TÜRKİYE CUMHURİYET
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Istanbul School Of Central Banking

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Financial Inclusion in Africa is Improving

The İMB hosted a two-day workshop on *"Maintaining Financial Stability with Widening Financial Inclusion: The Case of African States"* in October with the participation of central bank officials from 12 countries, officials from various international organizations and local academicians. The workshop included speeches reviewing financial inclusion and financial stability as well as country-experience sessions with presentations from the following institutions: The National Bank of Ethiopia, The Bank of Uganda, The Central Bank of Kenya, The Bank of Ghana, The Bank of Tanzania, The Bank of Zambia, The Reserve Bank of Zimbabwe, The Central Bank of the Republic of Turkey (CBRT), The Central Bank of West African States, The Central Bank of Lesotho and The Bank of the Republic of Burundi.

The workshop began with an opening speech from CBRT Board Member Lokman Gündüz. Gündüz, acknowledging the inclusion agenda under Turkey's G20 Presidency in 2015, mainly focused on the financial inclusion of youth, women and small and medium enterprises (SMEs) and stressed the mutual existence of financial inclusion and stability. After these remarks Zamir Iqbal, Head of the World Bank Global Islamic Finance Development Center, took the stage to deliver his keynote speech. Iqbal gave an overview of the importance of financial inclusion, both its global state and state in Africa specifically along with the efforts by the World Bank to reach universal financial access. Iqbal referred to financial inclusion as an initiative that makes formal financial services available, accessible and affordable. Based on the data on the source of financing for SMEs, he suggested that firms in Africa are more dependent on internal funds and are more credit constrained in terms of accessing external formal financing vis-à-vis other developing countries.

The workshop continued with a talk by the former IMF economist and the current Deputy General Director at the Ministry of Finance of Turkey, Burcu Aydın. Her talk was about the importance of savings, SME financing and financial inclusion of various agents in the economy. Three sessions of country-experience presentations followed this talk. One of these presentations was delivered by Mohammed Nyaoga, Chairman of the Board at the Central Bank of Kenya, in which he mentioned that mobile phone payments account for over 80 percent of payment transactions volume in Kenya. A common theme highlighted in these presentations was rural financing as a crucial policy focus in Sub-Saharan Africa as the majority of the population lives in rural areas. Speakers also explained the importance of micro, small and medium enterprise (MSME) finance and added that for sustainability reasons, credit demand should rather be met from within.

ABOUT US

The Istanbul School of Central Banking (İMB), founded by the Central Bank of the Republic of Turkey (CBRT) in 2013, provides a setting for thought-provoking discussions and analyses on global economic and financial challenges with a specific interest in central banking topics. The School organizes research activities and training programs and engages in technical cooperation with central banks to promote collaboration on central banking.

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Means of financing discussed during the presentations included family/friends, microfinance institutions, saving and credit cooperatives (SACCOs), rural and community banks. The growing use of mobile financial services and the fact that mobile money penetration is higher in many Sub-Saharan countries compared to the rest of the world was another accentuated key element of financial inclusions. Presenters also emphasized financial literacy as a first and necessary step to reach wider financial inclusion.

The second day of the workshop started with a presentation from Hüseyin Karaca of the Boğaziçi University about forming an index as a measure of financial literacy and access. Karaca classified financial inclusion as "demand side", referring to financial literacy, and "supply side", referring to financial access. He also gave information on the survey carried out in Turkey to quantify people's knowledge, attitude and behavior with regards to financial services.

Two country-experience sessions with presentations by experts from four central banks followed. In one of these presentations, Carlie Dingui, Deputy Director of Financial Stability Department at the Central Bank of West African States, reviewed theoretical and empirical work regarding the link between financial stability and financial inclusion and added that both reinforce each other, thus co-existence of the two is crucial. Presentations also included some common causes of involuntary financial exclusion, such as expensive entry costs, distance to branches, and high costs of maintaining a bank account.

Overall, the workshop provided a very comprehensive picture of Sub-Saharan Africa regarding financial inclusion and facilitated interaction and share of experience between the central bankers from different countries. All country presentations stressed that there is still much room for improvement regarding access to financial services and that wider financial inclusion accompanied with moderate credit growth and regulation of the financial markets could lead to financial stability.

Liquidity Management is a Challenge for Islamic Banking

The İMB organized a joint workshop with the World Bank Global Islamic Finance Development Center (GIFDC) and the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC); *"Islamic Banking and Liquidity Management"*. There were 44 representatives from 25 countries participating in the workshop. In the opening remarks, CBRT Board Member Necdet Şensoy presented Turkey's perspective on the subject and the regulatory developments implemented to improve the liquidity operations standards of participation banking.

After the opening remarks, Zamir Iqbal, Head of GIFDC, started his introductory presentation by emphasizing the increasing interest in Islamic finance from developed and G-20 countries. Iqbal gave a brief history and the stylized facts to show the growing importance of Islamic banking and finance in the global financial system. He continued explaining "how does Islamic banking work?" and the concept of risk sharing which is one of the fundamental principles in Islamic finance. He also elaborated on the positive association of Islamic banking and finance with economic development, financial inclusion, social and economic justice and human welfare. Iqbal concluded his presentation with the challenges Islamic banking faces and opportunities for the future.

During the workshop, experts from GIFDC, Canan Özkan, Murat Çobanoğlu and Nihat Gümüş gave talks

Did you know?

- ***The oldest bank still in existence?*** It was founded in Italy in 1472 and has been operating ever since. It is called Banca Monte dei Paschi di Siena and is currently Italy's third largest bank.*
- ***Percent of adults in the world that do not use formal financial service?*** 38%. Around 2 billion adults do not use formal financial service. This percent increases to 73 for the poor.**
- ***Percent of people with cell phone subscriptions?*** 96.3% in 2014. This percentage is around 115% for high income OECD countries, 71% for Sub-Saharan Africa and 57% for low income countries. Mobile banking is most developed in Africa.**

Source: *http://www.economist.com/news/business-and-finance/21631357, **World Bank.

titled *"Liquidity Standards Proposed by Basel III and Their Implications for Islamic Banks"*, *"Regulatory and Supervisory Framework"* and *"Islamic Capital Markets"*, respectively. Ismail Ebrahim Dadabhoyi, Advisor of the International Islamic Financial Market, had a presentation on repo standards in the morning sessions.

The workshop was designed to share country experiences in the afternoon sessions. Ten countries, including Turkey, deliberated the implementation of liquidity operations for the Islamic financial institutions in their countries. Both the country-experience sessions and the special session at the end of the workhop created a platform to discuss the liquidity instruments and the central bank approaches to those instruments in detail with the contribution of Hylmun Izhar, Research Economist, Islamic Research and Banking Institute, as an outsider.

Islamic Finance makes into G-20 agenda:

2015-The G20 group of major nations has included discussion of Sukuk (Islamic bonds) as an infrastructure financing tool in its annual agenda, a move that could potentially spur the use of project-based Sukuk. In addition, Islamic Finance is the subject of study under G20 themes of long-term investments and financial inclusion.

The workshop concluded that the issue of liquidity management has the potential to reshape future trends in the monetary policy framework. The path to resolution involves not only revisiting economic policies, but also the economic and institutional infrastructure that surrounds them. In this sense, Islamic finance has a long way to go in order to maintain a well-structured liquidity management system.

News about Research Activities

The İMB had a fruitful period over the second half of 2015 in terms of research activities. **Seventeen visiting scholars and seminar guests from other central banks and academia visited the İMB.** Scholars from universities in Istanbul as well as abroad and economists from other central banks including the Federal Reserve System and the Central Bank of New Zealand also gave seminar talks.

One of such seminars was about bank capital regulations. Gazi Kara from the Federal Reserve Board presented the issue within the framework of his paper, titled *"Bank Regulation Under Fire Sale Externalities"*. After the financial crisis, financial stability was one of the central concerns of policy making. Prior to the crisis, bank regulations were centered on capital requirements (limiting the debt-to-equity ratios financial institutions can have). Kara argued that the crisis showed that such measures may not suffice. In addition to capital requirements, liquidity would also need to be regulated (Basel III includes such regulations). The paper develops a model with which the authors can systematically work on the optimal design of the capital and liquidity regulations.

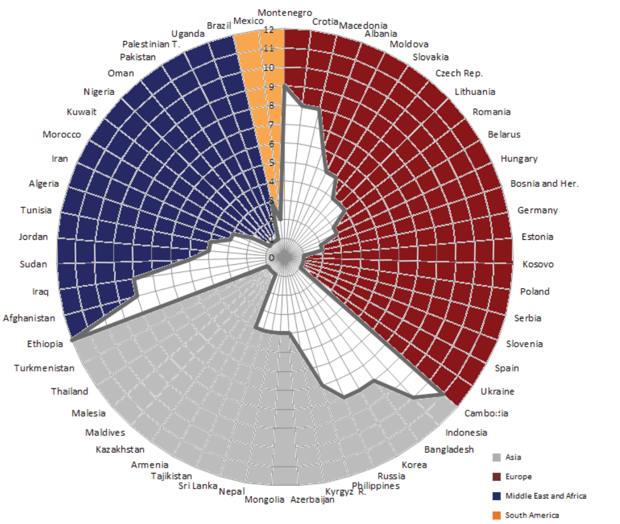
One of the working papers that appeared in the CBRT's Working Paper series in the second half of 2015 is a paper titled *"Decomposition of Labor Productivity Growth: Middle Income Trap and Graduated Countries"* by Gökhan Yılmaz of the İMB. The paper explains why countries with middle per capita income levels cannot achieve satisfactory catch up with the advanced economies (a phenomenon also known as the middle income trap - MIT), while clarifying the relative importance of "human capital" and "structural transformation" for MIT. Yılmaz makes use of a methodology known as shift-share analysis that decomposes the labor productivity growth (output per worker) into gains due to within sector productivity improvements (proxy of human capital) and improvements due to reallocation of labor across sectors (proxy of structural transformation).

The paper documents that average labor productivity growth rates differ significantly among MIT and non-MIT countries. In general, MIT countries lag behind non-MIT countries mainly in terms of within-sector productivity gains. A sectoral analysis reveals that the most important sectors that widen the within-sector productivity growth gap between MIT and non-MIT countries are manufacturing and market services, respectively. In light of these findings, the paper concludes that MIT countries should focus on policies to increase human capital in order to achieve within sector productivity improvements with a special emphasis on manufacturing and market services.

From Courses and Seminars

The İMB organized five catalog-based training programs in the second half of 2015. A total of 110 participants from central banks and related policy institutions of 40 countries attended these events. Five of 40 countries participated in the İMB events for the first time in this period. **Overall, diversity among participants rose in 2015 to 55 countries, from 49 countries the previous year.**

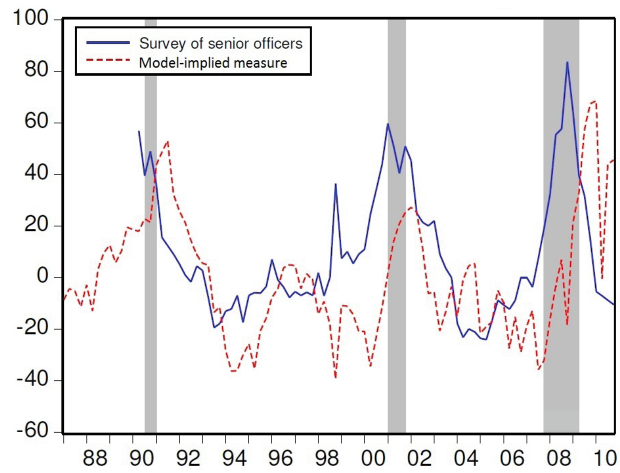
Catalog-Based Training Events, Participation by Countries (2015)



Offered the third time in a row, the seminar *"Short-term Forecasting at Central Banks"* introduced the use of some practical tools for short-term forecasting of inflation and GDP. Delivered by Mahmut Günay, Fethi Öğünç and Utku Özmen of the CBRT, this seminar was structured to combine theory and practice through extensive computer-based applications. This year, participants from Nepal, Romania and Slovakia presented the tools used in their own institutions as well.

Another course offered during the second half of 2015 was *"Introduction to Monetary Policy Modelling"*. Given by Salih Fendoğlu and Yasin Mimir from the CBRT, the course provided participants the opportunity to develop the ability to build, operate and interpret monetary policy models and conduct policy analysis. To this end, the course introduced the participants to workhorse quantitative macroeconomic models used for policy analysis from the basics. In addition to models in closed and open economy settings, the lectures focused on monetary policy models with financial market imperfections in non-financial and banking sectors, providing a framework to address issues directly relevant for monetary and macroprudential policies.

Index of tightening credit standards



Source: Fed

Highlights from the "Introduction to Monetary Policy Modelling" Course:

The figure above compares the index of credit tightness compiled by the Federal Reserve Board to a tightness measure of credit conditions implied by a quantitative model with financial frictions. An increase in these measures indicates the adverse changes in bank lending to non-financial businesses. The model-implied measure successfully explains the credit conditions experienced in the U.S. in the past decades, capturing the significant deterioration in the lending ability of the U.S. commercial banks in 1990-91 and 2007-09 recessions. Incorporating financial frictions into quantitative models used for policy analyses might provide valuable information about the state of the financial side of an actual economy.

Moreover, the participants gained a working experience of using Matlab and Dynare by conducting computer-based exercises for each family of models.

What Participants Think about the İMB Events:

Short-term Forecasting at Central Banks

- *"The training was useful to my country to make addition models and improve our previous works based on the experience."*
- *"The subjects and the methods of teaching were structured well and were able to keep me focused, interested and motivated to keep learning more about these topics in the future."*

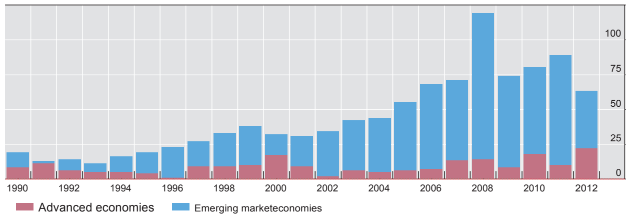
Introduction to Monetary Policy Modelling

- *"Computer exercises have completed the excellence of this workshop."*
- *"The program has been very helpful to me and I gained a deeper appreciation of MP modelling."*

The İMB offered the seminar *"Prudential Supervision and Macroprudential Regulations"* for the first time in 2015 considering the increased necessity to improve supervision of banks in most countries as the global financial crisis revealed. The seminar presented the latest developments in the regulatory framework, tools, methodologies and new approaches of the supervision of banks covering both on-site and off-site aspects. The seminar also discussed global best practices in the design and implementation of macroprudential frameworks, the main instruments employed, the efficiency of these policies and their interactions with other economic policies. Participants from Albania, Hungary, Russia, and Sudan presented their country experiences regarding supervisory policies and macroprudential instruments at the end of the seminar.

***Use of macroprudential measures over time*[1]**

Number of macroprudential policy actions



[1] The sample covers 1,034 macroprudential policy actions adopted in 64 countries (29 advanced and 35 emerging market economies). The database has been constructed using information in Kuttner, K N and I Shim (2013): "Can non-interest rate policies stabilise housing markets? Evidence from a panel of 57 economies", BIS Working Paper Series, No 433, November; and Lim, C H, I Krznar, F Lipinsky, A Otani, and X Wu (2013): The Macroprudential Framework: Policy Responsiveness and Institutional Arrangements, IMF Working Paper No. 166.

Source: IMF, BIS

Highlights from the "Prudential Supervision and Macroprudential Regulations" Seminar:

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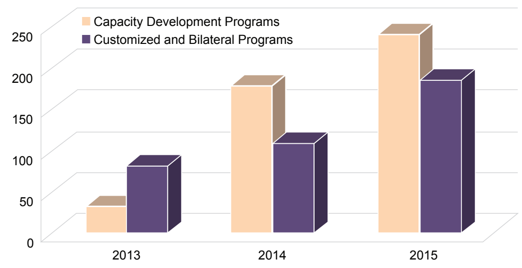
Reflections on the İMB Events

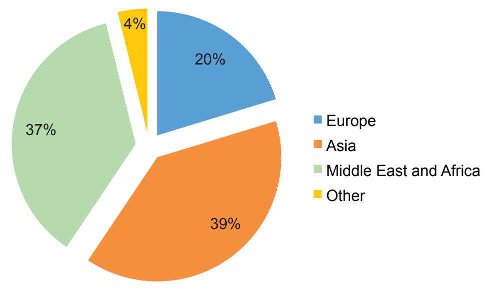
Since its opening in April 2013, the İMB has organized 24 capacity development programs (seminars, courses and workshops) and 57 customized and bilateral technical cooperation programs. These programs were on various central banking topics and attracted central bankers and economists from all around the world.

Figure: Number of Countries that Participated in the İMB Programs



In 2015, the İMB organized 26 bilateral technical cooperation programs on a diverse set of topics ranging from developing foreign exchange and money markets to library and intellectual resources management. The events pertaining to the CBRT's experience in transitioning its monetary policy to an inflation targeting regime has been especially productive. Forecasting macroeconomic variables and use of these estimates in policy decisions has proved to be important once more by igniting vivid discussions among program participants.

Figure: Participation in the İMB Programs in 2013-2015 by Region

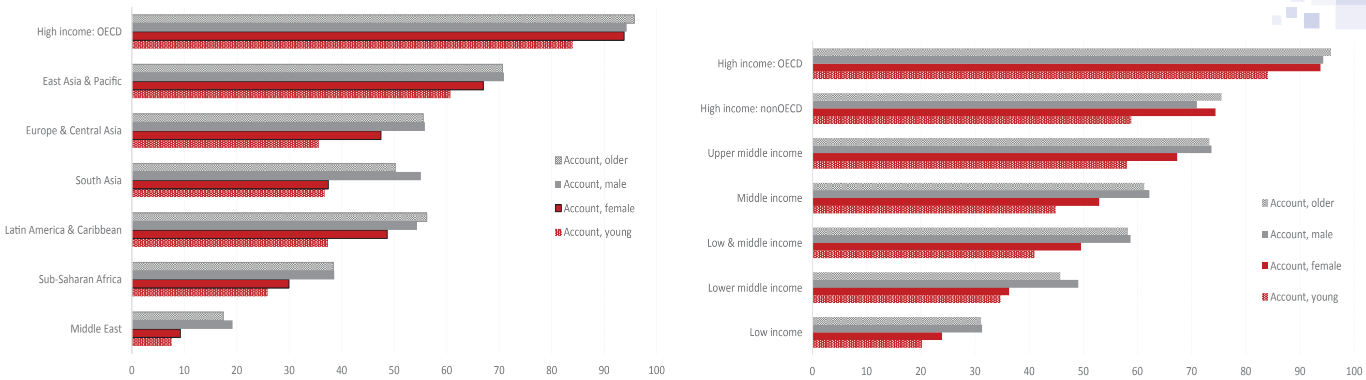


In addition to the aforementioned events, the İMB is working on developing new mediums to enhance experience sharing across central banks. To this end, the CBRT will start on-site training programs for the participants in the seminars that will take place after these events. **In 2016, the İMB will accept online applications from participants who are interested in attending a one-week on-site training at the CBRT's Head Office in Ankara after the *"Balance of Payments and External Statistics"* seminar.** The training will be available for a limited number of people among the participants of the BOP seminar.

Snapshot: Financial Inclusion

Turkey held the G20 presidency in 2015. Financial inclusion was one of Turkey's G20 Presidency priorities (see Global Partnership for Financial Inclusion Turkish 2015 Priorities Paper). Improving access to finance is crucial as it is directly linked to economic development as well as political stability. Especially women and youth are of special interest as discussed in the first page. The figures below show how account ownership differs across age and gender in different parts of the world, divided by region or income.

Figure: Account Owners as a Percentage of Adult Population



Source: World Bank

Events from the İMB Catalog 2016

The İMB organizes activities in five main categories: seminars, workshops, customized and bilateral programs, on-site training, and visiting programs. The İMB will organize nine **seminars** and four **workshops** in **2016**.

The 2016 İMB catalog has been published. For details please visit the İMB website: imb.tcmb.gov.tr

SEMINARS	DATES
Internal Audit Practices at Central Banks	April 6 - 8
Balance of Payments and External Statistics	April 26 - 29
Financial Stability, Financial Crises and Monetary Policy	May 2 - 6
Payment Systems and Instruments	September 5 - 8
Prudential Supervision of the Banking Sector and Macroprudential Regulations	September 19 - 23
Financial Markets and Instruments	October 10 - 12
Survey Design and Implementation	October 31 - November 2
Short-term Forecasting at Central Banks	November 7 - 11
Introduction to Monetary Policy Modelling	December 5 - 9

WORKSHOPS	DATES
Human Resources Management at Central Banks	March 23 - 25
The 15th Regional Payment Systems Workshop	May 17 - 20
Monetary Policy Workshop	May 26 - 29
Sectoral Financial Accounts Workshop	June 1 - 3

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Istanbul School of Central Banking
Fener Kalamış Cad. Atlıhan Sok. No:30/A
34726 Fenerbahçe-Kadıköy Istanbul, Turkey
+90 216 542 31 00
+90 216 542 31 34
imb@tcmb.gov.tr
http://imb.tcmb.gov.tr