BOARDS OF GOVERNORS ● 2000 ANNUAL MEETINGS ● PRAGUE, CZECH REPUBLIC

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. 59

September 26–28, 2000

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

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We welcome the World Bank's efforts to incorporate CDF principles, and endorse the Bank's role as presented in the papers "Poverty Reduction and Global Public Goods" and "Supporting Country Development: World Bank Role and Instruments in Low and Middle Income Countries."

We see ownership by the country as an essential ingredient of successful and sustainable development and durable poverty reduction. We also believe that a programmed approach is essential if development assistance is to be effective. But the report on the CDF pilots reveals that the very difficult task of incorporating the CDF principles into the culture of the Bank and the larger development community has yet to be accomplished, and without it there can be little progress on the ground.

Also, the implications of this reorientation for the modalities of the Bank's assistance to middle-income countries need further clarification.

In addition, while there is no question that the shift in emphasis from projects to programs, the focus on countries as the basic unit of development, and the effort to addressing global externalities that threaten to destroy countries' developmental gains are steps in the right direction, the probable financial implications of these changes must be further explored and determined. We urge the Management and the Board of the World Bank to consider effective burden sharing arrangements between borrowers and shareholders, and not to recoup the extra financial burden solely by increasing the costs of borrowing.

In this connection we look forward to seeing the upcoming report of the Task Force on Middle Income Countries.

Three years after the outbreak of the financial crises in Asia, the IMF has made substantial progress in applying the lessons of those and other difficult experiences to its work. Many steps have been taken to enhance the Fund's ability to identify and reduce the vulnerabilities of the financial markets. Today, we are in a much better position to deal with the systemic implications of a financial crisis.

Much has been done to increase the Fund's attention to vulnerabilities. Data at the national and sectoral levels have been improved, vulnerability indicators and techniques for stress testing have been developed, and compliance with standards and codes of best practices have become part of the IMF's surveillance. But it is essential for us to recognize that these standards have to be supported by technical assistance, without which developing countries cannot build up their administrative capacity and take advantage of these advances. The observance of standards and codes should become a goal for all members. But rather than simply setting timetables for achieving this goal, the Fund should assess countries' progress towards the compliance with these standards in the light of each country's particular situation.

There has also been progress in developing a framework for involving the private sector in preventing and resolving crises. The inclusion in bond contracts of collective action clauses is an important step towards this goal. But larger numbers of developed countries must follow the example of the United Kingdom and Canada by introducing such clauses in their bond issues, before it will be possible for developing countries to follow suit. The developing countries must proceed with caution, in this matter as in others, to avoid triggering a general increase in their borrowing costs as a group. We broadly agree on the current framework for involving the private sector in crisis resolution.

We also support the initiatives aimed at promoting countries' ownership of Fund-supported programs. Appropriate consultations with all social partners in a society, leading to a common diagnosis regarding the country's problems agreed by the staff and the authorities, are essential to the success of a program.

To achieve the goals of constructively engaging the private sector, promoting global financial stability, and meeting countries' needs in a rapidly evolving world, the process by which policy is made by international organizations must give more heed to the voice and views of the systemically important developing counties. We support Mr. Köhler's strong position in this matter.

And overall, we support the recent efforts to achieve an effective coordination and division of labor between the Bank and the Fund, and wish every success to the Managements and Boards of these institutions in their efforts to achieve the goals set for them during these meetings.

Finally, I would like to brief you on Turkey's disinflation program. This program, which is supported by an IMF stand-by arrangement, has three pillars:

- Front-loaded fiscal policies, consisting of a set of revenue-raising and expenditure-cutting measures, aimed at eliminating fiscal imbalances.

- Continuous implementation of structural reforms in key areas to ensure the sustainability of the fiscal adjustments.

- Fixed exchange rate policy coupled with a consistent incomes policy to break the inertia of inflation.

So far, progress has been encouraging on all these fronts. The inflation rate has fallen substantially and the central government's debt stock has been reduced, partly with a push from an over performance of the public sector primary surplus. The program's credibility is reflected in the substantial decrease in interest rates. The Treasury's average borrowing cost has fallen from well over 100 percent to 35-40 percent since the program began.

There have been negative external factors: higher than expected oil prices, and the euro's depreciation against the dollar, which has reduced the value of Turkish exports. But we have weathered these problems so far without any major disruption of the disinflation program.

The government has also been implementing massive structural reforms. The social security reform has succeeded in reducing the deficit of social security institutions. The first stage of the agricultural reform has been implemented successfully. And the constitution has been amended to speed up privatization by permitting international arbitration for disputes between the government and foreign investors.

And the government has embarked on an ambitious privatization program that is generating revenues which exceed the total amount of privatization revenues accrued since privatization was launched in 1985.

Turkey's successful program implementation has strengthened the confidence of both domestic and international markets, and increased the government's credibility in the eyes of the public. Turkey's ultimate goal is to join the European Union. Our immediate goal is to meet the EU's requirements by the end of the present three-year program.

Thank you, Mr. Chairman.