

Dr. Baran Tuncer, currently a columnist at Radikal and previously a Professor of Economics at Bosphorus University and Senior Staff member at the World Bank, began his discussion with a summary of Turkey's economic performance in 2009 and later on shared some of his short-term estimates.

- Economic indicators from the third quarter of 2009 strongly suggest that the decline in the Turkish economy is slowing. Although economists are predicting growth in the fourth quarter, overall the economy is expected to have contracted by 6% in 2009
- Current estimates for 2010 suggest that the Turkish economy might achieve 3.5% growth, a "sluggish" rate, barring any unforeseen events. The economy could still be affected "badly" if there were to be political turmoil.
- There has been a "major decline" in both exports and imports in 2009. This contributed to an 80% reduction in the current account deficit compared to last year.
- Over the course of 2009, the Consumer Price Index increased by 6.5%
- There is a strong potential for further price index increases in 2010 accompanied by higher interest rates and inflation.
- The budget deficit has grown significantly in 2009 with an approximately 20% increase in spending and virtually no increase in government revenues.
- Unemployment figures remain very high. In August 2009 the unemployment rate was 13.4%, a significant increase over August 2008 when the figure was 10%. The final figure for 2009 was estimated to be around 16-17% because seasonal workers hired for the summer months were laid off. If underemployment is also factored in, the figures look quite grim.

Dr. Tuncer then gave a broader overview of Turkey's economic performance during the past decade:

- On average the Turkish economy only grew 3.3% annually from January 2000 to December 2009. This is not "exceptional" considering that the growth rate averaged 3.8% in 1990's and 4% in the 1980's.
- The "boom years" of the 2000's have been exaggerated. While growth was indeed high during the middle of the decade, the Turkish economy had "lost its energy" by 2007, before the global recession began.
- Turkish firms became more efficient and more competitive in international markets.
- The public sector's share of the economy was significantly reduced through government cost-cutting and the privatization of publicly owned firms.
- The banking sector was strengthened through regulation and reforms.
- The inflation rate, which had long been very high in Turkey, was lowered.
- The government introduced measures to instill greater discipline in the national budget.

Turkey began the decade with a major economic crisis, which was one of the main reasons why, the coalition government lost the 2002 elections. After coming into power, the Justice and Development Party (JDP) government initially hesitated about continuing Turkey's relationship with the IMF but "wisdom prevailed" and the government ultimately decided to proceed with a new agreement with the IMF, thus helping to ensure substantial economic growth.

Answering the question "what was behind that growth during the second half of the decade?" Dr. Tuncer noted that "everyone else was also growing." Turkey's growth owed a great deal to

the abundance of liquidity in the global financial markets. In this environment of easy capital, Turkey became an important destination for both short and long term investment. The JDP government made “high interest rate and low exchange rates” its slogan in order to attract more capital into the Turkish economy. However the profits from these investments were eventually transferred abroad. Turkey also began to import a “great deal more” and, for a period, the government, the treasury and the general public agreed on this policy without focusing on the consequences for the Turkish economy in the medium to long run.

The negative effect of Turkey’s easy access to foreign capital in these years was that instead of capital being invested in relatively risky but strategically vital sectors of the “real economy” such as manufacturing and agriculture, it was diverted to high-yield sectors like construction, real estate and finance. However, the abundance of capital flowing into Turkey was sufficient to cover both the trade deficit and the current account deficit.

The 2008-2009 global financial crisis exposed the weaknesses of the Turkish economy. Contrary to assertions by the government, Turkey was “one of the three to five countries most affected.” If the banking sector had not “stood firm”, Turkey would have had even greater problems.

Regarding the potential for Turkey to achieve medium and long-term success, Dr. Tuncer made the following points:

- Turkey has a savings rate of approximately 8%. In order to be successful, it needs to follow the model put forth by other developing countries like India and China, which have maintained high growth rates along with high savings rates.
- Turkey needs to increase productivity.
- The government needs to reexamine its taxation and spending policies.
- If Turkey is to have any hope of alleviating unemployment, it cannot afford anything less than 6% growth in the near term. This is especially crucial because of Turkey’s demographic profile. While Turkey’s large, young, and fast growing population was once seen and touted as an asset, this is no longer the case. The country’s underemployed youth, once viewed opportunity, is now becoming a burden on the economy.
- If the right measures are taken, sustained growth of 6-7% is not beyond Turkey’s reach.

Dr. Tuncer lamented the lack of strategic, long-term thinking about the Turkish economy on the part of the government, columnists, academe, and think tanks. Many economists prefer to be optimistic and have unrealistic projections. They tend to focus on statistics such as the exchange rate and stock market indices.

Dr. Tuncer believes that 2010 will not be an easy year for Turkey. The government’s revenue projections for the coming year are overly optimistic while its budget includes spending increases it cannot finance. There is a real fear of larger budget deficits returning. Recent taxes imposed on goods such as alcohol and cigarettes will only raise enough revenue to cover the costs of the latest pension increase, thus having at best a neutral affect on the budget deficit.

Turkish leaders are now much less optimistic about 2010 than they were just a few months ago. It seems that the government has finally realized that the efforts made to increase the revenue will not be sufficient in 2010, thus forcing it to find other sources of capital to make up for the

budget deficit. The dilemma for the government is that the fastest way to get the necessary capital is to reach an agreement with the IMF. However, this would tie the government's hands with tax reforms and other IMF-mandated measures that would be attached to a new agreement. Such restrictions look particularly unattractive with only sixteen months to go before parliamentary elections in Turkey.