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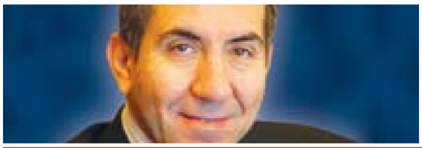

PHOTO MUSTAFA KIRAZLI

Ünal Kabaca

Bank Asya keeps a finger on pulse of economy

ESMA BENDEZ, İSTANBUL

Parallel to the growth in the Islamic finance industry worldwide, Turkish participation banks, formerly called special finance houses, have also been expanding and attracting new customers, with Bank Asya having emerged as a leader in the sector.

"We take the pulse of the economy every second," said Ünal Kabaca, general manager of Bank Asya, the largest participation bank in Turkey. Speaking to Today's Business in an exclusive interview, Kabaca explained the risks and advantages associated with the industry. "Since we are on the frontline when the tides of the economic change, we have to be able to monitor the real market very closely," he pointed out. Bank Asya, like other participation banks in Turkey, operates on Islamic principles and does not trade government bonds and securities. It extends loans to merchants and leases machinery and other business capital needed to start or expand businesses. "This pushes us to be very vigilant and to be able to sense what is going to happen in the market before it happens," he explained. CONTINUED ON PAGE 08

Each POS device brings along a different advantage

BÜŞRA İPEKÇİ, İSTANBUL

As the credit card option takes its place among the most popular payment options worldwide and diversifies, supermarkets and other retail establishments are using more than one point of sale (POS) device at the register, seeking to maximize upon the benefit the options offer to both merchant and consumer.

The number of credit card holders is growing each day, and along with it, the number of POS devices. According to data from the Interbank Card Center (BKM), the number of POS devices in operation in Turkey had reached 1.6 million as of 2008, while the amount of credit card holders for the same year is around 41 million.

Goods can be purchased easily with just a swipe of a card through a POS terminal. With different POS types, merchants are able to achieve a higher level of customer satisfaction. CONTINUED ON PAGE 04

İSTANBUL WORLD FINANCE CENTER: DREAM OR REALITY?

ABDULLAH BOZKURT, İSTANBUL

Some question whether İstanbul has what it takes to become a center for international finance operations, while others insist the city has the potential and a real chance to do so -- provided that necessary reforms and structural changes are implemented.

At the very least Turkey can pin hopes on İstanbul as a regional finance center due to the city's unique geographical location. A relatively cheap yet qualified labor force, good infrastructure and technological expertise are also great assets of the potential regional contender city.

"İstanbul does not have a chance at becoming an international financial center," says Ali İhsan Karacan, former Capital Markets Board (SPK) chairman. But it could become a regional financial hotspot, he told Today's Business, citing real economic factors, social and political issues and location as the handicaps that will keep the city from becoming an international finance hub.

"A strong economy, [a strong] legal system, technology and legislation are required in order to become an international financial center," Karacan says. "London, Tokyo and New York have become financial centers because of these opportunities." He stressed that Turkey's current economic prowess is insufficient to launch such a massive campaign. Karacan noted, however, that Turkey could play a larger regional role in the Balkans, Central Asia and the Middle East. Karacan regards the talk by political actors on İstanbul's potential as an international finance hub as campaign talk intended to hype up the public. CONTINUED ON PAGE 14

PHOTO TODAY'S ZAMAN

Türkiye Finans inks agreement with Western Union

YAKUP ABUTAR, İSTANBUL

Türkiye Finans, one of the leading participation banks in Turkey, has signed an agreement with Western Union, the international money transfer company, in which Türkiye Finans will be tapping into Western Union's network infrastructure while the latter expands into the Turkish market and strengthens its foothold in the wire transfer market.

Gonca Açıkalın, deputy chairman of Western Union's Southeast Europe region, told Today's Business that Western Union plans to increase its number of agencies in Turkey from 4,000 to 11,000. Açıkalın stated that the global financial operation volume is about $200 billion. "Of this amount, 80 percent is shared by financial enterprises, and Western Union controls 16 percent of the remaining 20 percent," she said.

She noted that after the Sept. 11 attacks, the US and the other countries increased their security checks on money transfers, making the system more secure. She added that the number of Western Union agencies in Turkey has reached 4,000 and that the company can operate a money transfer agency from any point in Turkey. "Turkish customers use money transfers especially to transfer money from Germany and Russia, where large populations of Turkish laborers work and live," she noted.

Açıkalın pointed out that Western Union is a system with 335,000 access points in 200 countries. "We serve in more than 4,000 access points in Turkey at the moment. CONTINUED ON PAGE 02

Türkiye Finans inks cooperation agreement with Western Union

CONTINUED FROM PAGE 1

Since we started working actively in Turkey in 2002, our growth rate has never fallen below double digits," she said. She noted that despite the decrease of people leaving Turkey to live abroad, the money transfer market is continuing to expand. She added that there are nearly 5 million Turkish migrants around the globe and that 4 million of these are in Europe. As a result, Europe is the leading destination of Turkish money transfers, she explained.

Açıkalın said that, ranked amongst the migrants of other nations, Turkey is in the top 10, if not the top five in terms of money transfer volume. "According to central bank data, Turkish laborers are estimated to send almost one billion dollars to Turkey each year," she said.

In the first quarter of 2008 Western Union performed 47.1 million person-to-person transactions, a 13 percent increased compared to the same period last year, and 101.5 million firm-to-firm operations, a 2 percent growth rate.

Aydın Gündoğdu, vice president of Türkiye Finans, said, "We aim to build a safe bridge between Turkey and foreign countries and improve our foreign operations through our cooperation with Western Union." Speaking to Today's Business, he said they wanted to cooperate with Western Union to improve the banking performance of Türkiye Finans. "With the agreement, money transfers made through the IBAN system through 492 correspondent banks in 123 countries have passed to Türkiye Finans accounts," he added.

Predicting that Türkiye Finans will increase its wire transactions soon, Gündoğdu said, "Our customers will be able to send their hard-earned money in foreign currency with Western Union through our 166 agencies throughout the nation." Recipients will be able to withdraw the money as dollars or euros in minutes. He underlined that the system is very safe and secure. "I believe that this system will be more efficient, as the number of our agencies will reach 175 at the end of the year," he explained.

Aydın Gündoğdu, vice president of Türkiye Finans, said, "We aim to build a safe bridge between Turkey and foreign countries and improve our foreign operations through our cooperation with Western Union." He said they wanted to cooperate with Western Union to improve the banking performance of Türkiye Finans

Western Union Gonca Açıkalın pointed out that WU is a system with 335,000 access points in 200 countries. "We serve in more than 4,000 access points in Turkey at the moment. Since we started working actively in Turkey in 2002, our growth rate has never fallen below double digits," she said.

PHOTO AA

Gündoğdu said their target markets are Turkish people living abroad, foreign students or employees in Turkey, expats, tourists, Turkish students abroad, educational consulting firms and international logistics firms. "We aim to build a safe bridge between Turkey and foreign countries and improve our foreign operations through our cooperation with Western Union," he added.

He also commented on the effects of the global recession on the bank's future goals. He said the US-originated financial crisis affects EU countries and, as such, will certainly have the potential to impact business in Turkey. "I am cautiously optimistic," he said, adding, "We must take every precaution and take the middle of the road." He went on to say, "We went through the recession in 2001 that the US and the EU are passing through now. The Turkish financial sector has literally been restructured."

Gündoğdu said they believe in the future of Turkey and dismissed the possibility of a bank-originated crisis in Turkey. "We don't subscribe to the policy of getting smaller or self-preservation," he stressed, adding, "All events have risks and opportunities at the same time." He asked, "If Europe will lose, why shouldn't Turkey win?" He stressed that 60 percent of Turkey's exports are sent to Western countries and that Turkish firms are diversifying their target markets.

Turkey seeks to attract foreign investment at international Islamic finance forum

PHOTO □ REUTERS

The global Islamic finance industry's leading event, the biannual International Islamic Finance Forum, will take place in İstanbul on Oct. 13-17. The forum will explore the newest strategic developments and concepts within Islamic finance, highlighting the new markets for Islamic finance instruments, such as Kazakhstan, Turkey, France and Latin America, just to name a few.

The International Islamic Finance Forum is a major event attended by companies, organizations and individuals from across the world. International Islamic finance practitioners and the world's leading Islamic finance scholars will meet at the İstanbul forum for the most important networking event on the Islamic finance industry calendar.

Hosting the forum this fall, Turkey aims to attract investment from the representatives in attendance. Middle East investment in Turkey has been rising steadily in recent years, with the Islamic banking sector in particular on the receiving end of large investments. But other Turkish sectors are also beginning to attract Middle East interest, including the insurance, energy and real estate sectors.

Since 1985, participation (interest-free) banking has grown rapidly in Turkey to meet increased demand from customers seeking new products and services as alternatives to conventional banking.

Highlighting the growing appetite for Islamic products among all clients, the forum is designed to strengthen participants' understanding of the concepts, mechanisms and regulations governing what is set to become a most promising financial sector for Muslims and non-Muslims alike. Many speakers from the top Islamic finance hubs of the world, including Turkey, will lead debate and discussion and respond to participants' questions. **İstanbul** Today's Business

Turkish financial sector reached to YTL 844.6 billion, BDDK report says

MAHİR ZEYNALOV İSTANBUL

Banking Regulation and Supervision Agency (BDDK), whose main aim is to provide safety in financial market and stability, has announced its 9th annual Financial Market Report last week.

The report is analyzing and summarizing the key developments and estimates in financial sector, financial lending between banks and financial institutions, factoring, performances of financial companies and risk level of consumer financial institutions on bases of functional groups and sector, investment adequateness and profit analysis. Report says international financial institutions revised down their projections since the last quarter of 2007 because economic fluctuation in international financial markets impacted negatively global economic activities. It seems that, report says, in developed countries, central banks' attempt to take certain measures to alleviate liquidity problems began to create inflationist pressures.

Besides, increase in oil and agricultural/food prices also reflected on consumer prices in global scale. Economic slowdown in developed countries also signaled the problems in economies of developing countries. Turkish economy, despite of pessimistic outlook, recorded 6.6 percent growth in the first quarter of 2008.

Report also recaps debt, inflation and global recession and their impacts on economic activities. In the first quarter of 2008, main economic indicators showed production industry, wholesale and retail trade along with financial institutions' growth rate was over average. Sue to global economic conditions, supply shocks are increasing inflation risks. Despite the fact that some progress made in financial discipline and performance in domestic debt, current deficit continues to be the structural problem of Turkish economy. Reports also point out the developing nature of Turkish economy and its need to attract foreign investment. Turkey is still maintaining a large current deficit despite sizable flow of foreign direct investment (FDI) into the country. At the beginning of 2008, primary risks are focused mainly around whether or not global fluctuations will be controlled, inflation risks and economic ambiguity created by domestic developments. It becomes clear however that Turkey's risk rate of debt/export ratio is more than Argentina, Brazil, India and China after 2004 based on the analysis of the data compiled from bank export debit figures

Report also speaks about housing and property prices in Turkey, recently. According to the report, except third quarter in 2006, there has been a constant and fast rise of property prices since 2005. Only by the end of 2007, there has been a small decline recorded in property prices. Increase in the demand for property reflected in the price increases in housing market during 2005-2007. The mortgage and property credits were also soared in line with the property demand. This in turn positively changed the ratio of property credits in total balance of consumer credits.

Report also explains how Turkish financial institutions were able to record profits despite the fact that global economic recession resulted in large write-offs and profit loss by major banks, especially in the US. Turkish banks were able to increase their asset size. As of March 2008 asset size of Turkish financial sector including Turkish Republic Central Bank increased by 21 percent in comparison to the same period last year and reached to YTL 844.6 billion. According to structural indicators, banking sector has continued to grow in the first quarter of 2008 as it did in 2007. Total bank branches number reached to 8,378 and the staff number grew to 173,075 and ATM machines to 19,500. Total asset value of banking sector in 2008 March period was YTL 645 billion.

65.6 percent of total assets and 64.3 percent of obligations of Turkish banks are in the local currency. In the first quarter in 2008 total credits extended by the banks increased by 12.2 percent with compare to the same period in 2007 and reached to YTL 320.4 billion. In March 2008, net term profit of Turkish banking sector increased by 14.4 percent and reached to YTL 3.9 billion in comparison to the same period last year. In the same period, asset and equity profit in banking sector increased by 2.8 percent and 21.4 percent, respectively.

EACH POS DEVICE BRINGS ALONG A DIFFERENT ADVANTAGE

CONTINUED FROM PAGE 1

Although all credit card processing may seem to be alike on the surface -- just align the magnetic strip and swipe -- POS devices actually differ significantly in the services they provide. The ability to accept payment via several credit card types and brands enables businesses to convince customers to buy from them instead of their competitors, and enables customers to enjoy a convenient purchase via the payment type their cards offer.

Emine Koç, the head of cash at the Eyüp branch of the Kiler Markets supermarket chain, notes that they choose different types of terminals based on the properties of the credit cards that can be used with them. "The agreements with the banks, the bonus points and the amount of profits the banks offer to customers and us, respectively, also play a role in our choices, and we enjoy better deals as do the customers," she adds.

There are various types of credit cards on the market, and this diversity gives several advantages to customers. Each type of credit card provides different options for payment, installment payments and bonus points that can be used for purchases instead of cash. İrfani Aydın, the manager of Albaraka Türk Bank's Çağlayan branch, says that there are as many different types of POS devices as credit cards on the market.

"This diversity impacts customers as well as merchants. Competition also comes into play at this stage, because the demand for different cards and thus POS devices is varied," he says.

On the other hand, being able to accept different credit cards is also a benefit the markets gain. Merchants are offered different advantages by banks through the usage of their respective POS devices. "In addition to credit card holders who might prefer their cards to be swiped through a particular bank's POS due to advantages such as special discounts or bonus cash points or the minimum payment options their cards provide, the merchants and businesses are also encouraged to use that particular POS machine, as banks vary in terms of the amount of card processing and batch fees," Albaraka Türk's Aydın underlines. He also emphasizes that the technical qualities of the POS devices -- a major point being their transaction speed -- play a role in retailers' choices as well.

Some POS networks have agreements to accept each other's cards so that a card provided by one bank can be used with another's POS device. Kiler Market's Koç says: "We have an agreement with four different banks. We can process all the transactions through only one POS machine."

Moreover, Göktuğ Tamöz, the store manager for Tansaş - Bahçelievler, explains that although the variety of POS devices is primarily to the customer's advantage, it definitely helps business owners as well. "As Tansaş, our central administration decides on which POS device to use; the chain stores have no say in it. But I can say that the decision is usually made according to how widespread the usage of a credit card is."

Customers enjoy the freedom offered by different POS devices

In addition to product prices, the types of POS devices also seem to play a role in customer choices. Customers tend to make their choices in markets based on the options available to the credit cards they have in hand.

Kübra Afşar, 27, emphasizes that she decides which market to shop in according to whether or not she can take advantage of her credit card there. She adds: "I prefer to shop in a market where I can turn my bonus points into cash, for instance."

Similarly, 42-year-old accountant Yılmaz Demirci says: "Why would I shop in a market or store that doesn't allow me to take advantage of my credit card? Although the amounts or advantages in question might be minor, they still mean something and contribute to our budget. For example, I can purchase goods with my bonus points without paying any cash."

Meanwhile, with the growing number of credit card holders and increasing popularity of credit card purchases, stallholders in the city's many bazaars have recently demanded the İstanbul Metropolitan Municipality provide a better electricity infrastructure at bazaar sites, so that the stallholders too can benefit from better sales by attracting more customers. Some banks have already promised to provide credit card terminals without any deposit charge to the stallholders, who hopeful to attain better profits in the near future.

> Millions of consumers are capitalizing on the various benefits different credit cards offer, and Turkish merchants, aware of the convenience and ease of making available several different POS devices, are doing just that -- and attracting more customers because of it

New system to deduct tax debts from accounts

ERCAN BAYSAL ANKARA

The Revenues Administration will make automatic deductions from the bank accounts of all individuals and commercial entities that have defaulted on tax debts to collect a sum of nearly YTL 2 billion by the end of this year, an official from the Finance Ministry has announced.

The official, who wished to remain anonymous, told Today's Business that the new system will utilize an automatic debt collection mechanism that closely tracks bank account transactions of those who fail to pay their debts to the state. The Revenues Administration has already brokered agreements with all banks except two for the implementation of this mechanism, which the administration believes will be a very effective tool to prevent tax evasion.

The automatic collection system is scheduled to start in September. The Revenues Administration will periodically send the banks the most updated lists of those who have outstanding tax debts to the state. The banks will check if these individuals or companies have any money in their accounts and if so, this money will be transferred to the Revenues Administration account at these banks. If a person has deposited money at different banks, any money collected in excess of what he owes will be re-deposited into his accounts.

In the preparatory phase, the Revenues Administration compiled the financial information of all taxpayers in a single database. The administration had taken a similar step last year when it sent the banks the names of around 130,000 taxpayers who had defaulted on debts, but this system had not included an automatic transaction mechanism.

The administration had requested that the banks put a block on the accounts until the debts had been collected in full. "We have developed a brand new mechanism this time. From now on, the banks will also have the same list of all delinquent taxpayers that the administration has, and they will work similar to tax offices," noted the same official.

The new system has not been welcomed by businessmen. Last year's efforts to collect tax debts had also been met negatively. "Had we had enough money to clear our tax debts, we would have already paid them. Putting a monitoring mechanism on our accounts and taking our money makes it extra hard for businessmen to maneuver, much less earn enough to pay taxes," one businessman had said last year. In last year's efforts, the administration collected YTL 1.1 billion.

PHOTO□AP

Zurich enters Turkish insurance market

Zurich is worth $43 billon on the stock exchange and has recorded a consistent 4.4 percent premium profit worldwide as well as a 16 percent profit in Turkey alone. In the global market share prices have fallen over the past six months, but Bauer is quick to point out that Zurich's shareholders have not suffered, again citing the company's consistent reliability

EMMA C. WHITE İSTANBUL

Growth was the main focus of a press conference held on Tuesday morning concerning the recent acquisition of Turkish insurance company TEB Sigorta, previously owned by the Turkish Economy Bank, by the Swiss-based Zurich Financial Services.

Speaking at the meeting was Zurich Financial Services Central and Eastern Europe Region CEO Lutz Bauer and the general manager of the newly formed Zurich Sigorta, Ertuğrul Bul. "The move to Zurich Sigorta is much more than a simple name change. While the existing trusted relationships with our customers and partners will remain, operating as Zurich Sigorta gives us many opportunities," Bul said in a press release posted on Zurich's Web site. "Our business partners, customers and employees will value the sense of security and stability that the Zurich name gives and this enables us to compete more effectively in the Turkish market." The company experienced steady growth rates since TEB Sigorta's establishment in 1997. "When we founded TEB Sigorta, we set out with the objective to be in the top 10 [in Turkey]," Bul said. "Joining Zurich, we have surpassed this goal by far."

Zurich Financial Services was founded in 1872 and currently serves in over 170 countries in Europe, North America, Latin America and Asia and is the fourth largest insurance company globally. It insures several Fortune 500 companies. With over 60,000 employees worldwide, Bauer says Zurich is dedicated to being an "attractive employer." The core of Zurich's business is found in the general and life insurance markets and serves individuals, small and medium-sized enterprises (SMEs) and corporations. Zurich boasts a 78 percent customer satisfaction rate, in comparison to the worldwide customer satisfaction rate of 66 percent and a European customer satisfaction rate of 67 percent.

Yaşar Tümbas, market manager in Belgium and responsible for Zurich's integration efforts with Turkey, feels that Turkey will become part of Zurich's "worldwide experience." The challenge, he says, speaking with Today's Business, will be adapting existing products to Turkey's needs.

Bauer also stressed the importance of shareholders to the company and the reliability of the company's profits. "Zurich is 100 percent shareholder owned," Bauer said. "The largest shares are 5 percent of the company, but overall we have widespread share ownership. From year to year, we have shown shareholders that we are reliable in turning a profit." Zurich is worth $43 billon on the stock exchange and has noted a consistent 4.4 percent premium profit worldwide as well as a 16 percent profit in Turkey alone. In the global market share prices have fallen over the past six months, but Bauer is quick to point out that Zurich's shareholders have not suffered, again citing the company's consistent reliability. Bul noted an 8.86 growth rate in the first half of the year, an overall growth figure of 12 percent and predicts a 7 to 8 percent growth by the end of the year.

Bauer noted that there is a large amount of population movement within Turkey, and one of the primary goals of Zurich Sigorta is to bring knowledge of risks to customers and to provide them with risk management solutions. "Our core value is to excel for our customers," continued Bauer. Within the next five years Zurich Sigorta aims to be in the top 10 producers of insurance and in the top three in terms of profitability. With the introduction of new software, a customer friendly Web site and a soon-to-be-released TV advertisement campaign, Bul is optimistic. "We want to make Zurich Sigorta a success story in Turkey," he said. "Turkey is rapidly growing and we are, overall, dedicated to growth."

In recent years, foreign companies have shown a growing interest in Turkish business and Turkish-based companies. Bauer asserts that it is Turkey's young and large population that foreign companies find so attractive. In terms of the insurance market, Bauer claims that it is currently experiencing and will continue to experience overall growth. Premiums in Europe are averaging around $800-$900 while the average premium in Turkey is $106. "Markets are placed into two classifications," Bauer said, speaking to Today's Business. "One is the more mature market, which has a lower share of motor policies in general insurance. But if you go around the globe you will find something like 40 to 45 percent being motor insurance and in new markets motor insurance is up to 80, 85 percent. In Turkey it currently numbers around 65 percent, so it is somewhere in between. You can really use motor insurance as a test of market maturity." When asked about the possibility of acquiring more Turkish insurance companies, Bauer said, "We are always open to growth."

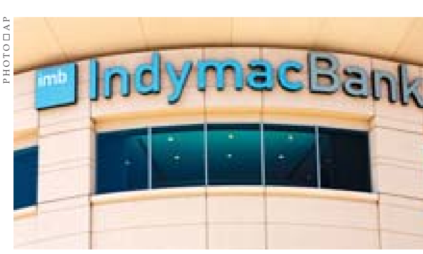

PHOTO AP

FDIC sees most problem banks since 2003

The number of troubled US banks rose 30 percent to 117 in the second quarter, the highest level in five years, and a top regulator warned that conditions will worsen as the housing slump and credit crisis continues to pound profitability. Federal Deposit Insurance Corp (FDIC) Chairman Sheila Bair said on Tuesday she expects more banks to join the agency's watchlist of problem banks, which tallies institutions with financial, operational or managerial weaknesses that threaten their financial viability.

"We don't think the credit cycle has bottomed out yet," Bair told a quarterly news conference, adding that US banks will not return to high levels of earnings anytime soon. "We expect that banks and thrifts will keep building up reserves for the next several quarters," Bair said. Nine US banks have failed so far this year, including mortgage IndyMac Bancorp Inc., which has drained the FDIC's Deposit Insurance Fund used to repay insured deposits at failed banks. In a bid to replenish the $45.2 billion fund, Bair said the FDIC will consider a plan in October to raise the premium rates banks pay into the fund, a move that will further squeeze the industry. The agency also plans to charge banks that engage in risky lending practices significantly higher premiums than other US banks, Bair said, to encourage safer business practices. Charlie Peabody, a bank analyst at Portales Partners in New York, said such a weighted tax could hurt already troubled banks past the point of recovery. "The tax will fall most heavily on the weakest, so the conclusion is, the weak are going to get weaker and the strong will be able to take advantage of the weak," he said. Washington Reuters

Banks snap up agriculture grads to bring in farmer business

UFUK ŞANLI İSTANBUL

PHOTO □ İSA ŞİMŞEK

Metin Karabiber

PHOTO □ HÜSEYİN SARI

A newcomer to the market since May 2008, Fortis Bank's Deputy General Manager Metin Karabiber also confirms that there is great demand for students of agriculture.

Hakan Ateş (L) Gökhan Ertürk

PHOTO □ ZAMAN

In a highly competitive financial sector, banks are increasingly turning to farmers in rural areas to sell their products and services.

As such, graduates of departments of agriculture across the nation have become the most sought-after candidates for jobs involving the sale of financial products to farmers.

Turkish farmers have traditionally been served by the state-owned Ziraat Bankası or agricultural credit unions. Not any more, say many industry experts. The countryside is now a niche market for many banks that want to differentiate themselves from the wide array of banks operating in the country. They wish to expand to rural areas by offering innovative services and products specifically designed to meet the needs of farmers.

The most important problem is finding qualified employees that understand and are able to connect to people in the countryside. Graduates of departments of agriculture are top candidates for the job as they know the rural areas and farmers.

Denizbank, Finansbank, Fortis and TEB Bank have already opened branches for farmers and begun hiring engineers from departments of agriculture rather than economy and management graduates. For example, at Denizbank's agricultural branches, 140 out of 205 employees have a degree in agriculture.

Gökhan Ertürk, deputy general manager of Denizbank's agricultural division, said their branches in rural areas will increase next year. Speaking to Today's Business, he pointed out that the bank will hire employees for these branches from departments of agriculture. Ertürk said his bank had organized campaigns all over the country to introduce its products and extended loans to 200,000 producers so far. He also stressed that they helped farmers out in time of need by offering loans and credit at reasonable rates and provided alternative financing sources in contrast to loan sharks, who charge higher interest rates.

A newcomer to the market since May 2008, Fortis Bank's Deputy General Manager Metin Karabiber also confirms that there is great demand for students of agriculture. In an interview with Today's Business, Karabiber noted that higher competition in agricultural banking means banks need to find qualified and well-informed prospective employees to differentiate their services from those of other banks.

Ziraat Bankası, traditionally the farmers' choice, has faced the challenge head on by increasing its team of agriculture graduates to 2,500. In only five years, the bank hired 1,000 new graduates with degrees in agriculture and related fields.

Şekerbank turned to a different approach to win farmers over in the countryside. The bank's deputy general manager told Today's Business that they look for local people who know the area and who grew up in families involved in farming.

Yet others, including Halkbank, İş Bank and Vakıflar Bank, have decided to re-educate their current staff by having them go through special classes on agriculture. They do not give priority to graduates with degrees in agriculture in their hiring policies.

Some banks have begun to offer credit cards tailored to farmers. For example, the "growers' card" offered by Denizbank has a payment deadline immediately after the harvest season. The "Harvest Card" offered by Şekerbank gives the option to the card owner to select a payment deadline of their choice.

According to the Banking Regulation and Supervision Agency (BDDK), the government watchdog for the banking industry, banks extended YTL 10.6 billion in loans to the agricultural sector in the first three months of 2008. Ziraat Bankası leads the pack with YTL 6.5 billion in loans to farmers, followed by İş Bankası with YTL 723.4 million.

Banks act on Saudi's foreign investment shift

HSBC Saudi Arabia CEO Tim Gray says, "Over time, you will see foreign investors in the market."

Major investment banks say they have begun trading under new rules by Saudi Arabia that allow foreigners their first-ever access to individual stocks listed on the kingdom's exchange, the largest in the Middle East. Saudi authorities announced the major policy shift a week ago, but it was uncertain when trading would begin. Investors previously could invest in Saudi stocks only through locally run mutual funds -- a restriction observers said limited outside investment in the kingdom. "This effectively allows international investors to pick and invest in a single stock or a couple of stocks as they please," said Jamal Alkishi, chief executive of Deutsche Securities Saudi Arabia, a subsidiary of Deutsche Bank AG.

On Tuesday, Deutsche Securities and the Saudi arm of Morgan Stanley issued statements saying they began making trades under the new rules during the day. The head of HSBC Holdings PLC's Saudi subsidiary said the bank also began making similar trades Wednesday. Under the new regulations, foreign buyers can enter into transactions known as swap agreements with local branches of investment banks. The arrangement lets investors take advantage of movements in Saudi shares even though they are prohibited from owning them outright.

Some 60 companies are authorized to carry out swap trades on the Riyadh-based exchange, known as the Tadawul, according to a list on the CMA Web site. Most buyers are likely to be large institutional investors, industry experts said. Alkishi said the new policy should help increase investment in the Saudi stock market, which has slumped nearly 19 percent since the start of the year even as billions of dollars flowed into the country as a result of high oil prices. "We're quite confident that the interest is going to be quite significant," he said. "There is a lot of money on the sidelines in the West and other places that is looking for a home. ... The global investment community is gaining more and more confidence in the way the Saudi capital markets operate." Still, boosting investment in one of the world's most tight-knit societies could take time.

"You won't necessarily see a flood of money coming in. But I think fund managers will be looking to see which stocks represent good value," HSBC Saudi Arabia CEO Tim Gray said. "Over time, you will see foreign investors representing a reasonable percentage of the market. " **Dubai** AP

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Banks poised to decrease rates for housing loans

The general manager of Turkey's largest public bank Ziraat Bankası, Can Akın Çağlar, said loan rates will decline, starting from no later than the beginning of September. Ziraat will step forth to make this reduction soon, he noted, and pointed out that other banks will also have to follow as a consequence of competition

ERCAN BAYSAL ANKARA

Having emerged from a period of economic uncertainty after the Constitutional Court dismissed a closure case against the ruling Justice and Development Party (AK Party) last month, Turkey's commercial banks are finally feeling ready to reduce housing loan interest rates. Housing loan interest rates saw a sudden hike when a combination of the closure case and global economic turmoil, stemming from a US subprime mortgage crisis, hit domestic markets. Loan rates on average soared from around 1.2 percent per month to over 1.6 percent in a short period.

The general manager of Turkey's largest public bank Ziraat Bankası, Can Akın Çağlar, said loan rates will decline, starting from no later than the beginning of September. Ziraat will step forth to make this reduction soon, he noted, and pointed out that other banks will also have to follow as a consequence of competition. Speaking to Today's Business, Çağlar claimed that the verdict on the closure case was widely welcomed by the markets and that it had triggered relief in the business world. Asserting that small businesses in particular were complaining about a recession in the economy and a consequent reduction in their revenues, he said he expects this to change once banks resume extending loans at lower interest rates.

Çağlar said Ziraat Bankası has extended YTL 40 million in housing loans so far solely for those who received payments from the government in the form of Provisional Housing Aid (KEY). Underlining that many customers have not yet asked for KEY loans, Çağlar said, "We expect demand for this loan to increase soon."

Çağlar also noted a recent step they have taken to help a project that aims to render İstanbul a business center in a vast region that includes the Middle East, the Balkans and the Caucasus. He said Ziraat Bankası paid YTL 100 million to the Housing Development Administration of Turkey (TOKİ) for land on which Ziraat Bankası's new headquarters will be constructed. The government is planning and has taken steps to move all economic institutions from Ankara to İstanbul in an effort to make Turkey's largest city the heart of the country's economic management. As part of this, the headquarters of the central bank, public banks, the Capital Markets Board (SPK), the Savings Deposit Insurance Fund (TMSF) and the Banking Regulation and Supervision Agency (BDDK) will be moved to a finance valley in İstanbul's Ataşehir district. Only the central bank appears to be dragging its feet in leaving Ankara and basing everything in İstanbul, saying this will not help in the least in making İstanbul a regional financial hub, but that it will cast a shadow on the bank's independence.

Ziraat has to pay another YTL 113.4 million for 54,000 square meters of land in this "financial valley." Recalling that the new headquarters building in İstanbul will be completed by 2010, Çağlar said the move will "surely give the bank significant advantages." İş Bankası, the largest private bank that runs its vast operations from İstanbul, is a good example, he said, adding that tougher competition will start in the domestic financial market by the time Ziraat Bankası completes its move to İstanbul.

Another point Çağlar remarked on was the KEY reimbursements, which the government wanted to deliver by using Ziraat Bankası branches across the country. KEY was a state-controlled project aimed at providing housing for government employees, allowing them to pay for homes in small installments deducted from their paychecks over an extended period of time. But the program was cut because the promised housing never materialized. It is estimated that around 8.5 million people will receive refunds. Çağlar said the total amount of money the government readied for KEY reimbursements was YTL 2.8 billion but believes not all of this money will be delivered. Around 3.8 million people will get less than YTL 50, he noted, adding that only 10 percent of these people had entered Ziraat Bankası branches to wait in long queues and withdraw their money. Nearly YTL 1 billion remained undelivered and this sum will return to the Treasury's coffers as revenue, he said. KEY reimbursements started on July 28 and lasted just 10 days. Around 5 million people did not visit Ziraat Bankası branches to take their money because they thought it was not worth the effort to withdraw the meager amount of money.

PHOTO □ TODAY'S ZAMAN

PHOTOS İSA ŞİMŞEK

Bank Asya keeps a finger on pulse of economy

CONTINUED FROM PAGE 1

The industry experienced the shock of the 2001 financial crisis when İhlas Finance House went bankrupt and caused the loss of 40 percent of the deposits held by the sector at that time. The subsequent aftershocks led to losses of an additional 35 percent by other special finance houses, though they were not hit as hard as other banks because of their ties to the real economy. The industry recovered rapidly and the deposits at participation banks have now been taken into the banks' guarantee fund (to avoid other shock withdrawals). Since the crisis, the sector has acquired bank status.

"As part of the legal requirements instituted in 2005, we had to change the name to Bank Asya, along with four other participation banks in Turkey," said Kabaca. However, he added: "Nothing changed in terms of the operation and functioning of the bank. … The principle of interest-free banking is still at the core of the modus operandi." He strongly dismissed allegations that the name change also indicated a change in the rules of Islamic banking, saying, "Those are just rumors implanted to curtail the growth of the sector."

The market share of participation banking in Turkey is not that large -- they hold only 3.2 percent of active deposits. In terms of credit usage, participation banks own 4.4 percent of total credit extended to consumers in Turkey. "Considering only four participation banks exist among a total of 50 banks in Turkey, this is a sizable portion of the market," said Kabaca. He also pointed out that all participation banks in Turkey are medium-sized financial institutions. In his opinion, the striking feature of the participation banking system in Turkey is the strong growth of the sector, which has outperformed its conventional counterpart now for eight consecutive years.

Kabaca also explained how the participation system works and how they managed to post record profits. "The system is based on loss and profit, and there is no predetermined rate of return on your investment. You might get your share of loss if, say, the leasing of machinery is lost and can't be recouped by the bank," he said. The bank note only says how much of the profit or loss will be shared by the consumer and the bank -- usually 20 to 80 percent, respectively. All funds are deposited in a common pool.

Participation banks also profit on sales of capital investment and leasing. For example, a bank might sell machinery to a merchant with a markup from the supplier.

Misconceptions about participation banking are caused mainly by the similarity of the rate of returns with the interest rates offered by conventional banks. However, Kabaca said this was not always the case. "For example, we were offering 2.5 percent profit/loss share on foreign currency deposits in 2002 while other conventional banks were providing 25 to 30 percent of interest rate to their consumers. That is almost tenfold of what we were able to offer," he said.

Kabaca is a believer in the future importance of participation banking in the world. "Turkey will become the most important economy in the region, and participation banks will play a role in that growth," he stated. "We are in the real economy and our lending policies contribute to the growth of the economy by adding a positive value every step of the way," he added.

Kabaca also talked about the mortgage crisis and its impacts on banking in Turkey. He said,

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PHOTO KÜRŞAT BAYHAN

first of all, the sub-prime lending crisis was nonexistent in Turkey, and also that there are important cultural factors at play when it comes to house lending. "Turkish people are very sensitive about their debts," he said. "They use their savings to pay most of the home price when buying houses and use credit for the rest." This protects both consumers and lenders in Turkey. He added that only 6 percent of Bank Asya loans are extended for home mortgages and that the bank does not expect defaults on these loans.

Kabaca also responded to questions related to Turkey's political conditions. He clearly stated that they do not endorse one or another political party. "The important thing for us," he said, "is the country's stability and general economic outlook. … Just like other financial institutions and banks, we would like to see what is ahead, as the market does not like uncertainties." Kabaca stressed the need for democracy in politics, adding, "whoever convinces the public through fair and free democratic elections gets the mandate to rule the government."

Kabaca also values Turkey's relationship with the International Monetary Fund (IMF). "We do not need to part ways with the IMF. We can look for standby agreements that are not binding on the government but that will serve as an important anchor for the economy. It will enhance our standing in international markets," he stated.

As a pro-competition bank, Bank Asya strongly supports the privatization of state-owned banks. Kabaca explained that funds in state hands had become an impediment to competition. He also argued that privatization would drive interest rates downward and would benefit the public as well. "The government can still borrow money from private financial institutions," he said.

Kabaca said he saw great growth potential in the credit card sector in Turkey. "Forty million credit cards have been issued in Turkey and this is not high when you compare it to a population of 70 million -- the second-largest in Europe after Germany," he stated. He noted that the credit card sector "will eventually stabilize itself." Karaca also dismissed what he considers to be credit card debt mania theories in Turkey. "The default rate is around 7 percent right now, which is a very tolerable number," he said.

Bank Asya recently launched Asyacard DIT, a new card to "make life easier." It's a multi-application chip and PIN card combining the power of MasterCard EMV OneSmart features with an integrated municipal toll and transit application. The card also offers the additional benefits of MasterCard PayPass contact-less technology.

In Kabaca's view, Bank Asya's approach of putting toll and transit functions onto contactless smart cards has allowed it to seize the opportunity offered by the Kahramanmaras Public Transportation Project, a municipal initiative in eastern Turkey. AsyaCard DIT owners can also use their cards for the tolls on motorways and bridges, including the two bridges over the Bosporus in İstanbul that connect Europe and Asia.

Kabaca said his company would continue to provide its customers with a variety of new and exciting products under the motto "Different Solutions for Different Expectations." He stated, "While we carefully examine the needs of our customers through various distribution channels, we serve our client base with the latest technological developments in the banking sector."

Court offers solution for high credit card fees

A recent ruling by a high court has revived consumer hopes of avoiding high annual credit card usage fees, which has long been a controversial issue between banks and consumer organizations. The Supreme Court of Appeals 13th Chamber recently decided in favor of a consumer from Zonguldak whose appeal was turned down by a local court.

According to information provided by the Ministry of Industry and Commerce, the Supreme Court of Appeals dismissed a verdict by the Zonguldak Court of Consumer Rights against a consumer who did not want to pay a bank for the usage of its credit card. The high court based its decision on the fact that the credit card application contract had not been typed in 12-point bold characters and that there had been no compromise between the bank and its customer based on mutual negotiations.

The government issued two sets of regulations in 2003 and 2006 to clarify the rule of presenting customer contracts in easily readable formats, that is, in bold black ink 12 points in size. The credit card agreement in question had been signed before 2003, but the high court judged that this was not a valid exception and that the later-established regulations cover previously drafted contracts.

The court also underlined that the case will certainly end up in consumers' favor on the condition that the Zonguldak Court of Consumer Rights complies with the decision. However, if the local court does not comply, then the case will go to the General Board of the Supreme Court of Appeals.

Officials also signified that a decision from the General Board of the Supreme Court of Appeals would be final, and that there is no higher court with which to lodge an appeal. If the eventual decision falls in favor of consumers, the case will prove exemplary for the future.

Consumers can appeal to arbitration committees. Authorities from the Ministry of Industry and Commerce say applications from consumers with similar complaints are welcomed by both provincial offices of the ministry and by local consumer arbitration committees. They added that these committees would make decisions on these appeals within three months. Banks also have a right to send the decisions against them to an appeals court. If the court rule in favor of the bank, as a penalty consumers will have to pay sums varying between YTL 350 and 400 to cover court costs. **İstanbul Today's Business** with wires

Çelik displays his credit card with a spending limit of YTL 1. The bank charges him an annual fee of YTL 30.

Federal Deposit may borrow money from Treasury

Federal Deposit Insurance Corp (FDIC) might have to borrow money from the Treasury Department to see it through an expected wave of bank failures, the Wall Street Journal reported. The borrowing could be needed to cover short-term cash-flow pressures caused by reimbursing depositors immediately after the failure of a bank, the paper said. The borrowed money would be repaid once the assets of that failed bank are sold. "I would not rule out the possibility that at some point we may need to tap into (short-term) lines of credit with the Treasury for working capital, not to cover our losses," Chairman Sheila Bair said in an interview with the paper. Bair said such a scenario was unlikely in the "near term." With a rise in the number of troubled banks, the FDIC's Deposit Insurance Fund used to repay insured deposits at failed banks has been drained. In a bid to replenish the $45.2 billion fund, Bair had said on Tuesday that the FDIC will consider a plan in October to raise the premium rates banks pay into the fund, a move that will further squeeze the industry. The agency also plans to charge banks that engage in risky lending practices significantly higher premiums than other US banks, Bair said. The last time the FDIC had borrowed funds from the Treasury was at nearly the tail end of the savings-and-loan crisis in the early 1990s after thousands of banks were shuttered. The fact that the agency is considering the option again, after the collapse of just nine banks this year, illustrates the concern among Washington regulators about the weakness of the US banking system in the wake of the credit crisis, the Journal said.

Citigroup to pay $18 million over credit card practice

Citigroup Inc. agreed to pay nearly $18 million in refunds and fines to settle accusations by California Attorney General Jerry Brown that it wrongly took funds from the accounts of credit card customers. The settlement calls for the largest US bank by assets to pay more than $14 million of restitution to roughly 53,000 people nationwide, and to pay interest at a 10 percent rate to affected California customers, Brown said. Citigroup will also pay California $3.5 million of damages and civil fines.

Brown said a three-year investigation found that Citigroup from 1992 to 2003 employed an improper computerized "sweep" feature to move positive balances from card accounts into the bank's general fund, without telling cardholders. The attorney general said the affected accounts were in "recovery" status, including accounts of customers who had died, sought bankruptcy protection or were the target of litigation or collection efforts by the New York-based bank. Brown said accounts could show credit balances if customers paid bills twice by mistake, or returned purchases for credit.

"The company knowingly stole from its customers, mostly poor people and the recently deceased, when it designed and implemented the sweeps," Brown said in a statement. "When a whistleblower uncovered the scam and brought it to his superiors, they buried the information and continued the illegal practice." He said the whistleblower, a Citibank employee, notified superiors of the practice in July 2001. Citigroup said in a statement it voluntarily stopped the sweep process in 2003, and has begun making full refunds. "The Attorney General's characterization of our conduct and the parties' voluntary settlement is not accurate," it said. "We of course are committed to treating our customers fairly." In late afternoon trading, Citigroup shares were up 19 cents at $17.80 on the New York Stock Exchange.

Turkish banks: increasing activities lower profitability

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Statistics of the banking sector were recently announced and point to an increase in banking sector activity, but lower profitability.

In the second half of 2008, total banking sector assets grew by 23 percent annually and 13 percent compared to year-end 2007. Credit expansion was faster. Total banking sector (i.e., commercial banks, participation banks and investment and development banks) credit grew by 38 percent year on year and 20 percent compared to year-end 2007. These are high growth rates for the banking sector in general, but relatively low compared to Turkey's figures over the last few years.

Looking at the figures in more detail, a steep decline over the last three years in the real growth rates of commercial banks' (which dominate the banking sector) loans to the private sector (which is the main borrower from banks) is apparent, as discussed in this column before. Loans to the private sector used to grow at rates of around 40 to 50 percent prior to mid-2006. Following some small-scale turmoil in mid-2006, loan growth rates steadily declined until mid-2007 to around 10 percent, rebounding thereafter. That revival ended for consumer loans in the first quarter of 2008 and seems to have ended for total loans to the private sector in the second quarter. Nevertheless, the real growth rates of loans, at around 20 percent, are quite impressive (some would say risky) when compared to Europe, for example.

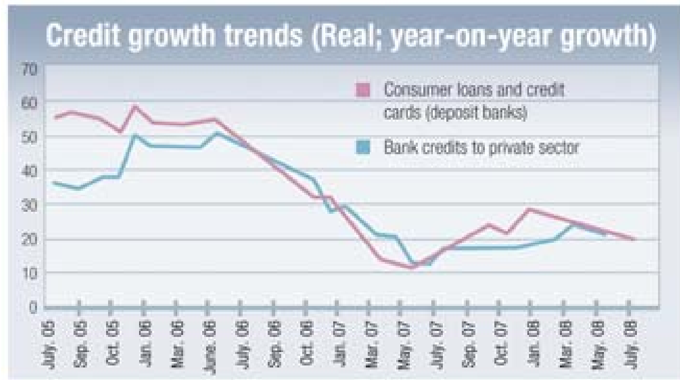
However, that growth did not translate into increased profitability. On the contrary, profitability worsened. In nominal terms, banking sector profits increased by 9 percent, year on year, in the first half of 2008. That is a contraction in real terms. That came as a result of higher growth in operational expenses compared to net interest revenues (31 percent against 22 percent). The increase in non-interest revenues was lower than that of net interest revenues.

Under these developments, the following observations should be underlined:

* Despite a slowdown in the economy, banking activity remained relatively high. Against annual gross domestic product (GDP) growth of 6.6 percent in the first quarter, which is likely to diminish significantly in the second half of the year, loans grew on the order of 20 percent in the first half. That probably helped improve the GDP growth by triggering private and business consumption and investment outlays.

* Despite higher activity, profitability fell because of both increasing bank competition under a tight market, leading to erosion of interest revenues, and a visibly high growth of operational expenses. In the latter, an increase in personnel expenses and provisions other than for non-performing loans explain more than half of the change. However, the other half is evenly distributed among operational expense items. In other words, the increase in operational expenses is somewhat broad based.

* Non-interest banking revenues whose contribution to bank profits almost equaled those of net interest revenues have remained around their 2006 levels. A major part of these revenues comprise commissions from letters of guarantee and fees generated from payment services. The strategy that many banks followed was charging quite exorbitant rates for such services, especially for payment services. Turkish banks will now need to price their services down and open new product windows in order to generate more income. Garanti Bank's recently launched innovative payment service (where one does not need an account with Garanti and can make a payment to anyone with a domestic cell phone number and a Turkish identity number through the ATM network) integrated with the national cell phone network is one good example.



Banking Sector: Summary Income Statements

	H1,06	H1,07	H1,08	Change (%) 07/06	08/07
Net interest revenues	9,939	12,335	15,118	24.1	22.6
Non-interest revenues	9,342	7,944	9,380	-15.0	18.1
Non-interest expenses	9,179	9,922	13,006	8.1	31.1
Net profits	5,152	8,093	8,812	57.1	8.9

Source: BDDK

PHOTO□REUTERS

Gulf Finance House Investment Bank Chairman Esam Janahi.

Gulf banks launch three Islamic investment firms

Three Gulf Arab banks will launch a specialized bank to finance infrastructure projects, an agriculture firm and a hospitality fund as rapid growth in the Middle East and North Africa lures billions in new investment. The consortium aims to set up three new Islamic financial institutions with total starting capital of $2.8 billion and authorization to raise up to $10 billion to invest in roads, sewage treatment, farms, schools and the hospitality industry.

The ambitious plans, the latest in a string of multi-billion-dollar projects, come as a five-fold rise in oil prices since 2002 fuels breakneck growth in the energy exporting nations of the Gulf, Middle East and North Africa.

Gulf Finance House, the Bahraini Islamic investment bank, said it would launch a specialized investment bank called InfraCapital to tap an expected $545 billion in projects in the world's biggest oil-exporting region. "These are megasized projects with long gestation periods and it requires specialized institutions that can invest large amounts of capital and can syndicate and can manage complexity," Mehran Jamsheer, Gulf Finance House deputy chief executive, told Reuters by telephone Wednesday. Bahrain's Ithmaar Bank and Abu Dhabi Investment House are equal shareholders in the venture, which will seek to raise $1.5 billion in equity capital through private placements with institutions and rich individuals.

The Gulf financial sector is widely viewed as too fragmented to handle the massive financing needs required by the rapidly growing region, with consolidation expected to accelerate or risk letting big Western banks win much of the business. The Gulf consortium would also set up a $1 billion agricultural investment firm, authorized to raise up to $3 billion and focusing on food production, livestock and biofuels, and a $300 million hospitality fund authorized to raise up to $1 billion to invest in hotels and apartment complexes.

The three firms could have collective authorized capital of up to $10 billion, the companies said. The announcement comes one month after a Gulf consortium including Gulf Finance said it would set up a $5 billion steelmaking firm to meet soaring construction demand in the region. Gulf Arab oil producers are putting the investment windfall revenues from rising oil prices into developing infrastructure, real estate and industry to diversify their economies away from a reliance on crude exports. The size of the six Gulf economies, including Saudi Arabia and the United Arab Emirates, will surge past $1 trillion this year on high oil prices, a Reuters poll showed last month.

In May, Gulf Finance, which is also building energy operations in places like Libya, said it would start a $2 billion cement company. Islamic companies comply with sharia law which bans, among other things, the payment or receipt of interest. Shares of Gulf Finance and Ithmaar fell 0.6 percent and 1.43 percent in Bahrain prior to the announcement on Wednesday. **Dubai** Reuters

Foreign bank acquisitions on the rise in Turkey

Large foreign banks have been attracted to investment in Turkey through stake buyouts and complete takeovers as the Turkish banking industry displayed notable economic growth, with the nation's banks posting growth of more than 20 percent overall in the first half of 2008 compared to the same period last year

PHOTOS TODAY'S ZAMAN, CIHAN

In the face of a global economic recession initiated by a crisis in the US subprime mortgage market, Turkey, an increasingly profitable market for foreign banks, has become one of the fastest growing countries in the banking industry.

Large foreign banks have been attracted to investment in Turkey through stake buyouts and complete takeovers as the Turkish banking industry displayed notable economic growth, with the nation's banks posting growth of more than 20 percent overall in the first half of 2008 compared to same period last year.

Dutch-based global finance giant the ING Group has acquired Oyak Bank, which was the Turkish Armed Forces Assistance Center's (OYAK) representative in the finance business. The Kuwait Investment Authority, a major Gulf investor, bought 11 percent of state-owned Halkbank's initial offering of a 2.7 percent stake in the bank. Turkey's eighth-largest bank, Finansbank, sold 46 percent of its shares and 100 percent of its founders' shares for $2.8 billion to the largest Greek bank, the National Bank of Greece (NBG), completing the largest commercial deal between Turkey and Greece.

There are risks associated with so much foreign investment, some argue. Professor Ahmet Faruk Aysan of the Boğaziçi University economics department says low profits and regulatory restrictions in a country lead to widespread internationalization, acting as the "push" factors drawing foreign investment. "It is not always the case that foreign banks bring benefits to the local market," he posits. "In fact, risks from foreign entry are the other side of the coin."

Among the possible risks are negative shocks causing instability in the domestic market and the possibility that the foreign banks may not provide funding in times of trouble. Aysan also warns about the destabilizing factor of foreign banks in case of market failure or crisis. "There are arguments that foreign banks have a destabilizing effect because when the conditions that attracted foreign banks disappear, foreign banks tend to sell their subsidiaries to local banks and investors," he notes.

The professor also cites "three factors attracting foreign bank investment in Turkey: a young population, increasing per capita income and the fact that it is located at the crossroads of Europe, Central Asia, Africa and the Middle East." He also notes that "reforms carried out to attract investment, improving macroeconomic performance along with the foreign trade and growth potentials, are additional factors pulling in foreign investment."

Selim Işıklar, an independent economic analyst based in İstanbul, says foreign banks in Turkey testify to the strength of the Turkish economy. "I don't think there can be any kind of risk. I can't think of any, either. Supervisory agencies will be overseeing and checking them." He also recalled Turkey's 2001 financial crisis, noting, "There were no foreign banks involved during the 2001 crisis. And I don't think there will be any crisis simply because there are foreign banks."

In contrast, Recep Seymen of İstanbul University says he has deep concerns about what he calls an "invasion" of the Turkish economy by foreign banks. "The headscarf issue and things like that are not Turkey's real problems. The main problem is this acquisition by foreign banks. About 57 percent of banks, 85 percent of insurance companies and even 30 percent of exports are being controlled by foreigners. This makes me anxious," he says. He also states that there is cause for concern over the political consequences of "internationalization" of the Turkish economy. "Let alone economic consequences, there might be huge political consequences. They may influence Turkish foreign policy through the economy." İstanbul Today's Business

PHOTO İSA ŞIMŞEK

Veteran banker: Turkey is a star and a model for other countries

YAKUP ABUTAR İSTANBUL

How is it possible for Turkish banks to be posting profits while many foreign banks, including US financial institutions, are busy writing off bad loans and credits? The success of Turkish banks in the midst of the worldwide credit crunch certainly calls for further analysis. Today's Business recently spoke with veteran banker Zafer Kurtul, who has been entrusted with the helm of Akbank, the second-largest private bank in Turkey.

What are the primary reasons for the growth we have seen in the Turkish banking industry since 2001?

In Turkey the ratio of banking capacity to national income is very low. The proportion of total credits to the gross domestic product (GDP) is about 35 percent. In developed countries this ratio is almost 100 percent. Secondly, Turkey has a developing economy with a growth rate projected at 4.5 percent for this year. This is a very good rate when you consider the recessions going on in developing countries. In the period between 2002 and 2007, the yearly rate of increase in total credit volume was 42 percent on average. In the first half of 2008, this rate was 20 percent. We expect around 30 percent growth in the credit market.

In recent years our economy has experienced a significant transformation. High inflation and interest rates have come down to the current levels. The drop in interest rates has increased banking transactions and enabled many to use credit from banks. Yet the rate is still high. Using credit with a 20 percent interest rate is still difficult. We expect real growth in the banking sector when we drive interest rates down below 10 percent.

With the economic stability we have witnessed increasing investments and, as a result, a lot credit being used to finance projects, takeovers and privatization. We expect this trend continue.

Why does the Turkish Central Bank keep interest rates high?

Central banks use short-term interest rates as a monetary policy to check inflationary trends. If the inflation rate changes, the central bank needs to revise interest rates. The reason why the central bank hiked up interest rates was increases in food and energy prices, as well as a response to changes in inflation expectations. As the inflation rates hit 12.1 percent by July, the inflation targets for 12 months from now have been lowered to 8.7 percent. At this point the Turkish Central Bank needs to apply a strict monetary policy.

Could Turkey really face a credit card crisis, as a recent article in The New York Times claimed?

According to official statistics, 2.8 percent of Turkey's credit card owners, which means some 552,000 people, have problems making their payments. The same data shows that about 5.87 percent of the credit cards issued in Turkey have been placed on collections lists. The collections rate, which was 7.42 percent as of January 2007, has been seeing a steady decrease. According to the Nielson Report dated June 2008, the percentage of credit cards referred to collections was 5.95 percent and expected to increase to 6.40 percent by the end of the year.

The proportion of credit card balances to all credit extended by banks was 9 percent last year. The proportion of all credit card debts to consumer credits was around 28 percent by the end of 2007. The proportion of personal loans to the GDP is around 11 percent. This percentage is far below the developed countries' 50 - 70 percent personal loan/GDP numbers and is another indicator that a national crisis from personal loans is not possible. The system is growing healthily under control, and it is quite a model for the other countries.

Apart from this, thanks to the powerful control systems supported by the banking community of Turkey, credit cards are closely monitored from approval stage to the collection stage, with the help of the laws and technological infrastructure. The allocation stage of the credit cards is watched by a world-class special technological system that is constructed specifically for Turkey's economic and social conditions. The limits are controlled by the joint credit card limit database. With their powerful checking systems and Customer Relations Management services, most of the banks have the opportunity to identify and take precautions for the customers who might have payment problems.

Some consumer associations have started "No Credit Cards" campaigns. Do you think we need to invest in consumer education on the use of credit cards?

The people who use them unwisely could find themselves in debt crises. Credit card revenues for 2007 were about YTL 20 billion. In terms of this revenue, the problem is very small. This is like saying "let's not drive or use planes" to prevent accidents. In the credit market there is always a risk of a small percentage of cards going default. The key point is to keep these numbers low.

Almost 40 percent of the Turkish banking sector is owned by foreign investors. What is your take on this?

This fact shows foreign investors' confidence in our country. This is very positive. The banking sector went through a restructuring process after the 2001 economic crisis and is now in a powerful place. The large growth potential of the banking sector has been a reason for foreign investors to enter the Turkish financial market in the last period of time. When we look at the last three years, we can see that almost half of the total foreign investment has been in the financial sector.

The entrance of the foreign banks into our country supports foreign investments in other sectors. Our country should invest more, so that we can create employment. We have a very young population. Employment is the most important problem in our country. We can expect an increase in service quality in some sectors as the foreign banks come. We consider the presence of foreign banks in Turkey to be a positive development, both because they increase competition and because of the know-how they bring with them.

When some of the foreign banks have troubles in their operations the other countries, such as they are having now, they may decrease their shares in Turkey. Banking is the most vital area of the economy. The real economy needs funding to flourish. To summarize, I think Turkish banks need to be dominant for a healthy national economy.

How do you think Akbank has fared in this financial environment?

The net profit of our bank for the first half of 2008 was YTL 1.2 billion. Our net profit in the last 12-month period has increased by 8 percent except out of balance sheets.

The profit Akbank made in the first half of 2008 has been primarily from credits. As a bank, we continued supporting the real economy in the first half of the year. Consequently, the credits that Akbank has granted increased 23 percent since the end of last year to YTL 49.2 billion. The total credits increased 20 percent in the banking sector, and Akbank's credit extension has increased above the sector average. Mortgage credits in particular have increased considerably. In the first six months of the year, the mortgage credits that Akbank granted increased by 18.6 percent, YTL 4.8 billion. This makes for a share of 13.1 percent of the market.

Our institutional credits increased 54 percent in the first half of the year and reached YTL 18.3 billion. We acquired this high growth in corporate banking by funding investments and purchases. Despite this high increase in corporate credits, the rate of defaults on these credits was zero.

With specially designed small and medium sized enterprise (SME) loan packages, we increased our SME loans by 21 percent in the first half of the year, and we reached a total of YTL 16.8 billion.

In the first half of 2008 consumer credits amounted to 29 percent of all credits, while commercial credits accounted for 18 percent, small enterprise credits were 16 percent and corporate credits were 37 percent. In the first half of 2008, our bank's assets have increased by 18 percent, reaching YTL 85.2 billion. Together with the increase in assets, the return on assets is at striking levels. Akbank's asset performance is as high as 3.1 percent; the rate of defaulted credits is decreasing. Akbank's percentage of unpaid credits is very low, about 1.9 percent.

At the first half of 2008, Akbank's deposits have increased dramatically. Bank's deposits has increased by 16.3 percent and reached YTL 50.8 billion.

What are your plans for the future of Akbank?

The goal of our bank is to continue expanding our profits. We want to improve our market share. In the first six months of the last year our total credits grew by 17 percent, and in the first six months of this year the improvement was 23 percent. This year, alongside the corporate credits, foreign currency credits increased greatly. Our foreign currency credits increased by 21 percent last year and by 35 percent this year. We provided the fuel for the engine of growth in the corporate sector by extending credits to investments.

In the first six months of 2007 our housing credits grew by 14 percent, personal credits by 45 percent and total consumer credits by 19 percent. The rate of increase for the same period this year was 19 percent, 15 percent and 14 percent respectively.

In the first six months of this year, the performance of our bank was successful. We have been the market leader in cash loans and we continue to be the most valuable bank.

We predict that by the end of the year market loans will increase by 31 percent, consumer credits by 28 percent, institutional and commercial credits by 33 percent, and deposits by 24 percent. Our bank is planning to grow above the market average.

Is the taxation system on banking and financial institutions cumbersome? Do you think it needs to be overhauled?

The taxation system on the Turkish baking sector is putting extra burdens on our expenses, especially for intermediary services. Furthermore, this taxation system creates unfair competition between Turkish banks and foreign banks and causes banking operations to shift abroad. As a result, this situation blocks the growth of the Turkish financial market and causes the government to loose revenues indirectly.

The prime example of this tax burden is the five percent tax levied on banking and insurance transactions. If a Turkish company uses credit from a Turkish bank, the company has to pay 5 percent of the credit interest as tax. But if the company uses a credit from a foreign bank, there is no taxation at all. Thus, companies apply for credit from foreign banks, creating an unfair competition at the expense of local banks. These taxes should be removed.

Again, because of this tax, a lot of financial products can't be introduced to the market, or they face the risk of shifting abroad to evade taxes. For instance, even though banks don't acquire any profits from the derivative operations applied solely for protection against risks, they may end up paying taxes on them. Therefore, the financial markets cannot fully develop their true potential.

The Funding Source Utilization Support Fund, various taxes and fees, shares for stock exchange payments and similar taxes put extra burdens on the banking industry.

The high cost of brokerage and inter-bank expenses not only impacts banks, but also consumers, as banks need to pass these costs on to their customers. This indirectly affects all economic activity negatively by increasing costs. Decreasing such costs will improve our economy. There are some encouraging signs, too. In the last few years, tax on corporations has been decreased from 30 percent to 20 percent, the stamp tax on credit agreements has been abolished, foreign exchange bargain taxes have been reset and some other constructive changes have been made. All these changes had positive effects on the Turkish economy.

How do you see the performance of the Turkish economy?

Turkey has had a great performance in the last seven years. Turkey's portion of international investments going to developing countries has increased from negligible amounts in 2000 to 8 percent in 2007. In the coming period, the banking, insurance, private retirement planning, energy, logistics, tourism and real estate sectors are expected to grow the most. Banking in particular has a great potential in Turkey.

The Turkish economy is a developing economy. The national income of our country is above $750 billion. Our growth rate is beyond those of some developed countries. The average age of our population is 29. Our young population makes our country innovative. Our desire to use new technology is high. Our foreign trade volume is $350 billion. We have a big economy and we develop rapidly. We have a good potential for the future. We have a fantastic potential both geographically and demographically. We are one of the star countries of the world. We have a dynamic, creative and experienced private sector. We can make use of these advantages.

In the last five-and-a-half years, the economic base of our economy has been strengthened and local currency has yielded the highest income for its investors. In the 2003-July 2008 period, the [İstanbul Stock Exchange] İMKB-100 index provided the highest inflation-adjusted real income by 108 percent. Three-month bank deposits brought the highest income after the İMKB. When we look at the comparative stock-exchange performances of developed and developing countries since 2003, despite the cyclical decrease in the last year, Turkey provided the highest income along with commodity-rich developing countries.

PHOTOS TURGUT ENGIN

İstanbul finance center: DREAM OR REALITY?

PHOTO BAHAR MANDAN

CONTINUED FROM PAGE 1

Turkish Brokers Association (BUD) President İsmail Tavlı disagrees with Karacan. He is optimistic that İstanbul will become a finance center one day, attracting as much as $100 billion in direct investment. Speaking to Today's Business, he said İstanbul had become an attractive location for global financial institutions. Tavlı underlines the need for infrastructural investment to be able to seize the opportunity, and says it'll be well worth it. "The project will bring along with it 50-100,000 employment opportunities," he asserts.

At the moment, İstanbul is already the undisputed leader of the Turkish financial scene. The city of 15 million provides one-fourth of Turkey's gross domestic product (GDP), 38 percent of its overall industrial income, more than half of services and 40 percent of tax revenues.

Deputy Prime Minister Nazım Ekren announced last week that the government would establish a development agency for İstanbul within a year. Commenting at a meeting of the İstanbul Economic and Social Council, he spoke of turning the city into a financial center and stated that "the timing of the project was right after the mortgage crisis in the United States."

For politicians like Ekren, it might just be big talk to impress the public. Many analysts, however, caution that fundamental steps have yet to be taken before any move to become a financial center. The government assigned the task to the Turkish Banks Association (TBB) last year, which in turn had Deloitte draw up a report. The report listed many prerequisites for the concept, including the nomination of a strong minister for the job to ensure that work to transform the city into a financial center was properly carried out and completed by 2012.

TBB Chairman Ersin Özince is optimistic on a regional role for the İstanbul, as he does not see many close rivals in Turkey's geographic proximity. He said İstanbul has the world's strongest financial equity owners and the market values of the institutions they have purchased are climbing to international levels.

Özince's observations are in line with the rising interest by foreign investment firms in Turkey. The world's biggest investment banks have recently purchased intermediary institutions in Turkey and opened offices there. Among them are Citigroup, Deutsche Group, Merrill Lynch, Morgan Stanley, Lehman Brothers, Credit Suisse and UBS. As a result, the financial intermediation sector attracted $7 billion in 2006 and $11 billion in 2007.

With the increasing share of these institutions in total financial transactions, Turkey will gain the chance to more deeply integrate herself with world financial markets, and the credit channels for Turkish investors are expected to widen and diversify.

The argument for İstanbul's potential as a global finance center has also garnered support because of the Turkish economy's strong performance since 2002 -- 5 to 6 percent growth on average. With ongoing privatization of state-owned enterprises and legal reforms and improvements on the road to EU accession, Turkey was able to attract foreign direct investment (FDI) worth around $22 billion in 2007 -- up from $2.8 billion in 2004.

In terms of structural layout, however, neither Turkey nor İstanbul perform well. The development of network and data processing systems is very encouraging, but still has not reached a satisfactory level, and is far from smooth functioning in terms of backup and emergency systems.

Though Turkish banks posted record profits in the last quarter -- a contrast to many banks in the US and Europe -- one of the many reasons for this is the absence or less common use of several financial instruments, such as credit default swaps (CDS), options, futures, forwards and commercial bonds, in the Turkish market. Turkish banks are also not involved in the subprime mortgages that led to financial meltdown in the US.

The Turkish derivatives markets, for example, are not yet well established. The Turkish Derivatives Exchange (VOB) established in İzmir in 2005 is still in its infancy. The lack of these tools, however, presents another obstacle to any international financial center potential for İstanbul.

Yet the most pressing issue comes from the legal challenges the country faces. Courts are bogged down with litigation and are slow to adjudicate cases. What is more, the country does not have enough judges who specialize in commercial and financial arbitration. Frequent changes made to laws and regulations create ambiguity and discourage potential investors.

The government has decided to move the central bank, the SPK and the Banking Regulation and Supervision Agency (BDDK) to İstanbul from Ankara in order to enhance the stature of İstanbul in financial markets. However, some analysts question the motives behind these moves, calling them mere symbolic actions that will not have a real impact on the city's landscape. They say many countries keep their central banks in the capital and that it represents a sovereign element of the country. The TBB is among those voices that argue moving the central bank from Ankara is not essential to securing the city's role as a financial center.

A report published by the TBB last year envisages that with 2 billion euros, İstanbul may be one of the globe's most prominent financial centers in five years. It also claims an additional 150,000 jobs will be created. The contribution of the financial services to the GDP is expected to be 8 percent of the GDP after 2025 if İstanbul becomes a center for financial activities.

Even basics like leading financial publications or world-class business education are markedly absent in the İstanbul landscape when compared to cities like New York and London.

Indeed, a strong financial publication like the Wall Street Journal or Financial Times cannot be found anywhere in the country. The only economic papers, Referans and Dünya, are Turkish-language dailies. Turkey has only two English-language dailies covering general events including the economy -- Today's Zaman and the Turkish Daily News, with print circulations of 5,500 and 2,700, respectively. There are no globally recognized business universities in Turkey akin to the London School of Economics or Harvard Business School. University education curriculums focus on economic theory and bypass financial courses.

The dream of İstanbul as an international finance center may not be that far-fetched, but realization will definitely not come as easy as some claim.

PHOTO BURAK SOYSAL

PHOTO CIHAN

Ill-informed credit card holders generate surge in defaults

MAHİR ZEYNALOV İSTANBUL

PHOTO REUTERS

Defaulting on credit card payments in Turkey is on the rise due to high interest rates and the lack of awareness among card holders on how to properly manage their card spending.

Credit cards were first introduced to Turkey by the Diners Club in 1968. Some analysts believe that over the past decade credit cards have come to be viewed by the public as a "cool tool" and as a result have put uninformed card holders in debt. An unhealthy economy, rumors of bank fraud, high interest rates and unstable monetary policy make Turkey an easy place for banks to earn money.

"Credit cards in Turkey are just tools for creating debt," says Ali Çetin, general director of the Federation of Consumer Associations (TÜDEF). According to Çetin, credit cards are not used in accordance with income and salary. "People need an income increase in order to pay off their credit card debts. They are only able to pay the minimum debt payments," he said.

At an Erzurum press conference last month, Banking Regulation and Supervision Agency (BDDK) Chairman Tevfik Bilgin noted, "Sector profit was YTL 6.3 billion last year and increased by 12 percent, reaching YTL 7.4 billion this year despite a global economic crisis." This means that banks were able to find a suitable environment in which to consolidate and monopolize interest rates and credit cards.

Experts think this stems from Turks' tendency to acquire debt. In an interview with The New York Times published on Aug. 9, Akbank Chairwoman Suzan Sabanci Dincer said: "This is a society that has transformed itself. Previously, there were only 10,000 card holders in Turkey; however, today there are more than 38 million card holders with $18 billion debt."

According to the latest Financial Markets Report released two weeks ago by the BDDK, Turkish banks have experienced a significant growth in profit since last year. As a result of a global economic recession, global financial agencies lost $500 billion and are expected to still lose more. However, Turkish banks experienced an increase of about 21 percent in credit and 14 percent in deposits. In the first six months of 2007, Turkish banks extended $22 billion in credit to its individual and corporate customers, whereas this year in the same period, the amount was $46.7 billion. During the global crisis last year, Turkish banks made $79 billion in profit from lending and credit transactions. These numbers alone demonstrate that interest rates tend to be higher in Turkey and that even an economic recession has not affected Turkish financial institutions. The high profits of Turkish financial institutions attract investment from foreign banks.

Turkey experienced a major economic crisis in 2001 when the state was no longer able to buy credit from banks. The policy of nationalization was stopped when the Justice and Development Party (AK Party) came to power, and subsequent privatization of major financial institutions and state companies provided for money flow into the budget. This, in turn, provided the state with extra income without being dependent on banks. Banks, accordingly, turned to the public in an attempt to earn money off people who are ill-informed about credit cards.

The global economic crisis and hikes in food prices made the use of credit cards necessary as the purchasing power parity's (PPP) influence decreased as a result of the global financial crisis. Banks earned money by lending to people who had no credit card history. Over five years, banks achieved considerable growth and despite the crisis, they are continuing to make huge sums of money.

However, according to Recep Seymen, a professor at İstanbul University, an economic crisis in Turkey is almost impossible. "Credit interest rates are very high and over international standards. The central bank is trying to keep interest rates high so that by controlling inflation they can keep the country out of crisis. The government's policy is 'low currency-high interest,' which minimizes the possibility of any crisis."

Consumer unions are ready to protect credit card customers. According to customer unions, it is unnecessary and can even be dangerous to use credit cards. According to Nazım Kaya, general director of the Customers Union, "Turkey is about to experience a major credit card crisis if it continues in this way." In his conversation with Today's Business, Kaya said: "We had credit card difficulties in 2006 also, but debt was not as high as this year. We see that people are determining their use of credit cards not according to their income, but rather according to the limits of their credit cards. They pay their credit card debts through other credit cards." He also noted that with this consumer psychology, as in the case of many Turks, every consumer could buy a Mercedes. "There are some people who are spending YTL 400-500 a day without considering their low income. I would like to advise consumers to spend in line with their budget. There needs to be some awareness and knowledge behind credit card use, which many do not possess," he stated.

In the midst of this credit card situation, Interbank Card Center (BKM) General Director Sertaç Özinal insists that Turkey has not experienced a credit card crisis so far. According to Özinal, Turkey's situation is much better in comparison to Europe and America. He also stressed that credit card debt per capita in the US is $5,500, while it is $639 in Turkey. (It it worth noting, however, that US income per capita is eight times higher than Turkey.) Furthermore, generally it is only urban Turks who use credit cards. The majority of Turkey's rural population, who don't use credit cards, are also being counted in this measure of debt per capita.

In 2002, the credit card income was YTL 24.5 billion, and the number of credit cards was 15.7 million. In 2007, it reached YTL 141.5 billion with 37.3 million credit cards. In the first six months of 2008, a credit card income of YTL 87.7 billion was recorded, along with 40.7 million cards. In the past six years, credit card profit by banks has multiplied eight times. Since last year, the number of credit cards has nearly doubled.

Acquisitions in Turkey have become more common. Recently, HSBC Bank purchased Demirbank, and a Saudi Arabian company bought Türkiye Finans bank. An article published July 22, 2001, in the Financial Times stated that bank acquisition by foreign companies was a milestone in the Turkish banking industry. Now in 2008, there are two Turkish banks with 100 percent foreign share (HSBC, BankEuropa). Denizbank has 75 percent, Fortis Bank 89 percent, Tekfenbank 70 percent and MNG bank 91 percent foreign share. Overall, foreigners control 40 percent of all banking transactions in Turkey. This is due to the attractive and profitable nature of the Turkish banking industry. Considering the primary source of profit to be from credit cards, it is obvious how foreign banks would consider it beneficial to operate in Turkey.

New Turkish currency disclosed

The Turkish Central Bank will put into circulation the country's new currency the "Turkish Lira" (TL) replacing the "New Turkish Lira" (YTL) as of the beginning of 2009, the bank's governor Durmuş Yılmaz said on Wednesday. İstanbul, Today's Zaman

Lehman Brothers: Turkish economy proves resistant

Lehman Brothers, a global investment bank, has said although the Turkish economy has remained strong thus far in the face of the global economic crisis, this may not last for long. In its weekly study on emerging markets, Lehman Brothers stressed that the markets in Turkey had proven resilient against the global credit crisis and that no liquidity squeeze has been detected so far. The study pointed out that this would not last forever, as the Turkish economy is dependent on foreign markets to a great extent. Therefore, any radical change in international capital movements will be reflected in the Turkish markets as well.

The Lehman Brothers' study further underlined a recent change of target inflation rates by the Central Bank of Turkey. The central bank set a target of 7.5 percent for the end of next year, 6.5 percent for 2010 and 5.5 percent for 2011, though a target of 4 percent had previously been set for these years. Lehman Brothers claimed that these new targets will still be hard to reach, since the economy's agents think the central bank has lost its credibility. Lehman Brothers also predicted that the positive effects of the Constitutional Court's decision to not ban the ruling Justice and Development Party (AK Party) on the Turkish economy will continue in the short run. **Ankara** Today's Business with wires

FT: Turkey gets fund boost as crises blow over

Fund managers are increasingly upping their exposure to Turkey, as political and economic pressures have eased over the summer, the Financial Times reported last week. The main factor of the increased fund flow is cited by the Financial Times as the Constitutional Court's decision in July to not close the ruling Justice and Development Party (AK Party) in a closure case that was filed against it in March. "Since then, the high court has ruled the [AK Party] is legal, which has ended the political risk. Oil prices have come off their peak, which helps Turkey's current account. And the central bank has removed the credit tightening it had put in place. All this has eased the problems, and valuations have been looking cheap," Ghadir Abu Leil-Cooper, head of the emerging Europe, Middle East and Africa team at Baring Asset Management, told the Financial Times.

Stuart Richards, manager of the 25 million pound Hexam Emerging European fund, raised his portfolio's Turkey weighting from 6 percent to 18 percent in July and its exposure is now 19.5 percent, the report said. "By June, most of the bad news had been priced into the market. What Turkey needs most of all is foreign capital, and its political stability and reform has attracted foreign investment," Richards added. He predicted Turkey would perform very strongly for the rest of this year. "Over the last month, inflation expectations have peaked, so the expectation of high interest rates is diminishing. The domestic economy has held up more than people were expecting, and second-quarter earnings have beaten expectations," Richards noted.

Elena Shaftan, head of Jupiter's emerging European equity team, said, "Falling oil prices should improve the macro outlook for Turkey -- a $10 decline in the oil price is estimated to improve the current account balance by $500 million and reduce inflation by approximately 0.5 percent." **Catawba, Wis.** AP

Gold to scale new peaks as mining costs grow

Gold prices are likely to scale new peaks as market fundamentals tighten because producers need at least a 20 percent rise in bullion prices just to make new investment viable, a leading fund manager said. "Gold mining is a very complicated and expensive business and you really need to see the gold price a lot higher before you see any increase in gold production," Ian Henderson, who manages around $5 billion at JP Morgan's Global Natural Resources fund, told Reuters. "(Gold) should have a sustained price level of over $1,200 an ounce before we see any significant new mine build," he said.

His concerns over miners' margins echoed those of Gold Fields chief executive Nick Holland, who told Mining Weekly the company would need to see a gold price of $2,000 an ounce to replace its infrastructure. "We love gold. We have a substantial part of our portfolio in gold mining companies," added Henderson. "I think the gold price will surpass its previous peak." Gold prices hit a high of $1,030.80 an ounce in March.

The platinum market was also looking "fantastic", Henderson said. Prices have slipped by more than a third since they struck a record high of $2,290 an ounce in March, leading a number of analysts to suggest the precious metal may have been oversold. "The platinum market is going to be in deficit until probably 2010 -- and that means prices will continue to be high," said Henderson. Fears over the outlook for the automotive sector, which consumes around a third of the world's platinum each year for use in catalytic converters, may have been overstated, he said. "The changes in emission legislation for buses and commercial vehicles within Europe are going to be rolled out across the planet," he said. Meanwhile global production, which is expected to be curbed this year by an ongoing power shortage in major producer South Africa, is expected to remain under pressure. **London** Reuters