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"Renewable energy resources help to overcome middle-income trap"

Investing in renewable energy resources, like solar and wind could trigger Turkey's industrial transformation to high-tech base and help the country overcome its structural current account deficit problem and its middle-income trap.

The Economic Policy Research Foundation of Turkey (TEPAV) has conducted a new analysis based on interviews with 70 companies holding energy utilities in Turkey and analyzed their energy investment decisions and perceptions behind these decisions about the investment climate.

Turkey's growth is structurally linked to a high current account deficit, with the energy sector representing one of the nation's leading import sectors. The Turkish government relies on domestic coal, and energy policies mainly focus on utilizing domestic lignite resources in order to tackle the deficit problem. However, a new study demonstrates that switching the focus from lignite to renewable energy sources could help Turkey overcome the economic fragility caused by its account deficit.

The financial dilemma surrounding coal investments

Turkish companies are expecting problems in coal finance. 75 percent of them think that they will encounter financial difficulties surrounding coal investments. However, 53 percent of medium- and large-scale businesses have a hopeful outlook for the future regarding renewable energy.

"Since 2012, 14 GW of coal-fired power plant projects have been cancelled or postponed in Turkey. Moreover, the world as a whole is also shifting away from coal. The amount of coal power capacity under development worldwide dropped dramatically in the first half of 2016. China alone cancelled or postponed 114 GW of proposed coal plants. Chinese coal cancellations over this period were 1.5 times greater than the total installed capacity of Turkey," said Bengisu Özenç, Program Director of Macroeconomic Studies at TEPAV. "Clearly, if Turkey does not want to find itself faced with even tougher economic problems, it needs an energy policy that favors renewable energy resources over coal."

Solar energy particularly presents important opportunities for Turkey's economy. However, only a small percentage of its potential was utilized. Officially, Turkey aims to reach 10 GW of solar-installed capacity by 2030, but so far the country has only deployed 0.5GW of solar power. Considering its technical capacity that exceeds 27 out of 35 EU member and candidate states, Turkey clearly under utilizes its potential in solar.

Short-term and ever-changing policies are the main reason why investors are hesitating to make renewable energy investments. A lack of long-term clarity regarding public subsidies also renders the payback period uncertain for those investments.

Özenç said: "The face-to-face meetings showed that the State has an important role to play in unlocking the country's renewable energy potential. Renewable energy has to be strongly supported with effective policies for tackling current account deficit problem and the middle-income trap."

The TEPAV research also showed that costs are not among the most obstacles standing in the way of Turkey utilizing its renewable energy potential. Renewable energy is more cost-efficient than coal and other fossil fuels, meaning that once structural and bureaucratic obstacles are overcome, the way would be clear for the private sector to utilize more of the country's solar and wind potential.

TEPAV is the leading and most comprehensive economic think tank in Turkey. TEPAV was established by a group of business people, bureaucrats and academics for the purposes of conducting data-based policy analysis and contributing to policy discussions. TEPAV is strictly non-partisan and pursues the highest in ethical and academic standards. TEPAV produces rigorous, data-driven analysis and provides a technical outlook on the Turkish economy. As a think tank, TEPAV has conducted projects in 49 of Turkey's provinces and in 21 countries across the world.