Mr. Jim Yong Kim  
President  
The World Bank  
Washington DC 20433

Dear Dr. Kim,

1. Thanks to structural reforms and sound macroeconomic policies, Turkish economy has gone through a major transformation over the past fifteen years. Turkey's per capita GDP has almost tripled and income distribution has been improved. We appreciate World Bank's support for Turkey's reform program which has played a significant role in these achievements during this period.

2. Turkish economy weathered the global crisis in a quite resilient fashion thanks to political stability and robust macroeconomic fundamentals, and became one of the fastest growing economies in the world with 6.7 percent growth rate on average in the post-crisis period.

3. Although the economy lost momentum in 2016 with a growth rate of 2.9 percent, this performance should be considered remarkable against the backdrop of severe shocks, including the failed coup attempt, worsening geopolitical tensions, and unfavorable weather which led to contraction in agricultural sector. Nevertheless, the economy has rebounded quickly. The Turkish economy managed to grow by 5 percent, exceeding market expectations, in the first quarter of 2017. Leading indicators signal further improvement in economic activity. Growth is likely to be strong and more balanced this year.
4. Turkey’s growth has been strong and inclusive as the Turkish economy has generated 7.6 million additional jobs since the global crisis. At the same time, female labor force participation rate has increased substantially with the help of active labor market policies from 23.6 percent to 32.9 percent. Moreover, we have made great progress in combatting informal economy and reducing poverty.

5. More encouragingly, Turkey’s current account deficit has been on a declining trend. Although 2016 was an exception owing to the declining tourism revenues, the narrative of rebalancing for Turkish economy continues. Going forward, we aim to reduce current account deficit further to much more manageable levels. We have been implementing structural reforms that will help Turkey move up the value chain and boost savings rate. In terms of external funding, Turkey has continued to finance its current account deficit with FDI and medium to long term financial inflows despite unfavorable global financial conditions and geopolitical tensions in neighboring countries.

6. Turkey’s strong fiscal position continues to anchor debt and deficit at prudent levels. The general government budget deficit has ranged from around zero to 1.5 percent of GDP in recent years. In 2017, a relatively expansionary fiscal policy has been pursued to support investments and job creation. The EU-defined general government debt stock to GDP ratio reached 28.3 percent in 2016, which is much lower than the Maastricht criterion and emerging markets average.

7. The Turkish banking sector has been resilient to shocks. The sector is well capitalized and has strong asset quality. It has no short FX position. Government maintains the macro-prudential framework, and has introduced credit enhancement schemes to support a more effective financial intermediation.

8. Household liabilities are relatively low when compared to peer countries and bear no currency risk as a result of measures taken in previous years. Although there is an open currency position in the non-financial corporate sector, the exposure is concentrated in large scale companies. Most companies that have short FX position also have significant export revenues, providing them with a natural hedge. Nonetheless, we are planning to introduce macro prudential measures to help companies manage short FX positions.

9. We have undertaken significant structural reforms despite the geopolitical turmoil in the Middle East region and its implications for the east and south-east of Turkey.
Besides, after the failed coup attempt we encountered last July, our government declared a state of emergency and introduced some measures to provide the security. Even under these circumstances, we are determined to initiate and continue making reforms in various areas. As outlined in our 10th Development Plan 2014-2018, a well-functioning and effective justice system is also very important in increasing the predictability in the economy and in developing a more appropriate investment climate. Our commitment to enhancing standards of democracy, improving transparency, boosting fundamental rights of freedom, developing quality of institutions, and strengthening rule of law has not changed which will also contribute to converging with the EU.

10. Our ultimate goals are to become a high income country and move up the global value chain. Great progress has been made recently in main reform areas aiming to support investments, enhance labor market flexibility, promote savings and incentivize R&D activities.

I. Increasing Domestic Savings and Enhancing Fiscal Transparency

11. We believe that a higher level of savings will provide sufficient internal resources to strengthen our economy and pave the way for better financial environment. Furthermore, we intend to develop a well-functioning public audit framework since it is essential to improve fiscal transparency and accountability and boost investor confidence.

12. The Law No. 6740 on Amending the Private Pension Saving and Investment System was published in the Official Gazette on August 25, 2016 for the purpose of setting an auto-enrollment private pension scheme. According to the Law, employees who are under the age of 45 and working under a service contract are automatically enrolled in the private pension system with an opt-out option since the beginning of 2017. Also, the Government will subsidize employees with an amount equal to twenty-five percent of employees' paid contributions to private pension account. Through these means, coverage of private pension will be enhanced and sustainability of the pension system will be improved.
13. Turkish Court of Accounts (TCA) conducts audit activities on behalf of the Turkish Grand National Assembly according to the Turkish Court of Accounts Law No. 6085. However, there have been some difficulties in the implementation of the Law in auditing procedures. For year 2012, TCA submitted financial audit reports for all general government institutions with audit opinions, but have excluded relevant financial statements. With an amendment in the Regulation on the Procedures and Principles related to the Submission of Accounts of Public Administrations, which was published in the Official Gazette on December 8, 2013 the Ministry of Finance was provided with a three year period to prepare individual financial statements of each institution and submit them to the TCA for auditing. Thus, TCA submitted 2015 audit reports for all general government institutions that contain individual financial statements to the Parliament in October 2016 for the first time.

14. One of the main targets of the 10th Development Plan is not only to increase savings but also to channel savings into productive investments. This will be encouraged through financial market instruments. In this context, we will try to i) improve diversification of financial products, ii) enhance the savings opportunities for small-scale investors, iii) facilitate access to capital market instruments, iv) increase the variety of products and services in financial markets, and v) disseminate financial education.

II. Supporting the Economic Inclusion of Vulnerable Groups

15. Inclusive growth is only effective when it generates economic benefits and opportunities for every section of the society. Inclusive growth entails larger labor force participation rates and more equitable distributional policies. Improvement of labor force quality, elimination of barriers in access to labor markets, provision of better work conditions and prevention of informality especially for disadvantaged groups (such as women, disabled, youth, long-term unemployed and refugees) should be among the key priorities of inclusive labor market policies.

16. We attach utmost importance to the expansion of female labor force participation. Therefore, we are especially keen on developing policies that endorse gender
inclusive economic growth. In view of this aim, the Law on Supporting Investments at the Project Level and Amending Various Laws No. 6745 was published in the Official Gazette on September 7, 2016. This Law provides tax incentives for five taxation periods to private nursing schools by amending the Income Tax Law. It is a well acknowledged fact that increasing and improving the availability and accessibility of affordable childcare lead to higher female force participation.

17. Also, we have completed other working arrangements and modalities for the labor market. Law Amending Labor Law and İşKUR Law No. 6715 which was published in the Official Gazette on May 20, 2016 allows temporary employment relationships to be established via private employment agencies and legalize the concept of telecommuting work arrangements. Under these schemes private agencies, acting as legal employers, are responsible for the payment of the salary, and social security premiums in line with and for the duration of the employment contract. Besides, these changes introduced distance or remote, home and mobile working to the Turkish labor system. Female and young labor force will be the primary beneficiaries of this program.

18. We are conducting policies for the smooth integration of approximately 3 million Syrians under Temporary Protection to the Turkish society. Our temporary protection regime includes labor market participation as well as access to accommodation, health care and education. The Council of Ministers' Decree No. 2016/8375 on Work Permits of the Foreigners under Temporary Protection was published in the Official Gazette on January 15, 2016. According to the Decree, foreigners under temporary protection can work in Turkey with a work permit and they can apply to Ministry of Labor and Social Security for a work permit 6 months after being registered with a "under temporary protection" status. In a workplace where work permit is requested, number of foreigners under temporary protection cannot exceed ten percent of the employees who are Turkish citizens. Foreigners under temporary protection cannot be paid less than the minimum wage rate.

19. As a future perspective and as it is also highlighted in our 10th Development Plan, formation of a labor market in which decent job opportunities are provided to all segments of the society is one of our primary goals. For that purpose, we aim to upgrade the skills of the labor force and improve the gender equality and occupational health and safety conditions. We are developing qualified and good
job opportunities for the society, particularly for the young and women, considering regional, local and sectoral labor force dynamics. More attention will be given to life-long learning activities to provide skills needed by the labor market. Furthermore, works on the development of an effective migration management system which supports the economy will continue.

III. Addressing Structural Bottlenecks to Sustainable Growth

20. We aim to increase the productivity in Turkish economy by improving the business environment. We place great emphasis on the encouragement of innovative capacity, removal of financial barriers to firm growth and enhancement of competitive environment.

21. We believe that a well-regulated and enforced intellectual property rights system protects consumers and contributes to commercial life. In Turkey, this area was regulated with several decrees and many provisions under various laws. The Industrial Property Law No. 6769 was published in the Official Gazette on January 10, 2017 to establish a single legal basis for intellectual property rights in the country and harmonize with the European Union acquis communautaire. The law regulates trademarks, patents and utility models, application and appeal processes, industrial designs, registration and sanctions for violation.

22. We are encouraging the use of hybrid and electric vehicles via favorable tax differentiation. With the aforementioned Law No. 6745 and the of Council of Ministers’ Decree No. 2016/9542 published in the Official Gazette on November 25, 2016 special tax rates were introduced.

23. We are determined to implement a sustainable growth strategy for energy sector aiming to enhance our energy supply security. We have set ambitious targets in renewable energy and energy efficiency. Turkey has set an ambition to generate 30% of its energy from renewable sources by 2023. In addition, Regulation on the Renewable Resource Areas has been published in the Official Gazette on October 9, 2016 in order to introduce renewable auctions and thus dramatically increase renewable energy development in Turkey.
24. We aim to set out a better financial and legal environment for facilitating SMEs' operations. Financial access is essential for the growth of SMEs. Although, movable assets constitute the most important part of the capital stock of Turkish SMEs, there was no legal ground for using such assets in accessing bank loans. Thus, the Law on Pledge on Moveable Properties in Commercial Operations No. 6750 was published in the Official Gazette on October 28, 2016. According to the Law the collateral agreement will be executed between the SME and the credit institution. The subject moveable asset needs to be registered in the Moveable Asset Pledge Registry.

25. In railway sector, we are committed to creating a more competitive environment. In 2013 we enacted the Liberalization of Turkish Railway Transportation Law No. 6461 for the unbundling of the TCDD which aimed to enable the private sector participation in railway infrastructure and transportation. All secondary legislations providing the basis for the liberalization of Turkish railways have been issued successfully. In addition, TCDD was unbundled into two entities as infrastructure and operation, and the new main status of the TCDD infrastructure was published in the Official Gazette on June 4, 2016. TCDD Transport Company’s commercial registration, as a train operator, was completed on June 17, 2016. Finally, network statement of TCDD was published on 29 November, 2016 by the approval of Ministry of Transport, Maritime Affairs and Communications. TCDD will annually publish an updated network statement to set prices, terms, conditions, procedures and criteria for rail network access.

26. As stated in the 10th Development Plan, in order to overcome the productivity bottlenecks, we aim to take actions to increase productivity in manufacturing sector, improve business and climate environment, promote commercialization in priority technology areas, and boost technology development through public procurement.
27. On the basis of these achievements, we request the World Bank support for our structural reform program by approving the Turkey Resilience, Inclusion and Growth Development Policy Financing. We firmly believe that the reforms detailed in this Letter merit full support from the World Bank and the international community.

Yours Sincerely,

Mehmet Şimşek
Deputy Prime Minister