

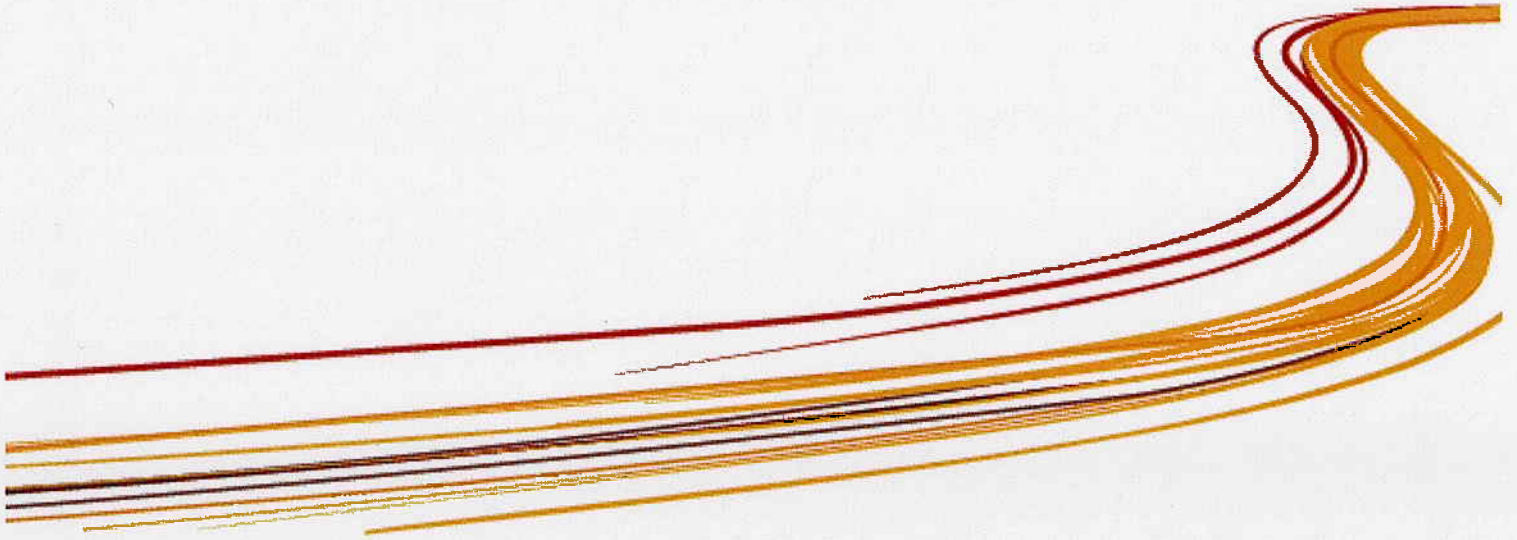
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of the Republic of Turkey

Speech to CBI Annual Conference

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**ADDRESS BY H.E. ABDULLAH GÜL,
PRESIDENT OF THE REPUBLIC OF TURKEY,
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OF BRITISH INDUSTRY**

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Distinguished Guests,
Ladies and Gentlemen,

Let me start with thanking Sir Roger Carr, President of the Confederation of British Industry, for his introductory remarks.

It is indeed a great pleasure for me to be with you today at the Annual Meeting of the Confederation of British Industry, the UK's top business lobbying organization, in other words "The Voice of Business".

I am glad to see here some of the prominent CEOs and leading representatives of the British and Turkish business communities. I very much appreciate having this opportunity to address such a distinguished audience and to share my views on the current global economic developments, Turkey's economic policies and the theme of the conference, namely, "accelerating economic growth through exports".

Distinguished Guests,
Ladies and Gentlemen,

The major financial upheaval in the second half of 2007 which pushed the world economy into crisis is widely considered as the worst downturn since the Great Depression. Many industrialized countries entered into recession while growth rates of emerging economies began to fall.

All of us welcomed the fact that the World economy showed signs of recovery in 2010. Confidence, production, world trade and consumption rebounded and the world economy grew by 5 percent last year.

There is no doubt that with its balanced membership of both advanced and emerging economies, the G-20 helped the world deal effectively with the crisis. It has delivered significant and concrete outcomes, such as the broadening of financial regulation, policy coordination and enhanced macroeconomic cooperation among its members. Above all, the G-20 constituted a firewall for preventing the protectionist tendencies in the world economy.

Turkey has effectively participated in the discussions within the G-20 as part of the efforts to find a way to stabilize the world economy as well. At the recent G-20 Summit, Turkey was designated to chair the G-20 in 2015.

Four years after the outbreak of the global financial crisis, the world economy has entered into a dangerous phase once again. Factors such as the sovereign debt crisis in Europe and weak economic data of the US and Europe in recent months have caused concerns over another global recession.

The crisis in the euro zone countries can be characterized by the following points:

First of all, many countries in Europe are struggling with enormous debt levels and budget deficits above the Maastricht Criteria.

In fact, the European Union's negligence to the implementation of its own economic criteria, namely the Maastricht criteria, paved the way to the current agony in the first place.

In the euro zone, the debt crisis that started with Greece, Ireland and Portugal has now moved into a new and more alarming phase as it threatens Italy and Spain and even France.

Unfortunately, a moral hazard has happened in the euro zone crisis since none of the reckless actors in this crisis is allowed to default.

On the other hand, solvency concerns in the euro zone countries increase the vulnerability of the European economies as a whole and worsen the overall sentiment. As Schumpeter rightly put it, "the monetary system of a people embodies what the nation is, wants, does and suffers."

The second important problem is the failure to reduce high unemployment rates evident in many countries. Through the demand channel high unemployment further aggravates growth prospects.

Elevated levels of unemployment will undermine consumer confidence and slow domestic demand. Therefore, many countries today face an urgent need to make structural adjustments to enhance the labor market flexibility and mobility.

Third, ongoing financial sector problems especially in Europe pose threats to the well-being of the global economy. Since many banks have been bailed-out through public loans or shares, a return to normalcy in the public finances and the banking sector requires a long time period.

Finally and most importantly, the lack of political will and ineptness in taking courageous decisions and actions to cope with these problems further aggravated the situation in the euro zone countries.

In this process, private debt became public debt and the debt burden of states became unsustainable. In previous crises, the public sector would save the banks and companies in the private sector. Now, states find that they are in need of saving themselves.

Those failed economies may bring down the whole EU with them. In fact, the very unity of the Union is at stake when we take into account the emerging split between the euro zone members and the non members of the zone.

Consequently, the perception of a new looming global crisis has adversely affected the prospects of the consumers, producers and investors.

What I see now, the world economy is in a state of a "balance of economic terror" that may all of a sudden plunge into a full-fledged global depression.

Therefore, it is of utmost importance to render the G-20 platform more effective as it is the best mechanism available to overcome such a dismal outcome in the global economy.

Ladies and Gentlemen,

The forces of globalisation have made the international system much more interdependent and the world economy has become increasingly integrated. The global economic crisis has shown that it is not enough to keep our houses in order, in an interdependent world. Today no country is immune to the adverse affects of the global economic crisis.

The spill-over effects from the rest of the world can influence our economies considerably. Take Britain and Turkey for example. We heavily depend on the euro zone as a trading partner. Over 40 percent of the UK's exports go directly to the euro zone, whereas the EU accounts for half of Turkey's foreign trade volume.

There is an urgent need to draw the necessary conclusions from the ongoing crisis and take decisive and swift actions. We need a strong and coordinated international response to overcome the global economic difficulties.

I believe that avoiding protectionism, building stronger economic and trade links and making public funds available to the productive economic activities rather than bailing out toxic assets could help stabilize the world economy and generate wealth for all of us.

Distinguished Guests,
Ladies and Gentlemen,

The past five decades have witnessed substantial changes in the distribution of world gross domestic product across different groups of economies. During 1960–85, advanced economies on average accounted for about three-quarters of global GDP. This share has declined gradually over time. Before the global financial crisis it was down to 56 percent. This year it is likely to go down to 51 percent.

In contrast, emerging market economies' share in the world GDP has risen steadily from just about 17 percent in the 1960s to 44 percent before the global crisis.

According to the IMF forecasts, by 2013 emerging markets will have been producing more than half of the global output. Indeed, if emerging markets keep on growing three percentage points a year, faster than the US, they will account for two-thirds of the global output by 2030.

In light of these figures, today, emerging markets' role in supporting global growth in the current different conjuncture is even more important, as advanced economies face strong headwinds.

Ladies and Gentlemen,

Turkey, as one of the most vibrant emerging economies has a lot to offer to the combined efforts to stabilize the global economy.

Despite many global economic risks, the Turkish economy rests on sound macro foundations. Today, we have an economy with strong public finances, sustainable debt dynamics, a sound banking system, functional credit markets and able monetary transmission mechanisms.

This is mainly due to the substantial measures taken after the 2001 financial crisis. As the first Prime Minister of the ruling AK Party Government I laid down the foundations for the current sound macroeconomic strategy and prudent fiscal policies, and initiated major structural reforms as stipulated in the Urgent Action Plan in 2002 .

Since the 2001 crisis, significant structural reforms have been put into effect in order to restructure and rehabilitate the banking sector in Turkey.

In this context, the government enhanced the financial structure of private banks, restructured state banks and improved the regulatory and supervisory framework. The activities and ratios of all the actors in the financial sector have been closely monitored by the regulatory bodies.

The banking sector has achieved a much healthier and more robust position through reinforcing its capital structure and implementing effective risk management. As a result, today, Turkish banks are strong, highly profitable and well-capitalised with a capital adequacy ratio of 17 percent.

Thanks to structural reforms implemented in the public sector and fiscal discipline, high primary surplus levels have been achieved in Turkey. Consequently, Turkey was able to significantly improve its fiscal balance and reduce its public debt to GDP ratio.

Now our budget deficit to GDP ratio is 2.5 percent, well below the Maastricht criterion of 3 percent. Our public debt stock to GDP ratio is 39 percent, again much lower than the Maastricht criterion of 60 percent. This low level of public debt distinguishes Turkey from most of the other European economies.

In a global environment where many countries registered either little or no growth the Turkish economy grew by 9 per cent in 2010 and 10.2 per cent in the first half of 2011. Moreover, our growth has been an employment generating growth.

At a time when the ratings of many developed market economies are downgraded, Turkey's credit rating has been upgraded three times since 2009.

However, this positive outlook did not make us overconfident. On the contrary, our economic team has been taking timely decisions to overcome the risks, including high current account deficit.

During a period of skyrocketing debt stocks, ballooning budget deficits and deteriorating credibility, Turkey managed to differentiate itself by announcing its fiscal consolidation plan very early in the process and implementing it.

In 2009, during the peak of crisis, we responded with medium term programs. We thought that bringing predictability to our policy choices was very important. Since then we have implemented these programs very rigidly. We updated the medium term program in 2010, and we have recently announced the last update.

According to the new medium term program our central government budget deficit to GDP ratio will decline from 1.7 percent this year to 1.5 percent next year and to 1 percent in 2014. In parallel to this decline, our Maastricht criterion defined public debt to GDP will fall to 37 percent in 2012.

Distinguished Guests,
Ladies and Gentlemen,

The determination of our country to create a stable and strong economy with favourable investment conditions has attracted both domestic and foreign investors. Turkey has emerged as a top investment destination as a result of the elimination of bureaucratic barriers to a large extent, improvement in the tax system, facilitation of profit transfers and successful privatization programs.

The total amount of foreign direct investment inflows in the last four years has reached 70 billion Dollars. The number of foreign companies operating in Turkey exceeded 27 thousand.

Turkish companies have become major players in the global market place. Hundreds of thousands of jobs in Europe depend on Turkish business. Turkish firms already employ more than 700 thousand people across Europe.

One in four of the largest companies in the Middle East and North Africa are Turkish and 65 percent of industrial exports from the MENA region originate from Turkey.

As these reforms have strengthened the macroeconomic fundamentals of Turkey, our GDP has reached almost 1 trillion dollars (PPP) and per capita income has soared to 10 thousand dollars (PPP) in 2010.

The strong performance of the Turkish economy has also boosted foreign trade, while exports hit 133 billion dollars in the last 12 months and tourism revenues exceeded 20 billion dollars in 2010. We had foreign trade volume over 300 billion dollars last year.

One of Turkey's biggest assets is her educated, young and dynamic human capital. The average age is 29 in Turkey whereas it is 42 in EU countries. There are 500 thousand university graduates every year in Turkey.

On the other hand, Turkey is transforming itself to a knowledge based economy. The Turkish "software" market recorded 100 percent growth rate in recent years and reached the level of 2 billion US Dollars as of 2009. Mobile phone subscriptions reached almost 70 million whereas the number of broadband Internet users is 37 million.

We also attach particular importance to R&D activities and envisage allocating 2 percent of our GDP to R&D expenditures. Between 2003 and 2009, domestic intellectual property right applications and licensing increased five-fold.

In sum, significant improvements in such a short period of time have registered Turkey as the 16th largest economy in the world and the 6th largest economy in Europe.

Distinguished Guests,
Ladies and Gentlemen,

Let me now turn to our bilateral economic relations. Turkey and the UK enjoy a privileged relationship based on strong bonds of alliance, partnership and mutual trust. Today, our relations are flourishing in almost every field. Close economic and commercial ties between our countries represent an important aspect of this relationship.

Despite the global economic crisis, annual trade volume between our countries reached 12 billion Dollars in 2010. As of September 2011, our trade volume reached 10.2 billion Dollars. The UK is Turkey's 2nd largest partner in exports and 10th largest partner in imports.

However, the potential that we have is much greater, and we are committed to move forward towards the common goal of doubling our trade volume within the next five years.

From the UK perspective, the picture is equally remarkable. The UK is the second largest investor in Turkey. More than 2,300 British firms have made investments worth of 4.1 billion Dollars in Turkey. On this account, let me highlight some of the major British investments in Turkey:

- Back in 2001 HSBC purchased Demirbank, and today, it has more than 330 branches in Turkey.
- Since purchasing Izmir-based supermarket chain Kipa in 2003, Tesco has been expanding ambitiously in the Turkish market, increasing the number of stores from 5 in 2003 to 120 in 2010.
- In 2006, Vodafone bought Turkey's second biggest GSM operator Telsim for 4.5 billion dollars. Vodafone invested 1.2 billion dollars over two years to extend the Telsim network and increase the quality of communication. This is Vodafone's biggest investment project in Europe. As a result, Vodafone has got 18 million customers in Turkey.

- Aviva and Ak Insurance merged in June 2007. The merged company became the biggest individual pension fund and the 3rd largest life insurance company in Turkey.
- Last but not least, BP, British American Tobacco, Shell, Unilever, GlaxoSmithKline and Corus Group have been traditionally active in the Turkish market for many years.

We would like to see new investors from the UK. Likewise we encourage our private sector to increase their presence and investments in the UK.

Distinguished Guests,
Ladies and Gentlemen,

We are all in very demanding times. The world economy faces debt, growth and confidence crises.

We need to stimulate growth and create new jobs. It is all the more important today to further strengthen Turkish-UK business links in order to overcome economic difficulties.

We have got all the necessary ingredients to achieve this; strong political will; economic potential; favourable investment climate and strong private sectors.

In the past, we have seen many rising stars, suns and tigers in the world economy. Now, with its shining star Turkey is the rising crescent of Eurasia.

On that note, I would like to invite you to explore vibrant business opportunities in Turkey to the mutual interests of our nations.

Thank you for your attention.