

II. Non-Financial Sector and Financial Stability

II.1. Household Developments

The ratio of household liabilities to household financial assets, which had been increasing since 2010, displayed a moderate decline in the last few months. This change mainly stemmed from the slowdown in retail loans in the last two quarters -constituting 91 percent of household liabilities- and the growth in household assets, especially in FX deposits (Chart II.1.1 and II.1.2).

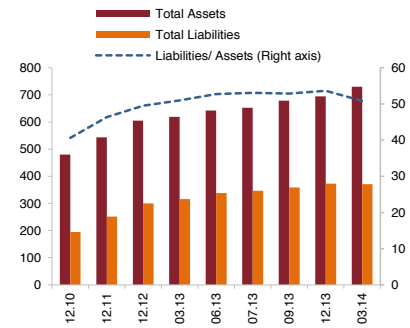
The share of FX saving deposits in total assets increased due to the rise in the share of the US dollar in the total deposits as well as the valuation effect stemming from the depreciation of the Turkish lira. The rise in FX saving deposits in terms of US dollars mainly stems from the representation on the balance sheet of the derivatives contracts that the banks offer their customers as a substitute for TL deposits (Please see Box II.1.1).

On the back of the regulations that took effect in June 2009 restricting household FX borrowing¹ the share of FX liabilities of household's in total household liabilities fell to a negligible level (0.2 percent). As FX deposits and precious metal deposits account for more than one-fourth of households' financial assets, the recent depreciation of the Turkish lira had a positive impact on households' net assets.

There has been no significant change in the composition of households' assets except for the tendency to shift from TL to FX in saving deposits (Table II.1.1). On the liabilities side, the share of credit card debts displayed a notable decline (Table II.1.2).

Chart II.1.1

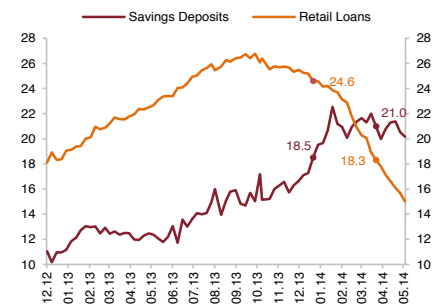
Household Financial Assets and Liabilities
(Billion TL, Percent)



Source: BRSA, MKK, CMB, TOKI, CBRT

Chart II.1.2

Growth in Household Loans* and Deposits
(Annual Percentage Change)



Source: CBRT (Latest data: 09.05.14)

* Extended by domestic banks, credit cards included

Table II.1.1

Household Financial Assets

	09.13		03.14	
	Billion TL	Share	Billion TL	Share
Total Assets	679.3	100	730.1	100
TL Saving Deposits	341.1	50.2	351.4	48.1
FX Saving Deposits	139.9	20.6	181.4	24.8
- (Billion USD)	68.7		84.1	
Precious Metal Depo.	19.7	2.9	15.1	2.1
- (Billion USD)	9.7		7	
Bonds and Bills	17.2	2.5	18.9	2.6
- Government	6.3	0.9	7.1	1
- Private Sector	10.9	1.6	11.8	1.6
Mutual Funds				
- Pension	25.2	3.7	27.8	3.8
- Other	26.8	3.9	25.1	3.4
Equity Stock	38.5	5.7	37.1	5.1
Repos	2.9	0.4	2.8	0.4
Currency in Circ.	68	10	70.6	9.7

Source: MKK, CMB, CBRT

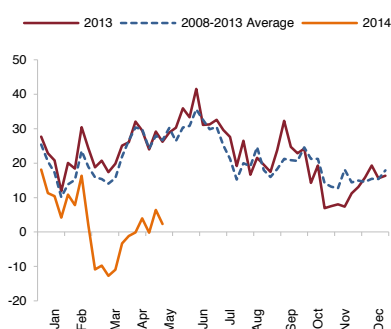
Table II.1.2

Household Financial Liabilities¹

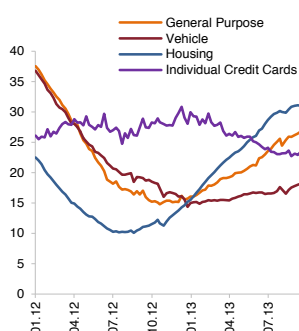
	09.13		03.14	
	Billion TL	Share	Billion TL	Share
Total Liabilities (Based on Type)	359.3	100	371.4	100
Housing	119.3	33.2	123.7	33.3
Vehicle	14.9	4.2	14.9	4.0
General Purpose + Other	126.3	35.2	136.7	36.8
Individual Credit Cards	87.7	24.4	84.2	22.7
Asset Management Companies' Receiv.	10.9	3.0	11.8	3.2
Total Liabilities (Based on Counterparty)	359.3	100	371.4	100
Banks	329.5	91.7	339.4	91.4
Financing Companies	7.0	1.9	7.6	2.1
TOKI	11.8	3.3	12.6	3.4
Asset Management Companies	10.9	3.0	11.8	3.2

[1] Housing Loans include TOKI's receivables against house sales with instalments.
Source: BRSA-CBRT, TOKI

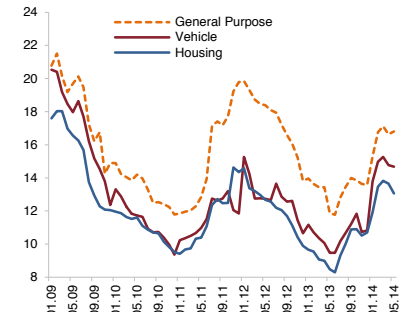
¹ FX-indexed loans included.

Chart II.1.3Retail Loan Growth
(Stock data, 4-week moving average, Annualized, Percent)

Source: CBRT (Latest data: 09.05.14)

Chart II.1.4Retail Loan Growth by Type of Loan
(Stock Data, Annual Percentage Change)

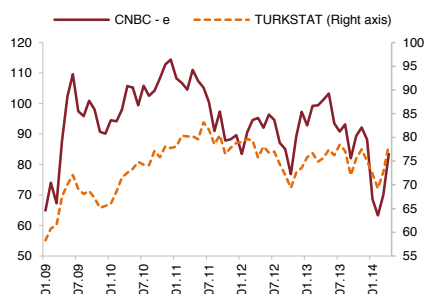
Source: CBRT (Latest data: 09.05.14)

Chart II.1.5Consumer Loan Rates
(Percent)

Source: CBRT (Latest data: 09.05.14)

Chart II.1.6

Consumer Confidence Indices



Source: TURKSTAT- CBRT, CNBC-e (Latest data: 04.14)

The rapid uptrend in retail loans since the final quarter of 2012 terminated with the slowdown in the last two quarters.

The retail loan growth, which dropped and remained below the previous years' averages as of the end of 2013, has been assuming negative values since February 2014. Despite the slight recovery in the second quarter, retail loan growth is still well below the previous years' averages (Chart II.1.3).

Housing and general purpose consumer loans increased rapidly as of the final quarter of 2012 as interest rates dipped to historic lows and loan maturities were extended. However, this trend was reversed in housing loans in the second quarter of 2013 and in general purpose and vehicle loans in the final quarter of the same year (Chart II.1.4).

The macro-prudential measures, which were introduced in the final quarter of 2013 to restrict consumer loans and the use of credit cards, helped decrease retail loan growth. The contraction in retail loans in the last two quarters was mainly driven by consumer loan rates, which started to climb in the second quarter of 2013, accelerated at the beginning of 2014 and reached the highest level in March 2014 (Chart II.1.5). The significant recovery in consumer confidence coupled with the slight drop in interest rates as of the second quarter of 2014 are likely to soften the downtrend in retail loans (Chart II.1.6).

The results of the CBRT Bank Loans Tendency Survey for January-March 2014 suggest that the deceleration in retail loan growth is mainly driven by demand, albeit some discrepancies among different loan types.

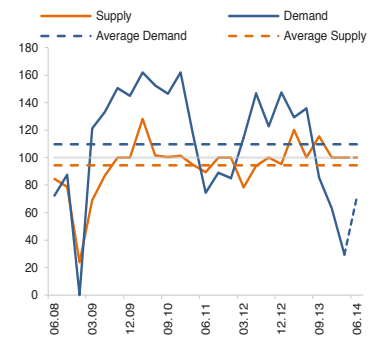
According to the survey results, demand for housing loans decreased sharply although credit standards remained basically the same for those loans which currently bear historically low credit risk; whereas both supply and demand decreased for consumer loans having a weaker collateral structure and relatively lower payment back ratios (Chart II.1.7, Chart II.1.8). The survey reveals that banks tightened their credit conditions because of the expectations pertaining to the general economic outlook and concerns over asset quality. Banks see diminished consumer confidence and expectations pertaining to the market in which investments/ expenditures will be made as the reason for the decline in demand.

The survey results for the second quarter of 2014 suggest that banks expect the deterioration in demand and retail loan standards to be more limited in both types of loans.

Recently, credit cards became the item of which the share in household liabilities decreased the fastest. The recent decline in credit card purchases on installments, which had been dragging the surge in the credit card balance for the last 5 years and made up more than half of the total credit card balance, was the main factor driving the fall in the share of credit cards (Chart II.1.9).

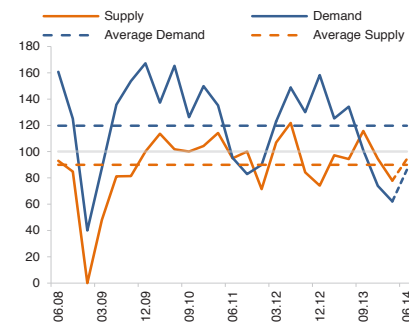
The gradual decline in credit card balances that started in the final quarter of 2013 accelerated on the back of the rise in risk weights in credit card balances with installment transactions as of October 2013 and the arrangements regarding the restriction of credit card purchases on installments that took effect in February 2014. Because of the arrangements, the share of credit card balances with installment transactions in total credit card balances started to decline as of the final quarter of 2013 (Chart II.1.10). This decline was also supported by the macroprudential measures and the fall in the share of consumer durables spending in total consumer spending.

Chart II.1.7
Supply and Demand for Housing Loans¹
(Percent)



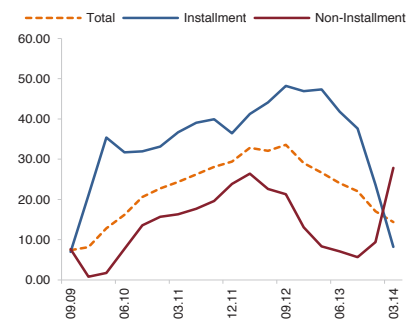
(1) Derived from the Bank Loans Tendency Survey. Values below 100 imply a tightening; values above 100 imply an easing.
Source: CBRT

Chart II.1.8
Supply and Demand for General Purpose Loans¹
(Percent)



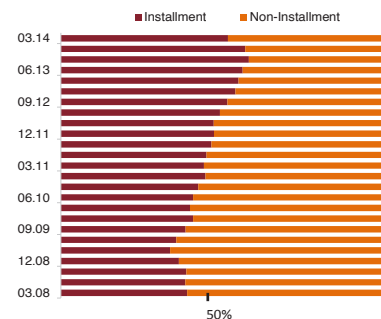
(1) Derived from the Bank Loans Tendency Survey. Values below 100 imply a tightening; values above 100 imply an easing.
Source: CBRT

Chart II.1.9
Individual Credit Card Balances
(Annual Percentage Change)



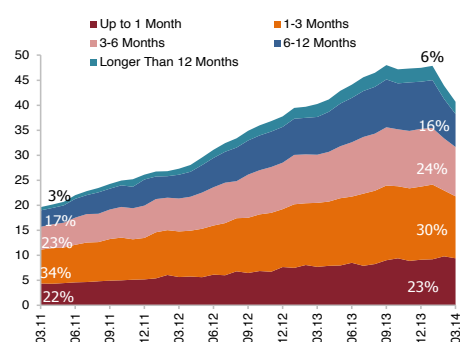
Source: CBRT (Latest Data: 09.05.14)

Chart II.1.10
Individual Credit Card Balances with and without Installment Transactions
(Percent)



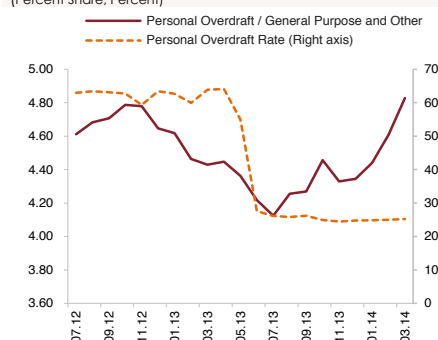
Source: CBRT

Chart II.1.11
Change in Individual Credit Card Balances with Installments
(Stock data, Based on Residual maturity, Billion TL)



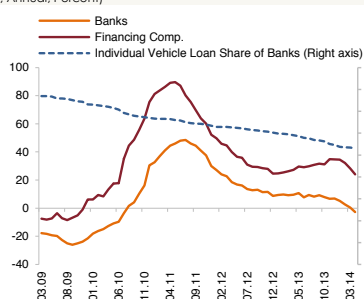
Source: CBRT

Chart II.1.12
Retail Overdraft Account Balance and Interest Rates
(Percent Share, Percent)



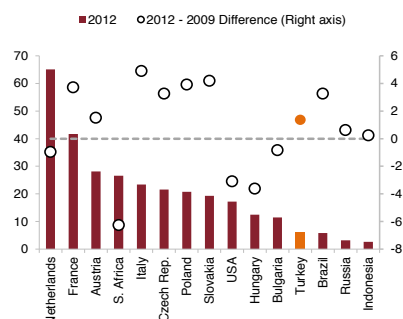
Source: CBRT

Chart II.1.13
Retail Automobile Loans
(Stock, Annual, Percent)



Source: CBRT, BRSA (Latest data: 04.14)

Chart II.1.14
Housing Loans to GDP Ratio in Selected Countries
(Percent)



Source: European Banking Federation, ECB, IMF Financial Soundness Indicators.

An analysis of the maturity structure of retail credit card balances with installment transactions shows that the share of credit card purchases on installments with a term longer than 6 months in the total balance with installment transactions, which was 20 percent in March 2011, climbed to 26 percent in September 2013 and was down to 22 percent in March 2014 owing to the macroprudential measures (Chart II.1.11). As the facility of making credit card purchases on installments with very long maturities was overruled, the current credit card balances with long maturities is expected to decrease gradually and the average maturity is likely to shorten.

The slowdown in consumer loan growth is more limited compared to the slowdown in credit cards utilization. Even if the recent arrangements regarding credit cards restricted the maximum term for consumer loans to 36 months, the consumer loan growth is still relatively strong pointing to the possibility that the contraction in the retail credit card balance might have been partly substituted by consumer loans.

While retail credit card growth slowed, personal overdraft account balances, whose interest rates were equaled to those of credit cards, displayed a growth faster than consumer loans and increased from TL 4.8 billion in the second quarter of 2013 to TL 6.3 billion at the end of the first quarter of 2014. However, the share of overdraft account balances in consumer loans and other types of loans is still below 5 percent (Chart II.1.12).

Finance companies, whose share in retail vehicle loans have been rising since 2008, dragged growth in this type of loan in 2013. However, growth in retail vehicle loans started to decline due to several reasons such as macroeconomic developments, the loan/ value ratio limit², introduced for automobiles, the maximum installment restriction of 48 months, the risk weight of 150-200 applied to vehicle loans with a loan period of more than one year and inclusion of financing companies in the reserve requirement coverage (Chart II.1.13).

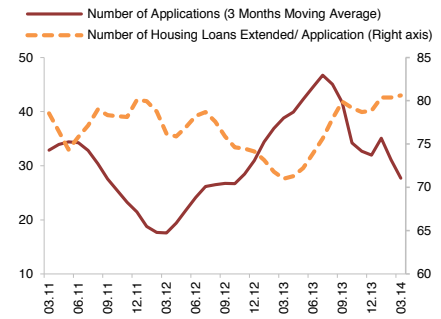
² For Automobiles with an Invoice Value of TL 50 Thousand and Lower.

Despite the rapid growth in the value of housing loans in the last few years, the ratio of housing loans to GDP in Turkey is still lower compared to other countries. Moreover, the housing loans/ GDP ratio, which increased by less than 2 percent between 2009 and 2012, is not likely to display an outstanding change in the near future (Chart II.1.14). Demand for housing loans, which dragged growth in consumer loans in 2013, started to decelerate owing to the rise in interest rates (Chart II.1.15).

In the first quarter of 2014, housing sales dropped both in year-on-year and quarter-on-quarter terms (Chart II.1.16). The downtrend in the share of mortgaged property sales that started in June 2013 continued in this period as well. A breakdown of housing sale figures by quarters suggests that the ratio of financing through loans, which had presumably reached the highest level in the first half of 2013, is estimated to have fallen considerably in the second half of the year (Chart II.1.17). The weakened consumer confidence and increased interest rates particularly for longer term loans are thought to be the factors that triggered these developments.

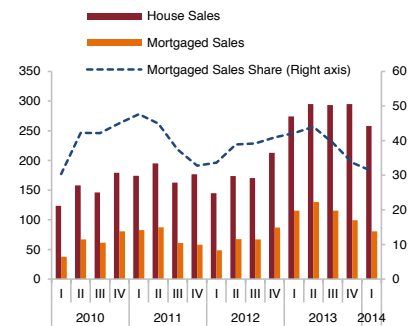
Despite the slowing in loans, the number of houses bought without using loans is still high. The moderate rate of growth in real house prices in 2011 and 2012 assumed a markedly stronger trend in 2013, which was attributed to housing purchases without loan utilization. As of end-2013, Turkey's inflation-adjusted house price index was among the most rapidly increasing indices across the countries analyzed (Chart II.1.18).

Chart II.1.15
Applications for Housing Loans and Housing Loans Extended
(Thousand, Percent)



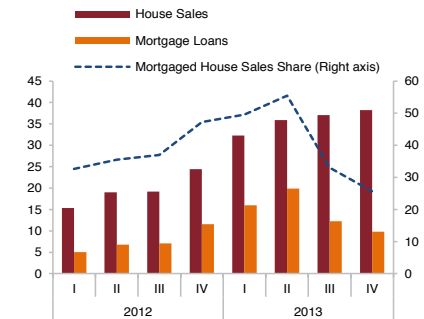
Source: CBRT

Chart II.1.16
Mortgaged Property Sales
(Flow Data, Thousand, Percentage Share)



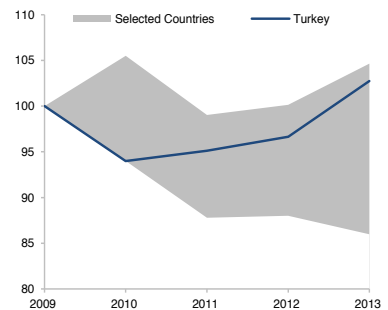
Source: TURKSTAT

Chart II.1.17
Housing Sales Financed Through Loans⁽¹⁾
(Flow Data, Billion TL, Percentage Share)



(1) Calculated based on unit square meter prices released by the CBRT, under the assumption that all the houses sold are 100 m².
Source: TURKSTAT, CBRT

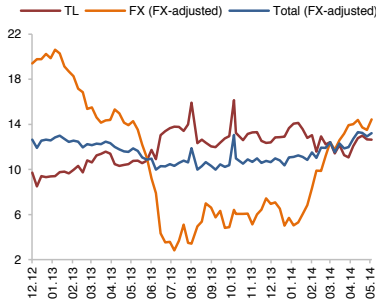
Chart II.1.18
Inflation-Adjusted House Price Indices in 8 Selected Countries
(2009:100)



Source: Knight Frank Global House Price Index, OECD
Sample Countries: USA, Czech Republic, Indonesia, South Africa, India, Japan, Poland, Turkey.

Chart II.1.19

TL-FX and Total Savings Deposits¹
(Adjusted for Exchange Rate Effect, Annual Percentage Change)

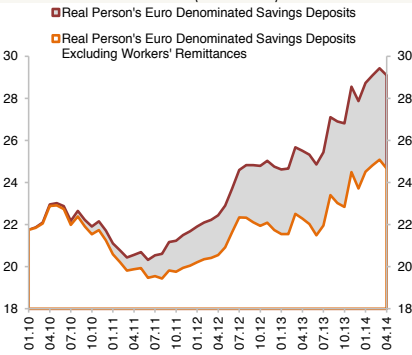


(1) FX savings deposit has been adjusted for the exchange rate effect with the (0.65+0.46) currency basket.
Source: CBRT (Latest Data: 09.05.14)

Savings deposits, which make up the greatest portion of household financial assets, have been posting a growth originating predominantly from FX deposit accounts since the second half of 2013. As of March 2014, FX savings deposits accounted for approximately 25 percent of household financial assets. The depreciation of the Turkish lira has significantly catalyzed the rise in the TL equivalent of these assets. However, in exchange rate-adjusted terms, the growth rate of FX savings deposits has accelerated (Chart II.1.19). On the other hand, a significant amount of the rise in FX deposits was due to the fact that households substituted a certain amount of their TL deposits with currency swaps (Box II.1.1).

Chart II.1.20

Euro Deposits of Real Persons-Workers' Remittances Transferred to Domestic Banks (Billion Euro)

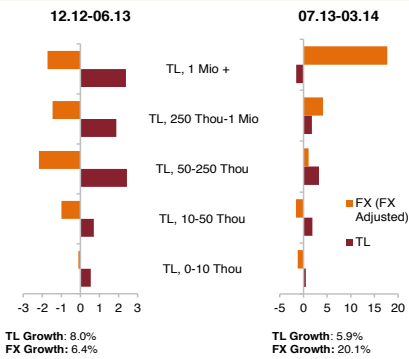


Source: CBRT

Another factor of the surge in FX deposits was the gradual reduction of workers' remittances accounts within the CBRT. In this scope, no new account was opened and accounts with due maturities were not renewed in 2013. Savings withdrawn from these accounts were transferred to the domestic banking system. For this reason, although Euro-denominated savings deposits of real persons have increased, they have only a limited contribution to the surge in total FX savings deposits (Chart II.1.20).

Chart II.1.21

Contributions to Growth Based on the Amount of Deposit^{1,2}
(Deposits of Resident Real Persons, Percentage Points)



(1) FX savings deposit has been adjusted for exchange rate effect with the (0.65+0.46) currency basket.
(2) Precious metal deposit accounts have been included in FX deposits.
Source: BRSA, CBRT (Latest Data: 03.14)

The shift from TL savings deposits to FX savings deposits in the second half of 2013 concentrated on high-amount deposits and did not spread to overall deposits. In the first half of the year, regardless of the deposit amount, TL deposits were the most preferred deposit type. In the second half of the year in which FX savings deposits were on the rise, real persons who had high amounts of deposits diverged to FX deposits, whereas holders of lower-amount deposit accounts remained indifferent to FX deposits (Chart II.1.21).

Box
II.1.1

The Impact of Resident Real Persons' Currency Swap Transactions on FX Savings Deposits

The volume of TL currency swap transactions between banks and resident real persons was at a negligible level until the second half of 2013 but has posted a notable rise since then (Chart II.1.1.1). For such a rise to occur, the transaction must yield a return or a cost advantage for at least one of the parties.

On the part of depositors, the transaction requires that depositors give the bank their TL savings, which would normally be deposited in a deposit account, as the subject of the currency swap transaction and the bank gives depositors the foreign exchange equivalent of the TL amount it receives. An analysis of banks' balance sheets reveals that depositors deposit the foreign exchange they get from the bank in an FX deposit account at the same bank. Therefore, FX movements in the transactions with depositors are completely in dematerialized form. In net terms, neither the depositor nor the bank has an FX position.

In cases where the transaction is finalized at this point, the bank enjoys a limited cost advantage in terms of reserve requirement liabilities, as the TL deposits in the balance sheet are replaced by FX deposit accounts. Depositors get a tax advantage since they opted for a currency swap transaction for which the withholding tax is 5 percentage points lower than that for TL deposits. Yet, considering the withholding tax liability for FX deposit accounts that appears in dematerialized form after the transaction, the advantage is reduced. Hence, it seems possible for the bank to offer the depositors a positive yield spread, though this spread may be limited to the advantages that will originate from this kind of transaction.

An analysis of the off-balance sheet items of banks shows that banks cover the majority of these transactions with reverse transactions they conduct with the third parties. In this way, the bank creates an FX source instead of a TL source. This source appears as an FX deposit account on the balance sheet but it does not assume a position any different than the TL deposit when the total assets and liabilities of the depositor are taken into account.

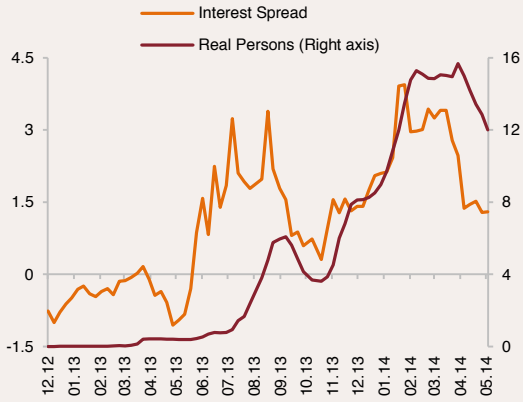
For the bank, interest flows from these two currency swap transactions that it conducts overlap. Putting aside the tax advantage arising from the difference between withholding tax rates, the transaction will attract the depositor when the interest rate for the TL part of the currency swap is higher than the sum of the TL deposit rate and the libor rate. The bank, on the other hand, will have obtained an FX source at no cost. Yet, the interest rate for the TL part of the currency swap transaction does not necessarily have to be higher than the TL deposit rate for this transaction to be appealing. The transaction will also be appealing for both the bank and the depositor in cases where the bank can offer an interest rate that is higher than the difference between the two interest rates, by reflecting a certain amount of the cost advantage it gets from FX deposit accounts on the depositor (Chart I.1.1.2).

The mathematical formulation of the condition required to make the currency swap transaction more advantageous for the depositor and the bank than TL deposits is depicted as: $i^{TL_Dep} < i^{TL_CS} + i^{FXDep} - libor$ or $i^{TL_Dep} - i^{TL_CS} < i^{FXDep} - libor$. In this equation, i^{TL_Dep} , i^{TL_CS} , i^{FXDep} and $libor$ represent TL deposit interest rate, TL currency swap interest rate, FX deposit account interest rate and libor interest rate, respectively.

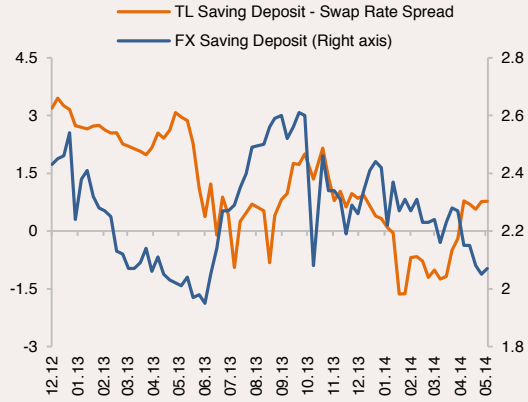
In other words, currency swap transactions become attractive for both parties when the difference between the TL deposit rate and TL currency swap rate is below the FX deposit rate. As a matter of fact, Chart II.1.1.1 shows that the volume of currency swap transactions tends to increase in cases where the disparity gets bigger in favor of the FX deposit rate.

Chart II.1.1.1

Resident Real Persons' FX Borrowing Currency Swap Transactions and the Interest Spread¹
(Billion TL)

**Chart II.1.1.2**

3-Month FX Deposit Rate and the Spread btw. 3- Month Rates for TL Savings Deposit and Currency Swaps
(Flow, Percent, Points)



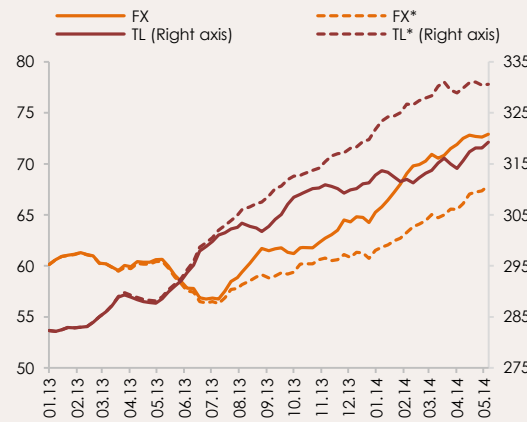
(1) First, the interest spread between TL Savings Deposit Rate for 3-Month Maturity and Currency Swap Rate was calculated. Then, this spread was subtracted from the FX savings deposit rate for 3-month maturity.
Source: BRSA-CBRT, Bloomberg (Latest Data: 09.05.14)

Source: BRSA-CBRT, Bloomberg (Latest Data: 09.05.14)

Although there is no difference for depositors between currency swap transactions and TL deposits in terms of the position they have, there seems to be a strong shift from TL deposits to FX deposits when just the effects of transactions on banks' on-balance sheet items are considered. To get a more accurate picture of households' savings preferences, a re-calculation of TL and FX savings time deposits that excludes the effect of these transactions shows that the shift from TL deposits to FX deposits is much more limited (Chart II.1.1.3).

Chart II.1.1.3

Development of TL-FX Savings Time Deposits¹
(Billion TL, Billion Basket)



(1) The 0.6\$+0.4€ basket was used to adjust the FX time deposit for the exchange rate effect.
(*) Refers to figures adjusted for currency swap effects.
Source: BRSA-CBRT (Latest Data: 09.05.14)

II.2. Corporate Sector Developments

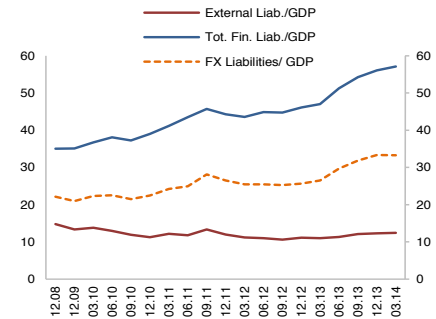
The corporate sector's total financial liabilities composed of loans and issues have been increasing steadily since the end of 2009. This uptrend has originated from the surge in domestic liabilities rather than in external liabilities. The depreciation of the Turkish lira observed since May 2013 has also been influential in the recent rise in liabilities (Chart II.2.1).

Bank loans account for more than 90 percent of the corporate sector's total domestic liabilities. The growth of domestic TL loans, which grew at a high rate (by 30 percent) in 2013, decreased slightly in the first quarter of 2014 despite the hike in interest rates (Chart II.2.2). TL corporate loan rates assumed an uptrend in May 2013 but they fell moderately after March 2014 (Chart II.2.3).

The deceleration in domestic FX loans outpaced the slowdown in TL loans (Chart II.2.2). The fall in FX loans, which are mostly long-term loans used to finance investments, is attributed to increased exchange rate volatility and weakened investment demand. In fact, the downtrend in domestic FX loan growth decelerated due to the more stabilized course of the exchange rate after March 2014.

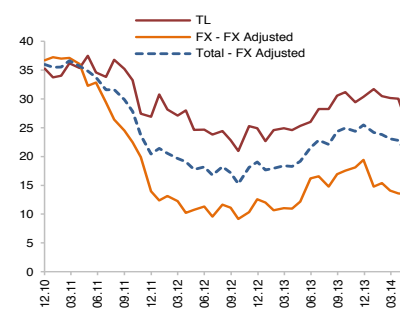
The four-week moving average of growth in the corporate sector's domestic TL loans hovered above the average of previous years in the first quarter of 2014 and remained robust despite the interest rate hike. Regardless of the recent slowdown, weekly growth rates of TL corporate loans are close to the average of previous years though they are lower than the rates in 2013 (Chart II.2.4).

Chart II.2.1
Financial Liabilities of the Corporate Sector¹
(Percent)



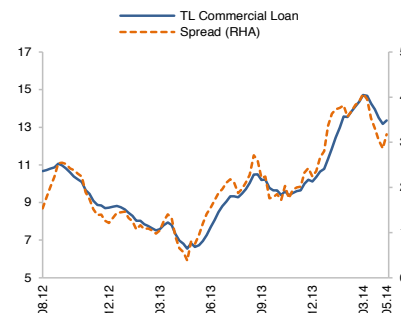
(1) Composed of loan liabilities and issues. External liabilities include data from foreign branches of resident banks. External TL liabilities are included in total FX liabilities. GDP data for March is an estimate. Source: CBRT, TURKSTAT

Chart II.2.2
Annual Growth of Domestic Corporate Loans¹
(Percent)



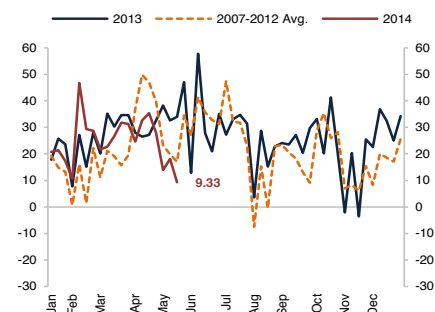
(1) The basket value used to adjust for the exchange rate effect is composed of 70 percent USD and 30 percent euro. FX-indexed loans have been included in FX loans. Source: CBRT, BRSA (Latest Data: 09.05.14)

Chart II.2.3
TL Corporate Loan Rate¹ and Loan-Deposit Spread
(Percent)

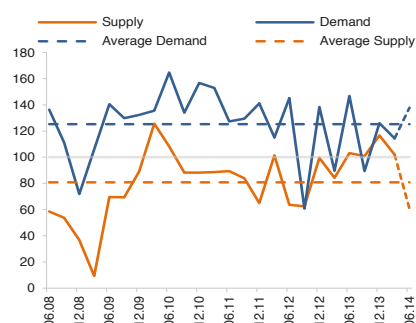


(1) Excluding specialty loans, fund sourced loans, securities purchases loans, overdraft accounts, credit cards. Source: CBRT (Latest Data: 09.05.14)

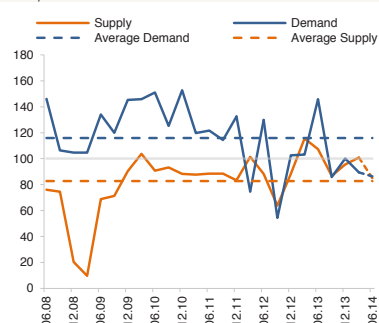
Chart II.2.4
Domestic TL Corporate Loan Growth
(4-week moving average, Percent)



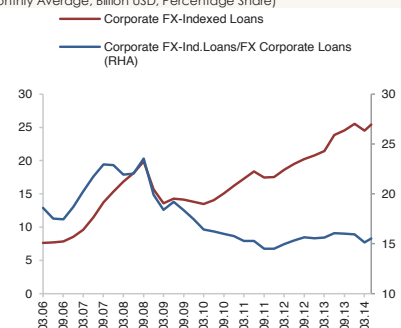
(1) 4-week moving averages of weekly changes have been annualized. Source: BRSA, CBRT (Latest Data: 09.05.14)

Chart II.2.5SME Loans Supply and Demand Developments¹
(Percent)

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

Chart II.2.6Large Corporate Loans Supply and Demand Developments¹
(Percent)

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

Chart II.2.7FX-Indexed Corporate Loan Balances¹
(Monthly Average, Billion USD, Percentage Share)

(1) The basket used is composed of 70 percent USD and 30 percent euro. FX-indexed loans have been included in FX loans. 4-week moving averages of weekly changes have been annualized.
Source: CBRT, BRSA (Latest Data: 09.05.14)

Results of the Bank Loans Tendency Survey for the first quarter of 2014 confirm the impact of demand-side factors on the slowdown in FX loans and also hint at the role of supply-side factors in this slowdown. Consequently, banks' supply of corporate loans contracted relatively in the first quarter of 2014 depending on the tightening in external funding conditions and the expectations for overall economic activity. This trend is expected to continue in the second quarter of the year. According to the results of the survey, demand for corporate loans, which dropped in the first quarter due to weakened investment tendency, is anticipated to bounce in the second quarter particularly on the back of increased demand from small and medium-sized enterprises (SME) (Chart II.2.5, Chart II.2.6).

According to current regulations, for domestic banks to extend FX loans to residents with no FX earnings, the average maturity of the loan must be longer than one year and the loan amount must be minimum 5 billion US dollars. For legal entities, there is no restriction on FX loan utilization as long as the loan is used for concrete commercial or professional purposes such as the purchases of investment goods.

In addition to FX loans, FX-indexed loans are also included in the calculations used for the assessments and analyses in the Financial Stability Report. FX-indexed corporate loan utilization does not differ significantly from FX corporate loan utilization and the share of FX-indexed loans in total FX corporate loans has been stable around the 15-16 percent band since 2010 (Chart II.2.7).

FX loans that the corporate sector obtained from domestic banks registered a strong growth by approximately 20 percent in 2013. The boost in long-term loans extended for purposes such as company acquisitions and project financing is believed to be an important factor contributing to this growth. According to data from 13 banks that provide 86 percent of the banking sector's FX loans, FX loans extended for project financing almost doubled in 2013 compared to the previous year. This increase is believed to be triggered by the acquisitions in the scope of privatizations. Excluding the project financing loans, the growth in corporate sector's exchange rate-adjusted domestic FX loans was around 7 percent in 2013.

A breakdown of FX loan utilization for project financing by months reveals that almost half of the total utilization in 2013 belonged to the May-June period, and the strong course of loan utilization continued for the rest of the year (Chart II.2.8). However, there was a marked weakening in the first four months of 2014 and the loan utilization inched down by approximately 15 percent year-on-year. Bank data suggest that the FX loan utilization for project financing will be higher in the rest of 2014. Yet, for the total of 2014, the FX loan utilization for project financing is estimated to drop by almost 40 percent compared to last year and by 5-10 percent when high loan utilizations in the May-June period are excluded.

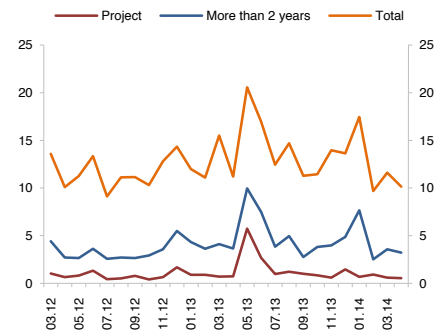
Corporate sector companies meet their FX financing need predominantly with domestic FX loans. Considering that small-sized companies have limited access to external financing, the breakdown of domestic FX loans by sectors offers valuable information as to the FX indebtedness of companies.

In this framework, the share of FX loans extended to energy companies in overall FX loans has been on a steady rise (Chart II.2.9). Privatization practices and new investments are believed to fuel the energy sector's long-term FX loan utilization. In addition to the significant increase in housing sales (see Chart II.1.16), the share of construction and real estate sectors in FX loans also inched up in 2013. The change in textile and transportation sectors, whose shares in TL loans went up, was relatively more moderate.

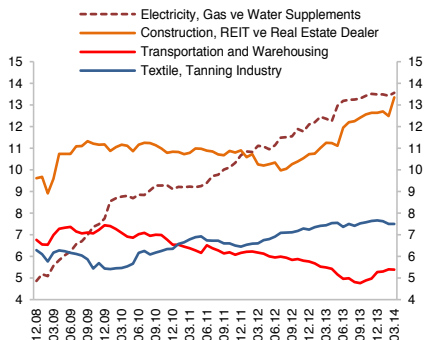
Domestic loans of the corporate sector also include export rediscount credits extended by the Central Bank of the Republic of Turkey via Turkish Eximbank and commercial banks. Pursuant to CBRT regulations on rediscount which were issued as per Article 45 of the Central Bank Law, firms can obtain export rediscount credits from the CBRT through intermediary banks with a maturity of maximum 240 days by presenting foreign exchange bills for rediscount. The repayments of these credits are made in foreign exchange on the date of maturity.

Chart II.2.8

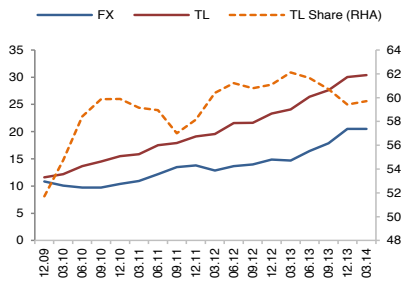
FX Corporate Loans – Monthly Domestic Loan Utilization (Billion USD)



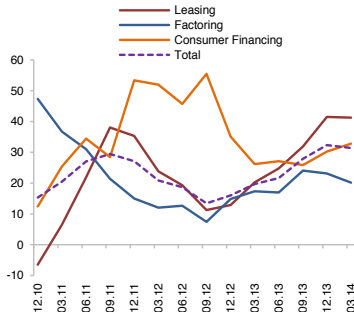
(1) The data of project financing loans is composed of the data of 13 banks that extended the highest amounts of FX corporate loans. The share of these banks in FX corporate loans is 86 percent.
Source: CBRT (Latest Data: 04.14)

Chart II.2.9Breakdown of Domestic FX Corporate Loans by Sectors¹ (Share, Percent)

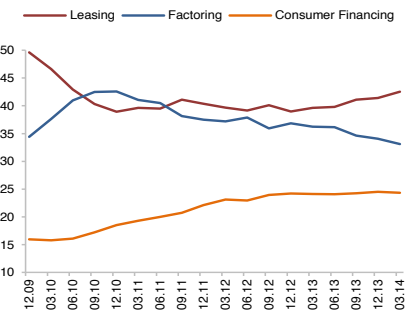
(1) Shows some selected sectors.
Source: CBRT

Chart II.2.10Corporate Sector Loans Extended by Non-Bank Financial Institutions¹ (Billion TL, Percentage Share)

(1) Financing companies' commercial loans with installment options have been calculated as the sum of factoring and leasing receivables of factoring and leasing companies.
Source: CBRT, BRSA

Chart II.2.11Changes in Corporate Sector Loans Extended by Non-Bank Financial Institutions¹ (Annual Percentage Change)

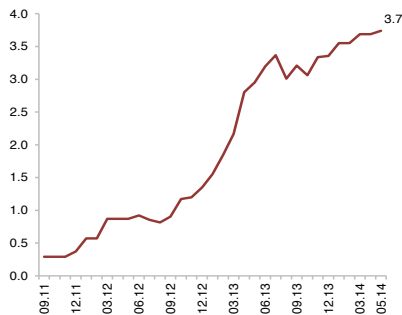
(1) Financing companies' commercial loans with installment options have been calculated as the sum of factoring and leasing receivables of factoring and leasing companies.
Source: CBRT, BRSA

Chart II.2.12Distribution of Corporate Sector Loans Extended by Non-Bank Financial Institutions¹ (Percent)

(1) Financing companies' commercial loans with installment options have been calculated as the sum of factoring and leasing receivables of factoring and leasing companies.
Source: CBRT, BRSA

Chart II.2.13

Corporate Sector's Bond Issues in Domestic Market (Stock, Billion TL)



Source: MKK (Latest Data: 09.05.14)

In 2013, the CBRT extended USD 15.1 billion worth of export rediscount credits to a total of 916 firms via Turkish Eximbank and commercial banks. As of 23 May 2014, export rediscount credits extended to 867 firms amounted to USD 5.9 billion, 65 percent of which was made up of loans with a maturity of 121-240 days and 35 percent of which belonged to loans with a maturity of 120 days or less. The debt balance of these credits was USD 8.8 billion and 80 percent of this amount was composed of long-term loans (with a maturity of 121-240 days). If the rate of increase in credit utilization remains the same as the previous year, the amount of credits extended is expected to reach approximately USD 18 billion in 2014.

In 2014, export rediscount credits have been extended primarily to finance the exports of basic metal industry, textile industry and electrical machinery and equipment industry goods.

There has been no significant increase in the corporate sector's liabilities to domestic bond markets and the non-bank financial sector. The corporate sector's liabilities to resident non-bank financial institutions, more than half of which is in TL, display an uptrend similar to that of bank loans (Chart II.2.10, II.2.11).

A major part of the surge in corporate sector loans extended by non-bank financial institutions originates from loans extended by financial leasing companies. On the other hand, the share of factoring companies in overall corporate loans extended by non-bank financial institutions has gradually declined since 2010 (Chart II.2.12).

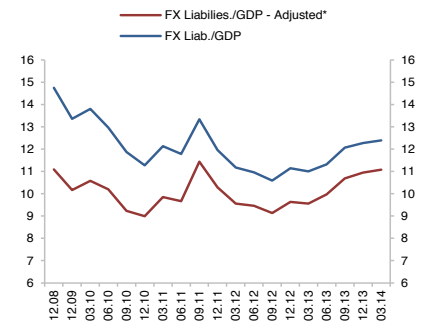
Meanwhile, the amount of funds that the corporate sector obtained from domestic bond markets remained moderate. Domestic bond issues, which jumped in the 2011-2012 period, have been flat since mid-2013 (Chart II.2.13). As of May 2014, the amount of the corporate sector's domestic bond issues was nearly TL 4 billion. And their average maturity was approximately 830 days.

External financial debt of the corporate sector is a lot less than its domestic financial debt and it increased on the back of bond issues and short-term loans as well as financing from official bodies in 2013. Loans obtained from foreign branches and affiliates of domestic banks account for 24 percent of the corporate sector's USD 91-billion external financial debt. This credit balance eradicated gradually after the amendment to the Decree No.32 in 2009 and dropped to USD 22 billion as of March 2014. In terms of foreign exchange types, USD 6.6 billion (TL 14.5 billion) worth of the corporate sector's external loan was in Turkish lira.

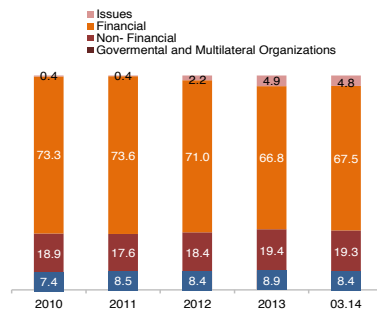
Excluding foreign branches and affiliates, 67 percent of the corporate sector's external loans was extended by foreign commercial banks and non-bank financial institutions and 19 percent by non-financial institutions (Chart II.2.15). Almost 95 percent of loans extended by all these three sources are long-term loans. Long-term loans obtained from international institutions (such as the European Investment Bank) account for 8 percent of total external loans.

Bond issues are another channel that provides the corporate sector with external funding. Bond issues abroad, which began in 2010, increased in 2012 and 2013 and stood at USD 3.3 billion. The average maturity of these bond issues was seven years.

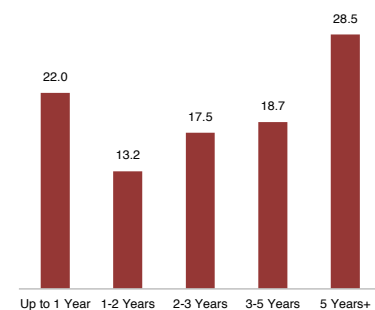
A large portion of the corporate sector's external loans is composed of long-term loans and there is no problem with the external debt rollover ratio. The share of external loans with an original maturity of longer than one year in the corporate sector's overall external loans is at a high level by 78 percent (Chart II.2.16). Up to the end of March 2015, the corporate sector has a total of USD 20 billion of loan repayment, USD 15.7 billion of which belong to long-term loans and USD 4.3 billion to short-term loans (Chart II.2.17). Including approximately USD 26 billion worth of short-term import loans, the corporate sector's external loan repayment due within a year amounts to USD 46 billion and its total external liabilities reach USD 117 billion.

Chart II.2.14Corporate Sector's External Liabilities¹
(Percent)

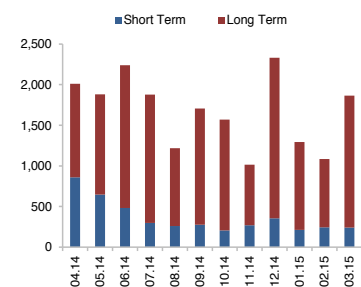
* Excluding foreign branches and affiliates of domestic banks
(1) GDP data for March is an estimate.
Source: CBRT, TÜRKSTAT

Chart II.2.15Distribution of Corporate Sector's External Liabilities Excluding Foreign Branches
(Percentage Share)

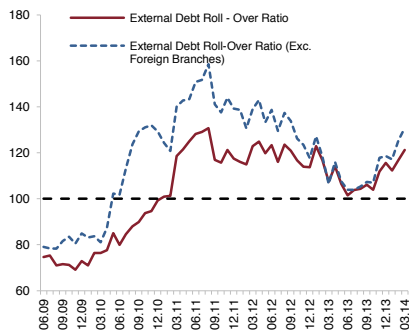
Source: CBRT

Chart II.2.16Breakdown of Corporate Sector's External Financial Liabilities by Maturities
(As of March 2014, Percentage Share)

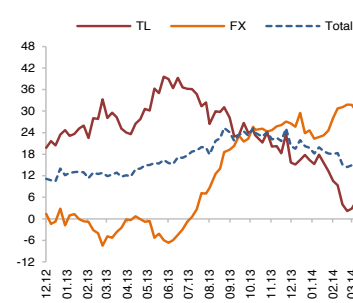
Source: CBRT

Chart II.2.17Corporate Sector's External Loans Due Within One Year
(Million USD)

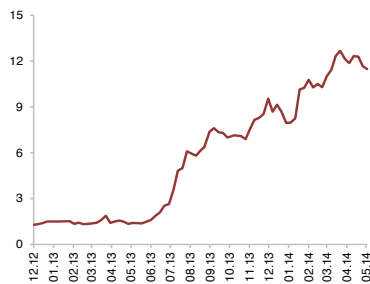
Source: CBRT

Chart II.2.18External Debt Roll-Over Ratio
(6-month moving average, Percent)

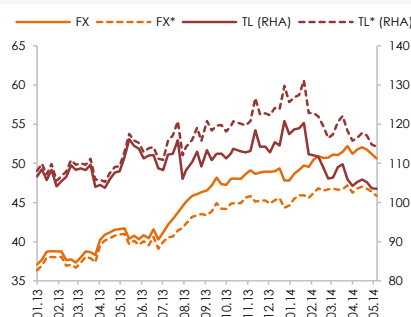
Source: CBRT

Chart II.2.19TL- Exchange Rate-Adjusted FX and Total Commercial Deposits¹⁾
(Annual Percentage Change)

(1) FX commercial deposit has been adjusted for the exchange rate effect with the (0.6\$+0.4€) currency basket.
Source: CBRT (Latest Data: :09.05.14)

Chart II.2.20Currency Swap Transactions of Resident Legal Persons
(Billion TL)

Source: BRSA-CBRT (Latest Data: 09.05.14)

Chart II.2.21TL-FX Commercial Deposits¹⁾
(Billion TL, Billion Basket)

(1) The 0.6\$+0.4€ currency basket has been used to adjust for the exchange rate effect.
[*] Refers to figures adjusted for currency swap effects.
Source: BRSA-CBRT (Latest Data: 09.05.14)

The corporate sector external debt roll-over ratio has been above 100 percent in recent years. To adjust it for the effect of the amendment to the regulation made in June 2009, the external debt roll-over ratio has been re-calculated by excluding the amounts of loans obtained from and repayments made to foreign branches of banks. The external debt roll-over ratio dropped in 2013 after displaying an uptrend throughout 2012. Yet, it remained above 100 percent. The strong course of the external debt roll-over ratio in 2014 is a testimony that the corporate sector has no difficulty in obtaining external loans (Chart II.2.18).

The annual growth rate of commercial deposits has been on a decline since the third quarter of 2013 (Chart II.2.19). The loss of momentum in FX commercial deposits coupled with the fall in TL commercial deposits has been instrumental in this deceleration. The shift from TL to FX and the currency swap transactions with banks are believed to be important factors that have triggered the growth in FX commercial deposits since the second half of 2013 (Chart II.2.20).

However, even if these transactions are excluded, there is no obvious change in the general trend of TL and FX deposit amounts (Chart II.2.21). In particular, the downtrend in TL commercial deposits that began in early 2014 is still apparent even when the currency swap transactions are excluded.

The deceleration in the growth of TL commercial deposits has been primarily led by commercial deposits at banks other than public banks while public banks have also contributed to this deceleration since November. This contribution is mainly attributed to changes in the deposits owned by State Economic Enterprises (SEE) in the scope of the Communique on Public Treasurership.

The net FX short position of the corporate sector has climbed to USD 170 billion. The uptrend in FX liabilities in the face of the flat course of FX assets has been instrumental in this climb.