

VAKIFBANK WEEKLY ECONOMICS REPORT

**Savings in Turkey:
Historical trend, current outlook and
policy options**



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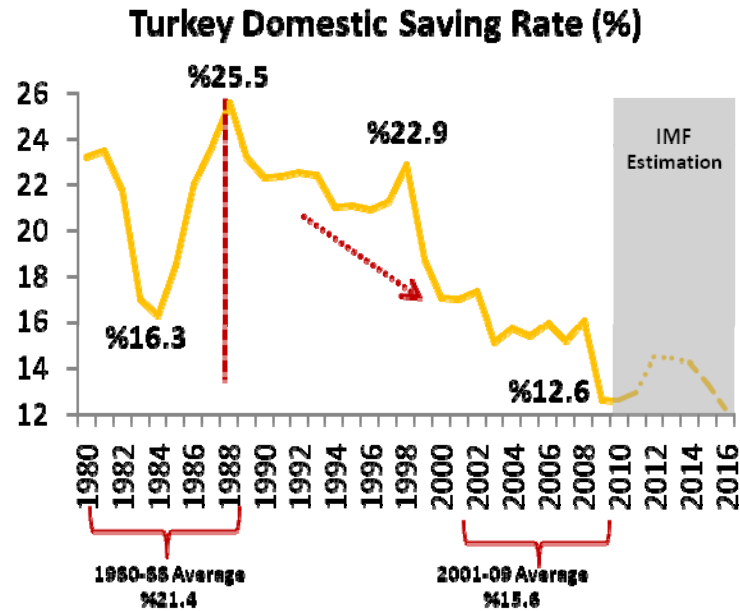
- ✔ Mainly in 2000's, savings has become an important issue in terms of sustainability of economic growth through financing of investment.
- ✔ Besides, current low level of saving rates may be the most important risk for sustainability of growth.
- ✔ Savings are affected by many factors such as economic, psychological and socioeconomic factors.
- ✔ In this context, historical trend of savings, current outlook in Turkey and policy options to increase the savings are analyzed in this study.

Saving is important, Why?...



- ✔ Economic growth and development are also related to investments in Turkey. Those investments are financed through the foreign reserves and domestic savings.
- ✔ Especially when global uncertainties rise, domestic savings become more important in terms of financing investment.
- ✔ In 2011, current account deficit to GDP in Turkey increased to 10% while domestic saving as a share of GDP was 13.9%. These indicators show how important the external financing is in Turkey.
- ✔ In case external financing dries up due to global uncertainties, since the domestic savings are at low levels, growth of this economy may slow down.

The historical domestic savings in Turkey...

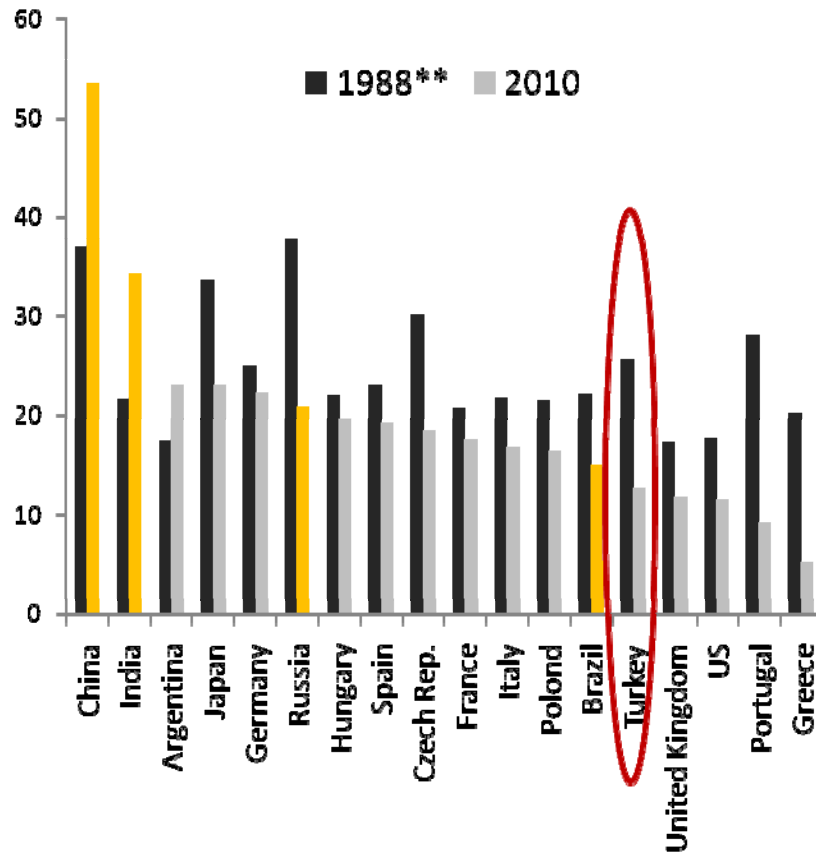


Source: IMF

- Along with the financial stability programme in January 1980, the new concept of outward-oriented growth strategy was implemented and global outlook became important.
- Saving rate decreased to 16.3% of GDP between 1980-88 as a result of high inflation and political uncertainties. In 1988, saving rate increased to 25.5% which was the highest level in its history.

- It can be said that the economic growth in 1988 was mainly due to external savings.
- Domestic savings have been generally a decreasing trend since 1988.
- Decrease in saving rates was mainly driven by public sector between 1988-2001 while it was driven by private sector between 2001-2010.

Saving Rates (GDP, %)

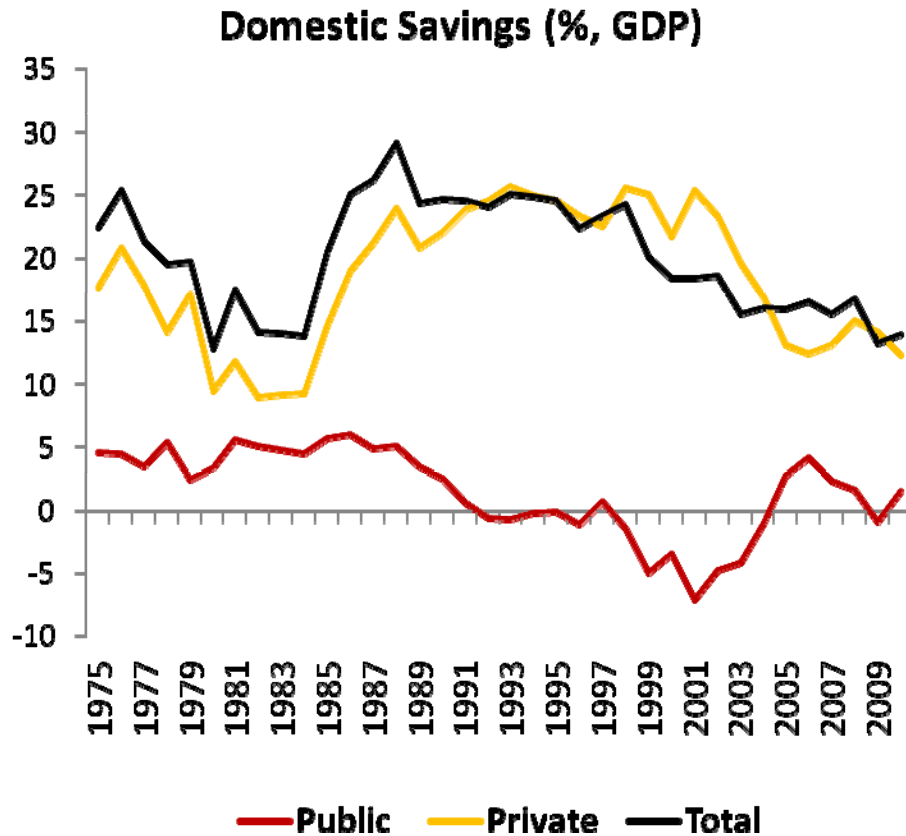


Source: IMF
* 1999 datas

**We choised the period when the saving rates are highest.

- ✔ Global saving rate as a share of GDP decreased to 19.6% in 2010.
- ✔ Saving rates of countries have been generally decreasing since 1980 except for China.
- ✔ China has the highest saving rate in the world.
- ✔ Saving rates of some countries, which have a strong economic outlook such as US and Germany, have relatively decreased compared to other countries.
- ✔ US has a very strong private pension system while China has an underdeveloped pension system. Hence Chinese save more because of their concerns about the future.

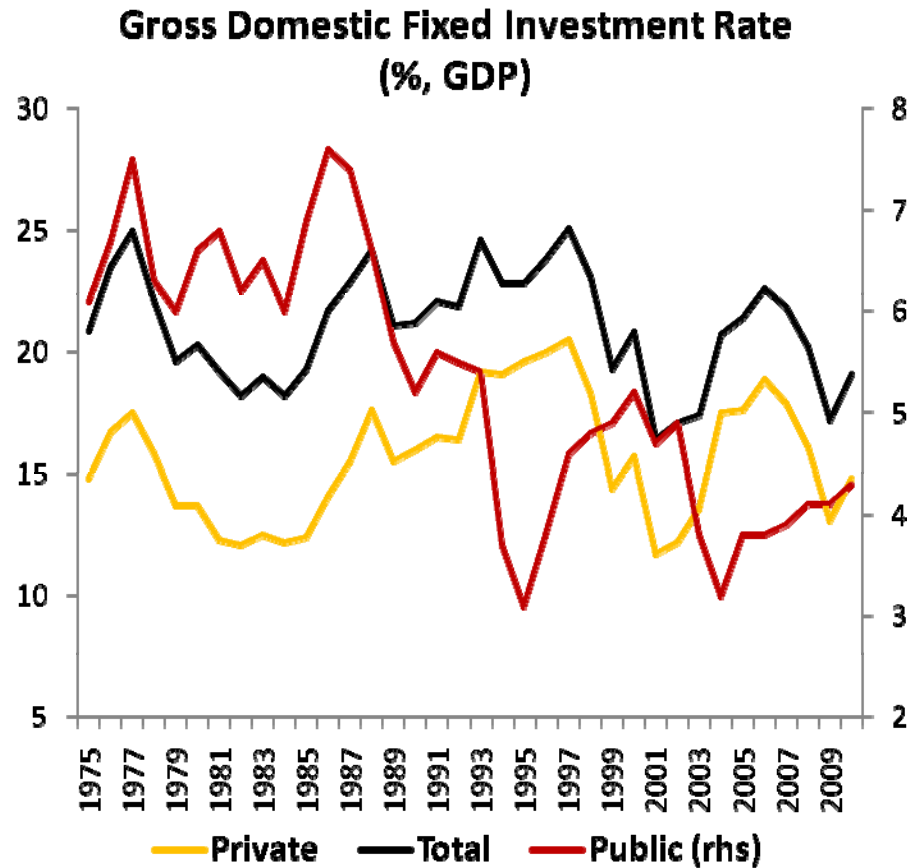
Private and Public Sector Savings...



Source: Ministry of Development

- ✓ The ratio of domestic savings to GDP decreased to 13.9% in 2010.
- ✓ There was a structural change in public savings.
- ✓ Thanks to tight fiscal policy, public saving rate has increased.
- ✓ Increasing public sector savings decreased the pressure on financial markets.
- ✓ Private sector savings have rapidly declined since 2001.

Gross Domestic Fixed Investment and Domestic Savings...

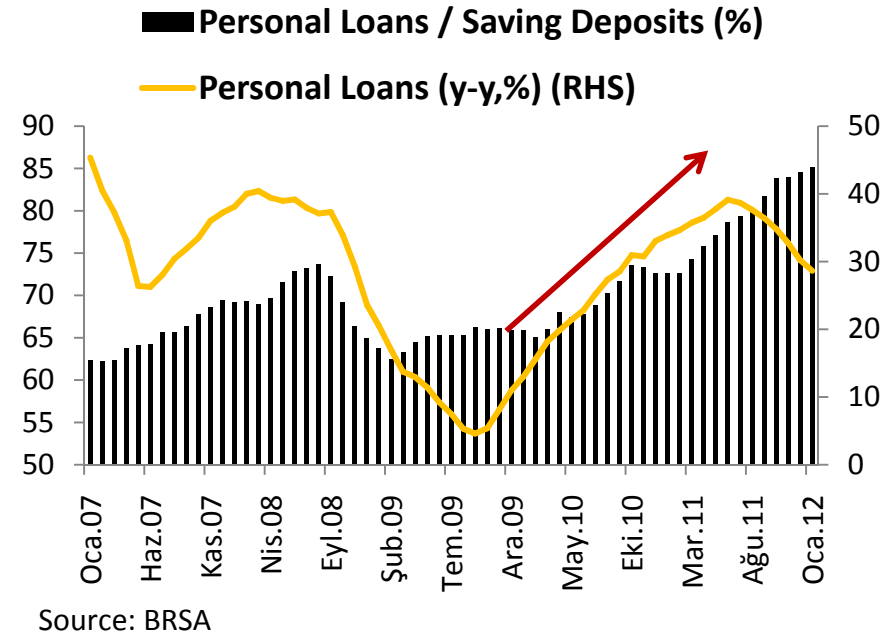
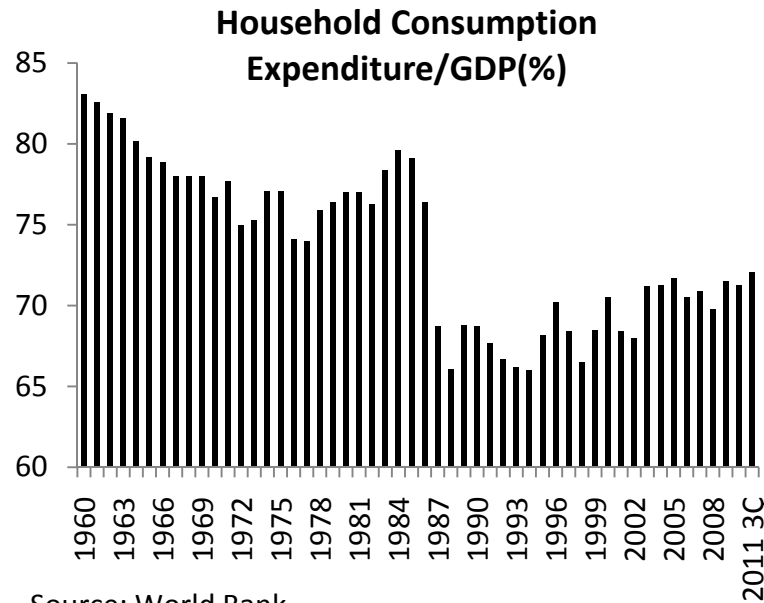


Source: Ministry of Development

Correlation Between Growth and Fixed Investment	
Public	Private
-0.37	0.58

- Private fixed capital investment moves in line with the the total fixed capital investment.
- Correlation between growth and private fixed investment rate is higher than the growth and public fixed investment rate.

Movements of Household Expenditure...






- Household consumption expenditure is a key component of the Turkish economy. It was around 72.1% of GDP in the third quarter of 2011 and 71.3% of GDP in 2010.
- Personal loans have sharply increased in the recovery period. Therefore, personal loans to saving deposits ratio has displayed an upward trend since the end of crisis.
- Although, momentum of personal loans growth has decelerated after the adoption of BRSA's new regulations about consumer loans, personal loans to saving deposit ratio has still continued to increase.
- Upward movement of personal loans to saving deposits ratio and high share of household consumption expenditure in GDP indicate a strong consumption demand in Turkey.

Household Liabilities has continued to increase...

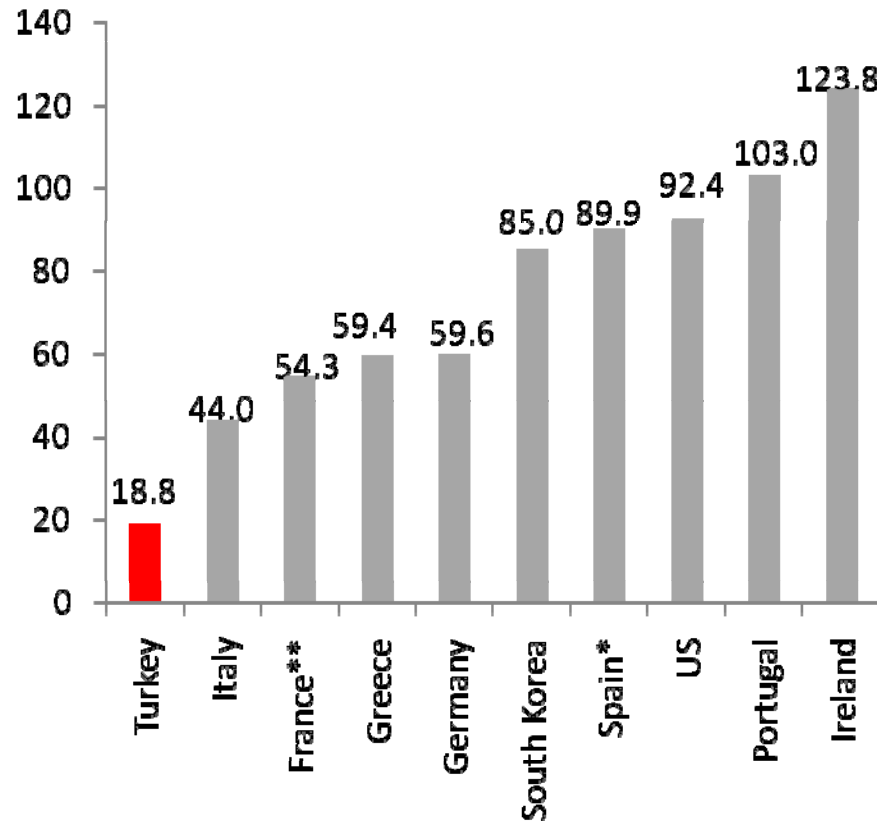


Household Indicators			
(Billion TL)	2009	2010	2011 Q3
Household Disp. Income	408.9	463.4	529.7
Household Liabilities	147.1	191.1	236.6
Household Interest Payments	21.1	20.4	22.3
Interest Payments/Hh. Disp. Income (%)	5.2	4.4	4.2
Liabilities/ Hh. Disp. Income (%)	36.0	41.2	44.7
Source: CBRT			

-  Household liabilities expansion was about 23.8% in the third quarter of 2011. Surge in household liabilities has been mainly driven by the increase in consumer confidence in recovery period.
-  This movement of household liabilities is also closely linked to an increase in growth of personal loans.
-  Household liabilities to disposable income ratio has a gradual increase since the end of last global crisis. This ratio reached at 44.7% in the third quarter of 2011.

International Comparison of household indebtedness...




Household Debt (GDP, %)



Source: Bloomberg

*: 2009

** : 2010

-  Although household debt as a share of GDP in Turkey has increased, it is still low compared to the other countries.
-  Household debt as a share of GDP gradually increased in the post-crisis period. It reached 18.8% in the first half of 2011.
-  It was above 100% in many developed countries which struggle with the high debt stock and budget deficit.

Distribution of Household Assets...



Household Financial Assets (Billion TL)						
	2009		2010		2011 Q3	
	Billion TL	Share (%)	Billion TL	Share (%)	Billion TL	Share (%)
TL Deposit	209.6	49.9	253.8	52.7	280.4	52.1
FX Deposits	98.2	23.4	96.9	20.1	106.9	19.9
-FX Deposits (Billion \$)	65.2	--	62.7	--	58	--
Currency in Circulation	35.4	8.4	44.6	9.3	52.1	9.7
GDDS+Eurobond	14.1	3.3	9.4	2	8.8	1.6
Mutual Funds	26.1	6.2	28.5	5.9	28.3	5.3
Stocks	24.6	5.9	32.6	6.8	32.4	6
Private Pension Funds	9	2.1	12.1	2.5	14.1	2.6
Repos	2.3	0.5	1.5	0.3	2.2	0.4
Precious Metal Deposits	1.1	0.3	2.3	0.5	12.5	2.3
Total Assets	420.4	100	481.7	100	537.7	100
Total Liabilities	147.1		191.1		236.6	
Tot. Ass./ Tot Liab. (%)	35.0		39.7		44.0	
Tot. Liab. / GDP(%)	15.4		17.3		18.8	
Source: CBRT						

- Deposits have the highest share in total household assets. Share of deposits in total household assets started to increase after crisis due to end of expectation of policy rate cut.
- On the other hand, precious metal deposits increased in 2011 due to surge in gold demand.
- Private pension funds are still at low levels in total household assets.

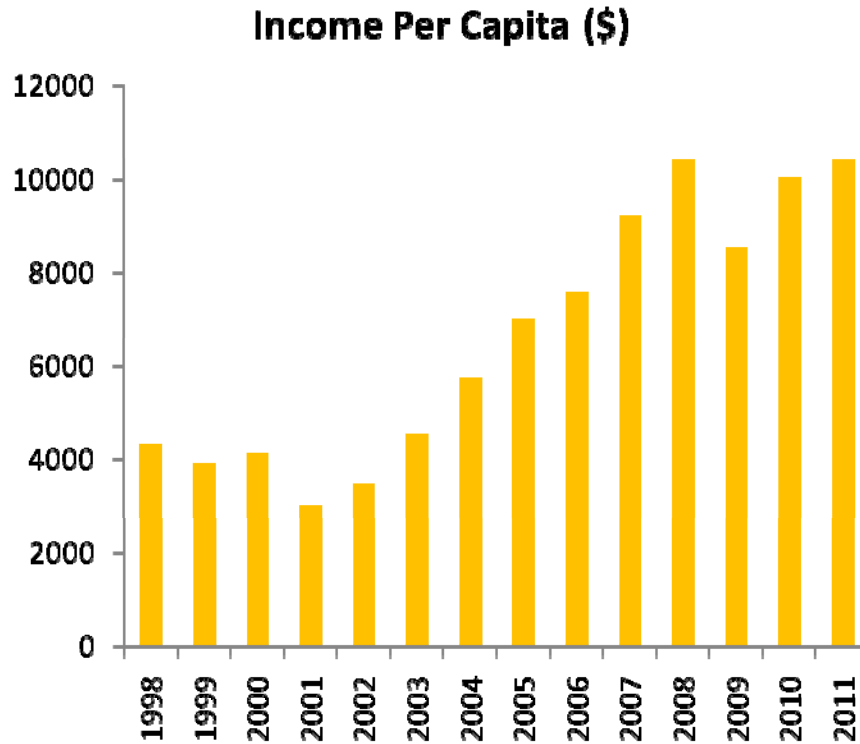
Overall Balance of Turkish Economy...

OVERALL BALANCE						
	Current Prices (billion TL)			% GDP		
	2010	2011*	2012**	2010	2011*	2012**
NetExports of Goods and Services	-60.9	-107.9	-101.9	-5.5	-8.4	-7.1
Exports of Goods and Services	233.1	302.8	345.6	21.1	23.6	24.2
Imports of Goods and Services	294.0	410.7	447.6	26.6	32.1	31.4
Public Disposable Income	138.2	178.1	184.6	12.5	13.9	12.9
Public Consumption	120.5	141.4	154.6	10.9	11.0	10.8
Public Savings	17.6	36.7	30.0	1.6	2.9	2.1
Public Investment	44.6	56.8	61.4	4.0	4.4	4.3
Public Savings - Investments	-27.0	-20.1	-31.4	-2.4	-1.6	-2.2
Private Disposable Income	956.7	1,093.8	1,232.4	86.7	85.4	86.4
Private Consumption	820.7	959.9	1,046.1	74.4	74.9	73.4
Private Savings	136.0	133.9	186.3	12.3	10.4	13.1
Private Investment	178.9	231.3	265.7	16.2	18.0	18.6
Private Savings - Investments	-42.9	-97.4	-79.5	-3.9	-7.6	-5.6

Source: Ministry of Development *: Estimate, **: Programmed

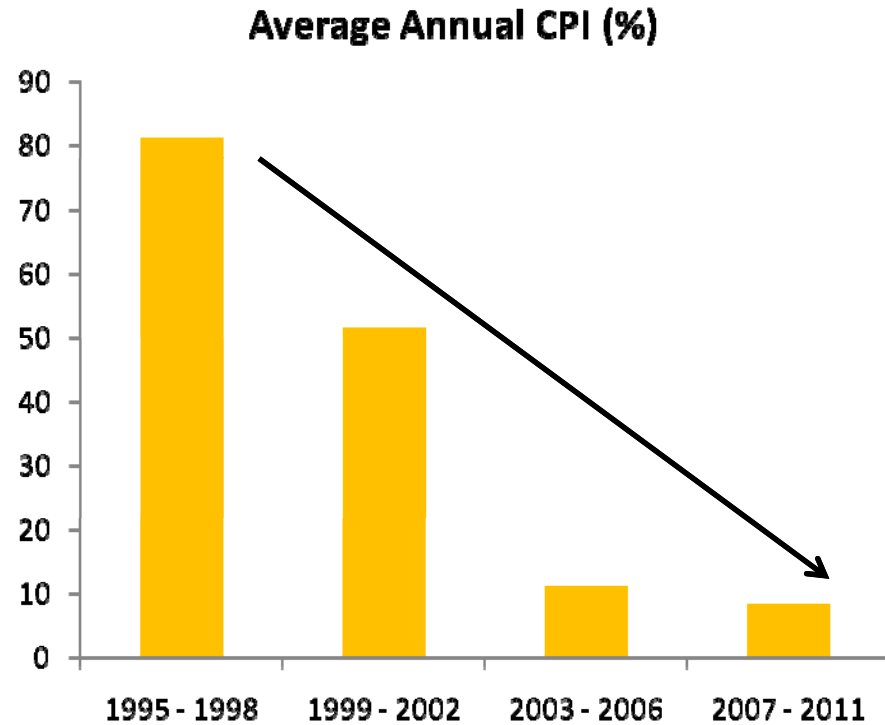
-  Savings rates are expected to rise in 2012.
-  Private savings rate is estimated to rise from 10.4% to 13.1% in 2012.

Income Level – Inflation...



Source: TurkStat

- Income per capita which was \$3,000 in 2001 increased to 10,444 in 2011.
- Despite the massive increase in income, savings rate has declined.

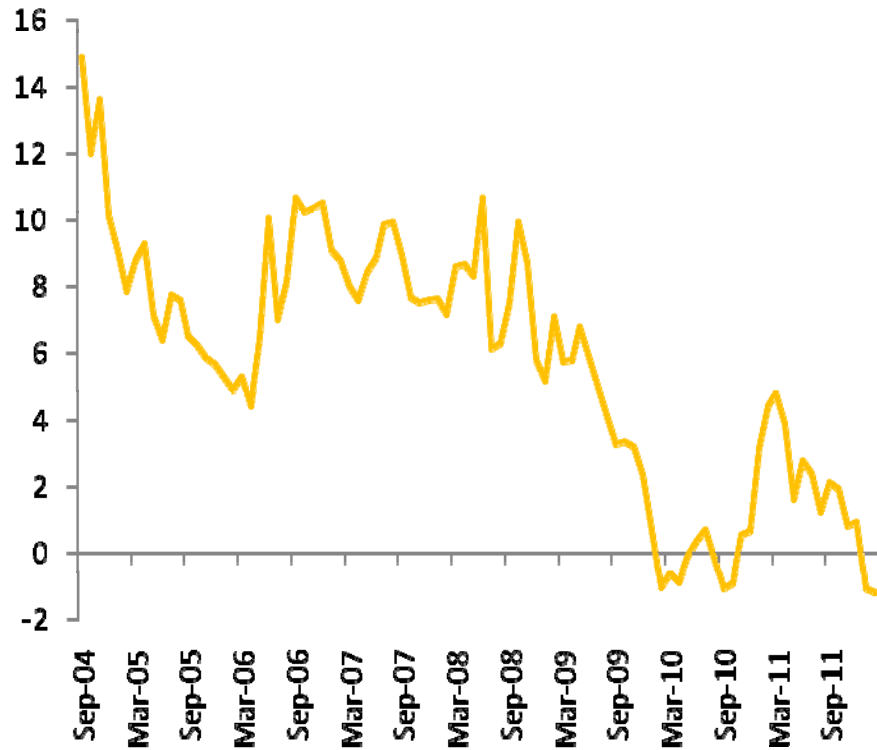


Source: CBRT




- Higher inflation leads to higher saving rate due to incentive to compensate for loss in real value of household assets.
- Lower inflation period since 2003 has caused to a decline in savings of households.

Real Interest Rate...

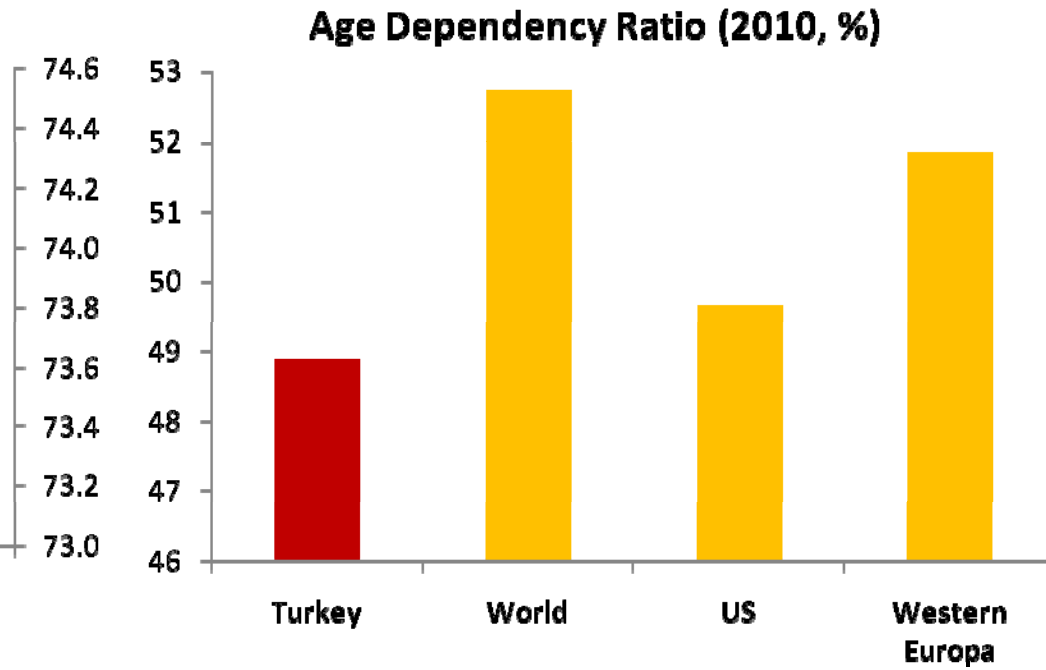
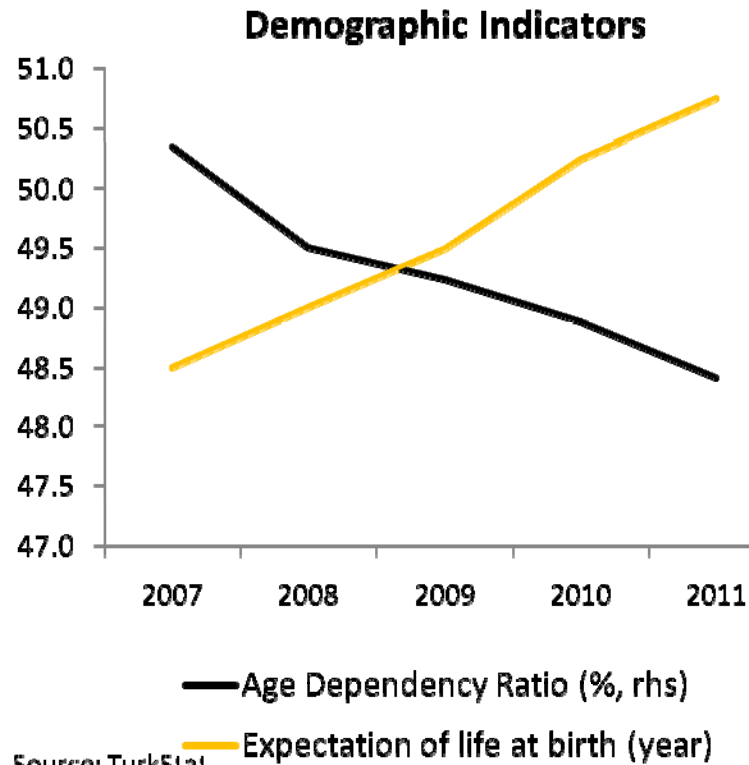
Real Interest Rate (%)



Source: CBRT, Bloomberg

-  Real interest rate is the main determinant of the households saving and consumption decisions.
-  While high real interest rates encourage people to postpone their consumption, that also contributes to increase their savings.
-  Decreasing in real interest rates since 2003 has caused to decline in saving rates.

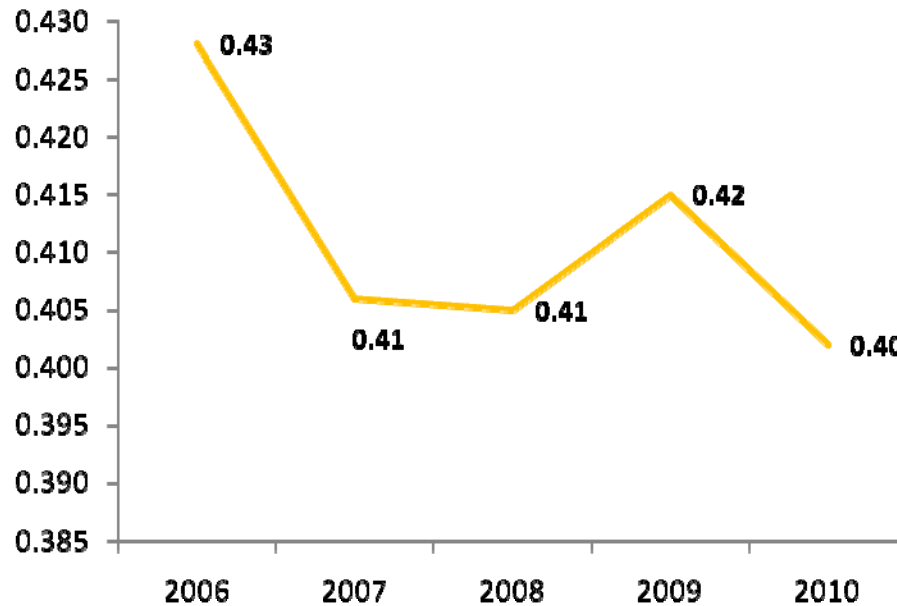
Demographic indicators...



- ✓ The demographic structure of the population plays a key role on savings.
- ✓ Decline in the dependency ratio means an increase in number of people having high consumption potential.
- ✓ While dependency ratio has downward movement in Turkey, it remains low compared to the world average.

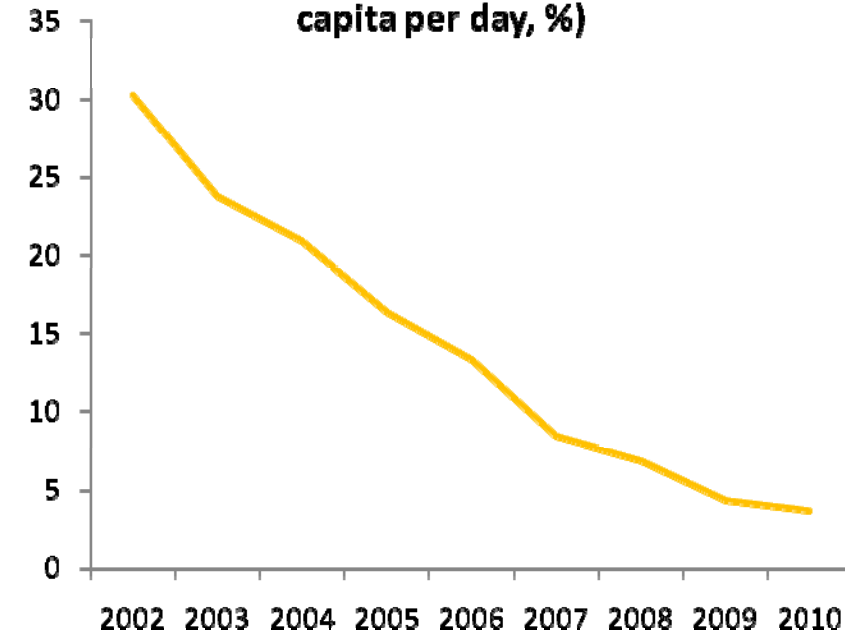
Poverty and Income Distribution...

Gini Coefficient






Source: TurkStat

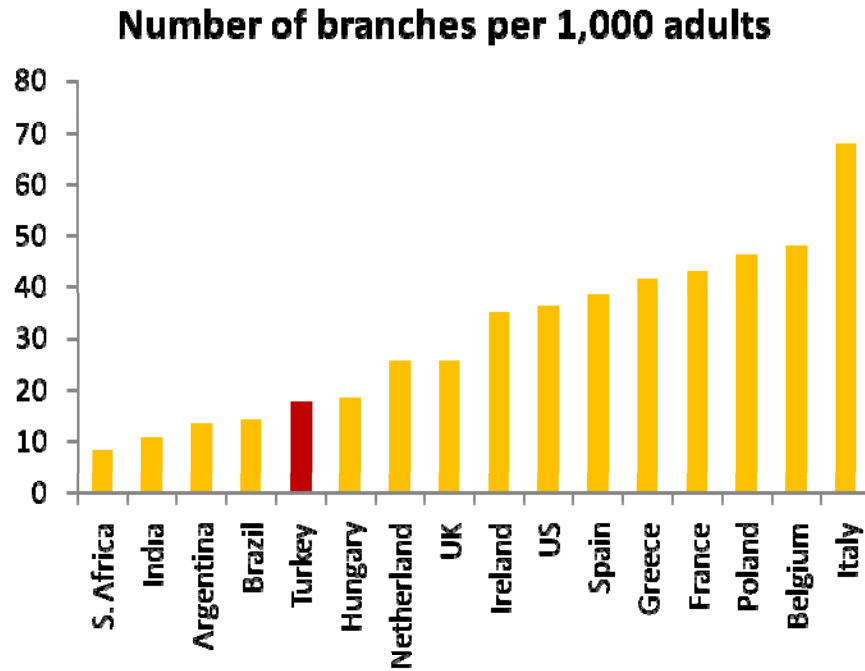
Individual Poverty Ratio (Below \$4.3 per capita per day, %)



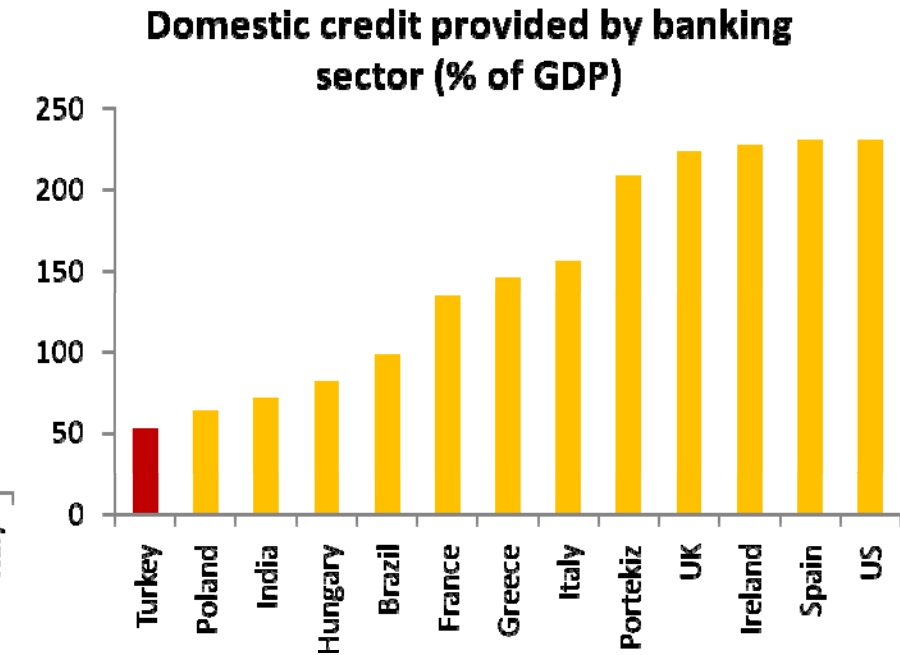
Source: TurkStat

-  Gini coefficient which is used for measure of income inequality, fell to 0.40 in 2010 from 0.43 in 2006.
-  The percentage of people who live below \$4.3 per day declined from 30% to 3.66% in 2010.
-  Despite the improvement in poverty and income distribution, saving rates continue to decrease.



Financial Deepening and Accessibility...



Source: BRSA



Source: World Bank, BRSA

-  Access to the financial system has significant impacts on savings behavior.
-  Although Turkish financial system has improved in terms of both financial deepening and accessibility in recent years, it is still behind other countries.

Policy options

1. Tax incentive
2. Macro policies
3. Private pension system
4. Gold under the pillow
5. Social policies
6. Institutional setup
7. Financial literacy
8. Alternative investment instruments

1. Tax incentive

Withholding Tax Rates	
Treasury bond and bills	%10
Private sector bonds	%10
Bank deposits	%15

- ✔ Increasing private sector savings is important to increase the domestic savings.
- ✔ Bank deposits are subject to 15% withholding tax.
- ✔ Tax incentive such as reducing withholding tax rates for the longer term, can encourage the household to save more and rise the private sector savings.

2. Macro policies

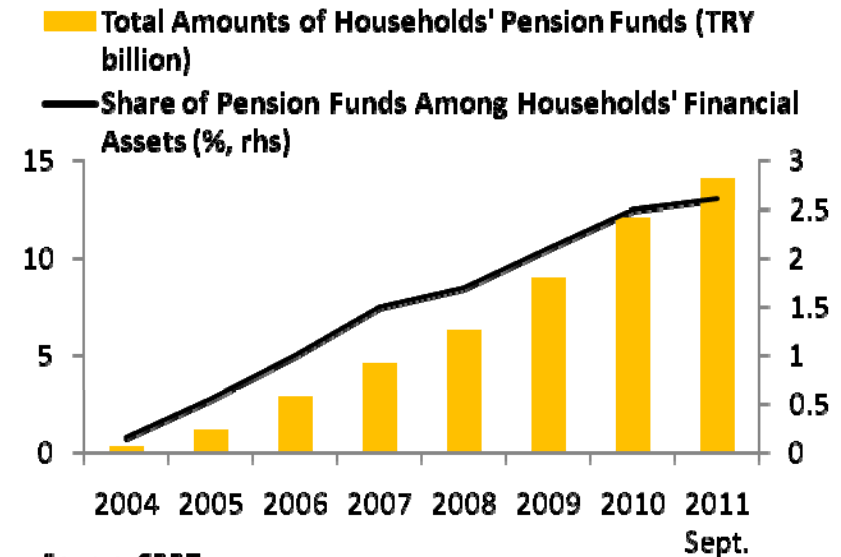
- ✔ Macro policies such as monetary and fiscal policies are also important to increase the domestic savings.
- ✔ In recent years, tight and stable fiscal policies provide to Turkish economy a strong position in terms of public balances. This situation increases the possibility of taking new measures to enhance the saving rate.
- ✔ In addition to fiscal policy, using monetary policy in parallel to the aim of increasing domestic savings seems to be essential to the effectiveness of the policy.





3. Private pension funds

Private Pension System in Turkey (16 March 2012)

Number of Participants	2,701,654
Total Amount of Participant's Funds	TRY15,731 million
Total Amount of Contributions	TRY13,150 million
Total Invested Amount	TRY12,772 million
Number of Intermediaries	17,969
Number of Pension Companies	15

Source: Pension Monitoring Center



-  Private pension system is complementary to the state social security system. Private pension is based on the voluntary participation and the defined contribution principle. System aims to improve the welfare level of individuals in the future by savings.
-  Private pension system is recently introduced system in Turkey. Hence, it is encouraged by the central government with tax incentives. 10% of monthly salary is subject to tax exemption.
-  Number of participants is very low and most of the participants are university educated, high income and young people in Turkey. Hence, potential for improvement of pension funds is high in Turkey.
-  Increasing the threshold for tax exemption and informing households about the benefits of private pension system can increase the number of participants and the amount of contributions.

4. Gold under the pillow

- ✔ In Turkey, nearly 5000-6000 tons of gold are estimated in under the pillow savings.
- ✔ Trading the gold investment rather than hiding provides to the economy additional resource. Hence, trading the golds under the pillow is so essential.
- ✔ CBRT increased the share of TRY reserve requirements that can be kept in gold from 10% to 20%. CBRT's decision provides increasing reserves and gold savings through banks.
- ✔ Encouraging policies and providing some advantages for the gold deposits can decrease the gold under the pillow.

5. Social policies

- ✔ In Turkey, the dependency ratio is 48.42%. Moreover, female participation rate in labor force is so low.
- ✔ High dependency ratio decreases the household savings.
- ✔ While increasing the female participation rate in labor force reduces the dependency ratio, it also increases the saving rates by increasing the total income of households.
- ✔ Also, high educated people saves more.
- ✔ Social policies aiming to increase the education level and the female participation rate can be helpful to increase the domestic savings.

6. Institutional setup

- ✔ Some institutional regulations can be helpful to increase the domestic savings.
- ✔ “Istanbul Financial Center” project can make significant contributions to increasing savings.
- ✔ Centralization of financial intermediation activities in Istanbul on a global scale is important for increasing domestic savings and efficient usage of these savings and attracting the foreign savings of residents.

7. Financial literacy

- ✔ Financial literacy is an understanding of money and financial products that people can apply to financial choices in order to make informed decisions about how to handle their finances.
- ✔ Increasing financial literacy in the society is important to change the households behaviour of savings and also increase the amount of savings.

8. Alternative investment instruments

- ✔ Increasing alternative investment instruments based on the different choices of individuals can increase the savings.
- ✔ For example, interest free investment instruments provide individuals, who prefer interest free return, save more.

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