

WE NEED TO SOLVE THE FINANCING PROBLEM OF PRIVATE SECTOR FOR 2010 GROWTH

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Considering 2010 and particularly 2011-2017, the growth expectation of OECD is promising. However, it is needed to get an increase in private sector investment expenditure more than 18 percent to reach an average growth rate of 6,7 percent. It doesn't seem likely to achieve this rate for the private sector investment unless the domestic demand is recovered.

Since the Medium Term Program (MTP) was revealed on the 16th day of September, I have asked every businessman and every bank employee that I have met whether they have discovered the tips of financing for the private sector regarding 2010. In the banking community, depending on the available data, the internal debt repayment of Treasury for 2010 is estimated at 185 billion TL. When we add a public debt to be financed in the amount of 40 billion TL to this amount, we see that 225 billion TL is needed for our Treasury next year. If the global and local conditions of 2010 allow successful privatizations, the Treasury may receive a resource of 15 billion TL through privatization. Despite all the optimistic estimations, a resource need of 200 billion TL makes itself apparent. Even if the new foreign borrowing in 2010 meets the payments of foreign debts, the domestic debt rollover rate of the Treasury will be approximately 110 percent once more. In such case, how shall we finance the private sector?

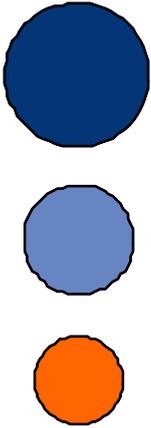
Is Public Offering Possible?

In such a period, it is vital for the Istanbul Stock Exchange to start work for encouraging the reel sector in relation to public offerings. For the Turkish Companies, borrowing by bonds is still a tough process due to various reasons. Considering the course of current interest rates and foreign currency exchange rates, the idea of offering the capital to public may attract the investors considering entering in the stock market for a long time. However, the elevated pace of public offerings in Turkey in 2010 depends on the validity of the scenarios within the inflation report of Turkish Republic Central Bank (TRCB) which was expressed in October, 27 Tuesday. In other words, if the global trend and its reflections on the Turkish economy do not show any deviation, there will be a highly limited remedy in the interest and currency rates next year. And, this may pave the way for the stock exchange market.

However, if the Treasury realizes a highly rapid borrowing for both domestic borrowing refunding and financing of the public debts, the continuous flow of the limited resources in the capital market to the Treasury, and accordingly a continuous increase in the interest rates higher than expected can prevent public offering from being attractive. That is to say, the stock exchange market can remain in shadow due to both liquidity limitation and increasing attraction of the alternative investment tools. Therefore, the Treasury, somehow, has to leave room for the private sector in relation to the means of financial opportunities. If the companies planning to invest within 2010 won't be able to find the resources they seek from banking sector or capital market, through loans, stock exchange or share issuing, we shall not hope for a private sector investment or a positive growth in 2010.

Financing for Domestic Demand is also Uncertain

We cannot get any tips for the support of the private sector within the context of Medium Term Program or in the statements of the economy management. In the 2010 budget, we don't have detailed information regarding the amount of resource to be allocated to KOSGEB for supporting the SMSE's through Halk Bank and Ziraat Bank and our exporters. On the other hand, we foresee that the increase in tax rates to be collected from various goods and services will be higher than expected. In addition to that, new taxes are implemented and new public liabilities are being set forth in order to



provide additional funds to various public institutions. The household and consumers are trying to guess for which goods they will be imposed to higher tax rates in 2010.

However, in 2010 we won't have the luxury to use the limited budget resources in order to keep private sector alive. Instead of donating "fish" to the private sector we need to teach them "how to fish". In other words, we need to convince Turkish people to bring their consumption level back to 2007 figures. When I asked this question to the business sector, I realized that they don't have any hope for any satisfactory increase in the consumption level just like the investment. Any gift check in the amount of 200 TL which would be given to the public services personnel and be valid until the next religious holiday or New Year, and even an income tax reform which would be enforced by the New Year, can have a positive moral effect. If we can spend 500 million TL on Swine Flu Vaccination, can not we allocate a resource of 600 million TL for small business owners and SMES' to allow them to unwind?

Global Remedy is Vulnerable

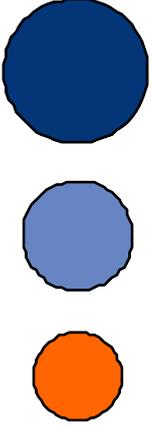
It is a fact the United States government has protected 640,329 businesses by using some part of the stimulus package of \$787 billion which was approved by the Congress last February. However, the results are not sufficient. President Obama and his team hoped that the steps taken would not lead to an increase in the unemployment rate over 9%. Yet, this rate is currently 9,8% and experts fear that it can even increase up to 10,4%. Therefore, US Secretary of Commerce, Mr. Locke, stated that all kinds of solution models which will provide temporary jobs for 1 million people are being debated fiercely and that one of the alternative models is to enact a new stimulus package. US Secretary of Treasury, Mr. Geithner, on the other hand, states that more time is needed in order to see the results of the stimulus package of \$787 billion.

The concerns arising from unemployment, and the pessimistic assessments of famous speculator Soros and Prof. Roubini who is considered as the "seer" of global crisis easily diminish the optimism which is already vulnerable. As a natural outcome, we see that the global interest for gold is increasing and the ounce price of gold again exceeds \$1060. And, with the euro/dollar parity it continues to oscillate around the range of 1,46 – 1,54. In the event that vulnerability increases, it would not be surprising for the gold price to increase up to \$1080.

Additional Measures for 2010 Growth

Although a growth rate of 3,5 % is estimated for the Turkish economy for 2010 in the Medium Term Program, it is still uncertain how an increase rate of 2,5 % for the consumption expenditure of the private sector and an increase rate of 8 % for investments of the private sector will be realized.. Turkish Banking Sector is aware of the fact that this process would be rough even for the banks if the rest of the economy cannot recover as the uncertainty regarding the revitalization of the growth for 2010 remains uncertain.

Therefore, it is needed for the economy administration to increase its efforts regarding the increase in the growth rate of 2010. Prime Minister Mr. Erdogan has reacted the jokes regarding "early elections" by stating even its "joke" is harming the economy. Nonetheless, the details within the budget of 2010 do not remove the concerns of the economists regarding an early election. Next year, we need to level up our monthly export volume up to \$10 billion in order to contribute the growth. The export volume for October is promising in that respect. The fact that Turkey reinforces its success in foreign policy by increasing the trade level with 1st and 2nd line neighbors, will help the growth rate and give provide fresh air to the companies in 2010. However, it is still uncertain for 2010 how our exporters will be financed and to what extend a support will be given to national export. We will continue our demands until a road map is determined for the growth of Turkey in 2010.



Caution for Currency and Interest

The vulnerability in the global markets affects the domestic markets. The Dollar keep fluctuating around 1,48-1,52 TL. If this range is broken then the ranges of 1,52-1,56 and 1,56-1,62 TL are expected. If the vulnerability in the global market increases even more, the dollar currency rate may increase up to 1,68 TL. However, as for today it is 1,48-1,52 TL and if it is exceeded it seems difficult to have a currency rate shift exceeding a range of 1,52-1,56 TL. As for the interest, the threshold of 8,5-10,5 % seems to be exceeded. As the uncertainty for 2010 growth expectation and the concerns regarding the finance need of Central Bank continues, the interest rates may increase up to 10,5 %. In spite of all the well-intentioned efforts of the Central Bank, the questions of business world and public have to be satisfactorily answered.

The short term solutions of companies have increased the unemployment

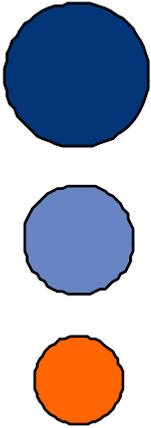
Across the globe, the enterprises have troubles to match their production with the shifts in demands and to survive in spite of shrinking business volume. Most of the enterprises have tried to cut their costs by decreasing the material supply. This means a "disaster" for the enterprises providing interim goods and raw materials to the world economy. As a matter of fact, we have witnessed that the prices for global goods and raw material have hit the ground in February and March. However, since this kind of measures were not enough, the enterprises began to focus on the labor costs. The companies rapidly began to examine the qualifications of their personnel and they tried to keep the best qualified and experienced work force within their companies. Most of the contracted personnel have been discharged. All these developments caused a record increase in the employment figures in USA, Europe and Turkey.

People have lost their motivation to consume

It is well known by economy and business sectors that Turkish economy has a potential to exceed an average growth rate of 6 percent easily. However, considering 86-year-history of the Republican period we see this rate was more like approximately 4%. Even when the growth rate performance of 7,4 % achieved during the 2003-2006 period is calculated by considering 2003-2009 period, the average shall be 4 % again. In other words, the Turkish economy has to keep the pace of growth rate of some emerging Asian economies, particularly China, which has a good growth rate for the last 15 years. When we analyze the reasons for the recession of the Turkish economy since 2007, we clearly see the slowdown of investment rate of the private sector. Moreover, when we examine the reasons of slowdown in the private sector investments in detail we see that the vulnerability in the consumption expenditures of the household comes to the forefront.

Exports cannot maintain a permanent growth

In the Turkish economy, the exporting skills of the companies in non-financial sector are worth mentioning. However, it is not possible for a nation to keep its growth rate increase stable with focusing on export. If it was possible to achieve a growth by exports despite the vulnerability of the domestic demand, Japan would have been the country achieving sustainable growth. However, we know that for the last 15 years Japan has always been in recession. As a matter of fact, Turkey has turned the success achieved in the export volume during the years 2002-2006 into an important "added value" to the production performance of the manufacturing sector. However, despite the record export figures achieved in 2007 and 2008, Turkey could not maintain the same growth level because we were in a period in which the domestic demand was vulnerable. Therefore, we need to highlight the fact that no national economy can achieve sustainable growth or continue its development without domestic demand support.



The problems of USA is in a critical level

Although the information from the United States economy regarding the application for weekly unemployment compensation indicates a limited recovery, President Obama reminds that if the budget or current account deficits are not decreased and the high pace of debt for the USA treasury continues, the USA economy will face double-edge stagnancy. While Obama tries to decrease the debts and the borrowing caused thereof, he also states that they have to increase the employment rate. It is uncertain, however, how these two very different targets will be achieved. At this point, it is a fact that as the unemployment rate in USA continues to increase, the US consumers will continue to have savings and the fear of being unemployed will continue to pressure the domestic demand permanently.

As a matter of fact, the Treasury Secretary Mr. Geithner also states that preventing the world economy from being dependent on the US consumers will contribute to the efforts of re-balancing the growth. Mr. Geithner also states that this will also help the efforts of decreasing the unemployment rate. Indeed, he tries to say "not to trust the US people to spend their money in surviving the global economy". Mr. Geithner states that he foresees more efficient results will be achieved by joint actions of the USA with other countries, in particular with the G-20 group in order to maintain the economic targets. Therefore, as long as the domestic demand continues to be weak in the USA, even the recession is partially over, it will take long time for the USA economy to reach its real performance.

Domestic Demand in 2010 is uncertain

When it comes to Turkey, the picture is similarly problematic. The fact that the Government has some problems regarding the budget prevents any possible discounts in the tax rates which would be used to revitalize the domestic demand. On the other hand, banking deposit interest rates, which makes the most important revenue source of the workers and pensioners have been decreased 50% in the last one year. The house owners have concerns about the delays in their rental revenues as well as the market condition that gives way to a decrease in the rental revenues. That is to say, the interest; rents and similar incomes which provide an additional income for 10 % of the population nearly one year ago are now seriously declined. Therefore, we see the vulnerability in the domestic demand increases more and more.

The fact that the top management of the Central Bank states that they may preserve the low interest policy until the end of 2010, if there is no change in the trend of inflation. This makes people feel concerned since these people depend on the revenues of money market, capital market and investment tools. Moreover, as Turkey has not important topics which will move the actors of economy, foreign and domestic investors, (in other words the news which would boost the markets such as "European Union" and "economic reforms" are now out of the picture) we cannot find new topics that will attract the global investors for Turkey. In this short period of time, maybe an "increase of international rating note" can be attractive. However, we will see together when and on which conditions the three rating institutions will do this.