Globalization and Foreign Bank Entry in Turkey
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Abstract—Turkey stayed as a closed economy until the beginning of 1980s. This changed with the de-regulation and the liberalization program that was adopted by the government at that time. This re-structuring program also affected the Turkish banking system by triggering more foreign bank entry. While the number of foreign banks have been increasing, the number of (local) private banks have been decreasing especially after the currency crisis of 2001. This outcome is largely due to increased acquisitions of (local) private banks by foreign entrants.

Keywords—acquisitions, de-regulation, foreign bank entry, globalisation.

1 Introduction
When the topic comes to foreign banks expansion into emerging markets, there has been a significant trend towards the Central and Eastern European (CEE) markets ever since the beginning of the Cold War in the late 1980s. In relation to the ongoing globalization process ever since, the countries started to liberalize their economies step by step, and thus opened themselves up for foreign investors. Clearly, Turkey has been no exception and with the decreasing entry barriers it has become a new region for foreign banks to be explored.

Accordingly, in the 1980s the policymakers started to re-structure and liberalize the Turkish banking system. Several financial reforms and structural programs were adopted in order to eliminate controls on interest rates and relax entry barriers in order to promote competition and consequently increase efficiency. After the opening up of the capital account in 1989, the overall number of banks between 1980 and 1990 increased from 43 to 66. However, since most of the new entrants had focus on trade finance and wholesale corporate banking, their impact on the Turkish retail banking market remained quite limited.

With the increasing total number banks, there has been also a strong increase in foreign bank entry as the new open economy required adequate financial services and a proper financing. Foreign banks have usually been smaller than local banks. The largest foreign bank has been the “Ottoman Bank”, which was established in 1863. Moreover, it has been the only foreign bank engaged in retail banking. The entrance of other foreign banks after the liberalization had a big impact on competition which led to decrease in prices for fee-based services (Denizer 1997: 5-17; Denizer 2000: 2-11).

The following figure presents the change in the number of deposit banks in the Turkish banking market between 1980 and 1990:

![Fig.1: Number of deposit banks by ownership category, 1980-1990. Data generated from The Banks Association of Turkey.](image)

By looking to this graph, we can observe that there was a significant rise in the number of foreign banks due to the deregulation efforts taken during this period. In fact, it is striking to see that the number of foreign banks actually quadrupled which indicates the Turkey’s open economy at that time. On the contrary, the number of Turkish private and state owned banks rather stayed constant in the first half of the respective period, and later on just slightly increased.
With the following figure, we are able to see the further evolution of the number of deposit banks in Turkey from 1990 until 2000:

Fig. 2: Number of deposit banks by ownership category, 1990-2000. Data generated from The Banks Association of Turkey.

Figure 2 above illustrates that the number of banks in each category rather stayed constant during this decade which is especially true for foreign banks. Another interesting observation from this graph is the number of state-owned banks plummeted. This decade also coincides with the currency crisis of 1994 which does not seem to have an adverse effect on the foreign bank entry in the following years. This crisis was mainly due to the overvaluation of Turkish Lira prior and Turkey’s high current account deficit. Furthermore, debt management of the government was not adequate at that time which led to a flight of capital. The Turkish lira depreciated almost 70% percent against the US dollar and the Central Bank had to intervene in the foreign exchange market which led to a high loss of its international reserves. However, Turkey still remained an interesting market for foreign investors since lower prices in stock and bond markets combined with the depreciation of Turkish Lira provided them an opportunity for high profits (Özatay 2000: 327-330).

When the time comes to 2000s, Turkey lived through another crisis that was triggered by a combination of high inflation and a large increase in the current account deficit. The crisis revealed the fragility of the banking sector and created an even bigger capital outflow than the one experienced in 1994. This negative development really hit the Turkish economy, especially due to high risk accumulation and increases in nonperforming loans, which made the banking sector very vulnerable. At this time, the fixed exchange rate regime adopted by Turkey also collapsed and it had to be replaced with the floating exchange rate system.

During this decade, the Banking Regulation and Supervision Agency (BRSA) was also established in order to audit the sector and enforce the sound banking practices. Following the crisis in May 2001, Turkey joined a new International Monetary Fund (IMF) program. This program consisted of three pillars: Fiscal and monetary discipline, structural reforms and external financial support. Furthermore, the Central Bank adopted as the primary goal of the monetary policy maintaining the price stability. In short, these developments positively contributed to Turkey's economic situation after the 2001 crisis. However, a high current account deficit and reliance on (short-term) foreign capital inflows remained to be important problems. Starting from late 2000s up-to-date, the Turkish economy and the financial sector seems to be largely recovered from the crises faced in the previous decades except the recent political instability of 2013. Inspite of the general recovery in the economy, the banking sector does not seem to be very positively evolving especially for the local private banks which is observable from the following graph. (Aysan, Faruk and Ceyhan 2006a: 12-13; IMF 2007: 6-10).
We observe from Figure 3 that the number of local private banks dramatically decreased from 28 to 11 during this time period. Another observation is that the number of state banks fell by one in 2001 and ever since it stayed constant. On the other hand, the number of foreign banks kept falling until 2005 which got reversed in the following year and reached to 19 which is almost the same number at the start of this period. By only looking to this graph, one can conclude that the involvement of foreign banks in Turkey did not change much except for some volatility due to the crisis in 2001. But if one inspects closely the classification of those foreign banks with respect to their entry modes that are the ones only have branches versus the ones that are founded in Turkey, the following fact appears: In 2000 while the number of foreign banks that opened up branches Turkey was 13, the number of foreign banks founded in Turkey was only 5. Now in 2014 the situation has been completely reversed meaning that while the number of foreign banks that has branches in Turkey are only 6, the number of foreign banks founded in Turkey has become 13. This considerable increase in the number of foreign banks established in Turkey has been mainly due to (mergers and/or) acquisitions of private local banks (with) by foreign banks during this decade, which also explains why the number of private local banks reduced by more than half.

2 Conclusion

Turkish banking system has changed a lot after Turkey opened up its economy in 1980s. After the liberalization program, the overall number of banks between 1980 and 1990 increased from 43 to 66 due to new foreign bank’s entry. Despite this increase, retail banking sector did not get much affected since the focus of the new foreign entrants was on corporate banking. This increasing trend in the number of foreign banks has continued especially in the decade of 2000s after the restructuring of the banking sector following the 2001 crisis. Local private banks were acquired by new foreign entrants which led to a considerable decrease in the number of private banks and in the % share of total assets of private banks. Currently, Turkish banking system seems to be rather stabilized with the constant number of banks in almost every category.

3 References