



Turkey: A Real Convergence Story



Mehmet ŞİMŞEK

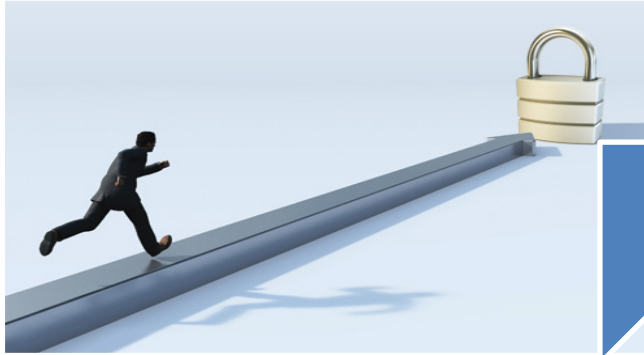
Deputy Prime Minister

January 5, 2016

Outline

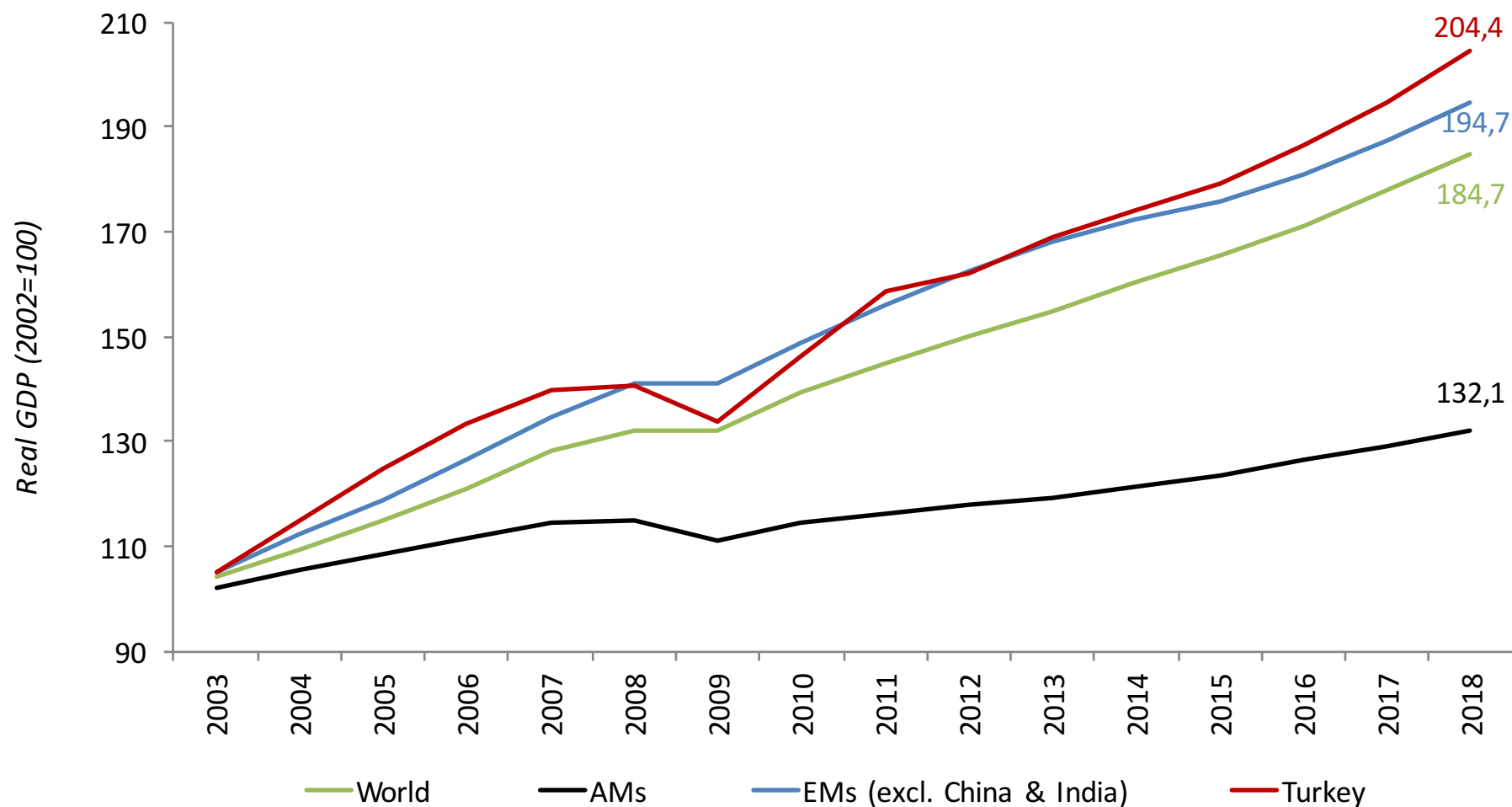
A Decade of Outperformance

Another Decade of Transformation



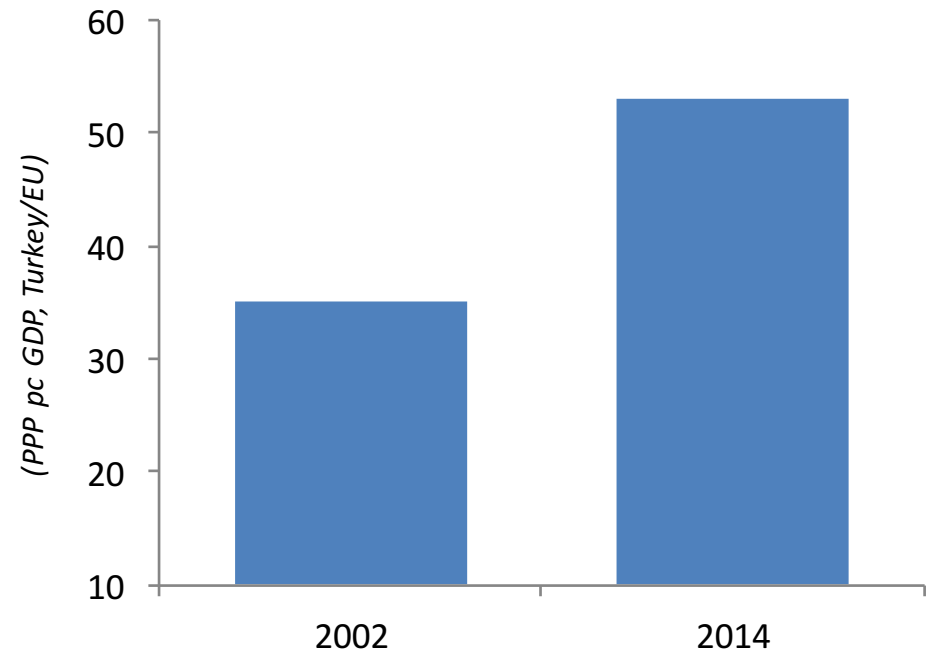
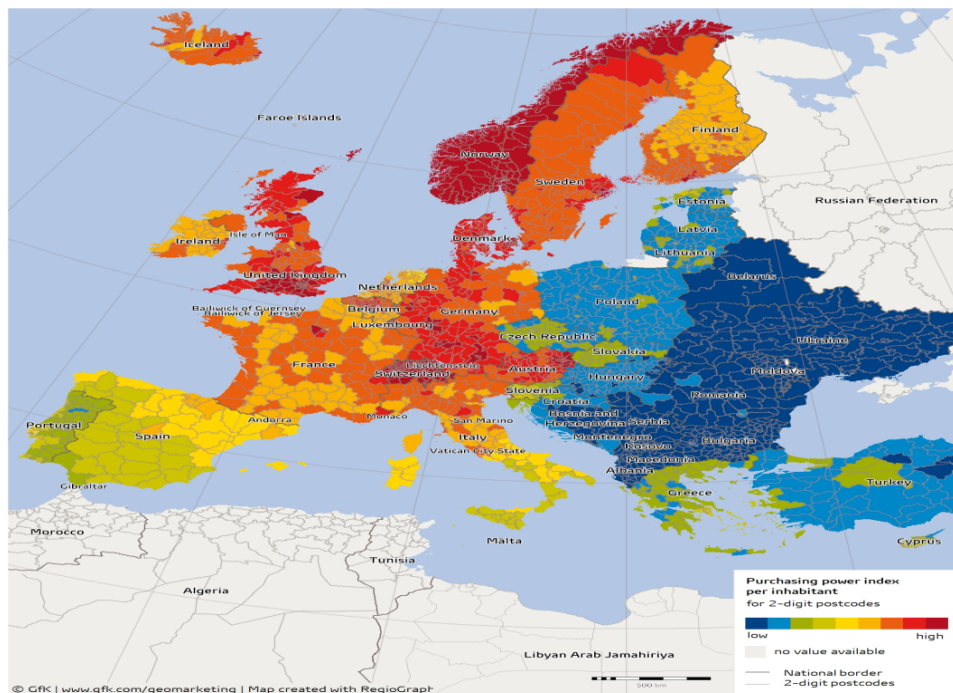
A Decade of Outperformance

Strong Outperformance



Real Convergence

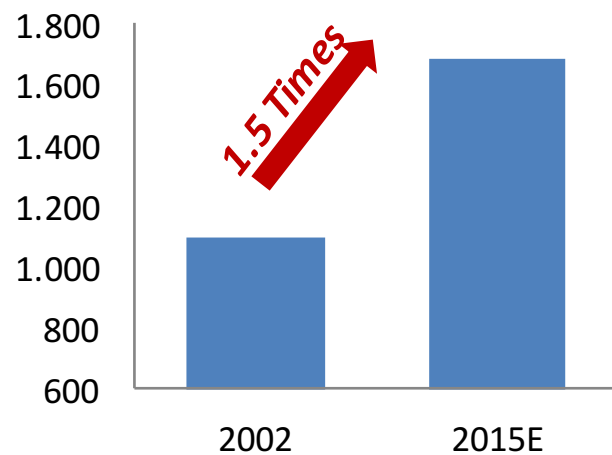
Turkey has narrowed the per capita GDP gap with EU by nearly 25 percentage points



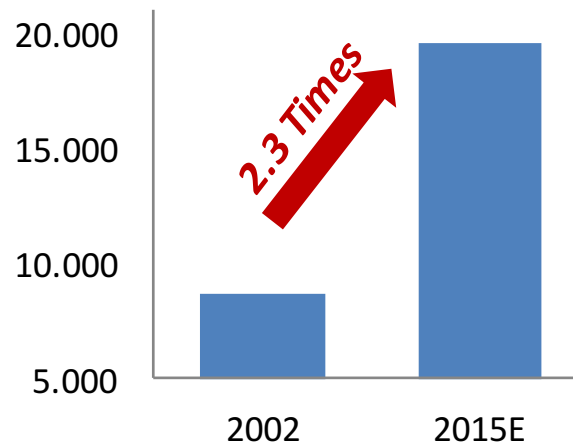
Source: GFK, EUROSTAT

Rising Income per Capita

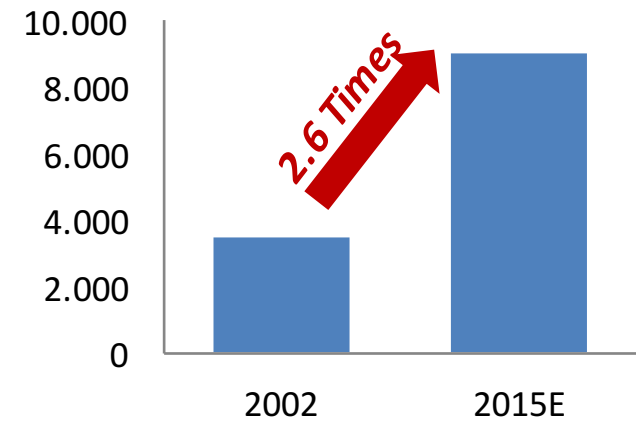
GDP per Capita (TL, Real)



GDP per Capita (\$, PPP)



GDP per Capita (\$, US)



EMs Face Strong Headwinds

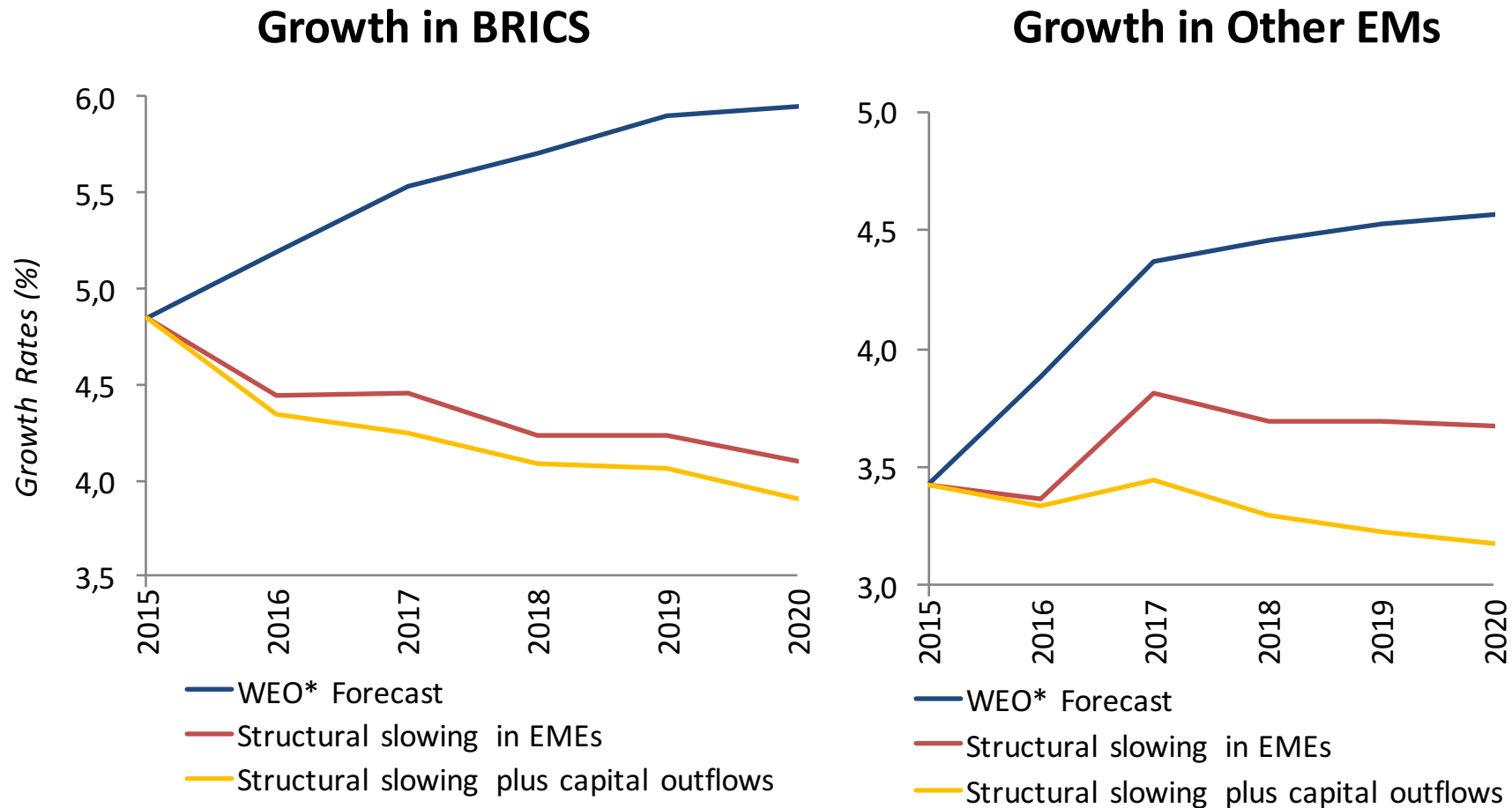
Further slowdown, but no hard landing in China

Fed rate hikes to continue despite external weakness

Strong US dollar & weak commodity prices

Domestic political uncertainties & geopolitical tensions

Structural Slowdown in Emerging Market Economies

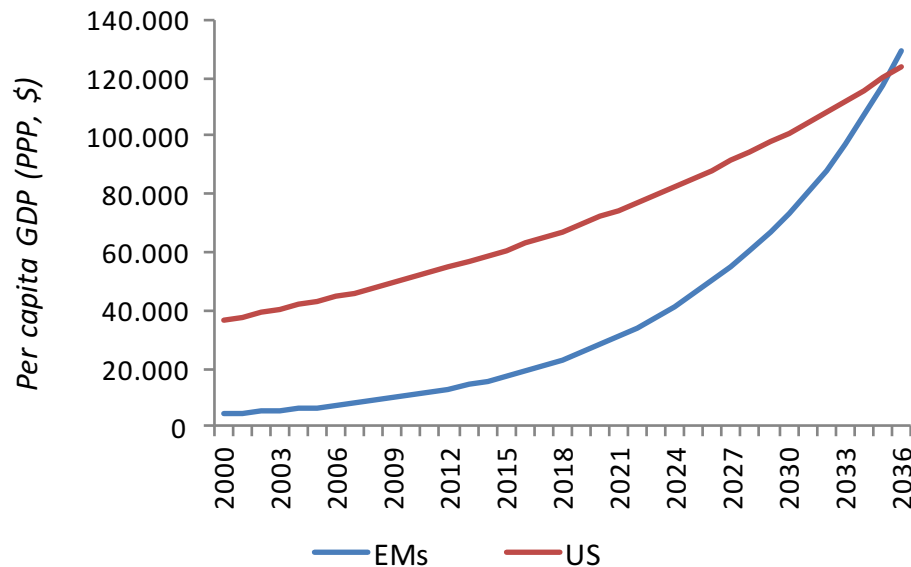


Source: IMF

(*) World Economic Outlook, October 2015

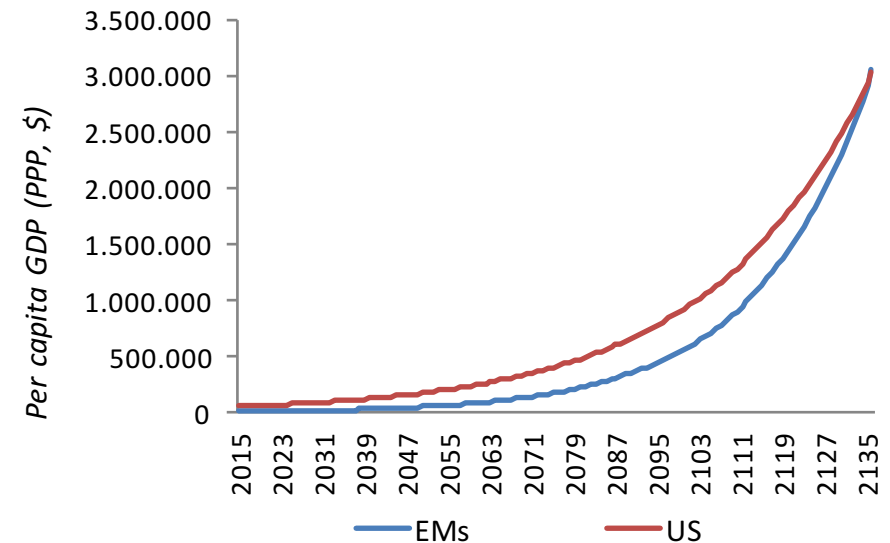
Convergence has stalled

Nearly 36 years to converge



Note: Iterations of income per capita-2000 are performed over the 2007 (pre crisis) growth rate.

Nearly 120 years to converge



Note: Iterations of income per capita-2014 are performed over the 2014-growth rate.

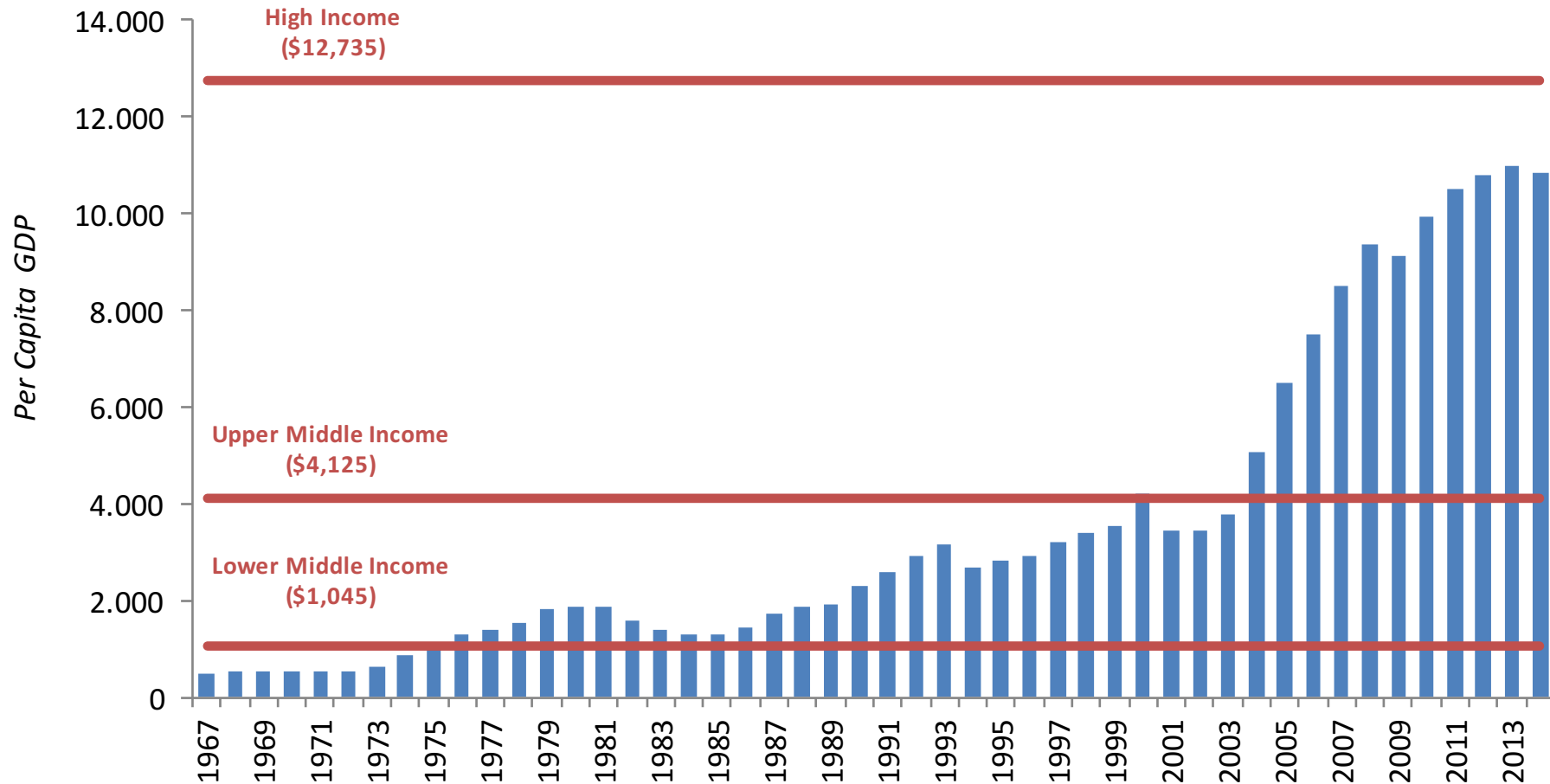
The Only Way Out for EMs

Structural Reforms → Higher Growth



Turkey: Another Decade of Transformation

Journey Towards Becoming a High Income Country



Turkey's Reform Program

Sectoral
Transformation
(Micro Reforms)

Structural
Reforms
(Macro)

EU Accession
Process



Sectoral Transformation (Micro Reforms)

Sectoral Transformation



25

Transformation
Programs



1,250 +

Micro Reforms

Sectoral Transformation: 25 Programs

Improving Investment Climate	Combating Shadow Economy	Increasing Domestic Savings	Increasing Productivity	Deepening Capital Markets
Improving Labor Market Flexibility	Boosting Basic and Occupational Skills	Attracting Qualified Human Resources	Commercialization in Priority Technology Areas	Tech. Develop't and Dom. Prod'n through Public Procurement
Reducing Import Dependency	Developing Health Tourism	Healthy Life and Mobility	Structural Transformation of Healthcare Industries	Transformation from Transportation to Logistics
Increasing Local & Renewable Energy Generation	Improving Energy Efficiency	Improving Efficient Use of Water Resources	Competitiveness & Social Cohesion, Enhancing Urban Regeneration	Improving International Cooperation for Development
Rationalization of Public Expenditures	Enhancing Quality of Public Revenues	Developing Statistical Infrastructure	Conservation of Family & Dynamic Population Structure	Improving Institutional Capacity at Local Level

Sectoral Transformation

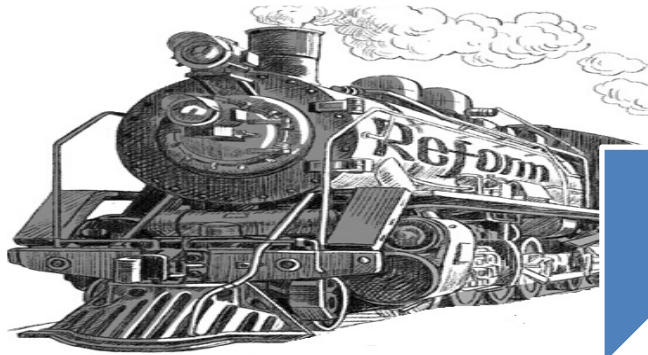
Reforms aimed at avoiding middle-income trap

This is NOT a wish list; it has strong political and public ownership

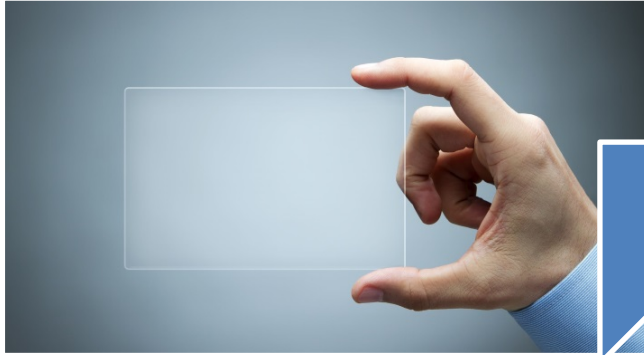
Programs are designed with the input of all relevant ministries

The Economic Coordination Council to monitor progress

Commitment to publish Regular Progress Reports



Structural Reforms (Macro Reforms)



Enhancing Transparency & Combatting Corruption

Enhancing Transparency & Combatting Corruption

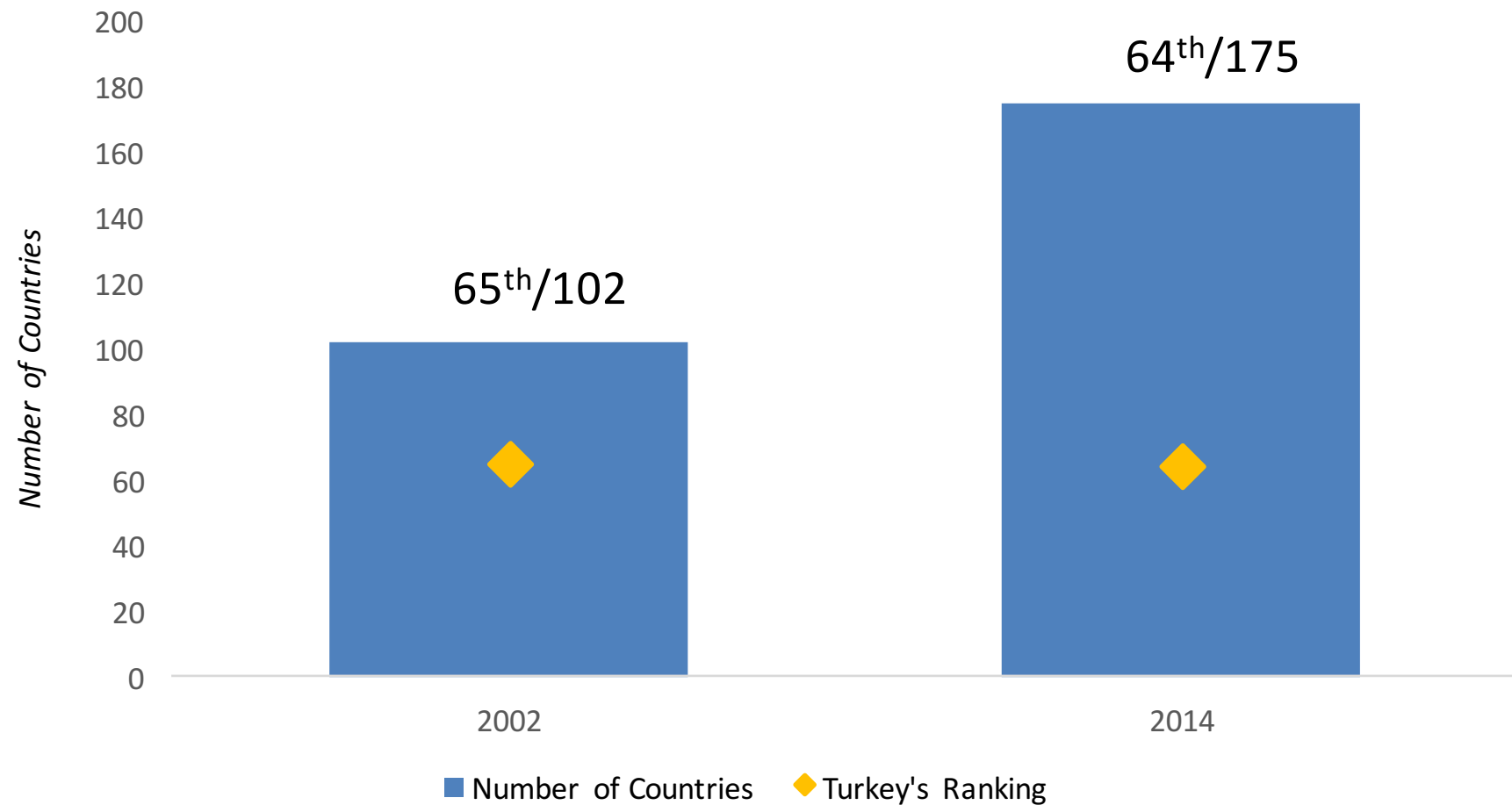
Ethics, Integrity,
& Accountability
in Public Sector

Public
Procurement

Campaign
Finance
Disclosure

Rule-Based
Zoning
Regulations

Corruption Perception





Labor Market Reforms

Components of Labor Market Reform

Severance Pay

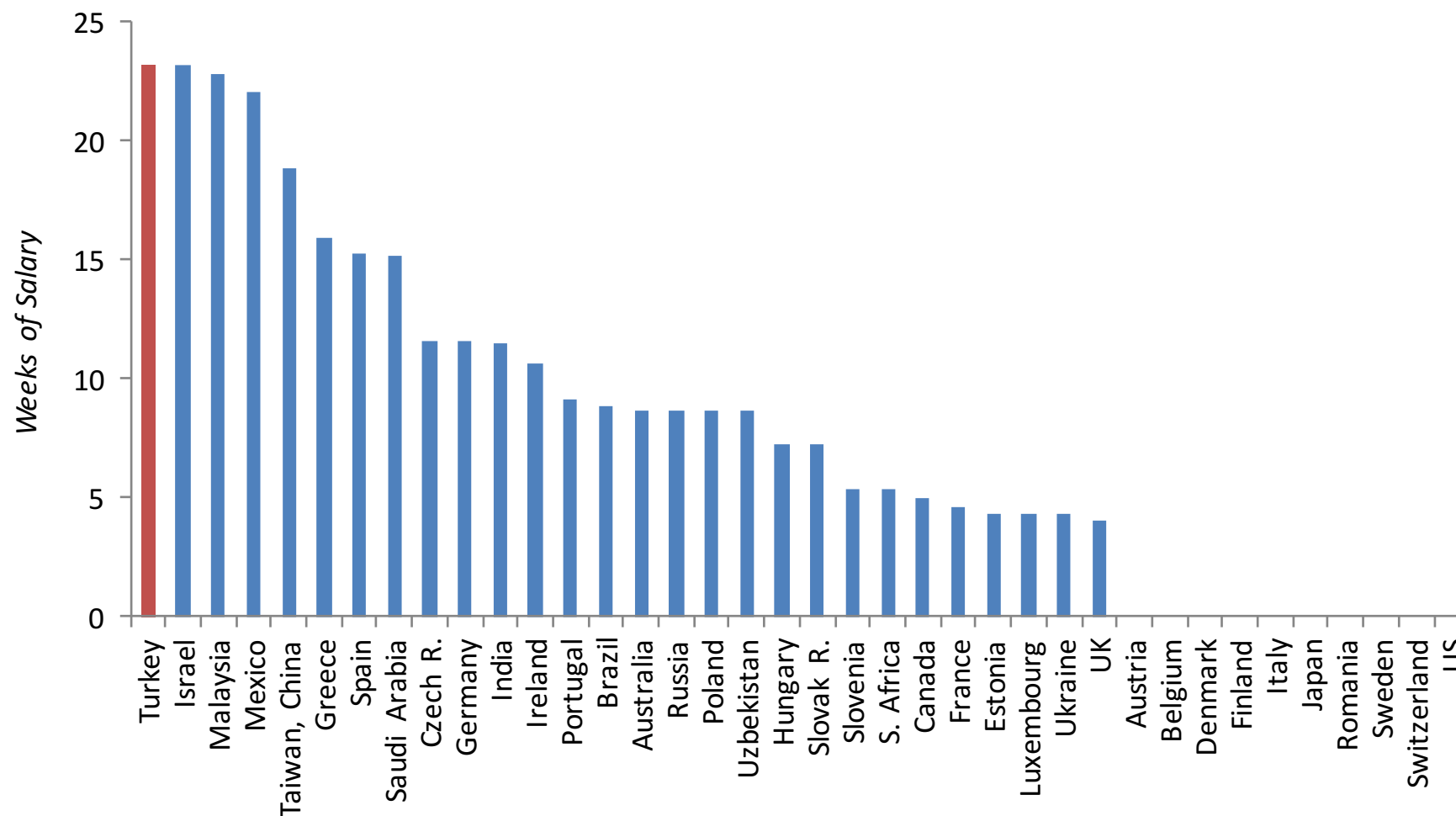
Part-time &
Flex-Work

Private
Employment
Agencies

On-the-Job
Training

Attracting
Global Talent
(Turquoise Card)

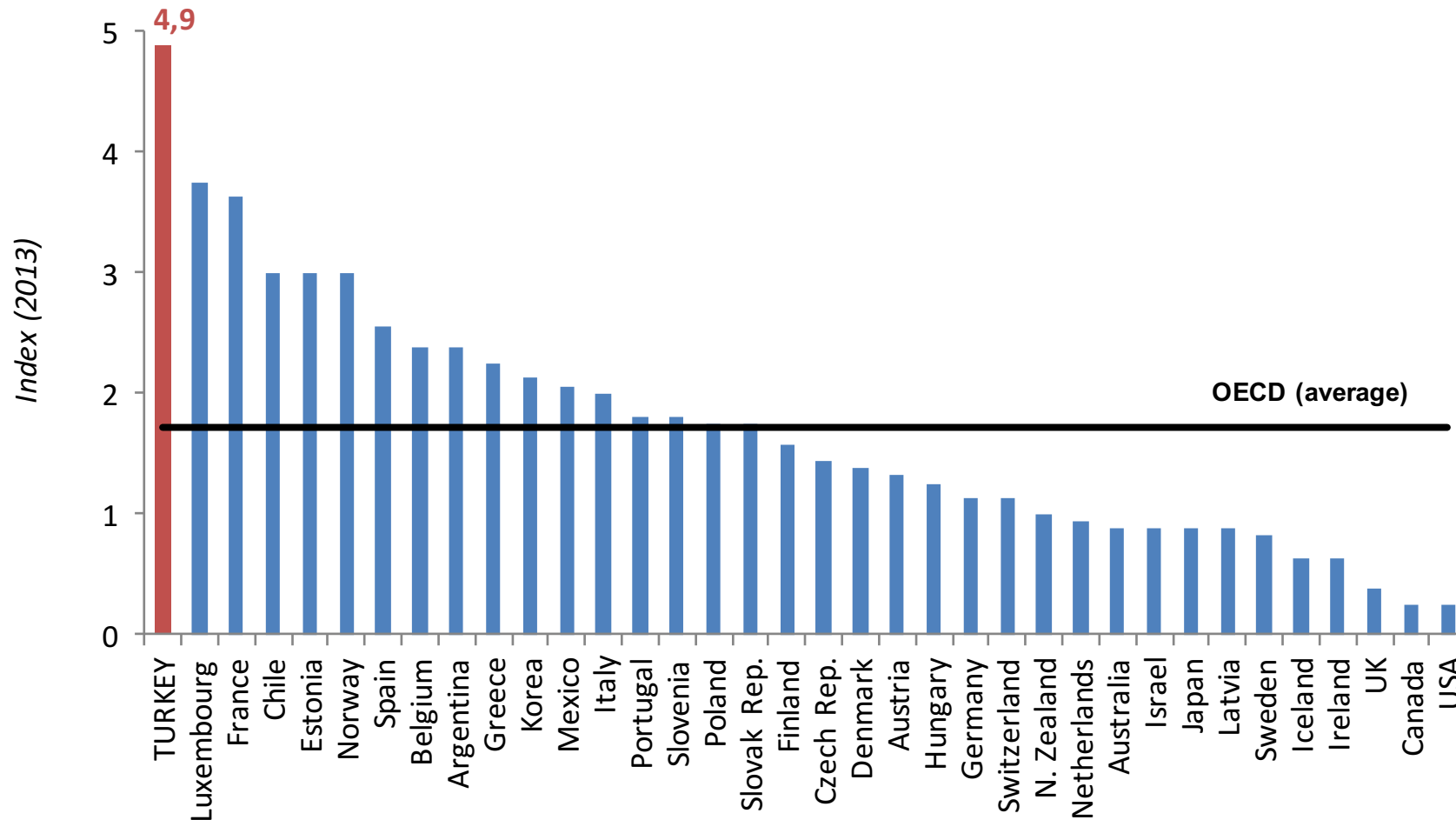
Severance Pay



Source: World Bank, Doing Business 2016, labor market regulation data

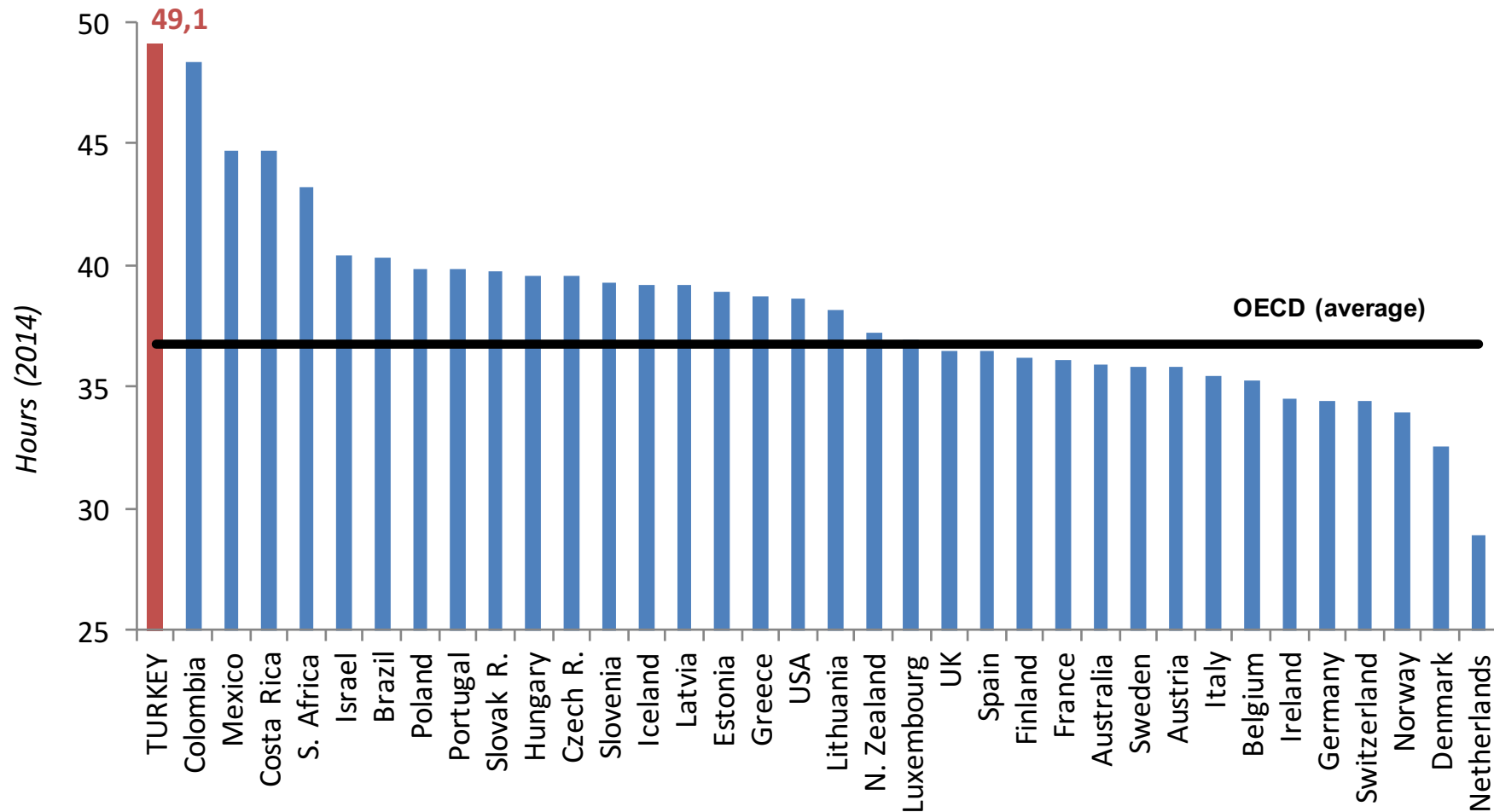
Note: Average for workers with 1 year, 5 years and 10 years of tenure.

Temporary Employment Protection Legislation



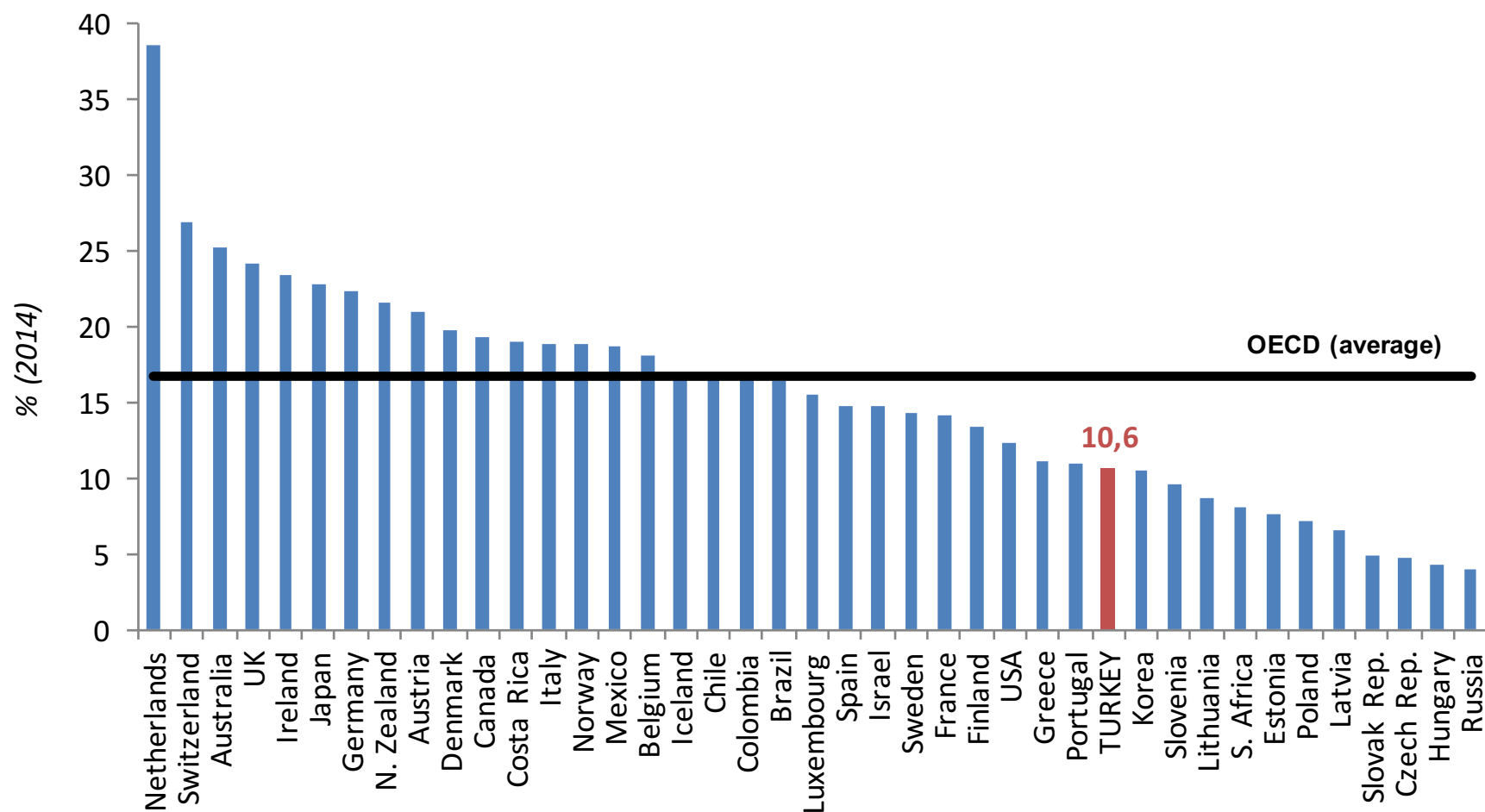
Source: OECD

Average Weekly Hours Worked on the Main Job



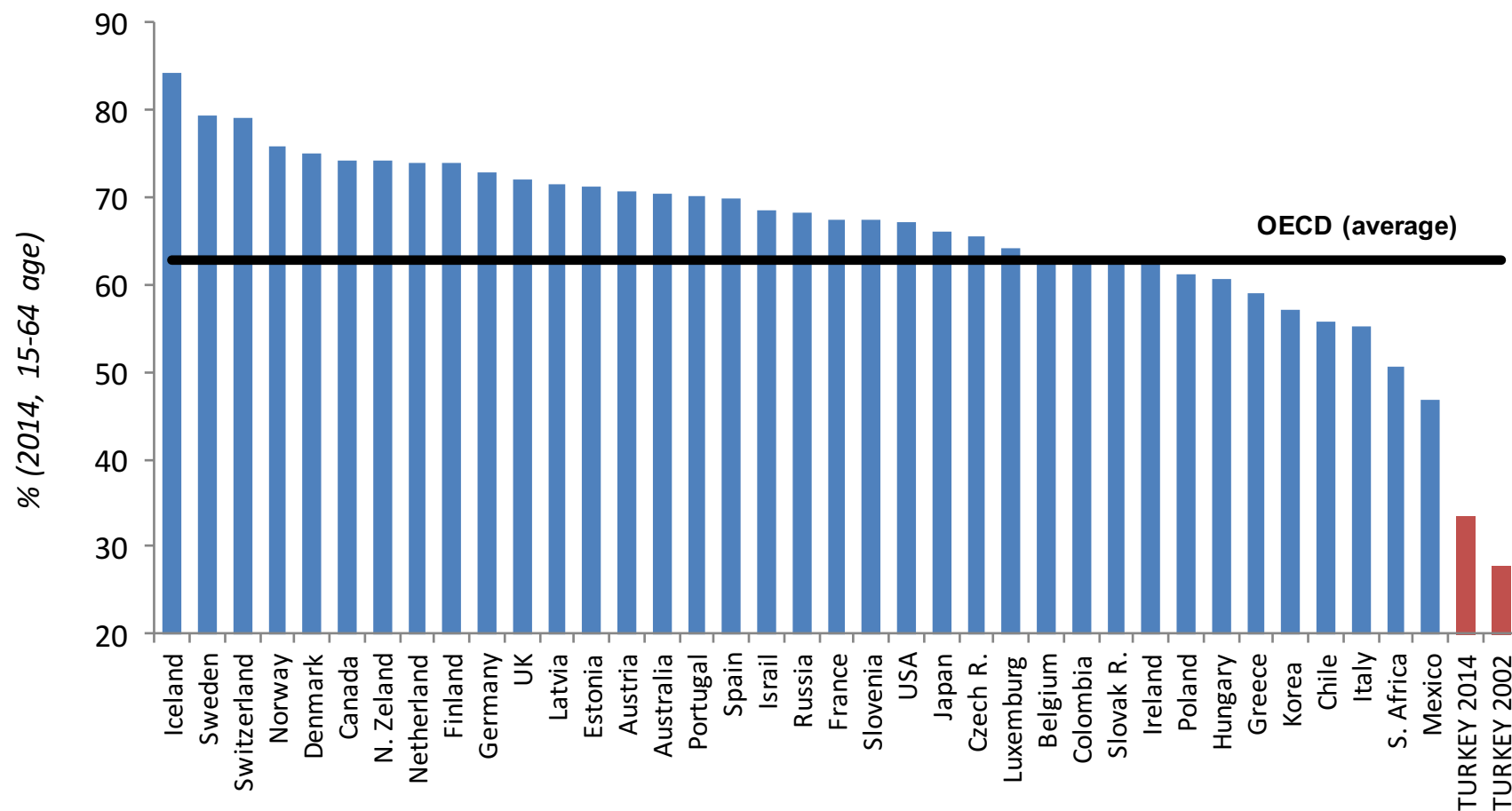
Source: OECD

Share of Part Time Employment

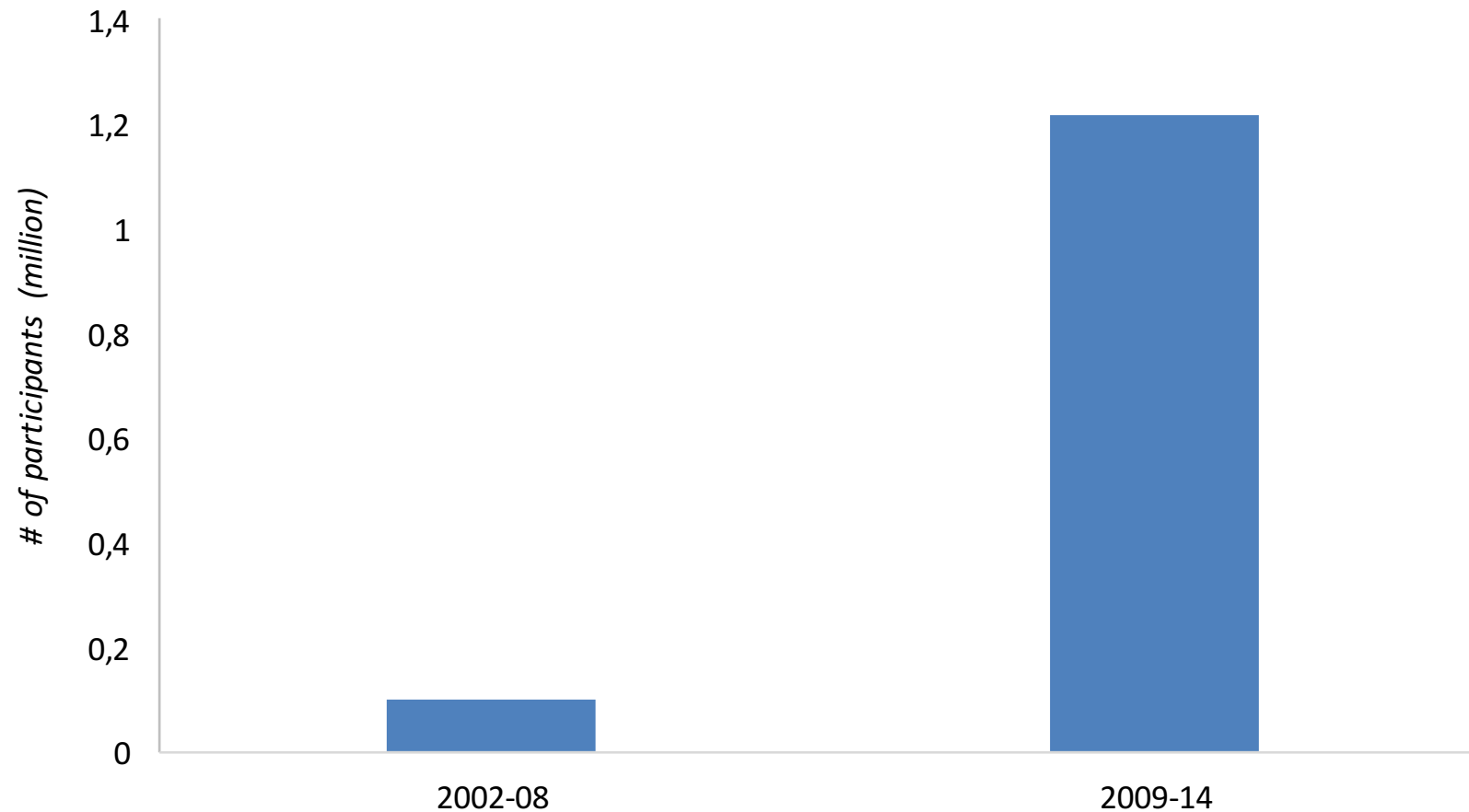


Source: OECD Employment Outlook 2015

Female Labor Force Participation

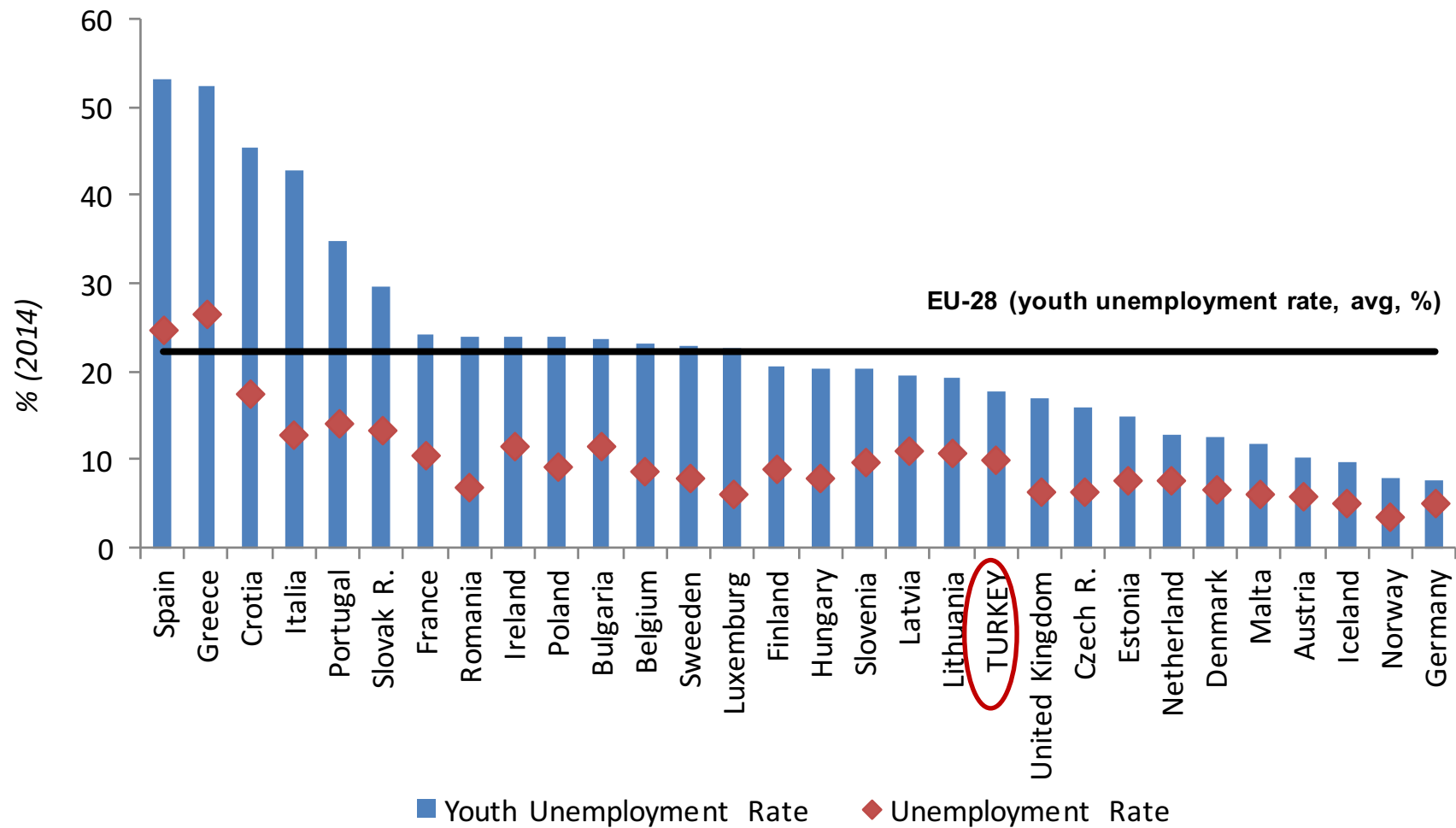


Vocational Training Programs



Source: Turkish Employment Agency

Youth Unemployment



Source: EUROSTAT



INVEST IN TURKEY

Enhancing Investment Climate

Enhancing Investment Climate

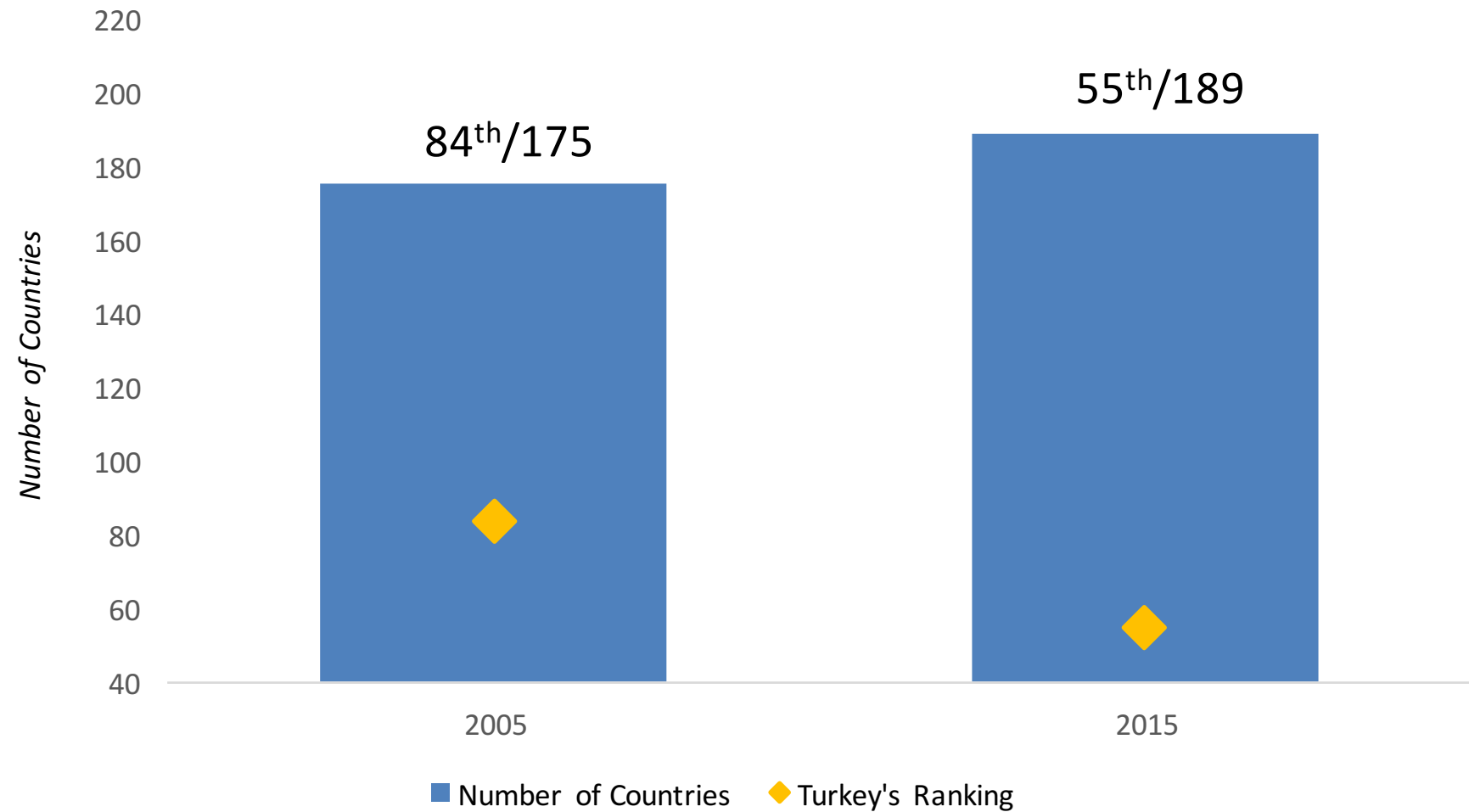
A New
Patent Law
&
R&D Package

Reducing Red Tape

Specialized Courts

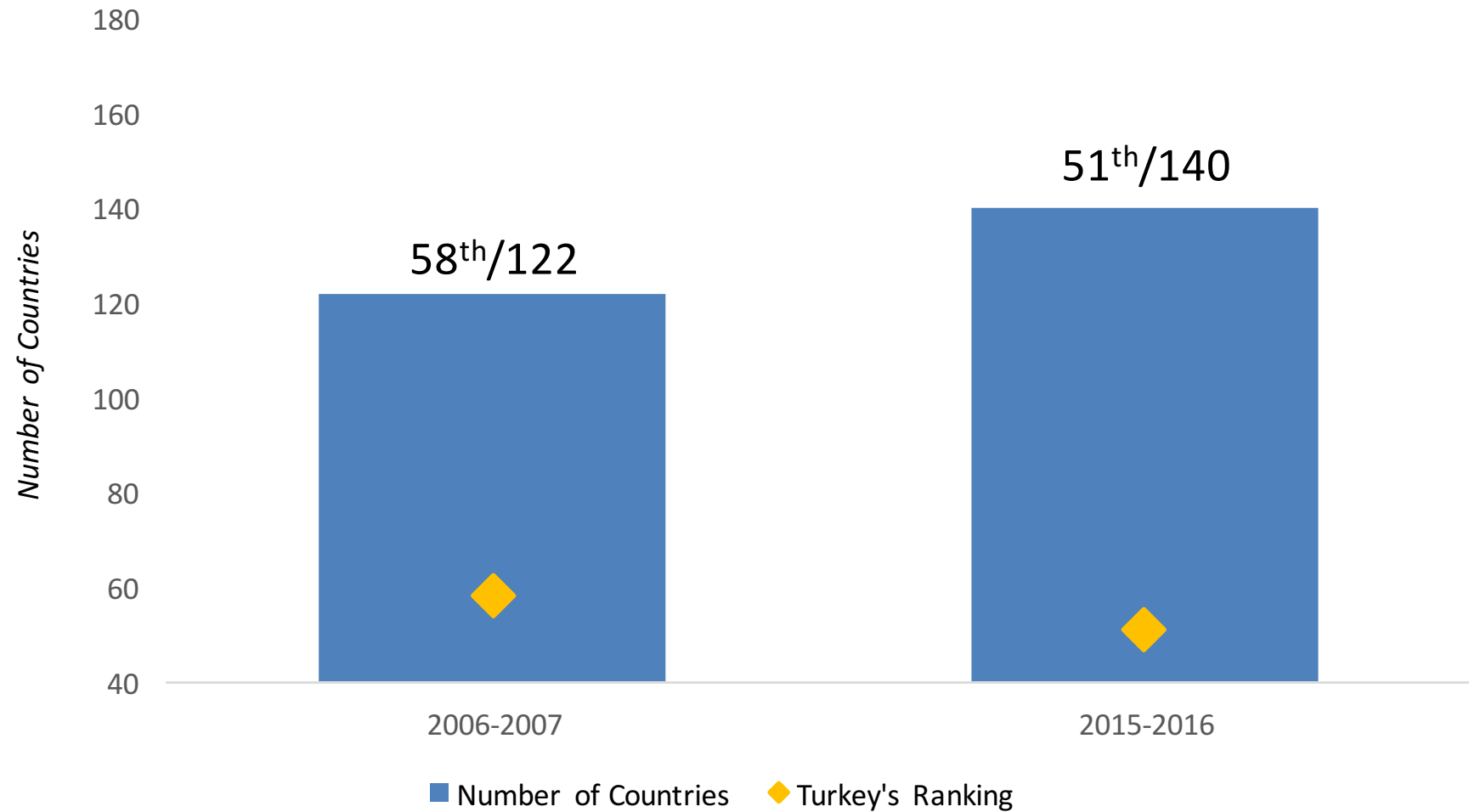
Incentives for
Medium- and High-
Tech Production

Ease of Doing Business



Source: World Bank

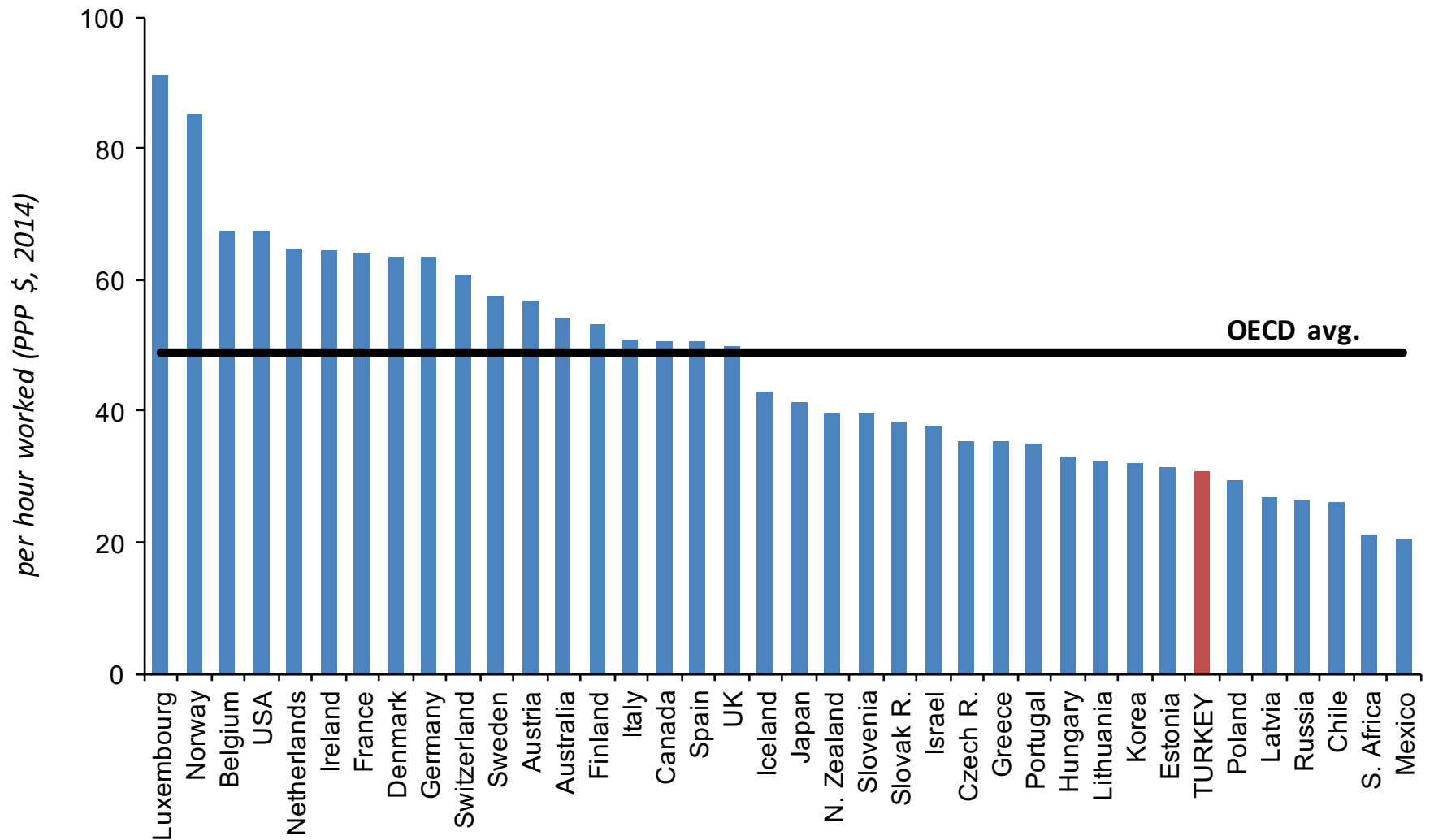
Global Competitiveness



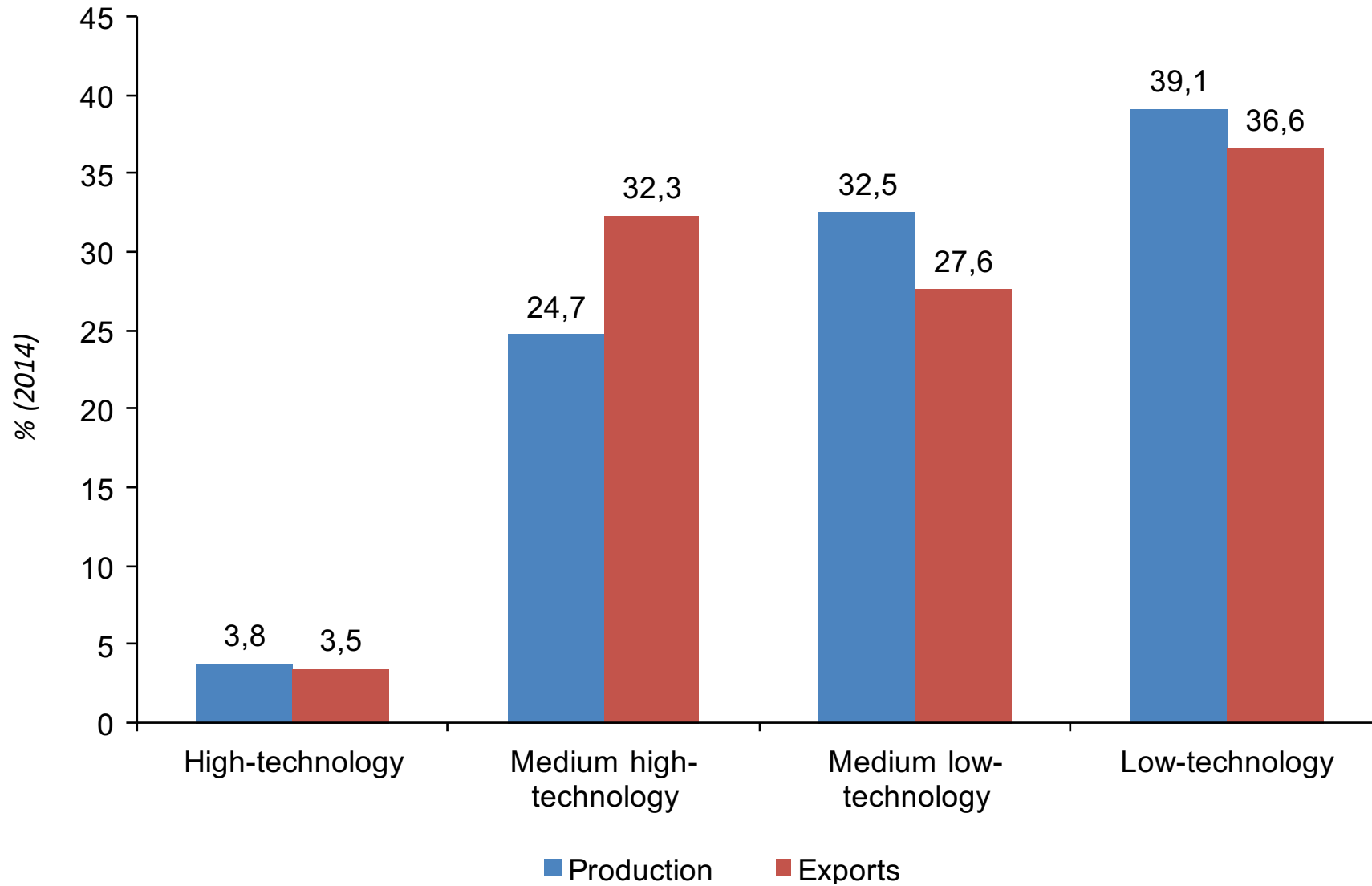
Source: WEF, Global Competitiveness Report 2015-2016

Note: The lower ranks show better performance

Productivity

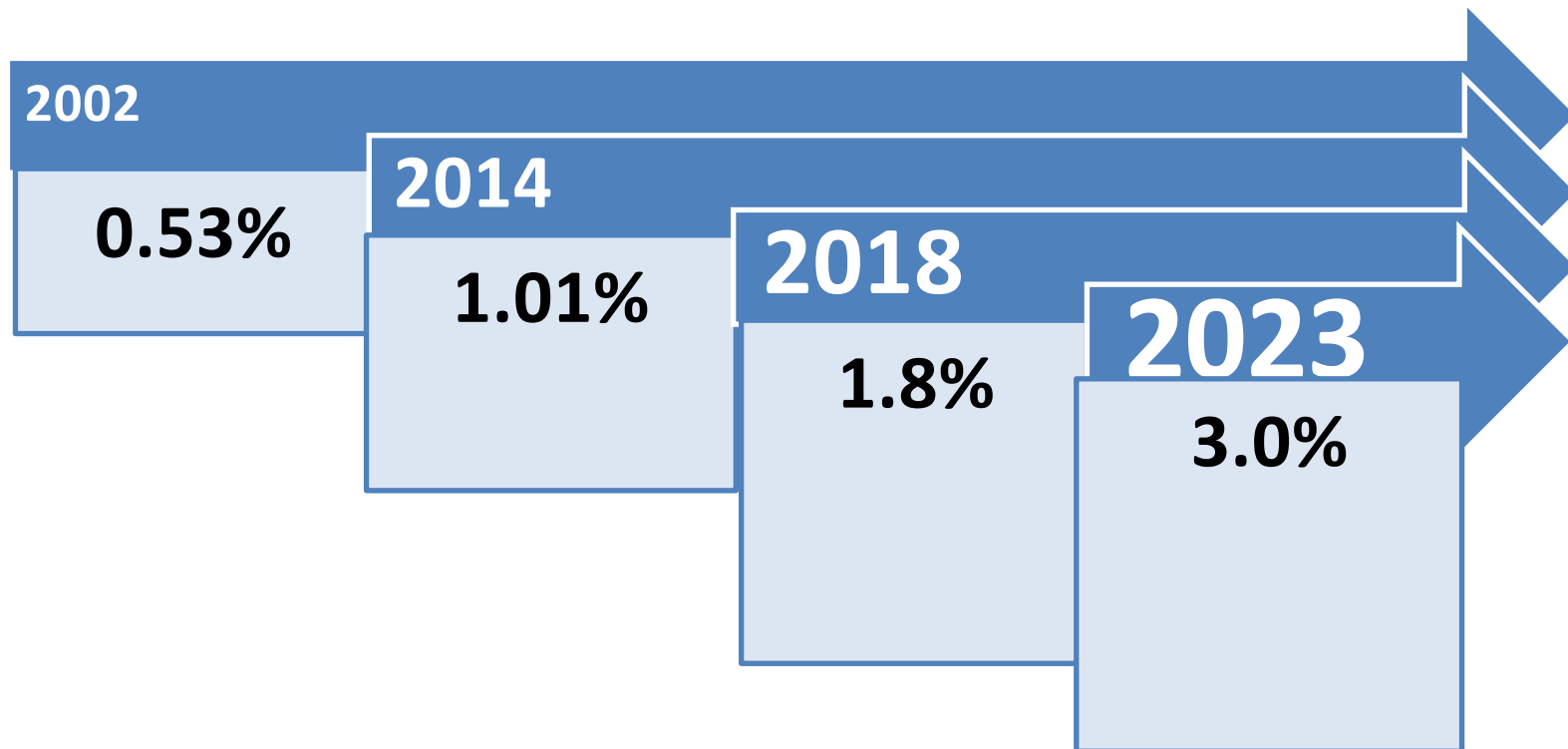


Moving up the Value Chain

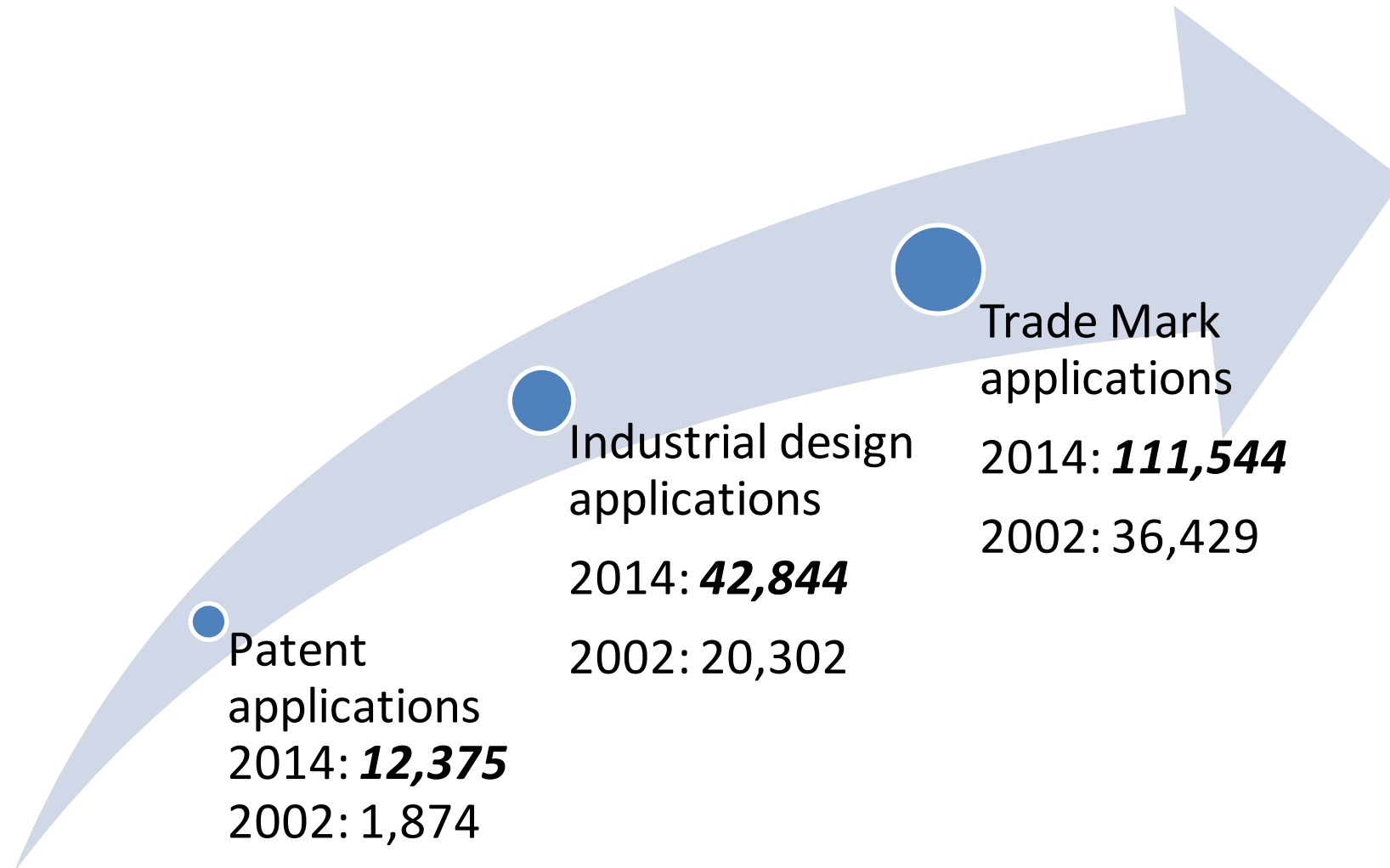


Source: TURKSTAT, Ministry of Development

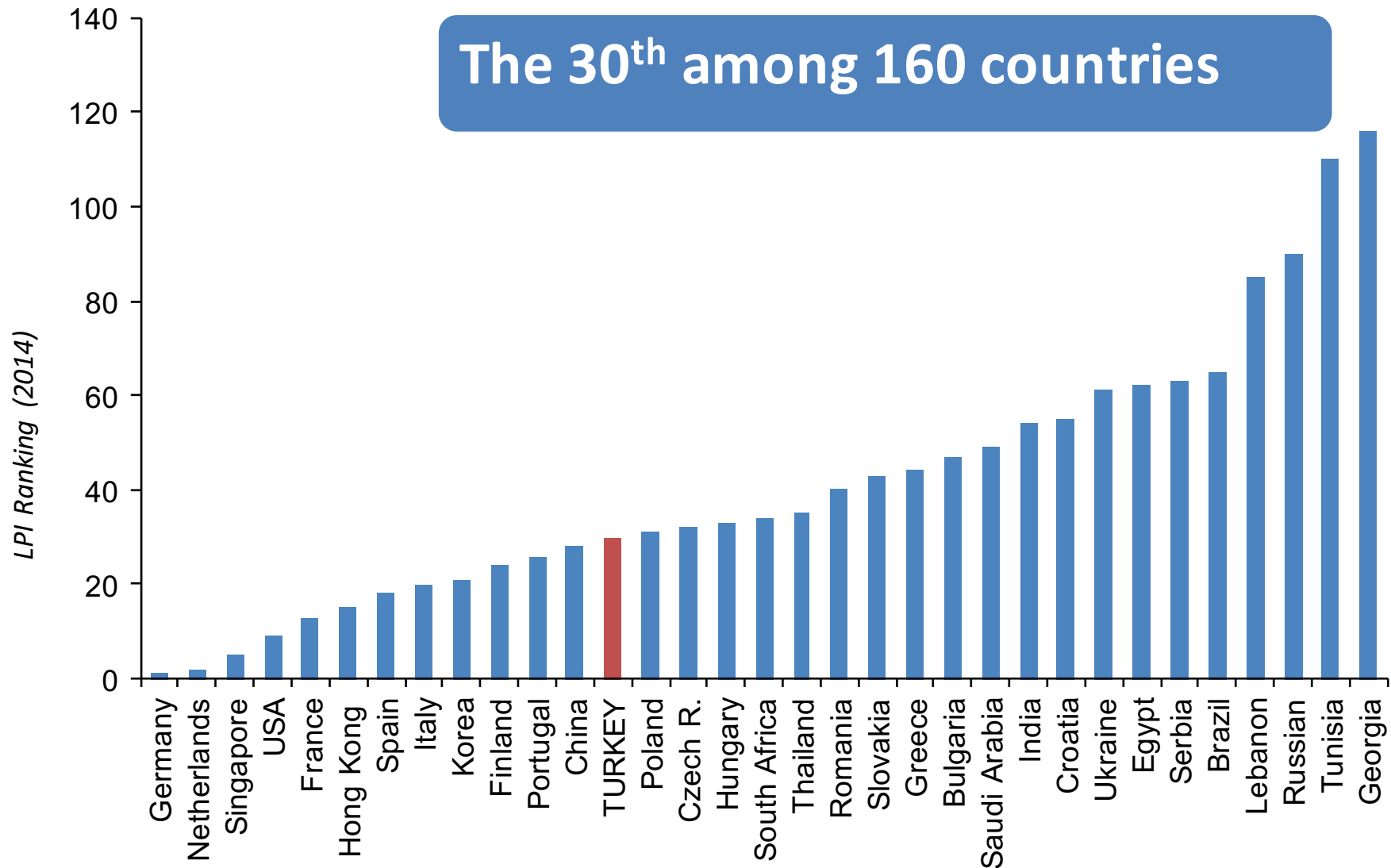
R&D Spending (% of GDP)



Patents, Industrial Designs & Trade Mark Applications



Turkey's Rank in Logistics



Source: LPI Database

Note: Smaller numbers indicate better performance



Public Finance Reform

Public Finance Reform

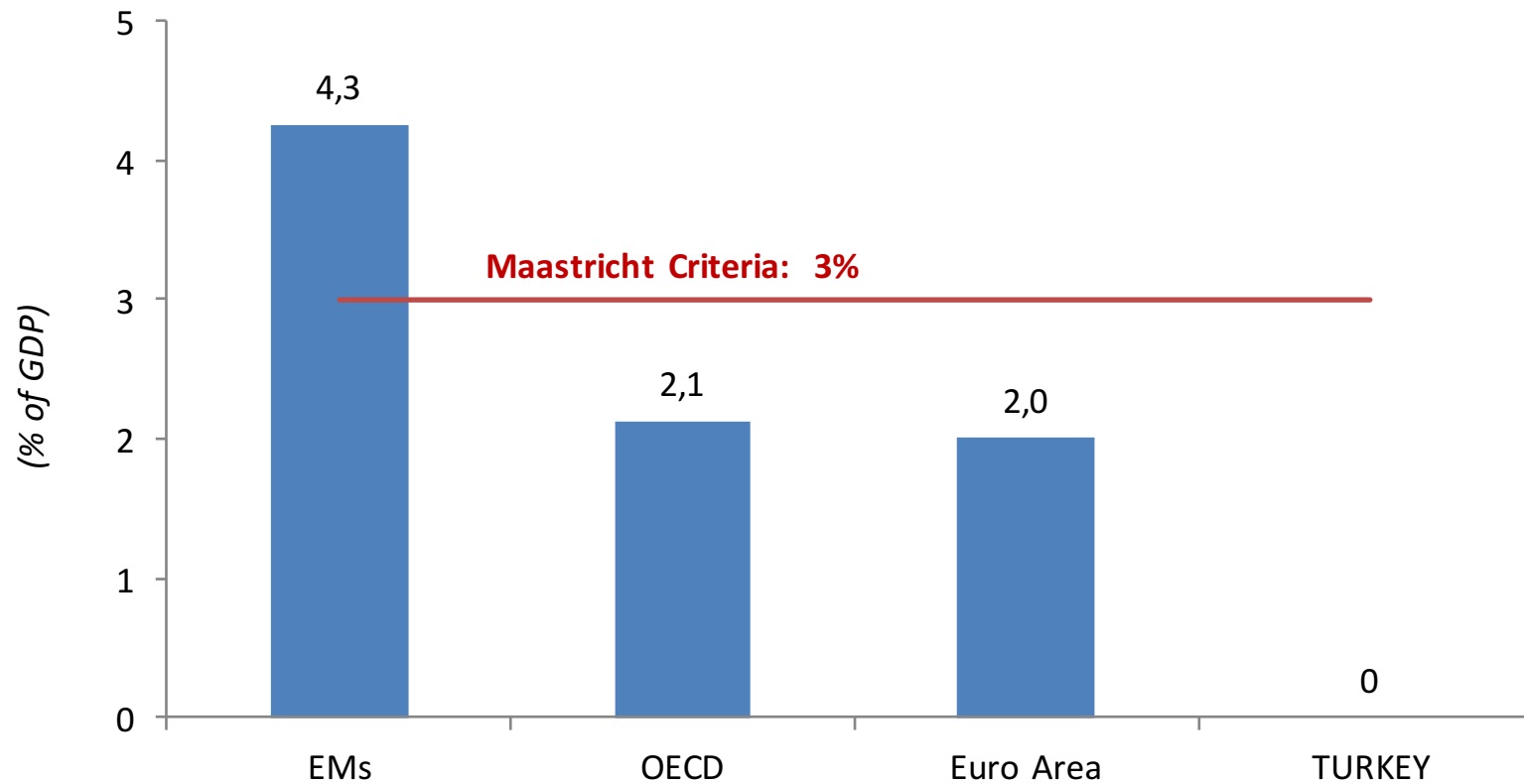
Income Tax Reform

Enhancing Tax Payers' Right (Tax Procedures Code)

Expenditure Reform

Performance Based Budgeting

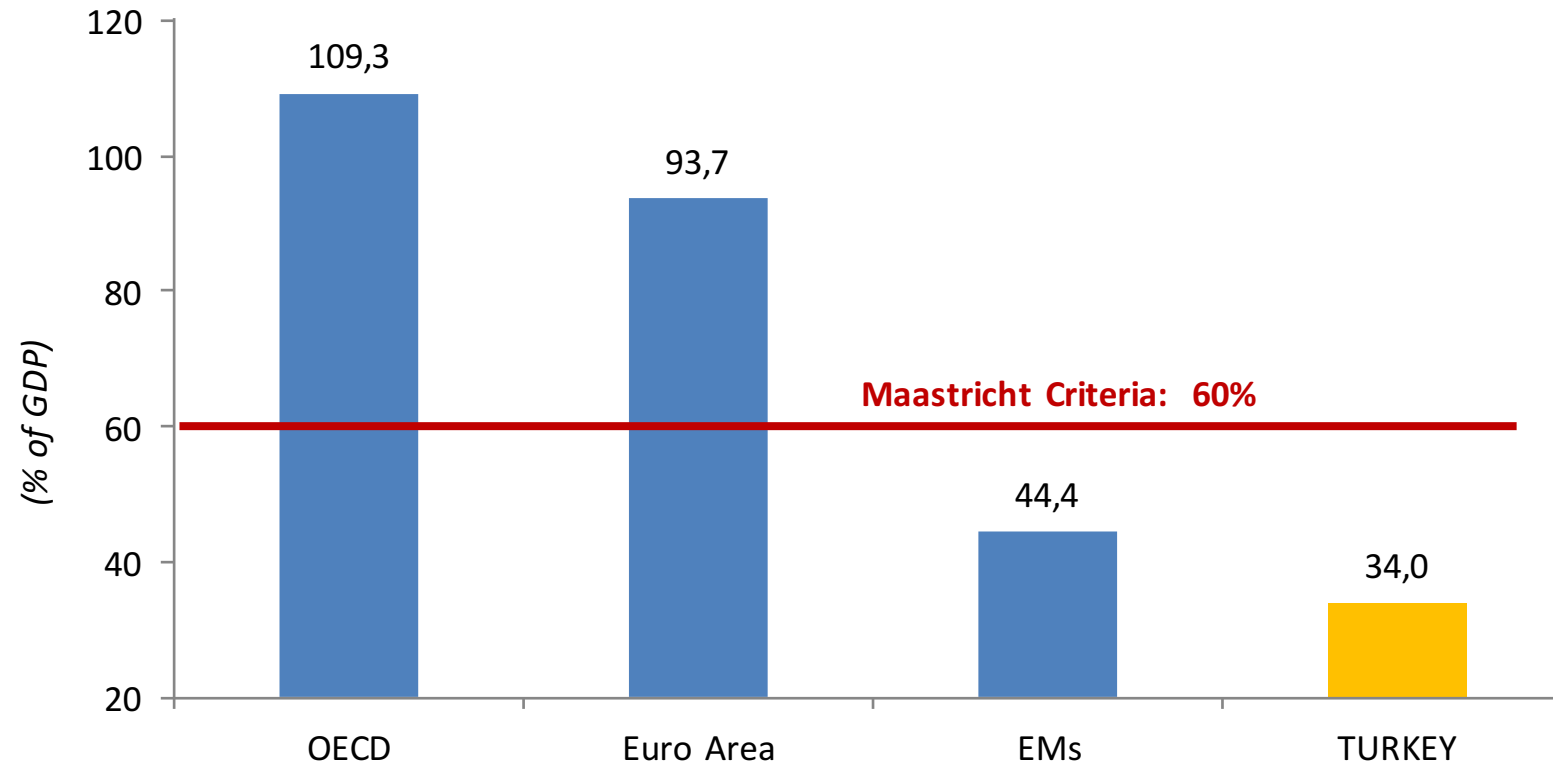
Turkey Has Low Fiscal Deficit* (2015)



Source: IMF, OECD, Ministry of Development

(*) Latest available

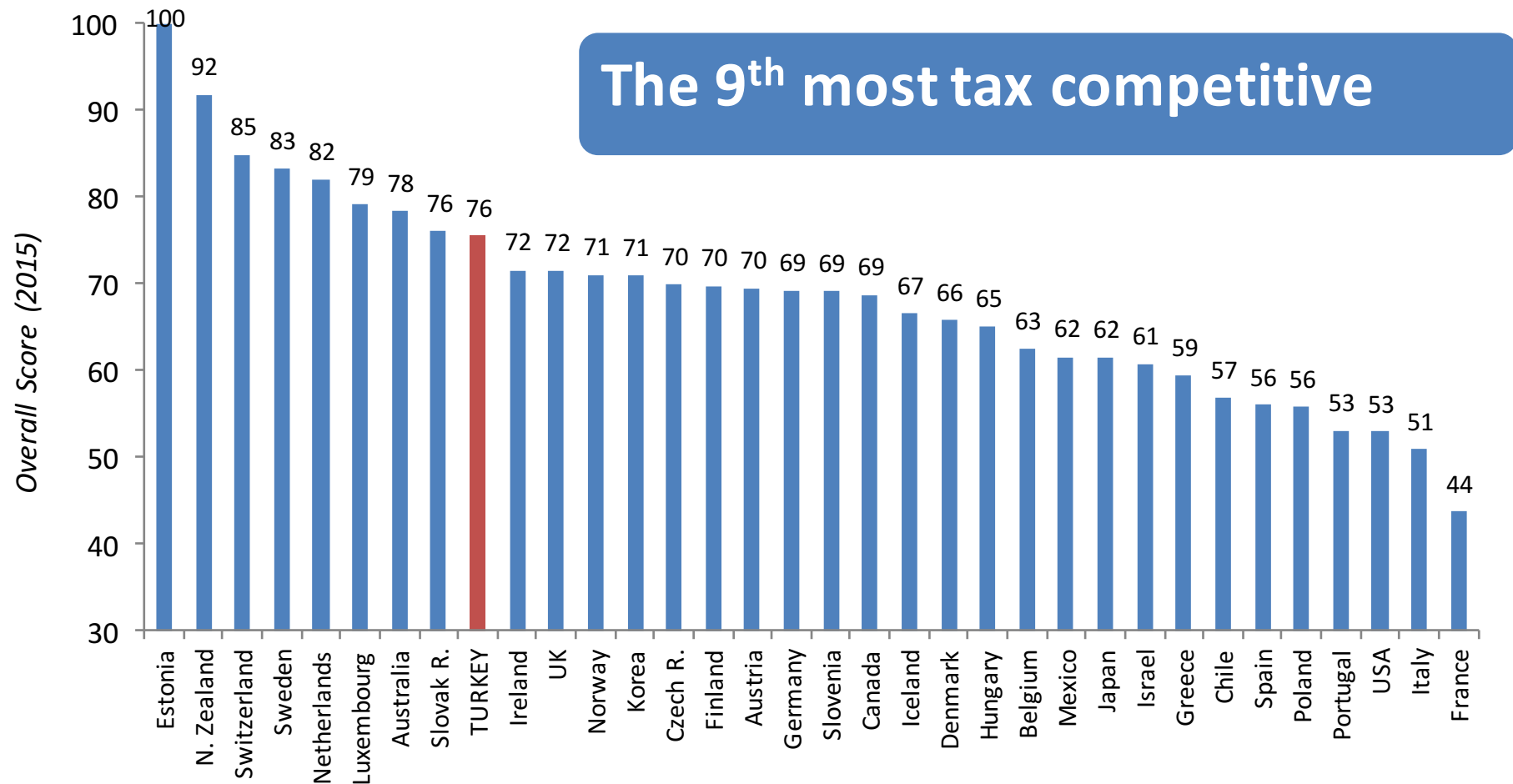
Turkey Has Low Public Debt* (2015)



Source: IMF, OECD, Ministry of Development

(*) Latest available

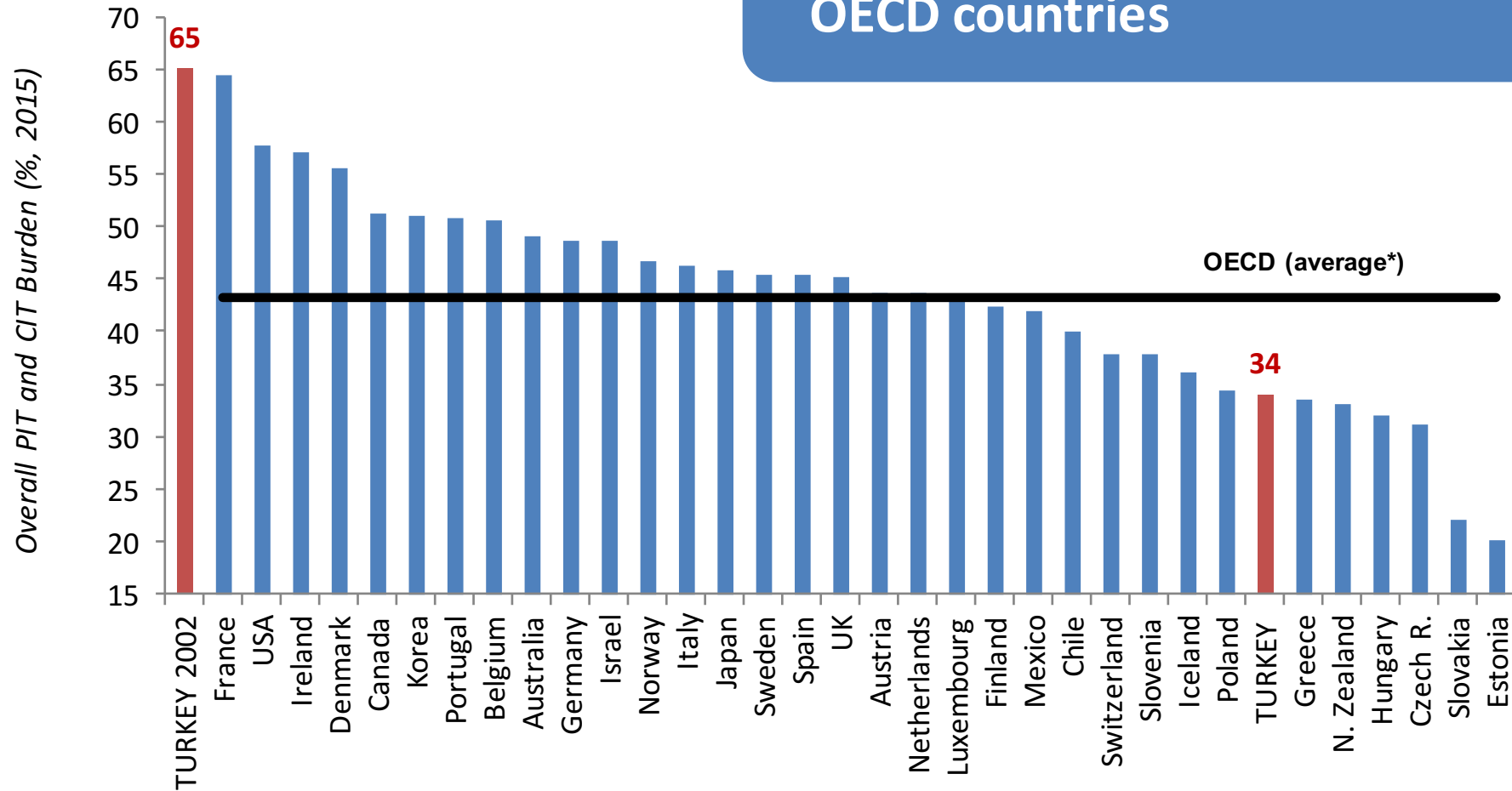
Tax Competitiveness



Source: International Tax Competitiveness Index 2015

Tax Burden on Corporates

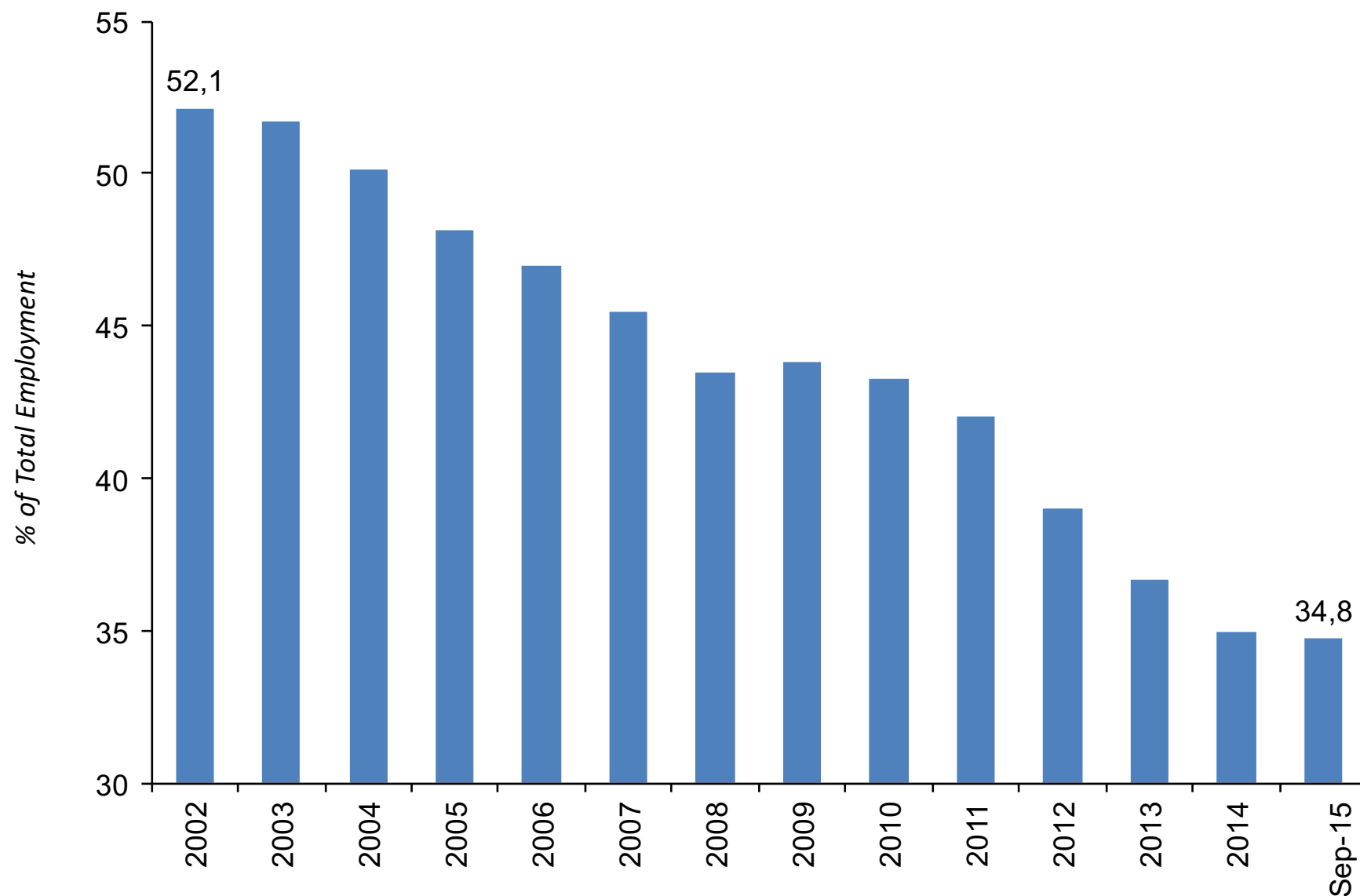
The 7th lowest among the OECD countries



Source: OECD

(*) Arithmetic average of the OECD countries

Informal Employment



Source: TURKSTAT



Judicial Reform

Reforming Judicial System

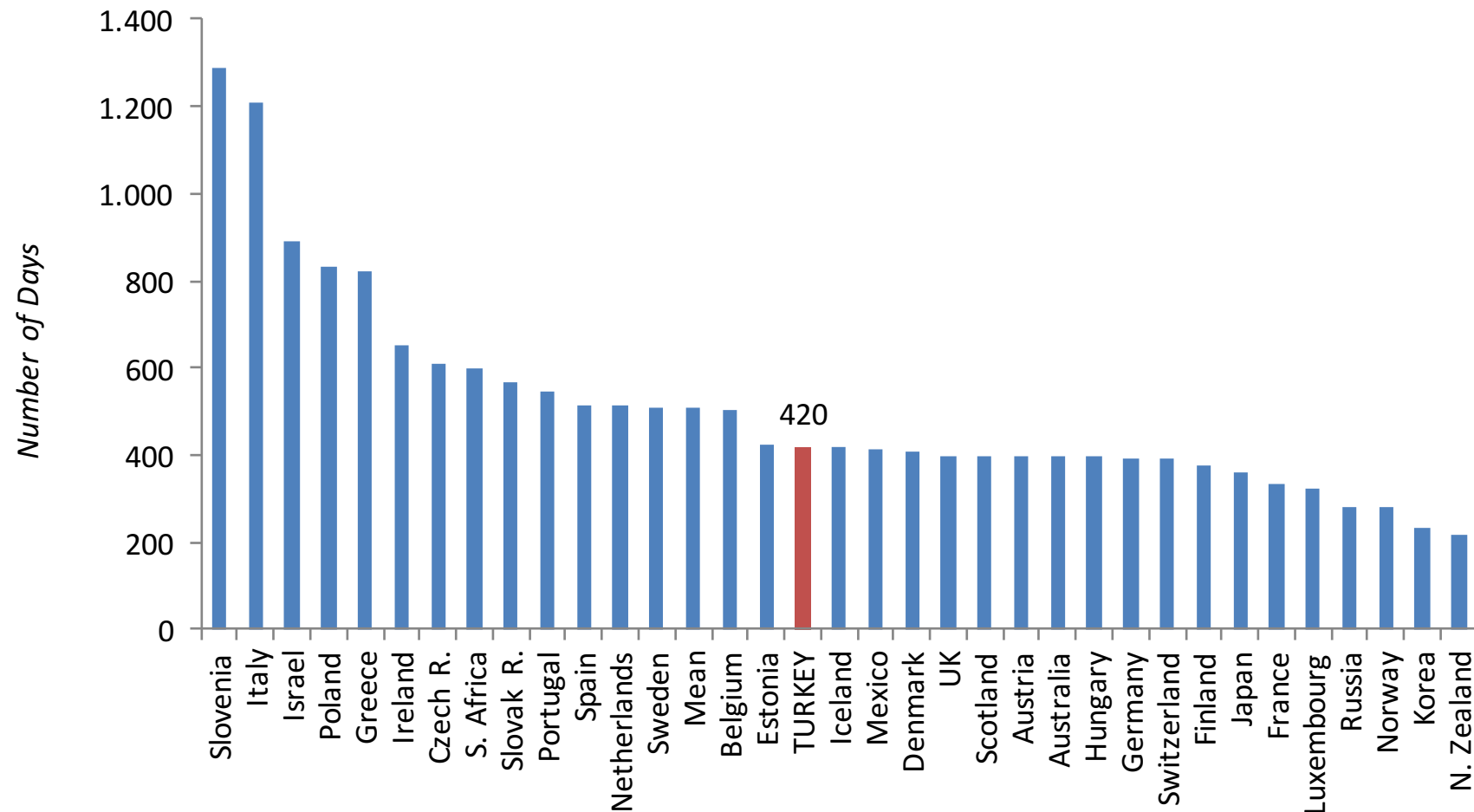
Modern
Arbitration
System

Specialized
Courts

Expert
Witness
Mechanism

Creation of
New Appeals
Court

Trial Length (Business Cases)



Source: OECD (2013), "What makes civil justice effective?", OECD Economics Department Policy Notes, No. 18.



Education Reform

Education Reform

Teachers Training

Performance
Measurement &
Quality Index

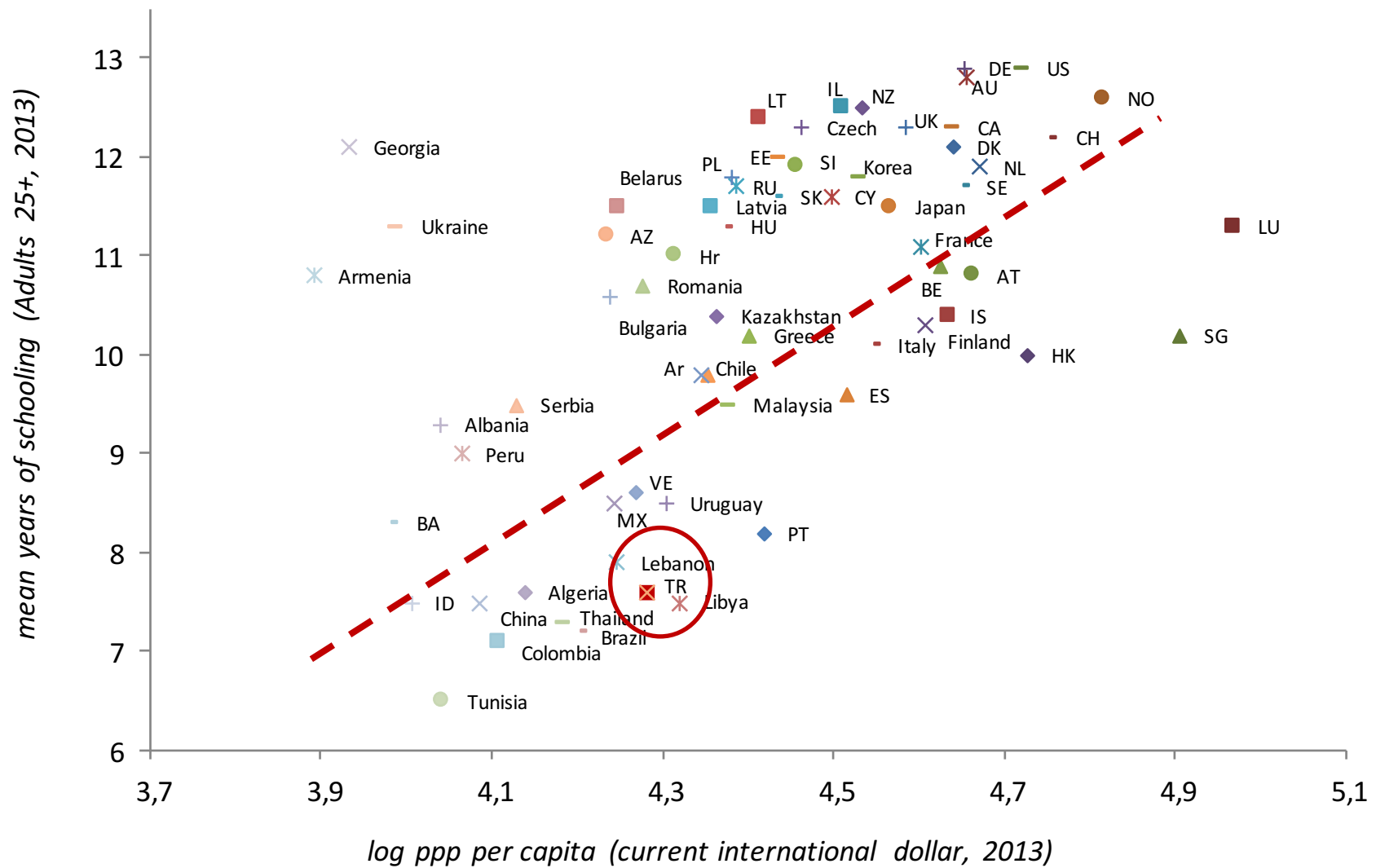
Vocational &
Technical Training

School-Based
Budgeting

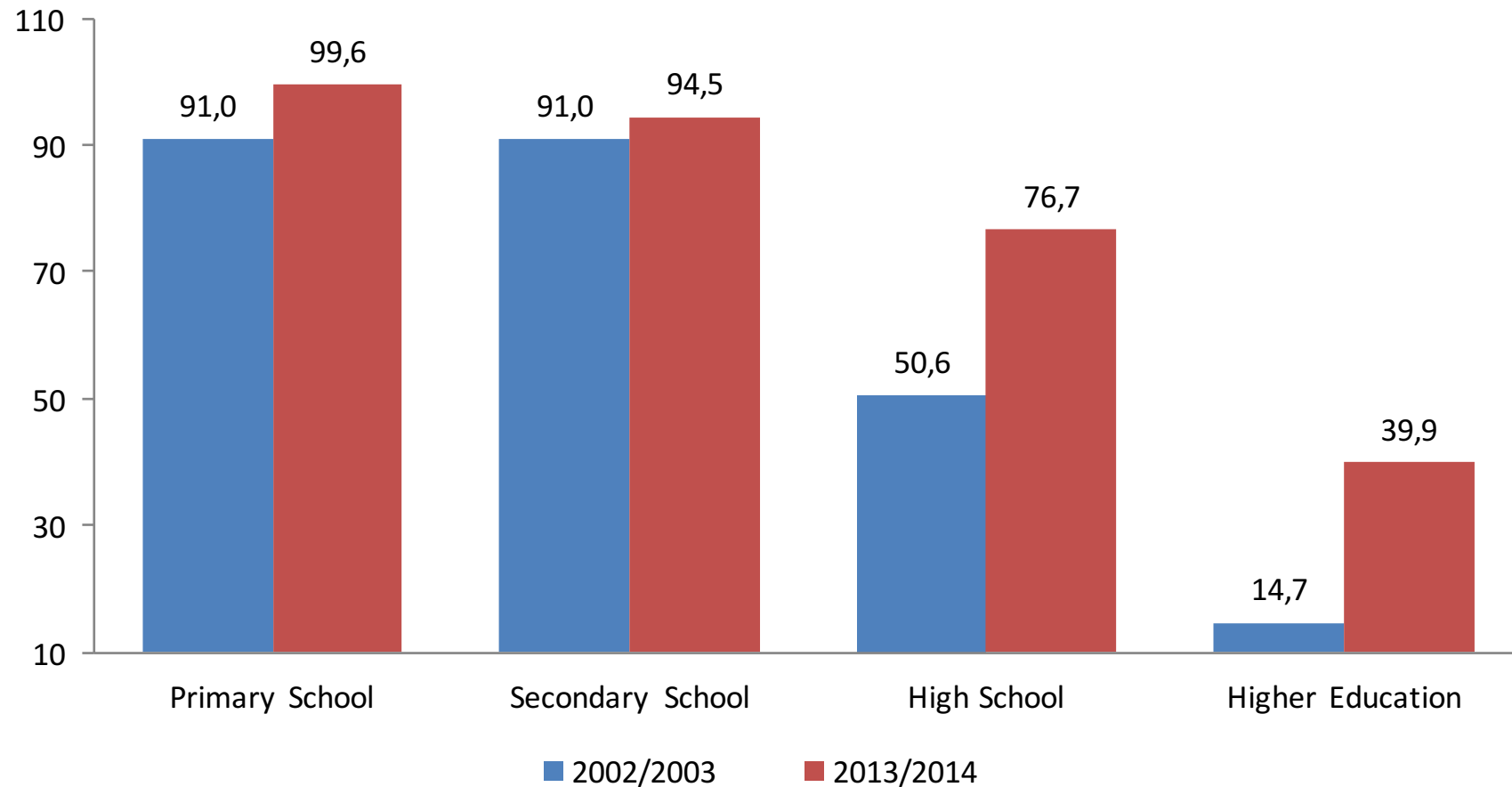
Foreign Language
Education

Life-Long Learning

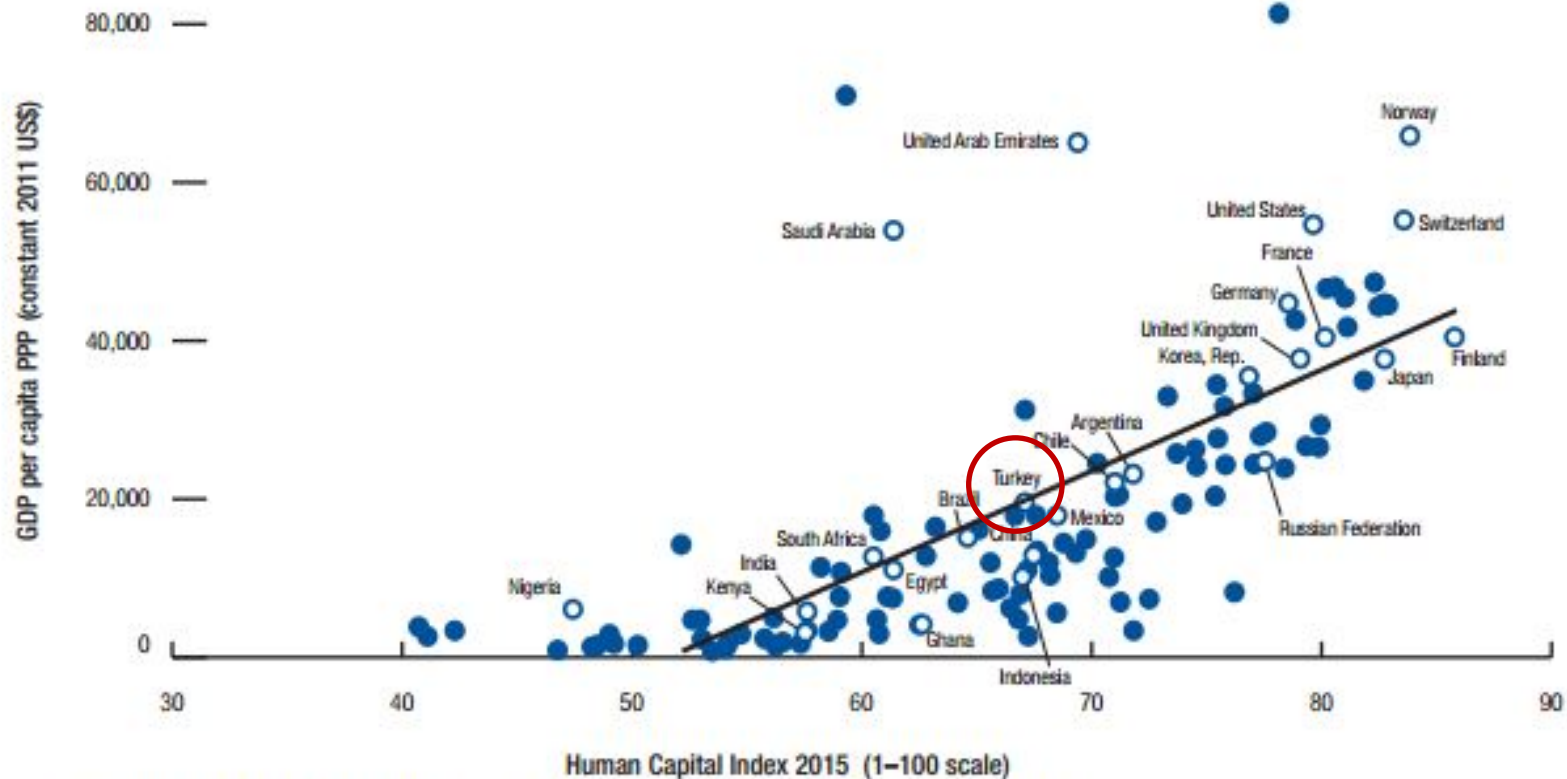
Education matters



Net Schooling Rate (%)



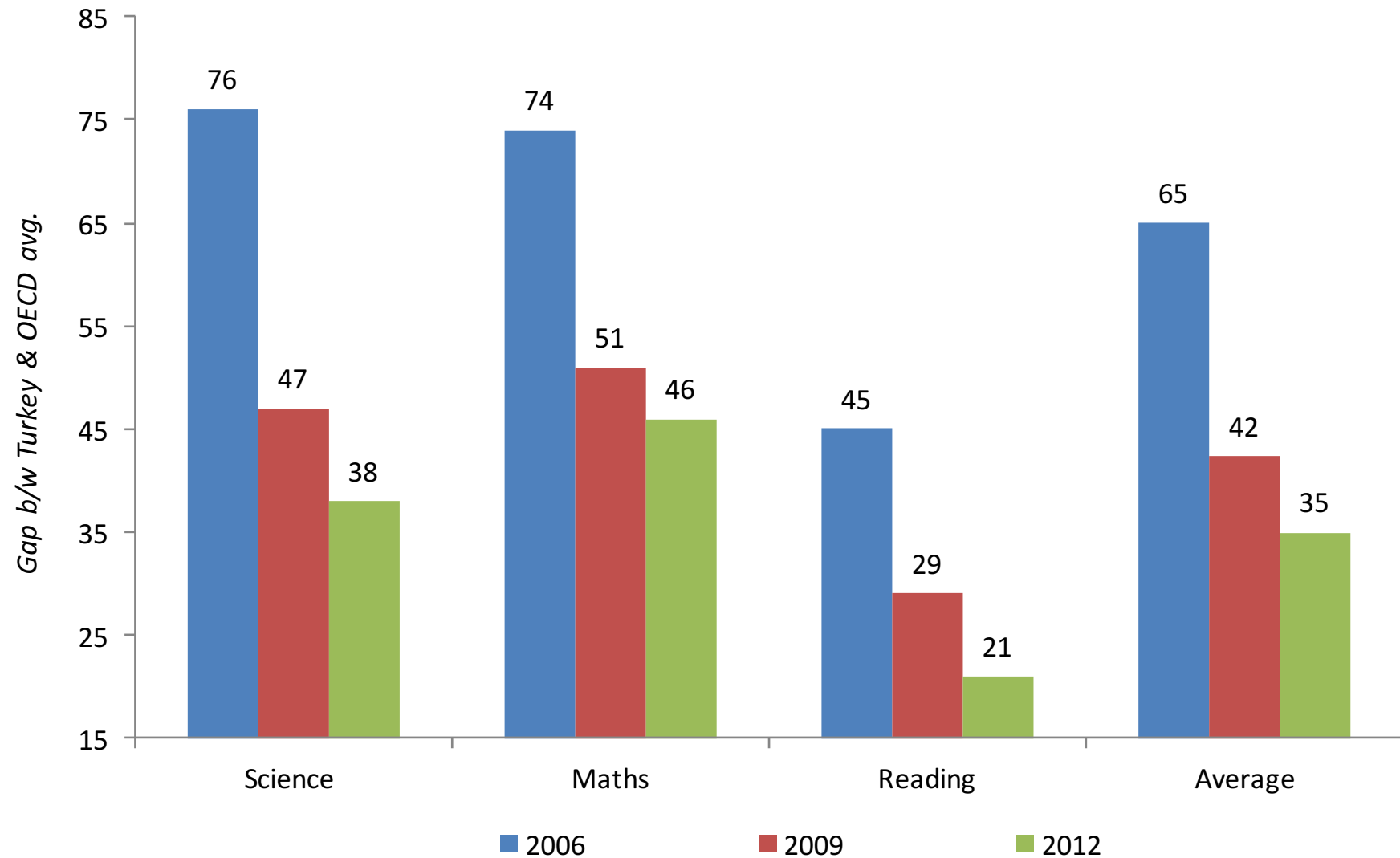
Nation's IQ matters



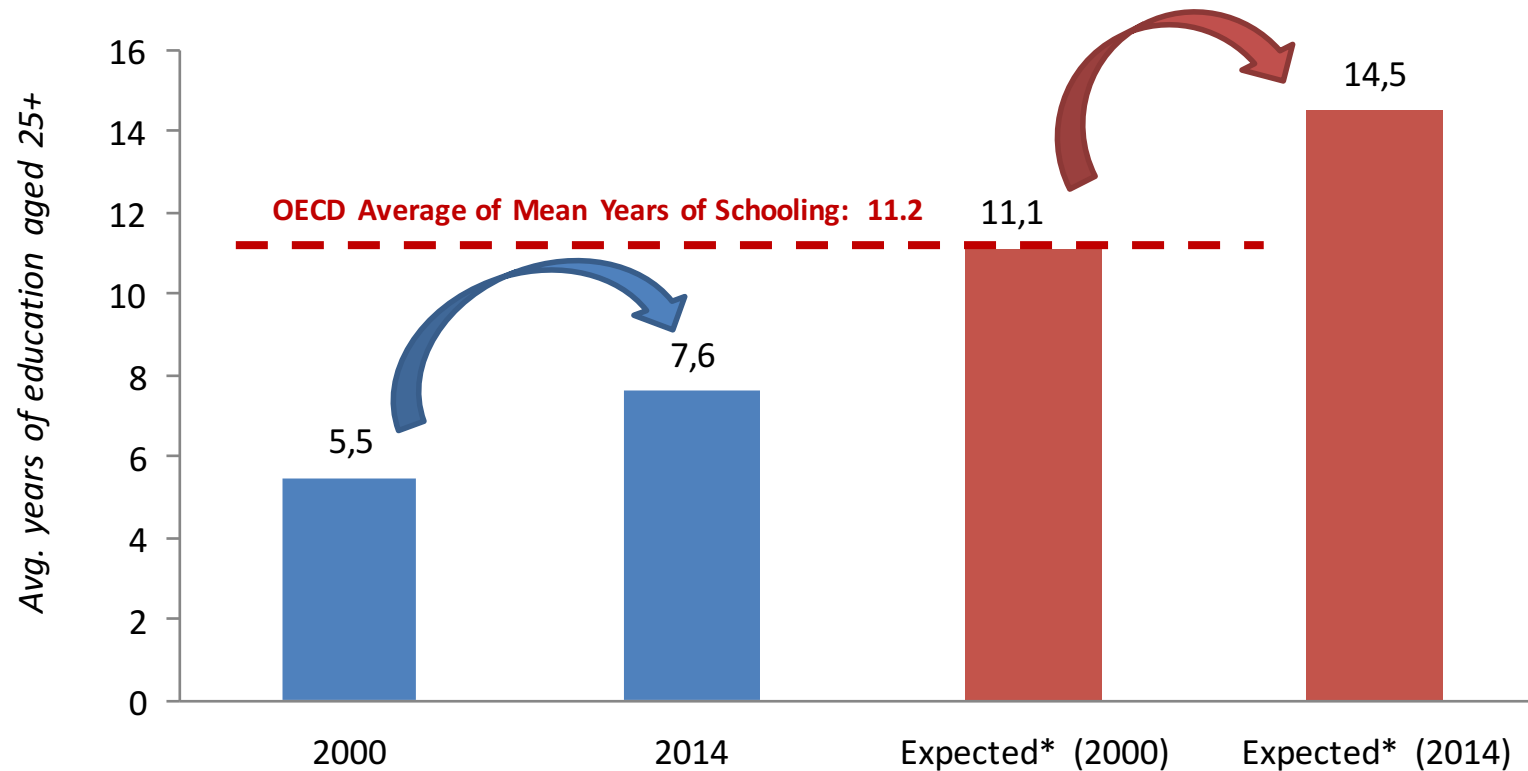
Source: Human Capital Index 2015 and the World Bank's World Development Indicators online database, accessed April 2015.

Note: Not in graph: Luxembourg, Qatar.

Quality of Education is improving (PISA Results)



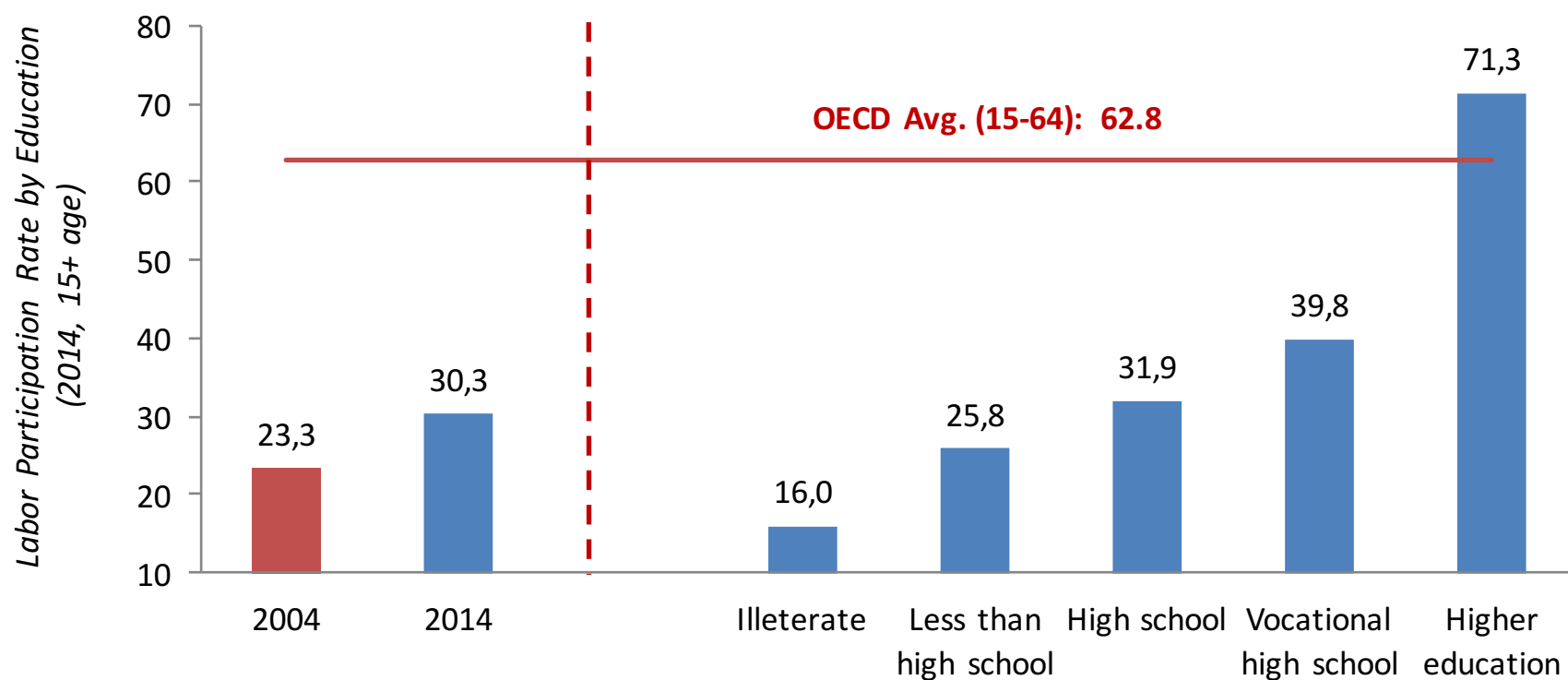
Quality of Human Capital Stock is rising



Source: UNDP, Human Development Reports.

(*) Number of expected years of schooling for children of school entrance age.

Rising Female Labor Force Participation





Liberalization

Privatizations & Liberalization

1980s

- From import substitution to market economy

2000s

- Privatizations & More competition

Going Forward

- Further progress in liberalization of energy sector, railway transportation & sugar industry

Energy Market Reform

Easing Licensing &
Permits

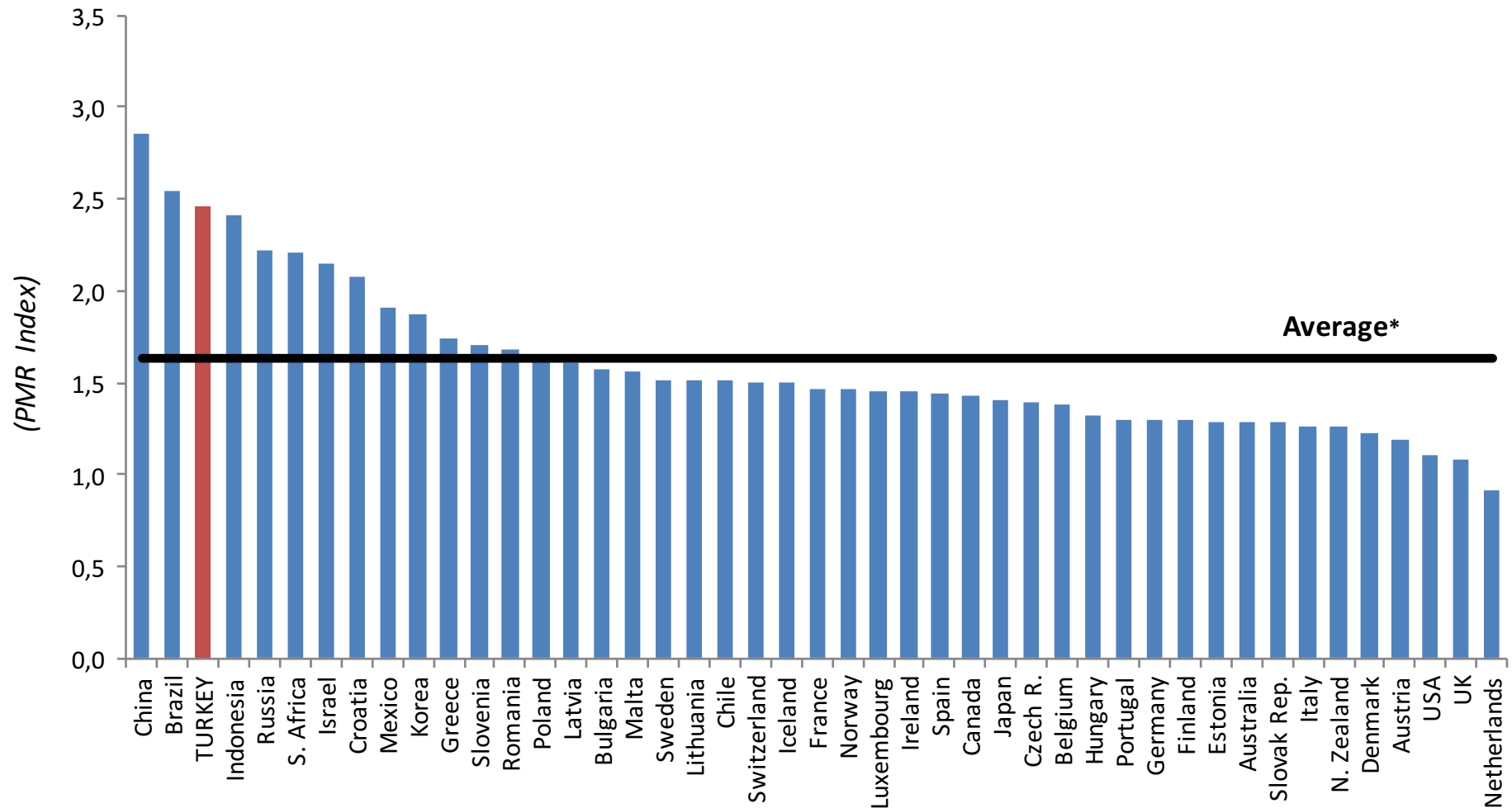
Tax Incentives to
Promote Energy
Efficiency

Reducing Red Tape
in Energy
Investments

Incentives for
Increasing Energy
Efficiency in
Buildings

Privatization

Product Market Regulation



Source: OECD

Note: The higher index value, the more restricted the product market in the country

(*) Average of the countries in the graph

Public Administration Reform

Public
Personnel
Reform

Quality of
Public Service

e-State

Productivity,
Accountability
& Transparency



EU Accession Process

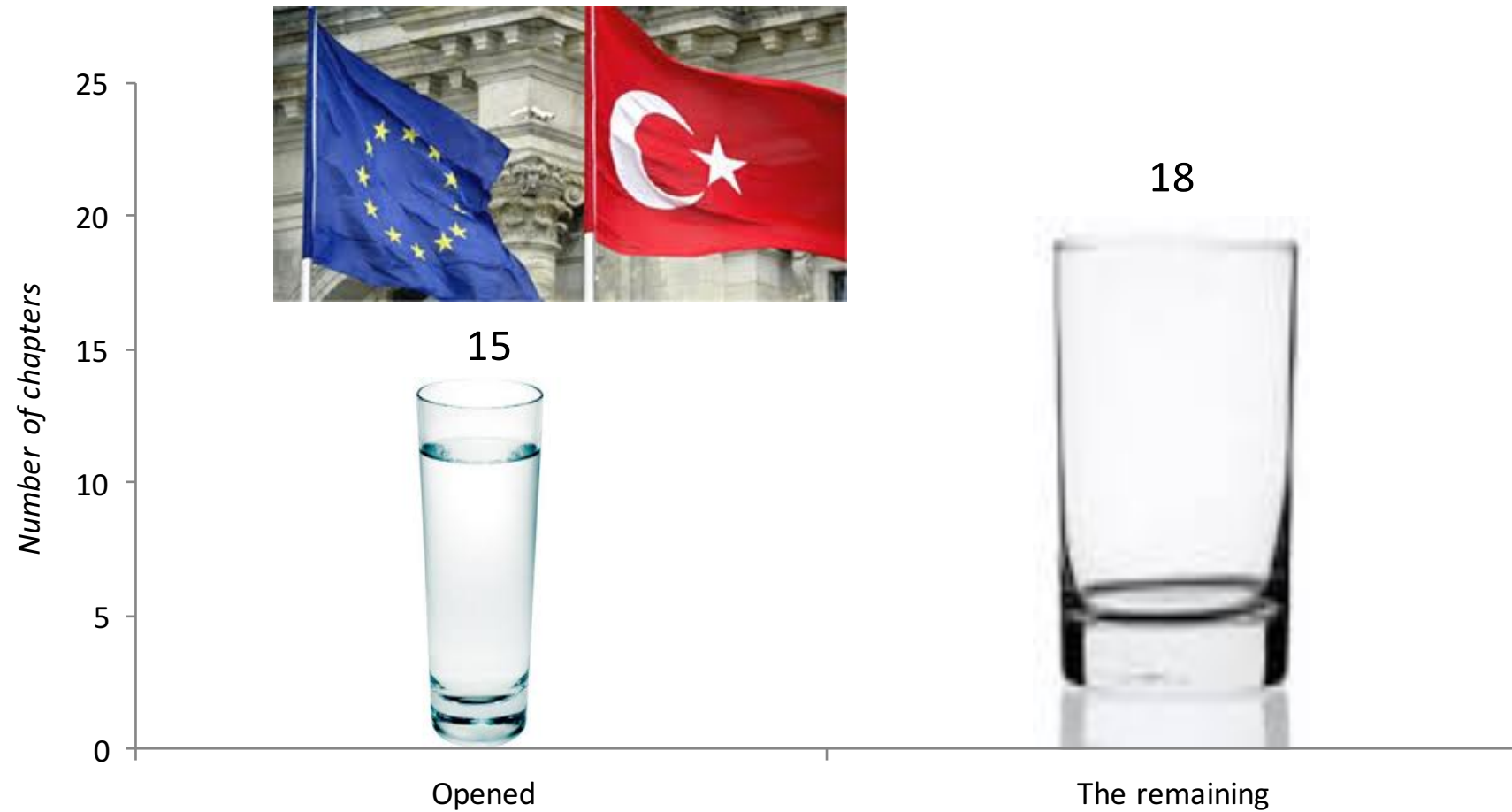
EU: The Engine of Wholesale Transformation

Enhancing Rule of Law

Increasing Standards of Democracy

Improving Quality of Institutions

EU Accession Process



EU Accession Process: What Next?

Enhancing Customs Union Agreement

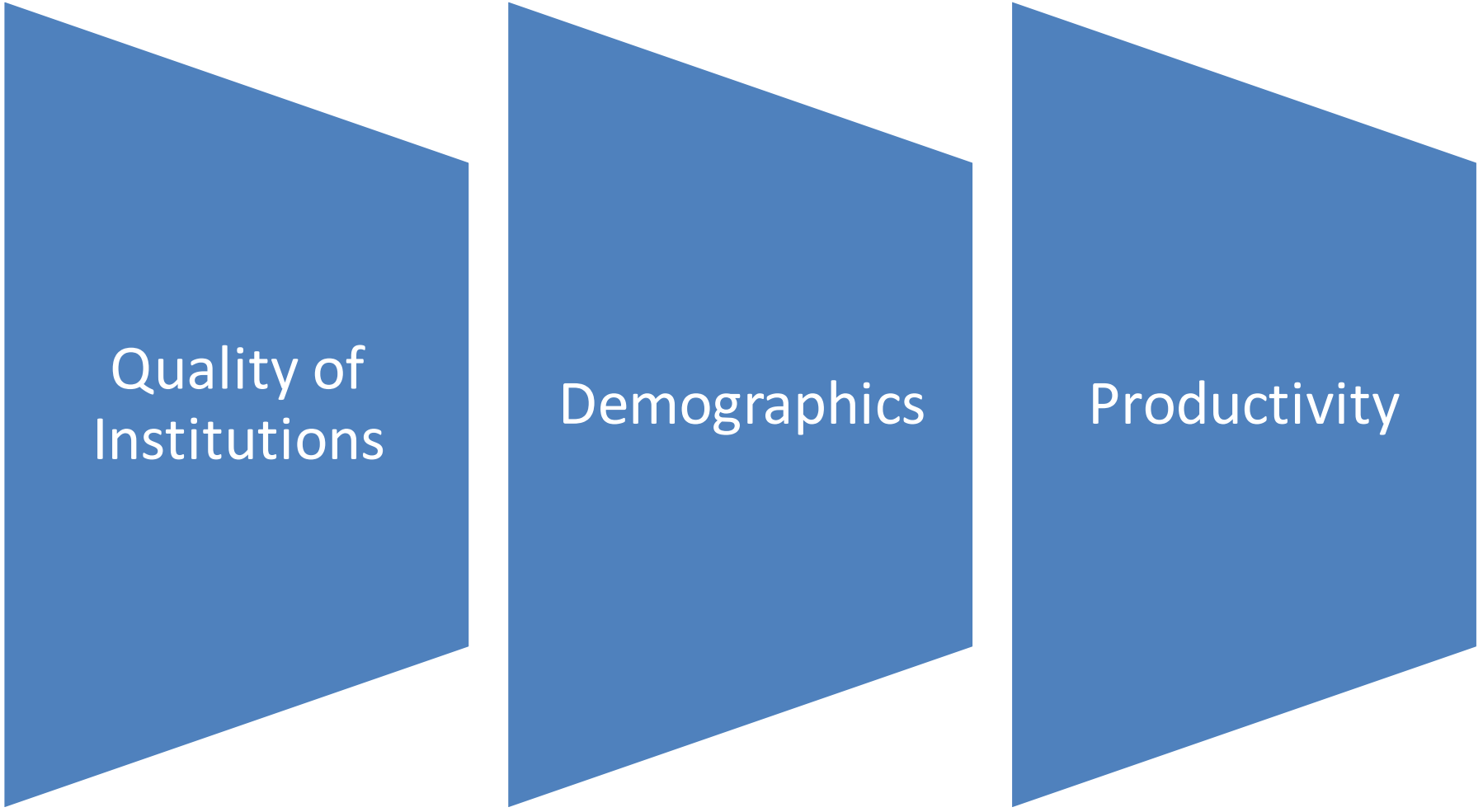
Readmission Agreement

Visa Exemption



Long-Term Outlook

Determinants of Long-Term Growth

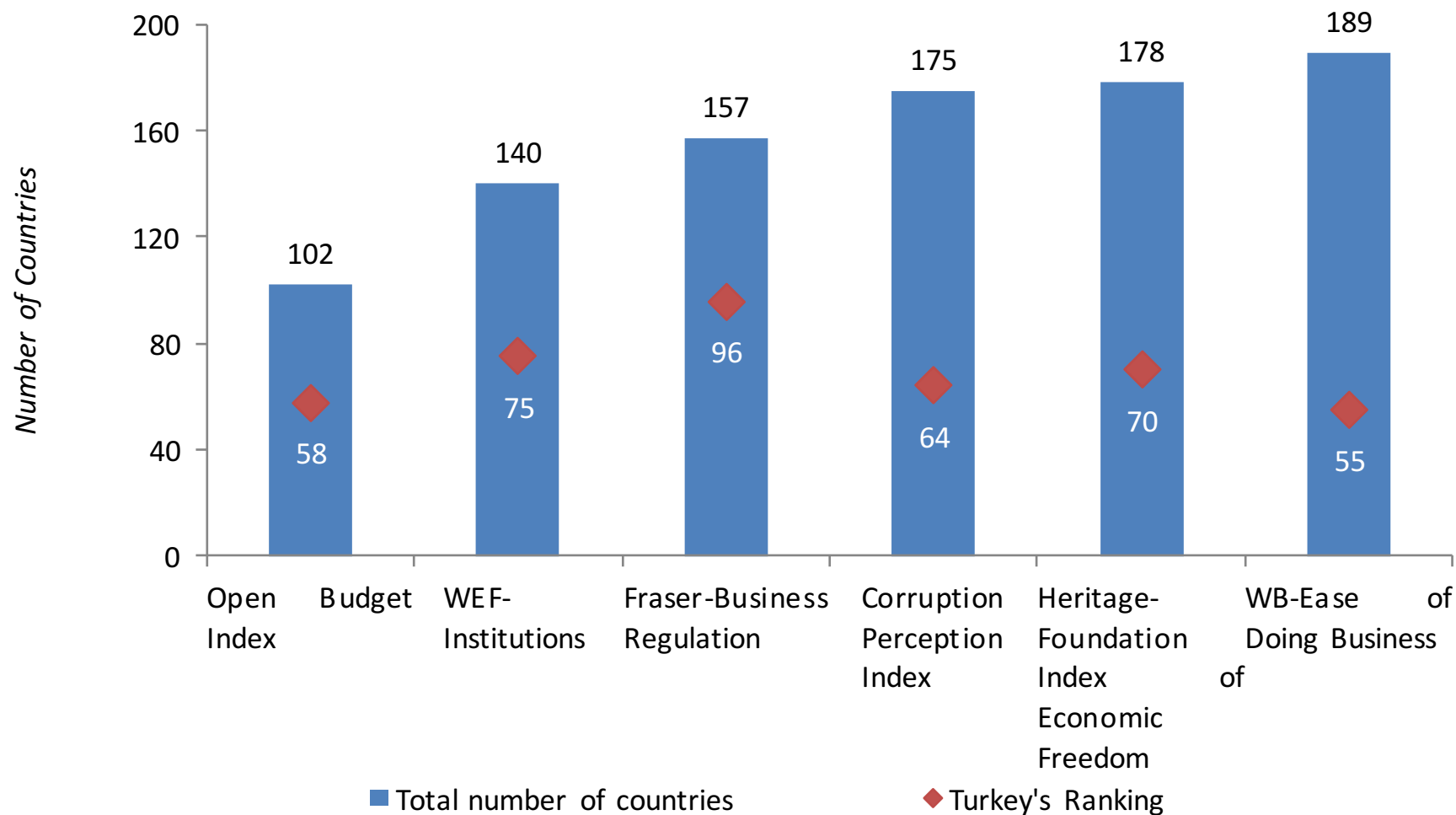


Quality of
Institutions

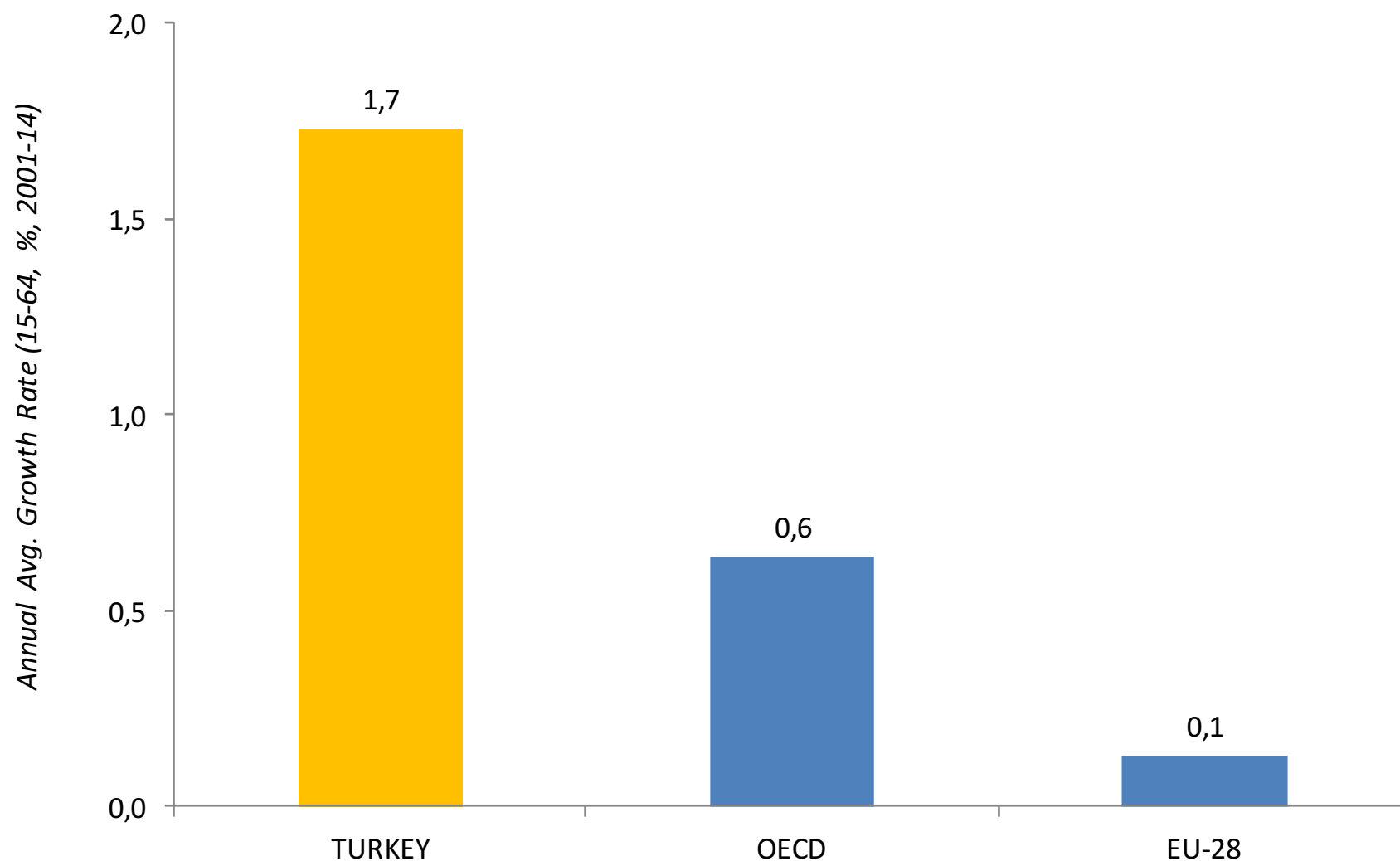
Demographics

Productivity

Quality of Institutions



Demographics: Working Age Population Growth



Rising Labor Force Participation



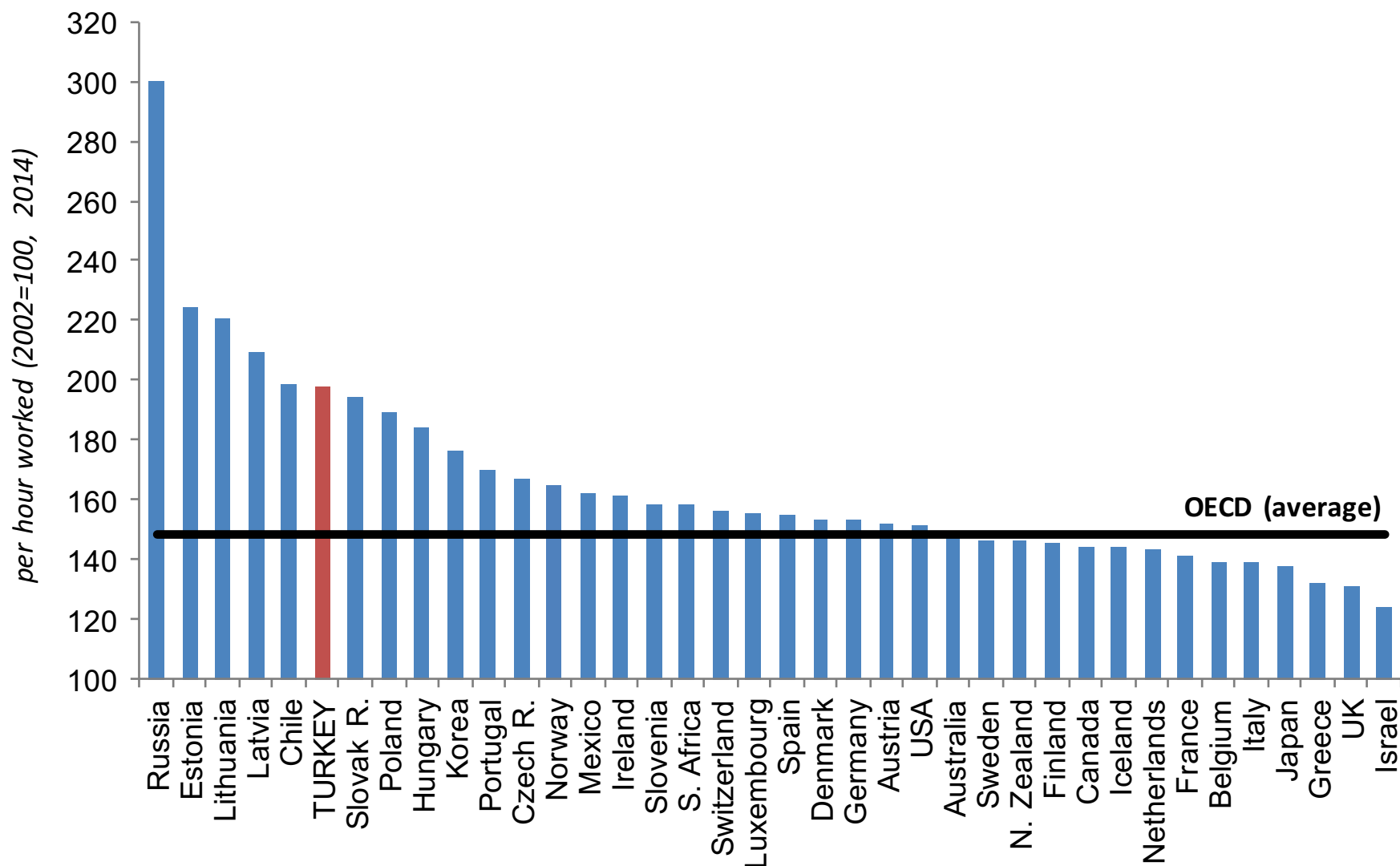
Boosting Productivity

Structural Reforms

Infrastructure Investments

More Competition in Product
Markets

Productivity Index



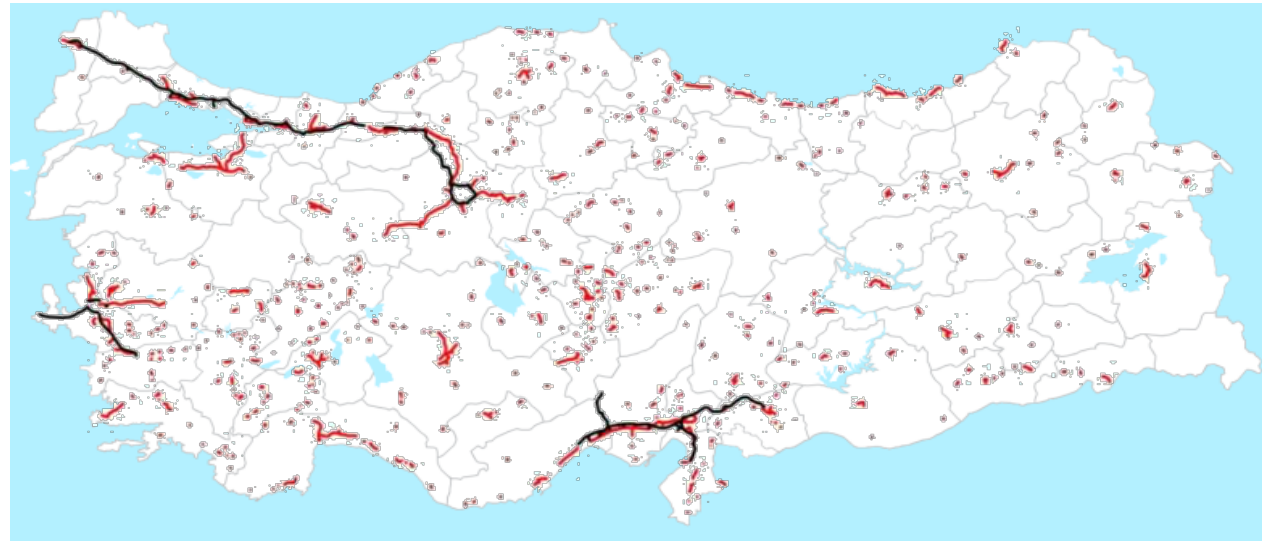
Highway Network

January 2003

1,714 Km
Total of Motorways

4,387 Km
Total of State and
Provincial Dual
Carriageways

6,101 Km
in Total



December 2015

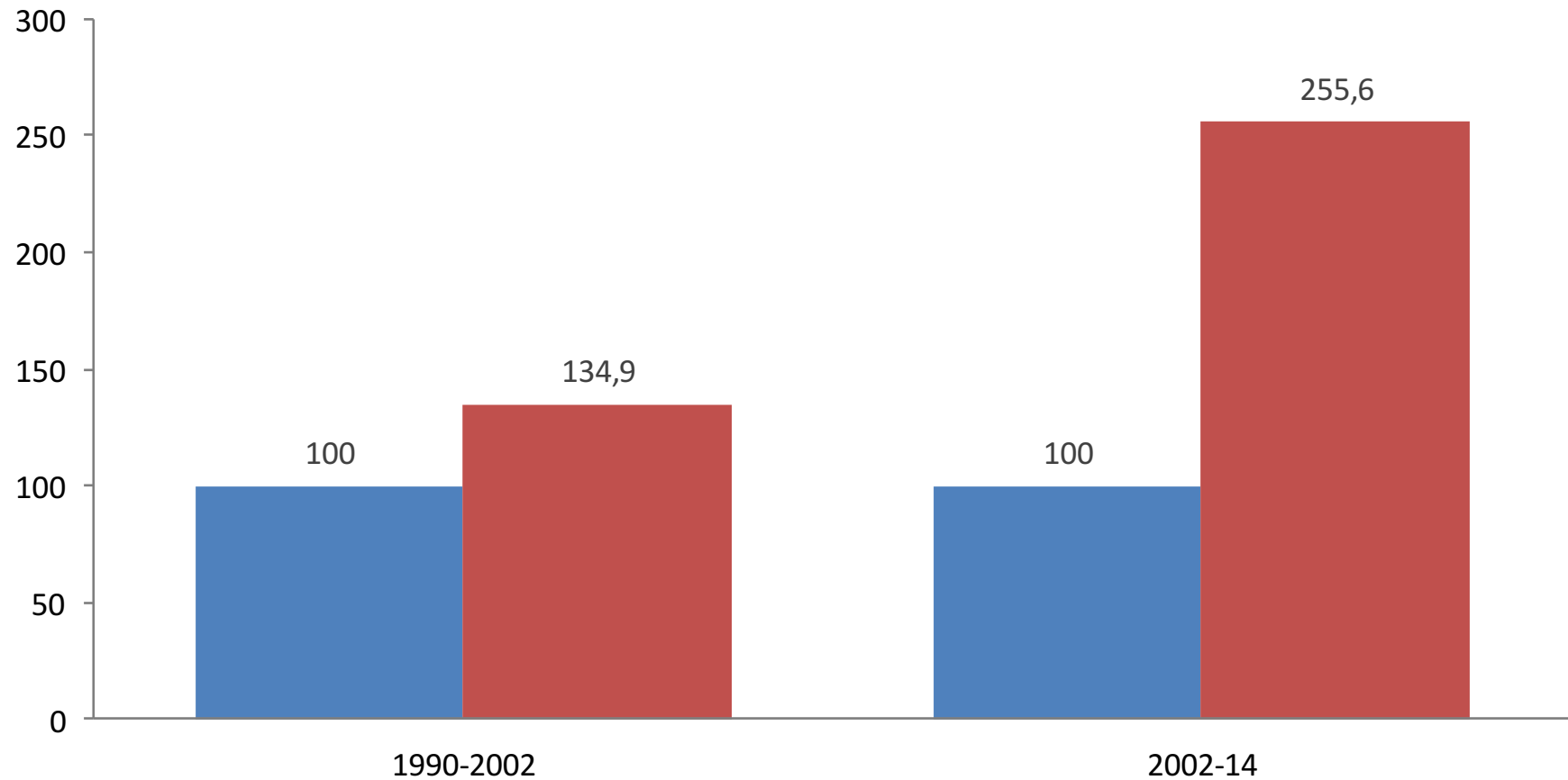
2,289 Km
Total of Motorways

21,994 Km
Total of State &
Provincial Dual
Carriageways

24,263 Km
in Total



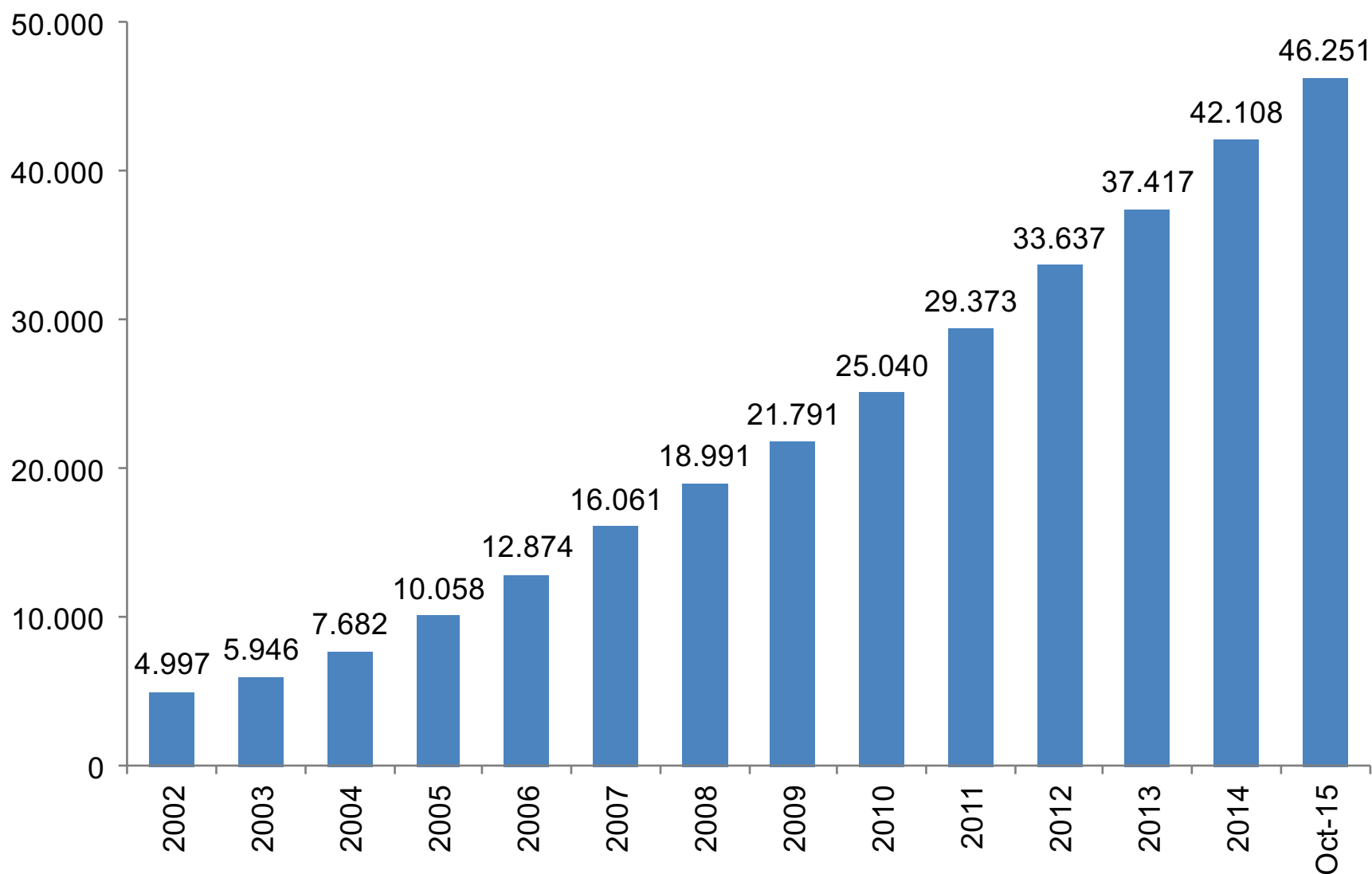
Private Sector Investments



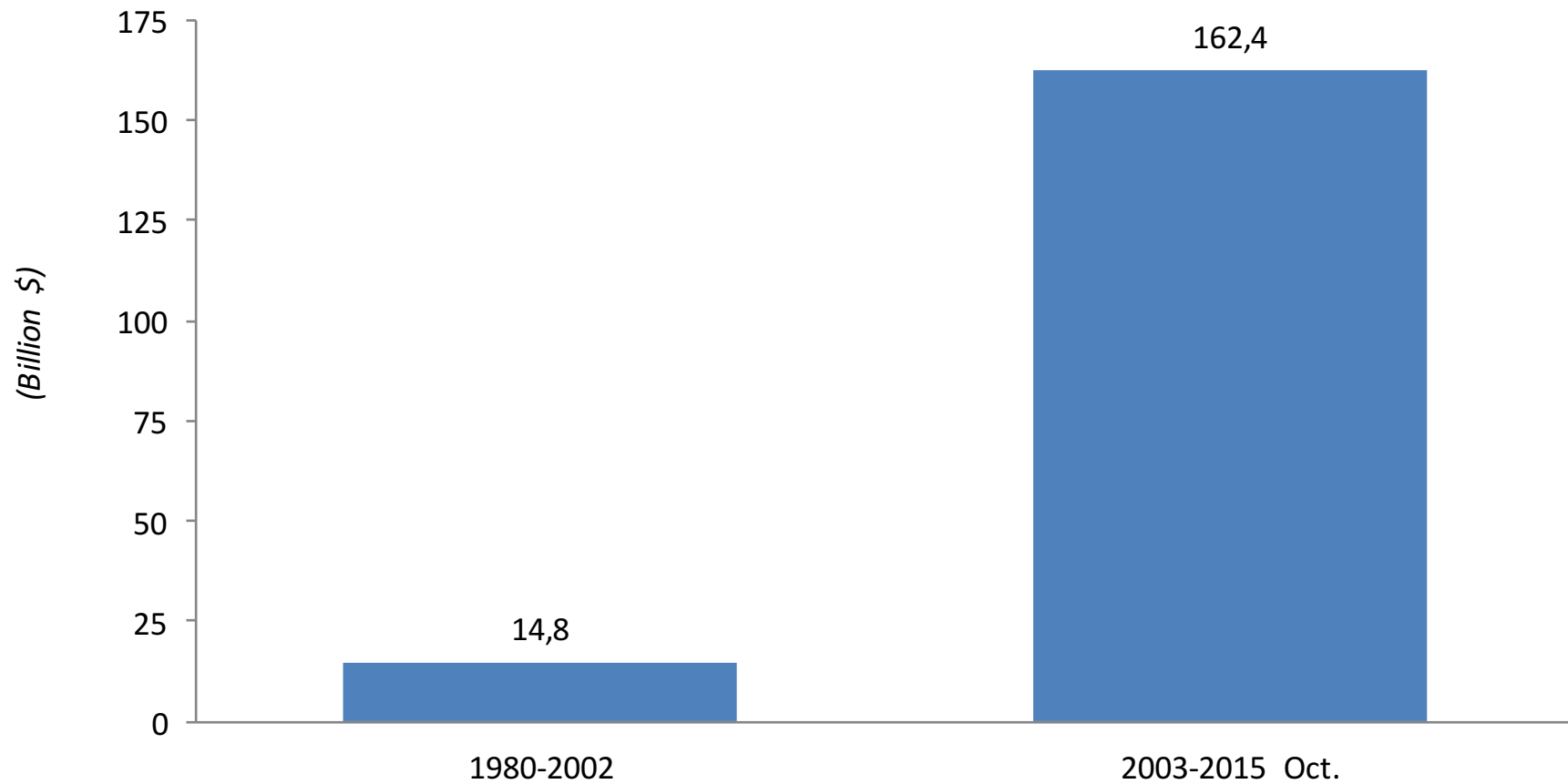
■ 1990 Real Level of Investments = 100, 2002 Real Level of Investments = 100

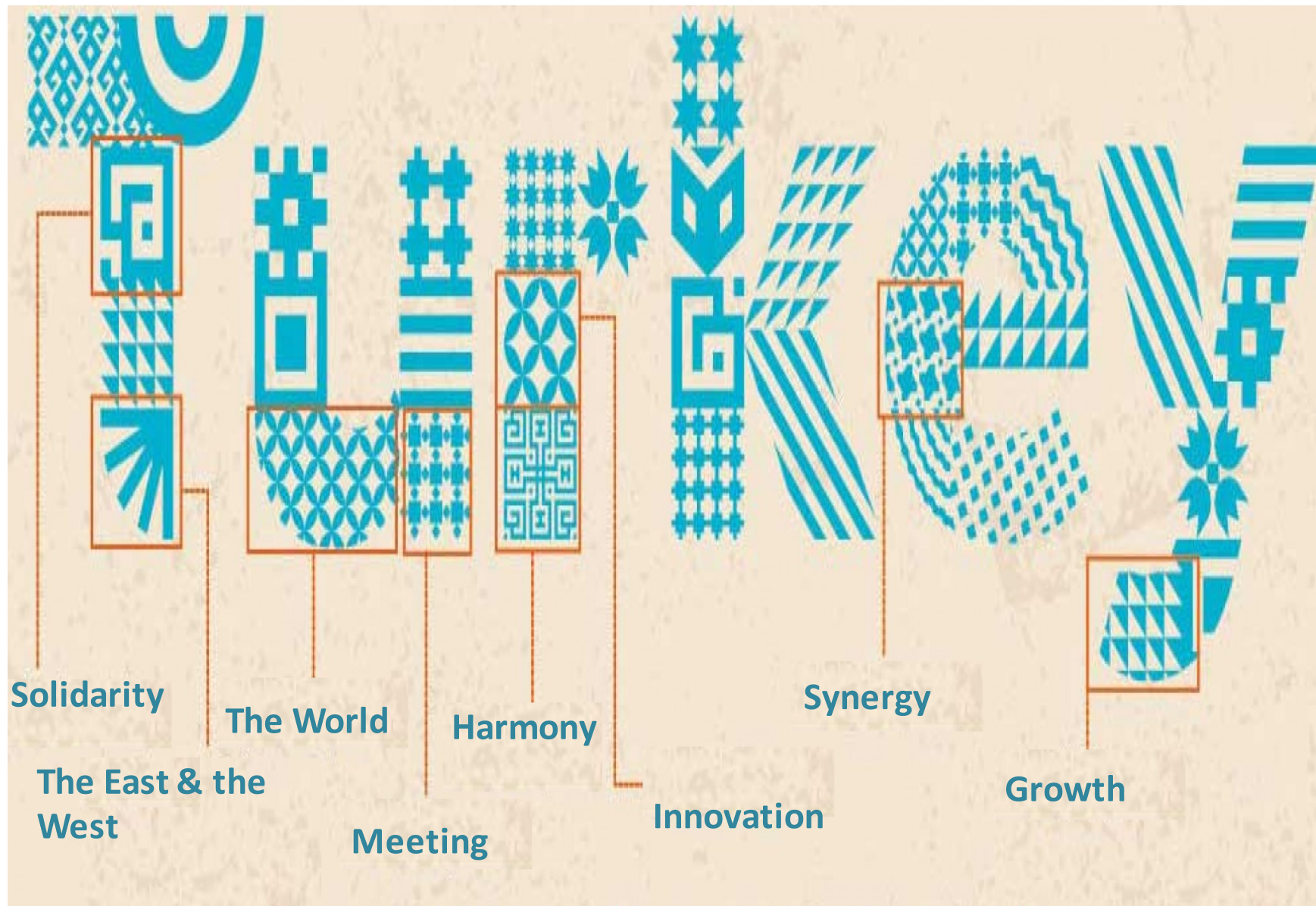
■ 2002 Real Level of Investments (1990 = 100), 2014 Real Level of Investments (2002 = 100)

Number of Int'l Companies in Turkey



FDI Inflows





THANK YOU...