

TURKEY WEALTH FUND AND OVERVIEW OF THE WEALTH FUNDS IN THE WORLD ECONOMY

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ABSTRACT

Countries which has a wealth fund, provide a source of funds with incomes from oil, natural resources, foreign trade surplus and financial transactions. Funds have both financial stability and a global investment creature thanks to their assets. The operations and effectiveness of the wealth fund is very significant, because wealth funds are established in order to financing the large projects, reducing the effects of short – term economic shocs and fluctuations that might occur in financial markets. Today, there are about 80 wealth funds in more than 40 countries worldwide. The total size of these funds on a global basis has reached approximately 7.4 trillion dollars. Wealth funds are formed by the intense formation of oil and natural resources, although they are established by income from exports and financial markets.

In recent years, Turkey has also attended in countries that make an investment to wealth fund, which are increasing in number on a global basis. The "Turkey Wealth Fund", which was decided to be established after the July 15 coup attempt in Turkey. The Turkish Wealth Fund carries an insurance property both in terms of being a instrument for financing Turkey's future investments and for maintaining economic stability.

Sources of the Turkey Wealth Fund are organizations and the decision to transfer the fund assets which in the scope and program of privatization by the High Commission for Customs, moreover It will consist of cash surplus which decided to be transferred from the Privatization Fund. Furthermore, it will also include the surplus income which is in the possession of the public sector or public institutions which are decided to be transferred to the fleet or to be managed by the company. In addition to these, the Turkey Wealth Fund will include financing and resources that are provided from domestic and foreign capital and money markets.

Keywords: Sovereign wealth fund, Savings, Public Investment, Financial resources

1.INTRODUCE

Funds referred to in the literature as Sovereign wealth fund (SWF), owned by the state, which is particularly rich in natural resources and which generates foreign trade or budget surplus countries, is managed separately from official reserves, and invests heavily in assets outside the country. The main purpose of these funds is to increase the welfare level of future generations (Aykın,2017).

It is possible to talk about four basic features of SWF's applied in many countries. First, the owners of these funds are the state. Secondly, these funds have no or very limited obligations. Finally, these funds are managed separately from official foreign exchange reserves (ECB,2008).

UVFs have been used in many countries for a long time but recently have come to the agenda in Turkey. After a long preparatory phase, after the repulsion of the July 15 coup attempt, the "Turkiye Wealth Fund" (TWF) was on the agenda. After the coup attempt, the process of establishing UVF accelerated after the economic and financial shocks were overcome by the successful management of the economy. This is also very important in terms of the future of Turkey's economy. The main purpose of TVF is; reducing the effects of short-term shocks, eliminating the negative effects of fluctuations in foreign exchange rates and financial markets, directing savings to investments, helping to overthrow giant projects and long-term investments. It is also important that the TVF is established and operated effectively in order to strengthen AR-GE, advanced technology production and strategic sectors, and thus achieve economic growth and development goals (Karagöl, Koç; 2016).

In addition to all these factors, countries are also actively using UVF in order to ensure economic growth by taking a share from global wealth. There are many UVFs established in more than 40 countries, with the help of oil and natural resources origin, non-commodity export revenues and financial market revenues. Considering that economic performance, it is seen that sovereign wealth fund exist even in less developed countries than Turkey.

The purpose of this study is to explain What is the sovereign wealth fund and why it is necessary, the position of the global economy and the importance of the economy of turkey. In this context firstly, will be discussed the use of the wealth fund in the world economy. Afterwards, will be discussed the basic characteristics of this fund, how resources and financing are provided in Turkey

2.WHAT IS WEALTH FUND? WHY IS IT NECESSARY?

Sovereign Wealth Fund dates back to the 1950s, perceived as a new concept and is a concept that arises from the evaluation searching for the accumulation of reserves created by the increase in the foreign currency reserves of the countries which are giving the current accounts surplus, it is defined as state controlled investment institutions financed by reserves that constitute a respectable in a simple sense. (Akbulak ve Akbulak,2008; 238)

Although the establishment of a wealth fund differs from country to country, it has some basic aims: The most basic ones of this aims can be stated as follows: The first one is to provide processing consistently by saving from conjunctural effects of country's economy. The second one is to transmit welfare to future generations. The third one is to reducing the effects of high floatations in income and export on economy and budget and thus providing macroeconomic stability and in conclusion have a long range capital structure which is sustainable and using it as an appliance of international political strategy. When viewed from this aspect, it is necessary that the fund's assets and proceeds are higher than the risks they will face. There are two different applications for site of establishment of wealth funds: The first is Wealth Funds and it can be established care of the Central Bank. The Central Banks have a certain experience because they are doing similar operations evaluating reserves. Besides, the independents structure of the Central Banks gives the impression that the administration of such funds can be

implement away from political effects, thereby it places trust care of public opinion. The second, Wealth Funds can be established as a distinct company or administration. This type of organization is likely to face issue of trust and criticism until it proves itself. (Goff, 2007)

Countries which have wealth funds resource to funds with the incomes provided from natural sources notably oil, foreign trade surplus and financial transactions. Funds both have the feature of a investment instrumentality globally and a financial stability with their assets. Countries have many global investments such as Norway, Russia with oil incomes and such as China and Singapore with non-commodity assets which have funds established. Especially in the period following the 2008 global economic crisis, wealth funds and their roles have started come into prominence. Despite it is an old concept, wealth fund and its administration reached a size of more than 7,4 trillion dollars by achieving a rise in the last decade. Sovereign Wealth Fund is expected to reach a size of 15 trillion dollars with 21 new wealth management funds expected to be established by 2020 which was achieved a growth at the rate of 21,5 percent between 2010 and 2015. (Karagöl, Koç; 2016)

Wealth funds are divided into two parts as commodities and non-commodities depending on the capital they have. While export incomes of oil, natural gas and natural resources are predominant in commodity based wealth funds, privatizations, saving funds, export oriented current transactions and foreign exchange reservers are formed fund resources in non-commodity wealth funds. Funds from non-commodity sources also exist in countries such as China, Hong Kong and Singapore ,which have achieved significant current surplus rates through high exports, while countries such as Saudi Arabia, Kuwait, UAE, Qatar, Norway and Russia have the world's largest oil funded funds. (DoT, 2007)

The function of wealth funds is based on many different points depending on the fund management and the targets of the states. Wealth funds directly contribute to economic growth and development in terms of creating long term investment capacity as saving means. Moreover, wealth funds attract notice to issues as resistance to fluctuations that may be caused by internal and external shocks, financing of large projects, protection of market equilibrium by providing liquidity flow to the financial system, directing savings to strategic field and investments. However, wealth funds have aims to protect the country's economy from price fluctuations notably oil and to encourage economic diversification by enabling new investment areas as stabilization fund when looking at view of natural resource exporter countries.

3.WEALTH FUND IN THE WORLD ECONOMY

The objectives of Sovereign Wealth Fund, which operates globally, can come under three headings as transferring economic growth and national prosperity to future generations by preserving, ensuring financial stability through macroeconomic policies and supporting economic development. Countries make private investments in line with their own objectives and strategies. Especially, wealth funds function as diversification of the economy and the transfer of wealth to future generations in countries linked their economies to a single source such as oil. Funds ,which have aim of financial stability, function to protect the economy from internal and external shocks and to eliminate short term capital movements. Countries that use wealth funds to support economic development also make social investments such as health and

education in order to strengthen human capital as well as infrastructure investments in transportation, energy, communication and strategic sectors.

On the other hand it is also possible to subject to a broader classification in the context of the purposes of the countries where the wealth funds are applied. In this framework, wealth funds can be classified as stabilization funds, saving funds, reserve investment funds, retirement reserve funds and development funds in terms of the targets to be wanted to achieve. (Şahin, 2017; Clark and Monk, 2015; Al-Hassan, 2013; IMF 2008).

DIAGRAM-1: Worldwide Wealth Fund Applications and Objectives

Economic Target	Aim	Explanation	Norm Funds
Stabilization Funds	They are funds which are established to protect from the effects of fluctuations in commodity prices and external shocks.	They often invest in short term and fixed instruments such as usually government bonds to tackle the effect of fluctuation on the economy. They are decisive in reducing the volatility of long-term interest rates. In this context, stabilization funds are similar to institutional reserves holding liquid assets.	Chile, Iran Russia, Mexico
Saving Funds	It is a fund established to provide intergenerational balance by turning investment the revenues from the exports of non renewable assets such as petroleum, minerals and natural resources into a portfolio.	Today's prosperity is intended to be transferred on to future generations. These funds invest to long term, high risk, stock like instruments abroad where they can obtain higher returns to protect and build long term prosperity.	Libya, Russia, Abu Dhabi
Reserve Investment Funds	Funds established to manage excess foreign exchange reserves.	It is aimed to increase the profitability of the country by evaluating reserve assets in various investments. Unlike official reserves, they invest in equity share and other instruments to obtain high income; portfolios are highly diversified and long term. When required, they can be used to support country's foreign accounts and exchange rate policies.	China, South Korea ,Singapore
Retirement Reserve	It is not a direct retirement fund but is	With these funds, long term expenditure -saving balance of the country is desired	Australia, New

Fund	a contingency fund to provide financing for obligation payments related to the uncertain size retirement that may appear in connection with aging of the population in the future.	as in the saving funds. These funds invest in long term and high risk investments and retirement obligations are limited just to possible future expenditures.	Zealand, Ireland, Norway
Development Funds	The funds established to finance the infrastructure investments and socio economic projects of the country and to support industrial policies.	They contribute to the growth of the country. They tend towards to long term and risky investment areas.	United Arab Emirates, Iran, Singapore, Malaysia

Sovereign Wealth Fund, which reached 7,3 trillion dollars by year 2017 over the world, the part of about 59% is formed by the fund related to oil and natural gas with 4,2 trillion dollars and the part of 41% with 3,1 trillion dollars is formed by the other funds. There are approximately 80 wealth funds in more than 40 countries around the world. When looking at the global distribution, it seems that the funds are concentrated in the Middle East, which is a rich of natural resource, to export with Central Asia and Far East which is concentrated in finance centers. When looking at generally, Government Pension Fund Global Wealth Fund which is belonging to Norway with a size of 922 billion dollars originated oil, ranks first among global wealth funds. Right after, there are significant wealth funds in USA, Russia and Gulf Cooperation Council (GCC), notably United Arab Emirates-Abu Dhabi with 828 billion dollars and China with 813 billion dollars with the fund originating from non-commodity wealth. (SWFI, 2017)

Historically, Wealth Funds, which are well accepted to have little leverage and long term investor identity, create a positive impression with both the savings circulation in the international arena which means with the contribution of “open” economy and with the contribution of the development of the countries they have invested and the countries belonging to them. Especially the rate of growth of the investments that developing countries have made in other countries have influenced behind these funds came to the agenda rapidly by years 2000s. (Akbulak ve Akbulak, 2008)

Wealth funds, which have been active since 1950s, have not caused a problem that would lead to a crisis; quite the contrary, they have contributed the liquidation to system when required as it is in the recent financial chaos as well as the balance of the markets. However, these positive impressions can be seen as “the maximization of profits” which means “financial” of the fund’s investment aim that formed in the countries that Sovereign Wealth Fund invested as well as can not overcome the concerns such as the aims “the technology transfer” which can bring the

country invested in strategic issues into a difficult situation or “political” purposes which are far from the commercial in a wider perspective. (Akbulak ve Akbulak, 2008)

4.THE MAIN FEATURES OF TURKEY WEALTH FUND

TWF Management Joint Stock Company was established by the law numbered 9741 by gazetting on Official Gazette dated August 26, 2016 with had a vote in the Turkish Grand National Assembly. The basic purpose of the fund being talked about is described in the legislation “to contribute to the diversity and depth of the vehicle in the capital markets, to bring the assets belonging to the public in the country to the economy, to obtain external resources, to participate in strategic and large scale investments.” (Law-6741, 2016)

Therefore, it is understood that TWF is a structure established to contribute to the development and augment of the economic stability of our country, to manage publicly owned assets more effectively and efficiently and to prepare a stronger Turkey to future generations by adding value to existing public assets.

It is understood that the Turkish economy has gained an average growth rate of 4% between 1990-2014 and this process will continue. But sustainability of this trend requires both augmenting the saving and investment and an economy that is not affected by fluctuations in financial markets, stable, diversified income sources, specialized in technology intensive sectors, can create brand value.

In this framework, the creation of TWF is planned to realize the following basic objectives. (Government bill, 3105, 2016)

- Sovereign Wealth Fund is a purpose made investment fund which is organized in a way that various publicly owned assets will be governed depending upon specific corporate governance principles. It is aimed to accelerate the development to the real sector investments which are the locomotive of the development by providing long term resources to the strategic sector, companies and projects, to achieve sustainable growth rates in the economy and to achieve economic stability with the funds are being talked about.
- Turkey has a very various and large asset portfolio, especially as a public authority. There is also a fund market which is growing through incentives and retirement system. It is seen that the publicly owned income and fund surpluses are directed to various investment instruments in the current situation. These funds will enable our country to reach its 2023 targets in a healthy way through the merger of a top fund will provide an opportunity the real sector long term investment framework.
- The said fund will not only contribute to the financing of the planned mega investments in our country but also contribute to the development of capital markets with its multiplier effect. By this way, the dominant role of the banking system in the finance sector will be reduced and capital market products such as infrastructure and real estate funds will also be brought to the forefront.

- In the periods of economic fluctuations experienced with the increase of financial risks in domestic and abroad, foreign investor's fund outflows cause a sharp decrease in asset prices and the increase of speculative foreign exchange demand of domestic investors leads to decrease of liquidity in the markets and worried about financial stability. The existence of a strong wealth fund that public funds are managed as consoles, which will undertake a stabilizing role in the markets, in the financial stress environment for the solution of these problems, will create the confidence atmosphere in the markets and increase the international credibility of our country by making the size and power of the country savings visible.
- It will provide the required supports to fast actualise of investments needed to ensure accelerated transition to high value added production based on design and brand, to Turkey reach to long term macroeconomic targets, to increase its share in the world trade, to take place among the countries which have a voice in knowledge, technology and innovation production, to increase R&D expenditures.
- In addition to contributing to the overcoming of Turkey's structural problems, this fund will contribute to Turkey having more say in the international arena as an important instrument of foreign policy.

In this framework, with the establishment of TWF which is structured taken as a basis of other successful wealth funds in the world. (Government bill, 3105, 2016)

- An additional 1.5 percent increase in economic growth rate over the next 10 years,
- Providing finance without increasing public sector debt for large infrastructure and energy projects,
 - Ease of access to financing of critical sectors such as defense industry and technology,
- Increasing durability to economic crisis and political shocks,
- Accelerating the growth and deepening of capital markets,
- Dissemination of the use of Islamic financing assets,
- Create additional employment areas within the investments to be made,
- It is capital and project based support of domestic companies in technology intensive strategic sector such as defense, aeronautical and software.

5.RESOURCES OF TURKEY WEALTH FUND AND PROVIDING FINANCE

Turkey Wealth Fund Management Joint Stock Company was established to establish and manage the sub-funds related to Turkey Wealth Fund (TWF) to contribute to the diversification and depth of the vehicle in the capital market, which is the establishment and management of the funds of the main activity subject to the provisions of the private law, which is connected to the Prime Ministry in Turkey, to earn the economy of domestic owned assets, to obtain foreign resources, to participate in strategic large scale investments. It is surplus cash which is transferred from the Privatization Fund with the establishment, company, real estate and other

assets which take a part in privatization scope and program which is formed by transferring of the main sources of TWF's publicly owned company, share, real estate and cashes. (Şahin, 2017)

Sources of the fund are stated in the law numbered 6741 as follows; By High Council for Privatisation; the cash surplus decided to be transferred from the Privatization Fund to the Turkey Wealth Fund with the establishment and assets decided to be transferred from the privatization scope and program to Turkey Wealth Fund. By the Council of Ministers; The surplus income from resource assets which are under the saving of public institutions and organizations regarding the public sector which is decided to be transferred to Turkey Wealth Fund or to be managed by the Company. It consists of financing and resources provided by Turkey Wealth Fund in all kinds of ways without regard to permission and approvals from the domestic and foreign capital and money markets under the relevant legislation. (Law 6741, Article-4)

It is expected that the resources of Turkey Wealth Fund will have a structure that creates its own source over time which initially created by transferring from public resources and various funds. It is planned to establish resources and portfolio of Turkey Wealth Fund by taking a certain percentage of the various state funds and incomes in the first stage, in this framework.

The basic portfolio that will provide the source for the SWF is discussed below (<http://turkiyevarlikfonu.com.tr/>).

Turkish Airlines: By the decision of The Privatization High Council and Council of Ministers, 49,12% of the shares of Turkish Airlines previously taken on the privatization program were removed from the scope and program of privatization. In accordance with Article 4 (a) of the Law No. 6741, it was decided to take over the Türkiye Wealth Fund.

Turkish Telecommunications Co. Ltd.: By the decision of the Council of Ministers, it was decided to transfer 6.68% of the shares of Türk Telekomünikasyon Co. Ltd. to the Türkiye Wealth Fund.

Ziraat Bank Co.Ltd.: Decision of the Council of Ministers, it was decided to transfer all of the shares of Ziraat Bank Co. Ltd., which belong to Undersecretariat of Treasury, to the Türkiye Wealth Fund.

HalkBank Co.Ltd.: By the decision of The Privatization High Council, it was decided to transfer %51,11 shares of The HalkBank Co. Ltd., which belong to Undersecretariat of Treasury, to the Türkiye Wealth Fund.

Türkiye Petrolleri Co. Ltd.: By the decision of the Council of Ministers, it was decided to transfer all of the shares of Türkiye Petrolleri Co. Ltd., which belong to Undersecretariat of Treasury to the Türkiye Wealth Fund.

Oil Pipeline with Pipelines Co. Ltd.: By the decision of the Council of Ministers, it was decided to transfer all of the shares of Oil Pipeline with Pipelines Co. Ltd., which belong to Undersecretariat of Treasury to the Türkiye Wealth Fund.

Post and Telegraph Organization Co. Ltd.: By the decision of the Council of Ministers, it was decided to transfer all of the shares of Post and Telegraph Organization Co. Ltd., which belong to Undersecretariat of Treasury to the Türkiye Wealth Fund.

TÜRKSAT Satellite Communication Cable TV and Operation Co. Ltd.: By the decision of the Council of Ministers, it was decided to transfer all of the shares of TÜRKSAT Uydu Haberleşme Kablo TV ve İşletme Co. Ltd., which belong to Undersecretariat of Treasury to the Türkiye Wealth Fund.

Borsa İstanbul Co. Ltd.: By the decision of the Council of Ministers, it was decided to transfer all of the shares of Borsa İstanbul Co. Ltd., which belong to Undersecretariat of Treasury to the Türkiye Wealth Fund.

Games of chance: With the publication of the legislative decree No. 680, revenues of various games of chance in the national lottery were given to the Türkiye Wealth Fund for 49 years.

TCDD İzmir Port: By the decision of The Privatization High Council, all of the shares of TCDD İzmir Port, previously taken on the privatization program were removed from the scope and program of privatization. In accordance with Article 4 (a) of the Law No. 6741, it was decided to take over the Türkiye Wealth Fund.

Turkey Maritime Organization Co. Ltd.: By the decision of The Privatization High Council and Council of Ministers, 49% of the shares of Turkey Maritime Organization previously taken on the privatization program were removed from the scope and program of privatization. In accordance with Article 4 (a) of the Law No. 6741, it was decided to take over the Türkiye Wealth Fund.

General Directorate of Eti Mining Operations: By the decision of the Council of Ministers, It was decided to transfer the General Directorate of Eti Mining Operations to the Türkiye Wealth Fund.

Kayseri Sugar Factory Co.Ltd.: By the decision of The Privatization High Council and Council of Ministers, 10% of the shares of Kayseri Sugar Factory Co., Ltd. previously taken on the privatization program were removed from the scope and program of privatization. In accordance with Article 4 (a) of the Law No. 6741, it was decided to take over the Türkiye Wealth Fund.

General Directorate of Tea Operations: By the decision of the Council of Ministers, It was decided to transfer the General Directorate of Tea Operations to the Türkiye Wealth Fund.

Horse Races: With the publication of the legislative decree No. 680, organizing horse races in the country, on horse races organized domestically and abroad licenses relating to the rights and powers to accept common bets both domestically and internationally were transferred to the Türkiye Wealth Fund.

Estates: It has been decided that the allocations of some estates properties in Antalya, Aydın, İstanbul, Isparta, İzmir, Kayseri and Muğla owned by the Undersecretariat of Treasury will be removed and transferred to the Türkiye Wealth Fund.

6.AUDITING OF TURKEY WEALTH FUND

Turkey Wealth Fund and the other companies to be established under it will be subject to the independent audit. The annual financial statements and activities which inspected by independent auditing, the capital markets will be assigned by the Prime Minister will be inspected through independent auditing standards by at least three central auditing specialists in financial,

economy, finance, banking and development areas. The report prepared as a result of the audit presenting to the Council of Ministers annually, the reports, financial tables and activities belonging to all the companies and sub-funds to be operated will be audited annually by Turkish Grand National Assembly's Planning and Budget Commission. Transparency of the activities with auditing and informing the public are among the other important issues that stand out in the operation of Turkey Wealth Fund. Publishing informative reports regularly with an enhanced infrastructure and website, explaining areas of activity and investments will increase the effectiveness and reliability of the fund to international investors. (Karagöl, Koç, 2016, p19)

7.THE FUTURE OF TURKEY WEALTH FUND

The biggest expectation of TWF is to reduce the costs financing of mega projects planned for the near future will put on public. It is expected from Kanal Istanbul provides financing for nuclear power station projects and motorways as informed on law in this context. In addition, resources can be provided for financing of capital intensive and strategic sectors such as the defense industry and high value added production. In this way, both new employment areas will contribute to the economic growth of Turkey by opening new employment areas and by reducing external dependency, domestic and marine sectors' will be opened by encouraging the development of strategic areas.

It is expected that the creation of an asset fund that will contribute to Turkey having a say in global markets and provide high added value to Turkey economy by spreading investments to medium and long term and to provide continuity. Moreover, when keep in view the efficient in the financial system of asset funds as seen in the examples of various countries, it is in a capacity that can prevent the liquidity problem.

However, the increase in speculative foreign exchange demand of domestic investors as well as the fund outflows which made by foreign investor's in economic fluctuations experienced in domestic and foreign markets caused the volatility of asset prices, lead to the decrease of liquidity and concerns about financial stability. The presence of a strong asset fund to be created in stabilizing markets during these periods will play a leading role in giving confidence to the markets which needed.

Important headings are striking among the regulations belonging to Turkey Wealth Fund to be operated. It is stated that the asset fund will be subject to the provisions of Mercantile Law but it will operated in the form of a state company. It is important that the fund has a special status and exemptions in many respects, in this context. In addition, financial statements of the fund will be audited by independent auditors, the audit of the asset fund and related funds will not be subject to the Court of Accounts law, the assets will not be saved for any other purpose, the public receivables will not be seized including the purpose of the collection, can not count in to bankruptcy estate is also one of the important features.

In the countries such as the Gulf countries, Norway, USA, China and Russia the asset fund model is the forefront, in the name of sustainable growth and development in the last decade. The Asian countries which non-energy economies meet a significant part of their funding resources with current surplus obtained from excess of exports. Therefore, the most important factor in these countries is that they have established asset funds with non-commodity resources.

Turkey is one of the rare countries where the SWF model is not applied which many developed and developing countries have in order to provide sustainable growth and development, minimizing the negative effects of fluctuations that may be experienced and will be experienced in international markets. In this context, Turkey needs to benefit from the asset fund without wasting time.

Conclusion

SWF's based on the past 1950s seem to have increased rapidly especially in the last decade. Sovereign wealth fund emerging with the aim of contributing to the economy of the long term by transferring the income obtained by the commodity incomes and current transactions surplus, is a system in which countries actively evaluate their reserves. The wealth fund also carries a measure against fluctuations that may occur in times of economic chaos.

Although SWF' are generally funds established to ensure the prosperity of future generations against the depletion of natural resources such as oil or the risks that may arise in the future, there is an opposite approach in Turkey. The assets created by the public property and the accumulations of past generations, the prosperity of future generations is threatened by the transfer of financial markets through TVF.

Taking into consideration the TVF and the future that will be formed by non-commodity sources, it is obvious that the world examples can be a guide for Turkey. Turkey has not been able to activate its production processes for a long time due to the lack of resources and has not been able to make the necessary infrastructure investments in order to reach higher per capita incomes. However the 2000s that break this vicious cycle of economic indicators have improved, there has been a period of major infrastructure projects implemented. The establishment and effective functioning of TVF will provide important opportunities for the future of the Turkish economy, if the account is also taken into consideration by the project which has been carried out continuously by Turkey in the recent years and which is on the agenda in the forthcoming period.

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