



**12th World Congress of Accounting Historians
Opening Speech**

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Esteemed Chairman of the Organization Committee,
Esteemed Participants,

I thank you for having invited me as the chairman of the Banks Association of Turkey to address the opening talk of the 12th World Accounting Historians Congress. I wish to express my feeling of delight to make this speech and honor for being able to address you at “Harbiye” Military Museum, the most extensive military museum in the Middle East and the Balkans. I also wish to thank Professor Oktay Güvemli, Congress Chairman, for enabling me to talk to this distinguished audience.

Esteemed Guests,

All of you are welcome to Istanbul that bears the relics of Byzantium and Ottoman civilizations and has been the capital of three powerful empires in history, a city that unites Europe and Asia. It gives us great happiness to hold and realize this important organization here at a time when merely one and a half years have remained to the time we expect Istanbul to be entitled 2010 European Capital of Culture. I hope you will have a pleasant time in this lovely city, the cradle of history and the meeting point of cultures and continents

Esteemed Guests,

I believe you would all agree with the matchlessness of Istanbul as a city which has throughout the history harbored with tolerance and showed sympathy to many different religions, races, languages and voices. As Napoleon put it, “if the world were a single country, Istanbul would surely be its capital”. I am of the same opinion.

Throughout its history as the capital of empires, Istanbul also acted as a center for different religions. Significant churches and monasteries of the Christian world had been constructed in Istanbul during Byzantium Empire. Istanbul was adorned with various works of art, mosques, palaces, schools and similar other premises within the hundred years following its conquest helping the existing cultural texture of the city getting further enriched with the addition of Ottoman-Turkish identity into it. *Mehmet II, the Conqueror*, placed great importance on development of the social life and commerce in the City, and for this purpose ordered construction of many bazaars, shops, shopping centers, valuable goods shops (*bedesten*), Turkish baths (*hamams*), residences and mosques. Commercial centers such as *Cevahir Bedesteni* and *Sandal Bedesteni*, built upon order of Mehmet II, added vivacity to the commercial life of Istanbul while Grand Bazaar (*Kapalıçarşı*), one of these commercial centers also called as *New Bedesten*, maintained its significance and vivacity up to our times.



Acting as the center of the commercial life of Istanbul for centuries, Grand Bazaar's place in the social life of the City was also dear as a venue where cultural and commercial activities mingled and as a place of exchange for elevated works of art. With its immense size that is still a wonder at our age and the vividness of the economical activity under its roof; Grand Bazaar offers us strong clues for the key status of Istanbul in the past centuries in terms of economical activity.

Capital of the Empire was certainly the actor and witness to the ages that the Empire went through by being a stage to, and ultimately bearing, the many works, incidents and symbols of these ages. Istanbul was always at the center of a series of historical occasions and processes from its being the headquarters and center for the Ottoman Empire as well as Islamic Caliphate to being the house to the first printing house of the Empire, established by İbrahim Müteferrika; from the restoration efforts to the civil riots in the latter periods; from the breakthroughs in various areas of the arts and science such as architecture, mathematics and miniature engravings to the economical problems caused by the Capitulations.

An outcome of the commercial liveliness and industrial movements of Istanbul was its getting upper hand in the regional economy owing also to its key geographical position. Towel and dress manufacturers of Bursa, and basket makers, saddlers, yarn producers, clockmakers, jewelers, etc. from the Asian and European parts of the Empire all ran to Istanbul for offering their products to the developed markets of the age.

Potential of the City as a market of its own was also greatly augmented by its location on the main transit trading routes. From silk dresses and headscarves to the spices coming from Iraq, Iran, Damascus and the Indian cities on the one hand, and the finished products coming from Western towns such as Lyon and Leipzig on the other hand ensured Istanbul a prominent place in the global trade of the time thanks to its key geographical location.

Ultimately, Istanbul was always at the meeting point of the commercial exchange between the East and the West. It can be said in this context that the seeds of the present market economy of the Turkish Republic were formed in Istanbul.

Dynamism in the market led to rich philosophical discussions about the market economy. Ottoman Empire was introduced with the concepts of liberalism and protectionism (*Serbest-i Ticaret* and *Usul-ü Himaye* in original terms of the time) first in Istanbul. As we learn from Tevfik Çavdar's work "Liberalism in Turkey, 1860-1990" (*Türkiye'de Liberalizm, 1860-1990*), the first classical economy book in Turkey was written by Sakızlı Ohannes Pasha with the name of "*Mebadi-i İlim-i Servet-i Milet*", who also gave lectures in Military Academy and Administrational Academy where he taught about the free market economy saying that "the main drive behind the industrial movement is competition". Cavit Bey, in the period that followed this, defended liberal thought while at the same time put this into effect, though partly, as the Finance Minister of *İttihad ve Terakki* (*Committee of Union and Progress*).



Consequently, discussions and partial implementation of the market economy starting from the second half of 1800s which were also coupled with the major legal, political and administrative regulations such as *Tanzimat Fermanı* (Administrative Reforms Act) and then *Meşrutiyet* (Constitutional Monarchy), were heralding to the conception of a new power and a new era in this geography despite the Ottomans' radical loss of power in that period.

Young Republic would then be ready to carry this economical and cultural riches secured by Istanbul owing to its historical status and geographical location, to new dimensions in a new awakening that embraced the entire Anatolia, in line with the Republic's target to reach to the modern civilization and the reforms required by this target, and by the basic principles and applications of the competitive economy.

Istanbul which separates the Asian and European continents from each other by the narrow channel of Bosphorus, at a wondrous spot of the world where the seas and continents meet, was at the heart of the "Old World", and now it continues to be an international industrial and commercial center.

Esteemed Participants,

Our country has particular significance for the history of accounting too. Greatest evidence for this is the bookkeeping records of the trade relations between Hittites of Anatolia and Assyrians of Mesopotamia scribed into clay tablets at about 1500-2000 BC.

I would like to underline the fact that in addition to the liberal economical policies and accounting systems presented to the West as an alternative, statist economical policies which gained significance under the Ottoman guise were born in these lands. I believe that the accounting documents, bookkeeping materials and accounting applications of the young Turkish Republic that will be shown to you during the Congress are indicators of the glorious historical heritage we have.

There are no professions that stay unchanged without being affected by the political, economical, technological and human-related changes in the world. Accounting profession owes its ability to stay as a profession that can successfully compete in the market and protect public interests to its foreseeing the changes and its structure that can lead the changes. World Accounting History Congresses whose twelfth will be held this year highlight the significance of the accounting history. This Congress underlines once again how significant a potential this profession has. Believing that the discussions to be held during this Congress would provide new possibilities on these topics, I want now to inform you about the political and social structure of Turkey and submit to you the present developments experienced in the economy and banking sectors in Turkey.



Geographical location, political features; strong democracy and legal system

Esteemed Guests,

Turkey is located on an area of 780,000 square meters at the continents of Asia and Europe. Bordering countries of Turkey which is a peninsula surrounded by Black Sea, Aegean Sea and Mediterranean on three sides are Georgia, Armenia, Azerbaijan, Syria, Iran, Iraq, Bulgaria and Greece.

Turkey is consisted of 81 administrative provinces and is governed by a central government at Ankara. Official language of Turkish Republic is Turkish. Annual increase rate of the population, presently standing at 71 million, is 1.3 percent. Literacy rate in Turkey is 92 percent. Life expectancy is 72 for women and 69 for men.

Turkey is a founding member of United Nations Organization, Organization of the Islamic Conference, OECD and OSCE (Organization of Security and Cooperation of Europe), and participates many multilateral international forums. Turkey is a member of European Council since 1949 and a member of NATO since 1952, and continues its negotiations for EU membership since 1964.

Turkey is a Republic; a unitary state; and is governed by parliamentary system. It has a written constitution and law system. Following the foundation of Turkish Republic in 1923, many laws have been quoted from the laws in the European civil law system.

President of Turkish Republic is elected by the legislative body Turkish Grand National Assembly (Parliament). Turkish Parliament has 550 members, and its members are elected by public through general elections held every five years. Prime Minister is appointed by the Parliament for execution of government policies. Council of Ministers is made up of 25 members including the Prime Minister. Ministers are elected by the Prime Minister and appointed by the President.

Main sources of Turkish legal system are hierarchically constitution, laws, international treaties, governmental decrees in force of law, decrees of the Council of Ministers, bylaws, regulations and communiqués. Constitution is the highest norm of law. None of the legal sources, mainly the laws, can contradict with the Constitution. Legislative power has been vested with the Parliament in accordance with the Constitution, and the Parliament cannot transfer or delegate its legislative power to any other body. Compliance of the laws and internal regulations of Turkish Grand National Assembly to the Constitution is being supervised by Constitutional Court. Rulings of the Constitutional Court are binding. Turkey accepts the awards of European Court of Human Rights as the higher court awards.

Strong growth potential based on market economy

Esteemed guests, now at this stage, I would like to inform you about the economical history and policies of Turkey.



Priority of economic policies of the Republic of Turkey in the period from 1923 up to 1980s was to attain the economical development and to make the infrastructural investments required for this, and to create the production power in fundamental areas. Economy was closed to the outside world in the period up to 1960s, with the state acting as the main entrepreneur. Private sector started to assume a more active role in the economy and transition to planned economy from import substitution started in the aftermath of 1960s which also mark the passage to multi-party period. This period was also the period when private banking began to prosper in Turkey. Significant portion of the banks in operation today has been established in this period.

Beginning of 1980s marks a landmark for Turkish economy and political life. Transition to market economy has been decided in this period in line with the strong global tendencies. Opening up to the outside world in a radical shift from a closed structure, Turkish economy has shown an extraordinary performance starting from 1980s. Rules have been changed in order to strengthen the market economy and ensure its smooth functioning, financial markets have been established, and works have been assumed to ensure the growth of the banking industry starting from 1980s.

However, economical performance has been worsened in 1990s. The country failed to implement an economical policy aimed at ensuring stability due to the crisis in international markets particularly in developing countries and political weaknesses inside the country. Inflation has been too high in this period and gained a chronic character in this period, public sector borrowing needs grew, debt stock rose steeply, currency substitution gained speed, financial sector was left too small, and financial structure of banks weakened in this period.

It was subsequently understood that it is not possible for market mechanism to function effectively in a setting where macro imbalances grew and financial sector stayed small and shallow. Market mechanism was not abandoned, though, and it was decided that measures for ensuring better functioning of the market mechanism be implemented. Creation of an environment that allows for a high-pace and uninterrupted growth of economical activity lies at the heart of these measures. Therefore, it was aimed at maintaining the price stability, establishing the fiscal discipline and creating a strong financial sector. However, implementation strategy in Turkish economy experienced a shift starting from the early 2000s. Priority was given to stability and realization of structural reforms. Most important indicator of this change was the change of the rules, attitudes and the concept of supervision. Crucial steps were taken in 2002-2007 period for maintaining the stability and in the process of full EU membership.

Main objectives were listed as attaining a stable and sustainable growth, increase in competition, improvement and increase of the human resources, fortification of social infrastructure, reduction of the regional differences of development, prevailing good governance in public sector and improvement of physical infrastructure. Main factors of the economical policy being practiced today are:



1. Implementation of a monetary policy aimed at reaching to the inflation target,
2. Reinforcing the financial structure of the finance industry starting from the banking industry,
3. Ensuring discipline in fiscal policies,
4. Realization of the reforms aimed at ensuring the productivity, flexibility and transparency at all units of the economy,
5. Increasing the competition and productivity in economy.

The Turkish economy caught a continuous and stable growth trend after 2002. Average growth rate in this period was realized as 7 percent. Gross Domestic Product rose to 700 billion dollars from 230 billion dollars, and per capita income to 10 thousand dollars from 3,300 dollars. Turkey is the seventh largest economy of Europe, and seventeenth largest economy in the world.

Inflation rate receded to 10 percent from 60 percent. The ratio of public sector borrowing needs to national income fell to 1 percent from 13 percent. Total outstanding debt stock of the public sector dropped to 41 percent from 90 percent. Ratio of the budget deficit to national income fell to 2 percent from 10 percent. This successful performance helped Turkey meet a significant part of EU's economical criteria.

Foreign trade volume exceeded 300 billion dollars by more than a fourfold increase in this period. Foreign trade volume to national income ratio showing the openness of the economy rose to 42 percent by an increase of 11 percentage points. However, development of the foreign trade volume is to the disadvantage of Turkey. This was greatly caused by the Customs Union treaty signed with European Union as well as the inadequacy of domestic savings needed in our country for the investments required to attain high growth. Domestic savings to national income ratio is at 17 percent.

That's why foreign resources at a ratio of 5 percent of the national income are needed. Capital inflows into Turkey grew substantially in the last five years. Accordingly, annual net capital inflow into Turkey rose above 50 billion dollars at the end of 2007 from an average of 4 billion dollars at the end of 1990s. Turkey's share among the countries receiving capital inflows was 2.5 percent as of 2007. Direct foreign capital investments rose to 20 billion dollars from 1 billion dollars, while portfolio investments rose to 10 billion dollars from 500 million dollars.

Fast economical growth, stability and increase in investments led to increase in employment, however, this had no impact on Turkey's current unemployment rate of 10 percent. Main causes for this were the surplus labor force in agriculture, productivity increase due to improvement in education and the rise in technology-weighted investments. Another key factor was the size of unrecorded economical activity. Academic studies put the ratio of unrecorded economical activities to the national product as about 30 percent. Fight with the unrecorded activities is one of the top priorities for Turkey. Increasing the recorded activities has special significance not only for prevention of the losses in tax revenues, but also for improving the competition environment and enlarging the finance sector.



Finance sector

Performance of the finance sector was very positively affected by the improved environment of economical activities, realization of a high growth rate in a stabilized market, fall in inflation, and the decrease in the ratio of the demand of public sector for resources to national income, as well as the restructuring in banking system.

Along the restructuring process in the banking sector; banks with weak financial structure have been eliminated, state-owned banks were restructured in financial and operational terms, financial structure of the private banks has been strengthened, and legal and institutional regulations have been introduced in order to increase the efficiency of the supervisions and audits in banking sector and to make the sector structurally more competitive.

Better conditions have been created for the activities of the financial sector, and demand of individual customers in particular has increased as a result of improvement of the economical performance. Competition in banking industry increased due to the harmonization of regulations for financial institutions with international standards, capital flows and new foreign banks entering the sector; importance placed on the cost efficiency, fund management, qualified workforce, productivity, electronic technology and risk management increased in consequence. Additionally, marketing and customer satisfaction have gained higher profile, and banks have adopted policies that target the increase of diversity and quality in their services.

Finance sector is in the growth process in Turkey yet and banking has a dominant place in it. Ratio of the banking system to gross domestic product is 69 percent. Ratio of the total market value of the shares trading in Istanbul Stock Exchange (ISE) to gross domestic product stood at 26 percent, while the ratio of the bonds and bills market totally owned by the government to gross domestic product was 30 percent.

Banks fall in three groups according to their functions in Turkey. These are deposit banks, development and investment banks, and participation banks. Total number of banks is 50. Share of deposit banks' assets within total banks' assets is above 90 percent.

The most positive fallout from the restructuring in banking system was the growth in credit volume. Ratio of total credit volume to gross domestic product rose to 34 percent from 15 percent in the last five years. There has been a steep rise in individual credit demand recently. However, the ratios of both corporate and individual loans to gross domestic product are still far too small compared with the same ratios in EU countries.

A significant change in banking system was the change in the ownership structure. The share of foreign banks within the banks' total assets rose steeply to 25 percent in 2007 from 3 percent in 2002.



Banks' shareholders' equity which stood at 16 billion dollars in 2002 rose to 63 billion dollars at the end of 2007. Capital adequacy ratio was at 17 percent.

Turkish banks caught up with world standards in technical knowledge and technological innovations, and even overhauled some of their competitors in Europe. Turkish banking industry offers services requiring high technology such as interactive banking, high technology ATMs, and internet banking. Turkish banking industry has a strong growth potential in many fields spanning from financing of trade activities through improved electronic banking systems, to international banking, fund management, capital markets intermediary activities, and wholesale and retail banking services.

Major improvements have been registered in transactions such as internal audit, reporting, payments, and fund transfer, and productivity was increased as a result.

Shares of 15 Turkish banks are listed and traded at ISE. Banks and other companies of the finance industry have a considerable place in the Stock Exchange in terms of both trading volume and market value. Market value of finance companies constituted 35 percent of the total market value. There are a total of 320 publicly-held companies whose shares are traded at ISE. Market value of these companies is about 200 billion dollars as of the end of June. Istanbul Stock Exchange is the largest stock exchange of its region.

Improvements in economy and importance of Turkey in its region

Developments in the post-reform period are highly encouraging. Turkey has a growing economy with its modern industry, commerce and agriculture sectors. It is at the same time open to international integration, and has the most liberal exchange rate regime in the world. Turkish lira is a convertible currency. Institutional and individual foreign investments are free to be made in Turkey's finance and non-finance sectors. There are no restrictions imposed on the trading of foreign portfolio investments in capital markets.

Turkish economy has a considerable growth potential with its young and dynamic demographic structure. About 60 percent of the population is under twenty years of age. Turkey also has ample natural resources to satisfy its needs and a young and educated workforce who can use the highest technology. It is projected under the medium-term economical program that the economy grows at a rate of 5 percent, the inflation rate is pulled under 5 percent, and the public sector borrowing needs stay under 1 percent, and the public sector debt stock stays at 30 percent. Accordingly, per capita income is projected to rise above 12 thousand dollars in 2011. These targets are seen to be realistic considering that population increase rate tends to slow down compared with the previous years and the reform process in economy is gaining speed.

Turkish economy is passing through a significant process of change. Specific structure and characteristics of the private sector, improvement in its macroeconomic indicators, ongoing structural reforms, and the fact that EU negotiation process has started all support our positive expectations for the



future. Existing conditions support the maintenance and finalization of the structural reforms. Consequently, commercial activities will register further increases both in domestic markets and internationally.

Turkey places specific care for developing its international relations regionally and globally. Turkey is a reliable and strong partner in international economical cooperation. With its political, social and economical structure, its markets, its production power, its approach to world applications, its infrastructure, its rules and institutions and in many other aspects, Turkey has more favorable features than other countries in the similar economical group. Turkey has experience and growth potential in finance sector. It is very near to energy resources, and it is located on the most economic and strategic route of the distribution channel of these resources. It has very close relations with the regional countries which are yet on the development stage. At the same time, Turkey is a significant trade partner of European Union. Turkey is the most important member of the Balkans region which has a high growth potential regionally. Turkey is located at the very heart of a geography enjoying 50 percent of the world's entire income with a population of 40 percent; all of this geography can be reached by a 3-4 hour flight of a plane departing from Istanbul. Owing to its advantageous location at a time zone between the working hours of the Far East and the Western markets, Istanbul is the only open market in Europe with which Far Eastern markets can place a transaction after 1600 hrs in their local time.

Turkey's strategic advantages in economical terms started to be better discerned and appreciated in the last 10 years. Its massive domestic market and immense growth potential have directed foreign investors' interest to Turkey. Both a specific interest was aroused targeting Turkish financial sector, and Turkish financial sector has come to enjoy a more special status.

Based on the consideration that Istanbul is already accepted as a finance center in practice and in order to contribute to the actual implementation of the project of examining the potential of making Turkey and Istanbul an international regional finance center, Banks' Association of Turkey has commissioned an international consultancy company for preparing a feasibility report.

This report concluded that establishing such a financial center was indeed possible and told in detail what could be the sources of the values that could be potentially created. Financial centers compete in some fundamental areas. An assessment of these factors and areas shows that Istanbul has significant advantages over its competitors. At the top of the list of Istanbul's strong points are the qualified workforce pool that Istanbul has, and its possession of a significant potential of domestic/regional growth. In addition to these, Istanbul's attraction is further enhanced by low costs of doing business and appealing life style in this city.



New trend in international economy

Esteemed Guests

The most significant and strategic factor that marks the new period is the increased international competition in economy. This is to the best interests and therefore the wish of each and all countries, citizens and entrepreneurs. The success of this strategy depends on the selection of right policies in terms of both social and structural dynamics, and concurrent application of the reforms. Robust economical structure, right policies, and efficient implementation are the preconditions of a stable growth. New economical structure in the world and the liberalization process have paved for a proper structure enabling the prospering of international commerce and economic relations on a global scale. Industrialized countries have been in efforts to develop this process on a global scale and further accelerating the globalization process by the participation of also the developing countries in the aftermath of 1980. Production activity and markets have gained a global character as an outcome of the increase in direct capital investments, international capital moves have in particular accelerated and finance markets have developed in global sense.

When we look into the economical developments in the last quarter of the century, it is seen that it is the liberal economical policy applications, increase in the cooperation between the countries and the rise in capital inflows to developing countries, technological improvements and the fast developments in financial markets that created the biggest impact.

On the other hand, global finance system has faced major crises. These financial crises have revealed the significance of the fact that financial sectors of the developing and developed countries should be soundly established. Efforts for international cooperation have increased within this framework. Esteemed guests, it has been shown once again by what was experienced in the economy in the last couple of months that improved continuity of the performance in economy and financial sector related very closely with decisive implementation of an economical policy that observes simultaneously all three of the fiscal stability, price stability and financial stability. It has been seen once again that stability and growth not only on a national level but also on an international level is very dear for all of the countries that participate to the international economical relations particularly in a setting where international economical relations is on the rise.

World economy is in a very serious process. Existing data is not yet encouraging enough for having realistic and positive predictions regarding the future of the international developments. Statements by the countries which experience problems and the remarks of the international organizations and the measures implemented should be assessed multi-dimensionally. Steps aimed at ensuring robust functioning of the finance sector and reinforcement of the economical balances are of crucial significance in an environment where the investors tend to behave more selectively and risk assessments change.

While doing this, efforts should be made for ensuring that the rules and applications are formulated for the better functioning of the markets. What is



critical here is that all activities - and mainly the financial sector - should be reported, monitored, assessed and supervised accurately. This will ensure that decision-makers can better calculate and manage the risks. In this context, I believe that the discussions to be held in this meeting regarding the recording, reporting and rating of the economical activities which have been on the forefront during the developments experienced in the recent period will shed light on the measures to be implemented from now on.

I wish that this Congress benefits all. I wish that you enjoy your time in and have nice feelings in your departure from my country. Thank you for your listening to me.