How Far Away Is Turkey from the Middle Income Trap?

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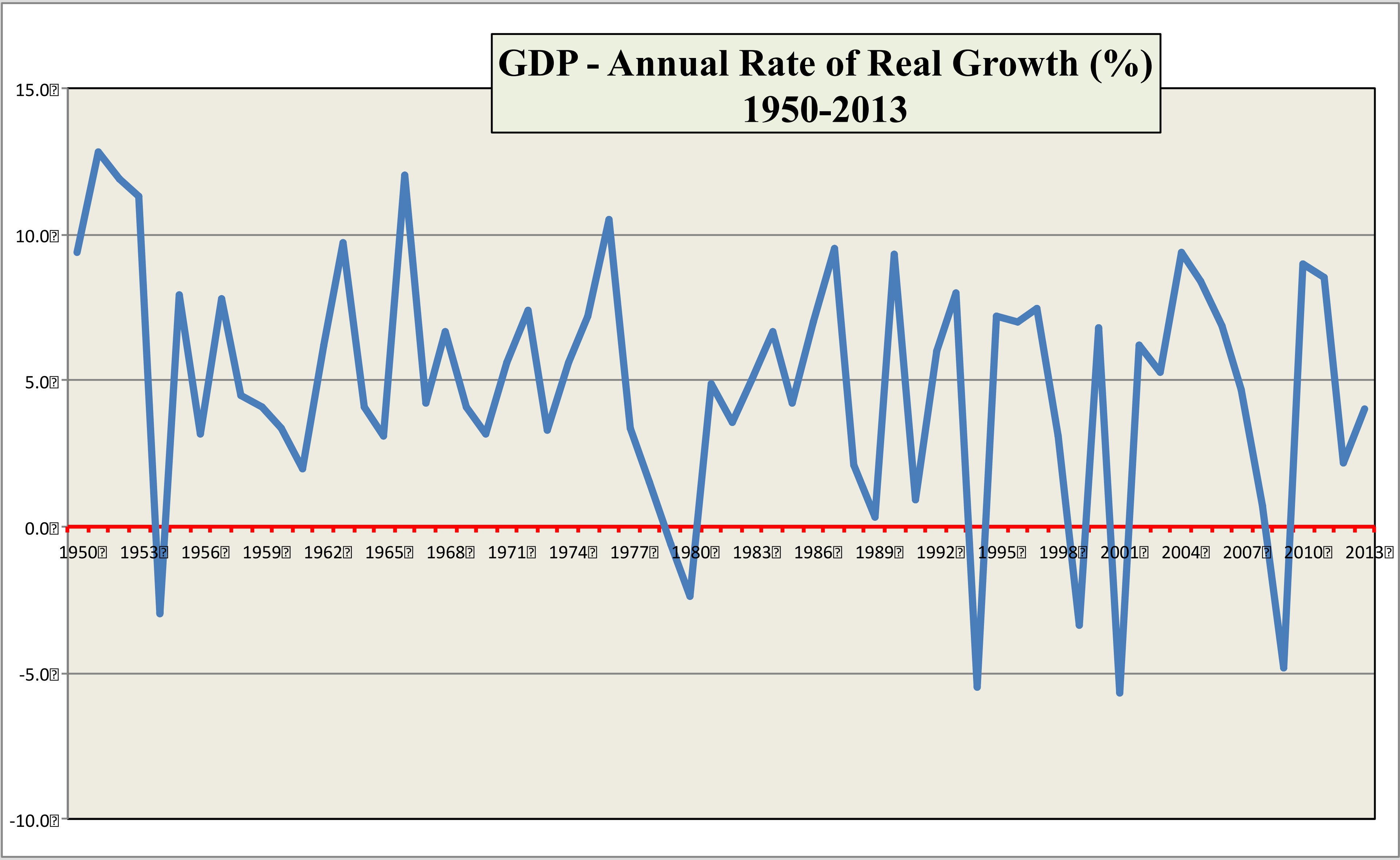
"In these papers all needless matters have been eliminated ... There is throughout no statement of past things wherein memory may err,

for all the records chosen are exactly contemporary, given the knowledge of those who made them."

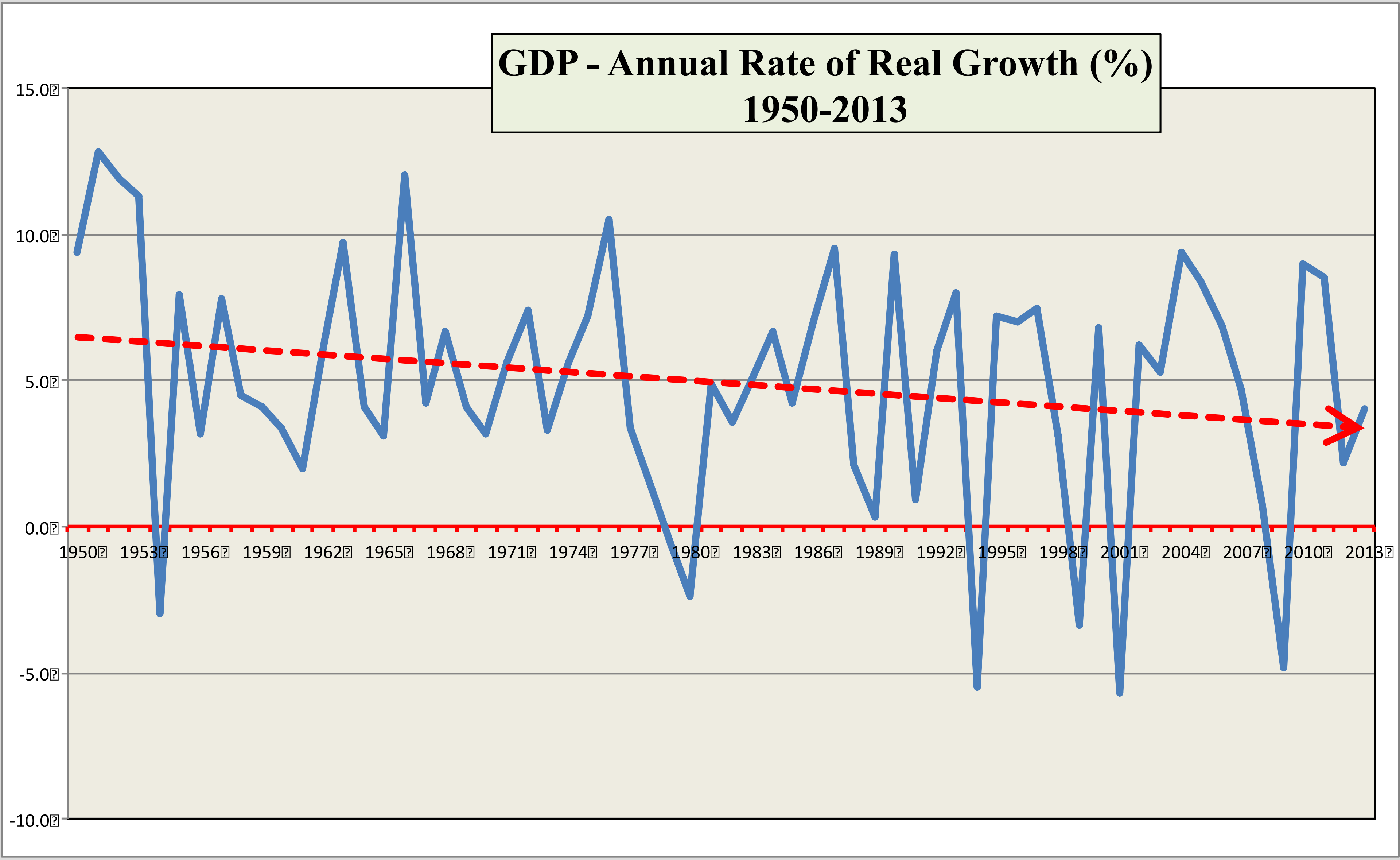
-**Bram Stoker, *Dracula*, 1897**

1. Turkish growth path is on a declining rate

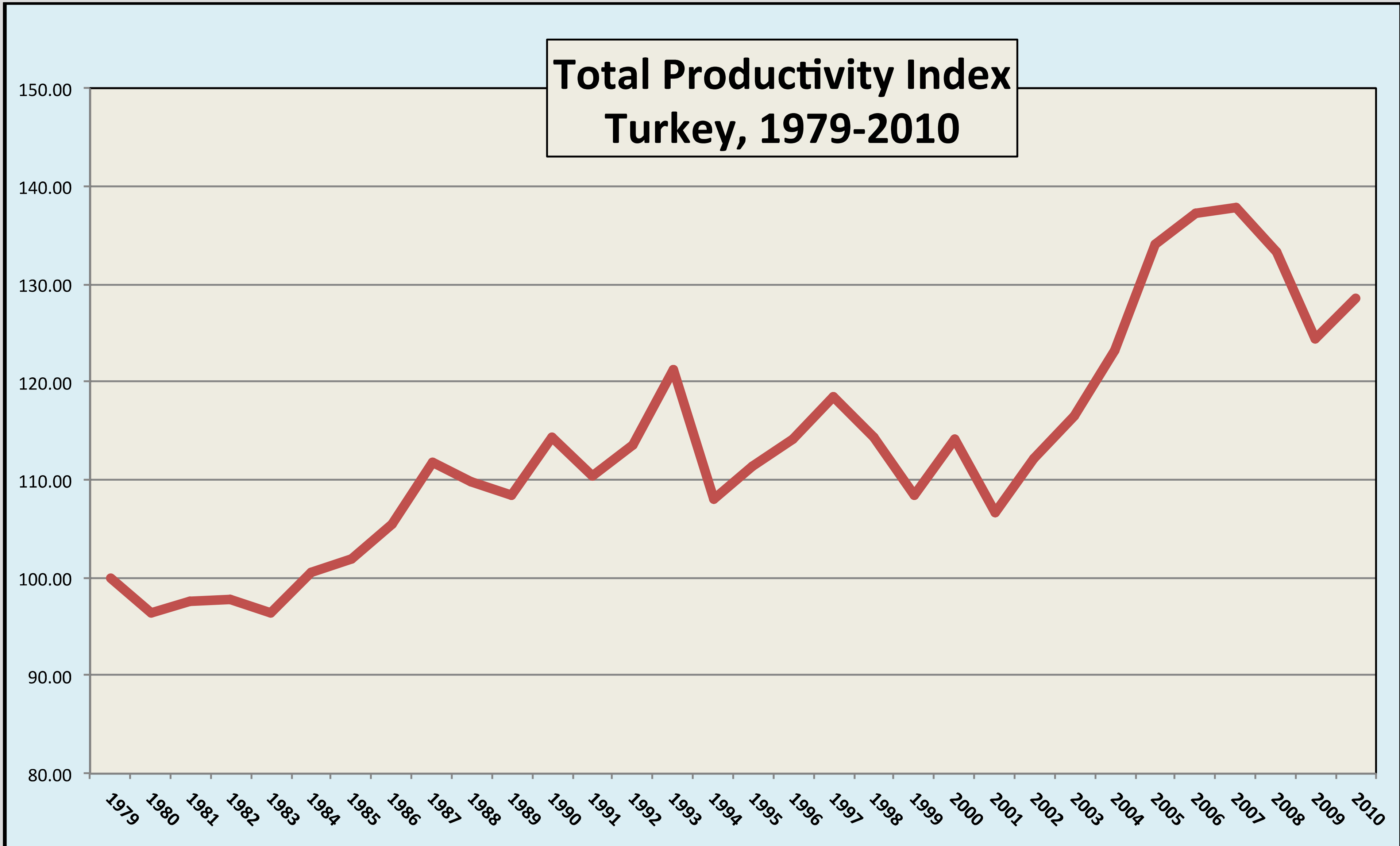
Annual Rates of GDP Growth (%)

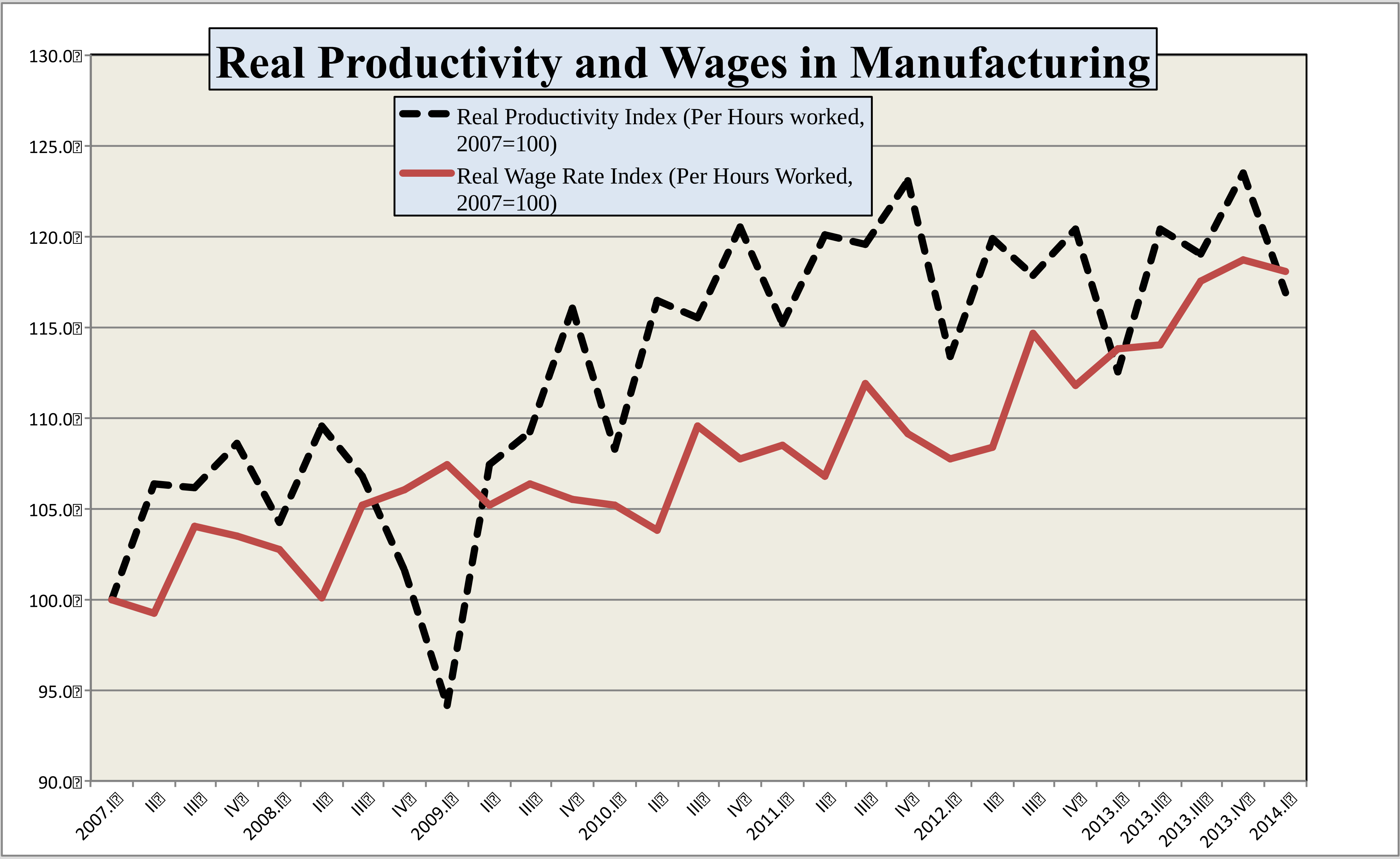


Annual Rates of GDP Growth (%)



2. Economies respond to reforms:
Factor Productivity Path of Turkey




Real Productivity and Wages in Manufacturing
Real Productivity Index (Per Hours worked, 2007=100)
Real Wage Rate Index (Per Hours Worked, 2007=100)
130.0
125.0
120.0
115.0
110.0
105.0
100.0
95.0
90.0
2007.I
II
III
IV
2008.I
II
III
IV
2009.I
II
III
IV
2010.I
II
III
IV
2011.I
II
III
IV
2012.I
II
III
IV
2013.I
2013.II
2013.III
2013.IV
2014.I

3. An important attribute of the growth episode was the rise of external deficit

Over the 2000s, Turkish growth experience relied mostly on speculation-driven capital inflows with vigorous foreign debt accumulation.

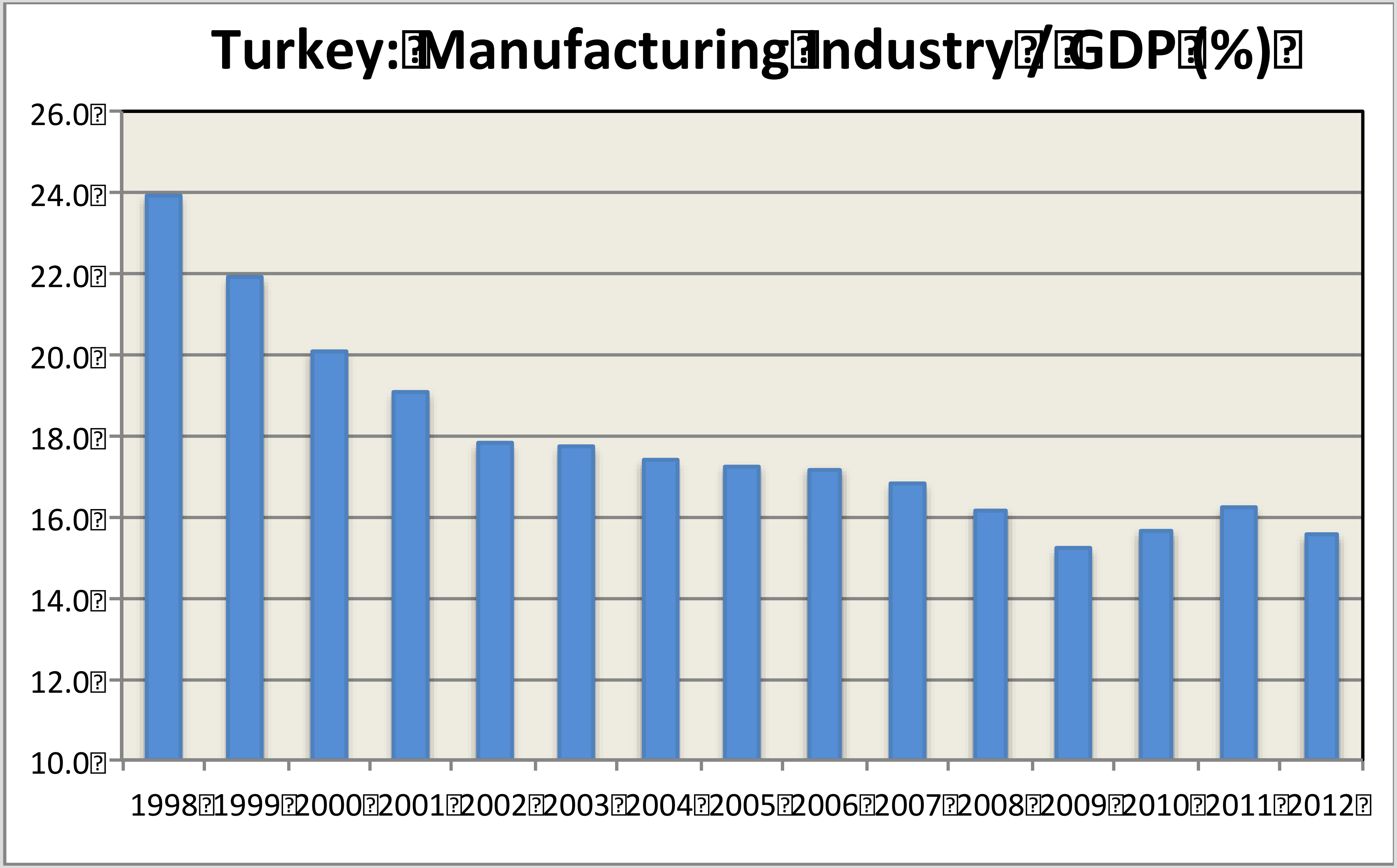
The costs of this pattern were increased fragility in the foreign economy (current account deficit) and relatively lower employment.

Turkey is experiencing speculative-led growth

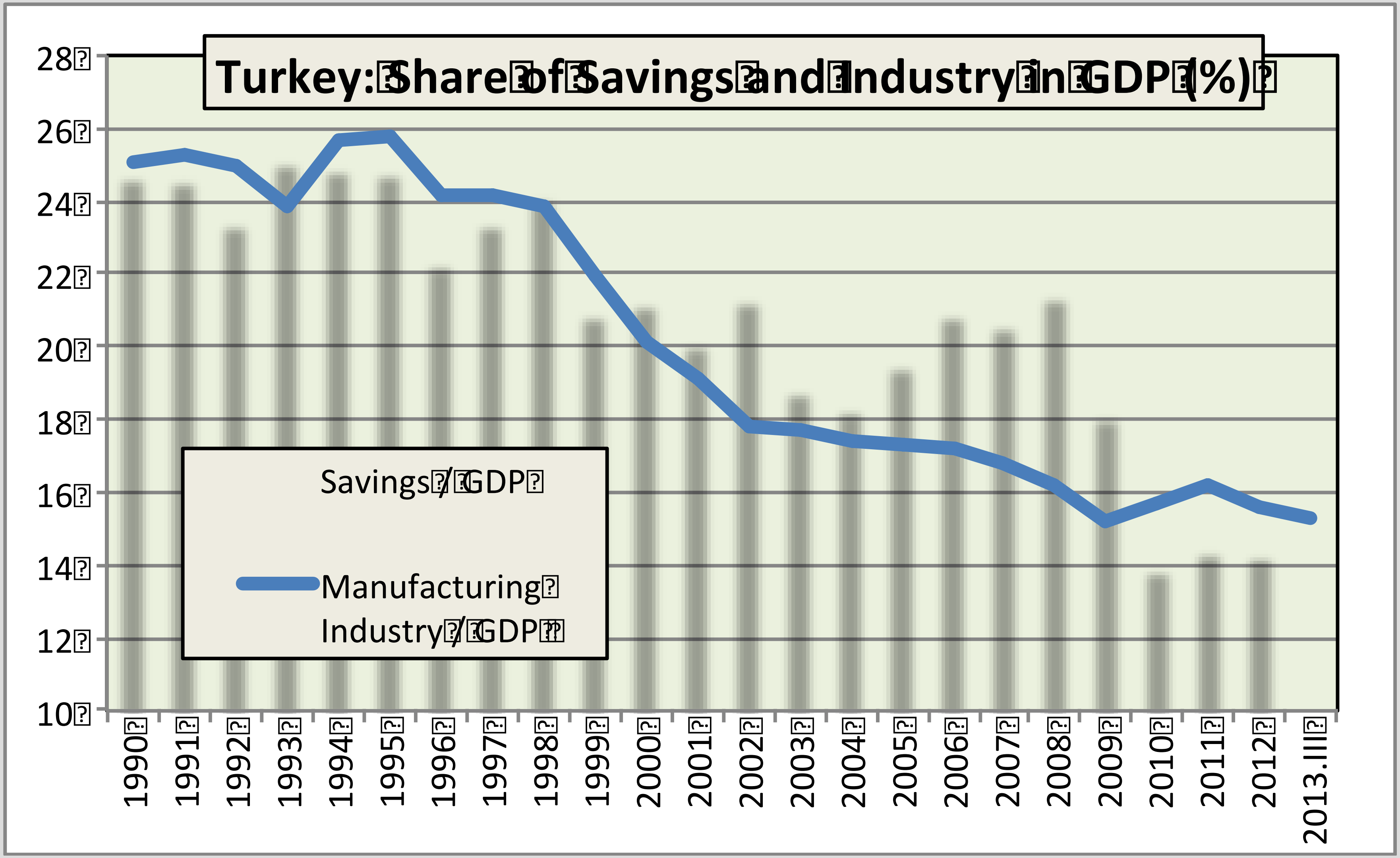
	Total External Debt Stock (Millions $)	**Foreign Debt Stock (millons $)**	**GDP (Millions $)**
2008	281,045	52,522	742,094
2009	269,223	49,020	616,703
2010	291,924	77,369	734,929
2011	304,207	81,996	773,980
2012	338,732	100,169	786,393
2013	389,273	129,310	823,000
2013-2008 Difference	**108,228**	**76,788**	**80,906**

Source: TurkStat, Min of Development and the CBRT

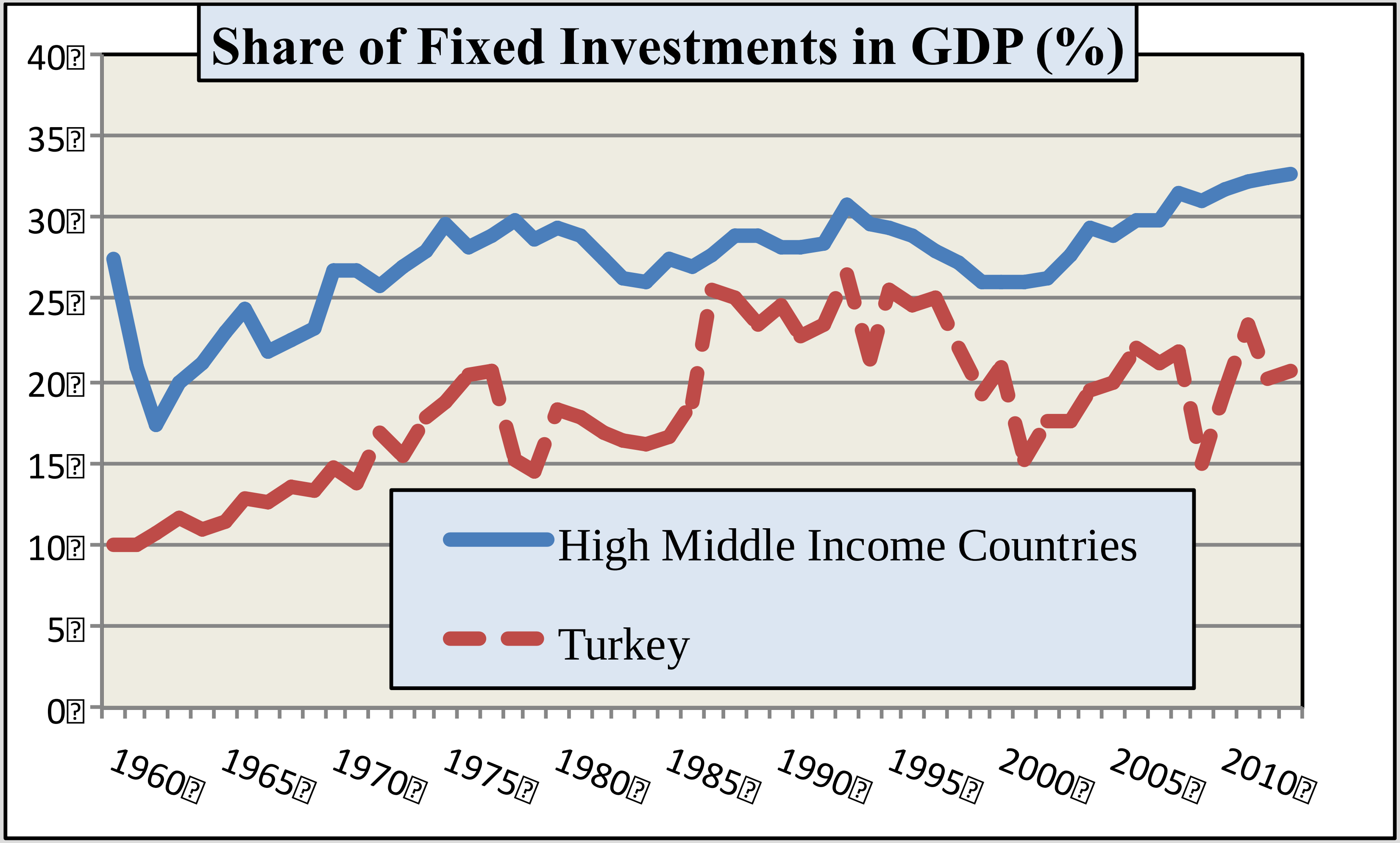
Decline in the share of industry

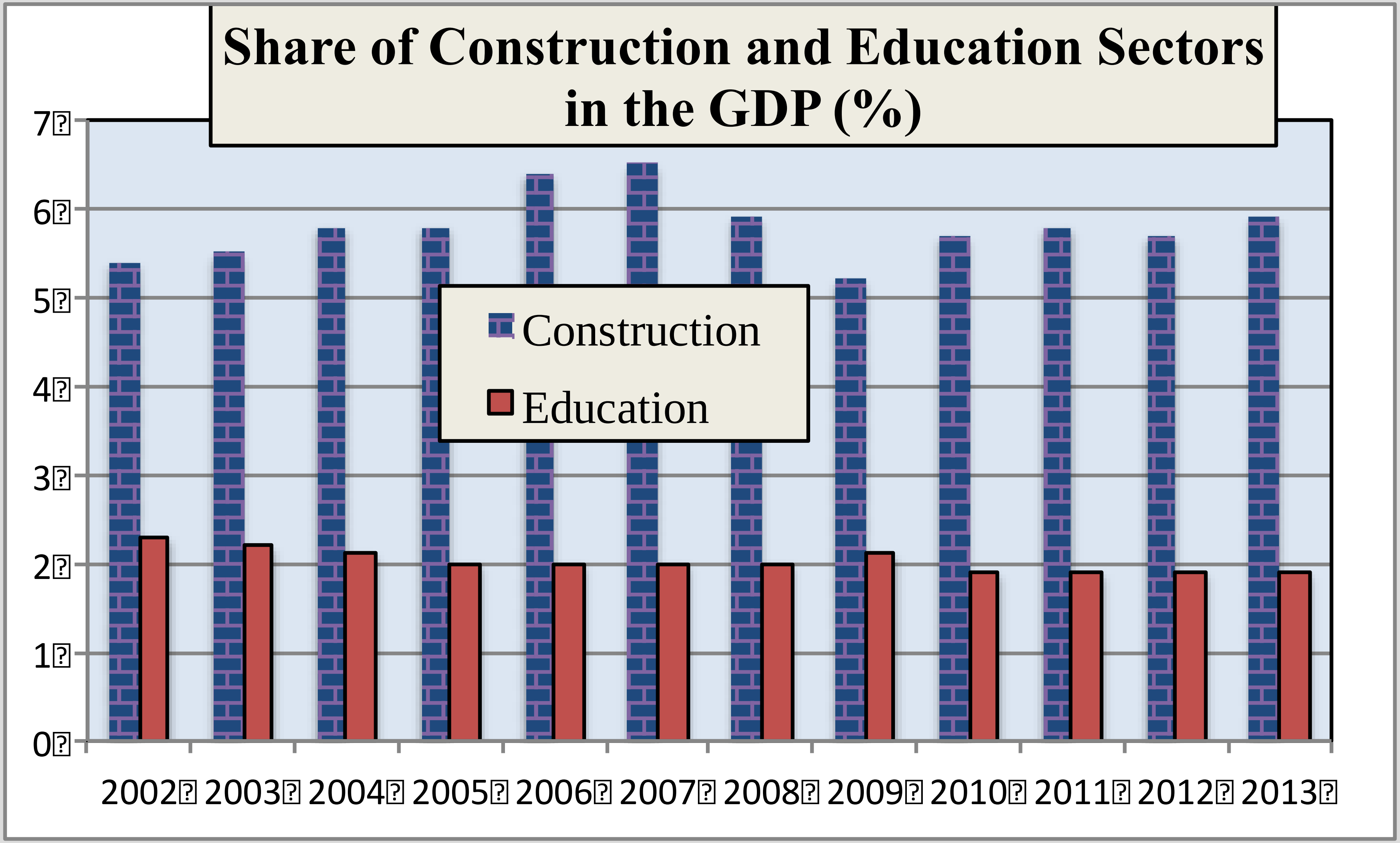


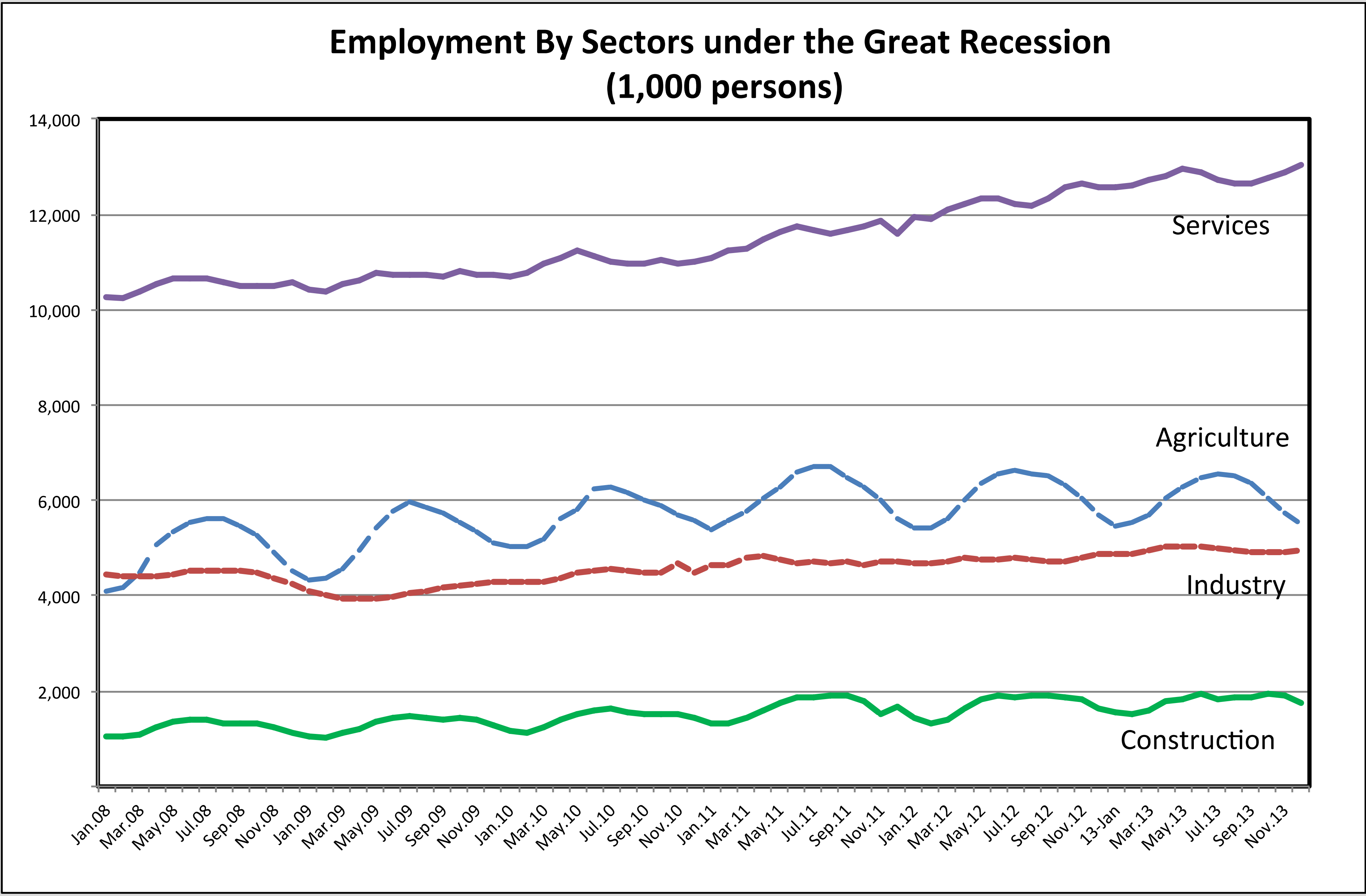
Putting things together: low savings and de-industrialization breed each other

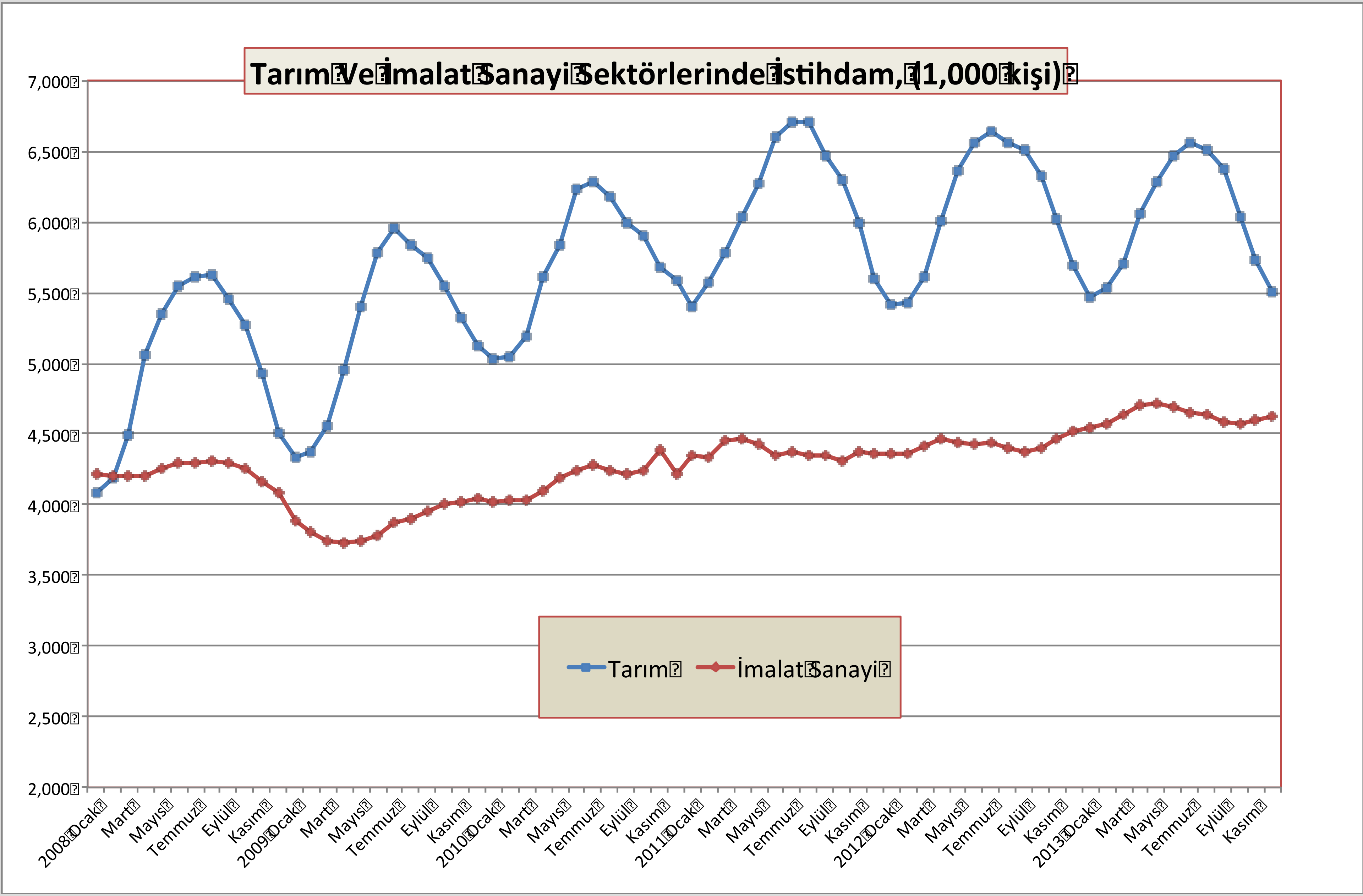


4. “Where” Are We?


Share of Fixed Investments in GDP (%)
40
35
30
25
20
15
10
5
0
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
High Middle Income Countries
Turkey

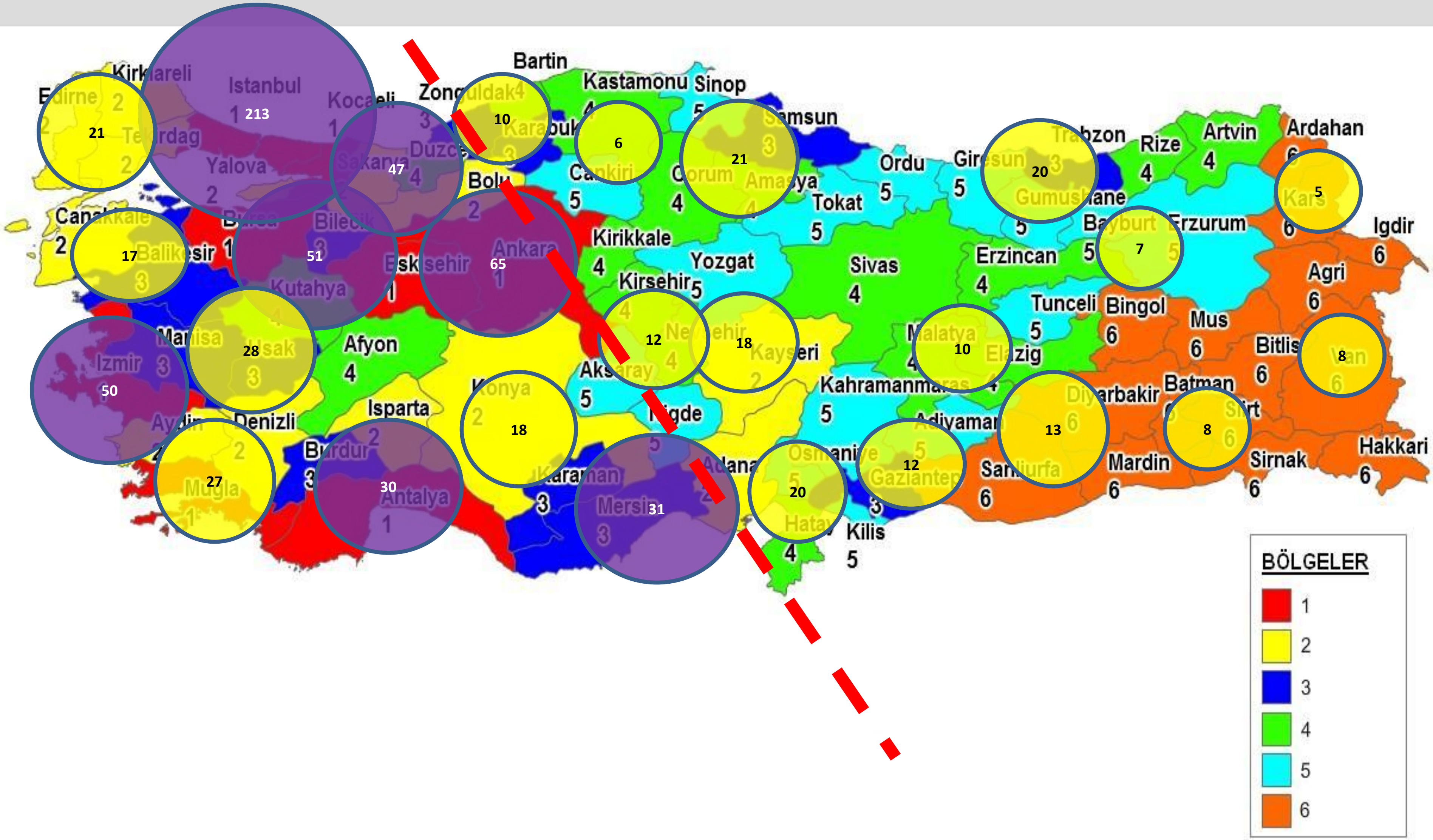

Share of Construction and Education Sectors in the GDP (%)
Construction
Education
0
1
2
3
4
5
6
7
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Employment By Sectors under the Great Recession
(1,000 persons)
14,000
12,000
10,000
8,000
6,000
4,000
2,000
Services
Agriculture
Industry
Construction
Jan.08
Mar.08
May.08
Jul.08
Sep.08
Nov.08
Jan.09
Mar.09
May.09
Jul.09
Sep.09
Nov.09
Jan.10
Mar.10
May.10
Jul.10
Sep.10
Nov.10
Jan.11
Mar.11
May.11
Jul.11
Sep.11
Nov.11
Jan.12
Mar.12
May.12
Jul.12
Sep.12
Nov.12
13-Jan
Mar.13
May.13
Jul.13
Sep.13
Nov.13


Tarım Ve İmalat Sanayi Sektörlerinde İstihdam, (1,000 kişi)
7,000
6,500
6,000
5,500
5,000
4,500
4,000
3,500
3,000
2,500
2,000
Tarım
İmalat Sanayi
2008 Ocak
Mart
Mayıs
Temmuz
Eylül
Kasım
2009 Ocak
2010 Ocak
2011 Ocak
2012 Ocak
2013 Ocak

But which Turkey?

The land of Bel-india



5. *Turkey is suffering from the dualistic growth path, rather than middle income trap*.