BBVA | RESEARCH

TURKEY

MONTHLY BANKING MONITOR

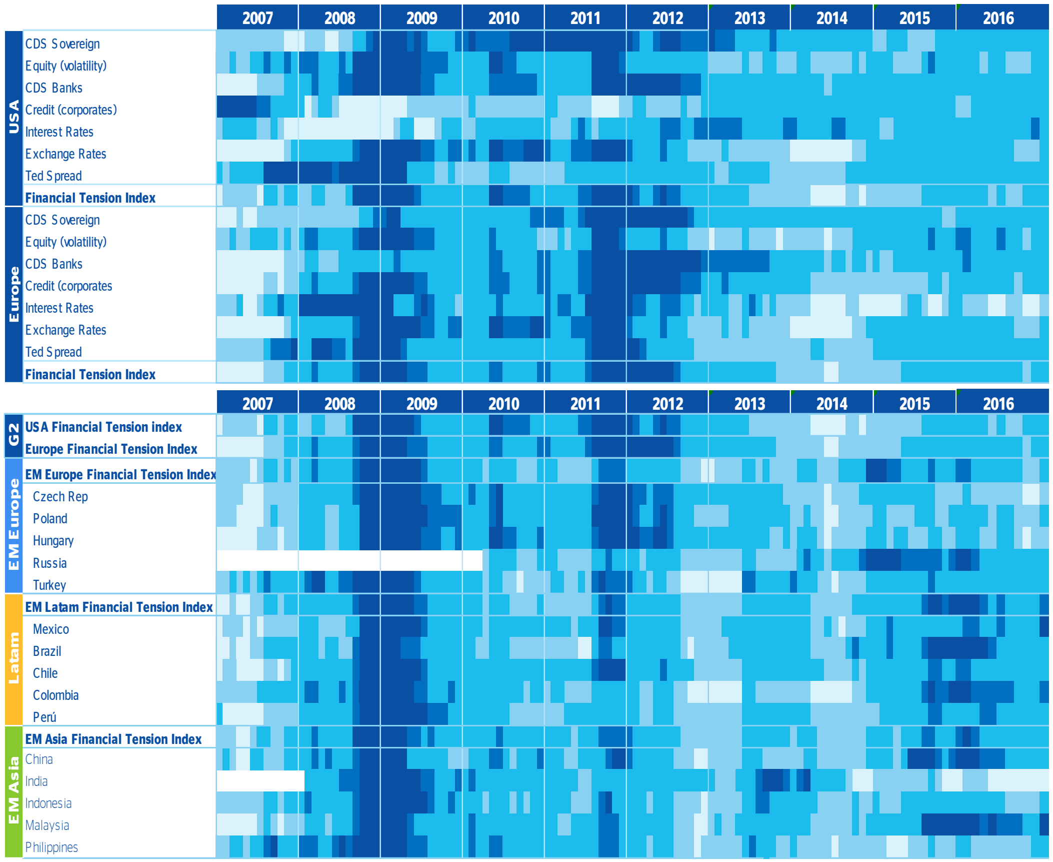
NOVEMBER

DECEMBER 7TH

Global Developments

Financial stress for EM rose in November, due to US elections and increase in the probability of a Fed rate hike in December

BBVA RESEARCH FINANCIAL STRESS MAP



- Financial Stress (FT) in Developed Markets remained contained thanks to low volatility in equity markets
- FT in Latam, especially in Mexico, increased due to uncertainty on Trump policies

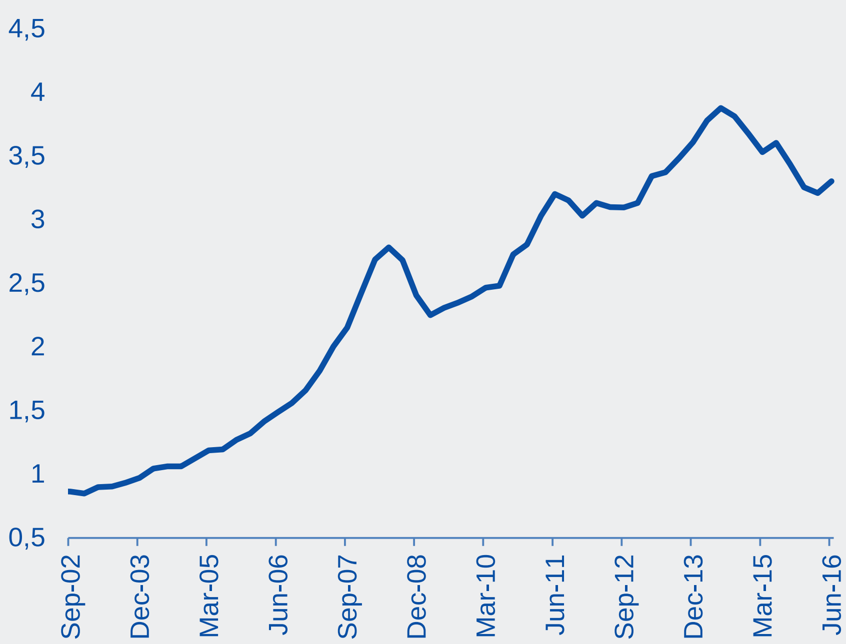
No Data
Very Low Tension (<1 sd)
Low Tension (-1.0 to -0.5 sd)
Neutral Tension (-0.5 to 0.5)
High Tension (0.5 to 1 sd)
Very High Tension (>1 sd)

Source: BBVA Research

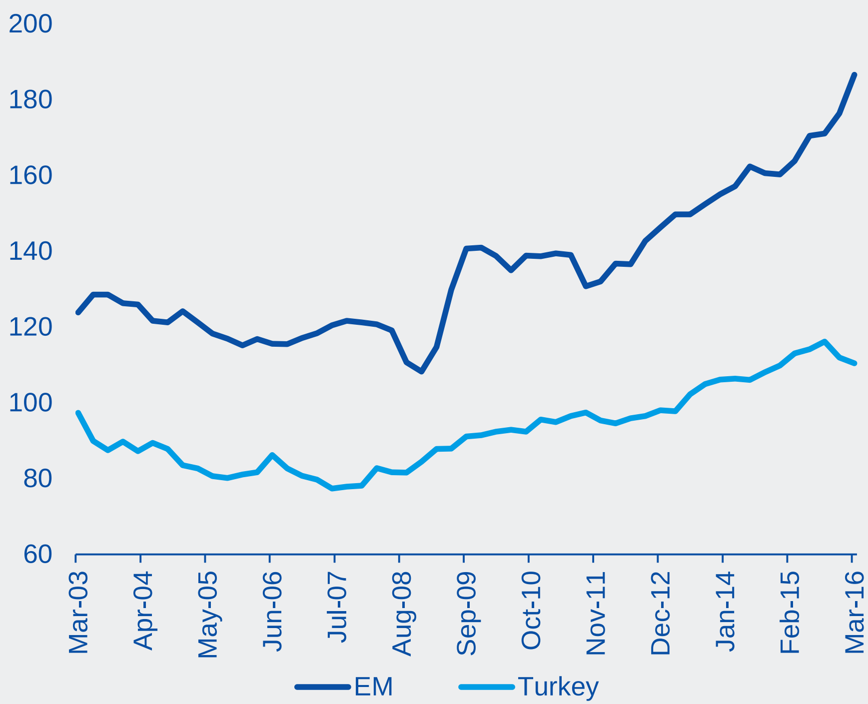
Global Developments

Global credit picked up slightly in 2Q'16. The total outstanding amount rose from $3.2 trillion to $3.3 trillion. However, on YoY basis it contracted by 8%

CROSS-BORDER BANK LENDING TO EM
USD trillions



TOTAL CREDIT TO THE NON-FINANCIAL SECTOR*-
%of GDP

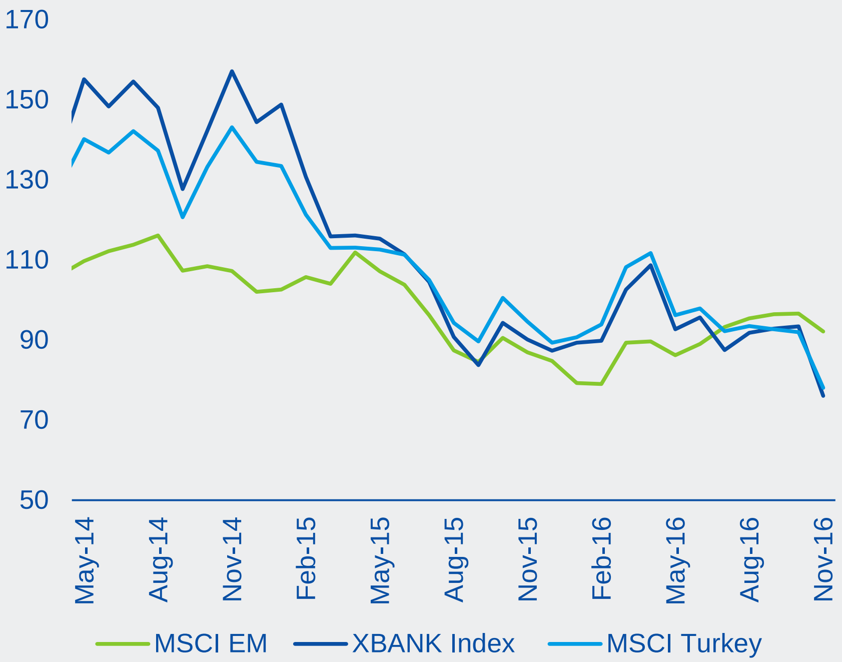


Source: BIS (latest data); Garanti Research
*Non-financial sector terminology of the BIS includes real sector + households+non-profit org.)

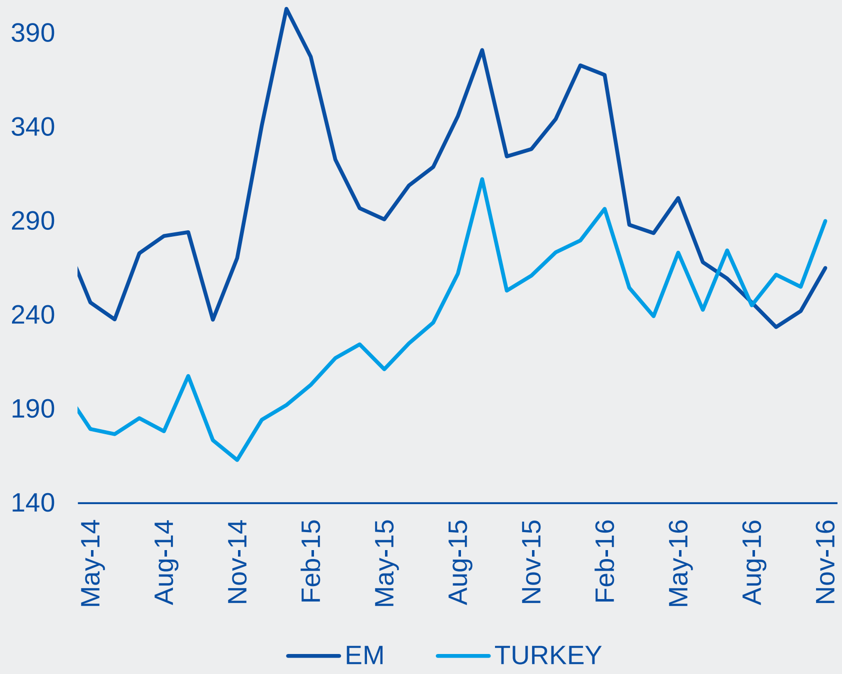
Turkey Financial Markets

Turkish equities lagged behind the EM in November. Risk premium (CDS) of Turkey increased to 290 bps

MSCI INDICES
Base 100 = Jan 2014



RISK PREMIUMS, 5 YEAR CDS INDICES
Levels



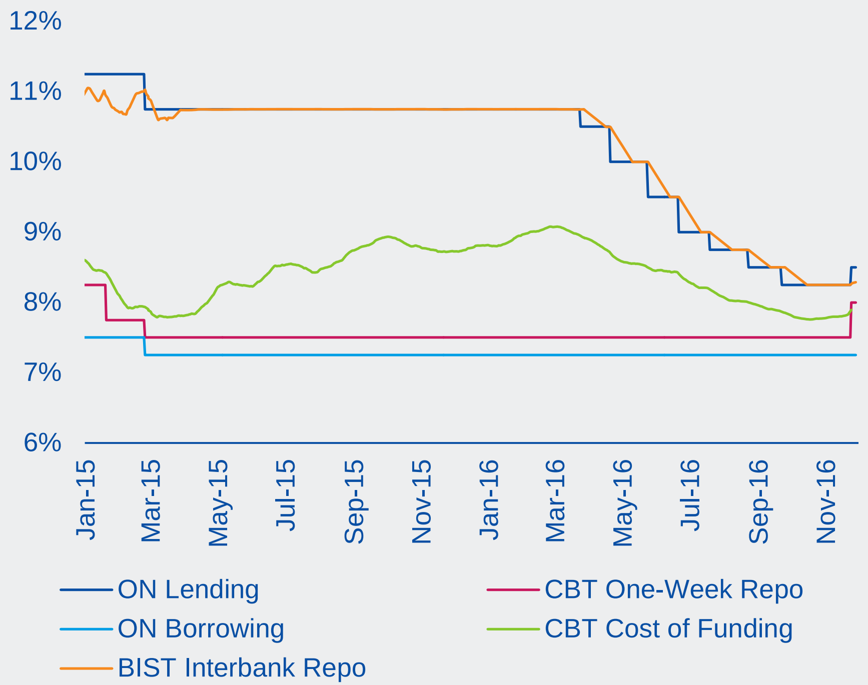
Source: Garanti Research, Bloomberg

Monetary Policy

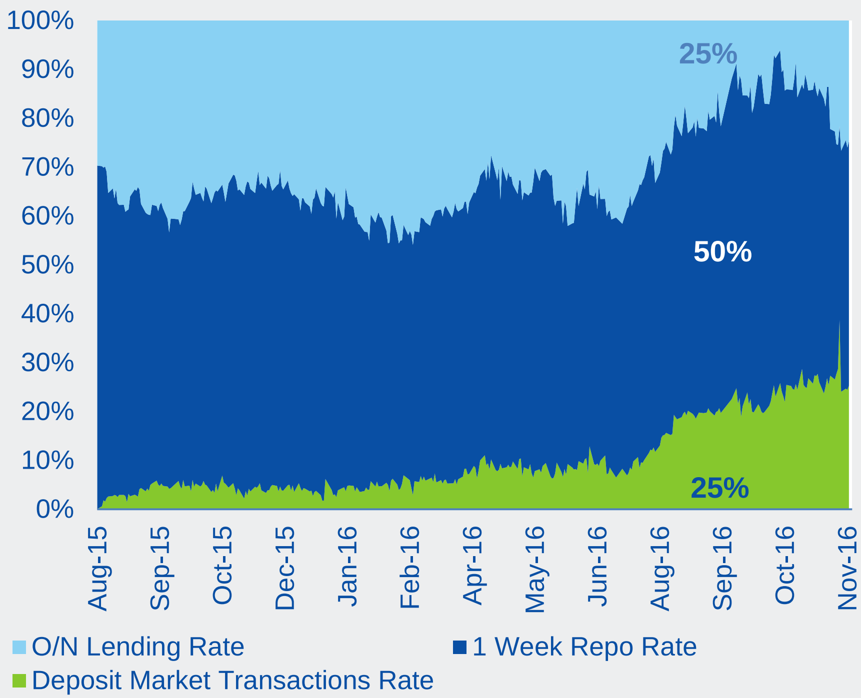
Trying to contain the depreciation in TL, the CBT hiked the upper bound of its interest rate corridor (25bps to 8.5%) and the policy rate (50bps to 8.0%) and kept the O/N lending rate constant at 7.25% in November

TURKEY: INTEREST RATE CORRIDOR

%



TURKEY: SHARES OF THE CBT TOTAL FUNDING

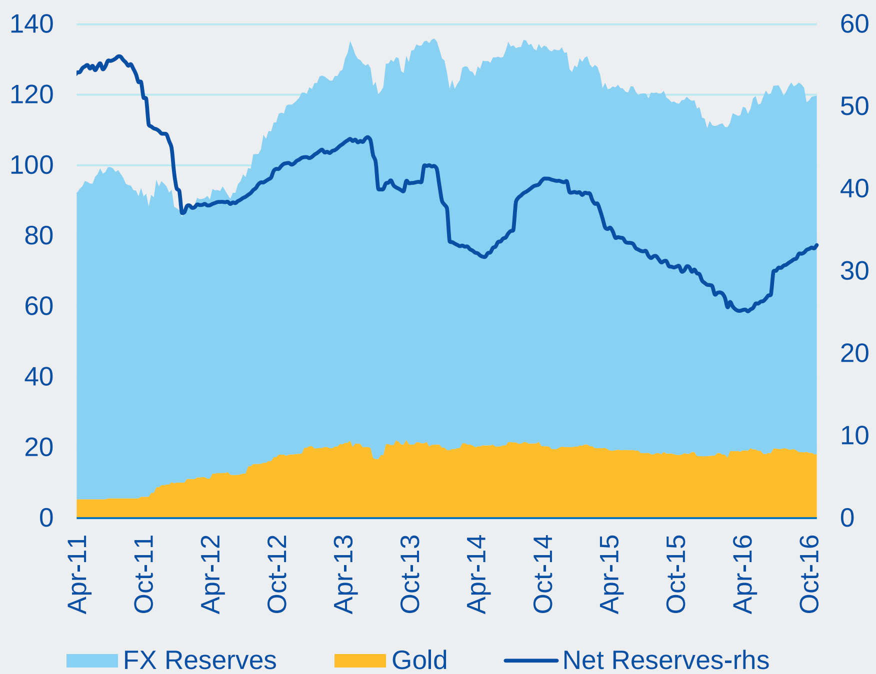


Source: Garanti Research, Turkstat, CBT, BRSA and Bloomberg

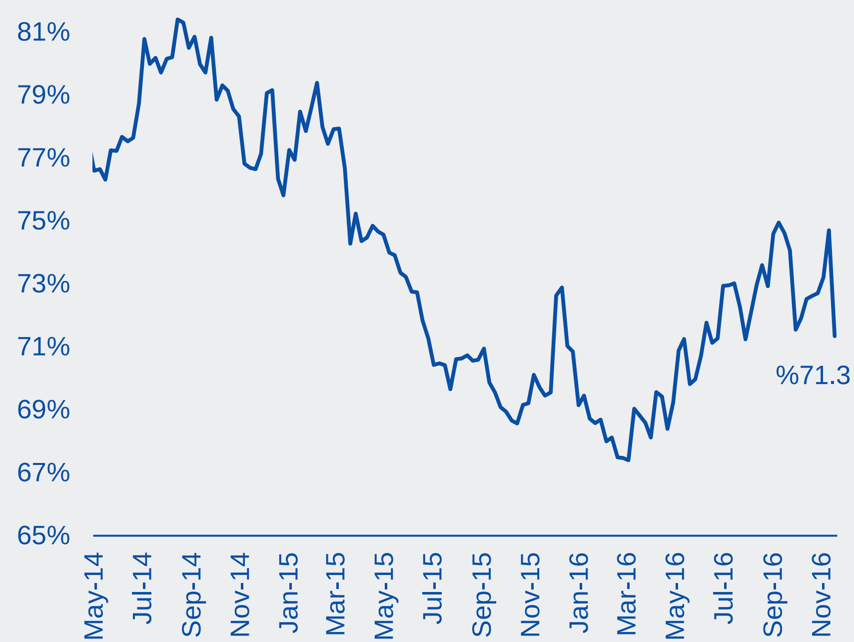
Central Bank Reserves

FX reserves increased in November compared to October due to export credits. Net reserves also increased to USD 33.5bn

CBT RESERVES
USD bn



GROSS RESERVES
Short term External Debt to be paid in one year (%)



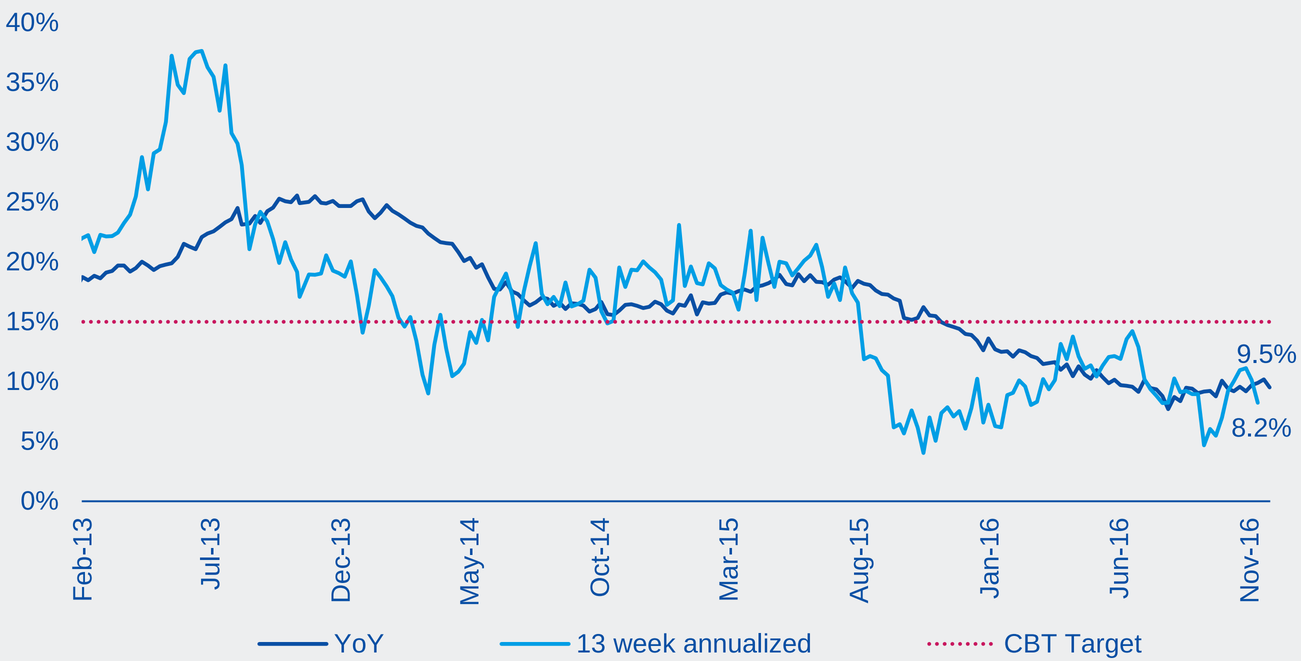
Source: Garanti Research, CBT

Loan Growth

YoY Credit growth continues to float between 9-10%. The 13 week trend rate declined to 8.2% mainly due to sharp falls observed during September

FX ADJUSTED CREDIT GROWTH RATE

% yoy and 13 week ann. rates



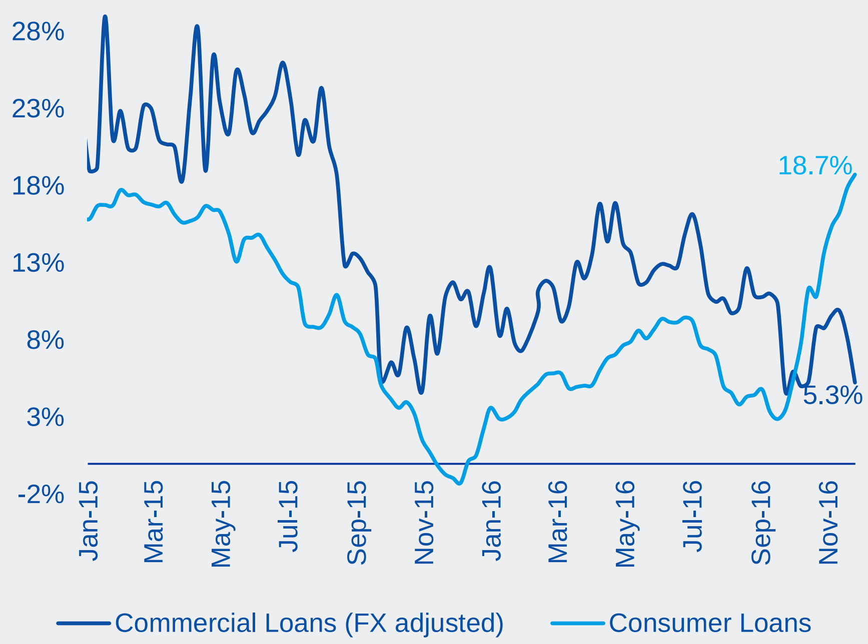
- YoY growth rate of FX adjusted credits still below 10% (and below the Central Bank 15% comfort range)
- The trend rate (annualized yearly rate) fell to 8.2% from 9.3% last month

Source: Garanti Research , BRSA, CBT

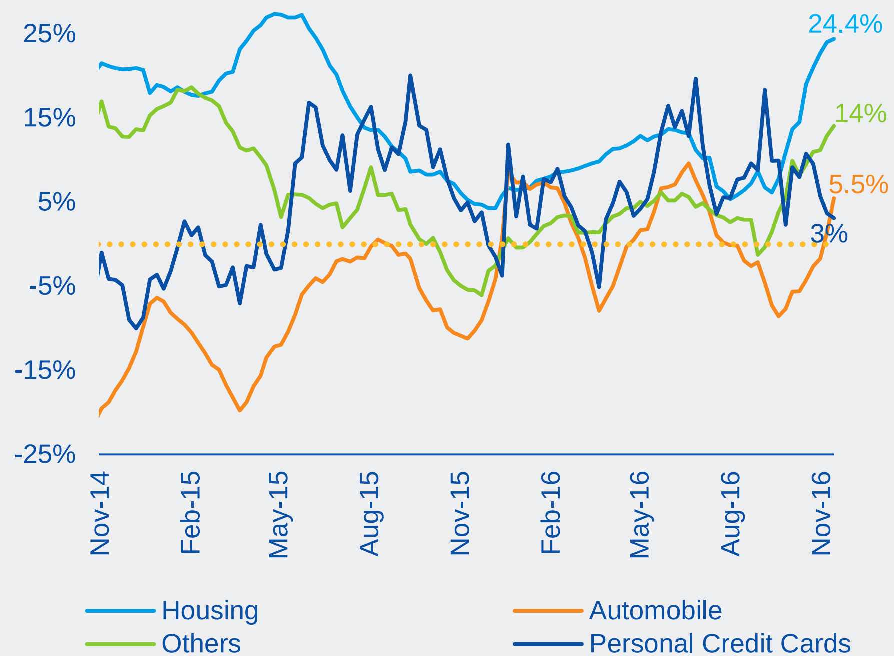
Loan Growth

The fall in commercial credits is driving the total credit growth deceleration. Consumer credits maintain their momentum and continue to move upwards both in YoY and 13 week trend terms

COMM. AND CONSUMER LOANS GROWTH RATE
13 week ann. rates



CONSUMER LOANS
% 13 week ann. rates

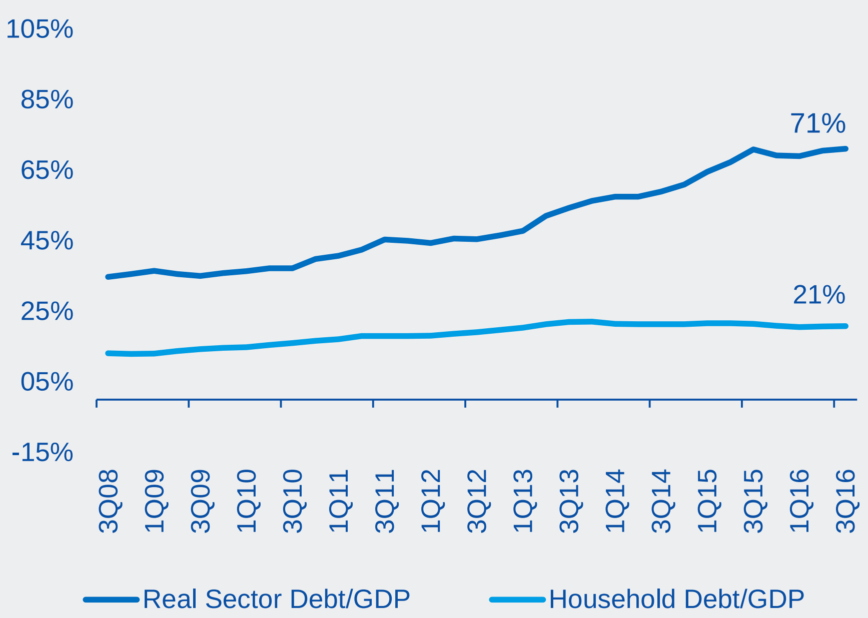


Source: Garanti Research, BRSA, CBT

Corporate sector debt

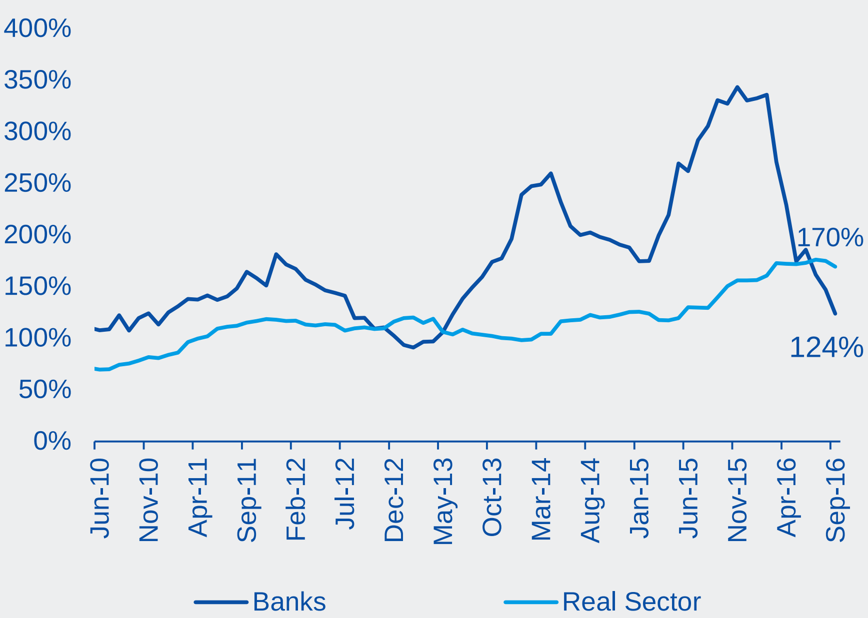
Total indebtedness of the real sector stays at 71%. Roll-over ratios for banks declined to 170% due to high levels of loan repayments

DEBT TO GDP LEVELS OF PRIVATE SECTOR



LT EXTERNAL DEBT ROLL-OVER RATIO OF BANKS & REAL SECTOR

%

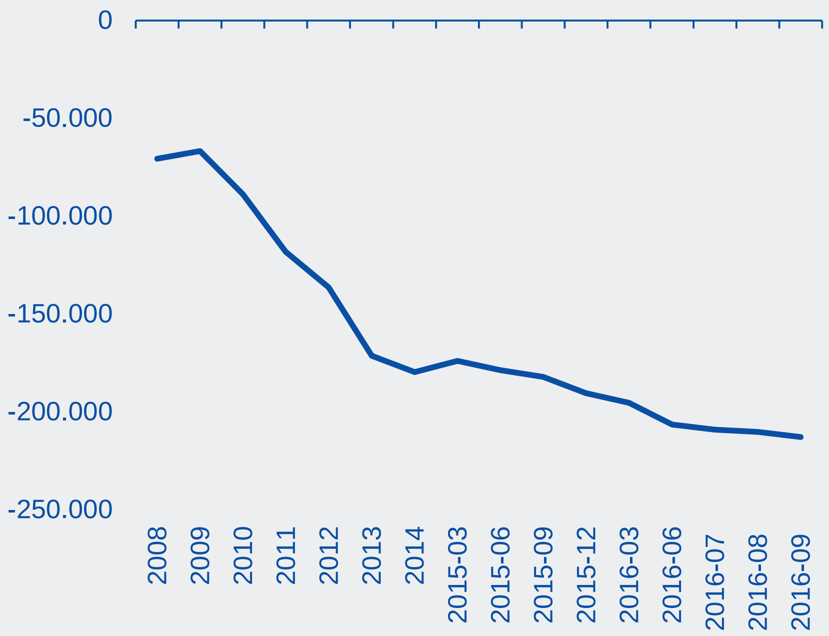


Source: CBT; Garanti Research
*latest data available Sept'16

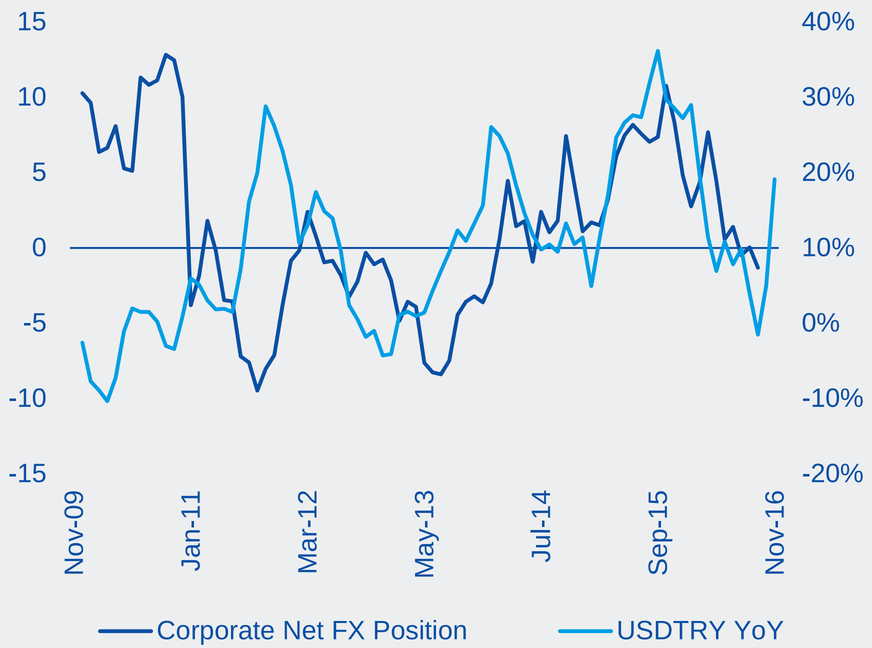
Corporate Sector FX indebtness

Corporates FX short position* turned again negative in September (latest data) whereas TL continued to depreciate sharply in November

CORPORATES' OVERALL FX POSITION
USD bn



CORPORATES NET SHORT TERM FX POSITION
USD mn

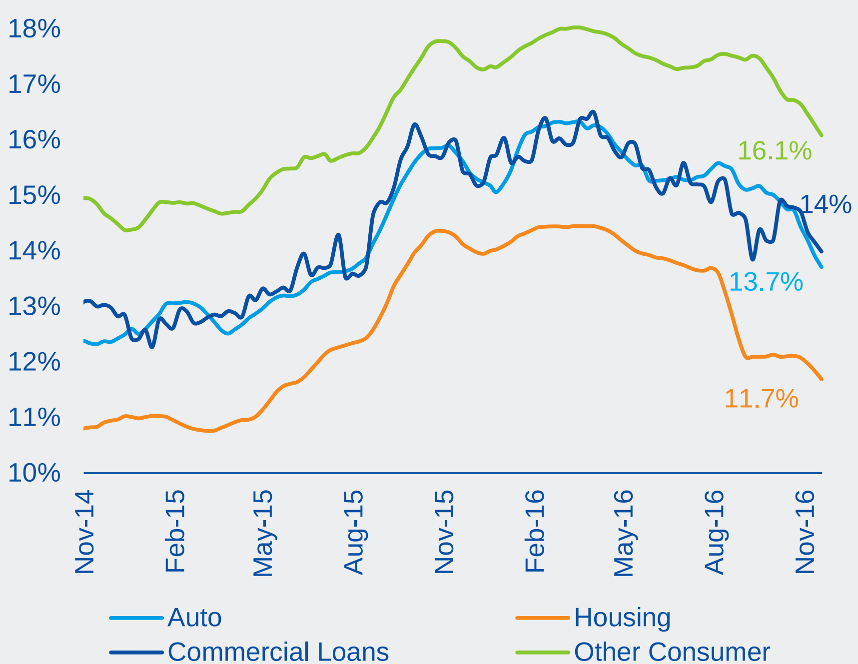


Source: CBT; Garanti Research
*latest data available September

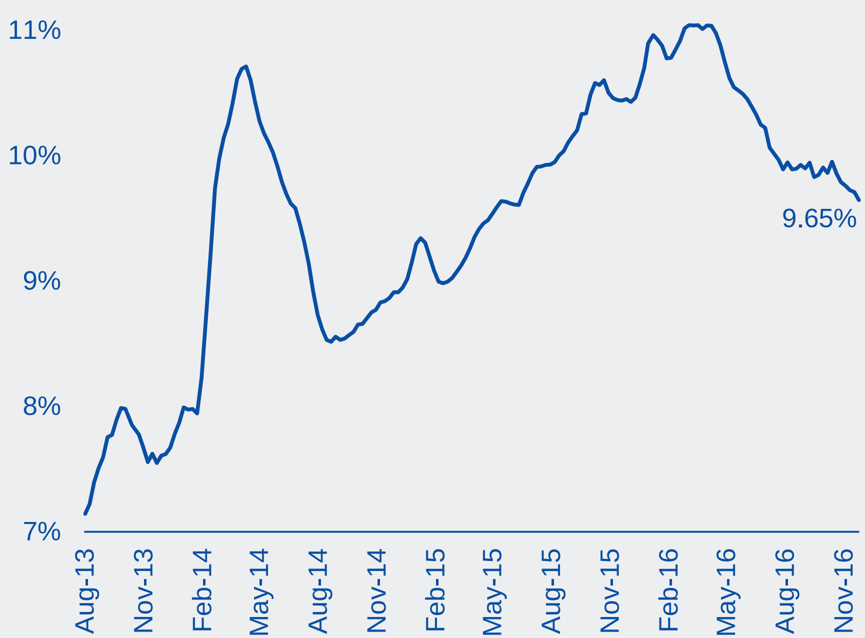
Interest Rates

Interest rates on consumer credits continued to follow a downward trend in November as well. Deposit rates continue to fall, too

COMM. AND CONSUMER LOANS INTEREST RATES
4week mov.avg.



DEPOSIT INTEREST RATES
4week mov.avg.



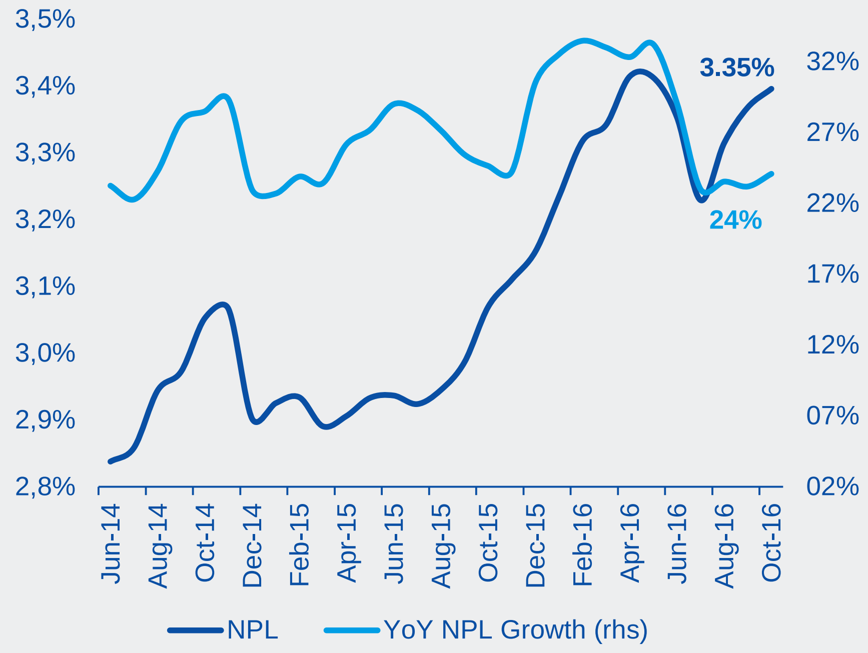
Source: Garanti Research, BRSA, CBT

Asset Quality & Credit Risk

NPL ratio increased in most of the segments. Total NPL ratio of the whole sector increased to 3.35%

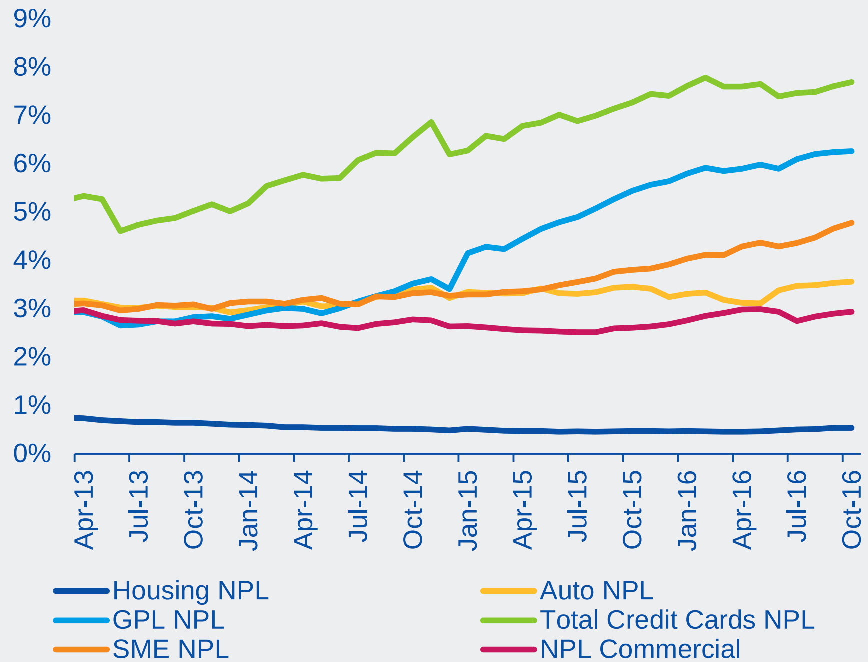
NPL RATIO OF THE BANKING SECTOR

%



NPL RATIO BY SELECTED SUB-SEGMENTS

%

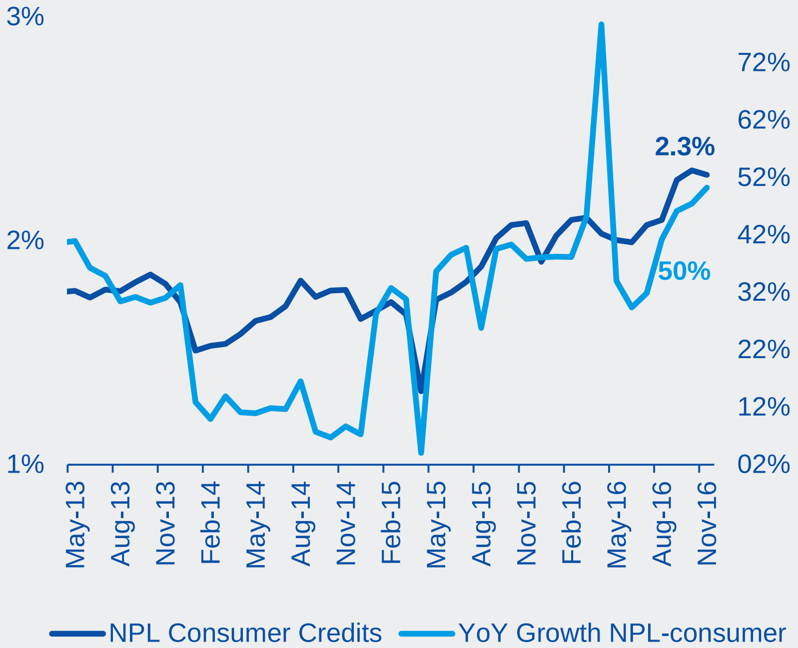


Source: Garanti Research, BRSA (latest monthly data)

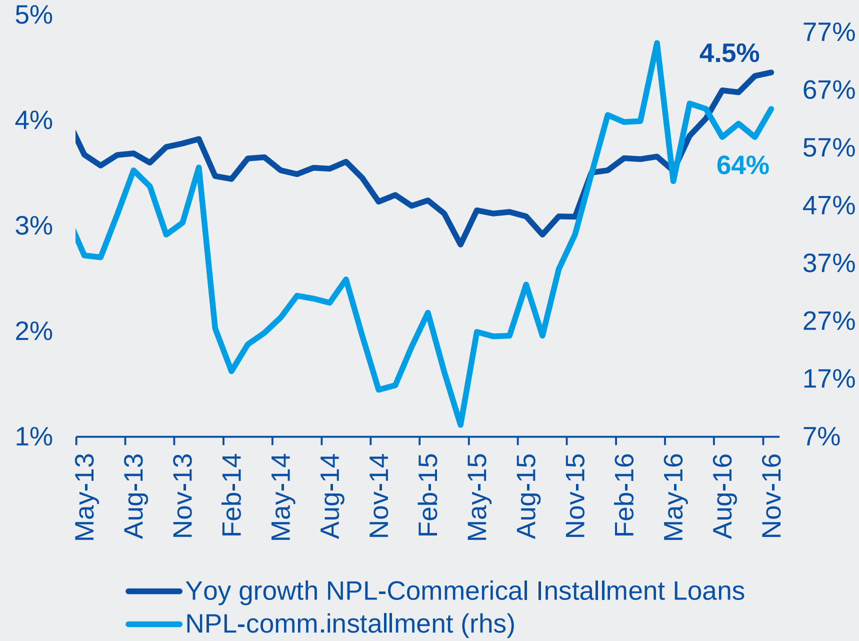
Consumer Financing Companies

NPL ratio of commercial installment loans in consumer financing companies reached 4.5% with an accelerating YoY growth rate

NPL OF CONSUMER CREDIT BY FINANCING COMP.
%



NPL OF COMM. INSTALLMENT LOANS BY FINANCING COMP.
%



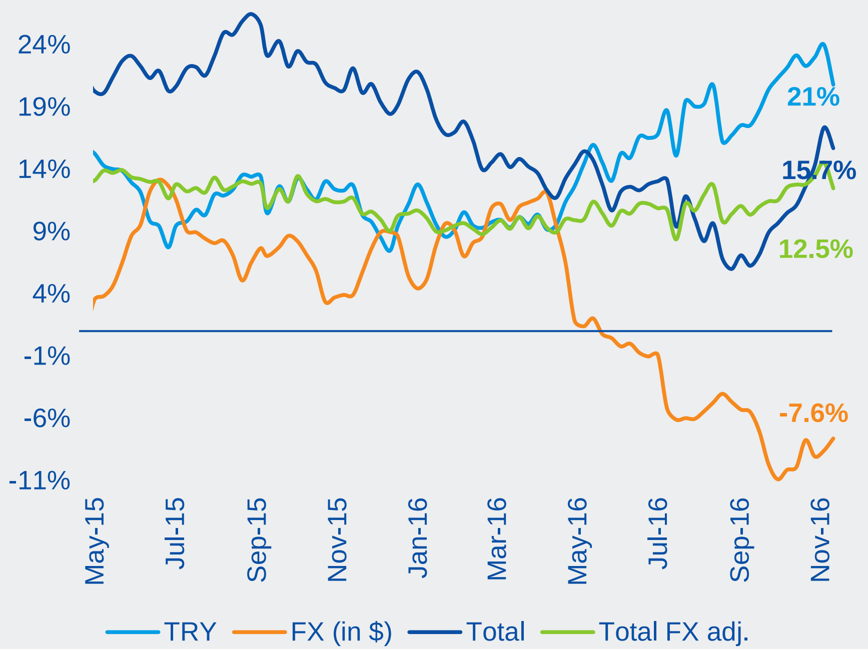
Source: Garanti Research, CBT, BRSA (latest monthly data)

Deposits

Compared to October, there has been some shift from TL deposits to FX deposits in November where TL depreciated by 11% on a monthly basis

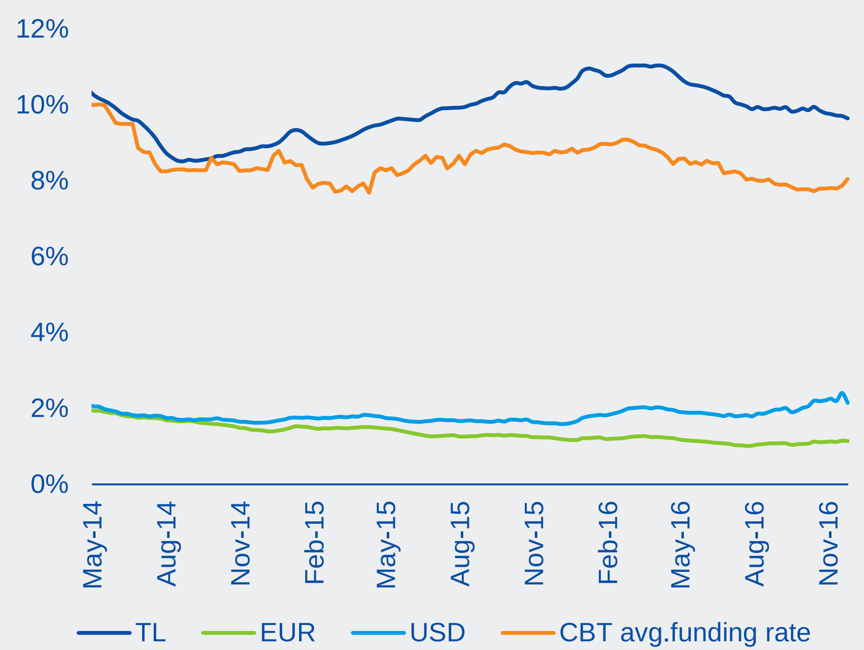
DEPOSIT GROWTH RATE

YoY



DEPOSIT INTEREST RATES IN TL& € & $

4week mov.avg

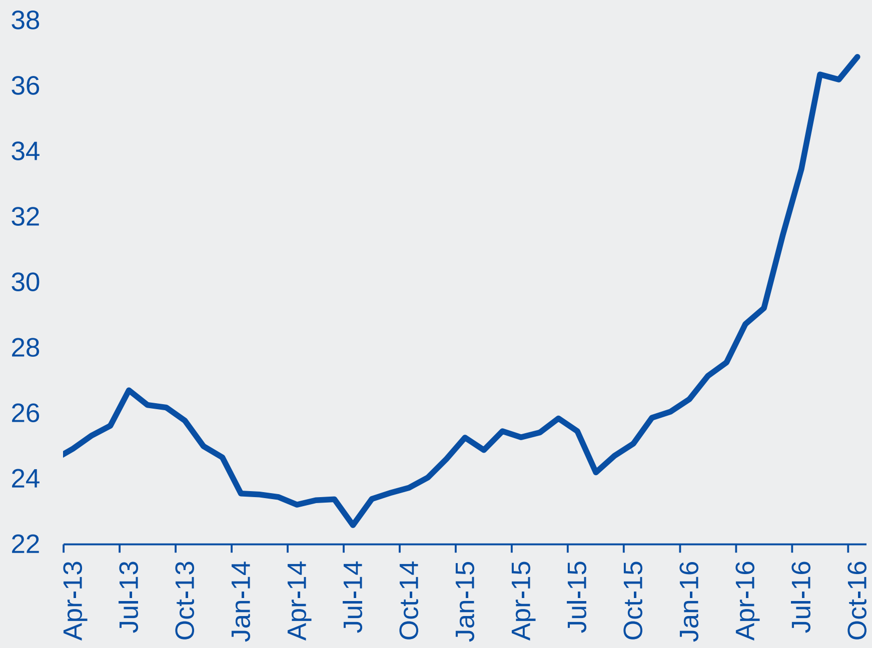


Source: Garanti Research , BRSA, CBT

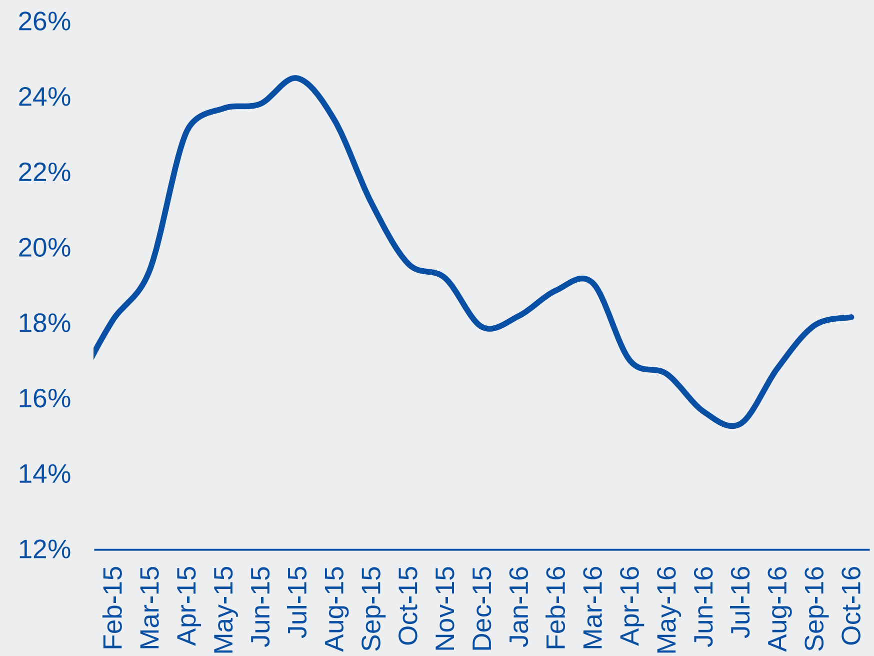
Profitability

Net profit increased by 35% (MoM) in November due to decline in general provisions

NET PROFIT
12 month cum., billion TL



NET INTEREST INCOME (NII)
12 month cum.,%

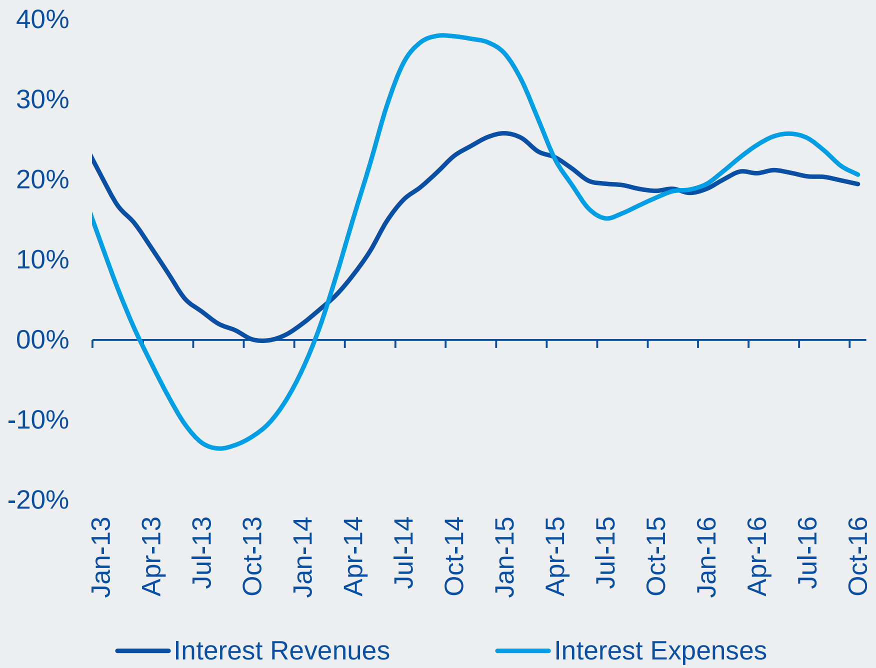


Source: Garanti Research, BRSA latest monthly data

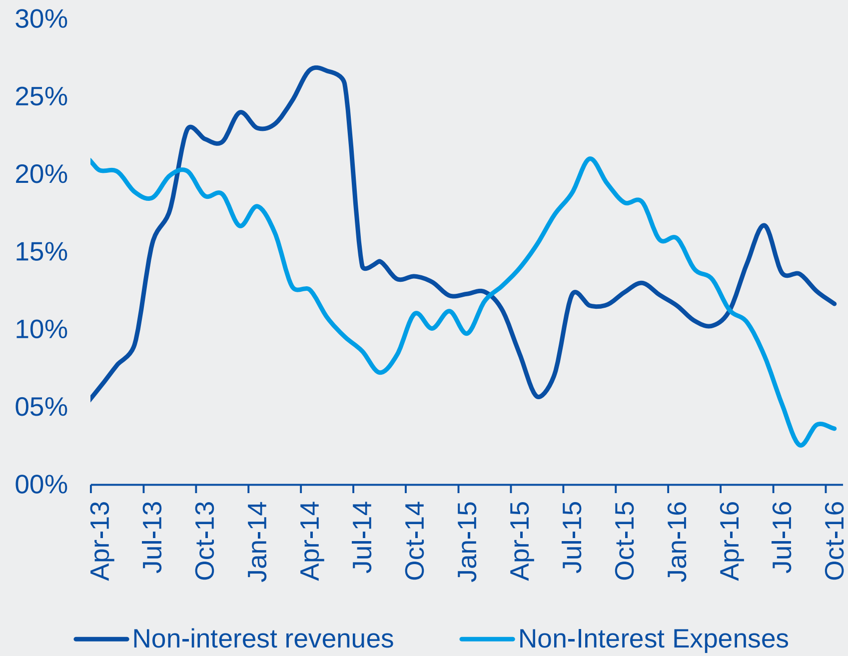
Profitability

Interest income and expenses showed no marked change whereas non-interest income continues its downward trend since 2H'16

INTEREST INCOME & INTEREST EXPENSES GROWTH
12 month cum., %



NON-INTEREST INCOME & NON-INTEREST EXP.GROWTH
12 month cum.,%

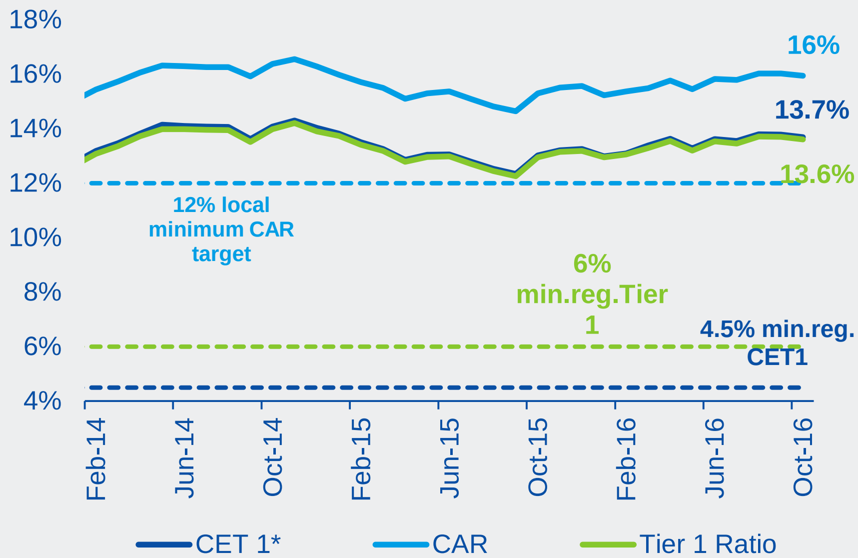


Source: Garanti Research, BRSA latest monthly data

Solid Buffers

Both Capital Adequacy Ratio (CAR) and Common Equity Tier 1 declined by almost 10bps (MoM) due to slight increase in risk weighted assets

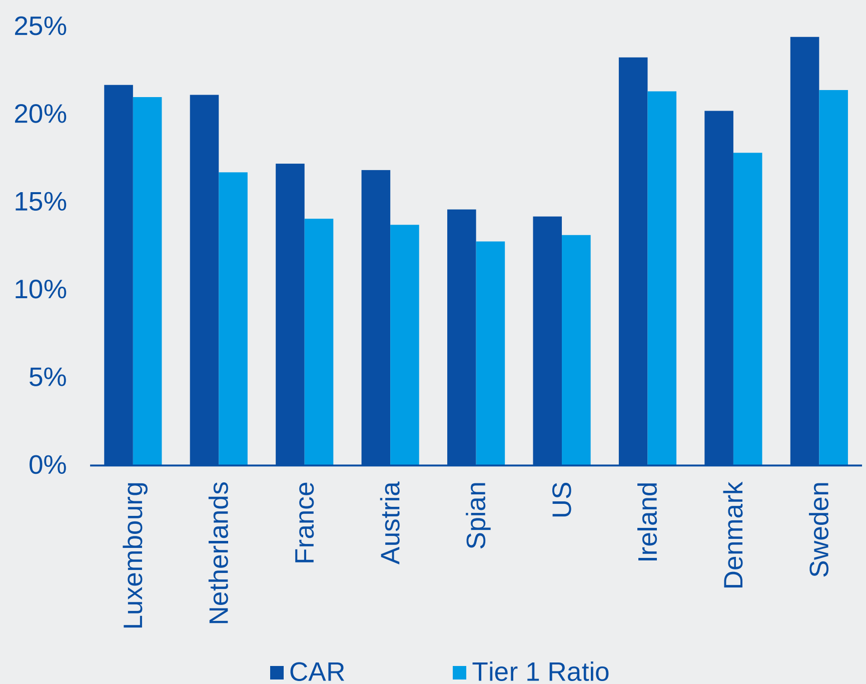
CAPITAL ADEQUACY RATIO & CET 1 & TIER 1 RATIO



*Banks have to maintain additonal capital conservation buffer of +0.625% CET1 for 2016; phased-in to reach +2.5% CET1until 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.

DM CAR & TIER

Q2'16



Source: Garanti Research, BRSA

Source: Garanti Research and IMF FSI

Regulations

- The BRSA has lowered the general provisioning requirement for SME and commercial loans. Accordingly, the general provisioning requirement has been lowered to 0.5% from 1% for commercial loans and to 0% from 0.5% for SME loans. Additionally, the 2% general provisioning ratio for Group 2 loans could be 1% for Group 2 SME & commercial loans
- The calculation method of maximum interest rates for credit card borrowings has been changed. Accordingly, the monthly maximum interest rates that banks can charge on Turkish lira and FX credit card borrowing have been decreased. To be effective from 1 January 2017, for the credit card borrowings, the monthly maximum contractual interest rate will be 1.84% for the Turkish lira and 1.47% for FX transactions, whereas the monthly maximum overdue interest rate will be 2.34% for the Turkish lira and 1.97% for FX transactions
- Implementation of limits for FX collateral deposits placed with the CBT will be restarted as of 11 November 2016. Banks' limits will be applied as four times the limits allocated before 17 July 2016. Banks that are above these limits will not be able to extend their existing deposits and place new deposits until they reach their limits

Source: Garanti Research, BRSA, CBT

Regulations

- The method of the remuneration of the TL required reserves held at the CBT is changed. Starting from 1 January 2017, the remuneration rate for each quarterly period will be taken 400bps less than the one week repo auction rate of the CBRT. Beginning from 1 January 2017, remuneration of the TL required reserves will be paid on the first business day following the end of months March, June, September and December. The first remuneration will be paid on 3 April 2017 according to the new method
- Reserve option coefficients have been changed to provide additional FX liquidity to the financial system. Accordingly, the coefficient for the first tranch of the FX facility of Reserve Option Mechanism has been kept unchanged, the second tranch has been decreased by 0.1 point, the other tranches have been decreased by 0.2 points. Should the reserve option utilization rates remain unchanged, approximately USD700 million of liquidity will be provided to the financial system with these changes
- FX reserve requirement ratios have been decreased by 50bps for all maturity brackets. With this revision, approximately USD 1.5 billion of liquidity will be provided to the financial system
- Regarding the export and FX earning rediscount credits, which will be due by 31/12/2016, it has been decided that i) The maximum maturity can be extended till 31/03/ 2017, ii) in case of payment on maturity without utilizing the maturity extension option, credit repayments can be made in TL and the CBT buying exchange rates prevailing on the maturity date will be used in these transactions

Source: Garanti Research, CBT

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