



# Turkey: The Global Crisis and Beyond Investment Climate & Long-Term Growth

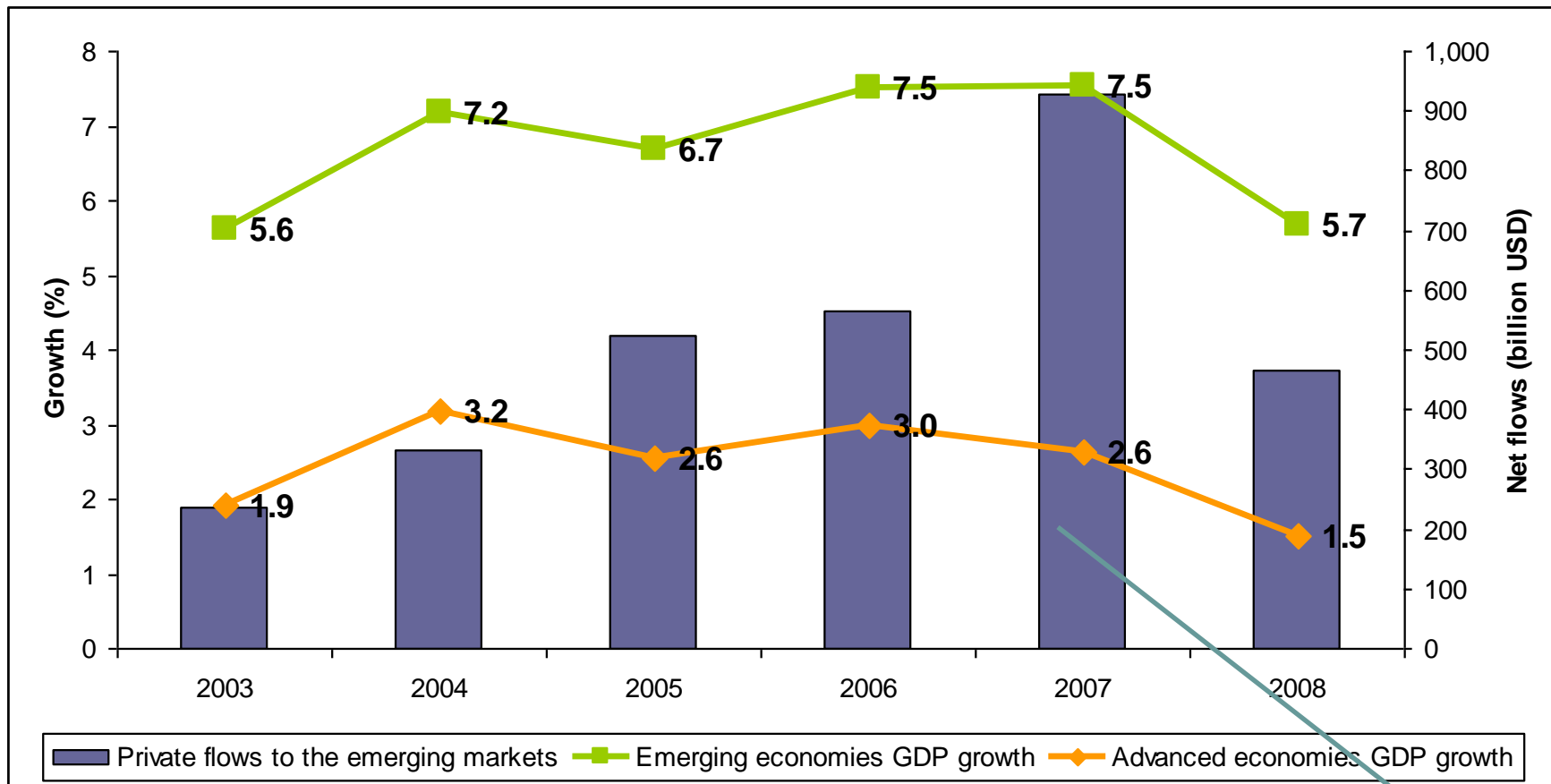


**Ulrich Zachau**  
**Country Director, Turkey**  
**The World Bank**

**YASED Conference, Istanbul**  
**11 February 2009**



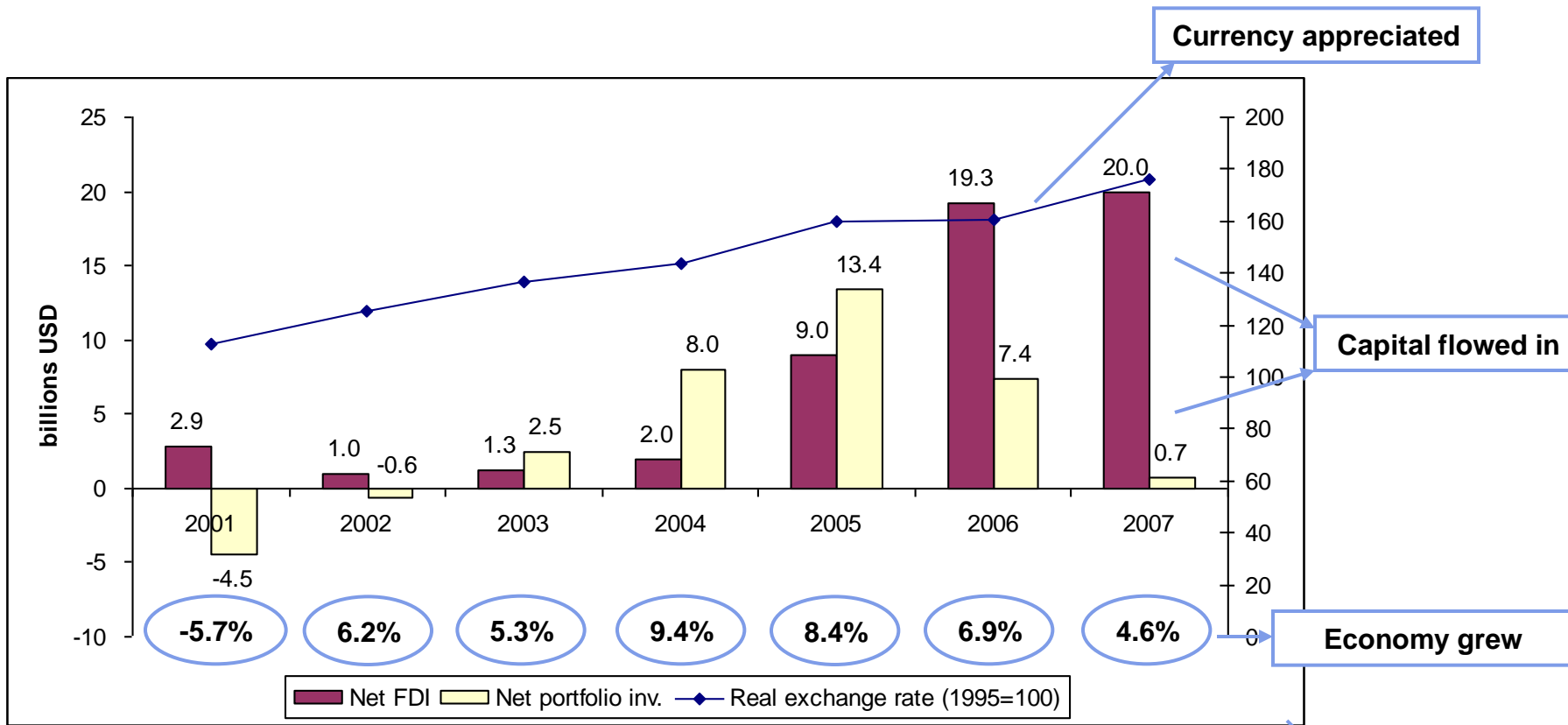
# A Good Story Until 2007: in the World ...



Liquidity aplenty!



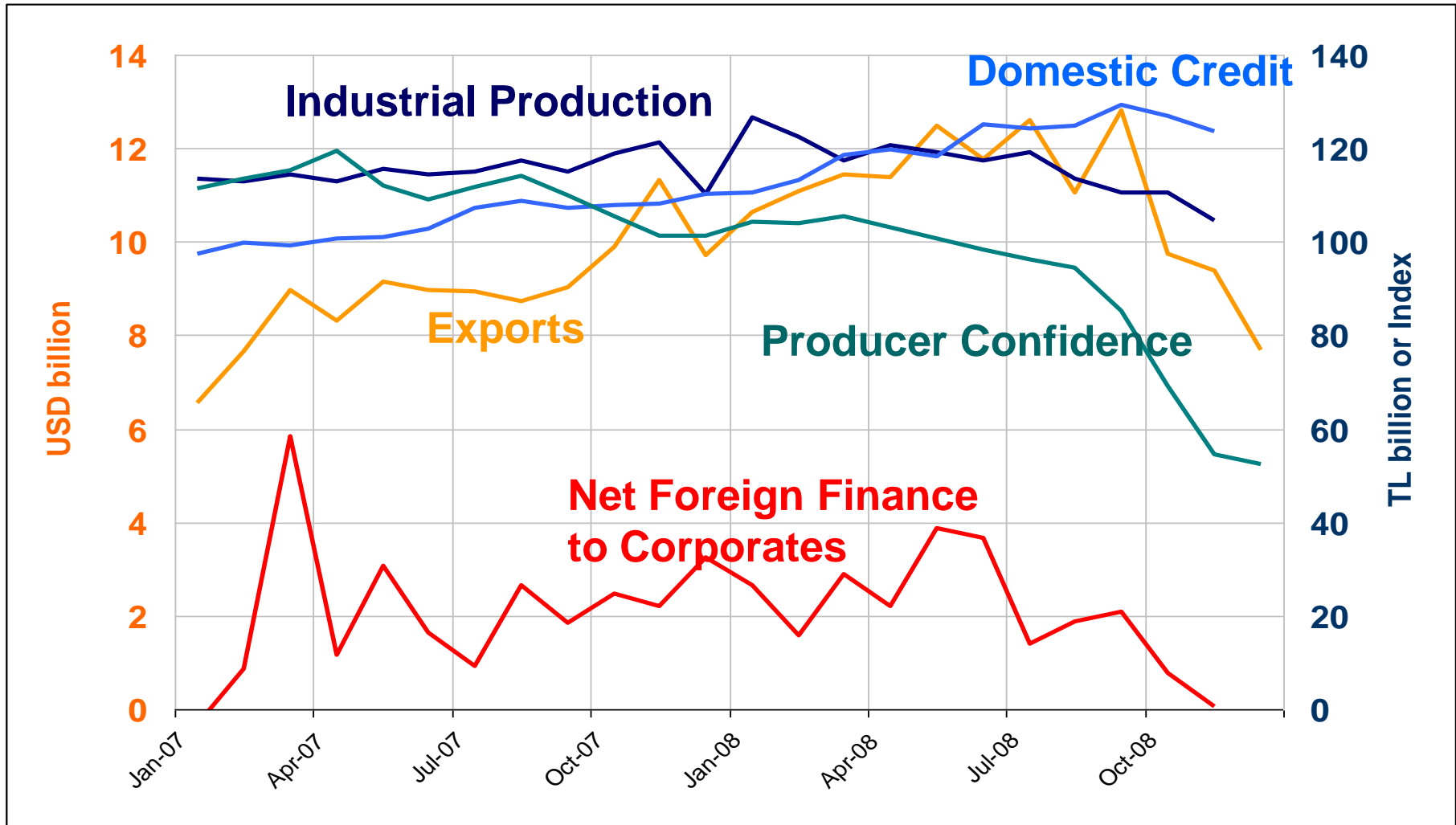
# ...and in Turkey...



What happens next?



# Things Look Different Now ... ... including in Turkey

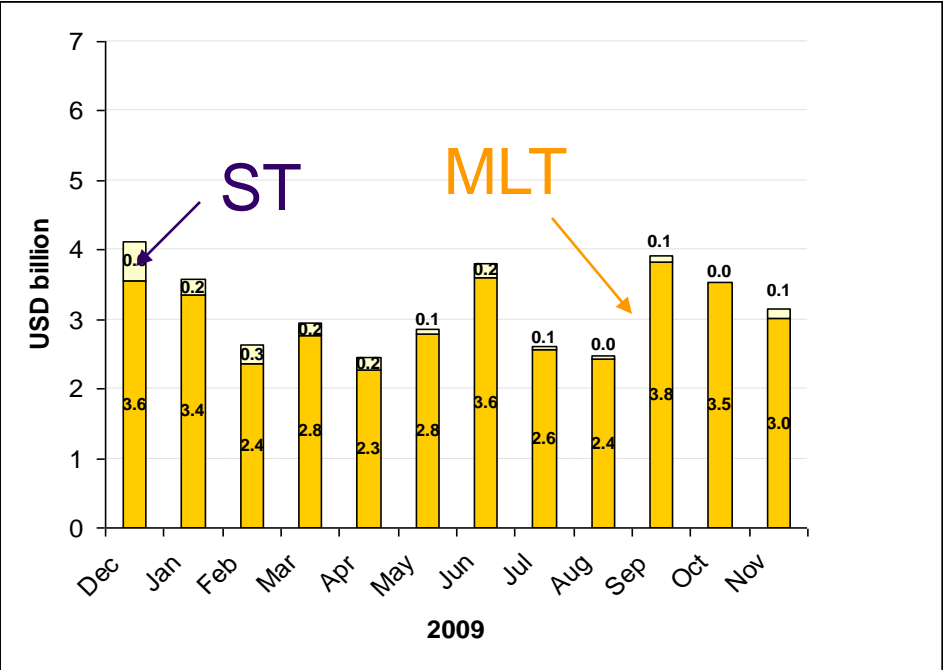
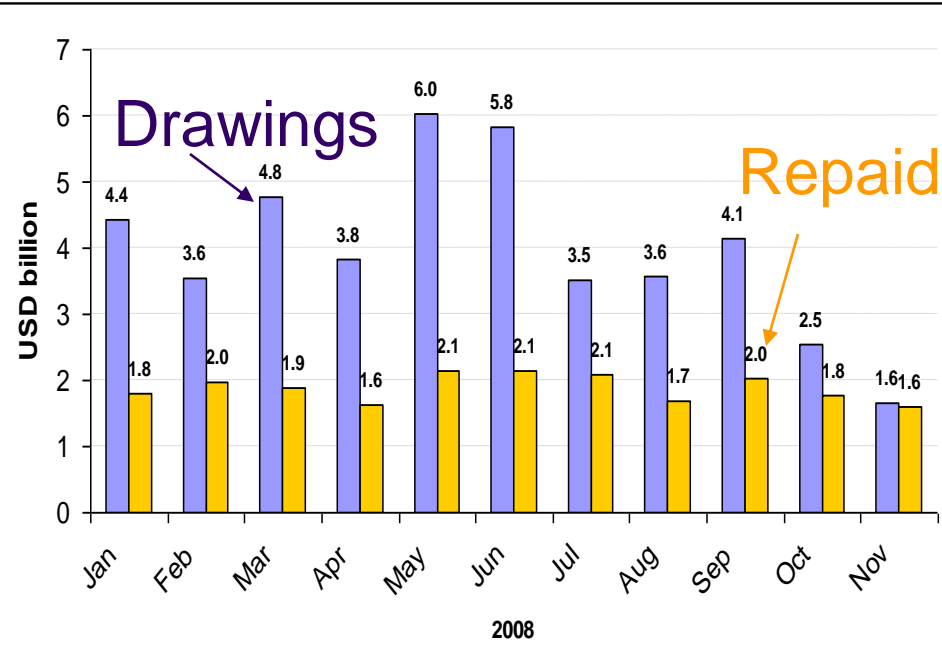




# Corporate External Refinancing Requirements are Up in 2009



Corporate external rollover by month

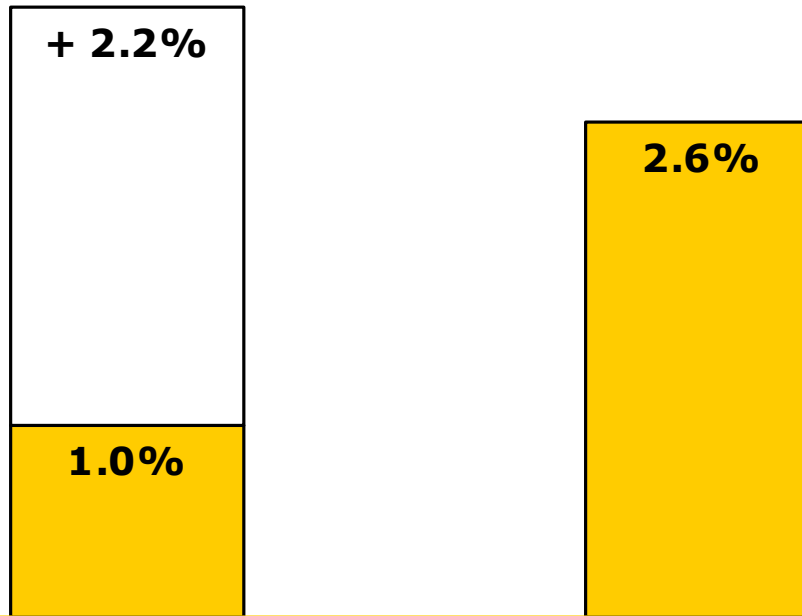




# Ease of Doing Business $\uparrow \Rightarrow$ Economic Growth $\uparrow^*$



Additional growth expected if bottom quartile implements the reforms of top quartile



On average, bottom quartile grows at 1 % p.a

On average, top quartile grows at 2.6 % p.a

Lowest in Ease of Doing Business

Top in Ease of Doing Business

\* Growth rates are actuals from the period 1994-2004

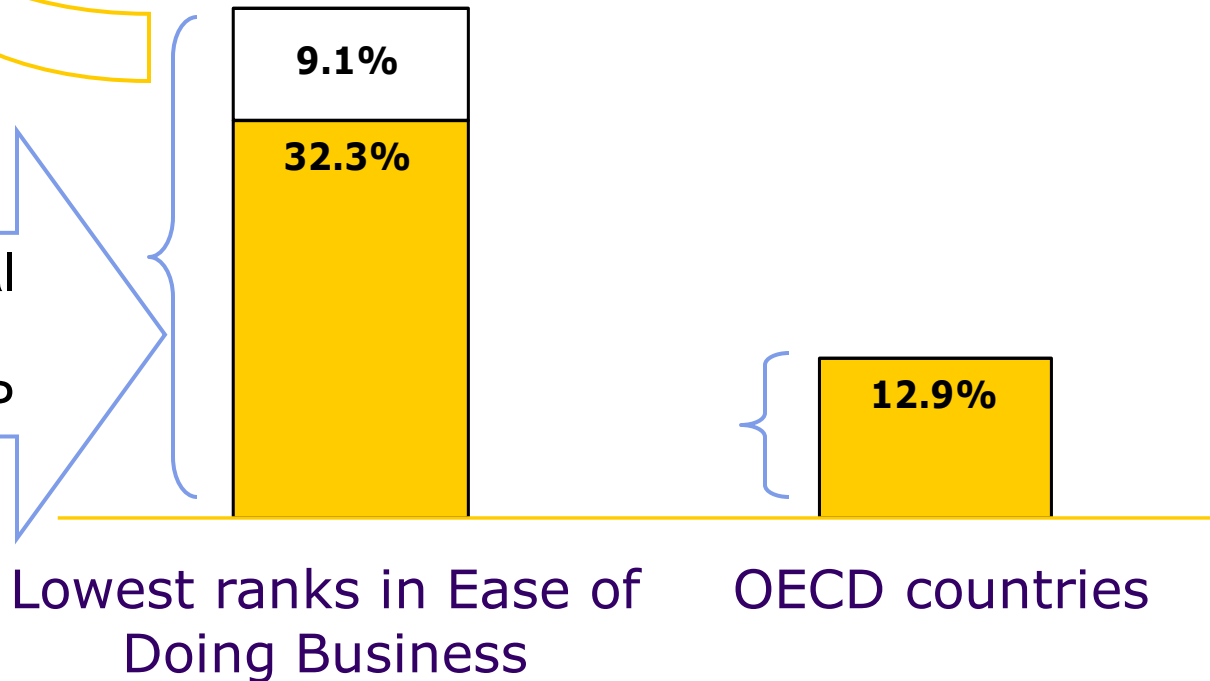
\*\* Regressions control for initial levels of per capita income, education level, civil conflict and regional dummies



# Ease of Doing Business $\uparrow$ $\Rightarrow$ Informality $\downarrow$

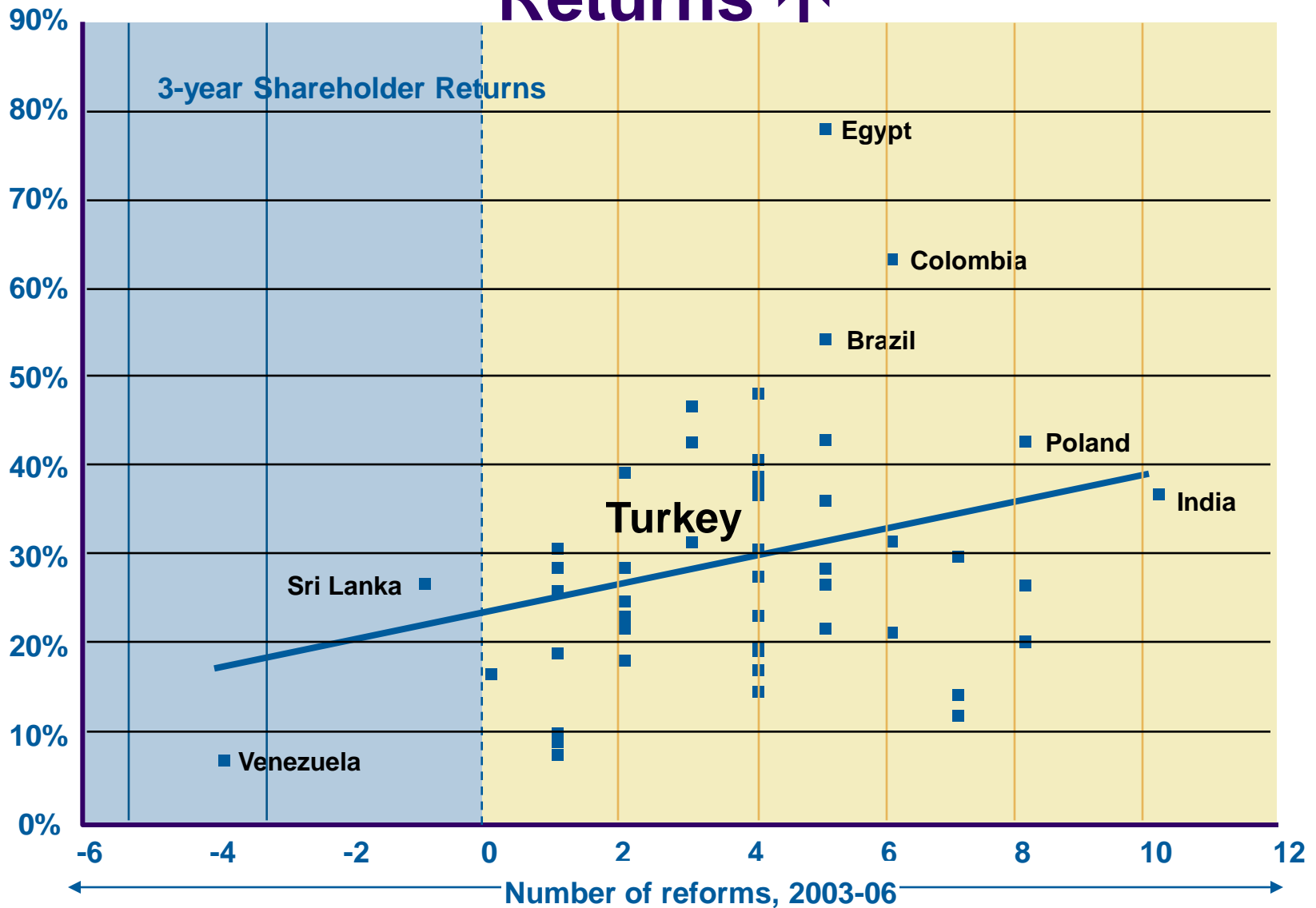
Implied reduction in informality in percentage points, if bottom quartile implements the reforms of top quartile

Size of informal economy as percent of GDP





# Ease of Doing Business $\uparrow \Rightarrow$ Returns $\uparrow$

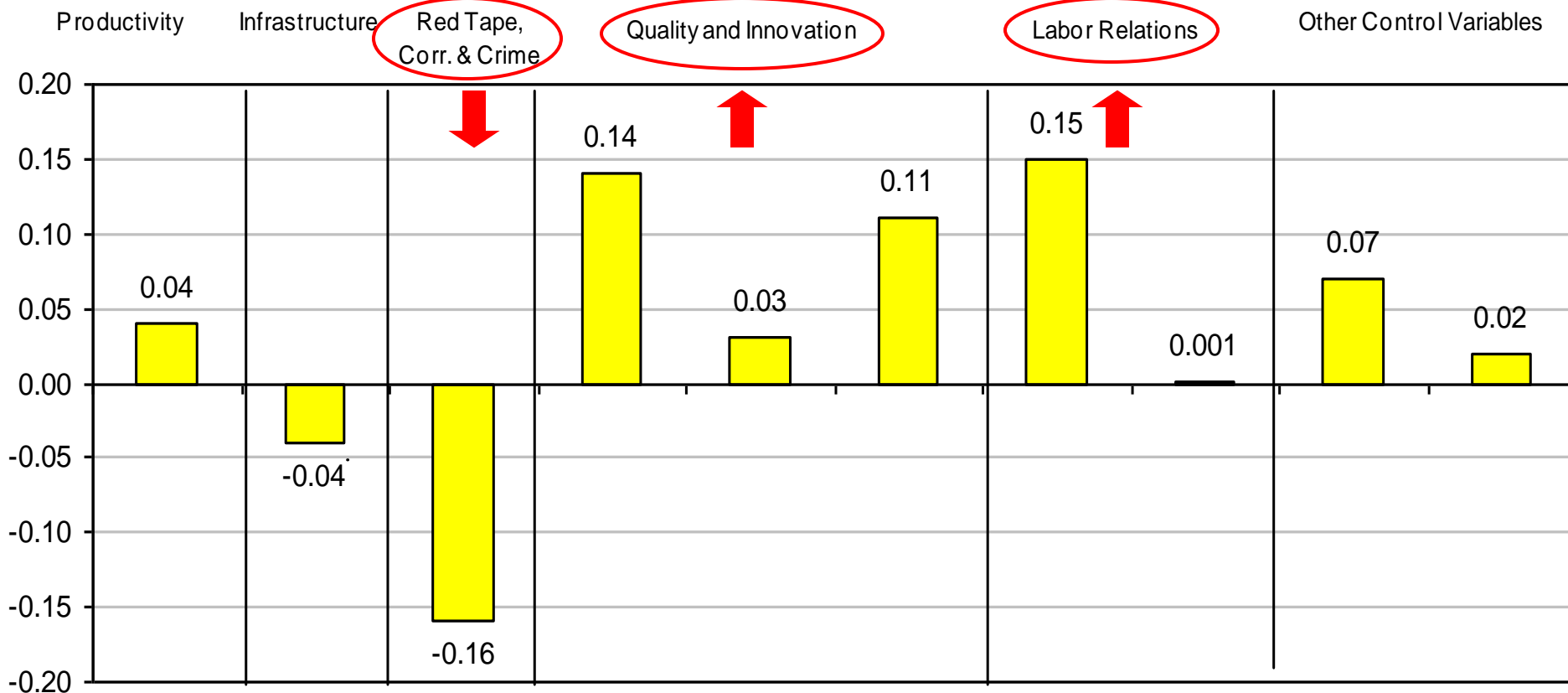




# FDI in Turkey: More Skilled Labor, Innovation, Less Red Tape are Key



Foreign Direct Investment: Linear Probability Coefficients with Respect to IC Variables

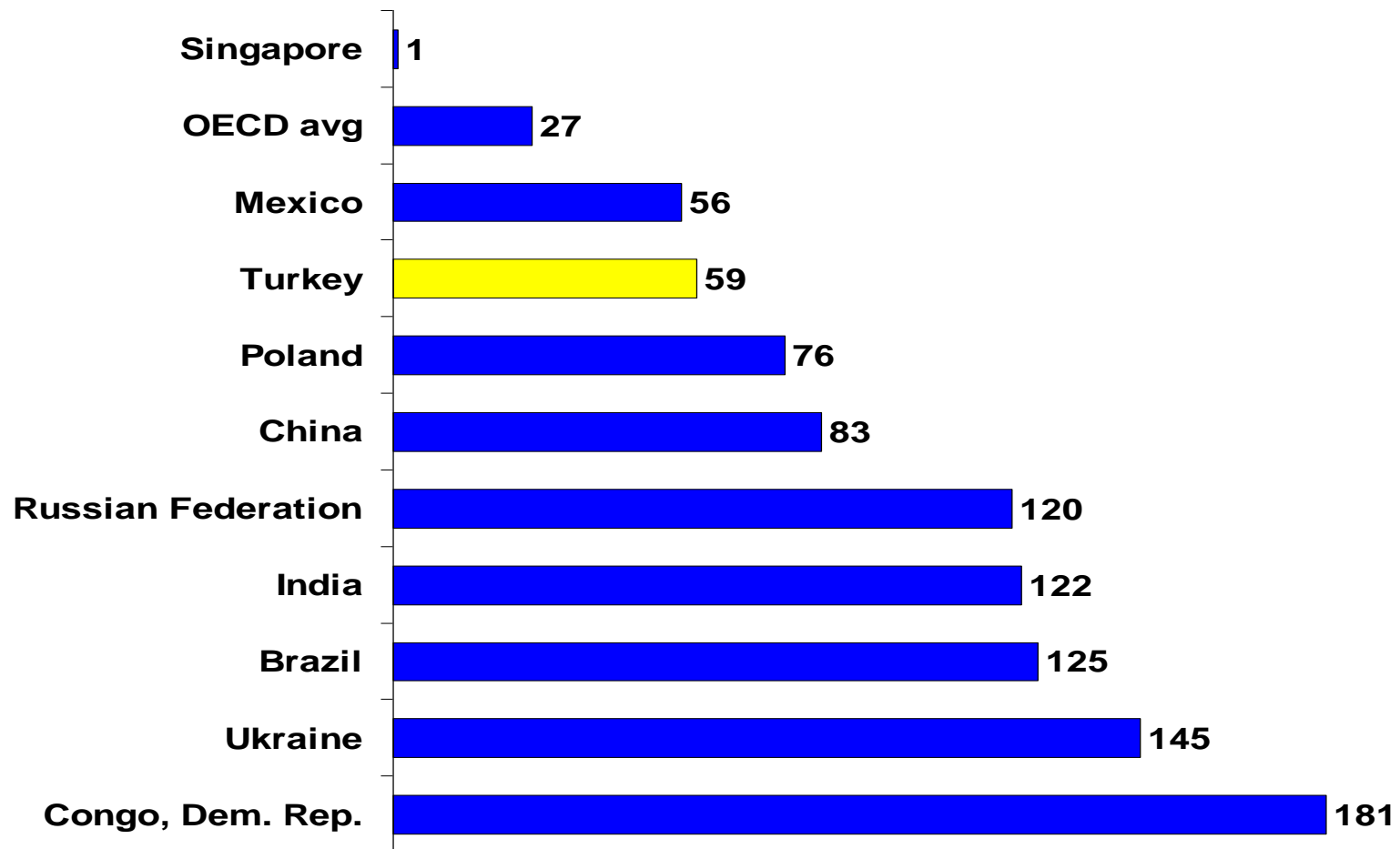




# Doing Business in Turkey: Above BRICs, Below OECD



Average Rank, Ease of Doing Business, 2009





# Doing Business in Turkey: Strong & Weak Areas ...



Turkey performs well  
in these areas

Best practice

Enforcing Contracts

27

Registering Property

34

Starting a Business

43

Turkey performs less well  
in these areas:

Closing a Business

118

Dealing with Constr. Permits

131

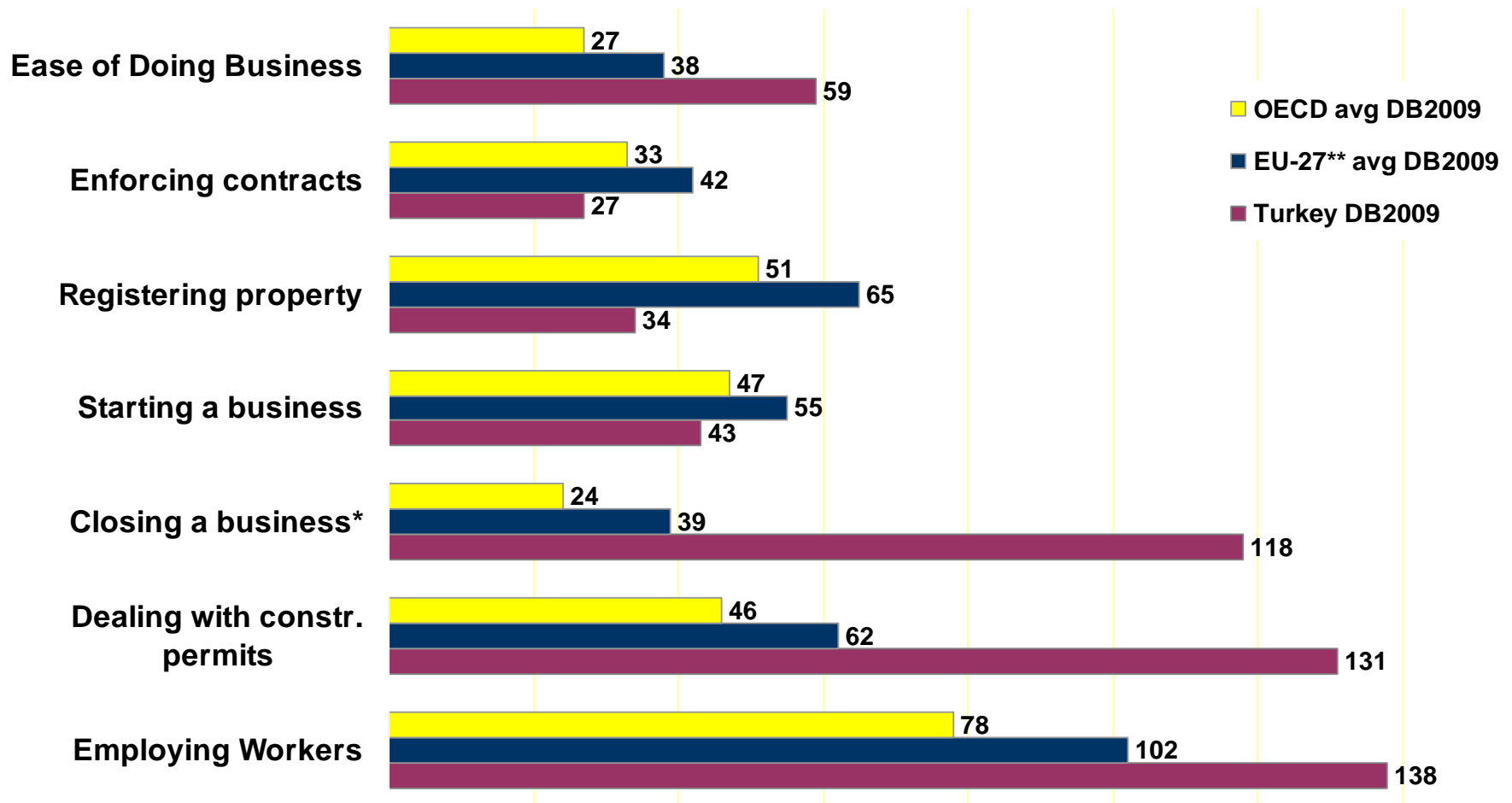
Employing Workers

138





# ... Particularly Compared with EU-27 and OECD Countries



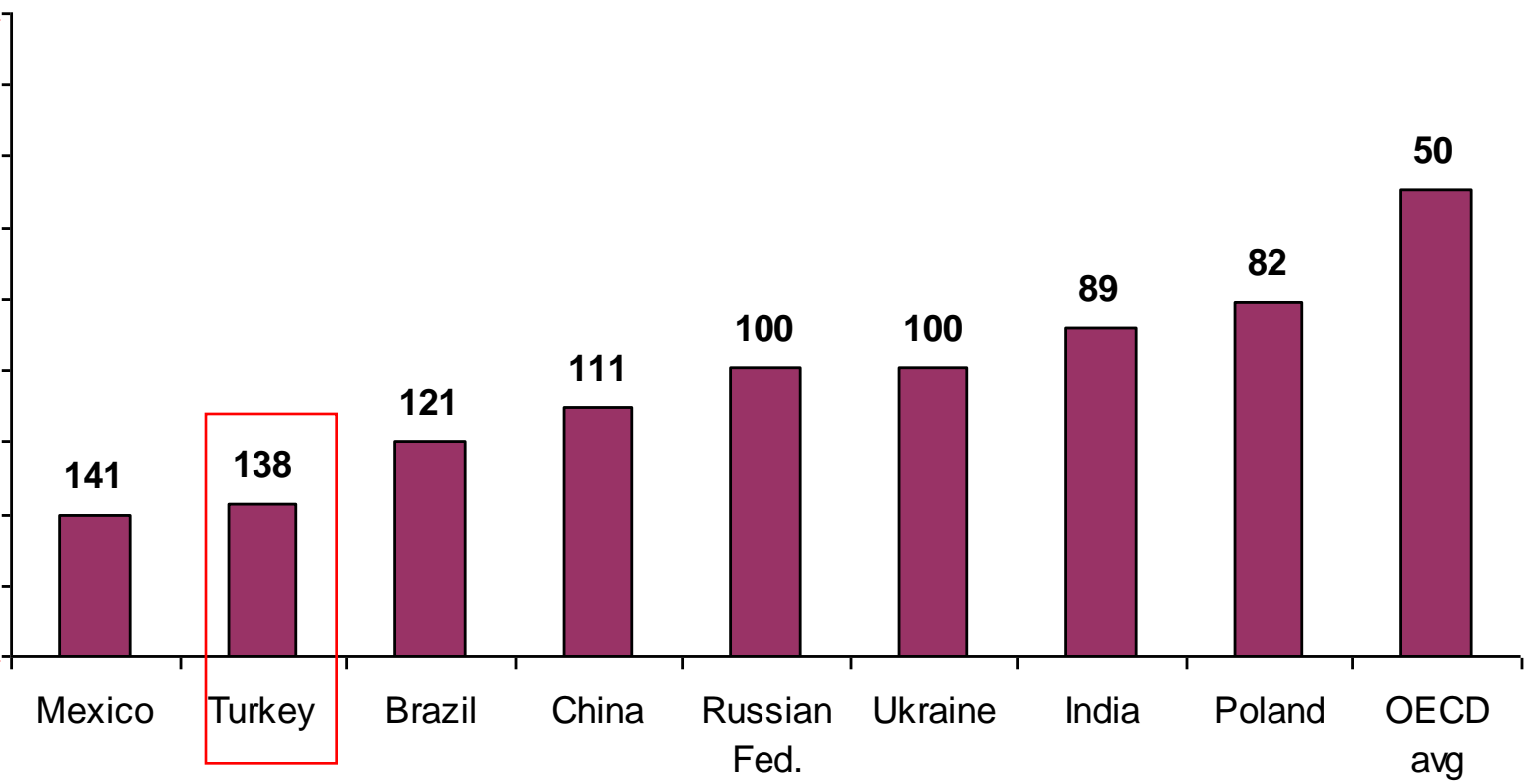


# Rigid Labor Markets: a Key Challenge in Turkey

Employing Workers (2009)

Top Rank: 1

Lowest Rank: 181



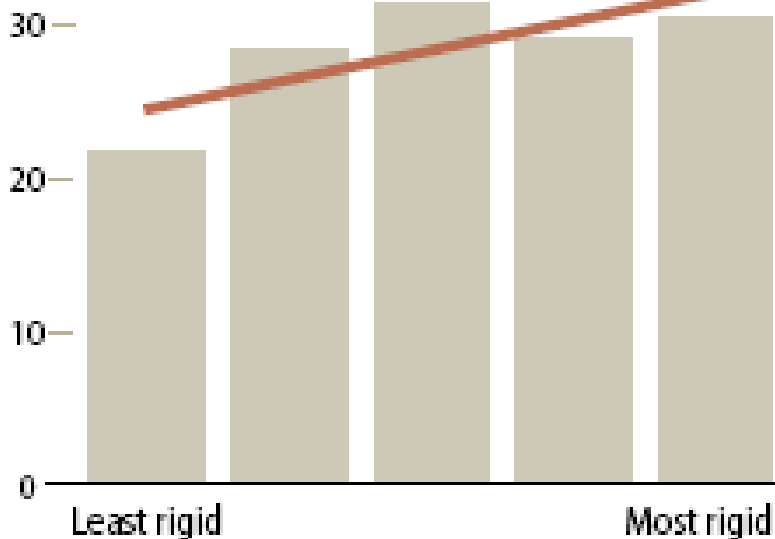


# Labor Market Flexibility Reduces Unemployment & Informality

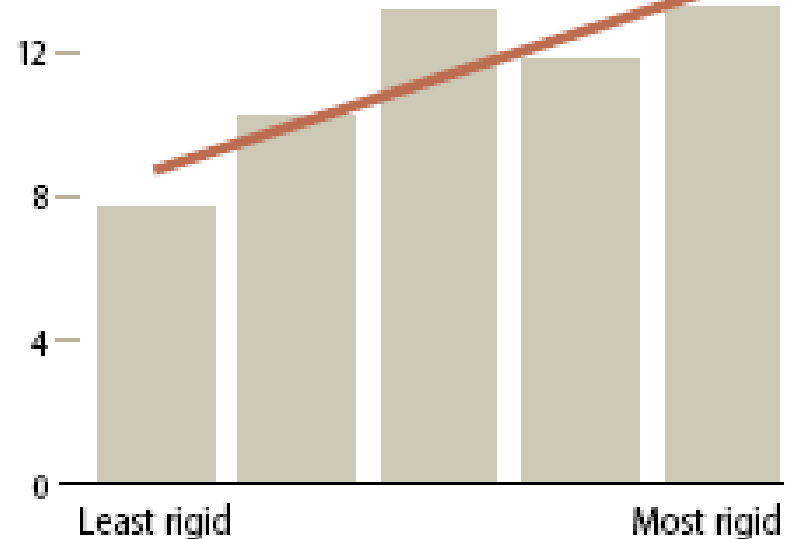


**Rigid labor regulations are associated with high informality and high unemployment**

**Size of informal sector (% of GDP)**



**Female unemployment (%)**



**Economies ranked by  
rigidity of employment index, quintiles**

**Economies ranked by  
rigidity of employment index, quintiles**

Note: Relationships are significant at the 1% level for size of the informal sector and at the 10% level for female unemployment, and remain significant when controlling for income per capita.

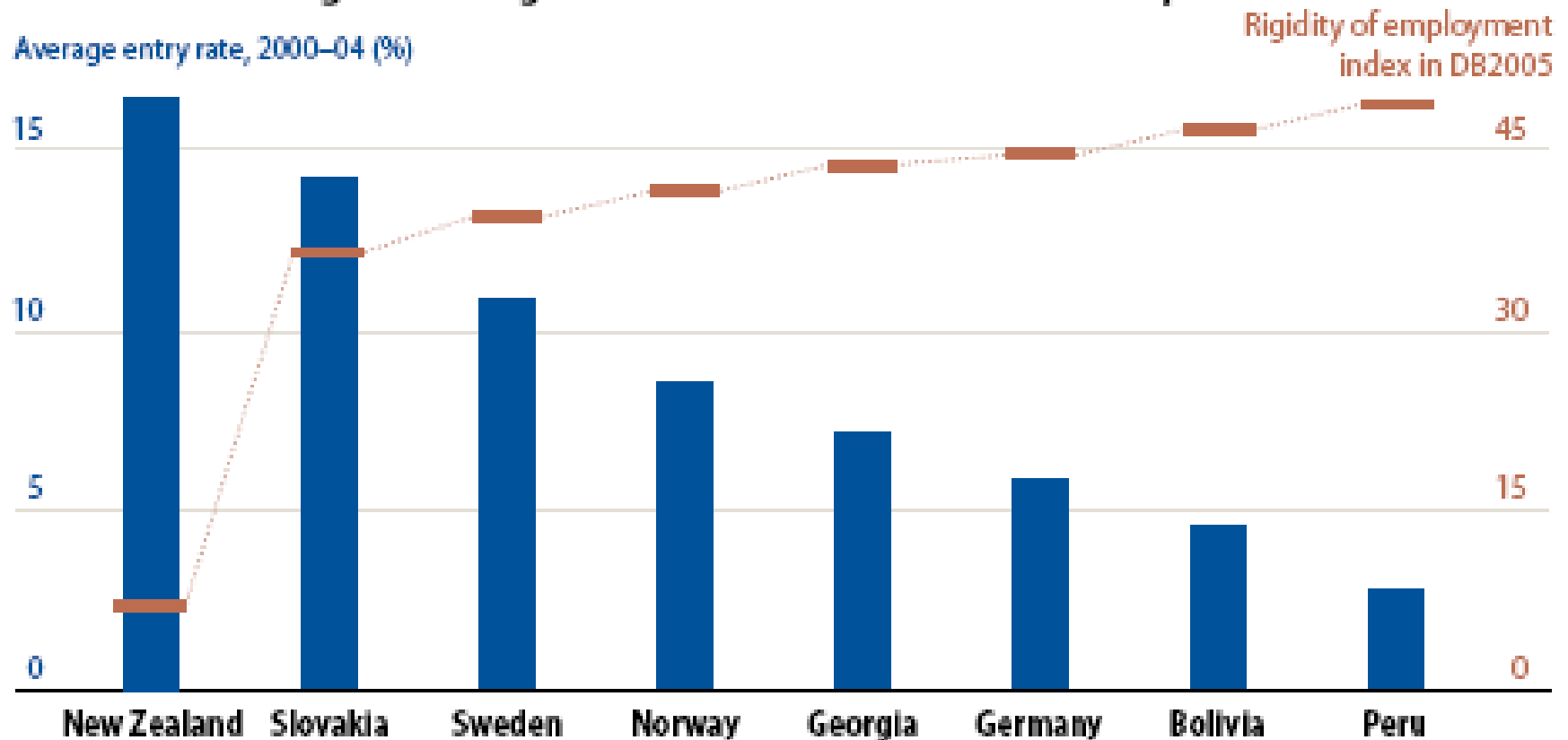
Source: Doing Business database; WEF (2007); World Bank, World Development Indicators database.



# Labor Market Flexibility Increases Business Start-ups

Economies with rigid labor regulations have fewer business start-ups

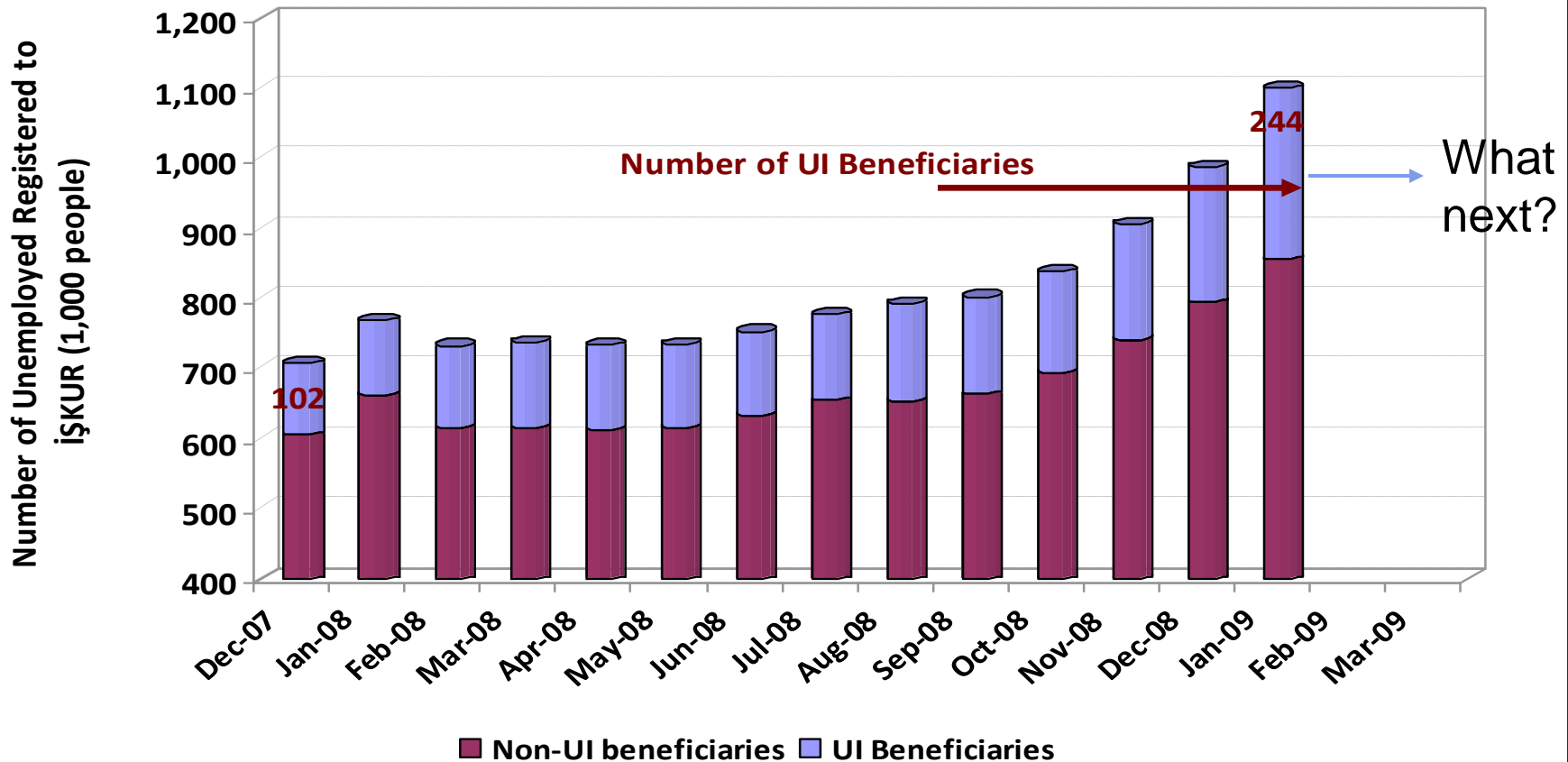
Average entry rate, 2000–04 (%)





# Rising Unemployment Makes Investments to Create Jobs a Top Priority

Breakdown of Total Unemployed Registered to İŞKUR





# Employment and Social Policies during Economic Recession



## What Mix of Policies?

- **Maintaining Employment in the Short Term, ...**
  - Targeted wage subsidies?
  - Short-term work incentives?
  - Targeted payroll tax holidays?
  - ... for firms that are viable in the long run
- **... While Protecting the Most Vulnerable,**
  - Reviewing unemployment benefit and eligibility?
  - Expanding safety net policies to support the most vulnerable?
- **... and Investing in the Future**
  - More skill building: on-the-job learning, vocational training?
  - Expanding public works?



# Education: Focus on Quality





**Teşekkür Ederim**  
**Thank You**