

Turkey

Despite Growth, Europe Remains Distant

Global Economy

April 3, 2014

Justin Siken

Economic Overview

Historic Perspective

- ▶ Volatile Growth
 - ▶ Several Financial Crises
 - ▶ Dependent on Foreign Capital
- ▶ Inflation
 - ▶ Recurring Problem
 - ▶ Exceeded 100% twice
- ▶ Growth Since 2004
 - ▶ 8% average GDP PPP
 - ▶ Inflation <10%
 - ▶ Gap with EU reduced

Turkey	Y/N	L/N	α K/L	A	CPI % Change
1960-1970	3.37	-1.37	1.60	3.14	5.82
1970-1980	1.56	-0.46	2.08	-0.05	28.84
1980-1990	2.94	-0.71	-0.25	3.90	37.25
1990-2000	1.43	-0.26	0.43	1.26	56.61
2000-2011	3.26	-0.44	1.94	1.76	14.93

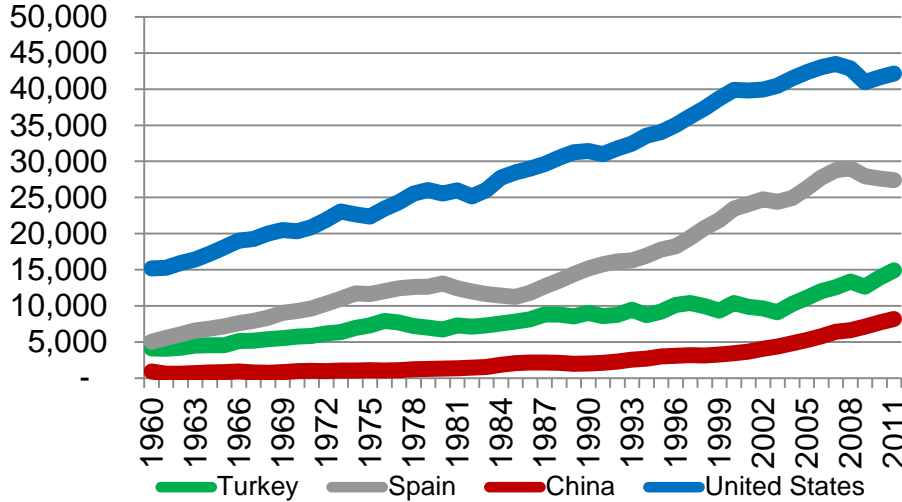
Spain	Y/N	L/N	A K/L	A	CPI % Change
1960-1970	6.16	-0.24	2.33	4.07	5.87
1970-1980	3.43	-1.52	3.41	1.54	14.21
1980-1990	1.45	0.59	0.12	0.73	8.90
1990-2000	4.37	1.42	0.76	2.19	3.81
2000-2011	1.41	-0.17	2.47	-0.90	2.79

China	Y/N	L/N	α K/L	A	CPI % Change
1960-1970	0.41	0.37	0.60	-0.57	0.74
1970-1980	2.99	1.43	1.88	-0.32	0.35
1980-1990	4.22	1.32	1.25	1.64	6.17
1990-2000	5.47	0.16	2.90	2.42	6.96
2000-2011	7.82	0.26	3.80	3.76	2.41

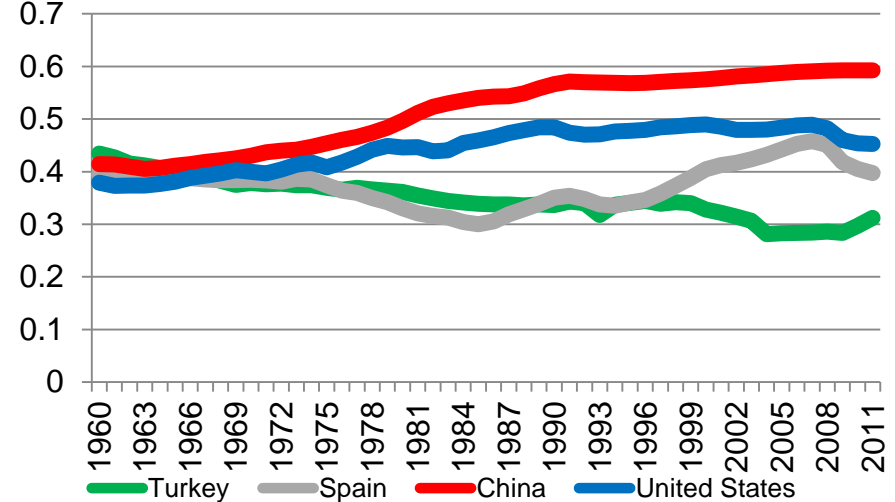
USA	Y/N	L/N	α K/L	A	CPI % Change
1960-1970	2.92	0.53	0.69	1.70	2.72
1970-1980	2.28	1.09	1.02	0.17	7.53
1980-1990	2.07	0.82	0.05	1.20	4.61
1990-2000	2.39	0.11	0.62	1.66	2.76
2000-2011	0.49	-0.71	0.95	0.26	2.43

Growth Components Comparison

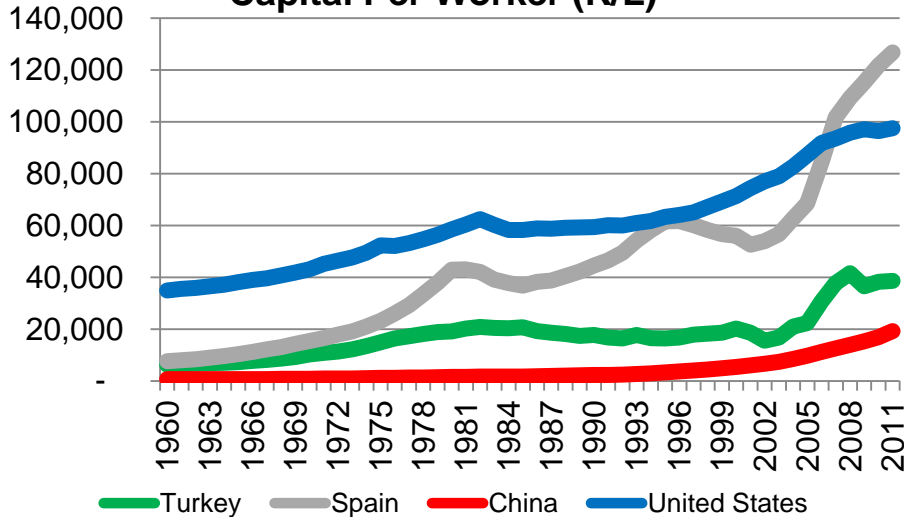
GDP Per Capita PPP (Y/N)



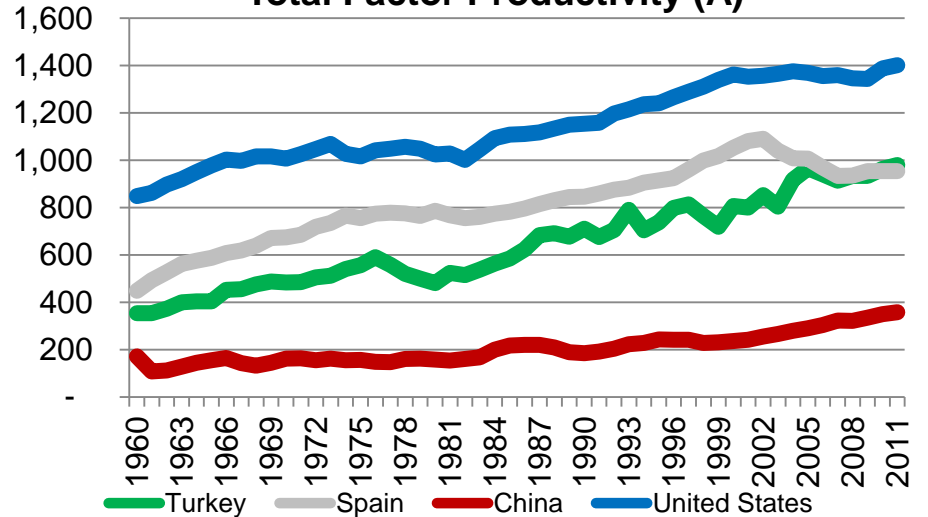
Workers Per Capita (L/N)



Capital Per Worker (K/L)



Total Factor Productivity (A)



The 2000-2001 Financial Crisis

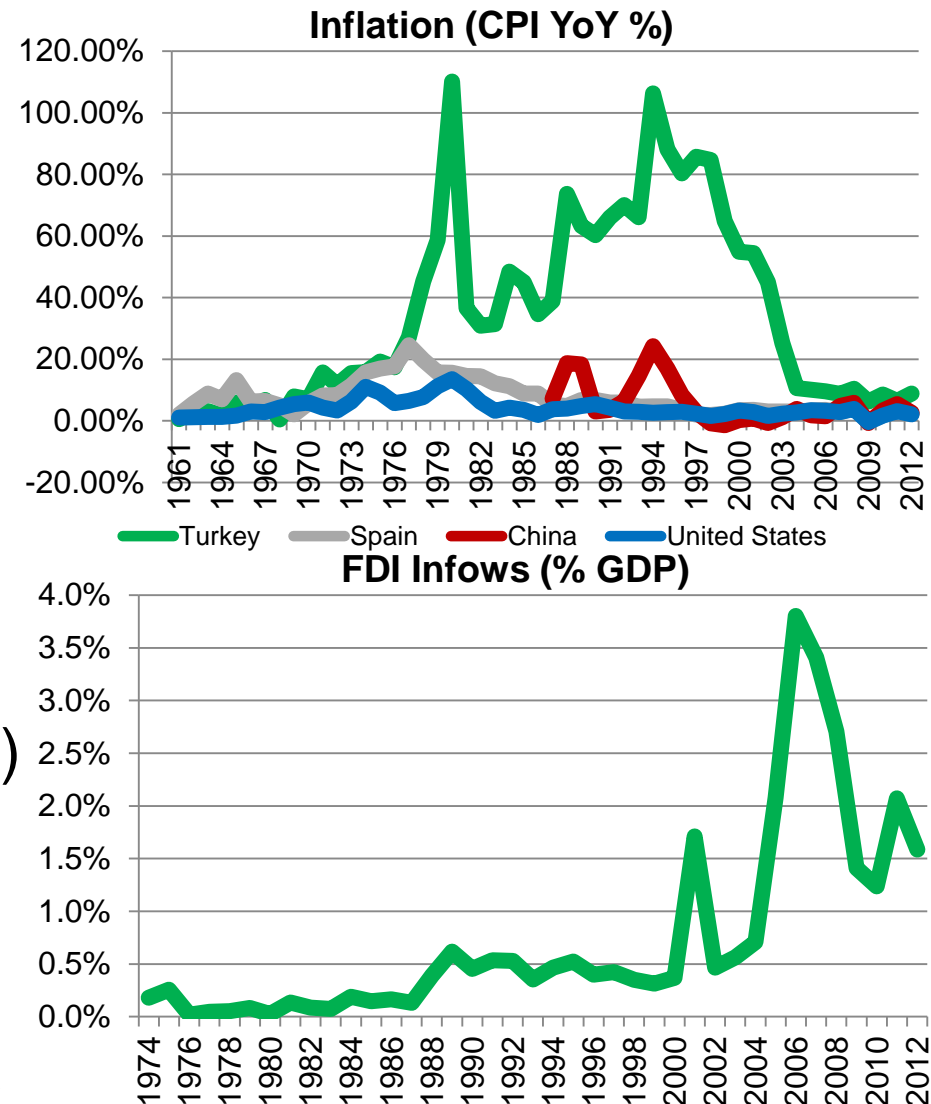
▶ Drivers

- ▶ Efforts to control inflation (106% in 1994)
- ▶ FDI decline (1989-1996)
- ▶ Growing deficit
- ▶ Weak banking system
- ▶ Recession in Europe

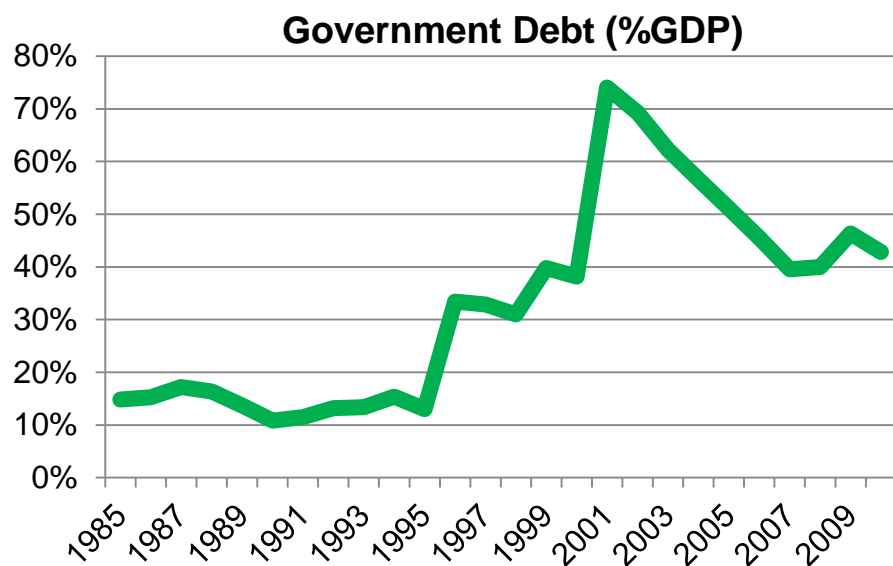
▶ The Crisis

- ▶ Interest rate spike (3,000%)
- ▶ Currency collapse
- ▶ Banking sector bailout

Reliable FDI Outflow data not available before 2004; however, large outflows were seen in 1996 after the IMF warned Turkey's government borrowing was not sustainable



Post-Crisis Reforms



▶ Structural reforms

- ▶ Privatization
- ▶ New FDI rules
- ▶ Simplified corporate taxes
- ▶ Microeconomic liberalization

▶ Monetary reforms

- ▶ Central bank independence
- ▶ Inflation targeting
- ▶ Currency rebased

▶ Fiscal reforms

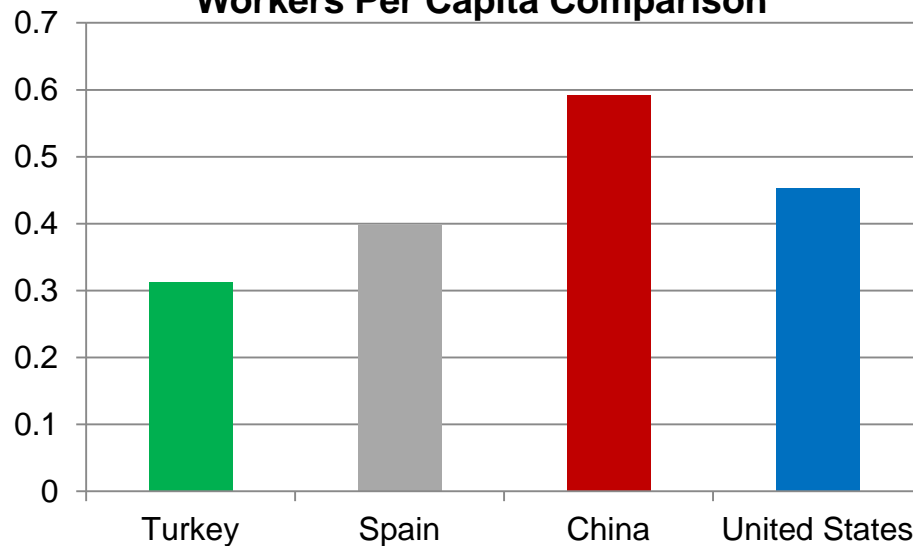
- ▶ Controlled deficit
- ▶ Reset expectations

Continuing Economic Issues

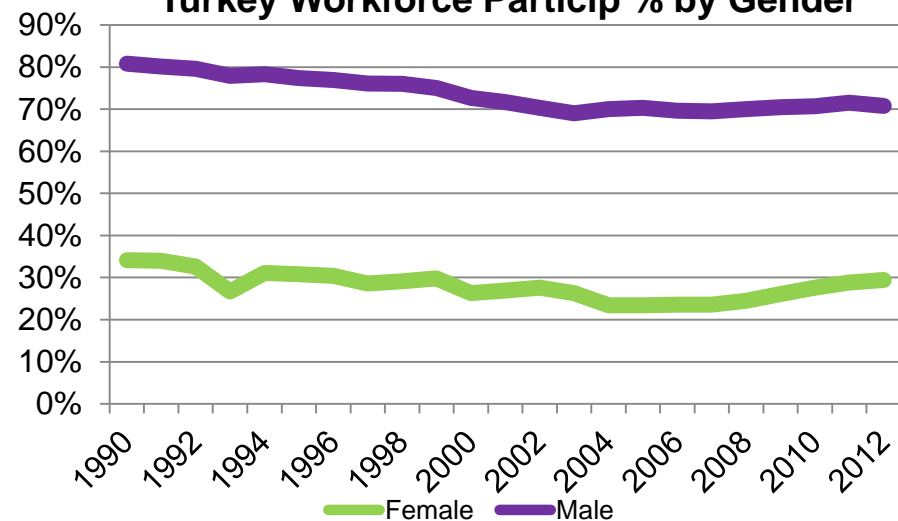
Low Workforce Participation

- ▶ L/N lags Europe
 - ▶ Unemployment is average
 - ▶ Unbalanced gains from trade and urbanization
- ▶ Female workforce participation is very low
 - ▶ 29% versus 40-65% for most of Europe
 - ▶ Decline since 1990s

Workers Per Capita Comparison

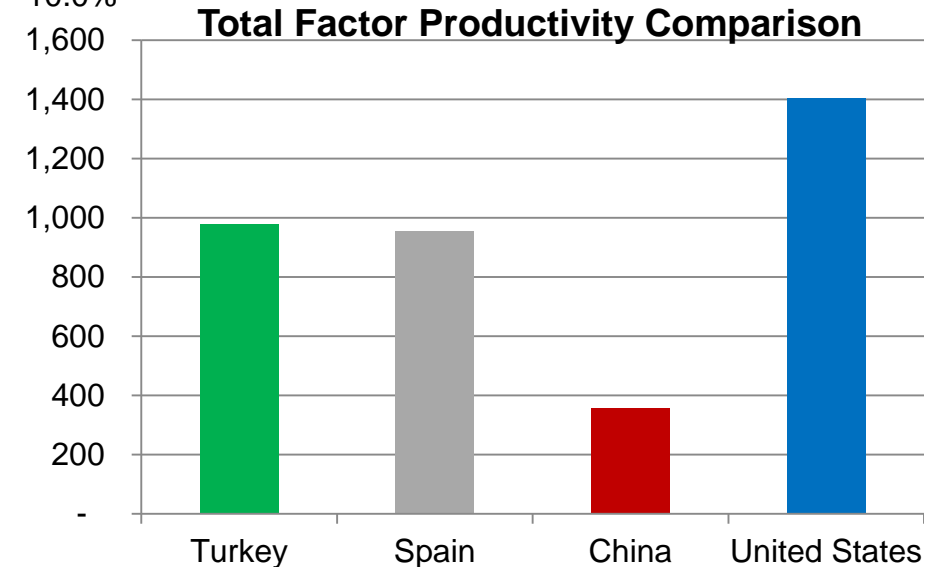
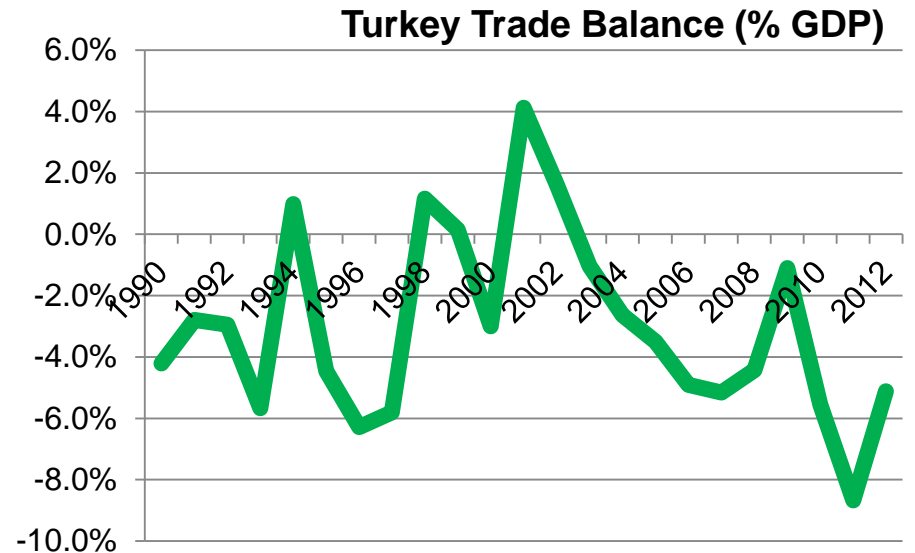
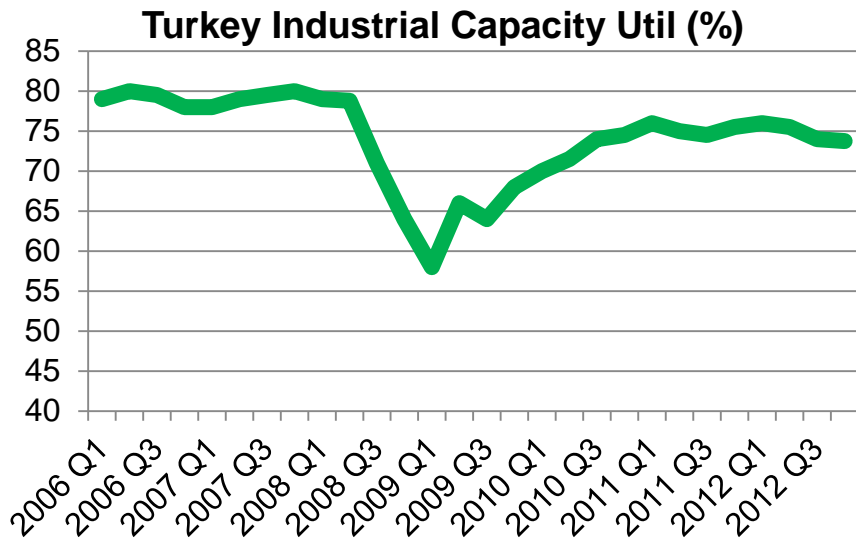


Turkey Workforce Particip % by Gender



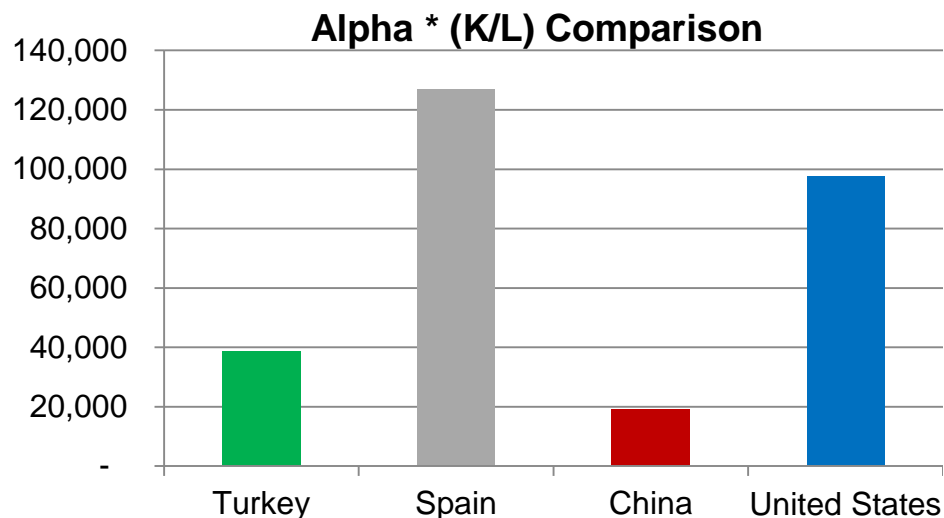
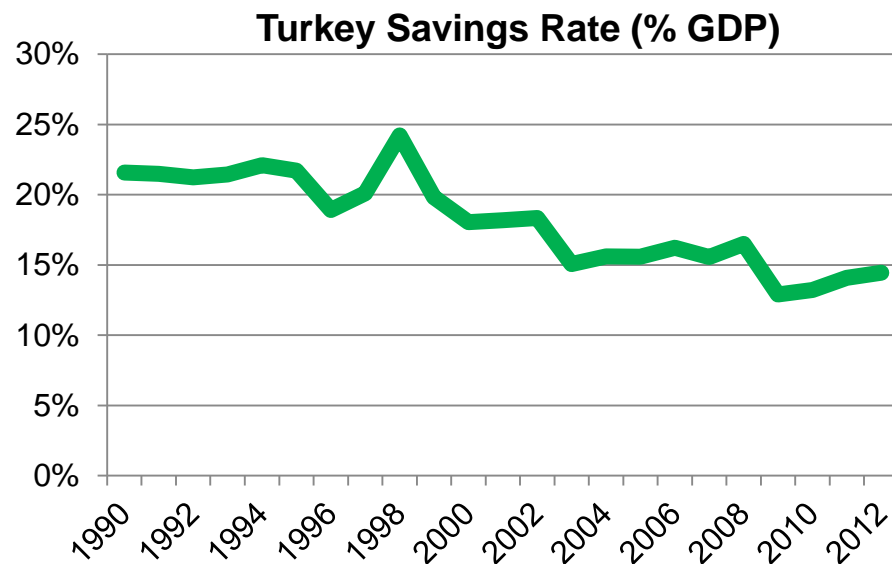
Poor Competitiveness

- ▶ TFP matches peripheral Europe
- ▶ Large “shadow” economy
- ▶ Burdensome regulations
- ▶ Persistent trade deficit and misaligned capacity



Capital Gap

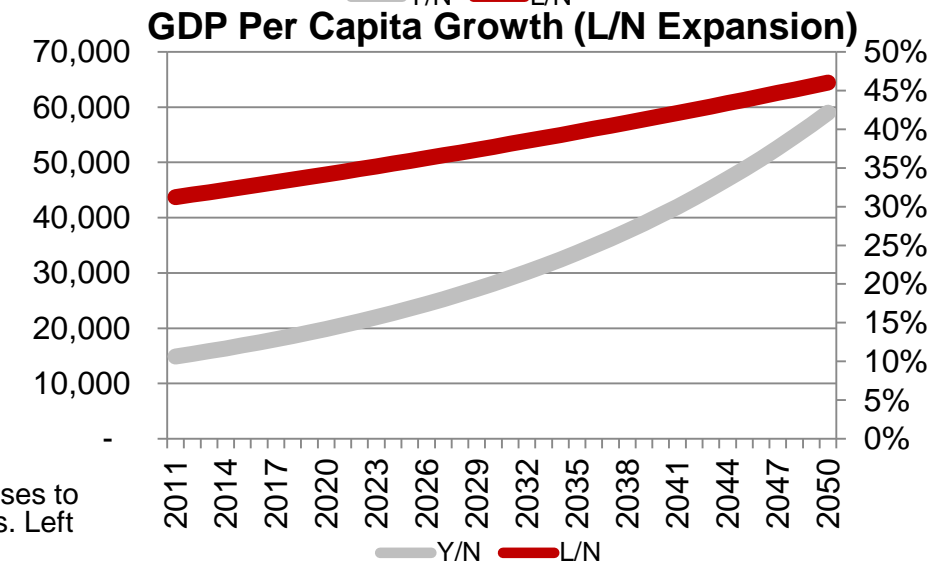
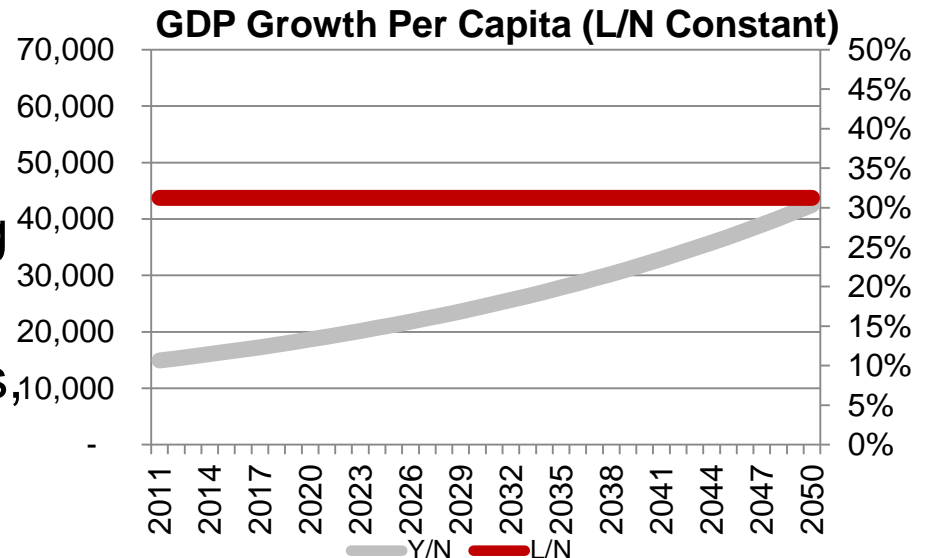
- ▶ Large gap with developed nations
- ▶ Capital base growth
 - ▶ Low and declining savings rate in Turkey
 - ▶ Dependent on foreign investment
 - ▶ Investment will need to increase substantially to support critical L/N growth



Recommendations to Close the Gap

Encourage Women to Enter Workforce

- ▶ Minimal cultural difference
- ▶ Educated women
 - ▶ Leave workforce after having children
 - ▶ Solution: Childcare subsidies, preschool
- ▶ Uneducated women
 - ▶ Not transitioning from agriculture
 - ▶ Solution: Continuing education programs
- ▶ Opportunity to increase GDP over 35%



L/N Expansion scenario assumes female participation increases to European average by 2050. TFP growth 2% in both scenarios. Left axis is Y/N, right axis is L/N

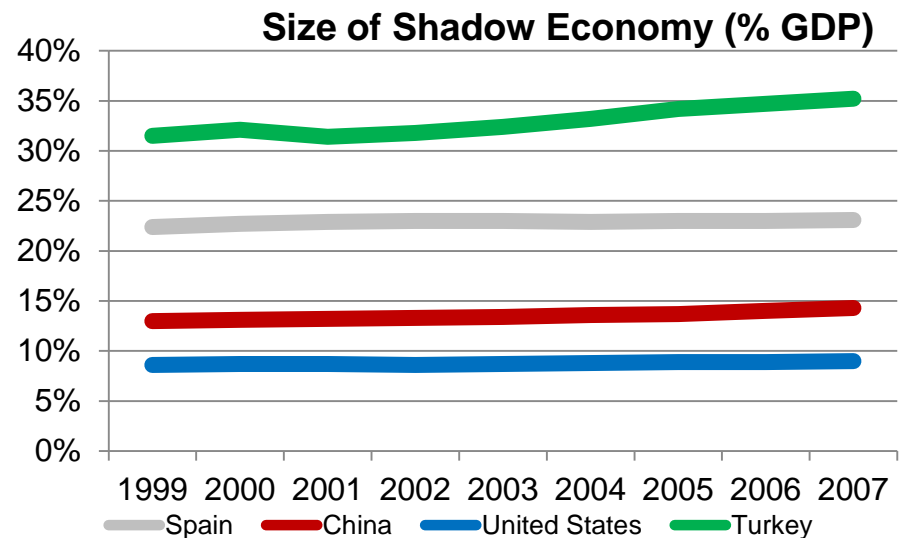
Promote Economic Formalization

Doing Business in Ranking: Turkey

Year	Starting a Business	Getting Credit	Paying Taxes
2013	73	82	74
2014	93	86	71

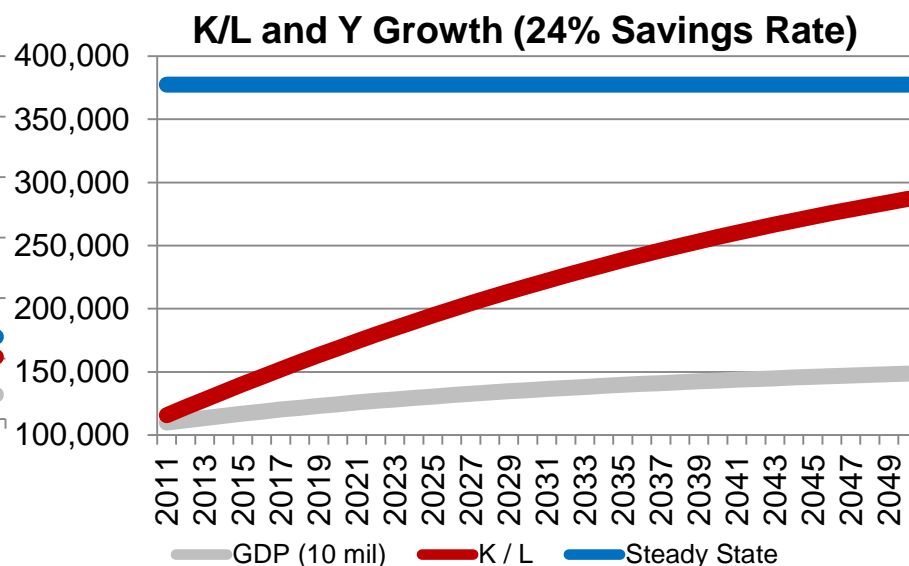
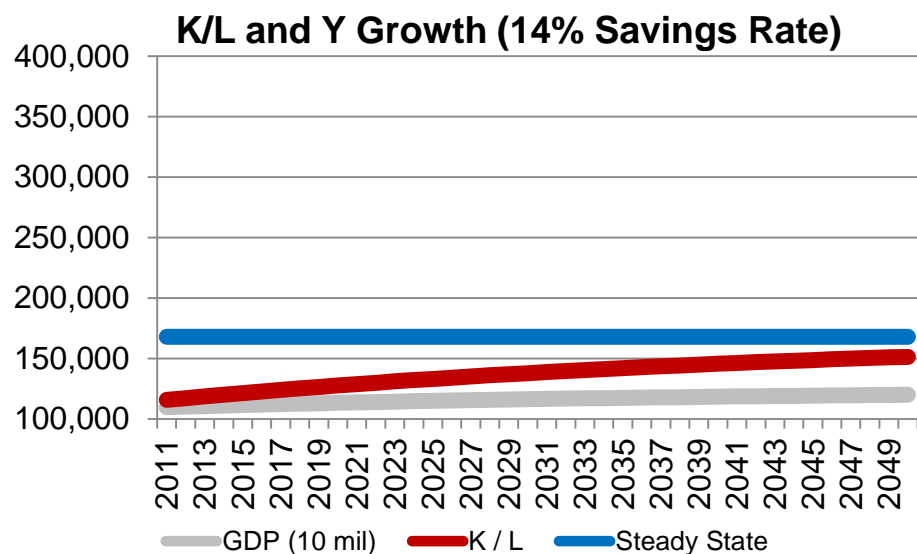
- ▶ Business environment
 - ▶ Reduce required starting capital
 - ▶ Strengthen creditor prediction
 - ▶ Improve labor flexibility
 - ▶ Reduce wage controls

- ▶ Shrink shadow economy
 - ▶ Will expand tax base, company sophistication, worker protections/rights
 - ▶ Improve competitiveness



Encourage Domestic Savings

- ▶ Intermediate-term growth possible from investment
- ▶ Barriers to remove
 - ▶ Persistent inflation
 - ▶ Lack of sophisticated banking products
 - ▶ Government instability and corruption



Current savings rate is 14% of GDP. Depreciation rate 5%. TFP, and L growth held at 0%