THE TURKISH ECONOMY IN COMPARATIVE PERSPECTIVE

Dani Rodrik
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Turkey: growth, inequality, and poverty

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

Poverty and inequality

- Gini index of inequality
- Poverty headcount ratio at $2 a day (PPP) (% of population)
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
… 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)

- Foreign lenders
  - $, short term
- Domestic banks
  - $, long term
- Domestic corporates
  - net FX position < -20% of GDP

maturity risk

FX risk
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…