



**BANKING
REGULATION AND SUPERVISION
AGENCY**

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PRESS RELEASE

According to the regulations made by our Agency in 2003, practice of full insurance guarantee over savings deposit has been decided to be removed as of July 5, 2004, transition to limited deposit guarantee has been decided and it was announced to the public. Due to the fact that there is a short period remained for the practice of the said decision, the issue is evaluated and announcing the views of our Agency to the public is thought to be fruitful.

According to limited deposit guarantee, the application of which will initiate in July 2004, TL and FX denominated savings deposits up to TL 50 billion to be opened by any customers in each bank will be under the full insurance guarantee of the Savings Deposit Insurance Fund. The said guarantee consists of about 99% of savings depositors and 64% of total savings deposits in the sector. It is known that, in Turkey and in some countries, full insurance guarantee granted to deposit is practiced in order to prevent a systemic crisis in finance sector or to finalize it immediately and minimize the costs which may arise. Therefore, full deposit guarantee is a policy alternative which must be applied for a limited period. Application of full deposit guarantee for a long time in a country and conversion of this policy from temporary to permanent status weakens the market discipline and creates negative impacts over economy. This situation prevents the canalization of our countries resources to efficient investment and activity fields and limits the contribution of our savings to the development of our country. For the transition from full deposit guarantee to limited deposit guarantee, macroeconomic policies must be strengthened, economic and financial stability must be recovered, financial structure of banking sector must be strengthened, an institutional structure which will carry out efficient supervision, surveillance and regulation activities on the sector must be established.

In addition to positive improvements towards ensuring economic stability in our country recently, important steps have been taken as regards to strengthening financial structure of banking sector. When the improvement of banking sector from 2001 to March 2004 is evaluated; it is seen that its total assets increased from USD 117,7 billion to USD 194,1 billion and deposits increased from USD 76,6 billion to USD 120,6 billion. Improvements have been observed in also capital adequacy and profitability structure of the sector and capital adequacy ratio increased from 9,3% at end-2000 to 34,6% in March 2004, sector profitability which was negative in 2000 and 2001 reached at USD 4.018 million as of end-2003. Furthermore, FX position practice of the sector is also in legal limits. Within the scope of the regulation made by our Agency in 2001, all banks established their internal audit and risk management systems in order to ensure monitoring and controlling the risks they faced and our Agency has adopted risk oriented supervision approach in on-site and off-site audit. On the other hand, new draft act which has been prepared in order for the Banks Act to comply with European Union as well as international principles and standards, to have a systematic structure and to respond to changing needs, has reached at the last phase.

Transition from full deposit insurance guarantee to limited deposit insurance guarantee in July 2004 is the result of the positive changes realized in economy and financial sector and it will be a new stage for the improvement of Turkish banking sector.