Introduction

This chapter reviews the key features of the Turkish banking industry: its size, structure and statistics on the main ownership issues over the period 1990–2006. Our main focus is on an analysis of what happened in the Turkish financial system since the 1980s. The chapter is designed to provide readers with an examination of the structure and performance levels of Turkish banks related to different specialization categories (that is, state-owned, privately-owned, foreign and so on) and compare it with European Union (EU) countries in general. Therefore, it first considers the overall size of the Turkish banking sector, with an emphasis on the number of banks, branches and employees. Then we shift the focus of our attention to income and cost structures, together with the performance levels of state-owned, privately-owned and foreign banks operating in Turkey.

Size of the Turkish banking sector

Turkey is a dynamic, promising market supported by a network of developed infrastructure and a globally competitive labour force. In 2007, Turkey was the seventeenth largest economy in the world, and its banking sector forms a great part of the Turkish financial system (approximately 87 per cent). Most of the transactions and activities of the money and capital markets are carried out by banks, and the Central Bank of Turkey (CBT), founded in the early 1930s, has the usual Central Bank responsibilities such as issuing banknotes, monitoring the financial system and protecting the currency. The Turkish banking system in early 1995 consisted of the Central Bank and fifty-five other
banks, including twenty foreign, twenty-nine privately-owned and six state-owned banks. All the banks in Turkey are subject to the Banks Act, and to the provisions of other laws regarding banks. The new Banking Law brought the Banking BRSA into life to safeguard the rights and benefits of depositors, while the Banks Association of Turkey (BAT) was established to protect and promote the professional interests of its members.

Heffernan (2001) described modern banks as being either highly specialized in specific activities, or offering a wide range of financial services. Following this lead, we have sorted Turkish banks into two main groups: those with the authorization to collect deposits (commercial banks) and those not accepting deposits (non-depository banks). Each group has then been divided into three sub-groups as being state-owned, privately-owned or foreign banks according to the source of their respective capitals. We should emphasize here that 46 per cent of the banking sector’s assets in 1999 were concentrated in four banks, namely: the Ziraat Bankası (Agricultural Bank of the Republic of Turkey); Emlak Bankası; İş Bankası; and Akbank.

The first group of banks – that is, the commercial banks – operate as universal banks, offering an extensive range of products and services using developments in information technology (IT). In addition to traditional depository and lending services, they operate in the field of investment banking as well as engaging in capital market transactions. However, there are large-scale privately-owned banks among the commercial bank group that have nationwide networks of branches and provide all kinds of banking services. For example, Akbank, reputed to be the most profitable private bank in Turkey, is owned by the Sabancı Group; the partially publicly-traded Koçbank, which merged with Yapı ve Kredi Bankası in 2005, is co-owned by the Koç Holding Company (there are detailed discussions on this merger activity in Chapter 8). In addition, there are small and middle-sized commercial banks with activities more concentrated in main populated cities and engaging more in wholesale banking.

The second group of banks under focus includes state-owned banks, such as the Agricultural Bank of the Republic of Turkey, which was established to finance the agricultural sector. The third group of banks – that is, foreign banks – is divided into two groups: those that have opened branches in Turkey, and those that are established in Turkey. These banks are subject to the same regulations as other commercial banks in the country. A detailed discussion on foreign banks and their ownership in Turkey is introduced in Chapter 8.