Erdem Başçi: Global finance in transition

Keynote speech by Mr Erdem Başçi, Governor of the Central Bank of the Republic of Turkey, at the conference on “Global finance in transition”, Istanbul, 7 May 2013.

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Esteemed participants, distinguished guests,

Welcome to the conference on “Global Finance in Transition”, held under the Russian G20 presidency and hosted jointly by the Reinventing Bretton Woods Committee (RBC) and the Central Bank of the Republic of Turkey (CBRT). In this conference, we will be analysing and discussing with experts, the structural changes in global finance experienced as of 2008. In these opening remarks, I would like to briefly point out the impact of these changes on emerging market economies.

Three fields have undergone significant changes in the aftermath of the 2008 crisis: fiscal policies, monetary policies and financial sector policies. These changes have had significant subsequent impacts on global finance.

As for the fiscal policies; those of the emerging market economies differ considerably from the fiscal policies of the advanced economies. Automatic stabilizers did cause emerging market economies to have wider budget deficits temporarily in 2009. Yet, EME’s sovereign debt has been very low compared to that of advanced economies, and still on a downward trend since 2010.

Emerging market and advanced economies diverge in terms of monetary policies as well. Since there has been no deterioration in their money multipliers, central banks of emerging market economies have not felt the urge – experienced by their counterparts in advanced economies – for an unconventional broadening in their money bases.

Esteemed participants, distinguished guests,

In emerging market economies, the gradual alleviation of the pressure on financing sources – caused by public sector demand – has provided significant room for the private sector to invest in physical capital. These investments have enabled – via capital markets and the banking system – the use of both domestic as well as foreign savings. These shed light on the importance and prominence of institutional capacity and financial infrastructure for financial stability.

Smoothly functioning payment and settlement systems is the first and foremost significant requisite for strengthening financial infrastructure in emerging market economies.

The existence of both a stock market backed by a strong capital market and also a bond market in local currency is also essential.

Another important structural factor is a sound banking system. An adequate legal infrastructure, strong capital structure and confidence-based management are the prerequisites for such a system.

Distinguished guests,

A strong infrastructure is a “necessary-but-not sufficient” component of financial stability. Another “sine qua non” for more stable global capital flows is developing and implementing a macroprudential policy framework, and emerging market economies have taken important steps in this direction in the post-2008 period.

Benefits and likely risks brought by this major transition in global finance will be discussed in length over the next two days by academicians and policymakers in six different sessions. I believe that this conference will produce fruitful and beneficial outcomes for global financial stability.

I would like to thank our participants and distinguished guests for their contributions and for being here with us.