

Translated from Turkish

'They won't be coming before the real economy recovers'

Foreigners are interested in Turkish banks. However, the only incentive they have at the moment is price, and that is not enough...

By Rahim Ak

Capital injection to banks is a topic of controversy in Turkey. Nobody, including the foreign investors, knows what will happen after they finish auditing in J foreign banks are closely monitoring the Turkish banks, partly to continue normal course of business, and partly to develop partnering or acquisition strategies.

But what do they think? Almost everyone agrees that bank balance expectations. "We need to see the results. Problem credits and capital support are particularly important", says Tolga Ediz, a Lehman Brothers analyst in London. He adds that most foreign investors expect a worse picture than what is visible now. Many agree that depending on the

WE NEED TO SPEED THINGS UP

Yes, the picture is not very clear, but experts agree that the existence of a plan has created some optimism, in the market. Obviously, the plan has so many unknowns that the optimism is minimal. No new information will become available before June. Many experts believe that if the balance sheets are indeed worse than expected, capital injection immediately. If the plan is implemented properly, a more positive outlook can be created.

Let's assume that the capital injections are done as planned. Will this induce more partnerships or acquisitions? Aydin Ulsan, the General Manager of Bank of London Turkey has a blunt answer to this question. He says that the foreign investors are reluctant because they will not be able to see the balance sheets until May. Ulsan is confident that foreigners are interested in Turkish Banks, but they are driven only by prices. He adds that foreign banks take into account the fact that the deposits cannot be converted economy recovers. As a result, Ulsan comments that foreign banks will not move unless they really see that the economy shows signs of recovery.

INFLATION IS A MAJOR PROBLEM

Ulsan views inflation as a real problem. He says that although there are some signs that the economy is picking up and demand for credits is increasing, chronic inflation is a big problem. "When you talk about 'long-term' in Turkey, people think 3 months. This affects everything, including interest rates and exchange rates"

NO ACQUISITIONS AFTER JUNE

Ilker Karakullukcu, GM of First International Bank Turkey, has a different approach. He believes that banks that cannot receive capital support are good acquisition targets for foreign banks.

“Once the financial statements are in better shape, buying a bank will be more expensive” says Karakullukcu, adding that it is the last 3 months for foreign banks to buy Turkish banks at attractive prices. When the capital structures are improved, credibility of Turkish banks, will also improve. As a result, Turkish banks will be able to make longer-term deals with international banks. “Current L/C periods are 1 year for large banks and 6 months for mid-size banks. When the banks have better financials, we better terms in foreign trade transactions” said Karakullukcu.

Victor Politis, President of New York-based PRI Financial Engineers, says that it will take 2-3 years for the real effects of the changes in the banking sector to become visible. Politis believes that the bad debt problem of banks is greater than what is being reported. According to him, once the real picture is uncovered, the benefits will be much widely understood.

LACK OF KNOW-HOW

Victor Politis says that although consolidation and strategic partnerships are likely to accelerate, the banks do not have the know-how to attract right potential partners.

“In the short term, only a few Turkish Banks are strong enough to be considered reliable partners by their International counterparts. The strength of the Turkish Banks, in the medium to long term, will be determined to a great extent by their ability to rest portfolios successfully and to engage in new, ‘safe lending’ activity”, says Victor Politis.

He also criticizes Turkish banks. According to him, restructuring of loan portfolios is a very complex task and it requires experience and expertise that unfortunately is not available in Turkey since the magnitude of the current problem is a new phenomenon. Several good bankers in Turkey have told us that they have a hard time building in-house teams to handle all their problem loans.



Victor POLITIS
President, PRI Financial Engineers

- The future strength of the Turkish Banking sector will be closely tied to the strength of Turkish Industry, especially Turkish Exporters. Seizing collateral and forcing companies who have customers for their products to close and file for bankruptcy will have a continuous devastating effect on the Turkish economy. It will result in further massive losses of jobs and reduce liquidity even further. Banks cannot and should not operate manufacturing plants.
- Based on our experience in many countries, the best way to collect old debts is to make sure that potentially good companies stay open and operate and don't risk losing their customers to their competitors in other countries. It is practically impossible to regain lost customers. Any fresh lending to their eligible customers needs to be done in a “safe lending” structure whereby a big part of future profits is applied to gradual repayment of old debts. Since most companies have several creditors, it is also critical that Turkish Banks form Creditor Committees that act in unison before the Companies close or are forced into bankruptcy.

Turkish Exim Bank is competing with Commercial Banks. International Banks want to provide financing to Turkish Exporters. They need a Turkish Bank to insure the performance of the good exporters with a track record and good customers. Exim Bank needs to learn how to play this role in order to facilitate large amounts of international working capital to flow into Turkey. This is common practice in large export oriented economies around the world.