Statement by Balmiki Prasad Singh  
Date of Meeting: December 21, 2000  

**TURKEY: (i) Country Assistance Strategy; (ii) Financial Sector Adjustment Loan; and (iii) Privatization Social Support Project**

We welcome the discussion on the Country Assistance Strategy for Turkey and compliment the Staff for presenting an interesting, analytical and candid document.

2. Turkey has just come out of a potential major financial crisis. In this connection, the discussion on the CAS could not have come at a better time since these are very crucial moments for Turkey. In fact, some of the political and financial risks predicted in the report have already come true. We compliment the Government as well as IMF for their quick and adequate response in dealing with the crisis. Though the Government’s initial handling of the crisis can be debated, at the end we are happy to note that Government in collaboration with I.M.F. has effectively defused the situation. But there is no need for complacency. This is the clear signal to the Government and the coalition partners to accelerate the reform process in the financial sector and without turning back.

3. Turkey has really made good progress in stabilization and structural reform; managed a sizeable fiscal improvement, strengthened the regulation of the financial system and made a substantial advance in containing the inflation. However, the weaknesses in the Banking system and the Government’s failure to take action against the state-owned banks has caused enormous loss to the country. The question is how the Government is going to avoid such crisis in future. We would like to know from the Staff on this issue.

4. We very much agree with the Government and the Staff to focus our strategy on the following:
   a] implement reforms for growth and employment generation;
   b] improve public management and accountability;
   c] expand social services and social protection;
   d] strengthen environmental management and disaster mitigation; and
   e] accelerate connectivity and augment technological capabilities.
5. We have serious concerns in respect of the following two areas:

i] External Debt

Though the Staff are trying to give us a message of hope and confidence by relying on Turkey's past performance in weathering away many of the external shocks, we are not fully satisfied. The external debt stock of Turkey is 55 percent of GNP (US$ 102 billion) with US$ 23 billion in short term debt. Debt service (US $20 billion a year) amounts to 35 percent of the exports. These are clearly unsustainable. Despite Government's efforts, the foreign direct investment has not gone beyond $ 1 billion a year. Our fears are that another liquidity crisis may be in the offing. Does the Government have any contingency plan? We would also like to know from the Staff to what extent the current crisis has affected the Government's ability to raise fund from the international capital market.

ii] Natural Calamities

Staff have repeatedly given warning about further calamities like earthquake. We cannot do anything to stop the earthquakes. But we would like to know how the institutional mechanism created through Bank assistance as a response to the previous earthquake, like Housing insurance, improving the building codes and establishment of Emergency Management Agency of Turkey (MEAT) are functioning. Effective functioning of these institutions are essential to mitigate the miseries of future calamities, in case it occurs. We would like to know the progress made in this direction.

6. Partnership

We are pleased to note the enthusiastic involvement of various partners in the economic development of Turkey. We congratulate the Staff for this effective coordination.

7. IFC and MIGA

We also appreciate the role of IFC and MIGA in promoting the private sector in Turkey. But it is a mystery to note the foreign direct investment is not growing beyond US$ 1 billion a year. IFC should carry out a study to underpin the reasons behind this failure so that the Government will be able to take right course of action. With Turkey's access to EU impending, free flow of FDI should not be a problem.

8. Financial Sector Adjustment Loan

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We fully support the proposed adjustment loan for US $ 777.78 million. This adjustment loan is very much essential for Turkey to strengthen its financial sector reforms and to manage the continuing risk of external vulnerability due to its heavy borrowing program in the international market. But the success of this adjustment program hinges on the privatization and commercialization of the state owned banks. From the news reports, we understand, there is a discord in the Cabinet on this issue. If this is true, this program will not take off. We would like to know the Staff’s latest assessment in this regard.

9. Privatization Social Support Project

We appreciate the objective behind this project, i.e. to provide the job loss compensation to the labourers who have been relieved from the state owned enterprises due to privatization. This will induce a sense of confidence among the labourers and trade union leaders, which will indirectly help the Government to get the support of the interested parties in Bank’s privatization. We only want to impress upon the Bank as well as the Government that adequate institutional mechanisms should be made available to invest these compensation amount in income generating assets so that the labourers and their dependents do not suffer. This cannot be done compulsorily but opportunities should be made available to the beneficiaries. We will appreciate Staff comments on this also.

10. To sum up we extend our support to the CAS and the proposed loan and wish the Government of Turkey success in their reform efforts.