# Globalization in the banking sector: The case of Turkey

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***Abstract***
*The effects of "globalization" on the world financial markets started to become more apparent since 1990s, with the increasing number of cross-border mergers and acquisitions. Big multinational banks expanded their activities to a wider range of countries, especially towards the emerging markets; and there has been a substantial amount of foreign capital inflow to the financial markets of these economies. Although it is accepted that multinational banks expand into these regions for reasons different than those relevant for entering developed ones, the implications of a high level of foreign bank penetration in these areas are not yet clearly understood. In recent years, foreign bank presence has shown a significant increase in Turkey as well. Successful recovery in the banking industry after the September 2000 and February 2001 crises as well as the financial and political stability in the country stimulated foreign capital inflows to the sector and the number of foreign banks has reached to almost half of the total banks currently operating in the country. This paper provides a review of the literature on international bank mergers and acquisitions and their implications for the developing economies; and it specifically focuses on the case of Turkey by discussing the current situation in the Turkish banking sector, the banks with total or partial foreign ownership, and their implications for the sound and stable development of the market.*

Keywords: globalization, banking sector, emerging markets

JEL Classification Codes: G15, G21, M16

## Introduction

The globalization of financial markets led to an increase in the number of cross-border mergers and acquisitions (M&As) among financial institutions (Berger and Smith, 2003; Krugman and Obstfeld, 2000). The decrease in regulatory restrictions in many markets, the developments in information technologies that allow easy and less costly communication and information flows, and the growth in international trade contributed to this M&A wave across different regions (Berger and Smith, 2003).

Foreign bank entry has been mostly directed towards countries where the economic growth is high but local banks have inefficient use of capital and are smaller on average: emerging markets (Focarelli and Pozzolo, 2000). High foreign bank presence in these regions is considered to be crucial for the international integration of their financial systems (Moreno and Villar, 2005).

While multinational banks used to “follow their customers” in the developed economies (i.e. start operating in developed countries where their multinational customers have previously entered), they choose developing ones to exploit local market opportunities (Clarke et al., 2003). The fact that they are more profitable and efficient than domestic banks in the emerging markets also makes these areas attractive for expansion (e.g. Bonin et al., 2005; Chang et al., 1998).

Although foreign banks’ focus is too much on developing markets, research on the implications of foreign bank entry on them is contradictory. While some people argue that opening capital markets to foreign investors makes the countries vulnerable to the economic fluctuations in the entrants’ home countries (Clarke et al., 2003); there is also evidence that foreign banks have a stabilizing influence before or during local financial crises (Detragiache and Gupta, 2002).

In light of these facts and taking into consideration the increase in the number of international banks in Turkey, this paper attempts to understand the causes and implications of cross-border integration in world financial markets and exemplify how these developments affected the Turkish banking sector.

## Globalization in the banking industry

### Mode of entry and causes of internationalization

Banks expand across national borders either through acquiring the whole or part of an existing domestic bank or through establishing de novo operations (Clarke et al., 2003). As a response to the increasing competition in the internal and international markets, they increase the scale of their operations mostly through cross-border M&As (Dymski, 2002). There is evidence that M&As in the banking sector improve the efficiency of the M&A participants by diversifying their portfolios and improving their risk-expected return trade-offs (Berger et al., 2004).

According to Focarelli and Pozzolo (2001), international M&As in the banking industry became popular during the 1990s; but they were lower in number when compared to those in the non-financial sector. The authors attributed this situation mostly to the importance of information asymmetries in banking relationships and tough regulatory restrictions. However, the removal of regulatory barriers in many national markets, advances in technology that allows easy and less costly information flows and supply of services across borders, and the growth in international trade and the number of MNCs increased the demand for financial institutions that operate in multiple countries (Berger and Smith, 2003).

Evidence supports that banks expand into countries that have economic integration with their home country, where economic integration is measured by geographic distance, volume of bilateral trade flows, level of bilateral FDI, or a combination of these (Ball and Tschoegl, 1982; Brealey and Kaplanis, 1996; Buch, 2000; Miller and Parkhe, 1998; Nigh et al., 1986; Yamori, 1998). While many studies support the view that “banks follow their corporate customers abroad”, Esperanca and Gulamhussen (2001) report that multinational banks follow their non-corporate customers as well and argue that direction of the home-country based customers (either corporate or non-corporate), not the level of economic development, determines the level of cross-border investments. On the other hand, the existence of a relationship between FDI in the financial and non-financial sectors does not mean that foreign banks provide services only or principally to the affiliates of their home country clients. For instance, Seth et al. (1998) and Clarke et al. (2003) argue that foreign entry by banks might even bring about foreign entry by non-financial firms.

Opportunities in the host country constitute another set of factors that affect internationalization decisions of banks. It has been found that banks enter economies where the taxes are low and income per capita is high (e.g. Brealey and Kaplanis, 1996; Buch, 2000; Yamori, 1998). Siegfried and Evans (1994) and Amel and Liang (1997) also show that the probability of market entry is positively related to profitability, size, and growth of the market. Similarly, foreign bank entry is found to be more in countries where the expected economic growth rate is high, local banks have inefficient use of capital (indicated by higher average costs and lower net interest margins), and banks are smaller on average (Focarelli and Pozzolo, 2000). Foreign banks select these markets because they use their expertise and human capital to restructure inefficient banks and increase their market share after the restructuring period (Focarelli and Pozzolo, 2000).

Foreign bank presence also appears to be higher in markets with low levels of restrictions on banking activities (Focarelli and Pozzolo, 2000). In markets with high regulatory restrictions on foreign entry, competition in the market turns to be limited, inefficient banks are protected, and banking crises are more likely to occur (Clarke et al., 2003). Realizing this fact, many emerging market economies started financial liberalization programs in order to facilitate recapitalization and consolidation of their banking systems and this triggered cross-border M&A activities (Domanski, 2005; Williams and Liao, 2008). Furthermore, those developing countries that have went through unsuccessful domestic privatization periods also called for international resources to recapitalize their financial sector and allowed foreign bank entry (Domanski, 2005).

The developments in communication and information-processing technologies lowered the costs of providing financial services and this motivated the M&A wave in the financial sector as well (Hoenig, 1999). A reduction in the costs of service delivery caused a reduction in costs of entry to the market and increased competition, and this led less efficient firms to merge with or be acquired by more efficient ones to benefit from greater economies of scale (Hoenig, 1999).

Dymski (2002) proposes a model to explain the determinants of global financial mergers and acquisitions. According to this model, bank M&As are motivated either by macrostructural factors or by banks’ strategic motives. While macrostructural factors refer to the size of the firm relative to its national or regional market, the number of competitors, the severity of regulatory restrictions, the scale of the national or regional market relative to the world, the national or regional macroeconomic growth rate, and the presence or absence of robust capital markets within national or regional borders; the strategic motives include either capturing customers from whom the bank expects to derive business over a period of time or on services that generate maximal revenues at a point in time (Dymski, 2002, p. 440). Macrostructural factors determine the feasible options for bank M&As and the choice among these alternatives are made based on banks' strategies: banks make cross-border purchases only when they have access to capital markets and the market conditions are opportunistic, and banks can be acquired only if they offer customer bases and/or assets that fit into the strategic orientation of acquiring overseas banks (Dymski, 2002).

Dymski (2002) also notes the absence of a set of truly global banks, despite the increasing homogenization in the global financial regulatory structure. While some banks (e.g. HSBC, ABN Amro) prefer a global version of retail banking, a group of others (e.g. Deutsche Bank, Chase, CSFB) are concentrated only on investment banking, and still some banks focus on national or regional markets (Dymski, 2002).

**Characteristics of banks that expand abroad**

Either nationally or internationally, large and efficient banks have a propensity to take over smaller and less efficient ones to spread their expertise and operating procedures over additional resources (Berger et al., 2004). One of the reasons why large banks are more likely to enter new markets is that they have large MNCs that operate in diverse countries as customers (Focarelli and Pozzolo, 2000). Second, increasing returns to scale in some of the international banking services (like portfolio management or investment banking) prefer larger rather than smaller banks (Focarelli and Pozzolo, 2000). Third, return on assets is found to be positively correlated with the degree to which a bank operates in cross-border markets; and this indicates that as efficiency (measured by profitability) improves, the degree of internationalization of a bank will increase as well (Focarelli and Pozzolo, 2000). Finally, banks that have a large share in markets where the banking sector is large and profitable may prefer to operate in multiple countries since they have greater incentives to use their expertise in cross-border markets and to look for risk diversification and profit opportunities abroad (Focarelli and Pozzolo, 2001).

**Implications of foreign bank entry on developing economies**

According to Okuda and Rungsomboon (2004), foreign banks have characteristics that are not shared by domestic banks; and as a result, their entry to a market has different effects than the entry of new but local banks. Therefore, how the foreign bank presence influences the domestic banking industry, especially in the developing economies, should be given particular attention.

Clarke et al. (2003) argue that the factors that motivate foreign banks to enter developing economies are different than those relevant for developed ones. According to the authors, not the "following the customer" mindset but the desire to exploit local market opportunities is the main reason to enter emerging markets. Moreno and Villar (2005) add that foreign banks have experienced a strategic shift away from following the multinational corporate clients towards the examination of business opportunities in the domestic markets. Clarke et al. (2003) further revealed that small size of the banks and the inefficient competition in these economies make them more attractive for expansion.

Foreign bank entry is believed to bring competitive pressure to the domestic banking system, force domestic banks to reduce their costs, and lead to a reduction in their non-interest income and profitability; through introducing new financial services, advanced information technology, and sophisticated bank management skills and techniques to the domestic market (Clarke et al., 2003; Okuda and Rungsomboon, 2004; Williams and Liao, 2008). Especially in the case of developing economies, where high profits of the already existing institutions are a result of a lack of competition and high overhead costs are due to the lack of efficient management; the existence of big and efficient multinational banks increases the efficiency in the countries’ banking industries, stimulates innovation, and contributes to financial stability (Clarke et al., 2003; Moreno and Villar, 2005).

In a similar way, Crystal et al. (2002) claim that since multinational banks are more efficient and market-oriented and that they are governed by experienced banking authorities, their presence in developing countries will lead to better governance in the banking sectors and will secure higher welfare levels. However, Dymski (2002) challenges this view by proposing that foreign bank entrance to developing markets will improve the welfare for some economic units but the net impact across the society cannot be assumed to be positive. On the contrary, Giannetti and Ongena (2009) argue that high foreign bank presence in an emerging market will strengthen the country’s financial system and have a direct and indirect effect on all the firms in the economy regardless of whether they borrow from foreign banks or not.

In a number of studies, it has been found that foreign banks are more efficient than domestic banks in emerging markets (e.g. Bonin et al., 2005; Chang et al., 1998; Martinez Peria and Mody, 2004), while they are less efficient in more developed ones (e.g. Bhattacharya et al., 1997; Claessens et al., 2001). Not only efficiency, but also the performance of foreign and domestic banks shows differences in developed and developing markets. While foreign banks are less profitable than domestic banks in developed economies, their profitability levels substantially increase in less developed ones (Demirgüç-Kunt and Huizinga, 2000). All these facts clarify the reason why banks expand mostly toward countries with a less efficient banking sector.

Foreign banks are also better than domestic ones in their ability to acquire information and this affects the level of competition in the sector: as the information advantage of the foreign bank increases, the positions of the domestic banks will be weakened (Claeys and Hainz, 2006). For instance, domestic banks will offer higher lending rates to new applicants relative to the foreign banks; and since a foreign bank will be better in generating information, it can undercut the domestic bank’s lending rate (Claeys and Hainz, 2006).

At a more macro level, it has been claimed that when a country opens its capital markets to foreign investors, it becomes open to the economic fluctuations in the entrants' home countries (Clarke et al., 2003). There is evidence that foreign banks respond to shocks in their home countries through limiting access to credits in their foreign markets and transferring liquidity to their own countries (e.g. Goldberg, 2002; Martinez Peria et al., 2005). Dura (2007) also gives the example of the crisis in Argentina in 2001 when multinational banks played a significant role in the deepening of the crisis through transferring their money outside the country since they foresaw the possibility of devaluation.

On the other hand, the role of foreign banks as a stabilizing influence before or during local financial crises has also been discussed; and their access to an international pool of liquidity, in addition to their access to financial support from their parent banks have been suggested as the main explanations (e.g. Detragiache and Gupta, 2002). For instance, Clarke et al. (2003) compares the behavior of international bank claims with that of domestic bank credit before and during financial crisis in East Asia, Latin America, and Russian Federation; and show that foreign banks do not increase the instability in countries that host them. There is also evidence that foreign banks become responsive to the host countries' conditions over time and do not reduce their lending during financial fluctuations; and as a result, their presence may be associated with a reduced probability of crises (Martinez Peria and Mody, 2004).

There is also a discussion about the relationship between foreign bank presence in developing countries and access to loans in these markets (e.g. Clarke et al., 2000; Clarke et al., 2001; Mian, 2006). For instance, Clarke et al. (2001) states that the firms operating in a market where foreign bank presence is high do not consider obtaining loans as a difficult task or the level of interest rates as a risk factor on their financial structure and growth expectations.

Evidence shows that large banks, compared to the smaller ones, devote greater shares of their assets to commercial and industrial loans and a lesser amount to small business lending (Berger et al., 2004; Clarke et al., 2003). Since at least one of the parties to cross-border M&As are large institutions, their existence tend to reduce access to loans for small enterprises (Berger et al., 2004). Differences in information distribution between domestic and foreign banks constitute another obstacle towards lending to smaller firms; which are generally captured by a domestic bank and barred from foreign lending (Dell'Ariccia and Marquez, 2004). Due to organizational diseconomies, it is also difficult for large banks to provide relationship-based lending services to small businesses, while they are providing transaction lending and wholesale capital market services to their large clients (Berger et al., 2001). However, Moreno and Villar (2005) claim that there is no cross-country evidence that foreign bank entry negatively affects lending to small and medium-sized enterprises.

On the other hand, Mester (1997) signals that developments in credit scoring and improvements in data availability might make it easier for these organizations to provide loans to small businesses as well. In addition, foreign entry to developing economies can have an indirect but positive influence on small borrowers through its effect on domestic bank lending (Clarke et al., 2003). Some domestic banks that cannot compete with the large multinationals will be forced to seek new profit areas, such as providing credit to small and medium-size enterprises (Clarke et al., 2003). Moreover, increases in electronic banking may also make access to some financial services easier, especially for small customers (Clarke et al., 2003). Finally, Berger et al. (2004) concludes that although foreign presence through cross-border M&As may reduce small business lending at the initial stage, other lenders (domestic banks or new entrants) will eventually make up for some of this reduced supply. Very recently, Giannetti and Ongena (2009) adds that availability of foreign lending through increased foreign bank penetration will benefit small and young firms as well as large and mature ones since it will stimulate growth in firm sales, assets, and financial debt.

Furthermore, a higher level concern is that foreign banks' being less efficient than domestic banks in developed countries and domestic banks being relatively inefficient in developing ones may limit the possibility of global consolidation in the financial sector (Clarke et al., 2003). As a result of these efficiency considerations, large multinational financial institutions are generally motivated to make cross-border M&As mostly in emerging markets; and the integration in financial services is likely to be seen in these areas (Clarke et al., 2003).

Evidence shows that consolidation in the form of M&As might also lead to an increase in the greenfield investments in the markets where these M&As occur (Berger et al., 2004). The possibility of de novo entry might even be greater in developing economies since they allow greater local profit opportunities (Claeys and Hainz, 2006). On the other hand, while foreign de novo banks are more profitable and efficient than cross-border M&As (Martinez Peria and Mody, 2004; Majnoni et al., 2003), it is still uncertain whether the mode of entry affects domestic bank lending conditions and competition in the market as a whole in emerging markets where firms heavily depend on bank financing (Claeys and Hainz, 2006).

World Bank (2001) summarizes the research on the impact of foreign bank presence on domestic markets with the following facts: foreign bank presence leads to reduction in domestic banks' profitability, improvements in their efficiency through a decline in operational expenses, introduction of new financial services and technology, and reduction in the credit quality of the domestic banks. Goldberg (2007) also stresses that financial sector foreign direct investments in a country will accelerate that country's integration into world business cycles and support institutional development through enhanced regulation and supervision.

## Foreign bank penetration in the Turkish banking sector

### Turkish banking industry

Liberalization in the Turkish financial system started at the beginning of 1980s, through the implementation of a series of reforms with an outward-oriented growth strategy (Denizer, 1999). The most important of these developments were the elimination of controls on interest rates and the reduction of entry barriers into the banking system to promote competition and improve efficiency (Denizer, 1999). Before 1980, only four of the 42 banks were foreign-controlled, and the sector was uncompetitive and inefficient with a limited range of products (Denizer, 1997). However, Turkish citizens were allowed to open foreign currency accounts in banks in 1984, and this led to a variety in the products and facilitated international trade in goods and financial services (Denizer, 1999). From then on, foreign presence in Turkish financial market showed a significant increase. Table 1 provides data about the number of foreign banks as well as the total number of banks in the Turkish banking industry for selected years. While the number of foreign banks was just four in 1980, it increased to 21 in 2008. When domestic banks with foreign shareholdings are also included, this number rises up to 29 (the list of banks with full or partial ownership is given in Table 2). On the other hand, while the number of banks in total increased up to 79 in 2000, it decreased to 45 in 2008 as a result of the banking restructuring process after the September 2000 and February 2001 crises.

**Table 1: Foreign banks in Turkey**

| | **1980** | **1990** | **2000** | **2004** | **2008** |
|---|---|---|---|---|---|
| **Foreign Banks** | **4** | **26** | **21** | **15** | **21** |
| Deposit Banks | 4 | 23 | 18 | 13 | 17 |
| Investment and Development Banks | 0 | 3 | 3 | 2 | 4 |
| **Total Sector** | **43** | **66** | **79** | **48** | **45** |
| Deposit Banks | 40 | 56 | 61 | 35 | 32 |
| Investment and Development Banks | 3 | 10 | 18 | 13 | 13 |
| *Sources: BAT (2005a), BAT (2008)* | | | | | |

**Table 2: Banks with foreign ownership (as of Dec. 31, 2008)**

| **Bank** | **Establishment Year** | **Foreign Share (%)** | **Foreign Partner/Owner** |
|---|---|---|---|
| ABN AMRO Bank NV | 1921 | 100.00 | ABN AMRO Bank NV Amsterdam |
| Adabank A.Ş. | 1985 | 100.00 | The International Investor Company |
| Akbank T.A.Ş. | 1948 | 20.00 | Citigroup Inc. |
| Alternatif Bank A.Ş. | 1992 | 50.00 | Alpha Bank |
| Arap Türk Bankası A.Ş. | 1977 | 65.00 | Libyan Foreign Bank, Kuwait Investment Corporation |
| Bank Mellat | 1982 | 100.00 | Bank Mellat Iran |
| BankPozitif Kredi ve Kalkınma Bankası A.Ş. | 1999 | 57.55 | Bank Hapoalim BM |
| Calyon Bank Türk A.Ş. | 1990 | 100.00 | Calyon Paris Bank |
| Citibank A.Ş. | 1980 | 100.00 | Citigroup Inc. |
| DenizBank A.Ş. | 1997 | 75.00 | Dexia Participation Belgique SA |
| Deutsche Bank A.Ş. | 1988 | 100.00 | Deutsche Bank AG |

**Table 2: Banks with foreign ownership (as of Dec. 31, 2008) (continued)**

| **Bank** | **Establishment Year** | **Foreign Share (%)** | **Foreign Partner/Owner** |
|---|---|---|---|
| Eurobank Tekfen A.Ş. | 1992 | 70.00 | EFG Eurobank Ergasias SA |
| Finans Bank A.Ş. | 1987 | 46.00 | National Bank of Greece |
| Fortis Bank A.Ş. | 1964 | 93.26 | Fortis Bank NV- SA |
| Habib Bank Limited | 1983 | 100.00 | Habib Bank Limited |
| HSBC Bank A.Ş. | 1990 | 100.00 | HSBC Bank PLC |
| ING Bank A.Ş. | 1984 | 100.00 | ING Bank NV |
| JPMorgan Chase Bank NA. | 1984 | 100.00 | JPMorgan Chase Bank |
| Merrill Lynch Yatırım Bank A.Ş. | 1992 | 99.95 | Merrill Lynch European Asset Holdings Inc. |
| Millenium Bank A.Ş. | 1984 | 100.00 | Novabank SA |
| Société Générale (SA) | 1989 | 100.00 | Société Générale SA |
| Şekerbank T.A.Ş. | 1953 | 33.98 | Bank Turanalem JSC |
| Taib Yatırım Bank A.Ş. | 1987 | 100.00 | TAIB Bank BSC |
| Turkish Bank A.Ş. | 1982 | 40.00 | National Bank of Kuwait |
| Turkland Bank A.Ş. | 1986 | 91.00 | Arab Bank PLC, BankMed SAL |
| Türk Ekonomi Bankası A.Ş. | 1927 | 42.12 | BNP Paribas |
| Türkiye Garanti Bankası A.Ş. | 1946 | 25.50 | General Electric Consumer Finance |
| WestLB AG | 1985 | 100.00 | WestLB AG |
| Yapı ve Kredi Bankası A.Ş. | 1944 | 57.43 | UniCredito |
| ***Source: BAT (2008) and banks' individual websites*** | | | |

Although foreign bank presence shows a significant increase starting with 1990s, the share of assets held by these firms as a percentage of total assets of the banking sector was still below 5% until 2004. However, with the recent multinational bank expansions that took place in the last four years, this ratio as well as the shares of loans, deposits, and equity controlled by foreign banks as a percentage of the total sector values increased above 10% in 2007.

**Table 3: Shares of foreign banks (as a percentage of total banking sector)**

| | **1980** | **1990** | **2000** | **2004** | **2007** |
|---|---|---|---|---|---|
| Assets | 2.9 | 3.5 | 5.4 | 3.4 | 15.3 |
| Loans | 1.8 | 3.5 | 2.8 | 4.7 | 19.1 |
| Deposits | 2.3 | 2.4 | 3.2 | 2.5 | 14.4 |
| Equity | 2.2 | 3.8 | 7.6 | 4.5 | 15.8 |
| ***Sources: BAT (2005a), BAT (2007)*** | | | | | |

In table 4, foreign banks in Turkey are also compared with the total Turkish banking sector on six important ratios for the years 1995-2007: *liquidity* (liquid assets/total assets), *capital adequacy* (shareholders' equity/total assets), *credit risk* (non-performing loans/total loans), *currency risk* (foreign exchange assets/foreign exchange liabilities), *asset quality* (total loans/total assets), and *return on assets* (net income/total assets). The figures in the table and the results of paired t-test analysis for each one of these indicators show that foreign banks have significantly better performance than the overall banking system in terms of liquidity ($t=-3{,}539$; $p<0{,}005$), capital adequacy ($t=-4{,}361$; $p<0{,}05$), and return on assets[1] ($t=-3{,}384$; $p<0{,}05$). Credit risk ($t=2{,}488$; $p<0{,}05$) and currency risk ($t=2{,}627$; $p<0{,}05$) are significantly lower for foreign banks as well; while they do not differ from the whole industry in terms of asset quality ($t=0{,}454$; $p=0{,}658$).

In addition, there is a notable deviation of the values from the regular pattern for the years 2000 and 2001, since the country has experienced two serious financial crises. During this period, asset quality and return on assets declined while credit risks increased for the whole industry, but these effects were less severe for banks with foreign ownership which may be explained by their access to international pool of liquidity and support from their home countries.

**Table 4: Comparison of foreign banks with the total banking sector on selected ratios**

| | | Pre-crises | | | | | Crises | | Post-crises | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **1995** | **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** |
| **Liquidity Ratio** | Total Sector | 36,9 | 36,4 | 33,5 | 32,4 | 35,9 | 32,1 | 31,0 | 34,3 | 38,8 | 37,4 | 42,8 | 39,6 | 37,1 |
| | Foreign Banks | 56,7 | 61,0 | 58,3 | 59,5 | 67,0 | 63,7 | 41,5 | 43,4 | 43,3 | 42,0 | 38,7 | 38,4 | 29,8 |
| **Capital Adequacy Ratio** | Total Sector | 8,9 | 8,9 | 9,4 | 8,9 | 5,9 | 7,3 | 9,7 | 12,1 | 14,2 | 15,0 | 13,3 | 12,0 | 13,1 |
| | Foreign Banks | 14,5 | 14,2 | 10,8 | 12,9 | 12,6 | 9,6 | 22,2 | 21,0 | 24,0 | 20,1 | 13,8 | 12,0 | 13,2 |
| **Credit Risk** | Total Sector | 2,8 | 2,2 | 2,4 | 7,2 | 10,7 | 11,5 | 16,6 | 6,6 | 1,4 | 0,7 | 0,5 | 0,3 | 0,4 |
| | Foreign Banks | 3,1 | 2,5 | 1,3 | 1,3 | 2,7 | 2,9 | 1,4 | 1,1 | 1,0 | 0,8 | 0,4 | 0,3 | 0,6 |
| **Currency Risk** | Total Sector | 90,6 | 93,6 | 59,6 | 84,9 | 79,4 | 76,0 | 88,2 | 91,9 | 90,7 | 91,7 | 90,7 | 90,0 | 86,5 |
| | Foreign Banks | 77,2 | 81,5 | 70,7 | 78,7 | 75,4 | 72,6 | 86,8 | 94,7 | 87,7 | 85,0 | 82,2 | 78,4 | 62,5 |
| **Asset Quality** | Total Sector | 42,5 | 43,1 | 45,5 | 38,3 | 30,1 | 32,8 | 26,5 | 26,5 | 28,0 | 33,7 | 38,9 | 45,0 | 50,0 |
| | Foreign Banks | 27,9 | 25,3 | 26,3 | 25,6 | 16,5 | 17,1 | 26,3 | 33,9 | 39,9 | 46,3 | 54,1 | 56,3 | 62,6 |
| **Return on Assets** | Total Sector | 2,9 | 3,1 | 2,7 | 2,3 | -0,5 | -2,8 | -5,7 | 1,1 | 2,2 | 2,1 | 1,9 | 2,3 | 2,6 |
| | Foreign Banks | 6,4 | 5,5 | 5,7 | 6,0 | 6,8 | 0,7 | 1,5 | 1,2 | 2,7 | 2,4 | 2,6 | 2,5 | 2,0 |
| ***Sources: BAT (1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007*** | | | | | | | | | | | | | | |

[1] SPSS output for the related analyses is given in the appendix (table 1).

Finally, Table 5 shows the shares of assets controlled by foreign banks in Turkey as a percentage of the total banking sector and the gross domestic investment in the country till 1995. According to Lensink and Murinde (2006), foreign bank penetration in a country increases the efficiency of the banking system which will stimulate domestic savings and, later on, turn into domestic investment. The regression analysis between these two data sets report that increase in the foreign bank penetration has a significant positive impact on the level of gross domestic investment in the country[2].

**Table 5: Shares of assets controlled by foreign banks (as a percentage of total banking sector) and gross domestic investment**

| | Share of assets | Gross domestic investment (million TL) |
|---|---|---|
| **1995** | 2,9 | 1.882,2 |
| **1996** | 3,0 | 3.757,8 |
| **1997** | 4,7 | 7.728,4 |
| **1998** | 4,4 | 13.022,2 |
| **1999** | 5,2 | 17.328,8 |
| **2000** | 5,4 | 28.573,9 |
| **2001** | 3,1 | 33.470,4 |
| **2002** | 3,1 | 47.482,3 |
| **2003** | 2,8 | 57.423,2 |
| **2004** | 3,4 | 78.781,8 |
| **2005** | 5,2 | 97.647,2 |
| **2006** | 12,2 | 123.568,7 |
| **2007** | 15,0 | 140.290,2 |
| ***Sources: BAT (1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007); State Planning Organization (2009)*** | | |

**Determinants of increased foreign bank entry**

There are a number of reasons why the foreign presence in the Turkish banking sector showed a so big boost during the recent years. First of all, Turkey’s quick recovery after the financial crises in September 2000 and February 2001, together with the political and economic stability in the country, led to an increase in the foreign interest (Alptekin, 2007; Tatari, 2005). The start of the EU accession negotiations had a positive impact on foreign banks’ approach to the Turkish economy as well (Alptekin, 2007). Successful restructuring of the banking sector through financial and regulatory reforms and the development of an independent agency (BRSA: Banking Regulation and Supervision Agency) are also factors stimulating foreign presence in the industry (Tatari, 2005). Decreased restrictions on foreign entry, reduced interest rates, and improvements in corporate governance are cited as other issues that triggered foreign-capital inflows into the country (Tatari, 2005).

Another aspect is that there is a large and young population and the population growth is still more than that in EU countries; but the level of deposit ownership by residents is lower than the desired amount

[2] SPSS output for the related analysis is given in the appendix (table 2).

(Alptekin, 2007). This explains to a large extent why the total assets of the Turkish banking sector is far behind those in the developed economies and constitutes a gap that can be filled by foreign institutions.

As one stream of research suggests, foreign banks may operate more profitably and efficiently than domestic banks in emerging markets (e.g. Bonin et al., 2005; Chang et al., 1998; Martinez Peria and Mody, 2004); and this operates as another reason for increasing interest to Turkey since it is one of the most important developing markets.

## Conclusion

The past decade has been a period of great foreign capital inflow towards the financial markets of the developing economies. Although it is accepted that multinational banks expand into these countries to benefit from their market opportunities, there is still a discussion about the positive versus negative implications of a high level of foreign bank penetration in these areas.

As it is discussed in the previous sections, foreign bank entry is believed to increase competitiveness in the domestic banking system, force domestic banks to reduce their costs, increase product variety, and introduce new management skills and techniques to the domestic banks (Clarke et al., 2003; Okuda and Rungsomboon, 2004). While all of these seem to be true for the Turkish case as well, it is still early to talk about what their net impact on the entire economy and the society is (Alptekin, 2007; Tatari, 2005). With a high probability, the degree to which Turkey benefits from the positive consequences of foreign bank presence will be dependent on the continuity of the economic and political stability; and the decisiveness with respect to the proper implementation of financial reforms and convergence with the EU regulations on this issue. Further research is also needed to study the relationship between foreign bank penetration level in the country and different financial and macroeconomic variables in order to have a clearer understanding of the initial implications.

It has also been claimed that, foreign banks can be safer institutions for customers in their export markets due to their access to international liquidity, only when there are a few specific problems in the banking sector; but this may not be the case if there is a systematic crisis (AEI, 2002). The role of foreign banks during the banking crisis in Argentina is given as an example to this argument as well. Considering this and the fact that the full impact of the global financial crisis in 2008 are yet to be experienced by developing economies in the following months, special attention should be allocated to how the governmental support to or nationalization of big multinational financial institutions will influence emerging economies like Turkey.

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## Appendix

**Table 1: Paired t-test results**

| | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| Liquidity Ratio - Total Sector vs. Foreign Banks | -13,47 | 13,72 | 3,81 | -21,76 | -5,18 | -3,539 | 12 | ,004 |
| Capital Adequacy Ratio - Total Sector vs. Foreign Banks | -4,78 | 3,96 | 1,10 | -7,17 | -2,39 | -4,361 | 12 | ,001 |
| Credit Risk - Total Sector vs. Foreign Banks | 3,38 | 4,89 | 1,36 | ,42 | 6,33 | 2,488 | 12 | ,029 |
| Currency Risk - Total Sector vs. Foreign Banks | 6,18 | 8,49 | 2,35 | 1,06 | 11,31 | 2,627 | 12 | ,022 |
| Asset Quality - Total Sector vs. Foreign Banks | 1,75 | 13,92 | 3,86 | -6,66 | 10,16 | ,454 | 12 | ,658 |
| Return on Assets - Total Sector vs. Foreign Banks | -2,45 | 2,61 | ,72 | -4,02 | -,87 | -3,384 | 12 | ,005 |

**Table 2: Paired t-test results**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -820,139 | 15562,915 | | -,053 | ,959 |
| | share_assets | 9397,996 | 2382,804 | ,765 | 3,944 | ,002 |

***a. Dependent Variable: investments***