Turkey: A bumper year for Islamic finance

By Aytug Buyukatak and Burak Gencoglu

The Turkish financial market maintained its constant development in 2011 and recent reports from reputable international financial institutions project that this development will continue in 2012. In 2011, Sukuk was introduced to the Turkish market by a participation bank, Kuveyt Turk Katılım Bankası, based on the new communiqué on lease certificates which entered into force for the first time on the 4th April 2010. Another significant development for the Turkish legal and financial system is the new Turkish Commercial Code (TCC) and Code of Obligations, which will both enter into force on the 1st July 2012.

In the third quarter of 2011, Turkish GDP surged to 8.2%, the second fastest growing economy in the world after China, and for the first nine months the expansion of the economy reached 9.6% compared to the same period a year before.

2011: A review

Banking sector

A recent development in Turkey took place concerning Turkish banking licenses. A new banking license has been issued by the Banking Regulation and Supervision Board to Bank Audi, a major Lebanese bank operating in Europe, the Middle East and North Africa. Bank Audi has become the first bank to obtain a license in the Turkish banking sector in over 10 years. The decision of the board was given on the 27th October and was published in the Official Gazette on the 28th October 2011.

This new development demonstrates that the Turkish banking sector has promising opportunities and is now open to new players from around the world. Bank Audi has become the 49th bank in the sector.

Another important development in the Turkish banking sector is the announcement for sale of Denizbank. Dexia SA (DEXB) is the main shareholder of Denizbank and recently declared its intention to sell its shares. HSBC and the Qatar National Bank are interested in the Turkish retail operations of Dexia, a Franco-Belgian investment bank, which could be worth up to US$6 billion. Denizbank's chief executive Hakan Ates stated that Dexia is talking with potential investors from several countries about selling its shares in Denizbank.

Developments in the Sukuk market

In addition to the growth in the banking sector, Sukuk (which is a relatively new financial instrument for Turkey) has also been issued for the second time by Kuveyt Turk participation bank. There was a high demand for this US$350 million, five-year Sukuk issuance from European and Gulf investors. This recent Sukuk issuance was also important for being the first issuance carried out as a part of the Communiqué Serial III No.43 on 'Principals Regarding Lease Certificates and Asset Leasing Companies'.

After this kick-off, more Sukuk deals with greater volumes are expected to be realized by Turkish participation banks.

2012: A preview

Expectations for the banking sector

In accordance with the growth in the banking sector and in the Turkish Economy overall, more banking licenses may be issued by the board for those who fulfill its criteria. In a recent interview Tevfik Bilgin, the chairman of the board, stated that it may issue new banking licenses for persons who bring US$300 million or more in capital to the country. The issuance of the banking license to Bank Audi for US$300 million capital proves that new licenses are likely to be issued providing the minimum capital requirement is met.

Particularly for the participation banks, more players are needed in the sector since there is already a great demand for the products presented by the current participation banks.

Regulatory Changes

The New Turkish Commercial Code (TCC) was enacted in January 2011 and will be in force by the 1st July 2012, together with the Code of Obligations which was also adopted in 2011.

The new TCC was introduced by Professor Tekinalp, the chairman of the New TCC Commission, to promote harmonization with international standards. The new TCC provides convenience to individuals who want to establish a sole corporation or be the sole shareholder of a company. The present code does not allow a person to solely establish a limited or joint stock company or be the only shareholder. This was a huge obstacle for foreign investors who wanted to enter the Turkish market through establishing a new company or taking over all shares of a limited or joint stock company. According to the present code, there must be at least two shareholders to establish a limited company, or at least five shareholders to establish a joint stock company. The new code will allow the establishment of a limited or joint stock company with only one shareholder.

The other important change is that the new TCC provides more transparent companies. Many changes have been made to increase the transparency of company accounts. Companies are now obligated to have a website, and regularly update it with financial tables, auditing reports, annual reports and any other relevant information. This obligation will be in force from the 1st July 2013.

The auditing mechanism has also been changed and companies are obligated to assign both internal and external auditors. The financial reporting standards are fixed to the Turkish Accounting Standards, which in turn are implemented from the International Financial Reporting Standards.

Real Estate

The real estate market in Turkey has significantly increased over the past few years. According to the reciprocity rule in Turkish law, there are obstacles or even prohibitions to some countries' citizens (89) acquiring property in Turkey. The Turkish government is working on a legislative proposal which will allow foreign citizens to acquire property even if their nationality does not fall within the reciprocity rule.

Accordingly many countries, including Azerbaijan, Kazakhstan, Turkmenistan, Syria, Qatar, Iran, United Arab Emirates, Russia and Saudi Arabia will have better opportunities in the Turkish real estate market and authorities expect an increase in market share of Islamic countries in the Turkish real estate market.

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