Thank you Mr. Chairman,

Ladies and Gentlemen:

Turkey enjoys a very positive economic climate. Now, the inflation rate in Turkey converges to single-digit figures, approximately 60 points down from 3-years before, and high economic growth continues for ten quarters without a break. This positive atmosphere is expected to accelerate after the start of negotiations. This spectacular performance is not only acknowledged by the Turkish business community but also by the international financial organizations, the IMF and the World Bank, credit rating companies and the EU.

These achievements have been attained under an IMF Stand by Agreement. The economic program rests on two pillars:

(I) Improving the economy's resilience to shocks and reduce its vulnerability in the short run.

(II) Achieving sustainable growth via fundamental structural reforms from medium to long run.

In the past there had been times when Turkey put in place economic programs to recover from crises but was not able to sustain them. In 1993, the growth rate was 8% but in 1994 it was -6%, in 2000 the economy grew by 6% but in 2001 the rate fell down to –9.5%. The long-term growth rate averaged 4.5% after all these swings in the economy. This outcome was the result of a failure to accomplish structural reforms. However, this time, Turkey aligned stabilization efforts with a rigorous structural reform agenda. So it is quite misleading to think of Turkey's recent performance again as a temporary one. We think that the transformations over the past three years have changed the fundamentals of Turkey permanently. And the proofs of this are already clear. In the third quarter of 2001, the growth rate was a minus 12.3%. Since then the economy is growing rapidly. And it is the first time that growth is sustained for 10 quarters. That high growth also coincides with a fall in the rate of inflation. I should say that, Turkey now fully understands that inflation is an important obstacle for growth and welfare of its citizens. Henceforth, the public, the government and the business community now puts the continuation of the disinflation process as the primary objective. There is a paradigm shift in Turkey and I should say that the role of IMF and the EU in facilitating this change should be acknowledged. .

I want to underline the importance of three factors that contributed to this so called miracle:

- √ good implementation of sound economic policies namely tight fiscal and monetary policies
- √ floating exchange rate
- √ structural reforms

In order for higher growth-lower inflation process to continue, Turkey should persist on these policies. Renewed IMF agreement will contribute to the credibility of economic policies in the coming 3 years period.

- √ Tight fiscal policies were very much instrumental in this process. This has reduced public spending, but also decreased public indebtedness, reduced risk premiums and initiated the disinflation process. Thanks to the decisive fiscal consolidation by the government, the budget deficit is converging down below 10% of GDP, from 17% in 2001. Drop in interest rates due to the improvements in Turkey's macro and financial fundamentals plays an important role in this favorable budget outlook. Our government remains on track to achieve the public sector primary surplus target of %6.5 of GNP in 2004, and present budget performance already implies the attainment of performance criterion this year. With the declining borrowing requirement, Turkey managed to pull the gross debt to GNP ratio to around 94% in 2002 and further down to around 83% last year. At the end of 2004, the debt ratio is expected to fall around 65-70%, approximating closely to the related Maastricht criteria.

- √ Continuation of fiscal discipline will be one of the most important factors for high performance. Turkey remains committed to keeping the public sector primary surplus policy in 2005 to help further improve public debt dynamics. Sustaining high primary surplus will be instrumental in improving expectations, decreasing risk premium and the fall in the inflation rate.

- √ Floating exchange rate system was the other important policy instrument. The Central Bank adapts an active monetary policy and uses interest rates to attain the inflation target. Inflation rate itself becomes the nominal anchor replacing the crawling peg system of the previous disinflation attempt. The floating exchange rate works as the overflow valve of the system, leading to appreciation of the TL as a result of positive expectations and capital inflows and vice versa.

- √ Of course the independence of the CB has enabled positive expectations. The independence of the CB helped break inflationary inertia, add credibility to the overall policy framework, and thus played a crucial role in bringing inflation down to historically low levels.

Besides good implementation of sound economic policies Turkey should especially put special emphasis on further structural reforms. Continued efforts on privatization, tax reform, tax administration, agricultural reform, restructuring the social security system, strengthened corporate governance and regulatory framework, judicial and legal reform and the like will enhance the competitive capacity of the Turkish economy. Notwithstanding the importance of all the reform areas, I want to stress the importance of tax reform and the banking sector reform, which is crucial for sustaining macroeconomic stability and promoting the business environment.

- √ Extensive restructuring across the financial sector is achieved. However, there is still a great deal more to be done by way of reform across the private and public banking sector.

- √ The Banking Act was revised in 1999 and went through several amendments thereafter. The new Banking Act is now on the agenda and the draft legislation has some focuses on bringing legal framework more closely in line with EU standards.

- √ The legislation to strengthen the BRSA's effectiveness and the legislation regarding the regulation and supervision of non-bank credit institutions, also carry substantial importance.

- √ More effort should be devoted to strengthen the regulation and supervision of the insurance companies.

- √ Despite visible improvement, capital adequacy still remains to be strengthened, especially when put on the more sensitive scale implied by BASEL II criteria.

- √ A well functioning banking sector, with a strong capital structure and an improved regulatory environment, will contribute significantly to financial and exchange rate stability, debt sustainability, and disinflation objectives. Further progress in the financial sector reform will create the required funding for the restructuring in the real sector thus enhancing productivity increases and employment growth.

- √ Provided that Turkey accomplishes further reforms and strengthens the legal and supervisory framework for financial services, this will not only contribute to Turkey's economic development but will offer the EU better access to a large and fast growing banking, insurance and investment market.

Tax system is an integral part of the business environment. In the meantime, the need for the establishment of a viable tax system and effective incentives in Turkey is felt more than ever. Under the yearly inflation figure of less than 10%, there is no more tolerance for unfair competition and intolerable tax burden. Thus a bold tax reform is needed to correct the unrecorded economy, ensure competitive and fair tax rates by better tax codes and to have better implementation by improving the tax administration. The tax reform will be deemed successful to the extent that it is instrumental in reducing the unrecorded economy and enlarging the tax base. Thus the tax reform will not lead to a decrease in tax revenues and hence will not contradict with the primary public surplus target, which is the powerful instrument for correcting fiscal balances.

Ladies and Gentlemen:

Apart from overall economic improvements, the deteriorating current account deficit is an area of concern.

- √ The current account deficit exceeded 10 billion dollars in the first seven months and may reach to % 4.5 of GDP by the end of the year.The current account deficit is almost solely attributable to the investment boom and strong growth. Excluding the balance on investment goods, the annual current account deficit drops to 1.4 billion dollars. Whenever Turkey experiences a rapid growth, it is always accompanied by current account deficits. Considering the unemployment level, Turkey needs to ensure the continuation of high growth. Furthermore, that figure is not sizable when compared with the new member states. The current account deficit to GDP is around 8% in Slovakia, 6% in Czech Republic and 12% in Estonia. Thus Turkey should focus on the appropriate financing of the deficit.

- √ Thanks to the floating exchange rate system, we are now confident that the exchange rate is not artificially kept low. The exchange rate will act as a correcting mechanism of the current account deficit and TL will depreciate, not "devaluate", if the capital inflows fall short of financing the current account deficit.

- √ However, FDI offers the best appropriate way of financing of the deficit. The current level of foreign direct investments in Turkey does not match the appeal of its qualified labor force, favorable market positioning, and high absorption capacity. The removal of entry barriers in natural monopolies and the privatizing efforts fell short of making a big impact to attract FDI. The failure to attract a meaningful level of FDI had been a result of macroeconomic and politic instability. For that stability is in place now, the potential for investment inflows increased. The FDI inflow was USD 1.8 billions this year up from merely null in 2003.

- √ The start of negotiations with the EU will also be instrumental regarding FDI. The experience of new member countries has shown that there is a sharp increase in FDI inflows with the start of negotiations. Direct inward investment flows to GDP is around 0.5% in Turkey, while the corresponding figure reaches to 17% in Slovak Republic, 13% in Czech Republic, 9% in Slovenia and 2.5% in Romania.

I therefore want to underline that improving the business environment will be important for attracting FDI and financing the growing current account deficit and creating more and better jobs for our citizens.

Structural reforms and increased macroeconomic stability increases Turkey's ability in coping with competitive pressures and market forces within the EU. However, Turkey has already proved its competitiveness vis a vis the EU under the Customs Union.

- √ The customs union with the EU started on January 1996, introducing the bilateral free circulation of industrial goods and processed agricultural products. With the agreement, the customs duties and charges have been abolished and the quantitative restrictions such as quotas were prohibited. Turkey also adopted the common tariff of the EU vis-à-vis third countries and faced with the global competitive pressures same as other EU countries. Furthermore, Turkey has to adopt the internal market acquis, including competition policy, common commercial policy, free circulation of goods, and intellectual and industrial property rights.
- √ The total trade volume between Turkey and EU countries stood at a mere US$19.5bn in 1994, prior to Turkey's joining the custom's union. In 2003, the trade volume was at around US$56bn (24 export 32 import). About 52% of Turkey's exports and 46% of its imports go through EU countries. In the first eight months of 2004, exports to EU 25 has increased by 31% and imports from EU 25 by 45%. The sheer weight of EU trade in Turkey's total foreign trade illustrates the degree of integration with highly competitive EU markets.
- √ Further trade liberalisation, in those areas not covered by the Customs Union will lead to a further increase in trade flows.

The improvements in the Turkish economy already reflected on its global competitiveness rankings. Continued economic and political stability will further increase the ranking. With the proper implementation of the IMF supported economic program, the inflation will come down to a single-digit level and the per capita GDP will exhibit a significant increase. Reduced public indebtedness and improvements in public borrowing conditions will all contribute to increased competitiveness. Reduced role of the state in the economy will liberate the breathing space for the private sector. Yet, this is the case for now. In the first and second quarters of 2004, private investments rose by 61% and 69%, respectively. Moreover, the increases in machinery and equipment investments have been 90% and 98%, respectively.

Ladies and Gentlemen:

I believe a country that has a bad record of broken up stabilization attempts took its place in history. Furthering structural reforms, enhancing macroeconomic stability and promoting social development constitute a laborious agenda for Turkey. The launch of accession negotiations will facilitate the delivery and make Turkey grow much faster than the EU average and close the income gap. Our vision of Turkey is a country that solved its deeply rooted problems and attained stability, with an unsaturated market of 80 million, offering a solution to the aging problem of EU societies, adding dynamism, productivity and higher growth to the EU economy, offering higher export potential and investment opportunities in industry, financial and other service sectors in Turkey and in its neighboring countries, contributing to the security of energy supply routes for the EU, enhancing the EU influence on transnational issues.

We believe that Turkey is in the midst of achieving a miracle and will come out after the accession negotiations period, as a country that will bring important opportunities to the EU.

Thank you very much for your attention.