



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

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THE PRESIDENT OF THE BOARD OF DIRECTORS OF TÜSİAD
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Dear Mr. Olivier Guillaume,
Mr. Jean Lemierre,
Mr. Ambassador Bernard Emié and,

Distinguished Guests,

On behalf of TÜSİAD, I would like to express my gratitude to Chambre de Commerce Francaise en Turquie (French Chamber of Commerce in Turkey) for its efforts in organizing this conference luncheon today.

As TÜSİAD, we are honored to be a part of this prestigious event congregating such an esteemed group of participants. I hope we will have an interesting and fruitful discussion today.

As most of you know very well, Turkey was directly affected by the global financial crisis, but demonstrated significant resilience thanks to substantial reforms implemented after the 2001 crisis. Having weathered the crisis quite well, Turkey is expected to have an impressive growth performance in 2010 when compared to other emerging economies.

Memories of the 2001 banking crisis still fresh in mind, companies and households cut investment and consumption. Nevertheless, the strong macroeconomic policy framework attained after the 2001 banking crisis, provided resilience for the Turkish economy. Prior to the recent global crisis, Turkish economy grew by an average annual rate of almost 7 percent between 2002 and 2007.

It is true that Turkey's macroeconomic fundamentals and financial system are now stronger than in the beginning of this decade. However, when the country was hit hard by a deep financial crisis in 2008-2009 period, the economy was slipped into a severe recession in the first half of 2009. To be exact, Turkish economy shrank by 14.6%, 7.6%, 2.7% in the first three quarter of 2009 respectively.

As the crisis began to loom large over the Turkish economy, soon afterwards, the real economy was hit sharply through its external trade links with the major advanced economies. Meanwhile, Turkey's industrial production and export potential was also dropped severely due to a significant decline in external demand for its key products in such sectors as the textile and automotive. Least but not last, declining consumer confidence and tighter bank lending standards caused domestic demand to weaken further.

As of the late 2009, things started to change for both global and Turkish economy. The recovery in Turkey has been quite amazing, led by manufacturing production and increasing domestic demand, the economy expanded at a double digit annual rate at the first half of the year, and economic activity has returned to pre-Lehman levels.

All signs now indicate that the economy has rebounded quickly and is headed towards renewed growth for this year and 2011. Not surprisingly, growth forecasts of international institutions for the Turkish economy have been revised upwards several times and reached as much as 7.2 percent, the highest among OECD countries.

Distinguished Guests,

Allow me to share some recent data with you: The latest growth data was released last week. And we have all seen that, in the first half of 2010, GDP growth rate of Turkey (which is around 11%) is one of the highest in the world.

However, if one takes into account of the possible downshift in global growth momentum along with the stabilization of domestic demand, it is possible to project that economic growth in Turkey is likely to lose momentum in the second half of the year.

We also attach great importance to unemployment problem in Turkey. Although unemployment rate reached its historical peaks in 2009, employment conditions are now improving. However, weaker foreign demand conditions could dampen the labor market and thus the recovery in domestic demand in coming months.

Having said all, I would like to share with you some points that I find quite useful in order to ensure continued growth.

Thanks to tight monetary policy implemented successfully by the Central Bank of Turkey, Turkey managed to bring inflation to single-digit levels but still faces challenges in reaching to a lower sustainable inflation environment. The robustness of Turkey's banking sector was a great advantage during the crisis and helped to support the recovery. During the latter part of 2008 and early 2009, Turkish banks were able to achieve a 100 per cent roll-over rate on maturing foreign loans. In my opinion, the efficient functioning of the financial system will be instrumental for future growth by lowering capital costs for all borrowers in the economy, notably the small firms. As the Turkish business community, we attach significant importance to the new draft law establishing a fiscal rule and believe that it has the potential to improve the fiscal performance over time, as well as acting as a main credibility anchor both at home and abroad.

Esteemed Guests,

The current global financial crisis presents both significant challenges and opportunities for Turkish businesses. Some Turkish exporters are finding overseas orders slowing due to falling demand in international markets or because overseas buyers are having difficulty in obtaining appropriate credit. On the other hand, over-appreciated Turkish Lira is not either helping to make Turkish products more cost competitive in global markets.

As is well-known, initial response of domestic and global firms to the economic downturn was to implement actions towards survival. The crisis has forced firms to review their established business models and to restructure their processes. Formerly planned investments were re-evaluated and mostly postponed. Although focus in short-term is critical for survival, institutions should not neglect the fact that they are living entities. I am a firm supporter of the idea that short-term actions should be aligned with long-term strategies; this is what I came to believe after all these years in doing business. During the crisis, firms tended to overstate their focus on short-term results, moving the long-term strategies back in the agenda for a while.

In my opinion, firms that have successfully aligned short-term precautions with long-term goals have the higher potential to reap benefits during and/or after the recovery period. It is pretty much clear that firms will continue to focus on short-term strategies and prudent management approaches

for a while. However, as TÜSİAD, we do believe that efficiency measures and growth – or short-term tactics focused on survival and long-term strategies – can always co-exist. If one takes into account the robust recovery signs, I believe, structuring mid-term strategies comprehensively will create competitive advantage for the Turkish firms in the upcoming period.

Looking back, there is no doubt, that Turkish Banking Sector performed remarkably well both in domestic and global scale, in the recent global financial crisis.

The relatively low proportion of bank debt held as foreign loans and the relatively high proportion of funding from deposits left the banking sector relatively well positioned to deal with refinancing risk. The current crisis made it quite clear that the Turkish Banking Sector in a healthy state and well functioning with its strong capital base and improved risk management system.

The absence of toxic assets in Turkish Banking Sector also prevented possible write-downs in the system. While many western banks have lost billions in write-offs, some have gone through heavy losses and even some others collapsed totally, Turkish banks have succeeded in keeping troubles at bay during the global crisis and continued to realize significant profits. In the mean time, foreign banks operating in Turkey posted record profits whilst their parent companies were occupied with write-offs on unpaid loans and credits.

Distinguished Guests,

I would like to have your attention to an important issue right at this point.

The small and medium sized enterprises (SMEs) constitute a significant part of the Turkish economy. However, their growth remains limited by the low level of financial intermediation generally; and, particularly, in eastern and southeastern regions, by their limited access to finance. This becomes even worse for smaller enterprises and for the agricultural sector. For this reason, as TÜSİAD, we support entities such as TURKONFED (Turkish Enterprise and Business Confederations) and SEDEFED (Federation of Industrial Associations) to improve the conditions for SME growth.

Many sectors in Turkey offer high growth potential, due to the unsaturated nature of the market and the dynamism of the young population, both of which offer significant scope for expanding the domestic market. Energy, wholesale and retail trade, food, base metals, construction, chemicals and logistics are among the sectors that could realize the fastest growth. Healthcare and food maintained strong growth rates throughout the recent crisis.

Energy has been the top performer in attracting foreign direct investment (FDI) in recent years and is expected to lead, as demand for energy has been rising rapidly. Government estimates indicate an increase in annual growth in demand of about 4% on average until 2020. We also believe that the recent Nabucco gas deal has underlined once again the importance of Turkey as an energy hub, connecting the commodity-rich economies of the East to the advanced economies in Europe.

We know that the construction sector was a major contributor to growth in previous years, albeit being a very cyclical sector, it has significant growth potential as Turkey expands. Many Turkish companies, especially large construction companies, have been operating in central Asia, Russia and the Middle East for decades. We believe, in the near future, we will see more business opportunities arising in the construction sector as the neighboring regions, especially those in the Middle East, continue their restructuring process.

Distinguished Guests,

Now that the recovery is under way and real interest rates are at their lowest levels in Turkey, it is an opportune time for the government to introduce structural reforms to improve Turkey's stance in international markets.

The low capacity to create new jobs is obviously related to rigid labor market regulations, which at the same time paves the way for informality and ultimately hampers productivity growth. As is well-known, firms operating in informal economy have less access to finance and invest less in human capital. Thus, their productivity is much lower than those operating in formal economy.

Last but not least; I'd like to focus on the state of Turkey's EU accession process. We do believe the whole process currently lacks energy on both sides and both actions and rhetoric need to be invigorated. Following the results of the referendum, it is fair to say that there is an increased willingness in the Turkish public at large to rewrite the Constitution; one that civil, reflects the needs of the 21st century and overcomes all divisive issues in the political arena. We feel this willingness might put Turkey on a renewed path of reform. The shift of growth areas in the world have opened up new horizons for trade and investment in markets where Turkish businesses can become a partner, a catalyst for EU companies. Despite all this debate about shift of axis, as TÜSİAD, we feel strongly that the value system and governance model that suits the modern Turkey, is European and we will continue to work on the accession issues as vigorously as ever.

I do hope that today's meeting would help further Turco – French cooperation and friendship.

Thank you for your attention.