THE IMPACT OF TRANSNATIONAL BANKS ON DEVELOPING COUNTRIES' BANKING SECTOR: AN ANALYSIS OF THE TURKISH EXPERIENCE. (1980-89)

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Abstract

The past decade has been marked by a significant increase in the involvement of transnational banks (TNBs) in developing countries. This paper examines the impact of foreign bank participation on the performance of domestic banks in Turkey. The findings suggest that foreign banks introduced advanced technology, knowhow and new financial products to the Turkish banking sector. These developments were expected to induce an improvement in the efficiency of domestic banks. However, the empirical results show that the cost efficiency of domestic banks did not change whereas their profitability increased significantly. These findings show that the domestic firms were able to capture the productivity gains in the form of increased profits. In the absence of effective competition, the domestic banks were not pressured into improving their cost-efficiency performance. This implies that if the market remains oligopolistic and segmented the entry of foreign banks is unlikely to have a significant impact on the economic performance of the domestic banks.

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1. *Introduction*

The past decade has been marked by a significant increase in the involvement of transnational banks (TNBs) in developing countries. This interest can be related to the internationalization of financial markets which began in the 1960s when the Eurocurrency market came into being: to the inclusion of financial services in the Uruguay Round of GATT negotiations on the liberalization of trade in services, and to the growing involvement of multinational companies in service-related activities.[1]

In this paper we examine the recent experience of the internationalization of banking and financial services in Turkey, where the protectionist policy towards banking was abandoned in 1980 as part of the general program of structural adjustment reforms and financial liberalization. In the 1980s the banking sector in Turkey witnessed a remarkable growth in the number of foreign affiliates, with the share of foreign banks in total commercial banks increasing from 9 per cent in 1980 to 34 per cent in 1989. This paper concentrates on the impact of this increased foreign participation on the performance of the domestic banks, with a view to determining whether the expected benefits of foreign bank operations have been realized.

Section 2 of this paper discusses the internationalization of banking activities in less developed countries (LDCs) generally, as background to the Turkish experience. Section 3 describes the introduction and expansion of foreign bank operations in Turkey. The impact of foreign bank operations on the Turkish domestic financial sector is analyzed in section 4. The final section provides a summary and conclusion.

2. *The Internationalization of Banking in Developing Countries*

During the past three decades there has been a rapid internationalization of banking activities in many developing countries. A number of factors have contributed to this growth. The rapid expansion of multinational involvement in production and international trade from the early 1960s onwards appears to have been a major reason for the establishment of international banks in Third World economies (Germidis and Michalet, 1984; UNCTC. 1988). Banks became obliged to respond to these internationalization trends, by following their existing

[1] For general reviews of the trend towards the internationalization of banking, see Lewis and Davis (1987), Pecchioli (1983), Harrington (1990). The study by Germidis and Michalet (1984) focuses on TNBs and financial markets in developing countries. For the involvement of multinationals in service sector activities, see UNCTC (1988).

customers abroad to provide a range of financial services which would otherwise be supplied by the local banks in the host country.[2]

A second factor has been the widespread adoption of market liberalization policies in many developing countries during the late 1970s and 1980s, often as part of a program of structural adjustment. Until the mid-1970s, developing countries in general followed a restrictive and protectionist policy towards foreign bank operations. The rationale behind this policy of regulating the presence and activities of TNBs was to maintain control over the monetary variables, including the allocation of credit, as well as to protect the local banks from foreign competition. From the mid-1970s onwards, however, this protectionist policy was relaxed in many developing countries in Latin America, Asia and the Far East. Influenced by the financial liberalization theories of McKinnon (1973) and Shaw (1973), the World Bank and IMF attached increasing importance to the removal of distortions in financial markets, in the conditionality attached to their structural adjustment lending. Thus, 'repressive' financial policies began to be 'liberalized' by abandoning government interventionist policies in the financial markets. Two main areas of trade in financial services were affected by liberalization measures. The relaxation of foreign exchange and capital movement controls allowed agents in one country to make use of the financial services provided by institutions in other countries. However, the expansion of this range of activities has been limited by the need for a degree of proximity between intermediaries and their clients (Gelb and Sagari, 1990:49). The second mode of trade in financial services involves direct foreign investment in establishing subsidiaries, branches or agencies in the country of residence of the user of the service. With the relaxation of regulatory controls on foreign banks' operations, there has been a significant expansion in foreign bank subsidiaries in developing countries.

Table 1 provides information on the global distribution of TNBs' subsidiaries. In 1985, the largest 100 TNBs had a foreign network of 4,660 offices. The distribution of these foreign offices is almost evenly split between the developing countries and the developed market economies. As one might expect, United States banks are the major group of TNBs in Latin America, whereas Japanese banks are the leading group in South East Asia. In Africa, the TNBs from France and the UK are the dominant group.

The expectation of developing countries in allowing foreign bank operations is that it will

[2] . This tendency for suppliers of services to follow their customers abroad is particularly evident in the case of Japanese TNCs. For a recent example, see Dicken and Kirkpatrick (1991).

encourage capital inflows and, by increasing competition, stimulate greater efficiency and modernization of the domestic financial sector (Germidis and Michalet, 1984). In neither case, however, are the potential gains guaranteed.

The impact of the entry of foreign banks on the balance of payments is complex. These institutions may stimulate an inflow of capital, including capital to establish their subsidiary network; and they may also provide import-substituting services. On the negative side, they may facilitate the export of capital and remittances. The impact of foreign banks on the performance of the domestic sector will depend upon the mode of market entry. If the market is segmented, with the foreign banks concentrated largely on providing services to major clients (in many cases subsidiaries of multinational corporations (MNCs), and with a branch network limited to the main urban areas, then the competitive gains from liberalization may not be realized. The gains from foreign entry are more likely therefore when there is a significant increase in the number of firms and a relaxation of controls on their domestic market operations. Foreign banking attitudes however can make a significant contribution to the modernization of domestic financial markets by creating externalities. Foreign banks typically introduce new practices which are subsequently adopted by domestic banks; modern banking techniques and skills are diffused to the local economy as nationals acquired managerial training in foreign banks and then transfer to the domestic sector.

3. Financial Sector Liberalization and Foreign Bank Operations in Turkey, 1980-89

Financial liberalization in Turkey has been part of a broader program of structural adjustment and economic policy reform in Turkey which began in 1980's. Rusdu Saracoglu (1987: 112), then Deputy Director of the Central Bank, has described the financial reform program thus:

"during the implementation stage the fragility and the results of decades of financial repression of the Turkish financial markets became painfully clear. Negative real rates, credit rationing, lack of competition, excessively high intermediation costs, and lack of diversity of financial institutions and instruments were all part of the scene. Financial markets were almost completely dominated by commercial banks with high concentration. They were protected and accustomed to non-price competition. Financial reform had two objectives. First, it was necessary to develop adequate instruments of the monetary policy and to improve the effectiveness of the existing ones. Second, the allocation and the operational efficiency of the money and capital markets needed to be drastically improved."

The main components of the financial liberalization program were liberalization of the exchange rate mechanism; liberalization of interest rates; institutional reforms; and capital and monetary market reforms.

As a first step towards liberalization, the Turkish lira was devalued by 33 per cent in January 1980 and from 1981 onwards a flexible exchange rate policy was adopted to maintain an unchanged real effective exchange rate through daily changes in the nominal rate. In July 1980 ceilings on interest rates were abolished.[3] Deregulation of interest rates resulted in a sharp rise in nominal rates from 30 per cent to 50 per cent on bank deposits and hence real rates became positive in 1981. In 1982 interest rates continued to rise rapidly. However, lack of regulations on financial institutions with respect to these recent developments led to an early collapse in the financial system. Therefore, from 1983 onwards the Central Bank was authorized to determine deposit rates on the basis of fluctuations in the inflation rate and other economic developments.

In 1981, the Capital Market Board (CMB) was established to implement the new Capital Market Law and to supervise all institutions operating in the securities market. However, the Istanbul Stock Exchange (ISE) became inactive from 1982 to 1985 owing to the damaging effects of the 1982 financial crisis. The ISE reopened in 1985, after the financial sector recovery.

In January 1983 a new banking law was introduced with extended provisions on capital requirements, contingency reserves for problem loans, a new deposit insurance scheme, unified accounting and reporting standards, and a requirement for external auditing. The aim of this new banking law was to make the operations of financial institutions more efficient in line with the new economic policy stance, and to prevent the possibility of another financial crisis resulting from a lack of institutional regulations. On the other hand, a number of important measures were taken in order to diversify the financial institutions operating in Turkey. In this connection, foreign banks were allowed to operate in the domestic market from 1981 onwards. Citibank and American Express Bank were the first foreign banks to open branch offices in Turkey in 1981. By the end of 1989, the number of foreign banks had risen to 21 (Banks Association of Turkey, 1989). In addition, in 1985, banks were allowed to operate according to Islamic banking practices and three Islamic banks were established. Nevertheless, owing to important restrictions imposed on the local activities of foreign banks, the impact of foreign entry on the competitiveness of the banking sector in Turkey remained insignificant.

After the liberalization of the financial system in 1980-82 the number of foreign banks increased sharply from four in 1980 to 15 in 1985 and to 21 in 1989. Hence, the composition of the banking sector changed dramatically, with the percentage share of foreign banks by number increasing from 9 per cent in 1980 to 34 per cent in 1989 (Table 2). Four of these new foreign banks were founded in Turkey as joint venture commercial banks. The remaining 14 foreign banks are branch offices of the major international banks from US, UK, France, Italy, Luxembourg, The Netherlands, Cyprus, Iran, Pakistan, Saudi Arabia, Bahrain and Kuwait (Table 3). The major motivation behind this substantial flow of foreign banks to Turkey was the trade liberalization and export promotion policies, which created a potential market for international trade.

The establishment of banks in Turkey requires the permission of the Council of Banks. According to Law No. 3182, articles 6, 7, 8 and 9, applicants are required to meet the following conditions in order to be eligible to open branch offices in Turkey:

a) To have the status of an incorporated company;

b) To bring into Turkey a minimum paid capital of 5 billion TL;

c) To ensure that directors or deputy directors of the branch offices in Turkey are Turkish nationals: and

d) Have not been barred from operation in their home country.

Foreign bank activities are also limited in relation to expansion and the opening of new branch offices in Turkey. The maximum number of branches that a foreign bank is allowed to open is five.

As in many other developing countries, the foreign banks in Turkey have a small market share in the total banking activities, and the percentage of total bank deposits and credits accounted for by foreign banks remains low (Table 4). On average, the foreign banks' share in total credits and deposits between 1979 and 1989 were 4.1 per cent and 2.7 per cent respectively.

The foreign banks appear to be more profitable than the local banks (Table 5). This is largely due to a number of advantages that the foreign banks have over the domestic banks. For example, foreign banks have negligible bad debt since they only work with the multinational corporations and large domestic holding companies; they are exempt from local preferential

[3] For a general account or Turkey's experience with the structural adjustment programme. sce Kirkpatrick and Onis (1991).

lending policies; They have the flexibility of borrowing from the local market or international markets, whichever borrowing rate is lower; they have low operating costs due to the small size of their networks and number of offices; and they have the advantages of having highly qualified staff and advanced technology (i.e. computerized systems).

4. *The Impact of Foreign Banks on the Turkish Banking Sector*

In Turkey, the major objectives in exposing domestic banks to foreign competition were to increase the diversification and quality of domestic financial services and to increase the efficiency of financial intermediation of banks. From the perspective of these objectives we have organized our analysis into the following sections: Modernizing the Domestic Banking Sector; and Efficiency in Financial Intermediation.

4.1 *Modernizing the Domestic Banking Sector*

In Turkey, the quality of the banking services was low until quite recently. This was due to the traditional and uncompetitive market structure of the banking sector where less than 10 per cent of bank employees were university graduates, financial products were very limited, and the banking system was not computerized (Berk, 1988). From 1980 onwards this picture changed. Liberalization of the Turkish financial sector and the entry of foreign banks resulted in a substantial change in banking operations in a way that improved the speed and quality of financial services.[4] Foreign banks introduced new products (e.g. credit cards and leasing) and brought computerized banking systems and a market-oriented management philosophy into the domestic banking sector. Banks in Turkey responded to these changes quickly by computerizing their operations and by becoming affiliated to the SWIFT network; and by introducing new financial products such as consumer credits, credit cards, leasing, forfeiting and factoring (The Banks Association of Turkey, 1988).

Further evidence on the modernization of the domestic banking sector was derived from our questionnaire and interviews with thirty of the largest domestic banks in Turkey, which indicated that modern management methods have been widely adopted as a result of the foreign banks' presence in the market. These changes can be summarized in three broad groups: Planning; Credit Evaluation and Marketing; and Recruitment.

[4] During the late 1980s, high domestic interest rates and the low depreciation rate of the Turkish lira encouraged banks to borrow from abroad and lend in the domestic market. This was particularly true in 1988 when the interest rate on one-year time deposits was as high as 80 per cent.

Planning

Until recently, there was no formal budgeting and planning in Turkish banking and heavy reliance was placed on 'on-the-spot' decision-making processes. The projection of the forthcoming year's performance based on past recorded accounting results appears to have been the main management tool in banking until the 1980s. However, the use of various budgeting and planning techniques by foreign banks in Turkey encouraged domestic banks to adopt modern planning techniques, budgeting, financial analysis and modern management information tools in order to evaluate their performance.

Credit Evaluation and Marketing

During the pre-1980 period in Turkey, decision-makers relied mainly on information obtained from their personal knowledge instead of actively searching for information and conducting financial analysis about their potential borrowers. Again, the challenge created by foreign banks induced traditional Turkish banks to reorganize their structure and adopt more sophisticated methods of credit evaluation. Banks became aware of the importance of accurate and reliable information in their lending. Therefore, for the first time they adopted a systematic approach to information gathering. From the questionnaire we found that 96 per cent of the sample banks now have intelligence units, whereas 24 per cent of these respondents did not have these units before.

Furthermore, according to our questionnaire results it appears that the lending criteria of banks have changed significantly. The question “What were your lending criteria before 1980 and what are your lending criteria now?” was answered as follows. For the pre-1980 period the majority of respondents replied that their most important lending criterion was the reputation of the firm; the second was a prior relationship with the firm, and the third was the management and capital structure of the firm. For the post-1980 period this ranking changed, and the most important lending criterion became the capital structure *of* the firm: the second was the riskiness of the potential borrowers' sector, and the third was the productivity of the firm. These changes indicate a significant improvement in banks' credit evaluation and hence credit allocation, since the financial position, riskiness and productivity of the borrowers have begun to be taken into account.

Foreign banks also brought new marketing strategies into the domestic market. Traditional Turkish banking was based on collecting deposits and lending these deposits with a profit margin to the borrowers, who were actively seeking loans from the banks. However, foreign banks introduced the practice of marketing strategies and first established their marketing departments. Domestic banks were therefore stimulated to develop their own marketing strategies by employing young professionals, conducting market research and identifying a number of well-established firms as their potential clients. Before financial liberalization there was also a heavy reliance on central decision-making at the head office whereas branch offices were merely acting passively. However, it appears from our interviews that domestic banks have begun to move their marketing activities from head offices to branch offices, making the branch managers more aware of their responsibilities.

Recruitment

The impact of foreign banks on domestic banking has also been felt in banks' recruitment strategies. The banks began to employ the best university graduates and young professionals who can speak a foreign language, with attractive salaries. A striking trend that appears in the employment statistics is therefore the shift towards university graduates where the ratio of employees in the banking sector with university or further education doubled from around 10 per cent in 1980 to 20 per cent in 1989 (Banks Association of Turkey, 1989).

These developments in planning, credit evaluation, marketing and recruitment indicate that not only advanced technology and new products, but also a market-oriented management philosophy, were adopted by Turkish banking. Thus the necessary conditions for an improvement in the efficiency and quality of banking services in Turkey were put in place during the post-liberalization period. These changes also positively affected efficiency in credit allocation since banks began to undertake market research and to collect systematic information about potential borrowers.

4.2 *Efficiency in Financial Intermediation*

There are a number of different concepts of efficiency which can be used to evaluate the financial system.[5] From the perspective of economic growth and development, we are concerned with the functional (i.e. operational) efficiency in financial intermediation. In general, functional efficiency is measured by the cost and profit margins of financial

[5] According to Tobin (1984) there are four separate concepts of efficiency. These are information arbitrage, fundamental valuation, full insurance, and functional efficiency.

institutions. A high financial intermediation cost refers to a wider spread between net return to savers and gross cost to borrowers. This indicates inefficiency in financial intermediation because high intermediation costs reduce the amount of resource mobilization through the financial sector. In addition to intermediation cost, high profit margins of financial institutions indicate a wider spread between borrowing and lending rates which unnecessarily increases the cost of borrowing and discourages investment.

According to the McKinnon-Shaw financial liberalization theories, in financially repressed countries where foreign bank entry is forbidden, the market structure is uncompetitive and financial institutions operate inefficiently with high costs and profits. This can also be explained in the context of the structure-conduct-performance hypothesis (S—C—P). The S—C—P hypothesis states that concentrated markets and high barriers to entry facilitate joint profit maximization through collusion and other pricing arrangements.[6] However, under perfect competition there would be no monopolistic profits in the banking sector. Therefore, it is argued that exposing banks to foreign competition will decrease the concentration ratio of domestic banks and reduce their excess profits and costs. This argument has also been supported by Terrell (1986) empirical research, which has shown that banks in countries that excluded foreign banks tend to have higher gross earnings, higher operating costs and higher profit margins, as a percentage of their total assets.

In order to test for the impact of foreign bank operations on the efficiency of financial intermediation in Turkey we calculated the cost and profit margins of domestic banks for the pre- and post-1980 periods based on data obtained from the balance sheets and income statements of the domestic private commercial banks.[7]

During the pre-1980 period domestic private commercial banks' operating costs, gross earning margins, and profit margins were almost constant as a proportion of their average total assets, at around 6 per cent, 5 per cent and 1 per cent respectively. On the other hand, during the post-1980 period domestic private commercial banks' cost and profit margins fluctuated sharply through 1980-89. Taking the simple arithmetic averages for each period separately we find that the operating cost, on average, rose from 5.04 per cent of total average

[6] There is a large empirical literature on structure performance relationship applied to the U.S. commercial banking sector. This literature is surveyed by Rhoades (1977), Heggestadt (1979) and Gilbert (1984).

[7] Cost and profit margins were calculated using the format developed by Revell (1980), and used by Passacantando (1983) and Hanson and Rocha (1986). Details of the estimated consolidated income accounts for the commercial banking sector, 1970-89, are available from the.

assets in the pre-Liberalization period to 5.82 per cent of total average assets in the post-liberalization period (Table 6). However, the mean difference of the operating cost between these two periods is not statistically significant at 95 per cent significance level. This result suggests that the operating costs of domestic banks in Turkey remained at pre-1980 levels, which were substantially higher than the operating cost rat o of banks in OECD countries.[8]

In contrast, the average profit margin rose from 0.86 per cent in the pre-1980 period to 2.904 per cent in the post-1980 period the average gross margin rose from 6.50 per cent to 8.15 per cent, and the average net margin rose from 1.49 to 2.28 per cent during the same period (Table 6). Except for the average net margin, the mean differences of these figures are all statistically significant—indicating an increase in profit margins of domestic banks in Turkey in the post-liberalization period. In other words, larger proportions of financial assets were captured as profits by the banking sector. This is contrary to the expectation that foreign bank entry would increase competition and eliminate monopolistic profits. It is consistent, however, with evidence which shows that foreign bank entry did not significantly reduce the concentration ratio of the domestic banking sector (Table 7). The share of the three largest domestic commercial banks in total deposits remained above 50 per cent until. 1988. This ratio is even higher for the private domestic commercial banks, as it remained above 70 per cent until 1987. These findings show that in Turkey the impact of foreign bank entry on the domestic banking structure was negligible with regard to market structure and efficiency. The banking sector retained its oligopolistic structure, with banks operating with high costs and high profit margins.

5. *Conclusion*

Financial liberalization in developing countries has been widely advocated during the past decade and financial sector deregulation has been a major element in the general shift towards a more open and market-oriented economic strategy adopted by many Third World countries in compliance with the conditionality attached to World Bank and IMF structural adjustment lending.

Despite the trend towards reform, the issue of the potential gains to the liberalizing economies from the opening up of the financial sector to foreign banks and institutions is complex, and is

[8] For the **OECD** group countries, operating cost is calculated as 2.8% of total assets in 1977 (Hanson and Rocha, 1986) and 2.3% of total assets during the period 1977-81 (Passacantando, 1983).

the subject of continuing debate and controversy.

The objective of this paper has been to contribute to this debate, by examining the impact of foreign banks entry on the domestic banking sector in Turkey. With the implementation of a financial liberalization program in 1980, previous restrictions on the entry of foreign banks were removed, and there was a significant increase in the number of foreign-owned banks operating in Turkey. The entry of foreign banks was expected to induce an improvement in the efficiency performance of the domestic banking sector.

The empirical results reported in the paper suggest that these benefits have not been realized. The cost efficiency of domestic commercial banks did not improve in the post-liberalization period. At the same time profitability increased. These findings suggest that the domestic firms were able to capture the productivity gains, which arose from the adoption of new technology and practices introduced by the foreign banks, in the form of increased profits. In the absence of effective competition, the domestic banks were not pressured into improving their cost-efficiency performance.

These results are consistent with the economic reasoning relating to deregulation and competition policy. The entry of foreign firms is unlikely to have a significant impact on the economic performance of domestic institutions, if the market remains oligopolistic and segmented. In the Turkish case, the foreign banks' activities were restricted, and limits were placed on the number of branches they could open. Consequently, the foreign banks accounted for a small share of banking transactions, and the existing oligopolistic and highly concentrated market structure was largely unaffected.

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Table 1: Foreign Network of 100 Largest Banks, 1985

Foreign o"ic..	**Total**	Developed	Developing COuntrie.				Centrall *y*	Eight
of Bank.	**Entiti..**	**Market**			Latin	South	Planned	**O1"Shore**
		Econo.i..	**Total**	**Africa**	**AlMrtca**	**ea.t Aaia**	**Ec:ono.t..**	**Countri..**
All 100 Sank.	.880	2998	-	-	-	-	118	808
France (9 bank.'	888	30.	2H8	U	IU	72	28	75
a.ntany. Fede,..1 Republic (11 bank.)	289	178	358	30	.5	17	8	31
Japan (28 bank.,	878	338	300	8	87	215	38	122
U.K. (5 bank.'	.57	20.	2H	89	52	30	8	82
united Stat..	88.	3U	511	8.	22S	U5	9	115

Source: UNCTC (1988) TableV.

Table 2: The Composition of the Turkish Banking Sector

Type of Bank	Number of banks (% by Number)				
	1970	1975	1980	1985	1989
State-owned Specialised	11	11	12	12	8
Banks	(24%)	(26%)	(28%)	(24%)	(13%)
National Private	28	24	24	20	24
Commercial Banks	(61%)	(57%)	(56%)	(40%)	(38%)
Foreign Commercial	4	4	4	15	21
Banks	(9%)	(10%)	(9%)	(30%)	(34%)
Development Banks	3	3	3	3	9
	(6%)	(7%)	(7%)	(6%)	(15%)
Total	46	42	43	50	62
	(100%)	(100%)	(100%)	(1 00%)	(1 00%)

Source: The Banks Association of Turkey, *Banks in Turkey, 1970-89.*

Table 3: Foreign Commercial Banks in Turkey, 1989

A) Banks Founded .in-Turkey

Bank	Year Founded	Country of Origin
1. Arab-Turk Bankasl	1977	Libya France-Turkey
2. Bnp-Ak Dresdner Bankasl	1986	
3. Birlesik TUrk Korfez Bankasl		US-japan-Turkey
4. TUrk Mitsui Bank	1985	France
5. Osmani Bankasl	1963	

B) Banks Opened Branches in Turkey

Bank	Year Founded	Country of Origin
1. Bank Mellat	1982	Iran
2. Bank of Bahrain and Kuwait B.S.C.	1986	Bahrain and Kuwait
3. Bank of Credit and Commerce International	1982	Luxembourg Italy
4. Banco di Roma	1911	France
5. Ban Que Indosuez	1986	USA
6. Citibank N.A.	1981	France
7. Credit Lyonnais	1987	Pakistan
8. Habib Bank Ltd	1983	The Netherlands Cyprus
9. Holantse Bank Uni. N.V.	1921	
10. Klbrls Kredi Bankasl Ltd	1988	USA
11. Manufacturers Hanover		Saudi Arabia-USA UK
Trust Co.	1984	USA
12. Saudi American Bank	1985	
13. Standard Chartered Bank	1986	USA Cyprus
14. The Chase Manhattan Bank	1984	
15. The First National Bank of Boston	1984	
16. TUrk Bankasl Ltd	1982	

Source: The Banks Association of Turkey. 1990; Euromone> Publications, 1988.

Table 4: Foreign Banks' Share in Total Deposits and Credits in Turkey (1979-89)

Year	% of Total Credits	% of Total Deposits
1979	1.2	2.1
1980	18.6	2.4
1981	1.9	2.4
1982	2.2	1.8
1983	2.7	2.1
1984	3.4	2.3
1985	3.7	2.1
1986	2.6	3.6
1987	2.5	3.7
1988	3.0	3.9
1989	3.2	3.0
Average (1979-89)	4.1	2.7

Source: Banks Association of Turkey. *Banks in Turkey, 1979-89.*

Table 5: Profit/Total Assets Ratio of Banks in Turkey (%)

Year	Public Banks	Commercial Banks	Foreign Banks	Sectoral
1981	2.05	0.38	2.68	1.80
1982	1.34	0.48	3.76	1.16
1983	0.68	1.03	3.79	1.06
1984	1. 78	1.85	4.35	1. 94
1985	1.54	1.57	4.87	1.68
1986	1.51	2.12	3.15	1.89
1987	1.74	2.50	4.00	2.15
1988	2.25	2.94	5.53	2.60
1989	1. 38	2.21	2.60	1.76

Source: Banks Association of Turkey, *Banks in Turkey. 1981-89*

Table 6: Domestic Private Commercial Banks: Average Cost and Profit Margins between 1970-79 and 1980_89

	Pre-liberalization (average ratio. 1970-79)	Post-liberalization (average ratio. 1980-89)
Gross margin/average total assets	6.50	8.15* (-3.00)
Operating cost/average total assets	5.04	5.82 (-1.98)
Net margin/average total assets	1.49	2.28 (-1.62)
Profit margin/avrage total assets	0.86	2.04 (-3.69)

Source: Calculated from publications of the Banks Association of Turkey.

*Significant at 95 per cent significance level.

t-statistics are given in parentheses. t-critical value at 95% significance level is 2.101

Table 7: Three Bank Concentration Ratios of Domestic Banks by their Deposits, 1975-89

Year	Domestic Private Commercial Banks*	Total Domestic Commercial Banks**
1975	0.79	0.55
1976	0.64	0.61
1977	0.91	0.57
1978	0.76	0.57
1979	0.71	0.57
1980	0.61	0.84
1981	0.69	0.52
1982	0.70	0.56
1983	0.76	0.58
1984	0.71	0.60
1985	0.75	0.57
1986	0.71	0.55
1987	0.69	0.52
1988	0.67	0.49
1989	0.60	0.47

Source: Publications of the Banks Association of Turkey.