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

**STATEMENT OF
HONOURABLE MR. GÜNES TANER
MINISTER OF STATE
ON THE OCCASION OF IMF-IBRD ANNUAL MEETINGS
IN HONG KONG**

I have the honour of addressing you on the occasion of the IMF-IBRD Annual Meetings. At the outset, allow me to congratulate the heads of both institutions for another successful year.

According to the latest estimates, output will increase 4.5% during 1997 and 1998, which marks the fourth wave of rapid growth since the 1970s. The growth of output is accompanied by a check on inflation in almost all countries. The progress made in the transition countries, the high growth of East Asia, though hindered by recent financial crises, the recovery in continental Europe and the strong outlook of the U.S. economy all indicate that the global expansion of output will continue. However, recession periods following high growth years is a lesson to be learned from history. Therefore, though presently there is no indication of a slowdown, developments must be watched carefully by every country.

Reduction in the budget deficits of industrial countries especially in Europe for the expected European Monetary Union is welcome progress for all of us. Another issue to be tackled is the inflation level. Though the world is experiencing the lowest inflation rates since 1960s, inflationary pressures must be kept under strict control, especially in countries where resource utilization rates are high. High capital inflows to emerging market countries and the reduction in the yield difference also indicate the increasing involvement of developing countries in world capital markets. However, the latest experiences of Thailand and the Czech Republic further reinforce the belief that, as well as sound macroeconomic policies, a healthy financial system is essential for sustainable development.

Unemployment still occupies the first place on the government's list in many developed countries. It should be emphasized that trade with countries with low labor costs is not the root of prevailing unemployment in Europe. Rather, the structure of the job market and unemployment schemes stands as the basic reason for high unemployment, especially in the continental Europe.

Developing countries' progress is also remarkable, with 6.5% real growth. The efficient implementation of prudent macroeconomic policies is vital for keeping the pace of development. The recent pressures on Thailand warn all developing countries with considerable external deficit positions. The soundness of financial systems in the country has crucial importance especially under crisis conditions.

Macroeconomic stabilization, trade liberalization, and the introduction of free market economy practices can be regarded as preconditions for sustained growth. But in order to continue in a growth path, a second wave of reforms targeting social development should be initiated immediately after the results of the first series of reforms are obtained.

We are pleased to see the rising share of developing countries in world output, which indicates the increasing share of these countries in the world's welfare.

The recent discussion on capital account convertibility is also noticeable for the IMF's future role. The policy accepted by the Board regarding the governance issue is welcomed, but the rights of the member countries shouldn't be impinged upon in any way. Regarding the Fund's transparency policy, Press Information Notice issuance practice is also a positive step to make the views of the Fund public. We also support the IMF's New Arrangements to Borrow, as it would put the Fund in a more solvent position in the event of a need to provide supplementary resources.

Let me now brief you about the recent developments in the Turkish economy and Turkey's medium term outlook.

Growth of output was around 7.9% last year while we see a figure of 6.0% for the first half of 1997, indicating a slowdown in the economy. The balance of payments figures for the first quarter of the year are in line with our expectations, and current account deficit, while standing at US\$ 4.4 billion at the end of 1996, realized as US\$ 1.3 billion in the first quarter of 1997.

As of the end of August 1997, the inflation rate per annum was around 85% which reveals that there has been no track of success in reducing inflation. The targeted rate of 57% by the previous Government could not be reached for various reasons.

For foreign investment, as of July 1997, realized stock value of foreign direct investment (FDI) stands at US\$ 9.663 billion dollar and committed amount is US\$ 21.449 billion.

Looking at the other main economic indicators, we observe that, as domestic borrowing has doubled during the course of last year, foreign borrowing has increased by US\$ 2 billion. The hope of a balanced budget, even for the first half of the year, has vanished. As of the end of July, budget deficit realized as TL 978 trillion and the budget deficit at the end of the year is now being estimated at around TL 2.5 quadrillion. Within this regard, a supplemental budget is under preparation.

The new government is fully committed to the principles of market economy and will try to ensure, both domestically and internationally, that state intervention in the markets will stay at a minimum level and will permit free market forces to determine the course of action.

For Turkey, 1998 will be an important year in many respects. The new Government's tasks include endeavouring to achieve a reasonable economic growth rate and restraining inflation, while simultaneously implementing the structural reforms for long-term stability.

We are aware that curbing inflation necessitates courageous decisions to make simultaneous and drastic transformations in many fields. So, concerted and coordinated efforts are needed to effectively reduce the public deficit, which is a main cause of inflation, on the one hand, and to restructure and reinstitutionalize major government agencies and to do away with the negative pressures of inflation, on the other. To this end, the Treasury and the Central Bank signed an accord on July 30, 1997 which limits short term advances extended to the Treasury by the Central Bank, gives freedom to the Central Bank in setting short-term interest rates, and provides the necessary grounds for the effective application of the monetary program in 1998 by the Central Bank.

The policy declaration of the new Government proposes the acceleration of structural reforms. Emphasis will be placed on privatization and reform of the social security system. In addition, unregistered economic activities will be examined closely, tax losses and evasion will be minimized. Tax rates will be reduced in certain areas, as the tax base will be widened. A tax reform will be initiated that will safeguard against erosion of tax revenue by inflation.

Privatization is a structural transformation for the Turkish economy, and, therefore, speedy privatization is crucial. In this regard, Turkey has had a significant delay in privatization in the past. But legal and institutional arrangements should be implemented in order to protect the consumer and employees. Within this regard, the sale of GSM licenses and power plants has crucial importance.

The Treasury announced the domestic borrowing programme in the last week of August and got the feedback as a reduction in interest rates by 5-5.5%. Furthermore, the Treasury realized the first reverse auction in August 1997 to smooth the disbursement schedule. An Advisory Board, constituting of the members of the Turkish Banks Association, the Association of Money Managers, and the Treasury representatives has been formed.

Transparency and the timely announcement of economic data will be provided. In this respect we are eager to collaborate with the IMF in the SDDs Project.

The structural shortcomings in the financial sector will be eliminated, and a more efficient supervisory mechanism will be established. Efforts to privatize state-owned banks will be accelerated. Within this regard, priority will be given to the independence of the Central Bank and the autonomy of the largest public bank, Ziraat Bank.

In conclusion, let me express my gratitude to the Joint Secretariat for its excellent preparatory work which has contributed so much to the success of these meetings.