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 halved over 2002–12, and extreme poverty fell even faster. During this time, Turkey urbanized dramatically, opened up 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.

Developments since 2012, however, raise concerns about Turkey’s capacity to sustain progress. Growth has slowed, per capita income has stagnated at around US$9,000 per annum, unemployment is rising, and reform momentum has been uneven. Turkey’s macroeconomic achievements have also been challenged by an uncertain outlook. Slow growth in Europe and a deteriorating geopolitical environment in its neighborhood have negatively impacted exports, investment, and growth. The influx of 3 million Syrian refugees in 2015–16 created new social, economic, and political demands.

Political developments in 2015 and 2016 presented further challenges. Elections in June and November 2015, a cabinet reshuffle in May 2016, an attempted coup in July, and the consequent ousting of public officials have all affected the Government’s reform momentum. At the same time, a series of terrorist attacks have weakened tourism and foreign investment. Private investments have been delayed. The Government will need to take strong measures to address continuing structural vulnerabilities, revitalize private investment, boost growth, and resume Turkey’s convergence with Europe. New momentum is needed to improve the quality of education and boost productivity.
Turkey and the WBG have a strong partnership that is based on Turkey’s National Development Plans (NDPs). The 10th Development Plan (2014–18) outlines the priority development areas for the Government, and the WBG’s current and future programs aim to support key aspects of this plan.

The WBG recently completed a Systematic Country Diagnostic (SCD), which discusses the main challenges to reducing poverty and sustaining growth in Turkey. The SCD and NDP both provide a strong foundation for the new WBG Country Partnership Framework (CPF) currently under preparation. The CPF will outline the WBG’s strategy for FY17–21 and articulate the main areas of WBG engagement, both technically and financially.

Key Engagement

Turkey is the International Bank for Reconstruction and Development’s (IBRD) sixth-largest borrower in terms of debt outstanding. The investment portfolio and pipeline support the energy sector, financial and private sector development, urban development, and health care. Under the current Country Partnership Strategy (CPS) (FY12–16), total IBRD lending has reached US$4.3 billion. Throughout the CPS period, project implementation has been smooth, meeting disbursement targets and development objectives.

Turkey values the WBG’s analytical and technical knowledge work. A growing area of common interest is sharing Turkey’s experiences with other developing countries. In December 2014, the Bank launched a report, “Turkey’s Transitions: Integration, Inclusion, Institutions,” which looks at the lessons Turkey has learned over the past 30 years. 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 engaging and broadening ownership through joint preparation and close cooperation with all stakeholders.

A key engagement concerns the Syrian refugees living in Turkey. The WBG is currently providing assistance in the areas of social support and adaptation, labor markets and the economy, and education, as well as in the cross-cutting areas of data collection, measurement, and monitoring.

**WORLD BANK PORTFOLIO**

- No. of Projects: 11
- Net IBRD Commitments: $4.2 Billion
- Trust Fund Portfolio: $257.9 Million
Recent Economic Developments

Turkey’s growth rate slowed from 6.1% in 2015 to 2.9% in 2016. After recording the largest contraction since the global financial crisis in the third quarter of 2016, GDP growth was stronger than expected in the fourth quarter, driven by a rebound in private consumption and net exports.

In the second half of 2016, the current account deficit widened by US$3.3 billion to US$32.6 billion, mostly due to a sharp drop in tourist arrivals, while financial inflows weakened on the back of increased domestic uncertainty, deteriorating macroeconomic balances, and a less favorable global environment.

After easing to 7% in November, headline inflation climbed to 10.1% in February 2017, due to the sharp increase in transport and food prices. Pump prices for gasoline and diesel increased by over 30% year-on-year (y-o-y) in February, due to the rebound in global oil prices and the depreciation of the lira. In addition, a poor harvest due to unfavorable weather conditions increased food prices, substantially adding to headline inflation. The rapid lira depreciation led the Central Bank to increase interest rates and return to unorthodox monetary policy.

Poverty and extreme poverty continue to decrease, albeit at a slower pace. The population with per capita expenditure below the poverty line (US$5 a day in 2005 purchasing power parity, or PPP) reached a low of 18.3%, from 24.1% a decade earlier. Extreme poverty, the population with per capita expenditure below US$2.5 a day in 2005 PPP, decreased to 3.1% compared to 5.3% in the early 2000s.

Unemployment has been on the rise, reaching 12.1% of the labor force in November 2016. This is 3.7 percentage points higher than November 2011, when the lowest unemployment rate of the decade was observed. Moreover, the jobless rate among the youth (ages 15–24) followed roughly the same trend by increasing to 21.6% in November 2016, very similar to the levels recorded during the economic crisis (21.8% in November 2009).

Economic Outlook

Growth is expected to strengthen gradually in the course of 2017 and to be 3.5% for the year as whole. Following a contraction in 2016, exports are likely to grow in 2017 thanks to stronger growth in the EU, while imports are expected to increase at a moderate pace as domestic demand recovers. Security concerns are likely to limit the recovery of tourist arrivals from both Europe and Russia.

The depreciation of the lira may further feed into consumer prices, eroding household purchasing power. Moreover, the balance sheet of corporates might deteriorate, given the large open foreign exchange position, thus weakening private investment prospects. The recent monetary policy tightening is likely to constrain the recovery of domestic demand in the near future, while falling banking sector rollover rates may limit credit growth. In 2017, with a rising energy deficit due to the rebound in global oil prices, the current account deficit is expected to increase to 5% of GDP, while inflation is likely to remain well above target.

Poverty is forecasted to decrease at a slow pace in the midst of a sluggish labor market and rising inequality. With private consumption forecast to grow in the coming years, poverty and extreme poverty are estimated to decline to 16.8 and 2.82%, respectively, in 2017 and to 16.2 and 2.73% in 2018. This forecast depends crucially on there being no further deteriorations in the labor market; it also assumes that the current social assistance scheme will remain unchanged. Although in recent years lower income households have had increasing access to quality jobs in the formal sector, the high labor costs and minimum wage in a context of slower economic activity will be putting some of the gains at risk.
Project Spotlight

Gas Sector Development Project

With limited domestic natural gas reserves, Turkey imports 98% of its gas needs. With increasing urbanization and the extension of the transmission and distribution networks, the demand for natural gas has further grown. Turkey obtains its gas supplies through imports, primarily from Russia through two pipelines: one through Bulgaria and the second under the Black Sea. Turkey consumed nearly 52 billion cubic meters (bcm) of natural gas in 2015. The country’s geographical location makes it a potential major gas transit country, connecting the Caspian and Middle East to Europe. Turkey’s role as a transit country is likely to drive the development of the natural gas market in the future.

The Bank’s objective is to increase the reliability and stability of the gas supply in Turkey by putting into place a critically needed gas storage and network infrastructure and strengthening the operations of the Petroleum Pipeline Corporation (BOTAŞ) as a financially stable and commercially managed entity. Current gas storage capacity in Turkey is low (2.6 bcm, about 5% of Turkey’s annual gas consumption) and slow. The project substantially increases storage capacity (to 3.6 bcm, still low at about 7.5%) and introduces into Turkey its first fast storage facility with high daily withdrawal capacity.

The project supports the building of a gas storage facility in an underground salt dome formation close to Salt Lake in South Central Turkey. This facility has a storage capacity of about 960 million cubic meters (mcm), with the capacity to deliver 40 mcm of gas per day for up to 20 days, which can be refilled at the rate of 30 mcm per day over a period of 25 days. It also expands the network of the Erzincan compressor station for BOTAŞ, which is required to help transmit the increasing volumes of gas expected to be imported from existing and new sources.

The Project also gives technical advisory support to the owner’s engineer and provides environmental and social monitoring. The new gas storage infrastructure will help to improve Turkey’s energy security and its ability to cover natural gas demand peaks during cold days, lower the cost of gas imports by providing seasonal storage, lower network investment costs, and improve operational flexibility.

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