

tepav

economic policy research foundation of turkey

An overview of the Turkish economy and its transformation

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Agenda

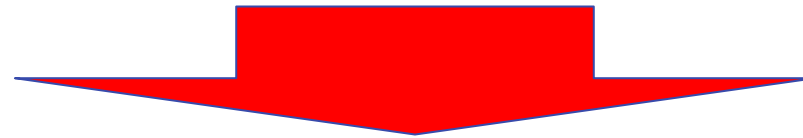
- The on-going structural changes in the Turkish economy
- Two of the emerging risks and their impacts on the sustainability of the growth process
 - ➔ current account deficit
 - ➔ unemployment
- Towards a new agenda and the role of the EU process
 - ➔ adjustment management
 - ➔ risk management
 - ➔ raising competitiveness

Where do we come from?

The Turkish economy in the 1990s

- Despite huge potential, Turkish economy underperformed in the 1990s:

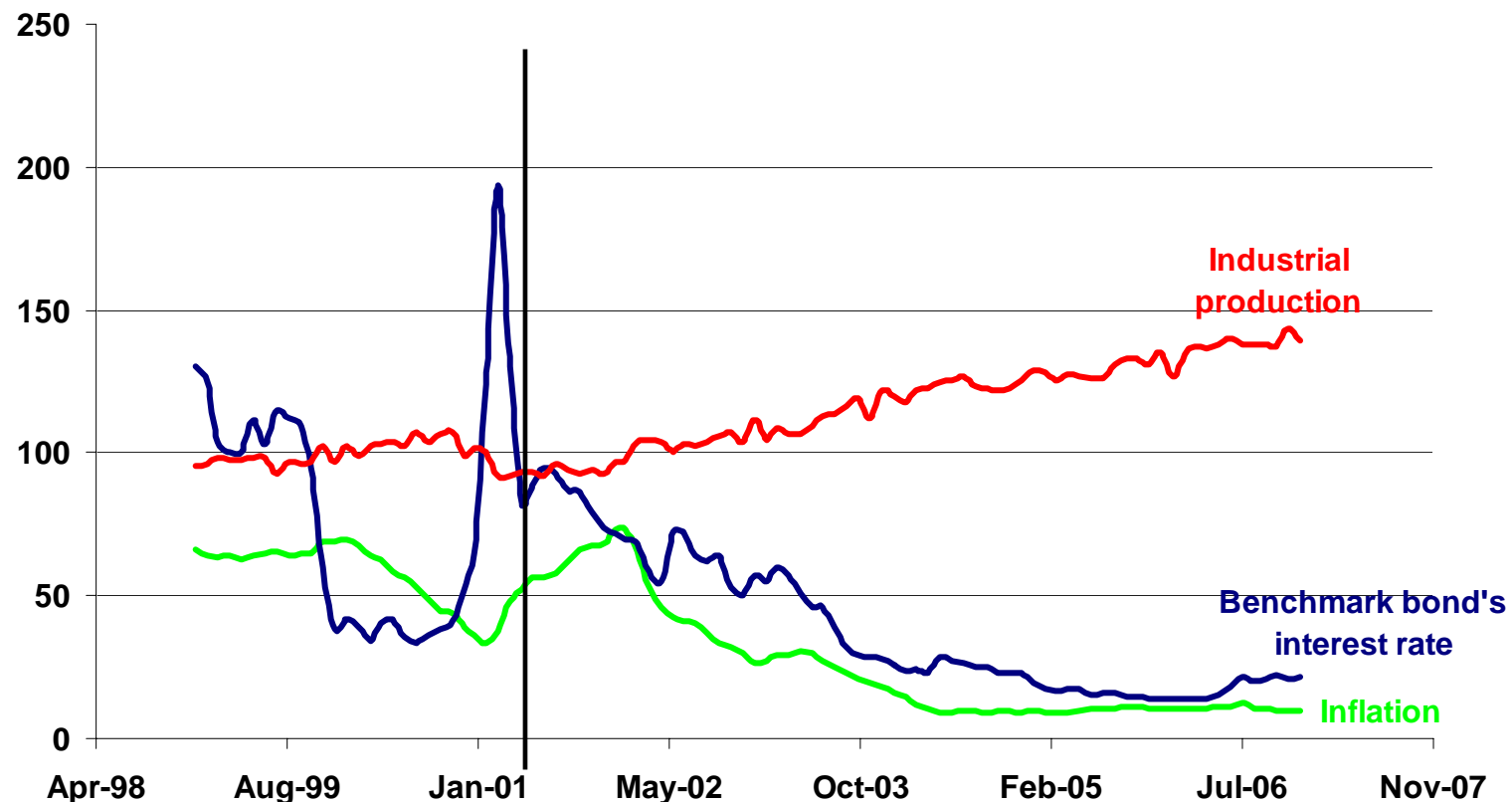
- boom and bust cycles in growth
- high and chronic inflation
- high public sector deficit
- fiscal indiscipline
- high levels of uncertainty (political and macroeconomic)
- very high interest rates



- three economic crises, 1999 earthquake...
- the 2001 economic crisis = GDP shrank by 10%

Drastic change in Turkey's economic environment since 2001

Industrial production, interest rates and inflation in Turkey, 1999-2006

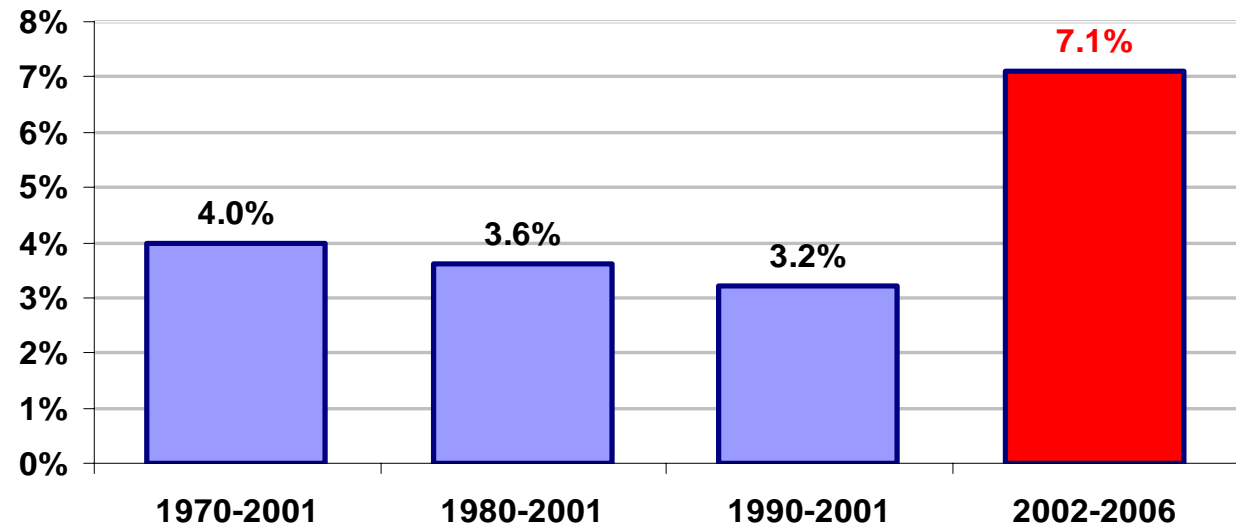


Source: Central Bank of Turkey

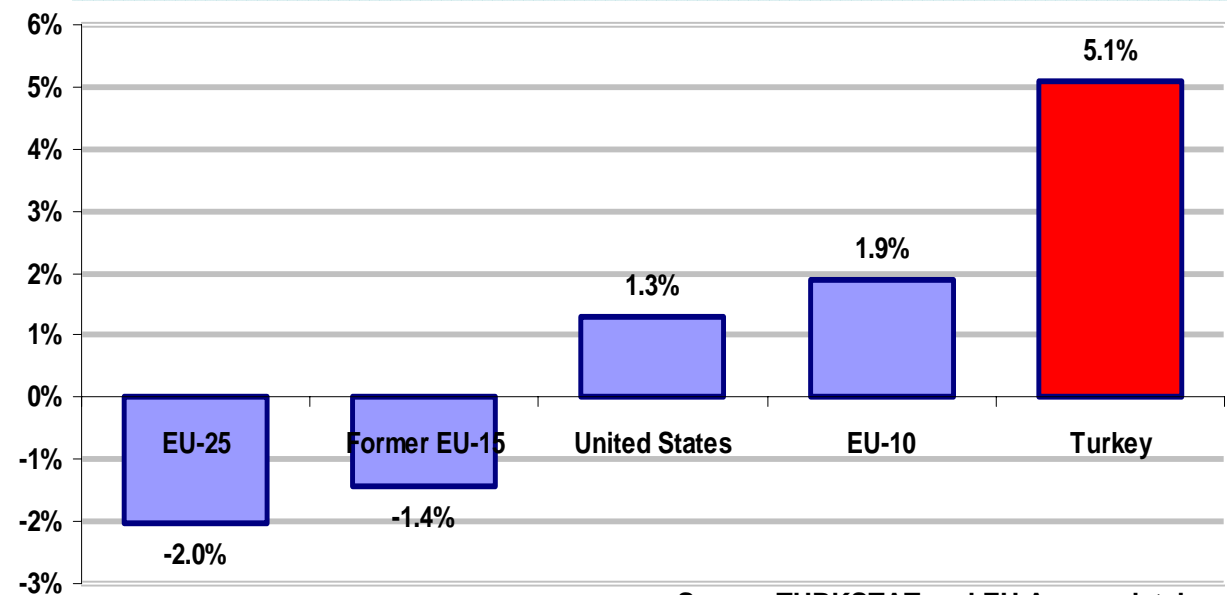
Growth for twenty consecutive quarters

Economic growth was mainly driven by increasing productivity

Average annual growth rate of GDP (2002-2006)



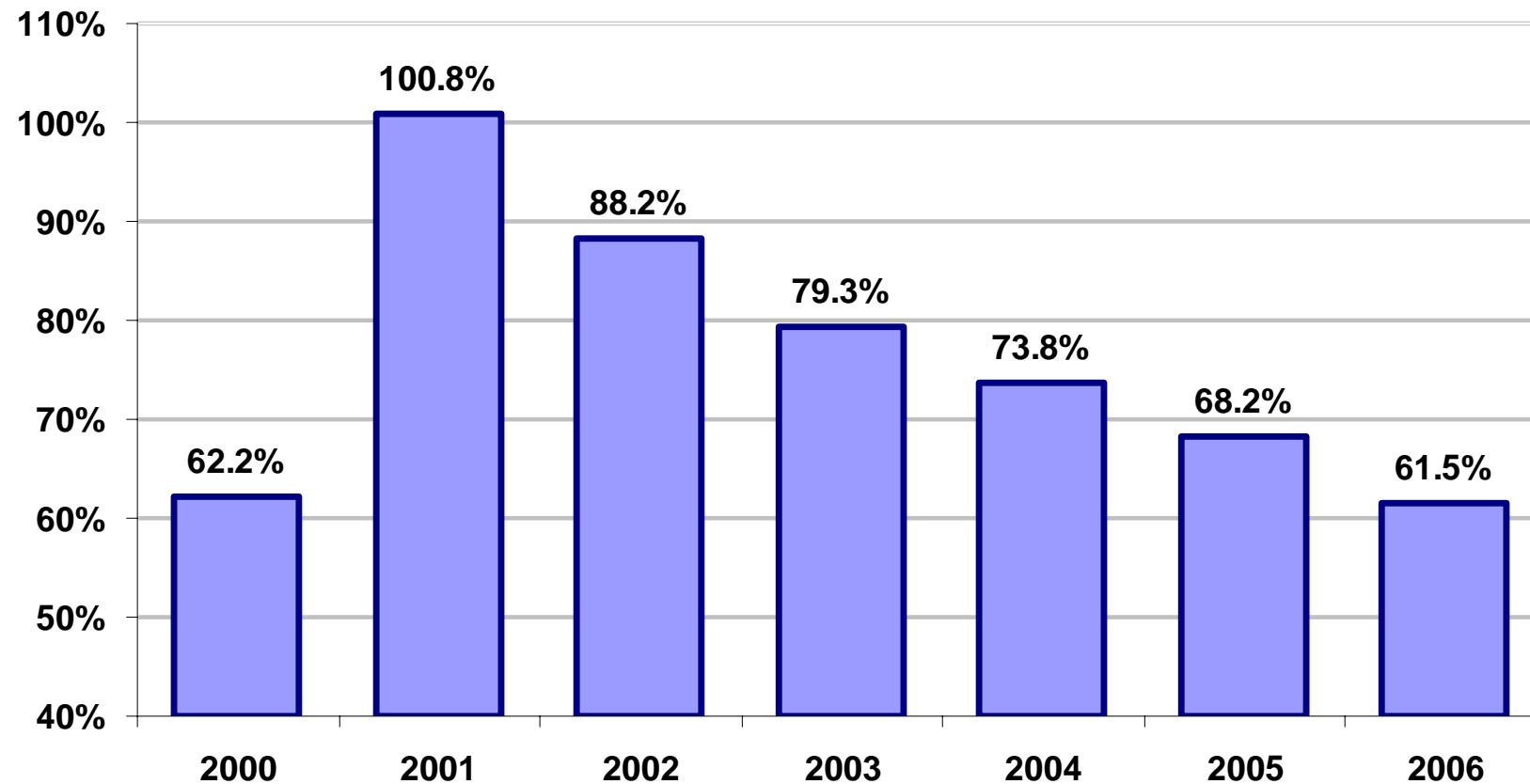
Average annual growth rate of productivity (2002-2006)



Source: TURKSTAT and EU Ameco database

Downward trend in debt / GDP

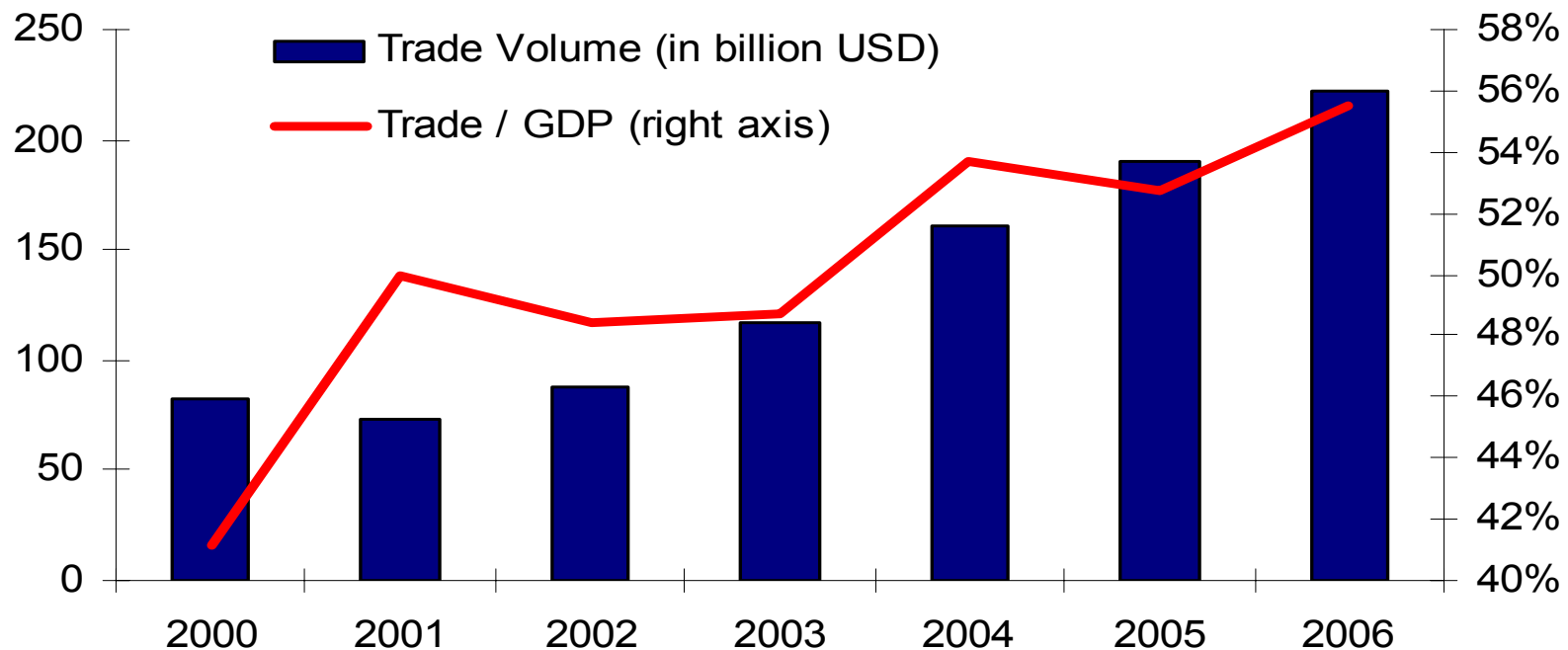
Central government debt / GDP (2000-2006)



Source: Treasury

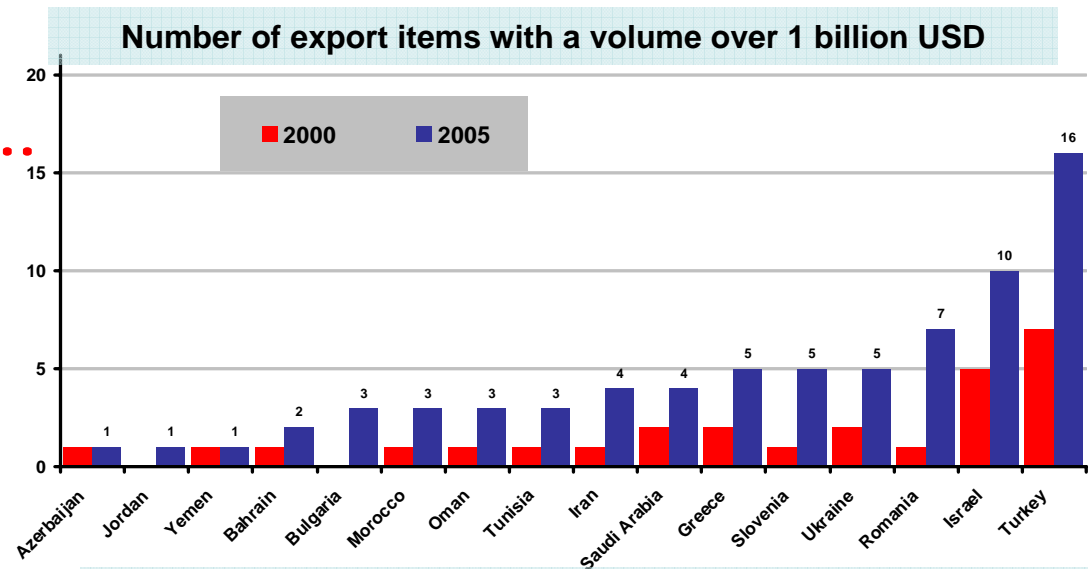
Key feature of the new environment: rapid integration into the global economy

Turkey's total trade volume (in billion USD) and trade/GDP ratio: 2000-2006

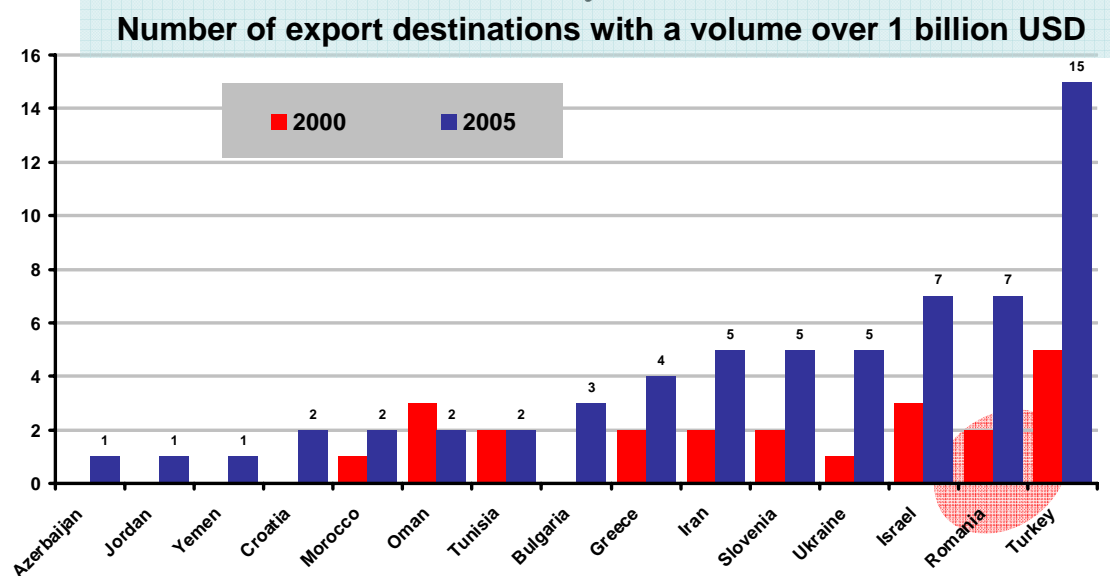


Turkish exports have become more diversified

in terms of products..

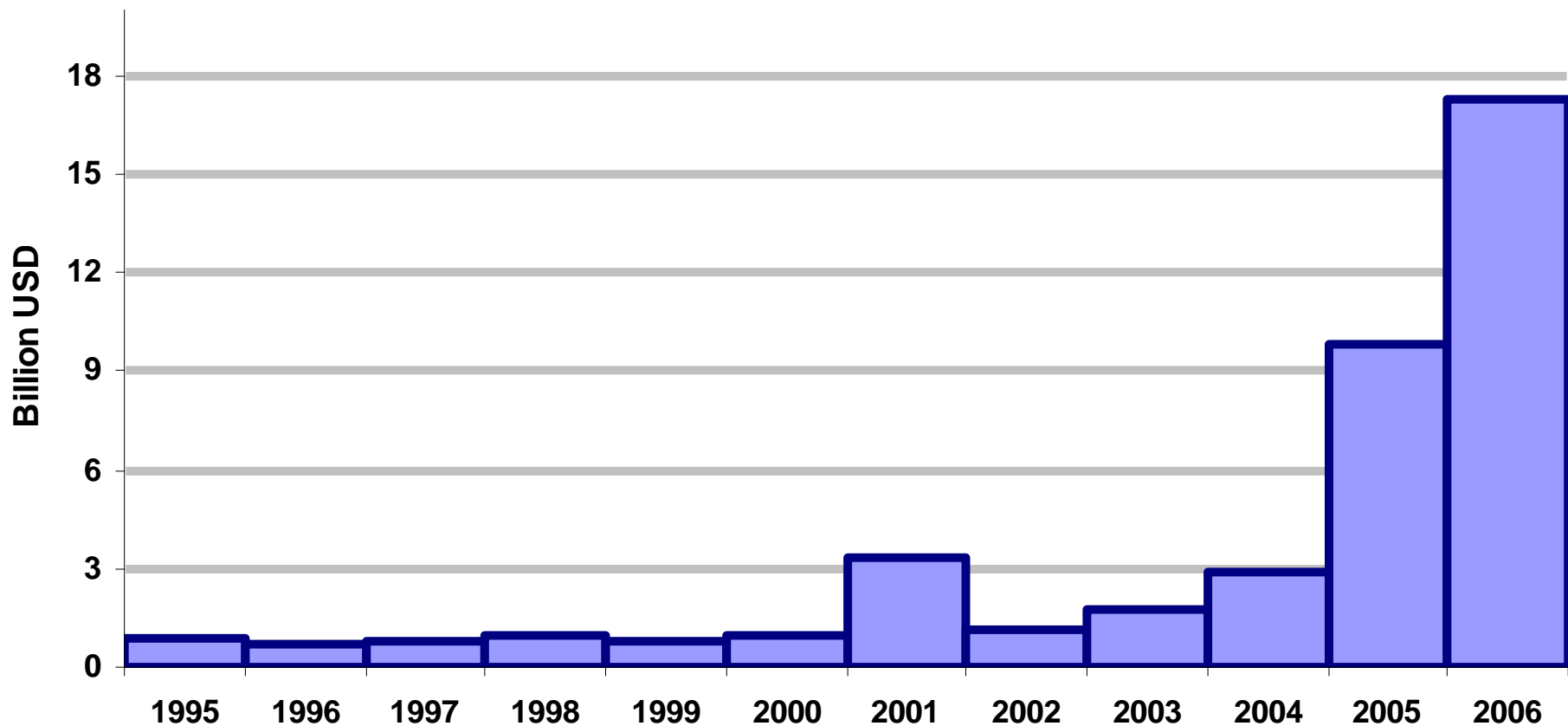


in terms of markets..

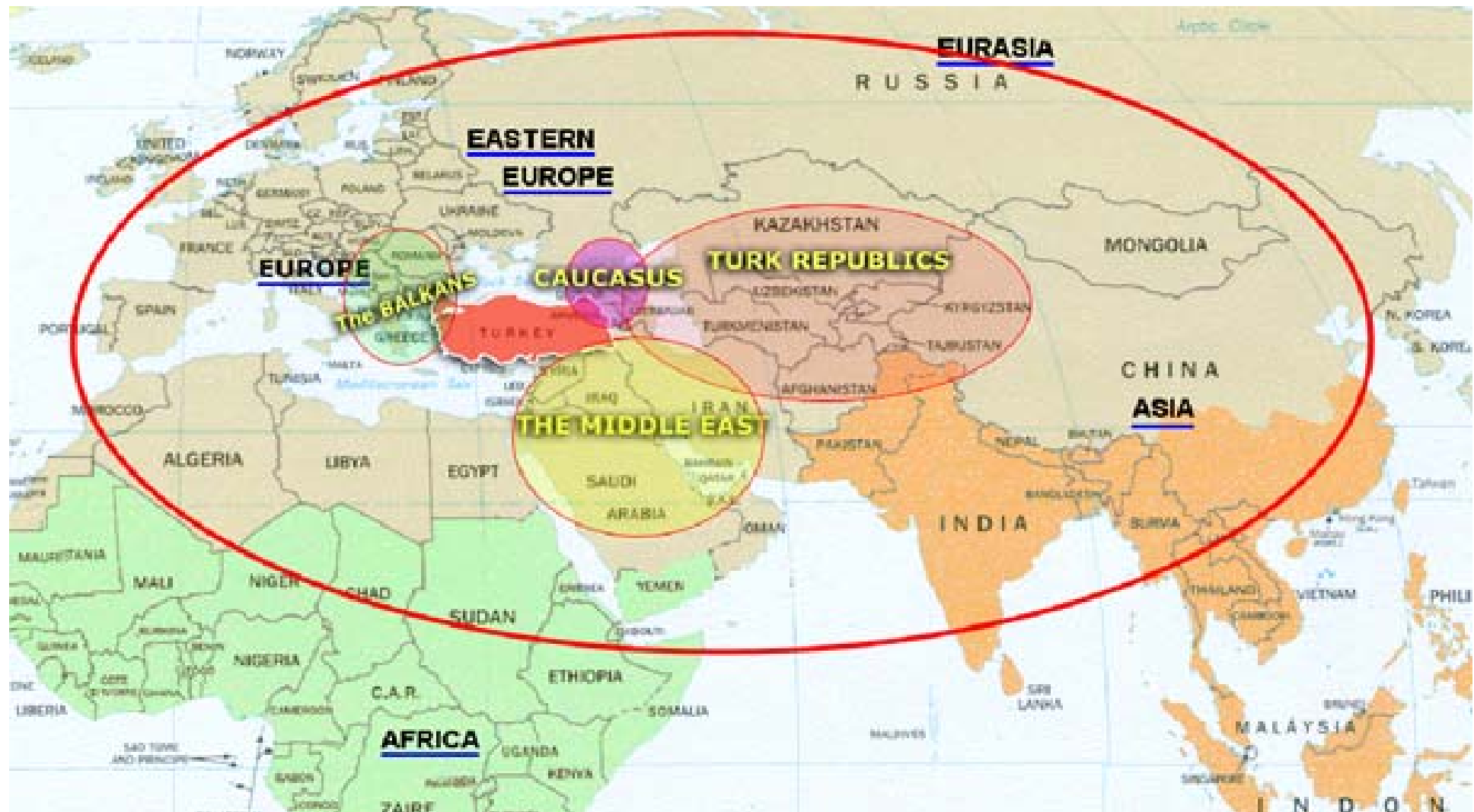


New environment brings an upsurge in foreign direct investment inflows

Foreign Direct Investment Flows(1995-2006)



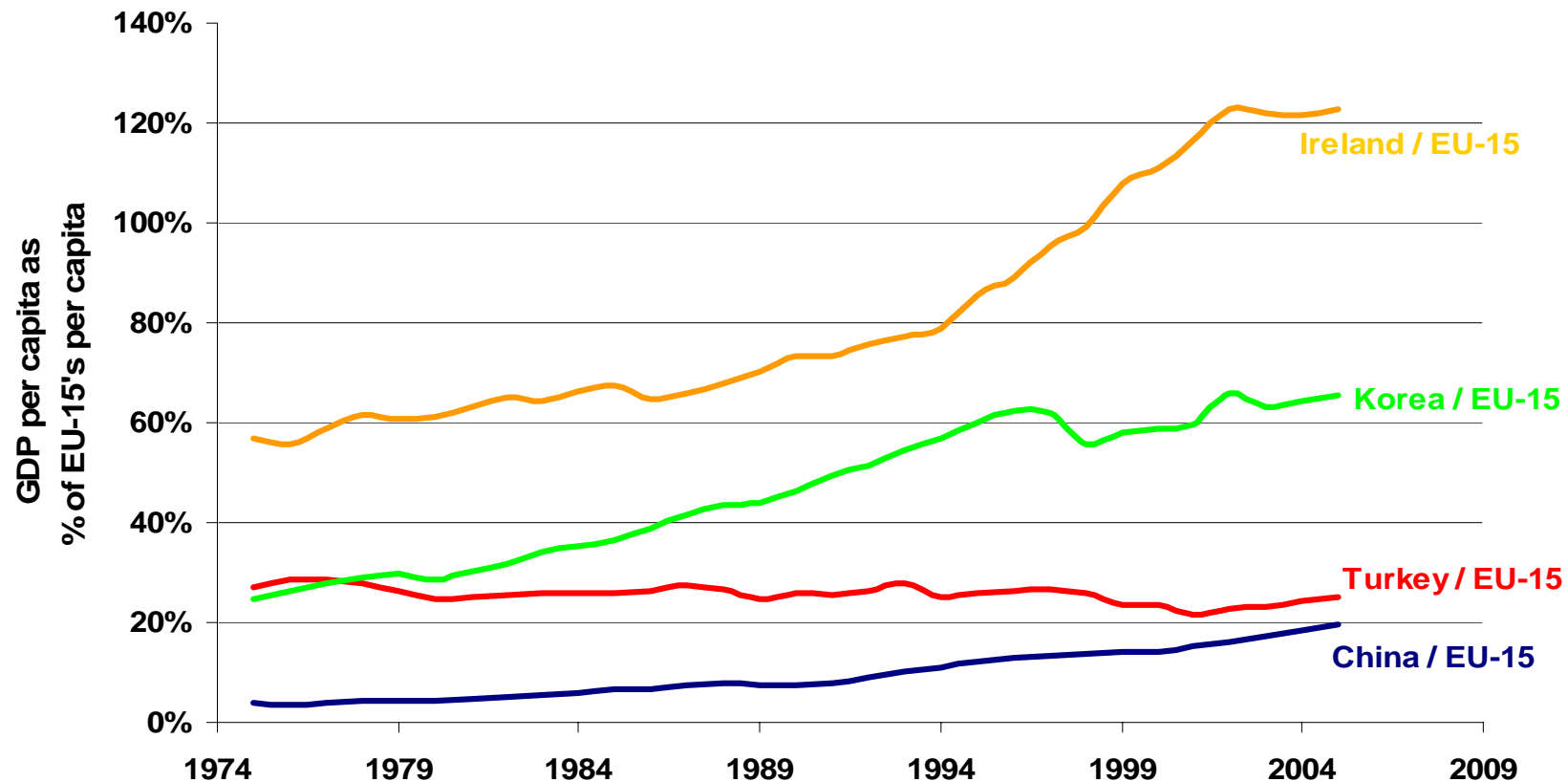
Turkish firms as global actors: A huge market serviceable from Turkey



Despite the impressive growth in the past five years, Turkey's performance in catching-up has not been satisfactory

But there is still long way to go

China, Ireland, Korea and Turkey's GDP per capita as percent of EU-15's GDP per capita, 1975-2005, PPP adjusted



Source: World Development Indicators, TEPAV

Emerging Risks and sustainability of the growth process

- Sustainability of growth is the key to catching up with the EU
- However transformation also brings about some inherent risks

→ **Current account deficit**

→ **Employment Trends**

- *Demographic window of opportunity (or threat?)*
- *Structural transformation across sectors: Decline in agriculture*

Current account deficit widened in the new environment

- However quality of financing improved with increasing FDI inflows
- In this period global liquidity has also been kept rising
- Turkey attracted carry-trade money thanks to its still high interest rates

(Million USD)	2000	2001	2002	2003	2004	2005	2006
Current account balance	-9,821	3,392	-1,524	-8,036	-15,604	-22,708	-31,460
FDI	112	2,855	962	1,253	2,024	8,723	19,234
Portfolio investments	1,022	-4,515	-593	2,465	8,023	13,437	7,349
Other investmentss	11,801	-2,667	7,190	3,424	4,187	16,174	14,150

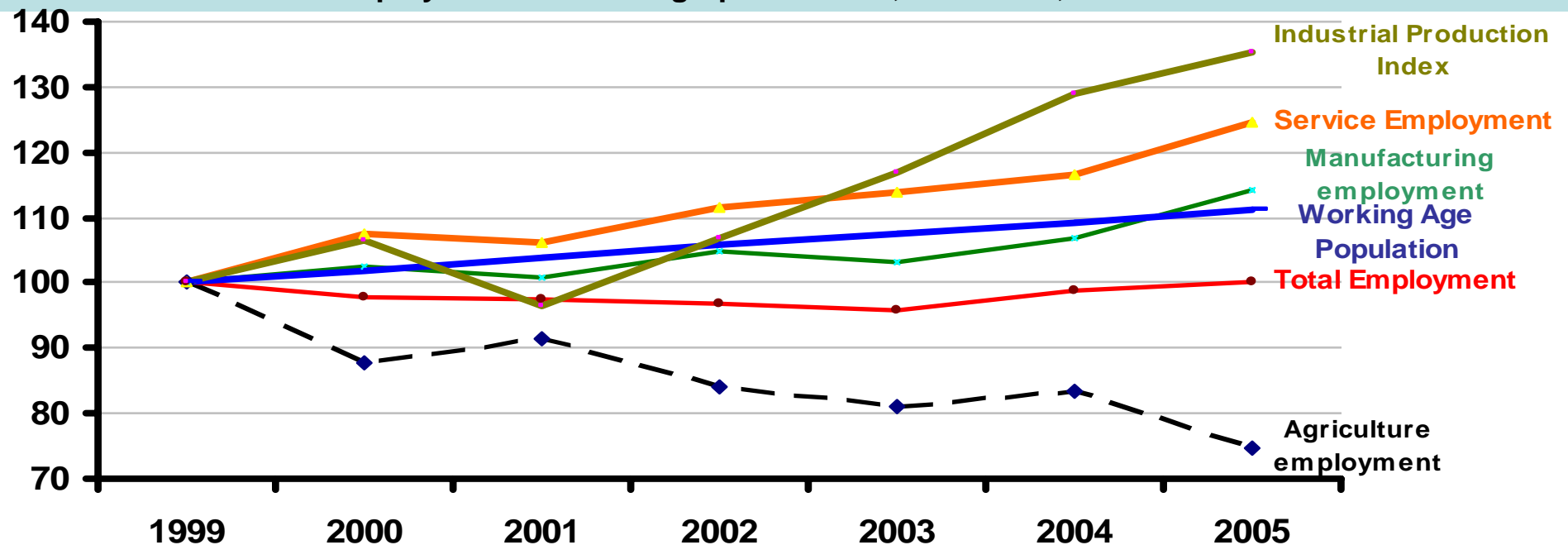
Recent employment trends: sometimes good is not enough

- Growth in recent years has been generating new jobs. But it's not been enough to lower unemployment rate.

- ➔ Declining share of agriculture
- ➔ Rising working age population

} *Both trends will continue = risk generating factors*

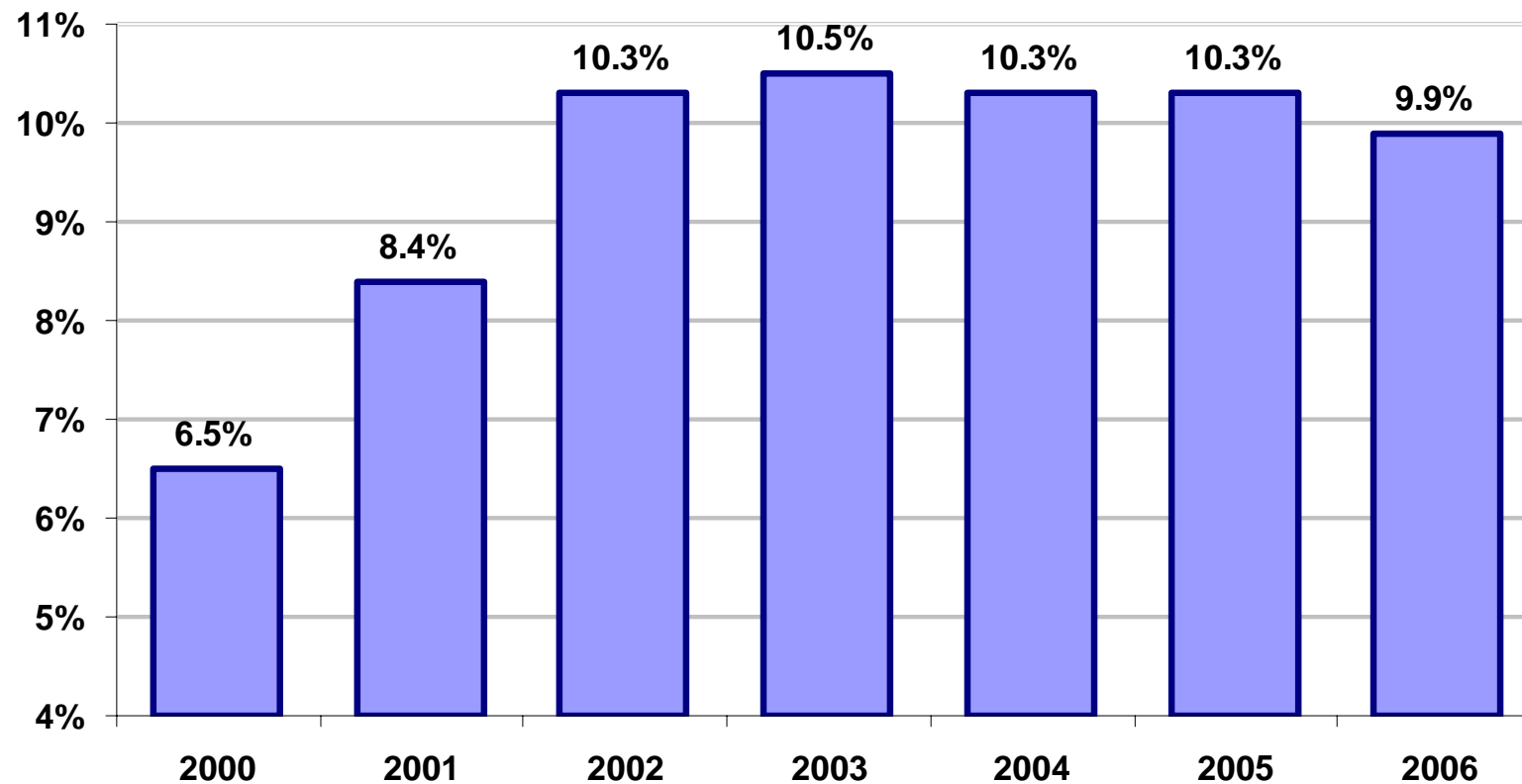
Sectoral Employment and Demographic Trends, 1999-2005, 1999 indexed to 100



Source: TÜİK and WDI

Persistent unemployment

Unemployment rate (2000-2006)

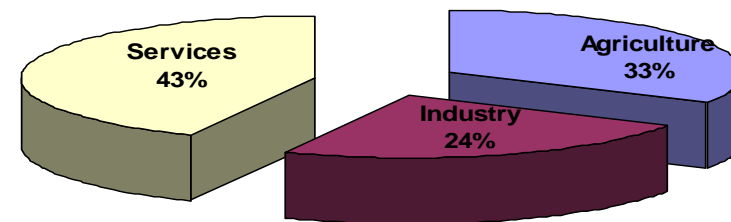


Source: Turkish Statistics Institute

Modernization inevitably leads to declining share of agriculture in the economy

- EU accession process surely accelerates transformation (plus globalization and trade liberalization)
- Turkey's total population = 70 million
 - ➔ Agriculture (33 %) = 23 million
 - ➔ Services (43 %) = 30 million
 - ➔ Industry (24 %) = 17 million

Sectoral Distribution of Employment in Turkey, 2004



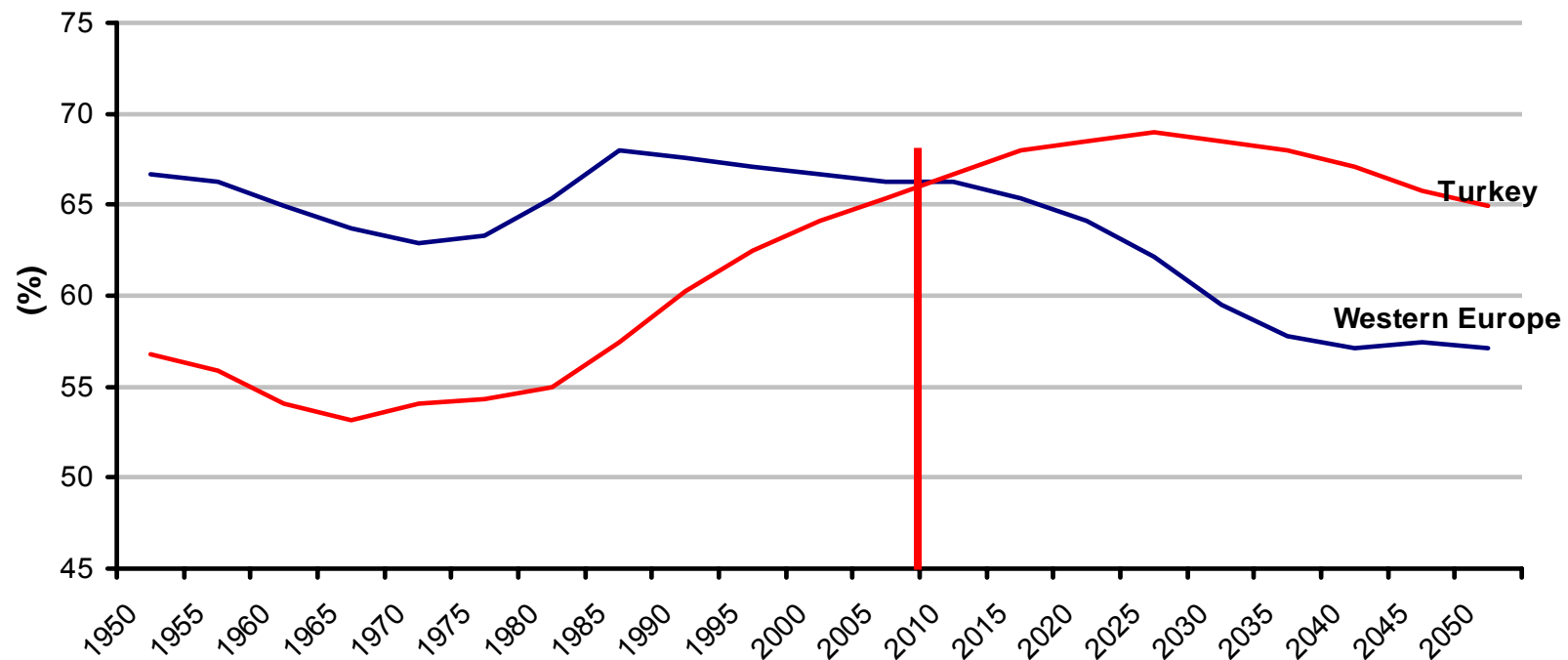
Economic Structure before and after EU accession in Greece, Portugal and Spain

	Before Accession			After Accession		
	1981	1986	1986	2001	2001	2001
	Greece	Portugal	Spain	Greece	Portugal	Spain
Agriculture	31	22	16	16	12	6
Industry	29	34	32	23	35	31
Services	40	44	52	63	53	61

Source: World Development Indicators

Demographic trends create opportunities as well as key challenges

Share of Working Age Population in Total Population, World Bank Estimates 2005-2050



Source: World Development Indicators

Towards a new agenda

Picture is not bad at all

- recent growth performance
- macroeconomic stability
- a new and healthy incentive structure
- global integration with also growing regional integration

However, risks are serious and require competent management

- Current account deficit
- Rising unemployment

There is an urgent need for a new agenda

- Setting the priorities, strategic action plans, effective delivery
- Managing the EU process as a mechanism to mitigate risks
- Building the required capacity for the new environment