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The Turkish banking sector in the third after the 2008 global crisis

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In contrast to the real sector, the Turkish banking sector has maintained its resilience against the current global crisis and furthermore had a structure that supported economic growth and activities. In addition to the measures taken, these successful results were mainly as a result of the restructuring and rehabilitation program that was started with the post-national crisis era after 2001. The aim of this paper is to analyse the performance of the Turkish banking sector through the changes in the financial statements, the data from the detailed balance sheets and the main ratios during the global crisis. The paper covers the period between December 2007 and June 2011. The results suggest that the banking sector had sound balance sheets, high capital adequacy ratio and strong profitability. But, the paper contends that this positive trend emerged in the first half of 2011.

Key words: Global crisis, financial markets, Turkish economy, Turkish banking sector.

INTRODUCTION

The Turkish banking sector constitutes the major part of the financial system and the banks carry out many of the activities in both the money and capital markets. The Turkish economy have gone through the reform programmes as a part of liberalization started in 1980. However, in addition to political instability and the failure of achieving fiscal and monetary discipline in the 1990s, the distortions and weakness in the banking sector contributed to the the crises of 1994, 2000 and 2001. The 1990s was perceived as a lost decade for Turkey. The twin economic crises experienced in 2000 and 2001 led to a more robust structure of the Turkish economy and the banking sector.

The impact of the global crisis started to be felt by developing countries, including Turkey, in the second half of 2008. Although, the decline in external financing, the acceleration in capital outflows and the slowdown in domestic demand adversely affected the Turkish economy. But, the impacts of the 2008 global crisis on the Turkish economy have been fairly limited and the economy returned to growth starting with the second half of 2009 thanks to the recent banking sector restructuring over the last decade and the measures taken immediately.

Unlike those in many other countries, the Turkish banking sector has remained resilient and maintained its strength and growth during the crisis. The data about banks such as a rise of assets, loans, profitability and capital adequacy ratio have provided evidence of the sound banking sector.

Firstly, the paper makes a brief analysis of the global economy and the Turkish economy overview. Then, the analyses in this paper mainly provide the structure of the Turkish banking sector before and after the 2008 global crisis and examine how the banking sector react to the current crisis until June 2011. This analyses are mainly based on financial statements and ratios on the basis of US Dollar (USD). The study mainly uses the data of Central Bank of the Republic of Turkey (CBRT) and Banking Regulation and Supervision Agency (BRSA) which are both the highest public legal bodies to ensure confidence and stability in financial markets and banking sector. The study also uses the reports prepared by The Banks Association of Turkey (BAT) which is a legal entity with the status of a public institution. Additionally, academic studies and economic data are used when analyzing the global financial crisis, the Turkish economy and the Turkish banking sector.

In the first part of the paper, general assessments about the global crisis is made and the impacts of the
crisis on the Turkish economy is examined in general over the period 2007 to 2010. In the second part, transformation of the banking sector, which was restructured together with IMF during the aftermath of the 2001 national crisis, is summarized. Then, starting from September 2008, the measures and significant steps taken by the authorities in order to overcome the problems are explained and the development of the Turkish banking sector is evaluated. In the final part, the paper attempts to present the financial statement and ratios of the Turkish banking sector between September 2007 and June 2011. The developments that may adversely affect the banking sector in the upcoming period are also discussed.

LATE-2000S GLOBAL CRISIS

The effects of the global crisis on the world economy

Prior to making assessments about the 2008 crisis, some findings about the causes and consequences of crises can be specified in order to contribute to the current situation. Hoggarth and Reidhill (2003) examined the systemic crises and found that the central banks or government agencies intervened early and provided liquidity to banks and blanket guarantees to depositors. Due to these actions, investor panics have been quelled but at a cost to the budget. Open-ended liquidity support has prolonged banking crises and increased the output costs to the economy. Additionally, Taylor (2009) stated that while other factors were certainly at play, government actions and interventions caused and worsened the financial crisis by deviating from historical precedents and principles for setting interest rates. Crotty (2009) also stated that there were some opinions on the direction of the deregulation and globalisation of financial markets, the rapid pace of financial innovation and moral hazard caused by frequent government bailouts helped create conditions that led to the devastating financial crisis.

In their paper, which included all major crises, Reinhart and Rogoff (2009) concluded that severe financial crises led to deep and lasting effects on asset prices, output and employment. Impacts on unemployment and housing price extend out for five and six years, respectively. On the encouraging side, output declines last only two years on average.

As for the current global crisis, Griffith-Jones et al. (2010) concluded that the current global crisis has brought the emerging discussion about international financial architecture that focuses on the degree of regulation of global financial markets and potential reforms of multilateral financial institutions. The proposals are related to the building institutions capable of preventing, managing, and compensating for the instability of the system. Stiglitz (2010) emphasized many factors that contributed to the current crisis including lax regulations and a flood of liquidity. In another paper, which examined the determinants of the current crisis, Levine (2010) stated that financial policies during the period from 1996 through 2006 precipitated the crisis. Policymakers and regulatory agencies were to blame for contributing to the crisis by becoming blind to excessive risk and destabilizing behaviors.

The Bank for International Settlements (2009) divides the causes of the current crisis into two broad categories: macroeconomic and microeconomic. One set of macroeconomic causes stemmed from the notorious global imbalances (the persistent and large current account deficits and surpluses resulting in capital flows from capital-poor emerging market countries to capital-rich industrial economies, especially the USA). The second set of macroeconomic causes stemmed from difficulties created by the long period of low real interest rates in the first half of 2000s that led to a credit boom in a number of industrial economies by making borrowing cheap. In brief, the microeconomic causes fall into three areas: incentives, risk measurement and regulation.

In addition, the Bank for International Settlements (2011) indicates that the global crisis revealed fundamental shortcomings in the operation and regulation of the banking system in many countries. The crisis had its roots in the USA and spread primarily to other advanced economies, having originated in the and inadequate regulation of complex securitisations by large banks. The causes and evolution of the crisis were the same as typical financial crises in general: investors chasing yield, too much credit, weak underwriting standards, an underpricing of risk, excessive leverage and contagion.

The 2008 global crisis was the result of deferred economic problems especially in the USA and tentative solutions found. The global crisis, which started in the USA in 2007 and to deepen as of the third quarter of 2008 by spreading to many countries, became a global crisis and had significant impacts on developing countries. The Bank for International Settlements (2009) stressed that countries with larger current account and fiscal deficits, sectors with significant foreign exchange (FX) exposures were more affected by the tightening of external financing conditions. The intensification of the global crisis led to an unprecedented response by policymakers. Central banks around the world cut policy rates aggressively, in many cases to levels near zero and major central banks took additional measures.

Although, 2009 was a lost year, the world economy expanded at a relatively positive pace in 2010. According to the IMF report on the world economic outlook (2011a); in advanced economies, the economic recovery has moderated less than expected while growth remains low and unemployment rates are still high. Advanced economies need to repair financial sector and tighten fiscal policy, moreover, in major economies central bank credit is still very sluggish. On the other hand, many emerging and developing economies are growing faster.
Table 1. Summary of world output (real GDP).

<table>
<thead>
<tr>
<th>Annual percent change</th>
<th>Average 1993-2002</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.3</td>
<td>5.4</td>
<td>2.9</td>
<td>-0.5</td>
<td>5</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>2.8</td>
<td>2.7</td>
<td>0.2</td>
<td>-3.4</td>
<td>3</td>
</tr>
<tr>
<td>Emerging and developing economies</td>
<td>4.1</td>
<td>8.8</td>
<td>6.1</td>
<td>2.7</td>
<td>7.3</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>7.1</td>
<td>11.4</td>
<td>7.7</td>
<td>7.2</td>
<td>9.5</td>
</tr>
<tr>
<td>United States</td>
<td>3.4</td>
<td>1.9</td>
<td>0</td>
<td>-2.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.1</td>
<td>2.9</td>
<td>0.4</td>
<td>-4.1</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: IMF (2011a)

than advanced economies and output is already above precrisis trends. But, emerging economies have been facing different challenges and risks including some signs of overheating driven in part by strong capital inflows which have been exceeding precrisis average. World output on the basis of region according to the IMF report is summarized in Table 1.

CBRT (2011a) indicated that emerging market economies by achieving high economic growth rates in 2010 took over advanced economies as the primary driver of global economic growth. This situation strengthened capital flows to these countries and increased the demand for domestic loans. High growth rates of emerging economies attracted more capital flows to these countries and the credit growth rate recovered on the back of strong domestic demand.

The Bank for International Settlements (2011) states that the recovery of the major advanced economies in 2010 followed a fluctuating trend as a result of weak macroeconomic data prompted fears and unstable policy implementation. As of August 2011, growth of the global economy is slowing down and concerns over double dip recession are growing. Institutions and policymakers often changes forecasts and estimates concerned with the global economy outlook due to the rapidly changing economic environment and risks. The world has turned to two main problems that are now dominating financial markets: (i) European debt crisis: The world is worried that a default on Greece debt can spread throughout the Euro Area, especially to Italy which is the third largest economy in Europe. (ii) Economic problems in the USA, including the debt ceiling.

The effects of the global crisis on the Turkish economy

Pre-crisis period in Turkey as a period of relatively high and stable growth since 2002 because the growth tendency for Turkey had been continuing for 27 quarters as of the third quarter of 2008. Uygur (2010) indicated that an important vulnerability during the growth period of 2002 to 2007 was the rising and high current account deficit that increased with growth/demand and the appreciating currency.

The Turkish economy like all economies was affected by the global crisis negatively in the end of 2008 and shrank in the first three quarter of 2009. Yörükoğlu and Atasoy (2010) describes mainly four channels affecting the Turkish economy during the global crisis; (i) the trade channel (exports declined), (ii) the expectations channel (household’s expectations worsened) (iii) the foreign capital flows channel (borrowing funds from abroad declined) (iv) the credit channel (credit growth has slowed down). In parallel to the world economy, capital inflow declined, foreign trade volume diminished, budget deficit grew, private sector demand contracted and unemployment rose in Turkish Economy.

In their paper, which analyzed the Turkish economy, Elitok and Straubhaar (2010) concluded that some deep-rooted differences could be seen when the 2008 crisis compared to the previous two in 1994 and 2001. The 1994 and 2001 crises were financial in nature whereas the 2008 crisis hit the non-financial sector most. In the post 2002 period, the Turkish economy followed a “high interest rate-low exchange rate-cheap import-high external indebtedness” policy that contributed to carry the economy to a real economy crisis in 2008. Another major distinction, the 1994 and 2001 crises were one-time speculative collapses; whereas, the 2008 crisis could be defined as a long term stagnation and occurred at a global level.

Some key economic indicators of the Turkish economy over the period 2007 to 2010 are summarised in the Table 2.

As expected, the crisis showed its impact on the growth of the economy. The Turkish economy experienced a rapid deceleration in 2008 and negative influence of the global crisis on Turkey became clear in the first three quarters in 2009 and real recession was experienced in the said periods by 14.5, 7.7 and 2.9%, respectively.

In order to alleviate the effects of the global crisis, several measures have been taken in Turkey. The steps were taken to overcome the financial system problems, for example, tax rates enforceable in white goods, automobile and housing sectors were reduced, additional subsidies and allowances were offered. After showing a declining trend, the economy has recovered since the last
Quarter of 2009 and has reached a positive growth of 6% in the last quarter, but recessed by 4.7% within 2009. The national income grew by 8.9% in 2010 and 11% in the first quarter of 2011 driven by domestic demand and capital inflows led by discipline in public finance, a sound financial system and the global risk appetite. Consequently, the Turkish economy weathered the crisis well.

Turkey’s current account deficit is a major problem in the economy that this ratio exceeded 5% in 2007 and 2008, but fell to 2.3% in 2009 and rose to 6.6% in 2010. Authorities also predicts that it may hit 10% of GDP in 2011. Aside from the current account deficit, unemployment is other key figure that is taken into consideration while reviewing the economy. Unemployment rate, which stood at 10% before the crisis, reached 14% in 2009, 12% in 2010. But it has jumped to the highest levels in the world, Turkey’s unemployment rate fell below 10% in 2011 which is a profound indicator for the economy.

As for central government, total debt stock as a percentage of GDP increased to 42.9% in 2010 while it was 40% in 2008. Budget deficit to GDP ratio has increased to 5.5% in 2009, 3.6% in 2010 from 1.8% in 2008.

Another important consequence of the global crisis, foreign direct investments (FDI) showed radical falls worldwide. According to International Investors Association of Turkey (2011), FDI inflows to Turkey fell down by 56% in 2009 compared to 2008 and reached to USD 8.5 billion. In 2010, FDI inflows rose by 5% compared to 2009. Due to uncertainties in the recovery process from the global crisis persists, International Investors Association of Turkey predicts that there are no signals for returning back to USD 20 billion level that achieved in 2006, 2007, 2008.

THE TURKISH BANKING SECTOR OUTLOOK

Overview of the Turkish banking sector prior to the 2008 global crisis

The Turkish economy experienced a structural change and reform program based on market economy in 1980s that targeted to liberalize the economy and to pursue an export-led growth policy. In parallel with these developments, restructuring the Turkish banking sector has been put into effect related to international supervision and banking standards, uniform chart of accounts, balance sheets subjected to external audit, deposit insurance fund, realistic provisions set aside for non-performing loans. Furthermore, all persons were allowed to hold foreign currencies and open FX deposit accounts (BAT, 2009a).

But the rapid improvements were insufficient to overcome excessive domestic debt, FX market volatility, high unemployment, interest rates and inflation which remained serious problems until 2002. The 1990s were a boom and bust cycle. As a result of all these developments, the banking sector had great difficulties and has moved away from traditional banking activities during 1990s. The Turkish economy in 1994 has experienced a severe economic crisis affecting banking sector in a negative way. The share of loans in total assets of the banking sector declined from 47% in 1990 to about 33% in 2000. As a result of the problems in the banking sector which began in 1994 crisis and the following years, operating permissions of five banks were revoked and bankruptcy decrees were issued. The weakness of the banking sector was of great importance for the economy because of constituting nearly all of the financial markets. In their paper, analyzed the relationship among capital flows, macroeconomic management and vulnerability in the financial system, Celasun et al. (1999) emphasized that Turkish banks operated in one of the world’s most volatile macroeconomic environments during the 1990s because annual inflation rates has ranged from 70 to 125% and, doubled digit foreign exchange and interest rates movements have not been unusual.

Due to macroeconomic trend, Turkey adopted a comprehensive IMF-supported disinflation program at the beginning of 2000 in order to achieve low inflation and steady growth. The main pillars of the program were tight fiscal and monetary policies, implementation of structural reforms and the use of a pre-determined exchange rate

<table>
<thead>
<tr>
<th>Annual percent</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>4.7</td>
<td>0.7</td>
<td>-4.8</td>
<td>8.9</td>
</tr>
<tr>
<td>Budget deficit / GDP</td>
<td>-1.6</td>
<td>-1.8</td>
<td>-5.5</td>
<td>-3.6</td>
</tr>
<tr>
<td>Central government total debt stock / GDP</td>
<td>39.6</td>
<td>40</td>
<td>46.3</td>
<td>42.9</td>
</tr>
<tr>
<td>Gross external debt stock / GDP</td>
<td>39.4</td>
<td>39.5</td>
<td>45.5</td>
<td>41.6</td>
</tr>
<tr>
<td>Current account deficit / GDP</td>
<td>-5.9</td>
<td>-5.7</td>
<td>-2.3</td>
<td>-6.6</td>
</tr>
<tr>
<td>Inflation (consumer prices)</td>
<td>8.39</td>
<td>10.06</td>
<td>6.53</td>
<td>6.4</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>10.3</td>
<td>11</td>
<td>14</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Source: Data compiled from the Central Bank of the Republic of Turkey, Turkish Statistical Institute and Undersecretary of Treasury.
path as a nominal anchor. But, heavy financing needs, adverse international capital market conditions, sharply widening current account as well as weak banking sector carrying a significant short position, large non-performing loans and liquidity risk led to the historical crises of November 2000 and February 2001. The exchange rate peg regime was abolished in February 2001 and switched to a floating exchange rate system due to the escalating political uncertainties and the loss of credibility of economic policies. In sum, the 2001 crisis was described as one of the biggest crises in the history of the Turkish economy that hit the fragile banking sector due to deterioration in asset quality, sharp increase in funding costs, capital losses (BRSA, 2001; BRSA, 2002). Within the period of 1997 to 2002, 20 banks which could not continue its activities were transferred to the Saving Deposit Insurance Fund (SDIF) having legal entity that takes management and supervision of the banks whose operating permission has been revoked or that have been transferred to the SDIF.

Aftermath of the 2001 crisis, an extensive restructuring program for the economy and banking sector was put into implementation. The structuring of the banking sector has become the primary goal for economic stability as well as the resilience of the economy against external shocks, dropping the inflation, reducing the public sector’s debts. Restructuring of state-owned banks, resolution of SDIF banks, strengthening the private banking sector realized within the restructuring program. The Turkish economy had entered to positive transformation after 2002 and economic performance improved by achieving economic growth, attaining the budget discipline, reducing the interest rates and inflation to single-digit rates, increasing foreign direct investment. The banking sector has also entered a high and stable growth period after the restructuring program. The total assets of the sector reached USD 548 billion in 2008 which was USD 155 billion in 2000, the capital adequacy ratio which was 9.3% in 2000 rose to 18% as of end 2008. One fourth of loans were non-performing in 2001 which the rate mentioned fell below 4% in 2008. Low financial intermediation function by banks has started to emerge effectively and the share of loans in the total assets rose to 50% in 2008, from 23% in 2001. The number of banks including participation banks, which was 85 in 1999, 65 in 2001, decreased to 49 in 2008. Due to successful implementation of the program in terms of both economy and banking sector, the post 2002 period can be defined under the name of “restructuring period” (BRSA, 2009; BRSA, 2007; BRSA, 2002; BAT, 2009b, a).

Regulation, oversight and supervision practises realized aftermath of the 2001 crisis were largely aligned with the European Union directives and international regulations. The extensive amendments were made in the Banking Law. Another structural reform was that a new Central Banking Law was enacted in 2001 including the prohibition of lending to public, guaranteeing the administrative independency and stating the fundamental goal of the CBRT was price stability. The CBRT opted to implement inflation targeting strategy and the floating exchange rate regime for monetary policy since the beginning of 2002 which has made a significant contribution to the stability of the Turkish economy. Single digit inflation rate has been achieved after 2004. Thanks to the financial discipline, annual compounded interest rates of Treasury dropped to single digit levels.

One of the most radical changes in the banking sector was the entrance of foreign capital into the sector. Due to substantial reforms, a number of foreign investments in the banking sector, mostly from European banks, took place. Turkish banks formed strategic partnership and joint ventures with foreign financial institutions. Bilgin and Kartal (2009) analyzed the effects of foreign bank entry into Turkish banking sector. The market share of foreign banks with management belonging to foreign capital in the sector, which was less than 5% prior to 2000, began to increase in the following period. By 2008, foreign banks had achieved a 14.8% share of assets, 17.6 of loans, and 13.3% deposits. When minority shares and stock exchange shares were taken into consideration, the total share of foreign capital in the sector reached approximately 42%.

When assessing the soundness of the Turkish economy and banking sector in the period preceding the 2008 crisis, Macovei (2009) indicated that two robust external anchors should not be forgotten, namely the successful implementation of a reform programme supported by the IMF and the opening up of accession negotiations with the European Union.

The effects of the global crisis on the Turkish banking sector

The global crisis have negatively affected the banking sector but the impact remained limited. The BAT (2010) stated that balance sheet risks increased, external funding resources became tighter and liquidity needs rose particularly in the last quarter of 2008 and in the first quarter of 2009.

While the global crisis was predominantly effective in 2008 and 2009, expansionary measures were taken in both monetary and fiscal policies. Similar to other central banks, the CBRT (2009) announced and implemented measures against the crisis primarily on the Turkish Lira and FX liquidity management and a policy of reducing the policy rate (from 18.75% in 2008 to 9.25% in 2009 and 6.25% in 2011) The BRSA has made some adjustments to ease the negative effects of the global crisis on Turkey in parallel with the measures the CBRT took. The measures taken for required banks are as follows (BAT, 2009b):

1. To get permission for distribution of the 2008 earnings.
2. To reclassify the securities in their balance sheet as from trading portfolio to investment portfolio for once only.
3. To restructure the loans apparently posing no problems in order to ensure smooth functioning of the loan relations between banks and non-financial institutions.

Although, the recovery in the real economy was gradual, thanks to the efficient and timely measures taken by the CBRT and BRSA, the banking sector as a whole has recorded a good performance and demonstrated surprising resilience started in the second quarter of 2009. Macovei (2009) concludes that in contrast to past crises, the crisis has been averted by a more resilient financial sector, macroeconomic stability, a more flexible economic structure. Yörükoğlu and Atasoy (2010) states that sound and stable banking sector structure could be specified as the main and first factor enhancing the Turkish economy’s resilience to the crisis. Unlike many economies, the Turkish banking sector have not required any capital support. The BAT (2010; 2009b) determined that the reasons behind the relatively limited negative effects were a high capital adequacy ratio, strong balance sheets, low currency and liquidity risks, successful risk diversification and risk management in the banking sector contributed economic activities without creating any burden on the public. Another important reason which was effective in this success, external financial funds started to flow to Turkey again led by a relative economic and political stability. Turkey is one of the few countries whose credit rating has rose during the global crisis.

On the other hand, the rapid recovery in the economy has raised concerns about overheating in Turkey as in many other emerging economies. Although, price stability remains its primary objective of the CBRT in the Law, the high growth rate, loan expansion, a rebound in domestic demand on the back of loan growth, accelerating short term capital flows and current account deficit bring concerns over financial stability. The CBRT (2011b) has implemented a new policy mix consisting of low policy rate, a wide interest corridor and higher reserve requirement ratio since the end of 2010 in connection with the increased emphasis on financial stability. The CBRT has expanded its tools, using the policy interest rate to achieve the inflation target while reserve requirements and the interest rate corridor were assigned to instruments moderating loan growth. In addition to the measures taken by the CBRT, the BRSA introduced restrictions related to financial stability. One of the major target is to bring annual loan expansion to 25% which is currently almost 36%. These measures were mainly addressed at two main targets (BAT, 2011): (i) Measures increasing the loan cost aimed at limiting the increase in domestic demand and the use of foreign resources by slowing down the rise in loan supply. (ii) Reduction of interest rates intended to prevent the short-term capital inflows through diminishing of short term return of Turkish lira investments.

The CBRT (2011c), which has decided to maintain the current policy mix, states that the policy mix implemented so far and the recent measures taken by the BRSA contributed to the rebalancing of domestic demand and loan growth. The IMF (2011b) said Turkey’s new monetary policy strategy achieved some success, but its ability to contain inflation and loan growth has yet to be proved.

**ANALYSIS OF THE TURKISH BANKING SECTOR**

**FINANCIAL STATEMENT IN THE THIRD QUARTER OF THE GLOBAL CRISIS**

The Turkish banking sector, which constitutes the biggest part of the financial sector with a share by almost 80%, has grown above 5-fold between the end of 2002 that was the first year of the restructuring program and 2008. The banking sector, which proved its resilience, has also continued to support the economic activities during the crisis. The BAT (2011) determines that the performance of the sector preserves its improvement trend due to the rapid recovery of economic activities, capital adequacy ratio remaining above both the legal minimum of 8% and the sector target of 12%, increasing resource inflow from abroad and stability in money and capital markets.

Nominal change in the banking sector’s main balance sheet items in USD term during December 2007 to June 2011 period can be seen in the Table 3. The growth rate in total assets in USD terms, which has continued to its increasing trend during the global crisis, was 36% during the period December 2008 to December 2010 and total assets as of December 2010 recorded as USD 656 billion. The said growth rate was 29.7% between September 2008 to June 2011 and reached USD 711 billion as of June 2011. The BRSA (2011a) stated that almost 80% of asset growth derived from loans, about 60% of liability growth derived from deposit in 2010. When the assets are analyzed; loans, the most important item in the banking sector’s balance sheet, increased by 41.6% between December 2008 to December 2010. Loans grew by 32% during the period September 2008 to June 2011 to USD 385 billion. Consumer loans account for about 33% of total loans. The ratio of total loans to total assets, which is one indicator of financial deepening, stayed the same around 53% in the said period.

Another important point related to loans, after the 2001 crisis in Turkey, the asset structure changed in favour of loans. The share of loans in total assets rose to 50% in 2008 from about 25% in 2001 by getting a share of the decrease in securities portfolio. When the trend of loans during the period 2002 to 2008 is analyzed, it is observed that total loans grew annually in average by about 35% while consumer loans, which had the highest average growth, increased in average by 66% (BRSA, 2011a). This situation has enabled Turkey to be relatively less affected by the crisis and also indicates the existence of
Table 3. Development of balance Sheet Items of the Turkish Banking Sector.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>500.756</td>
<td>548.632</td>
<td>482.228</td>
<td>560.075</td>
<td>656.533</td>
<td>711.503</td>
<td>36.1</td>
<td>29.7</td>
</tr>
<tr>
<td>Loans (**)</td>
<td>246.091</td>
<td>291.767</td>
<td>242.209</td>
<td>263.696</td>
<td>343.065</td>
<td>385.237</td>
<td>41.6</td>
<td>32</td>
</tr>
<tr>
<td>Consumer loans (****)</td>
<td>81.844</td>
<td>95.317</td>
<td>77.162</td>
<td>87.270</td>
<td>112.627</td>
<td>127.571</td>
<td>46</td>
<td>33.8</td>
</tr>
<tr>
<td>Non-performing consumer loans</td>
<td>2.437</td>
<td>2.962</td>
<td>2.934</td>
<td>5.575</td>
<td>4.847</td>
<td>4.329</td>
<td>65.2</td>
<td>46.2</td>
</tr>
<tr>
<td>Securities</td>
<td>141.690</td>
<td>144.826</td>
<td>127.407</td>
<td>176.522</td>
<td>187.657</td>
<td>173.372</td>
<td>47.3</td>
<td>19.7</td>
</tr>
<tr>
<td>Deposits</td>
<td>307.169</td>
<td>337.698</td>
<td>299.168</td>
<td>345.589</td>
<td>402.443</td>
<td>409.315</td>
<td>34.5</td>
<td>21.2</td>
</tr>
<tr>
<td>Syndication / securitization loans</td>
<td>26.585</td>
<td>26.360</td>
<td>23.627</td>
<td>18.253</td>
<td>23.582</td>
<td>25.706</td>
<td>-0.2</td>
<td>-2.5</td>
</tr>
<tr>
<td>Capital (own-funds)</td>
<td>65.275</td>
<td>67.050</td>
<td>56.941</td>
<td>74.416</td>
<td>87.690</td>
<td>86.273</td>
<td>54</td>
<td>28.7</td>
</tr>
</tbody>
</table>

* June 2011 data is drawn up by using the temporary financial statements.
** Loans does not include non-performing loans, but includes consumer loans.
*** Non-performing loans are before specific provisions.
**** Consumer loans include housing loans, vehicle loans, personal finance and consumer credit card risk.

growth potential (CBRT, 2011d). Loan growth rate is expected to slow down in the upcoming period due to measures taken by the CBRT and BRSA.

Many views assessed that the subprime mortgage derivatives were behind the global crisis. But the Turkish banking sector has been carrying out traditional banking activities and there was no secondary mortgage market because of high interest rates, high inflation rates and short-term resources until 2002. Housing loans, which had been first introduced in Turkey in the 1990s, were almost zero in 2004. But the growth in housing loans has realized in the last five years as a result of improvement macroeconomic conditions and fall in interest rates and inflation. As of June 2011, housing loans constitute 50% of total consumer loans, except credit card risk, while it was less than 10% in 2002.

The BRSA (2011a, b) evaluates if the loan expansion signals a development towards an “explosion” which may pose risk. The results of the analyses made signalize a “credit expansion” for December 2010 in operating loans, other consumer loans and small-medium enterprises loans. On the other hand, the CBRT (2011d) states that compared to other countries, loans in Turkey are funded with stable resources that mainly consist of deposits. Due to this, liquidity risk depending on refunding is low. Contrary to Turkey, in the European Union the loan to deposits ratio is around 113% and the rate of deposits to total assets is almost 40%, while about 90 and 60% in Turkey, respectively.

Securities portfolio, another important item in assets, increased by 47.3% in the period December 2008 to December, 2010. Securities to total assets ratio as of December 2010 increased by 3 points to 29% compared to September 2008 while it was 24% for June 2011.

When looking at the liability side, deposit remained as the most important resource of funds and the share of market funding was still low. Deposits increased by 21.2% between September 2008 to June 2011 and the share of total deposits in the resources was 61% which remained the same within the crisis period. One of the particular problem with the banking sector has been the short-term maturity profile of deposits. There was no significant change in term structure of deposits, the average maturity of deposits remained the same at almost 2,5 months. The share of deposit with a maturity of up to 3 months was above 90% with less than 3% of total deposit having maturity of over one year. Whereas deposit banks were formerly allowed to issue bonds abroad only, due to the maturity mismatch and the need of new instruments, the BRSA allowed banks to issue bonds in domestic market in 2010 as well that means banks could secure longer-maturity funding. Bond issued volume was almost USD 8.5 billion as of June 2011 which was relatively very low share in balance sheet.

Resources secured through syndication and securitization decreased by USD 5,3 billion in 2009 and returned to the pre-crisis level in 2010 due to the improvement in the conditions of borrowing from international markets. The share of syndication and securitization loans within liabilities in June 2011 was 3.6%, while it was 4.8% as.
Table 4. Financial soundness indicators.

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</tr>
</thead>
<tbody>
<tr>
<td>Assets / GDP</td>
<td>67.9</td>
<td>74.5</td>
<td>77.1</td>
<td>87</td>
<td>91</td>
<td>**</td>
</tr>
<tr>
<td>Loans / GDP</td>
<td>33.9</td>
<td>37.4</td>
<td>38.7</td>
<td>41.2</td>
<td>40</td>
<td>**</td>
</tr>
<tr>
<td>Loans /assets</td>
<td>49</td>
<td>53</td>
<td>50</td>
<td>47</td>
<td>52</td>
<td>54</td>
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<tr>
<td>Loans /deposit</td>
<td>80</td>
<td>86</td>
<td>81</td>
<td>76</td>
<td>85</td>
<td>94</td>
</tr>
<tr>
<td>Securities / assets</td>
<td>28</td>
<td>26</td>
<td>26</td>
<td>32</td>
<td>29</td>
<td>24</td>
</tr>
<tr>
<td>Consumer loans / loans</td>
<td>33.3</td>
<td>32.7</td>
<td>31.9</td>
<td>33.1</td>
<td>32.8</td>
<td>33</td>
</tr>
<tr>
<td>Gross NPL / loans</td>
<td>3.6</td>
<td>3.2</td>
<td>3.8</td>
<td>5.6</td>
<td>3.8</td>
<td>3</td>
</tr>
<tr>
<td>Deposits / liabilities</td>
<td>61</td>
<td>62</td>
<td>62</td>
<td>62</td>
<td>61</td>
<td>57.5</td>
</tr>
<tr>
<td>Syn.+ sec. / liabilities</td>
<td>5.3</td>
<td>4.8</td>
<td>4.9</td>
<td>3.3</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Equity / liabilities</td>
<td>13</td>
<td>12.2</td>
<td>11.8</td>
<td>13.3</td>
<td>13.6</td>
<td>12</td>
</tr>
<tr>
<td>CAR- (capital adequacy ratio)</td>
<td>18.9</td>
<td>17.5</td>
<td>18</td>
<td>20.5</td>
<td>19</td>
<td>17.1</td>
</tr>
<tr>
<td>FX net general position / equities</td>
<td>0.26</td>
<td>-0.82</td>
<td>-0.1</td>
<td>0.53</td>
<td>0.06</td>
<td>1.15</td>
</tr>
</tbody>
</table>

* June 2011 data is drawn up by using the temporary financial statements.
** GDP Figure for June 2011 are not yet available.

of September 2008. As for another item of liabilities, the banks capital to liabilities ratio stayed as the same level around 13%.

The Turkish Lira items continued to increase more rapidly than FX items both at the assets and the liabilities side. FX assets as of September 2008 comprised 27.5% of the sector's assets and decreased to 26.5% in June 2011. FX liabilities to total liabilities ratio was 31.8% in June 2011 while the said ratio was 33% as of September 2008.

Financial soundness indicators of the banking sector in the period December 2007 to June 2011 are shown in the Table 4.

The development of financial depth and efficiency in the banking sector can be seen the ratios calculated over intermediation activities. The share of the banking sector assets in GDP as of the end of 2010 increased by an increase of 17 points to 91% compared to September 2008 while loans to GDP ratio increased by 6 points. Loans to deposit ratio remained almost 85% as compared to the same period.

The non-performing loans before specific provisions in total loans increased by less than 1% within September 2008 to December 2010; although it was 3.2% as of September 2008, it increased to 5.6% by the end of 2009 because of loans quality deteriorated and decreased to 3.8% by the end of 2010 and 3% in June 2011. Specific provisions was set aside for almost 85% of non-performing loans.

FX net general position, which almost remained the same during the crisis, has been close to zero that indicates Turkish banks carry no significant FX risk and the exchange rate risk is manageable.

Compared to other countries, the Turkish banking sector operates with low leverage ratio and a high capital adequacy ratio exceeding the Basel minimum capital requirement of 8%. Capital adequacy ratio, which was 17.5% in September 2008, increased by about 3 points in 2009 and but decreased to 17% as of June 2011. When compared with the European Union countries, it can be observed that the banking sector has adequate capital and a low leverage ratio. Turkey is among the countries with the highest capital adequacy ratio and highest own funds to total assets ratio for the banking sector. The CBRT (2011d) determined that the share of capital funds on the asset was 4% on average and the capital adequacy ratio was 13.2% in European Union countries while the said ratios in Turkey were 13 and 19%, respectively. The development of selected income statement items can be seen in the Table 5.

Profitability performance has displayed a strong outlook during the crisis period. The return on assets and equities increased in 2009 and decreased in 2010 compared with previous years, but has kept the level above September 2008 until December 2010 while decreased in 2011. Return on assets in the banking sector has recorded around 2.5% during the period of 2009 to 2011 while return on equities was around 20% in the same period.

Net profit expanded by 53% rose to USD 13 billion in 2009, by 5.5% rose to USD 14.4 billion in 2010 compared to the previous years. The banking sector has the short-term funds but long-term assets. As a result of this mismatch, interest rates, which has been floating in low levels, affected positively net interest incomes in 2009. Increase in fee and commission revenues has been also important factor for increasing profitability. The sector profitability kept being high also during 2010. Interest income coming from loans remained around 61% of total interest income while 34% thereof were come from securities portfolio. But, the profit of the sector in the first
Table 5. Income statement items of the banking sector.

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<tbody>
<tr>
<td>Interest from loans</td>
<td>33.915</td>
<td>29.785</td>
<td>34.345</td>
<td>35.245</td>
<td>30.979</td>
<td>16.186</td>
</tr>
<tr>
<td>Interest from securities (including Repo)</td>
<td>21.113</td>
<td>15.841</td>
<td>17.931</td>
<td>18.975</td>
<td>17.132</td>
<td>7.566</td>
</tr>
<tr>
<td>Total interest income (**)</td>
<td>60.735</td>
<td>49.325</td>
<td>56.455</td>
<td>57.273</td>
<td>50.468</td>
<td>24.866</td>
</tr>
<tr>
<td>Total interest expenses</td>
<td>38.312</td>
<td>30.864</td>
<td>36.057</td>
<td>29.205</td>
<td>25.252</td>
<td>13.640</td>
</tr>
<tr>
<td>Fees and commissions from total loans</td>
<td>240.765</td>
<td>21.486</td>
<td>23.823</td>
<td>2.212</td>
<td>2.147</td>
<td>1.130</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>15.661</td>
<td>11.267</td>
<td>10.953</td>
<td>16.887</td>
<td>17.792</td>
<td>8.005</td>
</tr>
</tbody>
</table>

Ratios related to income statement (%)

<table>
<thead>
<tr>
<th></th>
<th>Return of assets (ROA)</th>
<th>Return of equities (ROE)</th>
<th>Interest from loans / total interest income</th>
<th>Interest from securities / total interest income</th>
<th>Interest to deposit / total interest expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>2.8</td>
<td>18.2</td>
<td>16.8</td>
<td>35</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>2.2</td>
<td>18.2</td>
<td>20.2</td>
<td>32</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>2.6</td>
<td>18.2</td>
<td>20.2</td>
<td>32</td>
<td>80</td>
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<td></td>
<td>2.5</td>
<td>18.2</td>
<td>20.2</td>
<td>32</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>1.9</td>
<td>18.2</td>
<td>20.2</td>
<td>32</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: Data compiled from BRSA financial statement reports; BRSA interactive monthly bulletin from http://ebulten.bddk.org.tr/AylikBulten/?Dil=EN.

As a result of a consolidation, the number of banks operating in Turkey is 48 in 2011, down from 85 at the end of 1999. Of which 31 were deposit banks (of which 3 are state owned), 13 development and investment banks, 4 participation banks. There are 16 deposit banks, 4 development and investment banks, 3 participation banks whose shares were owned by non-resident investors at a rate of minimum 51%.

As a result of the global crisis, the number of banks fell from 49 to 48 in 2011 because Türk Ekonomi Bankası A.Ş. (TEB) and Fortis Bank A.Ş., which have the status of foreign bank, have been merged under TEB. BNP Paribas, a European leader in global banking and had shares of two banks mentioned, preferred the integration of the banks.

The upward trend in the number of branches and employees in the banking sector started after the 2001 crisis and continued so far. On contrary to the slowdown in economy, total number of branches and personnel increased by slowing down and reached its ever highest level in 2011. Total number of branches, which was 8,122 as of end-2007, increased by 2,159 and amounted to 10,281 as of June 2011 while the number of personnel increased by 26,219 to 193,979 in the same period.

There are concerns about the short-term prospects of the Turkish economy as a result of current account deficit and the fear of global collapse. Profitability of the banking sector is expected to be negatively affected in the near future due to measures taken by authorities and the
possible capital flows as a result of the weak outlook of the USA and European economies. Main factors that adversely affects banks in the upcoming period can be summarized as:

1. The CBRT has started to hike in reserve requirements ratios on the maturity profile (up to 16% of Turkish Lira deposit and 12% of FX deposit) and stopped paying interest on bank reserves.
2. Measures adopted by the BRSA: provisions for loans, restriction on consumer loans and more importantly the CBRT, BRSA and Government’s unofficial desire to lower annual loan growth to around 20 to 25%.
3. Macro economic concerns relating with global instability and reduction in foreign capital inflows in connection with double dip recession probability in the USA and Europe.
4. The depreciation of Turkish Lira.

Conclusion

The effects of the 2008 global crisis became more pronounced in the last quarter of 2008. The Turkish economy and banking sector, like many emerging markets, started to be influenced by the crisis and recessed by 4.7% within 2009. But, the economy has recovered since the last quarter of 2009 and the national income grew by 8.9% in 2010 and 11% in the first quarter recovered since the last quarter of 2009 and the national economy overview, the aim of this paper is to examine the development and financial statement in the Turkish banking sector during the current global crisis. In this study, the financial statement and main ratios of the Turkish banking sector is analyzed in detail. The banking sector weathered the crisis well thanks to the restructuring reform over the last decade and measures taken immediately by authorities. During the current crisis, as of August 2011, there were no banks transferred to the state, no fall in the profitability of banks and no reduction in the size of balance sheets. The banking sector has not required any government support. Furthermore, banking sector is in relatively good shape as compared to the past and to banks in many other countries.

The point we should state about the paper results from technical and fundamental analysis is that profitability and soundness of the banking sector have continued during the global crisis. The reasons behind this success were a high asset quality, low currency and liquidity risks, effective management of risks and strong capital structure. The share of the banking sector assets in GDP increased by 17 points to 91% as of the end of 2010 compared to September 2008. The high capital adequacy ratio, which was 20% in 2009 and 17% as of June 2011, exceeds the limit of the Basel minimum capital requirement of 8%. The growth in the banking sector has continued to its increasing trend during the global crisis, growth rate in total assets in USD terms was 36% during the period December 2008 to December 2010 and 29.7% between September 2008 to June 2011, total assets reached to USD 711 billion as of June 2011. Loans grew by 32% during the same period and non-performing loans stayed the same around 8.1%. The authorities evaluate the loans expansion signalizes an "explosion" which may pose risk and unofficial desire is to lower loan growth to around average annual growth of 20 to 25%.

Profitability performance has displayed a strong outlook during the crisis period. Net profit expanded by 53% rose to USD 13 billion in 2009, by 5.5% rose to USD 14.4 billion in 2010 compared to the previous years. But, the profit of the sector in the first half of 2011 decreased by 15.2% over the same period last year.

Due to the measures taken against the overheating in the Turkish economy and the weak outlook of global developments as of August 2011, especially in the USA and Europe, there are increasing uncertainties about the prospect of the economy as a whole. There are concerns that the profitability, loans expansion and growth rate of asset size of the Turkish banking sector are expected to slow in the upcoming period.

REFERENCES