

## Macroeconomic Imbalance Indicators: 2022 - III

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.<sup>1</sup>

Following the publication of the official statistics for the third quarter of 2022, the MIP Scoreboard has been revised. The updated indicators show that the decreases in unit labor costs accelerated in this quarter and the real effective exchange rate maintained its high negative values despite the rapidly rising inflation. In spite of the strong competitive position implied by the historically low levels, the leading data on Turkey's share in world exports point to a loss of momentum in the export rate, and the deterioration in the current account balance, which started as of 2022, is accelerating. Hence, the indicator of the current account deficit reached the highest level of the last 4 years as of the third quarter of 2022. On the other hand, 4 out of 6 internal imbalance indicators took values outside the threshold value in this quarter; private sector credits accelerated, financial liabilities and house price index indicators rose well above the threshold values, while the unemployment rate indicator maintained its high levels. With the contribution of GDP growth and rapidly rising inflation, the indicators regarding the private sector and the General Government debt stock decreased slightly in this quarter. However, remaining internal imbalance indicators are on the rise and are at high levels, and therefore, indicate significant vulnerabilities threatening financial stability. Despite the partial improvement observed in labor market indicators, the contraction in the labor force participation rate and persistent high unemployment rates continue to be the main factors of macroeconomic imbalances.

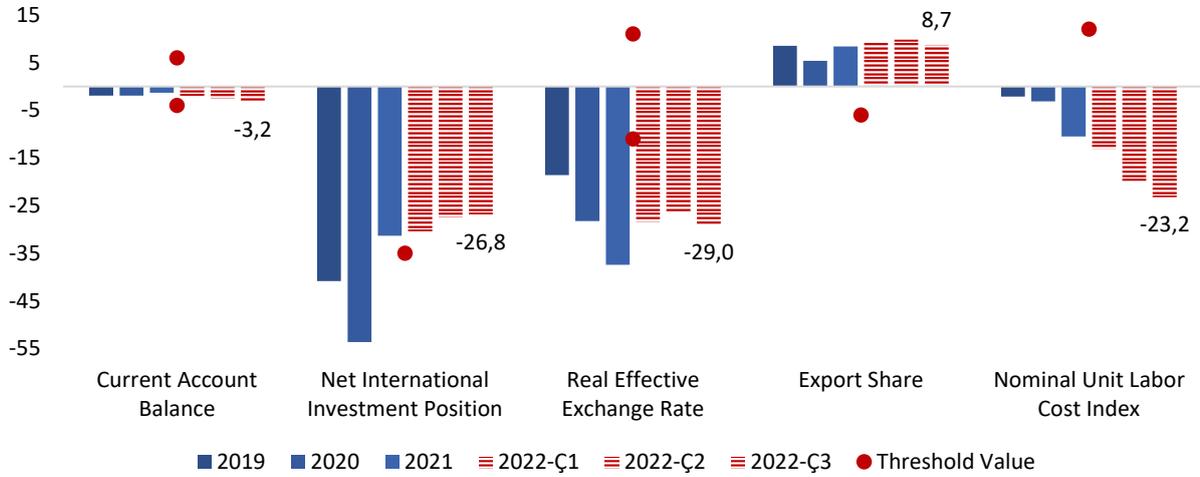
### I. External Imbalances and Competitiveness Indicators

**In the third quarter of 2022, while the unit labor cost and real effective exchange rate indicators continued to decline rapidly, the current account deficit reached the highest level of the last 4 years.** The downward trend that started in 2019 in the three-year rate of change in the **unit labor cost**, which is one of the external competitiveness indicators, accelerated gradually in 2022. As of the third quarter, unit labor cost decreased to -23.2 percent which is the lowest of the last 12 years. The sharp decline in this 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. On the other hand, in parallel with the rapid decline in the value of the Turkish lira, the three-year change in the **real effective exchange rate** remained negative despite the high inflation rate in 2022. Despite the strong competitive position implied by these indicators, the deterioration in the **current account balance**, which started as of 2022, accelerated and the highest deficit value of the last 4 years was observed as of the third quarter. Meanwhile, the upward trend in Turkey's **share in world exports**, which started in 2021, decelerated in the third quarter. The GDP share of the **net international investment position**, on the other hand, increased in 2021 due to the strong growth of 11.4 percent and scored within the threshold of -35 percent for the first time. This trend continued in the first three quarters of 2022 (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 (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](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-NJtdrBM](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-Ç3)

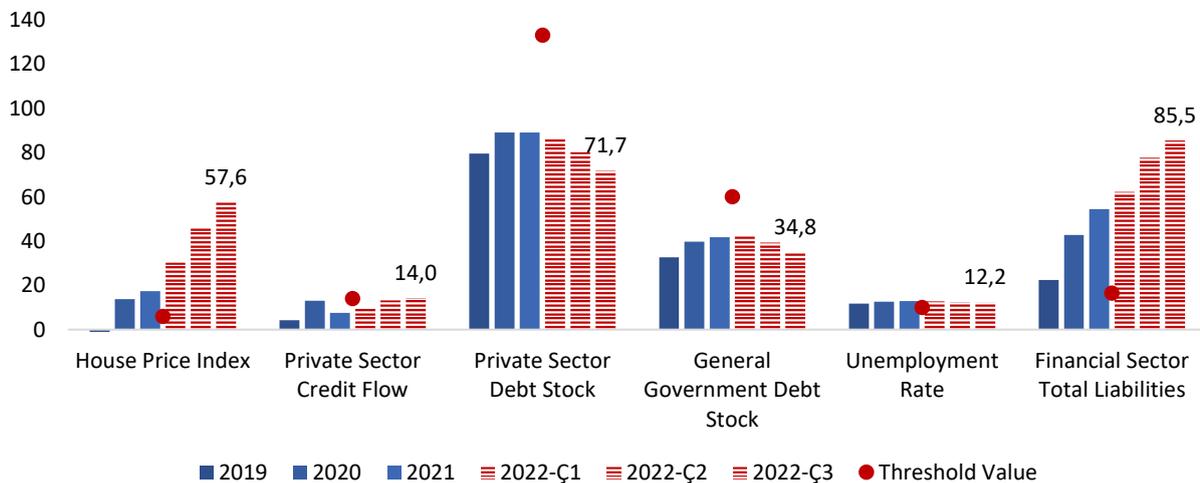


Source: TURKSTAT, CBRT, Ministry of Treasury and Finance, WTO and TEPAV calculations

## II. Internal Imbalance Indicators

As of the third quarter of 2022, 4 of the 6 internal imbalance indicators are outside the threshold values, indicating significant vulnerabilities towards financial stability. The ratios of **private sector debt stock** and **general government debt stock** to GDP, which were both below the threshold values, further declined in 2022. Conversely, the credit utilization of non-financial institutions and the private sector including households accelerated in the third quarter of 2022, and the ratio of **private sector credit flow** to GDP measured by flow data reached the threshold value of 14 percent for the first time after 2017. In addition, the annual percentage change in the **total liabilities of the financial sector**, which has been rising rapidly since 2020, exceeded the threshold value by 5 times as of the third quarter of 2022. Similarly, the **house price index**, which measures the real price change in the housing market, is approximately 10 times the threshold value of 6 percent. The indicators regarding financial liabilities and asset prices being well above the threshold values indicate accumulated exposures threatening financial stability considerably. Besides, the last three-year average of the **unemployment rate** is above the threshold of 10 percent and further pressuring economic and financial stability (Figure 2, Table 1).

Figure 2. Internal Imbalance Indicators (2019-2022-Ç3)

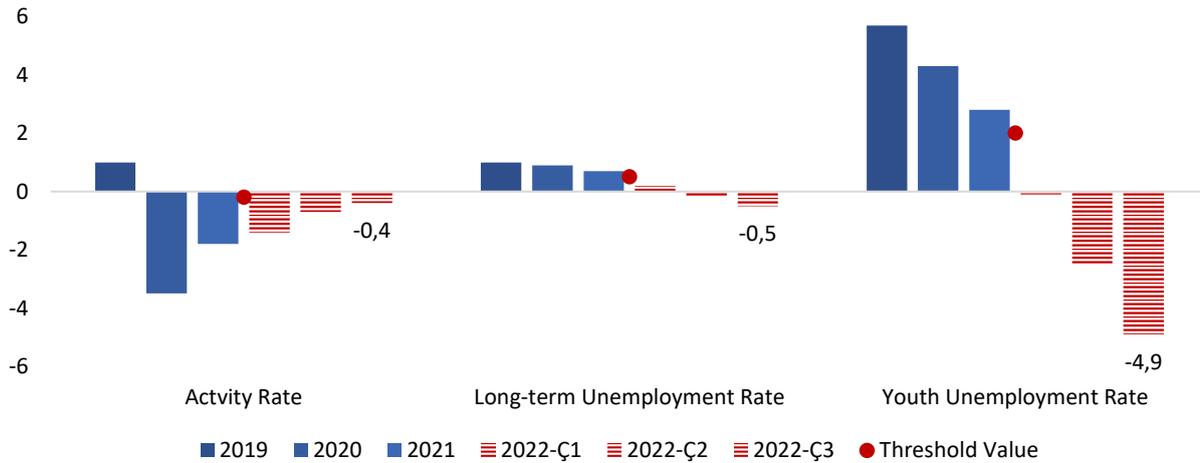


Source: TURKSTAT, CBRT, Ministry of Treasury and Finance and TEPAV calculations

### III. Labor Market Indicators

As of the third quarter of 2022, although the improvement in labor market indicators continues, labor force participation decreases and unemployment rates remain at high levels. The activity rate indicator, which is defined as the labor force participation of the economically active population aged 15 and over and calculated 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. Although it slowed down after the epidemic, the downward trend in this indicator continued and remained below the -0.2 point threshold in the third quarter of 2022. Conversely, the long-term unemployment rate indicator, which expresses the ratio of people who have been unemployed for a year or more to the labor force, fell below the threshold value in 2022 for the first time in the last 4 years, and these levels were maintained in all quarters of the year. Another positive development of the third quarter is 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 the decreases accelerated in the second and third quarters. Despite the pursued progress in labor market indicators throughout 2022, the contraction in the labor force participation rate and continued high unemployment rates indicate that these improvements are not yet at a sufficient level in terms of eliminating macroeconomic imbalances (Figure 3, Table 1).

Figure 3. Labor Market Indicators (2019-2022-Ç3)



Source: TURKSTAT and TEPAV calculations

Table 1. Macroeconomic Imbalance Indicators - Turkey (2011 – 2022-Ç3)

	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	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	-2.3	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	-7.3	26.5	15.2	3.4	7.1	84.2	27.9	10.4	19.4	1.2	-0.1	2.8
2017	-3.6	-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	-43.1	-22.9	6.4	3.3	-13.2	-2.9	82.4	30.1	10.9	17.9	1.9	0.3	1.6
2019	-1.9	-40.8	-18.6	8.5	-2.1	-1.6	4.2	79.6	32.6	11.8	22.4	1.0	1.0	5.7
2020	-1.9	-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	-1.3	-31.3	-37.4	8.4	-10.5	17.4	7.6	89.0	41.8	12.9	54.4	-1.8	0.7	2.8
2022-Ç1	-2.0	-30.4	-28.4	9.1*	-13.1	30.4	10.0	86.4	42.3	12.7	62.2	-1.4	0.2	-0.1
2022-Ç2	-2.5	-27.4	-26.4	9.9*	-19.9	45.9	13.2	80.1	39.3	12.5	77.6	-0.7	-0.2	-2.5
2022-Ç3	-3.2	-26.8	-29.0	8.7*	-23.2	57.6	14.0	71.7	34.8	12.2	85.5	-0.4	-0.5	-4.9
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.