

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. 38

October 3, 2004

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

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Mr. Chairman, Mr. President, Mr. Managing Director, distinguished Governors, Ladies and Gentlemen,

I am pleased and honored to have the opportunity to address these 2004 Joint Annual Meetings of the World Bank Group and the International Monetary Fund which mark the 60th anniversary of these institutions. On this occasion, I would like to express our thanks to the Managing Director of the IMF and the President of the World Bank for their efforts, and the wisdom they have shown in leading these important institutions in this era of uncertainties, complexities, and challenges.

2004 has been a good year despite higher than projected oil prices. The global economy is experiencing the fastest growth in several decades, the volume of world trade has picked up and private capital flows to emerging markets remain strong.

However, there are also important risks that we should be aware of. Namely; the recent developments in oil prices; transition to higher interest rate environment; fiscal deficits and high public debt of both developing and developed countries and persistence of large global external imbalances.

I would particularly emphasize that transition to higher interest rates in mature markets should be managed skillfully, not only in the interest of financial stability in those markets themselves but also to avoid financing difficulties for emerging markets. At the same time, the emerging market countries should strengthen their fundamentals to limit the negative impact of such a transition to a higher interest rate environment. Turkey, as an emerging market country, is implementing a strong economic program to reduce its vulnerabilities.

I also would like to discuss some development issues. It seems that with the current level of Official Development Assistance (ODA), most countries will not achieve the Millennium Development Goals (MDGs) by 2015. Therefore, we welcome the efforts that are being made to move forward with a new aid framework designed to emphasize the fight against poverty and achieve improvement in the living conditions in the less developed countries.

Ensuring sustained growth is the most essential requirement for lasting poverty reduction. I would like, therefore, to stress the importance of multilateral trade liberalization. We also welcome the additional technical and financial assistance being provided by the Bretton Woods institutions to developing countries to promote capacity building.

A sound investment climate and adequate level of infrastructure are crucial for private sector led economic growth and sustained poverty reduction and hence for the achievement of the Millennium Development Goals. Good governance and anti-corruption measures are essential for stimulating domestic investment and attracting foreign direct investment. We urge the World Bank Group to continue to further develop and apply instruments for risk mitigation in the developing countries to encourage foreign direct investment.

Enhancing the voice and participation of developing and transition economies in the World Bank is extremely important not only to make sure that the position of all members of the Bank is properly expressed, but also to preserve the Bank's basic principle of representation and to improve the effectiveness of the Board. Better communication between the Bank and the stakeholders about the projects financed by the Bank is also important to enhance country ownership of Bank operations. In this context we also favor higher representation of developing country nationals in senior management level of the Fund and the Bank to enhance the voice of these countries as a group.

Finally, I would like to mention briefly recent developments in Turkey and prospects for the Turkish economy. Our government has made great progress on the economic front. Growth is strong, inflation is coming down and interest rates are declining. The growth is expected to significantly surpass the end year target of 5 % as inflation keeps falling down. As a strong sign of our prudent policies, we increased the public sector primary surplus to more than 6 percent of GNP in 2003, the highest ever recorded in Turkey. Moreover, we are confident that we will meet and even exceed this year's target of 6.5 percent.

We have enacted comprehensive structural reforms in the fiscal, monetary and financial sectors. We shall continue our efforts on this front, including fighting against the informal sector, improving tax policy and tax administration, reforming the social security system and rapid privatization. Lowering unemployment, bringing inflation closer to EU levels, maintaining a strong fiscal stance, and improving the investment climate will be our priorities in the coming years.

We will also continue close cooperation with the Fund and the Bank. We believe that the new economic program that we are finalizing will be supported by the International Monetary Fund and the World Bank. It is designed to meet the Maastricht criteria and to start accession talks with the European Union which will open a window of opportunity for Turkey to usher in an era of sustained high growth, low inflation and declining unemployment and poverty along with increasing credibility in world financial markets.

Ladies and Gentlemen, I thank you for your kind attention.