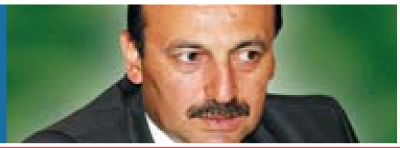
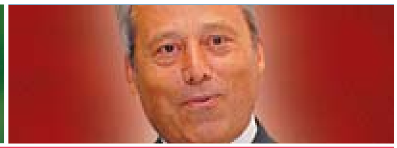
‘BANKING ON TURKEY’ SPECIAL SUPPLEMENT BY TODAY'S ZAMAN IN ASSOCIATION WITH THE FINANCIAL TIMES

TODAY'S BUSINESS

THURSDAY, NOVEMBER 15, 2007 WWW.TODAYSZAMAN.COM





13 Current state of Turkish financial system

15 ‘Past, present and future of privatization,’ by ÖİB Chair Kilci

12 Türkiye Finans: We will serve Turkey much more actively

FOREIGN SHARE IN BANKING IS OVER 40 PERCENT WITH HOLDINGS IN STOCKS

Turkish banking sector beckons investors

İBRAHİM TÜRKMEN, İSTANBUL

Having taken its lessons from the 2001 crisis, called by many the most severe blow to Turkey's economy in the republic's history, Turkey's financial industry has since witnessed considerable positive developments. A strict restructuring program conducted by the Banking Regulation and Supervision Agency (BDDK) was definitely the most important factor behind the recovery, but unprecedented macroeconomic developments have also played a key role in the upturn. Within just a few years Turkey's financial markets have become an attractive investment magnet for world players.

Recent movements of shares on the İstanbul Stock Exchange (İMKB) clearly show the rising strength of the banks and justify their positive perception by foreign investors. In October banks were the top performers at the exchange, where they rose 16 percent, while the benchmark İMKB-100 Index was up by only 7 percent. Yapı Kredi enjoyed the biggest increase with 21 percent. Garanti Bank followed it with a 19 percent rise, Akbank with 19 percent, İş Bank with 12 percent and VakıfBank with 10 percent. These figures gain their real meaning when it is considered that more than 70 percent of the money in the stocks belongs to foreigners. Analysts expect this trend to persist in the short and middle terms as well. Currently 14 banks are being traded on the İMKB and their overall average free float is reported to be around 33 percent. With $195 billion dollars in assets, these publicly owned banks constitute about 62 percent of the Turkish banking sector.

The success of the rehabilitation was evident during two recent periods of global turbulence. The first wave hit the economy in May 2006 and caused domestic financial markets to stumble. The Central Bank of Turkey immediately took stringent measures -- raised interest rates by several points in two consecutive instances -- so that the harsh conditions remained in Turkey's favor. The second turbulence -- triggered by sub-prime US mortgage loans -- knocked on the door this summer, during loud political racket in Turkey due to the storm that erupted around the presidential elections. Again the delicate steering by management led the economy to safe haven. During these periods, the interest of foreign investors remained strong despite seemingly waning a bit. CONTINUED ON PAGE 06

Kürşad Tüzmen

Turkey dreams big in foreign trade

KÜRŞAD TÜZMEN

STATE MINISTER FOR FOREIGN TRADE

A little over five years ago, the prospects for the Turkish economy looked bleak. With a weak coalition government at the helm, Turkey tumbled through two major economic crises, suffered from chronic high inflation, unbearably high interest rates and the implementation of half-hearted, incoherent policies. Early general elections were on the agenda, and the political landscape was heading for upheaval.

The November 2002 elections resembled a political big bang. The three parties constituting the ruling "troika" lost all their seats in Parliament; they were obliterated. The Justice and Development Party (AK Party) won a landslide victory, gained a huge majority in Parliament and established a strong government with clear goals and rational priorities. CONTINUED ON PAGE 14

Poised for growth: Islamic finance sector in Turkey

PAUL WOUTERS, İSTANBUL

Attracting more foreign investment from the Gulf region is what the Özal government had in mind when opening the Turkish financial market to the special finance houses back in 1983. Few realized the importance of this step for the future or predicted what is happening today worldwide. Back then it was not even certain that Islamic finance would outgrow its infancy stage.

Today, Turkey's Islamic banking sector, called "participation banking," offers one of the biggest secular Islamic finance markets in the world, both in market penetration and in absolute US dollar values. CONTINUED ON PAGE 10 & 11

Foreign blood flowing through veins of domestic banks

ANTHONY SKINNER, İSTANBUL

Once debt-ridden, Turkey's banking sector now constitutes a solid pillar of the economy. The 2001 economic crisis was precipitated by a fragile banking sector and non-performing bank loans, forcing a shake-up in the Turkish finance industry. Despite the more recent global economic volatility, Turkish banks have remained largely un-phased. The majority now have a backbone of sound banking fundamentals following years of banking reform and a string of mergers and acquisitions. CONTINUED ON PAGE 05

PHOTO AP

Turkey's two largest holdings, Sabancı and Koç, are also leading banking with Ak Bank and İş Bankası, with headquarters located in Levent next to each other.

HEART OF TURKEY'S BANKING BEATS AT HUB OF FINANCIAL WORLD

FARUK CAN, İSTANBUL

The highly respected Financial Times is organizing a breakthrough event in London on Nov. 15 to discuss Turkey's economy and the Turkish banking system in particular.

"Banking on Turkey" will bring together around 250 senior executives and institutional investors from international banking organizations, investment banks and stock exchanges worldwide. Among participants are asset managers, general managers from commercial banks, finance directors, lead managers and heads of fixed income and capital-raising departments of banks, regional heads of major banks for Central Asia and the Commonwealth of Independent States (CIS), and credit and banking analysts. Rating agencies will also occupy seats at the discussions. The FT, based on this high-profile group of experts, justly claims that "only the most senior delegates of distinguished global investor companies are attending." This prestigious platform will form a base for the analysis of the characteristics and developments in Turkey's banking industry.

Turkey's economic performance is a secret no more: Everyone has learnt how well Turkey has performed for the last five years. CONTINUED ON PAGE 09

A dynamic country destined to emerge

GÖKÇE KABATEPE*

The first basic rule in economics for a transaction to take place is the existence of a buyer and seller and a price range acceptable to both parties. The past economic conditions in Turkey and in the world have limited the existence of buyers in the Turkish market; however, the transition period we have observed in recent years has resulted in the emergence of an adequate number of qualified buyers that are willing to enter or increase their exposure to the Turkish market and also an increasing number of Turkish stakeholders who are willing to dispose of their assets at the current price levels.

When a country is going through a transition period in terms of attracting foreign investors, foreign capital flows into liquid assets first, followed gradually by investments into more illiquid assets over a certain period of time. CONTINUED ON PAGE 02

TURKEY CONTINUES TO EMERGE

CONTINUED FROM PAGE 1

This is mainly due to the fact that as the favorable macroeconomic conditions and stable political environment of a nation persist over a long period of time, more long-term investors begin to invest into that country's assets.

We have been observing a similar trend in Turkey over the last five years. Most foreign investors in the Turkish market were interested in fixed-income securities due to the high interest rates offered by the Turkish Treasury, which is still an attractive investment tool for investors although not as popular as it was in the past. After fixed-income instruments, foreign investors, mainly institutional funds, started increasing the weight of Turkish stocks in their portfolios. Foreign ownership of shares listed on the İstanbul Stock Exchange (İMKB) was around 50 percent of the total market capitalization of the exchange back in 2004. This ownership figure had climbed to an all-time high of 72 percent as of September 2007.

Public companies' equity is among the most liquid asset classes available in a country. Thus it makes sense for foreign investors to primarily show high interest in this asset class. Real estate is next on the liquidity ladder. As we have witnessed, real estate prices started to increase significantly, especially in major Turkish cities, during the last three years. We have been observing more and more foreign real estate fund activity in this segment of the market.

Direct investments in private companies are the next step as investors start feeling more comfortable with the investment environment in that country. This is what we have been experiencing in Turkey since 2005, enjoying three consecutive years of over $20 billion in foreign direct investment. Finally, we expect more Greenfield investments in the next five years as improvements in legislation and regulation also pave the way for more foreign capital with longer term strategies.

A stable political environment and significant developments in the Turkish economy have led to a substantial increase in foreign direct investments in Turkey, especially between 2005 and 2007. The total investments, including mergers and acquisitions realized in Turkey between 2002 and 2004, amounted to around $4.5 billion for the three-year period. This figure increased to $30.4 billion in 2005, with a total of 164 transactions. The main reason for this sharp increase in mergers and acquisitions was the fact that the government completed a significant portion of major privatization projects during this year. Among the completed privatization projects, which amount to over $15 billion, were Turk Telekom, Tüpraş and Erdemir. The foreign direct investment appetite continued at a strong pace in 2006 as well and roughly $20 billion in investments and acquisitions were successfully completed.

PHOTO □ MUSTAFA KİRAZLI

Supported by the favorable investment environment, many foreign investment banks, boutique M&A houses and private equity houses opened their own offices in the Turkish market, which proves the high interest of foreign investors in the Turkish market. As a result of the increasing number of mergers and acquisitions, not only foreign companies but also local Turkish companies have started to work with financial advisors in their strategic and financial investments.

The merger and acquisitions activity has maintained its positive trend for 2007, and it seems that the total amount of investments and mergers and acquisitions will surpass the previous year. Most of the larger projects and investments are completed on the acquisitions front, as big-ticket assets in the privatization portfolio have been sold. Most of the large assets, such as major banks, and significant sales by the Savings Deposit Insurance Fund, such as Telsim's sale to Vodafone, are completed. However, we foresee that in the near future the number of acquisitions and mergers will increase, although the average deal size may decrease. Moreover, the Privatization Administration (ÖİB) still has important assets to be privatized, such as TEKEL, energy distribution assets, energy generation assets, and toll roads and bridges. These privatizations, coupled with a larger number of mid-sized transactions in the private sector, will keep foreign direct investment as the most important financing tool for Turkey's large current account deficit.

Taking into consideration Turkey's location, most of the interested investors in the Turkish market are from the neighboring European and Middle Eastern regions. In Turkey, where $10.5 billion in M&A projects were completed in the first half of 2007, both foreign and local investors were interested mostly in the following sectors: energy, finance, real estate, service, tourism, food, retail, media and pharmaceuticals. An interesting aspect of the completed projects in 2007 is the increasing number of acquisitions of small-to-mid size players in different sectors of the Turkish economy by foreign investors.

A low inflation rate, high growth and economic stability helped the investment environment in the country, and major acquisitions such as Oyakbank's sale to ING and major port and airport investments by foreign parties also took place in the first half of 2007, despite the political ambiguity in the country before twin elections.

In Turkey, the parties involved in most of the completed merger and acquisition projects were strategic investors until very recently. With its improving economic stability and attractive growth potential, Turkey has become an attractive market for financial investors as well, who invested more than $400 million in the first half of 2007 by completing eight announced projects, proving their high interest in the Turkish market. Even some Turkish companies -- mostly conglomerates and subsidiaries of banks such as FIBA Capital, Is Venture Capital, Turkven and Esas Holding -- have opened their private equity offices to benefit from this environment, offering high returns for investors. We believe that as more exits occur from the already invested portfolios of private equity funds, Turkish shareholders will start believing in the advantages of private equity funds and that more transactions involving financial investors will be completed in the near future.

In conclusion, we foresee foreign investments to Turkey both by strategic and financial investors continuing at an accelerated pace in the near future, driven mainly by the stable economic conditions and high growth potential of the country.

**Investment banking managing director, Raymond James Securities.*

Investing in Turkey's banking boom

European investors are especially bullish on Turkey while the optimism expressed about future flows shows that its performance is not a one-time phenomenon but could be the beginning of a trend. The EU process is another asset contributing to rising interest

AYKUT DEMİRAY *

PHOTO□KÜRŞAT BAYHAN

In recent years Turkey has been one of the emerging markets that have benefited from favorable global liquidity conditions. Beginning in 2002, Turkey adopted a new economic program supported by the IMF. In addition to the stimulus provided by the program, steadily increasing capital inflows enabled the Turkish economy to grow well above expectations and reach an average annual growth rate of 7.5 percent during the 2002-2006 period. In the first half of 2007, the growth rate attained a level of 5.2 percent and is anticipated to be around 5 percent by year's end.

In the 2002-2006 period, Turkey's foreign trade volume almost tripled. In the first nine months of 2007, the increase in exports was higher than that of imports. During this period, cooling domestic demand, a vigorous export market and a rise in tourism revenues supported the improvement in the current account deficit. Thus, the current account deficit equaled $26 billion in the first nine months of 2007, 52 percent of which was financed by foreign direct investment (FDI).

Despite the increases in international oil prices, the implementation of tight fiscal policy and the appreciation of the lira supported a downward trend in inflation during the 2002-2006 period. The consumer price index (CPI) declined to single digit levels, and the annual CPI was 7.7 percent as of October 2007. Turkey's Central Bank forecast inflation to be around 7 percent at the end of 2007. In 2006, budgetary performance was also impressive. The budget deficit to GNP ratio receded to 0.7 percent, which was well below the Maastricht criteria, thanks to tight fiscal policy and the continuation of growth. The net public debt to GNP ratio decreased to 45 percent in 2006 from 55 percent in 2005.

Rise in capital inflow

The prospect of EU membership as well as economic and political stability boosted foreign investor interest in privatization. During 2005-2006, the total amount of finalized privatizations reached $16 billion. Meanwhile, FDI increased significantly from $8.9 billion in 2005 to $19 billion by the end of 2006. Thus, financing quality of the current account deficit improved as the share of FDI and long-term capital increased. In the first nine months of 2007, the total amount of finalized privatizations was realized as $4.2 billion, and FDI reached $13.5 billion. As of the end of 2007, it is estimated that FDI inflows could easily reach $20 billion. Improvements in the macroeconomic environment, the achievement of structural reforms and the EU accession process have contributed remarkably to the resilience of the Turkish economy.

In 2007, Turkey climbed five places to rank 53rd in the Global Competitiveness Index released by the World Economic Forum. Turkey also displayed a remarkable improvement in business. According to the latest Foreign Direct Investment Confidence Index, an annual survey of executives from the world's largest companies conducted by global management consulting firm A.T. Kearney, Turkey was ranked as the 13th most attractive market. The survey also states, "European investors are especially bullish on Turkey while the optimism expressed about future flows shows that its performance is not a one-time phenomenon but could be the beginning of a trend." Turkey jumped up to 11th place from 20th in the banking sector, with more than one in four sector investors saying that their outlook on Turkey was more positive. Turkey ranked seventh in the list of countries in which investors are considering first-time investments over the next three years. The potential for EU accession and reforms under the IMF-supported stabilization program helped to push the country up in the Index.

Turkey decided to restructure its banking sector four years before the start of EU accession negotiations. After the twin crises in 2000 and 2001, the banking sector went through a large-scale consolidation process. During the 2000-2006 period, the number of banks declined from 79 to 46. The number of branches and the number of employees decreased significantly; however, the number of branches and employees in the banking sector started to improve in 2003.

Economic recovery and political stability led to rapid growth in the Turkish banking sector, which had experienced a severe contraction in 2001 due to the crisis. A remarkable growth performance has been displayed in asset size, shareholders' equity, loans and deposits for the last five to six years. A low inflation environment stimulated both the demand for and supply of loans. The increasing share of loans in total assets, the decreasing NPL (non-performing loan) ratio and the declining share of marketable securities in total assets indicate the healthy improvement in the banking sector. Following the crisis, concentration in the banking system intensified and the share of the largest five banks in total assets, deposits and loans followed an increasing trend.

The Turkish banking system still offers significant growth potential when compared to EU countries. In fact, the ratio of Turkish banks' assets to GDP was around 85 percent as of year-end 2006, well below the EU average, which is approximately 320 percent. In the near future, the environment of sustainable growth, low inflation and declining intermediation costs are expected to support further growth in total assets, loans and deposit volume of the banking system.

Rising foreign share in banks

Foreign banks have a long background in Turkey. The share of assets controlled by foreign banks is around 12 percent. The expression of "foreign banks" here refers to those banks for which the share of foreign capital in total capital exceeds 51 percent. Bearing in mind that there are many banks with foreign capital shares of less than 51 percent, the foreign presence in Turkey actually proves to have much more significance. In this sense, the share of foreign banks in total assets rises to 22 percent. This figure reaches nearly 40 percent when the foreign share in banking stocks listed on the İstanbul Stock Exchange (İMKB) is taken into account. Within the context of EU membership, foreign banks' interest toward the Turkish banking system is increasing. However, foreign involvement in the Turkish banking system is expected to remain lower compared to central and eastern European countries.

Foreign investments in the Turkish banking system have gained momentum since the beginning of 2005. The total worth of foreign banks' merger and acquisition activities amounted to around $17 billion during the 2005-June 2007 period. In Turkey, banking penetration is at low levels. Sustainable growth and a low inflation environment is expected to support the growth potential of the banking system.

Credit volume takes off

Lower levels of PSBR (public sector borrowing requirement), interest rates and intermediation costs will accelerate the boost in credit volume, especially in the housing sector. The market for housing loans, more specifically "mortgage" finance, started to expand rapidly since 2004 in line with the fall in interest rates. The mortgage market has significant room for further growth in the future if the PSBR decreases permanently and the interest rates become stable at lower rates.

Although the population growth rate of Turkey displays a declining trend, it is still higher than that of the EU member states. The young and dynamic population promises a significant growth potential for the economy and the banking sector. The increasing share of persons in the 15-64 age group also ensures that the bank-using population in Turkey will continue to expand in the long term.

Besides the outstanding developments in profitability, capital adequacy and financial intermediation, the banking system in Turkey has important strengths that support the healthy growth potential in the near future;

- a well-educated and experienced work force
- high-level adoption of latest information technologies
- a wide array of alternative distribution channels
- competitiveness in terms of product/service design and differentiation
- experience in the European market

The presence of foreign investors in Turkey, and in the Turkish banking system in particular, will continue to enhance the competitive environment and will be a supportive factor in pursuing international standards and quality among businesses in Turkey.

(*) Türkiye İş Bankası, deputy chief executive

Turkish M&A and private equity environment

LEVENT BOSUT*

Global mergers and acquisitions (M&A) activity has continued to grow, breaking records through the first half of 2007. This time, financially backed deals constituted a quarter of the total, while at the peak of M&A activity in 2000 before its collapse, the share of private equity was only 10 percent.

The excess liquidity in the markets over the last five years resulted in loose credit markets, larger private equity commitments, more and larger deals, easier financing and thus higher valuations. After the developments in the sub-prime mortgage market and their implications for the financial markets, in spite of the reaction of central bankers around the world, we can predict that the availability of credit at these loose terms will not continue.

We already observe that financing for some private equity deals is getting much tougher. We can predict the increase of the share of private equity in total M&A activity slowing down or even falling in the next few years. The difficulties would be more prevalent in larger deals aggressively financed with debt. However the effects in Turkey may not be that strong for the country specific and deal specific reasons.

Turkey characteristics

With a population of 75 million, Turkey is the second largest market in Europe after Germany. With an increasing per capita income currently at $5,500 and a population growth of 1.6 percent, Turkey has room for growth. Turkey has a unique geographic location that enables it to export directly to the EU, Africa and the Middle East.

After a deep economic crisis in 2001, the Turkish economy has shown an outstanding performance in the last five years with an average GDP growth of 7.2 percent in the 2002-2006 period, the third best performance in the world after China and India. Substantial progress in macroeconomic stabilization, institutional reform and political stability has laid the foundations for such strong GDP growth, while private investment, which has boomed with increasing investor confidence and productivity gains, were the main sources of growth. In 2006 Turkey's GNP reached $399.7 billion, with a volume of international trade at around $220 billion, consisting of exports of $85 billion and imports of $135 billion. Inflation, which has hovered within the 7-10 percent range since 2005, was just below 10 percent as of year-end 2006 and is expected to be around 7 percent in 2007.

Considering future prospects, Turkey, situated at the heart of Euro-Asia, is expected to continue its growth at an average of 5 percent, offering tremendous opportunities for foreign investors with its young population, sectors with low penetration levels, developed infrastructure, well-established and liberalized financial structure and competitive, skilled labor force.

Booming M&A and FDI environment

In recent years Turkey has become one of the most attractive investment target regions in the world after decades of being left behind. The total M&A activity including all privatizations was at a record level of some $38 billion in 2005, about 10 percent of its GDP, and the FDI level has been around $8.6 billion. In 2006 M&A activity including privatizations realized $17.8 billion, whereas the FDI level doubled compared to 2005. In the first quarter of 2007, M&A activity and FDI reached $6.5 billion and $8 billion, respectively.

PHOTO AA

More mergers are taking place in Turkey nowadays as a by-product of the stability in the economy. The picture shows Sabancı Holding Head of Financial Services Group Akın Kozanoğlu (second from right) and the President of Aviva Europe Tidjane Thiam shaking hands to celebrate the merger between Aviva and Ak Emeklilik.

Private equity has finally become active during this period. The total commitments recently increased from around a few hundred dollars to more than $4 billion, with a few funds targeting Turkey consisting of more than $400 million each. In addition to the incumbent players, large private equity funds are also chasing deals in Turkey.

The deals in Turkey are not financed heavily with debt. Starting from a low base, we predict the private equity activity in Turkey will not be significantly affected by the liquidity crisis in the world.

Demand drivers of the Turkish M&A market

■ The latest trend of global M&A is aimed at building core strengths and geographic expansion. Parallel to this trend, the positive developments in the Turkish economy and investment environment and Turkey's accession process with the EU are attracting both local and international financial and strategic investors. Furthermore, as a single European market is emerging, the multinationals that would like to build a stronger pan-European competitive position are expanding geographically, especially into emerging markets, with Turkey being the front runner.

■ As the conditions of economy and the investment environment are changing, financing deals in Turkey is becoming easier than ever. The interest rates are decreasing and Turkey is becoming investment grade. Turkish banks, which used to finance the Treasury, have started to focus on lending to the public. From the local and international lenders, new financial instruments like acquisition financing and mezzanine financing came onto the scene, which used to be non-existent.

■ After being hit with the financial crisis of 2001, the remaining Turkish firms became more productive, competitive and profitable, building strong balance sheets, and with their financing abilities are becoming potential buyers. Many Turkish industrial companies are chasing deals not only in the neighboring region but also in Western Europe and the US.

■ Turkish individuals who are used to high returns from government securities are now looking for alternative investment vehicles. For example real estate has appreciated considerably. Some of these wealthy individuals and groups are trying to enter business by acquiring firms.

■ There used to be only a few Turkish conglomerates that would acquire companies. Now there are many groups emerging as new aggressive players in the economy.

■ There are new international investor groups that are emerging from the East and South, rather than the West:

- Gulf area investors, which are benefiting from high oil prices and which have pulled back from the US, are investing in Turkey.
- Outward-looking Russian companies and groups, Far Eastern companies, and Indian and Chinese companies that are interested in distribution networks will also be the new class of investors in Turkish assets.

Supply drivers of the Turkish M&A market

■ Long-awaited privatizations provided the majority of the flow in recent years. Between 1986-1994 and 1995-2002, state revenues from privatizations were $2.3 billion and $5.8 billion, respectively, whereas from 2003-2006 privatizations amounted to a total of $17 billion. Of this total privatization revenue 73 percent was from block sales and 13 percent from IPOs. The remaining revenue was generated from asset sales and transfer of operating rights of certain facilities.

■ As a result of the banking crisis in 2001, the Savings Deposit Insurance Fund (TMSF) took over the failed banks for sale, merger or liquidation, which cost the government some $50 billion (30 percent of 2002 GNP). The TMSF has been one of the major dealers in the market. Companies and other assets held by the owners of failed banks were one group of available targets. Similarly a number of banks taken over by the TMSF were sold to domestic and international investors.

■ Non-performing loans of the private and state banks and TMSF-owned banks are also another source of transactions. Most of these loans were restructured under the Istanbul approach. Some of these assets are being diminished, but many of them may be in the market in the next few years.

■ Competition is becoming increasingly important as inflation decreases; the Turkish economy is more integrated with the global economy due to international trade and multinational companies operating in Turkey. As a result of increasing competition, we expect and observe:

- more consolidation
- conglomerates selling non-core assets to concentrate on fewer industries
- weaker companies to become targets
- local companies to become increasingly acquisitive locally and internationally to take advantage of economies of scale, acquire core strengths and expand geographically

■ Now that there is a more viable M&A market and interest from both local and international investors, the owners of companies are reconsidering sale of their companies due to succession problems, capitalizing on the assets and diversification of their wealth. Many brought the companies to a level where a new international partner or owner could carry the company to a next level.

Characteristics of deal-making in Turkey

Deal-making in Turkey is not much different than that in other developed markets. There is a good source of professional advisors, corporate finance advisers, lawyers, HR firms, and tax advisory and audit firms. Most senior managers speak English, and there is an increasing degree of professionalism in the firms. Still, there are peculiarities in deal-making in Turkey. Accounts may not reflect the true performance of some companies. Similar to but more than other parts of the world, private owners may be difficult to deal with as they may change their minds quite often. Even though inflation is much lower than before, there still may be big differences between various accounting standards.

Chairman of the board, Turkish Private Equity & Venture Capital Association and Managing Partner PDF Corporate Finance

Foreign blood flowing through veins of domestic banking sector

As much as 46.3 percent of total banking sector assets are held by entities that are partially owned by foreign investors, while 8.1 percent of total banking assets are wholly owned by foreign investors, according to Turkey's Banking Regulation and Supervision Agency. This leaves 45.6 percent of total banking assets in the hands of domestic investors

CONTINUED FROM PAGE 1

Foreign entities have meanwhile looked for a piece of the action in Turkey. The portion of banking assets owned by foreign entities testifies to the confidence that exists in Turkey as a banking investment destination, with foreign banks injecting an extra dose of competition into the market.That comes despite low business margins and tough competitors. As much as 46.3 percent of total banking sector assets are held by entities that are partially owned by foreign investors, while 8.1 percent of total banking assets are wholly owned by foreign investors according to Turkey's Banking Regulation and Supervision Agency (BDDK). This leaves 45.6 percent of total banking assets in the hands of domestic investors.

Insiders meanwhile point to the massive expansion of banking assets but reduction in bank numbers over the last six years. The total asset size of the banking system increased from $117 billion in 2001, when 61 banks operated in the market, to $133 billion in 2002 with 54 banks and $357 billion in 2006 with 47 banks, according to the BDDK.

Tayfun Bayazıt, CEO of Yapı Kredi bank -- Turkey's fourth-largest privately owned commercial bank by asset size -- told Oxford Business Group, "What we have seen in the past few years is that supervisory standards have improved substantially and risk regulations have improved significantly." He went on to say, "This is not only due to the rules and regulations brought in by the BDDK but also by international players that have expedited the process."

Foreign banks have streamed into the market over recent years. France's BNP Paribas bought a 42 percent stake of TEB for $217 million in February 2005, followed by the 89 percent stake acquisition of Dışbank by Belgium's Fortis for 882 million euros in July of that year. The 25.5 percent share sale of Garanti Bank to the US General Electric Consumer Finance for $1.8 billion also made local headlines in December 2005.

Other big acquisitions include that of the National Bank of Greece, which bought a 46 percent stake of Finansbank for $2.7 billion in April 2006. In May 2006, Belgium-French Dexia paid $2.4 billion for a 75 percent stake in DenizBank, followed by the 100 percent takeover of Oyak Bank by the Netherland's ING for $2.6 billion in June 2007. Then in July, Saudi's NCB bought a 60 percent share of Turkey's Islamic lender, Türkiye Finans, for $1.08 billion.

While private sector banks will look to increase their share of the banking pie in Turkey, few big-fish public banks are left for angling. Local and foreign banks have their eyes fixed on government heavyweight Halkbank for which a 25 percent initial public offering (IPO) was made in April 2006, with the postponement of a much-anticipated block sale. State owned Vakıf Bank -- which earned a massive $1.28 billion for its 25.18 percent IPO in 2005 -- and Ziraat bank, are unlikely to be privatized in the near-term in view of their strategic importance to the government. Ziraat, for one, provides agricultural loan products to farmers.

"If Halkbank goes then it is possible the government will hang onto the other two," Tevfik Aksoy, director and chief economist at Deutsche Bank's Turkey office, told the Oxford Business Group. "The main period of foreign buying is over."

Some bankers expect greater consolidation of the sector. Ömer Aras, CEO and chairman of Turkey's Finansbank, recently told the press that the period of acquisitions has almost ended in the Turkish banking sector and mergers would be the next trend. It would appear that excitement in the sector is not over yet.

TODAY'S BUSINESS
Thursday, November 15, 2007

Owner on Behalf of Feza Gazetecilik A.Ş
ALİ AKBULUT
Chief Executive Officer
EKREM DUMANLI
Editor-in-Chief
BÜLENT KENEŞ

Editors İBRAHİM TÜRKMEN, FARUK CAN
Chief Marketing Officer YAKUP ŞİMŞEK
Deputy Chief Marketing Officer BEYTULLAH DEMİR
Brand Marketing Director İSKENDER YILMAZ
Advertisement Sector Managers AHMET BOYACI, EMEL DAVARCI, HARUN TAZEGÜLLÜ
Responsible Manager and Repressentative of the Owner ALİ ODABAŞI

Public Relations Contact Information: 0212 454 84 54, Address: Today's Zaman, 34194 Yenibosna, İSTANBUL. Phone: +90 212 454 1 444 Fax: 0212 454 14 97, Web Address: http://www.todayszaman.com, Printed at: Feza Gazetecilik A.Ş. Tesisleri. Advertisement Phone: +90 212 454 82 47, Fax: +90 212 454 86 33. Today's Business abides by the rules of press ethics.

TURKISH BANKING SECTOR BECKONS INVESTORS

PHOTO AA

Constituting 17 percent of the total banking industry in Turkey in asset size, public banks are whetting the appetites of investors. The picture above shows Kemal Unakıtan (second from right) talking about the privatization procedure to be followed during the initial public offering of Halkbank.

CONTINUED FROM PAGE 1

For Turkey's bankers, the most eye-catching development in the post-2001 era has been the expansion in the loan supply of banks and the change in the distribution of loans. The rate of total loans delivered by banks over the gross national product (GNP) was 19 percent in 2002, but 40 percent as of September 2007. The amount of loans used by corporations over the GNP has augmented from 16 percent to 27 percent in the meantime.

Similarly the rate of individual loans over the GNP has also risen -- from 3 percent in 2002 to 13 percent in September 2007. The biggest share belongs to individual home loans with 33 percent.

There are 6 million people currently indebted to banks for consumer loans. Moreover, the total number of credit and debit cards is over 90 million. Turkish banks have 7,000 offices across the country. They own 17,000 ATMs. Internet banking is also on the rise. The total number of customers using the Internet for their banking services has already exceeded 4 million according to the latest figures provided by the Turkish Banks Association (TBB). The same figures show that the amount of transactions completed over the Internet has reached YTL 117 billion.

A recent study jointly prepared by the European Financial Management and Marketing Association (EFMA) and the Germany-based System, Applications and Products in Data Processing (SAP) has made visible the potential of Turkey's financial markets. This study aimed to provide a factual basis regarding the future of banking in Europe and was conducted through 366 bankers from 180 banks in 44 countries. According to the results of the survey, 19 percent of banks in Turkey are serving more than 10 million customers, but in the near future, 39 percent of them will have over 10 million customers. The survey also showed that 85 percent of all the banks in the world take growth and expansion as their core strategy while the remaining 15 percent see decreasing costs as being of paramount importance. However, none of the Turkish banks stated "decreasing costs" as their basic strategy objective: 100 percent cited growth as the most important strategic perspective for their future plans. A total of 52 percent of the banks operating in Turkey see winning new customers as the basic instrument for growth while 45 percent of the remaining adopt offering diversified products and services for the same aim.

The survey also showed that 81 percent of Turkish banks believe their information technology infrastructure will earn them a more competitive position in the next three years. Foreign banks have been in competition to grab a respectable position in the Turkish market. Amid discussions of putting a limit on foreign ownership in Turkish banks, with a limit of 30 percent a common suggestion, the foreign share in Turkey's banking sector has already passed this figure and reached 40 percent in the second half of this year, including the share holdings of foreign investors in the İMKB. Almost all the major global players -- Citigroup, HSBC, Deutsche Bank, ING, BNP Paribas and many others -- are running to guarantee a profitable penetration in the rapidly rising Turkish market.

This race seems set to heat up once again as the state starts its shares in Turkey's multi-billion dollar public banks. While the countdown to the privatization of these banks continues, more information is being publicized regarding the strategy to be followed with the sales. Economy Minister Mehmet Şimşek announced two weeks ago that the scheme and the strategy for the sale of Halkbank and VakıfBank will shortly be revealed. For him, the strategies are devised in a way to yield the biggest returns from the sales. Halkbank will be the first to be sold, according to Şimşek, and then VakıfBank's turn will come. The Privatization Administration (ÖİB) will hold the sole responsibility for Halkbank's privatization, but VakıfBank's management will conduct its own sale because of the distinctive regulations pertaining to the bank. Question marks look likely to remain over the future of Turkey's largest public bank, Ziraat, for some time, however. This giant financial institution, established 150 years ago to meet the financial needs of Turkey's agricultural industries, will be subject to sale after a comprehensive restructuring program. It is expected that as a part of restructuring, inefficient offices will be closed and the bank's non-core operations and subsidiaries will be terminated. The main point to determine future developments in foreign direct investments (FDI) seems to remain macroeconomic performance, which is expected to continue its positive trend in the middle term. The Turkish economy has outpaced European economies in performance, with an average annual growth of 7.4 percent between 2002 and 2006. It is the 17th largest economy in the world with its GNP reaching $400 billion. Its inflation appears to be contained between 5 percent and 7 percent after a fast plunge from chronic 80 percent levels in just a few years. Thanks to the tight fiscal policies and commitment to an austere stand-by program conducted with the International Monetary Fund (IMF), debt stock is no longer a matter of concern for the Turkish government. Despite this "too good to be true" picture, however, the current account deficit remains a headache. The deficit has approached $40 billion -- 7.5 percent of GNP.

The European Union accession process will be the other determinant in Turkey's success as a center of foreign investment in the future. This will also add to the level of competition in Turkish capital markets. The bigger the prospects are for full membership, the more important the virgin Turkish markets will become.

Most foreigners have also been eyeing the steps taken to install the mortgage system in Turkish financial markets. The legal infrastructure for mortgages has been completed following long studies by the committed Capital Markets Board (SPK). The new system will come into effect by the new year. As soon as it is welcomed by financial businesses, the SPK will start preparing the secondary legislation as well. For many experts the existing system is still too raw to handle mortgages effectively. For them, a sound technological infrastructure is also a must in addition to taking stringent measures to lower interest rates. Monthly interest rates for home loans hover between 1.2 and 1.5 percent -- raising annual compounded rates beyond 14 percent. These "high" levels are not feasible for a full-fledged operation of the system, analysts claim.

In the middle of such a positive environment, another issue now looms in many investors' minds: the possibility of a military incursion into northern Iraq. Although Turkey has frequently ensured the world that its step would be a limited action aiming only to terminate the Kurdistan Workers' Party (PKK) terrorist camps near the border and their bases in the Kandil Mountains, foreign investors are still suspicious of the risk of military action igniting a massive war between the mighty Turkish army and the Kurdish population in Iraq's north. This is viewed as a grave scenario by many foreigners, who are now in a "wait and see" mood.

Regardless of how frightening this scenario may be, foreigners still believe that it is a "temporary situation" and that Turkey will remain a major and attractive center for investment. Located in a strategic position exactly at the intersection point of two continents it forms a trade bridge between the producing East and the consuming West and an energy hub between the Middle East, Central Asia and Europe. Turkey will continue to develop in its role an indispensable actor in politics and economy on the global stage. More and more money has to flow in and through this region and banks will rise in importance as key players, enjoying healthy profits in the meantime. Considering the young and dynamic population of the country, one may easily say that the foreign interest in Turkish banks seems likely to continue -- at least for foreseeable future.

TEB supports education to mark 80th anniversary

The Turkish Economy Bank (TEB) celebrated its 80th anniversary yesterday with a focus on a project to provide education for girls. TEB announced its new project, titled "TEB's Educated Girls," which ensures the financial means for 1,250 girls who had to drop out of school to resume their education.

"Instead of marking our 80th year with a chic but soon to be forgotten activity, we wanted to do something great, leaving a permanent impact on society. This is how TEB's educated girls project came about. We want to brighten the futures of our needy girls, saving them from working in the fields, carrying water or being forced to marry at an early age," said Varol Civil, the general manager of TEB.

The funds for the project were all contributions from TEB employees, Civil underlined. He said the first target was to send 800 girls to school in the bank's 80th year, but then the project was expanded to support 1,250 schoolgirls for four years thanks to the interest shown by the bank's employees, which proved to be far beyond expectations. TEB will have contributed $1.6 million to education, Civil said. TEB general manager also pointed out that the year of establishment of the bank, 1927, also marked the birth of the lira. Civil said TEB is a dynamic and innovative bank, constantly accelerating its growth rate. "TEB, which has made its mark on the finance sector with its reliable and reputable services, has set bigger targets thanks to the global vision of its international partner, BNP Paribas," stated Civil. He said the bank has been growing increasingly more quickly since it started a strategic partnership with BNP Paribas, the biggest bank in Europe.

"Throughout this process, we focused on growth and profitability. We were not only the fastest growing bank in the sector; we also consistently increased our market share and our number of clients, branches and employees," said Civil. Civil also announced plans to extend TEB operations into nearby countries. "Once we complete our aim of opening branches in every province of Turkey, we are set to create a TEB that has operations in some neighboring countries." İstanbul Today's Business

Bank Asya: a true SME lender

When it was founded in 1996 as Asya Finans Kurumu A.Ş., Bank Asya was Turkey's sixth private finance house. In November 2005, new regulations in the Banking Act transformed private finance houses into participation banks. The name "Asya Finans Kurumu A.Ş." was changed to "Asya Katılım Bankası A.Ş.," also formerly known as Bank Asya, which is fully authorized to perform all banking activities in addition to holding a license to service leasing transactions. Bank Asya soon gained a respected position in the Turkish banking sector by means of its growing capitalization, strong profitability, solid funding and high-quality service. Bank Asya made rapid progress through stable and profitable growth after the 2001 economic crisis. Although it is Turkey's youngest bank, Bank Asya achieved 62 percent annual average asset growth, and with a 7.6 adjusted net interest margin and 28.8 percent return on average equity Bank Asya is by the most profitable bank in Turkey.

Bank Asya was established in accordance with the principles of interest-free banking and with an emphasis on product development based on this idea. Bank Asya's most important goal is to incorporate a customer-oriented approach, offering clients the best customer service possible along with the most advanced technology available, thus being able to bring interest-free banking to the masses.

As of June 30, 2007, Bank Asya became the largest participation bank in Turkey, as well as placing fourth based on non-cash loans, 14th in cash loans, 15th based on deposit size and 14th in asset size among the entire Turkish banking sector. Bank Asya provides a wide range of banking products and services through its headquarters and 107 branches with 2,886 employees.

Record interest in IPO

Ever since its establishment, Bank Asya has always maintained its multi-shareholder structure based on domestic capital. In May 2006 Bank Asya listed 23 percent of its capital through an IPO that attracted record-breaking interest of 50 times over subscription both in the domestic and in international markets. In this process, Bank Asya became the first participation bank in Turkey to go public and be listed in the Istanbul Stock Exchange (İMKB/ISE) under the ASYAB ticker. As of June 2007, the free float reached 40 percent, of which 80 percent is held by international institutional investors.

Bank Asya provides its individual, small business and corporate clients all their banking needs while meeting and exceeding their expectations. Besides the traditional access channels of the bank branches, Bank Asya provides Internet banking, "ALO ASYA" telephone banking, ATM and POS terminals, all with 24-hour service; all methods are fast and effective. In addition to the preceding, Asya is the front runner in several other areas as well.

Bank Asya was honored to be the first participation bank in Turkey to be assigned to act as an intermediary bank for the "GSM 102" and "GSM 103" programs of the Commodity Credit Corporation of the US Department of Agriculture. Furthermore, Asya is authorized to conduct international trade activities under Export Credit Agency coverage such as US ExIm, Hermes, Ducroire, etc. In addition to this, VISA international and MasterCard accepted Bank Asya as a principal member.

In 2007, Bank Asya successfully finalized its first murabaha -- a particular kind of sale compliant with Shariah wherein the seller expressly mentions the cost he has incurred on the commodities to be sold and sells them to another person by adding some profit or mark-up that is known to the buyer -- syndication, which closed well over demand at $175 million. Several other sources of long-term funding were generated as well in the form of a bilateral murabaha structure, which amounted to nearly $100 million. Bank Asya is successfully able to offset the effects of maturity mismatch by allocating loans.

On both the international and the domestic front, Bank Asya is very active in project financing. On the domestic side, the bank has issued guarantees for many of the largest projects in Turkey. From an international perspective, the bank has clients that are involved in development projects throughout the world. By having access to an affiliate bank network that is made up of more than 700 banks in over 100 countries and an expanding domestic branch network that will reach 200 in number by opening 25 new ones each year until 2011, clients can be sure that Bank Asya will be able to facilitate their activities virtually anywhere in the world. **İstanbul** Today's Business

PHOTO□M.ALİ POYRAZ

Key Financial Figures *

	2006	2007 Q2	Change (%)
Total assets	4,179	5,307	27
Cash loans	3,022	4,323	43.1
Non-cash loans	6,261	6,984	11.5
Deposits	3,201	3,982	24.4
Shareholders' equity	633	715	13
Paid-in capital	300	300	0
Net profit	49.02	82.66	68.63

* (YTL Million)

2007 Q2 key financial ratios (%)

Capital adequacy ratio	14.4
Return on average equity	28.8
Return on average total assets	4.1
Adjusted NIM	7.6
Cost/Income	41.2
Cash loans/Deposits	108.6
Cash loans/Total assets	81.5

Turkey climbs up 6 spots in global competitiveness ranking

Turkey jumped up six spots to 53rd place among 131 countries in the overall ranking of The Global Competitiveness Report 2007-2008, released by the World Economic Forum yesterday.

Last year Turkey was only ahead of Romania and Bulgaria among EU and EU-candidate countries. This year Turkey passed Croatia (57th), Greece (65th), Romania (74th) and Bulgaria (79th). Turkey was 59th among 125 countries last year.

The report said Turkey climbing up 21 places in two years, as it had also climbed 12 places last year over the preceding year, can be credited to reforms made after the 2001 economic crisis. Meanwhile, in the same ranking the US regained its status as the world's most competitive economy thanks to strong innovation and excellent universities.

The US rebounded from sixth place to knock Switzerland from the top spot in the "global competitiveness index." The Swiss were second this year, followed by Denmark, Sweden, Germany and Finland. The study by the Geneva-based forum said the United States was boosted by its close cooperation between universities and business on research and development and strict intellectual property protection, as well as efficient use of employees and investments.

But increasing public indebtedness in the United States threatens to hamper the country's growth, it said. "This danger has most recently been demonstrated by the fallout and contagion caused by the country's sub-prime mortgage crisis and the ensuing global credit crunch," said Xavier Sala-i-Martin, a professor of economics at Columbia University and one of the authors of the report. Sala-i-Martin said the weaknesses "present a risk to the country's overall competitiveness potential and to the global economy as a whole."

Switzerland was credited with an excellent capacity for innovation, a sophisticated business culture, outstanding scientific research institutions and strong intellectual property protection. Denmark and Sweden were ranked third and fourth respectively, followed by Germany and Finland. The Nordic countries -- traditionally strong in the report -- were praised for their budget surpluses and very low levels of public indebtedness. Germany's good performance is largely due to its high-quality infrastructure and the efficiency of its goods and financial markets, according to the report. The same positive elements also boosted Britain, which came in ninth.

More than 11,000 business leaders in 131 countries took part in the report, which ranked Singapore seventh, followed by Japan, Britain and the Netherlands.

China and India, two emerging economies, were in the middle of the 131-nation list. China has improved to 34th from 54th last year. Its competitiveness was based mainly on its large market and a stable economy with low inflation and high savings.

India's 48th-place ranking was mainly attributed to the high availability of scientists and engineers and good quality of scientific research institutions in an economy with a large market size.

At the bottom of the list were countries primarily in sub-Saharan Africa, such as Mozambique, Zimbabwe, Burundi and Chad.

The aim of the report is to examine the factors that can affect a country's business environment and development. Included are judicial independence, government favoritism and corruption.

PHOTO KÜRŞAT BAYHAN

Stability and trust made Turkey a magnet for foreign investors, giving rise to further growth. The consequence was a superb jump in its competitiveness ranking.

As part of the weak points in the United States, the report listed insufficient judicial independence and high security costs for businesses. It said the business community was particularly concerned about government favoritism in dealings with companies. But the greatest flaw was economic instability, according to the report. "The United States has built up large macroeconomic imbalances over recent years, with repeated fiscal deficits leading to rising levels of public indebtedness," it said. High budget and trade deficits were also cited among the key factors which made the US fall to sixth in last year's poll. The US was top-ranked in 2005. **İstanbul** Today's Business with wires

Heart of Turkey's banking beats at hub of financial world

FT Global Events offers timely and focused discussion platforms to illuminate investors on certain issues. This time the series is underlining the substantial change in the banking landscape in Turkey and is examining the causes of consolidation within the sector and audacious moves by foreign investors

CONTINUED FROM PAGE 1

It has seen a dramatic economic recovery, with its economy growing at an average of 7.4 percent annually since 2002. "Reinforced by a stable political environment, sound economic policies and a favorable external environment, Turkey has developed an increasingly confident and sophisticated financial sector driven by record levels of private consumption and investment" says the FT, explaining the rationale of arranging the conference.

As structural reform in the banking sector paved the way for foreign investors, more and more capital started pouring into Turkish markets. As of last year, for example, Turkey saw $20 billion in foreign direct investment (FDI). This amount has been steadily rising since 2001, when just $1 billion of foreign money was coming in annually. Both domestic and foreign investments were backed by the sweeping privatizations that have led to the overhaul of sectors such as telecommunications, industry, energy, utilities, retailing and real estate; however, banking was definitely the firm favorite. The foreign share in banking jumped from 3 percent to over 20 percent in a very short period of time, and today it is estimated that -- including shares being traded on the Istanbul Stock Exchange (İMKB) - foreign interests hold close to a 40 percent stake in ownership of the Turkish banking sector. Banks are still eager to have international capital to finance their growth strategies. Foreigners' money is also used in developing increasingly active and diverse capital-raising methods.

FT Global Events offers timely and focused discussion platforms to illuminate investors on certain issues. This time the series is underlining the substantial change in the banking landscape in Turkey and is examining the causes of consolidation within the sector and audacious moves by foreign investors. "The securities landscape has also undergone significant transformation, indicating that the market is reaching high levels of solidity and maturity thanks to growth and better regulation," it said.

This high-profile conference, benefiting from the cutting-edge investment expertise gained by FT over many years, aims to offer original ideas and insights into how the economy and financial services sector are developing in Turkey. The conference will draw particular attention to Turkey's thriving banking sector, with additional insights on the flourishing real estate, pension and retail finance sectors. Highlighting the latest trends in business, the conference will identify key areas of growth and track trends in corporate governance, as well as appraising corporate strategies to raise international capital. The event will try to find satisfying answers from participants for the very basic question: What has been the driving force in Turkey's rapidly evolving investment climate? It will help understand the basic features of the Turkish banking system, its potential and the opportunities it presents to its investors. A broad assessment of the country's booming private equity and real estate sectors will also be provided to participants. Anyone who wants to learn more about privatizations, mergers and acquisitions, initial public offerings and regulatory developments from the highest-level experts in the market is also invited to take a seat at the conference.

The conference will commence with welcoming remarks from The Banker magazine by the Editor-in-Chief Stephen Timewell. Among the distinguished speakers are Turkish Economy Minister Mehmet Şimşek, Minister of State for Foreign Trade Kürşad Tüzmen and İş Bankası Deputy CEO Aykut Demiray.

IMF: Europe will weather financial turbulence with strong fundamentals

Economic growth will slow in most European economies in 2008, with a number of countries vulnerable to tightening credit because of rapid rises in housing costs or high levels of private debt, the International Monetary Fund reported Monday. In general, however, the IMF's Regional Economic Outlook report said European economies were in a strong position to weather the credit storm, which may have the benefit of forcing tighter fiscal discipline.

"Protracted credit market tightness constitutes a key downside risk to this outlook, especially for advanced economies," the report said. The global credit crisis was sparked by rising defaults in the United States on subprime mortgages, home loans provided to borrowers with weak credit. Those problems spread to other areas as those debts were repackaged with other less risky debts and sold to investors. Banks worried about exposure then balked at taking on new debt, causing liquidity to dry up. Advanced economies are vulnerable to the possibility of a prolonged deterioration of business and consumer sentiment, the report said. The most vulnerable are Belgium, France, Ireland, the Netherlands, Spain and the United Kingdom because of recent rapid increases in house prices. Several emerging European economies -- notably Bulgaria, Croatia, Estonia, Hungary and Latvia -- have high levels of private debt and could suffer if interest rates rise sharply, the report said. **London** AP

POISED FOR GROWTH: ISLAMIC

CONTINUED FROM PAGE 1

In spite of regulatory restraints in product offerings and a major setback in market share during the 2001 financial crisis, the sector has developed into a valuable alternative to conventional banking. The continuous growth shows the readiness of the market to embrace the concept and the added value to society.

This is even more remarkable in light of the fact there has been no government support whatsoever and the participation institutions present themselves only as "interest free" bankers. They indeed behave strictly as bankers, albeit with some additional ethical standards, specific investment tools and different types of bank accounts.

The geo-strategic position of Turkey -- where East meets West and where the Muslim world meets Christianity -- and the smooth co-habitation of secular principles with Quran guidelines in financial dealings gave the local Islamic finance market a dynamic élan that stands as an example for many countries. The seemingly daunting task of the mixture of both worlds has succeeded here with remarkable ease.

The past

After the rather cautious opening of foreign-owned Albaraka Türk, Faysal Finans Kurumu and Anadolu Finans, the market entry of local players like Asya Finans and İhlas Finans with more expansive branching strategies forced the forerunners to follow their pace, and the industry as a whole developed quickly during the 1990s.

The size of İhlas Finans, especially after its successful IPO in 1996, and with a market share of roughly 40 percent in the sector more or less dwarfed the competition.

But then a general financial crisis began in Turkey in November 2000. This eventually led to a 40 percent depreciation of the lira after it had been put on free float on Feb. 22, 2001. Absorbing the consequences of that setback would take the Turkish economy until 2003.

During that four-year period, more then 10 conventional banks failed; in addition, it cost the Turkish Central Bank more then $10 billion in its efforts to keep the foreign exchange rate of the lira at par.

Liquidity problems linked to the discovery of fraudulent intra-group lending led to the sudden shutdown of İhlas Finans by the Banking Regulation and Supervision Agency (BDDK). A complete loss of all client deposits was the result.

Though the subsequent run on deposits of the remaining special finance houses, triggered both by the financial crisis and the disappearance of İhlas Finans, did cost on average another 30 percent of the deposits to the sector, the special finance houses had no problem surviving that crisis and no government intervention was needed for any of them.

While the conventional finance establishments were still licking their wounds throughout 2002 and 2003, the special finance houses did not falter, and they implemented a successful and well-balanced growth scenario.

Their client deposits were taken into the Savings Deposit Insurance Fund (TMSF) in 2001, and they evolved into full fledged participation banks in 2005.

The present

For the moment, the sector has consolidated into four major participation banks with solid financial background.

Türkiye Finans

The Saudi National Commercial Bank NCB -- the Gulf's biggest bank in terms of assets -- acquired a 60 percent stake in Türkiye Finans in July 2007. The deal is to be completed by the end of this year. The existing reference shareholders, the industrial groups Ülker and Boydak, will keep a stake of 20 percent each.

TOTAL NR. OF STAFF AND BRANCHES OF PBS

Years	Branches	Staff
2003	188	3,520
2004	255	4,789
2005	290	5,740
2006	355	7,114
2007 / 2Q.	378	8,229

Source: Turkish Participation Banks Association.

TOTAL LOANS – non performing not included (,000 YTL)

Years	Depository	Participatory	Total	PBs / Total
1995	1,743,685	62,560	1,806,245	3.46 %
2000	34,213,480	1,726,000	35,939,480	4.80 %
2001	47,341,438	1,072,000	58,413,438	1.84 %
2002	56,370,271	2,101,000	58,471,271	3.59 %
2003	48,018,584	3,001,313	51,019,897	5.88 %
2004	89,900,000	4,894,665	94,794,665	5.16 %
2005	143,969,486	7,407,508	151,376,994	4.89 %
2006	202,469,000	10,492,453	212,961,453	4.93 %
2007 / 2Q.	232,912,605	13,808,587	246,721,192	5.60 %

TOTAL ASSETS (,000 YTL)

Years	Depository	Participatory	Total	PBs / Total
1995	4,102,384	78,070	4,180,454	1.87 %
2000	104,283,106	2,266,000	106,549,106	2.13 %
2001	216,507,617	2,365,000	218,872,617	1.08 %
2002	212,675,488	3,962,000	216,637,488	1.83 %
2003	249,692,000	5,112,934	254,804,934	2.01 %
2004	304,524,090	7,298,601	311,822,691	2.34 %
2005	382,241,594	9,945,431	392,187,025	2.54 %
2006	470,622,000	13,729,720	484,351,720	2.83 %
2007 / 2Q.	498,730,877	16,772,762	515,503,639	3.25 %

DEPOSITS (,000 YTL)

Years	Depository	Participatory	Total	PBs / Total
1995	2,664,936	66,376	2,731,312	2.43 %
2000	68,442,406	1,863,000	70,305,406	2.65 %
2001	147,520,532	1,917,000	149,437,532	1.28 %
2002	142,387,988	3,206,000	145,593,988	2.20 %
2003	147,350,714	4,004,306	151,355,020	2.65 %
2004	190,906,041	5,992,159	196,988,200	3.04 %
2005	243,066,274	8,369,155	251,435,429	3.33 %
2006	296,495,000	11,237,284	307,732,284	3.65 %
2007 / 2Q.	331,793,401	12,926,653	344,720,054	3.75 %

FINANCE SECTOR IN TURKEY

In June 2007 a YTL 200 million (approximately $155 million) protocol with the İstanbul Chamber of Commerce (İTO) was announced that would allow its members to apply for credit up to YTL 250,000.

In September 2007 a two year syndicated murabaha (a particular type of sale in which the seller expressly mentions the cost he has incurred on the commodities to be sold and sells it to another person by adding some profit or mark-up thereon which is known to the buyer) of $100 million was agreed upon in order to fund small and medium-sized enterprises (SMEs) and to contribute to the real estate sector in Turkey. Türkiye Finans is reported to invest in sukuk (securities that comply with Islamic law and its investment principles, which prohibits the charging or paying of interest), to explore the possibility of launching securitizations and to build Shariah-compliant infrastructure.

Bank Asya

About the same size as Türkiye Finans in assets, Bank Asya had its IPO back in May 2006; $150 million was raised in reputedly the most successful IPO in Turkish financial history.

In April 2007 a syndicated murabaha financing facility of $175 million was announced for Bank Asya's general financing activities.

In September 2007 a YTL 200 million (approximately $155 million) protocol with the İTO was signed in which the members of (İTO), subject to conditions, are eligible for credit (leasing, finance, investment) up to YTL 250,000.

Albaraka Türk

Albaraka Türk conducted its IPO in June 2007 and thereby became the second participation bank to be listed on the Istanbul Stock Exchange (İMKB). The IPO of $42 million was reported to be 32 times oversubscribed.

As a part of the Bahrain-based Albaraka Banking Group, it has more than sufficient financial means to expand its business.

Kuveyt Türk

Part of the renowned Kuwait Finance House, Kuveyt Türk is still surrounded by rumors in the market regarding the launch of an IPO for mid-2008.

Kuwait Finance House regularly plays an active role in cross-border murabaha syndications, advancing Turkish business. In order to support Turkish imports and exports, the availability of forward currency contracts was announced by Kuveyt Türk in August 2007.

Other market presence

An ever growing number of Islamic finance houses have been established in Turkey during the last few years. In addition to Dubai Islamic Bank and ABC Islamic Bank, banks such as Amlak Finance, Doha Bank, Dubai Bank and National Bank of Kuwait Capital have either established representative offices or formed partnerships in order to take an active role in the development of the sector in the country. International banks such as BNP, Calyon and Deutsche Bank have joined ABN, Citi and HSBC in promoting Islamic finance as part of their mainstream product offerings worldwide and are bound to offer their products to the domestic market as soon as regulations will allow this.

In addition to the onshore Islamic finance, a substantial cross-border Islamic finance market has emerged and has grown to an annual estimated volume of $600 million and more. HSBC is known for having taken a leading role in the development by lending through its corporate Islamic facilities to Vestel Electronics, together with IDB, in the amount of $25 million; followed by $60 million financing for the development of Atatürk International Airport terminal to Tepe-Akfen-Vie (TAV); and again

PHOTO□M.ALİ POYRAZ

with IDB a $100 million in loans to Turkcell, the leading mobile operator of the country to finance network equipment purchases.

The future

Since 1999, the growth and performance of the participation banks have continued to outperform conventional financial institutions. Their market shares in deposits, loans extended and total assets have increased steadily.

The participation banks are however still confronted with big handicaps vis-à-vis their conventional counterparts. Turkey is still waiting for the much-needed government and private sukuk regulations. Access to the money markets is also still closed to the participation banks. This leaves substantial amounts of liquid money immobilized at the participation banks, weighs unnecessarily on the profitability of client deposits and is unproductive for the Turkish economy as a whole.

Several Gulf investors are already present but cannot realize their potential and stimulate local financial markets and foreign direct investments. Several conventional banks are discretely looking into the possibility of entering this market niche upon the demands of their clientele.

Proactive market players have entered into discreet negotiations with the relevant authorities to pave the way for the first participation rent certificates or "sukuk ijara."

Regulatory changes, however, don't appear to be in the works for the near future. The recent elections confirmed the stability and the continuation of the ruling government, but for the moment the talks about the new "civilian constitution" and the present Iraq crisis appear to take up most of the attention.

It will become clear, however, that participation banking is a necessary addition to the regular financial framework. It is not in conflict with secular requirements and its presence fosters governance awareness both among conventional institutions and the authorities. It helps to mobilize additional financial assets inside the country that normally would remain unused. There is a strong demand for the products among the urban public. And it will attract much-needed foreign direct investment and know how. With or without active government intervention, the participation bank sector is poised for growth.

CMYK

'We will serve Turkey much more actively'

Türkiye Finans General Manager Yunus Nacar spoke with Today's Business about the development of participation banking, which lends extensive support to the real sector, from the past to the present day. "Up until the recent past, banks were in the grandstands and the players were on the pitch. Players received support from the grandstand," Nacar said, adding that things in Turkey started undergoing a major change, particularly after the 2001 crisis. "Banks started saying to the real sector, 'Use our credit.' Roles changed, but only partially, though. Türkiye Finans will now be a more active player by increasing the quality of its services," he noted.

PHOTO□M.ALİ POYRAZ

The first step of increasing participation bank's share in the sector is more publicity and finding a place in people's minds with commercials, advertisements, customer relations, visits and informational meetings.

What is your assessment of the development of participation banking in Turkey?

Although it hasn't reached a massive height in Turkey, we see that the volume of participation banking, particularly in the Gulf countries, has been on the rise and that conventional banks are gravitating toward banking without interest. The current trend in banking favors being more closely interested in the real sector rather than in transactions on the stock exchange. The structure and the past of participation banks are suitable for the real sector. This structure can be established in the long term with leasing, and the type of credit it can apply for is "financial support." Therefore, the real sector and banking have become two intertwining circles. The real sector no longer has to go to the bank and say, "Give me credit." Instead, the bank goes to the real sector and makes offers such as "Work with me and use my credit." In the new era, banks have started attaching greater importance to marketing, credit and gathering information on customers. When we look at the latest international mortgage fluctuations and the hedge funds, we see that Turkish banks have really made important headway and finally acquired stability.

Which one of their problems should participation banks find solutions to first?

There are three main subjects we should concentrate on in the upcoming period: publicity, making investment banking products and making our interest-free banking services available worldwide. Conventional banks issue debt paper by means of the Treasury and, by using this paper as liquidity, provide their customers with the possibility of making new investments. However, the participation banks, which work with interest-free instruments, don't have that possibility. Because of this, they are kept in safes like cash in banks both at home and abroad without producing any gains. Therefore, participation banks in Turkey need an alternative instrument for investing the gains and these are what the Treasury calls "sukuk paper." (Sukuk are securities that comply with Islamic law and its investment principles, which prohibit the charging or paying of interest.) The projects in this field should be finalized as soon as possible. Implementing and spreading instruments like profit and loss sharing and enterprise capital for Turkey in the highly competitive atmosphere marked by low inflation is important particularly for encouraging entrepreneurship.

Another issue participation banking should put on its agenda is entering the market abroad. Finding places in the Gulf is not difficult. Thanks to the many strategic partnerships that have been established so far, it is possible to build new bridges between Turkey and the Gulf countries. In addition, we can enter the Turkic republics by opening branch offices or through a completely separate structure, and support can be provided for the development of trade and industry there. Beyond simply making money, it would benefit our country greatly in terms of experience. Therefore, such a structure should be formed in the Turkic republics. I think we should immediately start working to found a base in those countries, open branch offices and banks.

We should also make the branch office network geographically more prevalent, though the current one is really big and significant, and we should publicize ourselves more. The share we have from the banking sector is still very small. The first step of increasing that amount is more publicity and finding a place in people's minds. Along with commercials, advertisements, customer relations, visits and informational meetings, we can introduce a new important and efficient dimension to the efforts of becoming known, such as social responsibility and social sponsorship activities. Meanwhile, we have totally overcome the problem of finding qualified employees. We can find qualified employees and also train them ourselves. A total of 90 percent of Türkiye Finans employees are university graduates.

During this period when inflation has dropped, which saw the end of the time when high inflation meant high profitability, efficiency and performance management are becoming more important than anything else. Like every sector, participation banks should also work in these areas and develop new ideas and systems. They should be able to lead the bank, its branch offices and its clients in the most accurate way possible and have a more active and involved administration.

How do you assess domestic and international competition?

I believe what allows banks to stand still is competition. Without it, there wouldn't be improvement. But we avoid competition packaged in greed. In that sense, decreasing profit margins and delivering profit shares without earning a corresponding amount of money are what I prefer to call destructive competition.

It is a must to act in a rational way in competition. That is to say, a bank shouldn't sacrifice its profitability to achieve greater volumes. We set our growth policies in accordance with this understanding. I don't expect that any bank will ever be involved in a kind of competition that may damage the others' business, exposing itself to possible harm in the future as well. We have seen examples of this in the past. A greedy action harms the bank that commits this action before it affects the other players of the industry.

Looking at the broader picture, we see that international capital will flow through our country as foreign direct investment, thus giving way to stronger banking and capital markets. The number of companies open to trade in the stock exchange will increase as well.

What do you think participation banks will evolve into in the future?

If we have a very simple look at the current situation, it is obvious that participation banks have been around for less than two years. As you know, these banks operated as interest-free special finance institutions before gaining the status of a bank in 2006. As the latest banking law offered them the privilege of calling themselves a "bank," made them subject to the benefits of the Savings Deposit Insurance Fund (TMSF), provided them with the ability to conduct business in the domestic market as well as abroad and made it possible for them to have many interest-free instruments in commercial, corporate and individual banking, these banks quickly began to thrive. I believe that if participation banks focus more on their own promotion and introduce investment products into their operation, they will be more effective in the Turkish financial sector. We are an efficient participation bank in terms of utilizing funds in favor of the Turkish economy. We have the necessary technology, office network and quality human resources to succeed in making it sounder.

If we can successfully avoid destructive competition and also avoid making any wrong decisions, participation banks will serve our country in a much better fashion. Turkey's stability should continue to prevail, its economy should maintain its pace and the non-financial sectors should continue growing. The late founder of Koç Holding, Vehbi Koç, used to say, "I can exist only if my country exists." We, too, say that we can survive only if non-financial businesses succeed to stand. It is a fact that we are only as strong as the non-financial businesses. **İstanbul** Today's Business

PHOTO□CİHAN

Nacar says there were three main subjects they should concentrate on in the upcoming period: publicity, making investment banking products and making their interest-free banking services available worldwide.

Current state of Turkish financial system

H. ŞADUMAN OKUMUŞ*

The Turkish financial system can be divided into three fundamental components: banking, insurance and capital markets. The major financial institutions operating within this system consist of banks, non-bank financial intermediaries and insurance, consumer financing, factoring and leasing companies. As of July 2007, deposit banks holding YTL 610.5 billion worth of assets constituted almost 90 percent of the total assets of financial institutions, 22.11 percent of which belonged to state deposit banks operating in Turkey.

It is clear that the banking industry is by far the dominant industry, followed by insurance and leasing companies with a market share of only 2.78 percent and 1.66 percent, respectively. Nearly all activities in both the capital and money markets are carried out either by banks themselves or by their subsidies. As such, at the moment, banks do not face any effective competition from other financial institutions in this area. Correspondingly, it can be said that Turkey's financial system and its banking industry are virtually synonymous with each other.

As of July 2007, in comparison to July of the previous year, the financial sector has been deepening in Turkey, though total assets' growth of the sector in nominal terms has slowed down. This also refers to the fact that the level of financing volume required to produce one unit of output in Turkey rose from 114 to 124, indicating a higher level of resources held by financial institutions, especially the banks.

The level of concentration in the Turkish banking industry is relatively high. The total assets of the five largest banks accounted for almost 70 percent of the whole sector as of July 2007. Less than a decade ago they only accounted for 52 percent. One important observation is that the number of privately owned deposit banks decreased significantly as a result of the fact that some banks have been taken over by larger banks during the last decade. From a market-concentration perspective, it may be suggested that the dominance of the state in the banking industry has diminished, holding a share of only 17 percent.

As of July 2007, almost 93 percent of total bank assets -- including foreign banks -- belonged to deposit banks. Although there are only eight state-owned banks, their share of banking in terms of total assets was 26.09 percent, of which about 24 percent belongs to state deposit banks.

Although foreign banks account for almost 34 percent of the banking industry in terms of the actual number of banks, their total share of the market based on total assets was only 10.66 percent as of July 2007 (compared to 8.66 percent as of July 2006) with total assets of YTL 73.2 billion. Note that the market share of foreign banks based on total assets has increased by approximately 23 percent. It would appear that on the whole, foreign banks, all of which are operating as deposit banks, will be in a position to exercise significant influence on the Turkish banking industry in the near future. It is important to note that the influx of foreign banks into Turkish financial markets experienced in the early 1980s slowed down over the course of 1989-1995. It has been on the rise since 2003. Thus, we can see that foreign banks that were once reluctant to expand their activities in Turkey any further have become willing to increase their market share.

Total Assets of Banks Operating in Turkey

	2006 (*) (Mln YTL)	2007 (**) (Mln YTL)
Deposit Banks	401,156	537,223
State-Owned	137,878	151,803
Privately-Owned	263,278	385,420
Savings Deposits Insurance Fund	1,025	819
Foreign Banks	44,115	73,204
Development and Investment Banks	14,689	17,439
Participation Banks	13,729	17,458
Total Assets	474,714	646,143
Total Assets Growth (%)	58.52	36.11
Total Assets/GDP	114.21	124.23

(*) As of September (**) As of July

Banks Operating in Turkey

	1990	1995	2007 (**)
Deposit Banks	36	37	16
State-Owned	8	5	4
Privately-Owned	28	32	12
Foreign Banks	23	18	17
Development and Investment Banks	10	13	13
Participation Banks	n/a	n/a	4
Total	69	68	50

(**) As of July 2007

As of July 2007, there were four interest-free participation banks (Türkiye Finans, Bank Asya, Albaraka Türk and Kuveyt Türk) operating in Turkey. The total assets of the participation banks amount to YTL 16.8 billion, which makes up 3.25 percent of total assets in Turkey. Having been subject to Banking Law No: 5411 since January 2006, the participation banks, which already provide the same products and services as conventional banks, have felt more pressure to bring themselves to the level of their counterparts. In order to prove themselves as financial intermediaries that offer the same products and services as conventional banks -- albeit in a different manner -- they have boosted their credit activities in the private sector. For the period of 1992-2001 83.07 percent of funds utilized by the participation banks were channelled to the private sector in the form of trading, business and project finance. The corresponding figure for conventional banks was only 60.42 percent. Starting from the year 2001 when the Savings Deposit Insurance Fund (TMSF) was initiated, the lending rates of the participation banks has increased to the level of 165.5 percent on average, tripling the ratio for the conventional banks. Considering their role as financial intermediaries, the participation banks in Turkey have made a significant contribution to the development of the private sector at a rate that is higher than that of the conventional banks.

As of September 2007, the deposit volume of the banking industry amounted to YTL 324.2 billion whereas the credit volume reached the level of YTL 240.6 billion. These figures indicate 9.2 percent and 15.6 percent increases in deposit and credits, respectively, over the same period of the previous year. It is noteworthy that the share of consumer and installment commercial loans given by the banks constitutes approximately 47 percent of the total loans of the banking industry. The contraction in deposit volume has stemmed from the decrease in foreign exchange deposits. Foreign exchange deposit volume displayed an upward trend while that of the YTL has declined since the second week of August 2007. The ratio of non-performing loans to total loans increased to the level of 3.60 percent in the third quarter of 2007, whereas this rate stayed at 3.48 percent in the first six months of 2007. As of September 2007, the securities portfolio of the banking sector amounted to about YTL 166.1 billion, an increase of 4.5 percent in compared to the same period the previous year. It is also reported that the net position of the banking sector was around $400 million as of mid-September, 2007. The on-balance sheet foreign exchange position was $7.8 billion, whereas the off balance sheet foreign exchange position was $7.4 billion.

Although the stock exchange is relatively young, its performance has been impressive. Since its establishment, it has exhibited spectacular growth in market capitalization and trading activity. Market capitalization in US dollars has increased almost eightfold and daily trading volume shot up to $1.25 billion on average as of the end of August 2007, from $214.9 million in 1995.

Purchases made by foreign banks, either through brokerage houses or individuals, reached $30.9 billion, accounting for 24.57 percent of total purchases in the first six months of 2007. The relevant figures were $26.1 billion and 21.07 percent in the first six months of 2006, respectively.

(*) Associate professor of economics at İstanbul Ticaret University

Turkey dreams big in foreign trade

State Minister for Foreign Trade Kürşad Tüzmen

CONTINUED FROM PAGE 1

In the last five years Turkey has experienced a fundamental transition. This change includes every aspect of the country. Despite opposition claims that the ruling party has a "hidden agenda" and will attempt to erode the vital characteristics of the republic, Turkey today is more democratic, more tolerant, much closer to the EU and demonstrates increasing transparency in its political environment. Critical legislation has passed that improved Turkey's convergence regarding democratic standards enormously when compared to its Western counterparts. The trajectory of reform policies has surprised even highly critical observers.

The most stunning performance has been witnessed on the economic stage. Inflation was pulled down to single digits. Interest rates have reached an acceptable level. Socioeconomic reforms have altered the country's structure. The budget is in excellent shape, and populist concessions that diluted budget performance so often are now a thing of the past.

The effects of these accomplishments have been striking. The economy has grown vigorously for 22 quarters. With a GDP of over $400 billion Turkey today is the world's 17th largest economy. In 2006, while the world economy grew at an average rate of 3.7 percent, Turkey's growth rate was 6 percent. In fact, today it is the leading Organization for Economic Cooperation and Development (OECD) country in growth performance. In 2002, GDP per capita was $2,200. Four years later it reached $5,500.

Growing interest from international investors has contributed to this success. In the pre-2002 years FDI performance was sluggish. Annual FDI flow was around $1 billion -- in light of Turkey's potential a rather depressing figure. Last year FDI inflow was a dazzling $20 billion. This dramatic shift transformed Turkey into an important beneficiary of global FDI flows. It ranks 16th on the global list and is the third largest recipient of FDI, right after China and Russia among the emerging markets.

The main force behind these economic feats is Turkey's dynamic foreign trade sector. In the early 1980s, a radical new approach which initiated spectacular liberal reforms changed the closed economy; Turkey accepted reality and embraced global market competition.

Since then, foreign trade, especially exports, have shaped Turkey's industrialization and development process. Firstly, the more traditional agricultural products and output of "light industries" established themselves globally. Close after, a rising number of small mills catapulted the iron and steel industry to a top exporter's position.

The success was breathtaking. From 1981-1985 average export growth reached 24 percent; foreign trade volume grew by 42 percent. The proportion of imports covered by exports showed a healthy expansion.

At the same time the Turkish services sector increased its international profile. In the late '70s, Turkish contractors had become more and more active abroad. Important in this context was their presence in Libya. In one sense, Libya was the "kindergarten" for the Turkish overseas construction industry.

In the late '80s and during the '90s, Turkish exports showed remarkable increases. But the political situation and macroeconomic environment made sustainable and stable export growth impossible. In addition, Turkish exports developed structural weak spots that constituted a threat in the long term. First of all, textiles, clothing, iron and steel products constituted nearly 40 percent of Turkish exports. Second, more than half of Turkish exports went to EU countries. Germany, as the main market, had a share of nearly 20 percent. Clearly, sector and regional dependence had begun to be a problem.

The early liberal reforms, the WTO process and the customs union with the EU had increased competitive pressure in the Turkish domestic market. Importation became increasingly attractive for Turkish producers. Small and medium-sized enterprises (SMEs) in particular felt the heat. Changing domestic cost structures and product sophistication made exporters steadily more dependent on imported goods.

These developments were analyzed and addressed by the Turkish private sector and bureaucracy. A milestone was the work "Export Strategy: 1998 - 2002," the first jointly developed, comprehensive roadmap. Implementation wasn't meeting expectations, but a "to do" list was established.

Another important turning point, and well beyond the scope of more ordinary work, was the "Strategy for Neighboring and Surrounding Countries." Again, a project developed by the Undersecretariat for Foreign Trade, this approach had an immense impact, not only in an economic context, but spanning the whole of Turkish foreign policy.

Realizing the fact that our country had neglected the economic potential of its periphery for decades, commercial and economic cooperation with these nations

PHOTOS AA

> Foreign trade, especially exports, have shaped Turkey's industrialization and development process. Firstly, the more traditional agricultural products and output of 'light industries' established themselves globally. Close after, a rising number of small mills catapulted the iron and steel industry to a top exporter's position

gained absolute priority in Turkey's foreign trade policy; our neighbors in the Middle East in particular became a main focus. Implemented in 2000, the share of the targeted countries in total exports was around 24 percent at that time. In 2006 this share reached nearly 35 percent; their share in the volume of trade exceeded 33 percent.

Another landmark in policymaking is "TURQUALITY®." Developed as a complete branding support system, TURQUALITY® is still a unique concept on a global scale.

As a result of fierce competition and changing consumer habits, countries and companies have had to create stronger brands in order to produce more value added to retain their position in current market conditions and to expand into higher-value market strata. The TURQUALITY® project has been created for successful Turkish brands to promote a national quality image in international markets. TURQUALITY® is a support program that provides financial and managerial contributions to increase the number of Turkey's highly value-added products in both the internal and external competition.

It is a very impressive initiative that is bringing the "Turk" and "quality" concepts together and represents a unique and ambitious project which will act as a catalyst and considerably contribute to the success of Turkish products and companies in the world. Under this organization investors, manufacturers and designers are supported to work together to create international brands.

The new objective in the TURQUALITY® process is to create "10 world brands in 10 years." This may seem very ambitious, but past performance of Turkish companies provides a positive outlook.

The penetration of new markets and regional cooperation are top priorities for us. After successful results in policies targeting our periphery countries, other regional initiatives were implemented. In 2003 a new approach towards sub-Saharan Africa was brought into being. Turkish SMEs and the services sector in particular benefited from this scheme. Subsequently, strategies toward the Asia-Pacific region and the US were initiated.

These strategies contributed enormously to economic and commercial cooperation in the Middle East, the Balkans and southern Eurasia. In other terms, Turkey's energetic new approach was a real stimulus for creating a more relaxed and stable atmosphere in these regions. Tensions have eased while trade and investment have increased. Turkey's foreign policy has improved vastly. Today, the "Strategy for Neighboring and Surrounding Countries" is the basis for regional stability, security and collective development.

Turkey is now working on a scheme labeled the "Three Seas Project." The ultimate goal is to unify the regions of the Mediterranean, the Black Sea and the Caspian Sea in an extensive free trade area. Numerous free trade agreements with Mediterranean countries are in force, and the countries of the Black Sea and Caspian Sea regions are now on our list.

Turkey's opportunities and outlook have changed dramatically in the last five years. Turkish companies are not only successful global competitors but they also help in shaping this competition. Turkey's share in global trade has reached 1 percent. Last year exports reached over $85 billion; in September of this year, 12-month export performance exceeded the $100 billion mark. Today exports from Turkey per hour equal more than $13 million. Around 44,000 companies are exporting nearly 20,000 products to around 200 countries and territories.

This process is not only of a quantitative nature. The traditional breakdown of Turkish exports was heavily in favor of agricultural products, foodstuffs, textiles, clothing and steel products. Today this structure has changed fundamentally. Turkey has a highly diversified export base. It is dominated to a large extent by industrial products. Today nearly 90 percent of exports are industrial products. Automotive, machinery, equipment and electronics comprise one-third of exports. The automotive sector, in particular, manifests itself as the new flagship of Turkish exports.

On the other side, the textile and clothing industries are adapting themselves to a new environment. The fierce competition that especially Chinese companies have created has led to a new mindset and orientation. As mentioned before, a simple production and competition philosophy is no longer valid for Turkish clothing firms. You have to climb up the market ladder or face becoming obsolete. So together with new incentives regarding branding, special emphasis is put on the development of original design capabilities. A newly established fashion academy in Istanbul is the institutional backbone of these efforts. On the agenda is turning Istanbul into an international fashion center, rivaling Paris and Milan.

Another instrument to enhance Turkey's export performance and competitiveness is the EU-funded project of development of a comprehensive and visionary clustering policy. This will contribute to sustainable social, environmental and economic development in Turkey. Establishment of clusters will function as bases for efficient and effective supply chains. This will then provide efficient access to specialized inputs and services for the firms and increase their ability to adopt new technologies and innovative practices.

Globalization and liberalization have shaped the last decades. Foundations for these dynamics were mainly advances in technology. Technology is still the main stimulus for change, and adaptation to new technologies gives companies the edge in global competition. This environment has altered the old ways, and new concepts are influencing organizational, institutional and individual ways of thinking. Innovation is the key phrase in this context.

Turkey is on the verge of developing into a modern, innovative economy. To encourage this visible trend we are prioritizing certain areas to assist in this transformation and to enhance structural competitiveness including high-technology and high value-added products, R&D and invention, product differentiation, branding and design, advanced marketing and promotion strategies and, last but not least, effective economic diplomacy.

Despite the fact that information technology and a workforce which is mobile in a global sense reduces the importance of individual companies and makes "open information architecture" necessary, the center of innovation is always the company itself. In the case of Turkey, SMEs have to be motivated and assisted to assume a lead role in this process. Only if this is achieved and if this potential is maximized will a truly innovative transition be realized.

A major factor contributing to Turkey's ascent in world trade is its unique geo-economic location. Located at the focal point of three continents, having an advanced logistics infrastructure and field expertise and possessing the determination to foster its capabilities, logistics is a subject which is receiving great interest and considerable investments. Obviously, the synergy between logistics and commerce is not restricted to the trade of goods. Turkey's promising services industry is already a dominant force in its periphery. The Turkish construction sector in particular is already a global player. Turkish construction companies have realized 3,500 projects in 65 countries, amounting to nearly $85 billion. Not only housing projects but prestigious projects like airports, oil refineries and integrated urban infrastructure are on the list. It is our goal to raise the share of Turkish companies in the global construction market to 5 percent in the mid term.

In the next few years we will witness a remarkable surge of interest toward doing business in and with Turkey. At the center of the traditional north-south trade routes and the emerging east-west energy transfer routes, with a supporting and attractive domestic market, a highly industrial, diverse and innovative manufacture base, an advanced logistic system, a competent service industry, a growing free trade agreements network, a highly skilled, inexpensive workforce, a population with a median age of 24, a pro-business attitude, a transparent and nurturing legal environment for investments, an exceptional high growth performance, a secure macroeconomic climate and a stable political setting, Turkey is keen to raise its profile in the global economy.

This year exports are expected to be about $104 billion. The foreign trade-GDP ratio has exceeded 55 percent. In 2013 we are targeting an export performance of $200 billion. In 2023 we will celebrate the 100th anniversary of the Republic of Turkey. Our objective is to arrange an appropriate birthday present for our 100-year-young republic -- an export figure of $500 billion. "Isn't this a little bit ambitious?" you may ask. It is. But we are used to spurring a running horse on. And it is in our nature to chase the distant horizon.

Past, present and future of the privatization process in Turkey

METİN KİLCİ*

The term "privatization" entered daily usage in the 1980s when the state's role was redefined in the economic sphere. Today, the goal of ensuring that the state withdraws from all economic activities and refocuses on its inherent tasks of maintaining peace and security is actively being pursued by the world community, including Turkey.

Privatization is one of the most important tools to increase economic productivity and ensure structural transformation because of its contributions to the establishment of a competitive environment. Despite the sale of some incomplete facilities whose construction started back in 1986 and some big factories, privatization goals have not been met due to economic instability and political uncertainties in the last two decades. The level of privatization in this period fell well below that of the world at large. While the privatization process has sometimes been successful, the Turkish experience was generally unstable in the two-decade period. Turkey completed privatizations amounting to $8 billion between 1986 and 2002.

From 2003 on, there has been dramatic progress in the field of privatization accompanied by political and economic stability. The privatization of huge establishments including Türk Telekom, Tüpraş and Erdemir was completed, and revenue of $22 billion in five years was transferred to the Treasury in return for the privatization transactions.

The major privatization attempts in the last two decades in Turkey include the following:

1984- Enty into force of Law No. 2983 on implementation
1985- Preparation of a major plan on privatization by the Morgan Bank
1986- Entry into force of Law No. 3291
1987- Sale of Çelik Halat and Çukurova Electricity shares on the Istanbul Stock Exchange (İMKB)
1988- Public offering for Teletaş, 40,000 shareholders
1991-1994- Public offerings for four major State Economic Enterprises (KİTs) -- Petkim, Tüpraş, POAŞ and THY -- on the İMKB
1992- Privatization of Çay-Kur
1994 -Completion of legal infrastructure of privatization upon entry into force of Law No. 4046
1994- Sale of TOFAŞ shares in foreign markets
1997 -Privatization of public banks (Etibank, Anadolu Bank and Deniz Bank)
1999 -Inclusion of concept of privatization in the Constitution
2004- Privatization of alcoholic beverages division of Turkey's alcohol and tobacco monopoly (TEKEL)
2005 -Türk Telekom sold
2006- Privatization of Tupras and Erdemir
2006- Hotels under ownership by the Pension Fund (Emekli Sandığı) privatized
2007- Public offering for Halkbank shares, sale of vehicle inspection stations and large ports owned by the Turkish State Railways (TCDD)

Metin Kilci

PHOTO AA

A number of tenders on the sale or transfer of shares in numerous state-owned companies, business establishments, ports, hotels and social facilities, vessels and other similar public properties has been concluded since 2003.

During the privatization process, the social aspect was also considered. The most comprehensive work on this matter is the Privatization Social Support Project (ÖSDP-1) which entered into effect by an agreement with the World Bank for the term of December 2004-2005. The second part of the project, ÖDSP-2, became effective in February 2006. The focus of the project is a group of people who lost their jobs because of privatizations. Under the project, a number of unemployed were provided counseling services, and the Labor Development Center (İŞGEM) was also created. Under the İŞGEM model, 849 individuals were employed in six regions. Six additional İŞGEMs will be created under ÖDSP-2.

Moreover, Cabinet decision No. 2004/7898 allows transfer of those who were laid off due to privatization since Jan. 1, 1992 to other public institutions under Article 4/C of Law No. 657. Some 21,532 applied to benefit from the decision, and 17,731 were transferred to other public institutions.

The term ahead

The promising macroeconomic outlook in Turkey encourages foreign investors to make further investments in the country. Growth in the volume of foreign investments is expected as long as the economic reforms are fully implemented and large privatization projects enter into effect in the short term.

In the new term, in light of the goals set by the Supreme Privatization Board (ÖYK) and the administration, the privatization of public companies and institutions already included in the existing privatization portfolio and those others that will be included in the schedule under the government program, development plan and program on harmonization with the EU acquis will be fulfilled. The companies and public assets that will be privatized in the new term include TEKEL, Halkbank, electricity distribution companies, sugar refineries, highways and bridges.

Meanwhile, public-private partnership has become a popular model in the world in the provision of health and education services. The Privatization Administration (ÖİB) will work to ensure that practices facilitating public-private cooperation are implemented.

**Chairman of the Privatization Administration*


NEW YORK
LONDON
PARIS
BERLIN
TOKYO
ISTANBUL
EXPAT BANKING
TEB
BNP PARIBAS JOINT VENTURE
TEB, your bank away from home.
TEB Expat Banking gives you the range and style of banking services you are used to, here in Turkey. Specialized branches with English-speaking relationship managers, online and telephone banking services in English and a wide ATM network with Euro/USD/GBP withdrawal option will make you feel at home, at least with banking. You are not far away from home.
teb.com.tr 444 0 666