

**Global Economic Prospects:
Launch and Discussion at TEPAV, Ankara, January 16, 2008**

**Opening Remarks by Mr. Ulrich Zachau,
Country Director for Turkey, World Bank**

Iyi gunler, distinguished guests and participants:

- I am very **pleased to be here today** for the launch of one of the World Bank's most widely read reports—Global Economic Perspectives 2008. And I **would like to thank** TEPAV for organizing this event with the Bank.
- The current global **economic prospects are of interest for all of us**—especially in view of recent trends and ongoing market volatility.
- Over the last several years, a benign global environment and liquid financial markets helped support high economic growth in developing economies.
- This **favorable global environment benefited Turkey as well**—with large and relatively low-cost capital inflows, both FDI and portfolio flows. These inflows helped finance national investment above domestic savings and helped boost economic growth.
- **Prospects for 2008 are less favorable**, reflecting recent developments in the global economy, and particularly developments stemming from the US sub-prime mortgage market.
- Today, **two of the authors of the report are here with us in Ankara**, and they will speak about these global developments in depth. They will **also talk about the special topic of this year's Global Economic Prospects report: namely technology as a driver of growth**.
- I would like to share with you a few thoughts on how recent global economic developments may relate to Turkey.
- **The Turkish economy is increasingly integrated with the global economy**— including global financial markets.
 - I feel this is a positive development overall.
 - It also means that global events affect Turkey, like other countries.
 - **Turkey's large current account deficit is a concern** in this regard,
 - **and continued good management of this and related macroeconomic risks will be important**.

- **I believe that the Turkish economy today is very different from the past.**
 - Major reforms took place. The structure of the economy has improved.
 - Turkey now has a floating exchange rate regime, which partially cushions outflows during periods of volatility.
 - An independent Central Bank provides confidence to the markets.
 - The financial sector is restructured and much stronger.
 - The significant share of foreign banks in the sector further reduces risks as such banks are backed by their main headquarters abroad.
 - Fiscal policy has been tight, and public finances are improved.
 - Reforms have improved the business environment and investment climate, and FDI reached US\$20 billion in 2006, and again in 2007.
 - Inflation and real interest rates both continue on a downward trend.
 - Increased international reserves also provide a buffer during shocks.

- All these developments have restored stability, increased market confidence, and led to growth. During recent periods of global volatility, the Turkish economy proved resilient.

- **Continuing sound macro economic policies**—this includes (1) a high primary fiscal surplus and (2) implementation of a fiscally sustainable and equitable social security reform—**and deepening microeconomic reforms will help maintain investor confidence and will assist in weathering possible adverse global developments.**

- Taking a long term view, having more than doubled its income per capita in five years— from 2600 USD in 2002, to about 5500 USD in 2006—**Turkey is now looking to maintain high growth rates and catch up with advanced economies—and to do so while creating more and better jobs.**

- **Technology is almost surely central to successful sustained growth.** Almost all strategies that countries around the world use to pursue sustained fast growth involve openness and some kinds of technology transfers.

- **I am very happy to see that a structural shift has begun in Turkey's economy, away from low tech, unskilled labor intensive operations towards medium and high technology products, such as machinery and equipment, automotives and electric-electronic.** Exports of these products have grown dramatically, as Turkish industry has become more competitive.

- **I would now like to focus on two public policy issues that are crucial, in my view, for Turkey to achieve her vision of rapid and equitable long-term growth: (1) jobs and labor markets, and (2) education**
- **Job creation and labor markets are an urgent priority.**
 - Turkey's population has grown faster than the number of jobs over the past 20 years. As a result, ***only 48 percent of adults in Turkey are employed***, well below international standards.
 - ***Population growth is an opportunity for Turkey***, as the working age pool will continue to grow until 2040—unlike in the EU.
 - ***Yet, increasing employment will continue to be Turkey's biggest challenge*** in convergence with the EU—economically and politically.
- **With the right policy framework, I believe, Turkey can lay the essential basis for creating more and better jobs. Four measures will be instrumental, in my view, for increasing employment, and for realizing the vision of the Turkish people for Turkey's future:**
 1. Removing disincentives to hire, such as excessive severance benefits
 2. Creating more flexible employment conditions—with flexible contracting
 3. Lowering the tax burden—pension and unemployment insurance contributions—on the employment of the young & new entrants.
 4. Protecting workers better by easing the eligibility for unemployment insurance; and by using unemployment insurance funds for building worker skills.
- **I would like to turn now to education.**
 - In my view, **education is THE most important public policy challenge for the medium and long term.**
 - Improved education is crucial for better skills, better jobs, higher productivity, and higher incomes.
 - **Indeed, raising the quality of education is the only clear way to get better jobs—in addition to more jobs.**
- Turkey has raised enrolment rates and has modernized primary school curricula. These are important successes.
 - But student achievements remain the 2nd-lowest in the OECD. And there are large disparities by region and between the top and bottom performers.
 - And achievements remain low, even while national education spending is high relative to national income, and even while teacher salaries compared with average salaries are high by OECD standards.

- *I see several important directions for Turkey to achieve its vision of people with a good education, skilled jobs, and high incomes:*
 1. Increased education spending has improved, and continues improving, access to education for *all* children, including girls and children from low income families. This is a good thing. Further increasing access to *tertiary* education will be important.
 2. **The most important, yet perhaps also the most difficult, challenge now is the QUALITY of education—and I understand that the Ministry of National Education has identified this challenge.**
 - The **efficient and effective use of education spending** will be key for this—as critical as the level of spending, perhaps more so.
 - **Systematically measuring & widely publishing student achievement results** can be an important first step—so teachers, parents, and students all see what works well and what works less well, do more of what works well, and do less of what works less well.
 - Other steps include: modernizing secondary school curricula, strengthening vocational education, strengthening teacher training, reviewing school leaving examinations and the Dershane system, etc.
- **Labor market & education are two key issues. Three other priorities** are:
 - further improving the investment climate and competition, with measures such as a modernized commercial code, judicial reform,
 - energy;
 - and further strengthening the public administration and public expenditure and financial management, including the full implementation of the Public Financial Management & Controls law and a modernized Turkish Courts of Account law.
- **I welcome it that the program and the recently announced action plan of the 60th government address these and other key structural issues.** Implementation of these programs will help Turkey achieve its vision of becoming an advanced economy.
- I would like to **thank again TEPAV** for this organization and all of you for your kind attention.

Cok Tesekkur ederim.