Beyond the Global Crisis: A Return to Growth, Active Academy, November 12, 2009

Slide 1. Title Slide

Good morning.

The good news is: the global economy has begun recovering from the impact of the financial turmoil that started in 2008.

- Much of the reversal is owed to unprecedented fiscal and monetary policy intervention at a global level.
- Well coordinated countercyclical macroeconomic policies worked!

But: challenges remain. The two most important global policy challenges, I believe, are these:

1. ***phasing out expansionary macroeconomic policies*** — and timing the phase-out so that the fiscal and debt framework remains sustainable
2. ***implementing strong structural policies and reforms that create jobs***, so the recovery brings opportunities for all people.

This morning I will focus on these two challenges: (1) sustainable "macro" and (2) strong reforms, with a focus on jobs. These are challenges for the world, and for Turkey. By meeting these two challenges, I believe, Turkey can do well for its people—both firms and families.

- Turkey's fundamentals are strong, and overall strong policies have been key for the success to date, and for the measure of resilience during the crisis.
- With sustainable macroeconomic policies and strong reforms, Turkey will continue to do well and continue to be a good investment—I am confident.

Let's now look at the current global economic environment and prospects.

Slide 2. Industrial Production slide

Economic growth is rebounding around the globe.

- There is **a rebound in manufacturing** and a build-up in inventories.
- The resurgence in economic activity is being **led by the Asian economies.**
- Elsewhere economies are stabilizing or recovering modestly.

Slide 3. Spreads slide

Financial stability has improved. This slide shows the decline in spreads, which reflects the decline of systemic risks.

- ***Macroeconomic risks*** have **diminished** with the emerging signs of an **economic rebound** and the absence of inflationary pressures**.**
- ***Market and liquidity risks*** have fallen as interbank markets and wholesale funding markets have reopened; **market volatility has declined** as worries of systemic collapse and an economic depression have **faded away.**

Slide 4. Capital Flows Are Back

Capital flows to emerging economies have picked up again. And this pick-up is supporting a recovery in **equity and bond markets**.

A long and sustained period of deleveraging is ongoing. However, emerging economies with large corporate debt-rollover requirements, **such as Turkey**, have **managed to finance such debt relatively well to date**.

Some highlights so far:

- **With $38.2 billion**, October 2009 stands as **the biggest month *ever*** for the **issuance of emerging market global bonds**.
- Year-to-date issuance reached $182 billion, only $6.5 billion away from the previous full-year record of 2007.
- **2009 is already the record year for the issuance of sovereign bonds with $70 billion**, just above the USD 68.5bn registered in 2005.
- **However, amortizations have been quite high in 2009. So, net capital flows have been positive but smaller than in previous years.**

Slide 5. GDP Recovery to Take Hold in 2010.

There are some clear signs that a global recovery is underway—in all regions, as you can see in this slide.

- But by many accounts **the recovery is expected to be slow**, with risks tilted to the downside because the deleveraging process is far from completed.
- **Economic growth is also expected to be uneven**: strong in China and India; modest in advanced economies, emerging Europe, the CIS countries, and Latin America.

Two additional concerns:

1. **Can the recovery so far**—which is grounded in **fiscal and monetary stimuli** and inventory rebuilding, rather than on strong private consumption and fixed investment spending—**transform itself into sustained growth**?
2. **Will growth be strong enough to reduce unemployment**? Currently, unemployment is expected to crest in 2010, but most likely it will remain at elevated levels for quite some time.

What Is the World Bank Doing?

- Continued global de-leveraging means: capital will remain globally scarce.
- Developing and emerging countries will be the engine of global growth. But many developing and emerging countries cannot get the volume of financing they need without crowding out their private sector.
- WBG financing—both for governments, and for the private sector—directly supports developing and emerging economies, and indirectly helps boost global demand, which helps all countries.

Slide 6. Challenge: Fiscal Rebalancing

Fiscal policy has been providing significant stimulus to the global economy.

1. This slide shows that the fiscal stimulus has been larger than in any previous period in many decades—all around the world.
2. As a result, public debt is rising fast, particularly in advanced economies.
3. Large corrections in fiscal balances will be necessary to reverse this trend once the recovery is on a firm footing.

Slide 7. … and Unwinding the Financial Stimulus

Central banks have flooded liquidity into financial markets. This slide shows how central banks, particularly in advanced economies, have expanded their balance sheets by extending high volumes of credit to banks and firms.

- They implemented unusually large interest rate cuts.
- They also intervened in credit and asset markets to ease financial conditions.

Now, policymakers will face two critical balancing acts in the near future:

- They need to begin preparing for an **unwinding of extraordinary levels of public intervention**, particularly reversing the fiscal expansion of the last year, lest markets begin to get concern about sustainability.
- Policies also need to facilitate a **rebalancing of global demand**, because economies that experienced asset price busts will need to raise saving rates.

Turning to Turkey …:

- Turkey is a globally integrated emerging economy.
- The crisis affected Turkey substantially, especially the real economy.
- And Turkey's economic policies have broadly followed the coordinated approach of the G20 to date.
- And **Turkey now faces the same two challenges as the rest of the world**.

Slide 8. Confidence is Coming Back

- **There has been no systemic disruption in Turkish financial markets or world markets for Turkish assets**.
- Despite being hard hit, **the measures taken in response to the 2001 crisis, in combination with robust reforms and careful economic management since, have given the Turkish economy a newfound resiliency**.
- As this slide shows, business and consumer confidence rose after the lows in early 2009—and then stayed largely flat from June to October.

Slide 9. … and Growth as Well

- **The Turkish economy has now entered a phase of gradual recovery.**
- As the worst of the global crisis has receded, the underlying, systemic strengths of the Turkish economy helped drive an initial recovery.
- **I want to add <u>two cautions</u> here**: **first, uncertainty is still high**, and the recovery is not yet secure—not in the world and not in Turkey; second: as the recovery takes hold, **growth will likely be moderate for some time**.

<u>Sustaining macroeconomic stability will be crucial. This will entail a renewed commitment to the same policies that made its economy resilient and the implementation of long-term structural reforms</u>.

Slide 10. Crowding Out Still an Issue

- **<u>Credit to the private sector as a share of GDP remains low in Turkey by international comparison.</u>** This slides shows Turkey and comparator countries.
- As the Turkish economy regroups, **<u>private-sector demand for domestic financing is expected to rise.</u>**
- At the same time, **government financing needs are significantly higher than in recent years,** with rollover ratios above 100 percent.
- **<u>There is therefore a risk that government borrowing may crowd out private borrowing and investment from *domestic* credit markets.</u>**
- **At the same time, capital inflows will likely remain lower than in the past, despite improvements in global conditions and in Turkish spreads.**

Slide 11. Medium-Term Program & Fiscal Plan: Strong Implementation Key

- **<u>The Government's recently announced Medium-Term Program and Fiscal Plan (MTFP) lays out a clear and credible plan for maintaining fiscal sustainability and anchoring market expectations.</u>**
- **<u>Implementing this medium-term plan will be a *first* critical priority.</u>** And, we agree with the government that the planned introduction of a fiscal rule in 2011can provide an anchor for this adjustment process.

<u>A *second* crucial priority will be policies and reforms that maintain and create jobs and support for those vulnerable groups most affected by the crisis.</u>

Slide 12. Cost of the Crisis has Been High

- The increase in **unemployment has been dramatic**, thought the unemployment rate has stabilized in recent months.
- **Poverty effects have also been significant.** The World Bank, TEPAV, and UNICEF together conducted a survey of 2100 households in 5 large urban centers of Turkey—Istanbul, Ankara, Izmir, Adana, Kocaeli. The results came out 6 weeks ago. They show that falling incomes, due to the crisis, have hit the urban poor most frequently. **Among the poorest 20 percent of urban families, 9 of 10 said they had to cope with lower incomes, and almost half say they had to reduce their children's food consumption**.

Slide 13. Unemployment: Youth

- The **largest impact in terms of unemployment has fallen on youth**.
- **Turkey's demography is a potential asset for economic growth**: every year, around 700,000 young people join the working-age population. Generating jobs, indeed generating good jobs, for youth *now* is essential for capturing the potentially substantial dividend of today's large youth cohort—this demographic window of opportunity will close by 2020!
- **Realizing this potential requires addressing the structural challenges that many young people face today face when they enter the labor market, particularly improving education and skills**.

Slide 14. Macro Stability Necessary but Not Sufficient

- **Macroeconomic stability—and specifically fiscal policy—is at the heart of securing investor confidence. And it is *necessary* for economic growth and for job creation.**
- **But strong macroeconomic policies are *not sufficient*. Strong structural policies and reforms are also crucial for creating more and better jobs.**
- **This slide shows that unemployment rates in Turkey have plateaued after every past crisis. It suggests that, along with Turkey's demography, *structural* rigidities in the economy—and most likely in the labor market--also make reducing unemployment a tough challenge.**

This morning I would therefore like to highlight one particular area for medium-term reform with important implications for employment: Making it easier to do business and increasing productivity, including labor market flexibility and better education.

Slide 15. How competitive is Turkey for doing business?

- **Turkey now ranks 73rd among 183 countries in the WB's Doing Business indicators**.
  - However, neighboring countries such as Azerbaijan, Bulgaria, Georgia and Romania all do better—countries with which Turkey must compete as a destination for business and investment.
  - **Turkey can, and I am convinced will, do even better**.
- **In the energy area, we have seen what consistent reforms can achieve:**
  - **Legislation and regulation is improved. Privatization efforts have accelerated and are proving successful**. Just last Friday the tender for three electricity distribution companies was completed, for example.
  - **There is much new investment**, especially private investment, and especially in renewable energy and increasingly in energy efficiency.
  - **These and other energy reforms are a triple win**: they help secure Turkey's energy supply; they generate economic growth and jobs; and they help protect the environment.

Slide 16. Challenges Remain

- Turkey faces ***specific challenges in dealing with construction permits, closing a business, and employing workers***.
- Many of these challenges are being addressed through the YOIKK platform. We are working closely with YOIKK on this agenda.

Improving labor market flexibility is key for improving access to good jobs, particularly among youth and women.

- **The Turkish authorities did enact the first phase of a labor market reform in the summer of 2008, which is noteworthy and will help.**
- ***Further* improving labor market flexibility will be key—in particular, liberalizing short-term and part-time work and severance pay and unemployment benefit reforms to protect workers, *people*, not jobs.**

Slide 17. Female Employment

- Turkey faces a special challenge in **increasing female employment**. Less than a quarter of Turkish women participate in the labor force—that is less than half the share in EU 27 countries. Moreover, as this slides shows, **<u>the rate is about a third of the male participation rate!</u>**
- Around the world, higher female labor force participation is associated with higher incomes, less poverty, and better education and health.
- In Turkey as well, everybody stands to benefit if more women have jobs. **More and better jobs for women will mean higher incomes and better lives not only for them, but also for their families—including better education and health for children**. If, for example, 6 or 7 percent more of all Turkish women start full-time jobs, so that Turkey reaches the target in the 9th Development Plan, this will reduce poverty by around 15 percent.

Slide 18. Education: Focus on Quality

- **<u>More and better jobs for women starts with more and better education for girls and young women</u>**. A continued focus on girls' education will, over time, help raise the rate of female labor-force participation. The World Bank strongly supports this agenda.
- **<u>More generally, improving education remains a priority for Turkey</u>.**
- **Remarkable progress has been made**. Participation in ***primary*** education is now almost universal. But: **(1) preschool, secondary and tertiary enrollments remain low by international standards; (2) access to education is uneven, and (3) many students' performance is poor.**
- **<u>Investing much more in early childhood development, as the Government plans to do, will have major benefits.</u> (1) It has large positive effects on children's learning and success later in life. (2) It will promote equal opportunities and a fair chance in life for *all* children**.
- **<u>Much more and much better vocational training will be essential for more and better jobs, especially for young people</u>**.
- **<u>Finally, improving overall quality will be crucial</u>**. Efforts are ongoing to **upgrade the curricula** according to the National Qualifications Framework. This will help bring education in line with the skills sought by private firms.

Slide 19. Thank you.