The World Bank in Turkey

Country Snapshot

An overview of the World Bank's work in Turkey

April 2018

TURKEY	2017
Population, million	80.3
GDP, current US$ billion	850.7
GDP per capita, current US$	10,592
Life Expectancy at birth, years	75.4

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 Organisation for Economic Co-operation and Development and the G20 and an increasingly important donor of Official Development Assistance.

- In order to build on its strong development success to date, Turkey needs to continue to focus on creating the right conditions for strong and sustainable growth. An increase in business investment and innovation and better education and skills are 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. It also recovered well from the global crisis of 2008/09.

Although Turkey's growth prospects are reasonably robust, with an expected 4.7% growth rate for 2018 and the medium term, it faces challenges moving into high-income status. Turkey's macroeconomic achievements are also being tested by an uncertain outlook.

Domestic challenges and a deteriorating geopolitical environment have negatively impacted exports, investment, and growth. The influx of more than 3 million Syrian refugees in 2016–17 created new social, economic, and political demands, particularly in urban centers where most refugees have settled.

The Government will need to take strong measures to revitalize private investment, boost growth, and resume Turkey's convergence with Europe. Most notably, new momentum is needed to improve the quality of education and boost productivity through greater innovation.

The World Bank and Turkey

Turkey and the World Bank Group (WBG) have a strong partnership that is outlined in the recently prepared Country Partnership Framework (CPF), the Bank's strategy for FY18–21. The CPF and articulates the main areas of WBG engagement, both technically and financially.

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, transport, 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, labor, finance, competitiveness, transport, forestry, land, and energy) and are the Bank's primary instrument for broadening engagement with all stakeholders in Turkey. Recently, the increased Trust Fund portfolio enabled the preparation of detailed and broader coverage in education, labor market development, energy, disaster risk management, and urban development.

Key Engagement

Implementation of the current CPF (FY18–21) is progressing well, with an expected US$1.1 billion in financing for new projects in FY18 (Sustainable Cities II project, US$91 million; Gas Storage Expansion project, US$600 million; and Inclusive Access to Finance project, US$400 million).

WORLD BANK PORTFOLIO

No. of Projects: 12

Net IBRD Commitments: $3.9 Billion

Trust Fund Portfolio: $484 Million

One key engagement involves helping the Government respond to the large number of Syrian refugees in Turkey. The WBG is partnering with the EU's Facility for Refugees in Turkey (FRiT) and providing support 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, a broad set of Trust Funds supports the portfolio, including the Clean Technology Fund (CTF), EU Instrument for Pre-Accession Assistance (IPA) funds, the Global Environment Facility (GEF), and Swedish International Development Cooperation Agency (SIDA) Gender Funds.

FY17 marked the first Reimbursable Advisory Service agreement between the Bank and the Ministry of Development to strengthen the Government`s capacity to manage public-private partnerships (PPPs).

The Bank is a key partner, providing financing and advice for Turkey's complex infrastructure and services improvement projects. The Bank is also playing a key role in maximizing finance for development by leveraging partnerships with other international financial institutions and catalyzing commercial financing. A recent example of successfully mobilizing financing is the Trans-Anatolian Gas Pipeline Project (TANAP). The Bank's financing of US$800 million and due diligence helped leverage US$1.2 billion from MIGA to support guarantees for commercial borrowing and attract co-financing of over US$1 billion from the Asian Infrastructure and Investment Bank (AIIB) and the European Bank for Reconstruction and Development (EBRD).

Recent Economic Developments

Turkey experienced a strong cyclical recovery in 2017, with 7.4% growth. Demand in 2017 was stimulated by fiscal measures and a Credit Guarantee Fund for small and medium enterprise (SME) financing.

Total consumption accounted for over two-thirds of growth in this period. Strong demand resulted in high consumer price inflation, which averaged 11% in 2017.

The current account deficit widened from 3.8% of GDP in 2016 to an estimated 5.5% in 2017. A recovery in net portfolio flows helped finance half the current account deficit. Although fiscal outlays remained high, strong revenue contained the fiscal deficit at 1.7% of GDP in 2017.

The Central Bank raised the effective policy rate by 450 basis points (from 8.3 to 12.75%) over the past 12 months in response to price and exchange rate pressures.

Growth in money stock (M3) moderated slightly though remained high at 16% in 2017, in line with strong demand driven by a 20% expansion in private sector credit. The Central Bank also introduced stricter regulations on foreign exchange debt for corporates to mitigate risks of high foreign exchange exposure.

Strong growth stimulated the labor market in 2017. The unemployment rate fell by 1.8 percentage points, from 12.1% in November 2016 to 10.3% in November 2017. Employment increased by 1.5 million persons in the same period, driven by services (54.6%), industry (19.2%), and agriculture (18.6%).

The labor force participation rate for females rose to 33.8%, a 1.1 percentage point inter-annual increase, while the jobless rate for youth fell by 3.3 percentage points to 19.3%.

Economic Outlook

For 2018, economic growth is projected to converge closer to its potential rate of around 4.5–5%. Recent surveys point to a moderation in consumer demand, weighed down by rising costs and declining real wages. Rapid credit expansion has squeezed the banking sector's Turkish lira liquidity, increased the credit risk, and raised lending rates, pointing to a slowdown in credit growth in 2018. Nevertheless, the Credit Guarantee Fund has been extended by a further TL 55 billion for 2018.

In addition, the 2018 budget, approved in December 2017, was supplemented by fiscal stimulus measures proposed in February 2018 to accelerate investment and employment.

Given these developments, inflation is expected to remain at just above 10% in 2018. Core inflation, which remained elevated and has hit double digits in recent months, might push up headline inflation further. The current account deficit is projected to remain high at 5.2% of GDP. Despite continued export growth driven by the recovery in the EU, the import bill is likely to remain large, due in part to rising commodity prices.

Turkey's external vulnerability remains high. Further tapering of U.S. monetary policy in 2018 could negatively affect capital flows, raising interest and exchange rate risks for Turkey's external debt. The private sector is particularly affected as it accounts for 70% of external debt. Though most of it is long-term maturity, a weaker lira and costlier external financing might hit corporate balance sheets.

The current macroeconomic environment and projected external conditions will require monetary and fiscal discipline. Sound macroeconomic policies need to be accompanied by deeper structural reforms to ensure a more sustainable economic growth trajectory over the medium term.

Project Spotlight

Turkey Sustainable Cities Projects

Turkey's Sustainable Cities Program stands on a public-private investment coordination platform. Photo: Ayse Selen Varhan (2009 World Bank Turkey Youth Photo Competition)

The Turkey Sustainable Cities Program, supporting improvements in the environmental, financial, and social sustainability of Turkish cities, was designed as a series of projects to provide financing to IllerBank for subnational lending to selected municipalities and utilities interested in improving public services. This allows IllerBank and the World Bank to expand the sustainable cities approach, both sectorally and spatially.

The US$132 million Sustainable Cities Project 1 (SCP1) for water and sanitation investments in the Muğla and Denizli municipalities, was approved in December 2016. The US$91.5 million Sustainable Cities Project 2 (SCP2) for water and sanitation investments in Muğla and Antalya was approved in April 2018.

The Sustainable Cities series of projects provides investment financing for priority municipal investment projects for water, wastewater, solid waste, energy efficiency, and street lighting. It also provides technical assistance (funded by a €25 million EU IPA grant) to participating municipalities to help them prepare comprehensive integrated plans and capital investment plans, as well as prioritize investment financing plans with climate change in mind. This assistance is currently being provided to the cities of Antalya, Denizli, Muğla, and Kayseri.

Turkey's Sustainable Cities Program stands on a public-private investment coordination platform, which, in cooperation with IFC, targets the maximization of finance for development. The local-level "leg," jointly supported by the World Bank and IFC, assists cities in becoming more creditworthy to mobilize and leverage private finance.

Technical assistance and investments enable the WBG to play a catalytic role in helping municipalities secure financing directly from capital markets for their infrastructure needs, thus leveraging the private sector while focusing public funds where most needed. At the national level, the program continues to sustain constructive dialogue with the central government to modernize municipal financing and the investment framework, and to improve the environment for leveraging private sector participation.

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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