Development of the Financial Markets in Turkey in Comparison with the EU Countries

Prof. Dr. Sudi Apak (Beykent University, Turkey)
Asst. Prof. Dr. Mehmet Fatih Bayramoğlu (Bülent Ecevit University, Turkey)

Abstract

The Turkish financial sector, especially the Turkish banking sector, demonstrates a growth tendency in recent years. Although this growth is observed to be steady, it has not reached a sufficient volume and the sources of growth are not healthy. In this study, the dimensions of the said growth in the Turkish financial sector are analyzed in comparison with the EU member countries, which are also the members of OECD, with respect to the competitiveness features of the countries and financial centers, banking sectors of the countries and the capital markets of the countries. The study presents an evaluation of the current situation with a special focus on Istanbul - a city planned to be a global financial center.

1 Introduction

Banking sector constitutes the basic dynamics of growth in the financial sector of Turkey which has gained the tendency to grow after going through a difficult period of restructuring after the banking crises in 1999 and 2001. However, Turkey progressed slowly in capital markets and thus this sector lagged behind the banking sector. Conversely, with the stability gained in the economic and fiscal policies and the new regulations in the field of law such as the Turkish Commercial Code and the Capital Markets Law, the development of the Turkish financial sector has become more stable compared to past periods. These developments have been reflected positively on several reports, which are prepared on a global scale and compare certain countries or financial centers according to various criteria, in terms of Turkey in general and of Istanbul in particular.

However, since the basic dynamics of growth in the banking sector are based on consumer loans, credit cards and transaction fees rather than real sector and exports, continuity of the said growth and development in the sector is not guaranteed. Analysis of the sources of the developments in the capital markets demonstrates that especially the publicly traded banks, a small number of companies outside the financial sector and government debt instruments are effectual.

In the following sections of the present study, the developments in the Turkish financial sector will be presented in comparison with the EU member countries which are also the members of OECD. Section 2 is devoted to the comparison of the competitiveness features of the countries and financial centers, Section 3 is devoted to the comparison of the banking sectors of the countries and Section 4 presents the comparison of the capital markets of the countries.

2 Comparison of the Competitiveness Features of the Countries and Financial Centers

The course of the development of macroeconomic indicators of a country is parallel to the ease of doing business in that country. In this context, 185 countries were compared in terms of ease of doing business in the "Doing Business Report" published periodically by the World Bank (WB) and the International Finance Corporation (IFC). As seen in Table 1, when Turkey is compared with the EU countries included in the Report, it is observed that Denmark, United Kingdom and Finland occupied the first three ranks and that Turkey ranked 69th in the overall scoring and had a position higher than the positions of Greece, Romania and Czech Republic. Turkey needs to progress in terms of ease of doing business. It is obvious that Turkey has a potential in terms of ease of doing business when the positive developments in the Turkish economy, the improvements in the Turkish Commercial Code, incentives developed regularly in order to support domestic and foreign investors and the improvement and development investments in the infrastructure are considered (World Bank & IFC, 2014).

Another indicator that shows the development level of the countries in terms of global trade is the "Index of Economic Freedom" calculated and publicly announced by The Heritage Foundation. According to the Index, calculated within the scope of 181 countries by taking into consideration two basic variables as "Trade-Weighted Average Tariff Rate" and "Non-Tariff Barriers", Ireland, Denmark and United Kingdom occupied the first three ranks and Turkey ranked 64th in the overall scoring and had a position higher than the positions of Portugal, France, Italy and Greece (Heritage Foundation, 2014).

According to the Global Competitiveness Index announced annually by World Economic Forum, by the end of 2014, the most competitive countries were Finland, Germany and Sweden. Turkey ranked 44th in the overall scoring and had a position higher than the positions of Czech Republic, Italy, Portugal, Hungary, Romania, Slovakia and Greece (WEF, 2014).

Doing Business	Rank	Economic Freedom	Rank	Global	Rank
Denmark	5	Ireland	9	Finland	3
United Kingdom	10	Denmark	10	Germany	4
Finland	12	United Kingdom	14	Sweden	6
Sweden	14	Netherlands	15	Netherlands	8
Ireland	15	Germany	18	United Kingdom	10
Germany	21	Finland	19	Denmark	15
Netherlands	28	Sweden	20	Austria	16
Austria	30	Austria	24	Belgium	17
Portugal	31	Czech Republic	26	France	23
Belgium	36	Belgium	35	Ireland	28
France	38	Spain	49	Spain	35
Poland	45	Poland	50	Poland	42
Slovakia	49	Hungary	51	Turkey	44
Spain	52	Slovakia	57	Czech Republic	46
Hungary	54	Romania	62	Italy	49
Italy	65	Turkey	64	Portugal	51
Turkey	69	Portugal	69	Hungary	63
Greece	72	France	70	Romania	76
Romania	73	Italy	86	Slovakia	78
Czech Republic	75	Greece	119	Greece	91

Table 1. *Competitiveness Features of the Countries According to the Results of Various Studies* ***Source:*** *World Bank & IFC, 2014; the Heritage Foundation, 2014; WEF, 2014.*

Foreign Direct Investment to GDP (2011)			Venture Capital Availability (2011)		
Rank	Country	%	Rank	Country	%
3	Belgium	17.36	4	Sweden	4.38
9	Ireland	6.02	10	Finland	3.91
14	Denmark	4.43	11	Netherlands	3.78
16	Portugal	4.33	12	United Kingdom	3.77
20	Austria	3.37	19	Belgium	3.53
21	Hungary	3.35	24	Germany	3.16
23	Poland	2.95	27	Austria	3.01
30	Czech Republic	2.51	37	France	2.77
32	Sweden	2.25	38	Slovak Republic	2.76
34	United Kingdom	2.23	41	Denmark	2.61
35	Slovak Republic	2.23	43	Turkey	2.51
37	Turkey	2.04	44	Spain	2.50
38	Netherlands	2.04	45	Romania	2.50
39	Spain	1.97	47	Czech Republic	2.41
46	France	1.47	49	Ireland	2.38
48	Romania	1.41	50	Poland	2.36
49	Italy	1.32	52	Portugal	2.28
50	Germany	1.13	57	Hungary	2.10
55	Greece	0.60	59	Italy	2.03
59	Finland	0.02	61	Greece	1.83

Table 2. *Foreign Direct Investment and Venture Capital Availability Features of the Countries* ***Source:*** *WEF, 2012.*

While direct investments constitute a significant portion of the foreign capital inflow to Turkey, another major portion consists of portfolio investments. Portfolio investments which represent hot money are known to flow rather into closed economies. The main reason for this is the high return potential in money and capital markets. Therefore, high transaction volumes of foreign capital are observed both in interest-based instruments and instruments based on profit share.

In Table 2, the ratios of foreign direct investments of 62 selected countries to GDP are listed in the Financial Development Report published by World Economic Forum (WEF) in 2012. As can be seen in Table 2, the ratio of foreign direct investments to GDP in Turkey remained at a low level with 2.04 % by 2011. Among the selected countries, Belgium, Ireland and Denmark occupied the first three ranks and Turkey had a position higher than the positions of Netherlands, Spain, France, Romania, Italy, Germany, Greece and Finland, although this was lower than the expected ratio.

When the countries in Table 2 are evaluated in terms of venture capital availability, Sweden, Finland and the Netherlands occupied the first three ranks. Turkey, on the other hand, demonstrated a performance lower than the expected performance and ranked 43rd in the overall scoring. However, it is observed that the position of Turkey was higher than the positions of many EU Countries such as Spain, Romania, Czech Republic, Ireland, Poland, Portugal, Hungary, Italy and Greece.

It is observed in Table 3 that when the countries under investigation are evaluated on the basis of financial centers, there is a decline in the financial centers of the EU countries as of March 2012 according to the March 2011-March 2014 GFC Index. Vienna is observed to be the only EU member financial center that continued to rise steadily. Istanbul, on the other hand, is the only financial center that has risen steadily since March 2011.

	March 2011			March 2012			March 2013			March 2014	
Centre	**Rank**	**Rating**	**Centre**	**Rank**	**Rating**	**Centre**	**Rank**	**Rating**	**Centre**	**Rank**	**Rating**
London	1	775	London	1	781	London	1	807	London	2	784
Frankfurt	14	654	Frankfurt	13	681	Frankfurt	10	703	Frankfurt	11	709
Paris	20	637	Paris	22	650	Vienna	20	685	Vienna	19	696
Edinburgh	29	600	Stockholm	25	645	Paris	26	670	Stockholm	30	683
Amsterdam	32	593	Amsterdam	33	637	Stockholm	32	657	Paris	36	672
Stockholm	33	592	Vienna	34	636	Amsterdam	34	655	Amsterdam	46	652
Madrid	37	588	Copenhagen	36	634	Milan	37	652	Istanbul	47	651
Brussels	41	581	Edinburgh	37	632	Copenhagen	45	643	Milan	48	650
Milan	41	581	Helsinki	42	626	Brussels	46	641	Brussels	57	630
Vienna	43	576	Brussels	47	620	Madrid	51	635	Warsaw	60	626
Copenhagen	46	571	Madrid	49	617	Helsinki	52	634	Copenhagen	61	623
Prague	55	547	Milan	52	609	Edinburgh	54	632	Edinburgh	64	620
Helsinki	56	546	Warsaw	54	606	Istanbul	57	626	Madrid	71	604
Warsaw	59	538	Prague	56	602	Prague	61	611	Helsinki	72	592
Lisbon	64	525	Istanbul	61	590	Warsaw	63	608	Prague	75	589
Istanbul	71	494	Lisbon	68	575	Lisbon	76	552	Budapest	77	560
Budapest	72	468	Budapest	74	552	Budapest	78	541	Lisbon	80	536
Athens	73	457	Athens	77	468	Athens	79	473	Athens	83	423

Table 3. *Development Tendencies of the Financial Centers (March 2011-March 2014)* ***Source:*** *GFCI, March 2011-2014.*

According to the March 2014 Report of GFCI and the grouping study conducted according to the connectivity, diversity and speciality/depth criteria, the global financial centers are Amsterdam, Frankfurt, London, Madrid and Milan. Istanbul, on the other hand, was evaluated as a transitional diversified financial center together with Vienna and outpaced many important financial centers such as Copenhagen, Edinburgh, and Stockholm.

It is seen that Istanbul obtained the positive results of planned work performed with the aim of becoming a financial center. It seems likely that in the future Istanbul will rise in the GFC Index and be one of the global financial centers.

	Broad & Deep	***Relatively Broad***	***Relatively Deep***	***Emerging***
	Global Leaders	**Global Diversified**	**Global Specialists**	**Global Contenders**
Global	Amsterdam Frankfurt London Paris	Madrid	-	Milan
	Established Transitional	**Transitional Diversified**	**Transitional Specialists**	**Transitional Contenders**
Transitional	Brussels Prague	Istanbul Vienna	Copenhagen Edinburgh	-
	Established Players	**Local Diversified**	**Local Specialists**	**Evolving Centers**
Local	Budapest Lisbon Stockholm	Warsaw	Athens Helsinki	-

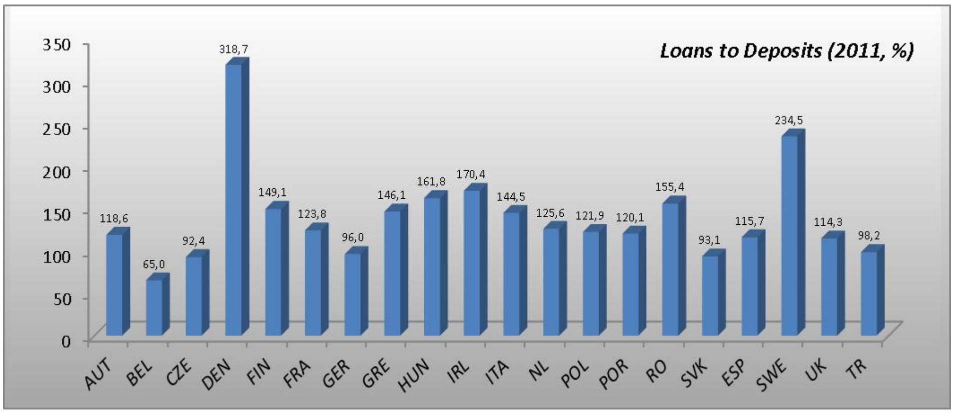
Table 4: *Development Profile of the Financial Centers according to the GFCI March 2014 Report* ***Source:*** *GFCI, March 2011-2014.*

3 Comparison of the Banking Sectors of the Countries

One of the leading indicators of the level of development in the banking sector is the ratio of the banking sector assets to GDP. The ratio of the banking sector assets to GDP is an indicator that provides information about the openness of the banking sector and reveals the weight of bank financing in the economy. As can be seen in Table 5, the ratios of the countries except Poland, Romania, Slovakia and Turkey are observed to be very high. These data show that the banking sector in Turkey still has a closed structure and the banks in Turkey has a role smaller than many EU countries in achieving GDP. This ratio, which is expected to be above 100%, is seen to reach this level only by the end of 2012 in Turkey.

Year	AUT	BEL	CZE	DEN	FIN	FRA	GER	GRE	HUN	IRL	ITA	NL	POL	POR	RO	SVK	ESP	SWE	UK	TR
2007	323	389	112	427	171	376	312	173	112	877	220	379	75	260	58	106	285	253	486	70
2008	375	370	106	467	215	396	318	194	120	962	236	374	72	280	60	101	313	272	481	66
2009	375	341	118	497	233	401	310	207	140	1024	247	388	88	309	74	89	328	322	572	85
2010	342	322	121	483	266	405	332	224	128	992	245	382	88	324	75	88	327	308	541	89
2011	337	325	116	478	335	420	326	222	114	839	257	403	84	336	67	84	339	295	559	94
2012	344	313	136	512	338	431	335	247	125	774	292	451	101	366	66	91	377	323	539	106

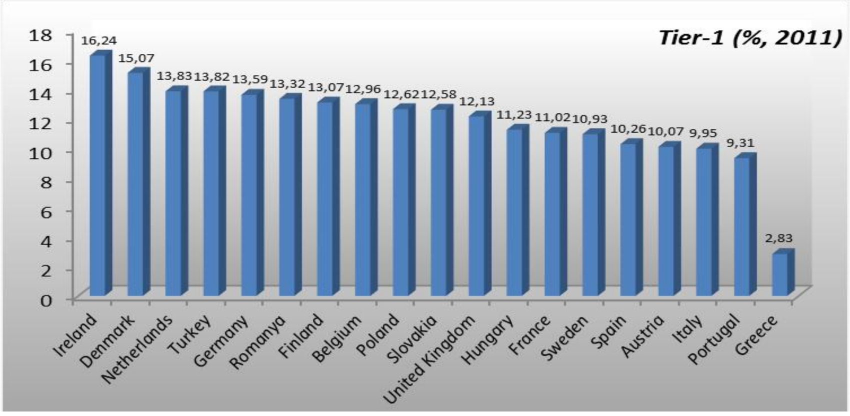
Table 5. *Banking Sector Assets/GDP Ratios of the Countries* ***Source:*** *Euro Banking Association, 2013; BRSA, December 2012.*



Graph 1. *Loan to Deposit Ratio in the Banking Sector (2011)* ***Source:*** *Euro Banking Association, 2013.*

Country	Cost to Income	RoE	Interbank Market Dependence
Austria	-72.1	1.5	23.4
Belgium	-65.7	1.4	11.4
Czech Republic	-46.2	13.7	9.3
Germany	-70.5	2.2	24.6
Denmark	-66.2	0.6	11.5
Spain	-51.5	0.1	13.0
Finland	-54.0	8.1	20.9
France	-66.3	5.6	9.9
UK	-60.9	4.2	5.8
Greece	-61.7	N/A	10.5
Hungary	-58.3	-7.9	0.0
Ireland	-40.8	-11.1	9.4
Italy	-65.0	-13.0	13.8
Netherlands	-60.5	6.2	10.1
Poland	-51.7	12.3	8.1
Portugal	-61.5	-4.1	14.6
Romania	-55.2	1.2	23.2
Sweden	-58.3	10.6	0.0
Slovakia	-49.5	11.1	4.1
Median EU-19	**-60.5**	**1.8**	**10.5**
Turkey	74.0	14.0	13.0

Table 6. *Various Indicators about the Banking Sector* ***Source:*** *Euro Banking Association, 2013.*



Graph 2. *Tier-1 Ratios of the Countries (%, 2011)* ***Source:*** *Euro Banking Association, 2013.*

One of the performance indicators of the banking sector is the ratio of loan to deposit. As seen in Graph 1, this ratio, which shows the ratio of the conversion of deposits to loans, is above 100% in all the countries except Belgium, Czech Republic, Germany, Slovakia and Turkey according to the data for the year 2011.

Table 6 presents the cost to income, RoE and Interbank Market Dependence data pertaining to the banking sectors of the countries as of 2011.

As can be seen in Table 6, a priority part of the Turkish banking sector revenue is derived from consumer credits, credit cards and annual dues, which are followed by credits given to SMEs. In addition, that the number of the banks is small helps the sector to be profitable. Switching of the current structure of the Turkish banking sector into an export-oriented banking system would significantly increase the contribution of the sector to GDP.

As can be seen in Graph 2, the Turkish banking sector has a very high percentage with 13.82% (end of the year 2011) in terms of Core Capital Ratio (Tier-1). Taking into consideration that the lowest acceptable level for this ratio is 8%, it is seen that the banking industry has a solid capital structure. In the Turkish banking sector, by means of the ongoing Banking Regulation and Supervision Agency (BRSA) practice aimed at limiting profit distribution and keeping profits in the body, formation of reserve fund nearly twice the total paid-in capital was achieved and the strong capital structure of the sector was preserved. In the Tier-1 Ratio ranking in the Financial Development Report published by World Economic Forum (WEF) in 2012, Turkey ranked 18th among 59 countries and outpaced many developed countries. Among the countries examined in the present study, Turkey ranked 4th after Ireland, Denmark and the Netherlands. The Banking Regulation and Supervision Board reported that this ratio is 16% for the Turkish Banking Sector as of June 2012 (World Economic Forum, 2012).

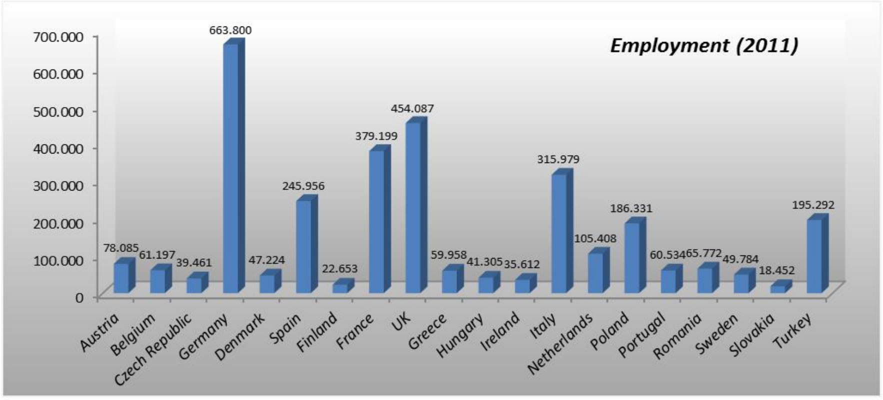
Ease of Access to Credit			Ease of Access to Loans		
Rank	**Country**	**%**	**Rank**	**Country**	**%**
4	Finland	4.77	3	Sweden	4.56
9	Sweden	4.58	8	Finland	4.41
15	Turkey	4.25	13	Belgium	3.78
22	Germany	4.14	16	Netherlands	3.74
27	Austria	3.99	25	Austria	3.21
32	Slovak Republic	3.75	26	Germany	3.17
33	Belgium	3.74	29	United Kingdom	3.14
36	United Kingdom	3.60	34	Denmark	3.09
38	Netherlands	3.55	36	Slovak Republic	2.98
39	Poland	3.46	38	France	2.97
42	Denmark	3.34	39	Turkey	2.97
45	Czech Republic	3.29	41	Czech Republic	2.88
51	Romania	3.08	42	Romania	2.70
53	Italy	2.94	46	Poland	2.55
54	France	2.93	52	Portugal	2.30
57	Hungary	2.61	54	Hungary	2.25
58	Portugal	2.37	57	Spain	2.05
60	Ireland	2.28	59	Italy	1.98
61	Spain	1.97	60	Ireland	1.83
62	Greece	1.72	61	Greece	1.71

Table 7. *Ranking of the Ease of Application and Access to Credit in the Countries (2011)* ***Source:*** *WEF, 2012.*

The Financial Development Report published by World Economic Forum (WEF) in 2012 also includes a survey on the ease of access to credit and loans in the banking sectors of 62 countries.

According to this report, while the process of access to credit is easy in Turkey, access to loans is at a low level. Most successful countries in terms of ease of access to credit and loans were Finland and Sweden (World Economic Forum, 2012). These results indicate that there are successful investments concerning SMEs and foreign investors in the respective countries and that there are no deposit deficits in these countries.

Graph 3 presents the employment data in the banking sectors of the countries as of 2011. When these data are evaluated, it becomes noteworthy that banking sector has high employment levels for Germany, United Kingdom, France and Italy. This group is followed by Spain, Turkey, Poland and the Netherlands respectively.



Graph 3. *Level of Employment in the Banking Sector by Country* ***Source:*** *Euro Banking Association, 2013.*

Table 8 shows the data of the countries concerning the number of Commercial Bank Branches, Debit Card Penetration and Total Number of ATMs per 100,000 adults. It is observed that Turkey is at low levels in terms of the three parameters and hence has a development potential.

According to this report, Turkish banking sector ranks 28th in terms of the number of branches, 23rd in terms of the debit card number and 38th in terms of the number of ATMs (World Economic Forum, 2012). The reasons that cause Turkey to remain at low levels in these rankings can be formulated as follows: the population of Turkey is higher than most of the countries under investigation, the number of the banks operating in Turkey is relatively low and statistics show that the banking sector is switching to internet banking.

Commercial Bank Branches			Debit Card Penetration			Total Number of ATM's		
Rank	**Country**	**Unit**	**Rank**	**Country**	**%**	**Rank**	**Country**	**Unit**
1	Portugal	75.91	1	Netherlands	97.61	3	Portugal	197.05
2	Italy	66.86	2	Sweden	95.50	6	Spain	151.87
4	Belgium	47.96	3	Denmark	90.13	10	Germany	116.80
5	Poland	45.83	4	Finland	89.32	12	France	110.07
6	France	43.11	5	Germany	88.02	13	Italy	98.56
7	Greece	41.18	7	United Kingdom	87.58	16	Ireland	92.47
8	Denmark	41.13	8	Austria	86.77	17	Finland	91.72
9	Spain	39.31	9	Belgium	85.76	18	Belgium	86.37
12	Romania	33.16	14	Ireland	70.47	20	Greece	76.72
14	Ireland	28.63	15	France	69.25	22	United Kingdom	64.58
15	Slovak Republic	26.50	16	Slovak Republic	68.27	23	Denmark	63.55
16	United Kingdom	25.51	17	Portugal	68.16	28	Netherlands	58.27
19	Netherlands	23.21	18	Hungary	62.40	30	Hungary	56.73
20	Czech Republic	22.53	20	Spain	62.18	33	Romania	55.48
27	Germany	17.58	21	Czech Republic	61.02	34	Poland	52.10
28	Turkey	17.38	23	Turkey	56.64	35	Slovak Republic	50.38
29	Hungary	16.62	30	Poland	37.34	36	Austria	48.16
30	Finland	15.60	32	Italy	35.18	38	Turkey	43.74
34	Austria	11.39	34	Greece	33.95	40	Czech Republic	41.65
53	Sweden	N/A	40	Romania	27.71	-	Sweden	N/A

Table 8. *Ranking of the Average Number of Branches, Debit Card and ATMs per 100,000 adults in the Countries (2011)* ***Source:*** *WEF, 2012.*

4 Comparison of the Capital Markets of the Countries

According to the data from the World Federation of Exchange, the number of the shares traded in the main markets of the stock markets in 2012 decreased compared to 2011. It is observed that this change, which is shown in Table 9, does not apply only to Germany. A 14% decrease in the total number of shares traded occurred also in Borsa Istanbul.

	2011			2012		
Exchange Name	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
BME Spanish Exchanges	3,241	35	**3,276**	3,167	33	**3,200**
NYSE Euronext (Europe)	969	143	**1,112**	939	134	**1,073**
Deutsche Börse	670	76	**746**	665	82	**747**
Athens Exchange	269	3	**272**	262	3	**265**
Borsa Istanbul	263	1	**264**	226	1	**227**
Wiener Börse	88	17	**105**	84	15	**99**
Budapest SE	52	2	**54**	51	1	**52**
Irish SE	48	7	**55**	42	8	**50**
Total	**5,600**	**284**	**5,884**	**5,436**	**277**	**5,713**

Table 9. *The Number of Shares Traded in Exchanges (2011-2012)* ***Source:*** *World Federation of Exchange, 2013.*

When the exchanges are classified as domestic and foreign, it is observed that BME Spanish Exchange, NYSE Euronext, Deutsche Börse and Wiener Börse are the ones where foreign companies are also traded.

When the “stock market turnover ratios” of the exchanges of the countries in Table 10 are evaluated, it is seen that many countries and primarily Turkey have high ratios and hence the speed of changing hands of shares in these exchanges is considerably high.

When Table 10 is evaluated in terms of “Stock Market Capitalization to GDP”, it is seen that the capital markets with the highest contribution to the GDP of their countries are United Kingdom, Sweden and Spain. Although Turkey ranks 42nd in the overall ranking, it has outpaced many of the EU countries.

Stock Market Turnover Ratio			Stock Market Capitalization to GDP		
Rank	**Country**	**Value**	**Rank**	**Country**	**Value**
1	Turkey	237.86	7	United Kingdom	129.95
3	Italy	191.19	11	Sweden	111.98
10	Spain	128.63	16	Spain	85.97
11	Hungary	123.27	20	Netherlands	76.34
13	United Kingdom	117.62	22	France	74.65
14	Germany	114.95	27	Denmark	66
17	Finland	109.58	33	Belgium	55.56
18	Netherlands	108.16	34	Finland	43.11
21	Sweden	91.67	35	Germany	40.57
24	Austria	89.07	40	Portugal	38.66
25	France	83.13	42	Turkey	37.12
26	Greece	81.25	44	Poland	35.16
28	Denmark	77.94	45	Czech Republic	24.34
36	Ireland	58.25	46	Hungary	21.69
37	Poland	54.03	48	Greece	20.79
39	Belgium	47.55	51	Romania	19.09
41	Portugal	38.72	53	Austria	15.71
42	Czech Republic	33.66	54	Italy	15.17
53	Romania	7.45	55	Ireland	15.1
58	Slovakia	4.65	59	Slovakia	4.94

Table 10. *Stock Market Turnover Ratio ve Stock Market Capitalization to GDP Ratios of the Exchanges (2011)* ***Source:*** *WEF, 2012.*

When the Bond Markets-GDP relationship of the exchanges of the countries in Table 11 is analyzed, it is seen that the contribution of the Private Domestic Bonds of Denmark and Ireland to GDP is high and that Turkey is at a rather low level. The reason underlying this situation is that in Turkey the private sector cannot compete with the public sector due to high rates of inflation and that the number of the companies that are able to issue bonds is considerably small. Therefore, the financing of the private sector in Turkey is realized through the banking sector.

Private Domestic Bond			Public Domestic Bond			Private International Bonds			Public International Bonds		
Rank	Country	Value	Rank	Country	Value	Rank	Country	Value	Rank	Country	Value
1	Denmark	177.0	2	Italy	88.6	1	Ireland	203.0	1	Greece	70.8
2	Ireland	109.0	5	France	61.3	2	Netherlands	163.0	3	Belgium	29.8
4	Netherlands	69.5	6	United	58.3	3	United	124.0	4	Ireland	26.7
5	Portugal	67.3	7	Belgium	57.2	4	Spain	109.0	5	Finland	26.7
7	France	54.7	9	Greece	51.0	5	Portugal	84.5	6	Portugal	26.4
9	Spain	52.9	11	Germany	48.6	6	Belgium	82.3	7	Austria	25.1
10	Sweden	52.4	12	Portugal	47.1	8	Sweden	71.8	8	Hungary	17.7
11	Austria	50.9	13	Netherland	46.4	9	France	71.5	9	Slovakia	13.3
12	Belgium	50.4	15	Spain	44.0	10	Germany	68.7	12	Spain	11.7
13	Italy	50.0	16	Hungary	42.8	11	Greece	67.7	13	Poland	11.6
16	Greece	32.9	19	Denmark	38.4	12	Austria	57.0	14	Italy	11.4
20	Germany	23.3	20	Poland	36.7	13	Italy	50.3	17	Germany	8.5
23	Finland	20.8	24	Austria	32.8	16	Denmark	41.2	20	Sweden	6.8
29	Czech	12.3	28	Ireland	28.5	20	Finland	29.7	22	Denmark	6.2
30	United	12.1	29	Turkey	26.9	28	Hungary	8.8	23	Turkey	5.8
32	Hungary	5.8	31	Czech	24.6	34	Czech	6.0	25	Czech	5.5
34	Slovakia	4.8	32	Sweden	24.4	47	Turkey	1.7	26	United	4.7
36	Poland	2.0	36	Slovakia	20.8	50	Poland	1.2	29	Netherlands	3.4
40	Turkey	0.6	42	Finland	11.9	54	Slovakia	0.5	33	Romania	2.6
42	Romania	0	46	Romania	6.4	56	Romania	0	35	France	2.3

Table 11. *Relationship between Bond Markets and GDP (2011)* ***Source:*** *WEF, 2012.*

When the Public Domestic Bond Market Capitalization to GDP Relationship as demonstrated in Table 11 is analyzed, it is seen that the contribution of the Public Domestic Bonds of Italy and France to GDP is high and that Turkey ranked 29th, which is a relatively high level due to fact that Turkey is a country that takes on debt through the public sector.

It is observed that Ireland and the Netherlands ranked high in terms of Private International Bonds to GDP while Turkey ranked rather low in this category.

In terms of International Bonds to GDP, Greece, which realizes public borrowing in international markets, is observed to have a high ratio while Turkey ranked 23rd, which is a relatively high ranking.

5 Conclusion

Turkish financial sector tends to grow in recent years. Although this growth is observed to be steady, it has not reached a sufficient volume and the sources of growth are not healthy.

That there are banks in the Turkish sector which operate in foreign countries is significant in terms of transferring resources from these countries to Turkey. For this purpose, increasing the number of branches in foreign countries should be immediately ensured by the establishment of new banks or by entering into partnership with foreign banks. Growth of volume can be achieved by transferring deposits obtained from abroad to Turkey. However, the existing banking structure in Turkey prevents the use of these opportunities. Therefore, the obstacles to the sector are required to be removed.

That the Turkish banking sector has a structure that is oriented rather towards individual consumers; that adequate and cost-effective resources cannot be fully provided for SMEs; and that SMEs face many obstacles in issuing bonds to form their own funding sources reveal a banking structure that does not overlap with the objectives of the development of the sectors in Turkey in general and with the specific objective of the development of Istanbul to become an international financial center. The Turkish banking sector has a structure that increases its profitability by deriving huge income from consumer credits, credit cards and annual dues. Changing the closed structure of the Turkish banking sector and establishing an export-oriented banking system is of great importance.

Capital markets in Turkey are observed to rank low in terms of the number of shares traded and market capitalization. It is required to implement the actions determined in order to improve the exchange, which acquired a modern structure with the establishment of Borsa Istanbul in the last two years, and to ensure that Borsa Istanbul has a competitive structure.

A further evaluation with respect to capital markets can be made for bond markets. Borsa Istanbul should support the issuance of the debt instrument of the private sector. Taking into consideration that bond issuance of the private sector depends on the decrease of the interest rates and the reduction of the borrowing of the public sector by bond issuance, reducing interest rates and the gradual withdrawal of the public sector from the bond market is important.

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