



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION
WASHINGTON OFFICE

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TUSIAD: "Maintenance of production and employment levels in the real sector in Turkey remains equally important as the sustainability of domestic debt"

Washington, DC: The sharp decline in the levels of economic activity necessitates a series of supply-oriented policies, especially on the issue of tax regulations. Although the monetary and financial policies strive for the sustainability of the domestic debt via controlling the aggregate demand, the relative inflexibility of supply might lead to detrimental results, such as an increase in structural unemployment and low capacity utilization.

There is no doubt that the most crucial factor, which initiates the success of supply-oriented policies, is the stability of exchange rates. The volatility and current high level of exchange rates are mainly due to insufficiency of the Central Bank's efforts in periodically selling foreign exchange to the market, and the fears that the domestic debt would not be able to be rolled over at the current real interest rates. Hence, it is vital to shift to a quasi-nominal anchor policy, such as broad money supply and/or inflation targeting, in order to establish a healthy price determination mechanism in the economy.

The damage caused by inadequate demand and liquidity problems results in non-performing loans both in real and financial sectors, especially in small and medium size establishments. Thus, it is crucial to provide support for sustainable companies, and contribute to a firm restructuring of the real sector, which would generate further employment and output, through a number of new policy measures. Within this framework, it is a highly beneficial step to re-examine tax regulations and micro-institutional policies within the "Finance and Production Advisory Board", in close co-operation with the private sector.

If the supply-oriented policies prove to be successful, the real and financial sectors would achieve a stable structure, encouraging and assisting the sustainability of domestic debt.