

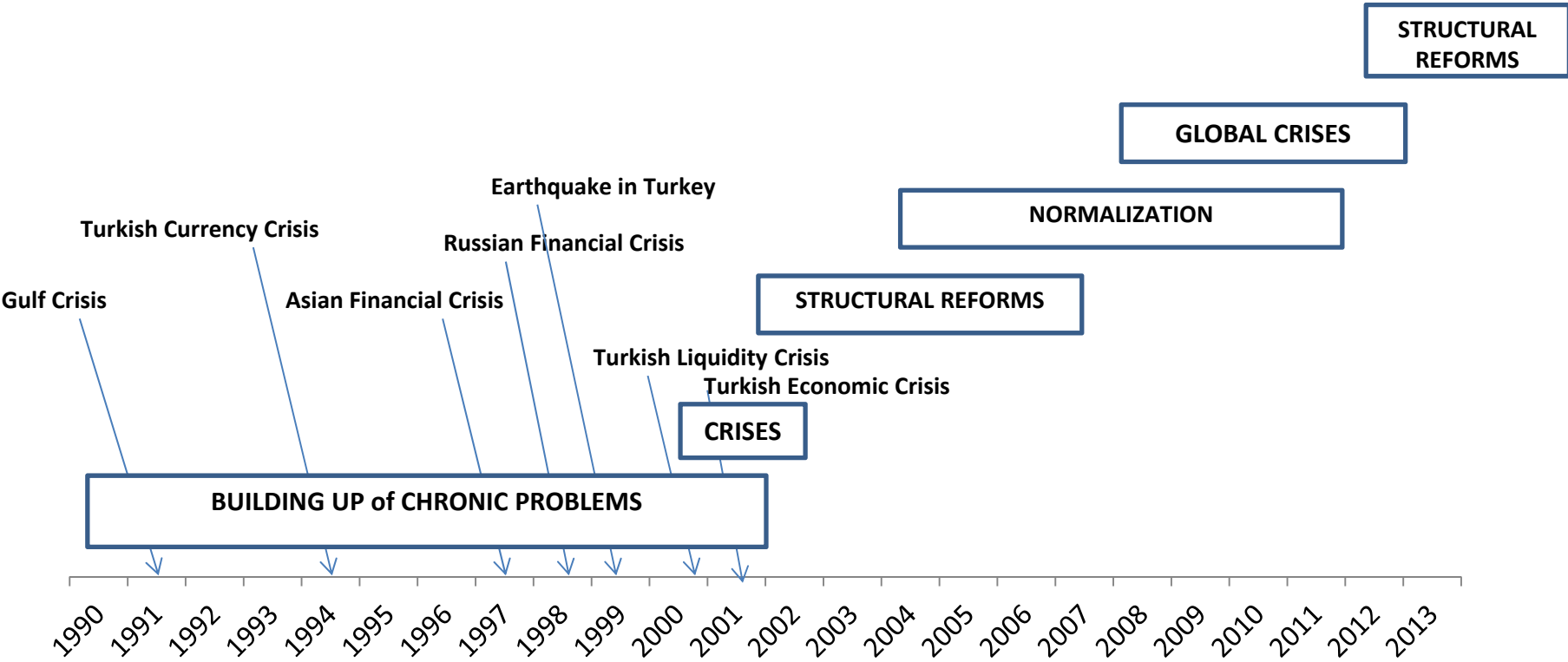


# From Crisis to Stability: The Experience of Turkey

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# Periods of crisis and normalisation through structural reforms



## Structural Problems of Turkish Economy

- High and volatile inflation, avg 75% btw 1990–2001
- Instable growth performance, avg 3.4% but in the range of -5.5% to 9%
- Unsustainable public debt, very short maturity with a cost of almost 80%

### Fragilities in the Banking Sector

- Number of banks increased from 66 to 81
- Duty losses of public banks 50% of assets and 12% of GNP
- Poor lending activity, avg credit growth 3.6% btw 1999-2000
- Decreasing intermediation from 47% in 1990 to 33% in 2000
- Inadequate capital levels 8.2% and high npl ratios %11 in 1999
- Dollarization, fx deposits 55% of total deposits

Lack of scale, financing public debt rather than real sector and weak intermediation and risk management culture

## Political instability – not the proper environment for economic recovery until 2002

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### General and Local Elections; Government Duration and Stability

General Elections	Local Elections	Political Party	Duration, no of weeks
	26-Mar-89	Single-party	84
		Single-party	21
20-Nov-91		Coalition	78
	27-Mar-94	Coalition	119
		Single-party	4
		Coalition	18
24-Dec-95		Coalition	16
		Coalition	52
		Coalition	80
18-Apr-99	18-Apr-99	Single-party	20
		Coalition	182
03-Nov-02		Single-party	

### Fiscal Policy Reforms

Public sector primary surplus at 6.5% of GDP as the keystone

- Tax peace, release of retrospective tax sanctions and rescheduling
- Additional taxes on property and motor vehicles, more indirect taxes
- Simplified tax structure and expanded the tax base
- Reduction of personnel and agricultural support expenses
- Public procurement law

### Monetary Policy Reforms

The fundamental objective of Central Bank was set as price stability

- Implicit and explicit inflation targeting
- Prohibition of giving advances and loans to Treasury and Public Institutions
- New Turkish Lira

### Transparency in Public Administration

Accountability, citizen centricity, on site management as the main pillars

- Autonomous regulatory and supervisory agencies
- Banking Regulation and Supervision Agency
- Competition Authority
- Energy Market Regulatory Agency
- Public Procurement Authority
- Information and Communication Technologies Authority
- Public Officers Ethical Board

### Restructuring of Financial Sector

- Special emphasis on public banks
- Resolution of banks transferred to SDIF
- New and sound private banking structure
- Rehabilitation of the regulatory framework
- Strengthening the capital structure of banks



### Restructuring of Real Sector, Istanbul Approach

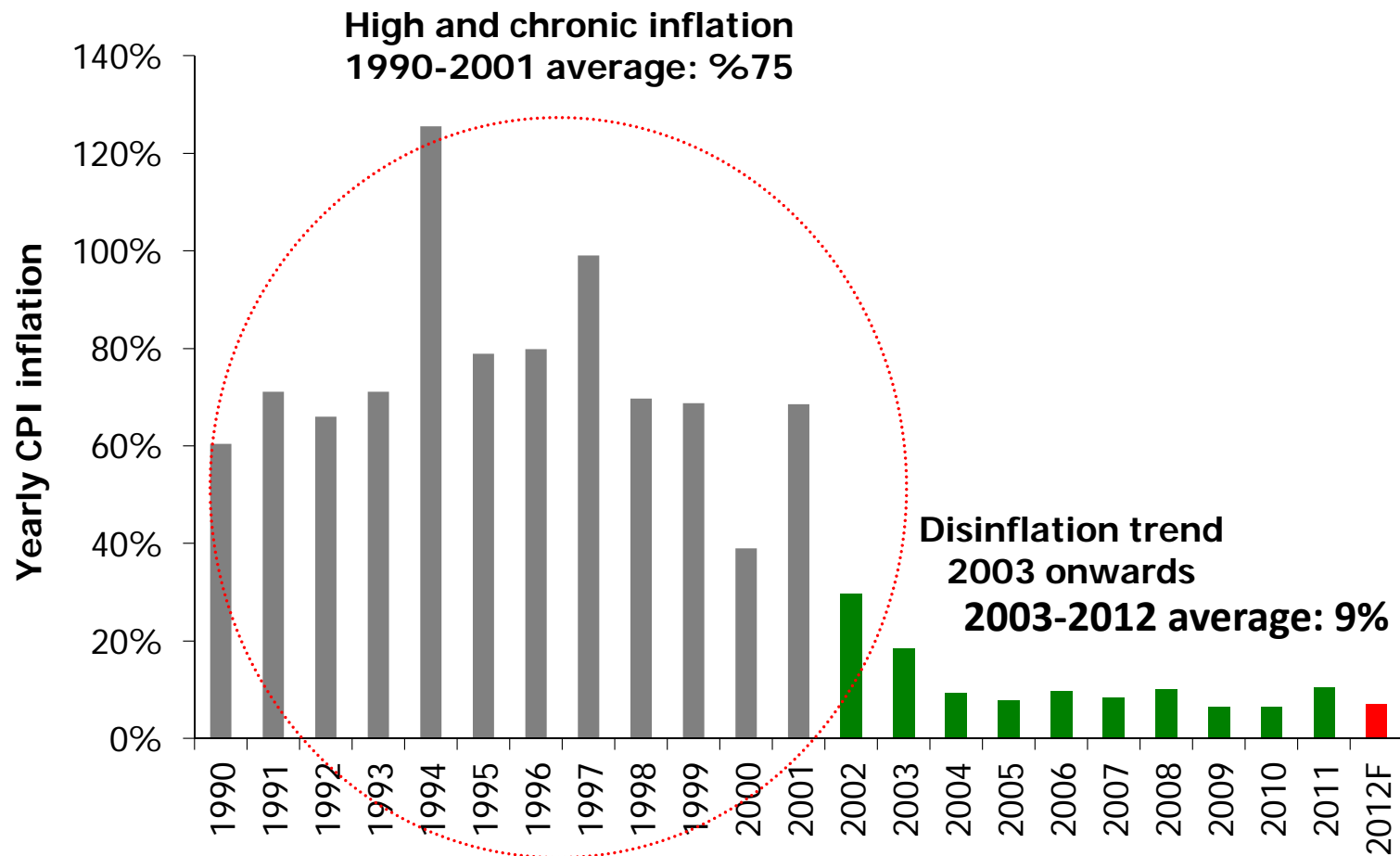
Act nr 4743: Opportunity to firms, which could not pay their loans to banks due to economic crisis, for continuing their activities, to restructure their debts and to get additional resources if needed

#### Between June 2002 and June 2005

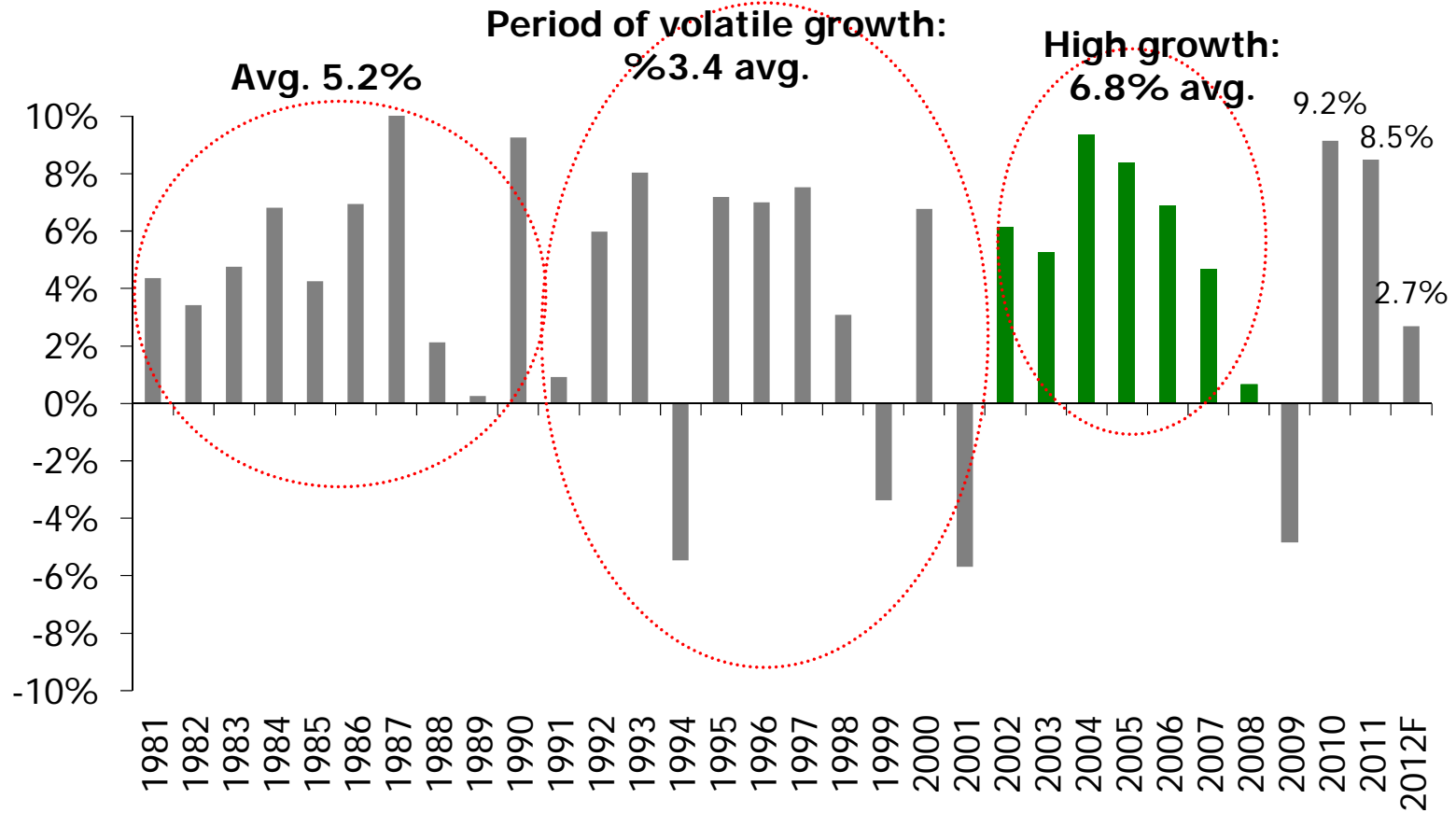
- Debt amounting to USD 6 billion for a total of 322 firms, 221 large scale firms and 101 SME's were restructured
- Total restructured loans reached 20% of gross loan volume and almost 94% of non performing loans.

## Inflation was a chronic problem but not any more

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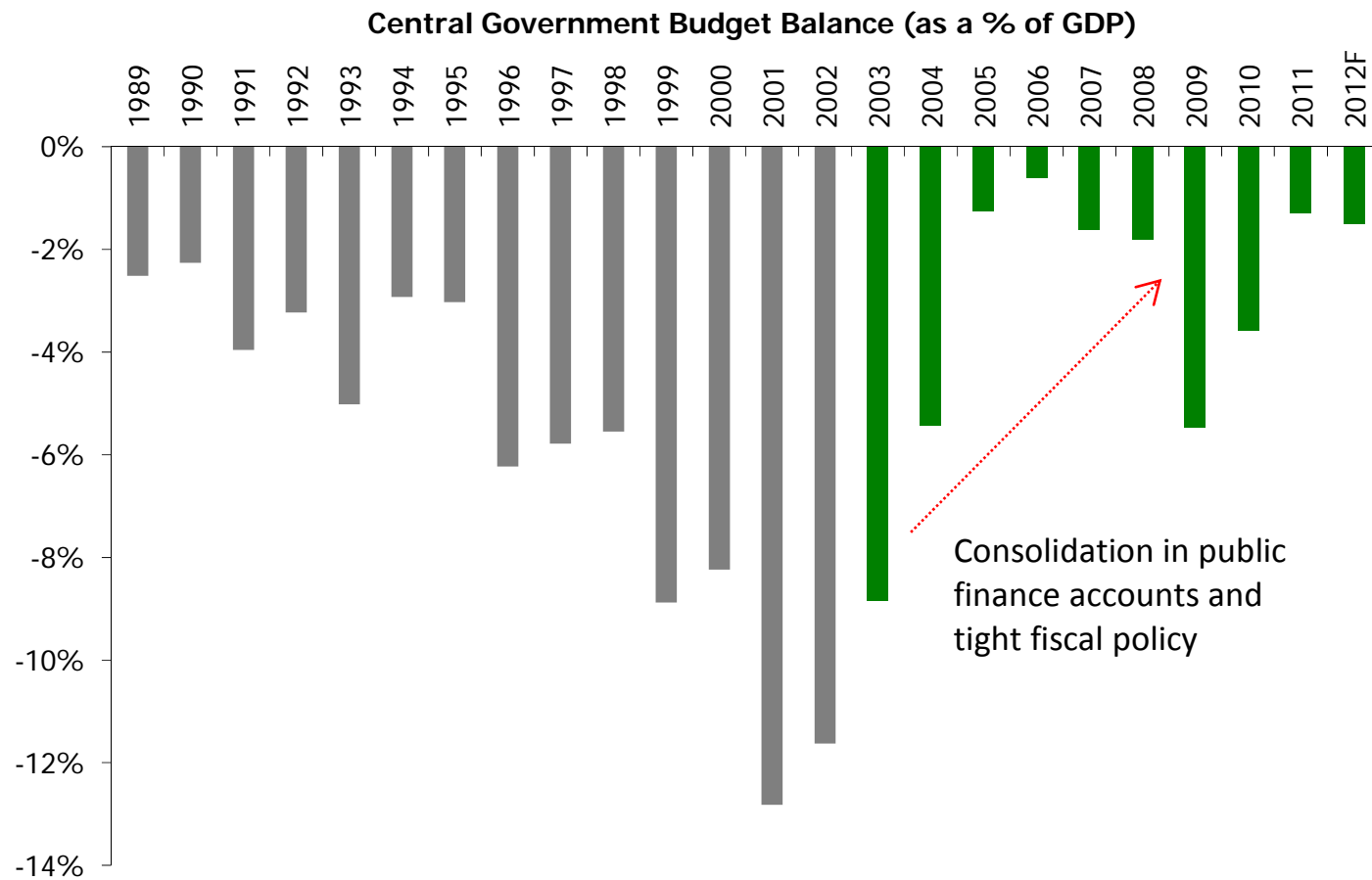
# Growth pattern changed



## Strength: Public finance accounts

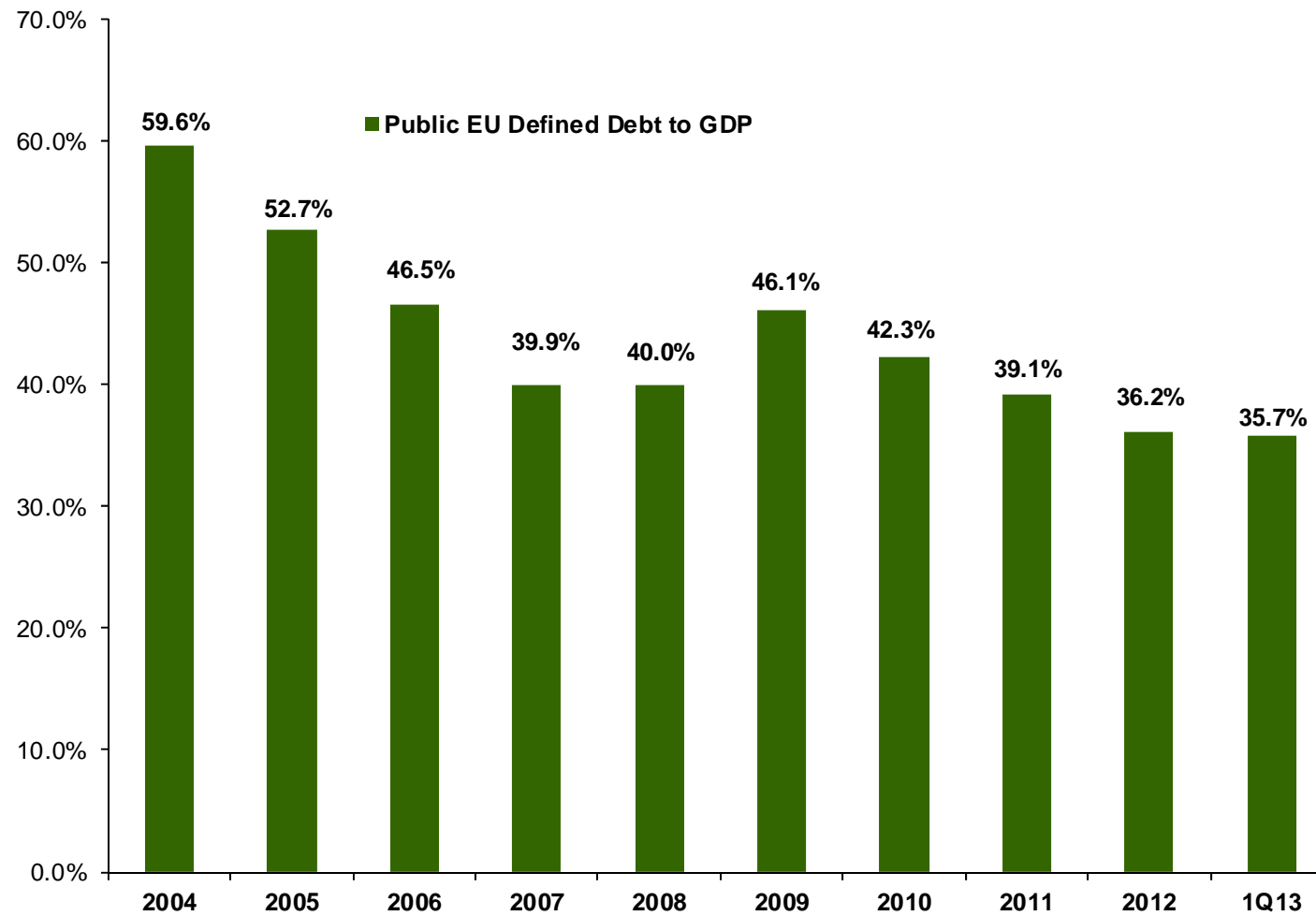
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Budget deficit to GDP is at 1.3% as of June 2013



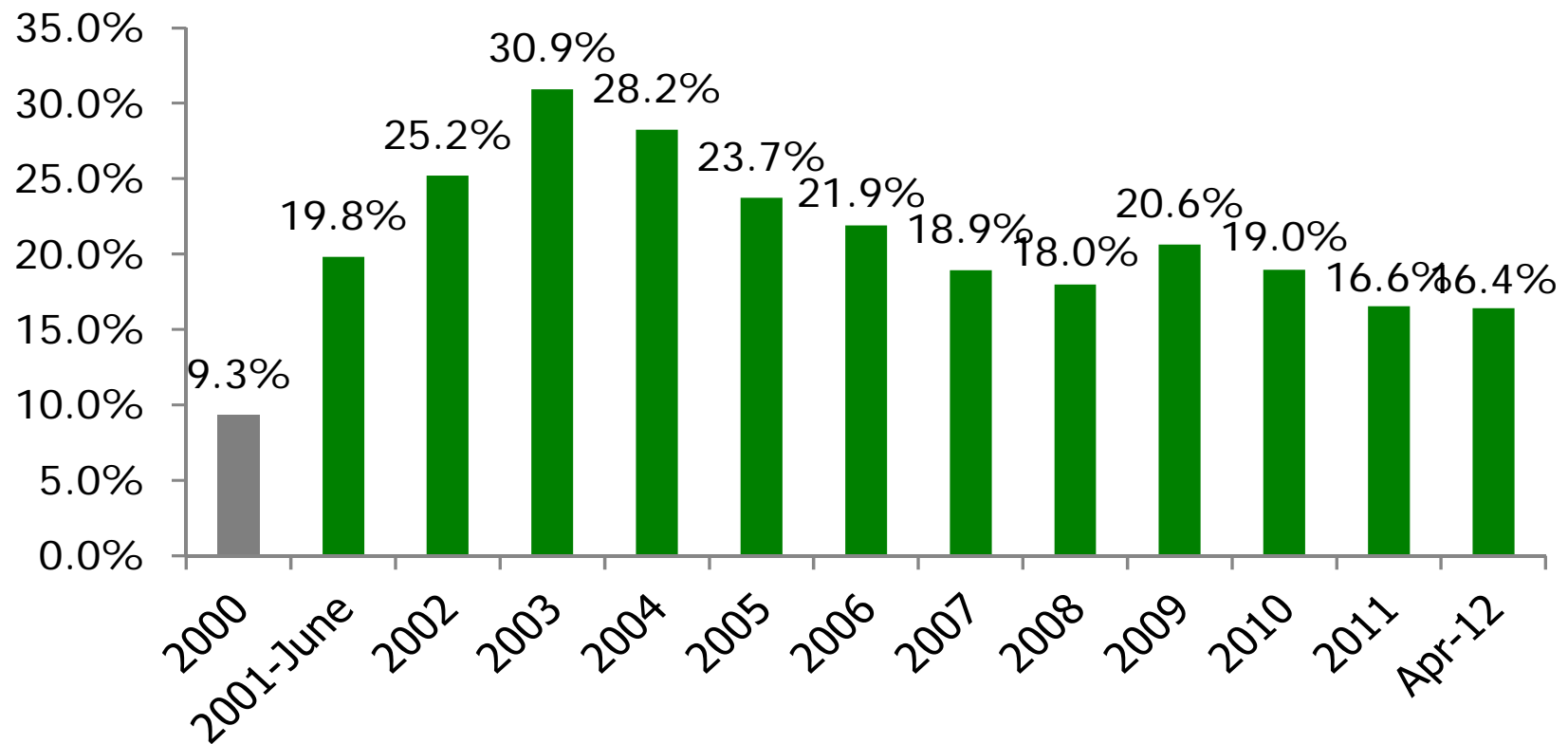
## Strength: Fiscal performance

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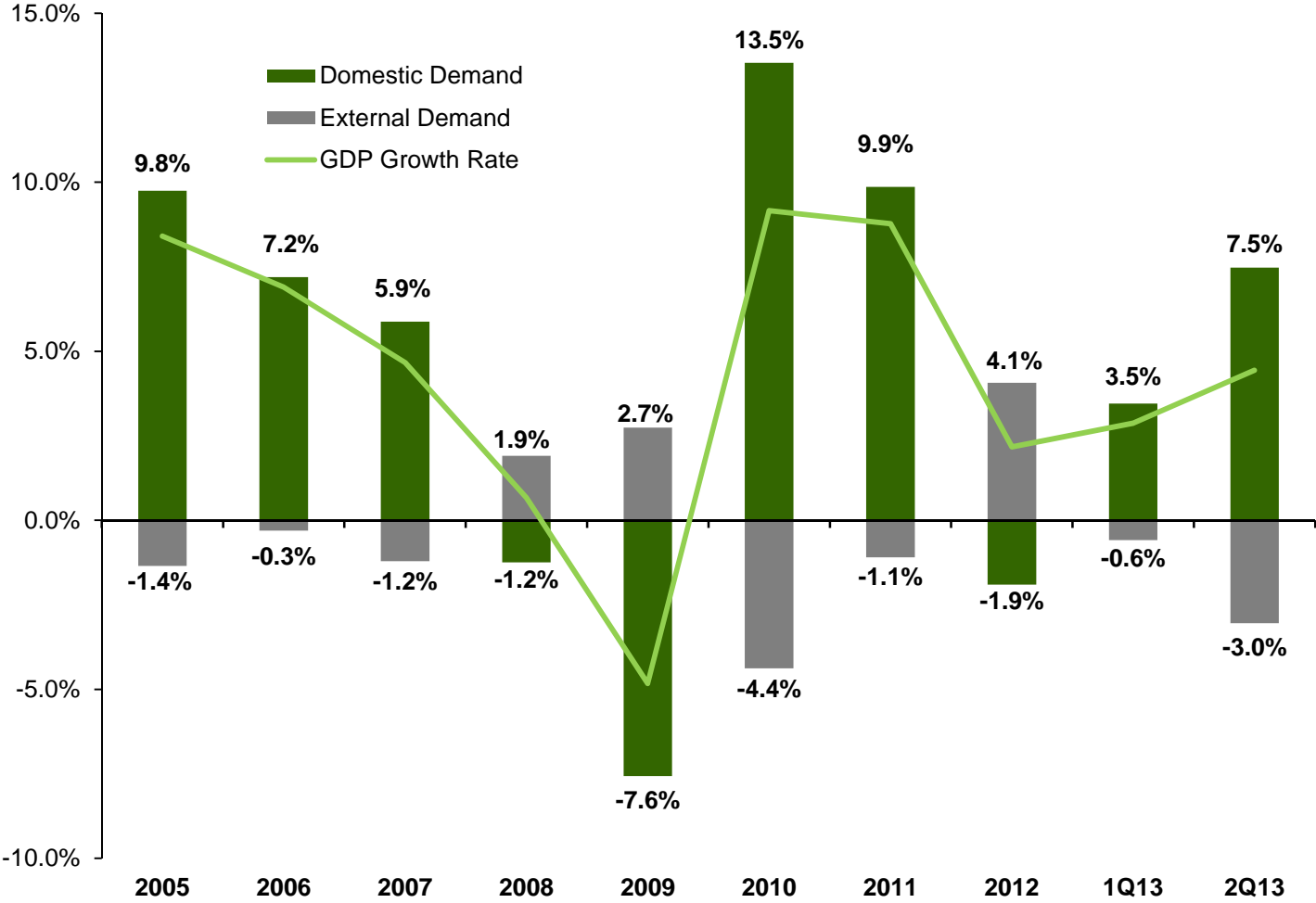


Capital adequacy ratio at 17.4% as of Q1 2013

### Capital Adequacy Ratio



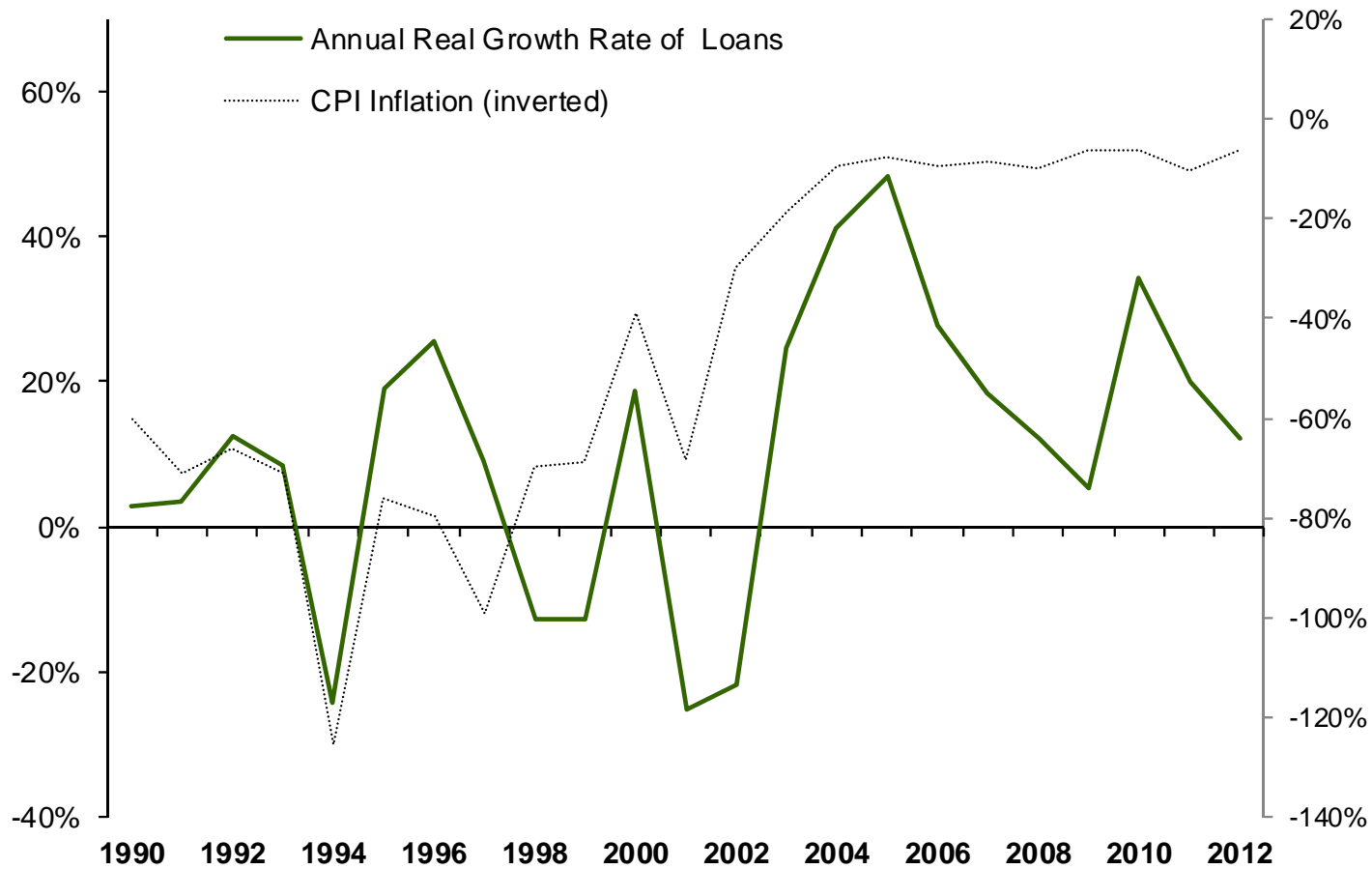
# Domestic demand– the driver of fast growth



## Loan growth rate positive since 2003 on the real terms

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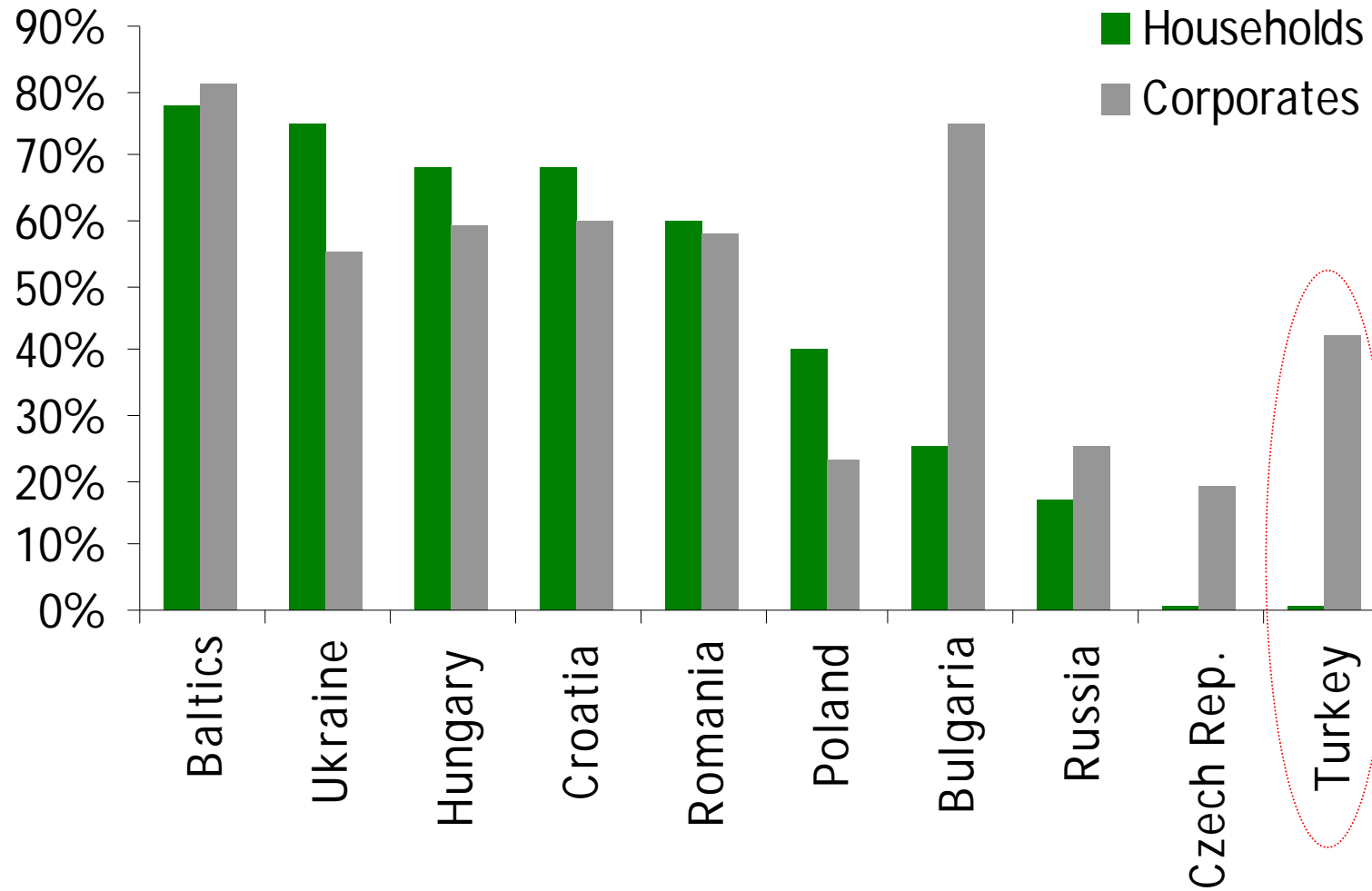
Cumulative real growth: 1990-2003: 5.8% (annual average of 1%)  
2003-2012: 678% (annual average of 24%)





## Strength: No fx risk on household loans

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## Macroeconomic Forecasts

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	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>CPI (year end )</b>	10.4%	6.2%	6.8%	6.6%
<b>GDP Growth Rate</b>	8.8%	2.2%	3.8%	4.3%
<b>GDP (Bn USD)</b>	774	786	849	900
<b>Deflator</b>	8.6%	6.8%	7.4%	6.4%
<b>GDP per capita</b>	10,466	10,504	11,105	11,633
<b>Parity</b>	1.29	1.32	1.31	1.22
<b>Current Account Deficit (Bn USD)</b>	75.1	47.7	62.2	64.1
<b>Current Account Deficit/GDP</b>	9.7%	6.1%	7.3%	7.1%
<b>Exports (Bn USD)</b>	135	153	158.0	171.4
<b>Imports (Bn USD)</b>	241	237	255.4	271.7
<b>EU-defined Public Deficit/GDP</b>	39.1%	36.2%	35.1%	33.4%
<b>Budget Balance/GDP</b>	-1.3%	-2.0%	-2.0%	-1.8%