

**Turkey: Where the Opportunities Abound – A Safe Haven For Investment
YASED Conference, 11 February 2009, İstanbul**

Slide 1. **Title Slide**

Günaydin. Good morning.

Today the world economy is in the deepest recession most of us can remember.

So when I first learned about the theme of this conference—Turkey: Where Opportunities Abound-A Safe Haven for Investment—I asked myself: is today the time to talk about investment *opportunities* and a “*safe haven* for investment?”

My answer is:

- True, the crisis means less capital and credit available to finance investments, both worldwide and in Turkey. So investment, both foreign and domestic investment, *is* falling, both worldwide and in Turkey.
- But at the same time there *are some* opportunities! Even if there may not be a safe haven in the short term, anywhere in the world. And there are opportunities *in Turkey*.
- Why is this?
 - Because investment opportunities—especially opportunities for *productive* investments that matter—*ultimately* depend most on fundamentals.
 - It is the *fundamentals* that matter most for Turkey’s—and other countries’—*long-run* economic performance.
- **So here is the main point I want to make this morning:**
 - **The negative impact of the crisis will be severe. An effective crisis response *is* a policy priority.**
 - **But: Now is *also* the time for continuing and advancing policies and reforms that promote Turkey’s long-run economic growth.**
 - **And it is a particularly good time for policies & reforms that both are a good crisis response and promote long-term growth and employment.**
 - **And a business, growth, and employment friendly investment climate does precisely that.**

Slide 2. Pre-crisis global conditions

Before the current crisis, economic growth was strong in most countries and international liquidity aplenty.

- **In fact, since 2000 growth in Emerging Market countries had outpaced that in high-income countries**
- Much of that growth was fueled by a significant surge in private capital flows into Emerging Market economies, which peaked in 2007.

Slide 3. Turkey benefitted

- **In line with the macroeconomic performance in many EM countries, economic performance in Turkey was strong after the 2001 crisis-- including strong growth, capital inflows, currency appreciation.**
- **Of course, aided by a significant fiscal primary surplus,** the implementation of full-fledged inflation targeting regime, and structural reforms, particularly measures to strengthen the banking sector.
- **Two key anchors helped as well: an IMF program and EU accession prospects,**

Slide 4. Things Look Different Now, Including In Turkey

- **Things look different now.**
- Some of you may know the movie *The Wizard of Oz*, in which a tornado hits Kansas and turns the world of a little girl, Dorothy, upside down, so Dorothy turns to her dog, Toto, and says “I don’t think we are in Kansas anymore!”
- **Indeed! We are not in a world of high global economic growth any more. Whatever indicator we look at**—industrial production, exports, producer confidence, domestic credit, corporate external financing—as this slide shows, **things look dramatically worse now than 6 months ago— everywhere, including in Turkey, as this slide shows..**

Slide 5. Corporate External Refinancing Requirements are up in 2009

- **This much worse outlook for demand and the real economy comes just at the same time when the external financing picture for the corporate sector is tightening as well, both globally and for Turkey.**
 - **Globally,** the International Institute of Finance now projects that in 2009 net private capital inflows to emerging economies **will drop to**

\$165 billion, down more than 80% from almost a trillion dollars in 2007!

- ***For Turkey***, as this slides shows, the rollover ratios for the non-financial corporate sector were above 100% for most of 2008, but were declining in late 2008. But 2009 financing needs are higher!
- What happens if total external financing for the corporate sector falls significantly? Whether it is because less financing is available or because there is less demand for credit, either way it implies a further real adjustment as companies invest less and repay more.

In sum:

1. **The world economy is in an exceptionally deep recession. There is also exceptional uncertainty. Both of these affect Turkey.**
2. **Private capital flows will likely contract sharply. There will be tough competition for limited financing.**
3. **Strong fundamentals—including strong macroeconomic policies and robust business and investment friendly microeconomic policies—have always been important, but will be even more important.**

So let me turn now to investment climate policies—worldwide and in Turkey.

- **An investment climate where productive businesses can thrive is key for robust growth and job creation in the long run. And it is also key for maintaining investment and jobs in a downturn, such as at present.**
- Private sector investment and jobs are the primary source of income and opportunities for all people in Turkey, including especially for poor people—and this is true in good times and in bad times.

Slide 6. Ease of Doing Business ↑ => Growth ↑

The next 3 slides show the benefits of a strong business climate in numbers. These are drawn from analyses underlying the Bank's 2009 Doing Business report, which Deputy Prime Minister Ekren already mentioned.

First: Making it easier to do business means on average higher growth.

- Countries in the lowest quarter of Doing Business grow on average by 1%, those in the highest quarter by 2.6% per year.
- But if the lowest ranking countries adopted the good policies of the highest ranking countries, they would grow up to 2.2% per year faster.

Slide 7. Ease of Doing Business ↑ => Informality ↓**Second: Making it easier to do business means on average less informality**

- A recent study found that in **India**, for example, greater flexibility of labor regulations would reduce informality in the retail sector by a third.
- **Reducing informality is important to create a level playing field** for large firms and for foreign investors, which are a source of growth, technology transfer and know-how, and foreign finance.
- **Reducing informality is also important so workers have social protection.**
- **And it is important as a source of revenues and aggregate savings.**

Slide 8. Ease of Doing Business ↑ => Higher Returns ↑**And Third: Making it easier to do business means higher returns to investors****Slide 9. FDI determinants in Turkey**

What factors drive investors' return and therefore drive FDI in Turkey? Our analysis shows that 3 factors matter most:

1. The availability of skilled labor & labor market flexibility.
2. Innovation and product quality
3. Red tape and regulations.

Slide 10. Turkey's Overall Rank in the Ease of Doing Business

Turkey's rankings in the World Bank's Doing Business Report reflect this.

Overall, Turkey now ranks 59th among 181 countries.

Compared with several years ago, Turkey made significant progress

- in protecting investors (CMB regulations on transparency requirements);
- in paying taxes (a reduction in corporate taxation);
- and in trading across borders (less documentation requirements).

Slide 11. Turkey's rank in key indicators of Doing Business

Compared with other countries:

- **Turkey does well in enforcing contracts, registering property, and starting a business but Turkey does less well in the ease of closing a**

business, construction permits, and most of all, the ease of employing workers

Slide 12. Turkey's ranking relative to EU 27 and OECD

- These same strong and weak areas are confirmed when Turkey is compared not with all countries, but with EU27 and OECD countries.
- **Just briefly on the Ease of Closing a Business:** Turkey ranks 118th among 181 countries. An efficient bankruptcy process that allows optimal recovery of viable assets is critical.
- **Also just briefly on construction licenses:** Turkey ranks 131st among 181 countries. As one illustration: It takes more than 6 months on average to build a warehouse in Istanbul and costs 2.5 times of GNI/capita.
- These are of course long-term reforms. But they can make a difference, even in the short term.
- **Similarly, the adoption of the Commercial Code, which is now in Parliament, is a top priority long-term reform.** But it's arguably also critical now—especially as a signal to Turkish and foreign investors of the importance of the investment climate reform agenda.

Slide 13. Labor market rigidity

The functioning of the labor market presents a particular challenge in Turkey (Employing workers rank of 138 in DB '09).

- **The Turkish authorities enacted the first phase of a labor market reform last May.** This reduced non-wage labor costs, especially for the young and for women. This will help. **But significant challenges remain.**
- **In particular, severance payments are exceptionally high** (equivalent of 95 weeks of salary) and are often avoided.
- **Regulations on temporary employment remain very strict.**
- **At the same time, effective support for workers losing income is low: even with the recent surge in unemployment figures, less than 10 percent of all unemployed obtain a benefit.**

Slide 14. Employment Flexibility Reduces Unemployment and Informality

This slide shows evidence across countries that, on average, **more flexible labor markets**, together with better worker protection against income losses, **tend to increase employment and formality, especially for the young and women.**

Slide 15. Employment rigidity: Less Business start-ups

There is similar evidence that **labor market flexibility on average promotes the creation of new firms.**

Slide 16. Unemployment and the Crisis

The crisis is having a significant effect on employment in Turkey.

- Unemployment *already* reached 10.9 percent in October 2008, a 1.2 percent point increase from a year earlier, *and is probably higher now.*
- In January 2009, the number of **unemployed registered with İSKUR soared to close to 1.1 million.** It was below 800 thousand a year earlier.
- Similarly, the number of Unemployment Insurance recipients doubled during the same period.

Slide 17. Employment and Social Policies during Economic Recession

In the short term, policies that help firms to keep workers employed can be important – but only for those firms that are viable in the longer-run once demand is picking up.

Turkey is currently actively considering policy options—and this slide shows some of them.

Investing in the future remains the top priority in the medium and long term!

And this can go hand in hand with protecting the most vulnerable in the short term. For example:

1. Young school-leavers could be brought into firms to gain experience and learn;
2. The unemployed could assist vocational training classes or tertiary colleges;
3. Municipalities and communities could improve their social and productive infrastructure through public works.

Slide 18. Education

In the long run, education is probably the most important driver of productivity and job creation. And in my view, improving the quality of education and further increasing access to education, especially secondary &

tertiary education and especially for girls remains probably the single most important long-term public policy challenge for Turkey.

In closing, I would like to highlight once more some key points:

- An investment and job friendly investment climate is a top long-run priority for Turkey – for robust growth and jobs.
- It is *also* a top priority in the short term—especially as investment flows into emerging economies are set to drop significantly! There is a crisis—“we are not in Kansas any more”—but there are still opportunities. Strong investment climate policies can help further strengthen Turkey’s already strong fundamentals.
- Key areas for Turkey’s continuing agenda include adoption of the commercial code, bankruptcy legislation and practice, and licensing.
- **But particularly important for this investment and job friendly investment climate are expanding skilled labor, with more good education, and making it easier for private investors to employ workers, with more flexible labor regulations—along with improved protection for workers against income losses.**
- In the meantime, much can also be done in the very short term. The government and Parliament are currently considering several measures.
- The World Bank looks forward to continuing our strong partnership with Turkey on this issue and the broader investment climate and policy agenda.

Slide 19. Thank you!