

11th Biennial IFC Conference on “Post-pandemic landscape for central bank statistics”

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Sectoral financial positions and debt levels at the post-pandemic period¹

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¹ This presentation was prepared for the conference. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the event.

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Abstract

Central Bank of the Republic of Türkiye (CBRT) has acted very swiftly after the first Covid-19 case was seen in Türkiye in March 2020 in order to mitigate the potential impact of the pandemic on the economy especially on the financial, non-financial and household sectors. At this paper, the outcomes of these decisions and the effect of the pandemic on these sectors in Türkiye will be analysed by comparing the sectoral financial account tables for the pre and post pandemic periods. Cross – country debt comparisons for this period will be also made by using Financial Accounts in order to contribute to the use of the Financial Accounts Statistics.

Keywords: Sectoral Financial Accounts, Debt Levels, Post Pandemic Period

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Introduction

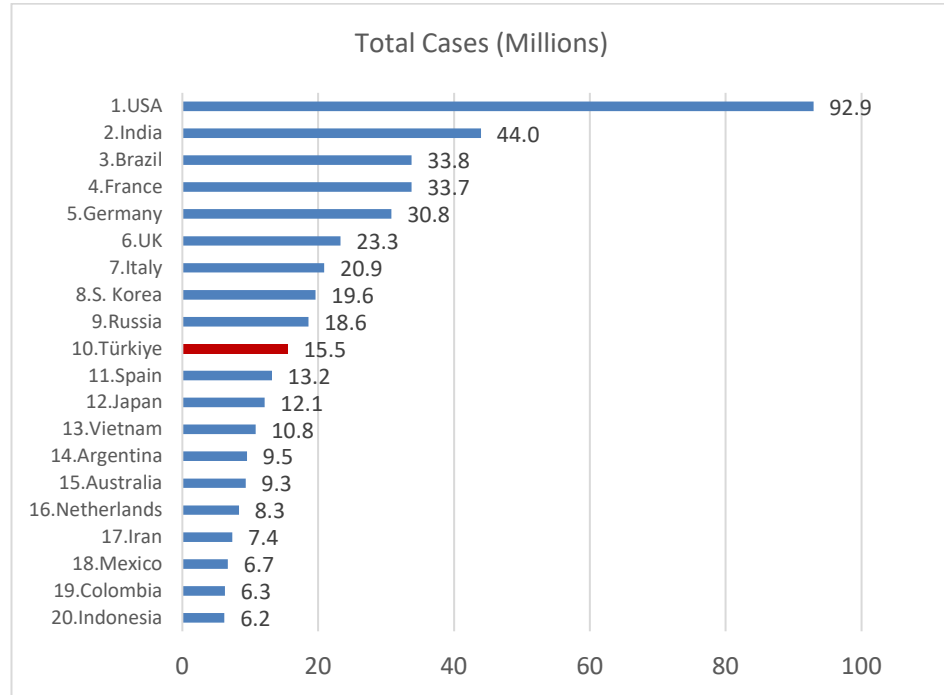
The first positive Covid-19 case was seen in Türkiye on March 11th 2020, a short while after the world had faced the disease. Like other governments and central banks, Türkiye also started to take proactive measures in order to save the public from the adverse effects of the pandemic. These measures mainly have two dimensions. The first one is related to the **health of the public**. Lock downs, using face masks, quarantining, physical or social distancing, banning of mass gathering events, closing schools and universities, working remotely, closing borders and international travel restrictions etc. are all part of the first dimension, saving the health of the public. The second dimension of these measures is related to the **health of the economy**. Cutting interest rates, adjusting the liquidity in the market, unemployment restrictions, social contributions to households etc. are all the examples of the second dimension, more specifically saving the economic health of the sectors like households, financial and non-financial corporations. It was observed that these two dimensions are totally linked to each other. For example, any travel restriction decision has negative impacts on the non-financial sector companies specifically on the tourism, airline and service sectors. As a domino effect, this also affects its employees, so the household sector. These sectoral interactions can be diversified into many different cases.

This paper comprises of four parts. Firstly, it shows the recent figures of both Covid cases and deaths in the world and Türkiye. Secondly, it summarizes the responses of Central Bank of the Republic of Türkiye (CBRT) to the pandemic and expresses its outcomes on the balance sheet. It also analyses some G20 Central Banks' responses to Covid-19 at this part. Thirdly, it reviews sectoral financial positions of Turkish Economy with the distinction of households, government, non – financial and financial sectors in the pandemic and post pandemic period. Finally, the paper discusses cross country comparisons of sectoral debt levels in the post pandemic period.

1. Covid–19 in the World & Türkiye

The Covid-19 virus was firstly identified in Wuhan, China in December 2019. After it was seen in other countries and regions from the different parts of the world, it was declared as a pandemic by the The World Health Organization (WHO) in March 2020. Most of the authorities and governments took drastic actions in order to mitigate the adverse effects of the pandemic both on the health of the public and economies. The first year of the pandemic, **2020**, can be accepted as the **pandemic year** with the global fight to the Covid -19. After starting the widely usage of the vaccination, **2021** and afterwards can be marked as the **post – pandemic period**.

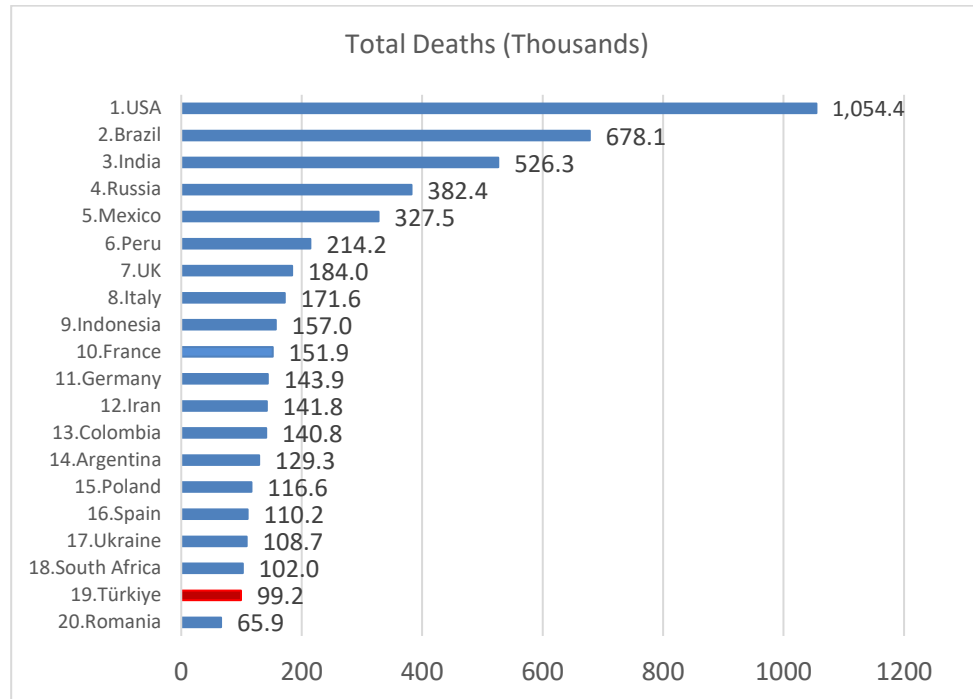
Graph 1: Total Top 20 Covid Cases in the World



Source: Worldometers - Access: July 2022

As of the end of July 2022, total Covid cases in the world is about 591 million and the countries in the first three rows are USA, India and Brazil respectively. Türkiye is the 10th place with the 15,5 million cases (Graph 1).

Graph 2: Total Top 20 Covid Deaths in the World



Source: Worldometers - Access: July 2022

Total Covid – 19 deaths in the World is about 6,4 million people as the end of July 2022 and like the Covid cases, the first three countries are same, USA Brazil and India, just a change at the 2nd and 3rd places. Türkiye takes the 19th place at the death ranking with about 100.000 deaths (Graph 2).

Both the cases and death figures have a direct relationship with the populations of the countries. The crowded countries would most likely to face much more cases than the others. It is a fact that there is also a link with the cases and the death numbers. It is observed in this period that the health system of the countries and the vaccination rates are be the drivers of these relationship. Being at below level for the death ranking is a sign of the strong health system of Türkiye and its high vaccination rates.

2. CBRT Policy Responses to Pandemic and Its Outcomes

2.1 CBRT Policy Responses

Measures taken by Central Bank of the Republic of Türkiye in the pandemic period can be classified in the below four headings:

2.11 Cutting the Interest Rates

- 17 March 2020 - The policy rate was cut by 100 bps to 9.75%
- 22 April 2020 - The policy rate was cut by 100 bps to 8.75%
- 21 May 2020 - The policy rate was cut by 50 bps to 8.25%

From March to May 2020 the central bank policy rate was decreased totally 250 bps from 10,75% to 8,25%.

2.12 Increasing Liquidity in the Market

- Primary dealers' open market operation limits were increased.
- FX reserve requirement ratios were reduced by 500 bps for banks meeting certain loan growth criterion.
- The primary dealer banks were allowed to sell the government securities they bought from the Unemployment Insurance Fund to the CBRT.
- The collateral pool for both TL and FX lending was expanded to include to include asset-backed and mortgage-backed securities.
- The limits for lower cost and longer-term lending facilities were increased.
- Swap transaction quotas for banks were raised by 50%.
- Upper limit of government security purchases was raised to 10% of the CBRT asset size.

2.13 Widening Rediscount Credit Facilities

- Maturity and repayment dates for CBRT exporter rediscount credits (which is borrowed in Turkish Lira and repaid in FX) were extended.
- The limits for lower cost and longer-term lending facilities were increased.

- Launched a new low-cost facility (150 bps below the policy rate) to support TRY loans to exporters.

2.14 Swap agreements

- Bilateral currency swap agreement between the CBRT and Qatar Central Bank was increased by \$10 billion.

2.2 Potential Targets of These Measures

The targets of the above policy responses can be summarized as follows:

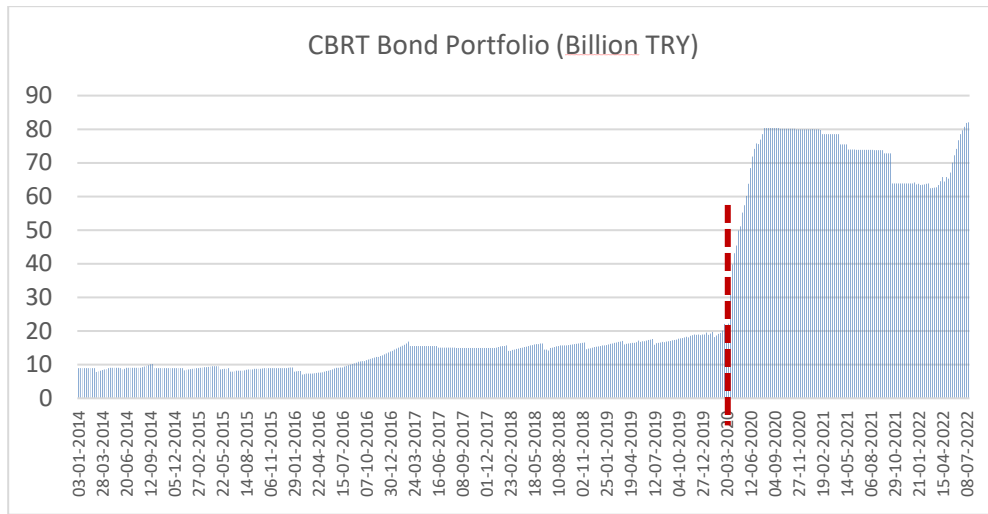
- Enhancing predictability by providing banks with flexibility in Turkish Lira and foreign exchange liquidity management,
- Offering targeted additional liquidity facilities to banks to secure uninterrupted credit flow to the corporate sector,
- Boosting cash flow of exporting firms through arrangements on rediscount credits,
- Strengthen the monetary transmission mechanism by boosting the liquidity of the Government Domestic Debt Securities (GDDS) market,
- Enhance banks' flexibility in Turkish Lira and foreign exchange liquidity management,
- Secure uninterrupted credit flow to the corporate sector, and broadly support the goods and services exporting firms.

2.3 CBRT Policy Outcomes

Quantitative easing is defined as a monetary policy strategy used by central banks by purchasing securities in an attempt to reduce interest rates which spurs economic growth with increasing the supply of money and drive more lending to households and non-financial companies.

Like other central banks, CBRT also preferred to have quantitative easing in the pandemic period by purchasing government bonds. The fundamental target of this decision is to provide much liquidity to the market.

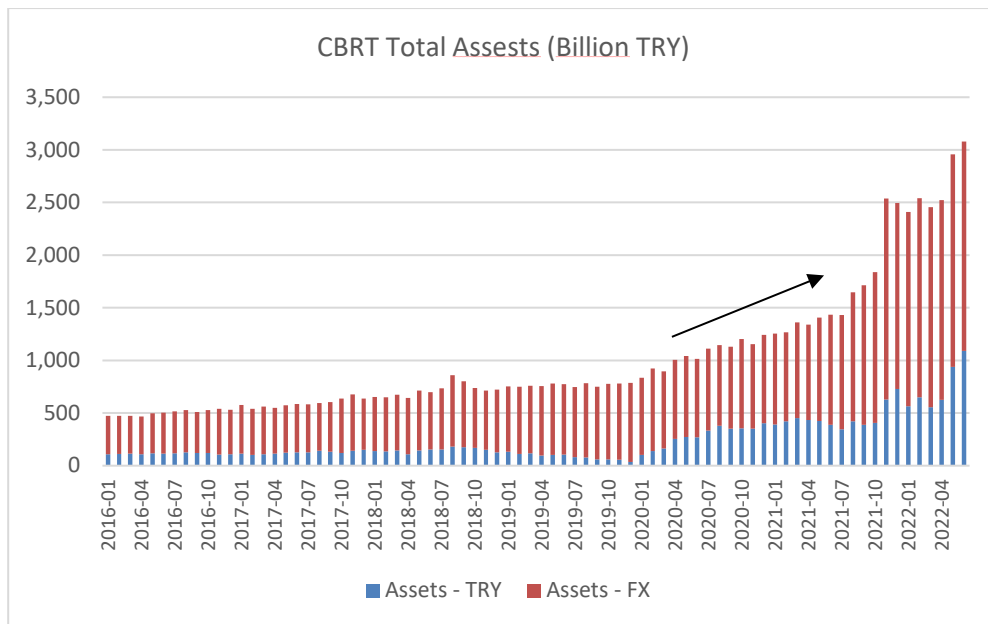
Graph 3: Bond Portfolio of CBRT



Source: CBRT

Total government bond portfolio of CBRT was less than 20 billion TRY before March 2020. With the start of the pandemic, it was increased swiftly to TRY 80 million level which corresponds to more than 400% increase (Graph 3).

Graph 4: Total Assests of CBRT



Source: CBRT

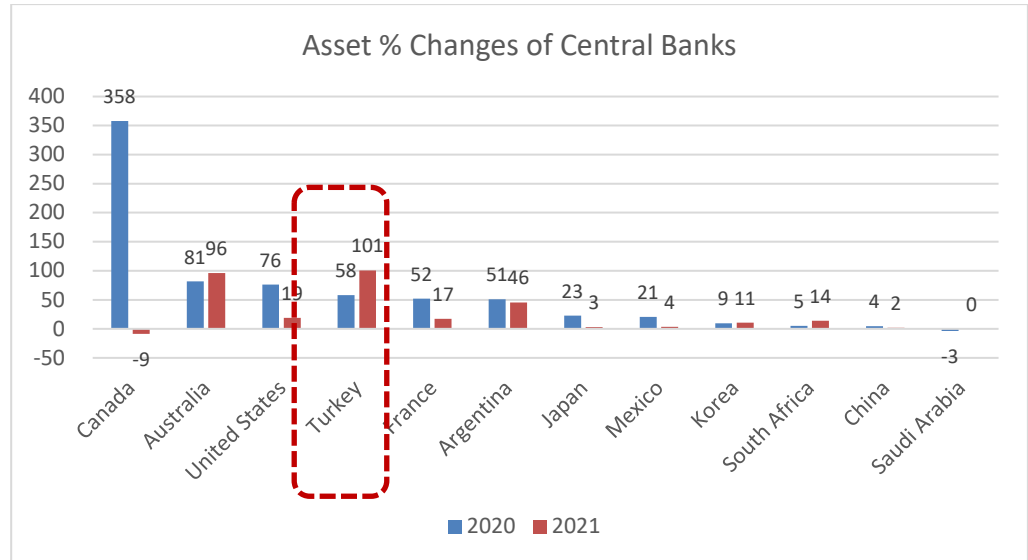
Quantitative easing and the other measures show their effects especially on the Turkish Lira denominated items in the CBRT balance sheet (Graph 4).

2.4 G20 Central Banks' Responses to Covid -19

Bank of Canada had the strongest respond to Covid – 19 in 2020 within the selected G20 countries by its huge asset purchasing program. At the pandemic year, in 2020, it has 358% increase at its balance sheet.

CBRT balance sheet grown 58% in 2020 and %101 in 2021. The main driver of the increase at post pandemic period, namely in 2021, is the upside valuation of FX assets (Graph 5).

Graph 5: Asset Changes of G20 Central Banks

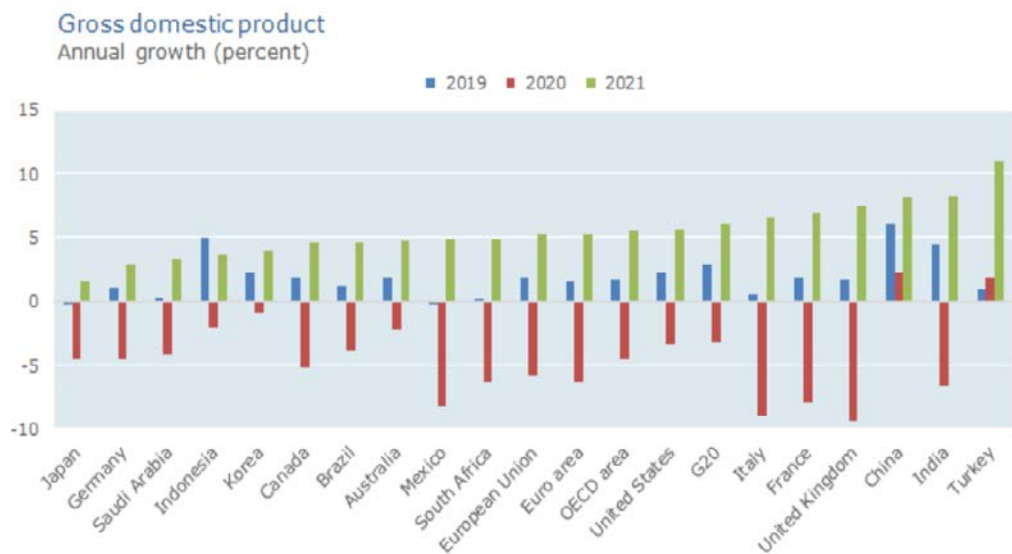


Source: BIS

2.5 G20 Countries GDP Growth Rates

In 2019, before the pandemic period most of the selected G20 countries have positive growth rates based on the different dynamics of their own economies. In the pandemic year, this picture had negatively changed and most of them faced with economic recession. Türkiye is one of the two G20 countries with China which had positive growth rates in this period. Furthermore, at the post pandemic period all the selected economies have high positive growth rates especially due to the base effect (Graph 6).

Graph 6: Asset Changes of G20 Central Banks

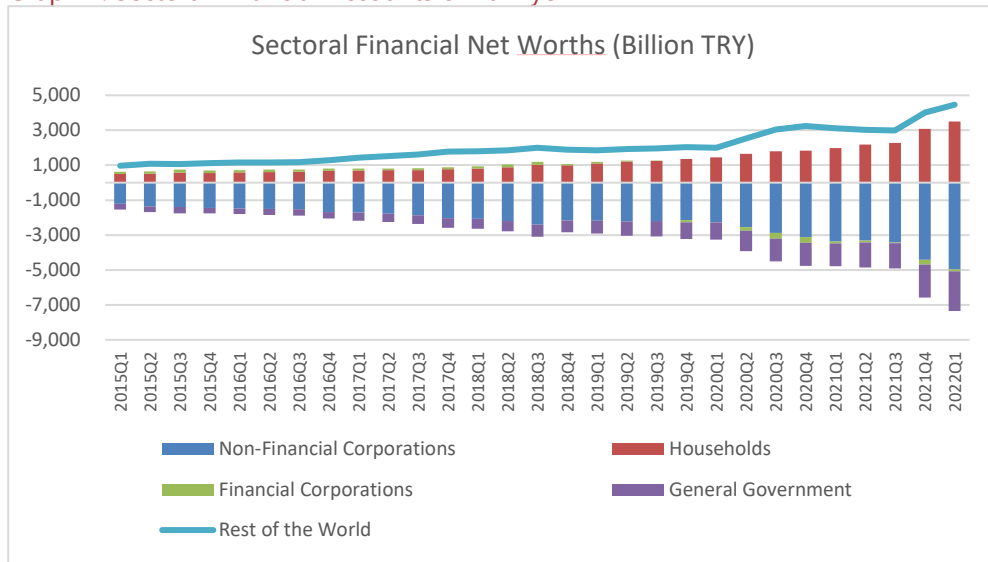


Source: OECD

3. Sectoral Financial Accounts of Türkiye

Financial Accounts Statistics provide systematic information of the main sectors (non-financial corporations, financial corporations, general government, households) in the economy. It also shows linkages between the economy and the rest of the world.

Graph 7: Sectoral Financial Accounts of Türkiye

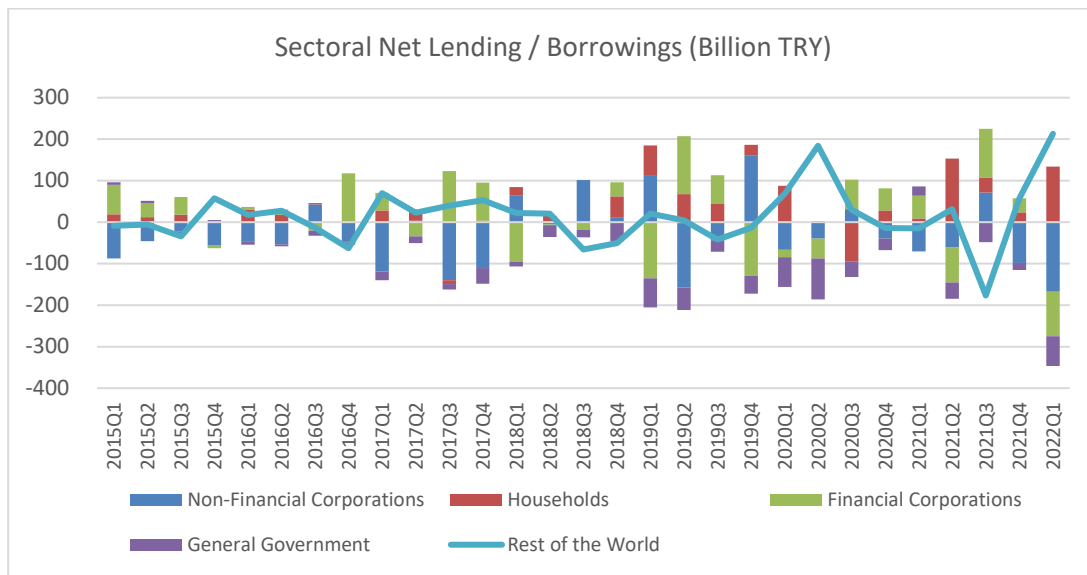


Source: CBRT

Turkish economy is financial borrower over the years. Households and the Rest of the World sectors are creditors, and Non- Financial Corporations and the General Government sectors were debtors (Graph 7).

Graph 8: Sectoral Financial Accounts of Türkiye

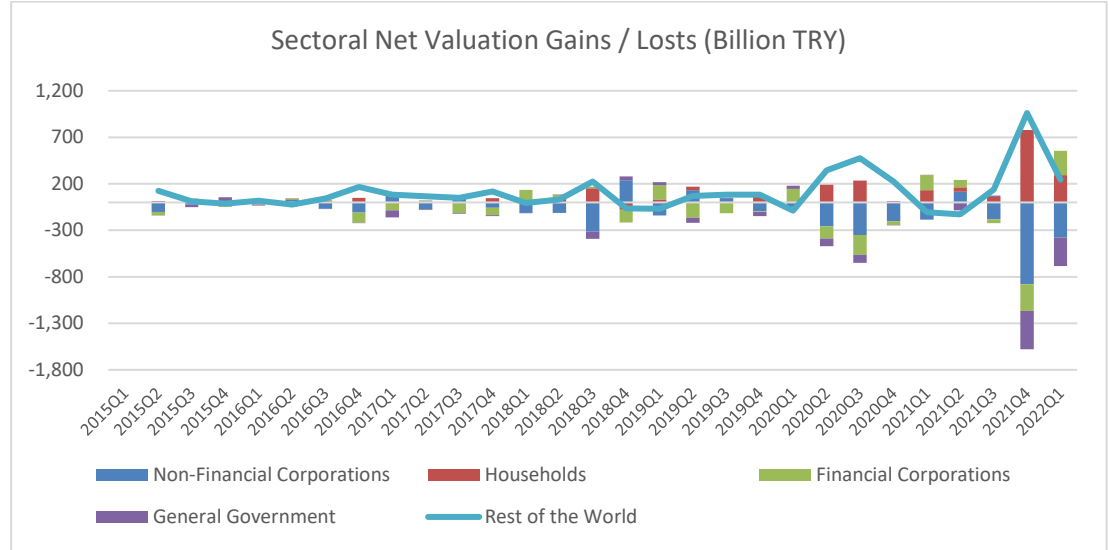
Financial accounts also serve the details on the stocks, transactions and valuations. Transaction figures give inside information on the sectoral net lendings and borrowings (Graph 8).



Source: CBRT

Graph 9: Sectoral Financial Accounts of Türkiye

Valuation changes shows how the exchange rates and market prices effect the sectoral positions (Graph 9).

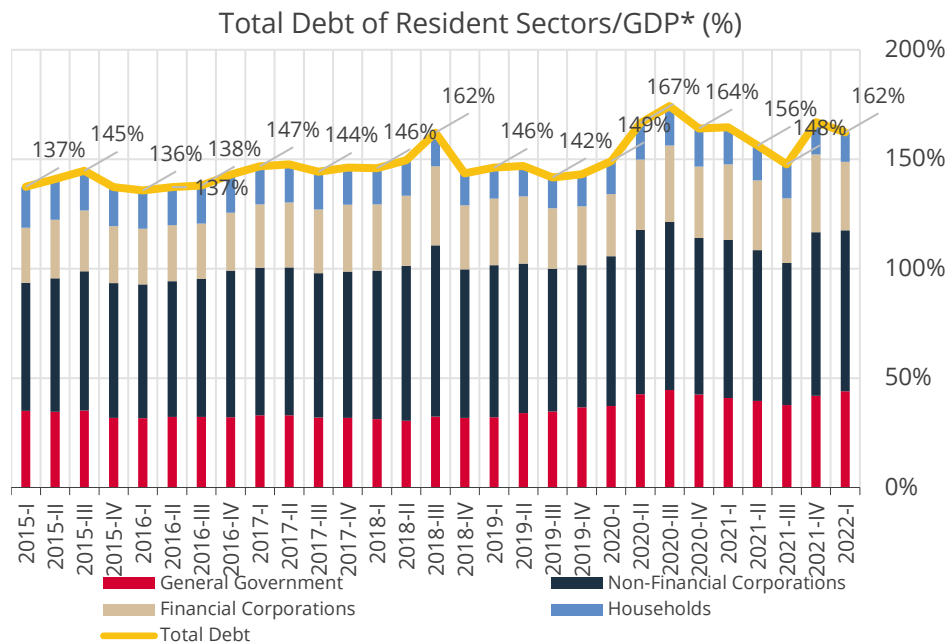


Source: CBRT

4. Debt Levels at Post Pandemic Period

Debt is a part of the liabilities side and here it comprised of the loans and issued debt securities. With the effect of the pandemic, total debt of resident sectors to GDP ratio reached to 167% level in 2020 Q3. At the post pandemic period, it has been going down to 150% levels thanks to the fast recovery in the economy (Graph 10).

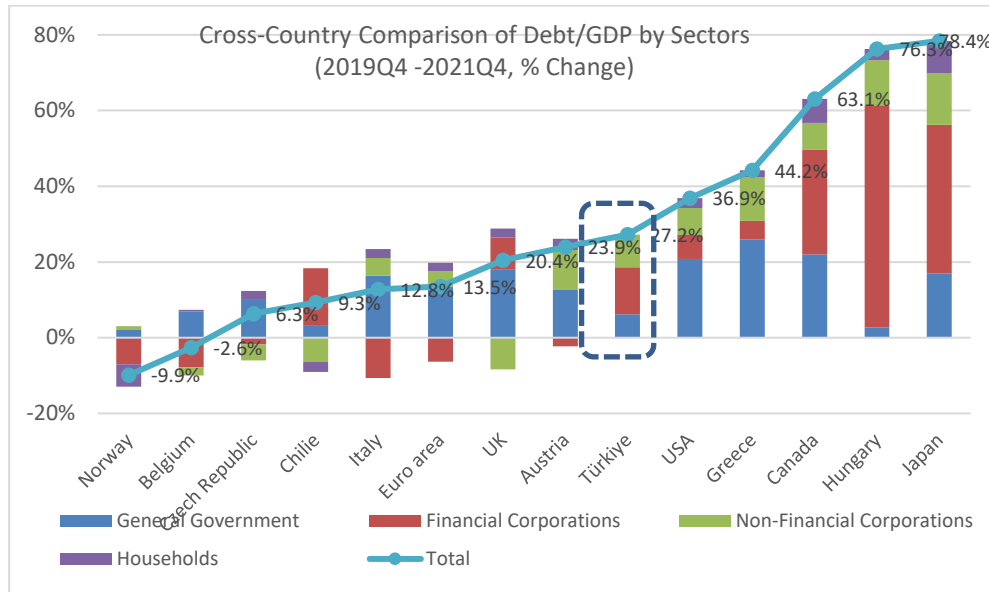
Graph 10: Sectoral Financial Accounts of Türkiye



Source: CBRT

In order to measure the impact of the pandemic on the sectoral debt levels, the changes on the “debt to GDP ratios” for the selected countries are compared for the pre and post pandemic periods. During these two years period, total debt to GDP ratios of economies were increased except Norway, Belgium and Czech Republic. Furthermore, Türkiye has totally 23,9% ratio increase, mainly driven by the financial and non-financial sectors (Graph 11).

Graph 11: Cross-Country Comparison of Debt/GDP



Source: OECD

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BIS DBSOnline / Macroeconomic Data Set / Financial sectors balance sheets / Central Banks

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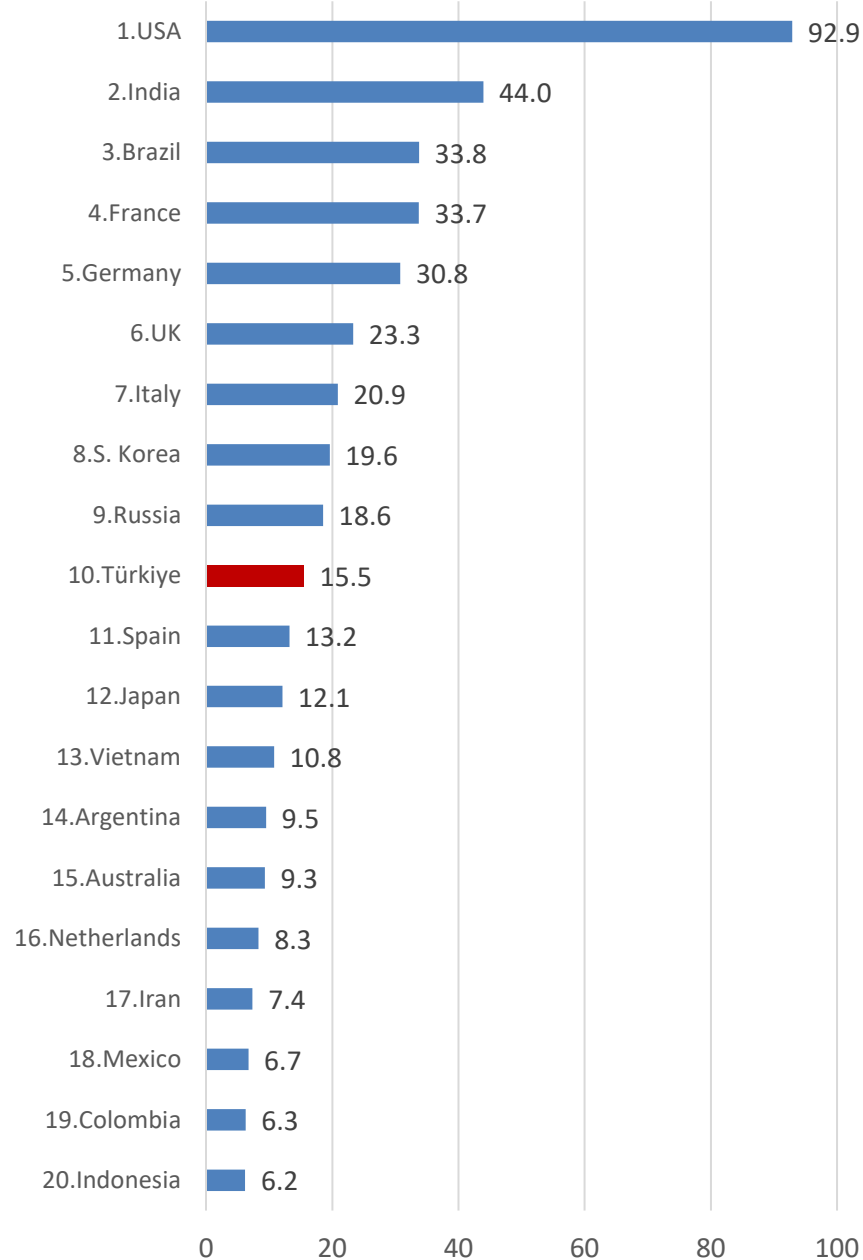
- Covid-19 in the World & Türkiye
- Policy Responses and Outcomes
- Sectoral Financial Positions
- Debt Levels at Post Pandemic Period

Covid in the World & Türkiye

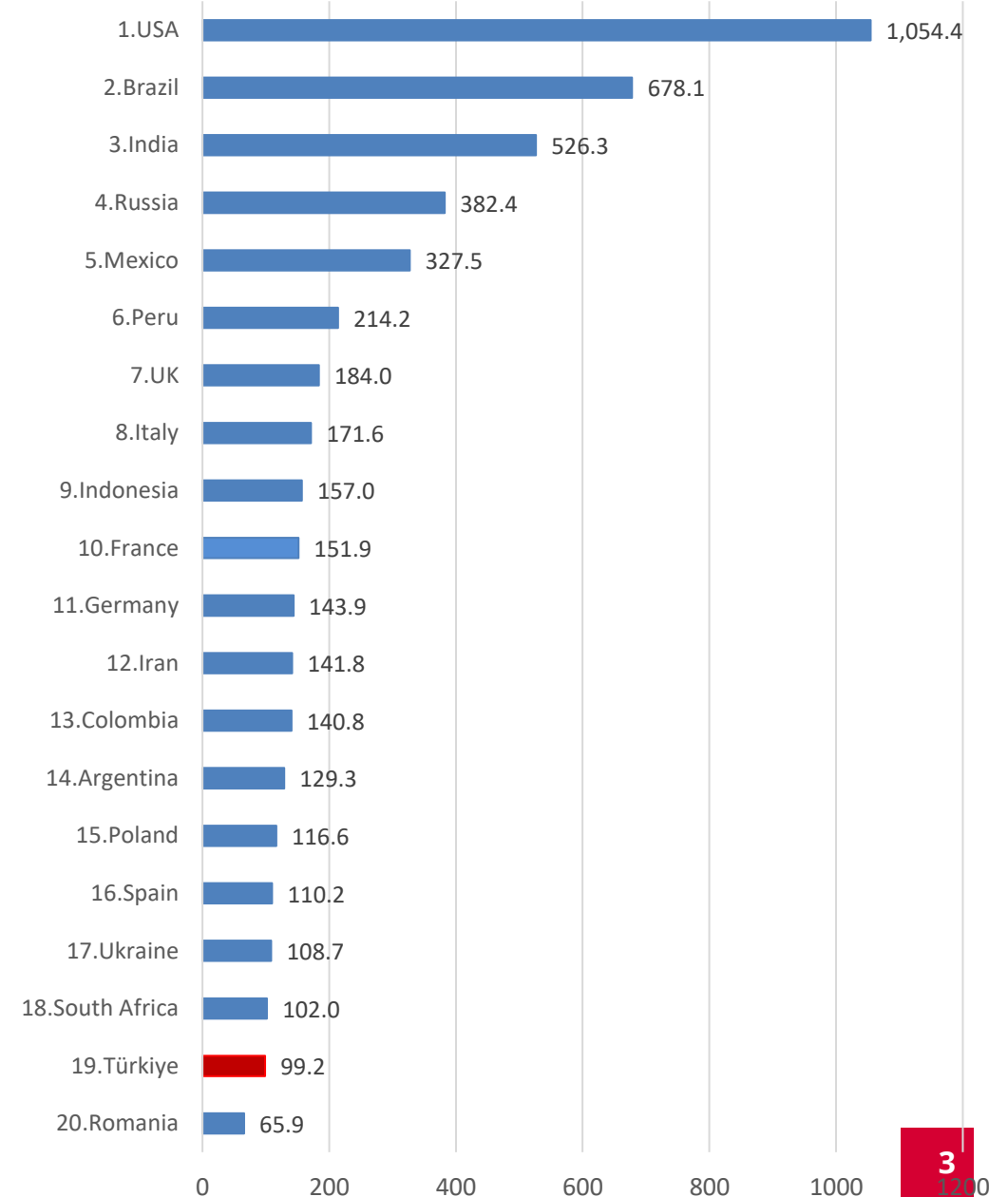
In terms of total covid cases Türkiye is in the 10th place in the world.

For the death ranking Türkiye takes the 19th place.

Total Cases (Millions)



Total Deaths (Thousands)



CBRT Policy Responses to Covid-19

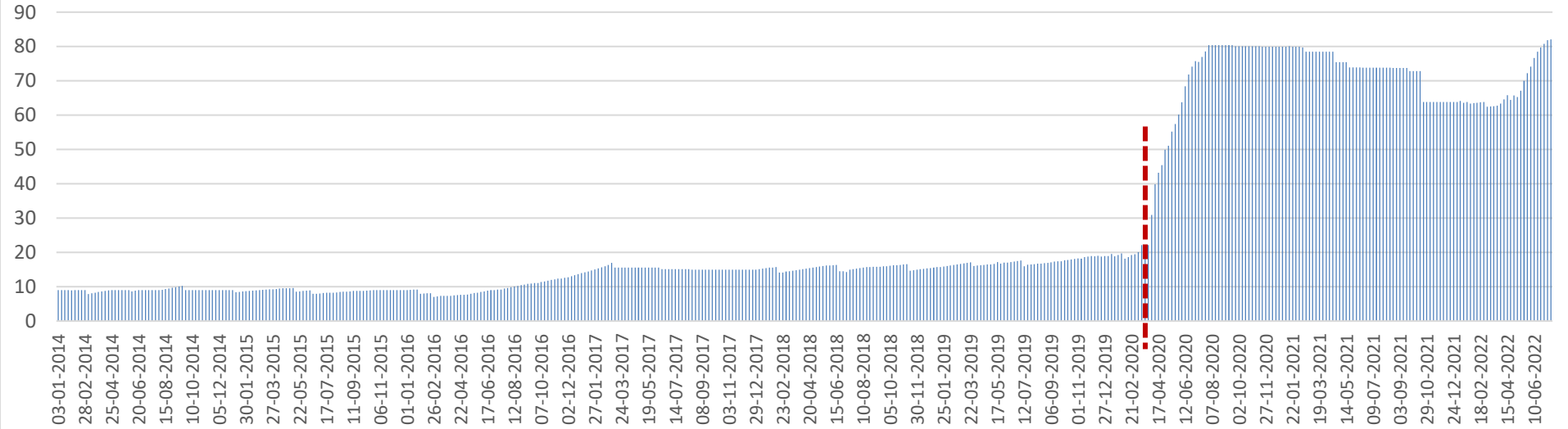
1) Cutting Interest Rates

2) Increasing Liquidity in the Market

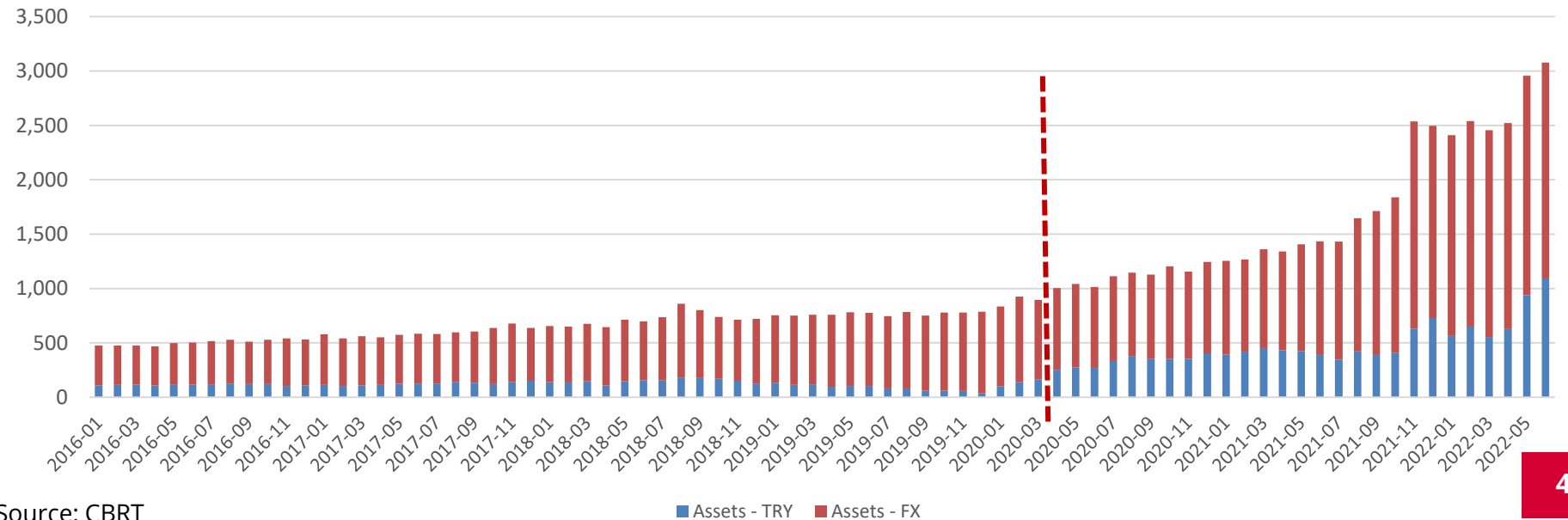
3) Widening Rediscount Credit facilities

4) Swap agreements

CBRT Bond Portfolio (Billion TRY)

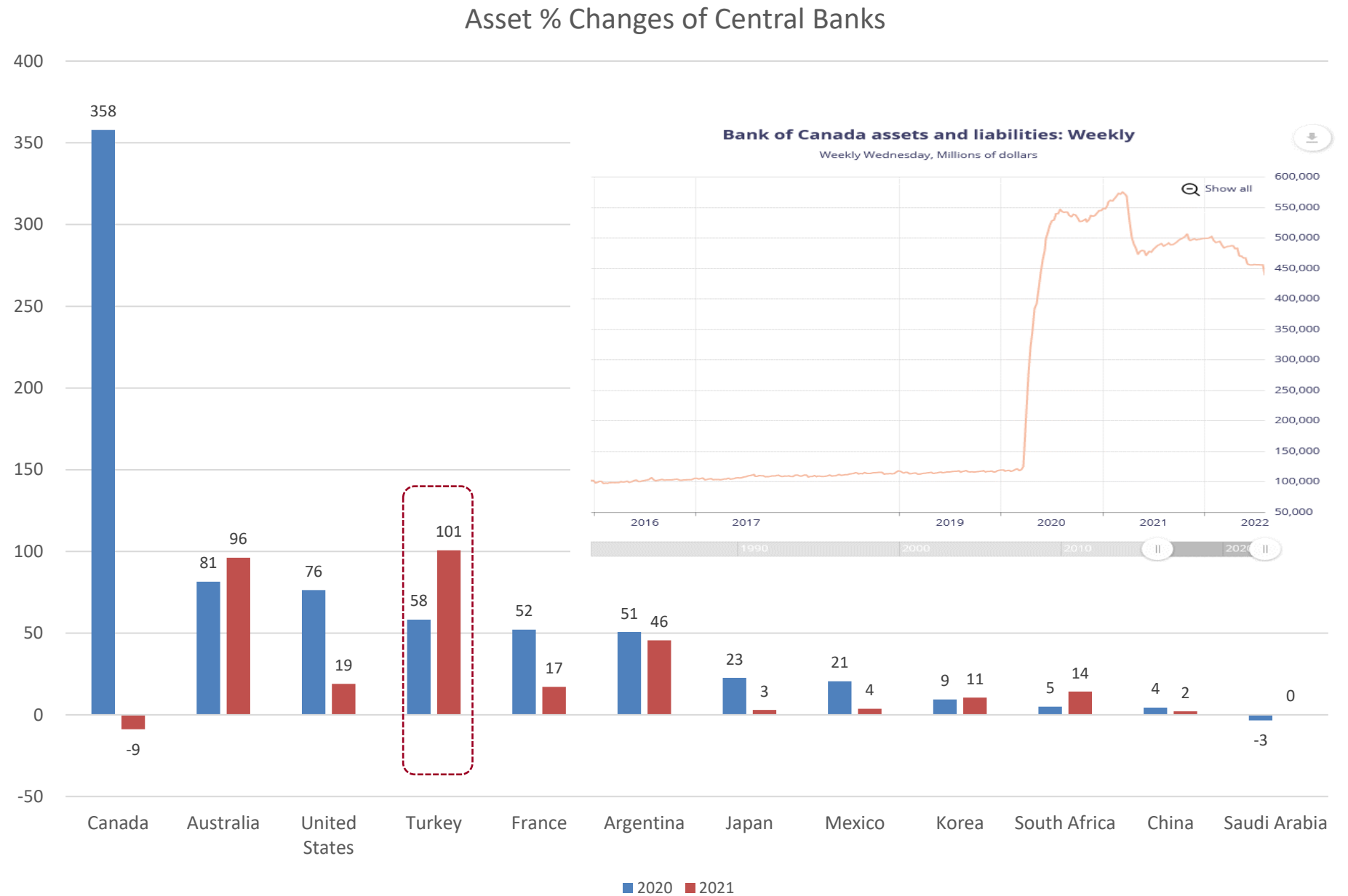


CBRT Total Assests (Billion TRY)



G20 Central Banks' Responses to Covid -19

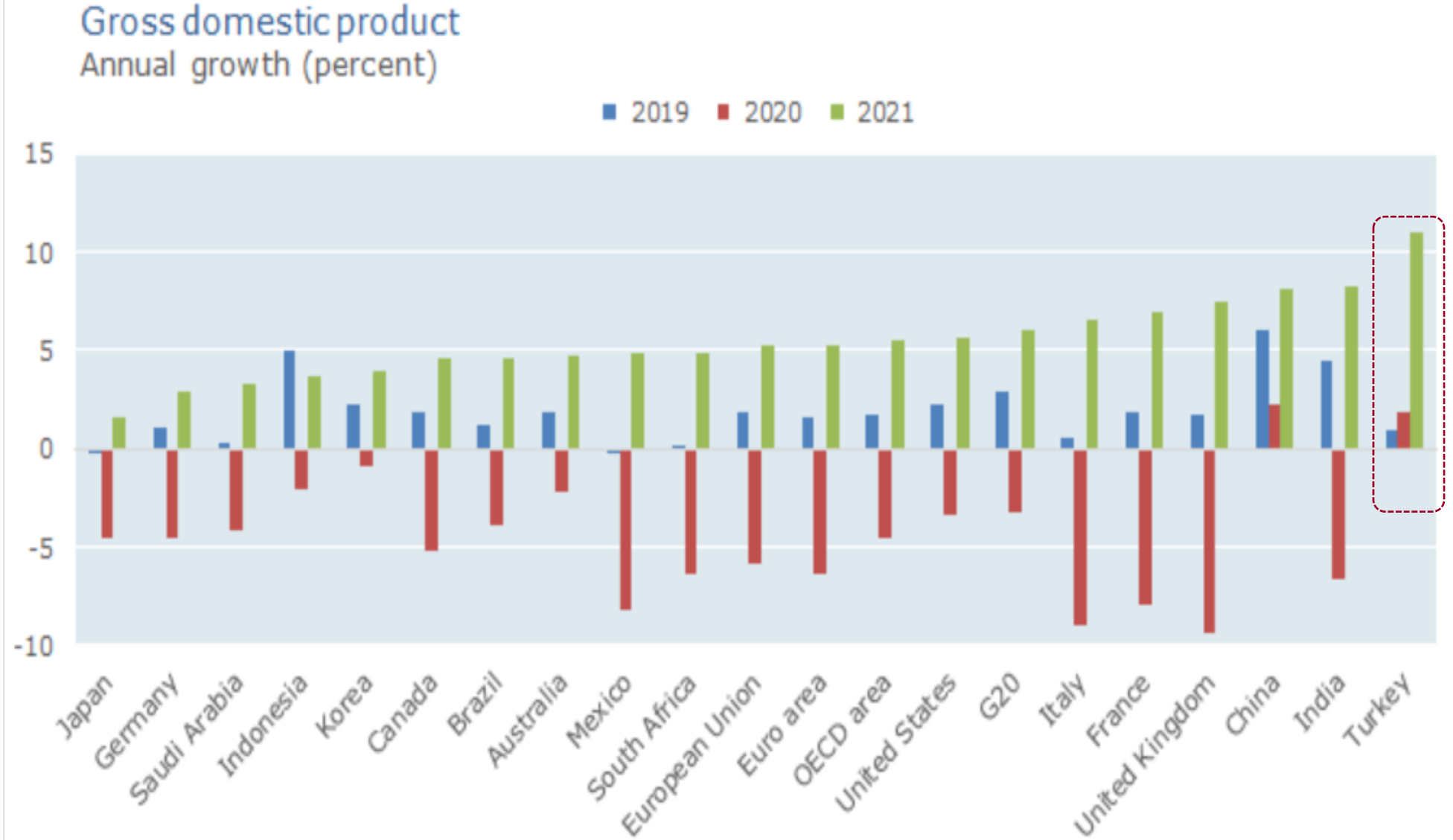
Bank of Canada had the strongest respond to Covid – 19 in 2020 by its huge asset purchasing program.



Source: BIS

G20 Countries GDP Growth Rates

Türkiye is one of the two G20 countries with China which had positive growth rates in 2020

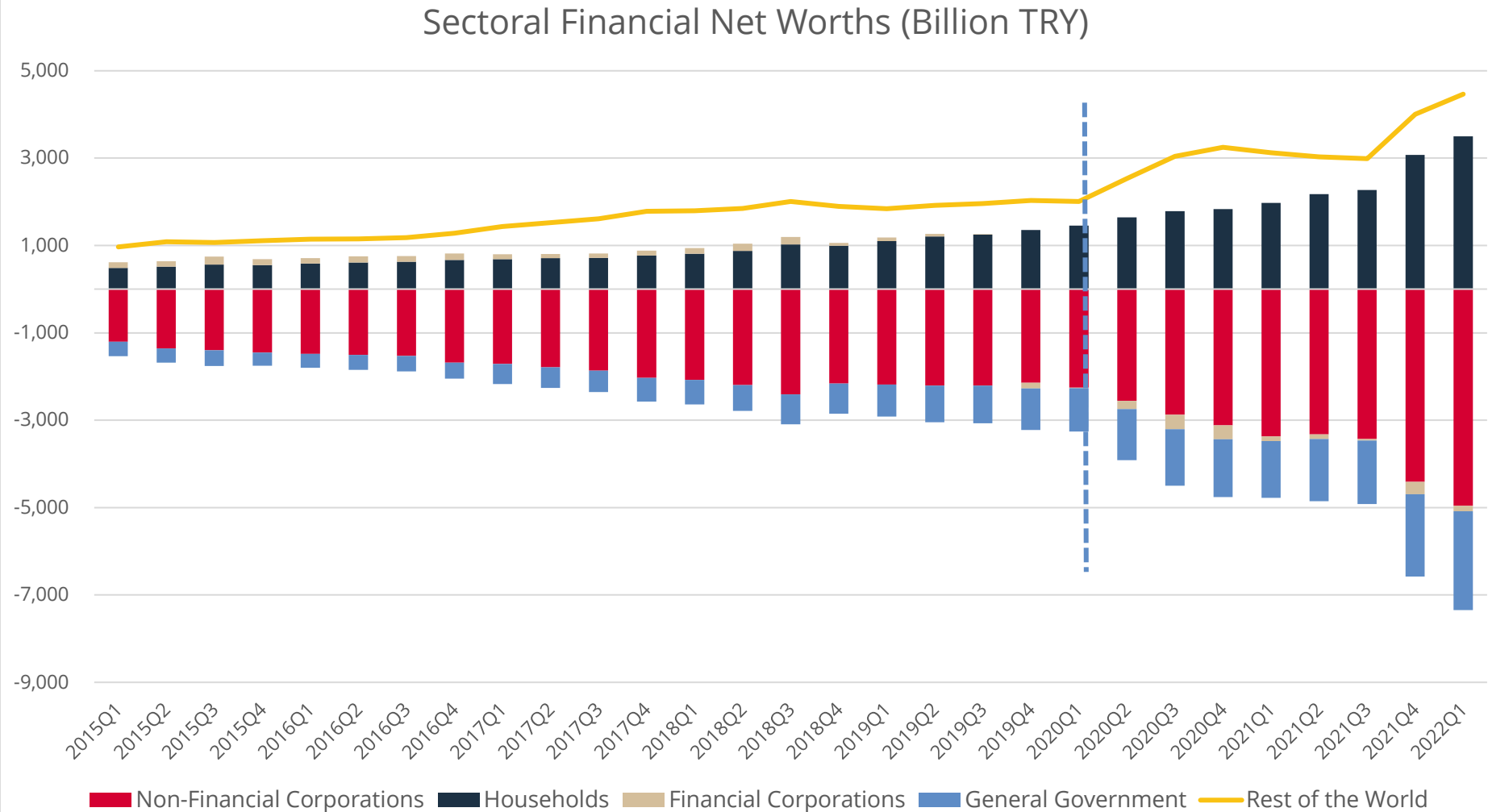


Source: OECD

Türkiye Sectoral Financial Accounts

Turkish economy is financial borrower over the years.

Households and the Rest of the world sectors are creditors, and Non-Financial Corporations and the General Government were debtors.

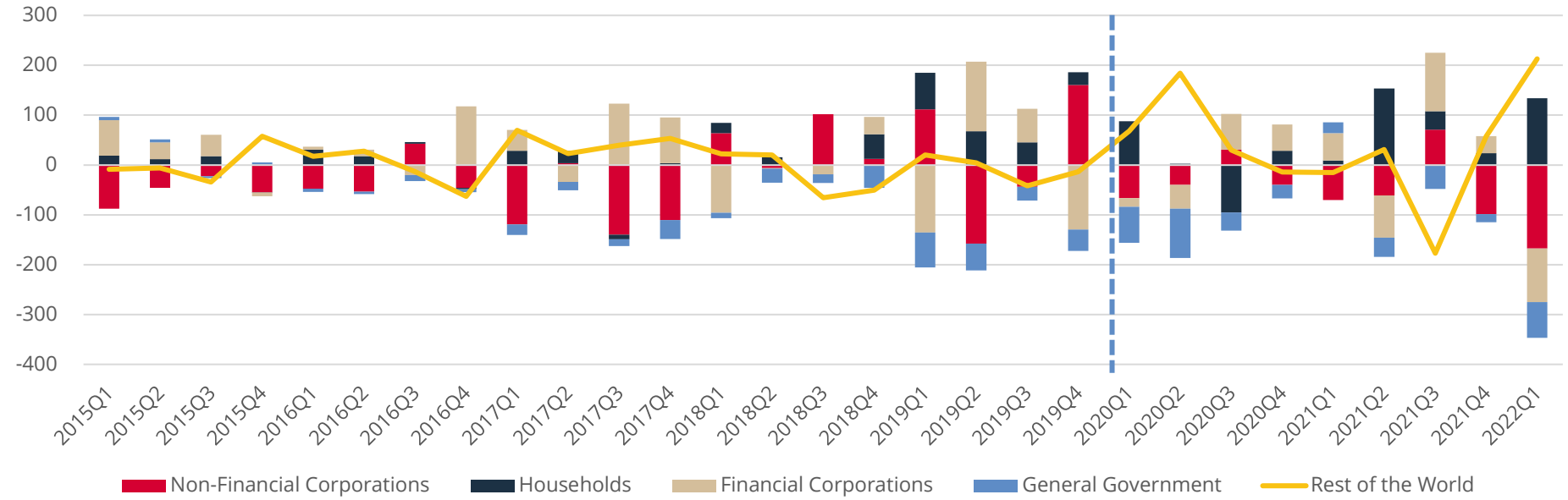


Türkiye Sectoral Financial Accounts

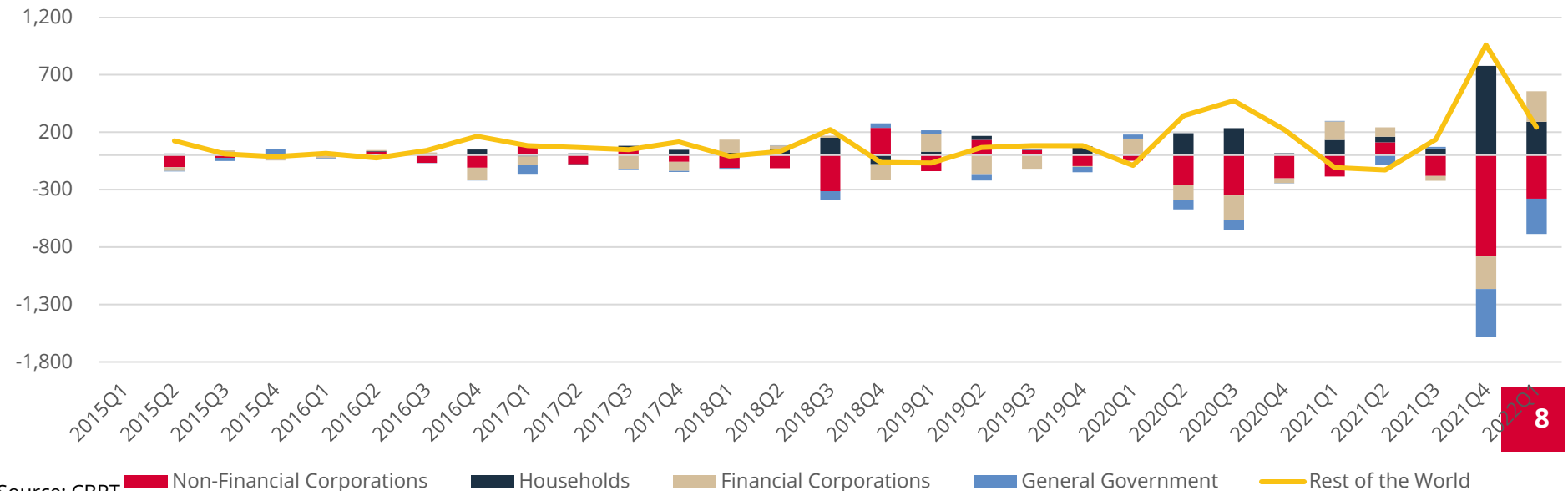
Transaction figures give inside information on the sectoral net lendings and borrowings.

Valuation changes shows how the exchange rates and market prices effect the sectoral positions.

Sectoral Net Lending / Borrowings (Billion TRY)



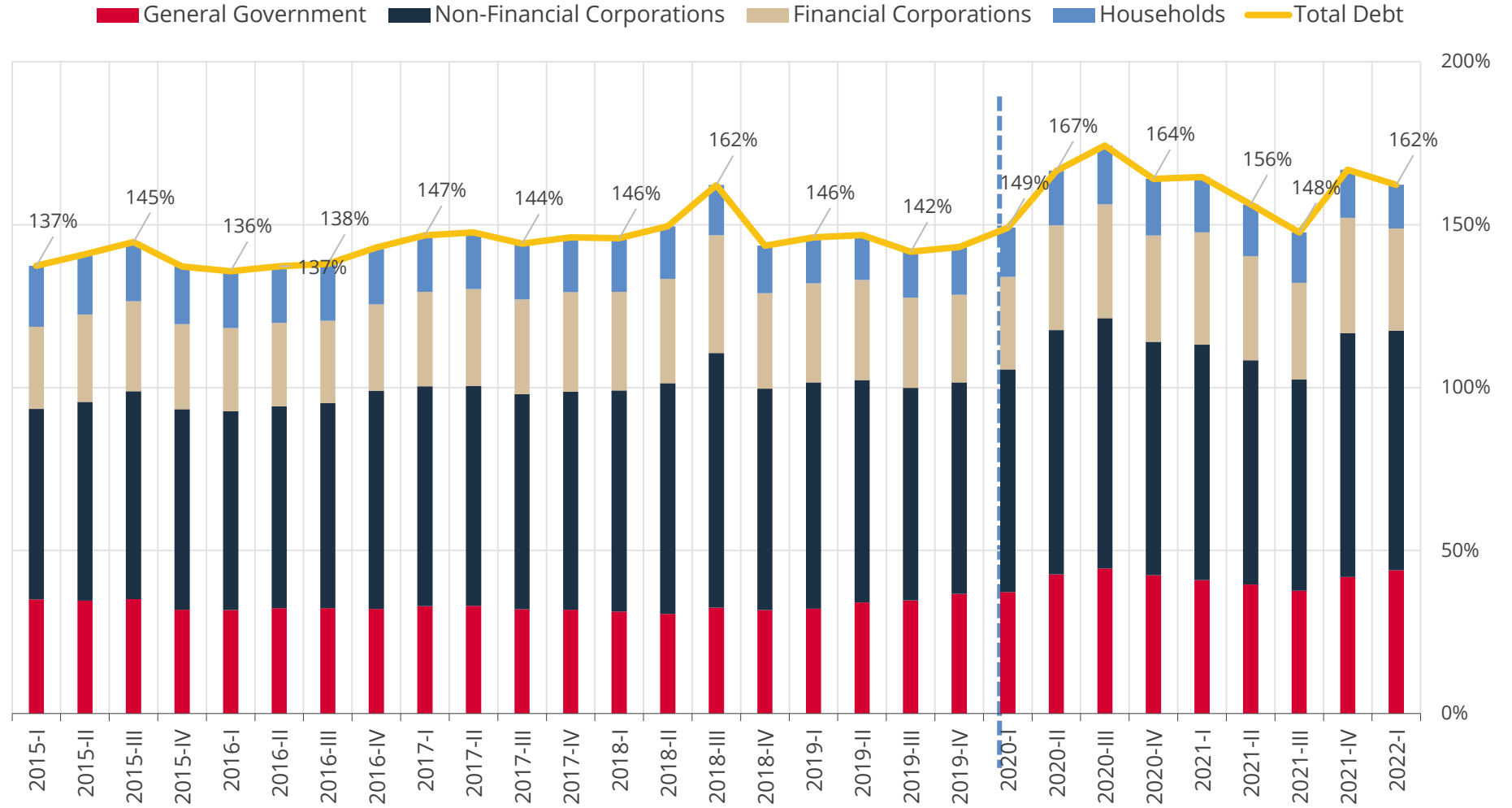
Sectoral Net Valuation Gains / Losses (Billion TRY)



Türkiye Sectoral Financial Accounts

Total debt of resident sectors has been going down at the post pandemic period

Total Debt of Resident Sectors/GDP* (%)

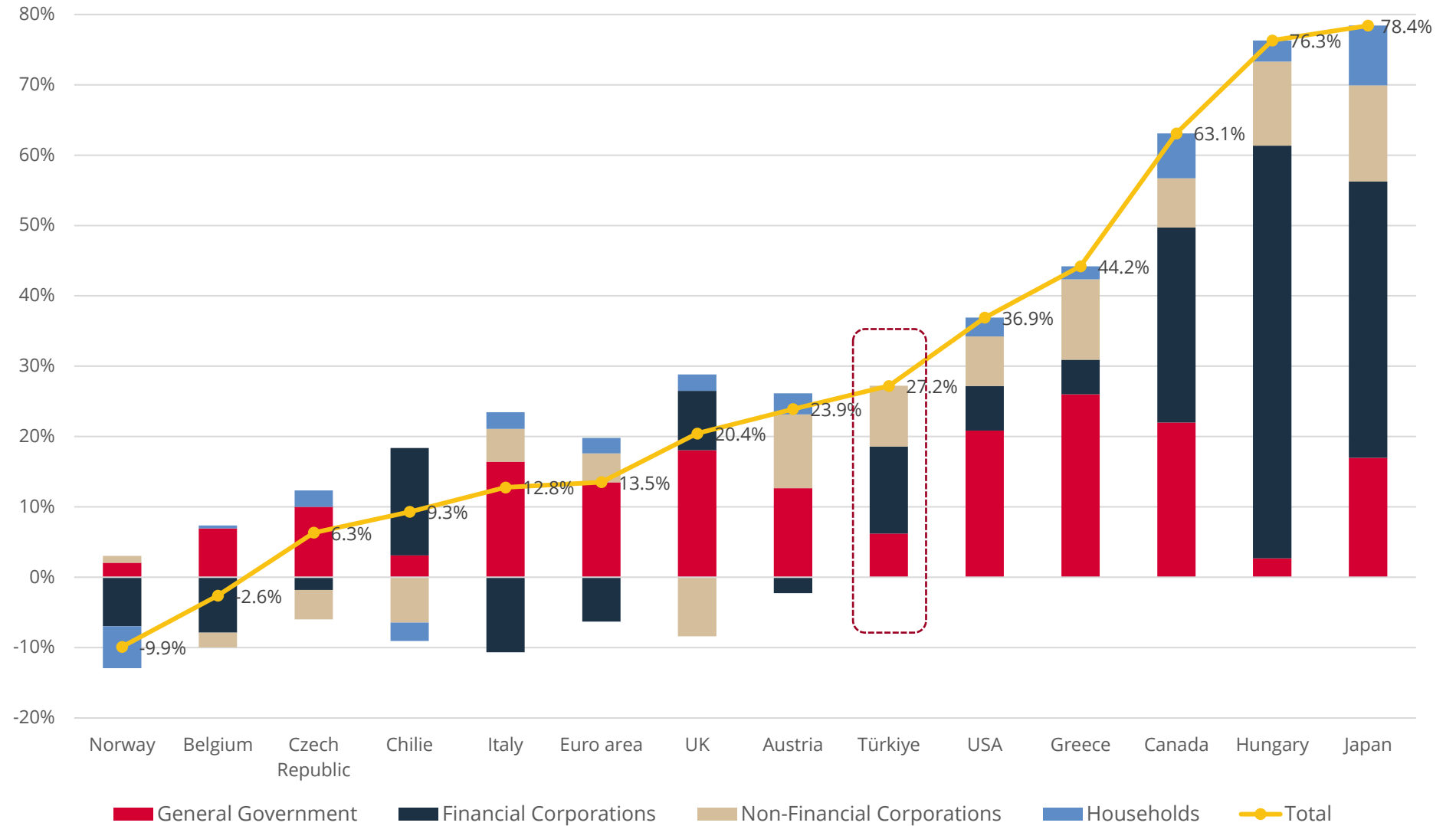


Source: CBRT

Sectoral Financial Accounts

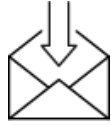
Pandemic Effect on the Total Debt of Resident Sectors

Cross-Country Comparison of Debt/GDP by Sectors
(2019Q4 -2021Q4, % Change)



Source: OECD

Thank you...



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