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Distinguished Guests,

It is a great pleasure for me to be with you in this meeting on behalf of TUSIAD, the Turkish Industrialists' and Businessmen's Association, or as we would like to call ourselves; the "Voice of Turkish Business". It is my distinct pleasure to have the chance of making the closing speech of this conference. I would like to extend our heartfelt thanks to CEPİİ for their continuing cooperation in organizing these meetings which offer a good opportunity to explore Turkey's economic progress on the road towards the EU.

Today, we had the chance of analyzing the role of Turkey in a changing geopolitical context. We have discussed strengths and weaknesses of the Turkish economy in view of the global shocks and we appraised the competitiveness of the industrial sector and the need for transformation. We had very prominent speakers and listened very illuminating analysis. So, in these concluding remarks, I will try to give the business perspective.

The recent macroeconomic slowdown and financial market crisis may find Turkey better prepared than other emerging economies due to economic reforms made after 2001 crisis. But, the growth prospects of Turkey will be impaired in the near future since there won't be any country that is immune to the effects of the recent global financial crisis. The global crisis will mean a slow down in the real economic activity level in 2008 and 2009. Furthermore, the decrease in global liquidity will make the financing of the current account deficit difficult and expensive.

Recently, IMF once more revised downwards the growth rate for the world economy 0.8 points to 2.2 % in 2009. Moreover, the EU which is the main export destinations of Turkey, is projected to contract by 0.5 %. The global slowdown will lower the export earnings. However sharp falls in oil and other raw material prices, a relatively weak TL, coupled with a sharp decrease in Turkish domestic demand will cut imports significantly. Thus, we think that the current account deficit which is at around 6% of GDP for the time being, will get narrower next year. A narrower current account will of course be easier to finance.

Furthermore, thanks to the large restructuring that took place after the 2001 crises, the banking sector and the public sector are in good shape in terms of foreign indebtedness.

A fully accomplished banking sector restructuring in 2001, improvements in the supervision and regulation of the financial sector and finally the relatively lower exposure of the corporate sector to the bank credits, are the strengths of the Turkish financial sector when compared with the Eastern European countries. The Turkish banking sector FX open position is negligible; short-term cash position looks favorable, covering short-term debt of the sector to a reasonable extent.

Profitability, capitalisation and asset quality are all currently at strong levels and the liquidity position is adequate as the starting point.

The fiscal balance, after a sustained and disciplined primary surplus policy of around 6 years is not a point of concern within the context of the global financial turmoil; the public debt stock as a share GNP is well below the EU countries and comfortably comparable with many EM countries. Furthermore, the FX sensitivity of the public debt is now significantly low.

Although there are no big concerns on foreign financing stress for the financial sector and the public sector, the concerns on the foreign debt of the corporate sector are high. With a devaluated TL of around 30% and a melt down of international liquidity, the external debt of the corporate sector of 125 billion dollars is sizeable. However, in terms of GNP, it is around 25 %, which is well below the competitor countries.

Moreover, the term structure and the cost of borrowing of the corporate sector external debt are rather plausible. The average maturity of the non-bank private sector external debt is 3,5 years.

Although these figures are far from rings alarm bells, Turkey should not underestimate the problem. The current account deficit is highly correlated with the growth rate. As growth accelerates, that will be certainly the situation after the global economy recovers, the investment appetite and hence the demand for foreign savings will increase, making the current account deficit to widen again.

Distinguished guests,

The current account problem is certainly a result of the production structure of the Turkish industry. The current account deficit will be with us if we cannot increase the competitiveness of the industrial sector.

The evolution of output and productivity growth indicates substantial structural changes of the Turkish industry in the past twenty years. There has been an increase in employment in industry and services and a decrease in agriculture. Industry level studies indicate reallocation and restructuring within sectors as well. Sources of growth decomposition confirm the structural change hypothesis, highlighting the increasing contribution to growth of modern equipment, including the information and communication technology, and of multifactor productivity – the efficiency by which the inputs in the production process are used.

However, the transformation that took place is not sufficient. Turkey has to increase the shares in the economy of those sectors that have high competitiveness. And the transformation towards higher technology and higher value-added sectors, should not overlook the unemployment problem.

Turkey has to achieve a balanced growth in terms of productivity increases and labor utilization. Productivity gains will come from not only adopting best practices, technological innovations, but also from reallocation of resources, between firms and sectors and restructuring within firms.

This is of course a major task. As the business leaders of Turkey, we very much appreciate the work undertaken by our Ministry of Industry. The roadmap that Mr. Minister has shared with us in his very enlightening speech, will help to transform the industrial structure in Turkey. The “industrial strategy” when accomplished will augment the level of competitiveness of Turkey’s industry.

The structural change should go hand in hand with those measures to moderate the negative influences of the financial crises over the real sector.

First, Turkey should continue sound macroeconomic policies, which have been implemented since the beginning of the new millennium. Second, the reform agenda should be extended to include substantial product and labor market reforms. The continuation of the good relations with the IMF and the strong position on public finances are other prerequisites. While, on the structural side the accession process will continue to provide a suitable environment to proceed in reforms, relations with the IMF will create an extra safety net for maintaining economic stability. Last, but not least, Turkey should give a new impetus to the EU accession process.

Distinguished Guests,

In closing, let me make a few remarks on the escalating foreign relations of Turkey. The recent developments taking place in the Caucasus demonstrate clearly that Turkey's foreign relations need to be expanded in a multi-dimensional way as required by Turkey's EU process. The strategic relations with the US and NATO as well as its neighbourly relations with Russia, Georgia and Armenia are vital in today's multilateral world. Turkey has demonstrated an active foreign policy in the Caucasus, Middle East and concerning the prospective "Mediterranean Union" issue. We hope that the Caucasus Cooperation initiative proposed by the Government will have concrete results. The involvement of Armenia in the process and the attendance of the President to the national football match in Yerevan which he was invited to, are steps that will strengthen Turkey's alternatives regarding the Caucasus and energy politics.

As a participant of G-20 group during these financial crisis period; a new member of the United Nations Security Council in a period when we witness significant shifts of power in international politics; a critical power within the transatlantic relations in a new presidency period in the US and as an accession country to the EU in a period when the European business community and many of unbiased observers underline the crucial nature of Turkey's economic integration to the EU in order to get Europe more competitive, Turkey can not be thought separately from any European reference.

Thank you very much for your attention.