**Turkish Economy and Banking System in 2010-2011[[1]](#footnote-1)**

**Economic Outlook in 2011**

**Economic activity in Turkey increased in 2011**

Due to its credibility and stability, Turkish economy has well performed in terms of a high gdp growth and a lower unemployment rate at an environment of continuing endeavor to ensure international markets stability and accelerate economic growth. The major factors that influence the economical performances are declining public sector deficit and lower debt stock as percentage of gdp, low level of inflationin line with the targeted price stability, rapidc apital inflow and strong and functional financial sector.

GDP increased by 9 percent annually in real terms as of June 2011. Growth rate is expected to be realized at 7.5 percent level by the end of 2011.

While European Union countries have been struggling with public sector debt problems, Turkey has strongly managed its budget performance. Low public debt to gdp ratio, decrease in the public borrowing sector demand, relatively low household debt to gdp ratio and loan stock to gdp ratio compared to European countries have reinforced the credibility of Turkish economy.

On the other hand the rapid economic growth is financed mainly by capital inflows due to the low level of domestic savings. As a result of this, the ratio of current account deficit to GDP increased to 9,5 percent as of June 2011.

In order to limit the unfavorable effects of the instability in the international markets and sustain financial stability, the government and as well as monetary and banking sector authorities were conservative by giving priority to the policies that would decelerate the economic growth and constrain saving deficit. Accordingly, public deficit to gdp ratio was decreased and loan growth rate was limited.

**Banking Sector: Turkish banking sector acts prudently in circumstances of ongoing global instability.**

Banking sector performance has been determined by the macroeconomic conditions and measures taken by the public sector in 2011 in Turkey. In this framework, the Central Bank of Turkey has implemented policy composition including a interest rate corridor, increase in the reserve requirement ratio and differentiation of the reserve requirement ratios according to maturities in a timely manner.

During 2011, banks have behaved conservatively in consideration of tightening monetary policy and cautious banking measures taken by the authorities.

The major regulations that influence the banking activities were risen reserve requirement ratios, limitationon the credit growth, increase of some risk weightings and provisions. As a result, the cost of capital has risen and interest rates on loans have increased.

Outstanding growth performance of Turkish economy has been supported by healthy banking sector with its high capital adequacy, low non-performing loans and assets backed by strong domestic deposits.

Although there was an appropriate circumstance for loans growth due to relatively low public sector demand for borrowing, banks behaved more cautiously and selectively while issuing a loan.

**Loans growth has decelerated:** In the first nine months of 2011, loans increased by 26 percent compared to December 2010. While corporate loans had a share of 67 percent in total assets , share of consumer loans in total loans was 33 percent. Total loans to total assets and total loans to gdp reached 54 and 50 percent respectively by September 2011. The ratio of non- performing loans (NPLs, gross) to loan stock declined to 2.7 by the end of September 2011. Notably, provisions were set aside for 85 percent of the non-performing loans.

**Strong capital adequacy**: Total shareholders’ equity of the banking sector accumulated to USD 73 billion by September 2011. Meanwhile, net working capital reached USD 62 billion. Capital adequacy ratio was 16.5 percent well above the regulatory level of 12 percent.

**Declining profit margin in 2011**: The interest margin has declined due to monetary and prudent banking measures taken by the authorities. The profitability ratio has deteriorated and return on equity (ROE) has decreased by 1.9 points and become 14.5 percent.

**Selected Indicators of Banking System (USD million)**

|  |  |  |
| --- | --- | --- |
|  | December 2010 | September 2011 |
|  |  |  |
| **Liquid assets** | 64,669 | 88,459 |
| **Securities portfolio** | 186,281 | 154,681 |
| **Loans** | 323,791 | 339,341 |
| **Non-performing loans** | 12,241 | 9,326 |
| **Provisions (-)** | 10,433 | 7,667 |
| **Deposits** | 379,779 | 349,373 |
| **-TL** | 267,548 | 234,441 |
| **-FX** | 112,231 | 114932 |
| **Funds Borrowed from Banks** | 78,078 | 84,055 |
| **Repurchase Agreements** | 37,397 | 62,423 |
| **Shareholder’s Equity** | 83,787 | 73,237 |
| **Total Assets** | 627,092 | 626,668 |
|  |  |  |
| **Selected Ratios (%)** |  |  |
| **Loans / gdp** | 45 | 52 |
| **NPLs (gross) /Loans** | 3,8 | 3 |
| **ROE** | 16,4 | 14,5 |

Source: Banking Regulatory and Supervisory Agency

**Strong Deposit Base:** Of the deposits, which are the most important resource for the banking sector and constituted 56 percent of the total liabilities, 67 percent were in TL and 33 percent in foreign currency. Savings and commercial deposits were the largest deposit items. Funds borrowed from abroad that reached at 78 billion dollars finance 12 percent of total assets. Borrowing from the central bank has increased.

**Securities Portfolio:** Securities portfolio have realized 155 billion dollars by September 2011 and constitute 25 percent of total assets. The majority of these assets belong to public sector debt securities.

**FX Position:** 29 percent of the total assets and 35 percent of the total liabilities were in foreign currency. The FX position within the balance-sheet was USD 32.3 billion whereas the foreign currency net overall position, which included off-balance-sheet operations, amounted to deficit of USD 523 million.

**Profits:** The total profit volume of the deposit banks and the development and investment banks decreased by 14 percent by September 2011 compared to the same period of the last year and declined to TL 14 billion (USD 7.6 billion).

**General Information on the Banking System In Turkey**

As of September 2011 there are 48 banks operating in the banking sector in Turkey.Of which 31 are deposit banks, 13 are development and investment banks and 4 are participation banks. The deposit banks do not have participation accounts and the participation banks are not licensed to accept deposits. The development and investment banks are not allowed to issue deposit and participation certificates.

There are 23 deposit, development and investment banks of which majority of shares, excluding public shares, are held by residents abroad or have entered into strategic partnership agreements with residents abroad. The controlling shareholders in those banks are resident in the USA (3), France (3), the Netherlands (2), Belgium (1), Germany (2), Greece (2), Portugal, Luxembourg, Iran, Pakistan, Israel, Bahrain, the United Kingdom, Saudi Arabia, Italy, Kazakhstan and Libya.

For further information: The Banks Association of Turkey,[www.tbb.org.tr](http://www.tbb.org.tr)

Information for Participation banks: The Participation Banks Association of Turkey ([www.tkbb.org.tr](http://www.tkbb.org.tr)).

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