

Overview

Volatility in financial markets continues due to downside risks on global growth. Fed's lift-off process, concerns over the slowdown in the Chinese economy and the downward trend in commodity prices have made a significant impact on emerging countries, mainly in the third quarter of the year. During this period, capital flows into emerging countries followed a weak and volatile course.

The fiscal discipline in the public sector and the prudent borrowing of the private sector stay on course. Thanks to these factors, the trend of the current account deficit to GDP came down to levels below the EU countries' benchmark of 4 percent. The favorable developments in the terms of trade and the moderate growth of consumer loans also supported the improvement in the current account balance.

Increasing domestic and external uncertainties since the third quarter of the year, caused an additional slowdown in credit growth. This slowdown may prove to be temporary, as the abovementioned uncertainties taper off.

Household indebtedness remains at reasonable and sustainable levels. The regulations that ban borrowing in foreign currencies and/or over variable interest rates for households have served their purpose amid increased exchange rate volatility and rising interest rates. The effect of exchange rate developments on the indebtedness of non-financial corporates has remained limited. Though maintaining net foreign exchange open positions, the fact that short-term FX position is in surplus and foreign currency denominated loans are long term in maturity and mostly utilized by big-sized firms, which are relatively more successful in currency risk management using both natural and financial hedging methods, mitigate risks of non-financial corporates arising from currency developments .

Asset quality of the banking sector remains stable. While non-performing loan ratio remains flat, those ratios especially for unsecured consumer loans and SME loans increased to some extent. Non-performing loan ratio for firms' foreign currency denominated loans remains at low levels. Even though capital adequacy ratio of banks decreased to some extent, banking sector's equity buffers are robust enough to cover unexpected losses.

In this period of volatile global risk appetite, banks are observed not to have encountered any additional cost pressures in securing external funding. While there has been a limited decline in the external borrowing of the banks, this is attributable mainly to the preferences of domestic banks. Since the last Financial Stability Report, the Central Bank of the Republic of Turkey (CBRT) raised the remuneration rate for the required reserves maintained in Turkish liras for the purpose of supporting core liabilities and took additional measures to extend the maturity of the banks' non-core foreign currency liabilities. These measures contributed to the decline in short-term external debt

and the improvement in the loan-to-deposit ratio of the banking sector. Furthermore, thanks to the foreign currency liquidity measures taken by the CBRT, the transaction limits of the banks in the CBRT foreign exchange and banknotes markets were raised, thus the foreign currency borrowing facility dedicated to banks by the CBRT and the foreign currency and gold reserves maintained at the CBRT via the Reserve Options Mechanism ensure the full coverage of the external debt service of the banking sector within one year.

The macro display chart below presents the schematic reflection of the developments in financial stability in Turkey within the framework of these evaluations. Accordingly, global markets and domestic economic developments have been the influential factors on financial stability in the last six-month period.

In this environment of volatile financial markets due to the uncertainties pertaining to global monetary policies and concerns on global growth, the steps taken and envisaged to be taken within the scope of "Road Map During the Normalization of Global Monetary Policies" announced by the CBRT have increased the resilience of the economy against global volatility. If deemed necessary in the upcoming periods, the CBRT may gradually increase the acceptance ratios for the Eurobonds issued by the Undersecretariat of Treasury of the Republic of Turkey as collateral.

