



TURKEY	2018
Population, million	81.4
GDP, current US\$ billion	769
GDP per capita, current US\$	9,445
Life Expectancy at birth, years (2018)	75.4

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 \$9,445. Turkey is a member of the 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.
- Turkey is also currently facing an acute set of economic challenges that emerged in 2018. Triggered by a sharp depreciation of the lira and a fall in investor confidence, domestic demand has collapsed. By the end of 2018, Turkey had entered a recession, with inflation still running at 20 percent and high levels of foreign exchange debt, particularly in the private sector.
- Turkey now faces the challenge of navigating through the current downturn while generating new and sustainable drivers of future growth.

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 these achievements.

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, overheating in the economy since 2017, combined with tightening global financial conditions, has given rise to a stagflationary environment and a debt overhang that, unless dealt with effectively, could mute growth prospects into the medium term.

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 FY18–21 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.

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\$4–\$6 billion, while IFC's own-account investment program is expected to be US\$600–\$800 million annually.

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, 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 implementation of the current CPF is progressing well thus far. In FY18, IBRD approved US\$1.49 billion in new lending to Turkey, including the Resilience, Inclusion and Growth Development Policy Finance, US\$400 million; a second

WORLD BANK PORTFOLIO

No. of Projects: 14

Net IBRD Commitments: \$4, 286 Million

Trust Fund Portfolio: \$485 Million

Sustainable Cities Project, US\$91 million; a Gas Storage Expansion Project, US\$600 million; and an Inclusive Access to Finance Project, US\$400 million. So far in FY19, IBRD has approved US\$252 million for an Irrigation Modernization Project.

One key engagement 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.

On September 20, 2018, the Government launched its New Economic Program (NEP) to respond to the evolving economic challenges. The WBG is using the flexibility allowed by the CPF to adapt the program appropriately to support the priorities of the NEP. 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.

Recent Economic Developments

Growth in 2018 fell to 2.7 percent, with a contraction in economic activity in the last two quarters.

Over the past year, Turkey has experienced intense market turbulence, and by end-2018, the nominal effective exchange rate had declined by 25 percent, consumer inflation was above 20 percent, and policy interest rates had tripled to 24 percent.

Since the end of September, the exchange rate has become more stable and gross international reserves have risen nearly 20 percent to US\$99 billion, although the perception of market risk remains elevated.

A slowdown in the real sector began in the second half of 2018, and a sharp contraction in private consumption and investment took hold over the course of the year.

The impact on growth would have been more severe had there not been a strong external adjustment that led import volumes to sharply contract, exports to grow over the year, and the current account deficit to move into surplus in the last quarter.

With growing corporate indebtedness, including in foreign currency or foreign exchange-indexed loans, coupled with weakening domestic demand, part of the corporate sector is under stress.

Banks are undergoing a process of balance sheet repair, as their liabilities to foreign banks have fallen by 16 percent from their peak in August and domestic credit has contracted since end-September.

Economic Outlook

Growth over 2019 is projected to fall to 1.0 percent, with contractions between the fourth quarter of 2018 and the second quarter of 2019 (year-on-year). Growth in private consumption is expected to return in the third quarter (year-on-year),

aided by policy measures such as the minimum wage hike in January and recently announced employment support programs. The overall fiscal deficit is expected to expand further in 2019.

Robust government consumption growth is expected to contribute to growth in 2019, while investment, both public and private, is projected to contract substantially over the year.

Import volumes are expected to fall slightly and, despite lower growth expectations in Europe, improved price competitiveness is expected to boost exports over 2019.

In 2020, growth is projected to recover momentum and reach 3 percent, led by recovering private consumption and investment, and accelerate further to 4 percent in 2021.

Inflation is expected to decline to around 10 percent by end-2019, aided by a continued tight monetary policy stance. Credit markets are projected to remain muted as banks go through a process of deleveraging in 2019.

Corporate stress is likely to lead to a further deterioration in banks' asset quality, though the full extent of balance sheet losses is unlikely to be realized until 2020.



Turkey's economic and social development since 2000 has led to increased employment and incomes, making Turkey an upper-middle-income country.

Project Spotlight

Turkish Health Transformation Program and Beyond



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."

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

The Bank has approached the challenges in Turkey's health sector with two Adaptable Program Loans (APLs) that have supported **Turkey's Health Transformation Program** 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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