Banking System in Turkey [[1]](#footnote-2)

“September 2015”

***Monetary policy uncertainty in developed countries and growth concerns in developing countries have continued. Declining commodity prices due to slowdown in global growth has contributed inflation and current account deficit in Turkey. The capital level of the banking sector will be decisive in contributing to growth in Turkish economy.***

**1. General Outlook**

* **Global growth is slow and risky:** In the third quarter of 2015, volatility in global financial markets continued because of uncertainties in monetary policies of developed economies. Precarious growth trend in the US and ongoing concerns about growth in Europe is creating uncertainty in the market. Increased uncertainty causes slowing emerging economies and commodity prices are suppressed.
* Growth rate of Turkey has been exceeded expectations in 2015. But growth performance still remains below the targets and potential growth level. Growth stems largely from private consumption. In addition, there is also the revival in investment spending. Low oil prices are supporting to the recovery in foreign trade and current account deficit.
* **The Central Bank continued its prudent monetary policy stance:** Due to the global uncertainty, depreciation of TL and the rise of inflation, the weighted average cost of funding increased **0.4** percentage point compared to the previous quarter and reached to **8.9** percent.

**2. Developments in Banking Sector:**

* Total assets increased by **24.5** percent in TL terms by September 2015 compared to the same period of 2014 and reached TL **2,272** billion (USD **751** billion). Total assets contracted by **6.3** percent in dollar terms The ratio of total assets to gdp is estimated **120** percent as of third quarter of 2015.
* Total loans increased by **26** percent on an annual basis as of September 2015. The annual growth of loans was **18** percent in fixed foreign exchange rate. As of September, the annual growth of retail loans was **11** percent and corporate loans was **31** percent. On the other hand, the depreciation of the TL caused higher risks by increasing the total TL equivalent of FX items.
* Loans to deposits ratio was **114** percent by increasing 2 points compared to the same period of last year. The same ratio was **102** percent in state-owned banks, **110** percent in private banks and **114** percent in foreign banks as of June 2015.
* Non-performing loans increased annually by **25** percent as of September 2015. The ratio of non-performing loans (NPLs, gross) to loan stock remained at **2.8** percent. Notably, provisions set aside for the NPLs were at the level of **75** percent. On the other hand, NPLs that are sold to asset management companies are calculated to be **1.2** percent of total loans
* Total deposits was TL **1,277** billion (USD **422** billion) as of September 2015 with an increase of **24.3** percent compared to September 2014. Annual growth in deposits with a fixed exchange rate was **11** percent. FX deposits increased by **7** percent in dollar terms. The share of TL savings deposits in total deposits fell by 6 point to **53** percent compared to the same month of the previous year.
* Non-deposit funds increased by **29** percent annually. The share of non-deposit funds in total liabilities increased by 1 point to **26** percent compared to the previous year. Syndication loans from foreign banks and issued securities had important role in the increase in non-deposit funds
* The annual growth rate of shareholders' equity continued to slow down to **13** percent and remained below the growth rate of the balance sheet. As of September 2015 shareholders' equity was TL **237** billion (USD **78** billion). Thus, the share of the shareholders' equity in total liabilities was **10.4** percent
* In the first nine months of the year, interest income and interest expenses of the sector increased by **17** and **16** percent. Thus, net interest income increased by **18** percent compared to the same period of 2014 in TL terms, whereas it decreased by **11** percent in USD terms. Foreign currency losses led to a decrease in profitability
* By September 2015 the total profit volume of the sector remained same compared to the same period of the last year and realized as TL **18.2** billion. Thus, the average return on equity was 11 percent, and the average return on assets was **1.2** percent.
* Net FX short position of the banking sector realized as USD **13.6** billion. The ratio of net FX position to shareholders equity is **1.5** percent.
* Considering maturity, **51** percent of total assets and **77** percent of total liabilities had a maturity of less than 1 year. The assets and liabilities with a more than 5 year maturity have a **16** percent and **4** percent shares in total assets and in total liabilities, respectively.

**3. Selected Issues**

* As of September 2015, 47 banks were operating in Turkey. The number of branches increased by 91 and to **11,280** and the number of employees increased by 2,506 to **201.605** respectively in the same period.
* Also there are 5 participation banks in Turkey. The detailed information about participation banks is available http://www.tkbb.org.tr/homepage on The Participation Banks Association of Turkey.
1. Deposit banks and development and investment banks are included. [↑](#footnote-ref-2)