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The Turkish Economy after the Global Economic Crisis

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The Turkish economy has gone thru a fast and strong change in recent years. Three dimensions are of special significance:

1. Firstly, the Turkish economy has grown very quickly, with three severe recessions in 1994, 2000/1 and 2009.
2. Secondly, it has opened up rapidly but is still not that open as other economies with a similar level of development.
3. Thirdly, private business has increased but state enterprises or publicly owned and run firms are still important.

1. Strong growth with severe crisis in between

The Turkish economy has developed rapidly in the last forty years (see Table 1). The Gross Domestic Product (GDP) has grown from 14 billion US-$ in 1960 to 735 billion US-$ in 2008. Three times, in 1994, 2000/1 and 2008/2009, the Turkish economy was hit by severe recessions.

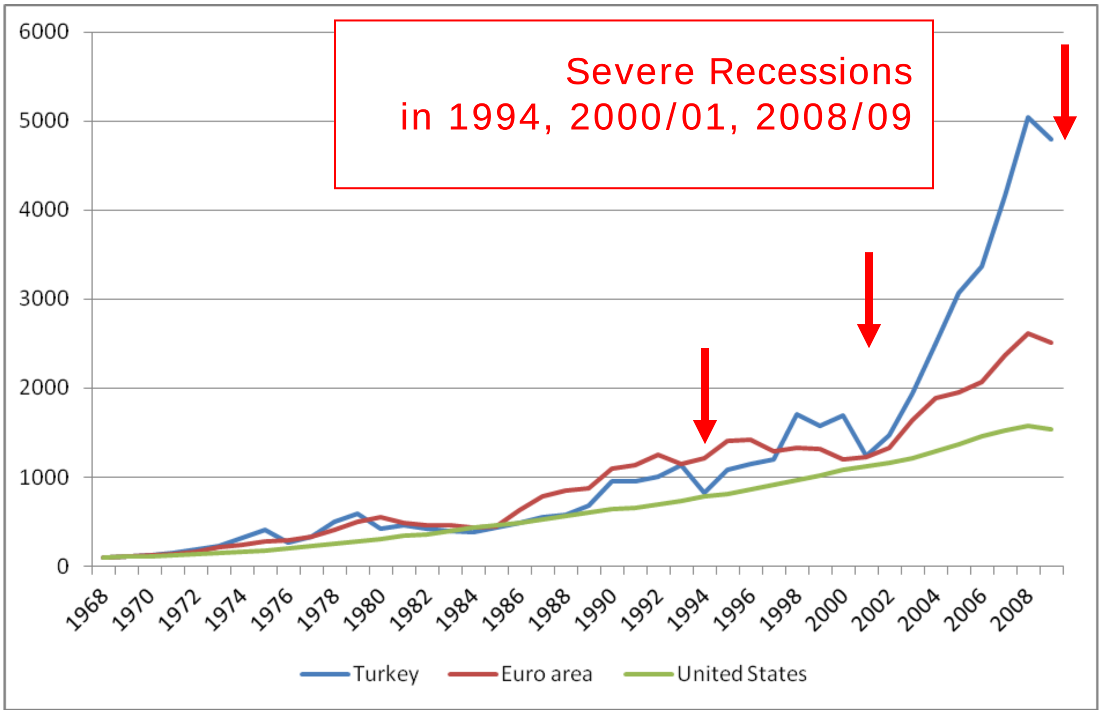
Table 1: GDP in Turkey in Billion Current US-$

	1960	1970	1980	1990	2000	2008
Turkey	14	20	65	151	267	735

Data Source: World Bank: World Development Indicators.

The Turkish GDP was about 2% of the US GDP in 1970 and 2.7% in 2000. Since then, the Turkish economy has caught up remarkably (see figure 1). Its weight with regard to the US has doubled to 5.2% in 2008. Turkey has become the 17th largest economy worldwide and, consequently, it is a member of the G20 group.

Figure 1: Economic Development of Turkey, Euro Area and United States 1968-2009 (GDP, current US-$; 1968 = 100)



Data Source: Worldbank, Quick Query Data.

The last decade has brought a strong dynamic growth to the Turkish economy (see table 2). In the average it has grown by 5.9% per annum between 2000 and 2008. This is less than the excellent performance of the fast growing BRIC countries (Russia, India and China but not Brazil!). But it is (much) more than the GDP growth rate for the Asian, European or Latin American "tiger" states.

Table 2: Growth rates of GDP for Turkey and Some Selected Emerging Markets between 2000 and 2009 and forecast for 2010 and 2011

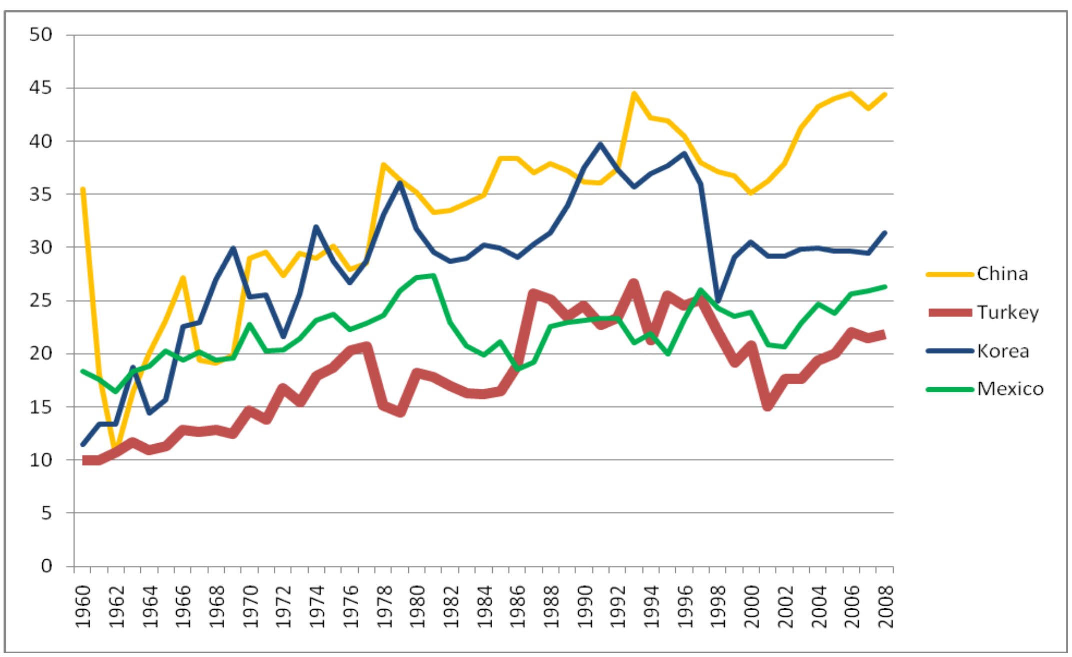
	Average 2000-2008	2008	2009	2010	2011
Turkey	5.9	0.7	-4.7	5.2	3.4
Brazil	3.6	5.1	-0.2	5.5	4.1
Russia	6.8	5.6	-7.9	4.0	3.3
India	7.9	7.3	5.7	8.8	8.4
China	10.4	9.6	8.7	10.0	9.9

Hong Kong	5.2	2.1	-2.7	5.0	4.4
Korea	4.5	2.3	0.2	4.5	5.0
Singapore	5.8	1.4	-2.0	5.7	5.3
Indonesia	5.2	6.0	4.5	6.0	6.2
Mexico	2.7	1.5	-6.5	4.2	4.5
Poland	4.4	5.0	1.7	2.7	3.2
Hungary	3.6	0.6	-6.3	-0.2	3.2
Ireland	3.5	-3.0	-7.1	-1.5	1.9

Data Source: IMF: World Economic Outlook, April 2010, p.47-67, Various Tables

The main Turkish growth problem was and is the relatively slow capital accumulation process (see Figure 2). Turkish gross capital accumulation has increased from a lower than 20% level to almost 25% in the 1990s but has declined to a (too low) 22% level more recently. Compared to other countries with a similar level of development this is one of the bottlenecks for a more dynamic Turkish investment and growth process.

Figure 2: Gross Capital Formation in % of GDP for Turkey and Some Selected Emerging Markets between 1960 and 2008



Data Source: World Bank: World Development Indicators.

2. How was Turkey caught in the recent global crisis?

The Turkish economy has gone through a period of dynamic growth with some deep crises in between. Of course, worldwide, all economies have been hit by the severe economic crisis of 2008/09. This is also and probably especially true for the Turkish economy. Its growth rate has plummeted by almost 5% in 2009 (see Table 2). However, it might recover faster than expected in 2010.

The most important factor behind the risk of the Turkish economy to be affected by the global crisis was its current account deficit (CAD). Before the Turkish economy was hit by the global crisis, it was one of the countries with the highest CAD/GDP ratio (5.9 % in 2007, OECD Economic Outlook No.86). Hence, the Turkish economy faced the crisis with a high current account deficit and high external debt of 284.4 billion $ in the 2nd Quarter of 2008 (Central Bank of the Republic of Turkey).

3. Differences between the Crises in 1994, 2000/1 and 2008/9

The crises that took place in Turkey in 1994 and 2000/1 were deeply different from the one in 2008/9 due to their causes and characteristics. These differences are obvious and normal when one takes into account the different economic conjunctures of time periods. 1994 and 2000/1 the crises were financial in nature whereas the 2008/9 crisis hit the non-financial sector most.

The 1994 crisis was a result of high risk premium of private banks under lack of enough supervision of financial sector. Yet due to the high fragility of banking system, Turkish economy ended up with a liquidity and foreign exchange bottleneck.

The 2000/1 crises were a financial crises originated from the fragile structure of the Turkish banking system. In November 2000, crisis damaged state banks most due to the increasing size of "duty loss" accumulation and necessity to finance them by short-term domestic bank liabilities. In February 2001, private banks were hit hardest because of their sensitivity to exchange rate risk.

In the post 2003 period, the Turkish economy followed a "high interest rate-low exchange rate-cheap import-high external indebtedness" policy. This policy carried the Turkish economy to a real economy crisis in 2008/9.

Another major distinction between the 2008/9 crises and the previous two is about the duration of them. 1994 and 2000/1 crisis were one-time speculative collapses (temporary) whereas in 2008, crises is defined as a long term stagnation and it occurred at a global level.

4. Three different views on the Global Economic Crisis

There are various approaches intending to analyze and interpret the latest global crisis. These perspectives can be roughly categorized under three main groups.

1. A first view sees the global crisis as a breaking point in the history of capitalism, free-market ideology and neo-liberalism and argues that the existing trade and finance structures are unsustainable.
2. A second group of thoughts also questions the nature of capitalism and underline the importance of state regulation. Both the first and the second group of approaches consider the global crisis as a permanent long term depression.
3. In contrast, a third group of thoughts approaches the global crisis as a short term temporary phenomena and reduces it to a governance problem which can be cured with more transparency and regulation.

Besides these opposing theoretical stances, there is still a need for a clarification which makes a distinction between the triggering reasons and the structural reasons. This distinction is rather crucial especially in the case of Turkey. Within the context of the European Union (EU) membership discussion, Turkey's position in the post-crisis period is of great interest. Especially, the stability of the Turkish economy after the global crisis is under discussion with respect to Turkey's convergence/divergence to the EU.

5. Short Term Outlook

According to IMF World Economic Outlook (WEO, April, 2010), Turkey is classified as a net debtor country. As it is presented in Table 2, real GDP growth of Turkey is projected to be 5.2 % in 2010 and 3.4% in 2011. According to IMF WEO the Turkish economy will grow by 4 % in 2015. With regard to annual percent change in consumer prices, projections on the Turkish economy are as follows: 8.4 % by the end of 2010 and 6.1% by the end of 2011. WEO forecasts the balance on current account as a percent of GDP as well. Related numbers for Turkey are -4.0 in 2010, -4.4 % in 2011 and -4.7 in 2015. According to WEO forecast on main macroeconomic indicators of the Turkish economy, recovery from the global crisis already took place and percentage increases will follow a similar path in the next five to ten years.

6. Long Term Outlook

The very dynamic development of the Turkish economy in the last decade has provoked speculations that Turkey will become one of the key players in the 21st century. In an article for the newspaper "Die Welt" the former German chancellor Gerhard Schröder mentioned that "Turkey belongs to the top twenty economies worldwide, already. And the speed of its economic development is dramatic. In 20 to 25 years, Turkey will be the fourth or fifth largest economy in Europe and it will stay at the same level as Italy or France." [1] Along the same lines, George Friedman believes that Turkey will become one of the most important global powers in coming years: "By 2020, Turkey will have emerged as one of the top ten economies in the world".[2]

A rough simulation exercise might indicate the credibility of statements expecting the Turkish economy becoming one of the strongest in the world. Table 3 presents the ranking of the top 20 economies according to the GDP in current US-$ for 2008.

Table 3: Top 20 Economies According to the GDP (in trillion current US-$) for 2008.

Rank	**Country**	**GDP**	**US =100**
1	United States	14.093	100.0
2	Japan	4.911	34.8
3	China	4.327	30.7
4	Germany	3.649	25.9
5	France	2.857	20.3
6	United Kingdom	2.674	19.0
7	Italy	2.303	16.3
8	Russia	1.679	11.9
9	Spain	1.604	11.4
10	Brazil	1.575	11.2
11	Canada	1.501	10.7
12	India	1.159	8.2
13	Mexico	1.088	7.7

[1] http://www.welt.de/debatte/kommentare/article7436815/Ohne-die-Tuerkei-versinkt-die-EU-im-Mittelmass.html

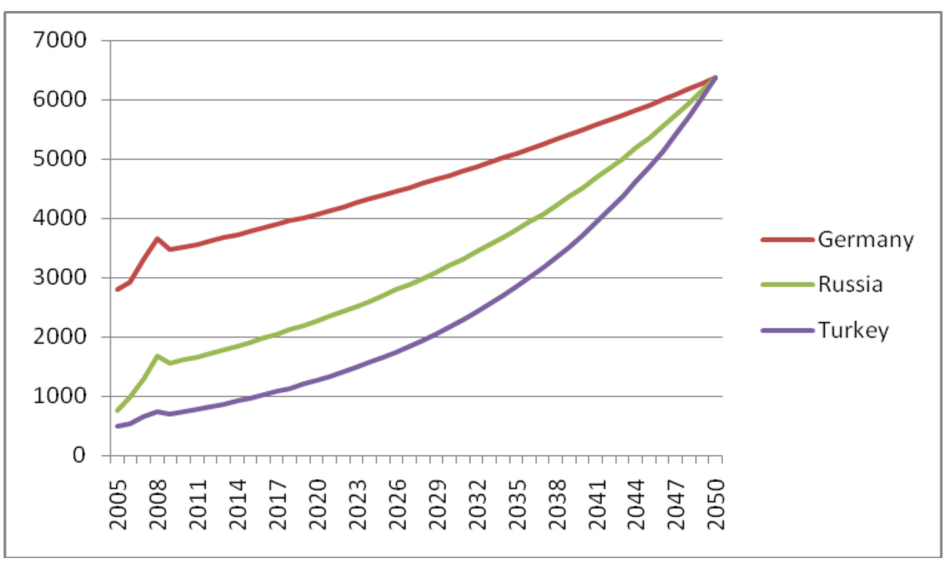
[2] George Friedman: The Next 100 Years (A Forecast for the 21st Century). New York (Anchor Books), Paperback edition of January 2010, page 145. Fridman than goes on: "By 2020 Turkey will be a surging, fairly stable economic and military power in a sea of chaos" (page 145).

14	Australia	1.015	7.2
15	Korea	0.929	6.6
16	Netherlands	0.871	6.2
17	Turkey	0.735	5.2
18	Poland	0.528	3.7
19	Indonesia	0.511	3.6
20	Belgium	0.504	3.6

Data Source: World Bank: World Development Indicators.

How much faster has the Turkish economy to grow year for year from 2010 to 2050 to reach the level of Russia (position 8 in 2008) or even Germany (position 4 in 2008) in the year 2050 (see Figure 3)? Assuming that the German GDP growth is 1.5% per year (corresponds to the long term trend of the German potential growth) the annual growth rate of the Turkish economy has to be 5.5% per year, that is 4 % higher than the German economy's growth rate year for year from 2010 to 2050. And even if it was to reach only half of the German level, the Turkish economy has to grow 2.2% faster every year. Vis-à-vis Russia, the Turkish economy has to grow 2% faster per annum to reach the same level by 2050.

Figure 3: Simulation of GDP Development for Germany, Russia and Turkey from 2010 to 2050



Data Source: World Bank: World Development Indicators.

Table 4: Annual GDP Growth rates of GDP for Turkey, Russia and Germany to Reach the Same Level in 2050

	Annual Growth Rate Needed to Reach German GDP in 2050		
	to 100%	to 75%	to 50%
Germany	0.015	0.015	0.015
Russia	0.035	0.028	0.017
Turkey	0.055	0.048	0.037

Data Source: World Bank: World Development Indicators.

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