Statement by Ahmed Sadoudi
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Turkey: Country Assistance Strategy

We welcome this opportunity to discuss the Country Assistance Strategy (CAS) for the Republic of Turkey, along with two loans, the first for a financial sector adjustment project (FSAL), and the second for a privatization social support project (PSSP). We congratulate the Management and Staff for the excellent quality of these three papers.

We wish, at the outset, to commend the Turkish Authorities for their continued efforts directed towards implementing an important economic reform program (ERP) aimed at reducing macroeconomic imbalances and achieving sustainable economic growth. Despite serious constraints stemming from a highly adverse environment, the Government, to some extent, succeeded in maintaining progress on structural reforms. The FY98-00 CAS implementation has progressed well; the financial system continued to develop rapidly; and substantial progress was made in narrowing external and fiscal deficits and in reducing the pricing and trade regime distortions.

However, vulnerability to external shocks and structural rigidities, highlighted by the latest financial crisis, continue to hinder economic growth. Additional efforts to deepen the reform program are therefore, warranted. The main issues, yet to tackle, include strengthening resilience of the economy to external shocks, downsizing the public sector, reducing the current account deficit and the fiscal deficit, improving the government's domestic and external debt management, reforming the banking system,
increasing employment opportunities and alleviating poverty. Some of these issues require usual well-known adjustment actions, which should have been undertaken long ago. Others involve macroeconomic policies, where the lead of the IMF is more appropriate.

Turning now to the Bank Group involvement in Turkey, we welcome the Country Assistance Strategy for FY01-03. The main objectives of the strategy appear to be consistent with the country priorities. As the Paper notes they focus on: a) implementing reforms for growth and employment generation; b) improving public management and accountability; c) expanding social services and social protection; d) strengthening environmental management and disaster mitigation; and e) accelerating connectivity and technological capabilities.

We are pleased with the Government's efforts to secure the political support to reforms through social dialogue. It is also true that successive Governments in Turkey have remained committed to reforms, insuring continuity and consistency in the reform program.

We believe that the proposed volume of lending is appropriate for the country and we endorse the high-case scenario. We welcome the composition of the lending program and we consider that the proposed mix of assistance is consistent with the Government's priorities. We also think that the proposed trigger conditions are adequate to measuring performance and monitoring economic policy implementation in the country. We also support the Bank's non-lending services - which include a broad range of technical and analytical work - to assist the Government in implementing the structural reforms.

The financial sector reform is overdue. In this regard, we strongly support the proposed Financial Sector Adjustment Loan. We are pleased by the Bank's quick response to assist Turkey mitigate the effects of the crisis. We also like the project
design and the proposed actions to be undertaken under this loan, which would help improve the structure, resilience, soundness, and efficiency of the banking sector. Moreover, we feel that a more comprehensive approach to the financial system in Turkey to address the many concerns about the health of the sector is warranted.

We welcome the reforms of the Public Administration through greater fiscal discipline and better management. The Government is giving increased priority to governance issues, budgetary practices, and procurement standards.

We consider that priority should be given to intensifying and accelerating the privatization program of state-owned-enterprises. But, one important aspect of privatizing SOEs and reforming the economy, is the potential adverse impact on the poor. We feel that the compounded effects of the program will adversely impact the poor. Expected privatization of about 39 state-owned-enterprises (SOEs) in particular, would result in layoffs. We therefore, support the Privatization Social Support Project, designed to achieve the objectives of the Government's privatization program, mitigate the negative impact of the privatization and monitor the social impact of the Economic Reform Program.

Other crucial reforms are also needed in a number of sectors, such as agriculture, transportation, telecommunications, energy and mining. These reforms could be undertaken within a longer-term framework, in the context for instance, of Turkey's agenda to access the EU.

As regards the prospects for Turkey over the medium term, preliminary projections suggest that the country would have to manage large external debt repayments, finance the increase in the current account deficit and ensure adequate levels of international reserves.

To meet the expected financial requirements, Turkey will need to urgently secure
significant amounts of private capital flows. In addition to exceptional financing, the macroeconomic situation would require very careful macroeconomic management. In these conditions, we feel that the Bank’s operations could face tremendous difficulties, and we would caution against potential slippages and departure from the agreed policies. The Bank should pay more attention to implementation and supervision issues and stay ready to cope with any unexpected problem, which may arise. It is important that the Bank remain closely and fully involved through close coordination with the Government to restate the main actions to be undertaken within the framework of this CAS.

We do understand that the reform of the Turkish economy is a long and laborious process and we encourage the Bank Group to foster its partnership with the country. In addition to the Bank, IFC and MIGA will also continue to play an important role in helping Turkey develop its private sector. Their programs will have a catalytic effect by attracting other investors to transactions.

We encourage the Bank Group to reinforce collaboration and coordination with other international and domestic development partners to Turkey. Bank and IMF teams work closely in assisting the country, and we are pleased to see that they draw the same conclusions and propose the same recommendations. Closer dialogue is also developing between the Bank and the EU, as Turkey and the EU gradually establish the mechanisms for candidacy discussions.