Turkey

Abundant funding and good institutions

Turkey is served well by branch networks of domestic as well as foreign-owned banks. Branch concentration is denser in the west and along the Mediterranean and Black Sea coasts, with almost a third of all branches based in the Istanbul area. Local banks regard cross-border lenders as important competitors in the corporate segment.

Turkish banks typically involve a relatively large number of organisational layers when approving loans. In the case of corporate lending, nearly four decision-making levels must be cleared. This is the highest among any of the comparator regions (Chart 2). To a lesser extent the same system applies for small and medium-sized enterprise (SME) lending.

Compared to other EBRD countries of operations, there is a more "hands off" approach to management of subsidiaries of foreign-owned Turkish banks by their parent banks (Chart 3). For instance, financial support from parents is a less important determinant of local credit growth. In addition, risk management and overall strategic decisions lies more with the subsidiary. This reflects that most foreign strategic investors in Turkish banks do not acquire full ownership, at least initially. Instead, part of the bank remains traded on the stock exchange and/or in the hands of the original owners. Widespread public listings also mean that banks have to comply with local corporate governance measures such as audit requirements.

Turkish banks are relatively positive about their institutional environment. Compared to other regions, they complain relatively little about the burden of direct interventions by the regulator, although such complaints have increased in Turkey as they have in most other regions (Chart 4). This positive sentiment also shines through in banks' assessment of the legal system. Compared to other countries, Turkish banks overwhelmingly "agreed" or "strongly agreed" that their court system ensures an efficient enforcement of both pledges and mortgage rights. This is important as Turkish banks seem to rely more on collateral (either business or personal) when lending to SMEs than banks in other EBRD countries of operations.

Chart 1 Bank localities by ownership

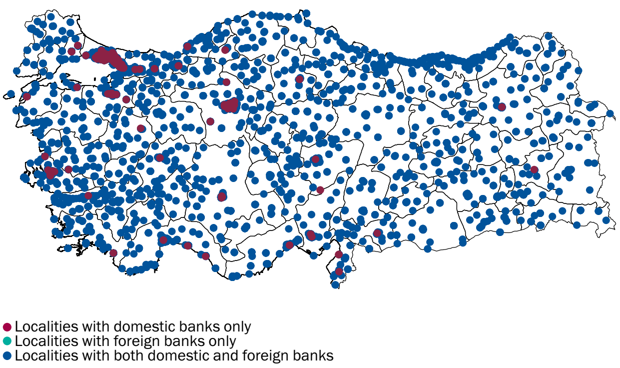


Chart 2 High number of layers in lending decisions

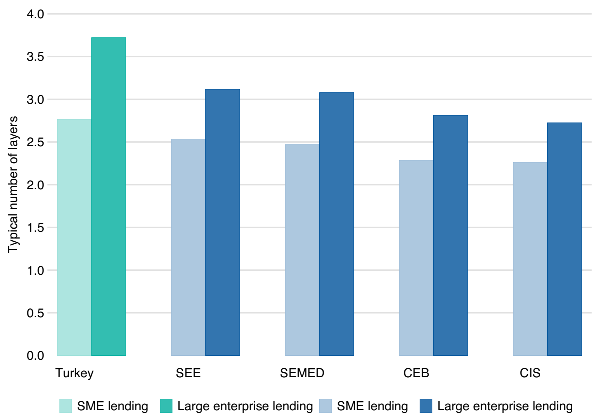
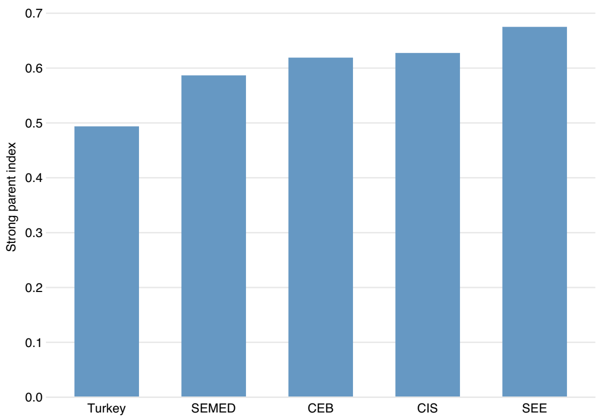


Chart 3 Parent bank influence limited*



*The strong parent bank index measures the extent to which parent banks control and influence subsidiary decisions.

Chart 4 Perceived regulatory burden remains low