BANKING SECTOR OF TURKEY: ANY LESSONS FROM THE CRISIS?

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Abstract

The banking sector of Turkey faced a financial crisis that resulted in the closure of many banks in 2001. Transition to Strong Economy program put into effect for making structural changes in the financial system after the crisis and practices for financial stability was implemented by the Central Bank in the years following. This study aims to reveal descriptively effects of Transition to Strong Economy Program (GEGP) in the last 15 years and later on, policies executed intend to financial stability on banking system on the basis of banking sector indicators.

Key words: *banking sector, financial crises, economy of Turkey*

1. INTRODUCTION

Integration process to the world economies started in economy of Turkey through the liberal policies implementation in 1980. A fragile structure occurred in the economy during this process because of permanent changes in governments and inappropriate policies implemented by each of them. Crisis experience of Turkey started with the banker crisis in two years of determination after the determination of liberal policies and 1994, 2000 and 2001 crisis are the other elements in that experience.

In the 1990s Turkish economy was overshadowed by high inflation rates, high interest rates and out of balance loan dynamics and throughout this process the country has often faced economic crises. In 1999, striving to reestablish stability in the country, foreign exchange rate anchor has been applied with support from international organizations. Implication of exchange rate anchor caused melting in central bank reserves as a consequence of speculative attacks and change of currency regime. Currencies that continued to increase after that change affected the banking sector which was in short position deeply.

Crises consisted in last 20 years caused the problems deepen notably in terms of banking sector. Structural issues that were not seriously regarded until the implication of GEGP in 2001 are treated inside of this program.

This study will firstly analyze the situation before 2001 crisis briefly, then will examine the 2001 economic crisis and restructuring plan for the banking industry and in the final part, the banks which had been transferred to the Saving Deposit Insurance Fund (SDIF), public banks, and private banks operating in the Turkish Banking Industry in the post-crisis period after 2001 will be addressed.

2. THE SITUATION BEFORE 2000

On January 24, 1980, following the implementation of regulations which are known as the January 24 Decisions, Turkish economy has entered into a financial liberalization process. Since January 24 Decisions included regulations that provide incentives to foreign investors and that facilitate profit transfers in order to achieve better integration with international markets, it had structural effects on the banking sector.

The most important effect of these decisions on banking sector is the releasing of the deposit interests, switching to positive real interest rates and the significant increase in the amount of interest rates for loans provided to the banking industry by allowing banks to issue certificates of Deposits on July 1, 1980 (Telli, 2016, 64). As a result of the competition between bankers collecting deposits and banks and the increase in interest rates provided for deposits to increase after the release provided by the

decision; the financial sector tools, which were already facing difficulties paying the interests of deposits tried to pay the previous interests by paying higher interests for the deposits and therefore, as the interest rates for loans increased, the real market started not being able to obtains loans with reasonable costs. This fragile structure didn't continue for very long and as a result, the banker crisis in 1982 broke out. After the crisis, the interest rates until 1988 have been again determined by the Central Bank; many banks have suspended their activities or have been transferred to the public bank Ziraat Bankası with their assets and liabilities and in order to cover the losses of depositors who had suffered due to bankers, the banker's sufferers law was passed (Kahraman Akdoğu, 2012, 194-195).

With the Articles 12, 13 and 14 of the "Legislation no. 32 on Protection of Value of Turkish Currency," which was deemed as liberal as the January 24 Decisions, passed in 1989, the capital movements were liberalized. With the liberalization of capital movements, domestic borrowing costs increased and the problem of Ponzi Funding's settlement in which debts are covered by more borrowing occurred (Şanlısoy&Çetin, 2016, 69). The budget deficits that deepened due to the politics implemented by the public authority after 1989, in 1994 the system could no longer be sustained in pursuant to the Ponzi Funding and the crisis occurred. The areas that were affected from the crisis the most were the capital and foreign exchange markets (Ardıç, 2004, 146). After the crisis, "Economic Measures Application Plan" known as the April 5 Decisions were implemented after the crisis. According to the articles published in official journal of Republic of Turkey in 1996, it is declared that the Plan focused more on the economic stability target in the short-term and contained structural changes that would enable an economic infrastructure that decreased the share of the public sector in economy, that balanced incomes and expenses to ensure a healthier economy and dominated by market conditions. However, after the implementation, structural changes such as fast and effective privatization, social security reform and rational employment in public sector didn't take place. Also, even though these decisions facilitated the shrinking of public debts and real wages-real exchange rate problem; they weren't adequate to resolve the chronic problem of high inflation-high interest rates (Yükseler, 2009, 4). Due to the macro economic imbalances and problems that turned into chronicle problems after April 5 Decisions, in 1999, the Exchange-Rate Based Stabilization (ERBS) Program with the support of IMF was implemented in order to prevent a possible crisis. The imbalances in trade and current account balance to appear in Turkish economy due to inflation rates to slowly catch up with the devaluation rate and the cycle of economic shrinkage to follow the economic expansion at the beginning of the program caused November 2000 and February 2001 crisis to blow up (Balıkçıoğlu, 2010).

3. NOVEMBER 2000 AND FEBRUARY 2001 CRISIS AND THE RESTRUCTURING PROGRAM

In the period up to November 2000 the Turkish economy was faced with short positions in banking sector and duty losses in public banks; current account deficit in economy at large, financial sector operating without capital and overvaluation of national currency (Orhan, 2013, 123). Overvaluation of national currency is a threat to banks in terms of foreign exchange position and also, the borrowing of the public sector from the market meant that the share of government debt securities (DİBS) in the asset structure of banking industry increased. This caused the problems that already existed in the banking sector to deepen and become varied. On November 22, 2000, the interbank overnight basic interest rates increased by three times and the foreign exchange reserves of the Central Bank decreased by $5.5 million within the last two weeks dropped down to $18.9 billion; thus causing a new financial crisis to break out (Uygur, 2001,6). The banking sector had a leading role in the November 2000 crisis and we can summarize the reasons as below (Çolak, 2001, 23).

- The solutions applied for the fiscal policies designing short-termed and the discontinuity observed in such policies;
- The liabilities indicated in the balance sheets of banks consisting more of foreign exchanges;
- Mistakes in loan investments;

- The high share of DİBS's in liquidity management,
- The deterioration in the quality of assets in balance sheets,
- The wrong perception in the banking sector about financial liberalization.

With the emergence of the crisis, the $7.5 billion loan provided by IMF and the households to demand Turkish Lira instead of foreign currencies prevented the November crisis to deepen however, the foreign exchange rate anchor continued to be applied despite warnings of IMF (Alagöz, Işık&YDelice, 2006, 364).

The problems with public accounting and money markets emerged once more in February 2001 even though the November crisis was moderately overcome thanks to the IMF loan and the behavior of households. The insistence on anchor application was seized despite the crisis in February and the foreign exchange rates were allowed to float as the foreign exchange reserves of the Central Bank were not adequate. In February 2001, as a result of negative developments that occurred before the borrowing tender of the treasury, the trust in the current program was shaken and since banks tried to cover their demand for high liquidity from the market with high interest costs, the balance of payments became dysfunctional and the crisis became inevitable (Güçlü, 2004, 5). The November 2000 and February 2001 crisis are two of the crisis that affected the Turkish economy the most. The Transition to the Strong Economy Program (GEGP), which was applied for the whole of the economy after the crisis; was implemented at a time when the foreign exchange regime in Turkey was changed and therefore, the trust in the markets were low. In order to eliminate the structural failures that have been accumulating over the years, the Program was implemented in order to fight inflation, build an effective banking sector, ensuring public funding balance, fair distribution of income with policies in line with the inflation targets and a legal structure (TCMB, 2001). The measures that should be taken for the banking sector were taken through the Restructuring Program for the Banking Sector (BSYYP) implemented in May, 2001.

In line with the scope of this study, the changes proposed by BSYYP and the problems it considered will be assessed. Within the scope of the program, the targets aimed at restructuring of the banking sector was categories in three main categories as Public banks, banks seized by SDIF and private banks (BDDK, 2001).

4. THE POSITION OF PUBLIC BANKS AFTER THE CRISIS

Before the crisis, the public banks were structurally mostly providing resources through subsidies to the agricultural sector and entrepreneurs. This period is marked by public banks not performing their main banking duties and suffering duty losses due to populist policies. In addition to the public authority not paying the duty losses on time, the structure included excess personnel due to wrong employment policies. With the beginning of the crisis, new DİBS have been issued for resolving the problems arising out of duty losses of public banks and to be used for the problems related with banks seized by SDIF. The burden of these issued securities issued on the public economy was at very remarkable level. The treasury's domestic debt stock which as TL 32.5 billion in November, 2000 increased by 160% in May 2001 to TL 84.5 billion and TL 50 billion of this increase of TL 52 billion consisted of banks seized by SDIF and the securities issued within the scope of restructuring of public banks (Balıbek, 2011, 375).

Table 1. The Debt Stock Related to the 2001 Crisis

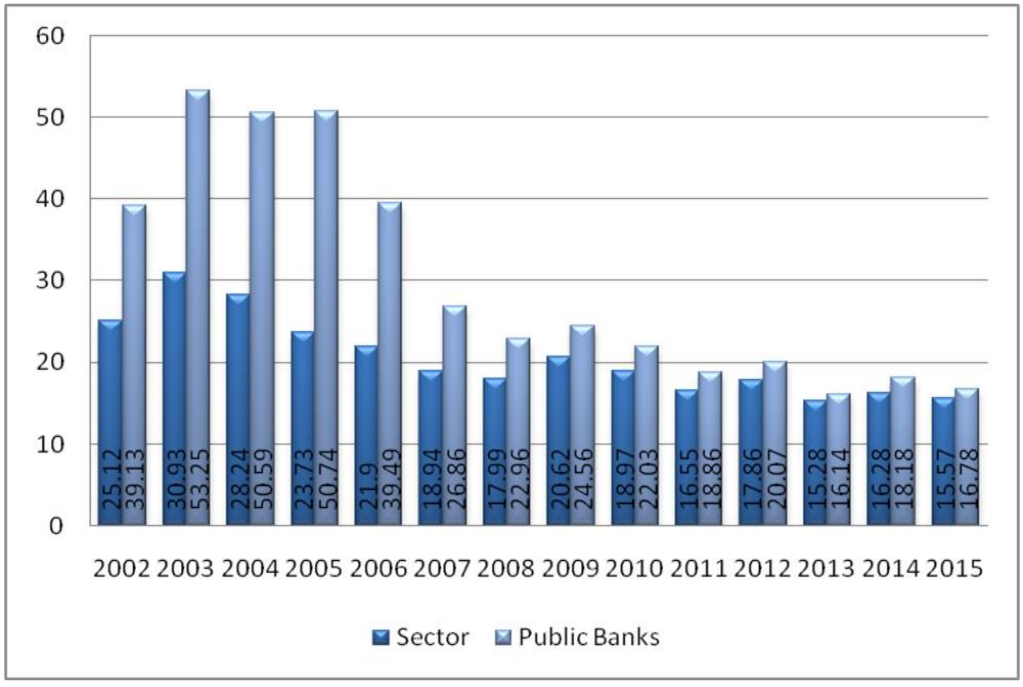
Million TL	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
T.C. Ziraat Bankası	14,262	15,506	18,310	17,396	16,375	13,535	11,535	6,913	2,896	0
T. Halk Bankası	8,301	8,761	8,923	8,825	7,433	5,155	3,055	2,655	2,655	0
T. Emlak Bankası	157	9	5	0	0	0	0	0	0	0
SDIF	16,008	13,409	9,597	4,314	2,155	2,159	1,416	764	0	0
T.C. Merkez Bankası	18,778	18,427	18,427	18,427	18,427	17,778	16,028	13,028	8,028	0
TOTAL	57,507	56,112	55,262	48,962	44,389	38,627	32,035	23,360	13,579	0

Source: Undersecretariat of Treasury.

As shown in Table 1, at the end of 2001, the debt stock related to the securities initiated concerning the 2001 crisis issued rose over TL 57 billion. The securities issued in this period were provided in order to cover the duty losses of public banks and to ensure efficiency in the capital structure of public banks. The redemption period of these securities were expanded over 9 years and at the end of 2010, all of the securities issued in line with the measures for resolving the crisis were redeemed.

In line with the Transition to the Strong Economy Program, the main setbacks observed in public banks were lack of capital adequacy, incorrect employment policies and duty losses (TCMB, 2001). TL 217.6 million cash capital has been paid to Ziraat Bank in March, 2001, TL 67.2 and TL 40.8 million cash capital have been paid respectively to Halk and Emlak Banks in April for capital adequacy (BDDK, 2001, 14).

Figure 1. Capital Adequacy Ratios



Source: BDDK

Thanks to these improvements, the capital adequacy ratios of public banks very much exceeded the sector's average. In 2003, the capital adequacy ratio of public banks was the highest after the crisis with 53,25%. However, this ratio followed a downwards trend over the years and in 2015, it reached the lowest level since crisis with 16.78%. This ratio is crucial as it represent how resistant public banks are to operational risks and market risks in proportion to their capital. The 2015 data indicated that since there is a downward trend in terms of capital adequacy observed in pubic banks that meet the internationally accepted Basel I and Basel II (appreciation rate of 8% for Basel I and 12% for Basel II), there are risk present in terms of capital adequacy.

Table 2. Changes in Personnel Structure

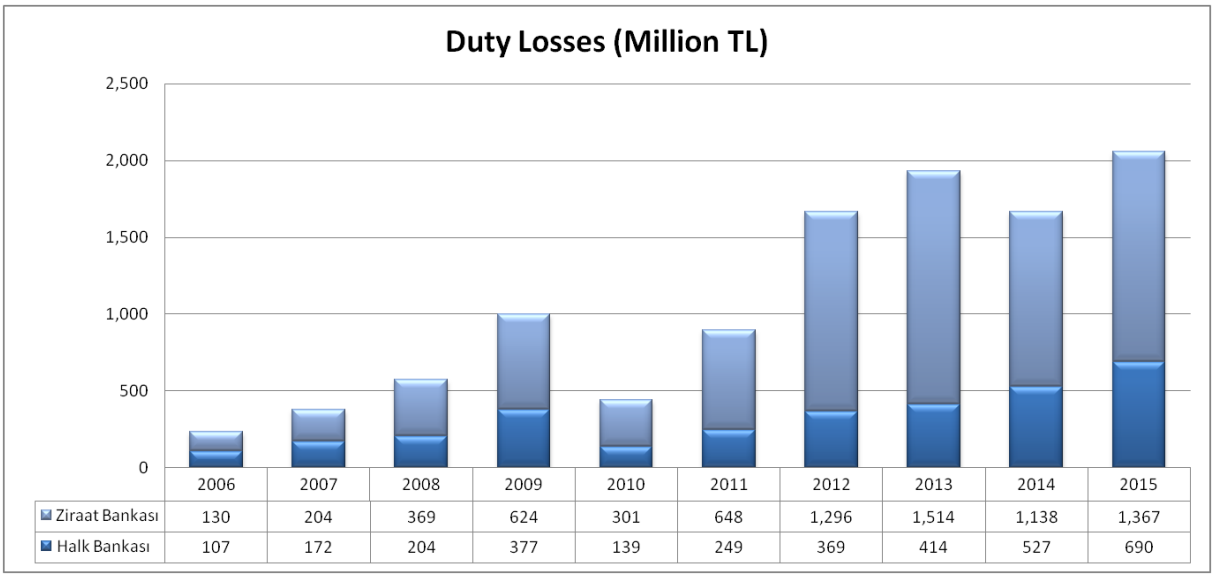
	Sector		Public Banks	
	Staff Expenses (Million TL)	Total number of staff / Total number of branches	Staff Expenses (Million TL)	Total number of staff / Total number of branches
2003	4,030.64	20.41	1,444.87	21.04
2004	4,654.48	20.5	1,432.11	19.79
2005	5,482.54	21.12	1,535.24	20.17
2006	6,530.42	20.67	1,706.46	19.53
2007	7,973.62	20.66	1,916.75	19.9
2008	9,784.29	19.63	2,254.01	19.81
2009	10,413.25	19.23	2,544.38	19.49
2010	11,621.49	18.99	2,832.47	18.7
2011	12,932.65	18.57	3,180.69	18.53
2012	14,204.74	18.21	3,491.23	17.94
2013	16,700.22	17.87	4,350.92	17.16
2014	18,574.84	17.77	4,739.15	17.01
2015	20,598.75	17.73	5,476.78	16.8

Source: BDDK

When we examine the regulations regarding employment, it is observed that there is a serious drop in staff per branch of public banks after the crisis with the advancements in technology. In 2015, the number of personnel per branch had finally dropped to 16.80. The rate of personnel per branch for public banks was the highest in 2003 and the lowest in 2015.

The problem of duty losses of public banks was eliminated as a result of the legal regulations implemented to eliminate this problem, which is the last problematic category related to public banks. While a grant was allocated in the budget prepared to transfer the resources to public banks in order for public banks to provide support when necessary after the crisis; the payments were not made before losses (BDDK, 2001, 14).

Figure 2. Duty Losses of Public Banks

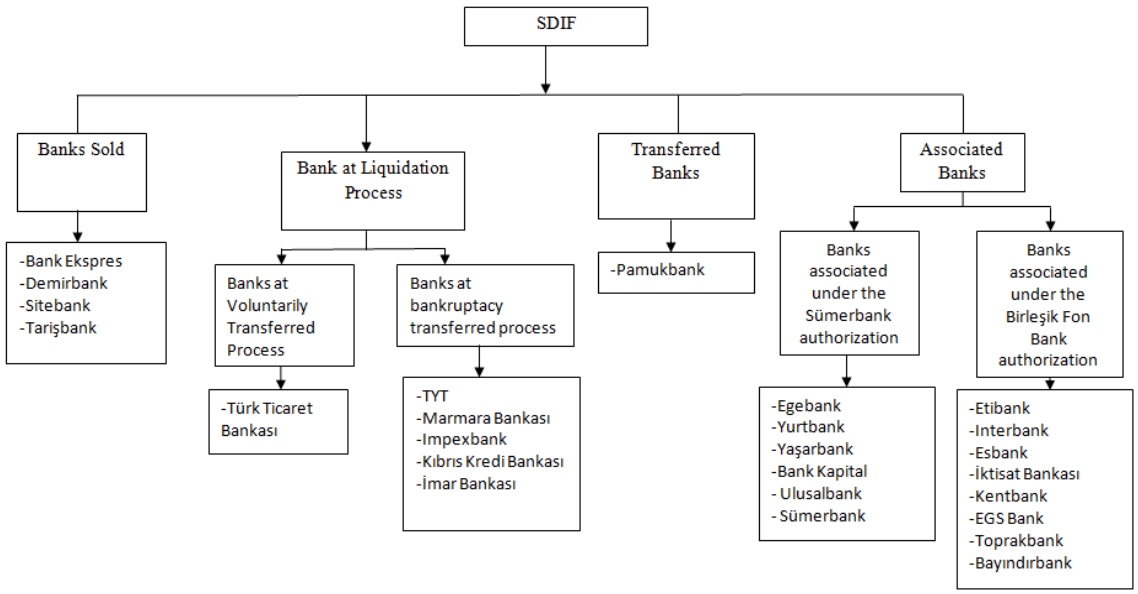


	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Ziraat Bankası	130	204	369	624	301	648	1,296	1,514	1,138	1,367
Halk Bankası	107	172	204	377	139	249	369	414	527	690

Source: TCMB EVDS

When Figure 2 is considered, it is observed that the duty losses of Ziraat Bankası, which provides resources for the agricultural sector and Halk Bank, which provides resources to SMEs have increased after 2006. As mentioned before, even though these are paid beforehand and therefore, didn't constitute any problems for the banks; it still indicated that the public banks are not fulfilling their main obligations. The increase in the duty losses of public banks was the highest in 2015 with losses exceeding TL 2,057 million.

Figure 3. Case of SDIF



Source: TMSF

SDIF is a public entity that has been established and authorized to insure savings deposits, strengthening the financial structures of, restructuring and transferring the third persons of banks of which the partnership rights except for dividends, management and supervision and/or share certificates have been transferred to SDIF and to fulfill other duties and tasks that have been assigned to it by the Council of Ministers (Official Journal, 2004). The Fund has played an important role in November 2000 and February2001 crisis due to the duties and rights assigned to it. In addition to the 12 banks that have been under the control of the fund due to these banks not performing their banking duties properly, with the banks added after the November 2000 crisis including Bank Kapital, Ulusal Bank, Etibank, İktisat Bank, Kent Bank, EGS bank, Toprakbank, Bayındırbank, Demirbank, Sitebank, Tarişbank, Pamukbank and İmar Bank, the fund had assumed the duty of resolution of 25 banks in total.

The fund adopted four different methods for the resolution process; direct sales, liquidation, transfer and merger. In this respect, in 2001, with the direct sale of Bank Ekspres to Tekfenbank, Denizbank to HSBC, in 2001, Sitebank to Novabank and Tarişbank to Denizbank, their resolution processed were completed. Another bank in the form, Pamukbank was transferred in 2004 to public bank Halk Bank.

TürkTicaret Bank, which was liquidated, went into voluntary liquidation process. The liquidation processs of TYT, Marmara Bank, Impexbank, Kıbrıs Kredi Bank and İmar Bank continue by the bankruptcy administration.

Another method used by the fund was mergers of banks in line with the structural changes to be implemented in the banking sector in accordance with the GEGP prepared after the crisis. In this respect, Egebank, Yurtbank, Yaşarbank, Bank Kapital and Ulusal Bank merged under the roof of Sümerbank and transferred to Oyak Bank in August, 2001, which continued under the name ING bank after 2008. On the other hand, while İnterbank and Esbank were merged under the roof of Etibank and together with İktisat Bank, Kentbank, EGS Bank and Toprakbank, which have been included under Etibank, merged under Bayındırbank. The Bank was then turned into a transitional bank under the name Birleşik Fon Bank. The only bank included in the fund after the 2001 crisis is Birleşik Fon Bank, which does not operate in the sector.

5. THE POSITION OF PRIVATE BANKS AFTER THE CRISIS

Private banks which could no longer operate after the crisis were transferred to SDIF. A road map was draw within the scope of GEGP for banks that continued to operate. The map included areas such as removal of obstacles against special period profit to be added to capital; legal regulations for a healthy structure through mergers, decreasing the ratio of non-financial affiliates included in the banks' balance sheets to equities, regulations regarding tax and stimulating long-term investments (TCMB, 2001).

When the capital in the sector is observed, the growth of the capital of private banks was in line with the growth observed in the Turkish Banking Sector. Despite the increase in the capital, the downward trend observed in capital adequacy ratios indicated that the risks mentioned for public banks also were threatening the private banks.

With the increase in main capital and equities, the decrease in the share of non-financial affiliates that were important in terms of the asset items in the crisis period enabled the ratio of the non-financial affiliates to equities of private banks to drop as intended with the implementation of the program.

CONCLUSION

The structural defects and political concerns plus problems accumulating as a result of economy policies that weren't implemented in a healthy manner in the long term in Turkish economy caused the November, 2000 and February, 2001 crises to break out. These crises are important as they are the crises that affected the Turkish economy the most. After the crises, the GEGP has been implemented and the regulations regarding the banking sector have been determined in accordance with BSYYP.

BSYYP have determined a road map that separated banks into three categories such as public banks, banks transferred to SDIF and private banks. In this respect, steps have been taken to increase the capital of public banks to an adequate level, structuring of their employment structure and eliminating the duty losses they suffer and thus, for public banks to perform their main banking duties. The policies and legal regulations implemented decreased the number of personnel of public banks yet, the personnel expenses increased. Through adding a grant to the budget to cover staff losses, the staff losses to turn into a problem for public banks was eliminated. However, especially after 2006, the increases in duty losses indicate that the public banks are performing duties which are not their main duties. The target to strengthen the capitals of public banks was successfully achieved. Finally, despite the importance paid to the requirement to privatize public banks in order to ensure that the market structure is dominant in the sector, no real progress has been achieved in this respect except for partial public offering of Halk Bank.

After the crisis, the resolution of bankrupt banks that have been transferred to SDIF was completed and except for BirleşikFon Bank, which was turned into a transition bank by merging of 8 other banks, all other banks have been transferred, liquidated or directly sold. When it is considered that the BirleşikFon Bank under the control the fund is not active in the sector; the removal of the banks that weren't functioning properly from the sector was successfully accomplished.

In terms of private banks, the legal regulations implemented for the strengthening of their capitals was successful. However, the transactions with high market and operational risks has decreased capital adequacy. Even though capital adequacy ratios of these banks meet the international adequacy ratios, this ratio to follow a downward trend after the crisis appears as an important indicator that should be followed. While steps taken for ensuring that the trust in the sector is reestablished, increasing the maturities of deposits couldn't be increased to the desired level.

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