Turkey, G20 and Global Economy

Speech by İbrahim Çanakcı, IMF Executive Director
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Distinguished Guests, Colleagues, Ladies and Gentlemen,

I would like to start by thanking Domenico Lombardi and whole CIGI team for their kind invitation and for giving me the opportunity to speak to such a distinguished gathering today.

The title of my speech, “Turkey, G20 and the Global Economy”, is clearly too wide to cover in 20-30 minutes. Hence, I will try to be as specific as possible and link the issues concerning the global economy and the G20 agenda. I will start with a brief overview of the current global conjuncture and risks, followed by the key medium- to long term challenges facing the global economy. I will then talk about how Turkey as the current chair of the G20, has responded to those challenges and incorporated them into the G20 agenda as well as how much progress has been achieved in those areas. I will conclude with some brief remarks on the current state of and the medium-term challenges for the Turkish economy.

Regarding the global conjuncture, outlook and risks, I would like to highlight 4 points very briefly.

First, despite 8 years have passed since the onset of the global financial crisis and despite the immense efforts by all countries, global growth continues to be moderate and brittle. It seems that global growth has leveled out at the 3.0-3.5 percent range over the past five years.

Second, there has been a visible change in the growth performance of major country groupings in recent years. Growth in advanced economies has been accelerating from about 1.5 percent to about 2.5 percent, while the growth rate in emerging economies has been decelerating from around 6 percent to the 4.5 - 5 percent range in the last five years.

Third, global growth is expected to accelerate only gradually to around 4 percent in the next five years. Using the words of the IMF’s Managing Director, prospects of a “new mediocre” linger.

Fourth, risks to the global outlook are tilted towards the downside. In the short term, U.S. monetary policy normalization, strong appreciation of US dollar, Chinese growth transition, commodity prices and geopolitical developments deserve close attention.

Even more prominent than these short-term issues and risks are the important medium- to long-term challenges facing the global economy.

In my view four challenges stand out:

First of all, according to the IMF analyses, potential growth after the global crisis declined by 0.5 and 2 percentage points in advanced and emerging economies respectively. This is a critical challenge and may have wider policy implications than previously thought. Hence, how to raise potential growth is a very important question for policy makers at the global level.

Secondly, investment activity in both advanced and emerging economies has been declining, considerably hurting potential growth and raising the risk of secular stagnation. Weak demand, financial constraints and policy uncertainty have been the main factors holding back the investment activity in many countries. Lifting investment activity, particularly infrastructure investment, is a global challenge which requires global cooperation.

Thirdly, in the post-global crisis era, the link between growth and job creation has weakened considerably - the so called jobless growth phenomenon. There are concerns that the post-crisis sluggish growth and limited employment generation could translate into a vicious circle and further suppress potential growth.

And lastly, income inequality has been on the rise for some time and remains a key concern both from the social and economic perspective. The gap between the rich and poor is widening. In some OECD countries this gap is at its highest level in the last three decades. One manifestation of deteriorating income distribution is the secular downward trend in the share of labor income. A joint study by the ILO, the IMF, the OECD and the World Bank revealed that “one percent reduction in the labor income share leads to an increase in inequality of between 0.1 and 0.2 per cent”. Empirical studies confirmed that inequality weighs on long-term growth and hurts human capital accumulation.

Creating good quality jobs and making growth more inclusive are the other two important global challenges in addition to raising potential growth and stimulating investment.

Turkey did a very good job in incorporating those short and long term global challenges into the G20 agenda.

Turkey streamlined the key priorities for the G20 for 2015 and formulated them as Turkey’s three “I”s: Implementation, Investment and Inclusiveness.

Let me very briefly share what has been aimed for under each of these three “I”s and what has been achieved so far.

Implementation was made a key priority because of its importance for supporting the credibility of the G20 and for boosting the businesses and consumer confidence, which is essential for increasing demand and growth. Turkey declared 2015 the “year of implementation” for the G20.

Implementation cuts into all work streams in the G20. Turkey aimed at making progress in all areas. In particular, Turkey has made significant efforts to ensure that macroeconomic policies are in place to support growth and promote global rebalancing. Turkey has also been closely following the G20's commitment better cooperating to manage spillovers of national policies. But, a special focus is being placed on the implementation of G20 members' growth strategies.

G20 growth strategies were introduced by the Australian Presidency in 2014. They ultimately aim to lift G20 GDP by at least an additional 2 percent by 2018 - the so-called growth ambition of 2 in 5. G20 members committed to nearly 1,000 new actions to achieve this target.

Turkey has been spending a significant effort to ensure a timely and effective implementation of growth strategies. In this context;

- A robust monitoring framework was established to enable G20 members to better prioritize and timely implement their commitments. G20 members prepared an easy to monitor implementation schedule.

- Growth strategies have been reviewed and adjusted where necessary, taking into account the developments after the Brisbane Summit.

- G20 members have included, on a voluntary basis, new measures in their growth strategies to make growth more inclusive.

- The G20 Ministers and Governors agreed to prepare an accountability report to be presented to the leaders at the Antalya Summit in November. This report will disclose the progress made in the implementation of growth strategies and will constitute an effective tool to clearly communicate.

Thanks to those steps, there has been visible progress so far in terms of implementation with roughly one third of the commitments fully implemented. Preliminary analyses show that the G20 is broadly progressing towards the collective growth target of 2 in 5, while also emphasizing the need for more efforts for implementation.

Investment constitutes the second of the three "I"s of the Turkish Presidency. Investment was first included in the G20 Agenda during the Russian Presidency in 2013 due to the notable decline in investment levels in many countries. The Australian Presidency further advanced the investment agenda and converted it into a multi-year work program. Investment is also included as one of the four components in the growth strategies of G20 members for its critical role to spur demand in the short term and boost potential growth in the long term.

The G20's investment agenda covers a wide range of areas such as improving the investment environment, enhancing project preparation, developing more efficient and institutional investor friendly public-private partnership models, attracting more private sector participation in infrastructure investment, strengthening infrastructure and facilitating more private investments in low-income developing countries, mobilizing Multilateral Development Banks resources and optimizing their roles, easing the financing constraints of

small and medium-sized enterprises, and incorporating new financing models such as Islamic Finance in the investment and infrastructure agenda and so on. Turkey aimed at achieving progress in all these areas.
On top of those, a special focus was placed on two particular areas.

The first emphasis under the investment agenda was the preparation of investment strategies. Consistent with its implementation focus, the Turkish Presidency asked G20 members to identify investment/infrastructure gaps in their economies and then to design concrete strategies to address these gaps. Each member prepared its draft investment strategies and circulated them to the G20 members, in line with the knowledge-sharing within the G20. These investment strategies include measures to improve the investment eco-systems, promote infrastructure and support small and medium-sized enterprises. The OECD has been providing an assessment of these strategies to identify their impacts. Based on this, investment strategies and G20 aggregate investment strategies will be finalized by the G20 Summit.

The second focus under the investment agenda was investment financing. We have all been observing the difficulties faced by many countries in securing stable and long-term financing for infrastructure investments despite low interest rates. Hence, Turkey focused on alternative financing for investments, and in particular on the role of non-conventional sources of lending such as asset-based financing and Islamic Finance. The G20 supported the policy recommendations made by the IMF and the World Bank Group on systematically incorporating the features of asset-based financing, including Islamic Finance, into the global standards and guidance. The G20 also encouraged cooperation and information sharing to encourage the adoption of harmonized national practices in this area.

Let me move to the third "I" of the Turkish Presidency which is inclusiveness. It has two dimensions. The first dimension is related to the inclusiveness of national economic and social policies. We can count numerous aspects of this dimension of inclusiveness, such as ensuring that benefits of growth and prosperity are shared by all segments of society, developing an appropriate response to the weakened link between growth and job creation in recent years, addressing the increasing problem of youth unemployment, strengthening gender equality in employment, emphasizing issues pertaining to small and medium-sized enterprises, and making business more inclusive.

The second dimension relates to the inclusiveness of the G20 itself. This involves making the G20 more participatory by more vocally emphasizing the challenges faced by non-G20 members particularly by low-income developing countries. It also involves in expanding the G20 agenda to cover the key issues related to inclusiveness.

Turkey has made great progress in both dimensions of the inclusiveness agenda and I would like to share with you some concrete examples:

- As I said, growth strategies were reviewed to include measures to support making growth more inclusive.

- Under the Employment Working Group, a new sub-group on Labor Income Share and Inequalities was formed to formulate policy proposals to foster inclusive growth and address rising income inequality.

- A G20 Skills Strategy was developed in an effort to tackle youth unemployment**.**

- G20 Leaders will consider adopting a target on reducing the share of young people who are most at risk of being permanently behind in the labor market by 15 percent by 2025.

- The G20 encouraged and supported the establishment of The World SME Forum (WSF). The goal of this global forum is to increase the SMEs' contribution to global growth and job creation. The WSF will monitor the implementation of recommendations as well as provide technical assistance and advice for the implementation of standards, promote the development of entrepreneurial skills and cooperation between private sector, public sector and academia. The WSF presents a good example of public-private cooperation and will act as the global voice of SMEs.

- Turkey initiated a new work within the Development Working Group on developing a "G20 Framework for Inclusive Business".

- Turkey facilitated and led the establishment of the Women 20 (W20) as a full-fledged engagement group. The W20 mandate covers promoting woman entrepreneurship, enhancing women's financial inclusion and education, and contributing to close the participation gap by 25percent by 2025.

- Turkey made the LIDC perspective a cross-cutting theme for the G20 Agenda. In this context, several consultations and outreach activities have been conducted to incorporate the views of LIDCs in each agenda item of the G20. The G20 supported, and will continue to support, UN summits on development this year. The G20 aims to scale up its capacity building and technical assistance efforts towards LIDCs.

- Turkey hosted the meeting of G20 Ministers of Agriculture for the first time since 2011. Agriculture Ministers expressed their strong support to ensure food security and agreed on the importance of establishing economically, socially and environmentally sustainable food systems.

- Finally, G20 Energy Ministers will meet for the first time in the G20's history and discuss energy issues with a particular focus on Sub Saharan Africa.

Those efforts along with several others have contributed significantly to addressing the inclusiveness challenge at national levels as well as making the G20 a more relevant, legitimate and inclusive platform.

Turkey's efforts have not been limited only to these areas. There has been significant progress in other agenda items as well, particularly in financial regulation, international taxation and development areas.

One area in which progress has been limited so far, is the implementation of the IMF Quota and Governance reforms agreed in 2010. Despite the continuous encouragement and calls by the G20 and IMFC, the US has failed to ratify the 2010 reforms until now. The IMF Executive Board took a decision to consider which interim options to pursue if the 2010 reforms are not ratified by September 15, 2015. The Board is expected to complete its works on the interim options as early as possible, but no later than by mid-December.

As a final point on G20, I must say that the interaction between engagement groups such as the B20, L20, T20, C20, Y20 and G20 has been very productive under the Turkish Presidency. At this point, I would like to thank the CIGI for co-hosting together with the Economic Policy Research Foundation of Turkey (TEPAV) the T20 conference in May. The management of the TEPAV was highly content with the organization and quality of the discussions that took place.

All in all, Turkey inherited a very good legacy and work program from Australia. Turkey introduced some important novelties to the G20 agenda, while making visible progress on the existing commitments and deliverables. I would say that Turkey will hand over a rich, well thought and structured action plan to our Chinese colleagues. And I am confident that China will continue to enrich the G20 agenda as well as effectively deliver on the agreed commitments under Turkish presidency.

Now, let me move on to the **Turkish economy** and say a few words on the developments in recent years and challenges in the medium term.

Turkey has had great strides in strengthening its fundamentals over the past 15 years. The structural transformation in the public finance and strengthening of the banking sector improved Turkey's resilience to shocks and laid the ground for strong growth.

Thanks to fiscal prudence, Turkey managed to contain the public deficit and hence significantly lowered the public debt ratio. The public debt-to-GDP ratio dropped from 46 percent in 2009 to 35 percent last year at a time when many countries struggled to manage their debt burden.

The Turkish banking system remains robust and resilient with the average capital adequacy ratio well above regulatory standards, strong asset quality, and ample liquidity buffers. Regulatory and supervisory standards are compatible with international standards.

Thanks to these strengths, the Turkish economy registered a notable recovery in the wake of the global economic crisis and expanded by more than 5 percent on average between 2010 and 2014. Unlike the economic plague described as jobless recovery, buoyant growth in Turkey translated into millions of new jobs.

Despite a challenging external and domestic environment Turkish economy continued to grow at 3.1 percent and generate employment in the first half of this year.

Regarding the short term outlook, the expectations of US policy rate lift off, strong appreciation of US dollar, regional geopolitical tensions and domestic political uncertainties are putting some pressure on key financial indicators and macroeconomic performance particularly on currency, inflation and growth.

Concerning the medium to long term outlook, however, I believe one should keep in mind the fundamentals rather than focusing on transitory shocks or blurred short-term assessments.

I would like to underscore that the Turkish policy makers are well aware of the pressing challenges. They also acknowledge the need for comprehensive structural reforms. They remain determined to step up the reform process, paving the way for a major leap forward for the Turkish economy. Indeed, detailed reform packages were unveiled last year. These measures aim to increase domestic savings, lower the dependency on imports in energy and improve the value added of exports. A particular emphasis was also put on innovation, R&D and technology development. There are several plans in the pipeline to further improve the labor market, strengthen the business climate, and bolster competitiveness and productivity.

In sum, I strongly believe that despite some volatility and weakening in financial indicators in recent months, the Turkish economy preserves its fundamental strengths. Once the geopolitical tensions are settled, domestic political uncertainties are cleared and structural reforms are accelerated after the elections, the Turkish economy could easily return on a strong and sustainable growth path.

Let me stop there and thank again Domenico and whole CIGI team for inviting me. And thank you for your kind attention.