Trade and Trade Finance in Turkey: What is the Impact of the Finance Problems in the Decrease in Exports?

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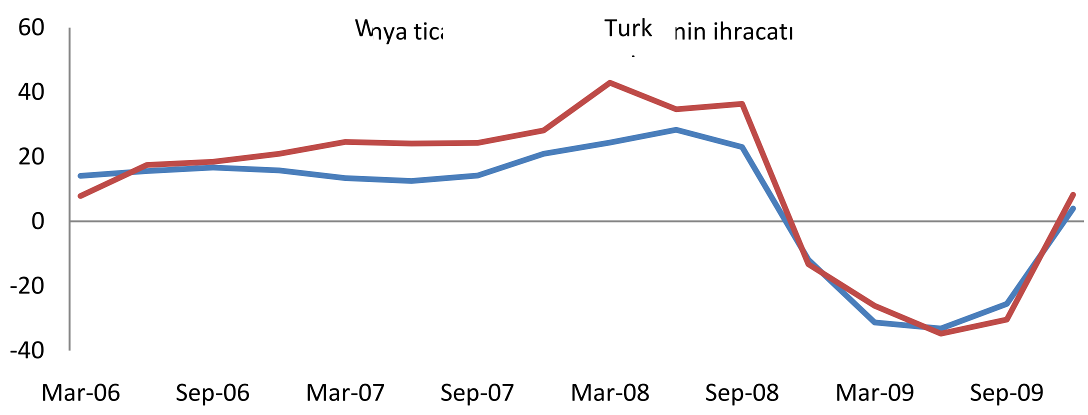
The crisis had devastating effect on Turkey's foreign trade

Turkey's foreign trade in 2009 was affected severely by the tightening of demand due to the global crisis. In this period, EU market which receives almost 50 percent of Turkey's exports went through rapid contraction and the efforts to change the destination of exports toward Middle East and North Africa markets could not compensate for the loss. Turkey's exports contracted in parallel with that in the world trade (Figure 1). In 2009 Turkey's exports decreased by 25 percent and imports decreased by 33 percent compared to the period before the crisis (October 2007 – September 2008). Tightening in exports and imports compared to 2008 was 23 percent and 30 percent, respectively.

Figure 1. Change in world trade and Turkey's exports (annual) compared to the same period in the previous year, 2006-2009



Source: WTO, TURKSTAT

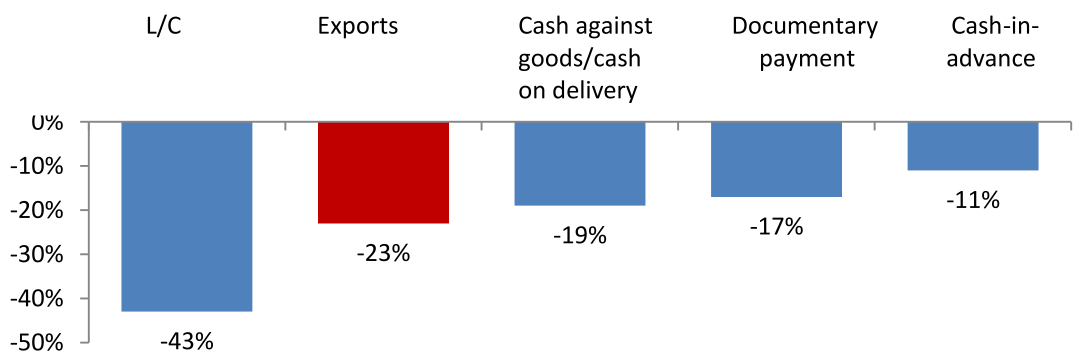
However, finance problems also had an effect on the tightening of exports

Due to the crisis in the financial sector, both the importer companies' and the local exporters' access to foreign-trade finance tightened considerably. In Turkey, majority of exports are financed by cash against goods and cash on delivery methods. The volume of exports financed with these methods increased from US$14 billion in 2001 to US$75 billion in 2008. However, in 2009 the volume of exports financed with this method dropped by 19 percent to US$61 billion. Documentary payment method is another finance method commonly used in Turkey and the volume of exports financed with this method reached from US$9 billion in 2001 to US$23 billion in 2008. On the other hand, exports financed with this method decreased by 17 percent to US$19 billion in 2009. L/C is not a commonly used method for trade finance in Turkey. The volume of exports financed with this method reached from US$6 billion in 2001 to US$21 billion in 2008. In 2009, use of the L/C method dropped by 43 percent to US$12 billion. Cash-in-advance method is least commonly used in Turkey. The volume of exports financed with this report increased from US$1.5 billion in 2001 to US$9 billion in 2008 and then contracted by 11 percent standing at US$8 billion in 2009.

If it weren't for finance problems, Turkey's exports could have been US$5 billion higher

The contraction in the use of L/C finance almost coupled that in exports (Figure 2). This led to the loss of an export potential at a considerable degree. For instance, if the contraction in the use of L/C finance could have been limited to the level of contraction in the use of other finance methods, exports could have been US$5 billion higher which corresponds to the 5% of exports in 2009. A similar situation appears also for import finance. Despite the 30% contraction in imports, L/C finance contracted by 39 percent in the given period. This implies that the contraction in foreign trade stems from trade finance problems as well as the tightening of global demand.

Figure 2. Annual change in exports and export finance methods, 2009



Source: TURKSTAT

Surveys carried out with firms and banks also verify this point

In order to monitor the recent developments in trade and trade finance, in April 2010 TEPAV carried out surveys with 40 firms among the 1,000 largest exporters of Turkey[1] and with 5 deposit banks intermediating trade finance. Results of the firm surveys are summarized below:

[1] Composed of firms involved in the ISO 500 and ISO Second 500 lists.

(1) 50 percent of the firms suffered from fall in exports in the fourth quarter of 2009 compared to the same period in the year before. 37.5 percent of the surveyed firms enjoyed increases in exports.

(2) 85 percent of surveyed firms were affected severely by the crisis in terms of their export performance. 40 percent of firms were affected to a limited extent by the crisis while 15 percent were not affected at all.

(3) 52.5 percent of surveyed firms are currently faced with a constraint in their exports as a result of the global crisis.

(4) The survey reveals that 'lack of new orders' is the most prominent constraint for exports with 90.5 percent. Other important constraints are 'lack of trade finance on the buyer's side' with 57.1 percent and 'lack of finance from banks' by 23.8 percent.

(5) Only 15 percent of the survey participant firms expect that exports will re-achieve pre-crisis levels in 2010.

(6) 35 percent of the surveyed firms plan to shift their exports to developing countries in order to reduce their dependence of developed country markets. Among the countries towards which exports are planned to shift are Russia, Egypt, Morocco, Iran, Libya and other African countries.

(7) 5 percent of the surveyed firms cancelled a planned transaction due to lack of trade finance.

(8) 40 percent of the surveyed firms claim that cost of foreign trade finance increased in the last quarter of 2009 compared to the fourth quarter of 2008, while 35 percent indicated a fall in cost and 25 claimed that costs did not change.

(9) 7.5 percent of the surveyed firms suspended a foreign trade transaction on grounds that the cost of trade finance is above normal.

(10) 70 percent of surveyed firms believe that the banks they work with become more risk avert since the fourth quarter of 2008.

(11) 5 percent of the surveyed firms argue that banks still implement tighter eligibility criteria for foreign trade finance transactions.

(12) 27.5 percent of the surveyed firms are aware of the measures governments took in order to prevent the rise in the cost of trade finance and fall in trade volume during the crisis.

Survey results reveal that, despite the fact that 1.5 years passed since the crisis, more than half of the surveyed firms feel a limitation in their exports and only 15 percent of the firms expect to achieve the export volume before the crisis, giving hints about the severity of the problem. It is an important evidence for the tightening impact of finance problems on exports that more than 5 percent of the firms postponed or cancelled exports due to lack of finance or cost of finance.

Results of the survey conducted with banks also reveal the contraction in foreign trade finance. Limitations imposed on certain correspondent banks and countries must be monitored cautiously. Results of the bank surveys can be summarized as follows:

(1) Banks indicate that the pricing of trade finance instruments was affected adversely by the rising cost of funds (60%) and rising capital requirements (20%).

(2) Lack of liquidity that prevailed throughout the financial crisis limited trade finance transactions of the 60 percent of the participant banks leading them to impose tighter credit eligibility criteria.

(3) Liquidity conditions of the two thirds of banks that encountered contraction in trade finance transactions enjoyed a recovery as of the last quarter of 2009. However, only one third of banks loosened the credit eligibility criteria.

(4) 80 percent of the surveyed banks stated that they tightened the criteria imposed on the corresponded banks they used to work with before.

(5) All of the surveyed banks maintain that they tightened the criteria imposed on correspondent banks from certain countries. Among these countries are USA; United Kingdom, Belgium, Kazakhstan, and Ukraine.

Finance possibilities and insurance mechanisms must be developed for foreign trade

As a result, lack of global demand is the most important factor that adversely affects Turkey's exports. Nonetheless, problems in trade finance also play a role in the tightening of exports. It is observed that during the crisis banks tightened the eligibility criteria they imposed due to liquidity problems; but did not loosen the criteria even after the recovery of the liquidity outlook. In the coming period where exports will tend upwards again, it is of critical importance to expand the trade finance possibilities. Export insurance mechanisms must be developed particularly in the process of entry to new markets.