Chapter 16

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TURKEY'S PUBLIC BANKS AMID THE COVID-19 PANDEMIC

Turkey's public banks have fulfilled critical functions during the Covid-19 pandemic. By extending cheap credit to households and small and medium-sized enterprises, public banks partially mitigated Turkey's economic slump in 2020. However, hardwiring public banks to extend supportive loans amid turbulent times has prevented them from addressing other policy challenges and providing equity-centred responses that focus on social and environmental issues. The use of Turkey's public banks during Covid-19 pandemic is a testament to the need for democratizing the social content of public banking.

INTRODUCTION

Public banks still occupy an important place in the global financial system despite decades of financial transformation and the animosity of neoliberal state managers in many countries. In the aftermath of the 2008-09 international financial crisis, interest grew in the opportunities provided by the financial capacities of public financial institutions. In recent years, public banks have been critical in providing financial support to infrastructural investments, yet many scholars have associated such banks with corruption and the mismanagement of public funds. To be sure, policy-makers have used and abused public banks to win support across electoral cycles. Yet this is not always or inherently so. Public banks also hold great potential for achieving public policy objectives. New multilateral and national development banks have been founded globally with multiple objectives – ranging from greening the economy to funding large-scale infrastructure projects.

Public banks are used for a range of purposes across the globe. The ways they function reflect the contending interests and political projects of different social groups and classes (Marois and Güngen 2016). Turkey's public banks are no exception. Their activities ultimately depend on the social-political pressures and the capital accumulation regime in which they are situated (Yalman et al. 2019).

The Covid-19 crisis came as an unanticipated shock. Turkey's economy was still suffering from the effects of the country's 2018-19 economic crisis when the Covid-19 pandemic hit hard in spring 2020. In response, authorities implemented partial lockdowns and public health measures from April onwards. But even before these measures, the country was experiencing one of its highest unemployment rates. As capital outflows from the global south reached historic proportions in March and April, surpassing the levels of the 2008-09 economic crisis, the Turkish Lira (TRY) depreciated rapidly. High levels of foreign exchange-denominated debt in Turkey's non-financial sector, as well as the dependence of economic activity on easy access to financial sources, pushed policy-makers to replicate the measures they took during the 2018-19 crisis. Turkey's public banks thus became more critical than ever in responding to the emerging downturn.

TURKEY'S PUBLIC BANKS IN TIMES OF CRISIS

Throughout Turkey's contemporary history, the country's public banks have been used to stabilize the economic system and facilitate developmental projects. In the twenty-first century, they have evolved into profit-seeking enterprises, yet they are still important in supporting households and small and medium-sized enterprises (SMEs). This history and the public banks' actions over the last couple of years provide a blueprint for understanding their uses during the Covid-19 pandemic.

Before the 1980s, public banks in Turkey mainly focused on mobilizing scarce domestic resources. They had specific mandates such as supporting industrial production by funding SMEs (Halkbank) or agricultural production by providing cheap credits to farmers (Ziraat Bank). The post-1980 neoliberal transformation, however, eroded such developmentalist activity. The ratio of total loans to special loans for segments that were negatively affected by the neoliberal transition started to decline in the late 1990s (Marois and Güngen 2016). Despite the declining ratio of special loans, the duty losses (that is, government-assigned losses tied to programme lending) arising from cheap credit provisioning continued to increase, since successive governments did not transfer the necessary amounts to public banks. Turkish authorities increased the risks of public banks in the late 1990s by not repaying these financial losses. This undermined decades of otherwise relatively stable operations.

Turkey's currency and banking crisis of 2001 paved the way for a neoliberal restructuring of the banking system. Despite keeping elements of a distant developmentalist past, incoming market reformers, above all economist Kemal Derviş *made* the public banks in Turkey evolve into explicitly profit-oriented institutions (Marois and Güngen 2013 and 2016). Financial losses arising from cheap credits extended to large social segments are now directly paid by the Turkish Treasury in the same month they are incurred. By their new name, these "income losses" have been relatively insignificant, except for the 2008-09 economic crisis and the post-2018 period.

Despite neoliberal 'depoliticization' processes, the public banks have become instrumental for political projects of successive Justice and Development Party (AKP) governments. After failing to privatize these financial institutions in the early 2000s, state managers have explicitly used public banks in the last decade to garner further electoral support by expanding Islamic finance and funding large-scale infrastructural projects.[1]

Table 16.1: ***Public banks in Turkey as of 2020***

Bank, type and year established	Ownership profile and explanation
Ziraat Bank; Commercial (1863)	100 % belongs to the Turkey Wealth Fund
Halkbank; Commercial (1938)	75.3 % belongs to the Turkey Wealth Fund; remaining shares belong to individuals and legal entities
Vakifbank; Commercial (1954)	37.46 % belongs to Ministry of Treasury and Finance, 35.99 % to the Turkey Wealth Fund, 16.15 % to individuals and legal entities; remaining shares belong to Turkish Foundations and Bank's pension fund
Development and Investment Bank; Development (1975)	99.08 % belongs to Ministry of Treasury and Finance; 0.92 % to individuals and legal entities
Eximbank; Development (1987)	100 % belongs to Ministry of Treasury and Finance
Iller Bank; Development (1933)	Belongs to municipalities and special provincial administrations
Ziraat Katilim; Participation (2015)	99.99 % belongs to Ziraat Bank, 0.01 % to other subsidiaries of Ziraat Bank
Vakif Katilim, Participation (2015)	100 % belongs to General Directorate of Turkish Foundations
Emlak Katilim; Participation (2019)	100 % belongs to Ministry of Treasury and Finance

Source: Banks Association of Turkey (2020), Public Disclosure Platform website and bank websites.
Note: The Turkey Wealth Fund (TWF) is a 100% state-owned sovereign wealth fund. Participation banks are financial institutions that operate according to the principles of Islamic finance. They are categorized separately in official documents.

[1] The Government founded two public participation banks in 2015 (see also Table 16.1). The AKP aims to attract more Islamic finance and efficiently fund the development of "strategically important industries".

Public bank funding, for instance, may provide implicit state backing to a respective business venture. Turkish infrastructural projects funded in this manner over the last decade enjoy the ability to access new sources from international financial markets at relatively advantageous terms. In that sense, public banks have been used to channel financial resources to business groups close to the AKP. It would be one-sided, however, not to emphasize their importance in mitigating the ravages of neoliberalism. For large sections of society, public banks continue to help alleviate the economic woes stemming from the socially traumatic consequences of Turkey's economic fluctuations.

In the main, however, public banks in Turkey over the last two decades have increasingly carried the stamp of an authoritarian neoliberal mentality, if in contradictory ways (Güngen 2020). While AKP governments have attempted to reimpose financial discipline on households and SMEs during and in the aftermath of recurrent crises, public banks have also provided supportive credits, especially during those turbulent times. The social content of public banking has included practices that have benefited small producers and indebted households, although the lenders' activities are hardwired to disproportionately benefit corporations.

Providing financial access and support to SMEs and households has helped large sections of society to tread the troubled waters of the Turkish economy, even as it has also stabilized and reproduced Turkish capitalism by giving more help to corporations. The interesting aspect of these Janus-faced interventions has been the persistent profitability of Turkish public banks. Contrary to neoliberal tenets, public banks have outperformed private banks in terms of their return on asset ratios over most of the twenty-first century so far. During the crisis years (2008-09 and 2018-19), income loss payments jumped radically, temporarily eroding profitability. However, more often than not, annual profits have contributed more to the national budget than total compensation for their income losses. That said, the lack of democratic oversight still raises questions as to the most effective use of these public banks.

Table 16.2: ***Assets and loans of the biggest public banks in Turkey***

	2012	2013	2014	2015	2016	2017	2018	2019
Ziraat Bank								
Total Assets (billion USD)	92.65	99.05	109.01	106.61	105.57	121.03	107.94	116.67
Gross loans and advances (billion USD)	42.80	55.47	65.36	68.77	72.31	87.50	77.58	81.51
Return on Assets (%)	1.68	1.73	1.77	1.91	2.02	2.14	1.82	1.17
Return on Equity (%)	17.82	17.39	18.09	17.80	19.49	17.21	20.33	19.49
Halkbank								
Total Assets (billion USD)	61.20	66.25	67.79	65.63	67.49	82.70	73.72	78.82
Gross loans and advances (billion USD)	39.07	42.13	46.49	46.17	48.00	57.44	50.92	53.72
Return on Assets (%)	2.63	2.28	1.53	1.34	1.19	1.47	0.77	0.54
Return on Equity (%)	26.35	22.94	15.67	13.31	12.53	17.28	9.74	7.43
Vakifbank								
Total Assets (billion USD)	60.58	65.21	70.15	64.63	62.15	74.04	65.49	72.86
Gross loans and advances (billion USD)	40.72	43.49	47.99	45.37	44.84	52.17	45.39	50.29
Return on Assets (%)	1.58	1.41	1.11	0.85	1.36	1.61	1.49	0.90
Return on Equity (%)	13.63	13.10	11.27	8.77	14.50	17.92	17.33	11.05

Source: BankFocus Database (August 2020).

The use of public banks by policy-makers during the 2018-19 crisis should be understood within this context. Against a backdrop of global financial tightening, Turkey faced a credit crunch in 2018 and an economic crisis in 2018-19 (Akçay and Güngen 2019). The public banks were at the forefront of response measures. State managers used the public banks to help maintain currency stability and resurrected their historical legacies for supporting SMEs and crucial sectors via a newly designed National Industry project. Ultimately, there were three main ways that Turkish policy-makers used the public banks during the 2018-19 crisis: debt restructuring, countercyclical lending and securitization.

Credit campaigns have been effectively and recurrently used by state managers to stimulate the economy. Public banks played their part in restructuring corporate loans and household debt in 2018-19, essentially displacing debts in time. For example, the maturity period for consumer credits was extended to 60 months in February 2019 (CBRT 2019). The Banking Regulation and Supervision Agency (BRSA) also revised credit card instalment regulations to enable more instalments. In early 2019, state managers first ordered Ziraat Bank (the biggest bank in Turkey, public or private) and then other public commercial banks to restructure credit card debt at lower-than-market rates. While household debt restructuring was mainly the task of public banks during the 2018-19 crisis, US$20 billion in corporate debt was restructured in 2018 as a result of negotiations between large corporations and various Turkish banks, both public and private.

The countercyclical lending capacity of public banks also benefited distressed firms during the 2018-19 crisis. The income losses arising from targeted campaigns provide a proxy to estimate the extent of these campaigns. Indeed, income loss transfers increased 26.5% in real terms from 2018 to 2019. Turkey's public banks led the credit expansion in the first half of 2019 and the last quarter of the year, repeating their active role in extending commercial credits during the 2008-09 crisis. The credit expansion and the income loss payments during the pandemic, however, surpassed the volumes of previous campaigns (further elaborated below).

After converting the Development and Investment Bank (Kalkınma ve Yatırım Bankası, a public development bank) into a lender exempt from regulations in October 2018, state managers flexed their new muscle in December 2018 to issue asset-backed securities. The state provided a guarantee for investors via the Development and Investment Bank. Private banks shifted long-term future revenues from mortgage-backed securities and received new liquidity. The volume of securitization was just TRY 4.15 billion, but the two rounds of securitization during the crisis made it easier for private banks to access fresh liquidity.

In brief, the credit policies of public banks were effective in keeping thousands of small firms afloat. At the same time, countercyclical lending bought time for the AKP to wait for a change in global financial conditions. Public banks contributed to economic stability through supportive loans and countercyclical measures both during the 2018-19 crisis and the previous instances of turbulence.

Ironically, the Turkish public banks have grown used to mitigating the economic instability and social damages brought about by neoliberal policies. Such public sector mitigation, however, accompanies the AKP's constant commitment to market-based financial deepening. The public banks formed a buffer against the further contraction of economic activity. At the same time, they provided an opportunity for many non-financial corporations to postpone financing needs. This provides context for the actions of and limitations to public banks during the Covid-19 pandemic.

THE COVID-19 PANDEMIC AND BANK ACTIONS

The first Covid-19 case in Turkey was officially reported in the second week of March 2020.[2] Unsurprisingly, the partial lockdowns and the social distancing measures, together with curfews in 31

[2] As of mid-August, the number of Covid-19 patients exceeded 250,000, while the death toll had reached 6,000. After April, the number of active cases declined gradually to around 10,000. However, the excess mortality data for Istanbul and the problems in reporting and contact tracing imply that the death toll is much higher than the official figures show.

provinces in April and May resulted in a huge economic slump. During this time, public banks emerged at the forefront of the support provided to low-income households and SMEs.

Since the start of the pandemic, the country has been extremely vulnerable to capital flows, as the foreign exchange reserves of the Central Bank of the Republic of Turkey (CBRT) (excluding the swaps with other central banks and domestic banks) were already depleted by March 2020. Turkey also witnessed the biggest drop in labour force participation in its history.[3] The initial response by policy-makers was to announce the Economic Stability Shield Package on March 18, 2020. By June, the total value of the Covid-19 response package by President Recep Tayyip Erdoğan administration had reached almost TRY 300 billion[4] (equivalent to around 6% of Gross Domestic Product – GDP).[5]

The Erdoğan administration expanded fiscal spending amid the pandemic, and the CBRT revised its open market operations limit. Buying more government debt in the secondary market helped the Unemployment Insurance Fund offload large volumes of government debt. The fund's resources were of vital importance for the easing of short-term allowances, which was extended to 3.2 million people in April and May. CBRT regulations and the revised asset ratio calculations imposed on commercial banks also directly helped

[3] Since people were not looking actively for jobs in April and May, while short-term allowance payments placed more than 3 million workers into a grey zone, the pandemic did not result in the highest official unemployment rate in the country's history. Still, the number of unemployed, and the number of those not seeking a job but ready to start, seasonally employed and time-related underemployed exceeded 10 million in total in April-May 2020. In those months, the labour force population also dropped below 30 million (see Turkstat, 2020).

[4] US$1 is approximately TRY8.4.

[5] The figure by June was TRY 498 billion (including deferred payments and other credit campaigns), according to the International Monetary Fund's Covid-19 response tracker. The Ministry of Treasury and Finance announced the size of the Economic Stability Shield Package as TRY 600 billion in late May (adding an unknown multiplier effect to boost the number). By early June, the actual volume of the measures as part of the package was TRY 207 billion in credit support, TRY 14 billion in short-term allowance payments (including payments through all of June), TRY 5 billion in cash assistance and TRY 66 billion in deferred premiums payments.

the Treasury set new records of domestic borrowing. Monetary and fiscal expansion during the slump, particularly amid the backdrop of capital outflows, put additional pressure on the Turkish Lira. Similar to practices during the 2018-19 crisis, public banks were used to intervene in the currency markets. It was not possible to halt the currency's depreciation under such financial distress, but state managers could mobilize the public banks to slow down the speed of the fall, providing breathing room for Turkish corporations who had heavy foreign exchange debts.[6]

Erdoğan's administration provided additional cash assistance to low-income households. According to official figures, more than 5 million households received one-time cash support (TRY 1,000 per household, or US$140 at the time). The insufficient cash assistance was topped up with supportive loans. These loans were provided by the biggest three public banks, Ziraat Bank, Halkbank, and VakifBank. From April 1, 2020, until the reopening of the economy in mid-June, almost 7 million individuals applied for basic needs credit (with limits up to TRY 10,000). The interest rates were less than half the market rate and required no payments in the first six months, helping people to avoid the initial impact of the crisis.

Apart from the 'basic needs credit', public banks extended cheap credit to 180,000 SMEs and 1.1 million shopkeepers. The dramatic rise in the credit volume in Turkey in April and May was achieved partly by the contributions of the Credit Guarantee Fund (CGF), through which the Turkish Treasury assumed part of the counterparty risk. The CGF-supported credit volume doubled during the pandemic and reached TRY 330 billion, the lion's share of which consisted of public bank credits to SMEs. The CGF was also used to provide surety for individual credits during the pandemic.

[6] There are no official figures on the scope and details of such intervention in the currency markets. The currency intervention by the Central Bank and the public banks from early 2019 to mid-2020 is estimated to have exceeded US$100 billion (Reuters, 2020). The net foreign exchange position of public banks fell US$8 billion from mid-March to early August 2020.

Table 16.3: ***Summary of public bank actions during the Covid-19 pandemic (March 2020-July 2020)***

Public Bank	**Action**	**Explanation**	**Volume**
Public commercial banks	Basic needs credit	Cheap consumer credit for low-income households	TRY 37 billion
Public commercial banks	Support for shopkeepers	Cheap credit for shopkeepers	TRY 25 billion
Public commercial banks	Credit for SMEs	Cheap credit for SMEs	TRY 145.6 billion
Public commercial banks	New support package	Stimulating consumption to support tourism, automotive and housing sectors	not known
Public commercial banks	'Nefes' credits	Cheap credit for SMEs	not known
Eximbank and public commercial banks	Rediscount credit	Support for FX earning industries	TRY 30 billion
Eximbank	Stock financing support	Credit Guarantee Fund supported loan for exporters	not known
Halkbank	Postponing loan repayments for 6 months	Support to artisans and shopkeepers	not known
Development and Investment Bank	Investment credit	Support for new investment	TRY 20 billion
Iller Bank	Postponing loan repayments for 3 months	Measure against declining revenues of municipalities	not known

Source: Bank websites. Public commercial banks include Ziraat Bank, Halkbank and VakifBank. Halkbank postponed loan repayments initially for three months in March, then extended the period for another three months in July. Ziraat Bank and VakifBank provided credit restructuring opportunities for commercial credits, but the restructurings did not necessarily decrease payments or increase credit maturity.

Iller Bank is a specialist public banking institution that transfers funds allocated to municipalities from general budget revenues. As a result of the presidential decision to make capital injections to Iller Bank in 2019, Iller started to impose a deduction on the funds transferred to the municipalities. In late March 2020, this practice was suspended for three months, providing much-needed support to already declining municipal revenues. Iller Bank, however, did not postpone municipal loan repayments at first. Only after negotiations and a request from the Union of Municipalities of Turkey did Iller change its policy and postpone municipalities' loan repayments for three months (TRT Haber 2020). This support was critical in preventing municipal service disruptions. However, Iller did not subsequently increase municipal borrowing limits.

In June 2020, the Turkish public banks joined the 'Nefes Kredisi' campaign (which literally translates as "credit to take a breath"). This was initially launched by the Union of Chamber and Commodity Exchanges of Turkey and Denizbank (a private commercial bank). Turkish public banks have been instrumental in reopening the economy as policy-makers devised new retail loan campaigns on June 1 to stimulate the tourism, automotive and housing sectors. Framed as a 'New Support Package', these cheap credits mainly targeted household consumption. The package also included a specific loan for domestic small-scale producers that was supported by lower interest rates and required no repayments in the first six months.

On most occasions, the credit support to SMEs and households were provided via campaigns that included all three public commercial banks. A campaign or contribution to a programme related directly to public health has not occurred, since Turkish health authorities have preferred to paint a picture of success from the beginning of the pandemic. Still, public banks made generous contributions to the solidarity campaign launched by the Presidency. TRY 2.1 billion was amassed in the 'Biz Bize Yeteriz' solidarity campaign. The initiative was mainly a political manoeuvre to consolidate the AKP's electoral base. The CBRT donated TRY 100 million to the President's campaign;

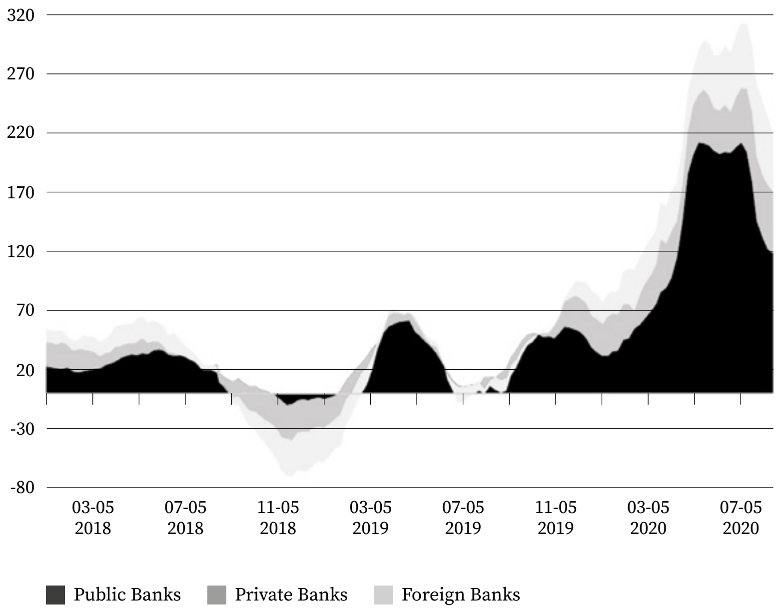
Ziraat gave TRY 62.3 million, Halkbank TRY 56 million and VakifBank TRY 50 million. According to the campaign's website, these donations have been added to the budget for social transfers.

The major support for export-oriented firms and new investment during the pandemic has been via the CBRT's revised credit programme. The TRY 60 billion credit to be extended for FX-earning industries was allocated as rediscount credits on March 31, 2020. Two months later, one-third of the credit was converted to investment credits to be provided by the Development and Investment Bank, with the remaining rediscount credit to come mainly from Eximbank (a public export-import bank) and the public commercial banks (CBRT 2020).

Although it was a contravention of the CBRT's law, the provision of these investment credits was promoted as a response to the pandemic and a new boost to Turkey's sustainable development policies. Once again, it was a continuation of the previous crisis management experience. Authorities had previously designed special financing opportunities for sectors producing intermediary goods (reportedly to minimize the current account deficit), using public banks to give export-oriented firms long-term loans in 2019 at favourable rates.

The BRSA revised banking sector regulations in April 2020 (and once again in May 2020) to promote further lending. Public banks were already conforming with the new asset ratio calculations, since they boosted credit volume from the beginning of the pandemic onwards. As a result of these policies and public bank actions, Turkey experienced the biggest credit expansion in its history in spring 2020 (see Figure 16.1). The speed of credit expansion led by the public banks was most striking in May and June. The credit volume of public banks increased from TRY 800 billion to almost TRY 1.1 trillion from mid-March to mid-August. During this period, TRY credit volume of public banks increased by 37%, while the ratio of increase was 17% in the case of private banks and 22% in the case of foreign banks. The increases in credits of private and foreign banks would have been much lower had it not been for the BRSA regulations to push more lending.

Figure 16.1 ***Turkish Lira credit flow (quarterly change, TRY billion, January 2018 to August 2020)***



Source: BRSA (2018-2020).

In short, the main response to the economic slump was to foster credit expansion – something that has partially mitigated the 2020 slump. However, the participation of public banks in credit campaigns did not foster cooperation with other public service providers.[7] The institutions at the forefront of the fight against the pandemic did not take loans from Turkey's public banks but applied to other

[7] Having said this, we can expect an increase of cases in which public service providers and the public banks jointly apply multilateral financial institutions for not only responding medical emergencies but also supporting post-slump recovery. At the time of writing, the Development and Investment Bank, with the backing of the Ministry of Treasury and Finance, applied for a US$300 million loan from the Asian Infrastructure Investment Bank's Covid-19 credit facility (Dünya 2020).

facilities in the spring of 2020. For example, the Turkish Health Ministry preferred to apply for a €200 million loan from European Bank for Reconstruction and Development (EBRD) to build a pandemic hospital in Istanbul and to finance purchase of ventilators and ICU monitors, and other emergency medical equipment (EBRD 2020).

CHALLENGES AND PROBLEMS

The Turkish economy suffered severe damage in the 2018-19 crisis. Only by using public banks did authorities manage to mitigate the impact of the crisis for large segments of society. They have resorted to a similar strategy during the Covid-19 pandemic. Despite the success in providing temporary support and alleviating the economic slump by helping low-income households and SMEs, this strategy has had its down sides.

Apart from a few exceptional years, Turkey's public banks have consistently outperformed private banks in the post-2001 period (Marois and Güngen 2019). This seems to have changed in recent years. In both 2018 and 2019, the return on asset ratios of public banks (1.2% and 0.7%, respectively) remained significantly below the sectoral average (1.5% and 1.3%, respectively) (BAT 2019; BAT 2020). Turning public banks into cure-alls for Turkey's financial woes not only damaged their performance but also created new controversies. For example, public banks breached their legal limit of open foreign exchange position in July 2020. This stems from the recurrent use of public financial resources during the pandemic to slow down the Turkish Lira's depreciation. State authorities also started to use public banks in July 2020 to help the Treasury borrow in US dollars from the domestic market at lower interest rates. This represents a further restraint on public bank actions, since their resources are increasingly being directed to avoid short-term currency fluctuations rather than addressing health challenges or supporting new investments.

The public banks' greatest problem therefore rests in the undemocratic and unaccountable way in which they are allowed to function. Although the retail loan campaigns and loans that support industrial activity prevented financial distress for some households and SMEs, the risks assumed by public banks cannot be traced easily and discussed openly. The financial muscle possessed by these public institutions could have been used better to provide equity-centred responses. The basic needs credit, for example, opened the doors of the financial system to Turkey's low-income and informal labourers. Nevertheless, this was a sort of financial inclusion based on growing indebtedness despite the lower-than-market interest rates of the loans. In addition, the postponement of loan repayments and credit support to low-income households provide only a temporary solution. Although presented as elements of success in the fight against the Covid-19 pandemic, the financial support for Turkey's labouring classes has largely remained minuscule in comparison to relief packages in other countries. During the first five months of the pandemic, the capacity of the public banks has not been harnessed for equity-centred responses, but instead for state-sponsored credit expansion.

Both as a result of the 2018-19 economic crisis and the Covid-19 pandemic, public banks' non-performing loans have increased to historic proportions. This has not, however, resulted in immediate financial problems for the public banks, as the Treasury automatically compensates for the public banks' income losses each month. Nevertheless, the swelling losses led to dramatic increases in the amount of funds transferred: The income loss payments to public banks in March 2020 was three times as high as the payments of March 2019. The cash transfers from the Treasury jumped from TRY 1.9 billion (March-July 2019) to TRY 3.5 billion (March-July 2020), raising questions about the sustainability of the support provided by public banks to the economy in general.

The official owner of the public commercial banks, the Turkey Wealth Fund (TWF), injected TRY21 billion core capital in May into them as previous loans and recurrent credit expansion was decreasing capital adequacy ratios. The TWF, whose capital injection helped it increase its ownership shares in Halkbank and VakifBank, declared this injection a part of its operations to support financial deepening and the prospective financialized use of Turkey's public banks. In that sense, the Covid-19 pandemic responses and the TWF's design may eventually lead to a further erosion in the social mandates of the public banks, barring a coordinated response by social forces. This might provide a new challenge to the credibility of public banks in the post-pandemic environment.

CONCLUSION

During the Turkish economy's drift into new economic troubles after 2013, the political initiatives of AKP Governments have further chipped away at the historic social mandates of the country's public banks. While funding for huge infrastructure projects boosted economic performance, the achievement of high rates of GDP growth was eventually dependent on the tempo of capital inflows. After the coup attempt of 2016, and particularly during the 2018-19 crisis, AKP Governments (and from 2018 onwards, Erdoğan's presidential administration) committed themselves to bailing out indebted SMEs and kick-starting credit expansion. The makeshift arrangements did not increase the export capacity of Turkish firms or generate further employment, let alone reduce social inequality.

The uses of public banks during the first five months of the Covid-19 pandemic (early March to early August in the Turkish context) have not addressed health challenges. They also have not involved projects focusing on environmental and social issues. That said, we can speak of multiple uses of public banks in both the 2018-19 economic crisis and the 2020 economic slump. By using the public banks, the Erdoğan administration has attempted to stabilize the TRY, provide cheap credits (for both households and distressed

SMEs) and enhance a reportedly new developmental framework (to boost the competitiveness of the economy). The coming years will show whether the simultaneous pursuit of these goals and focus on repeatedly restarting credit expansion works as a strategy. It is still too soon to tell.

In the absence of a collective political will to reclaim Turkey's public banks, the social content defining the performance of these institutions has been shaped to a great extent by a combination of the AKP's political projects and economic survival attempts, as well as by structural global financial conditions. Echoing the AKP Governments' actions during previous crises, the Erdoğan administration succeeded in re-imposing financial discipline through new credit campaigns spearheaded by public banks and mitigating the negative social impacts of the 2020 slump at the same time.

In Turkey, the social content of public banking amid the AKP's economic policies pushed these financial institutions evermore towards responding to the credit needs of various social segments. However, it was this same push that allowed policy-makers to use public banks to nurture political alliances crosscutting various social segments. It was also this social and political environment that prevented the use of public banks' capacity to address more challenging issues such as environmental degradation and social inequality. The Covid-19 pandemic has highlighted this limitation in Turkey, as well as the effective use of public banks to offer temporary economic relief. A pro-public and democratic turn to public banking is required to turn this deteriorating situation around.

Current uses of Turkey's public banks provide no space for transparency and accountability mechanisms. The way public banks have been used in Turkey in recent years attempts to revitalize economic activity by offering cheap loans. The crisis atmosphere in which these institutions have operated in recent years makes it even more challenging to propose alternative and progressive uses for these institutions. However, public bank actions in Turkey during the Covid-19 pandemic showed the importance of democratizing public banks' social content. There is an urgent need to reclaim public financial institutions, in a way that subordinates them to democratic decision-making and serves public interests. Their financial capacity should not only provide temporary relief to large social segments but should also be used for providing equity-centred responses during public health crises and economic turbulence.

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