

Macroeconomic Imbalance Indicators: 2022 - II

The Macroeconomic Imbalance Indicators (MIP) framework and the MIP Scoreboard, which was established to strengthen the coordination between fiscal and monetary policies among European Union member states, to monitor macroeconomic policies and to improve the supervision of these policies are replicated for Turkey by TEPAV based on publicly available official statistics. The indicative figures are updated on a quarterly basis.¹

Following the publication of the source official statistics for the second quarter of 2022, the MIP Scoreboard has been updated. The updated indicators show that the current account balance tends to deteriorate, despite the strong competitive position supported by historically low levels of real effective exchange rate and unit labor costs. Although the leading data on the share of Turkey's export revenues in world exports imply a positive course in the first half of 2022, the indicator of the current account deficit reached the highest level of the last 4 years. Private sector loan utilization accelerated in this quarter, financial liabilities and housing price index indicators were well above the threshold values, while the unemployment rate indicator remained high. Although the indicators regarding the private sector and the General Government debt stock decreased slightly with the contribution of GDP growth and rapidly rising inflation, the fact that other internal imbalance indicators are on the rise and are at high levels indicate significant vulnerabilities towards financial stability. Despite the relative improvement observed in employment indicators in this period, the contraction in the labor force participation rate and high unemployment rates continue to be considered as factors of macroeconomic imbalances.

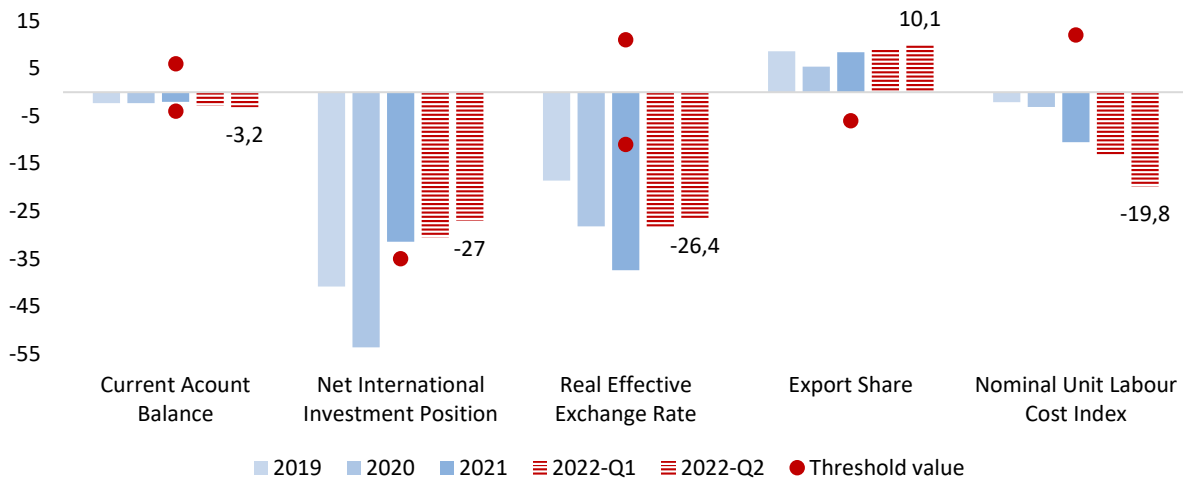
I. External Imbalances and Competitiveness Indicators

In the second quarter of 2022, despite the strong competitive position supported by historically low levels of real effective exchange rate and unit labor costs, the current account deficit indicator reached the highest level of the last 4 years. The **real effective exchange rate** indicator, which fell to the lowest level in the last 11 years by the end of 2021, maintained its high negative levels in the first half of 2022 as the Turkish lira continued to depreciate. In addition, the three-year rate of change in the **unit labor cost**, which is another competitiveness indicator, fell by 19.8 percent to the lowest value of the calculation period. The sharp decline in the said indicator reflects the erosion in the purchasing power of workers and the contraction in the share of labor payments in national income with the rapidly increasing inflation in this period. Despite the strong competitive position implied by low price and cost indicators, the deterioration in the **current account balance** that started in 2022 continued and the highest deficit value of the last 4 years was reached in the second quarter. On the other hand, although the upward trend in the **share of Turkey's export revenues in world exports** which started in 2021, continued as of the second quarter of 2022, but this positive development was not reflected in the current account indicator. The GDP share of the **net international investment position** increased in this quarter as well, maintaining its level above the threshold of -35 percent (Figure 1, Table 1).²

¹ For a detailed study, see: Cangöz, C., Şahinbeyoğlu, G., Kurt, T. and E. Yılmaz (2021). "European Union Macroeconomic Imbalance Procedure (MDP) and Turkey Assessment," TEPAV Evaluation Note, No. 202105 (https://www.tepav.org.tr/upload/files/1621681636-4.European_Union_Macroeconomic_Imbalance_Procedure_MIP_and_Turkey_Assessment_1.pdf)

² The International Investment Position (IIP) Statistics published by the CBRT were revised with the publication dated August 19, 2021, and the data were updated until 1998, resulting in an improvement in the net IIP open position. For revision study, please see: https://www.tcmb.gov.tr/wps/wcm/connect/ad9a207b-0c13-41ae-b010-c0a83134d531/ticari_krediler_UYP_ENG.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-ad9a207b-0c13-41ae-b010-c0a83134d531-nJtdrBM

Figure 1. External Imbalances and Competitiveness Indicators (2019-2022-Q2)

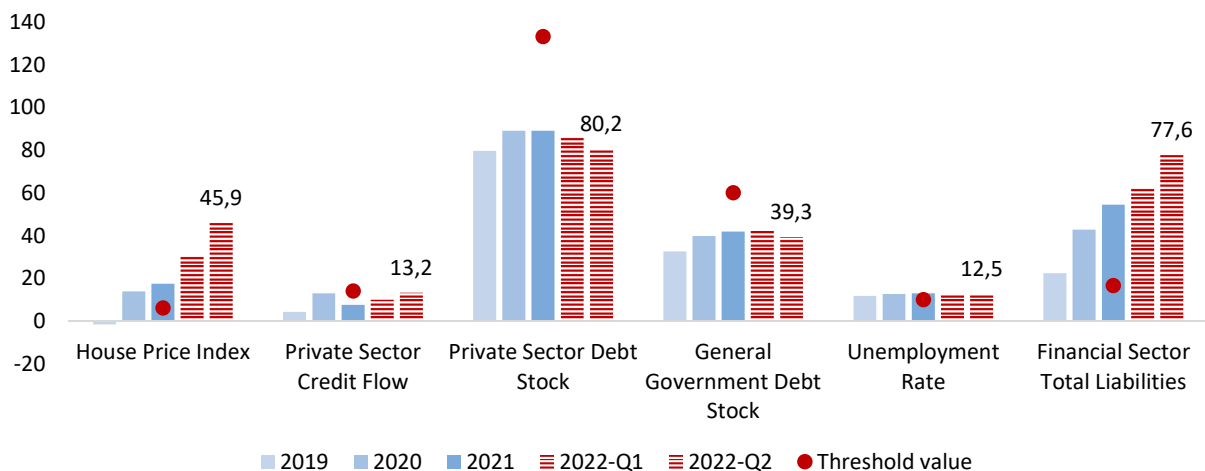


Source: TURKSTAT, CBRT, Ministry of Treasury and Finance, WTO and TEPAV calculations

II. Internal Imbalance Indicators

As of the second quarter, indicators regarding financial liabilities and asset prices were well above the thresholds, indicating significant vulnerabilities towards financial stability. In the second quarter of 2022, the credit use of the private sector, including non-financial institutions and households, accelerated and the ratio of **private sector credit flow** to GDP approached the threshold value of 14 percent. On the other hand, the **total liabilities of the financial sector** which is measured by the annual percentage change and which has increased rapidly since 2020, reached approximately 5 times the threshold value as of the second quarter of 2022. In addition to high inflation, the increase in Turkish lira savings due to foreign currency-protected deposits was effective in the acceleration observed in 2022. Similarly, the **house price index** which measures the real price change in the house market, was well above the 6 percent threshold. This indicates that house prices have an increasing effect on internal imbalances. Although the ratios of both the **general government debt stock** and the **private sector debt stock** to GDP decreased in the second quarter, this development emerged as a result of the GDP growth and rapidly increasing inflation in the relevant period. Although there has been a limited improvement in the last three-year average of the **unemployment rate** for the last three quarters, the threshold of 10 percent has not been reached yet (Figure 2, Table 1).

Figure 2. Internal Imbalance Indicators (2019-2022-Q2)

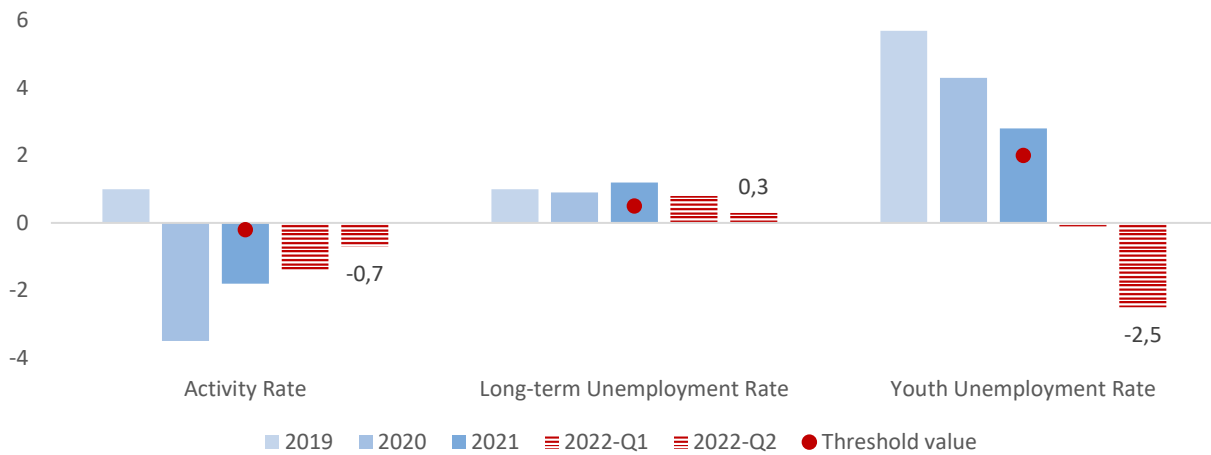


Source: TURKSTAT, CBRT, Ministry of Treasury and Finance and TEPAV calculations

III. Labor Market Indicators

In the second quarter of 2022, although employment indicators show improvement in general, the contraction trend in the activity rate continues. The activity rate indicator which is defined as the labor force participation of the economically active population aged 15 and over and followed as a 3-year change, had an increasing trend before 2020, but reversed with the COVID-19 epidemic and declined by more than 3 points. The said downward trend continues, albeit at a slower pace after the epidemic and in the second quarter of 2022, it was below the -0.2 point threshold. On the other hand, the long-term unemployment rate indicator which expresses the ratio of people who have been unemployed for 1 year or more to the labor force, fell below the threshold value for the first time in the last 4 years and declined to 0.3 points. Another positive development in this quarter is observed in the youth unemployment rate which is calculated over the three-year change in unemployment rates for the 15-24 age group. The increase in the said indicator which started in 2019, was reversed for the first time in the first quarter of 2022 and there was a further decrease of 2.5 points in the second quarter. However, despite the relative improvement in labor market indicators, the contraction in the labor force participation rate and persistent high unemployment rates continue to be considered as factors of macroeconomic imbalances (Figure 3, Table 1).

Figure 3. Labor Market Indicators (2019-2022-Q2)



Source: TURKSTAT and TEPAV calculations

Table 1. Macroeconomic Imbalance Indicators - Turkey (2011 – 2022-Q2)

	External Imbalances and Competitiveness					Internal Imbalances					Labor Market Indicators			
	Current Account Balance	Net International Investment Position	Real Effective Exchange Rate	Export Share	Nominal Unit Labor Cost Index	House Price Index	Private Sector Credit Flow	Private sector Debt Stock	General Government Debt Stock	Unemployment Rate	Financial Sector Total Liabilities	Activity Rate	Long-term Unemployment Rate	Youth Unemployment Rate
	Ratio to GDP 3-year average	Ratio to GDP	CPI-based 3-year change	Ratio to world exports 5-year change	3-year change	Real annual change	Ratio to GDP	Ratio to GDP	Ratio to GDP	3-year change	Annual change	Ratio of population aged 15+ 3-year change	Ratio of 15+ to active population 3-year change	Ratio to active population aged 15-24 years 3-year change
2011	-5.5	-37.6	-7.0	4.3	3.1	-3.6	10.4	60.7	36.1	11.9	14.0	3.0	-0.3	-1.6
2012	-6.7	-48.3	-2.3	7.7	3.8	3.8	9.1	62.2	32.4	10.3	15.6	2.1	-1.3	-7.4
2013	-6.7	-40.8	-16.0	4.3	3.2	5.0	12.7	71.2	31.1	9.6	22.4	2.0	-1.0	-3.3
2014	-5.1	-46.5	2.3	7.7	8.7	6.3	9.6	74.2	28.4	9.6	17.2	0.6	-0.5	1.2
2015	-4.4	-42.8	-10.8	22.6	4.9	6.2	10.9	79.0	27.3	10.0	14.5	1.3	-0.1	2.9
2016	-3.5	-39.7	-7.3	26.5	15.2	3.4	7.1	84.2	27.9	10.4	19.4	1.2	-0.1	2.8
2017	-3.7	-51.5	-18.4	12.6	5.2	-2.5	15.0	83.7	27.8	10.7	22.5	2.3	0.3	2.8
2018	-3.6	-43.1	-22.9	6.5	3.3	-13.2	-2.9	82.4	30.1	10.9	17.9	1.9	0.3	1.6
2019	-2.3	-40.8	-18.6	8.6	-2.1	-1.6	4.2	79.6	32.6	11.8	22.4	1.0	1.0	5.7
2020	-2.3	-53.6	-28.2	5.4	-3.1	13.8	13.0	89.0	39.7	12.6	42.8	-3.5	0.9	4.3
2021	-2.0	-31.4	-37.4	8.4	-10.5	17.4	7.6	89.0	41.8	12.9	54.4	-1.8	1.2	2.8
2022-Q1	-2.8	-30.5	-28.4	9.3*	-13.1	30.4	10.0	86.5	42.3	12.7	62.2	-1.4	0.8	-0.1
2022-Q2	-3.2	-27.0	-26.4	10.1*	-19.8	45.9	13.2	80.2	39.3	12.5	77.6	-0.7	0.3	-2.5
Threshold values for EU countries	%-4/6	%-35	%+/-5 (Eurozone) %+/-11 (Non-Eurozone)	%-6	%9 (Eurozone) %12 (Non-Eurozone)	%6	%14	%133	%60	%10	%16.5	-0.2 points	0.5 points	2 points

Source: TURKSTAT, CBRT, Ministry of Treasury and Finance, WTO and TEPAV calculations

* The World Trade Organization (WTO) annual data covers 281, the quarterly data covers 103 countries.