

Turkey: Quarterly Banking & Financial Stability Monitor

March 2018

[Deniz Ergun](#)



Key messages

1. Since 3Q 2017, credit growth converged to its historical average and stabilized at these levels as a result of the expected normalization
2. The increase in FX deposits and the acceleration in TL loans urged banks to find additional TL funding causing a further increase in interest rates
3. The banking sector preserves its strong liquidity position against possible shocks with high Liquidity Coverage Ratios
4. The asset quality of the banking sector remains strong. With the push of the credit channel and the pick up in economic activity, the decreasing amount of additions to NPLs and write-offs as well as the restructuring processes contributed to the preservation of asset quality



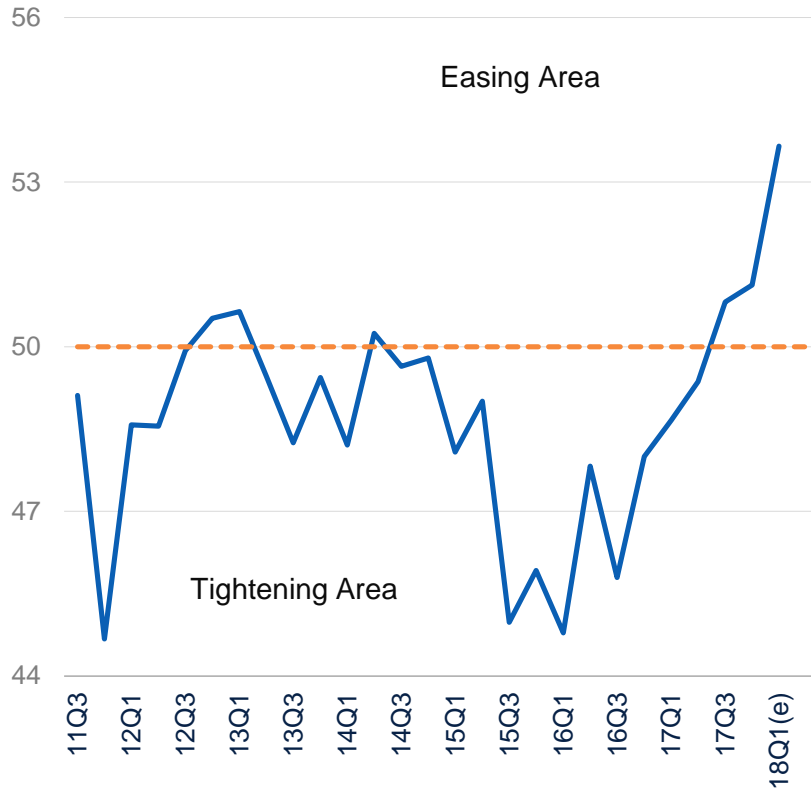
Global

Improved Bank Lending Conditions in EMs

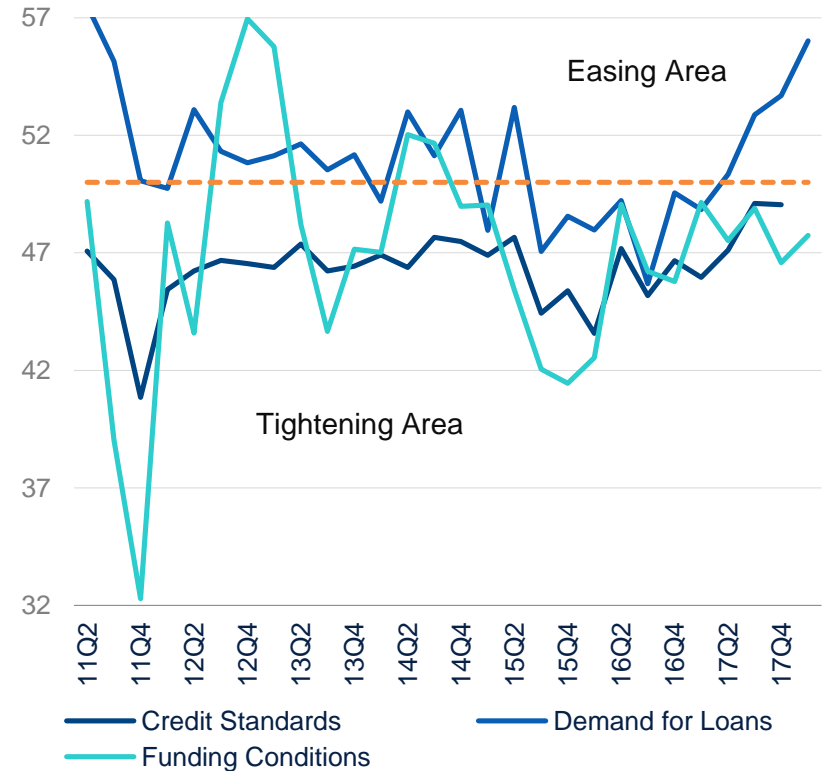


Bank lending conditions in EMs eased for two consecutive quarters in 4Q`17 and are expected to ease further in 1Q`18. Upward trend in demand for loans suggests a recovery in global trade and economic activity

EM Bank Lending Conditions
(Levels)

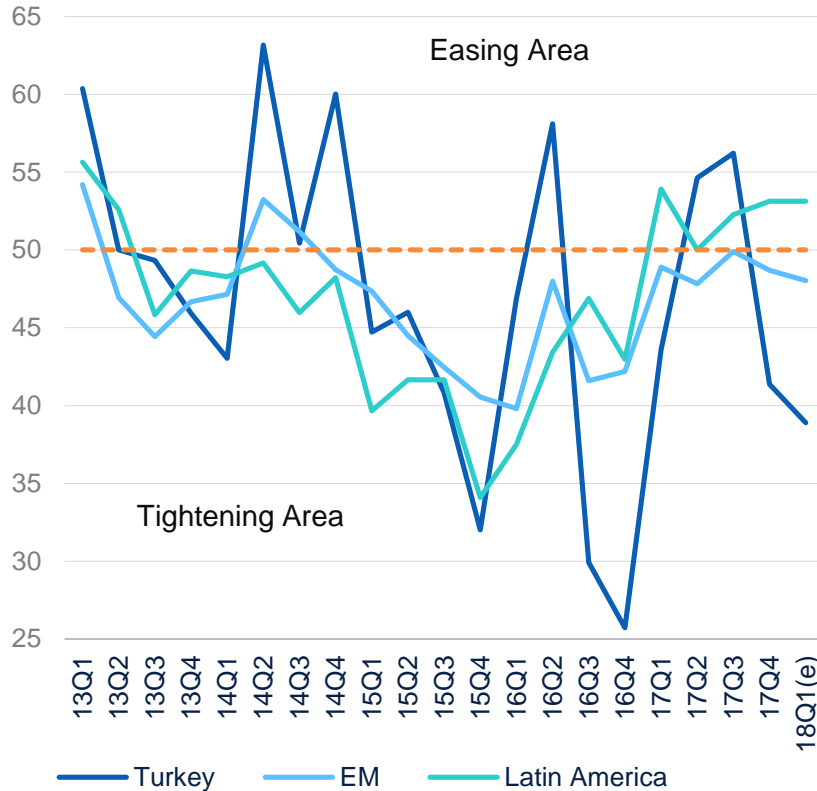


EM Bank Lending Conditions
(Levels)

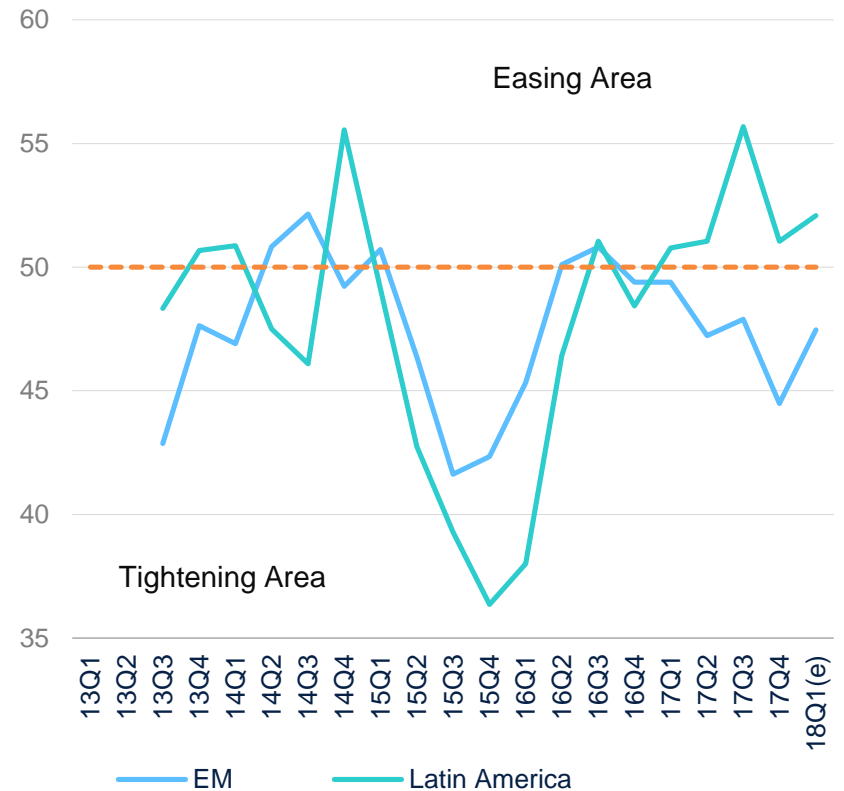


In 1Q18, local funding conditions are expected to improve somewhat where funding from international markets is expected to remain unchanged

EM Banks International Funding Conditions (Levels)

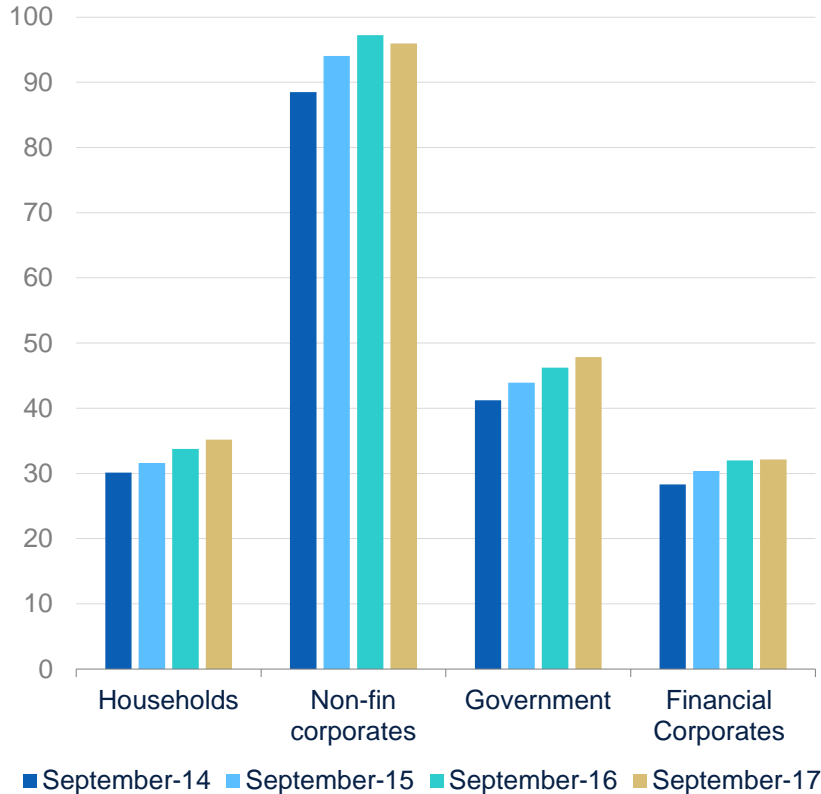


EM Banks Domestic Funding Conditions (Levels)

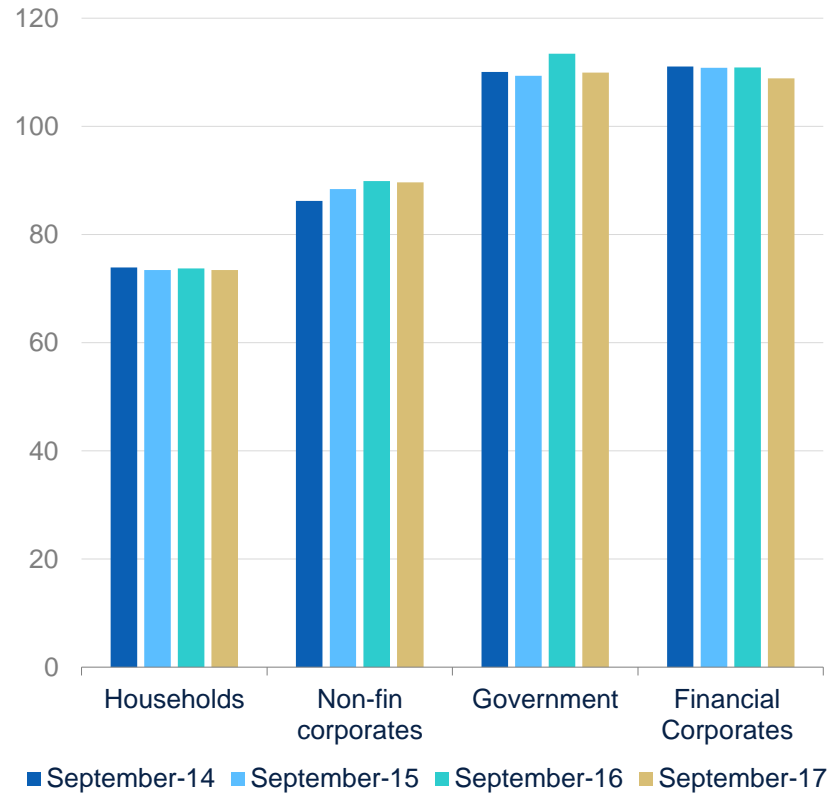


Global debt/GDP ratio in 3Q'17 declined for a fourth consecutive quarter as synchronized global growth boosted the denominator. The biggest build-up in EMs is in non-fin. corporates, though with some decline in the latest data

EM Debt by Sector
(% of GDP)

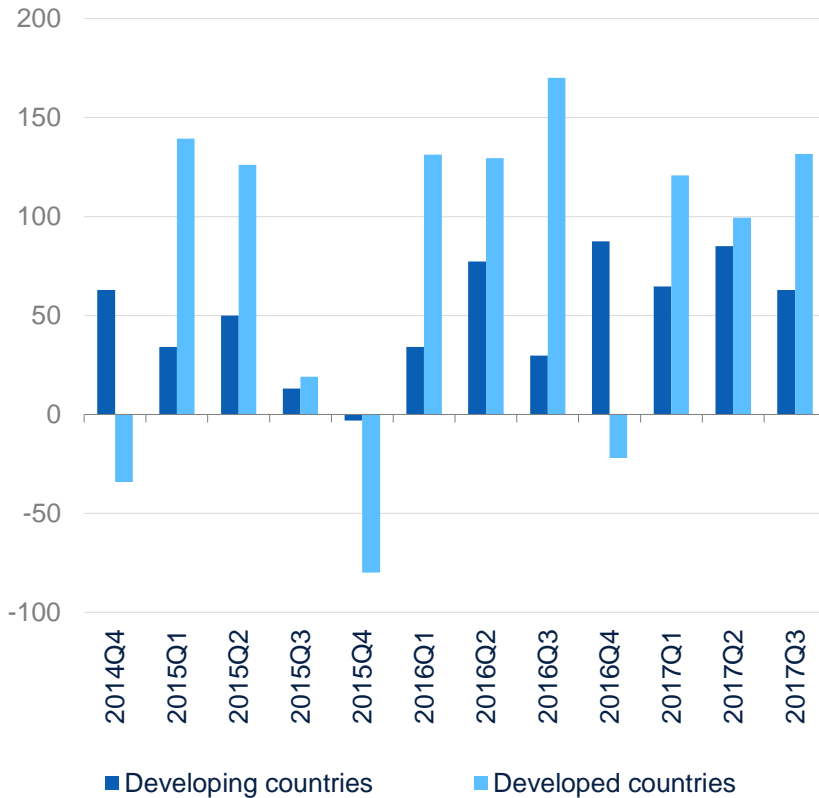


Developed Markets by Sector
(% of GDP)

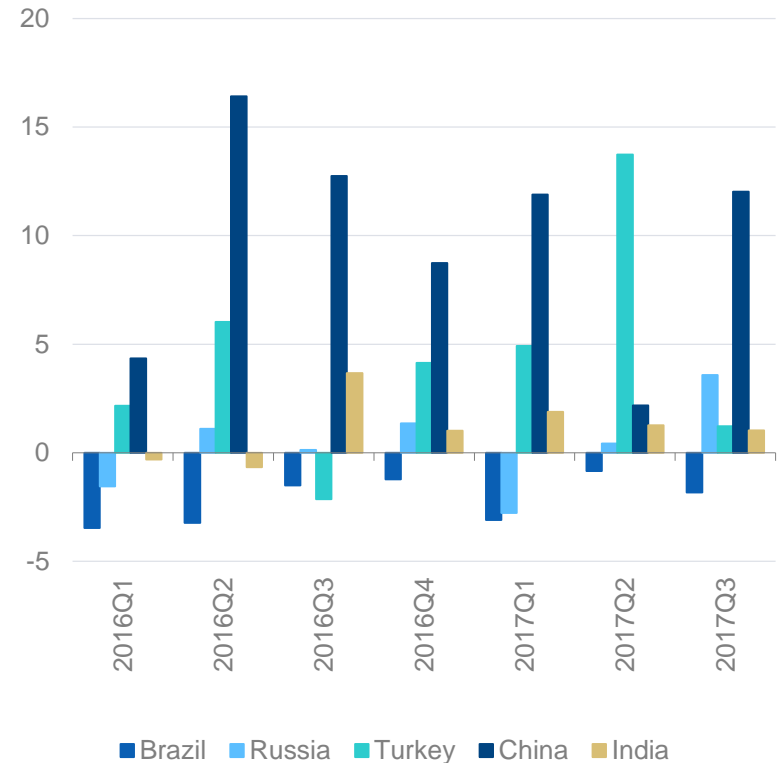


International debt securities issuance by developing countries declined by almost 26% in 3Q'17 compared to the previous quarter

International Debt Securities Issued
(Net Issuance, USD bln)

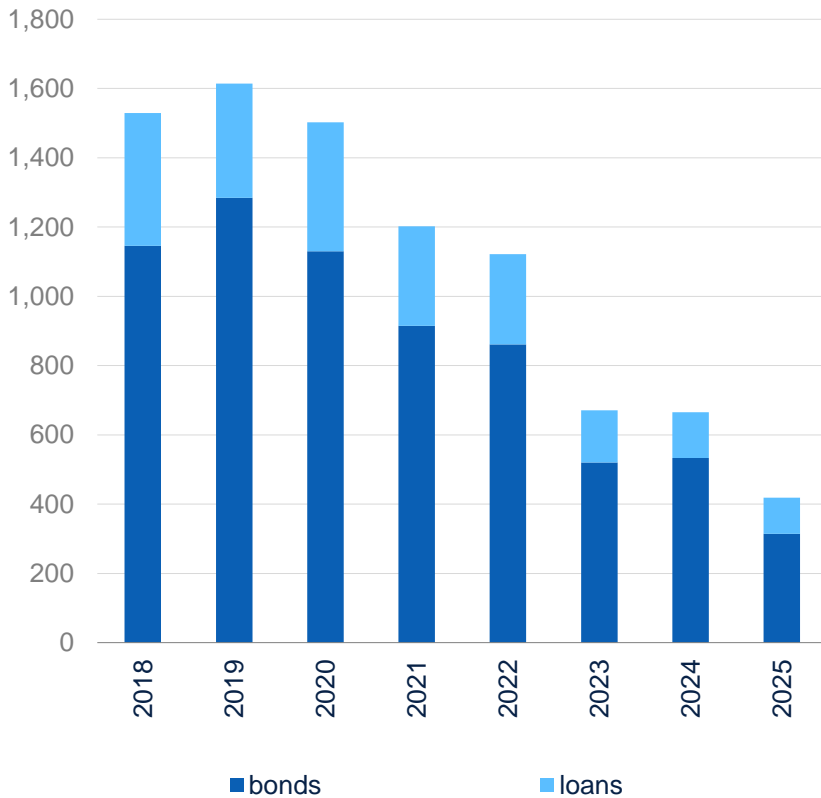


International Debt Securities Issued by EMs
(Net Issuance, USD bln)

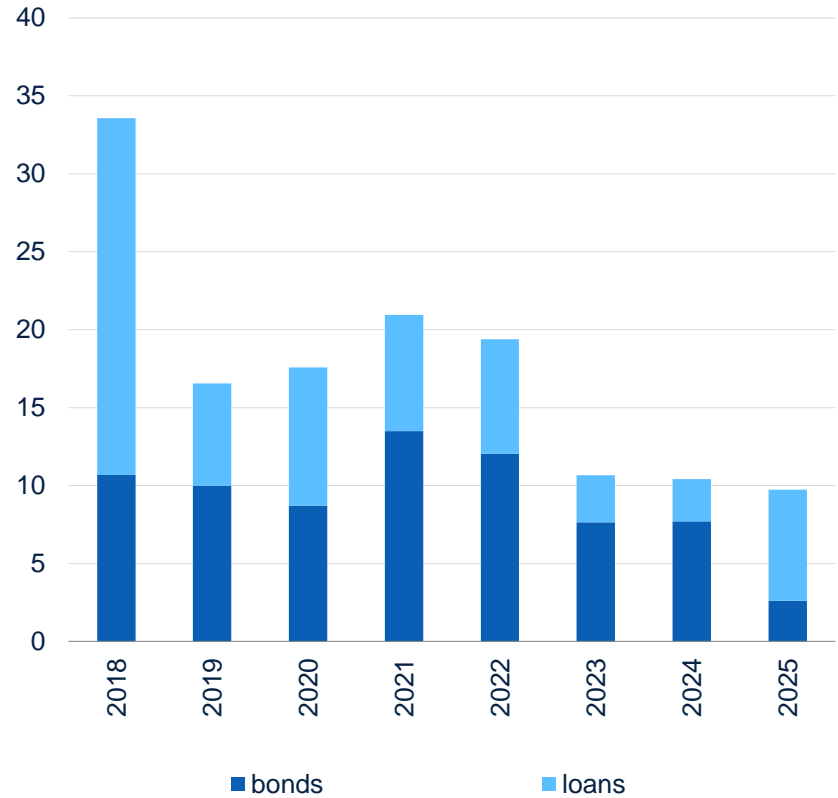


Rollover risk for EMs is high in 2018: USD 1.5 trillion of bonds& syndicated loans come due through end-2018

EM Debt Maturity Profile
(USD bln)



Turkey Debt Maturity Profile
(USD bln)

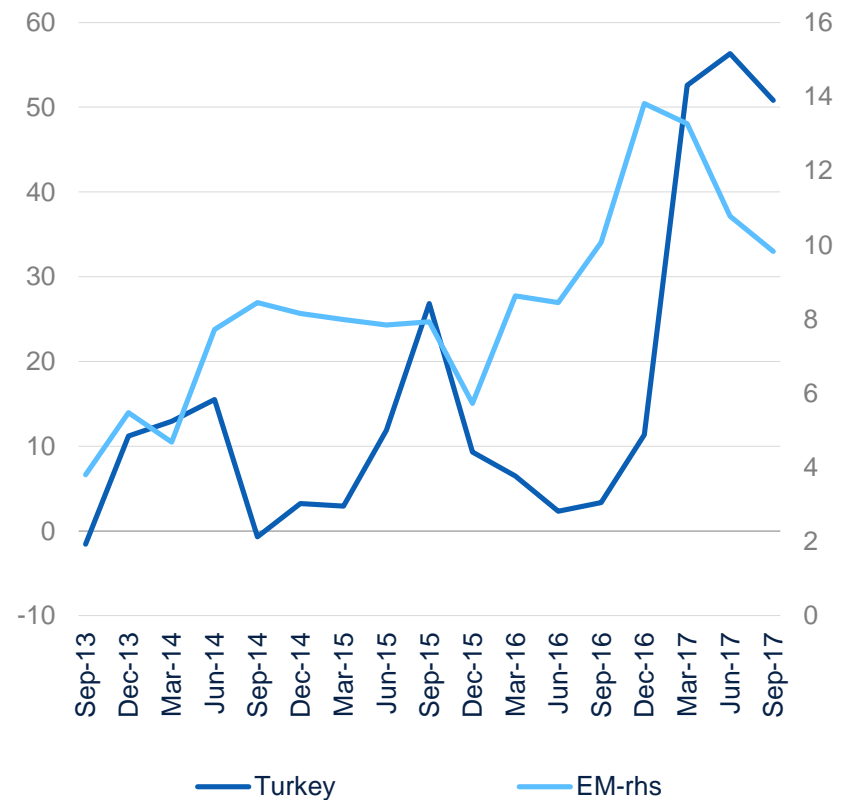


In loans borrowers' profile, non-bank borrowers in Turkey seem to somewhat switch to Euro based credits.

Total USD credit to non-bank borrowers*
(% yoy)



Total EUR credit to non-bank borrowers
(% yoy)



*According to the BIS definition, non-bank borrowers refer to all entities other than those defined as banks. Total credit by currency of denomination is composed of credit extended by all (foreign and domestic) lenders. Specifically, it is composed of loans extended by banks and purchases of debt securities by both banks and non-banks (as proxied by issues of debt securities).

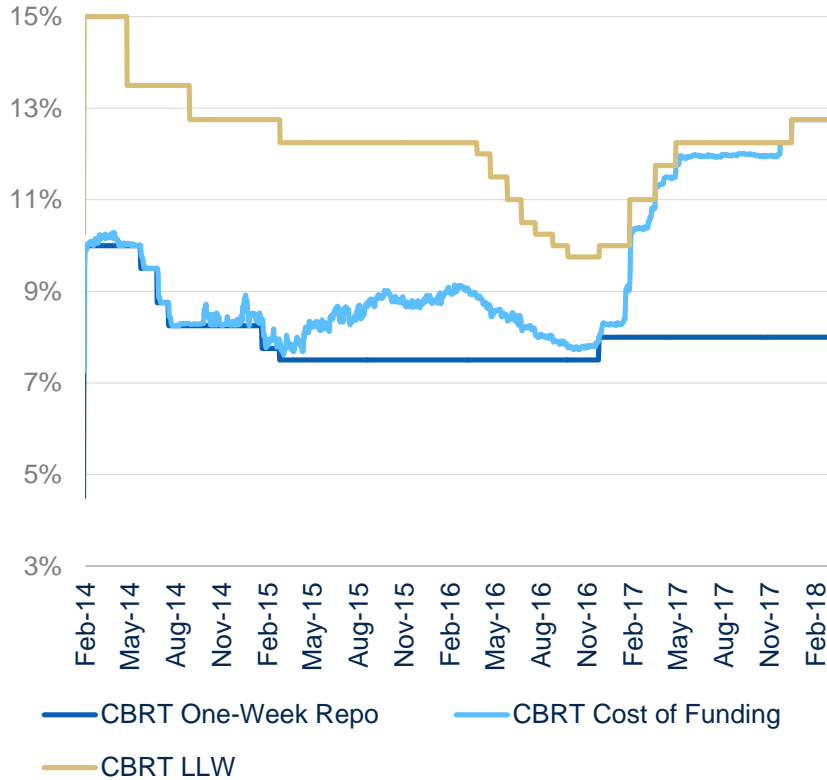
Turkey: Monetary Policy and Interest Rates

Tight Monetary
Policy Stance,
Contained Monetary
Transmission

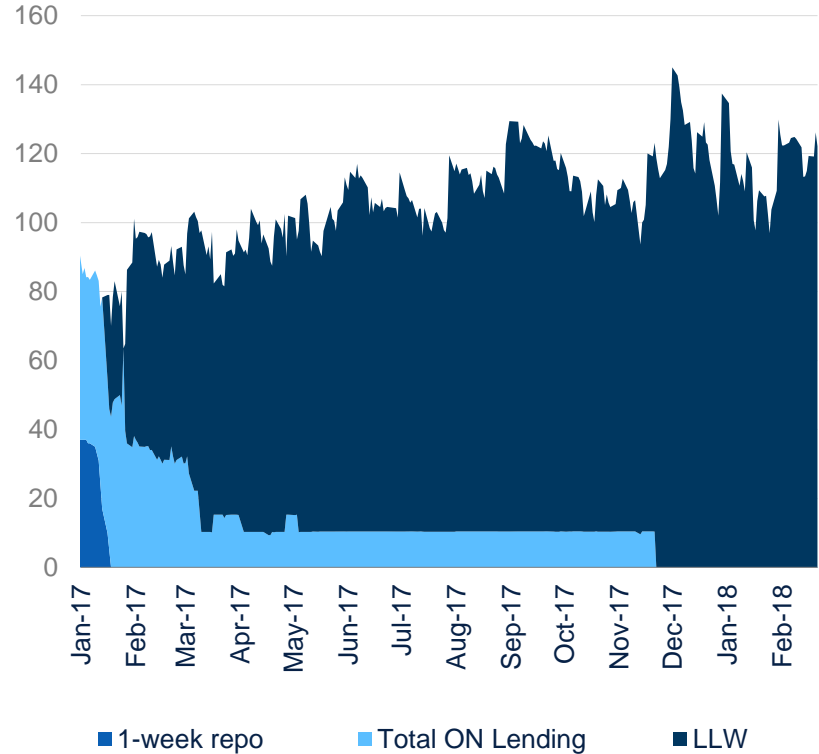


The CBRT maintains the tight policy stance by utilizing only Late Liquidity Window (LLW) interest rate. The average funding rate increased to 12.75% by around 450bps during 2017

TURKEY: Interest Rate Corridor (%)



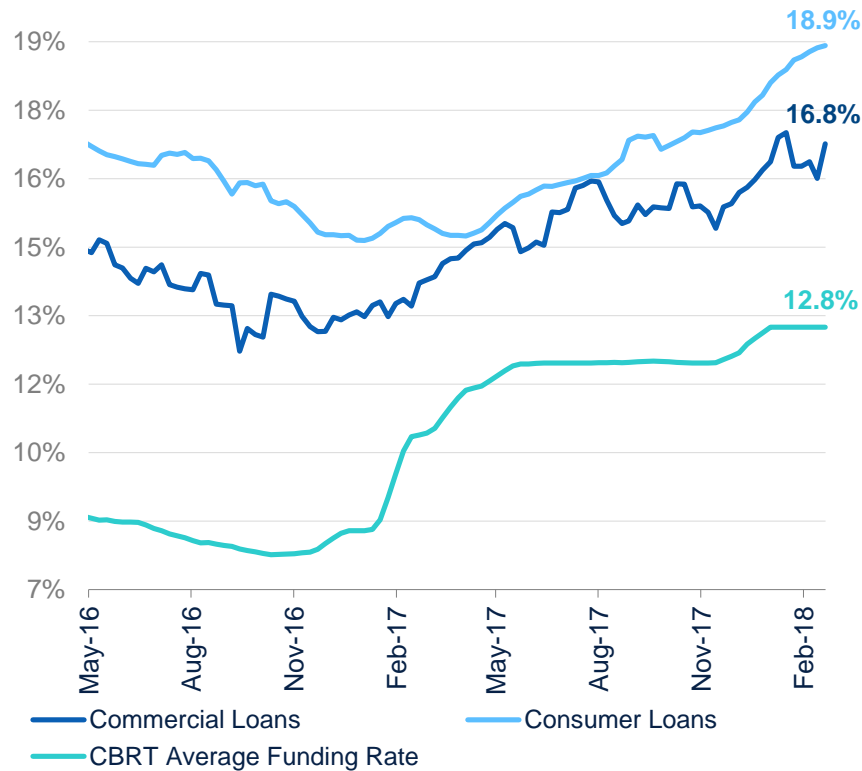
TURKEY: CBT Funding Composition (Bln TRY)



Consumer interest rates increased more than commercial rates contributing to widening spreads, though the transmission mechanism remained contained on high loan growth rates due to the CGF in 2017

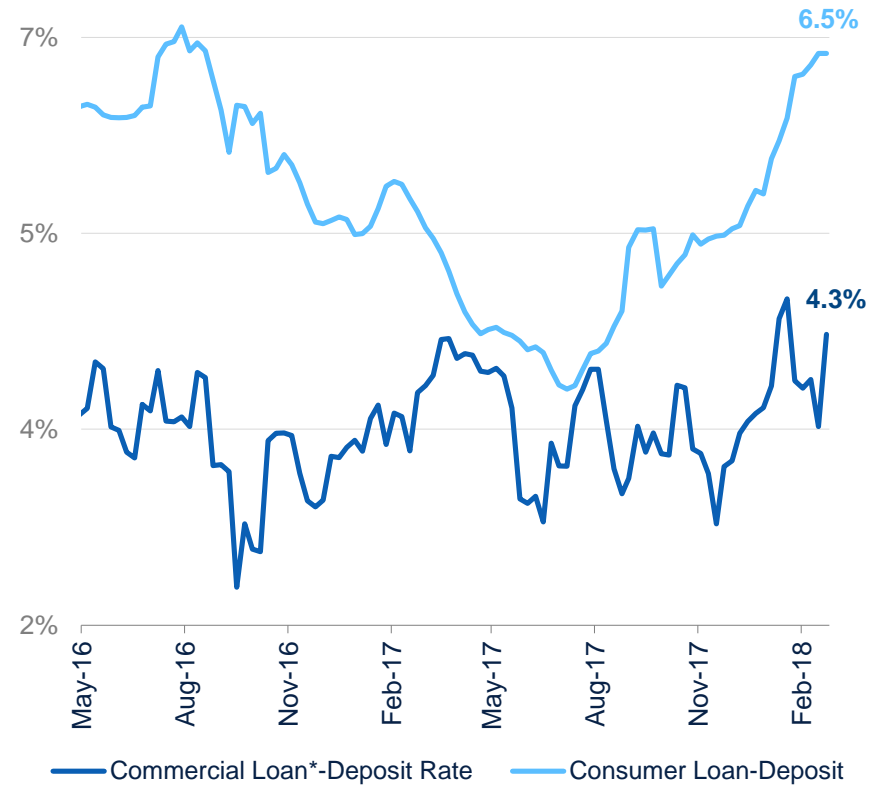
Interest rates

(% 4 week mov.avg.)



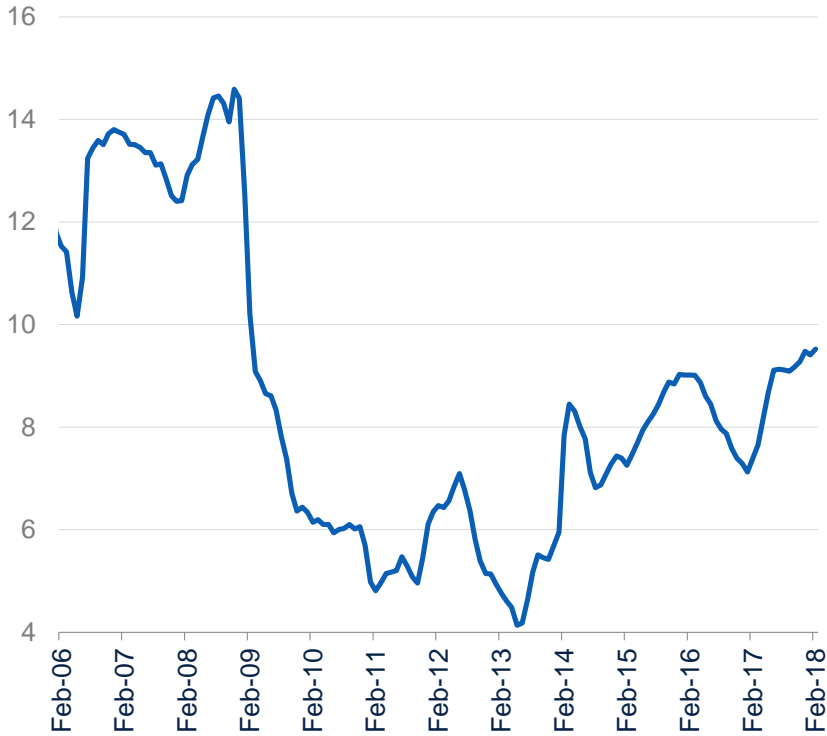
Interest Rate Spreads

(% 4 week mov.avg.)

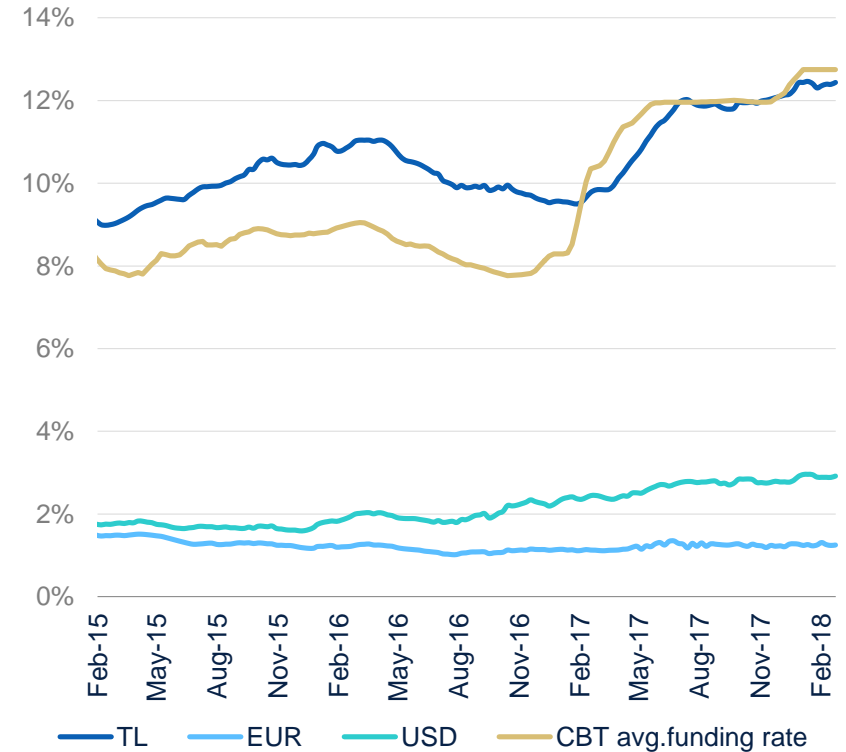


Interest rates spread between USD and TL deposits continues to widen since 2017 with increasing TL rates

Spread btw TL and USD Deposit Rates
(%)



Deposit Interest Rates in TL & EUR & USD
(% 4 week mov.avg.)



Turkish Banking Sector: Credit Developments

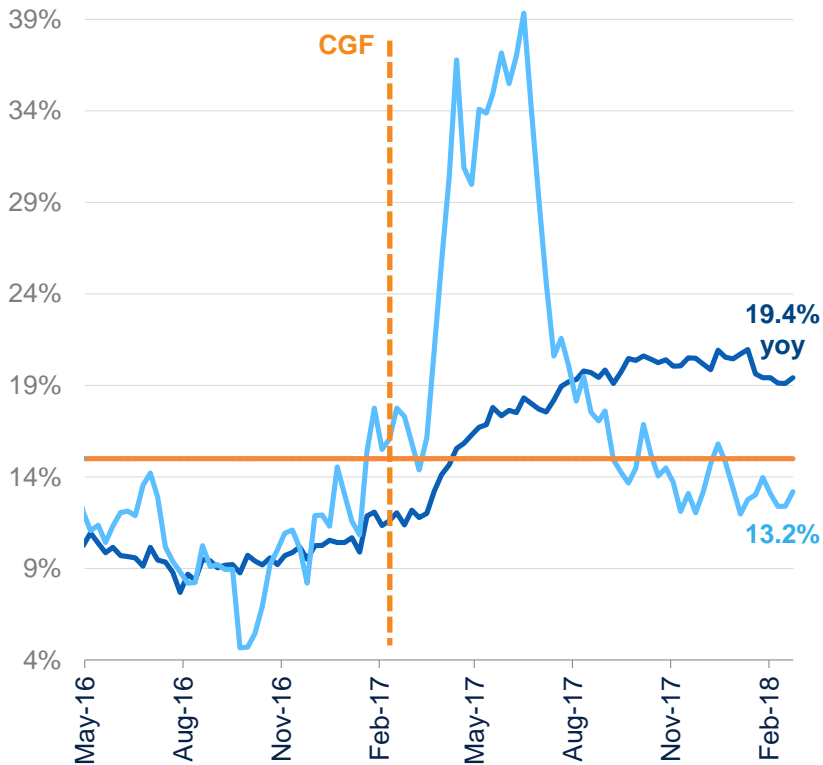
Normalization in Credits
Decline in NPLs



Supportive fiscal and macroprudential policies assisted credit growth through both supply and demand channels in 2017. As of 1Q'18, with the waning impact of these incentives, loan growth slowed and converged to its historical average

Credit Growth

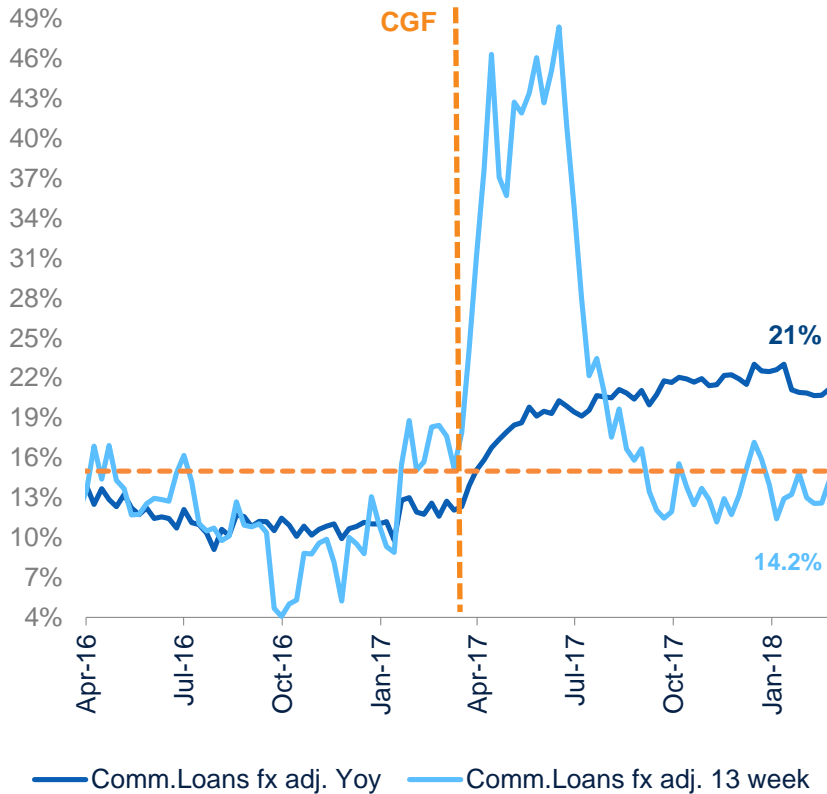
(Fx adj. Yoy and 13-week annualized)



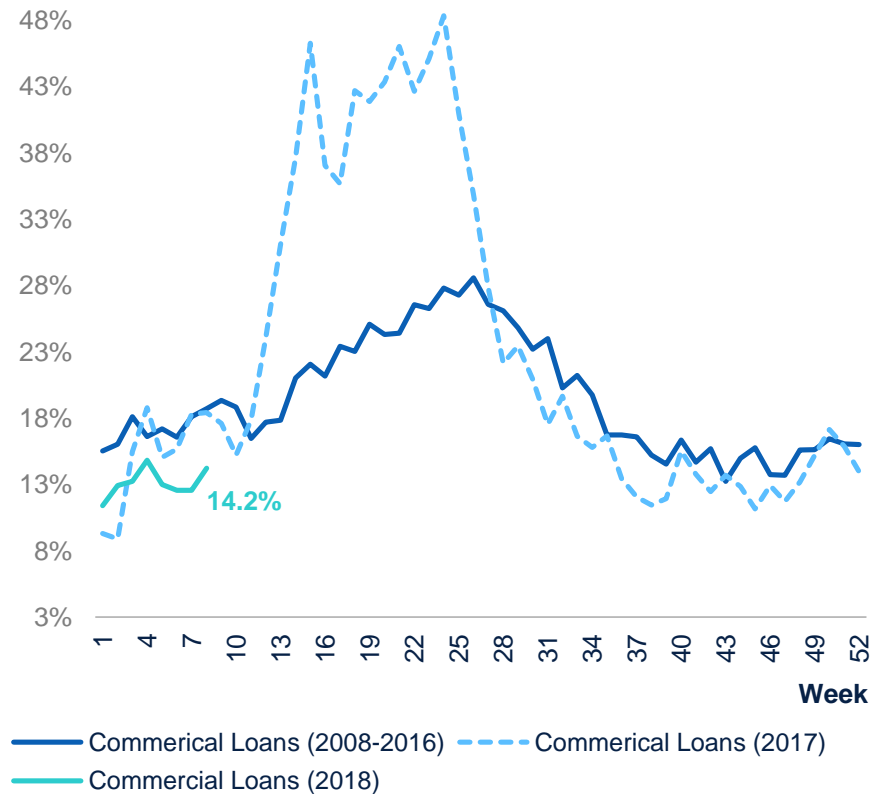
- ❖ From 3Q 2016 until 3Q 2017, credit volume has increased significantly owing to the macro-prudential policies, domestic public measures and incentives, and the CGF credit support, both in commercial and consumer loans
- ❖ Since 3Q 2017, credit growth converged down to its historical average.
- ❖ As of end of Feb'17 annual credit growth stands at 19.4%

Corporate loan growth rates accelerated throughout 1H'17, mainly thanks to Treasury-backed CGF scheme. Since 2H'17, it converges to its historical averages as the loan issuance reaches the upper limit of the CGF scheme

Commercial Loans Growth Rate (%)

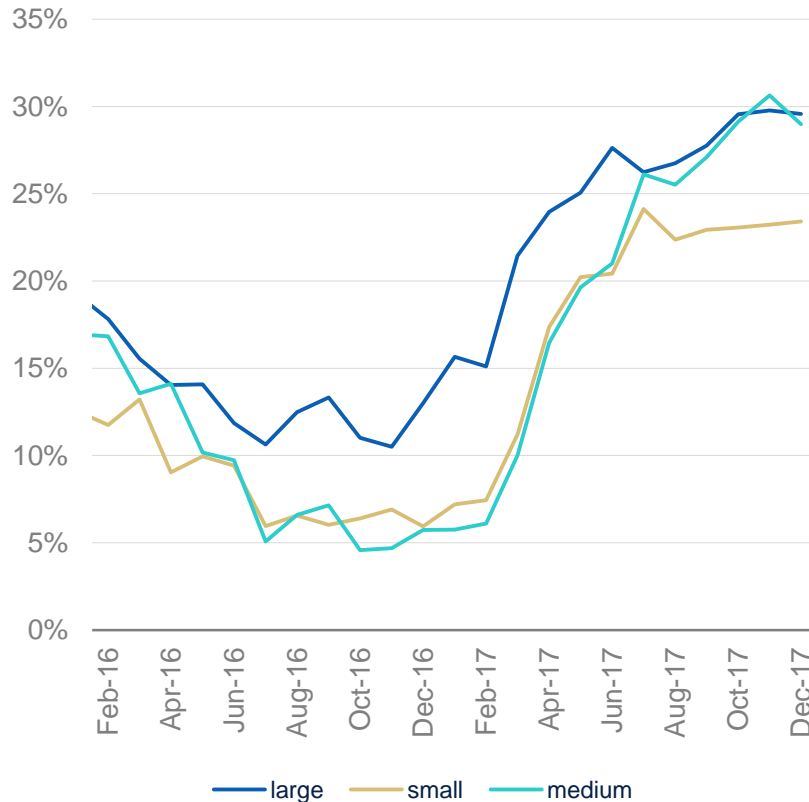


Commercial Loans Growth Rate (Fx adj. Yoy %)

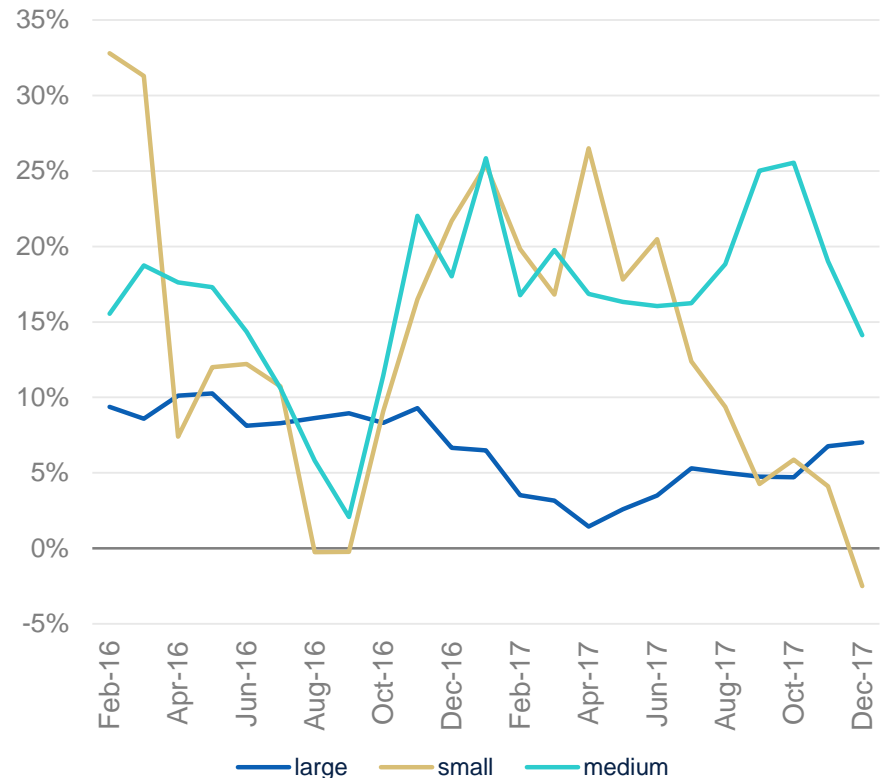


TL commercial loans grew across all firm sizes. Contrary to TL loans, firms decreased their FX loan utilization in all segments in spite of higher TL loan interest rates and lower domestic FX loan rates*

TL Commercial Loans Growth Rate
(yoy %)



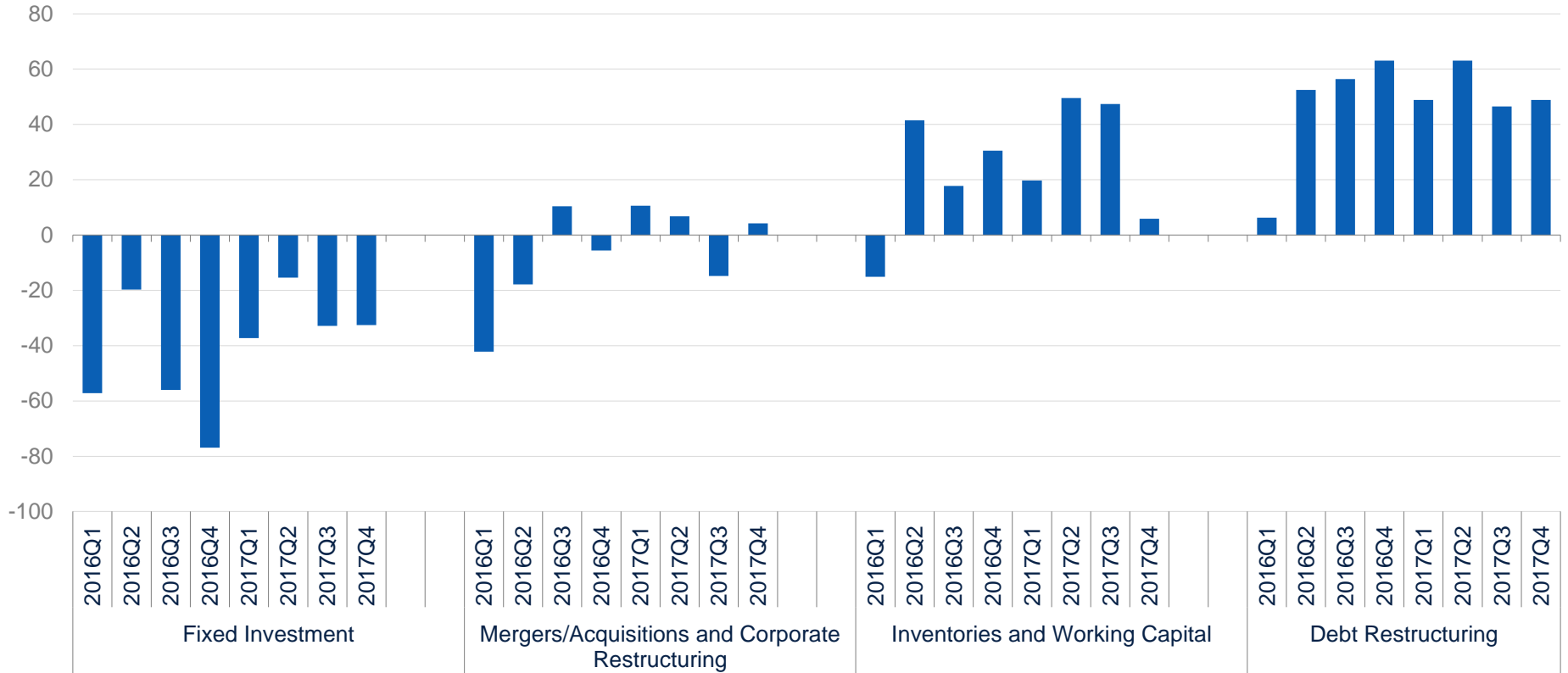
FX Commercial Loans Growth Rate
(yoy %)



*Due to data restriction, FX indexed credits are included in TL loans.

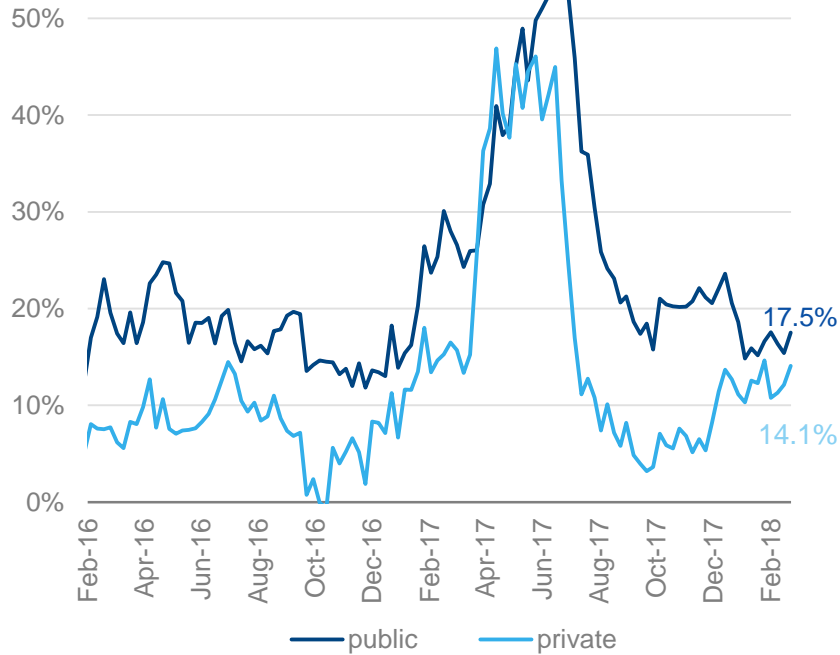
Real sector's credit demand targeted debt restructuring purposes

CBRT Bank Loans Tendency Survey Financing Needs of the Real Sector



Credit growth rate is higher in public banks thanks to the incentives provided to public banks

Commercial Credits by Public & Private Banks
YoY (%)

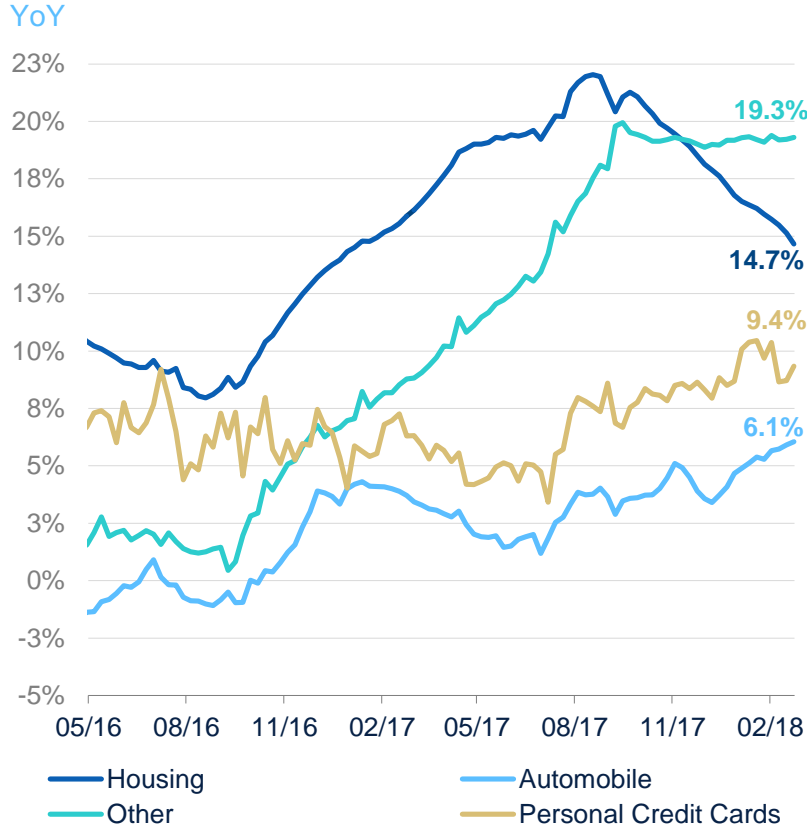


Consumer Credits by Public & Private Banks
YoY (%)

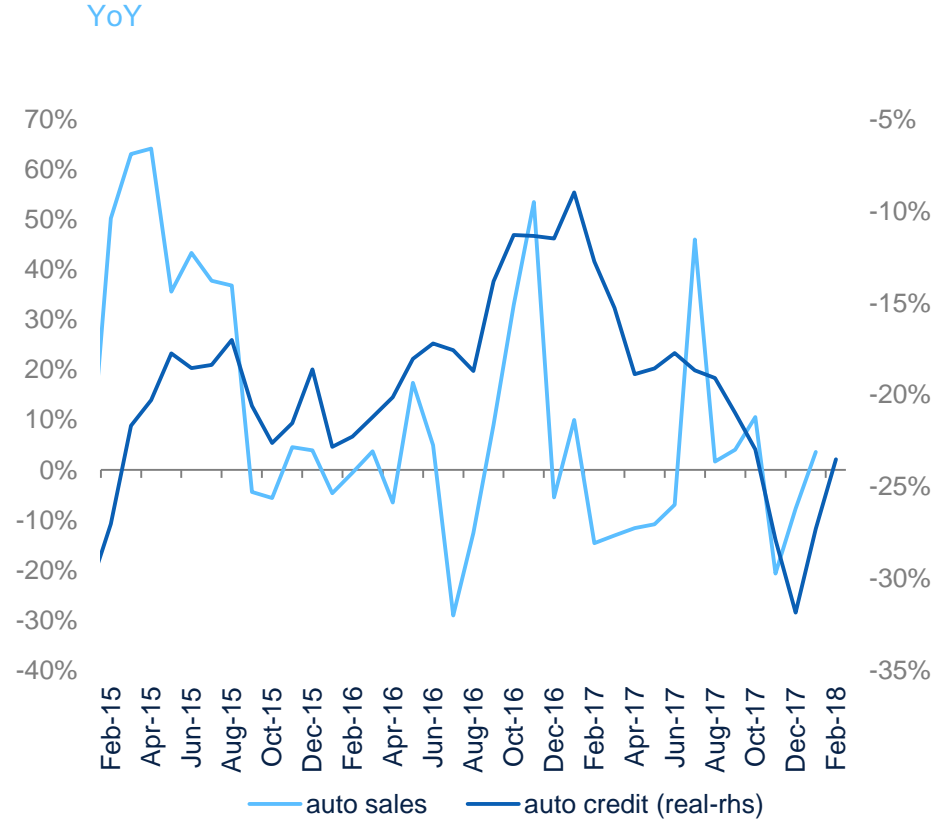


Consumer credits follow a slower path in 1Q'18 with general purpose loans standing as the fastest growing loan type. Weak auto sales is followed by weak auto credits

Consumer Credits



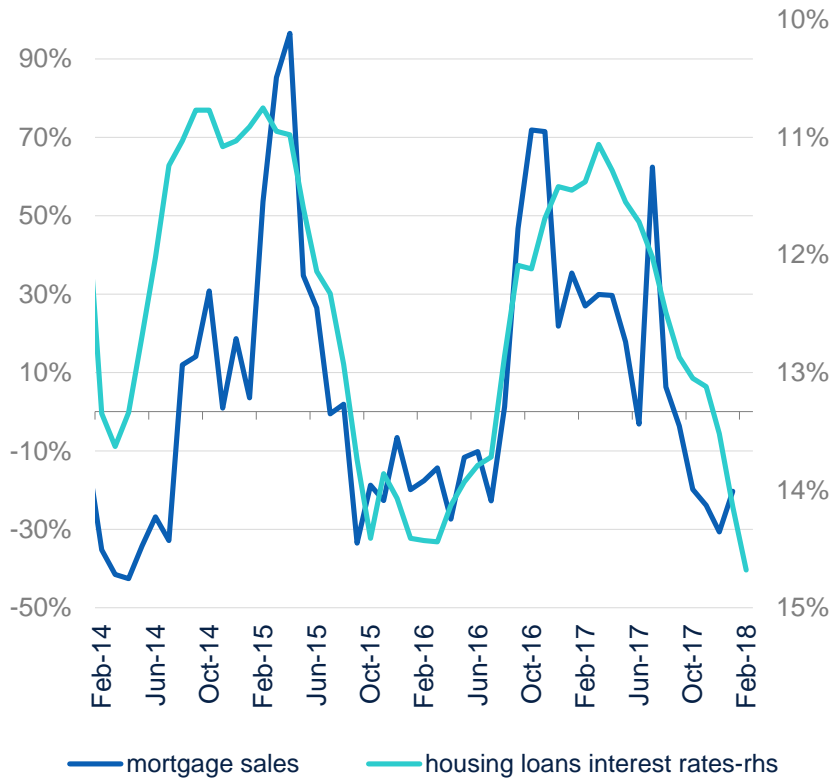
Auto Credits (in real terms) and Auto Sales



Housing credits stood as the fastest growing consumer loan type in 1H2017*. In the first 2 months of 2018, with increasing housing loan interest rates, both house sales and housing credits decelerated sharply

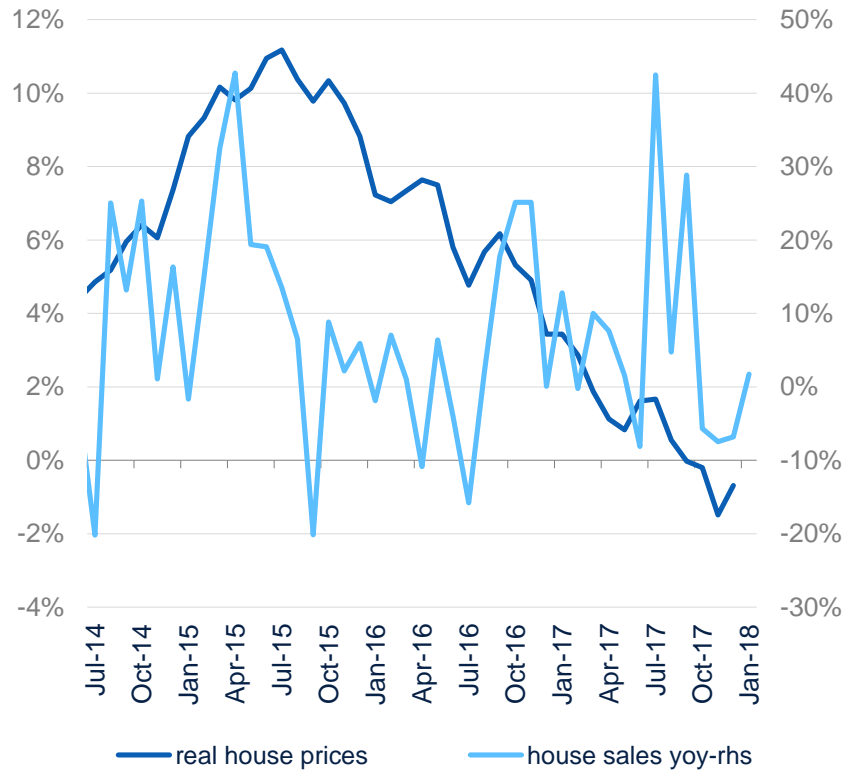
House Sales and Interest Rates

YoY



House Sales and Prices

YoY

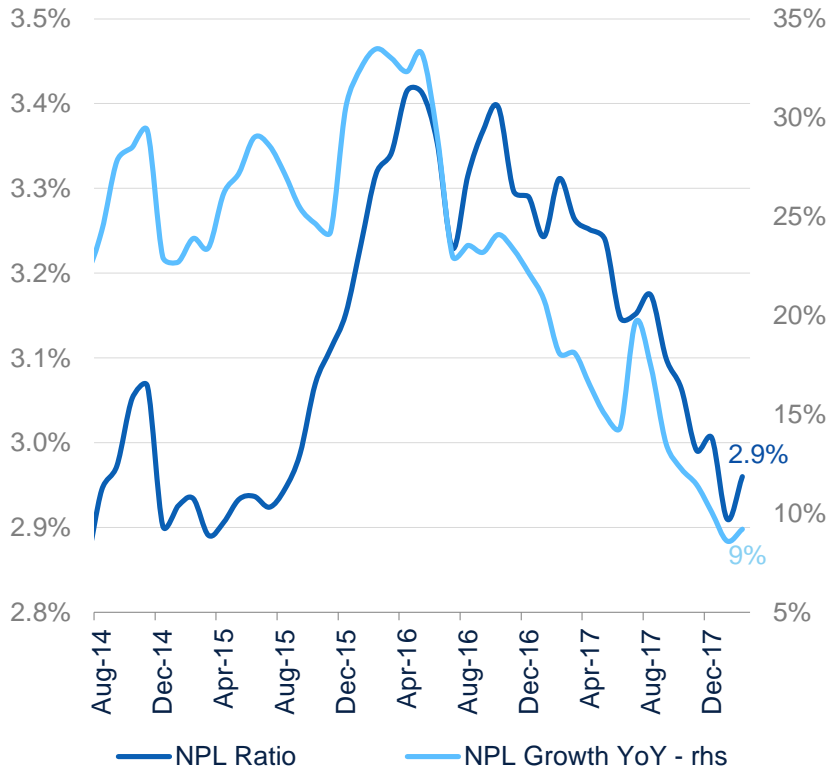


* This development is also related to the fact that the maximum loan-to-value ratio limit applied to housing loans were increased from 75% to 80% in September 2016.

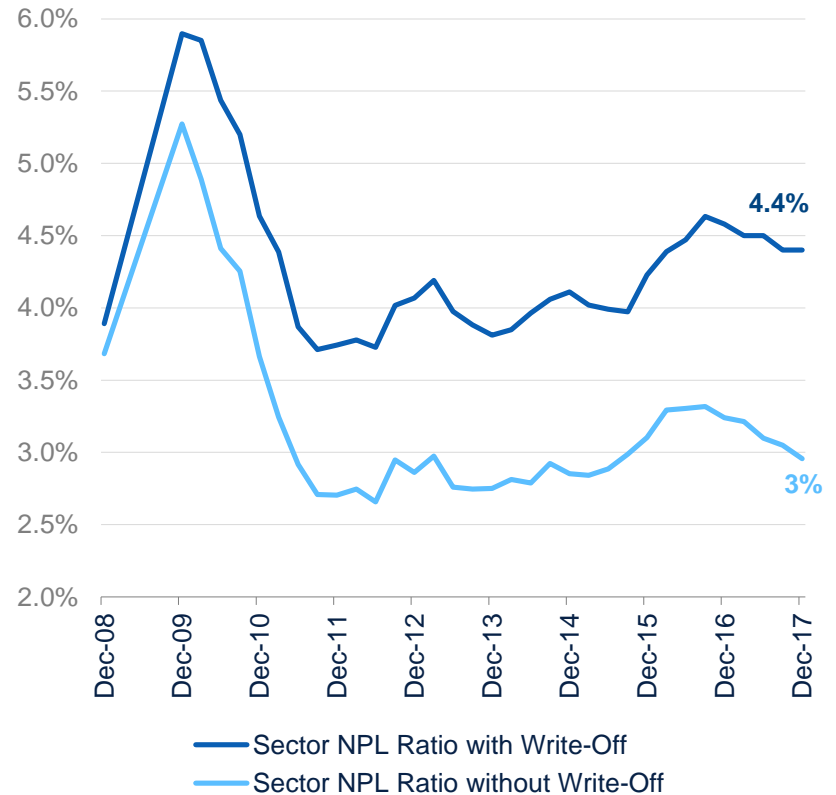
Source: Garanti Research, Turkstat, CBRT

Thanks to the CGF and high momentum in economic activity, NPL additions and write-offs have declined and the collections within the period have increased

NPL Ratio of the Banking Sector (%)



NPL Ratio (adj. for NPL sales) (%)

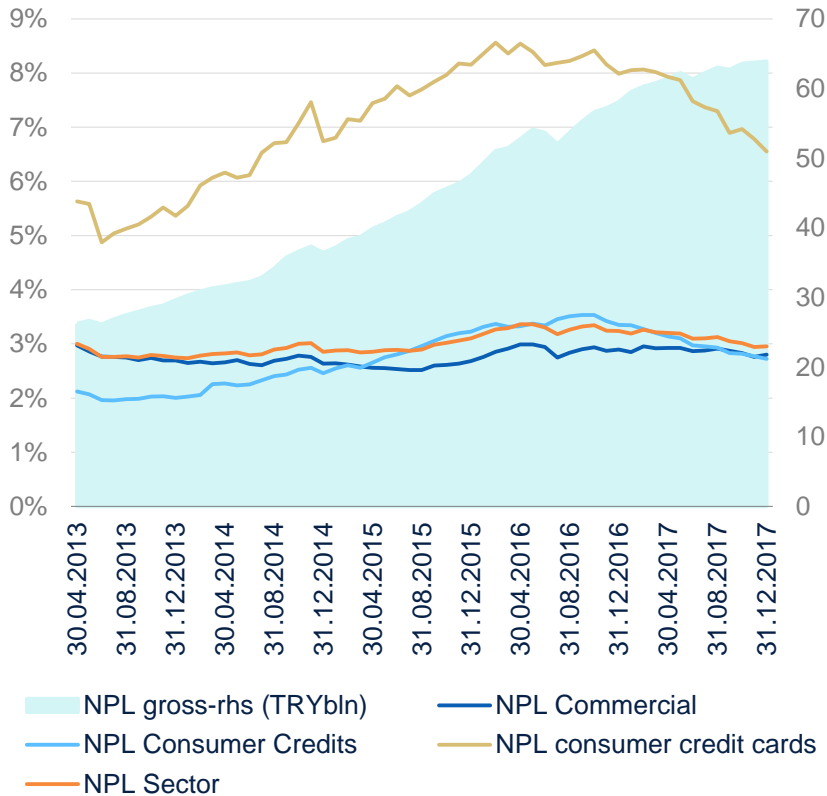


Source: Garanti Research, BRSA, Public Disclosure Platform KAP 4q'17

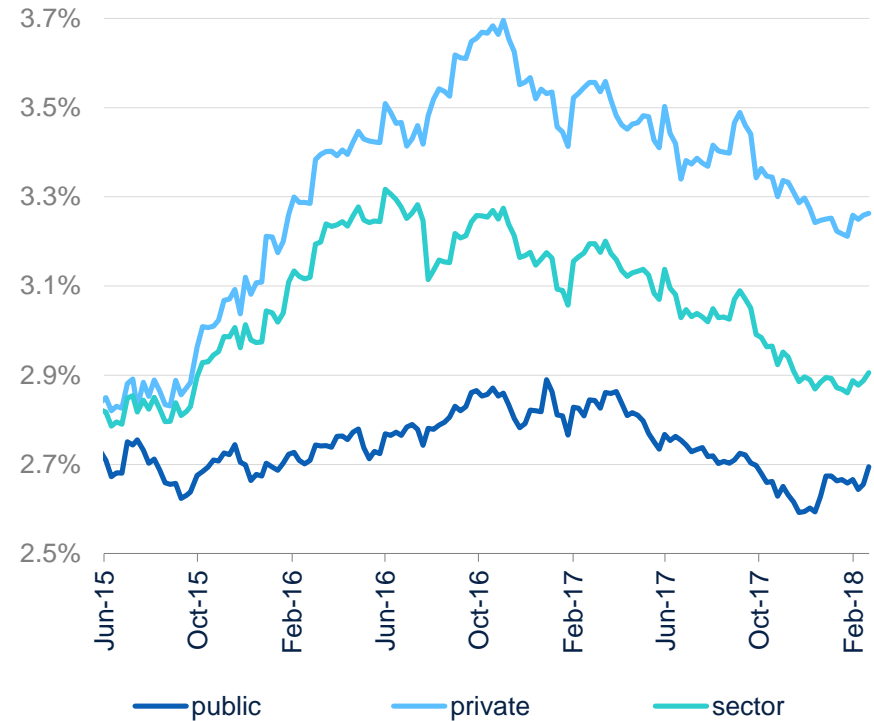
*Peer 1 banks.

NPL ratio of the sector fell below 3% as a result of the acceleration in credit growth, restructuring opportunities and NPL sales to asset management companies

NPL by Sectors
(Level)

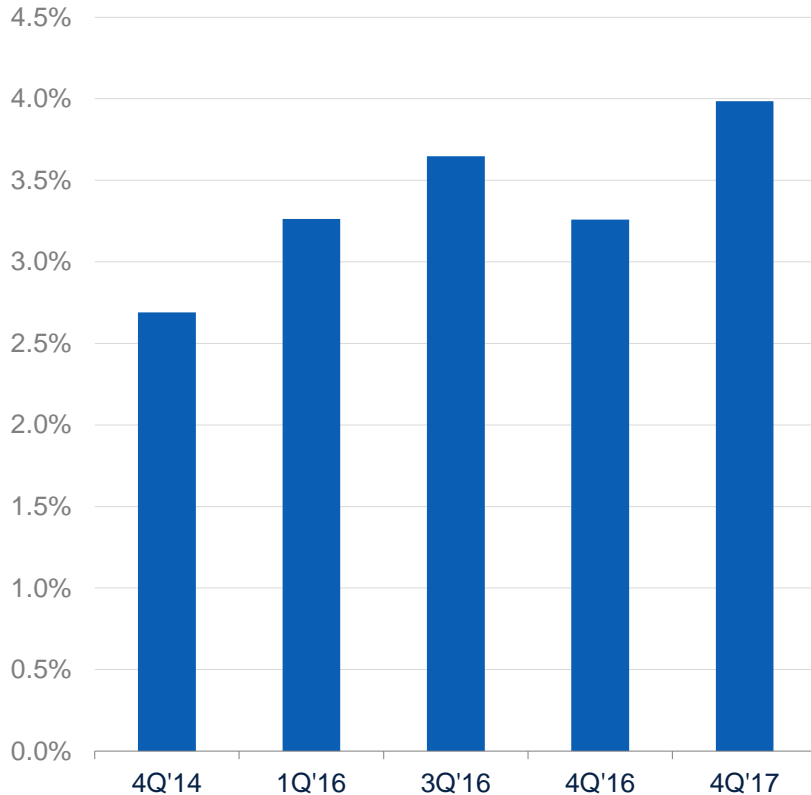


NPL in Banking Sector
(%)

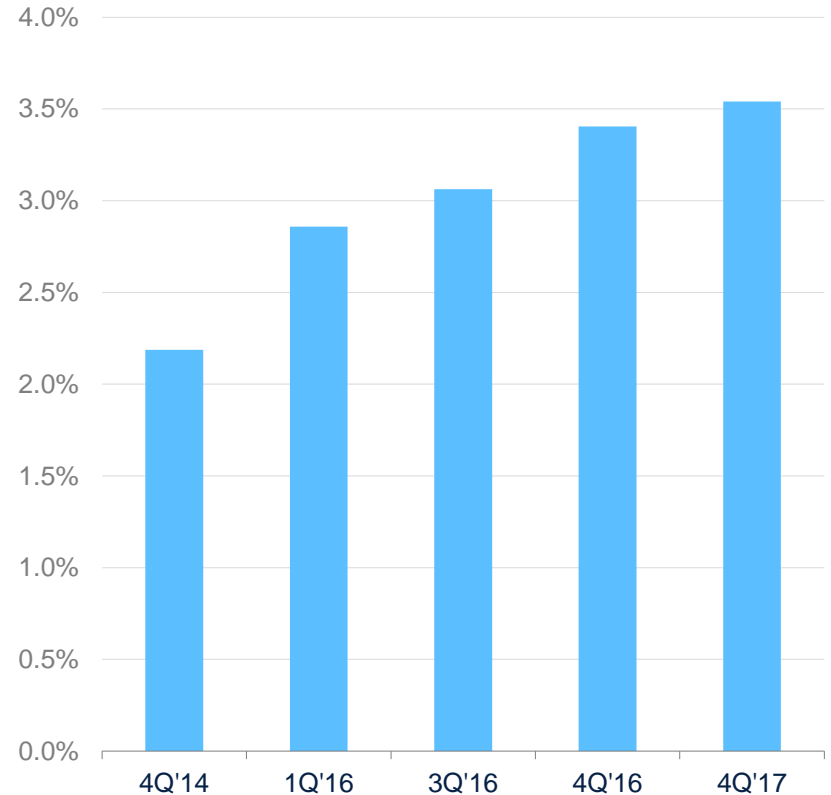


Restructuring opportunities for existing loans supported debt service capacities have been effective on the falling NPL ratios. Group 2 Loans (Loans under Close Watch) have increased by 73bps in 4Q'17 compared to 4Q'16

Group 2 Loans to Gross Loans*
(%)



Restructured Performing Loans to Gross Loans*
(%)



Source: Public Disclosure Platform KAP 4q'17, Garanti Research

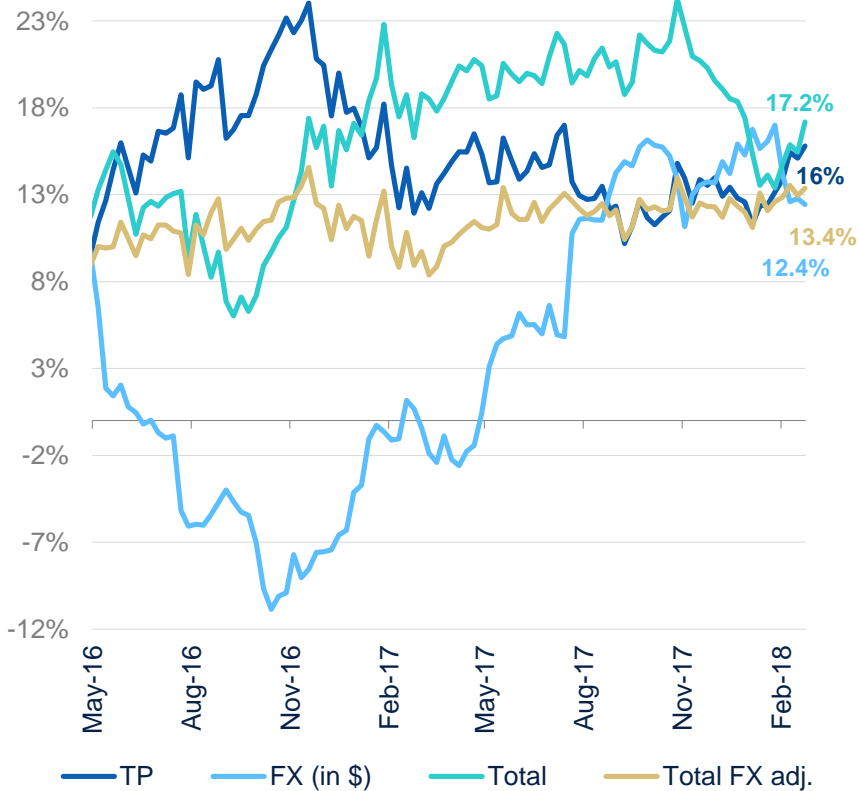
*Peer 1 group of banks

Turkish Banking Sector: Liquidity

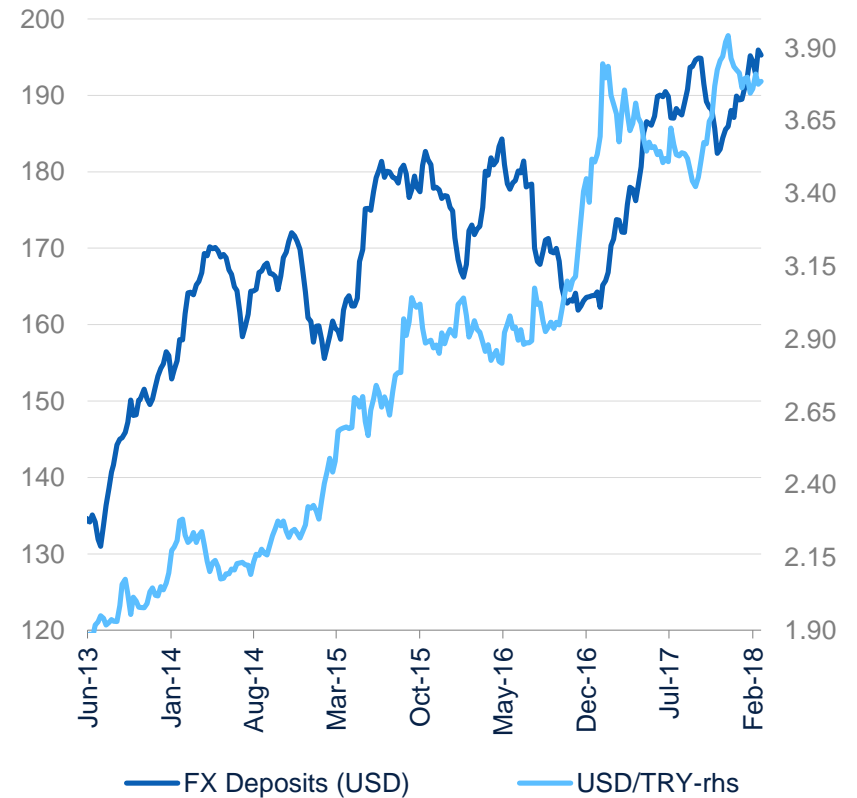


Depositors stronger preference for USD throughout 2H'17 continues at the start of the year

Deposit growth rate
(YoY)

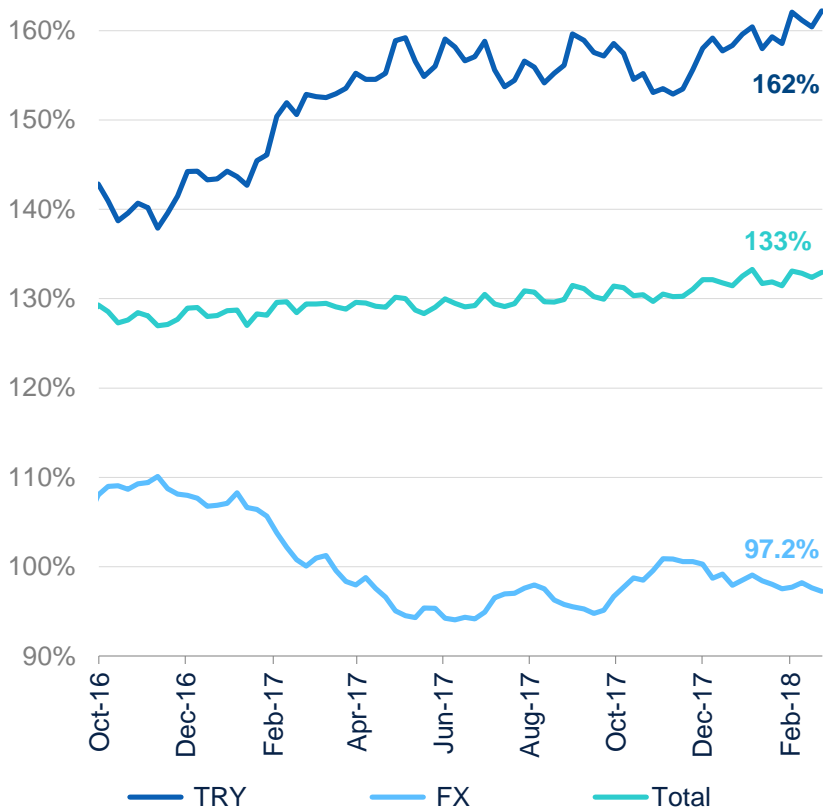


FX Deposits and USDTRY
(Level)

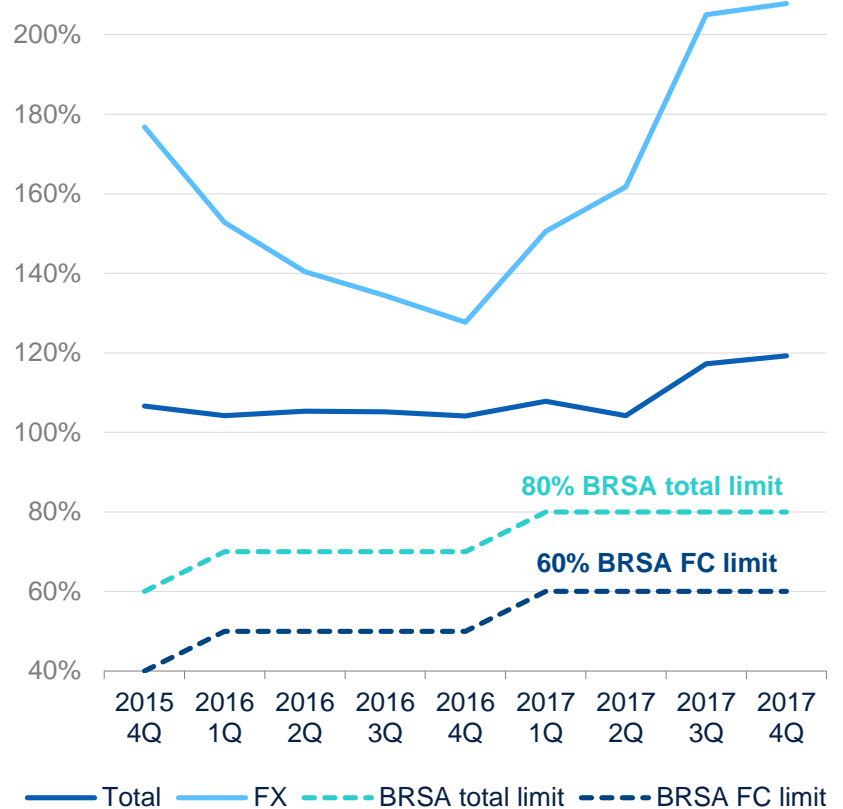


Depositors' FX deposit preferences and the higher demand for TL loans led to a widening in the gap between TL and FX LTD ratios. Liquidity Coverage Ratio of the banking sector is well above the minimum legal ratio

Loan/Deposit Ratio (LTD)
(%)



Liquidity Coverage Ratio (LCR)*
(% 4 week mov.avg.)



Source: Garanti Research, BRSA, Public Disclosure Platform KAP 4q'17

*The average of last three months' liquidity coverage ratio for Peer 1 banks.

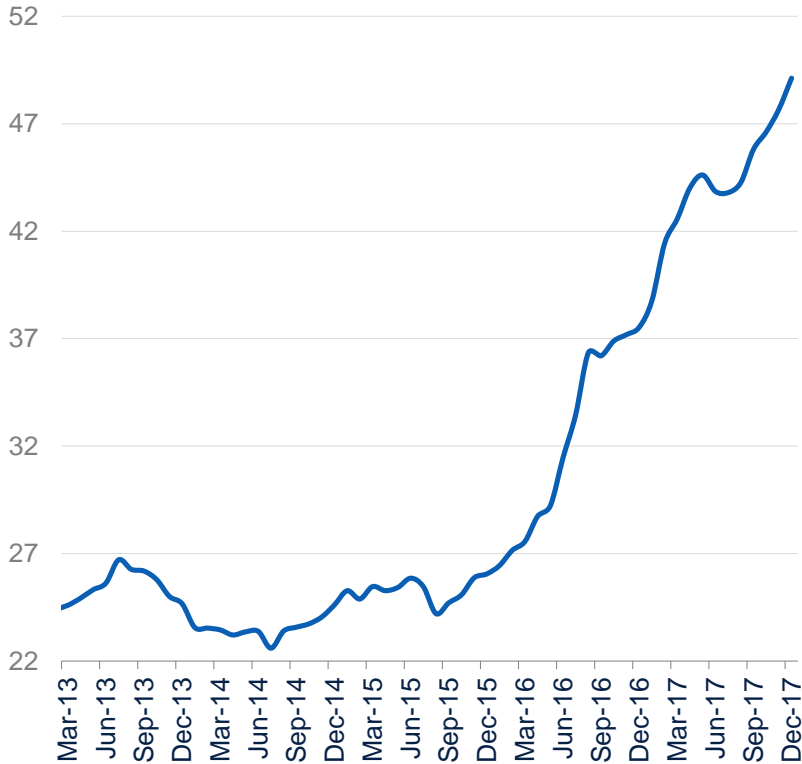
Turkish Banking Sector: Asset Quality

Sizable Increase in Profit
Asset Quality Improved

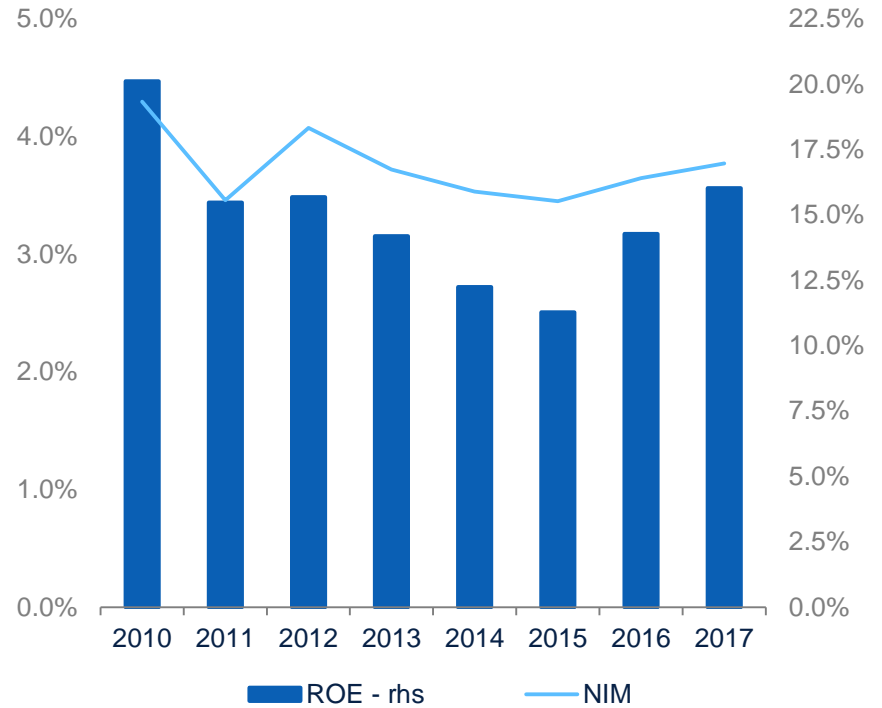


Net profit of banking sector reached almost TL50 bn (12 month cumulative) in Dec'17 indicating 60% YoY growth compared to the previous year

Banking Sector Net Profit
(bn TL)

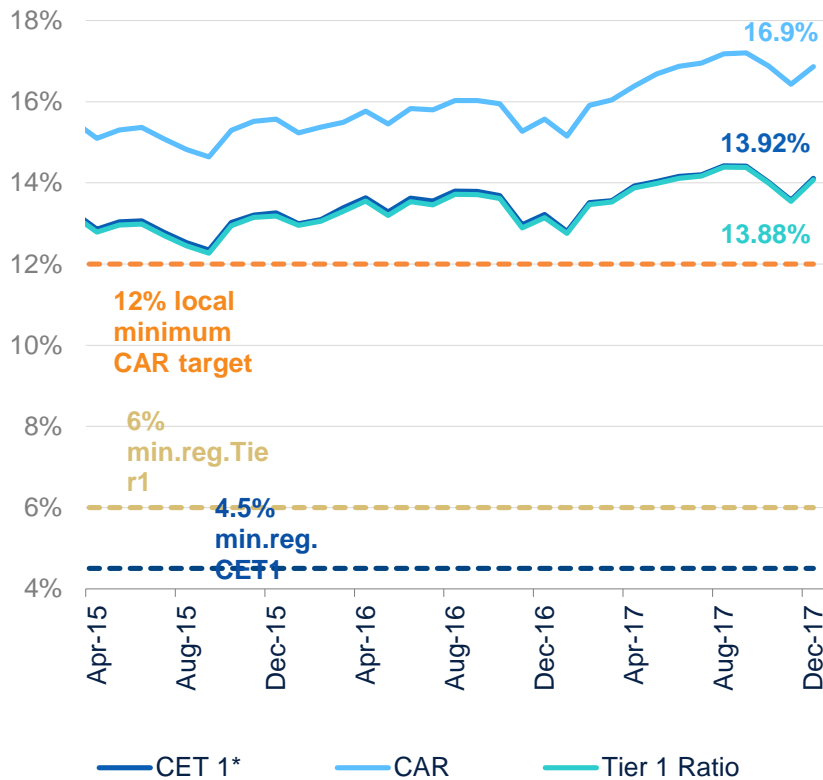


Net Interest Margin (NIM) & ROE Banking Sector
(%)

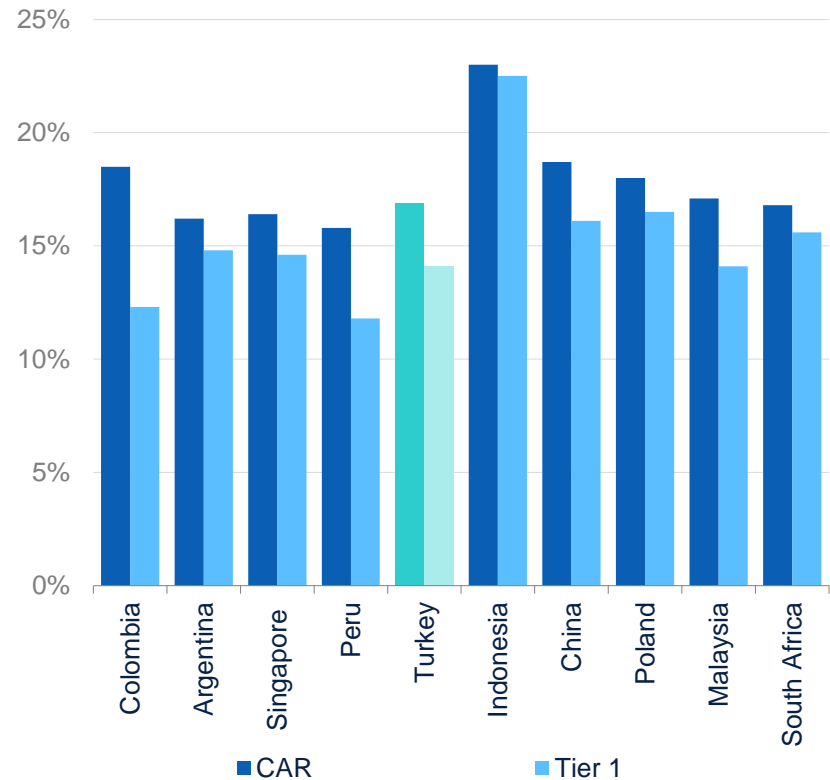


The growth in total credit risk slowed down thanks to the decrease in risk weight of some assets and loans given under the CGF guarantee. Hence, the sector's capital adequacy ratios continued their upward trend

Capital Adequacy Ratio & Cet 1 & Tier 1 Ratio



EM CAR & 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.
 Source: IMF FSI latest data 3q'17&Dec'17, Garanti Research, BRSA

External Debt Indicators

Roll-over Ratios Stand above
100%,
New Regulation on Corporates'
FX loans

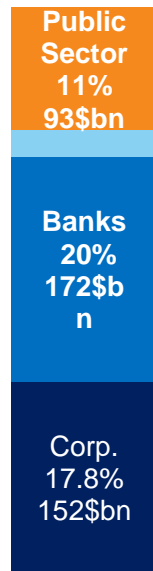


The whole picture of External Debt: mostly borrowed by banks & corporates, in hands of private creditors (loans) and denominated in USD

External Debt

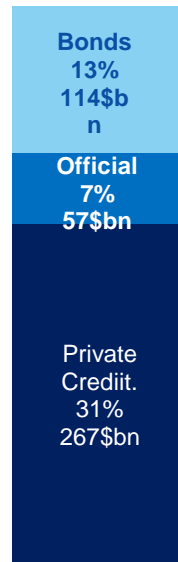
(Details as % of GDP, \$bn, 3Q 2017)

by borrower



Non-banking inst.
2.3%
20\$bn

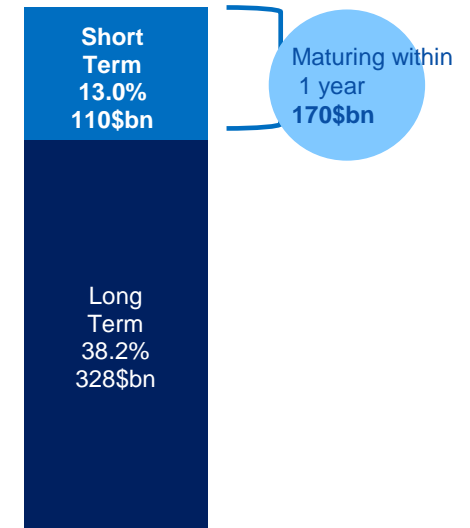
by lender



by currency



by maturity

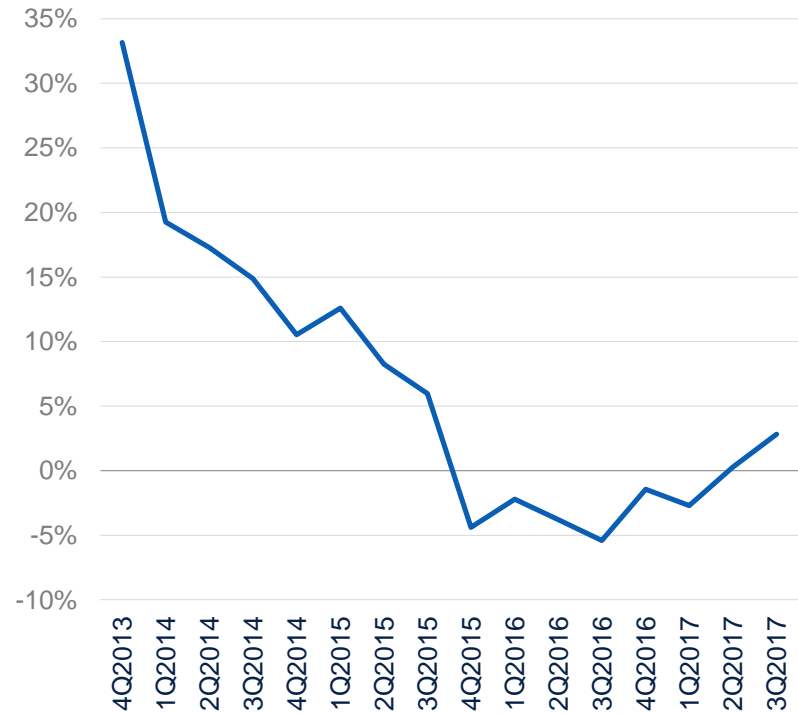


LT external debt roll-over ratios of both banks and real sector are normalizing with banks at 102% and real sector at 112% by end 2017. There has been a moderate increase in the external debt of the banks

LT External Debt Roll-over Ratio of Banks & Real Sector
(12 month rolling, %)

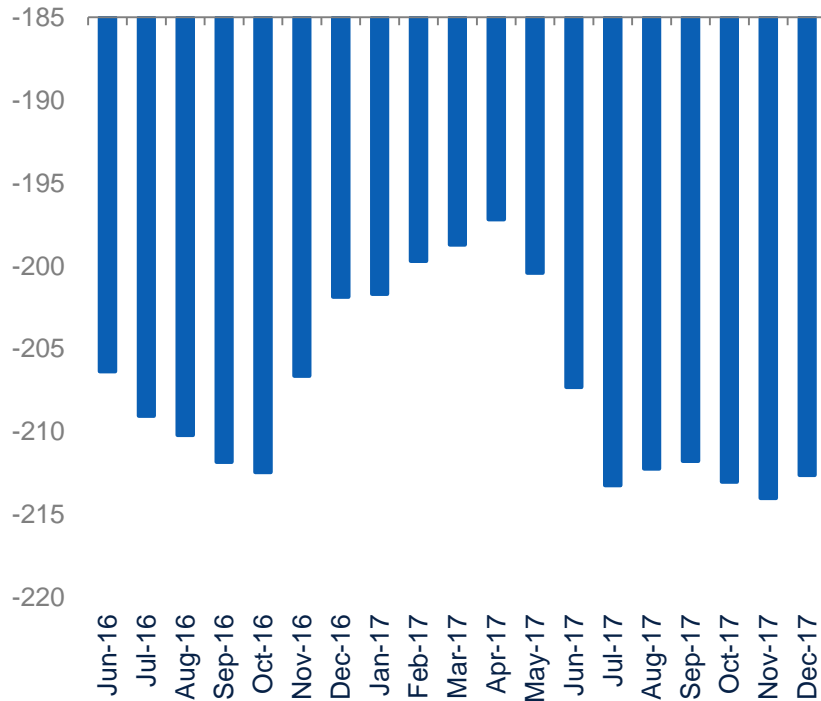


Banks' External Liabilities
(yoy %)

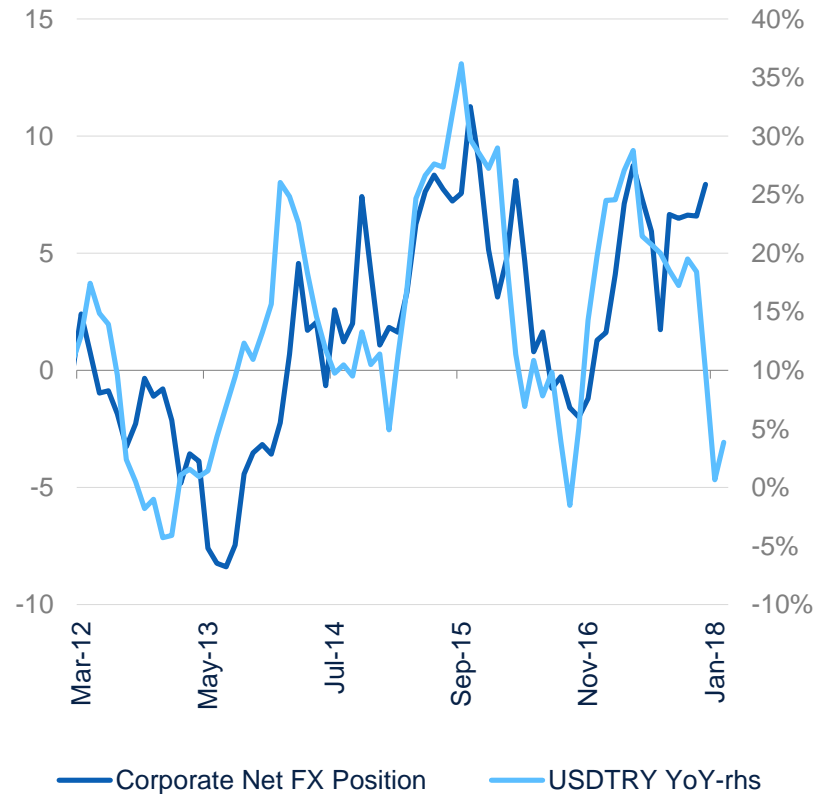


Open FX position of corporates declined in Dec'17 thanks to increased FX deposits and decreased FX lending from both domestic and foreign banks

Corporate Sector Open FX Position
(USD bln)



Corporate Short Term FX Position
(%)



New regulation: a further step to limit risks on financial stability with some limits for FX borrowing of the corporates

Companies with FX debt exposure under \$15mn



No Mismatch (FX Revenues): foreign exchange income of the previous three years will be the total available limit

Mismatch (No FX Revenues): cannot roll-over, redeem the debt at the maturity of the liability

Companies with FX debt exposure above \$15mn



No restriction even if the company has no FX revenues; the Government now works in some hedging options

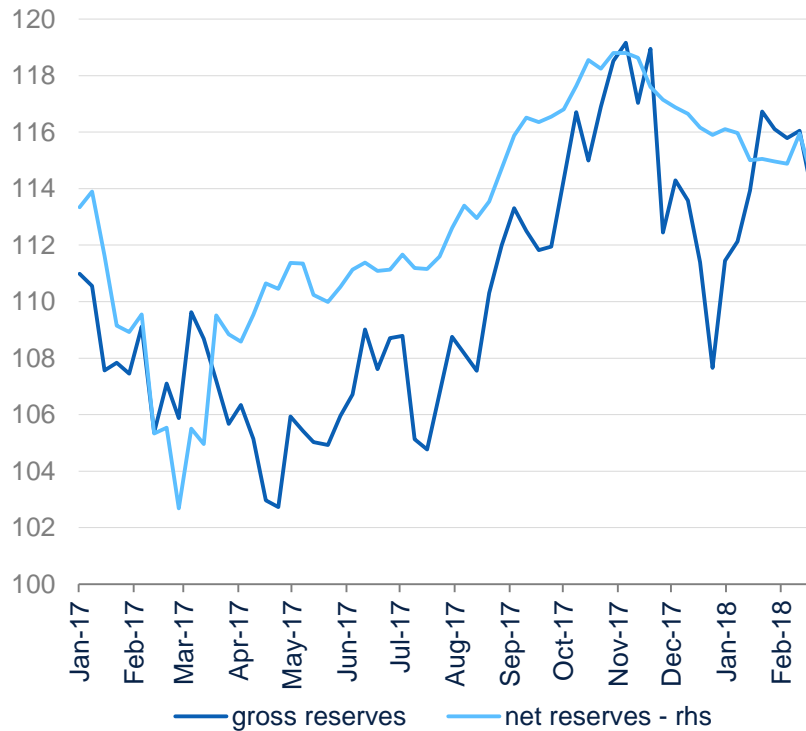
Exceptions



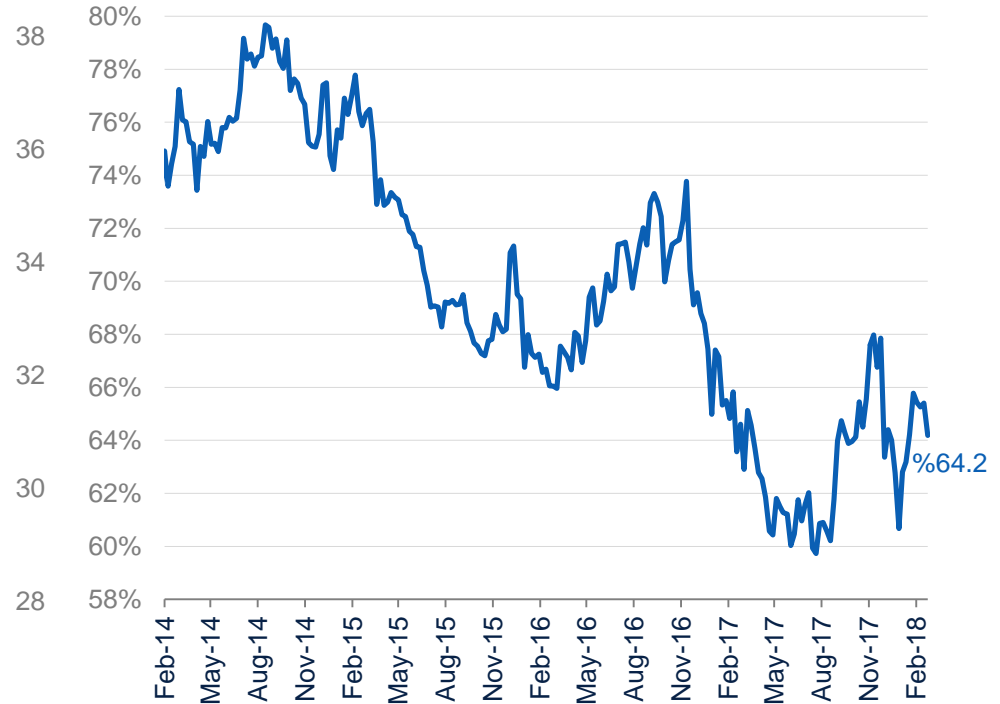
Public institutions, banks, leasing companies, factoring and financing companies, lenders under investment incentive, investors in machinery, public-private partnership firms

Despite the higher volatility in gross reserves, CBRT's net reserves recovered only marginally during 2017. Increasing trend in external debt keeps risks alive

Central Bank Reserves
(USD bln)



CBRT Gross Reserves / External Debt to be paid within one year
(%)



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