ADFIMI Development Forum 2013

Managing the risks:

Lessons learned from the crisis

Conrad Hilton | İstanbul | 07 November 2013

Global crisis of 2008 was considered to be the biggest financial economic and financial crisis since the 1930s.Although history suggests that financial crisis occur with monotonous regularity, since 1994, the frequency of financial crises seems to have increased considerably. As the crises developed so did the measures to respond to the crisis.

ADFIMI with a mission to provide networking and solidarity among the development finance institutions in the member countries of Islamic Development Bank was established with its headquarters in Istanbul, in 1986. It organizes training programmes, workshops, conferences and forums to fulfill its mission. It has over 50 members in 18 countries. In its regular annual development forum, ADFIMI has decided to review the experience gained in 'managing risks' during the latest global financial crisis.

All severe crises had necessitated focusing on two areas: the first, the coordination of the macroeconomic policies to come out of the crisis and, the second, the reform or redesign of international financial architecture. Hence the forum discussed "Limiting systemic risks through macro prudential policies" as well as issues pertaining to "redesigning the global financial system" by several experts on the subjects in two sessions.

ADFIMI also tries to recognize contributions made by the nationals of IDB member countries in development and development finance by conferring ADFIMI's honorary membership on such personalities. In 2012, Honourable Tun Mahathir, the fourth Prime Minister of Malaysia was conferred the same for his outstanding achievements in Malaysia's development. In 2013 HE Ali Babacan, Deputy Prime Minister of Turkey, was conferred the honorary membership for his masterly conduct of the Turkish economy during the global financial crisis. He inaugurated the Forum with a speech on 'Tackling of Global Financial Crisis'.

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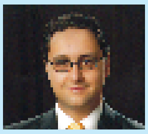
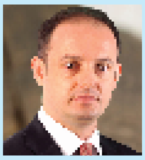
Welcoming remarks by Mr. M. Emin Özcan, Chairman ADFIMI,
Vice Chairman, Board of Directors, Vakıfbank, Turkey

Session 1 Theme: Limiting Systemic Risks: Macro Prudential policies; Rule Based vs Discretionary
Moderator: Mr. Ozan Cangürel, Deputy Chairman, Banking Regulation and Supervision Agency of Turkey



An overall evaluation
Mr. Sunil Sharma, Director of IMF – Singapore Training Institute

Experience of Turkey
Mr. Murat Çetinkaya, Deputy Governor, Central Bank of Turkey



Experience of Indonesia
Dr Luky Alfirman, Vice Chairman of Fiscal Policy Agency for Macroeconomics Policy, Ministry of Finance of the Republic of Indonesia

A view from Islamic Finance Perspective
Prof Datuk Rıfaat Ahmed Abdel Karim, CEO, International Islamic Liquidity Management Corporation, Kuala Lumpur, Malaysia

Inauguration and Keynote Address:
HE Ali Babacan, Deputy Prime Minister, Republic of Turkey
Tackling of Global Financial Crisis

Luncheon address: "Lessons learned by public banks from the global financial crisis: the case of Halkbank"
Mr. Süleyman Aslan, CEO, Halkbank, Turkey

Session 2 Theme: Redesigning the Global Financial System

IsDB Group's views
Sr. Kodeidja Malle Diallo, Director, Risk Mgmt. Department, Islamic Development Bank Group

Redesigning the Global Financial System
HE İbrahim Halil Çanakcı, Undersecretary of Treasury

Excerpts from

Inauguration Address

TACKLING OF GLOBAL FINANCIAL CRISIS*

H.E. Ali Babacan
Deputy Prime Minister of the Republic of Turkey

Valuable Chairman of ADFIMI,
Highly esteemed representatives of our institutions,

I greet you all with respect and affection...

... I welcome all our guests from abroad and wish that this meeting and discussions to take place throughout the day to be beneficial and productive for all the participants.

... As you know, the Islamic Cooperation Organization and the Islamic Development Bank are two very important institutions of the Islamic world...

... And at this point in time, the Islamic Development Bank Group has reached a figure of about USD 10 billion of annual support.

... Especially the last crisis that we witnessed in the world has shown that the interest-free financing methods are much more reliable, more stable, and in the end, give the results based on win-win relationship.

... Currently the Islamic finance system in the world has reached a volume of USD 1.5 trillion. ......In Turkey we started the Islamic finance system with the participation banks. ...Also in Turkey we created a participation index in the stock market... We started the private pension system...

... Sukuk issuance in Turkey started too late, unfortunately. We as the state, as the Treasury, did our first issuance of sukuk last year. But our first issuance was named the most successful issuance of the last year in the whole world...
... When this issue began to move in Turkey, ... the Islamic Development Bank has opened its first office in Turkey in Ankara, and ... last week the World Bank has opened a global Islamic Finance Development Centre for the first time and it was opened in Istanbul.
....In 2023, we would like to see Istanbul as one of the world's 10 most important financial centers...
Distinguished guests, dear participants,
....As you know, the global economic crisis, ongoing since 2008-2009 and affecting the entire world, is not over yet. There is a slight recovery in developed countries; they began to see some growth in the economy; it started first in the US; there are some improvements in Japan, it looks likely that we can see a positive growth in the Euro zone next year, at least it seems that way... In other words, we can not say that things have improved now and this crisis is over ... it is very important to be on the alert and cautious all the time.

When we look at the foundation of the problems, we see that many of the structural problems are actually still remain unsolved. ... That is why it is difficult to expect a recovery, a sustainable, lasting growth as long as these structural problems are not solved....It

* *Full text is available at www.adfimi.org*

is very important that the world makes a progress on social issues together with the growth... it is impossible for any economic policy that does not take people as the base or place people at the center, to be successful in the long run... it is very very important to pay attention to this financial sustainability of the growth.

Social sustainability is another important area of the growth... If at the end of the growth, rich become richer and poor gets poorer, then such growth may not socially benefit those countries…Does growth reduce poverty in that country? …There is a growth, but is this bringing improvement to the education system? Does it increase the quality of health-related services?... Energy, transport, information, communication – these are key issues. If their capacity is not developed in parallel with the growth rate of the country, then they may become an obstacle to the growth.

... I would like to give you brief information on what we have done in Turkey, what we are doing presently, as the world is going through such a per

In the last 10 years Turkey has managed to triple its national income in dollar terms and in terms of purchasing power parity, per capita national income in Turkey at the moment exceeds 17 thousand dollars. According to the World Bank's classification, Turkey currently is included to the upper-middle income country group. …. but after about 3 years from now we will be in the group of high-income countries, … This growth in Turkey was not a growth based on public spending... but based on our private sector activity.

… We have given the priority to the soundness of the public finance structure. ... while public debt in many countries has been rising, ratio of our public debt to our national income fell from 45 percent to 36 percent, …And as of today, our budget deficit this year, … will be only 1,2 percent of the national income. When we took over the government in 2002, our budget deficit in that year was 12 percent, and this year it is 1.2 percent.

And besides that we have seen high growth rates in 2010 and 2011 we have experienced a growth of 9 percent, …

Again, since 2009 the total employment in Turkey has increased by 6 million people…. A major reason for this, of course, is our growth rates, but another major reason is proper implementation of our targeted and meticulously applied active labor market policies.

When we look at Turkey's performance, especially in the last 10 years, although undoubtedly the macro policies are important, … also very important are the banking reforms. Indeed, banking reforms, strengthening of supervision and control mechanisms that we made in Turkey in the years 2004, 2005 and 2006, really brought our banks to a very different point.

… and when the 2008-2009 crisis came and hit us, none of our banks had any problems, … the state, did not have to transfer funds to any bank; we did not even have to change our deposit insurance parameters … And as of today, the total size of the banking sector is now exceeded the size of the economy; … And, of course, this is an important mainstay of our economic growth, our dynamism… on the other hand, loan volume in Turkey has expanded very fast. ... It causes a drop in our savings, causes our citizens to spend rather than save; … It is for this reason, we pay attention to it since 2012 and with the measures we implemented in 2012, our current account deficit fell to 6 percent from 10 percent.
In the coming period, that is, when the Federal Reserve will reduce the amount of liquidity to the market and, after a certain point, start to increase the interest rates, the developing countries will have to proceed with caution... That's why, ... we began to implement new macro-prudential measures … This time, we will apply a policy framework targeting not the loans in general, but focusing more on consumer loans… there is no measure against loans if they are for exports, domestic production and investment; ... But fortunately, consumer confidence is very high in Turkey; producers' confidence is very high. Our banks are looking to the future with much confidence, they want to grow, want to give more loans. ... the important thing is the source of growth. For Turkey the source of growth must be exports. If the source of growth is internal consumption, that goes around and comes back as our current account deficit... If the European Union's internal market recovers faster, if we can obtain good results from new markets in Africa, the Middle East, ... then we can easily see higher growth rates.

ADFIMI Chairman Mr. M. Emin Özcan presents honourary membership certificate to H.E. Ali Babacan

Dear Deputy Prime Minister

In my capacity as the Chairman of ADFIMI, we are grateful to you for accepting the honourary membership ADFIMI and for gracing our Forum.

ADFIMI confers this honourary membership to personalities that have contributed to the development or development finance in the member countries of Islamic Development Bank. ADFIMI General Assembly decided to confer this honourary membership on you for your masterly conduct of the Turkish economy during the 2008 crisis hence for your contribution to Turkey's development.

By doing so, ADFIMI wants the permeation of exemplary practices hence the permeation of good as well as to bring to the forefront the personalities who would constitute role model for a young generation with self confidence.

To be a role model requires, alongside talent, meticulous, disciplined and scientifically oriented work together with patience and perseverance. It requires a person to do his job correctly and to be virtuous and morally upright.

As someone who has known you since your college days, I dare say that I have personally observed that you possess all these virtues and you utilize your vast knowledge in finance and economics, for the well being of people.

We are proud of your lifestyle that sets a role model for the new generation and your world renown success. Our gratitude to Allah Almighty is ever increasing for the existence of such an executive in the Muslim World with such extra ordinary talents and merits.

You cause us to look to the future with hope. Our prayers is for your continued success and for your eternal happiness.

As a token of appreciation of our love and respect, I would like to present the certificate of the honourary membership.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Excerpts from

REDESIGNING THE GLOBAL FINANCIAL SYSTEM*

H.E. İbrahim Halil Çanakcı

Undersecretary of Treasury

Co-Chair, G-20 International Financial Architecture (IFA) Working Group

Though there is no generally agreed definition, the term "global financial architecture" broadly refers to the framework and set of measures that can help prevent crises and manage them better in the context of an increasingly integrated international financial environment.

International financial architecture is based on generally three broad areas namely the economic model by which international financial relations are conducted, the network of institutional arrangements, and the distribution of decision making power in the system.

Global events since the collapse of the Bretton Woods System made painfully clear that the financial crises have become the new phenomena. Indeed, they occur quite often, and the international financial system is unable to safeguard the world economy from frequent financial crises with devastating real effects.

The world experienced a new and unprecedented crisis in 2008, which shattered both perceivably the most robust economies and the fragile ones.

A broad agreement has emerged that there is a clear necessity of redesigning the global financial system to meet the realities of today's global finance.

Those aspects clearly hinder making progress as quickly as desired.

...the G-20, as the premier forum for international

** Full text is available at www.adfimi.org* cooperation on economic and financial matters, came to the fore as it was able to unify the much-needed efforts.

The G-20 undertook significant actions initially through its International Monetary System Working Group and subsequently through its International Financial Architecture Working Group, in which I assumed the co-chair position together with my Australian colleague.

…the G-20 has identified four areas as the key for a sound global financial architecture:

- coherent macroeconomic policies at the global level
- strong IMF with effective surveillance and adequate financial resources
- better governance and legitimacy of the international financial institutions, and
- a well-regulated financial system.

…the G-20 came up with the "Framework for Strong, Sustainable and Balanced Growth". As part of this framework, all G-20 countries have been announcing their plans in fiscal and monetary policy and structural reforms.

Given its mandate, the IMF plays an important role in international financial architecture. That's why the G-20 has also placed much emphasis to the Fund related issues.

…since the onset of global crisis, the Fund's lending capacity was bolstered through new quota subscriptions and large temporary borrowing arrangements from member countries…

The G-20, together with a broad IMF membership,

has made a big contribution to these endeavors by agreeing to double the IMF quotas and pledging an additional USD 460 billion into the IMF firewall. I think emerging economies did their part by contributing significantly to these unprecedented efforts.

An effective IMF surveillance is very important for the international financial system. The G-20 was successful in pushing the IMF to review its surveillance system. A new decision on bilateral and multilateral surveillance was approved.

I believe emerging market economies should closely watch the implementation of the new surveillance framework to ensure that it is done effectively and evenhandedly… emerging market economies have a stake in ensuring that related IMF recommendations to especially major advanced economies are reflected into their policies.

Currently, the key challenge in the international monetary system is the redistribution of power in international financial institutions, particularly the quota shares in the IMF. The relevance, effectiveness and legitimacy of the IMF depend on quotas being adequately reflecting the relative weight of countries in the global economy which have changed substantially over the last decade. . Yet, it is obvious that current governance and quota structure of the IMF does not reflect these new global realities

As a response … some steps were taken…. a certain level of quota transfer was made in favor of the major emerging market economies. In this area probably the most significant step so far was the adoption of the 2010 Reform package.

Despite some progress as a result of these steps, the long run objective has not been achieved on this front, as it would only be achieved by raising the Fund´s quotas.

Since the costs of the global financial crisis have been extremely high, a broader and more solid response to financial sector issues has been necessary.

G-20 has been taking the lead in the financial sector regulatory reforms….., G-20 is trying to ensure that all financial markets, products and participants are regulated and subject to oversight in an internationally consistent way.

The key issues in the agenda are ending too-big-to-fail, regulating over-the-counter (OTC) derivatives markets, reducing mechanistic reliance on CRA ratings, and issues concerning shadow banking. The Financial Stability Board (FSB) is assigned to coordinate the works in these areas.

The G-20 committed to implement strong measures to improve transparency and regulatory oversight of OTC derivatives in an internationally consistent and non-11 discriminatory way.

Reducing mechanistic reliance on the ratings of credit rating agencies is another important issue in the G-20 agenda…

In this context, international organizations and countries are expected to reduce references to CRA ratings in their legislations and improve internal risk management capabilities.
Thanks to efforts of the FSB and the IOSCO, CRAs are now strongly regulated under higher transparency requirements.

The efforts which I have just mentioned mainly address the problems of financial markets in developed countries. This is no surprise as the global financial crisis was born and bred in developed countries majorly due to the fault lines in their financial systems. Since the size and depth of the financial markets in emerging countries are smaller, the systemic risks they pose are also less significant.

Nonetheless, these reform efforts pave the way for the stability of global financial system and may indirectly help the financial markets of emerging countries to become safer and a more resilient. Therefore, to transform the global financial reform agenda into a more win-win type of a game, we attach great importance to active participation of emerging economies to the designing process.

In addition to these rather challenging items, G-20, also spents significant time and effort on… the development of global liquidity indicators, assessment of capital flows, SDR allocations, the restructuring of the SDR basket, strengthening global financial safety nets, better coordination between IMF and Regional Financing Arrangements, and local currency bond markets.

However, I think that these issues cannot be addressed, as long as the representation challenge in the international financial architecture endures.

It is evident that current international financial system has not been functioning smoothly in many aspects and recurrent financial crises mainly stem from the system's obvious deficiencies.

Therefore the fundamental need to redesign the architecture of today's global financial system is still there. We need to exert our best efforts to align our understandings about the core elements of a sound system and unite our efforts to that end. International cooperation and particularly, the political will of the G-20 plays a crucial role in the realization of this goal.

ADFIMI Chairman Mr. M. Emin Özcan presents a plaque to H.E. Ibrahim Çanakçı

Work at the international level to redesign the global financial system is ongoing at the G20, the Financial Stability Board (FSB), and the Basel Committee on Banking Supervision. The objective is to minimize the risk of a systemic failure and make the system more resilient.

Formed in 1999, Group of 20 (G20), emerged as the premier forum for international cooperation on economic and financial matters, is presently an important actor of the international financial architecture. The G20 members collaborate on key aspects to strengthen the international financial architecture, particularly with a view to addressing those gaps and deficiencies revealed by the recent global financial crisis. In recent years, the G-20 undertook significant actions initially through its International Monetary System Working Group and subsequently through its International Financial Architecture (IFA) Working Group in order to lay the foundation for a stronger global economy and achieve a well-balanced and efficient international financial architecture to prevent the next crisis. HE İbrahim H. Çanakcı, the Undersecretary of Treasury, in his capacity as the co-chair of the IFA working group had eloquently described the developments in this respect.


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A forum for development

About ADFIMI

Established in 1986, ADFIMI, Association of National Development Finance Institutions in Member Countries of Islamic Development Bank is an international non-profit association serving 50 members in 18 countries with headquarters in İstanbul. The main field of activity of ADFIMI is capacity building of its member institutions some of which come from the least developed countries. In this context, ADFIMI organizes seminars / workshops / conferences for its members in various cities in its region (like İstanbul, Antalya, Karachi, Kuala Lumpur, Amman, Hammamet, Cairo, Beirut, Sarajevo, Prishtina, Damascus, Khartoum, Girne, İslamabad, Kuwait City, Kampala, Tunis, Dubai, Lefkosa, Maldives). In its 26 years of existence, ADFIMI has trained over 2500 executives and directors from development finance institutions (www.adfimi.org).

ADFIMI Contact Details:
Address:ADFIMI Saka Mehmet Sokak, No:13, Kat:2, Sultanhamam, Eminonu, 34116, Istanbul,Turkey
Tel:+90 (212) 526 51 26 +90 (212) 526 51 27
Fax:+90 (212) 526 51 28
E-mail :adfimi@adfimi.org Alternate E-Mail:info@adfimi.org www.adfimi.org