Banks underpin Turkish growth

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Turkey is rapidly recovering from the global recession and its more than 40 banks, riding high from record profits in 2009, are once again driving economic growth. The banks are bolstering loans and planning to expand in the Balkans, the former Soviet Union, the Middle East and North Africa, with new branches and bank acquisitions.

After declining 4.7 per cent in 2009, Turkey's economy is bouncing back. The country's economy grew 6 per cent in the final quarter of 2009 and growth throughout 2010 has neared double figures. Turkey's three big industries – automotive, textiles, and chemical products – hit hard by the crisis, are booming once again, while exports in the first three months of the year were up 22.4 per cent to US$25.68 billion (bn). Exports were up in most categories in the first quarter of 2010, and fell only in steel, tobacco and in some agricultural products.

The resilience of Turkey's economy has encouraged Fitch Ratings in December 2009 to upgrade Turkey's long-term foreign currency issuer default rating, to BB+ from BB-, and Moody's to raise Turkey's government bond rating one notch to Ba2. Both cited the country's financial shock-absorption capacity at a time when the credit ratings of about 35 regions were downgraded.

Crucially, the credit rating upgrades allowed Turkey's major banks to renew syndicated loans in 2010 at lower interest rates than in 2009. In March, for instance, commercial bank Akbank obtained a total US$1.2 bn syndicated loan – the biggest by a Turkish bank in 2010 – from a group of 55 banks from 21 countries.

In 2009, Turkey had a current account deficit that stood at US$13.85 bn, which the government was able to bridge with foreign direct investment, privatisation revenues and a big cash inflow of cash. Since then, the 'asset peace plan', which was introduced in October 2008 and continued until the end of 2009, in which Turks living and working abroad moved their money into the Turkish system, has raised US$31.6 bn. The Ministry of Finance estimates Turks hold as much as US$200 bn in cash in banks outside the country – equivalent to 69 per cent of the country's budget for 2010.

In the first two months of 2010 Turkey's current account deficit rose to US$5.6 bn, suggesting the government might need to extend the asset peace plan for another year to draw more funds from abroad.

More worrying has been the government budget deficit, which spiralled out of control in 2009 due to a fall in tax revenues, a series of temporary fiscal measures introduced to revive consumer spending and an explosion of outlays for public health and social security services. The budget deficit reached US$34.84 bn in 2009 – nearly six times more than had been predicted.

Officials at the Ministry of Finance have projected a more realistic deficit of US$33.4 bn for 2010. Turkey's foreign debt at the end of 2009 was US$271.1 bn, or 43.9 per cent of its GDP, much lower than most EU countries. About US$52 bn of the debt is short-term and must be repaid within a year, while the remainder is long-term.

In 2009, the Turkish banking system posted a record US$13.47 bn in net income, up from US$5.34 bn in 2008, according to the Banking Regulation and Supervision Agency (BDDK), the region's banking authority. Total assets of the banking system at the end of 2009 were US$556.75 bn, or 90 per cent of the nation's GDP of US$617.6 bn. This reveals the banking system has grown 4.4-fold since the end of 2002, when total bank assets reached a mere US$126.7 bn. Bank deposits totalled US$344 bn in 2009, up from US$301 bn at the end of 2008. Loans were US$262.1 bn, up from US$243 bn at the end of 2008.

The banks are focusing on corporate and consumer banking, as well as lending to energy projects, including the construction of hydroelectric dams, wind farms and thermal energy plants, and power and natural gas distribution. Akbank, Isbank, Garanti Bankasi and the Industrial Development Bank of Turkey are all funding numerous energy projects. Spearheaded by Isbank, several Turkish banks are preparing to expand in the Balkans, the former Soviet Union, the Middle East and north Africa, with new branches and bank acquisitions. Some 20 Turkish banks already have 500 bank representative offices or full banking branches overseas.

Turkish state-owned lender Halkbank too is eyeing the Balkans, citing its relatively low penetration rate. The bank, which targets a 25 per cent increase in credits, is focusing on the Balkans for growth abroad. In accordance with its regional growth plans, the lender looked into the Syrian and Balkans market, finally deciding to focus in the Balkans for new investments. Also looking to expand regionally is Sekerbank, which is partly owned by the government of Kazakhstan. This will facilitate its entry into the Central Asian markets. F