THE TURKISH CASE IN GLOBAL ECONOMIC TURBULENCE

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Ladies and Gentlemen,

At the outset, I'd like to remind you that except for a few, most of the countries in Eastern Europe, Central Asia, and the Balkan's have made significant progress in terms of strong macroeconomic performances and, in some cases, a good start on their structural reforms. The result for these countries was declining inflation and resumed growth following years of stagnation.

But these emerging market economies, and others elsewhere in the world, have suffered from indirect effects of the Asian and other regional crises, including increasingly volatile capital flows, nervous and unstable investor sentiment, and higher risk premiums on loan interest rates.

In time, the initial effects of the Asian crisis on the region faded out. Unfortunately, at this point, events in Russia took a wrong turn, with serious spill overs into financial markets generally and the emerging markets in particular. The collapse of Russia's banking sector and a wave of defaults on Russia's sovereign and bank debt has focused attention on all emerging market economies.

In addition, we have seen various irrationalities such as exuberances, depressions, ups and downs, and panics. The marketplace has come under enormous pressure. I may say that despite our considerable experience in dealing with an uncertain economic and political environment, and despite our preparations for episodes of market volatility, these gloomy situations have kept us under pressure.

At the beginning of 1998, after observing the attenuated effects of the Asian crisis on the Turkish economy, the Turkish authorities announced a disinflation program based on closely coordinated monetary and fiscal policies combined with a strong increase in primary fiscal surplus, and an acceleration of privatization. The program also included some structural measures and a commitment to transparency.

The initial results of this program were positive. Inflation, the growth rate, and the current account deficit were lower than last year. The fiscal sector continued to behave well. In order to strengthen the program, we and the IMF Management agreed to monitor it in the framework of a staff-monitored program.

All went well at the very beginning of this program. But in late July and early August, developments in the international arena in reaction to the Russian crisis forced us to take a defensive position to deal with a globalized crisis.

Let me remind you that the Turkish economy has faced several economic crises in the years 1978-1979, 1991, 1994, and 1997--the latter being the Asian crisis. I personally lived with these crises in various capacities in the private and public sectors. This history means that we have considerable experience and competence in policy implementation before, during, and after the crisis period. Sometimes minor crises or "crushettes" stemming mainly from political uncertainties have become a part of our professional life.

We strongly believe that sound, prudent macroeconomic policies are not only the first line of defence against financial crisis but also essential for retaining the confidence of the markets. Generally speaking, both public and private sector institutions must be guided by strong, high quality management in following the principles of good or governance and accepted ethical rules.

In addition, certain specific policy orientations are essential before and during the crisis. Let me enumerate them.

We generally considered five main elements to be a part of the sound macroeconomic policy implementation which should be in place before a crisis emerges.

First, not to allow any appreciation of the currency that will begin to threaten the balance-of-payments position.

Second, the direction and nature of any short-term international capital flows must be carefully examined.

Third, the ratio of useable external reserves (both official and foreign exchange holdings of the banks) to short-term debt must be kept at reasonable and internationally acceptable levels.

Fourth, a sound and transparent banking system is absolutely essential for avoiding a future crisis. Risk-taking strategies should be appropriate to the market system.

Fifth, developments in domestic credits should be analyzed properly.

In my view, all five of these elements are of great value in helping a country avert a threatened financial crisis, or helping it prepare its financial system to withstand global volatility better than the financial systems of other countries. In addition, they can influence foreign perceptions and sentiments in ways that can avoid a cutback in normal financing.

However, if the crisis spreads and becomes global in nature, and short-term interest rates increase, we would follow five main principles of policy orientation:

First, keep the markets liquid and functioning efficiently.

Second, keep the markets calm and protect the marketplace and the public from panics and irrational fears.

Third, be pro-active, and make necessary policy decisions as soon as possible.

Fourth, keep a finger on the pulse of the marketplace and approach the market on friendly terms.

Fifth, when seeking solutions, which usually involve complex tensions and trade-offs, be aware that improving conditions in one sector, for example the banking sector, may not prevent a worsening of conditions in the corporate and household sectors. A credit crunch in particular could have adverse effects on the corporate sector.

I cannot repeat too many times that the pursuit of sound macroeconomic policies in a low-inflation environment is an essential precondition for building public and market confidence.

It is also true that any country that wants to stand out from the others, and not be affected by the general disillusionment of foreign perceptions and sentiments, must show the world that it understands that macroeconomic stability and financial stability go hand in hand. Thus, for a market-based and liberalized economy, continued pursuit of sound macroeconomic policies and further progress on structural issues are essential for avoiding the adverse effects of an ongoing global turbulence.

As regards the Turkish economy, I may emphasize that its fundamentals remain strong and unchanged, and that the government's determination to stick to its anti-inflation measures give the Turkish economy a better than even chance of coming out on the positive side in the present highly volatile world economy. Turkey's market-based and liberalized economy, and the dynamic activities of its private sector, have put Turkey on a different path. An even stronger commitment to sound macroeconomic policies, to structural reforms, and to more active use of monetary policy, would further strengthen the economy's ability to weather adverse external developments. It would also compel the international markets to become more serious about recognizing our differences from the others.