Turkey’s Unorthodox Monetary Policy Strengthened with Macro Prudential Measures and The Consequences

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Macroprudential measures heavily used in Turkey since 2010 as in many countries…

1st Step (2010-2011):
- Increase in TL reserve requirements (RRs): from 6% → max 14% (Currently 11.2%)
- Decrease in the renumeration of RRs: 5% → 0%
- Increase in general provision rates for consumer loans: 1% → 4% (for second group: 2% → 8%)
- Increase in risk weights for consumer loans: 100% → 150% (with maturity between 1 and 2 years); → %200 (with maturity above 2 years).

2nd Step (2012-2013):
- %2.02 upper limit for overdraft account rates
- Caps on Credit Card limits (4 times the monthly income)

3rd Step (2014 → ) :
- Limitations on the number of installments on credit card payments, loans could be given up to 70% for the auto loans below 50K and 50% above 50K; 75% of mortgage lending.
- New regulations restricting fees and commissions taken on credit cards and consumer loans.

Source: BRSA, CBRT
Results as intended: *Loan growth and Current Account Deficit down...*

### Consumer vs Commercial Loan Growth

- **Consumer Loan Growth (YoY):**
  - Jan-07: -20%
  - Jan-09: -10%
  - Jan-11: 20%
  - Jan-13: 20%

- **Commercial Loan Growth (YoY):**
  - Jan-07: 40%
  - Jan-09: 50%
  - Jan-11: 60%
  - Jan-13: -10%

### Current Account Balance / GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Account Balance / GDP</th>
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</thead>
<tbody>
<tr>
<td>2006</td>
<td>-6.0%</td>
</tr>
<tr>
<td>2007</td>
<td>-5.9%</td>
</tr>
<tr>
<td>2008</td>
<td>-5.7%</td>
</tr>
<tr>
<td>2009</td>
<td>-6.2%</td>
</tr>
<tr>
<td>2010</td>
<td>-9.7%</td>
</tr>
<tr>
<td>2011</td>
<td>-6.1%</td>
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<tr>
<td>2012</td>
<td>-7.9%</td>
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<tr>
<td>2013</td>
<td>-5.8%</td>
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<td>2014E</td>
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*Source: BRSA*
GDP growth has slowed markedly also as expected…

Source: CBRT
Banking sector profitability and capital adequacy down significantly...

Source: BRSA
Wither the 2023 Economic Targets?
Banks’ ROE > 14.5% on avg in the next decade to keep the CAR stable and support growth
Macroprudential Policy must be accompanied with...

- Remuneration of Reserve Requirements
- No Additional Restrictions on Fees and Commissions (retail loan growth is already at historical low levels).
- Decrease in Provisions and Risk Weights
- Promotion of Loan Growth in Strategic Sectors
- Fairer Competition with State Banks (elimination of state subsidies)
- Improvements in Bankruptcy and Enforcement Law and Regulations (eliminating the abuses in bankruptcy deferral)
- Exercising strict enforcement rules against any unfair reports and commentary against banks
- Decreasing Sector’s Direct / Indirect Tax Burden
- Paying attention to SIFI issue
Effective Tax Rate in 2013

1. Corporate Tax: TL6.5 bn

2. Other Taxes (tax, charges & other duties): TL1.9 bn

3. Cost of Reserve Requirement: TL7 bn

**Total: TL15.4 bn**

➤ This is equal to **62%** of 2013 annual net profit of TL24.7 bn