

ISTANBUL FINANCIAL CENTER

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INTRODUCTION

Did you know that until 1886 the axis of Hagia Sophia and Sultan Ahmet was considered “zero time zone” and all around Europe watches were set accordingly. Later you know what happened: Greenwich had taken over this task.

IFC STORY

Istanbul Financial Center story started in 2007. As a first step, the government asked Banks Association of Turkey to come up with a report. Banks Association commissioned Deloitte Consultancy in 2007 to prepare a feasibility study and a road map.

The primary question posed was *«Is it feasible to develop a world-class, value generative financial center in Turkey?»*

Deloitte's several hundred pages report concluded that *«Yes... Turkey is a country with the resources, domestic and regional potential, latent skills-base, location and national pride to develop a world-class value generative financial center. However ... It will take strong leadership and political mobilisation to make difficult decisions, commitment of significant resources and a patient attitude to return on investment»*

ISTANBUL AS AN IFC; POLITICAL COMMITMENT

1. In 2007 Prime Minister Erdogan and his government took this project very seriously in their medium term strategy.
2. 9th and 10th Development Plans(SPO) covering 2007-aece period and later Medium Term Programs of 2009-2011 and following ones attached special importance to this project.
3. In 2009 Annual Program, SPO came up with a comprehensive "Strategy and Action Plan" which is in the process of implementation today and closely monitored by the authorities. As of today, almost 80% out of 71 actions has been accomplished.

In sum, this project has the full political support. Just to give you and idea, already 9 working groups, with over 80 public and private sector institutions involving over 300 experts contributed to this "Strategy and Action Plan".

Global Financial Centers compete on twelve dimensions of competition:

1. Skilled Labor
2. Revenue generation potential
3. Image
4. Legal environment
5. Political and economic stability
6. Fiscal environment
7. Regulatory framework
8. Infrastructure
9. Ease of doing business
10. Cost of doing business
11. Lifestyle
12. Availability of professional services

SOFTWARE PRIORITIES:

- ✓ Improvement in the judicial system particularly with respect to the dispute resolution, litigation and arbitration.
- ✓ Creating an independent autonomous and world class "arbitration center" in Istanbul.
- ✓ To speed up the parliamentary process of legal actions/draft laws and regulations related to IFC project. (Commercial Code, Law of indebtedness etc.)
- ✓ Improvement the number, diversity and quality of financial instruments and services compatible with the EU standards.
- ✓ Improvement of the transparency of financial markets and increasing the dissemination of financial data.

HARDWARE PRIORITIES:

We should remember that there are two types of hardware: Visible city hardware and invisible city hardware.

We can all guess the visible one. For the second one Mumford emphasis: «ICT and Connectivity». Both combined makes the «Smart City».

Today without being a smart city you cannot aim at being a financial center.

- ✓ Prepare Istanbul to be a better, secure and easy to travel city by improving physical infrastructure. This will obviously involve office and residential real estate stocks, transportation, (domestic and international), education and health facilities etc.
- ✓ Improving the technological infrastructure by offering cheap, fast, secure an uninterrupted electronic communication.
- ✓ Enriching human resources pool needed for IFC project by improving the efficiency of the existing pool but also investing for new comers.
- ✓ Preparing an efficient PR program both domestically and internationally.

CHALLENGES AHEAD

- ✓ No distraction from the EU adjustment process
- ✓ No distraction from the normalization and further democratisation i.e. let the "genie" accomplish its mission.
- ✓ To concentrate and ensure private-sector-led sustainable growth based on productivity, innovation and use of technology.
- ✓ Inflation should be contained in the near term. More emphasis should be given on increasing domestic savings, improving the quality of financing current account deficit and fighting with unregistered economy. Knowing that current financing structure of Turkish growth makes TRY (and bond rates) vulnerable to changes in global risk perceptions, this will be one of the key policy parameters in the coming years.

- ✓ Under current and potential future macro economic conditions there remains a wide range product specific opportunities for Turkey to explore first a niche market, regional market and finally aim at a global financial center. Specific product opportunities may include: REITs, Islamic Finance, derivative instruments, insurance classes, commodity futures, environmental "green" financing, regional currency swaps, shipping, transportation and freight instruments trading, forfaiting etc.
- ✓ Last but not least the real challenge for authorities today from today onwards will be to show and prove their commitments to the recently announced reform package that aims the country to get away from the so-called «Middle Income Trap» and enter into a new age growth path.

MAJOR ACHIEVEMENTS OF THE ACTION PLANS

Establishing a New Administrative Structure for IFC-Istanbul

- Creating an organizational structure in which private sector participates more actively on the basis of good practices
- Promoting Istanbul more effectively in the presence of international financial institutions and investors
- Improving coordination among domestic shareholders

Strengthened legislation Infrastructure

- New Turkish Commercial Code
- New Capital Markets Law
 - ❖ Consolidation of Istanbul Stock Exchange and Istanbul Gold Exchange under Borsa Istanbul A.Ş.
- Law on Financial Leasing, Factoring and Finance Companies

Incentives for Private Pension System

- Public subsidy of 25% to participants' savings

Incentives for International Funds

- Exemption of non-resident fund returns from corporate taxes under some circumstances

Incentives for Venture Capital Investment Funds

- Exemption of funds to be invested into the Turkish venture capital investment partnerships or funds from corporate taxes under some circumstances

Issue of Rental Certificate (Sukuk)

- First issuance to international markets amounted by USD 1.5 billions
- First issuance to domestic markets amounted by TL. 1.6 billions

Istanbul Arbitration Center Act

- Faster and more reliable solutions with competitive costs

Dynamic Capital Markets and ISE Expansion

ISE has already been playing a leadership role with its involvement of Eurasia Stock Exchanges Federation (FEAS) and preparing itself to offer a technological platform to trade for the regional players. Recent NASDAQ partnership is a first step towards this target.

Internet Penetration Rate

Rank	Country	Penetration Rate
1	Korea	%92.5
2	England	%91.6
3	Japan	%90.6
4	Germany	%88.4
5	USA	%87.4
6	France	%83.8
7	Turkey	%59.4
8	Brazil	%57.6
9	Iran	%57.2
10	Tailand	%55.9

Source: Nielsen Online, International Telecommunications Union,
Nov.2015

Early Signs of Being a Regional Center

According to YASED, as of September 2015, over 35 multinational companies manage their operations in 116 countries from İstanbul as a Regional HUB, such as Unilever, GE Healthcare, Microsoft, Schneider Electric, Coca-Cola etc.

AS OF SEPTEMBER 2015 (GFCI) IMPROVEMENTS IN INDEX CAN BE SEEN BELOW:

GFCI RANKS (SEPT.2015-SEPT. 2014)

	2015 GFCI	2014 CFCI
Centre	Rank	Rank
London	1	2
New York	2	1
Hong Kong	3	3
Singapore	4	4
Tokyo	5	5
Seoul	6	7
Zurich	7	6
Toronto	8	11
San Francisco	9	8
Washington DC	10	12

	2015	2014
Istanbul (*)	47	44

Bahamas	75	69
Rome	76	72
Helsinki	77	74
Moscow	78	75
Madrid	79	73
Cyprus	80	79
St Petersburg	81	78
Tallinn	82	80
Athens	83	81
Reykjavik	84	82

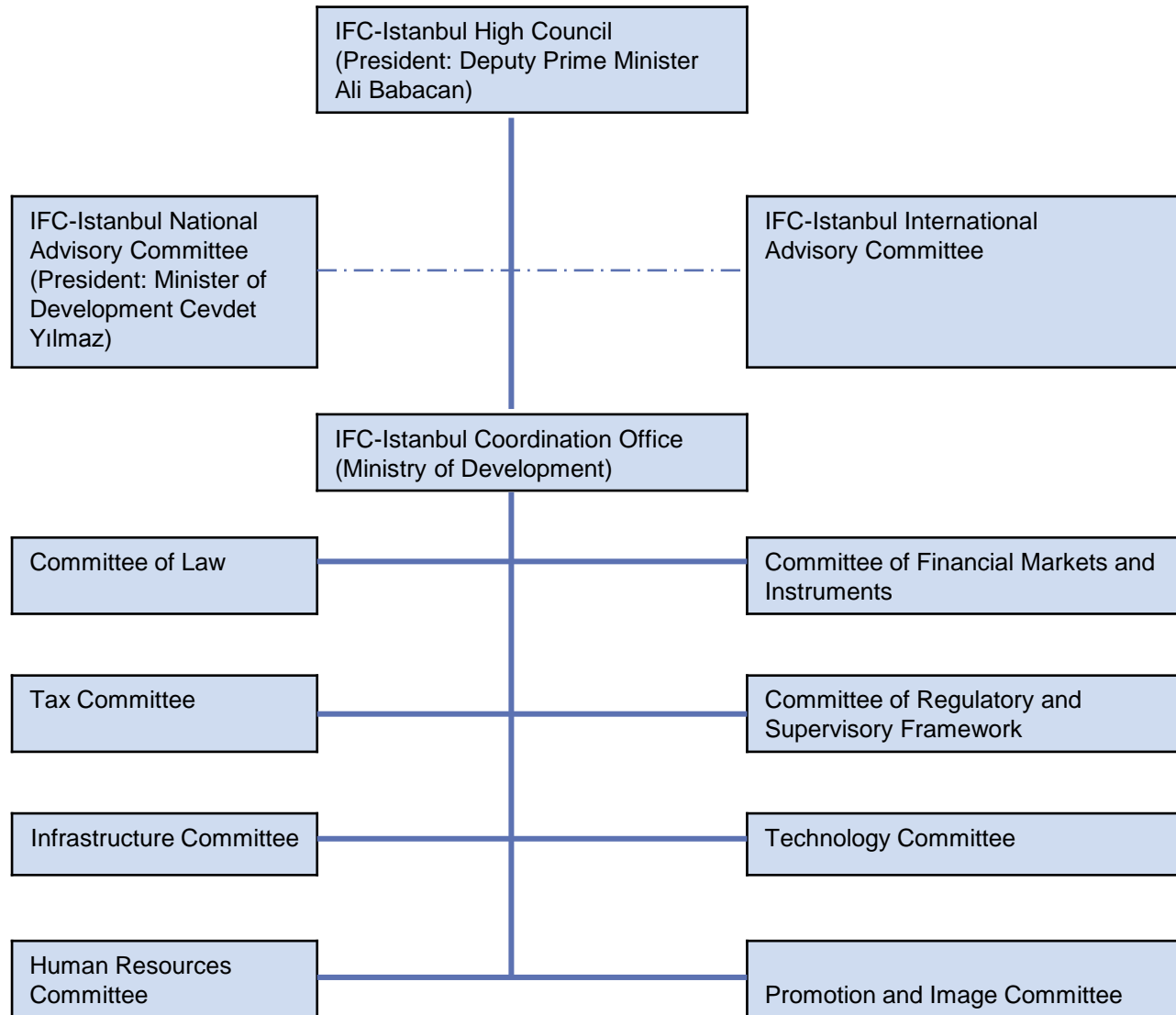
(*) Istanbul's ranking was 77 in 2007

TABLE 2: GLOBAL METRO MONITOR CITY PERFORMANCE RATING

	Post-Crisis 2009-2010	Pre-Crisis 1993-2007		Post-Crisis 2009-2010	Pre-Crisis 1993-2007
1	Istanbul	44	19	Buenos Aires (Argentina)	60
2	Shenzhen (China)	1	30	Hong Kong (China)	72
3	Lima (Peru)	16	37	Washington (USA)	85
4	Singapore	18	43	Abu Dhabi	5
5	Santiago (Chile)	41	45	Aydney (Australia)	76
6	Shanghai (China)	8	46	Detroit (USA)	147
7	Chanzu (China)	3	47	Moscow (Russia)	9
8	Peking (China)	4	52	Tokyo (Japan)	143
9	Manila (Philippines)	34	77	New York (USA)	90
10	Rio (Brazil)	100	96	Paris (France)	114
11	Hyderabad (India)	15	113	Frankfurt (Germany)	130
12	Mumbai (India)	24	123	London (UK)	68
13	Bagalore	7	148	Barcelona (Spain)	35
14	Melbourne (Australia)	47	149	Dubai	2
15	Guadalajara (Mexico)	69			

** Brookings Study, Among 150 mega cities Istanbul made the highest jump after Global Financial Crisis.*

IFC-ISTANBUL ADMINISTRATIVE STRUCTURE (2010-2014)



CONCLUDING REMARKS

As a frontrunner emerging country our eyes should be on the horizon but, our feet always should be on the ground. Having said that let me remind you of some facts:

1. There is a window of opportunity for Turkey to influence the direction of the global financial economy to its own benefit. Since the positions of many developed economies and their financial centers have been deteriorated during the crisis.
2. In long term, Turkey has a great potential of growth. According to a conducted research, in 2050 Turkey will become the 9th biggest economy in the world and 3rd in Europe after Russia and UK, as opposed to 16th in the world 6th in Europe today.
3. Contribution of financial services industry to overall GDP could reach 8% by 2023. (i.e. an IFC contribution of an additional 4%)
4. Turkey's success will depend on:
 - Predictability at Macro Level
 - Competitiveness at Micro Level
 - Connectivity at Techno Level