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PREVIOUS DEVELOPMENTS AND THE CURRENT SITUATION IN THE TURKISH BANKING SECTOR, FOREIGN ENTRY AND ITS REFLECTIONS ON THE NATIONAL BANKING INDUSTRY

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- Abstract -

The banking industry possesses a unique property that is unlike to other sectors with respect to supplying liquidity and financial strength for the economy and transaction operations However, despite their significance, banking industries in the world are subject to various crises and foreign interventions that could affect the financial industry negatively. This study describes the background of the Turkish Banking Sector, explains the reasons for the three major crises it was subjected to in 1994, 2001 and 2002 that resulted from numerous factors such as insufficient implementation of regulations, inadequate depth of the capital markets, lack of assessment of risk, inadequate managerial applications and excessive lending to incorporated institutions. The study also dwells on the restructuring process that has been continuing for more than two decades, reasons of foreign entry to the Turkish Banking Industry, as well as explains the reflections of foreign entry on the national banking industry depending on various comprehensive and credible national and international publications.

Key Words: *Turkey, banking, crisis, foreign entry, reflections*

JEL Classification: D53, E44, G10, G21

1. INTRODUCTION

The Turkish[1] banking sector has been going through a comprehensive restructuring process for more than two decades. Since then, the sector has experienced three substantial crises during this period and subjected to restructuring. The crises hit the sector hard, thereby damaging the economy. This paper summarizes

- the background of the Turkish banking sector,
- the current situation in the Turkish Banking Industry,

[1] Turkey Country Profile: population, 73 million; GDP, 700 billion USD; GDP per capita 10000 USD; GDP growth rate, 4.2%; Inflation rate, 9,6%; Unemployment rate, 9.8%; Outstanding total debt, 551 billion USD; Trade balance, -58 billion USD; Area: 775.000 km2; Capital: Ankara; Currency Turkish Lira (Source: World Bank: Country Brief, www.worldbank.org.tr).

- the advantages and disadvantages of foreign entry in a banking industry,
- reveals the reasons of foreign entry and reflections on the Turkish Banking Industry and,
- the method used to search was to use data and knowledge obtained from various comprehensive databases and reports of major comprehensive source bases.

2. BACKGROUND OF THE TURKISH BANKING SYSTEM

The banking sector has a unique characteristic, different than other sectors with regards to providing liquidity for the economy and transaction operations. Stemming from this inherent characteristics, banks have a dominant position over the sectors to create overall financial strength in an economy. Thus the competence of the banking sector directly affects the growth capacity of the economy of a country. Prior to the 1990's, the Turkish financial sector had an underdeveloped and unsophisticated structure. This period could be best characterized by high regulation, restricted interest rates, monitored foreign exchange operations, limited foreign asset holding, lack of competition, barriers to foreign entry and high liquidity, chronic inflation, and a deficit in balance of payments. Thus, the conditions in the sector brought about difficulties in practice and increased capital flight. Consequently the capital flight weakened the financial markets (Günay, Tektaş: 2006; Şengönül, Thorbecke: 2005; Alper, Berumet, Malatyalı: 2001; Günçavdı, Küçükçifçi: 2005).

However, the Turkish financial sector has experienced substantial changes with the liberalization program that came in to being during 1980s. The prominent trait of the program was that it was introduced before macroeconomic stability was acquired. Thus, the liberalization process and the macroeconomic policies complicated the situation, leading to a fragile financial sector. In order to manage a sensitive financial sector, the Capital Markets Board and the Istanbul Stock Exchange was established (Günay, Tektaş: 2006; Yıldırım: 2002; El –Gamal, Inanoğlu: 2005; Isik, Hassan: 2002; Günçavdı, Küçükçifçi: 2005). The primary aim of the program was to boost the efficiency, strength and competitiveness of the Turkish banking system. In order to promote foreign entry and liberal financial markets, the restrictions mentioned above were eliminated. The program consisted of measures related to financial and trade liberalization. Obligatory deposit rates and fixing of credit came to an end, uniformly-applied accounting principles were established, external auditing became obligatory, the foreign exchange regime was set free and banks were authorized to borrow money abroad. Subsequently, with the implementation of the new regulations, the number of the commercial banks operating in the sector increased from 43 in 1980 to 79 in 2000. This expansion in the banking sector stemmed mostly from the new regulations promoting liberalism. The share of private banks rose from 42% to 47% and the share of public banks declined from 44% to 34% in the period of 1980 – 2000. As can be understood from these figures, important developments occurred in the banking sector; the depth and the strength of the banking sector improved dramatically as well (Günalp, Çelik: 2006; Günay, Tektaş: 2006).

However the main reason for the expansion in the sector did not result from traditional banking activities, but rather the growth in the sector was a result of the participation of the banks in the government debt market. The banking sector adjusted itself to the changing conditions in the environment, altered its scope of activities and focused on the domestic debt market. The high interest rates in the financial market persuaded the banks to adopt a risk – averse manner.

Therefore, it was assumed that investment in government debt securities was a safe option. Since the Turkish banking sector was mainly focused on government debt securities, it performed poorly in attracting deposits because of insufficient return on investment (deposit)[2]. During the period of 1980 – 1998, the government debt sector grew at a high rate by focusing on remaining in the domestic financial market with its high interest rates. In the period mentioned, the amount of government securities held assets by commercial banks increased by 55%. Moreover, the opportunity to borrow abroad and invest in the domestic market, thus benefiting from the high interest rates made it attractive to focus on arbitrage gains. The conditions of the financial market turned out to be highly profitable for commercial banks due to the needs of the public sector. Net profits[3] of the banks increased considerably in a high inflation economy (Günalp, Çelik: 2006; Günay, Tektaş: 2006; Yıldırım: 2002, El-Gamal, İnanoğlu: 2005; Bumin: 2007).

In spite of the positive improvements in the banking system, some global and local developments adversely affected the Turkish economy and the banking system as well. The factors that affected the economy during the 1990s were intense political instability[4], changing governments, terrorism, unexpected developments in the global economy & order and the earthquake of 1999. Furthermore, the expansionist fiscal and loose monetary policies triggered inflation, increased government borrowing and changed the scope of interest of commercial banks. Commercial banks began to focus on government securities more than ever. Government reliance on domestic money market and issuing short term, high-interest bonds lead to a gap in the foreign exchange positions of the banks. The return on this operation was between 30% and 40%. Nonetheless, fiscal deficit, excessive expansion in short term advances by the Central Bank of the Republic of Turkey (CBRT), lack of credibility both abroad and domestically laid the foundations of the crisis of 1994. Interest rates increased sharply, banks faced liquidity concerns, and tightened fiscal and monetary policies. Also, an IMF led stand – by program came into being. This was the first substantial crisis that Turkey encountered, but it was not the last one (Günay, Tektaş: 2006; Yörük, Erdem, Erdem: 2006; Günçavdı, Küçükçifçi: 2005).

The crisis of 1994 was followed by the November 2000 and February 2001 crises. The value of the Turkish Lira was devaluated by 30%, GDP had a negative growth of 9,4% and annual interest rates increased by 80%[5]. The cost of the three crises to Turkish economy was about $50 billion in total. The main reasons for these crises mentioned above were inadequate implementation of regulation by banks, insufficient capital markets, lack of revenue diversification, lack of evaluation of the credit risk, excessive lending to affiliated enterprises and currency mismatches (Günay, Tektaş: 2006).

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[2] According to El-Gamal and Inanoğlu during 1990s it was estimated that Turkish household was holding $15 billion in cash roughly. However, government debt instruments were far more profitable with regards to retun on investment and safety.

[3] The current profit of the banking sector has reached to 663 billion Turkish Lira in the year of 1998 and the forthcoming economic crisis was began to be felt in 2000 with a net loss of 3 trillion Turkish Lira according to the Banks Association of Turkey.

[4] During 1990s four elections were held and nine governments changed.

[5] Banks Association of Turkey

After the 2001 crisis, the Turkish Government introduced a stabilization program to reestablish the economic order in conjunction with the IMF. Initially the IMF released a $10 billion credit to support the program. This prospective program envisioned decreasing inflation rate that were at the time floating between 80% and 90%, through the use of strong fiscal, monetary and exchange policies that rested on consistent and credible terms. A new banking act was introduced in order to assure contemporary regulation and supervision standards in the banking sector with the establishment of the Banking Regulation and Supervision Agency (BRSA). The aim was to guarantee not to benefit from high interest rates relying on public debt instruments, thereby, refocusing on traditional banking activities. The objective of banking supervision was to establish a fair and competitive financial market so that the sector could evolve to a strong level. Structural inefficiency and the three banking crises revealed the fragility of the structure of banking sector in Turkey. The result was the transfer of 20 banks to the Savings Deposit Insurance Fund (SDIF[6]) in the period of 2000 to 2002. The combined cost of the three crises, as mentioned above, was $50 billion to Turkey. A Banking Sector Restructuring Program (BSRP) was put into force to attain stronger economic conditions by eliminating structural weaknesses, secure transparency and boost credibility in the banking sector. The Program was based on restructuring the banks under SDIF control, privatizating state owned banks and supporting private banks (Yıldırım: 2002; Günay, Tektaş: 2006; Alper, Berumet, Malatyalı: 2001; Aysan, Ceylan: 2008).

In 2001, the Law of Central Bank was amended and price stability became the primary goal. Since the 2001 crisis, the Turkish banking sector grew immensely, attaining 75% of the financial system. The economic crises of 2000 and 2001 increased the demand of foreign banks, the branches and personnel decreased, but the share of foreign banks amounted and the liquidity supplied by foreign banks increased as well. Since 2002, the Turkish banking system has been recovering and gaining momentum. The share of foreign banks in *Turkey is about 28% and if taken into consideration their shares on the Istanbul Stock Exchange, the figure amounts to 50%. Furthermore, some foreign banks possess assets which are much more and much valuable when compared to the Turkish Banking Industry*. Henceforth, this reality reveals that the Turkish banks are supposed to develop their corporate capacities immediately in order to compete with international ones and provide competitive advantages to the Turkish economy (Aysan, Ceylan: 2008; Bumin: 2007).

3. CURRENT SITUATION IN THE TURKISH BANKING SECTOR

Having accessed to the Turkish financial market in the late 19th century, the operations of foreign banks have been limited until 1980s. The economic policies begun to be implemented after 1980s were aimed to integrate the Turkish economy and financial markets with that of the world. With the practice of financial liberalization, the barriers before foreign entry was eliminated and foreign banks were stimulated to invest in Turkey with contemporary regulations. As a result, with the increasing importance of Turkey in the global arena, the foreign entry in the banking industry gained momentum and the Turkish Banking Industry emerged as a profitable one. At that period, the foreign banks chose to open branches and mostly focus on wholesale banking for corporate customers. The stability program of 1999 proved to be a failure with November 2000 and February

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[6] The Fund was founded in order to take over financially troubled banks, restructure and privatize at a convenient value.

2001 economic crises. Fundamental reasons were sharp macroeconomic fluctuations and excessive lending of banks to their affiliated institutions. Eventually, Banking Sector Restructuring Program was initiated in May 2001 (Bumin: 2007; Ekinci, Ertürk: 2007).

Table 1: Banks purchased by foreigners between 2001 - 2006

Bank	%	Purchaser	Origin	Date	Amount (million $)
Demirbank	100	HSBC	England	Sept 2001	350
Sitebank	100	Novabank	Portugal	Decmbr2001	3
Kocbank	50	UniCredito	Italy	May 2002	240
TEB	41,2	BNP Paribas	France	Feb. 2005	217
Dışbank	89,3	Fortis	Belgium	April 2005	1,141
Garanti	25,5	GE Finance	USA	August 2005	1,556
Yapı Kredi	57,4	UniCredito	Italy	Sept 2005	1,395
CKredi Kalkınma	57,5	Bank Hapoalim	Israel	December 2005	113
Finansbank	46	National Bank of Greece	Greece	April 2006	2,323
Tekfenbank	70	EFG Eurobank	Greece	May 2006	182
Denizbank	75	Dexia	France	May 2006	2,437
Şekerbank	33,9	Bank Turan Alem	Kazakhstan	June 2006	254

Reference: Bumin; 2007

The Turkish banking sector began to recover after the 2001 crisis with the Restructuring Program. The program attempted to boost the banking sector by supporting the structure of the sector, assuring transparency and reestablishing a credible order. The Banking Regulation and Supervision Agency was established to monitor and assure a strong banking system[7]. With the implementation of the Restructuring Program, first the capital structure of public banks were reinforced, the losses of the public banks were compensated from a special fund created by the Treasury and these banks were undertaken to operational restructuring. Some of the banks were transferred to SDIF in order to be restructured, recapitalized and privatized later; some of the banks in the SDIF were either merged or liquidated. Moreover, the supervision was intensified with BRSA (Bumin: 2007).

The Turkish banking sector had previously rested mostly on the enormous gains acquired by investing in the high interest, low risk, public debt instruments and ignoring traditional banking activities. However this strategy ceased after the 2001 crisis with the Restructuring Program. The declining trend of resting on high interest rated government securities convinced the banks to invest in long term credits and they began to attract more deposits, rather than the public debt instruments. The banks also began to cover their open foreign exchange position to maintain a risk

[7] Banking Association of Turkey, Economics Study Group Assessment, 2006

– averse manner. Therefore the banks' inclination to raise their liquidity in the relatively stable economic conditions was to avoid repeating the experience of the pre – 2001 period[8].

With the privatization and liquidation of the banks under the auspicious of the SDIF, and with privatization and mergers in the banking sector, the total number of the banks altered as, 4 in 1980, 75 in 1998, 61 in 2001 and 46 in 2007[9]. Of these 46 banks; 33 of them are deposit banks, 3 of them are public banks, 11 are private banks, 1 is under the auspicious of Savings Deposit Insurance Fund, 18 were founded with foreign entry and 13 are participation and development banks[10].

In 2007 the total of assets of the banking sector rose by 76 billion YTL since 2006 and amounted to 561 billion YTL ($484 billion); total assets of the sector was roughly 166 billion YTL in 2001 ($114 billion in 2001). The main reasons for this expansion are continuing positive expectations, rapid economic growth, demand for Turkish currency, and intense competition Net profit of the sector was 5 billion YTL ($3,4 billion) in 2001 and currently the net profit of the sector is about 14,3 billion YTL ($12,2 billion) for 2007[11].

4. ADVANTAGES, NEGATIVE EFFECTS AND CONDITIONS OF FOREIGN ENTRY INTO A HOST COUNTRY BANKING SECTOR

The research on foreign investments is aimed at establishing the impacts of foreign bank entry to local banking industries, financial implementations and the determinants of foreign entry. Influenced by the pull and push factors, foreign banks tend to enter into a host country's financial market in order to benefit from various opportunities. The competition in the global financial market is so intensive that some reasons such as low degree of competition in a host country after an economic crisis, deregulation and easy access to new customer potential in developing countries, low profit and high regulatory restrictions in a home country and the widespread impact of internationalization instigate foreign banks to invest in the financial markets of other countries. On the other hand, the entry of foreign capital also bring new technology and risk management methods, adequate funds for economy, regulations to prevent the outflow of domestic capital in period of depression and know – how along with them. Moreover, foreign banks enhance the level of corporate governance, increase the efficiency of banks and stabilize economy. However, the negative influences could be as negative impacts leading to instability in domestic market, increasing competition and crowding out of local investments, not supplying sufficient capital by foreign banks, possible decrease of profitability, excess domination of the financial market and inadequate regulations of governments (Aysan, Ceylan: 2008; Bumin: 2007; Lensink, Murinde: 2006).

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[8] Financial Stability Report of the Central Bank of Turkey, 2005

[9] The figures are related to 2007, since the official figures pertaining 2008 will be revealed in mid – 2009.

[10] Operating Report of the Banks Association of Turkey Related to 2006 – 2007 Period Operating Reports (see also www.tbb.org.tr); World Bank- Main Macroeconomic Indicators of Turkey – 2007 (see also www.worldbank.org)

[11] Operating Report of the Banks Association of Turkey Related to 2006 – 2007 Period Operating Reports (see also www.tbb.org.tr); World Bank- Main Macroeconomic Indicators of Turkey – 2007 (see also www.workldbank.org)

Countries which tend to liberalize their economies or have significant amount of debt regard internationalization as a remedy. Host countries expect from foreign investors to increase international trade, enhance technology, modernize banking sector, diversify product and service variety and galvanize local savings. Furthermore, it is crucial to attract foreign investment after economic crises in order to restore economic order. Also, weak competition, a promising financial market and deregulation encourage foreign bank entry. Furthermore, in times of economic disorder, the foreign banks might attempt to take measures as to stabilize the economy, primarily to preserve their investments, but, reverse of this situation is also true (Bumin: 2007; Aysan, Ceylan: 2008; Lensink, Murinde: 2006).

In addition to the factors above, low profits and regulatory limitations in a home country drive banks to seek opportunities abroad and invest in countries where they consider the weak competition is. Therefore, low risk and high return on investment is essential. Main advantage of foreign banks are high competitive advantage, know – how and managerial skills, as well as benefiting from potential customers abroad and improving profits as a result of removal of barriers. By way of working with local customers, foreign banks facilitate the host country's investors' access to international financial markets and gain power. Furthermore, the difference between home and host country interest rates is another factor; because, if the host country interest rate is higher than the home country one, then the positive difference would attract foreign investors in host countries, whereas the reverse case is also true. Foreign banks always make a cost – benefit analysis before taking an action. If the investment is regarded beneficial, then operations are undertaken in host countries. Therefore, the foreign banks supply home countries with new technologies and managerial methods to rehabilitate bank systems, enhance total capital lending in order to foster economic activities and suppress possible economic crises and negative shocks, lower capital outflow by increasing confidence to local economy and attract new entrepreneurs to invest in host countries as well as improve international trade. Furthermore, the foreign entry improve the corporate structure of the banking sector, efficiency of banking implementations, update national banking standards, increase new services and products in order to upgrade the domestic market in line with international context and introduce new banking instruments. The foreign capital also stabilizes the local economy, decrease the risk of financial crisis, rehabilitate problematic banks, intensify competition, restrain local business cycles and foster economic growth. Thus, the more efficient a domestic banking sector, the more it attracts foreign investors. Nonetheless, the foreign entry does not always mean benefits. Risk is the other side of the truth and some possible ones are; negative cycles leading to instability in domestic markets, not supplying adequate amount of capital to the national economy by foreign banks, not being able to control the foreign banks, increased negative competition and crowding out of local capital as well as increasing foreign deficits by means of repatriation of funds. Also, the foreign banks might control the best customer segment, leave the risky group to domestic banks and dominate the most profitable part of the sector. Moreover, if the foreign banks would abandon their activities, the outflow of capital might bring about a financial crises (Aysan, Ceylan: 2008; Bumin: 2007; Lensink, Murinde: 2006).

When foreign capital increases in a host country, excess profits and optimal results are expected. A stable and strong financial system is essential for economic development. With the obtainment of necessary foreign capital in the banking sector, the host country enjoys updated managerial

methods, know – how, technology and sufficient sources for economic expansion, in turn having competitive advantage over other countries in international trade (Aysan, Ceylan: 2008).

5. THE REASONS OF FOREIGN ENTRY TO THE TURKISH BANKING INDUSTRY

The amounting trade volume among countries and foreign direct investments, elimination of hindrances before foreign banks in favor of financial liberalization and the advances in technology have instigated the significance of foreign banks in recent years. Moreover, the unsatisfactory gains and intense competition foster foreign banks to go international and invest in developing financial markets in order to use their competitive advantage and attain high return on investments. Even though, foreign banks have been in operation in Turkey for a long period, their market shares were limited to single figures, especially before 1990s. Beginning with the liberalization policies in the Turkish economy in 1980s, the foreign entry began to raise, the branches and affiliates of foreign banks increased as well. The Turkish Banking Industry has attained a sound structure with the implementation of Banking Sector Restructuring Program that was put into practice after the economic crises of 2000 and 2001. The Program influenced the foreign investors in favor of the domestic banking industry and increased their market share (Bumin: 2007; Ekinci, Ertürk: 2007; Isik, Hassan: 2002).

Foreign banks, which are subject to low profits in their home country or seeking further growth opportunities, would invest in other countries in order to improve corporate profits. For instance, the European Union banking system which has been growing at a 1% annul average during the last decade could not be considered sufficiently profitable. However, on the other hand the Turkish Banking Industry grew at a great rate after 2002, especially with the foreign capital entry. The reasons could be sorted as; high population, increasing income per capita, positive reforms for investors, foreign trade and growth potential, geopolitical disposition, EU accession process, easy acquisition of the Turkish banks, size of Turkish banks, fair treatment of both the Turkish and foreign banks by the BRSA, no limit to foreign ownership, easy entry to the market, high interest and low inflation rates, efficient corporate governance system, elaborate auditing and regulation system and Basel II implementations (Aysan, Ceylan: 2008; Bumin: 2007).

Turkey's raising population & income per individual as well as its geographical disposition on the threshold of Eurasia is considerable factors to attract foreign investors in her banking industry. Reforms that continue in the investment fields, enhancing macroeconomic resources with her fruitful trade and growth possibilities, the Turkish economy presents better investment opportunities in comparison to neighboring countries. Furthermore, Turkey, in the accession process with the EU, attempts to adjust her government framework and legal practices with the EU as well as strengthens her governmental structures. On the other hand, it is relatively easy to take over and run a banking corporation in Turkey. Additionally, there is no difference in legal implementations and treatment between a Turkish bank and a foreign owned bank, there is no limitation in share of foreign ownership and it is not prohibited to repatriate the funds earned in Turkey (even though this could be counted as an outflow of capital and loss of national income). It is also favorable to enter the Turkish Banking Industry since the inflation is low, interest rates are higher in comparison with Western countries, and thus the expected profit is higher too. The auditing and regulation system is now more transparent and efficient, so that the corporate governance is developing and more efficient. Yet, another advantage for the enhancement of the

banking system is the Basel II agreement which is expected to be operational in a couple of years, enabling the cost of capital to be cheaper for banks with high customer satisfaction and effective risk measurement methods. Moreover, a foreign investor expects high returns on investment and Turkey is the largest and fastest expanding financial market in Central and Eastern Europe and Middle East. Turkish banks are also strong technologically. The increasing product and service diversity and quality, such instances as Finansbank, Garanti Bankası, Tekfen Bank, are sometimes far better than the foreign competitors and fulfill the expectations of customers. By investing in Turkey, the foreign banks also acquire the opportunity to increase their customer bases in addition to raise profit volume. Some significant instances of well known international banking corporations invested in Turkey are *Citigroup, BNP Paribas, ING, Dexia, National Bank of Greece and Fortis*. Another reason of foreign entry is to take over the national banking corporations and expand to neighboring and nearby regions under the Turkish brand and take advantage of cultural proximities and regional advantages. In addition to this, although the main aim of these foreign enterprises is to undertake financial operations, the financial market is a good access to Turkish economy in order to do business in other industries such as tourism, navigation, factoring, forfeiting, leasing, insurance, individual pension funds, agriculture, other sorts of commercial enterprises and so on... Foreign banks in Turkey are also involved in local banks which are inclined to attract not only corporate clients but also the ones interested in home and consumer credits. For, consumer and home credits have been growing in significance, this reality attracts foreign banks to the Turkish financial sector as well (Aysan, Ceylan: 2008; Bumin: 2007).

6. THE REFLECTIONS OF FOREIGN ENTRY ON THE TURKISH BANKING INDUSTRY

The reform program that was initiated in the path of Banking Sector Restructuring Program after November 2000 and February 2001 crises increased the credibility of the Turkish Banking Industry and began to attract investors. Consistent increase of the banking assets and high profits to be acquired in comparison to developed Western markets attained the Turkish financial market to a favorable state. The efficient supervision structure and fair regulatory framework positively contributed to new investments. In addition to these, the improvement in the economic order, stable macroeconomic figures such as low inflation and interest rates, high economic growth brought acceleration to investments. Also, the initiation of negotiation with the EU positively influenced the process as well (Bumin: 2007).

There was not a significant amount of foreign entry to the Turkish Banking Industry before 2000s and the share of foreign banks was not in significant amounts. Today the share of foreign capital in the Turkish Banking Industry is about 50% when the foreign participation in the stock exchange is included. Thus, the foreign entry in the banking sector helped to form an oligapolistic structure. The banks in the system are affected by the financial liberalization regulations in different levels owing to divergent missions, compositions of engagements and assets, types of risk aversive manners and level of government support. So that, some banking corporations positively affected the system and some not (Aysan, Ceylan: 2008).

In the post financial liberalization period, net interest margins and asset returns decreased as a result of the increasing competition in the banking industry. Moreover, in crises periods, foreign banks did not attempt to share the burden of crises, took risk averse manner, lead to capital outflow

and negative effect on balance of payments and bring about sparking effects in the crises eras, thereby, since then physical entry has been considered more important than indirect capital investment. Hence, the entry of foreign banks brought about structural changes in the sector. Substantial contributions of foreign banks have been demonstrated mostly in the fields of financial and operational planning, analysis of credit status, as well as marketing and human capital development. The entry of foreign banks deepened the national financial market, interest rates decreased, credit markets became more active and structure of the sector became stronger in the face of a crisis. Regulations and transactions showed to be more transparent and risk management enhanced. The foreign entry also updated the technology used, diversified the sorts of financial services and instruments as well as spread the use of e-banking (Aysan, Ceylan: 2008; Bumin: 2007; Lensink, Murinde: 2006).

The most dramatic impact of foreign entry in the Turkish Banking Industry proved to be effective with less worker and high technology intensive working environment. Moreover, the efficiency of foreign banks affect the domestic ones, the competition in the banking industry influence the local banking corporations to be more assiduous and competitive in their activities and researches, thereby enhance the total quality of services and products of banking in domestic market. In addition to these, the foreign entry facilitates the use of low interest credits by the local manufacturing firms, with the necessary capital enable them to produce at the global standards, commercialize internationally, increase capital inflow to domestic market, stabilize balance of payments, raise the diversity of economic activities and develop economic growth. Also, the more foreign entry is acquired in the banking industry, the more foreign capital Turkey manages to attract for her economic activities by means of merger & acquisitions and greenfield operations (Bumin: 2007; Aysan, Ceylan: 2008). If some of the advantages are denoted; foreign entry in the financial sector (Bumin: 2007; Aysan, Ceylan: 2008; Lensink, Murinde: 2006)

- facilitates the capital inflow and provides the necessary financial sources to realize considerable development projects and contributes to economic stability,
- diversifies the financial instruments to improves the risk averse precautions,
- leads the local banking corporations to enhance the quality of the services rendered and intensifies competition,
- developes the infrastructure of the financial system by means of introducing new managerial, accounting and innovation initiatives depending on transparency,
- increase the depth of the financial market and enables national business to find more financial sources in order to make investments,
- helps improve technology, managerial skills and know – how,
- intensified competition enhances the strength of the sector.

Yet some disadvantages of foreign entry are (Bumin: 2007; Aysan, Ceylan: 2008; Lensink, Murinde: 2006);

- foreign entry mignt crowd out and weaken the national financial corporations and rule the financial sector,
- in case of an economic recession and depression, foreign capital refrain from supporting the financial market and ruin stability,
- foreign financial corporations do not consider the national interests and might avoid to contribute to the development of national economy,
- too much of foreign existance in the financial sector could threaten the natonal sovereignity,
- the repatriation of the income earned in Turkey to a nother country brings about the outflow of national sources,
- foreign financila corporations has the power to influence the governmnet politically and acquire special legal and financial priviledges,
- the direction of monetary policy might lead to deadends with excessive foreign shares in the national financial market.

7. CONCLUSION

The foreign banks have been operating in Turkey since the late 19th century. However, their operations have remained limited until 1980s. As a result of transparent economic policies initiated in that period, foreign entry to the Turkish Banking Industry gained momentum. Nonetheless, despite the positive developments after 1980s, the Industry experienced three substantial crises in 1994, 2000 and 2001. After the last crisis, the Banking Sector Restructuring Program was introduced to tackle structural problems and attract more foreign investors. Consequently, the share of foreigners in the banking sector increased to about 28 percent and the amount is considered about 50% when the shares of foreigners in the stock exchange are counted.

The foreign entry in a banking sector, especially in developing countries, contribute to technological improvements, introduction of new services and products, managerial methods and know – how as well as deepening and strength of the financial sector. However, in some of the cases the reverse is also true. When speaking Turkey, the rate of population, income per individual, reforms to attract foreigners, economic growth potential, geopolitical disposition, easy acquisition of banking corporations, unlimited ownership and free repatriation of earned capital in Turkey are influential factors to attract foreign investors.

Moreover, the reflections could be counted as easy access to new and updated technologies, managerial skills, new capital sources to accelerate economic growth and commercial relations, transparency and risk management, enhancement of human sources and deepened financial markets. However, even though Turkey is the leading country in her region, there is still so much to do. Therefore, *in order to develop her financial market and economic strength, increase the trade volume and reinforce this process, the foreign capital is considerable and indispensable for this era*.

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