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The Critical Role of State-Owned Banks in Turkey's Development

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This Development Viewpoint draws on extensive research by Marois and Güngen (2013) to assess the continuing relevance of state-owned banks (SOBs) in promoting Turkey's development.

SOBs have been under attack, in general, in recent decades as conventional economists have argued for their market-oriented restructuring or their outright privatisation. Yet they continue to play a progressive role in dozens of countries around the world as effective instruments for the financing of vital public services and infrastructure, SMEs, and agriculture (see also Marois 2013).

The History of SOBs in Turkey

In Turkey state-owned banks have a long history. And, despite current efforts to privatise or restructure them, state-owned banks continue, nevertheless, to play an important developmental role. Today three large state-owned commercial banks and three small state-owned development banks still exist.

State banks have existed since the founding of the Turkish Republic in 1923. During their peak activity in the 1960s they played a major role in financing the country's development strategy. At that time they accounted for over 70% of the assets of the financial sector and their loans far outstripped those of private domestic banks and foreign banks combined.

Thereafter there were sustained efforts to liberalise the financial sector and privatise the SOBs. In the 1980s, for example, a military coup led to neoliberal reforms that favoured financial liberalisation. But by the mid-1990s recurrent financial crises undermined political commitments to such neoliberal reforms.

In the face of such crises, Turkey's ruling political coalitions started in the mid 1990s to utilise the SOBs as a convenient financial cover to hide the mounting fiscal deficits of the government. By 1999, these deficits had swelled indeed to 13% of GNP.

The exposure of these public deficits together with the ascendency of speculative private banking practices triggered a major financial crisis in Turkey in 2000-2001. In the process, the state-owned banks were blamed for a crisis for which they were not, in fact, solely responsible, and were thereby compelled to undergo further market-oriented restructuring.

The government's Banking Sector Restructuring Program, initiated in 2001, immediately demanded the financial reorganisation of the SOBs and sought thereafter to gear them to the imperatives of market efficiency and profitability. The ultimate goal of this Program was to privatise the state-owned banks.

The Current State of SOBs

Despite such setbacks, as of late 2011, the three large commercial banks that remained primarily publicly owned still represented the second, sixth and seventh largest banks in the country. Their combined assets, which equaled about US$180.5 billion, still represented almost 30% of assets in the financial sector (see Table 1). In addition, all six SOBs, including the development banks, were generating positive net incomes.

Table 1. Turkey's State-Owned Banks, end 2011

Bank	Total Assets (US$ million)	Percentage of Total Sector Assets	Sector Ranking
Ziraat	85,066	13.8	2nd
Halkbank	48,242	7.9	6th
VakıfBank	47,215	7.7	7th
İller	6,031	1.0	14th
Eximbank	5,114	0.8	15th
Kalkınma	1,479	0.2	24th

Source: BAT online (July 2013)

In contrast, the three small development banks accounted for a mere 2% of the banking sector's assets in 2011. In fact, development banks, which are specialised institutions that do not accept deposits, have never played a prominent financial role in Turkey. Instead, successive governments have preferred supporting large state-owned deposit-taking commercial banks that have had a clearly mandated developmental orientation.

Despite criticism of Turkey's state-owned banks and their subsequent restructuring, have they still provided a viable and valuable alternative to the private financing of development activities?

Following is an assessment based on extensive research and interviews conducted in the country during 2013. The conclusion of this assessment is that state-owned banks have, in fact, played a progressive financial role in at least five different ways.

Assessing Turkey's SOBs

First, the SOBs have been invaluable vehicles through which direct government transfers have been able to finance the provision of low-interest credits to priority development activities, particularly in the agricultural, SME, municipal infrastructure, and energy fields.

Second, the SOBs have played a critical role during times of crisis and instability in Turkey by purposively expanding, in a counter-cyclical fashion, their loan portfolios. Such interventions have helped counteract the debilitating withdrawal of lending by private banks and have thus prevented larger recessions.

Third, one of the most important contributions of SOBs has been the provision of a nationwide financial network of nearly 3,000 branches. This service has been especially important in rural areas and small towns, where private profit-seeking banks have been reluctant to set up offices.

Fourth, the Turkish population generally regards the SOBs as a 'safe haven' for their savings deposits—partly, of course, because of implicit or explicit state guarantees. This view was evident, for example, during Turkey's financial crisis in 2008-2009 when the public flooded the SOBs with their savings.

As a result of such trends, by 2012 Turkey's state-owned banks handled nearly 57 million savings accounts, or more than half of the country's total. On its own, Ziraat, the largest of the SOBs, handled nearly 42 million accounts. As a result, the government has not been obliged to rely solely on unreliable private domestic or foreign capital for its financing needs.

Lastly, the operations of the state-owned banks in Turkey have been just as efficient as private banks, if not more efficient at least in development terms. The SOB rate of return on assets (ROA) has been at least comparable to that of private banks, with the formers' average ROA since 2001 having ranged between 1.5% and 2.5%.

Moreover, unlike many private banks, state-owned banks have duly paid their taxes to the government. And they have recycled their profits back into public revenue. These practices have helped contribute to the reduction of the government's debt in recent years.

Concluding Remarks

Thus, state-owned banks in Turkey continue to provide a viable and valuable alternative to the private financing of development initiatives—despite concerted recent efforts to prepare the grounds for their eventual privatisation. It is clear that SOBs need not rely on profit imperatives in order to sustainably provide a valued range of financial services.

However, unless current neoliberal government plans are overturned and a more progressive vision of the developmental role of the SOBs is clarified and then implemented, eventually they will end up effectively mimicking profit-maximising private banks.

And Turkey will end up paying a high price, not only in terms of the lost opportunities for development but also in terms of the heightened probabilities of financial speculation and instability.

State ownership of these banks needs to be defended but, just as important, new forms of more democratic ownership and control need to be instituted in order to maximise their potential.

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