

# CHART OF THE WEEK

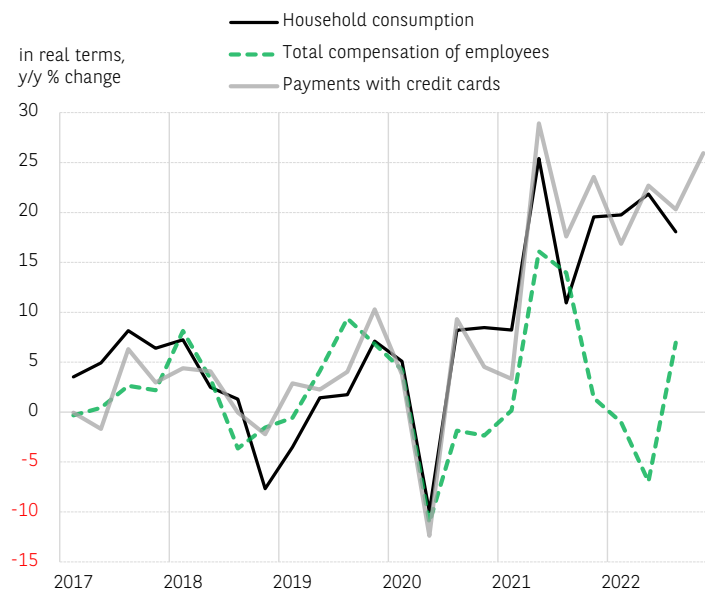


08 December 2022

## TURKEY: CONSUMPTION ON CREDIT

François Faure

Turkey: household expenditures supported by credit cards use



Sources : Turkstat, BNP Paribas

In Turkey, growth has held up well (+4% year-on-year in Q3 2022) despite the rise in inflation. Consumer spending was the main supporting element, with an increase of 18%. However, the acceleration in inflation (from 19% year-on-year in Q3 2021 to 74% in Q2 2022) led to a contraction in the wage bill in real terms up to Q2 2022, despite a strong recovery in employment. Since mid-2022, inflation has continued to accelerate (+84.4% in November) but a wages catch-up has occurred following the revaluation of the minimum wage. However, this cannot explain the difference between consumption and the wage bill purchasing power.

Consumer spending is to a large extent supported by the use of credit, and in particular by purchases with credit cards, the use of which has increased significantly in recent years. In October 2022, credit card outstanding amounts for private individuals represented 27% of total consumer credit, compared with 20% on average between 2015 and 2019. Even for this kind of costly financing, the maximum interest rate applicable by banks, which was reduced from 1.9% per month in 2021 to 1.36% at present, is negative when it is deflated by wage inflation.

Is there a risk of consumer over-indebtedness? The consumer debt ratio is still moderate, with total outstanding loans to private individuals representing only 31% of household disposable income in 2021. According to the central bank, the profile of borrowers has improved somewhat over the past four years with an increase in the proportion of employees with a fixed salary. And finally, up until now the bad debt ratio on credit cards has remained low (3.5% in October). The risk of over-indebtedness appears to be limited and under control for the time being.

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