

Abstract

Financial sector is the major channel to mobilize savings from savers to investors. A well functioning financial sector positively affects the economic development. The intermediation function that is beyond being a simple fund transfer from the savers to investors, contributes to increase in efficiency by allocating resources to the most productive investments. In this context, reducing the costs faced throughout the intermediation process as much as possible is very important. Among those costs, the fiscal liabilities are the most important factors decreasing the competitiveness and profitability of the Turkish banking sector. Reducing the intermediation costs, which was a one of the main parts of the Banking Sector Restructuring Program introduced in May 2001 also took place as a structural benchmark on the Letter of Intent given to the IMF on April 5, 2003. In line with the Letter of Intent, a commission comprising of the representatives of the Treasury, Ministry of Finance, Central Bank, State Planning Organization, Capital Market Board and Banking Regulation and Supervision Board has studied on intermediation costs and an action plan proposal.

The results of this study and recommendations are as follows:

1. The banking sector faces with a burdensome, complex, and dispersed fiscal liability structure; and this structure causes an important rise in interest rates in the transformation process from savings to loans.
2. The banks directly pass most of the fiscal burden to households and firms.
3. Even if the banks did not perform any activities, they are faced with considerable fixed costs.
4. An outstanding part of the fiscal liabilities on the banks is transaction taxes. First of all, the transaction taxes and the fiscal costs that cause financial institutions to move their activities abroad should be decreased.
5. As a first step towards reducing the intermediation costs, the cost items creating the fiscal liabilities should be simplified and unified to eliminate dispersion.
6. Priority should be given to the intermediation costs that may be passed to households and firms. Thus the contractions of supply and demand of funds caused by intermediation costs can be lessen.
7. With the efforts to reduce the intermediation costs, Turkish banking sector will take a major step in the transformation process that aim to promote efficiency and competition in Turkish banking sector.