

DOI 10.20544/HORIZONS.A.30.1.22.P15
UDC336.713]:616.98:578.834}-036.21(560)
336.713:338.246.027(560)“2019/2022“

THE IMPORTANCE OF PUBLIC BANKS IN TURKIYE IN THE COVID 19 PANDEMIC¹

Halil İbrahim Yavuz , Lecturer

Selcuk University, Taskent Vocational School, Konya, Türkiye
h.ibrahimyavuz@selcuk.edu.tr

Abstract

The Covid 19 epidemic, which emerged in China at the end of 2019 and spread all over the world, has caused hard times in all countries. In this time, the support of the public authority was needed due to the restriction of economic and social activities. In Türkiye, public supports were mostly implemented in the form of financial supports in order to maintain liquidity. It is seen that public banks play a major role in these financial supports. In this study, the behaviors of state-owned deposit banks during the pandemic and the support they provide to economic life were tried to be examined by comparing them with private and foreign deposit banks. According to the pre-pandemic situation, unlike other banks, it is seen that public banks are the group that gives the most loans in the sector. In addition, there has been no increase in the non-performing loans of public banks, thanks to opportunities such as postponement and restructuring of loan debts of companies and individuals. Due to these incentive loans of public banks, loan volumes reached enormous sizes, but it was observed that the profitability ratios did not increase at the same level. As a result, it has been clearly revealed that public banks work in a service-oriented manner instead of profit-oriented in order to prevent the economic recession caused by the pandemic, and that they are extremely important institutions in delivering government incentives to the public in times of economic depression.

Keywords: Covid 19 Pandemic, Public Banks, Türkiye

¹ original research paper

INTRODUCTION

The coronavirus outbreak, which emerged in Wuhan, China at the end of 2019 and then spread to the whole world and was declared a global pandemic by the World Health Organization, has deeply affected social and economic life. In this process, people's lives and livelihoods are in danger. Businesses operating in sectors directly affected by the restrictions and their employees felt the negative effects of the pandemic more than public employees and retirees with fixed income.

In this period, the intervention of the state in economic and social life was inevitable. First, restrictive measures have been taken to reduce the impact of the pandemic on people's lives. Curfews and the expansion of remote working opportunities were the most frequently implemented measures. However, since it is not possible for all employees to work remotely, some businesses had to stay closed during the lockdown days in the early stages of the pandemic, and they were exempted from restrictions with later regulations. Nevertheless, in some sectors (e.g., school canteen businesses, cafes and restaurants, tourist facilities in the first period of the pandemic, etc.), the employees and employers of these sectors have had a hard time economically, as the activity has stopped completely or largely during the pandemic.

In order to support economic activities, some incentive loans and facilities were tried to be provided especially through public banks in this period. In this study, the support provided to the economic life through public banks during the pandemic and the increased volume of public banks due to these supports and the risk sizes incurred will be examined in comparison with the private sector deposit banks.

TURKISH BANKING SECTOR AND THE PLACE OF PUBLIC BANKS IN THE SECTOR

The banking system in Türkiye presents a mixed structure. In the banking sector, there are banks owned by different types of banks as well as different capital groups. However, all banks must be established and managed according to a common set of rules. In this respect, all deposit, participation, development and investment banks established in Türkiye, regardless of

type, are subject to the supervision and control of the Banking Regulation and Supervision Agency (BRSA), subject to the Banking Law.

If we leave aside the development and investment banks in Türkiye, private and foreign capital deposit and participation banks as well as state-owned deposit and participation banks have a wide range of activities in the banking sector. From this point of view, public banks impact on economic life is also undeniably great.

In the Turkish banking sector, the types of banks according to the shareholder are given in Table 1.

Table 1. Number of Banks in Türkiye by Type and Capital Owner

Banking Types	State-Owned	Private Equity	Foreign Capital	Total
Deposit Banks	3	8	21	32
Development and Investment Banks	3	11	4	18
Participation Banks	3		3	6
Banks Transferred to SDIF		3		3
Total	9	22	28	59

Source: Created by the author using the data of the Banks Association of Türkiye and the Participation Banks Association of Türkiye.

When the data in Table 1 are examined, it is seen that mostly foreign-capital deposit banks are concentrated in Türkiye. 5 of these banks are the Turkish branches of foreign banks, while the other 16 foreign-capital deposit banks were established in Türkiye. After the foreign capital deposit banks, the most private capital development and investment banks were opened. State-owned banks, on the other hand, show a balanced distribution, and there are three public banks in each of the three bank types.

Although public banks in the Turkish banking sector seem to be insufficient in terms of numbers, they have extremely important sizes in terms of employment and service points. For example, while private and foreign banks have recently reduced the number of staff and branches during the Covid 19 pandemic, public banks have on the contrary increased. In Figure 1, the number of branches and personnel of the banks according to capital ownership in the period from the first quarter of 2018 to the first quarter of 2022 is shown.

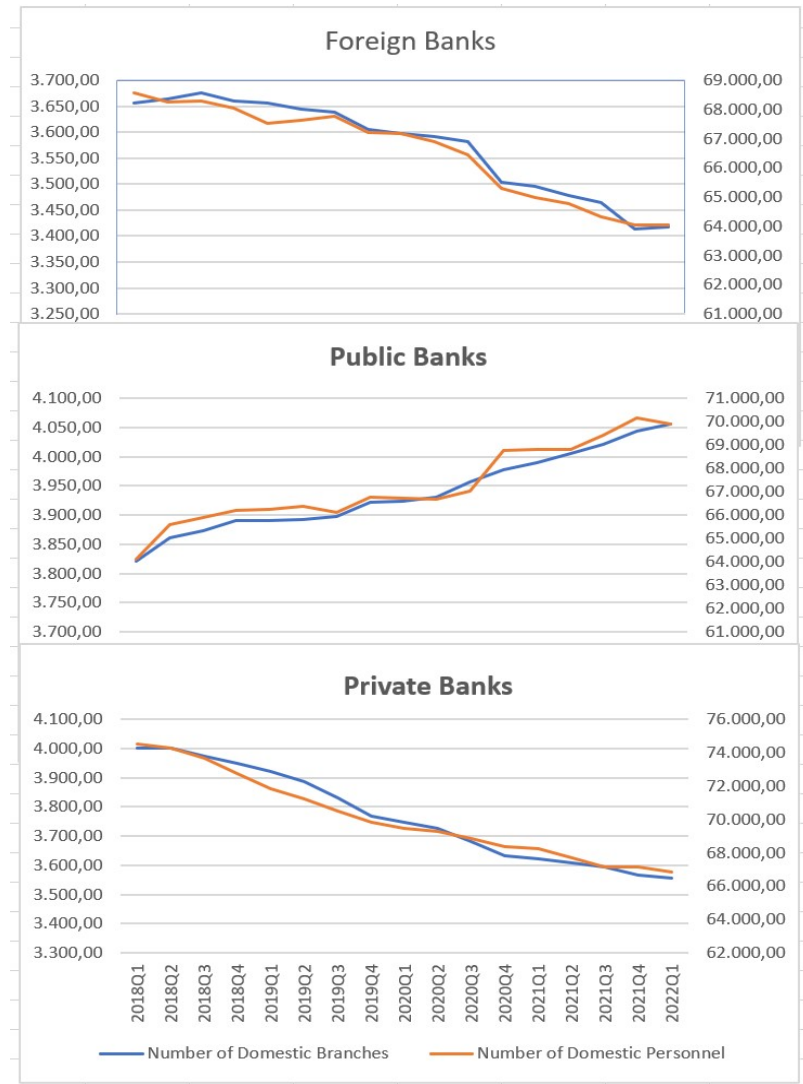


Figure 1. Number of Branches and Personnel in the Turkish Banking Sector
Source: Created by the author using BRSA data. (The left axis shows the branch, the right axis the number of personnel.)

As can be seen in Figure 1, the increase in the number of both branches and personnel compared to the first quarter of 2018 was only in public banks. Among the bank groups examined, state banks are dominant in terms of both personnel and number of branches, according to 2022 data. Unlike

private banks, due to the role they play, public banks must show a service-oriented approach instead of a profit-oriented approach in some cases. For this reason, it is possible to come across a public bank branch even in the smallest districts where there is no branch of any private or foreign bank.

STATE AIDS PROVIDED DURING THE PANDEMIC PERIOD

As the epidemic spread to Türkiye in March 2020, restrictive measures were taken rapidly. These have emerged primarily in the form of switching from face-to-face education to distance education, curfews, and overtime restrictions in the public and private sectors. Later, with the start of vaccination, some measures were relaxed, especially the industry and agriculture sectors were allowed to continue their activities.

According to the IMF's July 2021 report, Türkiye has spent a total of \$19 billion or gave up its income since the beginning of the pandemic. In addition, according to the same report, a total of 68 billion dollars of liquidity was provided through methods such as loans, debt assumption, asset purchases, guarantees and semi-financial transactions. These figures also correspond to 2.7% and 9.5% of Türkiye's gross domestic product, respectively (IMF, 2021).

In this process, some workplaces such as school canteens, cafes, restaurants, private school businesses and tourism facilities had to be closed. In these workplaces, not only the employers were in a difficult situation, but also the employees. For this reason, the government has started to provide some support since the beginning of the pandemic. We can analyze these supports under three titles: financial supports, support for working life and social supports.

Financial supports

The most intense support program of the Turkish government during the pandemic period has been financial supports. It is possible to briefly list these supports as follows (İKTİB, 2020);

- Treasury support for Credit Guarantee Fund (CGF) was increased from 25 billion TL to 50 billion TL.
- The Treasury Supported CGF limits of SMEs were increased from 12 million TL to 35 million TL.
- Check Payment Support loan (maximum limit of 1, 5 and 10 million according to annual turnover) was implemented.
- Rediscount credit facilities were expanded by the Central Bank.
- Receivables were deferred by Exim bank and longer-term opportunities were provided for new loans.

- By the Banking Supervision and Regulation Agency (BSRA), the legal follow-up period for non-performing receivables, which was 3 months, was increased to 6 months.
- Small and Medium Enterprises Development Organization of Türkiye (SMEDO) initiated loan and grant support to some sectors (companies producing masks, disinfectants, protective clothing, etc.).
- State's tax and SSI employer premium receivables were postponed.
- Execution proceedings have been postponed, except for alimony receivables.
- Debts to the Water and Electricity Administrations have been postponed.
- The scope of the State Supported Receivables Insurance was expanded.
- Dividend distribution of publicly traded companies is limited to 25% of the profit.
- In addition to granting individual and corporate loans with favorable interest and payment terms by public banks, current receivables were postponed.
- Discounts and postponements were made in the rent receivables of the real estate belonging to city administrations and municipalities, and no rent fees were taken from the tenants using the real estates belonging to the treasury and discount applications were made.
- Income loss support and rent support were given to tradesmen by the Ministry of Commerce.

Supports for working life

In working life, it is aimed especially at the continuity of employment and in addition to the direct supports for this, the continuation of employment is required in some of the financing supports. The supports for working life implemented in Türkiye during the epidemic period are briefly listed below.

- Short time working allowance was issued.
- Minimum wage support was given.
- Dismissal prohibitions were implemented.
- Daily cash wage support was provided.

Social supports

Some social assistance was provided during the fight against the pandemic in Türkiye. These can be divided into cash benefits and health care related benefits. The social supports applied are briefly as follows;

- Monetary aid was provided to families in need directly by the Ministry of Family and Social Services.
- Payments were made to social assistance foundations by the Treasury to be delivered to those in need by these foundations.
- Covid treatment, testing and vaccination expenses during the pandemic period have been covered by the Ministry of Health for all citizens and asylum seekers.

LOANS AND PAYMENT FACILITIES PROVIDED BY THE PUBLIC BANKS DURING THE PANDEMIC IN TURKIYE

Public banks are equipped with the facilities of the state. In this respect, public banks are in a more advantageous position than other banks. This can sometimes disrupt competition. Public banks are also one of the tools of the economy management to intervene in the market. These banks can not only support economic growth, employment and development through large-scale infrastructure loans or loans directed to leading sectors, but also can be used by the government for their own political purposes (Akin, 2019: 38-42). In times of depression such as economic crisis, war and epidemic, public banks play an important role in the distribution of incentives and subsidies and in creating cheap resources. During the fight against the Covid 19 global epidemic, public banks in Turkey have implemented the following practices for their commercial customers;

- Postponement of principal and interest payments of enterprises indebted to public banks.
- Halkbank started to provide treasury-supported loans with low interest rate and grace terms of TL 25.000, and credit cards with a limit of TL 25.000, covering all artisans and craftsmen.
- Treasury-backed low-interest and grace period loans have been introduced by public banks for all commercial enterprises in the name of business continuation loans.

In addition to the opportunities provided by public banks to commercial life, packages are also created for the housing, vehicle, and other needs of individual customers. Thus, it is aimed to reverse the restrictive effects of the pandemic period by stimulating consumption. In this sense, the packages for individual customers by public banks are as follows;

- For real person beneficiaries, Major Needs Support Loan application with a grace period of 6 months with a treasury

backed CGF guarantee up to a maximum amount of 10.000 TL has been started.

- Mortgage loan packages with a maturity of 15 years and a grace period have been prepared for housing finance at a low interest rate.
- Low-interest rate vehicle loans were offered for second-hand vehicles. Low-interest rate loans were offered for zero-mile vehicles produced domestically by contracted companies.
- For consumers who want to book holidays from travel agencies, credit facilities up to 36 months maturity with a grace period have been introduced.

In this period, it would not be wrong to say that private banks were more hesitant in lending and that public policies were carried out mainly through public banks. However, the asset ratio application was initiated to encourage private and foreign deposit banks to give loans and as a matter of fact, it was successful. Figure 2 shows the loan sizes of public deposit banks and other deposit banks before and during the pandemic period.

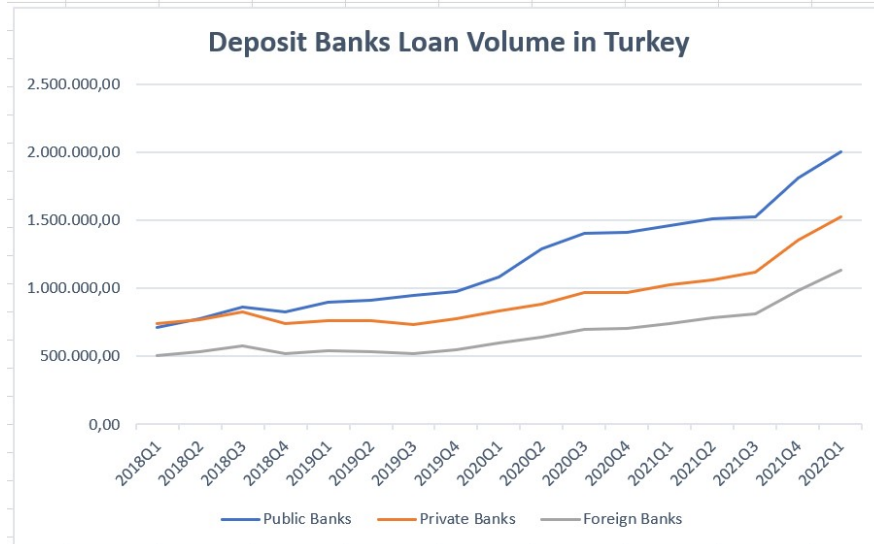


Figure 2. Credit Volume of Deposit Banks in Türkiye (million TL)
Source: Created by the author using BRSA monthly bulletin data.

According to the graph in Figure 2, similar credit increases were experienced in all three bank groups in total loan volume. Especially in the first period of the pandemic, it is seen that there has been a sharper increase

in the credit volume of public banks compared to other bank groups. The loan size of public banks, which was approximately TL 1 trillion at the beginning of the pandemic, reached TL 2 trillion as of the first quarter of 2022.

The increase in SME loans by public banks, especially due to new loans and maturity extensions, is significant. This is illustrated in the graph in Figure 3.

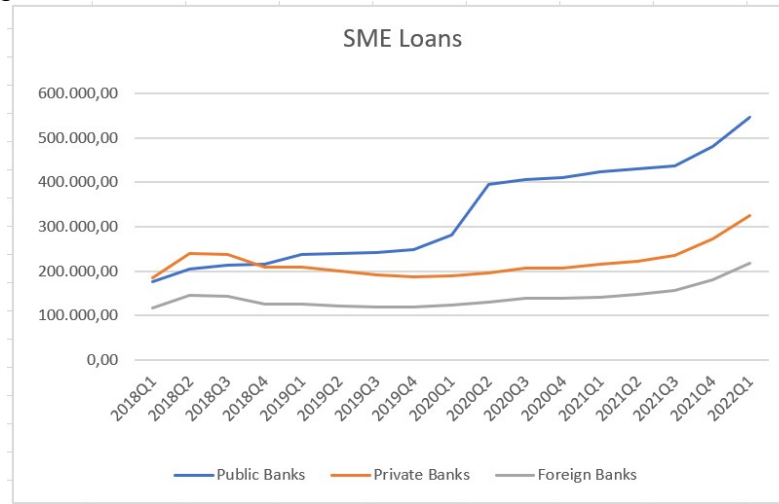


Figure 3. SME Credit Volume of Deposit Banks in Türkiye (million TL)

Source: Created by the author using BRSA monthly bulletin data.

A situation like the graph in Figure 2 also appears in figure 3. Thanks to the loan packages implemented by public banks in the first period of the pandemic, the loan volume, which was below TL 300 billion in the second quarter and third quarter of 2020, increased to over TL 400 billion in 6 months. As of the first quarter of 2022, it reached approximately TL 550 billion.

The effects of the housing loan package implemented by public banks are seen in the graph in Figure 4.

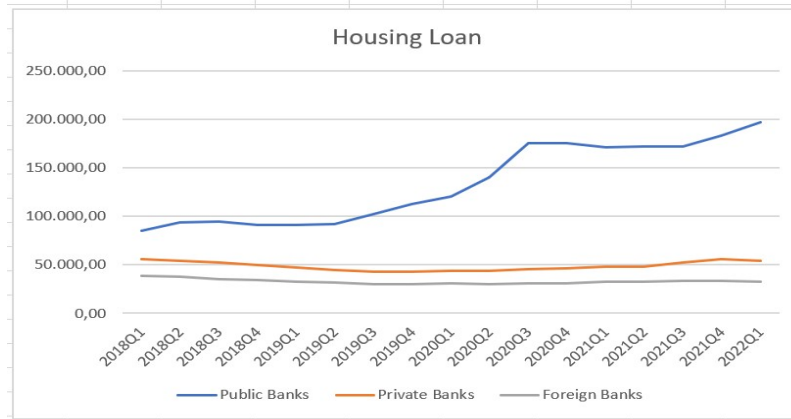


Figure 4. Housing Credit Volume of Deposit Banks in Turkiye (million TL)
Source: Created by the author using BRSA monthly bulletin data.

When Figure 4 is examined, it is seen that there is no increase in housing loans of banks, except for public banks. Housing loans, which public banks started to increase since the second quarter of 2019, gained further momentum in the second quarter of 2020 and reached a size of TL 175 billion in the third quarter of 2020.

Figure 5 shows the ratio of non-performing loans to total cash loans.

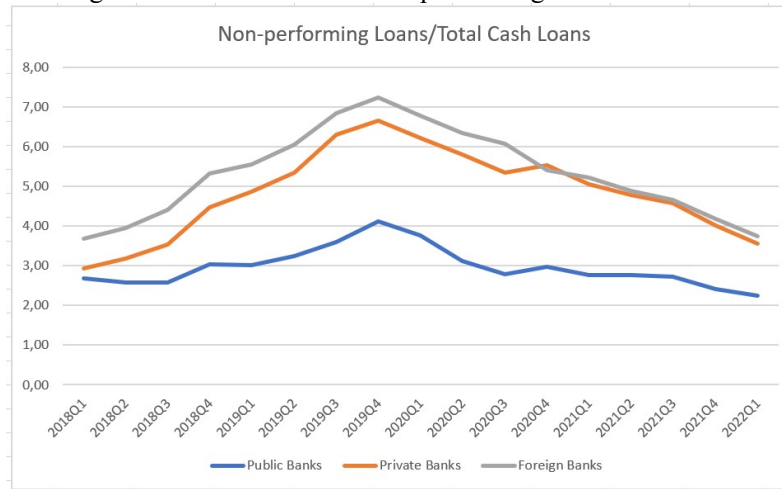


Figure 5. NPL/Total Cash Loans (%)
Source: Created by the author using BRSA monthly bulletin data.

When Figure 5 is examined, it is seen that public banks have the lowest rate of problematic loans among the deposit banks examined. One of the important reasons for this situation is that the total loans reached enormous size due to the large amount of loans provided by the public banks and thus the ratio of non-performing loans remained relatively low. In addition, existing loans have not become problematic as public banks have made loan restructuring and maturity extensions to relieve their loan customers during the pandemic period.

Finally, as with all businesses, the goal of banks is to make a profit. During the pandemic period, it is seen that public banks cannot make enough profit due to postponing their receivables and giving low-interest loans. Figure 6 shows the ratio of banks' net profits to average asset size in the periods examined.

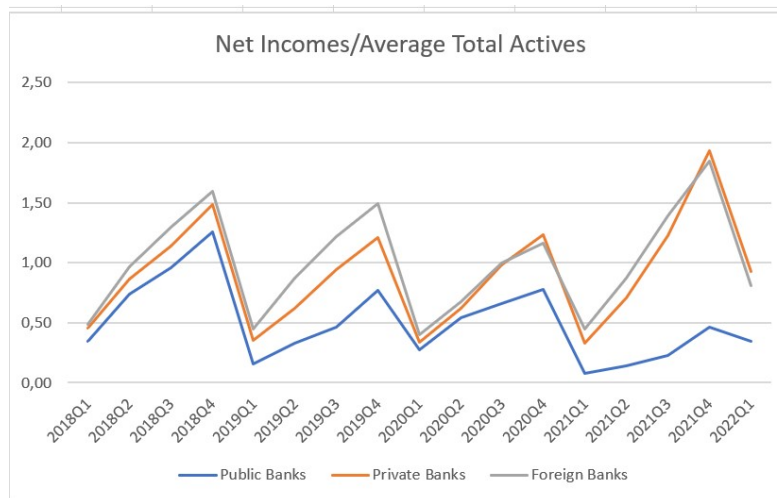


Figure 5. Net Profit/Average Assets of Deposit Banks (%)

Source: Created by the author using BRSA monthly bulletin data

When Figure 6 is analyzed, the return on assets of public banks is low compared to other bank groups. The most important reason for this is that other banks mediate more profitable loans during the pandemic period and want to stay away from problem loans as much as possible. Due to their mission, public banks have continued to expand their credit in order to maintain and increase the economic vitality even though it is risky. Profit rates also decreased due to the low interest rate loans they mediated as per government policies.

CONCLUSION

The global Covid 19 epidemic, which emerged at the end of 2019 and affected the whole world, also affected Turkey. In this process, the problems have arisen such as full and part-time closures in many sectors, the inability of some occupational groups to continue their work, and unemployment resulting from this arose. In order to overcome the bottleneck, the supportive policies of the public authority were mostly implemented through public banks. This mission undertaken by public banks has led them to be service-oriented rather than profit-oriented. Public banks, which provided the highest number of loans, had the lowest non-performing loan ratio, and did not decrease in the number of branches and personnel, constituted the group of banks operating with the least profitability despite all these positive indicators. Although they must work with low profit rates during this period, public banks are the most important intermediary institutions in the implementation of public incentives in difficult times. Even if they were previously subject to privatization, the necessity and importance of public banks is more understood in such crisis environments.

REFERENCES

1. Akın, B. O. (2019). Kamu bankalarının Türkiye ekonomisinde yeri ve önemi (Master's thesis, Trakya Üniversitesi Sosyal Bilimler Enstitüsü).
2. İKTİB (2020). Covid 19 Kapsamında Ülkemizde Alınan Önlemler ve Destekler.
3. https://www.itkib.org.tr/files/downloads/gundem/covid_duyuru/COVID19%20KAPSAMINDA%20%C3%9CLKEM%C4%B0ZDE%20ALINAN%20%C3%96NLEMLER-30.06.2020.pdf (accessed: 25.05.2022).
4. <https://www.resmigazete.gov.tr/eskiler/2020/03/20200330-8.pdf> (accessed: 25.05.2022)
5. <https://www.resmigazete.gov.tr/eskiler/2020/03/20200326M1-1.htm> (accessed: 25.05.2022)
6. <https://www.imf.org/en/Topics/imf-and-covid19/~media/Files/Topics/COVID/FM-Database/july-2021-country-fiscal-measures-database-publication-v3.ashx> (accessed: 25.05.2022)
7. <https://tkbb.org.tr/banka-bilgileri> (accessed: 25.05.2022)
8. <https://www.tbb.org.tr/tr/bankacilik/banka-ve-sektor-bilgileri/4> (accessed: 25.05.2022)