

## **Erdem Başçı: Central bank responsibilities, global financial stability and payment systems**

Opening remarks by Mr Erdem Başçı, Governor of the Central Bank of the Republic of Turkey, at the “Payment Systems Conference”, organized by Al Bank Wal Mustathmer Group, Istanbul, 5 December 2012.

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Distinguished Governors of the Central Banks, Distinguished Guests and Esteemed Members of the Press,

I would like to thank you all on behalf of the Central Bank of the Republic of Turkey and myself for your participation in the “Payment Systems Conference” organized by Al Bank Wal Mustathmer Group. Welcome to İstanbul and Turkey.

Participants to the conference, who are all experts in the field, will be discussing payment systems, their significance and contemporary approaches. Before moving onto the topic of payment systems, I would like to briefly mention the main responsibility areas of central banks.

Distinguished Guests,

Price stability, financial stability and the development of the financial sector are three significant fields central banks are responsible for, either partially or fully.

The primary objective is price stability. The social costs to be incurred from the loss of price stability have been thoroughly understood by economists. Academic studies indicate that an inflation rate that is on average higher by 10 percentage points may cause, on average, a quarter point decrease in the long term growth rates of the countries.<sup>1</sup> While the average inflation rate in Turkey during 1974–2003 – the period with chronically high inflation rates – was 56%; average real growth per person was a mere 2%. On the other hand, during the period of 2004–2011, when inflation was expressed with single digits, average real growth per person increased to 3.3%. Our inflation target for the 2013–2015 period is set as 5%.

Loans, exchange rates and inflation expectations are three crucial variables that are the determinants of price stability. Therefore, decreasing excessive volatility in the credit growth rate and exchange rates highly contributes to price stability.

The second area of central bank responsibility is financial stability. The loss of financial stability has deep and long-term impacts on both growth and employment.<sup>2</sup> 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 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 economic prosperity of the country increased rapidly, the financial sector gained resilience to exogenous shocks. The Central Bank developed new tools and introduced new policies to facilitate a stable course in both exchange rates and credit growth and hence, helped the rapid recovery of our country from the deepening of the global financial crisis during 2008–2009; and enabled it to weather the European sovereign debt crisis of 2011–2012 with minimum damage.

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<sup>1</sup> Barro, Robert J. (1995). “Inflation and Economic Growth.” NBER Working Paper Series, No: 5326.

<sup>2</sup> Reinhart, Carmen M., and Kenneth S. Rogoff. (2009). *This Time is Different: Eight Centuries of Financial Folly*. Princeton, NJ: Princeton Press.; Taylor, A. (2012). “The Great Leveraging,” NBER Working Papers, No. 18290.

Loans and exchange rates are the two main variables, which are significant for not only price stability, but also financial stability. Therefore, decreasing excessive volatility in the credit growth rate and exchange rates underpins financial stability.

Distinguished Participants,

Now I would like to touch upon the contributions of Turkey to global financial stability. Turkey became a member of the Financial Stability Board (FSB) in 2009. It will take part in G20 Troika in 2014 and assume the Annual Presidency of the G20 in 2015. Moreover, Turkey's representative from the Under secretariat of Treasury will be assigned to the FSB Steering Committee during the 2014–2016 period when Turkey will be in G20 Troika.

Moreover, 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 take part in the FSB Steering Committee during the period 2013–2015 when Turkey will be chairing the FSB Regional Consultative Group for the Middle East and North Africa (MENA).

As part of the governance reform of the International Monetary Fund (IMF), a New Constituency was established with the countries Turkey, Austria, Hungary, the Czech Republic, the Slovak Republic, Slovenia, Belarus and Kosovo. According to this agreement, Turkey will assume the Executive Director position for a two-year term between 2014–2016 and 2018–2020.

At the G-20 meeting held in Los Cabos a number of emerging market economies 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 intends to contribute to IMF resources up to USD 5 billion, which will be counted as part of Turkey's international reserves.

The duties and responsibilities of central banks with regard to payment systems have to do with the development of the financial sector, which is the third main field. Efficient payment systems contribute to the deepening of financial markets by decreasing operation costs and settlement risks. Therefore, the active role assumed by central banks in the design, operation and oversight of payment systems becomes more crucial given the size of the global financial system. Hence, in line with the global trends in this field, the Central Bank of the Republic of Turkey cooperates with the Turkish financial system for the advancement of payment systems. In this regard, significant progress has been made in the restructuring of payment systems operating under the auspices of the Central Bank.

The oversight of payment systems operating outside the Central Bank also rests with our Bank. Considering the need for a regulation on general standards including all payment services and systems in Turkey, the Bank prepared a "Draft Law on Payment Systems", which also complies with the European Union acquires, and the draft law has been submitted to the relevant institutions and agencies to hear their views. Once the draft law has been addressed at the Grand National Assembly of Turkey and as soon as the law has been revised in line with the views of the relevant institutions, an important step will be taken to reshape the legal framework on payment systems in harmony with the international standards.

Esteemed Guests,

The Central Bank's membership of the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) was finalized in 2009. In this platform setting key global principles and standards related to payment and settlement systems Turkey is represented by the Central Bank, which is actively involved in the studies conducted.

In parallel with the said efforts, a joint study was carried out with the Committee on Payment Settlement Systems (CPSS) and International Organization of Securities

Commissions(IOSCO)and “Principles for Financial Markets Infrastructures(FMI)”, which covers payment systems of systemic significance, settlement systems for securities, central custodians, central counterparties and transaction registry centers. This study was published in April 2012.

The said study outlines 24 principles for the relevant authorities of FMIs and 5 key responsibilities for overseers and supervisory authorities. The main objective of all these principles and responsibilities is to create a more secure and efficient structure for authorities of FMIs that also includes payment systems. In this regard, I think that all authorities related to payment systems will do their utmost to achieve harmonization of these systems and apply the said principles in the near future. Further international studies carried out in this field will focus on the implementation of these 24 principles.

Distinguished Participants,

Cross-border connections of payment systems progressively gain importance in line with the increase in the volume of foreign trade. In the meantime, studies geared towards developing the international payment systems continue all around the world. I think this conference will significantly contribute to these studies and I very much hope that it will be a useful and fruitful conference. I would like to thank you all for listening.