FOREIGN INVESTMENTS IN THE BANKING SECTOR AND BILATERAL STATE RELATIONS: THE GREEK-TURKISH CASE

EIRINI KECHRIOTI

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Anahtar Kelimeler	Keywords
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b) İkili siyasi ilişkiler	b) Bilateral political relations
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d) Banka sektörü	d) Banking sector
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Abstract

In the age of globalization, economic cooperation between countries emerged as an alternative tool of foreign policy. It is argued that cooperation in economic field helps to improve bilateral relations between states and enhance cooperation in the political field. This study examines the bilateral relations of Greece and Turkey on the basis of this argument, focusing on investments in the banking sector. Even though outstanding progress has been made regarding the cooperation in the financial sector, the study argues that the latter had no real effect until now on the decision making of both states' foreign policy.

Kısa Özet

Küreselleşme çağında ülkeler arası işbirliği dış politikanın değişik bir aracı olarak ortaya çıkmıştır. Ekonomik alandaki işbirliğinin ülkeler arası ikili ilişkileri geliştirdiği ve siyasi alanda işbirliğini güçlendirdiği öne sürülmektedir. Bu çalışma bu argümanı temel alarak Yunanistan ve Türkiye'nin banka sektöründeki karşılıklı yatırımlarını incelemektedir. Finans sektöründeki işbirliğinde büyük bir ilerleme kaydedilmesine rağmen bunun günümüze kadar iki ülkenin dış politikasını yönlendirmede gerçek bir etki yaratmadığı ortaya konacaktır.

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Introduction

Greek-Turkish relations have been in the centre of international interest for decades in the long history of both countries. The Greek-Turkish saga is full of wars, disputes, tensions and personalities that played a significant role in different times. During the last fifty years, the two neighbors came to the brink of war several times under different conditions and for different reasons. Until 1999, a turning point for both counties' history, politically and socially, there seemed to be no way out in the two countries long lasting stormy relationship. In 1999, the Öcalan crisis, the Kosovo crisis and last but not least the disastrous earthquakes shocked the two sides of the Aegean quite strongly. After the 1999's political rapprochement between the two 'eternal enemies', a new dimension has been given to their bilateral relations. In an effort to ease the tension, they decided to engage in a multilevel cooperation that would help them establish a positive atmosphere at first and a trustful relationship in the future, hoping that this would be the base of a possible future settlement.

Great attention was given in the field of economy, which was considered to be the most valuable instrument for promoting bilateral cooperation. For the first time in their history, the two countries signed agreements aiming to promote and protect bilateral economic cooperation. Within this frame and as Greek investments in Turkey were constantly increasing, the Greek banking sector decided to enter the Turkish market by realizing the biggest investments in its history. Looking to the past one realizes that this economic activity had been initiated long before the events of 1999. Yet, it was in the shadow of political developments which perpetuated uncertainty about the future of any financial project. When this uncertainty was partially reduced, investments ‘burst out’. Nevertheless, the investments in the banking sector were of more importance than any other as the risks were and still are the highest.

This paper, analyses these investments in the banking sector and their impact on the two countries bilateral economic and political relationship. My aim is to examine whether the strengthening of economic cooperation between the two countries, used as an instrument of foreign policy, had any real effect on the political level and contributed to a more productive political cooperation or not. The first chapter focuses on the theoretical frame of cooperation between actors according to R. Keohane and the role of economic interdependence in reducing conflict between states through Bruce Russet’s researches. It is also presented the political frame of economic cooperation between Greece and Turkey as well as the background of economic cooperation between the two states. The second chapter of the paper deals with the background and the present situation in the banking sector and economy of each country in order to understand why and how cooperation was achieved at this level. The theoretical frame of foreign direct investments and the bilateral cooperation in the banking sector are analyzed in the last chapter. More specifically, this part discusses the acquisitions of Finansbank and Tekfen bank from NBG (National Bank of Greece) and Eurobank respectively as well as the opening of branches of Ziraat Bank in North Greece. Last but not least, the third part also deals with the impact, which these investments had on the political and social level of both countries. The research for this paper ends in 2009, thus all the data used, were last revised that year.

CHAPTER I

Bilateral political and economic relations

This chapter consists of three parts. In the first one, two important elements of international relations theory are been presented through the views of R. Keohane and Bruce Russet. These elements are cooperation and economic interdependence. The second part deals with the frame of political relations between Greece and Turkey since 1974 and the third part examines the course of bilateral economic cooperation since the first attempts for bilateral agreements in the 1980's.

1. Cooperation and economic interdependence

In 1975 R. Keohane argued[1]:

> 'It will cause little controversy in the spring of 1975 to observe that the world is in a profound political and economic crisis, or that interdependence is a palpable and often unpalatable fact. Conflict over formerly latent issues is increasingly evident, as governments try desperately to cope with the effects of other governments' policies, as in the case of oil, or with resource shortages, as in the case of food. Many of the problems from which such issues arise-including also environmental degradation, inflation, and recession-have immediate impacts on people's daily lives. Unlike traditional foreign policy issues, they are not separate from domestic politics, and experienced largely through the mass media, but rather encountered daily on the job and at the market. Domestic

[1] Robert O. Keohane, 'International Organization and the Crisis of Interdependence', *International Organization*, Vol. 29, No. 2 (Spring, 1975), p.357

> and foreign policies are closely intertwined, and important domestic interests are threatened by events abroad. It is becoming clear that ties between national economies can transmit economic evils as well as economic goods. Evidence suggests that increases in economic as well as environmental inter-dependence do not reflect merely short-term aberrations, but a long-term trend. The effects of these developments in a variety of issue-areas are reinforced, furthermore, by the "interdependence of interdependence".'

Thirty five years later, at the end of the first decade of the 21st century, exactly the same words could be used to describe the current situation. The global economic crisis, which began almost two years ago and hasn't completed yet its course, has proven once more the vulnerability of the international economic and political system. For this crisis is a political one too. Governments try to impose their policies or to deal with other governments' policies on crucial issues, such as the monetary crisis, energy and environmental issues. Domestic issues are affected by international developments and have a tremendous impact on people's daily lives. The world economy cannot operate independently of world politics and it is evident now as it was then, that the open market and the free movement of capital itself guarantee neither stability nor cooperation between states.

According to Keohane[2], achieving cooperation is difficult in world politics, but not impossible. It depends on the nature of the issues at stake and the time when we are seeking for cooperation. It can be achieved only in cases where there are conflicting and complementary interests. Thus, cooperation cannot be identified with harmony, as the

[2] Robert Axelrod and Robert O. Keohane, 'Achieving Cooperation under Anarchy: Strategies and Institutions', *World Politics*, Vol. 38, No. 1 (Oct., 1985)

latter requires complete identity of interests. As a result cooperation is achieved when an actor behaves according to 'the actual or anticipated preferences of the other'. Expectations about behavior play a very important role. Keohane talks about cooperation under anarchy, stressing that by anarchy he means the lack of a common government in world politics. He argues that relationships between states-actors can be differently structured and vary among issues. Thus, in some issues they may be loose, while in some others not.

Dividing these issues in to two groups, military-security issues and political economic issues, Keohane underlines that both of them can be analyzed through the same theoretical framework. He argues that there are three factors that weigh negatively or positively in the efforts for cooperation in both groups. These are the mutuality of interest, the shadow of the future and the number of players. He also points out the outcome of a research with regard to the structure of domestic governance and its connection to the achievement of cooperation. It is argued that governments have tried to change the way they operate in order to facilitate cooperation with other countries. Some of them succeeded and some of them did not. Yet, the important thing is that despite the efforts of interdependent states to protect their sovereignty and power, there is room for new and more satisfactory agreements for all parts, both in economic welfare and military security. Although this does not guarantee that, in the end, cooperation will be indeed to the benefit of all parts, it is argued that more cooperation is often better than less cooperation. The consequences of failure in the effort to cooperate, meaning war conflict or intensification of depression, lead to the above conclusion.

As mentioned above, cooperation does not necessarily mean harmony, but it decreases the probability of conflict and increases the probability of achieving peace. In *Perpetual Peace (1795),* Immanuel Kant argued that there are three elements likely to lead to international peace: republican constitutions, "cosmopolitan law" embodied in free trade and economic interdependence, and international law and organizations. Bruce Russet almost two centuries later, using as a starting point the Kantian Peace Theory argues that indeed trade and conflict are reciprocally related. The results of his research confirm liberal theory, according to which conflicts affect negatively trade relations and this is exactly the reason why interdependent states avoid them. Yet, he points out that when these conflicts take place, trade is affected for a short time, meaning one or two years[3]. He also confirms through his research that democracy and international organization memberships affect trade in a positive way. However, there is no evidence that trade volume between allies is high when democracy and international organizations are held constant[4].

Russett goes beyond Kantian Peace Theory and is much more optimistic about world peace. It is worth noting that although he makes references to studies which indicate that greater interdependence increases the risk of a militarized dispute and he presents these results in his papers, however he remains faithful to the theory of trade as an important factor in reducing interstate violence. He strongly believes that democracy, interdependence, and international organizations offer the promise of world peace and

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[3] John R. Oneal, Bruce Russett, 'The Kantian Peace Theory:The Pacific Benefits of Democracy, Interdependence, and International Organizations', *World Politics* 52 (October 1999),

[4] John R. Oneal, Bruce Russett, Michael L. Berbaum, '*Causes* of Peace: Democracy, Interdependence, and International Organizations, 1885-1992', May 2002

that ‘an added benefit of global political and economic liberalization is a greater prospect for peace’[5]. These three elements are known as the ‘Triangle Peace Theory’.

Yet applied in the Greek-Turkish case, Russet’s theory seems unable to justify the status of the two countries bilateral relations. The three elements that he considers to be crucial factors for peace can actually be traced here as well. Greece and Turkey are both members of international organizations, such as NATO and EU. Both countries are subject to democratic principles and during the last years they have been engaged in an economic interdependence. However, none of these three factors have reduced the probability of an armed conflict.

Within this context, this paper examines Greek-Turkish cooperation mainly at an economic level but at a political level as well. Keohane’s three elements of cooperation, mutuality of interest, the shadow of the future and the number of players are apparent in the case of Greek-Turkish cooperation. Yet, two things must be clarified at this point: Greek-Turkish relations are subject not only to the shadow of the future, but also to the shadow of the past. The latter has been and still is a significant factor in any effort for cooperation. As far as the number of players is concerned, in the Greek-Turkish case this number is more than two, which represents the two main sides. There are more players, namely political and military international institutions that each one of them has played its own role in this case. However, in this paper, I am going to focus only on one of them, the EU, whose role has been significant throughout the years for both sides. Its policies and their impact, although not always the same, are still apparent in Greek-Turkish relations both in political and economic level. Undoubtedly, the nature of bilateral issues and the time of their negotiation have played an important role in the efforts for

[5] Ibid, p.28

cooperation both at the political and economic level. Although most of the research has focused on trade, in this study, Greek-Turkish economic cooperation is examined in all sectors of economy and, as mentioned before, more specifically in the banking sector.

2. The political frame of Greek-Turkish economic cooperation

2.1 The pre-1999 period: From the Cyprus crisis of 1974 to the Öcalan crisis

As Keohane pointed out the nature of the bilateral issues, the mutuality of interest and time have played an important role in the efforts of Greece and Turkey to reach cooperation. Analyzing the latter, one cannot ignore an important factor that many times has guided both countries' policy regarding their bilateral relations. The impact of EU in the strategy of the two countries regarding their bilateral relations is described by Couloumbis and Yannas in their relevant paper[6]. They argue that Greek Prime Minister Karamanlis chose to handle Greek-Turkish relations following the events of 1974 in Cyprus, taking into consideration "the deep impact that the prospect of EU accession exercised on post-1974 Greek foreign policy." Karamanlis knew that a prolonged conflict with Turkey could jeopardise Greece's membership of the EEC, thus he chose a policy of deterrence against Turkey. In 1976 when the Aegean continental shelf crisis emerged right after the filing of the Greek application for membership in the EEC in June 1975, Karamanlis took the issue to the United Nations Security Council and the International Court of Justice in order to be resolved, avoiding the use of military forces.

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[6]Theodore A. Couloumbis and Prodromos Yannas, 'Greek Foreign Policy Priorities for the 1990s' in Kevin Featherstone and Kostas Ifantis (eds.) *Greece in a Changing Europe: Between European Integration and Balkan Disintegration?* (1994)

On the other hand, during its application for EC membership in 1987, Turkey's reaction to the second crisis over the continental shelf in 1987 was restrained as it occurred right before the latter filed its application for membership in the EC. The prospect of a Greek veto that would block Turkish membership into the EU led to the choice of a cooperation and dialogue strategy. In the 1990s, as Turkey sought to develop closer institutional relations with the EU first through a Customs Union Agreement, and later by seeking candidacy, the EU repeatedly reminded Turkey that strengthening of its links with the EU depended on the resolution of its disputes with Greece. Greece realizing the potentials of this situation, gave the green light for the Customs Union Agreement, by claiming the opening of negotiations for Cyprus, regardless the status of the island. In addition, as a stick and carrot mechanism, the release of the EU financial assistance to Turkey that was part of the Customs Union Agreement was blocked after the 1996 Imia/Kardak crisis. In the Dublin summit of 1996, the European Council urged Turkey to use its influence to contribute to a solution in Cyprus in accordance with UN Security Council resolutions. The European Council also emphasized the need for the observance of the highest standards of human rights. In the Luxembourg summit of December 1997 the European Council excludes Turkey from the list of formal candidates[7], effectively "rejecting" Ankara's request for accession. For Ankara the Luxembourg summit was a slap in the face. In December 1997 Turkey responded to the EU's Luxembourg declaration by partially suspending its dialogue with the EU. Furthermore, the Turkish government announced that it would go ahead with plans to integrate northern Cyprus, should the EU launch accession talks with the island's Greek

[7] Barchard David, *Turkey and the European Union*, www.cer.com

Cypriot government. After all these developments and the already bad climate between Greece and Turkey, another crisis was added to the records of tension in 1998, namely the S-300 crisis[8].

2.2 1999: year of crisis and rapprochement

1999 was a turning point for the two countries' common history. The political tension between them reached its peak on 15th of February 1999 when the Öcalan crisis[9] burst out. This crisis, although it brought a stalemate in the relations of the two countries, triggered at the same time a serious political crisis within Greece, regarding the frame of foreign policy towards Turkey until then, its results and its future. On the other hand, the Öcalan case raised once again the question of human rights in Turkey, exposing the latter's deficiencies at the European and international level. Turkey chose the strategy of tension, while Greece's strategy was not to allow the Öcalan crisis become a Greek-Turkish issue. With Greece aiming to be accepted in the EU's first division of countries joining the single currency and Turkey been drifted away from the EU path both counties had to find a way to redefine their strategies as this tension was jeopardizing their European future.

During the same period, the Kosovo crisis burst out. In the meantime, the Greek Minister of Foreign Affairs Theodoros Pagalos, in the aftermath of the Öcalan crisis, was

[8] The S-300 crisis was actually the 'Cyprus missile crisis. The Greek Cypriot side planned to install on its territory two Russian-made S-300 air-defence missile sites. This project provoked Turkey's reaction who threatened with counter measures if the installation was not cancelled. This crisis was smoothened out when in the end it was decided to install the missiles in Crete instead of Cyprus.

Turkey accused Greece of supporting and protecting PKK and its Kurdish leader Abdullah Ocalan, who had escaped in Italy, seeking for asylum, by hiding him for a short time in Greece and then in its embassy in Kenya.

replaced by George Papandreou. The new Minister, in an effort to find a breakthrough in the Greek-Turkish relations, called his Turkish counterpart and invited him to cooperate with the other South Eastern European countries in providing humanitarian aid to Kosovo. The Turkish Minister of Foreign Affairs Ismail Cem responded positively to his counterpart's invitation, signaling, thus, Turkey's intention to change the climate[10]. The Kosovo crisis, for both countries, was an alarm regarding the security of the area and it was obvious that the Greek-Turkish front of tension was not for the benefit of neither of them.

Meanwhile, the Turkish elections that were held in April signaled also a turn in the Turkish political scene. The Democratic Left Party (DSP), led by Bülent Ecevit and the Nationalist Action Party (MHP) chaired by Devlet Bahçeli formed a coalition government with an agenda of reforms and EU rapprochement. The communication between Papandreou and Cem was constant, yet the tension was still present and this became obvious when on May 17th, the island of Plati in the Aegean became the center of a new conflict. Few days later, Cem and Papandreou launched an official mail correspondence settling a frame of possible cooperation. This was another step towards rapprochement, which meant to be strengthened by a natural disaster in both countries, the earthquakes of September. This natural incident with tragic loses for both, brought the two people closer creating a climate of compassion, understanding and good willing. The political leaderships took advantage of this positive climate and that was the starting point of a new era for the Greek Turkish relations. Within this frame the Greek government

[10] Hakan Abaci, 'The Ocalan affair and its effect on the Turkish-Greek rapprochement process in 1999', *Turkish Review of Eurasian Studies*, Annual 2004-9

decided to lift its objections on Turkey's EU membership and in December 1999, in the Helsinki summit, the EU Council agreed to recognize Turkey as a candidate for negotiations. Greece's strategy was based on its expectations for Turkey's strategy, meaning that the latter would response positively to that action and through a European perspective she would be more willing to cooperate.

2.3 The post-1999 period: Ten years of 'rapprochement'

The post- 1999 period could be entitled as the Greek-Turkish friendship period. The two countries within four years, from 2000 to 2004, signed a series of agreements with respect to low politics issues, such as economy, culture, education etc, creating a preliminary basis of cooperation and leaving the 'difficult issues' such as the Aegean continental shelf for later. The main characteristic of that period was that the Greek side, by lifting its veto for Turkey's EU membership, was aiming to transform the Greek-Turkish problems and the Cyprus question to EU-Turkey problems. The European orientation of Greek-Turkish relations was the main instrument of the foreign policy followed by Konstantinos Simitis cabinet. The historical turn of the Greek foreign policy was evident, given the fact that almost a decade earlier the same ruling party under Andreas Papandreou used to act in the opposite direction.

Meanwhile, the 2002 Turkish elections brought to power the pro-Islamic AKP (Justice and Development Party), which also embraced the same concept of cooperation. In 2004 the NDP (New Democracy Party) took over power in Greece and Kostas Karamanlis became the Prime Minister for the next five and a half years. In these years the two sides did not experienced any tensions similar to the past[11], yet they did not make significant steps to lead the Greek-Turkish rapprochement any further either. The Greek government loosened the European 'belt' of the Greek-Turkish relations. The Turkish government, on the other hand, always in a stormy relationship with the EU regarding the timetable of domestic reforms and their results, initiated a new foreign policy that would grant her the role of the key player in the Balkans and the Middle East Area, thus proving to the EU that it could act independently. In addition, the constant reaction of some EU countries, regarding Turkey's membership, based on religious mainly criteria, resulted in the questioning within Turkish society of the benefits of the EU accession for Turkey.

In 2009, in the midst of a global economic crisis, the former Minister of Foreign Affairs in the Simitis cabinet, became the new Prime Minister of Greece as PASOK once again comes to power. Less a month after his election he payed a visit to the grave of his old friend Ismail Cem[12]. A symbolic movement that signaled his intentions regarding relations with Turkey now that he was in office again. The recent visit of the Turkish Prime Minister Recep Tayip Erdoğan to Athens on 14th May 2010, confirmed his intention to follow suit in the reviving of bilateral relations. Yet, this round of the game began in different conditions than ten years ago. Turkey, following the crisis of 2001, has managed to recover its economy and establish itself in the area as a leading country. Greece on the other hand, struggles to survive its own crisis and redefine its place within the international arena. The only solid ground upon which the Greek –Turkish relations were based for a long time was EU. The latter does not seem that solid anymore.

[11] Although the summer of 2006 an 'air-fight' between Greek and Turkish airplanes cost the life of a Greek pilot, the tension that was created was soon smoothed out by both sides.
[12] http://www.todayszaman.com/tz-web/news-189457-100-papandreou-visits-grave-of-old-friend-ismail-cem.html

However, the two leaders in their recent meeting, speaking openly about the Greek disputes (perhaps for the first time in the history of the two countries) admitted that despite the progress of the last decade there is still fear and misperception between them, which has to be overcome if the two sides want to solve their serious problems. Many analysts characterized this meeting as extremely important in such a historical turn for the entire world. However, despite the twenty one agreements regarding low politics issues, in the model of 2000, no agreement was signed regarding high politics issues. It is worth noting, yet, that for the first time, an agreement for mutual decrease of armament expenditures was discussed both officially and unofficially.

3. Efforts for a Greek-Turkish 'economic rapprochement'

3.1 The pre-1999 period

Although the benefits of a potential economic cooperation between the two sides of the Aegean were always recognized, though silently, no action was taken in the economic field. The continuous political tension and uncertainty, sealed by traumatic incidents in the post WWII era, left no space for such initiatives on behalf of the business world of the two countries.

Thus, it was the political and not the economic leadership of the two countries that made the first step towards this direction. After the crisis of 1987, in January of 1988, the Greek Prime Minister Andreas Papandreou and his Turkish counterpart Turgut Özal met in Davos of Switcherland in order to discuss Greek Turkish relations. In the context of this meeting the first serious dialogue between Greek and Turkish businessmen took place, which led to the establishment of the Greek-Turkish council of business cooperation in October of the same year. Ninety one Greek and Turkish enterprises signed agreements for cooperation in various fields. Beyond that, however, the most important outcome of this initiative was that for the first time in the long turbulent history of these two countries, businessmen came together and exchanged opinions, ideas and worries, building a new bridge of cooperation that would strengthen at the same time bilateral political relations.

Despite the positive outcomes of the Davos meeting and the ambitious projects of the new born Greek-Turkish council, the after Davos period was rather disappointing. The council was not as active as it was expected to be and in the political field things remained frozen, mainly due to domestic political developments in the two countries that eventually led the two leaders lose power. The follow up of Davos meeting took place few years later, in 1991, in the same place between the new leaders Konstantinos Mitsotakis and Tansu Çiller with poor results. In 1993 Greek and Turkish investors from the tourism sector met without however ending up to any specific decision.

Until 1996 the most important agreements[13] that formed the legal framework of the bilateral relations were general and schematic without creating the platform for a dynamic economic cooperation. However, in this period, for the first time, an initiative was in process regarding the signing of an agreement that would promote and protect mutual investments. This investment agreement would deal with issues such as the establishment and function of legal and natural persons, national economic management and free transfer of payments[14].

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[13] Panos Kazakos and Panos Liargovas, *Η ελληνοτουρκική οικονομική συνεργασία*[I ellinotoyrkiki oikonomiki synergasia- The Greek-Turkish economic cooperation], (1997)
[14] Ibid, p.144

In 1996, the Customs Union of Turkey with the EU changed completely the scene, especially in the trade sector, leading to a boost to bilateral economic relations. The decrease of tariffs and the adjustment of Turkey to European rules made it easier for Greece, as a European country, to enter a market that had many barriers before because of its state protectionism. However, at this point it may be useful to provide with a deeper analysis of the EU factor regarding the trade sector since the Customs Union Agreement was followed by a debate, over the economic benefits of a full Turkish membership, which holds until today.

In this frame, there are some hypotheses concerning trade and economic cooperation in general that also include EU, a factor that has a significant impact in the two countries relations, since Greece is a European member and Turkey is a candidate member. It is argued that if Greece and Turkey see each other as targets, then Turkey is a bigger target than Greece, as a result of its size. Greece has a greater motive than Turkey to trade and cooperate, due to the existing country- size differences, which would result to great costs for Greece in case of conflict, as she is smaller than her 'target'. Thus, it is in the interest of Greece to support Turkey's European membership, because the E.U. as a unit would constitute an even larger target, raising for Turkey the cost of conflict by raising total trade gains. Hence, Greece's relative bargaining position would be improved if Turkey faced the E.U. rather than facing only Greece. In the same manner Turkey's full access to the E.U. and elimination of all trade barriers, a procedure that began with the customs union, would increase the motivations towards cooperation and reduce conflict. Hence, Greece should support Turkey's access and integration into the E.U. as the effect on economic cooperation would be greater when compared to bilateral trade liberalization[15].

The same model could by applied in bilateral investments, which are the core of this study. Turkey is undoubtedly a bigger target than Greece with respect to investments. Greece has a greater motive than Turkey to invest, due to the existing country- size differences, which would result in greater costs for Greece in case of conflict, as she is smaller than her 'target'. The role of EU again would be beneficial if Turkey is fully integrated and would decrease the probability of a conflict strategy.

However, beyond the effects of the EU factor in the costs of a conflict strategy, it is not given that Greece will, necessarily, have only gains at the economic level from a full integration of Turkey in EU, but losses as well. Greek market will have the chance to expand even more in the Turkish market, under the EU umbrella, and benefit from its size and its proximity, but the country will loose a share of her own market, which will be the cost of the Turkish market expansion in the Greek market, as well as a share in the other European markets, which will be replaced by Turkey[16]. On the other hand, in a fully integrated Turkish market the costs of FDI will be higher and that may lead to the search for other more profitable markets[17].

Back to 1996 again and our analysis of the bilateral economic cooperation before 1999, during the time that these important developments took place at the economic field signaling the green light for further cooperation and amelioration of bilateral relations, the Imia/ Kardak crisis, almost brought the two countries on the brink of war.

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[15] Archontis L. Pantsios , *Trade and Conflict: The dyad of Greece and Turkey* (2006)

[16] Dimitris Mardas and Thomas Moutos, 'The EU-Turkey Customs Union and Greece: Who is the Loser?' *IAER*, Vol. 8, No 4, November 2002

[17] Constantine Papadopoulos, "Greek-Turkish Economic Cooperation: Guarantor of Détente or Hostage to Politics?" *South East European Studies at Oxford*, Occasional paper No.8, March 2008, p.38

Nevertheless, this crisis seemed to have a limited impact on bilateral trade after all. It is indicative that until 1999 bilateral trade transactions reached the amount of 700 million $ from 108 that it was in 1988[18].

Greek-Turkish trade balance ($)

year	exports	imports	Trade volume	imp/exp.	Trade balance	
1992	145.7	88.1		57.5	233.8	1.6
1993	118.2	120.5		-2.3	238.7	0.9
1994	168.7	105.1		63.9	273.8	1.6
1995	209.9	200.7		9.2	410.6	1.0
1996	236.5	285.0		-48.5	521.5	0.8
1997	298.2	430.8		-132.6	729.0	0.6
1998	369.2	319.7		49.5	688.9	1.1
1999	363.4	264.5		98.9	627.9	1.3
2000	544.2	387.0		157.2	931.2	1.4

On the other hand, in May of the same year, and as the Imia/Kardak crisis had shaken both countries, the president of the Greek Tourism and Travel Agencies, Takis Antoniou, and the president of the Turkish Association of Tourism Agencies (TURSAB), Mr. Talha Çamas, signed a Cooperation Agreement aiming to promote friendship, peace and cooperation between the two countries. It is worth noting that in the text of the agreement the two sides emphasized the existing instability of bilateral political relations, which created problems in their sector, mentioning that they will urge their governments to avoid policies that generate tensions and problems. For that reason they established a committee to deal with the problems regarding the cooperation in the tourism sector, such

[18] Ververidou Maria, "Η ελληνο-τουρκική οικονομική συνεργασία:Προβλήματα και προοπτικές", [I ellinotoyrkiki oikonomiki synergasia: Provlimata kai prooptikes- The Greek-Turkish economic cooperation: Problems and perspectives], *Agora horis synora*, vol. 7, no.1-2, 2001, p.3

as the visa issue for the Turkish tourists, and to exercise pressure on their governments to act towards this direction[19]. This was the first time that two major economic agents on both sides, as tourism is vital both for Greek and Turkish economy, openly declared not only that they are willing to proceed to common activities despite any political tension but also that they will be the ones to help eradicate this tension.

Yet, in February of 1999 the Öcalan crisis had a tremendous impact on bilateral economic relations and resulted in the abrupt rupture of any activity and even the function of the Greek-Turkish council of business cooperation. In addition, the Greek products were boycotted in the Turkish market[20]. This time economic activity could not disregard political conditions.

With respect to bilateral cooperation in the shipping sector, things were more complicated than the tourism sector described above. The interest of the Greek side for a potential cooperation with the neighbouring country was evident and so were the reasons for this. The geographical location of Turkey established her as an important player in the transit trade of the region. Being aware of the benefits, Turkey modernized its transportation network in general, since the beginning of the 80's. Greek ship-owners being experienced and having the know-how were obviously interested in leading their ships to the Turkish ports. However, the protectionism of the Turkish government did not leave open the door for the Turkish market. In September of 1988 and in the context of the Davos meeting, the delegations of the Greek and the Turkish chamber of shipping met

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[19] Kazakos, supra, note 8, p.89

[20] Ververidou , supra, note 13, p.2

in Piraeus and opened a dialogue regarding the existing problems and their solutions, the prospect of a bilateral cooperation and its benefits as well as the necessity for an official agreement on behalf of the governments that would ensure the smooth cooperation in the commodity transportation trade, maritime tourism and the ship-building sector. They insisted on that and they were committed to urge their governments to take steps towards this direction, characterizing such an agreement as a prerequisite for the launching of any bilateral activity. An interesting point of this dialogue was also the reference to the Cyprus question, though not on a political basis, but on an economic one. It was an important issue mainly for the Greek side, as many ships of Greek interests were under Cypriot flag, which made their access to Turkish ports impossible.

In May 1990, again in the context of Davos, the fourth meeting of the Greek-Turkish Business Council took place in Izmir. Naturally, all the relative issues were discussed, but what is important to underline is the emphasis that was given, expressed in their conclusions, on the protection of bilateral economic relations regardless of the political tension. Indicative of this trend are some parts of the conclusions such as: 'Turkey and Greece have developed over the years a respectful commercial friendship, which regardless of politic and strategic differences, has the potential to go further' and 'It is evident that the business world of the two countries are miles ahead of their political leaders, as much as the promotion of friendship for their mutual interest and the Greek-Turkish Business Council is the best proof for that'[21].

Regarding foreign investments, although there was a draft, no bilateral agreement had been signed at the time for the protection and promotion of investments between the

[21] Kazakos, supra, note 8, p.105

two countries. However, the general framework for foreign investments in Turkey was interesting indeed, as it provided many motives at every level[22].

Until 1999, thirty- two Greek firms were active in Turkey. Some of them were involved in direct investments and some of them operated through agencies. The majority of these firms were active in the sector of services with a 42% in the total amount of investments. The table below presents a detailed picture of the characteristics of Greek investments until that moment.

Greek firms in Turkey[23]

SECTORS	FIRMS NUMBER	TOTAL CAPITAL
AGRICULTURAL	1	2.928
MINING	2	10.500
INDUSTRY:	3	95.000
TOBACCO	1	69.000
LEATHER	1	16.000
NON-FERROUS METALS	1	10.000
SERVICES:	26	118.001
TRADE	11	49.439
RESTAYRANTS	2	5.520
HOTELS	9	53.957
AIR SERVICES	1	35
OTHER	3	9.060
TOTAL	32	226.439

As far as Turkish investments are concerned, the political tension between the two countries and the fact that in the Customs Union with EU the free movement of labor power was not included, did not allow to sheer commercial firms enter the Greek market[24].

[22] Ibid, p. 138-148
[23] Ververidou , supra, note 13, p.8
[24] Ibid, p.4

3.2 The post- 1999 period

The change of climate in the political bilateral relations after the earthquakes of 1999 was followed by an unprecedented positive development in the business domain that continue until today. The basket of official bilateral agreements that would promote and protect any economic activity, something that was constantly emphasized by the economic factors for years was no longer empty. Seventeen agreements were singed between 2000 and 2004, the majority of which concerned the economy.

More specifically, in the agreement for economic cooperation[25] that was signed on February 4th in 2000, the frame of cooperation it is clearly defined. The two parties specified ‘as possible fields of cooperation’ the areas of industry, including ship-building and ship repairing, energy, agriculture, including agro-industry, constructions, including consultancy services, transportation, including maritime transportation, telecommunication, banking, insurance and other financial services, tourism, vocational training and management training, environment and last but not least health. This agreement also gave birth to a Greek-Turkish Joint Economic Commission, which would have the responsibility for the successful implementation of this agreement and act, mainly, as a consultant between the two parties. Apart from this agreement, ten more agreements, one memorandum and one protocol were signed setting the foundations for the bilateral commitment that Cem and Papandreou were seeking for:

1. The agreement on cooperation in the tourism sector[26]
2. The memorandum of understanding concerning cooperation on environmental protection[27]

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[25] Εφημερις της Κυβερνήσεως της Ελληνικής Δημοκρατίας (Efimeris tis Kiverniseos tis Ellinikis Dimokratias- Newspaper of the Government of the Greek State), vol.1, no. 81, 12-4-2001
[26] Ibid, vol. 1, no. 69, 6-4-2001

3. The agreement concerning the reciprocal promotion and protection of investments[28]

4. The agreement on combating crime, especially terrorism, organized crime, illicit drug trafficking and illegal immigration[29].

5. The agreement on cultural cooperation, within the frame of which, cultural, educational, scientific, mass media, youth and sports exchange program were agreed[30].

6. The agreement on maritime transportation [31]

7. The agreement on cooperation and mutual assistance between customs administrations[32]

8. The agreement for the avoidance of double taxation on income[33]

9. The agreement on cooperation in plant protection field[34]

10. The protocol on the formation of a joint Hellenic-Turkish standby disaster response unit[35]

11. The agreement concerning the construction of the 'Turkey- Greece Gas Interconnector' and the supply of natural gas from the republic of Turkey to the Hellenic Republic[36]

12. The agreement on cooperation in the veterinary sector[37]

Undoubtedly, all these agreements have their importance for each sector. However, the agreement for the avoidance of double taxation on income contributed immensely in the

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[27] Ibid , vol.1, no. 77, 12-4-2001
[28] Ibid, vol. 1, no. 82, 12-4-2001
[29] Ibid, vol.1, no 163, 15-7-2002
[30] Ibid, vol.1, no. 97, 1-5-2002
[31] Ibid, vol. 1, no. 75, 12-4-2001
[32] Ibid, vol. 1, no. 62, 30-3-2001
[33] Ibid., vol. 1, no. 32, 9-2-2004
[34] Ibid, vol.1, no. 184, 9-8-2002
[35] Ibid, vol. 1, no. 111, 10-5-2005
[36] Ibid, vol.1, no. 117, 1-7-2004
[37] Ibid, vol. 1,no. 24-9-2002

development of bilateral economic cooperation. The following points are indicative of this:

1) Profits deriving from the operation of ships engaged in international transportation lines are taxable only in the state in which the ships are registered[38].
2) Dividends paid by a company which is a resident of one of the two states to a resident of the other state may be taxed in the other state. However, the tax rate will not exceed 15% of the gross amount of the dividends.
3) The tax rate on the branches profits is 15%
4) Profits derived from the operation of aircraft or road vehicles in international transportation lines are taxable in the state in which they are registered.
5) The tax rate on interest does not exceed 12% of the gross amount of interest
6) The profits derived from insurance services are taxable through representatives in each country
7) Where an enterprise of one state participates directly or indirectly in the management, control or capital of an enterprise of the other state or the same persons participate directly or indirectly in the management , control or capital of an enterprise of one state and an enterprise of the other state and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have been accrued to one of the enterprises, but , as a result of those conditions, have not been so accrued, may be included in the profits of that enterprise and taxed accordingly.

[38] Greek ships are no longer paying 6,5 % tax for freight from Turkey

The agreement concerning reciprocal promotion and protection of investments was also of major importance. Hereby follow some of its main points:

1) Fair and equitable treatment, full protection and security of the investments and returns of the investors in the territory of each country.
2) Within the frame of each country's laws, regulations and procedures regarding the entry, settlement and work of natural persons: i) each party will facilitate investors of the other party with respect to personnel, entry and temporary settlement in order to provide services related to the investments, ii) investors in each party are permitted to engage with top managerial and technical personnel of their choice, regardless of nationality.
3) Investments shall not be expropriated, nationalized or subjected, directly or indirectly, but for public purpose, and only upon prompt, adequate and effective compensation.
4) Compensation shall be equivalent to the market value of the expropriated investment before the expropriator's action was taken or become publicly known and shall be paid without delay. In case of delay, the payment shall include interest from the date of expropriation until the date of payment.
5) Each country shall permit all transfers related to an investment to be made into and out of its territory freely and without delay.

The perspectives of the 1999 Greek-Turkish rapprochement were firstly demonstrated on bilateral trade. As it shown in the table[39] above, just in one year after the crisis and the following reconciliation of 1999, the value of the trade balance was increased by $58.1m from 1999 to 2000. According to the most recent data, in 2008, the value of imports from

[39] Ververidou , supra, note 13

Turkey was $117.921m, while the value of exports to Turkey for the same year was $131.032m[40].

In the energy sector, the $300m, 285 km-long natural-gas pipeline running from Karacabey, located on the Asian shores of the Sea of Marmara, to Komotini, located in Western Thrace was the first joint project agreed on 23 February 2003 between DEPA and BOTAŞ, the Greek and Turkish state gas utilities companies. The pipeline itself was connected at the border on 3 August 2007 and formally inaugurated by the two Prime Ministers on 18 November 2007[41]. The second joint project in the energy sector was the linking, in early 2008, of their national electricity grids. This project was the outcome of a memorandum of understanding signed between DEH, Greece's Public Electricity Power Corporation, and TEIAS, the Turkish Transmission System Operator, in Ankara on 28 March 2002. The agreement provided for a single, 264 km-long high-intensity power line (380-400 kV) across the Thracian border (of which 200km will be on Greek soil) with a total transmission capacity of 1,000MW built to enable the two sides to trade electricity power[42]. The importance of this project lies on Greece's growing demand for electricity power and the fact that the Turkish grid was the only one in S.E. Europe not connected with the Greece- Balkan UCTE[43] system.

Foreign Direct Investments came late, indeed, but not surprisingly.The first important deal between the two countries, was signed on 20th December 1999. The Greek firm METON-ETEP and the Turkish firm YAPI MARKEZE agreed on a joint project

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[40] Greek consulate in Istanbul, May 2008
[41] Papadopoulos, supra, note 12, p.20
[42] Ibid
[43] The UCTE, or Union for the Co-ordination of Transmission of Electricity, is the association of interconnected power-transmission system operators of central and western continental Europe.

regarding a pipe construction unit in Greece[44]. In December 2005 and in April 2006, four Turkish firms, İpekyol, Maçka , Koton and İnci, specializing in clothing and footwear entered the Greek market by opening a small number of retail outlets in Greece, joining six more Turkish firms which were already active in the Greek market (land transportation, construction of tubes, IT and advisory services). The total amount of the Turkish direct investments did not exceed $2.5m.

On the other hand, in 2004, Greece was the 22nd biggest investor in Turkey. Today, although they are not officially registered, it is estimated that there about 380 Greeks firms operating in Turkey. Many of these are joint ventures, investments in mines and quarries, gaming, information technology, hospital services, agricultural products, packaging, plastics, pharmaceuticals and cosmetics, fish farming, tourism, construction, trade and dealerships, and advisory services[45]. Large Greek firms such as XALKOR and TITAN proceeded in joint projects with Turkish firms in Turkey[46]. In 2008, the biggest investment in health services came from the Greek YGEIA group through the acquisition of the 50% of the Safak group[47].Last but not least, the biggest joint venture to date, is that between the construction companies AKTOR and ENKA who have been chosen to complete the first phase at the construction of the 'Blue City' leisure resort, a 15-year, $20bn project in Oman. The project is estimated to be competed within six years and it will cost in total $1.9bn[48].

From 2005 onwards, the banking sector of Greece made unprecedented investments in the Turkish market. On 28 March 2005, Eurobank EFG announced its agreement to

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[44] Ververidou, supra, note 13, p.4
[45] Greek Embassy in Turkey, February 2008
[46] Greek Turkish Cooperation Council
[47] www.agora.mfa.gr
[48] Express, 5 January 2006, www.enka.com

take a controlling share in HC Istanbul Holding A.S., a stock brokerage firm. In April 2006, the National Bank of Greece announced it had reached a deal to acquire 46% of Finansbank for $2.77bn (3.6 times its book value). Finansbank is the country's 8th largest, with a market share of about 3.3%. In February of 2007, NBG raised its stake to 89.44% , which cost NBG another approximately $2.25bn. On 8 May 2006, Eurobank EFG announced it had agreed to acquire a 70%-stake in Tekfenbank for $182m, or 3.6 times its book value.

The sector of tourism certainly consists one of the heavy industries for the two countries and that is why it is always first on the agenda. The number of Greek tourists that visit Turkey is proportionally much bigger than the number of Turkish tourists in Greece[49]. These numbers might have been greater were it not for existing visa requirements from the EU and a $50departure tax from Turkey, reduced to 15 YTL in March 2007. In order to exploit a prospect of common package deals for third-country tourists who want to visit both countries, the Association of Turkish Travel Agencies (TURSAB) and the Hellenic Association of Travel and Tourist Agencies (HATTA) signed a protocol in 29 June 2005 in Kuşadası to set up a joint council to promote joint tourism packages for long-distance tourists mainly from the Far East[50].

During the last visit of the Turkish prime minister in Athens on May 2010, among the agreements signed, there was one to invite Chinese travel agencies in order to form joint packages for Chinese tourists that will visit both countries during their vacation. Within this framework, the two tourism ministers signed in Antalya on 12 November 2006 a memorandum providing for easier travel for third-country visitors from one country to

[49] Papadopoulos, supra, note 12, p.18
[50] Ibid.

another, the launching of new ferry links, the expanding of air connections, cooperation in sea tourism, and the encouragement of private initiatives. Other areas included the exchange of know-how and experience regarding the use of marinas, certification systems on agro-tourist accommodation, and tourism education[51]. In addition, TURSAB along with the Turkish Technical Chamber undertook a project for the restoration of churches and buildings in the Kaya village, located in the southwest shore of Turkey and which was inhabited by Greeks until 1922, when it was abandoned as a result of the exchange of populations. The idea was to create a positive climate between the people and, thus, to host a bigger number of tourists from Greece[52]. According to the Central Bank of Turkey the total value of the Greek investments in Turkey from zero in 2002 increased to $779m in 2008 bringing her in the 6th place among the European investors in Turkey.

There is no doubt that cooperation between Greece and Turkey has been subjected to mutuality of interests, shadow of the future and time as described by Keohane. Furthermore, the presence of a third actor, meaning EU, has played a significant role regarding cooperation or non-cooperation. However, economic cooperation between the two states, which was enhanced by political rapprochement, has proven to be quite resilient in times of political tensions and pressures. It seems to have been more independent rather than dependent on political cooperation.

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[51] Ibid

[52] Ververidou, supra, note 13, p.5

CHAPTER II

Economy and banking system

This chapter deals with the economies of the two countries and their banking systems. The aim of this chapter is to give to the reader a complete and clear picture of how the two systems are structured in order to understand the reasons and the motives that led to cooperation.

1. Economies and banking systems of Turkey and Greece

1.1 The Turkish economy and its banking system

Until the 1980's, Turkish economy had all features of a planned economy. The state dominated all levels of economic activity and planned all strategies regarding sources as well as their use. State agencies were responsible for the implementation of these plans and they had the first word in the decision making of the country's economic activity.

Towards the end of the 70's Turkish economy experienced an important foreign exchange crisis, which in combination with a high inflation resulted in freezing economic activity. Although the public sector's deficit exceeded 8 percent of GNP (Gross National Product) the regulated by the state interest rates remained extremely low in nominal terms and became negative in real terms. Along with the financial markets that were uncompetitive and, thus, were not functioning properly, financial institutions' function was also problematic, given the fact that they were functioning under no international banking rules and competition.

In 1980 the government announced a reform program in an effort to boost economic growth through exports and liberalization of the financial markets. The state mechanism would be replaced by a price mechanism in order for the market to be regulated properly. The aim of these reforms in the financial sector was to increase savings and improve its operational and allocative efficiency. Plus, promoting capital market was an urgent need[53].

The 1980's reforms have been a turning point for the Turkish banking sector and for the Turkish economy in general, as a new liberal economic policy was introduced. This policy would work in two directions: the establishment of a free market and the integration with the world markets[54]. The Turkish banking system followed an upward course after the 1980's. Within a period of 20 years, the total assets of all banks rose to $132.6 billion from $18.6 billion. In 1970, total assets had amounted to $6 billion. At the same time, total assets to GNP ratio rose to 80 percent from 31 percent in 1980 and 43 percent in 1970[55].

Before even starting describing the structure and the main characteristics of the Turkish banking sector, it is essential to mention the close connection of the latter with the financial system of the country. The two systems tend to be almost identical due to the fact that money and capital markets carry out their activities through banks, which consists the major part of the financial system[56].

Until 1980, the banking system was a closed system full of restrictions on interest and exchange rates as well as market entry. It was protected from external competition and it was very reluctant to any innovative activity. The control was in the hands of the

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[53] Gokhan Karabulut, Mehmet Huseyin Bilgin, 'Sources Of Non-Performing Loans In Turkish Banking System', *Journal of Business & Economics Research* , Vol. 5, N.10, October 2007
Banking regulation and supervision system, www.bddk.org.tr
[54] Banking regulation and supervision system, www.bddk.org.tr
[55] Dr. Ekrem Keskin - Melike Alparslan ,*The Banks Association of Turkey (BAT),* p.4
[56] Banking regulation and supervision system, www.bddk.org.tr

large, state- owned banks. The strict regulations upon the interest rates allowed the banks to obtain deposits at very low cost. On the other hand international capital movements and foreign exchange operations were extremely difficult under such conditions of control. This control was removed by the 1980's liberalization program for the economy[57]. In the years that followed a series of reforms took place that resulted in the legal, structural and institutional renaissance of the banking sector. The final aim of this liberalization effort was the efficiency of the banking sector and the key to open the door of efficiency was competition. Thus, competition among banks had to be increased[58].

The deregulation resulted in the decrease of the majority of the restrictions on interest rates, market entry and exchange rates. Moreover the number of national, private and foreign banks was increased. More specifically, in 1980 43 banks operated in Turkey while in 1996 their number was increased to 69. Twenty of them were foreign banks[59]. Turkish banks also purchased banks in foreign countries or opened branches and representative offices. The number hasn't changed dramatically until today, since there are 49 banks operating and there is also a large number of other institutions, related to the banks, which provide similar services[60].

Furthermore, in 1984, special financial institutions were set up. These institutions were recently renamed "participation banks" and they operate according to Islamic banking principles[61]. Islamic banking operates in accordance to the value system of

[57] Kasman Adnan, *Competitive conditions in the Turkish Banking Industry*,p.73
[58] Ibid
[59] Ibid
[60] Bank Association of Turkey
[61] Banking regulation and supervision system, www.bddk.org.tr

Islam. It is based on certain prohibitions and encouragements. Muhammad Ayub describes these principles in detail[62]. Here is a brief description of these principles:

a) Avoiding interest or any ex-ante return derived on a loan/ debt
b) Avoiding "Ghahar" which refers to contracts with absolute risk or uncertainty regarding the result
c) Avoiding gambling and games of chance
d) Engage in partnership arrangements in which one party provides capital and the other party provides entrepreneurial skills
e) Acquiring goods upon a customer's demand and their credit sale at a profit margin.
f) Providing funds against the forward purchase of precisely defined goods with prepayments.
g) Leasing an asset and receiving rentals.
h) Engaging a person to manufacture or construct and supply an item at some future date for an explicit sum on a periodic payment.

In the same year foreign exchange deposits were allowed for Turkish citizens. The new Istanbul stock exchange, which was operating for more than 100 years under different conditions, was re-established and became operational in 1986[63] . In the same year the Central Bank established Interbank Money Market in order to regulate liquidity in the banking sector. In addition, a uniform accounting plan, accounting principles and a standard reporting system were adopted[64]. Many changes also were made in the Banking

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[62] Ayub Muhammad, *Understanding Islamic Finance*, (2007)

[63] Haydar Kazgan, *The Istanbul Stock Exchange in a historical perspective,* (1995)

[64] Banking regulation and supervision system, www.bddk.org.tr

Law in an effort to improve the operational environment of the banking system[65]. Moreover, in 1987 an external auditing of the banks was initiated in accordance with internationally accepted accounting principles. In time, banks enriched their services spectrum with trading in securities, underwriting fund management, mutual funds and financial consultation[66]. Turkish lira became convertible in 1989 and in 1990 banks were in position to determine their exchange rates[67].

According to Alper and Oni there were three main features of the banking sector during the 1990's[68]: The first was the negative impact of the public banks' duty losses, which dominated the banking sector. The latter were of significant importance after the crisis of 1994 and the related to that stabilization program. The second feature was the opening of new banks based on political criteria and the third was the restrictions regarding the entrance of foreign banks in the banking sector. These three features indicate on one hand the political involvement in the regulatory procedure and on the other hand the lack of supervision.

In the 1990s the macroeconomic crisis of the Turkish economy was directly related to the problematic functioning of the banking sector as it is a fact that the last has dominated the Turkish financial system. However, this relationship was reciprocal as the banking sector was under the influence of macroeconomic crisis too[69].

There are two major groups of banks in Turkey: commercial banks[70] and investment and development banks[71]. In addition, three categories result from the classification of

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[65] Keskin , Arpaslan, supra, note 50

[66] Banking regulation and supervision system- www.bddk.org.tr, Kasman supra, note 52

[67] Kasman , op.cit.,note 52

[68] Emre C. Alper and Ziya Öni 'The Turkish Banking System, Financial Crises and the IMF in the Age of Capital Account Liberalization: A Political Economy Perspective', 2003, p.4

[69] Ibid

[70] A commercial bank provides a wide range of services such as accepting deposits, granting loans, credit collections, movement of capitals.

these groups according ownership: private-owned, state-owned and foreign banks. Commercial banks operate as universal banks[72]. Privately owned commercial banks included large commercial banks having branches nation-wide and providing all kinds of services and small sized banks of which activities concentrated on the main business cities. Recently small sized banks have tried to increase their deposit market share through expanding their number of branches. These banks are usually located in major business cities. Most of the private banks are owned by wealthy families and /or industrial groups[73].

As of July 2009[74], there are 49 banks in total operating in the Turkish banking sector, with 32 of them being commercial banks, 13 development and investment banks and 4 participation banks. The commercial banks do not have participation accounts and the participation banks are not licensed to accept deposits. The development and investment banks are not allowed to issue deposit and participation certificates. According to the Bank Association of Turkey 2009 data, commercial banks and development and investment banks have a total share of 96 percent in the sector total assets while the participation banks have a share of 4 percent. The shares of the private commercial banks, the state owned and the foreign banks are, respectively, 49 percent, 30 percent and 14 percent[75]. In the 24 commercial, development and investment banks of the banking sector the majority of shares, excluding public shares, are held by residents

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[71] An investment and development bank provides services such as long-term loans, consulting on acquisitions and investment activities.

[72] Universal banks provide all kinds of banking services including assurance, investment, capital market services.

[73] Keskin , Arpaslan, supra, note 50, p.5 - Christopher F. Baum, Mustafa Caglayan, Oleksandr Talavera 'Parliamentary Election Cycles and the Turkish Banking Sector', 2010, p.7

[74]BAT,http://www.tbb.org.tr/english/duyurular/The%20Financial%20System%20and%20Banking%20Sector%20in%20Turkey.pdfi, Istanbul Chamber of Commerce, 2008

[75] Ibid

abroad or who have entered into strategic partnership agreements with residents abroad[76]. The total number of branches in the deposit banks and development and investment banks increased by 677 to 8,851 at the end of June 2009 as compared to June 2008 and by 61 as compared to December 2008. The number of branches increased by 42 in state-owned deposit banks, 19 in privately-owned deposit banks and 3 in development and investment banks as compared to December 2008. On the other hand, the number of branches decreased by 3 in foreign banks[77].

Number of Banks and Branches in the System *

	June 2008		December 2008		June 2009	
	Banks	**Branches**	**Banks**	**Branches**	**Banks**	**Branches**
Deposit banks	**33**	**8,121**	**32**	**8,741**	**32**	**8,799**
State-owned banks	3	2,269	3	2,416	3	2,458
Privately-owned banks	11	3,955	11	4,290	11	4,309
Banks in the Fund**	1	1	1	1	1	1
Foreign banks	18	1,896	17	2,034	17	2,031
Development and inv. banks	**13**	**53**	**13**	**49**	**13**	**52**
Total	**46**	**8,174**	**45**	**8,790**	**45**	**8,851**

** Branches in foreign countries and Turkish Republic of Northern Cyprus are included.*

*** Banks under the Deposit Insurance Fund*

[76] Among the controlling shareholders in those banks, 3 are resident in the USA, 3 in France, 2 in Netherlands, 2 in Belgium, 2 in Germany and the rest of are (1 in number) in Greece, Portugal, Luxembourg, Iran, Pakistan, Israel, Bahrain, the United Kingdom, Saudi Arabia, Italy, Kazakhstan and Libya

[77] Ibid

The global economic crisis that burst out in 2008, not suddenly, since it started to become obvious a long time ago that global economy was about to enter recession, had and still has a significant impact on Turkish economy. The growth rate decreased abruptly after a stable course since 2002. The GDP (Gross Domestic Product) in real terms also followed the same course. After an upward course since the last quarter of 2001 it took the opposite direction in the last quarter of 2008. There was fluctuation in inflation and interest rates and public's and private's sector high savings showed deficit. In addition, there was an expansion in the budget deficit as well as a decline in net capital flows[78]. More specifically, since September of 2008 foreign trade volume reached 50 percent of GDP (Gross Domestic Product). There has been a decrease in domestic and external demand as well as in output and income. On the contrary there has been an increase in unemployment. External financing became limited. The public sector's deficit expanded, thus borrowing was inevitable. Last but not least, interest and inflation rates decreased. Turkish authorities introduced a series of measures in order to deal with the negative impact of the global crisis in Turkey[79]. The same strategy was followed by Turkish organizations in order to alleviate the crisis.

Within this framework, the Central Bank of Turkey resumed its activities as an intermediary in the foreign exchange deposit market until the removal of uncertainties in international markets (9 October 2008). It raised its transaction limits twofold to $10.8 billion (23 October 2008) and extended the lending maturity to one month from one week in the foreign exchange deposit market (21 November 2008). It adopted a strategy to use foreign exchange reserves to primarily support the foreign exchange liquidity need of the

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[78] BAT http://www.tbb.org.tr/english

[79] BAT,http://www.tbb.org.tr/english/duyurular/The%20Financial%20System%20and%20Banking%20Sector%20in%20Turkey.pdfi

banking system. The reserve requirement ratio remained unchanged at 6 percent in TL liabilities, but it was lowered to 9 percent from 11 percent in foreign exchange liabilities (28 November 2008). With this measure, the Bank provided an additional liquidity of $2.5 billion to the banking system and increased the exports rediscount credit limit by $500 million to USD 1 billion in order to contain the effects of the global crisis on industry sectors. Additionally, the rules and principles applicable to the exports discount loan limit were rearranged for rendering the use of these loans easier. Therefore, the condition that sets forth assignment of the reserves for letters of credit to the Central Bank was repealed[80].

At the same time certain measures were adopted by the Banking Regulation and Supervision Agency (BRSA), in order to preserve the financial capacity of banks and restrain the effects of rapid changes in the financial asset prices on banks' capital adequacies[81].

The size of the financial sector in Turkey is small and shallow compared to the financial sectors of developed countries[82] and it is still in the process of growing. It is also a fact that it is dominated by the banking system, as the last holds a major share. In recent years, non-bank financial institutions made their presence much more visible. The financial services sector in Turkey includes banks and insurance companies and non-bank financial institutions such as factoring companies[83], leasing companies[84], consumer

[80] Ibid
[81] Ibid
[82] The ratio of financial assets, consisting of bank assets, shares and public and private borrowing instruments, to GDP was 150 percent for Turkey, 246 percent for developing countries and 421 percent for the world in 2007. BAT , The Financial System and Banking Sector in Turkey, October 2009
[83] These companies provide funds to other companies, medium sized mainly, by purchasing their claims.
[84] These companies rent capital equipment for a fixed term and fixed price.

financing companies, pension companies, intermediary institutions[85], investment funds[86], investment partnerships and real estate investment partnerships.

In the Turkish financial system, there is no single authority responsible for supervision and inspection. The supervision and inspection of banks and leasing and factoring institutions in Turkey is performed by the Banking Regulation and Supervision Authority. The Capital Market Authority is responsible for the regulation and supervision of banks' capital market operations[87].

After the crises of 2001 the banking sector in Turkey entered a period of development, performing a rapid growth from 2002 to 2008 due to the restructuring program. The total assets rose from \$130 billion to \$465 billion, their ratio to GDP from 57 percent to 77 percent. The numbers of branches and staff also increased. The financial structure of the sector was also strengthened[88]. At the same time the risk management systems improved and public supervision became more effective. Some of the reasons that contributed in this development of the banking sector are the favorable domestic and international economic situation and the change in the risk management conception. However it was the "Banking Restructuring Program" that played a crucial role.

The restructuring process in the banking sector consisted of two parts. As of the end of 1999 it began with the disinflation program and it was continued with the "Banking Restructuring Program' in 2001. The Banking Law was at first in the center of this

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85 These institutions operate as a connection between companies and account holders, providing all kinds of loans

86 These are companies of investment portfolio

87 BAT,http://www.tbb.org.tr/english/duyurular/The%20Financial%20System%20and%20Banking%20Sector%20in%20Turkey.pdfi

88 The shareholders' equity of the sector increased from USD 16 billion to USD 54 billion and its free equity from USD 3 billion to USD 40 billion. The capital adequacy ratio which was 18 percent as of December 2008 continued to grow and reached 19.4 percent in the first half of 2009.
BAT , The Financial System and Banking Sector in Turkey, October 2009

process as there were made extensive amendments in its content. The Banking Regulation and Supervision Authority (BRSA), mentioned above, were established as a regulatory and financial authority with administrative and financial autonomy in the banking sector. Duties and authorities regarding the supervision and regulation of banks which were previously shared by the Treasury and the Central Bank in the past were transferred to BRSA which started its operations in August 2000. In this period, an unlimited guarantee was introduced for savings deposits[89].

The first concern of the restructuring process was to find a way out for banks that were in a difficult financial position. At the end of 1999, the SDIF (Savings Deposit Insurance Fund) took under its control five commercial banks with financial problems and the banking licenses of two development and investment banks were cancelled. Special series of bonds were issued by the Treasury Undersecretariat, the Central Bank advances were used, and resources were transferred from SDIF for supporting the financial structures of twenty banks under SDIF control during the period of 1996-2003. During the same period, the banking licenses of 8 banks were revoked and they were liquidated. At the end of July 2003 the amount of the resources transferred to banks owned by SDIF, including the debt principal repayments and interest payments made for and in the account of them, reached $28.2 billion (TL 40 billion) . In the meantime the SDIF established the Birleşik Fon Bankası A.Ş. (United Fund Bank). Some of the banks under SDIF control were sold while the others were merged under Birleşik Fon Bankası A.Ş.

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[89] Ayşe Mumcu and E. Ünal Zenginobuz, 'An analysis of mergers and acquisitions in the Turkish Banking Sector', *Research in Middle East Economics* Vol.6 , 2005
BAT,http://www.tbb.org.tr/english/duyurular/The%20Financial%20System%20and%20Banking%20Sector%20in%20Turkey.pdfi

In the second phase of the restructuring process, the main target was the state owned banks. Delays in the repayment of loans used by the Treasury for budget financing, inefficient use of their resources due to political interventions, and management had weakened their financial structures. Thus, public resources were transferred to them in order to reinforce them. More specifically, in the end of 2001 a total of $21.9 billion (TL 28.7 billion) was transferred to the state-owned banks, including capital support and settlement of the "duty losses", which had reached 50 percent of their balance-sheets at the end of 2000. In addition the state-owned banks were reinforced through mergers between each other and in the framework of restructuring it was also planned to be privatized in the end.

In the third phase, a program was introduced in order to reinforce the equity capital of private banks which provided that a three-party audit should be made before extending capital support to and reinforce the equity capital of private banks whose asset quality was deteriorated and equity capital rapidly melted down. The capital requirements of the banking sector remained at a limited level due to positive approaches in cash capital increases, re-regulation of provisions for nonperforming loans, and assessment of market risks in considering the sector reports prepared after the audits. One bank was transferred to the SDIF due to shortage of capital. The total cost of restructuring in the private sector was $7.9 billion, with $5.2 billion was met by the SDIF and $2.7 billion by the private sector banks. Besides, regulations were adopted for establishing mechanisms that would accelerate the solution of bad assets.

The restructuring in the banking system aimed also to legislate institutional regulations for improvement of supervision and audit systems, to change the risk taking and risk-management processes and methods and enhancement of the corporate infrastructure. The banking legislation was significantly aligned with international regulations, best practices and particularly the EU directives. International regulations were considered in adopting the regulations which aimed to increase the transparency of balance sheets of the banks, ensure compliance with international accounting standards and strengthen their financial structure of banks. In this framework, Turkey had started works in 2002 for incorporating the infrastructural elements of the new Basel Capital Accord (Basel-II)[90].

The banking sector has shown remarkable resilience to the global financial crisis, largely due to major improvements in the regulatory and supervisory framework made in previous years. The financial sector's risk ratios remained robust. The sector benefited from the central bank's liquidity measures and some easing of regulations governing loan classification and provisioning requirements. The capital adequacy ratio stood at a solid 18% by mid-2009, substantially higher than the EU legal requirement of 12%. Non-performing loans increased marginally to about 4.9% by mid-2009 from 3.0% a year earlier and stress tests by the regulator show that the sector is sound and adapts well to the new challenges, in part through a wide-scale purchasing of debt instruments offered by the Treasury.

The banking sector, by far the largest part of the financial sector, increased its share from 70% to 77%. The relative size of the insurance sector decreased slightly to 2.6%, about the same size as that of the mutual funds. Domestic private banks had a 34.5% share in total assets, whereas the share of foreign banks reached 37.4% taking into account foreigners' investments in the stock exchange, which corresponds to 17.5% of

[90] Op. cit., BAT

banking sector assets. Financial intermediation improved in 2008, in particular in the banking sector, but weakened substantially in the first half of 2009. Since the Istanbul Stock Exchange fell considerably during 2008, total stock market capitalization decreased from €195.3 billion (39.6% of GDP) to € 84.6 billion (19.1% of GDP). Concentration in the banking sector remained broadly stable, as the share of top-five and top-ten banks in the banking sector were 60% and 83%, respectively. *Overall*, under difficult crisis circumstances, the financial sector has shown remarkable resilience thanks to earlier reforms[91].

1.2 The Greek economy

Following the Second World War and the Civil War (1940-1948), the growth of the Greek economy was rapid. However, from 1975 since 1995 the performance of the economy was poor and the growth of the real GDP slowed to only 1.5 percent annually. Many authors attribute this economic behavior to political changes that took place, meaning the restoration of democracy after seven years of dictatorship. The macroeconomic environment clearly collapsed in the late 1970s and remained in a problematic condition throughout the 1980s. The general government budget balance switched from an average surplus equal to one percent of GDP in the 1960s to steadily increasing deficits after the 1973 oil price shock. These deficits averaged 9 percent of GDP in the 1980s and peaked at 16 percent in 1990.

[91] Commission of the European communities ,Turkey progress report 2009, Brussels, 14.10.2009

Throughout the period, the size of the budget deficit was actually understated by a policy of directed lending from the banks to the public sector. Inflation rose from an annual average of 2 percent in the 1960s to 20 percent in the 1980s. Real rates of interest on bank lending and deposits, which had been strongly positive in the 1960s, went negative after 1973 and remained so until the late 1980s.In the mid-1970s the government introduced large and sustained budget deficits and the monetary policy resulted in a sharp acceleration of inflation. The profit margins and the investment incentives were decreased because of the high rates of wage inflation. In the late 90s, despite the macroeconomic measures, there was still a growth slowdown. Between the years 1995 and 2000 the growth rate was only 3.3 % annually, slightly exceeding the EU average. The public budget deficit was cut from 16 percent of GDP in 1990 to 1.8 percent of GDP by 1999 and inflation was reduced from the 20 percent annual rate of the 1980s to the standards required for entry to the European Monetary Union. Moreover, financial markets deregulation, which started in the late 80's and accelerated in the mid-nineties, must have contributed to the reduction of financial intermediation margins and promoted growth.

After 2001, the real growth rate accelerated significantly, in a large degree due to the preparations for the 2004 Olympic Games. As a result, living standards, measured in terms of GDP per capita in purchasing power standards (PPS), rose from 84½% in 1997 to almost 95% of the EU-27 average in 2007. In spite of high growth, the general government deficit remained on average well above 3% of GDP over the whole period (with a maximum of 7½% of GDP in 2004). Together with large debt-increasing below-the line operations, high deficits contributed to the accumulation of public debt, which, at almost 97¾% of GDP in 2008, is the second highest in the EU. During the same period, price-stability-oriented macro-economic policies reduced inflation rates from above 5% in late-1990's to around 3% in 2007, but the difference with the euro area still remains high at around 1¼ percentage points. The nominal wage growth has been outpacing productivity gains, pushing up unit labor costs and eroding the competitiveness of the Greek economy. The combination of high economic growth, persistent fiscal imbalances and deteriorating competitiveness in the last decade has worsened the external balance of the Greek economy, with the current account deficit gradually peaking at 14% of GDP in 2007, from a close-to-balance position in the mid-1990[92].

1.3 The Greek banking system

The Greek banking system dates back to 1828 when the Greek state was founded. The first governor of the state, Ioannis Kapodistrias, established the National Financial Bank in order to deal with the aftermath of the seven year war against the Ottoman Empire, which gave birth to the Greek state, resulting among others to fiscal and credit problems. However, it was a fruitless effort, because the public would not trust its savings to the bank. Thus, having no resources, the bank closed after three years. In 1841, the National Bank of Greece the first private bank of Greece was established. The state did provide the 20% of its initial capital, but the bank was mainly financed by Greek and foreign investors. Among other activities, the National Bank issued bank notes and was the provider of commercial credit, mortgage loans, financing of development projects and financial support to the Greek treasury.

[92] George Moschovis and Mateo Capo Servera, *External imbalances of the Greek economy: the role of fiscal and structural policies,* Economic analysis from the European Commission's Directorate- For Economic and Financial Affairs, Vol. 6, Issue 6, 10.7.2009

The National Bank of Greece was the only credit institution of the state until 1864. That year, the Ionian Islands were incorporated into the Greek state and the Ionian Bank Ltd, a bank based in London, began to provide commercial banking services as well as issue bank notes[93]. In the second half of the 19th century two main features of the Greek banking system become apparent. The first one is that, given the fact that the number of banks increased some of them, mainly the largest ones, expanded their branch network throughout the country, while some others such as the Bank of Athens, operated locally. The second one is that deposits constituted only a small part of banks' liabilities. The other part was covered by their own resourses or by overseas loans[94].

In the beginning of the 20th century new banks were incorporated in the banking sector. The banks continued to expand their branch network and adopted new banking techniques. Their number was increased even further after the Balkan Wars and the First World War. In addition to the features of the banking sector in the second half of the 19th century mentioned above, non- diversification of financial activities and no state intervention in any level were two features that followed the development of the banking system until 1920.

From 1920 onwards, things change and the state claims a more active role in the banking sector. Indicative of this trend was the adoption of the contemporary 'central banking model' that already prevailed in other European countries. This new strategy was realized through the establishment of the Bank of Greece which from 1928 was the exclusive issuer of bank notes and responsible for the monetary and foreign exchange policy. Moreover, in 1927 the National Mortgage Bank of Greece was established for

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[93], Gortsos V. Christos , *The Greek Banking System* , edition: HBA- Ant.N. Sakkoulas-Bruylant, Athens, April 1998, p. 3
[94] Ibid, p. 3-4

house credit and in 1929 the Agricultural Bank of Greece for financing the agricultural sector. In addition, in 1931, the first legal framework regarding the function of the banking sector was ratified. In 1928, the Hellenic Bank Association was established by the 48 credit institutions of the country, aiming to represent them to the Bank of Greece and the government. This number was significantly decreased until 1939 down to 31 as a result of the 1929's economic crisis, although, at the beginning, its impact in the banking system was not so sound compared to other European countries[95].

However, the turning point of the state's strong intervention in the banking sector was 1946. Greece was devastated by the Second World War and the following civil war and its reconstruction process was mainly supported and financed by the banking sector. Thus, the government was seeking for a more tight control of the banks in the context of a general concept of its role and participation in the economic development of the country. More specifically, the monetary and credit policy once assigned to the Bank of Greece was now conducted by the Currency Committee, a governmental authority, also responsible for the development of the legal framework of bank activities. The Bank of Greece was now carrying out the Committee's decisions.

The state took under its control the largest banks and their financial institutions and in some cases control was followed by ownership as well. Finally in the 1960's three development banks were established for long-term financing as part of the government's economic policy[96]. All these interventionist actions of the state resulted in market concentration due to the lack of competition. Thus, only two major banking groups[97] dominated the market almost until the 90s. It is worth noting that despite a closed

[95] Ibid p.4-5
[96] Ibid p.4
[97] Ibid p.6

banking system that did not allow the entry of new domestic banks, the internationalization of the banking activities resulted in the entry of foreign banks which opened branch offices and extended their activities in Greece. The 'intrusion' began in the 1960s, however the association of Greece with the EU in the 1970's and then its membership in 1981 gave certainly a boost to this process.

Consequently, the financial system was for long dominated by the state. This domination had an impact on two aspects: the level of nominal interest rates and the quantity of credit available to the economic sector, which were under the control of the Currency Committee until 1982 and the Bank of Greece after 1982. The credit was directed among others to state-owned firms. The state control of the banking system was conducted through four channels: a) lending requirements imposed on commercial banks, b) granting of loans at preferential and subsidized interest rates, c) provision of credit guarantees and d) direction of long term credit through specialized credit institutions, called 'development and investment banks'. In addition there was strict regulation of the drachma and foreign currency denominated loans. It is worth noting that credit institutions were obliged to invest a fixed 40% of their deposits in Treasury bills, in order to support the public sector, the size of which grew immensely during the 1980's, thus creating huge needs of financing[98]. Needless to say that all the above rendered the banking system of vital importance for the Greek financial system as the depth of capital and money market was low. Last but not least the Athens Stock Exchange was the only organized market for the primary placement and secondary trading of bonds and stocks.

[98] Ibid, p.7

However, the volume of its transactions was not of importance at least until the mid-1980s and furthermore it lacked transparency and efficiency[99].

The year 1987 was a turning point in the history of the Greek financial system. As the modernization progress had started in 1982, it was now intensified in order to adopt the international standards. Many factors, such as allocation inefficiencies, financial integration with the European Union and international trends for globalization and deregulation worked toward this direction. The modernization and deregulation process of the Greek banking system can be separated in three periods. The first period (1982-1986) laid the foundations for a quasi- independent monetary policy and rationalization of the credit market. During the second period (1987- 1991) constraints on the financial markets' and intermediaries' operation as well as on the provision of financial services were gradually lifted. The third period gave three main developments: the abolition of any remaining direct controls and interventions, the implementation into the Greek law of secondary European Union legislation about the establishment of a single European financial market and the preparation of Greek credit institutions and the supporting mechanisms of the Greek financial system for the major technical and operational modifications required by the introduction of the single European currency, the euro[100].

The fruits of this modernization process were many and important. The deregulation of deposit and lending interest rates was completed in 1993 allowing competition to emerge. In 1994 the cross-border movement of capital between Greek residents and residents of other member states of the European Union as well as residents of non-EU countries was almost fully liberalized and some remaining barriers were

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[99] Ibid, p.8
[100] Ibid

eliminated three years later in 1997. Simultaneously, banks were no longer obliged to hold 70% of their deposits in foreign currency with the bank of Greece and had no restrictions any more regarding their investment[101].

In addition, any control of direct credit on credit institutions was fully abolished by the mid-1990s. More specifically, since 1991, credit institutions are allowed to invest in bank bonds and, since 1993, in parts of mutual funds and in equity securities not exceeding 25% of their own funds[102]. In 1993 the obligation of holding the 10% of their deposits in reserve for extending credit to small and medium size firms and the requirement of investing up to 40% of their deposits in low yielding government treasury bills was lifted. According to the prohibitive provisions of the Maastricht Treaty of the European Union, the Greek government had no longer access in the banking system for financing and the banks were no longer obliged to hold the 9% of their deposits for financing public firms and organizations. From 1993, also, commercial and mortgage banks could issue credit cards without authorization by the Bank of Greece. From 1994 onwards credit institutions were able to convert their accumulated stock of short term Treasury bills into medium term Treasury bonds and use these securities in the course of repurchasing agreements with their clients[103].

Another important change of structural nature was the de-specialization of credit institutions. Until then the law required institutional specialization, however in the years that followed, the distinction between commercial banks and specialized credit institutions was vague. The year 1987 was the year that the financial disintermediation process started, which reached its zenith in 1990 thanks to the rapid flourishing of Athens

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[101] Ibid, p.9
[102] Ibid p.10
[103] Ibid, p.9-10

Stock Exchange and the development of the market for short term public debt. In the late 1980s many firms went in public thus giving the opportunity to many companies, including financial institutions, to issue new shares. Nevertheless, the development of money market instruments, such as commercial papers, and almost any issuing of corporate bills and bonds were restrained by the high nominal interest rates and adverse tax incentives[104].

The modernization program also resulted in the restructuring of the monetary policy carried by the Bank of Greece. The latter was aimed at price stability and decrease of the rate of price increases in order to galvanize Greek economy. Within this frame, monetary policy resulted to the reduction of inflation rate from 22.7% in December 1990 to 4.8% in December 1997 and to the recovery of payments' balance in the years that followed. Needless to say that in order to achieve its goals, the Bank of Greece turned to the market seeking the proper instruments, thus abandoning gradually the direct controls and interventions' policy[105]. Finally, new regulatory measures were taken in order to support market stability and protect the public. The Greek parliament and the Bank of Greece paid attention to the developments in the European Union law, which required implementation of several regulations regarding the establishment and supervision of credit institutions in order to avoid any excessive risk vulnerability and insolvency exposure. Furthermore, a deposit guarantee scheme was created in order to protect depositors[106].

The modernization and deregulation of the Greek banking system gave the opportunity to a number of financial intermediaries to operate in the Greek market and

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[104] Ibid, p.10
[105] Ibid , p.10-11
[106] Ibid, p.11

provide financial services. Consequently, Greek financial law was modified as well in response to the needs of the new environment. There are three categories of financial intermediaries, according to the financial services they provide: a) credit institutions, b) non-depository financial firms and c) market intermediaries. Credit institutions are the only financial intermediaries that can accept deposits and they can be classified into three groups: a) commercial banks, b) specialized credit institutions and c) cooperative banks[107]. The non- depository financial firms specialize in financial activities not undertaken by credit institutions and they consist of leasing and factoring companies, credit card issuers, foreign exchange bureaus and venture capital companies. The market intermediaries provide investment services on a collective basis through mutual fund management companies and investment fund management companies or on individual basis through securities companies and other firms providing core and supplementary investment services[108].

In Greece there are 33 commercial banks[109] which according to their ownership are classified in two sub-groups: state owned commercial banks and private commercial banks. The latter differ in two ways compared to the first as they are characterized from a continuity of their management and a higher degree of flexibility in the decision-making progress. The deregulation of the financial system resulted in the incorporation of some private credit institutions, thus giving them also the advantage, compared to the state ones, of a more flexible portfolio, as they were in position to pursue and implement rational investment policies from the beginning[110].

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[107] Ibid, p.16
[108] Ibid
[109] http://www.economywatch.com/banks/commercial-banks/high-income-oecd/greece-banks.html
[110] Ibid, p. 19

The liberalization and deregulation process took four years to be completed (1992-1996). After the end of this process, all directives from the Council of European Union on the operation and prudential regulation of credit institutions were implemented into Greek law. More specifically, in 1992 Law No.2076, known as the 'Basic Banking Law' enacted the Second Banking Directive, which provided for the free provision of cross-border financial services by credit and financial institutions, the freedom of their establishment and introduced the principles of 'single banking licenses', 'mutual recognition' of such licenses, and home country supervision of credit and financial institutions, was enacted.

The EU council directives on the solvency ratio and funds of credit institutions were also implemented into Greek law in 1992 by two acts of the chair of the Bank of Greece. Both these acts have been modified repeatedly to take subsequent amending directives into account. The directive on the supervision and monitoring of large exposures by credit institutions was implemented into Greek law in 1993 with an act of chair of the Bank of Greece. In January, 1993 the Greek parliament approved a framework law on the creation of a deposit protection scheme. The law was amended in June 1995 to take the provisions of the EU Council Deposit Guarantee Directive into account. Under the provisions of a presidential decree enacted in 1996 implementing into Greek law the Second EU Council Directive on the consolidated supervision of credit institutions, all Greek credit institutions affiliated in one financial group are supervised by the Bank of Greece on a consolidated basis. Last but not least, the EU Council Capital Adequacy Directive was transposed into Greek legislation in 1996 by law No. 2396, which also incorporates the provisions of the Investment Services Directive. Provisions about the exposure of Greek credit institutions to market risks and about the supervision and monitoring of large exposures in the trading books of credit institutions were further elaborated in an act of the chair of the Bank of Greece in November 1996[111].

In the last ten years, Greek banks have expanded in the Balkans market through mergers and acquisitions controlling approximately 13% of the banking market. The same policy of expansion has also followed for the countries of South-Eastern Europe by creating new branches. Given the above, it is obvious that major changes in the Greek banking system have taken place during the last few decades, including interest rate liberalization, the relaxation of capital movements and the free entrance of banking institutions into the European Union. The deregulation of national markets, the establishment of the single EU market and the internationalization of competition were a few of the reasons that led to the significant changes in the Greek banking system.

In its effort to prepare itself for the changeover to the Euro, the Greek banking system faced some initial costs. Banks had to follow a strategic plan and prepare themselves to enter the new competitive monetary and financial environment. This had an impact on business, systems and delivery. A radical change of the whole banking system as well as a restructuring of bank operations within all sectors of the banking business were necessary in order to adopt the new currency and cooperate with other European banks. These major changes resulted in increasing competitiveness, the reformation of banking groups, mergers and privatizations[112].

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[111] Ibid, p. 55-56

[112] Kyriaki Kosmidou and Constantin Zopounidis, 'Measurement of Bank Performance in Greece', *South-Eastern Europe Journal of Economics 1 (2008) 79-95*, p.82

The impact of the global economic crisis of 2008 on Greek economy was tremendous. Nevertheless, so far, banks have not reported major losses because of their minimal exposure to risky structured products and their focus on retail banking. There is, however, a growing concern for the drying-up of the inter-bank market. Banks are reluctant to lend money to each other and such practice results in a sharp increase of liquidity shortage. In such state of limited liquidity, existing market players tend to withdraw their funds, making things more difficult. As a result, Greek banks and Greek companies in all sectors are experiencing increased funding costs and slowdown in development. Given these facts there is a debate concerning debt restructurings and overall corporate reorganizations.

STRUCTURE of the GREEK CREDIT SYSTEM

NUMBER OF BANKS,BRANCHES and EMPLOYEES
End- 2008

	Number of banks		Number of branches		Number of employees	
	2007	2008	2007	2008	2007	2008
Greek commercial banks	19	19	3 431	3 640	56 773	57 842
Foreign banks	27	30	300	327	6 451	6 665
Specialized credit institutions	1	1	4	4	436	454
Cooperative banks	16	16	115	126	1 060	1 204
Bank of Greece			87	65	2 763	2 494
Total	63	66	3937	4162	67483	68659

Source: Financial stability report, June 2009, Bank of Greece
Annual report for the year 2008, April 2009, Bank of Greece

The economies of both Greece and Turkey, as well as their banking systems have experienced more or less the same developments, yet in different times and with different intensity. What is important to note is that for both countries the turning point was the liberalization of their economic structure, which was inevitable in order to integrate with the world markets. Today, as the global economic crisis affects both economies, although not at the same degree as the impact on Greek economy is much bigger than on Turkish economy, it is substantial to revise any problematic mechanisms, which could delay recovery from recession.

CHAPTER III

Bilateral investments in the banking sector

The year 2006 was a turning point for Greek banks. There is no doubt that the NBG paved the way, however as many analysts were pointing at that time, the expansion of the major Greek banks should have started long ago as the conditions had already matured. Nonetheless, opportunities were still there and, thus, the banks should follow a strict acquisition strategy, which was a one-way course[113]. In this chapter I am presenting the theoretical frame of FDI and bank acquisitions, followed by the cases of Finansbank and Tekfen bank as well as the case of Alpha bank, which did not manage to complete its project regarding Akbank. Last but not least, although not in the frame of acquisitions, the Ziraat Bankası case and its expansion to the Greek market is presented.

1. Invest or not invest?

1.1 Determinants of FDI

According to Kahai and Carroll[114] there are three categories of FDI determinants. The first category includes traditional economic factors, such as, the market size of the host country, growth potential, purchasing power, and cost of production, geographic location, and natural resources. The second category includes factors that are related to the political, social, and cultural environment of the host countries. And the third category measures factors that are related to the level of transaction costs in the host

[113] Stergios Hatzinikolaou,'Εθνική, ο πιονιέρος της επέκτασης σε νέες αγορες',[Ethniki, o pioneros tis epektasis se nees agores- NGB the pioneer of expansion in new markets], *Oikonomiki Epitheorisi* Vol. 1070, May 2006

[114] Kahai K. Simran and John Carroll , Traditional And Non-Traditional Determinants Of Foreign Direct Investment In Developing Countries ,*Journal Of Applied Business Research*, Volume 20, Number 1, p.2

countries. This last set of factors stem from assumptions of “bounded rationality” and “opportunism” in FDI decisions.

The FDI decision making process can be divide into two levels. The first level includes the decision making process regarding the expansion of the firm internationally and the selection of general priority regions for this expansion, while the second level includes the decision making process regarding the specific site selection within the priority region. The criteria upon decisions are being based will not generally be the same. In the first level, the firm chooses a broad geographic region based upon factors that might not be entirely economic in nature. For example, regional trade agreements or market proximity may be most important at the first level[115].

1.2 Determinants of Greek investments in the Turkish baking sector

The Greek investments in the banking sector and in the Turkish market in general, were the resultant of many factors. The political rapprochement of 1999 was a catalyst to the barriers of economic cooperation as it offered a more secured and trustful environment for the two countries that until then were counting opportunities of war rather than opportunities of investments. The recovering of the Turkish economy from the crisis of 2001 and the relevant political stability that the Turkish political scene seems to enjoy, since 2002 when the AKP came to power, along with the reforms in which the latter decisively proceeded, made the Turkish market much more attractive.

[115] Ibid. p.45

Turkey has the world's 15th largest GDP-PPP[116] and the 17[th] largest nominal GDP[117]. The country's population is about 74 million people, which means that Turkey offers directly about 74 million potential consumers, who live right to the next door. However, Turkey, located at the center of Eurasia, offers indirectly, to a market-seeking FDI, about 900 million potential consumers, serving, thus, as an export base to these regional markets. Besides, the reforms carried out in the investment environment, improving macroeconomic performance along with the high foreign trade and growth potentials of Turkish economy relative to neighbor economies made Turkey an ideal destination for FDI in general. It is important to note also the minimum net wage, the value of which is about 250 euro[118]. Last but not least, the EU accession process and the geographical proximity are of significant importance.

Beyond the above general frame of attractiveness of FDI in Turkey, there are additional factors regarding the baking sector that play an important role. Turkish banks are relatively small in size and easy to be taken over. There is no difference in the treatment of the Turkish and foreign banks and no limitation for the share of foreign ownership of banks. Interest rates are lower; inflation rates have reached single digit numbers. Corporate governance system is improving. There is better auditing and regulation in the banking system and flexible exchange rate system is in effect. Furthermore, the Basel II Agreement, which will be in effect soon, according to which the cost of capital will be lower for the banks with high quality customers and advanced risk measurement systems is an important factor. Capital adequacy ratio, which was set at

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[116] The World Bank: World Economic Indicators Database. *GDP (PPP) 2008* Data for the year 2008. Last revised on July 1, 2009.
[117] The World Bank: World Economic Indicators Database. *GDP (Nominal) 2008*
[118] World bulletin, http://www.worldbulletin.net/news_detail.php?id=51952

16.9 % by the Basel II Agreement, has also been exceeded which signals a strong banking structure[119],[120].

The positive determinants of Greek investments in Turkey emerged, as mentioned before, to a large degree, as a result of the political rapprochement of the two countries. However, the dangers, also, for these investments emerge from political conditions as well. As long as Greece and Turkey have unresolved issues of political nature, the negotiation of which could drive them back to conditions of hostility and conflict, insecurity and instability will shadow the two markets. On the other hand, as mentioned before the fragility of the political order in Turkey, proven by the crisis of 2008[121], is a constant danger to any investment, not only because of the political consequences, but also because of the impact of the latter on economic stability.

1.3 Determinants of the Turkish investments in the Greek banking sector

The numbers indicate that the level of Turkish investments, in general, in Greece is extremely low compared to the level of Greek investments in Turkey, despite the progress which have been made in the bilateral political relations. The geographical proximity and the fact that Greece offers a transit corridor to the European market, until now at least, constitute advantages for the Turkish investors. However, there are a series of barriers related to the general structure of Greek economy and not necessarily

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[119] Ahmet Faruk Aysan and Ceyhan Sanli Pinar, 'Globalization of Turkey's Banking Sector: Determinants of Foreign Bank Penetration in Turkey', *International Research Journal of Finance and Economics* - Issue 15 (2008)
[120] Hadjita Assia, Edward Moxon-Browne , 'Foreign Direct Investment in Turkey: The Implications of EU Accession', *Turkish Studies* Vol. 6, No. 3, 321–340, September 2005
[121] ESI Briefing, *Turkey's dark side: Party closures, conspiracies and the future of democracy,* Berlin-Istanbul, April 2008

connected with specific policies regarding Turkish capital. Greece, despite the fact that it is a member of EU and the Euro zone is not an attractive destination for foreign investments. Especially now, when she gives a struggle to survive from the economic crisis, the impact of which brought her to the brink of bankruptcy, Greece is not considered as a land of opportunities. The political instability of the last years that led to three election rounds within six years and the impact of the latter on the economy which is now extremely vulnerable are the main factors that discourage potential investors.

In addition, the small size of the market, about 11 million consumers, the continuously changing tax regime, the bureaucratic and administrative labyrinth, which makes it extremely painful to establish a company[122], the value of the basic wage, which is approximately 700 euro are other pieces of the puzzle. Last but not least, the visa issue and the working permit regime, which is a problem of EU in general regarding the non-EU citizens, have created significant problems to Turkish businessmen. In August 2005 a new law was approved by the Greek Parliament in order to change the conditions for the acceptance of non-EU investors and managerial staff of foreign companies. Yet, the law underlines that, its provisions will apply only for companies that plan to invest a minimum of €300,000 within a year[123].

The irony is that because of all the above, the main EU card, the main advantage in the hands of Greece, as it was mentioned above, is not so strong any more. Since the cost is high and the barriers create impediments, despite the geographical proximity, Turkish investors find other, less expensive paths to EU, through other countries, such as

[122] Yannis Kelemenis and Ioanna Lazaridou-Elmaloglou, Greece , chapter 19 in The M&A review

[123] Papadopoulos, supra, note 12

Bulgaria, who are part of the EU family now[124]. However, due to the credit market squeezing and the high cost of capital, opportunities for acquiring smaller companies which are easier targets may emerge. Given Greece's size, the current economic situation presents a definite opening for acquiring small and medium sized companies that were not sufficiently prepared for the economic crisis[125].

As far as the Greek banking sector is concerned, the Turkish investors have to face a highly concentrated sector, the 40% of which belongs already to foreign investors. The large size of the banks and the high profits they have, despite the economic crisis, is much more probable to lead to mergers between the Greek banks rather than in acquisitions by foreign investors. The expansion of Turkish banks in Greece through branches, especially now, seems quite difficult, since the market is quite expensive.

1.4 Determinants of international mergers and acquisitions

International mergers and acquisitions have significantly increased during the last few years. This can be explained by the fact that within a globalized economy, firms seek for new markets to expand. Thus, this is the first strategic motive of international acquisitions. Acquisitions and mergers strengthen a firm's strategy. They increase a firm's market power, create economy of scales, and provide the firm with complimentary resources and products. National differences can be also a source of complimentary strengths. In addition, as mentioned at the beginning, acquisitions provide access to new markets or to deeply embedded resources[126]. Within this context, I will discuss the

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[124] Kathimerini, "Athens a first stop in the European expansion of Turkish companies", 2 December 2006
[125] Kelemenis, Lazaridou, supra, note 117
[126] H. Donald Hopkins, 'International Acquisitions: Strategic Considerations', *International Research Journal of Finance and Economics* , Issue 15 (2008)

general frame of FDI in Greece and Turkey and then I will examine two acquisitions cases and one expansion case in the banking sector, realized by Greece and Turkey.

The acquisition of Finansbank by NBG

2.1 The historical background of the National Bank of Greece

The National Bank of Greece, founded in 1841, is the oldest and largest among Greek banks. The NBG financial group is the largest in the country and has an indeed strong and active presence internationally, especially in Southeastern Europe and the Eastern Mediterranean. NBG started to operate as a commercial bank and had the right to issue banknotes until the establishment of the Bank of Greece in 1928. It has been listed on the Athens Stock Exchange since 1880 as well as on the New York Stock Exchange since October 1999. In 1891 the bank founded Ethniki Hellenic General Insurance Company and in 1927 the National Mortgage Bank. The Bank expanded its business further when, in 1953, it merged with the Bank of Athens S.A.[127]

NBG's operational framework is subject to the Greek and the EU banking legislation, especially the provisions, as currently applicable, of Law 2076/92 whereby the second banking directive 89/646/EEC was implemented into Greek law. The NBG Group provides a full range of financial products and services, including investment banking services, brokerage, insurance, asset management, leasing and factoring. The

[127] http://www.nbg.gr/wps/portal/!ut/p/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3jXIFNnSzcPIwN3fx8XAyMfVwtXXycfQ4NQE6B8JLK8qYsrUD7Q0M_cyM_AwNKIgG4_j_zcVP2C3IhyAOOJkg0!/dl2/d1/L0lDU0lKSWdrbUEhIS9JRFJBQUlpQ2dBek15cXchL1lCSkoxTkExTkk1MC01RncvN19FUjVDOUZIMjBHT0xEMDJMRThFTUJMMTBVNy9EbF9fXzU4/?WCM_PORTLET=PC_7_ER5C9FH20GOLD02LE8EMBL10U7_WCM&WCM_GLOBAL_CONTEXT=/wps/wcm/connect/nbg-en/NBG+Site/Group/THE+BANK/History/EN-167-History

Bank's branch and ATM network consists of 575 domestic banking units and 1,514 ATMs. Moreover it is developing and expanding alternative distribution channels for its products, such as Mobile and Internet banking. As of September 2009, after recent acquisitions in SE Europe the Group's network overseas includes 1,238 units.[128] In 1998, the Bank merged through absorption with its subsidiary "National Mortgage Bank of Greece S.A.", formed as a result of the merger of two former subsidiaries "National Mortgage Bank" and "National Housing Bank of Greece S.A.", in order to provide integrated mortgage lending services to its customers[129]. At the end of 2002, the Bank merged through absorption with its subsidiary "National Bank for Industrial Development SA". Within the frame of its strategic orientation towards south-eastern Europe, NBG acquired Finansbank in Turkey and Vojvodjanska Banka in Serbia.

2.2 Historical background of Finansbank

Hüsnü Özyeğin established Finansbank on October 26, 1987. Today, the bank operates an extensive network of 450 branches around Turkey. In 2000 Finansbank established Finans Portfolio Management and Finans Real-Estate Investment Trust. As the number of consumer banking customers was increasing, the bank initiated the same year internet and telephone banking systems in order to provide the recquired services. The efficiency of the bank's internet and telephone banking services was such that in

[128] http://www.nbg.gr/wps/portal/splash
[129] Ibid

2003 its telephone banking service has been chosen as Europe's best call center in the European Call Center Awards.

In 2001, Finansbank sold its shares in Commercial Union Sigorta and Commercial Union Hayat Sigorta to CGU International Insurance PLC. Finans Sigorta A.Ş. (Finans Insurance) was established in the same year. On May 9th 2007 the Undersecretariat of Treasury gave its approval to Finansbank to establish Finans Emeklilik ve Hayat A.Ş. (Finans Pension and Life Insurance) and thus Finansbank entered the life insurance sector. Finans Emeklilik ve Hayat A.S. received Life and Personal Accident licenses in 21.11.2007 and Retail Pension license in 11.04.2008 from the Undersecretariat of Treasury. In 2000 the Operations Center in Ümraniye, Istanbul, was inaugurated, offering to the bank significant cost advantages and improved quality in operational transactions. With the Core Banking Project completed in 2002, Finansbank fully renewed its IT systems, achieving the best technology and service quality in the Turkish banking industry. As of August 2006, Finansbank was active in ten countries: Turkey, Switzerland, the Netherlands, France, Germany, Belgium, Russia, Romania, Ireland and Bahrain. This gave Finansbank the title of the Turkish bank having the most extensive network in foreign countries[130].

2.3 The acquisition

The negotiations for the acquisition of Finansbank, the 8th biggest bank in Turkey, started in early 2006 between the management of NBG, at the head of which was T.

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[130] http://www.finansbank.com.tr/en/about-finansbank/default.aspx?FBAS_Aboutfinansbank

Arapoglu and the management of Finansbank, at the head of which was H. Özyeğin, and were complete on April 3rd 2006, when it was officially announced that they came into an agreement. In their statements, both men expressed their satisfaction for the agreement. The president of NBG stated: "It is a historical moment for NBG as it becomes a leading international banking conglomerate in the region of SEE. The addition of a bank with high efficiency and executive members of quality strengthens significantly the NBG conglomerate". His counterpart, Hüsnü Özyeğin stated: "We are proud that Finansbank with its unique presence in the banking services provision, is being recognized today by an international bank that shows trust to our bank, asking from its managerial team to continue its work. Our strategic partner will broaden the spectrum of our stockholders and clients, especially with its powerful presence in the region of SEE"[131].

It is worth noting that the two sides did not come into an agreement very easily. At some point the whole project was close to fail. More precisely, from March 28th until the April 3th when the agreement was announced there were disagreements regarding either the fiscal price or the future of the subsidiaries of Finansbank. Finally, the 'bride did not run away' and the marriage proceeded as planned[132]. NBG bought 46% of Finansbank by paining 3.6 times its accounting in cash. In order to pay in cash, NBG proceeded in a capital stock increase of €3 billion, underwritten by foreign portfolios (Credit Suisse and Goldman Sachs). NBG finally paid the amount of €2.3 billion rendering itself a leading power in the SEE region. For the rest 44% of Finansbank, NBG proceeded to a public offer within the second semester of the same year.

[131] Mandelas Giorgos , http://www.euro2day.gr/news/enterprises/122/articles/99991/Article.aspx
[132] Hatzinikolaou, supra, note 108

2.4 'Two matches for one bride'

It was not only NBG that pursued the acquisition of Finansbank. Citigroup was also interested in buying Finansbank. According to publications[133] in both Greek and Turkish press of the time, NGB was offering the amount of €2.5 billion for the 46% of Finansbank giving a 24% premium against the current price in the market, whilst Citigroup was offering 3.5% billion euro for 56% of Finansbank with a premium of 43%. Although these offers were not officially confirmed from either side, rumors kept pointing the obviously lower offer of NGB and waiting to see the intentions of Finansbank's owner (Özyeğin) regarding the percent he would decide to keep. Even two days before the official submission of the offer, neither the existence of other offers for the acquisition of Finansbank nor the percentage that NGB was willing to were clarified, even though it had been estimated that the 100% of the bank's stocks costs about €5 billion. [134]. Finally NBG prevailed versus Citigroup, which lost its biggest deal after the acquisition of KorAm bank for $2.7 billion, a commercial bank in South Korea, in 2004[135].

The manager director of Citigroup Chuck Prince stated that although Turkey is an interesting country, Citigroup is focused on not paying its transactions too expensive. Finansbank was priced at $5 billion and that was too much according to Citigroup which lost in the auction from NBG[136]. This 'marriage' gave birth to the biggest financial institution in the SEE with more than 1000 branches in seven countries and €70 billion asset. The stock exchange of Turkey welcomed this deal on the day of its announcement, recording a 2.6% increase of earnings the majority of which was in the banking sector.

[133] http://www.euro2day.gr
[134] http://www.euro2day.gr/news/enterprises/122/articles/99353/Article.aspx
[135] http://www.euro2day.gr/ftcom_gr/194/articles/99913/ArticleFTgr.aspx
[136] http://www.euro2day.gr/news/world/125/articles/100162/ArticleNewsWorld.aspx

Indicative for the reactions in the Turkish market after the announcement of the deal was the fact that the price of Denizbanks' stocks, a bank smaller than Finansbank that was also a target for Greek banks, was increased by 7%[137].

2.5 The analysts' opinion

HSBC considers the Turkish market to be extremely 'attractive' and sees positively the fact that NBG is buying a percentage of Finansbank as it will strengthen in a direct way the earnings per stock and will give access to a market with high potentials of growth, pointing out that NBG has an excess of €1.14 billion from indexes of capital adequacy, which it will use for acquisition purposes[138]. For HSBC, the fact that, after the acquisition, the local management and the brand name will remain is an asset, in contradiction to the sale of the international subsidiaries, especially the ones in Russia and Romania that it is consider to be a negative development.

In a report regarding NBG on April 4th 2006, Citigroup points out that Turkey strategically gives NBG a second home market, maintaining at the same time the reference of 'buy'[139] and the price-target of 48.5 euro for the bank's stock. Furthermore, in the report it is mentioned that the acquisition of Finansbank will improve the capital structure of the new conglomerate and will allow the exchange of 'knowledge' in activities with specialization such as mortgage for NBG and credit cards for Finansbank, underlining that the latter is focused on retail banking. As far as the Turkish banking sector is concerned, Citigroup seems positive for the long-term, however, in the short-

[137] http://www.euro2day.gr/ftcom_gr/194/articles/100070/ArticleFTgr.aspx
[138] http://www.euro2day.gr/news/enterprises/122/articles/99353/Article.aspx
[139] Citigroup Research, April 2006

time, it is worried about macroeconomic risks. Last but not least, it points out that Turkish banks have high margins and returns on equity and assets and that in 2006 the earnings per stock for NBG are €2.79 while for 2007 they are estimated to be 3.51[140].

The same positive stance and the reference of 'buy' is apparent in Deutsche bank's report , where the German bank sets a price target of 50.50 euro and concludes that this deal will not change the facts for NBG's stock. Plus, it estimates the total cost for the acquisition of Finansbank will be €4.1 billion for a 90.3% and in the case that NBG will buy this percentage without having proceeded to any synergy at this level will add 7% to its earnings per stock in 2009. Deutsche bank points out that this deal renders the stock of NBG more 'attractive' and that the basic dangers arise from the absorption of Finansbank and the opportunity for of NBG to obtain the highest possible share of the bank[141].

In its own report Marfin group considers possible a short-term pressure on NBG's stock because of capital increase. However, it underlines that, in the long-term, the stock remains positive, given the increase of earnings per stock and the good prospects of the Turkish economy. On the other hand, it is worried, about the evaluations of the borrowing ability of NBG because of the acquisition size. Marfin estimates that for the capital increase NBG will issue 77.3 million new stocks and assumes that, if the capital increase takes place in €38.8 per stock and NBG obtain the 90%, then there will be a dilution of 1.2% and an increase of 3% in earnings per stock for the years 2006 and 2007 respectively. That means for Marfin that the NGB fairly 'sacrifices' the short-term value of the stocks in order to insure a long term high growth and return[142]. The same

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[140] Ibid
[141] Deutsche Bank Research , May 2006
[142] Marfin Analysis, investment bank of Greece, April 2006

observation and estimation is valid also for Alpha finance which believes that the capital increase will affect the stock[143].

Eurobank securities in the same vein, points out that in order for the earnings per stock to increase the percentage of acquisition, the latter must reach the 80% and mentions also the risks and the potential pressure on the stock by the capital increase. Furthermore, it underlines that after the deal was announced, NBG was downgraded by S&P from 'positive' to 'stable'[144].

According to the report of Egnatia finance, NBG must proceed to a public offer for the rest of Finansbank stocks, underlining the need to obtain more than 70% in order for the earnings per stock to be positive 'from the first day'[145].

As mentioned before, NBG paved the way and this movement was embraced by both sides of the Aegean at least at the economic level. Statements such as: 'The deal of NBG paves the way for other Greek institutions to enter the Turkish market. We should expect a rapid increase of investments between Greece and Turkey', by Giorgos Athanasakis, head of the analysis department of Egnatia Securities and 'Given the fact that Greek-Turkish relations are still extremely sensitive, this investment becomes more important' by Mahmut Kaya, head of the analysis department of Garanti Securities, are indicative of the prevailing positive environment[146].

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[143] Alpha Finance, April 2006
[144] Eurobanksec.gr
[145] Egnatia Finance, April 2006
[146] Boland Vincent and Kerin Hope http://www.euro2day.gr/ftcom_gr/194/articles/100070/ArticleFTgr.aspx

2.6 The details of acquisition

With regard to the acquisition of Finansbank, National Bank of Greece, on April 3rd 2006, made public the figures and the details of this project[147]. Here we quote only some of them. Thus, according to this report:

a)NBG acquires a majority stake in Finansbank , meaning: 100.0% of the Founder Shares and 46.0% of the Ordinary Shares from the majority owner, FIBA Holding to retain a residual 9.68% shareholding (#92.2mn of shares), subject to put/call arrangements at an option price based on the bank's performance, mandatory offer for the remaining 44.3% minority shareholders (421mn shares). If post the mandatory offer NBG remains below 50.0%, FIBA Holding is required to sell such additional shares for NBG to achieve a majority ownership position.

b) The initial purchase price of $ 2,774mn consisted of 46.0% of the Ordinary Shares ($ 2,323mn) and 100.0% of the Founder Shares ($ 451mn, 8.2% of the total value of Finansbank).

c) Branding remains the same, and the international operations will rebrand within 12 months.

d) The transaction includes the subsidiaries which are related to domestic activities only. International operations (excl. Malta) will be carved out on closing and sold to FIBA Holding for USD 580mn in cash. The proceeds will remain with Finansbank post closing.

e) NBG rights offering of up to €3.0bn to finance the transaction.

According to NBG the strategic and financial rationale of this acquisition can be summarized in the following points:

[147]http://www.nbg.gr/wps/wcm/connect/9368a70048da02beb509bdcdfc0d024f/NBGFinansbank_presentation_eng.pdf?MOD=AJPERES&CACHEID=9368a70048da02beb509bdcdfc0d024f

1. With a strong regional network in Greece, NBG is a privileged SEE banking group
2. NBG has set a strategy of further SEE expansion
3. Turkey is the largest market opportunity in the region
4. Finansbank is an excellent platform for NBG to build a strong Turkish presence

At the same report, NBG situates the acquisition of Finansbank within the general context of its expansion in the SEE region. According to NGB its presence in Greece as well as the position of Finansbank in the Turkish market was justified this 'marriage'. For NBG a strong presence in Turkey is valuable for its SEE strategy for three reasons:

a) Reaching an extended home market with population of ~125 mn and GDP of $ 750bn
b) Competing in a market of $320bn in loans and $390bn in deposits
c) Focusing on a region with increasing ties to the EU.

For the NBG the reform process in Turkey that resulted to an 'improved macroeconomic outlook' as it is stated in the same report, made the banking sector more attractive. Thus, for the NBG that sought for a major acquisition that would contribute to a well diversified SEE business portfolio, Finansbank had all the proper features:

a) A highly dynamic private-sector bank
b) A powerful "Finansbank" brand name to be maintained
c) A strong management team, with considerable international experience
d) A dynamic sales culture, supported by highly incentivized staff
e) Focus on retail banking

In the report it is also mentioned that the new group will safeguard continuity as the bank is gradually integrated. Mr. Özyeğin will remain Chairman of Finansbank, maintaining a 10% stake in the company, and operate with performance-based incentives through put / call option pricing based on Finansbank's profitability while Senior Executives will remain on the basis of retention and performance-based contracts.

In the context of the benefits of the acquisition of Finansbank, the NBG argues that its strong regional network will render the NBG an advantaged SEE banking group and that is why Finansbank accelerates NBG's strategy of further SEE expansion**.** As Turkey is the largest market of the region**,** Finansbank is an excellent opportunity for NBG to acquire a strong presence in the market. The financial metrics of the transaction are 'attractive' and expected to be EPS accretive from closing.

Examining the features of the customers' base of Finansbank, NGB concludes that 'entry of foreign investment has a negligible role in determining their behavior'. The Turkish public is not aware of the foreign investment in the banking sector. The customer base for Finansbank in particular, has the second lowest level of awareness estimated at 74%. For the majority of customers, the most important thing is the quality of service. When a relationship of trust is being created between the customer and the company, further information regarding the latter's operational and managerial structure is not a matter of interest for them. Furthermore, banking customers in Turkey are loyal to their bank. According to the data 80% of banking customers have never changed bank. The reasons that led the other 20% of the banking customers to change bank were mainly low service quality and more attractive offers.

Last but not least the report is referring to the political status between the two countries pointing out that 'Greek Turkish Relations may cause political skepticism, but do not influence banking behavior'. According to the NBG's research findings, Finansbank customer base belongs to the medium scale bank customer group, which is the most positive in its evaluation of foreign countries. They see foreign investment most positively and in fact the majority of them showed a positive disposition to a possible acquisition. Speculated banking behavior analysis shows that 15% of Finansbank customers have the intention to increase their investments, and only 2% have withdrawal intentions.

3. The acquisition of Tekfen Bank by Eurobank

3.1 The historical background of Eurobank

In December 1990, Eurobank was established under the name of ‘’Euro merchant bank S.A.’’, offering mainly investment and private banking services. The deregulation of the Greek retail banking sector in the mid-1990s changed the bank philosophy of the bank and since then, EFG Eurobank Ergasias has followed a successful course based on dynamic organic growth, engaging in a series of mergers and acquisitions. In a chronological order, this course has been the following : In 1994, the acquisition of 75% of EFG Private Bank (Luxembourg) S.A., in 1996 the acquisition of Interbank Greece S.A., with a network of twenty three branches, by the parent company Consolidated Eurofinance Holdings (CEH) S.A., in 1997 the Eurobank-Interbank merger with the acquisition of the branch network of Credit Lyonnais Greece S.A."Euromerchang Bank" is renamed to "EFG Eurobank S.A.", in 1998, together with the acquisition of a controlling stake in the Bank of Athens CEH acquires 99.8% of Cretabank. At the same time, CEH and EFG Eurobank jointly acquire a stake of 18.4% in Ergobank, while Deutsche Bank acquires a 10% participation in EFG Eurobank. In 1999 Cretabank is being transferred to EFG Eurobank – Bank of Athens merger through share exchange. At the same time takes place the initial public offering of EFG Eurobank shares and listing in the Athens Stock Exchange. EFG Eurobank – Cretabank merger CEH acquires 50.1% in Ergobank following a public offering and in 2000 EFG Eurobank – Ergobank merger. The new entity is renamed to "EFG Eurobank Ergasias S.A.".

In 2002, EFG Eurobank Ergasias and Telesis Investment Bank merger, its participation in Banc Post Romania raised to 36.25%. The acquisition of 50% in Alico / CEH Balkan Holdings leads to a 43% participation in Post Bank Bulgaria, followed by an announcement of intention to acquire listed closed – end funds "Ergoinvest S.A." and "Investment Development Fund S.A. In 2003, takes place the acquisition of a 68% controlling stake in Post Banka AD Serbia, the merger through absorption of "Ergoinvest S.A." by EFG Eurobank Ergasias and the participation in Banc Post Romania raised to 53.25%, the merger by absorption of "Investment Development Fund S.A." by EFG Eurobank Ergasias and last but not least the participation in Postbanka AD Serbia increased to 90.8%. The entity renamed to EFG Eurobank AD Beograd. In the same year takes place the disposal of the bank's stake held by Deutsche Bank. Participation of institutional investors rose to 22% of total. We also have the establishment of Euroline Retail Services (Romania) - 80% Eurobank Cards and 19.961% Banc Post as well as the establishment of Eurocredit Retail Services (Cyprus) - 100% subsidiary of Eurobank Cards. In 2004 the participation in Post Bank Bulgaria raised to 96.74% through the acquisition of the remaining 50% of Alico / CEH Balkan Holdings, the participation in EFG Eurobank Beograd AD rose to 93.54% and the participation in Banc Post Romania rose to 58.6%. At the same time we have the establishment of Euroline Retail Services

AD (Serbia) - 100% subsidiary of Eurobank Cards and the acquisition of INTERTRUST Mutual Fund Management Company.

In 2005 takes place the acquisition of HC Istanbul brokerage firm in Turkey and the acquisition of Capital Securities brokerage firm in Romania. The participation in Postbank Bulgaria raised to 98.7% and the participation in EFG Eurobank Beograd raised to 97.5%. In the same year EFG acquires 62.3% of Nacionalna štedionica – banka in Serbia and proceeds in merger by absorption of "The Greek Progress Fund S.A.". In 2006 EFG expands in Poland (Greenfield operation Polbank EFG), acquires full control (100%) of NSB. At the same time follows the acquisition of 91,3% of DZI Bank in Bulgaria and merger of Nacionalna stedionica with EFG Eurobank a.d. Beograd in Serbia. The new entity renamed to Eurobank EFG Stedionica a.d. Beograd. In 2007 follows the acquisition of Tekfenbank in Turkey (70%), the acquisition of Universal Bank in Ukraine (99.3%) and the acquisition of Prospera Securities in Serbia. We also have the launch of Greenfield operation in Cyprus[148].

3.2 Historical background of Tekfen

Tekfen Yatırım ve Finansman Bankası AS, as it was the first brand name of Eurobank Tekfen, was founded in 1989 as an investment and finance bank. Soon after its establishment the bank strongly consolidated its presence among Turkey's leading

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148 http://www.eurobank.gr/online/home/generic.aspx?id=5&mid=335&lang=ene-Banking & Internet Services

investment and finance banking institutions, although its fleet was consisted by only one branch until 2001. In 2001 the bank decided to increase its size and at the same time to enter the commercial banking sector. In order to achieve that, Tekfen acquired Bank Ekspres, a medium-sized commercial bank that had been taken over by the Savings Deposit Insurance Fund. In 2006, the Tekfen Group decided that the bank should move forward with a strategic partner and the outcome of that decision was an agreement with Eurobank EFG, the second largest bank in Greece. Under this agreement, Eurobank EFG acquired a 70% stake in Eurobank Tekfen with the Tekfen Group maintaining its strategic partnership with a 30% share. The bank name changed to Eurobank Tekfen on 14 January 2008.

3.3 The acquisition of Tekfen

On 8th of May 2006 Eurobank Ergasias (Eurobank EFG) and Tekfen Holding (Tekfen Group) came to their first agreement for their cooperation in the Turkish market of financial services[149]. The legal process that began on 23 February 2007 with the Banking Regulation and Supervision Agency's approval of the acquisition was completed at a general meeting of the bank's shareholders that was held on 16 March 2007. Eurobank EFG acquired a 70% stake in Tekfen, including the 100% of Tekfen Leasing and Tekfen Group, with activities in the constructions and the agricultural sector, maintained a 30% of Tekfen bank, the market share of which was less than 1% consisting by 30 branches in the western provinces of the country and providing its services mainly

[149] http://www.euro2day.gr/news/enterprises/122/articles/101996/Article.aspx

to small and medium enterprises. The deal, also, provided that Tekfenbank will acquire EFG Istanbul Securities, subsidiary of Eurobank EFG. According to Eurobank the deal priced Tekfen at $260 million. At the same time, according to Ata Invest, an investment bank in Istanbul, the conditions of the deal represented a price 3,66 the accounting value of approximately, which was the highest price given until then for a Turkish bank. Finally, Eurobank acquired Tekfen for $182 million and at the same time ensured the presence of the seller Tekfen Holding as a strategic investor in the capital stock of the redeemed bank. The importance of the later movement lies in the cooperation with a local partner who has the 'know-how' in solving potential problems in such cases. HSBC group was the consultant of Tekfen Group in this deal, through its offices in London and in Istanbul and EFG Istanbul Securities, subsidiary of Eurobank EFG, was the consultant of the Greek bank respectively[150].

3.4 Motives of the acquisition

The manager director of Eurobank, Nikos Nanopoulos, stated in Financial Times that the acquisition of Tekfen from Eurobank fitted its strategy of choosing strong native partners in order to promote organic growth, instead of blocking its sources[151]. Eurobank expected high rates of development both in the Turkish economy and the Turkish banking sector. Thus, it considered this acquisition as a secured way to enter the Turkish market. Tekfenbank worked on the basis of a modern technological infrastructure which permitted fast growth and introduction of new products in the market. Moreover, Tekfen

[150] http://www.euro2day.gr/news/enterprises/122/articles/101996/Article.aspx
[151] http://www.euro2day.gr/ftcom_gr/194/articles/102121/ArticleFTgr.aspx

bank had a loan portfolio thanks to the fruitful development policy of its management. Last but not least, the fact that Tekfen Group would remain as a strategic investor in Tekfenbank after the acquisition of 70% from EFG, was an asset. The bet in this case for Eurobank EFG was to make use of its know how in traditional as well as in modern banking products in combination to the established presence of Tekfen in the Turkish market as well as its knowledge of the latter[152].

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3.5 The investors' opinion for Eurobank- Tekfen

The acquisition of Tekfen bank by Eurobank was generally accepted from the analysts as a successful movement. Two factors worked towards this direction: First, it was the fact that Eurobank paid 3 times the accounting value of Tekfen, including the acquisition of the securities company a year earlier in Istanbul. Beyond that, the fact that EFG group strengthened its presence in the Turkish market, first through stock activities and asset management and then through the finance of medium enterprises, was the most determinant factor.

4. The case of Alpha bank

In November 2006, Alpha Bank and Anadolu Group came into agreement regarding the creation of a new financial group in the Turkish market. The deal was

[152] http://www.euro2day.gr/news/enterprises/122/articles/101996/Article.aspx

priced in $492,5 million and Alpha Bank would pay half of this amount. Both sides would create a common holding company, participating by 50% respectively. The company's asset would consist of the equity stake of Anadolu Group in Abank and Alease, which was 94% and 95% of the total capital stock respectively. Moreover, the holding company would have in its possession the 100% of the financial company Alternatif Yatırım, the 45% of Alternatif Yatırım Ortaklığı, a quoted company of portfolio management, as well as the head offices of the bank and the financial company, which were located in Istanbul.

In addition, both sides would submit a public offer for the minority stocks of Abank and Alease, after the completition of the deal[153]. It would be the third acquisition of a Turkish bank by a Greek bank in the same year. The deal was considered profitable for both sides and nothing seemed problematic. However, the Turkish banking regulatory body blocked the deal, refusing to give its permission. Both the Greek and Turkish sides were surprised and things got more complicated when the Turkish regulatory body did not give clear answers, giving ground to rumors.

The official explanation of the Turkish regulatory body was that Alpha Bank does not fulfill the requirements of the article 8 of the Turkish Banking Legislation. This article refers to the economic power and historical background of the bank as well as that of its board of directors[154]. The president of Anadolu group, Mr. Tuncay Özilhan, stated in the Turkish newspaper *Sabah* that the regulatory body must have found 'a ridiculous reason to block the deal'.[155] Through an article of the same newspaper it was mentioned that the regulatory body emphasized the 'lack of economic power of Alpha Bank',

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[153] http://www.euro2day.gr/news/enterprises/122/articles/136210/Article.aspx
[154] http://www.euro2day.gr/ftcom_gr/194/articles/136346/ArticleFTgr.aspx
[155] http://www.euro2day.gr/news/enterprises/122/articles/136172/Article.aspx

without, however, revealing the source of this information. The representative of the regulatory body(BRSA) stated that the fact that the latter published its decision without clarifying the exact reasons for rejecting the offer of Alpha Bank , is not something unusual[156].

The Greek side rejected the rumors that the Turkish regulatory body considered the economic power of Alpha Bank inefficient, clarifying that the capital adequacy ratio Tier 1[157], estimated according to the European standards was 8%. Estimating Tier II[158] along with the hybrid capital, the economic power of Alpha was about 13,2% as of the end of the 1st semester of 2006. The bankers of Istanbul were not in position to give a precise answer too, nevertheless they believed that there were other reasons beyond the one mentioned above. More precisely, the fact that two Greek banks had already entered the Turkish market by buying out two Turkish banks within the same year, made the Turkish authorities nervous and reluctant to accept so soon a third acquisition by a Greek bank, some would say, or by foreigner investors in general, some others would say. In either case, the Turkish authorities were concerned about the concentration in the baking sector as the players gradually decreased.

Another aspect of what happened then has to do with more political issues. More specifically both in Athens and Istanbul there were rumors that the real concern of the Turkish authorities was the presence of a former diplomat in the board of directors of Alpha, who had served at the head of the Greek National Information Agency (ΕΥΠ) at the end of 90's. After his retirement he was included in the board of directors as a non

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[156] Ibid

[157] Capital stock, cash and non cumulative perpetual debt

[158] Additional capitals which include a category of privilege stocks, reserves for doubtful debts and loans with payment of second priority.

executive member in 2005. Rumors got more intense when the Greek press pointed out that according to an article that was written in a Turkish newspaper, without mentioning which one, the Turkish secret services interfered and advised the regulatory body to block the acquisition of Abank on the ground of the presence of this former diplomat which contradicted the national interests of Turkey[159].

5. Ziraat Bank in Greece

5.1 Historical background and expansion in the Greek market

Ziraat Bank is the oldest Turkish bank. It succeeded the 'Homeland Funds', the first agricultural financial institution founded by Mithat Pasha in 1863. Homeland Funds and its regulation led the foundations for the operation of Ziraat Bank. The latter's Regulations were established on August 28th 1888 and in September of the same year its Head Office began to operate. Plus, on 23th March 1916 its Law came into force. In 1919 the Bank was divided into two parts. The branches and its funds, which were occupied by the Greek Army, were transferred to a different management center, while the rest were used for the funding of the Turkish Army. After the establishment of the Turkish Republic, Ziraat Bank was united again and operated as a whole. In November 2000 T.C. Ziraat Bankas started to operate as a joint stock company. Ziraat Bank possess the 15% of the Turkish banking system and its fleet consists of 1146 branches, nine of which operate abroad, mainly in the Balkans, and 21000 employees, providing banking services to 1,5

[159] http://www.euro2day.gr/ftcom_gr/194/articles/136346/ArticleFTgr.aspx

million customers every day. Since 1975 the bank opened branches abroad, namely in countries where Turkish populations exist. Last but not least it possesses subsidiaries in eighteen countries[160]. Ziraat Bank is the largest state owned Turkish bank with total assets that exceed $121 billion. In the first nine months of 2009 the bank's pre tax earnings were €1,53 billion (3,34 b. Turkish Lira) and the post tax earnings were €1,22 billion(2,67 b. Turkish Lira). Comparing with the results of the previous year there has been an impressive increase of 63%[161].

On July 9 2007, the Banking Regulation and Supervision Agency (BDDK) forwarded to Ziraat Bank the approval of its petition to open a branch in Komotini, the premises for which were provided by the Greek Central Bank. Ziraat Bank operates in Greece since the autumn of 2008 with two branches, one in Athens and one in Komotini, as the Greek Law obliges a bank to open at least one branch in the capital of the country. The total amount of this investment was $18 million[162].

5.2 Motives

Ziraat Bank officials said, "Our goal is to contribute to trade relations between the two countries and hold a better share in the growing trade market." It was also stated that Ziraat Bank will use its position to introduce Turkey and its businesses abroad to the Greek business and finance sector. The banking industry in Turkey emphasized that the

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[160] http://www.express.gr/news/business/103759oz_20081128103759.php3
[161] http://www.reporter.gr
[162] http://www.apogevmatini.gr/?p=12092

arrival of Ziraat Bank in Greece was an important turning point in the country's integration into the international market[163].

It is worth noting that in his greetings at the inauguration ceremony of the Athens branch, the Vice-President of the Turkish government, Nazim Ekren stated that Ziraat's presence in Greece will contribute to the bilateral economic relations of the two countries, will strengthen the initiatives for common investments between Greek and Turkish businessmen and, thus, the relations of Greece and Turkey, in general, will be improved even more[164]. The Ambassador of Turkey in Greece, Ahmet Oğuz Çelikol and the general manager of the bank, Can Akın Çağlar, referred to the same issues in their greetings. However, the latter also pointed out that 'Ziraat Bank follows Turkish businessmen'[165].

Financial circles in Turkey commented on Ziraat's entrance in the Greek market as a crucial development for the Turkish banking system: "This is the first time a Turkish bank has attempted to establish a foothold in this country. This will be a critical test for both Greece and us". In addition, according to analysts the opening of the branch in Greece was a way to balance the foreign-owned share in the Turkish financial sector, as there were many disputes raised over the extent of foreign presence.

6. 'Aegean Bank'

The Greek- Turkish chamber of commerce, chaired by Mr. Panagiotis Koutsikos, and the chamber of commerce in Izmir, chaired by Mr. Ekrem Demirtas, undertook the initiative for the establishment of a common financial institution in order to support the

[163] Baysal Ercan , TZ, www.todayszaman.com
[164] http://news.pathfinder.gr/finance/news/533003.html
[165] http://news.pathfinder.gr/finance/news/533003.html

economic cooperation between the two countries. In 2006 they submitted their request for operating license to the Bank of Greece[166]. The initial capital would be set at about €100million and the aim of the bank would be within the first three to five years to open 26 branches, 13 in each country, providing banking services of any kind and be listed in both countries' Stock Exchange.

According to Mr. Koutsikos, the participation of Greek and Turkish investors would be 50%, while the participation of the public sector of both countries at about 10% was under discussion. The headquarters would be located in Athens and Izmir[167]. Moreover, within the plans of the bank was to operate branches abroad, five in number, covering its needs in strategic areas[168]. Beyond its consulting nature, the bank was aiming to support investment initiatives between the two countries, to activate immediately any European project regarding common investing projects and to support small- medium enterprises by encouraging the creation of new productive units in both countries[169]. In this context, a new project was born facilitating air transportation between the two countries. A new airline was founded, supported by the Greek-Turkish chamber of commerce, the chamber of commerce in Izmir, the Aegean Bank, although not established yet, and businessmen in order to provide air services between Izmir, Athens, Thessaloniki and Crete[170].

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[166] http://www.tovima.gr/default.asp?pid=2&ct=3&artid=175040&dt=13/08/2006

[167] Koutsikos Pan., *Η Συμβολή της Διασυνοριακής Επιχειρηματικής Συνεργασίας στην προσπάθεια επίτευξης των στόχων της στρατηγικής της Λισαβόνας,* [I Simvoli tis Diasinoriakis Epixeirimatikis Synergasias stin prospatheia epitefxis ton stoxon tis Lisavonas- The Contibution of the Cross-border Economic cooperation in the fullfilling effort of the Lisbon goals], February 2006

[168] http://www.tovima.gr/default.asp?pid=2&ct=3&artid=175040&dt=13/08/2006

[169] Koutsikos , supra, note 162

[170] http://www.alithia.gr/newspaper/2006/05062006/05062006,16008.html

Four years after this initiative, the Aegean Bank remains an ambitious project, but only on paper. The operating license has not been issued yet. We are not in position to know whether if it has been rejected or just delayed and the reasons for either case.

7. The reactions of both sides regarding the acquisitions

7.1 Mixed feelings

Greek investments in Turkey and Turkish investments in Greece, as it was expected triggered mixed feelings in both countries. In some cases they were welcomed, whilst in some others they were heavily criticized. Naturally, the debate mainly focused on the acquisition of Finans bank from NBG because of the size of the investment. In Greece there were reactions, social and political ones, however both Greek banking investments, were seen in the context of economic globalization and the role that Greece should find in the world economy. In Turkey, although there were nationalistic voices about the role and the control of the Greek capital as well as the consequences for the Turkish economy, yet the nationalistic objections did not address only Greek capital exclusively, but in general the foreign capital that since 2004 was pouring into the Turkish market[171]. It is worth noting that in June 2007, the same year the NGB-Finans deal was completed, Oyak Bank was taken over by ING, the Dutch banking and insurance group. The Oyak bank was controlled by 'Ordu Yardimlasma Kurumu', the military retirement fund known as Oyak, the country's biggest pension fund. The high price of the deal, which was $2.67bn in

[171] http://www.turkey-now.org/Default.aspx?pgID=522

cash, attracted positive comments, however nationalist circles and organizations were opposed to that[172].

Before the deal, OYAK's CEO, Yildirim Türker, had stated to Turkish reporters that it would not sell out to Greeks at any price, and reportedly praised nationalist sentiments as "noble"[173]. It is worth noting that the opening of two branches by Ziraat Bankasi in Athens and Komotini, aiming to attract the Muslim populations of the area, did not trigger many negative comments among nationalist circles in Greece. Yet, there have been administrative and political reactions regarding the invitations that the bank distributed on the occasion of the inauguration ceremony in Komotini, which were written in Turkish and English, but not in Greek, using the ottoman name of the city (Gümülcine) and not the Greek one[174]. With respect to the reactions for the NGB-Finansbank deal at a political and social level the following paragraphs offer a picture of the trends in both sides.

7.2 Public opinion

As mentioned before the customer base of Finansbank was positive to a possible acquisition and only 2% intented to withdraw. Indeed, only twenty- six credit cards were cancelled because of the customers' reaction to the acquisition[175]. However, the Turkish

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[172] Kathimerini, 23 June 2007
[173] Ibid
[174] http://www.gnomi-evros.gr/printer_friendly.cfm?id=24720&obcatid=10
[175] http://www.hurriyetdailynews.com/h.php?news=finansbank-only-26-cards-canceled-because-of-greek-partnership-2006-09-17

press published that the Army had withdrawn a sum of about €3m from Finansbank, declaring their disagreement for the deal. Yet, this was never confirmed[176].

Another issue that preoccupied both the Greek and Turkish press was the involvement of the Church of Greece in the deal, through its status of stockholder. A few days after the deal was finalized, an article was published in the press disclosing that the Church of Greece is among the shareholders of NBG, holding 265,729 shares, for a total of up to €10 million, as of the end of 2004. The article also mentioned that two independent members of the executive board of the bank belong to the Church: the Metropolite of Yannina, Theoklitos, and the director of the Church's financial affairs, Kostas Pilarinos.

It was underlined that the 95%-98% of the Orthodox among the Greeks see themselves as members of the Church of Greece, even if nominally[177]. Although the article gives only information and does not comments one way or another on the fact that the Church of Greece entered through NBG the Turkish banking sector, the issue itself could trigger reactions in the Turkish public opinion. Indeed, this was underlined by the Greek press, which commented on the article and pointed out that the Church should be careful and withdraw if necessary, as this investment had already a lot of dangers to deal with and did not need one more of religious nature. Given the fact that the archbishop of the Church of Greece, in his speeches, had several times made hostile references to the Turkish people, the danger was obvious[178].

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[176] Papadopoulos, supra, note 12, p.32
[177] http://www.hurriyetdailynews.com/h.php?news=greek-church-holds-shares-in-nbg-2006-04-06
[178] http://www.euro2day.gr/specials/dr_money/131/articles/100407/Article.aspx

A very interesting research was conducted by the Greek company Kapa Research on the behalf of the Greek newspaper 'To Vima' regarding the acquisition of Finansbank. The research took place on April 5th and 6th 2006 in two cities, Athens and Istanbul. The results of this research indicated that both Greek and Turkish public opinion welcomed the deal of NBG with Finansbank and wished for other banks to follow their example, bringing the two countries closer to each other. In particular, 73.4% of the Greek public and 64.1% of the Turkish public answered positively to the question 'The NBG proceeded to the acquisition of the Turkish bank Finansbank. How do you assess this decision of the NBG?'. However, what is of major political importance is the answer to the question 'Should the governments follow the cooperation example between the two banks and reduce the tension between the two countries as well as the defense expenditures?' The Greek 'yes' reached 73.4% and the Turkish 'yes' reached the 80.8%.

Furthermore, another important element that this research revealed was the existence of an 'economic nationalism'. Greeks may see positive the fact that a Greek bank bought a Turkish one and wish for other companies to enter this Greek Turkish economic cooperation, however this should happen only in one direction: From Greece to Turkey. The other direction, from Turkey to Greece, is not desirable for the majority of the Greek people. More specifically, the 68.2% would express negative feelings if the bank in which he/she is client was of Turkish interests[179]. On the other hand, the Turkish public seems to be less nationalistic in economic terms. Indicative of this, is the fact that

[179] http://www.tovima.gr/default.asp?pid=46&ct=3&artId=155470&dt=09/04/2006

only 26 clients of Finansbank cancelled their credit cards, because of the Greek partnership[180].

However, the employees union of the National Bank of Greece (NBG) was strongly opposed to the whole project as they believed that the interests of the institution as well as of its employees and shareholders were not protected. More specifically, the union in a statement regarding the acquisition of Finansbank expressed its fears for the dangers the latter involves, the future of the NBG and its role in the development of Greek economy. This conclusion came as a result of the stance of the chairman of the NBG held regarding the procedures. Short before the General Assembly of the shareholders regarding the capital increase, the union accused T. Arapoglou for deliberately concealing three texts of major importance: i) the acquisition agreement of Finansbank by the NBG, ii) the agreement of the NBG with the underwriters for the stock increase and iii) the agreement of the NBG with the acquisition consultant.

According to the union, which possessed the 6% of the capital stock of the NBG, the knowledge of the content of these texts was extremely important in order to be able to evaluate the procedure and submit alternative proposals if needed. Thus, they perceived this movement as an effort from the management to exclude the union of employees, the insurance unions and the other shareholders in favor of the foreign investors. In other words the union believed that the NBG was selling the management out to foreign interests. The specific statement ended as follows "we underline that the government and the prime minister K. Karamanlis in person bear a great responsibility to the Greek

[180] http://www.hurriyetdailynews.com/h.php?news=finansbank-only-26-cards-canceled-because-of-greek-partnership-2006-09-17

people if the acquisition of Finansbank results, through manipulations and secret agreements in the loss of the 'greekness' of the NBG, a bank which since its establishment has been the basic instrument of national economy as regulator of the economic and social developments in our country"[181]. In a previous announcement, more or less of the same content, the union questioned, also, the price of Finansbank as extremely high and expressed doubts for the size of earnings from Turkey as presented by the management, pointing out the instability of Turkish economy and the devaluation of the Turkish currency[182].

Opposed to the acquisition of Finansbank was also the chairman of the Athens Stock Exchange Union, Alexandros Moraitakis. In his speech to the Parliament before the committee charge of the NBG deal, he stated that 'the NBG undertakes the danger and the opportunity that such an investment involves in Turkey. This danger has four aspects: the political, the military, the financial and the enterprise danger'. He pointed out that the NBG is undertaking a greater danger than it should, putting in risk short-time benefits of a size larger than the long-terms benefits it expect. He, also, questioned the high price of Finansbank and the low price in which the NBG was planning to sell the subsidiaries of the first one abroad. In other words, for Al. Moraitakis the algebra of this deal was not logical and clear. Finally, he underlined that as the NBG is the biggest company in the Athens Stock Exchange, the exposure of the former to the instable political and economic environment of Turkey, would affected also the latter.

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181 http://www.euro2day.gr/news/enterprises/122/articles/103072/Article.aspx
182 http://www.euro2day.gr/news/enterprises/122/articles/102677/Article.at aspx

7.3 Political reactions

Two days after the announcement of the agreement between the NBG and Finansbank the official political stance was expressed by the Greek Minister of finance, Goirgos Alogoskoufis and the Turkish Minister of State and in charge for foreign trade issues, Kürsat Tüzmen, in a meeting they had regarding the economic relations of the countries in general. They both underlined that this agreement opens new horizons for commercial and financial cooperation between the two countries[183].

However in the Greek parliament there were many reactions by deputies, especially of the opposition parties, who consistently urged T. Arapoglu to appear in the parliament in order to give detailed explanations to the finance committee about the acquisition of Finansbank. The chairman of the NBG refused to do that because as he said in a letter he sent, the NGB was no longer under state interests, thus its management is responsible only to its shareholders and the regulatory authorities. However, attached to this letter, he also sent to the parliament the speech he gave to the General Assembly of the NBG, in order to inform the shareholders regarding the acquisition of the Turkish bank, stating that he would come to the parliament only if there are questions of institutional nature to be answered by him as the president of Greek union of banks. Finally, the deputies, who did not agree at all with this statement, made use of the article 41a of the Regulation that makes compulsory the attendance in the Parliament, even of the prime minister, in order to force the chairman of NBG to show up[184].

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[183] Laskari Elena , http://www.euro2day.gr/news/economy/124/articles/100208/Article.aspx
[184] http://www.euro2day.gr/news/enterprises/122/articles/102402/Article.aspx

Furthermore, in a press conference she gave in May 2006[185], Vaso Papandreou, the person in charge of financial issues in the socialist opposition party of PASOK, questioned the motives as well as the profits of the NBG's strategy. Although she pointed out that PASOK was not against any expansion of the NBG abroad, it strongly argued that the centre of decision making must remain in the country. As for the total cost of the acquisition, V. Papandreou said that since it exceeds the equity of NBG, the latter it is not secured from political and economic dangers generated by the instability of the Turkish political and economic scene. It is worth noting that she 'attacked' the chairman of the NBG, T.Arapoglou, for declining the invitation to present himself in the parliament and inform the political parties, whilst she questioned the motives of the Citigroup limited participation of which Arapoglou had been an executive member in the past. As for the capital stock increase needed to cover the too high price, as many international analysts had pointed out, she implied that it was aiming to hand over the management to foreign interests. Thus, according to PASOK, the unions should participate in the capital increase in order to prevent any such case[186].

The acquisitions of Finansbank and Tekfen from NBG and Eurobank respectively, were undoubtedly successful from an economic point of view. As it was mentioned in the introduction of this chapter, it was a matter of time for the Greek banks to enter the Turkish market. On the other hand, Ziraat's entrance in the Greek market was of minor importance economically speaking, but of a major one politically. Thus, what is worth noting here is the political and social impact of these investments around which the debate still pertains.

[185] http://www.euro2day.gr/news/market/123/articles/103103/Article.aspx
[186] Ibid

Conclusion

Within the framework of International Relations discipline, the interaction of foreign policy and economy forms one of the main issues of study. One of the main targets of a country's foreign policy is the protection and expansion at the same time of its economic interests in the global market. This economic aspect of foreign policy is not less important than any other one and reflects the internal economic status of a country. Countries with strong economies are more capable of promoting their economic interests internationally. Indeed, nowadays, one of the main factors that shape the foreign policy of a country is its internal economic capability. In the 21st century, countries do not seek for new territories, as they have done in the past, but for new markets to 'conquer'. In an era where economies have been nationalized, domination is perceived from its economic dimension and not from its military as it was in the past.

For the last fifty years, Greece and Turkey came close to an armed conflict several times. It has been a repeated game of high tension strategy from both sides that reached its peak in 1999. Since then, the political tension has been smoothened out, yet not because the two sides finally solved their disputes, but because they decided to do that at some point in the future. This point is not quite determined, but it is supposed to come as a result of a relationship of trust and interdependence. In order to do that, both countries initiated a cooperation in issues described as 'low politics' issues, giving priority to the economy and bilateral economic cooperation, with the hope of creating a positive climate that would result in the improvement of political relations. Within this frame there has been a remarkable development in bilateral economic relations, with most outstanding example, that of Greek investments in Turkey and more specifically the investments in the banking sector.

Indeed, the volume of Greek investments in Turkey exceeds the amount of $6bn placing Greece within the top five of foreign investors in Turkey. It is estimated that over 350 Greek firms are operating in Turkey, while only ten Turkish firms operate in Greece. Two Greek banks have entered Turkish market through acquisitions, while only one Turkish bank is operating in Greece through the establishment of two branches. Foreign investments in a country do mean trust in its institutions and its economy, but they are always accompanied by profits too. Having analyzed above the motives for bilateral investments, it is obvious that one cannot expect to see major changes in the current strategy of banking investments. This 'Greece-high, Turkey low strategy' is giving the pay-offs that both sides consider to be the right-ones.

The results, if any, of the banking cooperation at the political level cannot be seen outside the general frame of economic cooperation, yet they do have a distinct contribution. The economic cooperation pre-existed the political rapprochement of 1999. Needless to say, that the political rapprochement gave a boost, but economic cooperation had already started to develop a dynamic of its own. Naturally, this dynamic could not be indifferent to the political tension, but there have been times that its followed its own course. For example the 1996 crisis almost brought the two countries to the brink of war, however the bilateral trade kept following an upward trend, which only in the next crisis of 1999 was affected. Yet, that was only temporary, confirming the argument of liberal theory that trade is disturbed only for a short time.

From 1999 onwards, it seems that with the blessings of political leadership, economic cooperation followed a new path, separately from the political one, and its running much faster right now. This does not mean that there is no political impact on economic relations, but the latter have found a way to protect themselves as much as possible and it seems that they succeeded. This becomes evident by two characteristic examples. The first is the collision of two fighter jets near the island of Karpathos on May 2006, which resulted to the death of the Greek pilot. The second is the partial freezing in December 2006 of Turkey's EU accession negotiation agenda, because of Turkey's refusal to fully implement the Additional Protocol to the Association Agreement regarding Cyprus and provide access to Cypriot ships and aircraft to Turkish ports and airports. While all these were happening, NBG was completing the acquisition of Finansbank and Eurobank was proceeding to the acquisition of Tekfen bank. On the other hand, there are some facts that prove the political limitations and constraints of the economic cooperation. For example, Turkey is interested in exporting electricity to the Greek islands of the eastern Aegean, however Greece refuses this cooperation although it would be profitable and continues to cover its needs domestically[187]. This is related to the fear of a growing dependence in the future. Perhaps we could see this within the context of the research results indicating that greater interdependence increases the risk of conflict[188]. In addition, the 1987 crisis in the North Aegean kept the two countries away from any exploration regarding oil deposits, which could help both economies[189].

After ten years of intense economic cooperation the issues of the delimitation of the Aegean continental shelf, the width of Greece's territorial air, treatment of minorities, and

[187] Papadopoulos, supra, note 12, p. 27
[188] See chapter 1, p.12
[189] Ibid

last but not least the Cyprus question, remain still unresolved. The ‘Triangle Peace Theory’ of Russet seems to have no result so far in the Greek-Turkish case. However, this does not mean that economic cooperation has failed to improve political relations, because the aim of its development was never meant to be that. At the turning point of 1999, economic cooperation was already a shaped and fruitful instrument that both sides could use within the framework of the ‘rapprochement processes, in order to ease the tension and avoid a possible conflict. The business communities in both sides of the Aegean had already made the first step and were interested in going further as the benefits from such an expansion were major. The strengthening of the already developed economic cooperation, along with other initiatives in both societies, was aiming to create a positive environment within which prejudices and concepts of the past will give their way to mutual understanding and cooperation. Yet, this does not guarantee the solution of crucial importance issues at the political level, especially when the political costs rise. This has been the case with Greece and FYROM/Macedonia for example. Although for years now Greek firms have ‘conquered’ FYROM /Macedonia’s market, the political relations remain extremely tensed.

This also was evident from the outcome of the recent visit of the Turkish prime minister in Athens on May 20, 2010. It was recognized from both sides, at a political as well as at an economic level, that only cooperation will give the desired result of peaceful coexistence in the area. Bilateral economic cooperation has proven to be a useful tool between Greece and Turkey, yet not enough by itself to lead to political solutions. As the economic cooperation continues, it is the political one that needs to be redefined and speed up. Yet, when and if this will be realized depends on the two countries bilateral as well as general agendas. These agendas include, on the one hand, the EU relations, as Turkey is still aiming, though not as eagerly as at the beginning, at a full membership and on the other hand, the position of the two countries within the broader international scene, especially now that the global economic crisis is changing the dynamics, political and economic ones, of all countries.

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List of credit institutions in Greece

Central Bank
Bank of Greece, S.A
Credit Institutions
National Bank of Greece S.A.
Emporiki Bank of Greece S.A.
Alpha Bank S.A.
General Bank of Greece, S.A.
Attica Bank, S.A.
Piraeus Bank, S.A.
EFG Eurobank Ergasias, S.A.
ATE Bank S.A.
Marfin Egnatia Bank, S.A
Aspis Bank S.A
Investment Bank of Greece, S.A.
Millenium Bank S.A.
Proton Bank
Probank
Panelinia Bank
FBB - First Business Bank S.A
Aegean Baltic Bank S.A
Emporiki Credicom
TT Hellenic Postbank S.A.
Deposits and Loans Fund
Co-operative Bank of Lamia, L.L.C.
Co-operative Bank of Epirus, L.L.C.
Pancretan Co-operative Bank, L.L.C.
Achaiki Co-operative Bank, L.L.C.
Co-operative Bank of Chania, L.L.C.
Co-operative Bank of Dodekanissa, L.L.C.
Co-operative Bank of Evros, L.L.C.
Co-operative Bank of Thessalia, L.L.C.
Co-operative Bank of Karditsa, L.L.C.
Co-operative Bank of Evia, L.L.C.
Co-operative Bank of Peloponnesus, L.L.C.
Co-operative Bank of Pieria, L.L.C.
Co-operative Bank of Drama, L.L.C.
Co-operative Bank of Lesvos-Lemnos, L.L.C.
Co-operative Bank of West Macedonia, L.L.C.

Co-operative Bank of Serres, L.L.C.
The Royal Bank of Scotland N.V.
BNP Paribas
HSBC Bank plc
The Royal Bank of Scotland plc
UniCredit Bank A.G.
Intesa Sanpaolo S.p.A.
F.C.E. Bank plc
GMAC Bank GmbH
BNP Paribas Securities Services
FGA Bank G.m.b.h.
BNP Paribas Personal Finance
Citibank International plc
Union de Creditos Inmobiliarios S.A.
Bank of Cyprus Limited
Hellenic Bank Limited
Eurohypo AG
Volkswagen Bank GmbH
Fortis Bank SA/NV
BMW Austria Bank GmbH
Mercedes-Benz Bank Polska S.A.
Deutsche Bank AG
BNP Paribas Wealth Management
Bank of America N.A.
Bank Saderat Iran
Intesa Sanpaolo Bank Albania Greek Branch
Kedr close joint stock company commercial bank

T.C. Ziraat Bankasi A.S.
Saxo Bank AS

Money Market Funds
AAAB Domestic Cash Management Fund
Alico Cash Management Fund
Citifund Cash Management Fund
Allianz Money Market Fund
Alpha Cash Management Fund
Alpha Foreign Cash Management Fund
ATE Cash Management Fund
Attica Cash Management Fund
Cyprus Greek Cash Management Fund - Domestic Market
Delos Foreign Money Plus Cash Management Fund
Eurobank Foreign Dollar Plus Cash Management Fund
Interamerican Foreign Cash Management Fund
Geniki Domestic Cash Management Fund
Hermes Money Market Fund

HSBC Cash Management Fund
International Cash Management Fund
Marfin Smart Cash
Millennium Money Market Fund
Probank Cash Management Fund
T.T.-EΛTA Money Market Fund
ING Cash Management Fund
Piraeus Cash Management Fund

List of Banks in Turkey

1 Abn Amro Bank N.V. -
2 Adabank A.Ş. http://www.adabank.com.tr
3 Akbank T.A.Ş. http://www.akbank.com.tr
4 Alternatif Bank A.Ş. http://www.abank.com.tr
5 Anadolubank A.Ş. http://www.anadolubank.com.tr
6 Arap Türk Bankası A.Ş. http://www.arabturkbank.com
7 Banca di Roma S.P.A. -
8 Bank Mellat -
9 BankEuropa Bankası A.Ş. http://www.bankeuropa.com
10 Bayındırbank A.Ş. http://www.bayindirbank.com.tr
11 Bnp-Ak Dresdner Bank A.Ş. http://www.bnp-ak-dresdner.com.tr
12 C Kredi ve Kalkınma Bankası A.Ş. http://www.cbank.com.tr
13 Calyon Bank Türk A.Ş. http://www.calyon.com
14 Citibank A.Ş. http://www.citibank.com.tr
15 Çalık Yatırım Bankası A.Ş. http://www.calikbank.com.tr
16 Denizbank A.Ş. http://www.denizbank.com.tr
17 Deutsche Bank A.Ş. http://www.db.com
18 Diler Yatırım Bankası A.Ş. http://www.dilerbank.com.tr
19 Finans Bank A.Ş. http://www.finansbank.com.tr
20 GSD Yatırım Bankası A.Ş. http://www.gsdbank.com.tr
21 Habib Bank Limited -
22 HSBC Bank A.Ş. http://www.hsbc.com.tr
23 İller Bankası. http://www.ilbank.gov.tr
24 İMKB Takas ve Saklama Bankası A.Ş. http://www.takasbank.com.tr
25 JPMorgan Chase Bank. http://www.jpmorgan.com
26 Koçbank A.Ş. http://www.kocbank.com.tr
27 MNG Bank A.Ş. http://www.mngbank.com.tr
28 Nurol Yatırım Bankası A.Ş. http://www.nurolbank.com.tr
29 Oyak Bank A.Ş. http://www.oyakbank.com.tr
30 Societe Generale (SA) -

31 Şekerbank T.A.Ş. http://www.sekerbank.com.tr
32 Taib Yatırım Bankası A.Ş. -
33 Tat Yatırım Bankası A.Ş. -
34 Tekfenbank A.Ş. http://www.tekfenbank.com
35 Tekstil Bankası A.Ş. http://www.tekstilbank.com.tr
36 Turkish Bank A.Ş. http://www.turkishbank.com
37 Türk Dış Ticaret Bankası A.Ş. http://www.disbank.com.tr
38 Türk Ekonomi Bankası A.Ş. http://www.teb.com.tr
39 Türk Eximbank. http://www.eximbank.gov.tr
40 Türkiye Cumhuriyeti Ziraat Bankası A.Ş. http://www.ziraat.com.tr
41 Türkiye Garanti Bankası A.Ş. http://www.garanti.com.tr
42 Türkiye Halk Bankası A.Ş. http://www.halkbank.com.tr
43 Türkiye İş Bankası A.Ş. http://www.isbank.com.tr
44 Türkiye Kalkınma Bankası A.Ş. http://www.tkb.com.tr
45 Türkiye Sınai Kalkınma Bankası A.Ş. http://www.tskb.com.tr
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