

# THE TURKISH ECONOMY IN COMPARATIVE PERSPECTIVE

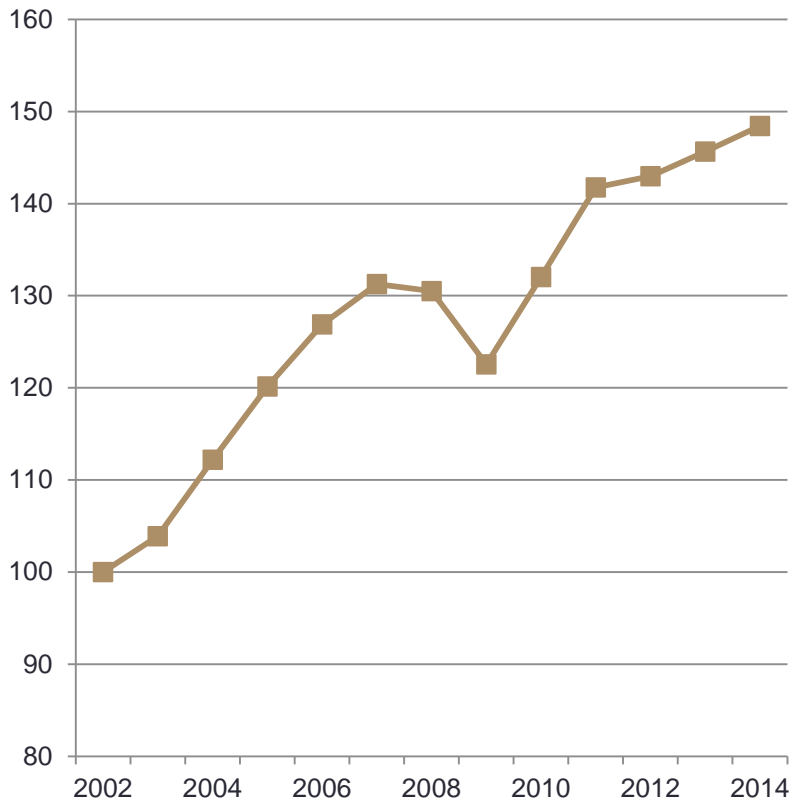
---

Dani Rodrik

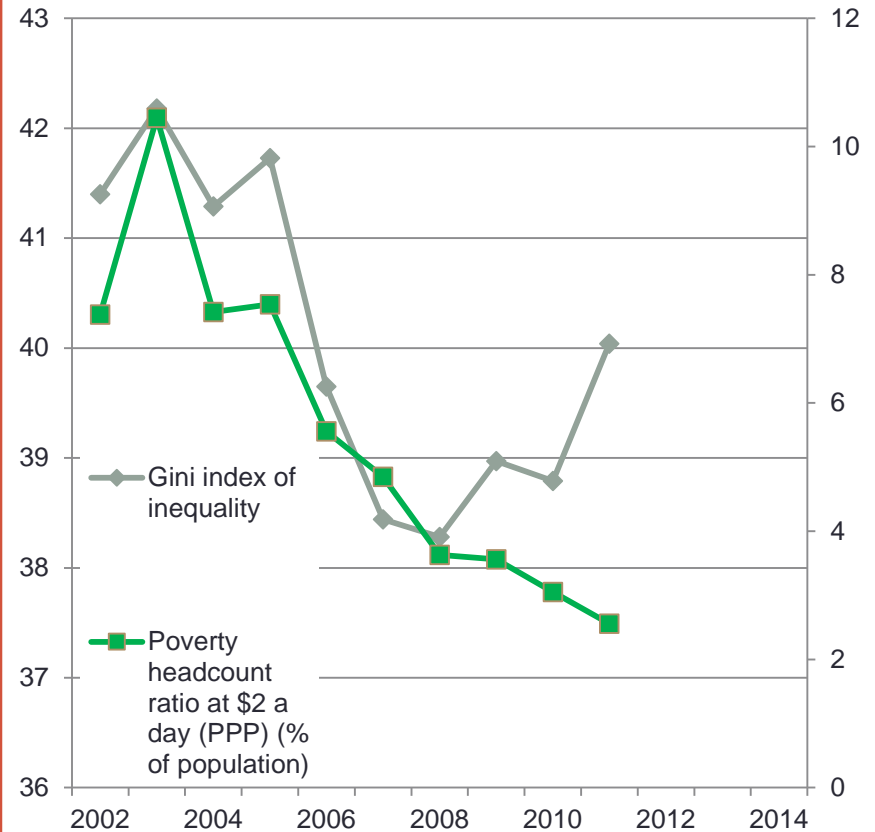
April 2015

# Turkey: growth, inequality, and poverty

Per-capita GDP at constant prices (2002 = 100)

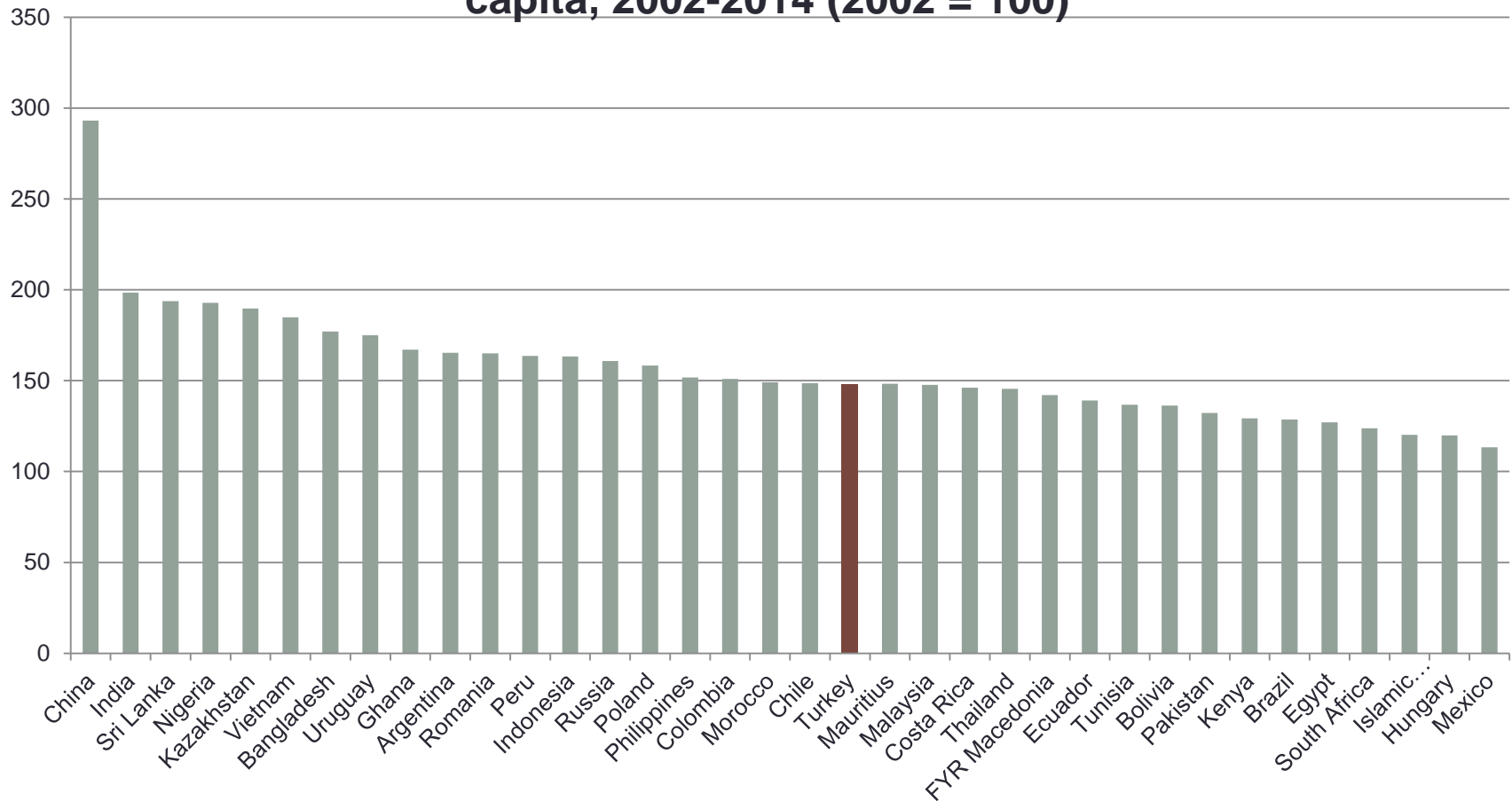


Poverty and inequality



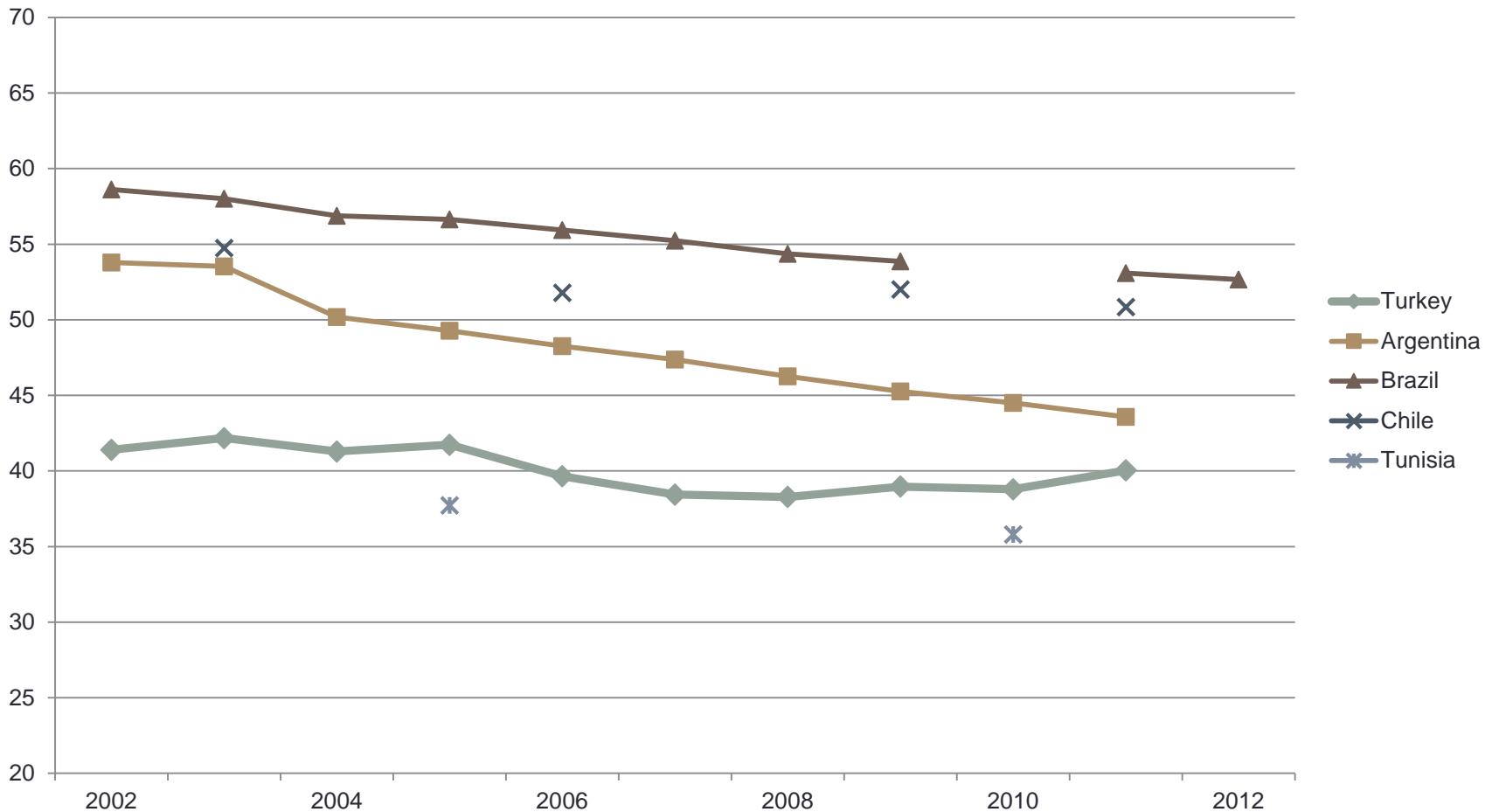
# And compared to other emerging market economies?

Emerging market economies ranked by growth in GDP per capita, 2002-2014 (2002 = 100)



# And compared to other emerging market economies?

Gini index of inequality: Turkey and selected comparators



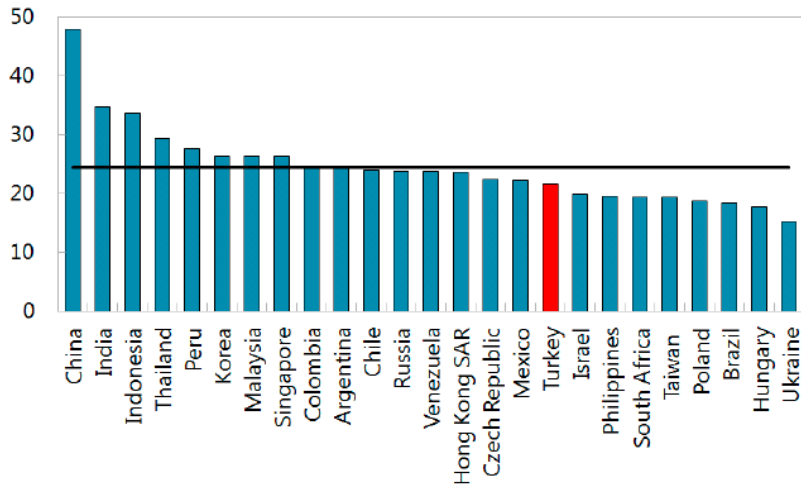
# Bottom line from comparisons

- Turkey's economic performance hardly exceptional
- Common global forces have helped raise growth rates in emerging market economies
  - financial globalization in particular, and cheap foreign capital
- While more effective policies in education and social policy have ameliorated income inequality in many other middle-income countries
  - cf. Latin America

# Turkey's perennial problem: low savings

## Total investment, 2013

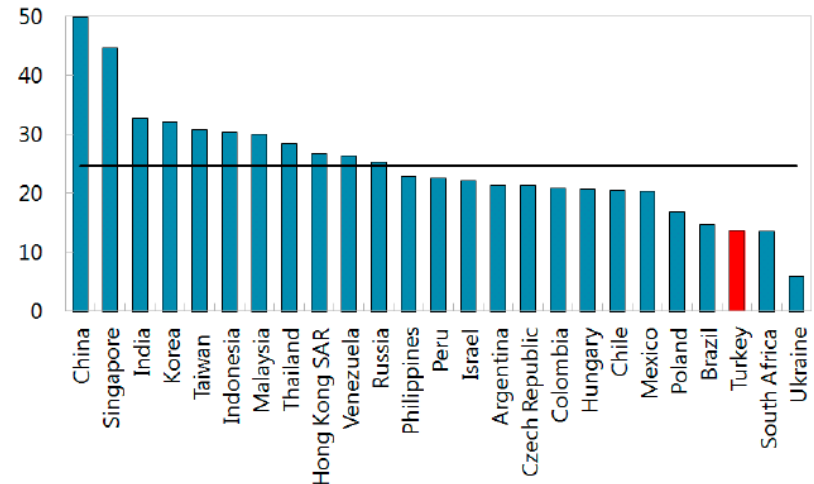
(percent of GDP)



Sources: IMF World Economic Outlook

## Gross national savings, 2013

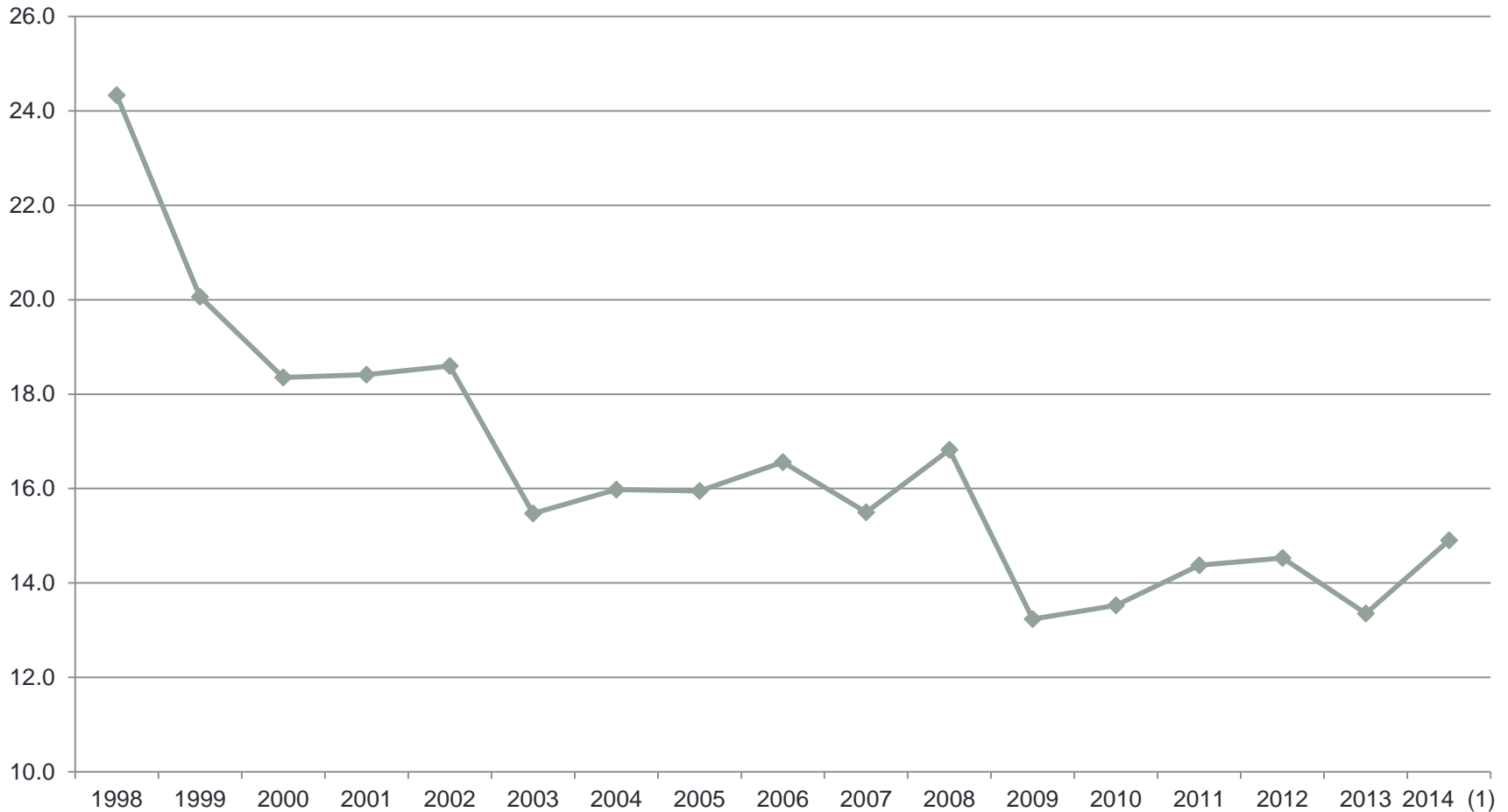
(Percent of GDP)



Sources: IMF World Economic Outlook

... which if anything has become worse over time

Domestic Saving (% of GDP)

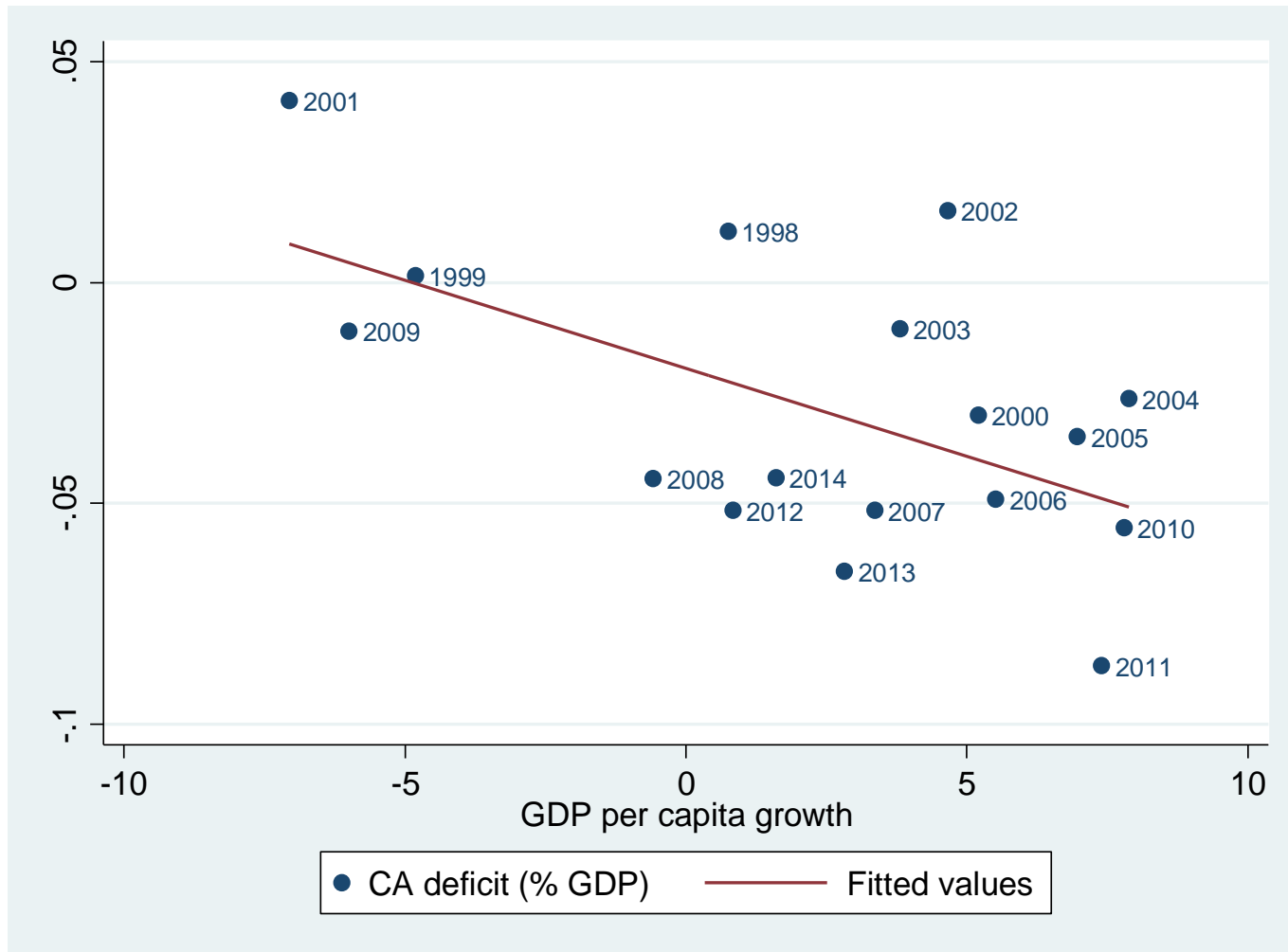


# So how does Turkey grow?

- The recipe of macroeconomic populism
  - borrow to consume and invest
    - much of it short-term
  - building up of macroeconomic fragility
  - ... and crises eventually
- Two modifications to this recipe over last decade
  - switch from printing money to capital inflows
    - inflation remains modest, compared to earlier periods, at the cost of
    - a deteriorating growth-external balance trade-off
  - switch from public-sector to private-sector borrowing
    - public sector deficits down, private sector dissaving up

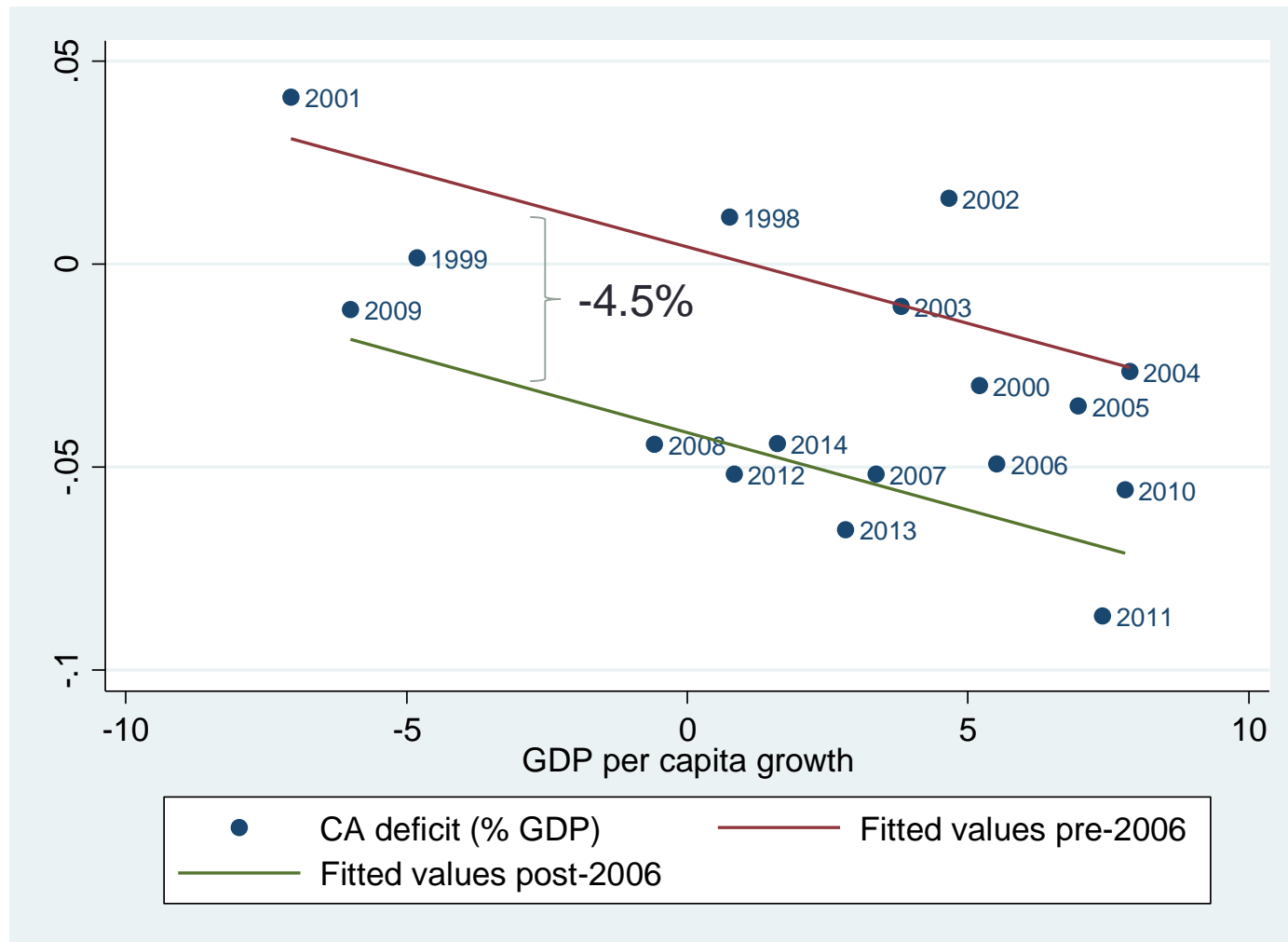


# The growth-external deficit trade-off...

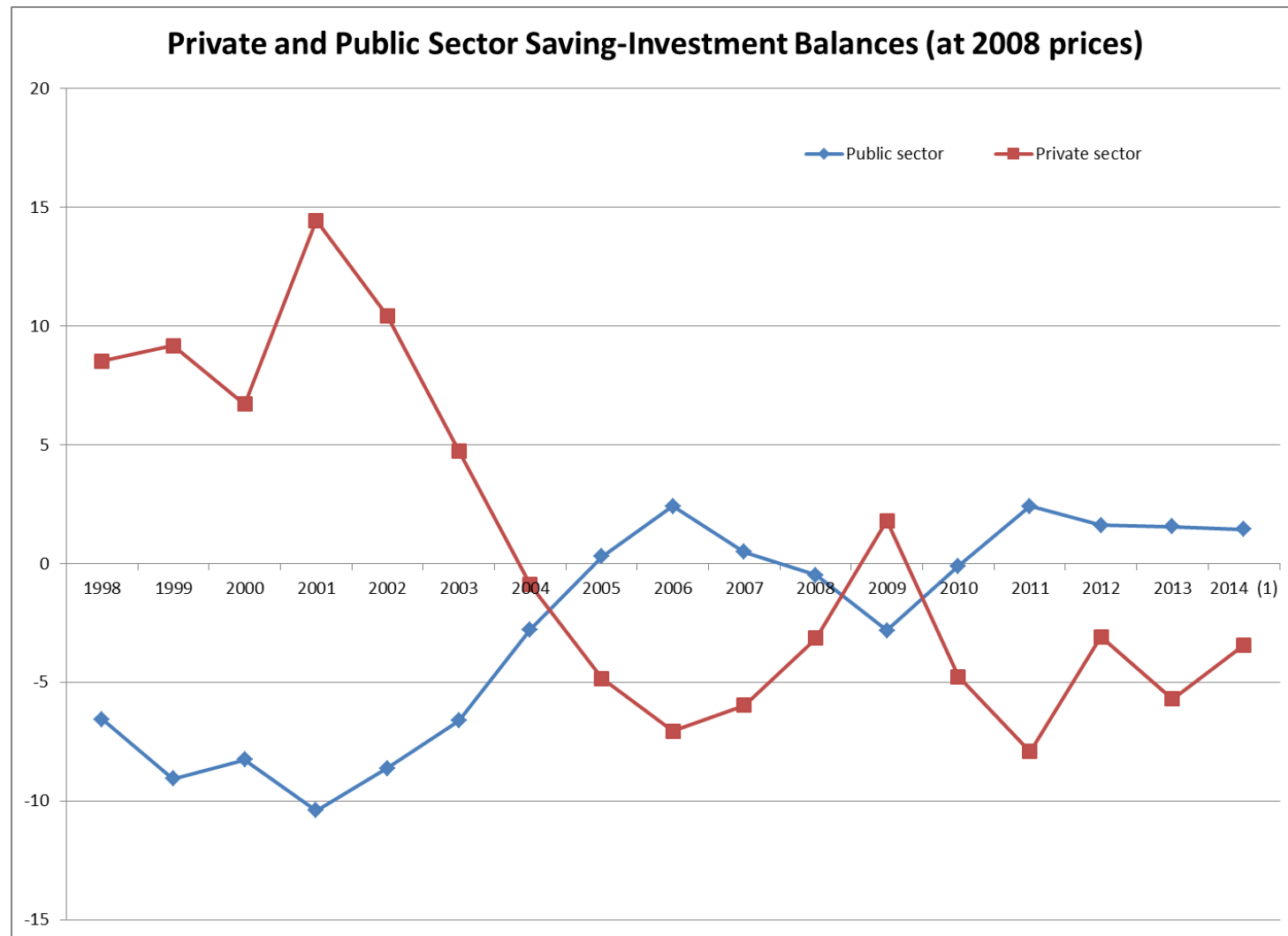


1% higher growth => 0.4% larger current account deficit (as share of GDP)

... has deteriorated since 2006

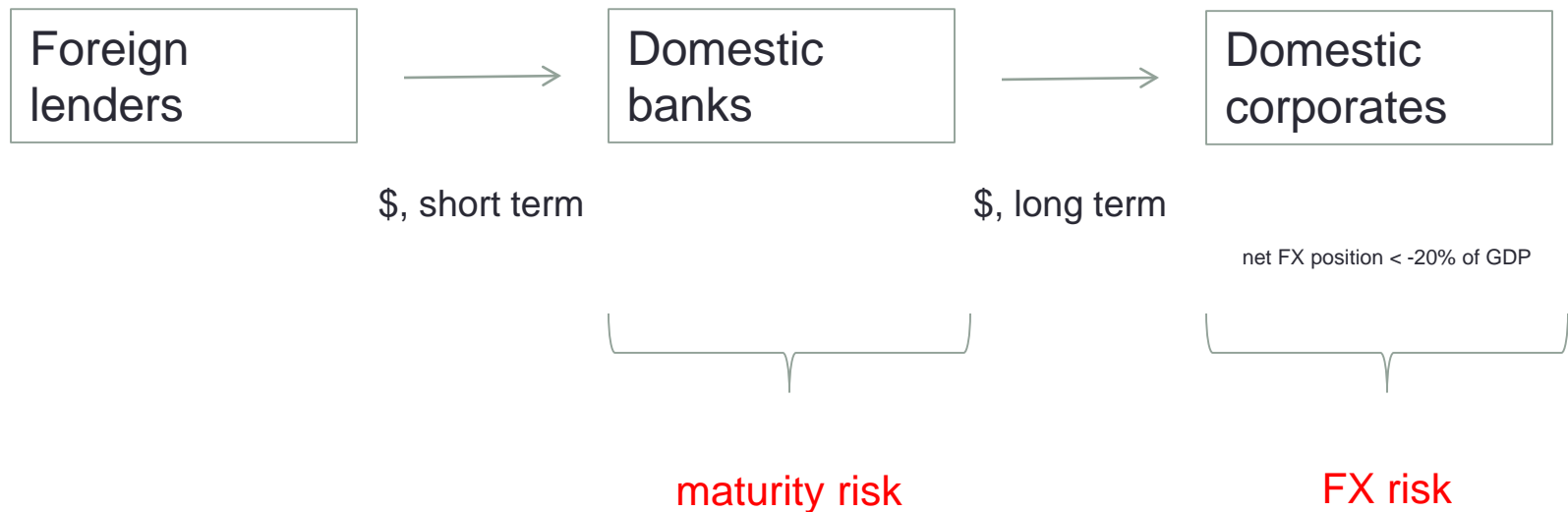


# The reversal of the roles of the public and private sectors



# The financing of the private sector

*producing \$1 of GDP requires 27¢ of external finance (CA deficit + ST loans coming due)*



# How long can it go on?

- expectations of high growth => cheap finance => low interest rates + strong currency => debt ratios look sustainable
- pessimistic expectations => drying up of short-term finance => slowing growth + continued currency depreciation => unsustainable debt dynamics
- Only way out would be shift to another growth model, which does not seem in the cards

# Growing symptoms of economic populism

- shifting blame for negative outcomes onto “external enemies”
  - “the interest rate lobby”
- sidelining of economically literate technocrats
  - A. Babacan versus Y. Bulut
- intolerance towards the rule of law
  - arbitrary interventions, unpredictability
- subjugation of policy instruments to centralized control
  - loss of independence of regulatory bodies
  - pressure on central bank

# What next?

- Turkey's economic story has become less and less tenable
  - just like its political story
- Government unlikely to resign itself to the mediocre growth rates that sustainable external deficits require
  - and already high unemployment requires rapid growth for job creation
- The economy's dependence on financial market sentiment and confidence renders it brittle and vulnerable
  - situation is aggravated by comparatively low level of CB FX reserves
  - so TR remains near the the top in the list of countries at risk from financial turbulence
- Flexibility of the exchange rate protects the economy from old-style currency rises
- But it will be a bumpy ride for sure...