Central Bank of the Republic Of Turkey

Meeting on Global Financial Crisis: Lessons Learned and Experience Gained by ECO Member States

(Opening Remarks)

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Distinguished Participants,

It is a great pleasure and honor for me to be here among such a distinguished participants in Tehran. I would like to express my sincere thanks to the Economic Cooperation Organization (ECO) General Secretary for organizing this special event.

The success of the economic policies of the member counties under the roof of the ECO depends on the formation of measures to increase trust and establishment of a close cooperation in economic and commercial areas. The closer cooperation and consultation among the ECO Member States, will contribute towards not only mitigating the gravity of the financial crisis on our states, but also accelerating economic and social progress, development and stability in the region. In this regard, our meeting is of great importance to develop a common approach to prepare necessary recommendations for regional cooperation to cope with the economic crisis and to take crucial steps to reduce the likelihood of future occurrences of such extremely costly events.

Sharing the experiences of related countries that spread in a vast geography on economic and commercial is invaluable for all of us. Taking this opportunity, I would like to give you a brief picture of our policy implementations during the crisis.

Dear Participants,

The global crisis which erupted in developed markets and then spread across the world has continued to affect the global economic outlook. Data releases regarding the global financial system and economic activity displayed an ongoing recovery. However, budget deficits, especially in the developed economies, continue to rise, problems across credit markets linger, and employment remains in a precarious state. All suggesting that it would take a long time for the global economy to completely recover. Moreover, ongoing uncertainties regarding the exit strategies from unconventional fiscal and monetary stimulus continue to pose risks on the resilience of the recovery process.

Turkey was not immune from the crisis like any other emerging country. Due to its high integration to global economy and financial markets, the headline growth of Turkey has deteriorated remarkably. But, I want to stress that neither price nor financial stability has been seriously jeopardized during this period. Turkey used to be one of the emerging economies with historically high volatility and particular sensitivity to global risk perceptions throughout the 90s. However, this time the impact of the crisis has remained relatively limited due to our resilient financial system and prudent macro policies.

Neither serious liquidity problems knocking on the door nor the domino-like fall of global finance giants was enough to agitate Turkish financial system. Turkey was the only country which did not have to intervene to its financial sector throughout this crisis across all the OECD countries. As is known, Turkey experienced a devastating crisis in 2001, which melted down one third of GDP and utterly crashed the banking system. Banking sector-restructuring plans along with the regulatory and supervisory reforms, at the cost of imposing a heavy burden on the public budget, were put into effect in the afterwards of 2001 crisis. These regulations have provided our banks with high level of capital adequacy, liquidity and deposit to loan ratios with mild leverage.

In order to alleviate the short-term effects of the crisis on our real economy, a number of significant policy actions have been taken by Turkish Government and the Central Bank of Turkey. With the reversal of global developments fueling inflation, the Central Bank of Turkey took prompt action to cut interest rates and adopted a pioneer role among emerging markets. The policy rate cuts totaling 1025 basis points have alleviated the severity of the decline in economic activity. In this respect, we focused on containing potential adverse effects of global financial turmoil on the domestic economy without compromising our price stability objective. Additionally, borrowing and lending rate band has been gradually decreased in order to reduce fluctuations in the overnight interest rates. Also, liquidity need of the market in local currency has been provided in a timely fashion and at the required amount.

We used our foreign exchange reserves primarily to support our banking system. We acted as a blind broker in the FX Market between the financial institutions and shouldered the counter party risk to facilitate the flow of FX liquidity in the system. Moreover, the maturity of the foreign exchange deposits borrowed by banks from the Central Bank in the FX Deposit Markets was extended and the lending rates were slashed. Additional Turkish Lira (TL) and FX liquidity was provided to the banking system through reduction in the TL and FX required reserves ratios.

Esteemed Participants,

On the fiscal side, Turkish Government has introduced an investment incentive package, temporary tax cuts, a new credit guarantee scheme to lessen the gravity of the crisis, and launched a Medium Term Program (MTP) in September 2009, in order to reduce the adverse effects of the fiscal imbalances on expectations and to guide economic agents. The MTP aims to bring the public deficit and debt gradually down to reasonable levels by allowing the government to have a smaller share of resources, which is the key objective of the fiscal policy of between 2010 and 2012. The government is planning to introduce a fiscal rule by 2011 to ensure fiscal discipline, restrict the public debt-to-GDP ratio over the medium term and strengthen the institutional framework. According to the MTP, the legal framework for the fiscal rule would be completed until the end of the first quarter of 2010. These legal measures are intended to ensure a better management of expectations by enhancing the institutional framework of fiscal policy and its medium-to-long term predictability. Meanwhile, the fiscal rule aims to secure that the public sector budget deficit-to-GDP ratio is consistent with a sustainable public debt path over the medium-to-long term.

To conclude my remarks, an outright depression in Turkish economy was prevented as a consequence of the measures taken by monetary and fiscal authorities. We expect that Turkey will be one of the countries that will emerge from the crisis relatively fast.

I would like to extend my sincere gratitude to the ECO General Secretary for organizing this pleasant event by which we will have a chance to create a fruitful platform to exchange views, discuss ideas and share experiences.

Thank you for your attention.