Statement by Roberto García-López
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Turkey: Country Assistance Strategy Progress Report - Programmatic Financial and Public Sector Adjustment Loan and Agricultural Reform Implementation Project

We would like to express our appreciation to Staff and Management for keeping us updated on the ongoing efforts of the Turkisk Government to overcome the crisis that the country has experienced since late February 2001. In this regard, the documents that we will be discussing today give us an excellent cover of the current issues, the new economic program and the Bank’s strategy to assist Turkey.

1. Turkey must tackle adjustment and reform simultaneously in the financial and public sectors in the aftermath of the crisis, and in doing so it must consider that the social impact of the crisis is already being felt as lay-offs, rising prices, and negative growth. Reduced household incomes place a growing risk of poverty and vulnerability on people already at the lower end of the income scale.

2. The Government is implementing a new economic program aimed at minimizing the short-term impact of the crisis while setting the stage for an early control of inflation and recovery of growth. By moving immediately to address the fundamental structural problems underlying the crisis, we concur that it would be adequate to engineer a quick recovery closer to the experience of other countries to avoid a prolonged recession. We fully support the three-pronged strategy oriented to restoring financial stability with adequate macroeconomic policies, correcting the financial and public sectors weaknesses underlying the crisis with structural policies, and enhancing the social dialogue to achieve price and wage policies consistent with macroeconomic stability and protection of the most vulnerable ones, in the context of a strong social policy.

3. The scope of the crisis Turkey is facing requires the assistance of the international community at bilateral and multilateral levels. It is encouraging to see that the IMF’s support to the program adopted by Turkey will reach a total of SDR15 billion, and that it has been prepared in close cooperation with the Bank. Prior actions, performance criteria and structural benchmarks for the stand-by are fully consistent with the economic assistance provided by the Bank. In this context, we fully support the proposed Programmatic Financial and Public Sector Adjustment Project (PFPSAL). The intended aim of the Bank to disburse US$2.45 billion in adjustment lending in 2001 to meet Turkey’s external and budgetary financing requirements arising from the crisis and to support its short- and medium-term reform goals in the financial and public sectors
is consistent with its purpose to help emerging markets overcome vulnerability, restore stability, and help reduce poverty.

4. Among the core directions for structural reform is the continuation of vital reforms in agriculture, the energy and telecommunications sectors, to improve the climate for private investment, in an effort to raise productivity, growth and incomes. In this sense, we support the Agricultural Reform Implementation Project (ARIP), since it will help the Government’s own agricultural reform program, aimed at dramatically reducing artificial incentives and government subsidies, and substituting a support system that will give agricultural producers and the agro-industry incentives to increase productivity in response to real comparative advantage. It will also mitigate potential short-term adverse impacts of subsidy removal and will facilitate transition to efficient production patterns. We understand that the Government’s agriculture policy reform program is already being financially supported in part by the Bank under a previous Economic Reform Loan. The new loan will only reinforce the implementation of policies already initiated.

5. In December 2000, a CAS update for FY01-FY03 was presented with a high-case lending envelope of US$5.0 billion. As a consequence of the crisis in February 2001, and of the adjustment and structural reforms adopted by the Turkish Government, the high-case envelope was revised up to US$6.2 billion, of which US$1.2 billion would be on SSAL terms. The revision proposed is an accelerated and refocused Bank’s support to Turkey, although in a graduated response to structural and social reforms, enhancing assistance to strengthen social protection. We can support this proposal, especially if the long-term support to programs in areas such as education and health will continue alongside the support for economic reform. The participation of IFC, not only in the medium- and long-term strategy as originally envisioned, but also in the short term in response to the crisis, is vital. IFC’s close collaboration with the Bank to support the new reform program is necessary.

Finally, we would like to mention that we support the Bank Group’s vision to assist Turkey on its structural and social issues. There are risks, especially political risks, but at the same time we are convinced that Turkey will rise to the moment, as the alternatives are costly and perhaps of significant effects beyond its borders. It is in its best interest to maintain an unwavering political will and decision.