

“Remedy to Crises: Interest-free Banking”



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■ **As the sector, we have realized growth quite over the inflation in 2011. In fact, the Participation Banks have realized growth by 18% within the past year, thus reaching the level of TRY 40 billion. Meanwhile, the allocated funds have attained to an even higher level of TRY 41 billion with an increase by 28%.**

The world economy, particularly the economy of Europe, have actually suffered a very troubled period in 2011. In fact, that Greece, Spain, Portugal, and, finally, Italy have gone into debt crisis and that the tolls of danger began to ring even in the economy of France, a strong country of EU, really frightened the world. On the other hand, while that the American economy followed a stagnant course; the political turbulences and the environment of war in the Middle East and the rebellions in North African countries threatened the world economy, Turkey – along with China - achieved record growth again and drew the attention of all the international finance institution. On the other hand, that Turkish economy has not suffered any significant problem, except for the current deficit and that it has even achieved a remarkable performance in macroeconomic indicators have brought along - after a long period of time - an increase in the points given by the international rating agencies. Parallel to the

strong performance of Turkish economy, the banking sector has completed 2011 successfully as well. The participation banks also have achieved growth over the inflation in the raised funds, allocated funds, total assets, i.e. in all the indicators.

- **Mr. Akyüz, although the world has lived through 2011 in crises and turbulences in a chaotic environment, Turkish economy has been mentioned with successful achievement. The participation banks have followed a course parallel to this development, too. How do you evaluate the performance in 2011?**

-2011 has been a productive year for the participation banks, which could actually be witnessed in all the indicators. For instance, the raised funds have reached TRY 40 billion with an increase by 18%. Again, the increase in the allocated funds has been far more, in which we have actually reached the level of TRY 41.4 billion with an increase by 28%.

- The Allocated Funds have surpassed the Raised Funds. What do you attribute this achievement to?

-The participation banks have raised funds in two ways: First, from the public and second from abroad by the method called Murabaha Syndication or the method we name leasing certificates.

They bring sources to Turkey and they allocate them as credits. In this context, we have provided funds for 2.5-3 billion dollars from foreign sources, whereby having earned noteworthy sources to our country, to our companies.

- The participation banks have also increased their assets size and their share in the banking system. Could you summarize the developments therein, please?

-The total assets of our banks, the sector, have reached TRY 56 billion, with an increase by 29%. This means that our banks have raised sources both from the public and from abroad by means of Murabaha syndication and issuance of leasing certificates. When we have a look at the share of the participation banks within the total banking sector, we observe an increase therein, too. This share has risen to 5.6% in the raised funds as at the end of 2011 as well. This rate was at the level of 5.3% as at the end of 2010. On the other hand, the total assets soared from 4.3% to 4.6%. Again, the allocated funds sustain the same level. Meanwhile, as for the allocated funds, 5.8% of the total sum of the banks' credits has been allocated by the participation banks.

- How about the progression in branching and employment?

-Our branching operations have continued in 2011 as well, in which respect, the number of our branches, which was 607, has gone up to 685 as at the end of 2011, with an increase by 13% therein. On the other hand, the number of our employees has increased from 12 thousand 674 to 13 thousand 857. In other words, the rise in the number of our personnel has continued in 2011, too, commensurate to the increase in the number of our branches.

- What about the profit rates of the participation banks during this period?

-The profits of the participation banks have increased by 5.8% in comparison to those in the past year, in which context, while our profits totaled TRY 759 million last year, it has gone up to TRY 803 million as at the end of 2011. We should here note that whereas there has been a decline in the profit of the conventional banking sector, the participation banks have closed 2011 with an increase by 5.8% in the profits.



- What do you attribute the fall in the profit rate in the conventional banking system to?

-The profitability in the total of the banking system has declined by 10% in comparison to that in 2010. As a matter of fact, the narrowing in the profit margins and the fall in the interest rates induced by the compulsory reserves with zero-profit have actually caused the profits to shrink and narrow in 2011. In fact, the year 2011 has exerted a narrowing effect on the banks in comparison to the year 2010.

- The year 2011 has almost been a year of disasters for European economy. Many countries have come to the brink of bankruptcy and the banking system has gone into great trouble. Nevertheless, Turkish banking system has managed to keep away from this quake. How will this influence the sector?

-In fact, that the financial disruption and problems are still ongoing form a big problem. In the meantime, the high indebtedness particularly in Greece, Portugal and Italy; and such uncertainties as to whether this indebtedness will be sustainable or not and as to the continuation of the political stability in European Union actually work negative effects on the economic stability, too. Needless to mention, since, as Turkey, especially our foreign trade and financial services are in close relation with Europe, that the financial crisis in Europe has not yet been overcome works negative impacts on Turkey, in which respect, Turkey feels obliged to act diligently at all times. Nonetheless, we, as the banking sector, as the financial sector, have been able to maintain our fine, robust position. In fact, our banking sector manages this crisis process very successfully. The profitability, growth in the

banking sector continues. The total assets of the sector has reached the size of TRY 1 trillion 217 billion as at the end of December, which achievement evidences that the banking, banking sector, sustains its growth in Turkey. In this regard, Turkish banking sector has realized growth by 21% in 2011, which is really a praiseworthy growth. It actually signifies a real growth by 10% over the inflation rate in the country, which flies at the level of 10's%. This is really a proof of the fact that our financial system maintains its solidity, durability and growth potential. Nonetheless, of course, we cannot say that the financial turbulences in European Region do not influence us at all.

- Can you make a general assessment of Turkish banking system at this point?

-In 2011, banks have continued to finance the economy. In this respect, the credits throughout the sector have grown by approximately 30%, thus evidencing that the durability of the banking sector has continued. The capital adequacy ratios in the banking sector are still high: Around 16%, which, compared to the fact that the rate of 8's% has been scarcely realized in European Union, manifests the power and soundness of our banking sector, wherein the serious and strict attitude of the authority of the banking sector has actually reinforced the durability of the banking sector. As a matter of fact, BRSA, as a banking authority, has been acting very diligently as to the distribution of profit, whereby sort of urging that profits would rather be kept with banks and net assets be strengthened. Therefore, the banking sector has taken over a crucial task in financing the economy.

- You have made mention of the troubles in the countries of European Union.

In a declaration of his some time ago, the Minister of Finance, Mr. Mehmet Şimşek, said: "If a new banking system will be introduced in the world, this should be the Interest-free Banking System." If we make an assessment of the turbulent situation of the banks in Europe and the statement of the Minister of Finance, Mr. Şimşek, is it possible that the crisis into which the conventional banks have fallen bring along a new way out for the interest-free banking?

-Interest-free banking is a new fact in the world. It is a sector that has been endeavoring to flourish for the past 35 years. Interest-free banking has attained to a fast growth trend. It is true that the participation banks are affected by these financial crises less than the conventional banks are because the interest-free banking system is crisis-resistant, for as the depositors also participate in any probable risks, in any risk for a failure in the credit, this union of destiny prevents banks' financial structure from negative impacts. In other words, depositors become shareholders of risks, too, whereby the pressures and risks over banks diminish.

- Like Foreign Exchange Rate Risks, Interest Risks., etc. Aren't they?

-The risk of foreign Exchange rate, the interest risk, the market risk can be minimized at the participation banks particularly during the crisis process, which, sort of, ensures an advantage. In this regard, we could say that the interest-free banks can offer a finance model that is more resistant against crisis. In fact, we observe that the progression of this kind banking increasingly continues across the world. Because of the crisis into which the banking sector has fallen, the inquisition "Is it possible that the Interest-free Banking become a way out?" in the financial sector, particularly in the West, has actually induced that special interest is shown in this subject. In this respect, we could say that the Interest-free Banking is being monitored closely in western countries, too. Again, we witnessed the participation banking has been closely monitored by IMF, the World Bank and international finance institutions as well.

- Will the Participation Banks extend into Europe?

-We, as the participation banks, first aim to further reinforce our place in the financial market, viz. the banking sector, in Turkey. Our initial target was to attain to a level of 10's% in the sector. Today, we have reached a share for around 5% in the banking sector.

- When do you think you will have attained to your target of 10%?

-We see that the participation banking



sector has completed the stage of establishment; that it has gone into the stage of growth and development; and that it has actually been producing financial services in a very serious manner. In fact, it has been offering financial services to savers, to investors, i.e. to these that work with the participation banks and use credits in a praiseworthy manner. There is no deficiency as regards with the regulations. Now these banks are endeavoring to expand through their branches and network of services across the country.

- We know that the Participation Banks had operations aimed for the Balkan countries and the Central Asian Republics. Would you give some information on these operations, please?

-In the first place, we are endeavoring to fortify the foundation in Turkey, with our secondary target for laying the foundation for participation banking in the neighboring countries thereafter. In fact, the participation

banks have already started opening branches in North Iraq. Again, they have initiated preparations to open representative offices in the Balkans, especially in Albania and Bosnia Herzegovina. Nevertheless, as I have stated, our priority is to further grow our share locally in turkey so that we can offer services to even more customers. In the meantime, our efforts to expand, improve and deepen the banking sector will continue.

- How are the operations concerning the Capital Market? What are your current efforts about?

-There are four Participation Banks operating in turkey, the shares of the two of which are transacted at the Stock Exchange of Istanbul (IMKB). The participation banks also deal with such capital market instruments as, particularly, the trading of share certificates free from interest leasing certificates, participation index, etc. Again, they offer their customers share certificates intermediary services. Parallel to the mentioned



operations, we established the 'Participation Index' last year, which is calculated and published by IMKB (Stock Exchange of Istanbul). In this respect, we are endeavoring to establish an investment fund based on this index in the first half of this year. We will first establish this investment fund and then offer it to our customers.

- The history of Leasing Certificates is very new in Turkey. However, they have been adopted quickly. How have the issuances of leasing certificates been in 2011?

-The leasing certificates began to be issued by the private sector in Turkey. Kuwait Turk, of our members, has issued leasing certificates for 350 million dollars in 2011, which operation has really been a successful issuance. By the way, all the mentioned certificates have been sold. Their maturity was 5 years and their prices were quite reasonable. Meanwhile, Bank Asya and Albaraka began to make arrangements for the issuance

of leasing certificates towards the end of the same year. Nonetheless, because of the financial disruption in the European region, the costs increased around the world. For this very reason, our banks deferred their issuance of leasing certificates. The participation banks will continue issuing leasing certificates in 2012. They are now waiting for the markets to calm down and the costs to fall a little. If costs decline to a reasonable level, the other banks of ours will issue leasing certificates, too. On the other hand, both the public and the State will begin to issue leasing certificates, too. We contemplate that this operation will introduce additional opportunities to the sector as well. As Participation Banks, we shall both invest in the papers to be issued and act as an intermediary in their trading. Especially, we shall endeavor to form a market based on leasing certificates within IMKB (Stock Exchange of Istanbul). Either will it be in a fixed income securities market, or an independent market will be opened –this has not been clari-

fied yet.

- Will Leasing Certificates be able to be used as an important instrument in those Superhighways and Fast Tracks and in their funding?

-It seems so. If the Government, or rather the Treasury Undersecretariat so wishes, they will be able to issue leasing certificates in order that they can find the required financing. Nevertheless, there needs first to be a legal arrangement as regards thereto. After the legal arrangements have been fulfilled, I think, the State will begin to issue leasing certificates this year. As a matter of fact, these certificates could be used in the financing of big investments, too. Leasing certificates issued in the world last year totaled 27 billion dollars. We can also fulfill issuances for several billion dollars in 2012.

- Are there any special endeavors aimed for the Middle East? What have you been doing in order to canalize more funds from there into Turkey?

-Three of our Participation Banks are actually capitalized by sources from the Middle East countries, for which reason we have close relations with that region. There is also fund-flow from there. They have investments in Turkey. Again, they provide financial entry by means of our banks. The participation banks carry out Murabaha Syndication, which they increasingly innovate.

- After a long interval, some universities included selective lectures on Interest-free Banking in their programs. What do you think about this?

-We consider this as a positive development. Again, we deem it to be a positive progression that the Interest-free Banking sector has ever been boosting in Turkey; that it is a need; and that universities have included this subject in their programs for the training of students. In fact, as the Association of Participation Banks, support such activities. We actually cooperate with these universities from time to time. We believe that the Interest-free banking is studied as a lecture at universities will contribute to the training of the staff that will be recruited in this sector, thus helping with the supply of human resources for the sector in the sense of employment.

At the moment, 14 thousand people work for the participation banks. We think this number will continue to increase considering that around 1-2 thousand new people are employed each year. Of course, it is very important that the employees are trained, whereby their knowledge and experience being ever improved, in which respect, we believe that their being canalized into this

■ **The turmoil into which the conventional banks in Europe have fallen has, once more, brought the Interest-free Banking onto the agenda. The Participation Banks, as was the case in all the earlier crises, have, once again, proven that they are resistant against economic turbulences. Therefore, we can, de jure, say that “the remedy to crises is the Interest-free Banking.”**

career from their period of their graduation onwards will contribute to the better performance of our sector. In short, we support this sort of activities. We, as the participation banks, deem this development positive and beneficial.

- Comparing the banking system of Turkey with that of Europe, BRSA, which has been established on an even more robust foundation, and the Central Bank, monitor and supervise the system very diligently. Nevertheless, opinions are given as to that the institutions should be reinforced. Do you think there is a requirement for a merger in the sector? Do you think these institutions unite?

-There are only four banks in this sector. For this reason, my preference is, rather than a merger, that new capital-holders enter into this sector. In other words, the number of actors should increase so that it could reach a reasonable level, which case will bring along competition and fast development. In my opinion, not a merger, but that new actors and new investors enter into the sector will be able to provide the sector with more conspicuous contribution.

- What would you like to say to us concerning the sector's targets for 2012? What are the new projects and targets?

-As it has been in the earlier years, we aim to continue our growth trend in 2012, too. Needless to mention, this growth goes parallel to the growth of the country, the development of the economy. Nonetheless, we, as a result, have to grow faster than the growth of the economy of our country in order that our share in the banking sector can increase, which, certainly, is dependent upon both your expanding the capital base and publicizing yourself much better and your expressing yourself in a more efficient fashion. We target a growth by around 15-20% in 2012. If we can achieve this growth, then the participation banks will have pro-



ceeded one step further ahead in markets.

As a matter of fact, we shall have promoted the share of the participation banks to the level of 10's% in the sector. On the other hand, we have such a contribution to the economy: We ensure that those segments of the society that have never got familiar with banking become acquainted therewith.

- So, you make their unrecorded funds recorded.

-Particularly those that use credits, those that get loans from us are definitely to get into records, for it is out of the question that we allocate off-the-books finance. If we are supplying finance to a business transaction, to an enterprise, 100% thereof is definitely to be within records. Accordingly, we contribute considerably to the economy from the aspects of both taxation and minimization of the unrecorded business. Therefore, we ought to be supported because the minimization and elimination, especially, of the of-the-book is subject to our function, for the finance we supply is certainly to be entered into documents, viz. records.

We have been in Turkey for 27 years. This is actually the system that has earned Turkish private sector, Turkish banking system a total fund for TRY 55-56 billion so far, which is really not to be overlooked. If we should express this in dollars, it is a facility for over 30 billion dollars. We shall carry this to better dimensions. Nevertheless, it is essential that growth should be continuous and stable. In truth, growth and development must be stable, constant and sustainable. We should really ensure this. We consider this business as being of long term.

As consequence, we do a serious job. We are actors in the financing of the economy. We offer intermediary, banking services. We are supposed to catch a continuous, growing speed. In this respect, the principal criterion of ours, as the Association of Turkish Participation Banks, is to ensure the reliability, soundness, constancy and sustainability of the sector. We endeavor to be long-termed.

As a matter of fact, our main goal is not to compete with the banking sector in its entirety, but to deal with such banking operations as complete, improve and contribute added values to it, which is actually evidenced by our past performance to a great extent. Today the Participation Banks are able stand on their own feet without getting any support, also producing conspicuous financial services within their own sector.

- Could we say that the Participation Banks, the Interest-free Banks are the remedy to financial crises?

-I, who have been in this business for 27 years, have personally witnessed and experienced it. This sector has gone through and is getting through the deepest crises. Accordingly, this system is such a banking system as is more resistant against crises. Our task is to ensure the continuity of the system by increasing the variety of products, which is the thing we do in Turkey, in which respect we feel obliged to extend thanks and gratitude to our customers; to those that have entrusted their savings to us; to the banking authority; and to the public departments and agencies for their support and cooperation. We shall endeavor to merit the confi-



dence of those who put their trust in us.

As a matter of fact, we have commitment to our shareholders and customers in this regard, and we shall continue this commitment. Also, we have clients that have grown with us. In fact, we have thousands of merchants, as well as individual and corporate clients whose industrial and commercial transactions have grown with us. We are resolved to offer them services and to increase the dimensions and volumes of our services.

- Where do you think Turkish economy is going to?

-Turkish economy is advancing on a very safe and sound path. The political stability has been ensured, the economic stability has been secured; and the inflation has been reduced to reasonable levels, below 10's%. Again, continuity and stability have been achieved in growth, too. Meanwhile, macro balances have been ensured to a great extent. The economy is growing; the national incomes are growing; the banking sector is also growing, boosting. The Per Capita National Income has soared from 3 thousand dollars to 10 thousand 500 dollars in the past 10 years, which case has developed

parallel to production and development.

On the other hand, the national income of Turkey increased from 200 billion dollars to 730 billion dollars today, from which the whole society benefits in some way. I find the progression of the economy positive. In fact, Turkey has not only managed the crisis process very successfully but also taken advantage from it. As consequence, Turkey has been able to come to a point where the budget balances are positive, where the rates of indebtedness, particularly the indebtedness rates of the public have been diminished to very low levels; where reasonable indebtedness rates have been achieved; where budget deficit have been eliminated; where the public have adopted and implemented economic decisions and also borrowed loans easily; and where there has remained no real interests. We have current deficit, but the reason why we have current deficit is that the rate of our savings is low. Our population is mostly composed of the young. Our economy is growing fast, in which respect we are in need of sources to finance this fast growth. As a matter of fact, all this reasons are important factors that play role in the formation of the cur-

rent deficit. For this reason, we use savings of foreign countries. If we manage to maintain the savings from these foreign countries and reasonable balances, we shall continue getting and repaying them. The current deficit is a structural matter, which is to be solved in the long time, whereof both the economy management and the public sector are aware. In fact, everyone has focused on how this will be sustainable. However, as long as we have deficit in savings, the foreign source is a must to finance the growth and development of the economy. As, in the long run, the energy bill is too high, so Turkey must be able to find a solution to the problem. It must be able to increase savings or implement such a foreign trade models as will cause less current deficit, and also must be able to find ways to manufacture certain investment commodities in the domestic market. In fact, the economic actors are well aware of the matter: Those that barrow loans now make their calculations not as they did before but in conformity with the current conditions. I consider the progressions to be positive. In fact, there is a macro target that the economy is decelerated this year, which target I believe Turkey will achieve.