

## Macroeconomic Imbalance Indicators: 2023 - II

The Macroeconomic Imbalance Procedures (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.<sup>1</sup>

Following the publication of the source's official statistics for the second quarter of 2023, the MIP Scoreboard was revised. Updated indicators show that the decline in the real effective exchange rate has accelerated and the contraction in unit labor costs has continued. The weak Turkish lira and low unit labor costs supported the ongoing increase in Turkey's world export share, and the increase in this indicator became evident in this quarter. Despite this, due to the fact that import expenditures increased higher than export revenues, the indicator regarding the current account deficit exceeded the threshold value in the first two quarters of 2023 for the first time after 2015. Similarly, private sector credit utilization accelerated and the related indicator was above the threshold value for the first time after 2017. On the other hand, the ratios of general government and private sector debt stock to GDP also started to increase in the second quarter of 2023. Financial sector liabilities and house price index indicators have risen well above threshold values and pose significant vulnerabilities to financial stability. The improvement in employment indicators became evident in this quarter and as a result, all indicators were within the threshold values. However, despite the positive trend in employment indicators, the fact that the general unemployment rate remains at a double-digit level and the youth unemployment rate remains at a level close to 1.5 times this level, necessitates the continuation of the improvement in the employment field in order to establish strong macroeconomic balances.

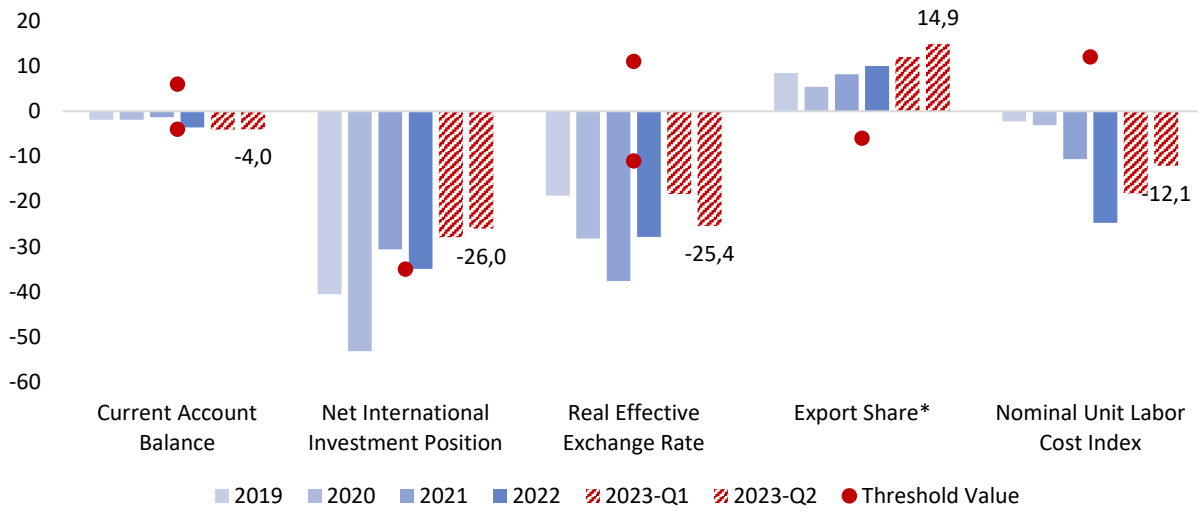
### I. External Imbalances and Competitiveness Indicators

**In the second quarter of 2023, the weak Turkish lira and low unit labor costs were positively reflected in Turkey's world export share, but this was not reflected in the current account deficit.** The decline in the competitiveness indicator, which is measured by the three-year change in the **real effective exchange rate** and remained at a highly negative level accelerated in this quarter. In the **unit labor cost**, which is another indicator of competitiveness, there is a double-digit contraction, although the decreases have slowed down compared to the end of 2022. This trend also indicates that the losses in purchasing power of employees cannot be compensated in the face of high inflation. The rapid depreciation of the Turkish lira and the ongoing low levels of unit labor costs allowed the upward trend in Turkey's **share in world exports**, observed after the pandemic, to continue at an accelerated pace in this quarter. However, the increase in import expenditures far beyond export revenues in this period deepened the deterioration in the **current account balance** that started as of 2022, while the related indicator remained outside the threshold value. The **net international investment position** gap indicator, which is the share of the GDP of the difference between domestic residents and non-residents' financial receivables and liabilities, narrowed moderately in this quarter and maintained its position within the threshold value (Figure 1, Table 1).<sup>2</sup>

<sup>1</sup> For a detailed study, see: Cangöz, C., Şahinbeyoğlu, G., Kurt, T. and E. Yılmaz (2021). "European Union Macroeconomic Imbalance Procedure (MIP) 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](https://www.tepav.org.tr/upload/files/1621681636-4.European%20Union%20Macroeconomic%20Imbalance%20Procedure%20MIP%20and%20Turkey%20Assessment%201.pdf))

<sup>2</sup> 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-](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-)

Figure 1. External Imbalances and Competitiveness Indicators (2019-2023 Q2)



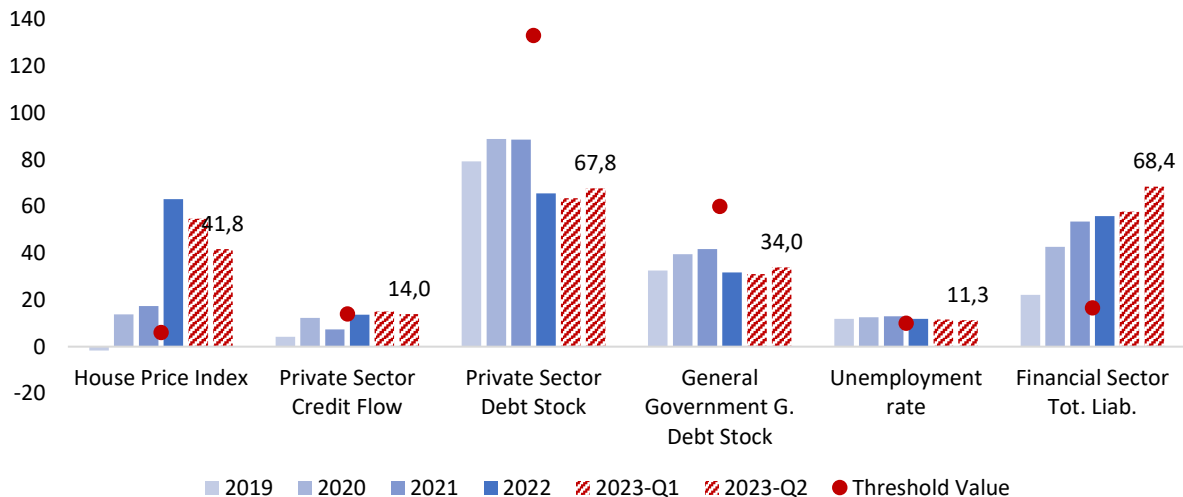
Source: TURKSTAT, CBRT, Ministry of Treasury and Finance, WTO and TEPAV calculations

\* World Trade Organization (WTO) annual data cover 106366 observations from 282 countries, and quarterly data cover 7918 observations from 105 countries.

## II. Internal Imbalance Indicators

In the second quarter of 2023, debt indicators increased and other internal imbalance indicators remained outside the threshold values. The ratios of **general government and private sector debt stock** to GDP, which declined rapidly in 2022 due to the fact that growth and high inflation increased the GDP value, started to trend upward in the second quarter of 2023. Credits to the private sector which includes non-financial institutions and households, increased further in the first two quarters of 2023 and the ratio of **private sector loans** to GDP exceeded the threshold value of 14 percent for the first time after 2017. The increase in **financial sector total liabilities** accelerated and exceeded the threshold value by 4 times, reaching the highest value of the analysis period. Similarly, the **house price index** indicator, which measures the real price change in the housing market, is 7 times the value of the threshold value set as 6 percent. On the other hand, the last three-year average of the **unemployment rate** is above the 10 percent threshold (Figure 2, Table 1).

Figure 2. Internal Imbalance Indicators (2019-2023 Q2)

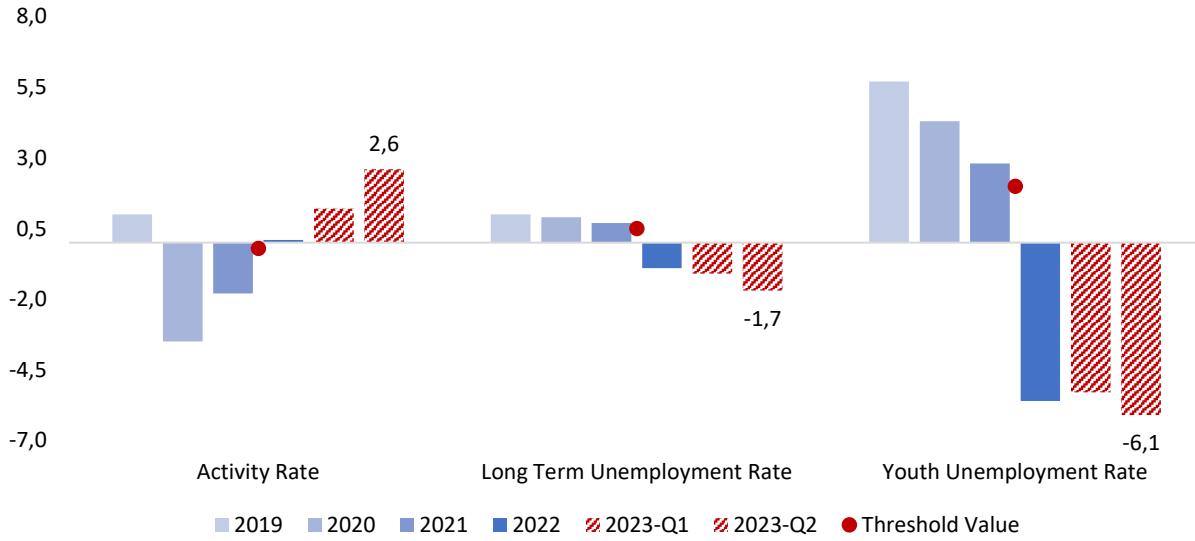


Source: TURKSTAT, CBRT, Ministry of Treasury and Finance and TEPAV calculations

### III. Labor Market Indicators

**The improvement in employment indicators continues.** The **activity rate**, which indicates the last 3-year change in the labor force participation of the economically active population aged 15 and over, started to increase by the last quarter of 2022. This trend became evident in the first two quarters of 2023. On the other hand, the **long-term unemployment rate** indicator, which expresses the ratio of people unemployed for a year or more to the labor force, fell below the threshold value in the second quarter of 2022 for the first time after 2018, and this improvement continued in the subsequent quarters. The most positive development observed in employment indicators is related to the **youth unemployment rate**, which is calculated based on the three-year change in unemployment rates in the 15-24 age group. The surge in the youth unemployment rate which started in 2019, was reversed for the first time in the first quarter of 2022, and the improvement accelerated in the following quarters. The indicator is calculated as -5.6 points at the end of 2022, and -5.3 points and -6.1 points in the first two quarters of 2023. Despite the positive developments observed in employment indicators, the fact that the general unemployment rate remains at a double-digit level and the youth unemployment rate remains at a level close to 1.5 times this, requires the continuation of the improvement trend in terms of establishing strong macroeconomic balances (Figure 3, Table 1).

Figure 3. Labor Market Indicators (2019-2023 Q2)



Source: TURKSTAT and TEPAV calculations

Table 1. Macroeconomic Imbalance Indicators - Turkey (2011 – 2023 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 Govern. Debt Stock	Unemploy. Rate	Financial Sector Total Liabilities	Activity Rate	Long-term Unemploy. Rate	Youth Unemploy. 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	-37.7	-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	-2.4	7.7	3.8	3.8	9.1	62.2	32.4	10.3	15.6	2.1	-1.3	-7.3
2013	-6.7	-40.9	-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	7.8	8.7	6.3	9.6	74.2	28.4	9.6	17.2	0.6	-0.5	1.2
2015	-4.3	-42.8	-10.8	22.5	4.9	6.2	10.9	79.0	27.3	10.0	14.5	1.3	-0.1	2.9
2016	-3.4	-39.7	-7.4	26.5	15.2	3.4	7.1	84.2	27.9	10.4	19.4	1.2	-0.1	2.8
2017	-3.6	-51.5	-18.4	12.6	5.2	-2.5	15.0	83.7	27.9	10.7	22.5	2.3	0.3	2.8
2018	-3.4	-43.0	-22.9	6.4	3.2	-13.2	-4.8	82.3	30.0	10.9	18.1	1.9	0.3	1.6
2019	-1.9	-40.5	-18.7	8.5	-2.2	-1.6	4.2	79.3	32.6	11.9	22.2	1.0	1.0	5.7
2020	-1.9	-53.1	-28.2	5.4	-3.1	13.8	12.3	88.8	39.6	12.6	42.7	-3.5	0.9	4.3
2021	-1.3	-30.6	-37.6	8.2	-10.6	17.4	7.4	88.6	41.7	13.0	53.5	-1.8	0.7	2.8
2022	-3.6	-34.9	-27.8	10.0	-24.7	63.1	13.7	65.6	31.7	11.9	55.9	0.1	-0.9	-5.6
2023-Q1	-4.1	-27.9	-18.3	12.0*	-18.2	54.7	15.1	63.5	31.1	11.6	57.8	1.2	-1.1	-5.3
2023-Q2	-4.0	-26.0	-25.4	14.9*	-12.1	41.8	14.0	67.8	34.0	11.3	68.4	2.6	-1.7	-6.1
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.

\* World Trade Organization (WTO) annual data cover 106366 observations from 282 countries, and quarterly data cover 7918 observations from 105 countries.