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CENTRAL BANK OF THE REPUBLIC OF TURKEY

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This report, aimed at informing the public, is based mainly on September 2021 data. Nevertheless, the Report includes developments and evaluations up to its date of publication in Turkish version. 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

Since the last issue of the Financial Stability Report, the strong recovery trend in economic activity has continued on the back of the acceleration in vaccination as well as the support from external demand. Robust export performance and the recovery in tourism sector underpin the improvement in the current account balance.

The positive impact of strong economic activity is observed on the turnover, profitability and liquidity indicators of the corporate sector. The ongoing improvement in corporate sector's FX position has continued. Corporate sector and household indebtedness ratios, which had increased during the pandemic, returned back to pre-pandemic levels. The higher increase in households' financial assets compared to their liabilities supported households' debt service capacities.

The recent revisions in the monetary policy stance have started a recovery in commercial loans, while the slowdown in loan growth in 2021 was mainly driven by commercial loans. The effects of the strengthened macroprudential framework to contain retail loan growth, which is considered as crucial for current account balance and inflation outlook, are closely monitored. The outlook for the asset quality of the banking sector remains positive and the sector has sufficient liquidity buffers against liquidity shocks. The improvement in the profitability of the sector supports capital adequacy.

The CBRT will continue to use decisively all available instruments until strong indicators point to a permanent fall in inflation and the medium-term 5 percent target is achieved in pursuit of the primary objective of price stability. Stability in the general price level will foster macroeconomic stability and financial stability through the fall in country risk premium, continuation of the reversal in currency substitution and the upward trend in foreign exchange reserves, and durable decline in financing costs. This would create a viable foundation for investment, production and employment to continue growing in a healthy and sustainable way.

In this context, I hope that the 33rd volume of the Financial Stability Report, which focuses on the current state and outlook for financial stability as well as global and domestic macroeconomic developments, will be of benefit to all readers.

Prof. Şahap KAVCIOĞLU
Governor

Contents

| | |
|--|-----------|
| I. Overview | 1 |
| II. Macroeconomic Outlook | 3 |
| II.1 International Developments..... | 4 |
| II.1.I Box: Benchmark Interest Rates: Transition from Interbank Offered Rates (IBORs) to New Benchmark Interest Rates..... | 8 |
| II.1.II Box: Cyber Resilience from the Perspective of Financial Stability..... | 11 |
| II.2 Main Domestic Macroeconomic Developments..... | 14 |
| II.2.I Box: Steps Taken Towards Effective Functioning of Financial Markets | 17 |
| II.2.II Box: Opportunities and Risks for the Employment Market During the Transition to Green Economy..... | 21 |
| III. Non-Financial Sector | 24 |
| III.1 Household Developments | 25 |
| III.2 Corporate Sector Developments | 34 |
| III.2.I Box: Developments in Sector Level Activity and Financial Indicators in the Pandemic Period | 43 |
| IV. Financial Sector..... | 46 |
| IV.1 Credit Developments and Credit Risk | 47 |
| IV.2 Liquidity Risk..... | 59 |
| IV.2.I Box: Steps to Increase the Share of Turkish Lira on Bank Balance Sheets in the Context of Reserve Requirements | 65 |
| IV.3 Interest Rate and Exchange Rate Risk..... | 69 |
| IV.4 Profitability and Capital Adequacy | 74 |
| Abbreviations | 80 |