The World Bank in Turkey

Country Snapshot

An overview of the World Bank's work in Turkey

October 2019

TURKEY	2018
Population, million	81.4
GDP, current US$ billion	773.7
GDP per capita, current US$	9,505
Life Expectancy at birth, years (2018)	76.0

At a Glance

- With a GDP of around US$770 billion, Turkey is the 18th-largest economy in the world. From 2000 to 2018, per capita GDP in Turkey more than doubled from US$4,200 to US$9,505. Turkey is a member of the Organisation for Economic Co-operation and Development (OECD) 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 is gradually adjusting after the currency shock of August 2018, which led to high inflation and foreign currency pressures on banks and corporates.

- Inflation is easing from a year-on-year peak of 25 percent in October 2018 to 15 percent in September 2019. The unemployment rate rose from 10 percent in early 2018 to 14 percent in mid-2019, putting upward pressure on poverty rates.

- Restoring investor confidence through the implementation of a robust economic program will be essential to a sustained recovery.

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, growing economic vulnerabilities and a more challenging external environment are threatening 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.

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

The economic outlook is subject to higher levels of uncertainty than usual, given rising inflation and unemployment, contracting investment, elevated corporate and financial sector vulnerabilities, and only patchy implementation of corrective policy actions and reforms.

There are also significant external headwinds due to weakening relationships with some key trading partners, ongoing geopolitical tensions in the subregion, global trade tensions, and concerns about a global recession.

The World Bank and Turkey

The partnership between Turkey and the World Bank Group (WBG) is outlined in the Country Partnership Framework (CPF), which covers the FY18–21 period and sets out the main areas of WBG engagement, both technically and financially. The CPF has an embedded flexibility in the framework that allows the program to be adapted and to respond to evolving country circumstances and development priorities. At the same time, the WBG program continues to maintain a long-term focus that maximizes opportunities to support Turkey's progression to higher-income status.

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).

In FY17–19, IBRD lending delivery totaled US$3.7 billion, including investment operations in energy, access to finance, municipal development, disaster risk resilience, and the water sector. The average annual IBRD lending delivery at US$1.3 billion was aligned with that envisaged in the CPF annual lending targets of between US$1 and $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 MIGA's largest country by gross exposure, representing about 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.

WORLD BANK PORTFOLIO

No. of Projects: 14

Net IBRD Commitments: $4, 286 Million

Trust Fund Portfolio: $485 Million

Key Engagement

The CPF was fully aligned with Turkey's overarching development goals as outlined in its 10th National Development Plan (NDP 2014–2018). The three focus areas of the CPF's strategic orientation—growth, inclusion, and sustainability—were confirmed as relevant to the recently released 11th National Development Plan (2019–2023). On September 30, 2019, the Government launched its second New Economic Program (NEP) to respond to the evolving economic challenges and address macroeconomic imbalances.

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 implementing programs 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.

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

The economy grew in both the first and second quarters of 2019 after experiencing a recession in the second half of 2018. Credit growth and a fiscal stimulus in the first quarter spurred an expansion of private and public consumption. Investment, on the other hand, continued to decline for the fourth consecutive quarter.

The current account deficit has narrowed steadily. In June 2019, the current account recorded a surplus on a 12-month rolling basis for the first time since 2002. The Government pursued an expansionary fiscal policy in the first half of the year, resulting in a 50 percent year-on-year (y-o-y) widening of the fiscal deficit in nominal terms.

The financial sector continued to deleverage in the first half of 2019. The external loan liabilities of banks fell by 10 percent y-o-y through July, and the stock of foreign currency loans to the corporate sector fell by a similar amount.

Domestic credit has remained flat, as the banking sector focuses on improving its balance sheet and borrowing costs remain elevated. Although the official nonperforming loan (NPL) ratio remains low (4.5 percent in the second quarter of 2019), corporate leverage and an economic slowdown have raised concerns about asset quality.

Twelve-month inflation has declined from a peak of 25 percent in late 2018 to an average of 18.2 percent in the first eight months of 2019, reflecting the improved stability of the Turkish lira. However, monthly inflation remains high, averaging 1 percent. Additionally, policy rates have fallen sharply (by 750 basis points thus far in 2019).

Economic Outlook

The economy is projected to record zero percent growth in 2019, though leading indicators suggest that the economy continued its recovery in the third quarter. Capacity utilization in manufacturing is nearing long-term averages, retail sales are on a moderately increasing trend, and real sector indicators (confidence, purchasing managers index) have recovered to their levels of a year ago.

Inflation, on average, is expected to remain at double digits both in 2019 and 2020. Inflationary pressures may accelerate again, depending on the monetary policy stance. On the other hand, relatively supportive global conditions may help promote a recovery in capital inflows in the upcoming period.

Nominal credit growth is projected to accelerate, though given asset quality concerns and debt overhang, an economic recovery is unlikely to be fueled by rapid credit expansion.

Turkey is expected to record a moderate current account deficit in 2019 as import demand begins to recover in the second half of the year. The general government fiscal deficit is expected to peak in 2019 with high counter-cyclical expenditure.

Growth is expected to rebound to 3 percent in 2020, led by a recovery in private consumption and investment, accelerating further to 4 percent in 2021. The slowdown in European economies is likely to offset Turkey's exports, but accommodative global monetary conditions may support a faster recovery.

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Project Spotlight

Turkish Health Transformation Program and Beyond

World Bank Group support to the health program has been a key element of the Country Partnership Framework in support of Turkey's development plans, which include the critical objective of "making the health sector effective."

For over a decade, the World Bank Group has been a partner in policy and system reform in Turkey's health sector.

The Bank approached the challenges in the sector with two Adaptable Program Loans (APLs) that have supported Turkey's Health Transformation Program (HTP) since 2003.

The Bank provided guidance and shared the experiences of other countries during the introduction and rollout of the family medicine system, which replaced the health center/health post structures at the primary care level with community health centers and family medicine centers.

The Bank also provided technical assistance in the preparation of the Social Security and Universal Health Insurance Law of 2008.

The Bank's global knowledge and technical experience in health reforms and institutional development made it an important partner for the implementation of the program. In turn, Turkey's success in this sector provides other countries with a useful model of health care reform.

WBG support to the health program has been a key element of the CPF in support of Turkey's development plans, which include the critical objective of "making the health sector effective." However, despite achieving a "best practice" for its universal health care reform, the rise of noncommunicable diseases (NCDs) in the burden of overall disease in Turkey remains a key health challenge.

The ongoing Health System Strengthening and Support Project aims to improve the primary and secondary prevention of selected NCDs, increase the efficiency of public hospital management, and enhance the capacity of the Ministry of Health for evidence-based policy making.

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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CONTACTS

Ankara,
+90 312 4598300
Ugur Mumcu Cad. No:88
2nd Floor,
Ankara, Turkey.

More about the World Bank in Turkey

Website:
http://www.worldbank.org/en/country/turkey

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