

**Statement by the President (Mr.Murat Ulus) of the ECO Trade and Development Bank
18th ECO Council of Ministers
Tehran, Islamic Republic of Iran – 9 March 2009**

Your Excellency,
Mr. Chairman,
Excellency Mr. Secretary General,
Honourable Ministers,
Distinguished Heads of Delegations,
Ladies and gentlemen,

"Introduction"

It is indeed a great honour for me to take part in the 18th COM meeting. I am delighted for the opportunity to speak at this landmark meeting. I would like to take this opportunity to express my deep appreciation to the Government of the Islamic Republic of Iran for the warm hospitality extended to us.

I would also like to thank His Excellency Mr. Khurshid Anwar, distinguished Secretary General of ECO, and his able staff for their valuable contributions in organizing this meeting.

During the Senior Officials Meeting, I had the opportunity to present a progress report about our Bank and provide details of our planned activities. Today, I would like to mainly focus on recent global economic crisis, the major challenges of the region, and applicable macroeconomic policies to ease its effects.

"Global Economy"

Excellencies,

The global economy is at a turning point. In fact, the global financial architecture and business practices are changing. At the global level, industrial production, exports, financing and consumer confidence, are dramatically deteriorating. The worst thing is that no one is certain when we will see the bottom of this crisis.

What I can say is, the current state dictates us that the foundation of a new global economic order and business culture needs to be more ethical, accountable, transparent and responsible. A new balance between governments and markets is being formed.

Mr. Chairman,

The ongoing global economic situation is affecting all economies in terms of slowing economic growth; reversal in capital flows; reduced exports, domestic demand, commodity prices and remittances; rising unemployment; deteriorating fiscal balances and weakening currencies. The major economies in the world are in a recession. A contraction is expected for the world economic growth in 2009.

On the other hand, according to current estimates, world trade is expected to contract by 9% in 2009, down from a 4% expansion in last year.

In response to the crisis, trillions of dollars have been mobilized by governments around the world as stimulus packages. However, these stimuli take time to foster growth since due to the magnitude of the crisis. There is concern that consumption patterns will take a long time to recover to previous levels.

Excellencies,

The challenges the world faces today are of a global nature. And on the global agenda, the upcoming G-20 meeting is expected to address the fundamental issues that brought the global crisis and offer solid recommendations to offset its effects. However, I would like to note that a comprehensive regulatory framework that covers all financial markets needs to be adopted.

"Regional outlook"

Mr. Chairman,

Due to the nature of the globalization, it is not possible to be immune from negative effects of the global economic crisis which is also true for the ECO region. Most of the economic distresses being witnessed in the developed countries will be observed in our region, albeit at a different scale. Now I will try to analyze the region in general terms.

The average growth rate of the region was 6.5% in 2007 which is higher than other regional blocs. Since 2002, due to the economic growth performance of the region, the per capita income has reached to US\$ 3,400. But this successful trend was interrupted in 2008 with an estimated 3.5% overall regional growth rate due to the global economic slowdown.

According to our estimates, during 2009 regional economic performance would weaken further to 1.7%. It may be recovered mildly in 2010. The region still possesses positive projections of economic activity. But to catch up with world average per capita GDP and reduce unemployment rate, 7% growth rate is needed for the region. Particularly, unemployment rates in the region are gradually creeping upwards over the past few months. It is expected that about an additional 2.5 million people in the region will suffer from unemployment during 2009. This means that ECO member states need to implement appropriate policy adjustments and reforms in order to mitigate the social and employment impact of the crisis.

During 2009, due to weak demand, commodity prices are expected to remain under downward pressure and provide some relief for high inflationary economies in the region. The fiscal position of ECO countries has diverging patterns. Nevertheless, it is expected that majority of ECO countries to have lower budget revenues and deteriorating fiscal position. Due to ongoing stress in international credit markets and substantial fall in foreign direct investment in 2009, the external financing of the current account deficit will be harder for some ECO countries.

Excellencies,

The regional exchange rates and capital markets are observing large and sometimes disruptive fluctuations. Almost every local currency in the region has depreciated against the major currencies. Since September 2008, on average the currencies in the region lost 13% of their value, lower than other developing countries in the world. On the other hand, depreciated currencies may partly increase price competitiveness for products and services of the member states.

The member countries of the ECO rely heavily on industrial economies for their exports and imports. Considering that all of them are already in recession implies a regionally synchronized downturn in trade. Mutual trade in the region has been lower than potential over time. However,

it is likely to increase for the current year due to increasing trade integration in the region and expected drop in trade transactions with non-regional countries.

"Responses to the crisis"

Excellencies,

In response to these developments, the economies of the region made efforts to undertake immediate necessary steps. But, it is clear that further steps should be taken. We should identify concrete areas where we see scope for improvements.

When we analyze the economies in the region, monetary and fiscal conditions are varying and there is no "one size fits all" policy. An appropriate mix of fiscal, monetary, and financial policies suitable to specific country requirements - as well as structural reforms - must be adopted. The member states are not able to run huge stimulus packages at the expense of increasing their national debt. Nevertheless, several factors give me confidence that the crisis in the region can be contained. These factors are the rich human and natural resources, dynamic entrepreneurship and improvement of legal and policy reforms.

Policy responses should focus on not only short-term benefits, but also long-term development needs by increasing spending on vital infrastructure and public services. The main point in this effort is to design packages that provide maximum boost to domestic demand and rebuild confidence.

It is true that the current recession in the developed economies will have serious impacts on ECO region. However, new economic balance may bring some opportunities to the region. In order to benefit from these opportunities we should improve the cooperation in the region. Therefore, following the path of ECO Vision 2015 document is very important for us.

"Recommendations"

Excellencies,

Economic and financial crises normally require packages of decisive measures applicable to the country's circumstances. The most important point is restoring confidence in financial markets.

Banks in the region have to continue lending businesses and Non-performing Loans (NPL) ratio in banking sector should be monitored very carefully. In order to avoid increase in NPL ratio, extending the maturity of the loans might be considered. Also credit insurance system should be in place. Necessary actions should be taken in order to increase domestic demand.

It should be underlined that each country will need a different policy mix, but certainly no nation will be able to fix this problem in isolation. To that end, the ECO member states should avoid from protectionist policies that make their borders thicker. Also they should continue their efforts to simplify customs regulations and trade practice.

I would also like to mention that the level of fiscal deficit should be considered very carefully. Governments' spending should be programmed to reduce the unemployment rate, to improve R&D investments and infrastructure. Also support for education and training that enables the transition to new jobs and emerging opportunities is important.

Finally, as I mentioned earlier, in order to sustain the economic growth, we should improve the regional trade and investment.

"The Role of the Bank"

Excellencies,

Under these challenging circumstances, the Bank has started its operations. I would like to underline our commitment to play an important role in supporting member countries to mitigate the impact of the crisis. We have started to provide financing for trade transactions, development of SMEs, corporate and project finance facilities. We are aiming to create an investment portfolio of not less than US\$ 1.5 billion in a short period. In order to provide better service to the region, we should increase our capital base. At this point, I would also like to underline the importance of the participation of the ECO member states to the Bank. In this regard, encouraging responses of concerned member states are very much appreciated and we are ready to assist them.

"Conclusion"

Excellencies,

Considering the advantages of the region that I mentioned earlier, I would like to conclude that we have to prepare ourselves for the aftermath of the global crisis and be able to find ourselves in rebounding faster than the rest of the world. Thank you for your kind attention.