

THE CAUSES OF SAVINGS DEFICIT: THE CASE OF TURKEY

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Abstract

In the recent years, Turkish economy that attracts attention, catching a successful growth performance, exerts effort in the direction of that this growth becomes sustainable. One of the impediments in front of growth in Turkish economy comes to our face as saving unbalance. That saving level is insufficient makes a current issue of the use of foreign resource for growth to be able to realize In Turkish economy, especially beginning from 2000s, the fall seen in private saving is remarkable. Determination of the elements leading to savings at insufficient level will enable either policy maker to make necessary arrangements for increasing saving level or Turkish people to again review saving models, increasing saving consciousness. The aim of this study is to explain the factors causing savings in Turkish economy to actualize at the insufficient level. In the first section of the study, the level of saving rates in the world was examined. In the second section, the development of savings in Turkish economy was dealt with. In the third and last section, the factors resulting in saving deficit were scrutinized in detail.

Keywords: Saving, Investment, Foreign Resource, Turkey, Demographic Structure, Financial Markets, Income Level, Growth

INTRODUCTION

In the recent years, one of the important titles taking place in the economic literature. became economic crises. Especially finance -centered crisis beginning in US in 2008, spreading all over the world in short time, affected economies. As the main reason for comprehensive crisis experienced, the consumption and saving imbalances of countries are seen. In the world, while some countries such as China, Germany, and Japan have saving surplus, there is saving deficit in US, United Kingdom, and Middle East Countries. The element causing saving deficit or surplus is the tendency of the countries to save and consume (Erkiletlioğlu, et al., 2011:3). When that saving rate is low is combined with high debt burden, countries can come to the position that they cannot rotate their debts. This case leads the credibility of the countries and their reliabilities to decrease on the world platform .

In the main economic balance, it is expected that domestic saving rate of a country is at the adequate level to provide the domestic development and growth. With canalizing domestic savings to the productive investments, growth and development will actualize. At this point, that savings go toward financial investment instruments and banks, without going out of economic system, has a great importance. If there is the unbalance of saving –investment, it is likely to face with many problems. That investments is more than savings makes a current issue the use of foreign resource. Foreign resources are foreign borrowing, foreign direct investments, and portfolio investments. Foreign direct investments has an effect in the direction of increasing employment and growth in the country. However, portfolio investments leads to some problems in especially developing countries. The major problem is that foreign capital suddenly leaves the country. Finance markets of developing countries that are already vulnerable respond sudden capital outflows with crisis. The country experiences experienced have a quality confirming this thesis. A set of capital actions, which will enable capital to stay in the country markets for long time come to our face as capital controls. The most remarkable one of these controls was Tobin tax. Tobin expresses that the tax between 0.1 -0.2% to be imposed on capital outflows will prevent the sudden capital outflows. In practice, in the economies of Malaysia and Chili, it is seen that capital controls give successful results. Although capital controls have negative effects such as bureaucratic processes and discouragement of capital inflows, it is considered that they may be effective in providing economic stability. In case that savings are more than investments, insufficiency of demand occurs in the country and this case can cause economy to be entrained

to stagnation. Capital, which cannot find possibility to invest in domestic market, can go out of country as foreign capital.

Turkish economy is one of the countries suffering from saving deficit. Saving average of Turkey is lower than the average of the world, OECD, and European Union. This case leads to needing foreign savings to finance investments. However, it cannot be expected that a growth model depending on foreign savings is sustainable. What is primary is growth depending on investment financed by domestic resources.

In economic literature, savings are widely given place. Having information belonging to saving theories provides benefit in measuring the causes and dimensions of saving deficit experienced in the country.

SAVING RATES IN THE WORLD

According to the table, beginning from 2005, it is seen that saving rate in Turkey followed an unstable course and, especially together with the effect of global crisis, recorded a fall beginning from 2008. The average of the last three years, staying below the saving rates of EU, OECD, and world, actualized at the level of 14%. In the table, the highness of Azerbaijan saving rates attracts attention. That saving level of Azerbaijan is high can be explained with its being of a country exporting oil and natural gas.

Table 1. Development of saving rates in the world

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013
Turkey	16	17	15	17	13	13	14	14	14
Argentina	24	25	25	24	20	21	21	18	18
Australia	24	25	26	26	28	26	28	28	27
Austria	26	27	28	28	25	25	26	26	26
Azerbaijan	51	57	61	61	47	51	52	50	46
Belgium	27	27	28	26	24	24	24	23	23
Bulgaria	13	15	14	17	20	20	22	19	20
Brazil	19	19	19	20	17	19	18	16	15
Canada	26	26	26	25	20	21	22	22	22
China	47	50	50	51	52	51	50	51	51
Denmark	27	28	28	27	23	24	25	24	24
Euro Zone	23	24	25	24	21	22	22	22	22
EU	22	22	23	23	20	21	21	21	21
France	21	22	22	22	19	20	20	20	20

Table 1...

Greece	12	14	14	11	7	8	8	9	8
India	31	32	34	30	30	32	30	27	27
Indonesia	29	30	28	28	33	33	34	33	31
Japan	23	23	24	23	20	21	19	18	18
Italy	20	21	21	20	18	18	18	19	20
Israel	19	19	19	18	20	19	19	20	20
Kazakhstan	39	44	41	47	37	39	42	39	35
Malaysia	44	44	43	43	38	40	39	37	35
Mexico	20	22	21	22	21	20	21	22	20
Netherlands	28	29	30	30	28	28	29	28	28
Norway	37	40	39	41	34	35	37	38	37
OECD	21	22	22	20	18	19	19	19	20
Russia	33	33	32	34	26	30	33	31	28
Spain	25	25	25	24	23	22	21	21	22
Switzerland	31	33	35	36	33	34	35	34	34
Sweden	29	30	31	30	26	28	28	27	27
Thailand	30	31	34	31	31	33	31	30	32
S. Korea	34	33	33	33	33	35	34	33	34
Germany	23	25	27	26	24	25	26	26	
Portugal	14	14	15	13	13	13	14	15	16
Cyprus	17	17	16	13	12	11			
Arabia	52	52	51	55	41	47	53	51	48
Iran	41	40	43						
United Kingdom	15	16	16	15	13	13	14	14	15
USA	18	18	17	15	13	15	15	16	16
World	23	24	24	23	21	22	22	22	22

Resource: World Bank

One of the interesting examples taking place in the table is also USA: That US society has high consumption tendency is among the leading factors reducing saving rates. Another interesting country is China. The reasons for that savings of China range high can be counted as the fact that consumption tendency is low; that saving motive becomes an habit; that production costs fall due to cheap labor force, and that profitability increases. Japan also attract attention with high saving rates for long years. That Saving rates of United Kingdom, which takes place in the category of developed countries, are low is remarkable. United kingdom is a country, in which the most foreign

investment is realized among European countries. In United Kingdom, the major element making foreign investment attractive is low energy costs. However, many other factors causes United Kingdom to be demanded in terms of foreign investments (www.dtm.gov.tr):

- Qualified labor force
- That United Kingdom has a common transportation network
- That United Kingdom has the lowest rate of corporation tax among industrialized countries.
- Easiness provided for investors
- That London is one of the leading developed financial centers of the world

The role saving rates play at the growth and development level of countries is clearly seen. The countries having high saving rates are in the advantaged position in the development way. In the developed countries such as USA and United Kingdom, that saving rates are low can be explained with that these countries, which have already completed their industrializations, do not experience problem in finding foreign resource.

DEVELOPMENT OF SAVING RATES IN TURKEY

When considered the phases Turkish economy passes, it is seen that many crises are experienced and military intervention in 1980 left a trace. In not being caught the desired performance in terms of economic development, the effect of these crises and intervention is great. Especially fall in saving rates and, depending on this, that desired investments cannot be realized come to our face as the main problem of Turkish economy. In the recent years, fall seen in the saving rates reveals the seriousness of the state. In Turkey, domestic savings showed increase between 1980 and 1988; however, beginning from 1988, they have entered decrease trend. 2000s became the years, when saving rates further decreased. In respect with 2013, it realized as 14%. When compared to the world economies, it is clear that this rate is relatively low.

Table 2. Development of Savings in Turkey

YEARS	SAVINGS			INVESTMENTS		
	Public	Private	Total	Public	Private	Total
1975	4,6	17,7	22,4	6,1	14,8	20,9
1980	3,4	9,4	12,8	6,6	13,7	20,3
1985	5,8	14,7	20,5	6,9	12,4	19,3
1988	5,1	24,0	29,1	6,6	17,6	24,2

1990	2,6	22,1	24,7	5,2	16,0	21,2
1994	-0,1	25	24,9	3,7	19,1	22,8
1995	-0,1	24,6	24,5	3,1	19,6	22,8
1998	-1,4	25,7	24,3	4,8	18,3	23,1
1999	-5,0	25,1	20,1	4,9	14,4	19,3
2000	-3,4	21,8	18,4	5,2	15,7	20,8
2001	-7,1	25,5	18,4	4,7	11,7	16,4
2002	-4,8	23,4	18,6	4,9	12,2	17,1
2003	-4,1	19,6	15,5	3,8	13,6	17,4
2004	-1,0	16,9	16,0	3,2	17,5	20,7
2005	2,8	13,1	15,9	3,8	17,6	21,4
2006	4,2	12,4	16,6	3,8	18,9	22,6
2007	2,4	13,1	15,5	3,9	17,9	21,8
2008	1,7	15,1	16,8	4,1	16,1	20,2
2009	-0,9	14,1	13,2	4,1	13,1	17,2
2010	1,6	12,3	13,9	4,3	14,8	19,1
1980-1989	4,9	14,8	19,7	6,6	13,8	20,4
1990-1999	-0,5	24,3	23,8	4,7	18,0	22,7
2000-2010	-0,8	17,0	16,3	4,2	15,4	19,5

Source: www.kalkinma.gov.tr

In the table, the relationship of saving –investment that actualized between the years of 1975-2010 is seen. It is seen that in respect with the years, the share of public saving in total savings is less while the share of private savings is high. It is seen that public and private savings generally develop in the opposite direction. In the years, when public savings increase, private savings decreased. When regarded to the investments that actualized, it is seen that the share of private sector in total investments is higher. In terms of saving-investment balance, until 2003, although the years, when savings is more than investments, are seen, especially beginning from 2003, it is seen that there is continuously saving deficit. Saving rate, which was 22.4% in 1975, fell to 13.9 in 2010. While investment rate was 20.9% at the beginning of the period concerned, it was 19. % at the end of the period. In other words, the cause of saving deficit experienced in Turkey is saving decrease, not investment increase. At this point, what is necessary to be done is to implement the policy suggestions, which will increase the rates of domestic saving.

Factors Causing Saving Deficit in Turkey

Removal of the problem with saving deposit experienced in Turkish economy has a great importance. The most determinative ones among the ways to be followed for increasing savings are the income and interest rates. Beside these, there are some factors affecting saving tendency (Erkiletlioğlu et al.,2011:6-8) as:

- Income level,
- Growth,
- Demographic structure,
- Inflation,
- Social security policy,
- Credits, real interest rates and fiscal policies stand out.

However; (Karagöl,Özcan,2014:14-19),

- Behaviors of household,
- Low female employment rate
- Negative developments experienced in the terms of foreign trade
- High current deficit
- Providing macroeconomic and political stability
- Unrecorded economy
- Financial markets
- Urbanization, and
- Import dependence are shown among the causes of that savings range low.

In the study carried out by Abdioğlu and Berber(2007) toward determining the factors affecting domestic savings in Turkey between the years of 1970 -2005, it was concluded that the most important determinants were income, dependency rate, and real interest rate.

According to Düzgün, the other reasons for the rate of private savings in Turkey to GDP to be generally low can be put in order as follows Düzgün,2000:176-177):

- That financial markets is not deep enough
- That dependent population (ages 0-15 and age 65 and over) is more
- That the terms of foreign trade worsen
- Frequently experienced economic crises

That income per capita is low

- High current deficits
- Referring to private saving for financing public debts
- Becoming widespread of the use of credit card

- Increase in urbanization rate
- Aging of population

In another study, carried out for Turkey, Aktaş et al. (2010), for the period of 2002-2008, based on TÜİK study on budget of household, researched the structural determinants of household savings. According to this, it is seen that as the number of employed woman, educational level, income level, and age, saving rate rises. The increase of number of child and expectation of high retirement income negatively affect saving rates) (Aktaş, et al: 2010).

Özcan and Günay (2012), in their studies, showed idleness and public savings as the most important point affecting private savings (Özcan, Günay: 2012)

Policy Suggestions toward Increasing Savings

Forming social awareness is the leading policy toward increasing savings. The sensitivity either household or private sector will show on this issue will make positive contribution to raising saving level. Especially reducing luxurious consumption expenditure will positively reflect on budgetary balance.

More than actions, which will be taken on the individual basis, should be taken by public authorities. That marginal product of domestic capital provides higher yield than delayed consumption has a great importance (Feildstein /Horioka, 1980:314). In addition, provided that public expenditures are financed by a tax exempted from capital incomes, domestic savings will be negatively affected from this state (Feildstein, 1977:118).

When regarded to in terms of demographic factors, in case that dependency rate is high, it is seen that saving level is negatively affected from this. What can be done on this issue is to reorganize pension regime and make more effective individual pension regime.

The problem with import dependence private sector experiences, is another factor reducing saving rates by increasing production costs. Reducing import dependency in industry will positively reflect on saving rates.

According to the report prepared by Ministry of Development and World Bank, the policies to be applied for increasing savings are put in order as follows (Türkiye Ülke Ekonomik Raporu, 2011):

- For increasing company savings, developing an environment enabling enterprises to grow, be able to innovate, and use labor force more effective; .
- Applying macro policies increasing income and decreasing economic vulnerabilities;

- Applications of policy especially long term awareness regarding benefits of saving;
- Besides raising the awareness of households to make plan for retirement, making the plans of individual pension more attractive;
- Applying the reforms to strengthen fiscal markets;
- Requirement of a new and comprehensive capital market law for financial market to deepen;
- Severance pay fund as in the agenda of governments
- Increase in public saving, going to deduction in ineffective expenditures and preventing informality in economy;
- Taking saving plans applied in other countries as a model, drawing new savings to the system
- Taking political actions reducing import of intermediary and investment goods, which is necessary for the production.
- Policy applications increasing total factor productivity
- Taking actions eliminating the disturbances in the terms of foreign trade

CONCLUSIONS

Among the main problems of Turkish economy, perhaps, the one, which is the most important is the problem with saving deficit: That domestic savings are insufficient makes it difficult the realization of investments, which is necessary for economic growth and development and this case results in the realization of investments with foreign investments. When foreign savings enter the country as foreign direct capital inflow, while making contribution to the growth and employment, when they come as short term capital, they increase economic vulnerability.

When compared to the world countries, it is seen that saving rates of Turkey are relatively low. It is seen that the countries having low saving rates are in the crisis environment and their economies are in bottleneck. Turkish economies should heighten saving level before facing with these problems.

An interesting development experienced in Turkish economy is the highness of mattress saving. It is known that relatively large existence that is not transferred to the financial system remains idle. It is necessary to develop and diversify investment instruments to enable this mattress saving to include in financial system. At this point, it is important to identify the factors driving individuals to male mattress saving .

In some countries like Malaysia, Indonesia and Qatar Islamic finance is improving. In this system savings which are not channelized to real economy can be included to economy.

Because İslamic finance cater to different ideas to whom doesn't want to use conventional banking system. It can be useful for Turkish economy to diversify banking system.

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