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

“June 2016”

***In the second quarter, growth expectations in developing countries declined and capital inflows reduced to these countries. Commodity prices rose. Turkey diverged positively and capital inflows to Turkey increased. In the second quarter of 2016 gdp growth rate slightly decreased compared to the first quarter. Shareholders' equity increased rapidly due to the higher profit of the banking sector and growth rate of the total assets decelerate.***

**1. General Outlook**

* **Capital inflows to developing countries declined:** In the second quarter of 2016, due to the weaker growth expectations, emerging countries faced limited capital inflows. Also, rise in oil prices has led to an increase in inflation.
* **Turkey diverged positively:** Turkish economy showed a positive performance compared to other developing countries in the second quarter of 2016. Capital inflows revived compared to the first quarter of the year and official reserves increased. Although inflation continues to rise, the rate of increase was limited. Additionally, in the second half of 2016, growth rate was slowed down compared to the first half and realized **3.1** percent. The current account deficit has continued to contract on an annual basis.
* **CBRT lowered the upper band of the interest rate corridor:** Marginal Funding Rate was reduced from **10.5** percent to **9** percent in the second quarter of 2016 thanks to recovery in the core inflation and increasing risk appetite for emerging countries after Brexit decision. The weighted average cost of funding that was **8.9** percent as end of the March 2016, decreased to **8.2** percent. Marginal Funding Rate has been reduced **25** basis points in Monetary Policy Committee Meeting in July 2016.

**2. Developments in Banking Sector:**

* Total assets increased by **12** percent in TL terms by June 2016 compared to the same period of 2015 and reached TL **2,350** billion (USD **815** billion). Total assets grew by **4** percent in dollar terms. The ratio of total assets to gdp realized **114** percent as of first half of 2016.
* Total loans increased by **13** percent on an annual basis and reached TL **1,543** billion (USD **535** billion) as of June 2016. The annual growth of loans was **5** percent in dollar terms. Slowdown in retail loans has continued in the first half of 2016. As of June, the annual growth of retail loans was **6** percent. The decline in retail loans was driven by decrease in consumer loans. Because of high NPL ratio in credit card which was **7.3** percent, NPL ratio in retail loans was **4.5** percent and surpassed the total credit.
* Loans to deposits ratio was **117** percent by increasing **0.5** points compared to the same period of last year. The same ratio was **107** percent in state-owned banks, **112** percent in private banks and foreign banks as of June 2016. [[2]](#footnote-3)
* Non-performing loans increased annually by **27** percent as of June 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 **1,318** billion (USD **457** billion) as of June 2016 with an increase of **12** percent compared to June 2015. Annual growth in deposits was **4** percent in dollar terms. FX deposits decreased by **1** percent in dollar terms. The share of TL saving deposits in total deposits rose by **2** point to **57** percent compared to the same month of the previous year.
* Non-deposit funds increased by **7** percent annually. The share of non-deposit funds in total liabilities increased by **2** points to **25** percent compared to the previous year. Due to depreciation of TL, nominal growth of loans borrowed from abroad had an important role in the increase in non-deposit funds.
* The annual growth rate of shareholders' equity continued to accelerate to **17** percent and exceeded to the growth rate of the balance sheet. As of June 2016 shareholders' equity was TL **273** billion (USD **95** billion). Thus, the share of the shareholders' equity in total liabilities was **11.1** percent.
* In the first six months of the year, interest income and interest expenses of the sector increased by **21** and **25** percent. Thus, net interest income increased by **16** percent compared to the same period of 2015 in TL terms and **8** percent in dollar terms.
* By June 2016 the total profit volume of the sector rose by **42** percent compared to the same period of the last year and realized as **TL 18.8 billion**. Thus, the average return on equity was **12.3** percent, and the average return on assets was **1.4** percent. Improvement in interest margin was the main factor of relatively higher profitability.
* Net FX short position of the banking sector realized as **TL -1.8 billion**. The ratio of net FX position to shareholders’ equity is **0.8** percent as of June 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 June 2016, **47** banks were operating in Turkey. The number of branches decreased by **248** to **11,029** and the number of employees decreased by **2,462** to **199,429** 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)