Opening Speech

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I would like to begin by saying welcome to my esteemed colleagues who are attending this meeting on the Balance of Payments, sponsored jointly by the Central Bank and the Banks Association of Turkey, as speakers; to our esteemed panellists; and to all of my colleagues, who come, I am certain, in the hope of learning a lot. I have no memory of any meeting or panel concerned with the balance of payments in recent times. The balance of payments is a subject which appears extremely technical but which it is essential to understand as one of the most important elements of a nation's economy. Therefore, we owe our thanks to the Banks Association of Turkey and to my associates, for having arranged this meeting.

I would like to make two topics the main subjects of this opening speech. Here is the first: I have been thinking about what are the main principles and characteristics that are essential or desirable for a country's balance of payments, and have grouped my results under three headings, which I will briefly mention. And here is the second: Taking a very long view, extending from the 1930s to 1998, what kind of macroeconomic changes will be found to have occurred in Turkey's balance of payments? I would like to describe what I see from this very long-term perspective.

Now for the three main points to be made about the characteristics sought in a balance of payments. The first essential characteristic is scope. Because the people in the real economy, the financial sector, or residing in the country have economic relationships with persons abroad, the balance of payments consists of myriad transactions that result in transfers out of the country or inflows into the real or financial sectors. It is essential for the scope of data collection to be large enough to capture all these kinds of transactions.

A second essential is transparency. Both the data on which it is based and the figures used in constructing the balance of payments must be transparent, and their transparency should be achieved in ways that put it beyond any question.

Third, because the balance of payments is an internationally defined concept, the compilation of the balance of payments, and the evaluation of its significance and consequences, must be consistent with international criteria so that one country's balance of payments can be seen in its true relation to the balance of payments of other countries.

When we look at Turkey in the light of these three criteria, I think we will find that the Central Bank of the Republic of Turkey has made significant progress since 1975, especially in the compilation of raw data and the presentation of data related to the balance of payments.

I am one who watched the last years of the 1970s and the first years of the 1980s from the vantage point of the Treasury and the Ministry of Finance. The balance of payments was certainly an issue of great importance then. When I look back from where we are today to the days of the great effort that had to be made to calculate Turkey's debt in 1978-1979 from external sources, I can see that we have made great progress with respect to coverage. Clearly our coverage can still be improved and refined. We still have some homework to finish, and we are working on it. But I can say that today, Turkey's balance of payments presents the data which ought to be in a balance of payments statement within the present framework.

What we understand as transparency includes a comprehensible account of the items in the balance of payments called "other items" and "net errors and omissions." In other words, all the data in the balance of payments statement, including where or how the underlying figures were obtained or derived, must be known and interpreted. Certainly there are still some problems with Turkey's balance of payments, which we are trying to solve, but a look at the figures and data associated with "net errors and omissions" shows this item to be quite small in terms of the global magnitude of the balance of payments.

The third criterion, which is that the compilation of a balance of payments should be consistent with international standards, dates from the early 1980s. At that time we had a friend working at the International Monetary Fund named Baydar Gürgen. He has since retired, and still lives in Washington. I remember him. Ensuring the consistency of countries' balance of payments with the international standards is in a way a responsibility of the International Monetary Fund. Mr. Gürgen came to Turkey at the beginning of the 1980s to assist Turkey to meet the international standards. Beginning with his first visit, and during periodic subsequent visits on business, he made very valuable contributions to giving Turkey's balance of payments its international dimension. By working to adapt to the international standards since the beginning of 1980, I can say that through the 1990s and now in 1998, we have reached a point where we have no problems in complying with the international standards.

Having described what a balance of payments should be in terms of coverage, I would like to see how Turkey's actual balance of payments has measured up in the past. From this standpoint we can distinguish four separate historical periods. For the 1930s we have a balance of payments record, but we cannot consider the balance of payments separately from economic policy because it was the economic policies of the state that shaped the balance of payments, and the balance of payments merely reflected statist economic policies. In those years, international transactions, particularly export-import transactions, were mainly conducted by bilateral agreements. There were two important principles. One of them was the principle, established in the 1930s, the Turkey would import only from countries that purchased our exports; the other was the principle that no goods would be imported that were domestically produced. These limitations were certainly reflected by the balance of payments during the 1930s and even the 1940s. There were the war years, of course, and World War Two had significant effects. The quite modest depth of world capital markets also required trade to be financed very differently from today.

In the second period, after the beginning of the 1950s, the demand for imported goods began to grow faster and this acceleration is reflected in the balance of payments. The increase in imports was accompanied by a shift in their composition: an increase in the share of consumer goods is seen in the 1950s and 1960s. Of Turkey's total imports in 1950, 46 percent were investment goods, 21 percent were consumer goods, and 33 percent were raw materials. By 1970, the share of investment goods has changed little, from 46 percent to 47 percent; but the share of consumer goods has decreased from 21 percent to 5 percent, and the share of raw materials has have increased to 48 percent. The annual balance of payments for the 1950s and 1960s reflect these changes.

During the third period, dominated as we all know by the development programs of the 1960s and 1980s, economic policies under the development plans were based mainly on import substitution. The "imports" item continued to increase during this period, which led to the external payment difficulties of the 1970s. This spelled the end both of prices determined by the self-correcting mechanism of the market, and the principle of one way, one price; and brings us to the 1980s.

The changes made during the 1980s in Turkey's economic policies are again reflected in the balance of payments. One of the things reflected is the effort of the economy to obtain badly needed foreign currency while implementing a stabilization program. In addition, the various structural measures undertaken during the 1980s have caused the orientation of Turkey's foreign balance of payments to vary as well. As Turkey passes from import substitution to an export-based, outward-looking economic policy, we naturally see an acceleration of export growth. The effect on the sectoral distribution is especially striking. Maybe all of us know the figures, but that is not reason not to repeat them.

From a balance of payments in which agriculture dominated exports with a 93 percent share in the 1950s, we see this share decline to 18 percent in 1990 and to 10 percent in 1995. Industry's share in the balance of payments was 1.4 percent in the 1950s. This share rises to 18 percent in the 1970s, to 86.6 percent in 1996, and approximately 87 percent in 1997. During all these periods, Turkey's various economic policies, both inward- and outward-looking, are reflected in our balance of payments. The clearest reflection is in the financing items, which as you know become visible in the balance of payments only after the current transactions have been figured out.

Going back to the 1980s, and I will go back no further, and looking at the financing items, we see that long-term funds flowing to the state, mostly raised by government bonds, were gaining importance in financing the balance of payments. Since 1990, and especially in 1994, 1995, and 1996, and again in parallel with economic developments, long-term capital flows were being replaced by short-term capital movements, in line with the trend in the global financial markets. Since this shift in structure is also convenient in terms of our economic policies, short-term capital movements have begun to assume a significant role. There are also portfolio investments, the item designating both the sums Treasury has raised from the international financial markets by issuing bonds, and the inflow of funds parallelling the development of the İstanbul Stock Exchange. This also amounts to a structural change.

Dividing the period between the 1950s and 1997 into two periods, from 1950 to 1984, and from 1984 to 1997, clarifies the picture with respect to the current account deficit. First let me point out that except for two significant periods of crisis, in the last years of the 1970s and in 1994 (I omit the crisis connected with Iraq in 1991), the ratio of Turkey's current account deficit to GNP has not fluctuated much and has consistently been lower than the international average or the figures obtained by similar countries. When we look at the figures between 1950 and 1984, a period when market mechanisms did not operate and when there were no significant structural changes, we find that the current account deficit in terms of GNP averaged 1.7 percent, higher than the figure for the period 1984-1997 that I will mention shortly.

The 1980s saw the emergence of movements which by mid-decade had deregulated exports and imports and the current account balance in the real economy, and the liberalization of capital movements at the beginning of the 1990s. It can be seen that these changes have caused current account deficits to decrease on the average.

The conclusion we may draw is that, the more we deregulate the items related to current transactions, and the more we liberalize capital movements, the smaller will be the ratio of our current transactions deficit to gross national product. This was one of Turkey's most significant structural changes. The Turkish liberalization of capital movements starting at the beginning of the 1990s was the topic most discussed in the international financial organizations up until the Asian Crisis. There were several debates on the liberalization of capital movements in the various committees of the IMF. Because many countries in the world were less liberal than Turkey in their treatment of capital movements, the IMF was inclined to the belief that the world economy would improve as the liberalization of capital movements became more widespread. However, liberalization in a global framework began to look different after the Asian crisis. Even the IMF was affected, dropping the issue from its agenda and beginning to downplay its significance. The Asian crisis has provided much food for thought concerning today's highly globalized financial world, and changed the IMF's position on the issue. It is now their view that had there not been such a huge liberalization and such large short-term capital flows, the reversal of the flows would not have occurred and the crisis would have been neither so deep nor its consequences so painful.

From Turkey's viewpoint, this may be interpreted in several ways. When we look at the figures, we find that the extent to which we liberalize both current transactions and capital movements affects the rate at which the GNP ratio of our current account deficit declines. In fact, this reflection is a structural characteristic of Turkish economy, and as such is one of the structural beauties of Turkey.

Here I would like to open a parenthesis. The debate about whether liberalization should begin with current transactions or with the trade balance; and in the latter case, whether it should begin with imports-exports or with the invisibles or with capital movements, goes back practically to the 1920s. It began in Turkey in the 1930s but took a long time to arrive at anything like a conclusion. Thus it was that liberalization began in the 1980s first in the trade balance, exports and imports, and then was reflected in the invisibles. Ten years later, in the 1990s, liberalization reached the capital movements. As a matter of fact, when you look at this it is seen to be a correct model. When we examine the figures, the correctness of the model of a liberalization movement that begins with the trade balance, then the invisibles, and then the capital movements, certainly with the support of other measures that reinforce and develop the structure of the economy, becomes obvious.

I would like to touch briefly on foreign exchange policy, knowing that my colleagues, the panellists, and the other speakers will discuss this in greater detail. But foreign exchange policy offers me a way of summarizing what I have said.

Which is, that as regards the three main necessary qualities of a balance of payments with which I began, coverage, transparency, and consistency with international standards, Turkey has made good progress, despite some deficiencies that we in the Central Bank and other concerned ministries and foundations are working to eliminate. We have no reservations as regards transparency. If there are some items that are not transparent, if we have a problem with data collection or not being able, for various reasons, to obtain much more detailed information from certain sections of the economy, we are working to resolve the problems as far as possible. In terms of these three standards, Turkey has made great progress, and we will continue to work on these issues. Beyond this, I believe that Turkey's response to the evolution of the balance of payments in this century has been very sound in spite of the two crises already mentioned.

For the future, I support policies that do not disturb our structurally strong balance of payments, but on the contrary make it sounder. The support of structural, financial, and monetary policies that will decrease inflation to single-digit levels will be reflected in the balance of payments, and will open still wider and better horizons to Turkey.

I would like to finish this speech by again thanking the Banks Association of Turkey and my colleagues for arranging this meeting, and conveying my best wishes to our speakers and panellists. With my best regards.