



**IS THE TURKISH ECONOMY IN A BETTER POSITION THAN IN 2008  
TO WITHSTAND A NEW GLOBAL SLOWDOWN?**

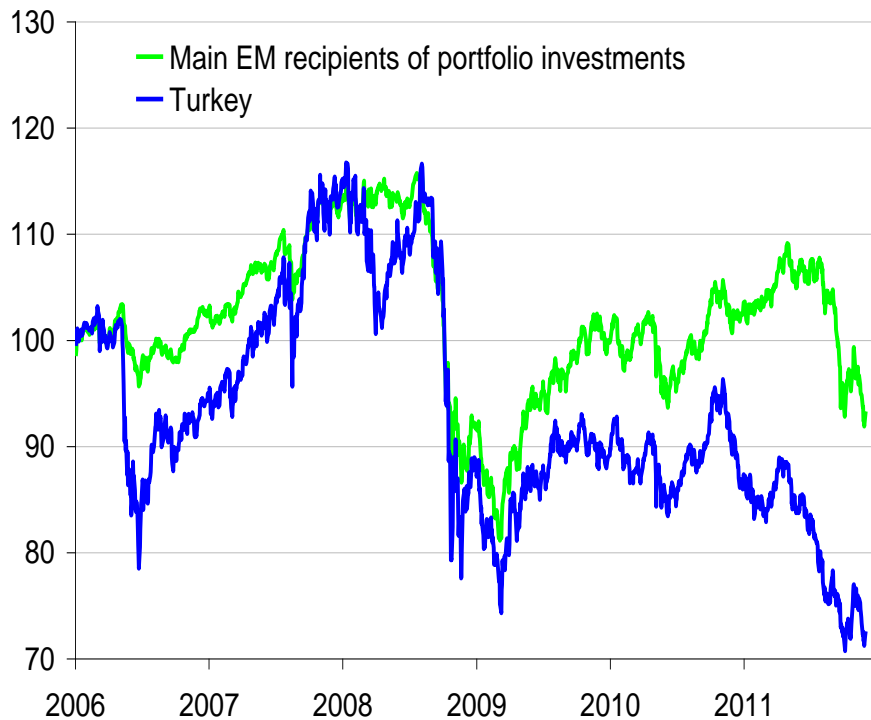
Francois FAURE

Head of country risk research

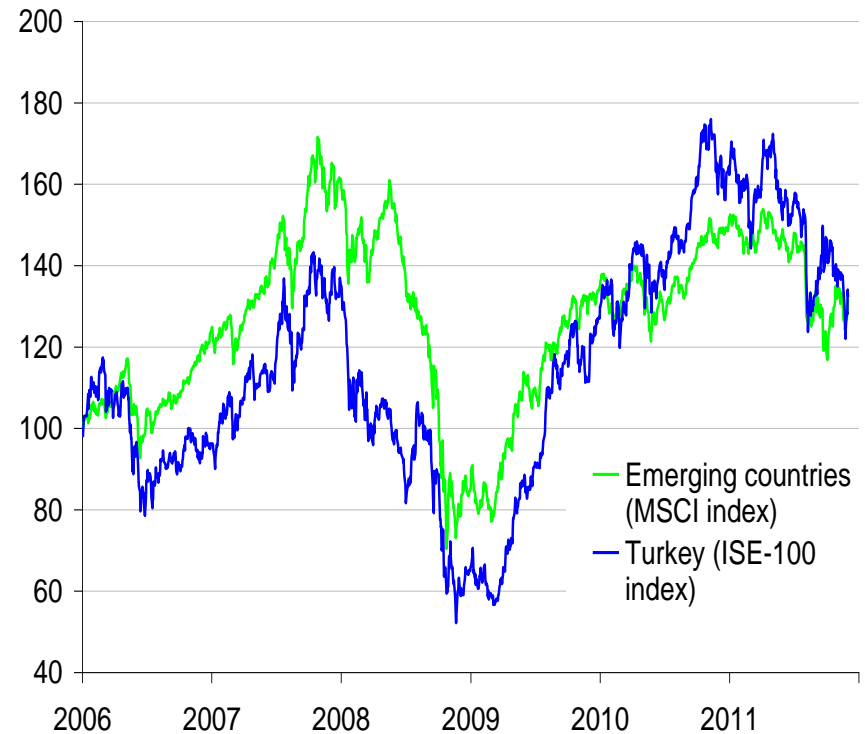
December 12, 2011

# The financial shock is now much less severe than in 2008

## Fx rates against USD (01/01/2005=100)



## Equity indexes (01/01/2005=100)

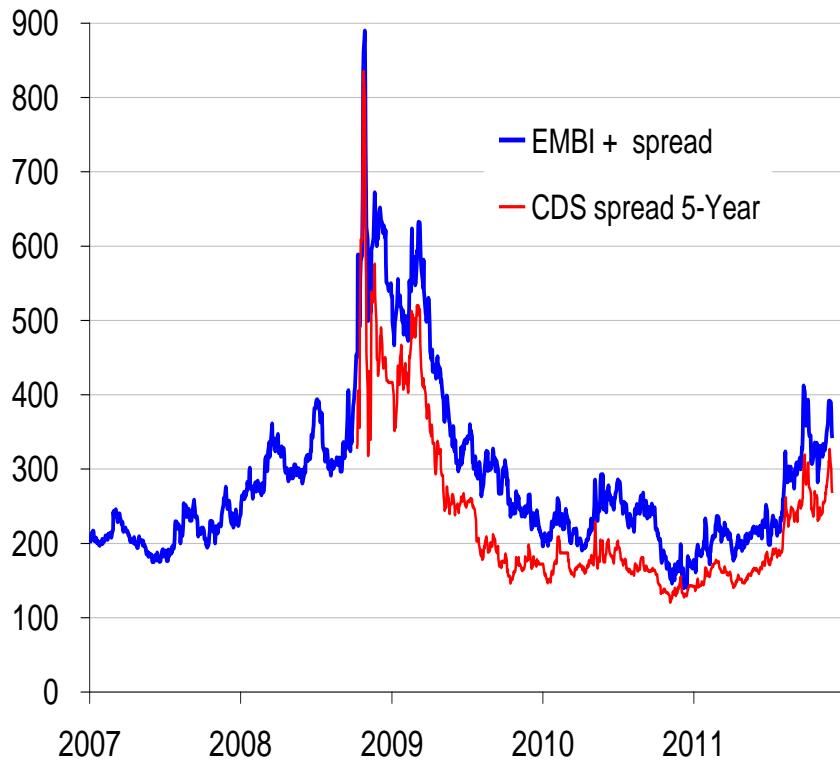


Source : Datastream



# USD-based credit conditions have not deteriorated that much

## Sovereign debt spreads (basis points)



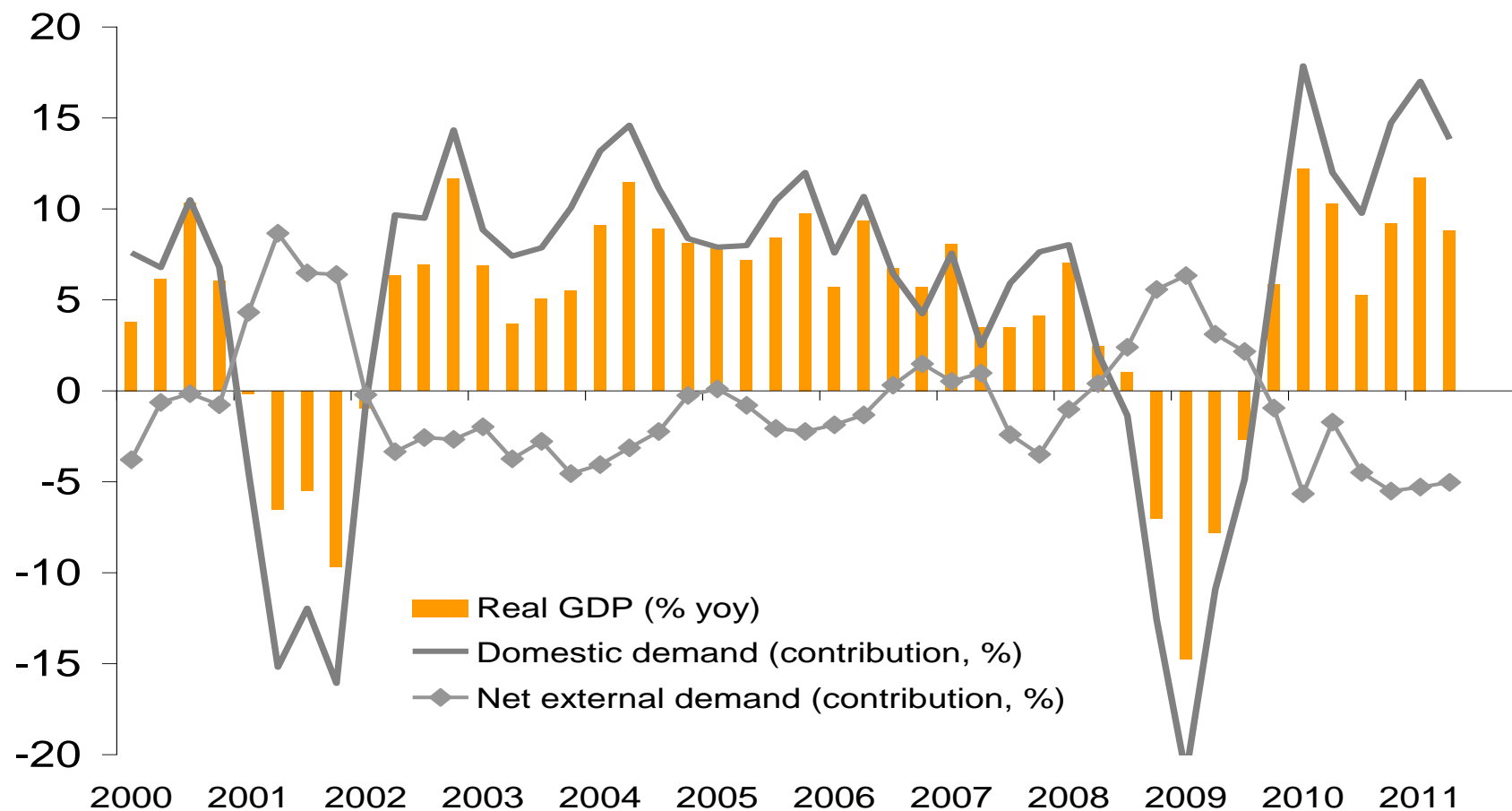
## Currency swap spread (against USD – basis points)



Source : Bloomberg



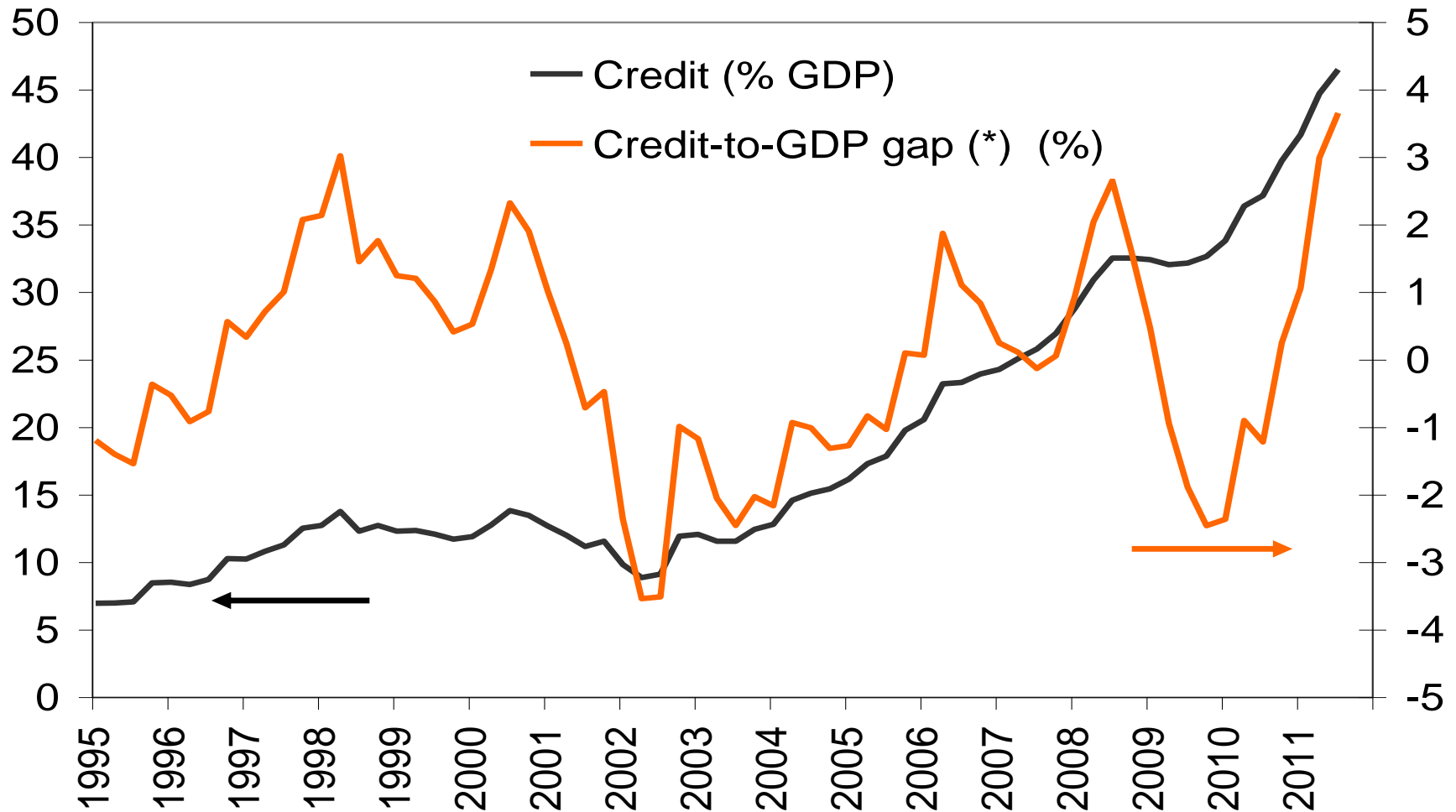
## A much more imbalanced growth regime than in 2008 ...



Source : TUIK - BNP Paribas



## ... thanks to an acceleration in credit expansion

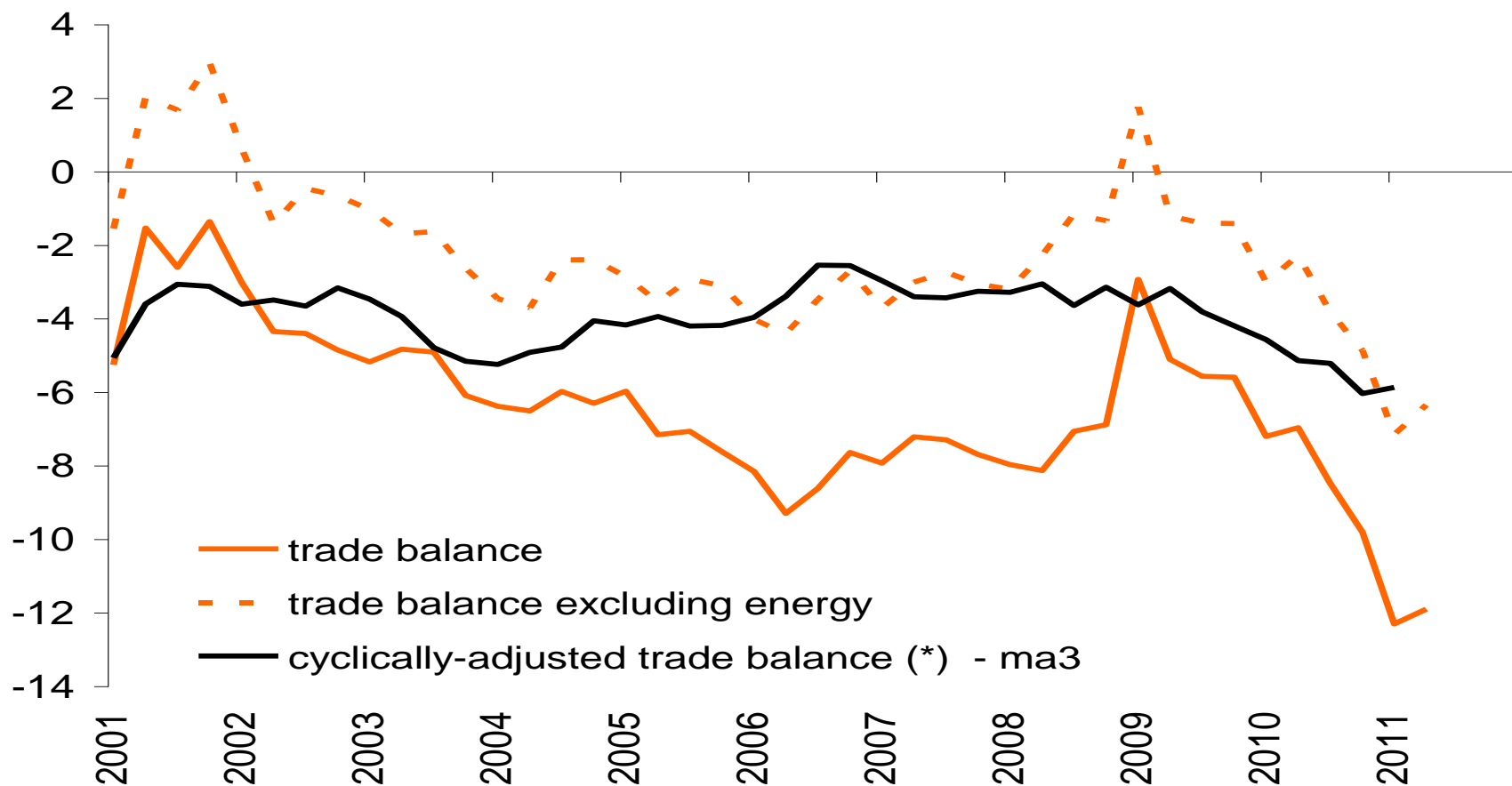


Source : IMF – (\*) BNP Paribas estimates



# Headline and structural deterioration in external accounts

## Trade balance (% GDP)

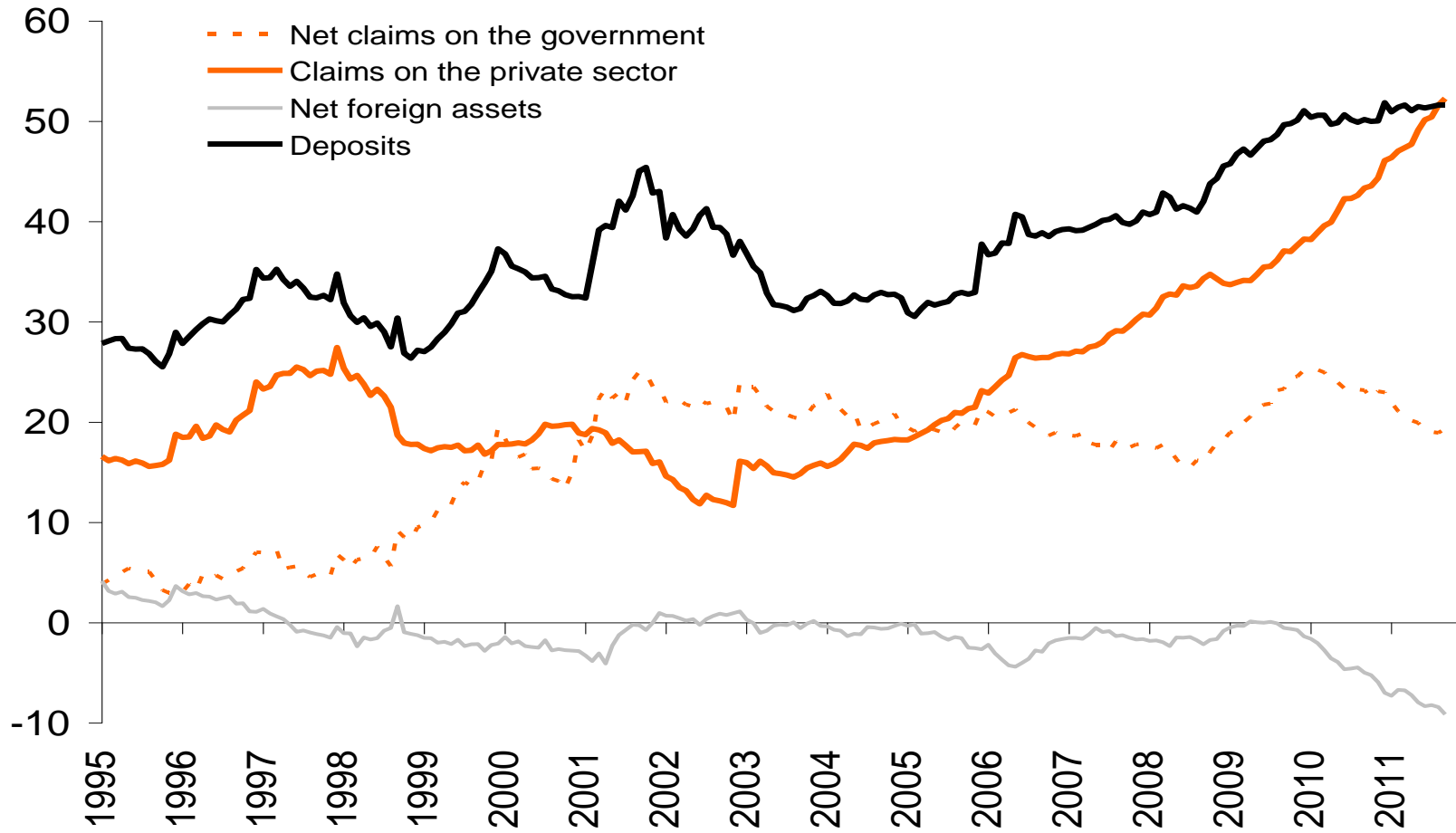


Source : CbT – (\*) BNP Paribas estimates



# Higher external vulnerability of the banking sector

## Main balance sheet items of the banking sector (% GDP)

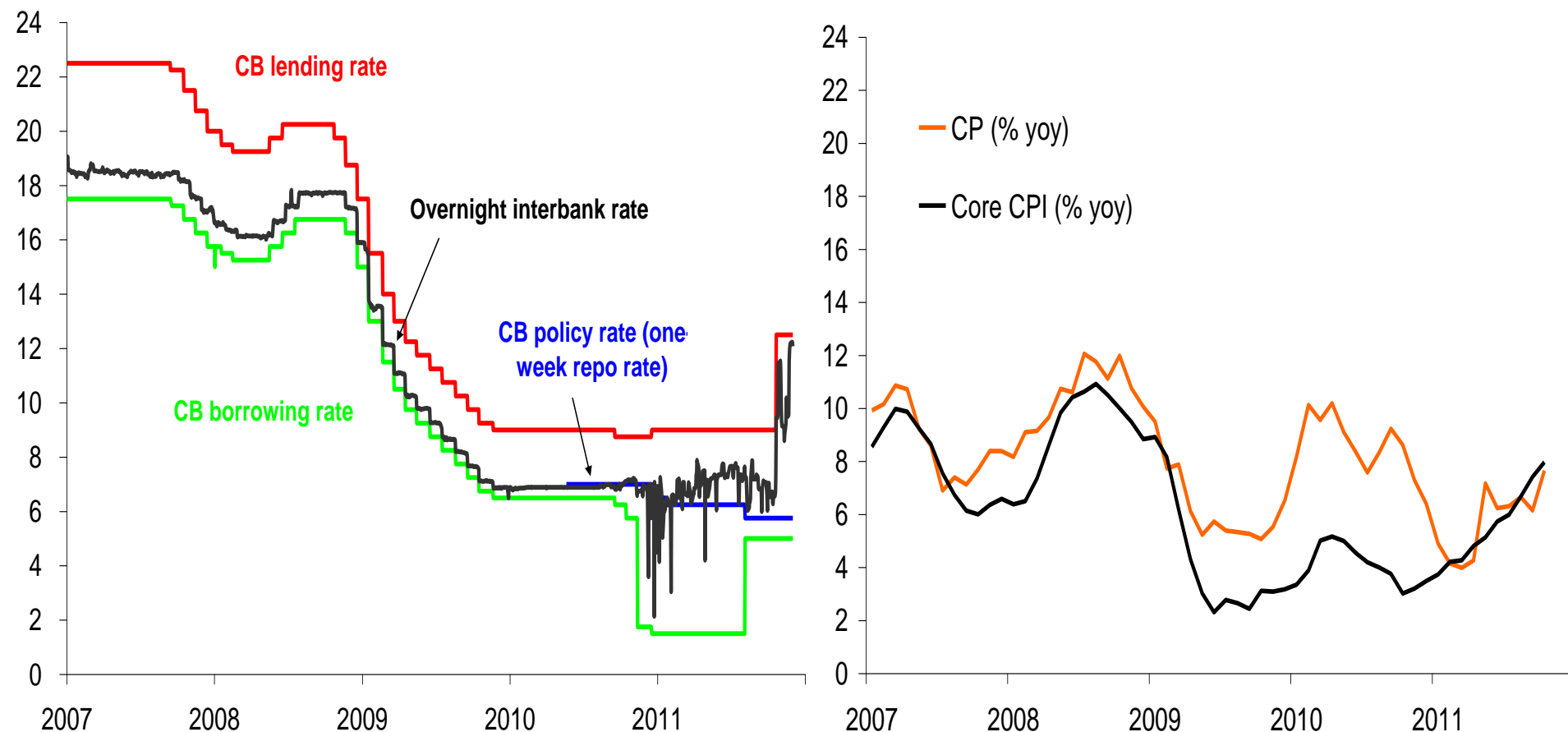


Sources : IMF – BNP Paribas



# Much less room to manoeuvre for monetary policy ...

## Policy rates and inflation

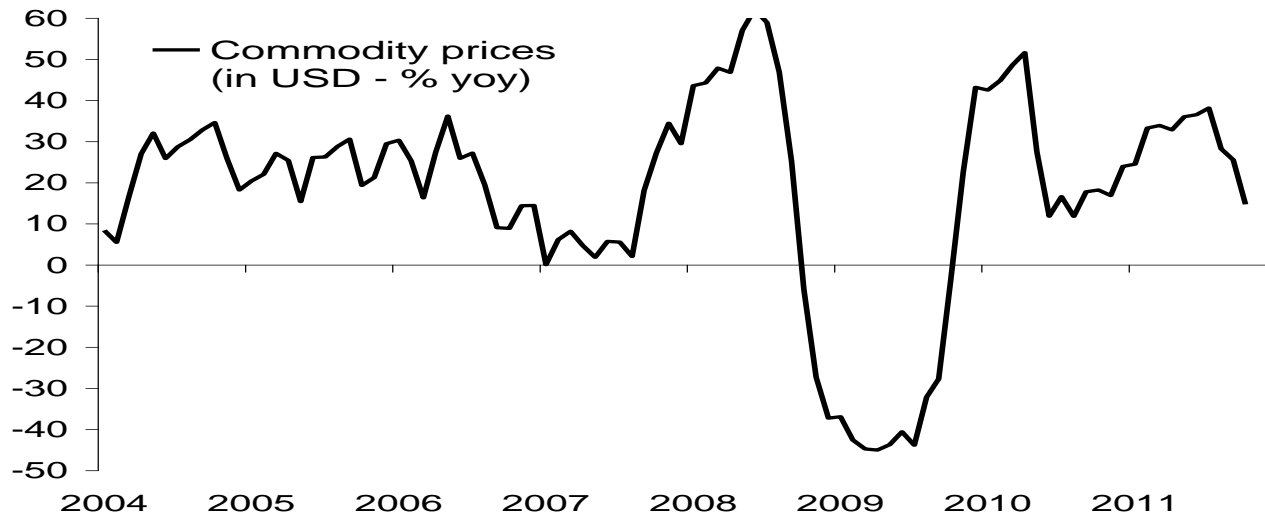
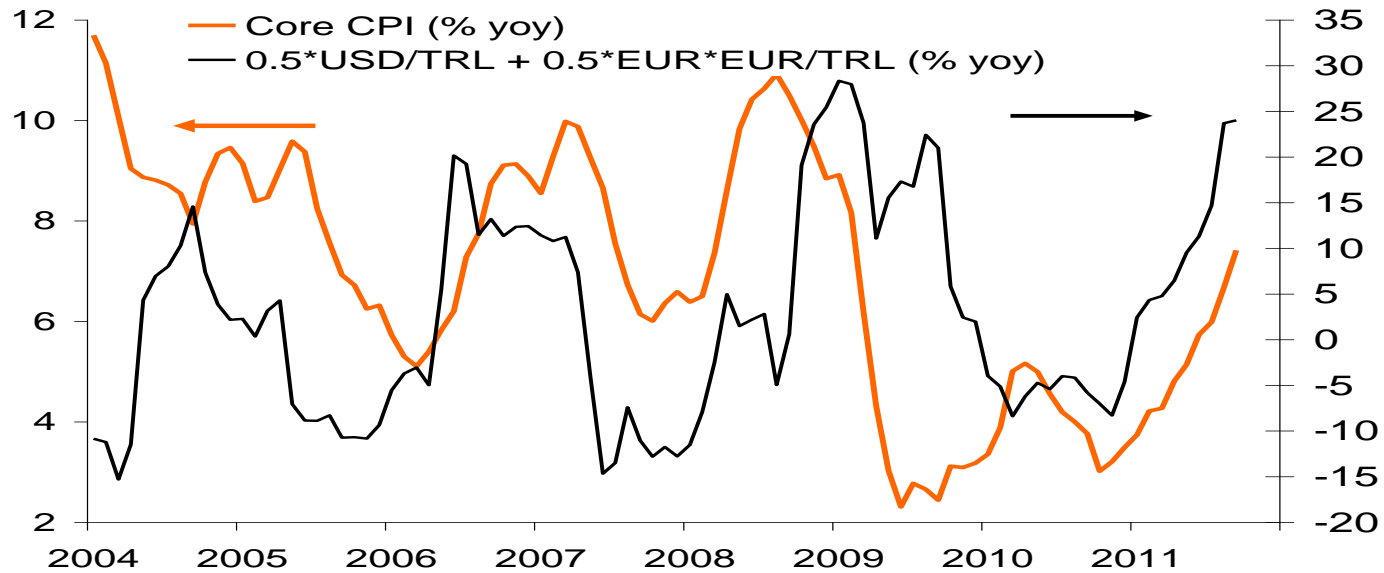


Sources : Datastream - BNP Paribas





# ... as the TL depreciation could not be offset this time by a strong decline in commodity prices

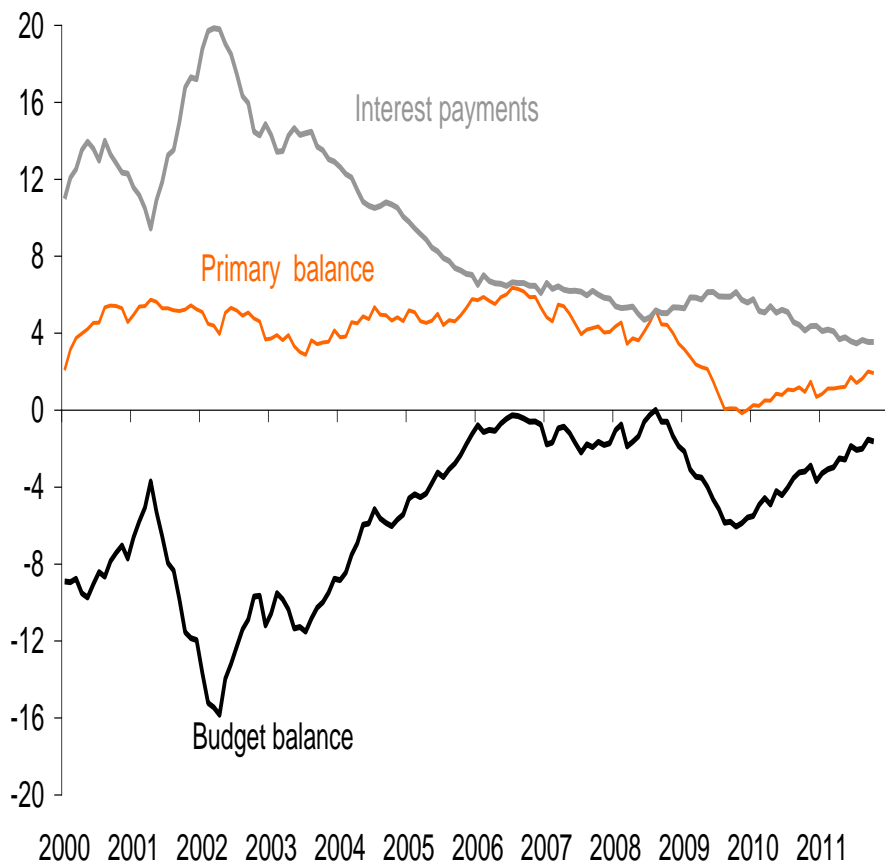


Sources :  
TUIK – IMF  
- BNP  
Paribas

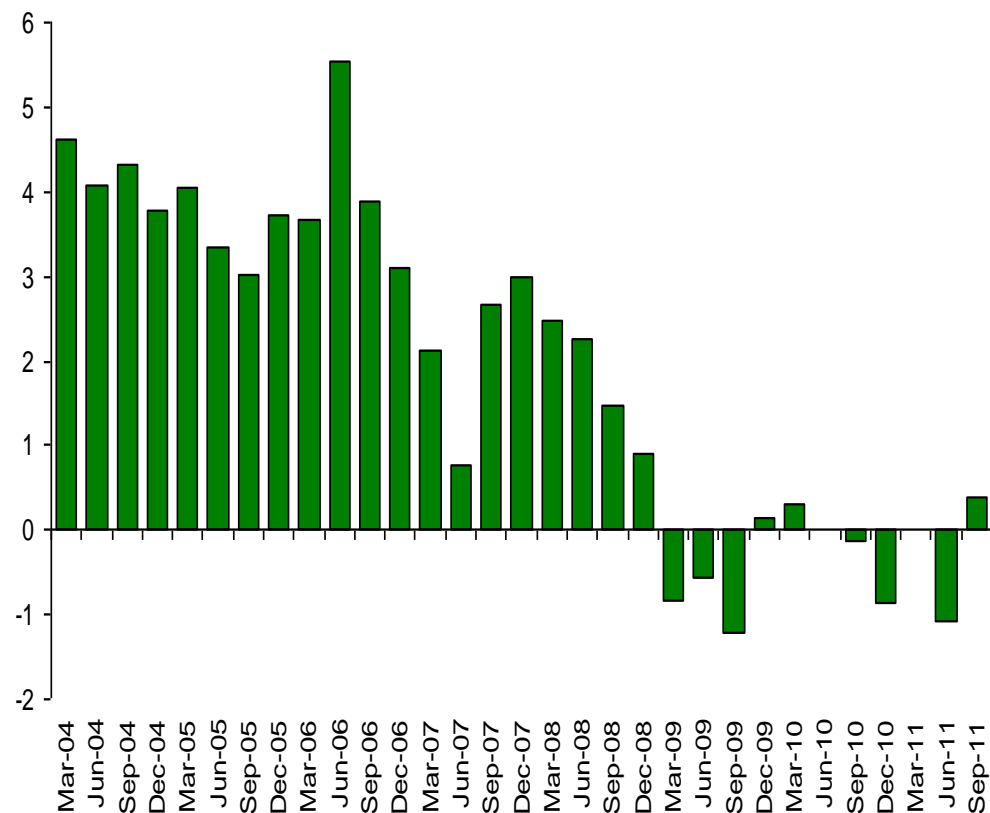


# Fiscal policy: still room to manoeuvre but not as large than in 2008

## Central government budget balance (% GDP)



## Cyclically-adjusted primary balance (% GDP)

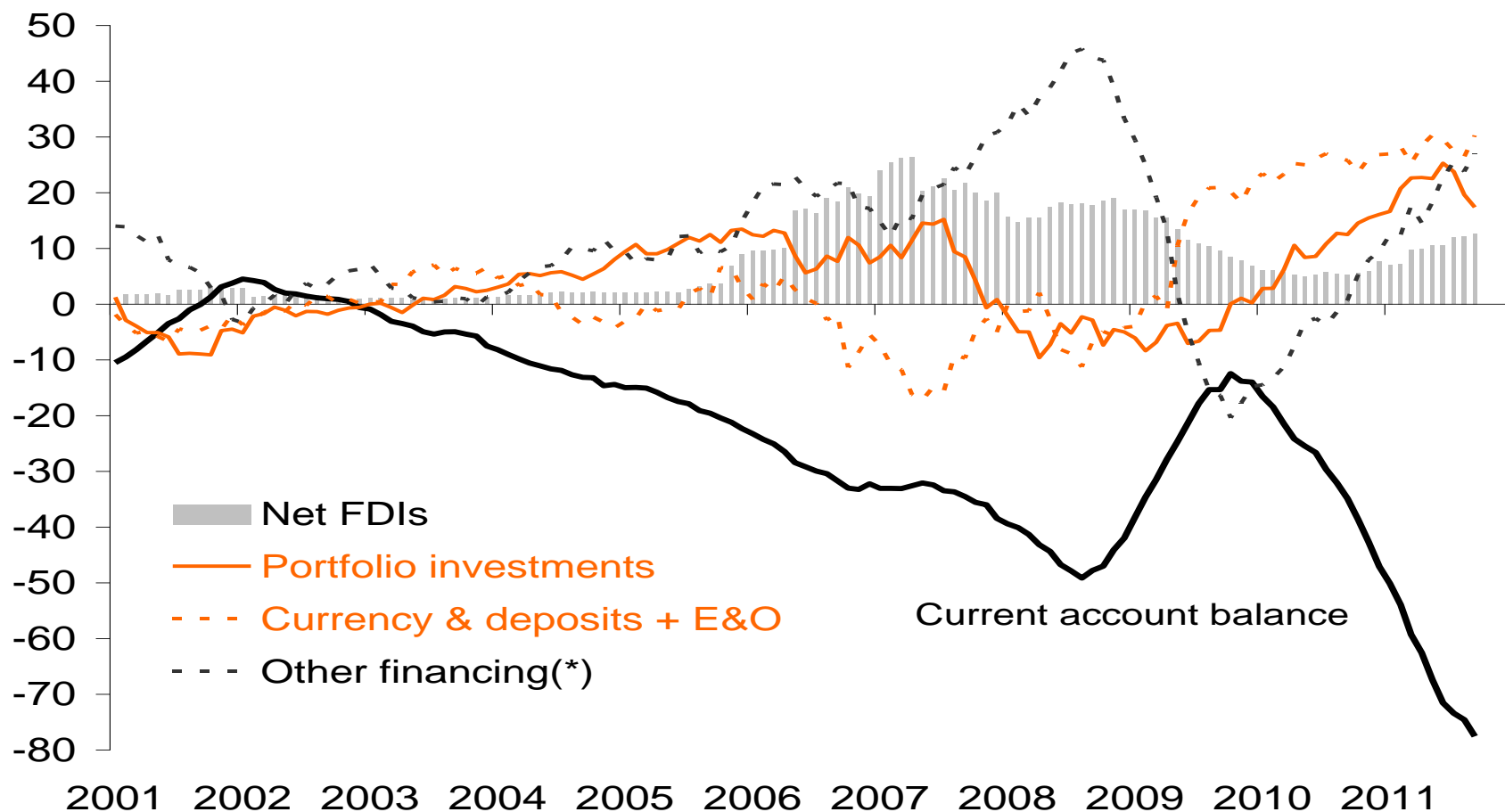


Sources : Turkish Ministry of Finance - TEB BNP Paribas



# A more fragile external financing profile

## Current account deficit financing (USD bn)

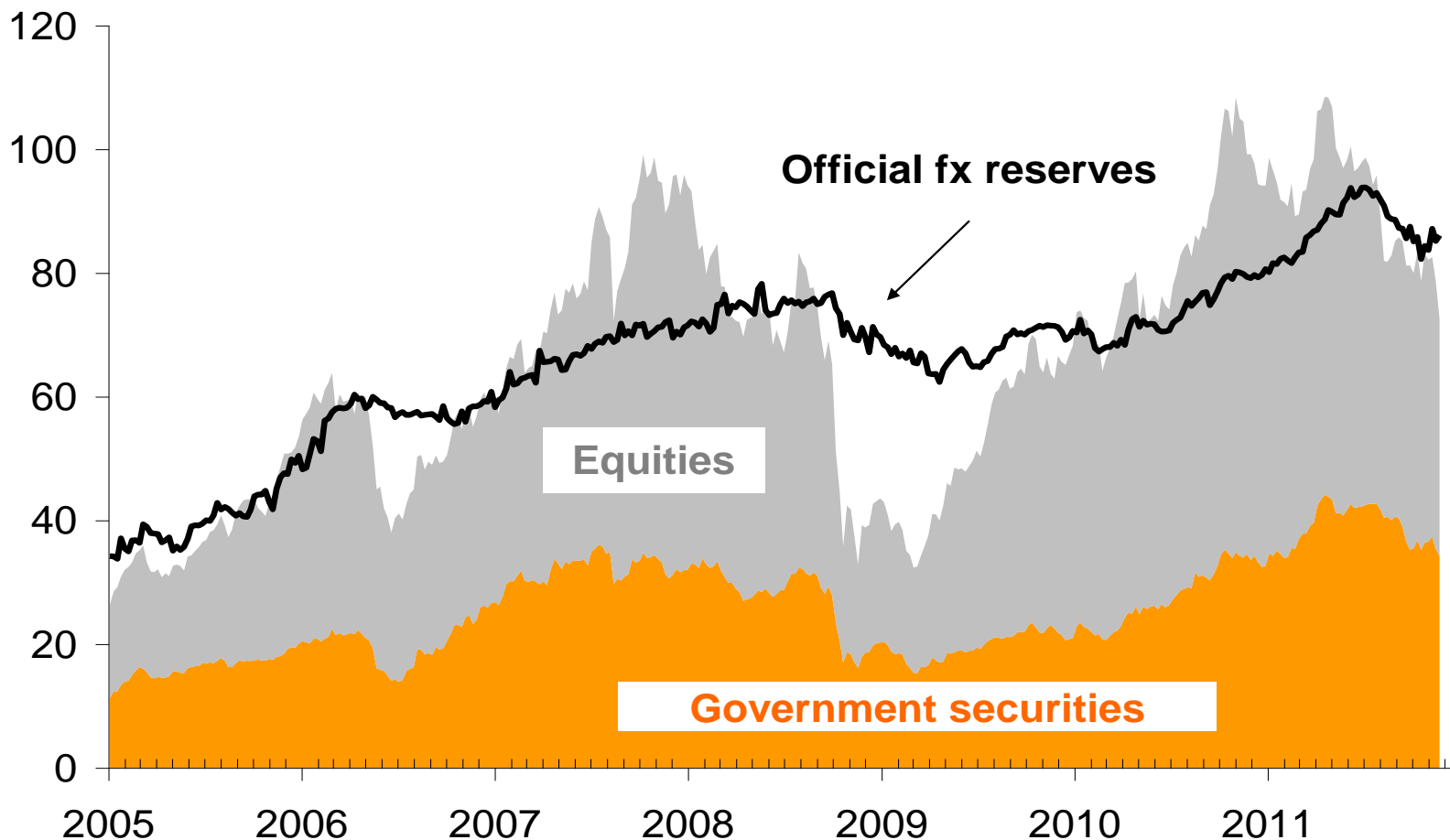


(\*) Trade financing & MLT loans

Source : CbT



## Turkey : Hot money & official fx reserves (USD bn)



Source : CbT



# Conclusion

- From a strict macroeconomic point of view, the Turkish economy is in a weaker position than in 2008 to withstand a global slowdown
  - A more unbalanced growth regime (which is usually followed by a marked slowdown/recession in case of external shock)
  - Lower room to manoeuvre for economic policies
  - A more fragile external financing profile
  - A banking sector more reliant on external funding
- But there are mitigating factors
  - Sounder public finances
  - Strong fx liquidity
  - Moderate public & private indebtedness
  - Active fx-risk management by banks
- ⇒ **A balance of payment crisis (i.e. a massive depreciation leading to defaults on external debt and requiring the support of the IMF) is very unlikely**
- ⇒ **The main risk is credit risk because of the past credit boom and fx indebtedness of the corporate sector**



# tepaV

The Economic Policy Research Foundation of Turkey

## **A long term perspective for Turkey's economic growth problem**

**Esen Çağlar**

Paris, 6 December 2011

# Is Turkey an exception?

## Fastest Contracting Economies in 2009

Finland	-8.3%
Russia	-7.9%
Hungary	-6.7%
Mexico	-6.5%
Japan	-6.3%
Denmark	-5.2%
Sweeden	-5.1%
Italy	-5.1%
England	-5.0%
<b>Turkey</b>	<b>-4.7%</b>

## Fastest Growing Economies in 2010

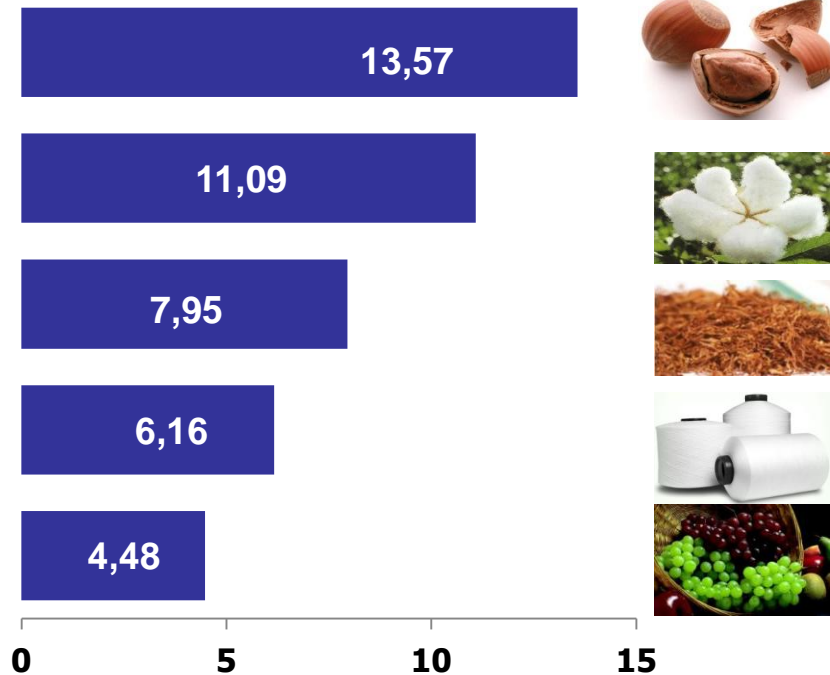
Singapore	14.5%
Taiwan	10.8%
China	10.3%
Argentina	9.1%
<b>Turkey</b>	<b>8.9%</b>
India	8.6%
Thailand	7.8%
Brazil	7.5%
Malasia	7.2%
Hong Kong	6.9%

# Framework

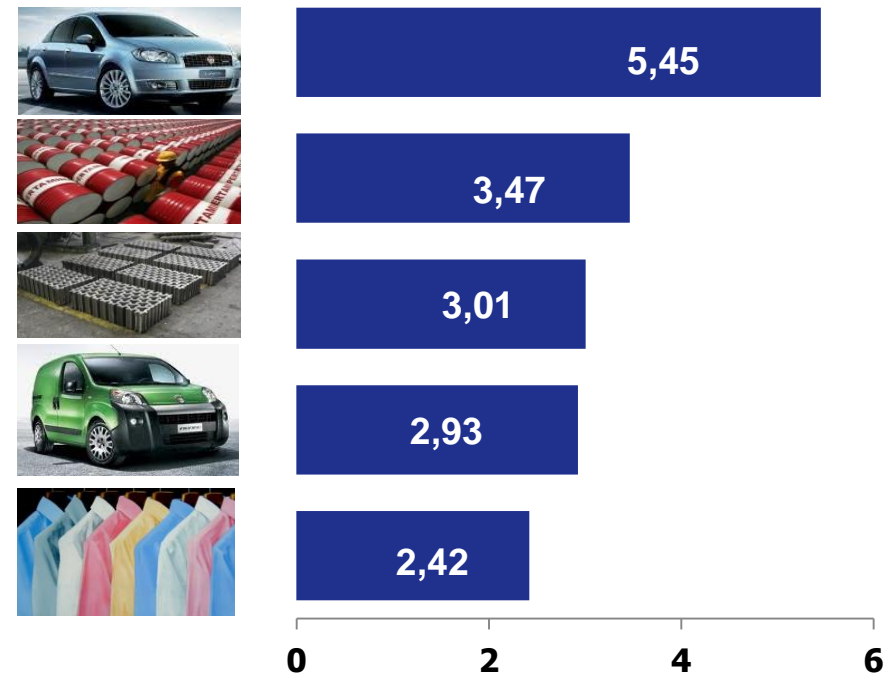
- Overview of Turkey's growth story
  - Transformation process
  - Convergence: Full side and empty side of the glass
- How to go beyond mediocre?
  - Being a top-10 economy?
  - What's needed?
  - What's done?
- Takeaways: how to be an exception?



## Turkey's top-5 export items (1980, share %)

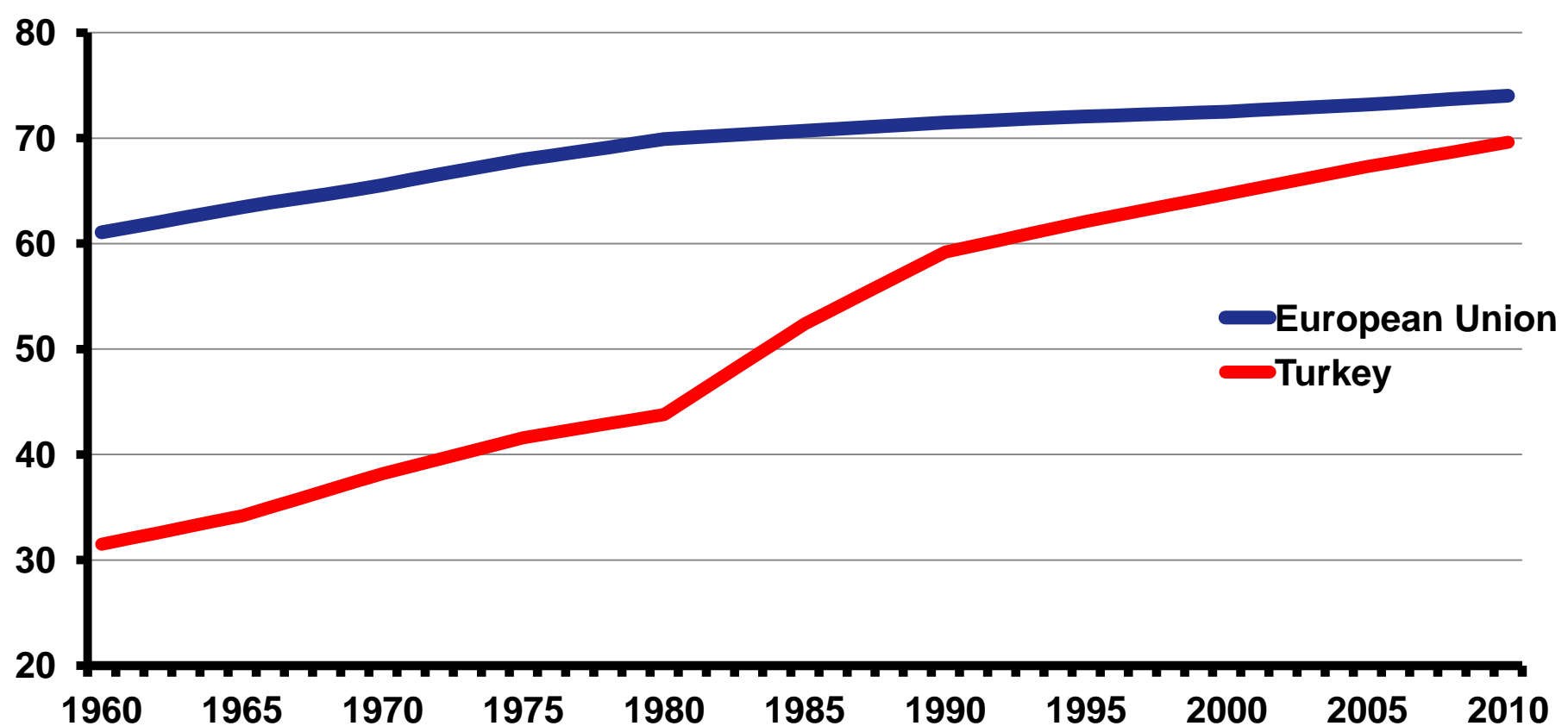


## Turkey's top-5 export items (2010, share %)



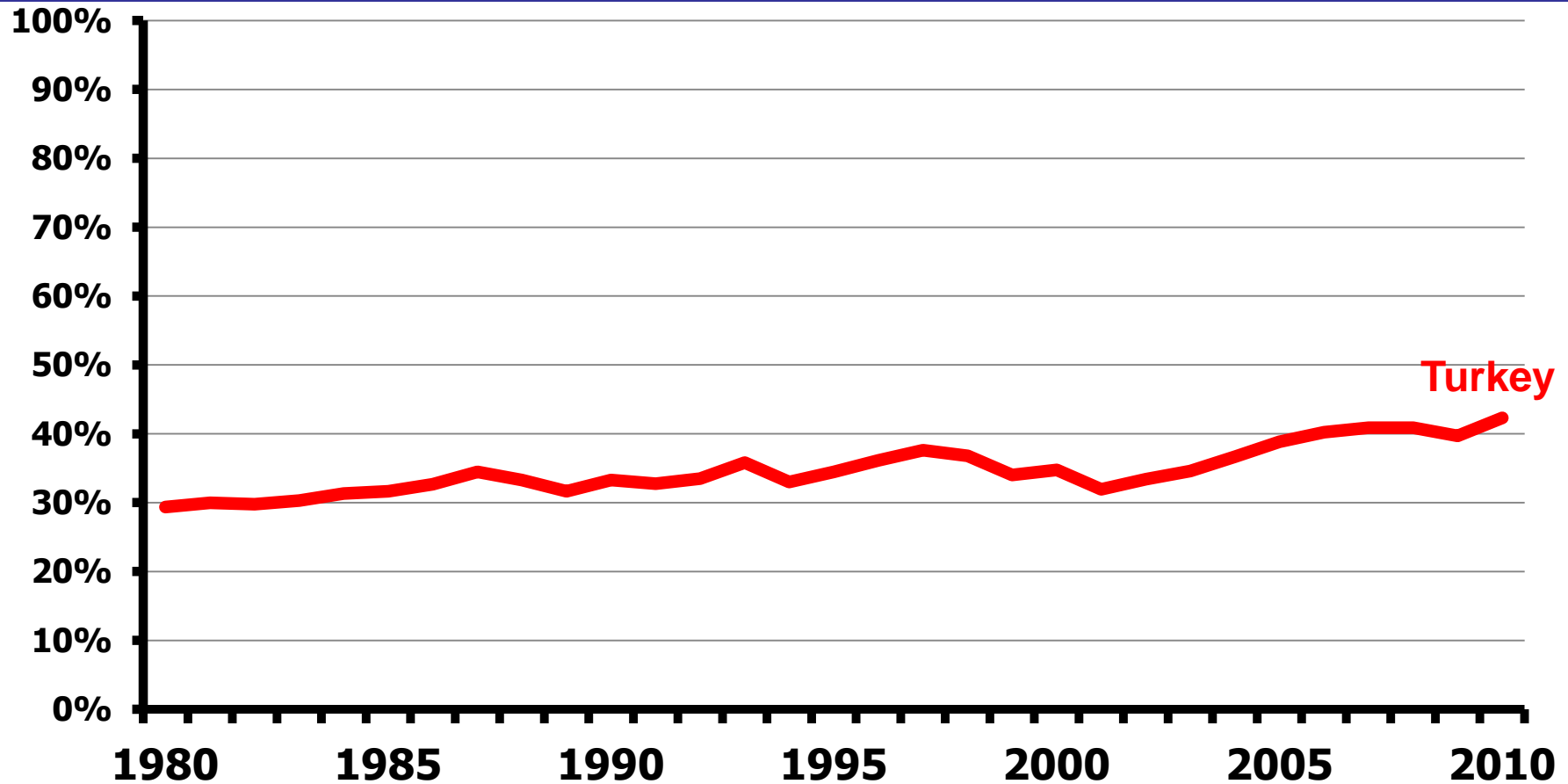
# Very rapid convergence to the EU in terms of urbanization: social transformation...

Urban population as a percentage of the total population in Turkey and EU countries, (%), 1960-2010



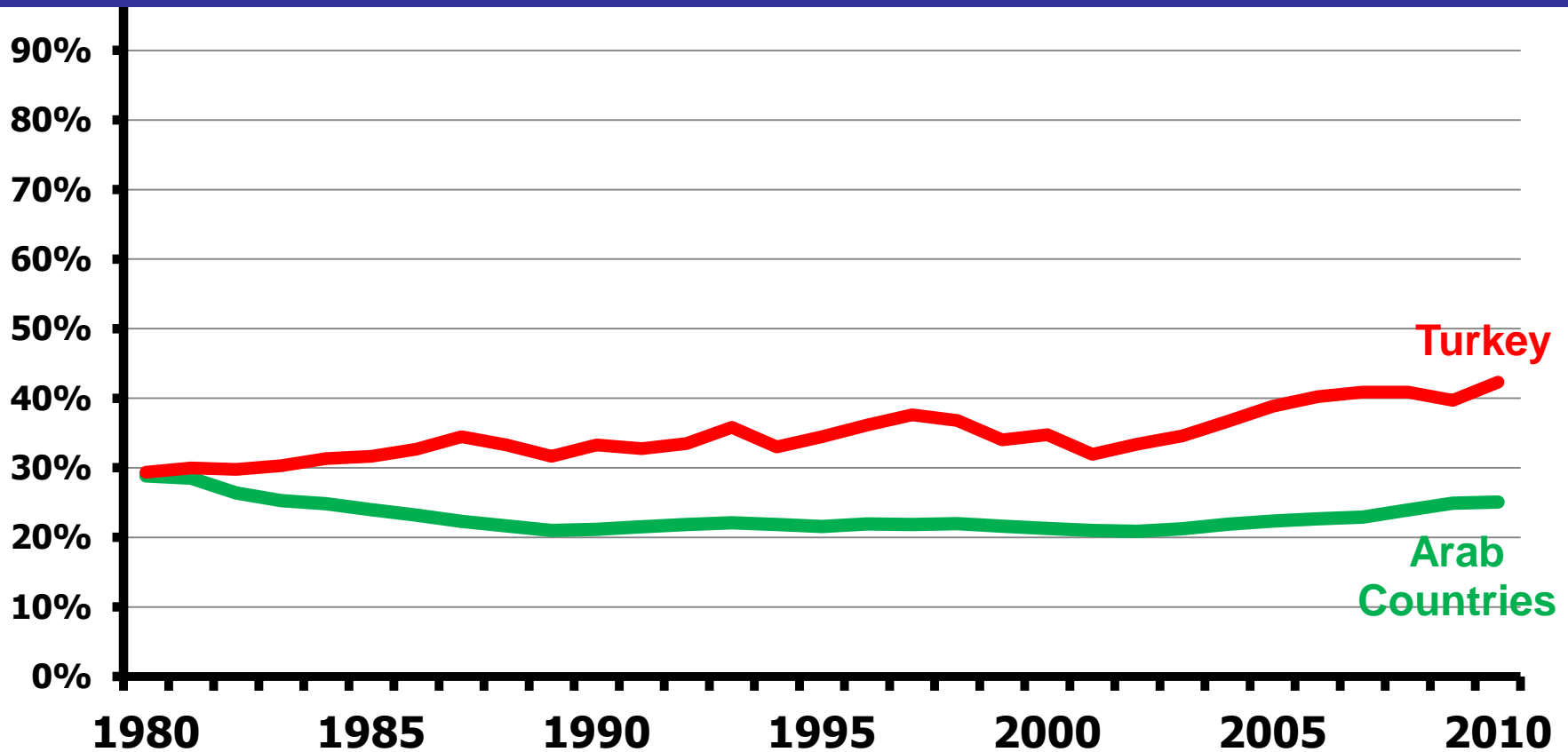
## But there is no rapid income convergence...

GDP per capita of Turkey as percentage of French GDP per capita, 1980-2010



## What's the full side of the glass?

GDP per capita of Turkey and Arab Countries, as percentage of French GDP per capita, 1980-2010



## First Generation reforms:

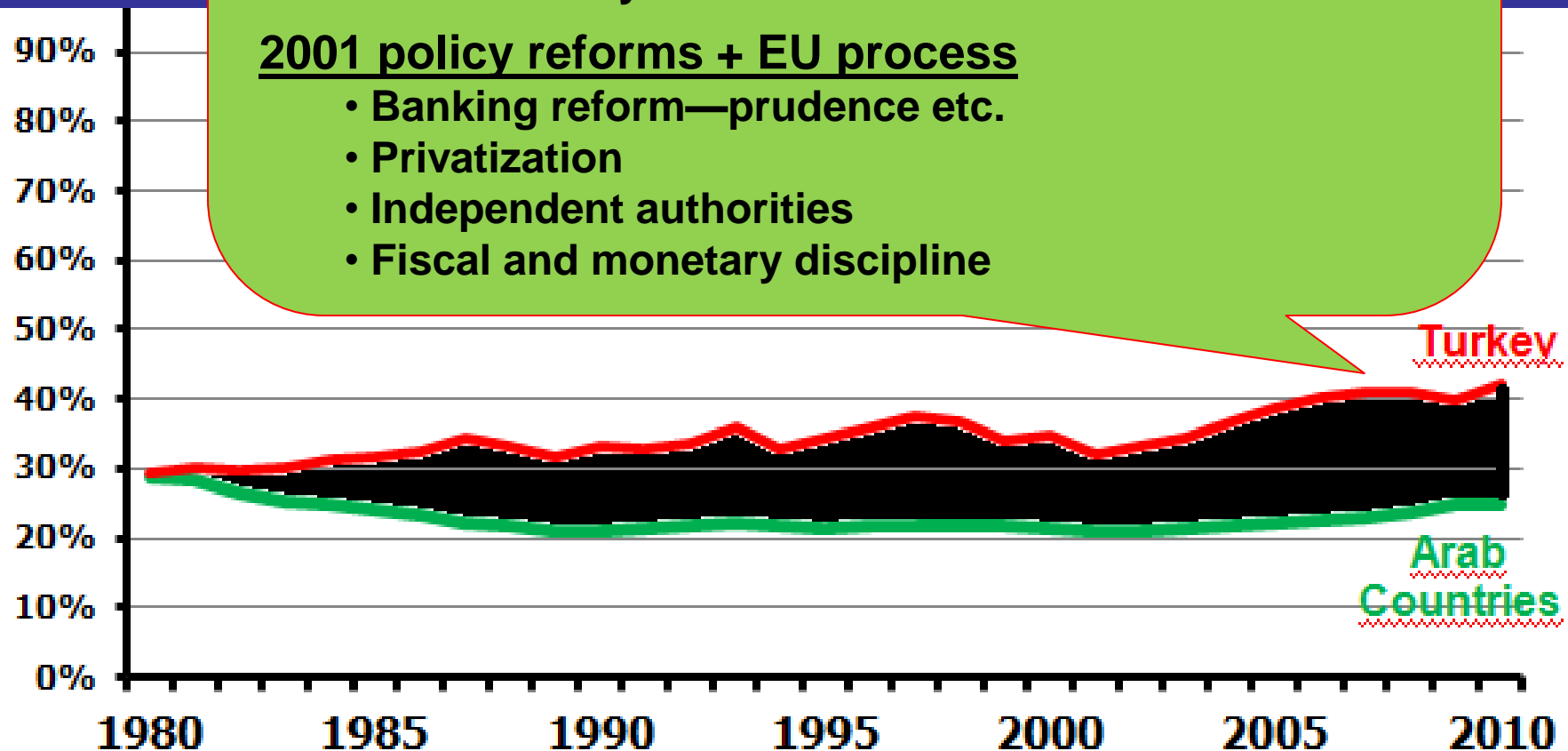
### 1980 policy reforms

- Price reforms
- Financial liberalization
- Trade liberalization
- Convertibility of the Turkish lira

### 2001 policy reforms + EU process

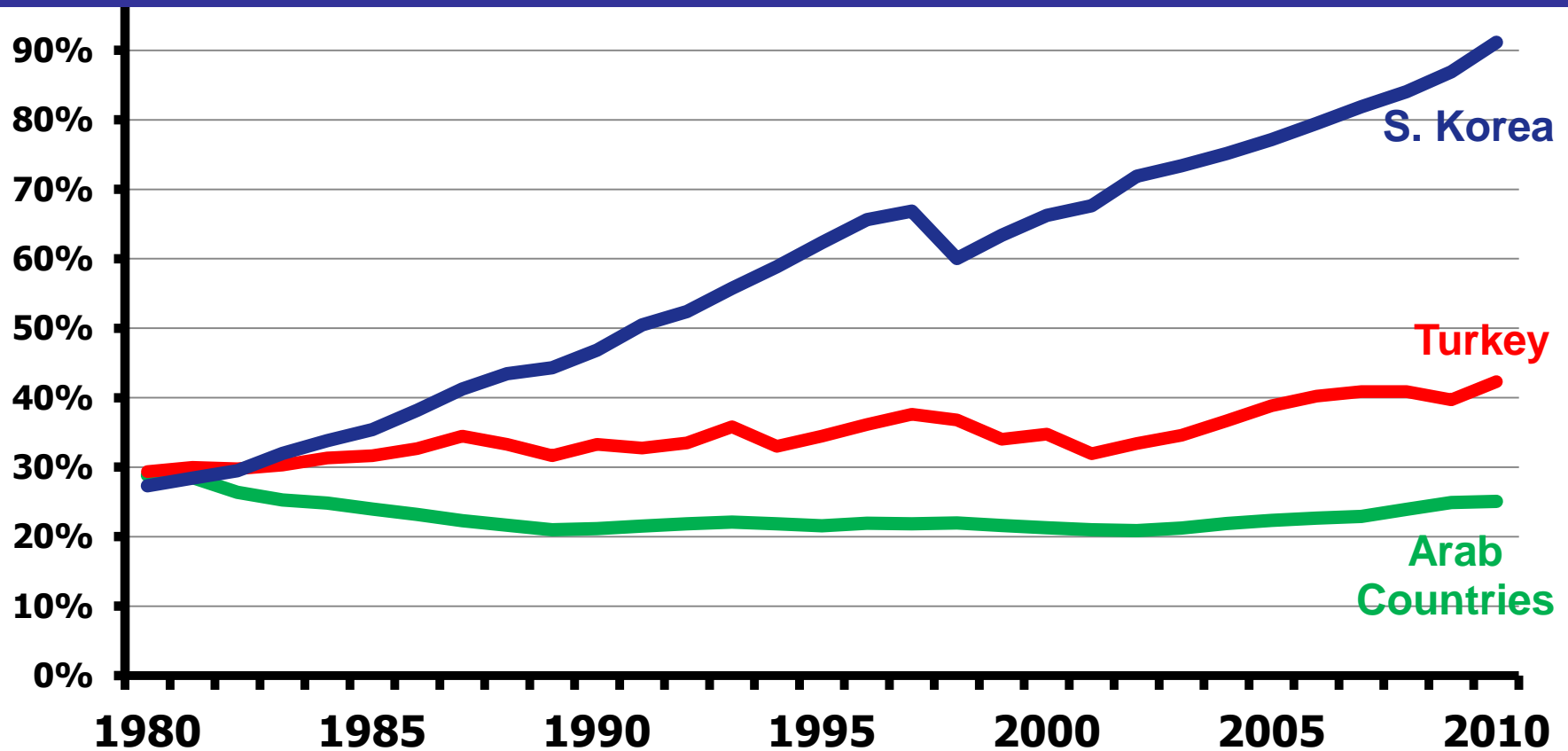
- Banking reform—prudence etc.
- Privatization
- Independent authorities
- Fiscal and monetary discipline

GDP per capita



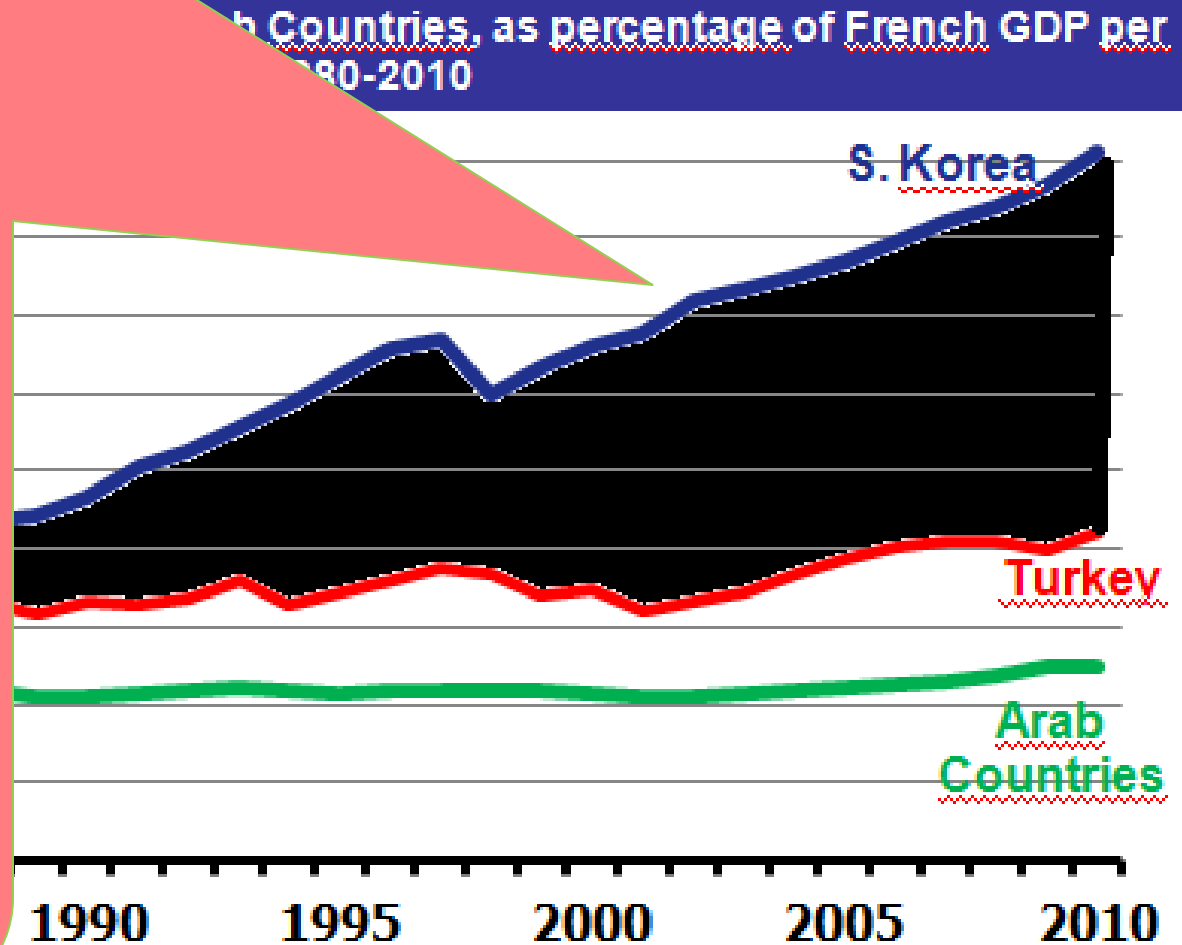
# How about the empty side of the glass?

GDP per capita of Turkey, Korea and Arab Countries, as percentage of French GDP per capita, 1980-2010



## Second generation reforms:

- Public administration reform & decentralization
- Tax reform & informality
- Operational problems of the legal system
- Education reform & vocational training
- Labor market rigidities
- Health reform
- New constitution ...



# What next?

- Today's common goal: be a top-10 economy by 2023
  - Requires at least around 6 percent growth every year!
- How can an economy grow?
  - Increase productivity
  - Increase working age population
  - Increase labor force participation



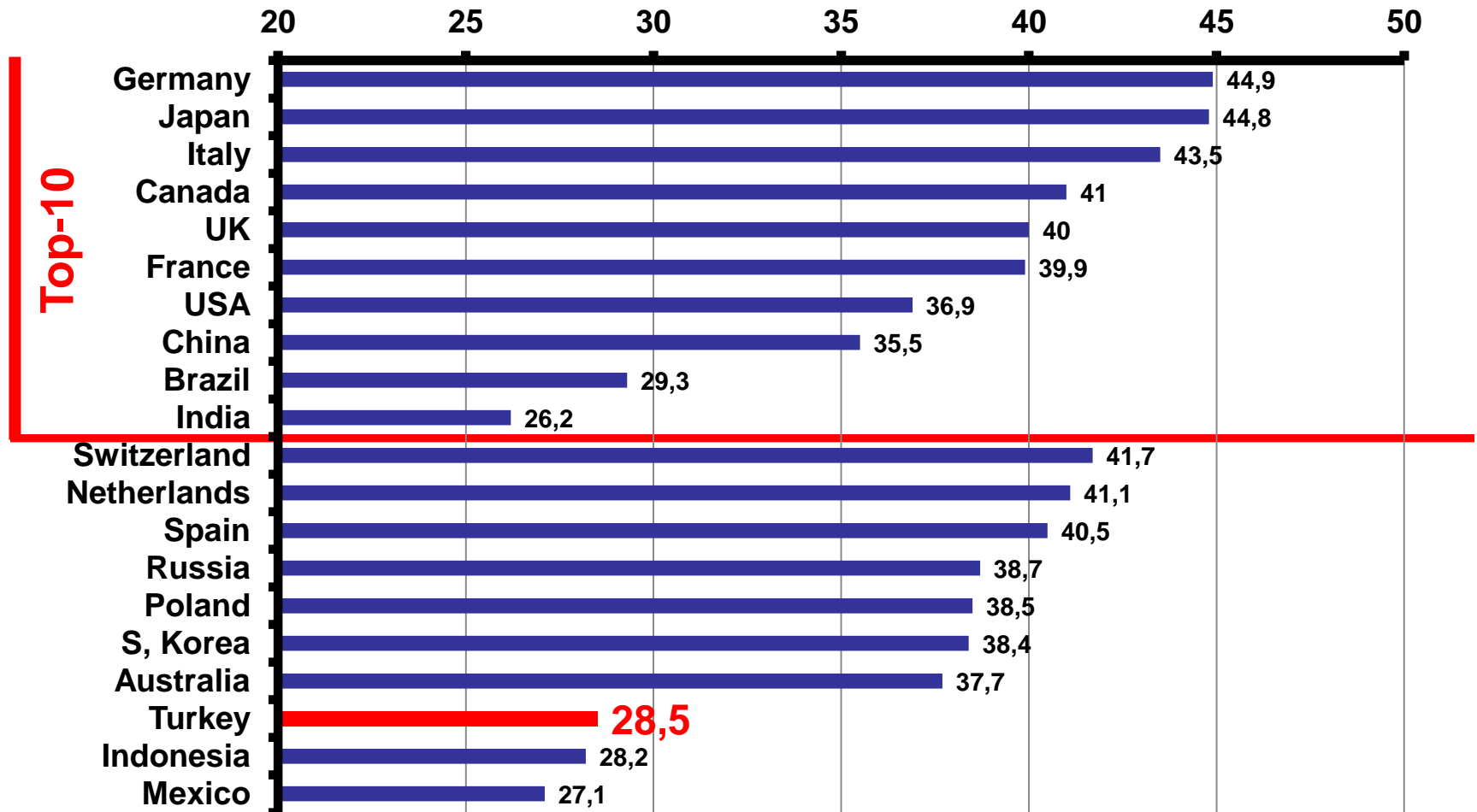
# Today's challenge in Turkey:

## Can we become a top-10 economy by 2023?

		Nominal GDP (billion USD)	Output per worker (thousand USD)
1	USA	14,582	104.9
2	China	5,879	7.9
3	Japan	5,498	87.9
4	Germany	3,310	85.4
5	France	2,560	99.5
6	UK	2,246	77.6
7	Brazil	2,088	94.8
8	Italy	2,051	89.7
9	India	1,730	4.1
10	Canada	1,574	92.4
11	Russia	1,480	21.2
12	Spain	1,407	76.3
13	Mexico	1,040	23.7
14	S. Korea	1,014	42.6
15	Australia	925	82.2
16	Netherlands	783	91.1
<b>17</b>	<b>Turkey</b>	<b>735</b>	<b>32.5</b>
18	Indonesia	707	6.5
19	Switzerland	524	113.4
20	Poland	469	31.3

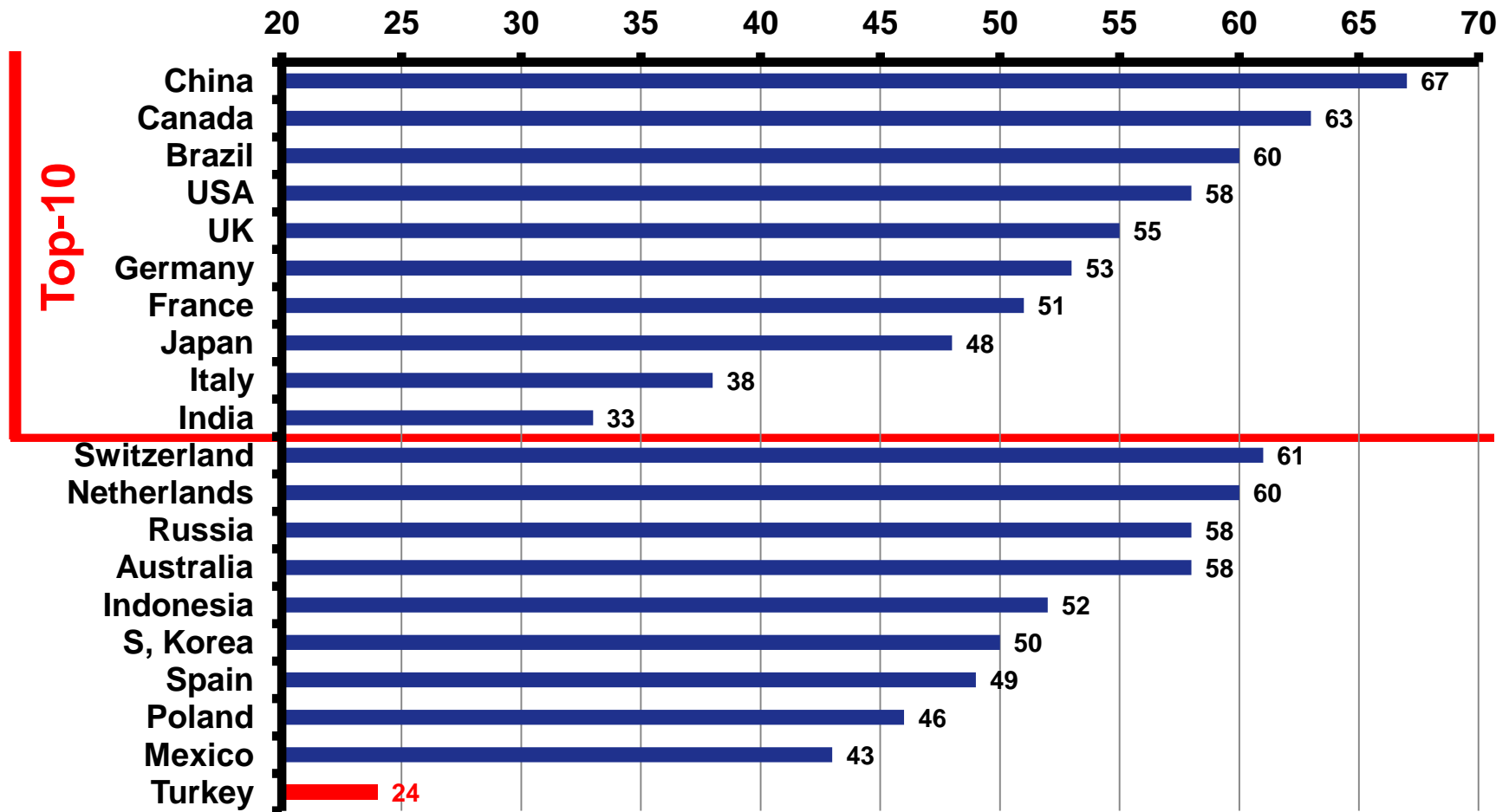
# Turkish population is yet to retire...

Average age of the population of the 20 largest economies, 2010



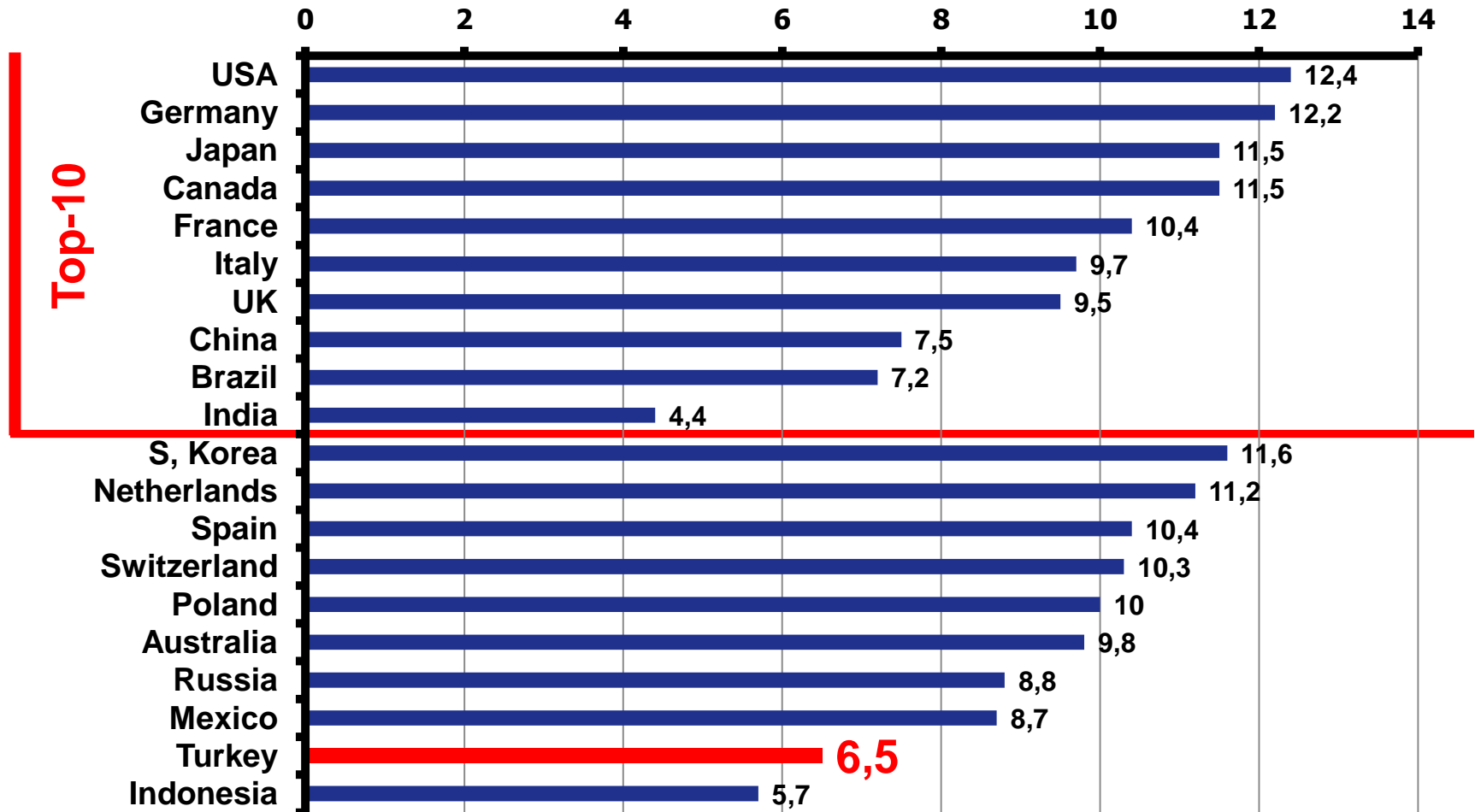
# Possible to run with one leg?

## Female Labor Force Participation Rate (%), 2010



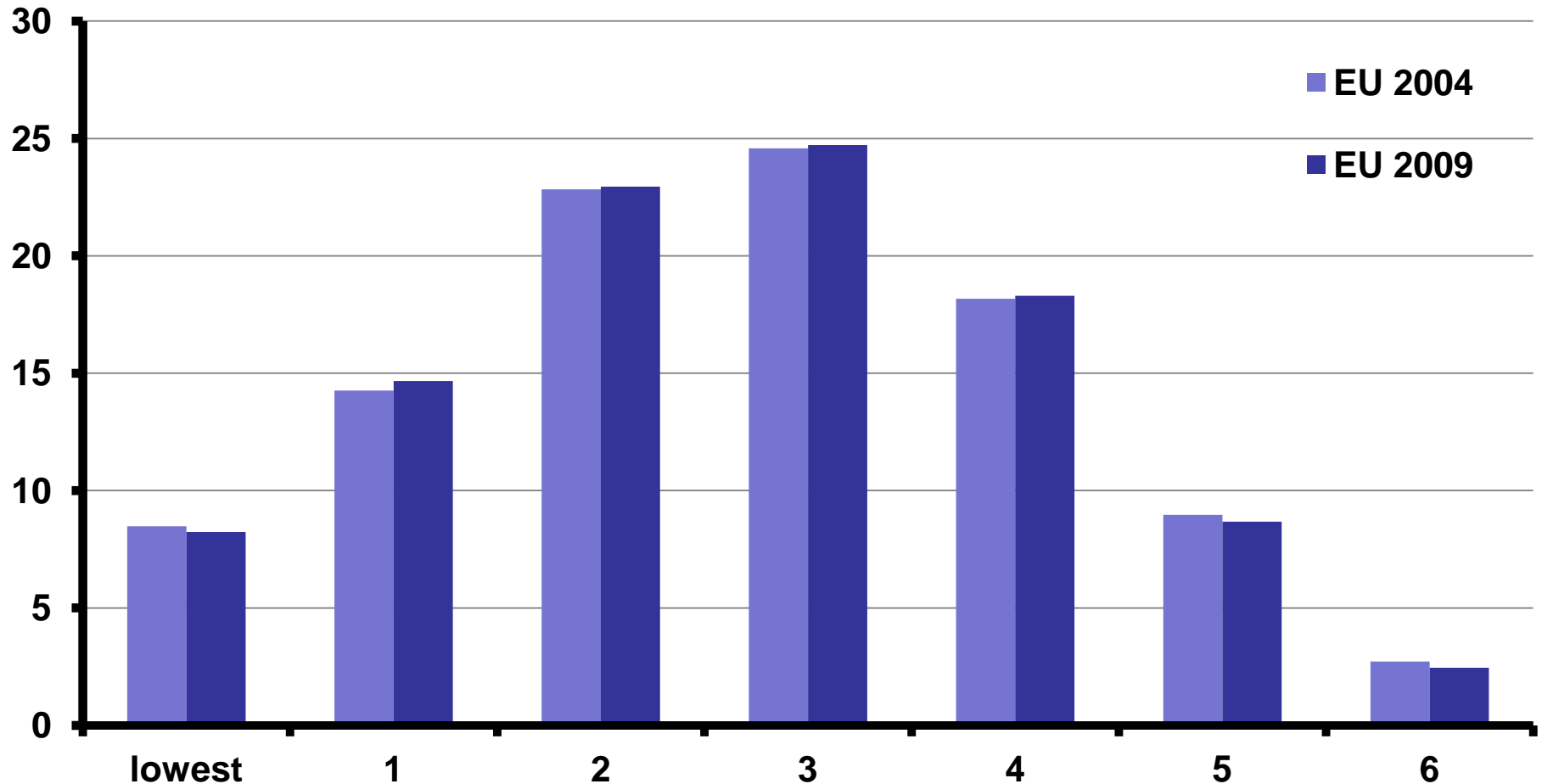
# What to do about “seventh grade drop-outs”?

Average years of education, 2010



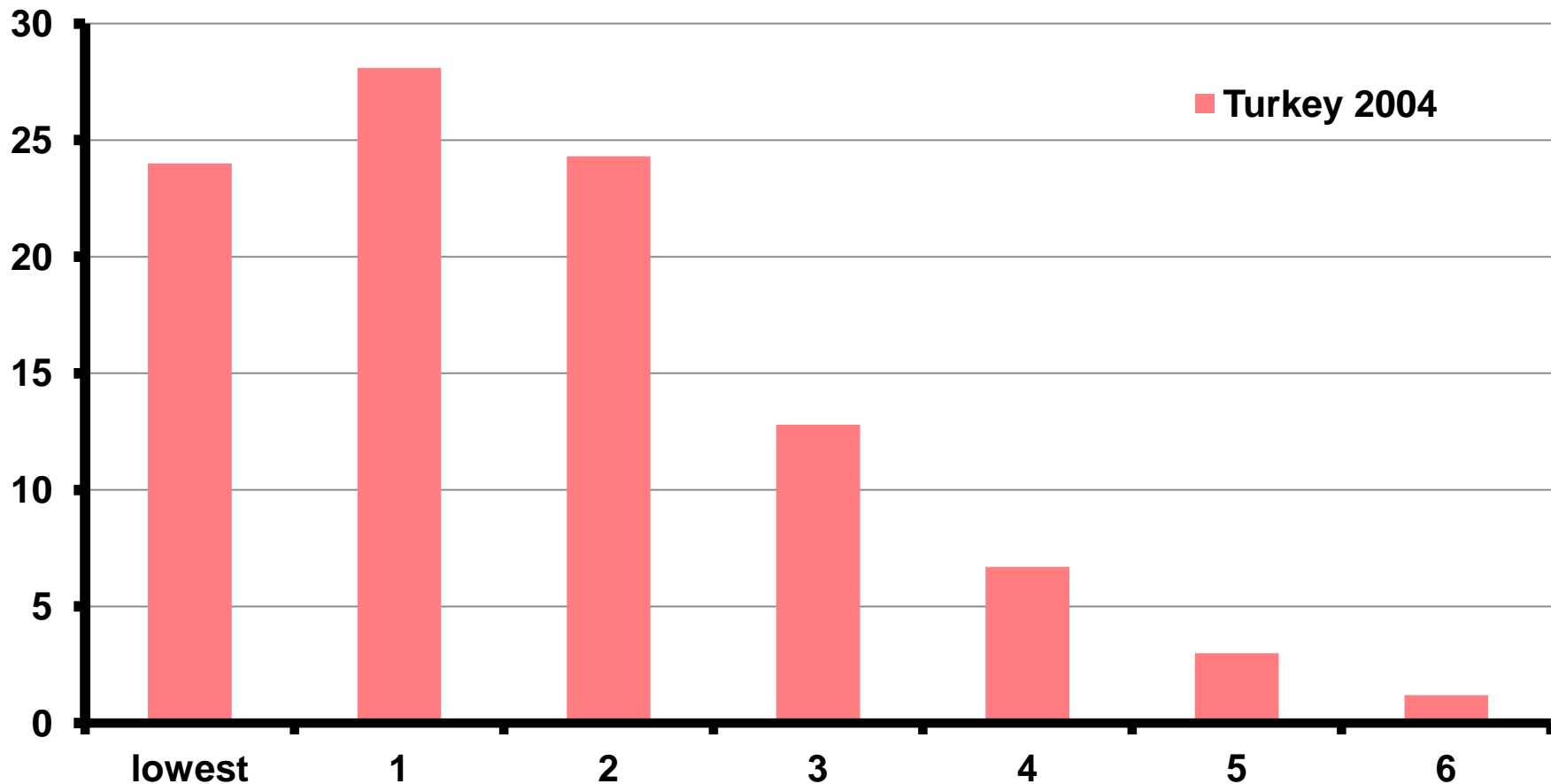
# Quality of education: EU as the “normal” case

Distribution of 15 Year Old Students by their PISA Math test scores, European Union, 2004 and 2009



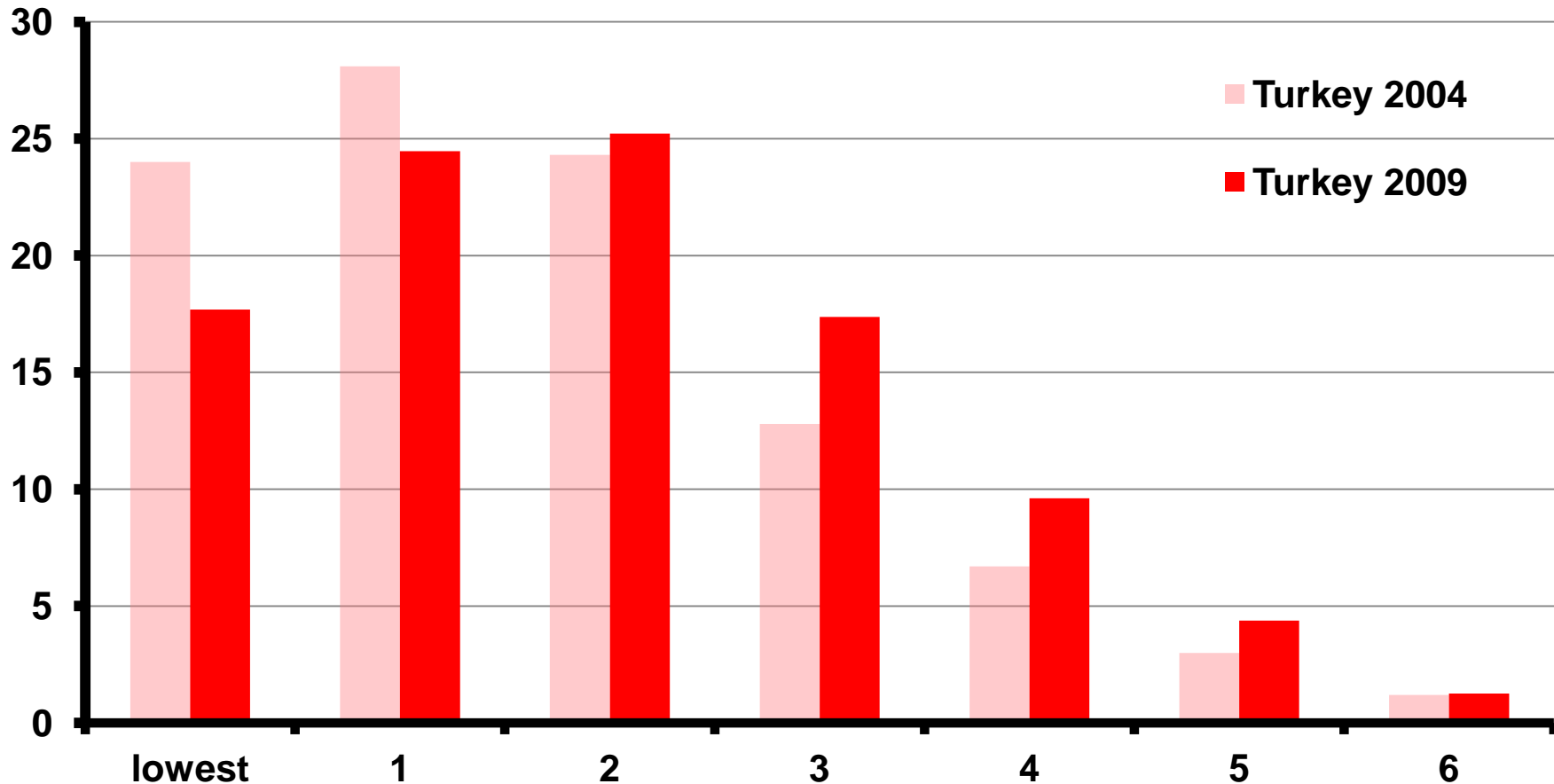
# Turkey as the “abnormal” case...

Distribution of 15 Year Old Students by their PISA Math test scores, Turkey, 2004



## However, recent improvement confirms the productivity growth potential

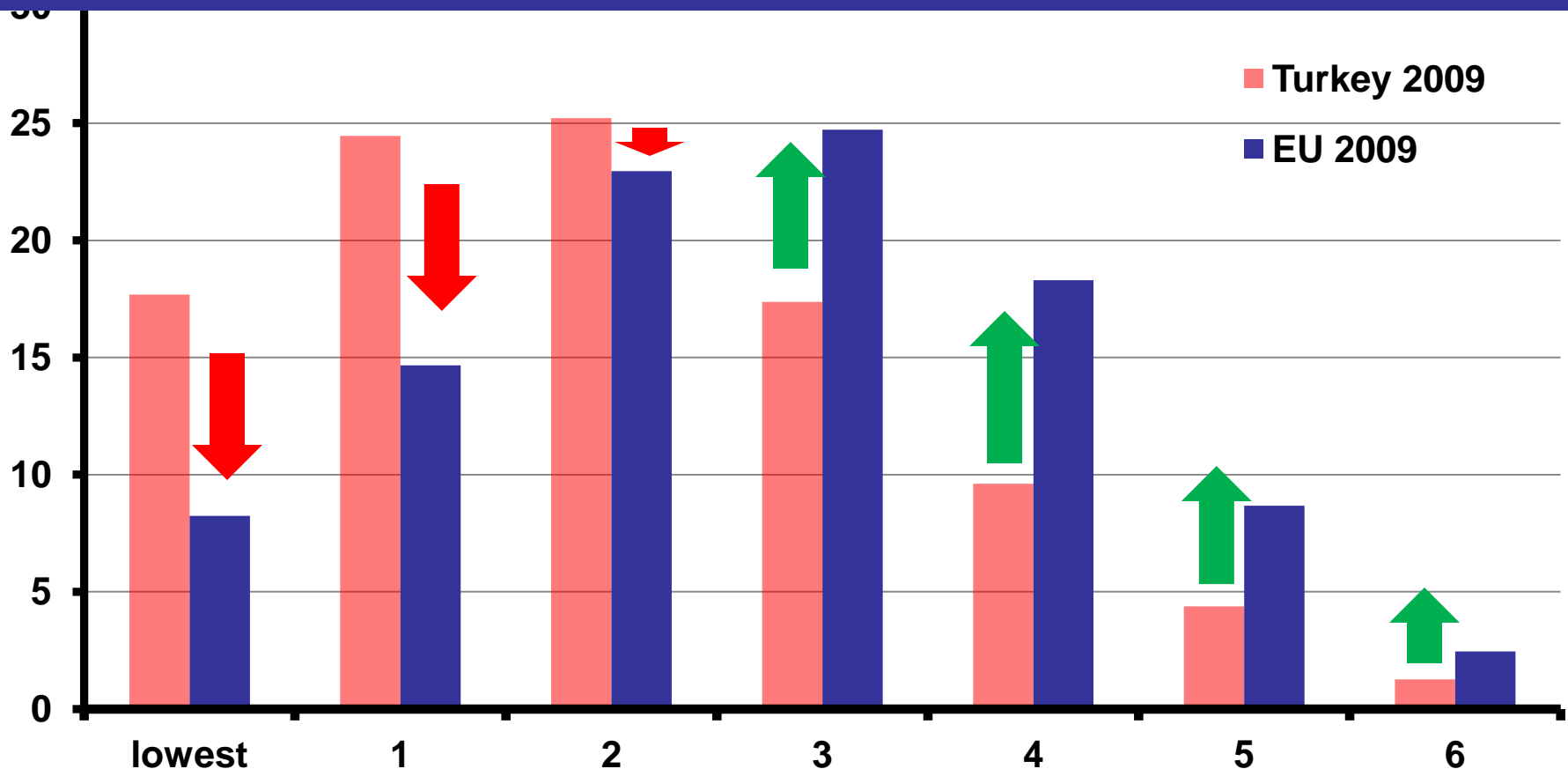
Distribution of 15 Year Old Students by their PISA Math test scores, Turkey, 2004



# Our challenge ahead is obvious...

## Any role for the EU in human capital formation?

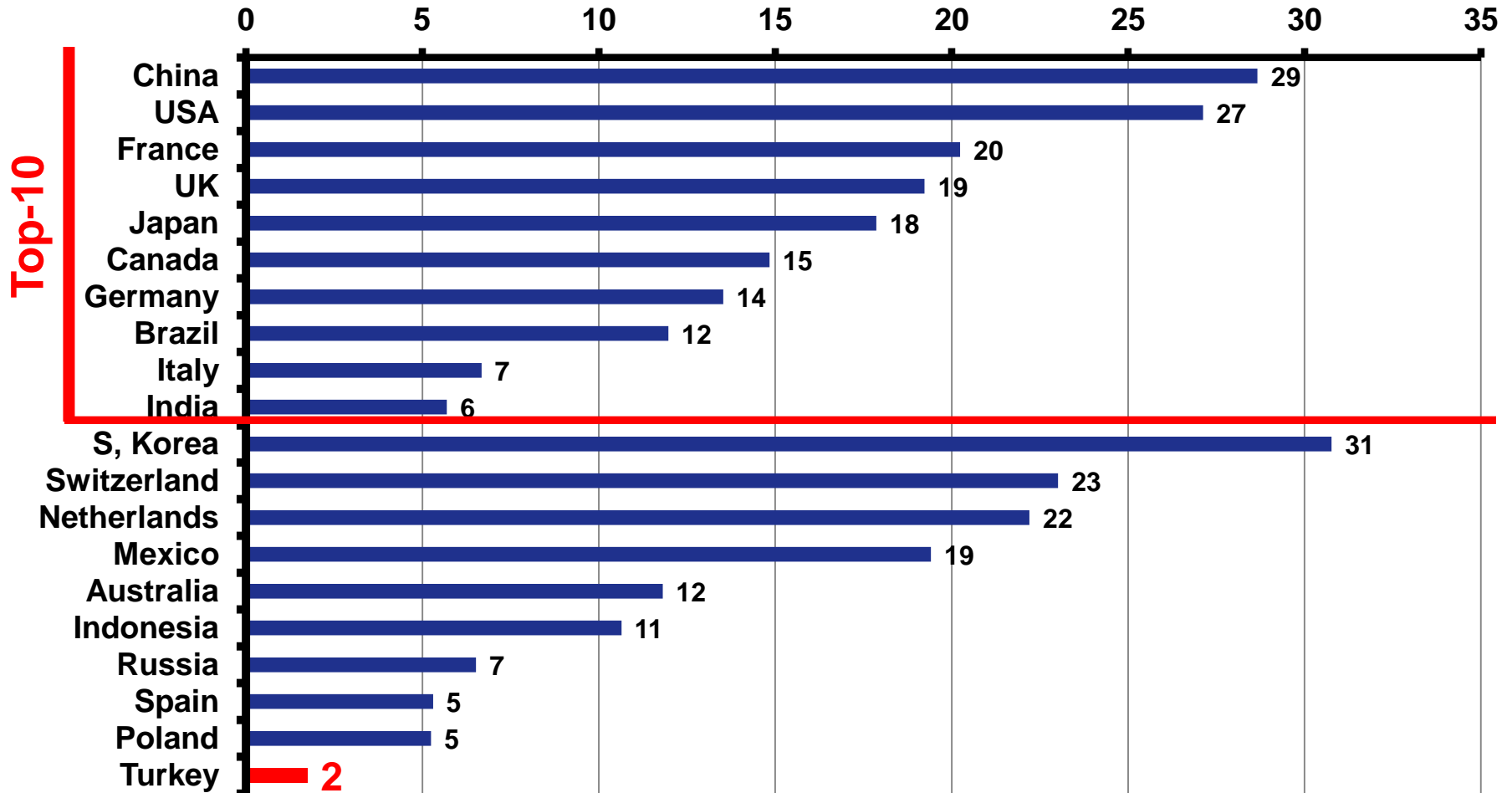
Distribution of 15 Year Old Students by their PISA Math test scores, European Union, 2004 and 2009





# Next challenge: Increasing the share of high-tech exports

High-technology exports (% of manufactured exports)



## Any risks for continuing transformation?

### ■ Macro vulnerabilities

- Current account deficit?
- Eurozone crisis?
- Quality of public finance?

### ■ Political risks

- Kurdish problem?
- Increased polarization?
- Backlash in the constitution process?

### ■ Earthquake in İstanbul?

# To sum up

## ■ Biggest risk

→ Losing focus. No big reform since 2007 except smoking ban

## ■ 2012 and beyond will be tough

→ Attracting funds will be more competitive

→ A coherent growth story is the only way to differentiate in the long run

## ■ Biggest question

→ Turning political stability into a reform agenda

# Gouvernance et pilotage économique de la Turquie

**Deniz Ünal**

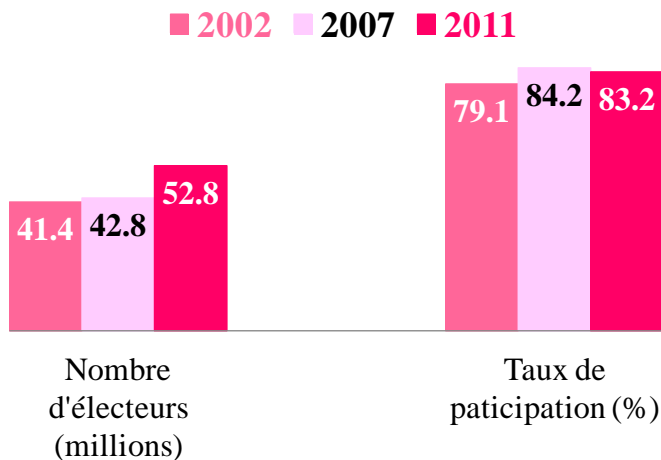
**CEPII**

**(Centre d'Etudes Prospectives et d'Informations Internationales)**

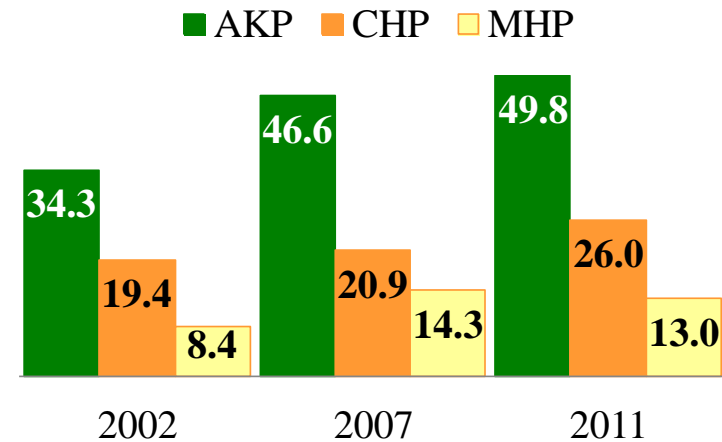
# Le pilotage économique en Turquie s'appuie sur une stabilité politique inédite

- Sauf en 1983 et en 1987, les élections générales n'ont pas dégagé de majorité parlementaire entre 1961 et 2001 en Turquie . Le pays a été gouverné par des gouvernements de coalition alliant parfois la gauche et la droite (si ce n'est les islamistes et l'extrême droite) dans l'incapacité de suivre des politiques économiques cohérentes. Ainsi, la Turquie a connu 9 gouvernements de coalition successifs dans la décennie 1990 avant la grande crise de 2001.
- L'AKP, le Parti de la Justice et du Développement a obtenu la majorité des sièges lors des trois dernières élections générales en 2002, 2007 et 2011. Il a ainsi inauguré une période de stabilité politique propice à la gestion économique du pays.

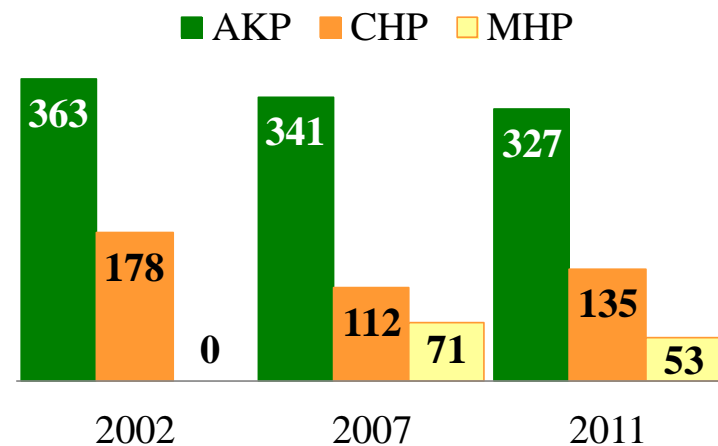
# Les élections générales de 2002, 2007, 2011



## Répartition des voix (3 grands partis, %)



## Répartition des députés (sur 550 au total)



# Elections législatives 2011: bilan économique, outil de campagne électorale

Tract AKP distribué à Istanbul en février 2011 - Recto

CUMHURİYET TARİHİNİN  
EN BÜYÜK EKONOMİK KRİZİ

TÜRKİYE,  
DÜNYANIN 16. BÜYÜK EKONOMİSİ

**21 ŞUBAT 2001** **21 ŞUBAT 2011**

# 10 YILDA, FARK ORTADA

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## Milletimiz Kazandı Türkiye Kazandı

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**AK Parti ile Türkiye  
Nereden... Nereye?**

[www.akpartiistanbul.com](http://www.akpartiistanbul.com)



**AK PARTİ**  
İSTANBUL İL BAŞKANLIĞI

LA CRISE ÉCONOMIQUE MAJEURE  
DE L'HISTOIRE DE LA RÉPUBLIQUE

LA TURQUIE,  
16<sup>ème</sup> ÉCONOMIE DU MONDE

**21 FÉVRIER 2001** **21 FÉVRIER 2011**

# 10 ANS APRÈS LA DIFFÉRENCE EST LÀ

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## La Nation a gagné La Turquie a gagné

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### La Turquie avec le Parti AKP d'où elle est partie ... où elle est arrivée

## Elections législatives 2011:

## bilan économique, outil de campagne électorale

## Tract AKP distribué à Istanbul en février 2011 - Verso

CUMHURİYET TARİHİNİN EN BÜYÜK EKONOMİK KRİZİ		TÜRKİYE, DÜNYANIN 16. BÜYÜK EKONOMİSİ	
21 ŞUBAT 2001		21 ŞUBAT 2011	
	IMF'YE BORÇ 25.6 MİLYAR DOLAR		IMF'YE BORÇ 5.5 MİLYAR DOLAR
	ENFLASYON %68		ENFLASYON %4.8
	İHRACAT 25 MİLYAR DOLAR		İHRACAT 114 MİLYAR DOLAR
	YILLIK EKONOMİ %9.4 KÜÇÜLDÜ		YILLIK EKONOMİ %8.9 BÜYÜDÜ
	KİŞİ BAŞI MİLLİ GELİR 3.000 DOLAR		KİŞİ BAŞI MİLLİ GELİR 10.000 DOLAR
	MERKEZ BANKASI REZERVİ 22 MİLYAR DOLAR		MERKEZ BANKASI REZERVİ 82 MİLYAR DOLAR
	GECELİK FAİZ ORANI %7500		GECELİK FAİZ ORANI %6.25
	TOKİ TOPLU KONUT SAYISI 43.145		TOKİ TOPLU KONUT SAYISI 480.000
	TOPLAM BÖLÜNÜŞ YOL 6.100 KİLOMETRE		TOPLAM BÖLÜNÜŞ YOL 19.700 KİLOMETRE
	SAĞLIĞA AYRILAN BÜTÇE 2.9 MİLYAR TL		SAĞLIĞA AYRILAN BÜTÇE 14 MİLYAR TL
	EĞİTİME AYRILAN BÜTÇE 6.5 MİLYAR TL		EĞİTİME AYRILAN BÜTÇE 34 MİLYAR TL
	KAMU YATIRIM MİKTARI 8.7 MİLYAR TL		KAMU YATIRIM MİKTARI 35 MİLYAR TL
<b>Milletimiz Kazandı Türkiye Kazandı</b>			
<a href="http://www.akpartiistanbul.com">www.akpartiistanbul.com</a>			

LA CRISE ÉCONOMIQUE MAJEURE DE L'HISTOIRE DE LA RÉPUBLIQUE		LA TURQUIE, 16 <sup>ème</sup> ÉCONOMIE DU MONDE	
21 FÉVRIER 2001		21 FÉVRIER 2011	
<b>DETTE FMI</b>			
25,6 MILLIARDS \$		5,5 MILLIARDS \$	
<b>INFLATION</b>			
68 %		4,8 %	
<b>EXPORTATIONS</b>			
25 milliards \$		114 milliards \$	
<b>CROISSANCE PAR AN</b>			
-9,4 %		+8,9 %	
<b>REVENU NATIONAL PAR HABITANT</b>			
3 000 \$		10 000 \$	
<b>RÉSERVES DE LA BANQUE CENTRALE</b>			
22 milliards \$		82 milliards \$	
<b>NOMBRE DE LOGEMENTS SOCIAUX</b>			
43 145		480 000	
<b>VOIES EXPRESS</b>			
6 100 km		19 700 km	
<b>BUDGET CONSACRÉ À LA SANTÉ</b>			
2,9 milliards TL		14 milliards TL	
<b>BUDGET CONSACRÉ À L'ÉDUCATION</b>			
6,5 milliards TL		34 milliards TL	
<b>INVESTISSEMENT PUBLIC</b>			
8,7 milliards TL		35 milliards TL	
<b>La Nation a gagné</b>		<b>La Turquie a gagné</b>	



# La réussite économique de l'AKP est étroitement liée à la gestion de la crise macro-économique et financière de 2001

- La crise du 21 février 2001, a obligé le gouvernement de coalition de nommer un économiste de renom, Kemal Derviş, jusqu'alors vice-président de la Banque mondiale, au ministère de l'Économie. Derviş ne pourra pas finaliser lui-même son programme en raison de l'instabilité politique qui provoque la chute du gouvernement en 2002.
- L'AKP, arrivé au pouvoir en novembre 2002, appliquera à la lettre les préconisations de Derviş. Cet exercice sera d'autant plus aisé que l'AKP n'est pas issu des anciennes élites dirigeantes.  
L'assainissement des finances publiques, la restructuration et la recapitalisation du système bancaire et l'indépendance de la banque centrale sont les trois piliers du pilotage économique sous AKP.

# En revanche, depuis 2002, il n'y a pas eu de progrès notable dans la sphère micro-économique

- Le secteur informel garde toute son importance. Il n'existe pas de législation pour l'emploi. La main d'œuvre connaît de sérieux problèmes de qualification. Le taux de participation des femmes à l'activité économique reste très faible. Les entreprises anatoliennes participent bien plus à l'activité économique, mais pas aussi efficacement que si on avait réalisé des réformes micro-économiques.
- Toutefois, la politique macroéconomique s'appuyant sur les trois piliers mentionnés permis un accès formidable au capital. Les primes de risques accordées à la Turquie ont notablement baissé : on peut désormais y investir à un coût bien moins. D'où un impact fortement positif dans la sphère micro-économique.