Turkey gives banks $3.7bn lending boost to spur growth

Bloomberg/Istanbul

Turkey’s sovereign wealth fund bolstered the capital ratios of five state-owned banks by €3.3bn ($3.7bn) in a bid to keep credit flowing in the economy.

A market stability fund within the government-controlled investor bought debt issued by the lenders under a recapitalisation programme announced on Monday, which will see a further €400mn flow to Islamic banks.

The Turkish administration is seeking to rekindle growth with cheap loans, while tasking the firms with salvaging industries and helping consumers in the hopes that private firms will follow.

State-owned lenders rushed to extend loans before municipal elections at the end of March as their commercial and international peers pulled back. That helped increase their market share by 3 percentage points to 43% between August and the end of February, according to data compiled by Bloomberg.

TC Ziraat Bankasi AS, the country’s biggest lender, received the most, selling €1.4bn of bonds.

Turkiye Halk Bankasi AS signed an agreement with the fund for a five-year loan of €900mn, the first interest payment of which will be made at maturity. That will improve Halkbank’s Tier 1 ratio by 210 basis points, which is “more than sufficient” to keep it above minimum thresholds, Ates Buldur, a banking analyst at Credit Suisse Group AG’s Istanbul unit, said.

The fund invested in Turkiye Vakiflar Bankasi TAO’s issuance of €700mn of five-year subordinated bonds. Vakifbank bonds have 5.076% coupon rate, although the Treasury earlier said they would have a zero-coupon.

Development bank Turkiye Kalkinma ve Yatirim Bankasi AS, which is being restructured, and Turkiye Ihracat Kredi Bankasi AS, also known as Eximbank, signed agreements for five-year subordinated loans of €150mn each.

Under the plan, the Treasury issues special-purpose government bonds to the stability fund, which then sells the notes to state lenders in exchange for subordinated debt. Islamic lenders Ziraat Katilim, Vakif Katilim and Emlak Katilim will also get funding.

Capital ratios have fallen as the country’s lenders have undertaken nearly $28bns in debt-restructuring requests. They’re also facing a growing pile of bad loans in the wake of the currency’s plunge last year, which has spurred inflation and increased funding costs. The government last year recapitalized three of its banks by selling bonds to its unemployment fund.