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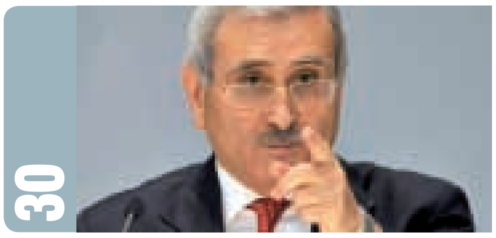

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İMKB is marching towards becoming a financial center in region and around the world

End of crisis could mean great opportunities for Turkey, says Ferit Şahenk Page 26

İSTANBUL FINANCE SUMMIT 2010

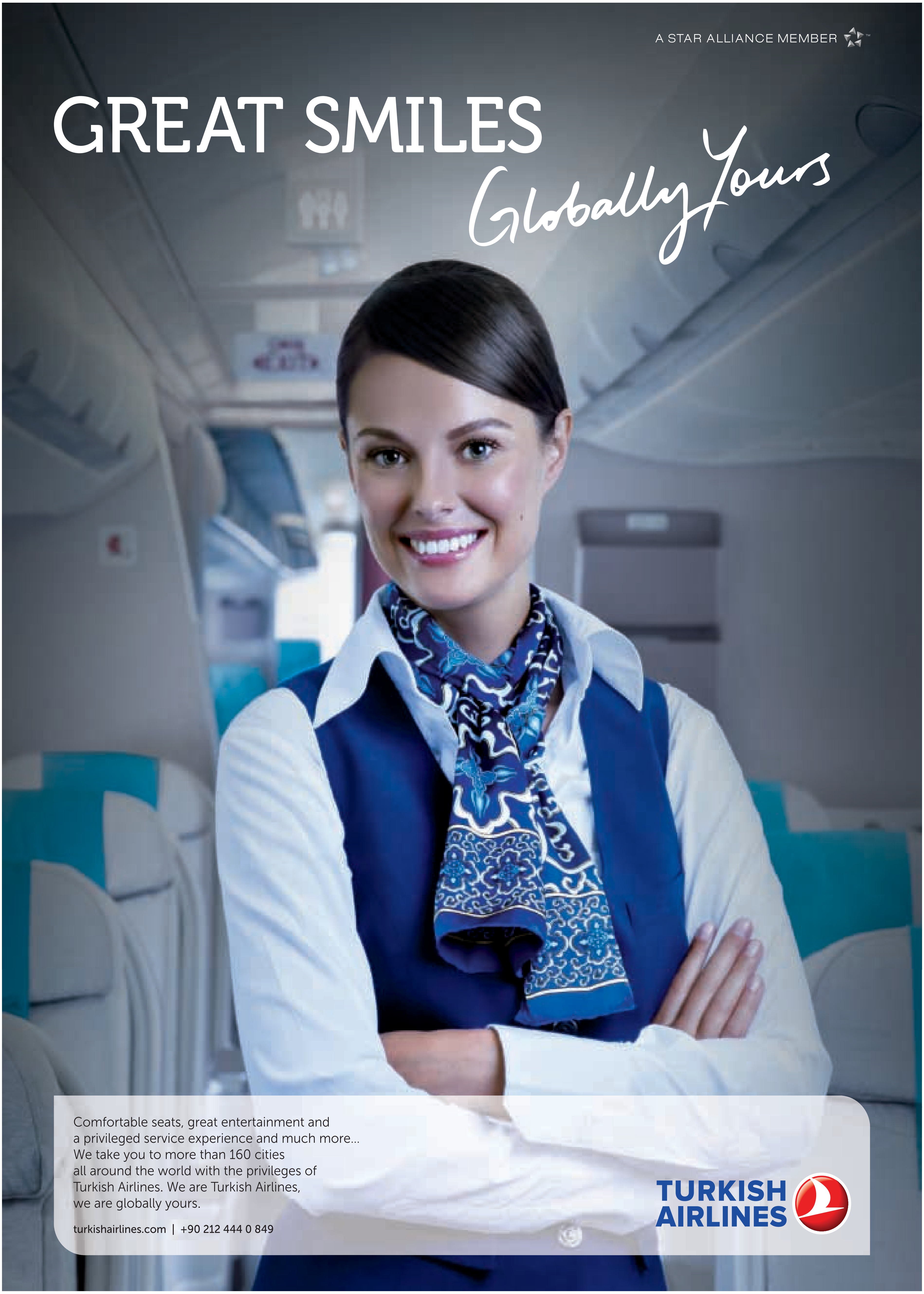
SEPTEMBER 28, 2010 WWW.TODAYSZAMAN.COM

US Treasury Secretary Timothy Geithner (l) talks with European Economic and Monetary Affairs Commissioner Olli Rehn (2nd l), TCMB Governor Durmuş Yılmaz (2nd r) and ECB President Jean-Claude Trichet (r) as they wait for their group photograph to be taken during the G-20 finance ministers and central bank governors meeting in June.

WINDS OF FINANCIAL REGULATIONS AND THEIR IMPACTS ON TURKEY

Countries are announcing austerity measures to heal the wounds of the crisis. Will they positively affect Turkey?

Now that the global economy is leaving behind the recessionary impact of the global financial crisis, eyes have turned to what should be done to avoid a similarly bitter experience. Just as has been the case in almost every financial crisis, financial markets in general, and particularly banking sectors in mature economies, have again been designated as the scapegoats of all problems that led to the recent crisis. The authorities are therefore in a relentless search for new rules and regulations to restrict the business domain and risk appetite of banks. **By SARUHAN ÖZEL** CONTINUED ON PAGE 18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From the editor

Many prominent financiers from around the world are gathering in İstanbul to participate in a convention, exchanging ideas and opinions about what may happen to the global financial system in the near future. Concurrently with this event, the ambiguities concerning the post-crisis environment seem to be clearing up because of increased restraint due to tougher regulations.

This will provide the context for the discussions being held in the İstanbul Finance Summit, which brings together decision-makers at both the governmental level and from the business world. The reflections of these individuals will provide significant clues as to the future of the financial world. Furthermore, we have a strong belief that this meeting will produce momentous support for the project to render İstanbul a regional and international finance center.

As it has done on many prior occasions, Today's Zaman didn't miss the chance to contribute to this prestigious event. We have accordingly prepared a supplement, which you are holding in your hands now, that aims to shed light on the current situation of Turkey's financial sector as well as provide detailed remarks about recent global developments.

Cabinet members who work on various aspects of the economy were happy to lend their pens for this supplement and have submitted invaluable articles, each of which provides comprehensive perspectives on the financial milieu. Top-tier figures in the Turkish financial markets, ranging from regulatory and supervisory institutions to civil society organizations to major individual actors in the sector were very generous in their contributions to our publication. The writings of several academics also added immeasurably to the caliber of this pamphlet. We owe a great debt of thanks to all of them. I also have to express my gratitude to Today's Zaman's copy editors and translators for their arduous efforts to ensure the quality of this publication.

I hope that this special supplement may prove to be a useful tool that helps you understand the hot topics prevailing in the financial world today.

İbrahim Türkmen

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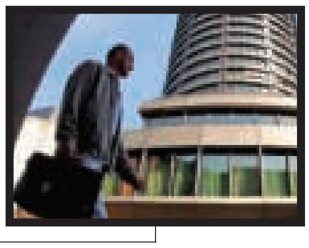

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Ömer Faruk Ünal

The financial sector's new bridge between East and West: İstanbul Finance Summit

ÖMER FARUK ÜNAL*

The İstanbul Finance Summit (IFS) began as just a small idea and, thank God, everything went according to plan and now it is setting the stage with 60 speakers, representatives from 20 countries and more than 100 prominent figures in finance from abroad.

As it can also be inferred from the backgrounds of the participants' and the interest shown by a wide array of sponsors that the content at the summit is of interest to all groups attending, including the government, non-governmental institutions, local and international banks, private sector pioneers, international institutions, academics and students.

It again underpins the significance of İstanbul for the finance sector, not only on a regional scale but for the world. There are lots of reasons why a great many people select İstanbul as one of the world's few financial centers. One is doubtlessly the rich historical background of this incredible city. İstanbul has served as the capital city of the Roman Empire, the Byzantine Empire, the Latin Empire and the Ottoman Empire. Another is that, despite not being the capital city of the Republic of Turkey, İstanbul, as the largest city in Turkey, has always been the center of Turkey's and the region's economic life. İstanbul has a different charm it is impossible not to respond to this magic.

The venue of the summit for this year is Bahçeşehir University, which is one of the best locations in the city. However, we were not concerned only with its location when we chose it as the venue for the event; its educational background was also a major factor in our decision. We are strongly committed to the idea that problems can be solved only by the harmonization of theory and practical experiences. Thus, we bring together regulators, international institutions, implementers, governmental institutions, private sector pioneers and academics in the sessions. In this summit we hope to see concrete solutions and suggestions for the financial sector.

The first step of our preparatory studies for the IFS was to determine strategies and action plans in accordance with the decisions taken in our advisory board discussions. Our most fundamental priority in drawing a road map for the IFS was to make it a permanent event with world-wide familiarity in the long run. Therefore, we see this event as an international project and accordingly we determined all the processes and business plans within this frame of mind.

All of our executive members have worked hard in order to do their best and avoid mistakes in the process. We divided the processes into several components including financing, sourcing, participation, promotion, operation, IT and media relations. We then created teams that each shouldered the responsibilities for one of these components. Since the beginning of the process, we have always kept a close tie of coordination with governmental organizations while staying in touch with several international organizations. Our teams also made a point of keeping contacts with private sector representatives. Because we have always believed that the IFS was not only our project but a project for Turkey, and it will contribute to the promotion of Turkey.

For promotion of the IFS different kinds of activities were done by our team. We compared notes with lots of finance sector decision makers like the top management of the World Bank (WB), the Islamic Development Bank (IDB), the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the central banks of major economies, regulatory institutions, and so forth. The IFS advisory and executive board created this session's topics and structure using helpful feedback received from these contacts. Although we have much experience in event designing and management, the IFS was to be held for the first time and, therefore, we wanted to build a solid foundation for the sake of a sustainable and world-wide infrastructure.

İstanbul is the bridge where the East connects with the West, both culturally and physically. That's why İstanbul has been one of the most important cities in the world since its founding in ancient times. We thought a great deal about this unique situation as we progressed with our studies.

As my final words as the head of the IFS Executive Board, I would like to reiterate my appreciation for and convey my thanks to our sponsors, supporters, the IFS advisory board, our coordination team and everyone who has believed in us and this project.

** Managing partner in the Seven24 Group of Companies, head of the Executive Board of the İstanbul Finance Summit.*


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Let's Roam Together

Discussing future of finance as it recovers from one of the worst crises ever

Dear participants of the İstanbul Finance Summit (IFS),

We are living in financial times, as the Financial Times of London reminds us every morning. While real happiness may be a different thing, finance is the most critical ingredient of all economic activity and the material well being of man. From the construction of mega infrastructure projects to daily consumables, from high-profile M&A transactions to not-so-easy-to-understand derivatives transactions, just about every activity of modern life interacts with the financial system and plays a key role in today's world.

The global economy is passing through its worst times in living human memory. The effects of the financial crisis are the dominant factors defining today's financial environment and will continue to impact the next generation with uncertainties to continue. The financial crisis has impacted not just the banks and the corporate world, it has laid waste to the credibility of institutions and regulators and also called into question the reliability of states. Regulations, financial products, institutions responsible for supervising economic activities and economic policies are being subjected to fundamental changes.

Moreover, as the current generation inhabiting the earth, we are learning that even in spite of all this self-confidence, it may not be possible to ensure a sink-proof Titanic. But we can at least learn from mistakes to make sure the next catastrophe will not come from the same mistakes. Thus, the crisis makes our time a time to reckon with, forcibly rather than voluntarily, with a view to correcting past systemic mistakes and looking ahead.

All this makes the first İstanbul Finance Summit very timely and important. The summit takes up challenging issues ranging from

- regulation and reform needs in the financial sector
- monetary policy framework, exit, interactions between monetary authorities and financial regulators
- energy and infrastructure finance
- trade finance and export insurance
- direct investment, acquisition finance
- challenges faced by financial centers
- prospects of Islamic finance
- capital and derivatives markets
- asset management

The summit speakers include leaders of global finance, regulators, decision makers, bankers and the corporate world. The İFS is designed as a "horizontal" and broad ranging event in that it takes up these issues in a "horizontal" rather than "vertical" manner. Many of the session topics could be taken up in a full-fledged summit. In the İFS, prominent speakers will give valuable insights in each session. That broadness will enable participants, in interaction with the speakers, to be aware of the state of the art of the discussion on the future of the global financial system. Moreover, active participation will make a significant contribution to the ongoing debate on crucial issues about financial markets and their architecture.

One last word: Straddling the continents, İstanbul is truly a unique city of the world -- being celebrated as a 2010 European Capital of Culture. The first metropolis of the world, it has been an international center of economic and financial activity since times immemorial. As a bonus, it offers a uniquely rich menu of cultural and historic assets to our international participants.

I wish great success to the first summit and a pleasant two-and-a-half days of active involvement to all our participants.

**Chairman of the Advisory Board of the İstanbul Finance Summit; chairman, TAIB Investment Bank; partner, PGlobal Global Advisory and Training Services, Ltd.*

Murat Yülek

PHOTO □ TODAY'S ZAMAN

Summit will make great contributions to İstanbul becoming a global financial center

H. İBRAHİM ÇANAKÇI*

Along with the many problems that emerged during the financial crisis, under whose effect we still remain, there are also many opportunities that have been revealed. While there is much discussion of a new financial architecture going on these days, the İstanbul Financial Center project -- being implemented with the cooperation of many public and private sector organizations -- looks set to make İstanbul not only a regional but in fact a global powerhouse.

A project that aims to see İstanbul transformed into a regional and global financial center is a long-term project, and in order to be successful, such a project requires the participation of almost every segment of society. Within this framework, we believe it is critical that the various elements of the project involve contributions and participation from segments of society as wide and varied as public institutions, universities, the private sector and civil society organizations.

I would like to once again reiterate my own personal pleasure at the fact that İstanbul hosted the International Monetary Fund-World Bank annual meeting -- one of the largest and most important gatherings in the financial world -- in 2009, and that now it is hosting the İstanbul Finance Summit, which brings together very important names from all over the world. This summit encompasses a wide spectrum of both participants and topics; it will also be a platform for debates and analyses regarding our nation and the current status of the global financial markets. I believe that the İstanbul Financial Summit will make an important contribution to İstanbul becoming first a regional financial center, and in the long term, an international one. I hope it is beneficial for all the participants as such, and I would like to extend my personal gratitude to everyone who has helped bring about this important meeting.

** Treasury undersecretary*

H. İbrahim Çanakçı

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Summit will brighten the future of the finance system

NİHAT ERGÜN*

I express my best wishes for the İstanbul Finance Summit (IFS) and sincere happiness for the fact that such a prestigious event is being hosted in our country.

Indeed, such events are indicative of Turkey's ever-growing reputation. The meeting comes at a time of recovery from the global crisis, which further boosts its importance. Given the fact that the global crisis is closely related to the global finance system, we can safely assert that this meeting is particularly significant. I hope the talks to be conducted here will shed light on the future of the world.

The world economy is passing through a critical period: While we receive signals marking the end of the global crisis, we also observe that several issues which may pose risks to the global system still trouble some countries. Globalization not only brings a number of blessings, but also some burdens. To enhance the blessings of globalization while reducing its costs, the world must act with a sense of responsibility and cooperation. The global crisis, which emerged in late 2008 and peaked in 2009, should serve as a lesson to us all. The problems haunting the financial systems of developed countries later started to adversely affect the whole world. If we live in a global economic world, then our local policies should be consistent with global targets and direction. We should build our economy on production rather than on consumption, attaching greater importance to private sector investment than to bloated public spending -- and invest in stability rather than speculation.

Indeed, Turkey's economic odyssey throughout the 2000s is extremely valuable in terms of formulating sound global policies. In 2001, we suffered from a severe economic crisis stemming from the banking system. Our already fragile and unstable economy was severely damaged during this crisis. In the post-crisis period, we radically revised our entire system with special emphasis on the banking system. We were the only country, among the OECD countries, that did not have to transfer funds to financial institutions during the global crisis. By asserting financial discipline, we fulfilled the Maastricht criteria in terms of budgetary deficits in 2006, 2007 and 2008. We reduced the burden of red tape and implemented new incentive programs to improve the investment environment considerably. We took decisive steps with regard to privatization, ensuring that the public sector withdrew to its proper sphere. In 2003, we passed the Foreign Direct Investment Law, to put an end to discriminatory practices between local and foreign investments, providing equal opportunities to both. We have taken important steps in foreign policy as well, creating new export markets for our private sector. In 2005, we started the accession negotiations with the European Union and achieved great momentum in our push for democratization. With the referendum held on Sept. 12, we turned a new page in our history and in our democracy.

All these developments have made the Turkish economy a safe and stable one. Before the global crisis, we posted a record-breaking growth of 27 consecutive quarters. We managed to raise our exports from $36 billion in 2002 to $132 billion in 2008. We were one of the few countries around the world that managed one of history's most severe economic crises well -- while entering the crisis last and recovering from it first. We not only avoided permanent damage during the crisis but also performed well after it. We grew by 11.7 percent in the first quarter and 10.3 percent in the second quarter of this year, which are considerably high growth rates.

Turkey's achievements will continue in the future, as we are planning to provide the private sector with further incentives. In this way, we will translate our potential into action. We aim to become one of the 10 biggest economies in the world by raising our exports to $500 billion by 2023. Therefore, we are drafting policies that will make our country one of the production and technology hubs in Europe and Eurasia. In particular, we plan to boost the share of high-tech products with significant value added in both production and exports to a level of 20 percent. The strategies and action plans developed by our government will play a key role in ensuring that these targets are smoothly attained. Turkey will certainly achieve these objectives and become one of the leading countries in the world.

Turkey's ever-increasing social, economic and democratic power will contribute to the creation of a more balanced global system. In this regard, it is particularly important that the IFS is being held in Turkey -- the world's rising star. I hope the talks to be held as part of the summit will be of benefit to all the groups involved, and I would like to express my thanks to all those who made this summit possible.

**Minister of industry and trade.*

PHOTO □ TODAY'S ZAMAN, İSA ŞİMŞEK

Minister of Industry and Trade Nihat Ergün

A good example of a win-win case:
Benefits resulting from Turkey's EU membership

EGEMEN BAĞIŞ*


PHOTO ☐ TODAY'S ZAMAN

I have highlighted in various platforms that our country's EU membership process is the most significant modernization project since the declaration of the republic. The fact that EU membership would make significant contributions to the general welfare of our people is one of the most important factors behind Turkey's determination to integrate with the EU. I consider the accession as an impetus that would carry our country a step further in various fields, from human rights to consumer rights.

However, I do not agree with the views of some circles in Europe who believe that this process would only be for the benefit of Turkey and would bear additional costs and problems for Europe. Therefore, we need to clearly analyze and put forward Turkey's contributions to the EU. One should understand that Turkey's EU membership would not only be beneficial for Turkey, but also be a significant development from which the EU would gain crucial political and economic benefits. In other words, it is an integration project with positive gains for both parties.

I regard the global crisis as an opportunity to analyze the economic situation of the two sides more effectively. During the global crisis, we faced a new reality that changed our patterns of thinking. The crisis, in fact, was like a litmus test. It had revealed that we should reconsider the traditional perspective on EU-Turkey relations, since the EU is not as it used to be, nor is Turkey a developing country with a weak economy facing administrative deficiencies that overshadow its potential as it used to be 10 years ago.

The performance of the Turkish economy throughout the current crisis has meant that Turkey has analyzed the global crisis well, governed implications of the situation effectively and managed to refrain from a possible financial crisis. This is mostly thanks to the extensive structural reforms carried out in the banking sector and in other sectors following the 2001 economic crisis and the fact that the government applied a strong and comprehensive economic program, supported by the EU accession process. Moreover, the recovery from the crisis has been achieved without having to deal with the IMF.

I am very optimistic about future prospects. At times when global risks persist, I consider Turkey as more advantageous than the EU. The Organization for Economic Cooperation and Development (OECD) cites Turkey as the country that will achieve the biggest growth among its member countries in the next term. The 11.7 percent record growth for the first quarter of 2010 and 10.3 percent for the second quarter, and further recovery in economic indicators confirm this expectation. During the crisis, the credit ratings of most EU countries have been decreased, whereas Turkey's rating has been increased, which confirms Turkey's performance. The predictions for Turkey's economy are quite positive as well. Turkey is considered among the most significant rising economies by respectable international foundations, and is already the 17th largest economy in the world, and the sixth largest in Europe.

To claim that such a Turkey would be a burden for the EU can only be an indication of thinking in an outdated way. Turkey, at best, would bring much-needed dynamism to EU economies, which are struggling to find solutions to issues such as low growth rates, structural problems and aging populations.

> Turkey, at best, would bring much-needed dynamism to EU economies, which are struggling to find solutions to issues such as low growth rates, structural problems and aging populations

It is clear that the EU needs new members with great and dynamic economic potential to revive its economy. Turkey, with its economic performance, is qualified to meet this deficiency. Turkey's EU membership will contribute to the EU's gross product, and all countries, including Turkey, will benefit more from this.

Population will also be a determining factor for both sides in the future. Research indicates that the EU's population is confronted with the serious problem of aging. In many EU countries the population is decreasing and getting older. This fact seriously threatens the competitiveness of the EU's economy and creates serious risks in terms of the sustainability of pensions and healthcare systems. It indicates that in the future the EU will substantially be in need of a qualified labor force to ensure the sustainability of the economy. The population dynamics of both sides will complement each other in the medium and long term.

Indeed, many in EU circles have highlighted this problem. In her reply to a question from an MEP, Cecilia Malmström, the European commissioner for home affairs, stated that following the years 2013-2014, the working population in EU-member states would start to decrease and immigration would be on the agenda. Turkey's population, which has been a counterargument for Turkish membership for years, will be one of our most significant contributions to resolving the problems of the EU. Another important issue is energy. Today, energy is of vital importance not only for political reasons but also for economic concerns. According to forecasts, in the year 2030, the energy demand of EU member states will drastically increase and, in contrast, the energy supply will seriously decrease. As a result, dependence on imported energy sources of high price such as petrol, natural gas and coal will increase much more. Access to cheap, reliable and sustainable energy is of critical importance for the EU economies. Turkey holds a strategic geographical location in this sense. Turkey's membership in the EU will create a sustainable, economic and secure corridor for EU's access to energy.

It is for sure that Turkey will also benefit greatly from EU membership. The increase in foreign direct investment since the start of negotiations in October 2005 confirms this argument. First, Turkey will institutionally become a part of the EU, which is one of the most important economic powers of the world. Membership will bring important economic returns as a result of being a part of the internal market. Besides, EU structural funds will contribute in meeting the country's infrastructure needs and reducing regional disparities. Common projects will be developed in many fields through community programs. Thanks to the free movement of persons, business and employment opportunities will be created for employers and employees, respectively. In short, our government perceives Turkey's EU accession process as a win-win case that both sides would benefit from. In a period when the current economic and social problems and future solutions are being discussed at the EU level, I believe that the EU should also adopt the same approach based on the mutual benefits.

** Egemen Bağış, minister for EU affairs and chief EU negotiator.*


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Freed from shackles of the crisis, Turkey makes its inevitable rise

CEVDET YILMAZ*

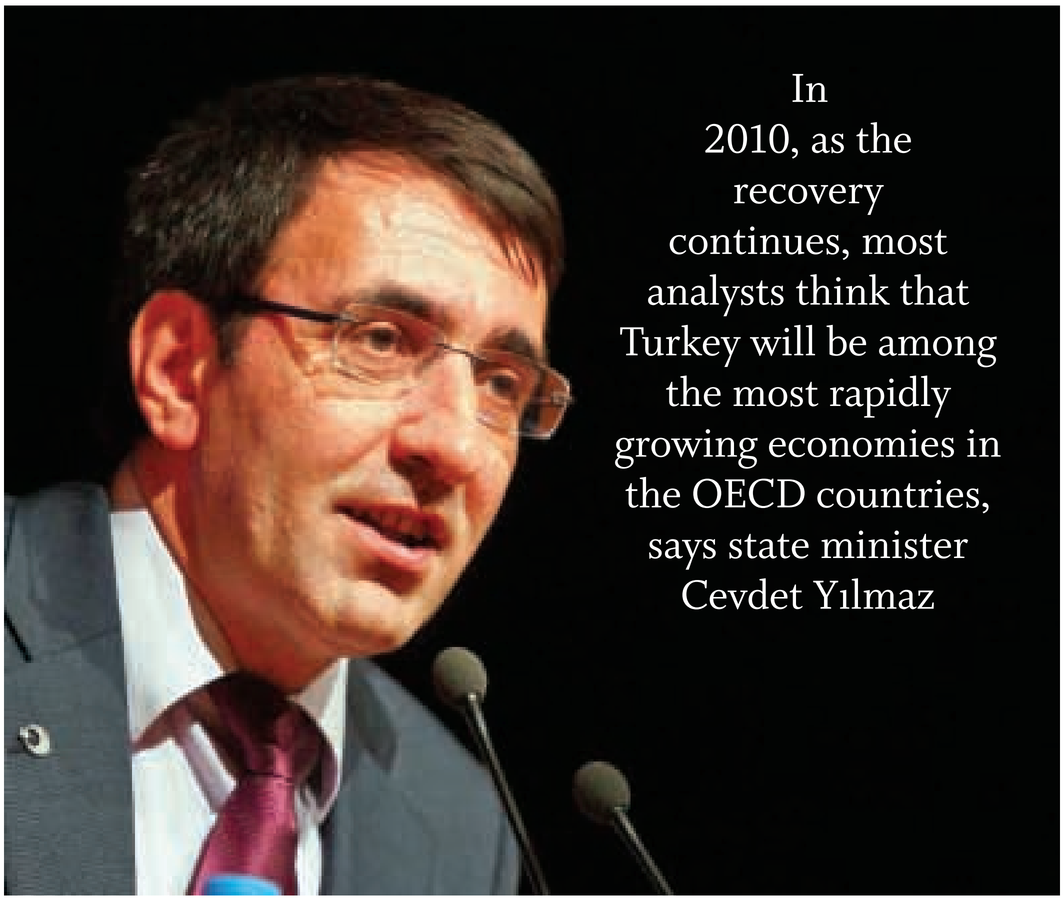

PHOTO □ TODAY'S ZAMAN

In 2010, as the recovery continues, most analysts think that Turkey will be among the most rapidly growing economies in the OECD countries, says state minister Cevdet Yılmaz

The Turkish economy has shown strong economic performance since 2007 after the economic boom-bust cycle between the 1980s and the early 2000s. Improvements in macroeconomic policy and structural policies have propelled this economic performance. Budget deficits dropped significantly, while the public debt stock declined. Moreover, after the 2001 crisis, the banking sector was restructured and banking supervision enhanced. These reforms and greater political stability have helped Turkey to have high economic performance since then.

Gross domestic product (GDP) grew annually by 7 percent on average during the course of 2003-2007. Inflation dropped to single digit levels as a response to strict fiscal and monetary policies. The rate of the central government budget deficit over GDP shrank to 0.6 percent in 2006 from 11.6 percent in 2002. Likewise, the public sector debt rate over GDP was 39 percent in 2007 as compared to its 2002 level of 74 percent. In this period, the rate of the public sector primary balance to GDP was almost 5 percent, thanks to a rapid decrease in domestic borrowing rates.

This rapid recovery in public balances provided the private sector with the opportunity to use more funds in the capital market. Privatizations accelerated, and public enterprises were no longer able to place a further financial burden on the public. The inflows of foreign capital gathered momentum as stability and confidence in the economy were restored. Cumulative net capital inflows reached record levels of $51.4 billion in just five years.

The recession that started in 2008 continued in 2009 along with the global crisis. The global crisis affected the Turkish economy through three channels: external trade, foreign capital inflow and expectations. As a result, the economy contracted markedly in 2009.

However, with the help of timely measures, the adverse effects of the global crisis were alleviated. The banking sector remained resilient due to the reforms undertaken, while increases in the budget deficit and public debt stock remained limited in 2009. Inflation was kept to single digit levels. One of the international rating agencies increased the credit rating of Turkey by two notches in response to enhanced resilience to external shocks to the economy. In 2010, as the recovery continues, most analysts think that Turkey will be among the most rapidly growing economies in Organization for Economic Cooperation and Development (OECD) countries. In the upcoming period, the medium term program will continue to be implemented, stable growth will be ensured, more jobs will be created and recovery in public balances and debt stock will be realized because of sound fiscal and monetary policies.

In recent years, due to the impressive rebooting of the economy, Turkey has continued to be in the forefront for international investors and companies. In addition, the last global financial turmoil has shown limited negative effects on Turkey's financial markets and banking sector. Turkey is the 17th largest economy in the world. Progressing towards EU membership, due to its regional location, Turkey is a country of significant economic size for Eastern Europe, Central Asia, North Africa and the Middle East. Within the country, İstanbul has the potential to become an important center for gathering the financial resources of the region and redirecting them to elsewhere in the region. As a result, within the country, İstanbul is the natural center of the economy, commerce and culture.

The decisive support of Turkey's prime minister, Recep Tayyip Erdoğan, provided momentum for studies for the İstanbul International Financial Center project. In an effort to make İstanbul an international financial center, an initial report that evaluated the potential of İstanbul as a financial center was prepared by the Banks Association of Turkey (TBB). According to this report, which was published in October 2007, İstanbul and Turkey have sufficient regional and local potential along with promising and qualified human resources to become a financial center. In addition, due to such factors as operating costs, availability of skilled personnel, local/regional economic growth potential and quality of life, İstanbul has advantages over its competitors. However, with regard to the legal and financial environment, regulatory environment, business environment and infrastructure, further progress and new regulations are needed.

For the IFC-İstanbul Project, the policy stated in the Ninth Development Plan, covering 2007-2013, has been given top priority and importance by the government. In October 2009, the "Strategy and Action Plan of IFC-Istanbul," which was prepared with the participation of a large number of stakeholders, was announced and the project was officially launched. Representatives from more than 80 public and private sector agencies, civil society organizations and universities have actively participated in the preparation of this plan. Since May 2010, the Undersecretariat of the State Planning Organization (DPT) has been assigned as the principal coordinating agency for the IFC-İstanbul Project. From the beginning, the vision and mission of IFC-İstanbul has been set clearly: İstanbul shall first become a regional financial center and ultimately a global financial center.

On the other hand, the ability to sustain and share the benefits of economic performance extensively within society depends on a human-oriented social development program that increases the welfare of individuals. Social development necessitates the implementation of policies that try to achieve balanced development while equitably sharing the income created among different members of the society.

Within this scope, the Southeastern Anatolia Project (GAP) Action Plan has been implemented to enable substantial completion for the period 2008-2012. GAP aims to increase welfare and stability by supporting economic growth and improving human capital in a region that has one of the lowest socio-economic development levels in Turkey. The GAP Action Plan comprises over 300 projects and activities (including irrigation, education, health and infrastructure projects). An additional TL 14.5 billion has been allocated for the period of 2008-2012. For the GAP Action Plan, total expenditures were TL 1.6 billion in 2008 and TL 2.2 billion in 2009, while TL 3.3 billion was allocated in 2010.

One important target of the GAP Action Plan is to enable the region to catch up with country averages with respect to social indicators and provide the social investment needed to respond to problems such as poverty, unemployment and rural-urban migration. Within this framework, the Social Support Program (SODES) has been created. The most important aim of SODES is strengthening the region's human capital and supporting the social integration process. SODES projects, prepared and adopted at the local level, aim to increase labor skills, increase the participation of disadvantaged social groups in economic and social life and contribute to the self-expression of the region's children, youths and women via cultural, artistic and sport activities. Within the scope of SODES, in 2008-2009, 1,176 projects were supported (totaling TL 134 million); 1,751 people were employed; 552 atelier, job training center and culture-art-sport facilities were established; 7,000 people attended job training courses; 42,262 people attended cultural, artistic and sport training courses; around 26,000 students attended educational support courses; and 575 people benefited from micro credit.

In conclusion, strong economic and social development in the last seven years has been the product of economic and social programs. As an economic development program, the IFC-İstanbul Project, supported by the government as well as civil society, will result in Turkey having a much stronger economy.

**Cevdet Yılmaz is a State Minister*


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A man walks past the headquarters of the Bank for International Settlements in Basel. New capital rules, called Basel III, are expected to give weak lenders time to raise funds and free up strong banks to lift dividends or hit the acquisition trail.

PHOTO □ REUTERS, CHRISTIAN HARTMANN

AT THE DAWN OF A NEW ERA IN GLOBAL FINANCE

ANTHONY RANDAZZO*

In early September, central bankers from the world's top 27 economies signed the Basel III Accord, ushering in a new era of international regulatory cooperation. Unfortunately, this was not necessarily to the betterment of long-term financial stability.

The new banking capital adequacy standards are emblematic of the backwards global regulatory response to the world's lethargic economy. From Brussels to Washington D.C., the attitude has been to just quickly add more rules and regulations, but without taking the time to make sure those new laws address the real causes of the global financial crisis.

Basel III, like other proposals including new derivative rules in the US and short selling limits in Europe, might be tighter regulations -- but loose regulation wasn't the problem. Bad regulations that incentivized risk, monetary policy manipulations, and excessive spending -- from both governments and individuals -- are to blame.

It is certainly praiseworthy to see governments taking the problem of poor financial services regulation seriously. The world has been suffering quite a bit from a crisis of confidence and it needs strong leadership. However, strong leadership in the wrong direction won't help. And unfortunately, the policy ideas that have been winning the day are more likely to bring about the next financial crisis than keep the global economy safe.

From the bailout of European banks to the preservation of "too-big-to-fail" policy in America through the US Congress's passage of The Dodd-Frank Wall Street Reform and Consumer Protection Act, governments have shown little desire to let the market reallocate capital to its most productive use on its own. Policymakers have preferred to increase central controls on their economies in a vain attempt at using regulatory power to protect the economy.

But if we learned only one lesson from the global economic meltdown it should have been this: government attempts to engineer economic growth, no matter how well-intentioned or well-designed, will have negative long-term unintended consequences:

- Easy money policy from the European Central Bank, Bank of Japan, and US Federal Reserve (FED) was thought to promote growth, but instead created a "money glut."
- Tight regulatory policies tried to prevent banking collapses, but instead created a too-big-to-fail system where financial institutions did not have to take responsibility for their own mistakes and had taxpayer funded incentives to take on excessive risk.
- And government spending binges over the past few decades created unsustainable fiscal environments in nearly every capital, from Athens to Madrid and across the Atlantic.

While some of these problems have been addressed -- the European commitment to austerity being a shining example -- there is still much to do.

Monetary policy needs a complete overhaul towards a more countercyclical approach and away from the easy money policies being pursued, most passionately, by the FED. Banking regulatory policy needs a new framework with more incentives for banks to make wise choices on their own, rather than attempts to micromanage intensely complex financial systems. The newly passed Basel rules for capital requirements have large holes -- a product of political compromise to ensure a speedy decision -- that need to be fixed as well.

And every nation has unique problems to address that require stalwart political support and sound economic analysis. In the United States, addressing the failure of government-sponsored enterprises devoted to increasing homeownership is a top priority. The pending collapse of public pension programs that threatens America's fiscal stability also needs powerful ideas to avoid catastrophe.

Conferences like the Istanbul Financial Summit (İFS) are critical in addressing these concerns and for moving towards effective global economic management. In a world of ideas, it is only by gathering, debating, and collaborating that the best proposals can move forward. Yet, there always exists a danger in such gatherings for academics, analysts, and policymakers alike: the unintended consequences trap. Even with the collective knowledge of the world assembling together, there is still a limit to the information that we mere mortal men can attain. There will always be unforeseen events in the future that can derail even the best laid plans.

To avoid this, the core of all discussions should be a review of history and an understanding of what brought about the economically depressed world we live in today. By keeping this in mind, and holding to principles that promotes economic freedom, the İFS 2010 will certainly play a part in advancing vibrant global economy.

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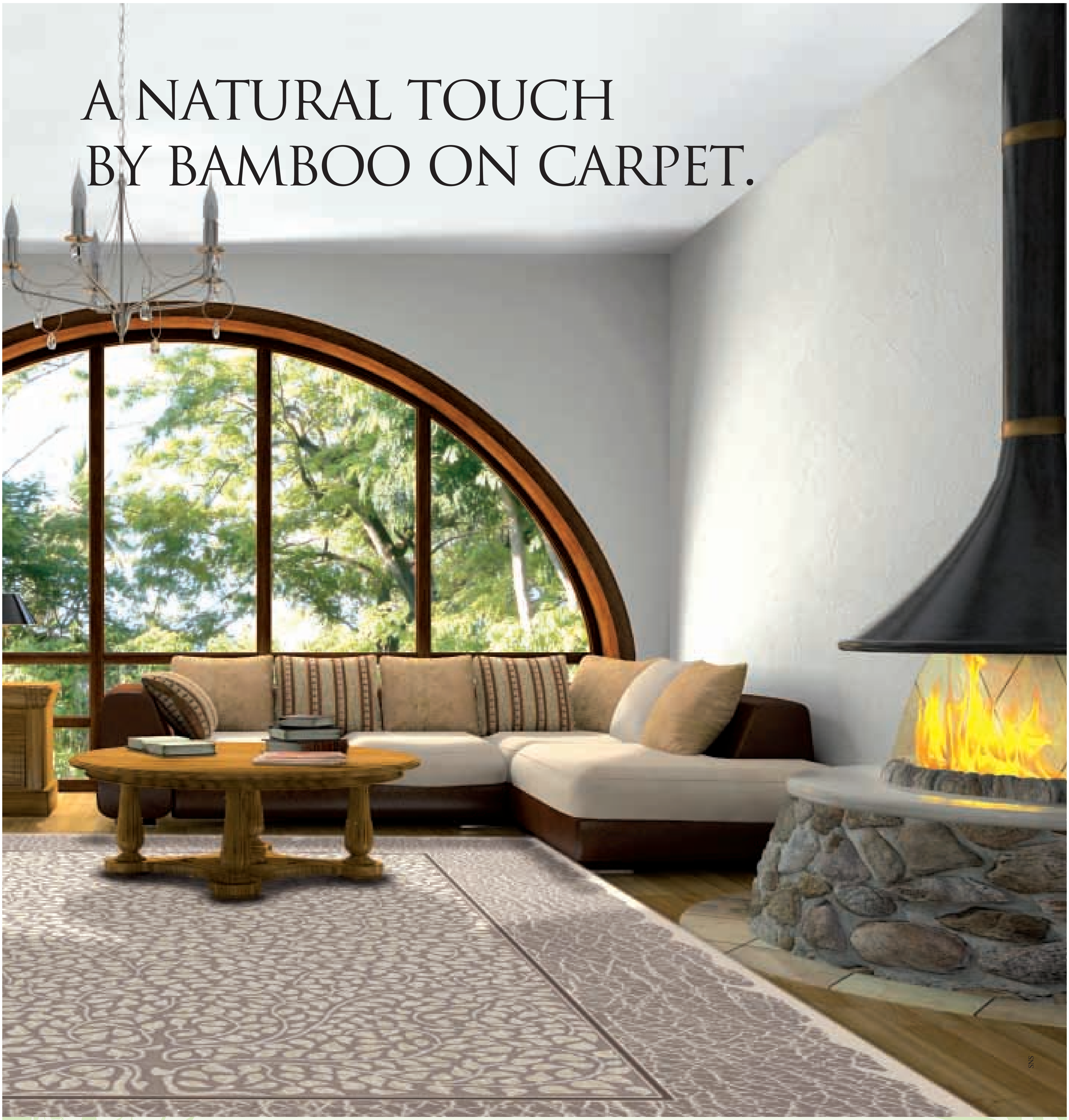

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PHOTO □ REUTERS, JONATHAN ERNST

House Financial Services Committee Chairman Barney Frank (C) talks with a group including ranking member Spencer Bachus (l) during a recess from a committee conference on Wall Street reform to hammer out sweeping changes in financial regulation legislation, which is believed to be the most comprehensive financial reform since the Great Depression.

Winds of global financial regulation and impact on Turkey

CONTINUED FROM PAGE 1

They are also encouraged to do so politically to please the taxpayers, whose money was funneled generously to the banking systems (though in fact it was a subsidy to the taxpayers who would be hurt in the first place by a collapse of the financial system) during the crisis. The conspicuous attempts to restrict and regulate executive compensation and corporate governance practices are a good example of this.

Nevertheless, the authorities are apparently stuck between a rock and hard place. They do want to regulate banks more tightly and restrict their risk appetite but at the same time they urgently need bank lending to reinvigorate economic growth and avoid the double dip scenario. There are two ways out of this, as I see it. For one, every country is trying to adopt measures suitable to its own financial and economic structure, a practice killing the hopes of bringing common standards everywhere and creating a level playing field.

The US and the European Union (including the UK) each have their own version of new regulations and supervision. Basel III, however, offers new limits and restrictions on banking systems to be applied in all G-20 countries, but the emerging members of the group, some of whom face already more stringent regulation limits at home, are largely keeping silent. The other is that they tend to phase in new measures over a long period of time for banks to adjust to the new limits. This, of course, not only dilutes the efficacy of the new measures but also decreases the authorities' credibility in the eyes of the taxpayer. A summary of what is being done so far globally would be useful to judge the potential implications.

The Dodd-Frank plan in the US

A financial act initiated by Senators Barney Frank and Chris Dodd is believed to represent the most comprehensive financial regulatory reform since the Great Depression. In short, the Dodd-Frank Wall Street Reform and Consumer Protection Act implements changes that affect the oversight and supervision of financial institutions, provide for a new resolution procedure for large financial companies, create a new agency responsible for implementing and enforcing compliance with consumer financial laws, introduce more stringent regulatory capital requirements, effect significant changes in the regulation of over-the-counter derivatives and the securitization market, reform the regulation of credit rating agencies, implement changes to corporate governance and executive compensation practices, incorporate the Volcker Rule, and require registration of advisers to certain private funds.

Most interesting of these probably are the establishment of the 10-member oversight council to monitor systemic risks, the separation of proprietary trading from conventional bank lending dubbed as the Volcker Rule (upon the advice of former Fed Chairman Paul Volcker), and the reforming of derivatives and securitization such that speculation on swaps (referring to all types of swaps as well as futures, options and forwards) will not be allowed unless cleared through organized exchanges, and securitization will not be allowed unless the issue is retained in part (5 percent). The plan abstains from providing clear capital and liquidity limits while leaving them to the supervision of the Federal Reserve (which is likely to adopt Basel III rules with a phase-in). As for leverage, the institutions with total assets equal to or greater than $50 billion will be subject to a maximum debt-to-equity ratio of 15-to-1.

EU Financial Supervisory Framework

Similarly, the EU is in the process of making new rules and regulations. This differs from the US in that the new measures, from compensation of executives to taxation of the financial systems, differ widely from country to country because they all have different financial systems and comparative advantages acting in their own interests. Germany, for example, presses for a tax on financial transactions, also supported by France, but the likes of the UK, which excels in finance and trade, controlling 36 percent of the wholesale financial market in the EU, and Sweden, which is in no need to raise funds to please taxpayers, argue against it (although the UK plans to tax banker bonuses and bank liabilities). Similarly, Brussels argues for a deferral of 40-60 percent of executive bonuses for three to five years and a payout of at least 50 percent in shares, but there is no EU-wide consensus yet on compensation as the UK (and the US) rejects calls for mandatory caps. As for derivative trading, breaking up big banks' investment and commercial activities (particularly difficult in the UK) and practices such as naked short-selling, new measures are yet to come to the table in the EU.

The most stringent consensus in the EU, however, has been in supervision. According to the new regime, as endorsed by the Council of the EU on Sept. 7, 2010, there will be four new pan-European authorities that will become operational by Jan. 1, 2011. More specifically, the European Systemic Risk Board (ESRB), consisting of central bank governors, located in Frankfurt, and chaired by the ECB president will warn about macroeconomic threats or risk building up in the EU region but will have no power to force decisions on member states. Additionally, there will be three European Supervision Authorities (ESAs) located in London, Frankfurt and Paris each to supervise banking, securities and financial markets, and insurance and pension separately. The main task of the ESAs will be to draw up common technical rules and standards to augment the broader regulatory framework. Unless there is an emergency situation, the ESAs will not be able to force decisions on national authorities.

Basel III

One important set of regulations to cover the practice at least in mature economies is the recent work of the Basel Committee, dubbed Basel III. While all details have not been defined or totally agreed on yet, there are several new measures that will likely be applicable soon in the areas of capital, liquidity and leverage.

As for capital, the 27-member Basel Committee on Banking Supervision recently agreed to emphasize the core Tier 1 ratio, or common equity, instead of Tier 1, for it was seen in the recent crisis that Tier 1 capital was insufficient to absorb losses, thanks to its inclusion of weak capital such as goodwill and intangibles. This new ratio is to be raised from the current 2 percent level to 4.5 percent after the application of stricter adjustments through a phase-in by Jan. 1, 2015. The Tier 1 capital requirement, meanwhile, will increase from 4 percent to 6 percent over the same period. It has also been agreed that there will be a capital conservation buffer above the regulatory minimum requirement of 2.5 percent. The purpose of the conservation buffer is to ensure that banks can absorb unexpected losses during periods of financial and economic stress. As a result, the new more narrow definition of capital standard will be 7 percent overall. Under Basel II, the minimum capital standard of 8 percent was for a combination of Tier 1 and 2.

As for leverage, the committee previously proposed a Tier 1 leverage ratio of 3 percent, meaning that banks will be able to boost liabilities 33 times the Tier 1 equity. This was initially planned to be 4 percent, i.e., a leverage of 25 times on Tier 1, but was lowered to 3 percent upon resistance from the banking community.

Basel III also aims for a global liquidity standard. This will be achieved by two measures; namely, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The former requires banks to maintain a stock of "high-quality liquid assets" that is sufficient to cover net cash outflows for a 30-day period under a stress scenario. The NSFR, on the other hand, is designed to promote more medium to long-term funding of the assets and activities of banks over a one-year time horizon by requiring a minimum amount of funding that is expected to be stable over a one year time horizon based on liquidity risk factors assigned to assets and off-balance sheet liquidity exposures. The implementation, however, will be delayed to 2018. In sum, Basel III provides important new rules and limits for bank regulation, but its limits have already been diluted and will be subject to a long phase-in period. Furthermore, who will indeed apply them and in what form still remains a matter of uncertainty.

The situation in Turkey

Turkish banking is one of those systems that was radically overhauled years ago and strictly regulated since 2002, with much higher buffers relative to the Basel criteria. The system was leveraged by only seven-and-a-half times at the end of 2009. Today it runs on more than 20 percent capital adequacy (vs. 8 percent of Basel II), two-thirds of which are free, i.e., usable in the short-term. The Basel III requirements will cause no decrease in it.

There are no toxic, exotic off-balance sheets nor any related losses that need to be absorbed in the next few years. Instead, the profitability, if retained

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-- and that has been the case mostly thus far -- may be used in boosting risk-weighted assets and thus further profits in a virtuous cycle in the years ahead. And the system is enviably profitable averaging a NIM, ROE and ROA of 5.1 percent, 20 percent and 2.3 percent, respectively, in the last five years thanks to strong economic growth, investment spending and thus loan demand. In today's setting, combined with robust macroeconomic fundamentals and growth potential, the banking system will easily engage in a prudent and profitable growth in the next five years by raising its assets size to more than 100 percent by 2014 from 87 percent at the end of 2009.

As for funding resources, the system is very liquid. Deposits, the most desired form of financing in the world after the recent crisis, provide two-thirds of liabilities and are growing consistently. Moreover, the system currently has 30 percent of its assets in sovereign (almost all Turkish) securities, which can easily allow for more quick resources from the central bank when used as collateral. Currently, the banks in Turkey repo less than 20 percent of their T-bond portfolios, with the rest available for more funding when needed. If the system had a much lower non-performing loan ratio relative to its emerging peers during the crisis, it was because of its active risk management resting on its strong capital and ample liquidity.

There is no doubt that prudent bank regulation and supervision played a major role in this successful setting. While, for example, the much touted dynamic provisioning in Spain was not able to prevent its banks from imprudent lending, the 12 percent minimum capital requirement in Turkey to be able to expand organically did contribute substantially to the balanced growth of the network and, hence, the financials. The regulator's warnings and interventions were timely, allowing for a controlled risk appetite while not constraining the banks' efforts for innovative lending to cater to the clients' needs and support economic growth.

Perhaps Turkish banks are not going to be subjected to any further restraints in the midst of the global regulation mania because it already works under tight regulation, but it is also not without constraints. The system's deposits are unusually short-term, averaging around one month, increasing the asset and liability mismatch in duration. This mainly stems from the investors' preference due to chronic high inflation and economic volatility in the past and will change only gradually despite increasing stability. Investors must be encouraged to think longer-term and provided with a selection of long-term instruments to invest. Leaning increasingly more to long-term borrowing by the public sector would support the process, and also pave the way for a much-needed active corporate bond market. Also, the banks in Turkey are working with significantly higher and more quality capital relative to the practice in many mature and emerging economies. This might have been appropriate and essential when the fundamentals were weak and financial volatility was high in the past, but it is increasingly more expensive and constraining in today's solid macroeconomic environment in the country.

No matter how well managed the banking system is, none of these can be achieved without the support and cooperation of fiscal and monetary authorities and regulators. The visionary and prudent central banking and bank regulation of late must at least be continued so that macroeconomic stability can remain intact. Fiscal discipline must help with a rule. Moreover, the banking system must be emboldened with the products and mechanisms that will pave the way for the banking system to be able to increase leverage, at least beyond single digits, which would still be incomparably low relative to the latest international norms, as proposed by the Basel Committee, without, of course, giving up any prudence. ■

**Denizbank chief economist.*

EXPORTS PROPEL TURKEY'S GROWTH

MEHMET BÜYÜKEKŞİ*

The Turkish economy is undergoing a great transformation. The old closed-off Turkey has been replaced by a Turkey that follows the world second by second. The basic dynamic driving this change is our exports, which play an extremely active role in the process of Turkey opening up to the outside world.

The proof of this is in our export figures. We were at best registering an export figure of around $25 billion annually before 2000 but now the amount is hovering over $100 billion a year. Had the financial crisis not occurred, we would now be looking at $150 billion annually in exports. In 2001 the total number of sectors engaging in more than $1 billion worth of exports annually was only nine; by 2009, there were 18. Likewise, while in 2001 Turkish exports exceeding $1 billion went to only five countries, by 2009 this figure had jumped to 25. Furthermore, only four provinces were earning more than $1 billion from exports in 2001 and this number also increased to 12 by 2009. Our target is to add another 10 to this figure.

The current number of active Turkish export companies is nearly 50,000. Our preliminary goal is to bring this up to 70,000. We think big when it comes to exports because Turkey is a country with a big potential.

During the height of the crisis, some of our main markets -- most notably, the EU -- narrowed. We expressed the belief that in response to this narrowing it would be advantageous for us to turn towards other markets. And in fact, thanks to our strategy of finding alternative markets, we were able to reduce the effects of the crisis. At the same time, these new markets also present us with great opportunities for the future. In the upcoming period we will continue to place due focus on these new markets.

At the start of the new year 2010, we initially made it our goal to have $111 billion worth of exports. Later we revised this upwards to $115 billion dollars.

As Turkey produces and then exports its products it opens up to and becomes one with the world around it. And the more integrated we become with the rest of the world, the more the level of prosperity in our nation rises. We are optimistic about the future. We are filled with motivation for the future. We have great dreams. We take the long-term view when it comes to exports. For us, exports are not akin to a 100-meter race; they are more like a marathon. For us, exportation is the concept driving our economy and it is based on long-term strategies. It is thus from this point of departure that we at the Turkey Exporters' Congress (TIM), in cooperation with the Foreign Trade Undersecretariat (DTM), have prepared the "Performance and Implementation Program for Turkey's 2023 Export Strategy." Along these lines, we have created a strategy that aims to realize our exports at $500 billion annually by 2023. We will be sharing the details of this strategy soon with the general public.

What this strategy aims to achieve is to have low-technology sectors make the switch to higher value products, for mid- to low-technology sectors to increase their production levels and also make a transfer to higher value products, to see mid-level and higher technology sectors also achieve higher production levels and to encourage the high-technology sectors to make new investments. With this strategy we will increase our share of the markets in which we are active. At the same time, we will be widening the number of alternative markets in which we operate. We will be exporting more to our regional neighbors.

We are working in concert with the DTM on this project. Our minister in charge of foreign trade, Zafer Çağlayan, is giving this project his full support. We also have the support of Prime Minister Recep Tayyip Erdoğan and President Abdullah Gül. We have fervent hope that our government will continue to lend the support it has given up until now for our strategies to bring about more export-focused production.

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In order to achieve our goal of $500 billion of export, we are faced with 3 important vehicles. These are: increasing sales in current markets, increasing our active export role in new markets that have a high potential for growth, and increasing the numbers of companies involved in sales abroad.

In order to achieve the above stated goals there needs to be a wholesale embracing of this foreign trade strategy by all of our institutions. Our various institutions need to not just be active within this process, but need to be at the heart of this process. We fully believe that through working together by combining our respective abilities and experiences, starting now to plan for the future, that we will be met with success in this new transformative period for the Turkish economy.

The macro-economic signals being given off by Turkey are quickly returning to normal. Inflation is dropping, interest rates are dropping. As exporters, we are very pleased with the dropping interest rates. Reduced interest rates work to reduce pressure on the state. The result of this is more resources left to support investment. An atmosphere of reduced interest rates encourages investments and exports. In addition, when the state has a reduced need for immediate loans this in turn allows for it to take on more long-term loans.

With this policy, both producers and exports will take a fresh breathe of air. And in the end, as always, Turkey will win. Turkey's general goals are already clear: production, exportation, and increasing employment. We will now be focused on these. The Central Bank must be more active in achieving real stability on the currency markets. We expect both stability and long-term competitive levels in the currency markets.

The transformation of İstanbul into a financial center is a project entirely in line with Turkey's 2023 goals. This is why we are lending our full support to this project. It suits Turkey to set forth with this goal and to pursue it until completion because this is just the sort of potential that Turkey possesses.

Turkey has turned into a regional magnet of sorts. Developments in both foreign trade and foreign policy are very encouraging. Successfully turning İstanbul into a financial center on top of all of this will only bring the general accomplishments a new dimension. Turkey has the strength to do this. It has the motivation. We will achieve these goals hand in hand, shoulder to shoulder, and we fully believe that by doing so we will continue to build a bright and shining future for Turkey.

President of TİM

Turkish capital markets: rising star in post-crisis era

VEDAT AKGİRAY*


PHOTO □ TODAY'S ZAMAN, HÜSEYİN SARI

SPK President Vedat Akgiray

The Capital Markets Board (SPK), which was founded in 1981, is the sole government authority in charge of supervising and regulating Turkish capital markets. Currently, the SPK with about six-hundred employees, under a Board of seven members, regulates and supervises three major securities exchanges - the İstanbul Stock Exchange (İMKB), the Turkish Derivatives Exchange (TURKDEX), and the İstanbul Gold Exchange (İAB). In addition it regulates and supervises the Settlement and Custody Bank, more than one hundred brokerage firms, securities divisions of banks, mutual funds, investment firms of all types (real estate investment trusts, hedge funds etc.), audit firms, rating agencies and more than five-hundred publicly held companies.

Generally, the Turkish capital markets are comprised of three organized markets: İMKB, TURKDEX and İAB. As for clearing and settlement, the Central Registry Agency (MKK) and the Settlement and Custody Bank (Takasbank) serve the functions of central settlement and custody of capital market instruments. It is worth emphasizing that, our capital markets are in very good shape and up to international standards in terms of underlying rules, regulations, legal, and technological infrastructure and institutions.

Today, the Turkish capital markets and the İMKB have outstanding performances. As a matter of fact, the İMKB was sixth in the world in terms of providing a rate of return of 102 percent in USD in 2009. For the first seven months of 2010, it outperformed the MSCI equity index of BRIC countries; Brazil, Russia, India and China. The market capitalization of İMKB companies is about $280 billion. Our investor base consists of 65 percent foreign and 35 percent domestic investors, which indicates that our markets are indeed appealing to foreign investors.

The SPK is responsible for all securities related work to be in full compliance with the standards and directives of the European Union. After the enactment of the amended Capital Markets Law later on this year, the Turkish capital markets regulations shall be completely in line with EU standards. For us, benefiting from international practices and experiences is crucial.

At the SPK, we are determined to act in line with international norms and developments, in order to provide the secure, fair, transparent and efficient functioning of the capital markets in Turkey. Yet, our aim is to contribute to, and co-operate with, the international community in revising and restructuring the global regulatory environment after the on-going financial crisis.

The SPK has been a member of the International Organization of Securities Commissions (IOSCO) since 1988 and since then we have been actively taking part in IOSCO's mandates. Recently I have been elected as the chair of the Emerging Markets Committee (EMC) of IOSCO, which will enable our board to share and exchange experiences with other emerging-market country members more actively. Consequently, our board shall also have the opportunity to be involved in the works of the Financial Stability Board (FSB), which shall serve as a useful platform in exchanging views and perceptions about global financial markets. Additionally, in August 2010, the SPK became an associate member of the Islamic Financial Services Board (IFSB), which is the only international regulation-related organization in this fast-growing segment of the global financial industry.

The SPK is working actively in order to improve the efficient functioning of Turkish capital markets. Our initiatives are mainly focused on increasing the number of public companies, simplifying IPO procedures, creating product diversification, diminishing unnecessary bureaucratic formalities in our financial system and combating financial fraud and market manipulation. These are just some of the major issues that we have focused on.

One of our most significant purposes is to make our markets much more attractive and appealing. Therefore, we have taken some major measures aiming to simplify the process of going public for all companies. These measures are particularly very important for small and medium enterprises (SMEs) in Turkey, since access to capital markets for these firms would allow them to expand their businesses on a long-term basis -- through alternative financing means provided by the capital markets and easing access financial resources.

To this end, an important step that was taken was the change in the listing conditions at the İMKB, such as abolishing the minimum public offering rate. Moreover, the mandatory requirement for having a brokerage house involved in the public offering process was totally removed. Also worth noting is that the prospectus requirements became a lot easier and less tedious. Furthermore, we have issued new regulations about delisting rules of İMKB companies that enable firms exit from the İMKB. Another important revision was that the requirement for tender-offer ratio was increased from 25 percent to 50 percent, for all shares.

We are also aiming at increasing the variety of financial instruments traded in our exchanges, in order to make our markets more appealing to investors. In this respect, similar to Sukuk, which has become a popular investment instrument recently and also known as no-interest bond, "lease certificates" have been introduced into the Turkish capital markets. We believe these instruments will be beneficial for, and demanded by, a large group of investors -- both domestic and international.

Moreover, one of the most recent initiatives was the launch of trading of warrants in our markets. Although the underlying regulatory framework was completed last year, the official launch for trading of this product in the İMKB was held in August 2010. Also for the first time, options are going to be traded on organized markets. In the first quarter of 2011, a number of new derivative products, including equity options and futures, will begin trading in our exchanges.

The lack of proper and effective market surveillance systems was indeed one of the main reasons for the outbreak of the recent global financial crisis. In relation to this, we have been doing our best to help combat financial fraud by putting in place an effective surveillance system that would protect the rights of investors. The Board and İMKB have implemented a surveillance system to monitor İMKB and TURKDEX transactions simultaneously, and to pinpoint certain abnormalities in the market. Within this context, we have established a brand new department in the SPK, called the Market Surveillance and Enforcement Department, for the sole purpose of helping combat financial fraud and market manipulation. Moreover, the board has developed a market surveillance system that will serve as a world-class model in combating market manipulation and insider trading in a robust manner. Additionally, İMKB implemented a market-maker system to prevent price manipulation in the markets.

Finally, I wish to emphasize the tasks that need to be undertaken in the future. The Turkish government is aiming at making İstanbul an international financial centre. In this framework, our board shall aim to provide a sound capital market infrastructure in terms of regulations, trading, technology, clearing, settlement, and custody infrastructure. Presently, work is in progress to design a common technology platform for all securities trading in the region. Among many other important components, this project also includes a regional central counterparty (CCP) clearing setup and centralized data warehouses for all securities transactions, both exchanges and also over-the-counter (OTC). Our ultimate goal is to make the Turkish markets the most attractive and secure place for investors to invest.

Another major challenge is the need to demutualize the İstanbul Stock Exchange. The İMKB can improve itself in terms of number of listed firms, market capitalization, and trading volumes. In order to cope up with the changing needs of investors, we need a more agile, dynamic, competitive, and profit-maximizing organization. Therefore, in order for the İMKB to excel in the global financial arena, its demutualization is both vital and essential.

In summary, we need to improve our capital markets in accordance with the ever changing needs of the global financial system, in order to make İstanbul as a major international financial centre. To reach this goal, we shall aim to put in place a set of proper, sound, and efficient regulations in line with modern financial technologies and market developments

** President of the Capital Markets Board*

PHOTO □ TODAY'S ZAMAN, BAHAR MANDAN

PROMISING PROGRESS IN ECONOMY IN POST-CRISIS ERA

ÖMER CİHAD VARDAN*

The Turkish economy currently seems relieved after having overcome the 2008-2010 financial crisis. The recently announced economic statistics on the rates of growth, unemployment and budget deficit seem to prove this impression, as well. It should be mentioned that the structural reforms undertaken by the government since 2002 have been very helpful for weathering the global crisis. These reforms especially aided the banking sector in eluding the unfavorable effects of the crisis, thanks to their resultant strong and low-risk structures.

This stresses the fact that it is now important to continue these efforts and achieve the long-term sustainability of this economically positive situation. The fact that the inflation rate, and similarly, the real interest rates in the economy are controllable is a promising element in this process. However, another integral criterion of economic success is attaining financial stability in the post-crisis era that we are in. As is well known, political affairs strongly influence the course of economic events in a country by painting a general picture of the markets both for residents and for foreigners. In this context, I strongly believe that the results of the recent referendum in Turkey are assuring. Furthermore, the role of the Turkish Central Bank in the accomplishment of financial stabilization after the crisis should be strongly emphasized. The Central Bank has succeeded in reducing the real interest rates, which is a significant method of stabilization, to much lower levels compared to many developing countries.

The government, which is another major actor in the stabilization process, has also been successful in employing its public finance policies both during and after the crisis period. In this sense, it is useful to evaluate the healthiness of the economy based on two criteria. First of all, regarding the crisis, the recovery rate is very important in this analysis. The strong growth rates that Turkey has been experiencing over the last few quarters reveal that the recovery rate is quite high. Whereas the growth rates of many leading economies including the US, Japan and the EU have been in the range of 1-4 percent, the Turkish economy has caught up to China and become the fastest growing G-20 country with a 10.3 percent growth rate in the second quarter of the year. Although the serious contractions caused by the crisis led to a slow recovery for most countries, this has not been the case for Turkey. Moreover, it is pleasing to observe a fast decrease in the unemployment rates coupled with a considerable increase in the employment growth rates. With these encouraging trends, the Turkish economy has set itself apart from the rest of the world. This circumstance signals the underestimated power of Turkey that could be a significant engine of contribution to the European economy.

> Although serious contractions led to a slow recovery for most countries, this has not been the case for Turkey. Moreover, it is pleasing to observe a fast decrease in the unemployment rates. With these encouraging trends, the Turkish economy has set itself apart from the rest of the world

The second benchmark for the determination of the economic well-being is the balance of the public sector budget, which is a key indicator of the government's financial position. The budget statistics announced in September show that the budget deficit for the first eight months of 2010 has decreased by 54 percent compared to the same period of the previous year. This implies that the rate of adding to the budget deficit compared to the gross domestic product (GDP) at the end of 2010 would turn out to be much lower than the 2009 rate of 6 percent. Considering the huge financial deteriorations caused in the public sectors of countries worldwide, this quick recovery process should be regarded as rather admirable for post-crisis economic environment. Additionally, the rate of the public debt to GDP is trending downward. All these decreasing figures on the public finance side of the economy are helping Turkey become a low-risk country. Therefore, I believe that we can currently claim that the Turkish economy is healthy.

Having summarized the public finance part of the story in general, I would like to touch on a few recent noteworthy financial developments that pertain to individuals and businesses. I think it is important to appreciate the efforts of the government and its institutions to revive these markets through some decisive measures. There are currently considerations to add extra supervision on the banking sector in order to protect individuals and corporations from exploitation. Another potential regulation could be imposed on the capital markets to prevent speculation. Comprehensive amendments on social security reforms are also expected to be implemented in the near future. These potential improvements along with the strong economic indicators I mentioned above produce high prospects of a better financial future for Turkey.

It is of crucial importance that all of these financial and economic facts be discussed by experts in detail in order to develop new strategies and enhance existing ones. For this very reason, I greatly appreciate the organization of İstanbul Finance Summit for serving such an important purpose. I earnestly desire the regular recurrence of this summit for many years to come.

*MÜSİAD president.

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End of economic crisis could mean great opportunities for Turkey

Doğuş Holding Chairman Ferit Şahenk has joined the chorus in announcing that the worst is over in the global financial crisis in light of recent macroeconomic performance by, in particular, the developing economies and the Asian powerhouses. The new era promises great opportunities for Turkey, he believes, noting the significance of continued economic reforms and the presence of accompanying stability. He discussed domestic and global economic conditions and the changing shape of the financial atmosphere with Today's Zaman.

Mr. Şahenk, which phase of the global financial crisis are we currently in?

During the first quarter of 2010 the world economy expanded at an annual rate of over 5 percent, particularly in growth rates in private demand. This rate was better than expected due to robust growth in Asia. Global indicators of real economic activity seem to have been strong and partly stabilized. In advanced economies, industrial production and trade reached double-digit growth rates, consumer confidence improved and employment growth has been stable so far.

Overall macroeconomic developments confirmed expectations of a modest but steady recovery in most advanced economies and strong growth in many emerging and developing economies. However, recent turbulence in financial markets has had a negative effect on the overall economic outlook. More importantly, fiscal sustainability in advanced economies triggered fiscal positions and competitiveness in vulnerable euro area economies (i.e., Greece).

To sum up, recent global stability is under pressure due to the confluence of sovereign risks and bank risks in the eurozone. Unfortunately, without continued and concerted attention, it could spread to other regions as well. Therefore, implementation of appropriate policies and decisions taken by government authorities are significant for financial markets to avoid further risks that can deepen the turmoil. To stabilize financial institutions further credible action is needed. Stability is crucial for economic recovery to resume.

To what degree do you think Turkey is ready for a possible deepening of the turmoil compared to the past crisis and how successful has our country been so far in coping with the hurdles of global financial troubles?

In line with the global economic recovery, the growth rate of the Turkish economy is accelerating as well. As confidence is restored, domestic demand is improving. Rising domestic demand appears to be the major driver of growth. Hence, the strong recovery in economic activity points to the associated risk of rising inflation and a current account deficit. Growth being overly reliant on consumption and leading to an increasing current account gap prompts worries about the short-term nature of external financing.

Developments in Europe have significant risks for Turkey, as Europe is the main export market. With the depreciating euro, exports and tourism revenues will shrink, adding further to the current account deficit. Attracting foreign direct investment will be a key issue. Hence, the privatization schedule, especially in the energy sector, should not be delayed. Turkey offers an attractive business opportunity with its significant domestic market and proximity to different regions. Maintenance of a consistent tax code is important.

Regarding public finances, Turkey has a credible medium-term program, favorable public debt dynamics and historically low real interest rates. The challenge is the strict implementation of this program on a continuous basis.

Regarding macro indicators, high unemployment is the most serious problem, as it may initiate other social problems. Turkey needs to focus on structural reforms to enhance productivity, research and development and occupational education to deal with unemployment. For a more flexible labor market, reforms should not be delayed.

After the global crisis, the importance of risk assessment has become clear once more. Hence, risk management in the real sector needs to be improved. Family-owned enterprises account for 90 percent of business activity. Corporate governance, transparency and public offerings must be supported; they are key elements for sustainable growth in business.

A strong financial sector has been our most precious advantage during the crisis thanks to reforms, prudent governance and careful regulation after the 2001 crisis. There was no state intervention in the financial sector during the global crisis and the capital adequacy ratio in the sector remained above 20 percent in 2009. In the financial sector, Turkey has very skilled and educated personnel with financial crises experience.

Looking forward five to 10 years, to improve growth potential, the service sector and agriculture are the major areas to work on. We see little room for improvement in industrial efficiency, but there is huge potential in agriculture. One fourth of the population is still employed in agriculture, but the share of agricultural production remains around 7 percent to 8 percent of gross domestic product [GDP]. Hence, agricultural reform may help increase productivity in agriculture in the medium term.

In the current circumstances, the service sector remains a key position. Turkey's geography, demographics and human capital offer significant potential for the service sector. Energy will be a key sector, but energy policies should be formed within a feasible, sustainable and comprehensive strategy. Otherwise, an overcrowded and fragmented energy market may lead to further inefficiencies. Energy sector reforms and investments will also be crucial to close the current account gap in the medium term, otherwise as an energy importer economy our foreign financing need will remain as a major dependent on global energy prices.

Another major area in the service sector is the financial sector. The banking sector has been our key advantage facing the global economic crisis thanks to reforms and restructuring after the 2001 crisis. The net profit in the overall banking sector increased by around 50 percent last year and return on average equity was at 22.8 percent, while capital adequacy rose to 20.5 percent. The global financial crisis made global authorities work on further rules to regulate financial markets and institutions. They have con

A strong financial sector has been our most precious advantage during the crisis thanks to reforms, prudent governance and careful regulation after the 2001 crisis. There was no state intervention in the financial sector during the global crisis and the capital adequacy ratio in the sector remained above 20 percent in 2009

sidered putting taxes on banking profits or regulations to prevent the existence of institutions that are "too big to fail." The banking sector in Turkey has already been regulated very properly and operating very prudently. I think this unique and precious configuration should be noticed, respected and even protected. There may be some consolidation opportunities, and there is still some margin for improvement in foreign ownership.

Considering the new world economic balance and newly emerging growth centers will you please discuss the world's trade and investment future?

The global recovery has progressed better than expected, with activity recovering at varying speeds -- tepidly in many advanced economies but solidly in numerous emerging and developing economies. Policy support was essential to jump-start the recovery. Among advanced economies, the United States is off to a better start than Europe and Japan. Among emerging and developing economies, emerging Asia is in the lead. Growth is also solidifying in key Latin American and other emerging and developing economies. Countries like China, India, Brazil, Russia and Turkey are materializing as the new growth centers.

As the global recovery gained momentum, trade also rebounded and global merchandise exports accelerated sharply in recent months. In principle, renewed financial turbulence could spill over to the real economy through several channels, involving changes in domestic and external demand and in relative exchange rates. The supply of bank credit could be curtailed by heightened uncertainty about financial sector exposure to sovereign risk as well as increased funding costs, notably in Europe. Moreover, lower consumer and business confidence could suppress private consumption and investment. To the extent that higher risk premiums were accompanied by the depreciation of the euro, the latter would boost net exports and mitigate the overall negative effect on growth in Europe. However, negative growth spillovers to other countries and regions could be substantial because of financial and trade linkages. Lower risk appetite could initially reduce capital flows to emerging and developing economies. But relatively more robust growth prospects and low public debt could eventually result in higher capital flows, as some emerging market economies become a more attractive investment destination than some advanced economies. Looking forward, we see emerging markets, including Turkey, becoming even stronger investment centers than they have been in the past 10 years.

How will the new banking rules as set out in the Basel III criteria affect finance in the period ahead?

Basel III is the third set of banking rules agreed by central bankers and regulators from around the world at meetings in Basel. According to new regulations, banks are expected to have to raise hundreds of billions of euros in fresh capital over the next few years. More specifically, they will have to increase their core tier-one capital ratio to 4.5 percent by 2015. In addition, they will have to carry a further "counter-cyclical" capital conservation buffer of 2.5 percent by 2019. The idea is that if banks hold a bigger capital cushion they will be better prepared for another downturn; thus, we avoid a rerun of the financial crisis. The deal is important because it removes much of the uncertainty that has dogged the banking sector in recent months, and markets breathed a sigh of relief after Basel III details were announced because the new rules will be phased in over a much longer time period than expected. There won't be a return to the era of cheap money as banks build up their capital reserves ahead of the deadlines.

What are the new opportunities for Turkey in light of its rising prominence in the G-20, the world economy and within its regional relations?

The G-20 has been playing an important role in policy coordination in trying to come up with global solutions to overcome problems in the financial sector after the recent global crisis. Turkey has weathered the global crisis relatively well thanks to its financial sector reforms after the 2001 crisis. Therefore, Turkey possesses strength, in terms of experience, on the necessary steps to take in times of economic crises. Turkey also has a unique position in the G-20 specifically and the world in general. Turkey's geopolitical position, being a bridge between Europe and the Middle East, while possessing a predominantly Muslim population with secular rule gives Turkey significant powers in resolving international conflicts and issues. Also, in terms of GDP growth in the second quarter of 2010, Turkey has one of the fastest growth rates within the G-20 countries (with 10.2 percent) along with China. All these factors create vast opportunities for Turkey in shaping future economic and political developments.

Although the Turkish economy felt the negative effects of the global turnover of 2009, its financial sector has outperformed compared to both developing and developed countries. The experience that the Turkish economy has gained from past crises -- thanks to its restructured management and auditing system -- helped Turkey's financial sector show a relatively better performance when compared to other countries. The banking sector has been Turkey's advantage in that it prevented the crisis from becoming a systemic one. In this respect, the future is looking bright for Turkey. Turkey's strong financial system combined with its dynamic, qualified young population and strong geopolitical position are big advantages. Turkey is a rapidly growing economy that is constantly developing, has achieved sustainable economic growth and acts as a bridge between East-West and North-South. Turkey offers two major value propositions: To the West, it is a powerful strategic ally, understanding the culture, philosophy and way of thinking and offering possible solutions to problems in the Middle East. To the East, Turkey shows an invaluable example of governance and business entrepreneurship. It is also useful to note that Turkey has significant energy investments. In this respect, if Turkey can utilize these advantages, it may become one of the most powerful economies in the world. **İstanbul** Today's Zaman

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COMMENTS ON THE GLOBAL ECONOMY AND FINANCIAL SECTOR: CURRENT STATUS AND OUTLOOK

While the financial sectors and real economies of many countries suffered heavy damage from the global turmoil, Turkey maintained price and financial stability and avoided a long-lasting recession. Unlike many of its peers, the Turkish financial sector maintained its resilience throughout the crisis

DURMUŞ YILMAZ*

When problems related to the subprime mortgage markets started to shake the US financial markets in the summer of 2007, it was not easy to predict that this would only be the foreshock of a series of severe earthquakes that would not only be felt across the world's financial markets but would also inflict significant damage on global economic activity.

It was no surprise that the tremor was more intense in its epicenter, the US financial markets, and reached its zenith there with the collapse of Lehman Brothers in September 2008. The shock waves created by this incident affected the economies of many advanced and developing countries, causing a slowdown in global growth not seen since the Great Depression of the 1930s.

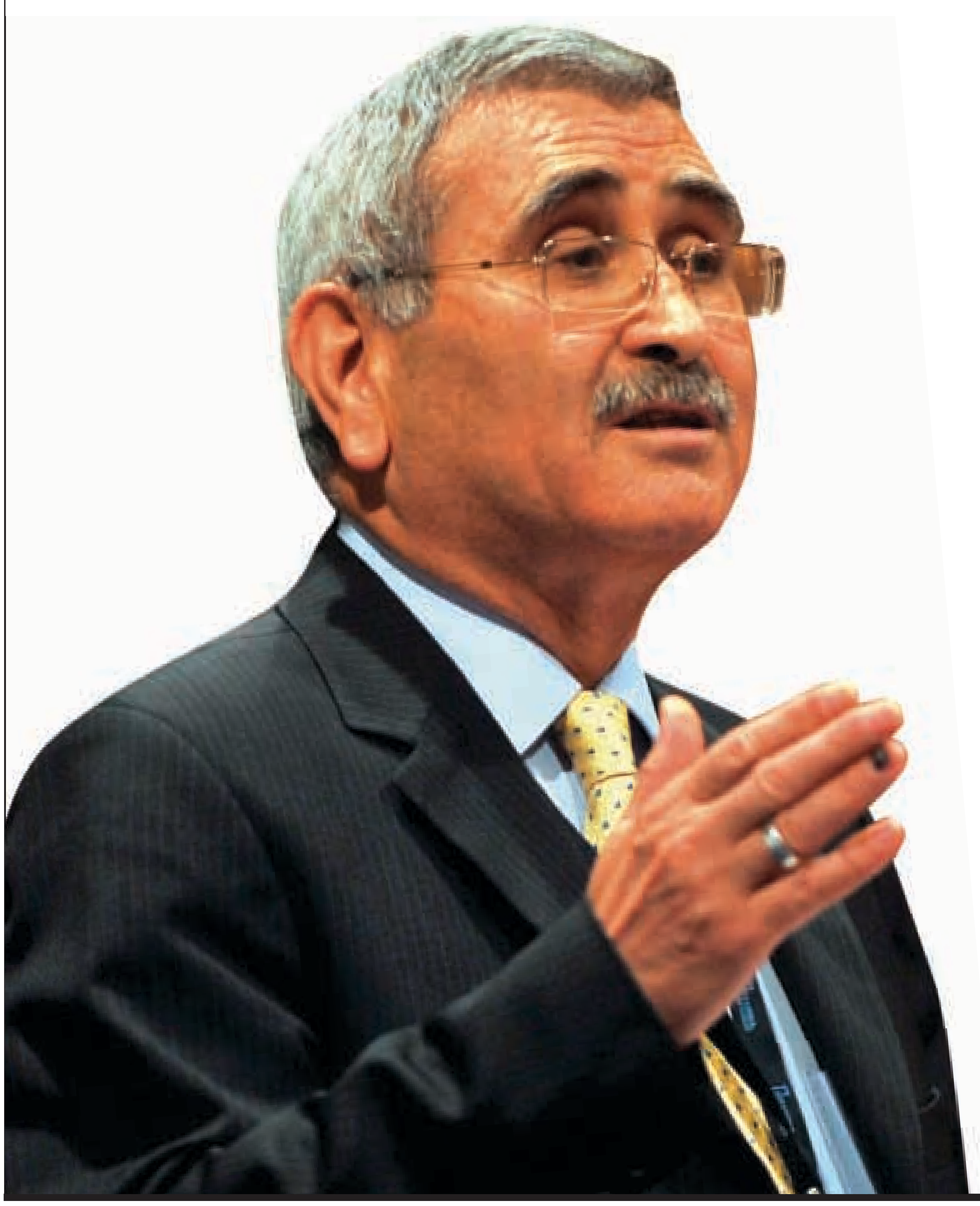
Unprecedented measures taken by central banks and treasuries had put markets back on a relatively steady course by mid-2009, when economic performance started to improve and optimism in financial markets prevailed once again. And now that we are entering the last quarter of 2010, it is possible to state that the systemic risks previously posed to global financial markets have abated and the global economy has started to recover slowly, but firmly. However, this does not mean that more earthquakes are not to come. Although the severest shocks have been left behind, the ground is still shaky because the battle fought by governments against the crisis created new fault lines beneath the surface, in the form of high budget deficits and a significant rise in sovereign debt for many nations.

Obviously, doubts on the sustainability of deficits pose a serious threat to financial systems, and this makes confidence extremely fragile. The possibility of a double-dip recession is the new hot topic that has been discussed in business and academic circles for the past few months. Demand conditions are weak, and they are not expected to recover substantially over the short term because it will take some time for households in advanced countries to decrease their indebtedness, while firms' investment demands are expected to remain subdued for a while due to excess capacity. Additionally, high unemployment rates, depressed asset prices and impairment of banks' balance sheets in advanced economies are other factors that could continue to hamper global growth. In these dire circumstances, governments face a great challenge as they have to maintain a balance between stimulating demand and addressing fiscal concerns.

While the financial sectors and real economies of many countries suffered heavy damage from the global turmoil, Turkey not only managed to maintain both price and financial stability but also avoided a long-lasting recession. Unlike many of its peers, the Turkish financial sector maintained its resilience throughout the crisis, without resorting to capital support from the public sector. In fact, this revealed the success of Turkey's steadfast implementation of structural reforms introduced in light of its experience gained during the past crises. A well-regulated and sound financial system, determination to maintain fiscal discipline and an assertive monetary policy stance were among the main factors that contributed to Turkey's endurance and its strong recovery. It is noteworthy that Turkey was one of the few emerging market economies that possessed a higher credit rating than it had before the crisis.

As for the current status of the Turkish economy, heightened risk perceptions regarding the global economic outlook and the weakness of European economies continue to put pressure on the domestic economy. The growth performance in the first and second quarters of the year was promising, but downside risks regarding the pace of recovery remain. Investment demand continues to recover but remains below pre-crisis levels. The recently increased uncertainty about the pace of recovery in foreign demand might dampen new investments, particularly in the manufacturing industry. There are signs of a moderate slowdown in foreign demand. It will take a while before industrial capacity utilization rates return to their pre-crisis levels. Although employment conditions continue to improve, unemployment rates remain at elevated levels. Weaker foreign demand conditions could dampen the labor market and thus the recovery in domestic demand in coming months.

Turning the focus from the implications of the crisis on real economies to those on financial sectors, one of the most important lessons derived from the global crisis was that the regulation and supervision of financial institutions required a comprehensive overhaul, one that should be designed and implemented with the cooperation of as many jurisdictions as possible. Over the past few decades, international cooperation in financial regulation has mostly been conducted by a number of groups that bring together national regulatory authorities responsible for a particular area; e.g., the Basel Committee on Banking Supervision (BCBS) for banking, the International Association of Insurance Supervisors (IAIS) for insurance and the International Organization of Securities Commission (IOSCO) for capital markets, or that served as platforms for informal discussion,



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e.g., the Financial Stability Forum. Several of these regulatory groups have undertaken initiatives in response to the recent financial crisis. During this period, the Financial Stability Forum was re-established as the Financial Stability Board (FSB) -- with an expanded membership -- and it shifted from being more of a discussion forum to serving as a coordinator of these initiatives. The membership base of the BCBS was also enlarged to include the supervisory authorities of all G-20 countries. The FSB became the direct line of communication between these groups and the G-20. Turkey was accepted to FSB membership in March 2009 and was represented by the Central Bank of Turkey at its plenary.

Particularly over the past year, there has been significant progress in finalizing the reform agenda and in reaching a common understanding on most of the new regulations. The main objective of the reform package has been to strengthen the banking system, redesign its incentive structure and ensure its long-term stability. Having realized that a banking sector consisting of a number of healthy banks does not necessarily mean a healthy banking system, the reforms focus on both intensifying micro prudential supervision at the individual institution level and on assuming a macro prudential perspective at the systemic level.

The efforts aimed at reforming the global financial system have been mainly led by the BCBS, which held several meetings and consultations over the last year to carry out the tasks assigned to it by the G-20 leaders and to develop and finalize the individual components of the new regulations. Turkey, as a newly joined member of the BCBS, is represented at this committee by its central bank and its banking regulator, both of which have been actively involved in the process of crystallizing what has now come to be known as Basel III. Another international platform that Turkey has recently joined with its central bank is the Committee on Payment and Settlement Systems (CPSS), which, in addition to being a standard setting body for payment and securities settlement systems, serves as a forum for central banks to monitor and analyze developments in domestic payment, settlement and clearing systems.

Broadly, these reforms will require banks to have more and better quality capital and to possess more liquid assets, will limit their leverage and mandate them to build up capital buffers in good times that can be utilized in periods of stress. The Basel III process is yet to be completed. The calibration of the measures and the timing of their implementation will take years, and the completed package will not be fully in place before the start of 2019. In the first few years, the effectiveness of these measures and their impact on banks' balance sheets as well as on the national economies will need to be further assessed.

Implementation of Basel III regulations will certainly make a significant contribution to long-term financial stability and growth since the combination of a much stronger definition of capital, higher minimum requirements and the introduction of new capital buffers will ensure that banks will be better able to withstand periods of economic and financial stress. The Turkish financial sector, with its strong and high-quality capital position, low leverage and liquidity regulations already in effect, is not expected to experience any difficulties in adopting the regulations that will be introduced by the implementation of Basel III.

Putting aside potential ups and downs in the near future, the economic outlook in the post-crisis period is likely to be determined by three factors. First and foremost, there is fiscal sustainability. The crisis has prompted large government interventions, both to restore confidence in the financial system and to contain the fallout of the crisis on economic activity. Another danger looming over the future of global economy is a sudden deterioration of investor confidence over fiscal sustainability and a sharp rise in long-term interest rates. Therefore, it is imperative to put forward a credible medium-term framework to stabilize risk perceptions and to reinforce the confidence in fiscal policies.

Having a healthy banking sector would be the second important factor that will lead to a decoupling of economies. Looking at developed countries, no signs of meaningful acceleration in bank credits are seen. Toxic assets in balance sheets have not been cleaned up and underwritten yet, and many banks are likely to need new capital injections. Restoring the effectiveness of the credit mechanism is crucial in supporting aggregate demand. As far as the banking system in Turkey is concerned, it is regarded as one of the healthiest, most robust and profitable banking systems among the emerging market economies. Therefore, our banking system is well positioned to finance private sector recovery for sustainable economic growth in the foreseeable future.

The last critical element of decoupling is a strong and sustainable rise in private demand. The prerequisites for a surge in private demand include meaningful improvement in employment prospects and low indebtedness of households. In comparison to typical business cycles, employment has been extraordinarily slow to recover. Continuing high unemployment rates due to rigidity in labor markets has the potential to depress private demand. Thus, labor market reforms should clearly be at the top of our priority list to raise our potential growth rate. Households' debt levels are the second crucial determinant of private demand. Households in many countries accumulated significant amounts of debt during the pre-crisis period, which is beyond their ability to repay out of current income. For a meaningful correction in economic imbalances, savings rates have to stay elevated for many countries for years to come. In comparison, household indebtedness is quite low in Turkey. Therefore, a strong recovery in private consumption is not only probable but also sustainable in our economy. Being aware of potential challenges, policy making authorities throughout the whole world monitor economic developments closely and take measures accordingly, as it is their responsibility to ensure a better equilibrium regardless of the starting point. For that purpose, all available policy tools are being fully utilized in order to achieve price stability, fiscal sustainability, a healthy banking system and a competitive labor and product market, as these are the key determinants of a better equilibrium. ■

** TCMB Governor*

Fiscal rule aborted: a chance slipping away

ASIM ERDİLEK*

Turkey's fiscal rule, proposed with much fanfare last May by the Justice and Development Party (AK Party) government as a homemade anchor to substitute for the rejected controversial International Monetary Fund (IMF)-imposed budgetary discipline for economic stability, has been aborted even before its enactment and implementation. Although the fiscal rule's abortion does not necessarily mean that the government will completely and recklessly abandon all budgetary discipline, it does raise concerns about the direction of Turkey's public finances, especially in the run-up to the parliamentary elections to be held in July 2011. Prime Minister Recep Tayyip Erdoğan stated last Wednesday that it did not make sense for Turkey to subject itself to an internal IMF restraint after having freed itself from the external IMF's tutelage. He added that Turkey had to be free from spending constraints in order to make the investments required for the country's sprint forward. These statements have added to concerns about a potential populist spending spree.

The government's position, however, is that the fiscal rule has merely been postponed until 2012, with the 2011 budget to be based on the current three-year (2010-2012) Medium-Term Program (MTP), announced in September 2009. The government stresses that there is nothing to worry about, given its almost eight-year-long record of fiscal integrity without a formal rule. If the government is merely delaying and not aborting the fiscal rule, could it not have had Parliament enact the rule on schedule but postpone its implementation until 2012? I hope that Prime Minister Erdoğan will change his mind and ask Parliament to enact the fiscal rule next month.

Last March, the AK Party government and the IMF, after two-year-long on-again, off-again negotiations for a new stand-by arrangement (SBA), announced that there would be no new SBA as an external anchor for fiscal discipline and economic stability. The government had evidently decided that Turkey could achieve economic stability through self-discipline, fortified by a fiscal rule associated with the MTP, without the IMF crutch. The government pledged that legislation would be enacted in the first quarter of 2010 in order to apply the fiscal rule to the 2011 budget.

The government's proposed fiscal rule, long-awaited and made more urgent by the worsening eurozone sovereign debt crisis, was presented last May by Economy Minister Ali Babacan at a press conference. Mr. Babacan, who is also the state minister in charge of the economy, defined the objectives, principles and scope of the rule. He emphasized that major international institutions, including the IMF, had been consulted in its formulation. He also discussed its implementation, reporting and auditing. He ended the press conference by answering several questions, some of which focused on the potential problems with the proposed rule. The still not yet fully public draft legislation, including the proposed rule, was to be sent in June to Parliament for enactment into law and was expected to become effective in 2011. Mr. Babacan argued that the rule would not only provide fiscal discipline and macroeconomic stability, but also minimize the public sector's borrowing cost by reducing the risk premium, with hopes for higher, perhaps even investment-grade, sovereign ratings by the major international credit rating agencies. This would also enable the private sector to tap capital markets at lower cost with longer maturity and greater predictability. The proposed fiscal rule was generally well received both inside and outside Turkey as a potential major fiscal anchor for macroeconomic stability despite the serious reservations expressed about its implementation and enforcement and the relatively minor criticism about the specific formula and parameters chosen. But many observers, even those giving the fiscal rule the benefit of the doubt, wondered how the government, facing a constitutional referendum this year and parliamentary elections next year, would be able to resist populist pressures to spend freely irrespective of the rule.

In evaluating the rationale for and assessing the chances of success of Turkey's proposed fiscal rule, given the recent research on and international experience with fiscal rules, I emphasized in the earlier column that fiscal rules are neither necessary nor sufficient for fiscal discipline. Some countries, with reputations for budgetary prudence, have achieved fiscal discipline without fiscal rules, whereas many others, with reputations for budgetary recklessness, have not achieved fiscal discipline even with them. Nevertheless, according to evidence since the early 1990s, fiscal rules can help under the right conditions. The higher the level of legislative support for fiscal rules (the highest level being a constitutional mandate), the more difficult it has been to reverse or abandon them. As for their enforcement, mechanisms that maximized the reputational cost of breaking rules and mandated corrective actions ▶

The government's proposed fiscal rule was presented last May by Economy Minister Ali Babacan at a press conference. He argued that the rule would not only provide fiscal discipline and macroeconomic stability, but also minimize the public sector's borrowing cost

Economy Minister Ali Babacan

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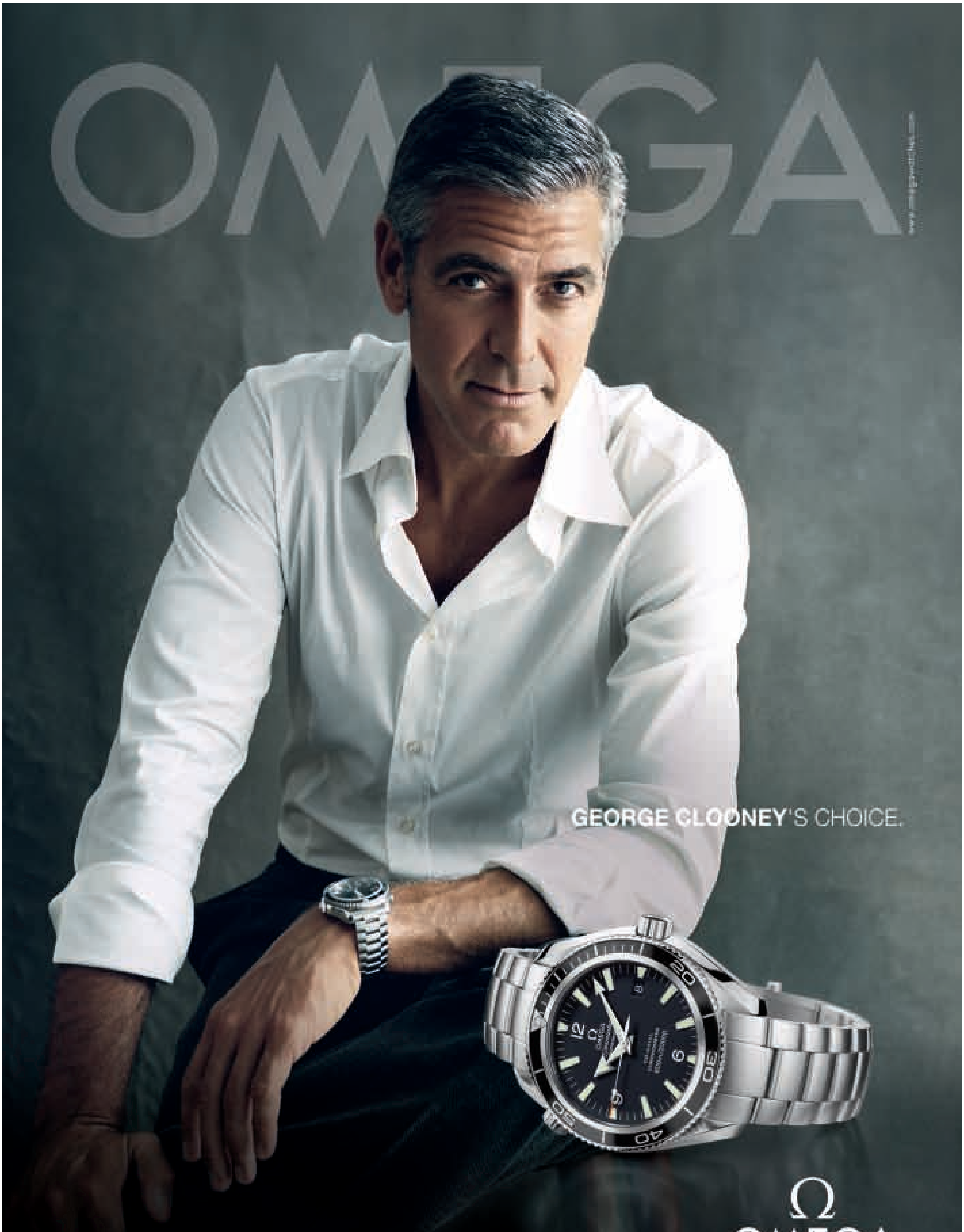
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were advisable because formal sanctions, although more effective than the reputational cost of reneging on a public commitment, were rarely feasible.

At that time the major requirement for the success of Turkey's proposed fiscal rule, relating to its permanence and transcending the technical problems of how to implement, monitor and enforce it, was articulated by Deputy Prime Minister Ali Babacan himself: "If the owner of fiscal order is just one government, then we cannot expect much from it. A larger group should be the owner of fiscal order. The more our business world, NGOs and media protect the fiscal order, the healthier its implementation will be. Otherwise, it will not have much meaning."

In evaluating Mr. Babacan's statement, assuming (now proven to be wrong) that he was speaking on behalf of a united AK Party government, fully committed to the proposed fiscal rule, I pointed out in an earlier column that -- forget about such an ideal national consensus -- no agreement had been reached between the ruling AK Party and the opposition parties before the announcement of the fiscal rule. It was doubtful, given the deplorable record of the opposition parties in rejecting any significant constructive engagement with the AK Party, that such an agreement would be reached if and when Parliament were to debate and enact the fiscal rule. I was still skeptical that the fiscal rule, even if it were to be successful initially, would outlast this AK Party government. Well, the proposed fiscal rule, even before its presentation to Parliament, has now been aborted by the AK Party government, or postponed, according to the official line, for at least one year.

Last Wednesday the International Monetary Fund (IMF) released its latest country report for Turkey, which reviews and evaluates recent economic developments and policies. The draft report, prepared following the visit in May of an IMF staff team to meet with Turkish officials, had formed the basis of the IMF's Executive Board's Article IV Consultation and Post-Program Monitoring with Turkey on July 30, 2010. In their Public Information Notice, the Executive Board directors welcomed the Turkish government's preparation of a new fiscal rule, hoping that it would be the foundation of the 2011 budget. They looked forward to the fiscal rule's enactment by Parliament, hoping that the enactment's delay would be short lived but emphasized that the rule's success would depend on a strong political commitment to apply it.

> Let's hope that the AK Party government's serious misstep, which has already hurt its credibility in economic policy, in first ballyhooing the fiscal rule for months as a homemade alternative to the rejected controversial IMF-imposed discipline and then aborting it as just another politically intolerable constraint on spending, does not prove to be too costly for Turkey

The technical analysis and macroeconomic projections in the IMF staff report were clearly predicated on the enactment and implementation of the fiscal rule, whose detailed review by the staff was quite favorable overall. The clear impression from the report is that during their Article IV consultation visit to Turkey the IMF staff must have had reason to believe that the government was determined to enact and implement the fiscal rule.

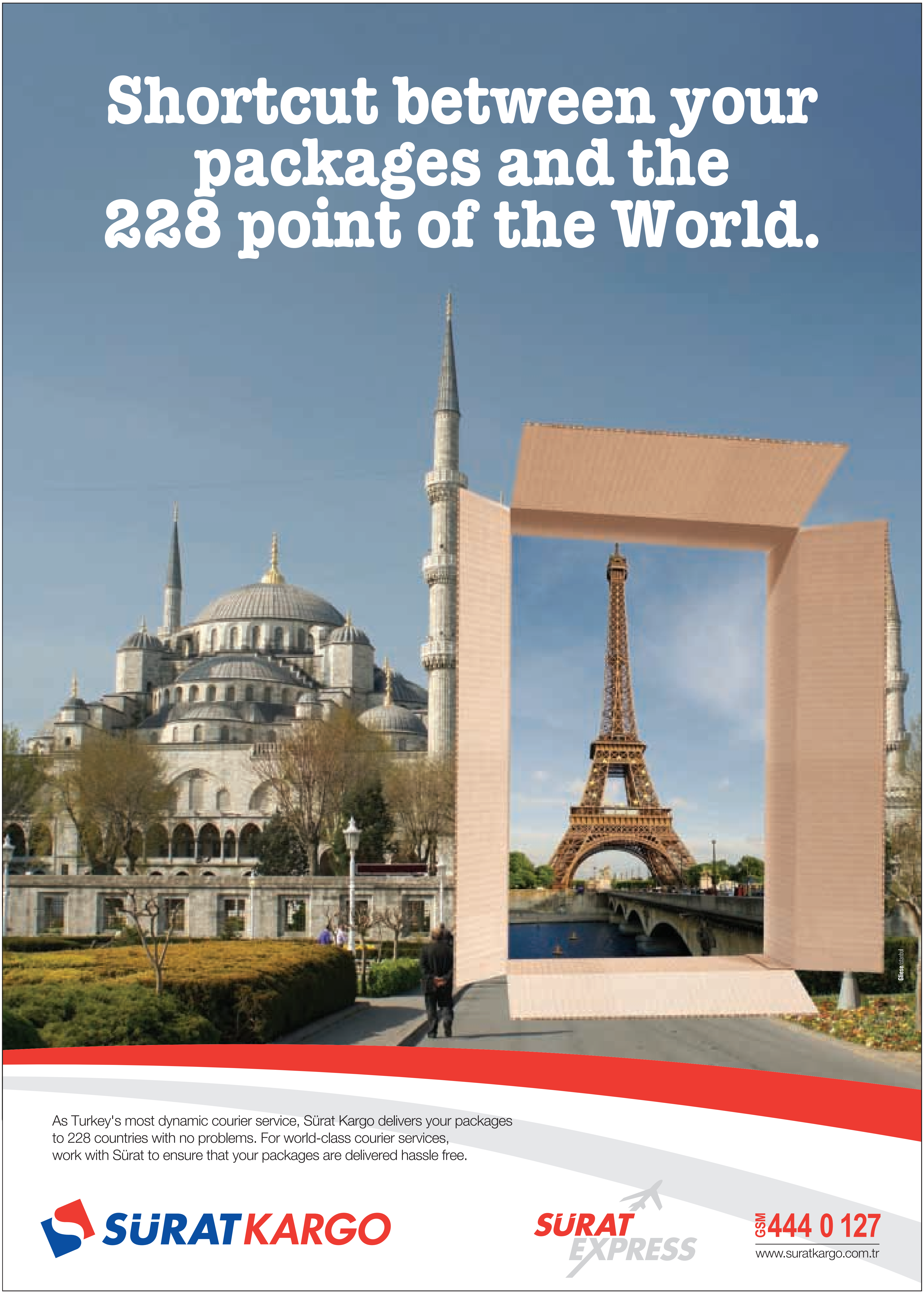
Only 10 days after the release of the IMF Executive Board's statement, however, the minister of Industry and Trade, Nihat Ergün, announced that, although the government was still committed to fiscal discipline, it would delay asking Parliament to enact the fiscal rule, disclosing that the rule would not be effective until 2012. The official reason for the delay, due to which the 2011 budget would not be fiscal-rule based, was that the rule needed more discussion and consideration because of the concerns within the government about its flexibility. Mr. Ergün also revealed that only the six ministers on the Economic Coordination Council and not the entire Council of Ministers had discussed in detail and approved the proposed fiscal rule before the draft law for the fiscal rule was approved by Parliament's budget committee in June. He added that the rule was opposed by government ministers responsible for major infrastructure investments.

In the preface to the Article IV staff report, a disappointed if not misled IMF "urges passage of the draft [fiscal] rule without further delay" and warns that "although markets have so far taken the postponement in stride, failure to pass the rule quickly may forfeit the window of opportunity that could close ahead of the approaching election cycle and risk weakening the credibility of the authorities' commitment to fiscal discipline." Both the domestic and foreign press has extensively reported the IMF's displeasure with the government's unexpected decision to scrap the proposed fiscal rule.

The fiscal rule controversy has clearly hurt the personal prestige and damaged the political capital of Mr. Babacan, the chief architect and advocate of the fiscal rule, whose management of the economy has been widely praised. His decision to remain silent about the controversy, amid barely concealed disappointment and embarrassment, has raised questions about his future role in the government. Central Bank of Turkey Governor Durmuş Yılmaz, whose Inflation Report in July urged the government to pass the fiscal rule, has indicated that keeping interest rates in single-digits would be difficult if the government's budgetary discipline is weakened without the fiscal rule. The central bank could find itself under government pressure not to raise interest rates, when it is faced with fiscal laxity, even if it wants to.

Let's hope that the AK Party government's serious misstep, which has already hurt its credibility in economic policy, in first ballyhooing the fiscal rule for months as a homemade alternative to the rejected controversial IMF-imposed discipline and then aborting it as just another politically intolerable constraint on spending, does not prove to be too costly for Turkey. ■

* *Professor of ecconomics at Case Western Reserve University.*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Emerging Turkey offers profitable ground for private equity funds

FAWAZ AL-ISSA*

Foreign direct investment (FDI) has constituted by far the most concrete and regular form of capital transfer from countries where capital has been in a perpetual state of searching for stellar gains through a myriad of investment types. Moreover, FDI not only generates a continuous source for accelerating profits but also nurtures social and cultural relations that bring about numerous opportunities.

The performance of private equity funds, which are rapidly becoming a trendy form of FDI inflows, has been very active especially in Turkey, which is widely labeled as a rising star around the globe particularly in sectors such as real estate, health, automotives, retail and food.

As a professional who has devoted almost all my career to the advancement of Islamic finance, I have to say that the Islamic private equity industry hasn't been able to reach the level it deserves. Industry estimates suggest that the global conventional private equity market is worth around $2.2 trillion, whereas the Islamic private equity industry figures are suggested to be around $4 billion in funds raised and deals done, much of which is in the Middle East and North Africa (MENA) region. For an overall Islamic finance industry whose size is estimated at around $800 billion worldwide, it is obvious that the Islamic private equity industry is still in its infancy. One of the core necessities for a major leap forward in this field is to have greater and better qualified human capital, i.e., more people with a higher level of training.

On the other hand, private equity still constitutes a solid means of investment, in a global investment environment where different kinds of derivatives have caused the emphasis to shift from fast profit generation with higher risk to slow but steady profit generation through being an active partner in promising business channels.

First comers get better returns

As to the risk, the real estate sector, alternative insurance (which does not rely on interest-bearing instruments) and fleet rental are all examples of "safe haven" areas, especially in countries like Turkey, where these sectors are novel and far from maturation. Hence, early entrance guarantees a certain high leverage ratio in all these sectors.

Turning to measures to promote direct investment and economic growth, companies should be well informed about the advantages of taking partners and encouraged to focus on long-term contributions rather than quick and short-term partnerships. A middle company can easily jump to the upper league by aggressive growth fuelled by private equity investments, while governments can promote FDIs through well-designed tax exemption systems that are beneficial for both sides.

The investment environment in the developing world is far from a saturation point, and an early comer may earn higher rates of profit. Emerging economies are in need of capital accumulation and welcome FDI inflows. Moreover, many of the developing countries are favorably located geographically

Fawaz Al-Issa

The performance of private equity funds, which are rapidly becoming a trendy form of FDI inflows, has been very active especially in Turkey, which is widely labeled as a rising star around the globe particularly in sectors such as real estate, automotives, health, retail and food

to serve as good centers of logistics for international trade. The demographic conditions such as the presence of a young and dynamic population are also other assets that give these countries an advantage. However, it must be kept in mind that economic and legal infrastructures are not as solid and well-defined as they are in the developed world: Foreign investors must be careful in choosing their local partners, investment locations and human resources.

Regarding the performance of the companies', which are involved in merger and acquisition (M&A) activities, it is necessary to achieve a specific size with respect to any kind of criteria -- from human resources and intellectual capital to asset figures -- in order to realize the advantages related to economies of scale in today's competitive business world. So, this gives M&As an increase both in their size and number. Companies are far more eager about M&A today and are going over countless analyses and reports. Preparing such comprehensive analyses is especially desired from the risk management perspective.

On M&A trends in different industries, they share more or less the same key value drivers that don't change in any economic situation, such as revenue model, competitive advantage, product integration, general and administrative leverage, management experience and reputation/staying power of the respective firms. Free cash flow structure as an indication of operating capacity also deserves attention in M&A activities.

Despite the current economic downturn, it is obvious that private equity firms still continue to pursue -- and in most cases find -- attractive opportunities. Most M&A professionals are cautiously optimistic about a pick-up in M&A activity throughout 2010 with strategic investors and distressed sales leading the way.

Most merger activities in 2010 have occurred in the sectors of healthcare, manufacturing and distribution, energy and technology. Debt markets will continue to rebound, fuelled by government actions aimed at restarting lending to middle market companies.

Connecting capital with know-how

Turkapital Holding is and will continue to be a solid bridge between capital and know-how from the countries of the Gulf Cooperation Council (GCC) and opportunities and markets in the economic cluster consisting of Turkey, its periphery and, by extension, Eurasia.

Founded in 2007, Turkapital is a Gulf-based investment fund whose shareholders include Kuwait Finance House (KFH), other investment leaders and private individuals. Leveraging its shareholders and the exceptional combination of international experience and local market know-how of it's staff, Turkapital links the GCC to an investment region stretching from Turkey to the Caucasus, Central Asia, Southeast Europe and beyond.

Turkapital's emphasis is on growth opportunities and long-term value creation. Investment opportunities that Turkapital reviews include recognized growth industries, like energy and real estate, along with emerging sectors, including technology and logistics.

Since its inception, Turkapital has followed a conservative yet proactive strategy that allowed it to build a strong asset base. In all cases, the nature and growth potential of the business opportunity is of fundamental importance to the investment decision. Real estate investments have been a core element in Turkapital's portfolio since its inception and will be the priority investment area for the foreseeable future.

** CEO and vice chairman of Turkapital. He worked at the KFH group for more than 15 years, 10 of which were spent at the Kuveyt Türk participation bank, a subsidiary of KFH in Turkey. He joined Kuveyt Türk Katılım Bankası A.Ş. as a member of the fund management department in 1996, was appointed executive vice president in 1999 and later deputy CEO, serving in this position until 2006. He was appointed a member of the board of directors in 2006 and also head of the Turkey office of KFH. He is also the chairman of Turkapital subsidiary companies, i.e., Neova Sigorta (Turkey), Autoland (Turkey), Iskan (Turkey), Advertizer (Turkey), KTIC (Kazan, Russia) & KAIC (Azerbaijan).*


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The İstanbul Islamic capital market

The domestic Islamic finance market is well-developed asset-wise and even relevant on a global scale. Turkey's international ranking will float at around eighth place, with a total of approx $30 billion in assets held by four strong participation banks

PHOTO □ TODAY'S ZAMAN

Finance Minister Mehmet Şimşek (r) and Kuveyt Türk Chairman Muhammed Ali al-Omar hold a picture together after a meeting to announce the issuance of Turkey's first sukuk notes.

PAUL WOUTERS*

With the launch of the Strategy and Action Plan for İstanbul International Financial Center (IFC-İstanbul) back in October 2009, the Participation Banks Association of Turkey was mentioned in several relevant action points as a cooperating organization next to, for instance, the Banks Association of Turkey.

These were, amongst others, developing new financial instruments, developing infrastructure for interest-free financial instruments and ensuring that companies go public. It was formal recognition of and endorsement for the sector.

To start up and operate a financial center, however, good faith and perseverance is not sufficient. One needs a deep pool of financial resources to be available in the market and enough international competitors to drive the market. This means the establishment of onshore and offshore financial institutions and foreign personnel, next to relevant tax incentives. There also needs to be active involvement in regulatory developments. There are no precedents for financial centers that are managed differently.

Given that Turkish markets are still rather closed and obtaining licenses for new market entrants appears to be a cumbersome experience, one would expect the government to seriously address this issue in the near future. There are indeed not enough international voices in the choir yet to guarantee success.

It, however, also means profiling and therefore one must also analyze the existing strongholds and make proper use of them.

One of the matters that immediately catches the eye is the historical East-West axis starting from North and West Africa, over the Gulf Cooperation Council (GCC) countries and the Levant to the Central Asian republics and then further to India and Southeast Asia. The other one is the North-South bridge that encompasses the Caucasus and the Balkans and in the present day stretches all the way into Europe and Russia.

The obvious way to proceed appears to be by filling a void or at least to complimenting the big financial centers rather than trying to compete with them. With the GCC as a supporting partner, it is impossible to bypass the fact that Turkey is looking to markets where Islamic finance are starting to develop.

At the same time, the domestic Islamic finance market is well-developed asset-wise and even relevant on a global scale. Turkey's international ranking will float at around eighth place, with a total of approx $30 billion in assets held by four strong participation banks, which in their turn have global leaders from Kuwait, Bahrain and the Kingdom of Saudi Arabia as reference shareholders.

The sheer size of the participation banks allows them to talk on par with their Malaysian counterparts and venture into international strategic co-operations as full partners. It also allows them to venture outside of Turkey in circles that broaden every day, such as a presence in North and West Africa, Kazakhstan, Germany, Africa, Bahrain, etc.

The position of the participation banking may well be strengthened by the deepening and expansion of some financial instruments such as corporate sukuk, mutual funds, venture capital and private equity together with knowledge transfer. In addition to these, the initial public offering of these banks will also contribute to their advancement. All in all, these steps will give IFC-İstanbul a clear niche in the regional financial landscape.

Two murabaha syndications at $250 million this year and the first sukuk at $100 million this summer prove that Turkish Islamic banking has come of age and has full international recognition and support.

Let there be no misunderstanding. Although its fundamental guidelines and restrictions are based in faith, it is open to every conviction and idea and none of its standards infringe Christian or even secular understanding.

Contrary to conventional finance, Islamic finance is not only about personal enrichment. Embedded in a broad range of ethical values, it is aimed towards responsible wealth management and personal engagement with the community. It is highly competitive and answers many open questions in conventional finance that the market, in spite of the present crisis and turmoil, avoids addressing. It is not only an alternative, it appears to be a necessary supplement. Relevant international players have already been testing the waters for some years and the local financial market has grown well aware of much needed progress on this type of financial activity, particularly after learning the bitter lessons of the crisis in 2001. It is therefore time to start organizing the capital markets in İstanbul. Let us not have this opportunity pass us by.

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Future of participation banks in Turkey

The share of assets of participation banks was 2.44 percent in 2005 but doubled to about 5 percent in 2010. Although we still cannot say participation banks are currently at a sufficient level, I expect the share we have in the total size of banking assets will rise to about 10 percent in a few years

YUNUS NACAR*

Banks operating under the name of "participation banks" in Turkey had the status of "special finance houses" until 2005. Since these special finance houses ("interest-free banking" industry known around the world as "Islamic banking") were not completely subject to the banking law, there was trouble in terms of representation and confidence. Despite intensive efforts to overcome these prejudices, "special finance houses" never achieved the desired level.

Following an amendment to the banking law in 2005, "special finance houses" were renamed "participation banks." Accordingly, participation banks have been integrated into the banking law, removing questions in people's minds. The introduction of the Savings Deposit Insurance Fund (TMSF) guarantee for deposits as in all other banks has promoted customer confidence in the domestic market, while being called a "bank" has completely removed the representation-related problem in international markets.

Although their share of assets in the overall banking industry in Turkey may seem modest today, a closer examination gives a very different picture: The share of assets of participation banks was 2.44 percent in 2005 but doubled to about 5 percent in 2010. The change in status has played a significant role in this noteworthy increase, and after receiving "participation bank" status, players in this industry have focused on promotion, which has also contributed much to this growth.

Although we still cannot say participation banks are currently at a sufficient level, I expect the share we have in the total size of banking assets will rise to about 10 percent in a few years, owing to the current growth momentum.

Participation banks currently offer their customers all the products offered by commercial banks -- as long as interest is not involved. Our customers can easily perform all banking transactions, including support for commercial and corporate financing, currency exchange transactions, leasing, vehicle loans, home loans, consumer loans, credit cards, POS services, foreign trade transactions, individual pensions and insurance.

Success of Turkish banks

Since non-performing loans was an area in which banks failed to take action against, a rapid increase in non-performing loans following an economic crisis could be a nightmare for banks. However, timely steps taken by banks' risk centers have helped turn this area into a new profit center. The fact that banks started to work with companies focusing on recoveries from such problem loans has introduced a professional approach to this industry, triggering noticeable increases in recoveries.

In my opinion, it would not be wrong for one to say that the crisis eliminated distressed and poor companies from the market. The companies that succeeded in surviving this period are well-managed ones, with a strong financial position, creditworthiness and high asset quality. Naturally, such companies helped the banks raise their asset quality.

An attractive country for foreign investors

The European Union has been a dream of our country for over 40 years. Many governments have attempted to enter the EU but failed.

In recent years, Turkey's initiatives for acquiring EU membership have started to receive positive results, and negotiations to gain full membership were launched between the EU and Turkey. After initial rapid progress, negotiations have now slowed due to recent vetoes from some countries. This is a disappointment to Turkish entrepreneurs. EU membership is a significant target as it would introduce visible socioeconomic improvements. Moreover, making investments in an EU-member state is an important factor for all foreign investors. I can strongly argue that, upon entry to the EU, Turkey would be an attractive country for foreign investors.

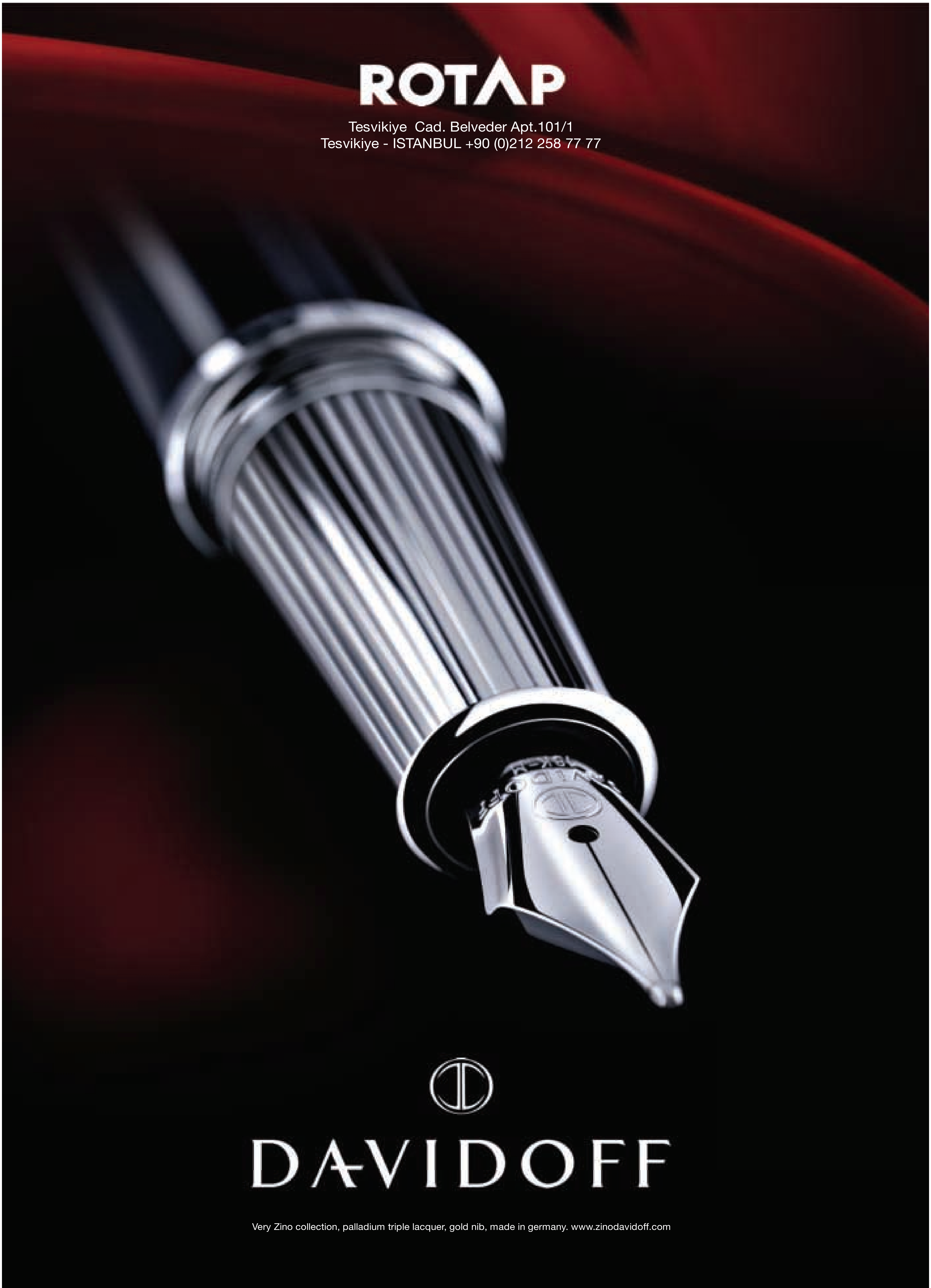
However, the stalling tactics of certain EU member states, which don't want Turkey in the EU, are distasteful to Turkish people and politicians. Fast track admission to the EU by countries that just don't compare to Turkey with regard to economic size and development proves that the "economic backwardness" rhetoric presented as an obstacle for our country is not true. EU member states must recognize that they must reach a decision and clearly put forth their intentions towards our country without delay if their relationships with Turkey are not to deteriorate.

New interest-free products

A careful analysis of political and economic developments around the world would clearly show that Turkey is a reliable country to invest in; it has a young population and yearly purchasing power increases that are important indicators for foreign investors. So far, nobody investing in Turkey has regretted it, and I believe in the near future our country will host many more foreign investors. In addition, the government introduced income-indexed notes in 2008, thereby attracting global investors' interest through interest-free products. Considering that sukuk (the Islamic equivalent of bonds) will follow, we can say there will be developments exciting to investors in international markets.

**Türkiye Finans CEO*

Türkiye Finans CEO
Yunus Nacar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Turkish derivatives market greasing economy's wheels

ÇETİN ALİ DÖNMEZ*

PHOTO □ CİHAN

Çetin Ali Dönmez

Derivatives exchanges have quite indispensible functions in a modern economy. From this point of view, the Turkish Derivatives Exchange, known as TURKDEX among global exchanges and registered as VOB in Turkey, is obviously playing a very vital role in the Turkish economy. For me, it is indisputable that Turkey's economic progress is on the right track towards being a modern and developed economy. Thus, as the head of Turkey's only derivatives exchange, I am very excited about future developments in Turkish capital markets. We are at a very important transition stage because we will launch option contracts next year. The trading of options will be a major step in the history of Turkish capital markets.

As is known, the liberalization of the Turkish economy and capital markets started during the early 1980s and we have experienced booms and busts since then. We suffered numerous problems like the bankers' crisis and many currency crises, but none of these experiences turned our country away from the path to becoming a liberal, globally integrated economy. Despite all the shortcomings, an open regulatory framework based on free market principles still seems to be the best way to forward.

A free market is not, of course, a market without any rules or enforcement. There will always be independent government oversight of markets. The last global crisis is a clear indication of this fact. Coming back to Turkish financial history, after the 1980s came the 1990s, where we had a severe crisis in 1994. There were many bankruptcies, both in the financial and nonfinancial sectors of our economy, and investors suffered to a large extent during that period. The 1994 crisis, however, did not discourage Turkish financial professionals from thinking about establishing the derivatives market. Starting from the early 1990s, there were parallel efforts to launch derivatives trading on the İstanbul Stock Exchange (İMKB) and in İzmir.

In the meantime, Turkey experienced another shock in 2001, when many banks went bust, currency fluctuations were quite extreme and the mood was grim. The crisis of 2001, however, resulted in a very major step in terms of the derivatives market. To tackle the crisis, Turkey made an urgent deal with the International Monetary Fund (IMF).

One of the IMF's first recommendations was to establish a currency futures market to buffer exporters and importers against the adverse effects of currency fluctuations. Thus in 2001, with IMF pressure, currency futures markets were launched on the İMKB.

The story is a bit long, but let me put it simply: The growth rate of the market was very discouraging until TURKDEX was established in 2005. The main reason for the slow progress pre-TURKDEX was the then-ruling bureaucracy's old and orthodox views. The newly established private initiative TURKDEX started slowly - the whole trading volume was around TL 3 billion in its first year. However, TURKDEX was a corporation and needed profit to survive. Therefore, it made a huge effort to bring liquidity to the market. As a result, the volume gained momentum, and it reached nearly TL 335 billion in 2009. In 2010, a total volume of around TL 450-500 billion would not be a surprise.

I would like to provide a bit more detail about the TURKDEX futures contracts. The star contract of TURKDEX is the İMKB-30 futures contract - and it really is a great success story. This contract is the most liquid financial instrument in the Turkish capital markets. Increasing investor base coupled with increasing trading volume is, of course, enviable but we, as VOB, are not satisfied with this success story. We are now working unceasingly to increase the liquidity of the currency futures contracts in our exchange. Currency futures are very important because of their function as a risk management tool for companies which have currency risk in their operations. It is a widely accepted fact that sound risk management practices do add to the competitiveness of companies and economies as whole. Actually, it is very simple to reach that conclusion: If your costs or inputs are in one currency and your revenues are in another and if you have a chance to correctly estimate and fix the exchange rate in advance, then you can provide more competitive prices. The Turkish economy has large export and import values, and thus competitiveness is of the utmost importance to our economy. Currently, companies can hedge their dollar and euro risks versus the Turkish lira.

We will soon launch euro/dollar futures contracts, which will help companies to hedge their cross-currency risks. Of course, while currency futures contracts are not a cure-all for the problems of foreign trade companies, there is quite a lot of value added if these contracts are used effectively.

With this fact in mind, we are trying our best to promote these contracts. Until recently we had a major tax problem, which hurt the liquidity of TURKDEX currency futures considerably. There was the banking and insurance transactions tax (BSMV) on the profits gained in TURKDEX for Turkish banks and brokerage houses. This tax was being applied on a transaction basis and where no "netting" of profits was permitted. In a very sensible move, the Turkish tax authority realized the mistake and abolished this meaningless tax. The rule became effective on Sept. 1, 2010. I do expect a major boost from the abolishment of this tax to the trading volume of TURKDEX currency futures contracts. The good news about the tax regime is not limited to the BSMV.

Effective from Oct. 1, the Turkish tax authority also abolished -- for corporations and limited liability companies and mutual funds -- the withholding tax on profits earned from TURKDEX funds. We are proud to declare that this was the result of our ongoing efforts with the help of the financial community. At last we managed to make the tax authority see our point.

What is left to be done is not limited to improvements in taxation. We will start the market making system in currency future contracts. The competitiveness of our exporters is of the utmost importance, thus we will do our best to deepen the currency futures in TURKDEX. Currency options will start trading in the first quarter of 2011.

Option contracts behave like insurance, as long as the risk-averse party is ready to pay a premium. With the launch of currency futures, the maturity and sophistication level of our markets will flourish, and more and more Turkish foreign trade companies will join the market. There will also be a more efficient over-the-counter trade if we are able to increase the liquidity of currency futures and launch the currency option contracts.

We are a very dynamic and robust organization, and we can compete with any other exchange or trading platform, provided we are provided with equal conditions in competition. At this point I would like focus your attention on some trading platforms operated by companies abroad. These platforms target local Turkish investors and, very unfortunately, there is no explicitly defined supervisory authority to regulate them. And on top of that, profits from transactions in these platforms are exempt from any tax charges. It is extremely unfair to expect TURKDEX to compete with these platforms and increase the liquidity of currency futures within this framework. Immediate action must be taken because in addition to unfair tax treatment, there is no investor protection on these platforms.

As a final word, I would like to thank Today's Zaman for giving me the chance to share my views with readers, and I just want you know that TURKDEX is always at your fingertips. What remains is for you to learn and try!

* VOB President

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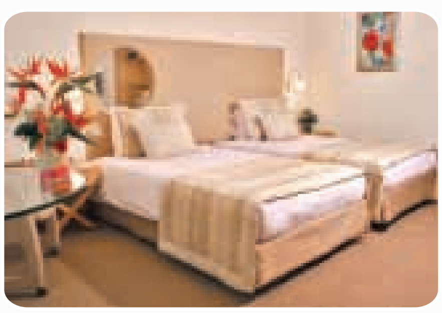

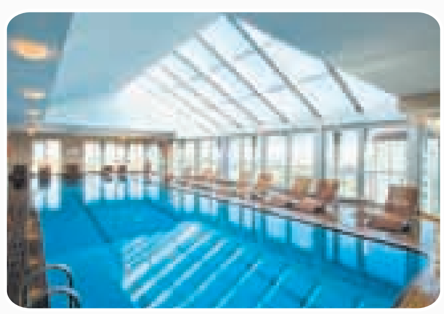

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Turkish banking amidst crises and Halkbank

HÜSEYİN AYDIN*

Global financial markets have in the past decade overcome two large crises and many smaller ones. While the 2001 crisis was based more in countries with developing economies, the 2008 crisis emerged in countries with the largest economies in the world. In the wake of the 2008 crisis, classified by economists as the most serious economic breakdown since World War II, there was a steep increase in the amount of restructuring, oversight, state intervention and financial stimulus seen in the financial markets throughout the EU and the US. And so some of the greatest economies in the world experienced not only serious losses, but were also forced to return to the beginning and, in many cases, go through a restructuring.

As for the Turkish banking sector, due to its experiences during the 2000-2001 period, it was relatively less affected by the 2008 crisis than many other countries. We all witnessed the positive results of the restructuring and strengthening of control mechanisms in this sector in the past. And thus our banks, which in the wake of 2001 were given a more transparent and controllable system of functioning, also had certain things to their advantage in 2008 such as the overall low share of housing loans in terms of general turnover, the high quality of loans extended and the Turkish people's determination to repay their loans. Another basic strength of Turkish banks has been the average 12 percent capital adequacy ratio.

Once again, the opinion that the Turkish economy will, in the long run, outpace some of the world's greatest economies -- an opinion that was first voiced by international investment banks -- is being repeated, this time loudly. In fact, many credit rating institutions have noted their positive expectations of the Turkish economy. These expectations seem to have been confirmed by the 11.7 percent growth rate achieved by Turkey in the first quarter of 2010. And in the coming period, this growth is expected to make even further leaps and bounds. The Turkish banking sector, with its strong capital structure, is, of course, one of the most important supporters of this growth.

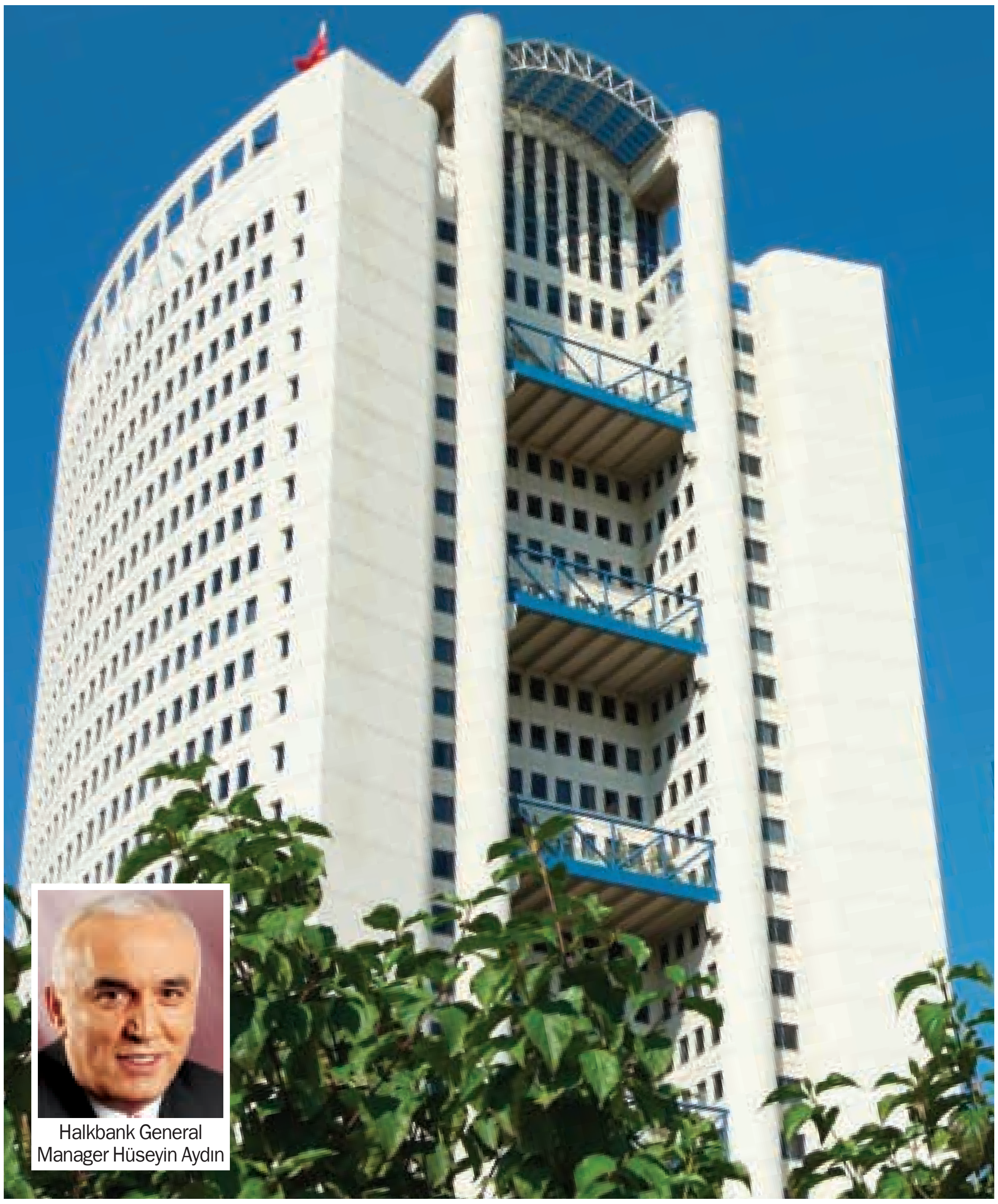

PHOTO □ TODAY'S ZAMAN, ALİ ÜNAL

Halkbank General Manager Hüseyin Aydın

Turkey's economic growth will, of course, continue to grow and develop. The Turkish banking sector still has a very high penetration potential. There are wide segments of society that still are not familiar enough with the banking system, or are not gaining all the advantages that they could be if they were more familiar with it. For this reason, the market will continue to maintain its attractive qualities and will also continue to draw in foreign investors. It would not be surprising if, in the coming period, large and mid-sized banks dominate the majority share of the market, and if, within this framework, the sector experiences considerable consolidation.

The financial successes achieved this year by the market can be seen as concrete evidence of the high level of performance of the sector. Despite predictions that the sector would not be able to duplicate the same rates of profit in 2010 as in previous years, data thus far, in fact, show that the sector will also finish this year profitably. In 2010, competition in every arena of the sector continues. In order to duplicate the same level of profits seen in the first six months of 2010 we will need to use more credit. This is a situation that places the banks closer to the real sector. And this in turn brings about higher production levels and more employment.

As for small and medium-size enterprises (SMEs), terms, prices, timeframes and periods of payment and non-payment are all critical when it comes to credit. Not all credit obtained is necessarily a source for taking care of all the needs of a SME. It is at this point then that we at Halkbank refer our customers to our 72 years of SME banking experience and our success in the field. About 99 percent of the SMEs who obtain credit from us wind up making fruitful investments because we only extend credit step by step, as we actually see the investment being made. Not taking into account what we are owed prior to 2001, our problematic debtors only amount to around 2.9 percent. What this really shows is that as we lend, we do not neglect the history of our borrowers. Our bank, which has experienced an annual 20 percent growth as far as SMEs are concerned, currently has around 400,000 customers, and we expect this number to rise to 500,000 by the end of the year.

Considering general expectations that the coming period will bring some narrowing of the profit margins, it is clear that the only way to overcome this situation is through an increase in productivity and the sale of cross products in addition to extending loans.

As Turkey's leading SME bank, we do not limit ourselves simply to financially supporting the SMEs of the nation, but we are also undertaking projects to help bring production standards in Turkey up to global levels. Within this framework, we are running a social responsibility project that we are calling the SME Transformation project, in cooperation with the French Development Agency. The project aims to disseminate information on institutional social responsibility, the environment, labor safety and security.

Halkbank is also holding periodic gathering know as "Turkey Produces" in various cities across Turkey; these meetings target SMEs. Some of our nation's top economists are speakers at these conferences, providing information about economic developments not only in Turkey but globally, as well as tips on what SMEs need to do to stay strong and to continue to grow. The speakers also educate meeting attendees on our bank and its practices. This sort of consulting service, provided in addition to financial support by the banking sector, is just the sort of support which will help our SMEs' financial management and production conditions to reach European standards.

In the meantime, there is a great need for international summits and meetings that can broaden the horizons of the financial sector and the real sector, as well as prepare the groundwork for foreign investors. These sorts of events help attract the attention of foreign investors to our country. Within this framework, the İstanbul Financial Summit is undertaking a very important role, bringing together some of the biggest names in the world's financial sectors to this city. We believe that İstanbul, critical as it is for Turkey from an economic perspective, must continue hosting such events in its bid to strengthen its role as a financial center.

**Halkbank General Manager*

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İstanbul to be financial hub with resilient economy, robust banking sector

ZİYA AKKURT*

İstanbul is a unique city, connecting the two continents of Europe and Asia, and has been the cradle of many civilizations throughout history. The city's dynamism ensures that it is constantly evolving and flourishing. The city is unique among peers, with its geographical benefit standing as a bridge between the West and the East, connecting these two different cultures and acting as a facilitator for dialogue as well. İstanbul's proximity to Europe, the Balkans and the Middle East serves as a significant advantage in that regard.

İstanbul's importance as a financial node is also rising; the city carries great potential to stand out as a regional financial center.

The fact that the Turkish economy and banking sector have both emerged even stronger from the recent global crisis has bolstered the city's standing as a strong candidate to transform into a regional financial center.

Turkey, which weathered the recent financial crisis better than many of the developed and developing economies, continues to present strong fundamentals. Indeed, the country's high growth prospects have allowed Turkey to emerge as a safe haven for international investments.

The three key factors that have contributed to differentiating Turkey are: a robust banking system, strong budget figures and fiscal discipline, a low-leveraged yet growth-oriented market.

The Turkish financial system, fiscal outcomes and the vibrant local real economy all show signs of promise. Turkey has a strong basis for investment and is ready to move into a higher gear for an improved economic position.

Turkey has already established itself as a strong economy. It is the eighth-largest economy in Europe and ranks 17th globally in terms of total gross domestic product (GDP). Sectors such as finance, energy, construction and automotives carry high growth potential in the medium term. The construction sector in particular has the potential to benefit from underdeveloped neighboring regions, and despite the recent surge in financial services, financial products are still under-penetrated. In terms of the automotive sector, Turkey has become a production hub especially for the European market.

A robust Turkish banking sector reinforced by an effective regulatory and supervisory framework has increased Turkey's resistance to the recent crisis.

In comparison to many economies, the Turkish banking sector has remained resilient and has weathered fluctuations well. This was accomplished thanks to a robust capital structure, reliance on core banking activities, a healthy loan portfolio and a low-leverage structure. These conditions were achieved through:

Strong capital levels: The recent crisis emphasized the importance of a strong capital structure. Global banks have been seeking to improve their capital base and deleverage their balance sheets. In this respect, the sound capital base of Turkish banking has acted as a significant advantage. The capital adequacy ratio of the Turkish banking sector is currently at around 19 percent. This is higher than the target ratio of 12 percent and the legal limit of 8 percent. This robust capital base has also acted as a buffer to absorb shocks.

Low penetration of risky assets: The penetration of off-balance sheet items and derivative products has always been low in the Turkish banking sector. Banking was pursued through the "traditional channel" and with a focus on core banking activities.

Akbank CEO Ziya Akkurt

Akbank headquarters are located in the Sabancı towers in İstanbul's top-tier business center, Levent.

PHOTOS □ TODAY'S ZAMAN

Healthy growth: Credit growth has been strong in the years following the 2001 crisis, with Turkey experiencing an average annual GDP growth of around 7 percent. However, it did not reach excessive levels. Average real credit growth in Turkey was around 30 percent whereas the level reached up to 40-50 percent for many other emerging markets (EM). This relatively cautious expansion in the credit book helped keep the loan portfolio healthy. Although the non-performing loan (NPL) ratio rose, it was still only at 5.4 percent in November 2009. This marked an increase of 2 percentage points since the start of the crisis and indicated slower growth than many other emerging markets and developed countries. The NPL ratio currently stands at 4.4 percent.

Importance of core funding: The Turkish banking sector relies heavily on core funding. The ratio of loans to deposits is around 78-79 percent in Turkey. This is a relatively low level in comparison to many EMs with ratios of above 100 percent. This level helped to support banking sector liquidity.

Low leverage reduced risks: Finally, on the back of robust risk management, leverage remained low in the sector. The ratio of assets to shareholders' equity remains around eight, below the international average of 30-40.

High profitability maintained: The sector sustained its profitability even through the crisis and at no point required a line of support from the government. Its strength will continue to support the economy through its path to recovery.

The banking sector's resilience has supported rating upgrades. Since December 2009, Fitch, S&P and Moody's have positively revised Turkey's ratings. Turkey is now rated two notches below investment grade by Moody's & S&P and one notch below by Fitch. Credit upgrades are now especially important given that many European nations are experiencing sharp downgrades. Turkey is anticipated to reach investment grade in the next few years.

Despite those strengths of Turkey, there still exist areas for improvement. Supplying a qualified labor force to the financial sector to ensure quality and efficiency is among the key factors to become a financial center

Turkey's demographic advantage with a young, dynamic and large population stands out in this respect. Compared to the ageing societies of the West, Turkey has a very young population, with an average age of 29. The educational level of the labor force is also constantly improving. A considerable portion of this labor force -- around 200,000 people -- is employed in the financial services sector.

However, to fully utilize this advantage, Turkey should continue to invest rigorously in its human capital. An increasingly skilled labor force will also ensure increased innovation, higher technology and increased value-added in production.

The low cost of doing business in Turkey, especially relatively lower labor costs, also acts as a support for İstanbul. The reduction of the corporate tax rate from 30 percent to 20 percent (2006) was a step to enhance Turkey's international competitiveness in this respect.

İstanbul's international cost competitiveness can be supported further through reducing financial transaction costs. Financial depth is also a significant criterion to become an internationally acknowledged financial center.

Turkey also advanced in its legal and supervisory framework in recent years, which is a significant requirement for a financial center. The supervision of the financial sector has been rigorous under the Banking Regulation and Supervision Agency (BDDK). The last major requirement for a financial center is adequate infrastructure to handle increasing transactions and traffic in the city. In this respect, İstanbul needs some further investments.

The current global financial crisis has induced a paradigm shift, moving the balance of power from the West to the East. Emerging markets have begun to play a greater role in the global economic structure. Turkey prevailed even stronger from the recent global economic volatility. İstanbul has a historic chance to leverage the strong economy, robust financial sector and growth potential of the country. I firmly believe that İstanbul, with its dynamic life and historical and cultural diversity, will fully benefit from its advantages to connect the Asian markets with European and American peers to close the circuit.

** CEO of Akbank.*

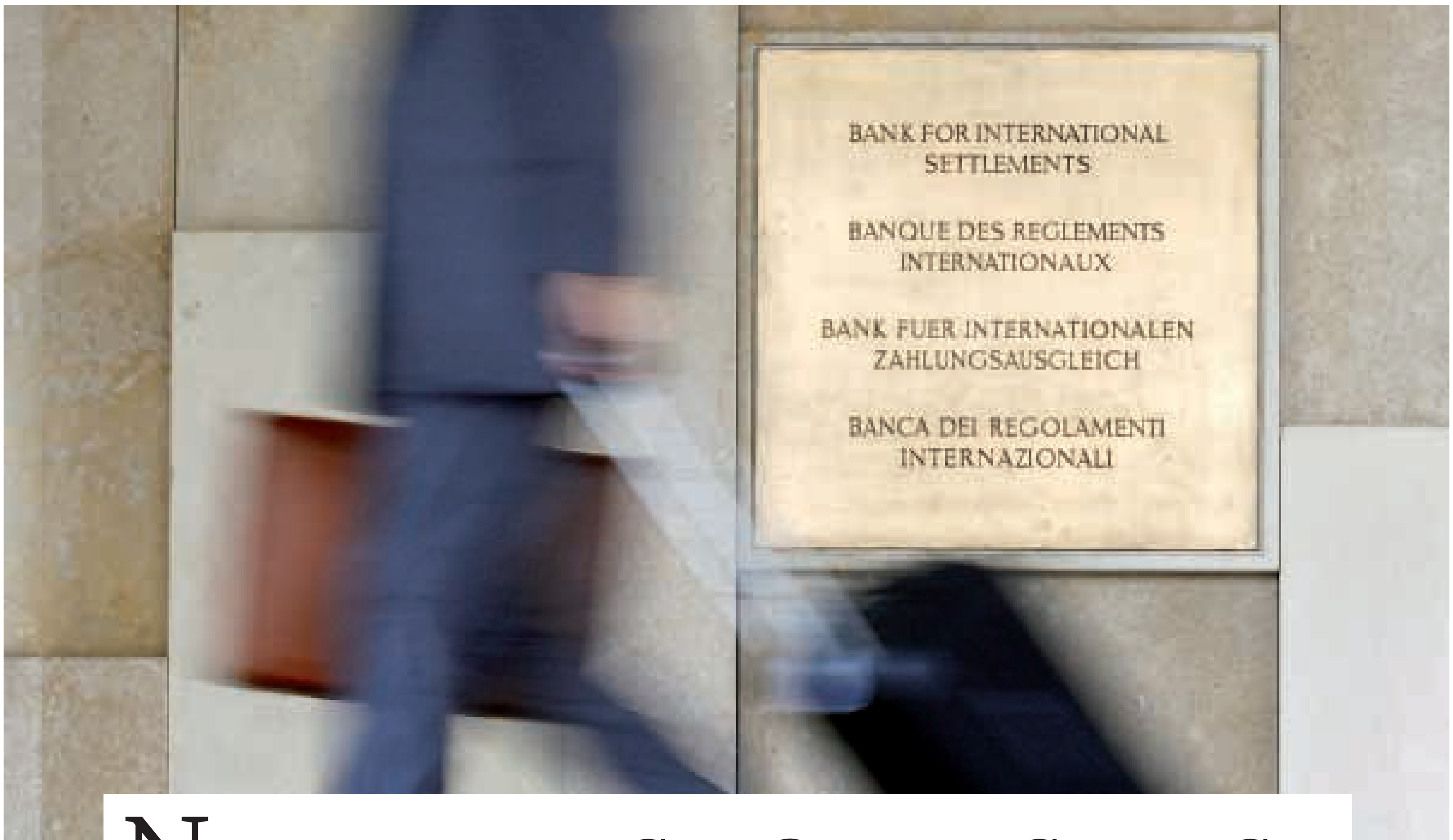

PHOTO REUTERS

New rules for riskiest trading could raise banks' capital requirements

HOWARD SCHNEIDER*

The panel of global regulators that recommended higher capital standards for banks last weekend has also approved a related set of regulations that could curb some of the riskier activities that contributed to the recent financial crisis.

The changes, on top of other new rules proposed by the Basel, Switzerland-based group, could force major banks to raise more capital than many analysts and regulators have recognized. The measures also stand to shape the behavior of bank executives in undetermined ways, with some analysts suggesting the rules could lead to steep price hikes for some business and consumer services or push financial firms to pump more cash into government bonds and other low-risk investments.

The rules apply to an array of activities, from routine stock trading to commerce in complex securities and investments in other financial firms. These types of business would not be banned. But the regulations would force banks to set aside perhaps three or four times as much capital than had earlier been required as a cushion against possible losses from these activities.

"It is not a prohibition. It is a bias" against some types of bank activity that figured in the 2008 crisis, said Scott Talbott, spokesman for the Financial Services Roundtable, a financial industry group. "They are saying if you want to engage in this, go for it, but you have to set aside more." How much more is only slowly becoming clear. The Basel group, which included Federal Reserve Chairman Ben Bernanke, made headline changes to a number of the key measurements used to regulate banks.

The committee, for example, raised to 7 percent the amount of capital banks have to hold against loans, investments and other assets. The current level varies by nation but ranges between 2 and 4 percent. The group also narrowed what counts as capital, forcing banks to rely more on the sale of common stock or to set aside more out of its profits -- considered secure buffers against a loss.

German Chancellor Angela Merkel delivers a speech in the German Parliament in Berlin on Sept. 15. She has renewed a call for tougher financial market regulation, saying Germany still believes that 'every financial market participant must be regulated so that we have an overview of what is happening on the financial markets'

But a separate set of changes, still evolving after a year of work, overhauls the complicated formulas used to estimate the value of a bank's assets and the riskiness of different sorts of holdings or activities. By changing those formulas, or risk weights, the regulators have as much as quadrupled the amount of capital a bank must set aside as a cushion against losses on its riskiest ventures.

The new rules are still not fully fleshed out by the Basel group and have yet to be adopted by the United States and other governments. But some officials estimate that the rules governing asset values and risk weights could boost by as much as 20 percent the amount of capital required to be held by the largest US banks -- on top of other increases mandated by the Basel proposals. The Basel group's recommendations are non-binding. But with representatives from 27 countries and the world's major central banks, the proposals carry immense weight and are expected to win the endorsement of the Group of 20 nations this fall.

In an investor presentation this week, J.P. Morgan Chase chief executive Jamie Dimon said the new risk formulas could cut the company's current capital cushion by as much as 25 percent. In discussing the impact of Basel, analysts and regulators have generally considered US banks to be well positioned to meet the new standards. However, those assessments have typically used the previous risk formulas, not the new ones.

Under the existing rules, Dimon said, J.P. Morgan's capital cushion stood at 12 percent. Using the new risk weights, the figure drops to 9 percent, still above, but much closer to, the Basel panel's 7 percent minimum. "We think we can handle this very easily," Dimon said. But he added, "It will have an effect on the markets. We do think it will reduce credit."

The Basel recommendations are to be phased in over several years, giving banks time to raise capital or drop riskier investments or types of business.

** Washington Post staff writer*

PHOTO TODAY'S ZAMAN, KÜRŞAT BAYHAN

ŞEKERBANK SWEETENS ANATOLIA'S BUSINESS LIFE

Dr. Hasan Basri Göktan

DR. HASAN BASRİ GÖKTAN*

Firstly, when we evaluate the performance of the Turkish banking sector in the first half of 2010, a positive picture comes to view. Loan volume had increased by 24 percent as of June 2010 over the previous year. The total amount of loans provided in the first half of this year stands at TL 335.6 billion. Again, when compared to the previous year, deposit volume and housing loans have increased, and a recovery in loan repayment on the part of small and medium-sized enterprises (SMEs), which were severely affected by the crisis, has begun.

When the ratio of loans to gross national product (GNP) is examined, it can be seen that the ratio in our country is approximately one-quarter the EU average and is considerably low. We can say that from now on the loan volume of the sector will increase and especially that the impact of the increase in the GNP of our country will be more strongly experienced in the banking sector. The increasing of banking sector loans by approximately eight times on a dollar basis from 2002 to 2009 and the increase in the loan/GNP ratio in our country by the end of the 2002-2008 period being 16 percent more than the EU average are significant indicators in this respect.

As interest rates decrease and competition increases, the margins become narrow. However, the loan volume of the banks will increase more quickly when compared to the GNP growth. If we select the EU average as the measurement criteria and if reaching or exceeding this level is the target, our loans will increase four times more -- when compared to gross domestic product (GDP) -- in the long term. The transaction size created by the increasing loans will be able to compensate for the decreasing margins. In particular there will be an increase in long-term investment loans and mortgages. In this direction, the banking sector will continue to let the real economy use its existing liquidity as a resource. It's possible to project that companies that prioritize liquidity management and focus on sustainable growth rather than adopting an aggressive attitude will not have any difficulties in securing needed funds.

When the total asset ratio per bank is compared, we see that the EU average is lower than that of our country, approximately two-thirds of our own. The number of banks in our country is relatively less than in EU countries, whereas the amount of assets per bank is greater. It is possible to view this situation, which gives an advantage with respect to using the economy of scale, as a competitive advantage. As a matter of fact, we can observe this in equity comparisons. The equity profitability of the banks in Turkey is above that of the US, some EU countries, Japan and Canada.

The Turkish banking system comes forward as the sector that most confidently looks to the coming 10 years thanks to its substantial financial statement structure, balanced distribution of risk and strong equity and risk management. Requiring not even the promotion of full insurance for savings and deposits, Turkey's banking industry registered a real "success story," recognized both inside the country and abroad, during the financial crisis, when banks in the developed world had to receive huge amounts of public support to survive.

Today, subjects such as the regulation of financial institutions, reinforcement of liquidity regulations and improvement of capital adequacy in terms of quality and quantity are included in the agenda of the global economic field. On the other hand, when observed on a global scale, there might be some possible adverse results of attempting to resolve high priority issues for the purpose of avoiding any potential crisis by means of international collaboration. According to a study conducted by the Institute of International Finance (IIF), these regulations will decrease the growth of developed countries by 0.6 percent, and the capital requirements of the financial institutions in these countries will increase by $800 billion. There are also opinions pointing out that these regulations may adversely affect developing countries and our country, where capital is inadequate and the intermediation cost high.

Therefore, it is important to address the sector-specific regulations by evaluating their impact on the economy and banking sector from a long-term point of view, preserving our comparative advantages, increasing our international competitiveness and supporting the economy and the growth of the financial sector.

We see that the loan requirements of SMEs are higher and that the demand in this area is rapidly increasing. When the rate of loans to GNP is considered, we can say that it will make a rapid improvement in Turkey when compared to EU countries in particular.

At Şekerbank, we have adopted the strategy of controlled and healthy growth, specializing in specific areas during growth. Just like previous years, our bank will maintain the high performance it has displayed in the craftsmen, small-sized enterprises, SME and agriculture segments this year also. With the strength we gain from our experience of 58 years in SME banking and our knowledge in this area, we aim to exceed a 50 percent increase in the loans we supply to SMEs within available cash assets. This is because we think that the SMEs are of key importance to production, employment and the increase of economic dynamism.

Another segment with a gradually growing share ▶

in the banking sector is agriculture. Our bank knows the farmer very well, is familiar with their needs and conditions, and develops new product applications to meet these needs. Agricultural banking is not a new initiative for Şekerbank, it is the cause of its foundation. At Şekerbank, we allocate to agriculture almost three times the average share private banks dedicate in their own credit portfolios to this segment.

Energy efficiency is amongst the areas that we strategically prioritize along with agriculture and which becomes prominent in the sector. Throughout the whole sector, with our EKOkredi product, which we have developed with respect to energy saving/efficiency, we have led the way by releasing the first product in the sector that covers all segments in this area and have introduced more than 9,000 people to energy saving today. With EKOkredi, we aim to protect both Turkey's energy resources and the budgets of families and enterprises.

These studies we have conducted in the field of environmental awareness have attracted attention in the international arena. As evidence of this, several European Union financial institutions have supplied the first environmental loan to Şekerbank.

Southeast European Energy Efficient Fund/ Green for Growth Fund has chosen Şekerbank as the first bank they will supply a loan to in the entire South Europe region as a result of the consciousness raising and financing work we have performed in the area of energy efficiency through our EKOkredi product. By means of this fund, we will be financing a further 2,500 projects aimed at energy saving.

Şekerbank, which has supported the people of Anatolia and its SMEs for 58 years, has not retreated from its lending policy despite the crisis. We also supplied the funds we've contributed to the economy in these hard times by means of the exceptionally healthy, liquid and balanced structure of our financial statement to investors, individuals and small-scale enterprises in need.

Today, Şekerbank supports production with its 260 branches in 70 provinces and 194 districts throughout Turkey and its mission of "Community Banking" and introducing banking to companies that cannot easily receive financial services.

Sixty-two percent of our branches, half of which are still located where they were established more than half a century ago, provide services in Anatolia. We have combined our knowledge of 58 years in enterprise, agriculture and trade-SME banking, and our professional human resources team with an average age of 35 with our strength in "Community Banking." We wish to become the leading bank in financing craftsmen and small-scale enterprises.

Şekerbank is providing its most suitable and long-term resources for craftsmen and SMEs, which it considers to be its most significant customer segment. We are a bank that provides tailor-made solutions for craftsmen and small-scale enterprises together with employers who have the competence to act locally and best comprehend these craftsmen and small-scale enterprises.

Şekerbank has continued to fund SMEs, small-scale enterprises and agriculture along the journey it started with the slogan "We stand by the producer" despite changing economic conditions. In this light, we've increased our loan volume by 38 percent in the first half of the year over the same period of 2009. We've also increased the share allocated to our target segments in our own credit portfolio. In accordance with data provided by the Banking Regulation and Supervision Agency (BDDK), while the share of SME loans in the banking sector is 22 percent, this rate is 39 percent for our bank. This rate is considerably high and remarkable when the financial statements of private banks are considered, regardless of volume.

By means of our studies focusing particularly on the small-scale enterprises segment of the SMEs on which we base our vision, we have increased the number of our SME customers at a rate that is approximately more than twice the rate of the sector in 2010 due to displaying a performance above the average of the sector. The emphasis Şekerbank puts on SMEs is best indicated by the size of the equity allocated to this area within its own credit portfolio. When the ratio of SME loans to total loans is observed, it's seen that at Şekerbank this ratio is 17-19 points above the sector.

On the other hand our deposit volume, which accounts for 66 percent of the liabilities side of our financial statement for the first six months, has reached TL 6.9 billion in the same period, with an increase of 19 percent when compared to the first half of the previous year. These deposits have also been used in the real economy in the form of loans. We realized growth of 27 percent in loans as of June 2010 since the beginning of the year, and we will be able to close the end of the year with growth of 30 percent.

We give particular importance to not using our products only as financial instruments but also to developing them in a way that they will contribute to our country and the productivity of companies so that they in turn contribute to the social development of our country. Not only the big cities and large companies, but also the projects from the regions and cities in Anatolia are always amongst our priorities. We will proceed with supporting production and enterprise in the projects we implement including the individual areas in the coming period just like today.

The subject of investments in energy saving, which is on the agenda of the entire world, is a newly developing area in our country. The loans provided in the sector for this area are mostly large-scale investment loans. We also provide long-term loans of large amounts for wind energy and renewable energy credits. Besides, as a bank that has set forth its strategy as Community Banking, we have undertaken a social mission in this area by introducing the people of Anatolia, our farmers, craftsmen and producers, to the concept of energy efficiency. By means of the EKOkredi product ,which is supplied in small amounts but in high numbers, we are introducing many people to energy saving. We are telling our customers to be more efficient in their efforts to protect the environment. We are aiming to contribute to the national economy in the end by starting off from personal savings.

Through EKOkredi, our country, which has rich natural resources, can shift to alternative energy sources and convert wind, water, and solar energy into electricity. Furthermore, while the companies, SMEs producing in the real economy, dispose of hazardous waste materials through effective waste management and protect our natural environment, they can also re-use the recyclable wastes in production and in this way, they can generate significant savings in their own production costs. Our farmers use modern irrigation equipment on account of EKOkredi agriculture and derive crops of higher quality and efficiency.

EKOkredi and energy efficiency will continue be an area of priority, which will strategically rank first in our bank's agenda in the forthcoming years. ■

**Chairman of the Board of Directors of Şekerbank*

PHOTO TODAY'S ZAMAN, MÜHENNA KAHVECI

Şekerbank defines agriculture as the reason for behind its foundation. It allocates three times the average share private banks dedicate in their own credit portfolios to agriculture.

Post-crisis banking in Turkey and Ziraat


PHOTO CIHAN
Can Akın Çağlar

CAN AKIN ÇAĞLAR*

The financial crisis, which created much turbulence in macroeconomic balances, also created a global recession, sharp drops in employment rates and foreign trade, and a drop in the trust of financial markets themselves. According to the latest global macroeconomic data, while great steps have been taken towards emerging from the crisis, there are still signs that risks remain to the financial scene.

At the head of uncertainties clouding the financial sector are worries in banking circles that some EU countries, in particular, will not be able to carry through on their debts. Expectations of a slowdown in the US, the fact that stability in terms of employment and the retirement has not been achieved and increasing ambiguity over whether China will be able to sustain its growth are all factors making it more difficult for the global economy to return to its pre-crisis levels.

The International Monetary Fund (IMF) global economic estimates, revised in July 2010, point to a 4.6 percent increase in total global economic activity in 2010, up from the 0.6 percent narrowing of global economic activity in 2009, and then pointing to a predicted 4.3 percent growth of activity in 2011.

Alongside all of this, recent slowdown signals coming out of the US have led to a re-igniting of debates over whether a new recession is on the way. Also on the agenda are questions over just how long monetary policies -- including incentive factors like lowered interest rates and high liquidity -- should be pursued. In the end, the current appearance of the global economic vista is that it will take some time for long-term stable growth to settle in.

As for the Turkish economy, it was the strongest among OECD nations during the first two quarters of 2010, as well as being behind China in terms of speed of growth. During this same period, Turkey's gross domestic product (GDP) grew beyond previous expectations, unemployment rates narrowed, the budget was balanced beyond expectations and interest rates and inflation entered a phase of greater stability.

All these positive factors caused a phenomenon of decoupling of the Turkish markets from the rest of the world. The production increase observed in Turkey, the resolute attachment to financial discipline and the possession of volition and infrastructure necessary within the framework of the medium term plan are all important signs that growth in the coming period is going to be sustainable.

Turkish banking sector

The global economic crisis, which began in 2007 in America, and from the third quarter of 2008 had begun to affect the financial and real sectors of almost every nation in the world, also made its impact on the Turkish banking sector. The observed effects of this crisis on the Turkish banking sector -- which entered the period much better prepared and stronger than banking sectors in other countries -- remained limited, due to previously acquired experiences in other crises, control mechanisms which had already been strengthened and successfully implemented macroeconomic policies. In addition, the fact that Turkish banks had not made investments in shares based on mortgage credit, or on derivatives -- as well as the sector's active quality, its sufficient capital, its liquidity and its strong risk management character - all helped reduce damage to the sector as a whole.

When the effects of the global economic crisis began to make themselves felt in Turkey in the final quarter of 2008, a clear drop in loans became visible. The loan stock, which had been TL 373 billion at the end of 2008, dipped down to TL 366 billion in April 2009. Later, it slowly crept up, reaching TL 397 billion by the end of 2009. As for 2010, the expansion in loans became even more visible, and as of July 2010, they reached TL 462 billion. Parallel to the economic contraction and the increased risk perception during the crisis, a sharp increase was also seen in non-performing loans. The rate of such bad loans had risen to 5.4 percent over the total loan stock in October 2009 from 3.1 percent as of September 2008. However, as the economic atmosphere improved, these numbers also fell to better levels. Thanks also to the effect of the sale of TL 1.4 billion worth of a portfolio of non-performing loans in 2010 by several banks, the rate of such toxic loans fell to 4.4 percent as of July.

The smart and prudent management that emerged during the most recent crisis has managed to differentiate the Turkish banking sector from its counterparts around the world. These days, the healthy infrastructure and the strong position held by the financial sector really bring a superior dimension to Turkey. The high growth potential of the Turkish banking sector in addition to the nation's geographic location, its size, its population and, to wit, its workforce, all work to give the nation the potential to become a center that can meet the needs of the region in which it sits.

One of the most important cornerstones of the Turkish banking sector is Ziraat Bank, which did not make concessions in its policies throughout the crisis period, remained a leader and an example for the sector in terms of credit - while maintaining its support to small and medium-sized businesses (SMEs) and to farmers, without interruption. Our bank loaned to SMEs and to farmers throughout the crisis, trying to reduce the effects of the crisis on the latter despite the crisis atmosphere. Our bank was one of the first banks in Turkey to complete restructuring of its SME services. Additionally, it also extended a helping hand to our farmers with special programs to ameliorate the burden of the crisis.

Even during the crisis period, our bank gave a weekly average of TL 1.2 billion worth of credit and continues now with its busy lending activities to become a sector leader in loans.

Ziraat, with 72 service points in 17 countries around the world to be side by side with our customers and entrepreneurs, is the Turkish bank with the widest range of services not only in Turkey, but abroad as well. Ziraat continues to take sure steps forward and towards transforming Turkey from being a local power, to a regional power.

Advantages Turkey would obtain from having İstanbul transformed into a financial center

The fast-increasing volume of global foreign trade as well as developing technology have worked to increase the depth of markets. The increase in capital activity as a result of the freeing up of economic policies has made the financial center's importance even more evident. The need for financial centers has increased even more, especially with the shifts in international power balances and the higher inclusion rates of developing economies in the global decision-making mechanism in the wake of the latest global economic crisis.

Our economy was able to transcend this most recent economy thanks to the combination of experience gained from previous crises and the implementation of effective monetary and Treasury policies. The increased stability and credibility achieved in recent years by our economy have prepared the groundwork for our nation to have more of a voice in the international arena. The financial sector, which continued to grow during the financial crisis, is expected to be the driving force behind the growth of the Turkish economy over the coming period.

It is expected that the transformation of İstanbul into a financial center, and the changes that will be put into effect as a part of this "master project," will make great contributions from not only an economic, but also a social, perspective. Among the clear advantages that this procedure will yield will be an increase in the level of education and quality of life, an increase in the atmosphere of transparency and investment, the development of international trade, the strengthening of the legal and physical infrastructure of the country, further harmonizing with developed countries and an increase in the variety of financial products and services available. It is also anticipated that İstanbul becoming a financial center will increase employment and investment in Turkey by international financial institutions as well as the sectors which serve these institutions (such as independent overseers, information management, etc.). As such, it is also expected that there will be an increase in the level of international funds entering Turkey. It is also predicted that this process will make it easier for institutions to access financial resources and thus will contribute significantly to economic growth.

The transformation of İstanbul into a global financial center is an important stepping stone towards long-term stable growth. İstanbul has historical characteristics, an excellent geographical location and a general superiority, which, in combination with the legal, financial and institutional support lent by the İstanbul Financial Center Project, will help transform it into a regional, and ultimately, global financial center. ■

** Ziraat Bankası general manager*


PHOTO TODAY'S ZAMAN

Dr. Cüneyt Yüksel

FROM THE GLOBAL ECONOMIC CRISIS TO TURKEY IN 2023

DR. CÜNEYT YÜKSEL*

The phenomenon of globalization has managed to create opportunities as well as problems, casting them in into a global rather than local dimension. In this sense, globalization has also turned our round world into a flat one.

The new order which began to emerge in the wake of the end of the Cold War period could be compared to a table with four legs; a global political order, a global economic order, a global cultural order and universal justice norms.

It is thus in this framework that the Istanbul Finance Summit 2010, scheduled to take place Sept. 28 to 30, with guests from America, Europe, the Gulf nations and eastern Asia, will be examining the global economic order as well as changes in the global financial sector and needs for reform as such.

Turkey for its part has managed to build an atmosphere of trust and stability in the place of fear and pre-judgment within the global order. With decisions based on information, and better leadership in the light cast by democracy, Turkey has even managed to offset the adversities imposed by the 1990s which had been labeled as the lost decade for Turkey due to relentless political tensions and economic crises.

These days, the world is going through a very critical period, an interim period. The year 2009 was more or less the deepest economic crisis experienced at a global level in the past century. In the wake of this crisis, the world economy went into a period of growth. But it is accurate to note that this period of growth was one brought about by extraordinary precautions and extraordinary implementations taken to support it.

So, without ignoring the risks around us, and with our eyes firmly on the stars above while our feet remain planted on the ground, we are prepared to face any sort of scenario that may emerge before us within this global order.

In order to protect ourselves during such a period of ambiguous risks, we need to be ready to maintain Turkey's stability in the face of a wide range of different scenarios.

Yes, what we have experienced is a global crisis, and as we always say, the proper response to a global crisis is a global response typified by global cooperation. Within this framework, more economic democracy and more economic freedoms need to be supported and encouraged.

One thing is for certain, and it is that Turkey's economic crisis did not include some of the more difficult problems experienced by other countries. Turkey had already learned important lessons from crises prior to 2002 and thus had carried out a series of well thought-out and all-embracing reforms. Thus Turkey's emergence from last year's economic crisis with relatively little damage was possible due to structural reforms and a strong banking and finance system that had come about over the past seven years.

At this point it is important to underline this: It is simply not possible to be a working part of a global economy, and to oversee sustainable growth and development without at the same time setting up a well-working legal and justice system based on global, universal standards.

In addition to the implementation of as many correct economic programs as possible, political stability is also very important. In fact, political stability comes at the head of everything. Turkey has learned this through many bitter experiences over the years. We have learned that stability and trust are both necessary factors in the global order so as to keep the four legs of this order stable and strong.

There need to be steps taken in Turkey to strengthen the political stability here. People shouldn't have to worry about things changing from one day to the next.

And thus on Sept. 12, the people of our nation made an important decision regarding our democracy, our political stability and the strengthening of our justice system. And the high level of turn-out in the referendum vote to change the constitution of ▶

PHOTO TODAY'S ZAMAN, MEHMET ALİ POYRAZ

Turkey has raised Turkish democracy to a higher level and pushed Turkey closer to becoming a first class democracy on a global level.

Looking at it from the perspective of the economy, Turkey has taken great steps to support its stability by attracting more local and foreign investors. As we all know, there are very critical parallels between democracy and the economy. I would like to give a simple example of how this is true, by looking at the recent past -- the last decade.

In the year 2007, the Turkish economy only grew by 4.5 percent. However, in the preceding four consecutive years, 2003, 2004, 2005 and 2006, there had been very strong growth performance. Growth dropped to under 5 percent in 2007 and this occurred during a time when the global economy was growing very fast. The slow-down in the Turkish economy was related to the e-memorandum that grabbed the spotlight that year.

In 2008, during the period when the court case to shut down the Justice and Development Party (AK Party) was continuing, Turkey's growth remained at only 0.5 percent.

This is why the majority "yes" vote in the recent referendum will affect our economy in very positive ways. We will no doubt see short term, mid term and long term benefits to our economy from the outcome of this vote. With the constitutional changes approved by the people of the nation, Turkey will, from the perspective of its political system, become a country where the future is clearer and more visible. In other words, Turkey is really on the road to being a just state and has taken another step forward where its democracy is concerned.

In addition, the following is something we must never forget: those who are working our financial markets are humans, and human psychology is the most important aspect of what guides the financial markets. The very concept of "human psychology" is what allows for us to see different results than what all other analyses and research say.

In the year 2002, the Nobel Prize in Economics was awarded to a scientist at the head of Behavioral Finances. Work written by Daniel Kahneman on human behavior, expectations and decision-making mechanisms presented us with a point of departure in our understanding of financial market mechanisms.

Economy and finance are actually quite seriously the management of expectations. The key word here is "expectations." The ability to perceive expectations in the economy on both macro and micro levels is very important. And so, in order to attract investors whose expectations range widely to our nation, we need to show them that our nation is stable and dependable. This was in fact one of the goals with the move to approve the constitutional changes by referendum.

Our Turkey has realistic dreams, giant goals and wide vision.

Thanks to policies marked by transparency, dependability and accountability, the Turkish economy is one we can call "a democratic market economy with ethical standards."

We must also never forget that our nation's greatest strength lies in having a political system that is ethical, honest and open today and into the future, and that we are bound to our promises and words.

The role played by Turkey's effective use of financial policies within the framework of globalization is, of course, large.

It is not incorrect to say that Turkey now has possesses a more resistant and stronger economy with regards to both internal and external factors. Turkey is an important contributor to the global economy and due to proactive steps taken in foreign policies has become a more effective nation in the region as well as in the world. Its democracy is now stronger and it is a nation wherein the social state carries out its responsibilities; it stands as an example in all this to the world.

Alright, but in the light of all that, what sort of Turkey do we envision for 2023, which is the year of the 100th anniversary of the Turkish Republic? What sort of Turkey are we aiming for in 2023? This is the real question.

On the road to Turkey becoming a more stable and dependable country in the long term, the most basic and main focus is the European Union accession process. The most important factor here is that our goal of full membership remains strong and that Turkey's reform process speeds the nation towards that goal. As long as we protect our political volition, as long as we as a nation keep our EU goal clear and strong and we head together as a society towards that goal, then we will sooner or later arrive at that goal.

By the year 2023, we will be living in a Turkey whose sustainable development will carry on its growth: We will be living in a nation which has achieved whole scale justice and development.

Our country has, for the past eight years, made very important contributions to peace, stability, the global economy and global security. And by the year 2023 it will be one of the world's 10 largest economies.

As a people, our goal is to work together to build sustainable economic development in concert with democratic development. In doing so, we are creating a better quality of life for everyone, not only for now but for the generations to come. ■

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İMKB, MARCHING TOWARDS BECOMING A GLOBAL FINANCIAL CENTER

HÜSEYİN ERKAN*

As part of the Ninth Development Plan covering 2007-2013 that the Turkish government passed in 2009 the relevant regulations for making İstanbul a regional financial center at first, and ultimately a global financial center, have been put in motion. Consequently, a Strategy and Action Plan for İstanbul International Finance Center Project was prepared under the coordination of the State Planning Organization (DPT). With its young and dynamic population, qualified labor force, geopolitical advantages, rapidly developing economy, cultural and historical assets, developed markets, diversity of financial products, services and practices and a strong regulatory framework in the financial sector, Turkey, and its bustling metropolis, İstanbul, are ready to become a prominent financial center. Turkey's economic power should not be overlooked in this respect, with the world's 17th largest economy, as it is expected to become one of the 10 largest economies in the next 40 years. The Turkish financial sector, on the other hand, incorporates various subsectors integrated with the global markets and is capable of producing products/services of high added value, and will be the driving force of the economy.

The İstanbul Stock Exchange (İMKB), with its strong legal and technological infrastructure, is preparing to celebrate its 25th anniversary this year and is ready to become the focal point of the İstanbul International Finance Center Project. The İMKB offers a wide range of financial instruments for trading in a secure and transparent environment.

I would like to say a few words on the recent developments in the global economy, that is, to give a general picture before coming to the recent developments in the İMKB. In a year of gradual, yet resilient, recovery market tension concerning the fiscal positions of several European high-income countries creates a new challenge for the world economy. The recovery, which follows a two-year period of financial difficulties, is heading toward a phase where the effects of financial factors will weaken, while private investment and consumption will become more influential on GDP. The financial developments in Europe had their effects on developing countries, although in a limited fashion, as indicated by the negligible increase in risk premiums and continued capital flows. Recovery followed a strong trend in most countries during the first half of the year, with the exception of stagnating Europe. Global GDP is projected to increase by 3.3 percent in 2010 and 2011, provided that the normalization of bank-lending continues and a default or restructuring of European sovereign debt is avoided.

The very high government deficits and debt levels in several high-income countries, most notably Greece, Ireland, Italy, Portugal and Spain, have led to significant volatility in international financial markets. This has been particularly evident in a generalized decline in stock-market valuations, with losses generally larger in high-income Europe and developing Europe than in markets further removed from Greece.

In this atmosphere, as a prominent and highly liquid market in its region, İMKB continued to appeal to international portfolio investors and thereby maintained its competitive position. During the first half of 2010, the İMKB initiated an initial public offering (IPO) campaign and within this framework, held an IPO Summit, bringing together over 2,000 participants from various sectors. As a result of the increased interest for the Turkish capital markets following the IPO Summit realized in İstanbul on May 6-7, the İMKB has registered its best performance in terms of the number of IPOs since 2000. Twenty companies offered their shares to the public through the İMKB during the first eight months of 2010, raising funds in excess of TL 1.8 billion.

During the first half of 2010, İMKB also made a significant leap in terms of the variety of the financial instruments offered. Non-voting shares and warrants were listed on the İMKB for the first time. Furthermore, as a consequence of the decreased public borrowing requirement, private sector borrowing instruments, which have remained inactive so far, have started coming back. During the first half of 2010, seven companies raised funds amounting to TL 521 million through bond issues. Moreover, an "Offerings Market for Qualified Investors" was launched in the İMKB, where the joint stock companies traded on the İMKB may issue borrowing instruments without preparing a prospectus and a circular, and is open for trade for qualified investors only.


Hüseyin Erkan

During the year, warrants have been introduced to the Turkish markets for the first time. Warrants written on a single equity or a basket of equities traded on the İMKB or İMKB indices started to be traded through designated market makers in a multiple price-continuous auction environment. The İMKB grants permission for warrants to be traded on its stock market upon the application of warrant issuers. The terms of warrants are set by the issuer and the terms may be quite different from the options, which are standardized contracts set by the exchanges. Warrants do not have standardized terms; on the contrary, the terms may vary considerably between different series and different warrant issuers. We are also working on developing our derivatives trading system to trade options contracts and we expect to be ready by the end of this year.

Another important development was the launch of the Emerging Companies Market (ECM). So far, access to the capital markets has been somewhat limited to larger companies. The launch of the ECM provides a strong tool for the İMKB to embrace an important part of Turkish companies; that is, small and medium sized ones. The new approach of the ECM to accept companies without seeking any quantitative listing requirements is a major step in the history of not only the İMKB, but also the Turkish capital markets in general. With the ECM, the İMKB opens its doors to young and small companies, in addition to large and mature ones. We expect small and mid-sized companies with high-growth potential, with attractive businesses and projects to apply for trading on the ECM.

The Automated Disclosure Platform, which started to operate in 2009 for the electronic posting of company disclosures, enables the companies traded on the İMKB to release the information required to be publicly disclosed in compliance with the respective legislation, using the Internet and electronic signature technologies. Accordingly, the investors and other parties interested in the capital markets can easily access the company disclosures through the Internet. This system also allows users to have access to both the current and the past disclosures of traded companies, current announcements and up-to-date general information about all traded companies concurrently and timely. In consideration of the significant share of international portfolio investors at the İMKB, the İMKB has started preparing the English version of the disclosure platform.

Looking forward, the stock exchange industry is at a turning point with increased competition, cost minimization and diversified revenues. In this challenging environment, the İMKB plans to maintain its competitive power by offering new markets and instruments to investors and continuously upgrading its technological infrastructure. Within this framework, the İMKB is ready to play an increasingly important role in the Turkish and the global economy, while İstanbul assumes the title of a center of economy and commerce

** The President of the İMKB*


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