

Housing Finance Conference

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Dear Distinguished Participants,

1. I would like to welcome you all and thank to the organizers for inviting me to address such a prominent audience at the opening of this conference, co-held by IFC and the Dünya Newspaper.

2. Dear Guests, this meeting will be beneficial to evaluate the risks and threats together with the best practices in an environment of debating the effects of sub-prime mortgages in the United States on international financial markets. Besides, the meeting will provide opportunities for related organizations and experts to analyze the impact of new housing finance regulations on Turkish economy and global investors' interest towards our country and real estate sector.

3. World economy enjoyed a period of steady and rapid growth pace since the beginning of 2000. As the economic cooperation between countries improved, international trade volume grew. Both inflation and interest rates declined to low levels. Meanwhile savings rates and investments increased considerably. Financial sector expanded as the supply of loans increased. Asset prices recorded a significant rise.

4. During this period, the policies and standards implemented for better functioning of financial markets, technological developments supporting productivity and rapid growth in capital movements due to the globalisation of financial sector played an important role. According to the estimations of the Institute of International Finance, the net private capital flows to emerging markets amounted to around USD 600 billion in 2007.

5. The accelerated pace in international capital flows led to a sustained momentum for economic growth and development in countries suffering from capital shortages. While new opportunities for financial markets emerged, financial risk management concerning loans and especially derivative products became more important.

6. Turkey has raised a considerable amount of funds from international markets in the last five years. Net capital inflows increased from USD 1 billion in 2002 to above USD 50 billion by August 2007. The most remarkable development was the increasing foreign investors' demand for fixed capital investments and capital market instruments. Foreign investors' demand for capital market instruments, which were even below USD 1 billion in 2002, exceeded USD 10 billion as of August 2007. Foreign investors' demand for equities amounted to USD 65 billion while bond and bill portfolios reached USD 33 billion.

7. The favorable conditions in international financial markets during 2002-2006 period affected Turkey's economic performance positively. But, domestic achievements were also considerably important. There has been a strong will to restore macroeconomic balances. It is expected that public sector borrowing requirement to GNP ratio will decrease to below 1 percent in 2007 from 12 percent in 2002. The ratio of outstanding debt to GNP also decreased. The inflation rate declined to single-digit levels. From 2002 to 2006, Turkish economy grew at an average rate of 7.5 percent annually.

8. Improvements in operating environment, eliminating uncertainties and even reducing risks to comparably lower levels have resulted in healthy growth of the financial sector. The ratio of financial assets to GNP is about 150 percent. Although it is close to the average ratio in the emerging markets, it remains remarkably low compared to developed countries. Furthermore, financial sector is characteristically bank-dominated.

9. Both the improvements in the economic environment and changes in the tax regulations will enable private sector firms operating in this market to raise funds easily. Thus, the growth of financial sector and financial deepening through new products and organizations will also be achieved.

10. Housing finance is one of the instruments contributing to the deepening of the financial markets. As it is known, in order to establish modern housing finance system in Turkey, The Capital Markets Board prepared "Law Amending the Laws Related to Housing Finance System" which was put into force following the publication in the Official Gazette dated 6 March 2007. Much of the secondary legislations envisaged by the Law have almost been completed.

11. The growing demand for real estate stemmed mainly from economic recovery as well as changes in demographic structure and social facts. According to Turkish Statistical Institute projections, the mid-2007 population is about 73.8 million and will be 88 million in 2025 and 96 million in 2050. Home ownership ratio is currently at 68 percent in our country compared to 67 percent in the UK, 42 percent in Germany, 58 percent in France, 56 percent in the Netherlands and 37 percent in Switzerland. Although home ownership in Turkey may not seem to be low, there are some sources of concern such as 38 percent of all home buildings are non-licensed, only 33 percent of all buildings have an operational or residential license and 60 percent of all residential buildings are at least 20 years old.

12. It is utmost important to make necessary regulations concerning the below mentioned issues in order to have an efficient housing finance system in Turkey.

- a- The cost of funding is high and there is a short-term maturity structure.
- b- The regulations and implementations relating to financial sector operations affect negatively the competitiveness of institutions operating in Turkey vis-à-vis international competitors. Although the compliance was already provided in many areas, some others remained unchanged.
- c- Housing loans should not be included in consumer loan definition in order to comply with international practices. Responsibilities of creditors for defective

goods and services which are stated in the provisions of Consumer Protection Law No. 4077 should be explicitly defined.

- d- As housing insurance, life insurance and Turkish Catastrophe Insurance (DASK) are an integral part of the housing loans, these insurances must be compulsory.
- e- In the implementation of a contract with variable interest rates, it must be possible to use foreign exchange and short-term interest indexes instead of price index.
- f- Building under license and new projects for urban transformation must be supported and improved.

13. Loan portfolio has been increasing and getting more diversified recently in Turkey. The ratio of total loans to GNP increased from 19 percent to 40 percent. The ratio of retail loans to GNP increased from 3 percent to 13 percent stemming mainly from the rise in consumer and housing loans. The ratio of housing loans to GNP, which was below 1 percent in 2003 reached around 5 percent in September 2007. However, this ratio is significantly lower compared to the EU countries. This clearly shows the growth potential of housing loans in our country.

14. We believe that, this growth potential offers a multitude of opportunities not only for Turkey but also for the whole region. The Banks Association of Turkey has prepared a project in order to assess the prospects for Turkey and Istanbul to become a financial center in the region, to set a road map regarding the implementation, to define the roles of the related organizations and to determine the economic costs and benefits. The project, which has lately been submitted to the Government, shows that Istanbul is a strong nominee to become a financial center. The Association considers the growing, strengthening and effective functioning of the financial sector as one of the main requirements of a sustainable economic and political outlook. Thank you.