PRESS STATEMENT ON REGULATORY REFORM IN TURKEY

by Richard Hecklinger, Deputy Secretary-General, OECD

on the occasion of the release of the OECD report, "Regulatory Reform in Turkey"

I commend the Turkish authorities for their consistent support for the OECD's project on regulatory reform. I believe that this report can be instrumental to the incoming administration for pushing the needed reforms that should bring prosperity and sustained growth to Turkey.

This is the latest in a series of country reports carried out under the OECD's Regulatory Reform Programme, which responds to the 1997 mandate given to the Organisation by OECD ministers.

The country reviews aim to assist governments to reform regulatory policies in order to promote competition, innovation, economic growth and key social objectives. These reviews follow a multi-disciplinary approach and focus on the governments' management of regulatory reform, on competition policy and enforcement, and on market openness. The reports always cover a number of specific sectors such as telecommunications, transport and energy sectors such as electricity and gas.

Why is regulatory reform so important for Turkey? The answer is simple and powerful: regulatory reform, properly designed and implemented, can be among the most effective tools available today to boost living standards through sustained economic performance, international competitiveness, innovation and investment, and job creation. Regulatory reform is also a central element of the good governance agenda. It brings transparency, accountability and trust to public administration.

The experience of Turkey in the past few years supports the importance of regulatory reform.

Today, regulatory and other structural reforms are even more important to help Turkey respond to the economic and governance challenges triggered by the 2000/01 crisis.

Turkey started its reforms in the 1980s, but, the macro-economic 2000/2001 crisis underscored important weaknesses and gaps.

Earlier reforms failed to establish an effective market economy and deliver durable solutions. State intervention and unregulated private sector activity created major uncertainties, reduced investment and growth, and hampered trust in government.

Decades of poor regulatory practices reduced economic growth, entrepreneurship and job creation in Turkey.

Despite strong recovery from an earlier crisis in 1994, the financial 2000/2001 crisis revealed crucial regulatory weaknesses:

- Burdensome regulations and red tape through the whole of the economy are still slowing structural adjustment and job creation, discouraging market entry and foreign investment, encouraging work in the informal sector, raising the risk of corruption and reducing public sector effectiveness.

- Capacities of local governments remain low, undermining efforts to raise regulatory capacities.

- Public enterprises have performed poorly, and privatisation has recently slowed.

- Competition policy is still untested by a serious enforcement case and may need further integration into the general economic policy framework.

Our report also notes that regulatory reform is still fragmented and the capacities of the civil service and public institutions are weak. In particular it stresses the need for improved rule-making processes to assess impacts of new regulations and to improve compliance and enforcement.

Since the crisis, Turkey has made progress on regulatory reform in some areas, and benefits are beginning to appear.

- In the telecommunications sector, services and prices have improved after reform.

- Overhaul of the banking sector has raised efficiency and transparency in this vital sector. The strengthened banking regulator should help with the restructuring, sale, merger and liquidation of ailing institutions.

- In the gas sector the reforms, that are scheduled to be implemented in the coming months, have the potential to create a strong competitive market.

- The competition and market openness policies constitute sound frameworks to the benefit of business and consumers.

- Efforts to depoliticise public sector recruitment are underway. New regulatory institutions in charge of infrastructure services pave the way for more efficient and accountable regulators.

- Transposition and harmonisation with European laws have modernised regulatory regimes and promoted higher quality.

A regulatory agenda for the future

Our report builds on the reforms already accomplished or underway in Turkey. However, the OECD Report stresses that substantial additional steps are needed. In total, we present more than 60 policy recommendations encompassing the need to improve regulatory policies and capacities, establish tools and processes to implement the reforms, and strengthen the institutions. We believe they contribute to a reform agenda for the next few years.

Sustaining reform will not be easy, and will require political commitment at the highest levels. Most Turks will benefit from regulatory reform, but reform will incur the opposition of many protected groups. Steps can be taken to soften the pain of change. Communicating the benefits of reform, as well as acknowledging the transitional costs, will help to raise trust and build support for further progress.