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

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I would like to begin by welcoming Mr. Wolfowitz and wish him success in his position as President of the World Bank Group.

I am glad to see that the global economic outlook is still favorable and the global financial system remains resilient. Despite this positive picture, however, there are some global imbalances that we need to address in the medium term. We also need to examine carefully the factors that have contributed to the emergence of these imbalances. The economic policies should target an increase in savings in the United States, growth enhancing structural reforms in the euro area and more flexible exchange rate policies and financial market reforms in Asia.

We are encouraged by China's initial policy move towards exchange rate flexibility, which would help not only in facilitating macroeconomic management in China but also to the unwinding of global imbalances. We believe that the Chinese authorities would strengthen their policy with more exchange rate flexibility and continued reforms of the financial sector.

The high and volatile oil price remains a matter of concern that could slow the global economy. Given the fact that oil prices will remain high in the foreseeable future, countries need to pursue prudent policies by reducing fiscal deficits, easing exchange rate rigidities and enhancing structural reforms in order to make their economies more resilient.

Dear colleagues,

The world economy is now much larger than it was at the time of the last quota increase. Therefore, the Fund needs to adjust itself and its policy tools by ensuring that aggregate quotas are adequate and fairly distributed. This would allow all member countries to have appropriate voice in the Fund, which would enhance the Fund's legitimacy and effectiveness. Unfortunately, the support necessary for a general quota increase does not seem to exist at this moment. Therefore, it is worth exploring ways to redistribute quotas outside of a general quota increase. The imbalances in the current distribution of quotas are clearly unsustainable, and they should be addressed urgently through ad -hoc quota increases.

This brings me to the issue of Fund's strategic direction. The integration of capital markets has increased the size, speed, and reach of shocks across mature and emerging-market countries. Fund policies should be designed to meet the macroeconomic challenges that lie ahead. In particular, it is important to tackle the global payments imbalances, respond to capital account crises and help all members, especially low-income countries.

Dear colleagues,

We are encouraged by the international community's continued commitment to the MDGs. We welcome the result-oriented approach of the Africa Action Plan and the G8 Debt Relief proposal. The number of poor in Africa has doubled from 150 million to 300 million during the last two decades, which justifies the need for increased support to Africa. However, we would like to point to the fact that development challenges in some other regions of the world, such as Central Asia, are also pressing. We urge the international development community to put more emphasis also on the economic and social development of the Central Asian countries.

Let me now turn to the G-8 Debt Cancellation Proposal, which has been very positively received by the international community. Debt relief would definitely help reduce poverty and achieve sustainable high growth in low-income countries. However, its impact would be marginal and temporary if it is not accompanied by responsible and coherent policies designed to achieve the Millennium Development Goals (MDGs). Countries should not become complacent and should continue with appropriate policies.

As for the debt relief effort, I would like to emphasize that the work on the modalities and financing of the G8 proposal should pay due attention to its implications on IMF and World Bank finances, equal treatment of all members, and fair burden sharing among countries. In particular; with respect to cancellation of debt to the IMF, I would like to point to the risk that the burden of debt cancellation could be shifted to the emerging markets via the surcharge mechanism. With respect to cancellation of debt to IDA, we should develop mechanisms that would ensure that the compensation for IDA is additional to the existing commitments and IDA's capacity to assist poor countries in the future is not jeopardized.

We note that despite all the endeavors of the international development community, progress towards attainment of MDGs has been slow and uneven. Considering the fact that 70 percent of the developing world's poor live in middle-income countries, we believe that the international development community should develop a new approach, focusing more on the poor people of middle-income countries, in order to accelerate progress toward the MDGs in these countries.

The MDGs agenda rightly places emphasis on reducing poverty in all its dimensions. We believe that, economic growth accompanied by job creation should be the main driver of poverty reduction. In this respect, I would like to stress the crucial role of the World Bank Group in the sustainable development of the economies of developing countries. The Bank Group's invaluable global expertise and experience should be disseminated more effectively. Its role will be instrumental in analyzing impediments to job creating growth, and helping developing countries formulate their own growth strategies based on best practices.

The World Bank Group can also assist developing countries by lowering non-financial and financial costs, such as reducing its lending rates and increasing fee waivers. The cost of borrowing can be lowered through the use of country systems in Bank operations and procurement. Use of local currency financing is also important for developing countries, as it eliminates the potential currency mismatch between revenues and debt service, and helps to improve local financial markets.

We welcome the Bank's intention to improve the conditionality it attaches to its loans. The Bank's reaffirmation that it will not take a prescriptive approach to reform is another step in the right direction. One of the important lessons learned from past experience is that the "one size fits all" approach to conditionality does not work, and that programs should be country owned and country led. Therefore, the Bank Group, should be more careful in the design of conditionality: conditions should be customized to country specific circumstances, required actions should be within the Government's control and maximum flexibility should be ensured to accommodate changing circumstances. With respect to sustaining adequate level of fiduciary standards, we would like to reiterate our support for an ongoing simplification agenda.

I would like to highlight the central role of infrastructure in the development agenda to promote growth and achieve MDGs. Investment needs are enormous in all regions. Therefore, we welcome the Bank Group's intention to scale up infrastructure lending by taking into consideration the lessons learned from past infrastructure programs.

Let me finally briefly touch upon the most recent developments in the Turkish economy. The GNP growth in 2004 reached at almost 10 percent while inflation was down to below 10 percent, one third of its 2002 level. This remarkable performance also continued in 2005. We expect growth to stabilize at around 5 percent in 2005 while CPI inflation further declining to below the 8 percent target despite the all-times record global energy prices and significant hikes in major commodity prices. Public net debt to GNP ratio is expected to come down to below 60 % by the end of 2005, levels representing a drop of more than 30 percentage points in just four years time. Looking ahead we will continue with our prudent fiscal and monetary policies and fortify the resilience of our economy against possible future volatilities. Strengthened economic activity, improved macroeconomic fundamentals and strict adherence to our structural reform policy lend great support to our efforts. The steadfast implementation of the structural reform agenda is a top priority and currently we are working on social security, tax and financial sector reforms which will be completed in a matter of months.

Thank you for your kind attention.