

BOARDS OF GOVERNORS • 2009 ANNUAL MEETINGS • ISTANBUL, TURKEY

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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INTERNATIONAL MONETARY FUND

Press Release No. 4

October 6-7, 2009

Statement by the Hon. **RECEP TAYYİP ERDOĞAN**,
PRIME MINISTER of **TURKEY**, at the
Annual Meetings of the Boards of Governors of the
World Bank Group and the International Monetary Fund

OPENING REMARKS BY
H.E. RECEP TAYYİP ERDOĞAN
PRIME MINISTER OF THE REPUBLIC OF TURKEY
AT THE 2009 ANNUAL MEETINGS OF
THE BOARDS OF GOVERNORS OF
THE WORLD BANK AND THE IMF
(October 6, 2009)

Honorable participants,

Distinguished guests,

Ladies and Gentlemen,

I would like to welcome you all to Turkey and Istanbul on the occasion of the 2009 Annual Meetings of the Governors of the World Bank Group and the International Monetary Fund.

Let me remind you that, Turkey and Istanbul had hosted the World Bank-IMF Annual Meetings before in 1955. It is a great pleasure for us to host these meetings once again after 54 years and to have our distinguished guests here.

I sincerely wish that Istanbul meetings will lead to propitious outcomes for our world as we are living extremely critical times in the global economy.

Now, you are on the land where money was used for the first time in the history of mankind.

Likewise, I would like to remind you that the only city in the world which is located on two continents is Istanbul. The Bosphorus lying immediately next to us connects Asia and Europe.

Istanbul is not only a bridge between continents, but also between civilizations, cultures, economies and trade routes.

I believe with all my heart that this city will bring together our strengths, experiences, and be a stage for an organization that will leave a mark on our world and global economy.

Once more I welcome you all to Turkey and Istanbul, and hope that you will enjoy the unique beauties of Istanbul during your stay.

Distinguished guests,

Honorable Governors,

I am aware that the agenda of the IMF-World Bank Annual Meetings have many important issues.

We are living through an unprecedented global crisis and looking for an exit from the crisis.

I believe that we should not draw a pessimistic picture looking at where we stand now. Strong policy measures have started to produce positive outcomes. This is promising. However, we should continue to be prudent and not fall into complacency at this moment.

In the aftermath of the crisis, the international community showed that it can cooperate effectively. Obviously, the cooperation and joint stance against the global economic crisis are very promising for our future.

The international community and the international organizations have proved that when necessary, they are able to act in harmony for our world, build a shared wisdom, and handle the issues decisively in cooperation.

In this regard, emergency measures were successfully implemented with shared wisdom and through consultations. We have started to see the positive results of these measures.

The agenda going forward should primarily focus on medium and long term structural reforms. I firmly believe that we will complete this reform process successfully and set up a stronger global economic structure.

The current global crisis has conveyed very meaningful messages to all countries and to the world economy. Many issues that were not seen or not recognized and were neglected for years can no longer be disregarded after the crisis.

It is now inevitable for all major players and organizations steering the global economy to thoroughly think about “where the mistakes were made”.

We have already paid, and still continue to pay high prices. If we do not draw the necessary lessons from this experience, we will probably pay much higher prices in the future as well.

Distinguished Guests,

First of all, the current crisis has shown that, the risks that were built up in the financial markets in recent years were not monitored well. I regret to say that the financial regulatory and supervisory framework and risk management considerably lagged behind innovations in financial markets.

Second, we saw that global crises could originate from the advanced countries as well. However, the effects are felt all around the globe. So, there is a need to review the allocation of roles and responsibilities in the global economy.

Moreover, the policy makers should demonstrate strong leadership in the years ahead. In the medium-term, strong fiscal effort will be required to ensure the sustainability of fiscal balances. We know that, this will be more challenging in an environment where unemployment is increasing and prosperity is decreasing. However, the governments should follow a transparent approach by explaining every dimension of their policy choices to the public.

Countries should refrain from taking any action that would damage the spirit of global cooperation. Contraction in the global demand has further increased the competition among countries, which is triggering protectionist measures. But, I firmly believe that we should strongly resist all kinds of protectionism to exit from the crisis as soon as possible at a minimum cost. Turkey is one of the few countries which has not resorted to protectionism in this period.

And most importantly the global crisis has resentfully reminded us that despite enormous economic prosperity produced by globalization, we have yet to eliminate poverty.

- While one part of the world consumed without limits, the other fought to survive starvation.
- One part of the world spent recklessly; another hardly found even a handful of rice.
- One part became richer, the other poorer.
- Prosperity increased in one part, poverty in the other.

- While there is a world enjoying 3G and 4G mobile technologies, a considerable population has yet to say “hello” on the phone.
- While in certain parts of the world, children are born to prosperity, peace and security, children in other parts die of hunger, malnutrition, epidemics and armed conflicts before reaching the age of one.

This is obviously not sustainable.

The number of people who suffer from the pain, tragedy and cruelty, that they consider as the brutal face of capitalism, is far from negligible. We know that, including capital, everything is for people. Happiness, prosperity and well-being of people are the bases for everything, including the economy.

If economy, politics, culture and art are not viewed from a humanitarian angle, the problems will again take a toll on humankind. In the 21st century, which is expected to be a century of collaboration and solidarity, we unfortunately could not establish a climate of collaboration and brotherhood to the desired extent.

Double standards, material based confrontations, discrimination, intolerance and coercive interventions are still going on. Unfavorable developments taking place in one part of the world can affect the rest of the world, which in fact looks like a “global village”. Terrorism, cruelty, intolerance and poverty in one region can generate global effects. No one could be happy without peace, welfare, humanity and security.

During the last century, injustice turned into wars, armed conflicts, mass migrations, income inequality, urban crimes and unplanned urbanization. We must take every measure today to avoid a similar situation.

We should make the world a place in which no one is devoid of the global welfare and in which every one benefits from the welfare on the basis of justice. We need mutual cooperation and solidarity. We hope that peace and welfare is shared in the 21st century.

I believe that all countries, all non governmental organizations and all international organizations share the same goal. I certainly think that, everybody wants the 21st century to be a century of opportunities, not threats. In order to achieve that, we have to work more, think harder and lend an ear to the people with different views, including those doing protests outside.

I regretfully have to say that, the concepts of “south” and “north” are not just related to geography, they have an implication for the level economic of development in the world. The attention of international institutions to this dissociation and polarization is very important. The world in which people lost their hopes can not be the world of future.

It should be kept in mind that macro economy is not independent from the micro economy. As Adam Smith reminds us in his “The Wealth of Nations”, the effort of every man to better his condition is the basic tenet principle of public and national wealth. Smith certainly was not referring to an economic structure that is solely based on self-interest. In contrast, he thought that the welfare of the society would be increased. Sharing the welfare created in today’s competitive environment, is also important in terms of sustaining it.

Our dialogue and cooperation so far to overcome the current crisis is of vital importance and promising in this sense.

The dialogue must be sustained and further strengthened. The organizations such as the IMF and the World Bank which have played an effective role in response to the crisis must play a more effective role in the coming years. Cooperation and dialogue demonstrated in response to the economic crisis must also be effectively pursued for all global issues by other international organizations as well, including, in particular the United Nations. I believe by heart that the world then will become a better place to live in peace and stability.

Honorable Governors,

Distinguished Guests,

Providing the IMF and multilateral development banks with more effective structures, through the reform of international financial institutions, has become an important part of the international community's agenda.

The globalization process has de facto increased the role of emerging market economies in the international economic system. With their dynamism, emerging market economies have become critical players of the global economy and have the power to set the pace of global growth. This is the economic reality of the 21st century. If we want to use the dynamism of globalization for the benefit of all and to minimize the potential risks, our actions should commensurate with the conditions of this reality.

Hence, now, we have to restructure the international financial institutions in line with this de facto situation. For this reason, we attach great importance to the work on modernizing the governance and representation structures of international financial institutions. By doing so, these institutions will become more legitimate in the international arena. Only then, we can expect these institutions to perform their tasks and fulfill their responsibilities more effectively.

We are now making rapid progress in solving many issues for reforming the international financial institutions, which usually takes a very long time to address and requires challenging negotiations.

We should maintain our will and the current momentum for reform. Nothing will be the same as before for the world economy in the post-crisis period. In the new period, all countries will need to cooperate more and be more open to listening to the views of others.

So, as the international community, one of our most important responsibilities is to make necessary compromises during the reform process of the IFIs. Otherwise, we will fail to draw the necessary lessons from the current crisis.

We are now in a new period in which responsibility and prudence in the financial markets will have higher priority. Significant progress has been made in improving prudential oversight and risk management, enhancing transparency and strengthening international cooperation in the supervision of financial companies.

The work is also underway to cover all systemic financial institutions, tools and markets under the scope of regulation. The crisis demonstrated the importance of the timely identification of financial sector vulnerabilities. The IMF and the World Bank have significant responsibilities in this regard.

I believe the Financial Sector Assessment Program (FSAP) carried out by these institutions is very important. Turkey has implemented the FSAP and published its findings, which confirmed the significant progress achieved in the regulation, supervision and risk management in the financial sector. We encourage countries that have not yet had an FSAP to do so.

Distinguished Guests, Honorable Governors,

Before concluding my words, I would like to briefly give you some key information on recent developments in the Turkish economy and our future goals.

When we took office at the end of 2002, we made efforts on the one hand to remove the effects of the crises of 2000 and 2001, and on the other hand, to tackle with chronic structural problems of the Turkish economy.

I should also emphasize that Turkey achieved high performance in national and foreign politics and democratization alongside the economy in the past seven years. Our achievements in the economy were synchronized with our reforms in all other areas.

Four years ago, on 3 October 2005, Turkey started the accession negotiations with the European Union. Now we are carrying out the negotiations decisively. I want to underline that, Turkey, though not obliged to, has fulfilled two out of the five Maastricht criteria on budget deficit and public debt burden that the EU member states should meet.

With regard to regional and global peace, we made intensive efforts in the last seven years. We started a dialogue process on all outstanding issues with the neighbor countries. We were elected as a member to the United Nations Security Council. We are co-chairing the Alliance of Civilizations, one of the most significant dialogue projects of our century. We are actively putting effort in addressing many regional issues.

We have seen positive developments in the economy as well. We reached historic high levels in exports, foreign direct investment inflows and tourism receipts.

The Turkish economy achieved a growth rate of approximately 6 percent on average between 2002 and 2008 and per capita income tripled, exceeding 10 thousand dollars. With this performance, the Turkish economy moved up to 17th rank from 21st in the world economy.

We achieved fiscal discipline, reduced the borrowing costs and decreased the ratio of public debt to GDP well below the Maastricht criteria.

Parallel to the reforms in the banking sector, public financial management and taxation, a comprehensive transformation was accomplished in energy, transportation and communication sectors which are very critical for a strong economy. The dynamism, efficiency and resilience of our economy increased.

Turkish economy has inevitably been affected by the global crisis as it is highly integrated with the international system both through trade and financing channels. Nevertheless, the significant progress in the banking sector, the improvement in fiscal balances and our strong international reserves limited the adverse effects of the crisis on our economy. This verifies, once again, the significance of structural reforms and the prudent and consistent policies implemented after 2002.

We announced the Medium Term Program for the 2010-2012 period last month to eliminate uncertainties in the fiscal policy and lay down the medium term goals of our government.

Our primary goals in the program are to increase the growth gradually to its potential level, to achieve a relative increase in employment, to maintain the disinflation trend, and to restore public balances which have been deteriorated due to the crisis.

In our medium term program, we are planning to begin fiscal rule implementation in order to sustain the improvement in public fiscal balances and to reinforce market confidence in fiscal policies.

Let me emphasize the strategy we have formulated to facilitate our economic recovery and increase the growth potential in the medium term. The main priority of the Medium Term Program is to restart private sector-led growth in Turkish economy. To this end, we give priority to innovative and technology intensive projects that will increase the productive capacity and efficiency of our economy.

The Medium Term Program envisages a reduction in the public sector borrowing requirement; hence the funds available to the private sector will be increased.

Under our new incentive scheme, we support large scale investments and regional investments in certain sectors.

Another important issue is to narrow the development gap between the regions in Turkey in terms of improving medium to long term growth dynamics and increasing the living standards of our people. In this regard, we intend to activate regional potential through development agencies to increase production and income.

The basic framework and policies we proposed in the program gained the support of the markets in a short period of time. In fact, major international credit rating agencies demonstrated their confidence in our program by raising the rating outlook of our country.

As I already mentioned at the Institution of International Finance meeting on Saturday, we believe that our credit rating should be higher taking into consideration the sound economic structure of our country, good macroeconomic performance in the recent years, and the resilience of the Turkish economy.

Distinguished Guests,

I started my remarks with Istanbul, and I would like to conclude them with Istanbul...

Istanbul is one of the leading cities of Turkey and the world not only in terms of history, tourism and culture, but also in terms of trade and economy.

Istanbul Finance Center Project is an important structural reform area as we have mentioned in our Medium Term Program. We are working to make Istanbul first a regional and then a global financial center. Istanbul and Turkey are both ready for such an ambitious project.

Recent steps taken to increase financial deepening, the highly advanced financial regulatory environment and well-established institutional infrastructure all together give significant advantages to Istanbul in becoming a financial center. If we consider the young and dynamic population, well-qualified labor force, geopolitical advantages, rapidly growing and developing economy, strong information technology infrastructure together with the rich culture and history; I believe that the advantages of Istanbul cannot be ignored by the international financial community.

While concluding my words, I wish that the 2009 World Bank–IMF Annual Meetings will reach to an end successfully. I would like to express our great pleasure to host this organization, and welcome all participants.

Thank you.