of the Agreement on October 5, 2016. But yet, diplomatic negotiations to start the exchange of information persist. Once the reporting begins, all the information that would have been reported had the Agreement been in force as of September 30, 2015, will be subject to exchange.

With regard to the CRS, a "Draft General Communiqué on Automatic Exchange of Financial Account Information on Tax Matters" was sent to the banks and other relevant institutions by the Ministry of Finance back in May 2017. Although that draft communiqué is still to be finalized, several Turkish banks have already declared that they are required to obtain certain information from customers to be able to comply with the CRS.

It should also be noted that the term of declaration in order to benefit from the wealth amnesty that allowed Turkish taxpayers to regularize their undisclosed assets in and outside of Turkey expired on June 30, 2020. Taxpayers with undeclared assets in countries having an activated exchange relationship with Turkey now may be faced with tax penalties, as their financial data will be subject to exchange with Turkish tax authorities. We will see how and to what extent automatic exchange will affect tax revenues in upcoming days. ■

TURKISH BANKING SECTOR 2020

By Alaz Eker Undar, Co-Head of Banking & Finance, CMS Turkey

The year started with expectations of growth and stability. Along came COVID-19, and the focus shifted to stability and survival. The Turkish banking sector, used to market turmoil, took proactive steps, and the authorities matched the effort.

The start of 2020 was filled with optimism towards Turkish banks on the global stage after a challenging couple of years. The sector's access to foreign financial assets boosted confidence and made it stand out among other industries, which continue to face difficulties due to fluctuations in the value of the Turkish lira. Their dependence on foreign currency income proved to be problematic in many sectors, while the banking sector remained healthy in comparison.

The pandemic, however, changed the parameters of maintaining a healthy business in most sectors. Just as the economy raced to digitalize and ensure continuity in service provision, so banks as well changed their tactics and increased efforts to ensure a fast and smooth transition to digital platforms. With curfews and reduced working hours in bank branches and workplaces, customers needed to perform transactions in the virtual space. Some banks have reported that transactions through digital channels increased 30% or more during the pandemic period.

On a macro level, the slowdown in operations and loss of income in many sectors led to concerns both from the banks and borrowers about loan repayments. Various banks extended the repayment periods of loans and did not call events of default, although no official moratorium on repayments was announced. However, despite the relatively low percentage – 4.7% – of non-performing loans at the end of May, the high levels of corporate sector debt that were commonplace in the Turkish economy pre-COVID-19 became a grave concern for economic stability. A potential increase in non-performing loans in the near future could cause economic instability unless the market counteracts the adverse effects of the pandemic period.

As might be expected, financial restructurings emerged as another alternative to deferred repayments, and in some cases further financing from banks was obtained. The principles and methods of such restructurings are based on a Turkish law that entered into effect in 2018, regulating the restructuring of debts owed to the financial sector. This piece of legislation, as amended, also made it possible for foreign banks to participate in the restructuring phase, if they are preferred, and made it possible for borrowers to eliminate the risk of execution proceedings initiated by the banks that signed on to a so-called "framework agreement" with them. In some cases, the risk of bankruptcy was avoided.

While banks were focused on the remedies available to them under the applicable law and the contractual arrangements to which they were parties, in March the banking watchdog – the

Banking Regulatory and Supervisory Agency – introduced certain measures to enable banks to provide relief on their minimum liquidity requirements. These measures will stay in effect until the end of 2020. The liquidity relief was followed by the introduction of a new asset ratio calculation formula in April 2020 that aims to minimize the effects of the pandemic period on bank balance sheets and, ultimately, to increase liquidity in the market with bank-injected funds.

As the BRSA incentivized the banks to provide financing to the Turkish market, it has also applied monetary sanctions on several financial institutions which chose not to act in line with its instructions and the measures it introduced.

Needless to say, the adverse effects of the pandemic are ongoing, and it will take some time for the Turkish market, including the country's financial markets, to recuperate from its aftermath. COVID-19 shaped this year and presented a scenario that required businesses to adapt more quickly than they had planned to remote and digital-based operations, while trying to maintain the status quo in terms of the volume of transactions, and therefore income. Banks, borrowers, and other market players will need to continue to monitor the market and the measures implemented by the authorities and will hopefully bounce back from the relentless effects of the pandemic, which continues to create chaos in their operations. The Turkish banking sector will hopefully maintain a level of awareness that allows it to act tactfully in response to any bizarre situation to come. ■