

Household Savings in Turkey: Discussing Van Rijckeghem and Üçer

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The Report

- Studies the evolution and determinants of the private saving rate in Turkey.
- Starts with a brief overview of the theory and empirical literature.
- Discusses the trends in the saving rate, while also comparing Turkey to other countries.
- Looks at both macro and micro data.
- Main objective:
 - Understanding the possible reasons behind the recent decline in Turkey's private saving rate;
 - Thinking about policy prescriptions, especially in light of the very high levels of the current account deficit and the related exposure to adverse shifts in external financing.

Main Findings

- Turkish saving rate is low by international and by historical standards:
 - Private savings as % of GDP: 16.3% 20-year average vs. 13.7% in '07;
 - Household savings as % of DI: 17% in '04 vs. 10% in '05.
- The decline is related to macro stabilization: lower budget deficits and associated 'Ricardian offsets' (?), lower inflation, and the rapid expansion of credit.
- Micro data, analyzed very broadly, seem supportive:
 - Improved prospects: mixed looking at state vs. private. (How about export vs. import sectors?)
 - Relaxed liquidity constraints key.
 - 'Ricardian effect': savings of the elderly decreased more!
- Changes in the demographic structure and social security reform together with an increase in the public saving rate could help reduce the CA deficit.

Why do People Save?

- J. Maynard Keynes (1936) lists eight motives
 - “To build up a reserve against unforeseen contingencies;”
 - “To provide for an anticipated future relationship between the income and the needs of the individual . . .;”
 - “To enjoy interest and appreciation . . .;”
 - “To enjoy a gradually increasing expenditure . . .;”
 - “To enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action;”
 - “To secure a masse de manoeuvre to carry out speculative or business projects;”
 - “To bequeath a fortune;”
 - “To satisfy pure miserliness, i.e., unreasonable but insistent inhibitions against acts of expenditure as such.”
- One addition since Keynes: the downpayment motive.

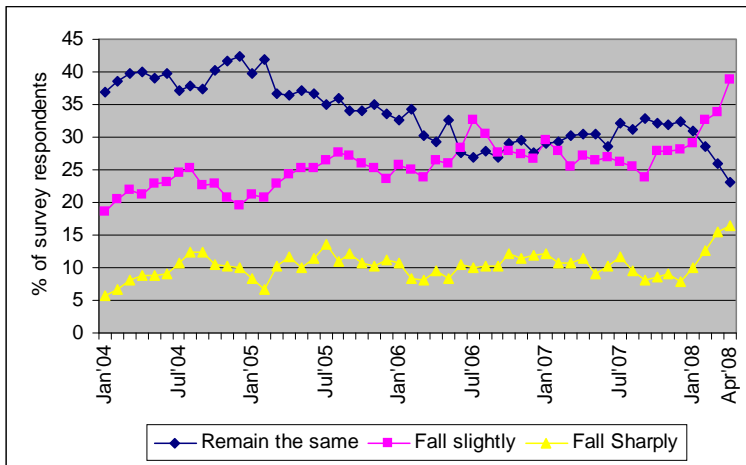
- Private saving rate in China vs. Turkey, what explains the difference?
 - Demographics: not really.
 - High productivity growth: possibly.
 - Liquidity constraints (credit): quite possibly.
 - Social insurance: quite possibly.
 - What about undervalued currency, and the associated CA surplus?
 - Culture? (Carroll et al.'94)
- What about the Mediterranean countries or new member states?

The Crises and Recent Period of Stability

- Recent period of stability:
 - Anticipated income growth (the life-cycle/PI motive);
 - Reduced real interest rates (the intertemporal motive).
- A history of crises, including the 1994 and the 2001 events.
- In other words, a history of periodic employment and earnings uncertainty, despite the recent period of stability.
- So, could the recent stability signal reduced earnings uncertainty and therefore a reduced motivation of precautionary savings?
 - Inflation has been under control, but,
 - Unemployment rates remain high and so does, it seems, earnings volatility.
- A minor note: Hard to read the durables growth in '03 and '04!

Consumer Sentiment:

Expectations for job opportunities (next 6 months)

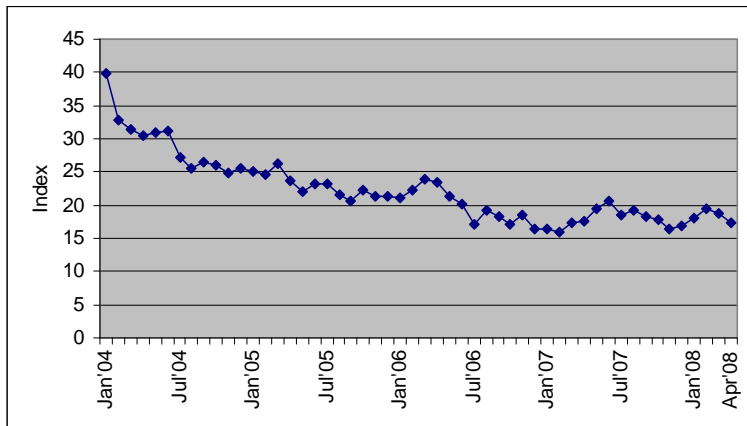


Source: TurkStat.

Consumer Sentiment:

An Index of Probability of Saving (next 6 months)

Based on the % of households that report it to be “very likely”, “fairly likely”, “not likely”, or “not at all likely” that they will save.



Source: TurkStat.

Private Consumption Expenditures

Durable Goods are different!

	Private Final Consumption Expenditures	Durable Goods
2001	-9.2	-30.4
2002	2.1	2.1
2003	6.6	24
2004	10.1	29.7
2005	8.8	15
2006	5.2	2.9

Source: CBT Financial Stability Reports based on data from TurkStat.

- Improvements in social safety networks could also explain why households might save less (the precautionary motive).
- However, although the social insurance structure in Turkey could be considered generous, it's still far from "perfect":
 - Duygan (2006) shows that households would have paid dearly to insure their consumption against the idiosyncratic component of the aggregate shock.
- Since '94, there have been some changes including:
 - Introduction of unemployment insurance;
 - But also many changes in coverage of health insurance.
- Pension system:
 - The sustainability of the social security deficit (4% of GDP);
 - May'08 reform.

Liquidity Constraints

- Changes in the banking sector post'01, and wide expansion of credit especially to households:
 - Debt-to-Disposable Income ratio rose from 7.5% in 2003 to 29.5% in 2007 but some "catching up":

Table I.8. Household Liabilities to GDP in Selected Countries

	Household Liabilities excluding Housing Loans/GDP (%)			Household Liabilities /GDP (%)		
	2004	2005	2006	2004	2005	2006
Lithuania	2.5	4.1	6,7	8,0	13.2	19.3
Czech Republic	3.9	4.7	5.3	4.7	14.3	17.3
Hungary	5.4	6.8	9.2	14.9	16.9	21.1
Latvia	5.3	7.7	9.3	17.1	27.1	38.3
Poland	9.7	9.7	10.7	13.9	15.1	18.2
Italy	12.0	12.3	12.7	25.3	27.6	29.2
Greece	11.0	12.4	14.2	30.5	36.2	41.0
Portugal	13.8	13.9	15.1	63.2	67.3	74.3
Spain	17.5	19.1	20.8	57.5	68.6	76.8
EU-25	17.4	17.6	17.6	56.8	60.4	63.2
Eurozone	15.7	15.9	15.8	49.1	52.3	54.1
Turkey	5.9	7.5	8.6	6.6	10.0	12.4

Source: ECB, CBRT

Liquidity Constraints (cont'd)

- Increased insurance against employment shocks;
- Allows being able to borrow against anticipated income growth;
- Introduction of mortgages: now only need to save downpayment;
- Possibly lowered inter-vivos transfers and bequests;
- Also the interplay with precautionary motive.
- Concerns:
 - Real interest rates on credit cards remain VERY high;
 - Very high rates of borrowing, even among the elderly;
 - Financial literacy and disclosure;
 - And in general, we have very recently seen how things can unfold with highly leveraged households (economies).

Income and Consumption Inequality

- Despite the recent declines, household income inequality remains high.
- Moreover, consumption inequality seems to be increasing over the last decade.
- This coincides with a period where public education spending is being replaced by private, especially in early education.
- So, another concern for low savings:
 - Earnings variance is likely to remain high;
 - Increasing need to save for children's schooling.

Distribution of Income and Consumption:

Some Numbers

Income Distribution: Share of Total Income by quintiles, 1994-2005

	1st 20 %	2nd 20 %	3rd 20 %	4th 20 %	5th 20 %
1994	4.86	8.63	12.61	19.03	54.88
2002	5.29	9.81	14.02	20.83	50.05
2003	6.00	10.28	14.47	20.93	48.32
2004	6.04	10.69	15.22	21.88	46.17
2005	6.05	11.08	15.83	22.60	44.44

Source: TurkStat.

Distribution of Total Consumption Expenditures by quintiles, 1994-2002

	1st 20 %	2nd 20 %	3rd 20 %	4th 20 %	5th 20 %
1994	5.74	9.96	14.48	21.11	48.7
2002	5.44	9.88	15.18	20.26	49.24

Source: Duygan & Guner (2006).

Concluding Remarks

- While growth, stability, and lower inflation may explain the decline in saving rate, the question remains whether it is safe to save less, from both micro and macro perspectives.
 - Need to better understand the micro dynamics of household labor income, transmission of income shocks, and household portfolios in general.
 - Global prospects, including inflationary pressures; expected monetary policy response and its implications for both household portfolios and the CA.
- But while thinking about policies to increase the saving rate, the key will be to note the heterogeneity in household savings response and possible distortions:
 - Reducing taxes on interest income: the poor vs. the wealthy;
 - The financial market structure (informal savings);
 - An overly generous social security system (pre-reform).