An Analysis of the Factors Affecting the Spatial Distribution of Foreign Banks in Turkey

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Abstract

As FDI plays an important role in Turkey’s economic development, the analysis of location choice of foreign investor within the country has been attracting a growing interest from scholars and policy-makers. Since the mid-1980s, the financial sector accounts for the largest share of global FDI stocks and flows. Paralleling the global trend, financial sector particularly banking has been attracting the largest amount of FDI in Turkey since 2001, indeed, the financial sector account for 47 percent (30 billions dollars) of the total FDI inflows to Turkey between 2002 and 2008. A record number of foreign banks entered the Turkey’s banking sector. In 1980, of the 42 banks, only four were foreign and foreign banks had only 115 branch networks. As of 2008, of the 46 bank, 18 were foreign and they have more than 2000 branch across Turkey. Especially in recent years, the total number of foreign branches in Turkey has grown exponentially. Despite the large number of foreign banks entering the banking sector, interestingly, there have been very few studies of their impact on the Turkish financial system. Moreover, no study has been conducted to test why foreign banks favour a particular province. Therefore, the purpose of this paper is to discover which factors have been important in determining the geographical distribution of foreign banks in Turkey. Using provincial data from the Banks’ Association of Turkey, this study is the first empirical test to identify and analyse the locational choices of foreign banks in Turkey. We analyses the locational advantages of Turkish provinces in determining the locations of foreign banks. Our analysis is based on a sample of 2021 foreign branch banks in 74 Turkish provinces. Regression analysis reveals that the geographical distribution of foreign banks in Turkey is only statistically associated with a small number of variables. The paper concludes with a summary of key findings and comments on the future of foreign banks in Turkey.

Key words: foreign banks, multinational banks, foreign direct investment, location choice, financial geography, bank branches, financial institutions, Turkey,