

Turkey

Non-Bank Financial Institutions and Capital Markets

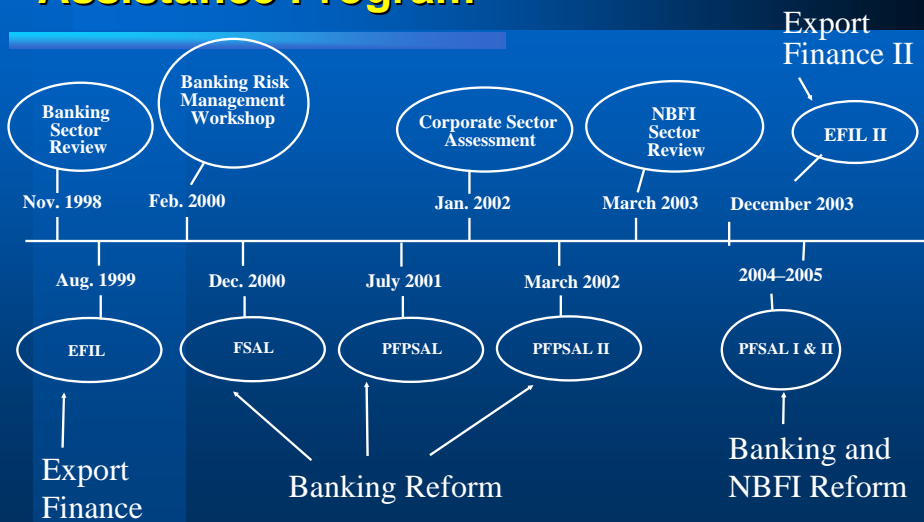
Development Strategy



The World Bank

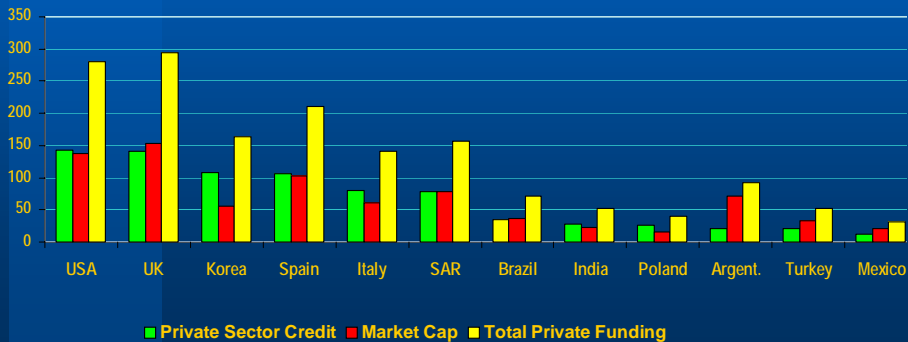
Lalit Raina
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ECSPF

Turkey – World Bank Financial Sector Assistance Program



Where do we stand in Turkey?

Financial Sector Depth - Cross Country Comparison
(2001, % of GDP)



What should we do – Strategy ?

- Bring macro-economic stability – increase long term investment incentives
- Mobilize savings – build individual investor base
- Build institutional investor base – increase demand
- Deepen and broaden securities markets – increase product supply
- Develop alternative forms of NBFIs
- Strengthen confidence in financial markets

I. Mobilize Savings

Current situation

- Retail savings in real estate (40% of private investment– \$10-14B per year) and short term instruments
- Only 1.2 million retail investors on ISE; large holdings of gold, mattress money, FX deposits abroad
- Negligible share in MSCI All Country World Equity Index

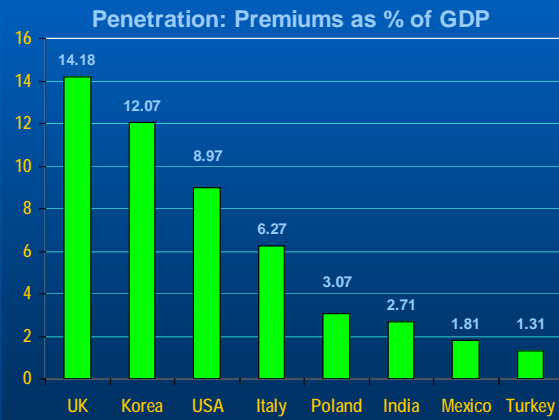
Medium term Strategy

- Bring > 50% of informal savings (20% of GDP or \$30B) in the formal financial system over 3-5 years
- Gradually increase foreign portfolio investment as % of GDP

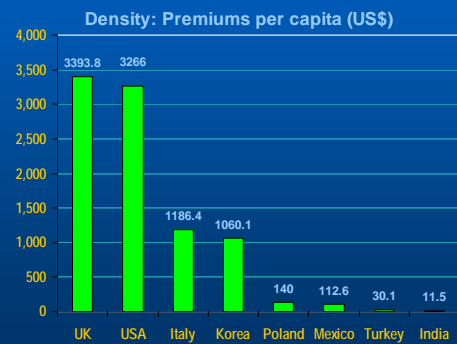
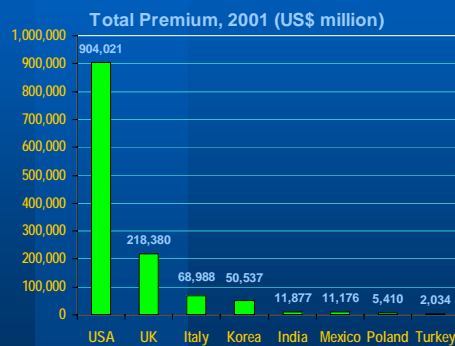
II. Build an Institutional Investor Base

- Stimulate Growth of Insurance Sector
- Encourage Growth of Mutual Funds, Investment Companies and REITs
- Facilitate Growth of Pension Funds

II A. Insurance – World Comparison (cont'd)



II B. Insurance – World Comparison

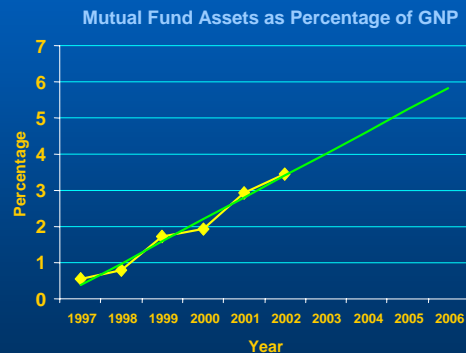
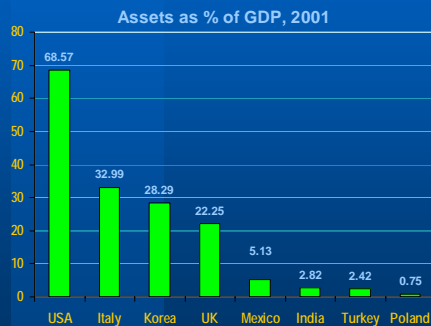


II C. Insurance

What are the issues?

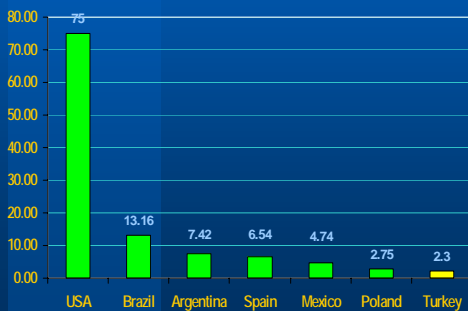
- Low insurance penetration and density
- Excessive competition
- Captive agency system
- Losses and capital shortfalls
- Structural changes in the reinsurance market
- Shortage of investment opportunities

II E. Mutual Funds – World Comparison

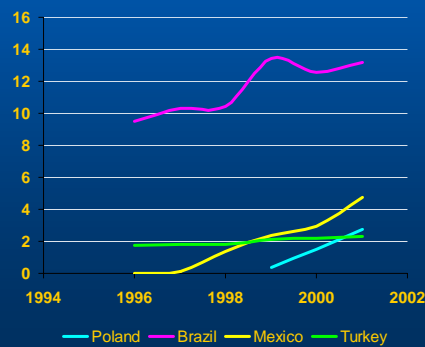


II F. Pension Funds – World Comparison

Private Pension Funds Assets
% of GDP, 2001



Private Pension Fund Assets as %
of GDP (1996-2001)



II G. Institutional Investors – Medium Term Strategy

Insurance

- Insurance penetration at 3-4% of GDP
- Enforcement of mandatory insurance, develop new products
- New, modern insurance law
- Facilitating consolidation and exit
- Education

Mutual funds

- Mutual fund assets at 5-6% of GDP
- Encouraging fund consolidation
- Upgrading regulations to EU standards

Pension funds

- Private pension fund assets at 4-5% of GDP (US\$10-12B)
- Harmonization & upgrading of pension regulation to OECD/best practice standards

III. Develop Securities Markets

Equity

- Deepen and Broaden the ISE equity markets

Fixed Income

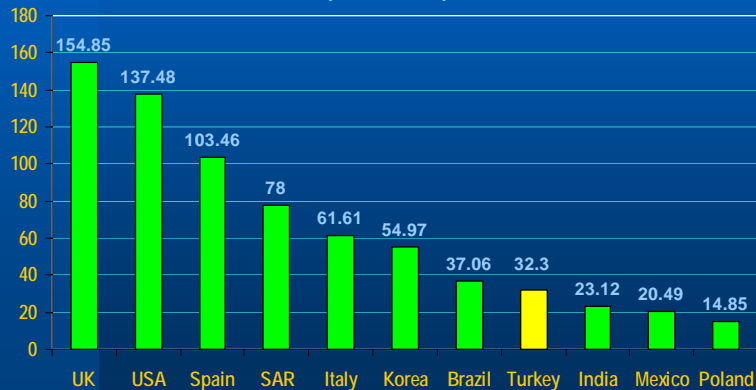
- Enhance efficiency of sovereign debt market
- Develop a commercial paper/corporate bond market

Derivatives

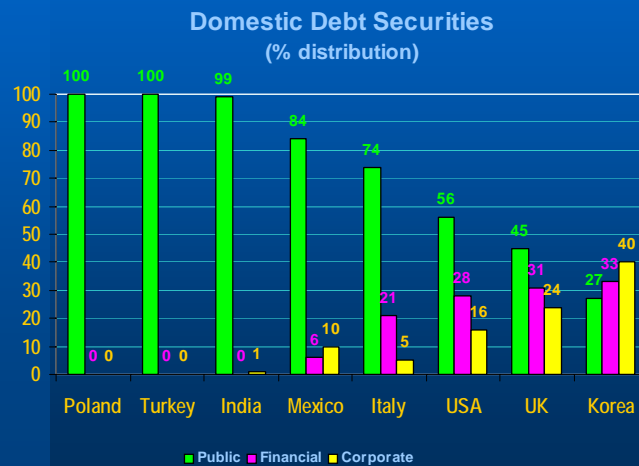
- Develop hedging instruments and formal derivatives markets

III A. Equity Market Capitalization – World Comparison

Market capitalization of listed companies
(% of GDP)



III B. Fixed Income – World Comparison



III C. Derivatives Markets

Current situation

- Small illiquid FX futures market on the ISE
- No exchange traded interest rate or equity index futures or options

III D. Develop Securities Markets – Medium Term Strategy

Equity markets

- Raise free float to 35-40%, list > 200 medium-sized companies next 3-5 years; list 75-100 large companies annually, simplify listing rules

Fixed income markets

- Lower trading costs of sovereign debt
- Raise corporate debt to 5-6% of total debt market next 3-5 years (\$8-10B or 3.5-4.5% of GDP)

Derivative markets

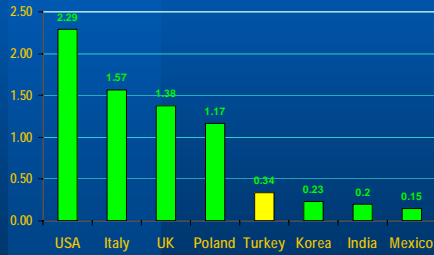
- Create liquid derivative markets through links with foreign markets, open Istanbul Futures & Options Exchange, encourage development of interest rate futures

IV. Develop Alternative Types of NBFIs

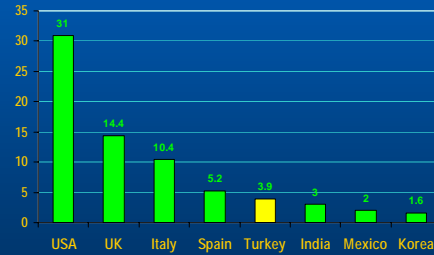
- Develop the Leasing Industry – longer term investment finance
- Develop the Factoring Industry – short term working capital
- Develop the Venture Capital Industry – risk capital, knowledge economy

IV A. Leasing—World Comparison

Leasing - Annual Volume
(% of GDP)

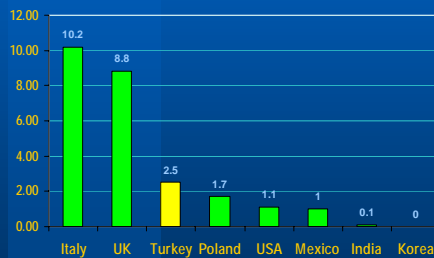


Leasing - Market Penetration (%)

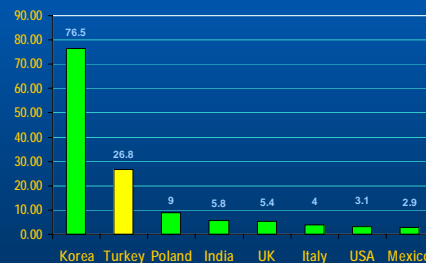


IV B. Factoring— World Comparison

Factoring - Total Volume
(% of GDP)



Export Factoring as % of Total



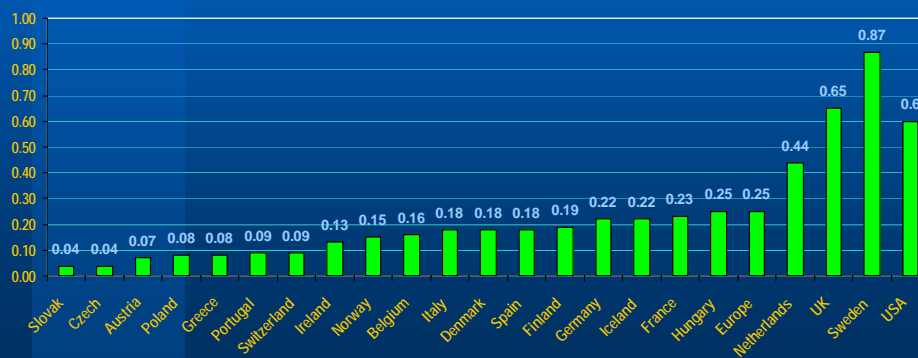
IV C. Leasing and Factoring

What are the issues?

- Low penetration, unfamiliarity
- Lack of conducive legislation
- Tax biases
- Too many players
- No reliable credit information

IV C. Venture Capital—World Comparison

Venture Capital - Private Equity Investment as % of GDP in 2001
Cross Country Comparison



IV D. Develop Alternative Types of NBFIs – Medium Term Strategy

Leasing and Factoring

- Lease penetration at 7-8% of total investments, leasing assets 5-6% of total financial system assets
- Growth rate of factoring at 25-30% annually, share of factoring in system assets 4-5%
- Recognition of financial leasing for tax purposes
- Harmonization of BITT rates
- Industry consolidation
- Credit information systems and services

Venture capital

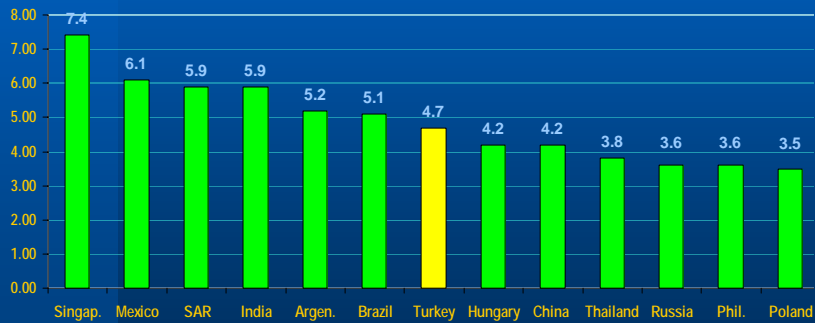
- Expand venture capital investments as % of GDP to levels seen in Eastern Europe (0.1% of GDP)

V. Strengthen Public Confidence in Financial markets

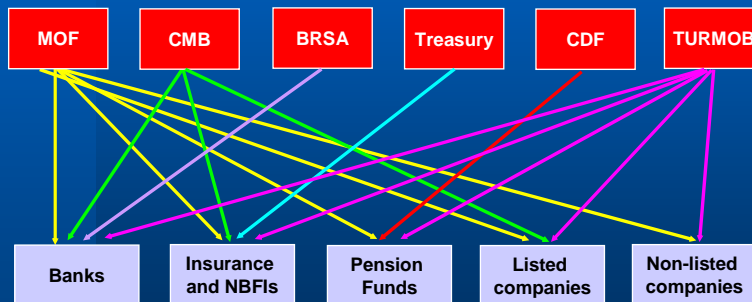
- **Corporate Governance**
- **Accounting and Auditing Standards and Practices**
- **Regulatory Standards and Supervisory Institutions**

V A. Corporate Governance – World Comparison

Corporate Governance Ratings
Credit Lyonnais Securities (2002)



V B. Regulatory Infrastructure – Private Sector Accounting and Auditing



V C. Strengthen Public Confidence -- Regulation and Supervision

What are the issues?

- Atomized regulatory agency structure
- Lack of independence in some agencies
- Salary problem
- Partial compliance with IOSCO, IAIS and OECD best practice standards

V D. Strengthen Public Confidence – Medium Term Strategy

Corporate Governance, Accounting and Auditing

- Bring corporate governance and Accounting & Auditing standards, practices, and institutional structure up to international/EU and best practice standards

Regulation and Supervision

- Upgrade to IOSCO/IAIS/OECD and EU standards
- One agency for private pension funds
- Harmonized pay scale
- Create an integrated financial sector oversight body capable of dealing with financial/mixed conglomerates