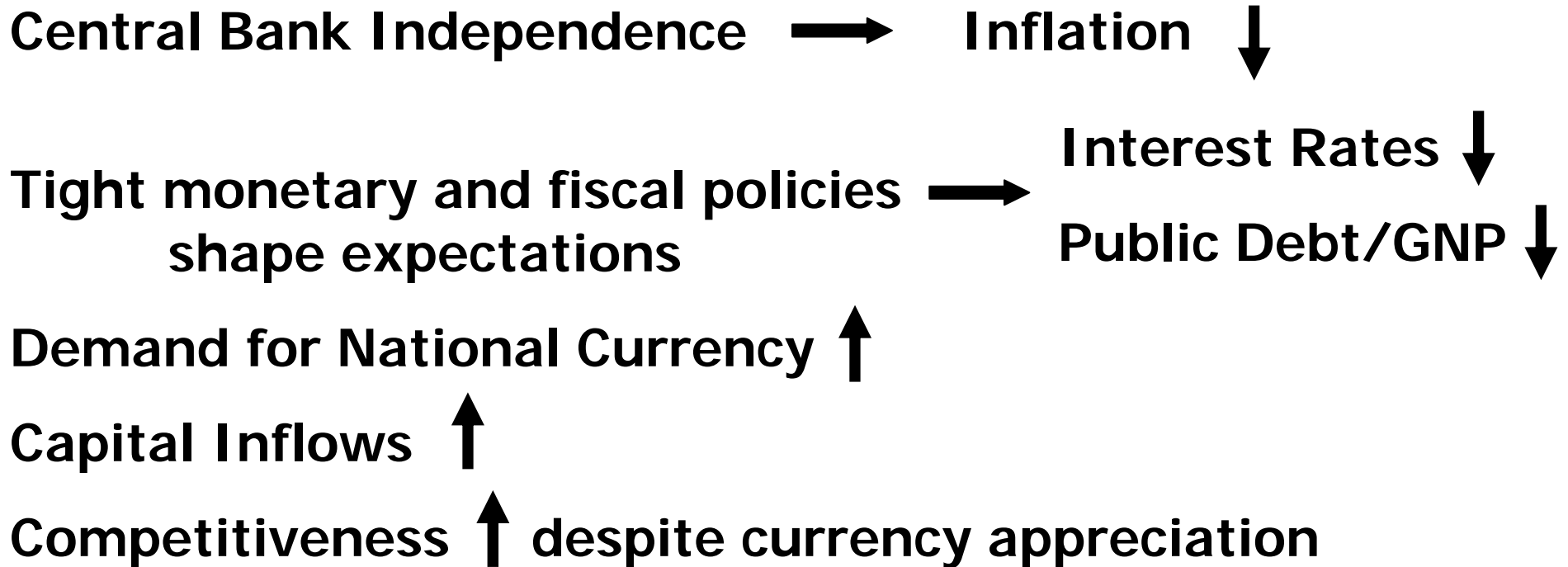


# TURKEY: LAST 6 YEARS AND BEYOND

15/11/2007

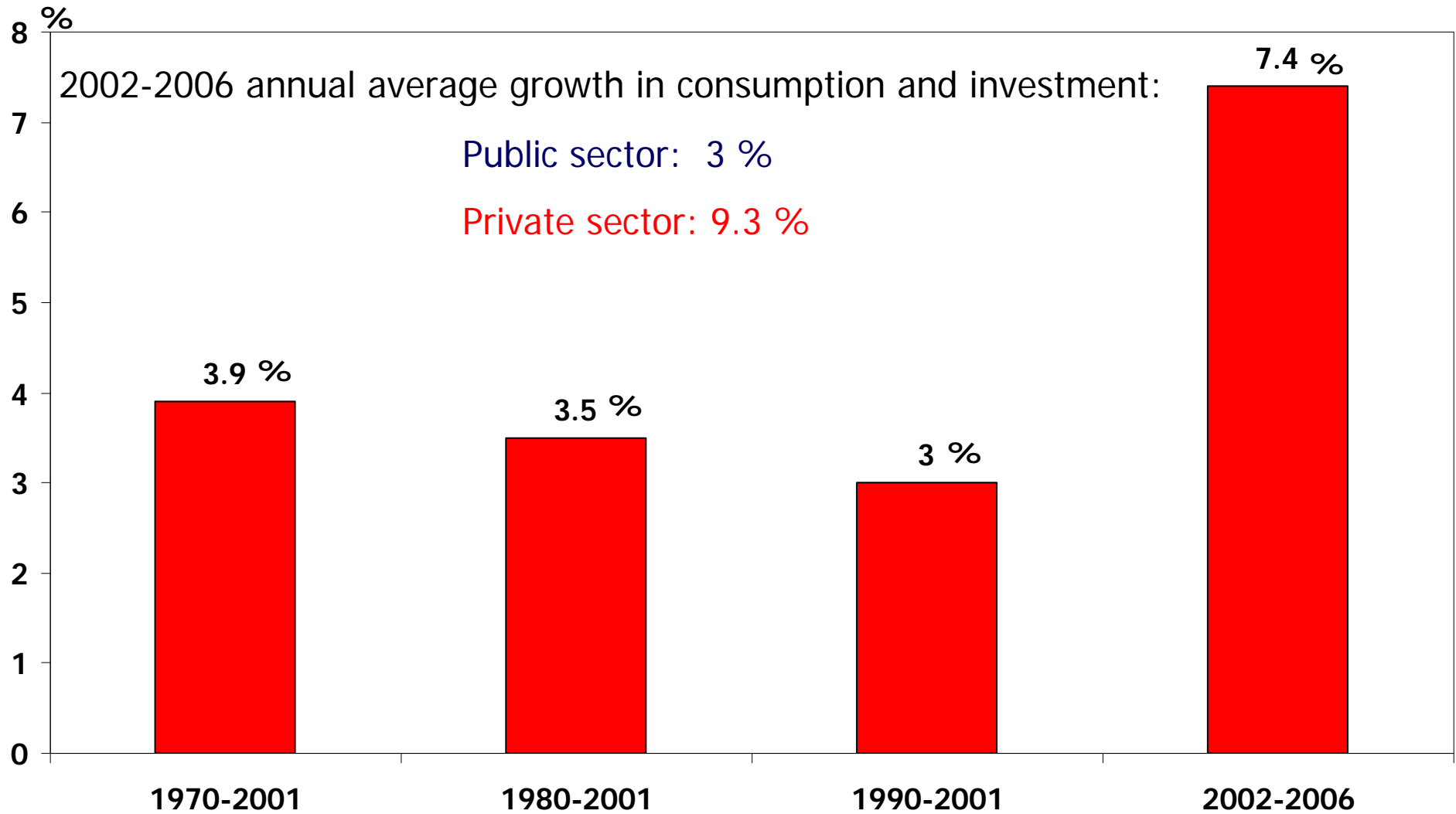
LONDON

## 2001 PROGRAM



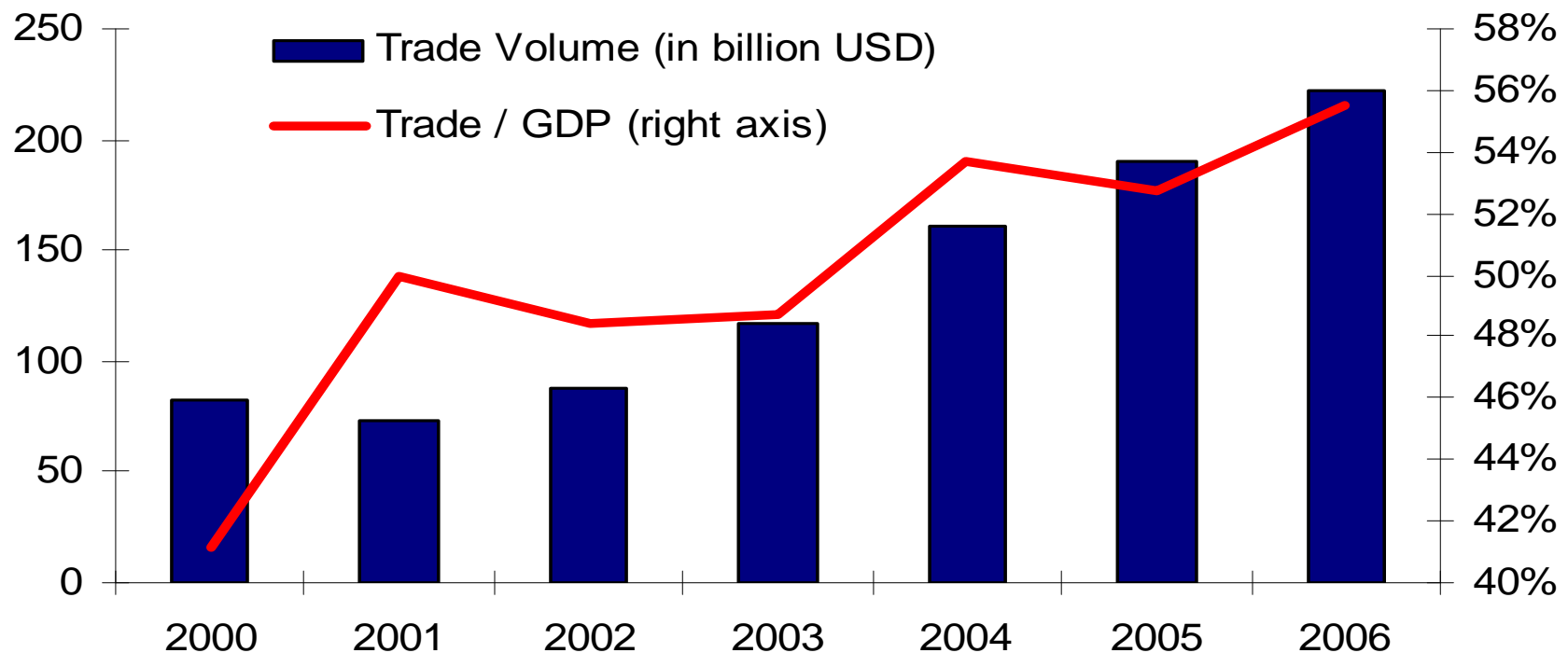
# GROWTH

## GNP GROWTH (Annual Averages)



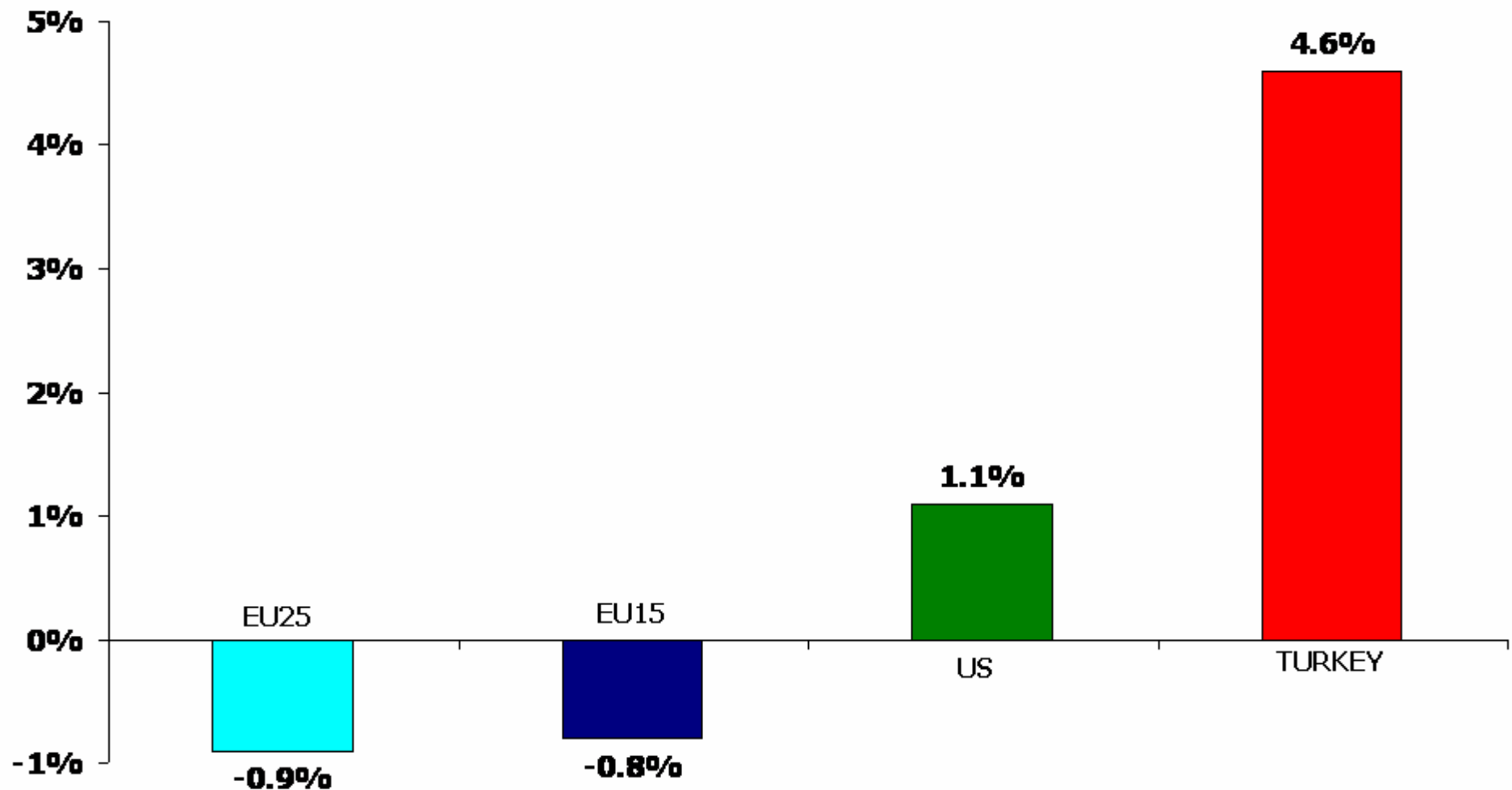
## GROWTH: RAPID INTEGRATION INTO THE GLOBAL ECONOMY

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



# GROWTH: PRODUCTIVITY INCREASE

Average annual growth rate of GDP per person employed (2002-2006)



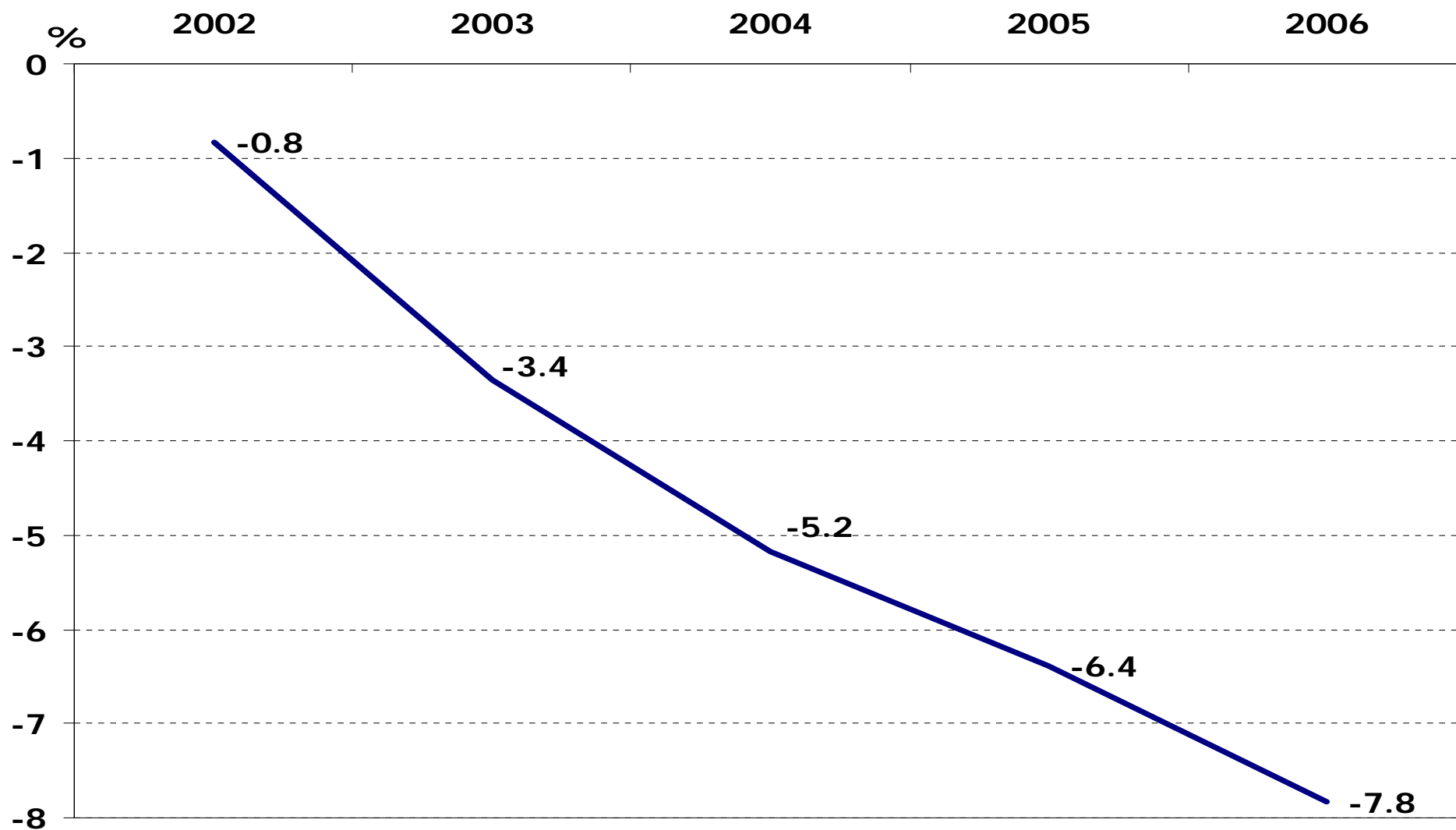
**PRODUCTIVITY INCREASE → GROWTH → EXPORTS**

SECTOR	PRODUCTIVITY	GROWTH	SHARE IN TOTAL EXPORTS
<b>MANUFACTURING</b>	<b>39.3</b>	<b>41.2</b>	<b>93.9</b>
Motor, Vehicles, Trailers	69.2	166.3	14.9
Radio, TV, Comm. Equipment	25.1	123.2	3.6
Machinery and Equipment	73.2	114.0	7.0
Chemicals	61.5	62.8	4.1
Rubber and Plastic Products	28.1	54.8	3.6
Basic Metal Industry	26.4	50.2	11.1
Electrl. Mach. and Apparatus	61.8	49.5	3.2
Metal Products	32.9	47.6	3.9
Non-Metallic Products	17.1	44.9	3.3
Food Products and Beverages	33.6	22.0	5.1
Textile Industry	11.4	21.6	10.9
Furniture	3.4	19.8	2.7
Coal, Refined Petroleum	16.2	6.1	4.0
Wearing Apparel	5.1	-12.5	11.9

2001-2006 % Change

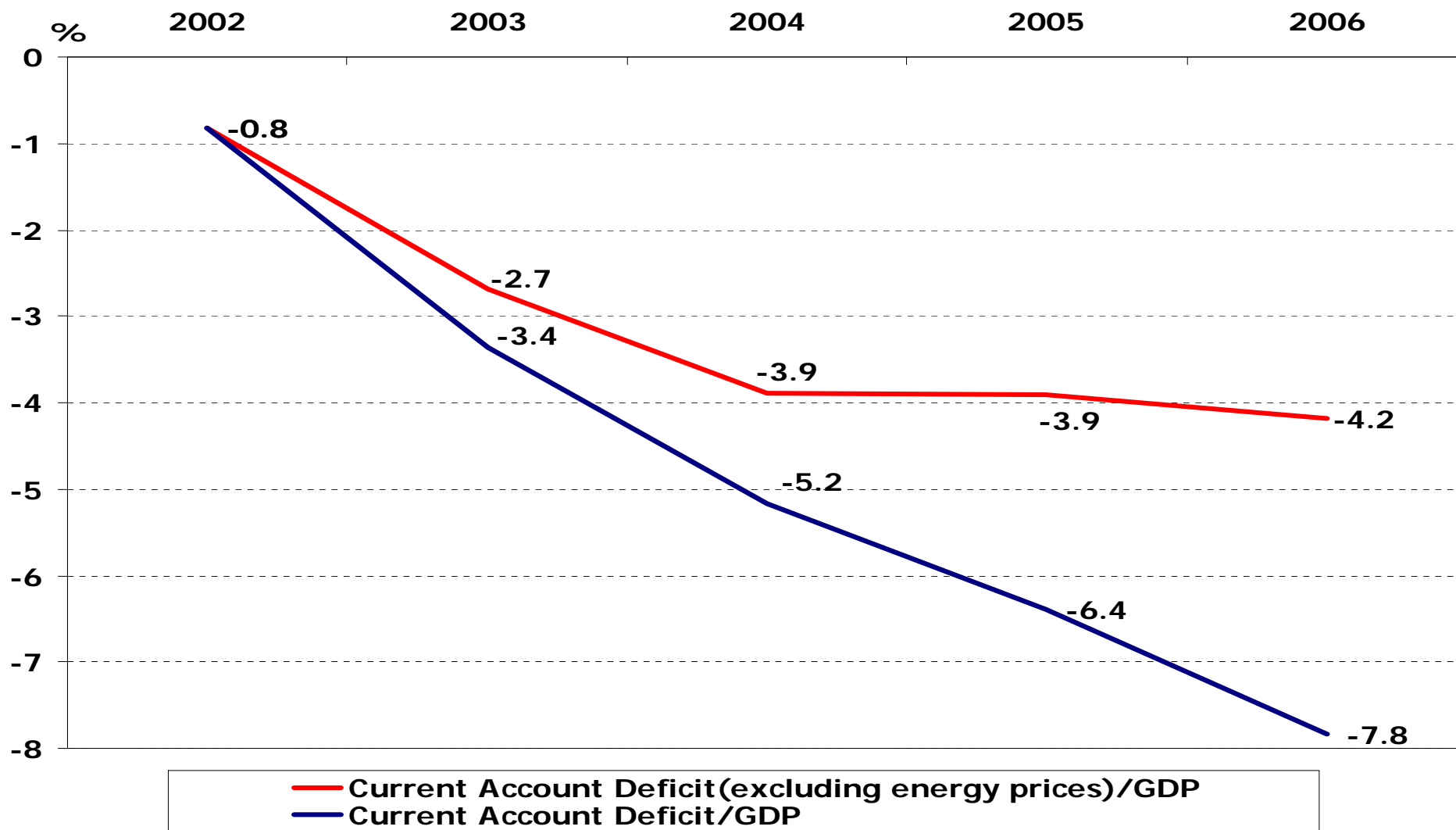
Source: CBRT

# WHAT LIES AHEAD ? EXTERNAL BALANCES AND SUSTAINABLE GROWTH

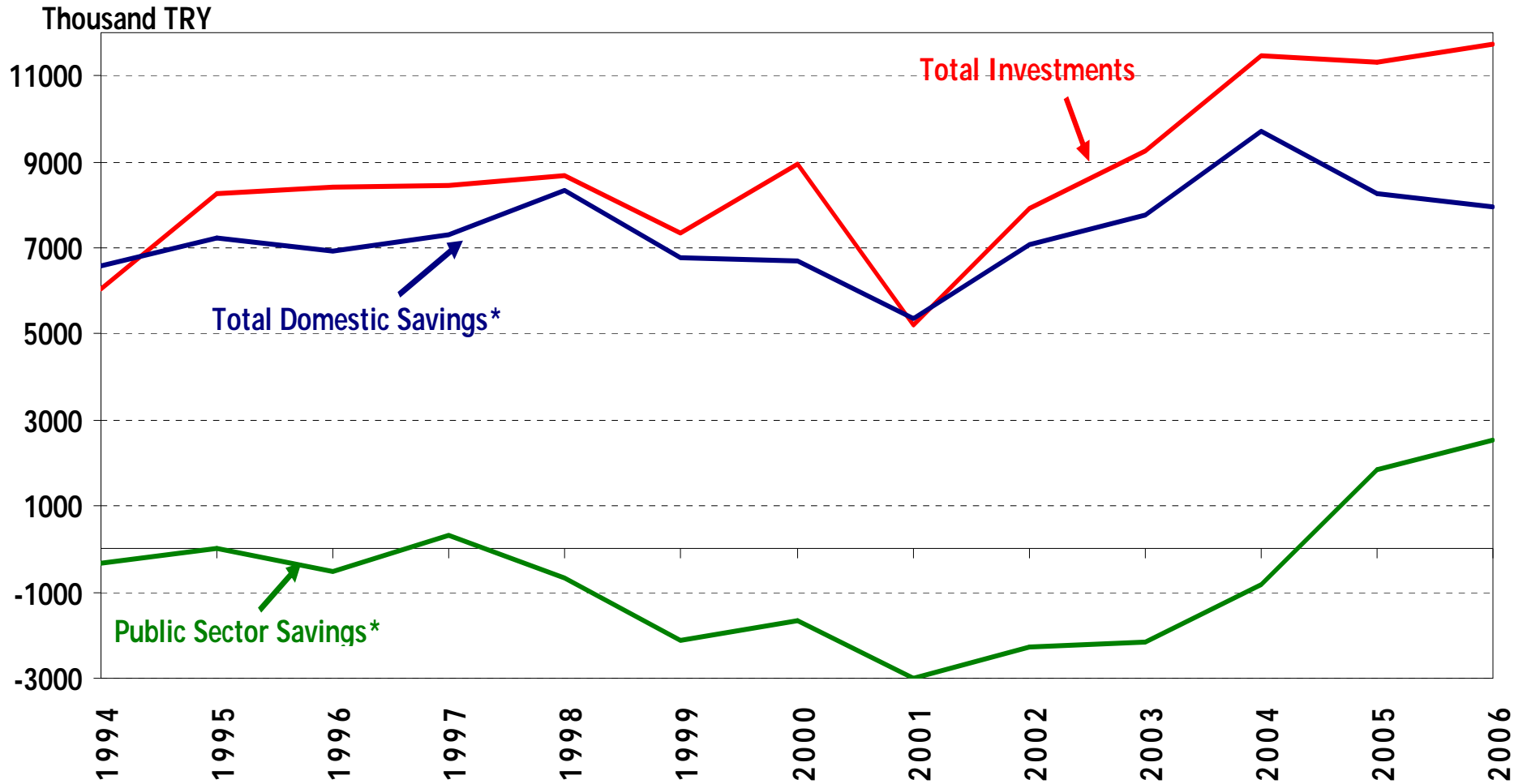
**CURRENT ACCOUNT DEFICIT/GDP (%)****Exchange rate appreciation ?**

# ENERGY PRICES ?

THE EFFECT OF ENERGY PRICES ON THE CURRENT ACCOUNT DEFICIT/GDP



## GROWTH: TOTAL DOMESTIC INVESTMENTS and SAVINGS (Real Values)



\* SPO Forecast

Source: SPO, TURKSTAT, CBRT

## WHAT NEEDS TO BE DONE ?

The stabilization program envisaged **28 %** total growth in real terms back in 2002, for 2002 through 2006. The outcome: **43 %**

## SHOULD TURKEY LOWER GROWTH ?

How about **employment** then ?

Young population

Middle age groups: Losers ?

Agriculture

## WHAT SHOULD WE DO ?

The stabilization program envisaged **28 %** total growth in real terms back in 2002, for 2002 through 2006. The outcome: **43 %**

## SHOULD TURKEY LOWER GROWTH ?

How about **employment** then ?

How about **convergence to EU** ? 

## CONVERGENCE TO EU

	1995	2003	
<b>New Members</b>	<b>Ratio of per capita income to EU-15 average (2000 Prices, %)</b>		<b>Convergence Speed Rate of Filling the Income Gap</b>
Estonia	32.8	50.5	3.8
Lithuania	30.9	43.7	2.5
Latvia	25.3	38.3	2.4
Hungary	45.7	54.4	2.2
Slovakia	43.2	50.4	1.7
Poland	35.6	42.5	1.4
	2004	2015	
<b>Turkey</b>	<b>Ratio of per capita income to EU-25 average (2003 Prices, %)</b>		<b>Convergence Speed Rate of Filling the Income Gap</b>
Low Growth (4 %)	29.1	30.1	0.1
Standard Growth (5 %)	29.1	38.1	1
High Growth (7 %)	29.1	50.1	2.6

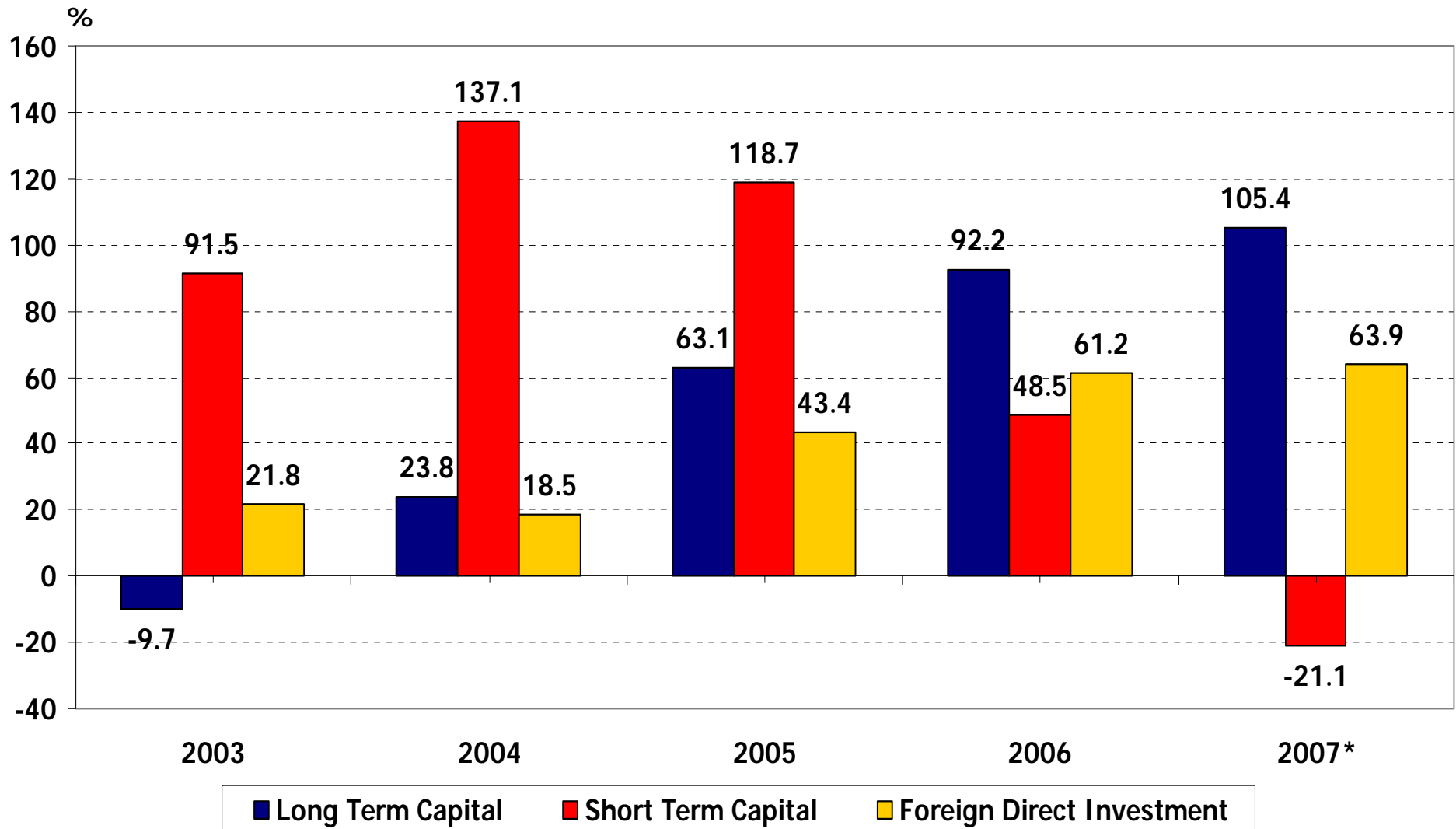
**CONCLUSION:**

**HIGH LEVEL OF SUSTAINABLE GROWTH NEEDED...**

**SOLUTION ?**

1. Capital account stability 

## FINANCING OF THE CURRENT ACCOUNT DEFICIT (Percentage-wise contributions of capital account items)



2007\* first 8 months  
Source: CBRT

## CONCLUSION:

## HIGH LEVEL OF SUSTAINABLE GROWTH NEEDED...

## SOLUTION ?

### 1. Capital account stability

### 2. Structural reforms:

*A long list vs. reform fatigue*

*Setting priorities*

*How to handle resistance to stabilization and reforms ?*

### 3. Industrial policy:

*What constraints on companies ? Entrepreneurship ?*

*Entry-exit costs, red tape*

*Problems of scale, low value added*

*Commercial Code, property rights*

*Judicial reform*

## CONCLUSION:

## HIGH LEVEL OF SUSTAINABLE GROWTH NEEDED...

## SOLUTION ?

1. Capital account stability
2. Structural Reforms
3. Industrial policy
4. Access to finance

*Size of the financial system*

*Basel II*

*High intermediation costs*

*More work needed on mortgages*

*Development of capital markets / instruments*

## CONCLUSION:

**HIGH LEVEL OF SUSTAINABLE GROWTH NEEDED...**

## SOLUTION ?

1. Capital account stability
2. Structural Reforms
3. Industrial policy
4. Access to finance
5. **Unregistered economy : A problem**
6. **Public finance**

*Tax and budget reforms*

*Social security reform*

*Monitoring municipalities*

## CONCLUSION:

**HIGH LEVEL OF SUSTAINABLE GROWTH NEEDED...**

## SOLUTION ?

1. Capital account stability
2. Structural Reforms
3. Industrial policy
4. Access to finance
5. Unregistered economy : A problem
6. Public Finance
- 7. Reforming the overregulated labor market**

*Labor rigidity*

*High tax burden on employment*

*Education and training for employment*

## 8. Institutional:

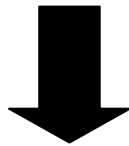
*Coordination of economic policy*

*Central Bank independence*

*Transparency and accountability in the public administration*

## 9. Governance

## 10. Communication Policy



**A better investment environment**

**A more competitive economy**

**A country more resilient to external shocks**