

# VAKIFBANK TURKISH ECONOMY WEEKLY

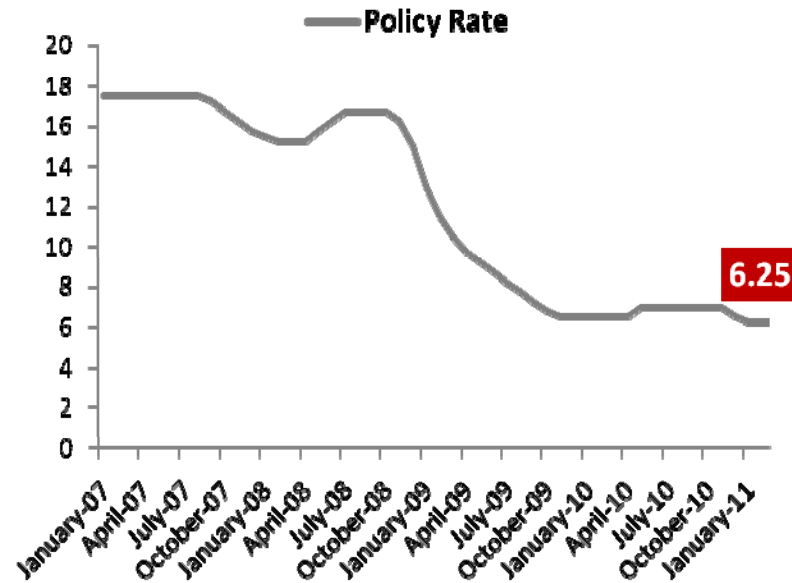
## Possible effects of the new BRSA regulations on the Turkish Banking Sector



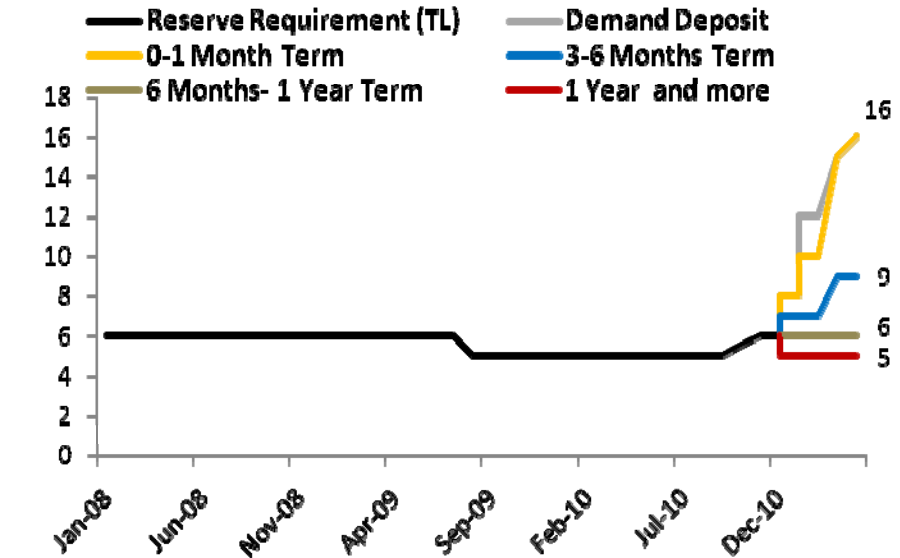
T. Vakıflar Bankası T.A.O






In the last MPC meeting, CBRT kept its policy rate unchanged at 6.25% and did not change the lending and borrowing rates. CBRT also kept TL and FX RRRs constant...



Source: CBRT, Bloomberg

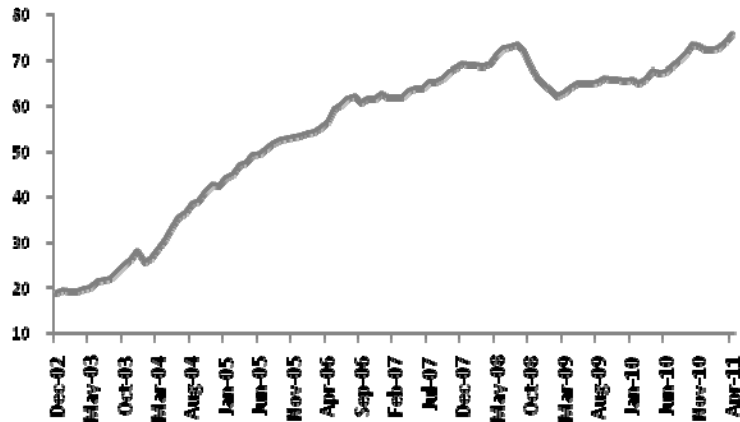


Source: CBRT

-  Last week at Monetary Policy Committee (MPC) meeting, CBRT kept its policy rate unchanged at 6.25% in line with the expectations and did not change the lending and borrowing rates.
-  Moreover, CBRT left the RRRs unchanged. CBRT's decision for the RRRs signals that CBRT wants to follow 'a wait and see' approach to observe the impact of macro-prudential measures on credit growth and domestic demand.
-  However, BRSA issued two new amendments to limit the consumer loan growth. In this report, the reasons behind these new amendments and their effects on banking sector are analyzed.

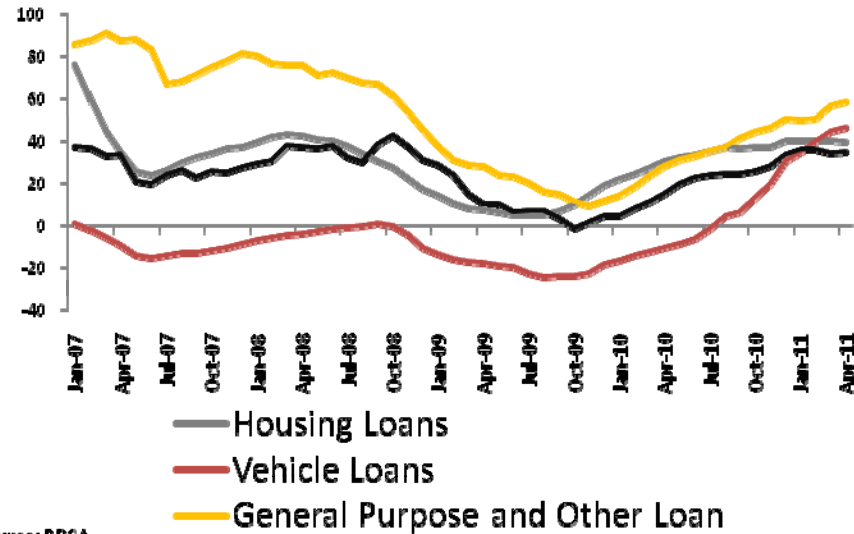
Rapid increase in consumer loans has been effective on BRSA's new amendments...

**Retail Loans/Total Savings Deposits (%)**






Source: BRSA

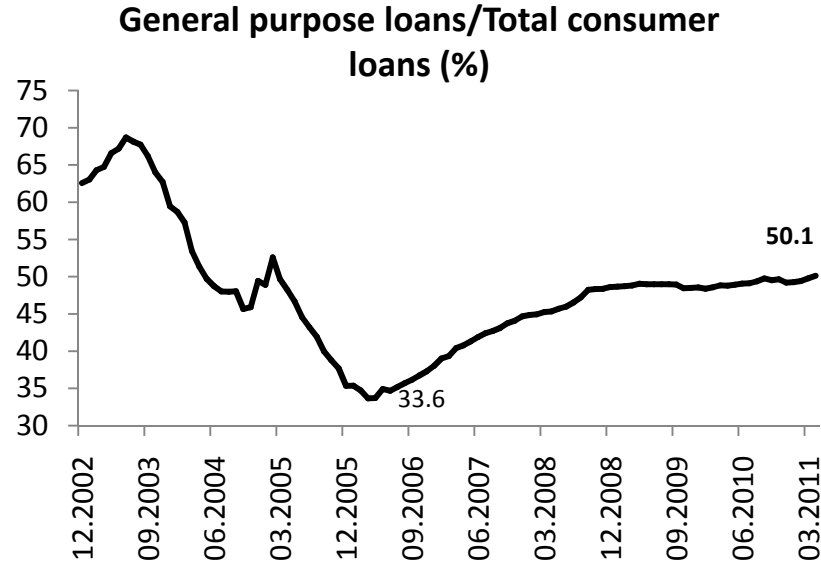
**Types of Loan Growth Rate (y-y,%)**



Source: BRSA

-  Retail Loans/Total Savings Deposits ratio of the banking sector which rose to 75% in April reflects consumers' over-indebtedness.
-  Consumer loans account for 75% of individual loans and consumer loans consist of housing loans (46%), vehicle loans (4%) and general purpose and other loans (50%). Consumer loans increased by 43.7% over the previous year, housing, vehicle and general purpose loans have risen by 46.6%, 39.3% and 27.3% respectively. Moreover, the growth rate of other consumer loans reached to 173.7% in April.
-  This rapid increase in other loans signals that the banking sector should be more careful about giving general purpose loans and other loans.

The share of general purpose loans in total consumer loans has been increasing rapidly since 2006...



General purpose loans distribution in terms of ownership (%)		
	April 2010	April 2011
State Banks	44.9	46.8
Private Banks	38.7	39.1
Foreign Banks	16.4	14
Source: BRSA		

- While the average share of general purpose loans in total consumer loans was about 35% in 2006, this share has been increasing rapidly since 2006. These loans are unsecured loans unlike home and vehicle loans. Thus, BRSA has taken various measures in order to prevent the rapid increase in this share and to reduce the risk of banking sector.
- Having studied the distribution of general purpose loans in terms of ownership, state owned banks has the highest share with 46.8%. Therefore, unlike foreign owned banks, state-owned banks are expected to be mostly affected by the last decisions of BRSA.

92% of general purpose loans are more than 1 year term...



<b>General Purpose Loans</b>			
<b>(Billion TRY)</b>	<b>April 2010</b>	<b>April 2011</b>	<b>Growth Rate (%)</b>
<b>General purpose loans</b>	48.873	71.970	47
<b>General purpose loans more than 1 year long term</b>	43.207	66.372	54
<b>Source: BRSA</b>			

- According to the decisions of the BRSA, the risk weighting method depending on maturity will be implemented for the consumer loans except home and vehicle loans. This regulation was previously applied for the credit cards by BRSA. Since, 92% of the general purpose loans are more than 1 year term, this decision seems to be very logical.
- The unsecured loans with longer than one-year and shorter than two years maturities will be subject to 150% risk weighting. Loans whose maturities are longer than two-years will be subject to 200% risk weighting.

Based on the new BRSA's regulation; if bank's consumer lending portfolios (including general purpose loans, vehicle loans, housing loans) exceed 20% of their overall loan book and banks' unsecured lending NPL ratios exceed 8%, general provision ratio on 'new' unsecured consumer loan generation will be 4% for Group I (old: 1%) and 8% for Group II loans (old: 2%) respectively...

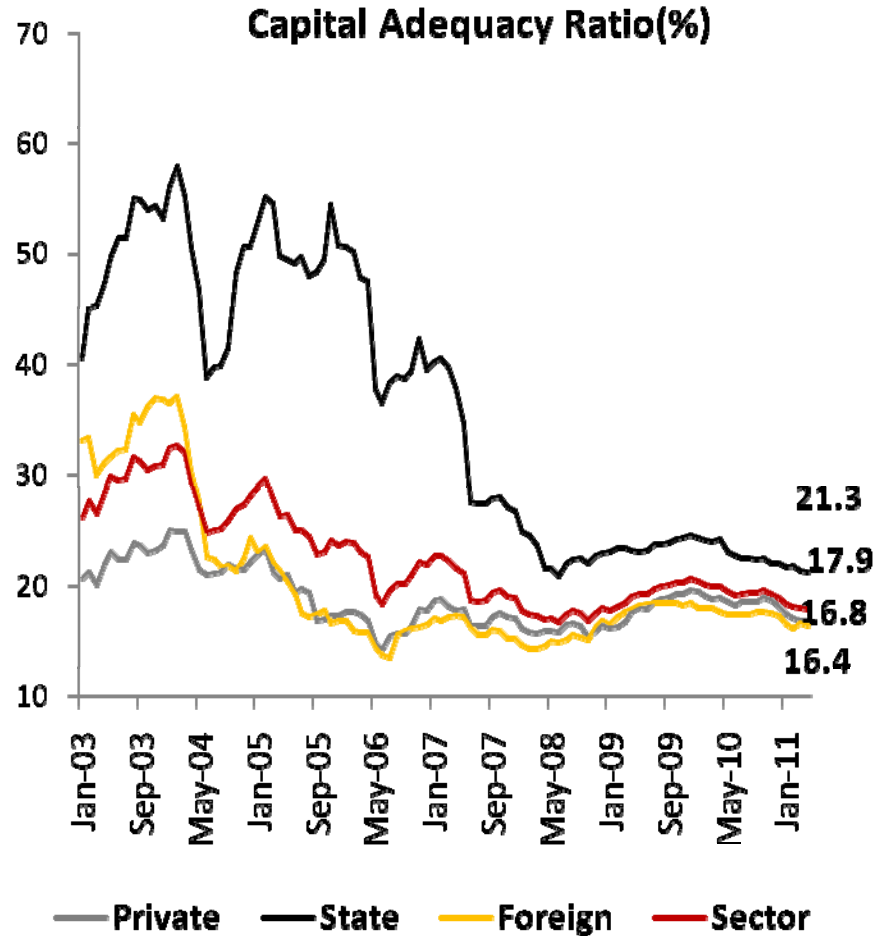


Consumer Loans/Total Loans (%)		
	April 10	April 11
State Banks	30.3	32.1
Foreign Banks	24.9	25.5
Private Banks	19.6	20.9
Source:BRSA		

NPL Ratio on Consumer Loans Exc. Vehicle & Housing Loans (%)		
	April 10	April 11
State Banks	1.7	1.2
Foreign Banks	5.2	3.4
Private Banks	5.9	3.6
Source:BRSA		

- Based on April 2011 reported data, state banks appear to be the most impacted by the last BRSA regulations as consumer loans/total loans ratio have reached to 32.1% while foreign banks appear to be the secondly impacted group. Consumer loans/total loans ratio have reached 25% by April 2011.
- BRSA's last regulations are also related with NPL ratio on consumer loans. The decreasing trend in NPLs/gross loans ratio has been continuing since 2010. When NPL Ratio on Consumer Loans Exc. Vehicle & Housing Loans is analyzed in terms of bank groups, it is seen that state banks have the lowest ratio although they have the highest consumer lending portfolio, however the ratio is above 3% in foreign and private banks.
- As some large banks' unsecured lending NPL ratios exceed 8%, last BRSA's regulations will force banks to be cautious in extending loans and also will force households to be cautious in using consumer loans excluding vehicle and housing loans. Together with the NPL regulation banks are expected to be more selective towards credit customers.

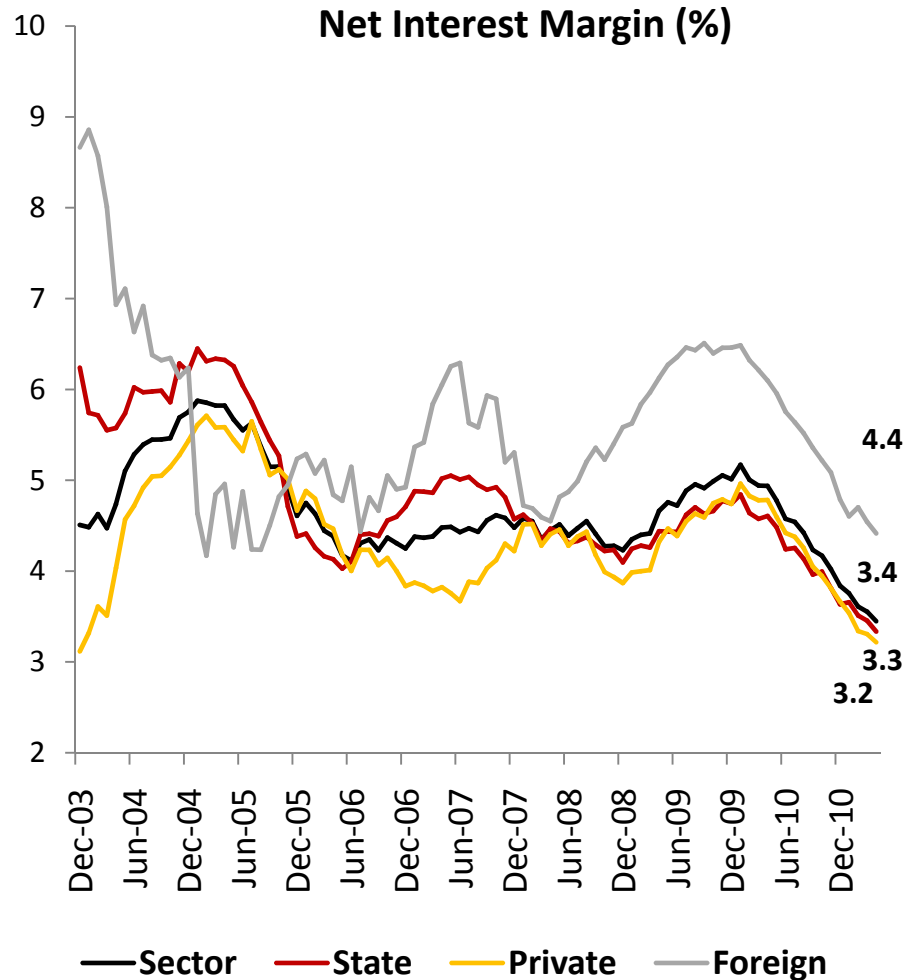
## Possible effects of the last BRSA regulations on CAR...



Soure BRSA

- ✔ Possible effects of the last BRSA regulations are important in terms of the capital adequacy ratio (CAR).
- ✔ After the change in calculation of risk weights, decline in CAR, which is currently 17.9% and has a downward trend since October 2010, would be more severe.
- ✔ When CAR is analyzed in terms of banks' ownership, foreign banks have the lowest CAR with 16.4%. Therefore regulation of BRSA increases the risk of further falling of CAR for foreign banks. However, the low share of foreign banks in general purpose loans may limit the possible negative effects on CAR.
- ✔ Due to state banks' high share in general purpose loans, the decision of BRSA may mostly affect the state banks and the decline in CAR of state banks may be more clear following the implementation.
- ✔ In addition, CAR of private banks will also be negatively affected by the last amendments.

## The net impact of the decision on the profitability will depend on the sensitivity of consumers demand...



Soure BRSA

When the implications of the decision on sector profitability are analyzed, it is clear that;

- these amendments may cause a decline in net profit of the banking sector in the coming months.
- If the cost of these changes are reflected to the loans, it is possible to see an upward movement in interest rates of consumer loans.
- The net impact of the decision on the profitability will depend on the sensitivity of consumers demand to interest rate increases.
- If the sensivity of consumers is low, there will be limited decline in profit.
- Foreign banks' net interest margin is 4.4% in April, thus, their profitability are expected to be least affected by the last BRSA decision compare to other bank groups.

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