

THE INTERNATIONAL



**ISLAMIC FINANCE  
FORUM**

*New Markets*

The Growth Imperative

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D'ARBLAY LTD

**13 – 17 October 2008**

Çiragan Palace Kempinski Hotel  
Istanbul, Turkey

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# Historical Perspective

- In 1980, Turkey embarked on the process of structural adjustment of its economy which has transformed Turkey beyond recognition
  
- Since 2003 Turkey has enjoyed economic stability and sustained economic growth
  - Average Real Economic growth of 6.8% p.a.
  - Average Inflation of averaging 9.2% p.a. CPI
  - Direct Foreign of \$ 70 billion during the period
  - A successful privatization program



# Strengths of the Turkish Economy

# Strong Demographics and Economic Growth

Population of 75 million people

Per capita GNP on a purchasing parity basis of \$ 8,820

Highest population growth rate in the EU

Average GNP growth 6.9% since 2003

GNP growth rate of 4.5% in 2007

## Strong Banking System

- After economic crisis of 2000-1 banking system totally restructured. 27 failed banks taken over by government Savings Deposit Insurance Fund.
- The banking sector that emerged is dominated by four private banks and three government banks
- Privatization of government banks has virtually halved their previous share of 60% of system's deposits
- Purchase of 42% of the equity of Turkish banking system by multinational banks
- Considerably stronger equity position than European or American banks
- Virtually no exposure to international assets
- Major asset classifications show strong growth and good loan loss experience

# Geo-Political Situation

- Only candidate nation for EU membership with predominately Islamic population
- Member of NATO and Council of Europe
- Vital energy corridor between oil rich Caucasus and Central Asian nations and the Energy consuming nations of Europe
- Increasing role as a mediator of conflicts in Caucasus and Middle East
- Recent breakthrough in the long standing diplomatic impasse over the division of Cyprus

# Twin Anchors of the Turkish Economy

- The IMF has been a partner with Turkey in the restructuring of the Turkish economy. Since 1980 Turkey has had 17 standby agreements with the IMF
- The EU Ascension began in 2003 when Turkey became a candidate for full membership in the EU. This has accelerated and focused the structural adjustment within the parameters of the requirements for EU membership

# Political Stability

- Since 2003 the single party government of Tayyip Erdogan's AKP which controls almost two-thirds of the seats in parliament has provided a period of unprecedented political stability to Turkey
- Recent polls show AKP still enjoys support of 40% of the electorate
- AKP political power based on demographic changes. It is likely that AKP or another party with the same basic philosophy will govern Turkey for the medium term
- Turkey's democratic institutions are built on over 80 years of political evolution. The current battle between "Islamic" and "secular" elements of society are likely to be settled within the confines of Turkey's executive, legislative, and judicial institutions

# Pitfalls

# Political

- Political tensions between the Islamically oriented AKP and the traditional secular establishment represents the major fault-line in Turkish society
- The AKP and its support base has a firm hold on political power and the traditional political parties do not represent a strong challenge
- The Secular establishment representing the traditional power base in Turkey has its strengths in the judiciary, the bureaucracy, the military, the press and the traditional business establishment.
- The Judiciary has recently in three major decisions sought to limit the power of the AKP or more accurately conform its actions to their view of the Constitution.
- There can be no absolute winners or losers in this struggle for power.
- A solution must evolve over time allowing the sharing of power and peaceful co-existence of the two factions. This is unlikely to evolve quickly or easily

# Turkey's Balance of Current Account

- Turkey's balance of current deficit is expected to exceed \$ 50 billion for 2008 over 6% of GNP
- Persistent current account deficits characterize not only Turkey but many Eastern European countries that have entered the EU
- Turkey's deficit is covered by FDI, international portfolio investments, and loans from overseas to Turkish private financial and non-financial companies
- The fastest growing segment of this funding is loans for non-financial companies
- Under normal conditions in international markets such deficits are not seen as a major problem
- Under conditions of severe stress in international markets such deficits could trigger foreign exchange difficulties

# OPPORTUNITIES IN TURKEY FOR ISLAMIC FINANCIAL INSTITUTIONS

- Real Estate Joint Ventures
  - Commercial
  - Residential
  - Shopping Centers
- Private Equity Transactions
  - Energy
  - Logistics
  - Manufacturing
  - Technology
  - Retailing
- Financing
  - Morabaha
  - Ijara