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G20/OECD Corporate Governance Forum

Welcome Remarks

Excellencies, Ladies and Gentlemen, Members of Press,

I welcome you all in Istanbul on the occasion of the Corporate Governance Forum jointly hosted by the OECD and the Capital Markets Board of Turkey under the G20 Turkish Presidency.

I would like to thank to Boğaziçi University and the Corporate Governance Association of Turkey for helping us to organize this important event.

Excellencies, Ladies and Gentlemen,

More than seven years after the financial crisis began, overcoming the legacies of the crisis remains high on the agenda of the global economy. The challenge is to support economic growth and job creation, while reducing heavy national debt burden.

Central banks have played a very critical role in this period and thanks to the US FED's policies, US economy has experienced a successful economic recovery. However, there has not been a strong economic recovery and job creation globally.

Despite all measures taken, economic growth and inflation in the developed economies, notably in the EU, are still not at desired levels. Many countries could not come out of the recession in spite of their negative interest rate policies. Particularly, the youth unemployment rates have reached to 20-30 per cent levels in some economies.

In addition, increase in debt stocks has accelerated in the aftermath of the financial crisis. The global debt stock has increased 57 trillion US Dollars since 2008[1]. Most particularly, sovereign debt stocks have been increasing at an alarming rate.

The expectations for an interest rate rise by FED have recently created turbulence in the global capital markets. Therefore, we believe that FED will consider not only the US markets, but also the possible implications of their interest rate policy in other economies before taking further steps.

[1] McKinsey Global Institute (2015), *Debt and (Not Much) Deleveraging*, p.15.

Ladies and Gentlemen,

We know that we need substantial increase in investment in order to re-establish long-term economic growth. When we consider the high levels of sovereign debt burdens, the need for private sector investment is becoming much more prominent.

Turkey had a different experience from many other countries over the last 12 years. Public debt stock has been reduced to 35 per cent from 77 per cent. Being one of the least affected countries from the global financial crisis, Turkey maintained an average annual growth rate of 5 per cent in the same period.

We strongly advocate that creating an appropriate environment encouraging the private sector investment is crucial for making high growth sustainable in Turkey. And to make this happen, we have recently made major changes in tax laws to strengthen the equity structures of our companies and incentivize corporations' use of equity finance through public offerings.

To reduce the tax advantage of debt financing over equity financing, we provide corporations with the opportunity to deduct from their earnings 50% of their cost of debt applied to the new equity capital raised. In the case of public offerings, this rate could be increased up to 150 per cent.

For example, while a company can deduct 5 TLs for a 100 TLs equity capital increase, the same company, if it is publicly listed or going to be publicly listed, can deduct 15 TLs for the same amount of equity financing.

This new regulation will both strengthen the capital structure of our corporations by reducing their debt to equity ratio and support their access to finance through capital markets.

Ladies and Gentlemen,

Adoption and implementation of good corporate governance standards is of vital importance. This is because, firstly, to avoid a new financial crisis, and; secondly, to ensure investors' confidence in the capital markets, so that corporations can use capital markets to finance their investments.

We all know that the weaknesses in corporate governance practices had played a significant role in the emergence of 2008 financial crisis. We encountered many cases where the corporations, particularly from the financial sector, were not able to successfully and sufficiently measure their risks and act in a transparent way to their shareholders. For instance, today, as a result of that discussion, only 27 per cent of investors in the United States reported to have confidence in financial markets[2]. One of the conditions of a well-functioning capital market is the trust of investors in both the financial system and the companies they invest in.

The new OECD Principles of Corporate Governance for which we gathered to discuss today describes this fact quite simply. If one country desires to attract long-term capital from international markets, it should establish a predictable and credible corporate

[2] Chicago Booth/Kellogg School Financial Trust Index, http://www.financialtrustindex.org/

governance system compatible with international standards. This is also of key importance for reducing the cost of equity for companies and their access to sustainable finance.

Regarding the SMEs, as a result of their limited institutional capacity, we know that smaller companies have only access to short-term and more expensive financing from credit markets.

SMEs account for almost 30 per cent of jobs[3] and have been the backbone of export sectors in most countries. With the growth potential they have, their contribution to innovation and job creation is of crucial significance.

In order to attract investors from capital markets, those companies should also be equipped with a well-functioning corporate governance mechanism. The demands of investors on companies are quite rational:

"Be transparent and accountable! Establish necessary framework for effective corporate governance!"

This is much more important for emerging market companies. In order to reduce their dependence on short-term bank loans and attract the attention of global institutional investors, they have to adopt and implement internationally accepted corporate governance practices.

As the Capital Markets Board of Turkey, we are committed to fulfil our own responsibilities. By introducing mandatory Corporate Governance Principles with our new Capital Markets Law in recent years, we have strengthened our corporate governance framework.

The new framework include many provisions with respect to related party transactions, enhancing the effectiveness of company boards and shareholders' participation in the decision-making process of companies.

There has been significant progress, but globally we still have a long way to go. I believe that the new OECD Principles will provide us with important and helpful guidance.

Let me conclude by wishing for the success of this meeting and expressing my sincere thanks to the OECD, all those involved in the preparation of the Forum and all our guests.

[3] World Bank (2011), Small vs. Young Firms across the World: Contribution to Employment, Job Creation, and Growth