

**OPENING SPEECH**

**MADE IN**

**THE 68TH SHAREHOLDERS' ORDINARY GENERAL**

**MEETING**

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**THE CENTRAL BANK OF THE REPUBLIC OF TURKEY**

**Ankara**  
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Dear Shareholders and Distinguished Guests,

Our Annual Report, already delivered to you, contains a detailed account of international and domestic economic developments during 1999. Here, I would like to make a brief evaluation of 1999 without going into details. Then, I will touch on the progress achieved so far

on the inflation front, within the context of the Disinflation Program that was put into operation in 2000. Finally, I will conclude my remarks by elaborating on what we should concentrate from now on in the conduct of the Disinflation Program.

### ***Evaluation of 1999***

1999 was a difficult year for our nation and economy. The two consecutive catastrophic earthquakes brought about significant human loss. Here I would like to express my deep grieves and condolences for the loss of all our citizens and our employees.

The total economic loss caused by the earthquake both in terms of wealth and output is forecast as TL. 2.2 Quadrillion, at a minimum. The recession that our economy had entered into during 1998 grew deeper with these disastrous events.

However, we could not put the all blame on the earthquakes for the decline of output in the last year's GNP. The other factors that contributed to a drop in the economic growth were as follows:

- The low trade volume, which was once significant, with the former Soviet-block countries in parallel to economic recession that occurred in these countries;
- The high real interest rates due to capital flight, and its ensuing persistent pressure on domestic demand;
- The significant decline in private sector investments; and
- The long-standing chronic inflation.

In 1999 the inflation problem preserved its chronic nature, as it had been during long years, due to many factors.

This has, once again, shown the extent of rigidity in the inflation and its involvement in the decline of GNP.

Despite many adversities we underwent, the year 1999 can be marked as a period in which the preparations of the most important turn of the Turkish economy, maybe the unique in the last half century, was completed. The framework of the Disinflation Program, which we had started its preparations about three years ago, was finished towards the end of 1999. Following the Stand-by Agreement

signed with the IMF in December 1999, the Program gained full support of the international circles and was put into practice in 2000.

This is a front-loaded, well prepared, highly consistent, and strong program. As you know, our Institution has played an active role both in the preparation and implementation of this program. To the program, the Central Bank has unquestionably put all its credibility, which has been increased by consistent policy actions for years, because we regarded this program as the last and most important chance for Turkey to bring the inflation down once and for all. The strong commitments undertaken by the Central Bank such as the future movements of both exchange rate basket and some aggregates selected from the CB's balance sheet, does demonstrate our belief in this program.

### ***Evaluation of Program Realizations***

As of today, let me evaluate the results of nearly four-month implementation. As you will recall, during my press conference on December 9, 1999 I had enumerated the goals of the program in four items. These were:

- i. To bring down the consumer price inflation to single digits in three years,
- ii.* To reduce real interest rates to plausible levels,
- iii.* To increase the growth potential of the economy, and
- iv.* To provide a more effective and fair allocation of the resources in the economy.

As you may appreciate, we have some difficulty in making a proper evaluation and one-to-one comparison between the results and the goals, because we are yet at the beginning of the application and have no sufficient data. However, I can say that the application of the program in the first four months seem to largely support the attainment of each goals stated above.

First of all, I would like to bring your attention to the fact that the downward trend of Turkish lira interest rates, which was started as soon as the program had been announced, is still persistent. Until just a couple of months ago, we could not have dreamed of such levels in interest rates that we have attained today. The long-standing high

real interest rates have now fallen to levels as in the stable economies.

Significant increases in tax revenues collected in the first three months and reduced public expenditures have caused the primary surplus to materialize above the anticipated level. Increased tax collections and external borrowing at more advantageous terms have greatly lessened the pressure on domestic borrowing. The pre-announced exchange rate basket for the successive 12 months and reduced domestic borrowing requirement have relieved the uncertainty for the future.

It is natural that the goals of increasing the growth potential of the economy, and providing a more effective and fair allocation of the resources in the economy can only be accomplished in the medium-term, but not overnight. However, I wish to stress that all of the structural reforms that have been carried out until now in line with the program will contribute to the achievement of these goals.

Moreover, I would like to go briefly over our growth performance within the context of medium-term growth potential. The output figures in manufacturing industry show that the economy has started

to recover after hitting the bottom last year. We expect that this pace of recovery will accelerate in the next months. The results of the Central Bank's Business Tendency Survey and the upward trend in domestic credits extended by deposit banks reinforce our expectations.

When we compare the realizations of inflation in the first three months to the other rapid improvements, we may get the impression at first that the adaptation of inflation to the program seems to be a bit more difficult. However, a more detailed survey of the data reveals that the inflation figures comprise of favorable trends.

The price hikes both in public and private manufacturing industry began nearing the rate of increase in the exchange basket in February. The difference between the two ratios continued to narrow in March and the inflation rate entered into a downward trend on an annual basis.

**During the next months, we expect that the non-agricultural price hikes will stabilize within a narrow band in line with the pre-announced exchange rates and that the annual inflation rate**

**will continue to fall in this direction uninterruptedly. The rate of the fall will be determined by the course of agricultural prices.**

### ***Other Subjects in our Agenda***

In the last part of my speech, let me share with you my thoughts on the subjects on which we, as the monetary authority, should concentrate in the later stages of the Disinflation Program.

As is known, the exchange rate basket fixes the rates as point targets on a monthly basis until the end of June 2001. In such an exchange rate system, it can be said that the monetary policy will act as if it is fastened to an automatic pilot. As the monetary authority, we do not have a significant impact on the monetary aggregates and hence interest rates. Monetary aggregates and interest rates are determined by ensuing capital movements. Starting with the second half of 2001, we plan to take over the monetary policy from the automatic pilot, right after we will switch to a “progressively widening symmetrical band” system. In other words, we plan to efficiently use all the instruments in our hands, including the interest rates, to hit the inflation target. It is imperative that the Central Bank should retain full



control over its instruments at a time when the Central Bank will begin implementing an active monetary policy to keep the inflation under control.

In the previous general meetings, I have had several occasions to underline the importance and the meaning of the central bank independence, which is needed for the efficiency of monetary policy actions. I think it is useful to repeat it briefly. **An independent Central Bank that enjoys full credibility is the most important factor in the maintenance of price stability in a country. In the years ahead, the continuation of price stability, which is being secured by this program, necessitates that the Central Bank, which will assume the responsibility of this stability, should be fully independent.**

**We have long been conducting the technical works for the necessary legal amendments in order that the Central Bank of the Republic of Turkey may gain full independence. I hope Parliament passes this amendment in the future. Thus, the Central Bank will be able to continue to perform all the duties assigned in this new period.**

As the monetary authority in Turkey, the Central Bank is considering removing six zeroes from the national currency. We will then be able to eliminate one of the greatest traces of the long-standing high inflation. Our technical preparations are almost completed.

Dear guests,

**In my opinion, we are living through an historical period from every aspect. The steps, which were taken in the direction of lowering inflation during approximately four months' period, are encouraging. I firmly believe that, the continuation of these right steps will bring the "low inflation," which is our aim. In addition, the support given by the society will be the most important factor in moving faster towards this aim.**

**I present my respects, and thank you all for listening.**