ASSOCIATION FOR FINANCIAL PROFESSIONALS

Underwritten by PNC

CASH AND TREASURY MANAGEMENT
COUNTRY REPORT

TURKEY

Executive Summary

Banking

Turkey's central bank, the Central Bank of the Republic of Turkey, is an independent body with responsibility for monetary policy, as well as other central bank functions such as banker to the state, lender of last resort and issuer of notes and coin. The Central Bank is also charged with maintaining the stability of the financial system, but financial sector supervision is undertaken by the Banking Regulation and Supervision Agency (BRSA).

Turkey applies central bank reporting requirements. All transactions between residents and non-residents are reported to the Central Bank every month, as are direct investments and loans.

Resident entities are permitted to hold foreign currency bank accounts domestically and outside Turkey. Residents can also hold domestic currency accounts outside Turkey. Non-resident entities are permitted to hold domestic and foreign currency bank accounts within Turkey.

The banking sector is led by Isbank, Garanti Bankasi, TC Ziraat Bankasi, and Akbank although total assets are fairly evenly split among Turkey's banks compared with many other European countries. At present, 13 investment banks, 32 commercial banks, five participation banks (Islamic banks), five branches of foreign banks and 48 representative offices of foreign banks operate in Turkey.

Payments

Turkey's national payment system includes the EFT and the RTS RTGS systems, the Takasbank Check Clearing System for check payments and the Interbank Card Centre (BKM) for card payments.

The most prominent cashless payment instruments in Turkey in terms of volume are credit card payments and in terms of value are check payments. The increased use of electronic and internet banking has led to significant growth in the use of automated payment methods. Direct debit usage remains low. Check usage has been in general decline in recent years.

Liquidity Management

Turkish-based companies have access to a variety of funding options. There is also a range of short-term investment instruments available.

Domestic cash concentration techniques are used by companies in Turkey to manage company and group liquidity.

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Trade Finance

Turkey has established a customs union with the European Union (EU) and has established free trade agreements with European Free Trade Association (EFTA) member states, Albania, Bosnia and Herzegovina, the Faroe Islands, Georgia, Macedonia, Montenegro and Serbia, in addition to Chile, Egypt, Israel, Jordan, Lebanon, Malaysia, Mauritius, Morocco, Palestine, Singapore, South Korea, Syria, and Tunisia.

PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.
- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.[1]

Economic Updates

Receive regular Economic Updates from our senior economist by going to pnc.com/economicreports.

(1) Information compiled from Freedom of Information Act resources.

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Financial Environment

Country Information

Geographical Information

Capital	Ankara
Area	783,562 km^2
Population	81.26 million
Official language	Turkish
Political leaders	Head of state — President Recep Tayyip Erdogan (since August 28, 2014) Head of government — President Recep Tayyip Erdogan (since July 9, 2018)

Business Information

Currency (+ SWIFT code)	Turkish lira (TRY)
Business/banking hours	08:30–16:30 (Mon–Fri) or 09:00–17:00 (Mon–Fri)
Bank holidays	2019 — January 1, April 23, May 1, 19, June 5-7*, July 15, August 11-14*, 30, October 29 2020 — January 1, April 23, May 1, 19, 24-26*, July 15, 31* August 1-3*, 30, October 29 * The date, which may vary by plus or minus one day, is derived by converting from a non-Gregorian calendar to the Gregorian calendar. The date cannot be determined in advance with absolute accuracy. Also some feast days are determined by the actual sighting of a new or full moon and cannot be confirmed until close to the actual date. The rules around this practice vary from country to country, making it difficult to predict holiday observances with complete accuracy. Source: www.goodbusinessday.com
International dialing code	+ 90

Country Credit Rating

FitchRatings last rated Turkey on July 13, 2018 for issuer default as:

Term	Issuer Default Rating
Short	B
Long	BB
Long-term rating outlook	Negative

Source: www.fitchratings.com, November 2018.

Economic Statistics

Economics Table

	2012	2013	2014	2015	2016
GDP per capita (USD)	10,532	12,544	12,125	10,982	10,790
GDP (TRY billion)	1,416	1,810	2,044	2,338	2,591
GDP (USD billion)	788	951	934	860	858
GDP volume growth* (%)	+ 4.8	+ 8.5	+ 5.2	+ 6.1	+ 3.2
BoP (goods, services & income) as % GDP	– 6.3	– 6.8	– 4.8	– 3.9	– 4.0
Consumer inflation* (%)	+ 8.9	+ 7.5	+ 8.9	+ 7.7	+ 7.8
Population (million)	74.85	75.79	77.03	78.27	79.51
Unemployment (%)	9.2	9.7	9.9	10.3	10.9
Interest rate (Central Bank policy rate)† (%)	5.00	3.50	7.50	7.25	7.25
Exchange rate‡ (TRY per USD)†	1.7960	1.9038	2.1885	2.7200	3.0201

	2017		2018		
	Q4	Year	Q1	Q2	Q3
GDP per capita (USD)	–	10,540	–	–	–
GDP (TRY billion)	–	3,105	–	–	–
GDP (USD billion)	–	851	–	–	–
GDP volume growth* (%)	+ 7.3	+ 7.4	+ 7.4	NA	NA
BoP (goods, services & income) as % GDP	–	– 5.6	–	–	–
Consumer inflation* (%)	+ 12.3	+ 11.2	+ 10.3	+ 12.8	+ 19.4
Population (million)	–	80.75	–	–	–
Unemployment (%)	10.5	11.1	10.8	NA	NA
Interest rate (Central Bank policy rate)† (%)	7.25	7.25	7.25	16.25	22.50
Exchange rate‡ (TRY per USD)†	3.800	3.648	3.812	4.631	5.630

*Year on year. †Period average. ‡Market rate.

Sources: *International Financial Statistics*, IMF, November 2018 and 2018 Yearbook.

TURKEY

Sectoral Contribution as a % of GDP

Agriculture – 6.8%

Industry – 32.3%

Services – 69.7% (2017 estimate)

Major Export Markets

Germany (9.6%), UK (6.1%), UAE (5.9%), Iraq (5.8%), Italy (5.4%), France (4.2%), Spain (4%)

Major Import Sources

China (10%), Germany (9.1%), Russia (8.4%), USA (5.1%), Italy (4.8%)

Political and Economic Background

Economics

Interest Rate Management Policy

Turkey's independent central bank, the Central Bank of the Republic of Turkey (CBRT), is responsible for monetary policy and sets interest rates to achieve the goal of price stability.

Foreign Exchange Rate Management Policy

The Turk lirasi (TRY) is a floating currency determined by market forces.

Major Economic Issues

Despite some significant investment in industry in recent years, over a quarter of the Turkish workforce remains employed in the agricultural sector. However, there has been a steady flow of foreign investment into the Turkish economy, attracted by Turkey's process of economic liberalization. There is significant scope for additional investment as a number of crucial areas of the economy, including industry, banking, transport and communication, continue to be characterized by large levels of state control. A process of privatization continues. In the banking industry, for example, there have been proposals for the state to sell more of its interest.

Economic growth has been slower and more varied since the rapid recovery from the 2008/9 global economic and financial crisis. Growth slowed to 3.2% in 2016, as the economy felt the impact of rising regional political tensions and the failed July coup. GDP grew 7.4% in 2017 helped by a series of stimulus measures introduced by the government ahead of the 2019 general elections. The IMF has forecast GDP growth of 3.5% in 2018 and 0.4% in 2019.

Turkey suffered from very high inflation in the 1990s; figures well over 50% were typical. Inflation increased from 10.23%% in March 2018 to 25.24% in October 2018, the highest since 2003 and well above the central bank's 5% target, as a weakening TRY drives up prices. In September 2018, the central bank increased its benchmark interest rate from 17.75% to 24% in an attempt to stem a sharp decline in the TRY. Although the TRY has recovered from the worst of a recent crisis, it is still down by more than 30% against the USD. Reasons for the fall include the size of Turkey's current account deficit and level of external debt and investors' loss of confidence in the Turkish government's unorthodox management of the economy, combined with higher US interest rates in the US. The TRY's fall quickened after the US government doubled its tariffs on Turkish steel and aluminium imports to 20% and 50%, respectively, in August 2018. Turkey's president insists that the Turkish economy is fundamentally sound and has rejected the idea of making an appeal to the IMF, vowing to fight an "economic war".

The unemployment rate stood at 11.1% in August 2018, up from 10.8% in July 2018 and the highest since March 2017. This figure may well be lower than the real figure, as a result of underemployment in the rural areas. The country's generous welfare benefit system and a high rate of income tax have also been viewed by many as a hindrance to encouraging people into work.

The AKP government has carried out a multi-billion dollar spending program to boost the economy. It has particularly invested in the infrastructural development of the country's south east. After reaching a 6.0% high in 2009, the budget deficit has gradually narrowed, standing at approximately 1.5% in 2017.

Politics

Government Structure

Turkey is a republican presidential democracy.

The president is both head of government and head of state. A 2017 constitutional referendum eliminated the post of prime minister after the 2018 general election.

The government is based in Ankara.

Executive

Executive power belongs to the government, which is headed by the president.

The current government is headed by President Recep Tayyip Erdogan, of the Justice and Development Party (AKP), which has a majority in parliament through its alliance with the Nationalist Movement Party (MHP).

President Erdogan was directly elected for a five-year term in the 2014 presidential election. In June 2018, he was elected for a first five-year term as the country's first executive President under the new presidential system. The President is able to serve two concurrent terms. The next presidential elections are scheduled for 2023.

Legislature

Turkey has a unicameral parliament, the Grand National Assembly of Turkey.

The 600-member Grand National Assembly of Turkey is directly elected every five years. Members are elected to represent multi-seat constituencies by proportional representation. The next general election is scheduled to be held in 2023.

International memberships

Turkey is a member of the Council of Europe, the Bank for International Settlements (BIS), the Organisation for Economic Co-operation and Development (OECD), the World Trade Organization, the Economic Cooperation Organization (ECO), the Organization of Islamic Cooperation (OIC), the South-east European Cooperative Initiative (SECI), the Organization of the Black Sea Economic Cooperation (BSEC) and an observer of the GUAM Organization for Democracy and Economic Development.

Major Political Issues

Prime Minister Erdogan, head of the ruling Justice and Development Party (AKP), was elected as president on August 10, 2014 after acquiring 51.8% of the vote in the first Turkish presidential election to be held by popular vote rather than by parliament. Erdogan replaced Abdullah Gul. After losing its parliamentary majority in the June 2015 general election, the AKP called another election for November 1, 2015, which resulted in a return to single-party rule after the AKP won 317 seats in the 550-member parliament. Erdogan won a new five-year term after securing victory in the first round of a presidential election on June 24, 2018 (originally scheduled for November 2019). He was sworn in as executive president on July 9, 2018, becoming both the head of state and head of governnment under a new presidential system. Erdogan, whose AKP party has a majority in parliament through its alliance with the Nationalist Movement Party (MHP), begins his new term facing many economic challenges, including a sharply devalued TRY and rising inflation.

The military has traditionally exercised significant power since the establishment of Turkey. Viewed as guardians of Turkey's secular system of government, it has been able to oust four governments since 1960. The code governing Turkey's armed forces was amended in July 2013, curtailing the military's political influence and removing a clause giving it responsibility for preserving the Republic; the military's main responsibility is now to protect Turkey's from foreign threats. A purge of the Turkish civil service took place in the aftermath of the July 2016 attempted coup, with over 20,000 people including military officials, police officers, judges, governors and civil servants arrested; just over 5,000 remain in custody. On July 20, 2016, President Erdogan announced a state of emergency and suspended the European Convention on Human Rights. The government ended the state of emergency in July 2018, weeks after President Erdogan won re-election in a vote held during the state of emergency.

In December 2016, the AKP unveiled a new draft constitution aimed at abolishing Turkey's parliamentary system and introducing an executive presidency. In a divisive referendum held in April 2017 under the state of emergency, voters narrowly voted in favor of the government's plans for sweeping constitutional changes, including the adoption of a presidential system of government. The changes, which have significantly increased the powers of the president, came into effect following the June 2018 general election, which was originally due in November 2019. Among several changes, the role of prime minister was scrapped and the post of vice-president was created, the president will have powers to appoint ministers and choose senior judges, enact certain laws by decree, announce a state of emergency, and dismiss parliament. The government argues that the reforms will streamline decision-making and put an end to weak coalition governments. However, critics claim the move will make the president's position too powerful.

Turkey entered into EU membership talks in October 2005. However, Turkey's prospective membership is opposed by a number of EU member states so, even if Turkey is eventually permitted to join, membership remains years away. Negotiations between Turkey and the EU have been slow, with Turkey currently aiming to join in 2023. In June 2016, the EU accession chapter on finance and budgetary affairs was opened as part of the EU-Turkey migration deal.

Taxation

Resident/Non-resident

A company is considered resident if its seat and/or place of effective management are located in Turkey.

Tax Authority

Ministry of Finance; Turkish Revenue Administration.

Tax Year/Filing

A company's tax year need not necessarily coincide with the calendar or fiscal year, although this is the norm.

Corporate tax returns must be filed between the first and 25th days of the fourth month following the end of the tax year.

Corporate income tax is payable by the end of the month in which the tax return is due (i.e. by the end of April for companies using the calendar year).

Corporations are required to pay advance corporate tax at 20% based on their quarterly profits. Advance payments made during the year are offset against the ultimate corporate tax liability, which is determined in the annual corporate income tax return. Advance corporate tax returns must be submitted by the 14th day of the second month following the quarterly period, and the tax is payable by the 17th of the same month (the Ministry of Finance may extend the deadline for submission of quarterly advance tax returns).

Turkey does not allow for tax consolidation and each company in a group must file its own corporation tax return.

Corporate Taxation

Residents are subject to taxation on their worldwide income. Non-resident companies are subject to taxation on income derived from sources in Turkey.

A reduced rate applies on earnings derived from investments in specified sectors/regions.

The standard corporate tax rate was increased from 20% to 22% for the 2018, 2019 and 2020 fiscal years for the tax periods that begin on or after January 1, 2018.

There is no alternative tax or surtax.

A tax credit is granted for foreign tax paid, up to the amount of Turkish corporate tax attributable to the foreign income. Any unused credit may be carried forward to the following three years, but the foreign tax credit is limited to the Turkish corporate tax attributable to the foreign income. The foreign tax paid must be documented through foreign tax office receipts approved by the

Turkish consulate in the country in which the foreign tax was paid. Specific conditions apply to foreign tax credits relating to dividends received by resident Turkish companies from their foreign participations.

Dividends paid by a resident company to another Turkish company are exempt from corporate income tax in the hands of the shareholder. Dividends received from a non-resident company are exempt from corporate tax if the following requirements are met:

- the non-resident payer is a corporation or limited liability company;
- the Turkish recipient has owned at least 10% of the paid-in capital of the payer for at least one year;
- the profits out of which the dividends are paid were subject to foreign income tax of at least 15% (20% if the main activity of the payer is the provision of financing, including financial leasing, insurance services or investments in securities); and
- the dividends are remitted to Turkey by the date the corporate tax return is due.

Tax losses may be carried forward for five years, but may not be carried back except where the company is liquidated.

Various incentives are available. An allowance is available until December 31, 2023 to companies that carry out qualifying R&D and design activities. The allowance is equal to 100% of R&D expenditure and is available in addition to a deduction for the R&D and design expenditure in the statutory accounts. Further, 80% (95% for employees holding a PhD or master's degree in liberal arts and 90% for employees with a master's degree in any field and a bachelor's degree in liberal arts) of the income tax computed on the wages of R&D and design personnel is exempt from income withholding tax; 50% of the social security premium contributions paid for each R&D and design employee will be compensated by the Ministry of Finance (up to 10% of the total number of full-time R&D employees); and documents prepared with respect to the R&D and innovation and design activities are exempt from stamp duty. To qualify for the benefits, the R&D and design center must be set up outside designated technology development zones (TDZs) and must have at least 15 full time R&D and 10 full-time design center employees.

In addition to the general incentive regime, a project-based investment incentive package is available that aims to provide financial support for certain innovative, technology-oriented, R&D-focused, high value-added projects that also contribute to reduce foreign dependency Projects seeking support under the incentive must be in conformity with the Turkish government's targets set forth in national development plans and annual programs and with those specifically promoted by the Ministry of Economy.

The Center of Attraction Program is a new incentive package that is implemented through the Turkish Development Bank. The incentive system covers industrial, call centre and data storage centre investments to be made in any of the 23 provinces located in the eastern and south-eastern regions of Turkey.

Companies operating in Turkish free trade zones (FTZs) based on a valid operation license obtained before February 6, 2004, benefit from tax exemptions (exemptions for trading activities are abolished after that date). A tax exemption is provisionally available for manufacturing activities. Earnings from commercial activities other than manufacturing are subject to a 22% corporate income tax rate.

An income tax withholding exemption is available for companies engaged in manufacturing within Turkish FTZs and that export at least 85% of the total 'FOB value' of the products manufactured within the zone. This exemption will be provisionally applicable until the end of the year in which Turkey becomes an EU member state.

A reduction of up to 90% of the corporate income tax rate may be granted on earnings derived from investments in specified regions/cities and sectors.

Documents prepared in relation to the activities carried out in FTZs are exempt from stamp tax, and such transactions are exempt from charges.

A notional interest deduction (NID) is available. Corporations, except for those that operate in the finance, banking and insurance sectors and public economic enterprises, are allowed to claim a deemed interest deduction equal to 50% of the interest calculated on cash increases in registered capital (for existing corporations) or cash capital contributions (for newly incorporated corporations) based on the average interest rate announced by the Central Bank for TRY-denominated commercial loans. The NID is allowed starting from the fiscal year in which the resolution for the cash capital increase is registered.

Advance Tax Ruling Availability

Advance tax rulings are available in Turkey in order to establish the tax authority's approach to undefined tax practices. In order to obtain an advance ruling, taxpayers must apply to the tax authorities. Advance tax rulings provide immunity against tax penalties and delay interest (effective from August 1, 2010), if challenged by an independent body.

Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties	Other fees	Branch Remittances
Resident companies	0–15%	None	None	None	NA
Non-resident companies	0–10%	15%	20%	20%	15%

Interest income arising from deposit accounts is subject to a 15% withholding tax rate. The provider is required to deduct the tax before payment.

Interest on loans payable to a foreign state, international institution or foreign bank or foreign corporation that qualifies as a 'financial entity' is subject to a 0% withholding tax. A 10% rate applies to interest paid on loans from other non-resident entities, unless the rate is reduced under a tax treaty.

Withholding tax of 15% is levied on all dividends (except for dividends distributed by a resident company to another resident company, and Turkish branches of non-resident companies). The rate levied on dividends paid to non-residents may be reduced through tax treaties, provided that the shares in the distributing company are registered in the names of shareholders, rather than issued as bearer shares.

Withholding tax of 20% is levied on royalties paid to non-resident companies.

There are also a variety of sources of income that are subject to withholding tax at specific rates established by the Council of Ministers. A 20% withholding tax is imposed on royalties paid to a non-resident, unless the rate is reduced under a tax treaty. A 20% withholding tax is levied on fees paid for professional services, such as consulting, supervision, technical assistance and design fees, unless the rate is reduced under a tax treaty.

Transactions with parties resident in countries/regions that are deemed to cause harmful tax competition (as yet to be determined by the Council of Ministers) are considered related party transactions. Payments made by resident companies to such parties are, in principle, subject to a 30% withholding tax (with some exemptions). However, the 30% withholding tax cannot be applied until the Council issues the list of relevant countries/regions.

Transfer Pricing

When a transaction between related parties (whether or not residents) is not carried out on arm's-length terms, profits arising from the transaction will be deemed to be constructive dividends, subject to both corporate income tax and dividend withholding tax. The transfer pricing rules provide for the comparable uncontrolled price, cost-plus and resale price methods, as well as profit-based methods (e.g. profit-split and transactional net margin methods). However, a taxpayer may adopt another method based on its particular circumstances.

Taxpayers are required to maintain documentation to support their transfer pricing. Corporate taxpayers that are registered with the tax office of the largest taxpayers (large taxpayer office) must prepare an annual transfer pricing report with respect to domestic and foreign related-party transactions. Those registered with other tax offices only have to prepare the annual report with respect to their foreign related-party transactions.

Taxpayers registered with the large taxpayer office also must include their transactions with related parties in Turkish free trade zones (including branches) and their branches abroad in their annual transfer pricing report, and corporate taxpayers operating in FTZs must prepare an annual transfer pricing report with respect to domestic related party transactions.

Unilateral, bilateral and multilateral advance pricing agreements (APAs) may be concluded with the Ministry of Finance. Turkey has introduced pre-filing meetings to negotiate the terms and details of the APA process, the application form to be filled out, the timeline for finalizing the application, etc.

Thin Capitalization

The thin capitalization rules apply when loans from shareholders or related parties exceed a 3:1 debt-to-equity ratio at any time in an accounting period (six times shareholder equity for loans from related party banks or financial institutions). Related parties for these purposes are defined as shareholders and persons related to shareholders that own, directly or indirectly, 10% or more of the shares, voting rights or the right to receive dividends of the company. The amount of equity is that determined under the Tax Procedures Code at the beginning of the accounting period.

Where the debt-to-equity ratio is exceeded, interest payments in excess of the safe harbour ratio will be deemed to constitute a hidden profit distribution or a remittance of profits as of the last day of the accounting period in which the conditions for application of the thin capitalization rules are satisfied and, therefore, subject to the 15% dividend withholding tax. Related expenses, foreign exchange losses and interest payments are non-deductible.

Controlled Foreign Companies

The CFC rules are triggered where a Turkish resident company controls, directly or indirectly, at least 50% of the share capital, dividends or voting power of a foreign entity, and:

- 25% or more of the gross income of the CFC is comprised of passive income, such as dividends, interest, rents, license fees or gains from the sale of securities that are outside the scope of commercial, agricultural or professional income;
- the CFC is subject to an effective tax rate lower than 10% in its country of residence; and
- the annual total gross revenue of the CFC exceeds the foreign currency equivalent of TRY 100,000.

If these requirements are met, the profits of the CFC are included in the profits of the Turkish company in proportion to the Turkish company's share in the capital of the CFC, regardless of whether such profits are distributed, and will be taxed currently at the 20% corporation tax rate.

Disclosure Requirements

Certain disclosures must be made in the footnotes attached to the statutory financial statements submitted to the tax office, together with the corporate tax return.

Other Anti-avoidance Measures

Transactions with parties resident in countries/regions that are deemed to cause harmful tax competition (as yet to be determined by the Council of Ministers) are considered related party transactions. Payments made by resident companies to such parties are, in principle, subject to a 30% withholding tax (with some exemptions). However, the 30% withholding tax cannot be applied until the council issues the list of relevant countries/regions.

Stamp Duty

Stamp duty applies at rates ranging from 0.189% to 0.948%, depending on the type of document.

Tax Treaties / Tax Information Exchange Agreements (TIEAs)

Turkey has exchange of information relationships with 92 jurisdictions through 87 double tax treaties and five TIEAs (www.eoi-tax.org, February 2018).

Sales Taxes / VAT

VAT is levied on the supply of most goods and services upon delivery and on all goods imported into Turkey. The standard rate of VAT is 18%.

Banks, insurance companies and brokerage houses are exempt from VAT, but banking and insurance transactions are taxed on the individual.

A reduced rate of 8% is levied on basic food products, land vehicles (other than passenger vehicles), health services, veterinary products, printed materials, medicines, infant food, serum, vaccines, entertainment, certain educational services, education transportation services and blood products.

A reduced rate of 1% applies to newspapers and magazines, second-hand cars, the processing and delivery of agricultural commodities, and funeral services.

Investment allowance certificates, which can be obtained in certain circumstances from the Undersecretariat of the Treasury, provide VAT and customs duty exemption.

There is no turnover threshold for VAT registration in Turkey. Any person or entity engaged in an activity within the scope of the VAT law must notify the local tax office where its place of business is located or, if there is more than one place of business, the same tax office at which the business registered for income/corporation tax purposes.

A foreign business with no establishment in Turkey but that sells goods located in Turkey must appoint a tax representative (agent) to register for VAT. Direct registration is not possible. Such a business must use the reverse charge mechanism for charging VAT.

VAT on electronic services provided by non-resident service providers to Turkish resident individuals who are not registered for VAT in Turkey must be declared and paid by the service providers as from January 1, 2018.

Capital Gains Tax

Capital gains derived by a resident corporation are taxed at the standard corporation tax rate of 22%.

Seventy-five percent of capital gains derived from the sale of local participations are exempt from corporation tax if the following conditions are satisfied:

- the property has been held for at least two years;
- the gains are kept in a special fund account under shareholder equity for five years following the year of the sale;
- the exempt profits are not transferred within the specified period to another account (except for transfers to the capital account by way of a capital injection); and

- the consideration for the sale is collected by the end of the second calendar year following the year of the sale.

A 50% exemption applies to capital gains derived from the sale of immovable property that has been held for at least two years. (The exemption was 75% prior to December 5, 2017).

Capital gains derived from the sale of foreign participations that have been held for at least two years by an international holding company resident in Turkey are exempt from corporate income.

To qualify as an international holding company:

- a Turkish company must be a corporation (Anonim Sirket - AS);
- at least 75% of its total assets (excluding cash items) must be comprised of foreign participations that have been held for a continuous period of at least one year;
- the Turkish company must hold at least 10% of the capital of each foreign participation; and
- the foreign participation must be in the form of a corporation or a limited liability company.

Capital Duty

No duty is levied on share capital, but there is a compulsory contribution to the competition board equal to 0.04% of the capital amount committed when the company is established, and 0.04% of any subsequent increase in capital.

Payroll and Social Security Taxes

There are no payroll taxes payable by employers.

The employer must withhold income tax on salaries at progressive income tax rates ranging from 15% to 35%.

Both the employer and the employee must make social security contributions. The general rates are 20.5% for the employer (although the employer share for long-term risk is 6% instead of 11% if the monthly social security declarations are submitted on time and there are no unpaid social security premiums, penalties or unemployment premiums for current and previous months) and 14% for the employee.

Employers and employees must also contribute to the Unemployment Benefit Plan at rates of 2% and 1%, respectively, based on the gross salary of the employee (subject to the maximum base applicable for the social security premium calculations).

Special Consumption Tax (Excise Tax)

Special consumption tax merged 16 different taxes, levies and duties under a single tax. The rates are as follows:

- motor vehicles, ships and aircraft: between 0.5% and 130%, depending on the customs tariff position number of the item;

- petroleum products: fixed amounts that vary depending on the customs tariff position number of the item;
- alcoholic drinks and tobacco products: between 25% and 65%, depending on the customs tariff position number of the item; and
- luxury goods (cosmetics, refrigerators, electrical home appliances, cellular phones, etc): between 6.7% and 25%.

Financial Transactions/Banking Services Tax

A banking and insurance transaction tax applies at a general rate of 5% on bank and insurance charges.

Banks are required to withhold a contribution to the resource utilization support fund on the principal amounts of foreign-denominated loans with an average maturity period of three years or less. The rate is 3% for loans of less than one year, 1% for loans with an average maturity period of at least one year or two years and 0.5% where the average maturity period is at least two to three years. A 1% contribution applies to the interest accrued on TRY denominated loans with an average matutity of less than one year, and 0% applies to TRY loans with an average maturity of more than one year. In addition, imports realized on credit are subject to a 6% withholding tax (subject to certain exemptions).

Cash Pooling

There are no specific rules covering cash pooling arrangements.

Real Property Tax

Real property tax is levied based on the value of land or buildings. Rates are as follows: 0.2% for buildings in general, 0.1% for dwellings, 0.1% for land in general, and 0.3% for building sites. The rates are increased by 100% for buildings and land located within large cities.

The square metre rates for valuing buildings depend on the location of the property.

An environment tax is levied by the municipalities on buildings used, inter alia, as a place of business. Tax is levied at fixed amounts that change annually based on defined categories. The resident of the building (either the landlord or the tenant) is liable for the environmental tax. The landlord is responsible for making a compulsory contribution to the municipality at a rate of 10% of the annual accrued real estate tax for the protection of immovable cultural property. The contribution is levied through the real estate tax. Real property tax paid by companies is deductible from the corporation tax base.

Transfer Tax

The registration of a transfer of real estate is subject to a real estate transfer tax. The tax is calculated as 4% of the acquisition/transfer value and is split equally between the buyer and the seller.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2018 (www.deloitte.com).

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

Established as a joint stock company in 1930, the Central Bank of the Republic of Turkey (CBRT) began operations in 1931. It is an independent institution whose responsibilities and authority are framed by the Law on Central Bank of the Republic of Turkey of 1970 and its amendments.

The Central Bank has a number of key responsibilities. These include acting as the supervisor and regulator of Turkish banks and the local payment systems. It develops and implements the country's monetary policy, including ensuring domestic price stability and managing the currency's stability in the foreign exchange market where necessary. It also manages the country's foreign currency and gold reserves and issues Turkish notes and coin.

The Central Bank has become less interventionist in recent years. Instead, it has concentrated on strengthening Turkey's banking sector through, among other things, the enforcement of capital adequacy rules.

Other banking supervision bodies

The Banking Regulation and Supervision Agency (BRSA) is the regulatory and supervisory authority for Turkey's credit institutions (domestic and foreign commercial and investment banks). The BRSA is an autonomous entity, formed on August 31, 2000, whose responsibilities and authority are framed by the Banking Law.

The BRSA determines whether a bank is permitted to start operating in Turkey, or whether a Turkish bank is permitted to establish a presence abroad. It can also, subject to government approval, close banks or recommend that the government rescinds a banking license. It audits banks, via the Board of Authorized Bank Auditors. It is also responsible for recommending treatment for failing banks, including merger or a transfer of ownership to the Central Bank's Savings Deposits Insurance Fund (SDIF). Two banks are currently under the management of the SDIF.

Central Bank Reporting

General

The Central Bank of the Republic of Turkey uses the International Transaction Reporting System (ITRS) for collecting balance of payments statistical data. It collects additional information using surveys, foreign trade statistics as well as other data sources.

What transactions – listed

Information on all residents' transactions with non-residents is reported in aggregate form to the Central Bank on a monthly basis.

Direct investments and loans are individually reported, as are foreign currency transactions (not reported as imports, exports, trade in services, and capital flows) exceeding USD 50,000.

Whom responsible

The financial intermediary (bank) transmits the required information to the Central Bank on behalf of its corporate clients. The resident company however is responsible for the reported information's accuracy.

Banks must submit the ITRS forms (via a secure electronic data retrieval system) by the 21st day of the following month.

Additional reporting for liquidity management schemes

Transfers between resident and non-resident bank accounts participating in the same liquidity management scheme are not subject to additional reporting requirements.

Exchange Controls

Exchange structure

Turkey's official currency is the Turkish lira (TRY). The "New" was dropped from the currency's name on January 1, 2009. The current currency replaced the old Turkish lira (TRL) on January 1, 2005, with a conversion rate of TRL 1 million per TRY 1.

The currency is free floating. The TRY's value is determined by market forces and the Central Bank intervenes only rarely, for example in order to bring excessive fluctuations in the exchange rate under control.

A bilateral TRY/CNY currency swap arrangement, worth TRY 3 billion, has been established by the Central Bank with the People's Bank of China. It is currently in place until November 2018.

In August 2018, a bilateral TRY/QAR (Qatari ryal) currency swap arrangement, worth USD 3 billion, was established by the Central Bank with the Qatar Central Bank. The QAR is pegged to the USD.

Exchange tax

There is no exchange tax.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

Forward foreign exchange transactions may be carried out by authorized banks.

Capital flows

All issues and sales of foreign securities by non-residents in Turkey required to be authorized by the Capital Market Board. All issues and sales of securities by residents abroad are also required to be registered with and authorized by the Capital Market Board.

Foreign investment in certain sectors (e.g. mining, petroleum exploration and refining, transportation, electricity, accounting, and broadcasting) is subject to controls.

All proceeds from foreign investment can be transferred abroad without restriction although these transfers must be reported to the Central Bank.

Loans, interest and repayments

Foreign currency-denominated consumer or mortgage credits from non-residents or resident banks to resident individuals are not permitted.

Commodity credits from residents to non-residents may not exceed two years for exports of non-durable goods or five years for other exports.

Resident insurance companies may not extend loans to non-residents (with the exception of financial institutions in OECD member states) if the credit constitutes part of their technical reserves.

Royalties and other fees

There are no restrictions.

Profit remittance

There are no restrictions.

Bank Account Rules

Resident entities are permitted to hold foreign currency bank accounts domestically and outside Turkey. Residents are also permitted to hold domestic currency accounts outside Turkey. Resident accounts in domestic currency are convertible into foreign currency.

Non-resident entities are permitted to hold domestic and foreign currency bank accounts within Turkey. They are also permitted to hold domestic currency accounts abroad. Non-resident accounts in domestic currency are convertible into foreign currency.

Anti-money Laundering and Counter-terrorist Financing

- Turkey has broadly implemented the requirements of the first three EU Money Laundering Directives in its legislation and has also implemented counter-terrorist financing legislation (Law on Prevention of Laundering Proceeds of Crime No 5549 of 2006 and subsequent amendments; the Turkish Criminal Law No 5237 of 2005, the Turkish Criminal Procedure Law No 5271; the Misdemeanours Law No 5326; the Banking Law No 5411; the Anti-Terror Law No 5532 of 2006, as amended and Law No 6415 on the Prevention of the Financing of Terrorism 2013 as amended; the Financial Crimes Investigation Board has issued a series of related General Communiqués and Regulations which are regularly updated). The Council of Ministers have also issued related Decrees.
- A Financial Action Task Force (FATF) member, Turkey observes most of the FATF standards. Turkey has observer status in the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG.

- Turkey has established a financial intelligence unit (FIU), the Mali Suçlari Arastirma Kurulu (MASAK) or Financial Crimes Investigation Board, which is a member of the Egmont Group.
- Account opening procedures require formal identification of customers and beneficial owners.
- Customers making a single or series of linked transactions exceeding TRY 20,000 must be identified. For wire transfers the threshold is TRY 2,000.
- Customers must be identified before the business relationship is established or the transaction conducted and their address must be verified.
- Relationships with shell banks are prohibited.
- Financial institutions in the broadest sense are required to report suspicious transactions to the MASAK.
- All cross-border transportation of currency or financial instruments must be reported to the customs authorities.
- All records must be kept for at least eight years.

Data as at February 2018.

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) December 31, 2017
TC Ziraat Bankasi	120,388
Isbank (Türkiye Is Bankasi)	114,007
Türkiye Garanti Bankasi	92,764
Akbank	89,476
Halkbank (Türkiye Halk Bankasi)	82,024
Yapi ve Kredi Bankasi	76,212*
Vakifbank (Türkiye Vakiflar Bankasi)	73,640

*As at December 31, 2016.

Source: www.accuity.com

Overall Trend

At present, 13 investment banks, 32 commercial banks, five participation banks (Islamic banks), five branches of foreign banks and 48 representative offices of foreign banks operate in Turkey. Since 1998, there has been a significant reduction in the number of banks as a result of consolidation and closures. The country's five largest banks accounted for 58% of the banking sector's total assets at the end of December 2017.

Three of Turkey's commercial banks (TC Ziraat Bankasi, Vakifbank and Halkbank) are state-owned, as are five investment banks and two participation banks. Approximately 36.6% of the banking sector's total assets are currently under state control.

In May 2015, TC Ziraat Bankasi's Islamic banking unit, Ziraat Katilim Bankasi, commenced operations, while Vakifbank's Islamic banking unit, Vakif Katilim Bankasi, commenced operations in February 2016. Halkbank has also announced plans to set up an Islamic banking arm.

Foreign investment remains limited compared to other European countries, although it is increasing. There are 21 foreign commercial banks (including the six branches of foreign banks) and four foreign investment banks in Turkey at present. Foreign banks accounted for 28.3% of the banking sector's total assets at the end of September 2018.

The National Bank of Greece agreed in December 2015 to sell Finansbank to Qatar National Bank (QNB Group). The acquistion was finalised in June 2016. Finansbank was renamed QNB Finansbank in October 2016.

Turkey's banks coped comparatively well throughout the most recent global financial crisis, generally remaining solid. Although the country's banks have been strictly regulated since the 2001 financial crisis (which saw over 20 banks taken over by the state), there are concerns that the weaker TRY and the recent period of market volatility may affect the sector's performance and asset quality. Moody's reflected these concerns by downgrading the credit rating of 18 banks and two finance companies in August 2018. In October 2018, Fitch dowgraded 20 Turkish banks citing the sectror's increasing risks in the wake of the recent currency crisis.

The current AKP government plans to transform Istanbul into a leading international financial center in the long term.

Payment Systems

Overview

Turkey's payment system is the responsibility of (and supervised by) the Central Bank.

The first generation of the Central Bank-operated Electronic Funds Transfer (EFT) System, the RTGS system for domestic funds transfers, was launched in 1992. The system was modernized in 2000, when key functionality such a central queuing mechanism and funds management facilities were added to the system. The system's third generation was developed over the 2012-2013 period, with the processing of high-value and urgent interbank payments and retail payments being split into two separate operations, creating the Retail Payment System (RPS) for retail transactions and with the EFT processing high-value and time critical interbank payments. The RPS system launched operations in December 2012. Both the EFT and the RPS are RTGS systems. They use the same inter-bank network and operate as an integrated system.

As of July 2, 2018, domestic checks and promissory notes are processed by the Takasbank Check Clearing System operated by the Istanbul Clearing, Settlement and Custody Bank (Takasbank). Previously, these checks and promissory notes were cleared by the Central Bank-operated Ankara and Istanbul Interbank Clearing Houses (ICHs), which will continue their activities for notification of check clearing and return packages. Card payments are cleared by the Interbank Card Center (BKM), the Gosas (Garanti Ödeme Sistemleri / Garanti Payment System) system and the Mastercard Payment Transaction Services (MPTS) on behalf of their member banks.

High-value and Low-value

Name of system	Electronic Fund Transfer (EFT) system
Settlement type	Real-time gross settlement
Settlement cycle	Transactions are settled continuously and irrevocably in real time and with immediate finality, on a first-in-first-out basis. Settlement of payments processed by EFT takes place across participants' EFT settlement accounts held at the CBRT. The EFT has a maximum processing time of one minute (current average is one second).
Links to other systems	NA
Payments processed	Domestic transfers between banks and customer (retail) transfers as well as interbank obligations resulting from participant banks' transactions in Takasbank and BKM.
Currency of payments processed	TRY
Value and other limits to processing	There are no value thresholds.
Operating hours	EFT operates from 08:30 until 17:30 TST, Monday to Friday. It closes at 13:00 on half working days.
System holidays	The system is closed on weekends and bank holidays.
Cut-off times	17:30 TST
Participants	EFT has 52 direct participants, including the Central Bank.
Access to system	Banks use the Participant Interface System (PIS), the interfacing component of the Central Bank's payment systems, to submit payment messages. The messaging between the participants and the settlement components (RPS and EFT) is provided by PIS. PIS checks the access rights and security measures, and validates messages.
Future developments	NA

Name of system	Retail Payment System (RPS)
Settlement type	Real-time gross settlement
Settlement cycle	Transactions are settled continuously and irrevocably in real time and with immediate finality, on a By-Pass first-in-first-out basis. Settlement of payments processed by RPS takes place across participants' RPS settlement accounts held at the CBRT. The RPS has a maximum processing time of 15 minutes (current average is 30 seconds).
Links to other systems	NA
Payments processed	Domestic customer (retail) transfers.
Currency of payments processed	TRY
Value and other limits to processing	There are no value thresholds.
Operating hours	RPS operates from 08:30 until 17:30 TST, Monday to Friday. It closes at 13:00 on half working days.
System holidays	The system is closed on weekends and bank holidays.
Cut-off times	17:30 TST
Participants	RPS has 52 direct participants, including the Central Bank.
Access to system	Banks use the Participant Interface System (PIS), the interfacing component of the Central Bank's payment systems, to submit payment messages. The messaging between the participants and the settlement components (RPS and EFT) is provided by PIS. PIS checks the access rights and security measures, and validates messages.
Future developments	NA

Name of system	Takasbank Cheque Clearing System
Settlement type	Deferred net settlement
Settlement cycle	Checks are MICR-encoded and payments are processed electronically. The majority of participant banks use truncation. Payments for same-day settlement must be submitted by 06:00 TST. Information on payments may be submitted up to 24 hours before the cut-off time to prepare for the start of the clearing session at 09:00 TST. This clearing process stops at 16:00 TST. Each participant's balance in the Takasbank Cheque Clearing System is calculated by the Takasbank at the end of the daily clearing session. Each participant bank is informed of its balance at 17:00 TST. Settlement of interbank obligations deriving from the Takasbank Cheque Clearing System takes place via EFT until 12 noon on the following business day (T+1) across a special settlement account held at Takasbank or by transfers between Takasbank cash accounts.
Links to other systems	NA
Payments processed	All domestic check payments and promissory notes.
Currency of payments processed	TRY
Value and other limits to processing	There are no value thresholds.
Operating hours	The Takasbank Cheque Clearing System operate on a 24-hour basis, Monday to Friday, during which it can send and receive information on checks.
System holidays	The system is closed on weekends and bank holidays.
Cut-off times	06:00 TST for same-day payments
Participants	Takasbank have 41 direct participants. The Central Bank and only banks which issue checks in Turkey are participants in the Takasbank Cheque Clearing System.
Access to system	Participants conduct their transactions by accessing the Takasbank system through the internet.
Future developments	NA

TURKEY

Name of system	BKM (Bankalararasy Kart Merkezi / Interbank Card Center)
Settlement type	Deferred net settlement
Settlement cycle	The BKM processes payment card transactions between 10:00 and 13:30 TST before forwarding the net balances of each participant bank to the Central Bank. Settlement of interbank obligations deriving from the BKM takes place via EFT until 12 noon on the following business day (T+1) across a special settlement account held at the Istanbul branch of the Central Bank.
Links to other systems	NA
Payments processed	All payment card transactions involving its participating institutions
Currency of payments processed	TRY
Value and other limits to processing	There are no value thresholds.
Operating hours	The BKM operates on a 24-hour basis, every day of the week.
System holidays	The system is only closed bank holidays.
Cut-off times	NA
Participants	All card-issuing and ATM and POS operating banks participate in BKM.
Access to system	NA
Future developments	NA

Payment and Collection Instruments

Overview and Trends

Turkey aims to become a cashless society by 2023. The most prominent cashless payment instruments in Turkey in terms volume are credit card payments, although check payments are still significant in terms of value. The increased use of electronic and internet banking has led to significant growth in the use of automated payment methods. Direct debits have yet to gain popularity. Check usage has been in general decline.

Statistics of Instrument Usage and Value

	Transactions (million)		% change	Traffic (value) (TRY billion)		% change
	2016	2017	2017/2016	2016	2017	2017/2016
Checks	20.41	19.48	- 4.6	680.93	767.80	12.8
Debit card payments	1,027.61	1,359.96	32.3	49.46	69.49	40.5
Credit card payments	3,138.35	3,426.02	9.2	536.50	606.48	13.0
E-money payments	58.66	49.71	- 15.3	0.85	1.51	77.7
Credit transfers*	374.80	470.28	25.5	11,296.62	13,713.07	21.4
Total	**4,619.83**	**5,325.45**	**15.3**	**12,564.36**	**15,158.35**	**20.7**

* Payments processed by EFT and RPS systems.

Sources: Bank for International Settlements, CPMI Red Book statistical update, October 2018.

Paper-based

Checks

The usage of checks has been in an overall decline as a result of the increasing availability and popularity of electronic alternatives. The majority of large-value corporate transactions are either effected via credit transfer or check.

As of July 2, 2018, all domestic interbank checks are cleared electronically by the Takasbank Cheque Clearing System. Previously, these checks were cleared by the Ankara and Istanbul Interbank Clearing Houses (ICHs). The Takasbank Cheque Clearing System can clear check payments on a same-day basis, however net settlement is effected the following day at 12:00 TST. It usually takes four to six days for banks to give value.

Travelers' checks are also relatively commonplace and issued in all leading currencies by banks. Interbank clearing of these instruments is not possible.

Promissory Notes

Promissory notes are similar to checks, in that they are technically a promise to pay on a specified date, although, unlike checks, they do not include bank information. They are a popular payment instrument among small companies and can be discounted by commercial banks.

Promissory notes are cleared by the Takasbank Cheque Clearing System. There is a vibrant secondary market in the instruments.

Postal Payment Instruments

Postal checks and postal money orders are offered by the General Directorate of Post, Telegraph and Telephone (PTT).

Any company or individual may hold a postal check account with the PTT. Although not interest-bearing, they are exempt from commission charges. Public institutions often use postal check accounts to collect tax and companies often use them to receive regular installment payments.

Approximately 4,700 branches across Turkey offer postal money order facilities. These instruments are usually used between postal check accountholders, although recipients are not obliged to hold an account with the PTT. Postal money orders can be used for bill payments. Settlement is effected by a correspondent bank.

Domestic postal money orders can be sent in TRY, EUR or USD and have maximum value thresholds of TRY 20,000, EUR 3,000 and USD 3,000 respectively.

International postal money orders can be sent/received via post, electronic money order (EUROGIRO) or the Western Union money transfer service. Domestic travelers' checks are issued by PTT branches.

Electronic

Credit Transfer

An increasingly common method of payment with companies and the Turkish government, automated credit transfers are also increasingly being used for retail purposes and for salary and pension payments.

ATM, online or telephone-based credit transfer facilities are available from the majority of banks.

All credit transfers in Turkey are automated. High-value domestic transfers are usually cleared by EFT. The RTS clears low-value, low priority domestic transfers, which currently account for 99% of the payment volume processed by the CBRT payment systems. Credit transfer facilities are also offered to postal check account holders by the PTT and processed by the PTT.

Cross-border payments are processed across banks' own international networks or by correspondent banking arrangements. The majority of the country's banks have established direct SWIFT connections and consequently most cross-border transfers are now processed using SWIFT. Foreign currency transfers in Turkey are processed as cross-border transfers.

Direct Debits

Although cost-effective, direct debits are limited in usage in Turkey and they are only cleared on an intrabank basis.

Payment Cards

The use of credit and debit cards continues to increase in Turkey, especially among retail consumers. Credit cards and debit cards accounted for 64.3% and 25.5% respectively of cashless payments by volume in Turkey in 2017.

The growth of credit card use in Turkey, since their introduction in the early 1990s, has been rapid. At the end of June 2018, there were 64.8 million credit cards in circulation. Credit card transactions can be paid for in interest-free installments. All credit cards currently issued in Turkey are EMV chip cards.

Debit cards are also popular. They can be used for a range of retail transactions and also at ATMs to make cash withdrawals and initiate account balance enquiries. At the end of June 2018, there were 136.4 million debit cards in circulation. The majority of debit cards in circulation remain magnetic stripe cards.

Turkey launched its own domestic payment card scheme, TROY (Turkey's Payment Method), on April 1, 2016. The scheme currently includes magnetic stripe, contact, contactless and mobile technology in debit, credit, and prepaid cards. Currently, 27 institutions are ready to issue TROY branded cards.

In June 2017, BKM and the US financial services company Discover Financial Services made an agreement to allow acceptance of Troy cards internationally on the Discover Global Network.

Most domestic payment card transactions (including all TROY card payments) are cleared by the Interbank Card Center (BKM). There are 33 member banks of BKM and each must also be a member of either Visa or MasterCard.

The Gosas (Garanti Ödeme Sistemleri / Garanti Payment System) system clears card transactions on behalf of its 10 member banks. The system operates on a deferred net settlement basis on T+2. Gosas also has its own Bonus payment card brand.

Payment card transactions made on cards issued by non-BKM members or with banks abroad are processed abroad through Visa or MasterCard systems or cleared using correspondent banking relationships.

ATM/POS

There is an increasing availability and use of ATMs and POS terminals. There were 50,930 ATM terminals in Turkey and approximately 1.59 million POS terminals in the country at the end of June 2018.

Banks provide their own proprietary ATM networks, although a number of BKM member banks share ATM access. The range of services available through ATMs varies from bank to bank. Some include the ability to trade on the Istanbul Stock Exchange, and to buy and sell travelers' checks and mutual fund certificates.

The BKM has installed most of the POS terminals in the country and provides a national ATM and POS network for debit cards issued by BKM member banks.

Electronic Wallet

Stored value cards such as TROY prepaid cards are issued by banks in Turkey. These cards are prepaid and can be reloadded.

BKM Express is a secure digital wallet platform, jointly-developed by BKM, banks and e-commerce companies. BKM Express accelerates and facilitates online purchases (including purchases using mobile devices). Cardholders registered with BKM Express can shop securely without sharing card details with merchants. There are currently 19 participant banks.

Contactless card technology is available in Turkey. Mobile payment schemes are also available.

Liquidity Management

Short-term Borrowing

Foreign-owned companies fund themselves very similarly to their domestic counterparts except they are able to use overseas parent (and intragroup) funding techniques.

Relationship banking is paramount in deciding the provision of credit as well as for the need for security and/or guarantees.

Overdrafts

Both resident and non-resident entities may arrange overdrafts on their current accounts, with explicit agreement. Banks will usually charge a floating rate of interest, based on the Central Bank's overnight rates plus a margin and taxes.

Bank Lines of Credit / Loans

Resident and non-resident entities can arrange short-term bank loans from local and foreign banks. Credit lines are available against security – a mortgage(s) – and/or guarantees. Interest is usually collected on a quarterly basis and compensating balances may be required.

Trade Bills – Discounted

Export trade bills may be discounted, but may not be used to finance domestic activities.

Factoring

Local Turkish factoring involves discounting checks and bills of exchange. It is generally with recourse and undisclosed. Foreign receivables are factorable.

All factoring companies are regulated and supervised by the BRSA. All newly established factoring companies are subject to a TRY 5 million minimum capital requirement.

Commercial Paper

Commercial paper was not used in Turkey from1999 to 2009. However, larger corporations have once again started to look at issuing commercial paper as a source of short-term borrowing. The issuer's standing determines the cost of funding and maturities vary up to a few years.

Bankers' Acceptances

Bankers' acceptances are rarely used in Turkey. They are primarily used for the purpose of financing imports and exports for up to one year.

Supplier Credit

When suppliers provide credit to their customers it usually involves documentary credits.

Intercompany Borrowing, including Lagging Payments

Intercompany borrowing is commonplace between large companies in Turkey, but not between unrelated companies. Yields can fluctuate sharply.

Other — Islamic Funding

Islamic funding is available from Participation Banks. Transactions are taxed as normal banking operations.

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Interest-bearing current accounts are permitted for both resident and non-resident entities. Interest-bearing deposit accounts are also available.

Demand Deposits

Interest-bearing demand deposit accounts are available to resident and non-resident entities in TRY or a leading foreign currency.

Time Deposits

Time deposits and repurchase agreements (repos) are the most frequently used short-term investments in Turkey. Banks usually offer time deposits in TRY or a major foreign currency with maturities of one, three, six or 12 months.

Certificates of Deposit

Certificates of deposit (CDs) are issued by commercial banks, with maturities ranging up to 12 months. Yields on CDs can differ significantly. Viewed as less liquid than deposit accounts, CDs are not often used in Turkey.

Treasury (Government) Bills

Treasury bills are fixed-rate investment instruments issued on occasion by the Undersecretariat of the Treasury, usually with maturities of three, six or nine or 12 months.

Government bonds are issued for maturities in excess of 12 months.

The Central Bank issues its own liquidity bills with maturities of up to three months. Liquidity bills are permitted to be sold and purchased in the secondary market.

Commercial Paper

From 1999 to 2009, commercial paper was not issued in Turkey. However, large corporations have once again started issuing commercial paper. Maturities can range up to a few years.

Bank bills are a similar investment instrument issued by investment banks and development banks in Turkey.

Money Market / Mutual Funds

Mutual funds are increasingly available. In November 2007, there were approximately 125 A-type mutual funds and 162 B-type mutual funds in Turkey. A-type mutual funds invest at least 25% in equities on a monthly average basis while B-type funds invest in fixed-income securities. The most prominent mutual fund managers are affiliates of the leading privately owned banks in Turkey. Yields can differ significantly.

Repurchase Agreements

Repurchase agreements (repos) have been increasingly used by companies and individuals in recent years. Repos tend to be made on government securities and are issued with maturities of one, two or four weeks or occasionally three months.

Bankers' Acceptances

Bankers' acceptances tend to be retained by the issuing bank and are rarely traded.

Liquidity Management Techniques

Cash Concentration

Single-currency and one-country cash concentration is available from leading cash management banks. Cross-currency cash concentration however is not permitted.

Cash concentration is rarely practiced on a cross-border basis.

Notional Pooling

Notional pooling is not practiced in Turkey.

Trade Finance

General Rules for Importing/Exporting

Turkey has established free trade agreements with EFTA member states, Albania, Bosnia and Herzegovina, the Faroe Islands, Georgia, Macedonia, Montenegro and Serbia, in addition to Egypt, Chile, Israel, Jordan, Lebanon, Malaysia, Mauritius, Morocco, Palestine, Singapore, South Korea, Syria and Tunisia.

Turkey has also established a customs union with the EU. Only agricultural imports from the EU are subject to tariffs.

The Economic Cooperation Organization (ECO), of which Turkey is one of its ten members, plans to establish a free trade area in the near future. The Economic Cooperation Organization Trade Agreement (ECOTA) has been signed but has not yet entered into force.

Turkey is currently home to 19 operative free trade zones.

Imports

Documentation Required

Imports will need to be accompanied by a customs declaration, commercial invoice, bill of lading and a certificate of origin.

Import Licenses

Imports of various chemical substances, motor vehicles, and machinery require licenses.

Imports of old, used, faulty or obsolete items meanwhile require permits from the Ministry of Economy.

Import Taxes/Tariffs

Turkey's customs union with the EU means that it applies the same customs code.

An average 5.5% tariff is levied on on industrial imports. An average 49.1% tariff is levied on agricultural imports.

The weighted average tariff for imports is 5.2%.

Financing Requirements

There are no particular financing requirements for imports.

Risk Mitigation

There are no specific risk mitigation requirements for imports.

Prohibited Imports

Imports are also prohibited for moral reasons, to protect fauna and flora and to protect national security.

Exports

Documentation Required

Exports will need to be accompanied by a customs declaration, commercial invoice, packing list, bill of lading and a certificate of origin.

Proceeds

Turkey no longer applies repatriation requirements to export proceeds.

Export Licenses

Exports of products for which the demand outweighs the supply, various works of art, antiquities, and articles of cultural or historical value, exports which may potentially endanger flora and fauna and national security, and exports deemed to be morally unacceptable are all restricted.

Export Taxes/Tariffs

Turkey does not usually levy taxes or tariffs on exports. Hazelnuts and unprocessed leather are subject to export taxes.

Financing Requirements

There are no particular financing requirements for exports.

Risk Mitigation

Turkey's official export credit agency is the Export Credit Bank of Turkey (Türk Eximbank), which provides export financing, as well as export credit insurance against political and commercial risk.

Export financing is also provided by commercial banks.

Private export credit insurance is also available.

Prohibited Exports

Turkey operates a list of prohibited exports and prohibits exports of certain works of art and antiquities as well as articles of cultural or historical value.

Information Technology

Electronic Banking

As a result of technological improvements, an increasing number of companies currently use electronic banking services (including ATM, telephone and online banking services) which are now offered by all domestic and international commercial banks. There is no national bank-independent electronic banking standard in Turkey and facilities vary widely. There is significant competition between domestic banks over their electronic banking products. The services available from the more internationally oriented banks tend to be more extensive. The services on offer usually include balance and transaction reporting as well as payment initiation. Among other services, bills can be paid, mutual funds and stocks can be traded, and loans can be applied for.

At the end of December 2017, Turkey had an internet penetration rate of 68.4%. All leading banks in Turkey currently provide internet and mobile banking facilities. There are approximately 61.3 million bank customers registered to bank online and approximately 52.8 million mobile banking registered customers.

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External Financing

Long-term Funding

Foreign-owned companies fund themselves very similarly to their domestic counterparts except they are able to use overseas parent (and intra-group) funding techniques.

Relationship banking is paramount in deciding the provision of credit as well as for the need for security and/or guarantees.

Bank Lines of Credit / Loans

Three of the country's leading commercial banks – Garanti Bankasi, Isbank and Akbank – are active in the provision of loans, including syndicated loans, to help finance infrastructural development projects, as is the Turkish Industrial Development Bank (TSKB).

TSKB funds industrial projects with domestic and foreign currency denominated loans. TSKB also distributes bank credit from the World Bank, European Investment Bank and other international banks and agencies.

Halkbank provides medium-term credit for small and medium sized enterprises. Halkbank also distributes bank credit from the European Investment Bank and the European Bank for Reconstruction and Development.

TC Ziraat Bankasi specializes in funding agribusiness.

Foreign currency loans, often syndicated, are based on the currency center's interbank market rates plus a margin and taxes.

Leasing

Financial leasing is a popular source of medium-term credit in both TRY and foreign currencies.

Turkish law sets a minimum period of four years for leases, but skewed repayments make the effective tenors shorter.

Property leases are not common for regulatory reasons.

Bonds

Companies ceased issuing corporate bonds from 1994 until August 2006 due to their reluctance to match returns available on government securities. Several companies have since started issuing bonds again, although investor interest has been limited.

Corporate bonds are issued with maturities equal to or above two years and may have fixed or variable rates of interest. Interest can be paid on a quarterly, semi-annual or annual basis. Bonds can be issued with or without bank guarantees and are subject to a maximum 0.25% commission fee. TRY-denominated bonds and Eurobonds are issued.

Private Placement

Private placements are regulated and must be approved by the Capital Markets Board. Companies seeking a placement also require the approval of the Ministry of Industry and Trade.

Asset Securitization / Structured Finance

In order to access foreign funding, Turkish banks have made international securitized issues with formal internationally recognized credit ratings.

Government (Agency) Investment Incentive Schemes / Special Programs or Structures

The government encourages private finance initiatives to develop and fund infrastructure projects.

Other — Islamic Funding

Islamic funding is available from Participation Banks. Transactions are taxed as normal banking operations.

Useful Contacts

National Investment Promotion Agency

Investment Support and Promotion Agency — www.invest.gov.tr

Investors Association

International Investors Association — www.yased.org.tr

Privatization Agency

Privatization Administration — www.oib.gov.tr

Central Bank

Central Bank of the Republic of Turkey — www.tcmb.gov.tr

Supervisory Authority

Banking Regulation and Supervision Agency — http://yenisite.bddk.org.tr

Payment System Operator

Interbank Clearing Houses Center — www.btom.org.tr

Interbank Card Center — www.bkm.com.tr

TROY — https://troyodeme.com

BKM Express — www.bkmexpress.com.tr

Banks

Türkiye Is Bankasi — www.isbank.com.tr

TC Ziraat Bankasi — www.ziraat.com.tr

Türkiye Garanti Bankasi — www.garanti.com.tr

Akbank — www.akbank.com

Stock Exchanges

Borsa Istanbul — www.borsaistanbul.com

Central Registry Agency of Turkey — www.mkk.com.tr

Ministry of Finance

Ministry of Finance — www.maliye.gov.tr

Ministry of the Treasury

Undersecretariat of Treasury — www.treasury.gov.tr

Ministry of Economy

Ministry of the Economy — www.economy.gov.tr

Ministry of Commerce

Ministry of Customs and Trade — www.gtb.gov.tr

Chambers of Commerce

The Union of Chambers and Commodity Exchanges of Turkey — www.tobb.org.tr

Istanbul Chamber of Commerce — www.ito.org.tr

Bankers' Associations

Banks Association of Turkey — www.tbb.org.tr

Participation Banks Association of Turkey — www.tkbb.org.tr