

The World Bank in Turkey Country Snapshot



An overview of the World Bank's work in Turkey

April 2020

TURKEY	2019
Population, million	82.6
GDP, current US\$ billion	754.8
GDP per capita, current US\$	9,140
Life Expectancy at birth, years (2018)	77.2

At a Glance

- With a GDP of around US\$755 billion, Turkey is the 18th-largest economy in the world. From 2000 to 2019, per capita GDP in Turkey more than doubled from US\$4,200 to US\$9,140. Turkey is a member of the Organisation for Economic Co-operation and Development and the G20, and an increasingly important donor of Official Development Assistance.
- Despite strong growth in the past 20 years, Turkey still faces significant development challenges. Educational quality is in decline, the economy has experienced several shocks, women's labor force participation is still very low, and the influx of 3.6 million Syrian refugees is putting a strain on already stressed public services.
- The Turkish economy has undergone a period of adjustment and rebalancing since the market shock of August 2018. A current account surplus and the declining external debt of banks and corporates have contributed to reducing the external vulnerabilities. However, the COVID-19 pandemic imperils stability and growth prospects.
- Inflation reached a three-year low of 8.6 percent in October 2019, though it subsequently climbed to 12.4 percent in early 2020. The unemployment rate declined from its peak of 14 percent in mid-2019 to 13 percent at end-2019, while poverty rates have stagnated.
- The impact of COVID-19 is unfolding rapidly and is projected to be a drag on growth and household labor income in Turkey. The global disruption to trade, capital flight to safety, and rapidly rising risk premia will impact Turkish exports and tourism, access to finance, currency stability, and inflation.

Country Context

Turkey's economic and social development performance since 2000 has been impressive, leading to increased employment and incomes and making Turkey an upper-middle-income country. However, in the past few years, growing economic vulnerabilities and a more challenging external environment have threatened to undermine those achievements.

For most of the period since 2000, Turkey has maintained a long-term focus on implementing ambitious reforms in many areas, and government programs have targeted vulnerable groups and disadvantaged regions. Poverty incidence more than halved over 2002–15, and extreme poverty fell even faster.

During this time, Turkey urbanized dramatically, maintained strong macroeconomic and fiscal policy frameworks, opened to foreign trade and finance, harmonized many laws and regulations with European Union (EU) standards, and greatly expanded access to public services. It also recovered well from the global crisis of 2008/09.

Turkey's response to the influx of approximately 3.6 million Syrian refugees has been exemplary and provides a model to other countries hosting refugees.

However, there has been a slowdown in reforms in several areas in recent years that, together with economic vulnerabilities, risks reversing some of the progress made to date.

The overall macroeconomic picture is more vulnerable and uncertain, given rising inflation and unemployment, contracting investment, elevated corporate and financial sector vulnerabilities, and patchy implementation of corrective policy actions and reforms.

There are also significant external headwinds due to ongoing geopolitical tensions in the subregion. The impact of the COVID-19 crisis is expected to have a severely negative effect in Turkey, further weakening economic and social gains.

The World Bank and Turkey

The partnership between Turkey and the World Bank Group (WBG) is outlined in the Country Partnership Framework (CPF), which was initially designed to cover the FY18–21 period but has recently been updated and extended to include FY22–23 through a Performance and Learning Review (PLR) that was discussed at the WBG's Board of Directors on March 13, 2020.

The PLR confirmed that the CPF's pillars of growth, inclusion, and sustainability remain valid and that most of the objectives set out under these pillars also remain relevant, although some amendments were incorporated into the program to reflect the changes in country circumstances, client demand, and the program's evolution.

The WBG program ensures continued alignment with the Government's strategies, including the recently launched 11th National Development Plan (NDP, 2019–23) and the New Economic Program (2018–21) of Turkey. The Bank program continues to maintain a long-term focus that maximizes opportunities to support Turkey's progression to higher-income status.

The updated CPF (FY18–23) proposes a mix of instruments from across the Bank's institutions, drawing on the strengths of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA).

The implementation of the CPF to date has resulted in IBRD lending delivery totaling US\$3.9 billion, including investment operations in energy, access to finance, municipal development, disaster risk resilience, and the water sectors.

The average annual IBRD lending delivery of US\$1.3 billion has been aligned with that envisaged in the CPF's annual lending targets of between US\$1–1.5 billion. New operations to be approved in the coming months will result in an FY20 lending program of US\$1.5 billion.

IFC's portfolio implementation continued to perform satisfactorily, and its own-account investment program has reached a total of US\$3.250 million since the beginning of the CPF. Turkey continued to be

WORLD BANK PORTFOLIO

No. of Projects: 14

Net IBRD Commitments: \$4,892 Million

Trust Fund Portfolio: \$414.12 Million

MIGA's largest country by gross exposure, representing roughly 13 percent of MIGA's gross portfolio.

Turkey engages the WBG's analytical and technical knowledge work. An extensive range of knowledge products aim to inform policy discussions in various areas (education, labor, finance, competitiveness, transport, climate change, forestry, land, and energy) and are the Bank's primary instruments for broadening engagement with all stakeholders in Turkey.

Recently, the increased trust fund portfolio enabled the preparation of broader support programs in refugee response, education, labor market development, energy, disaster risk management, and urban development.

Key Engagement

The updated CPF is fully aligned with Turkey's overarching development goals as outlined in its 11th NDP 2019–23, as is the CPF's strategic orientation toward growth, inclusion, and sustainability.

One key engagement of the WBG's program involves supporting the Government's response to the 3.6 million Syrian refugees living in Turkey. The WBG is partnering with the EU's Facility for Refugees in Turkey (FRiT) and is implementing programs in the areas of social support and adaptation, labor markets and the economy, municipal services, and education, as well as in the cross-cutting areas of data collection, measurement, and monitoring.

In addition to the FRiT funds, the portfolio is also supported by a broad set of trust funds, most notably, the Clean Technology Fund (CTF), EU Instrument for Pre-Accession Assistance (IPA) funds, Global Environmental Facility (GEF) funds, and Swedish International Development Cooperation Agency (SIDA) Gender Funds.

In FY18, Turkey signed a Reimbursable Advisory Services (RAS) agreement with the World Bank with the objective of helping the Government of Turkey to improve selected aspects of the business environment. The Government recently reconfirmed its commitment to continuing the RAS and pursuing further reforms in this area.

Recent Economic Developments

After three consecutive quarters of year-on-year contraction, real GDP growth resumed in the third quarter of 2019 and strengthened in the fourth, bringing 2019 growth to 0.9 percent. The recovery was aided by rapid monetary easing, as the central bank cut rates from 24 percent in June 2019 to 9.75 percent in March 2020.

Lower borrowing rates, together with regulatory measures, boosted private sector credit growth by 10 percent in 2019, growth that continued to expand in the first quarter of 2020. A 15 percent minimum wage increase and a gradual decline in the unemployment rate accelerated private consumption.

The current account deficit recorded a surplus in the second and third quarters of 2019—the first in more than 15 years—before returning to a deficit in the fourth quarter. Net outflows of portfolio and other investments continued in 2019 for a second year, while inflows of foreign direct investment fell to their lowest level in 15 years.

Annual consumer price index inflation declined from its peak of 25 percent in October 2018 to 8.6 percent in October 2019, but it has been accelerating in recent months, rising to 12.4 percent in February 2020, as base effects subside.

Aggregate fiscal policy loosened in 2019, with the general government budget deficit widening to 3 percent of GDP in 2019 from 2.4 percent in 2018. Overall, revenues rose slightly to 33.5 percent of GDP, with the weaker indirect tax revenues more than offset by higher non-tax revenues.

However, expenditures grew faster, reaching 36.5 percent of GDP over the same period due to household transfers.

Economic Outlook

The impact of the COVID-19 crisis is unfolding rapidly and is projected to be a drag on growth and household labor income in Turkey. The global disruption to trade, capital flight to safety, and rapidly rising risk premia will impact Turkish exports and tourism, access to finance, currency stability, and inflation.

Growth is projected at 0.5 percent in 2020, over 3 percentage points lower than the pre-COVID-19 estimate. A more negative outcome is equally probable given the uncertainties. Growth is expected to be supported by a strong government stimulus. Investment is expected to fall further.

Exports, especially tourism, are projected to collapse in 2020, widening the current account deficit. Declining energy prices may moderate inflation, but with exchange rate pressures and monetary easing, inflation is projected to be 11 percent in 2020.

The general government fiscal deficit is projected to expand sharply to 4.5 percent of GDP in 2020—as the authorities combat the COVID-19 pandemic and its impacts on the economy—and to narrow to 2.9 percent of GDP by 2022.

The incidence of poverty is likely to increase in the coming months, driven by the pandemic's negative effects on labor income. A package with income-support measures has been announced by the authorities to help households cope with the loss of income, but a stronger response from the social protection system may be needed.

Over the medium term, the poverty rate is expected to remain at around 9 percent of the population, depending on the length of the COVID-19 shock and the speed of the economic recovery.

Project Spotlight

Improving Monitoring of Poverty and Vulnerability in Turkey



The World Bank team has been working to produce tools to support Turkey in reducing poverty and vulnerability.

Turkey has made strides in the fight against poverty and exclusion in recent decades.

Since 2003, the proportion of the population living in absolute poverty has declined from 36.5 to 9.3 percent.

However, in recent years, the poverty trend has stagnated and new challenges have emerged, such as the need to manage the social inclusion of 4 million refugees.

The World Bank team has been working to produce tools to support Turkey in reducing poverty and vulnerability. In particular, two initiatives have recently been completed. The first initiative produced the first comprehensive tool to analyze the impact of fiscal policy on poverty and inequality.

In times of crisis such as COVID-19, the tool can be used to assess how best to support the poor and vulnerable, whether that might be through direct taxes, indirect taxes, direct cash transfers, or social security benefits.

The second effort focuses on improving the monitoring of poverty and inclusion among refugees. The Bank team has been working with Emergency Social Safety Net partners, the World Food Program, the Turkish Red Crescent, and the Ministry of Family on novel mechanisms for technology use in monitoring refugee poverty.

The design, implementation, and improvement of phone surveys has made it possible to evaluate the evolution of poverty and inclusion among refugees across the national territory and within five subnational regions.

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/turkey>



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