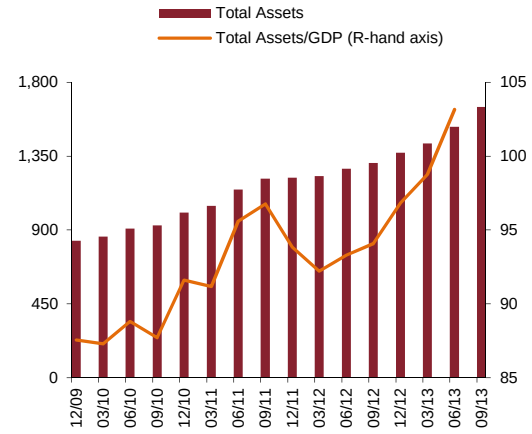
III. Developments by Sectors[3]

III.1. Banking Sector

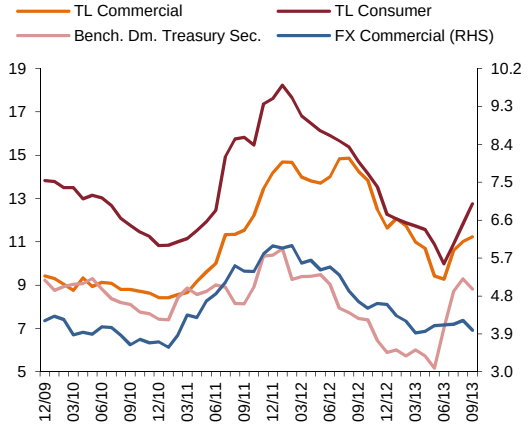
Banking sector's rapid growth trend in 2012 continued in the first half of 2013 as well. Asset size of the banking sector increased by 20.3 percent compared to end-2012 and reached TL 1,649 billion by September 2013; its ratio to GDP became 103.1 percent by June 2013 (Chart III.1.1). The rate cut cycle that started at the end of 2011 continued until the second quarter of 2013 when the loan rates declined to historic lows and constituted a basis for a strong growth in sector assets (Chart III.1.2).

Chart III.1.1
Development of the Banking Sector
(Billion TL, %)



Source: BRSA, CBRT, TURKSTAT

Chart III.1.2
Applicable Interest Rates[1]
(Percent)



(1) Loan rates are flow weighted average, whereas benchmark government securities interest rate is simple arithmetic mean pertaining to the respective month.
Source: CBRT, Bloomberg

Among similar emerging economies the ratio of banking sector assets to GDP has posted the highest increase in Turkey after Brazil since 2009 (Chart III.1.3). In the same period, Turkey came to the forefront as the country that recorded the highest rise in banking sector assets among developing countries (Chart III.1.4). The Turkish banking sector maintained its strong growth performance in 2013 as well.

[3] This chapter has been prepared by Figen Özcan, Hasan Erol, Ayça Topaloğlu Bozkurt, Canan Özkan, Egemen Eroğlu, Fatih Bektaş, Merve Demirbaş and E. Özgü Özen Çavuşoğlu.

Chart III.1.3
Asset/GDP Ratio and Change*
(Point, %)

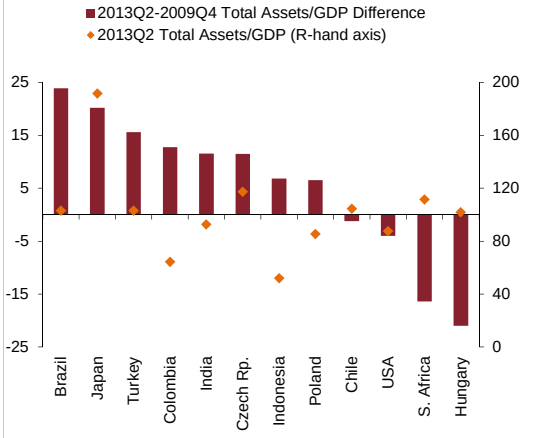
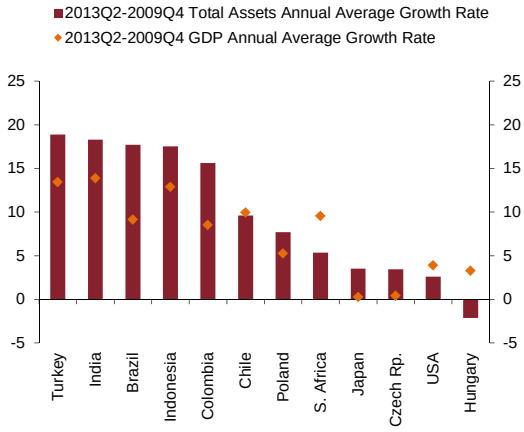


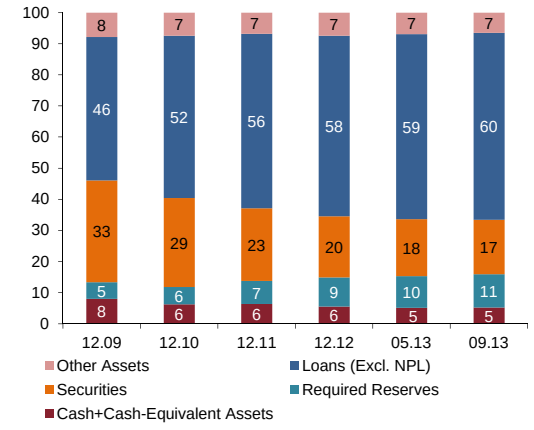
Chart III.1.4
Annual Average Growth Rate of Assets (2009 Q4-2013 Q2)*
(Nominal, %)



(*) Latest data from the IMF – FSI database has been used, most of which are figures pertaining to the second quarter of 2013.
Source: IMF

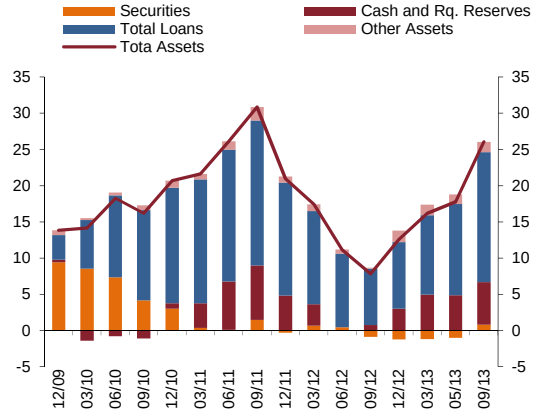
Since 2009, asset growth of the sector has been driven mainly by loans; the sector's loan-asset ratio reached 60 percent by September 2013. In this period, banks replaced a significant portion of their securities with loans. However, sales of government securities by foreign investors started being covered by banks after May 2013, which led to a moderate increase in the securities portfolio of the banking sector. With the effective use of ROM, banks started to hold more required reserves at the CBRT in 2013 (Chart III.1.6).

Chart III.1.5
Asset Structure of the Banking Sector[1]
(%)



(1)Cash and Cash Equivalent Assets=Cash+ Money Markets +Banks + Reverse Repo
Source: BRSA, CBRT

Chart III.1.6
Contribution of Banking Sector's Asset Items to Annual Asset Growth (%)



Source: BRSA, CBRT

Among selected emerging markets, Turkey has posted the highest rise in loan/GDP ratio since 2009. The loan/GDP ratios of countries such as Brazil, India and Indonesia have also posted significant increases in this period (Chart III.1.7). With a loan growth that has accelerated since the final quarter of 2012, Turkey outshines other emerging market economies (Chart III.1.8).

Chart III.1.7
Loan/GDP Ratio and Change*
(Point, %)

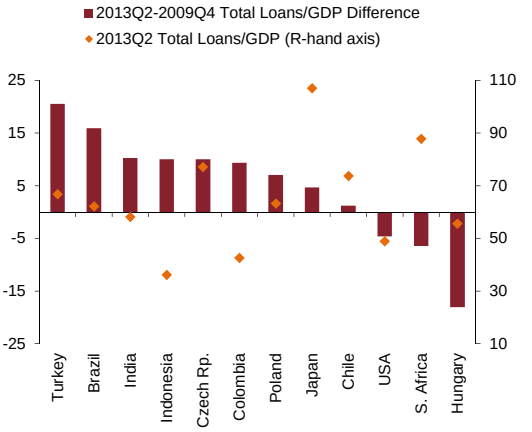
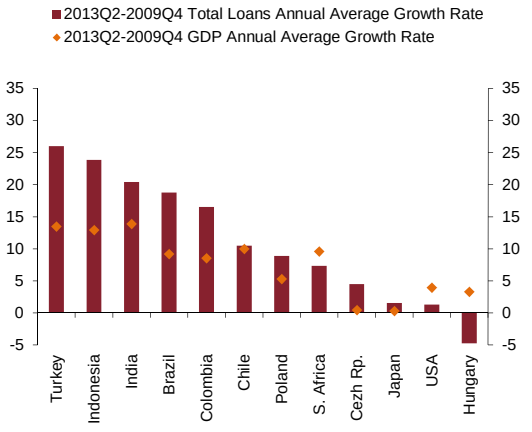


Chart III.1.8
Annual Average Growth Rate of Loans (2009 Q4-2013 Q2)*
(Nominal, %)

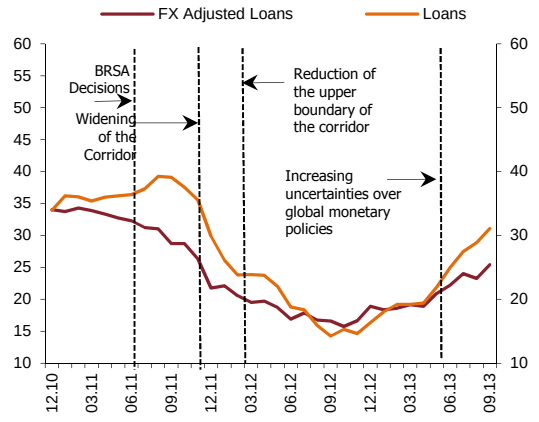


(1) Latest data from the IMF – FSI database has been used, most of which are figures pertaining to the second quarter of 2013.
Source: IMF

The loan growth that had strengthened since the second half of 2012 started to converge towards previous years' averages in the period following the fluctuation in financial markets. The supportive liquidity polices of the CBRT, the upgrade of Turkey's sovereign credit rating to investment level and the moderate surge in the domestic demand contributed to the credit growth acceleration in 2013. Nevertheless, the loan growth rate started to slow down and converged towards previous years' averages on the back of the fluctuation after May (Chart III.1.10).

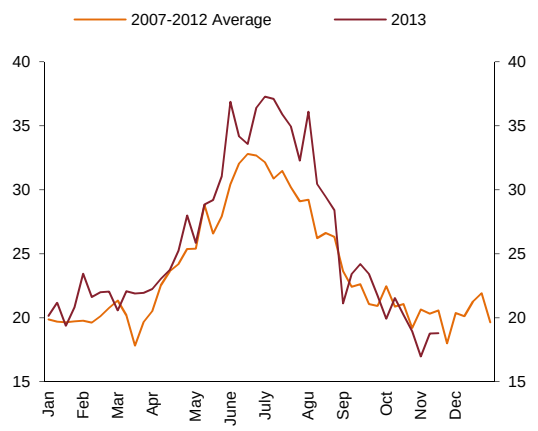
Particularly during the May-June period, foreign exchange denominated project financing loans extended mainly to privatization and public infrastructure investments boosted the loan growth in 2013. In fact, while the loans adjusted for the exchange rate effect grew by 20.9 percent year-on-year in May 2013, the annual growth rate rose to 25.4 percent by September 2013 despite the unfavorable outlook in global conditions (Chart III.1.9).

Chart III.1.9
Annual Growth of Loans[1]
(%, Excluding NPLs)



(1) The basket value used to adjust for the exchange rate effect is composed of 70 percent USD and 30 percent euro. The average basket rate of December 2007 – September 2013
is used to adjust for the exchange rate effect and FX-indexed loans are included in F loans.
Source: BRSA, CBRT

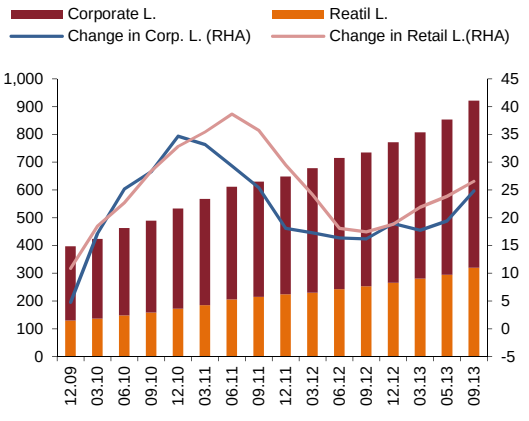
Chart III.1.10
Development of Loans Adjusted for Exchange Rate Effect[1]
(%)



(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 are included in FX loans. The 13-week-average of weekly changes has been annualized. The latest data belongs to 15 November 2013.
Source: BRSA, CBRT

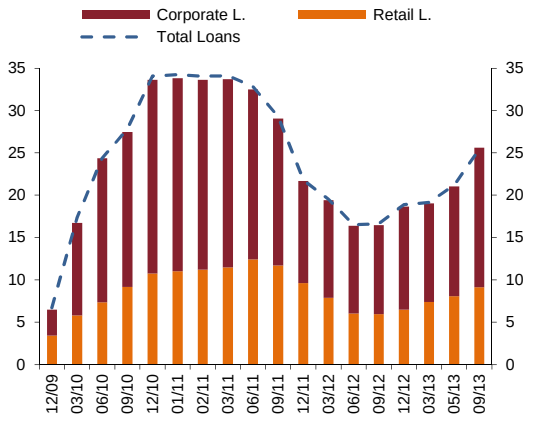
While total loan growth was mainly driven by retail loans in the first five months of 2013, it has been primarily attributed to the increase in corporate loans since June. By September 2013, corporate, adjusted for the exchange rate effect, and retail loans increased by 24.8 percent and 26.6 percent year-on-year, respectively, thus contributing to the total loan growth by 16.5 points and 9.1 points, respectively (Chart III.1.11). However, in the May-September period, the contribution of corporate loans to total loan growth increased by 3.5 points, while that of retail loans rose only by 1.1 points (Chart III.1.12). The increase in the contribution of retail loans has been almost fully driven by housing and other loans.

Chart III.1.11
Development of Loans by Type*
(Excluding NPLs, Billion TL, Annual %)



(*) Loans are adjusted for exchange rate effect.
Source: BRSA, CBRT

Chart III.1.12
Contribution of Loans to Credit Growth by Type*
(% Contribution, Excluding NPLs)



Credit growth trends point to a slight deceleration in loan growth in the upcoming months. At the beginning of the third quarter of 2013, loan growth trends, especially the trend of corporate loans, exceeded previous years' averages. However, this outlook ended

as of September and the trend of increase in both loan groups declined below previous years' averages (Chart III.1.13, Chart III.1.14). The increasing trend in corporate loans tapers off and loans start to hover around previous year averages particularly when the FX-denominated project loans extended in May and June are excluded.

Chart III.1.13
Development of Retail Loans Adjusted for Exchange Rate Effect*
(%)

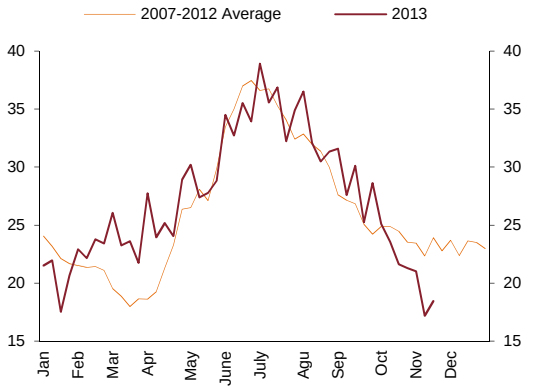
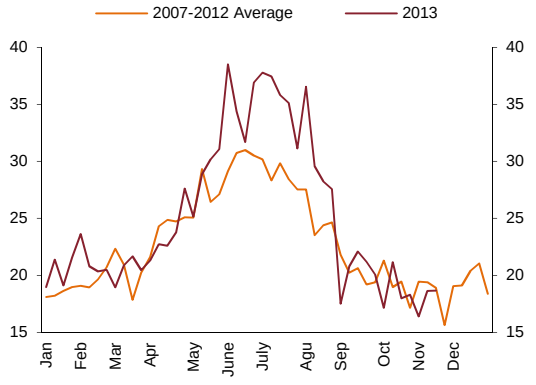


Chart III.1.14
Development of Corporate Loans Adjusted for Exchange Rate Effect*
(%)



(*) The basket value used to adjust for the exchange rate effect is composed of 70 percent USD and 30 percent euro. FX-indexed loans are included in FX loans. The 13-wee average of weekly changes has been annualized. The latest data belongs to 15 November 2013.
Source: BRSA, CBRT

The CBRT Bank Loans Tendency Survey findings on credit supply and demand indicate that the standards on corporate and consumer loans loosened relatively in the first three quarters of 2013, the demand for consumer loans remained strong in the first two quarters of 2013 and the demand held steady in the third quarter (Chart III.1.15)**.** The Survey suggests that the standards on both consumer loans and corporate loans will be tightened in the final quarter of 2013. Although expectations over the demand outlook suggest an increase in this period, the expectation of tightening of the standards on corporate loans implies that corporate loan growth rates might further decline slightly (Chart III.1.16).

Chart III.1.15
Developments of Credit Standards*
(%, Point)

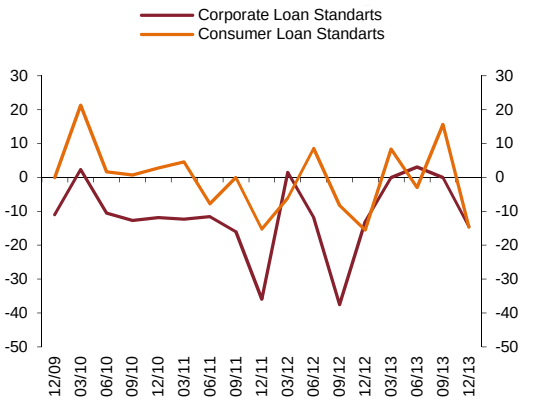
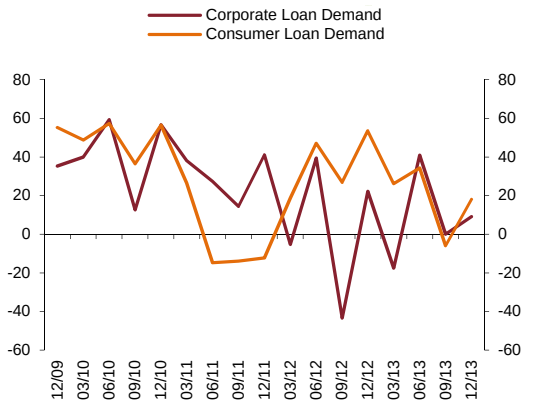


Chart III.1.16
Developments of Credit Demand*
(%, Point)



(*) Derived from the Bank Loans Tendency Survey. Values are net percentage ratios of the banks that declared a change. Negative values imply tightening and positive values imply loosening.
Source: CBRT

Increases in the Turkish lira dominated SME loans and FX-denominated other corporate loans have been instrumental in the growth of corporate loans since the beginning of the third quarter of 2013. With the effect of the new classification based on the revised definition of loans extended to SMEs[4], the annual increase of corporate loans by type have soared since November 2012, whereas other corporate loans have assumed a declining trend in the same period. However, once the effect of this revision on the change of the composition of firms faded out, loans, mainly the Turkish lira-denominated SME loans and FX-denominated other corporate loans displayed increases by May 2013 (Chart III.1.17, Chart III.1.18).

Chart III.1.17
Development of Other Corporate Loans Adjusted for Exchange Rate Effect by Type* (%, Excluding NPLs)

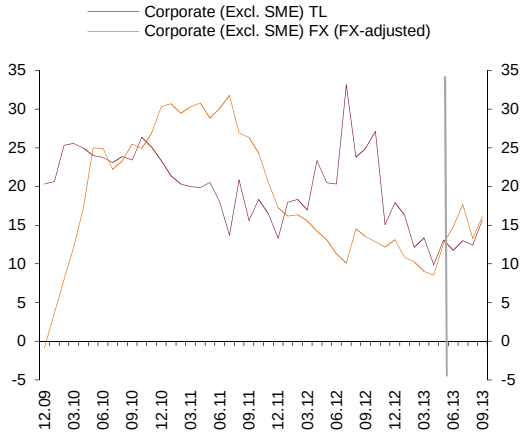
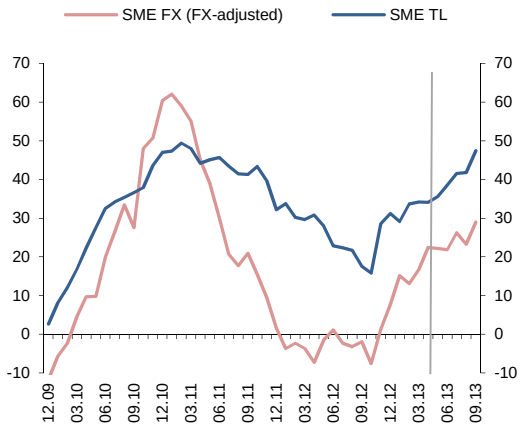


Chart III.1.18
Development of SME Loans Adjusted for Exchange Rate Effect by Type* (%, Excluding NPLs)

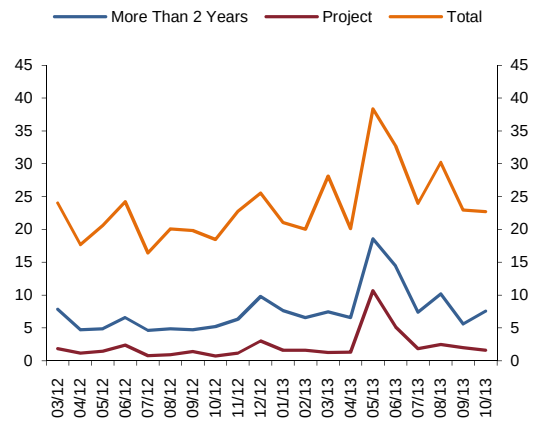


(*) The basket value used to adjust for exchange rate effect is composed of 70 percent USD and 30 percent euro. FX-indexed loans are included in FX loans. Year-on-year changes are calculated by using the same date values of the previous year.
Source: BRSA –CBRT

Increase in the annual growth rate of exchange rate adjusted corporate loans in the second half of 2013 mainly stemmed from utilization of long-term loans for project financing. When such loans are excluded, a significant decline is observed in the increase of the growth rate of corporate loans. The amounts of FX-denominated project loans that were lent at a monthly average level of TL 1.2 billion in 2012 materialized as TL 9 and 6 billion in May and June 2013, respectively (Chart III.1.19). The acceleration in the growth of FX-denominated corporate loans adjusted for the exchange rate effect in the first half of 2013 can be attributed to the increase in extension of long-term project loans. Recalculation (according to 2012 averages) of project-based FX-denominated corporate loans that have been extended suggests that the growth of FX-denominated corporate loans will follow a horizontal trend (Chart III.1.20).

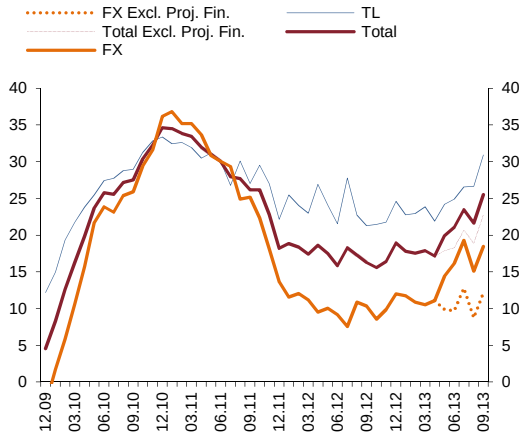
[4] With the regulatory amendment dated 4 November 2012 that led to an increase in the number of firms covered by the SME definition, small enterprises were defined as businesses with either annual net sales revenues or balance sheets at TL 8 million maximum instead of the former threshold of TL 5 million, and medium-sized enterprises were defined as those that do not exceed TL 40 million as opposed to the former threshold of TL 25 million.

Chart III.1.19
FX-Denominated Project Financing Loans[1]
(Flow, Billion TL)



(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

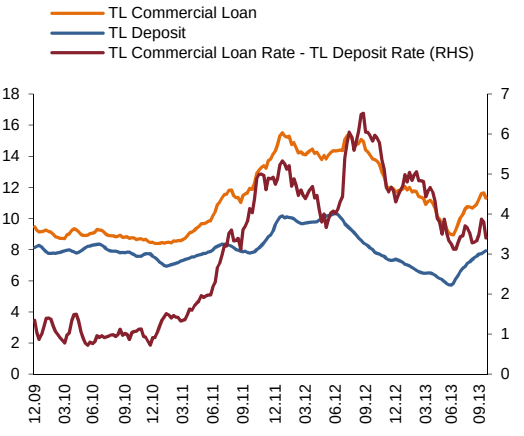
Chart III.1.20
Annual Growth Rates of Corporate Loans Adjusted for Exchange Rate Effect[1,2]
(%, Excluding NPLs)



(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.
(2) The basket value used to adjust for exchange rate effect is composed of 70 percent USD and 30 percent euro. FX-indexed loans are included in FX loans. Year-on-year changes are calculated by using the same date values of the previous year.
Source: CBRT

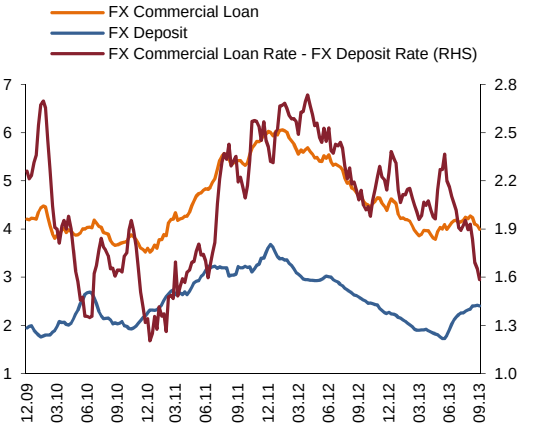
Actual TL-FX commercial loan and deposit spread supports the developments in growth rates. TL commercial loan-deposit spreads had declined until the end of the second quarter of 2013 but increased slightly in the third quarter of 2013 (Chart III.1.21). The FX commercial loan-deposit spread moved downward after rising in May and June (Chart III.1.22). The increase in the FX commercial loan rate was driven by FX loans with maturities longer than two years.

Chart III.1.21
TL Commercial Loan and TL Deposit Rate[1]
(%, Point, Flow)



(1) Flow data, 4-week moving average
Source: CBRT

Chart III.1.22
FX Commercial Loan and FX Deposit Rate[1]
(%, Point, Flow)



Corporate loans are mainly extended in Turkish lira with maturities longer than one year. While the share of TL loans in corporate loans had been on a constant rise until end-

2012, the TL/FX composition displayed a limited change in 2013 (Chart III.1.23). The share of FX corporate loans with maturities of more than two years in total FX corporate loans increased throughout 2013 and reached 63.7 percent by September (Chart III.1.24).

Chart III.1.23
Currency Composition of Corporate Loans Adjusted for Exchange Rate Effect[1] (%)

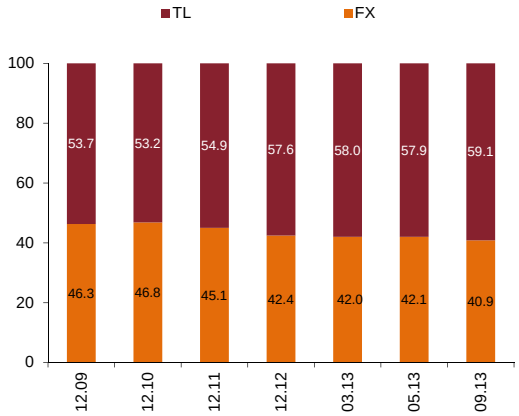
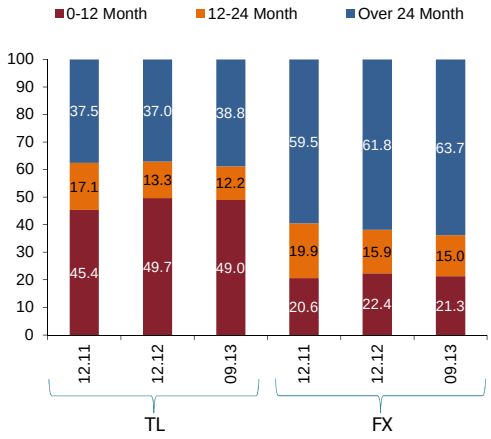


Chart III.1.24
Maturity Composition of Corporate Loans[1]
(Stock Data, %)



(1) FX-indexed loans are included in FX loans.
Source: BRSA –CBRT

During the 2009-2013 period, non-performing loan (NPL) ratio of the Turkish banking system remained low compared to the countries reviewed. In this period, Turkey, due to NPL sales, became prominent as the country that posted the fastest decline in the NPL ratio. The Turkish banking system's NPL ratio declined by 2.4 points and fell from its end-2009 level of 5 percent to 2.6 percent by the end of the second quarter of 2013 (Chart III.1.25, Chart III.1.26). Even with no asset write-offs, the Turkish banking sector's NPL ratio is estimated to have decreased by 160 basis points to 3.7 percent in that period.

Chart III.1.25
NPL Ratios *
(%)

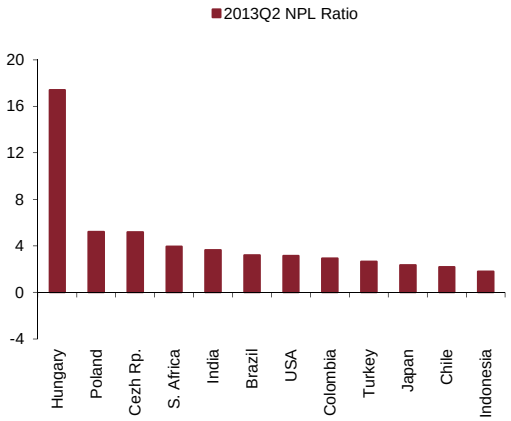
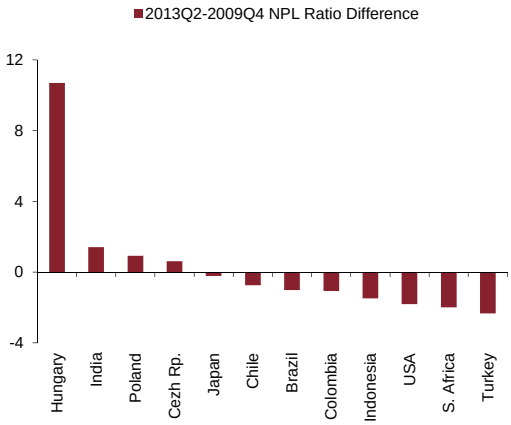


Chart III.1.26
Differences of NPL Ratios*
(%)

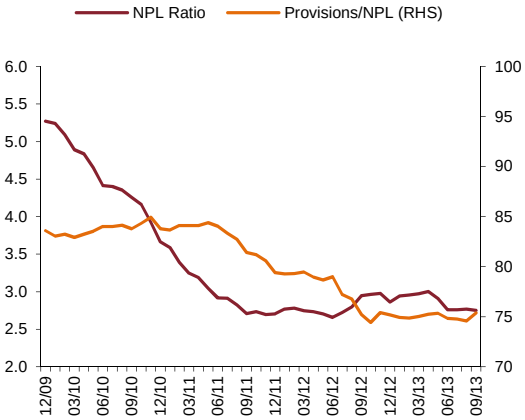


(1) Latest data from the IMF – FSI database has been used, most of which are figures pertaining to the second quarter of 2013.
Source: IMF

The NPL ratio declined to a limited extent and maintained a flat course by the end of 2013. By September 2013, the gross NPL amount of the sector increased by 22 percent year-on-year to TL 28 billion. NPL ratios on general purpose loans and credit cards, the types of retail loans with the highest NPL ratio, did not display a significant change in 2013. Micro-SME loans that have a relatively higher NPL ratio among corporate loans also presented a similar outlook (Table III.1.1).

The ratio of special provisions allocated for NPLs to the NPL amount declined by 2.2 points to 75.4 percent over the past one year period (Chart III.1.27). There is no significant concern over the asset quality; yet, it is believed that a cautionary move for the banks will be to hold reserves for non-performing loans in an amount above the legal requirement at times when the economic conjuncture is favorable and the profitability is strong.

Chart III.1.27
NPL
(%)



Source: BRSA –CBRT

Table III.1.1
NPL Ratios
(%)

	2011	2012	09.13
Total Loans	**2.7**	**2.9**	**2.8**
I-Corporate Loans	**2.6**	**2.8**	**2.7**
SME Loans	3.1	3.2	3.1
-- Micro	4.3	4.4	4.3
-- Small	2.9	2.9	2.9
-- Medium	2.2	2.6	2.4
Other Corp. Loans	2.3	2.6	2.5
II-Retail Loans	**2.9**	**2.9**	**2.9**
Housing	0.9	0.8	0.6
Vehicle	3.3	3.1	3.1
Other	2.6	3.2	3.1
Credit Cards	5.9	5.1	5.2

The rise in the ratio of bad cheques presented to the Interbank Cheque Clearing Houses Center (ICH) to the total amount of cheques observed since the second half of 2011 continued until the end of 2012. This ratio started to decline as of early 2013 (Chart III.1.28). NPL ratios in retail loan products also declined slightly in September 2013 (Chart III.1.29).

Chart III.1.28
NPL Ratios and Bad Cheque Ratio
(%)

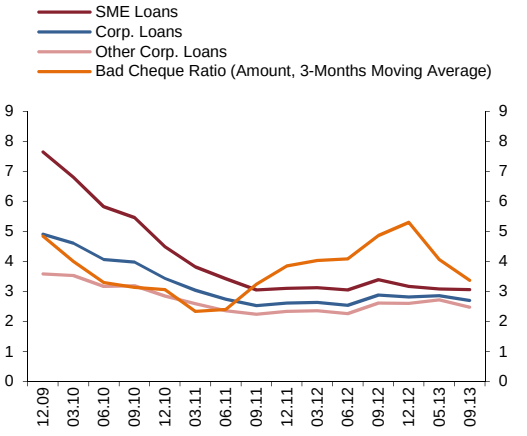
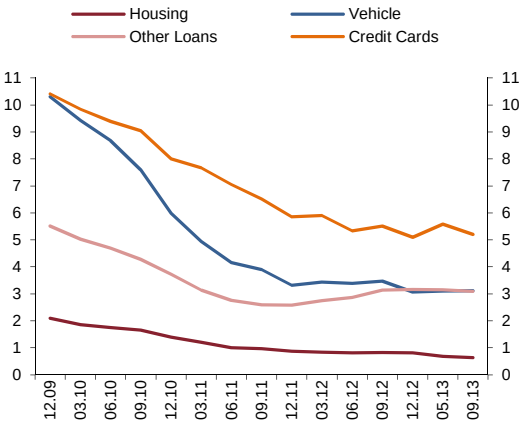


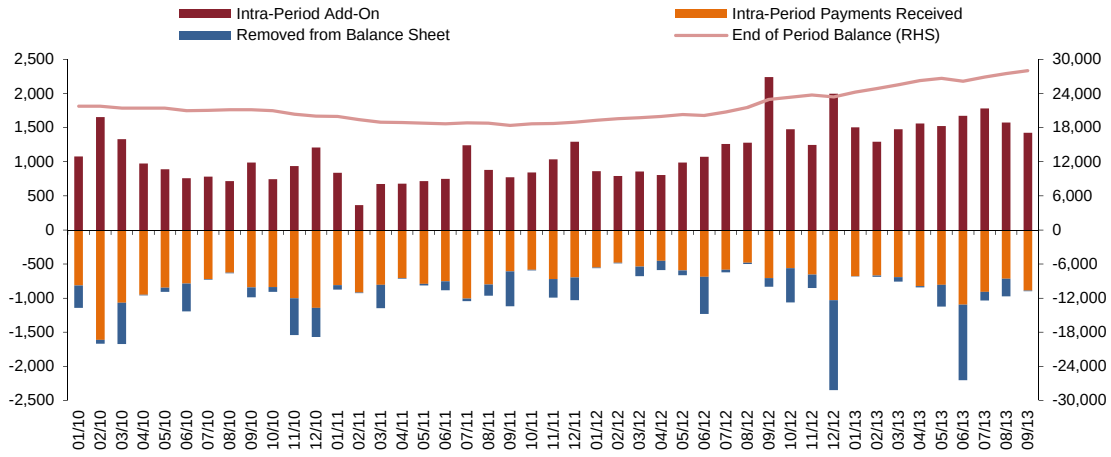
Chart III.1.29
NPL Ratios of Retail Loans
(%)



Source: BRSA –CBRT

Since September 2012, claims on loans that were added to the NPL amounts during the accounting period have been hovering at high levels compared to 2010 and 2011 averages. The NPLs added during the quarter remained strong in 2013. Persistence of this situation may prevent NPL ratios from declining in upcoming periods (Chart III.1.30).

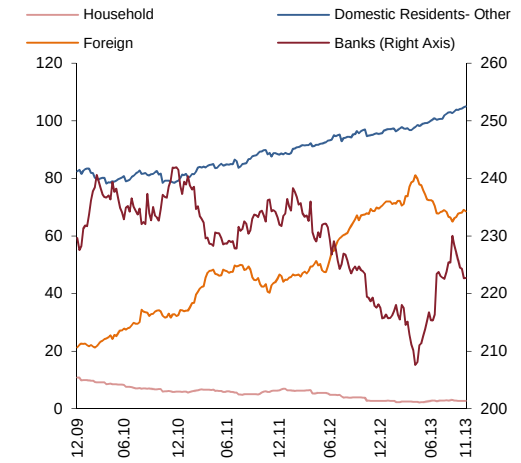
Chart III.1.30
Flow NPL Developments
(Million TL)



Source: BRSA –CBRT

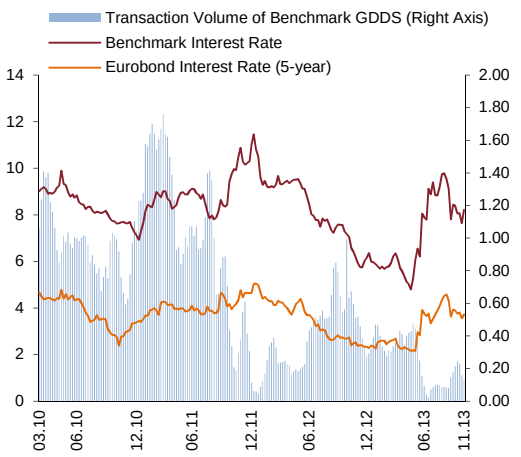
The securities portfolio, the second largest item on the assets side, has displayed significant fluctuations since the second half of 2012 due to the portfolio inflows from non-residents. Non-residents' GDDS demand that had been on the rise since mid-2012 had been met by resident banks. In this period, interest rates on GDDS decreased and transaction volumes increased. However, after May 2013, this process was reversed on the back of increased expectations that the liquidity in global markets would diminish, and GDDS outflows from non-residents' portfolios has been purchased by the banking sector (Chart III.1.31 and III.1.32).

Chart III.1.31
GDDS Holdings
(Nominal, Billion TL)



Source: CBRT

Chart III.1.32
Interest Rates on Public Borrowing Securities and Transaction Volume of Benchmark GDDS (%, Million TL)



Source: Bloomberg

An analysis of the TL-denominated GDDS portfolios by interest rate structure, which account for 82 percent of banks' securities portfolios, reveals that variable-rate securities that are more advantageous in terms of interest rate risk constitute two-thirds of the portfolio (Chart III.1.33). Although fixed-rate securities have relatively low share in the portfolio, their maturities have been on a stable rise in recent years (Chart III.1.34). However, extension of the maturities of fixed-rate GDDS portfolios by banks is attributed to the recent improvement in macroeconomic outlook, rather than the developments in banks' risk appetite. On the other hand, excess volatility in GDDS yields and the decrease in transactions volumes after May 2013 increased banks' demands for variable-rate securities in primary markets.

Chart III.1.33
Interest Rate Composition of Banks' GDDS Portfolio
(Nominal, %)

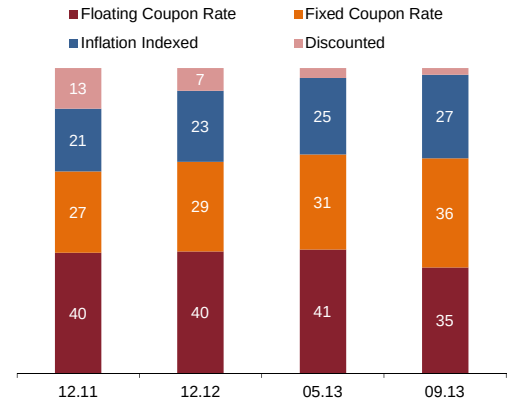
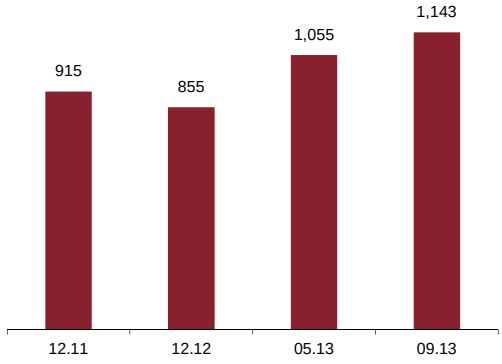


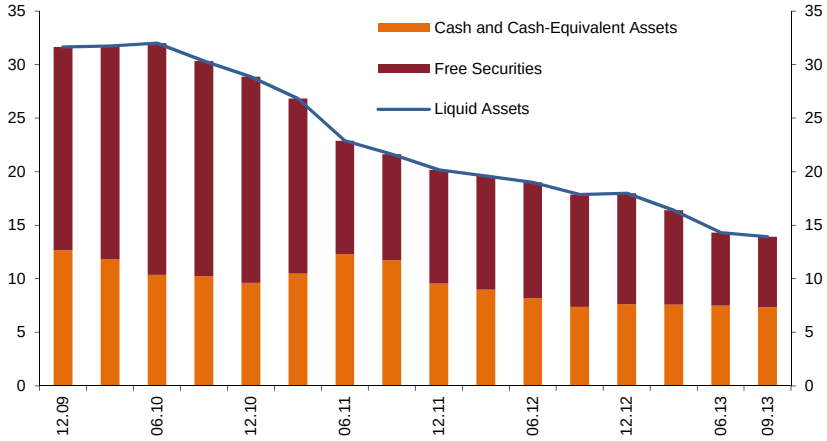
Chart III.1.34
Number of Days to Maturity of Fixed-Rate GDDS Portfolio of Banks



Source: BRSA –CBRT

The steady decline in the share of the banking sector's liquid assets in total assets, prevailing since 2010, continued in 2013 as well. By September 2013, the ratio of liquid assets to total assets decreased by 4.1 points compared to end-2012 and materialized as 13.9 percent (Chart III.1.35). The main factor lying behind this trend is that banks have gradually decreased their securities portfolios that have a larger share in their balance sheets compared to banks of other countries. After May 2013, decrease in security prices as a result of the rise in interest rates has also played a supportive role in this trend.

Chart III.1.35
Liquid Assets[1,2]
(% Asset)



(1) Cash and Cash Equivalent Assets= Cash + CBRT + Money Markets + Banks + Reverse Repo
(2) Free Securities = Government securities that are not used as collateral or for repo
Source: BRSA –CBRT

Despite the decline in liquid assets, banks' liquidity adequacy ratios for total and FX liquidity have been hovering above legal ratios of 100 percent and 80 percent (in both the first and second maturity brackets), respectively (Chart III.1.36 and III.1.37).

Chart III.1.36
Total Liquidity Adequacy Ratio

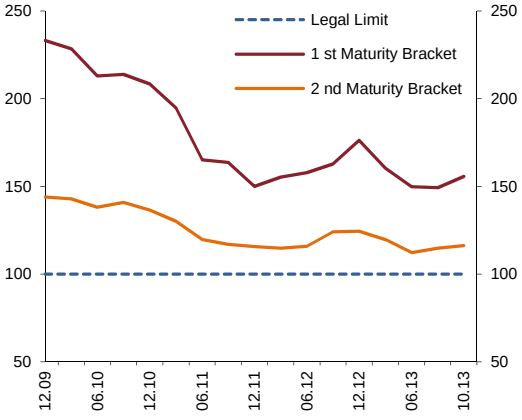
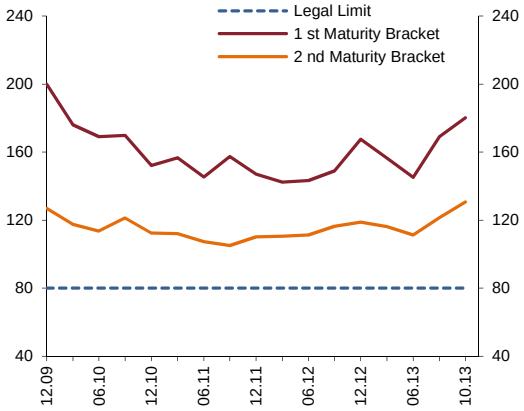


Chart III.1.37
FX Liquidity Adequacy Ratio



Source: BRSA –CBRT

The weight of deposits that have the largest share in the banking sector's liability items decreased slightly on the back of the revival of external funding facilities in the post-crisis period yet did not display a notable change in 2013 (Chart III.1.38). An analysis of the contribution of banks' funding sources to the liability growth indicates that the contribution of repo funding to the liability growth has turned from negative to positive since the beginning of 2013 due to the increase in reserve requirement liabilities and that the deposits have increased, whereas security issues have followed a stable trend (Chart III.1.39).

Chart III.1.38
Liability Structure of the Banking Sector
(%)

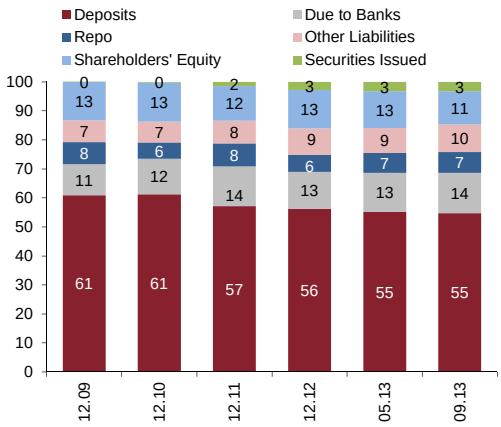
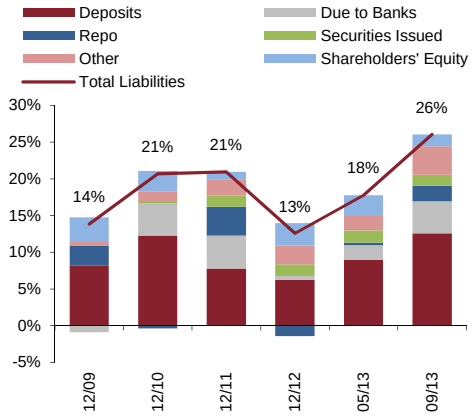


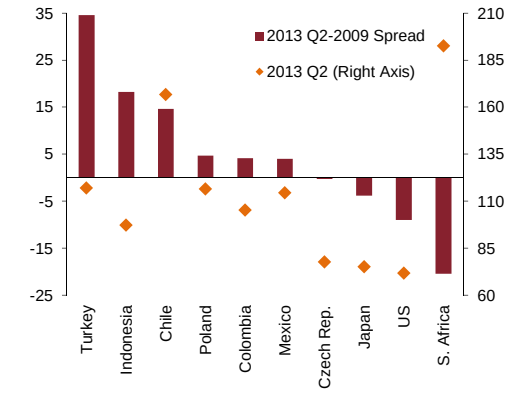
Chart III.1.39
Liability Growth and Contributions to Annual Growth
(%)



Source: BRSA –CBRT

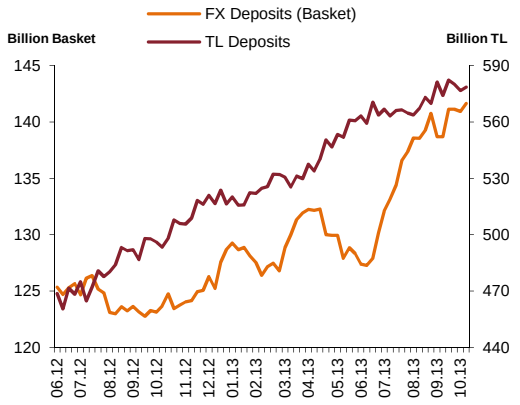
As access to non-deposit funds became easier and credit demand remained high, the sector's loan/deposit ratio reached historic highs. Compared to other countries, Turkey recorded the most evident increase in the loan/deposit ratio between 2009 and 2012 (Chart III.1.40). In the upcoming period, on account of the effect of macroprudential measures, the credit growth rate is considered to converge towards the deposit growth, thereby curbing the rapid increase in the loan/deposit ratio.

Chart III.1.40
Gross Loan/Deposit Ratios of Selected Countries[1]
(%)



(1) For Chile January 2013 data; for Japan, Mexico and Poland, the U.S. 2013 Q1 data; for Colombia, the Czech Republic, Indonesia, South Africa and Turkey, 2013 Q2 data are used.
Source: IMF

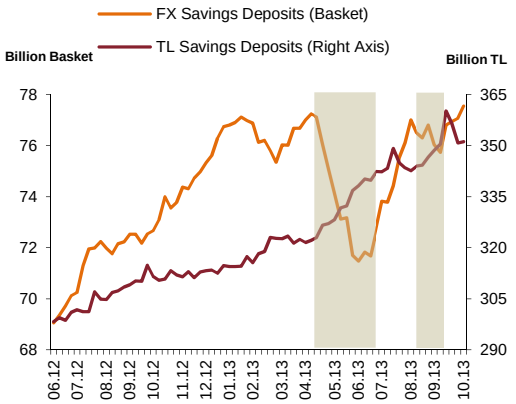
Chart III.1.41
Deposits [1,2]
(Billion TL, Billion Basket)



(1) Interbank deposits are excluded.
(2) FX deposits are expressed in terms of the basket composed of 60 percent USD and 40 percent euro.
Source: BRSA –CBRT

Exchange rates followed a stable trend for a long period. This situation led the savings deposit holders to determine their investment preferences (on the basis of the currency of deposits) in the direction of smoothing out exchange rate movements. Also during the period from May to mid-July 2013, marked by a rapid depreciation in the Turkish lira, savings holders shifted their preferences to TL deposits from FX deposits in line with their past behaviors (Table III.I.2). However, with the continuation of the fluctuations in exchange rates and depreciation of the Turkish lira, savings holders opted for FX deposits. In the post-May period, in September, when the Turkish lira displayed the strongest appreciation, savings holders shifted back to TL deposits from FX deposits.

Chart III.1.42
TL-FX Savings Deposits [1,2]
(Billion TL, Billion Basket)



(1) Interbank deposits are excluded.
(2) FX deposits are expressed in terms of the basket composed of 60 percent USD and 40 percent euro.
Source: BRSA –CBRT

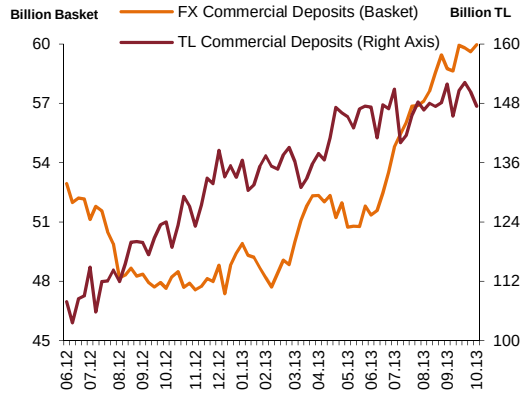
Table III.1.2
Changes in Deposit Amounts During Shifts Between TL-FX[1]
(Billion TL, Billion Basket)

	03 May.- 12 Jul.	29 Aug.- 4 Oct.
TL (Billion TL)	17.6	7.9
FX (Billion Basket)	-5.6	-1.3
FX (Billion TL)	-11.6	-2.9
Average Basket ($0.6+€0.4)	2.1	2.3

Since mid-2013, while the upward trend in FX commercial deposits has accelerated, TL commercial deposits have followed a fluctuating trend. The corporate sector's move to close its short position in FX is considered to be influential in the increase of FX commercial deposits. With the alleviation of the depreciation of Turkish lira in September, FX commercial deposits decelerated (Chart III.1.43).

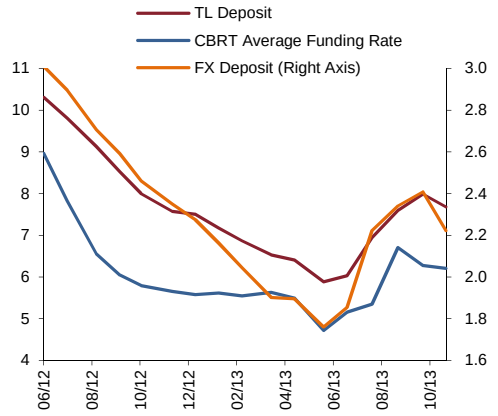
Interest rates on TL and FX deposits that had been on a stable decline since the second half of 2012 changed direction in June 2013. Interest rates on TL and FX deposits that declined since mid-2012 have displayed an upward trend in line with the deteriorated risk perceptions in international markets and the CBRT's monetary tightening in July and August (Chart III.1.44). In September, however, market rates started to decline on the back of the CBRT's measures to enhance predictability and the postponement of expectations over the Fed's tapering after its September meeting, whereas the decline in deposit rates remained limited amid expectations over a potential tightening in external funding conditions.

Chart III.1.43
TL-FX Commercial Deposits[1,2]
(Billion TL, Billion Basket)



(1) Interbank deposits are excluded.
(2) FX commercial deposits are expressed in terms of the basket composed of 60 perce
USD and 40 percent euro.
Source: BRSA –CBRT

Chart III.1.44
Deposit Rates[1,2]
(%, Flow)

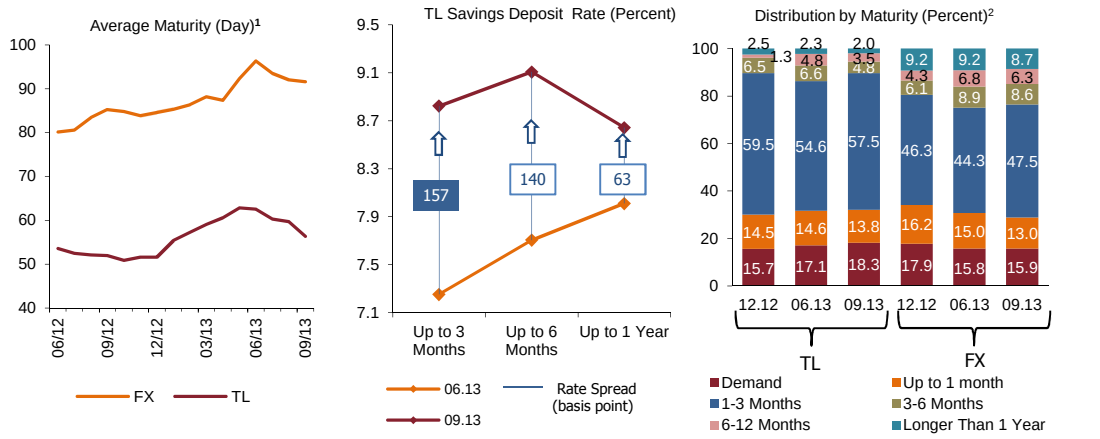


(1) 4-week moving average has been calculated with flow data; data has been expressed in monthly terms.
(2) Interbank deposits and demand deposits are excluded.
Source: BRSA –CBRT

The average maturity of deposits, which increased on the back of the differentiation of the reserve requirement ratio according to the maturity structure and the onset of the rate-cut cycle, has been decreasing since mid-2013. While the weighted average maturity of TL deposits, which was 63 days in May 2013 fell to 56 days in September, that of FX deposits that reached 96 days in June, decreased to 92 days in the same period (Chart III.1.45). With the contribution of the differentiation of withholding rates applied to TL and FX deposits since the beginning of 2013 in a way to promote long-term maturity, the share of demand deposits and deposits with maturities of up to six months in total deposits decreased by 3.3 points in TL accounts and 2.5 points in FX accounts in June, compared to end-2012. Yet, this positive outlook reversed after June. On the TL side, while the share of TL deposits with

maturities of 1-3 months in total deposits increased, that of deposits with maturities of 3-6 months and 6-12 months in total deposits decreased compared to June. The development of TL savings deposit rates is considered to support this shift between maturity brackets of TL deposits. The increase in short-term deposit rates in the June-September period was particularly instrumental in shortening of the maturity of deposits.

Chart III.1.45
Maturity of Deposits



(1) The length of the weighted average maturity is calculated by taking into account the mid-points of the breakdown of maturity brackets and excluding the demand deposit accounts.
(2) Interbank deposits and precious metal deposit account are excluded.
Source: BRSA, CBRT

Banks do not have difficulty in obtaining external funding even at times of tightening in global liquidity conditions. Foreign liabilities have risen constantly in times of monetary easing implemented by advanced economies. Funds obtained from abroad by the banking sector continued to increase, albeit with reduced pace. By September 2013, the total foreign liabilities of the banking sector increased by 29.3 percent year-on-year to USD 149.8 billion, and their weight in funding sources rose to 21.4 percent, mainly driven by public banks (Chart III.1.46). Funds provided by financial institutions headquartered in the U.S., the UK and Germany for a long time have been occupying the first three ranks in banks' foreign liabilities, and during the reporting period, the shares of these countries materialized as 18.5 percent, 16.3 percent and 9.2 percent, respectively.

The share of syndication loans in the funds obtained by the banking sector from abroad has continued to remain flat while that of securitization loans has still been on the decline. Banking sector's bill and bond issues have gained importance as a source of funding in recent years. Accordingly, the amounts of syndication and securitization loans have not recorded a significant increase. By September 2013, the total amount of these loans was USD 24.8 billion, with a share in foreign liabilities and total funding sources at 16.5 percent and 3.5 percent, respectively (Chart III.1.47). By the preparation date of this Report, the amount of the banks' foreign liabilities to mature in 2014 was USD 50.1 billion. The

potential persistence of uncertainties over the global monetary policy for an extended period and the weakening of the growth outlook in emerging market economies are considered among the factors that might have an impact on the ongoing decrease in capital flows. Moreover, it should be noted that in the upcoming period, there might be a limited increase in cost of external borrowing facilities that remained robust in 2012 due to Turkey's more favorable outlook compared to its peers, thanks to its growth dynamics and sovereign rating upgrades.

Chart III.1.46
Foreign Liabilities of Banks
(Billion USD, %)

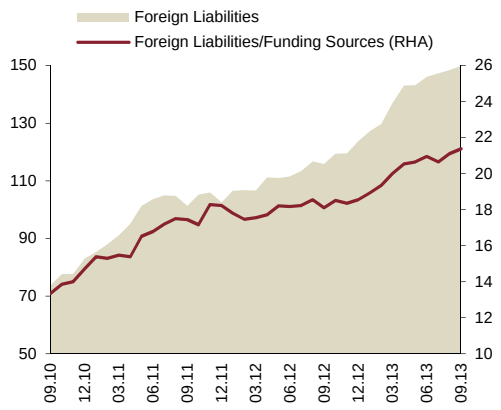
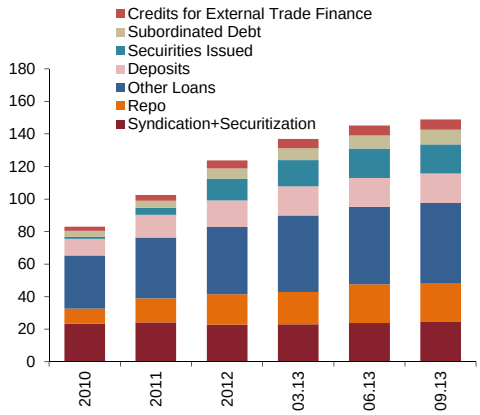


Chart III.1.47
Composition of Foreign Liabilities
(Billion USD)

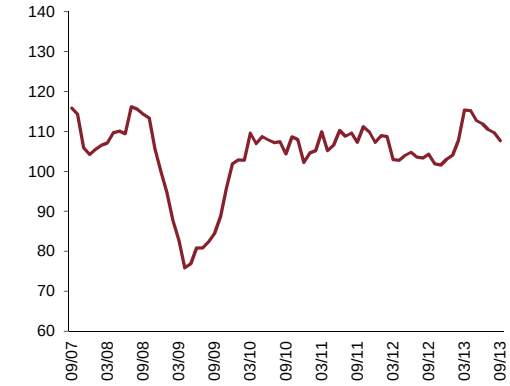


Source: BRSA - CBRT

Although the external debt rollover ratio of the banking sector has been declining since the second quarter of 2013, it still remains high. This ratio that displayed a temporary rise in March followed a flat course in April and started to decline in May (Chart III.1.48). These developments were mainly attributable to the continuation of the significant fluctuation in capital flows in the third quarter, as well as the uncertainty in global financial markets over the normalization process of the Fed's monetary policy.

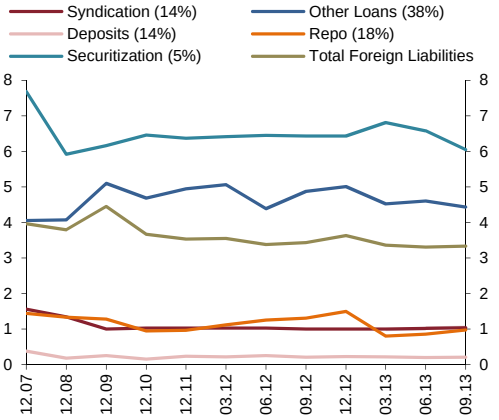
The long-term maturity structure of banks' foreign liabilities, which have an increasing share in the total balance sheet is contributing to the extension of the maturity of banking sector liabilities . The weighted average maturity of foreign liabilities remained stationary by years independent of the global liquidity conditions and materialized as 3.3 years in September 2013. The average maturity of syndication loans has remained unchanged at one year since end-2009 parallel to the preferences of foreign lending banks, considering the maturity-sensitivity of the cost. The average maturity of securitization loans that constitute the loans with the longest maturity in foreign liabilities remained stable at approximately six years in the same period. The largest contribution to the long-term maturity structure of foreign liabilities came from other loans, the average maturity of which is still high at 4.4 years despite an on-going decline since end-2012 (Chart III.1.49).

Chart III.1.48
External Debt Rollover Ratio of Banks[1]
(%)



(1) Calculated based on 6-month moving sums of short and long-term borrowings and repayments.
Source: CBRT

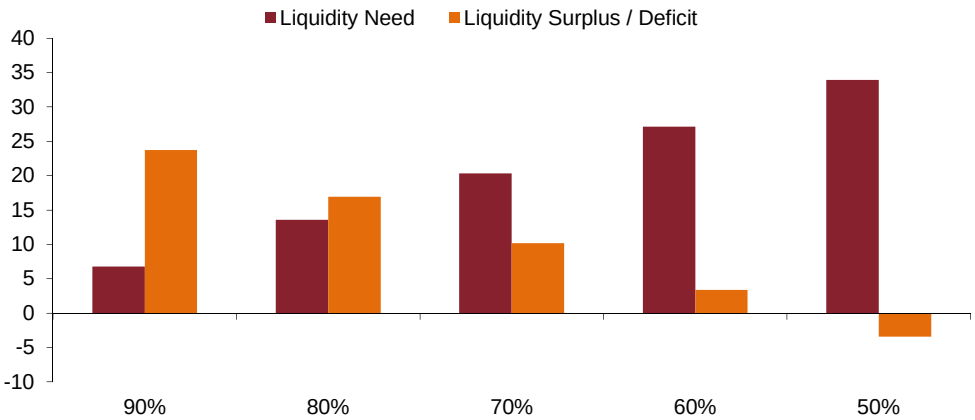
Chart III.1.49
Average Maturity of Foreign Liabilities[1]
(By Original Maturity, Year)



(1) Excluding security issues.
Source: BRSA - CBRT

Banks can conveniently meet their short-term external debt with the liquid assets they have at hand. Short-term external debt statistics of the Central Bank reveal that banks' short-term external debt, excluding TL deposits and the deposits at foreign branches and affiliates, amounted to USD 67.8 billion by September 2013. In this period, the total amount of banks' FX liquid assets was high enough to roll over almost half of the short-term external debt (Chart III.1.50).

Chart III.1.50
External Debt Roll-Over Ratio[1] and FX Liquidity Need[2] of Banks
(September 2013, Billion USD, %)



(1) Excluding TL deposits and deposits of foreign branches.
(2) Liquidity need: External debt due within 1 year x (1 – external debt roll-over ratio)
Liquidity Surplus/Deficit: FX Liquid Assets (Cash + Banks + CBRT+Money Markets) – Liquidity Need
Source: CBRT, BRSA-CBRT

Banks' security issues had trended downward since the emergence of liquidity-based concerns in May; however, they picked up by August. In October 2013, the nominal amount of TL-denominated securities issued by the banking sector in the domestic market

surged by 14 percent to USD 22.9 billion compared to October 2012. The recent horizontal trend in the stock amount of banks' security issues in the domestic market is attributable to the netting effect of matured securities (Chart III.1.51). Banks' FX-denominated security issues abroad, which had been on a rapid rise since 2011 due to the excess liquidity in the international markets, lost pace significantly after May 2013. The nominal amount of TL-denominated securities issued abroad by the banking sector remained flat. Security issues abroad, which have been in a stable course since May, subdue the liquidity-based problems likely to appear in the banking sector's receipt of funds from international markets in the medium-term (Chart III.1.52).

Chart III.1.51
Banks' Security Issues in Domestic Market
(Stock, Billion TL)

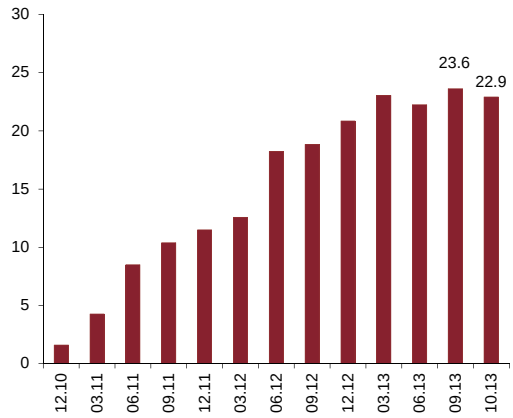
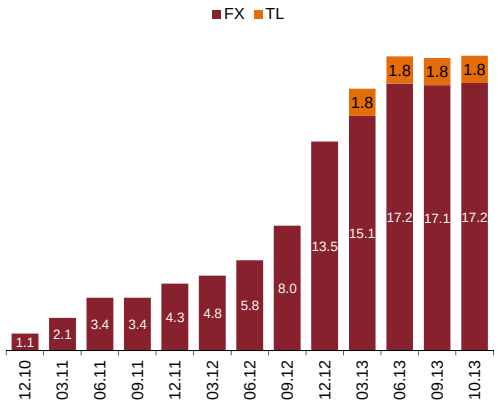


Chart III.1.52
Banks' Security Issues Abroad
(Stock, Billion TL, Billion USD)



Source: CMB, PDP, CBRT

Banks have applied to the CMB for significant amounts of bond and bill issues. In April 2013, the first bond issue was realized in the scope of the Global Medium Term Note (GMTN)[5], a novel programme in the Turkish banking sector. This program provides flexibility for banks' borrowings from abroad through security issues by addressing investors who may have diverse needs and preferences in terms of maturity, amount and currency. By the end of October 2013, the amount of bonds and bills issued abroad by banks was TL 17 billion while the bond and bills issued in the scope of the GMTN programme had a share of 17.7 percent in total issues (Table III.1.3). As only a certain portion of the legal issue amount permitted in the scope of the GMTN programme was realized by October, the programme will probably continue to contribute to banks' borrowings from abroad.

[5] The GMTN programme is the generic name for external borrowing programmes, the framework of which has been set with the approval of the CMB. The GMTN programme allows banks to issue bills and bonds within a specific total limit and with a certain maturity, in desired numbers and amounts in different time frames, based on different currency, maturity and interest rate schemes. Currently, the GMTN programme has been set up in five banks, four of which have already started issuing in the scope of this programme.

Table III.1.3
Banks' Bond and Bill Issues Abroad
(Stock, Million USD)

	FX-Denominated
Issues in the scope of the Global Medium Term Note Programme	3,048
Total Bond and Bill Issues by Banks	17,244
GMTN /Total (%)	**17.7**

Source: PDP, CMB

The share of the "Other" item comprising deposits and banks' bond/bill issues in the portfolio distribution of mutual and pension funds is growing year by year. As stipulated by the legislation, the amount to be invested in deposit/participation accounts is limited by 10 percent and 25 percent of the overall portfolios of mutual and pension funds, respectively. Therefore, mutual and pension funds seem to have a significant interest in banks' issues as a good alternative to deposits. In fact, the "other" item comprising deposits and banks' issues has been expanding since 2010 (Chart III.1.53, Chart III.1.54). The accelerating growth in bond/bill issues since 2010 is believed to be driven by the demand from mutual and pension funds. The steady demand for banks' security issues will probably play a considerable role in the deepening of these securities.

Chart III.1.53
Portfolio Distribution of Mutual Funds

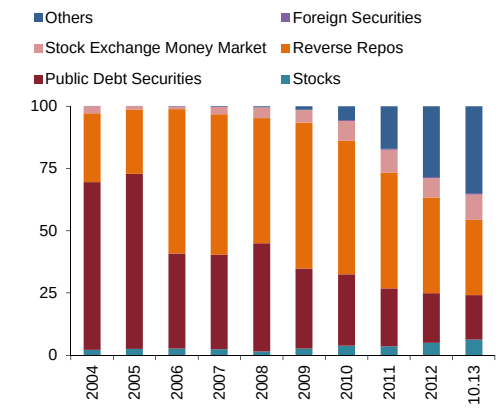
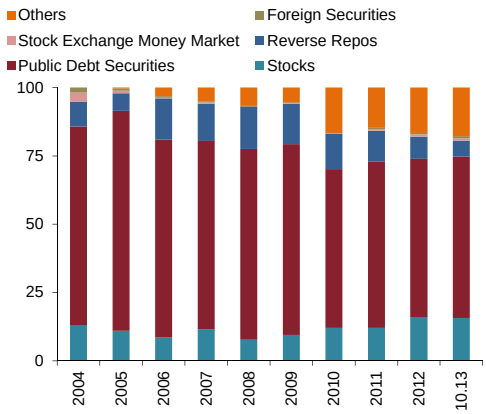


Chart III.1.54
Portfolio Distribution of Pension Funds

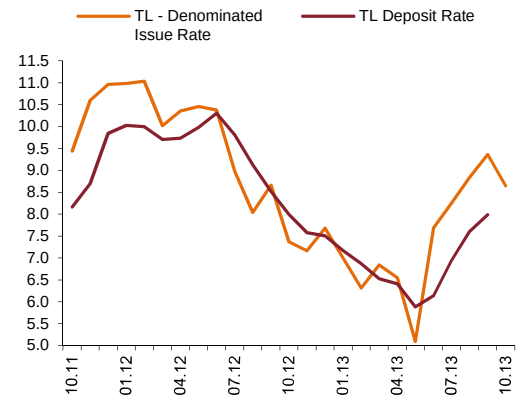


Source: CMB

In terms of their return, TL-denominated security issues by banks have become a remarkable alternative to deposits for investors. The interest rates for TL-denominated bond/bill issues by banks and TL deposit rates had a parallel course from mid-2012 until May 2013. From May onwards, interest rates for TL-denominated security issues leaped at a more rapid pace than TL deposit rates. The interest difference between TL-denominated security issues and TL deposits, which increased in June, remained flat for a while before assuming a downtrend in October. When the interest rates of TL deposit and TL security issues are

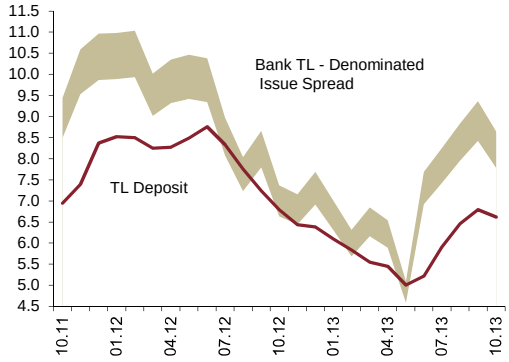
adjusted for the tax/withholding effects, bonds and bills issued by banks are believed to be more advantageous for investors in terms of interest (Chart III.1.55, Chart III.1.56).

Chart III.1.55
TL Deposit[1] and Issue Rates
(Percent)



(1) 4-week moving average, excluding interbank deposits
Source: PDP, CBRT

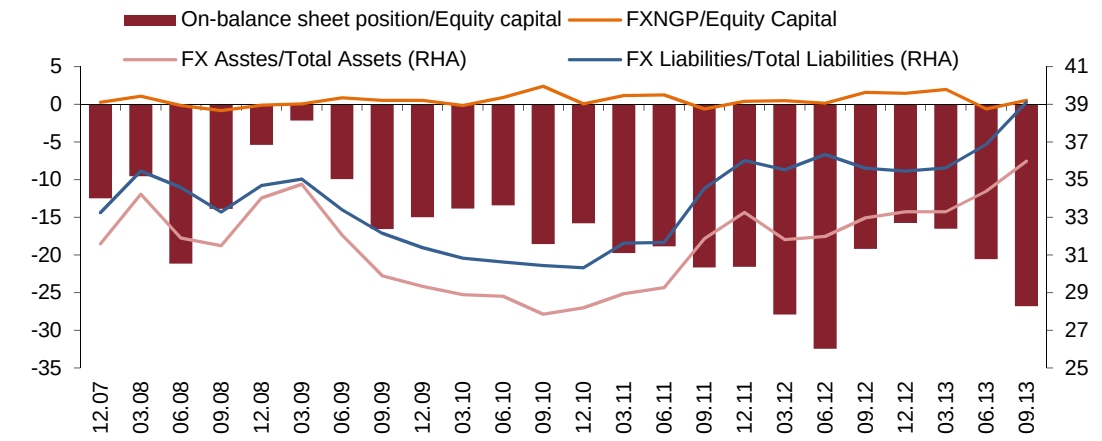
Chart III.1.56
Rates of Return on TL Deposits[1] and TL Issues[2,3]
(Percent)



(1) 4-week moving average, excluding interbank deposits
(2) After withholding tax, returns on issues, different withholding tax rates have been applied to corporates and real persons.
(3) Withholding tax rate for deposits has been taken as 15%.
Source: PDP, CBRT

Recently, the upswing in exchange rates has triggered a boost in the share of FX assets and liabilities in the balance sheet. By September 2013, the ratio of FX assets, including the FX-indexed ones, to total assets hiked to 36 percent whereas the ratio of FX liabilities to total liabilities escalated to 39.1 percent. The on-balance sheet short position, which is closed by off-balance sheet transactions mostly composed of swap transactions, bounced up after a period of deceleration extending from the third quarter of 2012 to the first quarter of 2013. This recovery trend gained momentum after May due to the impact of the repricing in exchange rates driven by increased uncertainty originating from global monetary policies. By September 2013, the ratio of on-balance sheet short position to equities was 26.8 percent while the ratio of foreign exchange net general position to total equity, calculated by taking into account off-balance sheet transactions as well, stood at 0.5 percent (Chart III.1.57).

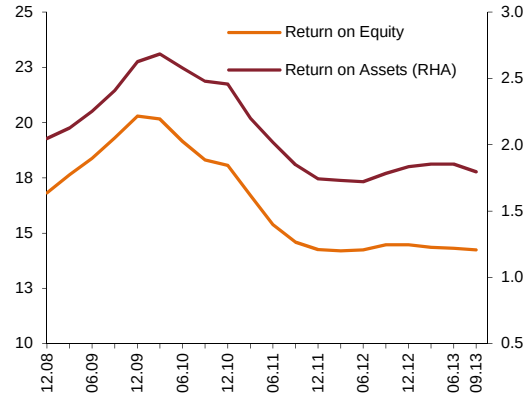
Chart III.1.57
Foreign Exchange Position
(%)



Source: BRSA, CBRT

The banking sector maintains its robust profitability structure. The sector's return on assets and return on equity remained flat for the last two years, standing at 1.8 percent and 14.2 percent in September 2013, respectively (Chart III.1.58). The sector's net interest margin, which increased in 2012 when interest rates were in a downtrend, took a downturn in 2013 and materialized as 4.9 percent in September 2013 following the upsurge in interest rates after May 2013 (Chart III.1.59).

Chart III.1.58
Return on Assets and Return on Equity
(%)



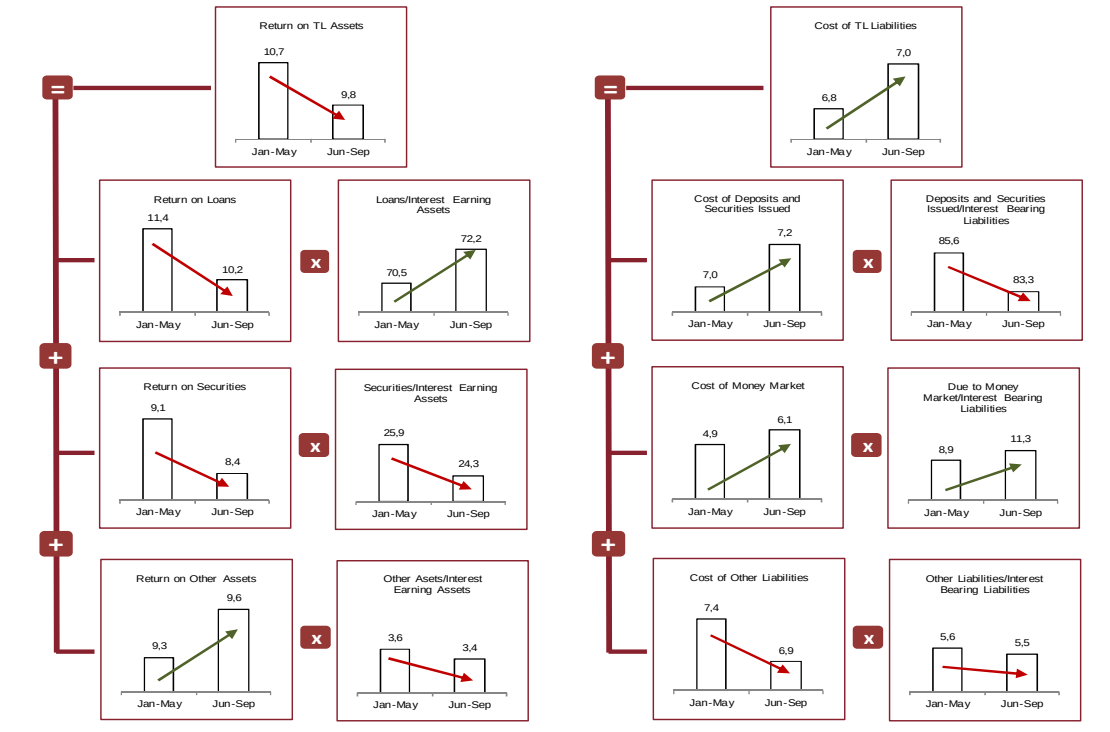
Source: BRSA - CBRT

Chart III.1.59
Net Interest Margin[1]
(%)

(1) Net Interest Income / Average Interest Earning Assets
Source: BRSA - CBRT

The rapid rise in interest rates in the post-May period has reduced the spread between the return on assets and the cost of liabilities as a result of the maturity mismatch in the balance sheet structure of the banking sector. An analysis of the banking sector's profitability performance in the periods of January-May and June-September 2013, in which interest rates changed direction, reveals that the spread between the return on TL assets and the cost of TL liabilities closed by approximately 120 basis points and declined to 2.7 percent. This decline was fueled by the fall in returns on loans and securities as well as the impact of interest rate hikes on funding costs (Chart III.1.60). When the securities increment value fund, which is monitored under equities in relation with Available-for-Sale Securities and turned into loss in May, is also projected on interest income, the contraction in the TL return – cost margin inches up to 250 basis points from 120 basis points. However, the spread between the return on FX assets and cost of FX liabilities did not change remarkably in the periods analyzed.

Chart III.1.60
Analysis of the Development of the Banking Sector's Return on TL Assets / Cost of TL Liabilities
(%)



Source: BRSA-CBRT

Although the capital adequacy ratios of banks have been on a decline, they are still above the legal and target ratios. By September 2013, as risk-weighted assets grew faster than equity on the back of the strong loan growth, the sector's CAR went down by 2.1 points to 15.7 percent. Meanwhile, the share of Tier 1 capital in own funds, which was 85.3 percent by September 2013, shows that the quality of capital is strong (Chart III.1.61). The

recent downturn in the capital ratios was partly catalyzed by the fact that securities increment value fund, which builds up a component of equity, declined rapidly in the May-August period due to the hike in GDDS interest rates (Chart III.1.62).

Chart III.61
Capital Adequacy Ratio
(%)

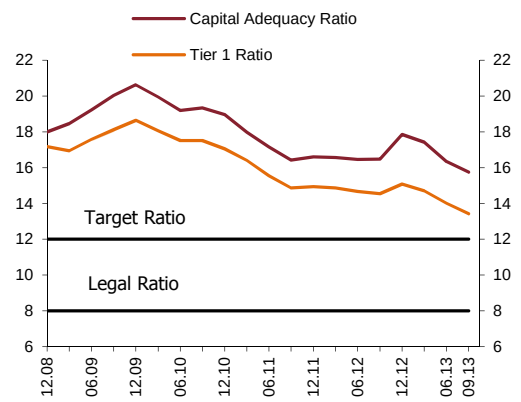
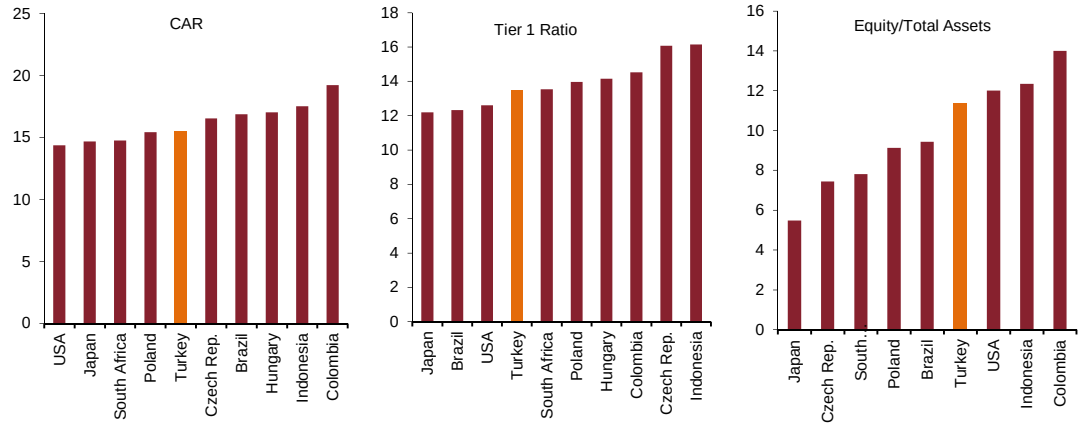


Chart III.62
Ratio of Equity to Total Assets
(%)

Source: BRSA - CBRT

The Turkish banking sector has a high capital adequacy ratio. Compared to other countries, the Turkish banking sector is strong with regard to the capital adequacy ratio and the ratio of equity to total assets (Chart III.1.63). The sector's leverage ratio is well above the minimum ratio of 3 percent set by the Basel III regulation and has a stable course. The current leverage-based reserve requirement implementation of the CBRT is anticipated to help contain the increase in indebtedness and hence contribute to financial stability.

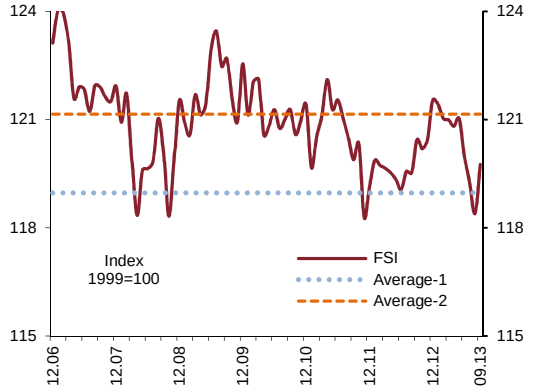
Chart III.1.63
Capital Adequacy Ratio, Tier 1 Capital Ratio and the Ratio of Equity to Total Assets by Countries[1]
(%)



(1) Latest data on the IMF- FSI database have been used, most of which are Q2-2013 data. Data for Turkey are as of September 2013.
Source: BRSA – CBRT, IMF

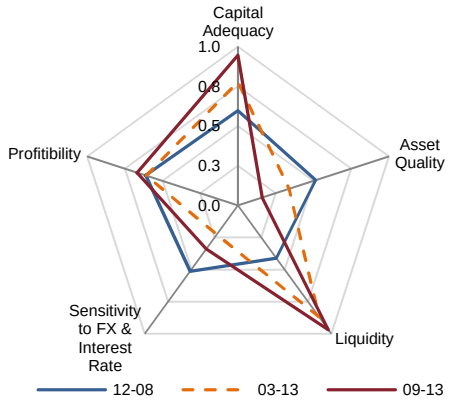
The financial strength index inched down in September 2013 compared to the previous reporting period due to the downtrend in the sub-indices of capital and interest rate risk. Nevertheless, it is still above 100 percent (Chart III.1.64).

Chart III.1.64
Financial Strength Index[1,2]



(1) "Average 1" is the average of December 1999-September 2013 and "Average 2" is the average of January 2004-September 2013.
(2) Since they have different operating principles, participation banks have been excluded.
Source: BRSA - CBRT

Chart III.1.65
Banking Sector Stability Map[1]



(1)A sub-field of the "Financial Stability Map"
Source: BRSA - CBRT

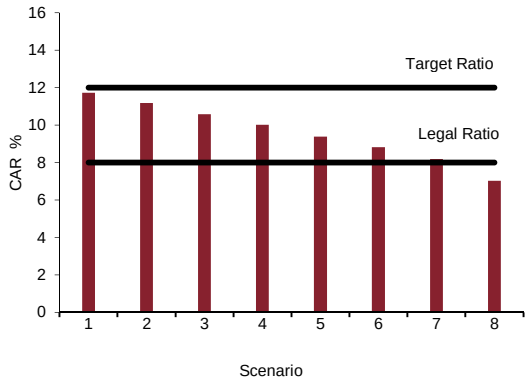
The strong position of the sector's capital level is also confirmed by the scenario analyses that test the resilience of banks against shocks originating from credit and market movements. In only one of the eight different scenario analyses in which simultaneous shocks were applied to exchange rates, Eurobond returns, interest rates and NPLs ,did the sector's capital adequacy ratio drop to 7 percent and remain below the legal ratio in September 2013 (Table III.1.4, Chart III.1.66).

Table III.1.4
Scenarios Applied[1]

Scenario	Exchange Rate (% Increase)	Eurobond (% loss of value)	Interest Rate (point increase)[2]	NPL (point increase)
1	30.0	15.0	10.0	3.0
2	31.5	15.8	10.5	4.0
3	33.0	16.5	11.0	5.0
4	34.5	17.3	11.5	6.0
5	36.0	18.0	12.0	7.0
6	37.5	18.8	12.5	8.0
7	39.0	19.5	13.0	9.0
8	40.0	20.0	13.5	11.0

(1) In scenario analysis, also taking into account past crises, shocks are applied to risk factors simultaneously.
(2) It refers to the Turkish Lira interest rate shock. The FX interest rate shock is about 1/3 of that applied to the Turkish lira interest rate. In the shocks applied to commercial portfolios, impairment is about 17 percent on sectoral basis. Effective Eurobond shocks are three times the table figures.
Source: CBRT

Chart III.1.66
Results of Scenario Analysis



Source: CBRT calculations

III.2. Corporate Sector

Indebtedness of the corporate sector continued increasing in 2013. The total financial debts of the corporate sector increased by 22.8 percent in August 2013 compared to the end of 2012 and reached TL 808 billion. The ratio of firms' financial debts to the GDP stood at 51 percent as of June 2013 (Chart III.2.1). FX loans made up 58 percent of firms' financial debts; the majority of these loans had long maturities. Of the loans extended to the corporate sector, 19.2 percent were obtained from abroad (Chart III.2.2).

Chart III.2.1
Financial Debt of the Corporate Sector
(Billion TL, Percent)

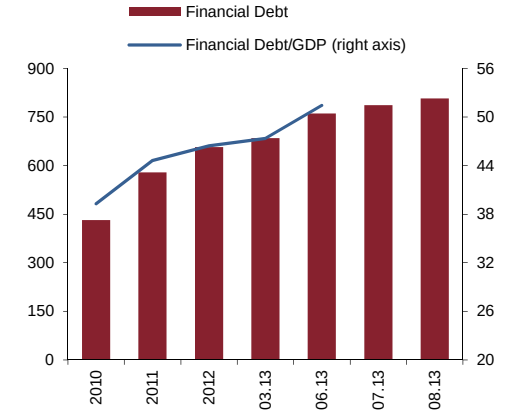
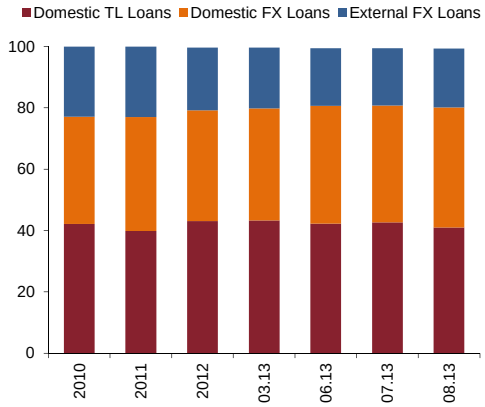


Chart III.2.2
Composition of Financial Debt of the Corporate Sector
(Percent)



Source: CBRT

The share of external FX liabilities to the total FX liabilities were at 68.5 percent and 66.1 percent in 2008 and 2009, respectively. The share of these liabilities in overall FX liabilities dipped to 43.3 percent in August 2013 (Chart III.2.3).

Chart III.2.3
FX Liabilities of the Corporate Sector – Share of External FX Liabilities (Billion USD, Percent)

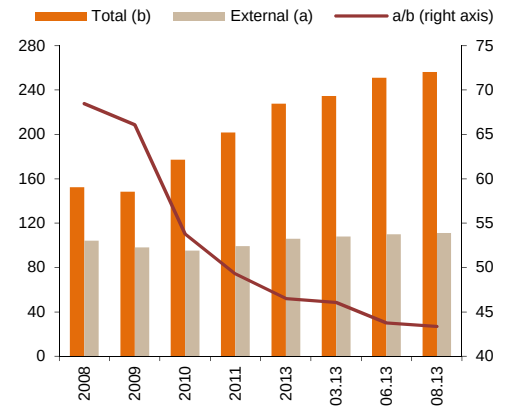
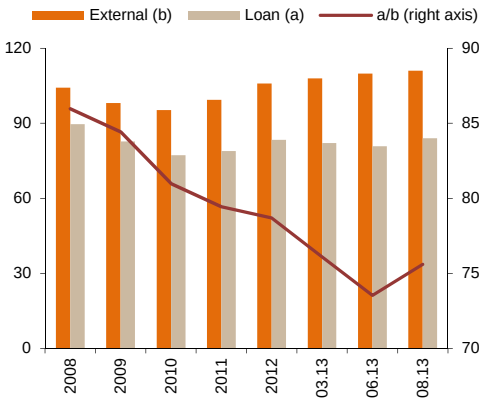


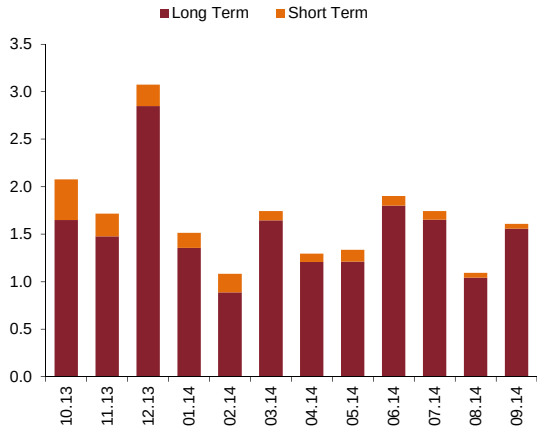
Chart III.2.4
External FX Liabilities of the Corporate Sector – Share of Loans
(Billion USD, Percent)



Source: CBRT

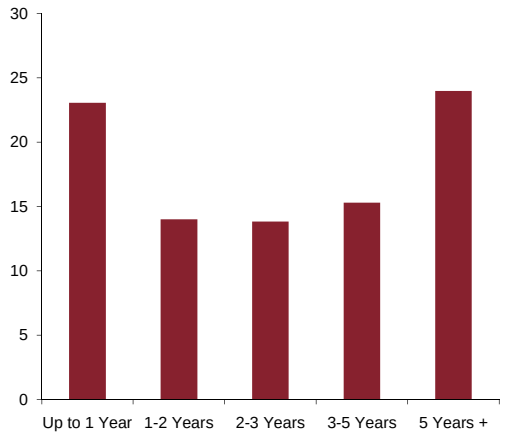
Most of the external loans are long-term loans. By September 2013, firms' external loans that are due within one year amounted to USD 23.1 billion, of which USD 4.8 billion were short-term and USD 18.3 billion were long-term. These loans, which are due within one year, built up 25.6 percent of overall external loans (Chart III.2.5). The residual maturity-based weighted average maturity of long-term external loans is approximately 4.3 years whereas 27 percent of external loans (short and long term) have maturities of 5 years and more (Chart III.2.6).

Chart III.2.5
Corporate Sector's External Loans Due Within 1 Year[1,2]
(Billion USD)



(1) As of September 2013.
(2) Short-term commercial loans excluded.
Source: CBRT

Chart III.2.6
Breakdown of Corporate Sector's External Financial Debts by Maturities[1,2] (Billion USD)



(1) As of September 2013.
(2) Loans that are registered as foreign capital in balance of payments methodology have been excluded.
Source: CBRT

The share of short-term external loans to the total external loans remained more or less the same. By August 2013, firms' USD 47.2 billion worth of external FX loans, which are due within one year, accounted for 42.5 percent of all external FX loans (Chart III.2.7). With the increases in recent periods, import loans within the external short-term loans jumped to USD 27.1 billion in August 2013 from USD 14.1 billion at the end of 2008 (Chart III.2.8).

Chart III.2.7
Corporate Sector's Short-Term External FX Loans[1] (Billion USD, Percent)

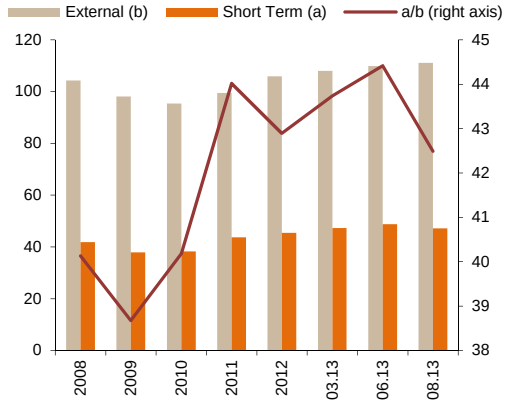
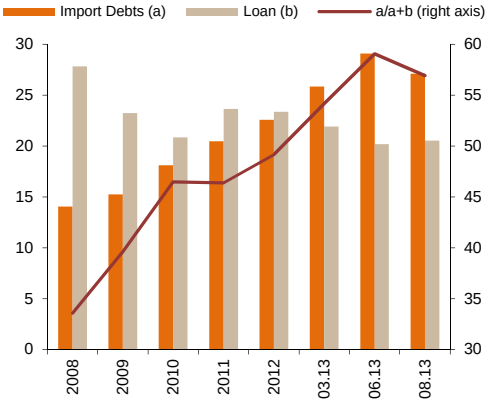


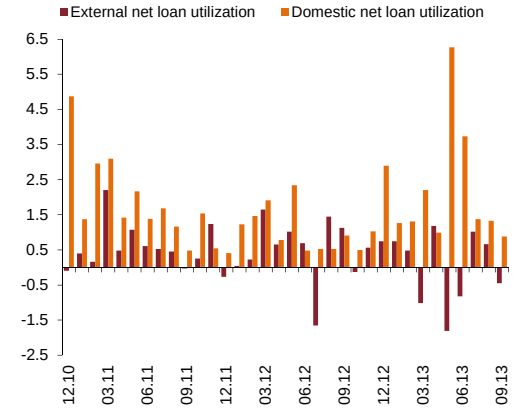
Chart III.2.8
Composition of Corporate Sector's Short-Term External FX Loans[1] (Billion USD, Percent)



(1) Including short-term commercial loans.
Source: CBRT

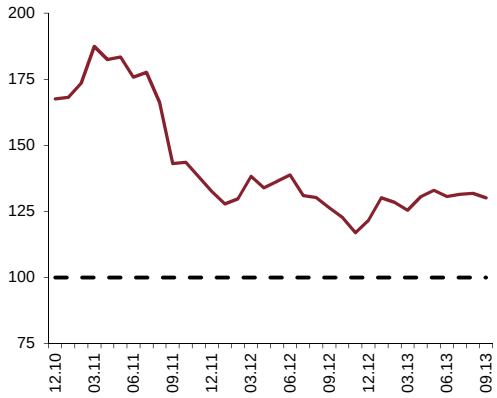
The corporate sector has no problem in rolling over its external debt. The corporate sector external debt roll-over ratio, which declined in the first half of 2013, took an upturn and reached 130 percent in September 2013 (Chart III.2.10).

Chart III.2.9
Non-Bank Sector's Net FX Borrowings (Billion USD)



Source: CBRT

Chart III.2.10
Non-Bank Sector's External Debt Roll-Over Ratio[1]
(Percent, six-month moving average)



(1) The external debt rollover ratio is computed from the balance of payment statistics, by dividing non-banks' borrowing with repayments. The external debt rollover ratio of non-banks, which decreased after the amendment to Decree No: 32, has been re-calculated taking into account the rise in FX loans extended by domestic branches of Turkish banks and the rise in repayments to those branches.
Source: CBRT

The FX short position of the corporate sector is on the rise mainly as a result of domestic FX loan utilization. The FX short position escalated to USD 165.8 billion in August 2013 from USD 141.4 billion at the end of 2012 (Chart III.2.11). The coverage ratio of FX assets to FX liabilities retreated to 35.3 percent in August 2013 (Chart III.2.12).

Chart III.2.11
Foreign Exchange Position of the Corporate Sector *
(Billion USD)

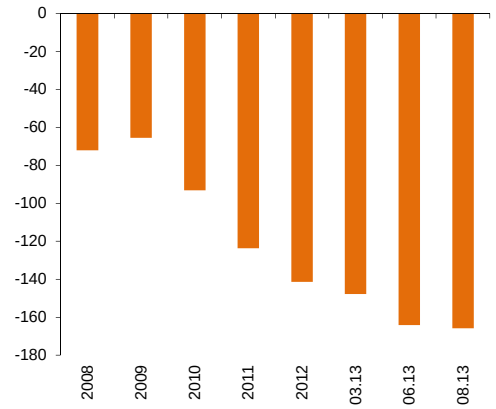
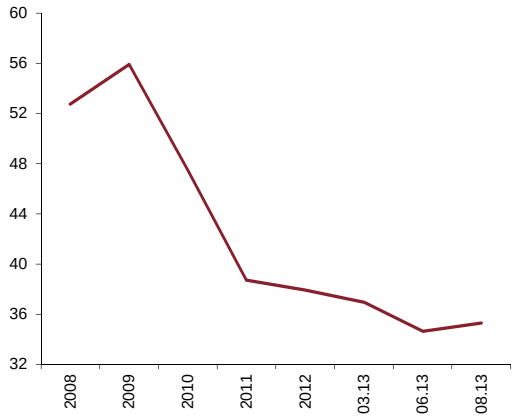


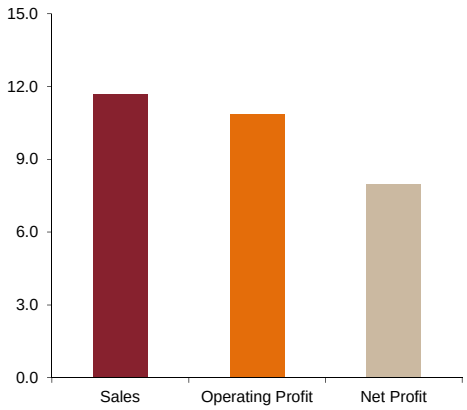
Chart III.2.12
The Ratio of Corporate Sector's FX Assets to FX Liabilities*
(Percent)



(*) Data for August 2013 is provisional.
Source: CBRT

The moderate recovery in economic activity had a boosting effect on firms' turnover whereas financial expenditures due to expenses arising from exchange rate revaluations put a downward pressure on profitability. In the first nine months of 2013, the total amount of sales revenues of firms quoted on Borsa İstanbul (BIST) grew by 11.7 percent in nominal terms and 3.5 percent in real terms year-on-year (Chart III.2.13). The exchange rate differential expenses stemming from the depreciation of the Turkish lira had some negative impact on corporate profitability. The return on equity, which was 14.7 percent in 2012, receded to 14.2 percent in September 2013 while the return on assets dropped to 6.3 percent from 7 percent (Table III.2.1).

Chart III.2.13
Sales and Profitability of Firms by September 2013[1]
(Annual Percentage Change)



(1) Consolidated data of 247 firms quoted on Borsa İstanbul.

Table III.2.1
Return on Equity and Its Components[1]

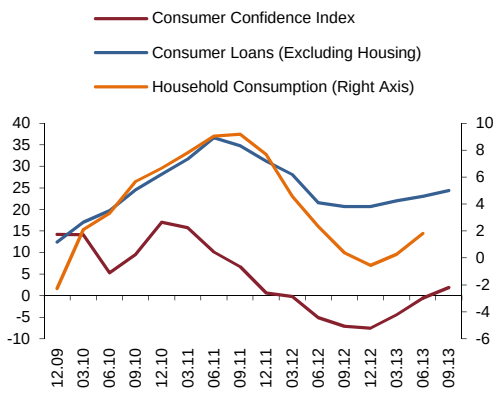
	2011	2012	09.13[2]
Net Profit / Equity (%)	**12,5**	**14,7**	**14,2**
Liabilities / Equity	**1,2**	**1,1**	**1,2**
Net Profit/ Assets (%)	5,7	7,0	6,3
Sales / Assets	1,1	1,1	1,0
Net Profitability / Sales (%)	5,4	6,6	6,4
Operating Profit / Sales (%)	8,6	7,8	7,8
Financial Income (Expenditures) / Sales (%)	-2,0	-0,2	-2,1

(1) Consolidated data of 247 firms quoted on Borsa İstanbul.
(2) Annualized data.

III.3. Households

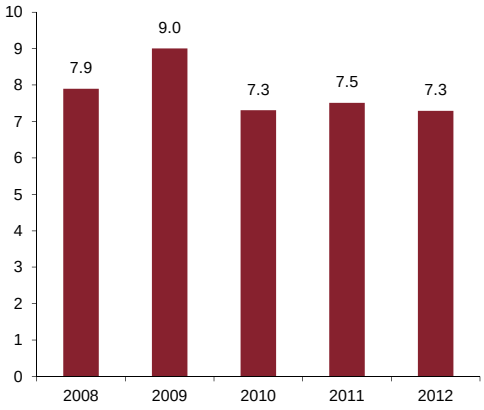
Households' consumption expenditures continue to grow. Measures taken to slow down domestic demand led to a deceleration in the growth of consumption expenditures throughout 2012. However, this deceleration was replaced by an uptrend in March 2013. Yet, the growth in households' consumption expenditures is expected to lose pace slightly in the upcoming period (Chart III.3.1) with the impact of the decline in the growth of consumer loans and the new macroprudential measures put into effect recently (see Chapter IV.2). On the other hand, household savings rates are still on a downtrend and have hit the lowest level of the last five years (Chart III.3.2). New steps towards boosting savings to underpin financial stability may be on the agenda in the forthcoming period.

Chart III.3.1 Annual Percentage Change of Household Real Consumption, Consumer Loans and Consumer Confidence Index[1,2]
(Percent)



(1) Household consumption denotes annual change in resident expenditures calculated by the GDP-expenditures method and in constant prices (1998).
(2) The Consumer Confidence Index is calculated by quarterly averages.
Source: CBRT, TURKSTAT

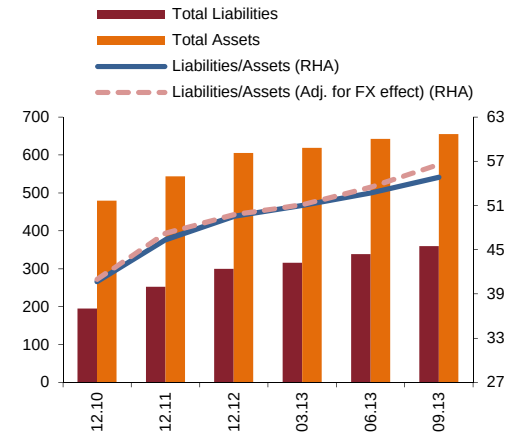
Chart III.3.2
Household Saving Rates[1]
(Percent)



(1) Saving rates show the ratio of household savings to disposable income.
Source: TURKSTAT, Household Budget Survey

The growth in household financial liabilities outpaced the growth in household assets. The ratio of household financial liabilities to assets, which had been going upwards for the last five years, assumed a horizontal course in the recent period despite the rise in consumer loans. This flat course is also an outcome of the fact that households, whose FX borrowings have been contained since June 2009, have an FX long position. When adjusted for the exchange rate effect, the ratio of liabilities to assets increased by 3.1 points to 56.6 percent in the third quarter of 2013 compared to the previous quarter (Chart III.3.3).

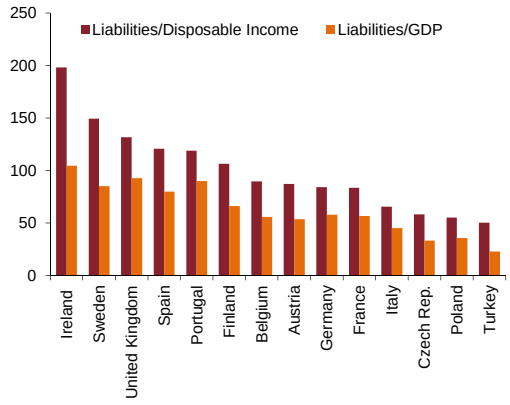
Chart III.3.3
Household Financial Assets and Liabilities (Billion TL, Percent)



Source: BRSA, CRA, CMB, CBRT

Although household liabilities are on the rise, the ratio of liabilities to the GDP and disposable income remain low compared to selected countries. By the end of June 2013, the ratio of liabilities to the GDP and disposable income stood at 22.9 percent and 50.2 percent, respectively (Chart III.3.4). The growth in liabilities pushed up the ratio of interest payments to disposable income, regardless of the falling interest rates since 2009. The fact that consumer loans are predominantly fixed-rate loans helps contain the household interest rate risk exposure. Therefore, the interest rate hikes observed since May 2013 are expected to have a limited impact on household interest payments (Table III.3.1).

Chart III.3.4
Ratio of Household Liabilities to Disposable Income and GDP in Selected EU Countries[1] (June 2013, Percent)



1) Disposable incomes for the EU countries are gross figures.
Source: BRSA- CBRT, TURKSTAT, ECB

Table III.3.1
Selected Financial Indicators Pertaining to Households[1]
(Billion TL, Percent)

	12.11	12.12	12.13
Household Disposable Income	531,2	613,9	673,6[2]
Household Liabilities	252,0	299,9	372,1
Household Interest Payments	23,1	30,0	36,5
Interest Payments/ Hh. Disposable Income (%)	4,4	4,9	5,4
Liabilities/ Hh. Disposable Income (%)	47,4	48,8	55,2

(1) Household liabilities consist of gross consumer credits (including NPLs) extended by banks and finance companies, credit card balances (including NPLs), credit claims from the frozen consumer loans taken over by asset management companies, and liabilities to TOKI due to TOKI's housing sales with long-term maturity.
(2) Household disposable income for 2013 has been calculated by using the private sector disposable income estimation for 2013 as foreseen in the 2014 Program, under the assumption that the ratio of household disposable income for 2012, which was generated from "the Household Budget Surveys", to private sector disposable income has not changed.
Source: BRSA - CBRT, TURKSTAT, TCKB (Republic of Turkey Ministry of Development)

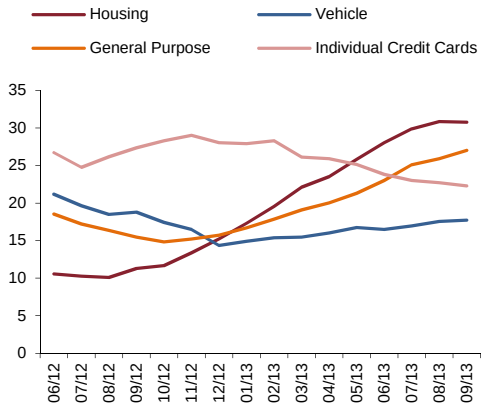
Housing loans and general purpose loans were influential on the rise of household liabilities in 2013 whereas credit cards had a reduced share in total liabilities. Although households predominantly borrow from banks, vehicle-related liabilities of households are mainly made up of loans obtained from financing companies (Table III.3.2). Housing loans and general purpose loans have registered the most outstanding growth rates whereas the rate of increase in individual credit cards has stabilized. The annual rate of growth in vehicle loans has also been stable (Chart III.3.5). Recently, there has been a marked deceleration in consumer loans due to the upswing in interest rates.

Table III.3.2
Composition of Household Liabilities[1]
(Percent, Billion TL)

	12.2012		04.2013		09.2013	
	Billion TL	Share	Billion TL	Share	Billion TL	Share
Housing	99	33	107	33	119	33
Vehicle	14	5	14	4	15	4
General Purpose+Other	104	35	112	35	126	35
Individual Credit Cards	75	25	79	25	88	25
Asset Man.Comp.Receiv.	9	3	9	3	11	3
Total Liabilities	**300**	**100**	**322**	**100**	**359**	**100**
Banks	274	91	295	92	330	92
Financing Comp.	6	2	6	2	7	2
TOKİ	11	4	11	4	12	3
Asset Man.Comp.	9	3	9	3	11	3
Total Liabilities	**300**	**100**	**322**	**100**	**359**	**100**

(1) Housing loans include liabilities to TOKİ due to TOKİ's housing sales with long-term maturities.
Source: BRSA-CBRT, TOKİ (Housing Development Administration of Turkey)

Chart III.3.5
Annual Growth of Consumer Loans by Types[1]
(Stock data, Percent)



(1) General Purpose loans consist of other loans and overdraft accounts.
Source: CBRT

Favorable demand and supply developments encouraged the growth in housing loans. Tendency surveys have pointed out that the demand for housing loans, which had strengthened since end-2012 due to positive expectations for the housing sector and an improvement in consumer confidence, contracted in the third quarter of 2013 for the first time Surveys also indicate that the bright outlook of cost of funds and balance sheet conditions since the second half of 2012 stimulated the easing in credit standards by banks while the competition among banks affected the supply of housing loans positively, especially in the first quarter of 2013. Although there were adversities originating from the cost of funds and non-bank financial sector competition in the third quarter of 2013, there was no tightening in competition conditions among banks and credit supply reflected in surveys. Banks anticipate that credit demand will continue shrinking and credit standards will also tighten in the third quarter of 2013 (Chart III.3.6). The trend in the number of housing loan applications and the number of housing loans extended seems coherent with survey results (Chart III.3.7).

Chart III.3.6
Housing Loans Standards and Housing Loans Demand[1,2]
(Points)

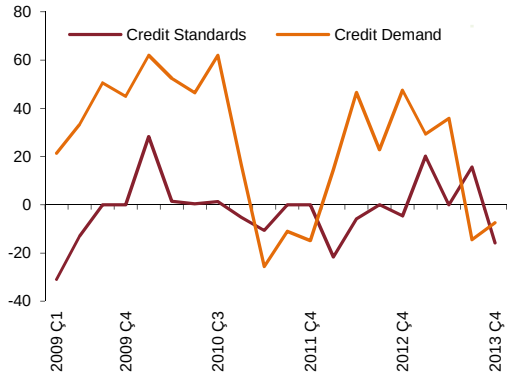
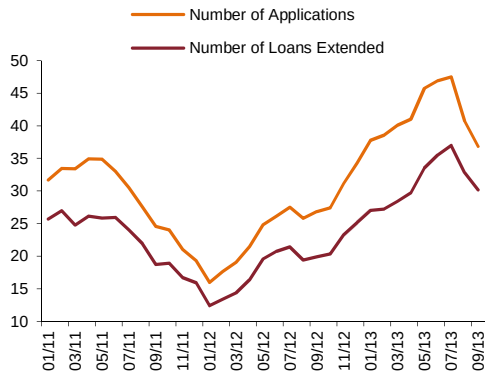


Chart III.3.7
Number of Applications for Housing Loans and Number of Housing Loans Extended
(Thousand)



(1) Data pertaining to the fourth quarter of 2013 denotes expectations for the next three months.
(2) A negative value in loan standards indicates a tightening in standards, whereas a positive value in loan demand indicates an increase in credit demand.
Source: CBRT Bank Loans Tendency Survey

Source: CBRT

Historically low interest rates and the extension of loan maturities boosted the demand for housing loans (Chart III.3.8). A breakdown of housing loans by maturities reveals that the weight of housing loans with maturities of 4 to 5 years has decreased since the last quarter of 2009 whereas the share of loans with maturities of 7 to 10 years has increased at the same rate (Chart III.3.9).

Chart III.3.8
Housing Loan Rates[1]
(Percent, Flow)

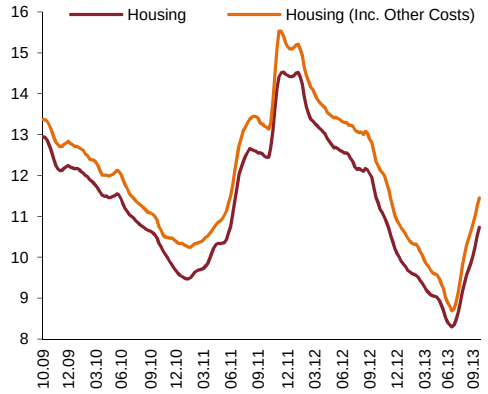
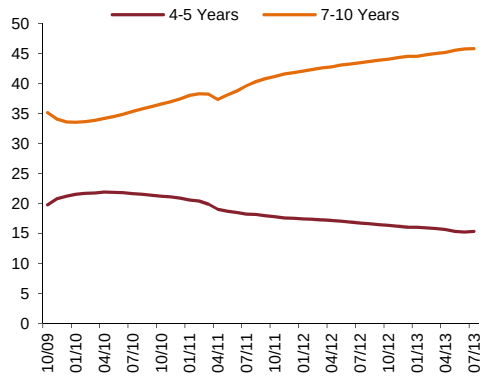


Chart III.3.9
Breakdown of Housing Loans Extended Based on Maturities
(Stock, Original Maturity-Based, Percent)



(1) Four-week moving average with flow data
Source: CBRT

Source: CBRT

Box III.3.1 The Impact of Developments in Financing Facilities on Households' Demand for Housing Loans

This box offers an evaluation of the impact of housing loan maturities and loan rates as well as housing price developments on the housing purchasing power of households during the period between the last quarter of 2009 and the second quarter of 2013.

Housing loan rates dropped to 9 percent from 12 percent on average in the 2009-2013 period, and the utilization of housing loans with a maturity of 7 to 10 years posted a significant increase. House prices per square meter edged up by 38 percent in this period and jumped to TL 1200 from TL 870. Meanwhile, the minimum wage was raised by 34 percent to TL 978.

As shown in Chart III.3.9, borrowers, who opted for loans with 5-year maturity at end-2009 for various reasons, have diverged to loans with maturities of 7 to 10 years over time. Also, historically low interest rates have encouraged consumers to use long-term loans and banks have been able to offer longer-term housing loans. Hence, housing loan maturities for a typical borrower are considered to have extended to 10 years from 5 years.

In light of these data, the monthly installment amount of a housing loan needed to buy a house of 100 square meters has been calculated to have declined by 21 percent nominally in the last 4.5 years. Under these circumstances, buyers had to have monthly incomes of TL 4000 to buy a house with a monthly loan installment amounting to half of their monthly incomes at end-2009 whereas a monthly income of TL 3000 was enough to buy the same house with the same conditions in June 2013 (Table III.3.1.1). Under the assumption that the monthly income increased parallel to the increase in the minimum wage in the relevant period, if buyers with monthly incomes of TL 3000 today had used a housing loan at end-2009, they would have to allot almost full amount of their incomes for the housing loan installment.

Table III.3.1.1

Change in Monthly Installment of Housing Loans

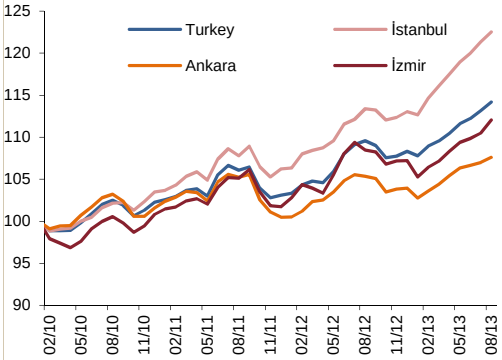
	10.09	06.13	Percentage Change
House Price[1] (TL)	87.000	120.000	38
Cost-Added Interest (%)	12	9	-25
Maturity (Month)	60	120	100
Monthly Installment (TL)	1.935	1.520	-21
Monthly Income Needed[2] (TL)	3.870	3.040	-21

(1) The house price has been calculated using the unit price per square meter for a house of 100 square meters.
(2) The monthly income needed has been calculated based on the assumption that the borrower spends half of his/her income on the monthly installmentsof the housing loan.

The improvement in housing financing conditions since 2009 has facilitated house purchases for a wider section of the public and hence, the demand for housing loans has increased considerably.

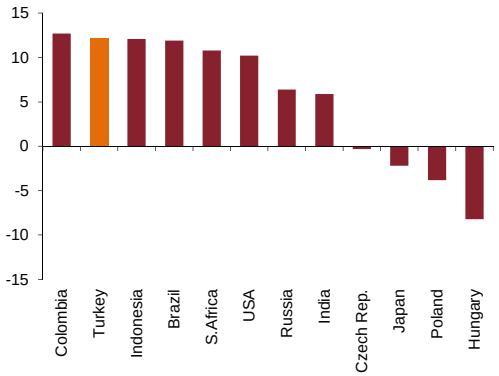
Close monitoring of housing sector developments is very important as changes in house prices are influential on financial stability. The highest increase in house prices was registered in İstanbul where the real rate of increase has exceeded 20 percent since 2010 (Chart III.3.10). A comparison of Turkey with selected countries reveals that the annual nominal rate of increase in house prices is more or less the same (Chart III.3.11).

Chart III.3.10
Real Change in House Price Index by Cities[1]



(1) Expressed in real terms by using the CPI (2003=100).
Source: CBRT, TURKSTAT

Chart III.3.11
Annual Nominal Change in House Prices in Selected Countries
(June 2013, Percent)

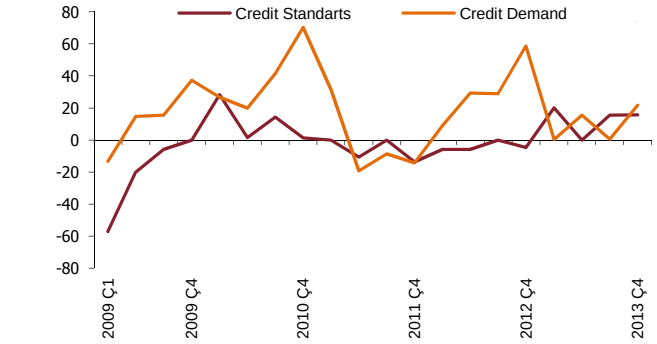


Source: Knight Frank Global House Price Index, CBRT

Urban transformation projects, which are likely to intensify in the forthcoming period, are anticipated to promote the growth in housing loans. The VAT rate for buildings to be reconstructed in the scope of the Urban Transformation Act will be 1 percent until June 2014. Also, the majority instead of unanimity of decision by the house owners will be enough for the reconstruction of a building and the state will subsidize house owners with interest support and rent allowances. Based on these factors, urban transformation is expected to ease the impact of the recent slowdown in the growth of housing loans.

Supply and demand developments in vehicle loans offered a stable and moderate outlook in 2013. As a result of the expectations over the vehicle market, the demand for vehicle loans remained positive throughout 2013, and banks moderately eased loan standards due to favorable developments on the funding front and increased competitiveness. Loan tendency surveys indicate that supply and demand factors will continue to support the rise in vehicle loans in the last quarter of the year as well (Chart III.3.12).

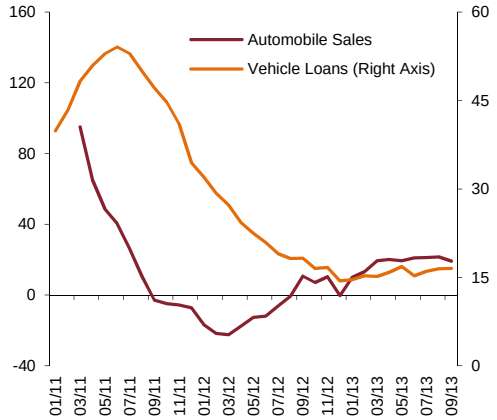
Chart III.3.12
Vehicle Loans Standards and Vehicle Loans Demand[1,2]
(Points)



(1) Data pertaining to the fourth quarter of 2013 denotes expectations for the next three months.
(2) A negative value in loan standards indicates a tightening in standards, whereas a positive value in loan demand indicates an increase in credit demand.
Source: CBRT Bank Loans Tendency Survey

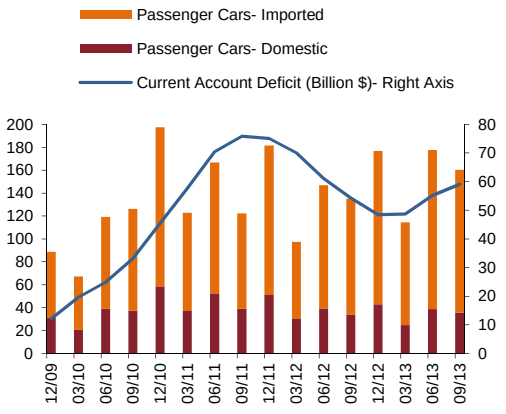
The growth in vehicle loans has remained low in 2013 compared to the growth in other consumer loan types, displaying a flat course (Chart III.3.13). The uptrend in vehicle sales was mainly driven by sales of imported vehicles (Chart III.3.14).

Chart III.3.13
Annual Growth of Vehicle Loans and Annual Change in Automobile Sales[1,2] (Percent)



(1) Automobile sales reflect 3-month moving averages.
(2) Data pertaining to financing firms are also included in vehicle loans.
Source: BRSA-CBRT, ODD (Automotive Distrubutors Association)

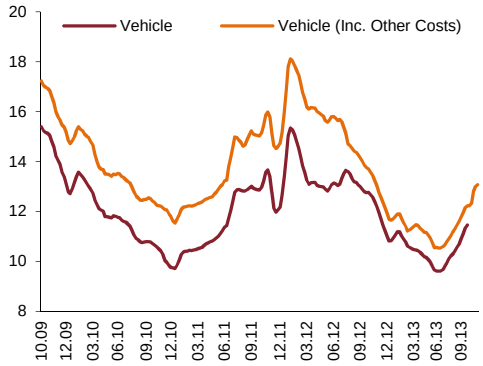
Chart III.3.14
Current Account Deficit and Domestic – Imported Automobile Sales
(ThoU.S.nd)



Source: CBRT, ODD (Automotive Distrubutors Association)

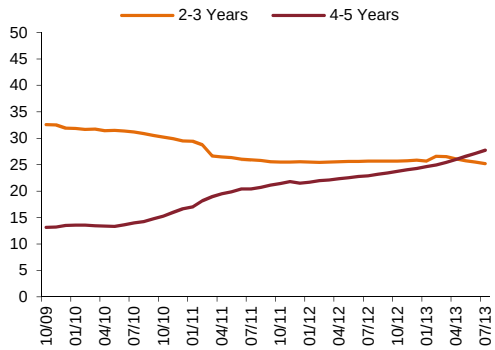
As in the case of housing loans, interest rates for individual vehicle loans were also in a downtrend until mid-2013 and maturities extended (Chart III.3.15 and III.3.16). Improvements in the financing conditions are believed to underpin the demand for vehicle loans. However, the growth in vehicle loans may lose pace in the coming period due to the recent surge in vehicle loan rates, inclusion of financing companies in the scope of required reserve requirements and new regulations put into effect (see Chapter IV).

Chart III.3.15
Vehicle Loan Rates[1]
(Percent, Flow)



(1) Four-week moving average with flow data
Source: CBRT

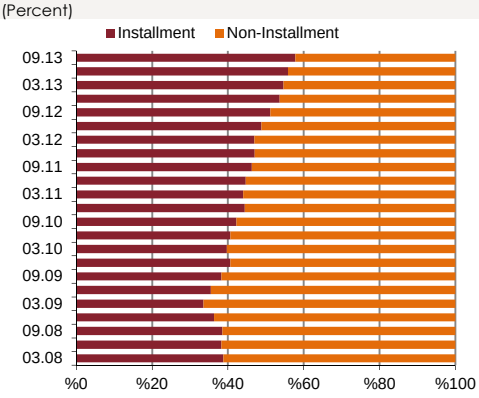
Chart III.3.16
Breakdown of Vehicle Loans Extended Based On Maturities
(Stock, Original Maturity-Based, Percent)



Source: CBRT

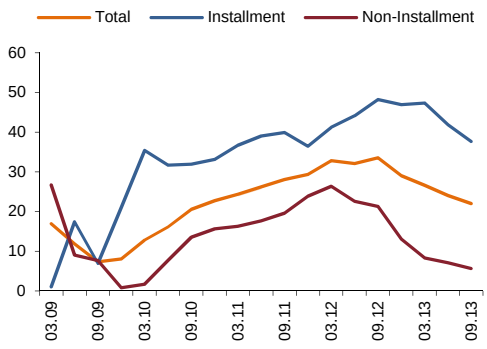
Households' use of credit cards continues to bounce up on the back of the escalation in installment transactions but there has been a gradual slowing in the rate of increase. The upward movement in credit card balances since 2009 has been triggered predominantly by the surge in installment transactions (Chart III.3.17). Installment transactions gained new momentum in 2012 but the expansion in total credit card balances assumed a moderate downtrend in 2013 (Chart III.3.18). New measures taken and expected to be taken by the BRSA will possibly back up the reversal in the rapid growth of credit cards in the upcoming period (See Chapter IV.2).

Chart III.3.17
Balances of Individual Credit Cards With and Without Installment Options
(Percent)



Source: CBRT

Chart III.3.18
Annual Growth of Individual Credit Card Balances
(Percent)

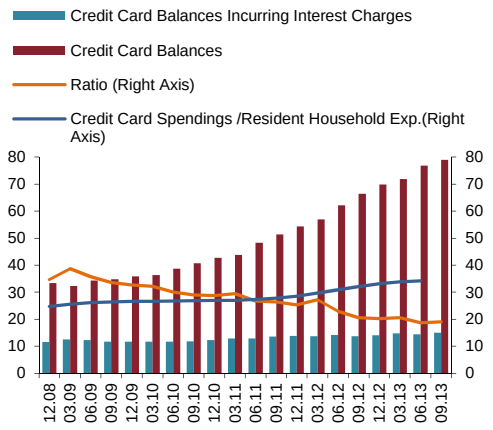


Source: CBRT

The ratio of credit card balances incurring interest charges to total credit card balances continues to decline on the back of the rise in installment transactions (Chart III.3.19). However, installment transactions, which offer easy payment terms, contribute to the boost of consumption expenditures and household indebtedness. Therefore, measures

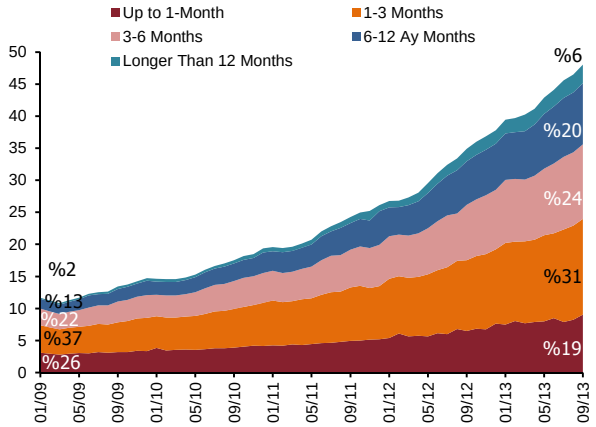
taken to ensure a controlled growth in households' use of credit cards that is compatible with their income will assumingly support financial stability.

Chart III.3.19
Credit Card Balances of Deposit Banks and Balances That Incur Interest Charges[1,2] (Percent, Billion TL)



(1) Of credit card balances, the part incurring interest charges.
(2) Spending with credit cards refers to the annualized use of credit cards for transactions in Turkey and abroad.
Source: CBRT

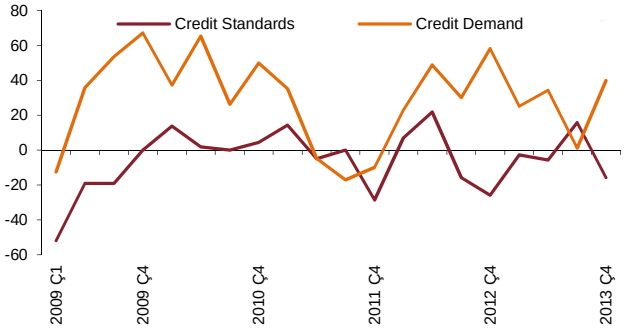
Chart III.3.20
Balances of Individual Credit Cards With Installment Options
(Stock Data, Residual Maturity-Based, Billion TL)



Source: CBRT

The household demand for general purpose loans has been on rise since 2011, pushing up the loan growth. Expenditures on durable goods and consumer confidence had a boosting effect on demand. Although the acceleration in loan demand halted in the third quarter of 2013 due to interest rate hikes and weakened consumer confidence, banks expect a robust increase on the demand side in the last quarter of the year. Banks' general purpose loan supply is mainly affected by the expectations for the overall economic activity and the changes in the creditworthiness of consumers, and has a fluctuating course. There was a competition-driven loosening of loan standards in the third quarter of 2013. Yet, credit standards are expected to tighten again in the last quarter of the year (Chart III.3.21).

Chart III.3.21
General Purpose Loans Standards and Demand[1,2]
(Points)

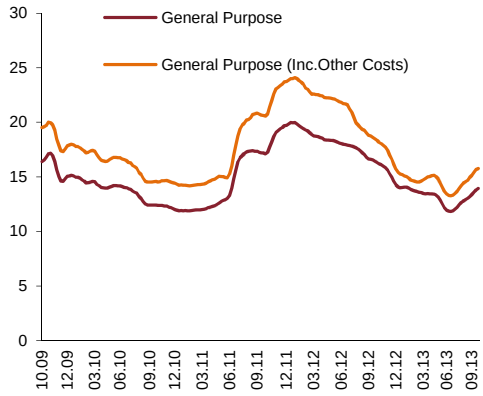


(1) Data pertaining to the fourth quarter of 2013 denotes expectations for the next three months.
(2) A negative value in loan standards indicates a tightening in standards, whereas a positive value in loan demand indicates an increase in credit demand.
Source: CBRT Bank Loans Tendency Survey

The impact of relatively weak capital flows, macroprudential measures in place and the cautious monetary policy stance on the deceleration in loan growth is also visible in general purpose loans. General purpose loan rates assumed an uptrend in the third quarter of 2013 (Chart III.3.22). The real amount of loans extended has been falling since June 2013 (Chart III.3.23).

Chart III.3.22

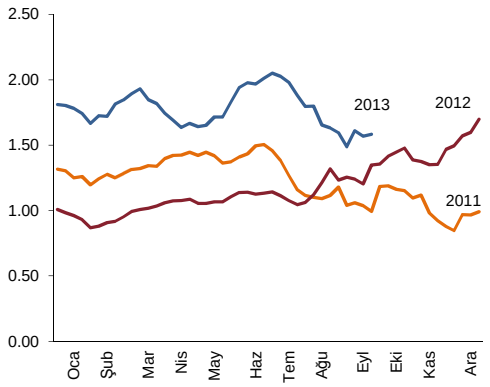
General Purpose Loan Rates[1]
(Percent, Flow)



(1) Four-week moving average with flow data
Source: CBRT

Chart III.3.23

General Purpose Loans Extended[1]
(Flow, Real, Billion TL)



(1) Four-week moving average with flow data
Source: CBRT

Notwithstanding the rise in household liabilities, there is no critical deterioration in non-performing loan indicators. The number of credit card and consumer loan defaulters, which skyrocketed in the period between end-2011 and end-2012, registered a subdued increase from end-2012 to August 2013 (Table III.3.3).

Table III.3.3

Number of Credit Card and Consumer Loan Defaulters[1]
(Thousand People)

	12.10	12.11	12.12	09.13[3]
Banks	1.319	1.225	1.487	1301
Asset Management Companies	574	688	782	897
Financing Companies	18	11	8	10
Total[2]	**1.689**	**1.658**	**1.949**	**1973**

(1) Customers with more than one registry to a particular financial institution group are counted only once.

(2) As customers may be registered in more than one financial institution group, the sum of the three rows in the table and grand total are not equal.

(3) The minimum amount of non-performing loans to be disclosed by each bank has been set as TL 20 as of September 2013. Amounts less than TL 20 have been disclosed in bulk since September 2013.

Source: CBRT

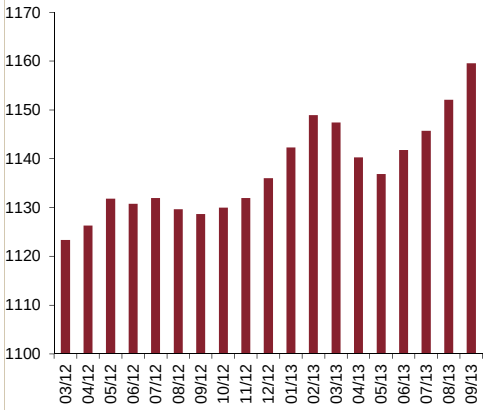
The risk status of loan applicants presents a positive outlook in terms of household borrowings in the period ahead. The change in the Individual Credit Rating, which is calculated by taking into account factors such as loan re-payment performance and debt

levels of individuals as well as an increase in loan volumes to predict the riskiness of individuals, looks favorable in terms of the household risk status in the forthcoming period (Chart III.3.24). Likewise, the Individual Indebtedness Index, used to predict individuals who are inclined to get into excessive borrowing despite the fact that they are not likely to have payment difficulty and who might potentially become defaulters in more than one year's time, also presented a favorable outlook as of September 2013. In fact, an analysis of the percent distribution of inquiries for loan applications based on their index values reveals that the share of the low-risk group (1-10 points) in total applications, which was 62 percent in March 2013, fell below 60 percent in the second quarter of 2013. However, their share has rebounded to 63 percent in the recent period (Chart III.3.25).

Chart III.3.24

Individual Credit Rating – Average[1]

(Points)



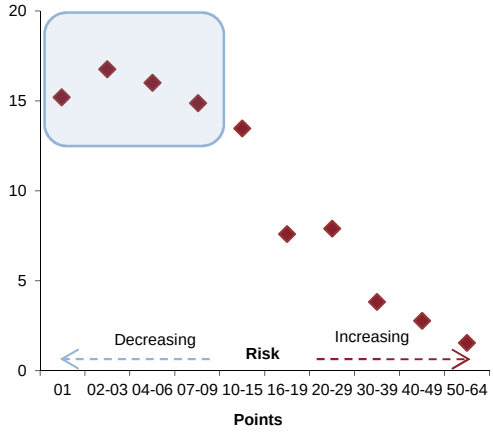
(1) Individual Credit Rating is calculated to fall between 1 and 1600. 1 denotes the highest risk, whereas 1600 denotes the lowest risk for a specified situation. The figures have been calculated by taking into account the application inquiries only.

Source: KKB (Credit Bureau of Turkey)

Chart III.3.25

Individual Indebtedness Index[1]

(Percent, September 2013)



(1) Individual Indebtedness Index is calculated to range between 1 and 64. 1 denotes the lowest risk group, whereas 64 denotes the highest risk group. The figures have been calculated by taking into account the application inquiries only.

Source: KKB (Credit Bureau of Turkey)

The low-income group and wage-earners build up the majority of people who obtained consumer loans from banks. An analysis of occupation and income groups of the households with consumer loan debts suggests that occupation and a regular income are the determinants of loan access. The distribution of the number of borrowers and the amount of loans according to occupational groups indicates that the majority of the borrowers are composed of wage earners who also borrowed the most in the second quarter of 2013 (Chart III.3.26). The distribution of the borrowers according to income level suggests that borrowers with a monthly income of up to TL 2000 accounted for almost 60 percent of all borrowers but received 42 percent of all loans extended in the analysis period (Chart III.3.27). Compared to the previous period, only the share of borrowers with a monthly income of TL 5000 and more increased in all the loans extended.

Chart III.3.26

Distribution of Borrowers According to Occupation (Loans Extended and Number of People) [1]
(June 2013, Percent)

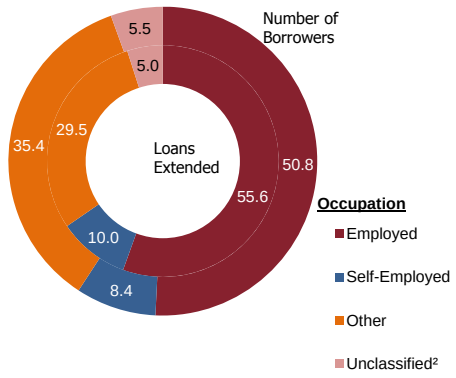
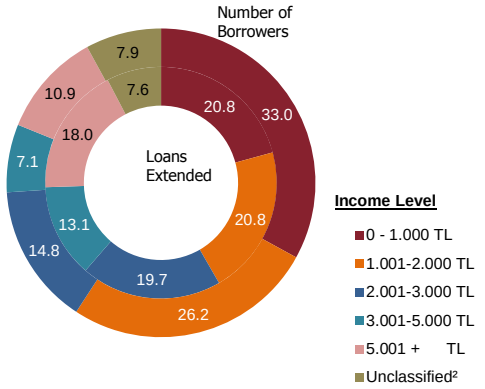


Chart III.3.27

Distribution of Borrowers According to Income (Loans Extended and Number of People) [1]
(June 2013, Percent)



(1) Data of 36 lending banks affiliated to the Banks Association of Turkey.
(2) Unclassified
Source: The Banks Association of Turkey

Deposits continue to be the most preferred investment instrument by households. Although the share of FX deposit accounts in household financial assets has climbed due to the exchange rate increase, it is observed that the growth in FX deposit accounts in US dollars remained below long-term tendencies and households' FX deposit accounts shifted to TL savings deposits especially after May. As emphasized in the chapter on banking sector developments, the shift to TL savings deposits from FX deposits that started in May extended through mid-July and persisted in September as well (Table III.3.4).

Table III.3.4

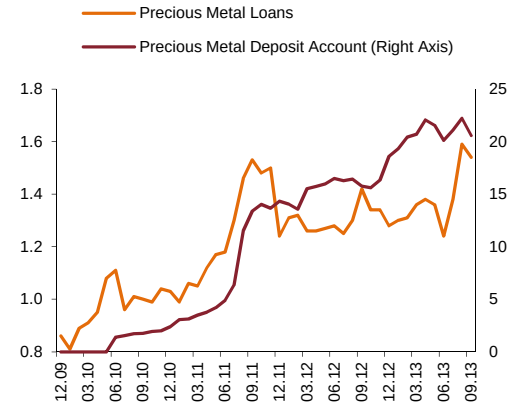
Household Financial Assets

	12.12		04.13		09.13	
	Billion TL	Share	Billion TL	Share	Billion TL	Share
TL Deposits	307.1	50.7	293.8	48.6	317.0	48.4
FX Deposits	121.6	20.1	122.1	20.2	140.6	21.5
- (billion USD)	68.2		67.8		69.9	
Precious Metal Deposits	*17.4*	2.9	20.7	3.4	19.2	2.9
- (billion USD)	9.7		*11.5*		9.5	
Bonds and Bills	16.4	2.7	18.0	3.0	17.2	2.6
- Public Sector	5.9	1.0	7.6	1.3	6.3	1.0
- Private Sector	10.4	1.7	10.4	1.7	10.9	1.7
Mutual Funds						
Private Pension Funds	20.3	3.4	22.6	3.7	25.2	3.8
Other Mutual Funds	26.1	4.3	28.2	4.7	26.8	4.1
Stocks	38.0	6.3	40.9	6.8	38.5	5.9
Repos	3.9	0.6	2.6	0.4	2.9	0.4
Currency in Circulation	54.6	9.0	55.7	9.2	68.0	10.4
Total Assets	**605.2**	**100.0**	**604.7**	**100**	**655.4**	**100**

Source: CRA, CMB, CBRT

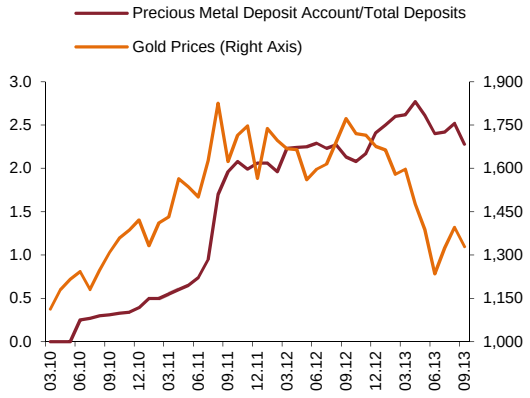
Banks have been developing gold banking by rapidly expanding their gold product range with regulations in recent years. The number of banks orienting towards gold banking has increased over the years and the growth in precious metal deposit accounts has outpaced that of precious metal loans. By September 2013, the precious metal deposit accounts and gold loans of the banking sector amounted to TL 20.6 billion and TL 1.5 billion, respectively (Chart III.3.28). Booms in gold prices in the post-crisis period and the decision by the CBRT in November 2011 that allows banks to hold part of their Turkish lira reserve requirements in terms of gold have heated up the banking sector's preference for precious metal deposit accounts. In addition, catchy offers such as Gold Days organized by banks in certain periods have encouraged households to bring their tangible gold to banks and thus facilitated gold banking. The share of precious metal deposit accounts in total deposits, which was 0-0.25 percent in early 2012, surged to 2.8 percent in April 2013 as a result of the developments in recent years. However, this ratio dropped to 2.3 percent in September due to the accelerated downtrend in gold prices (Chart III.3.29).

Chart III.3.28
Precious Metal Loans-Deposit Accounts
(Billion TL)



Source: BRSA-CBRT

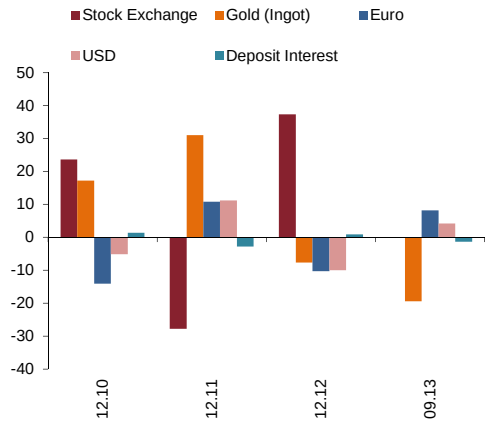
Chart III.3.29
Precious Metal Deposit Accounts/Deposits, Gold Prices
(Percent, USD/Ounce)



Source: BRSA-CBRT, Bloomberg

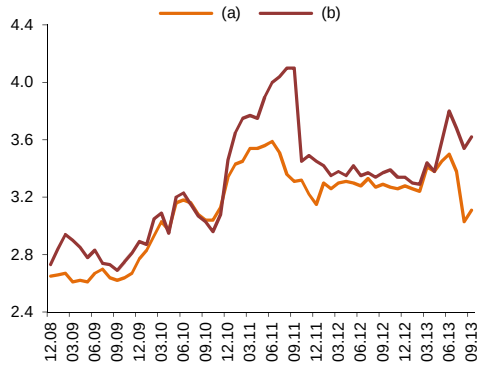
The volatility in returns on investment instruments has made investment preferences of individuals to exhibit variability over time. An analysis of annual real returns on financial investment instruments shows that the return on gold was negative by the end of September 2013 whereas the depreciation of the USD and the Euro turned into gain (Chart III.3.30). As of the same date, the highest depreciation in terms of six-month real returns was recorded in the stock exchange. In fact, households' stock exchange investments regressed in the April-September 2013 period and fell below the end-year level. When FX deposit accounts are adjusted for the exchange rate effect, the households' investments in TL financial instruments exceeded investments in FX financial instruments in the same period (Chart III.3.31).

Chart III.3.30
Real Return on Financial Investment Instruments by Types[1]
(Percent)



(1) Expressed in real terms by using the CPI.
Source: TURKSTAT

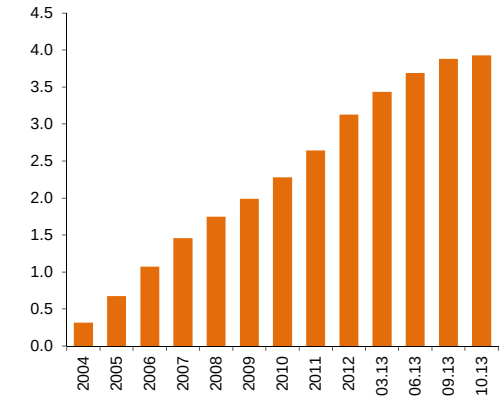
Chart III.3.31
Ratio of Household TL Investment Instruments to FX Investment Instruments



(a) Current TL value of FX deposits and Participation Funds (FX).
(b) For FX deposits and Participation Funds (FX), exchange rate prevailing on 26.12.2008 is used and the parity effect is eliminated.
Source BRSA-CBRT, CMB, CRA

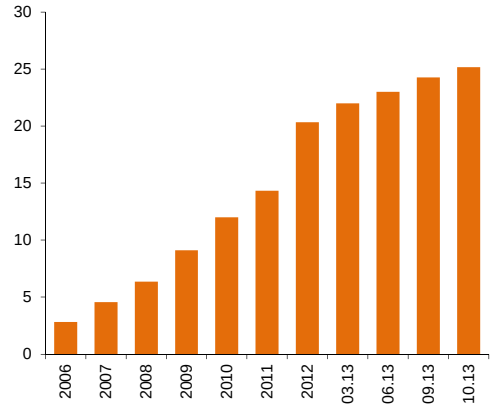
The Private Pension System, which was put into effect in 2001 and became operational on 27 October 2003, has made a significant contribution to the boost of household savings over the past 10 years. The implementation of the tax advantage by means of a deduction from the tax base was terminated and replaced by the government contribution system as of 1 January 2013. From January to October 2013, the number of participants in the system and the amount of these participants' funds swelled by 26 percent and 24 percent, respectively (Chart III.3.33).

Chart III.3.32
Development of the Number of Private Pension System Participants
(Million People)



Source: Pension Monitoring Center

Chart III.3.33
Development of the Amount of Private Pension Funds
(Billion TL)

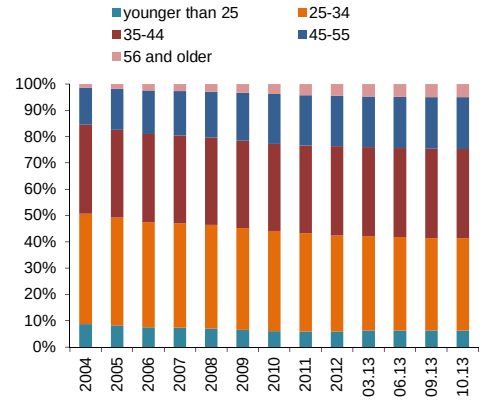


Source Pension Monitoring Center

People in the 25-44 age group make up 70 percent of the participants in the private pension system (Chart III.3.34). Considering that Turkey has a young population structure, the system is expected to grow further. Public debt securities constitute the largest share in the

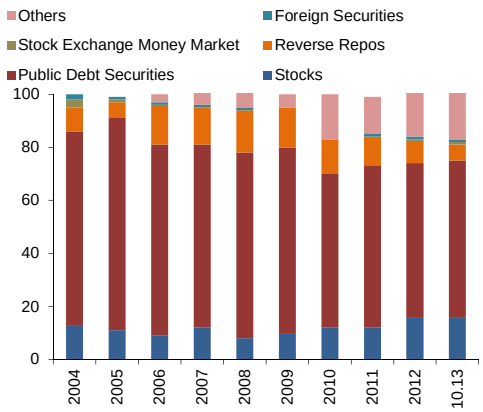
private pension funds' assets (Chart III.3.35). However, the asset allocations of funds have diversified over the years. Particularly in recent periods, pension funds have increasingly invested in securities issued by banks and corporate sector firms. As a consequence, the share of the "Other" item that includes these securities in total fund assets expanded to 20 percent.

Chart III.3.34
Age Distribution of Participants
(Percent)



Source: EGM (Pension Monitoring Center)

Chart III.3.35
Asset Allocation of Private Pension Funds
(Percent)



Source CMB