

Country Partnership Strategy And Country Economic Memorandum
Remarks by Ulrich Zachau
April 28, 2008

- Ladies & Gentlemen, Distinguished Guests and Participants.
 - It is my great pleasure to be here in Brussels today for this policy dialogue on Sustaining High, Equitable Growth in Turkey.
 - I would like to thank you, Director Missiroli and the European Policy Center for hosting us here, and I would like to thank Undersecretary Canakci and the Turkish government for the close partnership in preparing the documents we are discussing today.
- **Last Friday in Ankara we launched the new country partnership strategy and program of the World Bank Group with Turkey for 2008-2011.**
- **Our collaboration under this new strategy includes programs aimed at creating knowledge, sharing international experience, and providing advice and technical assistance.**
- Our new partnership **also includes expected future financing:** up to \$6.2 billion during 2008-2011 **for development projects and program** from the World Bank; and also financing directly to the private sector from the International Finance Corporation.
- **The new strategy is a framework of *partnership*. This means it is grounded in Turkey's own strategy and vision—the vision that Turkey has set herself in the 9th Development Plan:** as a country with stable growth, that shares its income equitably, that has transformed into a knowledge society and is globally competitive, and that is **fully aligned with the European Union.**”
- So the main areas of collaboration between Turkey and the World Bank Group come directly from the 9th Development Plan:
 1. increased competitiveness and employment—more & better jobs
 2. human development, that is, health, education, and social welfare
 3. and efficient, high quality public services
- **The strategy also builds on the analytic work the World Bank has undertaken together with Turkey—such as in the Country Economic Memorandum that we are discussing today.**

- The **Country Economic Memorandum** takes stock of Turkey's success in achieving high growth since the 2001 crisis and considers key public policy challenges Turkey faces.
- **Turkey experienced rapid growth since 2002**—around 7% per year, much faster than in any other period since 1970.
- **Turkey has now begun feeling the impact of recent, less favorable global economic developments and financial volatility**, which started last year with the US sub-prime mortgage crisis. The Turkish Lira depreciated, spreads have risen, and the Istanbul Stock Exchange index fell since the end of 2007. And the securitization market is virtually closed.
- **Turkey is now much more resilient than some years ago to adverse global economic and financial trends.** Turkey now has a floating exchange rate regime, an independent Central Bank, and significant foreign exchange reserves. Turkish banks have strong asset to loan ratios and liquidity ratios. **Overall I expect that Turkey will face challenges in the next 1-2 years, but I am confident that, with continued good policies, Turkey will meet and manage these challenges.**
- **Indeed, with continued good policies, I believe that Turkey continues to have great potential for sustained strong growth.**
- **How can Turkey realize such strong economic growth—growth that is inclusive and brings widely shared benefits among the Turkish people?**
- In addition to prudent macroeconomic management, **I want to highlight 3 important areas of fundamental, microeconomic and institutional reforms that Turkey is pursuing: Employment, Productivity, and Education.**
 - 1. Employment is about more jobs.** Undersecretary Çanakci mentioned the government's plan for a labor market reform, and an *integrated* labor market reform will indeed be important.
 - 2. Productivity is about better jobs and higher incomes.** Labor productivity in Turkey is roughly 40% of the EU average, and this difference accounts for around 80% of the income gap between Turkey and the EU. I would like to highlight 3 key areas for raising productivity that Turkey is pursuing: (1) a new, modern commercial code and further improvements in the business climate; (2) a new R&D law and promoting innovation and technology adoption; and (3) increasing economic activity and productivity especially in Turkey's lagging regions.

3. *Education is about continuing to generate more and better jobs and keep achieving higher incomes in the long run.* In the long term, I believe, *education is probably Turkey's most important public policy challenge.*

- Turkey has raised enrolment rates and has modernized primary school curricula. These are important successes. But student achievements have just begun improving and remain low in the OECD.
- **I would like to highlight 3 directions that the Ministry of National Education and the Higher Education Council have identified as priorities: (1) Further increasing access to secondary education for girls, and expanding tertiary education; (2) Improving the QUALITY of education—perhaps the top priority; and (3) Strengthening vocational education and training which is key for more jobs for young people.**

CONCLUSION

- Turkey has come a long way and achieved a great deal, and I am confident about Turkey's future.
- I have high hopes that Turkey continues advancing its strong reform agenda as envisaged in the 9th Development Plan and, in this way, can secure sustained and shared economic growth and good and even better lives for its people.
- I also have high hopes for our close World Bank Group partnership with Turkey.
- I look forward to a lively stimulating panel discussion.

Thank you very much!