NEAR EAST UNIVERSITY

DEPARTMENT OF BUSINESS ADMINISTRATION

MASTER PROGRAM

BANKING IN TURKEY AND A LOOK AT TRNC

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TABLE OF CONTENTS

LIST OF TABLES

CHAPTER 1

Chapter 1

1.1 Introduction

Banks are very important in the economy of the nation states. They play the role of intermediaries between the depositors and borrowers to create gains for the depositors and capital for investment. Banking sector emerged in Turkey in the mid 1800. Initially individual people with capital and trust (usually the jewelers), started collecting and lending money in the Galata region of Istanbul, the financial capital of Turkey. The first foreign bank that opened in Turkey was the Ottoman Bank in the 1856. There were also state owned banks giving services in these years.

Private banks started to operate between 1945 and 1960. Usually the big industrialists and capitalist started their own bank. They were initially regional and serving to certain sectors.

Until 1980's Turkey was under a strict planned economy. Banks, instead of competing on their services and interest rates, were issuing lottery numbers to their clients and giving presents such as cars and flats. The interest rates were fixed by the state, and it was not in parallel with the inflation and devaluation rate of Turkish Lira.

1980 is the turning year for the Turkish economy. With Özal, the open minded and experienced economist who supported Thatcherism in those days, new era of economy and banking started. The economy and banking was to run under open market conditions. All the restrictions for imports and finance were relaxed, and the Turkish economy and finance sector started to run in real economic conditions.

Since the liberalization efforts role of the private banks are increasing. There are serious efforts of privatization. Only this year, one of the biggest state owned banks The Sümerbank has been privatized. The number of state owned banks are now 8.

Opening banks need the permission of the Board of Ministers. Another condition for openening a bank is to have a paid capital of minimum 1 trillion Turkish Lira (about 5 million stg.pounds).

The banks are supervised by three authorities in Turkey. First is the Central Bank. The second is the Undersecretariat of the Foreign Trade, and finally the Treasury. In addition to these the Bankers Association is also active in promoting the sector and keeping the sectors interest at a prime position.

It is not possible to separate the banking sector from the economy. The economy is a whole and the faith of the banking sector is largely dependent on the general condition of the economy.

Although there is a sustainable growth in the Turkish Economy there are still problems. The growth rate is around 55 every year. The problems are high inflation, high interest rates and high devaluation rate of the Turkish Lira.
The most important event in the Turkish Economy since 1980 was the 5 April decisions of the government to place the Turkish economy on real terms again.
Along with banking there are other elements in the Capital Markets of turkey. Istanbul Stock exchange has become an important aspect of Turkey's capital markets.

The banking sector constitutes the greater part of the Turkish financial system. Nearly all of the activities taking place in both money and capital markets are carried out by banks. It is a consequence of the country's economic and historical development that Turkey's financial system and its banking sector are virtually synonymous with one another. Many factors have combined to give banking such a broad function in the Turkish economy. Among these are:
The economic structure of Turkey peculiar to itself. The choice to turn resources into long-term investment through the banks for the objectives targeted in the development plans and programs, and the establishment of banks by the state to finance

certain sectors, Extensive application of Continental European banking practices as models in the legal structure of the banking system, and A newly-developing capital market able to compete with the banking sector.

1.2 Background

The development of the Turkish banking sector can be divided into 6 periods[1] which differ in respect to policies and methods: The Period of Money-Changes and the Galata Bankers pre-1847): In this period, all quasi-banking activities were carried out by money-changers and the Galata bankers who were mostly from the minorities in Istanbul.

The Period of Foreign Banks (1847-1908) : Because the financial situation of the Ottoman Empire had deteriorated after the Crimean War, the Empire faced the need for external financial support. Great numbers of foreign banks arrived with the purpose of extending credits to the Empire at high interest rates.

The Osmanlı Bankasi (Ottoman Bank) was also established in 1856. Its head office was in London and it served as a central bank until the 1930s. Development of National Banking and Implementation of States (1909-1944) :

The years following the Second Constitution (1908) brought in the national banking movement as a reaction to foreign banking. Twenty-four national

[1], "Türk Bankacılık Sektörü Üzerine Bir İnceleme", M.Coşkun Cangöz, Hazine ve Dış Ticaret Dergisi, 1993, Issue 15

banks were Established in Istanbul and Anatolia between the years 1908 and 1923.
However, foreign banks continued to dominate banking activities due to the consecutive wars 1911-1922 between capitulations given to foreigners and national capital scarcity. In 1923, the first National Economic Congress held in Izmir dealt with a large number of economic problems that the country would have to overcome. The Congress took the decision that banks would be Established to finance main sectors of the economy. Türkiye-Iş Bankasi (1924), Sanayi ve
Maadin Bankasi (1925), and Emlak ve Eytam Bankasi (1927) were Established in order to provide commercial, industrial and housing credits respectively. However, the negative effects of the Great Depression on the balance of payments and lack of domestic capital called for a government-supported economic development policy in the following years. As a result of this poUcy, six state banks were Established in the 130s, including the Central Bank of the Turkish Republic.

1.3 STRUCTURE

The Turkish financial system is based upon a universal banking system which legally enables commercial banks to operate in all financial markets[2]. The only two things the commercial banks are not allowed to engage in are trading goods or immovables for commercial purposes and leasing. On the other hand, investment and development banks may not accept deposits but they may engage in loading goods or immovables for commercial purpose and also in leasing. The Turkish state, apart from its regulatory interventions in banking transactions, also controls the greater part of the Turkish banking system. Even though the number of state banks is only , their total share in the system is 4%.

Even tough the number of state banks is only 9, their total share in the system as of September 30, 1995 is %45. However since Sümerbank was privatized in October 1995, the number of state banks fell to 8 as well as their share in the market. There is no local bank and all banks are multibranched.

Most commercial banks have ownership linkages with non-financial corporations. Holding companies control the ownership and management of some banks

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[2] "Türkiye'de Bankacılığın Yapısı", Asomedya, 1994, May, 28-33

well as those of industrial corporations. There are also financial conglomerates where the banks act as parent companies.

Banks do not face any effective competition from other financial institutions. Most of the insurance and leasing companies are affiliated to banks.

Another major characteristic of the banking sector is the high degree of concentration. The total assets of the five largest banks amount to %49 of the total assets of the banking system.

As the end of September 1995, there were 69 banks operating in Turkey, including the Central Bank, 13 of which are investment and development banks, and the rest are commercial banks. Six of the commercial banks and three of the development and investment banks are state-owned.

The total number of foreign banks operating in Turkey is 22. 11 were founded in Turkey with foreign capital as joint stock companies, while the remaining 11 are simply branches of foreign banks founded abroad.

Despite their small market share, foreign banks have an important place in the Turkish banking system because of the new concepts and practices they have introduced. Particularly in the last decade, foreign banks have brought to the system new attitudes toward competition and dynamism. Turkish banks have begun developing strategies to replace unprofitable services and activities, install new services and increase profitability and competitive strength through better control of operating costs.

As of September 30 , banks in Turkey had a total of 6,135 branches, of which 2,919 belonged to the state-owned banks.

Since the attractiveness of collecting deposits has declined in parallel with the structural changes in the banking sector during the last decade, banks have started to narrow their branch chains by closing unprofitable branches and limiting the organizational scale of the branches.

At the end of 1994, there were 17 branches and 71 representative offices and 2 bureaux of Turkish banks abroad and the number is continuously increasing. In addition, Turkish banks have participation in 32 financial institutions (mostly banks) abroad. The main items of the aggregated balance sheet of the Turkish banking sector as of September 30, 1995 are shown below (in TL billion):

Total Assets	3,150,532
Net worth	185,405
Deposits	1,909,688
-in TL	1,024,070
-in FX	885,618
Loans	1,174,312
-in TL	649,360

-in FX	524,952
Securities portfolio	416,566
Participations	47,733
Total Profits	81,085

In the total assets of the banking sector, the state banks share amounts up to 45% while the share of foreign banks is only 4%.

ASSETS (TL. BILLION)	
Cash Items	128,889
Financial Institutions	455,987
Securities portfolio	416,566
Loans1,	152,420
Non-Performing Loans	21,892
Loans (Net)	21,892
Reserve Requirements	201,392
Participations	47,733
Fixed Assets	148,759
Other Assets	576,894
Total assets	3,150,532

LIABILITIES	
Deposits	1,909,688
Saving Dep.	630,760
Certificate of Dep.	7,914
Official Dep.	50,531
Commercial Dep.	157,351

Banks Dep.	96,931
Other Dep.	140,049
Foreign Exchange Dep.	826,152
Borrowed Funds	541,599
Bonds and Bills	75,232
Financial Institutions	153,588
Other Borrowed Funds	312,779
Other Liabilities	432,755
Net worth	185,405
Total Profits	81,085
Total Liabilities	3,150,532

Off-Balance Sheet Obligations	
Guarantees and Indemnities	1,071
Commitments	598
Interest and FX Related Transactions	526

Source: Bankacılar Birliği (Union of Banks)

The most important source of funds for banks are deposits. State banks collect 47% of total deposits while the private banks collect the remaining 53%.

Cash credits have the highest share in assets. State and private banks supply 48% and 49% of these credits respectively.

82% of the banks securities portfolio consists of public sector securities such as treasury bills, government bonds and revenue sharing certificates issued to fulfill the funding requirement of the public sector.

Banks participations in non-financial institutions make up some 73% of their total participation.

As of the end of September 1995, the shares of the state banks, national private banks and foreign banks in total profits are 22%, 66%, and, 12% respectively. However, when their profits are compared with their assets, it is observed that the profits of the private banks are much higher than that of state banks.

1.4 Legal Framework

All banks in Turkey are subject to Banking Law no.3182 of 1985 and to the provisions of other laws pertaining to banks. The establishment of a bank depends on authorization given by the Council of Ministers[3]. For a new bank to be Established, it must be a joint-stock company with a minimum of TL 1 trillion worth of total paid-up capital. Opening of new branches by banks, is unrestricted up to 10 branches in a calendar year for banks whose financial standing is considered satisfactory. To open more then 10 branches the permission of the Undersecretariat of Foreign Trade is required. The legal framework concerning the functioning of foreign banks in Turkey is the same as that regulating domestic banks. Foreign banks can operate in Turkey, either by establishing a branch or subsidiary or by going into a joint venture with a bank Established or about to be Established in Turkey. The first branch of foreign banks may be opened with the permission of the Council of Ministers. Foreign banks must bring their capital allocated to Turkey in foreign exchange and sell it to the Central Bank of the Republic of Turkey. The minimum capital requirement is the same as the above mentioned amount for establishing a bank in

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[3] Bankacılık Yasası , Merkez Banklası, 1985, No. 3182

Turkey. A reciprocity provision is also in force with respect to the operations of foreign banks. This provision allows the Council of Ministers to take counter measures if the conditions in any of the countries in which Turkish banks operate are changed unfavorably.

1.5 SUPERVISION OF THE BANKING SYSTEM

Banks are institutions in which funds accumulating in the economy are loaned, exchanged or otherwise utilized. This makes the public supervision of funds vital to economic stability. Banks in Turkey that have the status of joint-stock companies are subject to general controls under the provisions of the Turkish Commercial Code and of various tax laws.

State banks are also subject to audits by the Supreme Audit Board. Banks are also subject to special supervision by the Treasury and Undersecretariat of Foreign Trade and the Central Bank of the Republic of Turkey[4]. In addition to these authorities, the Banks Association of Turkey acts as a Limited organ of supervision and coordination. As the representative body of the banking sector, it aims at examining, protecting, and promoting its members' professional interests. The Treasury and Undersecretariat of Foreign Trade carries out supervision of the banking sector within the framework of provisions of its own governing statutes as well as of the banking laws. The T.U.F.T. exercises its supervisory authority on a direct and ongoing basis through the Board of Certified Public. Auditors. In other words,

[4] "Merkez Bankası ve Bankacılık", Capital, 1996, July, 70

Certified Bank Auditors are responsible for the on-site examination of the banks. Implementation of provisions of the Banking Law and the provisions of other laws concerning banks, examination of all banking operations and determination and analysis of the relations and balances among the assets, credits, net worth, profit and loss accounts and all other factors affecting the financial structure are ensured by the Certified Bank Auditors.

The Central Bank is responsible for the supervision of the banking sector within the framework of authority given to it by its own law. Central Bank inspection takes the form of an external examination which relies on financial tables and documentation. Additionally, the banks are audited by independent external auditors in accordance with internationally accepted principles of accounting. Banks are also examined by their own inspectors. These inspectors are required to submit their annual and quarterly financial statements to the T.U.F.T. In recent years, the supervisory system has been further strengthened by a number of decisions related to standards for prudent management. In this context, the Decree on Provisioning issued in May, 1988 required sufficient reserves for loans losing their credit-worthiness or in default, and provided for more control over non-performing loans by rating them. Principles for Capital Adequacy as laid out in Communiqué No . 6 came into effect in October,1989, in order to reduce the risks arising from inadequacy of bank capital. Some articles in this communique were amended on April,1993. Having sufficient equity resources, banks would now be able to cover their risks in conformity with international standards.

Main Monetary Indicators

(in billions of TL)

	1990	1991	1992	1993	1994	1994	1995
[illegible]	14074.1	20707.0	35032.5	63103.9	120212.0	64315.1	140811.6
[illegible] Money	23871.0	36069.0	61195.0	101721.0	185738.0	103759.0	212881.0
[illegible] Supply (M1)	31398.7	42116.0	70521.0	132309.0	238981.0	112820.0	243156.0
[illegible] Supply (M2)	71571.2	113566.0	182988.0	291976.0	642490.0	288541.0	720712.0
[illegible] and [illegible]	11377.5	18546.0	31181.0	52517.0	104370.0	56673.0	127934.0
[illegible] Money	60193.7	95020.0	151807.0	239459.0	538120.0	231868.0	592778.0
[illegible] Supply (M2Y	89195.4	160432.0	289512.0	544933.0	1271201.0	596930.	1416954.0
[illegible] Bank [illegible]	8294.4	21632.0	46100.0	100583.0	160.431.0	147605.0	164219.0
[illegible]	5111.7	17671.0	37419.0	82892.0	148109.0	131034.0	151904.0
[illegible]	3182.7	3961.0	8681.0	17692.0	12322.0	16571.0	12315.0
[illegible] Credits	65648.2	78663.0	140427.0	280080.0	518908.0	281641.0	599201.0
[illegible].&Dev.B.Cre.	6933.6	10271.0	14235.0	24106.0	47480.0	27673.0	50862.0
[illegible] Credit Volume	77693.5	106605.0	192081.0	387378.0	714497.0	440348.0	801967.0
[illegible] Deposits	63678.0	100161.0	160244.0	251182.0	557499.0	252613.0	621743.0
[illegible] Deposits	34901.0	59381.0	92169.0	126036.0	328387.0	137147.0	387538.0

[illegible]ce: 1996 Statistik Yıllığı, State Planning Organizatio

CHAPTER 2

Chapter 2

GENERAL ECONOMIC SITUATION IN TURKEY

1994 has been a year when the long overdue high volume of deficit in the public finances became unmanageable leading to a major financial crisis in the first quarter. The situation was effectively monitored early in the second quarter with the implementation of the Stabilization Programme, which helped to restore confidence in the short-run[5].

In the second half of 1993, government policy aimed at alleviating the financial burden of the public sector borrowing by reducing interest rates and extending the maturity structure. Within this framework, Treasury limited the volume of short-term borrowing, relying increasingly on Central Bank (CB) advances and external borrowing. Capital inflow, which was obtained through bond issuance on international markets, enabled the Treasury to finance the soaring budget deficit as well as to monatise the domestic debt stock leading to a decline in short-term rates.

As a result of these gradually worsening conditions, concern over the country's balance of payments performance subsequently led to the downgrading of Turkey's international credit rating at the beginning of 1994. This, in turn, triggered speculative demand for foreign exchange, and initiated the crisis. The first quarter of the year was thus marked by severe imbalances in the financial markets, with rapidly rising interest rates and high currency depreciation which inevitably had adverse effects on the economy.

In the first few weeks of 1994, financial markets remained highly volatile as exchange rates came under strong pressure due to excess liquidity arising from Treasury's domestic debt repayments which mainly relied on CB advances. Under these circumstances, CB reacted by sharply raising overnight borrowing rates, while it urged Treasury to offer higher rates on government securities. However, demand for Treasury bill (T-bills) and Government bonds (G-bonds) remained weak, reflecting the market's reaction to falling real returns. This led Treasury to draw heavily from CB resources. Meanwhile, CB's efforts to sustain market stability through the sale of foreign exchange, and rising overnight rates, remained insufficient to divert demand from foreign

[5] 5 Nisan Kararları ve Etkileri, T.Odalar Ve Borsalar

exchange. Subsequently, TL sharply depreciated to the tune of 14% on January 27. CB reserves declined steadily, due to heavy foreign exchange sales, to reach USD 3 billion at the end of March against USD 6.2billion at the end of 1993.

Not withstanding these developments, the municipal elections rally, ending at the end of March,

prevented Government from taking the appropriate steps to reduce the tension. The outcome of the elections did not acknowledge any single political party as the potential contender for parliamentary majority in the event of early general elections nor did it lead to political instability.

Consequently, coalition partners reinstated their agreement to collaborate in government and agreed on implementing an Economic Stabilisation Programme.

The Programme, which was presented soon after the elections to restore confidence and the orderly functioning of the markets, was endorsed by the IMF through a Stand-by Agreement for the extension of SDR 509 million for the period ending August 31, 1995. It aimed

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Birliği, Ekonomik Rapor, 1995, May, 104

at restructuring the economy mainly by reducing the role of the state sector. Special emphasis was laid on public expenditure cuts as well as generating additional revenue to reduce the consolidated budget deficit, and subsequently, the public sector borrowing requirement (PSBR). Within this context, CB tightened monetary measures to strengthen the Turkish currency. Structural reforms announced in the Programme relied mainly on the closure of loss-making State Economic Enterprises (SEEs), the implementation of large scale privatisations[6], and the freezing of new recruitment in the public sector.

The consolidated budget deficit was thus revised down to TL 109 trillion from the original figure of TL 192 trillion, reflecting a faster increase in revenue and a considerable drop in expenditure. In order to fulfil the revenue target, Government introduced a new tax package composed of one-off taxes. Furthermore, additional resources from privatisation were aimed. On the expenditure side, salary increases were contained at fairly moderate levels. In addition, noticeable cuts in public

[6]"Devlet Artık Bankacılık Yapmasın", Finans, 1994, 34-39

investment expenditure as well as transfer payments to SEEs were anticipated.

In addition to fiscal measures, CB enforced new monetary measures. Reserve requirement ratio was reduced in favour of TL deposits and special rediscount loans were extended to banks with the aim of easing liquidity problems of bank. Moreover, with the introduction of a new legislation, CB short-term advances to the Treasury were set to decline gradually from the current level of 15% of total annual budgetary expenses to 3% in 1998. Meanwhile, all deposit accounts have been brought under government guarantee and flexibility in fixing the maturity of time deposits was introduced in order to stimulate demand for TL accounts.

It was anticipated that reduced domestic demand would ease inflationary pressures in the second half of the year. According to Stabilisation Programme targets, inflation would level at 20% in the second half, reaching 111% in terms of wholesale and 91% in terms of consumer prices at year-end. Meanwhile, TL depreciation would remain slightly below the inflation rate, averaging 2.7% in the third quarter and 11% in the last quarter. The value of one USD would amount to TL 38,000, up 162% from the rate of the year before.

On the external front, lower domestic demand, due to declining real wages and salaries and rising real interest rates, together with high real depreciation of TL and reduced volume of economic activity were expected to induce a dramatic fall in imports but a rise in exports, thus leading to a significant improvement in the current account balance. Net foreign assets were projected to rise by USD 650 million in the third quarter and USD 700 million in the last quarter.

Results obtained during the initial phase of programme implementation in 1994 indicate reasonable success in restoring the orderly functioning of financial markets, reducing the deficit and regaining confidence in TL. Battle on the inflation front, however, was lost as wholesale prices soared at an all-time high rate of 150%, despite the deep economic recession leading to

a significant negative annual growth of 6%. Delays in materialising the structural reforms, because of political obstacles, emerged as a considerable threat undermining the success of the Programme, while the economy remained confronted with destabilising factors.

On the public finance side, the consolidated budget deficit sharply declined, in real terms, to TL 146 trillion, representing 3.7% of GNP, Primary balance showed a surplus of TL 152.3 trillion at the end of 1994 which compares with a deficit of TL 13 trillion a year ago. Accordingly, the ratio of PSBR of GNP fell significantly to 8% from 12.1% previously.

Similarly, on the external front, the current account balance registered a surplus of USD 2.6 billion at the year-end as the trade deficit narrowed to USD 5.2 billion following a sharp drop in imports.

The first half of 1995 has remained fairly stable, relying on the favourable achievements, particularly on the monetary side, while performance on the fiscal side was relatively less satisfactory. The pressure on the consolidated budget was mainly due to interest payments on domestic debt. The share of personnel and investment expenditure in total spending dropped, while the share of interest payments, especially on domestic debt, continued to grow. Success in deficit reduction will depend on alleviating the interest burden, possibly by reducing interest rates. Since February 1995, there has been a decline in nominal interest rates on government paper reflecting the drop in inflation, although real rates remained relatively high.

Long-run stability, however, will be a function of structural changes helping to restore balance in public finances, mainly through spending cuts. Raising additional revenue to reduce the budget deficit by increasing the burden on tax-payers should be avoided.

Besides a reduced interest burden, narrowing the budget deficit will depend on a drastic end to all subsidy payments to financially unviable institutions. The need for implementing structural reforms, emphasised in the 1995 Annual Programme, has become vitally important.

It is fair to acknowledge improvements in this context. It is certainly encouraging that privatisation has been accepted as a necessity by the majority of the public opinion, which should add to the success of the programme, provided that a consensus among politicians is reached.

The implementation of the privatisation programme should be considered as part and parcel of a Stabilisation Programme and of the industrialisation strategy. Efforts are bound to fail should privatisation not be part of a broad programme aiming to reduce the public deficit, and should the proceeds be diverted to cover current expenditure.

A recent decree governing agricultural cooperatives is a first step towards a more sound agricultural policy, while the special retirement fund arrangement by the Capital Markets Board should open the way to private retirement schemes and help to rehabilitate the social security system.

Meanwhile, there are signs indicating a gradual revival in the economy. Growth of 0.2% registered in the first quarter of 1995 is better than expected, as it indicates that economic recovery is likely to turn into an expansion in the following quarters.

Decline in interest rates seems to stimulate supply and demand, as indicated by the capacity utilisation rate, the increase in investment incentive certificates, and growing industrial output. Real returns, in USD terms, on government paper are likely to stay positive with the relative real appreciation of TL.

Current positive real returns are likely to continue to attract short-term foreign capital. Thus, economic growth targeted at 3% is likely to be achieved, if not surpassed, while short-run stability will continue to reign. However, availability of external resources in the form of direct investment or long term borrowing on which Turkey's sustainable growth largely relies remains below the desirable level, despite the recent improvement in foreign borrowing rates and the gradually increasing volume of both private and public sector borrowing.

Although a new short-run equilibrium is likely to be restored, uncertainties still govern the economy due to the lack of a medium-term outlook. In order to restore trust both in the economy and on international markets, a medium-term stabilisation programme including an industrialisation strategy, relevant legislation and institutional adjustments, well-defined numerical targets, implementation procedures, and a time table should be implemented with determination. The Seventh Five Year Plan constitutes a cornerstone in this direction.

2.1 OTHER ELEMENTS OF CAPITAL MARKETS

For Turkey 1980's are characterized by attempts toward attaining a more liberalized economy and integrating with global markets. One decisive move toward this end was the establishment of the Istanbul Stock Exchange (ISE)[7]. Although the foundation of the exchange dates back to the first years of the Republic of Turkey, ISE could start its activities in 1986, after the constitution of the Capital Markets Board (CMB) in 1981. The performance of the ISE was quite cyclical in the first six years, booms in 1987 and 1990, crashes in 1988 and 1992.

The ISE gained a new momentum with the formation of the coalition between the True Path Party (DYP) and the Social Democratic People's Party (SHP) Serious measures were taken to stimulate the exchange activities, the most prominent of these being the tax incentives brought in 1993 providing an exemption of withholding tax on gains from mutual funds and investment trusts having at least 25% stock content ("A" type funds). Ignited by such incentives and the high growth rate of the economy (7.16% GNP growth), 1993 happened to be a year of records both in the index and the trading volume. The index flourished by 206% in USD based terms; monthly average trading volume and market capitalization rose north of USD 1,700 mn and USD 37,000 mn respectively. P/E ratio followed a similar route, increasing from 11 in 1992 to 25.2 in 1993.

With the advent of 1994, however, Turkey faced the most severe economic crisis of its history pronounced by three-digit yearly inflation and devaluation rates, high current account and budget deficits and rapid accumulation of foreign and domestic debt. Capital markets were inevitably adversely affected by this development. As a result of both the heavy devaluation of the TL against the USD and the real depreciation in the stock prices, the composite index fell by 80% in USD terms in the first four months of the year. There was a 30% drop in the P/E and a 64% drop in the market capitalization in the same period.

Having attained a value of USD mn 5,311 in January, the monthly trading volume fell sharply to USD mn482 in April, lowest since

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[7] "Sermaye Piyasası Kurulu,Sermaye Piyasaları 1980 sonrası

November 1992. After the commencement of the stabilization program in April, however, a revival was observed in the capital markets. As of the end of August, monthly average trading volume increased by 126%, market capitalization by 85% and P/E by 72%.1 There was also a dramatic 96% increase in the USD based composite index but this value is still 58% below the value at the beginning of the year.

2.2 The Istanbul Stock Exchange (ISE)

An organized securities market has existed in Turkey since the mid 1 800s, although the market had became dormant by the late 1 970s. In 1981, a new Capital Market Law established the Capital Markets Board (CMB) as the main regulatory body for the Turkish securities market. in 1 985, the Istanbul Stock Exchange (ISE) was reestablished and transactions recommenced in early 1 986.

2.3 Performance

Although the stock exchange is relatively young, its performance to date has been impressive:

Değerlendirmesi", 1995 May, 104

Over 1,266 companies listed, of which approximately 177 trade on a regular basis[8].
Total trading volume reached a value of US $20 billion for the year 1994, with US $160 million traded on a daily basis.
Over the past nine years, the ISE has provided excellent returns a compound annual rate of approximately 1 9%.
Performance levels are expected to increase with the introduction of the Istanbul Stock Exchange Electronic Trading System (ELIT) since the result will not only be an increase in daily traded volume, but further the elimination of the time lag between different stock exchanges. Coupled with the extension of the clearing settlement period (to transaction plus two days), it will increase operational potential While Turkey has recently undergone a period of volatility in both the foreign currency and stock markets, this temporary situation is being subdued with the introduction of corrective economic measures by the government in April 1994.

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[8] Istanbul Menkul Kıymetler Borsası, Dönemsel Bülten, 1996,

2.4 Outlook

A number of factors are expected to promote the continued strength of the Istanbul Stock Exchange by increasing liquidity and institutional participation, ensuring Turkey to provide investors with an attractive opportunity for diversification from Latin American and Southeast Asian markets:

2.5. Modernization Program.

The ISE is being modernized with a relocation to a new and larger building and the installation of an automated electronic trading system.

2.6 Incentives and international recognition.

Tax incentives will promote investment by Turkish institutions, while Turkey's increased coefficient in the IFC's Emerging Markets index, should generate investment by foreign investors.

2.7 Spill-over effects from European economies.

The linkages between Turkey and the major European economies suggest that the spill-over

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jan-Sept., 60

effects will be strong as Europe emerges from recession.

Privatization program and new forms of equity investments. The government's privatization of state-owned enterprises and the introduction of new equity investments should continue to attract investors. In this connection the CMB recently approved the listing of equity-based mutual funds.

2.8 Factoring

Having been introduced to the Turkish economy six years ago, factoring has gained itself a well-deserved place, far more than was ever prospected for this newcomer when it first started[9].

With its facilities for post-finance, export guarantee and market research, factoring, now, is a quite common technique, practiced by not only a large group of exporters from various sectors, but also by many domestic traders of the local market.

Based on the principal of invoice assignment, what factoring mainly provides is the

[9] "Turkish Factoring In the World Leauge" Capital, June1996

collection of sales within or before its maturity.
Customer evaluation, cash management and consulting are other available services which come as by-products.

Factoring, also, has inevitably, taken its share from opposing effects of the monetary and financial crisis recently experienced by Turkish economy. The numerous difficulties that the sector has been exposed to were basically stemming from funding disability, and consecutively credit assessment. This dissenting situation showed its effect intensively in domestic factoring, but thanks to its export-oriented structure, factoring managed to survive through the crisis as a whole, with its export branch volume funded and guaranteed with sources of foreign nature.

A quite recognized and established actor of the economic arena, factoring has set its hopes high for the coming year. The ongoing process for a better legal organization of factoring, supported with an institutional structure, has been seriously accelerated. These activities are continued in care of the Factoring Association.

Factoring aims to fulfill its vital role in increasing the export volume of Turkey, in accordance with government policies. The stabilization of money markets and positive progress of the political situation are the essentially factors that factoring counts on its search for better serving the Turkish Economy.

2.9 Leasing

When an investor decides to make an investment that entails leasing or simply wants to extend his current investment, the investment goods he has designated are purchased by the leasing company and leased to his company at a specific cost and for a specific period.

Formerly, an establishment wanting to finance an investment would generally have used equity funds or obtained credit from a financial institution. The leasing route introduces a brand new and highly advantageous financing option that is used widely throughout the world. As well as providing an alternative to the use of medium term credit and equity funds, leasing also presents a method of obtaining cash.

Leasing began life in Turkey in 1985 with the passing of Act No. 13226. According to figures for 1993, leasing provided the financing for 5.9% of investments made in that year. Having begun to gain recognition on a nationwide basis, leasing is now in demand from every comer of Turkey[10].

The Merits of Leasing

1. Provides 100% financing.
2. Does not consume equity funds.
3. Does not affect credit opportunities.
4. Reduces costs thanks to VAT advantages.
5. Is an affordable and stable means of financing.
6. Allows for sound budgeting.
7. Leasing payments can be shown as expenses.
8. Is a long term financing alternative.
9. Procedures are quickly concluded.
10. Large-scale and wide-ranging investments can be undertaken with leasing.
11. Allows lessee to benefit from investment incentives.

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[10] "The Leasing Sector's target", Capital, 1996 June, 77

12. The lessee becomes the owner of the leased goods at the end of the contract period.

CHAPTER 3

Chapter 3

CONCLUSION AND OUTLOOK FOR THE FUTURE OF BANKING SECTOR IN TURKEY

Banking is one of the most forward-looking sectors in Turkey. The change began with investments in automation, financial techniques and human resources. A large number of Turkish banks have started to purchase banks abroad[11].

The Turkish banking sector has a long history. Until the beginning of the 198□□'s its activities were restricted to a relatively narrow field. When one said the word "banking" it was deposits and credits that came to mind. Banks placed the deposits they collected from the public as loans. There was also some low volume trading in foreign exchange. But the most important characteristic of this period was that fixed interest rates were set by the Central Bank. The public received interest below the rate of inflation on their savings, hut loan rates were also lower than inflation.

In 1980 what had become known as "July banking" entered a new era as interest rates were allowed to float free. After the decisions were taken, both deposit and loan rates rose. An interest rate war suddenly broke out and at the end of 1982 the system was hit by the "banker disaster."

After 1980 the Turkish banking system underwent a complete overhaul. The process that had begun with the freeing of deposits rates took on a new dimension with the arrival of foreign banks in Turkey.

At the same time export procedures were also freed up, enabling Turkish bankers to extend their operations into other fields such as "foreign trade financing". Foreign banks accounted for the largest share of the business.

The foreign banks were headed by Citibank. The period of innovation initiated by this bank was continued by banks such as Chase Manhattan, Saudi American, BNP-AkDresdner, Bank Mellat and Turk Sakura opening branches in Turkey. By the end of the 1980's the trickle had become a flood as banks such as Westdeutsche Landes Bank (WLB), Societe Getıerale, Chemical, Midland, Bank Indosuez and Credit Lyonnais entered the Turkish market. The latest foreign bank to enter Turkey was the Dutch based ING Bank which

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[11] Türkiye Ekonomisi ve Mali sektör, Bankacılar Dergisi, No.16

began operations at the end of 1990 with capitalization of TL 1 trillion[12].

Turkish bankers are unanimous about the great benefits that foreign banks have brought to the system. They note that the system gained experience in activities such as foreign trade, acquired qualified personnel and increased the quality of its staff.

As a result of the competition brought by the foreign banks the system opted for restructuring. Bankers became well versed in various financial techniques, spoke a foreign language, had been trained abroad and earned good salaries.

3.1 Automation investments

The Turkish banking system did not stop there. It gave considerable importance to training personnel and strengthening its automation infrastructure. At the end of 1987 the first ATM went into operation at Iş Bankası's branch in Yenişehir; and ATMs quickly spread throughout the sector. In 1990 in particular, banks spent millions of dollars on investments in ATMs and computers. Some estimates put the

[12] Capital, Türkiye'nin Bankacılık haritası, November 1996,

total value of investments in automation since 1990 at $2-3 billion. $1billion was spent on ATMs alone[13].

Until the end of 1993 the growth curve in the banking sector climbed steadily upwards. Even through the effects of the 1990-1991 Gulf Crisis the sector continued to grow. But banks were the hardest hit by the crisis of early 1994.

Crisis produced a contraction in the sector The sector contracted in 1994, as its total asset size shrank from $73 billion at the end of 1993 to $52 billion by year-end 1994. During the same period credits, deposits, net worth, capitalization and profitability all fell in real terms. At the same time, a panic led to the withdrawal of three banks' operating licensing.

But throughout the period banks repaid the syndicated credits they had secured from abroad without any hitch. But it is clear when looking at the banks' balance sheets that these payments were one of the reasons for the contraction in the sector.

1995 was a time of recovery for the banking sector. The banks' performance returned to 1993 levels and they recovered most of the losses of 1994. For example, total assets exceeded $68 Billion, while profits were nearly $2 Billion. Deposits exceeded their 1993 levels, but the sector was unable entirely to recover from the loss of net worth. The main reason for this was the erosion of the net worth of the state owned banks.

The Reasons For Growth

- It is possible to summarize the reasons for the growth and favorable development of the banking sector in 1995 as follows:
- Economic growth,
- Increase in demand for loans
- Considerable increase in income from securities
- Low deposit interest rates
- Return of resources that had left system in 1994
- Successful return to loan markets.

In addition to the above, the low rate of the Turkish lira against major currencies resulted

[13] Capital, "A new Era of Change in Banking", June 1995, 70

in an increase in banks' short positions and a substantial rise in income from Treasury bills and government bonds. This was one of the main reasons for the banks' high profitability over the year.

One of the most important structural changes to have taken place in the system was the rise in the number of banks going public. The number of publicly owned banks now stands at 13. Since 1990 banks such as Akbank, Garanti, Tütünbank, Tekstilbank, Finansbank and Alternatif bank have gone public and traded their shares on the Istanbul Stock Exchange. Garanti has even sold some of its shares on foreign markets as ADRs.

State banks still dominate One of the most important characteristics of the Turkish banking system is that it continues to be dominated by state-owned banks. At the end of 1995 state-owned banks accounted for approximately 40 percent of the system. The largest bank is the state owned Ziraat Bankası, which accounts for 17 percent of the sector's total as sets. The second largest bank, Iş Bankası, is 40 percent owned by the Treasury. The bank is half state-owned and half privately owned. It also owns Şişe-Cam, one of the world's leading glassware manufacturers.

3.2 Plans for privatization

The reduction of the role of the state in the banking sector and the privatization of the state owned banks has been on the governments agenda for years. Various reports have been prepared and plans made. But it has not yet proved possible to take any serious measures. To date only Sümerbank has been privatized[14].

The government has prepared a Law for the privatization of the state-owned banks. Next up is Etibank. But the bank's large balance sheet losses do not make it very attractive to potential buyers. For this reason, the bank is currently working to improve its balance sheet. When the process is complete Etibank will be put up for sale.

The large size of the state-owned banks makes their privatization difficult. But the preparations have been completed for Vakıfbank to go public and the bank is now awaiting the passing of the necessary legislative amendments.

[14] "Özelleştirme ama Nasıl?", Asomedya, March 1996, 30

3.3 CONTINUING CHANGE

The structural changes in the banking sector continue. The benefits of the investments in personnel and automation infrastructure of the 1980's began to become visible after 1990.

During this period banks have concentrated on consumer services. The number of plastic cards has risen rapidly to nearly 14 million, of which around 2.5 million are credit cards. The volume of transactions conducted by using these cards grows by leaps and bounds each year.

Concept such as consumer credit, investment consultancy, portfolio management and investment funds became widespread after 1990. Banks have broadened the range of services they offer for the expanding securities market.

Before 1980 investment opportunities were very limited, being basically restricted to deposits or gold. During the 1990's the number of alternatives increased considerably. Investors were offered a range of new instruments, such as deposits, forex, gold, investment funds, Treasury bills, asset- backed securities (VDMK's) or repurchase agreements.

3.4 THE VARIETY OF BANKING SERVICES

Current accounts

Personal accounts

Money markets transactions

Forex accounts

Foreign currency transactions

Travelers cheques

Rent collection

Consumer financing

Credit cards

Export credits

Operating credits

Factoring services

Financially leasing

International rental transactions

Capital markets investment transactions

Consultancy for investment and participation financing

Investment fund management services

Securities transactions

Securities brokering

Credit guarantee transactions

Pension services

Life insurance

CHAPTER 4

Chapter 4

COMPETITIVE ENVIRONENT IN BANKING SECTOR IN TRNC

Banking is an important sector in the economy, especially for the developing countries. TRNC is one of these countries and banks have vital role in the development of the country. In 1974 when the Turkish community were freed from economical domination and strict embargoes imposed on them by Greek side, there were only 3 Banks in operation, one of them being a Turkish Bank from mainland. Since then many new banks were established and their numbers total to over 25 today. Newly passed legislation allows opening off-shore banks as well.

First private bank to be established was the Cyprus Credit Bank. Cyprus Credit Bank(CCB) was established in 1978as a private bank. Today there are around twenty banks offering full service. There are also increasingly growing offshore banking activities in North Cyprus

4.4.COMPETITION IN MARKET GUIDED ECONOMIES

In countries of liberal economy, there is naturally a big competition in banking activities just like any other sector. In the market guided economies, formation and operation of banks are not very difficult. So the first thing one can realize is the huge number of banks in operation. This can be easily seen in TRNC. There are many banks operating in such a small country. The real competition is in the interest rates. The banks aim to give as high interest as possible, to the depositors, and charge the lowest possible to the borrower.

There are other factors effecting the interest rates in liberal economy. These are ;

* devaluation
* and inflation

All the figures for the three, should be very close, by the end of the year. This means that interest rate may not be much less than the devaluation of the currency, since the holder of the money can also choose to invest in foreign currency.

Likewise, interest rates may not be much lower than the inflation rate since depositor may choose to invest in stocks.

All the banking activities in TRNC are regulated by the Central Bank and decision of the Board of Ministers.

There are two main grounds where banks can compete, firstly the interest rates and secondly, the quality of service. The image of a bank is very important. Any person who is to choose a bank, first thinks of the safety of their money, specially if they are depositing money. Secondly they look for high interest. Thirdly they look for quality services. In small countries like TRNC people are used to personal attention. In many cases trust and good service may attract clients even if the interest rates are slightly lower.

4.2. CENTRAL BANK REGULATIONS TO BANK OPERATIONS IN TRNC

Like any other commercial set-up the Bank's objective in providing the services to borrowers and depositors is the generation of profit. The more money they can lend, the more profit the Banks can earn. However a Bank can not lend out all the funds which it obtains on deposit which it must retain enough money in liquid form to be able to meet depositor's request for repayment. In this lies the Banker's dilemma because the more liquid the form in which the funds are held, less the rate of return. Cash holdings, being the most liquid form of asset, generate no profit at all. The bank must therefore effect a careful balance between the maximisation of lending and minimization of liquidity to the lowest level consistent with safety. The conflicting requirements of profitability and liquidity can be reviewed as resulting directly from the conflicting desires of two groups who have provided the Bank's financial resources. The shareholders and the depositors. The shareholders jointly own the Bank and look to it to provide a return on their capital. The depositors have provided the vast bulk of the funds used by the bank and require safety and the ability to get their money out in accordance with the terms agreed upon at the time of deposit. A successful bank has to reconcile the interests of these groups. To some extend this task is taken out of the bank's hands by official controls but there is still considerable room for maneuver.

Under the Central Bank of the TRNC Law, the minimum ratio of the overall liquidity which Banks shall maintain against their liabilities shall be fixed by the Bank. Besides this overall liquidity Banks are required to deposit additional reserves in a special blocked account to be opened by the Bank. The ratio of the additional cash reserves to total deposits, excluding interbank deposits, shall be fixed by the Bank in the light of general economic conditions in the country. In the TRNC the minimum ratio of the overall liquidity which banks shall maintain against their liabilities were fixed at 10% in the minimum, in the Banking Law of 1976 and has remained the same ever since. The ratio applicable to additional cash reserve which the banks are required to lodge in a special account by the Bank is 15% for Turkish Lira deposits and 20% for foreign currency deposits.

The take up of credit in the economy depends not only on its supply but also its price as represented by the rate interest which borrowers must pay. If interest rates rise, borrowing is discouraged and the credit creation process is slowed down. If rated fall, the reverse occurs. The Bank can influence the general level of interest rates by adjusting the rates which it changes when acting as the lender of last resort to the banking community as a whole.

In the TRNC the Bank is empowered to fix the maximum rates of interest receivable or payable as the case may be, on Turkish Lira and foreign currency deposits of all description and on credit transactions of Banks, cooperative banks and other establishments, as well as the nature and maximum limits of other benefits to be supplied and expenses to be recovered and in the case of deposits the duration of fixed terms and whether interest should be left free wholly or in part and their dates of enforcement. These matters are put into operation on the recommendation of the Minister of Finance? and by decision of the Council of Ministers as from the date of publication in the Official Gazette. Rates of interest so fixed and the matters connected with the rates of interest shall be applicable also to all debt-credit relationships outside the banks.

Under the banking law of the TRNC extensive powers have been given to the Central Bank regarding control of the banks. These include the assertainmant and analysis of the relationship and balance between assets of banks, debts due, their capital, debts and profit and loss accounts and all other factors affecting financial structure. Several administrative measures have been provided for this end. For instance where it is established that in contravention of specified laws, transactions likely to jeopardize the secure operation of a bank and of its participitations have taken place, subject to the right to institute legal proceedings against the bank employees responsible for the operation in question, upon the demand of the controlling body it would become mandatory to terminate their appointment. Subject to the right to institute legal proceedings against responsible employees of the banks in question the Central Bank of the TRNC is empowered to terminate advance and rediscount credits an revoke credits already issued.

4.3.OFF-SHORE BANKING IN TRNC

Cyprus is the third largest island in the Mediterranean. South Cyprus, the recognized part of the island has long before established themselves as a base for Off-shore banking and off-shore companies of the world. Thousands of banks and companies are registered and in action, contributing to the economy of the country. It is estimated that the big part of the income of the Greek government is from these activities. Demand was so great the cost of establishing off-shore banks have become more and more expensive. There was and still is a great opportunity for TRNC to attract foreign organizations, if the conditions are made attractive enough.

The flexible rules and regulations put forward by the T.R.N.C. government about tax regulations, audit subjects that will be applied to the banks which will be established in T.R.N.C., played important role in T.R.N.C.,s being a financial center. These positive progresses made International money flow to T.R.N.C.

Many Turkish investors have undertaken in order to establish an off-shore bank in T.R.N.C. where we have very good economic and social affairs. Now there are about 30 Turkish originated off-shore banks in T.R.N.C. Some are operating some of them got the permission to start operation but have not started yet. Most of these banks target Turkey in their operations.

As it is known according the law no.32 about controlling the value of Turkish Money, people living in Turkey, and public entities can get cash or non-cash from abroad only if they use this credit via banks or private financial institutions. The same agreement also tells that people living in Turkey and public entities can open deposit accounts in other countries.

When we consider these two points at the same time, we can say that the off-shore banks established in T.R.N.C. by using their tax and foreign exchange advantages will able to give credits with lower interest rates and accept deposits with higher interest rates.

4.4 Legal aspects of Off-Shore banking in TRNC

Non-residence wishing to acquire any share or participation in a Cypriot legal entity should apply through an advocate practicing in TRNC. TRNC is aiming to become a center for Off-shore Banking and also for Off-shore Companies. Having this in mind, one has to be careful with the laws, rules and regulations for this sort of activities.

The following aspects are taken care of in the Law No: 48/1990 which is the OFF-SHORE BANKING SERVICES LAW

*Establishment principles

Following may apply to the Central Bank for the purpose of carrying on off-shore banking operations in TRNC.

i-Foreign banks,

ii-Branches and subsidiaries of foreign banks iii-Foreign real persons and corporate bodies.

Preliminary permission is granted upon application.

The Central Bank evaluates applications of prospective units within one month at the latest and submits them to the Ministry responsible for financial matter together with its views thereon. If there is no problem, then the provisional license is given in fifteen days at the latest.

4.5 CAPITAL REQUIREMENTS

One of the conditions for establishing a bank is about the minimum capital. The minimum paid up capital requirement for the off-shore banks in TRNC is $500,000. As soon as the bank blocks the required amount of money needed for the capital, they get the business license to operate freely.

An off-shore banking unit must, within three months at the latest after receipt of the business license from the ministry responsible for financial matters, specify its place of business, be fully staffed and commence services specified in its Memorandum of Association. Otherwise license shall be deemed invalid.

4.6 OPERATING PRINCIPLES

The Central Bank is empowered to supervise the bank's in the Republic and requires each licensed bank to furnish to it periodically or upon request such information as it considers necessary to fulfill its supervisory functions. Off-shore banks, rendering off-shore banking services can perform all banking operations envisaged in the banking law entirely in an outward-oriented manner.

Citizens of the TRNC may borrow from offshore banking units on condition that their development projects have been approved by the State Planning Organization, permission of the Council of Ministers is secured and that the monetary units is foreign currency.

OFFSHORE banking units are obliged to restrict their services to customers who are foreign nationals not resident in the TRNC and to other offshore establishments, and in any case deal only in monetary units which are not legal tender in the TRNC and falling into convertible and non-convertible monetary units specified in the Money and foreign exchange law.

Offshore banks may transfer abroad money which they have secured to transferred from abroad, as well as their profit, provided that they shall keep the amount necessary to meet expenditure relating to personnel, administration and maintenance for each accounting period in a foreign currency account opened with authorized banks and make their payments therefrom.

Offshore banks are required to give information concerning their activities only upon demand of the Central Bank. But they do not have to comply with requirements regarding liquidity, capital ratio against risk and similar reserves envisaged in the Central Bank of TRNC Law.

CHAPTER 5

Chapter 5

CONCLUSION

There is a continuos improvement in the banking sector in Turkey. It is inevitable that this effects the TRNC banking. There are many Turkish Banks operating in TRNC and these are using the banking systems as in Turkey. The structural changes in the banking sector continue. The benefits of the investments in personnel and automation infrastructure of the 1980's began to become visible after 1990.

During this period banks have concentrated on consumer services. The number of plastic cards has risen rapidly to nearly 14 million, of which around 2.5 million are credit cards. The volume of transactions conducted by using these cards grows by leaps and bounds each year.

Concept such as consumer credit, investment consultancy, portfolio management and investment funds became widespread after 1990. Banks have broadened the range of services they offer for the expanding securities market.

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The banking services in both Turkey and TRNC offer the following products.

Current accounts

Personal accounts

Money markets transactions

Forex accounts

Foreign currency transactions

Travelers cheques

Rent collection

Consumer financing

Credit cards

Export credits

Operating credits

Factoring services

Financially leasing

International rental transactions

Capital markets investment transactions

Consultancy for investment and participation financing

Investment fund management services

Securities transactions

Securities brokering

Credit guarantee transactions

TABLES

TABLES Source: Bankers Union

BANKS OPERATING IN TURKEY

	1993	1994	1995
Commercial banks	58	55	55
Public banks	6	6	5
Private banks	32	29	32
Foreign banks	20	20	18
Development and investment banks	12	12	13
Public banks	3	3	3
Private banks	6	6	7
Foreign banks	3	3	3
Total	70	67	68

MAIN INDICATORS OF BANKING SYSTEM

(Thousands Dollars)	1993	1994	1995
Total assets	73.082.489	52.545.974	68.397.005
Total loans	29.848.116	20.314.632	29.071.591
Total deposits	37.505.064	32.795.274	44.431.150
Net worth	5.749.572	3.837.538	4.187.466
Paid in capital	2.777.269	2.164.414	2.273.946
Profit	1.946.645	1.139.246	1.909.902

PERFORMANCE OF PRIVATE AND PUBLIC BANKS

(Billion dollars)

	1993	1994	1995
Public banks	0.7	0.1	0.2
Private banks	1.1	0.8	1.5
Foreign banks	0.1	0.2	0.1
Development and Investment banks	0.04	-0.04	0.1
Total	1.94	1.06	1.9

Source Turkish Bankers Union

Distribution of loans and Deposits (million USD)

Regions	Loans	Deposits
Marmara	11.201	18.324
Middle East	262	827
Middle South	476	1.803
Aegean	3.305	5.508
Middle North	6.702	827
Mediterranean	2.485	2.983
Black Sea	1.184	1.952
Southeast	146	349
Northeast	159	337
Cyprus	57	114
Foreign countries	2.634	3.277
Total	29.072	44.431

Areas where loans allocated	
Preferential loans Million USD	
Agriculture	5.452
Real property	939
Vocational	788
Marine	26
Tourism	132
Other	31
Non-preferential loans	21.704
Total	29.072

Top 10 banks in Turkey (According to assets, as of 1995)

Name of the bank	Year established	Total Assets (Million USD)	Number of branches	Number of employees
Ziraat Bankası	1863	11.578	1.262	35.962
İş Bankası	1924	6.254	819	14.858
Halk Bankası	1938	5.127	761	14.702
Emlak Bankası	1926	4.878	396	10.844
Yapı ve Kredi Bankası	1944	4.869	374	8.395
Akbank	1947	3.928	482	7.209
Vakıflar Bankası	1954	3.867	326	8.755
Pamukbank	1955	2.835	154	4.036
Garanti Bankası	1946	2.671	169	3.890
Türk Eximbank	1987	2.618	3	363
Total -		88.397	6.240	144.793

Interest margins (Billion USD)

	1993	1994	1995
Interest Income	14	14	15
Interest Expenses	9	9	11
Provision for possible loan losses	0.3	0.3	0.2
Net interest margin	5	4	4
Interest Income/Total assets (%)	8	11	10

Capital structure of banking sector (Billion USD)

	1993	1994	1995
Public banks	26.5	20.5	25.8
Private banks	34.9	25.7	35.6
Foreign banks	2.1	1.3	2.0
Investment banks	5.1	4.2	5.0
Total	68.8	51.6	68.

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