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# TURKEY: MACRO-FINANCIAL SITUATION

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## ABSTRACT

In 2021, the Turkish economy continued to be highly influenced by the course of the COVID-19 pandemic. Turkey has been more dynamic than other emerging economies since the start of the pandemic, but faces a number of macro-financial challenges as a result of imbalances that have become more acute during the crisis. These include, notably, high and persistent inflation, sizeable external financing needs (non-financial corporations have high levels of foreign currency-denominated debt), low international foreign currency reserves and growing bank deposit dollarisation. The banking sector remains relatively sound and its NPL ratio has declined, although some of its other indicators, such as profitability and solvency ratios, have slightly worsened.



**Keywords:** Turkish economy, macroeconomic imbalances, current account balance, capital flows, monetary policy and inflation, Turkish lira, international reserves, bank lending.

**JEL classification:** F31, F32, F34.

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## Introduction

Each year, the Banco de España identifies a list of countries outside the European Union (EU) and the European Economic Area, known as “third countries”, that are considered material for the Spanish banking system, on the basis of the volume and regional distribution of its international credit exposures.[1] In accordance with the guidance provided by the European Systemic Risk Board (ESRB),[2] Turkey is a material country for the Spanish banking system[3] by virtue of BBVA Group’s ownership interest in the Turkish bank Garanti (49.85% of its capital). Garanti is Turkey’s second largest private bank, and the fifth largest bank if state-owned banks are included. During the first half of 2021, Garanti accounted for 9.1% of total BBVA Group assets, while its €384 million contribution to BBVA Group net profit represented 14.7% of total profit generated by the Group’s business areas as a whole (€2.6 billion), excluding the corporate centre.

The Spanish and Turkish economies are also linked by major bilateral trade and financial flows (see Table 1). With regard to foreign trade, 1.5% of total Spanish exports went to Turkey (the 10th non-euro area country behind Hungary) in 2019, while the stock of foreign direct investment (FDI) that same year amounted to 1.1% of total Spanish assets abroad (the 12th non-euro area country). Turkey is also a material third country for the overall euro area and EU banking systems,[4] and is likewise relevant in terms of trade. The flow of exports from the euro area to Turkey accounted for 1.3% of the total in 2019.

This note first analyses the economic and financial developments in Turkey during 2021 to date, which have been significantly influenced by the course and management of the coronavirus pandemic, but also by its interaction with the economy’s pre-

1 This identification exercise is based on the Banco de España’s competence to set countercyclical capital buffer rates for Spanish banking institutions according to their credit exposures to material third countries in response to certain financial stability risks. For further details on the operationalisation of the methodology for identification, see Box 3.2 of the Banco de España’s November 2017 *Financial Stability Report.*

2 Recommendation ESRB/2015/1 on recognising and setting countercyclical buffer rates for exposures to third countries, and Decision ESRB/2015/3 on the assessment of materiality of third countries for the Union’s banking system in relation to the recognition and setting of countercyclical buffer rates.

3 The list of material third countries can be found at this link

4 See Annex 1 of the ESRB report *Review of Macroprudential Policy in the EU, 2020*, July 2021

Table 1
**IMPORTANCE OF TURKEY FOR SPAIN AND THE EUROPEAN UNION (a)**

| | Level | | % of GDP | | % of total | | Ranking | |
|---|---|---|---|---|---|---|---|---|
| Relevance of Turkey to: | Euro area | Spain | Euro area | Spain | Euro area | Spain | Euro area | Spain |
| Exports of goods ($bn) | 63.15 | 4.99 | 0.47 | 0.36 | 1.31 | 1.49 | 17 | 13 |
| Imports of goods ($bn) | 63.26 | 8.22 | 0.47 | 0.59 | 1.39 | 2.20 | 18 | 10 |
| Exports of services ($bn) | 11.25 | 1.18 | 0.08 | 0.08 | 0.62 | 0.76 | 32 | 25 |
| Imports of services ($bn) | 12.67 | 0.62 | 0.09 | 0.04 | 0.75 | 0.75 | 27 | 19 |
| IIP (FDI): assets ($bn) | 66.65 | 6.75 | 0.49 | 0.48 | 0.38 | 1.08 | 35 | 18 |
| IIP (FDI): liabilities ($bn) | 24.87 | 0.04 | 0.18 | 0.00 | 0.17 | 0.00 | 41 | 69 |
| IIP (portfolio): assets ($bn) | 18.18 | 0.36 | 0.14 | 0.03 | 0.13 | 0.05 | 43 | 35 |
| IIP (portfolio): liabilities ($bn) | 0.26 | 0.03 | 0.00 | 0.00 | 0.00 | 0.00 | 75 | 57 |
| Banks' credit exposure to Turkey, BIS ($bn) (b) | 112.24 | 62.94 | 0.88 | 5.05 | 1.01 | 3.30 | 22 | 9 |
| Turkish banks' claims on residents | 7.55 | 0.01 | 0.06 | 0.00 | 0.09 | 0.00 | 22 | 24 |
| Memorandum item: | | | | | | | | |
| Turkish GDP ($bn) | 760.94 | | 1.84% world total | | | | 13th in world | |
| Turkish population (millions) | 83.16 | | 1.10% world total | | | | 18th in world | |
| Bank debt of Turkish residents (c) | 112.24 | 62.94 | 17.28 | 9.69 | 65.65 | 36.81 | — | 1 |

**SOURCES:** BIS, IMF, World Bank, OECD, Ministerio de Industria, Comercio y Turismo and Banco de España.

**a** 2019 data (trade balance and IIP), except for the euro area (2018).
**b** For the euro area and Spanish figures, data for 2020 Q2.
**c** Turkish figures, data for 2020 Q2.

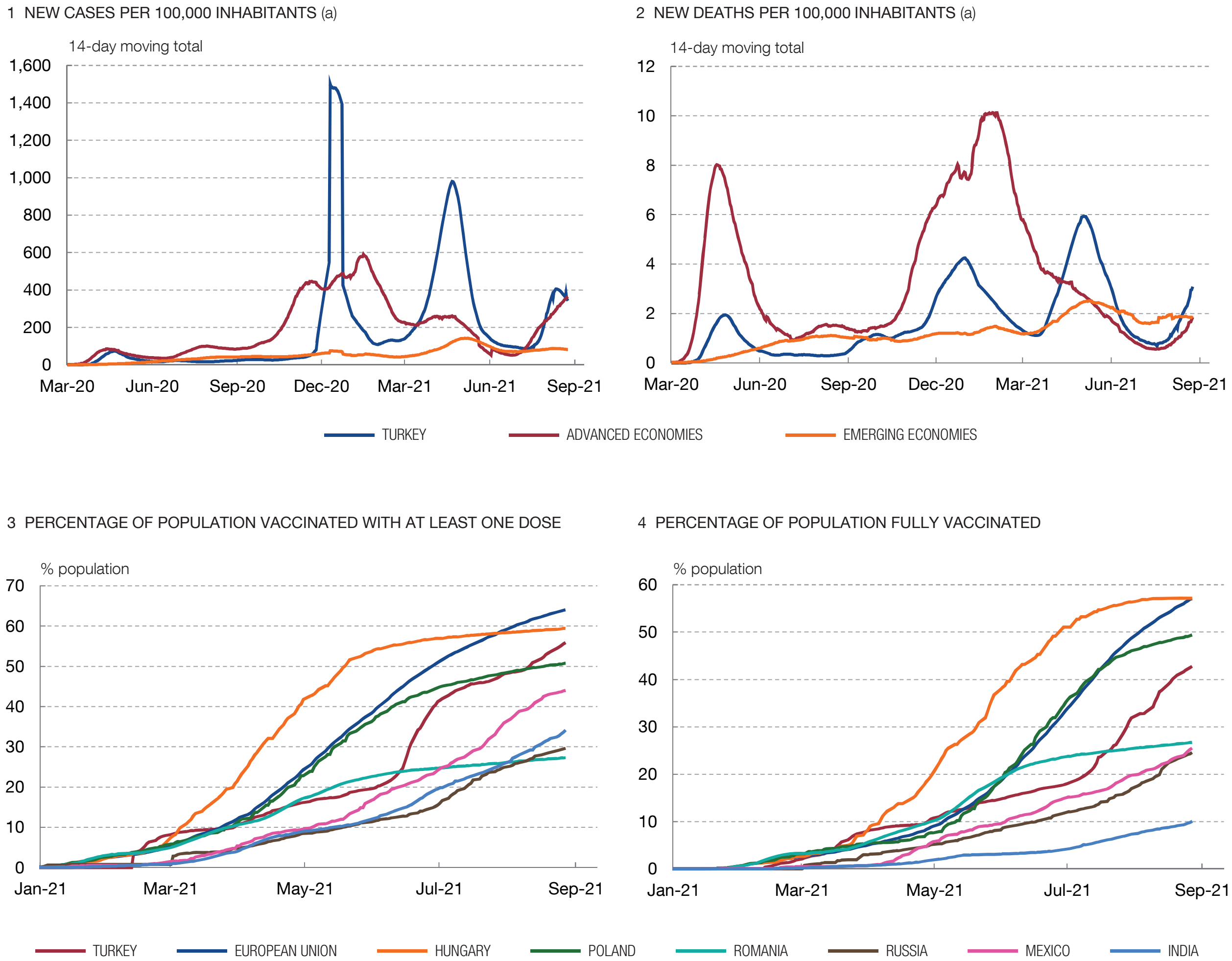
existing imbalances. It subsequently examines the economic policies implemented and ends with a review of the state of the banking system.

## Economic and financial developments

Like the rest of the world, the Turkish economy in 2021 continued to be highly influenced by the course of the COVID-19 pandemic. In March 2021, Turkey was hit by a particularly severe third wave, in which the fatality rate reached its highest levels since the start of the pandemic (see Chart 1). In order to curb the spread of COVID-19, the authorities imposed fresh activity and personal mobility restrictions, such as the strict 17-day confinement that began on 30 April. These measures were effective in reducing infections, although a further rise in incidence has been apparent since July, in parallel with developments at global level and the predominance of the Delta variant. Vaccination commenced at a rapid pace in January 2021, although it soon faced significant supply problems and slowed as a result. Once these problems had been solved, vaccination accelerated again and, at 31 August, 56.7% of the Turkish population had received at least one dose and 43.6% were fully vaccinated. These rates were below the EU average but exceeded those in other emerging economies (see Charts 1.3 and 1.4).

Chart 1
**THE COVID-19 PANDEMIC IN TURKEY AND ITS ECONOMIC EFFECTS**

A particularly severe third wave began in March 2021. This was brought under control, but a new upturn is apparent from July, in parallel with the one in the advanced economies and despite the momentum achieved in the vaccination process.




**SOURCES:** Johns Hopkins University, Thomson Reuters and own calculations.

**a** Latest data: 24 August.

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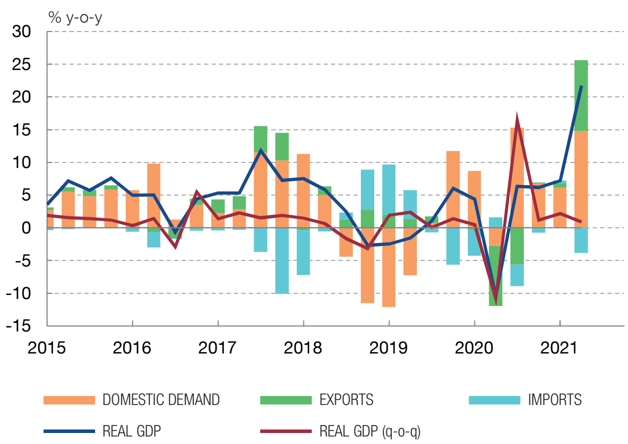
In 2020 Q2 the Turkish economy suffered an initial collapse similar to that seen in the rest of the world following the outbreak of the pandemic, but the recovery in Q3 was exceptionally strong and rapid, restoring GDP to its pre-pandemic levels, and Turkey was one of the few countries to record positive growth in the year as a whole (see Chart 2.1). Growth was notably strong in the first half of the current year, with quarter-on-quarter rates of 2.2% and 0.9% in Q1 and Q2, respectively (see Table 2). In June and July, the main international organisations expected growth of around 5.8% overall in 2021,[5] in line with projections for the emerging economies and the world as

5 See the IMF's Turkey: 2021 Article IV Consultation and the section on Turkey in the *OECD Economic Outlook* (2021, Issue 1).

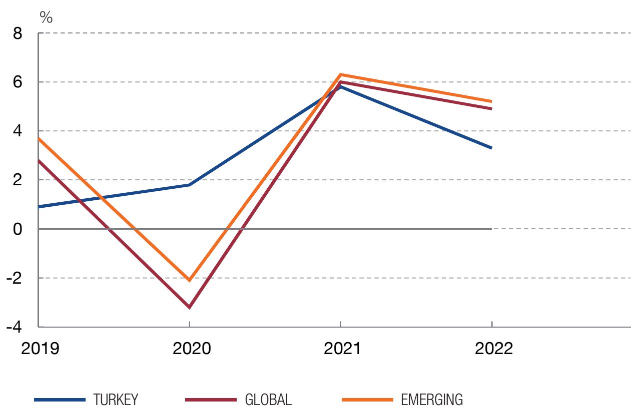
Chart 2
**ECONOMIC ACTIVITY**

In the first half of 2021 the Turkish economy remained highly dynamic and it is very likely that the IMF's growth forecast for the year as a whole of 5.8% will be exceeded, as this rate (close to the average for the advanced and emerging economies) will be achieved simply as a result of the carry-over effect from 2020 Q4.

1 GDP GROWTH RATE AND CONTRIBUTIONS




2 GDP GROWTH FORECASTS (a)




**SOURCES:** Undersecretariat of the Treasury, Turkish Statistical Institute and IMF.

**a** July 2021 IMF forecasts.

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a whole (6.3% and 6%, respectively, according to the IMF) (see Chart 2.2). However, the latest data to emerge over the summer and the updated forecasts of various analysts appear to suggest that these forecasts may be subject to significant upward revisions, and the latest growth projections for 2021 are in the range of 8%-9%.

Despite the buoyancy of activity, the Turkish economy faces a number of challenges, including, notably, high inflation, low foreign currency reserves, growing deposit dollarisation, high external financing needs and the significant foreign currency indebtedness of non-financial corporations to Turkish banks (see Charts 3.1 to 3.6). These challenges largely arise from the imbalances that existed before the current health crisis, although they have been exacerbated both by the impact of the crisis itself and of the response to it (i.e. highly expansionary monetary and credit policies).[6] Also, certain institutional decisions have generated uncertainty as to the independence of Turkey's monetary authority.[7] Specifically, the unexpected change of governor at the Central Bank of the Republic of Turkey (CBRT)[8] in March 2021 led

6 See "Turkey: macro-financial situation" , Economic Notes, *Economic Bulletin,* 1/2021, Banco de España

7 See the IMF's Turkey: 2021 Article IV Consultation (pp. 13-16), and the section on Turkey (p. 192) of the 2021 Economic Reform Programmes of Albania, Montenegro, North Macedonia, Serbia, Turkey, Bosnia and Herzegovina and Kosovo*, Institutional paper 158 | July 2021, of the European Commission, and the section on Turkey in the *OECD Economic Outlook* (2021, issue 1).

8 In July 2018, the president gained the prerogative to directly appoint and dismiss the Governor and Deputy Governor and members of the Monetary Policy Committee. CBRT Governors were subsequently dismissed in July 2019, in November 2020 and again in March 2021.

Table 2
**MAIN ECONOMIC INDICATORS (a)**

| | 2020 | | Q1 2021 |
|---|---|---|---|
| GDP per capita ($) | 8,538 | Banking sector size (assets in $) | 758 |
| GDP per capita (PPP) | 19,472 | Banking sector size (% GDP) | 104 |
| Real GDP ($bn) | 720 | Credit to private sector (% GDP) | 70 |
| Population (m) | 84 | Inflation targeting | 5% +/- 2.0 pp |
| Trade openness | 52.0 | Banking supervision | BRSA |

| | 2018 | 2019 | 2020 | 2020 Q3 | 2020 Q4 | 2021 Q1 | 2021 Q2 |
|---|---|---|---|---|---|---|---|
| GDP | 3.0 | 0.9 | 1.8 | 6.3 | 6.2 | 7.2 | 21.7 |
| GDP (q-o-q) | | | | 15.9 | 1.7 | 1.7 | 19.9 |
| Domestic demand | 1.0 | -2.1 | 4.1 | 16.3 | 6.8 | 6.3 | 14.5 |
| Private consumption | 0.5 | 1.5 | 3.2 | 8.4 | 7.8 | 7.0 | 22.9 |
| Government consumption | 6.6 | 4.1 | 2.2 | 2.0 | 3.7 | 0.7 | 4.2 |
| Fixed capital investment | -0.3 | -12.4 | 7.2 | 22.6 | 11.7 | 12.4 | 20.3 |
| Exports | 9.0 | 4.4 | -14.8 | -21.4 | 0.5 | 3.0 | 59.9 |
| Imports | -6.4 | -5.2 | 7.6 | 16.4 | 3.0 | -1.8 | 19.2 |
| Consumer prices | 16.3 | 15.2 | 12.3 | 11.8 | 13.5 | 15.6 | 17.1 |
| Core inflation | 16.4 | 13.5 | 11.2 | 10.9 | 13.0 | 16.2 | 17.4 |
| Retail sales (IBGE) | 1.9 | -0.4 | 3.3 | 9.3 | 8.4 | 9.0 | 28.1 |
| Consumer confidence index | 87.8 | 79.7 | 81.0 | 81.2 | 80.7 | 84.8 | 79.7 |
| Total credit | 18.2 | 4.0 | 29.0 | 37.7 | 39.5 | 31.1 | 20.3 |
| Industrial output | 1.1 | -0.6 | 2.2 | 8.5 | 10.2 | 11.3 | 40.4 |
| Total employment | 2.2 | -2.1 | -4.8 | -4.3 | -4.0 | 1.9 | 9.4 |
| Unemployment rate (% of labour force) | 10.9 | 13.7 | 13.1 | 13.3 | 12.9 | 13.0 | 12.5 |
| Wages | 15.8 | 18.3 | 7.0 | 7.4 | 11.7 | 15.9 | — |
| Current account balance (% of GDP | -2.8 | 0.9 | -5.2 | -4.1 | -5.2 | -4.9 | -4.0 |
| Trade balance (% of GDP) | -5.2 | -2.2 | -5.3 | -4.8 | -5.3 | -4.8 | -4.5 |
| International reserves ($bn) | 130.4 | 144.9 | 127.7 | 118.4 | 127.7 | 132.3 | — |
| Central government primary balance (% of GDP) | 0.0 | -0.5 | -0.8 | -1.1 | -0.8 | 0.5 | 1.0 |
| Central government total balance (% of GDP) | -1.9 | -2.9 | -3.4 | -8.5 | -9.0 | -7.5 | -5.7 |
| Gross government debt (% of GDP) | 28.4 | 30.8 | 35.9 | 39.4 | 35.9 | 36.4 | 35.5 |
| Sovereign spread (bp) | 398.7 | 467.4 | 574.2 | 620.6 | 544.1 | 454.8 | 483.9 |
| Exchange rate against $ (period average) | 4.8 | 5.7 | 7.0 | 7.2 | 7.9 | 7.4 | 8.4 |
| Exchange rate against € (period average) | 5.7 | 6.4 | 8.0 | 8.4 | 9.4 | 8.9 | 10.1 |
| Policy interest rate (1-week repo auction) | 24.0 | 12.0 | 17.0 | 10.3 | 17.0 | 19.0 | 19.0 |

**SOURCES:** Central Bank of the Republic of Turkey and Thomson Reuters.

**a** Levels

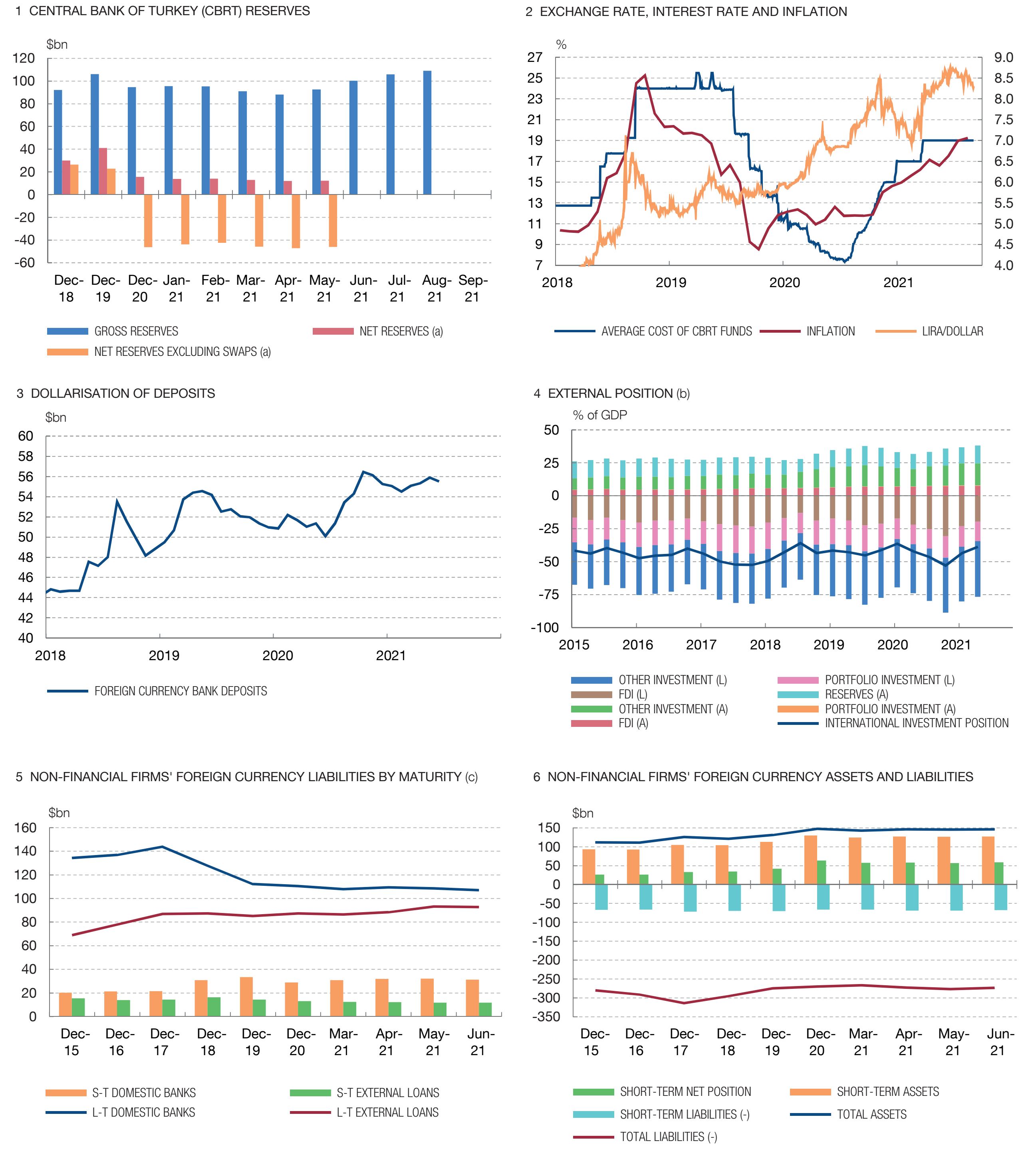
to a period of heightened instability on the financial markets, with interruptions to the capital flows that are essential to finance the current account deficit and increases in risk premia, inflation expectations and long-term interest rates.[9]

9 See the section on Turkey in the *OECD Economic Outlook* (2021, issue 1).

Chart 3

**CHALLENGES FOR THE TURKISH ECONOMY**

The dynamic Turkish economy faces a number of challenges, largely derived from pre-existing imbalances, that have been exacerbated by the crisis and its management, as well as by the uncertainty generated by the loss of credibility as to the independence of its monetary authority.




**SOURCES:** Thomson Reuters, CBRT, BRSA, Barclays and IMF.

**a** Gross reserves = gold and foreign currency. Net reserves = gross reserves – reserve requirements (gold and foreign currency) – public sector foreign currency deposits. Net reserves excluding swaps = net reserves – gold swaps and foreign currency swaps. The information on net reserves and net reserves excluding swaps is from Barclays.

**b** (A) = assets; (L) = liabilities.

**c** Short-term external loans include long-term external loans falling due within a year. However, short-term domestic loans do not include long-term bank loans falling due within a year.

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Inflation, which stood at 14.6% year-on-year at the end of 2020, has continued to rise in 2021, reaching 19.3% in August (see Chart 3.2). Recurring factors in the Turkish economy continue to be identified as underlying this upward trend. These include the significant pass-through of lira weakness to domestic prices and high inflation expectations. Also, the notable increase in global commodity prices in 2021, the constraints arising from supply delays and rising international transport costs and the increases in certain regulated prices and in domestic production costs have all had an impact on this trend. Lastly, unfavourable meteorological conditions, which led to floods and fires in July and August, have also contributed to the rise in food prices. Inflation thus remains distant from the CBRT target (5%, with an admissible deviation range of +/-2 percentage points), and is projected by the IMF to stand at 16.5% and 14% at the end of 2021 and the end of 2022, respectively.

The Turkish lira depreciated by 12.5% against the dollar between mid-March and late August, reflecting, among other factors, the market doubts about a possible premature easing of interest rates. Also, although the intervention of the CBRT and state-owned banks in the foreign-exchange markets was much more limited in this period, the level of international reserves remains low; in fact, in net terms it remains negative when currency swaps are discounted, according to various more up-to-date sources than Chart 3.1.[10] These factors entail further risk in addition to that of the high external financing needs of the economy (see Charts 3.4 and 3.6), increasing the potential difficulties and cost of accessing international funds. Against this backdrop, an increase in the dollarisation of bank deposits has been observed since the start of the health crisis, as a result of the non-financial private sector's search for safe haven assets. As a result, foreign currency deposits account for more than 55% of total deposits (see Chart 3.3).

The Turkish economy's sizeable external financing needs stem from the long-standing current-account deficit (see Charts 4.3, 4.4 and 4.5). The deficit, equivalent to 5.2% of GDP at end-2020, has gradually narrowed in 2021, but remains high (4.1% in June, in 12-month cumulative terms), with improvements in both the goods and services balances. As regards goods, the effect on imports of the slowdown in lending and the lower demand for gold,[11] and the rise in exports owing to stronger global demand have partly offset the negative impact of higher import prices, in particular for energy. The surplus on the services balance widened, driven by the growth in tourism with respect to the previous year, although the sector remained sluggish from a historical standpoint, given the restrictions on international travel. Meanwhile, the negative net international investment position remains large but has improved significantly in recent months (-38.8% of GDP in 2021 Q2 against -53% at end-2020), mainly due to a reduction

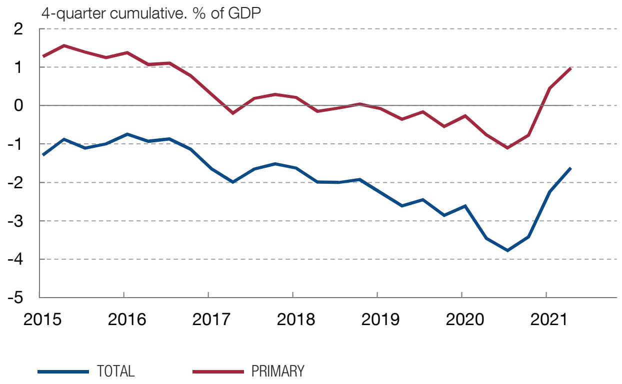
10 Foreign exchange was sold on a large scale in 2020 following the outbreak of the pandemic in order to defend the Turkish currency.

11 Gold is a traditional reserve asset for Turkish citizens during financial crises.

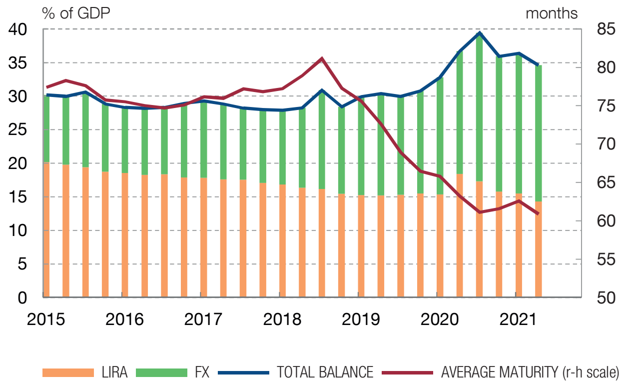
Chart 4
## PUBLIC FINANCES AND BALANCE OF PAYMENTS

Fiscal policy was restrained, with the fiscal deficit increasing slightly in 2020, then decreasing substantially in 2021 to date. The current account deficit has narrowed in 2021 but remains high.

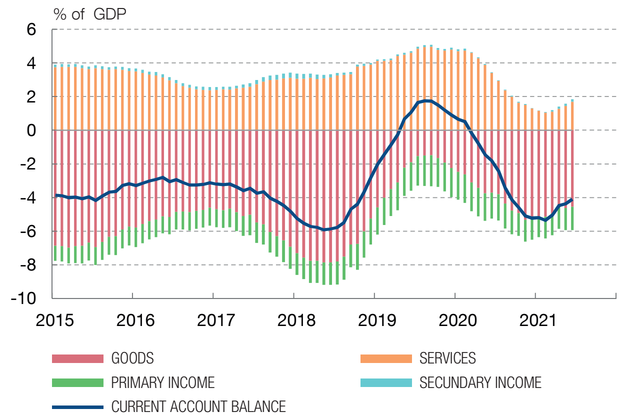
1 CENTRAL GOVERNMENT BALANCE



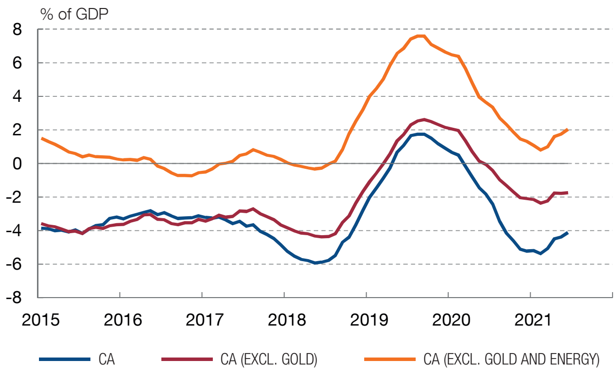

2 GROSS GOVERNMENT DEBT (central government)



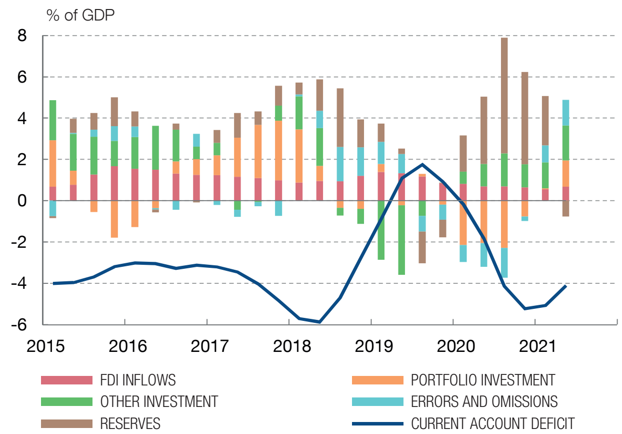

3 CURRENT ACCOUNT
12-month cumulative



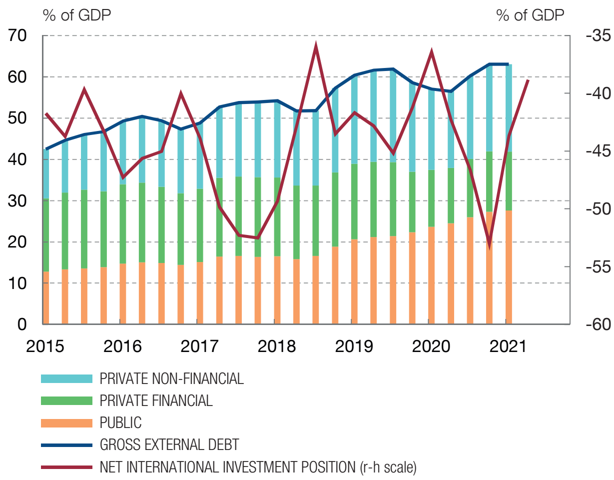

4 CURRENT ACCOUNT
12-month cumulative




5 CURRENT ACCOUNT BALANCE AND FINANCING
4-quarter cumulative




6 EXTERNAL POSITION




**SOURCES:** Thomson Reuters, Central Bank of the Republic of Turkey, Undersecretariat of the Treasury and Turkish Statistical Institute.

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in liabilities, particularly in direct investment (see Chart 3.4), as a result of market valuation and exchange rate changes. As regards the foreign currency-denominated portion of the debt of the non-financial private sector, although the sector's short-term assets exceed its short-term liabilities, the probable relative mismatch between those entities holding short-term assets and those holding short-term liabilities (an example of the latter being construction companies, with foreign currency debt but entirely Turkish lira-denominated revenues) and the larger volume of long-term foreign currency liabilities than of long-term foreign currency assets, entails a risk for Turkish banks, their main lenders (see Charts 3.5 and 3.6).

## Economic policies

Turning to fiscal policy, according to the IMF, the estimated direct fiscal impulse was negative in 2020,[12] with direct fiscal support (spending on healthcare and direct assistance to households, firms and workers) barely amounting to 2% of GDP. However, the quasi-fiscal measures (loan guarantees to firms and loan service deferrals by state-owned banks (see the next section) adopted to mitigate the adverse economic effects of the pandemic represented almost 10% of GDP. [13] As a result, the central government fiscal deficit widened only marginally in 2020, to 3.4% of GDP, from 2.9% in 2019 (see Chart 4.1). In 2021, the swift economic recovery has continued to improve the fiscal outlook, as shown by the narrowing of the deficit to 1.6% in June, which could lead to the year closing with a much lower deficit than the government's target of 3.5% of GDP. The increase in tax revenues and spending restraint[14] have contributed to this positive development. Public debt, which amounted to 36.4% of GDP in 2021 Q2, remains below the average for emerging countries, although the foreign currency-denominated portion has increased over the past year and a half to account for 58.6% of the total in 2021 Q2 (up from 49.7% in 2019), while the average maturity of the debt continued to follow the downward trend of previous years (see Chart 4.2).

As for monetary policy, in March 2021, the CBRT again raised its policy rate, the one-week repo rate, to 19%, bringing the ex-post real interest rate temporarily into positive territory. However, maintaining policy rates unchanged in a setting of rising inflation subsequently resulted in real interest rates turning slightly negative in August (see Charts 5.1 and 5.2). Against this backdrop, the CBRT has reiterated its commitment to maintaining a tight stance until there is a clear and durable decline in

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12 See Turkey 2021 Article IV Consultation documents, IMF, pages 7-8. According to the IMF, fiscal policy was procyclical in 2020 overall (i.e. the cyclically-adjusted primary deficit was reduced when the estimated output gap turned more negative).

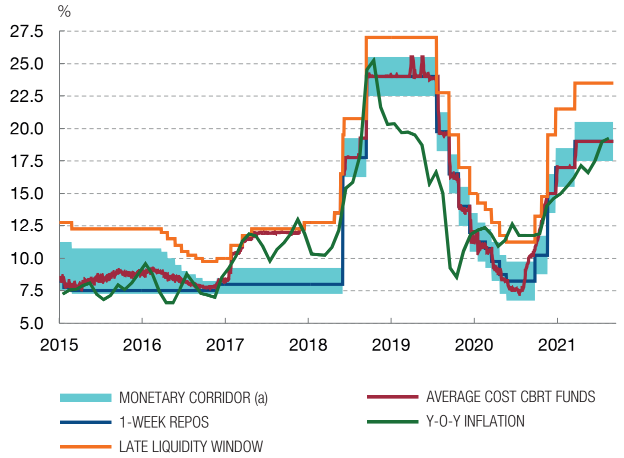
13 The quasi-fiscal measures in 2020 were among the strongest in emerging economies, according to the IMF.

14 Virtually all the measures adopted in 2020 to tackle the effects of the pandemic (such as those to support employment and temporary VAT cuts for certain products) had already expired by mid-2021.

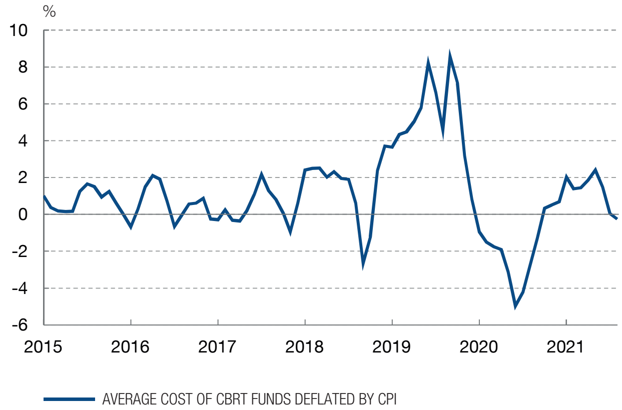
Chart 5
**MONETARY POLICY**

In March 2021, the Central Bank of the Republic of Turkey (CBRT) again raised its policy interest rate, bringing the ex-post real interest rate even further into positive territory. However, the dismissal of the governor of the CBRT a few days later led to further loss of credibility as to the independence of the country's monetary authority and uncertainty returned to the financial markets.

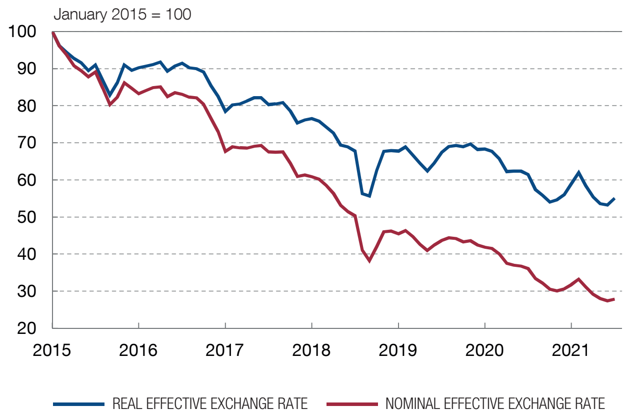
1 INFLATION AND POLICY INTEREST RATES



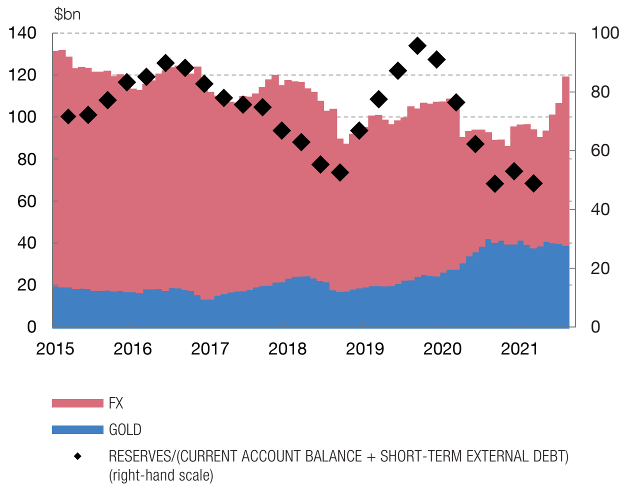

2 EX-POST REAL INTEREST RATE




3 TURKISH LIRA EFFECTIVE EXCHANGE RATES




4 CBRT RESERVES




**SOURCES:** Thomson Reuters, CBRT and Turkish Statistical Institute.

**a** Spread between overnight lending and overnight borrowing rates.

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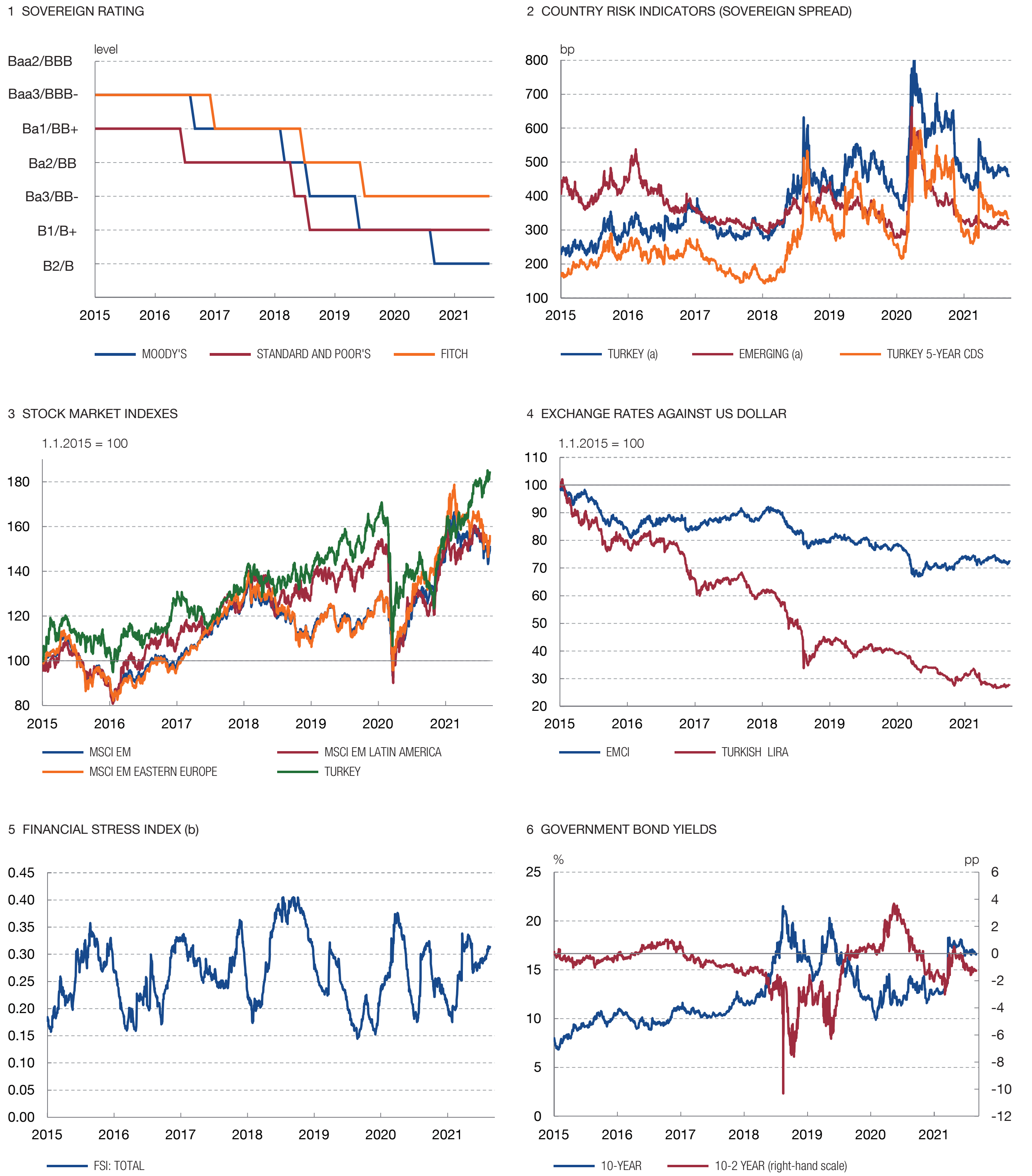
inflation, amid continuing market uncertainty about a possible premature easing of monetary policy, as reflected in higher risk premia than those of other emerging economies and a weakened Turkish lira (see Chart 6.2). In addition, in 2021, the CRBT's foreign exchange interventions, to ease depreciation pressures on the lira and curb sales of foreign currencies by state-owned banks, were strictly limited, and their transparency was improved.

Chart 6
## FINANCIAL MARKETS

Turkish financial indicators weakened significantly in March 2021 following the dismissal of the governor of the Central Bank of Turkey. They have subsequently recovered somewhat, but continue to be marked by greater volatility and uncertainty than at the beginning of the year.




**SOURCE:** Thomson Reuters.

a JPM EMBI Global Stripped Spread.
b An FSI is a combination of daily financial market indicators for different segments that proxy the current state of uncertainty for a specific financial system. An increase in the FSI denotes heightened financial frictions. Values range from 0 (no stress) to 1 (maximum stress).

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Also, in early July, the CBRT revised the reserve requirement regulations in order to reduce foreign currency bank deposits and increase Turkish lira deposits. To this end, it lowered the upper limit of its "reserve maintenance facility", which allows for a percentage of Turkish lira reserve requirements to be held in foreign currencies, and established that this facility would be terminated on 1 October.[15] In addition, it raised the reserve requirement ratios for foreign currency deposits in all maturity brackets and increased the remuneration of reserves required in Turkish lira. Lastly, in recent months, the bilateral swap agreement between Turkey and China[16] has been expanded, and a new agreement has been signed with South Korea.[17] These agreements, which seek to facilitate bilateral trade in respective local currencies and to support financial stability, complement that previously entered into with Qatar.[18]

## The banking sector

Turkey's ten largest banks (excluding investment and development banks) account for just over 90% of banking business, which approximately breaks down (both in terms of assets and deposits) into slightly more than 40% for state-owned domestic banks, 30% for private domestic banks and 20% for foreign banks.

Broadly speaking, the Turkish banking sector remained healthy in 2021 H1, with some indicators deteriorating slightly and improvements in others. Following the strong acceleration in lending in 2020,[19] the gradual tightening of financial conditions since the summer of 2020, and the conclusion of the loan campaigns at end of that year, have led to a substantial slowdown in lending by both state-owned and private banks in 2021, with year-on-year declines, in real terms, in June and July (see Charts 7.1 and 7.2). The exception has been the credit extended by private banks to households, mainly in the form of consumer financing, which has maintained its momentum. Non-performing loans have remained in check and even decreased, the ratio standing at 3.7% in 2021 Q2 (see Chart 7.4), thanks to the fact that the measures implemented by the authorities a year earlier to address the crisis have generally been kept in place. These include moratoria on loan principal and interest repayments and the extension of the periods (from 90 to 180 days) for reclassifying borrowers as non-performing.[20] At a more disaggregated level, the volume of non-performing loans was higher in firms than in households, in SMEs than in large corporations and, within the household segment, in credit card payments.

15 See CBRT press release of 1 July 2021.

16 See CBRT press release of 15 June 2021.

17 See CBRT press release of 12 August 2021.

18 See CBRT press release of 20 May 2020.

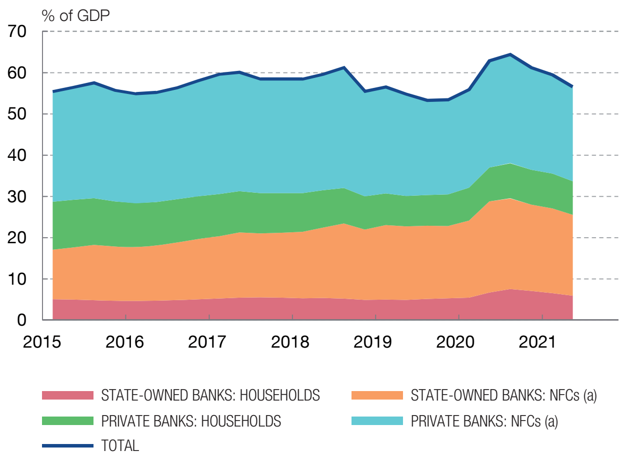
19 See "Turkey: Macro-financial situation", Economic Notes, *Economic Bulletin,* 1/2021, Banco de España.

20 See Section IV of the CBRT *Financial Stability Report,* May 2021, p. 42. However, it should be noted that this change does not affect provisioning criteria, which remain unchanged and have not been eased.

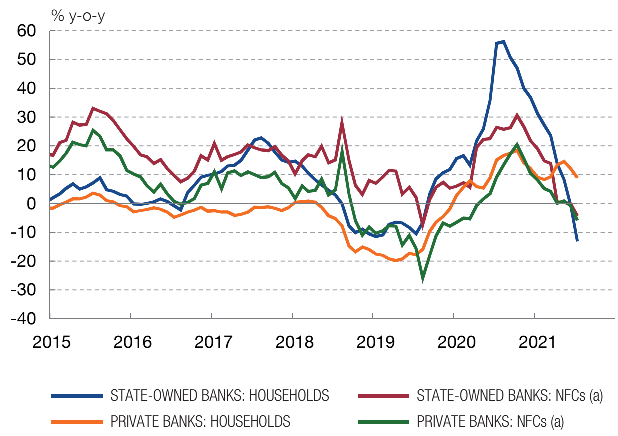
Chart 7
## BANKING SECTOR

The banking system remains healthy, although some indicators, such as profitability and solvency, deteriorated slightly in 2021 H1, and others, such as the non-performing loans ratio, improved. There was a substantial slowdown in lending in that period, with the exception of credit extended by private banks to households.

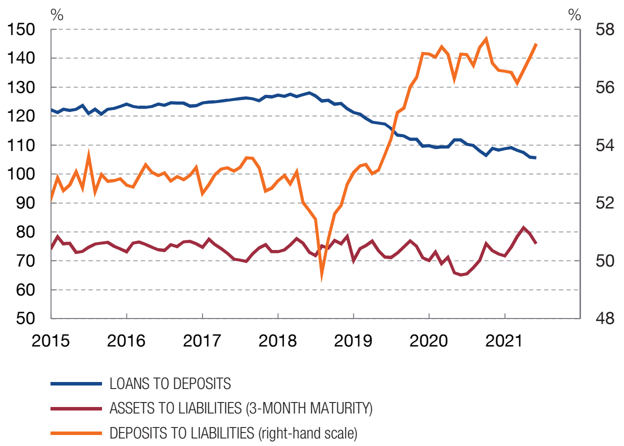
1 STOCK OF BANK CREDIT



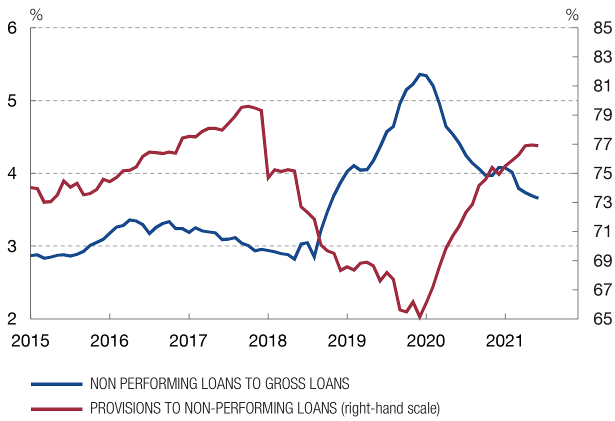

2 CHANGE IN REAL BANK CREDIT



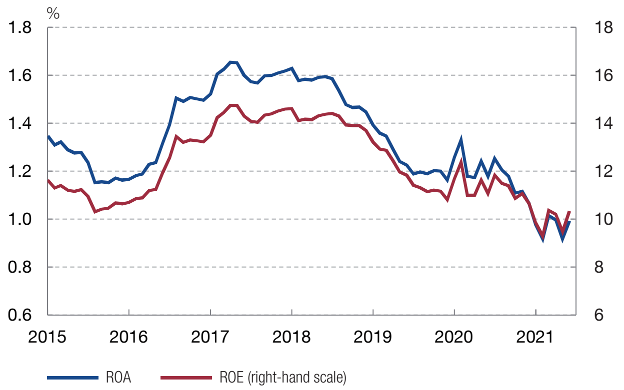

3 FUNDS AND LIQUIDITY



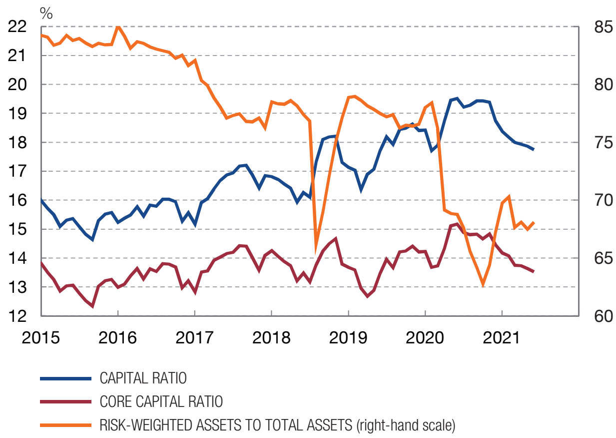

4 NON-PERFORMING LOANS




5 PROFITABILITY (b)




6 SOLVENCY




**SOURCES:** Thomson Reuters, Undersecretariat of the Treasury and Turkish Banking Regulation and Supervision Agency.

a NFCs: Non-financial corporations.
b Calculated as the annual cumulative profit divided by 12 months' average equity or assets.

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The liquidity position of the banking sector remains strong (see Chart 7.3), and banks have been able to roll over their syndicated loans at interest rates similar to those in 2020 and for even larger amounts, albeit with slightly shorter maturities, suggesting that they have ready access to international financing. There has been a decline in profitability since 2020 H2, with ROA[21] falling from 1.25% in July 2020 to 0.99% in June 2021 (see Chart 7.5). Finally, although solvency has decreased slightly in recent months, the capital structure of the banking sector remains sound,[22] with the capital adequacy ratio standing at 17.75% in June (see Chart 7.6).

23.9.2021.

21 Ratio of total income to total assets, calculated as the annual cumulative profit divided by 12 months' average equity or assets.

22 See Section IV of the CBRT *Financial Stability Report,* May 2021.