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Statement by the Hon. **SELCUK DEMIRALP**,  
Governor of the Bank for **TURKEY**,  
at the Joint Annual Discussion

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It is a great pleasure and honor for me to address the joint Annual Meetings of the IMF and World Bank.

I will begin with a few remarks on the current state of the world economy, and then will describe recent economic developments at Turkey following the earthquake, which is the worst disaster in the history of the Turkish Republic.

Developments and prospects in the world economy during the past year have generally been satisfactory and encouraging.

This is certainly a relief after witnessing the two consecutive crises of 1997 and 1998. The world economy has steadily improved since last year's Annual Meetings. There are signs of a real recovery and revival of activity in many parts of the world, and a general mood of optimism concerning the immediate global outlook.

But these favorable signs are accompanied by serious challenges that leave no room for complacency. There are risks that must be met with precautionary policy actions. Careful fine tuning of U.S. policies will be needed to control potential inflationary pressures. Structural reforms must be completed before Japan's recovery can be considered durable. In Europe, serious efforts must be made to remove the obstacles blocking the reduction of structural unemployment. For the emerging market economies the picture is mixed. For some Asian countries, the recovery from the crisis has been much faster and stronger than expected; but Latin American growth has never really recovered from the debt crisis of the 1980s. Here, too, further progress with structural reforms is badly needed.

At the present juncture, there is general recognition of the risks in the global financial markets, and an international consensus that the time has come to restore the stability of the international financial system. We must now translate that consensus into action. The IMF and World Bank, each preserving its specialized function and nature, must improve the coordination of their responses to countries' financial problems. Enhancing the effectiveness of Fund surveillance will enable it to help its members adjust before market discipline forces adjustment upon them.

In this connection, we join the emerging consensus that private financial institutions must play a more active contribution to the stability of the international financial system by accepting orderly debt work-outs based on an equitable burden sharing. This appears to be one of the thorniest issues facing the international community today.

Having summarized our thoughts on these agenda items, I would now like to touch on some very serious matters now affecting the Turkish economy, and particularly the effects of the recent earthquake.

Although extremely serious, and likely to result in missing macroeconomic targets, we do not believe that the economic losses caused by this natural disaster will derail Turkey's structural adjustment process. The solid but resilient structure of the Turkish economy will enable it to limit the effects of the shock to the short term. With support from the international community, the government will be able to fulfill its commitment to finish its program of structural adjustment. In fact, we were in the midst of calibrating our macroeconomic targets for the next stage of our anti-inflationary program when the earthquake struck.

In addition, implementation of the stabilization program monitored by the Fund in the framework of Turkey's "Staff Monitored Program" has gone fairly smoothly: the program stance has been maintained and the fiscal targets, in particular, have been met. Progress so far is fairly in line with last July's agreement with the Fund.

Other steps taken in line with this understanding with the Fund include significant progress in the structural area, including increasing the financial system's efficiency and strengthening banking supervision; a constitutional amendment permitting international arbitration for the telecommunications and energy sectors; and reformation of the social security law. All this legislation has been approved by Parliament.

These accomplishments will be complemented by the Government's firm determination to reduce the budget deficit and impose fiscal discipline on the public sector. These goals will shape Turkey's budgetary and fiscal plans for the year 2000. And Turkey will continue pursuing its anti-inflationary program, working in cooperation with the Fund and Bank to achieve lasting results.

We count on the continued support of the international community as we make progress with our program.

Here, on behalf of my country and its people, I wish to pay due tribute to the international community, and particularly Fund and the World Bank, for the immediate and splendid aid and cooperation provided to help us cope with the effects of the earthquake.

Now I would like to discuss, briefly, what we have been able to learn so far about the economic effects, immediate and more remote, of this catastrophe. This natural disaster is one of the most serious to occur during the century just ending. Over 15,000 lives have been lost and there is extensive damage to Turkey's industrial heartland. An estimated half million people are homeless. As the nation digs out of the rubble, it is clear that a major reconstruction and restoration plan is needed. World Bank studies indicate that direct costs, including material damage and wealth loss, will amount to 1.5 to 3.0 percent of GNP. A

detailed survey of capital and inventory losses in the housing and enterprise sectors is not yet complete, but a more or less precise estimate will eventually be available.

Preliminary estimates of indirect indicate that the earthquake will reduce GNP for 1999 by around 1.0 percent. Employment losses in the affected areas are expected to exceed 20 percent.

The disruption of Turkey's economic recovery creates challenges that are enormous, but not insurmountable.

Let me thank the IMF, the World Bank, other multilateral institutions, and bilateral donors for their early support in the design of streamlined emergency arrangements for the massive rescue operations. We are confident that this essential cooperation will continue during reconstruction efforts to restore essential facilities and services and reestablishing basic economic activities in the disaster zone, so that long-term economic and social disruption can be avoided. We are also grateful to the Fund, the World Bank, and other donors for their coordinated assistance within the comprehensive plan toward the effective restoration of normal economic and social conditions.

Let me end by restating our appreciation to the World Bank and the IMF for their help with our development efforts. I hope that 1999 Annual Meeting will lead to a fruitful exchange of views on international economic and financial matters, and I look forward to a closer development partnership in the new millennium.

Thank you.