



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Turkish Macroeconomic and Financial Sector Outlook

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IFN Forum Turkey, İstanbul

Outline

A. Macroeconomic Outlook

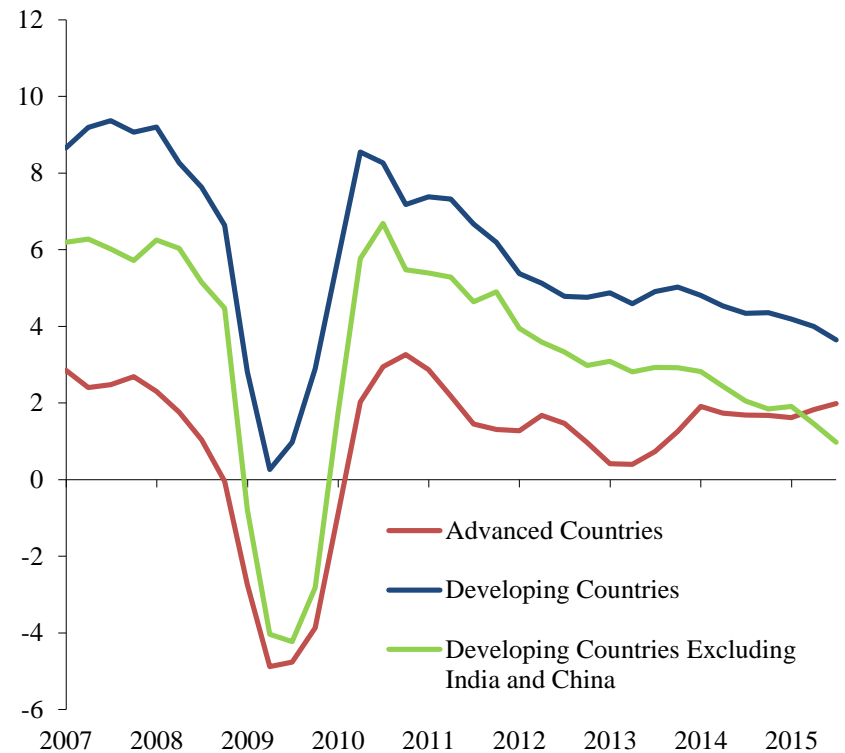
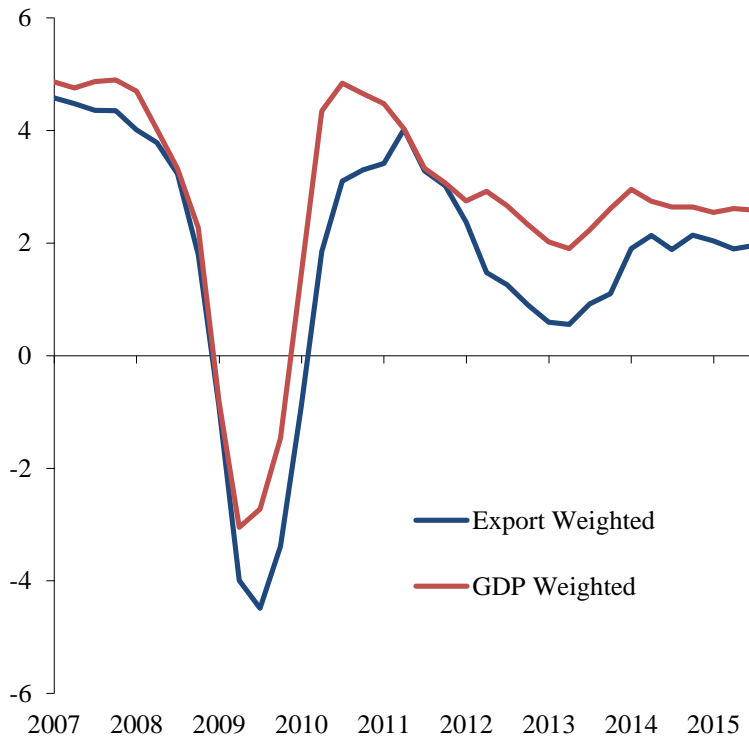
B. Financial Sector Overview

C. Islamic Finance (IF) in Turkey

MACROECONOMIC OUTLOOK

The slowdown in developing countries makes downward pressure on global growth.

GDP Growth Rates
(YoY, Constant Prices, Percent)



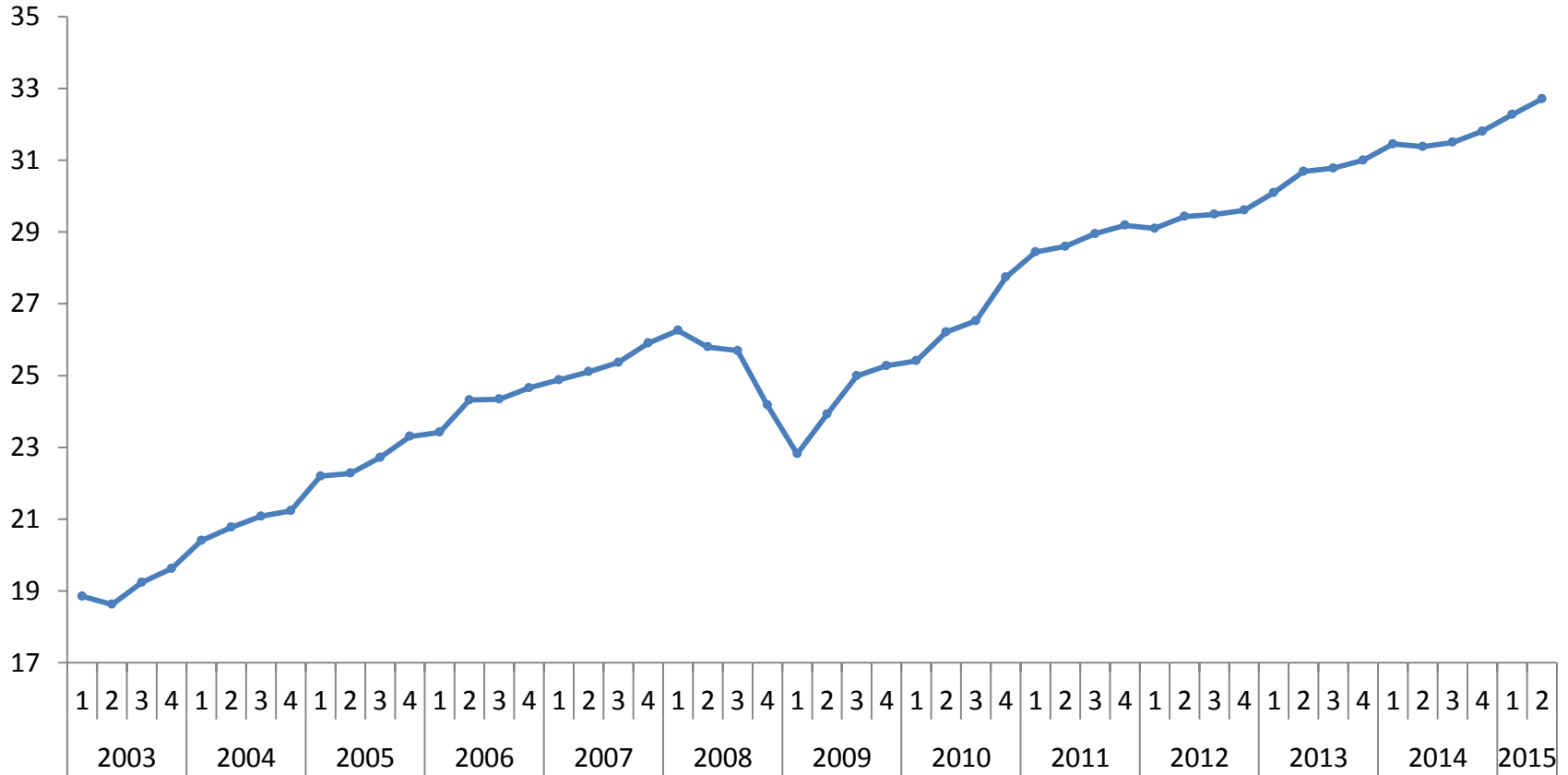
Source: TURKSTAT.

Last Observation: 2015 Q2.

However, GDP continues to grow at a stable pace in Turkey.

GDP

(Seasonally Adjusted, Constant Prices, Billion TL)



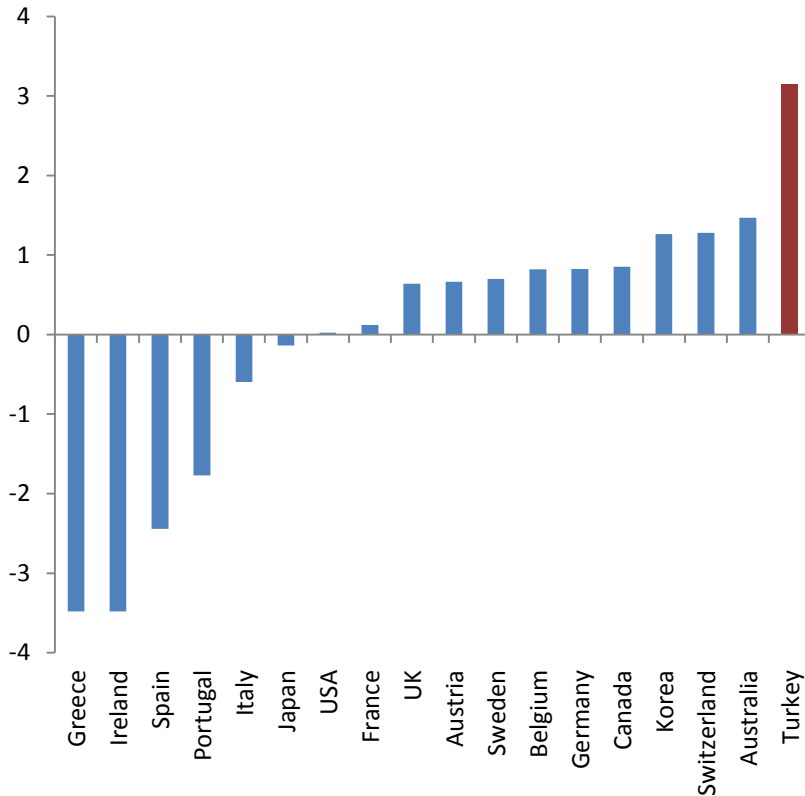
Source: TURKSTAT.

Last Observation: 2015 Q2.

Job creation has been remarkable in Turkey compared to both advanced and developing countries.

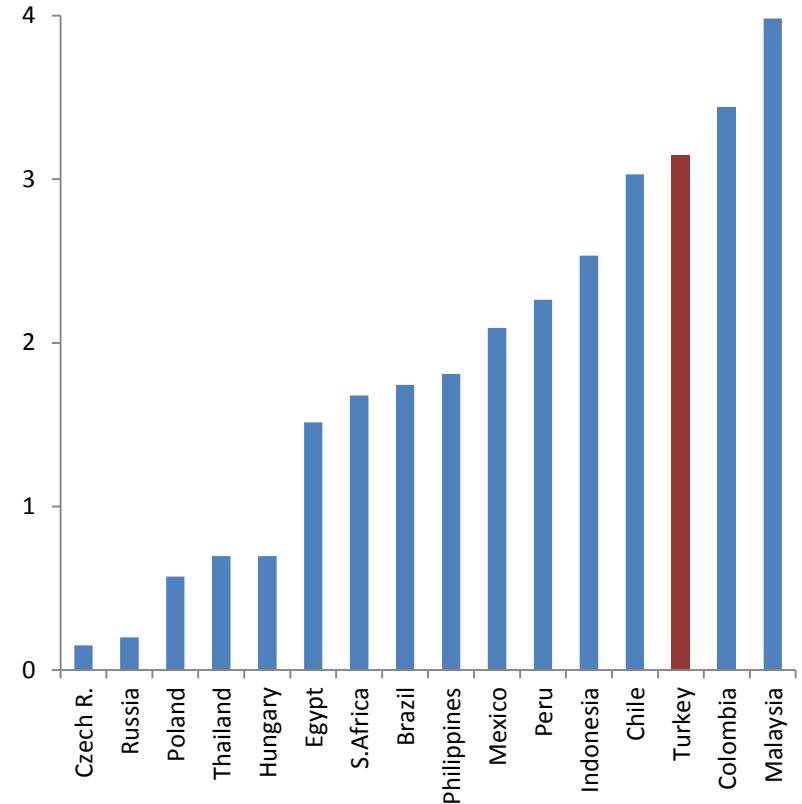
Growth Rate of Total Employment* (Annual Average, Percent, 2007-2014)

Advanced Countries and Turkey



Source: IMF.

Developing Countries and Turkey

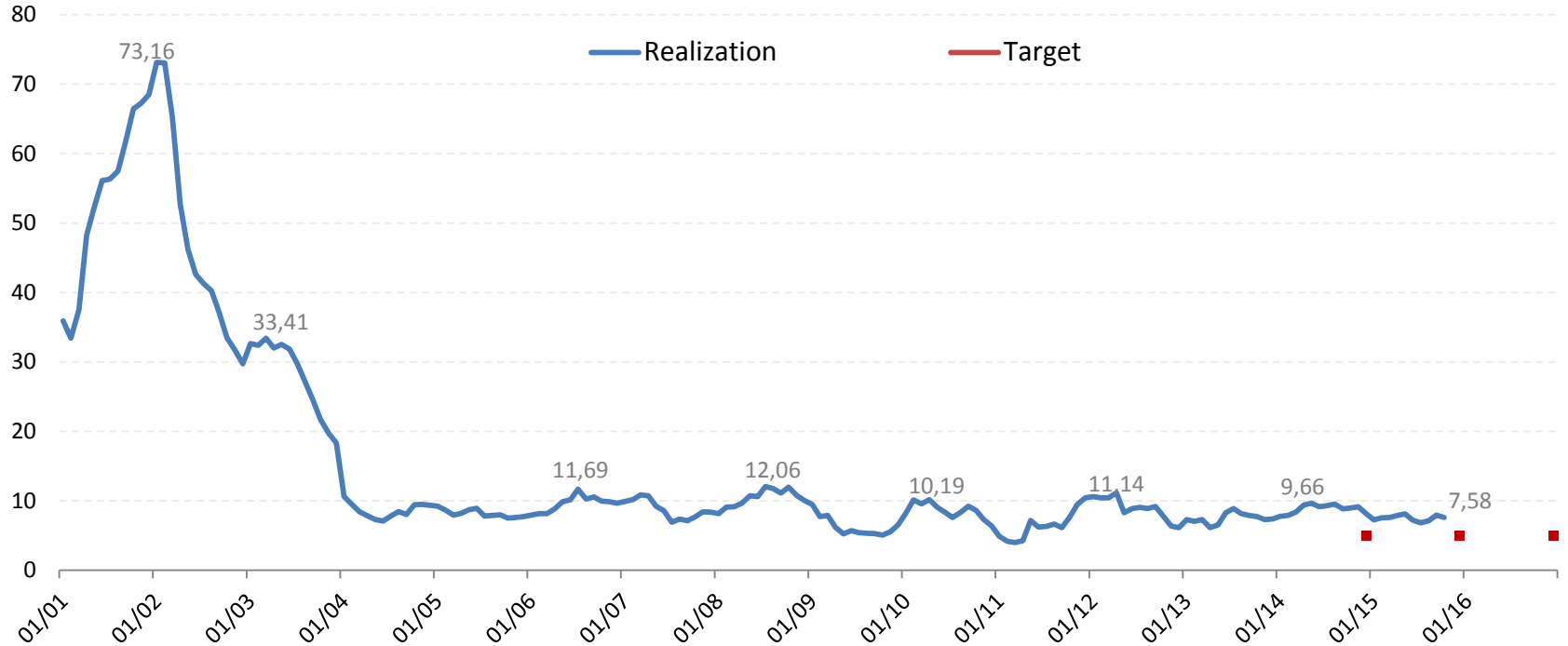


Source: IMF.

*The data for Chile, Colombia, Egypt, Malaysia and Peru is between 2007-2013.

Decisive monetary implementation has been the main driver of disinflation.

Inflation Realizations and Targets (Percent)



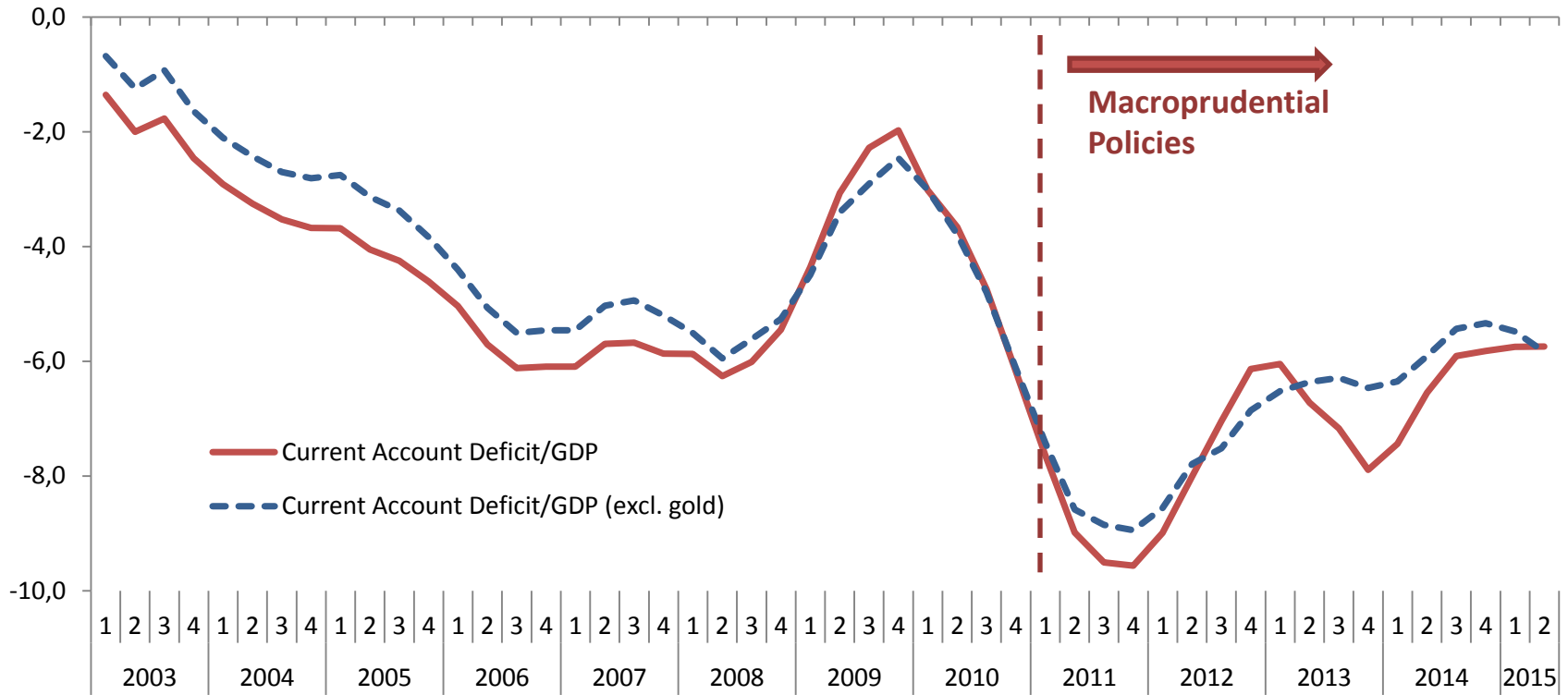
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Target	35	20	12	8	5	4	4	7.5	6.5	5.5	5	5	5	5	5
Realization	29.7	18.4	9.3	7.7	9.7	8.4	10.1	6.5	6.4	10.4	6.2	7.4	8.2	-	-

Source: TURKSTAT, CBRT.

January 2002: 73.16, March 2003: 33.41, July 2006: 11.69, July 2008: 12.06, April 2010: 10.19, April 2012: 11.14, May 2014: 9.66
Last Observation: October 2015.

The improvement in current account deficit proceeds.

Current Account Balance (12-Month Cumulative, % GDP)



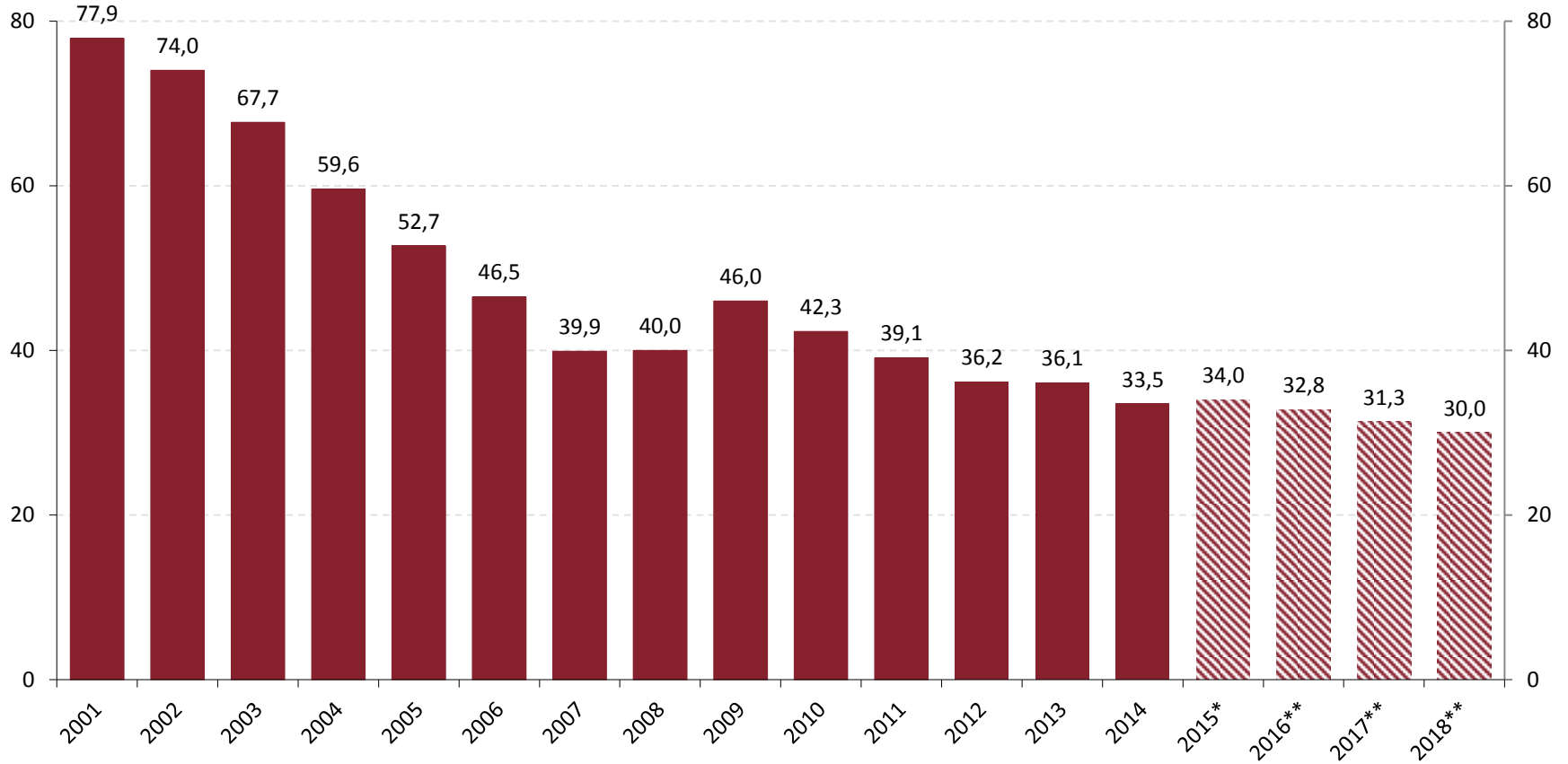
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Current Account Deficit (Billion USD)	0.6	7.6	14.2	21.4	31.8	37.8	40.4	12.2	45.4	75.1	48.5	65.0	47.0
Current Account Deficit/GDP (%)	0.3	2.5	3.6	4.5	6.0	5.7	5.4	2.0	6.2	9.7	6.2	7.9	5.8

Source: CBRT.

Last Observation: 2015 Q2.

Fiscal discipline is expected to remain strong.

EU Defined Gross Public Debt (Percent of GDP)



Last Observation: 2014.

Source: Undersecretariat of Treasury, Medium Term Program (2016-2018).

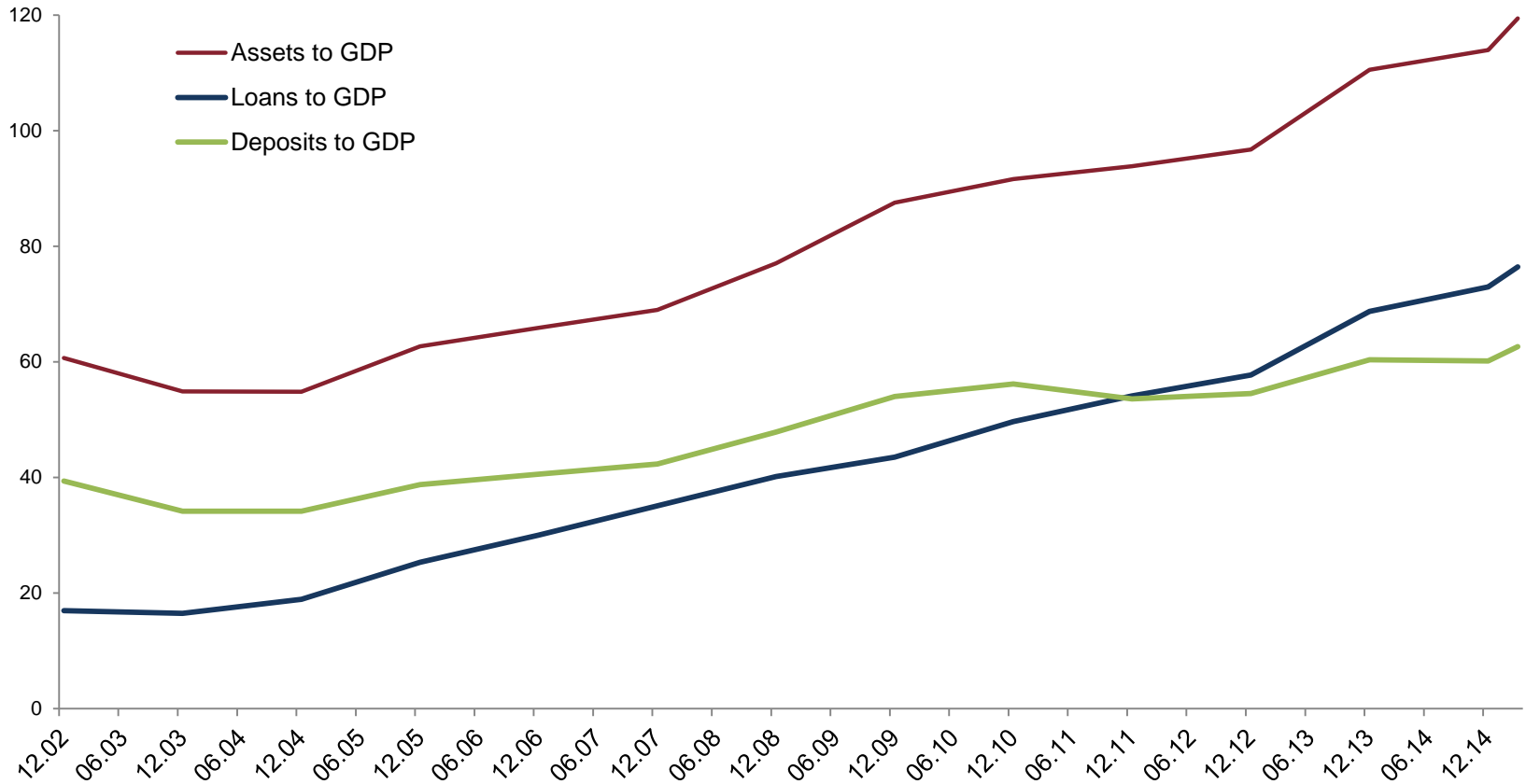
* Medium Term Program (2016-2018) realization target.

** Medium Term Program (2016-2018) target.

FINANCIAL SECTOR OVERVIEW

Financial deepening in Turkey is on the rise.

Total Bank Assets, Loans and Deposits to GDP (Percent)

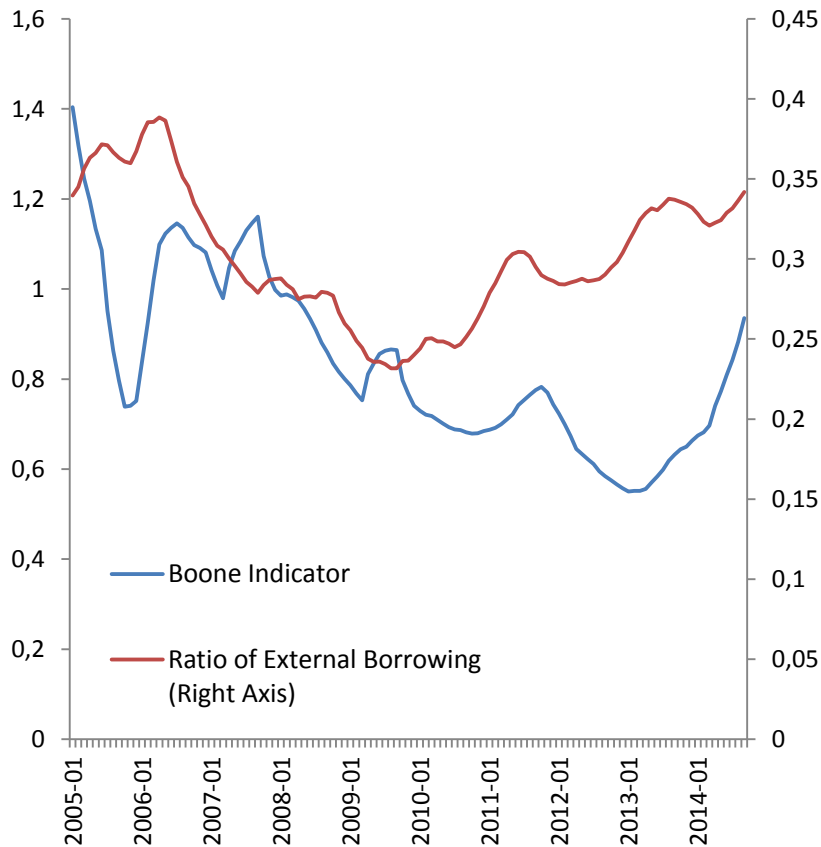


Source: BRSA, CBRT

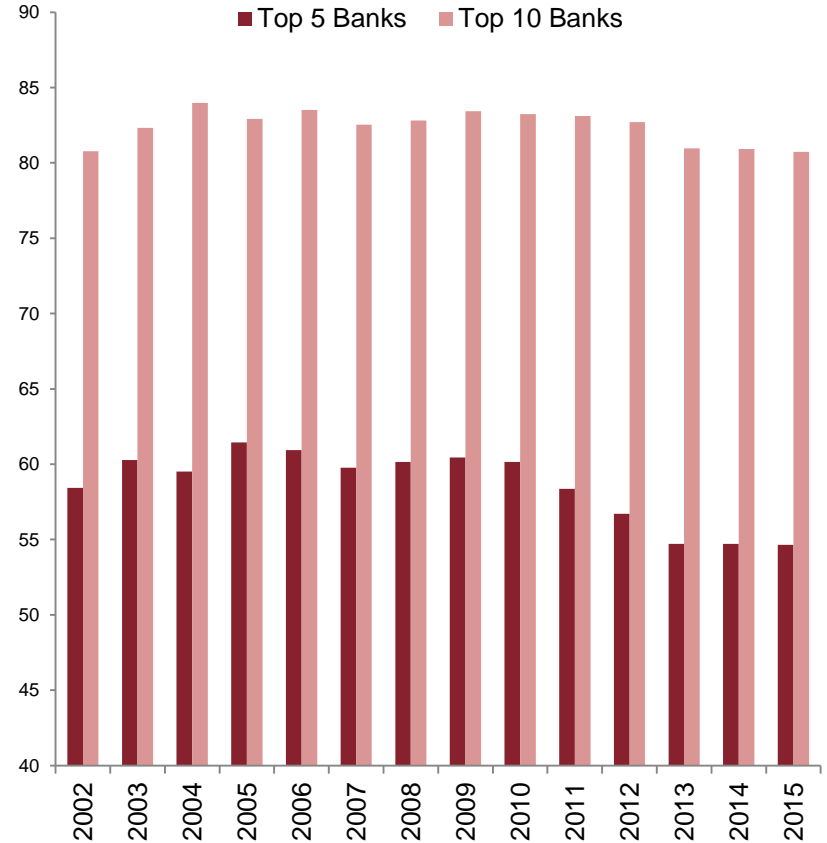
*Latest Data: 2015Q1

Banking sector competition has rapidly increased in recent years.

Boone Indicator and External Financing



Concentration (Percent)



Source: Financial Stability Report, May 2015, CBRT

*2015 is as of September

Total loan growth has been hovering around 15 percent.

Total Loan Growth
(YoY Change, FX Adjusted, Percent)



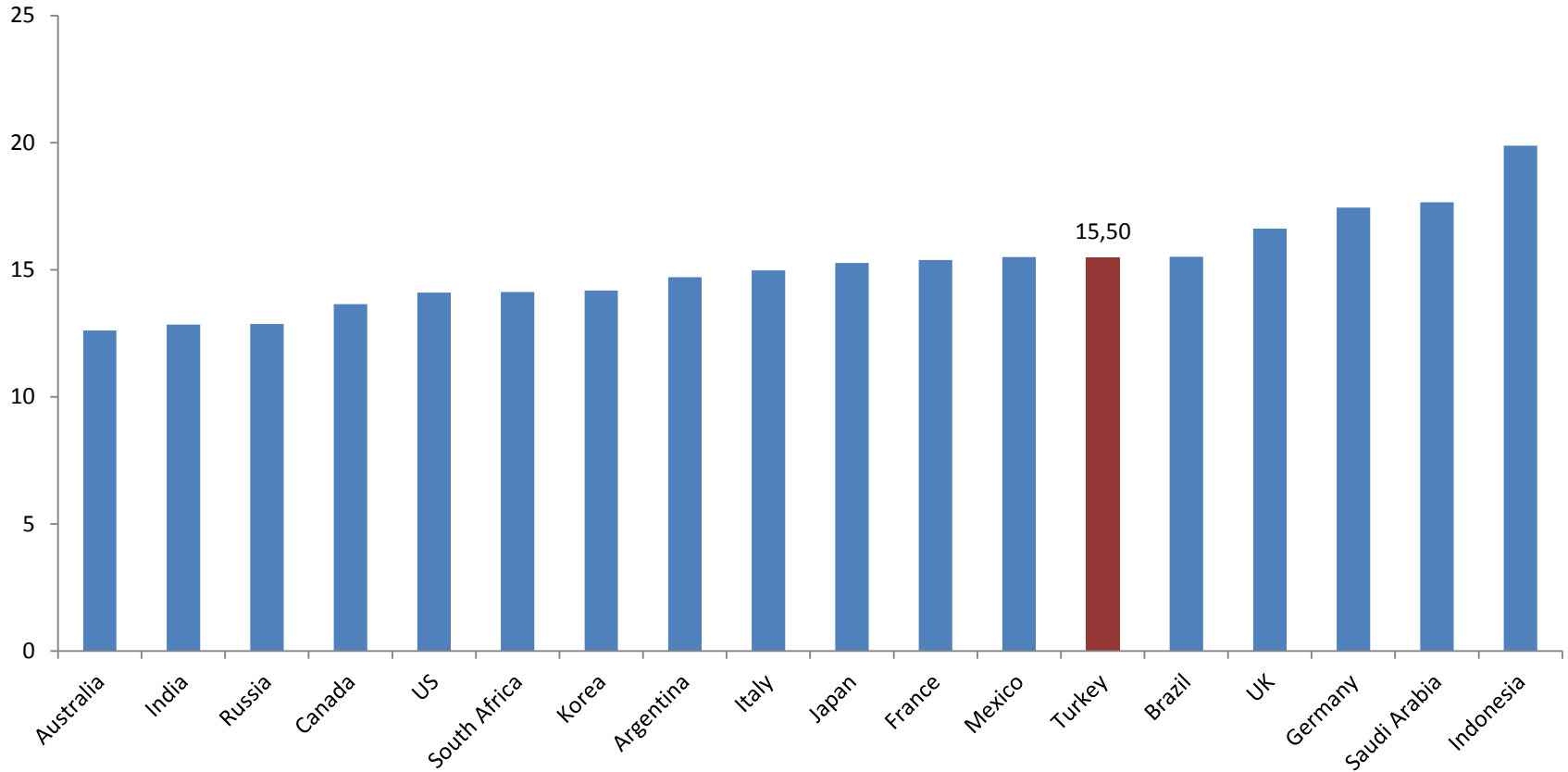
Source: CBRT.

Last Observation: November 6, 2015.

Total banking sector (including participation banks, excluding non-performing loans)

Banks are well capitalized.

Capital Adequacy Ratios in G20 Countries (Percent)

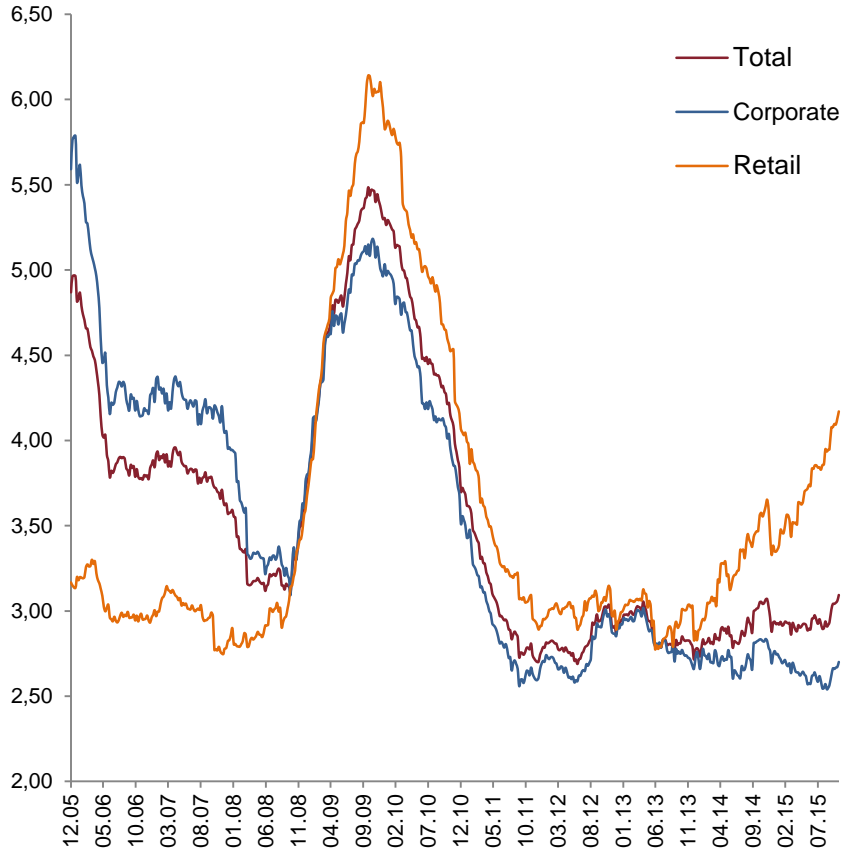


Last Observation: For France, Italy and Saudi Arabia 2014 Q2, for Japan 2014 Q3, for UK 2014 Q4 and for others 2015 Q1.

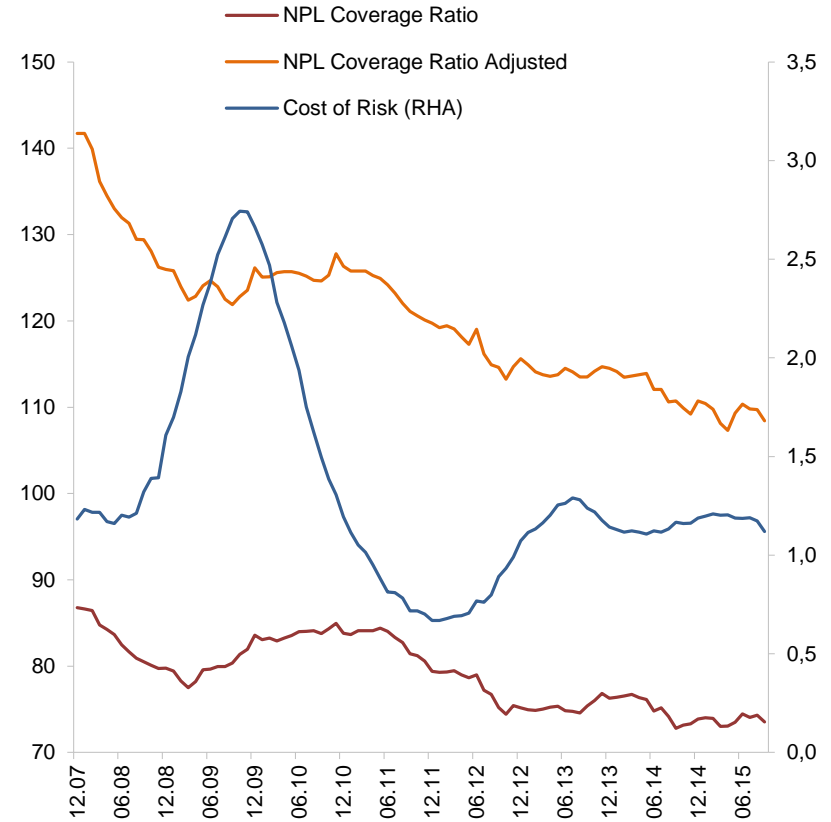
Source: IMF

Asset quality of the Turkish banking sector remains high.

NPL Ratios (Percent)



NPL Coverage Ratio and Cost of Risk* (Percent)



Source: BRSA, CBRT

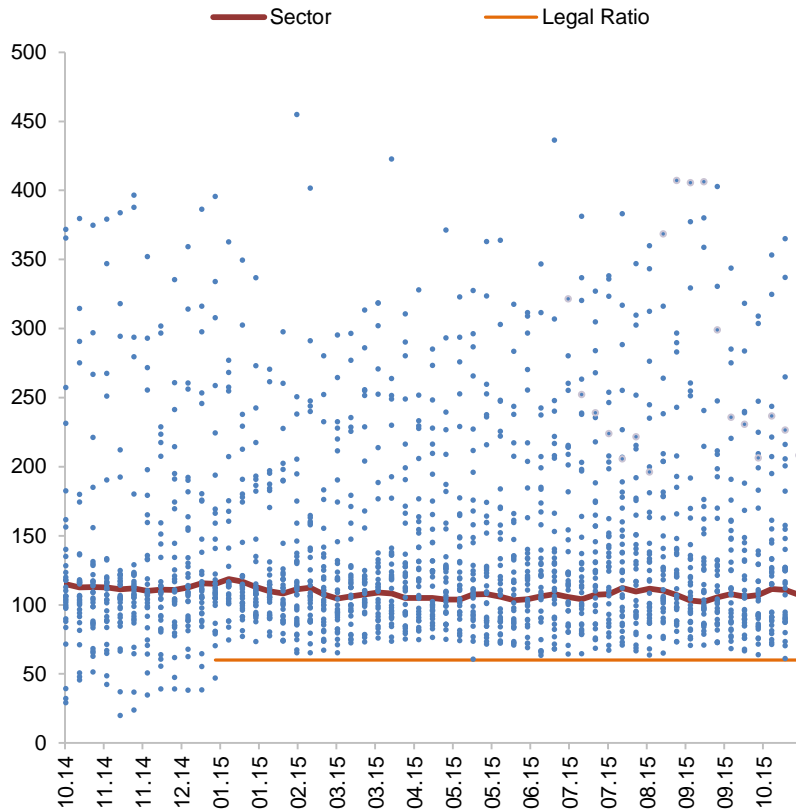
Latest Data: 06.11.2015

*Cost of Risk=Special Provisions for NPL/Average Loans

NPL Coverage Ratio Adjusted considers the value of collateral.

FX and liquidity risks of the Turkish banking sector are significantly low.

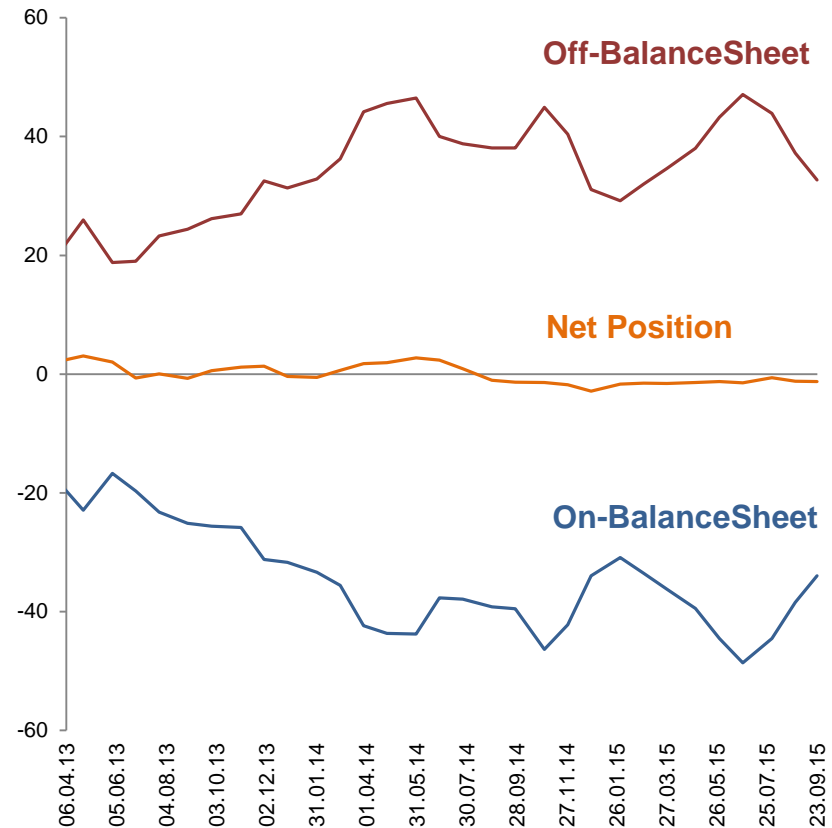
Total Liquidity Coverage Ratio¹
(Percent)



(1) Development and Investment Banks are excluded.
Source: BRSA

Last data: 30.10.2015

FX Position (Billion TL)



Source: BRSA

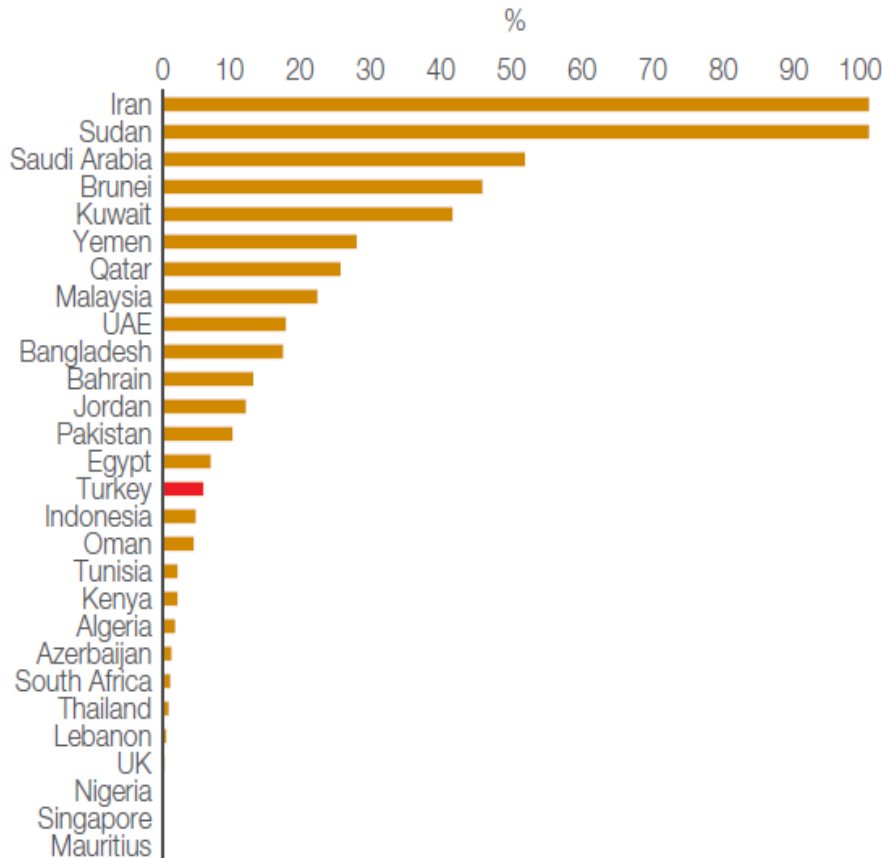
ISLAMIC FINANCE (IF) IN TURKEY

Turkish experience on Islamic finance

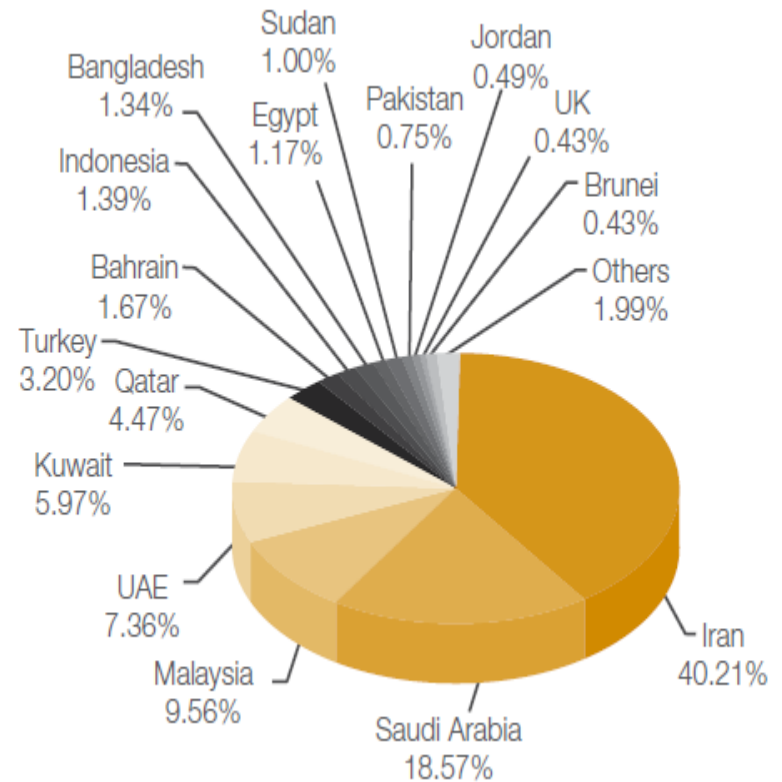
- ❑ Market share of participation banks has been increasing significantly in recent years.
- ❑ Islamic finance is expected to contribute financial stability by:
 - i. providing more diversified funding and loan bases,
 - ii. promoting risk sharing based funding rather than debt instruments,
 - iii. providing support for investments and especially SME's finance.
- ❑ One of the objectives of Turkish G20 presidency is to increase financial inclusion through enhancing SMEs' access to funds and to promote equity financing instead of debt instruments.
- ❑ New entrances are expected to enhance the development of Islamic finance in Turkey.

There is still room for further growth in Islamic Finance for Turkey.

Islamic Banking Share in Total Banking Assets by Jurisdiction (1H 2014)



Shares of Global Islamic Banking Assets (1H 2014)



Source: IFSB (« IFSI Stability Report 2015»)

Islamic Finance and Financial Stability

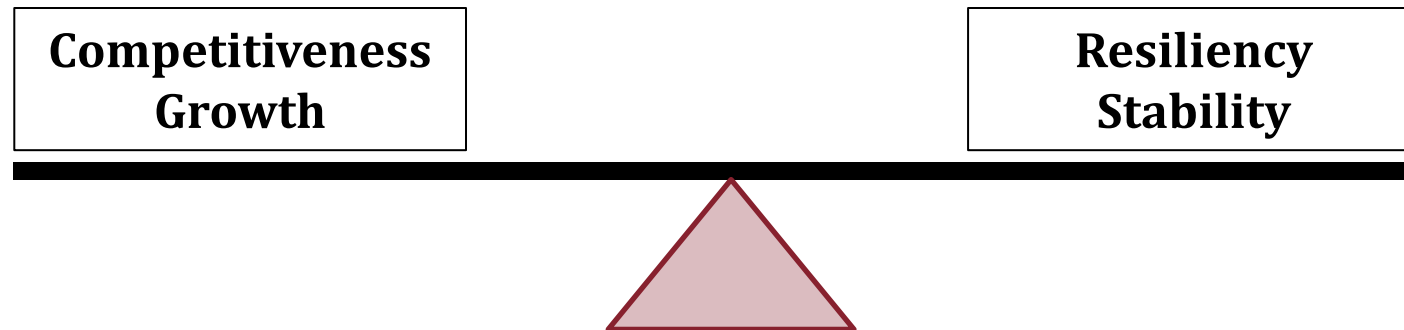
- I. Does Islamic finance contribute financial stability ?
- II. What should be done for stable and resilient functioning of Islamic finance entities ?

Enabling Stable Functioning of IF

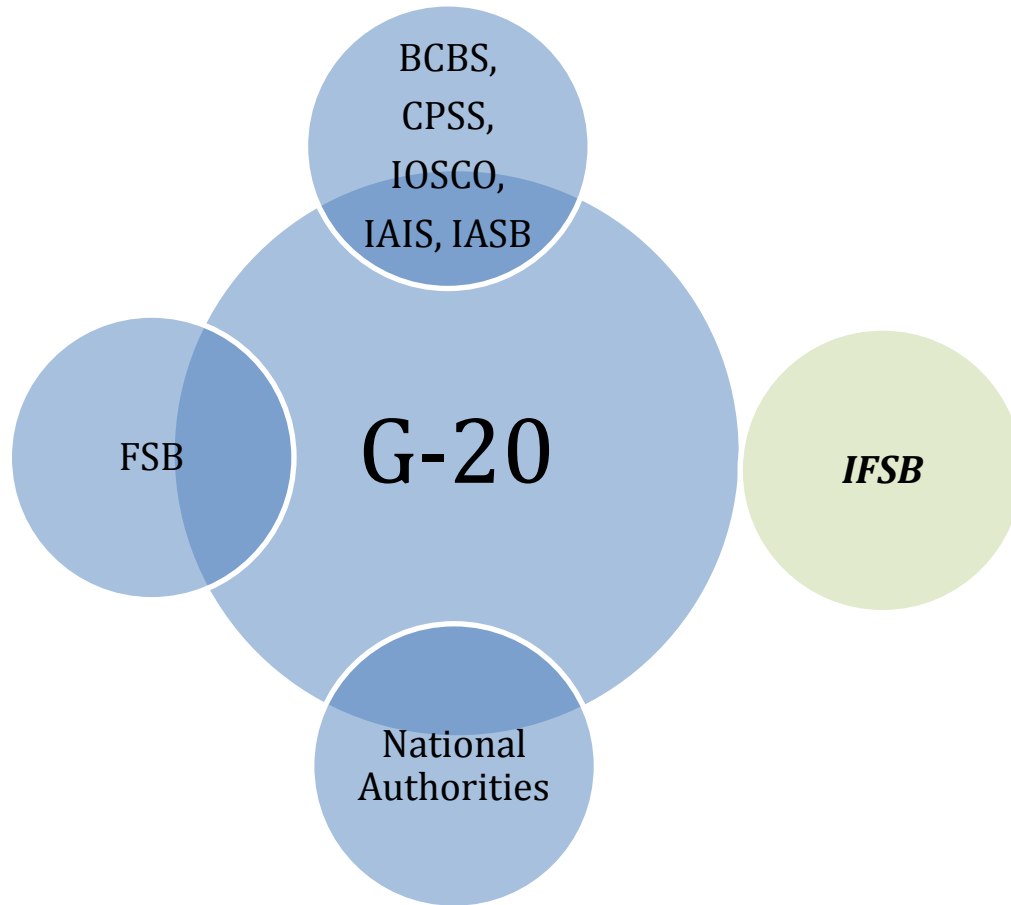
- ❑ Regulation: Understanding the business model and products
- ❑ Providing risk-hedging policies and instruments:
 - Liquidity management
 - New product development

Need for Regulation and Standardization

- ❑ Need for improving regulatory oversight (rapid growth)
- ❑ Industry standards for customer confidence and protection
- ❑ Flexibility to meet the customer demand



New Global Regulatory Structure



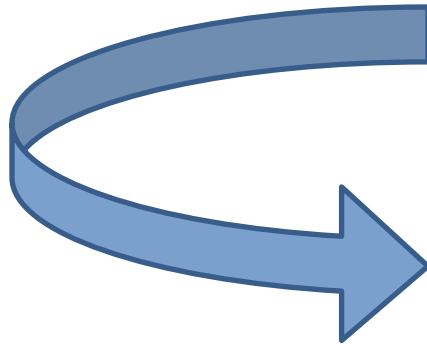
Main Reform Areas

1. Basel III capital framework
2. Basel III liquidity framework
3. G-SIBs
4. OTC derivatives reforms
5. Shadow Banking
6. Other national or regional regulatory reforms

A Challenge: Liquidity Management

Islamic banks need liquid instruments:

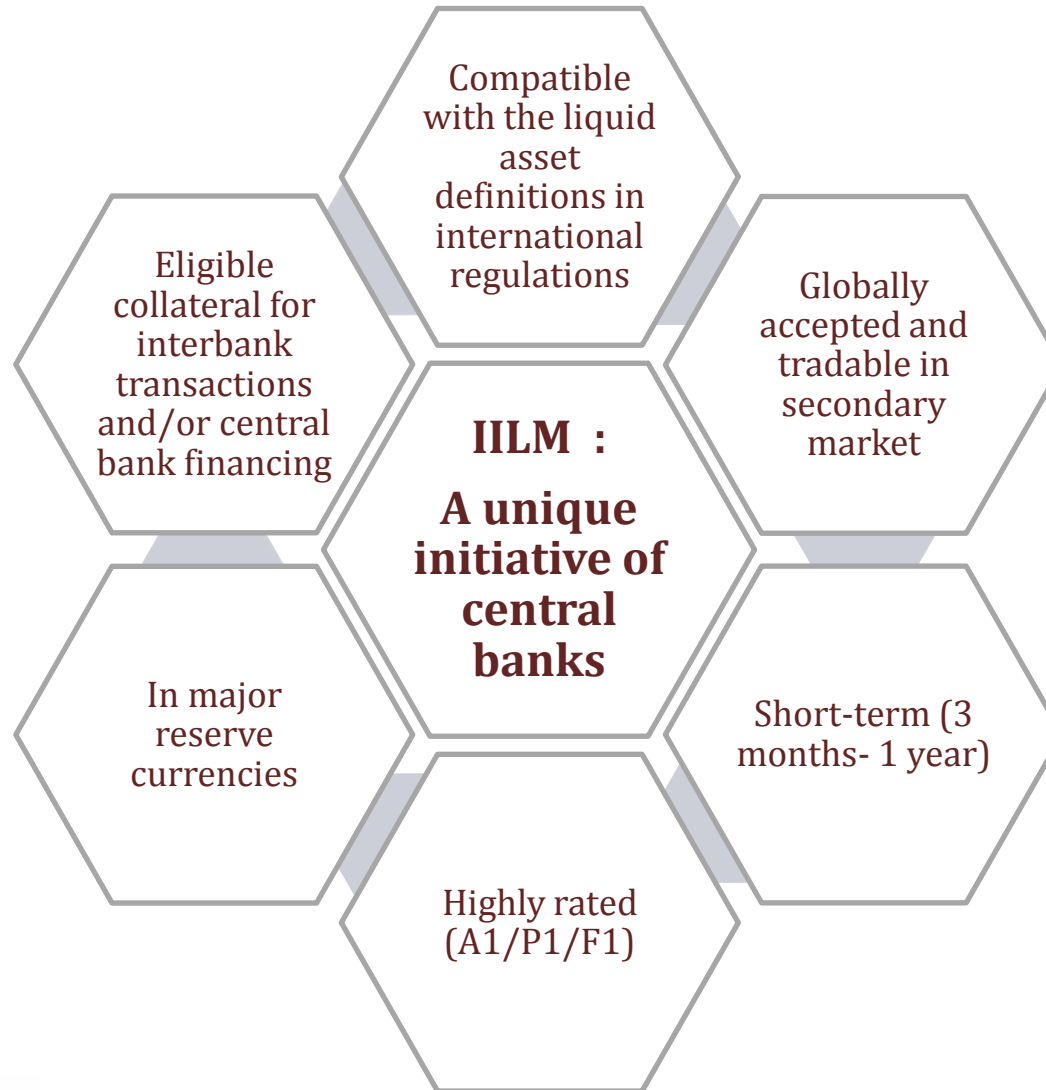
- High quality
- Short term
- Sharia'h compliant
- In international currency



Lack of liquid instruments result in

- Competitive disadvantage compared to conventional banks (higher holding of cash and larger net liquidity gap)
- Basel III would affect liquidity position of Islamic Banks
- Impeding on cross-border activities

IILM initiative to support Islamic finance



Overview

- ❑ The slowdown in developing countries makes downward pressure on global growth.
- ❑ Turkish macroeconomic environment is resilient and promising.
- ❑ Financial sector remains sound and stable.
- ❑ Islamic finance is on growth track both globally and in Turkish market.
- ❑ Turkey is successful in achieving smooth development of Islamic finance institutions and in "leveling the play-field".
- ❑ Domestic and international regulatory challenges will be taken into account in the upcoming period to enhance further development of Islamic finance in Turkey.



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