II. Non-Financial Sector

The progressive improvement in the ratio of household liabilities to household assets continues. The impact of the macroprudential measures on individual credit cards and the vehicle loans extended by the banking sector also continues. While credit growth is stronger in housing loans, it is milder in general purpose loans. Deposits are still the main component of household assets; however, the share of mutual funds in household financial assets is on the rise owing to the real persons' increased interest in these instruments.

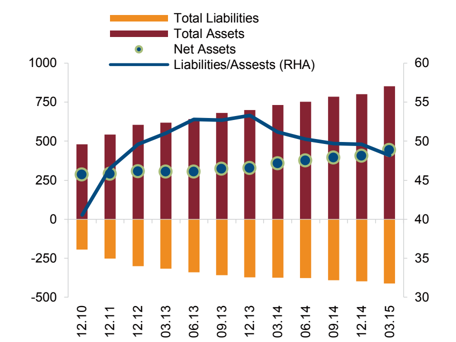
The ratio of the corporate sector's financial liabilities to GDP continues to increase mainly driven by domestic TL loans. Meanwhile, growth in foreign exchange adjusted commercial deposits accelerated. The ratio of foreign liabilities -whose maturities have extended- to the GDP displayed a measured rise due to the appreciation of exchange rates. In the second half of the year, tax incentives that will be introduced for capital to encourage firms to use their own equity for financing will contribute to financial stability by curbing excessive indebtedness.

II.1. Household Developments

The downtrend in the ratio of household liabilities to household financial assets continues. In the first quarter of 2015, the growth in household financial assets exceeded the growth in household liabilities. The rise in assets was mainly driven by saving deposits. The moderate growth trend in retail loans continues owing to the decline in aggregate demand and the macroprudential measures implemented as of end-2013 towards retail loans except housing loans (Chart II.1.1 and II.1.2).

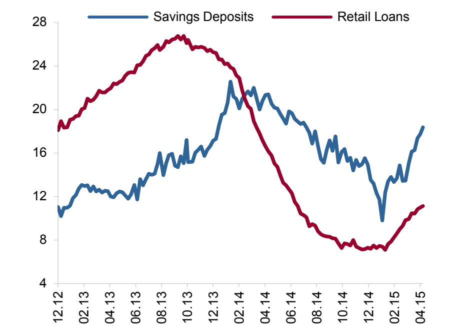
Deposits are still the main component of household assets. While the share of TL deposits in household assets displayed no change compared to September 2014, on which the data of the previous report was based, the TL equivalent of FX deposits increased due to the depreciation of the TL; and this was reflected as a rise in the share of FX deposits in the composition of household assets.

Chart II.1.1
Household Assets and Liabilities
(Billion TL, Percent)



Source: CBRT, BRSA, MKK, CMB, TOKI

Chart II.1.2
Growth in Household Loans* and Deposits
(Annual Percentage Change)



* Loans extended by domestic banks. Credit cards included.
Source: CBRT, BRSA (Latest Data: 30.04.15)

Table II.1.1
Household Financial Assets

	09.14		03.15	
	Billion TL	Share	Billion TL	Share
Total Assets	**784.4**	**100**	**852.2**	**100**
TL Saving Deposits	376.7	48.0	402.2	47.2
FX Saving Deposits	186.9	23.8	217.6	25.5
- *(Billion USD)*	82.8		83.3	
Precious Metal Deposits	16.1	2.1	10.8	1.3
- *(Billion USD)*	7.1		4.1	
Bonds and Bills	20.3	2.6	19.7	2.3
- Public Sector	6.4	0.8	5.9	0.7
- Private Sector	13.9	1.8	13.8	1.6
Mutual Funds	62.3	7.9	72.3	8.5
Pension	33.4	4.3	39.8	4.7
Other Mutual Funds	28.9	3.7	32.5	3.8
Equity Securities	39.7	5.1	43.5	5.1
Repo	2.4	0.3	3.4	0.4
Currency in Circulation	80.1	10.2	82.8	9.7

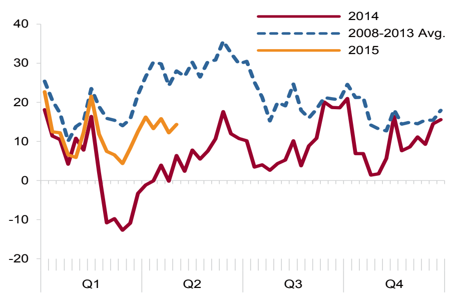
Source: CBRT, BRSA, MKK, CMB, TOKI

Table II.1.2
Household Financial Liabilities[1]

	09.14		03.15	
	Billion TL	Share	Billion TL	Share
Total	**389.7**	**100**	**410.7**	**100**
(Based on Type)				
Housing	134.7	34.6	145.1	35.3
Vehicle	14.2	3.6	15.0	3.6
General-Purpose + Other	150.7	38.7	160.5	39.1
Individual Credit Cards	80.7	20.7	78.9	19.2
Asset Management Companies' Receivables	9.4	2.4	11.2	2.7
(Based on Counterparty)				
Banks	359.2	92.2	378.2	92.1
Financing Companies	7.8	2.0	9.2	2.2
TOKI	13.2	3.4	12.1	2.9
Asset Management Companies'	9.4	2.4	11.2	2.7

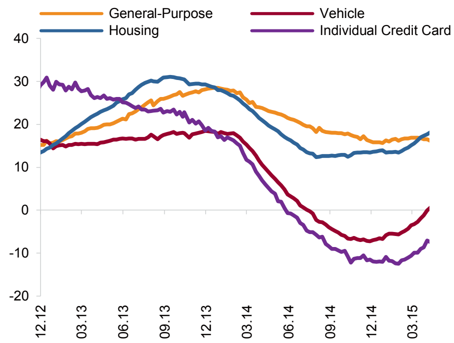
(1) Housing loans include TOKI's receivables against house sales with installments.
Source: CBRT, BRSA, TOKI

Chart II.1.3
Retail Loan Growth[1]
(Outstanding Data, 4-Week Moving Average, Annualized, Percent)



(1) Financing companies excluded.
Source: CBRT, BRSA (Latest Data: 30.04.15)

Chart II.1.4
Retail Loan Growth by Type of Loan[1]
(Outstanding Data, Annual Percentage Change)



(1) Financing companies excluded.
Source: CBRT, BRSA (Latest Data: 30.04.15)

Households' interest in the private pension system continues. The growth rate of private pension funds outpaced that of total assets over the last six months. Meanwhile, the share of precious metal deposit accounts, government bonds and corporate bonds in total household assets slightly decreased compared to September 2014 (Table II.1.1).

Household liabilities have been growing at a moderate pace on the back of the macroprudential measures introduced and the deceleration in consumer demand. An analysis of the composition of retail loans making up a large portion of liabilities reveals that the share of individual credit cards subject to macroprudential measures fell while the shares of housing loans and general-purpose loans increased. An analysis of household liabilities by type of creditor suggests that the share of banks decreased marginally due to NPLs sold to asset management companies, while the share of financing companies, which have a rapid growth rate in vehicle loans, increased (Table II.1.2).

Retail loan growth has recently been hovering below the previous years' averages, but above last year's figures. The retail loan growth, which accelerated in 2013, lost pace significantly in 2014 and converged to historic averages at the end of the year. Having decreased to relatively low levels in the first quarter of 2015, the retail loan growth displayed a moderate pick-up at the beginning of the second quarter (Chart II.1.3).

Housing loan growth rates accelerated moderately at the beginning of 2015. Housing loans, which displayed a stable rise at around 12-13 percent in the second half of 2014, further accelerated in recent months and reached almost 20 percent. Meanwhile, there has been no remarkable change in the general-purpose loan growth compared to the last report period. The uptrend in the growth of vehicle loans and individual credit cards mainly stems from the previous year's low base effect (Chart II.1.4).

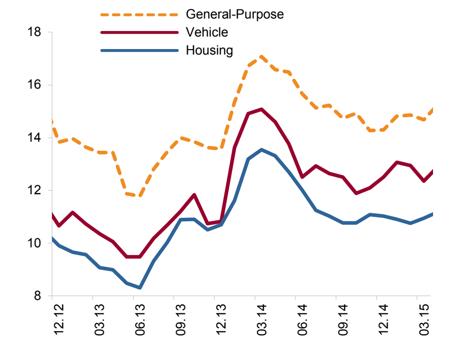
In the first quarter of 2015, the housing loan rates, which decreased slightly compared to the final quarter of 2014, contributed to the housing loan growth. In the same period, general-purpose loan rates slightly increased (Chart II.1.5). The rise in the general-purpose loan rates is mainly attributed to the CBRT's tight liquidity policy and the recently observed slight increase in the general-purpose loan riskiness (See III.1. Credit Risk section).

The household current consumption spending and unsecured retail loan extensions are still highly interrelated. As individual credit cards and general-purpose loan instruments have started to be used by consumers more commonly as a financing instrument, developments in these types of loans are more influential in consumer spending. There has been no significant rise in individual credit card spending owing to the macroprudential measures introduced in 2014 for credit card spending with installments; however individual credit card spending with installments was partly substituted by general-purpose loans, thus pushing consumer spending upwards (Chart II.1.6).

The impact of the macroprudential measures introduced for credit card spending with installments still continues. Households started to prefer credit card spending without installments after the regulation limiting installments on credit cards was introduced. The decline in credit card balances with installments slowed in the last two quarters mainly due to last year's low base effect (Chart II.1.7).

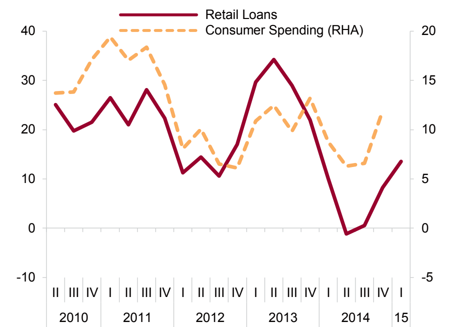
Credit card spending throughout 2013 and spending after April 2014 have been compared to analyze the changes in sectors with significant shares in credit card spending that occurred after the regulation (Chart II.1.8). The comparative study suggests that after the regulation, there have been significant drops in the shares of all sectors except for catering, various food and services sectors in overall spending. The study also revealed that the impact of the regulation, which was enacted in October 2014 and rescinded the prohibition of credit card installments in jewelry spending and allowed up to four installments in this sector remained quite modest and the decline in jewelry spending continued. Sectors, which sell durable goods and have a relatively bigger share in individuals'

Chart II.1.5
Consumer Loan Rates
(Percent)



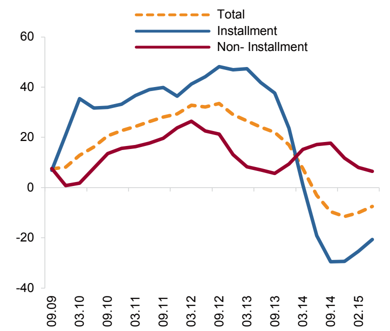
Source: CBRT (Latest data: 30.04.15)

Chart II.1.6
Growth of New Retail Loan[1,2] Extensions and Consumer Spending (Annual Percentage Change, Flow Data)



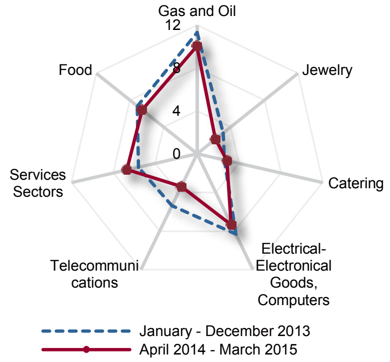
(1) Retail loans are composed of general-purpose and other loans as well as credit card spending.
(2) One quarter lagged values are used for retail loan growth.
Source: CBRT, BRSA, BKM (Latest Data: Retail Loans 03.15, Consumer Spending 12.14)

Chart II.1.7
Individual Credit Card Balances
(Annual Percentage Change)



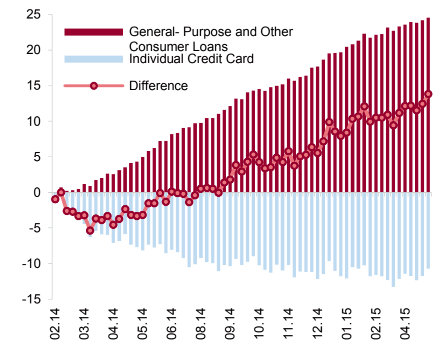
Source: CBRT, BRSA (Latest Data: 03.15)

Chart II.1.8
Breakdown of Individual Credit Card Spending by Sectors
(Percentage Share)



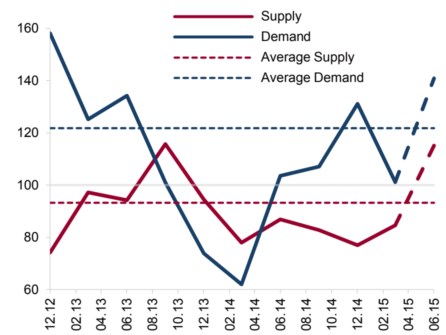
Source: BKM

Chart II.1.9
Individual Credit Cards and Consumer Loans
(Billion TL, Weekly Stock Change)



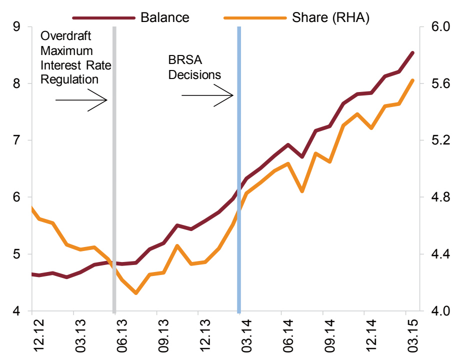
Source: CBRT, BRSA (Latest Data: 30.04.2015)

Chart II.1.10
Supply and Demand for General-Purpose Loans[1]



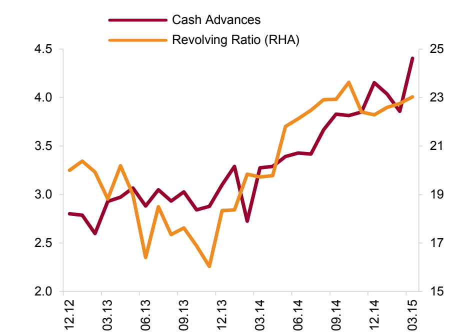
(1) Derived from Bank Loans Tendency Survey. Values below 100 imply a tightening, above 100 imply an easing. June 2015 data are estimations taken from the survey. Dashed lines display averages since 2009.
Source: CBRT

Chart II.1.11
Personal Overdraft Account Balance and Its Share in General-Purpose Loans[1] (Billion TL, Percent)



(1) General-purpose and other consumer loans.
Source: CBRT, BRSA

Chart II.1.12
Credit Card Cash Advances and Revolving Ratio
(Flow Data, Billion TL, Percent)



Source: CBRT, BRSA, BKM

credit card spending, have been affected by the regulation the most and the impact of the regulation has been limited in sectors selling non-durable goods in which payments with installments were not common even before the regulation.

The rise in the amount of general-purpose loans surpassed the decline in individual credit card balances, thus partly offset the impact of the limitation introduced in credit card spending with installments. Over the last six months, the change in general-purpose loan balances have been higher than that of individual credit card balances on which macroprudential measures were introduced (Chart II.1.9).

Results of the Bank Loans Tendency Survey suggest that banks maintained their tight and cautious stance about general-purpose loan standards in the first quarter of 2015. The survey respondents indicated that expectations about general economic activity and concerns over consumers' credit worthiness urged them to tighten whereas competition between banks, improvement in funding costs and balance sheet limitations encouraged them to ease credit conditions. Demand for general-purpose loans displayed a slight decline due to consumer confidence, household savings and loans obtained from other banks (Chart II.1.10). Banks expect a modest easing in general-purpose loan standards and a rise in demand in the second quarter.

Developments in other unsecured retail loan instruments shows that individual overdraft account products are used in an incremental manner in meeting households' demand for financing. After the regulation limiting the number of installments in credit card spending was introduced, overdraft accounts became important instruments of consumer financing, and the share of overdraft balances in general-purpose loans continued to climb throughout 2014 and in the first quarter of 2015 (Chart II.1.11). Individual credit card cash advances display a similar trend to that of overdraft accounts and an uptrend is observed in the amount of cash advances after the regulation limiting installments. Meanwhile, even if there is an uptrend in the individual credit card revolving ratios, this uptrend is attributed to the rise in revolvements as of the second half of 2014 and the decline in credit card balances (Chart II.1.12).

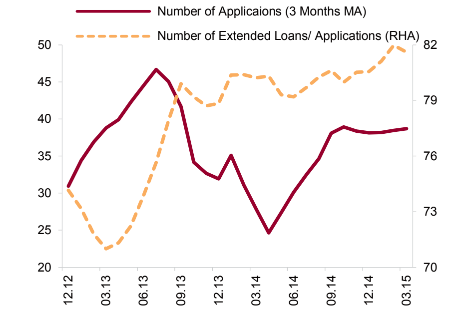
The house sales and the trend of housing loan extensions remained robust and the high level of housing loan applications recorded in the third quarter of 2014 was maintained thanks to the reasonable financing costs (Chart II.1.13). While house sales remained robust in the first quarter, the rise in the share of mortgaged house sales continued (Chart II.1.14).

Results of the Bank Loans Tendency Survey for the first quarter of 2015 imply that there has been no significant change in housing loan standards; and the increase in the volume of housing loans was mostly demand-driven. The upswing in the demand for housing loans can mainly be attributed to positive expectations about the housing market. While banks have implemented almost no change in housing loan standards, it is interesting that non-bank financing facilities have been listed as a factor -albeit a weak one- easing credit standards. An analysis of the survey with respect to the expectations regarding the second quarter of 2015 suggests that credit standards will tighten slightly and converge to historical levels. The housing loan demand, which is currently strong, is expected to decelerate (Chart II.1.15).

While retail vehicle loan growth remains subdued, recently there has been a discrepancy between growth trends of vehicle loans for banks and financing companies. While vehicle loan growth of banks continues to decrease, that of financing companies is still on an uptrend, which confirms the increasing share of financing companies in retail vehicle loans (Chart II.1.16). The rise in the share of financing companies in the vehicle loan extension composition to the detriment of banks can be attributed to the attractive financing costs offered by financing companies in vehicle sales.

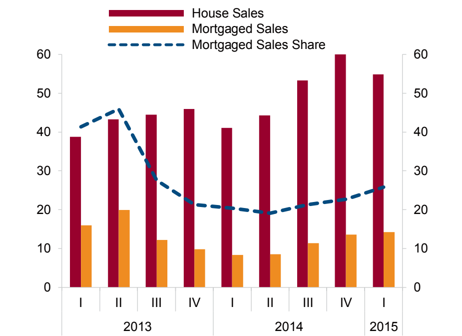
Savings deposits, which constitute approximately 75 percent of household assets, increased on the back of the rise in TL savings deposits since the last quarter of 2014. In the same period, resident real persons' US dollar-denominated FX savings deposits displayed a limited fall. In recent months, currency

Chart II.1.13
Applications and Extensions for Housing Loans
(Thousand, Percent)



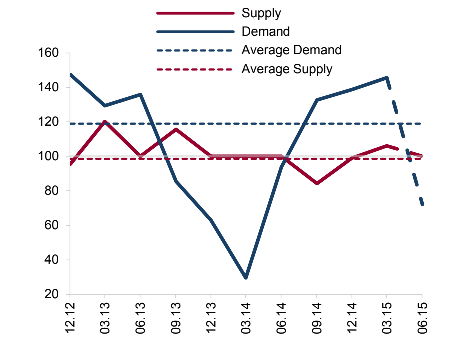
Source: CBRT

Grafik II.1.14
Housing Sales Financed Through Loans[1]
(Flow Data, Billion TL, Percentage Share)



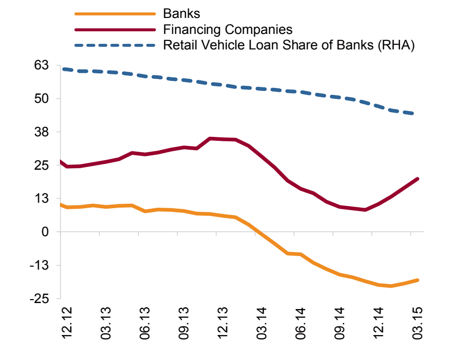
(1) Calculated based on the unit square meter prices released by the CBRT, under the assumption that all the houses sold are 120 m².
Source: CBRT, BRSA, TURKSTAT

Chart II.1.15
Supply and Demand for Housing Loans[1]



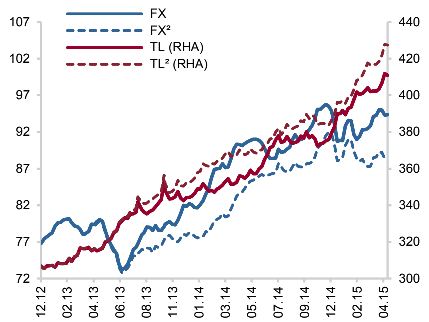
(1) Derived from Bank Loans Tendency Survey. Values below 100 imply a tightening, above 100 imply an easing. June 2015 data are estimations taken from the survey. Dashed lines display averages since 2009.
Source: CBRT

Chart II.1.16
Retail Vehicle Loans
(Outstanding Data, Annual, Percent)



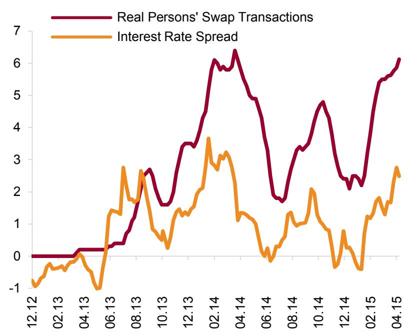
Source: CBRT, BRSA

Chart II.1.17
Deposits of Resident Real Persons[1,2]
(Billion TL, Billion USD)



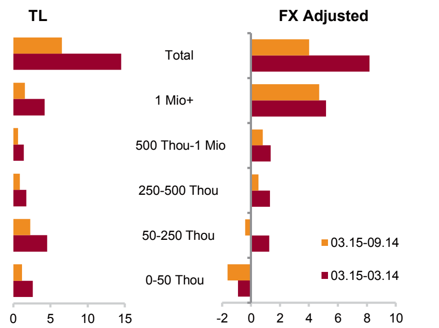
(1) FX savings deposits have been adjusted for the EUR/USD parity effect.
(2) Excluding currency swap transactions.
Source: CBRT, BRSA (Latest Data: 24.04.15)

Chart II.1.18
Resident Real Persons' FX Borrowing Currency Swap Transactions and the Interest Rate Spread[1,2]
(Billion Basket, Percentage Point)



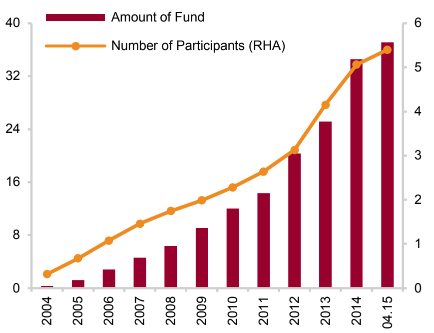
(1) First, the interest spread between TL savings deposit rate for 3-month maturity and currency swap rate was calculated. Then, this spread was subtracted from the FX savings deposit rate for 3-month maturity.
(2) (0.6$+0.4€) currency basket has been used.
Source: CBRT, BRSA, Bloomberg (Latest Data: 30.04.15)

Chart II.1.19
Contribution of Resident Real Persons' Deposit Sizes to Growth by Periods[1,2] (Percentage Point)



(1) FX savings deposit has been adjusted for exchange rate effect with the (0.6$+0.4€) currency basket.
(2) Precious metal deposit accounts have been included in FX deposits.
Source: CBRT, BRSA

Chart II.1.20
Amount of Private Pension System Funds and the Number of Participants in the System (Billion TL, Million People)



Source: Pension Monitoring Center (Latest data: 30.04.15)

swap transactions, which are offered to resident real persons as a substitute for TL deposits, have accelerated again in line with the developments in deposit and currency swap rates. These transactions are also effective on the shift between TL and FX deposits. Excluding the impact of the currency swap transactions, the rise in the amount of TL savings deposits is more remarkable than the decline in the amount of FX savings deposits (Chart II.1.17 and II.1.18).

Real persons' TL preference come forward compared to the end of year and the previous Report period. However, a breakdown by amounts indicates that in high-amount savings deposit accounts, which are more susceptible to interest rate changes and bear more volatility, the rise in FX deposits is relatively higher and this is believed to have stemmed from currency swap transactions. However, in small-medium amount deposits that constitute the deposit base, depositors have preferred TL deposits compared to the previous Report period (Chart II.1.19).

In 2014, approximately one million new customers joined the private pension fund system and private pension funds continued to grow. With the growing interest of households in the private pensions system, the growth in private pension funds in 2014 exceeded the growth in 2013, when the state incentive system was first introduced. Thus, private pension funds' contribution to household savings increased as well. Actually, the share of private pension funds in household assets posted a significant rise between two report periods. In the first quarter of 2015, the uptrend in both the number of participants and the amount of funds in the system continued (Chart II.1.20).

II.2. Corporate Sector Developments

The ratio of the corporate sector's total financial liabilities to the GDP continued to increase in the first quarter of 2015. While the growth in the corporate sector's financial liabilities in the final quarter of 2014 was mainly driven by the sector's TL domestic borrowing, the acceleration in the first quarter of 2015 was triggered by the rise in FX liabilities due to the exchange rate effect (Chart II.2.1). An analysis of the corporate sector's debts by original currency units (which means without exchange rate effect), shows that the volume of foreign liabilities maintains a flat trend and FX loans extended by domestic banks remain weak.

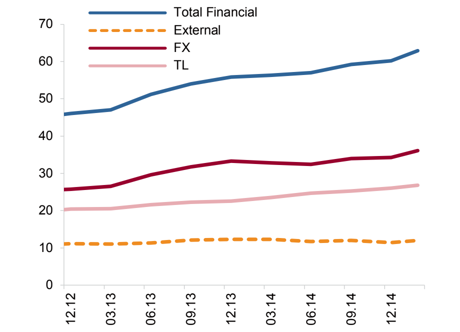
There has been no significant change since the last Report period in the composition of the funding that the corporate sector obtained from banks, non-bank financial institutions and bonds issuances. Funds obtained from bond issues are on a downward trend in tandem with the subdued activity in FX-denominated bond issues. Nevertheless, the share of issues, nearly 70 percent of which is FX-denominated, in total debt stock remained unchanged due to the depreciation of the Turkish lira. Although the share of funding from non-bank financial institutions didn't change, the share of financing companies in this group increased significantly. While the share of domestic banks in bank loans increased throughout 2014, the uptrend halted in the first quarter of 2015 due to the depreciation of the TL (Chart II.2.2).

According to FX-adjusted data, the rise in the share of TL-denominated loans in borrowing from domestic banks continues. While the growth in FX-adjusted total loans hovers close to its long-term average, the recovery in the annual growth in FX-loans has decelerated since end-2014 (Chart II.2.3). The FX corporate loans are mostly extended in US dollars and euros; however, the recent appreciation trend in the US dollar coupled with the cost advantages in euro borrowing encourage firms to demand loans in euros (See Box III.2.1. Developments in Financing Structure by Foreign Currencies).

The ratio of FX-indexed loans (tracked under FX loans) to total FX loans has decreased. The level of FX-indexed corporate loan extensions that bear no legal limitations unlike the FX-denominated corporate loans is also decreasing in terms of flows data (Chart II.2.4).

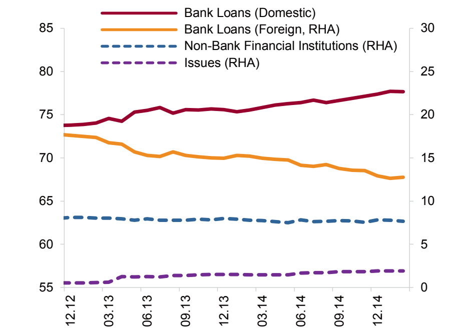
The changes in the corporate loans since the last Report period were mainly determined by the demand dynamics. Banks tend to tighten credit conditions and standards in tandem

Chart II.2.1
Financial Liabilities of the Corporate Sector[1,2,3]
(Percent of GDP)



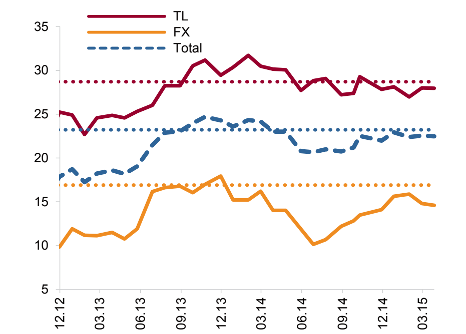
(1) Composed of loan liabilities and issues.
(2) External liabilities exclude data from foreign branches and affiliates of resident banks.
(3) External TL liabilities are included in total FX liabilities.
Source: CBRT, TURKSTAT (Latest Data: 02.15)

Chart II.2.2
Structure of Corporate Sector Financing Sources[1]
(Percentage Share)



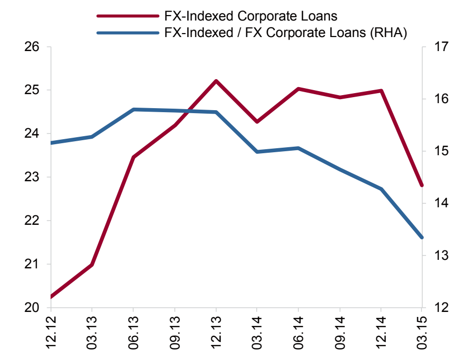
(1) Foreign branches of domestic banks have been included under foreign banks.
Source: CBRT, BRSA (Latest Data: 02.15)

Chart II.2.3
Domestic Corporate Loans[1]
(FX-adjusted, Annual Percentage Change)



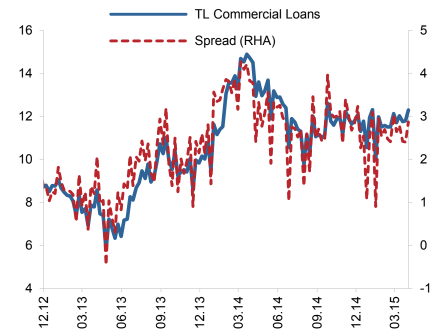
(1) The basket value used to adjust for the exchange rate effect is composed of 70 percent USD and 30 percent euro. FX-indexed loans have been included in FX loans. Year-on-year changes are calculated by using the same date values of the previous year. Dashed lines point to averages of the January 2011-March 2015 period.
Source: CBRT, BRSA (Latest Data: 27.03.15)

Chart II.2.4
FX-Indexed Corporate Loan Balances
(Monthly Average, Billion USD; Percentage Share)



Source: CBRT, BRSA

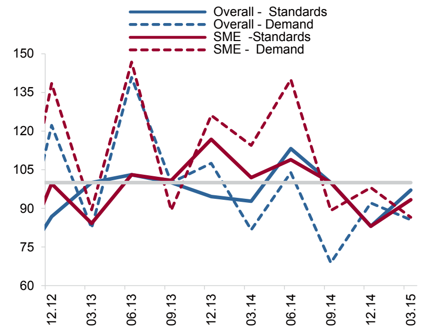
Chart II.2.5
TL Corporate Loans Rate[1] and Loan-Deposit Spread
(Percent)



(1) Excluding specialty loans, fund-sourced loans, securities purchases loans, overdraft accounts, credit cards and the zero-rate laons extended that week.
Source: CBRT (Latest data: 30.04.15)

with credit risk perceptions at times of slower economic activity. Moreover, historical data shows that firms in the SME segment are the first to be affected from any adverse development in the loan market. However, despite the weak GDP growth trend since the second quarter of 2014, there has been no concrete data in hand pointing to a decrease in banks' lending appetite. According to Bank Loans' Tendency Survey, there has been no remarkable change in credit standards neither for large-scale banks nor for SMEs. While corporate loan rates remained flat, the spread between corporate loan rates and deposit rates maintains a flat trend as well (Chart II.2.5). The fact that there is no significant difference between growth rates of corporate loans for SMEs and large-scale firms also confirms that banks have not made a noteworthy change in their stance towards credit supply.

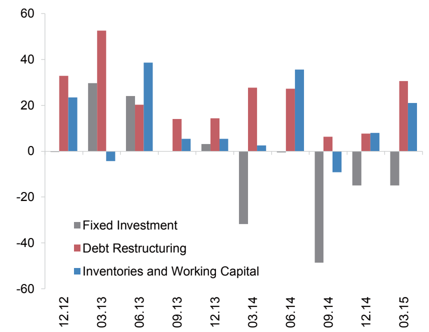
Chart II.2.6
Supply and Demand Developments in Overall Corporate Loans and SME Loans[1] (Percent)



(1) Derived from the Bank Loans Tendency Survey. Values below 100 imply a tightening, above 100 imply an easing.
Source: CBRT

The Bank Loans' Tendency Survey suggests that, although the credit standards for both overall corporate loans and SME loans were eased moderately in the first quarter of 2015 compared to end-2014, banks maintained their cautious stance. On the supply side, in the first half of 2015, expectations about the general economic activity and particularly about risk perceptions made a tightening impact, whereas competition between banks made an easing impact especially on corporate loans standards extended to large-scale firms. Meanwhile, the demand for corporate loans maintained its weak trend (Chart II.2.6).

Chart II.2.7
Contributions to Corporate Loan Demand[1]
(Percent)



(1) Derived from the Bank Loans Tendency Survey.
Source: CBRT

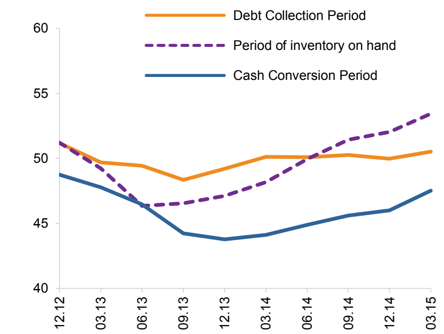
It is observed that, on corporate sector loan demand, while the investment motive weakened, working capital finance and rolling over of the current debts were much more influential. FX loans, which have longer maturities than TL-loans, are known to be used generally for financing investments rather than business finance. Therefore, the slowdown in FX-loans is attributed to the stagnation in investment demand observed since the beginning of 2014. The steady growth in TL-loans is believed to be driven by the increased need for working capital and rolling over of the current debts. The Survey results confirm these arguments as well (Chart II.2.7).

An analysis of the data of corporate sector firms quoted on the BIST suggests that financing of the working capital and roll-over of current debts will continue to be the primary motives for a while determining the corporate loan demand. The balance sheets of firms indicate that debt collection periods as well as the period of inventory on hand have been extending since the turn of 2014 when the economic activity began weakening (Chart II.2.8).

The amendment of Law No. 6637, which was enacted on 26.03.2015 and which will take effect on 01.07.2015, stipulates that capital companies are allowed a deemed interest deduction that is equal to 50 percent of the interest calculated on the cash capital increase in the registered capital of the existing corporations or cash capital contributions of the newly incorporated firms based on the interest rate announced by the CBRT for TL denominated commercial loans, from their Corporate tax base of the relevant year.[1] The tax incentive introduced for corporate sector firms is expected to support the firms' financing structure by decreasing their indebtedness ratios and might be a mitigating factor for the loan needs in the upcoming period.[2]

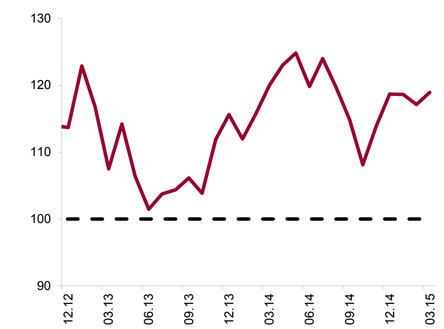
Currently, although the corporate sector's external debt roll-over ratio is highly above 100 percent (Chart II.2.9), any steps that the Fed will take about its monetary policy will likely influence access to external financing facilities through global liquidity conditions. In Turkey, however, the ratio of the corporate sector's external borrowing in total liabilities is low and borrowing through bond issues, which is a type of borrowing foreseen to be severely affected by fluctuations in global liquidity, is still at very low levels. Thus, the corporate sector is expected to be strong enough to resist the risks from this channel (Chart II.2.10).

Chart II.2.8
Activity Ratios of Corporate Sector Firms[1]
(Days)



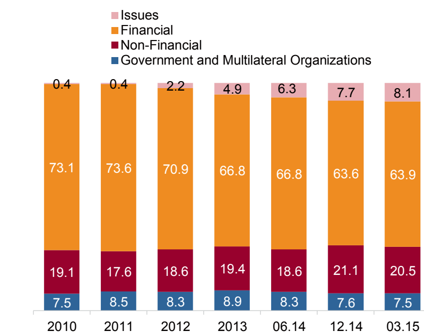
(1) 357 corporate sector firms quoted on BIST have been analyzed.
Source: CBRT

Chart II.2.9
External Debt Roll-Over Ratio
(6-month moving average, Percent)



Source: CBRT

Chart II.2.10
Distribution of Corporate Sector's External Liabilities
(Excluding Foreign Branches, Percentage Share)

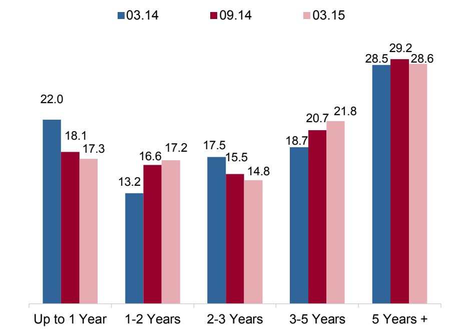


Source: CBRT

1 Article 8 of the "The Law on Amendment to Certain Laws and Decree Laws" No.6637, a paragraph was added to paragraph 1 of Article 10 of Corporate Tax Law No.5520 states that capital companies, except for those that operate in the sectors of finance, banking and insurance public economic enterprises, are allowed a deemed interest deduction calculated on the cash capital increase in the registered capital of the existing corporations or cash capital contributions of the newly incorporated corporations from their corporate tax base of the relevant year.

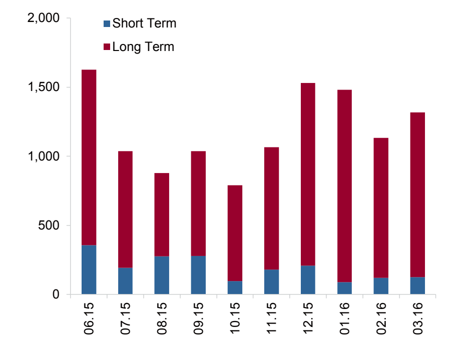
2 Similar legal arrangements have also been implemented in several countries such as Brazill and Belgium. This system, called the allowance for corporate equity (ACE), allows tax exemptions for firms until the firms achieve a certain profit level. The problems that may arise from allowing more tax incentives for borrowing than allowed for equity financing is a highly debated issue in the international platforms.
For more information please see The Economist, 16 May 2015 and Ruud A.de Moji (2011), "Tax Biases to Debt Finance: Assessing the Problem, Finding Solutions, IMF Staff Discussion Note, SDN/11/11.

Chart II.2.11
Breakdown of Corporate Sector's External Financial Liabilities by Maturities (Percentage Share)



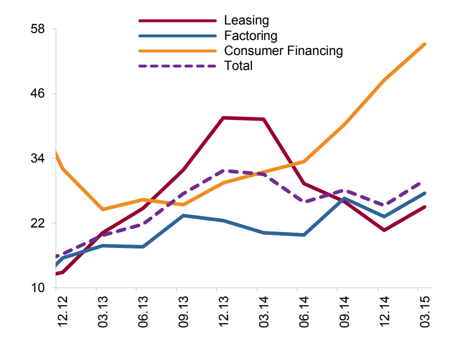
Source: CBRT

Chart II.2.12
External Loans Due Within One Year
(Million USD)



Source: CBRT

Chart II.2.13
Changes in Corporate Sector Loans Extended by Non-Bank Financial Institutions[1] (Annual Percentage Change)



(1) Data covers financing companies' commercial loans with installment options, factoring receivables of factoring companies and leasing receivables of leasing companies.
Source: CBRT, BRSA

The fact that firms' external borrowings have long maturities is a factor reinforcing the corporate sector's resilience against short-term fluctuations in availability of external borrowing facilities.

The decline in the share of the corporate sector's external liabilities with maturities shorter than one year continues. This decline was reflected as an increase in the share of liabilities with maturities of 1-2 years and 3-5 years. The share of external liabilities with maturities of 5 years and longer in all maturities remained unchanged over the last year. The relative drop in short-term external borrowing is a significant development as it means lower payment of near future external liabilities amid high exchange rate volatility environment (Chart II.2.11).

For the June 2015-March 2016 period, the corporate sector has a total of USD 11.9 billion loan repayment, of which USD 10 billion of which is for long-term loans and USD 1.9 billion is for short-term loans. On the other hand, by the end of March 2015, short-term import loans decreased by 7.9 percent compared to end-2014 and became USD 25.6 billion (Chart II.2.12).

The corporate sector's net FX short position has not posted a significant deterioration since mid-2014, and was USD 177.8 billion in February 2015. Over the last few months, direct capital investments abroad and FX loans obtained from domestic banks led to an almost equal rise in assets and liabilities of the corporate sector. Meanwhile, short-term FX short position decreased by USD 3.3 billion between mid-2014 and February 2015 and stood at USD 10 billion.

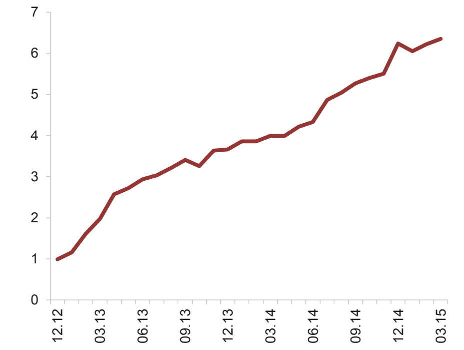
The corporate sector's liabilities to non-bank financial institutions constitute nearly 10 percent of their total domestic liabilities. The acceleration in the corporate sector's liabilities to financing companies, which started in 2013, continued in the first few months of 2015 as well. This rise can be attributed to the fact that financing companies are replacing banks for vehicle loans in tandem with the increased demand for consumer financing companies' vehicle sales with installments. Even if the growth in the corporate sector's liabilities to financial leasing and financial factoring companies showed a moderate decline in the final quarter of 2014, growth in these liabilities rebounded in the first quarter 2015 (Chart II.2.13).

The Turkish domestic bond market, which is quite small compared to other country examples, continues to expand. By March 2015, the corporate sector's domestic bond issues increased by approximately 60 percent year-on-year (Chart II.2.14). The domestic bond issues with an average maturity of approximately 28 months is seen as an important potential in meeting the long-term TL-denominated financing need of the corporate sector.

The annual growth of FX-adjusted total commercial deposits has been accelerating since the end of 2014. The acceleration is mainly attributed to the rebound in the annual growth of TL commercial deposits that had remained weak throughout 2014. The downtrend in the annual growth of FX commercial deposits terminated as of end-2014 when exchange rate volatility increased. This development can be mainly attributed to several factors like firms with FX short positions tending towards FX deposits during periods of appreciating FX, as well as the rise in currency swap transactions with resident legal persons recorded on the balance sheets as an increase in FX deposits (Chart II.2.15 and II.2.16).

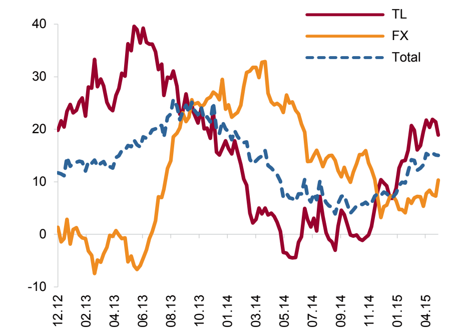
Compared to the final quarter of 2014 and the previous year, legal persons have tended towards TL deposits across all deposit amounts. Unlike small-amount deposits, there is a rise in large-amount FX commercial deposits with the support of the currency swap transactions. The amount of FX commercial deposits has been decreasing since September 2014 across all deposit fractions below TL 250 thousand (Chart II.2.17).

Chart II.2.14
Corporate Sector's Domestic Bond Issues
(Billion TL)



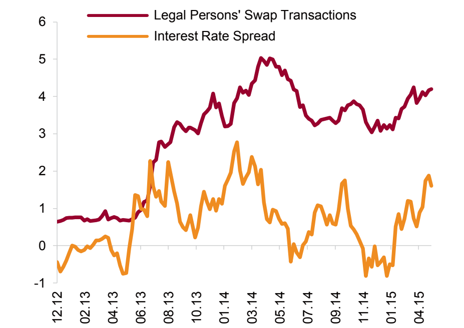
Source: MKK, CMB, CBRT (Latest Data: 31.03.15)

Chart II.2.15
Commercial Deposits[1]
(FX-adjusted, Annual Percentage Change)



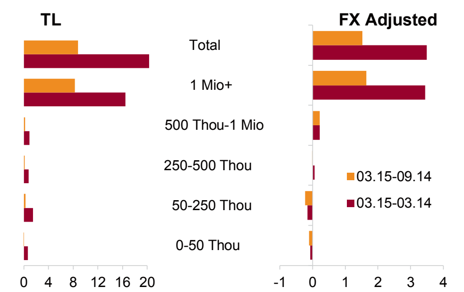
(1) The FX commercial deposit has been adjusted for the exchange rate effect with the (0.6$+0.4€) currency basket.
Source: CBRT (Latest data: 30.04.15)

Chart II.2.16
Resident Legal Persons' FX Borrowing Currency Swap Transactions and the Interest Rate Spread[1,2] (Billion Basket, Percent Point)



(1) First, the interest spread between TL commercial deposit rate for 3-month maturity and currency swap rate was calculated. Then, this spread was subtracted from the FX commercial deposit rate for 3-month maturity.
(2) (0.6$+0.4€) currency basket has been used.
Source: CBRT, BRSA, Bloomberg (Latest Data: 30.04.15)

Chart II.2.17
Contribution of Resident Legal Persons' Deposit Amounts to Growth by Periods[1,2] (Percentage Points)



(1) The FX commercial deposit has been adjusted for the exchange rate effect with the (0.6$+0.4€) currency basket.
(2) Precious metal deposit accounts have been included in FX deposits.
Source: CBRT, BRSA

Box II.2.1 Rediscount Credits Extended to the Corporate Sector for Exports and Foreign Exchange-Generating Services

Rediscount credits, which are governed by Article 45 of the Law on the Central Bank of the Republic of Turkey, are extended to exporters and firms providing foreign exchange generating services through Eximbank and other commercial banks in Turkish liras and with a maturity of 240 days by presenting foreign exchange bills for rediscount. As the repayments of these credits are made in foreign exchange on the date of maturity, they help boost the CBRT's foreign exchange reserves.

As rediscount credits help decrease exporters' financing costs thanks to their favorable interest rates and long maturities, the rise in the number of firms that are extended rediscount credits as well as the rise in the distribution of these credits by sectors and regions contribute to the proliferation of Turkey's export markets and export products, which thus supports the exports sector and contributes to balancing foreign trade.

The rediscount credit limit was raised to USD 17 billion on 23 January 2015 of which USD 15 billion was allocated to the Eximbank and USD 2 billion to other banks.

The rediscount credit limit is USD 300 million per foreign trade capital company and USD 250 million for other types of firms; the entire limit can be used for credits with a maturity up to 120 days and up to 50 percent of the limit can be used for credits with a maturity of 121-240 days.

Pursuant to the amendments made to the CBRT regulations on rediscount credits on 23 January 2015:

- In addition to exports, foreign exchange generating services (tourism, health, consultancy, software and engineering, transportation, repair and maintenance services) were included in the scope of the rediscount credits.
- The Turkish Eximbank and commercial banks were authorized to intermediate for the extension of rediscount credits for financing foreign exchange generating services.
- Commercial banks were allowed to intermediate pre-shipment export rediscount credits.
- Pre-shipment and post-shipment export receivables transferred to factoring firms as well as foreign exchange generating service receivables were included in the scope of rediscount credits to be extended by Turkish Eximbank and other banks.

In 2014, the amount of rediscount credits extended was USD 15.3 billion. In 2015, USD 5.4 billion worth of rediscount credits were extended until 30 April 2015 and the debt balance was USD 7.9 billion. In 2015, 76 percent of rediscount credits were extended in US dollars and 24 percent were extended in euros.

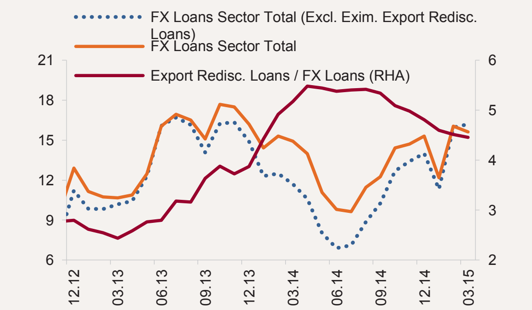
In 2015, rediscount credits were extended primarily to the basic metal industry, textile industry and metal products' manufacturing industry.

The contribution of rediscount credits to CBRT reserves in 2015 by 30 April 2015 was USD 13.9 billion and USD 6.1 billion of this amount has been registered in the CBRT reserves.

In 2015, around USD 16.5 billion worth of rediscount credits are expected to be extended and the contribution of these credits to the CBRT reserves is expected to be around USD 15.5 billion.

Export rediscount credits, which are paid back in FX, are deemed as instruments reinforcing foreign exchange reserves. The share of export rediscount credits in FX loans that the corporate sector firms received from domestic banks has posted a moderate decline since the second half of 2014 (Chart II.2.1.1)

Chart II.2.1.1
FX Loans and Export Rediscount Credits
(Annual Percentage Change, FX-Adjusted, Percent Share)



Source: CBRT, BRSA

Box II.2.2 Financial Asset and Liability Structure of Non-Financial Corporations

The global financial crises and the recent sovereign debt crises have magnified the need for more detailed statistics reflecting different approaches for policy-makers, market participants and the public. In other words, the recent crises accented the importance of revising the balance sheets structure to allow analysis of currency and maturity mismatches as well as relations between different sectors in the economy. One of the areas of statistics thus discussed is the Financial Accounts that have a broad range of applications in fields from monetary policy to financial stability and macro-prudential measures.

The Financial Accounts, which are compiled by the CBRT annually since 2011, measure financial transactions between resident and non-resident sectors and reveal the surplus or deficit of each sector.[1] The data compiled under this framework identifies non-financial corporations as the most indebted one among domestic sectors.[2] Therefore, non-financial corporations' behaviours, their relations with resident and non-resident sectors and the risks they bear have become an important determinant of the general economic outlook and a need arose for a more detailed analysis of the assets and liabilities of this sector.

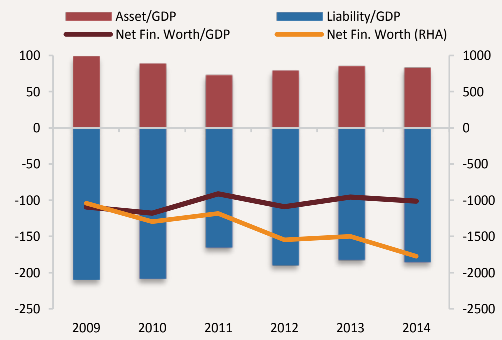
In this Box, the assets and liabilities of non-financial corporations are analyzed in light of Financial Accounts (FA) compiled in accordance with the ESA (European System of Accounts) standards[3] and principles. Traditionally, FA incorporates breakdowns by instrument, sector and maturities for certain balance sheet items. In this Box however; in addition to these, balance sheet items were also analyzed by maturity and Turkish lira / foreign currency breakdowns; and the data presented by the FA for non-financial corporations have been summarized with a different approach.

Overview of the Financial Assets and Liabilities

By their nature, non-financial corporations invest mostly in non-financial assets, therefore they bear a negative financial net worth; in other words, their financial liabilities are more than their financial assets. The net financial worth of these companies, which is calculated by subtracting their financial liabilities from their financial assets, has reached TRY -1,773 billion by the end of 2014, and the ratio of their financial net worth to the GDP maintained its level at minus 100 percent in recent years (Chart II.2.2.1). Compared to those ratios of other countries, Turkey is quite close to the euro area average and holds a better position than several emerging markets such as Hungary, Portugal, Estonia and Slovenia (Chart II.2.2.2).

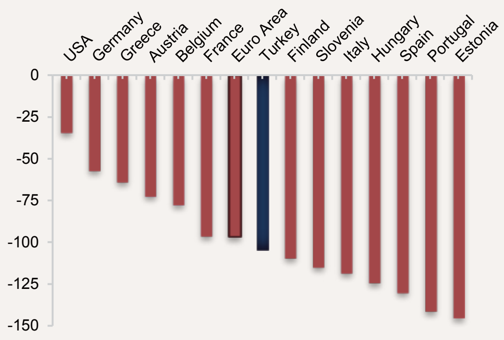
[1] CBRT "Financial Accounts- Methodology".
[2] CBRT Financial Accounts Report, 2013.
[3] European System of Accounts 1995 (ESA 95).

Chart II.2.2.1
Net Financial Worth/ GDP
(Percent, Billions TL)



Source: CBRT, TURKSTAT, BIST

Chart II.2.2.2
Non -Fina ncial Corporations' Net Financial Worth/ GDP
Ratio Across Countries as of 2014 (Percent)

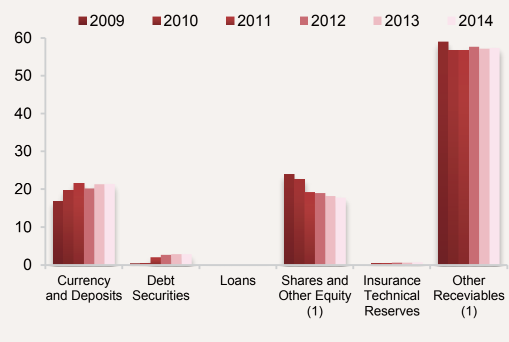


Source: CBRT, ECB, BIS

An analysis of the asset and liability structures of non-financial companies reveals that more than half of their assets are constituted by other accounts receivables that cover trade credits from domestic institutions, and the second largest asset item is shares and other equity to be followed by currency and deposits (Chart II.2.2.3). Meanwhile, most of the other accounts receivable are composed of trade credits and advances vis a vis resident non-financial corporations, and the rest is composed of transactions with non-resident institutions and 60 percent of the currency and deposits are time deposits held at resident banks.

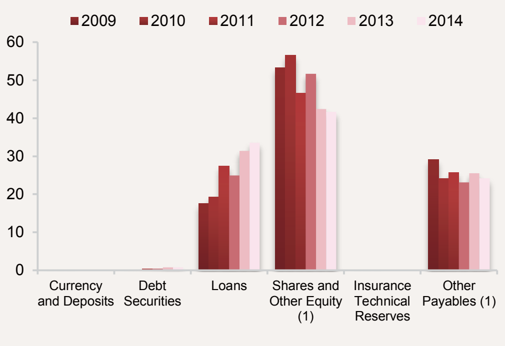
About 42 percent of the liabilities of these corporations are stemmed from financing through shares and other equity; and this ratio remained stable in the period analyzed. The share of loans in total liabilities have increased over the years and reached 34 percent at the end of 2014 from its level at 18 percent in 2009 (Chart II.2.2.4).

Chart II.2.2.3
Instrument Decomposition of Financial Assets
(Percentage Share)



(1)Data is estimated for 2014.
Source: CBRT, BIST, MKK

Chart II.2.2.4
Instrument Decomposition of Financial Liabilities
(Percentage Share)



(1) Data is estimated for 2014.
Source: CBRT, BIST, MKK

Sector and Maturity Structure

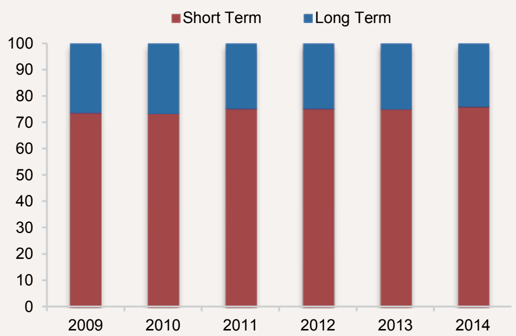
Another noteworthy information that can be drawn from the FA is the interlinkages between sectors. In this framework, the counterpart sector analysis revealed that the sectoral links of non-financial companies were dominantly composed of commercial debts and receivables within the sector (relations among non-financial corporations). The second highest connection is with resident banks, followed by non-resident banks with mostly in the form of liabilities (Diagram II.2.2.1)

Diagram II.2.2.1
Sectoral Linkages of Non-Financial Corporations
(2014, Billions TL)[1]

(1) Shows asset/liability relations with the respective sector.
Source: CBRT

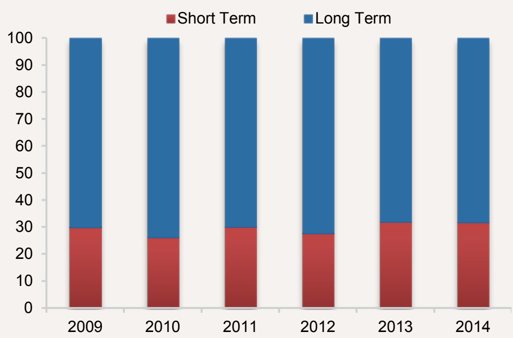
The maturity structure of financial assets is overwhelmingly composed of short-term relatively liquid assets. The short-term assets of the sector are basically domestic TL deposits and receivables from non-financial corporations (Chart II.2.2.5). The maturity structure of financial liabilities is predominantly composed of long-term liabilities, mostly including loans and equity (Chart II.2.2.6).

Chart II.2.2.5
Maturity Structure of Financial Assets
(Percentage Share)



Source: CBRT, BIST

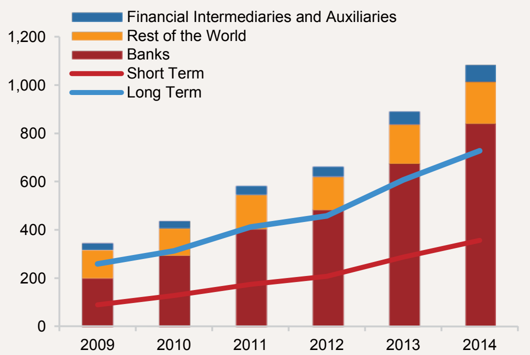
Chart II.2.2.6
Maturity Structure of Financial Liabilities
(Percentage Share)



Source: CBRT, BIST

Over the years, the dominance in the composition of sectors extending loans shifted from nonresidents to resident banks while maturity structure remained long-term. To put it in figures: while 34 percent of the loans were obtained from abroad in 2009, only 16 percent of the loans were obtained from abroad in 2014. In the same period, the ratio of loans obtained from domestic institutions was up from 58 percent to 78 percent (Chart II.2.2.7).

Chart II.2.2.7
Loans Extended by Sector and Maturity
(Billions TL)



Source: CBRT, MKK

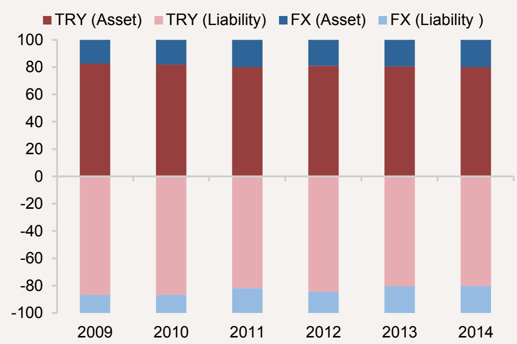
FX Position

Under various assumptions, financial assets and liabilities compiled in the framework of FA can be decomposed in terms of the TL and FX, thus information on the FX position of non-financial corporations becomes available. Accordingly, between 2009-2014, the TL items had an around 80 percent share in non-financial corporations' assets and liabilities while the share of FX items has displayed an upward trend over time. The share of FX assets in non-financial corporations' total assets increased from 17 percent in 2009 to 20 percent in the final quarter of 2014. The change was more remarkable on the liabilities side: the share of FX liabilities in total liabilities was up from 13 percent to 20 percent for the same period (Chart II.2.2.8).

As for the net financial position of the non-financial corporations, FX liabilities have been higher than FX assets throughout the analysis period and these corporations held net open positions. With respect to the amounts, the FX net liabilities have increased over time mainly due to the rise in FX loans. The net liabilities items, which was USD 63 billion at the end of 2009, reached USD 150 billion by the last quarter of 2014 (Chart II.2.2.9).[4, 5]

Chart II.2.2.8

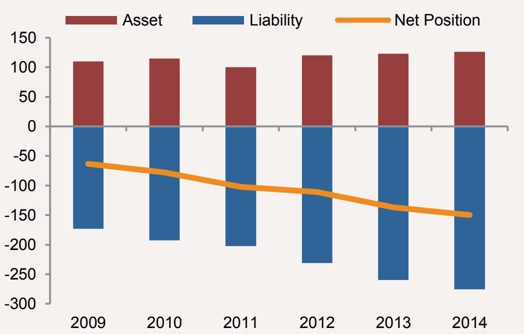
TL and FX Denominated Financial Accounts of Non – Financial Corporations (Percentage Share)



Source: CBRT

Chart II.2.2.9

Net FX Financial Position of Non-Financial Corporations (USD, Billions)

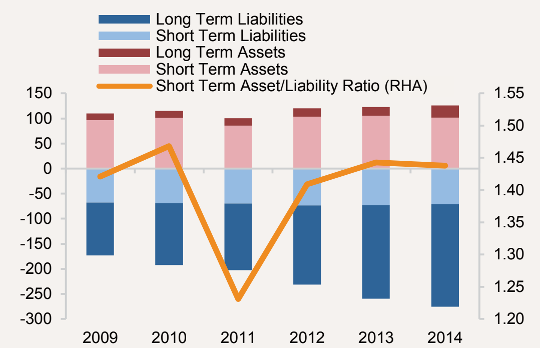


Source: CBRT

The maturity structure of FX financial assets and liabilities remained in tandem with the maturity structure of total financial assets and liabilities throughout the period analyzed. While FX assets are mostly short-term, FX liabilities are mostly long-term. As a consequence of this structure, by the end of 2014, the ratio of short-term liabilities covered by short-term assets was 144 percent (Chart II.2.2.10)

Chart II.2.2.10

Maturity Structure of FX Denominated Assets and Liabilities (USD, Billions)



Source: CBRT

[4] There is a difference with respect to scope of description between the net FX position data compiled in the framework of the FA and the position calculated in the scope of the monthly "Foreign Exchange Assets and Liabilities of Non-Financial Companies" statistics. Accordingly, while the FA incorporates more detailed data on other receivables and debt securities by sectors on the asset side, on the liabilities side the FX-indexed loans are classified as TL according to ESA standards.
[5] Although the FA data is compiled in TL, as the US dollar is the most commonly used currency in FX position analysis, in this part the amounts are presented in US dollars.

To conclude, the sectoral FA compiled based on the balance sheet methodology is an important data source in evaluating the financial structure and developments of non-financial corporations. An analysis of the data compiled and disseminated by the CBRT reveals that non-financial corporations sector is the most indebted sector. When financial net worth, which is an indicator of net debt levels, is compared to those of other countries, it is observed that Turkey is in the range of the euro area averages and is better than that of other emerging economies.

While the financial liabilities of the non-financial corporations are mostly in the form of long-term financing items, assets are composed of basically short-term and liquid assets. The maturity distribution in assets and liabilities is quite favorable and currency breakdown suggests that 80 percent of assets and liabilities are in TL. Despite the uptrend in non-financial corporations' FX net financial liabilities over the last few years, when the maturity structure is considered it is observed that the ratio of short-term FX liabilities covered by short-term FX assets is high.