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DEVELOPMENT AND INVESTMENT BANKS IN TURKISH BANKING SYSTEM

Abstract:

All the theories of development assert that the development of the developing countries could be viable through industrialization and investments in this field. The most important obstacle for the developing countries is the low level of income and insufficient amount of savings resulting from it. In order to overcome these problems, developing countries have established development and investment banks. This study analyses the role and the financial performance of development and investment banks operating in Turkey. The results of the study suggest that these banks own quite high capital adequacy and hence have the highest return on assets and the lowest return on equity.

Introduction

Development banks are the banks, which enable entrepreneurs to invest in branches of industries by providing technical assistance and meeting the investment capital deficit and accelerating the industrialization process (Ertuna. 1982:121). Development banks, with the essential technical assistance, contribute to development process through supporting and improving the enterprises with insufficient capital in developing countries and transferring the scarce sources to the beneficiaries in line with the developmental objectives

(Takan and Boyacioğlu, 2010:59). Investment banks, on the other hand, are the financial establishments which perform the function of counselling and financial intermediation for the investors with idle funds in countries with developed capital markets for trading securities and which do not provide loans for establishments but meet their medium and long term fund needs (Küçükkocaoğlu, 2005:2).

The paper is organized as follows; the first section outlines brief information on development and investment banks, the second section investigates the place of development and investment banking in Turkish banking sector with the help of financial figures and ratios. In the conclusion part, the data collected will be interpreted.

1. Development and Investment Banking

1.1 Development Banking

Development banks were established in developing countries by the incentives of the World Bank in the 1950s. The World Bank demanded that governments which applied to the World Bank should establish a development bank as a prerequisite. Development banks provide funds for investors by giving loans or through partnership. The function of development banks can be listed as below (Takan and Boyacioğlu, 2010:60-61);

- to encourage investments by performing feasibility plans and studies and preparing investment projects,
- to finance investments using internal and external resources for the investor firms,
- to perform the function of mediation to channel foreign capital to investments as long as it is in line with policies of the governments.

Development banks obtain their resources from domestic and foreign capital as well as government support and domestic borrowing. Besides, such institutions as the International Bank for Reconstruction and Development (IBRD), International Finance Cooperation (IFC), International Development Association (IDA), and Agency for International Development (AID) provide funds for development banks.

Development banks are classified into three according to their operation and type and ownership nature. These are development banks according to operation domain, those according to operations type (those only offering loans, offering partnership for industrial enterprise or dealing with stock trading), and those according to

ownership type (those established with public capital or private capital).

Besides providing medium and long-term fund for the entrepreneurs, development banks have functions such as directing the resources to basic sectors, contributing to the development of capital markets, offering technical and administrative support for entrepreneurs and pioneering in the new fields of investment (Takan and Boyacıoğlu, 2010:62).

1.2 Investment Banking

Investment banks are financial institutions which mediate between natural / legal persons with investing their savings in securities and institutions with an aim to provide long-term funds through floating securities. Investment banks pay an important role in creating sound financial assets and strengthening confidence. Hence, investment banks head financial intermediaries required for the development of capital markets (Canbaş and Doğukanlı, 2007:240).

Below are the major functions of investment banks (Küçükkocaoğlu, 2005:2);

- To purchase the securities of the firms planning public offerings and sell the securities on behalf of them,

- To provide any support and bail for the issued securities,

- To perform counselling for the firms with an aim to invest in securities,

- To facilitate security purchases by guaranteeing that the payment of principal and interest of issued securities will be paid when due, to provide medium and long term funds for the establishments.

As can be seen in the explanations, such banks are not for personal savings. Rather, these banks manage the funds allocated to them and shape the circulation of the funds available (Aksoy and Tanrıöven, 2007:106).

1.3 Development and Investment Banks in Turkey

If we take a look at the multi-national development and investment banks in the world, we can give such examples as International Bank for Reconstruction and Development, International Finance Cooperation, International Development Association, Multilateral Investment and Guarantee Agency and the banks offering regional services such as the European Bank for Reconstruction and

Development, European Investment Bank, Asian Development Bank, African Development Bank and Islamic Development Bank (Alptuğ, 2007:63-98).

Although in Turkey the field of operations of many banks operating both fields fall within development banking, they are named as investment banks. In particular, the private sector did not pay any attention to the distinction of the names and they define themselves as investment banks (Küçükkocaoğlu, 2005:5).

The number of development and investment banks in Turkey is 14. 10 banks are state owned development and investment banks and others are foreign owned banks.

Table 1

DEVELOPMENT AND INVESTMENT BANKS IN TURKEY

Development and Investment Banks
State Owned Banks
İller Bankası
Türk Eximbank
Türkiye Kalkınma Bankası A.Ş.
Private Banks
Aktif Yatırım Bankası A.Ş.
Diler Yatırım Bankası A.Ş.
GSD Yatırım Bankası A.Ş.
İMKB Takas ve Saklama Bankası A.Ş.
Nurol Yatırım Bankası A.Ş.
Türkiye Sinai Kalkınma Bankası
Foreign Owned Banks
Pozitif Kredi ve Kalkınma Bankası A.Ş.
Credit Agricole Yatırım Bankası Türk A.Ş.
Merril Lynch Yatırım Bankası A.Ş.
Taib Yatırım Bank A.Ş.

Resource: The Bank Association of Turkey, The Participation (Islamic) Banks Association of Turkey, December 2010

2. The Place of Development and Investment Banks in Banking Sector

The fact that the economy of Turkey is in recovery trend and the perception of risk is low and that there is fierce competition in the

banking sector have led the loan supply to increase. The increasing confidence in the economic outlook, improvement in employment and the low levels of loan interest rates have supported the increase in the loan supplies. Increasing volume of loans and current account deficit and acceleration of short-term capital inflow put the risks on financial stability to the agenda. The new policy combination implements by Turkish Central Bank aims to bring the increase in loans to reasonable levels for financial stability and to make the maturity dates of the portfolio investments longer with the increase in the corporate sector and households' debt repayment capacity, performing loans ratio decreased and the quality of assets of sector is strengthened. Although the profitability performance in the banking sector is in the trend of decreasing because of the decline in net interest margin and the limited decline in the capital adequacy ratio on account of the effect of the increase in loans, the banking sector manages to sustain the strong capital and profitability structure.

Turkish banking system reached 1,007 billion Turkish Lira (TL) (657 billion USA Dollars) in assets size and recorded a very high rate of development by 21% a year in TL in 2010. The asset size of the development and investment banks, on the other hand, was by 15 % because of the pressure of the global crisis on investment loans (Table 2).

Table 2

BRANCHING, EMPLOYMENT AND ASSETS IN BANKING SECTOR

	The number of banks branches				The number of employees		Total Assets		
	2009		2010		2009	2010	2009	2010	2010
	Bank	Branch	Bank	Branch			Million TL	Million TL	% (TL)
Deposit Banks	32	8,911	32	9,423	167,064	173,134	771,512	933,250	21
State Owned Banks	3	2,530	3	2,744	44,856	47,235	249,976	299,378	19
Private Banks	11	4,390	11	4,582	82,271	83,633	413,241	498,141	20
Bank Owned by the Fund	1	1	1	1	261	252	872	849	-2.6
Foreign Owned Banks	17	2,070	17	2,096	39,676	42,014	107,488	135,730	26
Islamic Banks	4	560	4	607	11,802	12,703	33,628	43,339	28
Development and Investment Banks	13	45	13	42	5,339	5,370	27,021	30,966	15
Banking Sector	49	9,596	45	10,072	184,205	191,207	832,161	1,007,555	21

Resource: The Bank Association of Turkey, The Participation (Islamic) Banks Association of Turkey, 2011

The number of banks operating in 2010 in Turkey is 49. 13 of these were development and investment banks and the remaining 36 were deposit and Islamic banks. Depending upon the economic growth, these banks have continued to expand their branches, creating more jobs. According to 2009 figures, the number of bank branches reached to 10,072, with an increase of 476 new branches. As for the number of development and investment banks, there is a decrease of 3 in number (Table 2).

In a similar manner, the number of employees continued to increase in 2010. The number of employees increased to 2,379 in number in public-capital deposit banks, and 1,362 in private banks, and 2,338 in foreign-capital banks, and 901 in Islamic banks as for the bank owned by the Savings Deposit Insurance Fund; there is a decrease of 9 in number in terms of employees. The number of employees increased 9 to number in development and investment banks (Table 2).

While the booming increase of the liquid assets of the banking system in 2009 slowed down in 2010 due to the fading effects of the global crisis, the decrease in the share of loans, an indicator of functional performance, was replaced with an increase. The increasing trend in the last quarter of 2009 in loans can be observed to in all types of loans. The share of the loans in the total assets of banking sector increased by 5.1 points reaching to 52.2 % compared to 2009, exhibiting a rapid growth trend in 2010.

The loans in banking sector increased by 34 % compared to the previous year and the most rapid loan growth is experienced in public banks with 42,3 %. Development and investment banks performed well in 2010 and they realized a 16,9 % increase in loans, lower than the sector average, though (Table 3). The remarkable point here is that unlike the sector average, foreign exchange loans saw substantial increases.

As of 2010 December, the capital adequacy ratio of the sector was 18.9 % (Table 4). The equity capital of the banking sector reached to 134.4 billion TL, with an increase of 21.1 % in 2010. The annual increase rate of the capitals of the sector was well above the level of growth in the total assets of the sector. As well as the profit for the period of 2010, a considerable part of the 2009 profit was not distributed and remained in the firms' entity and the cash capital increased and the security appraisal discrepancies increased, all of which supported the equity capital growth of the sector.

Table 3

LOANS IN BANKING GROUPS

	December, 09				December, 10				Total				Changes		
	December, 09				December, 10				Total				%		
	TL	US \$	Total	TL	US \$	Total	TL	US \$	TL	US \$	Total	TL	US \$	Total	
Development And Investment Banks	9,080	3,103	13,695	9,881	3,986	19,010	801	883			2,135	8,8	28,5	16,9	
State Owned Banks	79,987	14,721	101,213	113,729	19,722	144,053	33,741	5,451			42,840	42,2	38,2	42,3	
Private Banks	125,313	44,489	191,482	166,085	58,554	256,118	40,772	14,065			64,636	32,5	31,6	33,8	
Fund Owned Banks	1	0	1	1	0	1	0	0			0	-5,7	0	-5,7	
Islamic Banks	21,638	1,346	23,641	28,694	1,385	30,823	7,055	39			7,183	32,6	2,9	30,4	
Foreign Owned Banks	52,189	6,993	62,590	65,426	8,763	78,900	13,237	1,770			16,310	25,4	25,3	26,1	
Banking Sector	288,208	70,203	392,621	383,815	92,411	525,905	95,607	22,208			133,285	33,2	31,6	33,9	

Resource: The Bank Association of Turkey, The Participation (Islamic) Banks Association of Turkey, 2011.

Table 4

CAPITAL ADEQUACY, RETURN ON ASSETS AND EQUITY

	Capital Adequacy			Return on Assets			Return on Equity		
	Dec. 09	Dec. 10	(2009—2010)	Dec. 09	Dec. 10	(2009—2010)	Dec. 09	Dec. 10	(2009—2010)
Development And Investment Banks	60,27	58,65	-1,62	3,93	2,97	-0,96	8,91	6,57	-2,34
State Owned Banks	18,4	16,73	-1,67	2,81	2,55	-0,26	37,61	30,28	-7,32
Private Banks	19,69	18,17	-1,52	2,63	2,6	-0,03	23,72	21,65	-2,07
Bank Owned by the Fund	47,28	53,01	5,73						
Islamic Banks	15,27	15,05	-0,22	2,35	2,02	-0,33	18,99	16,89	-2,11
Foreign Owned	18,76	17,25	-1,51	1,96	1,59	-0,37	15,23	11,93	-3,3
Banking Sector	20,62	18,94	-1,68	2,63	2,44	-0,19	22,92	19,95	-2,97

Resource: The Bank Association of Turkey, The Participation (Islamic) Banks Association of Turkey, 2011

Table 4 reports the non-consolidated capital adequacy ratios in banking groups. It can be observed that there is a decrease in the capital adequacy ratio of the banks in December 2010 compared to the end of 2009. The decrease in capital adequacy ratios in group and sector base was brought about by the increasing loan use, despite the positive growth in regulatory capital.

The capital adequacy ratio of the Turkish Banking Sector is well above the regulatory limit of 8 %, and target ratio of 12 % exercised by Turkish Central Bank and is floating at 18.9 % level. The reason why the capital adequacy ratio decreased by 1.6 % in 2009 and was 18.9 in 2010 might be the rapid growth in the volume of loans. In the same period, although a decrease in the capital adequacy ratios of the investment and development banks were observed, it was well above the sector average, being 58.6 %. The reason for this was the high level of equity capitals, a share capital adequacy ratio of development and investment banks.

As can be seen in the above table, the return on equity of the sector regressed to 20 % in 2010 December, with a decrease of 3 %, as for the return assets on fell by 2.4 %, with a decrease of 20 %. Within this term, no banks recorded an increase in return on equity and return on asset. As

for 2010 December, the bank group with the highest return on equity was the public banks with 30.3 % and with the highest return on assets is development and investment banks with 3.9 %. The bank group with the highest fall in return on equity is the foreign banks and development and investment banks were the ones with the lowest return on equity. The main reasons for this were net interest returns, new pricing in loans, competitive rates to meet the decrease in net interest margin through increasing the volumes of the loans and lower profitability rates compared to previous years in security returns due to low interest rates.

3. Conclusion

Financing development and investment activities commenced nearly 150 years ago. Development and investment banks are essential in order to realize the governmental objectives of both developing and developed countries, to perform the tasks that market and trade finance cannot do, and to encourage economic and social development.

In the appraisal of development and investment banks, the financial performance criteria are evaluated over profitability and risk in general. The analyses performed in this paper showed that although these banks comprise the 3.3 % of the sector as of late 2010, they compose the 3.6 % of the loans in the sector. The majority of loans given by banks is foreign exchange loans. In the sector, the volume of foreign exchange loans is quite lower than these banks. It is seen that development and investment banks hold capital adequacy well above the sector averages. This stems from the fact that these banks have a very strong capital structure. These banks have higher return on assets than other banks. However, when it comes to equity profitability, it is much lower than other banks, which is due to weighted nature of the capital, compared to other banks, within the financial structure of development and investment banks.

In macro-economic terms, the indicators of the strength of development and investment banking system signify that the sector is sound in general. The bad loans rate receded due to low interest rates and recovery in economic activities in general. The ability of providing funds from abroad has become better as well as the loans quality. However, along with the narrowing in net interest margins, the indicators of profitability performance are in downtrend and with the rapid increase in loans, the capital adequacy ratios declined, despite being above the minimum and targeted ratios.

The growth of loans is a variable of particular consideration in terms of financial stability. On account of the narrowing interest margins and

increasing competition, effective risk management is of great importance in the loaning in the forthcoming periods. The fact that development and investment banks intend to compensate for the negative aspects of interest margin on profitability through loan growth and the competition is increasing in the market could lead to insufficient pricing of the risks of loans. In such a case, continuing the effective risk management implementations is of great importance in sustaining the assets quality of the development and investment banking.

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ФОРМУВАННЯ ПОДАТКОВОГО МЕХАНІЗМУ РЕАЛІЗАЦІЇ ІНВЕСТИЦІЙНО-ІННОВАЦІЙНОЇ МОДЕЛІ ЕКОНОМІЧНОГО РОЗВИТКУ

У більшості наукових досліджень з питань оподаткування податки наділяються регулювальною функцією, що є достатньо обґрунтованим. Водночас слід зазначити, що реалізація регулювальної функції податку проявляється в визначенні суб’єкта та