Overview

While the global risk appetite has improved since the last FSR period, volatility in global markets continues. Accordingly, portfolio flows to developing countries remain volatile. Macroprudential measures taken in recent years as well as improvements in fiscal discipline have increased the economy's resilience to global shocks. As such, despite high levels of volatility in global capital flows, the Turkish economy has continued grow at a stable pace.

Recent macroeconomic developments in the Turkish economy provide a generally supportive background for financial stability. Following a growth performance that exceeded expectations in 2015, current domestic production and consumption dynamics suggest that a similar performance will continue in 2016 as well. Inflation developments follow the path predicted in official end-of-the-year forecasts. Fiscal discipline in the public sector is maintained. In tandem with favorable conditions in the terms of trade as well as the moderate growth rate seen in consumer loans supported by macroprudential policies, the recovery in the current account balance continues. At present, the current account deficit is financed mainly through foreign direct investment and other long term sources.

The household leverage ratio (liabilities/assets) continues to decline. As consumer credit growth continues on a moderate path, household assets have increased mostly due to savings accounts as well as retirement savings funds. Accordingly, household indebtedness remains at reasonable and sustainable levels. Non-financial corporate sector indebtedness saw a limited upswing due to exchange rate movements. Nevertheless, the probability of exchange rate related risk in the non-financial corporate sector remains low since the maturities on foreign currency denominated loans have increased in this period. These loans continue to be concentrated in larger firms that are relatively better at risk management. As with the household sector, prudent borrowing by the corporate sector will increase the resilience of the Turkish economy in the face of global fluctuations.

Credit continues to grow at moderate rates. New regulations on consumer loan risk weightings, wage developments, and improvements in financial conditions may support credit growth in the upcoming period. However, due to the tight monetary policy stance and the framework of macroprudential policies, annual credit growth is expected to continue at modest levels.

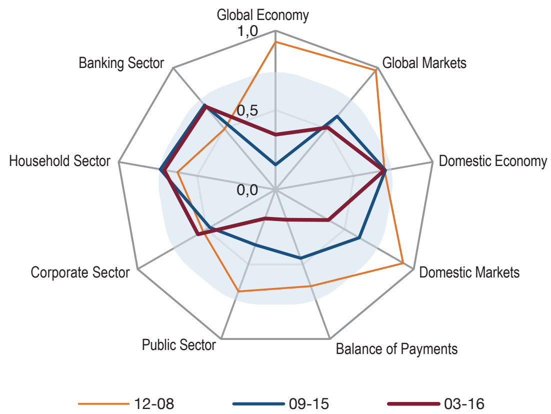
The upward trend in non-performing loan (NPL) ratios of banks has recently flattened due to developments in consumer loans and loans to SMEs. It is expected that as the economic activity continues along its steady course, the credit risk outlook will improve. At the same time, it is crucial that sectoral developments be monitored closely.

For the past six months, marked by a high level of global financial volatility, banks continued securing external funding smoothly. While external borrowing has declined, favorable borrowing costs and longer maturities signal that banks have a positive outlook accessing external funding sources. Macroprudential policies that encourage longer term external funding reduce the banking sector's susceptibility to adverse developments in global markets by lengthening maturities. The depo limits allocated to banks and their foreign currency and gold assets deposited at the CBRT add up to an amount larger than the sector's short term liabilities, providing banks with adequate liquidity buffers even in the short term.

Capital adequacy ratios in the banking sector have improved since the last quarter of 2015. According to the Regulatory Consistency Assessment Programme (RCAP) coordinated by the Basel Committee, Turkey is assessed as compliant in risk-based capital standards and liquidity coverage ratio regulations.

Based on these evaluations, the macro display chart below presents the schematic reflection of the developments related to the financial stability in Turkey. Accordingly, the developments in the global economy, domestic markets, balance of payments and the public sector have proved influential on financial stability during the past six months. Global and domestic markets as well as balance of payments and the public sector have contributed favorably to financial stability.

Financial Stability Map[1,2]



(1) Getting closer to the center means that the contribution of the related sector to financial stability has increased on the positive side. The analysis allows a historical comparison within each sub-sector. A cross-sector analysis can only be made by comparing the direction of change in the positioning with respect to the center.
(2) For the methodology used in the financial stability map, see Financial Stability Report v.13, November 2011-Special Topic IV.10.