BOARDS OF GOVERNORS ● 1998 ANNUAL MEETINGS ● WASHINGTON, D.C.

INTERNATIONAL MONETARY FUND
WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 24
October 6 - 8, 1998

Statement by the Hon. **GUNES TANER**,
Governor of the Fund for **TURKEY**,
at the Joint Annual Discussion

STATEMENT BY MINISTER G. TANER
On the Occasion of 1998 IMF/World Bank Annual Meeting

As the Managing Director of the Fund observed in a recent speech to the European-American Council in New York, we are now in the midst of an era of globalization. The economies of the world are rapidly being integrated in unprecedented ways. Financial turbulence has prompted the creation of a forum for discussing common regional issues and exploring remedial policy actions which can lead toward a new international monetary system.

We view the present annual meetings as an especially timely gathering from the standpoint of the worldwide financial crisis now going on. As we all know, the contagion effects of the Asian crisis have been severe for both individual regions and the world as a whole. The latest developments in Russia show that not only the Asian countries, but countries elsewhere, are exposed to the consequences of this crisis. All nations are put on notice that contagion effects may test their fundamental economic health and their vulnerability to market volatility. This is a time of serious challenges to the sustainability of world growth and countries' structural adjustment efforts.

The world growth projections of early August have again been revised downwards. Most of this slowing results from renewed instability in Asia's financial markets, renewed financial turmoil in Russia, and their contagion effects on other countries. Some market observers are already evoking the grim specter of a worldwide recession. It is evident that in today's integrated economic and financial world, the domestic policy weaknesses of one country can threaten the stability of all.

Now, the contraction of market financing is beginning to penalize emerging market countries in particular; the shortage of financial flows to these countries is their major challenge. Their balance of payments will come under pressure, and their growth will inevitably slow in the absence of effective and concerted countermeasures.

The right signals must be sent to the international capital markets, who must stand firm in the face the present turbulence. Otherwise the outlook for world growth and prosperity will be gloomy and progress toward an open world trading system with free capital markets will be stalled.

It is especially important, given countries' increased openness to international capital movements, to restore the stability of international financial and exchange markets. This is one of the main issues to be addressed at these 1998 Annual Meetings. The Asian and Russian crises have directed much attention to fixed exchange rate arrangements and capital account convertibility, issues which are also important to Turkey. Although a pegged exchange rate is useful as a nominal anchor when bringing down high inflation--as Turkey's experience shows--a more flexible policy is preferable for open economies once they have been stabilized and growth has resumed.

The trend toward openness and liberalized capital movements has been good for the world economy. Once a country decides to liberalize, the temptation to reimpose restrictions that may backfire in the longer run should be resisted. Stop-and-go liberalization is to be avoided by taking care to carry out the liberalization process at the right pace and in the proper sequence, and reinforce it with a further strengthening of the macroeconomic policy framework. Premature liberalization can require a very costly reversal of the process.

We see a significant role for the IMF and World Bank in assisting countries to liberalize capital movements, and believe that the future well being of global financial markets could be enhanced by an international commitment to promote orderly capital account liberalization in the long term.

We also favor amending the Articles of Agreement to permit a special one-time allocation of SDRs. This long overdue agreement will double the present amount of SDRs and equalize the SDR-to-quota ratio of all members.

Ever since the Mexico crisis the Fund has been scrutinizing the adequacy of its surveillance, and has taken steps and launched initiatives to strengthen data quality and dissemination, providing a more solid basis for decision making and increases its transparency and accountability.

Changing circumstances now call for the IMF's role to be strengthened and redefined. Effective surveillance over financial sector issues will be helpful. The Bretton Woods Institutions should make stronger efforts than ever before to mobilize available resources in order to prevent present conditions from permanently destabilizing world markets.

I also wish to commend the IMF and the World Bank for their cooperative efforts to launch the initiative for reducing the debt of the heavily indebted poor countries. The main challenge now will be for the eligible countries to implement their programs and for financial institutions, public and private, to mobilize financial support.

It is important to provide the IMF with adequate resources to fund future drawings of member countries as the volume and scope of private capital movements increase.

Let me take this opportunity to say a few words about the Turkish economy. During this time of turmoil in Asia and Russia, Turkey is addressing all the key issues requiring priority attention under its Staff Monitored Program (SMP) with the Fund. We are strictly implementing the SMP to ensure that all targets and benchmarks will be met.

Turkey has made important progress with privatization in 1998. This is the first year since privatization began over a decade ago that Turkey has managed to complete about $2 billion.

This year's fiscal revenues are expected to exceed 20 percent of GDP. In the structural area, Parliament has approved a tax reform package that will broaden the tax base, close loopholes, reduce collection lags, and lower taxation rates.

We believe that Turkey has responded appropriately to the turmoil in emerging markets and tensions in its own domestic debt market by significantly tightening its fiscal stance, which in fact has led to a larger than expected increase in the primary surplus.
Fiscal tightening at the first shock was the single most important reason for Turkey's so far successful resistance to the present turbulence.

The government intends to follow the economic program closely and keep its pledge to meet all targets under the SMP. Continued efforts against inflation will also strengthen the economy against external shocks. Turkey's geographic location will give it a special importance in an era when energy resources will assume a decisive role in determining world prosperity.