

# Supporting the Central Asian Markets

**An Interview with Hüseyin Erkan,  
Chairman and Chief Executive Officer, Istanbul Stock Exchange**

**EDITORS' NOTE** *In addition to his current post, Hüseyin Erkan is the President, Federation of Euro-Asian Stock Exchanges (FEAS); Chairman, World Federation of Exchanges (WFE) Working Committee; and Member, World Federation of Exchanges (WFE) Board of Directors. Prior to his current appointment in November of 2007, Erkan was the Chief Advisor to the Board of Konya Sugar Company and also served as the General Manager of Ticaret*



*Hüseyin Erkan*

*Securities for a short time following his departure from the Istanbul Stock Exchange (ISE) as Executive Vice Chairman in 2006. He joined the ISE in 1994 and was promoted to Executive Vice Chairman in 1995, where he was also a member of the Executive Board of Turkish-Japanese Business Council; Co-Director of projects with the OECD in SME financing and best practices for developing stock exchanges; representative of ISE at FEAS and other organizations such as the International Organization of Securities Commissions (IOSCO), the World Federation of Exchanges (WFE), as well as being the Joint Project Coordinator of Southeast European Cooperative Initiative (SECI). Erkan graduated from NYU Stern Business School with a B.S in Economics in 1981 and an M.B.A. in International Business and Finance in 1984.*

**COMPANY BRIEF** *In December of 1985, the Istanbul Stock Exchange ([www.ise.org](http://www.ise.org)) was established with the purpose of ensuring that securities are traded in a secure and stable environment. The ISE has contributed to the development of Turkish capital markets and the Turkish economy since its establishment. The ISE is a public corporation operating as an autonomous and professional institution, established as per the Governmental Decree in Force of Law (KHK) No.91.*

## **How has the Turkish market been impacted by the global economic crisis and where is it today in regard to recovery?**

The global crisis has continued to affect the economic outlook – albeit less forcefully – during 2009. During this period, the global financial system and economic activity have displayed an ongoing recovery. However, budget deficits, especially in the developed economies, continued to rise, problems across credit markets have lingered, and employment remains in a precarious

state, all suggesting that it will take a long time for the global economy to completely recover.

However, Turkey's growth pattern is likely to continue to stand out in the region. A robust banking and household sector are likely to play a significant role in the recovery in 2010 and Turkey may expect more domestic demand stimulus than others. Taking into account the favorable developments in the credit markets and the moderate recovery in the economic activity in the last quarter

of 2009, the Monetary Policy Committee (MPC) slowed the pace of rate cuts, and finally decided to keep rates unchanged at its last two meetings. However, it was also noted that lingering problems across the global economy were still a concern and that uncertainties regarding the strength and durability of the recovery remain.

Regarding fiscal policy, the framework outlined in the Medium Term Program is expected to continue to be implemented and further enhanced by institutional and structural measures. In other words, it is assumed that administered prices would be set in line with inflation targets over the next three years. Moreover, it is assumed that fiscal stance will remain expansionary – but less so than in 2009 – throughout 2010, and then fiscal tightening would be gradually adopted starting from 2011. Consequently, it is envisaged that the rising debt-to-GDP ratios would reverse steadily starting from 2011, and hence the risk premium would not display any significant changes throughout the forecast horizon.

**ISE has been focused on developing and supporting the capital markets and stock exchanges of Central Asian countries – you have a 24.5 percent stake in Kyrgyz Stock Exchange and 5.55 percent in Baku Stock Exchange. Do you plan to continue to build these types of partnerships?**

The ISE participated in the capitals of the Baku and Kyrgyz Stock Exchanges in 2000 and 2001, respectively. The markets in Central Asia are slowly developing and are in need of support. Currently, fixed income securities and foreign currency are the main instruments tradable in these markets. Equity financing and the culture of investing in equities are not common. This is partly due to the insufficiency of the accounting standards and reporting. In consideration of these two issues, the support that we try to provide is concentrated on developing the standards of

disclosure and creating different instruments tradable on the stock exchanges. Therefore, the ISE will evaluate all proposals, including partnership, by the Central Asian stock exchanges.

**The ISE Education Fund has played a major role in the national education system in Turkey. How has the fund evolved from its inception?**

The ISE Education Fund was allocated in 1997 to support the “8-Years Compulsory and Uninterrupted Education Campaign” initiated by the Turkish Ministry of National Education. The fund is managed by the ISE and expenditures from the fund were made on a remunerations basis, allowing construction of additional schools from the same fund. Until today, the ISE has allocated approximately \$1 billion and the construction of a total of 376 school buildings started with this budget, creating a capacity for approximately 200,000 students. As of today, the construction of 312 school buildings has been completed, 64 are in progress, and it is anticipated that the construction of approximately 20 additional schools will start this year.

**In 2008, you served as Working Committee Chairman of the World Federation of Exchanges (WFE) and you are a board member of WFE. What makes the organization so important for the industry?**

The WFE plays an important role during times of crisis in financial markets, releasing guiding principles to maintain the proper functioning of its members. The best examples of this during the most recent subprime credit crunch were the two statements issued by the WFE Board of Directors: one affirming the significance of equities' and equity related exchanges' remaining open throughout the period and the other emphasizing that the short-selling bans implemented on many markets as emergency measures did not solve the problem but, on the contrary, had negative impact on liquidity and the normal functioning of markets.

The WFE is also a central reference point for the securities industry, and for exchanges themselves, offering member guidance in their business strategies, and in the improvement and harmonization of their management practices. Only when the markets are professionally operated, can they be efficient and transparent, and in this way assure the best interests of issuers and the investors. In this respect, the label “member of WFE” identifies each securities market as having world-class business standards, recognized as such by members, owners, and users of exchanges, as well as by regulators and supervisory bodies. ●