Turkish Financial Market and Banking Sector Analysis with a Focus on a Potential EU Membership

Masterarbeit

zur Erlangung des akademischen Grades „Master of Science (M.Sc.)“ im Masterstudiengang Wirtschaftswissenschaft der Wirtschaftswissenschaftlichen Fakultät der Leibniz Universität Hannover

vorgelegt von

Name: Yalcinkaya
Vorname: Onur

Prüfer: Prof. Dr. M. H. Breitner

Hannover, den 20. 03. 2013
## CONTENTS

1. INTRODUCTION


      2.1.1 General Evaluation of the Financial Markets in the Global and European Economy

      2.1.2 General Evaluation of the Financial Markets in Turkey

   2.2 General Evaluation of Global–European and Turkish Financial Markets in 2007 – 2010

      2.2.1 General Evaluation of the Financial Markets in the Global and European Economy

      2.2.2 General Evaluation of the Financial Markets in Turkey

   2.3 General Evaluation of Global–European and Turkish Financial Markets in 2011 – 2013

      2.3.1 General Evaluation of the Financial Markets in the Global and European Economy

      2.3.2 General Evaluation of the Financial Markets in Turkey

3. THE GENERAL VIEW OF THE RECENT TURKISH FINANCIAL SECTOR

   3.1 The General View of the Turkish Banking Sector

   3.2 The General View of the Turkish Stock Market

   3.3 The General View of the Turkish Non–Banking Financial Sector

      3.3.1 Financial Leasing within the Turkish Non–Banking Financial Sector

      3.3.2 Factoring within the Turkish Non–Banking Financial Sector

      3.3.3 Consumer Financing within the Turkish Non–Banking Financial Sector

      3.3.4 Asset Management within the Turkish Non–Banking Financial Sector

4. DISCUSSION ON THE ECONOMIC ADVANTAGES AND DISAVANTAGES OF TURKEY’S EU ACCESSION

5. CONCLUSION AND OUTLOOK

REFERENCES
1. INTRODUCTION

The relationship, which has been going on between Turkey and the European Union (EU) for fifty years, reached an important stage in the period of 2000 – 2012 despite some disputes during these years. After the establishment of the European Economic Community (EEC) in 1958, an application to become a full member of the EEC was made by Turkey on 31 July, 1959. On this request, the level of Turkey’s development had not been found adequate to fulfill the requirements for a full membership. Thus, a partnership agreement, which would be valid until the realization of all EEC membership conditions, was signed in Ankara on 12 September, 1963 and took effect on 1 December, 1964. With the Ankara Agreement, a three-stage process was envisaged for an integration of Turkey in the EEC. The first stage of this process was specified as the preparatory stage and ended by entering into force of the Additional Protocol in 1973. The second stage was determined as the transitional stage and experienced slow development due to the economic and political difficulties of the 1970 – 1980s. The third stage (final stage) was initiated with the establishment of a Customs Union (CU) between Turkey and the EEC. After the Customs Union (CU) between Turkey and the EEC came into effect in 1996, and Turkey was granted EU candidate country status in Helsinki on 11 December, 1999, a new dimension was gained through economical and political integration of Turkey within the EU. At the Helsinki European Council Summit on 16 – 17 December, 2004, it was stated that Turkey sufficiently fulfilled the political criteria, and was proposed to start accession negotiations on 3 October, 2005. Thus, an important step was achieved towards full membership in the EU by Turkey.

With the accession negotiations beginning on 3 October, 2005, the Turkish financial market had also been affected as by a large number of sectors in Turkey. Political and economical criteria, such as Copenhagen and Maastricht criteria, have been attempted to be fulfilled by Turkey and the other candidate countries, which became a member of the EU and joined the economic and monetary union. Due to these criteria, the financial relations between Turkey and the EU have been redesigned and taken a different direction on the global financial markets. With the focus on the relations between Turkey and the EU, various regulations and arrangements have been implemented for Turkish financial markets and banking sectors. The rules relating to the authorities, activities, and controls have been designated with EU acquis in the field of financial services. According to these, activities of financial institutions are carried out in compliance with the country’s own principles by providing services within the scope of the EU. The financial sectors in the EU should be managed according to the EU.
principle of a single market. Therefore, the EU acquis of EU countries in the field of the financial sectors should be adopted and applied by Turkish financial markets due to Turkey’s EU candidacy. In this context, the effects of the accession negotiations to Turkey’s financial market should be reanalyzed and considered in detail. In his paper, the development analyses of the Turkish financial market and banking sector are discussed in detail, focusing on Turkey’s potential EU membership.

Due to certain constraints and concerns about specific topics, the integration of Turkey in the EU has been interrupted after the 2008 global financial crisis and 2010 – 2012 debt crises in the Euro Area. During the period of 2008 – 2012, there have been very important economic developments in Global and European financial markets. Turkey’s objective to become a full member of the EU has become more important to political and economical interests of the EU. During this period, Turkey’s economy has developed, in comparison to the global and European financial markets. This indicates why Turkey is in need in of the EU membership especially in respect to its economy: to create a more effective and important global force through the presence within the EU. Therefore, this paper is prepared to examine and analyze, why the development of the Turkish financial market and banking sector is very important for both the EU and Turkey in regards to the economy. In addition, the advantages and disadvantages of Turkey joining the EU are critically discussed for both the EU and Turkey.

In the second part of this paper, the Global–European and Turkish financial markets during the period of 2000 – 2012 will be discussed, visually supported by various tables and charts in order to broadly show the effects of the Turkish financial market development on Turkey’s potential EU membership. However, Global–European and Turkish financial markets during the period between 2000 and 2012 can be chronologically divided into three categories: 2000 – 2006, 2007 – 2010, and 2011 – 2013. Although the banking sector is examined in detail within the financial markets category, the third category also discusses the Turkish banking sector, particularly focusing on its current structure during Turkey’s Accession to the EU. In this paper, a discussion of the Turkish banking sector, during the 2000 – 2010 periods, will shed light on the developments of the financial markets as a whole in order to focus on Turkish financial markets in general. In the fourth part of this paper, the recent developments and steps to be taken in the future in the Turkish financial market and banking sector, in relation to Turkey’s possible accession to the EU, are evaluated by the recommendations and discussions of this master thesis’ analysis. In the last part, a short summary regarding the main topic of master thesis is introduced in general.

---

5. CONCLUSION AND OUTLOOK

After the negotiations between the EU and Turkey were accepted to start on 3 October 2005, the responsibilities that need to be taken within the framework of the EU acquis were acquired by Turkey. The developments towards meeting the Copenhagen economic criteria exhibited by the candidate states, such as having a functioning market economy, and the capacity to cope with competitive pressure and market forces within the economy of the EU, are followed and evaluated by the European Commission. Due to the importance of this economic issue, which is one of the most important criteria that must be fulfilled by the candidate states in terms of the EU accession negotiations, the developments regarding the financial market and banking sector in Turkey are followed closely by the EU. The EU acquis of the EU countries in the field of the financial sectors should be adopted and applied by the Turkish financial market due to Turkey’s EU candidacy. Therefore, the developments on the Turkish financial market and Turkish banking sector are discussed with a focus on Turkey’s potential membership in the EU.

The Turkish financial market and banking sector were affected negatively by the 2000 liquidity crisis and 2001 currency crisis. The main causes of the crises in 2000 and 2001 were the overvalued Turkish Lira, current account deficit being over a critical limit, lack of capital in the financial sector, open positions on the market, the size of the public banks’ duty losses, and especially increases in the currency and interest rate risk of the financial sector. After the economic crises of 2000 and 2001 in Turkey, the Turkish banking sector and financial market were restructured in order to be less affected by the crises and be able to adopt the system in the EU. In this context, the size of the Turkish financial sector, with the Turkish Central Bank and the ISE market capitalisation, was increased by 20.2% and remained at NTL 564.7 Billion in 2006. The banking sector was made up a total 86.7% of the Turkish financial sector. Between 2007 and 2010, the asset size of the Turkish financial sector gradually increased, due especially to the positive developments in the Turkish banking sector, and a level of 1.3 Billion TL was reached in the asset size of Turkey’s financial sector, despite the mortgage crisis and financial turmoil on the global financial markets. In the period between 2011 and 2012, the share of banks in asset size of the Turkish financial sector increased from 1217.6 Billion TL in 2011 to 1308.5 Billion TL in September in 2012, in line with the increase in the share of CBRT. The rate of ISE capitalisation was increased by 10% to 507.6 Billion TL in the third quarter of 2012, despite shrinking by 19.3% in nominal terms at the end of 2011. In 2012, the growth performance and strong structure in the Turkish banking sector moved increasingly upward. With the full implementation of Basel II in the Turkish banking sector, the capital adequacy ratios of the banks in Turkey remained at a high level and the strong structure in profitability of the Turkish banking sector conserved stability. In 2012, the Turkish financial and capital markets were positively affected by the general upward performance in the ISE that was one of the most important stock exchanges on the world markets, maintaining the high–yield assets of 2012, despite a low decline in the growth performance of the ISE in 2012 as compared to 2011. In the period between 1986 and 2012, the total traded volume of the ISE increased gradually from 8.7 Thousand TL in 1986 to 568 Billion TL in 2012.
In 2012, the trading volume in the TurkDex was realized as being at 40 Billion TL, the total number of contracts in the TurkDex was realized at about 5 million units, and the number of open positions at 391 thousand units. During the same period, the total trading amount for gold in the IGE decreased in 2012 by 37% in terms of TL/kg, as compared to 2011, and trading volume for gold in the IGE also decreased by 37% in terms of TL/kg, despite an increase by 40% in terms of USD/ounce.

In the Turkish non–banking financial sector, the upward trend in total assets of the Turkish financial leasing sector increased further by 8% in 2012. The total assets of the Turkish factoring sector rose gradually from 6.1 Billion TL in 2010 to 10.6 Billion TL in the third quarter of 2012. The total assets of the Turkish consumer financing sector increased gradually from 14.5 Billion TL in 2010 to 16.3 Billion TL in the third quarter of 2012. The total assets of the Turkish asset management sector increased gradually from 1013.9 Billion TL in the third quarter of 2012.

The importance of Turkey’s potential EU membership should be discussed again and revised by the EU, which was in trouble due to the debt crisis, in the light of the developments on the Turkish financial market, banking sector, stock market, and non–banking financial sector. Due to the economic integration and partnership between the EU and Turkey, the share of the EU in Turkey’s total trade was realized in 2012 as being at 40.8%. Despite the debt crisis in the EU, the existence of an important global power is still maintained by the EU. The interest in Turkey by the EU will be increased further due to the improvements in Turkey’s current economic indicators, and positive expectations and predictions about Turkey’s future economic projections. However, the EU’s gotiotion chapters, especially the economic chapter, should be exhibited resolutely and urgently by Turkey without getting in to complacency. The importance of the EU membership should thoroughly be appreciated by Turkey. The contributions of Turkey’s EU membership to the EU should not be ignored by the EU. The growth performance in the EU, which has an urgent problem with its aging population, can be accelerated and reinforced by Turkey’s young labour force together with the fixed capital stock in Europe. The average GDP per capita in Turkey will be increased by the EU membership and the expenditure in the EU will also be increased by the contribution of Turkey that will reach the EU average. The commitment to becoming an EU member country should be demonstrated more determinedly by Turkey, which is an indispensable economic actor with its young population, economic potential, and geographic location if it can render permanent economic and political stability without political problems. In the accession negotiation between the EU and Turkey, the evaluation differences of the economic performances by the EU and Turkey should be eliminated to get a more consistent progress in EU–Turkey relations. Due to the dynamic structure in the EU, new plans and programs, such as the EU 2020 Strategy, are constantly generated by the EU in order to develop the structure of the Union and accomplish new achievements. Therefore, the available negotiation chapters and new programs in the EU should currently be followed by Turkey. A common global power should also be urgently created by the EU and Turkey which have similar targets in the same geographical area in order to ensure a political and economic balance of power in the global arena.