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Turkish Banking Sector's Response to Covid-19 Outbreak

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The unavoidable global spread of Covid-19 outbreak continues to create significant risk to community health as well as significant challenges for the economic outlook. Although the banks are not directly hit by the Covid-19 outbreak compared to the other sectors such as retail and tourism, they are at the utmost attention of public in all countries over the world.

Although it is not possible yet to foresee the long-term magnitude of the results of the Covid-19 outbreak over the economic outlook, it is commonly agreed by the economists that it may likely cause a global financial crisis in the upcoming days, penetrating through 2021. Sitting in the heart of the economy, there is no doubt that the stability of the banks is quite crucial for continuity of the economic system.

Similar to their foreign competitors, Turkish banks have already started implementing their own measures to ensure the business continuity and provision of adequate services to their customers, such as waiving commission fees applied to money transfers or increasing the limits for money withdrawal from ATMs and contactless credit card payments. Addressing the operational challenges by implementing such short-term solutions to ensure business continuity as well as the healthcare of their stuff, it goes without saying that banks would likely to face with liquidity crisis in long-term.

In an effort to mitigate the burden over the banks and support the banking sector, the Banking Regulatory and Supervision Authority (**BRSA**), as well as the Central Bank of Turkey (**CBRT**), have been introducing various measures flexing the regulatory framework.

In this context, the CBRT published, on 17 March 2020, certain measures, involving, amongst others supportive measures for the banking sector. Accordingly, the CBRT announced that it will support the banks' liquidity needs through intraday and overnight standing facilities. Also, the foreign exchange reserve requirement was reduced by 500 basis points for the banks that meet the real credit growth conditions, which would lead to a foreign exchange and gold liquidity support for such banks in an amount of approximately USD 5,1 billion.
On 23 March 2020, the BRSA also announced several measures in relation to calculation of capital adequacy ratio and foreign exchange positions of Turkish banks, to be applicable until 31 December 2020, to support the banking sector against the recent fluctuations in the financial markets due to Covid-19 outbreak.

According to the BRSA's decision:

(a) banks will be allowed to apply the 2019 year-end buying foreign exchange rate while calculating the amounts of the monetary and non-monetary assets valued in accordance with the Turkish Accounting Standards and the relevant reserve amounts, except for the foreign currency assets valued on historical cost basis, for the purposes of the calculation of amount subject to credit risk in accordance with the BRSA's Capital Adequacy Regulation;

(b) in case the differences between the net valuations of banks' securities, which are classified within the "Securities the Fair Value Differences of which are reflected in Other Comprehensive Income" portfolio as of 23 March 2020, are negative, these differences may be disregarded while calculating the capital adequacy ratio in accordance with the Equity Regulation. This exception will not apply for such securities acquired following 23 March 2020.

(c) provisions for losses in relation to the banks' securities held as of 23 March 2020 may be disregarded while calculating the general net foreign exchange position of the bank. This exception will not apply for such securities acquired following 23 March 2020. The equity amount calculated in accordance with the preceding paragraph may be used for the purposes of this calculation as well.

Appreciating such measures taken so far, economists are yet to be able to determine how much those measures would help for maintaining the financial strength and meeting the financial sector's needs. Recognising the challenges that both the banks and the corporate and individual bank customers are facing with, it seems obvious that more measures will need to be introduced to maintain the business continuity. We will continue to monitor the upcoming changes and to provide regular updates on the banking sector's response to the Covid-19 outbreak over the coming days.

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