

# tepaV

Economic Policy Research Foundation of Turkey

## **Is it more dangerous this time?**

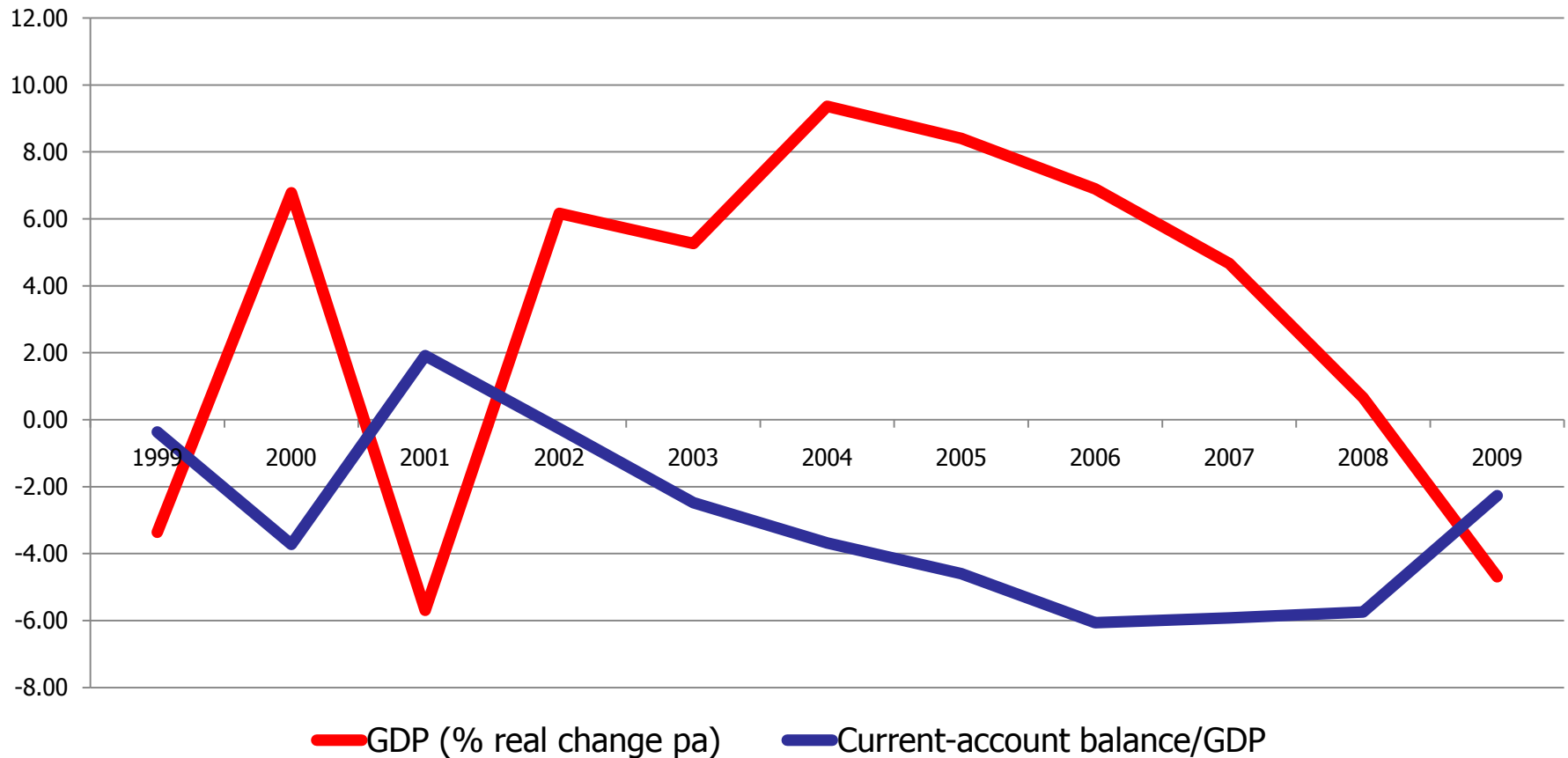
Güven Sak  
8 December 2010

# Framework

- Turkey's most visible structural problem
  - Growth & current account deficit
  - Low savings rate
- Why we think it's more dangerous this time
  - Short term problem: lagging exports
  - Deteriorating quality of finance
- Delayed reforms due to busy political agenda
  - Tax reform?
  - Industrial strategy and innovation push?
  - Labor market reform and education push?
  - Administration reform and regional disparities?

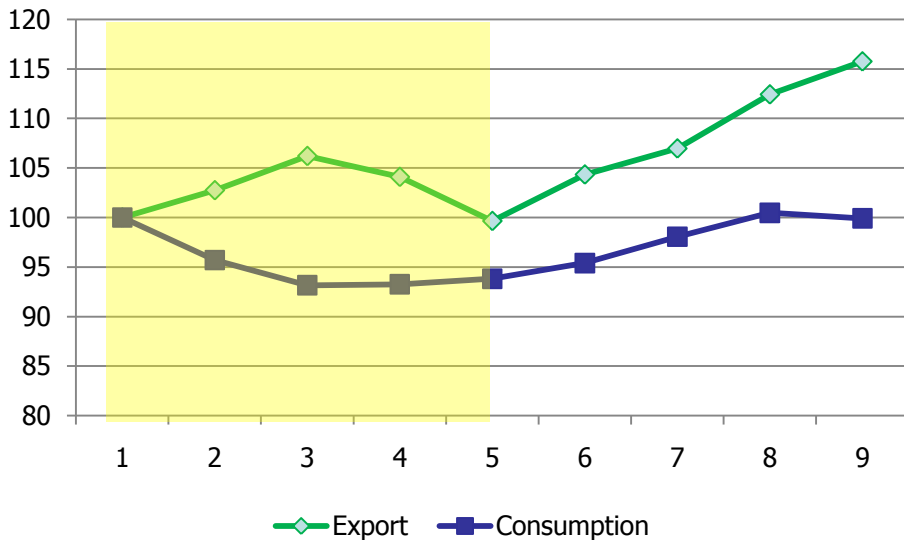
# Turkey grows only with current account deficit

Current Account Balance (% of GDP) and Real GDP Growth, 1999-2009

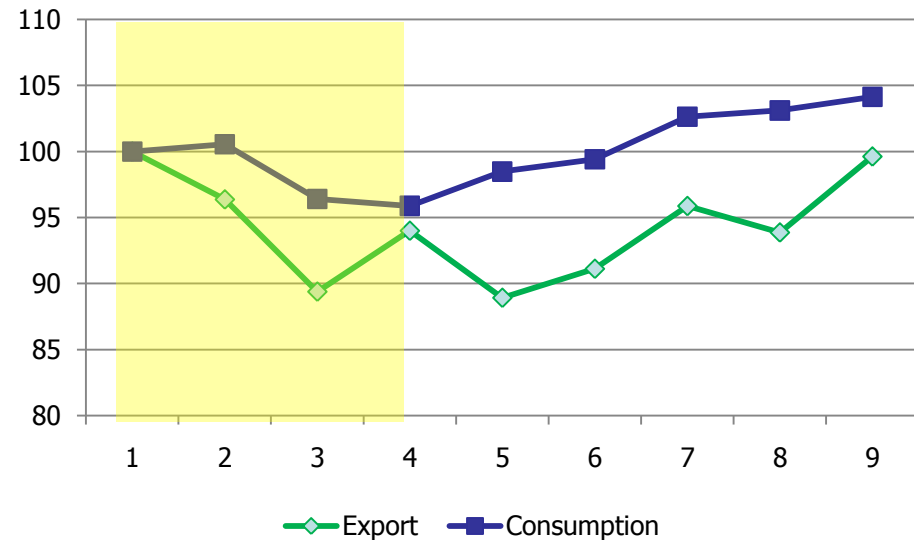


# Why current growth episode is more dangerous? 2001: export boom, 2009: domestic demand boom

Total Export and Consumption, 2000Q4=100 for 2001, 2008Q2=100 for 2009



**2001**  
**(2000Q4-2002Q4)**



**2009**  
**(2008Q2-2010Q2)**

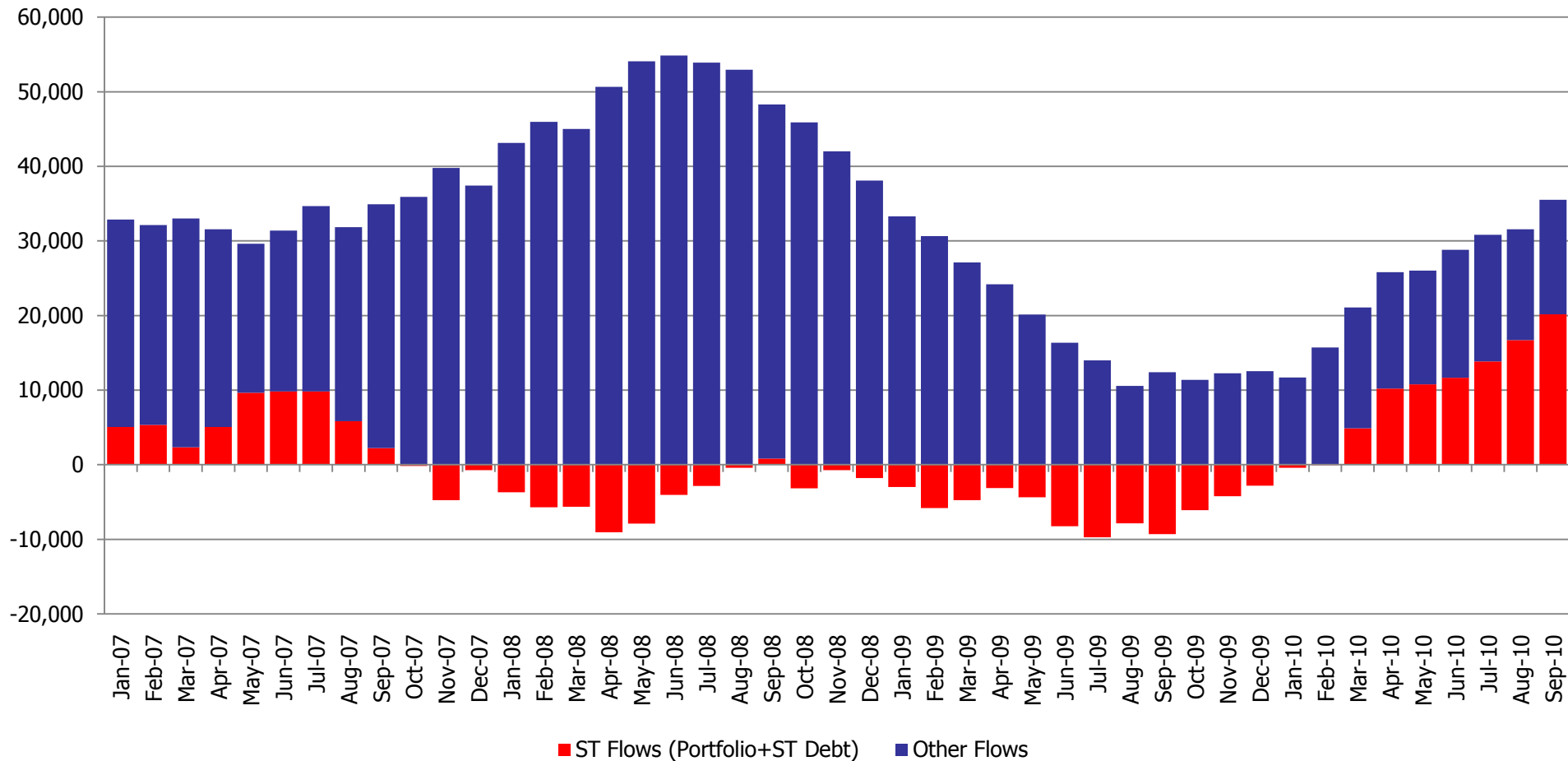
# Slow export recovery mainly due to EU integration



Sources: TEPAV calculations, WTO, Eurostat, EIU, BEA, Statistics Canada, Bank of Israel, Banco de Brasil, tradingeconomics.com

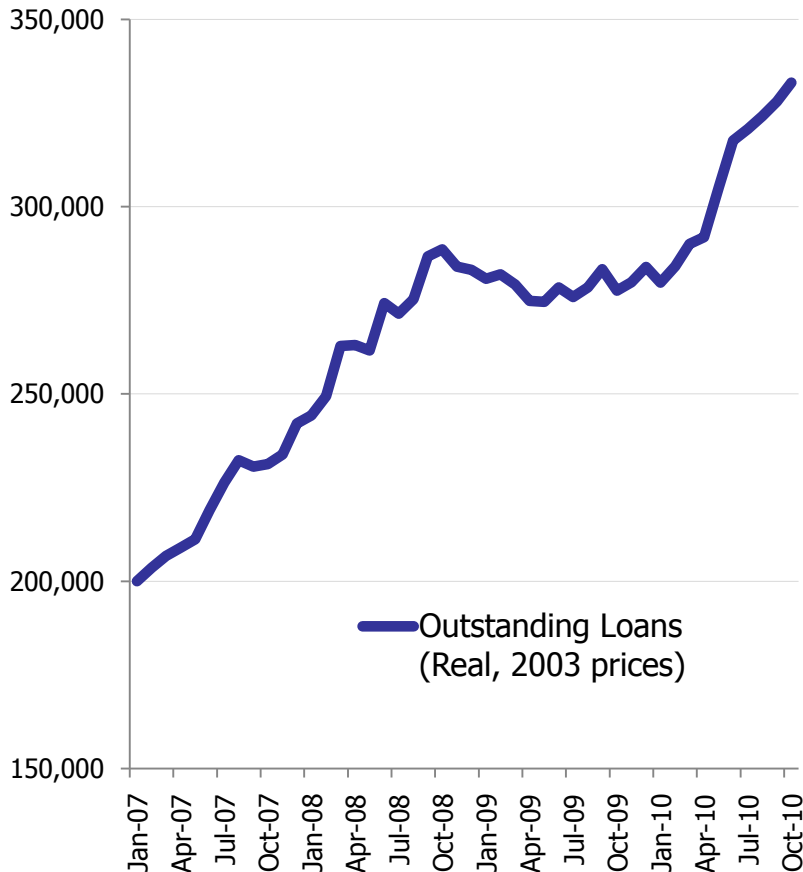
# Quality of finance sharply deteriorating

Short term capital inflow / total capital inflows, 2007-2010

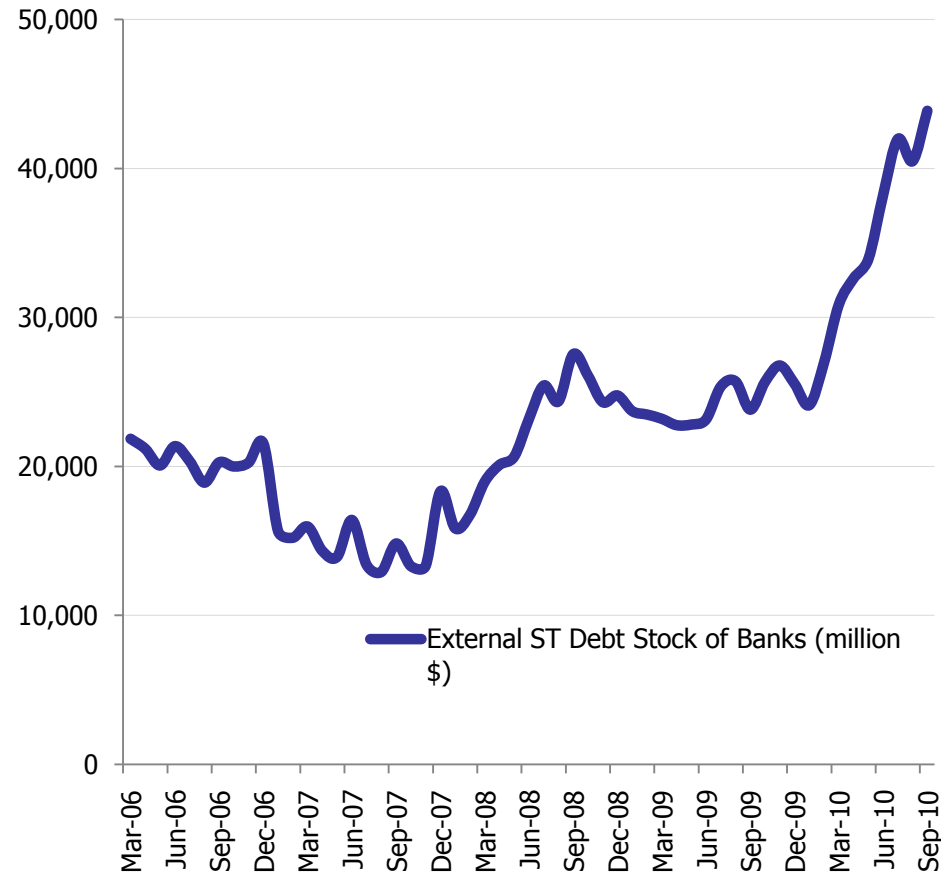


# Rapid credit growth due to short-term fund inflows

Real Outstanding Loans (TRY, 2003 prices)



Banks' external short-term debt (million USD)



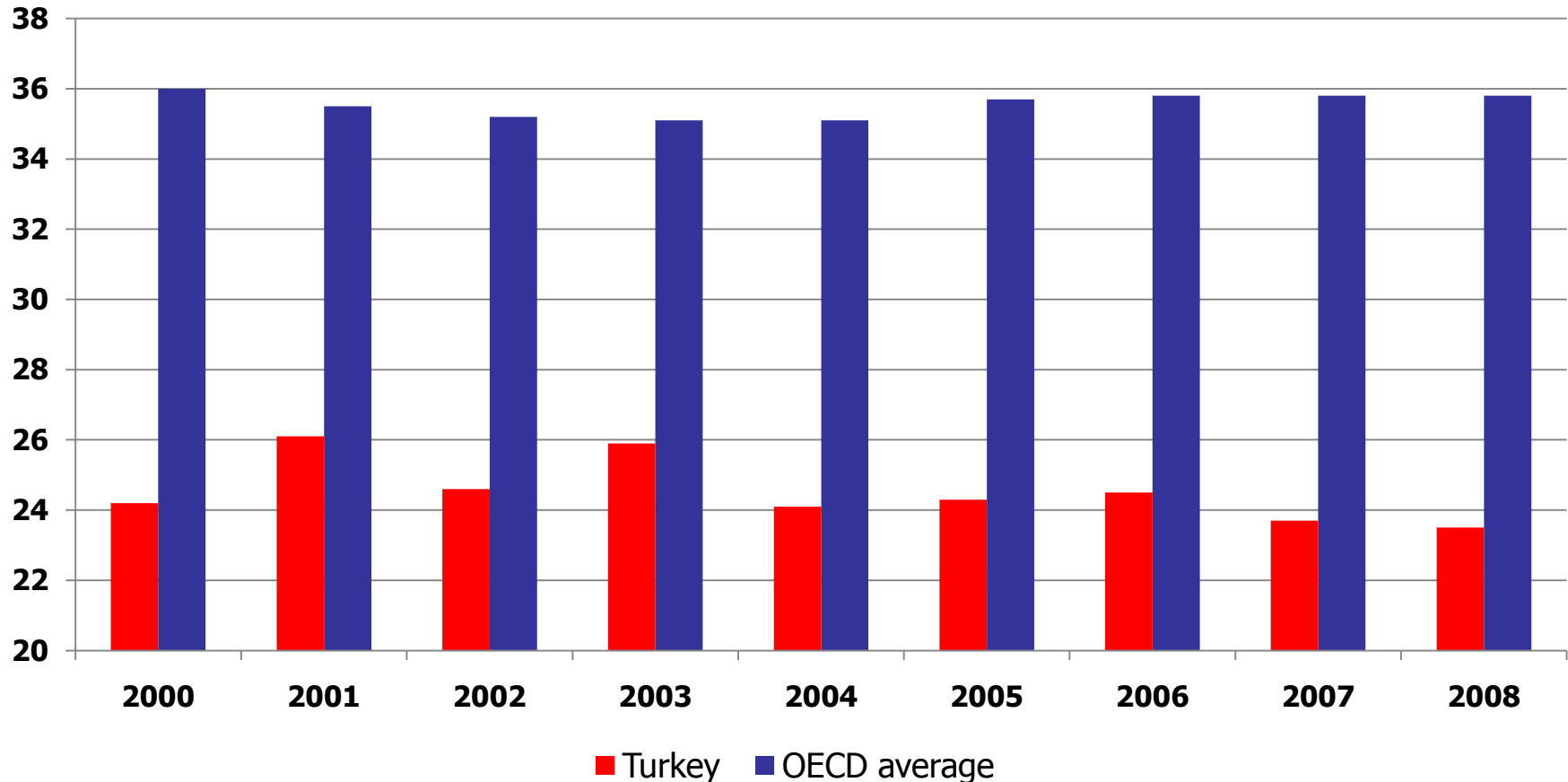
# Why so dangerous?

- In the recent period, Turkey kept delaying the more costly reforms
- Period ahead will be even less conducive for reforms
  - Elections in 2011, 2012, 2013, 2014, 2015 ....
- Challenges will remain (not exhaustive)
  - Trying to compete in EU with a third world tax system
  - Lack of industrial strategy: innovation-driven?
  - Labor market problems, especially female participation
  - Regional development strategy needed...



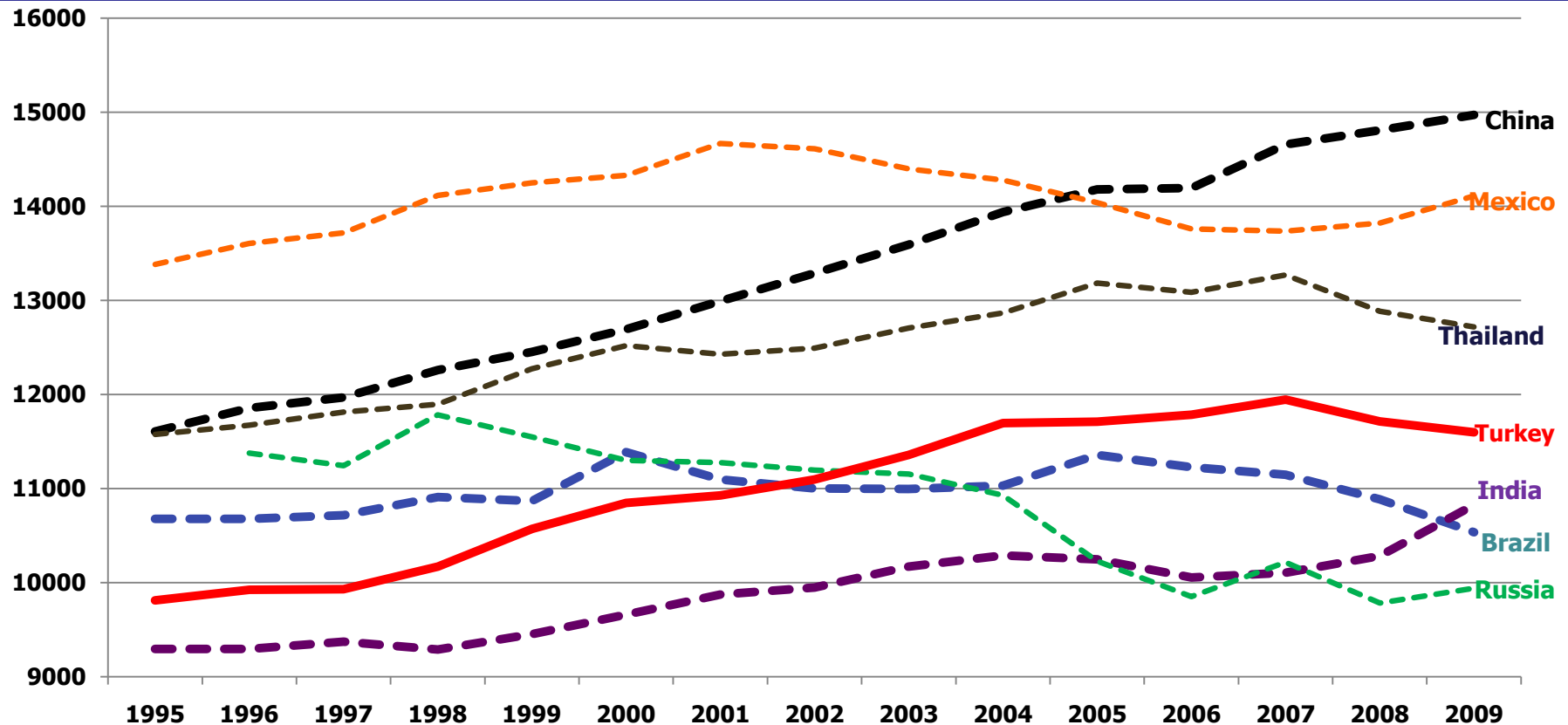
# Lack of reform in the tax system: no convergence in fiscal quality

Total Tax Revenue (% of GDP), 2000-2008

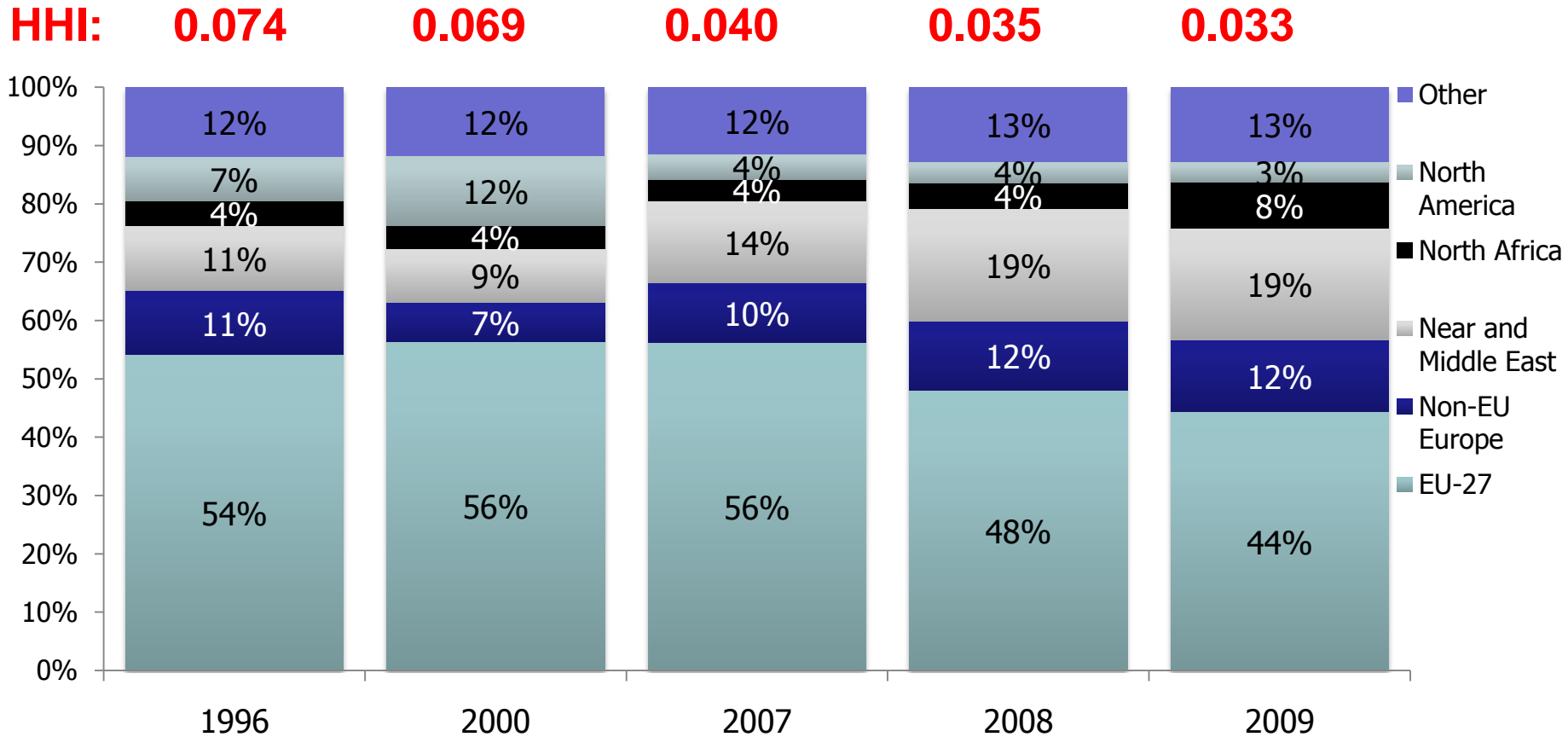


# Exports not only decline in level but also in terms of quality: innovation push?

Export Sophistication (EXPY) for Turkey and selected countries (1995-2009)



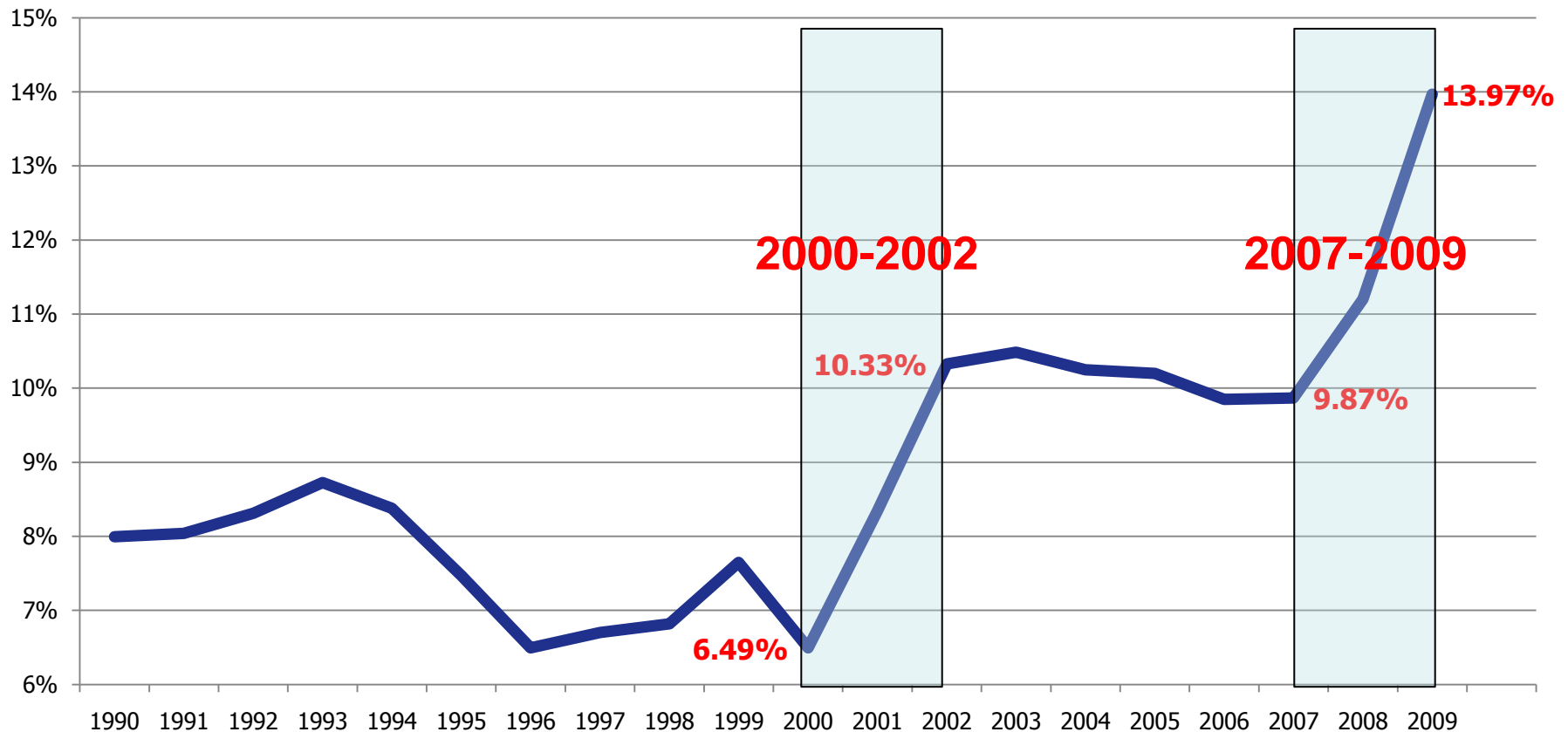
# Market diversification after crisis... but to less sophisticated markets



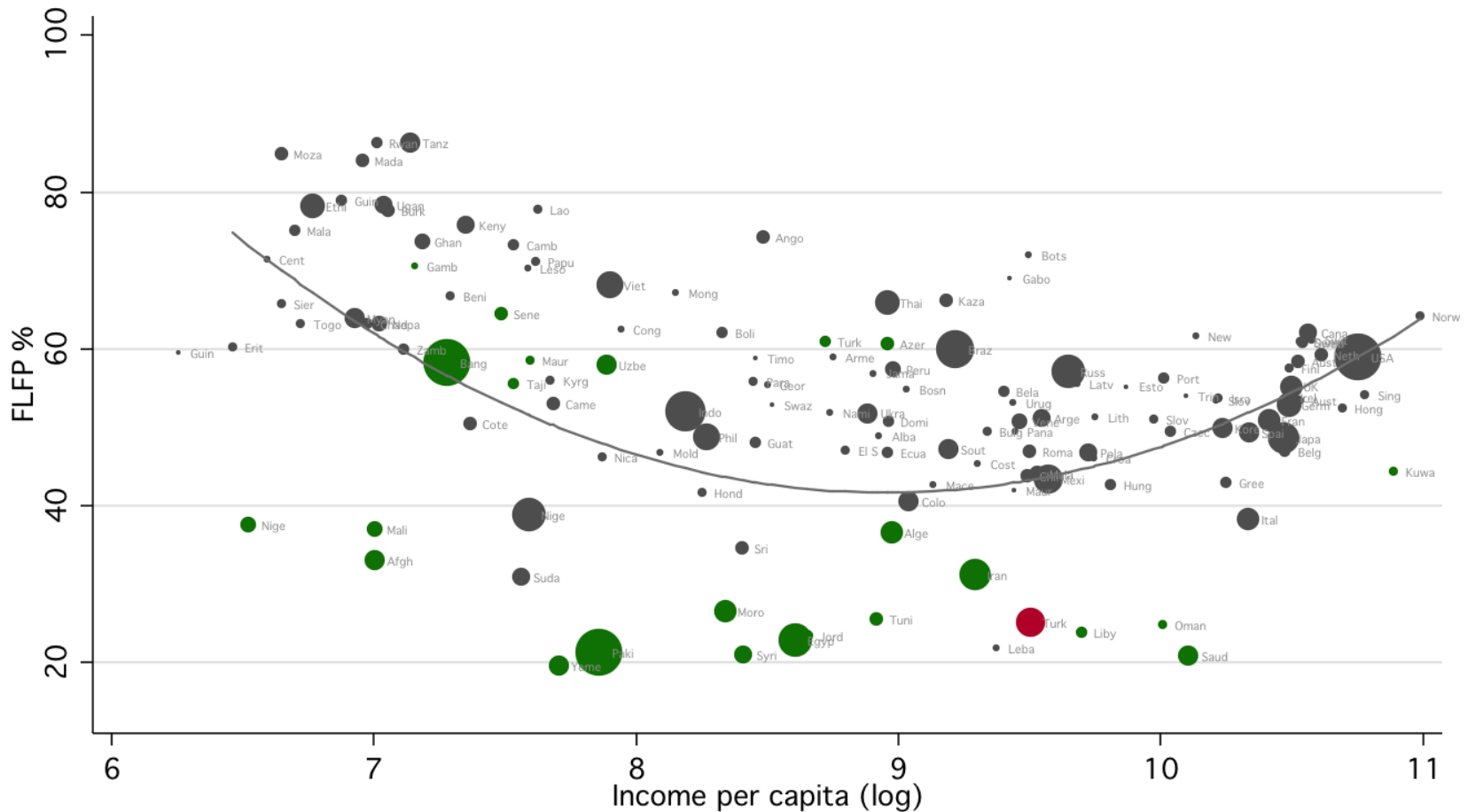
Source: UN Comtrade Database

# Labor market reforms to tackle unemployment?

## Unemployment Rate, 1990-2009

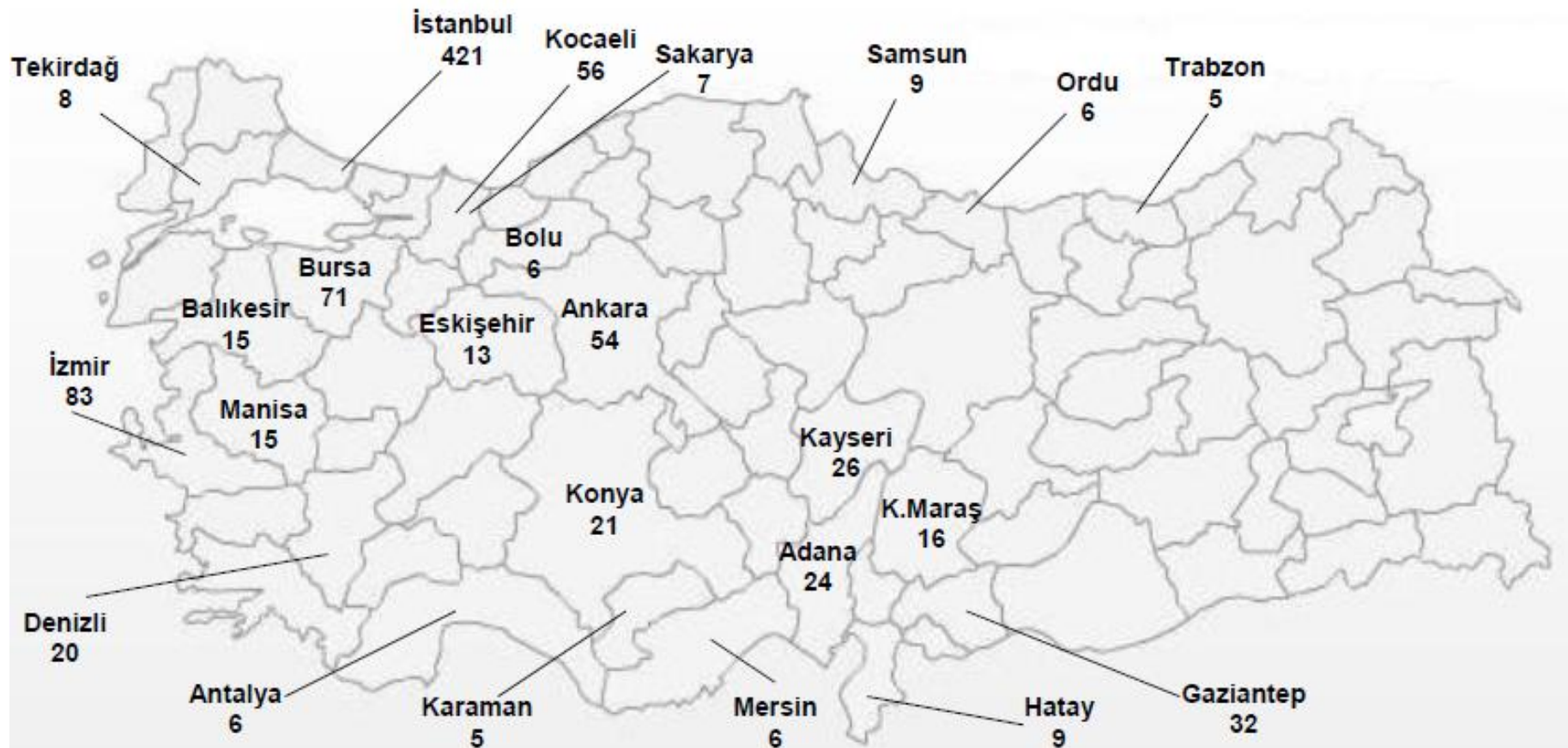


# Education reform to boost female participation?



# Turkey's silent east...

Cities with 5 or more firms among the largest 1000 industrial firms in Turkey, 2009



# Questions-1

- Is it really more dangerous this time?
  - growing CAD with sluggish exports
- How to prioritize policy issues?
  - Short term vs. long term goals
- Can we find low hanging fruits?
  - Is PE the way forward in the interim to find star companies of the country?

## Questions-2

- What will happen when the center starts to recover?
  - Pull and push factors
  - Export recovery in the west
- Is declining export sophistication level a bad omen?
  - Turkey stuck between the East and the Europe?
  - Is Iran our next competitor?