



European Economic and Social Committee

The consequences of the economic and financial crisis on the Turkish Economy

Dr. Ekrem Keskin

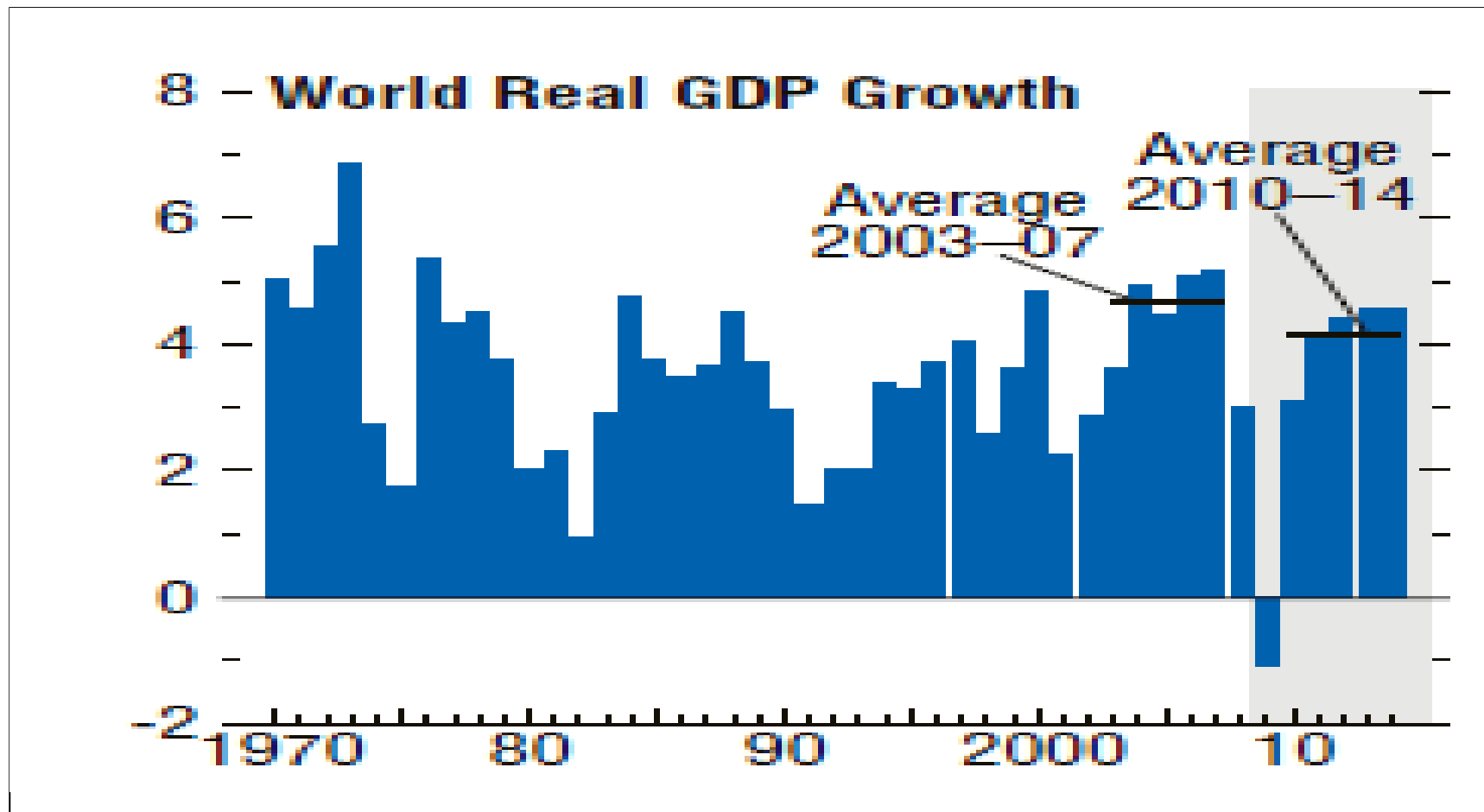
Stockholm, December 2009

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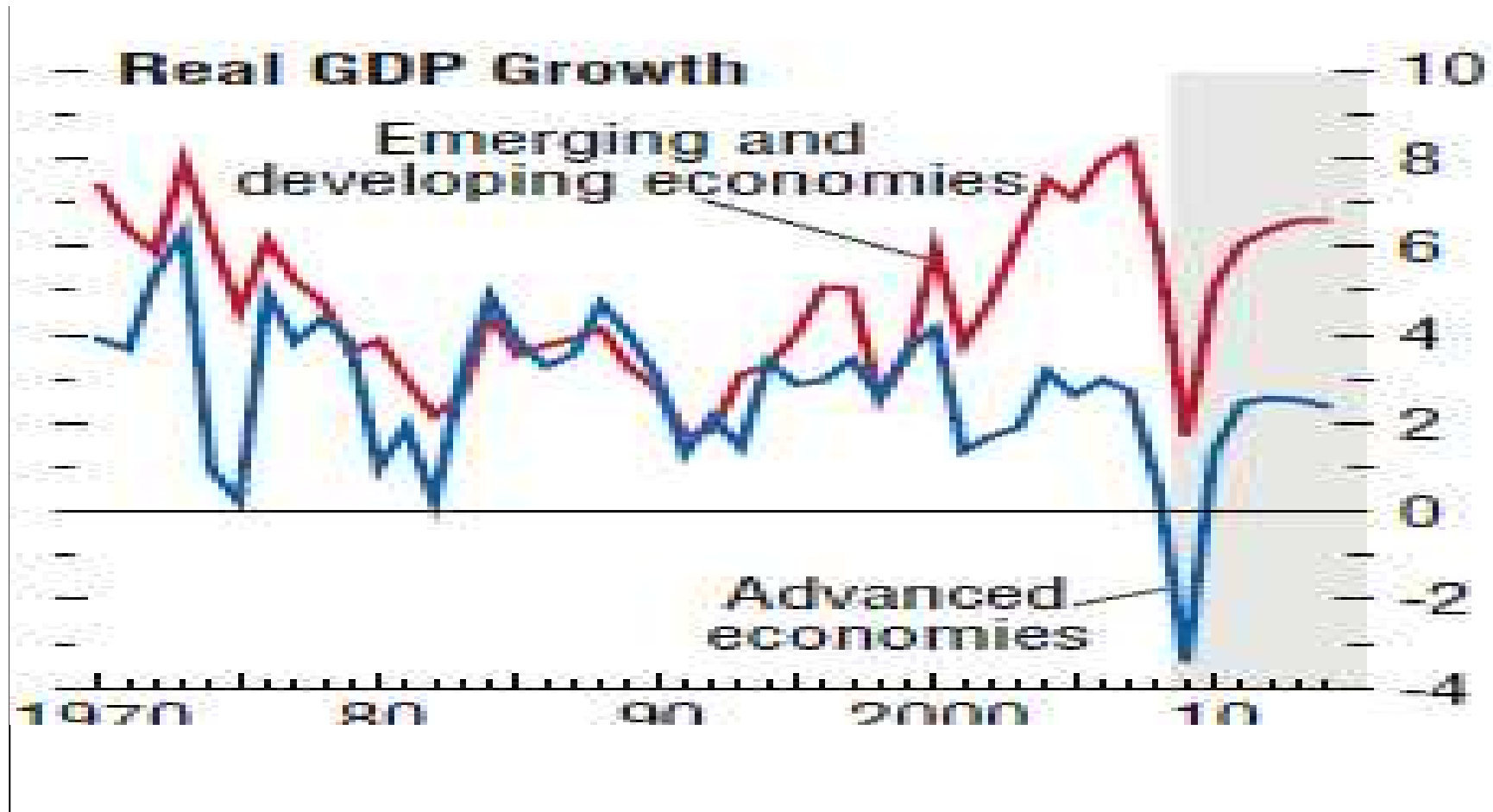
- I. Recent developments in the international environment**
- II. Main features of the Turkish economy**
- III. The impact the crisis on the Turkish economy**
- IV. Reaction of the Government**
- V. Near-term expectations**

Recent developments in the international environment

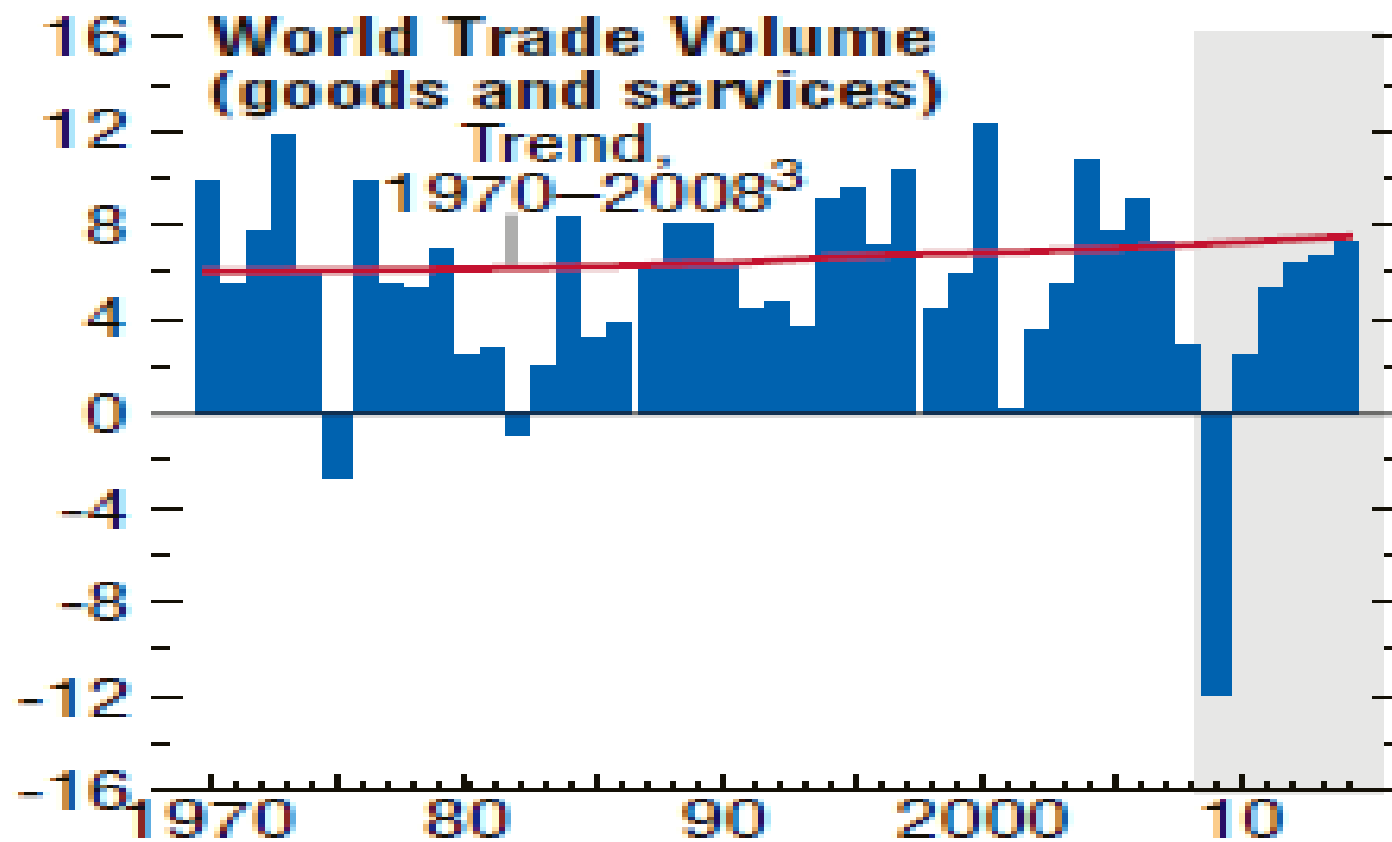
The worst growth performance over 30 years



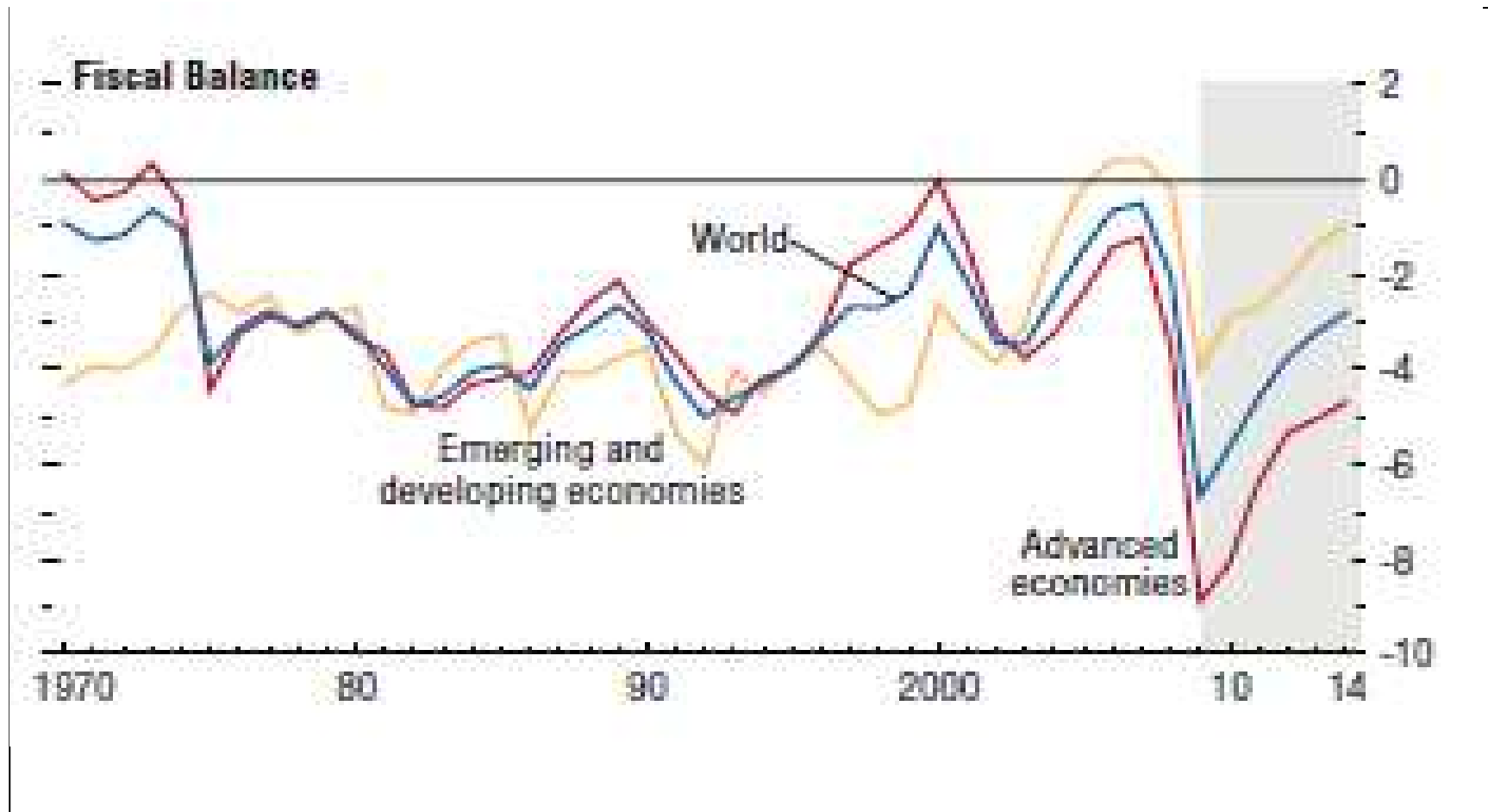
The EM countries performed better than AE



Sharp contraction in the trade volume

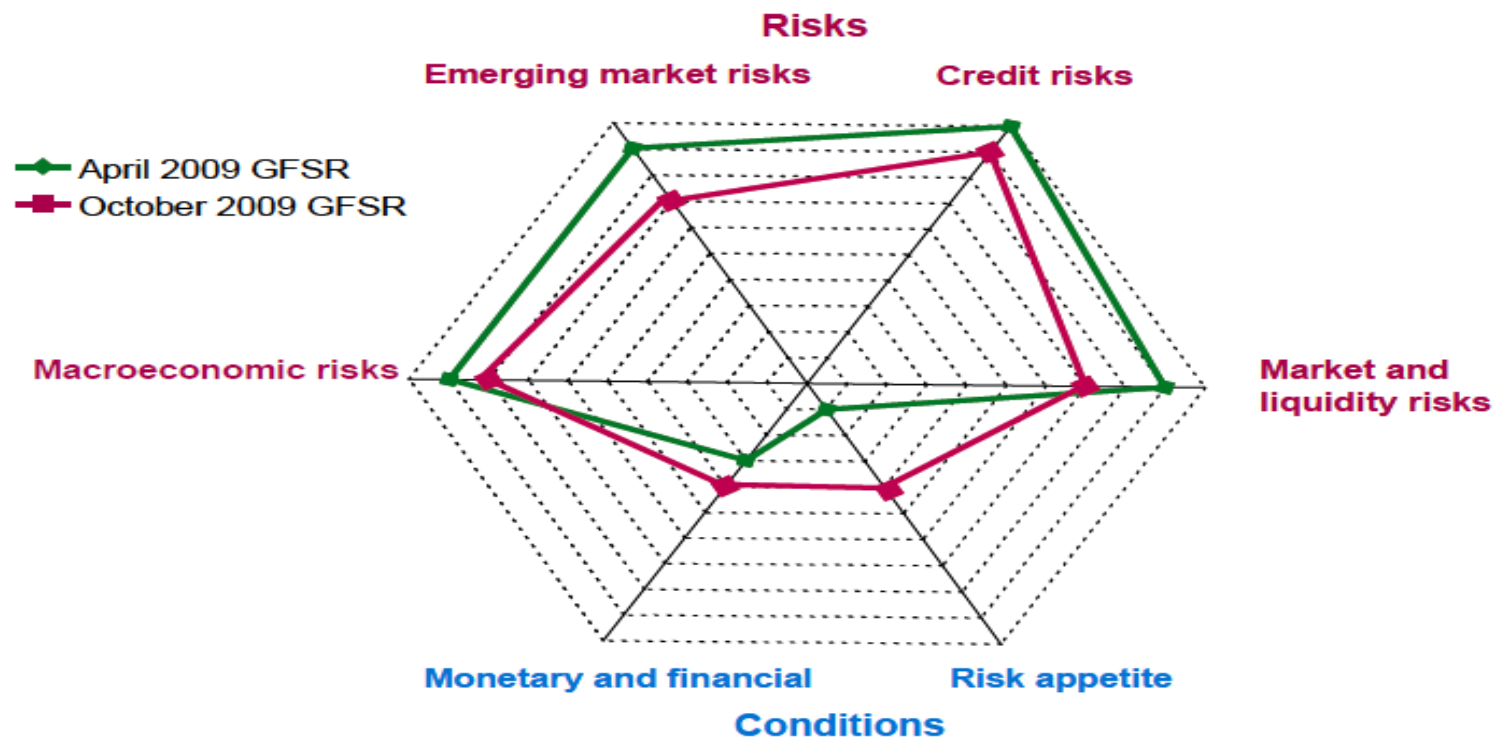


Deterioration in public sector balance



Risk appetite reduced

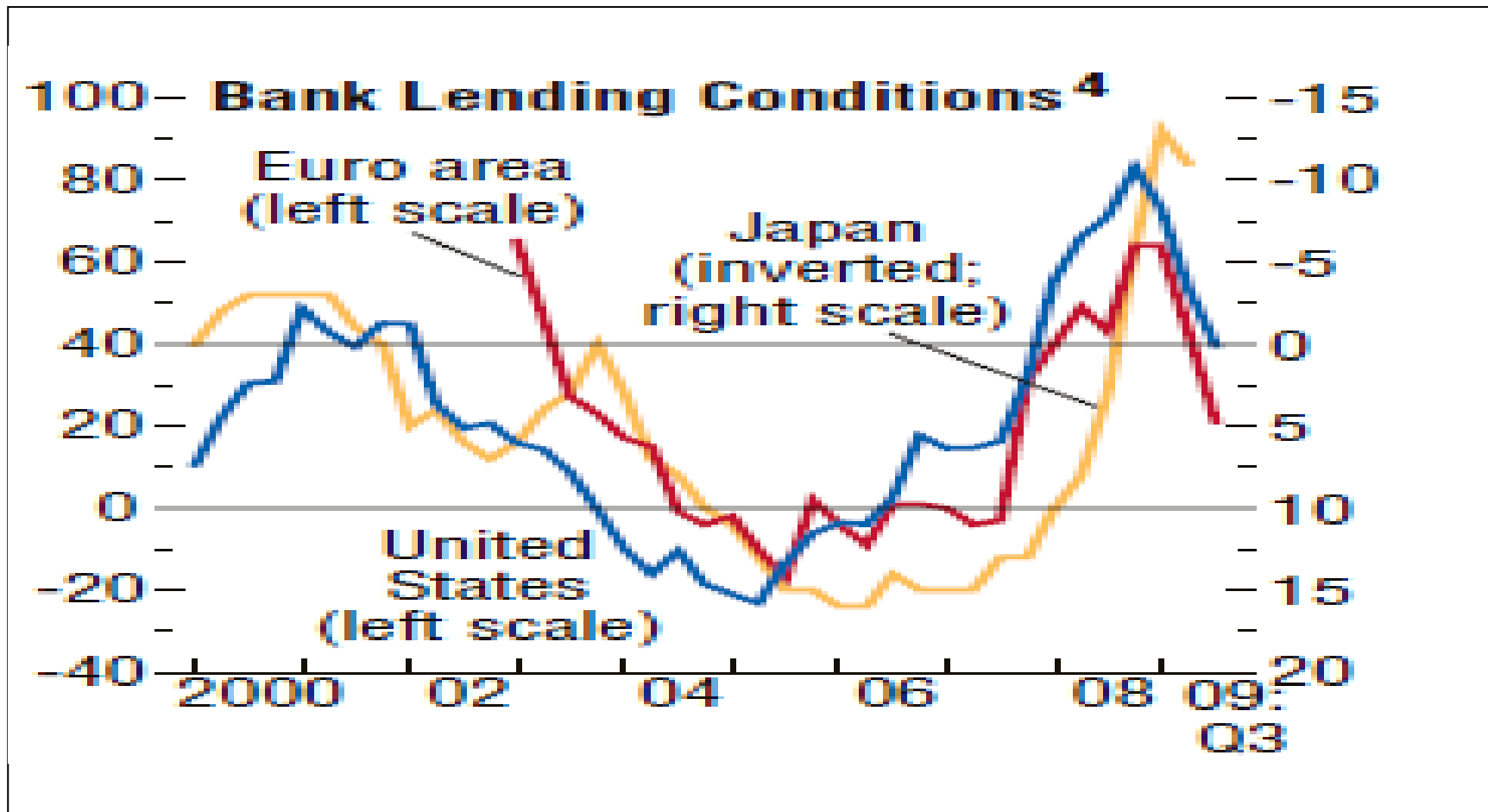
Figure 1.1. Global Financial Stability Map



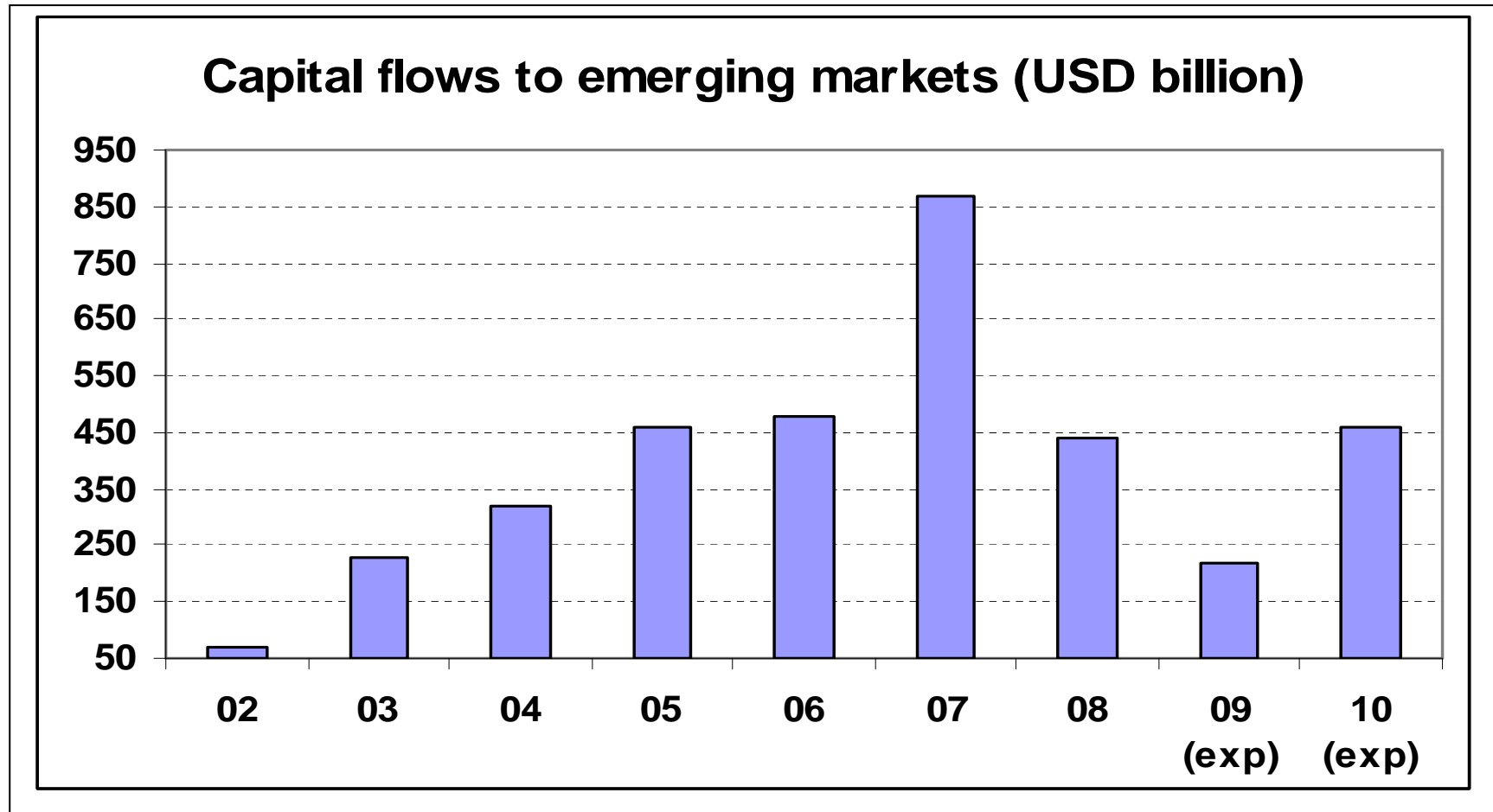
Source: IMF staff estimates.

Note: Closer to center signifies less risk, tighter monetary and financial conditions, or reduced risk appetite.

Lending standards were tightened



Capital flows to EM countries contracted dramatically



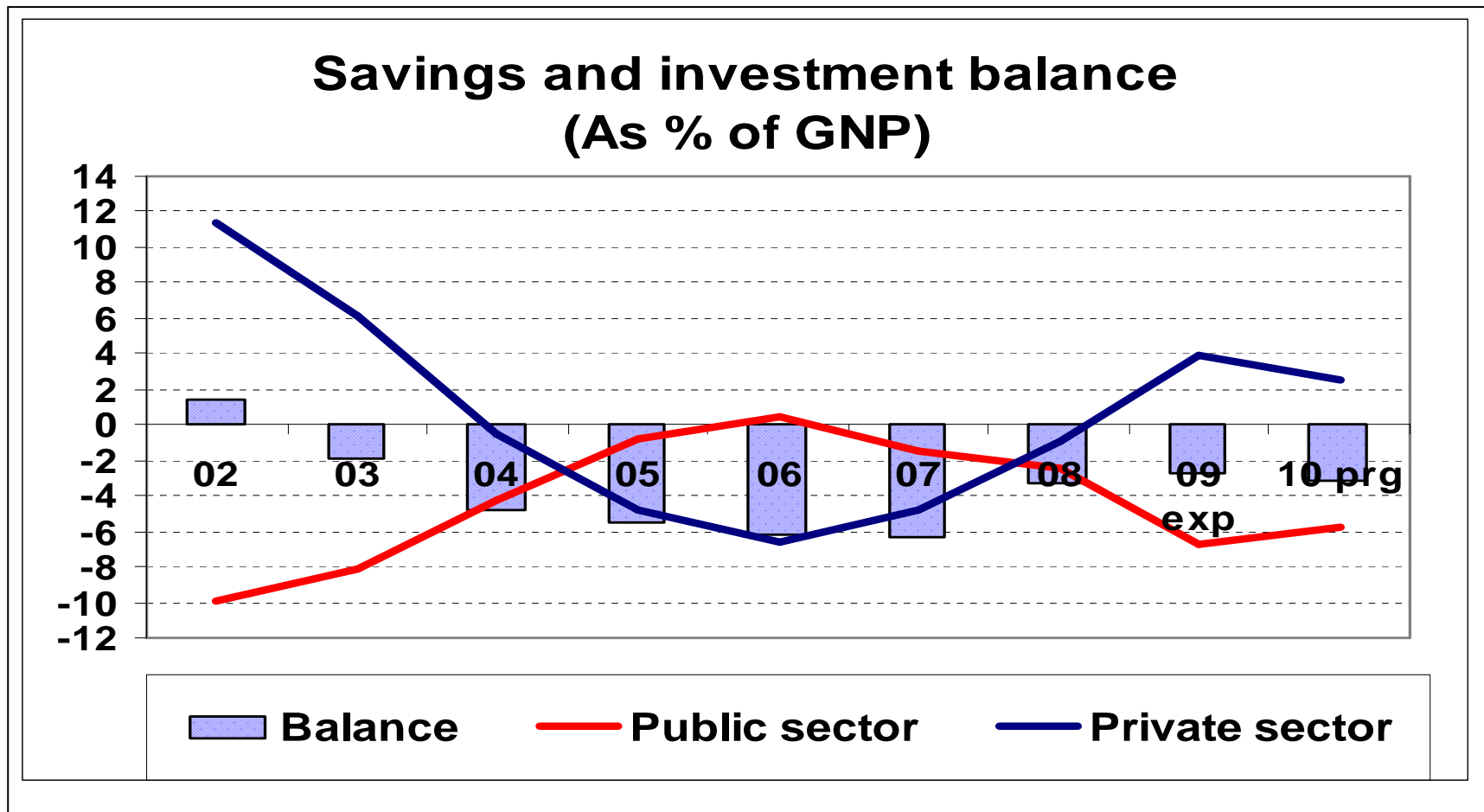
Main features of the Turkish economy

- Turkey has a functioning **market economy**, capital flows are **free** and there is no exchange rate restriction for residents and non-residents
- There is **no discretionary regulation** for international investors
- Current exchange rate regime is a **floating system**
- The Central Bank has been implementing a **formal inflation-targeting framework**
- Sovereign credit rating, currently is **BB-**
- **Services** and industry have shares of **60 percent** and **30 percent**, respectively.

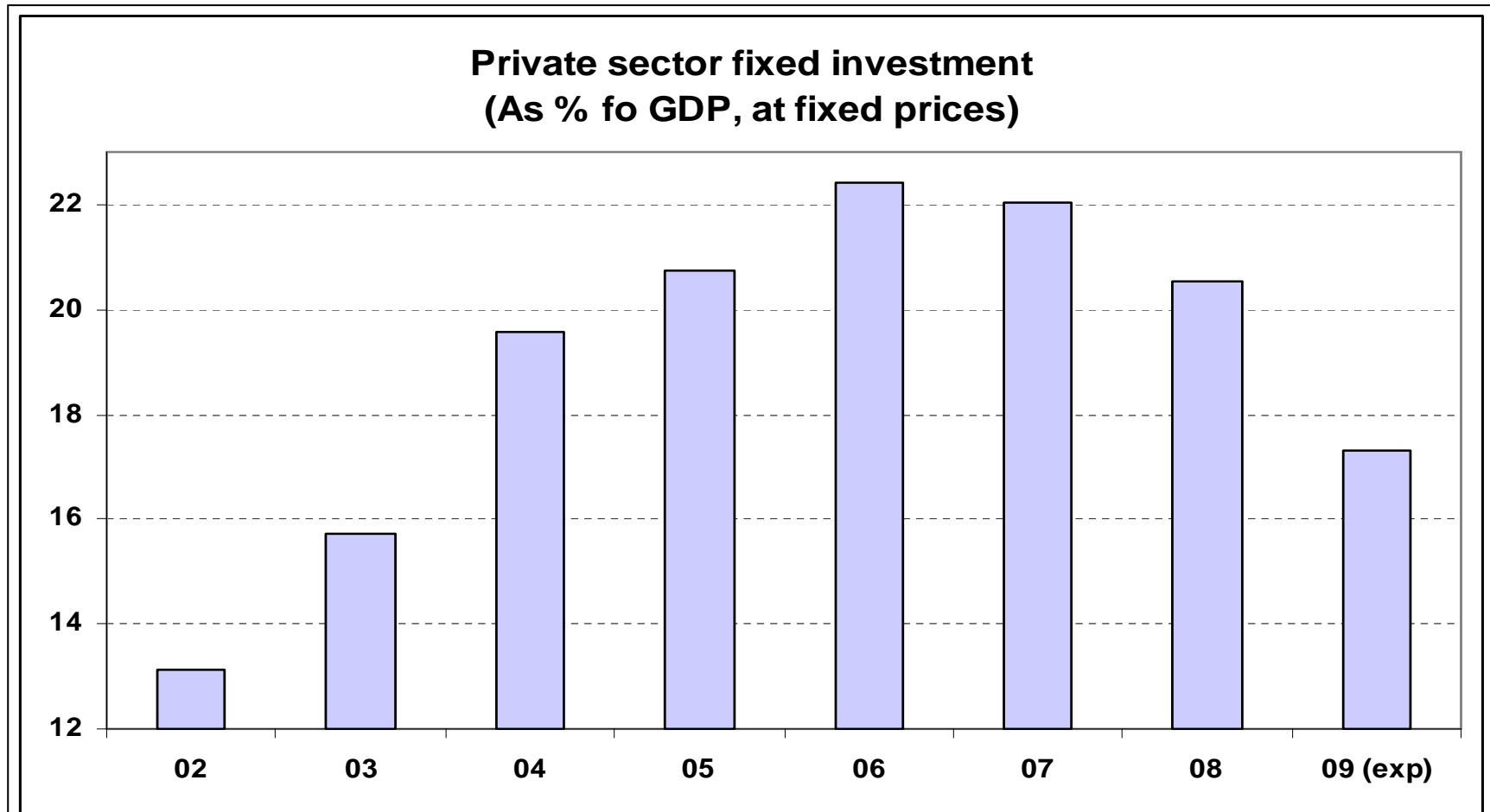
- Long term average growth rate is about **4,5 percent**.
- GNP is about USD **625 billion**, **15th largest in the world**, **6th** in the EU; **2nd** in the region after Russia.
- Member of **G-20 countries**
- Income per capita is around **USD 8,500**
- Foreign trade volume to GDP is about **45 percent**.
- Almost **half of Turkey's total trade** is with the EU.
- Population is about **72 million** in which the group of **15-64 age** has a share of 65 percent.
- Unemployment rate is about **13 percent**, **recently**.

Crisis and impact on the Turkish economy

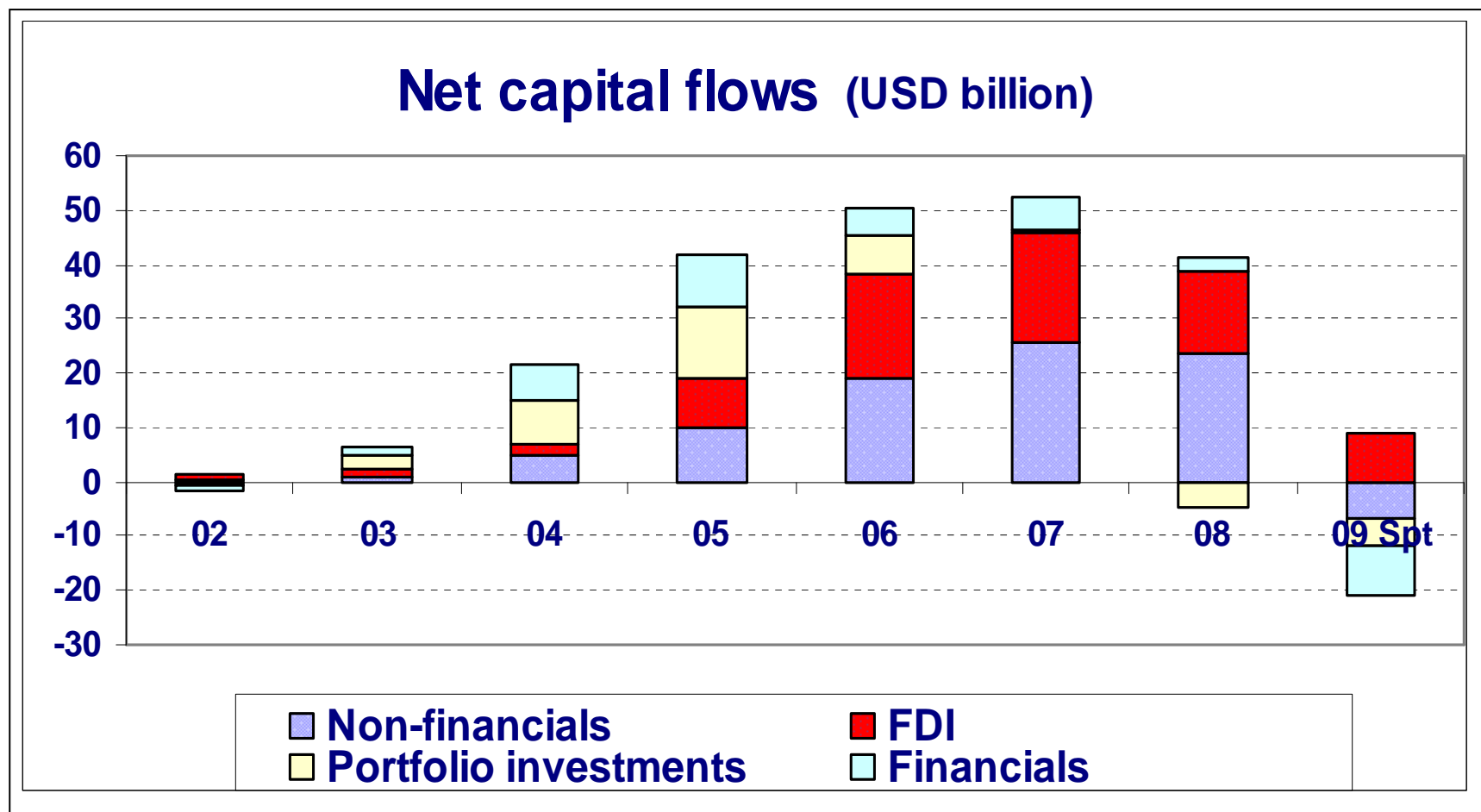
Savings gap narrowed



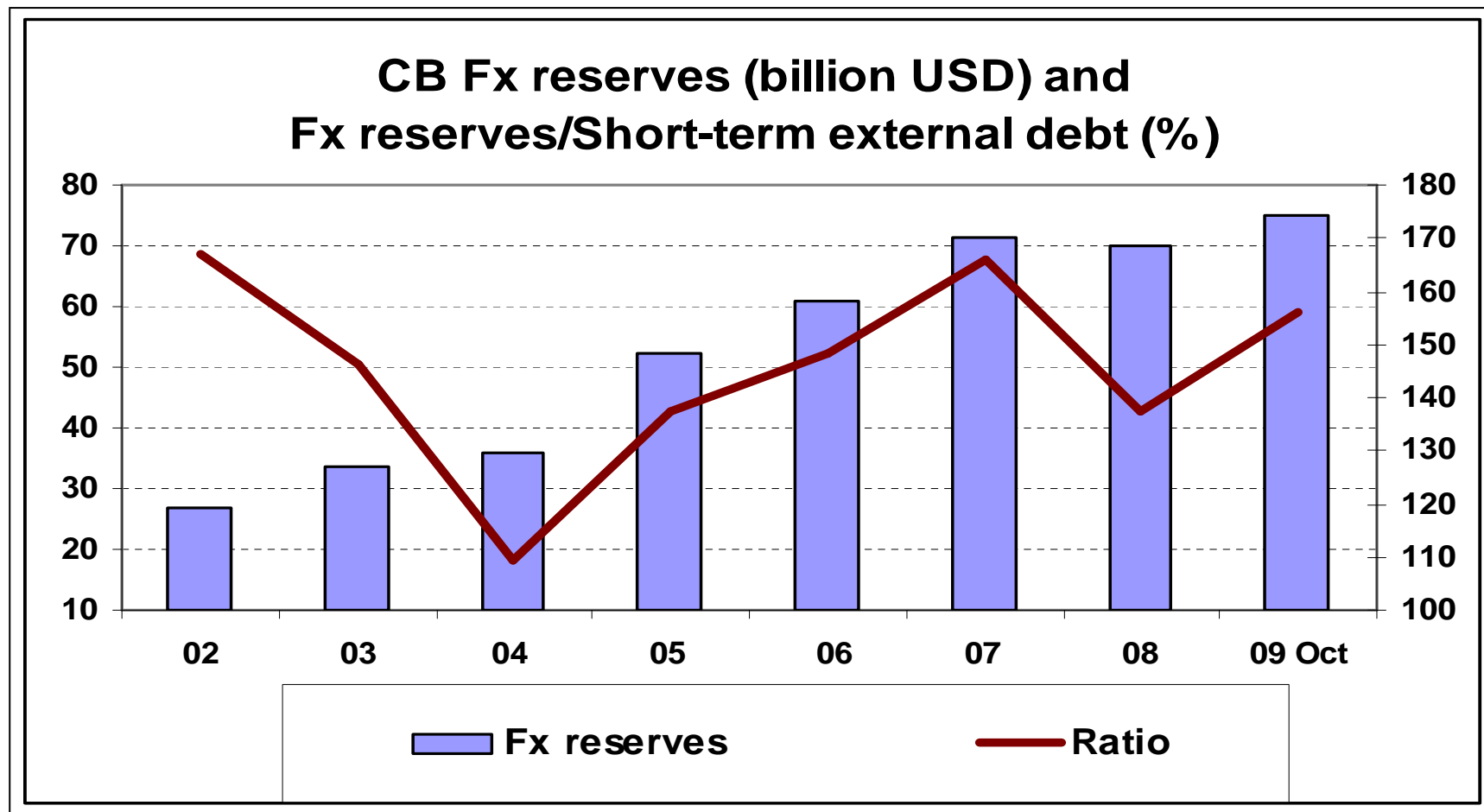
Investment in private sector declined



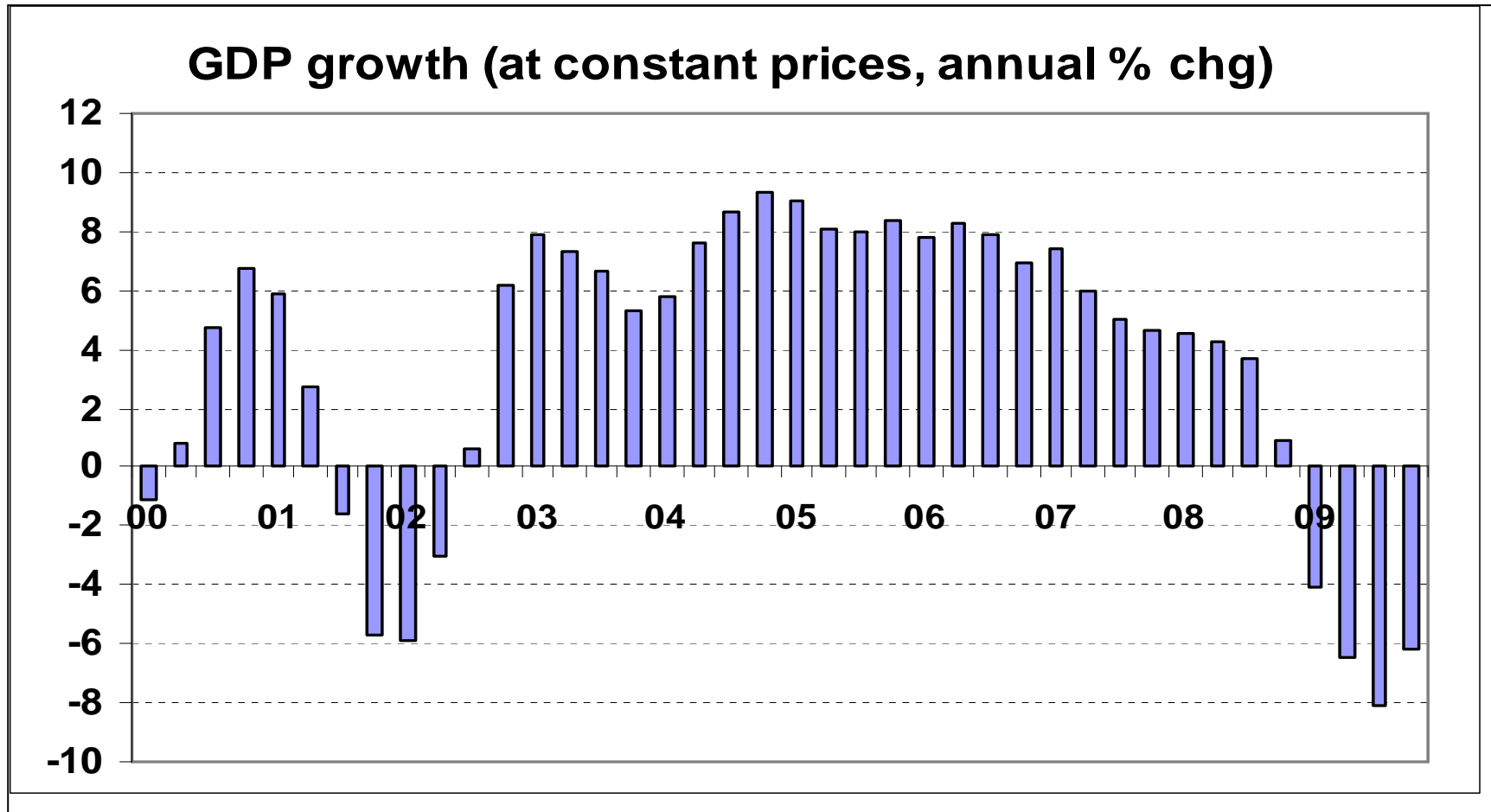
Net capital inflow, (mainly borrowing of large non-financial companies)
from an annual average of USD 3 billion in the 90's to USD 50 billion in
September 2008 before it declined rapidly in 2009



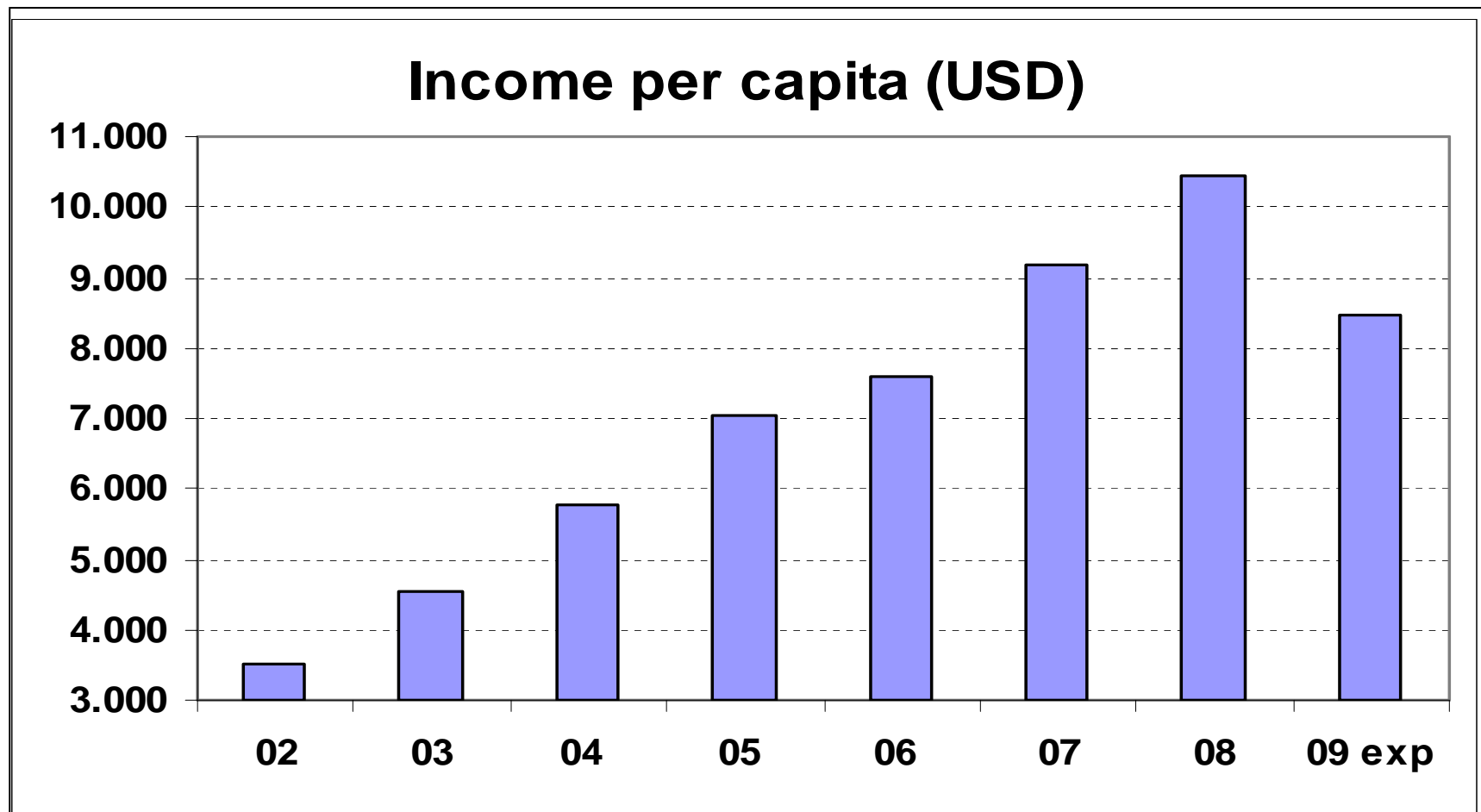
The CB's fx reserves remained strong



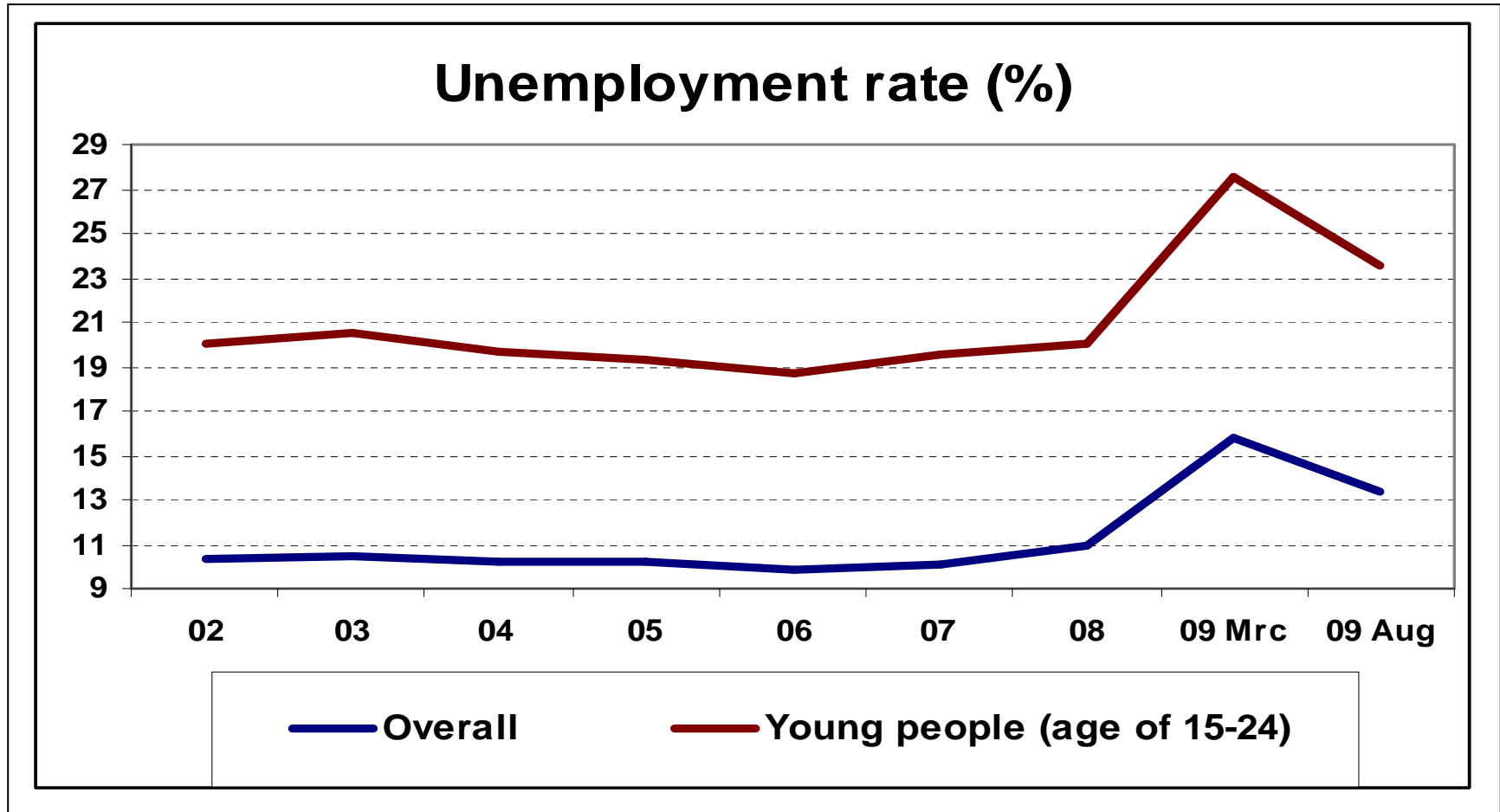
GDP is expected to fall 6,3% in 2009



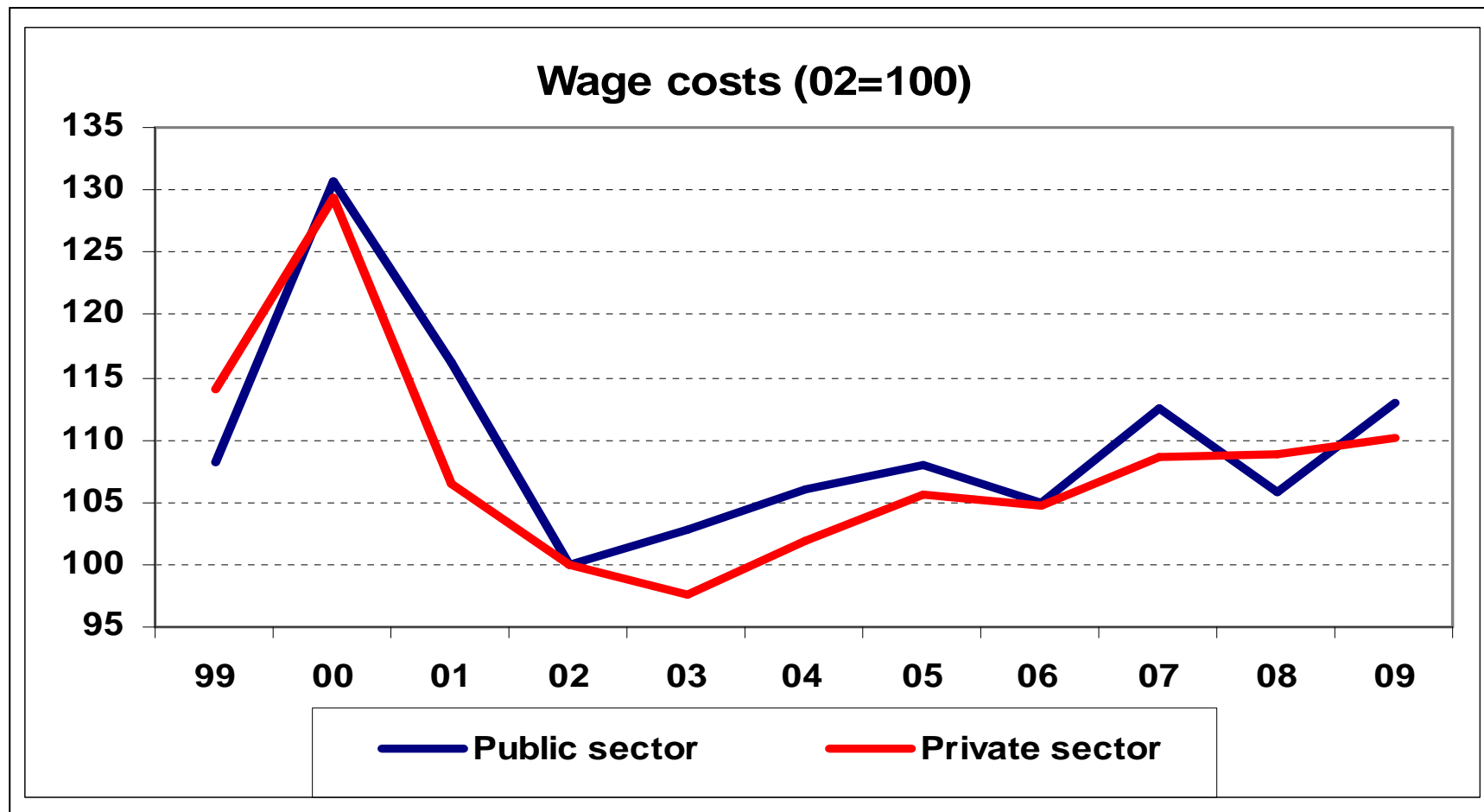
Income per capita declined from USD 10.500 to USD 8,500



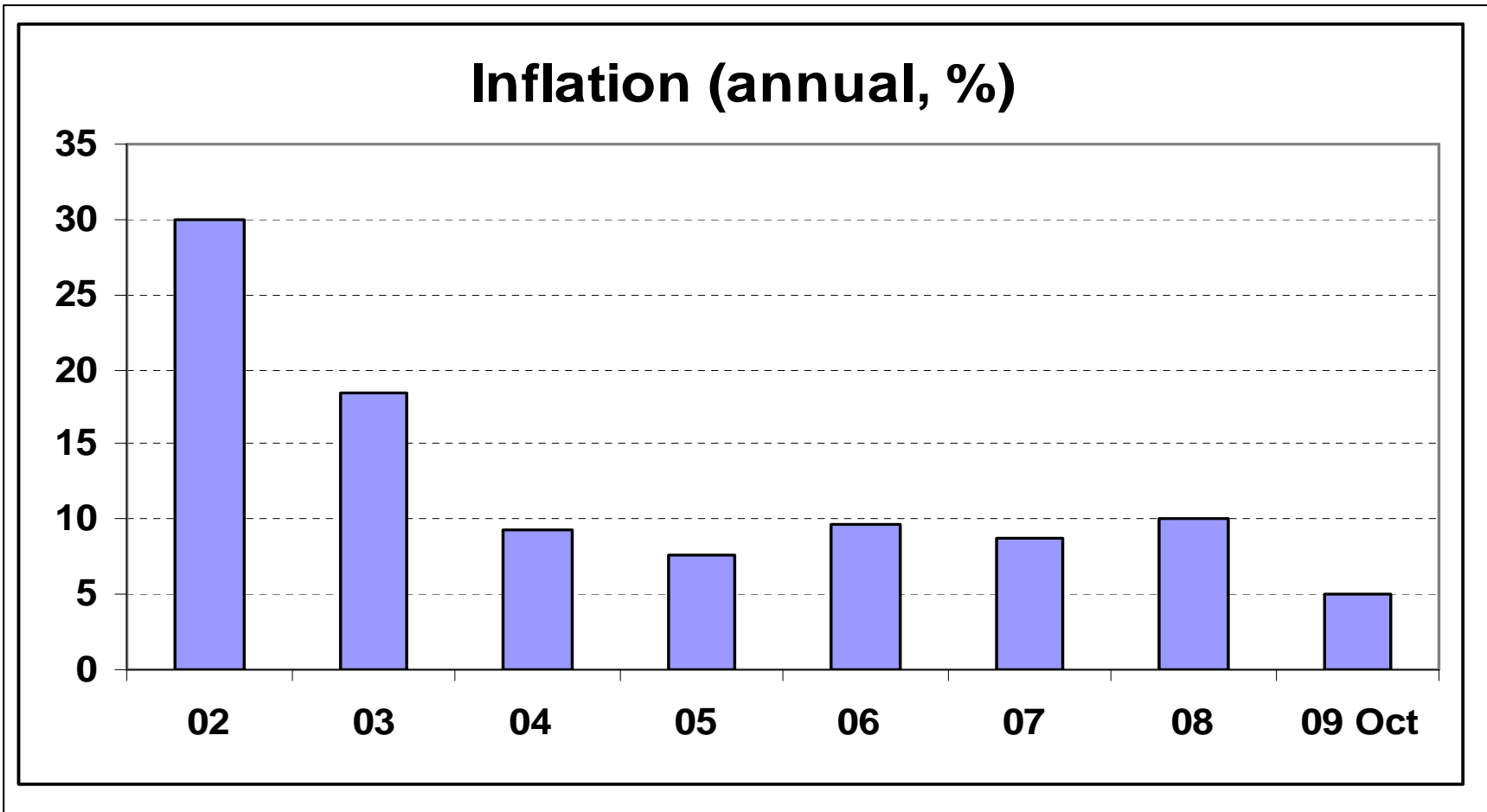
Unemployment rate jumped up



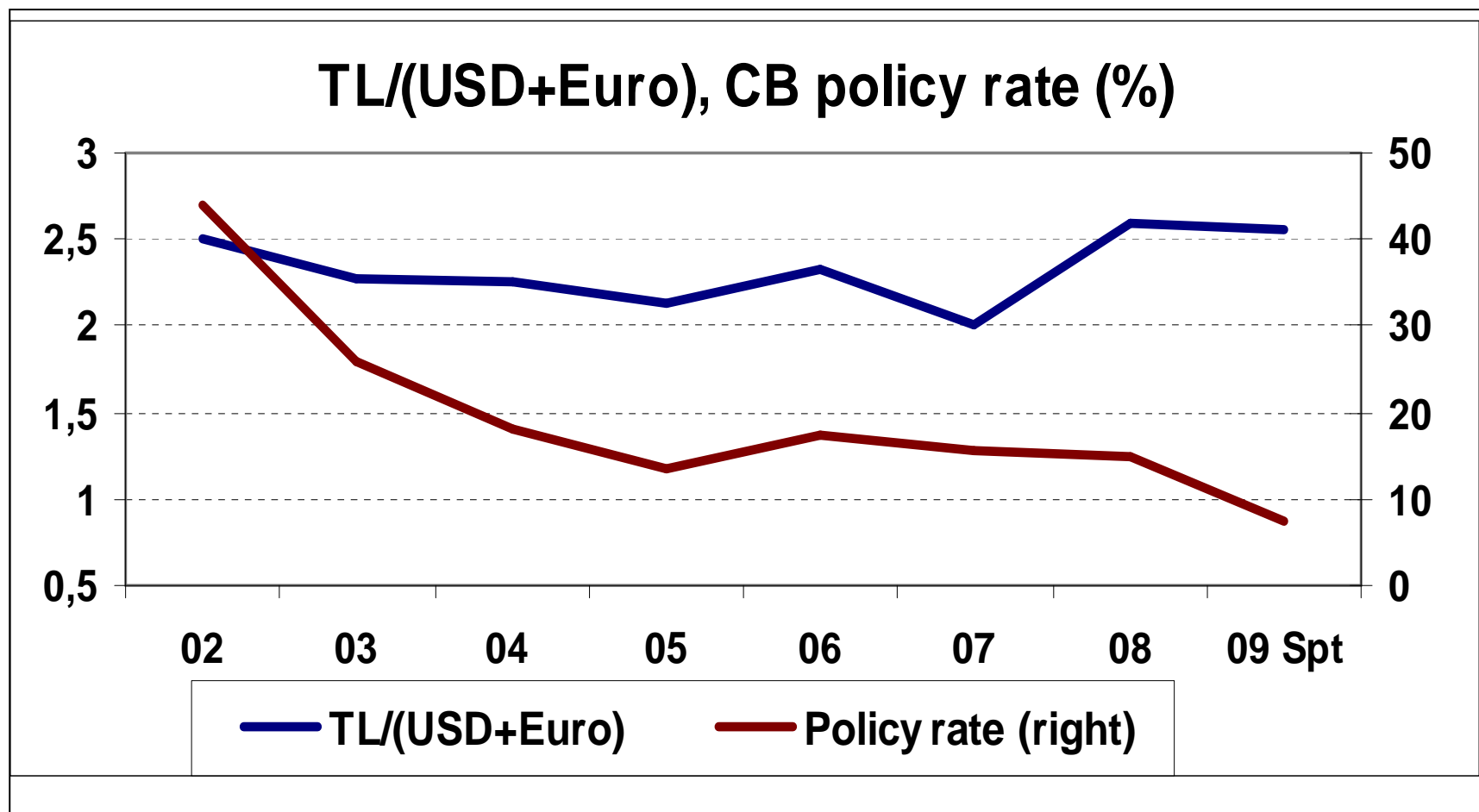
Wages rose slightly in real terms



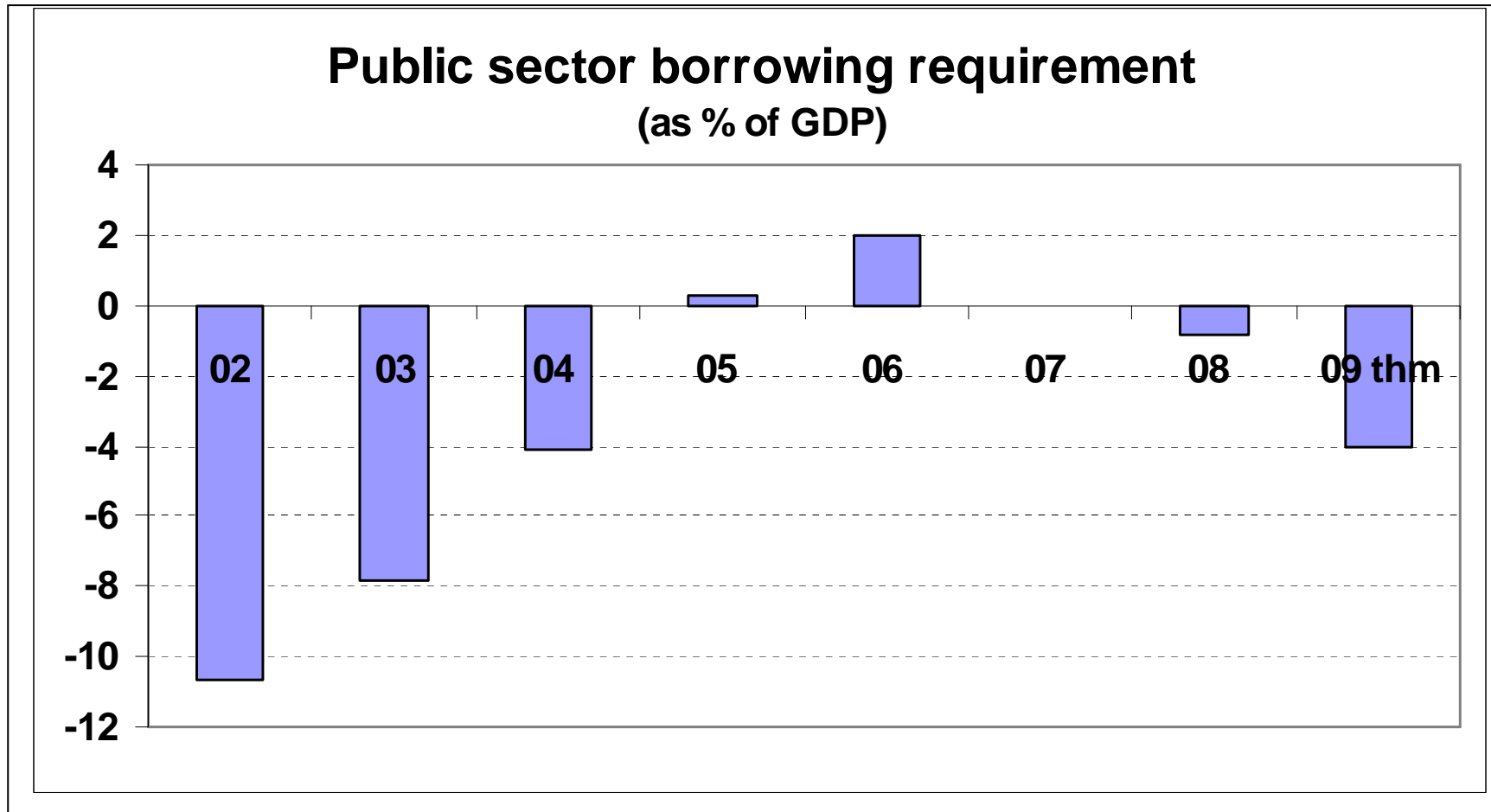
Rapid disinflation: inflation has declined to the historically lowest level during the free market economy.



TL value remained rather stable against major currencies as policy rate fell steadily



Public sector borrowing requirement rose rapidly



Governments' pressure on financial sector

Public sector and financial sector			
(%)	2002	2008	2009 Spt
Domestic debt/M2RF	218	86	93
Domestic debt/M2YRFY	106	61	65
Domestic debt/GDP	43	29	34
Total debt/GDP	73	40	46

Reforms in the Banking Sector

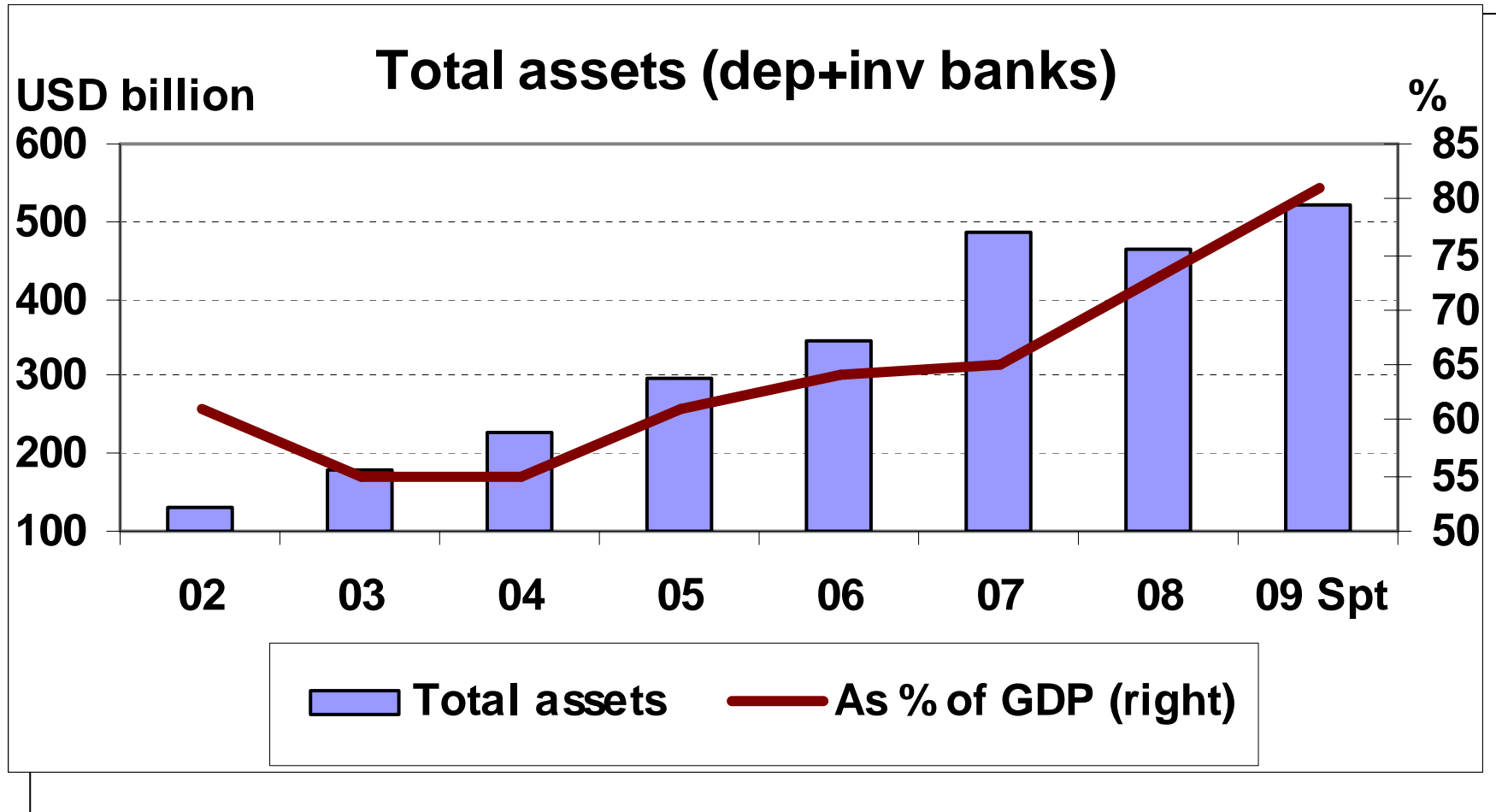
- Elimination of weak banks
- Liquidation of failed banks
- Restructuring of state-owned banks
- Recapitalization of private banks
- Strengthening the role of supervisors and improving regulatory environment in line with the EU directives
- Banking Regulation and Supervisory Board is an autonomous authority of the banking sector since 2000 and supervision strengthened further.
- Better risk management system



Main Outcomes

- Strong growth performance
- Healthier financials with higher capital adequacy, liquidity and profitability, better asset quality less foreign currency risks
- Increased demand for financial services from both corporates and consumers
- Consolidation in number of banks
- Ownership changes due to non-residents' investments
- Intense competition

Rapid growth in banking sector



“Turkish banking sector has shown remarkable resilience to the global crisis”

No “high risky” assets

Small investments in housing financing

Well-diversified lending portfolio, mainly to private sector and G-securities

High-capital adequacy level with 20%

High-liquidity level

No change in deposit-quaranty limit, current level is USD 33,000

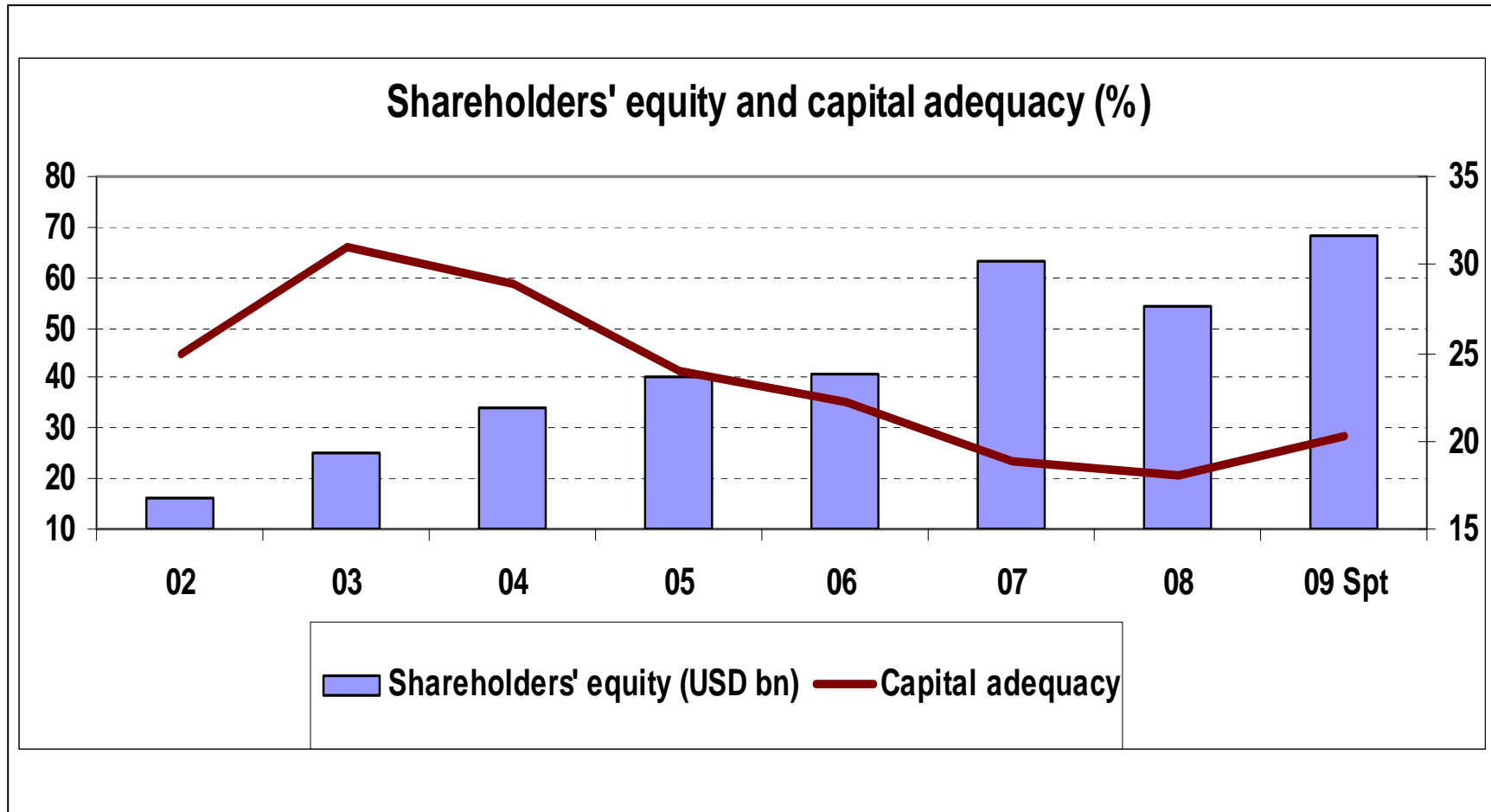
No financial support form the Government

Banking sector has kept financing economic activities

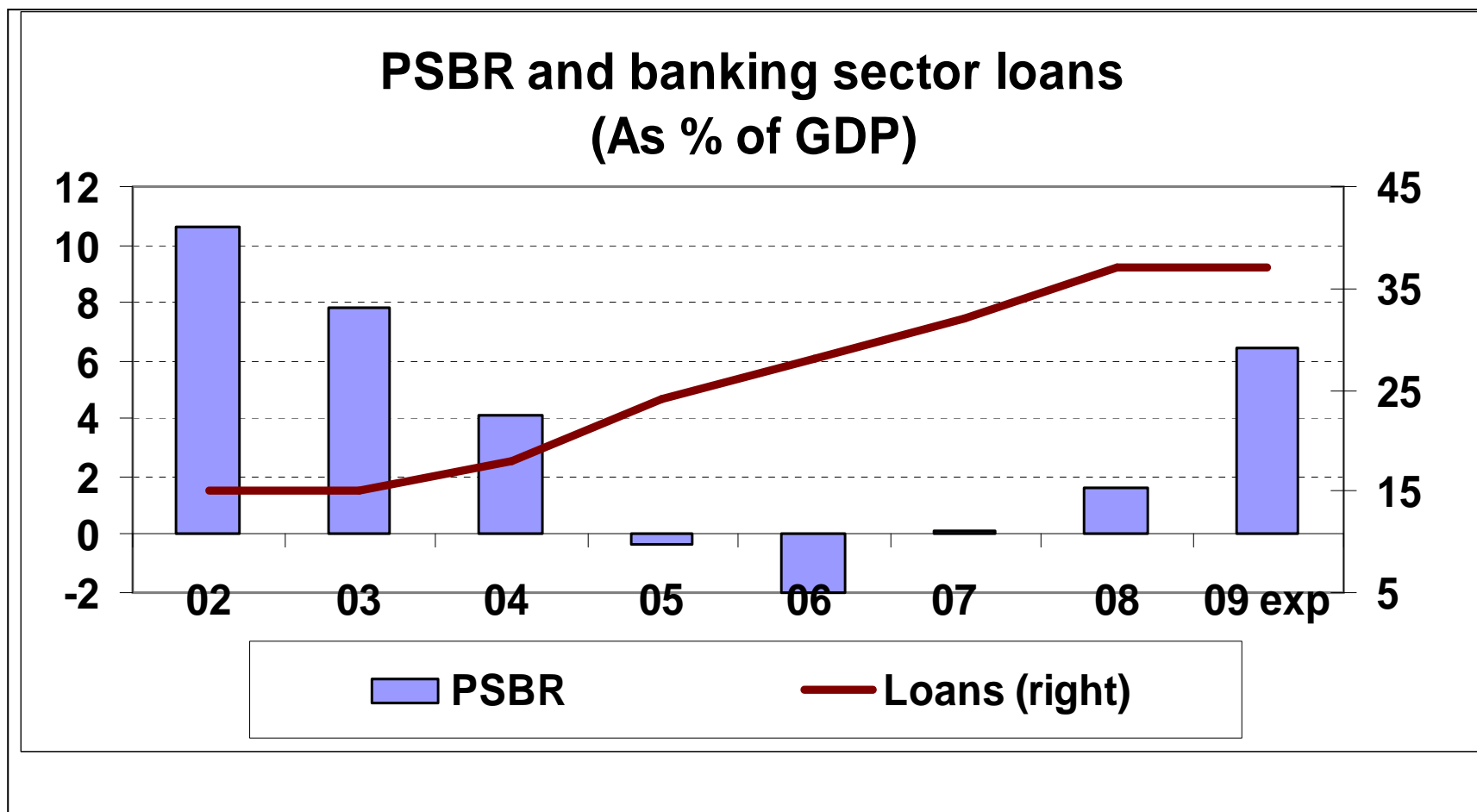
Increase in NPLs

2009, is the profitable year

Stronger shareholders' capital and free capital enabled the banking sector to change its risk structure...



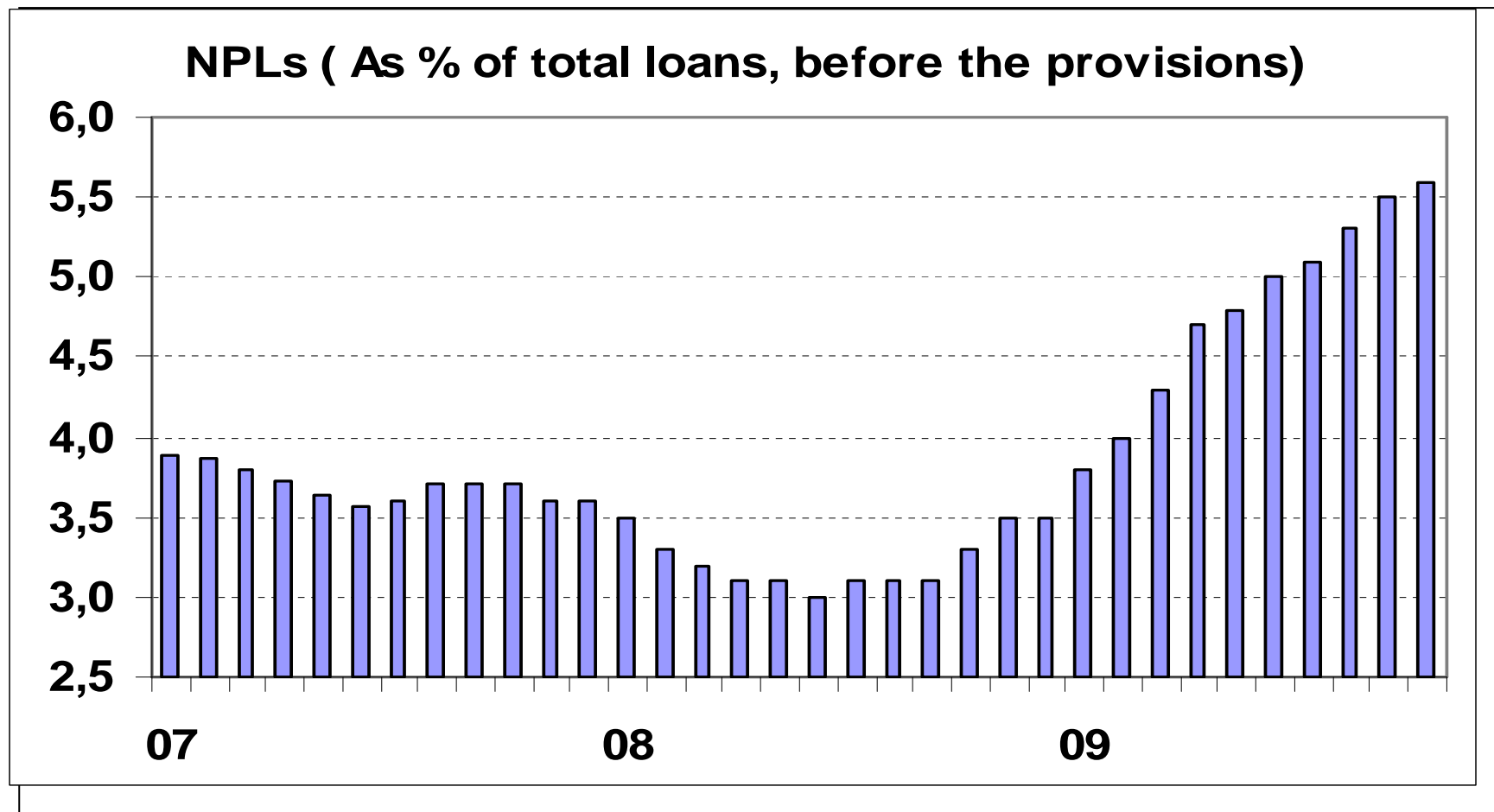
As the public sector borrowed less, and inflation declines, loans to private sector raised rapidly.



Recently, banks tightened lending standards, notably to risky companies

Loans and Securities portfolio (USD billion)			
	Spt 2008	Spt 2009	% chg
Total loans	294	254	-14
Corporates	198	171	-14
SMEs	71	55	-22
Consumers	96	83	-13
Securities portfolio	146	164	12

Rise in NPLs; risks in the SMEs are above the average



Measures taken by the Authorities

Central Bank;

- eased liquidity,
- reduced policy rates,
- increased rediscount credit limit to exporters

Banking Regulation and Supervision Agency;

- asked banks to retain profits to strengthen capital
- allowed banks temporarily to restructure real-sector loans
- let banks reclassify securities from trading to investment portfolio

Measures taken by the Government

Government;

- Gave additional time to taxpayers for deferred tax payment
- Taxpayers are allowed to register their unrecorded wealth with a small penalty rate
- Past credit records of the real and legal persons' at the CB were written off if liabilities are met before or within 6 months after specific period of time
- To stimulate the domestic demand, the Value Added Tax (VAT) and Special Consumption Tax (SCT) on several items were reduced temporally
- The financial and non-financial burdens on employers were reduced and the scope of unemployment insurance payments made by the government were widened.

Measures taken by the Government

Government;

- Subsidised loans to SMEs were increased**
- A new investment incentive scheme was announce by introducing lower corporate income taxes, low employment taxes and allocation of treasury land for those investments.**
- Treasury has supported TL 1 billion guarantee to Credit Guarantee Fund to provide credit facilities for SME's which don't have any collateral possibility.**

The Government targets a sustainable growth after 2009

Selected indicators*		<u>2010</u>	<u>2011</u>	<u>2012</u>
GDP growth	% chg	3,5	4,0	5,0
Income per capita	USD	8.821	9.096	9.732
Unemployment rate	%	14,6	14,2	13,3
Inflation	%	5,3	4,9	4,8
Budget deficit	As % of GDP	4,9	4,0	3,2
Public sector debt	As % of GDP	49,0	48,8	47,8
* Medium term programme target				

Thank you.