+--+

BN 01/09 09:38 *TURKEY STOCKS SET FOR ALMOST 2YR LOW, BIGGEST FALL IN MAJOR EM

+--+

Turkey Stocks Fall for a Fourth Day as Worries Mount Over Banks
2012-01-09 16:55:28.266 GMT

By Benjamin Harvey

Jan. 9 (Bloomberg) -- Turkish stocks dropped for a fourth day as a tightening monetary policy and predictions for slowing growth left investors worried about banks' margins.

The main ISE National 100 index fell 0.7 percent to 49,836.98 at the close in Istanbul. Yapi & Kredi Bankasi AS, part-owned by UniCredit SpA, dropped 2.3 percent to 2.55 liras after its parent slipped 13 percent, extending its plunge over the past week to 47 percent.

The Turkish banking index, which tracks 16 lenders, declined 1.9 percent to 93,224.38 after having fallen as much as 3.4 percent. The gauge accounts for 36 percent of the ISE Stock Exchange National 100 Index, which plummeted 28 percent in the past year. The central bank has spent $15 billion to shore up the lira; it has not provided funds at its lower 5.75 percent one-week repo funding rate since Dec. 29. Inflation in Turkey was 10.5 percent in December, the highest in three years.

Turkish banks will be forced to deal with a tighter monetary policy in 2012 after a year of expansion amid record- low rates, Yavuz Uzay, head of Turkey research at Renaissance Capital in London, said in response to e-mailed questions.

Banks will also face "maturity mismatch, lack of deposit growth, squeezing margins, rising non-performing loans and rising provisions," he said. "The Turkish banks story still involves a lot of risks, but valuations now reflect such risks to a great degree," he said.

Bank Valuations

Turkish banks are trading at a price-to-earnings multiple of 7 times compared with a ratio of 8.7 for the MSCI Europe Financials Index, according to data compiled by Bloomberg.

A sharp rise in funding costs resulting from a reversal of the central bank's low-rates policies will push down the banking sector's margins in the first half of 2012, Standard Bank Group Ltd's unit in Turkey said in a report issued today. Quality of loans will also be in question and "there is a high likelihood of a sharp increase in bad loans in the first half unless the currency appreciates substantially," the report by head of research Ercan Uysal said.

Non-performing loans picked up in the second half, rising 37 percent to 3.6 billion liras ($1.9 billion) at the end of December from 2.7 billion liras in July, according to data on the banking association website.

Total loans in Turkey grew 30 percent last year, defying government efforts to keep loan growth at below 25 percent as an expansion in lending drove the current-account deficit to record levels, which contributed to the lira's weakness and pushed up inflation.

UniCredit tumbled last week as the lender announced details of its share sale, which comes as Italian bond yields trade close to a record high.

Link to Company News:UCG IM <Equity> CN <GO> Link to Company News:YKBNK TI <Equity> CN <GO>

For Related News and Information:
Top Stories:TOP<GO>

--Editors: Ash Kumar, Peter Branton

To contact the reporter on this story:
Benjamin Harvey in Istanbul at +90-212-317-3901 or bharvey11@bloomberg.net

To contact the editor responsible for this story:
Mark Bentley at +90-212-317-3905 or
mbentley3@bloomberg.net