicle loans shrank in this period. On the other hand, amid aggravated impact of the pandemic as of March, the retail loan growth decelerated only moderately due to the positive effect of credit support packages despite the dampening effect of increased social isolation and channeling of consumption expenditures towards basic needs. While the retail loan growth was spread across the sector in the pre-pandemic period, it has been predominantly driven by public banks since April due to the determining effect of campaigns such as the Treasury-backed and CGF-guaranteed Basic Needs Support Loan scheme.[1] It is assessed that clients that are more in need may account for a larger part of loan demand during the pandemic due to campaigns particularly addressing individuals with income below a certain level. Accordingly, this may change the client composition of retail loans. Meanwhile, the amounts of credits under the said credit scheme are set in proportion to income, which is deemed to safeguard debt service capacity and banks' asset quality outlook. In the upcoming period, depending on the deceleration in the spread of the pandemic, the recovery in economic activity and developments in the employment market will determine the asset quality indicators for retail loans. In the current Report period, policy measures to contain the income and employment losses of households support the outlook.

Table III.1.2: Households' Financial Liabilities

	03.19		03.20		Percentage Change	Contributions to Change
	Billion TL	Percentage Share	Billion TL	Percentage Share		
Total Liabilities (Based on Type)	**590.7**	**100.0**	**709.7**	**100.0**	**20.2**	**20.2**
Housing	210.0	35.6	236.9	33.4	12.8	4.6
Vehicle	15.3	2.6	14.3	2.0	-6.5	-0.2
General Purpose	229.0	38.8	307.5	43.3	34.3	13.3
Personal Credit Cards	111.0	18.8	121.2	17.1	9.2	1.7
Asset Management Comp' Rec.	25.4	4.3	29.9	4.2	17.6	0.8
Total Liabilities (Based on Counterparty)	**590.7**	**100.0**	**709.7**	**100.0**	**20.2**	**20.2**
Banks	526.8	89.2	644.6	90.8	22.4	19.9
Financing Companies	14.2	2.4	10.5	1.5	-25.6	-0.6
TOKİ	24.3	4.1	24.7	3.5	1.7	0.1
Asset Management Comp'	25.4	4.3	29.9	4.2	17.6	0.8

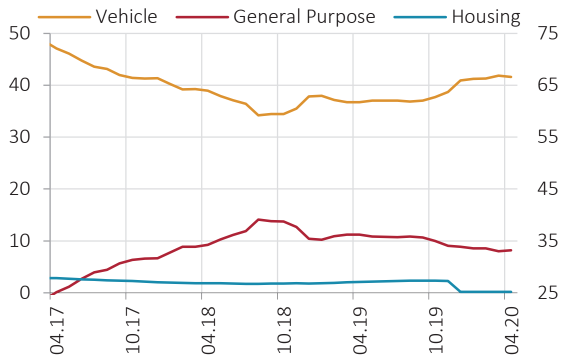
Sources: CBRT, TOKİ Last Observation:03.20
Note: Liabilities also include NPLs. The last observation is 01.20 for TOKİ, and 02.20 for asset management companies.

While consumers use finance company loans mostly for vehicle purchases, they have also opted for finance companies for purchases subject to general-purpose loans since 2016 (Chart III.1.10). The share of general-purpose loans extended by finance companies within total general-purpose loans remained below 1% whereas their share in total finance company loans dropped to 33% from 36% in the current Report period. Meanwhile, the balance of consumer loans obtained from finance companies since April 2019 has decreased across all items and contracted by 35% in total.

In the current Report period, average maturities in general-purpose loans continued to increase whereas the uptrend in the maturities of housing and vehicle loans ended by 2020 (Chart III.1.11). In February 2019, the maximum maturity for general-purpose loans was extended to 60 months under countercyclical arrangements, which caused the average maturity to increase in this item. As the maximum maturity of loans under the Basic Needs Support Loan Package introduced as of April to contain the impact of the pandemic on household financials has been set at 36 months, the average maturities of general-purpose loans are projected to converge to 36 months in the upcoming period.

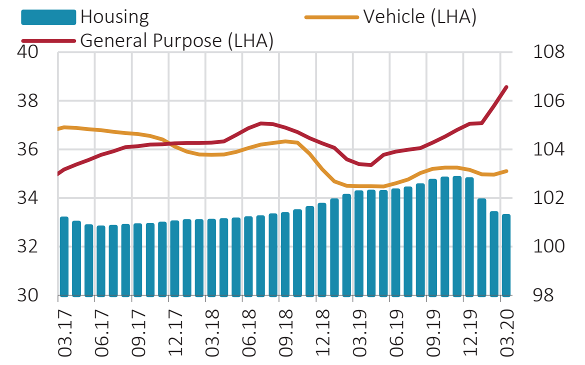
[1] Under the Basic Needs Support Loan Package through which public banks allocate retail loans, a single application is accepted for each family to reach out to the wider public, and loans are allocated in lots of TRY 3, 5, 7 or 10 thousand according to the applicants' income. A total limit of TRY 41 billion was earmarked for these loans that started to be extended on 13 April, and approximately two million applications were approved in the first four-day period. The average amount of loans per applicant, which is TRY 4 to 5 thousand currently, is expected to reach TRY 6 to 7 thousand following the acceptance of applications for higher amounts of loans. Moreover, these loans are extended at a maturity of up to 36 months, with a grace period of six months while the guarantee limit is 80% or 85% depending on the line of credit. Additionally, in the current period in which the corporate sector's activity has declined and the short-term employment allowance practice predominantly kicked in, these packages are important in terms of supporting the routine expenses of low-income citizens in particular (Box III.1.I).

Chart III.1.10: Consumer Loans Extended by Finance Companies Based on Type (% Share)



Source: CBRT Last Observation: 17.04.20

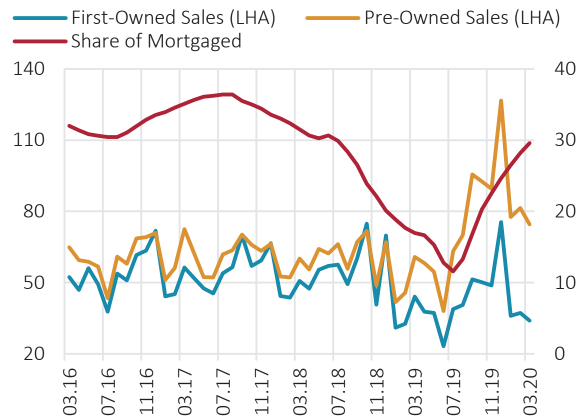
Chart III.1.11: Banking Sector Consumer Loans by Average Maturity (3-Month MA, Month)



Source: CBRT Last Observation: 03.20

Housing loan rates continued to decrease in the current Report period due to various campaigns. Meanwhile, housing sales, which were brisk in this period relative to previous years, dropped in the first quarter of 2020 and converged to their levels in September 2019 (Chart III.1.12). On the other hand, the sales share of mortgaged houses rose due to the relatively mild course in mortgage sales.

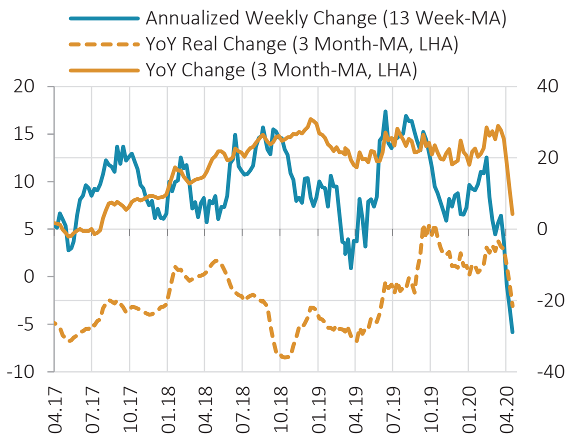
Chart III.1.12: Housing Sale Statistics (%, Thousand)



Sources: CBRT, TURKSTAT Last Observation: 03.20

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

Chart III.1.13: Change in PCC Balance (%)



Sources: CBRT, TURKSTAT Last Observation: 17.04.20

Note: Real change is calculated by deflating with the CPI.

Annualized weekly change of the PCC balance continued to fluctuate and started to lose pace in the second half of February. As of April, the PCC balance posted a sharp decline despite households' increased preference for online shopping in line with the pandemic measures (Chart III.1.13). Accordingly, nominal and real annual changes of PCC expenditures also decelerated. Considering the likely impact of the coronavirus outbreak on the debt repayment capacity of households, the minimum payment rates for credit card spending were reduced to 20% from 30% at the end of March (Box I.1.I). Still, the PCC balance declined due to the shift in consumption preferences and priorities towards spending on basic needs in line with the stay-at-home and social isolation practices in the same period, which reduced credit card spending on non-food sectors (Section IV.I). On the other hand, taking the decline in credit card spending in certain sectors as a leading indicator, that the contraction in domestic demand for some imported goods-based items is believed to support the current account balance (Chart IV.1.12).

Box III.1.I

Unemployment Insurance Fund and Short-Term Employment Allowance

Introduction

The Unemployment Insurance Fund (Fund) is a resource that performs many functions related to the changes in the employment status of insured employees and to their return to employment. It is possible to summarize the roles the Fund plays in the labor and financial markets under three main headings: The fund acts as a kind of insurance, contributing to the protection of the purchasing power of employees in case of unemployment, part-time or short-term employment via the allowance it provides to the employees during this period. On the other hand, the Fund provides support to individuals in the transition to employment, securing a job and developing themselves in their current jobs through active labor and on-the-job training programs. As a financial fund, it also contributes to financial depth and instrument diversity in the current economic system.

Unemployment Insurance Fund and Unemployment Allowance

Although the unemployment allowance practice differs across the globe, it is shaped within the framework of the economic structures of countries and is closely related to labor market dynamics. Country practices vary depending on factors such as the terms of employment duration and compulsory insurance as well as on voluntary or compulsory entry into insurance coverage, maximum utilization period, and payment rates. However, country practices share common points in that this practice is a method used to provide compensation for unemployment, which is an important economic risk, is intended for the protection of the income of the unemployed to a significant extent, and is a state-designed system.

In Turkey, unemployment allowance is an insurance service through which financial benefit is provided to insured employees who have lost their jobs through no fault or desire of their own and applied to Turkish Employment Agency (İŞKUR) units in person or online within 30 days of the termination of their employment contract, and who fulfill the employment contract and premium conditions. Besides the financial benefit, persons eligible to receive the unemployment allowance are also provided with services to expedite the transition from unemployment to employment, such as payment of general health insurance premiums, finding a new job, and provision of vocational development and training courses.

In addition to the unemployment allowance, the Unemployment Insurance Fund is also used to finance payments and programs such as short-term and part-time employment allowances, Wage Guarantee Fund payments, active labor force programs, on-the-job training programs, and payments of incentives and subsidies. On the other hand, premiums paid by employees and employers, and the state contributions constitute the main income items of the Fund. Under the active labor force program, vocational training courses are offered, and trainees who have completed these courses can have a job through guaranteed or non-guaranteed employment programs. Entrepreneurship programs offer courses for individuals who want to establish or develop their own businesses. Additionally, the Fund offers a coaching service for the handicapped via projects on the employment of the handicapped and their adaptation to work and the workplace, thereby supporting them in their efforts to start working and adapt to working life.

The coronavirus pandemic has damaged global supply chains and international trade in the recent period. Due to supply-side and demand-side shocks in domestic and external markets, many businesses in Turkey also had to suspend their activities for an indefinite period. This brought to the fore the more active use of the short-term employment allowance, which is financed with the Unemployment Insurance Fund. In this context, as of 23 March 2020, employers were allowed to apply for the short-term employment allowance on the grounds of force majeure. Due to this extraordinary period, premium payments and employment contract requirements were also relaxed. Actually, similar flexibilities were also provided during the global financial crisis for the same purposes, such as extending the benefit period of the allowance and increasing the size of the allowance. On the other hand, related processes were also expedited to finalize recent applications and pay the allowances to employees in a speedy manner.[1]

Short-Term Employment Allowance

In cases of temporary shortening of the weekly working period in workplaces by at least one-thirds or complete or partial suspension of operation for at least four weeks without any condition of continuation, for the period when they cannot work, insured employees in those workplaces are provided with income support and payment of their general health insurance premiums under the short-term work allowance system for no longer than three months. A general economic crisis, a sectorial crisis, a regional crisis or forces majeure constitute the reasons to put the short-term employment allowance into effect.

In view of the impact of the coronavirus pandemic, the short-term employment practice was introduced in the scope of "force majeure resulting from the period-specific situation due to external causes".[2] For employees to benefit from this facility: (i) the employer should apply to İŞKUR notifying that the working period in the workplace has substantially shortened or been suspended, and labor inspectors should confirm compliance, (ii) employees should fulfill the conditions regarding the employment period and unemployment insurance premium payment by the date of the commencement of the short-term employment period, (iii) employees should have paid unemployment insurance premium for 450 days in the last three years, with the last 60 days being subject to an employment contract.

The daily short-term employment allowance corresponds to 60% of daily gross average earning calculated by taking into consideration the earnings of the insurant for the last twelve months subject to premium. The amount of this allowance cannot exceed 150% of the gross amount of the monthly minimum wage. The short-term employment allowance lasts for as long as the short-term working period, on condition that it does not exceed three months.

Revenues and Expenditures of the Unemployment Insurance Fund and Expenditures of Short-Term Employment Allowance

By the end of 2019, the balance accumulated in the Unemployment Insurance Fund to be invested in securities and cash fund assets amounted to TRY 131.5 billion (Table III.1.I.1). In

[1] Employers who demand short-term employment on the grounds that they have been negatively affected by the coronavirus pandemic can apply for it by sending the "Short-Term Empolyment Request Form" and the "List of Employees Subject to Short-Term Empolyment" via electronic mail. In addition, the compliance evaluation of applications for short-term employment made due to the pandemic are conducted based on the relevant application documents and annexes without on-site visits to the businesses and without preparing an incident report.

[2] Forces majeure refer to external causes-driven period-specific situations or causes such as earthquakes, fires, floods, landslides, epidemics, mobility, etc. which are not based on employer's conducts, and which cannot be predicted and thus are impossible to avert, and result in temporary shortening of working time or complete or partial suspension of operations.

2019, the total revenues and expenditures of the Fund were TRY 40.4 billion and TRY 36.5 billion, respectively. Accordingly, the Fund registered a total revenue growth of TRY 3.9 billion. Incentives and subsidies accounted for approximately 44% of the expenditures (TRY 16 billion) while unemployment allowance (TRY 10 billion) and training and active labor force programs (TRY 9.6 billion) constituted 27% and 26% of the expenditures, respectively. Through the Wage Guarantee Fund, part-time and short-term employment allowance, which remain outside other expenditures, the Fund provided support to 24 thousand people on average per month in 2019.

An analysis of revenue and expenditure statistics in the first three months of 2020 show that the distribution of revenues and expenditures by items does not differ from the previous years. As the short-term employment allowance was put into effect under the Economic Stability Shield Package in the second half of March due to the aggravated impact of the pandemic on domestic markets, this item is expected to register a rise in the upcoming period. In fact, the number of people receiving this allowance significantly increased in April.

Table III.1.I.1 Unemployment Insurance Fund Revenue and Expenditure Statement and Stock Fund Assets (TRY Million, Thousand People)

FUND'S REVENUES, EXPENDITURES AND ASSETS	2018		2019		January-March 2020		April 2020	
SECURITIES AND CASH FUND ASSETS	127,644		131,542		131,973		133,223	
FUND'S REVENUES	Revenues		Revenues		Revenues		Revenues	
Employee and Employer Premiums	13,878		16,547		4,532		1,495	
State Contribution	4,626		5,516		1,511		498	
Interest Earnings	15,108		16,832		4,252		3,384	
Other Revenues	1,016		1,471		312		82	
TOTAL REVENUE	**34,629**		**40,365**		**10,606**		**5,459**	
FUND'S EXPENDITURES	Expenditures	People	Expenditures	People	Expenditures	People	Expenditures	People
Unemployment Allowance	5,866	5,451	10,006	7,656	2,641	1,798	1,598	592
Short-Term Employment Allowance	1	4	192	227	59	139	723	2,591
Part-Time Employment Allowance	25	23	31	24	8	6	3	2
Wage Guarantee Fund Payment	81	21	157	41	22	5	1	0.2
Active Labor Force Programs	4,904		6,579		1,003		341	
On-the-Job Training Programs	1,852		3,039		939		326	
Incentives and Subsidies	10,709		16,058		5,378		1,176	
Other Expenditures	267		405		126		41	
TOTAL EXPENDITURE	**23,705**		**36,468**		**10,175**		**4,209**	

Source: İŞKUR Latest Data: 04.20

Note: Unemployment allowance is paid for up to 10 months depending on premium payments, and short-term employment allowance is paid for up to three months. The numbers of people in the table have not been singularized. It is estimated that a pro rata number of people receive these allowances every year. Since the payments were made on the 5th of the month following the approval of the application, they were reflected in the Fund's assets in May. Accordingly, assets of the Fund amounted to TRY 129.5 billion by 6 May 2020.

In the second half of March, the short-term employment allowance was put into effect under the Economic Stability Shield Package. From its introduction in 2005 to March 2020, approximately 350 thousand people earned the right to receive the short-term employment allowance. Of these people, almost 35% benefited from the allowance in 2009 when the global financial crisis hit the labor markets, and approximately 56% in the rebalancing process after August 2018.

In the current period, more than three million applications were filed for short-term employment allowance by 27 April 2020 on the grounds of pandemic-driven causes. Of these applications, approximately 2.6 million were approved. It is projected that once the employees whose applications are approved start to receive their allowance, the negative impact of the pandemic on the labor market will be contained in the upcoming period. Accordingly, this will support financial stability.

The Unemployment Insurance Fund relies on sources such as employee-employer premiums, state contribution, interest earnings and covers the costs of all types of allowances and programs included in its scope, while the assets of the Fund are invested in various items (Table III.1.I.1). Time deposits and securities account for the largest share in the current assets of the Fund. Financial fixed assets, which make up a large portion of the Fund's assets, are coupon government domestic debt securities (GDDS) that the Fund obtains either directly through auctions or from the secondary market.[3] In the June 2019 balance sheet, current assets amounted to approximately TRY 41 billion while financial fixed assets amounted to approximately TRY 89 billion. By the end of April 2020, 76.6% of tangible and financial assets of the Fund were composed of bonds and 23.4% of them were composed of deposits.

The number of businesses that suspended their operations to prevent the spread of the pandemic has increased since March 2020. The CBRT took the necessary steps to eliminate the negative impact of the liquidity need on the GDDS market that may arise due to the applications for short-term employment allowance in this period and new applications expected in the upcoming period. According to the policy action taken under the measures against the economic and financial impacts of the coronavirus on 31 March 2020, for a temporary period, Primary Dealer (PD) banks have been allowed to sell the GDDS that they have bought from the Unemployment Insurance Fund to the CBRT under the terms and limits set by the CBRT (to be out of the scope of the limits set for the Open Market Operation (OMO) portfolio), or to increase at certain ratios the liquidity facility offered under OMO in the scope of the Primary Dealership system. This action aims at supporting financial stability by containing the likely impacts of the liquidity need of the Unemployment Insurance Fund on market functioning. In this scope, PD banks sold the GDDS that they had bought from the Unemployment Insurance Fund to the CBRT, thereby receiving a TL liquidity facility of TRY 20.7 billion as of 28 April 2020.

Conclusion

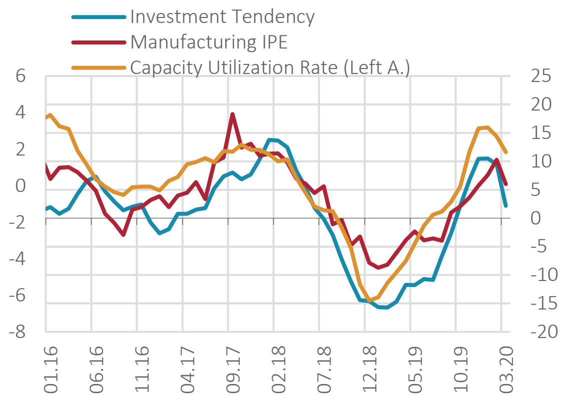
In the current period, the coronavirus pandemic is adversely affecting the labor market, leading to direct or indirect negative impacts on financial markets. The short-term employment allowance put into effect is expected to contain the unfavorable effects of the pandemic on the labor market. This facility is also expected to affect the financial markets favorably. Meanwhile, the CBRT's purchase of the GDDS under the Primary Dealership system has limited the likely negative effects of the Fund's liquidity need on market functioning.

[3] The Fund bids an amount to purchase the GDDS over the average price determined at the auction via non-competitive bid. The purchase is conducted at the amount accepted by the Ministry of Treasury and Finance.

III.2 Corporate Sector Developments

In the current report period, until mid-March 2020, when the first effects of the coronavirus pandemic started to be observed on economic activity, domestic demand and exports displayed a strong course and financial conditions continued to ease on the back of the credit incentive schemes. The uptrend in manufacturing industry production, which became more evident in second half of 2019, continued until March 2020. The rise in the capacity utilization rate owing to the recovery in economic activity as well as the rise observed as of the first quarter of 2019 in investment tendency in manufacturing industry for the next 12 months started to flatten with the first month 2020 and dropped significantly following mid-March as effects of the pandemic hit. The drop in investment tendency was more significant compared to the other two indicators (Chart III.2.1). The economic lockdown effects of the pandemic were first observed in the services sector because of the travel restrictions and social isolation measures and in the export-related sector because of the global nature of the epidemic; and the impacts of the pandemic became deeper and wide-spread across all sectors as of April.

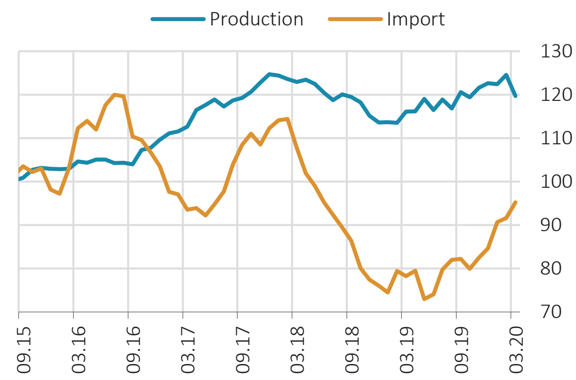
Chart III.2.1: Industrial Production, Investment Tendency and Capacity Utilization (3-Month MA, Annual % Change)



Source: TURKSTAT, CBRT Last Observation 03.20

Note: The investment tendency is obtained by adding the difference between those who expressed a higher (manufacturing industry) investment expectation for the next 12 months and those who expressed a lower investment expectation to 100, and the index is established using three-month moving average values.

Chart III.2.2: Capital Goods Production and Imports (Seasonally Adjusted, 3-Month MA 2015=100)



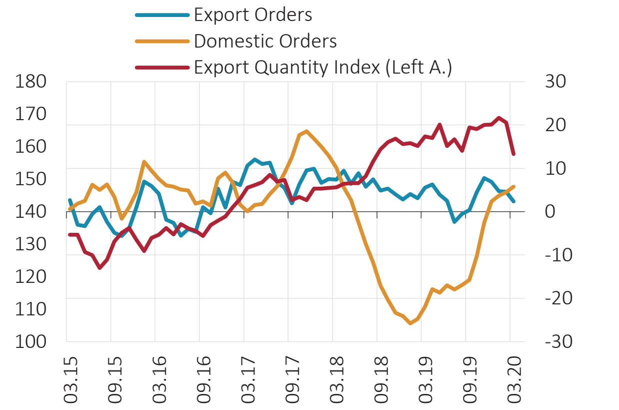
Source: TURKSTAT, Ministry of Treasury and Finance Last Observation 03.20

The capital goods production and imports of capital goods, which are leading indicators of investment tendency in manufacturing industry, were subdued in the previous Report period. In the current Report period, imports of capital goods displayed a relatively strong rise, while the rise in capital goods production remained moderate and continued until March 2020 when the pandemic surfaced (Chart III.2.2). It is projected that the uncertainty caused by the pandemic may lead to a deferral of investments for a period of time.

While the uptrend observed in the export quantity index since 2015 continued, the amount of export orders that firms received over the last three months started to decrease as of January and February 2020, when the effects of the pandemic started to be observed abroad (Chart III.2.3). Global demand, which grew significantly weaker due to the pandemic, is likely to exert pressure on exports, although expectations that the effect of the pandemic would ease in the second half of 2020, the incentive schemes introduced for exporting sectors, the supportive impact of exchange rates and the decline in commodity prices underpinning production input costs are all projected to support exports. In this period, the CBRT introduced a series of arrangements concerning rediscount credits on 17 and 30 March 2020 to contain the adverse impacts of the pandemic on exporting firms and provide support for exporting firms that may experience cash flow problems (Box I.1.I). The arrangements introduced various facilities such as maturity extension for exporting companies' rediscount credits which are due, longer maturity periods for new rediscount credits (up to 720 days), use of TL- denominated rediscount credits, and extension of the maximum duration for the export commitment fulfillment from 24 months to 36 months.

The recovery in domestic orders, which started in early 2019, accelerated in the current Report period and remained on the positive side as of December 2019. The strong course in domestic orders can be attributed to the improvement in financial conditions and realization of deferred consumer durables spending. Nevertheless, taking into account the impacts of the pandemic that surfaced in mid-March 2020 and intensified in April as well as the decline in capacity utilization rates after January 2020, investment spending may be postponed for an extended period despite easing in financial conditions and ongoing public incentive schemes.

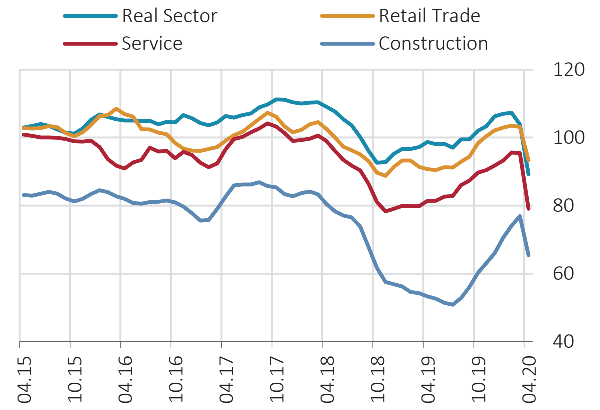
Chart III.2.3: Exports and Domestic Market Orders
(% Difference, 3-Month MA, 2010=100)



Source: TURKSTAT, CBRT Last Observation 03.20

Note: Orders data indicate the difference between the shares of firms expressing export and domestic market orders as upside and downside in the last three months in the business tendency survey. Values above zero indicate increases in the amount of orders.

Chart III.2.4: Corporate Sector Confidence Indices
(Seasonally Adjusted, 3-Month MA)



Source: TURKSTAT, CBRT Last Observation 04.20

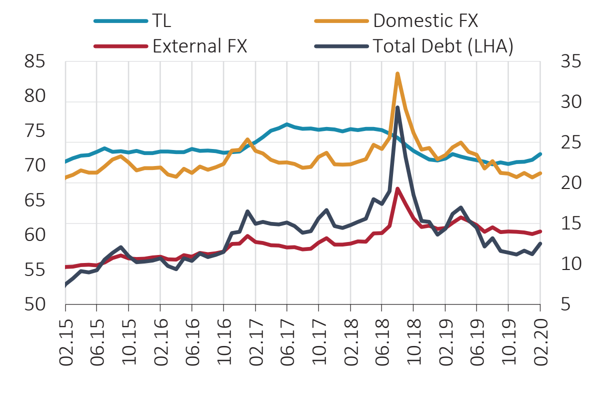
The uptrend in corporate sector confidence indices, which started in the second half of 2019 on the back of the moderate improvement in expectations, continued until March 2020 (Chart III.2.4). The uptrend in the confidence index for construction sub-sectors has been more significant than other sectors. This may be driven by various factors such as the decrease in interest rates for housing loans, favorable conditions offered for housing loans and employment-oriented credit facilities (ISTOD). A significant weakening was observed in confidence indices due to the effects of the pandemic that first started in March 2020 and became deeper in April 2020, nevertheless, the policy measures implemented and the public incentive measures offered are expected to constrain the adverse effects of the pandemic on confidence indices and sectoral activity.

III.2.1 Corporate Sector Indebtedness

The decrease in the corporate sector's total financial indebtedness that includes firms' domestic and external loans as well as bond issues, which started in the second quarter of 2019, continued in the current Report period as well. The total financial indebtedness ratio, which was 62% at the end of 2018, decreased by 3 points to 59% in February 2020 (Chart III.2.5). Similarly, the downtrend in corporate sector firms' FX indebtedness continued in the current Report period while the ratio of firms' FX debts to GDP continued to decrease owing to the recovery in economic activity. This ratio, which was 39% at the end of 2018, was 35% in February 2020, close to the level recorded in the first quarter of 2015. The ratio of TL debts to GDP picked up as of February 2020 on the back of rise in demand for loans in line with the robust economic activity, and eased credit conditions. In the current Report period, the recovery in TL corporate loans was supported by the CBRT's interest rate cuts that started in the third quarter of 2019 as well as the CBRT's reserve requirement regulation introduced as a macroprudential tool linking reserve requirements to credit growth. Some additional far-reaching measures have been introduced to ensure the effective functioning of the credit mechanism and prevent economic activity from slowing down due to the pandemic (Box I.1.I and Box IV.1.I). The objective of these monetary and fiscal measures is to ensure uninterrupted access to credits and cash flow by corporate sector firms, particularly goods and services exporting SMEs.

Another one of the additional measures taken was that the Treasury support for loans extended within the CGF guarantee limits offered in the scope of the Economic Stability Shield support package was increased from TRY 25 billion to TRY 50 billion; and the maximum CGF limit to be extended in this scope was raised to TRY 500 billion. The sub-items of support in this framework such as Business Continuity Support, Operating Expenses Support, Cheque Payment Support provide firms with favorable maturity and interest rate conditions to help them maintain employment, pay premiums, taxes and fixed debts, not skip check payments and retain their debt-paying capability (Box IV.1.II). Currently, the banking sector, particularly the public banks, are offering credit facilities with favorable financing conditions. In addition to the policy rate cuts, in two press releases dated 17 March 2020 and 31 March 2020 regarding rediscount credits, the CBRT offered long-term maturity and TL-denominated loans options for rediscount credits for exporting firms, moreover, banks were provided with targeted additional liquidity facilities and the maximum amount of funds that an eligible bank may receive from this new liquidity facility was linked to the amount of credit that this bank provides for the corporate sector. Due to the effect of these incentive measures and arrangements as well as increasing need for operating capital, the uptrend in TL indebtedness ratio of the corporate sector, which started in February 2020, is expected to continue.

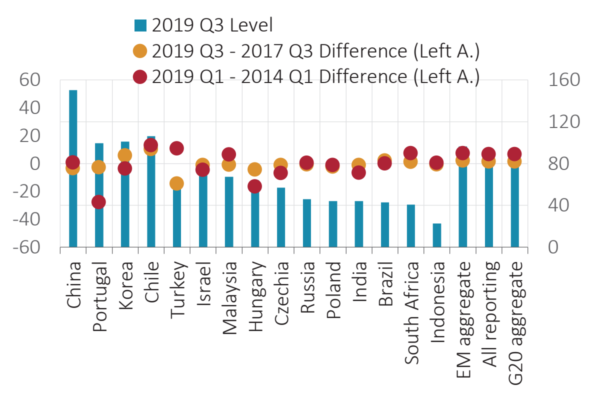
Chart III.2.5:
Share of Corporate Sector's Financial Debt in GDP (%)



Source: CBRT Last Observation 02.20

Note: GDP is converted to monthly basis. 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.

Chart III.2.6: International Comparison of Corporate Sector Total Loans/GDP Ratio (%, % Difference)



Source: BIS Last Observation 09.19

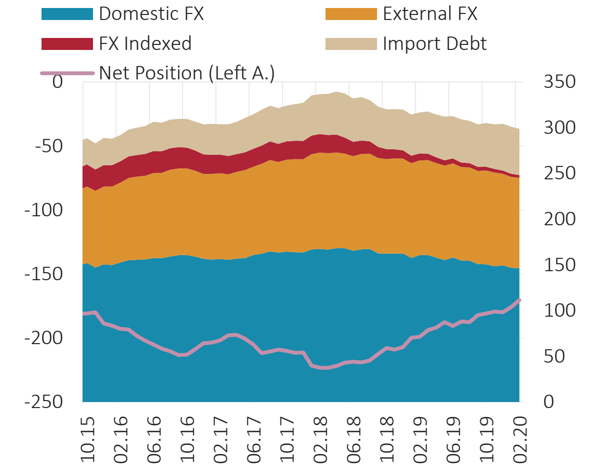
Note: The financial debt definition covers performing and non-performing loan receivables, bond issues and loan rate rediscounts.

In order to ensure comparability with international data, the corporate sector's total loans to GDP ratio is calculated by adding bond issues, NPLs and loan rate rediscounts to corporate sector loans, and in the third quarter of 2019 this ratio was recorded at 66%, corresponding to a decrease of 14.3 points compared to the same quarter in 2018 (Chart III.2.6). This decrease has been higher compared to those of G20, EME and world averages. In the mentioned period, the decrease in the corporate sector's total loans to GDP ratio in G20, EME and World averages, were 92%, 97% and 93%, respectively and Turkey remained below these levels. A comparison between the changes in indebtedness ratios of Turkey and EMEs over the last 5 years indicates that the rise in the ratio of corporate sector loans to GDP in Turkey has been higher compared to the EME average, however, Turkey's indebtedness ratio, which has been increasing due to exchange rate developments, has been generally on a downtrend since September 2018.

In the current Report period, the corporate sector's FX open position continued to decrease. In February 2020, the net FX open position amount decreased by USD 29 billion (14%) year-on-year to USD 170 billion from USD 199 billion. (Chart III.2.7). The decline observed in net FX open position since early 2018 is believed to have been driven by limitations on the issuance of FX-indexed and FX loans introduced with amendments made to the Decree No.32 Regarding the Protection of the Value of the Turkish Currency in May 2018, the enhanced awareness of FX risk management and the low investment appetite. Compared to the previous Report period, in this period, import loans increased by 8% and were recorded at USD 50 billion. Domestic and external FX debts decreased and the total FX liability amount was recorded at USD 299 billion in February 2020.

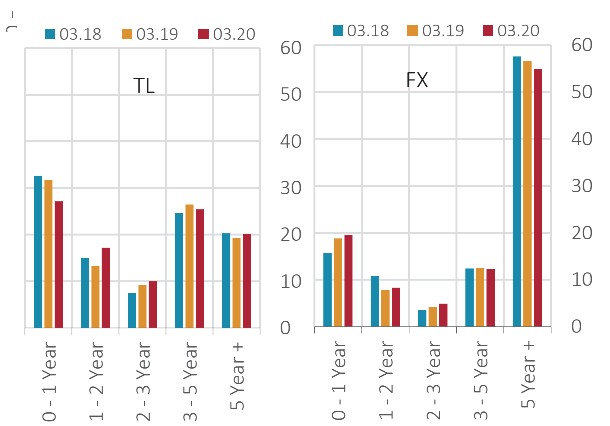
In March 2020, the share of TL loans with maturities shorter than 1 year and FX loans with maturities longer than 5 years used by the corporate sector decreased compared to the same period last year. (Chart III.2.8). Over the last 12 months, the share of TL loans with maturities of 1 to 2 years increased significantly, while that of FX loans with maturities shorter than 2 years displayed a limited rise; and the share of FX loans with maturities of 3-5 years remained flat. The extension in maturities of TL loans has likely been driven by firms' tendency to spread their TL debts stemming from working capital needs over a longer period to benefit from the decrease in loan rates. FX loans, which are highly correlated with firms' investment behavior, are mostly composed of loans with maturities longer than 5 years and this is a positive sign with respect to the corporate sector's capability to manage exchange rate risk. The Economic Stability Shield support package that was introduced to mitigate the adverse effects of the pandemic on the corporate sector's debt rollover capacity also provides maturity advantages for firms. In this respect, with the acceleration in the Business Continuity Support credit extended with 36 months of maturity, the average TL loan maturity is expected to increase.

Chart III.2.7: Corporate Sector's FX Liabilities and Net FX Position (USD Billion)



Source: CBRT Last Observation 02.20

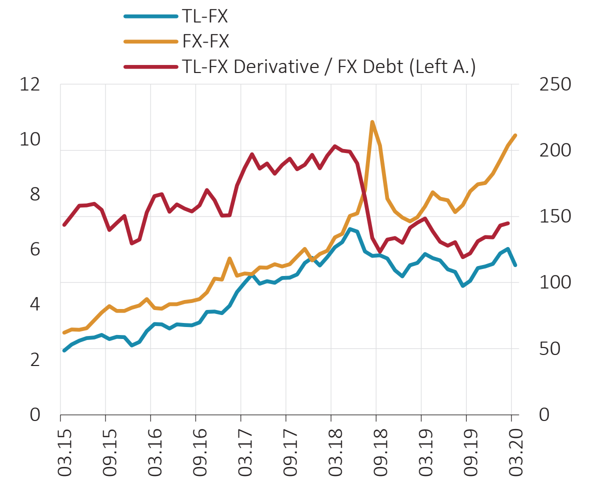
Chart III.2.8: Maturity Breakdown of Domestic TL and FX Loans at the Time of Credit Extension (%)



Source: CBRT Last Observation 03.20

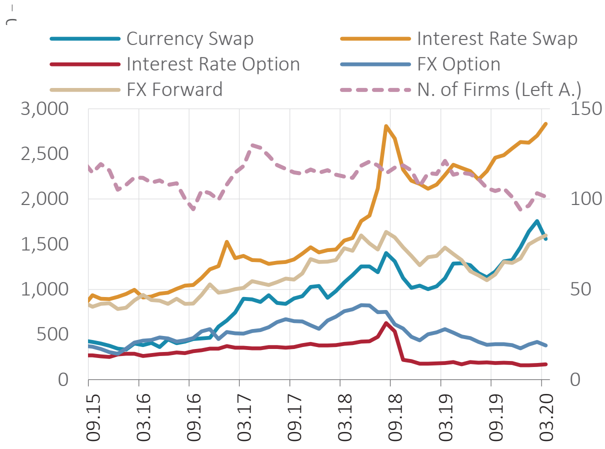
In the current Report period, the volume of derivatives transactions that the corporate sector carries out with domestic banks increased as well (Chart III.2.9). By March 2020, the volume of derivatives transactions (nominal contract amount) that firms carried out with banks stood at TRY 328 billion. Out of this total amount, TRY 211 billion corresponding to 64% of the total amount was FX against FX; TRY 113 billion was FX against TRY, and TRY 3.5 billion was TRY against TRY buy-sell transactions. The volume of FX against TRY derivatives transactions, which is important with respect to exchange rate risk management, decreased by TRY 9 billion compared to the same period last year, nevertheless, the ratio of this amount to total corporate FX indebtedness increased by 19% year-on-year to 7% in February 2020.

Chart III.2.9: Breakdown of Derivatives Transactions by Currency (TRY Billion, Percent)



Source: CBRT Last Observation 03.20

Chart III.2.10: Breakdown of Derivatives Transactions by Type (TRY Billion, Level)



Source: CBRT Last Observation 03.20

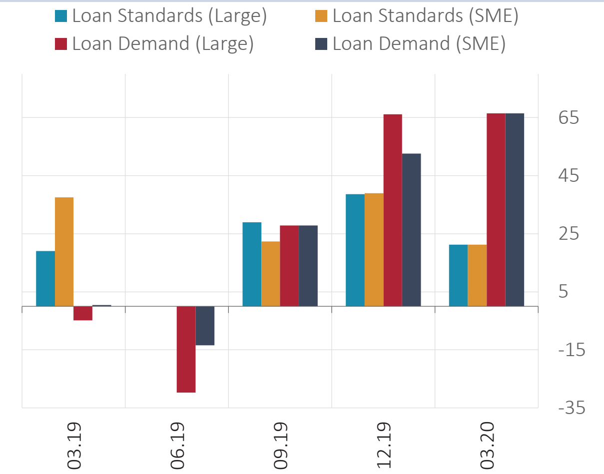
The number of firms engaging in derivatives transactions started to decrease in the previous Report period and this decrease continued until December 2019 when it was recorded at 1,883; yet the number of these firms rebounded and stood at 2,028 in March 2020 (Chart III.2.10). The currency swap volume increased by 36% to TRY 82 billion quarter-on-quarter, while the volume of interest rate options slightly decreased. Interest rate swaps that are used by firms to convert variable rate FX loans into fixed rate loans increased due to increased uncertainty over interest rates. The uptrend in the corporate sector's interest rate swaps is expected to increase as the Turkish Lira Overnight Reference Rate (TLREF) introduced to allow a more effective interest rate management is used more widely. While the amount of FX options transactions remained flat, the amount of forward FX transactions increased by 37% to TRY 80 billion compared to the previous Report period.

III.2.2 Loan Standards

According to the results of the Bank Loans Tendency Survey (BLTS), the easing in loan standards and rise in the demand for commercial loans, which started in the third quarter of 2019, continued through the final quarter of 2019 and the first two months of 2020. In the second half of March, however, due to the effects of the pandemic, the easing in financial conditions weakened and the financial sector's risk perception increased (Chart III.2.11).

The easing in corporate loan standards in the last quarter of 2019 was mainly driven by the recovery in economic activity, improvement in expectations, normalization in banks' prudence levels, the RR arrangements linking credit growth with reserve requirements and increased liquidity of the banking system. The uptrend in loan demand, which started in the third quarter of 2019 and continued in the first quarter of 2020, was driven by continued decline in loan rates, the significant improvement in economic activity and expectations as well as increased working capital need of firms (Chart III.2.11). In the second quarter of 2020, although the tightening in global financial conditions due to the pandemic pose a risk to credit growth, the Treasury-backed credits extended in the scope of the Economic Stability Shield summarized in Chapter III.2.1 and explained in detail in related boxes, the policy steps taken by the CBRT on 17 March and 31 March 2020 regarding rediscount credits and targeted additional liquidity facilities, and the incentives provided by public banks are projected to support the efficient functioning of the credit sector and commercial loans (Box I.1.I and Box IV.1.II).

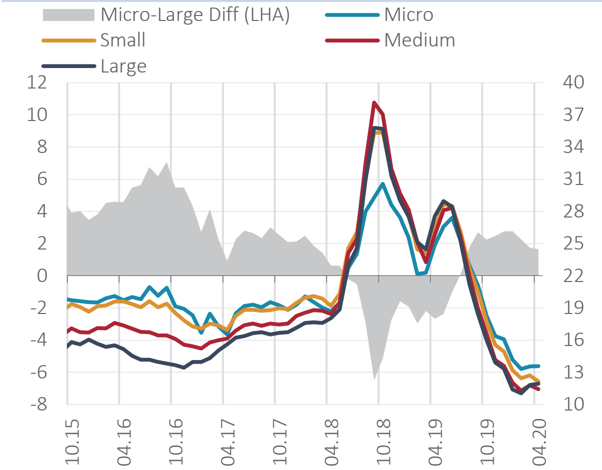
Chart III.2.11: Loan Standards and Loan Demand (% Difference)



Source: CBRT Last Observation 03.20

Note:
Refers to the difference between the share of those who answered, "increased" and those who answered "decreased" to the questions about loan demand and loan standards for the last 3- month period. Values above zero denote easing and values below zero denote tightening in loan standards.

Chart III.2.12: Average TL Funding Costs of SMEs and Large Firms (4-Week Moving Average, %, % Difference)



Source: CBRT Last Observation 10.04.2020

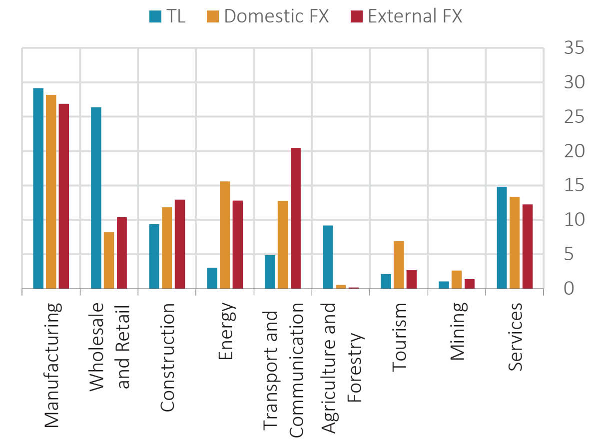
In the current Report period, the downtrend in the newly-extended TL loan rates continued, while average loans rates for commercial loans slightly increased in March 2020 due to the tightening in global funding conditions (Chart III.2.12). The TL interest rate spread across firm sizes, which had returned to its historical averages in the previous Report period, hovered close to the historical averages owing to the continued easing in credit conditions. Corporate loan rates for large and medium-scale firms remained low and close to one another, while those for micro-scale firms were slightly higher.

III.2.3 Sectoral Developments

The TL corporate loans and corporate loans in general that were extended in the domestic market were predominantly used by the manufacturing industry, wholesale and retail trade sectors and general services sectors (Chart III.2.13). Except for the manufacturing sector, the mentioned sectors are the ones that were primarily affected by the pandemic. As for FX loans, manufacturing industry and services sectors were the primary sectors using domestic FX loans; while manufacturing industry, transportation-communications sector, and the construction sector carrying out high-volume contracts abroad, were the leading sectors using external FX loans.

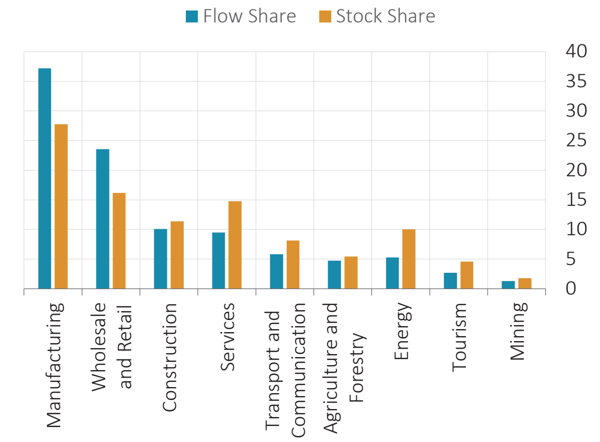
A comparison of stock and flow loan shares of corporate loans provides guiding information about the use of financial sources and sectoral indebtedness. In the current Report period, while the share of flow loans remained significantly below the share of stock loans in energy, general services and tourism sectors, the share of flow loans was higher than stock loans in manufacturing, retail and wholesale trade sectors (Chart III.2.14). Even if the share of flow loans are below that of stock loans in other sectors, the difference is at reasonable levels.

Chart III.2.13: Sectoral Breakdown of Loans (% Share)



Source: CBRT, TBB Last Observation 03.20
Note: Loans include domestic loans and intermediated external loans via domestic banks.

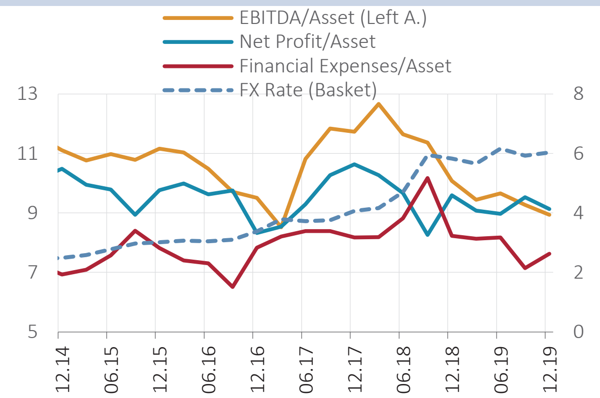
Chart III.2.14: Sectoral Breakdown of (Flow) Loans Extended Since the Last Report Period (09.19) (%)



Source: CBRT Last Observation 03.20
Note: Flow data shows loans extended between 09.19 and 03.20, and stock data shows the loan breakdown in 03.20.

Earnings of firms quoted on Borsa Istanbul (BIST) before interest, tax, and depreciation and amortization have been decreasing since the third quarter of 2018. Firms' net profitability has displayed increases in some periods mainly owing to improved profitability ratios of exporting firms (Chart III.2.15). Firms' financing costs, which peaked in the third quarter of 2018 due to exchange rate fluctuations and high interest rates, took a downtrend in the following period as interest rates decreased and exchange rates rebalanced. At the end of 2019, the EBITDA/Asset ratio of firms quoted on BIST dropped below 9% and the Net Profit/ Asset ratio was at 4.1%.

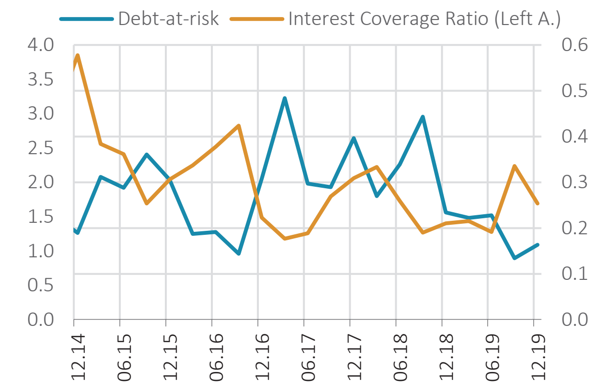
Chart III.2.15: Profitability Indicators of BIST Firms (%)



Source: FINNET, CBRT Last Observation 12.19

Note: EBITDA: Net Profit + Financial Expenses + Tax Expenses + Depreciation and Amortization Costs. As of the latest data, 339 corporate sector firms were included in the analysis.

Chart III.2.16: BIST Firms' Interest Coverage and Debt-at-Risk Ratios (%, Ratio)

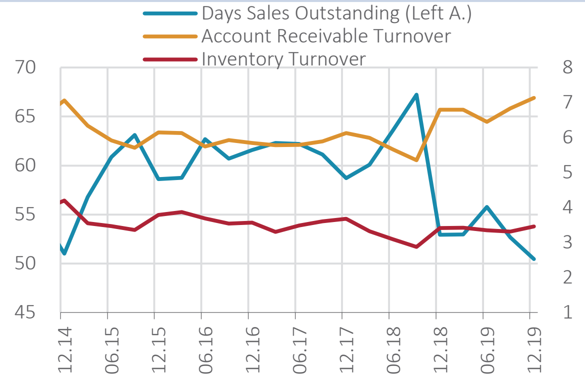


Source: FINNET Last Observation 12.19

Note: Interest Coverage Ratio (ICR)= EBITDA / Interest Expenses. Exchange expenses led by exchange rates are also included in interest expenses. Debt-at-risk ratio is the ratio the entire debts of firms with an ICR below 1.5 to the debts of firms included in the total sample.

The interest coverage ratio that shows firms' capacity to rollover interest debts with operating income declined in the second half of 2018 due to increased exchange rate and interest expenses; remained flat in the first half of 2019, and picked up in the second half of 2019 owing to the decline in credit rates and rebalancing exchange rates (Chart III.2.16). The debt-at-risk ratio, which is calculated by the amount of debts pertaining to firms which lack sufficient operating income to cover interest expenses, remained flat in the first half of 2019 followed by a decrease in the second half. The downtrend in debt-at-risk ratio observed since mid-2018 can be interpreted as an indicator of an improvement in debt rollover capacity in firms quoted on BIST.

Chart III.2.17: Firms' Activity and Liquidity Indicators (Value Day)



Source: FINNET Last Observation 12.19
Note: Accounts Receivable Turnover = Sales / Commercial Receivables. Inventory Turnover= Cost of Sales / Inventory. Debt Collection Period=365 * Commercial Receivables / Sales.

The recovery in economic activity and the measures taken in 2019 had positive reverberations on the activities and liquidity ratios of firms quoted on the BIST as well. Firms' debt collection period, which showed a tendency to take longer between end-2017 and the third quarter of 2018, started to get shorter in the third quarter of 2018, remained flat for a while and got shorter again in the third quarter of 2019 when it was recorded at around 50 days (Chart III.2.17). Similarly, the increase in accounts receivable turnover rate points to a rise in debt collectability. Nevertheless, firms' debt collectability and debt collection periods are expected become longer in the period marred by the pandemic. With the aim of curbing the adverse impacts of the pandemic on firms' credibility, the Turkish Banks Association of Turkey (TBB) issued a regulation on 26 March 2020 stating that the records pertaining to nonpayment of capital or installments of credits, bad cheques and protested bills filed at the Risk Management Department of the TBB may not be taken into account by other banks and financial institutions, provided that these debts are either paid or restructured until 31 December 2020. Moreover, the Ministry of Treasury and Finance issued a communiqué on 24 March 2020 allowing a facility to add the "force majeure" note in credit records of firms that have defaulted in April, May and June due the pandemic. The objectives of these arrangements were to postpone any deterioration in credit records of firms defaulting because of the effects of the pandemic, to ensure corporate sector firms' continued access to credits and to contribute to uninterrupted cash flow of firms.