



Reviving Lending in Emerging Market Economies: The Case of Turkey

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The Effects of Current Crisis on Turkish Economy

- Hit by the *trade channel* the most.
 - Export performance is severely affected.
 - Sectoral and regional composition of exports.
- Real economy is significantly affected.
 - Rising unemployment.
- Inflation is rapidly declining.
 - Room for easing in monetary policy.
- Current account deficit is shrinking at a rapid pace.



The Effects of Current Crisis on Turkish Economy

- Banking and financial sector is quite resilient.
- However, banks are unwilling to lend.
 - Limited capacity to borrow from abroad.
 - Fear of increasing NPLs.
 - The aging effect on the loans.
 - Fear of unsustainable current low interest rates.
 - Potential postponed pass-through of depreciated TL on inflation.
 - Maturity mismatch between assets and liabilities.

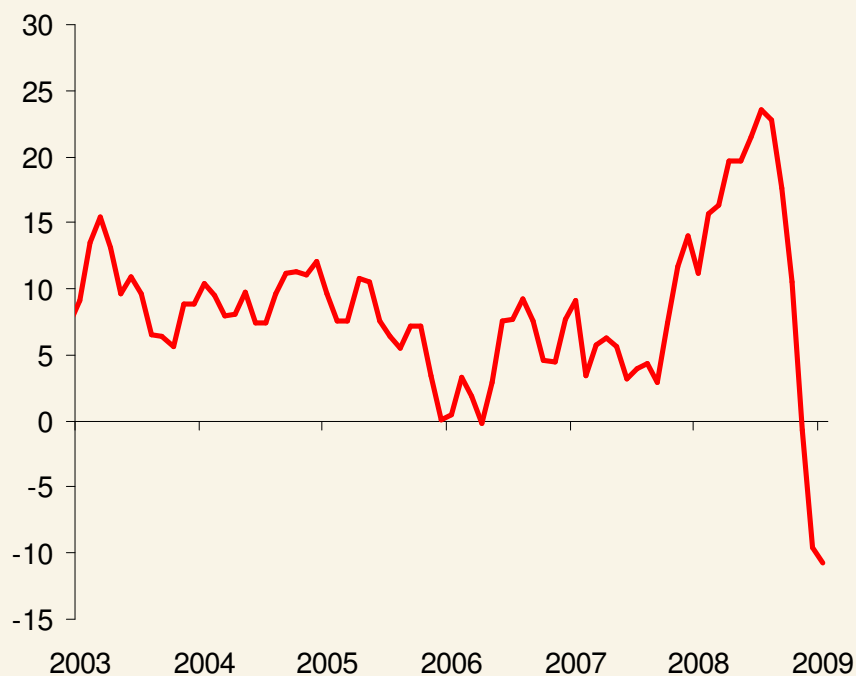


Effects on the Global Economy

Deterioration in the financing conditions and fall in the aggregate demand reflect upon the global trade performance.

Global Trade – Unit Value Index

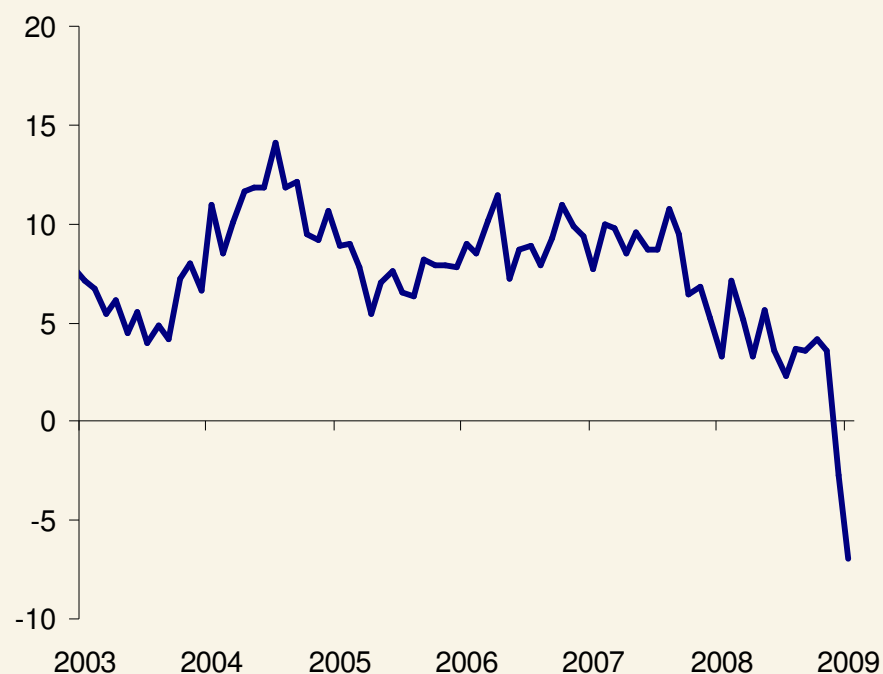
(January 2003 – January 2009, y-o-y percentage change)



Source: CPB, CBT

Global Trade – Volume Index

(January 2003 – January 2009, y-o-y percentage change)



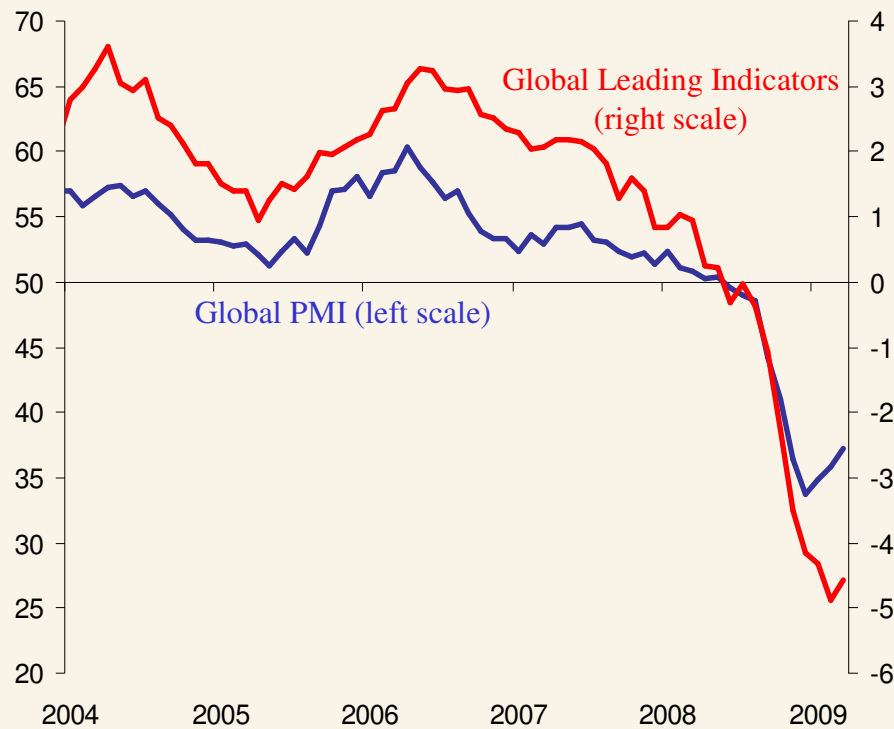
Source: CPB, CBT



Confidence Indices and Leading Indicators

Decline in leading indicators and confidence indices became more pronounced in the last quarter of 2008.

Global PMI and Leading Indicators
(January 2004 – March 2009)



Source: Bloomberg, Goldman Sachs, CBT

Baltic Dry Index
(January 2002 – April 2009)

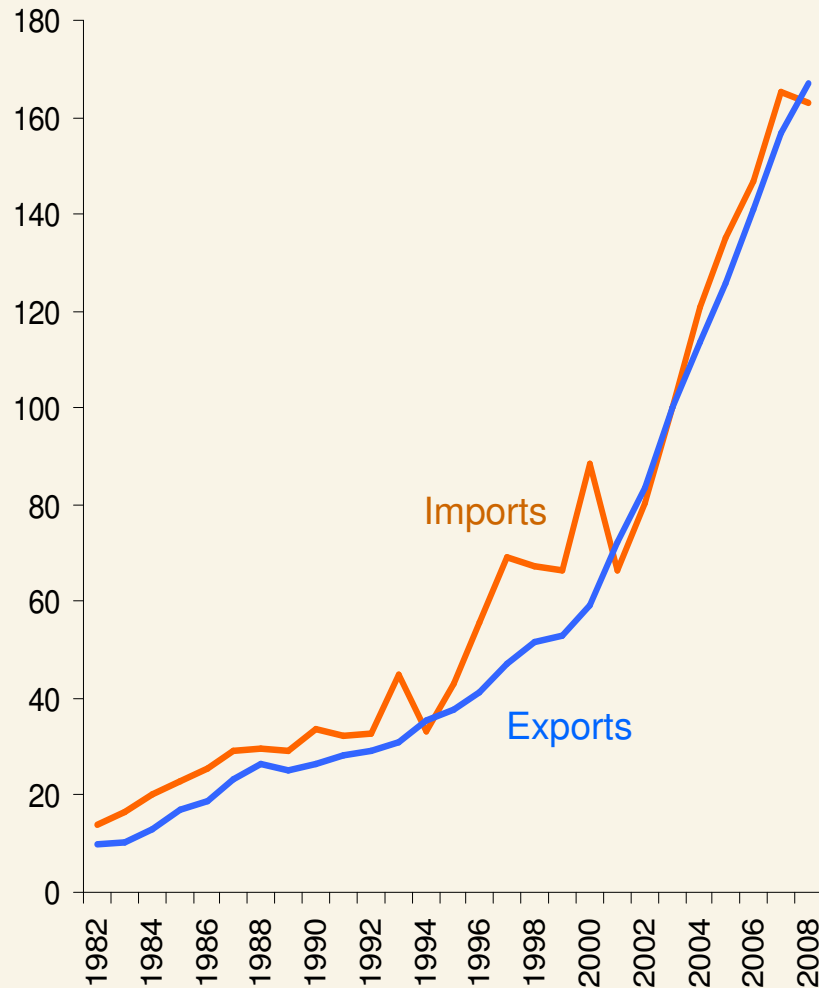


Source: Bloomberg, CBT



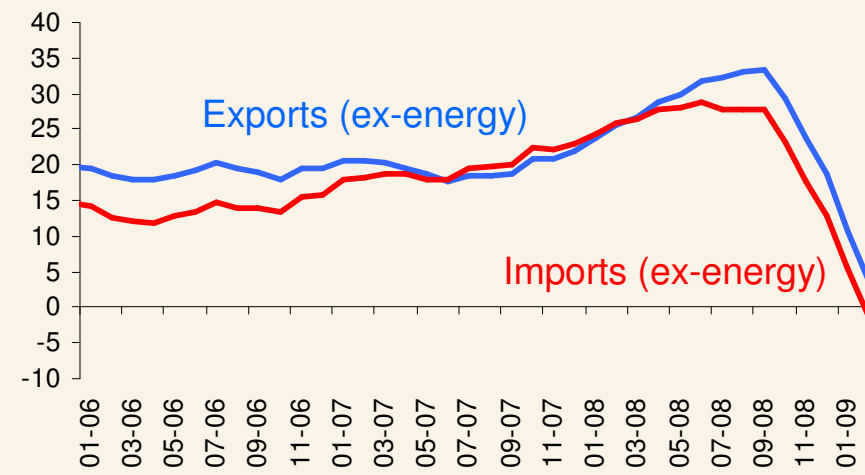
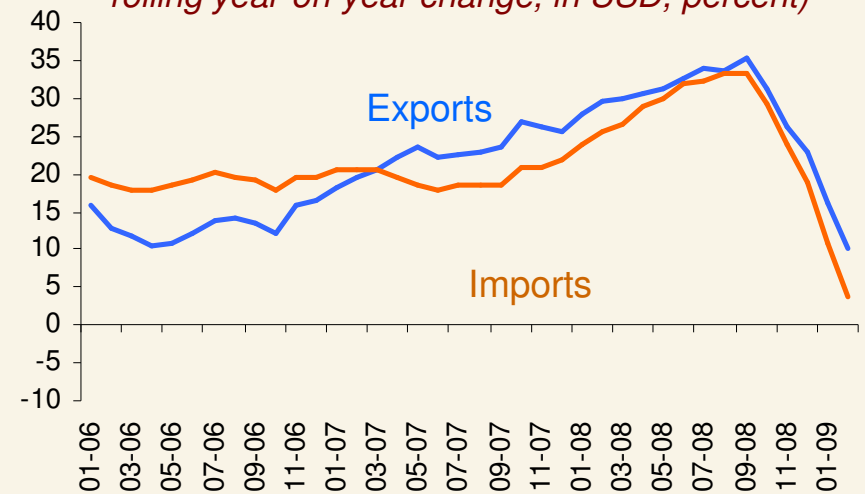
Foreign Trade -- Turkey

Real Imports and Real Exports (1982 – 2008, 2003 = 100)



Source: TURKSTAT, CBT

Imports and Exports Growth (January 2006 – February 2009, 12-month rolling year-on-year change, in USD, percent)

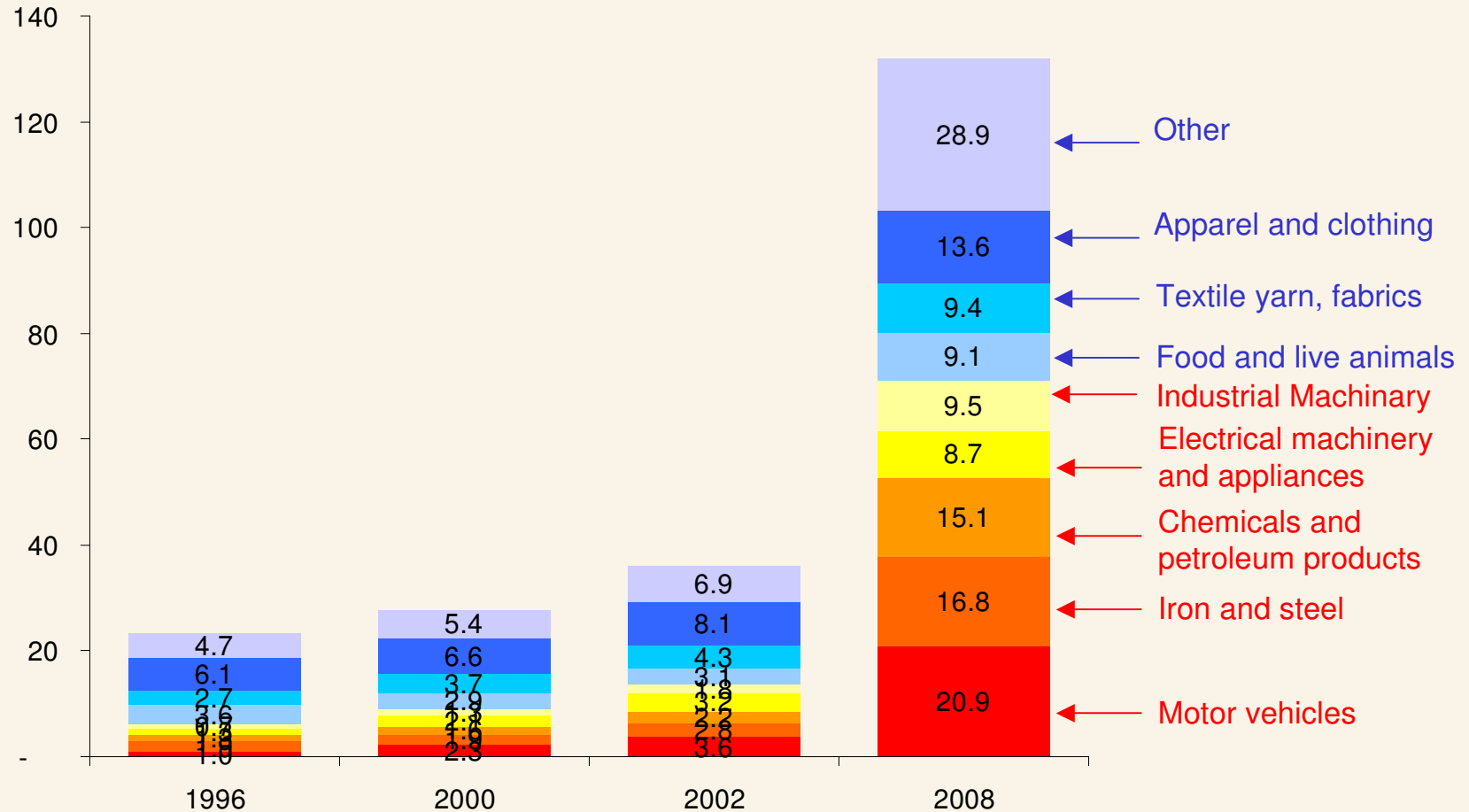


Source: TURKSTAT, CBT



Export Performance -- Turkey

Composition of Turkey's Exports
(top 8 export sectors, billion USD)



* 12-month rolling as of December 2008

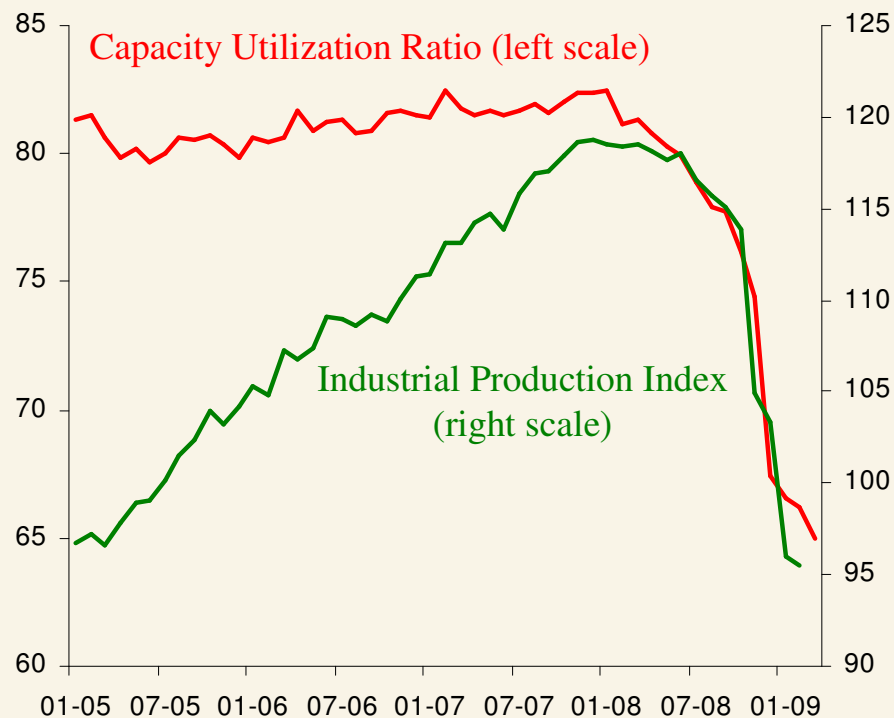
Source: TURKSTAT, CBT



Industrial Performance

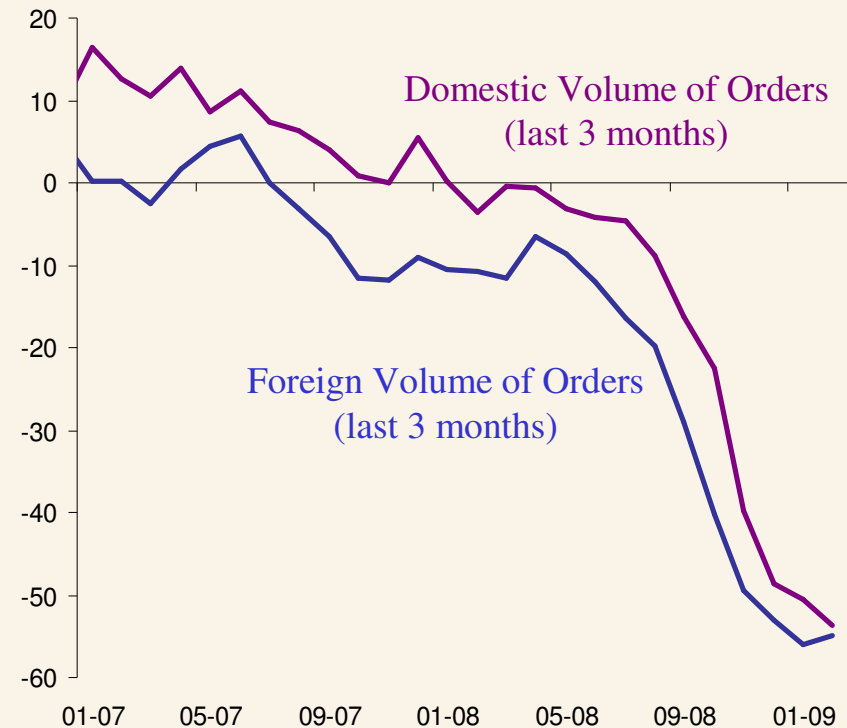
The slowdown of economic activity has been prolonged due to the elevated risk perceptions and tightened conditions of financing.

Industrial Production Index* (Jan 2006 – Feb 2009)
and Capacity Utilization Ratio* (Jan 2006 – March 2009)



* Seasonally adjusted
Source: TURKSTAT, CBT

Domestic and Foreign Demand Indicators*
(Jan 2007 – Feb 2009)



* Economic Tendency Surveyi, seasonally adjusted
Source: CBT



Financial Developments in Turkey

Turkey's sovereign risk premium and market interest rates have been favorably influenced by the recent recovery in global risk perceptions.

Risk Indicators

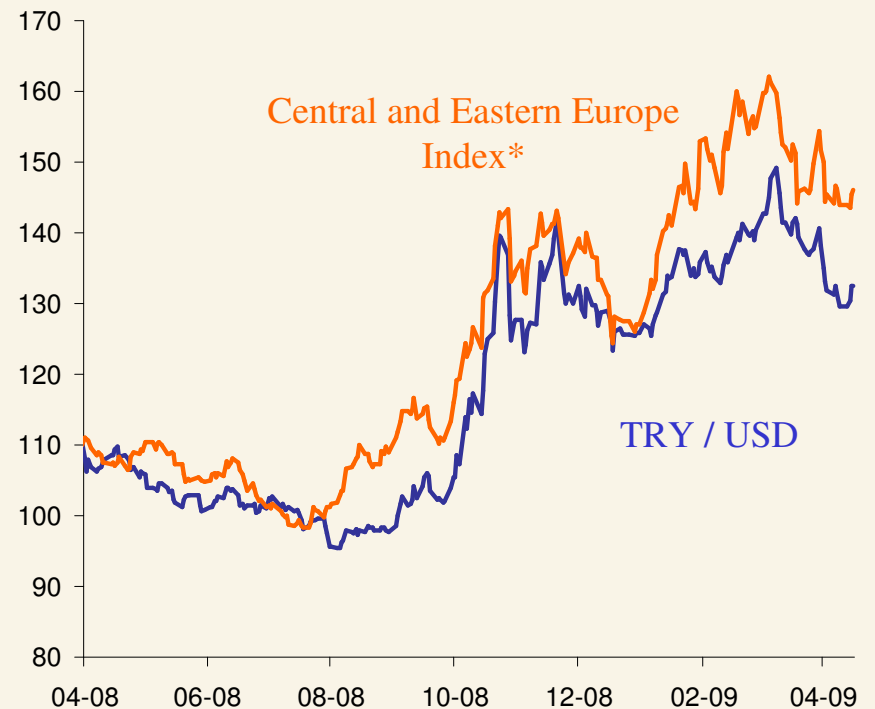
(1 January 2008 - 27 March 2009, basis points)



Source: Bloomberg, CBT

Exchange Rates

(1 July 2008 - 17 April 2009, July 2008=100)



* Central and Eastern Europe Index: Equally-weighted average of the national currencies of the Czech Republic, Croatia, Hungary, Lithuania, Poland, Romania, Slovakia and Ukraine.

Source: Bloomberg, CBT

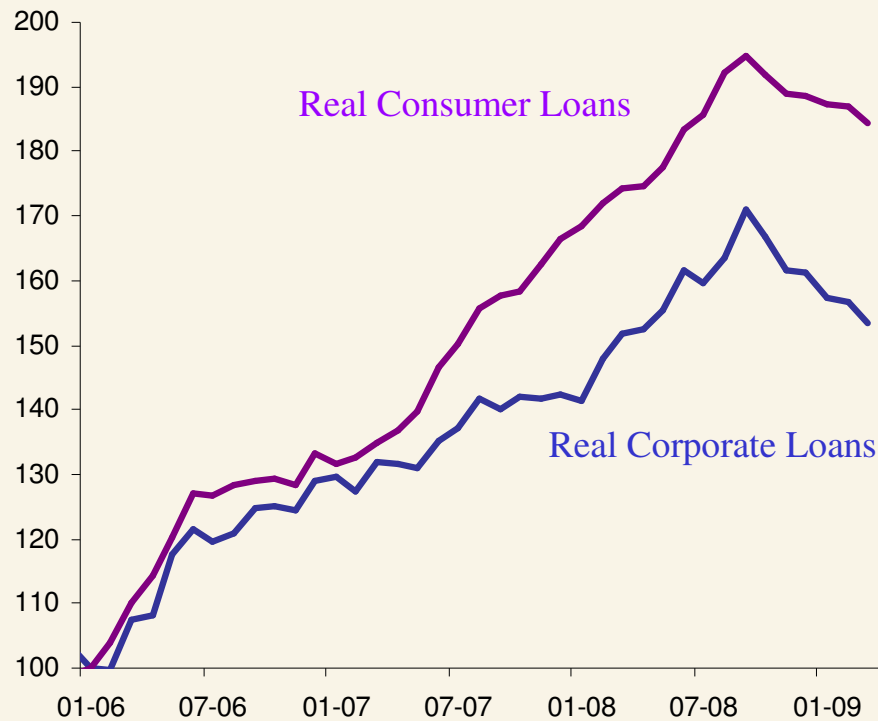


Credit Developments

In March, bank credits maintained their downward trend that has been experienced since the third quarter of 2008.

Real Credit Volume

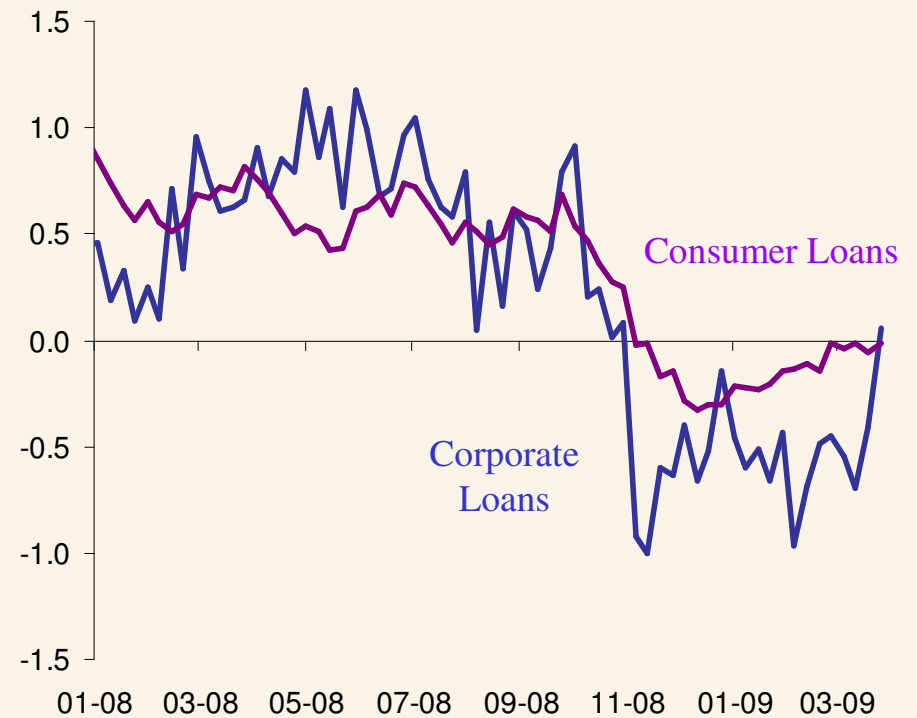
(Jan 2006 – Mar 2009, Jan 2006 = 100)



Source: CBT

Weekly Changes of Corporate and Consumer Credits

(Jan 2008 – Mar 2009, 4-week moving average, percent)

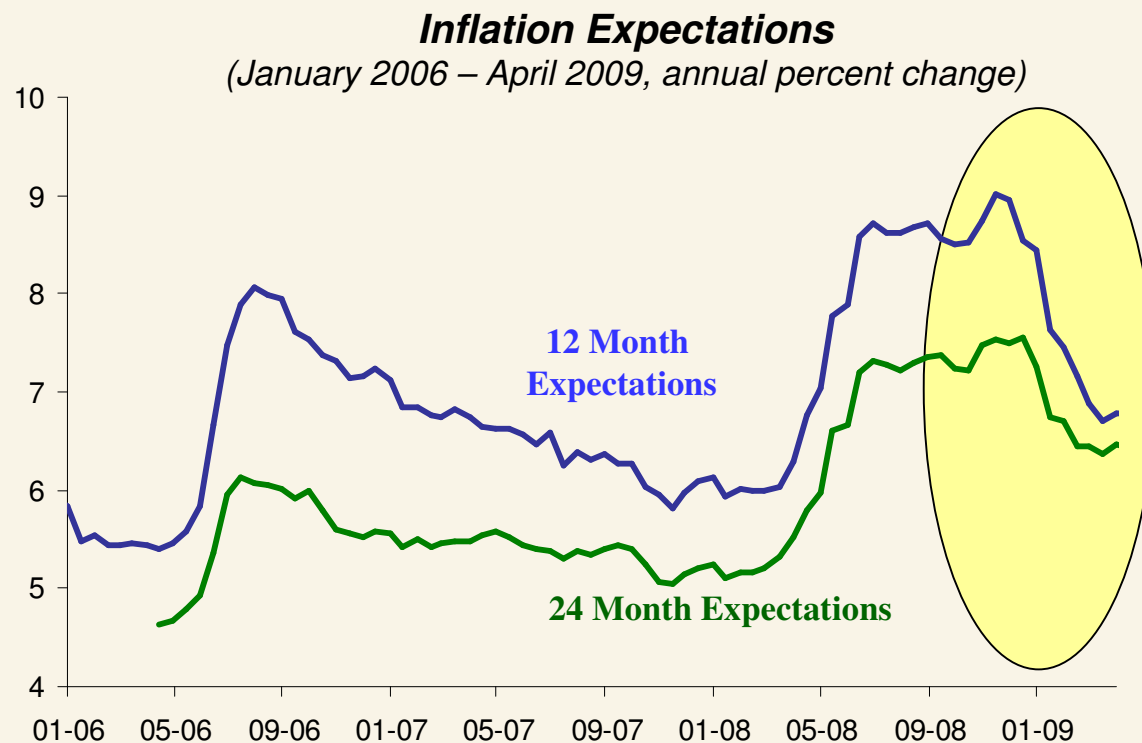


Source: BRSA, CBT



Inflation Expectations

Inflation expectations have been displaying a downward trend as a result of weak external demand conditions and dwindling growth expectations.



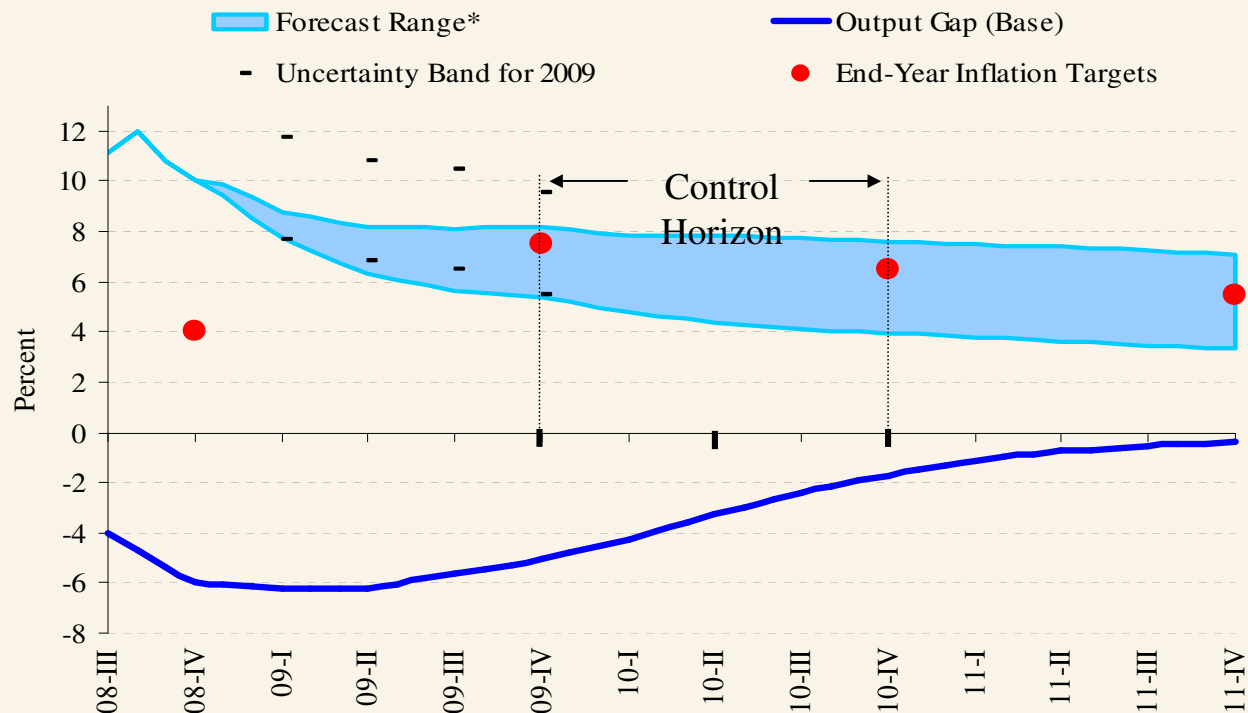
Source: TURKSTAT, CBT



Inflation and Output Gap

It is forecasted that fall in the energy and food prices will support the downward trend in the inflation rate till mid-2009.

Inflation and Output Gap Forecasts
(2008 Q3 – 2011 Q4)



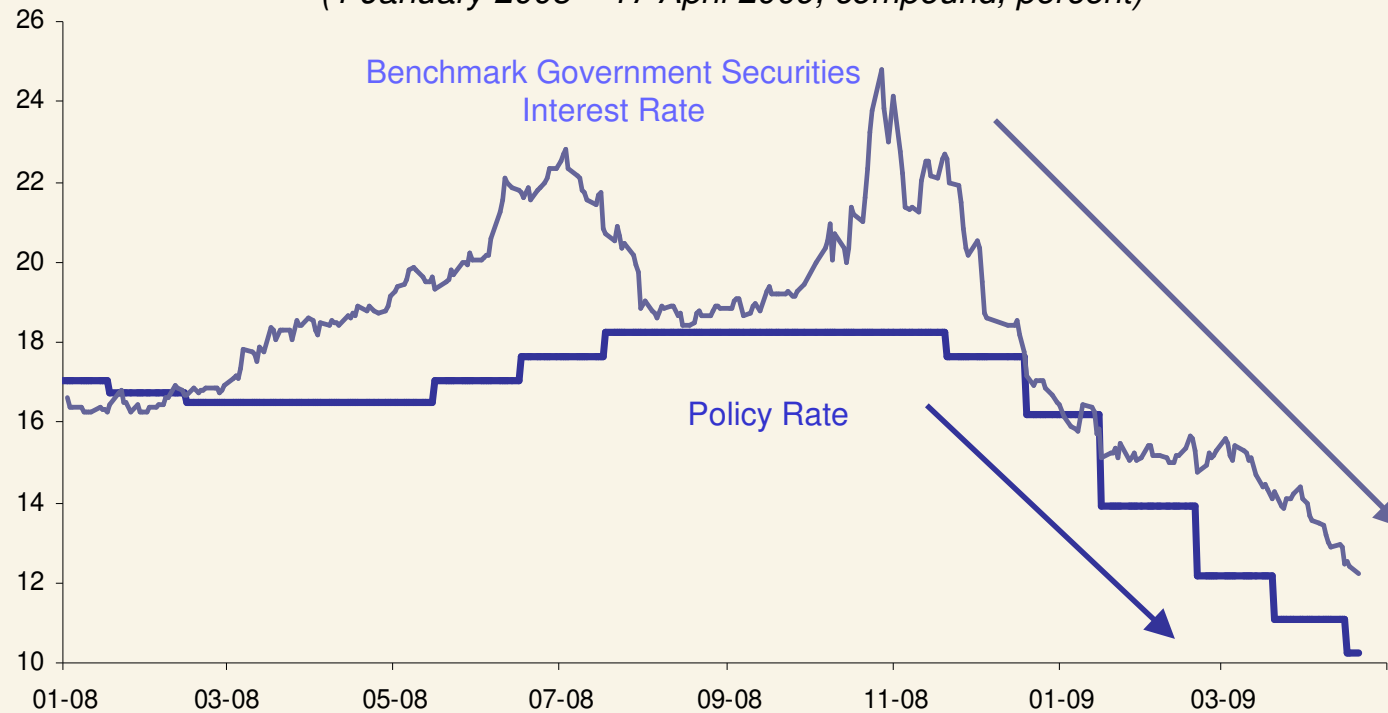
Source: CBT



Monetary Policy Stance

Thanks to the fact that interest rate cut decisions were in line with the decline in the inflation rate and a limited recovery in risk perceptions, benchmark government securities interest rates dropped significantly.

***CBT Short-Term Interest Rates and
Benchmark Government Securities Interest Rate***
(1 January 2008 – 17 April 2009, compound, percent)



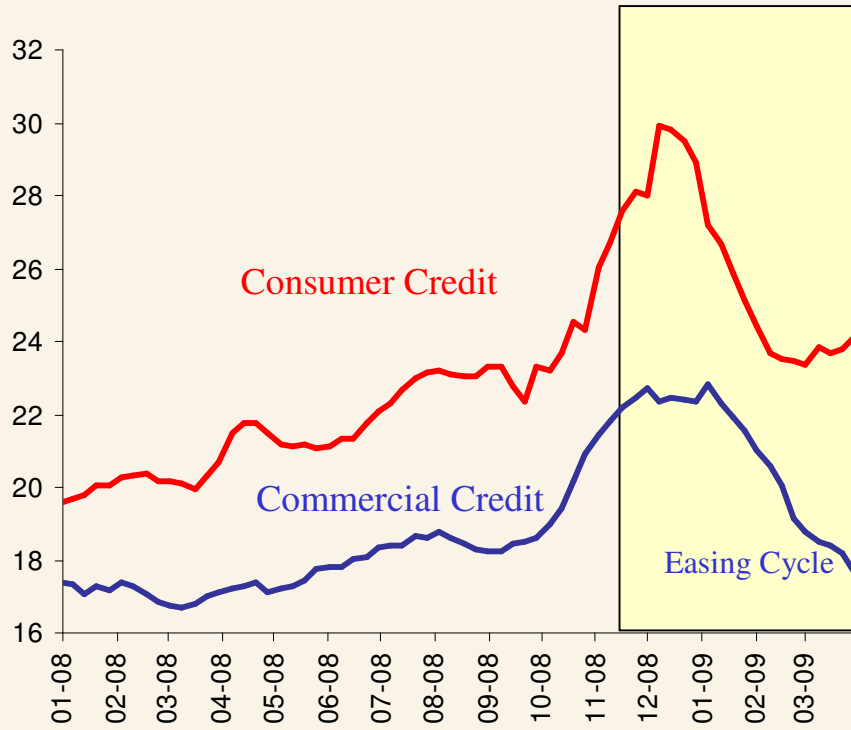
Source: Undersecretariat of Treasury, CBT



Monetary Policy Stance

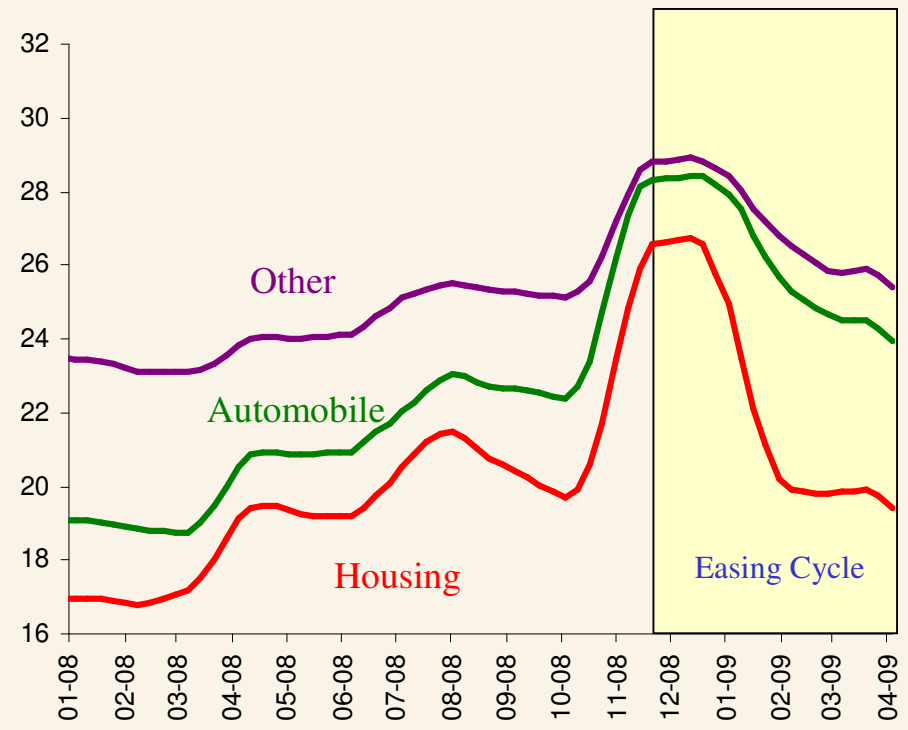
Despite the interest rate cuts, tightness in the financial conditions still persists to some extent. Nonetheless, lending rates have recently declined below the levels observed in October 2008, when the global financial turmoil reached its peak.

Consumer and Commercial Interest Rates
(January 2008 – April 2009, annual, percent)



* 4 week moving average
Source: BRSA, CBT

Consumer Credit Interest Rates
(January 2008 – April 2009, annual, percent)



* 4 week moving average
Source: BRSA, CBT

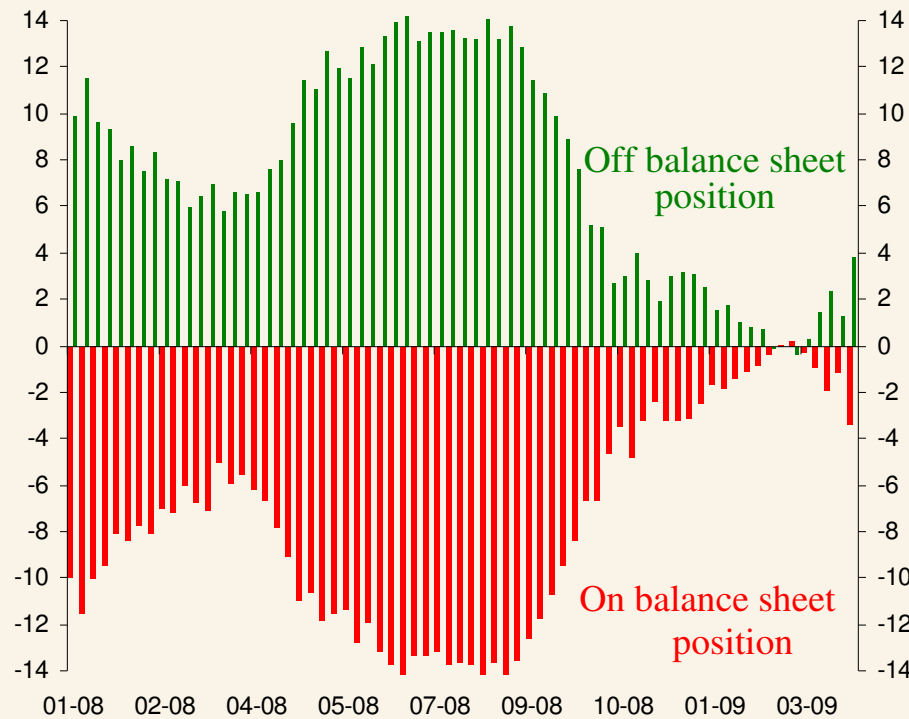


Banking Sector

Turkish banking sector has faced with financial crisis in a relatively strong position. The main factor enhancing Turkish economy's resilience to the crisis is its sound and stable structure.

FX Position

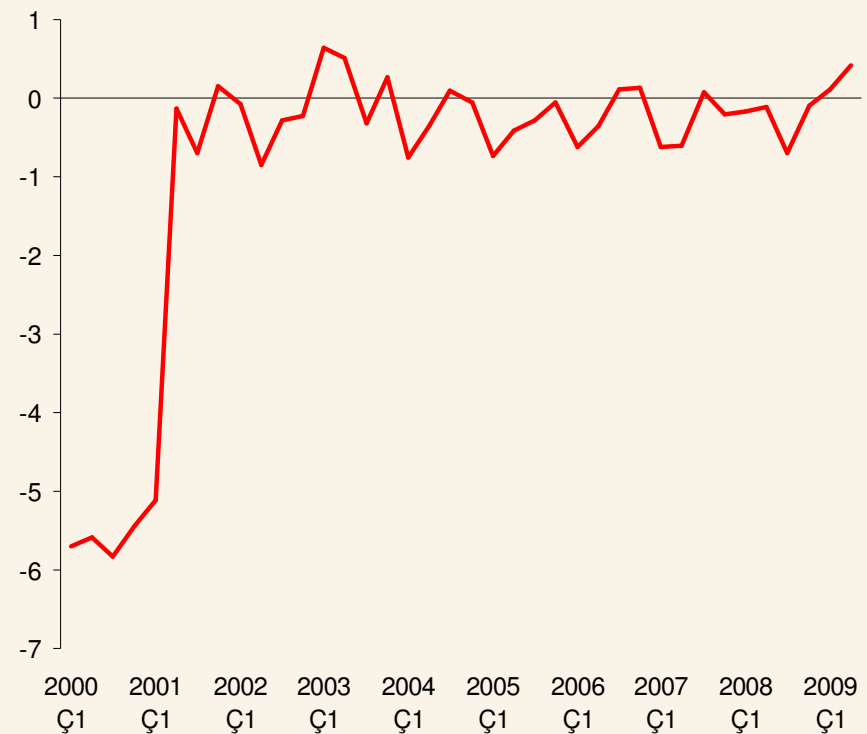
(January 2008 – April 2009, billion USD)



Source: BRSA, CBT

Net FX Position of the Banking Sector

(2000 Q1 – 2009 Q2*, billion USD)



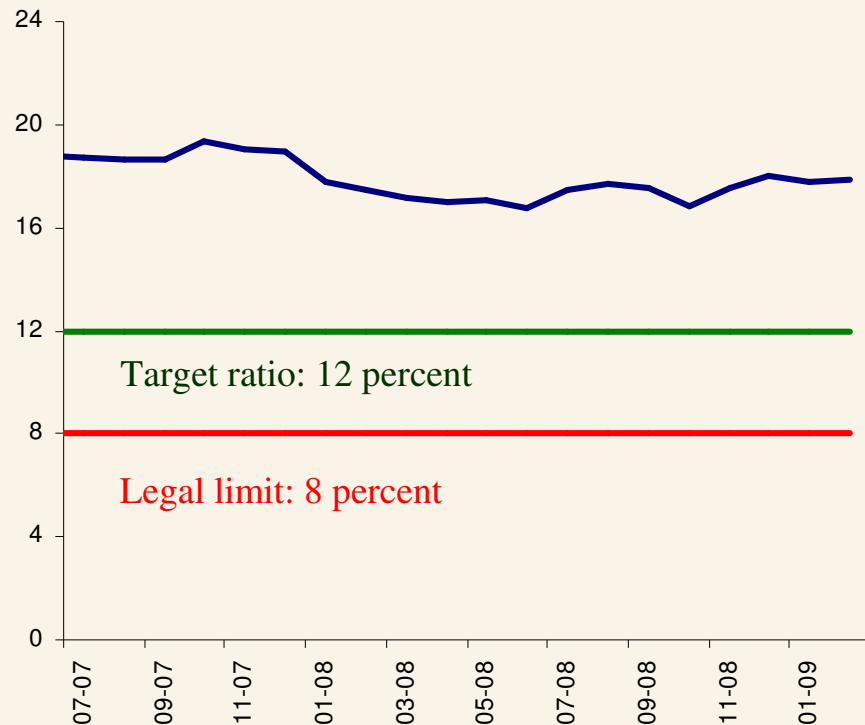
* As of 4 April 2009
Source: BRSA, CBT



Banking Sector

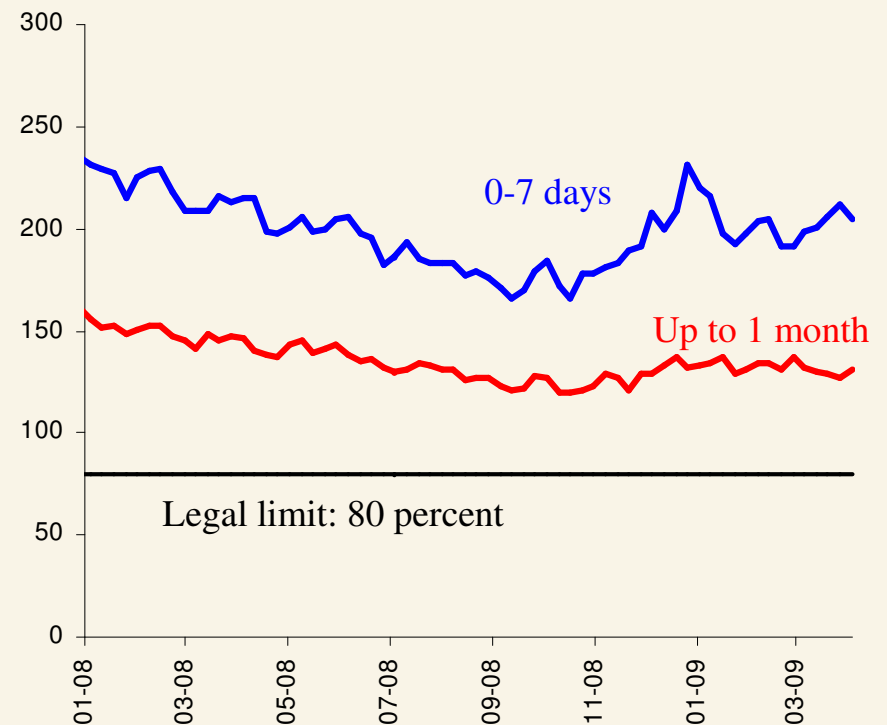
The capital adequacy ratio is well above the legal limit and the EU average. Turkish banking system was relatively prepared for the crisis in terms of FX liquidity. Total short-term liquidity adequacy ratios remain at high levels.

Capital Adequacy Ratio
(July 2007 – February 2009, percent)



Source: BRSA, CBT

Short-term FX Liquidity Adequacy Ratios
(1 January 2008 – 3 April 2008, percent)



Source: BRSA, CBT



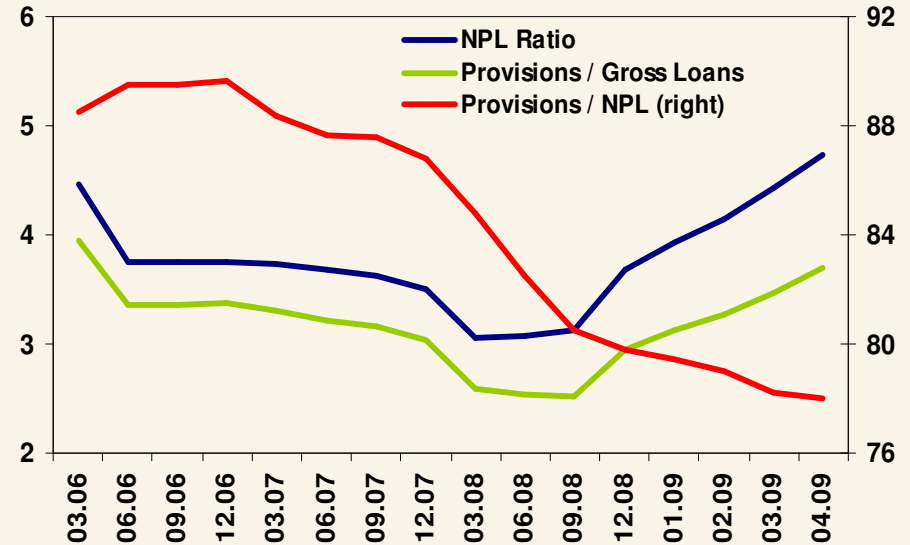
Banking Sector

NPL is growing faster than total loans due to economic slowdown and general aging of the loans. Therefore NPL ratio is increasing.

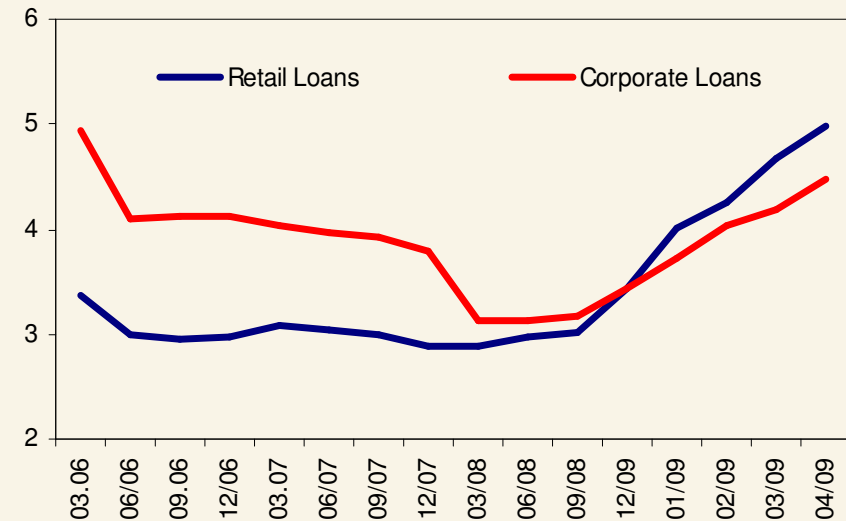
Provisions to NPL is decreasing while provisions to gross loans ratio is increasing.

NPL ratio is increasing for both retail and corporate loans but is still around 4 percent.

NPL Ratio and Provision to NPLs (%)



NPL Ratios for Retail and Corporate Loans NPLs (%)



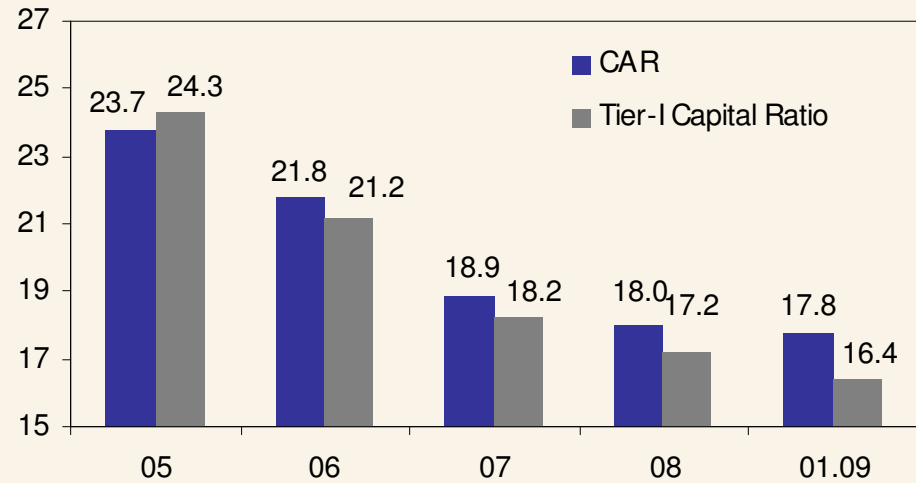


Banking Sector

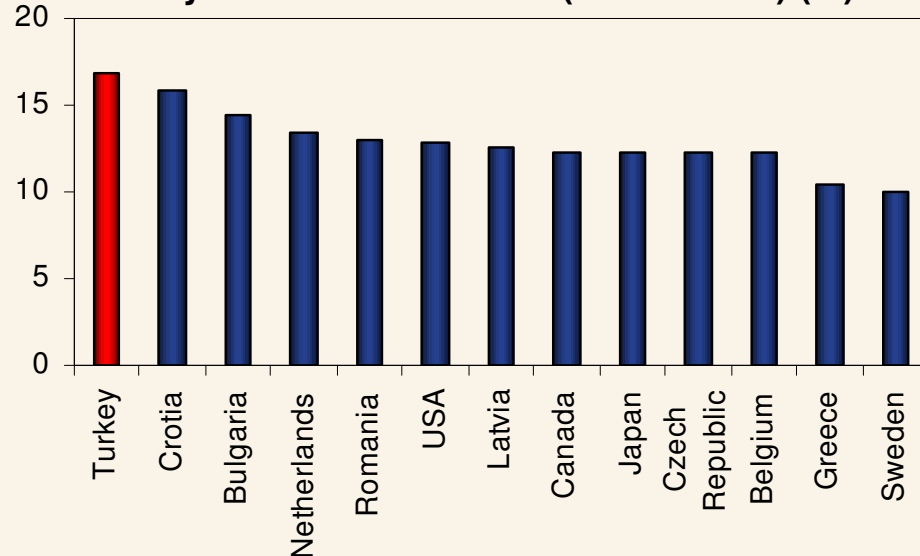
Capital Adequacy Ratio of banking sector is above both minimum requirement of 8 percent and target ratio of 12 percent.

Compared to selected countries, Turkey has the highest Capital Adequacy Ratio that shows strength of the sector.

Capital Adequacy Ratio (Unconsolidated) (%)



CAR by Selected Countries (March 2008) (%)

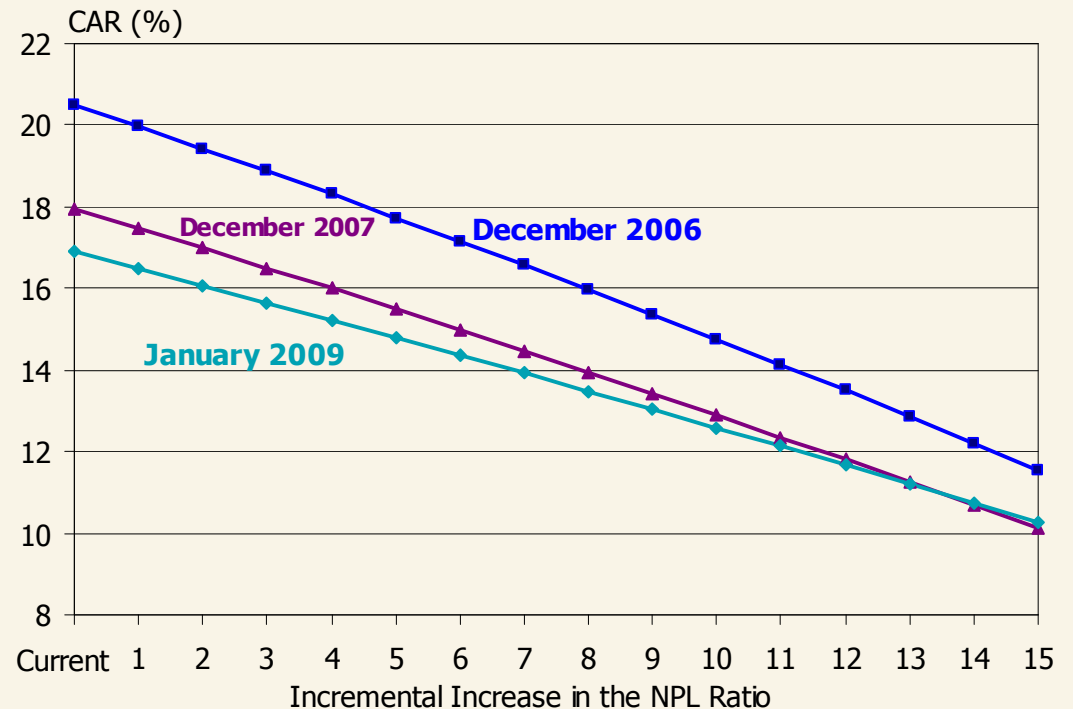




Banking Sector

According to the most recent stress test carried out by the Bank, a 15-point increase in the NPL ratio of the banking sector reduces the CAR of the sector by 6,7 to 10.25 percent, which is still above the legal limit.

Effects of Credit Shocks on the CAR of the Sector (%)



Source: IMF Global Financial Stability Report, October 2008, BRSA - CBRT



Conclusion

- CAR of the Turkish banking sector is high enough to extend more loans.
- Due to rapidly declining inflation pressures and expectations, CBRT overnight borrowing rates were decreased by 7 percentage points and lending rates by 7,5 points between November 19, 2008 and April 17, 2009 and were realized as 9,75 percent and 12,25 percent, respectively. The cut in interest rates were instantly reflected on the deposit rates, however loan interest rates are rather slow to adjust (are rather sticky).
- Due to loss of confidence and slowed economic activity, banks are reluctant to extend loans.



Conclusion

- Capital inflows are crucial elements for reviving the credits in emerging markets. Hence it is important to take action for the stability of international funds of flows among countries. Many initiatives have been taken to ease the tight conditions in credit markets. They are needed to be coordinated on an international level.
- In order to secure international capital flows, confidence in markets needs to be rebuilt by the international organizations.
- Trade protectionism should be avoided in order to boost international trade, which will also have a positive influence on reviving private sector loans.



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