

FINANCIAL STABILITY REPORT

2023-II

November 16, 2023



CENTRAL BANK OF THE REPUBLIC OF TÜRKİYE

Head Office

Hacı Bayram Mah., İstiklal Cad. No:10 06050 Ulus Altındağ Ankara, Türkiye

Tel: (+90 312) 507 50 00

Fax: (+90 312) 507 56 40

Home page: <http://www.tcmb.gov.tr>

E-mail: bankacilik@tcmb.gov.tr

ISSN 1305-8576 (Online)



This report, aimed at informing the public, is based mainly on September 2023 data. Nevertheless, the Report includes developments and evaluations up to its date of publication in Turkish. The full text is available on the CBRT website. The CBRT cannot be held accountable for any decisions taken based on the information and data provided therein.

Foreword

We at the Central Bank of the Republic of Türkiye (CBRT) are aware that the greatest contribution we can make to social welfare is by achieving price stability, our primary objective and *raison d'être*. We continue our decisive fight against inflation through the strong monetary tightening that we initiated in June. While bolstering this process with policy measures that safeguard macro financial stability, we are simultaneously simplifying the macroprudential regulatory framework for financial system. This volume of the Financial Stability Report offers a summary of the regulations we have introduced and the policies we have implemented so far as well as their implications, and includes pertinent analyses.

Price stability is essential for achieving lasting financial stability. Maintaining financial stability, on the other hand, is paramount to establishing price stability in a way that makes the highest contribution to social welfare as well as for sustainable, high-quality and stable economic growth. Due to global and domestic developments, fighting inflation to achieve these goals is now more vital than ever. The shared awareness of this issue among all stakeholders and the decisive fight against inflation significantly contribute to building a common understanding and expectation across all segments of society. We regard this public and social consensus as the most important anchor in the CBRT's price stability and financial stability efforts.

We have started to observe the impact of the steps we have taken towards monetary tightening and simplification of the macroprudential framework as mirrored in an increase in the functionality of market mechanisms and a strengthening of the signaling role of asset prices. During this process, the fact that the share of Turkish lira deposits in the financial system has increased while that of FX-protected deposits and FX deposits has decreased strengthens not only financial stability but also monetary transmission. The ability of the banking system to fulfill its intermediation function with utmost efficiency is a prerequisite for achieving the disinflation process in line with the targets. In this context, practices that disrupt financial intermediation and adversely affect financial stability by distorting credit distribution are being removed within a predictable framework. The normalization of the flow of commercial loans, the increase in the share of export and investment loans, and the slowdown in retail loan growth are taking place concurrently, on the back of the simplification steps that the CBRT continues to take in communication and coordination with the banking system as well as the policy instruments it has introduced.

To maintain the soundness of the financial system, it is crucial that banks, as the most important intermediaries within the financial system, are able to respond and adapt appropriately to macro policy decisions and ensure uninterrupted flow of funds through proper risk management against possible external shocks.

An analysis of the financial outlook of the corporate sector, which is another important underlying condition influencing the effectiveness and success of the monetary policy, reveals that thanks to their liquid balance sheet structures, high profitability and low indebtedness ratios, corporate sector firms are capable of managing risks stemming from rising financing costs. As detailed in the Report, the banking sector, which has a resilient balance sheet structure, is managing the interest rate risk successfully during the monetary tightening process. The sector maintains a strong outlook in asset quality and conducts liability management in line with the CBRT's disinflation target. Capital adequacy ratios hover above regulatory thresholds, and banks maintain liquidity buffers above

adequate levels. The decline in the country risk premium results in an improvement in external financing conditions of banks and an increase in debt rollover ratios. To sum up, the strength of the banking system stands out as one of the most important factors supporting the effectiveness of the CBRT's monetary policy.

This volume of the Financial Stability Report covers the latest developments in financial stability, and also elaborates on the macroprudential policy framework that prioritizes the shift to Turkish lira deposits as well as on the resilience of corporate and financial sectors against possible shocks. Composed of four sections, the report presents an overview and the macroeconomic outlook in the first two sections. The third section includes assessments on the position of the non-financial sector, households and corporates with respect to financial risks. The final section offers a detailed analysis of the outlook and the risks in the financial sector.

During the process of establishing financial stability under free market conditions, and price stability, which is the primary and pivotal condition of financial stability, we have observed that all economic actors and decision-makers have the resources and measures that they will need during this transition period and there is a genuine awareness of and consensus on the common objective. Acknowledging that these are the prerequisites for our policy set to deliver the desired results, we will proceed with determination and without compromising our price and financial stability objectives. During this process, we will continue to conduct effective communication in line with our principles of transparency and accountability. I hope that the 37th issue of our Financial Stability Report, which aims to assess the current situation and present the initial impact of the price and financial stability measures we have introduced, will be of benefit to all readers.

Hafize Gaye ERKAN, Ph.D.

Governor

Contents

I. Overview	1
II. Macroeconomic Outlook.....	2
II.1 International Developments.....	2
II.2 Main Domestic Macroeconomic Developments.....	5
II.2.I Box: The New Macroprudential Policy Framework Prioritizing TL Deposits.....	8
II.2.II Box: Steps for Effective Functioning of Financial Markets.....	10
III. Non-Financial Sector	15
III.1 Household Developments	15
III.2 Corporate Sector Developments	22
IV. Financial Sector.....	29
IV.1 Credit Developments and Credit Risk	29
IV.1.I Box: Exporting Firm Credits and Their Contribution to Banks' Asset Quality.....	40
IV.2 Liquidity Risk.....	43
IV.2.I Box: Banks' Recent Bond Issuances Abroad.....	48
IV.3 Interest Rate and Exchange Rate Risk.....	51
IV.3.I Box: Impact Channels of the Interest Rate Hike on the Banking Sector.....	58
IV.4 Profitability and Capital Adequacy	62
Abbreviations	68