

Turkey: Moody's bank downgrades look harsh

Moody's has taken aggressive action against most large Turkish banks. We don't think it was warranted



Source: istock

Aggressive action

Moody's has taken more aggressive action against Turkish banks than expected, downgrading all banks' ratings (except QNBFB) by one notch and leaving them on review for further downgrade (including QNBFB). As the banks' ratings before this action were on a Stable outlook, this is a really dramatic move. It reflects Moody's view that the operating environment has deteriorated, particularly in terms of market funding. The agency cites wider credit spreads (c. +300bp year to date), a lower Turkish lira (-24% YTD) and a lower roll-over ratio in March compared to the average for 1Q18. Moody's expects the weaker lira to cause a decline in asset quality and capital ratios and sees Turkish GDP growth falling to 2.5% this year and 2.0% in 2019.

As part of its review, Moody's will examine the incentives of foreign banks to support their Turkish units and the ability of the government to support local banks. Note that most large Turkish banks continue to incorporate one to two notches of government support. The upshot of all this is that most large Turkish banks are now rated Ba3, with the exception of QNBFB (Ba2) and HALKB (B1/-/BB+). ALTNF is at B1 and ODEABK at B3. All remain on review for downgrade.

Selected Turkish banks' credit premia



Source: Bloomberg, ING

The key driver for spreads

How we move so fast from stable outlooks in March to the current position is a mystery. Moody's growth projections are very bearish (we see growth at 3.7% this year and 3.2% next year) and, while we agree that asset quality and capitalisation are likely to suffer due to the weaker TRY, the banks start from a strong position and the additional assumed weakness does not warrant a Ba3 rating. While we expect weakness for the sector this morning, we think monetary policy and political issues will remain the key drivers for spreads over the next few weeks.

Major Turkish banks' senior unsecured ratings

	Moody's	S&P	Fitch
AKBNK	Ba3/Review for Downgrade	-	BB+/Watch Neq
EXCRTU	Ba3/Review for Downgrade	-	BB+/Watch Neq
GARAN	Ba3/Review for Downgrade	-	BBB-/Watch Neq
HALKBK	B1/Review for Downgrade	-	BB+/Watch Neq
ISCTR	Ba3/Review for Downgrade	-	BB+/Watch Neq
QNBFB	Ba2/Review for Downgrade	-	BBB-/Watch Neq
TSKBTI	Ba3/Review for Downgrade	-	BB+/Watch Neq
VAKBN	Ba3/Review for Downgrade	-	BB+/Watch Neq
TCZIRA	Ba3/Review for Downgrade	-	BB+/Watch Neq
YKBANK	Ba3/Review for Downgrade	-	BBB-/Watch Neq

Source: Moody's, S&P, Fitch, ING