

**The Turkish economy
and
the banking sector**

**The Banks Association of Turkey
www.tbb.org.tr**

Outline

Turkish economy

Economic policy framework

Main features of the economy

Main targets of the economic policy

Short term outcomes and targets of the reforms

Banking sector

Operational environment

Towards stronger banking system

Short-term outcomes

Economic Policy Framework

Turkey is an open economy

Capital flows are free

No exchange rate restriction, under floating exchange rate regime

Signed the customs union with the EU in 1995

The EU's economic criterias recently becoming nominal anchor

Main features of the economy

Population of 71 million with GNP USD 300 billion and income per capita USD 4,200

Long term average growth rate is about 5 percent

Domestic demand with 70 percent of total demand is the main force behind the growth

Services and industry have shares of 58 percent and 30 percent

Unemployment rate is about 10 percent

Foreign trade amounts to 55 percent of GNP. Exports and imports amount to 67 billions and 100 billion, respectively.

The main trade partner is the EU with 50 percent share

Main targets of economic policy

Setting stable rules and institutions eliminating discretionary measures for well functioning market economy

Undertaking fiscal responsibility, focusing to reduce debt to GNP ratio through primary surplus

Channelling sources to private sector, sustaining stable growth at annual rate of 5 percent, lowering inflation and reaching price stability

Improving fiscal transparency and better management in the public sector, increasing role of private sector and foreign capital inflows

Strengthening financial sector

Reaching sustainable stability through structural reforms; social security, wideining tax base, bankruptcy law, central bank and regulatory and supervisory institutions' autonomy

Leading Turkey to become one of the global players

Short-term outcomes

Quick recovery in growth led by private sector

Strong fiscal adjustment, sharp decline in inflation

Stability sustained in money and capital markets; a noticeable fall in the cost of borrowing and real interest rates

Increase in TL demand and strengthened financial institutions

Jump in lending to private sector and consumers loans

Increased volume of foreign trade

Strengthening rating outlooks from B- to BB-

Selected indicators

		2002	2003	2004	2005
GNP	USD billion	180	240	299	300
GNP growth	% change	8	6	10	5
Income per capita	USD	2.619	3.390	4.200	4.300
Inflation	% change	30	20	9	8
Interest rates on G-securities	%	51	28	23	18
YTL/USD		1,64	1,39	1,34	1,34
YTL/Euro		1,71	1,76	1,82	1,79
2005 target					

Selected indicators

	2002	2003	2004	2005
As % of GNP				
PSBR	12,7	9,4	5,9	3,6
Public sector debt	90	83	77	
Domestic debt	55	54	52	
External debt	35	29	25	
Total external debt	73	61	54	
USD billion				
Exports	35	46	63	72
Imports	46	67	97	103
Current account deficit	2	7	15	11
Capital flows	2	6	17	
CB fx reserves	27	34	36	38

Turkish Banking System

Operational environment

Banks subject to Banking Act in their universal activities and to Capital Market Act in capital market activities

Banking Regulation and Supervisory Board is an autonomous authority of the banking sector since 2000.

No discretionary regulation for foreign banks

Regulatory capital for establishment of a bank is about USD 15 million

Financial sector is small and has low degree of deepening

Deposits have very short term maturity

Traditionally banks occupy majority, 95 percent of financial sector

Towards stronger banking system

Around 20 weak banks were transferred or closed, the remaining banks were recapitalized and restructured

Deposits guaranty which was unlimited during the last decade has been limited with TL 50 billion since 2004

Regulations nearly reached international standarts;

- reporting, auditing and transparency improved**

- prudential regulations on related party loans, fx position and equity participations and provisioning thightened**

- supervision incorporated market risks**

Draft banking act is on the pipe-line

Short-term outcomes

Banks adopting to changing environment; disinflation and recovery likely support the sector

Improvement in assets quality

Regulatory capital requirements met, economic and working capital began to rise

Earnings are expected to climb to encourage capital rise

Spread from lending activities is likely to go up

Short-term outcomes

Higher lending tendency to private sector

Some private group banks merged

Fx and interest rates' risks are lowered but maturity gap is still important

Existence of positive atmosphere for foreign investors; a rising special interest on the banking sector

Concentration rises

Risk management gains importance

Intense competition on behalf of depositors and borrowers

Strengthened confidence in the banking sector and rating outlooks

Reforms in banking sector

Selected financial indicators

As % of GNP

2002

2003

2004

Total deposits

48

41

41

TL deposits

21

21

23

Investment funds

2

3

4

Loans

12

14

19

G-securities

55

54

52

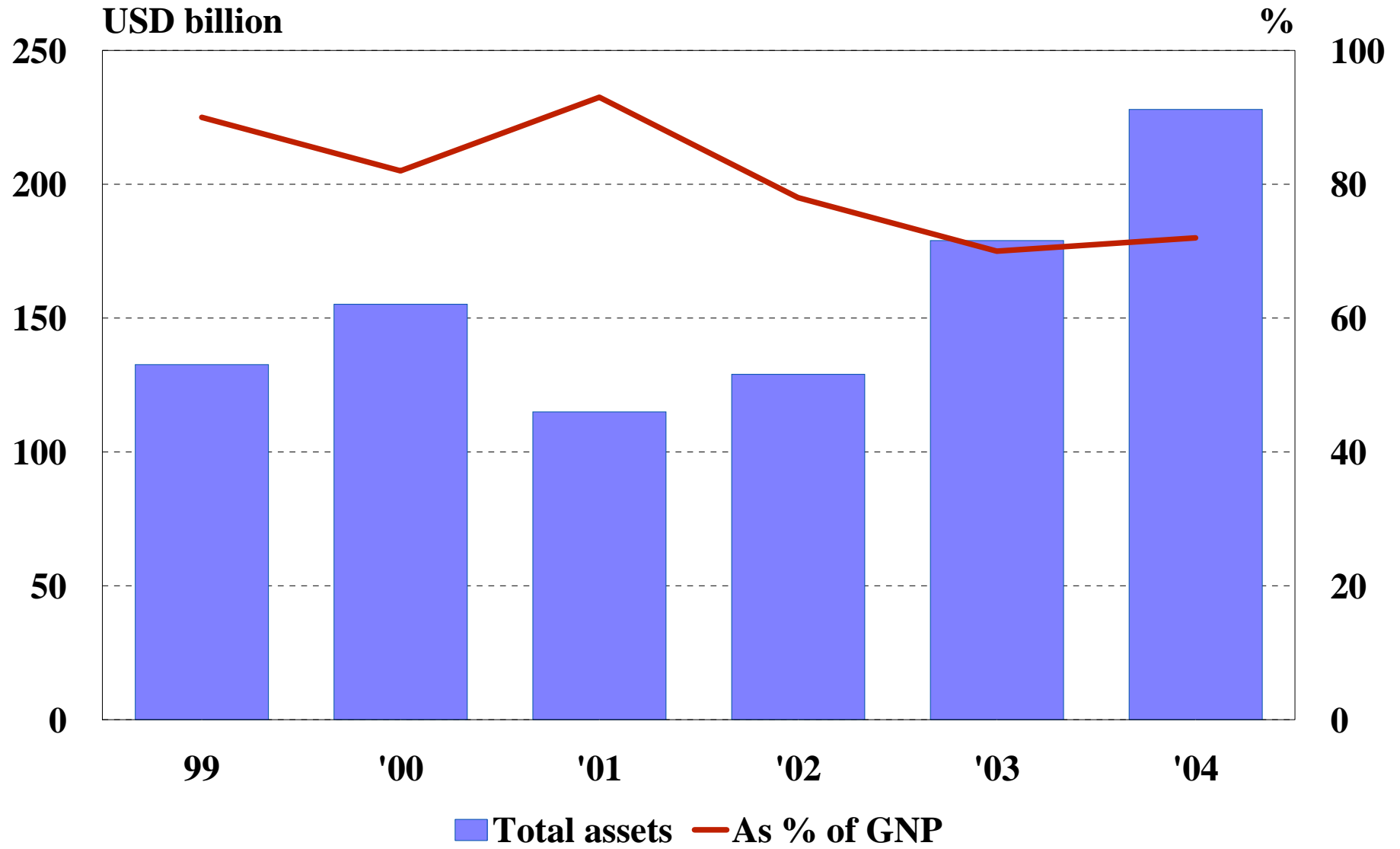
Market capitalization of equities

21

27

30

Total assets



Market structure

	Number	Branches	Employment
Deposit banks	35	6.088	122.630
State-owned banks	3	2.149	39.467
Private banks	18	3.729	76.880
Foreign banks	13	209	5.880
Banks under deposit guaranty fund	1	1	403
Non-deposit banks	13	18	4.533
Total	48	6.106	127.163

Share in the market (%)

	Branches	Employment	Assets	Deposits	Loans
Deposit banks	100	96	96	100	95
State-owned banks	35	31	35	42	20
Private banks	61	60	57	55	69
Foreign banks	3	5	3	2	4
Banks under deposit guaranty fund	0	0	1	1	0
Non-deposit banks	0	4	4		5
Total	100	100	100	100	100

Selected indicators

2004

Assets per capita	USD	3.225
Number of banks per 1000 inhabitants	thousands	1.480
Branches per 1000 inhabitants		11.630
Employment per 1000 inhabitants		559
Asset share of five largest banks	%	60
Asset share of ten largest banks	%	84
ATMs		13.544
POS machines	thousands	912
Credit cards	thousands	26.681
Debit cards	thousands	43.085

Selected indicators

		2002	2003	2004
TL assets/Total assets	%	54	62	64
TL liabilities/Total liabilities	%	50	57	60
Shareholders equity/total assets	%	12	16	14
Shareholders equity	USD billion	15	26	34
Working capital	USD billion	2.3	12	19
Loans/total assets	%	23	27	33
Non-performing loans before pro./Total loans	%	17	13	6
Non-performing loans after /Total loans	%	6.2	1.5	0.7
Return on equity	%	11	16	14
Return on assets	%	1.4	2.3	2.1
Net interest margin/Total assets	%	6	4.5	5.3

Market Capitalization of financial institutions (USD million)

