

Macroeconomic Imbalance Indicators: 2022 - IV

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.¹

Following the publication of official statistics for the fourth quarter of 2022, the MDG Scoreboard has been updated. The updated indicators show that the decreases in unit labor costs accelerated in this quarter, the real effective exchange rate maintained its high negative values, and despite the partial increase in Turkey's share in world exports, the current account deficit reached its highest level in the last 5 years due to the increase in import expenditures far above export revenues. In addition, the increasing financing need had a negative impact on net international investment position. On the other hand, private sector loan utilization has accelerated, financial liabilities and housing price index indicators have risen well above the threshold values, creating significant vulnerabilities toward financial stability. In employment indicators, an improvement was observed in this quarter, and for the first time after the pandemic, all indicators were within the threshold values. Despite the positive trend, general unemployment rate remains in double digits and the youth unemployment rate remains at a level close to twice. This necessitates the continuation of the recovery trend in order to establish strong macroeconomic balances.

I. External Imbalances and Competitiveness Indicators

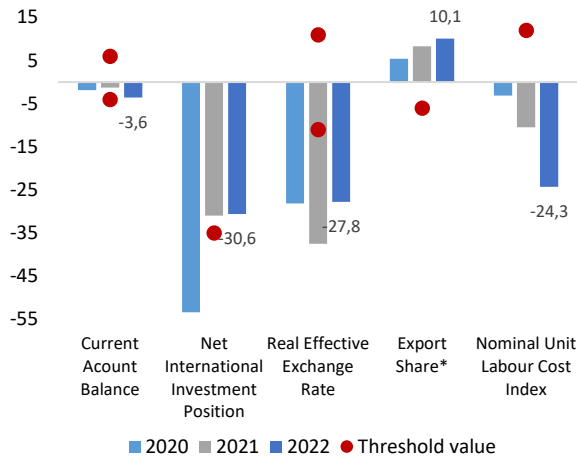
In the fourth quarter of 2022, the current account deficit reached its highest level in the last 5 years, and foreign financing liabilities increased. The three-year change in the **real effective exchange rate**, which is an external competitiveness indicator, remained highly negative in all quarters of 2022. Since 2018 a downward trend was observed in the three-year rate of change in the **unit labor cost**, another competitiveness indicator, which was accelerated in 2022 with the effect of rapidly increasing inflation. By the end of 2022, it declined to -24.3 points, the lowest level of the analysis period, and pointed to a deep erosion in the purchasing power of employees. The rapid depreciation of the Turkish lira and the historically low levels of unit labor costs enabled the post-pandemic upward trend in Turkey's **share of world exports** to continue in 2022. However, the increase in import expenditures in this period was far beyond export revenues and thus deepened the deterioration in the **current account balance** that started in 2022. In the fourth quarter, the deficit value of the last 5 years reached to its highest. The GDP share of the **net international investment position**, which is the difference between residents' and non-residents' financial receivables and liabilities, increased in the last quarter of 2022. This change was driven by the increasing FX liabilities in parallel with the financing need of the widening current account deficit (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](https://www.tepav.org.tr/upload/files/1621681636-4.European%20Union%20Macroeconomic%20Imbalance%20Procedure%20MIP%20and%20Turkey%20Assessment%201.pdf))

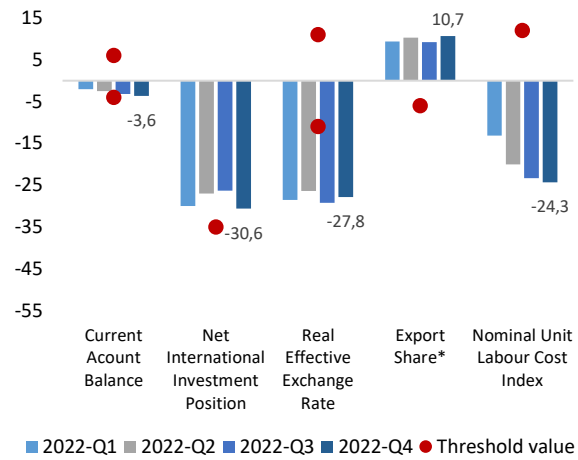
² The International Investment Position (IIP) Statistics published by the CBRT were revised with the publication dated August 19, 2021, and the data were updated until 1998, resulting in an improvement in the net IIP open position. For revision study, please see: https://www.tcmb.gov.tr/wps/wcm/connect/ad9a207b-0c13-41ae-b010-c0a83134d531/ticari_krediler_UYP_ENG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

Figure 1. External Imbalances and Competitiveness Indicators

1.a. 2020-2022



1.b. 2022 Q1-2022 Q4



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

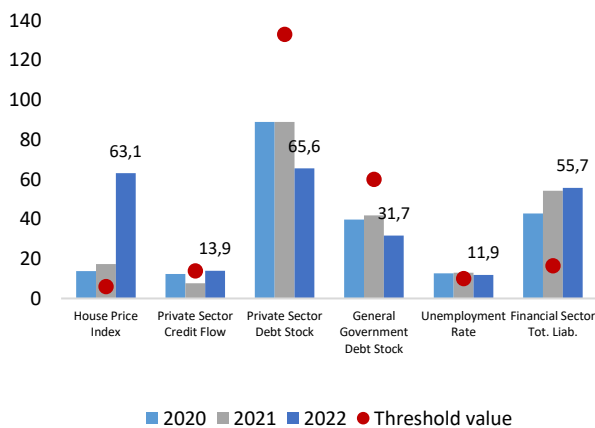
*World Trade Organization (WTO) annual data covers 282 countries and quarterly data covers 103 countries.

II. Internal Imbalance Indicators

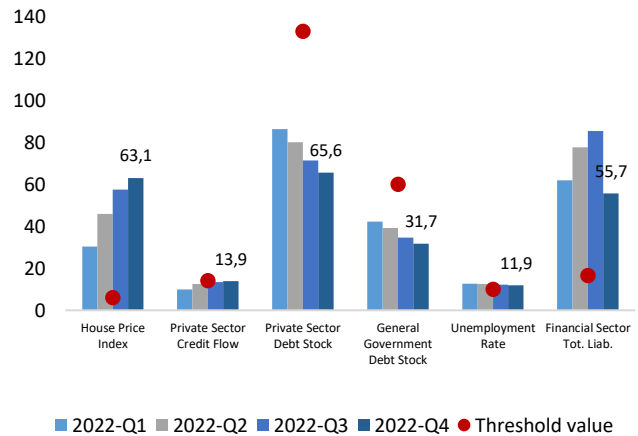
As of the fourth quarter of 2022, indicators regarding financial liabilities and asset prices were well above the threshold values indicating significant vulnerabilities toward financial stability. The ratios of **general government** and **private sector debt stock** to GDP decreased in all quarters of 2022. High nominal GDP levels due to the growth rate of 5.6 percent and annual inflation of 64.2 percent, increase in tax collections due to high inflation, and the postponement of payments to SEEs were effective. On the other hand, the credit flow of the private sector including non-financial institutions and households increased further in the fourth quarter of 2022 and the ratio of **private sector loans to GDP** reached the threshold value of 14 percent (13.9%) for the first time after 2017. Although the annual increase in the **financial sector's total liabilities** decelerated in the last quarter, its level was well above the threshold value. Similarly, the **housing price index**, which measures the real price change in the housing market, exceeded the threshold value of 6 percent by 10 times. On the other hand, the last three-year average of the unemployment rate was above the threshold of 10 percent (Figure 2, Table 1).

Figure 2. Internal Imbalance Indicators

2.a. 2020-2022



2.b. 2022 Q1-2022 Q4

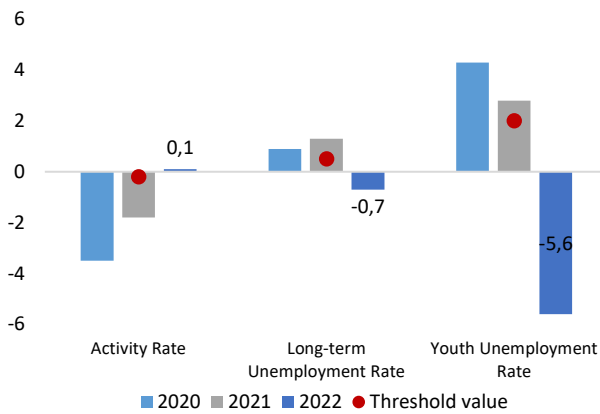


Source: TURKSTAT, CBRT, Ministry of Treasury and Finance and TEPAV calculations

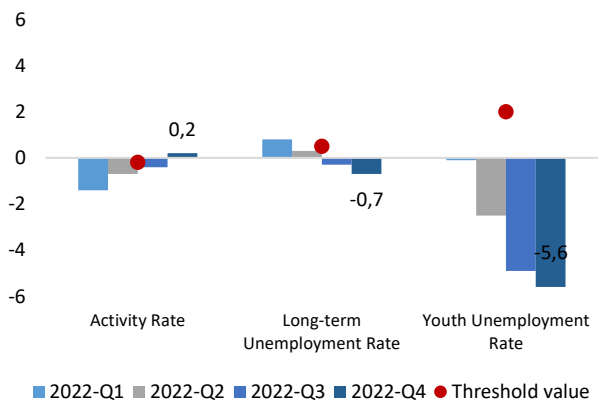
III. Labor Market Indicators

All employment indicators were within the threshold values in the last quarter of 2022 for the first time after the pandemic. The activity rate indicator, which is defined as 3-year change of the labor force participation of the economically active population aged 15 and over tended to decline after the pandemic and returned to an increase, albeit at a limited rate, for the first time in the last quarter of 2022. On the other hand, 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 the second quarter of 2022 for the first time after 2018, but an improvement observed in the subsequent quarters. The most notable development observed in the employment indicators is related to the youth unemployment rate, which is calculated over the three-year change in unemployment rates for the 15-24 age group. The increasing trend which started in 2019, was reversed for the first time in the analysis period in the first quarter of 2022, and the declines accelerated in the following quarters and reached 5.6 points at the end of the year. Despite the positive developments observed in employment indicators in 2022, the general unemployment rate remained in double digits and the youth unemployment rate was at a level close to twice the headline unemployment rate. Therefore it necessitates the continuation of the improvement in order to ensure the establishment of strong macroeconomic balances (Figure 3, Table 1).

Figure 3. Labor Market Indicators
3.a. 2020-2022



3.b. 2022 Q1-2022 Q4



Source: TURKSTAT and TEPAV calculations

Table 1. Macroeconomic Imbalance Indicators - Turkey (2011 – 2022-Q4)

	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	-37.6	-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	-7.3
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	7.8	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	-39.8	-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	-43.0	-22.9	6.4	3.3	-13.2	-2.9	82.4	30.1	10.9	18.1	1.9	0.3	1.6
2019	-1.9	-40.6	-18.6	8.5	-2.1	-1.6	4.2	79.5	32.6	11.8	22.1	1.0	1.0	5.7
2020	-1.9	-53.4	-28.2	5.4	-3.1	13.8	12.3	88.9	39.7	12.6	42.8	-3.5	0.9	4.3
2021	-1.3	-31.0	-37.5	8.3	-10.5	17.4	7.6	88.9	41.8	12.9	54.2	-1.8	1.3	2.8
2022	-3.6	-30.6	-27.8	10.1	-24.3	63.1	13.9	65.6	31.7	11.9	55.7	0.1	-0.7	-5.6
2022-Q1	-2.0	-30.0	-28.5	9.4*	-13.1	30.4	10.0	86.4	42.3	12.7	62.0	-1.4	0.8	-0.1
2022-Q2	-2.5	-27.0	-26.4	10.3*	-20.0	45.9	12.5	80.1	39.3	12.5	77.7	-0.7	0.3	-2.5
2022-Q3	-3.2	-26.3	-29.2	9.2*	-23.3	57.6	13.5	71.5	34.7	12.2	85.5	-0.4	-0.3	-4.9
2022-Q4	-3.6	-30.6	-27.8	10.7*	-24.3	63.1	13.9	65.6	31.7	11.9	55.7	0.2	-0.7	-5.6
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.