
Turkish Economy

Selected Indicators & Brief Overview
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Economic Research Forum

July, 2009

Background



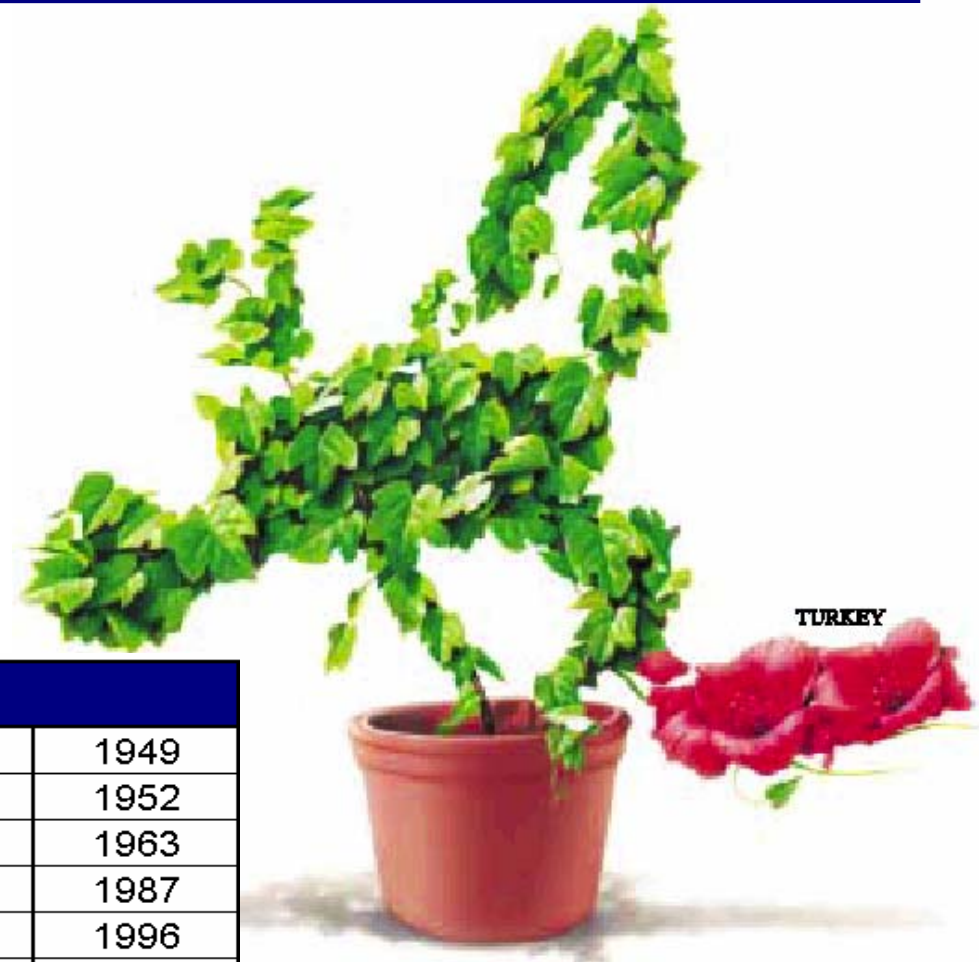
Post-war experience in economic development:	
World War II	Closed economy Average GNP growth at 4.7%
1960s-1970s	Industrialisation: import substitution
1980-1983	IMF program, under a military government: Liberalisation of financial markets and foreign trade
1983-1989	Market reforms, Build up of infrastructure, esp. in telecommunications and transport. Liberalization of the capital account
1989-1996	Populism, 1994 crises, Dollarization, deteriorating public balances
1996-1999	Customs Union: Open market economy, persisting macroeconomic instability, 1999 crisis
1999-2002	Stabilization efforts: 2001 Economic crises followed by the launch of IMF program.
2005	Effective beginning of the EU accession process on October 3.
2003-2006	Strong economic expansion with a yearly average 6.9% growth.
2007-2008	Slowdown in the economy as a result of reform fatigue
2009	Recession

EU Membership



...The EU accession process lays the ground for the tremendous scope of the reforms...

...alignment of the domestic legislation with the EU acquis provides opportunity to make necessary regulations...



Turkey's Integration with Europe

Membership of the Council of Europe	1949
Membership to the NATO	1952
Associate Membership to the EEC	1963
Application for the full membership to the EC	1987
Customs Union with the EU	1996
Candidacy to the EU	1999
The European Commission recommended to begin the membership negotiations with Turkey.	2004
Opening of membership negotiations	2005
Full Membership	<i>January 1, 2014</i>

EU Accession Negotiations



Opened:

- 4) Free Movement of Capital
- 6) Company Law
- 7) Intellectual Property Law
- 10) Information Society and Media
- 18) Statistics
- 20) Enterprise and Industrial Policy
- 21) Trans-European Networks
- 28) Consumer and Health Protection
- 32) Financial Control

Draft Screening Reports are to be Approved at the Council of the European Union:

- 2) Freedom of Movement of Workers
- 13) Fisheries
- 14) Transport Policy
- 15) Energy
- 22) Regional Policy and Coordination of Structural Instruments
- 23) Judiciary and Fundamental Rights
- 24) Justice, Freedom and Security
- 30) External Relations
- 33) Financial and Budgetary Provisions

Screening Reports Approved at the Council of the European Union with Benchmarks:

- 1) Free Movement of Goods
- 3) Right of Establishment and Freedom to Provide Services
- 5) Public Procurement
- 8) Competition Policy
- 9) Financial Services
- 11) Agriculture and Rural Development
- 12) Food Safety, Veterinary and Phytosanitary Policy
- 16) Taxation
- 19) Social Policy and Employment
- 27) Environment
- 29) Customs Union

Opened and Provisionally Closed:

- 25) Science and Research

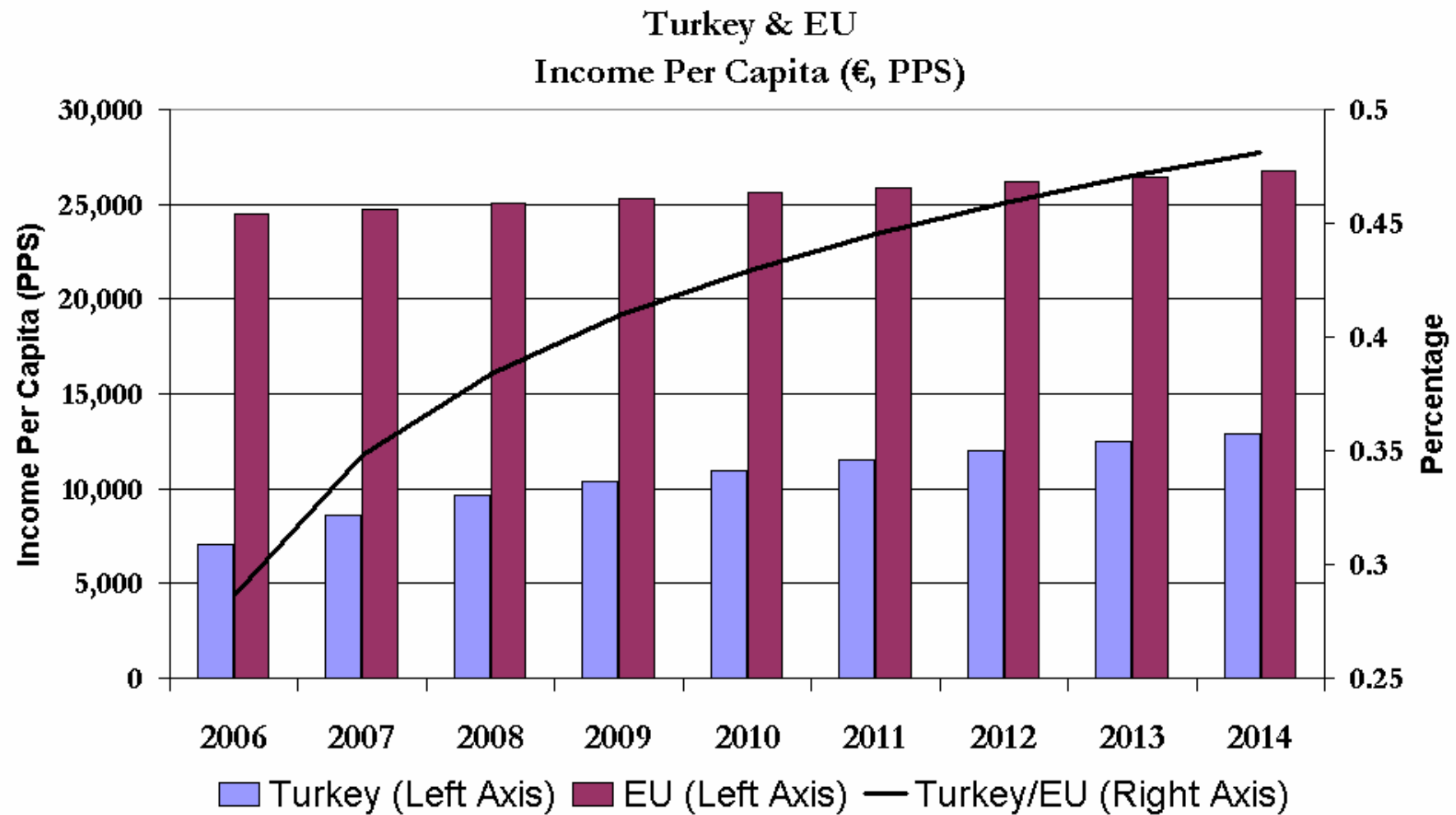
To be Opened:

- 17) Economic and Monetary Policy
- 26) Education and Culture

Screening Reports have not been drafted yet:

- 31) Foreign, Security and Defence Policy

EU-Turkey Comparison

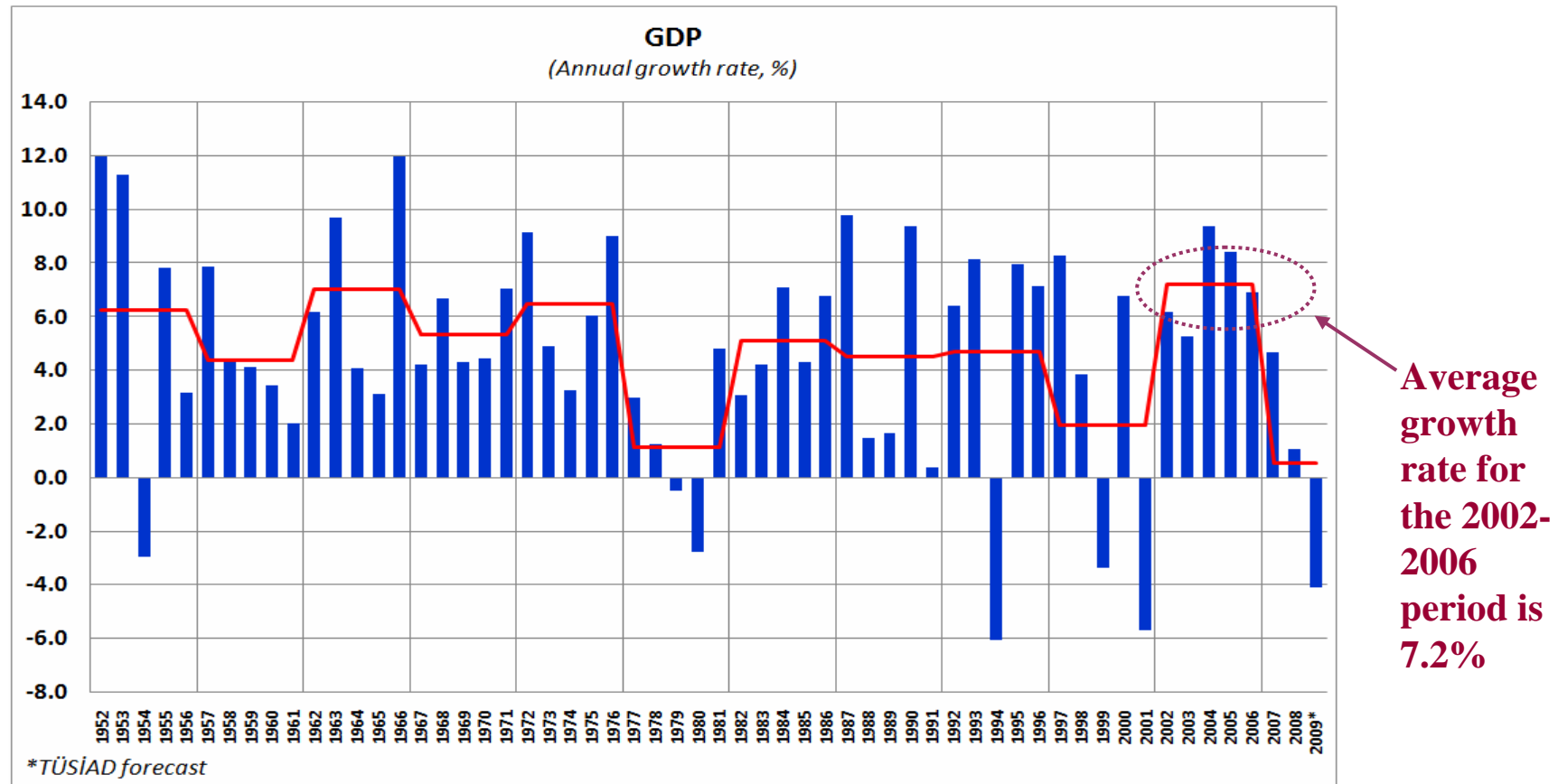


A Snapshot of the Economy

As of 2008

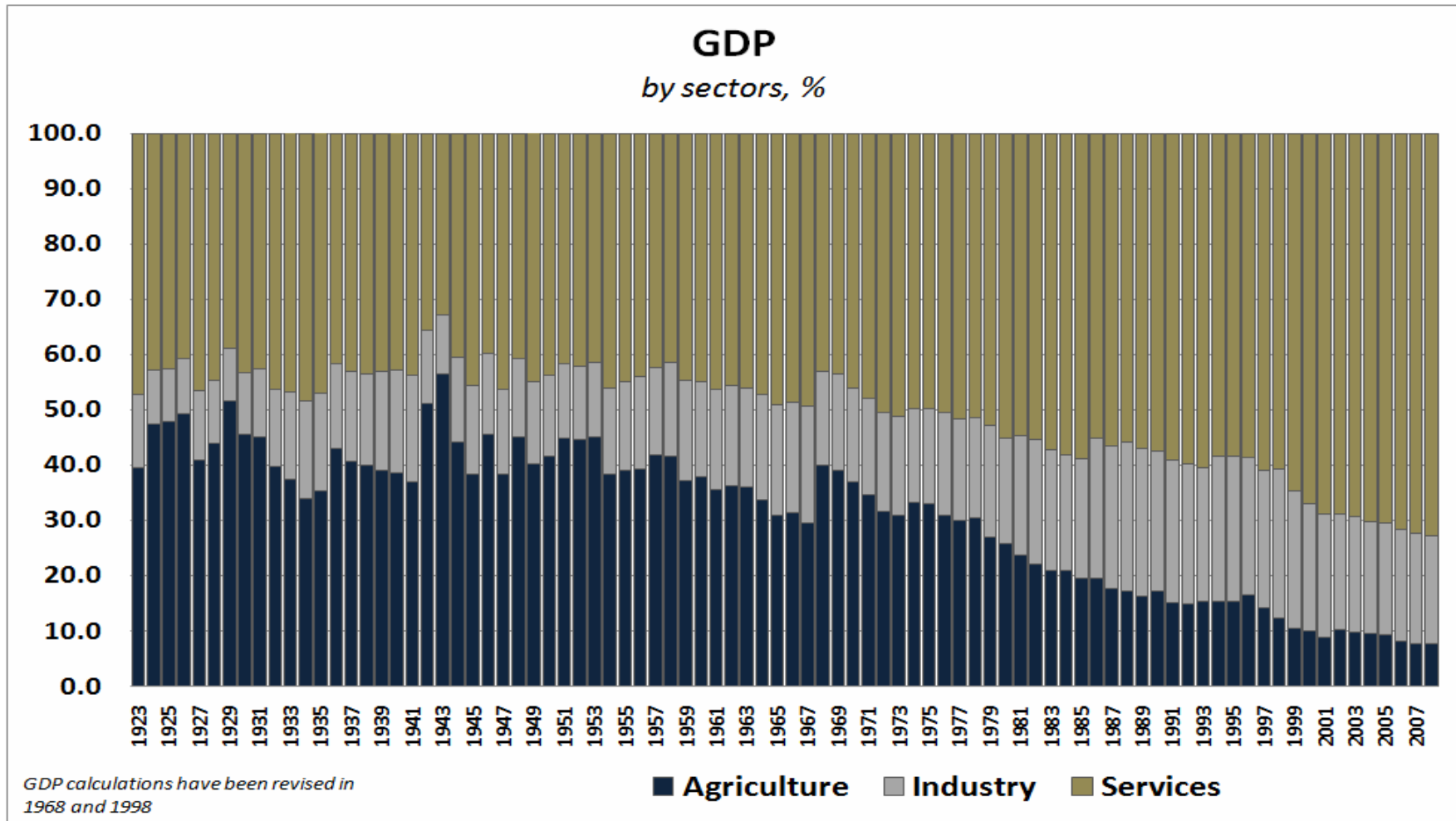
- **GDP: US\$ 729 billion (17th biggest economy)**
- **GDP per capita: US\$ 10,472 (US \$ 13.138 in ppp)**
- **Population: 69.7 million (population growth rate: 1.1%)**
- **Labor force: 23.8 million**
- **Labor force participation rate: 46.9%**
- **Overall unemployment: 11.0% (Unemployment in non-agricultural sectors 13.6%)**
- **Life expectancy: 72 years**
- **Infant mortality: 2.3%**
- **Literacy rate: 88.3%**
- **Gini coefficient: 0.40**
- **Undernourished people (% of population): 1.3**

GDP – annual growth rate



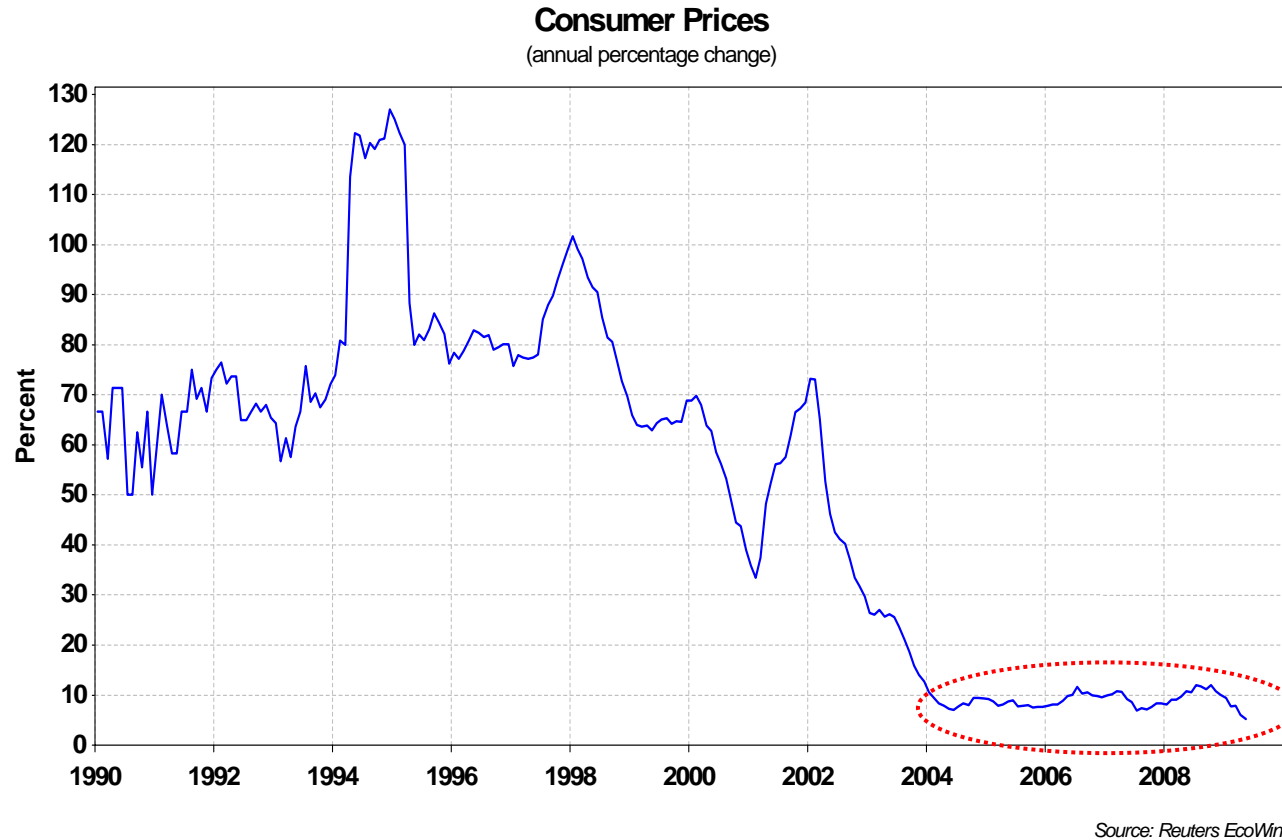
- Turkey's growth trajectory displays boom-bust cycles for the most of its history.
- Since domestic savings are not sufficient to finance investments in growth periods, the economy grew at times when the foreign capital stepped in the country and had crisis when it flew out.

A Snapshot of the Economy



For the new 10 members of the EU the share of agriculture in GDP is less than 5%, while the industry and services are 30% and 66%, respectively.

Inflation



Turkey has suffered from chronic inflation since 1970s.

However, with the launch of the stabilization program following 2001 crisis, the inflation rate declined dramatically.

1st stage: 1980s - liberalization of the economy

- Transformation of the economy from a state dominated, heavily regulated, closed, import substitution economy to a market based and open economy.
- Liberalization of the foreign trade, financial system and later on capital account
- institutionalization attempt had some shortcomings, which have manifested itself in the intensive instability through 1990s.

2nd Stage: post 2000 - structural reforms for institutional capacity

- The IMF and the EU anchors helped to establish the institutional structure for the economy.
- Steps regarding;
 - financial sector
 - public banks
 - independence of the Central Bank,
 - deregulation and liberation of the markets
 - privatization
 - independent regulatory authorities
 - agricultural policies
 - public fiscal management

Structural Reforms: change in the modalities

independent
regulatory
authorities



arms length relationship
between the business and
economic decision makers
in the state and
government

re-regulation in the
banking sector and
the decrease in
interest rates



improved the conditions
of access to bank
credits for the SMEs

deregulation and
liberation of the
markets



Transition from traditional to
modern companies

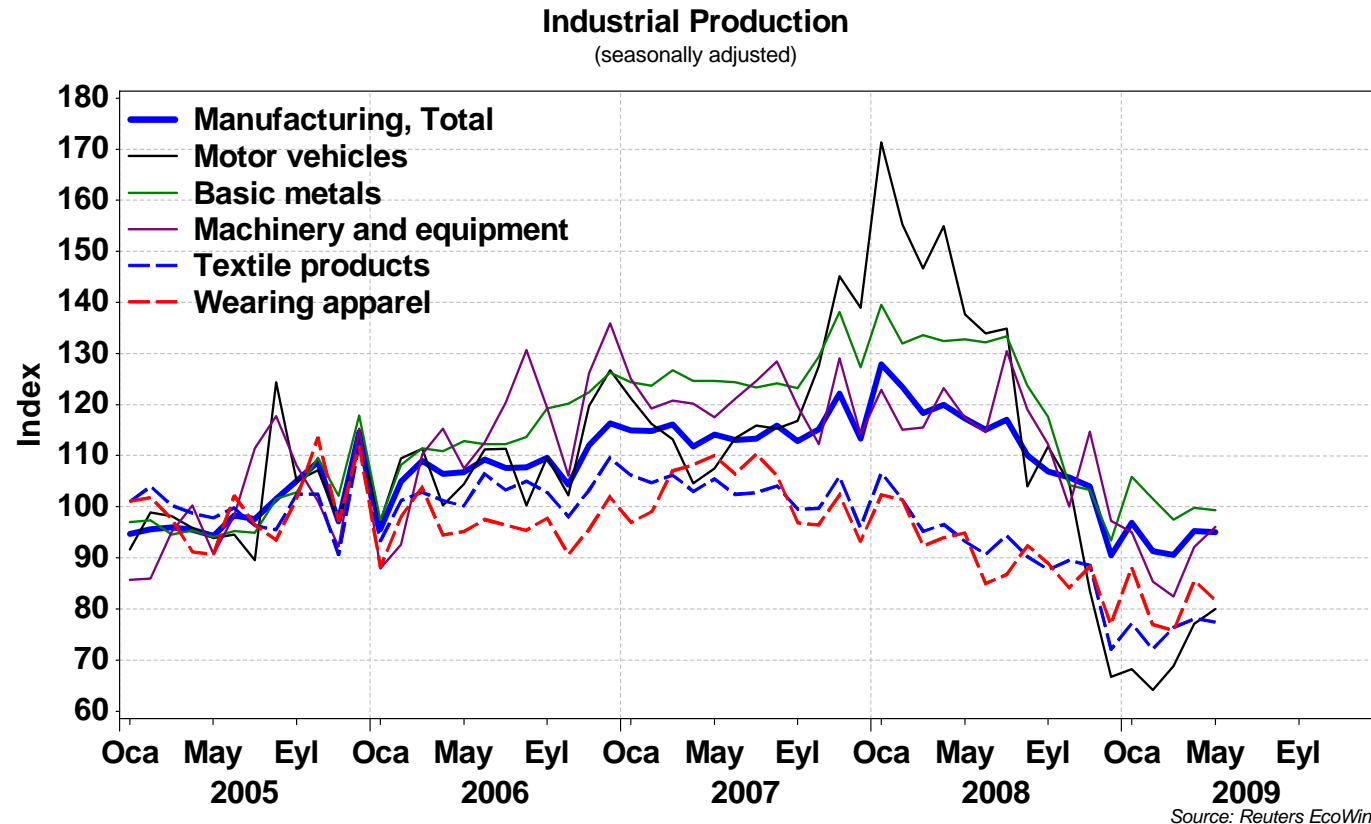
GDP – Production Approach

Real GDP Growth Rate - By kind of economic activity at basic prices at 1998, 1998-2008	2004	2005	2006	2007	2008	2008 Q2	2008 Q3	2008 Q4	2009 Q1
Agriculture, hunting and forestry	2.7	6.6	1.3	-7.0	4.1	-1.6	5.3	4.6	-3.0
Fishing	9.6	29.8	4.1	0.7	3.6	12.4	6.9	-0.6	2.0
Mining and quarrying	3.4	9.0	5.2	8.1	5.4	7.7	3.9	2.7	-13.0
Manufacturing	11.9	8.2	8.4	5.6	0.8	4.8	0.5	-10.8	-18.5
Electricity, gas and water supply	7.1	14.1	8.6	6.8	3.8	6.0	4.1	-1.2	-6.1
Construction	14.1	9.3	18.5	5.7	-7.6	-5.0	-8.5	-13.4	-18.9
Wholesale and retail trade	13.8	9.5	6.3	5.7	-0.9	4.5	-1.4	-15.4	-25.4
Hotels and Restaurants	6.8	0.4	2.5	2.1	0.2	0.6	-2.3	4.3	2.8
Transport, storage and communication	10.7	11.7	6.8	7.1	1.6	4.4	1.5	-7.1	-17.6
Financial intermediation	14.0	13.6	14.0	9.8	9.1	9.6	8.0	9.5	10.8
Ownership and dwelling	3.8	3.6	2.7	2.1	2.3	1.6	2.5	3.5	4.5
Real estate, renting and business activities	13.2	10.2	12.6	13.9	6.8	9.3	7.6	3.8	0.0
Public administration and defence; compulsory social security	3.1	-5.0	0.1	1.2	0.9	-0.3	-2.8	0.6	0.9
Education	1.1	4.3	5.2	4.8	0.7	0.7	-1.2	1.6	-0.2
Health and social work	-1.1	17.8	3.9	1.7	3.0	2.6	1.9	1.9	0.0
Other community, social and personnel service activities	4.7	5.3	9.1	5.4	1.7	3.0	0.2	0.7	-2.8
Private household with employed persons	12.7	10.8	13.5	12.2	5.7	7.7	5.7	2.9	-1.4
Sectorel total	9.6	8.5	7.5	4.8	1.7	3.7	1.4	-4.8	-11.5
Financial intermediation services indirectly measured	14.7	14.3	17.4	9.0	8.4	9.9	6.7	9.2	10.7
Taxes-Subsidies	9.9	10.9	6.6	5.9	-0.4	-3.3	2.4	-9.8	-21.2
Gross Domestic Product	9.4	8.4	6.9	4.7	1.1	2.8	1.2	-6.2	-13.8

GDP – Expenditure Approach

Real GDP Growth Rate - By Expenditure(at 1998 prices), 1998-2008	2004	2005	2006	2007	2008	2008 Q2	2008 Q3	2008 Q4	2009 Q1
Final Consumption Expenditure of Resident Households	11.0	7.9	4.6	4.6	0.3	1.5	-1.3	-4.6	-9.2
Final Consumption Expenditure of Resident and Non-Resident Households on the Economic Territory	10.2	7.5	4.6	3.9	0.1	1.0	-1.6	-4.0	-9.2
(Less) Final Consumption Expenditure of Non-Resident Households on the Economic Territory	-0.5	3.0	0.9	-7.1	-3.6	-11.2	-7.6	9.0	-1.2
Final Consumption Expenditure of Resident Households in the Rest of the World	3.7	6.6	-13.9	6.9	-11.3	-15.2	-26.2	-1.1	26.5
Consumption Expenditure	6.0	2.5	8.4	6.5	1.8	-5.0	1.2	6.1	5.7
Compensation of Employees	0.2	-0.8	0.4	1.1	-0.4	-0.3	-2.1	0.6	0.9
Purchases of Goods and Services	15.5	7.1	19.0	12.6	4.0	-9.6	4.8	10.1	12.3
Gross Fixed Capital Formation	28.4	17.4	13.3	5.4	-4.6	-1.2	-6.9	-17.5	-29.7
Public Sector	-6.6	25.0	2.6	6.3	13.1	14.9	5.4	15.9	24.6
Machinery- Equipment	-6.8	34.8	-18.5	13.0	22.4	36.5	25.0	16.9	26.4
Construction	-6.5	21.7	10.4	4.5	10.4	11.3	1.3	15.1	24.4
Private Sector	36.1	16.2	15.0	5.3	-7.3	-3.4	-8.9	-23.5	-35.8
Machinery- Equipment	48.2	21.4	12.2	4.7	-4.4	-0.5	-6.8	-25.3	-39.4
Construction	19.8	7.6	20.3	6.2	-12.2	-9.0	-12.5	-20.4	-28.8
(*) Change in Stocks	-200.7	-7.2	12.1	-85.6	-278.8	-120.4	41.6	183.6	2486.7
Exports of Goods and Services	11.2	7.9	6.6	7.3	2.6	3.9	3.6	-8.2	-11.3
(Less) Imports of Goods and Services	20.8	12.2	6.9	10.7	-3.1	2.2	-2.8	-23.0	-31.9
GDP	9.4	8.4	6.9	4.7	1.1	2.8	1.2	-6.2	-13.8

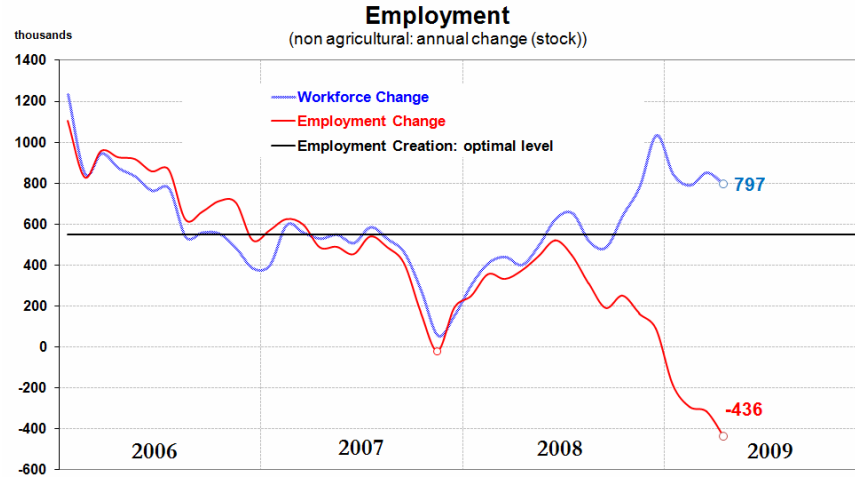
Industrial Production



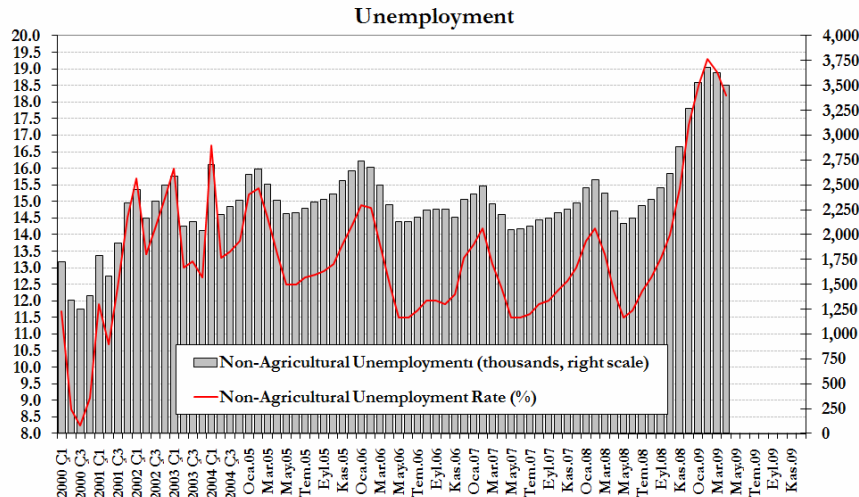
Overall industrial production has been increasing after the 2001 crisis. However, production in labour intensive-sectors such as manufacture of textile products or wearing apperals has been decreasing while technology-intensive sectors has been increasing.

The increase in production of vehicles, trailers etc. was the main driver of the surge in manufacturing production.

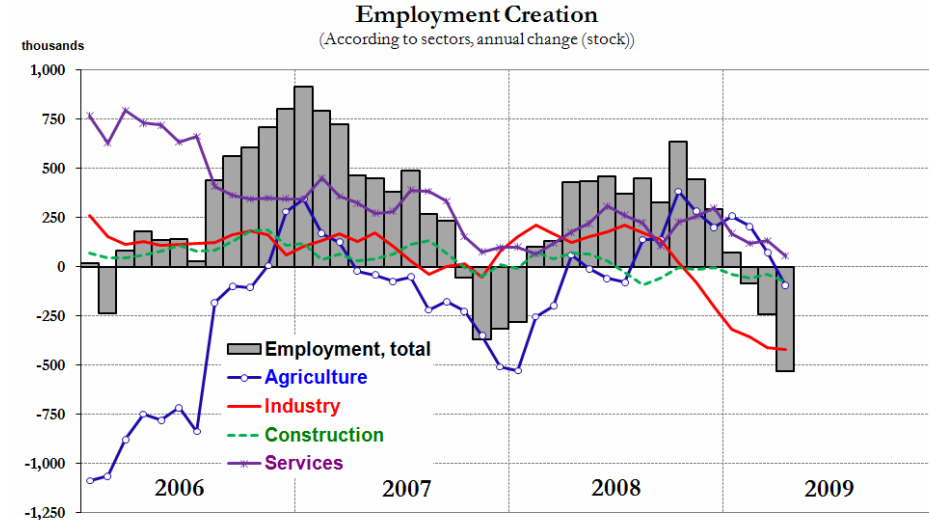
Employment



Source: TURKSTAT, TÜSİAD Economic Research Department



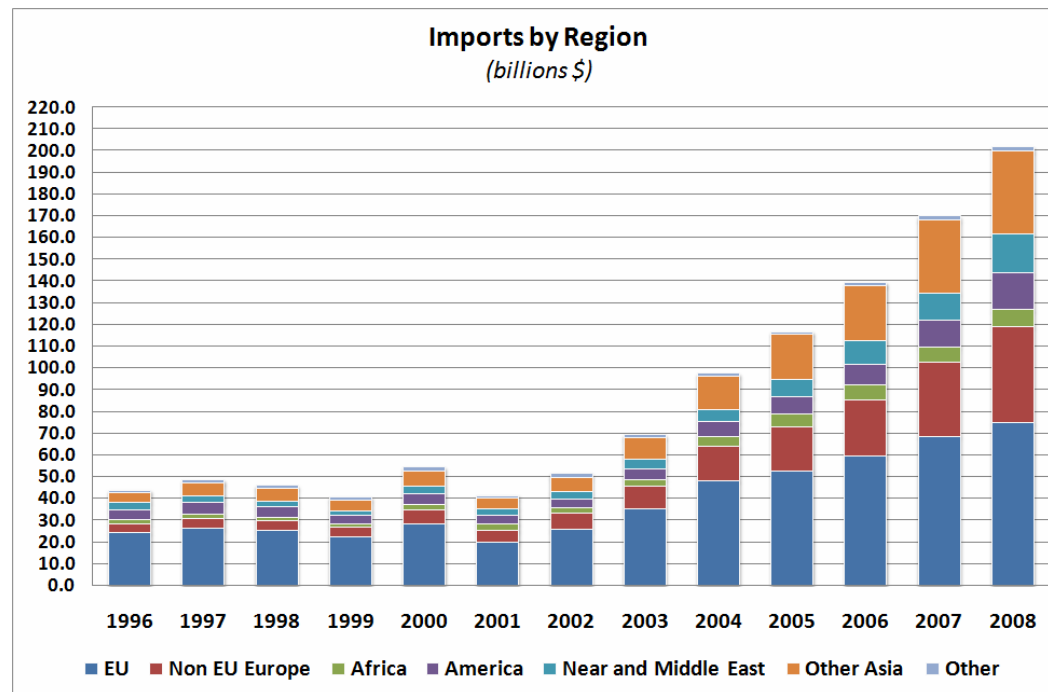
Kaynak: TÜİK



Source: TURKSTAT

- Service sectors provide the bulk of the new employment.
- Seasonally adjusted unemployment rate has reached record levels in the last quarter of 2008.

Trade Partners



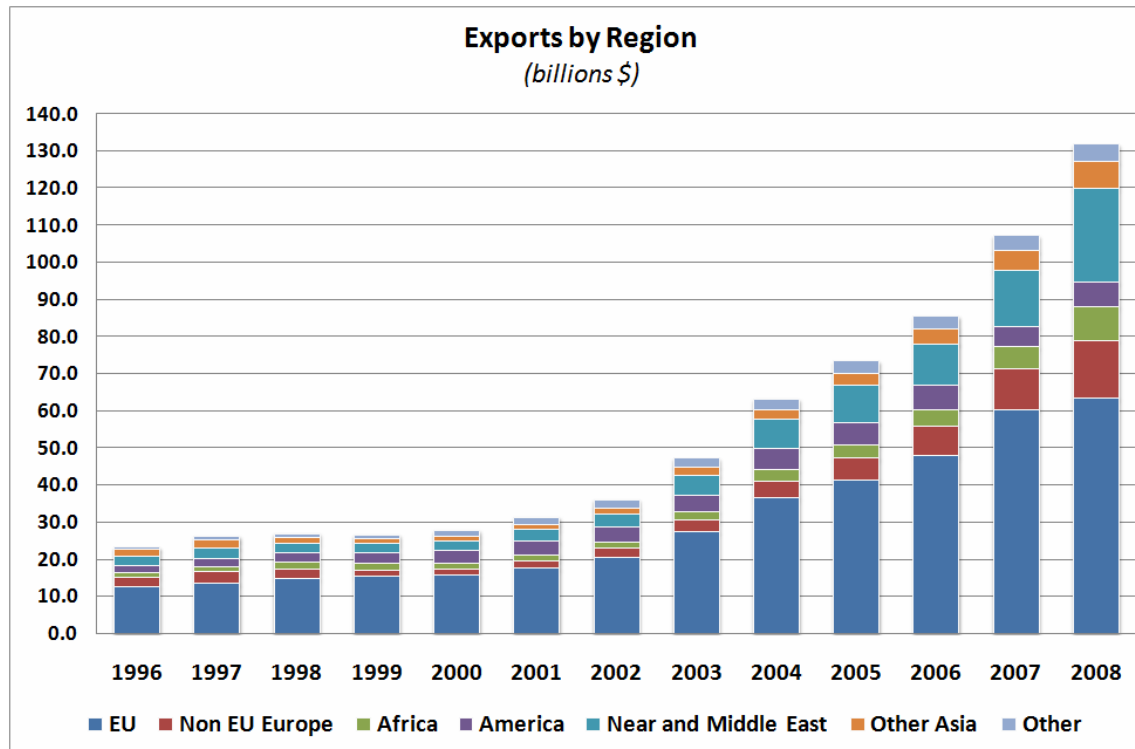
Share of imports from Asia is constantly increasing.

The reason is obviously China. It became the third biggest import partner of Turkey, as of 2006.

European countries are again the biggest import partners of Turkey.

Import Partners - 2008			
Rank	Country	Billions \$	Share, %
1	Russia Fed	31.4	15.5
2	Germany	18.7	9.3
3	China	15.7	7.8
4	USA	12.0	5.9
5	Italy	11.0	5.5
6	France	9.0	4.5
7	Iran	8.2	4.1
8	Ukraine	6.1	3.0
9	Switzerland	5.6	2.8
10	United Kingdom	5.3	2.6
11	Spain	4.5	2.3
12	South Korea	4.1	2.0
13	Japan	4.0	2.0
14	Romania	3.5	1.8
15	Saudi Arabia	3.3	1.6
16	Algeria	3.3	1.6
17	Belgium	3.2	1.6
18	Netherlands	3.1	1.5
19	India	2.5	1.2
20	Kazakhstan	2.3	1.2
Total Imports		202.0	100.0

Trade Partners



Main export countries are located in the west.

Exports to Iraq and Russia are higher including the unrecorded trade.

European countries are the biggest export partner of Turkey.

Germany ranks first among the export partners followed by England and UAE.

Export Partners - 2008			
Rank	Country	Billions \$	Share, %
1	Germany	12.9	9.8
2	United Kingdom	8.2	6.2
3	UAE	8.0	6.0
4	Italy	7.8	5.9
5	France	6.6	5.0
6	Russia Fed	6.5	4.9
7	USA	4.3	3.3
8	Spain	4.0	3.1
9	Romania	4.0	3.0
10	Iraq	3.9	3.0
11	Netherlands	3.1	2.4
12	Switzerland	2.9	2.2
13	Greece	2.4	1.8
14	Saudi Arabia	2.2	1.7
15	Ukraine	2.2	1.7
16	Bulgaria	2.1	1.6
17	Belgium	2.1	1.6
18	Iran	2.0	1.5
19	Israel	1.9	1.5
20	Azerbaijan	1.7	1.3
Total Exports		132.0	100.0

Foreign Trade

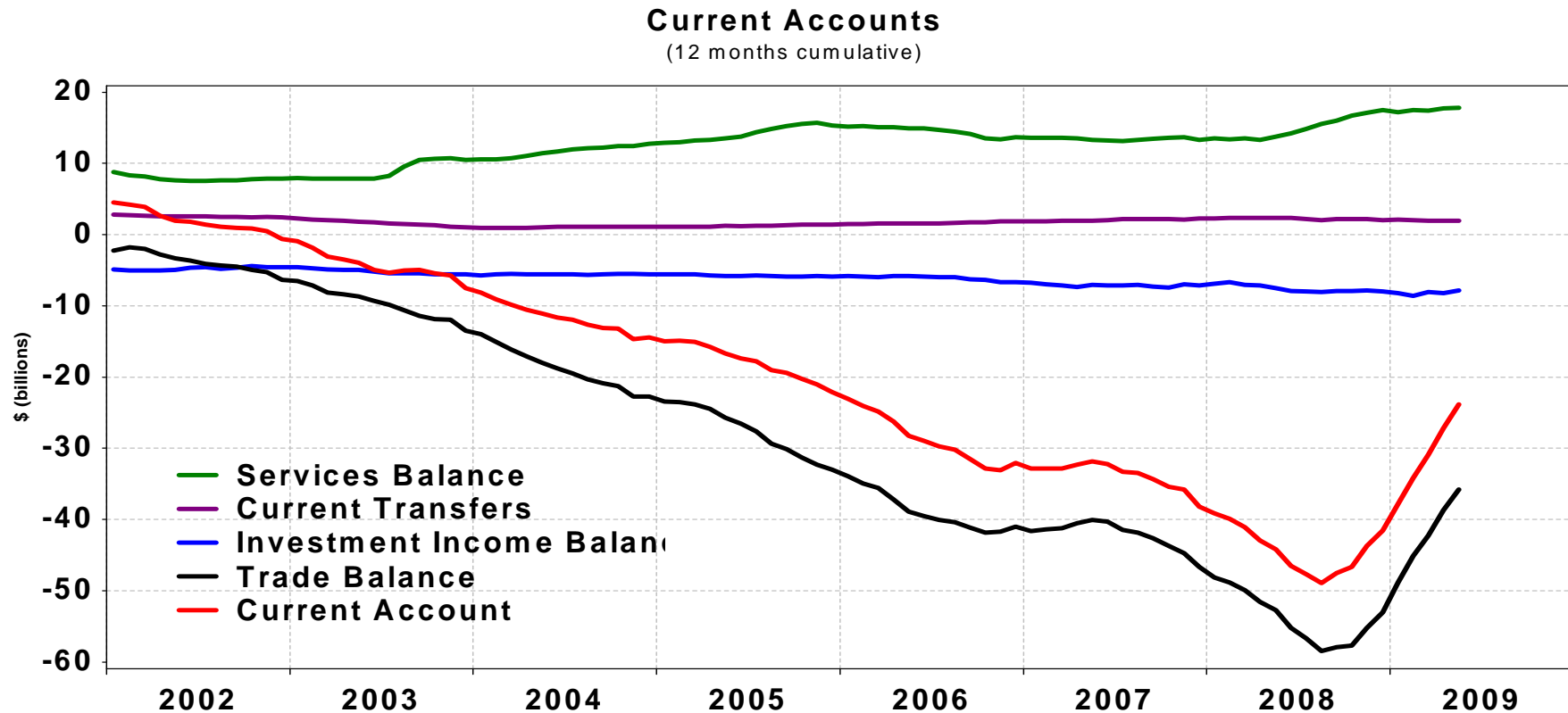
Imports (BEC classification, bn \$)	2002	2003	2004	2005	2006	2007	2008	2009*
Capital Goods	8.4	11.3	17.4	20.4	23.3	27.1	28.0	25.3
Intermediate Goods	37.7	49.7	67.5	81.9	99.6	123.6	151.7	135.5
Consumption Goods	4.9	7.8	12.1	14.0	16.1	18.7	21.5	19.8
Others	0.6	0.5	0.5	0.6	0.5	0.7	0.7	0.7
TOTAL	51.6	69.3	97.5	116.8	139.6	170.1	202.0	181.4

** April 2008 - March 2009 period*

Exports (ISIC Rev. 3 classification, bn \$)	2002	2003	2004	2005	2006	2007	2008	2009*
Manufacturing	33.7	44.4	59.6	68.8	80.2	101.1	125.2	116.8
Mining and Quarrying	0.4	0.5	0.6	0.8	1.1	1.7	2.2	2.0
Agriculture and Forestry	1.8	2.1	2.5	3.3	3.5	3.7	3.9	4.0
Fishing	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Others	0.2	0.2	0.3	0.4	0.5	0.6	1.7	2.2
TOTAL	36.1	47.3	63.2	73.5	85.5	107.3	133.2	125.1

** April 2008 - March 2009 period*

External Balance

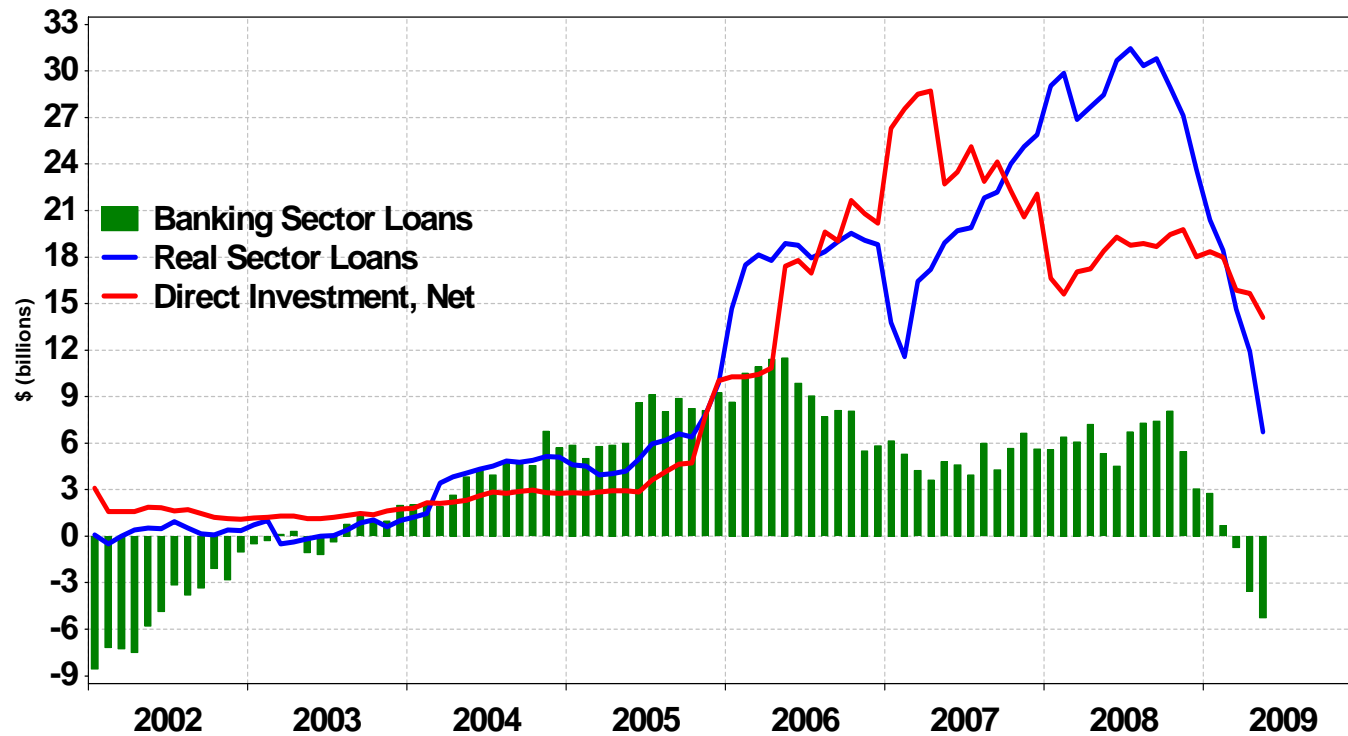


Source: Reuters EcoWin

Revenues gained from services sector, excluding tourism, has not been enough to offset the foreign trade deficit. However, now trade deficit narrows rapidly squeezing down the current account deficit

External Balance

Financial Accounts
(12 months cumulative)

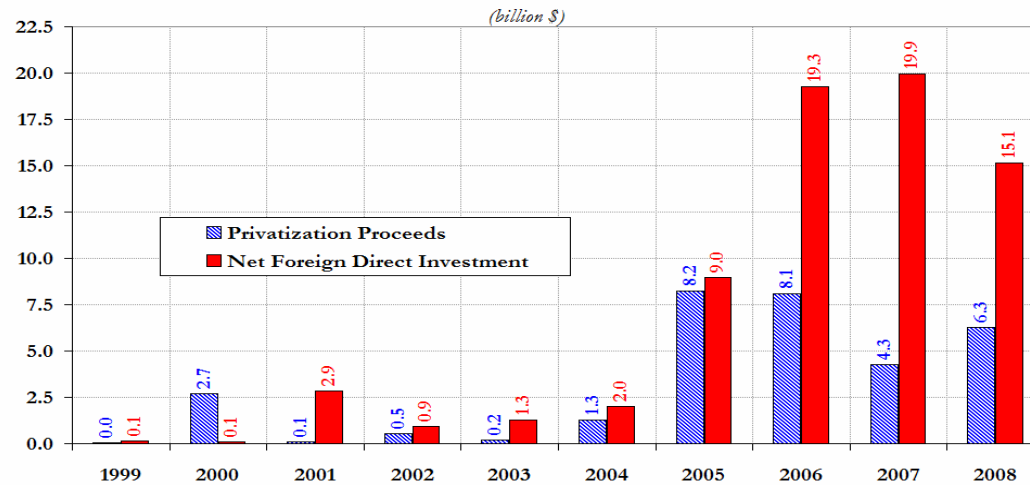


Source: Reuters EcoWin

Foreign direct investment flows have stabilized around \$17 Billions

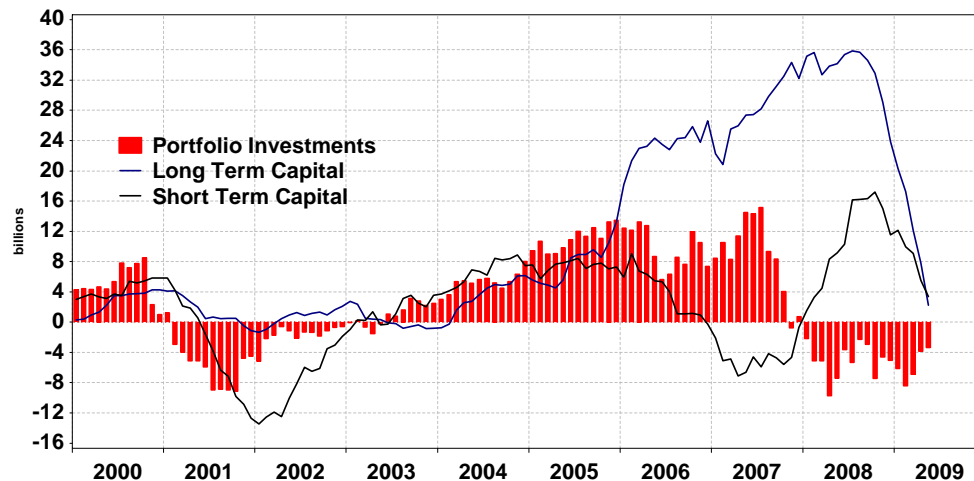
External Balance

Net FDI and Privatization Proceeds



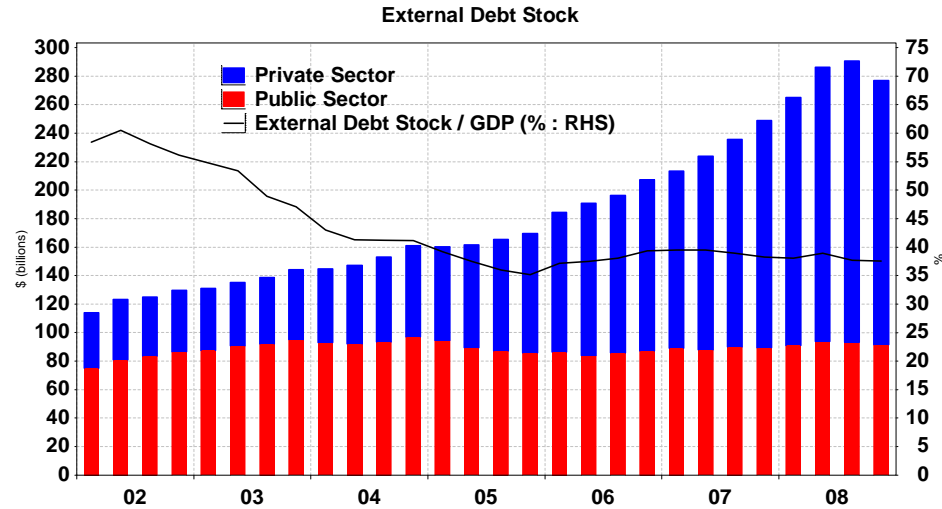
- The increase in foreign direct investment level has eased the finance of the current account deficit.

Capital Flows
(12 months cumulative)

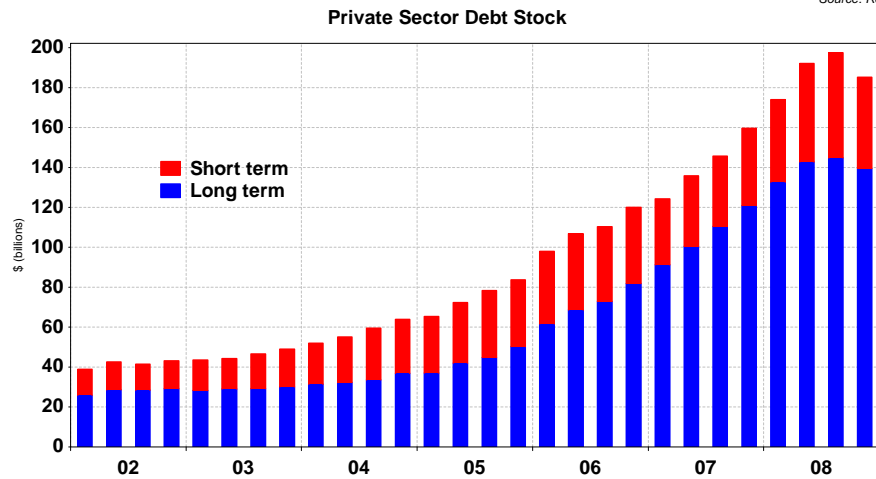


- With the global slowdown, capital inflows have decelerated in the recent months

External Debt Stock

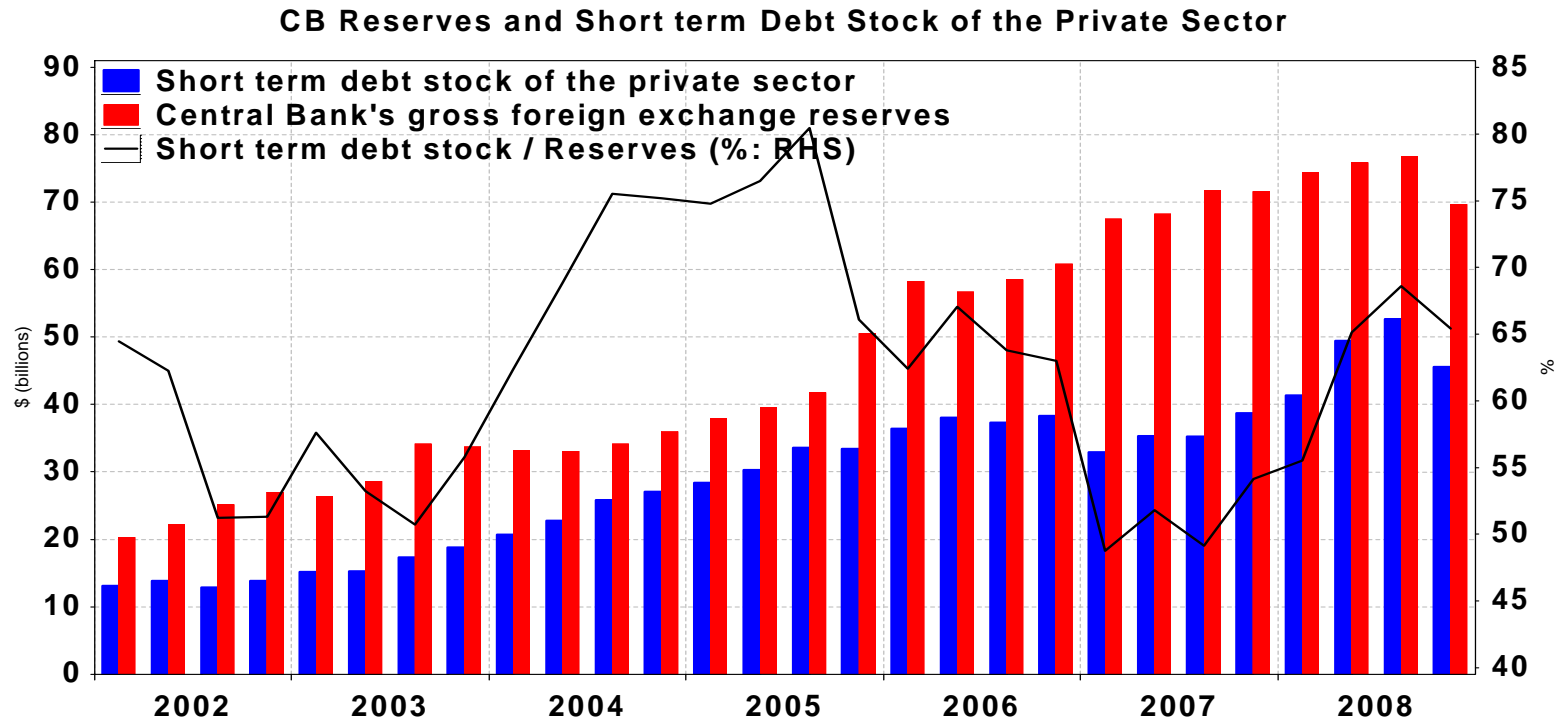


While debt stock of the public sector remains constant, that of private sector increases. Debt to GDP ratio has been between 35-40% for the last 2 years



Long term debt stock accounts for 77% of total private sector debt

External Debt Stock

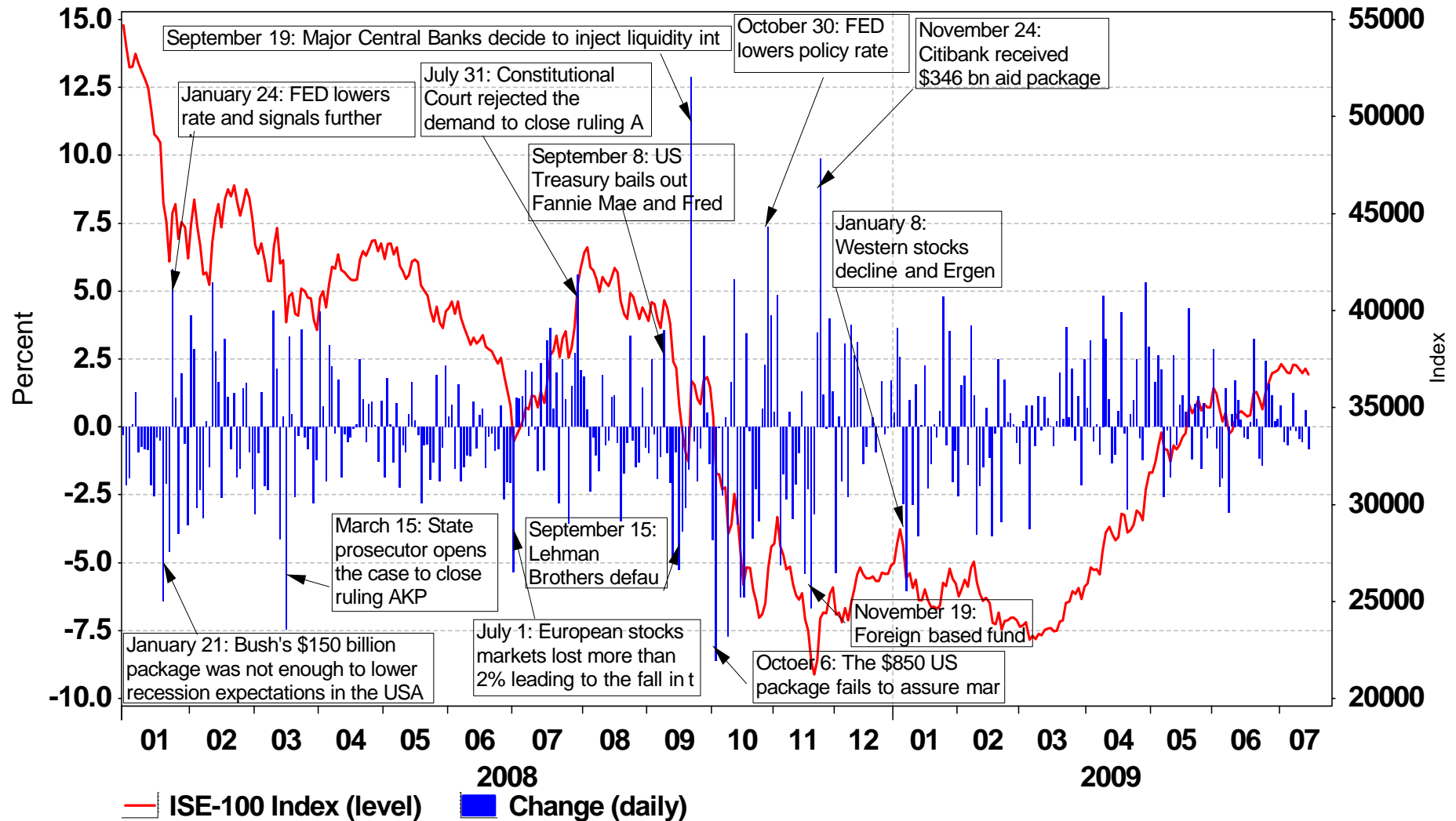


Source: Reuters EcoWin

Central Bank's reserves more than cover short term obligations of the private sector

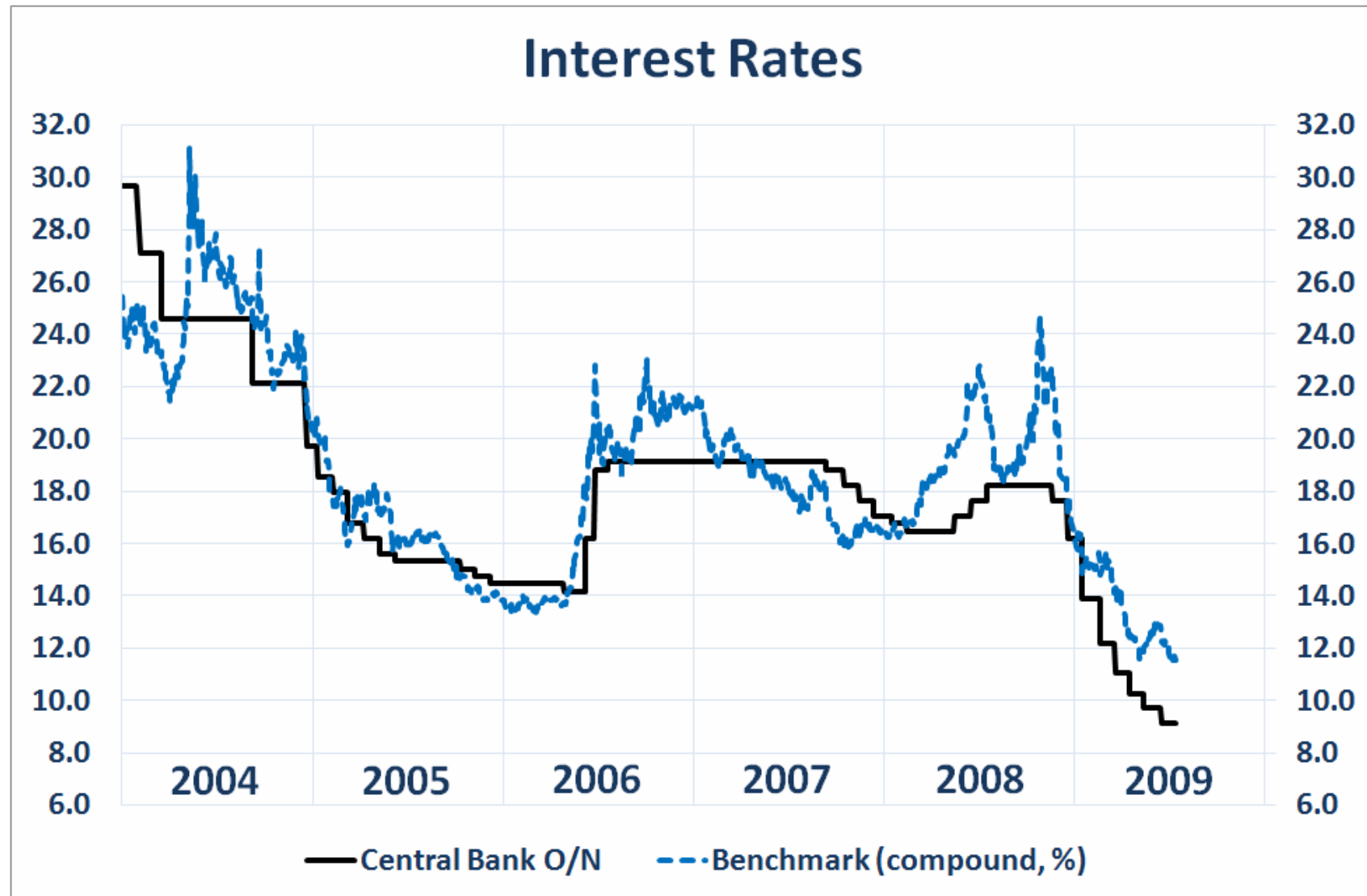
Istanbul Stock Exchange

Turkey ISE-100 Index

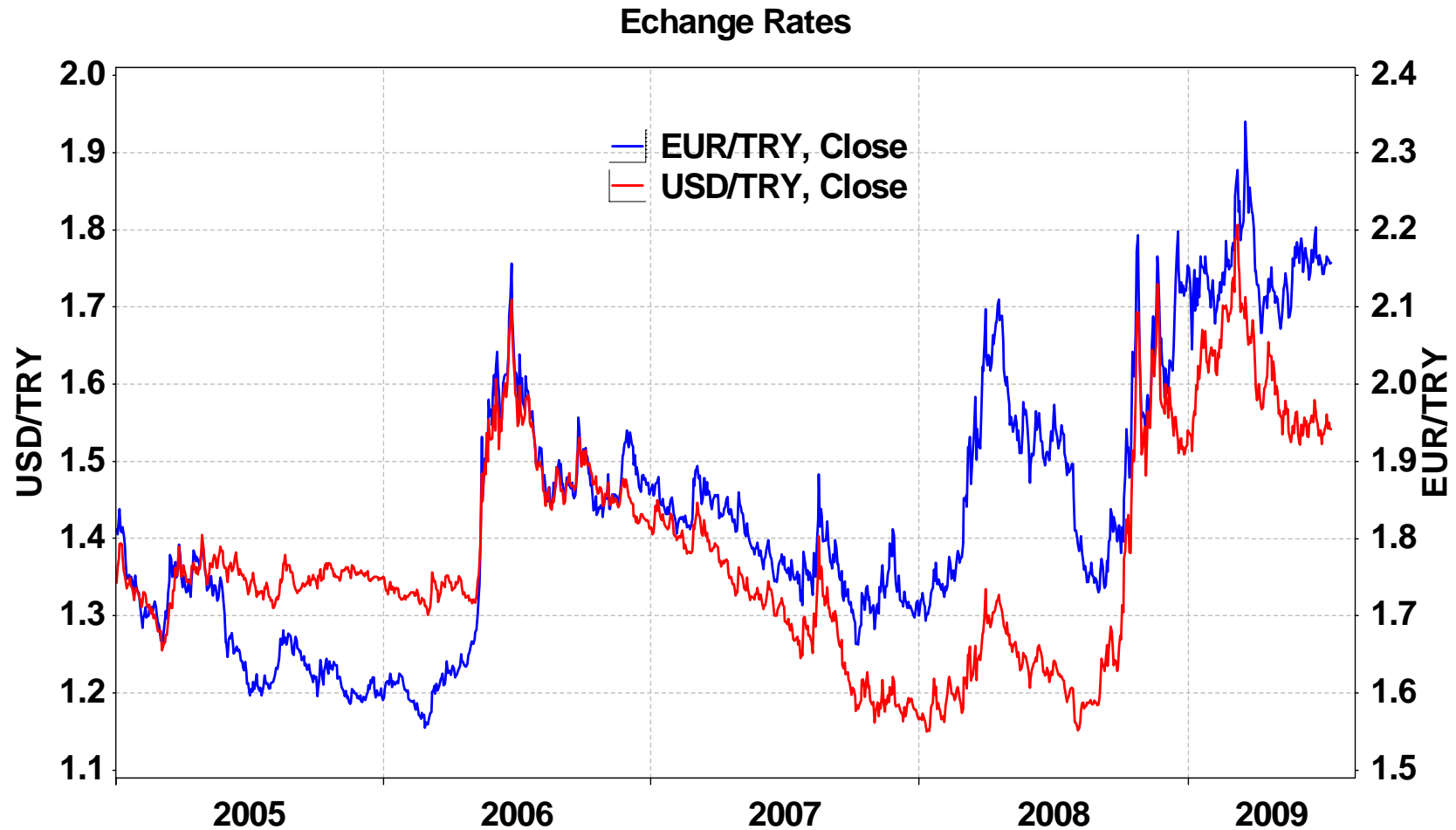


Source: Reuters EcoWin

Interest Rates

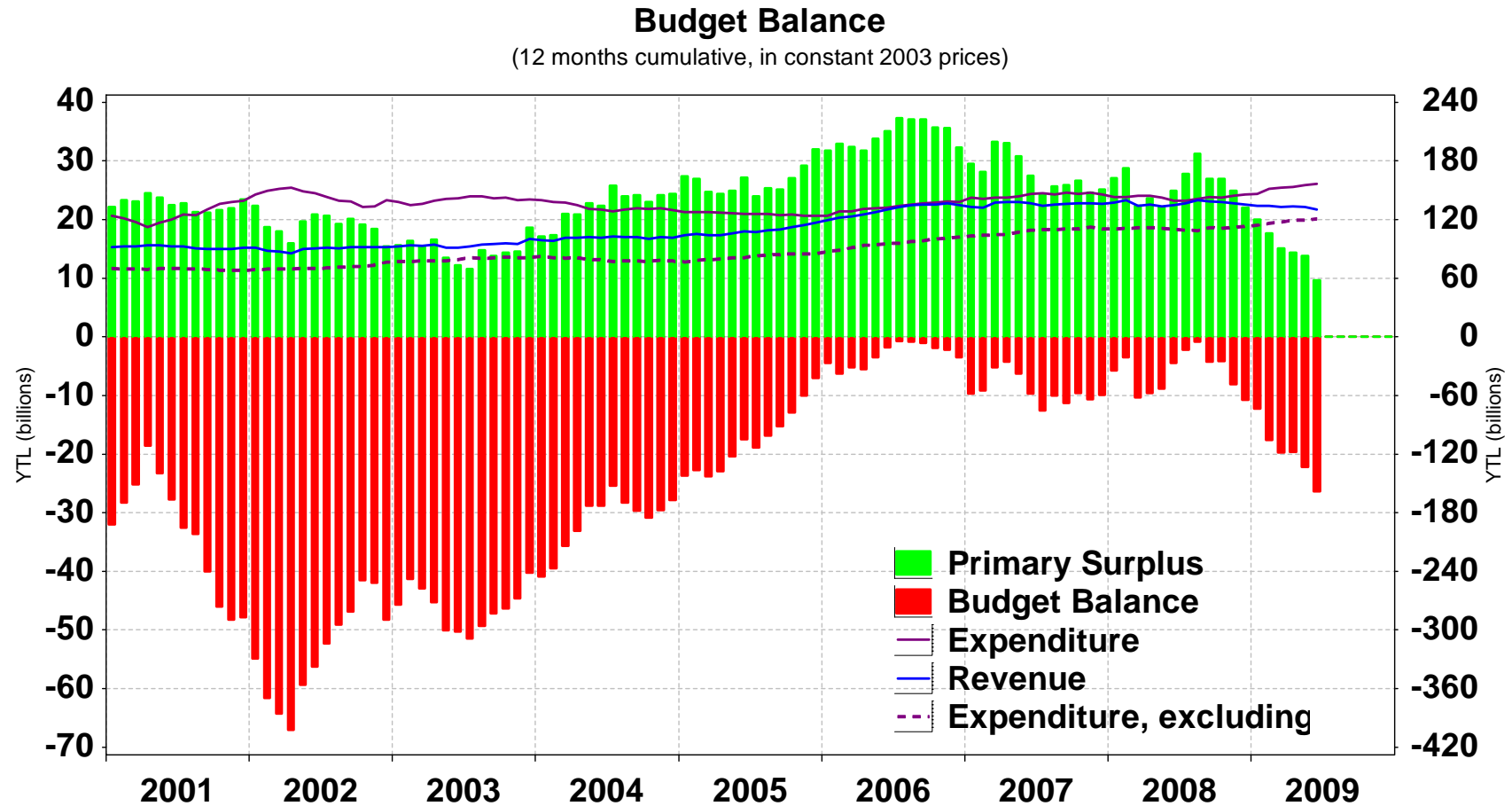


Exchange Rates



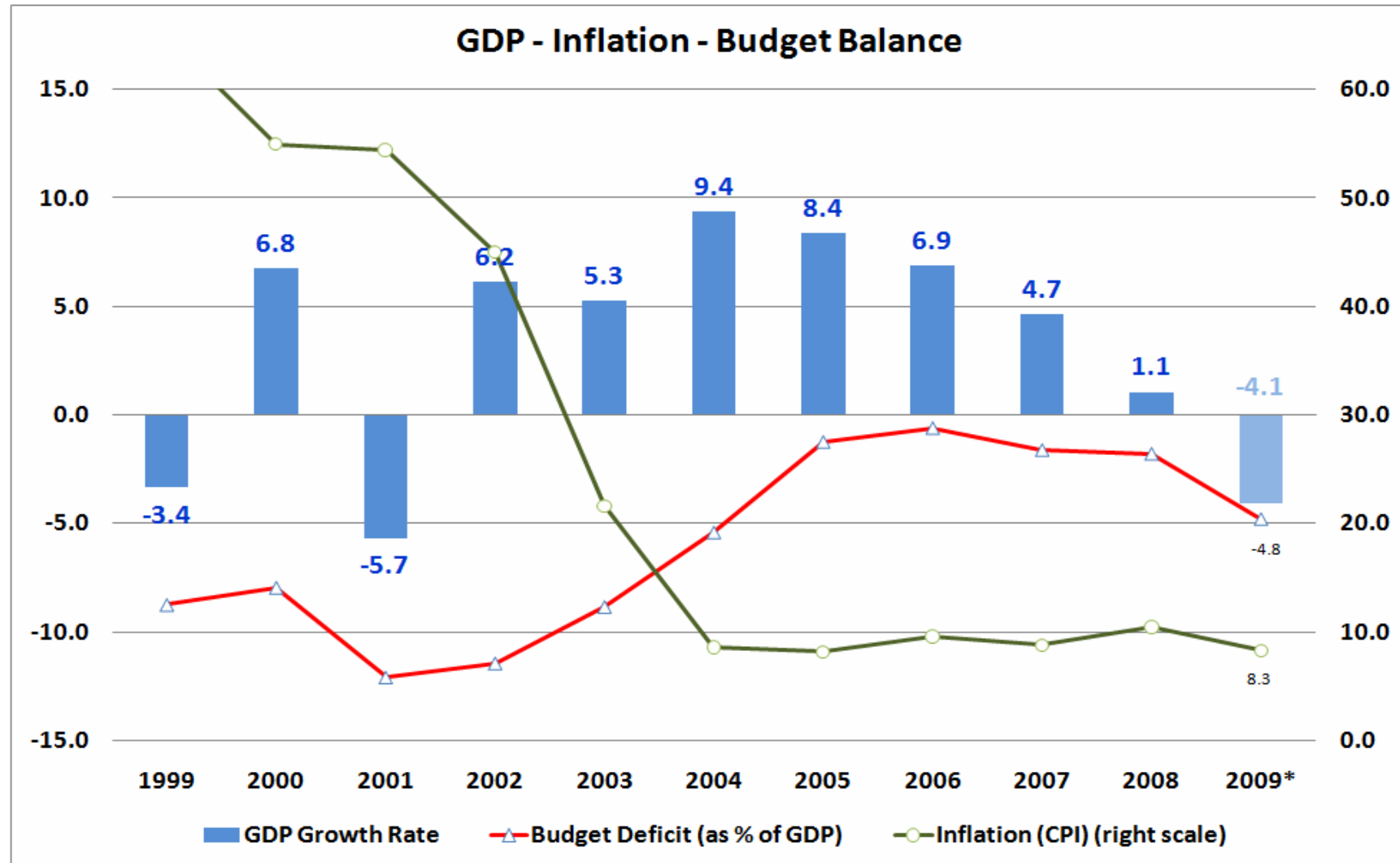
Source: Reuters EcoWin

Budget Balance

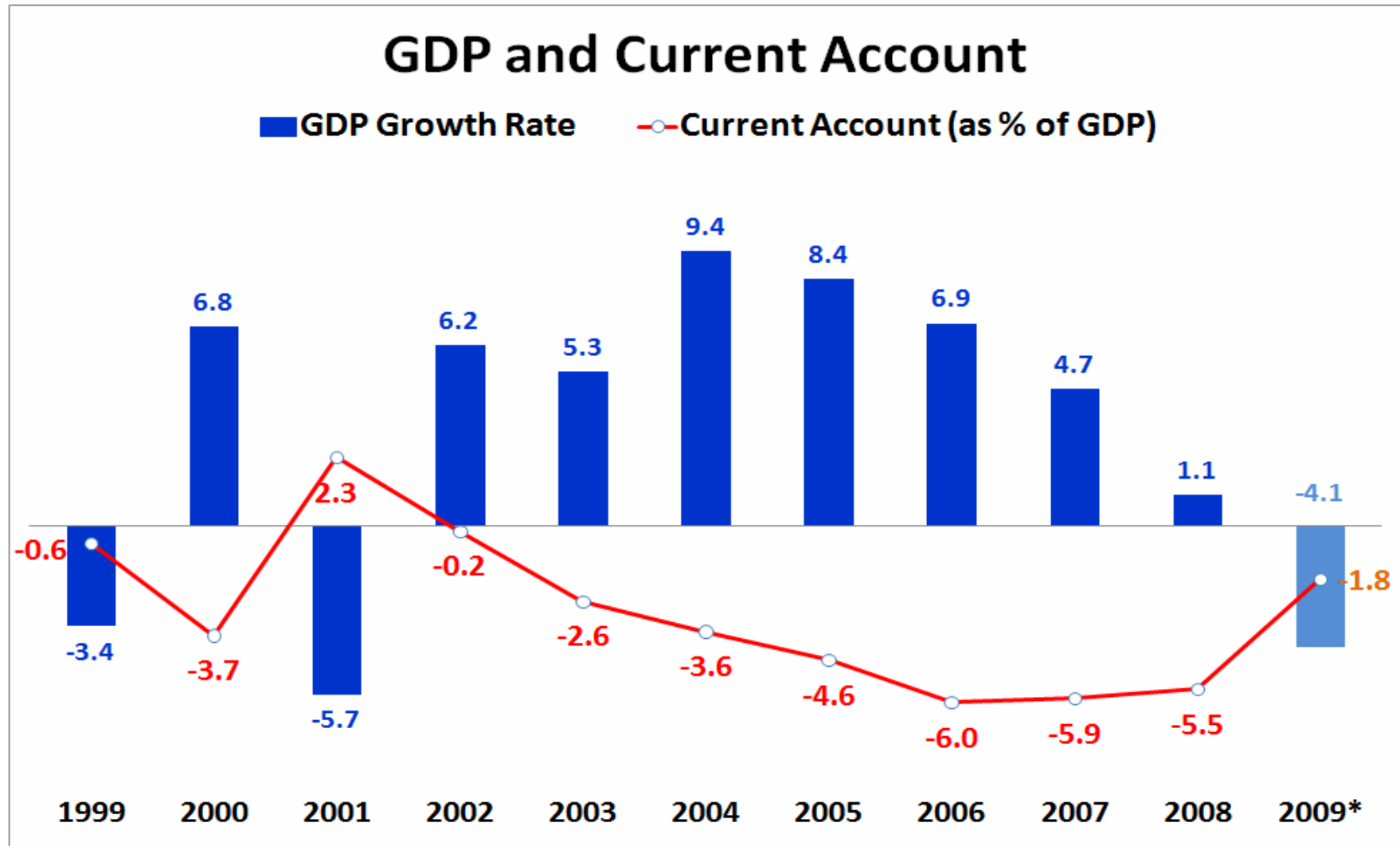


Source: Reuters EcoWin

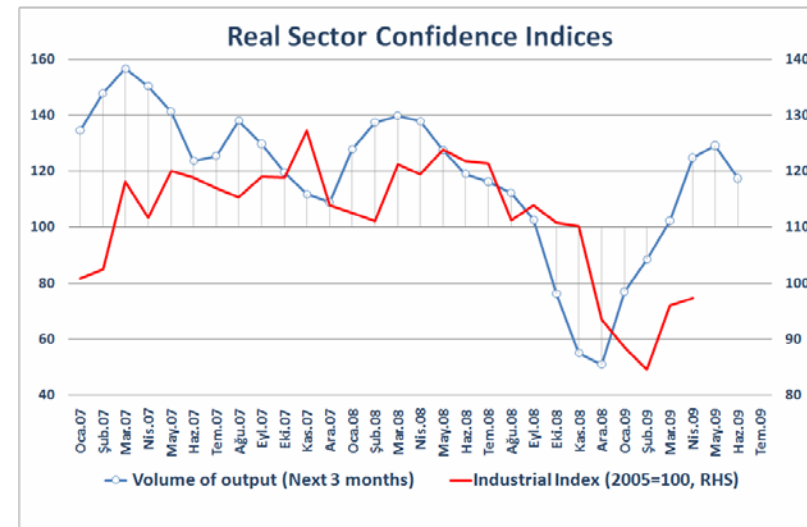
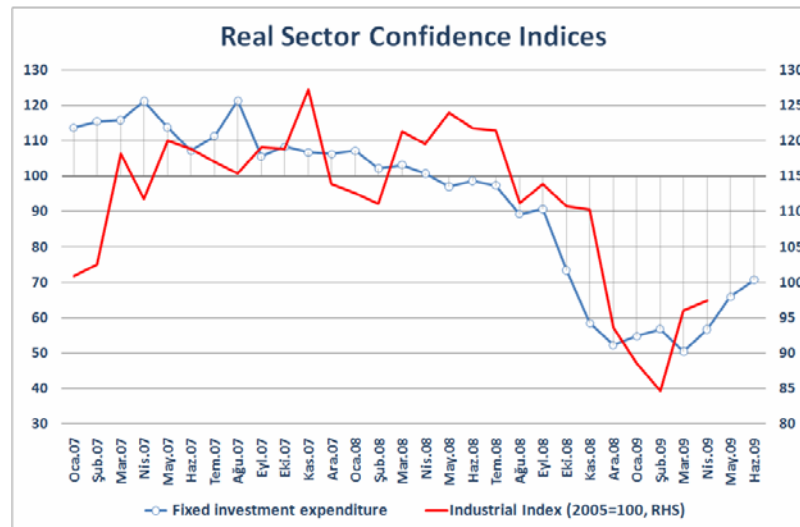
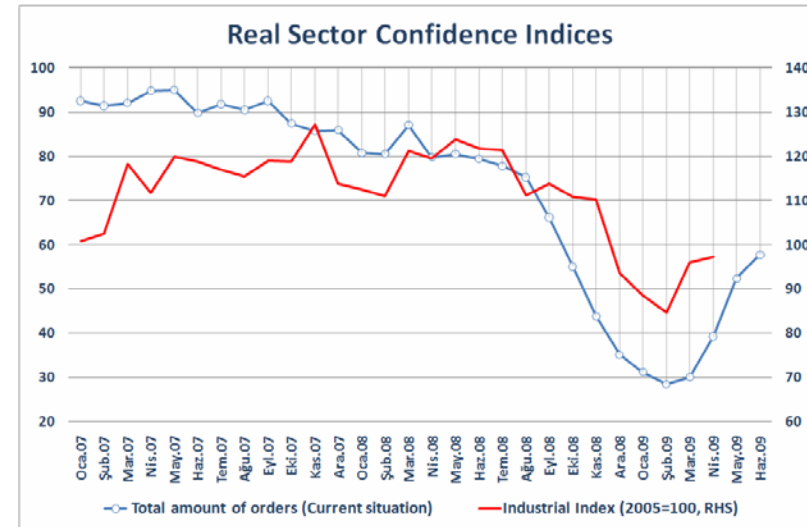
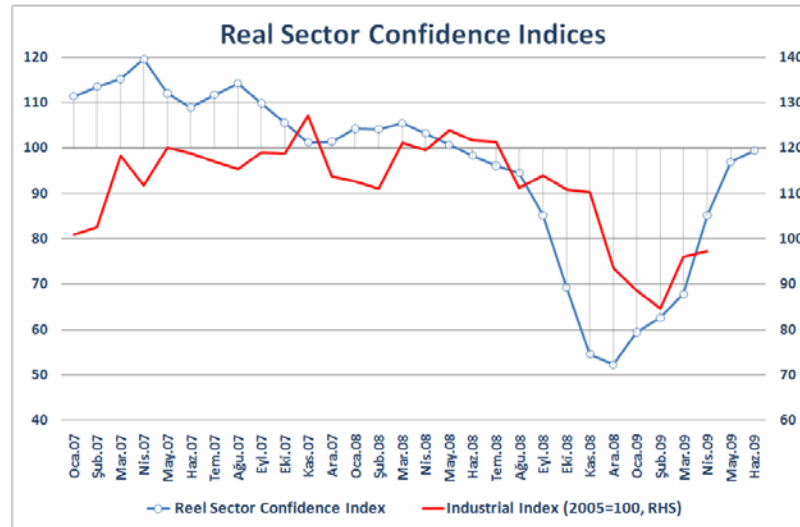
GDP – Inflation – Budget Balance



GDP – Current Account

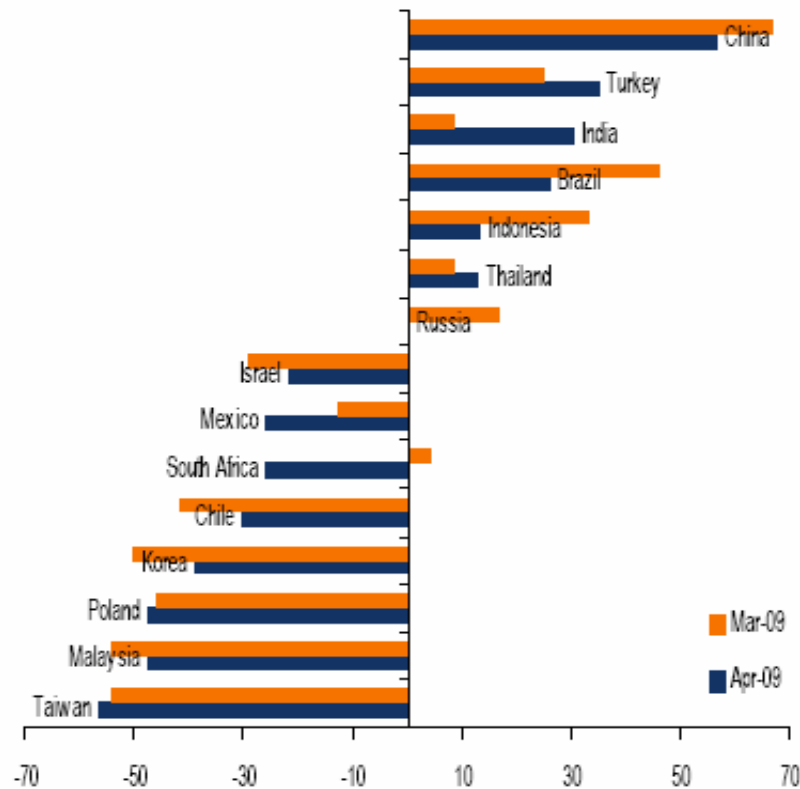


Real Sector Confidence Index (CBRT)



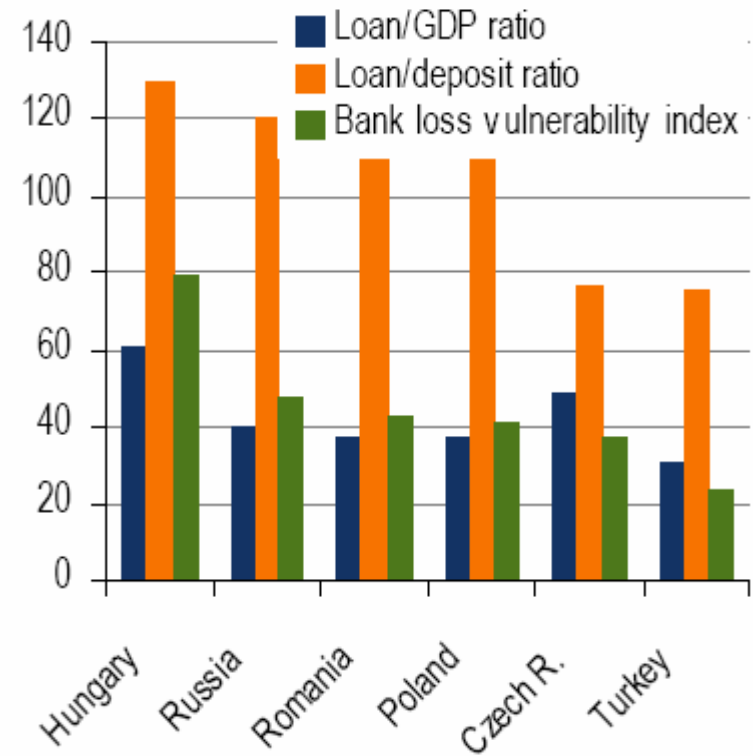
International Comparison

Chart 2: GEM investors country preferences



Source: Banc of America Securities-Merrill Lynch Fund Manager Survey

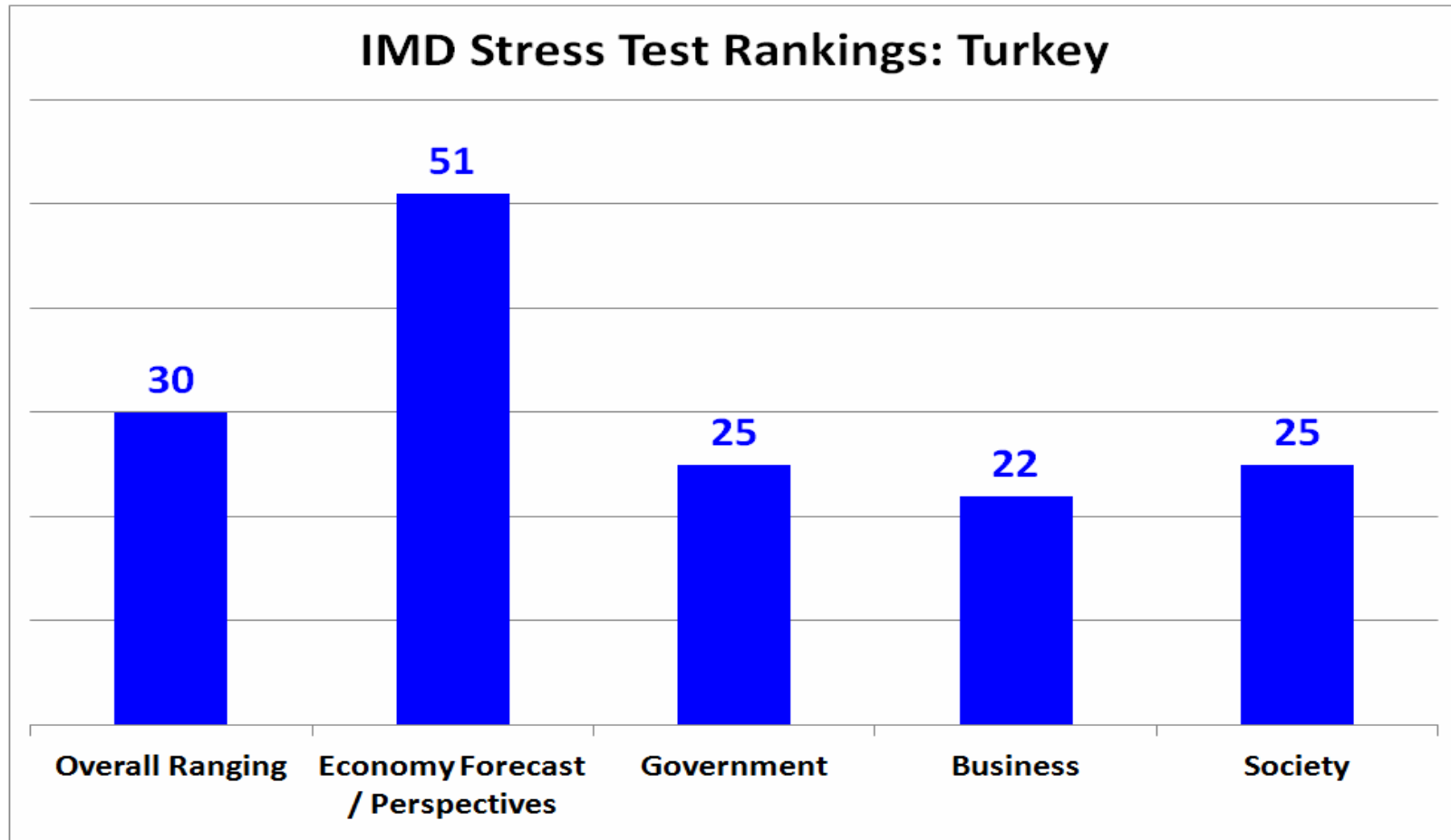
Chart 3: Banking sector vulnerabilities



Source: IMF, Banc of America Securities-Merrill Lynch estimates.

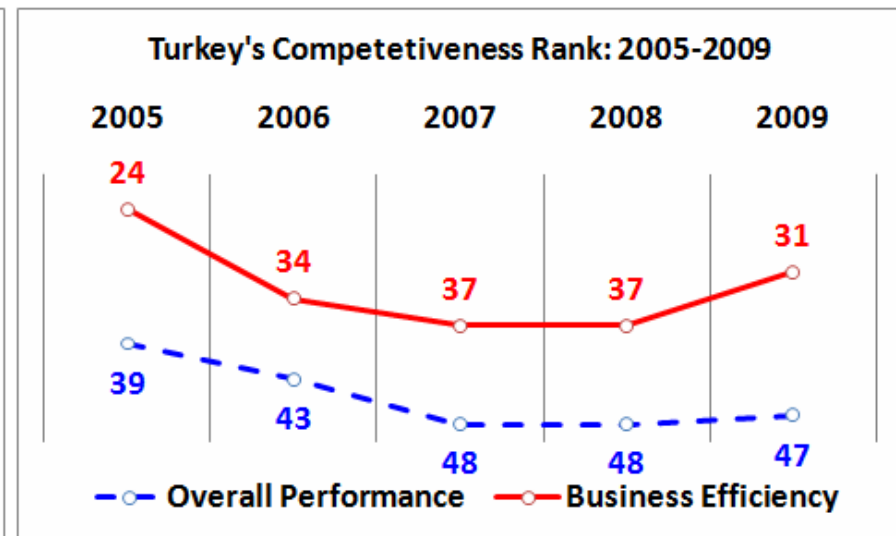
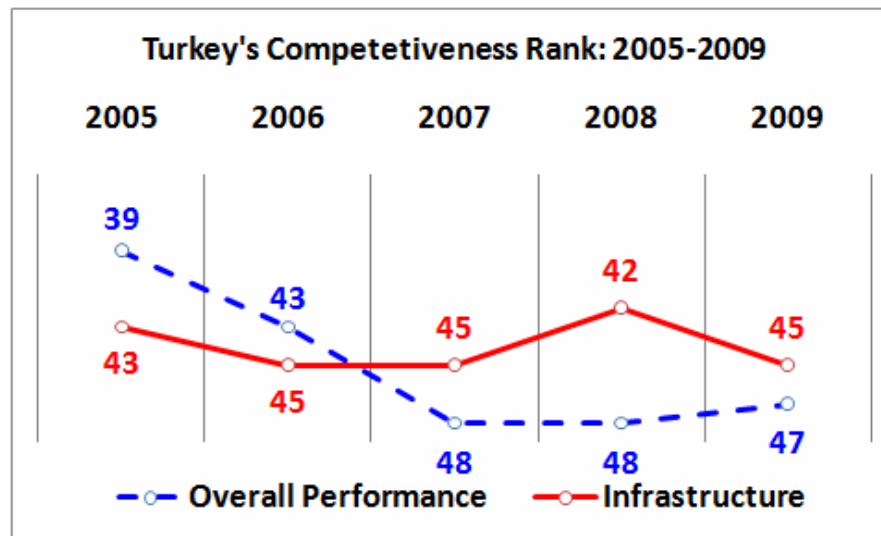
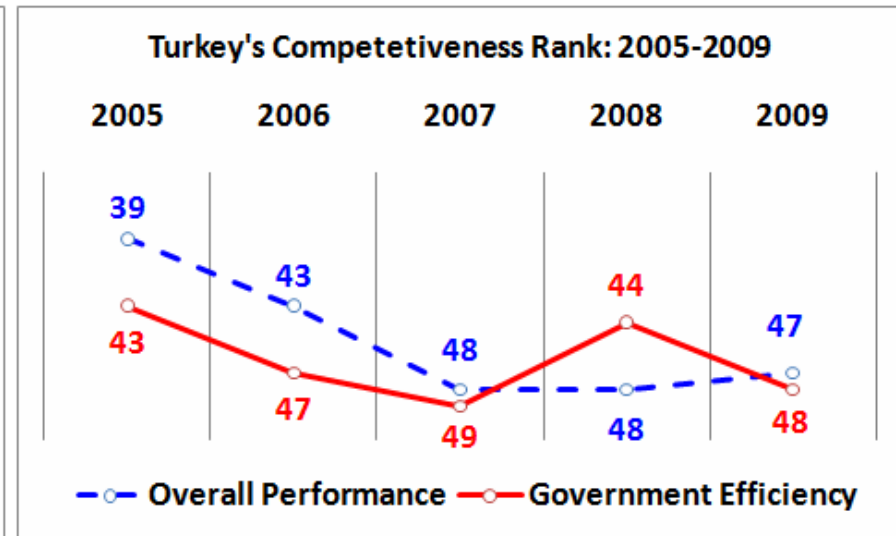
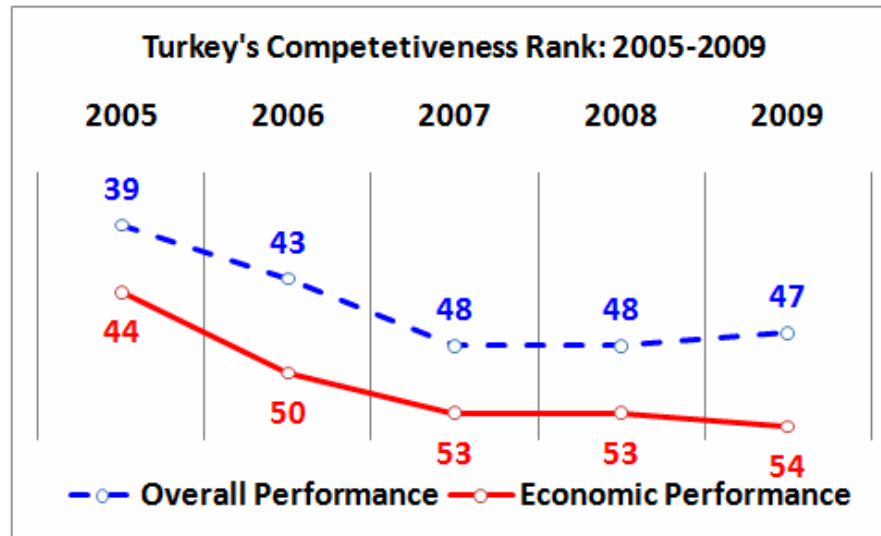
Note: Bank loss vulnerability index = loan/GDP ratio * loan/deposit ratio / 100.

IMD Stress Test Rankings 2009

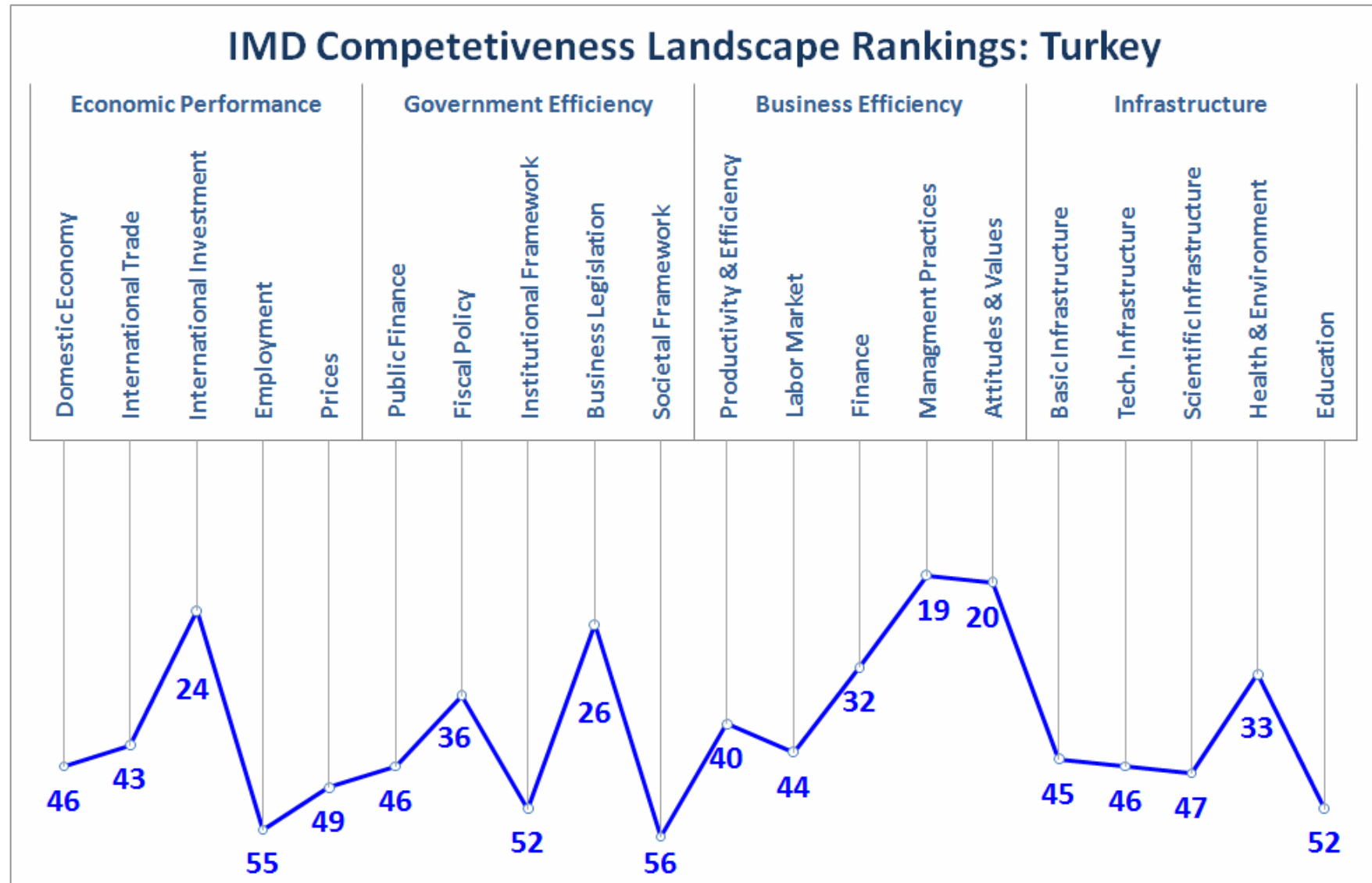


Rankings of the “Stress Test” - an analysis of which countries are better equipped to fare through the crisis and improve their competitiveness in the near future. In other words, the test is future oriented – it focuses on exposure, readiness and resilience in a period of world recession (among 57 countries)

IMD Competitiveness Rankings: 2005 - 2009



IMD Competitiveness Rankings 2009



Macroeconomic Scenario: 2009

TÜSİAD MAKROECONOMIC SCENARIO (Quarterly and yearly averages)															
	2007					2008					2009				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
INCOME AND PRICE															
GDP (Annual % change)	8.1	4.1	3.3	3.6	4.6	6.7	2.3	0.5	-6.2	1.1	-10.5	-4.1	-3.7	1.9	-4.1
Inflation (CPI)	10.3	9.5	7.1	8.2	8.8	8.8	10.3	11.7	10.9	10.4	7.2	8.3	8.4	7.8	8.3
CENTRAL GOVERNMENT BUDGET															
Revenues (billion TL)	46.1	48.7	47.0	47.8	189.6	47.2	55.3	58.2	48.2	208.9	51.4	52.6	50.8	52.5	207.3
Expenditures (billion TL)	49.4	51.2	53.3	49.5	203.5	51.6	49.0	64.9	60.5	226.0	66.9	65.3	62.9	59.1	254.2
Budget Balance (billion TL)	-3.3	-2.6	-6.3	-1.7	-13.9	-4.4	6.3	-6.7	-12.3	-17.1	-15.5	-12.7	-12.1	-6.6	-46.9
Interest Payments (billion TL)	16.0	10.9	15.9	6.0	48.7	13.8	7.0	20.6	9.3	50.6	20.5	12.9	18.7	7.1	59.2
Primary Surplus (% of GDP)	6.7	4.0	4.1	1.9	4.1	4.3	5.6	5.3	-1.3	3.5	2.4	0.1	2.4	0.2	1.8
Budget Balance (% of GDP)	1.8	1.2	2.7	0.8	1.6	-2.0	2.6	-2.5	-5.3	-1.8	-7.5	-5.1	-4.4	-2.6	-4.8
EXCHANGE RATES															
Nominal Exchange Rate (\$/TL)	1.409	1.336	1.284	1.190	1.304	1.205	1.261	1.211	1.538	1.304	1.649	1.627	1.651	1.699	1.657
Nominal Exchange Rate*	5.9	-8.6	-14.3	-18.2	-9.2	-14.5	-5.6	-5.7	29.3	0.0	36.9	29.0	36.3	10.5	27.1
Real Exchange Rate (2003=100)**	145.4	156.9	162.6	182.4	161.1	185.1	183.3	192.4	156.5	179.3	145.4	152.8	151.8	151.3	150.3
Real Exchange Rate*	4.1	19.8	25.0	32.2	19.7	27.3	16.9	18.4	-14.2	11.3	-21.5	-16.7	-21.1	-3.3	-16.2
Nominal Exchange Rate (€/TL)	1.85	1.80	1.76	1.72	1.78	1.81	1.97	1.82	2.028	1.907	2.150	2.196	2.295	2.200	2.210
Nominal Exchange Rate*	15.5	-2.0	-7.5	-8.1	-1.2	-2.2	9.5	3.2	17.7	6.9	19.0	11.4	26.1	8.5	15.9
Real Exchange Rate (2003=100)**	125.3	131.4	133.7	142.3	133.0	139.4	132.5	144.6	134.1	137.6	130.3	128.3	126.2	127.9	128.2
Real Exchange Rate*	-4.5	11.7	15.8	17.7	10.1	11.3	0.8	8.2	-5.8	3.5	-6.5	-3.2	-12.7	-4.6	-6.9
€/ \$	1.311	1.348	1.374	1.448	1.368	1.500	1.563	1.503	1.318	1.462	1.304	1.350	1.390	1.295	1.334
GOVERNMENT SECURITIES AUCTION															
Nominal Interest Rate (compounded, %)	19.8	19.3	18.4	16.4	18.5	16.9	19.3	19.4	20.3	19.0	15.6	13.2	13.0	13.3	13.8
Real Interest Rate (compounded, %)	8.6	8.9	10.5	7.6	8.9	7.5	8.1	7.0	8.4	7.7	7.8	4.5	4.3	5.1	5.4
FOREIGN TRADE AND CURRENT ACC.															
Imports (cif, billion \$)	35.2	42.1	44.4	48.4	170.1	49.2	56.7	57.7	38.3	201.8	26.6	31.7	38.4	35.1	131.8
Exports (fob, shuttle trade exc., billion \$)	23.2	26.4	26.7	30.9	107.3	33.1	35.6	36.5	26.8	132.0	23.0	25.0	27.0	24.3	99.3
Foreign Trade Balance (billion \$)	-12.0	-15.7	-17.6	-17.4	-62.8	-16.0	-21.1	-21.2	-11.5	-69.8	-3.6	-6.7	-11.4	-10.8	-32.5
Invisibles (other current, billion \$)	2.8	5.7	10.8	5.8	25.1	3.8	5.6	13.3	5.8	28.4	2.9	4.7	9.7	4.7	22.0
Current Account Balance (billion \$)	-9.3	-10.0	-6.8	-11.6	-37.7	-12.3	-15.5	-7.9	-5.7	-41.4	-0.7	-2.0	-1.7	-6.1	-10.5
Current Account Balance (% of GDP)					-5.8					-5.6					-1.8
Imports (cif)*	19.2	14.6	22.7	30.2	21.8	39.7	34.5	30.0	-20.9	18.7	-45.9	-44.1	-33.4	-8.3	-34.7
Exports (fob, shuttle trade exc.)*	24.6	24.1	24.3	28.2	25.4	43.2	34.9	36.5	-13.4	23.1	-30.6	-29.8	-25.9	-9.3	-24.8

Italic figures indicate TÜSİAD estimates

() Annual % change*

*(**) Decrease in Real Exchange Rate index reflects the devaluation of TL against foreign currency*

Thank you

www.tusiad.org

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