

Turkey

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Macroeconomic overview

After a slow down in 2008, when the Turkish economy grew by 0.9%, the Turkish economy experienced a sharp contraction in 2009, and real GDP decreased by 4.7%. However, in the last quarter of the year the economy started to pick up, and this was reflected by the 6% year-on-year growth rate in Q4 2009, after the trough recorded in Q1 2009. Real GDP grew robustly again in Q1 2010 with a 11.7% growth rate year-on-year. This remarkable year-on-year rebound in GDP in Q1 2010, however, is largely affected by the fact that in Q1 2009 the Turkish GDP reached its lowest level in absolute terms. Most of the contribution to GDP growth came from domestic demand.

Although the economic situation has improved, inflation remains stable due to low inflationary pressures. The inflation rate was 10.4% in 2008 and went down to 6.3% in 2009. Latest quarterly developments show that it has remained rather stable since then (in April 2010 a 8.4% inflation rate was recorded). The unemployment rate increased from 9.7% in 2008 to 12.5% in 2009 on yearly average, thus remaining on post-crisis levels, although the Turkish unemployment rate decreased down to 12% in April 2010.

Housing and mortgage markets

Outstanding mortgage residential loans increased by 14% in 2009 and reached TRY 44,896 million (EUR 20,380 million). This increasing trend has continued in Q1 and Q2 2010. The total volume of gross residential lending increased by 21.8% (in EUR values) in 2009 and reached TRY 21,222 million (EUR 9.8 billion). As for mortgage debt to GDP ratio, this went up from 3.9% in 2008 to 4.6% in 2009, and these figures are still low compared to the advanced EU economies. According to data from the Turkish National Statistical Offices, in 2000 (the latest year for which data is available), the home-ownership ratio was 68%, while 24% of housing stock was occupied by private landlords, 2% were rented from government or social landlords, and 6% were neither leaseholder nor did they own their houses. Despite the continuous interest rate cut policy pursued by the Central Bank of Turkey to stimulate the economy, increases in house prices have been very limited, and the housing market has not yet fully recovered. The stock of unsold houses has remained high since the onset of the crisis (during 2008-2009) all over the country. Net lending figures appear to be correlated with economic growth in Turkey: during the buoyant economic growth period from 2002 to 2006, net residential figures increased dramatically. In spite of the fact that interest rates have remained low over the last 2 years, net lending figures are still far from showing a robust recovery, which cannot be expected any time soon.

The Loan-to-Value (LTV) ratio on the market in Turkey is around 75% of the appraisal value of a house. Mortgage credit is still a safer type of credit among all other consumer loans. The NPL ratio in mortgage credit is around 2% and continues to decrease also in Q1 2010. Turkish culture is largely supportive to consumers and lenders, as house ownership is also a sign of reputation; therefore Turkish borrowers are very loyal in paying their mortgage loans. 95% of housing finance in Turkey is carried out by commercial banking. Where the pace of population increases and migration from rural areas has been very high, and consequently a large urbanisation process has been experienced in a short time span, demand for urban land and housing continues to rise to very high levels. Particularly for the low and middle-income groups, the question of purchasing houses in a livable and planned environment has become very relevant. Making adequate shelter available, accessible and affordable to meet the housing need for the ever-increasing populations of the urban settlements has always been and remains to be a challenge for Turkey. In such a framework, social housing becomes one of the most significant issues for the country. Social housing projects are carried out mostly by a government-owned agency, TOKİ (Housing Development Administration of Turkey). The mortgage sector represents big potential for banks to grow. Even if net profit margin is relatively not too high, Turkish Banks have tried to increase their profit margin via cross-sell activities.

Funding

Mortgage lenders fund their mortgages from a wide variety of sources and using a number of methods. The dominant funding mechanism in Turkey remains funding by deposits placed by consumers in banks as savings or in current accounts. In order to handle the disadvantages of deposit funding - namely maturity mismatch - Turkish Banks use derivatives to hedge their mortgage portfolio, i.e. generally interest rate swaps and cross currency swaps. Covered bonds and Mortgage Backed Securities are also sources of funds for mortgage lenders but these are not yet developed.

	EU27, 2009	Turkey, 2009	Turkey, 2008
GDP growth (%)	-4.2	-4.7	0.9
Unemployment rate (%)	8.9	12.5	9.7
Inflation (%)	1.0	6.3	10.4
% owner occupied	68.2	68.0	68.0
Residential Mortgage Loans as % GDP	51.9	4.6	3.9
Residential Mortgage Loans per capita, EUR thousand	12.37	0.28	0.27
Total value of residential loans, EUR million	6,125,727	20,380	19,386
Annual % house price growth	-6.8	-8.5	n/a
Typical mortgage rate (euro area), %	2.71	1.26	1.59
Outstanding Covered Bonds as % outstanding residential lending	23.2	n/a	n/a

Source: EMF, Eurostat, ECB, Central Bank of Turkey, Turkish Institute of Statistics

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Turkey=2000