



COMMISSION OF THE EUROPEAN COMMUNITIES

DIRECTORATE GENERAL XV

Internal Market and Financial Services

General matters and coordination, free movement of persons and direct taxation

External dimension of the internal market and financial services

Brussels, 17 May 1995

Ref: JV/gg - jv\tr\trturkey

XV-A-2

TURKEY

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Introduction

In 1994, GDP in Turkey was 3,883 trn Turkish Lira (96 bn ECU¹). With a population of 60.2 mn this represented a per capita GDP of 64.5 mn TRL (1599 ECU).

CREDIT INSTITUTIONS

Establishment

In spite of its seize the Turkish market has remain of little interest to foreign investors because of high inflation, the volatility of interest rates, which in 1994 varied from 100% to 350%, devaluation of the TRL and high capital requirements. In September 1994 foreign banks held 3.6% of total banking assets (public and commercial banks) with a 3.2% share of the sector. Loans granted by foreign banks as of September 1994 amounted to 2.9% of total loans.

The Turkish banking system is dominated by state-owned banks. As of September 1994 they controlled 46.3% of all bank deposits. State-owned banks have a monopoly on transactions of state-owned enterprises and on governmental transfer payments. This provides them with an important advantage over private banks.

There are 23 foreign banks currently operating in Turkey of which 10 are from the EU. EU banks account for 2% of bank assets, 0.8% of bank deposits.

Foreign banks may establish as subsidiaries or via branches. Initial capital of 1 trillion TRL (25 mn ECUs) is required whether for establishing a subsidiary or the first branch. The amount equals that required for the establishment of a Turkish bank but there are no endowment capital requirements for the establishment of the first branch of a Turkish bank. There is no capital requirement for additional branches.

The minimum capital requirement of 1 trillion TRL is unreasonably high and represents a considerable barrier to entry.

The economic needs test has been abandoned as has the limitation on the number of branches which a foreign (or Turkish) bank may establish. However, the establishment of ten branches or more per year, be it by foreign or Turkish banks, require a special permission from the Treasury.

Financial conglomerates are allowed to establish. Initial capital is required for each leg of the conglomerate.

¹ Exchange rates :
at 1993 year end 1 ECU = 16,146.6 TRL
annual average 1 ECU = 18,783.6 TRL.

At 1994 year end 1 ECU = 47,303 TRL
Annual average 1 ECU = 40,338 TRL

Off-shore banking has been regulated since 1990. Establishment may only take place in the form of a joint stock company and one of the shareholders must be a bank and must own at least 40% of the capital. Minimum capital requirement amount to the equivalent of US\$ 7 mn (6.3 mn ECU).

Since April 1994 all deposit banks in Turkey are required to participate in the Savings Deposit Insurance Fund. Supervision of banks is carried out in cooperation between Treasury auditors, independent auditors and the Central Bank.

Table 1 Number of institutions - September 1994	
. State commercial banks	6
. Private commercial banks	32
. Foreign commercial banks of which	20
- Foreign EU banks	9
. State development and investment banks	3
. Private development and investment banks	6
. Foreign investment banks of which	3
- Foreign EU investment banks	1
TOTAL	70

Source: Prime Ministry Undersecretariat of Treasury. DG Banking and Exchange

Table 2 - Assets and deposits of Credits Institutions

Assets (trn TRL)	1994*	%	1993	%
Total assets of which :	1679	100	1027	100
· State banks	679	40.4	379	37
· Private banks	795	47.4	534	52
· Foreign banks of which	59.7	3.6	39.5	3.8
- Foreign EU banks	n.a.	-	20.5	2.0
· State Development and Investment banks	105.5	6.3	52.9	5.2
· Private development and Investment banks	34.9	2.1	18.7	1.8
Deposits (trn TRL)				
Total deposits of which :	1012.7	100	522.2	100
· State banks	469	46.3	233.3	44.7
· Private banks	520.7	51.4	280.3	53.7
· Foreign banks of which	22.9	2.3	8.6	1.7
- Foreign EU banks	n.a.	-	4.0	0.8

Source : The Banks Association of Turkey

*) As of September 1994

Table 3 - Profitability in the banking sector			
(in bn TRL)	1994*	1993	%
State banks	-27407	9580	34.3
Private banks	10960	15485	55.5
Foreign banks of which	5845	1567	5.6
- Foreign EU banks	n.a.	543	1.9
State Development and Investment banks	-3317	575	2.1
Private development and Investment banks	614	596	2.1
TOTAL	-12941	27924	100

Source : The Banks Association of Turkey

*) As of September 1994

Activity

Foreign banks operate under national treatment conditions. However, the paid-in capital of a foreign bank must be maintained in Turkish lira, even when the foreign bank is established in branch form. This coupled with high inflation rate, means that foreign banks the rapid erosion of their capital base.

Foreign banks cannot hedge against inflation through revaluation of fixed assets and they cannot use their global capital to meet lending limits. Credit limits for branches of foreign banks are calculated on assets held within the branch only.

No bank, be it Turkish or foreign, is allowed to trade in commodities, except gold, or property or to extend mortgage credits.

INSURANCE

Establishment

Foreign insurance companies may establish as subsidiaries or in the form of a branch. Permission is not needed for the establishment of additional branches nor is there a limit on the number of such new branches.

Growth in the Turkish insurance sector is double that of the economy in general. Despite the increase in premium income, from 2,694 bn TRL in 1990 to 20,692 bn TRL as of September 1994 a rather low percentage of insurable risks are insured. The largest increase of premiums has been in the non-life business, especially in motor vehicles and fire and property damage. Turkey ranks low on the international scale of per capita premium expenditure. Total premiums per head were 338,110 TRL (8.5 ECU) of which 43,600 of TRL correspond to life premiums and 294,500 TRL to non-life premiums.

The market is highly concentrated. In 1993, the five largest insurance companies held over 55% of total premiums.

As of September 1994, 56 insurance companies were operating in Turkey, of which four were reinsurance companies. Five are publicly owned, 34 private, 11 foreign and 2 branches of foreign insurance companies. 9 are from the EU. Twelve deal in life, 20 in non-life and 20 are composite. EU companies, 4 life, 7 non-life, 2 composite.

Foreign insurance companies have about 10% of the market.

Under the new Insurance Supervision Law new insurance companies will have to choose to operate either in life or in non-life business. The existing composite companies have three years to decide on their choice.

Premiums have been liberated except for compulsory insurance. Acquisition or disposal of shares above 10% by a physical or legal person is subject to permission.

The economic needs test and the reciprocity requirement have been abolished.

Table 4 Indicators of insurance business September 1994

	Life	Non-life	Total
Premiums (bn TRL)	2668	18024	20692
Premiums underwritten by EU insurance companies in Turkey (bn TRL)	14	1113	1127
Premiums as % of GDP	0.1	0.6	0.7
Premiums per capita (in TRL)	43599	294510	338110
Number of insurance companies of which	12	20	52
- EU insurance companies in Turkey	4	7	9
Total assets of insurance companies (bn TRL)	11264	20580	31844
of which			
- Assets of EU foreign insurers	17	1080	1097

Source : Insurance Supervisory Office

Activity

Broadly speaking foreign insurance companies are granted national treatment for the carrying on of activity.

Compulsory traffic insurance for the public sector vehicles can only be done by the insurance companies the majority of whose capital as well as the members of the board of directors and the auditors must be Turkish.

Insurance premiums paid for the workers and other employees cannot be deducted from corporations tax, should those personnel be insured by the branches of foreign insurance companies.

In order to deduct the insurance premiums from gross wages for determining the real taxable-income, those employees must not be insured by the branches of foreign insurance companies.

There is a requirement for compulsory cession to a government reinsurance company.

SECURITIES

Establishment

Foreign securities firms must establish subsidiaries to engage in securities transactions. Direct branching or establishment of representative office is not permitted. Applications for establishment of subsidiaries are subject to an economic needs test - both domestic and foreign applications.

Currently, the Turkish government is not issuing new licenses for either foreign or domestic firms. However, both foreign and domestic firms can obtain on whole or partial ownership of an existing securities company. Seats on the Istanbul Stock Exchange are open to all authorised securities traders, domestic and foreign. Banks must form a separate department of capital operations in order to qualify for membership. Non member banks may handle only OTC transactions in unlisted securities.

Currently there are no derivatives market, or money broking market or futures or options markets.

Turkey's corporate bond market remains relatively small. New issues in 1994 amounted to 85 trn TRL. The turnover on the equity market reached 651 trn TRL by the end of 1994. The Turkish authorities have regulated collective investment funds.

9 EU securities firms were present in Turkey end 1994, all them were EU bank securities affiliates.

At the end of 1994 the number of members of the Istanbul Stock Exchange reached 175 up from 160 end 1993.

Despite significant progressed witnessed in the Turkish capital Market, the contribution of the market to stabilised growth of the economy is not satisfactory. One problem is that tax deters institutions from buying shares. Earnings from Government bonds are free of tax.

Table 5 - Securities market indicators - Shares

	1994	1993
Turnover (trn TRL)	651	187
Turnover as % GDP	16.7	7
Capitalisation (trn TRL)	836	546
Nr of listed companies	174	160

Source : FIBV

Activity

Foreign securities subsidiaries established in Turkey may carry on activities under national treatment conditions.

Capital, dividends and capital gains may enter Turkey and be repatriated without exchange controls or restrictions.

Foreign investors no longer need permission to buy shares in Turkish companies, provided they do not gain management control.