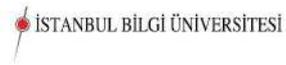


The Revival of an Emerging Market: The Case of Turkey

Ege Yazgan



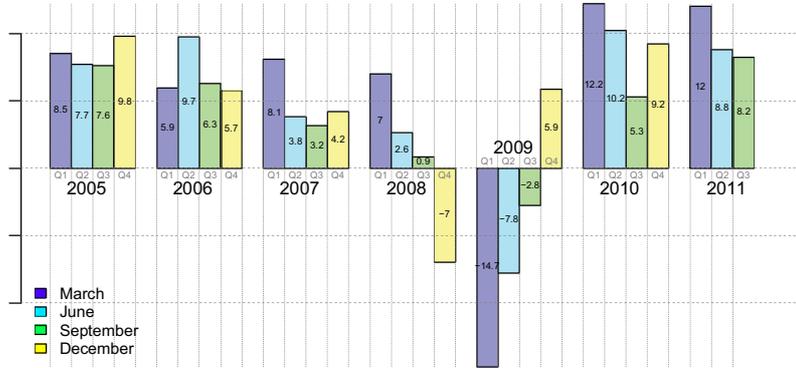
June 2012

Outline

- ▶ Transformation 2001 - 2008
- ▶ Crisis 2008 - 2009
- ▶ Recovering 2010 - 2011
- ▶ Rebalancing Late 2011 - present

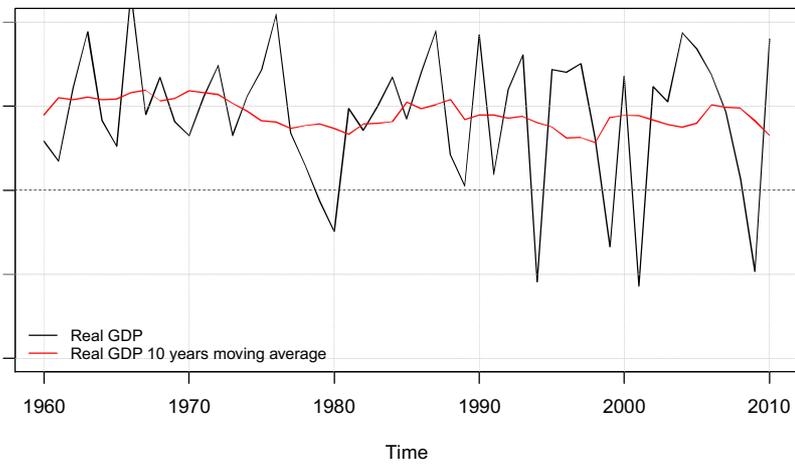
Global crisis hit us but recovery was quick.

Figure: Real GDP year-over-year growth of Turkey: 2005-2012



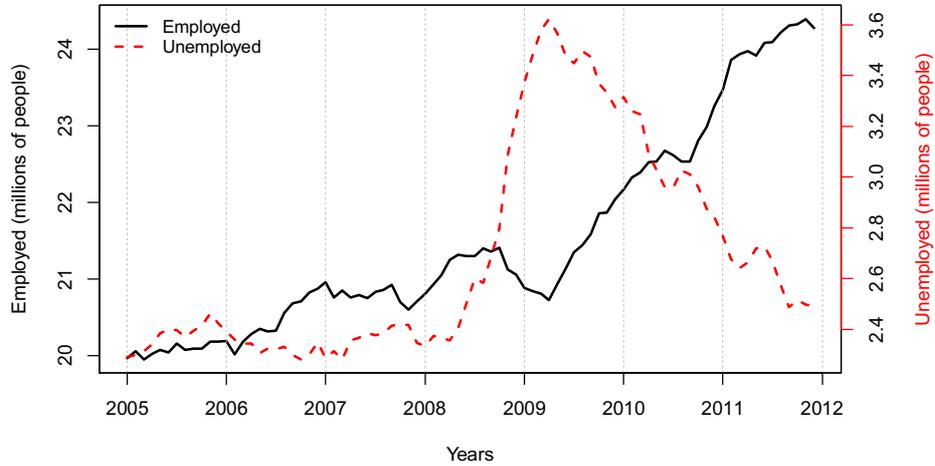
That's how Turkey "typically" does it

Figure: Long term GDP growth of Turkey: 1960-2010



Job growth has been equally strong

Figure: Civilian labour force (seasonally adjusted, 2005-2012)



Why was Turkish recovery so strong ?

- ▶ Rapid turnaround in the global economy followed by strong expansion in the global liquidity
- ▶ domestically
- ▶ Solid balance sheets, notably of the banking and public sectors. Severe correction in the aftermath of 2001 crisis

Monetary policy was expansionary

Figure: CBRT policy and O/N rates: 2008-2012

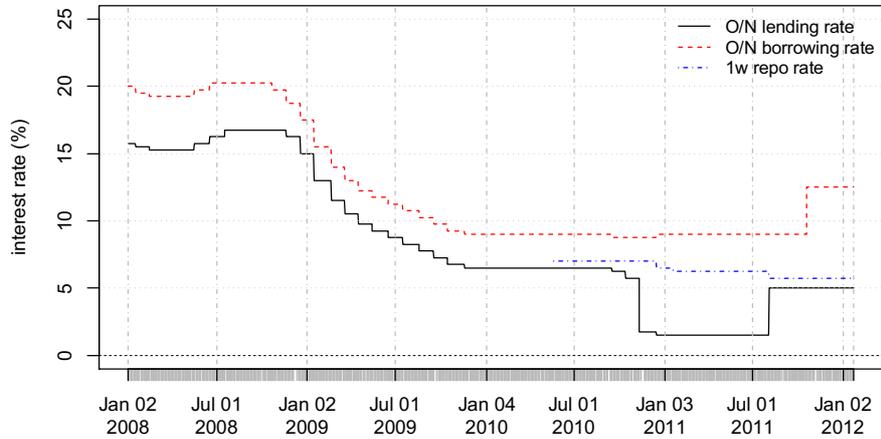
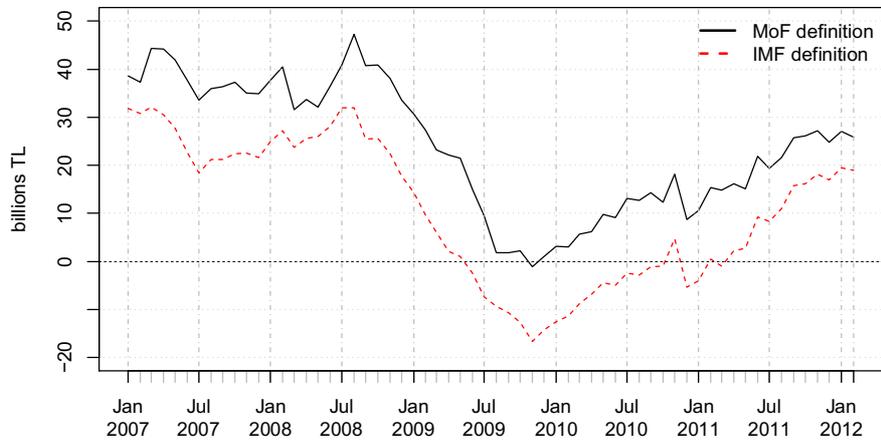


Figure: Central government primary balance: 2007-2012. (billions TL, 12-month rolling sum)



Another aspect of the story: CAD

Figure: Current account balance as % of GDP: 1975-2011

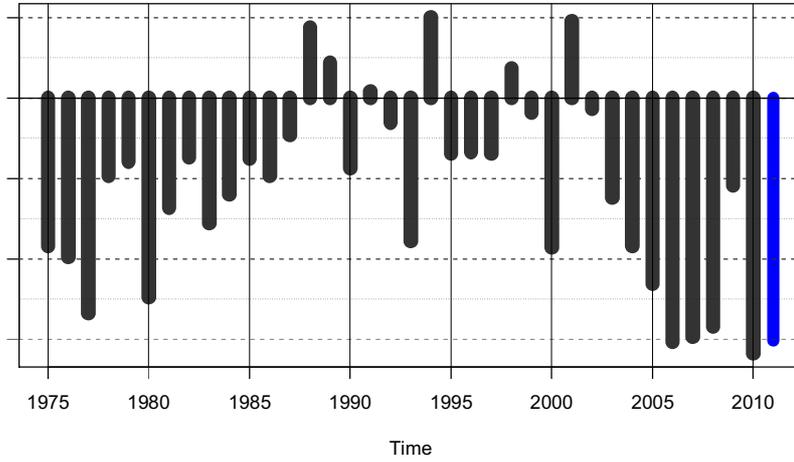
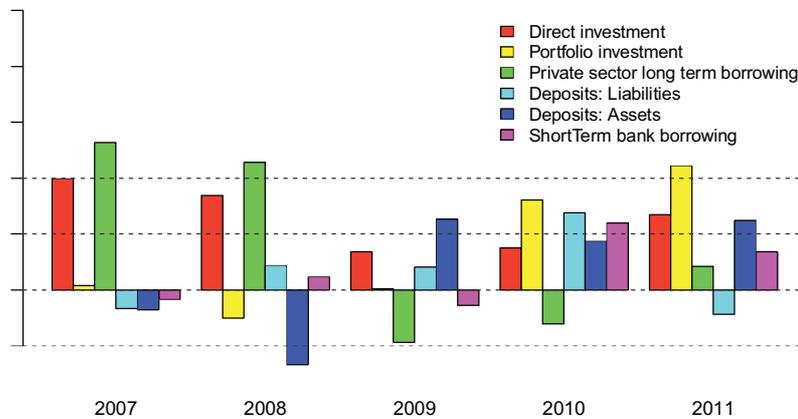


Figure: Capital account selected items: 2007-2011.



- ▶ objective next to price stability.
- ▶ It implied that it could target both competitiveness (TL) and
- ▶ The policy mix was misunderstood.
- ▶ loss of control on the lira in the second half of 2011.
- ▶ Liquidity Expansion by ECM has come to rescue ?

As lira weekend more than planned.

Figure: Nominal exchange rates, daily: 2007-2011.

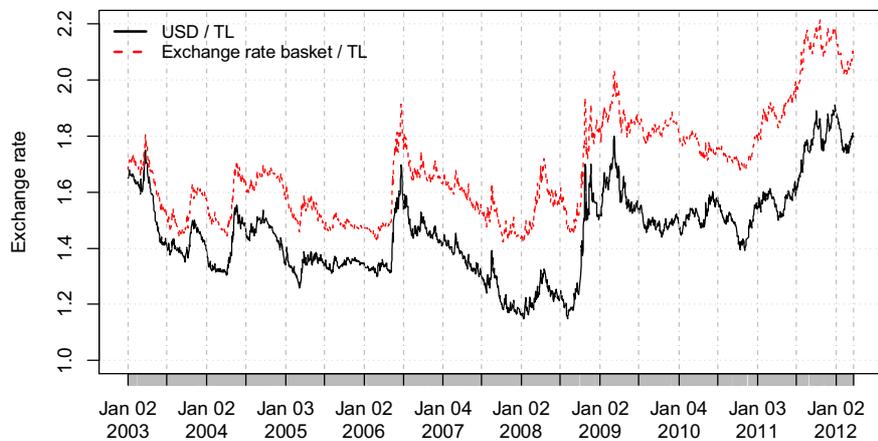


Figure:

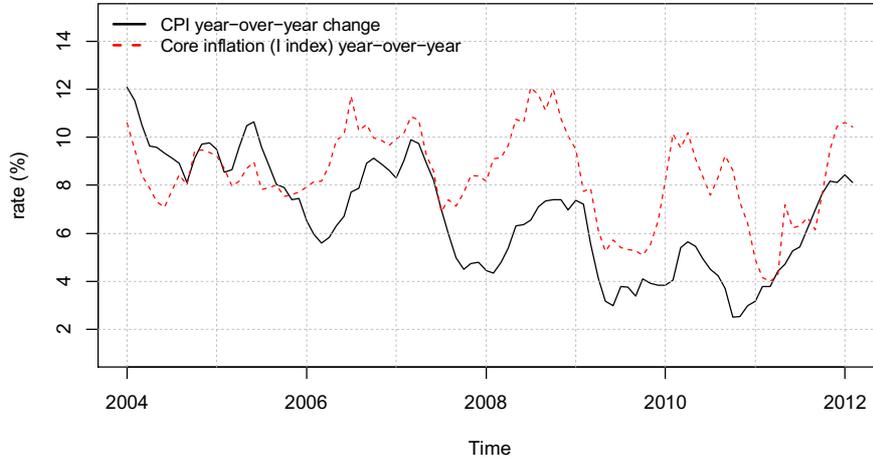
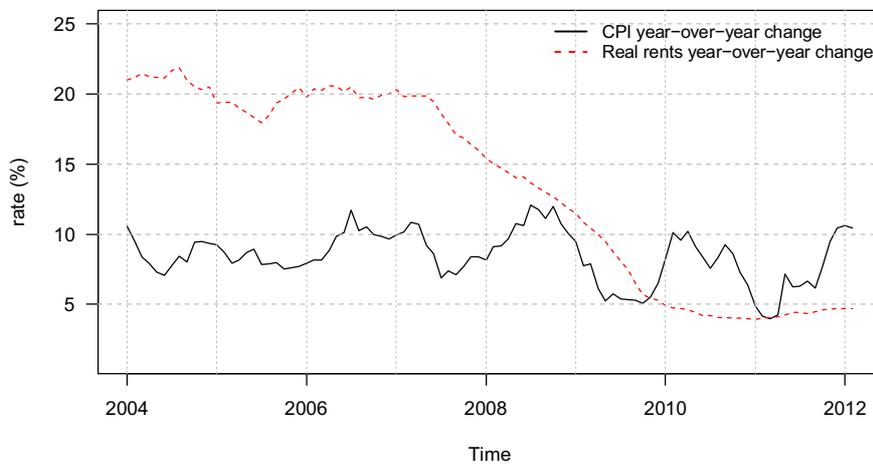


Figure:



But 'rebalancing' is in the works...

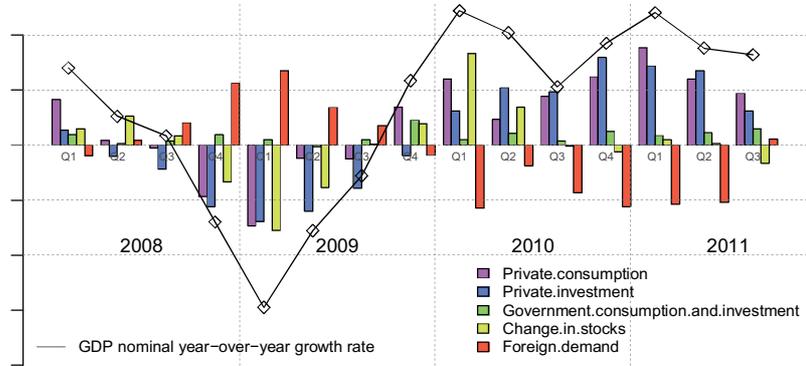
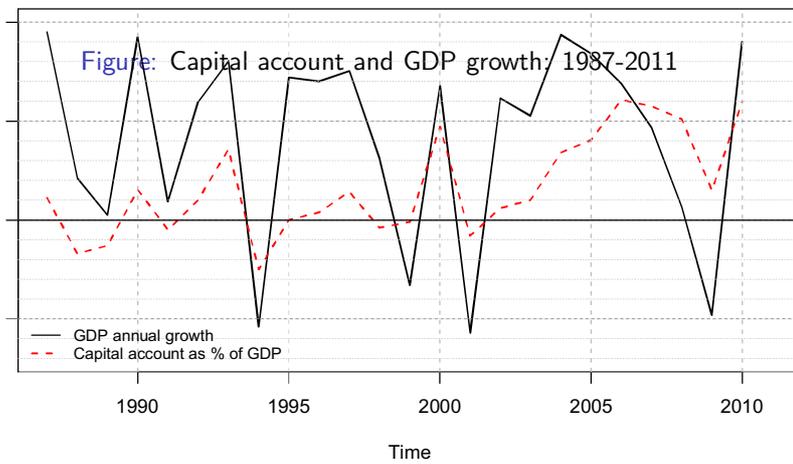
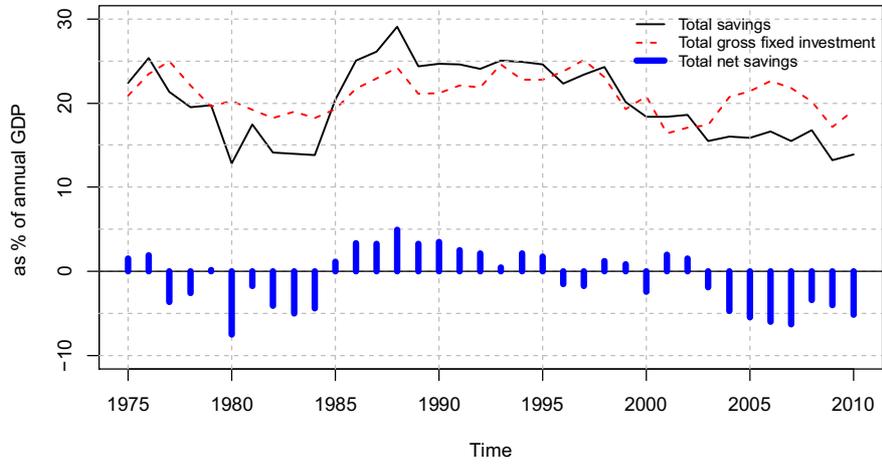


Figure: Capital account and GDP growth: 1987-2011



Because we have a chronic saving shortfall.

Figure: Long term savings and investment: 1975-2010.



Private and public savings

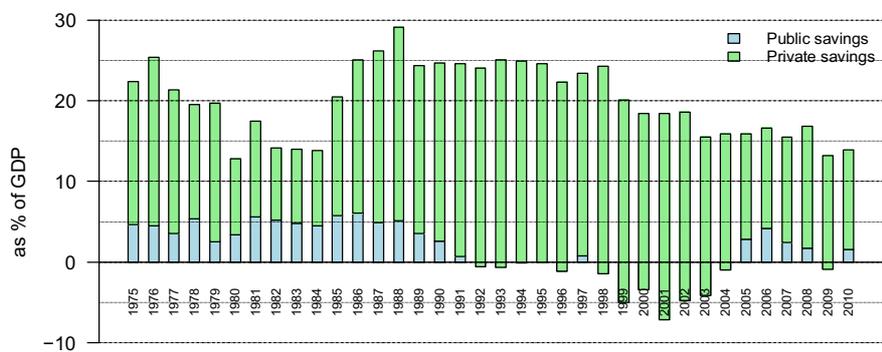
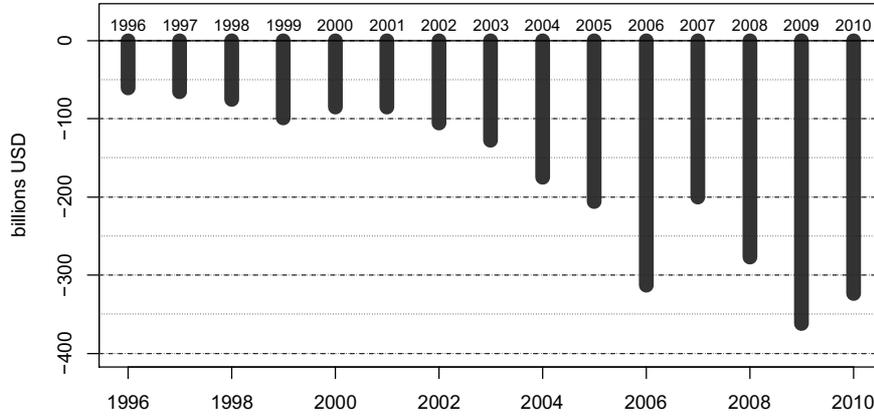
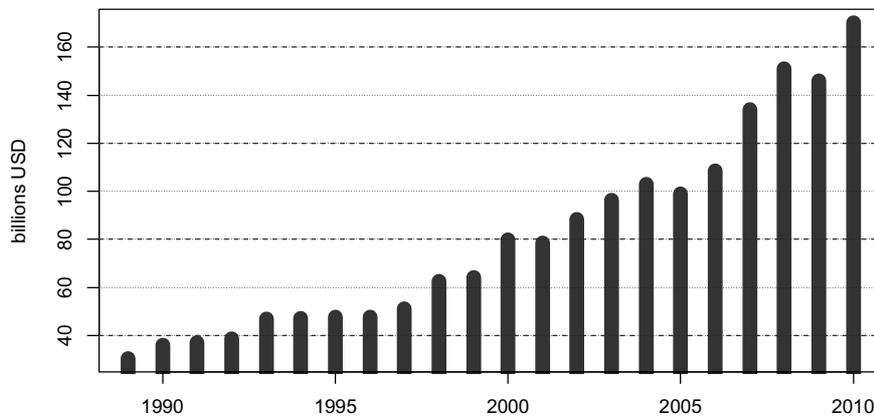


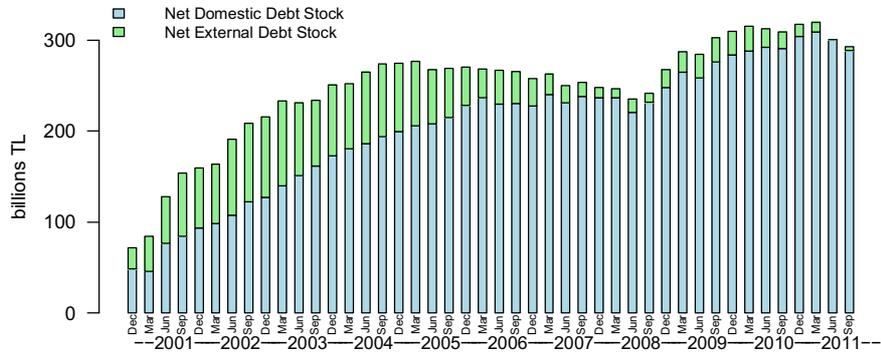
Figure: Net investment position: 1996-2010.



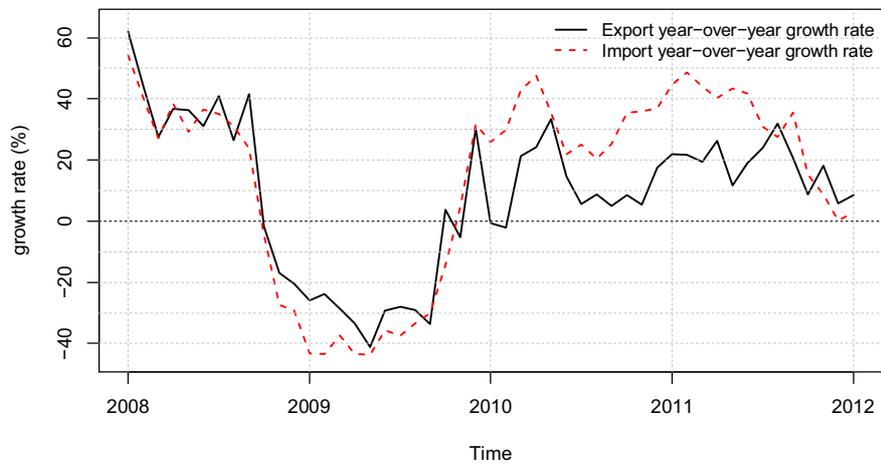
Net external debt stock: 1989-2010.



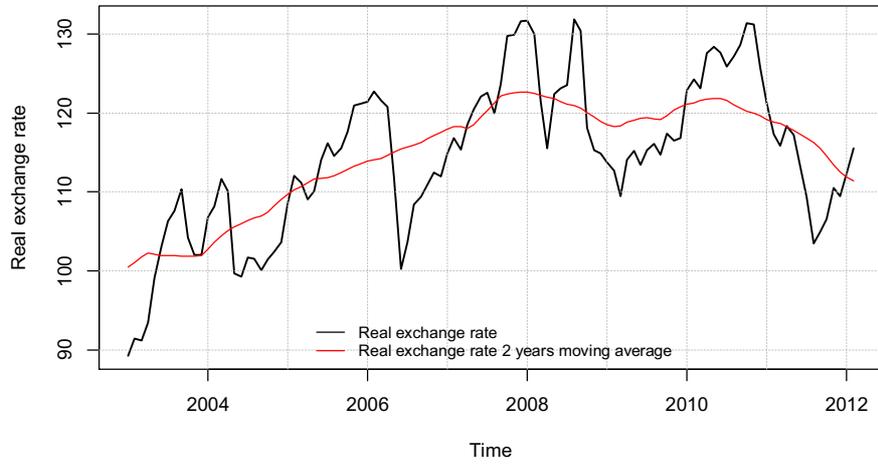
Net public debt: 1989-2010.



Foreign trade dynamics: 1975-2012.



TL real exchange rate: 2003-2012.



How responsive are Turkish Trade Balance ?

Bilateral trade vis a vis 26 trading partners: CCE mean group estimates (Pesaran (2006))

$$tb_{it} = 11.07 + 1.52 \text{ } rer_{it} + 9.75 \text{ } y_t + 0.07 \text{ } y_t$$

() (2.30) (1.69) ()

Trade by industry: 22 industries

$$tb_{it} = 3.352 + 0.076 \text{ } rer_{it} + 0.413 \text{ } tot_{it}$$

() (1.98) (2.65)

Trade by Industry

Sector	rer	tot
Agriculture and Forestry	-1.205 (-2.15)	-1.518 (-3.87)
Metal Ores	1.453 (1.469)	-1.84 (-5.54)
Other Mining and Quarrying	-0.391 (-1.33)	-0.804 (-3.16)
Food and Beverages	-0.157 (-0.38)	-1.35 (-5.94)
Tobacco	0.267 (0.536)	-0.634 (-1.59)
Textiles	0.090 (0.497)	-0.247 (-0.42)
Wearing Apparel	-0.539 (-1.48)	-0.661 (-2.09)
Leather etc.	-0.094 (-0.34)	0.586 (1.723)
Products of Wood	-0.23 (-0.53)	-0.443 (-1.07)
Paper	0.255 (1.554)	-0.598 (-3.66)
Petroleum	1.186 (3.322)	0.214 (0.576)

Sector	rer	tot
Chemicals	-0.147 (-1.28)	-0.287 (-1.32)
Rubber and Plastic	0.042 (0.222)	-0.276 (-0.39)
Other Non-Metallic Min.	0.490 (0.372)	1.212 (0.651)
Basic Metals (manufacture)	0.147 (0.273)	-0.512 (-1.38)
Fabricated Metal (exc. machinery)	0.321 (1.813)	-0.05 (-0.22)
Machinery and Equipment	0.209 (0.95)	-0.212 (-0.54)
Electrical Machinery	-0.501 (-1.34)	-1.184 (-4.22)
Communication	0.059 (0.212)	0.45 (1.187)
Motor Vehicles	-0.025 (-0.04)	0.131 (0.075)
Other Goods and furniture	0.197 (0.938)	0.131 (0.735)
Scraps	0.259 (0.107)	-1.201 (-1.05)