Turkey - Country Assistance Strategy Progress Report; Programmatic Financial and Public Sector Adjustment; Agricultural Reform Implementation Project

We welcome the country assistance strategy for the republic of Turkey, and underscore the importance of the recent measures taken by the Turkish authorities. We have been supportive of the World Bank role in addressing the current crisis in Turkey. It in our view stems from structural problems in the public and financial sectors, which the World Bank can help tackle.

We support the modalities of the intensified World Bank support, by frontloading adjustment programs which were already foreseen in the original CAS, and by providing SSALs for USD 1,2 bln. Still we are concerned about the very limited involvement of bilateral creditors and private sector in the financing of the Turkey package in our interpretation of the SSAL guidelines an "international support package" requires more than just Bank and Fund.

The CAS PR document gives a good overview of the severe (financial) problems of Turkey. Still, it remains difficult to separate economic from political problems in Turkey. In light of the recent developments in Turkey we have some comments on the macroeconomic framework and the key structural and social elements. We also comment on the Bank's financial standing.

Macro-economic framework

When we look at the macroeconomic framework the first thing that strikes us are the positive macroeconomic assumptions (for instance the interest rate, the GNP growth rate and the inflation rate). The program assumes for 2001 a negative growth rate of GNP of 3%. Sadly, in our view, that is still rather optimistic if we look at the current economic situation in Turkey. The same also applies to interest rates. Because of the current unpredictable political situation, market parties continue to demand a substantial risk premium, which potentially leads to unsustainable indebtedness. Indeed, in our view the biggest risk of the program is the political risk. It is not the determination of Minister Dervis that is the problem, but rather the political climate in general.
Structural, social elements

The new economic program gives a good overview of the necessary reforms in the key structural and social areas (such as the restructuring of the banking sector, fiscal adjustment, privatization and social assistance). Indeed, the latest political developments have shown us that identifying the problem is not difficult, but the implementation of the necessary reforms is. Political consensus to implement difficult reforms should be strengthened. Also, we would like to express our concern regarding current crisis's exacerbation of weak social indicators (Table 1, page nr:5). We encourage the Turkish Government to monitor social indicators closely and urge the staff to present to the Board the Social Risk Mitigation project as soon as possible. We very much believe that social assistance will be well targeted and will reach the most needy ones regardless their social status or grouping.

Impact on the Bank's financial standing

We realize that the Bank's exposure on Turkey already is substantial, with USD 3,7 bln outstanding and USD 2,7 bln in (as yet undisbursed) commitments. The revised CAS entails commitments of USD 6,2 bln in the period FY01-03, mostly frontloaded (to calendar year 2001). Increasing the exposure on Turkey, both by frontloading the CAS and by providing SSALs, will further increase the Bank's portfolio concentration in high risk countries with well known consequences for provisioning and the need for transfers to the general reserves. Our recent comments on the Bank's financial standing notwithstanding, we still believe the increased exposure on Turkey is warranted. We would like to think of this as an intertemporal effect - once Turkey overcomes the crisis, its credit ratings will normalize and provisioning may be adjusted to the benefit of the Bank's financial standing. But, needless to say, we take provisions and increased reserves very seriously precisely because there is a risk that what we like to think of will not happen. I continue to believe that, if we are serious about a World Bank role in this kind of situation, we need to ensure that it has sufficient capital resources.

Public Sector Adjustment Project and Agricultural Reform Implementation Project

We fully support the Programmatic Financial and Public Sector Adjustment and Agricultural Reform Implementation Projects. Implementation of these projects is crucial for addressing the current economic situation in Turkey and represents the main political and organizational challenge for the Government.