

**5<sup>th</sup> National Congress of Economists**  
**Reinventing Portugal in the New Global Economy**  
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**Centro Cultural de Belém, Lisbon**  
**Hosted by Portuguese Association of Economists**

Ladies and Gentlemen,

It is an honor for me to be here with such a distinguished gathering.

“Portuguese Association of Economists”, well-deserves praise and applauses as the host of the Congress which brings together invaluable economists and eminent professionals from all over the world.

Let me also extend my sincere thanks for their kind invitation.

I totally enjoyed and learned a lot from yesterday’s discussions in the audience and today, I will be delighted to address the eminent participants how Turkey positions itself in the changing dynamics of the global economy.

No doubt, the global economy has gone through immense changes especially in the last 20 years during which we witnessed rise of large developing countries as new economic powers in a manner shifting the world’s economic centre of gravity.

While, national economies have been in the process of living with emerging realities, the global economy has undergone one of the deepest crisis of its history **-a crisis which threw even the most advanced economies into turbulence-**.

Of course, in the world of inter-dependence, Turkey has not been totally immune to the upturn in the global economy. Like all other

economies, Turkish economy had to face some challenges and gained her own experiences.

Against this background, I believe it will be interesting for you to hear where Turkey and Turkish economy stands in this era of so called tectonic changes and turbulence and to where she would like to sail, in the winds of change.

### **Turkish Economy in General**

Turkish economy did not make a great start to the second millennium. The economic disaster created by 2001 financial crisis led us to a great restructuring, mostly in financial sectors.

However, the rest of this decade was a success story for Turkey. From 2001 to 2008, GDP per capita (in USD terms) had increased by around 250% which put Turkey among the top performers.

Beginning with the last quarter of 2008, with the effects of the global financial turmoil, the performance of Turkish economy has weakened. Yet, a remarkable economic performance could still be achieved which stood out Turkey as one of the fastest growing economies in the world in 2010.

The macro-economic indicators are better than most of the global players in the last 5 years. Although, it was one of our worst performances in the last ten years, in 2012, Turkish economy grew by %2.2, making Turkey the fastest growing economy in Europe.

Although there is no limit in perfection and we are not totally satisfied with the current pace of economic growth, in any terms, Turkish economy performed quite well and kept growing despite the economic crisis.

The faith we have in Turkish economy is of course not without a reason. The steps taken with success in the Turkish economy in

recent years, as well as plans that we are about to implement, make these targets achievable.

Before digging into details, let me draw your attention to a projection made by the OECD, about Turkish economy. I think this would better explain that the positive outlook we have about Turkish economy is more than a wishful thinking.

Indeed, the OECD Report “Looking to 2060”, published in 2012, forecasts the growth rate of Turkish economy, for the period of 2011 to 2030, as 4.5%, which is the highest among the OECD economies and significantly higher than the 3.7% world average.

Now, I will try to explain what are and will be the main drivers of Turkish economy today and tomorrow.

### **Labor Market and Human Capital of Turkey**

Definitely, demographic factors have a role to play in the overall economic growth of a country. Turkey with its almost 80 million of population offers huge opportunities and perhaps the labor force is the most important driver of Turkey’s economic growth.

We estimate that more active, more productive and more innovative labor force is going to be the main source of prosperity in Turkey, in coming years.

Indeed, unemployment figures of most countries have not been impressive in the last eight years. Turkey is not an exception to that. According to the OECD, we witnessed just a 0.3 percentage point decrease in our unemployment rate, since 2005. Although this reflects a better performance than the OECD average, which is around 1.3 percentage point increase, still it can not be argued that it has been an area of top economic performance. But the good news is that, , we have seen more than 33 % increase in Turkish labor force,

during the same period and that implies 6.8 percentage point increase in the labor force participation rate.

According to the OECD, the increase in the number of people employed in the OECD countries during this period is not more than 7.5%. However, Turkish equivalent of this figure is around 38%.

The figures I have just mentioned well-indicates that economic growth in Turkey was able to create employment opportunities. Of course, when the share of young people in the population is considered which is around 42% -a figure well above any EU members-, there remains much to do and we will definitely be doing so.

***(We must admit that the share of college graduates in Turkish labor force, which is around 18.3% as of May 2013, is “not enough” for a country having such ambitious targets. However, the progress we have made in this respect seems good. The 36.5% of the increase in Turkish labor force in the last years comes from college graduate entrants, which also means 99% increase in college graduate labor force during the same period.)***

Indeed, to be able to activate our population, to create match between our human capital and the industry needs, to foster innovation there remain much to be done. Apparently, education is and will be one of the key areas to that regard. The quality, length and the continuity of education as well as increasing equal opportunities for all in accessing to education will continue to be important areas of attention in coming years.

## **Financial System**

Financial stability and an efficient financial sector is crucial for all economies.

In the late 1990's and in the early 2000's, Turkey implemented large scaled financial reforms to stabilize its financial system. During this period, independent regulatory and supervisory authorities in financial sector have been established.

Following these reforms, we have continued to our work for financial soundness of the banking sector. We have adopted Basel II and Basel 2.5 framework to our regulations. We have ended our preparations for the implementation of Basel III and we are going to start its implementation by 2014.

Turkish financial sector is predominantly composed of banks. As of March 2013, 49 banks have 87.4% of financial sector's total balance sheet size. Compared to other countries, Turkey is one of the countries that enjoys high ratios in banking sector with regard to the capital adequacy ratio, Tier 1 ratio and the ratio of equity to total assets.

All, in all, strength of Turkish banking system, with strong capital structure and profitability, was one of the factors that could enable Turkey a quick rewinding to the pre-crisis conditions. Turkish banking sector increased its profit by almost 10% without any governmental support during the crisis period.

Recent "Global Competitiveness Report" by the World Economic Forum, ranks Turkey 28<sup>th</sup>, for availability and affordability of financial services and 20<sup>th</sup> for the soundness of banks, out of 148 countries.

**"Fiscal Performance"**  
**"Budget Performance",**  
**"Government Indebtedness"**

**It should be noted that fiscal discipline and effective debt management policies put into practice in line with the monetary**

policy since 2002, have been among the factors mitigating the adverse effects of the global crisis. Decreasing borrowing costs together with stability of Turkish financial sector increased public confidence and contributed to the extension of borrowing maturities. Thus, contrary to many other, debt sustainability has not become a concern for Turkey.

### Trade and Investment Policies

If Turkey had resisted better than some other countries, in times of economic and financial crisis, no doubt, this was, in part because of the positive role played by prudent trade and investment policies.

In fact, the choice made in 1980's towards open economy brought about enormous contributions to Turkey's economic growth in the last 32 years.

When we started the journey in 1980, as a country with no Free Trade Agreement and only with 3 Billion US Dollars of exports, of course we were quite aware that the way will be long and possibly surrounded by some threats. Looking back, one can definitely witness the huge transformation started with this key choice and also the fact that journey never ends.

Let us look what some figures tell us: In 32 years, exports grew 51 fold, reaching 152.6 Billion us Dollars in 2012. The same goes for the imports side where we see 30 fold increase from 8 billion US Dollars to 236.5 Billion US Dollars in the same year.

The openness rate of Turkey, as the share of total trade volume in GDP, increased to more than 57.61 in 2012 from 12.65 in 1980.

Today, Turkey is truly integrated into the global markets, in every terms. Number of FTA's concluded reached 20 so far and well-defined export strategies .focusing in different regions of the world,

are paving their way creating a more favorable climate for Turkish exports.

According to the WTO's calculations, which are adjusted to account changes in prices and exchange rates, we have seen only 1% increase in global merchandise exports in the last 4 quarter to July 2013. However, during the same period, Turkish exports have increased by 7.7%.

In 2012 alone, increase in exports hit the record by 13.1%. Exports to 97 countries were recorded as the highest of all times. Net exports contributed 4.1 points to the annual growth rate of 2.2 in the very same year.

Certainly, all these figures become much more meaningful when one considers the fact that all these could be achieved despite the contraction in global markets, including the EU, which has long been Turkey's traditional market for exports. In 2012, EU's share in Turkey's exports was recorded at 39%, reflecting 17 percentage point decrease compared to 2007.

Let me here open a parenthesis: Market diversification strategies that we started to work on before the economic and financial crisis, yielded positive results and helped us to avoid certain challenges that could otherwise be confronted with. Between 2009 and 2012, the contribution of the market diversification policies has been more than 42 Billion US Dollars. In coming years, we do expect that we will be reaping benefits of market diversification further, as we are keenly working on how to improve current bilateral and regional strategies and there are number of FTA's under negotiations.

Unless complemented by a favoring investment climate for foreign investors, we can not talk about a truly open economy. With this in mind, Turkey as a country with huge opportunities to offer foreign

investors has been taking decisive steps for long to make its business climate more friendly.

Despite the adverse impacts of economic and financial crisis that also hit global FDI inflows and caused to some 15% decrease compared to pre-crisis level by 2010, we have positive progress in this area as well.

Here are some figures to share:

- Since 1983, Turkey received 137.3 Billion US Dollars of FDI, 122.6 Billion of which realized in the last ten years.

- FDI stock which was around 18.7 Billion USD in 2001 rose up to 181.2 Billion by 2012. According to the OECD figures, during the same period, in which our stock has risen by 870%, global FDI stocks rose by 280%.

- Although, 2011 was one of the worst years in modern history to find FDI, Turkey did manage to attract 16 Billion US Dollars in the same year. In 2012, FDI inflow to Turkey was 12.4 Billion US Dollars.

Certainly, as the figures speak out themselves, Turkey has become a shining star in the eyes of foreign investors both as a regional and a global hub for production and logistics in recent years.

And I guess not only her domestic market size, and other factors like dynamic population, economic, financial and political stability, and a unique geographical location, but also determined policies to liberalize investment policies have contributed to that goal. The most important one to be mentioned is the new investment scheme came which came into effect in June 2012, with the focus of encouraging production with high-tech and high value added. This scheme, offers attractive incentive for both local and international firms.

We have also developed an incentive program particularly intended for SME's. We have been providing grants, low interest rate credits and know-how support to early stage SME's.



We have a vision to transform our society into more innovative one through education. Because we believe, as Klaus Schwab, founder and the Executive Chairman of the World Economic Forum, says in the recent Global Competitiveness Report, innovation will be a key determinant of global competitiveness in coming decade.

However, it is not only the improvement of education system that we are working on to foster innovation. In our effort to improve the business environment of Turkey, we have a focus on innovation as well. Thus, the new investment scheme that I have just mentioned is particularly in favor of investments increasing R&D capacity.

We have also been providing direct financial grants and know-how support to research and development and innovation projects of SME's.

We have just started to conduct an incentive program, with the aim to diversify financing opportunities of early stage SME's with innovative ideas. In this program, we are providing grants to venture capital funds focusing on early stage SME's which have a potential to develop innovative products, services and/or production processes. We are also encouraging "business angels" in Turkey, with particular emphasis to ones focusing on financing more innovative SME's. This system works through tax reductions up to 100%.

Our efforts to encourage R&D and innovation are not limited with ones for SME's. We have been developing technology parks and providing incentives to the firms working in these institutions. Today, in Turkey, 36 technology parks host 2,209 firms which employ around 19,500 researchers. We have been also providing support to R&D centers of firms. Today, around 16,000 R&D personnel are working in 142 R&D centers in Turkey.

In sum, we are acting in line with the fact that “more active population, more productive labor force and more innovative brains” are the needs of any country in this era.

Distinguished Guests,  
Ladies and Gentlemen,

So far, I have tried to go through the main drivers of Turkish economy.

As I had stated earlier, the journey that Turkey took, back in 1980 was a long one and it lasts still. Although I have no idea about the final destination, I know where Turkey is sailing to: 2023 . A year, by which hopefully, we will be crowning Turkey’s journey of open economy through further success stories.

The 2023 Strategy, which coincides with the first centennial of the Turkish Republic targets, among others,

- 2 trillion USD GDP,
- 500 billion USD exports,
- 1.5 per cent of share in international trade and
- not more than 5% unemployment rate by the same year

is an ambitious one and requires huge efforts to be deployed.

Yet, we are in full conviction that having been one of those countries that could show strong resilience in the global economic and financial crisis, and endowed with productive labour force, infrastructure, effective market size, and more importantly vision, inspiration and determination, Turkey will be continuing on her path stronger -yet with vigilance- targeting to become one of the top 10 economies in the world by 2023.

I thank You.