At a Glance

- With a GDP of around US$860 billion, Turkey is the 17th-largest economy in the world. From 2000 to 2016, per capita GDP in Turkey nearly tripled and is now close to US$11,000.

- Turkey is a member of the OECD and the G20, and an increasingly important donor of Official Development Assistance (ODA).

- In order for Turkey to build on its strong development success to date, it needs to focus on creating the right conditions for strong and sustainable growth. An increase in business investment and innovation as well as in education and skills is needed to boost productivity growth and create enough high-productivity jobs to accommodate Turkey’s rapidly growing labor force.

- The World Bank Group is working with the government of Turkey to realize its growth potential by supporting its development plan, particularly by accelerating its structural reform agenda and improving trust in its institutions.

Country Context

Turkey’s performance since 2000 has been impressive. Macroeconomic and fiscal stability were at the heart of its performance, enabling increased employment and incomes and making Turkey an upper-middle-income country. Poverty incidence more than halved over 2002–15, and extreme poverty fell even faster. During this time, Turkey urbanized dramatically, opened to foreign trade and finance, harmonized many laws and regulations with European Union (EU) standards, and greatly expanded access to public services.

Although Turkey’s growth prospects are reasonably robust, with an expected 4% growth rate for 2017 and for the medium term, it faces challenges to moving into high-income status. Turkey’s macroeconomic achievements are also being challenged. Domestic challenges and a deteriorating geopolitical environment have negatively impacted exports, investment, and growth.

The strong recovery in 2017 mostly depends on a fiscal stimulus that is expected as a short-term measure only. The influx of 3 million Syrian refugees in 2015–16 created new social, economic, and political demands, particularly in urban centers. The Government will need to take strong measures to revitalize private investment, boost growth, and resume Turkey’s convergence with Europe.

Political developments in 2015 and 2016 presented challenges. Elections in June and November 2015, a cabinet reshuffle in May 2016, an attempted coup in July, and the consequent dismissals of public officials have all affected the Government’s reform momentum. At the same time, a series of terrorist attacks weakened tourist arrivals and foreign investment. Private investments were delayed, leading to slower economic growth.
The World Bank and Turkey

Turkey and the WBG have a strong partnership that is outlined in the recently prepared WBG Country Partnership Framework (CPF). The CPF is aligned with Turkey’s 11th National Development Plan, as well as the development priorities highlighted in the WBG’s 2016 Systematic Country Diagnostic (SCD), which described the main challenges to reducing poverty and sustaining growth in Turkey.

The CPF outlines the WBG’s strategy for FY17–21 and articulates the main areas of WBG engagement, both technically and financially.

Key Engagement

The CPF proposes a mix of instruments, drawing on the strengths of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA). The WBG investment portfolio and pipeline support a range of sectors, with programs both underway and planned in the energy sector, financial and private sector development, urban development, social protection, labor market development, and health care.

IBRD financing for FY18–21 is estimated at US$5–7.5 billion, while IFC’s own-account investment program is expected to be US$600–800 million p.a.

Turkey values the WBG’s analytical and technical knowledge work.

An extensive range of knowledge products aim to inform policy discussions in various areas (education, health, labor, and energy) and are the Bank’s primary instrument for broadening engagement. Recently, the increased portfolio of Trust Funds enabled the preparation of detailed and broader coverage in education, labor market development, energy, disaster risk management, and urban development.

In FY17, the first Reimbursable Advisory Service agreement between the Bank and the Ministry of Development on strengthening the Government of Turkey’s capacity to manage public-private investments (PPPs) became effective.

A key engagement concerns helping the Government to respond to the large number of Syrian refugees living in Turkey. The WBG is partnering with the EU’s Facility for Refugees in Turkey (FRiT) and providing assistance in social support and adaptation, labor markets and the economy, as well as in the cross-cutting areas of data collection, measurement, and monitoring.

The availability of more and better paid jobs has been the driving force behind poverty reduction.
Recent Economic Developments

Turkey’s growth rate accelerated from 3.2% in 2016 to 5.1% in the first half of 2017, supported by an extensive fiscal stimulus. Growth was stronger than expected, driven mostly by total consumption and net exports.

In the first half of 2017, the 12-month current account deficit widened to US$34.3 billion from US$29.3 billion a year earlier, mainly due to a surge in gold imports and partially due to the rebound in oil prices. Tourism receipts are still lower than a year earlier as the per capita expenditures of tourists declined, despite an increased number of tourists. Financial inflows improved in the second quarter due to better global economic prospects, an increased global risk appetite, and reduced domestic uncertainties.

The foreign exchange pass-through from the large lira depreciation and higher energy and food prices pushed headline inflation to 10.7% by August 2017. Core inflation has also reached double-digit levels, around 10.2% for the first time in the past decade, which may push inflation up further in the coming months.

The lira depreciation and rise in inflation prompted the Central Bank to increase interest rates in an unorthodox manner in 2017. Amid portfolio inflows, together with Central Bank’s tightening steps, the lira appreciated by 10.2% as of end-August to 3.44 vis-à-vis the U.S. dollar compared to end-January.

Poverty continues to decrease but at a slower pace than before the 2009 global crisis. The population with per capita expenditure below the poverty line (US$5.5 a day in 2011 purchasing power parity [PPP]) fell to a low of 10.5% from 27.3% a decade earlier. The availability of more and better paid jobs has been the driving force behind poverty reduction, with social transfers playing a relatively minor supporting role. The labor market, however, is facing challenges.

Unemployment has been on the rise, reaching 10.2% of the labor force in May 2017, almost 1 percentage point higher than a year earlier. Moreover, the jobless rate among youth (ages 15–24) reached 19.8%, almost 2.5 percentage points higher than in May 2016.

Economic Outlook

Growth is expected to be 4% in 2017, up from 3.2% in 2016, and may even be slightly higher given the strong performance in the second quarter of 2017. The temporary fiscal stimulus and credit facilitation are expected to support private and public consumption this year. Private investment is likely to remain weak, however, as business confidence is recovering at a slow pace.

Exports are likely to grow in 2017, fueled by rising external demand and an increase in competitiveness. While rebounding, domestic demand will stimulate import growth, but net exports are still expected to contribute substantially to GDP growth in 2017.

The current account deficit is expected to increase to 4.7% of GDP in 2017 due to a rising energy and gold deficit, while inflation is likely to remain well above target and at double-digit levels. With the unwinding of the fiscal stimulus, GDP growth is expected to slow to 3.5% in 2018.

Poverty is forecast to decrease at a slower pace, as the labor market environment remains constrained. The poverty rate is estimated to decline to 9.3% in 2017 and to 8.9% in 2018.

This forecast could improve if the structural reform agenda regains momentum and higher productivity jobs are created. There are increasing policy efforts to connect people with lower skills to activation programs that will pay off if the labor market picks up.
Project Spotlight

Trans-Anatolian Pipeline (TANAP) Project

In December 2016, the World Bank board approved US$400 million in IBRD loans each to Turkey and Azerbaijan for the construction of the 1,850 km TANAP pipeline that spans the entire territory of Turkey.

The project is under implementation and has made substantial progress to date.

TANAP is an integral part of the massive US$40+ billion Southern Gas Corridor, a series of infrastructure projects and investments considered to be one of the largest infrastructure projects directly supported by the WBG.

TANAP opens a new gas route to Europe and provides Turkey with additional gas imports from Azerbaijan, with development impacts that include access to growing demand for natural gas heating and power plants in Turkey as well as economic diversification opportunities for Azerbaijan and other countries in the region.

TANAP is a high-priority project with strategic objectives for Turkey and Azerbaijan as well as for the Europe and Central Asia (ECA) region through enhancing energy security in South East Europe (SEE).

Besides providing US$800 million IBRD direct financing for TANAP to Turkey and Azerbaijan, the Bank notably helped mobilize substantial financing from other international financial institutions (IFIs) for this massive infrastructure project.

This includes the leveraging of MIGA (US$1.2 billion) to support guarantees for commercial borrowing for the project, and a joint co-financing agreement with the Asian Infrastructure Investment Bank (AIIB) (US$600 million) that goes in tandem with the IBRD financing.

In addition, the Bank team worked closely with the European Investment Bank (EIB) on its effort to mobilize an additional US$1.1 billion and with the European Bank for Reconstruction and Development (EBRD) for US$500 million.