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LOGBOOK of the TURKISH ECONOMY

TURKISH TARP: ANSWERS TO FREQUENTLY ASKED QUESTIONS

Fifth Log

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We published two papers[1] in April and May 2019 to make the case for a Turkish Troubled Assets Restructuring Program ("TARP"). Our main argument was that a public private partnership was needed to carve out toxic assets (non-performing and watchlisted loans) from bank balance sheets to ensure flow of credit and return to growth. Both papers attracted significant attention from policy makers, international financial institutions (IFIs), banks and financial investors. Based on our discussions, we are convinced that a well-designed model can bring together various stakeholders, source fresh international capital and address the challenge.

Our papers also prompted various questions. Therefore, we wanted to publish an "answers to frequently asked questions (FAQs)" memorandum to further help structure the discussion. By way of this paper, we would like to re-emphasize the need to act quickly, competently and decisively to bring Turkish economy back to growth. The need is getting more urgent, given the strains on the credit channel, problems for the real sector and the resulting increase in unemployment. Moreover, such a program could have spillover benefits for the broader economy, particularly if executed as part of a coherent macroeconomic strategy, and pay for itself quickly.

The potential increase in bank profits thanks to declining rates provide a cushion for any potential losses related to the toxic assets. The all time low global yields offer an opportunity to source international capital. It's high time to act.

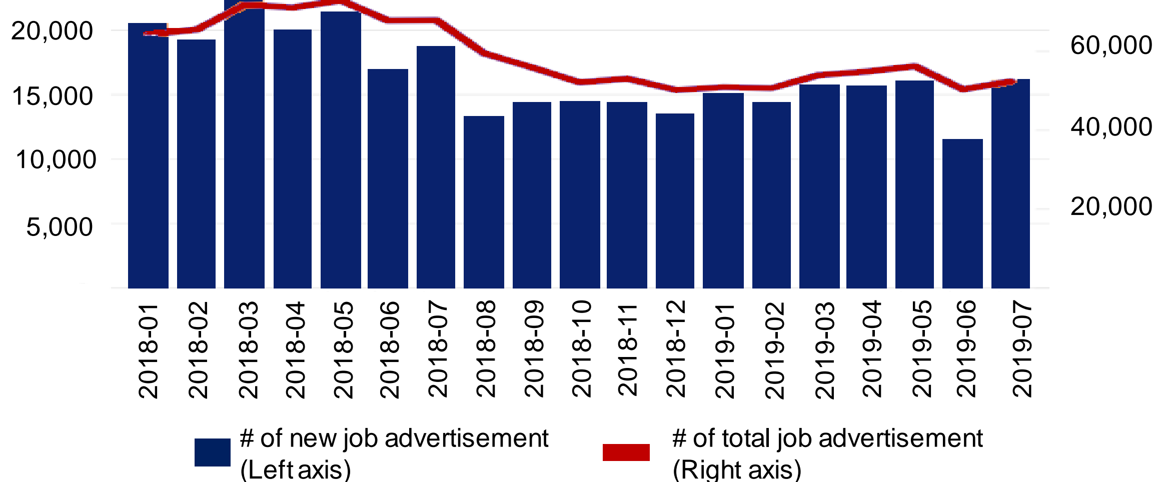
(1) "Why act? Isn't it private sector's and banks' problem, after all?"

In an ideal world, private sector should sort out its problems on its own. Sadly, it is a highly theoretical proposition, particularly at times of high volatility, and inaction would likely end up being costlier for the taxpayer. Let us explain.

First, the economy is an expectations game. If market players fear from a negative feedback loop (credit starvation, economic contraction, loss of corporate sector capacity to operate and service debt, impaired bank balance sheets, further credit starvation) they act accordingly. Suddenly perception becomes the reality. Turkish employment statistics (see Chart 1), lending data or economic expectations indices all testify this. The decline in investments for four quarters in a row, reaching an 8 per cent year-on-year contraction in Q2 2019, is particularly telling. A strong anchor is needed to change expectations.

[1] https://www.tepav.org.tr/upload/mce/2019/bultenler/ekonominin_seyir_defteri/logbook_of_the_turkish_economy__second_log.pdf and https://www.tepav.org.tr/upload/mce/2019/bultenler/ekonominin_seyir_defteri/logbook_of_the_turkish_economy__fourth_log.pdf

Chart 1a Kariyer.net Employment Index



Source: kariyer.net

Chart 2b Annual change in the Number of Employed People

	Annual change, (thousand people)				
	2017		2018		2019
	May	December	May	December	May
Total employment	621	1,619	650	-633	-869
Registered	294	919	580	-459	-781
Unregistered	327	700	70	-174	-88

Source: TURKSTAT

Secondly, any rebalancing takes time, causing a significant toll on the economy. This is a negative externality for the entire population, calling for public authority involvement. As shown in our previous papers, recessions accompanied by deleveraging needs typically tend to take longer. Let alone a recession, even a slow growth rate would be quite painful for a country like Turkey, which has 750,000 people reaching employment age every year. Unfortunately, 870,000 lost their jobs in May 2018-May 2019 period. As a result, the number of unemployed people exceeded 4 million. We need to smooth out the rebalancing by restoring bank lending at a reasonable level, support real sector's solvent players as going concerns (not necessarily under current ownership) and quickly eliminate zombies (insolvent companies with limited/ no prospect of recovery). Of course, we also need to use financial resources more wisely this time, create alternative lending channels, build more developed capital markets, achieve higher savings rates and be more productive -- but all those will take time. The short-term priorities are clear, particularly given the high correlation between bank lending and economic growth, as seen below.

Chart 3a Credit Impulse[2] and Real GDP

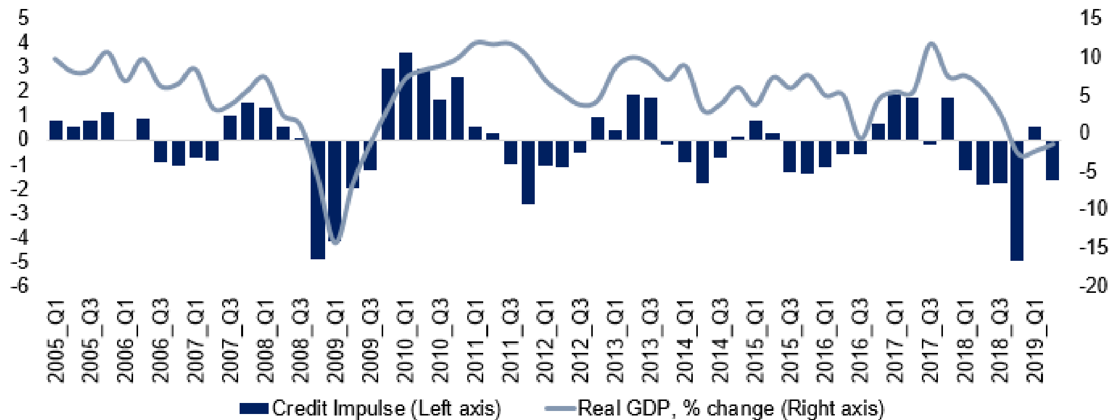
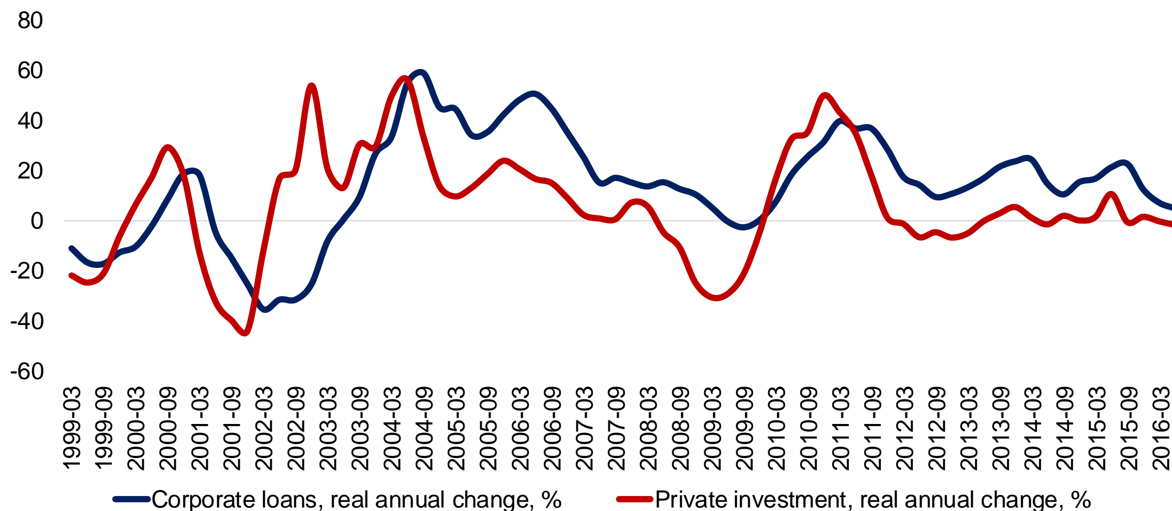


Chart 4b Corporate loans and private investment, real annual change, %



Source: BRSA, TURKSTAT, TEPAV calculations

Thirdly, not having a coherent program to address the toxic assets on bank balance sheets may eventually result in ad-hoc arrangements or patchwork efforts, which always end up being costlier. For example, the recent decision to revise reserve requirements to reward loan book growth is unlikely to nudge private banks towards lending, given the structural challenges mentioned below. In fact, the continuous shrinking of private sector bank loan books, in the wake of state banks stepping-up, might point out that an indirect risk transfer to the taxpayer is already in place (see Chart 3). Also, in the absence of a well-structured program, it is impossible to source long-term foreign financing (fresh capital) to address the toxic debt challenge.

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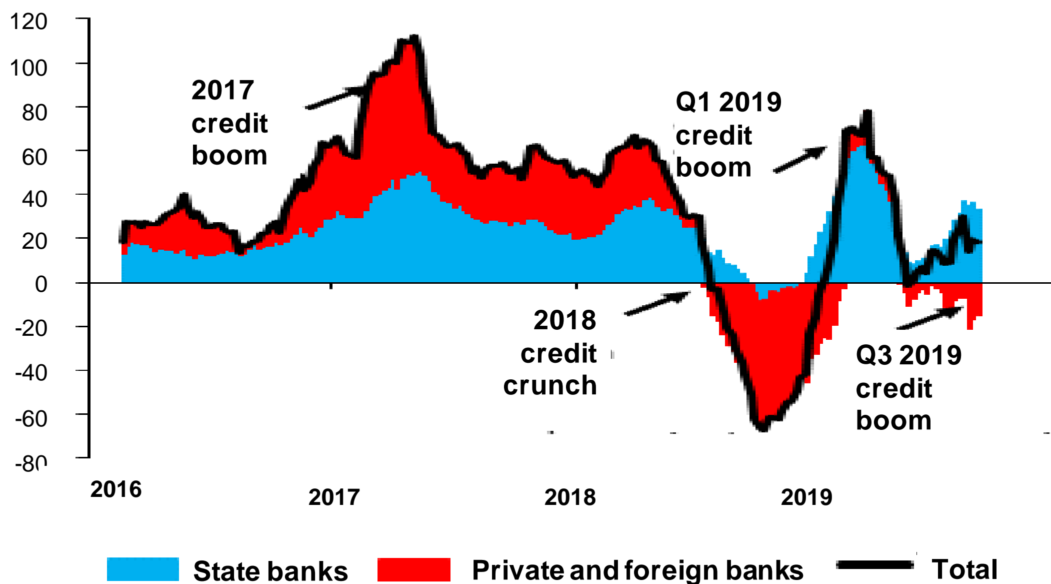
[2] Credit impulse means the change in net credit utilization.

Chart 5 Lending by bank type



Source: IIF

Finally, even purely private sector led efforts require public sector involvement– e.g., bank regulation, tax regime, bankruptcy process and overall macroeconomic framework. To sum up, public sector involvement is key given the need to send the right signals to the market, smooth out the rebalancing, mobilize external financing and coordinate/ enable multiple parties to tackle the problem.

(2) "But why don't private bank owners follow the state banks and lend more money?"

Almost all private banks have reduced their loan books in real terms (i.e., grew below inflation) over the past year. Why would any owner or management team want to shrink its business? Because they don't have the resources in the form of deposits or equity and the financial performance is not attractive enough to inject additional shareholder money.

Table 1 Turkish Bank Lending

Bank	Loans 12/2018 (billion TL)	Loans 06/2019 (billion TL)	Change for 12/2018-06/2019 (billion TL)	Change for 12/2018-06/2019 (%)
Ziraat Katılım	17.2	20.0	2.8	16.0
Ziraat Bankası	379.3	420.9	41.6	11.0
Vakıfbank	232.4	262.4	30.0	12.9
FİBA Banka	13.2	14.8	1.6	12.2
Kuveyt Türk	47.0	51.7	4.7	10.0
Halkbank	259.1	286.8	27.7	10.7
HSBC	15.7	17.3	1.7	10.6
Vakıf Katılım*	13.6	14.5	0.9	6.9
ICBC	7.8	8.5	0.7	8.8
Aktifbank	7.4	8.0	0.6	8.5
Alternatifbank	16.3	17.6	1.3	8.0
QNBFinansbank	101.9	108.5	6.6	6.5
Denizbank*	92.7	98.8	6.1	6.6
Albaraka	27.1	28.8	1.8	6.5
YKB	233.1	246.5	13.4	5.7
AKBANK	209.3	221.5	12.2	5.8
Türkiye Finans	30.0	31.5	1.5	5.0
Garanti Bankası	256.0	265.8	9.8	3.8
TEB*	66.9	69.7	2.8	4.2
İŞBANK	258.2	257.4	-0.8	-0.3
Şekerbank*	22.1	22.8	0.7	3.4
Burgan Bank	14.7	14.5	-0.1	-0.9
ODEA Bank*	20.5	20.1	-0.4	-1.9
ING	39.6	34.7	-4.9	-12.4

Source: 2019 financial reports of related banks
*March 2019 data were used.

Let’s start with the lack of resources. Turkish banks have already lent -more than- all their TL: Loan to deposit ratio was 117.2 per cent as of June 2019. In the first seven months of the year, their TL deposits grew just 3%, less than half of the pace of inflation (i.e., contracted in real terms). On the other hand, despite the declining FX loans, their FX deposits has grown consistently. To source more TL to provide TL loans, they would need to convert their FX to TL in international markets. However, the regulations which sharply increased swap costs for currency speculation in April 2019, seems to have closed that window.

Given the size of (and likely increase in) the non-performing loans (NPLs)/ watchlisted loans and restructurings, banks may not have sufficient capital adequacy or liquidity for new lending. To put things in perspective, we are looking at over TL 100 billion (or 4 per cent of Turkish banking loan book) in NPLs. This is on top of the much larger balance of watchlisted (or Stage II) loans. Price Waterhouse Coopers notes: “Total of Stage II loans in the banking industry exceeded TL 275

billion in 2019 indicating a ratio of over 11 per cent. Out of the total stage II loans, TL65.1bn has already been restructured"[3].

On capital adequacy, bank equity provisioned for NPLs or write offs mean less ability (up to 10x, given highly leveraged nature of bank balance sheets) to lend new money. On liquidity, less cash received from existing loans means less new lending. For example, not being able to charge interest (e.g., over 20 percent per annum?) on watchlisted loans for a year means a liquidity gap of over TL 60 billion. Moreover, when banking system cannot grow its resources, restructurings turn into zero-sum games – one firm's salvation becomes another's starvation.

On financial performance, two related metrics tell the entire story: return on equity (ROE) and market price/ book ratio (P/B). Turkish banks' profits in the first seven months of the year was the worst in last three years in TL, even before accounting for inflation, depressing the ROE. This is driven by their inability to pass through the increasing funding costs, relatively low yields in their existing loan books (compared to today's standards) and potential additional provisions for NPLs/ watchlisted loans. Turkish bank ROEs have been well below inflation, depreciation in TL or even the deposit rates (i.e., how they fund themselves). This means that a private citizen who deposited his/her savings in a bank has handily outperformed bank's owners, even before accounting for the much lower risk undertaken (fixed income, government guarantee). In other words, a bank owner is much better off to be a depositor at its competitor! As a result, banks are trading at substantial discounts to their book values. As of end of August 2019, every Turkish bank trading on the stock market is valued at below its book value of equity.

(3) "Isn't committing public money a wealth transfer? How to ensure taxpayer money is not wasted?"

This is a very valid question and needs to be taken quite seriously. Otherwise, effectiveness (adverse selection) and fairness (moral hazard) of the program would always be questionable. Four elements are essential: (i) coherent program; (ii) public-private partnership; (iii) independent, competent and transparent management; and (iv) exit perspective.

First, the problem shall be addressed through a coherent macroeconomic program (to be further discussed below, in question 7). Ad-hoc arrangements or single name bail-outs could not make the desired impact, might cause moral hazard concerns and certainly would not help source new international financing to the system.

Secondly, public money should be committed only if some private/ IFI funds are also co-invested and aim for a certain financial return. GACS, the Italian government's NPL securitization program

[3] The Way Forward for Turkish Distressed Loans and Assets – Resolution Alternatives, May 2019

is a case in point (see below for further details). Banks should also ideally be part of the system to ensure they retain some "skin in the game", provide funding and overcome pricing gaps.

Thirdly, as in any principal investing case, the management team of the program needs to be independent, competent and act with full transparency. On independence; the management should not report to any single stakeholder but have operational flexibility within the framework established by all the investors at the outset. This is particularly critical to balance aims of various stakeholders with varying incentives (e.g., "at what price to acquire loans from banks?"), recruit high caliber talent and attract new (international) financing. On competence; the management should have multiple capabilities, including purchasing assets, overseeing portfolio, conducting financial/ operational restructuring, potentially making follow-on disbursements and realizing investments (e.g., merger & acquisition, sale of collateral). On transparency; a world class reporting system (e.g., quarterly reports, semiannual meetings) should be in place for all stakeholders, including government (taxpayer money), banks (regulated entities, some of which are public) and new (international, institutional) investors.

Finally, the program should aim to liquidate its holdings and terminate itself in the shortest reasonable time to avoid mission creep. The purpose is not deploying money perpetually to achieve attractive risk adjusted returns (as may be the case for a sovereign wealth fund) but to fulfill a well-defined, concrete mission—i.e., restore lending, support real sector's solvent players and quickly eliminate zombies. Therefore, the program should act like a limited life fund and not reinvest the proceeds it receives, except in very limited exceptions. The USA's TARP program is a case in point (see below for further details).

(4) "What would the Turkish TARP" program do?

There are three major elements of the program: (i) acquire toxic assets from banks (e.g., NPL or watchlisted loans, enforced assets or equity stakes in firms) at discounts to their face value, in exchange for a combination of government bonds, potentially cash, and some shares in the new owner of these assets (i.e., the Turkish TARP vehicles); (ii) address any likely impairments on bank balance sheets due to recognition of losses through a capital increase, potentially through equity-like securities provided by existing shareholders and the government, so as to strengthen their capital adequacy; and (iii) manage acquired assets appropriately, in line with the mandate from the investors of the acquiring entity, and liquidate them in the short-medium term.

In practice, three balance sheet actions should happen near-simultaneously: (i) the banks replace toxic assets with (a) equity-like financing from bank owners or highly rated securities from the government and (b) cash and shares from the Turkish TARP vehicles; (ii) the Turkish TARP vehicles raise funds from its key investors (i.e., bonds from the government, toxic assets as in kind payments from banks and cash from institutional investors) and use these funds to acquire NPL or watchlisted loans, enforced assets or equity stakes in firms from banks at discounts; and (iii)

the Treasury potentially becomes a financier to the banks and a shareholder in the Turkish TARP program, through providing bonds (i.e., effectively no upfront cash injection.)

Table 2 Turkish TARP Stakeholder Roles

Stakeholder	Provides	Receives
Government	Gov't bonds to banks	Equity-like or sub-debt securities
	Gov't bonds to Turkish TARP	Shares in Turkish TARP
	Guarantee on the senior tranche of toxic assets	Warrants on the seller (bank or Turkish TARP)
Banks	Toxic assets to Turkish TARP	Cash, gov't bonds and shares in Turkish TARP
	Increased shareholding or sub-debt repayments	Equity-like or sub-debt securities to gov't and shareholders
Turkish TARP	Its shares to government	Gov't bonds to be used in acquiring toxic assets
	Its shares to new investors	Cash to be used in acquiring toxic assets
	Cash, government bonds and its shares to banks	Toxic assets
Investors	Cash into Turkish TARP vehicles as equity holders	Shares in Turkish TARP
	Cash into Turkish TARP vehicles as lenders	Senior debt claim against TARP assets (and potentially gov't guarantee)

In terms of the specific actions, first, the banks should put together the toxic asset pools they are prepared to sell. The regulators' (e.g., timing and methodology of recognition of losses) and tax authority's (e.g., carry-forward of tax benefits) approaches would be key. An appropriate initial assessment of these assets' potential market price would indicate the potential level of impairment on bank balance sheets and any need for enhancement for the assets to be packaged and sold (e.g., government guarantee on senior tranche).

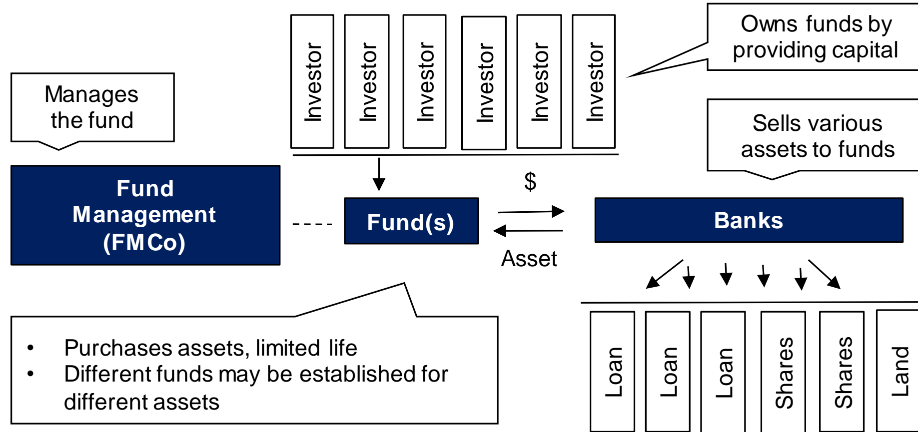
After this assessment, emergency funding lines should be established to strengthen bank balance sheets post-impairment. The funding should be able to cover at least 125 per cent of potential impairments to ensure some safety margin. The funding could be in the form of equity like securities or junior notes. The government should match the investments by bank owners 1:1 to avoid a free ride. If bank owners are not prepared to put any new money at all, more aggressive pricing or actions could be on the table. Most of the government funding would be in the form of special bonds and perhaps a marginal contribution would be needed in cash (if at all).

Parallel to these steps, fundraising and organization for the actual TARP program should be completed (see below). When all three elements are in place, the operation should be swiftly executed.

(5) "How would the Turkish TARP program operate?"

The Turkish TARP program would have three major components: (i) investments; (ii) investors; and (iii) the investment management function. The program would organize different pools of relatively uniform assets (e.g., based on their level of distress, sector or size) under several fund sub-buckets, which might have varying investors with different risk appetites. The entire operation would be supervised by an investment management team.

Chart 6 Turkish TARP Program Structure



In terms of the investments, the initial focus should be on the energy loans and corporate/ large SME loans (particularly ones to industry leaders, typically involving multiple banks, affecting entire value chains). We would not include loans for public private partnerships (banks may keep them on their balance sheets given low risk profile or issue bonds backed by them) or smaller segment of the SME loans (1.5 million small & micro business have total outstanding loans of TL 120 billion as of March 2019) which arguably require a wide branch network for effective oversight (so banks are better positioned to handle), rather than via a fund-like structure.

In the energy sector, $12-13 billion worth of loans are estimated to require restructuring. Banks allegedly are in discussions to carve them out of their balance sheets through a fund-like mechanism. However, any model that fails to attract fresh capital to the banking system and achieve operational improvements would not be more than a balance sheet make-up exercise. In the corporate/ large SME area, manufacturers (mostly food & beverage, textile, main metal and rubber & plastic) are the leading borrowers. These companies typically owe money to multiple banks (likely with messy collateral structures), need additional working capital financing to jump start/ maintain operations and employ high numbers of people– making them ideal candidates for TARP. Focusing on industry leaders with effect on broader value chains would be key to maintain corporate capacity and employment. Moreover, these companies could be reasonably attractive acquisition candidates in a few years, making realizations rather likely.

The main investor types can be grouped into three: (i) the government; (ii) the banks; and (iii) the new investors (typically international, institutional players, including IFIs). The program should be tailored around their needs. For the government, the aim should be ensuring stability of the banking system; restoring credit flows to real sector to return to growth and start creating jobs; and deploying taxpayer money at acceptable risk/ return levels. For the banks, the main goals would be to minimize write-downs and limit new lending to protect their equity in the short term

and collect maximum available proceeds in the medium-long term. For the new investors maximizing return/ risk would be the only aim.

The government may take various positions in the capital structure. It could directly invest in the equity of or debt issued by the Turkish TARP funds. It could consider an impact investing/ blended finance approach and deliberately ask for separately managed accounts with pre-determined social impact goals (e.g., job creation) to be included in total return. It could also become an asset enhancer by providing a guarantee on the senior debt tranche issued by program funds (backed by assets acquired by TARP), in exchange for a fee or equity warrants, or undertake the first loss (as in the credit guarantee fund mechanism) to mobilize new investors.

The banks should be part of the system to ensure they retain some "skin in the game". They may swap some toxic assets in exchange for some shareholding in Turkish TARP funds (though most of the payment they receive should be in the form of government bonds and some cash, given the primary purpose of the exercise is to repair their balance sheets). They could also take some senior debt haircuts in exchange for some equity stakes in underlying assets and continue holding the reduced senior debt. The Turkish TARP vehicle, funded by the government and international investors could then provide new money to those assets in the form of super-senior (e.g., through a slice of management fees), high yield junior debt positions or equity, depending on the need and the restructured capital structure. This could generate liquidity and release some capital for banks, while creating an interesting risk-return for the Turkish TARP vehicle and leaving part of the potential upside to the banks. In any case, the pricing of the transferred assets issue, which will be a major hurdle, can only be overcome by structural flexibility.

The investment management function's core tenets have already been described above—i.e., independence, competence and transparency. However, it is essential to design creative structures to facilitate transactions, effectively oversee assets with an owner lens (even if equity is not taken over, most, if not all, of the economic value of enterprises would typically belong to the lenders) and successfully exit the holdings.

(6) "Has anyone done it before?"

Yes. There have been multiple programs addressing toxic bank assets, with government involvement. It is fortunate that EIB, IFC and EBRD, the leading IFIs with knowledge of the Turkish market, have been involved in those efforts. In this paper, we would like to highlight the USA's TARP, Korea's KAMCO and Italy's GACS programs. As detailed below, these initiatives illustrate different characteristics of the program we are proposing: USA TARP (repairing bank balance sheets by way of injecting junior debt, taking action to salvage a key industry); Korean KAMCO (recognition of impairments, employing private sector specialists to clean up the zombies); and Italian GACS (how to use government guarantees for NPL asset enhancement, arguably with no cash impact on taxpayer).

Troubled Asset Relief Program (TARP) was launched after the 2008 Global Financial Crisis to salvage financial institutions, support corporate sector and most importantly restore confidence. TARP had four major initiatives: (i) equity purchase program ($205 billion: $40 billion in stock purchases of Citigroup and Bank of America, $68 billion purchase of preferred shares of AIG); (ii) mortgage-backed securities purchase program ($22 billion toxic assets); and (iii) automotive industry program ($80 billion loans and capital injections to automakers and their financing arms); and (iv) homeownership preservation and loan guarantees (remainder). TARP was exclusively funded by US Treasury (i.e., fully taxpayer money). To protect its investments, TARP received equity warrants from financial institutions that sold assets to it, introduced limits on top executive compensation at participating companies, established clear route to exit investments and abided by high disclosure and transparency standards. TARP invested $426 billion and recovered $442 billion within a few years, fulfilling its mission at no cash cost to taxpayer.

Korea Asset Management Company (KAMCO) was launched after the 1998 Asia crisis to clean bank balance sheets. Corporate restructuring vehicles involving foreign partners with restructuring capabilities were established to take over distressed assets from banks. An out-of-court workout process was introduced for most troubled and leveraged firms and 200 banks signed a corporate restructuring agreement that committed all creditors to abide by specific workout procedures. Uniform pricing criteria was developed, increasing discounts on purchase prices (from prices of 70-75 percent of collateral value to 45 percent on secured loans; from 10 to 20 percent of principal balance to a uniform price of 3 percent on unsecured loans). As a result, the level of NPLs declined from 17 percent of total loans as of March 1998 to 2.3 percent at year-end 2002. After a 5 percent contraction in 1998, Korea grew by 25 percent in the following three years.

Italian State Guarantee scheme (GACS, Garanzia Cartolarizzazione Sofferenze) was launched in 2016 to address the massive NPL problem faced by the Italian banks (double digit ratio, largest NPL volume in the EU). The scheme guaranteed the senior tranche of the securitized pools of NPLs in exchange for a fee. This enabled the banks to sell their loans and resulted in cumulative sales volume of over €140bn in 2017 and 2018.

(7) “Do we have money to do this?”

Potentially, yes. Also most of the funding could be non-cash, in the form of guarantees or special bonds – while there should be provisions for it, actual cash needs could be limited/ back-dated.

To put things into perspective, the entire NPL and watchlisted loan volume is below 9 percent of GDP. During the turmoil in summer 2018, Capital Economics, a macroeconomic consultancy,

noted[4]: "Turkey's NPL ratio would need to increase to 12 percent before the sector as a whole required recapitalisation. If the NPL ratio were to rise to 16 percent – similar to that seen in Hungary, Latvia and Bulgaria in the aftermath of the global financial crisis – that would reduce the Tier 1 capital ratio to 2.4 percent and a recapitalisation of 2.9 percent of GDP would be needed. Turkey's relatively healthy public finances – the budget deficit is around 2 percent of GDP and public debt around 30 percent – means it could probably absorb this cost."

However, the current situation is a bit more nuanced. Özatay and Sak looked into this issue in their TEPAV paper[5] published in January 2019. Based on the key indicators at the time, they argued that Turkey might have a room for fiscal maneuver around 13-14 of GDP, assuming a credible macroeconomic program is in place. It is important to note that this room was calculated before accounting for the reducing effect of the government guarantees for public private partnership contracts (their exact amount is unclear.) Since then, certain adverse developments took place – e.g., the increase in FX denominated government debt (now half of total stock), closure of the swap window (which was key to source long term TL funding) and aggressive credit expansion with sometimes below inflation lending pricing by state banks (potential duty losses). Moreover, the Treasury had a significant cash deficit: TL 73.7 billion in the first seven months of 2019 (TL 94.8 billion excluding the capital reserves transferred from the Central Bank) vs. TL 37.5 billion in the same period last year.

Therefore, the current room for fiscal maneuver is probably somewhat lower than what was estimated in January (e.g., around 10 percent of GDP?), but still sufficient for a TARP structure. However, a credible and coherent macroeconomic program is essential to accomplish all this.

(8) "What will be the benefits of the Turkish TARP program?"

The direct benefits would be (i) restoring lending by carving our toxic assets from bank balance sheets so as to return to economic growth; (ii) supporting real sector's solvent players as going concerns (not necessarily under current ownership) and quickly eliminating zombies (insolvent firms with limited/ no prospect of recovery); and (iii) sourcing international funding for Turkey.

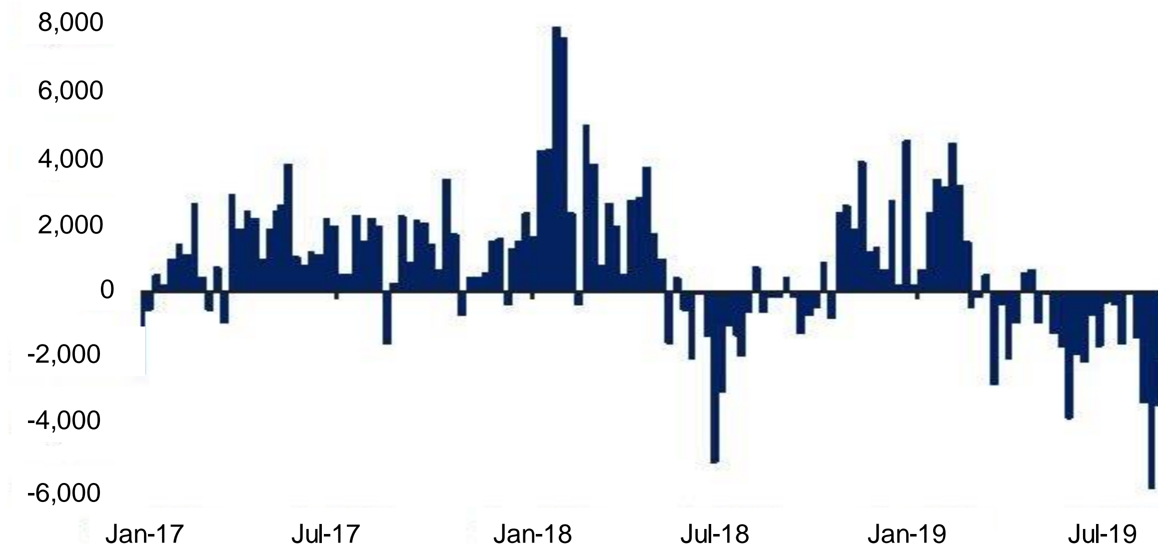
That said, the program's signaling effect would be as important (though less explicit). Domestic actors would see that the government, as the ultimate risk manager, is stepping up and addressing a real economy problem. International actors, would note that a market-oriented and coherent solution is employed. This could help reduce Turkey's risk premia, more than paying for the cost (if any, at all) of the program. These effects are particularly important as fund flows to emerging markets are getting volatile, if not negative (see Chart 5). While the Turkish TARP would go a long

[4] Capital Economics (2018, August 13). Where do the risks in Turkey's banking sector lie?. Emerging Europe Economics Update

[5] https://www.tepav.org.tr/upload/mce/2019/bultenler/ekonominin_seyir_defteri/ekonominin_seyir_defteri_1__maliye_politikasinda_manevra_alani_var_mi.pdf

way to address challenges, it naturally won't be a panacea. Details of a Turkish economic development program is beyond the scope of this paper.

Chart 7 Weekly flows to Emerging Market funds



Source: EPFR, Barclays Research

(9) "Why don't we just do it now?"

Four things are needed: (i) incentives; (ii) regulatory/ legal/ tax framework; (iii) platform; and (iv) leadership.

Today, the banks do not have any incentive to recognize and sell their toxic assets. The regulatory forbearance is thought to be in place. Understandably, it is a highly delicate challenge: delay sales of assets at discounts too much and the financial system is clogged, do that too aggressively and banking system's equity base is wiped out. The legal implications of recognizing losses for bank senior managers or the constraints in taking large haircuts inhibit action. There is no appetite to be the first one to jump or take a leap of faith in the absence of a concrete program or cushion mechanisms to support in case of equity write-offs (e.g., stand-by funding lines).

The regulatory/ legal/ tax framework is not supportive. A number of topics need to be cleared—e.g., debt to equity conversion (and associated VAT), bank board members' personal liabilities if assets are sold at discounts, transfer approvals (EMRA approval for energy assets, competition clearance) and various tax issues (stamp tax, banks recognition of discounts as expense).

Without a platform, various stakeholders either lobby to push their exclusive agendas or search for the appropriate counterparties. Given the essential need for collaboration of all stakeholders

(specifically, the government, banks, real sector and new investors, particularly IFIs) a common platform is needed. This would be an essential component of building a market.

Finally, leadership is needed from all stakeholders. Doing nothing, hoping for a recovery in several months, pursuing familiar processes or pushing the ideal outcome for one's organization could be more comforting to dealing with a lot of unknowns and working with multiple other players. However, this new challenge for the Turkish economy requires a new solution approach.

(10) "What are the specific next steps?"

As noted above, four stakeholders emerge as the key players to jump start the Turkish TARP program: (i) government (specifically the Treasury, BRSA and tax authority); (ii) banks; (iii) new investors, particularly IFIs; and (iv) the real sector. The immediate next step should be to bring these players together to sketch out a comprehensive Turkish TARP model. Once an approach is agreed, the actual operation needs to be executed swiftly, given the abovementioned interaction across various balance sheets.

Our various conversations with all different players make us optimistic about the ability to find a common ground. That said, taking timely action is essential to make a positive impact and reduce the financial, operational and socioeconomic cost of the program.