

Turkey is entering the Islamic financial market

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On 17 September Turkey for the first time in its history issued five and a half year Islamic bonds (a financial instrument called *sukuk*) worth US\$1.5 billion. The bonds were hugely popular with foreign investors – the demand reached nearly US\$8 billion and the profitability of the bonds was set at a level of 2.8% (comparable to traditional bonds issued by Turkey). The bulk of the bonds (58%) was bought by investors from the Middle East. The bonds were also purchased by investors from Europe (13%), Asia (12%), Turkey (9%) and the US (8%).

Islamic bonds are the most popular instrument of Islamic banking that is the financial system based on Islamic law (*sharia*). This system has been established as a Muslim alternative to conventional banking. Its basic features are the prohibition of imposing interest (*riba*) and investing in the areas forbidden by the Quran (for example the production of alcohol). Revenues is generated by the production of goods and the share in profits (a bank which grants a loan participates in profits generated by this venture but also shares the risk of any losses and then cannot demand for the loan to be paid off). Currently, according to assessments made by Ernst & Young, the value of the Islamic financial market worldwide is US\$300 billion.

Commentary

- The Turkish economy is relatively poorly balanced and depends on external funding, above all from the European financial institutions which grant approximately 80% of all loans. At the same time Turkey faces the likely prospect of an economic slowdown – its GDP this year is forecast to grow by slightly less than 3% despite earlier predictions of at least 4% (in 2011 Turkey's GDP saw 8.5% y/y growth). In this context Turkey fears that the ongoing crisis in the EU will limit its possibilities of obtaining funds on the European market and that this will affect the already faltering economy. For this reason the issuance of Islamic bonds represents for Turkey an attempt to enter a new, future-oriented financial market, which is set to soften possible trouble in economic co-operation with the EU and to ensure new sources of funding. It also sends an encouraging signal to Turkish banks to seek funds on the Islamic market, in which attempts they are very likely to succeed.
- In symbolic terms, when entering the international Islamic financial market Turkey catered to the part of society which upholds Muslim values or which supports the ruling

Justice and Development Party (AKP). In the wider context, the issuance of the bonds proves that the AKP is open to introducing Islamic elements into the Turkish financial system and shows that the process of increasing the role of Islam in the state conducted by the AKP translates also into the economy.

- The issuance of the bonds also reveals that Turkey is at least in the short term determined to base its economic development to a larger extent on co-operation with the countries from the Persian Gulf (investors from this region have bought over half of the bonds) and in the wider perspective – from the Middle East and North Africa (MENA). This is compatible with the ongoing process of the transformation of Turkey's external trade structures – the share of the EU in Turkish exports fell in June 2012 to 37% in comparison with 58% in June 2007, whereas the share of MENA countries doubled in the same period, reaching 36%.