

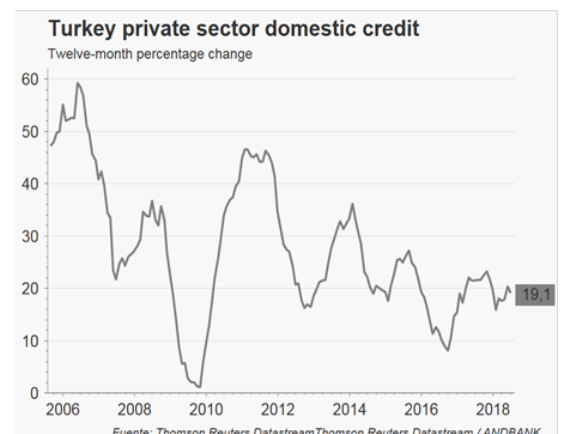
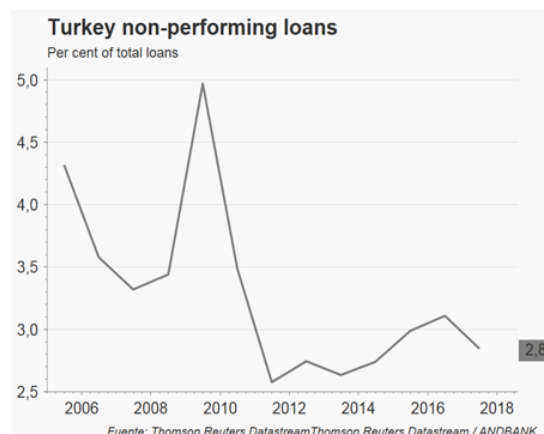
Flash Note  
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Alex Fusté  
@AlexfusteAlex  
[alex.fuste@andbank.com](mailto:alex.fuste@andbank.com)

**I see problems in Turkey, but not as serious as some suggest.**

***Some relevant (and reassuring) information regarding the Turkish banking sector***

- The share of bank's non-deposit funds is around 30 percent in Turkey (deposit funding is 70%). Thus, as long as there is deposits Turkey's banks do not see any problem in extending new loans.
- Some 64 percent of Turkish bank's balance sheets are composed of corporate and individual loans. The share of corporate loans (better guarantees) in total loans is around 80 percent.
- The considered "problematic loans" represent just around 3% of total loans (see chart below), and this was the result of banks managing their assets well.
- The head of the country's banks association, Hüseyin Aydın, said yesterday that "Turkey's banks will not have problems renewing non-deposit funding" despite the fact that an ongoing sell-off in the Turkish Lira has raised concern about the outlook for banks.
- Hüseyin Aydın also said banks would also not lose appetite for extending domestic loans, which could grow at a slightly lower level than the current 19.1% yoy growth (see the chart)



***Our assessment***

I am surprised by the total lack of intervention from the Turkish monetary authorities to stop the devaluation. So much that I have the perception that this movement may be voluntary or forced (but this is my personal opinion).

At the end of the day, was not this the exact strategy followed by many of the European economies (Italy, for example) in the decades of the 70s, 80s and 90s? To force competitive devaluations as an adjustment factor to maintain comparable ROIC.

***Our Outlook***

Be that as it may, I think this storm will pass. Admittedly we must first have to see a satisfying result of the meeting that a Turkish diplomatic delegation is currently holding with the U.S State Department officials in Washington in a bid to defuse the diplomatic crisis between Turkey and the US, as a result of Turkey's failure to free American pastor Andrew Branson, and that ended with the US imposing sanctions on Turkey's justice and interior ministers. A factor that is undoubtedly behind the distrust of Turkish assets.

Of course, it is of no use for investors the rhetoric used yesterday by Recep Tayyip Erdogan when referring to the Lira's situation. He dismissed concerns over the tumbling currency, calling on Turks to "have no worries," and adding: "If they have their dollars, we have our people, our God."

Talking about God is fine, but it is not exactly what an investor who is exposed to Turkey needs to hear today.

Best regards