



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION
WASHINGTON OFFICE

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TUSIAD: "Turkey should urgently overcome the impasse in its financial markets and payment system."

March 16, 2001, Washington, DC: A delegation from the Turkish Industrialists' and Businessmen's Association (TUSIAD) headed by the Chairman of the Board, Tuncay Ozilhan, met with President Ahmet Necdet Sezer, Prime Minister Bulent Ecevit, Deputy Prime Ministers Devlet Bahçeli and Husamettin Ozkan, and with the new Minister of State in charge of the economy Kemal Dervis, in Ankara on March 15, 2001. The following views were expressed in these meetings:

"The primary challenge facing the economy is the establishment of a sound ground for a stabilization program, which takes precedence over the announcement of new stabilization program itself. Accordingly, the key measures to be taken can be summed up in five categories:

- The impasse in the payment system should be overcome.
- The proper functioning of the financial markets should be ensured.
- The banking system should be rehabilitated.
- Market confidence should be rapidly restored.
- A healthy consultation mechanism on economic policies should be devised.

The Central Bank proved unable to adequately cope with the financial shock.

The Central Bank has neither managed to coordinate the moves by the market agents nor promptly intervened with the liquidity crisis in the banking sector. Following the impasse in the payment systems, the stabilization program was abandoned and the cabinet decided to let the currency float. However, this decision failed to provide a solution to the economic problems because of the insistence on a rigid monetary policy. Rising uncertainty, resulting from an absence of a concrete, well-defined economic policy since February 24th, has kept the financial markets from functioning properly and paralyzed economic activity.

The Central Bank should provide liquidity to the markets as the lender of last resort.

The Central Bank should provide the liquidity necessary for the markets to enable them to function again. The Central Bank should behave as the market maker, in order to ensure that the financial sector will operate efficiently. It also has to make its policy transparent so that its shattered credibility could be restored.

For the economic program, the most important and urgent step to be taken is the rehabilitation of the banking system.



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The banking system, which already stands on an unstable base, has taken a serious blow due to the two recent crises. The financial sector that was forced to finance its liabilities at high interest rates due to the liquidity squeeze, has suffered from a serious depletion of assets. It is urgent and imperative that the financial system's equity base is strengthened and rehabilitated. Within this framework, public and Fund banks (banks under the supervision of the Banking Regulatory and Supervisory Board) should cease to be a burden on the system, and the remaining private banks should be structurally strengthened. Unless this is accomplished, and as long as the Treasury continues to seek large amounts for debt financing, the financial sector can no longer handle the risk caused by carrying the Treasury's high debt burden.

Market confidence should urgently be reinstated.

The public has identified the currency float as the end of the stabilization program, a move that shattered confidence in the management of the economy. For confidence to be restored in the economic management and the financial system, the Government should announce a comprehensive and coherent list of commitments, as a solid proof of its support for the financial markets.

A stabilization program, announced before the markets become fully functional, is not likely to succeed.

Unless the systematic risks and challenges in the banking system are eliminated, there is no chance for a new stabilization program to be successfully implemented. Today, a new disinflationary program is not the priority. Instead, current market conditions call for measures focusing on strengthening the financial sector, and determining concrete policies with timetables. In this respect, the public should be informed that the rate of inflation might rise until these conditions are met, and that the effects of the crisis may be felt for a long period of time. It should be recognized that a program lacking support from labor unions, employers' organizations or civil society organizations has no chance of success.

Signals from the financial markets should be taken into account.

Economic policy makers and decision-making authorities have lost touch with market realities. This situation constrains their ability to make healthy decisions and keeps them from testing their own decisions before they are made public. The perception that economic policy makers are not in touch with market realities should be changed and decisions should be made in light of the signals from the market. It is vital that economic managers and the bureaucracy work with an advisory board that is aware of market realities.