

Overview

Volatility in global markets increased during the period after the release of the previous Financial Stability Report. The CBRT and other relevant authorities have continued to take the necessary structural measures to reinforce the strength of the financial system as well as to reduce its vulnerability to cyclical conditions. Accordingly, financing companies have been included in the reserve requirements coverage and regulatory actions have been taken to promote the utilization of export rediscount credits. As announced before, the leverage-based reserve requirement practice, which is currently being monitored, will actually be implemented as of 2014. In this period, the BRSA, in line with its objective of boosting domestic savings and directing them to efficient fields, launched regulations to restrain the growth in consumer loans, which would turn the loan breakdown in favor of corporate loans. The BRSA has continued its endeavors to harmonize national legislation and regulations with Basel III. These regulations are essential for financial stability as they enhance the resilience of the banking system's capital structure against shocks and reduce the cyclical volatility of loans.

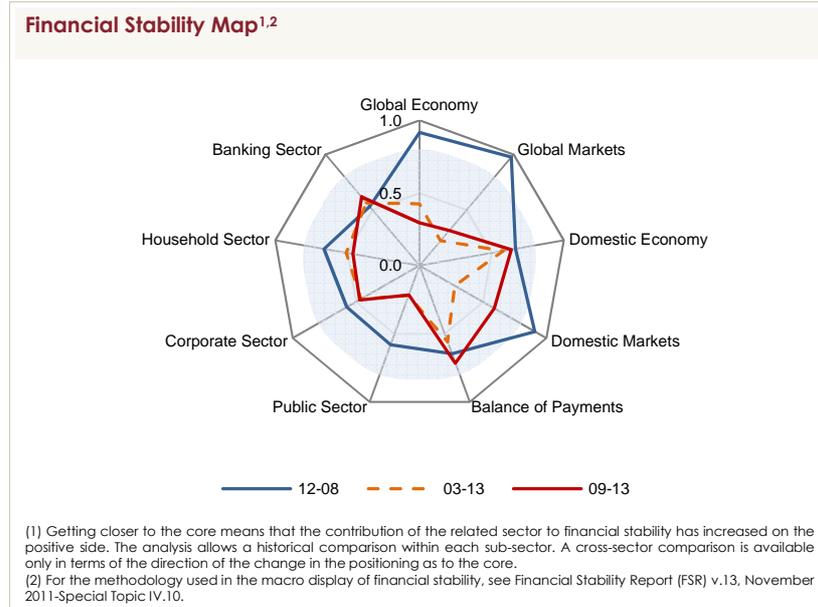
The Turkish banking sector, which has significantly increased the utilization of non-deposit funding sources in the recent period and posted a loan-to-deposit ratio above 110 percent, has been able to renew its external debts at reasonable costs in the period after May 2013. The foreign currency liquid assets of the sector are at a level that can cover almost half of its short-term external debts, implying that its fiscal structure is resilient against short-term external shocks. The banking sector will present an even better outlook if banks maintain a cautious growth strategy without endangering their sound liquidity positions.

Turkey is one of the emerging market economies that have posted the highest rises in loan/GDP ratios since 2009. In addition, Turkey, with a high level of loan growth, has stood out its peers since the final quarter of 2012. Project financing loans extended for privatization and public infrastructure investments had a significant contribution to the underlying loan growth, especially in FX loans. Moreover, the interest rates that reached to their historic lows and the extension of maturities also boosted the demand for loans, particularly for housing and general purpose loans. In the new period when the global volatility is trending up, realization of the credit growth rate at reasonable levels is considered to contribute to the financial stability. In this context, measures taken by the BRSA regarding the growth and composition of loans are considered to be positive.

The banking sector has maintained its sound structure in terms of asset quality and capital adequacy. Non-performing loan ratios remained flat throughout 2013 and the bad cheque ratio that had been on the rise since 2011, gradually decreased during the year. Although capital adequacy ratios declined by almost 200 basis points during the year due to the significant increase in risk-weighted assets, they are high enough to cover losses that might be incurred under various shock scenarios.

The corporate sector's access to loans from abroad or from domestic banks has improved in recent years amid ample liquidity all over the world. In fact, commercial loans have soared since late 2012. The fact that firms did not have difficulty in rolling over external debts in the second half of the year as well, is a positive indicator in terms of risk management.

The increase of household savings is important for financing the Turkish economic growth in a sound way. The data suggest that the household savings rate has continued to decrease, while the ratio of household liabilities to assets has continued to increase. Savings ratios are intended to be boosted with structural measures, primarily the incentives for the individual pension system. On the other hand, consumer loans are not extended in FX and the fixed interest rate is charged upon almost all consumer loans, which enhance the resilience of households' fiscal structure. In addition, the most important parameter for households' financial status and stability of the financial system is that their debt-to-income ratio is at a reasonable level. Therefore, a close monitoring of the debt-income ratio becomes more of an issue for both domestic savings and financial stability. The recent regulations taken by the BRSA on credit cards are expected to contribute to this objective.



Within the framework of the assessments, the schematic reflection of the developments regarding financial stability in Turkey can be seen on the macro display chart above. Accordingly, for the last six-month-period, while the global economy has developed in a positive direction, global markets have deteriorated slightly. In the same period, the volatility in exchange rates and interest rates has increased in line with the volatility in global capital flows. However, the positive outlook in corporate and banking sectors continued in addition to the economic recovery in households.