



Republic of Turkey Undersecretariat of Treasury

Capital Flows The Case of Turkey

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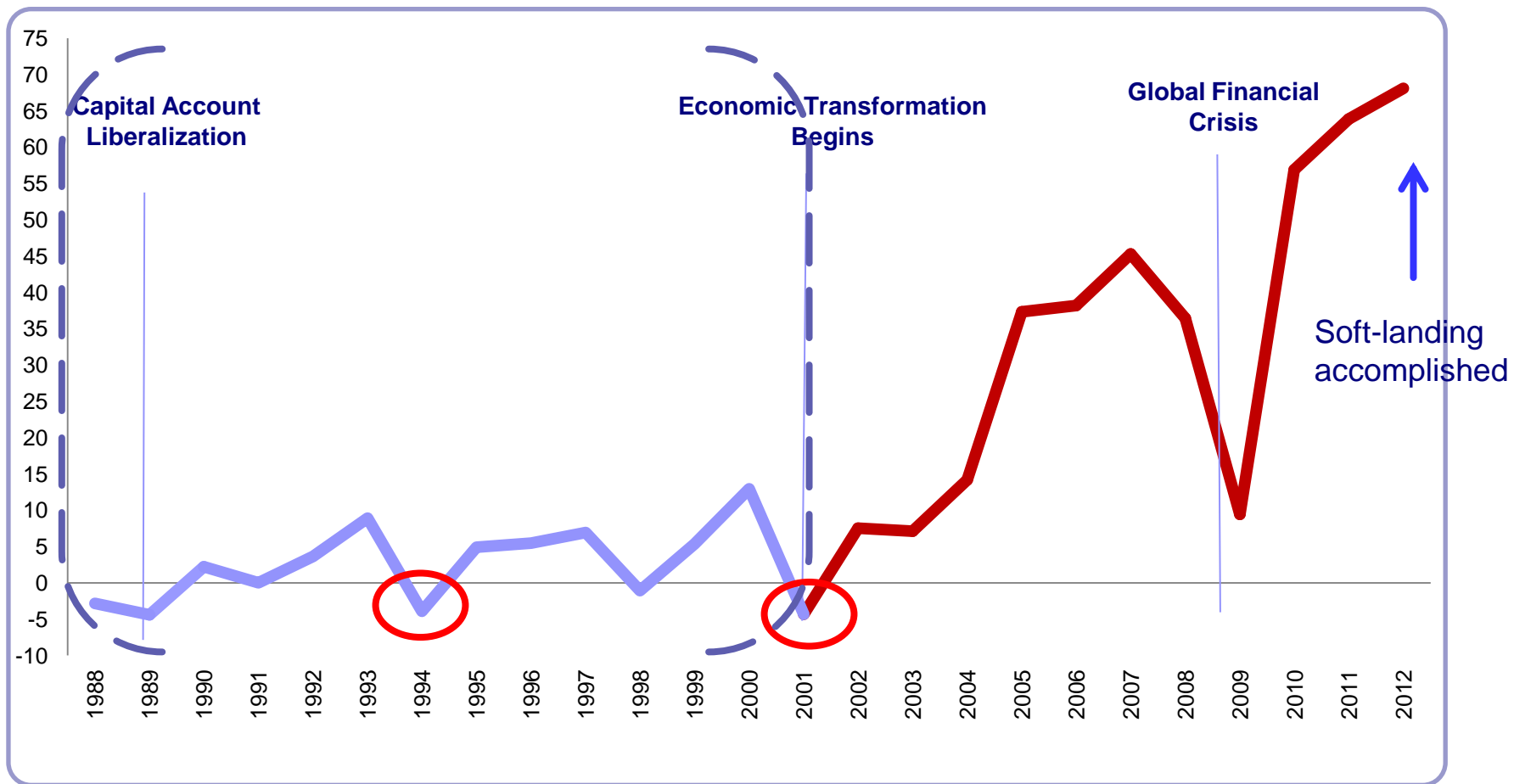
1st MEETING OF THE COMCEC FINANCE WORKING GROUP
12 December 2013
Ankara



OUTLINE

- Capital Account Liberalization
- Transformation Era
- Reform Agenda

Net Capital Flows (Billion USD)



Highlights of This Era (1989-2001)

- Budget deficit widened further
- Fiscal dominance and thus ineffective monetary policy
- Financial system's inability to absorb shocks
- Shallow local currency bond market
- Real exchange rate misalignment due to crawling peg system in a high inflation environment
- Short term and volatile flows

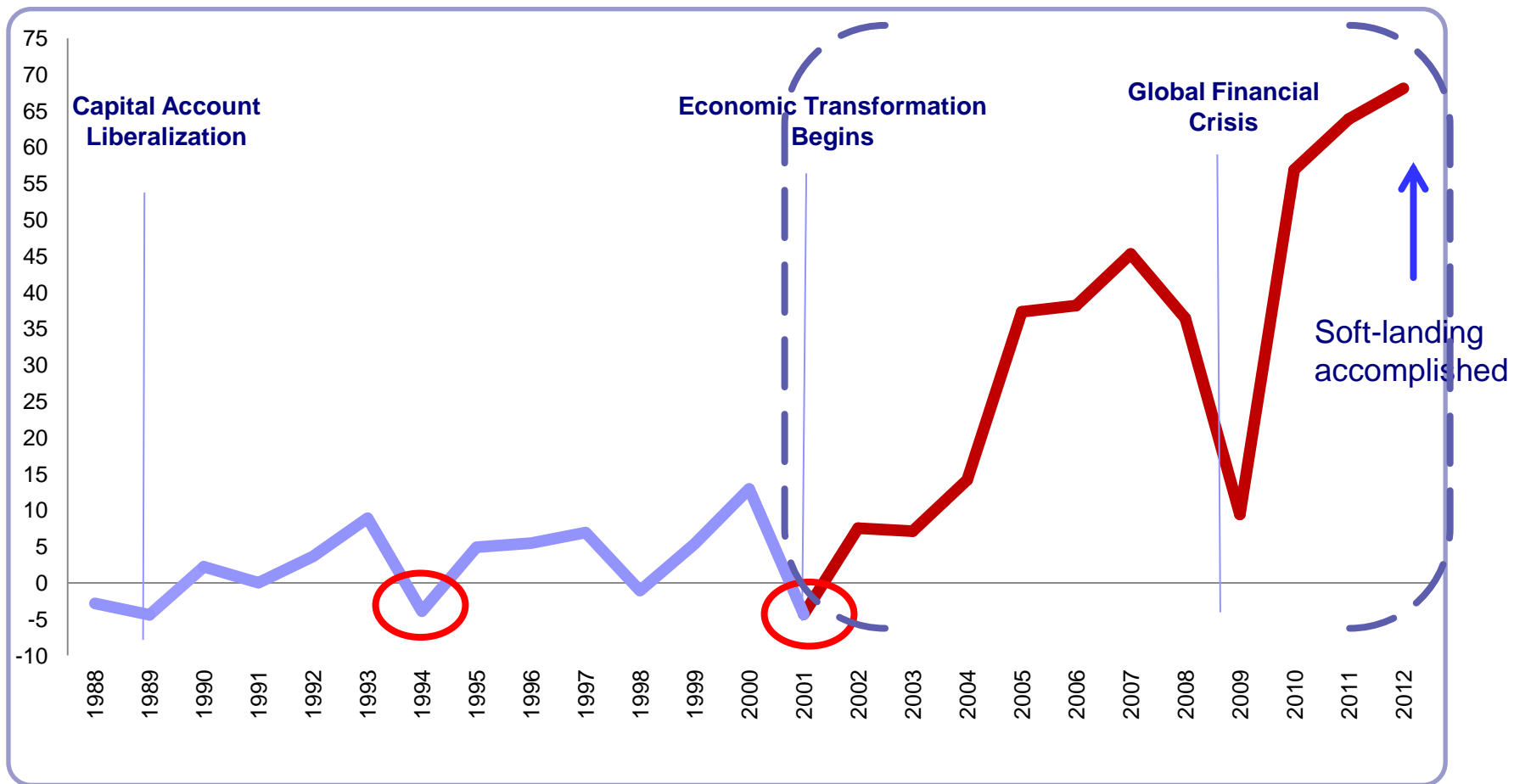
Preconditions for safe liberalization*

- Stable macroeconomic and financial conditions that also support flexibility
- Financial sector capacity to absorb inflows
- Ability of financial sector to deal with increased capital flow volatility
- High standards of governance and disclosure
- Strong financial sector regulatory standards and effective supervisory framework
- Strong policy track record

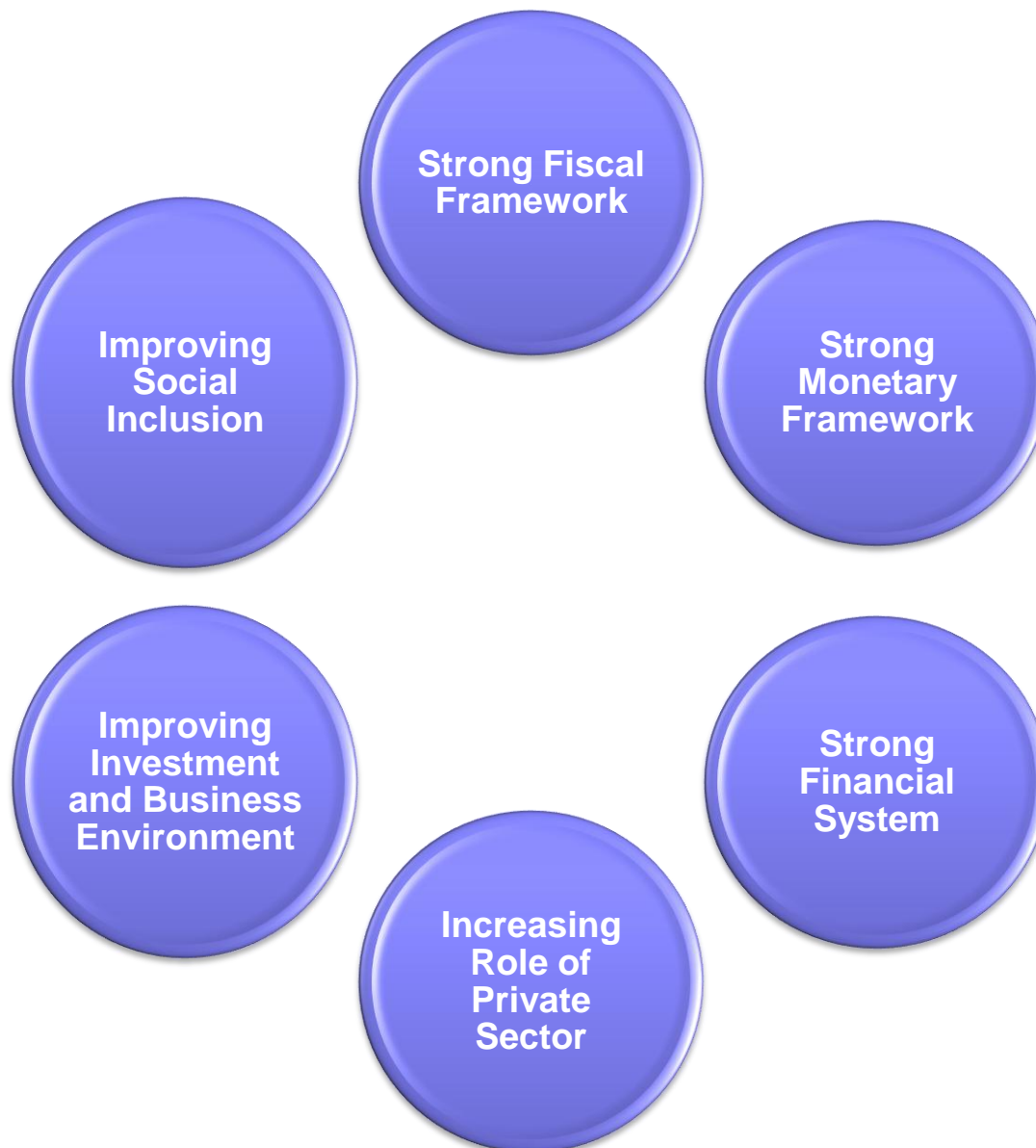
Policy Lessons from Turkey's Experience For a Successful Capital Account Liberalization

- A strong and well capitalized banking system should be enhanced
- No fiscal dominance
- Well regulated capital markets so as to reduce the volatility created by capital flows
- Introducing rules and regulations that encourage long term investments and FDI

Net Capital Flows (Billion USD)



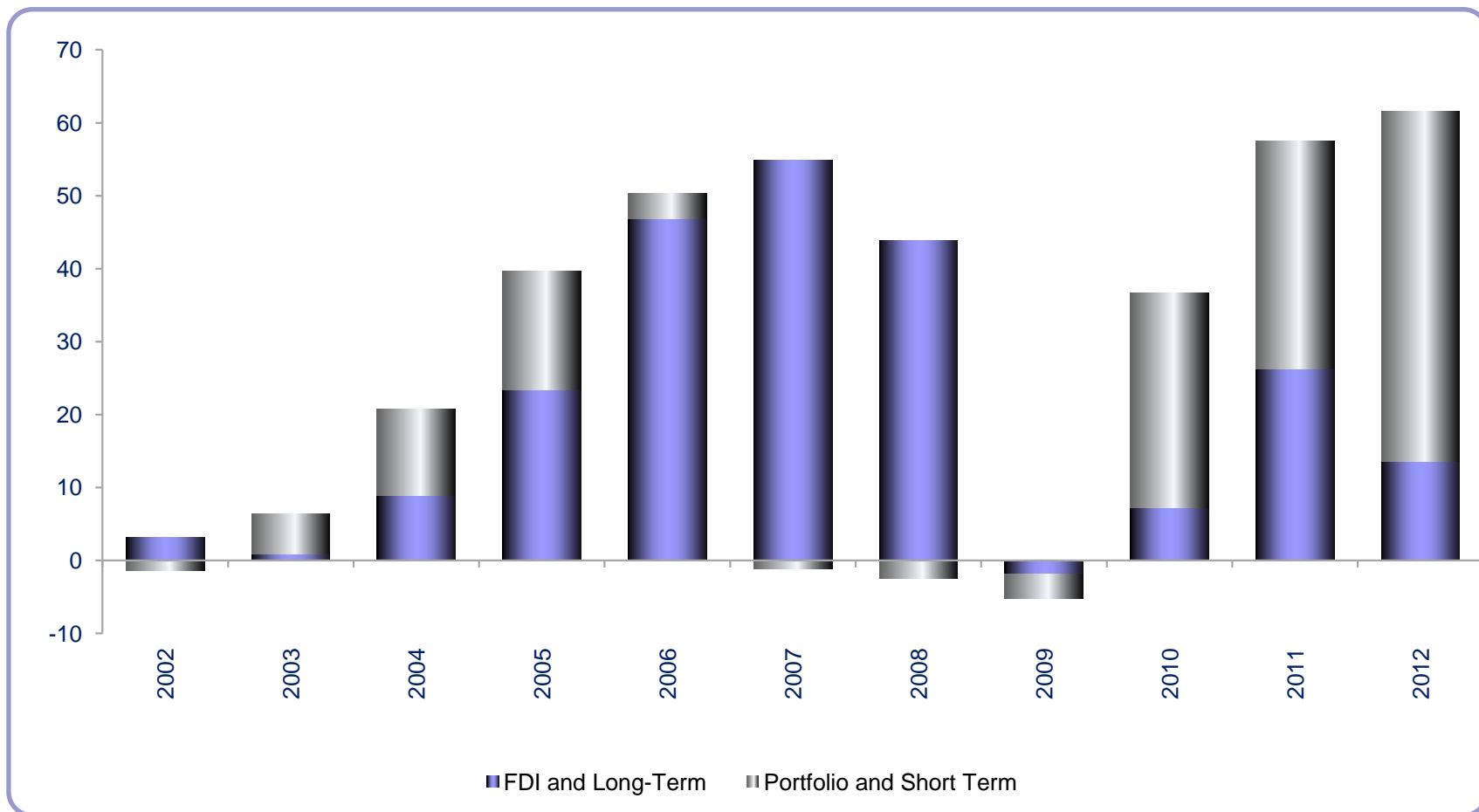
Key Ingredients for Successful Transformation



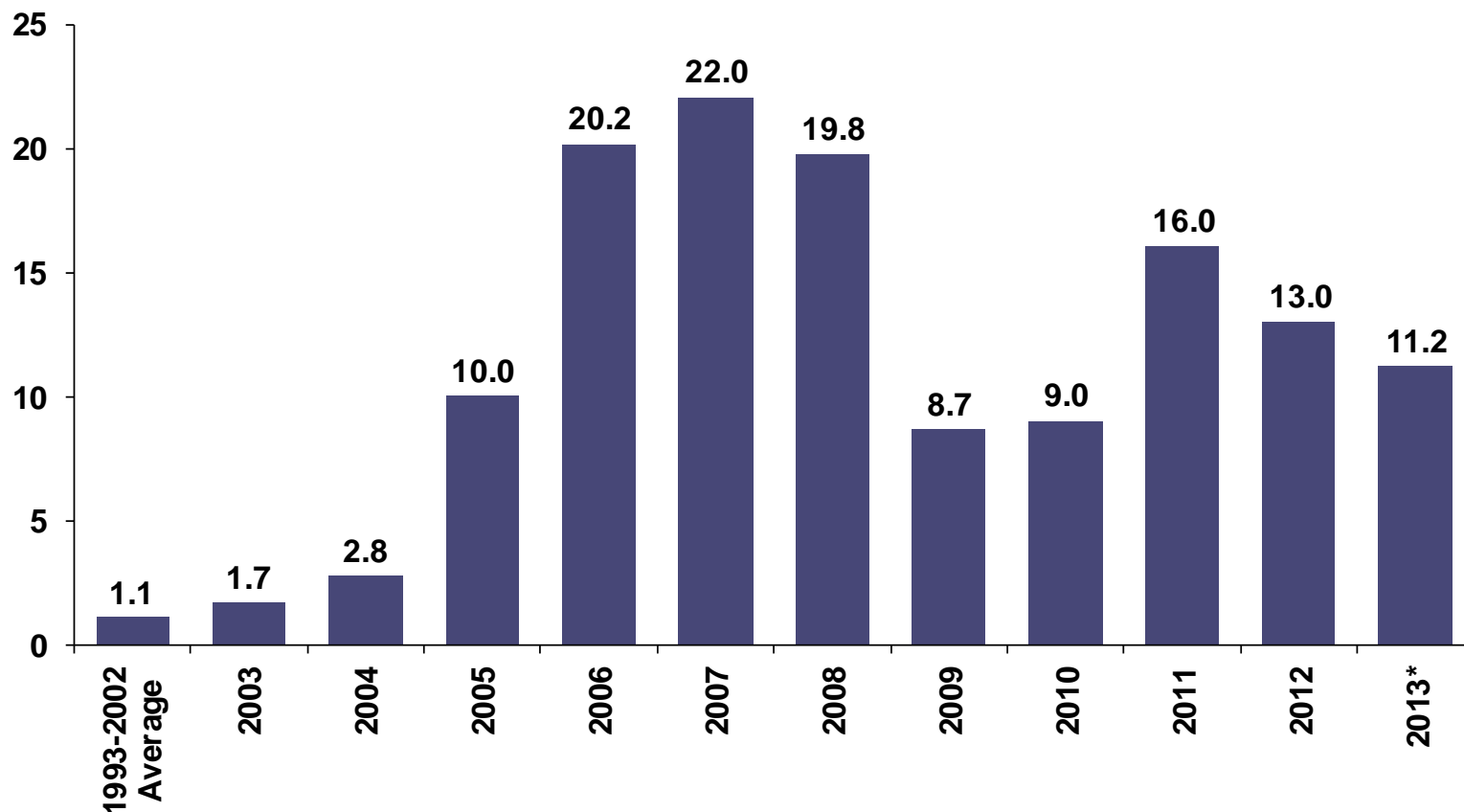
Key Indicators of Turkey's Economic Transformation (2002-2012)

CPI Inflation	• Decreased from 29.8% to 6.2%.
GDP per capita	• Increased from \$3,492 to \$10,504.
Exports	• Increased from \$36.1 billion to \$152.5 billion.
FDI	• Increased from \$1.1 billion to \$13 billion.
Debt Level	• EU defined general government gross debt stock decreased from 74% of GDP to 36.2%.
Budget Deficit	• Central government budget deficit decreased from 11.5% of GDP to 2.1%.

Capital Inflows (Billion USD)

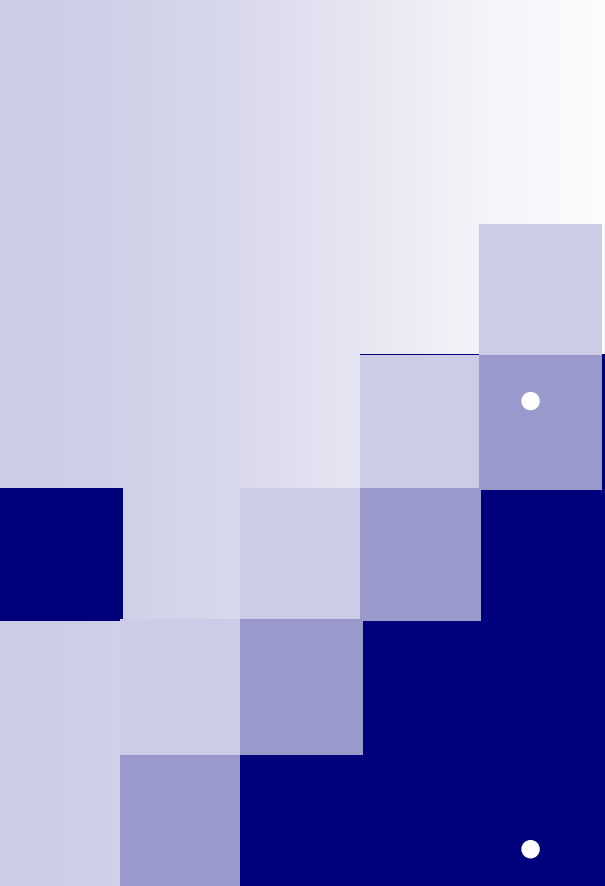


Foreign Direct Investment Inflows (Billion USD)

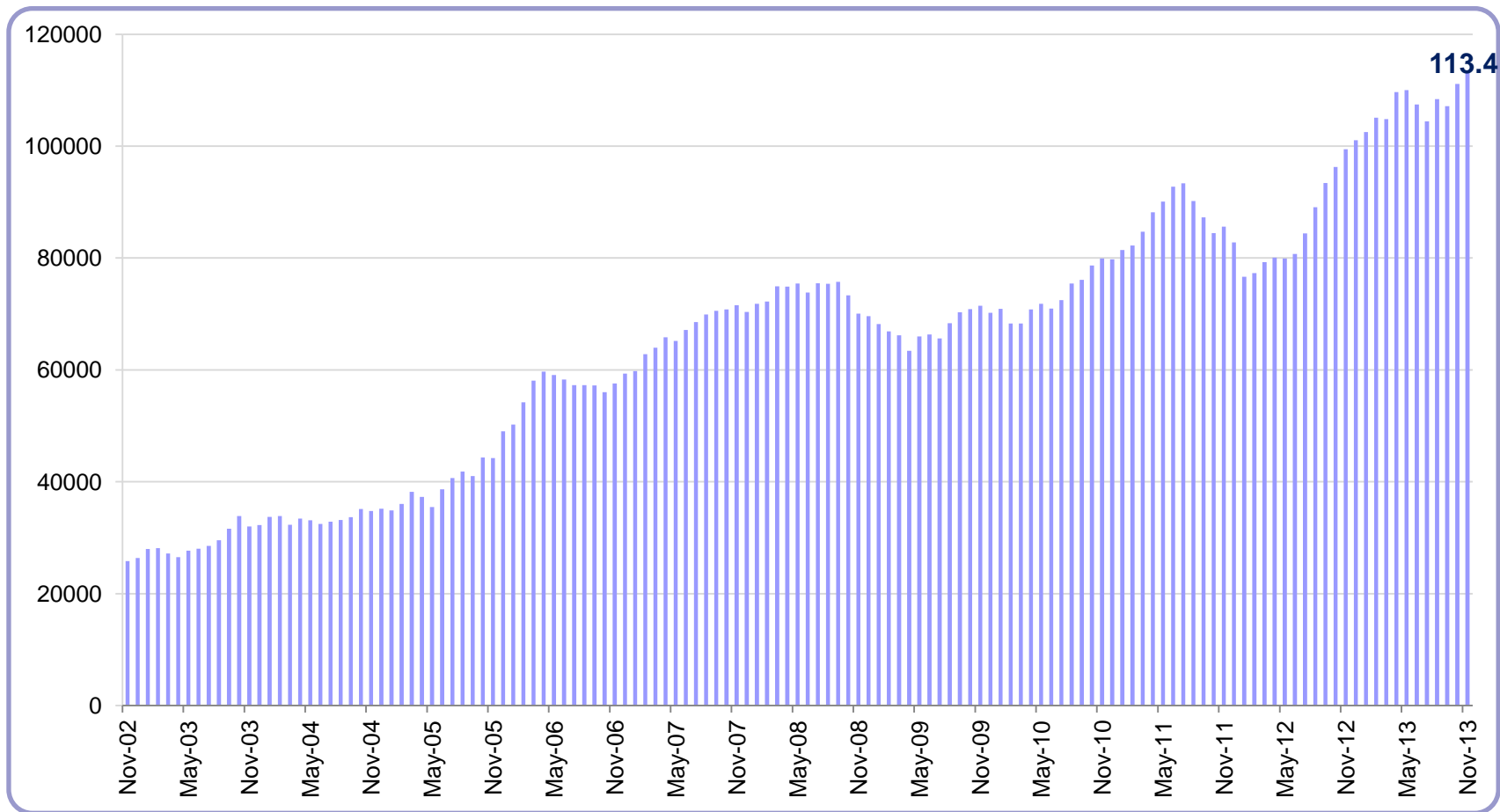


(*) Annualized as of September 2013

Source: CBRT

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- **A WELL DESIGNED POLICY MIX INCLUDING MONETARY AND MACRO-PRUDENTIAL POLICIES**
and
 - **STRUCTURAL REFORMS**

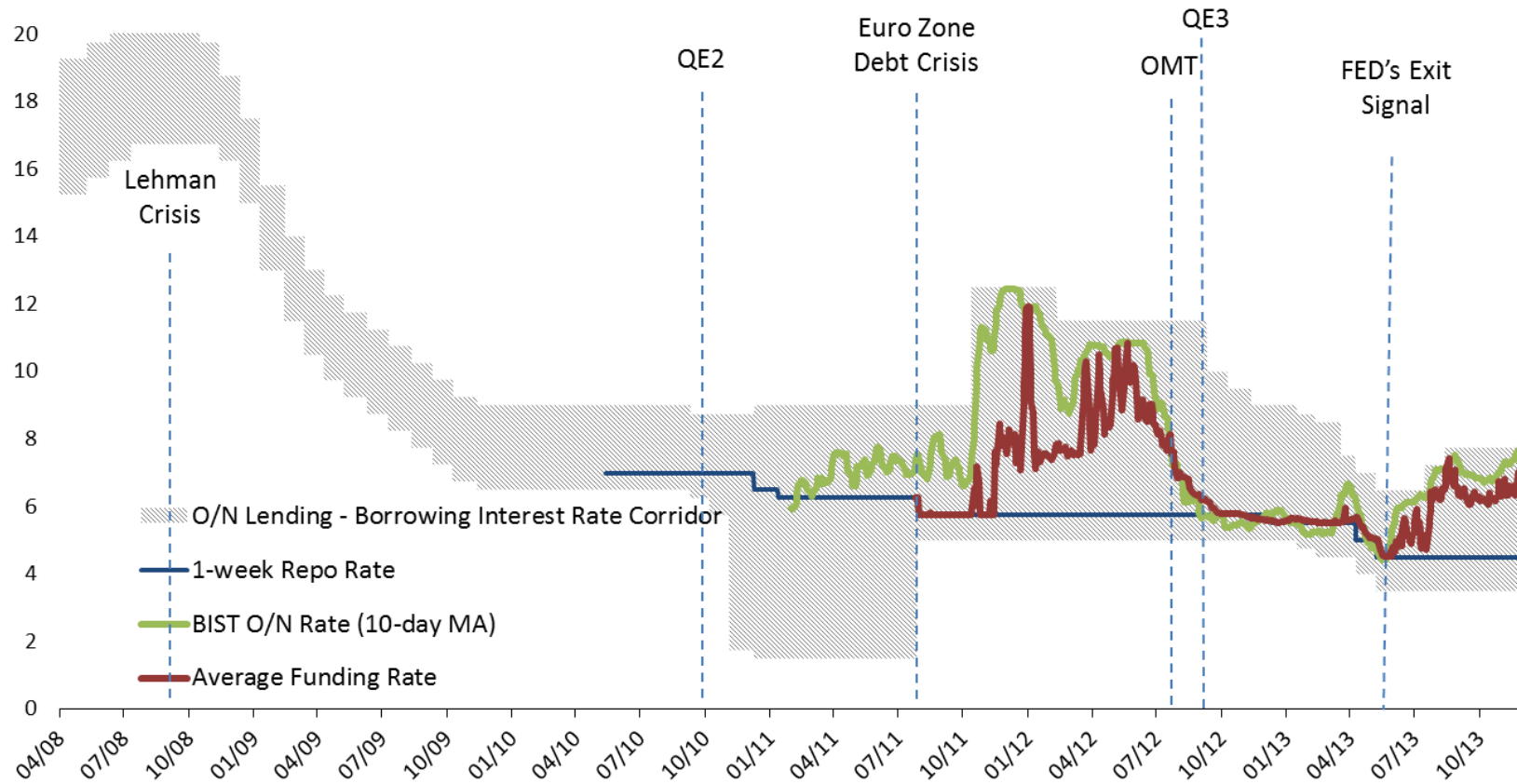
Central Bank's Gross FX Reserves (Billion USD)



(*) as of November 29, 2013.

Source: CBRT

Interest Rate Corridor and Average Funding Cost (CBRT, %)

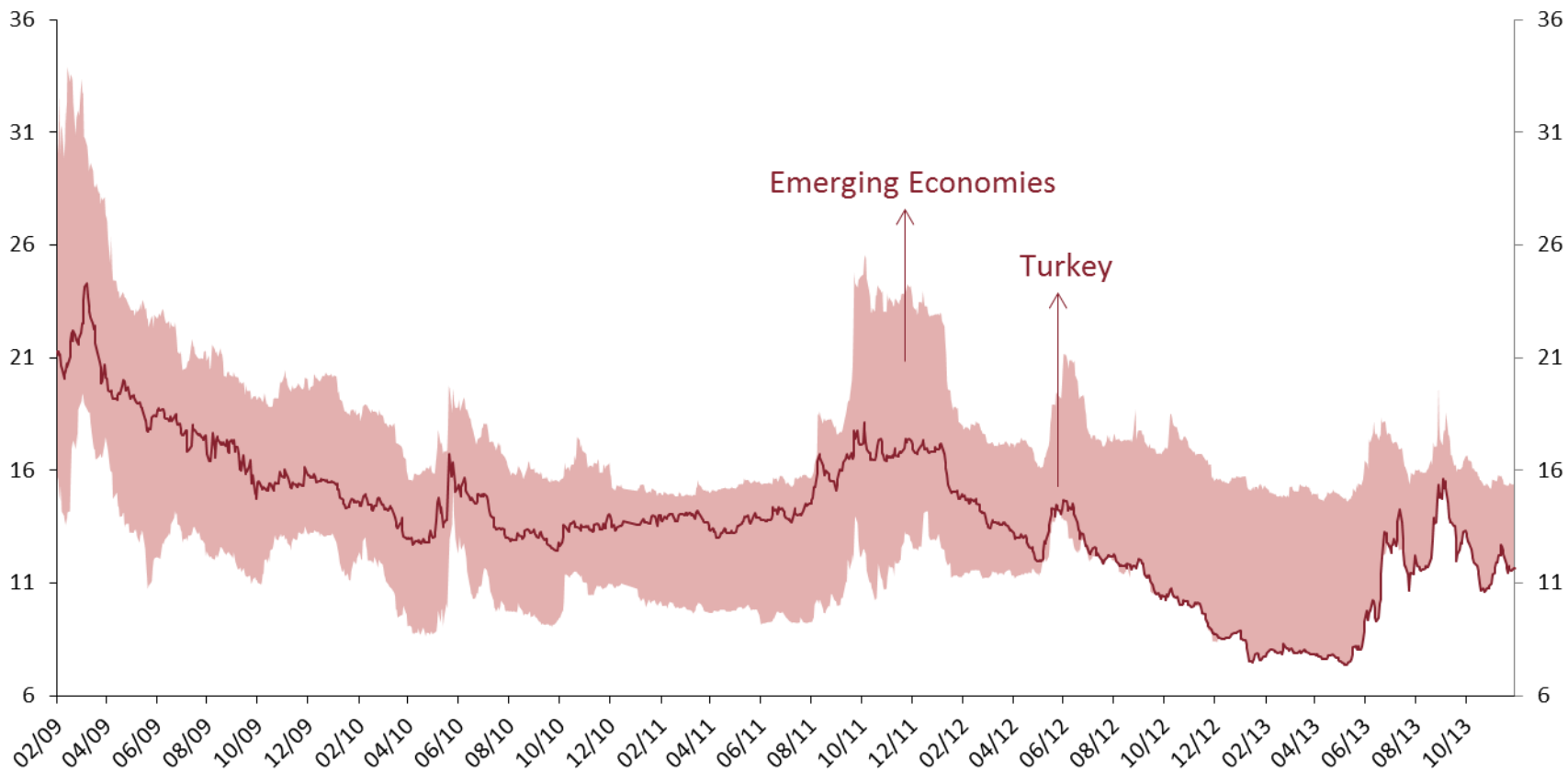


Source: BIST, CBRT

Last Observation: December 4, 2013

FX Volatility

(Percent, Implied for the next 12 months)



Source: Bloomberg, CBRT.

Emerging economies: Brazil, S. Africa, Indonesia and Turkey.

Last Observation: November 28, 2013

Structural Reforms - I

1) Structural Steps in 2012 & 2013

- ❑ New Commercial Code
- ❑ New Code of Obligations
- ❑ New Code of Civil Procedure
- ❑ New Capital Markets Law
- ❑ Borsa Istanbul
- ❑ New Law on Non-Bank Financial Institutions (Leasing, Factoring and Consumer Financing Companies)
- ❑ New Private Pension System (with direct state contribution)
- ❑ Natural Disaster Insurance Law
- ❑ Incentive System for Angel Investors
- ❑ Incentive System for Venture Capital
- ❑ Education Reform (4+4+4 years of compulsory education)
- ❑ Judicial Reform (The 4th package)

Structural Reforms - II

2) Structural Transformation Programs in 10th Development Plan

- ❑ Increasing Domestic Savings
- ❑ Energy Production Based on Domestic Sources
- ❑ Improving Energy Efficiency
- ❑ Supporting commercialization of R&D and Innovation
- ❑ Improving Business and Investment Environment
- ❑ Reducing Informal Economy
- ❑ Enhancing the efficiency of Labor Market Policies
- ❑ Improving Basic and Professional Skills
- ❑ Rationalizing Public Expenditures
- ❑ Increasing Quality of Public Revenues
- ❑ Istanbul International Finance Center

(*) Shows some selected programs out of 25 transformational programs included in the 10th Development Plan.

Last, but not least

- Cooperation and coordination among policy makers is crucial
- In Turkey,
 - Economy Coordination Board and
 - Financial Stability Committeehave played a great role in fostering cooperation and coordination among the economic and financial institutions.



THANK YOU

For further information

<http://www.treasury.gov.tr>

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