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

**STATEMENT BY MR. ALI BABACAN,
MINISTER OF STATE AND
CHIEF NEGOTIATOR FOR THE EUROPEAN UNION AFFAIRS, TURKEY
TO THE BOARD OF GOVERNORS OF THE WORLD BANK AND THE
INTERNATIONAL MONETARY FUND**

Dear colleagues,

I would like to thank to the Singaporean authorities for the excellent organization and their generous hospitality.

I would like to start by commending the Managing Director and his team for their extraordinary effort in bringing to conclusion the ad hoc quota increase. I would like to thank all of you for supporting this quota reform. However, this ad hoc quota increase is only the beginning of our responsibility and the major task it entails. In the second stage, a new transparent quota formula is needed to reflect better a country's changing roles and its relative economic weight in the global arena. We believe that "GDP" should be an important factor in the new quota formula, together with "openness". Of course, I am well aware that undertaking the needed reforms in this area will not be an easy process. However, if we approach the issue with an open and constructive mind, I believe that we can easily progress toward making the Fund a stronger institution. We should not miss this unique opportunity.

Dear colleagues

I am happy to note that the fund is refocusing on its surveillance mandate. I believe that Fund's involvement in broad monetary, fiscal and financial issues without getting excessively into micro policies would better serve the needs of today's global economy.

We strongly support the World Bank's efforts to heighten its focus on the issues of governance and corruption. We believe that poor governance and corruption are among the main obstacles to development and poverty reduction. Promoting good governance is essential for achieving the MDGs and the Bank's core mission of poverty reduction.

As reform efforts succeed only when there is a committed country leadership, the World Bank should have extensive collaboration with the authorities and should find ways to build and ensure country ownership. We believe that Bank should stay and remain engaged, as much as possible, and support all countries that are making efforts to strengthen governance

We welcome the actions taken and the plans being made to refine and enhance the Bank's engagement strategy with the Middle Income Countries (MICs). As 70 percent of the world's poor live in MICs, we strongly believe that continued support to them is an essential part of the Bank's mission of reducing global poverty as well as achieving other MDGs.

We believe that the MICs Action Plan, if implemented efficiently, will contribute to reversing the declining trend in the Bank's engagement with the MICs in the 1990s. Important steps are being taken to reduce the non-financial cost of doing business with the Bank, to develop more responsive and tailored financial services, and to provide more effective strategy and policy advice.

However, we believe that the Bank can do more to support the MICs. Increasing the lending activities of the Bank, along with its policy advisory role, is essential in meeting the Bank's core mandate of poverty reduction. Borrowing countries see financial and non-financial costs of borrowing as a package in their decision to engage with the Bank. Therefore, an analysis of the effect of marginal adjustments to loan charges and its affordability without jeopardizing the medium term financial health of the Bank may indicate that the Bank is passing up opportunities to make deep inroads into poverty reduction. We are looking forward to this analysis in the near future.

Finally, let me briefly touch upon the most recent developments in the Turkish economy.

Turkey continues with an uninterrupted growth for the last 18 quarters, making growth on average 7.8 percent per annum. Growth has remained robust in 2006 with economic activity expanding by 7.5 percent in the first half of the year. This figure indicates that we may even overperform our year end target of 5 percent.

Fiscal discipline remains the cornerstone of our program. We will remain committed to our strong fiscal policy framework. Following several decades of high and chronic fiscal deficits the public sector is projected to produce a surplus for the first time. Net public debt, as a percent of GDP declined to 55.8 percent as of end-2005 down from the peak of 90.4 % in 2001, pointing to a reduction in the order of 35 percentage points in four years time. This downward trend is expected to continue in coming years with the help of continued sizable primary surpluses and high growth.

Inflation is likely to exceed the 2006 target mainly because of adverse energy and commodity price developments. However, it is expected that, in the medium term, it will converge to our target. Current account deficit has widened on account of rising cost of energy imports and accelerating investments whereas the composition of the financing significantly improved by the increasing long term capital inflows.

With the tightening of global liquidity conditions, May and June of 2006 were particularly volatile months for emerging market countries, and Turkey was no exception. These developments, once again, reflect the importance of policy discipline and the strong policy coordination needed for sustained growth. In response to the tightening global liquidity conditions in May and June, we have reinforced our fiscal stance and the central bank has tightened monetary policy. The most recent turbulence also proved the increased resilience of the Turkish economy especially the structural changes that have been undertaken.

With the passage of the landmark social security reform law and steps taken to reform the tax system, we are continuing fast with our structural reform agenda. Our efforts to improve the business environment have finally started to bear fruit, with foreign direct investment reaching record high levels. Last year FDI amounted to USD 9.8 billion, almost ten times higher than its historical average. The FDI in 2006 is also strong and expected to surpass the previous year's performance as the FDI inflows hit USD 9.1 billion in the first seven months of the year. Reform policy agenda regarding the financial sector is also well underway and we will complete our FSAP study by the end of the year.

Dear Governors,

While concluding let me thank you for your support to host 2009 Annual Meetings in Turkey. We are looking forward to welcome you to the historic city of Istanbul.