Erdem Başçi: Financial stability and Turkey's achievements to date

Welcome speech by Mr Erdem Başçi, Governor of the Central Bank of the Republic of Turkey, for the 17th International Conference of Banking Supervisors, Istanbul, 13 September 2012.

* * *

Distinguished Deputy Prime Minister, Esteemed Guests and Distinguished Members of the Media,

Welcome to Istanbul and to the 17th International Conference of Banking Supervisors jointly hosted by the Central Bank of the Republic of Turkey and the Banking Regulation and Supervision Agency of Turkey.

In my speech, I will try to summarize the importance we attach to financial stability and the achievements we have made up to date.

Dear Guests,

There are three essential factors that determine the growth potential of a country; these are price stability, financial stability and productivity. Any weakness in any of these three factors may cause considerable damage to growth. The history of economics is teeming with examples of this.

The social costs of loss of price stability are now very well known by economists. Academic studies indicate that an inflation rate that is on average higher by 10 percentage points leads to a reduction in the GDP growth rate an average of a quarter point.1

Meanwhile, the loss of financial stability has deep and long-term impacts on growth and employment.2 The cost of preventing a financial crisis is much lower than the cost of the crisis itself. Turkey's recent history is a very good example of this statement. The economic crisis, which Turkey went through in 2001, increased the country's sovereign debt by 30 percentage points, and severely affected growth and employment prospects. As of 2002, Turkey focused on establishing price stability, financial stability and introducing structural reforms aimed at increasing productivity. As a result, while the country's economic prosperity grew at a rapid pace, the financial sector gained a structure resilient to external shocks.

The steps taken towards fostering financial stability helped Turkey recover rapidly after the 2008–2009 global financial crisis and it weathered the European sovereign debt crisis of 2011–2012 with minimum damage.

Distinguished Guests,

The primary objective of the Central Bank of the Republic of Turkey is to achieve and maintain price stability. Besides price stability, contributing to financial stability within the limits of its purview has been also listed among the primary duties of the Bank.

Comprehending the importance of systemic risk along with macroprudential measures to mitigate this risk to ensure financial stability has necessitated reconsideration of the regulatory framework at global level. The enforcement of the Dodd-Frank Act in the US and the European Systemic Risk Board (ESRB) in Europe as well as new regulations introduced in other countries aim to mitigate systemic risk by means of macroprudential measures. In

[1] Barro, Robert J. (1995). "Inflation and Economic Growth." NBER Working Paper Series, No: 5326.

[2] Reinhart, C. M. and Rogoff, K. S. (2008). "This Time is Different: A Panoramic View of Eight Centuries of Financial Crises," NBER Working Papers, No. 13882; Taylor, A. (2012). "The Great Leveraging," NBER Working Papers, No. 18290.

this context, Turkey established the Financial Stability Committee in 2011. Along with the Central Bank, the Committee is composed of the Banking Regulation and Supervision Agency, the Capital Markets Board of Turkey, the Savings Deposit Insurance Fund and the Undersecretariat of Treasury.

Distinguished Guests,

Now I would like to briefly mention Turkey's contributions to global financial stability. Turkey became a member of the Financial Stability Board (FSB) in 2009. In 2014, Turkey will participate in G20 Troika and assume Presidency of the G20 in 2015. During the period from 2014 to 2016, when Turkey will be taking part in G20 Troika, our representative from the Undersecretariat of Treasury will be assigned to the FSB Steering Committee.

Turkey became a member of the Basel Committee on Banking Supervision (BCBS) and the Group of Governors and Heads of Supervision (GHOS) in 2009. The Central Bank of the Republic of Turkey will participate in the FSB Steering Committee during the period 2013–2015 when it will be chairing FSB Regional Consultative Group for the Middle East and North Africa (MENA).

The New Constituency group, formed upon an agreement signed within the International Monetary Fund (IMF) governance reform framework, includes Austria, Hungary, the Czech Republic, Slovakia, Slovenia, Belarus and Kosovo along with Turkey. According to this agreement, during the periods of 2014–2016 and 2018–2020, Turkey will assume the Executive Director position on behalf of the group for two-year terms.

At the latest G-20 meeting held in Los Cabos, a number of emerging market countries including Turkey declared their intention to contribute to global financial stability by increasing the resources of the IMF. The Central Bank of the Republic of Turkey will contribute to IMF resources up to USD 5 billion, to be counted as part of its international reserves.

Distinguished Guests,

The Central Bank of the Republic of Turkey will continue to play its part in order to achieve and maintain price stability and to contribute to financial stability in the upcoming period.

I believe that this two-day-meeting will be both fruitful and beneficial in terms of contributing to global financial stability. I would like to take this opportunity to welcome once more all distinguished participants to Istanbul. Thank you.