



Macroeconomic Developments and Future Prospects

**Central Bank of
The Republic of Turkey**

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**TUSIAD – CEPII Seminar
Paris**



Outline

- 1) Turkish Economy – the Past and the Present
- 2) What Went Right?
- 3) Change in Growth Dynamics
- 4) What Needs to be Done?

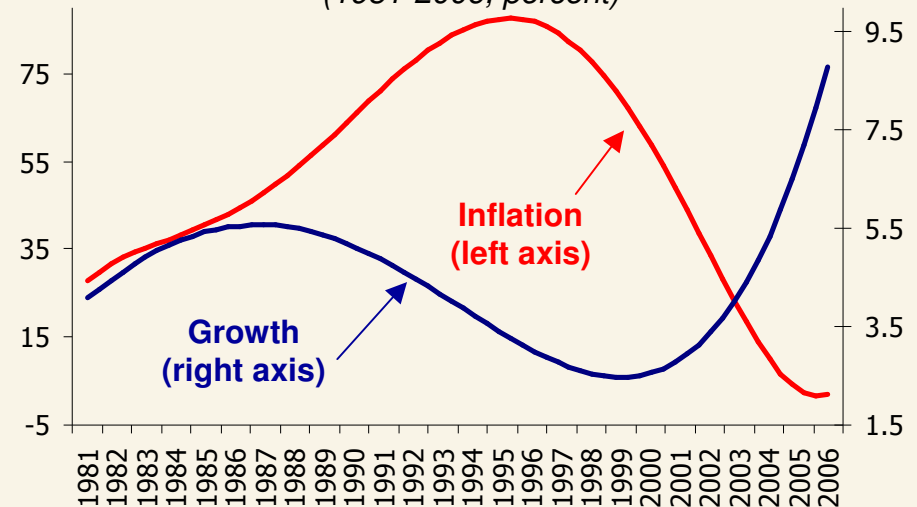


Turkish Economy – The Past and The Present

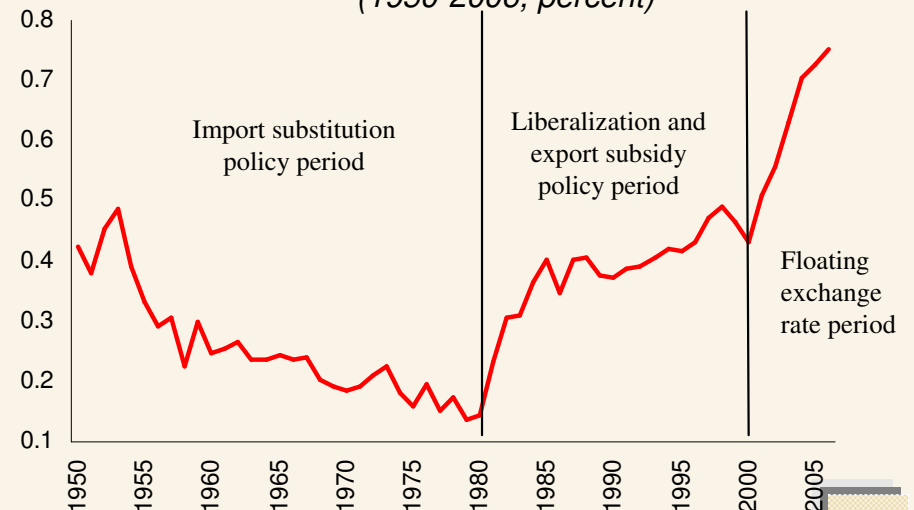
	1990-2001	2002-2007*
Inflation (CPI)	74.0 %	13.9 % ↓
GDP Growth	3.0 %	6.7 % ↑
Investment Growth	3.1 %	14.2 % ↑
Industry Production Growth	3.8 %	7.4 % ↑
Capacity Utilization	75.8 %	79.8 % ↑
Non-Farm Employment	2.6 %	3.8 % ↑
Exports (USD)	8.8 %	23.2 % ↑
Exports (Real)	9.4 %	14.5 % ↑

* As of 2007Q3
Source: TURKSTAT, CBRT

Inflation and Growth Trends in Turkey
(1981-2006, percent)



The Share of Turkish Exports in the World Total
(1950-2006, percent)

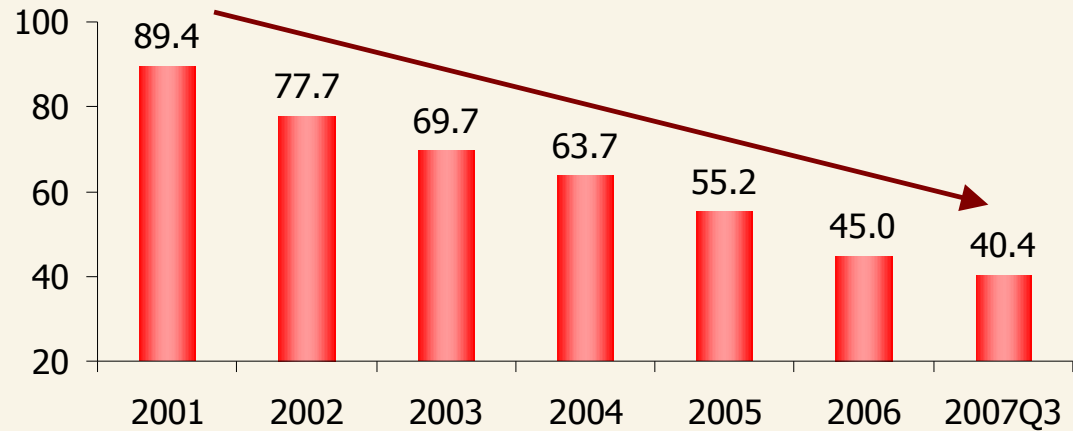


Source: World Trade Organization, TURKSTAT



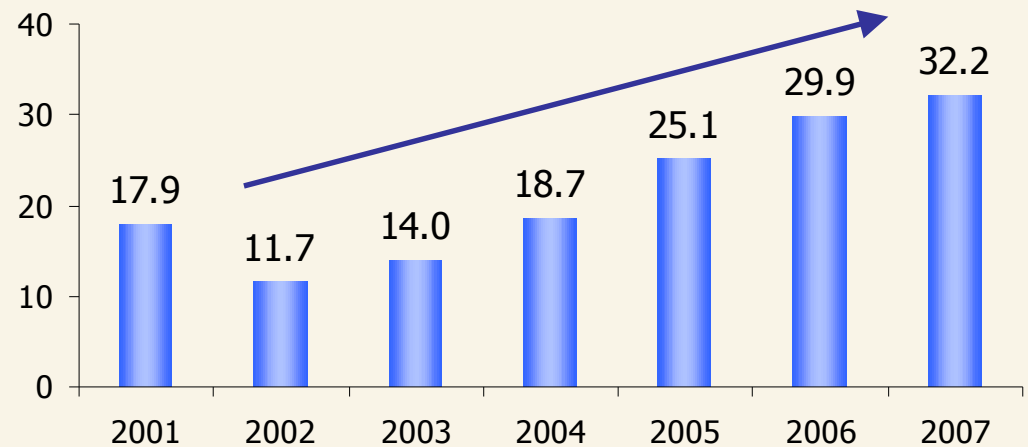
What Went Right?

Net Public Debt / GDP
(2001-2007Q3, percentage)



Source: Undersecretariat of Treasury

Credits to Private Sector / GDP
(2001-2007, percentage)

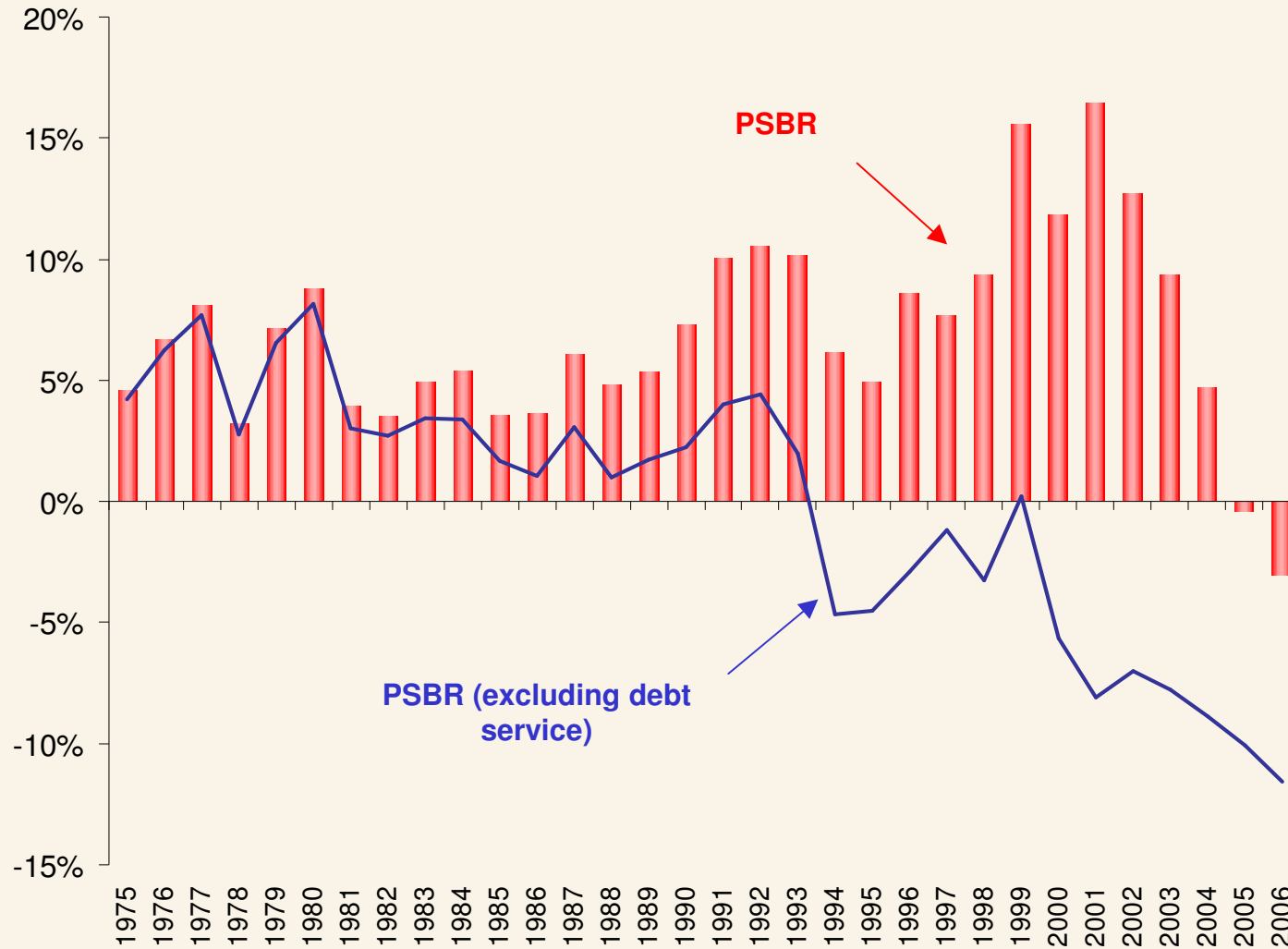


Source: CBRT



What Went Right?

Public Sector Borrowing Requirement (1975-2006)

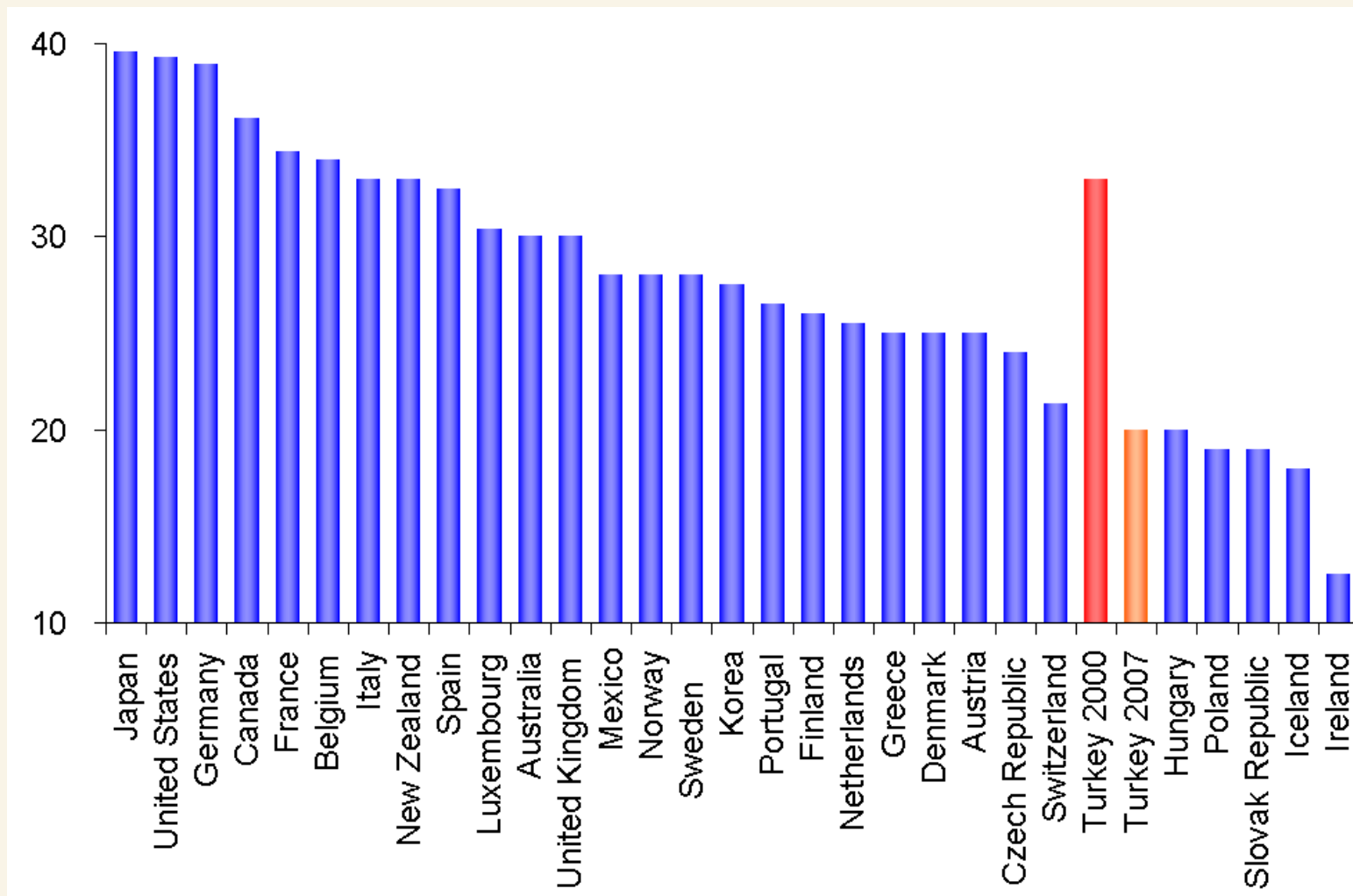


Source: State Planning Organization



What Went Right?

Corporate Taxes (percent, 2007)

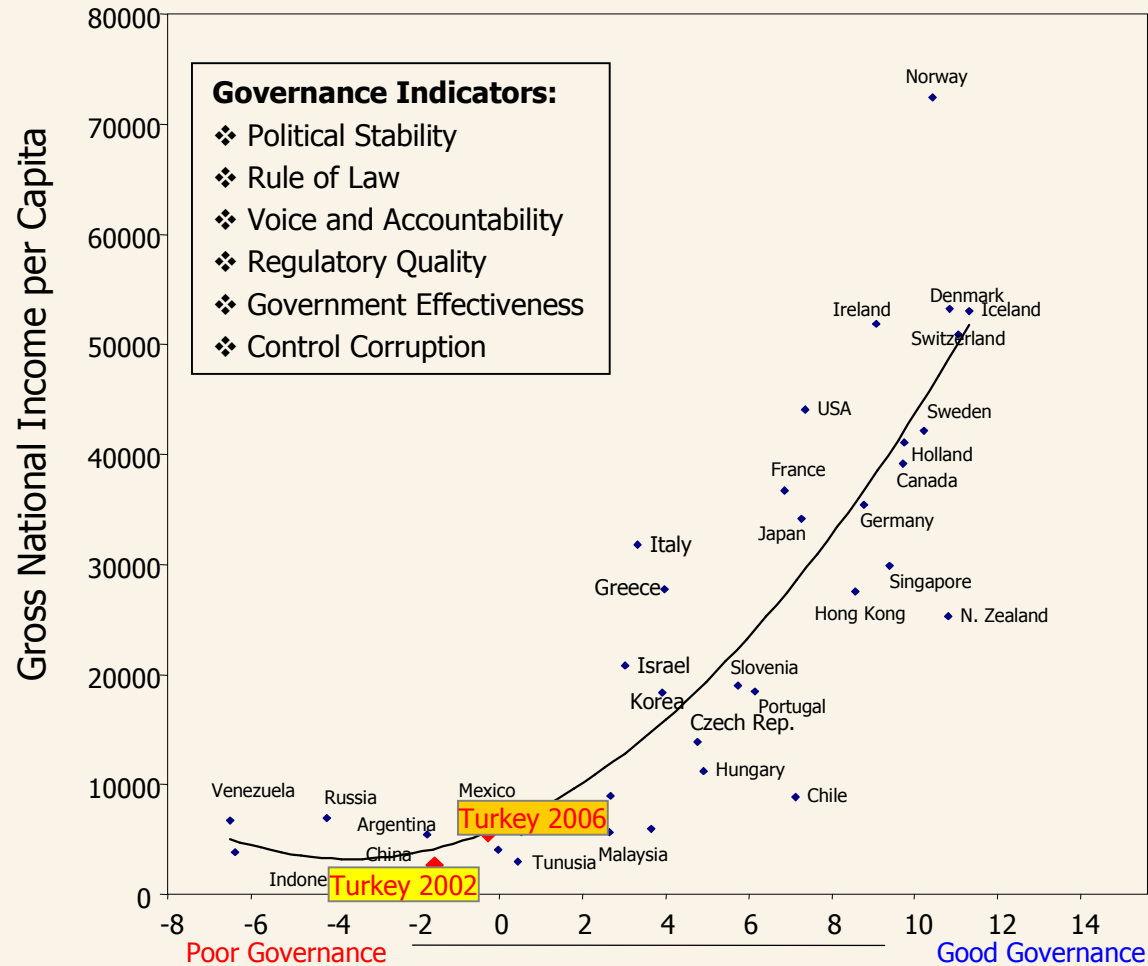


Source: OECD



What Went Right?

Economic Performance and Governance (2006)



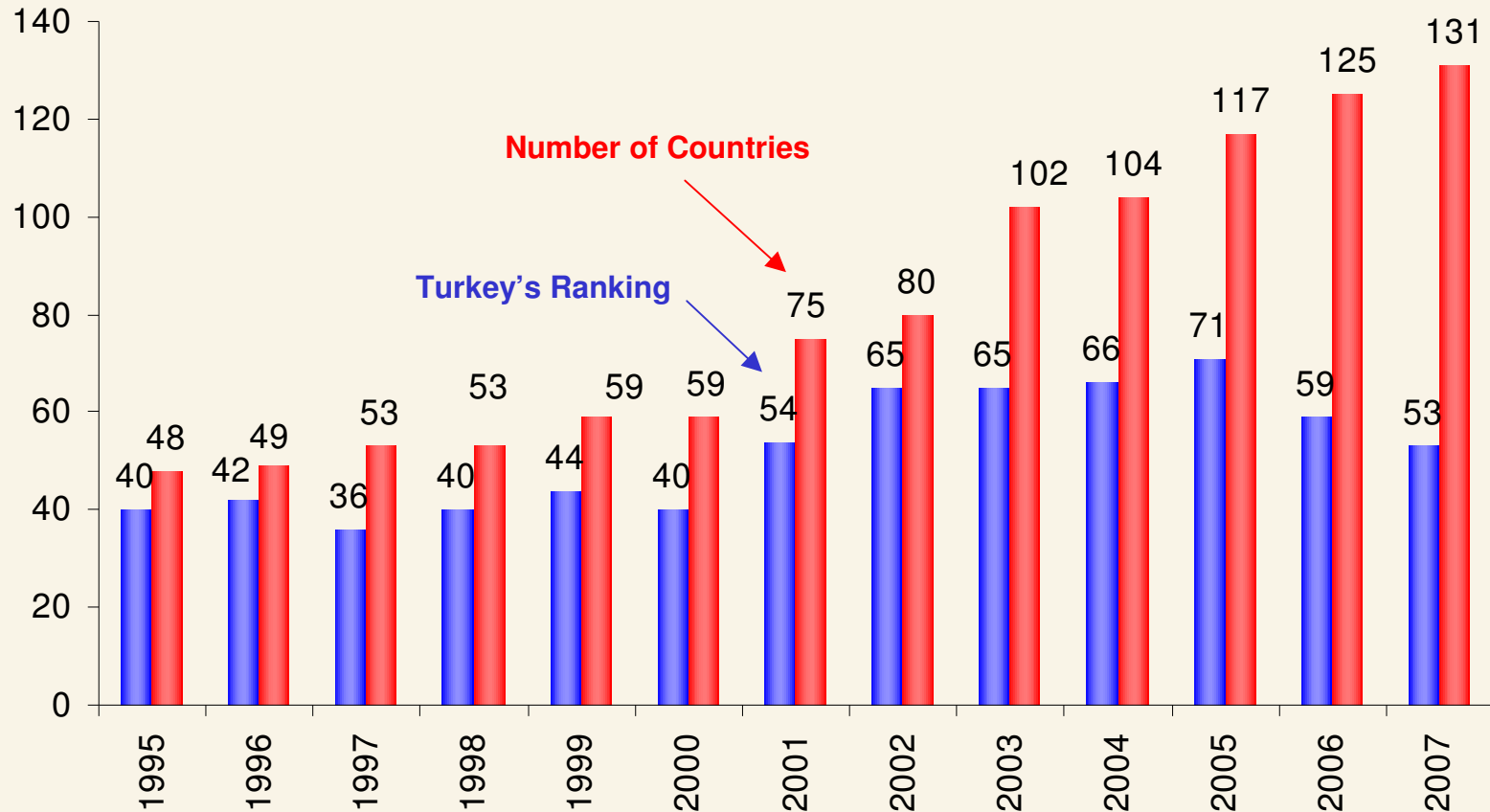
Trend line is $y=a+bx+cx^2$ curve; y =GDP per capita and x =governance index.

Source: World Bank



What Went Right?

Turkey's Place in Global Competition (2007)



Source: World Economic Forum, The Global Competitiveness Report 2007-2008



Change in Growth Dynamics

Sources of Growth (average contribution, percent)

	Period	Growth Rate*	Capital Stock	Labor	Total Factor Productivity
Finland	1970-2000	3.1	18.7	0.4	69.3
Germany	1992-2000	1.7	12.2	-15.9	64.2
Sweden	1979-2000	2.2	36.8	4.9	63.5
France	1970-2000	2.6	62.2	-8.0	63.2
Denmark	1970-2000	2.5	49.0	14.4	61.7
Belgium	1970-2000	2.6	30.4	5.8	57.0
Italy	1980-2000	1.6	26.0	9.5	35.3
Japan	1970-2000	3.5	25.1	12.2	26.0
USA	1970-2000	3.1	33.8	40.5	25.1
Canada	1970-2000	3.2	40.5	49.0	18.7
Turkey	1972-2000	4.1	69.2	19.5	11.3
	2002-2006	6.6	52.7	3.1	44.2

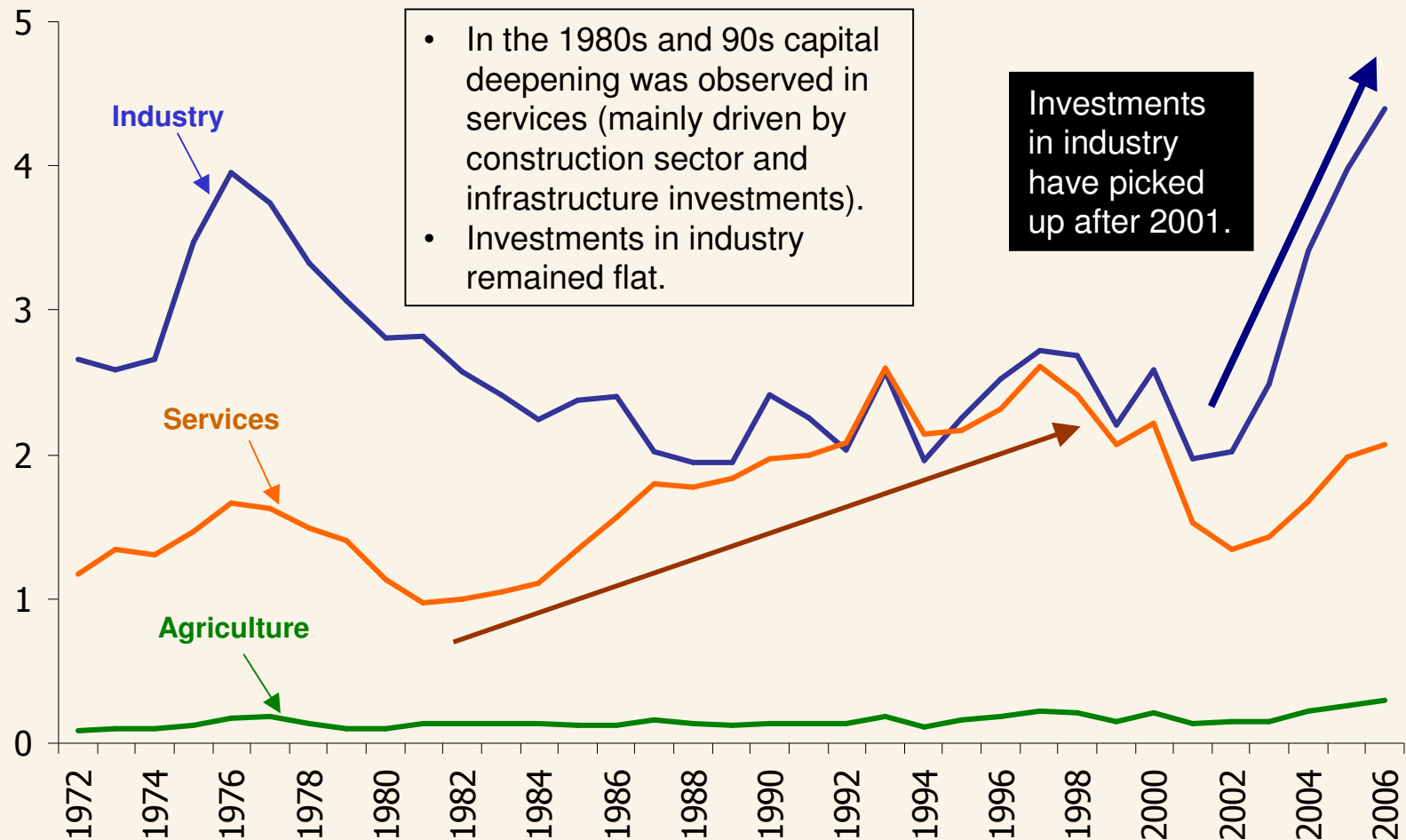
* Excluding indirect taxes on imports

Source: OECD; Saygılı, Cihan, and Yurtoğlu (2006)



Change in Growth Dynamics

Investments per Employee (constant prices)

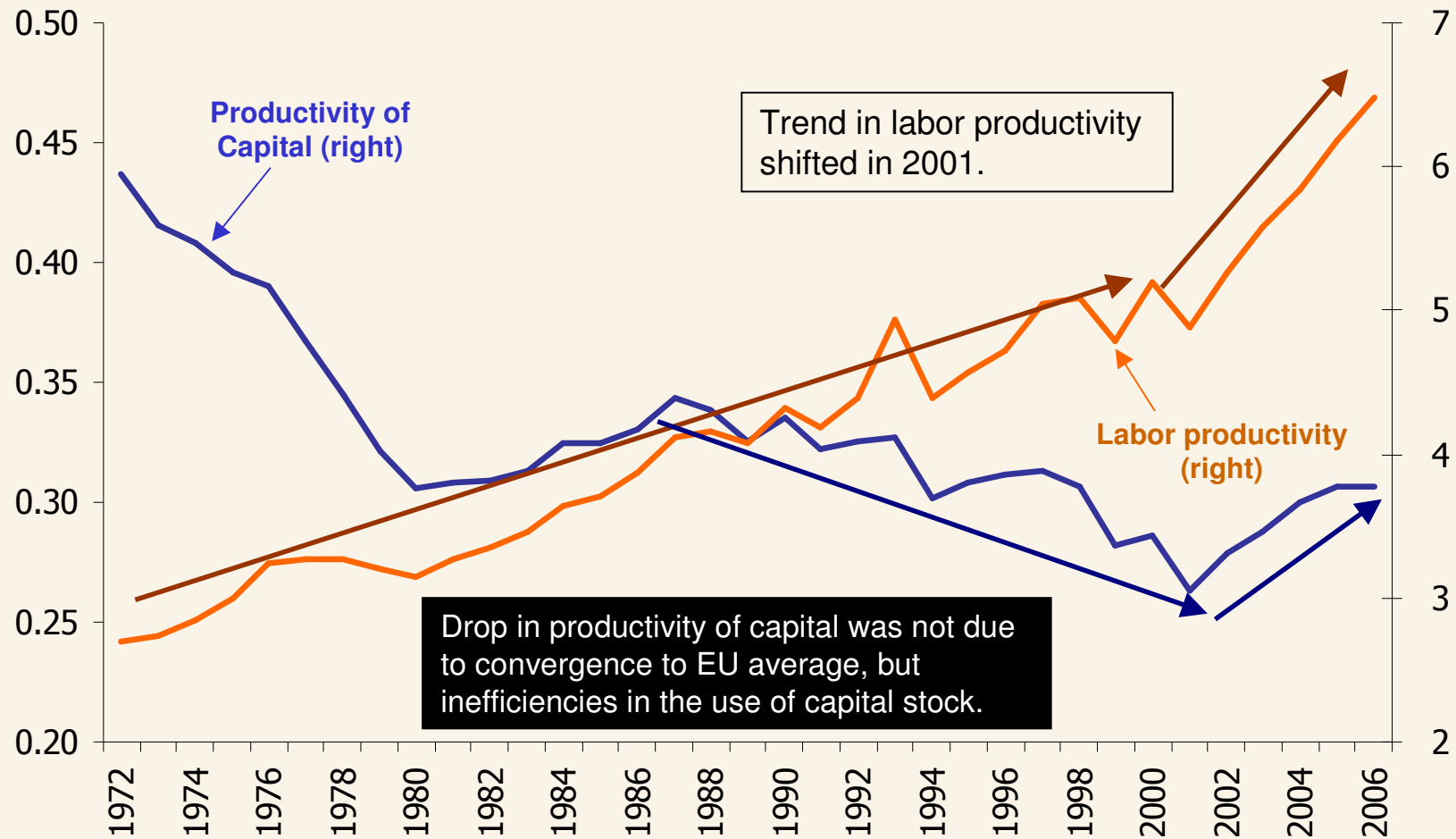


Source: Saygılı, Cihan, and Yurtoğlu (2006)



Change in Growth Dynamics

Capital and Labor Productivity (relative to EU-7 average)

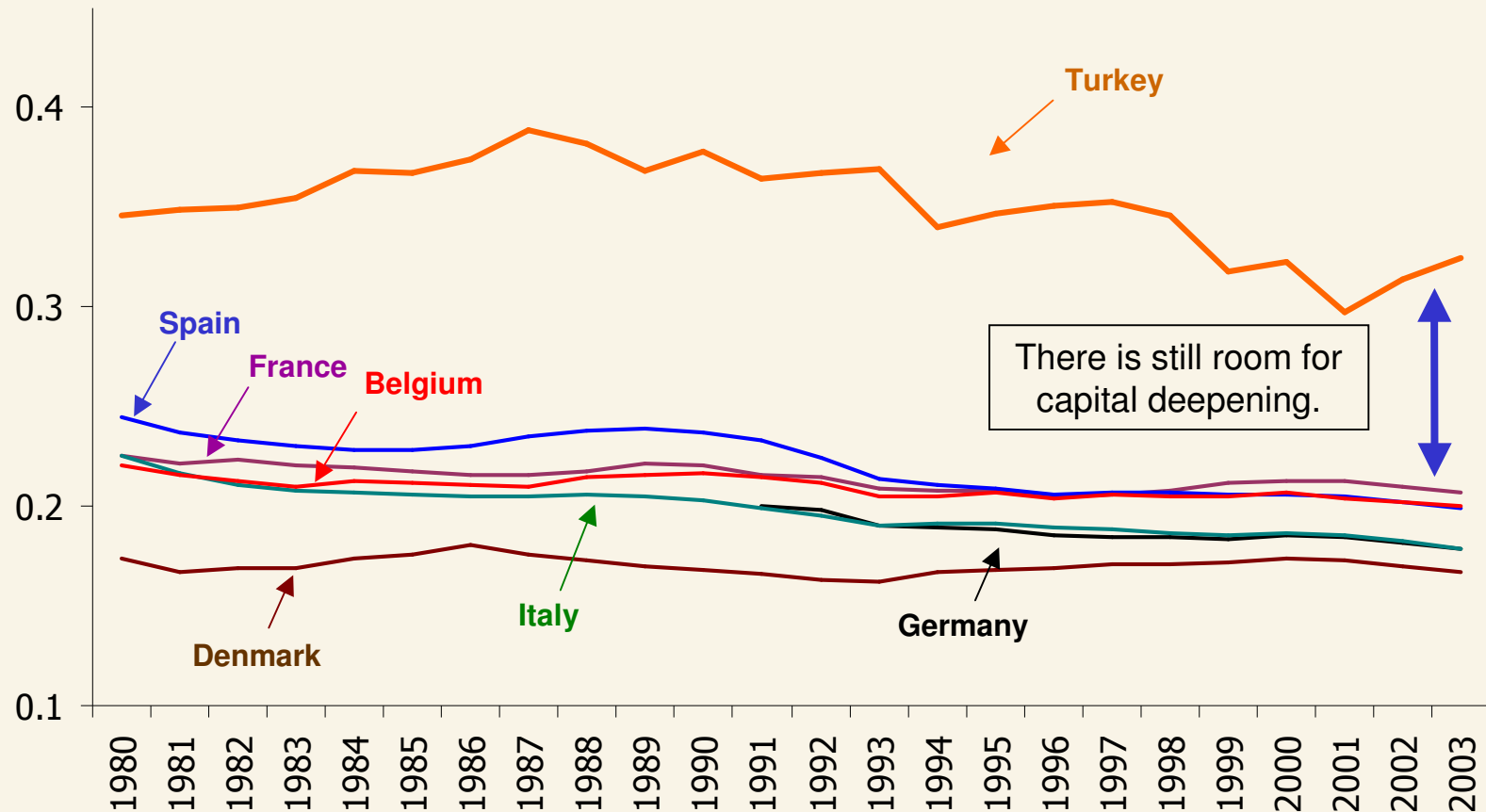


Source: OECD, Saygili, Cihan, and Yurtoğlu (2006)



Change in Growth Dynamics

Capital Productivity in Turkey and major EU countries (1995 prices, USD)

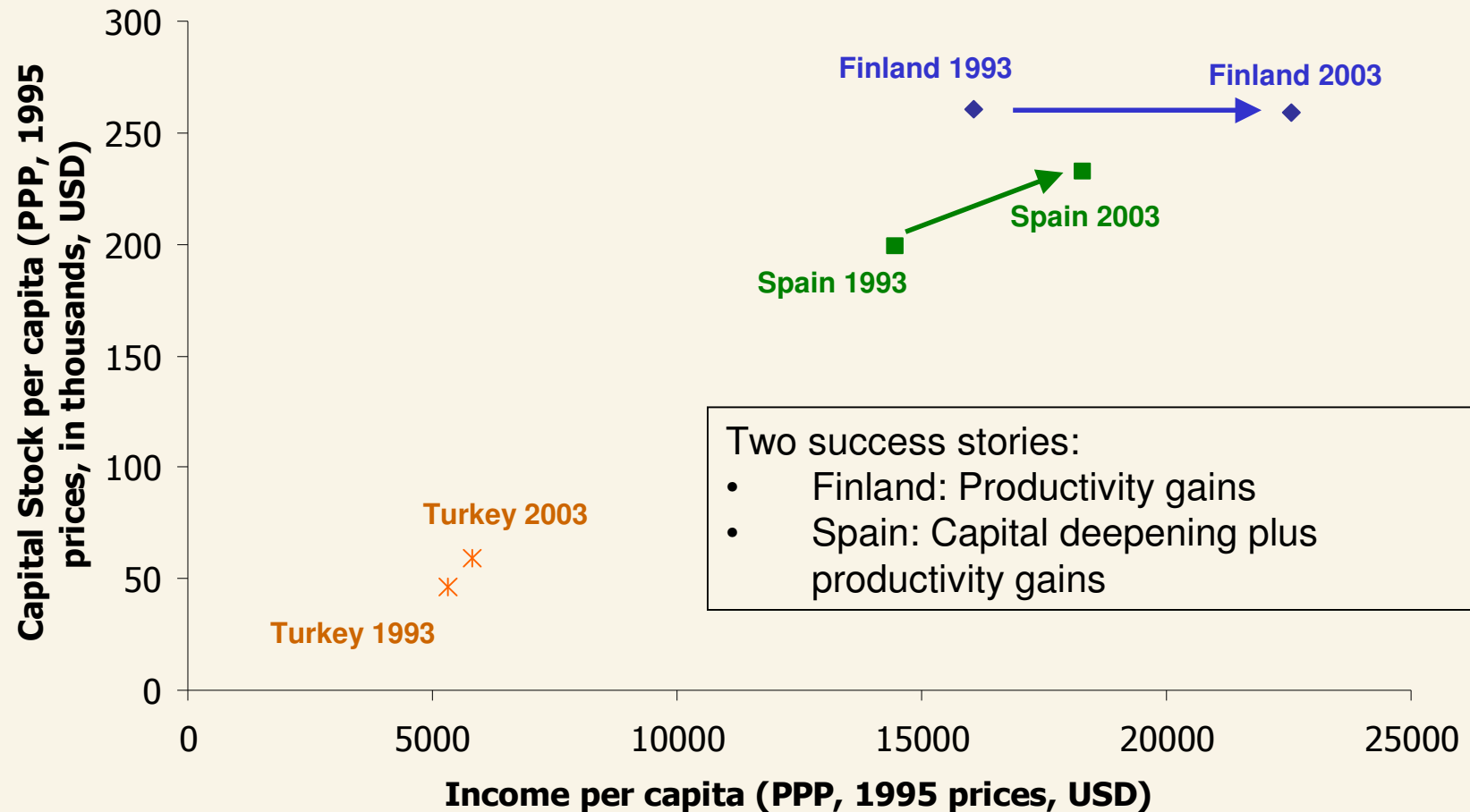


Source: OECD, Saygılı, Cihan, and Yurtoğlu (2006)



What Needs to Be Done: Productivity

Convergence to EU

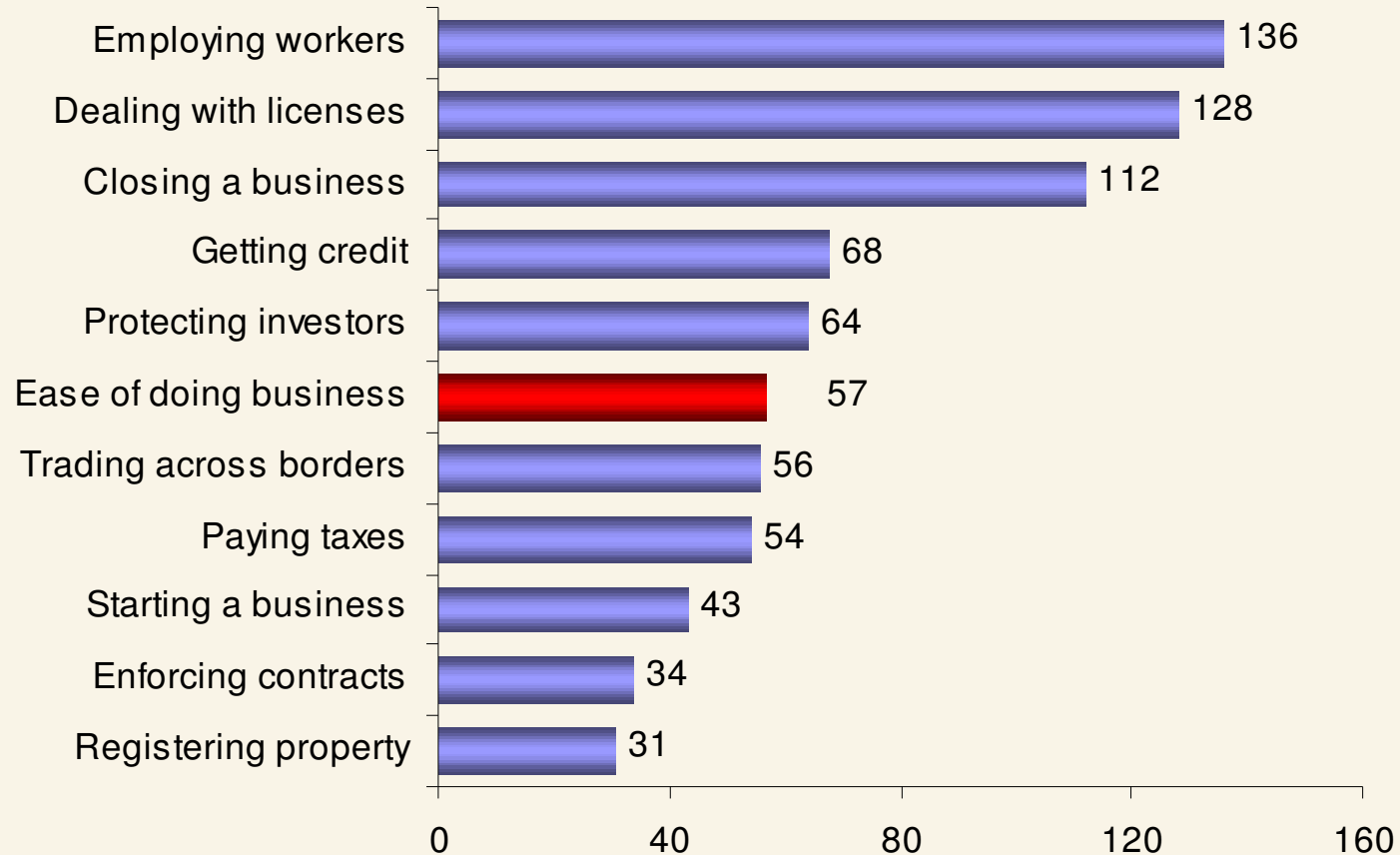


Source: OECD, Saygılı, Cihan, and Yurtoğlu (2006)



What Needs to Be Done: Business Environment

Ease of Doing Business * (Turkey's Ranking, 2007)



* Low scores are associated with better conditions for doing business

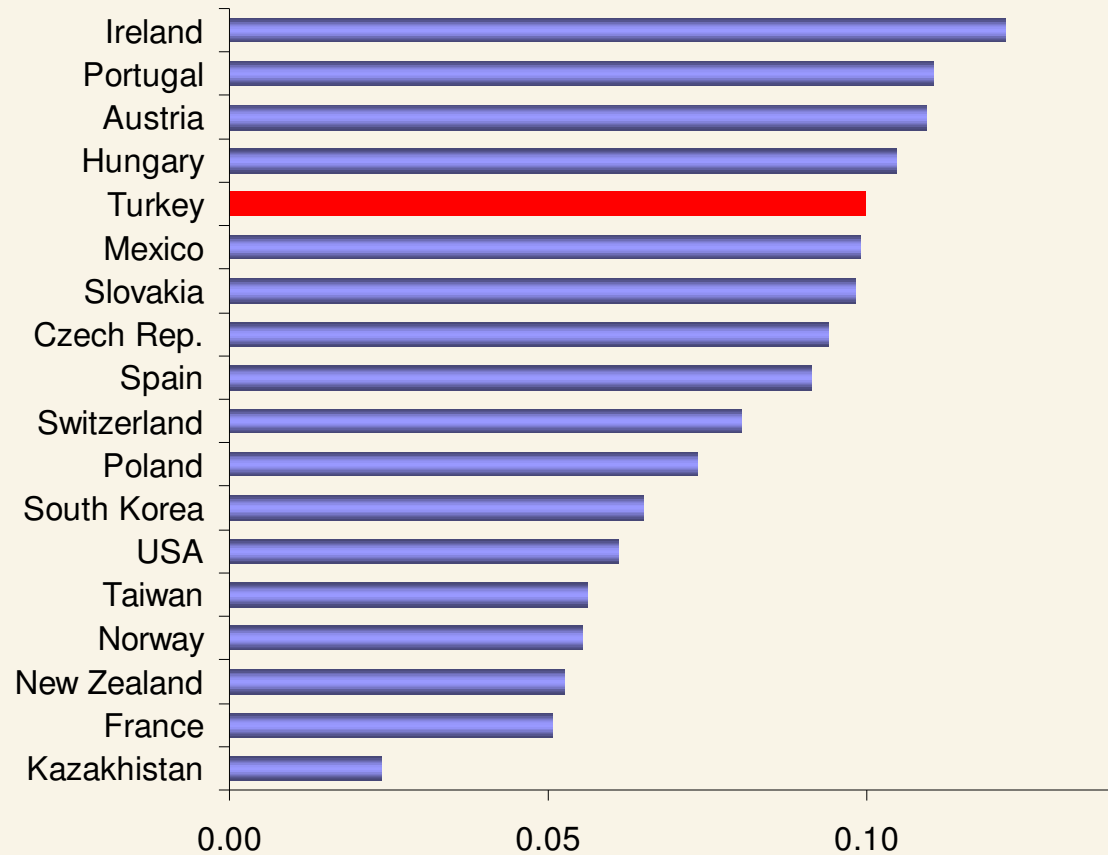
Source: World Bank, Doing Business 2008



What Needs to Be Done: Energy Prices

Electricity Prices for Industry

(US dollars per kilowatt-hour including taxes,, 2006)

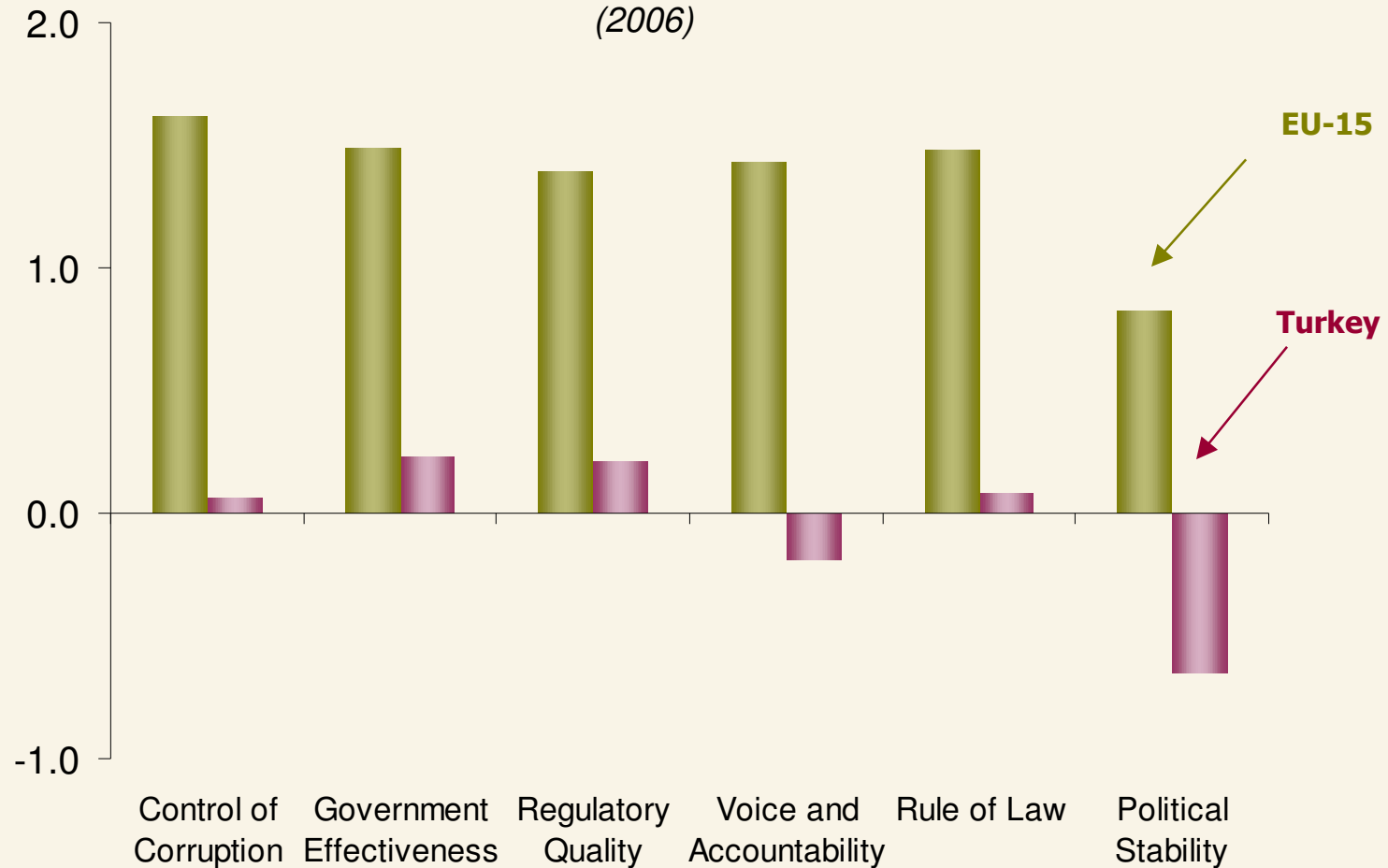


Source: Energy Information Administration



What Needs to Be Done: Governance

Governance Indicators of Turkey and EU-15 *
(2006)



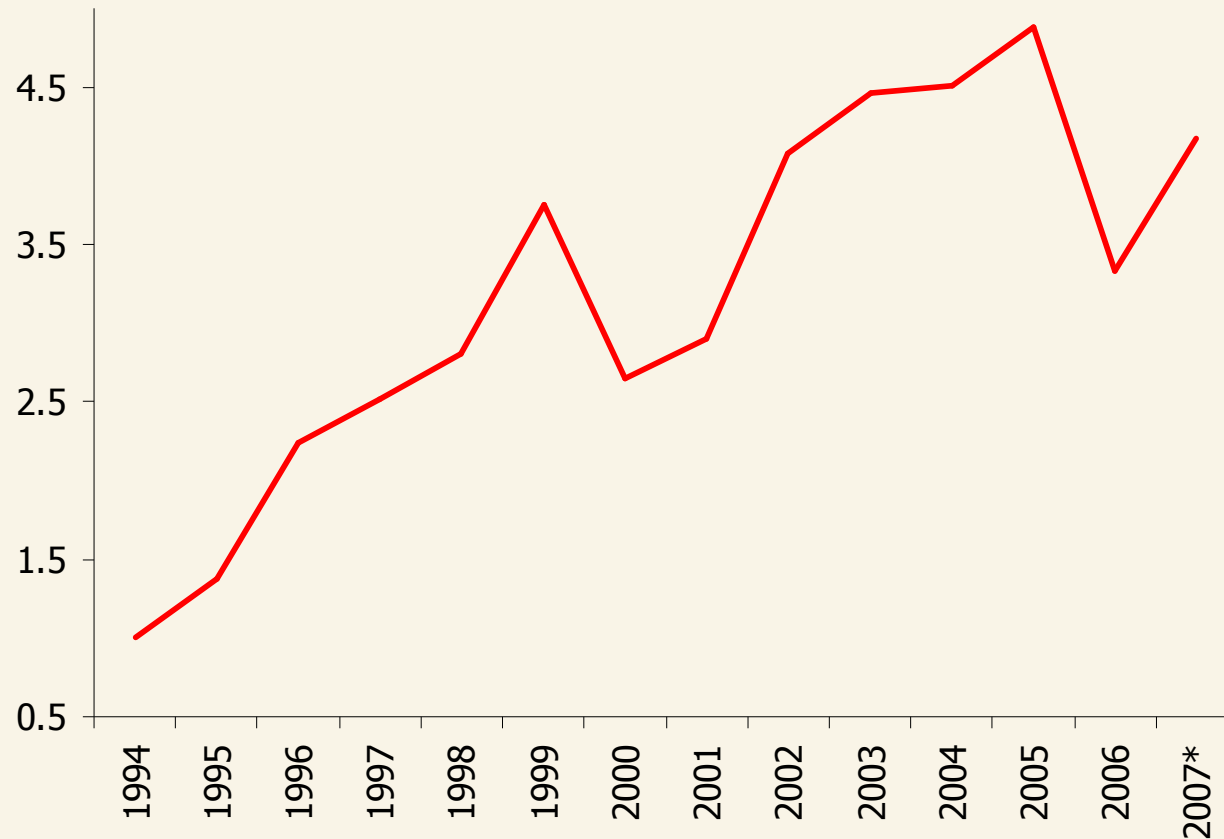
*Governance indicators are between -2.5 ile +2.5.
Higher forecast figures indicate better governance.

Source: World Bank



What Needs to Be Done: Social Security Reforms

The Ratio of Transfers from Budget to Social Security Institutions to GDP (percent)



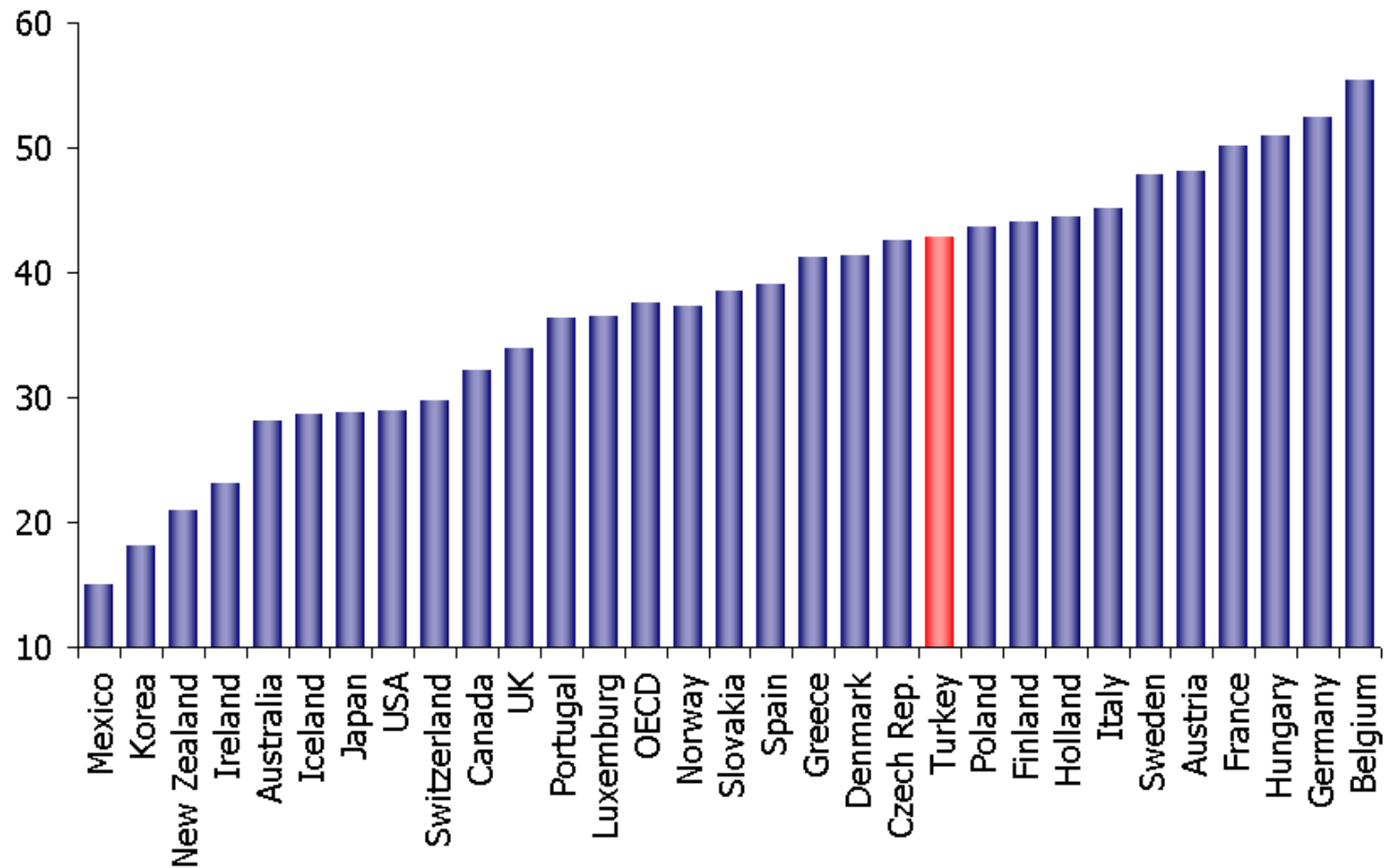
* Forecast for 2007

Source: Undersecretariat of the Treasury, Ministry of Finance



What Needs to Be Done: Employment Costs

Employment Taxes (as a percentage of labor cost, 2006)

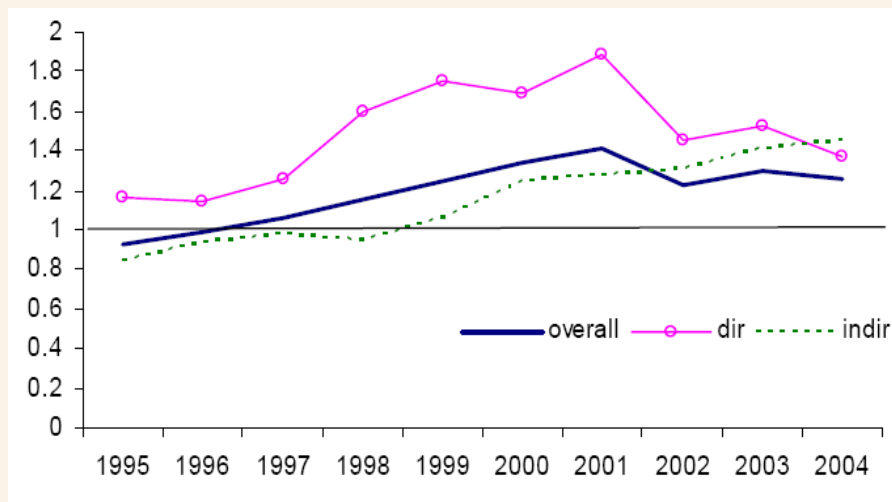


Source: OECD



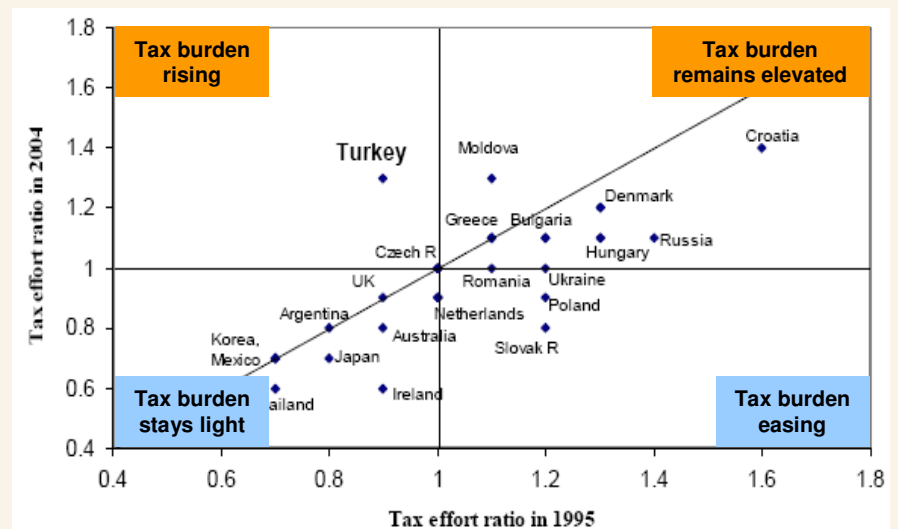
What Needs to Be Done: Tax Burden

Tax Effort Ratios in Turkey 1995-2004
(a tax effort ratio above one indicates excessive taxation)



Source: World Bank

Tax Effort Indicators
(1995-2004)

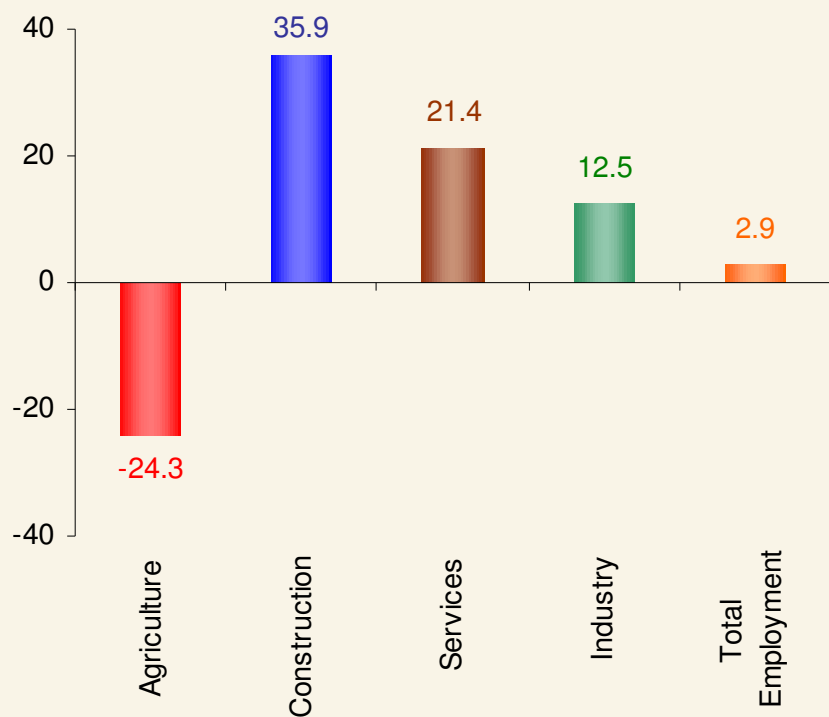




What Needs to Be Done: Education

Employment by Economic Activity

(2002 Q3 – 2007 Q3, cumulative change, percent)



Source: TURKSTAT

Mismatch Between Needs and Supply

(Distribution of University Graduates 2003)

	Education	Agriculture	Computer Sciences
France	9.3	0.3	3.0
Germany	7.7	2.1	3.9
United Kingdom	10.8	0.9	6.2
USA	13.1	1.0	3.9
Turkey	30.0	3.9	1.0

Source: OECD; Saygılı, Cihan, and Yavan (2006)



What Needs to Be Done?

Progress in any of these reform areas will add to the growth potential of Turkey.



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