

## Macroeconomic Imbalance Indicators: 2023 - I

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 official statistics for the first quarter of 2023, the MIP Scoreboard was updated. Updated indicators reveal that the rapid declines in external competitiveness indicators consisting of unit labor costs and real effective exchange rate continued in this quarter. Despite the partial increase in Turkey's share in world exports, the indicator regarding the current account deficit went beyond the threshold value for the first time after 2015 due to the increase in import expenditures far above export revenues. 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, financial liabilities and house price index indicators have risen well above the threshold values, creating significant vulnerabilities for financial stability. The improvement in employment indicators continued in this quarter as all indicators were within the threshold values. Despite the positive trend in employment indicators, the general unemployment rate remains at a double-digit level and the youth unemployment rate remains at a level close to double of the headline rate. This makes it necessary to continue the improvement in the field of employment to establish strong macroeconomic balances.

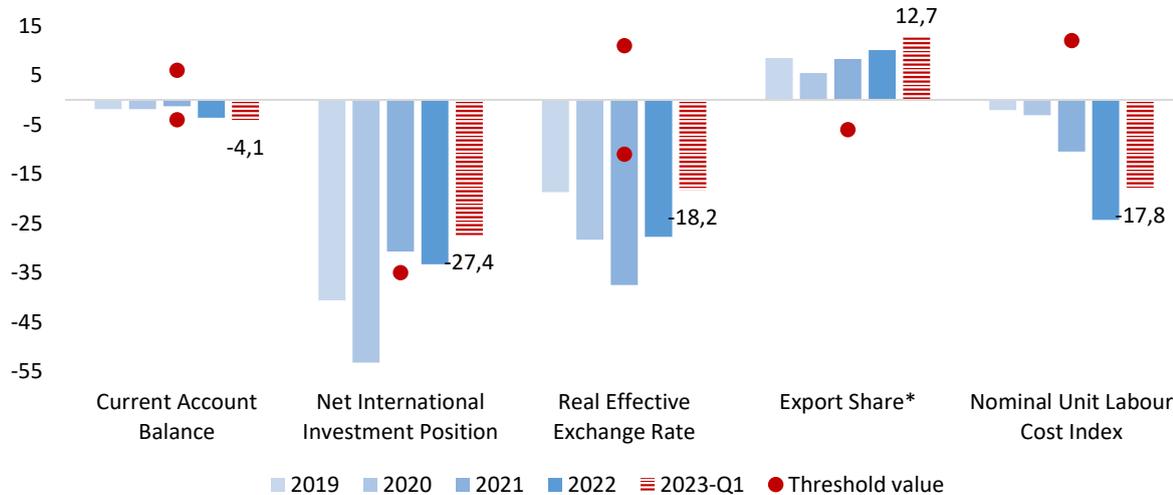
### I. External Imbalances and Competitiveness Indicators

**In the first quarter of 2023, while the rapid decline in competitiveness indicators continued, the current account deficit indicator was outside the threshold value.** While the three-year change in the **real effective exchange rate**, one of the external competitiveness indicators, maintained its high negative level, the three-year change in the **unit labor cost** decreased to the second lowest level of the analysis period (-17.8 percent). The rapid depreciation of the Turkish lira and historical low levels in unit labor costs allowed the upward trend in Turkey's **share in world exports**, observed after the pandemic, to continue in this quarter as well. 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. Accordingly, the highest deficit value of the last 5 years was reached in the fourth quarter, and as of the first quarter of 2023, the related indicator fell below the threshold value. The **net international investment position** gap, which is tracked as the GDP share of the difference between the positions of the domestic residents and non-residents in financial receivables and liabilities, increased in this quarter (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 (2019-2023 Q1)



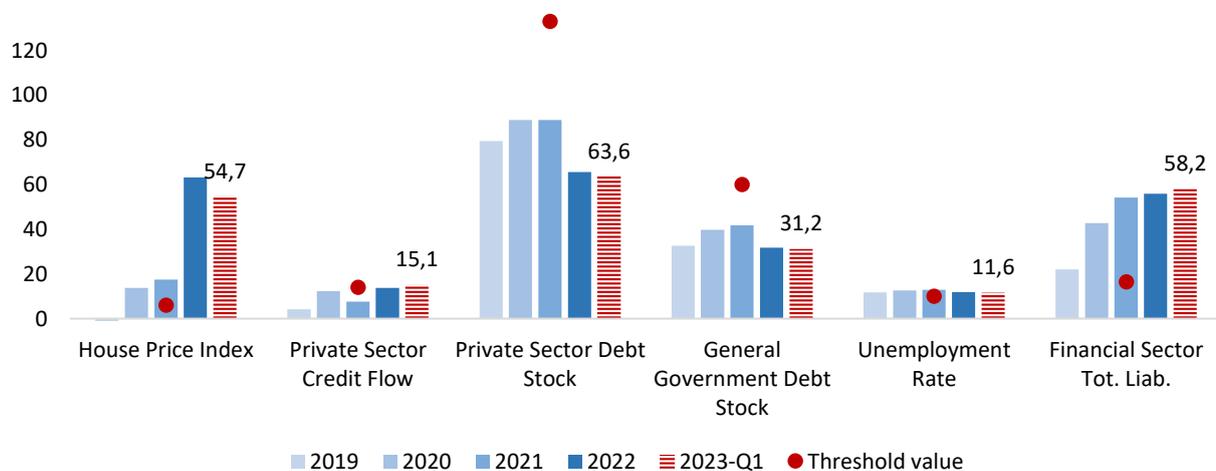
Source: TURKSTAT, CBRT, Ministry of Treasury and Finance, WTO and TEPAV calculations

\* World Trade Organization (WTO) annual data covers 106370 observations from 282 countries, and quarterly data covers 7665 observations from 103 countries.

## II. Internal Imbalance Indicators

As of the first quarter of 2023, 4 out of 6 internal imbalance indicators are outside the threshold values. The ratios of **general government** and **private sector debt stock** to GDP, which decreased in 2022, maintained the same trends in the first quarter of 2023. The important factor in this development is that growth and high inflation increase the GDP value. On the other hand, **credit utilization of the private sector**, including non-financial institutions and households, increased further in the first quarter 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 reached a value of 3.5 times the threshold value. Similarly, the **housing price index** indicator, which measures the real price change in the housing market, is close to 10 times the threshold value set at 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 Q1)

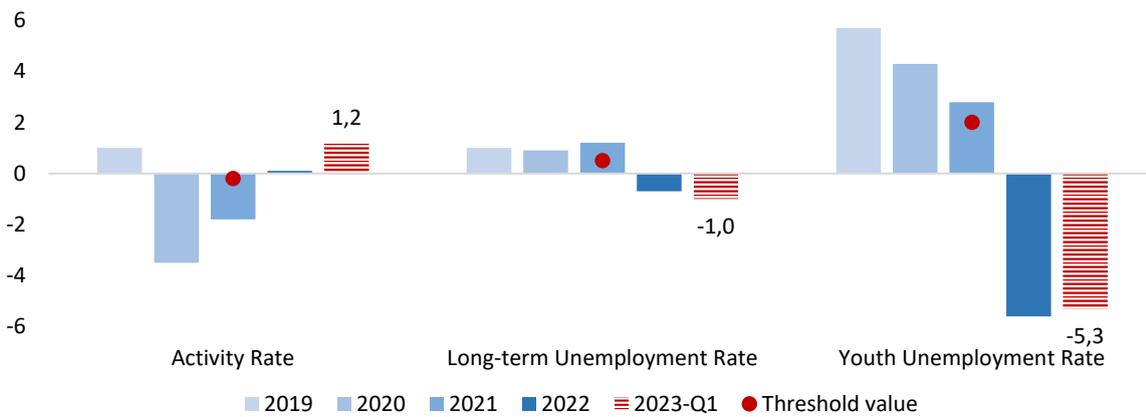


Source: TURKSTAT, CBRT, Ministry of Treasury and Finance and TEPAV calculations

### III. Labor Market Indicators

**The improvement in employment indicators continues.** Although the **activity rate**, which shows the last 3-year change in the labor force participation of the economically active population aged 15 and above, started to decline after the epidemic, it returned to an increase, albeit to a limited extent, starting from the last quarter of 2022. This trend became evident in the first quarter 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 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 increase in the said indicator, which started in 2019, was reversed for the first time in the first quarter of 2022, the decreases accelerated in the following quarters, reaching 5.6 points at the end of the year, and reached 5.3 points in the first quarter of 2023. Despite the positive developments observed in employment indicators in 2022, the fact that the general unemployment rate remains at a double-digit level and the youth unemployment rate remains at a level close to twice 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 Q1)



Source: TURKSTAT and TEPAV calculations

	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	-42.7	-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	-51.4	-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	-18.7	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	-53.2	-28.3	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	-30.7	-37.5	8.3	-10.5	17.4	7.6	88.9	41.8	12.9	54.2	-1.8	1.2	2.8
2022	-3.6	-33.3	-27.7	10.1	-24.3	63.1	13.7	65.6	31.7	11.9	55.8	0.1	-0.7	-5.6
2023-Q1	-4.1	-27.4	-18.2	12.7*	-17.8	54.7	15.1	63.6	31.2	11.6	58.2	1.2	-1.0	-5.3
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

**Table 1. Macroeconomic Imbalance Indicators - Turkey (2011 – 2023 Q1)**

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

\* World Trade Organization (WTO) annual data covers 106370 observations from 282 countries, and quarterly data covers 7665 observations from 103 countries.