

Güven Sak – Global Development Finance Conference Address

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TEPAV World Bank information Center was made operational in November 2006. Since then researchers easily access a wide database in particular World Bank database on the issues of development and development finance.

World Bank's new report on Global Development Finance was recently published. Today, we will discuss that report. In fact, this discussion will be carried out at an interesting time. For this reason, this report has a very good timing and involves issues that we must discuss and follow. As a matter of fact, we are in a period where being an economist is hard. In the past, people were asking what the exchange rate going to happen at the end of this week or this month. Now, they are asking when the crisis will end. Honestly, this is what everyone asks. They want to learn when the crisis will end. Therefore, we are going through a process which closely affects the lives of all of us. And we are watching how a crisis, the characteristics, economic discourse and operation mechanisms of which is not wholly known, gradually affects our lives.

In case of Turkey, we have not discussed this issue in detail. At least this is what I think. This World Bank report involves a series of estimates about Turkey's economy. We, as TEPAV, have also been dealing with these issues for some time now. In fact, things were going well. We were discussing on industrial policy and how second generation reforms could be implemented. We were to focus on how productivity increases can be ensured or have we can better adjust with the globalization. But, then the crisis emerged. We have not forgotten about any of these issues; but currently our main focus is to follow which phases the current crisis may enter in the forthcoming periods.

In case of Turkey, however, we have not discussed this issue in detail. We concluded our studies in March 2009. We estimated that in case no measures are introduced, as also proposed in the last World Bank report, Turkey's economy will contract by 5.5 percent in 2009. But, we distributed our report as quietly as possible. We distributed the report directly to decision makers as the elections were on the way. Therefore, once you initiate such a discussion, once you start to discuss the impacts of the crisis on Turkey's economy, it was likely that you would seem to be carrying out a directly political discussion.

I believe that, in general terms, we have not discussed the steps Turkey has to take to tackle the crisis was not discussed seriously. During the previous period politics outweighed economic discussions. But after all, this does not make our need to information disappear. This is indeed a crisis we do not know the characteristics of. In such circumstances, what should be done is, I believe, to reset to the highest extent possible our box of concepts, forget all we used to know and try to follow the developments as closely as possible, take a second look at figures and make sense out of them. This report actually serves this idea and provides us with a framework; it gives comprehensive information on how and in what ways the crisis, since the beginning, affect the economy, corporate sector or countries like Turkey.

As a matter of fact, we have to attain a better understanding on the operation mechanism and economic operation style of the current period. At this point, let me underline a couple of points considering how the crisis affected Turkey. The report includes a series of findings on how different sectors of the global economy were affected by the crisis. It is seen that what is

supposed to be good has a bad impact on Turkey. For instance, corporate sector of Turkey was affected quite negatively by the process. How? **The report as well as discussions in general assess the fall in commodity prices as a positive factor. However, considering the corporate sector, if the crisis caught you with an inventory of commodities, which is the case for Turkish companies in certain sectors, the outcome would be that you rapidly lose the operating capital.**

In addition, domestic and foreign demand evaporated seriously as a result of existing climate of uncertainty and the tightening of credit mechanism. Therefore, corporate sector lost its operating capital at the one hand, while the pattern of cash inflows started to change in unplanned directions at the other. However, there is no mechanism that will restructure the cash outflows based on contracts signed in advance. As a result, operating capital need of the corporate sector was scaled up further. Similarly however, it was not possible to access operating capital finance as, unlike what is argued, banking sector has serious problems in funding the real and corporate sectors.

Banking sector has no problems in this context: If you see this crisis as the 2001 crisis and want to know whether or not a problem considering public borrowing exists; there is no problem considering public borrowing. That mechanism works just fine. But the important thing is the access of real sector, which in fact shoulders the burden of the crisis, to finance was also highly hindered and limited.

Considering the workforce, we also encountered an unfavorable picture. Unemployment rate increased, and as recent data announced by TURKSTAT suggests, nominal wages decreased around 8.5 percent. In such a period; in such crisis periods, we see that what happened yesterday took place once more today. When assessing the forthcoming period, I guess it is necessary to note one point about the banking sector. After all, in a country where the corporate sector performs badly, banking sector cannot keep on performing well. Banking sector knows this already and tries to take relevant measures.

So, when considered overall, is there any ground to be optimistic or on which grounds we can be optimistic? First is about how financial stability is secured and to what extent financial mechanisms began to operate. **Financial system is operative compared to the past; i.e. the beginning of the financial crisis. However, it in a way operates with a life support unit.** If a patient connected to life support unit can perform vital functions; does this mean things are getting on track? This shall be opened to discussion. In the upcoming period, which organs in what order shall be disconnected from the life support unit? What will inflation rate be, what will happen to government debt stock? If you start to disconnect the life support unit with the organs of that patient, at what pace that organs turn back to normal course of operation?

In this context, the critical factor is securing financial stability or at least taking a step to this end. However, when we observe the practice, we see that this is only possible with public intervention at high degrees. Second is eliminating the tightening of credit mechanism and fund flows. Or revise this as ensuring that fund flows toward countries like Turkey does not completely evaporate. Let us show how much credits the IMF has extended. Value of credit extended in 2007 was around \$1.7 billion. And as of the beginning of the crisis, the value of credit extended exceeded 30 billion dollars. And they have around \$150 billion commitment for new credits. **Therefore, the system works; however an actor must make effort continuously to make it work. An actor, which is out of the system and was not very active over the previous period, has to make serious effort to ensure that the system**

works. Third issue is commodity prices. This is a bad thing when companies are considered individually. But at global level, it is also a factor that in fact reduces the need for funds, need for finance and need for development finance. And there is a movement there.

Fourth issue is that expansionary fiscal policies proved successful and domestic demand began to recover. In this area, however, we have significant coordination problems. Take the protectionist measures implemented in China. **I, in fact, believe that we are going through a period where discussions on protectionism are legitimate. I believe we will witness numerous discussions on protectionism in the upcoming period unless serious measures are implemented and global mechanisms are not operated successfully. Because each measure you implement to stimulate domestic demand means, in the global world, supporting companies from other countries. You shoulder the whole cost of the measures you take, hundred percent of the benefits does not stay within the borders of your country; it goes somewhere else.**

We have to seek a global coordinator to solve this highly important problem. I believe that the IMF and the World Bank must act in a way like a State Planning Organization. I mean, a global State Planning Organization. I guess a mechanism that will ensure who has the benefit pays the cost must be established. However, it is most likely that even Monaco objects to the establishment of such a supra-national mechanism. Therefore, it is quite hard to solve this coordination problem. So, what is the easy option? It is implementing protectionist measures.

In this sense, Gulf countries stand at an interesting position. While growth indicators nearly all around the world approach zero or negative values; Gulf countries seem to experience positive growth. Everyone is talking about how wonderful this is and how the region present big opportunities. But, in such discussions it is wise to note that the slides I am currently showing you are most probably shown all around the world only in different languages. I mean, both in Russia and China, people say “See, Gulf countries will perform better this year; thus you certainly have to visit Gulf countries”.

Consequently, that some countries maintain a positive performance in the current conjuncture only means that competition will get more warmed up and that more mechanisms that will enable higher protectionism will be seen in those countries. This is because, each country will first think of supporting in a way companies of that country. **As a result, thinking about G-20, the IMF, the World Bank and World Trade Organization with a different lens, it should be analyzed how a coordination and cooperation mechanism can be designed and how countries like Turkey can benefit from the G-20 initiative.** I believe that countries like Turkey must focus their efforts to find out how a mechanism like G-20 can be institutionalizes and made operative.