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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. **MEHMET SIMSEK,**
Governor of the Fund for **TURKEY,**
at the Joint Annual Discussion

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Mr. Managing Director,
Mr. President,
Fellow Governors,
Ladies and Gentlemen,

This year's annual meetings are taking place against a backdrop of dramatic changes in the global financial system. Devastating financial shocks continue to hit global markets. While the epicenter of the financial crisis has been the U.S., the problems quickly spilled over to Europe and elsewhere. Shaken by these financial shocks, the world economy is entering a difficult phase.

Emerging and developing economies, which have been the engine of economic growth, are facing economic slowdown mainly through trade and credit channels. While inflationary pressures are likely to ease, the risk of a significant slowdown in capital inflows appear high.

To deal with the fallout of the ongoing global crisis, it is clear that a coordinated response is required. We must devise a global fire-fighting strategy as well as ways of dealing with the impact of the crisis. We believe that the Fund is uniquely placed in this respect to coordinate a global response. Hence we expect the IMF to play a more active role in coordinating the policy response.

In this rather gloomy background, I am pleased to tell you that the Turkish economy has so far been quite resilient to the global shock. Real GDP growth, for instance, was 4.2 percent in the first half of this year. This is lower than an average annual real GDP growth of 6.7% in the previous six years. For 2008, the growth is expected to settle around 4%. In the short-term, growth is likely to slow further. However, we remain positive on medium-long term growth outlook. Turkey's demographics are favorable and we are implementing reforms that would boost productivity.

Thanks to softening commodity prices and weakening domestic demand, inflation is likely to fall to 7.5% next year.

Turkey's current account deficit, which is likely to have reached 6.5% of GDP in 2008, looks set to narrow significantly in 2009. The deficit is partially financed by strong FDI inflows with non-bank corporate sector medium-long term borrowing providing a big chunk of financing. While the global backdrop has deteriorated in recent months, Turkey's strong medium-long term growth prospects should continue to help attract the necessary funding. In addition, central bank has about 80 billion USD reserves.

Fiscal discipline remains the cornerstone of our economic program. Thanks to sustained (and sizeable fiscal adjustment) over the past six years, Turkey has lowered the public debt to GDP ratio to around 37%. We are committed to maintaining the fiscal discipline and keep the public debt to GDP ratio on a downward path. To enhance the credibility of our medium-term fiscal framework, we are planning to introduce a formal fiscal rule over the next few months.

Despite a relatively less favorable domestic and global backdrop, we have continued to implement structural reforms. We have adopted and implemented a number of critical reforms including a landmark social security reform, a labor market reform, and energy market reform. We have also introduced generous incentives to R&D to help Turkey move up the value chain.

Finally, Turkey's banking sector is sound and strong. It is well capitalized, with a capital adequacy ratio of around 17.5% as of June 2008. The sector has strong asset quality. Banking sector's net NPL ratio was a mere 0.6% as of end 1H08. The sector has been profitable with an ROE of 24.7% in 2007. The system also has no meaningful currency mismatch.

To sum up, Turkey's macroeconomic fundamentals are strong. While this doesn't make us immune to the on-going global shock, it should make us a lot more resilient.

Let me now turn to matters relating to the Fund's and the Bank agenda.

We commend the management for timely launching of a review of the Fund lending instruments, access policy and charges and maturities framework. We support removal of the redundant facilities from the toolkit. There is also a case for making existing instruments more flexible to address different needs of all membership. We closely follow the discussion on creation of a new liquidity instrument and would like to thank for different proposals. We should also substantially increase the access limits for the Fund financing. The Fund's charges and maturity framework also needs to be streamlined, in particular, the application of surcharges. Hence, we strongly expect the upcoming Fund work to address these issues.

On the World Bank side; we welcome the consensus reached by the Executive Directors on the Voice Reform. The agreement represents an important step in enhancing the voice and participation of developing and transition countries in the World Bank. This first step, however, should continue with a more ambitious second step, which should include, among others, a meaningful realignment of IBRD shareholding to reflect countries' relative position in the world economy.