GEP Ankara Launch Talking Points

- Güven Bey, Ladies and Gentlemen:

- It is a pleasure to be here and I would like to thank TEPAV for once again being such excellent partners and hosts for this event.

- Let me extend a warm welcome back to Ankara to the *Global Economic Prospects* team from the World Bank's *Economics Prospects Group*.
  - When they were last here – in June last year – Turkey was suffering some of the deepest effects of its recession.
  - We now know that then, in the second quarter, Turkey's GDP was down nearly 8 percent on a year earlier; the latest unemployment figures we had at the time were around 15 percent.
  - Yet the message we gave, then, for Turkey – which echoed the one our colleagues gave for the world economy – was that we saw some reasons for optimism: Turkey's banks were robust; its firms still reported planning new investment, if delayed; foreign capital had not dried up as some had feared.
  - We also warned that the recovery, when it came would be gradual and that it depended crucially on a new fiscal framework to anchor market expectations.

- **Today, approximately half a year later, where do we now stand?**
  - The Turkish economy has shown signs of recovery. It has taken advantage of its underlying strengths, as we thought it would—despite the depth of the 2009 recession.
  - Industrial production figures and other indicators for the fourth quarter of 2009 lead us to expect positive year-on-year growth in Turkey (perhaps 3 percent for the quarter) for the first time since the global crisis began.
  - Business confidence rose above 100 in December, its highest since April 2008. GDP growth this year should easily reach 3.5 percent.

- Also, economic policy now has the anchor we spoke of last June: the Government's 2010-12 Medium Term Program lays out targets that are credible with a good balance, I believe, of ambition and realism. This is borne out by the positive performance in late 2009.

- **<u>There are also risks.</u>** What are the key risks? How can Turkey address them?
  - First, there is the global economy, and there are external risks.
  - The report we will hear about from my colleagues today paints a picture of a world recovery that continues to be gradual, with lower financial flows to emerging markets like Turkey, and with a higher cost of capital for business.
  - More problems could emerge in more financial institutions as the deleveraging process continues; financial flows to emerging markets could be lower than anticipated; and the recovery could slow or stall.
  - Turkey doesn't control these external risks.
  - But continued good policies can help further reduce internal risks.
  - In the last few weeks, Turkey has been upgraded by 2 of the 3 main rating agencies – testimony to the credibility of Turkey's economic policies.
  - In the post-crisis world, emerging markets are likely to be increasingly *differentiated* by investors and markets. Fundamentals will drive performance. Good policies matter and will even grow in importance.

- **<u>What will be important economic policy priorities? I will highlight five points.</u>**
  - ***First, continuing to meet or exceed aggregate fiscal and macroeconomic targets***. Turkey's economy is growing. So is spending, particularly in the health and social security sectors. The measures Government is taking to control this spending are very important for the Medium-Term Program targets and for investors' perceptions of Turkey. The ongoing health policy reforms to make global health budgets sustainable are critical. So is keeping social security spending to the rate of CPI inflation.

- ***Second, if the economy grows faster than forecast in the Medium Term Program – and we at the World Bank think it might well do so – such growth should translate into saving and investment*** (both public and private), driving future growth, not government consumption spending. This is important not just for next year but for the long term.
- ***Third, unemployment is likely to remain high***. This is a structural issue in Turkey, because of its young population and rapid population growth, because of skills mismatches between job seekers and employers, and because of rigid labor markets. ***Making it easier for private employers to create jobs, particularly for young workers, is a priority***.
- ***Fourth, the other side of the employment coin: the skills of those workers – especially the young – can be upgraded***. Education, incentives for worker training, and the quality of vocational training all hold great potential in Turkey. We are working closely with ISKUR, for example, to understand the effects of their programs and how to improve them further.
- ***Finally, I would like to emphasize the importance of renewing improvements in Turkey's investment climate, for both small and large firms, both Turkish and foreign firms***. As Turkey advances, other countries are also raising their game at the same time. Turkey's rankings on international measures of the competitiveness of the business climate show that it has been losing ground. On the World Bank's Doing Business Indicators, for example, Turkey fell from 63rd in 2009 to 73rd in 2010 (of 183). Reforms such as the new Commercial Code and Capital Markets Law, in addition to labor reforms, will help reverse this loss of competitiveness.

- <u>**It is my pleasure now to hand the floor to the *Prospects* team**</u> and let them help us build that understanding, based on the in-depth and careful, bottom-up analysis of the World Bank's *Development Economics* Department.