

ACTIVE ACADEMY RISK MANAGEMENT SUMMIT
26 February 2009, İstanbul

Slide 1. Title Slide

Günaydin. Good morning.

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

1. **The first point I will make this morning is that the greatest risks in Turkey today are to the real economy and to jobs, and to children and young workers and job-seekers, who are the most vulnerable group in Turkish society.**
2. **This is a particularly good time for policies & reforms that both are a good crisis response and promote long-term growth and employment.**
3. **A combination of policies, rather than any single program, will likely be most effective—in maintaining and creating new jobs; in strengthening education and skills during crisis times; and in protecting the most vulnerable social groups. And expanding some well-targeted existing programs can help with jobs, help protect the most vulnerable groups, and also help build Turkey’s long-run productivity and competitiveness.**

Slide 2. Pre-crisis global conditions

Before the current crisis, economic growth was strong in most countries and international liquidity aplenty. Indeed, with massive private capital flows to **Emerging Markets**, since 2000 growth in Emerging Market countries had outpaced that in high-income countries.

Slide 3. Turkey benefitted

- **Economic performance in Turkey was strong after the 2001 crisis:** there was strong growth, as you can see in this slide; exports and foreign investment increased; there were strong capital inflows; and the currency appreciated.

Slide 4. Things Look Different Now, Including In Turkey

- **Things look different now. 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.**

- **This is not a risk, it's a fact. The risk is that things could slow down even more.**
- Things will likely get worse before they get better, because the crisis is driven by global asset price deflation – which spreads the crises and makes it deeper and longer.

Slide 5. Corporate External Refinancing Requirements are up in 2009

- One part of the story for 2009 is that **the worse outlook for demand and the real economy comes just at the same time when external financing 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? Companies invest less and repay more, and this risks further decreasing economic activity.
- **In Turkey, unlike in other countries, the financial sector remains reasonably strong. Tefvik Bey will, I expect, talk about this.**
- **The impact of the global crisis on the corporate sector, the real economy, and jobs is the main economic risk for 2009.**

Slide 6. Unemployment at historic highs

- **As Turkey's labor force continues growing rapidly, much lower economic growth means rapidly rising unemployment.**
- As this slide shows, **unemployment is now higher than in the 2001 crisis.**
- Nearly 1 in 4 young workers is now unemployed.
- Moreover, **even in a cautiously optimistic scenario, unemployment and inactivity will almost certainly continue rising substantially in 2009 and 2010—and youth unemployment and inactivity will rise in particular—** because so many new workers join the labor force each year.

Slide 7. Children and young workers are almost vulnerable

- Lower growth and higher unemployment will mean that more families fall below the poverty line.
- The most vulnerable families tend to be larger, with more children.
- Thus, as this slide shows, **children are at greater risk of poverty than other groups.**

Slide 8. Addressing macro and external risks

- **How to reduce risks and lay the basis for renewed long-term growth?**
- Sound macroeconomic policies will of course continue to be key for maintaining business and investor confidence. Hossein Bey will probably talk about this in a few minutes.
- At the same time, and I would like to focus on this, **pursuing Turkey's long-term agenda of microeconomic-structural reforms will become even more important,** including now, in the *short term*—just as it remains the basis for *long-term* productivity, competitiveness and economic growth. **And a strong investment climate is close to the top of Turkey's agenda of microeconomic-structural policies and reforms.**
- **Making it easier to do business means on average higher growth and more jobs.** The World Bank's annual *Doing Business* Studies show this clearly.
- **The adoption of the Commercial Code, which is now in Parliament, is one top-priority long-term reform to make it easier to do business. But the adoption of the Commercial Code will also help in the short term:** it will send a clear signal to Turkish and foreign investors of the importance of the investment climate agenda.
- **This slide shows areas where Turkey is currently doing well, and areas where Turkey is doing less well, in the Ease of Doing Business.** Overall, Turkey currently ranks 59th among 181 countries.
- I would like to focus briefly on the last area – where Turkey can do most to improve the investment climate and create jobs: the ease and flexibility of employing workers.

Slide 9. Addressing labor market risks

- During the first phase of Turkey's labor market reforms in May 2008, the government reduced the non-wage costs for businesses of employing workers, especially the young and women. This will help.
- But, as this slide shows, **labor markets remain inflexible in Turkey, by international comparison.** Turkey ranks 138th among 181 countries in the ease of employing workers, behind Brazil, China, India, Russia, and Ukraine.
- At the same time, **effective support for workers losing their job and income is low:** even with the recent surge in unemployment figures, less than 10 percent of all unemployed obtain a benefit.
- The **planned second stage of labor market reforms**—with *both* increased flexibility for employers *and* increased protection for workers—**remains a top priority for Turkey.**
- **One particular policy worth considering now is Turkey's framework for short-term and part-time work, which is highly restrictive.**
 - More flexible short-term and part time work can help maintain or increase employment, especially for the young and for women.
 - And making short-term or part-time work easier is a *win-win*: it will help in the short run, during the global crisis, *and* in the long run.

Slide 10. Mix of Pre-Employment & Anti-Poverty Policies

- The global crisis affects different groups differently: those in jobs at risk of losing them, children, young workers, female workers, low-skilled unemployed, and so on.
- **An effective way to address the impact of the crisis, and to manage the risks, is to take a leaf out of risk managers' books: to diversify!**
- This slide shows some **examples—I want to emphasize, illustrative examples—of policies and programs** that together (1) can help create jobs, protect the vulnerable, and reduce short-term social risks, and (2) can also help increase long-run productivity. These policies and programs range
 - from community infrastructure, public works type projects,
 - to a public-private sector compact for apprenticeships
 - to scaling up vocational training
 - to keeping kids, especially poor kids, in school
 - to temporarily increasing tertiary education enrolments, and so on.

- I would like to **highlight 2 features of these types of programs:**
 1. They are specifically designed to be *effective* in reaching key groups — and to be *efficient* in targeting *only* those groups;
 2. and they aim to build on and expand *existing* programs, especially programs that invest in young people's and workers' education and skills so they can find jobs more easily and be more productive when robust economic growth comes back.

Slide 11. Turkey has some of the tools in place

- This slides shows, as an example, that Turkey does have such programs, which it can build on and, as needed, expand.
- Both Turkey's conditional cash transfer program, and the green card program are both comparatively effective and well targeted, by international comparison.

Slide 12. Education!

- Some of you will remember this slide from earlier presentations I gave at the Active Academy.
- I am showing it again to highlight the over-arching importance of strengthening education—for economic growth and for jobs.

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

- **The greatest risks now are to the real economy, to jobs, and to poor and vulnerable groups in Turkey. And children and young workers and job-seekers are the most vulnerable group in Turkish society.**
- **A combination of policies, rather than any single program, will likely be most effective to help with jobs protect the most vulnerable, and build long-term productivity and growth.**
- **And policies that will likely be effective include: expanding some well-targeted existing programs; prioritizing programs that focus on children and the young and invest in skills; and advancing key reforms such as the adoption of the Commercial Code and making short-term and part-term work easier.**

Slide 13. Thank you!