

LEASING INDUSTRY AS AN ALTERNATIVE FUNDING METHOD: THE EVIDENCE FROM FINANCIAL LEASE MARKET IN TURKEY

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Abstract

This paper aims to provide a general assessment of leasing industry with particular reference to financial lease market in Turkey. It is a very well-known fact that apart from the banks, the leading financial institutions that give loans to firms, there exist some other financial institutions that provide funding for the financial needs of the companies. One of these are known to be leasing companies. They enable companies to conduct their business by providing long-term funding for their investment projects. This paper analyses this industry in general and then furnish recent information in regard to the financial lease market in Turkey.

Keywords: FINANCIAL SERVICES, LEASING, TURKISH FINANCIAL LEASE MARKET

JEL Codes: G10, G20, G23

ALTERNATİF FONLAMA YÖNTEMİ OLARAK LEASİNG SEKTÖRÜ: TÜRKİYE FİNANSAL KİRALAMA PİYASASI ÖRNEĞİ

Öz

Bu makale, Türkiye'deki finansal kiralama piyasasına atıfta bulunarak, finansal kiralama sektörünün genel bir değerlendirmesini sunmayı amaçlamaktadır. Firmalara kredi veren finans kurumlarının başında bankalar olmakla birlikte, firmaların finansman ihtiyaçlarını karşılamak için fon sağlayan finansal kuruluşların da olduğu bilinen bir gerçektir. Bunlardan biri de leasing şirketleridir. Şirketlerin yatırım projeleri için uzun vadeli finansman sağlayarak işlerini yürütmelerini sağlar.

Anahtar Kelimeler: FİNANSAL HİZMETLER, LEASİNG, TÜRKİYE FİNANSAL KİRALAMA SEKTÖRÜ

JEL Kodları: G10, G20, G23

1. INTRODUCTION

Companies can finance investment goods that they need in order to conduct their business in different ways. Financial Lease Companies (here and after referred to as 'FLC' in this paper) enable companies to finance investment goods with financial leasing; companies in this way can utilize plenty of advantages (and securities) through this alternative funding method. In this process, investment goods of these firms may be in wide range from software to immovable property. Association of Financial Institutions ('*Finansal Kurumlar Birliđi*') ('The Association') is the Turkish Association that covers factoring ('*faktöring*'), consumer financing ('*tüketici finansman*') and asset management ('*varlık yönetim*') companies as well as leasing companies.

The Association in its official website defines leasing as follows: '*Financial leasing is a medium and long-term investment loan used for the acquisition of investment goods like factories, office buildings, manufacturing machinery, construction machinery, land, sea and air vehicles. It is characterized by the fact that any risks and benefits of the goods subject to leasing belong to the lessee and the legal ownership of the property belongs to the leasing company during the lease term.*'

The law numbered 6361 (Accepted on 21 November 2012 with issuance in Official Gazette) is about Companies of Leasing, Factoring, Consumer Financing and Saving-Financing in Turkey. The law specifies provisions about the legal framework and working rules of these companies.

The importance and motivation of this subject of paper comes from the very fact that leasing market grows remarkably in the world and in Turkey as an alternative financing solution for the companies, especially those which are in production sector.

Özçelik and Küçükçakal (2019) underline the fact that leasing together with factoring sector are significant in national economic development since it contributes to the strong performance of the financial markets and to meet the financial needs of the firms. That is way, evaluation of the financial performances of these industries is

of vital significance. Cengiz (2017) argues that companies apply to leasing as an alternative financing method and the utilization of leasing dates back to very old times and there is a recent history of use in Turkey.

This study contributes to the literature by analyzing Turkish leasing industry in a comprehensive way with recent data after pandemic disease. In this way, the study fills a gap in the literature by providing a recent data vis-à-vis changing economic and financial circumstances in the globe and in the country.

The paper is structured as follows: Section I is the introduction part. Section II covers a literature review. Section III includes quantitative analysis. Section IV is the conclusion part.

2. LITERATURE REVIEW

In this part, previous studies related to financial lease industry are examined. In addition to studies pertaining to sector application in Turkey, other country experiences are also covered under this heading.

Haiss and Kichler (2009) search for the impact of leasing in the lending increase in Central and South Eastern Europe. Their findings show that leasing and credit influences economic growth in a positive direction. Nonetheless, they are not found to be complementary (not substitute). The paper concludes that the sector should not be used to undermine the proper regulation by policy makers.

Mazure (2009) confirms that the industry develops and contributes to economic growth, employment and increases tax revenues; and defines leasing as one of the most dynamic business line in the globe by facilitating the funding of equipment and real property.

Degl'Innocenti et al. (2014) examine the dynamics of Italian leasing industry and suggest that no evidence of tacit collusion exists in the Italian leasing sector and that mutual forbearance influence market conditions by way of greater multimarket contact. Finding of the analysis in the paper indicate that the most profitable leasing firms are less diversified and have a better risk profile (on average).

Leasing is considered as one of the alternative funding models. Wendel (2015) underlines the significance of leasing in equipment finance by arguing that alternative finance has considerable impact, maintaining that alternative finance firms are increasing their lending.

Regarding the accounting side of leasing, Sarı et al. (2016) reviews IFRS 16, which is the new International Financial Reporting Standard about Leases. The period of analysis is 2010-2013. They argue that the current accounting standard will have a significant impact upon *the financial ratios, return on assets and return on equity*.

In regard to production sectors (sub-industries) that leasing companies provide funding, Çağlar et al. (2016) study leasing in agricultural industry. Their argument is that if farmers prefer making the investment through leasing, they will have opportunity to eliminate mortgage pressure. With advantage of leasing, they will produce with lower cost and lower debt pressure; therefore, the demand for investment goods and also '*created added value*' will go up.

With reference to leasing industry's importance on the economy especially after 2008 Global Financial Crisis, Şişman and Şişman (2017) contend that with the help of tax advantage, leasing sector has some risks and advantages for SMEs.

Pamukçu and Çakmak (2017) review financial lease in international trade and accounting and hold that international financial lease processes are the movement of leasing processes across borders. They argue that international leasing processes in Turkey are designed and regulated through leasing legislation, tax legislation international private law legislation and other legislation.

Sabuncu (2017) describes hedge accounting for the lease industry where a separate account chart is employed in the accounting plan despite the fact that they are subject to Turkish Accounting Standards. Profit and loss caused by hedge accounting item and hedge accounting instrument may be recognized in the very same period.

Concerning the performance of the leasing firms, Gürol (2018) argues that the best (productive) year for the financial leasing (and faktoring) is 2016.

Kibritçi-Artar and Yozgat (2019) define financial leasing as a transaction where a property necessitated by a *lessee* (investor) is leased for a certain period of time by way of purchase by a leasing firm. They underline that as far as Turkey is concerned, most industries that use leasing (finance) transactions are manufacturing, service and agriculture.

Kamasak and Cansever (2019) study the main determinants of comparative advantage of financial lease sector in Turkey; based on their quantitative analysis they find and argue that the factors like strategic pricing, better service quality, brand reputation, the ability to meet client needs help the firms in this industry to have competitive advantage over their rivals.

Andriakopoulos et al. (2020) examine whether banks' cost efficiency depends on financial-lease which banks provide. Upon the empirical evidence, they argue that a more powerful banking system is possible in case banks offer leasing instead of conventional bank loans (to clients); this helps banks reduce the credit risk while financing investment projects.

3. FINANCIAL LEASE INDUSTRY IN FIGURES

In this part of the study, the industry figures are provided with reference to Turkish financial lease market. Şit and Şit (2013) underline the very fact that the financial leasing sector, especially by providing financing opportunities to SMEs, which play an important role in the development of Turkish economy, causes an increase in investments. Yılmaz et al. (2020) state that instead of buying the various assets they need with their own capital, businesses buy them for themselves. They can also choose the way of leasing with the more advantageous financial leasing method.

According to 'The Business Research Company' website, the global leasing market increased from \$1,352.88 billion in the year of 2021 to \$1,518.93 billion in 2022. This refers to a compound annual growth rate of 12.3%. The Russia-Ukraine conflict disrupted the opportunity of global economic recovery from pandemic. This conflict

has brought to economic sanctions on multiple countries, increase in commodity prices, and supply chain problems, influencing many markets across the world.

The annual report issued by Turkish Association of Financial Institutions simply indicates that as of the end of 2021, total business volume of leasing industry reached TL 36.530 million, this accounts for an annual increase of 56.3% when compared to 2020.s

As far as Turkish financial lease market is concerned, The Summary report about Leasing Business issued by The Association regarding the second half of the year 2022 explains the figures as follows:

Table 1: Comparison of Business Volume in Turkey : 2h2022 vs. 2h2021

Business Volume	2022	2021	Change %
Thousand TL	29,494,820	15,177,639	94%
Thousand USD	1,984,533	1.895.362	5%
N. of Leasing Contract	10,156	9,611	6%

Source: Association of Financial Institutions, Official Web Site

As the above table figures indicates, there has been a great increase in the business volume yearly. The same report gives information about the growth rate of the sub-groups of leasing in Turkey:

Table 2: Growth in Sub-Sectors of Leasing (TR): 2q2022 vs. 2q2021 (Thousand TL)

Period	Production Industry	Agriculture	Service	Housing (Consumer)	Other	Total
2022-q2	8,119,331	341,414	7,395,600	132,068	18,387	16,006,800
2021-q2	4,219,893	389,008	3,592,341	68,700	51,834	8,321,776
Growth %	92%	-12%	106%	92%	-65%	92%

Source: Association of Financial Institutions, Official Web Site

As can be seen from the above table, there are some increase and decrease depending on the sub-industries. All in all, when total figures are examined, a remarkable increase is observed (92%).

Table 3: Comparison of General Figures (TR): 2h2022 vs. 2h2021 (Thousand TL)

General Information	2h2022	2h2021	Growth %
Number of Company	21	22	-4.5%
Number of Employee	1,251	1,209	3.5%
Number of Clients	35,498	35,298	0.6%
Number of Branches	117	116	0.9%

Source: Association of Financial Institutions, Official Web Site

When the above figures are analysed, it is seen that in regard to general numbers (change in the numbers of leasing companies, employees, clients and branches in Turkey) there is no significant change.

Table 4: Financial Ratios of Leasing Firms in Turkey (As of 3Q2022)

Financial Ratios	(%)
Non Performing (Gross) / Total Receivables	4,71
FX Cash Receivables / Total Cash Receivables	68,29
Receivables From Fiscal Institutions / Total Receivables	6,60
Receivables From Non Fiscal Institutions / Total Receivables	93,40
Receivables From Household / Total Receivables	0,26
Profit (Loss) Before Tax / Average Total Assets	4,28
Net Income / Average Total Assets	3,45
Net Income / Average Total Shareholders' Equity	24,18
Profit (Loss) Before Tax / Average Total Shareholders' Equity	30,00
Net Operating Income (Expense) / Income	8,28
Non-Operating Expense / Income	83,92
Trading Account Profit (Loss) / Income	1,65
Personnel Expenses + Provision for Termination Indemnities / Total Non-Operating Expenses	1,78
Specific Provisions / Non Performing (Gross)	62,97
Loans and Non Performing Receivables Net of Provisions / Total Shareholders' Equity	9,23
Shareholders' Equity / Total Assets	14,39
FX Liabilities / Total Liabilities + Derivative	61,52
Liabilities / Total Assets	85,61
Liabilities / Total Shareholders' Equity	591,65
Derivative Financial Assets / Total Shareholders' Equity	5,82
Derivative Financial Liabilities / Total Shareholders' Equity	5,43

Source: Banking Regulatory and Supervisory Agency of Turkey (BRSA-BDDK)

Table 4 shows that the industry operates with low ratio of 'net income / assets' (3.45 %) as of the third quarter of 2022 compared to periods before pandemic disease. Equity over assets ratios turns out to be 14.39%, which can be considered as a acceptable level of shareholders' equity ratio for the industry.

Table 5: Sectoral Distribution of Leasing in Turkey (As of 3Q2022)

Order	Item Period: 2022/9, Unit: thousand TL	Lease receivables
1	Agriculture, Livestock, Forestry	300.301
2	Fishing	1.136
3	Agriculture Total (1+2)	301.437
4	Extracting of Mines Producing Energy	140.428
5	Extracting of Mines Not Producing Energy	218.443
6	Food, Beverages and Tobacco Industry	193.406
7	Textile and Textile Products Industry	857.27
8	Leather and Leather Products Industry	9.314
9	Wood and Wood Products Industry	130.424
10	Raw Paper Material and Paper Products Industry	201.46
11	Nuclear Fuel, Refined Petroleum Prod., Coal Productions	18.418
12	Chemistry and Chemical Products and Synthetic Fiber	136.668
13	Rubber and Plastic Products Industry	274.233
14	Other Non-Metal Mines Industry	264.664
15	Main Metal Industry and Production of Material Industry	531.244
16	Machine and Equipment Industry	158.065
17	Electrical and Optical Devices Industry	34.766
18	Transportation Vehicles Industry	164.354
19	Manufacturing Industry Not Classified In Another Places	210.951
20	Electric, Gas and Water Resources	336.814
21	Manufacturing Total (4+...+20)	3.880.922
22	Construction	1.245.982
23	Wholesale and Retail Trading Motor Vehicles Services	573.125
24	Hotel and Restaurants (Tourism)	43.935
25	Transport., Storage(Warehousing) and Communication	274.259
26	Financial Intermediation	221.813
27	a) Monetary Institutions	73.609
28	b) Other Financial Intermediation	148.204
29	Real Estate Brokerage, Renting and Business Activities	558.628
30	Defense and Public Adm. And Social Security Ins.	10.781
31	Education	70.849
32	Health and Social Services	544.434
33	Other Social and Personal Services	42.868
34	Private Person Employing Workers	4.445
35	International Organizations and Institutions	0
36	Services Total (22+...+35)-(27+28)	3.591.119
37	Consumer Real Estate Finance	63.127
38	OTHER	24.262
39	TOTAL (3+21+36+37)	7.860.867

Source: Banking Regulatory and Supervisory Agency of Turkey (BRSA-BDDK)

Table 5 above indicates clearly that the two leading items of leasing operations are manufacturing item (No.21) with a total of TL 3.880.922.000.- plus services item (No.36) with a total of TL 3.591.119.000.- Other groups constitute only small portion of all items.

4. CONCLUSION

This study reviews the leasing industry in general and with particular reference to Turkey by providing comprehensive and recent data pertaining to the country as an emerging economy. As one of the key non-banking financial institutions in the globe and Turkey, leasing industry deserves to be analyzed as an alternative financing model. In Turkey, there are bank-related (subsidiary) lease companies as well as independent lease companies, commercial banks establish their lease companies separately as parent companies. Since 2000, banking groups have operated as financial supermarkets where leasing companies have been operating as subsidiary of banks (banks are regarded as parent company). Commercial banks' branches serve as agents of lease companies in an effort to reach out firms in all cities throughout the country. In line with the banking law in force in Turkey, investment and development banks can provide lease loans directly to firms in accordance with the specific authority given by the banking law in force in the country.

The recent figures pertaining to the industry clearly indicates that according to the sectoral distribution of leasing in Turkey, manufacturing industry and service items are the two leading items that constitute the greatest part of all leasing operations. As far as financial ratios of the industry, it is seen that as of the third quarter of 2022, in Turkey, the industry operates with relatively low non-performing loans ratios as well as net profit ratio *vis-à-vis* the economic conditions. When total number of companies, clients, employees are considered, there is no significant change between the second half of 2021 and 2022.

Considering all these, the paper concludes by arguing that non banking financial institutions' operational activities has been increasing steadily. Among them,

financial lease industry turns out to be a key sector that provides funding for the real sector and make great contribution to industrial development.

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