Banking System in Turkey [[1]](#footnote-1)

“June 2014”

**Developments in the Banking Sector**

**1. General Outlook**

Global risks still remained significant and the monetary policy of the Federal Reserve (FED) and European Central Bank (ECB) continued to diverge. While growth and inflation stayed above expectations in Turkey, an improvement in the current account deficit has continued despite geopolitical risks. Additionally, funding costs increased in the banking sector. Strong corporate credit growth continued, however, individual credit growth slowed. The sector's capital adequacy remained high and total profits fell. The pace of increase in the number of branches and employment slowed down.

**Policy of developed countries’ central banks continued to dominate to global economy**

In the second quarter of 2014, due to the recovery in the U.S. economy, especially in labor market, tapering has continued. Also, it is expected that Federal Reserve to hike interest rates sooner than expected.

Weak economic recovery in Europe has caused to maintain a loose monetary policy by European Central Bank (ECB). ECB announced targeted longer-term refinancing operations (TLTROs) aimed at improving bank lending to the Euro Area non-financial private sector and lowered policy rate.

Monetary policy decisions and expectations of the developed countries’ central banks impact on developing countries felt in the second half of the year. Reducing asset purchases by the Federal Reserve and expectation of earlier interest rate hike limited the capital flows to developing countries. At the same time, the steps taken by the European Central Bank prevented the increase in the risk perception toward these countries. Increasing geopolitical risks has been effective on macroeconomic outlook, capital flows and commodity prices.

Turkey's gross domestic product (gdp) increased by 4.3 percent in the first quarter of 2014. Also, inflation continued to remain high. Although geopolitical risks had a negative impact on the exports, due to recent measures taken, improvement in the current account deficit continued.

**After stabilization in the exchange rate, Central Bank of the Republic of Turkey (CBRT) cut interest rates.**

Along with the measures taken by both CBRT and Banking Regulation and Supervision Agency (BRSA), credit growth fell to levels expressed as a reference. In addition, continued recovery in the current account deficit and decreasing cumulative effect of currency depreciation on inflation enable CBRT to lowered its benchmark interest rate.

Policy interest rate has been reduced.50-basis points both in May and June in The Monetary Policy Committee meetings.

**While consumer loans slowed down, corporate loans grew stronger**

As a result of high funding cost and in particularly regulations relating to consumer loans reduction in credit growth continued in the second quarter of the year. In addition, the divergence between corporate loans and consumer loans growth rate became apparent.

Banking sector’ profit decreased by 7 percent in the second quarter of the 2014, compared to the same period of the last year. In parallel with the decline in profit volume, profitability ratios were deteriorated. As of June 2014, average\* return on equity was 11.7 percent and average return on assets was 1.3 percent.

Total assets grew 2 percent (TL 28 billion) in the first quarter of the year. Loans decisive in total asset’s growth, while 2 percent of the securities portfolio decreased.

The share of deposits in the banking sector funding sources, stood at 53 percent unchanged from the previous quarter. The share of non-deposit liabilities was 27 percent.

Capital adequacy ratio was 16.3 percent in the second quarter of the year.

**2. Developments in Balance Sheet Items**

Total assets increased by 20 percent by June 2014 compared to the same period of 2013. As of June 2014, total assets were TL 1,730 billion (USD 815 billion).

Total assets increased by 20 percent in deposit banks and 33 percent in development and investment banks, as compared to the June 2013.

By June 2014, compared to the same period of last year, while the share of state owned banks in total assets increased by 1 point, the share of the foreign banks decreased by 2 point. The share of foreign banks has increased by 1 point in the second quarter of 2014. In parallel with total assets of foreign banks share in deposits and loans increased by 1 percentage point.

\*: Average of the beginning and end of the period

Due to measures taken by policymaker, primarily including consumer loans, total loan growth rate continued to slowdown. As of June 2014 the growth rate stood at 23 percent.

**Total Assets (USD billion) and Total Assets/Gdp (percent)**

The ratio of loans to total assets realized at 63 percent by increasing 1 percentage points as compared to March 2014. Loans to deposits ratio was 117 percent by increasing 6 percentage points compared to the previous quarter. The same ratio was 102 percent in state-owned banks, 115 percent in private banks and 117 percent in foreign banks as of June 2014.\*\*

The ratio of non-performing loans (NPLs, gross) to loan stock stood at 2.8 percent. Notably, provisions set aside for the non-performing loans were at the level of 77 percent.

Total deposits financed 53 percent of total assets and remained unchanged compared to the same period of last year. The non-deposit funds to total assets were 27 percent by June 2014. Securities issued by banks continued to increase and financed 4 percent of total assets by June 2014.

Shareholders’ equity was TL 205 billion as of June 2014 with an increase of 6 percent compared to June 2013 mainly due to increasing in securities increment value fund

**3. Profitability**

In the second quarter of the year, as a result of the high interest rates, interest income and interest expenses of the sector increased by 26 and 56 percent. Thus, net interest income increased by 3 percent compared to the same period of 2013.

\*\*: The difference between banking sector’s and banks groups’ loan to deposit ratio is due to loans of the development and investment banks that does not collect deposit.

In the first of 2014, the total profit volume of the sector decreased by 10 percent compared to the same period of the last year and fell to TL 12 billion.

Profitability ratios continued to deteriorate compared to last year on annual basis. While average return on equity was around 11.7 percent, average return on assets at the rate of 1.3 percent by June 2014.

By June 2014, the ratio of TL equivalent of FX assets to total assets and the ratio of TL equivalent of FX liabilities to total liabilities became 34 and 41 percent respectively.

Considering maturity, 52 percent of total assets and 77 percent of total liabilities had a maturity of less than 1 year. 5 years and 16 percent of total assets had a maturity 5 years and over while their share in total liabilities is 3 percent.

**4. Selected Issues**

As of June 2014, 44 banks were operating in Turkey. The number of branches and employees increased by 79 and 569 to 11,131 and 198,640 in the same period, respectively.

The share of first five banks in total assets was 58 percent while their shares in total loans and deposits were at the rate of 56 and 60 percent respectively compared to June 2013. Also the share of first ten banks in total assets, deposits and loans were at the rate of 85, 90 and 84 percent respectively.

1. Deposit banks and development and investment banks are included. [↑](#footnote-ref-1)