



مؤتمر عمان الثاني للتمويل والصيرفة الإسلامية
Oman Second Islamic Banking & Finance Conference

17-18 March 2013
Al Bustan Palace, A Ritz Carlton Hotel - Muscat



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Department Central Bank of the Republic of Turkey

Session III: Supporting Oman Real Economy and Entrepreneurships
Oman Second Islamic Banking & Finance Conference



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Oman Second Islamic Banking & Finance Conference

**Cihan Aktaş
Deputy Executive Director
Central Bank of the Republic of Turkey**

BANKING AND FINANCIAL INSTITUTIONS DEPARTMENT

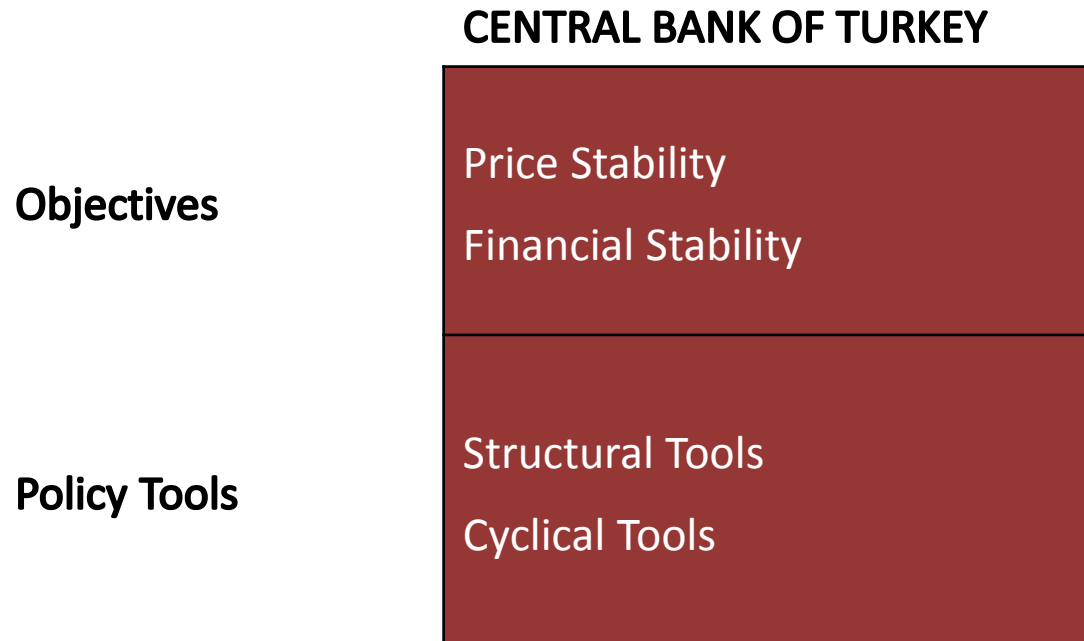
17 March 2013

Outline

- **Financial Stability, Real Economy and Participation**
Banking in Turkey
- **Islamic Banks role in MENA Region**

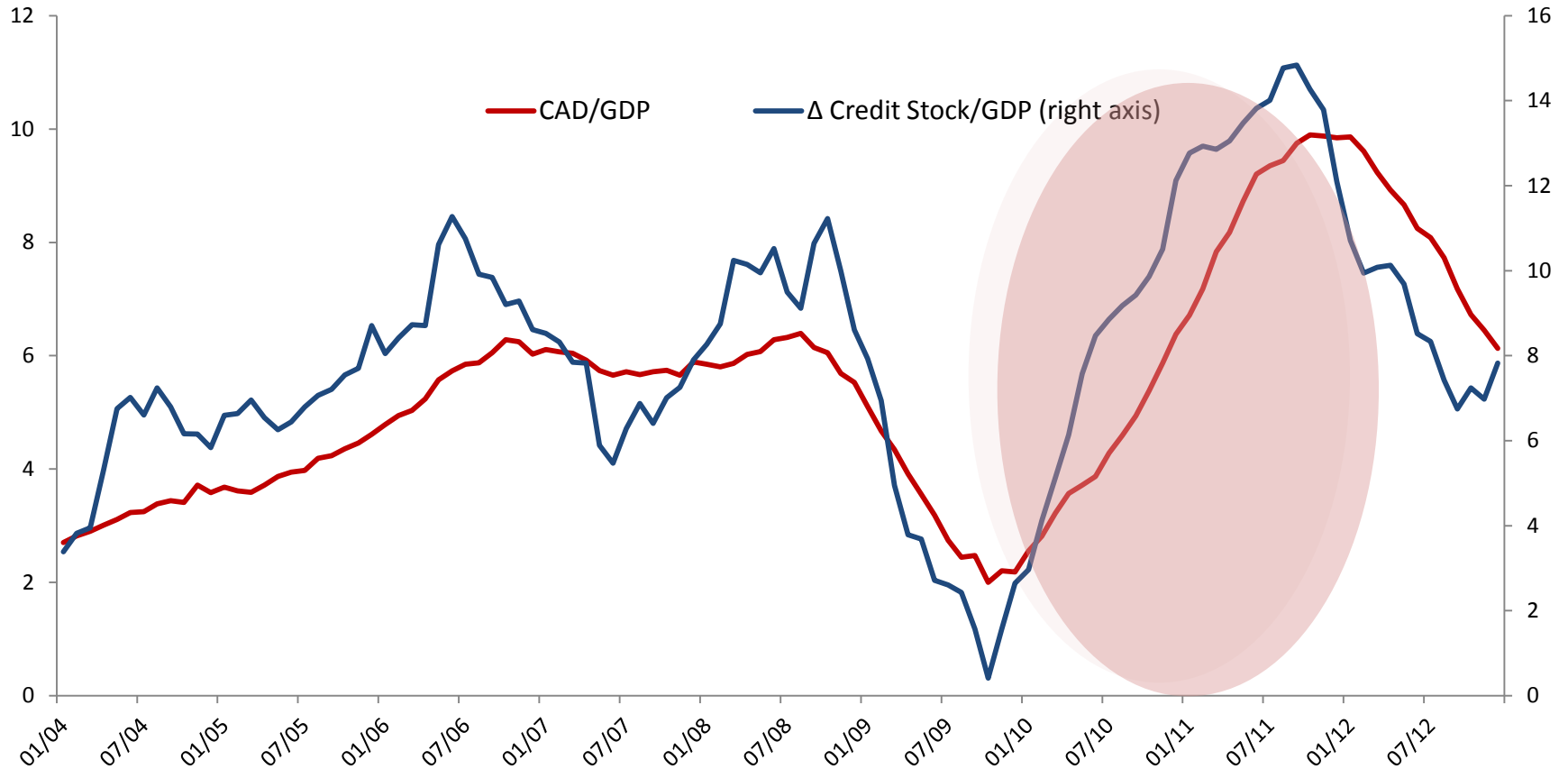
FINANCIAL STABILITY, REAL ECONOMY AND PARTICIPATION BANKING IN TURKEY

Using new policy tools to sustain financial stability and at the same time focusing primarily on price stability objective



Why was it needed? Financial stability concerns mounting after global stimulus

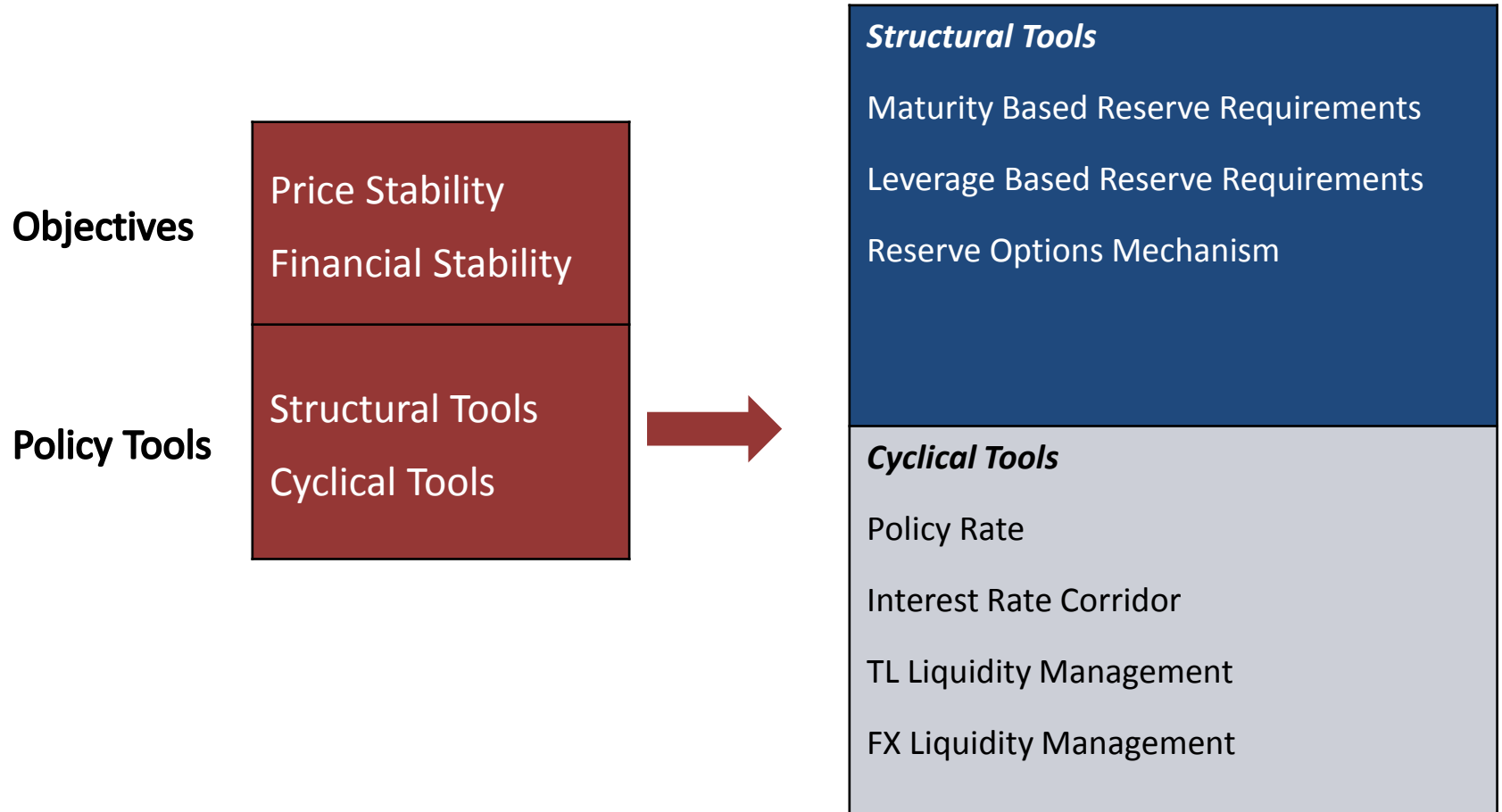
Credit Growth and Current Account Deficit (Percent, 12-Month Cumulative)



Source: CBRT.

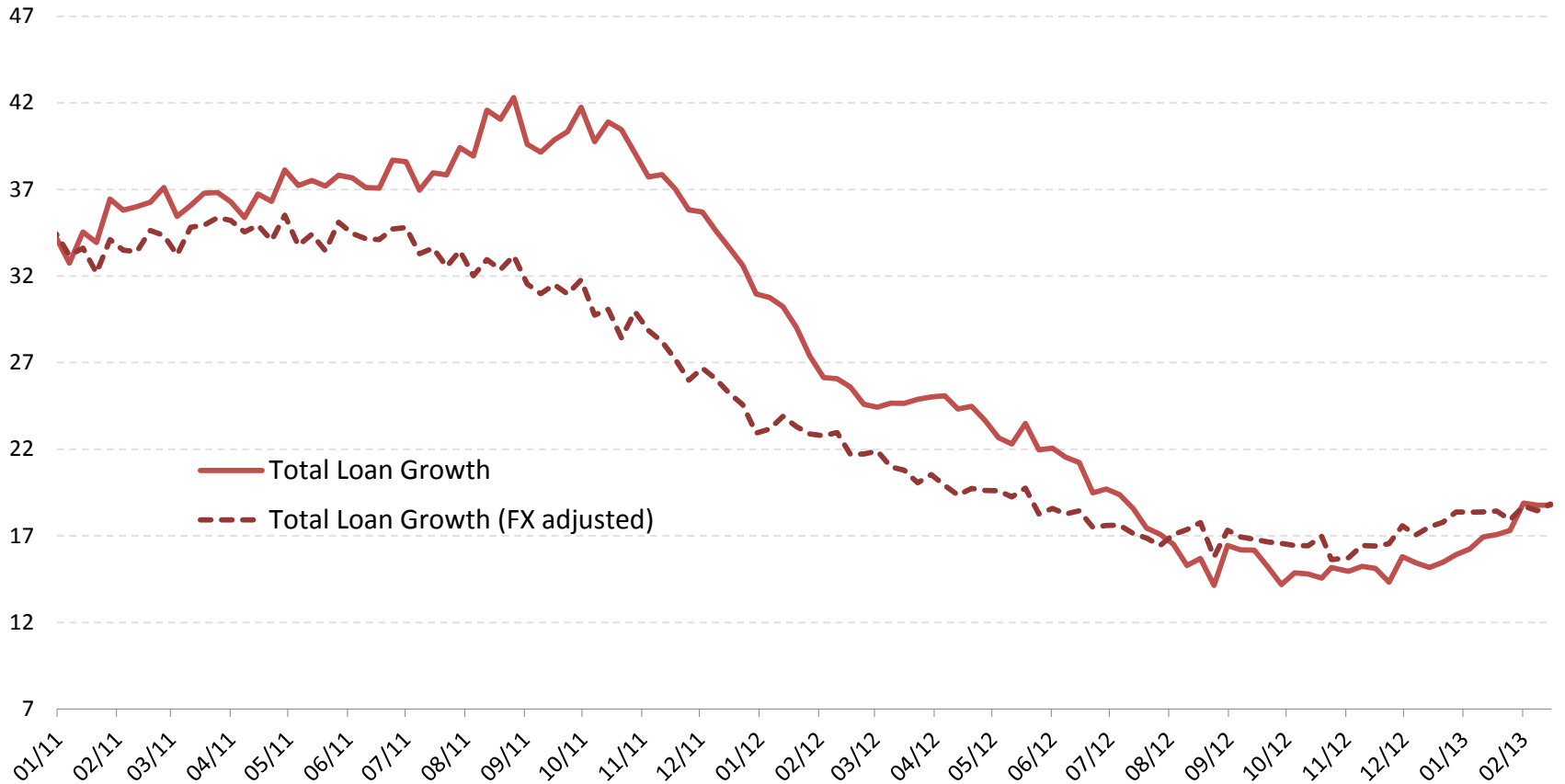
Last Observation: December 2012

New Policy Framework: Structural and cyclical tools have been put into effect



Credit growth has been pulled down to reasonable levels in regard to financial stability

Total Loan* Growth (Year on Year Change, Percent)



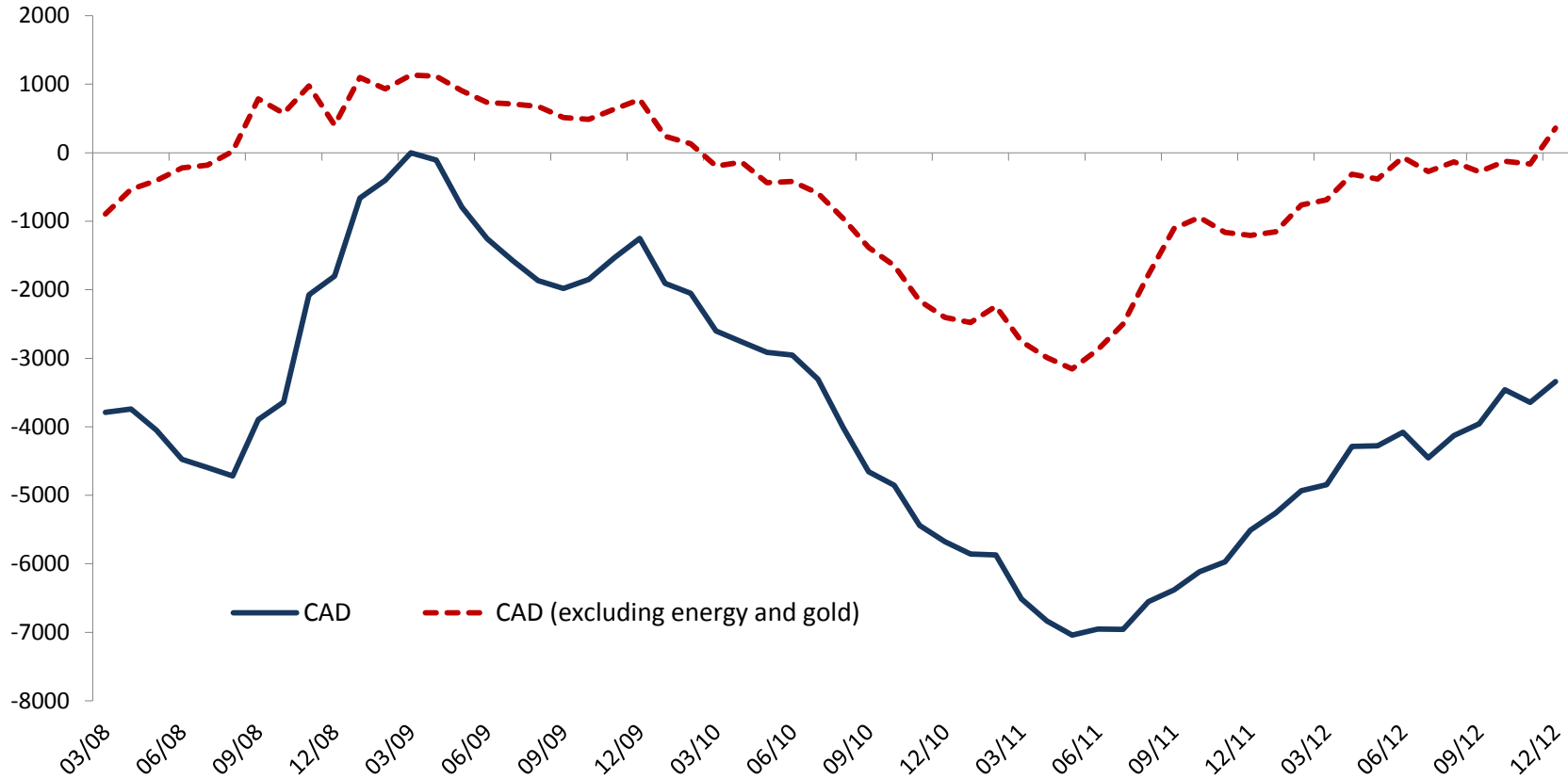
Source: CBRT.

*Total banking sector, credit cards included, NPLs excluded.

Last Observation: February 15, 2013.

Curbing credit growth has allowed to rebalance CAD

Current Account Balance
(Seasonally Adjusted, 3-Month Average, Million USD)

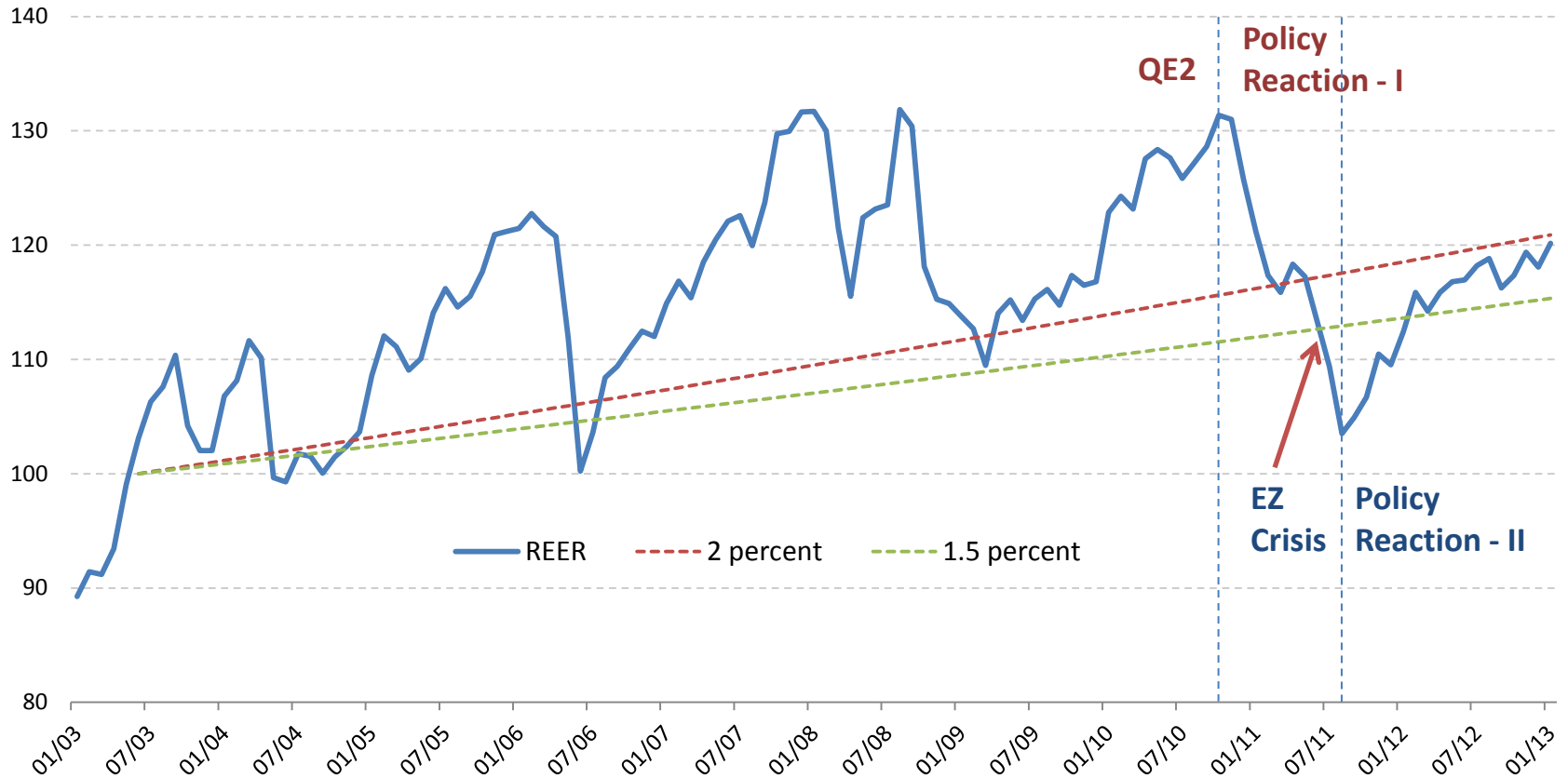


Source: CBRT.

Last Observation: December 2012

Real effective exchange rate (REER) movement also has been closely monitored

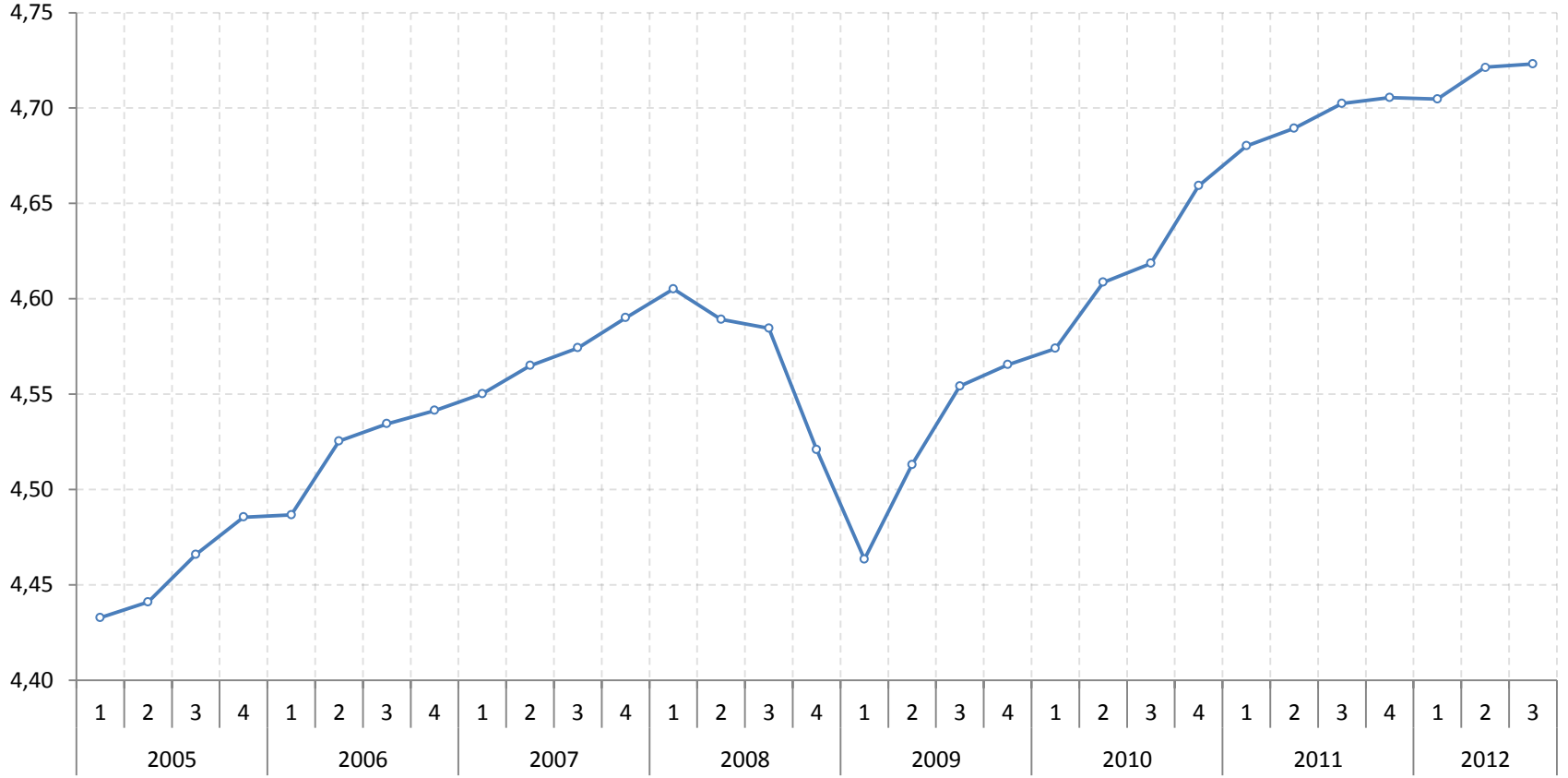
CPI Based REER (Base year: 2003)



Source: CBRT.

Smooth GDP increase has been obtained during the process

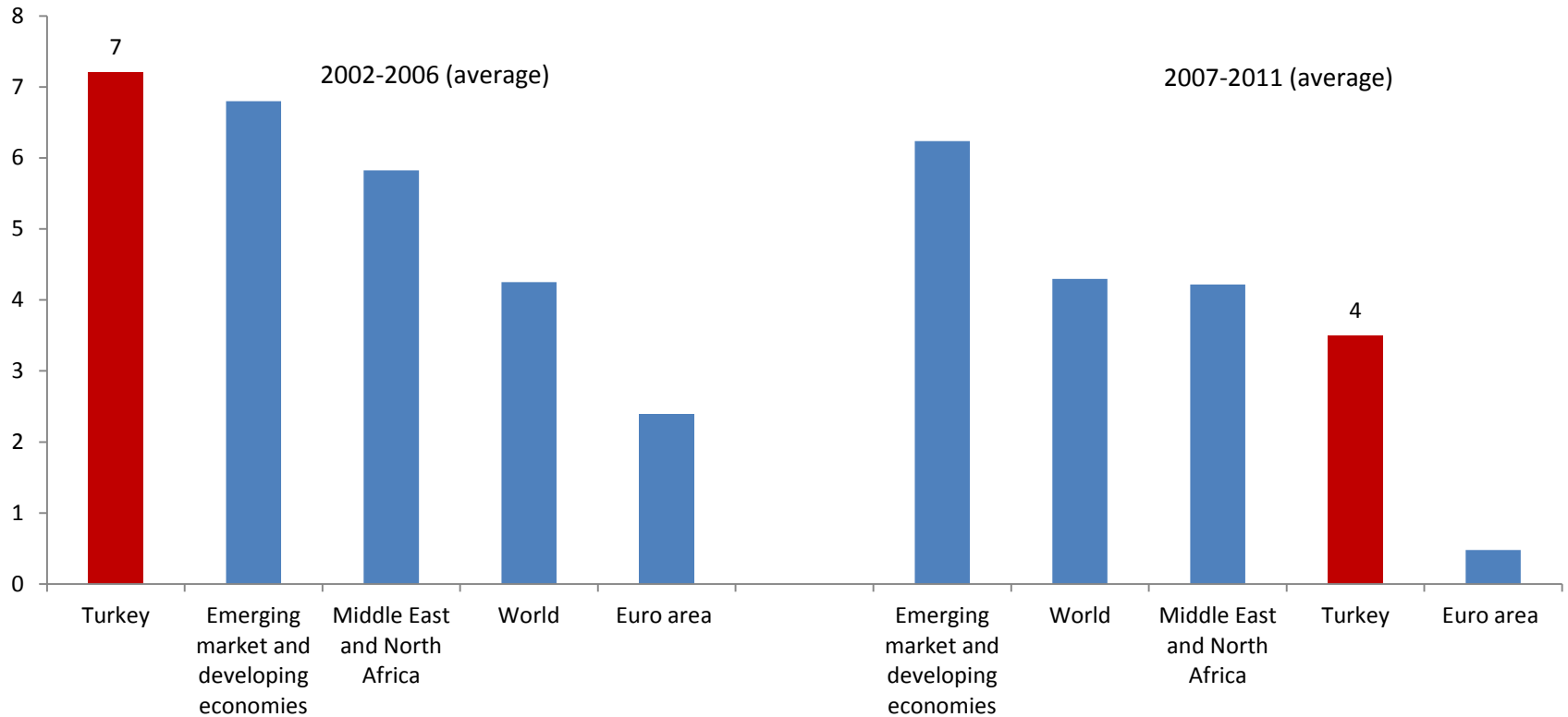
Actual GDP
(Base Quarter: 2008Q1, Seasonally Adjusted, Natural Logarithms)



Source: TURKSTAT, CBRT.

Average growth rates shows stable and resilient growth despite gloal downturn

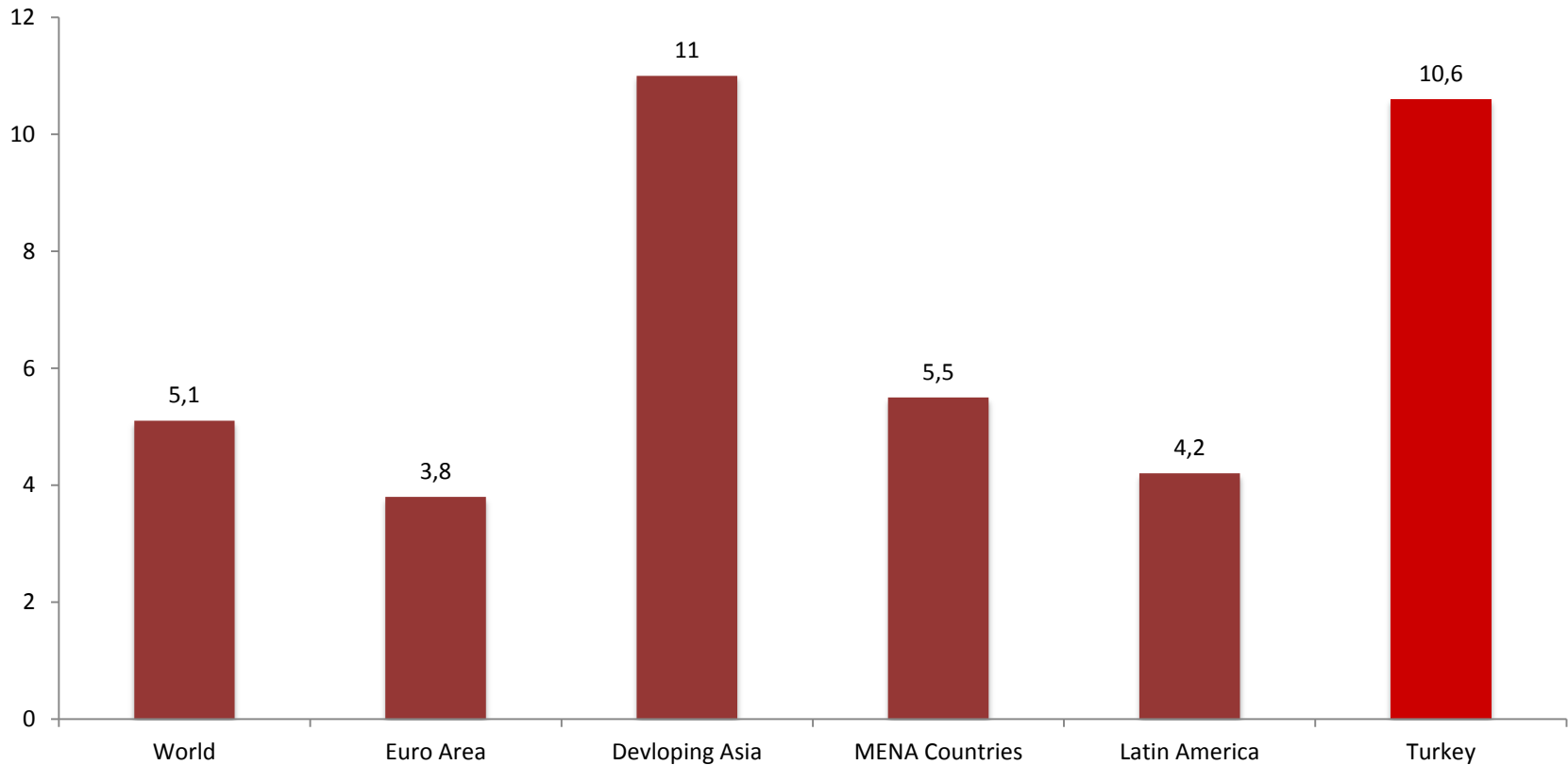
Growth rates



Source: IMF, World Economic Outlook, October 2012

Strong export performance has been obtained in the last decade

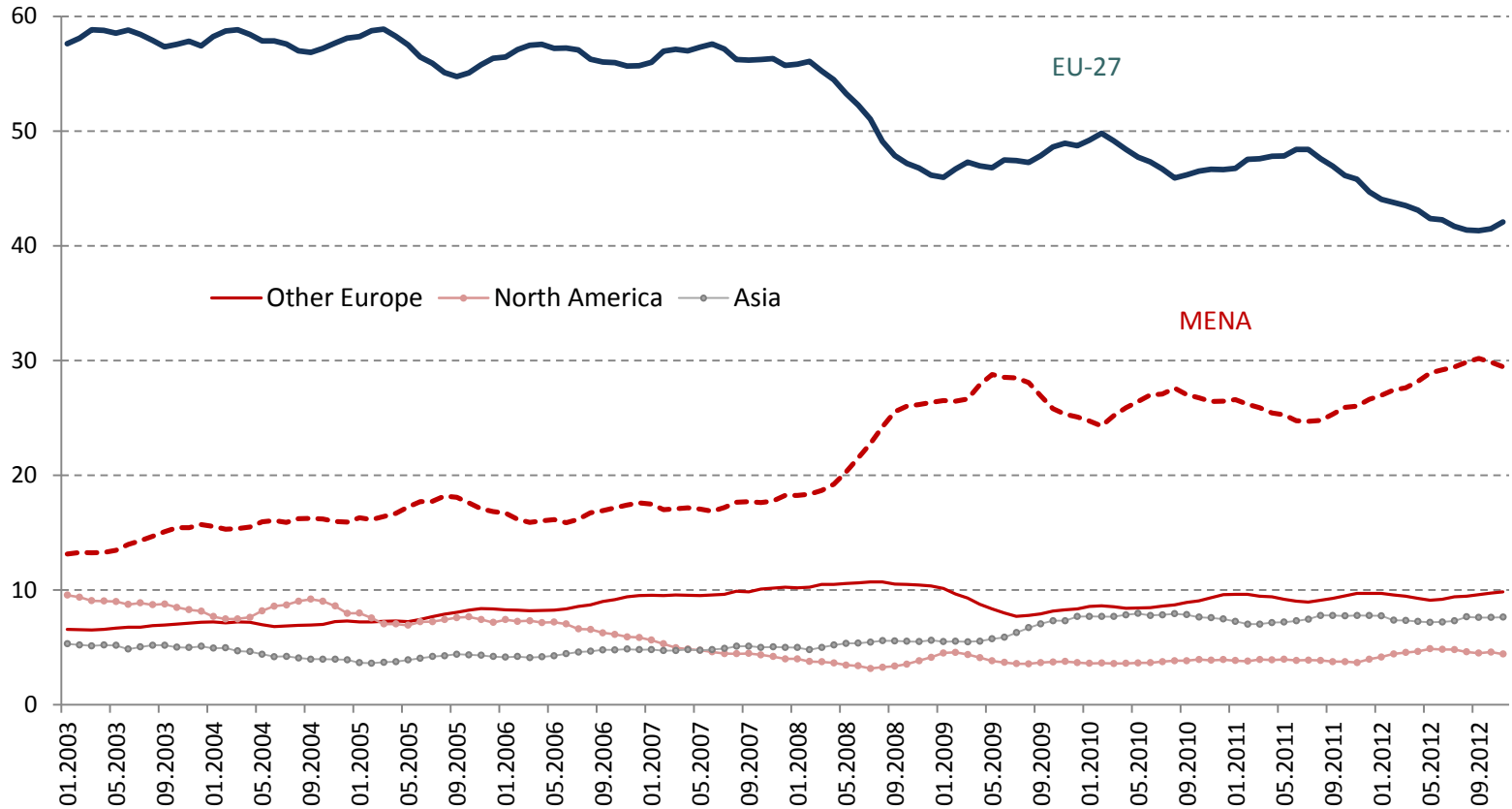
Export Performance
(Average Annual Growth Rate, 2001-2011)



Source: TURKSTAT, IMF World Economic Outlook April 2012

Market share shifting from EU to MENA enables to diversify risks and contributes stability of growth

Exports (exc. gold) Market Share
(6-month cumulative, per cent)



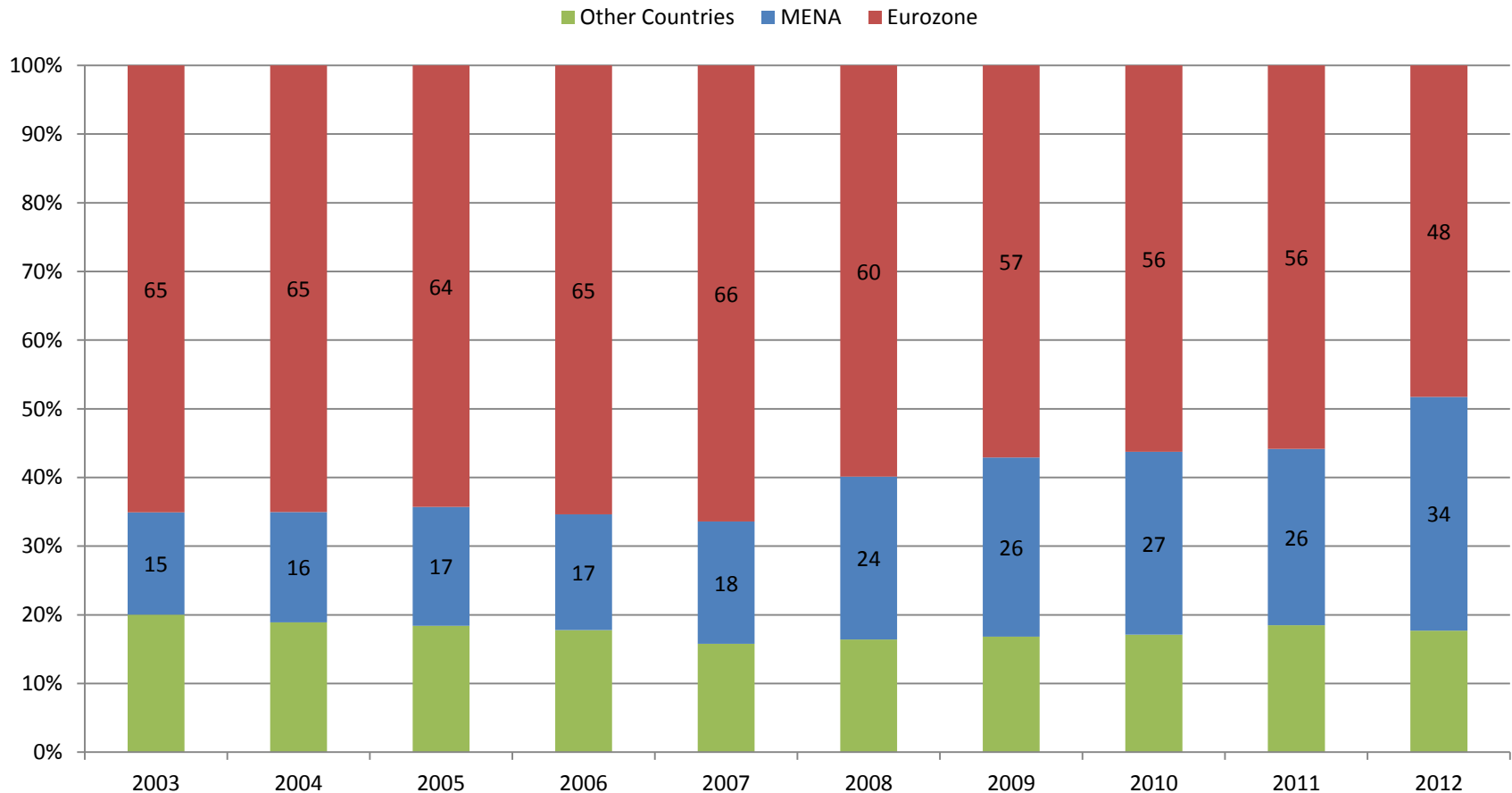
Source: TURKSTAT.

2012

Last Observation: November

Mena countries has increased their importance as a main trade partner of Turkey in recent years

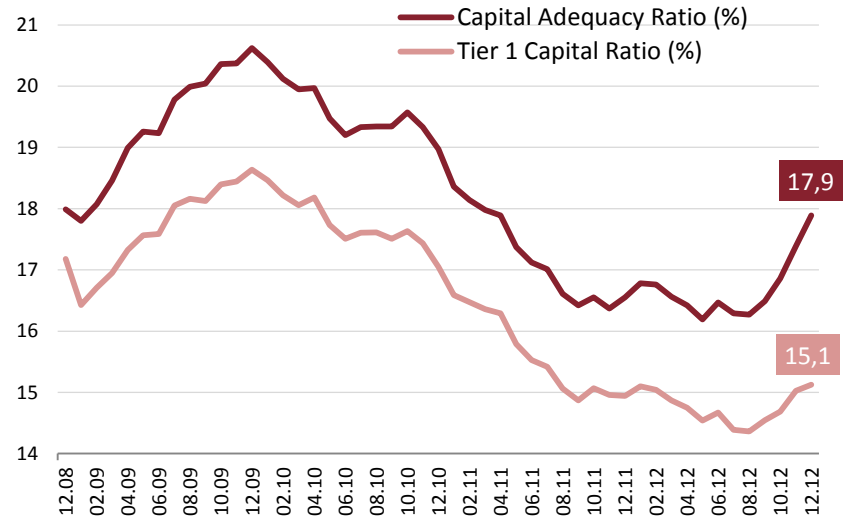
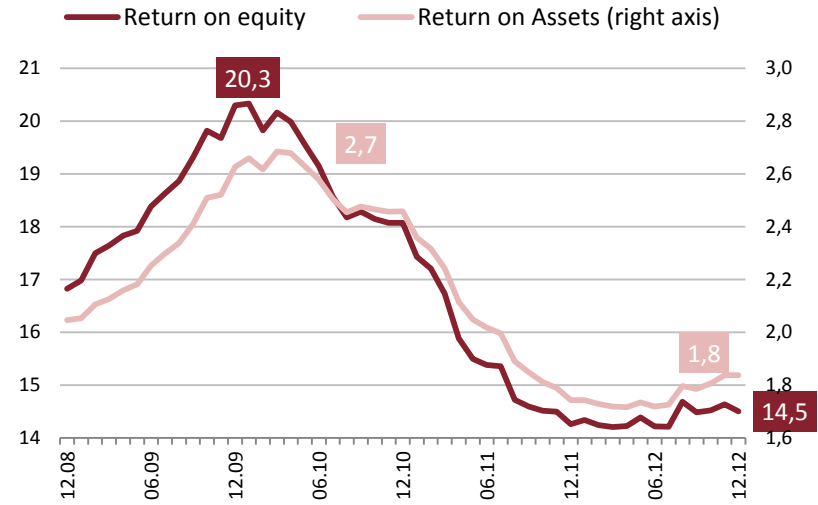
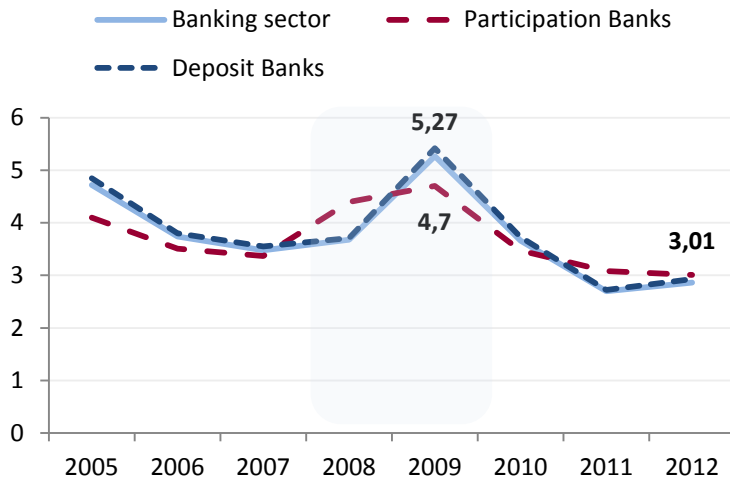
Export composition by region
(as % of total export)



Source: TURKSTAT, CBRT

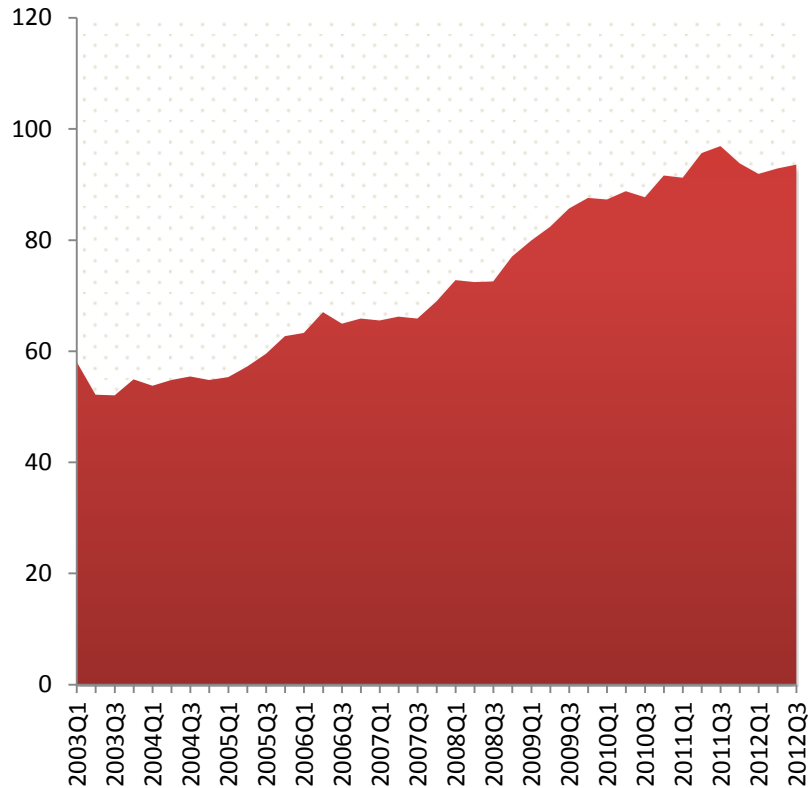
The financial sector is mainly dominated by Banks and basic indicators stress out continued resiliency

Non-performing Loans Ratio (%)

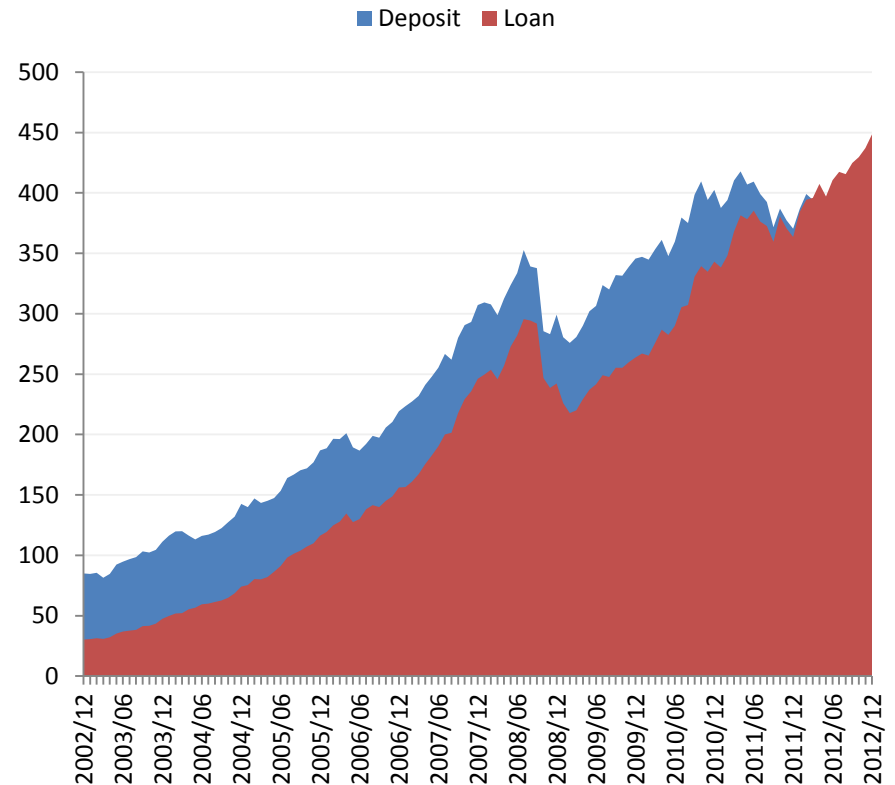


Low market penetration: Turkish banking sector has considerable growth opportunities onwards

Banking Sector Assets (as % of GDP)

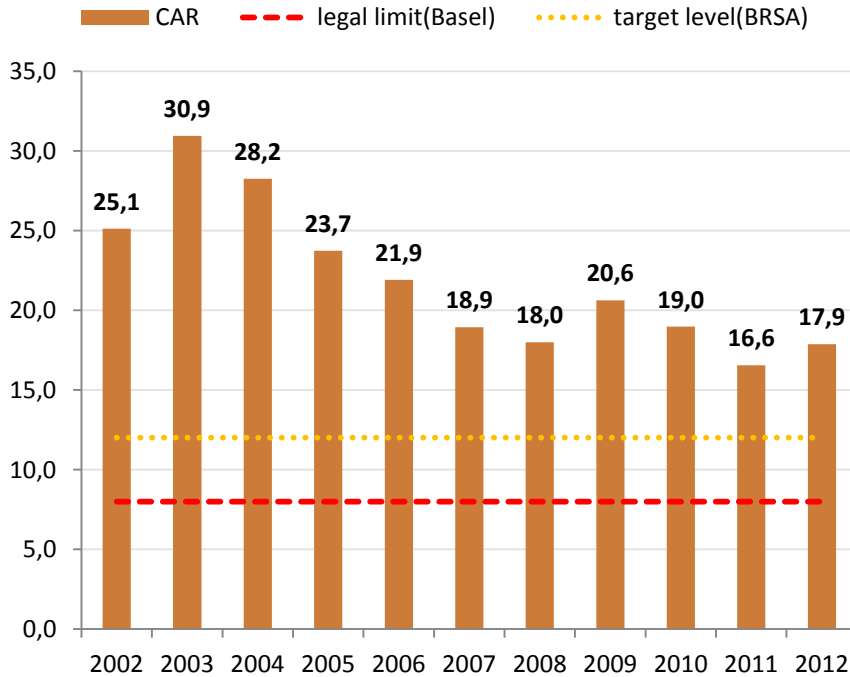


Total Deposits and Loans (USD billion)

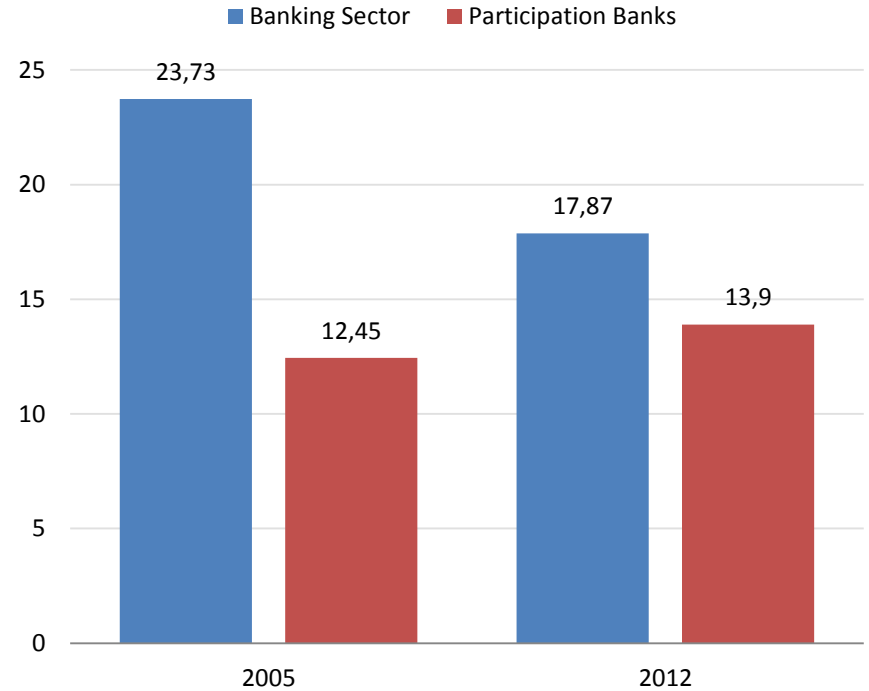


CAR ratios indicate strong stance and resiliency

Capital Adequacy Ratio (banking sector %)



CAR Ratios



Turkish Participation Banking Experience

Participation Banking - Milestones

Regulation with decree in force of law 83/7506. (Establishment of Special Finance Houses)

-Establishment of Special Finance House Association
-Special Finance House Security Fund came into effect

Transfer of Special Finance House Security Fund to Saving Deposit and Insurance Fund

1983

1999

2001

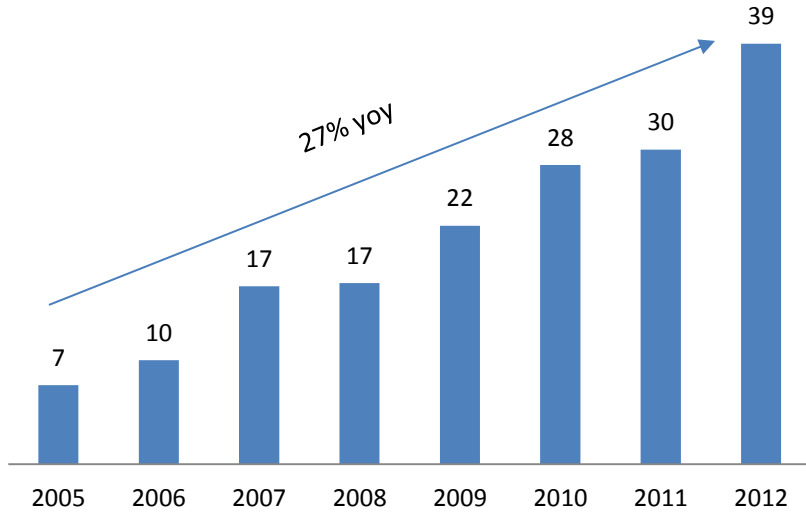
2005

Inclusion within the Banking Law

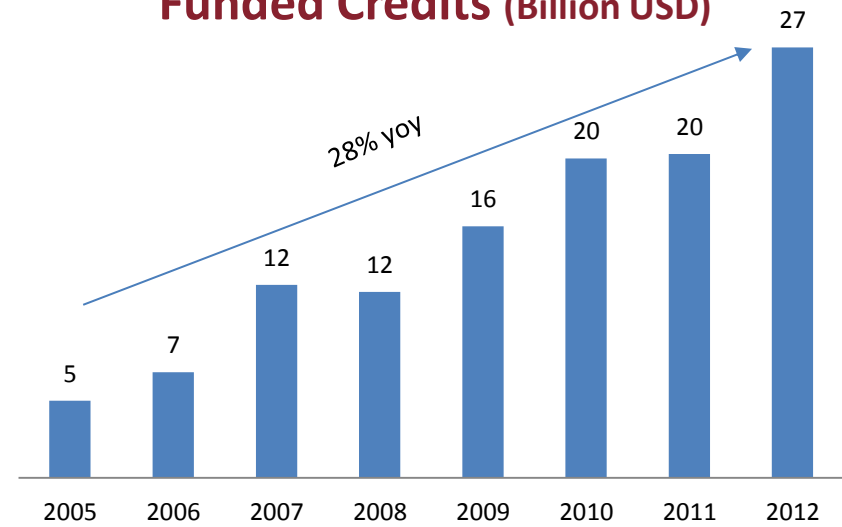
Transformation to Participation Banks from Special Finance Houses

Rapid growth

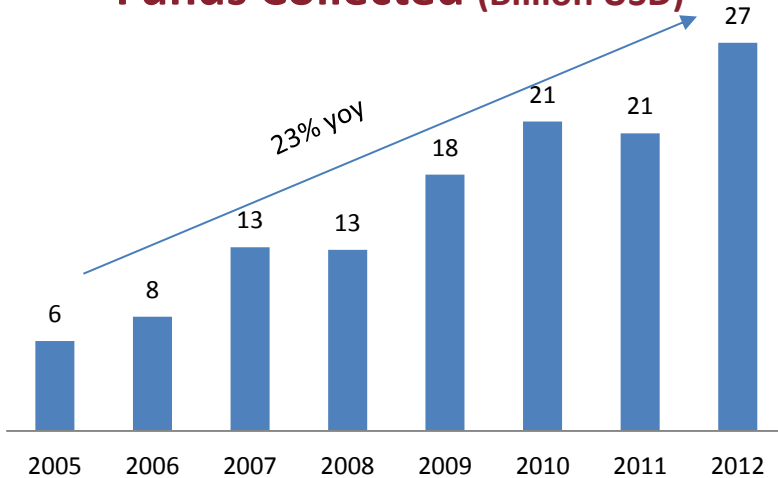
Total Assets (Billion USD)



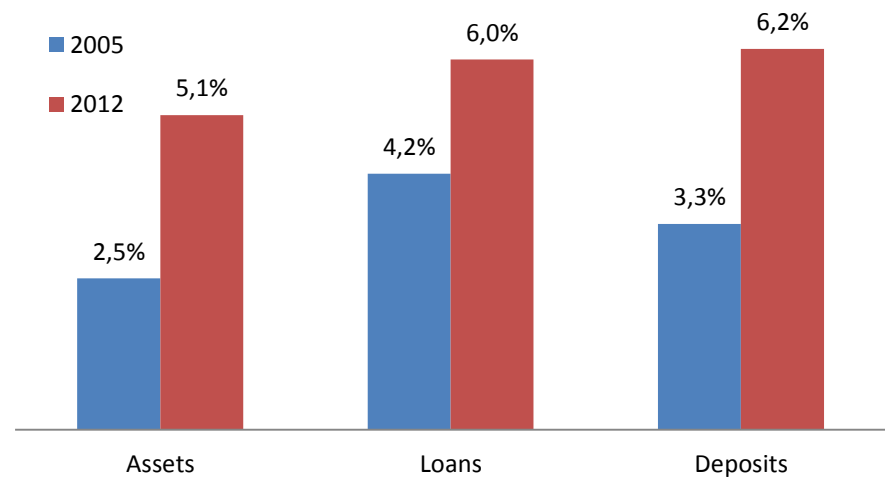
Funded Credits (Billion USD)



Funds Collected (Billion USD)

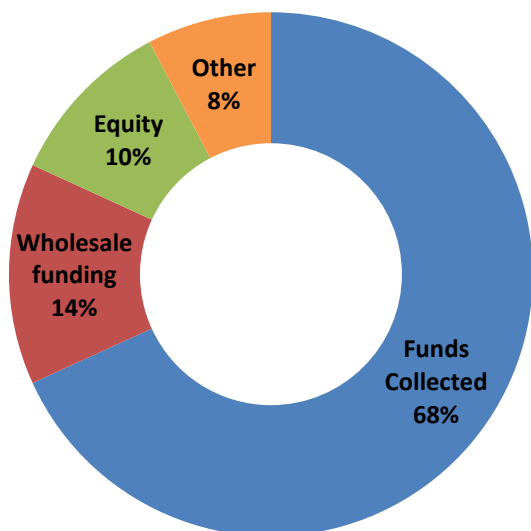


Market Share



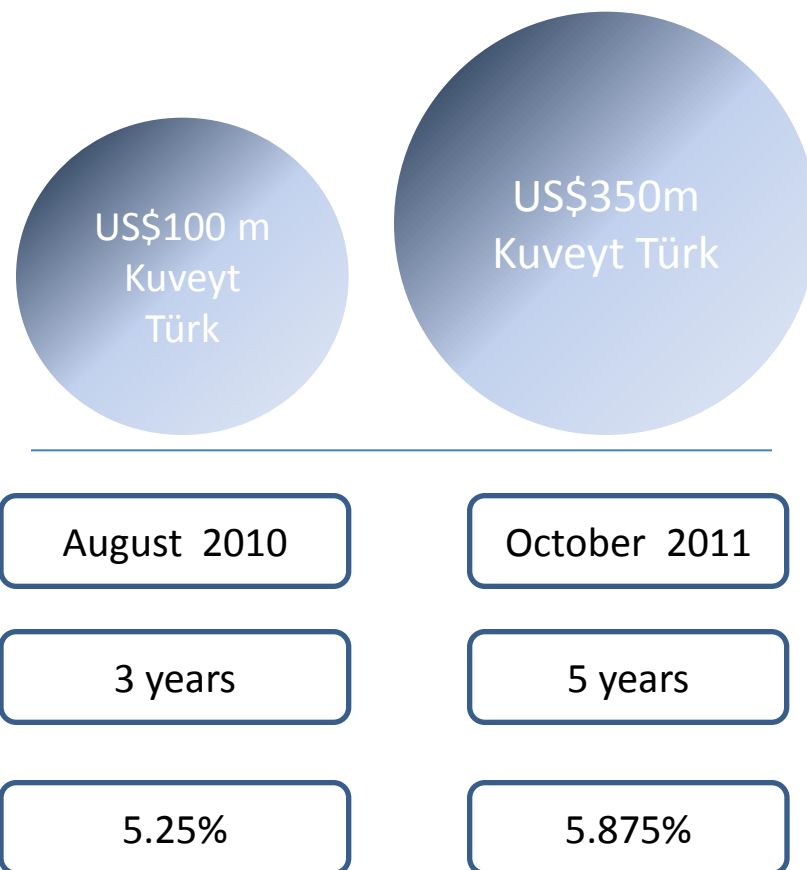
Mainly funded by deposits but need to access alternative funding

Liability Composition (%)



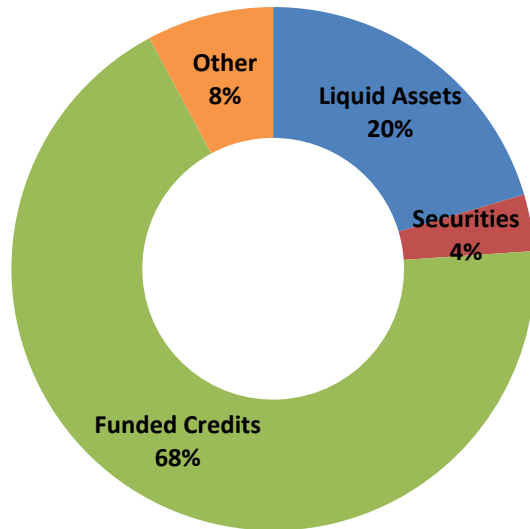
- April 2010 – Rent certificate (sukuk) regulation
- February 2011 – Tax incentives for rent certificates

Sukuk Issuance

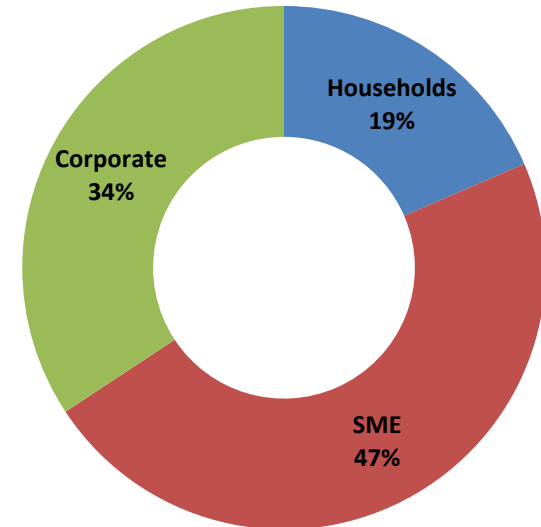


Large exposure to SMEs and need to diversify asset mix

Asset Composition (%)



Funded Credits (%)

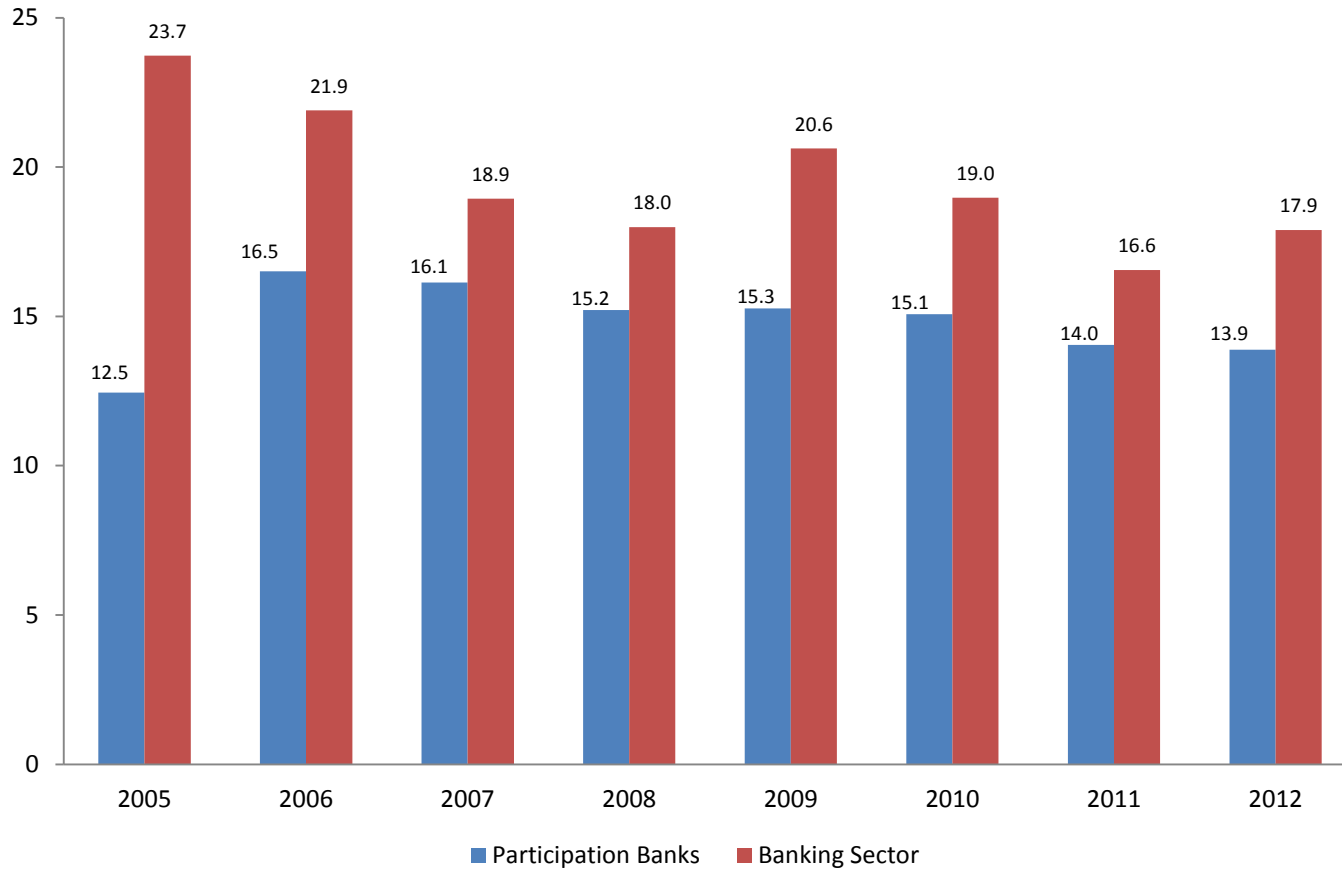


New sovereign sukuk issues provides to diversify asset structure and gives facility to liquidity management

- Sep 2012 – 1st Int. Sovereign Sukuk : US\$1.5 billion, 5.5 y, 2.8%
- Oct 2012 – 1st TL Sovereign Sukuk : TL1.6 bn (US\$0,9 bn), 2 y, 7.5%
- Feb 2013 – 2nd TL Sovereign Sukuk: TL1.5 bn (US\$0.8 bn), 2 y.

Plans to continue above sector growth will deliver results by maintaining current capital ratios

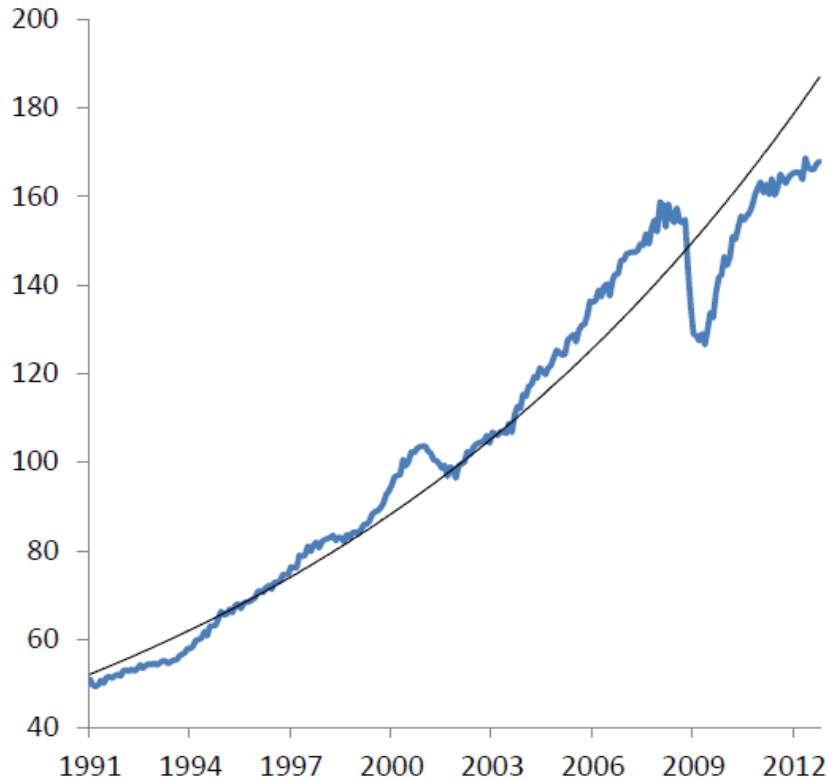
Capital Adequacy Ratio (%)



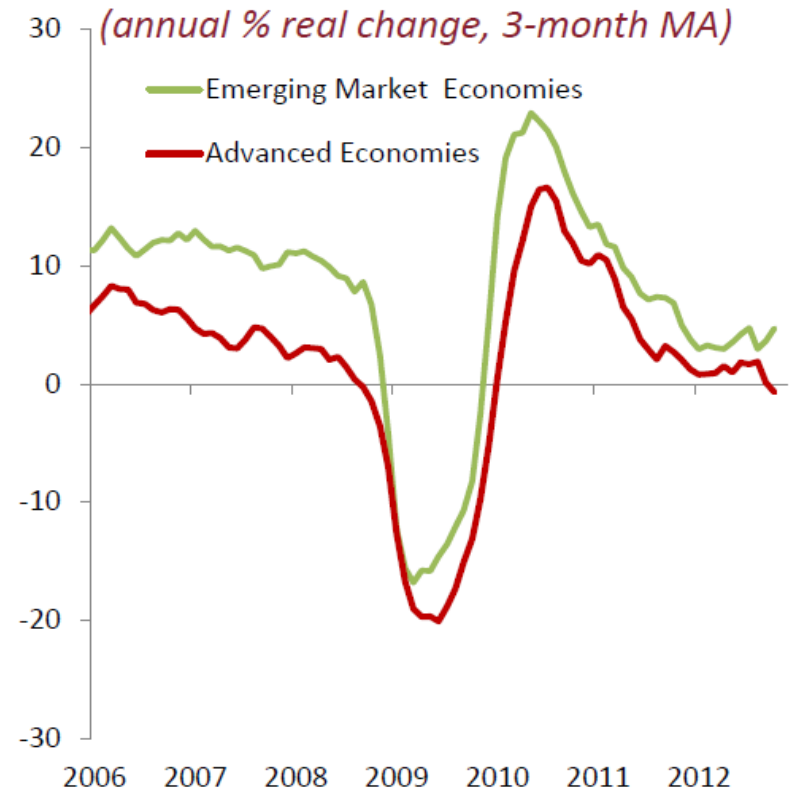
ISLAMIC BANKS' ROLE IN MENA REGION

Increasing path in Trade Volume Among Developing Countries Necessitates more Linkages

World Trade Volume
(2000 = 100, real, SA)



Trade Volume in Advanced Economies and Emerging Market Economies
(annual % real change, 3-month MA)

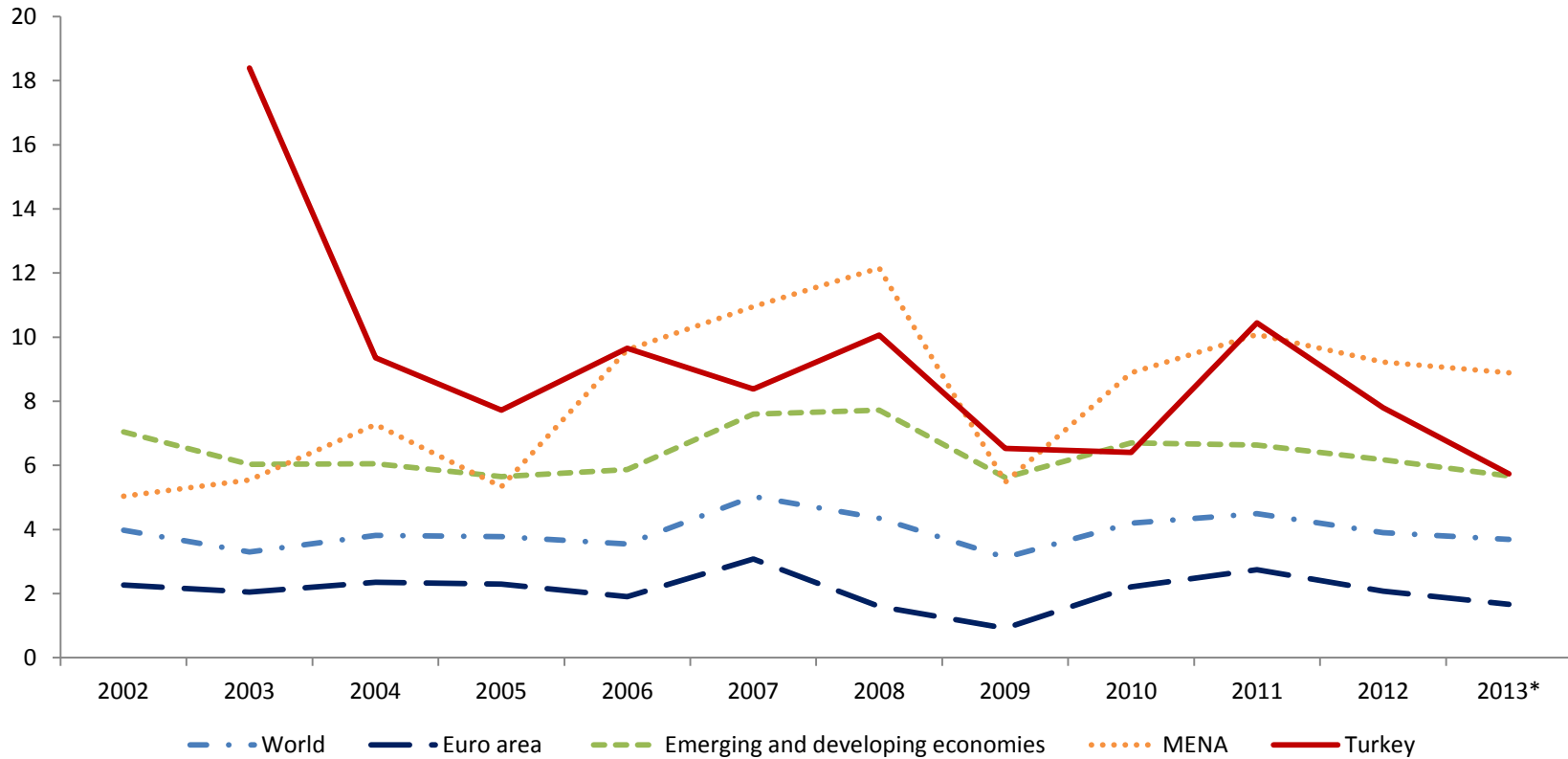


Source: Netherlands Bureau for Economic Policy Analysis (CPB)

Last observation: October 2012

Inflation trends in MENA Region is more unstable

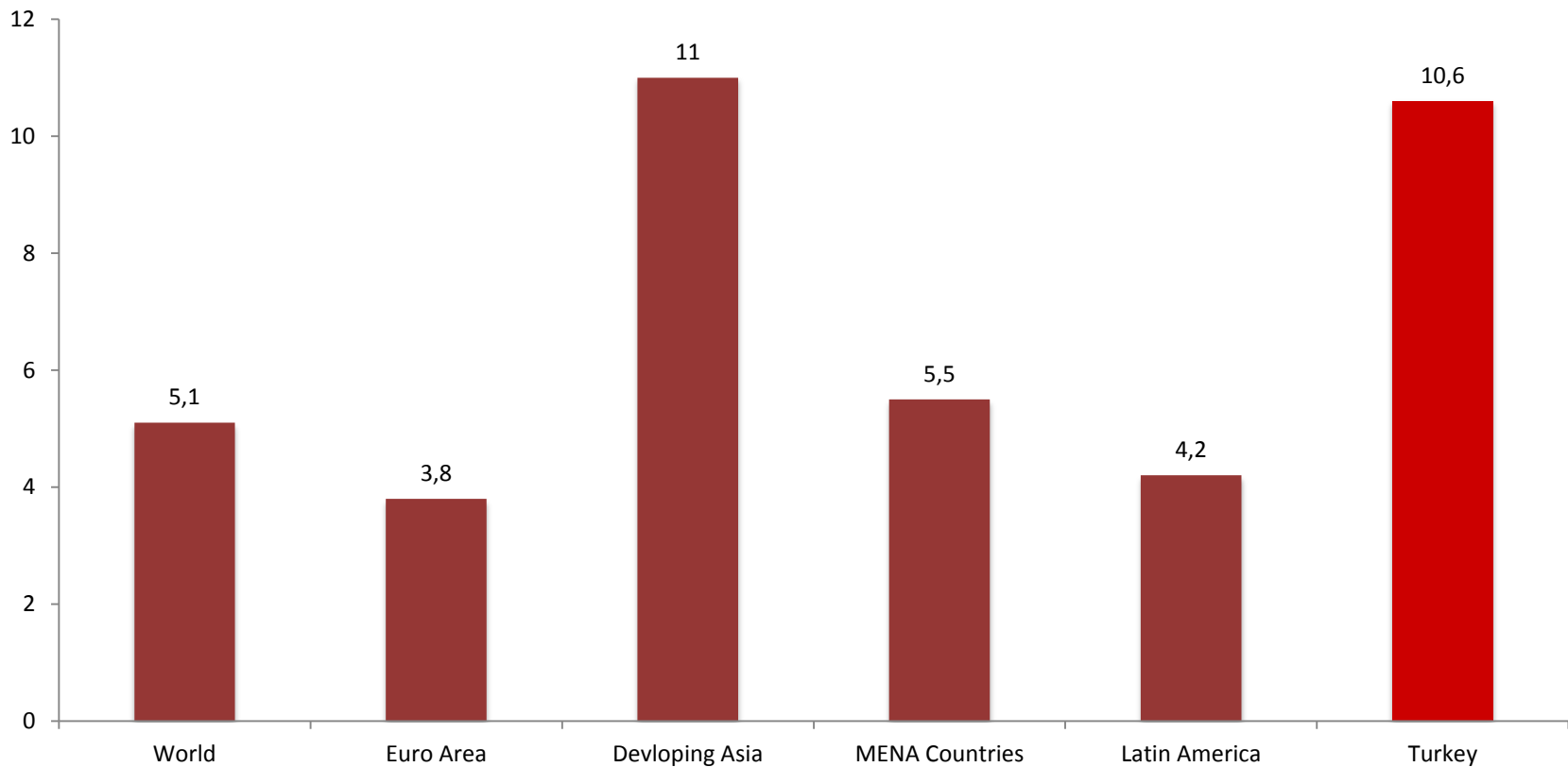
Inflation Outlook
(end of period consumer prices, %)



Source: IMF, World Economic Outlook, October 2012

Export performance should be developed in MENA Countries

Export Performance
(Average Annual Growth Rate, 2001-2011)



Source: TURKSTAT, IMF World Economic Outlook April 2012

New financial sector treatments should be implemented

New Regulatory Structure

Liquidity Constraints

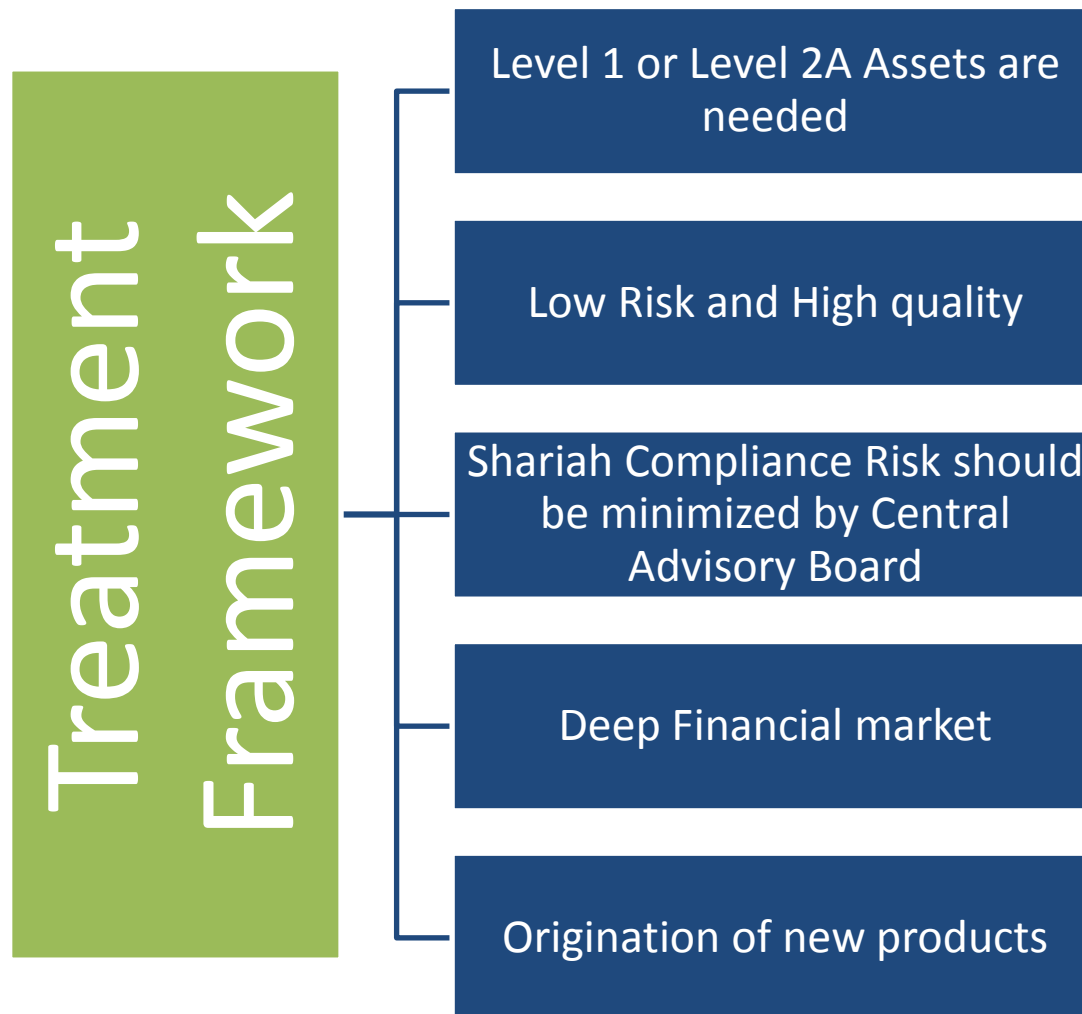
Adaptation of
potential
Challenges

MENA banks
readiness to
Basel III

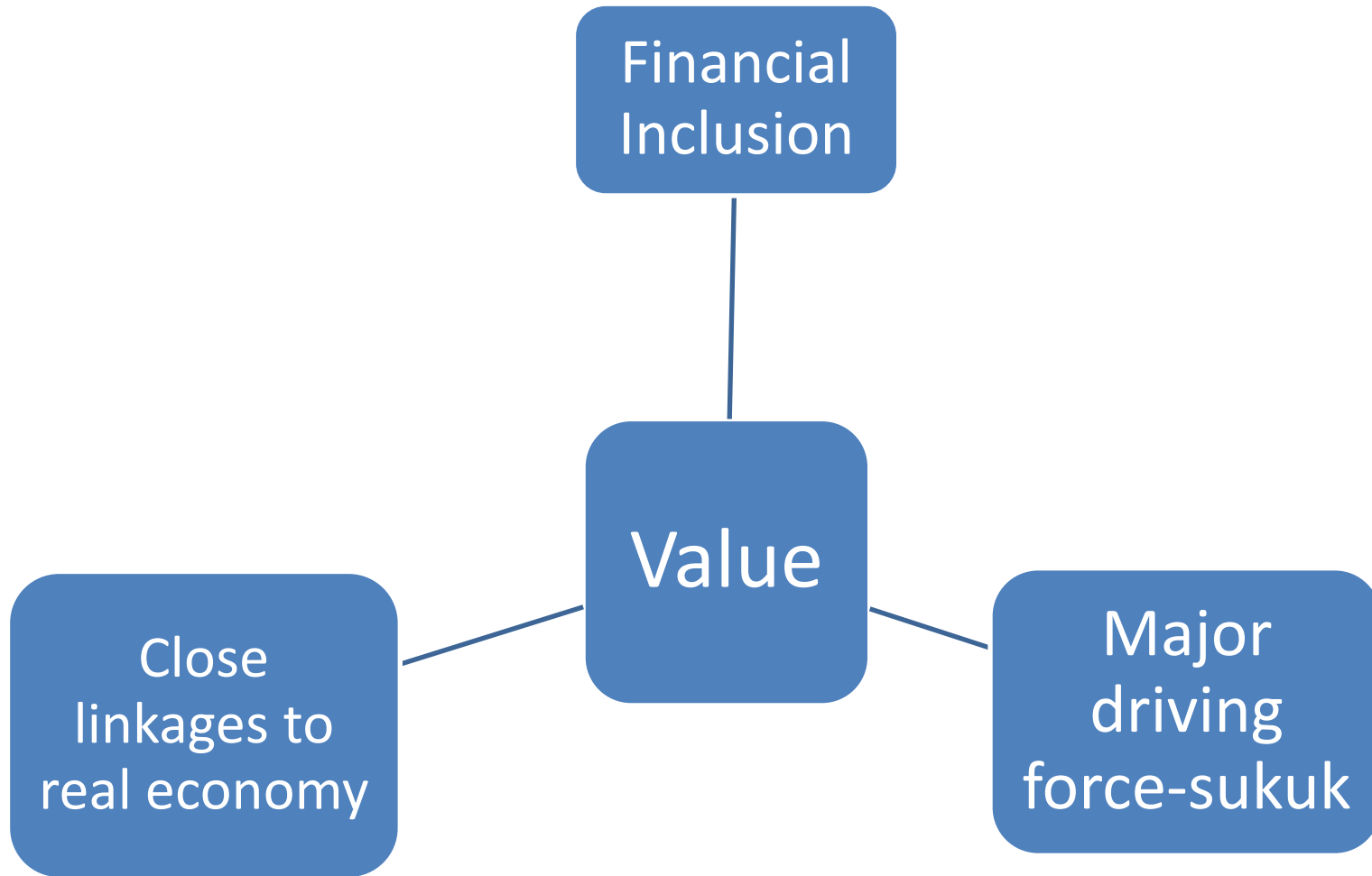
Liquidity
Coverage Ratio

Need for Level 1
Assets

New Regulatory Framework necessitates new formulas for Islamic Banks



Value of Islamic Banks



Achievements of Islamic Banks

Showed resilience in
Global crisis

US\$1.3 trillion of total
shariah compliant
assets in 2012.

Achievements

Rapid growth
momentum (19% per
year since 2006).

\$131bn sukuk issuance
with 54% increase than
2011.

Opportunities

Scope for its development

- *less than 1% the global financial industry*
- *even in jurisdictions with substantial Muslim populations*
- *largely concentrated on the banking sector (banking -93%, capital markets -5% and takaful -2%)*

Potential to diversify into new growth areas such as trade and infrastructure financing especially in emerging economies.

Meet the increased demand for simpler and more transparent products and 'back-to-basics' finance.

Challenges

Remain a form of financial intermediation that serves the real economy.

Differences in accepted standards of Shariah compliance.

- *IFSB, IDB, AAI OFI*



The regulatory treatment of the new and innovative Islamic financial solutions

The legal framework that ensures attention to sustaining financial stability.

Challenges



Lack of alternatives to conventional Repo agreements and treasury management practices

Difficulties related with managing liquidity through Open Market Operations (OMOs).

Lack of enough emergency facilities.

Difficulties related with deposit insurance-Takaful

Significance of Supervising



To sum up...



- Robust and resilient PB is crucial for financial stability
- Have brought the idle funds into the system
- Provided alternative financial opportunities to manufacturers and businessmen using funds
- PBs and Islamic Banks can help financial inclusion
- Operating environment supports future growth but there are many challenges



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