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

“March 2016”

***In December, after the US Federal Reserve decision that increasing the policy rate, capital inflows to developing countries were strong due to decreasing uncertainty. While commodity prices remained at low levels in global markets, inflation and current account deficit recovered in Turkey. Growth rate of the Turkish economy was above expectations in the first quarter of the year. Slowdown in loan and asset growth continued in the banking sector.***

**1. General Outlook**

* **Capital inflows to developing countries were strong:** US Federal Reserve increased policy rate by 25 basis points in the December 2015 Meeting. Weak growth in Europe and downward trend of oil prices on the global markets continued. Capital outflows from developing countries occurred in the second half of 2015, turned to inflows in the first quarter of 2016. Thus, emerging market currencies appreciated and foreign investors’ purchases in the stock and bond markets increased.
* **Turkey's economy has grown over the expectations:** Increased household consumption and public expenditure have been effective on strong growth rate which was 4.8 percent on an annual basis in the first quarter of 2016. Annual consumer inflation declined to 7.5 percent as of March 2016 due to the fall in oil prices and the appreciation of the TL. Low oil prices are supporting the recovery in foreign trade and current account deficit.
* **CBRT lowered the upper band of the interest rate corridor:** Marginal Funding Rate has been reduced from 10.75 percent to 10.5 percent in The Monetary Policy Committee meeting in March 2016 thanks to of the recovery in the current account deficit and inflation. The weighted average cost of funding was 8.9 percent as end of the March 2016.

**2. Developments in Banking Sector:**

* Total assets increased by **13** percent in TL terms by March 2016 compared to the same period of 2015 and reached TL **2,284** billion (USD **809** billion). Total assets grew by **5** percent in dollar terms. The ratio of total assets to gdp is estimated **114** percent as of first quarter of 2016.
* Total loans increased by **15** percent on an annual basis and reached TL **1,486** billion (USD **526** billion) as of March 2016. The annual growth of loans was 6 percent in dollar terms. Slowdown in retail loans has continued in the first quarter of 2016. As of March, the annual growth of retail loans was **8** percent. The decline in retail loans was driven by decrease in consumer loans. Because of high NPL ratio in credit card which was **8.2** percent, NPL ratio in retail loans was **4.6** percent and surpassed the total credit.
* Loans to deposits ratio was **115** percent by decreasing 1.5 points compared to the same period of last year. The same ratio was **104** percent in state-owned banks, **110** percent in private banks and **112** percent in foreign banks as of March 2016. [[2]](#footnote-3)
* Non-performing loans increased annually by **21** percent as of March 2016. The ratio of non-performing loans (NPLs, gross) to loan stock increased by 0.4 point and reached to **3.1 percent**. Notably, provisions set aside for the NPLs were at the level of **77** percent.
* Total deposits was TL **1,291** billion (USD **457** billion) as of March 2016 with an increase of **15** percent compared to March 2015. Annual growth in deposits was **6** percent in dollar terms. FX deposits increased by **13** percent in dollar terms. The share of TL saving deposits in total deposits fell by 2 point to **56** percent compared to the same month of the previous year.
* Non-deposit funds increased by **9** percent annually. The share of non-deposit funds in total liabilities decreased by 1 point to **25** percent compared to the previous year. Syndication loans from foreign banks and issued securities had important role in the slowdown in non-deposit funds.
* The annual growth rate of shareholders' equity continued to accelerate to **16** percent and exceeded to the growth rate of the balance sheet. As of March 2016 shareholders' equity was TL **262** billion (USD **93** billion). Thus, the share of the shareholders' equity in total liabilities was **11.4** percent.
* In the first three months of the year, interest income and interest expenses of the sector increased by **25** and **28** percent. Thus, net interest income increased by **22** percent compared to the same period of 2015 in TL terms and **13** percent in dollar terms.
* By March 2016 the total profit volume of the sector rose by **26** percent compared to the same period of the last year and realized as **TL 8.1 billion**. Thus, the average return on equity was **11.2** percent, and the average return on assets was **1.3** percent. Improvement in interest margin was the main factor of relatively higher profitability.
* Net FX short position of the banking sector realized as **TL -1.9 billion**. The ratio of net FX position to shareholders’ equity is **0.6** percent as of March 2016.
* Considering maturity, **50** percent of total assets and **76** 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 **15** percent and **4** percent shares in total assets and in total liabilities, respectively.

**3. Selected Issues**

* As of March 2016, 47 banks were operating in Turkey. The number of branches decreased by 52 to **11,181** and the number of employees decreased by 836 to **200,381** respectively in the same period.
* Also there are 6 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)
2. The differences between the average ratio and subgroups ratios stemming from the development and investment banks. [↑](#footnote-ref-3)