

# TURKEY MONTHLY BANKING MONITOR

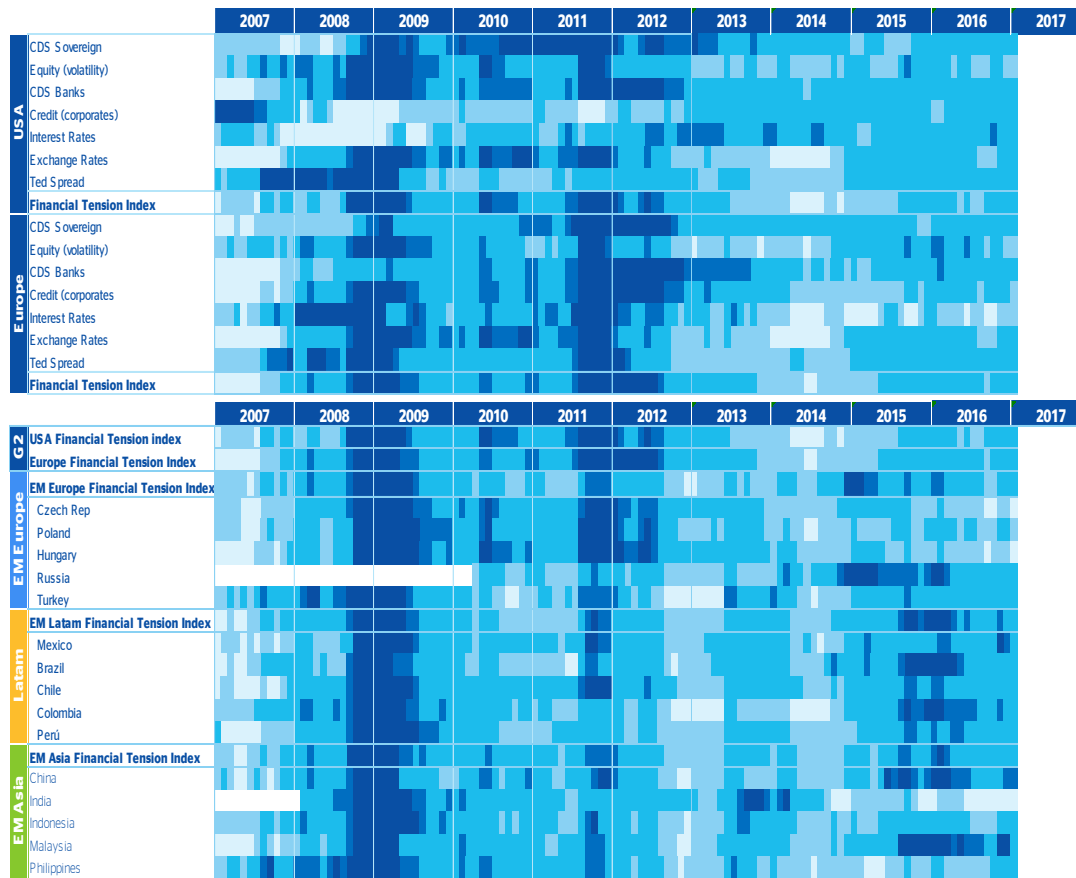
**JANUARY**  
FEBRUARY 6th



# Global Developments

Financial tensions in global financial markets eased somewhat in January

## BBVA RESEARCH FINANCIAL STRESS MAP



● Developed Markets remain undisturbed with equity being most favored, especially in Japan

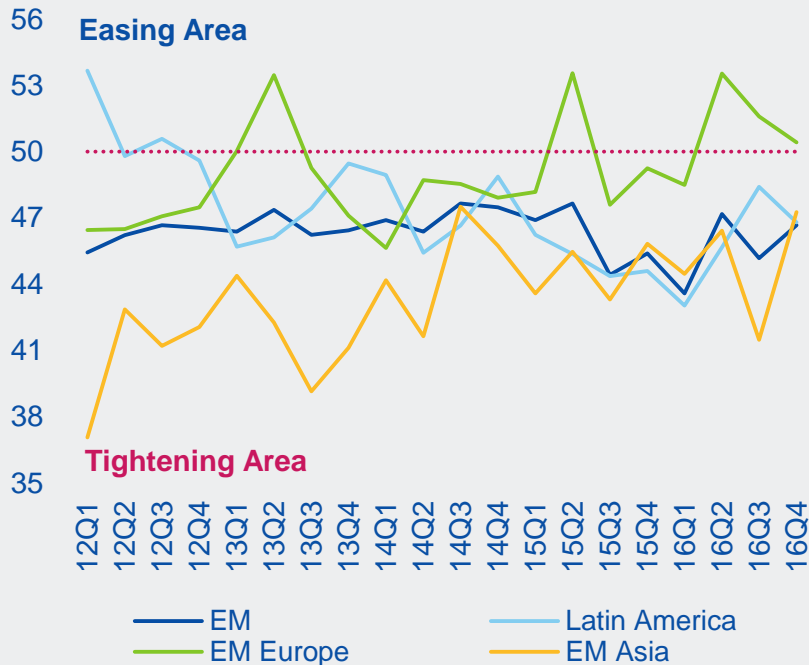
● EM in general recorded portfolio inflows. Volatility persists in China and Turkey



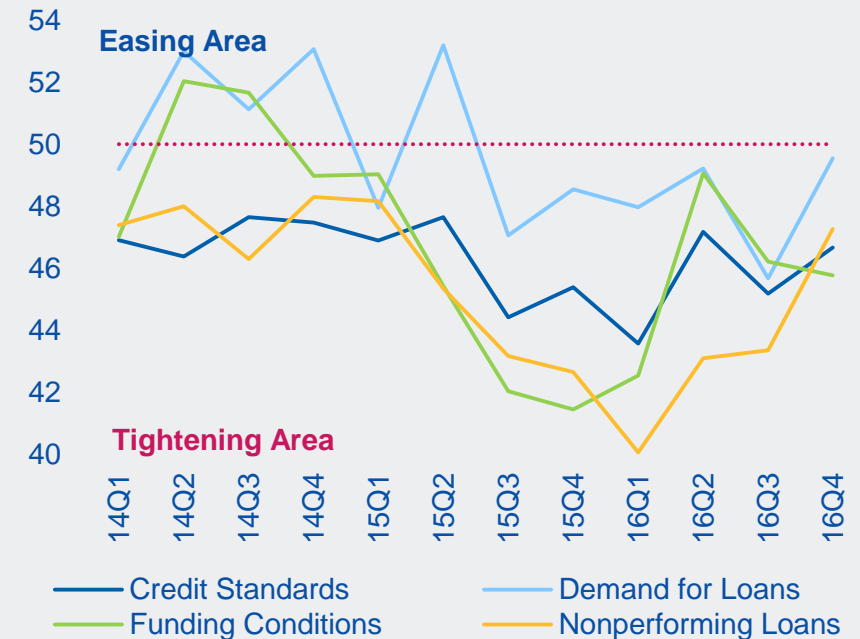
# Global Developments

Emerging Market (EMs) bank lending conditions worsened in 2016Q4. However, some recovery is observed in loan demand

**IIF BANK LENDING SURVEY FOR EM- CREDIT STANDARDS**  
Levels



**IIF BANK LENDING SURVEY FOR EM- OVERALL INDICES**  
Levels



Source: IIF, Garanti Research

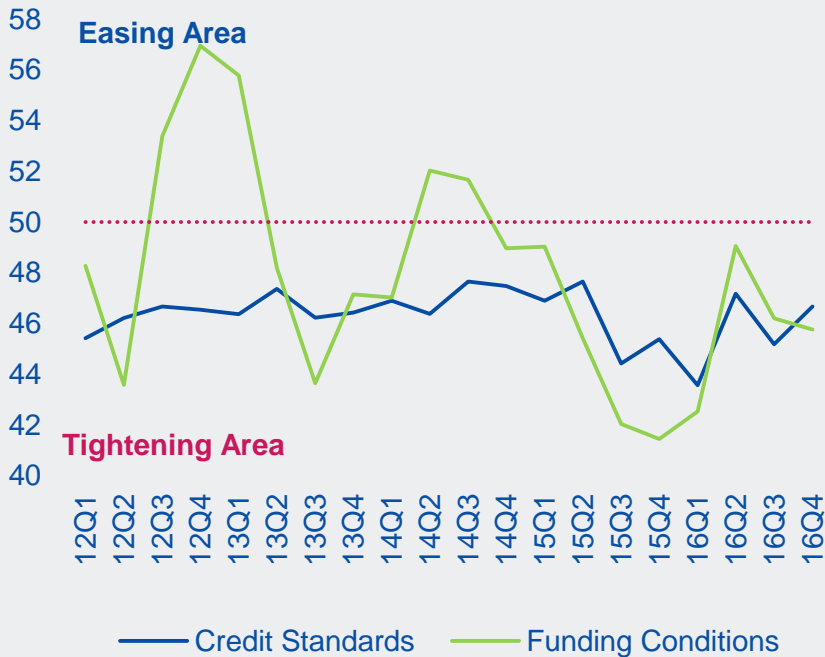
\*Metrics that remain below the 50-pt threshold are in the tightening territory

# Global Developments

Funding conditions in EM deteriorated in 2016Q4 as a consequence of a tighter liquidity environment. International funding conditions deteriorated mostly in Turkey

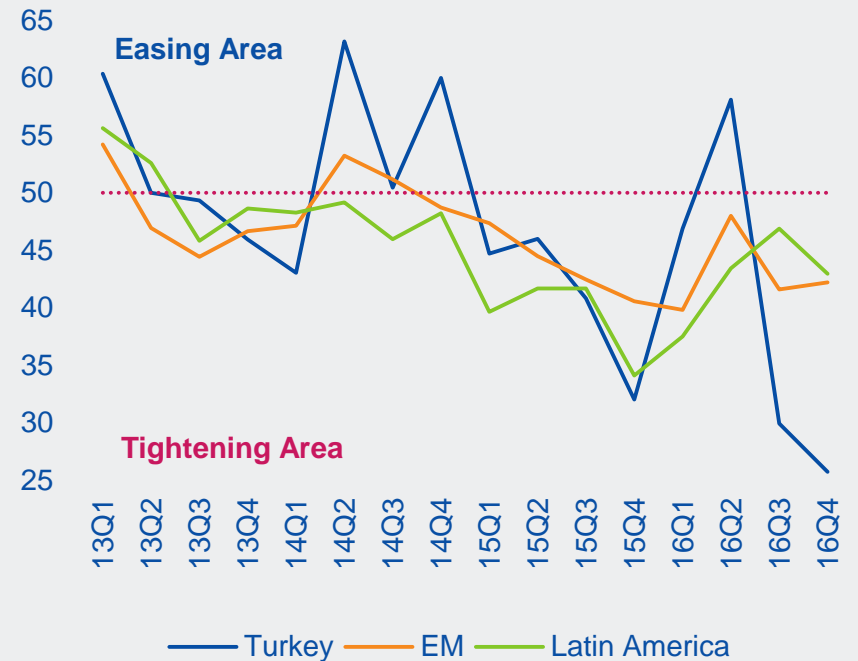
IIF BANK LENDING SURVEY FOR EM: CREDIT & FUNDING CONDITIONS

Levels



IIF BANK LENDING SURVEY FOR EM- INTERNAT. FUNDING CONDITIONS

Levels



Source: IIF, CBT, Garanti Research

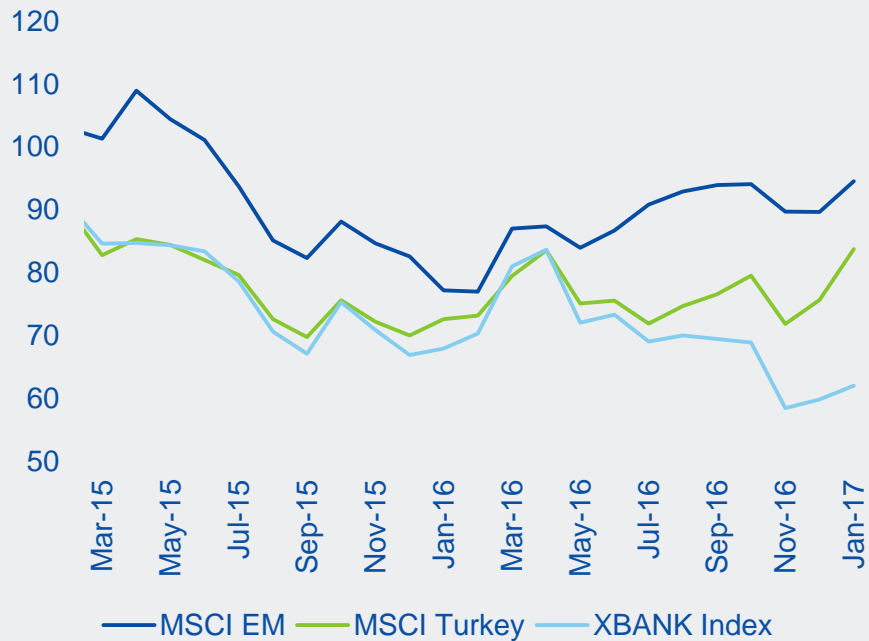
\* Metrics that remain below the 50-pt threshold are in the tightening territory.

# Turkey Financial Markets

Turkish equities continued to lag behind EM in January but they performed better thanks to equity inflows compared to December '16

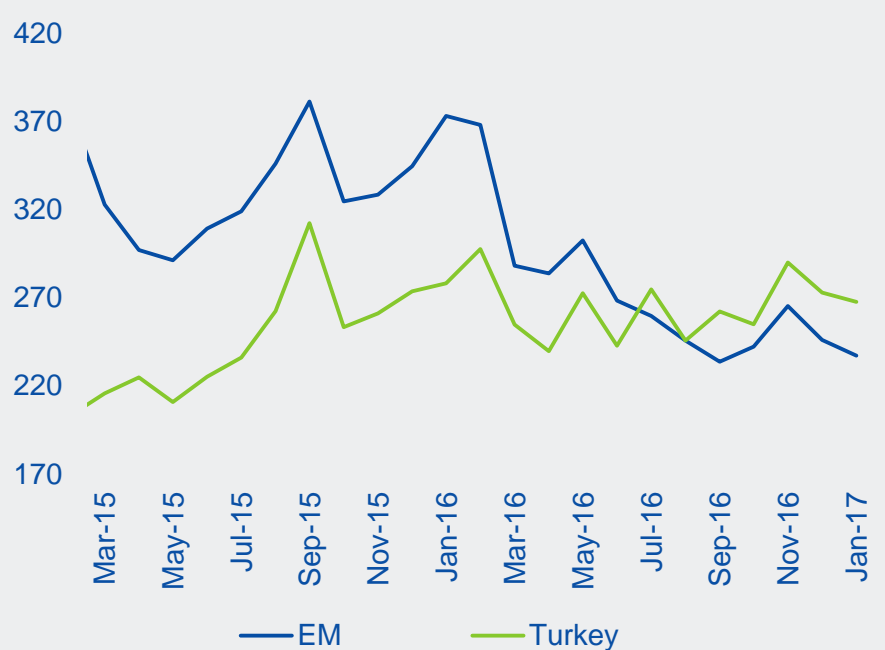
## MSCI INDICES

Base 100 = Jan 2015



## RISK PREMIUMS, 5 YEAR CDS INDICES

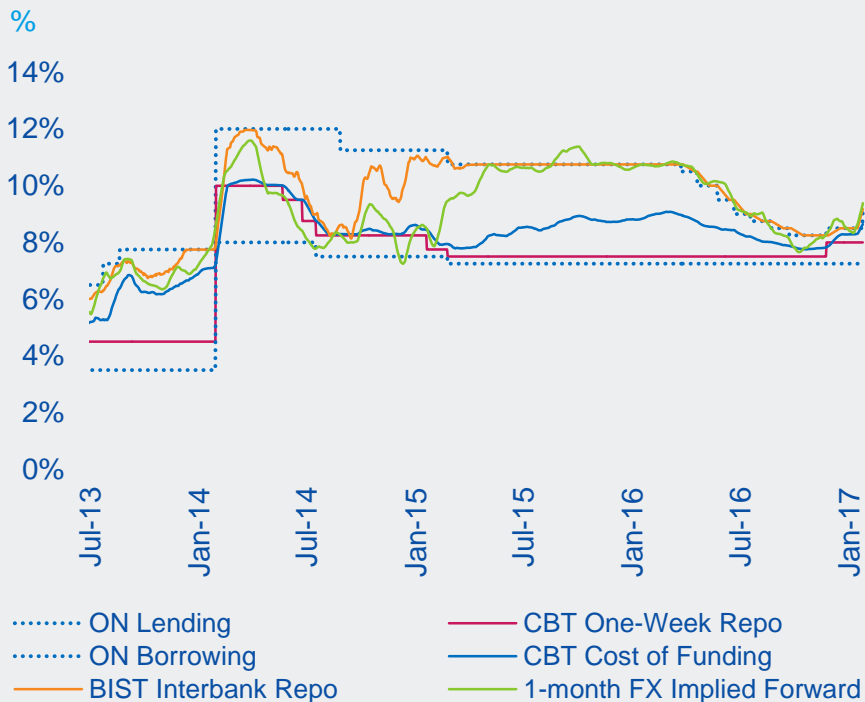
Levels



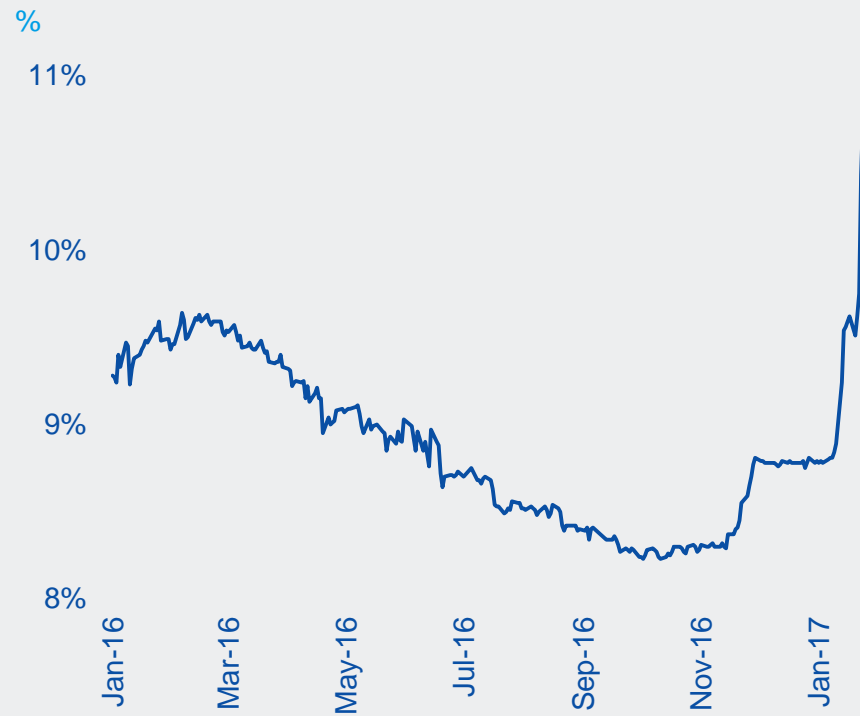
# Monetary Policy

The CBRT increased the O/N lending and late liquidity window (LLW) rates, leaving the one week repo policy rate intact. The average funding rate by CBRT increased sharply during the month (more than 200 bp)

**TURKEY: INTEREST RATE CORRIDOR**



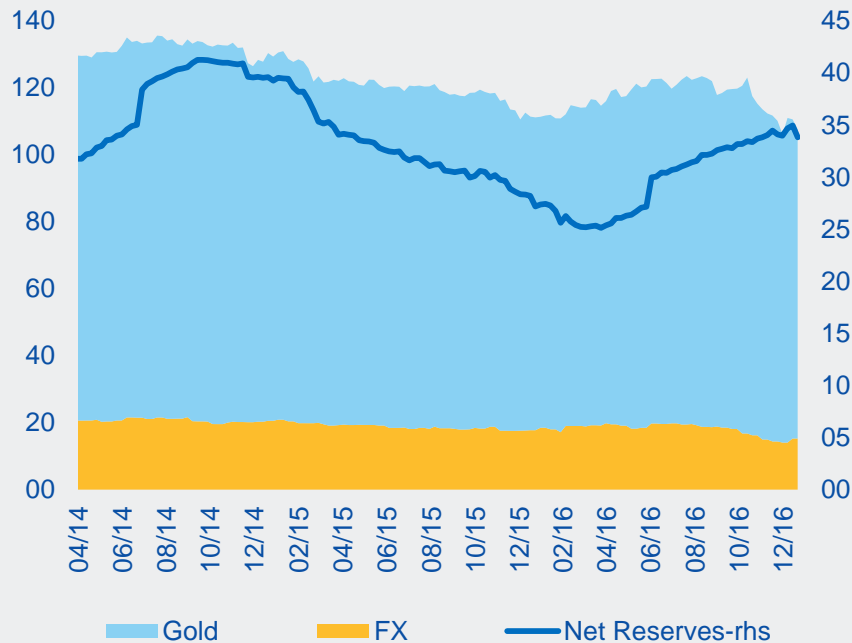
**TURKEY: CBT AVERAGE FUNDING RATE**



# Central Bank Reserves

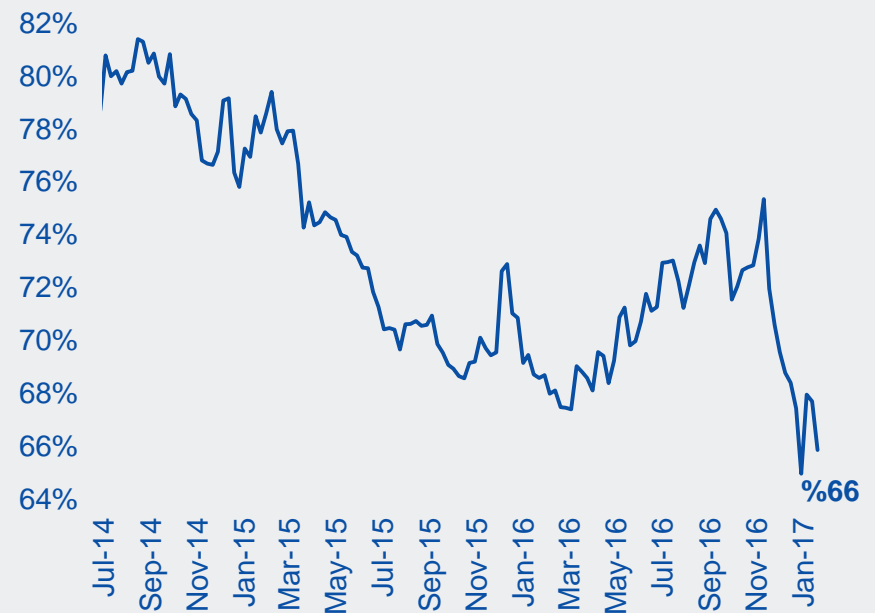
Compared to December, net FX reserves of the CBT declined in January by USD 2bn due to CBT's FX sell-off. Net reserves are at USD 31.9bn USD

**CBT RESERVES**  
USD bn



**GROSS RESERVES**

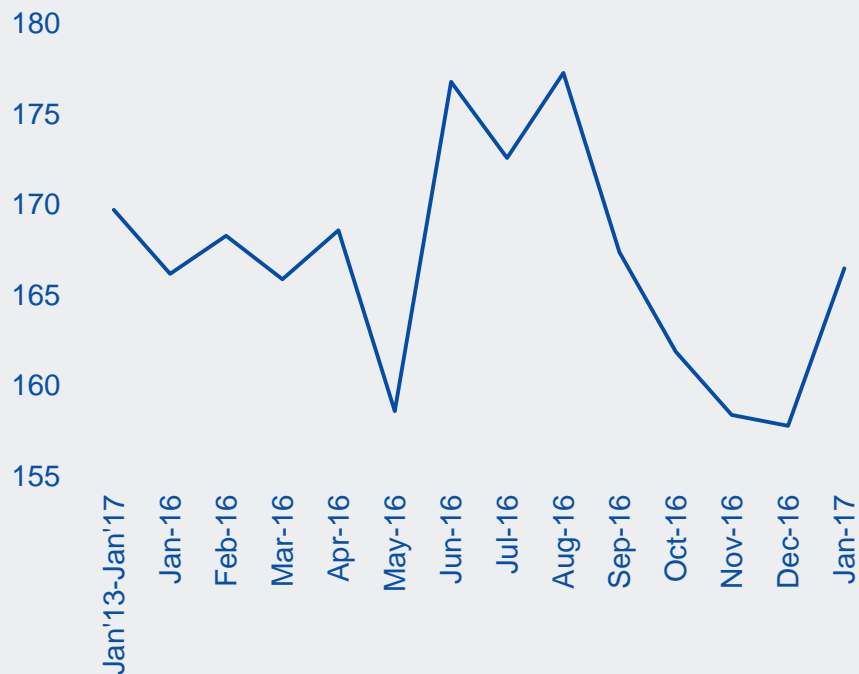
Total Reserves/External Debt to be paid within one year %



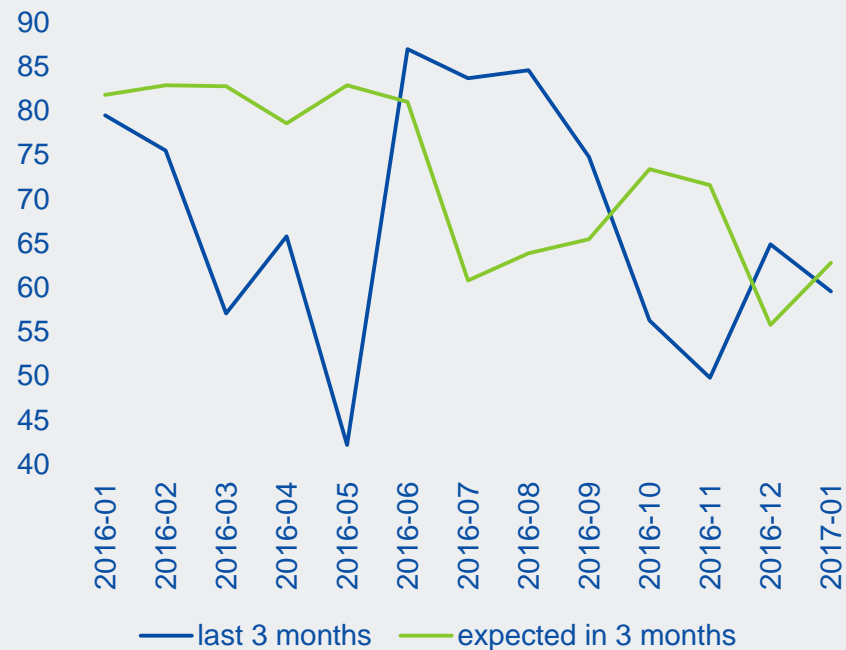
# Turkey Financial Sector

Financial Services Confidence Index improved in January'17 for the first time since August'16. Demand for financial services is expected to recover in 1Q'17

**FINANCIAL SERVICES CONFIDENCE INDEX-**



**DEMAND INDEX FOR FINANCIAL SERVICES**

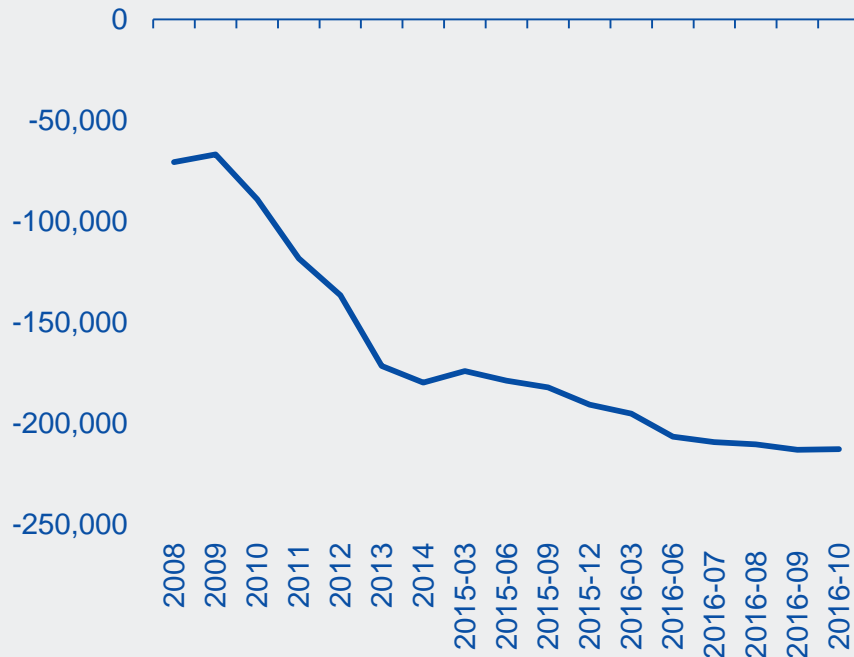




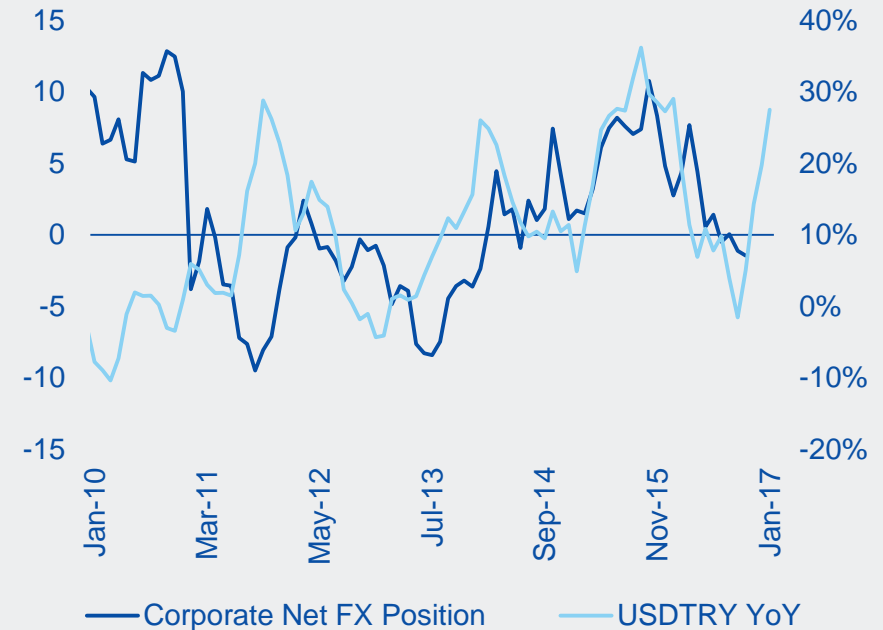
# Corporate Sector FX indebttness

Corporates' overall FX position stayed almost intact in October'16. However, their net FX short position continued to deteriorate with increasing TL depreciaiton

**CORPORATES' OVERALL FX POSITION**  
USD bn



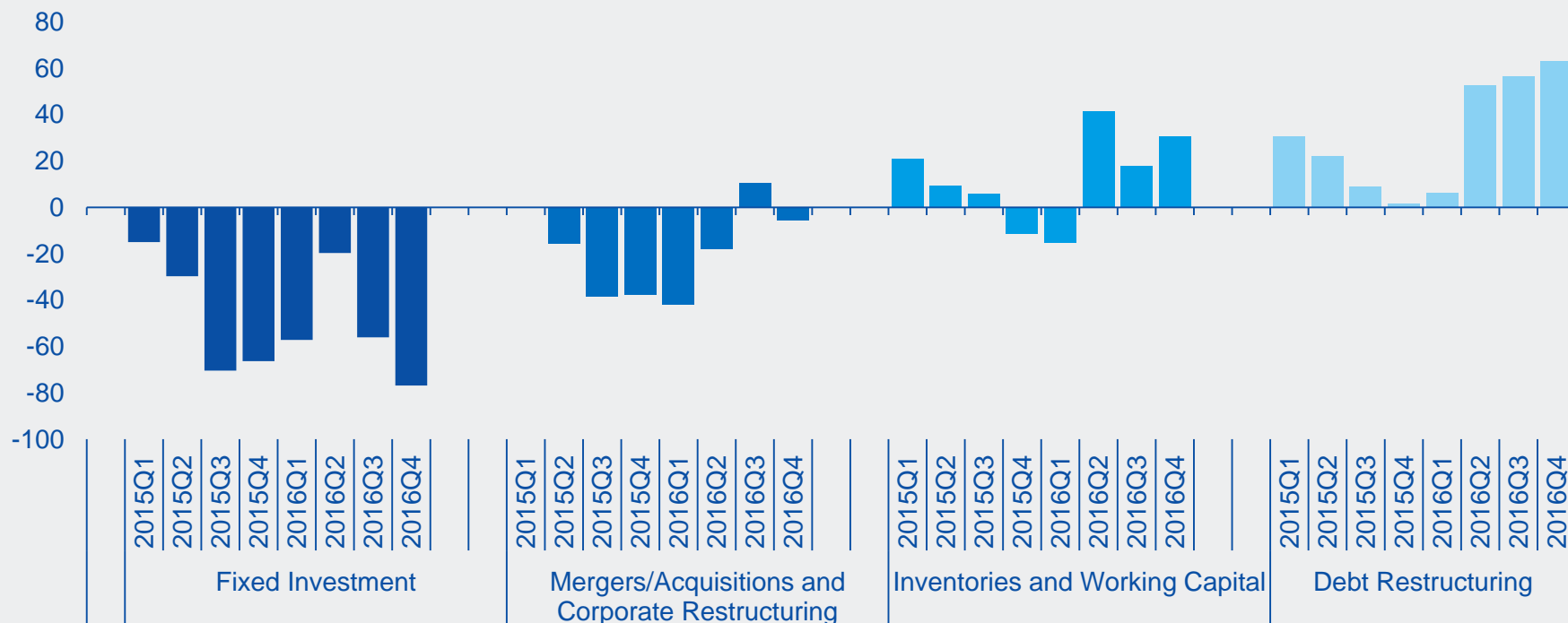
**CORPORATES NET SHORT TERM FX POSITION**  
%, USD bn



Source: CBT; Garanti Research  
\*latest data available October

# Corporate Sector

Real sector's credit demand for fixed investments continued to decline in 4Q'16, while firms tended to borrow more for debt restructuring purposes, implying increased real sector's balance sheet strain



Source: CBT; Garanti Research  
 \*latest data available 4Q'16

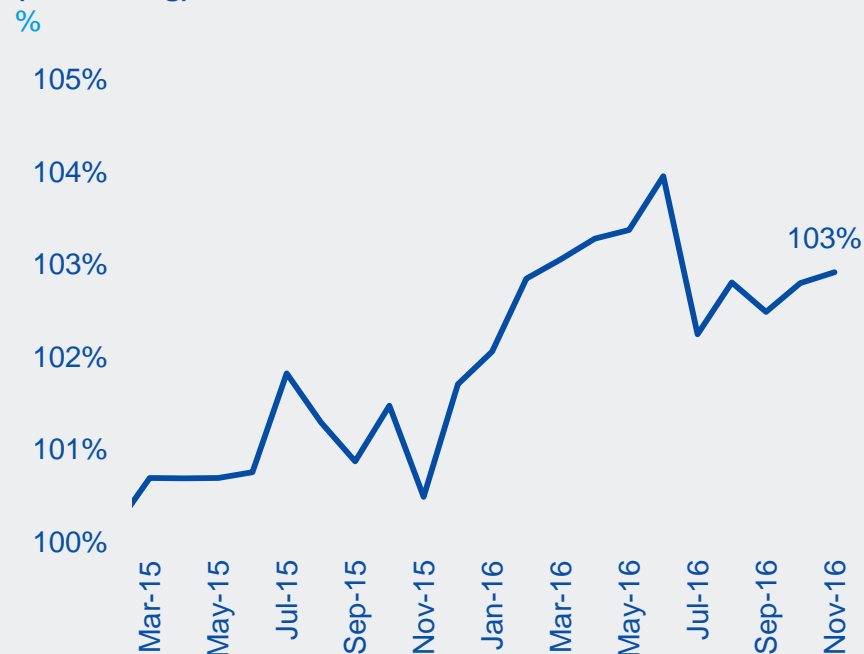
# Corporate Sector

LT external debt roll-over ratios for banks in November remain resilient due to high levels of loan repayments and continuing high base effect. Roll-over ratios for the real sector is sound at close 160%

**LT EXTERNAL DEBT ROLL-OVER RATIO OF BANKS & REAL SECTOR (12m.rolling)**



**ST EXTERNAL DEBT \* ROLL-OVER RATIO OF REAL SECTOR (12m rolling)**



Source: CBT; Garanti Research  
\*latest BoP data available Nov'16

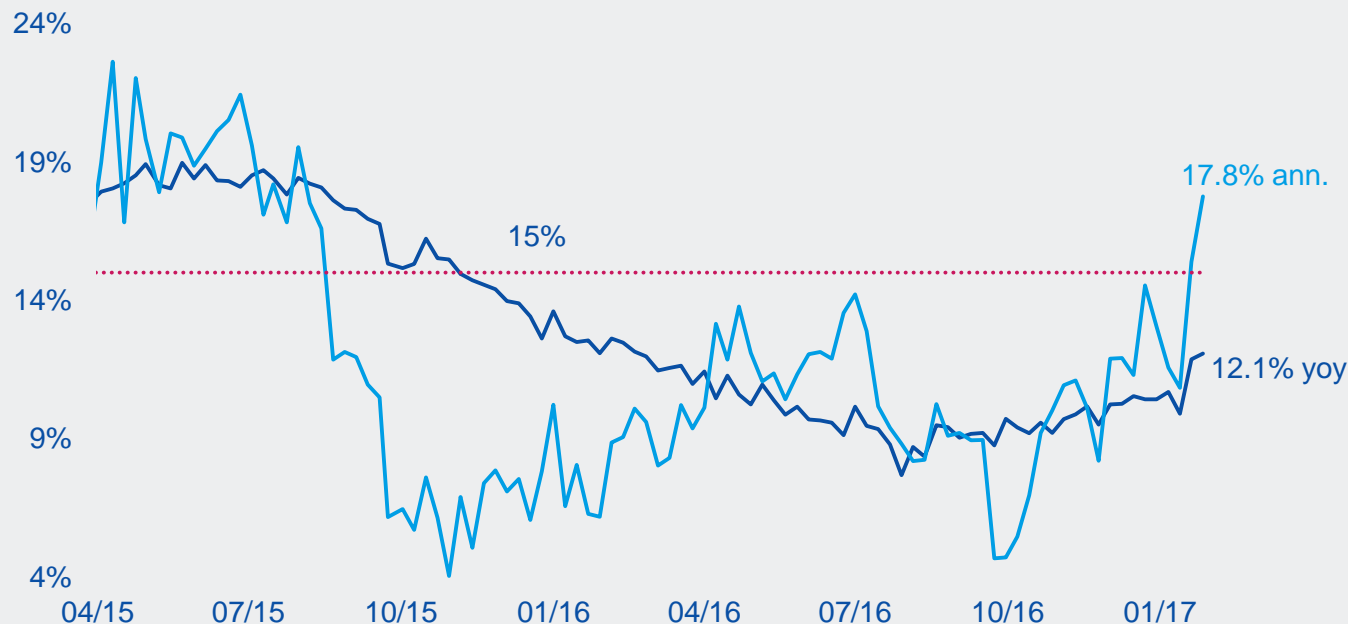
\* ST External Credit Debt of the real sector refers to commercial credits.

# Loan Growth

YoY Credit growth increased to 12%. The 13 week trend rate jumped to 18% from 13% at the end of 2016

## FX ADJUSTED CREDIT GROWTH RATE

% yoy and 13 week ann. rates



The trend rate (annualized yearly rate) jumped to almost 18% implying improvement in credits

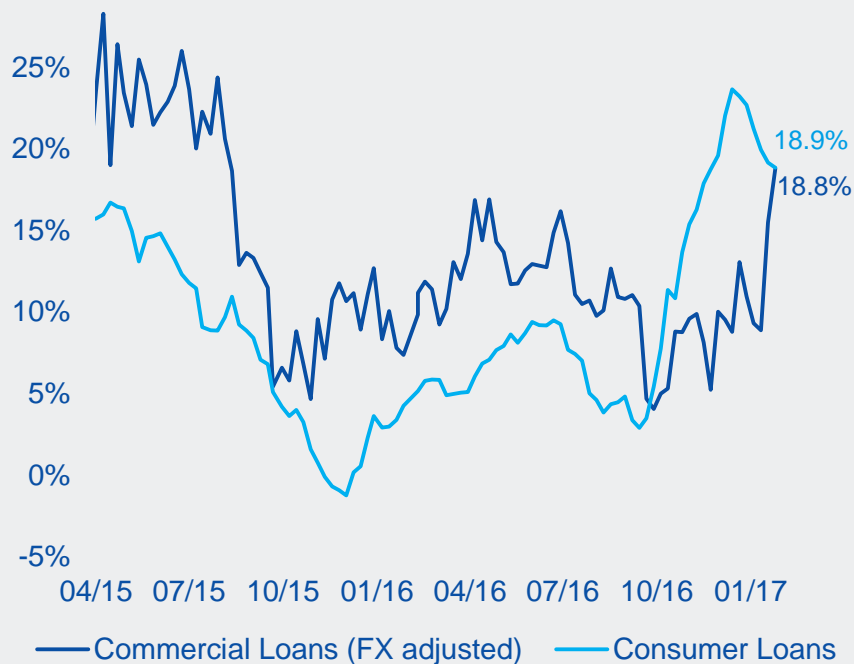
The FX adjusted credit began to accelerate and closing the gap with the target

# Loan Growth

Commercial credits' trend rate gained momentum in January both in yoy and 13-week trend rates. In contrast, consumer credits showed some broad-based deceleration

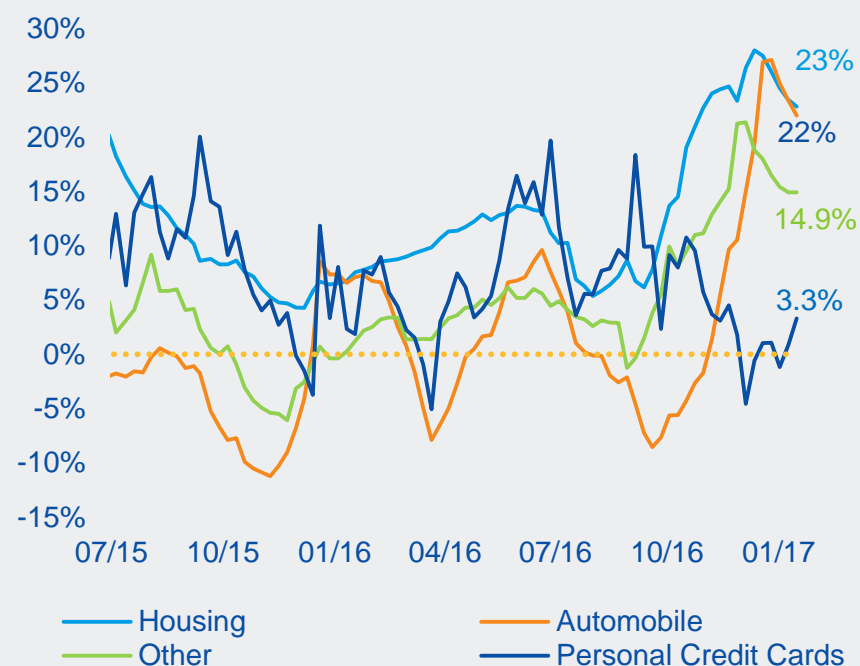
## COMM. AND CONSUMER LOANS GROWTH RATE

13 week ann. rates



## CONSUMER LOANS

% 13 week ann. rates



# Housing

House sales grew only by 0.1% in Dec'16 on yoy terms. The interest rates on housing credits stayed almost stable in Jan'17 compared to Dec'16

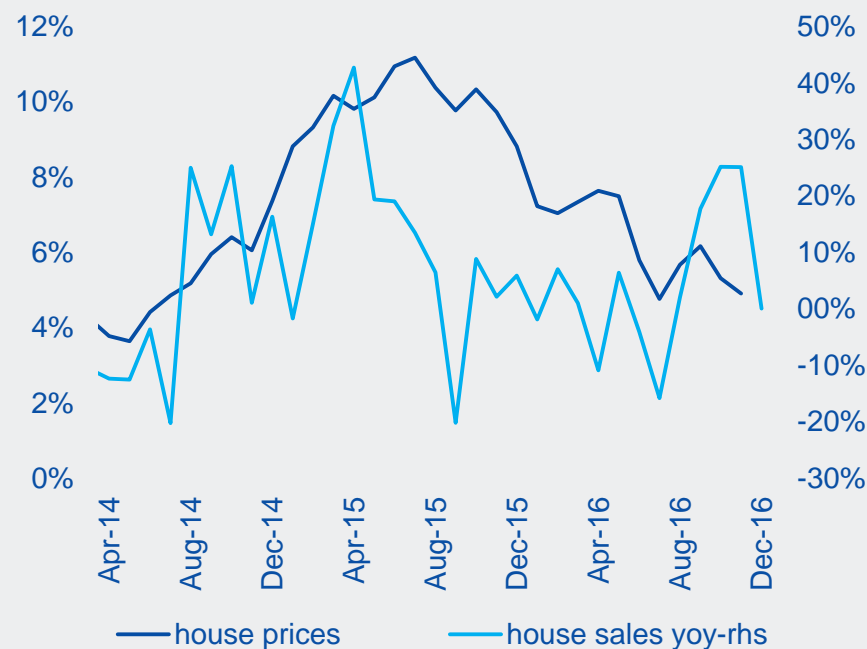
## HOUSE SALES & INTEREST RATE

YoY rates



## HOUSE SALES AND PRICES

YoY rates

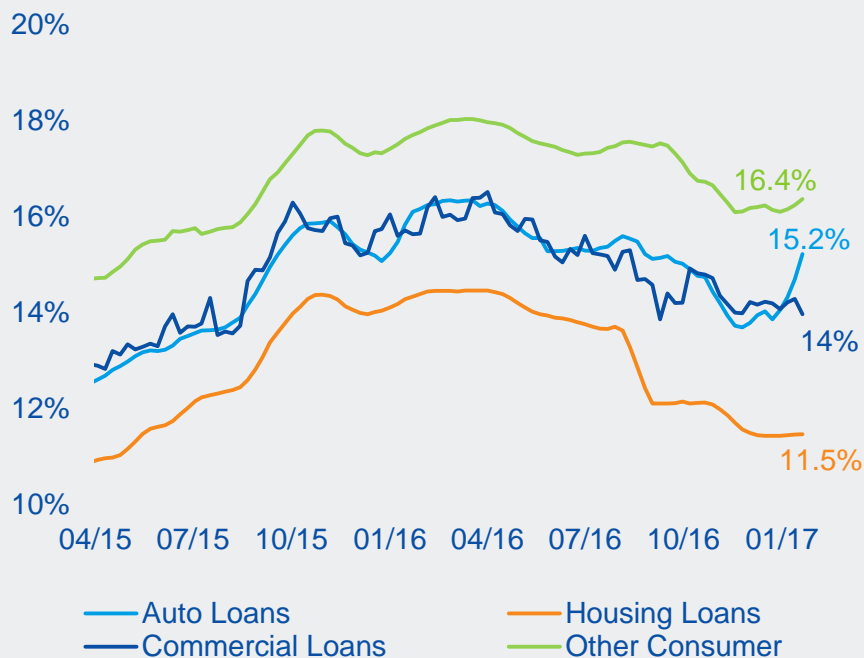


# Interest Rates

Interest rates on all consumer credits increased in January, mostly with 136bps in auto loans. Deposit rates remained sticky at 9.5% levels

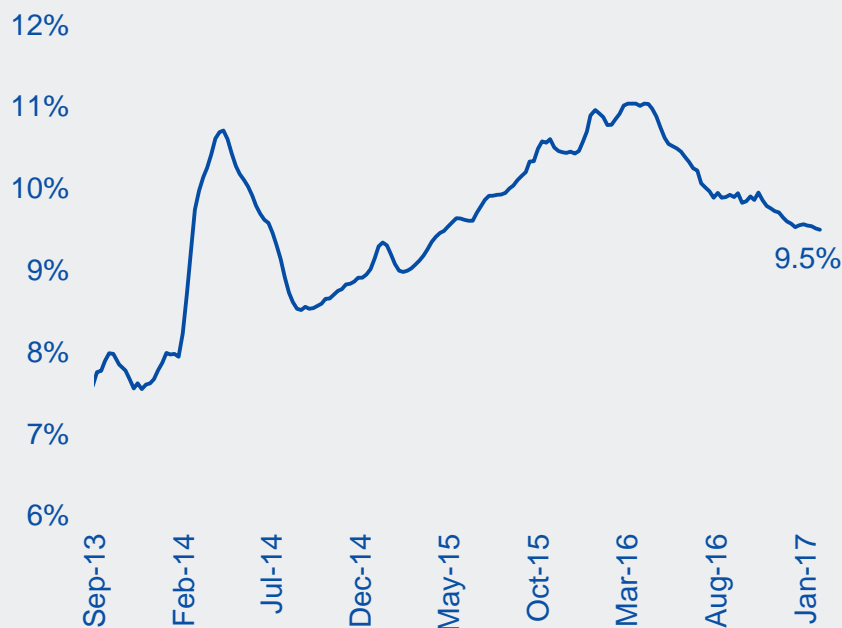
## COMM. AND CONSUMER LOANS INTEREST RATES

4week mov.avg.



## DEPOSIT INTEREST RATES

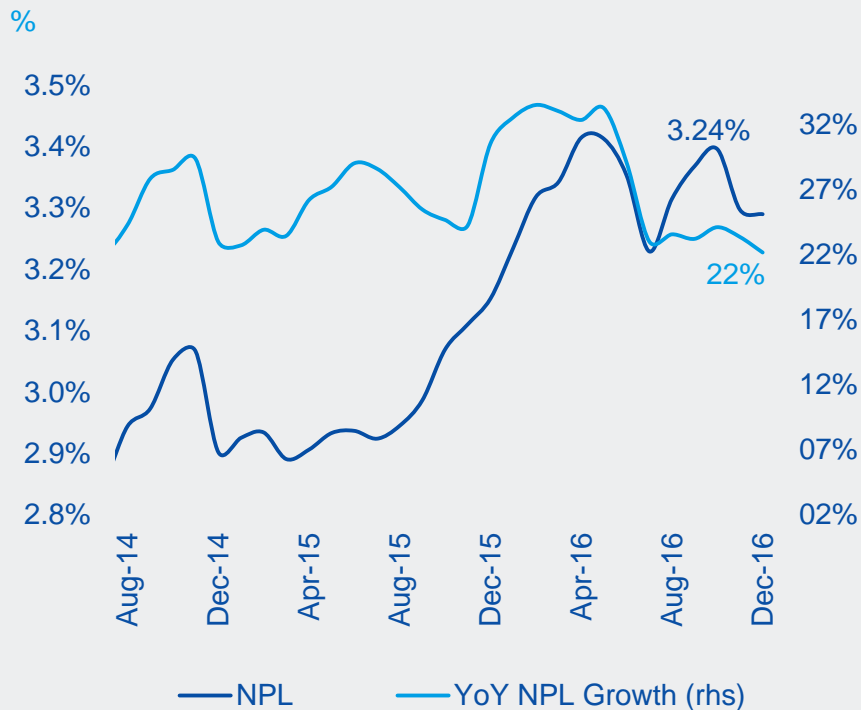
4week mov.avg.



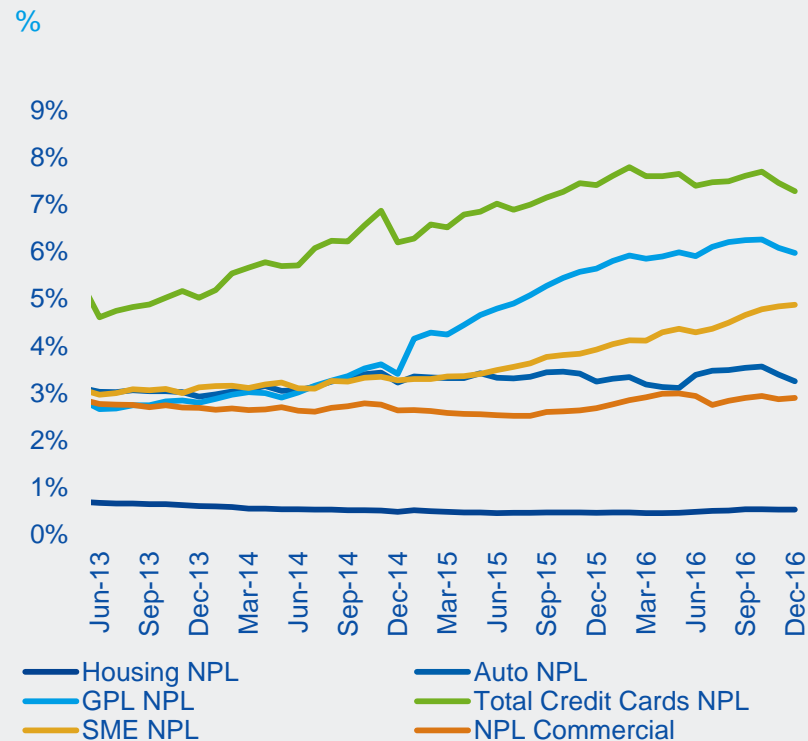
# Asset Quality & Credit Risk

Both the NPL ratio and its growth rate follow a downward trend

**NPL RATIO OF THE BANKING SECTOR**



**NPL RATIO BY SELECTED SUB-SEGMENTS**

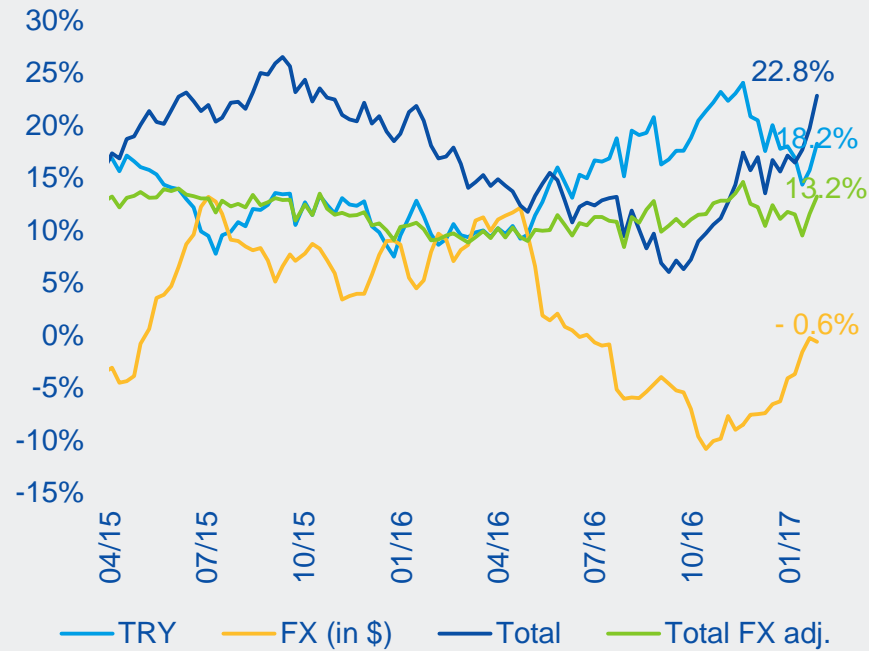




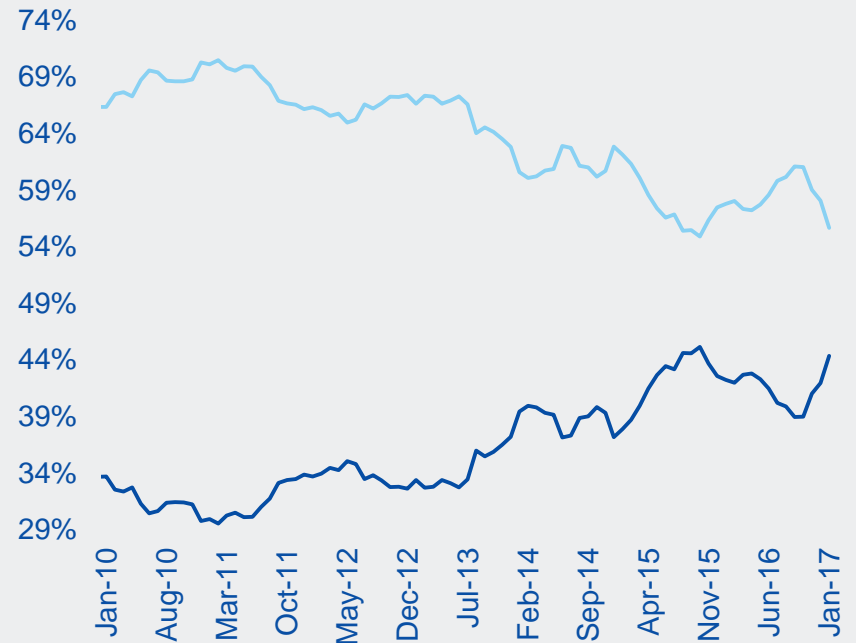
# Deposits

Total deposits (FX adj.) grew in January mostly on the back of growth in FX deposits

**DEPOSIT GROWTH RATE**  
YoY



**TL & FX DEPOSIT SHARE IN TOTAL DEPOSITS**

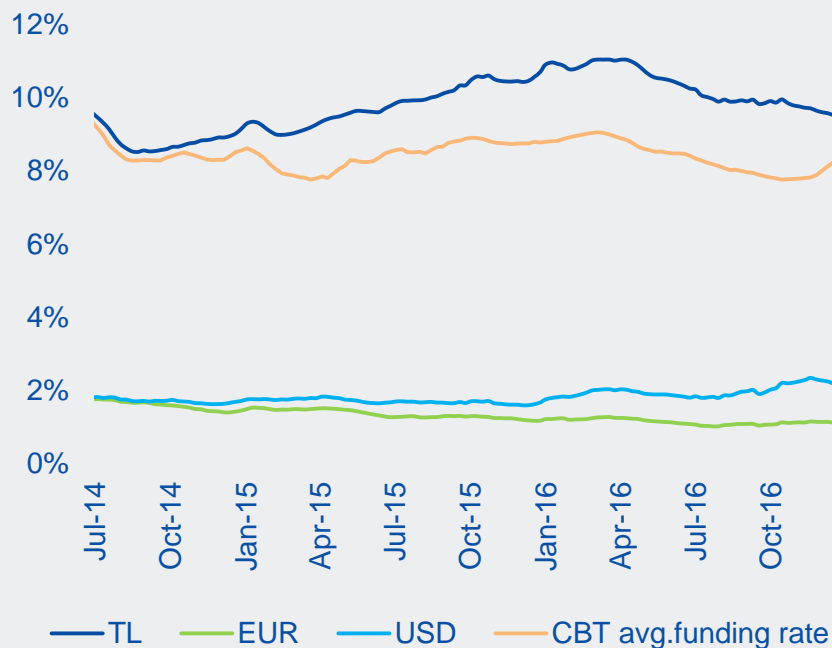


# Deposits

Compared to December'16, TL and EUR deposit rates stayed almost stable. USD deposit rates continued to rise by 11bps

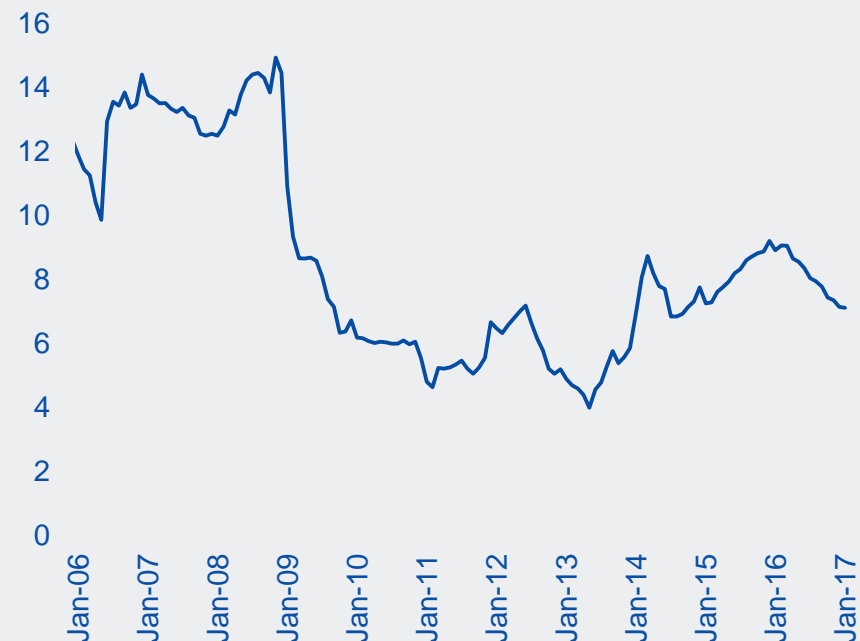
## DEPOSIT INTEREST RATES IN TL& € & \$

4week mov.avg



## SPREAD btw TL and USD DEPOSIT RATES

annual %

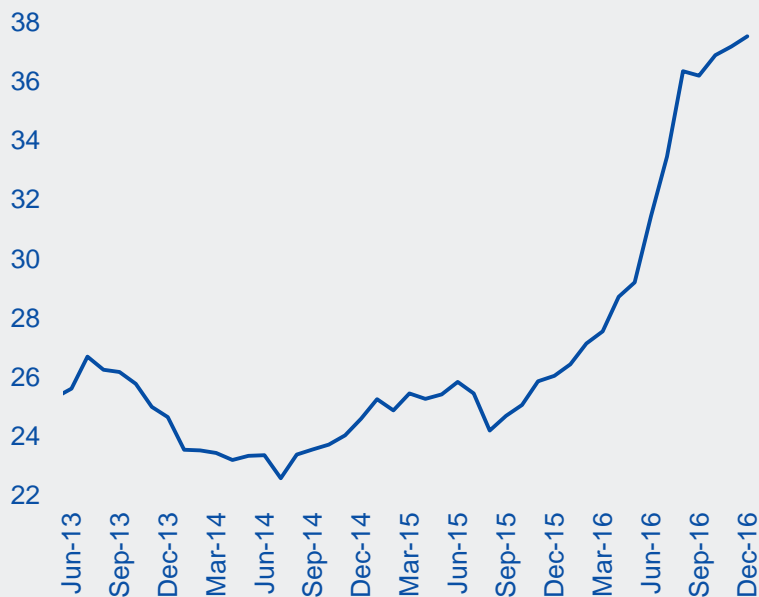


# Profitability

Net profit of the sector increased (yoy) by 16% in December compared to 11% rise in November. Hence, net profit of the sector in 2016 grew by 44%

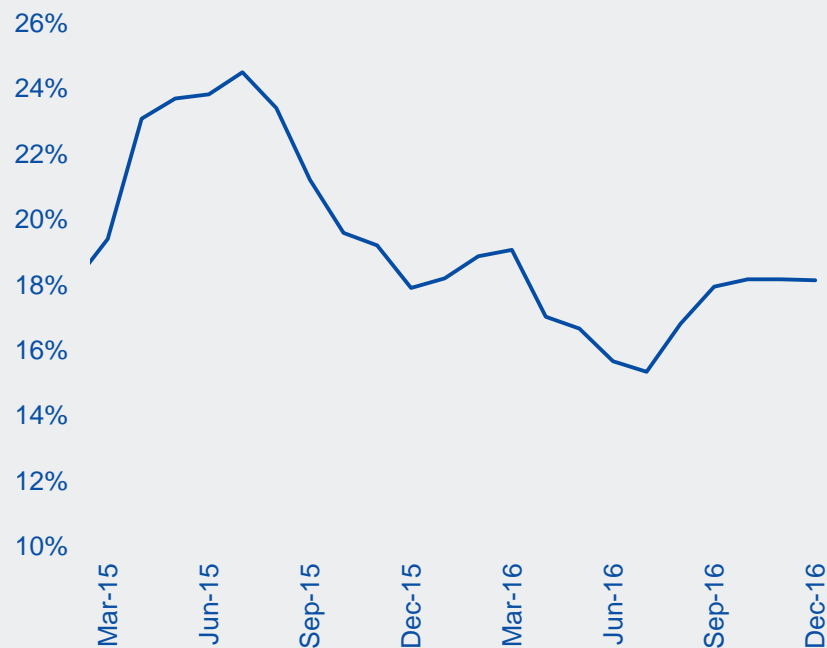
## NET PROFIT

12 month cum., billion TL



## NET INTEREST INCOME (NII)

12 month cum., %

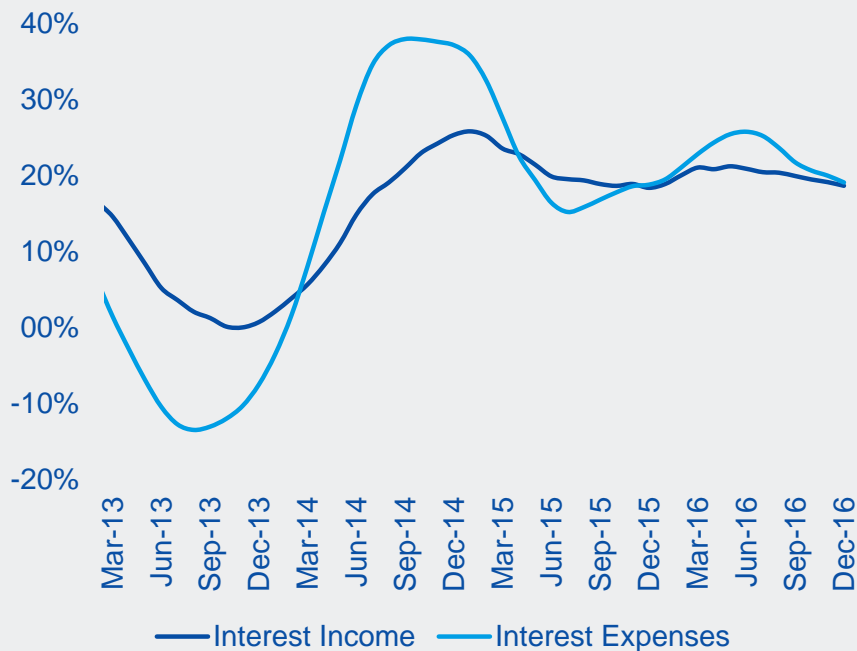


# Profitability

Interest income growth continued to hover around 20% in December . Net interest margin increased by 20bps in December with widening spreads

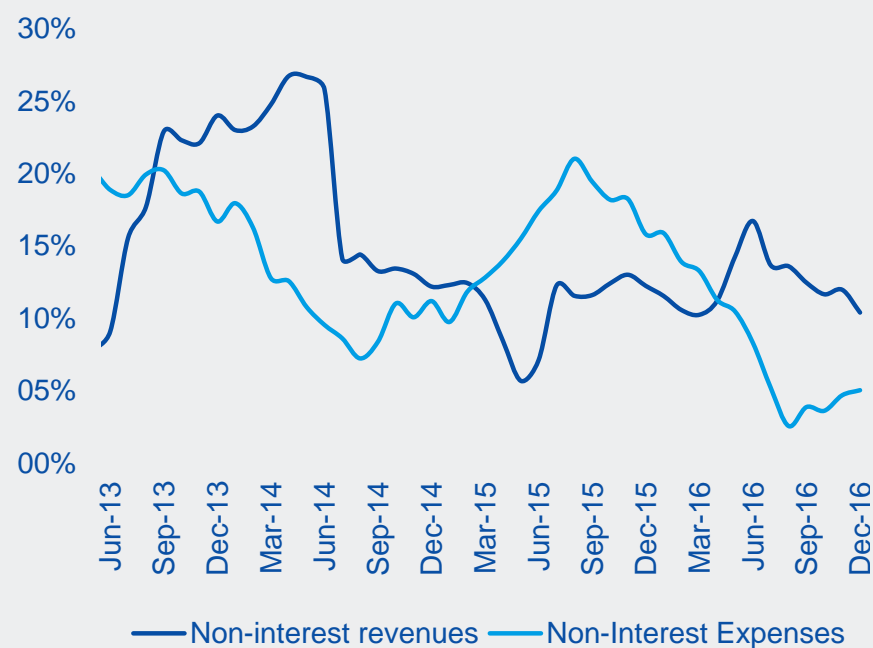
## INTEREST INCOME & INTEREST EXPENSES GROWTH

12 month cum., %



## NON-INTEREST INCOME & NON-INTEREST EXP.GROWTH

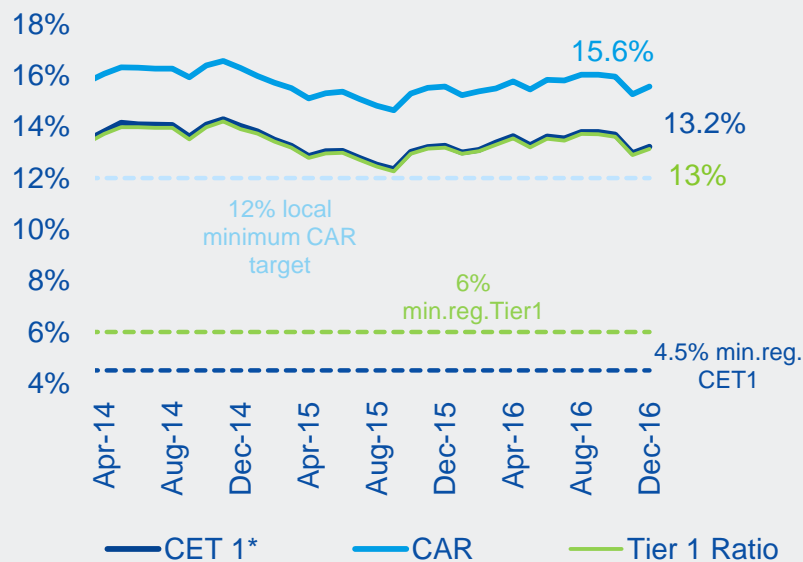
12 month cum., %



# Buffers

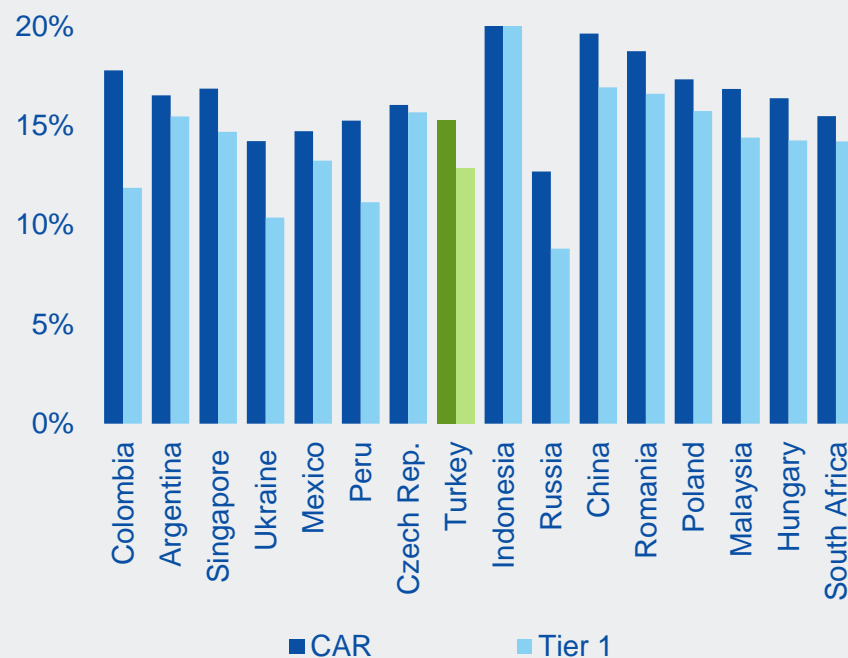
Both Capital Adequacy Ratio (CAR) and Common Equity Tier 1 increased by almost 30bps (MoM) with an increase in regulatory capital

CAPITAL ADEQUACY RATIO & CET 1 & TIER 1 RATIO



\*Banks have to maintain additional capital conservation buffer of +0.625% CET1 for 2016; phased-in to reach +2.5% CET1 until 2019.  
 Besides, banks that are determined as domestically systemic important (D-Sib) are required to add a certain additional amount of capital.  
 This is max.+0.5% CET1 for 2016; phased-in to reach max.+2% CET1 until 2019.

EM CAR & TIER 1 Ratio Q3'16



# Regulatory Changes

FX reserve requirement ratios have been reduced by 50 basis points for all maturity brackets aiming additional liquidity of approx. USD 1.5bln to the financial system

Banks' borrowing limits at the CBRT Interbank Money Market have been reduced to TL 11bln as of 16 January 2017

FX Deposits markets are opened against Turkish Lira Deposits market with the aim of enhancing flexibility and instrument diversity of TL and FX liquidity management

# Sovereign Credit Ratings Of Turkey

Following Moody's and S&P's downgrade decision on Turkey, Fitch also downgraded Turkey's sovereign credit rating by one notch to BB+ (non-IGL) based merely on political and security developments. Hence, Turkey lost its investment-grade position

	MOODY'S	S&P	FITCH
2012	Ba1	BB	BBB-
2013	Baa3	BB+	BBB-
2014	Baa3	BB+	BBB-
2015	Baa3	BB+	BBB-
06.05.2016		BB+	
20.07.2016		BB	
19.08.2016			BBB-
23.09.2016	Ba1		
04.11.2016		BB	
27.01.2016		BB	BB+
Current (non IGL)	Ba1	BB	BB+

	MOODY'S	S&P	FITCH
	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
Investment Grade Level (IGL)	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
non IGL	Ba1, Ba2, Ba3 B1, B2, B3	BB+,BB, BB- ,B+,B,B-	BB+,BB, BB- ,B+,B,B-

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**JANUARY**  
FEBRUARY 6th

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