Jeddah Economic Forum

Mehmet ŞİMŞEK

Deputy Prime Minister, Turkey

March 1, 2016

Outline

Global Economic Outlook

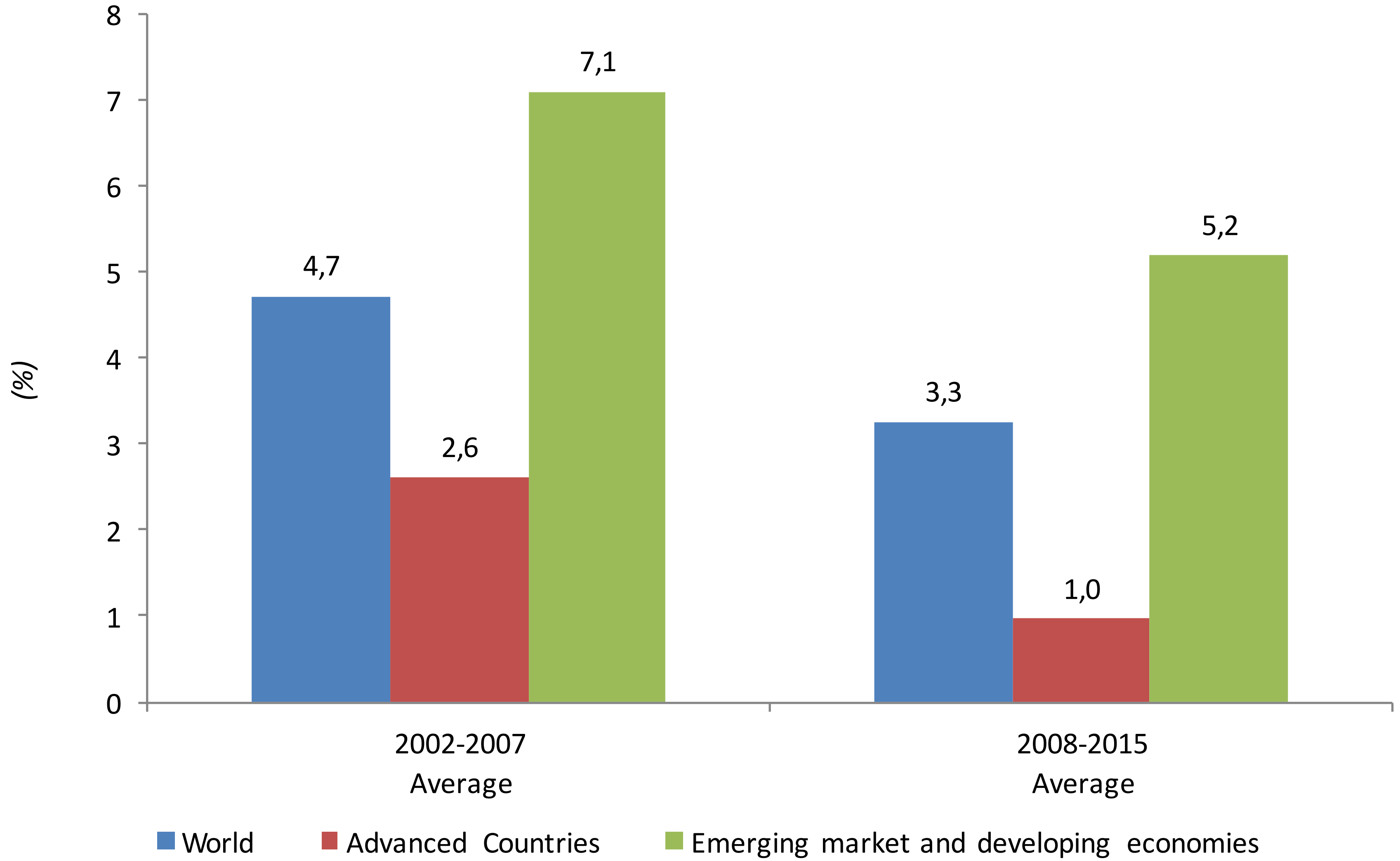
Outlook for Turkey

Structural Reform Agenda

Long-Term Prospects

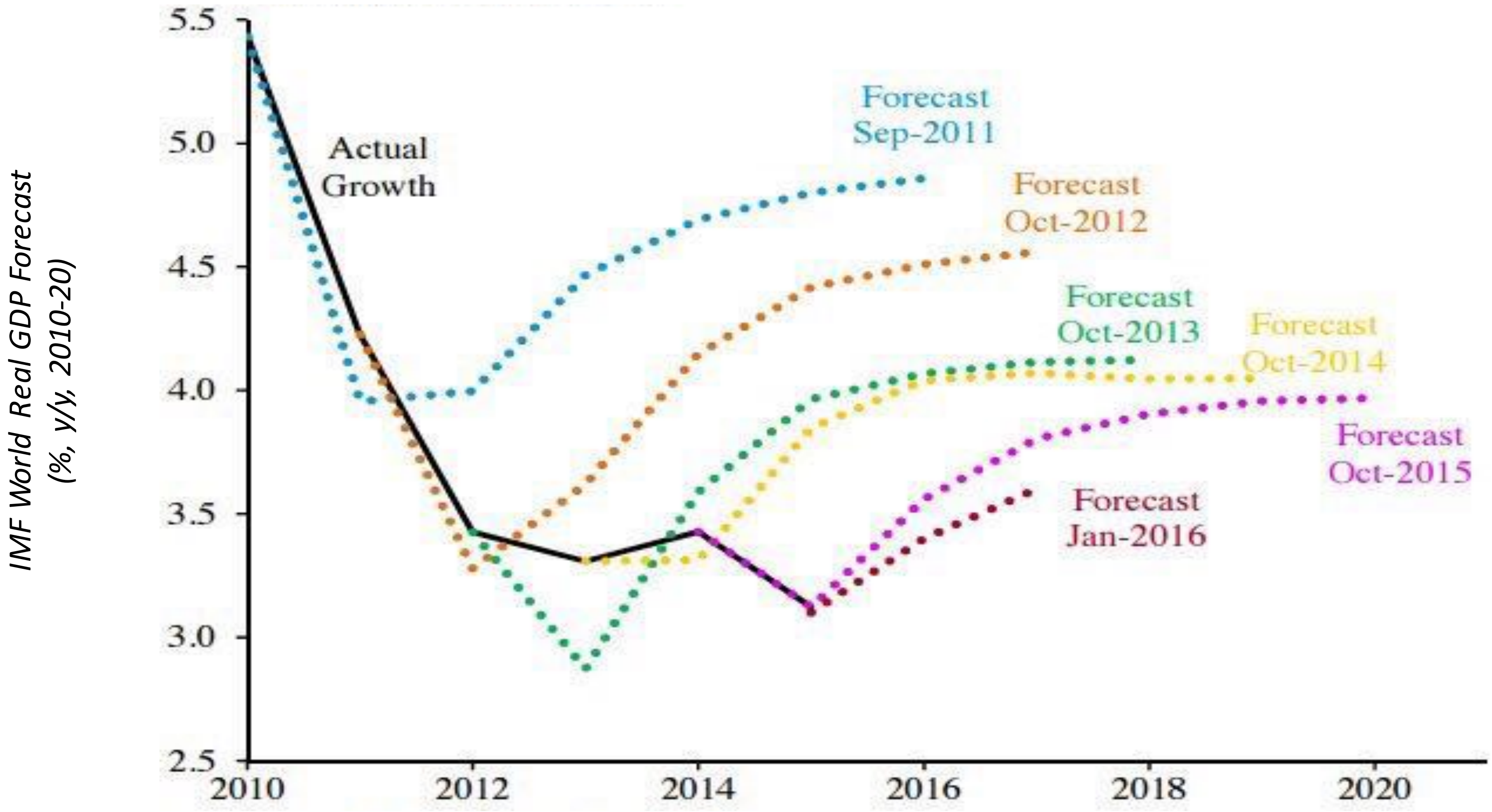
Global Economic Outlook

Low Global Growth Post-Crisis



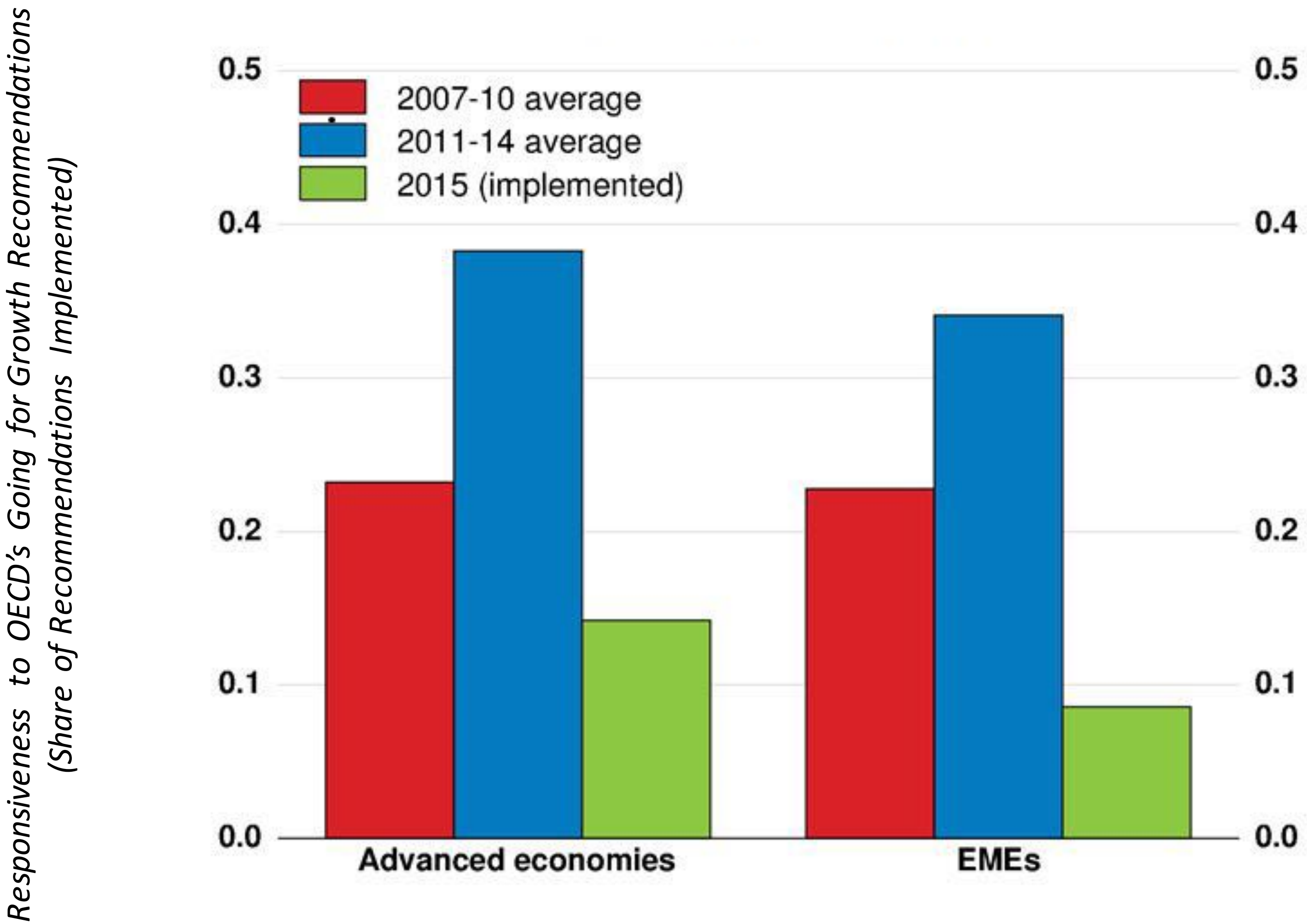
Source: IMF

Low Global Growth Forecast Post-Crisis



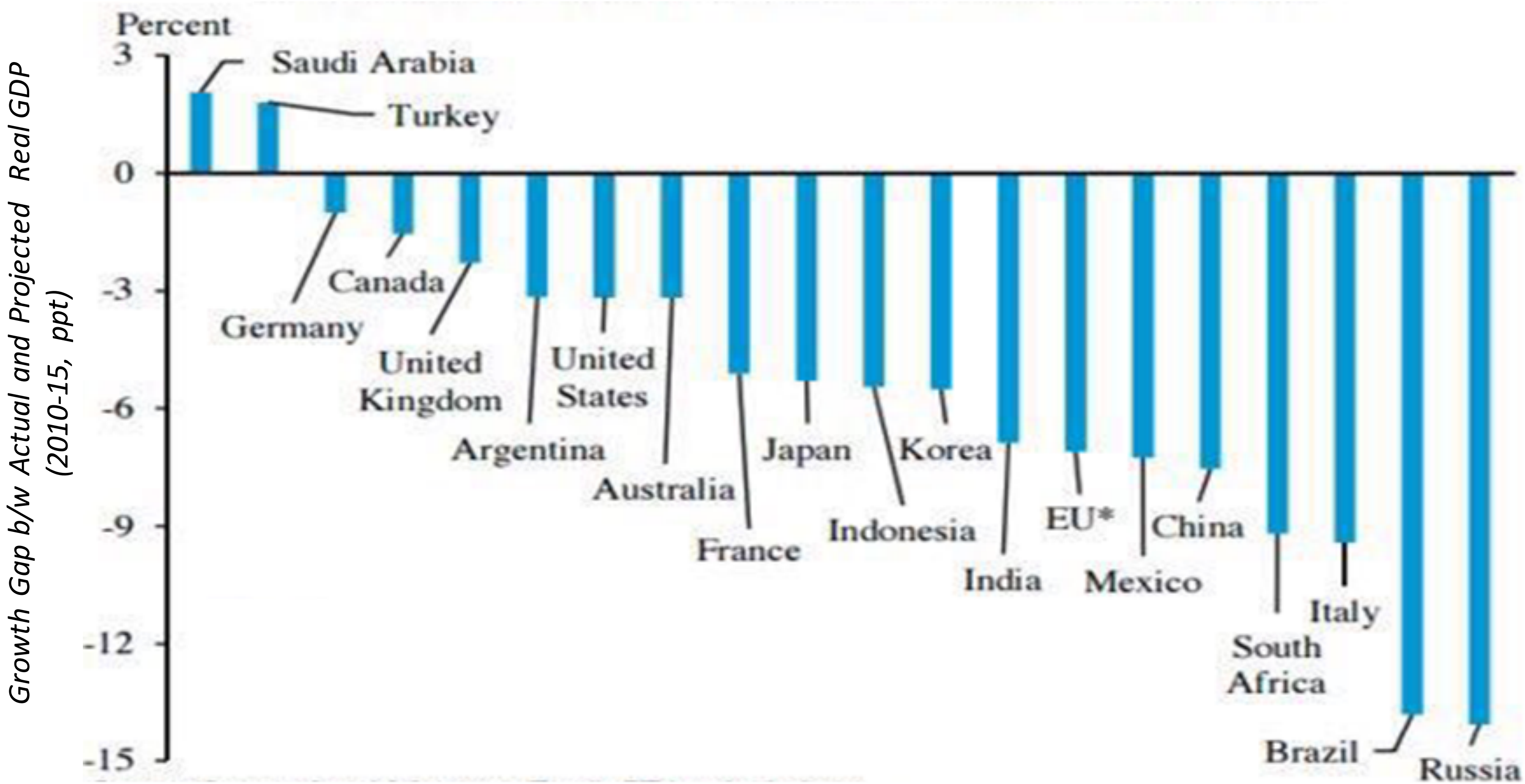
Source: IMF

Kicking the Can down the Road



Source: OECD

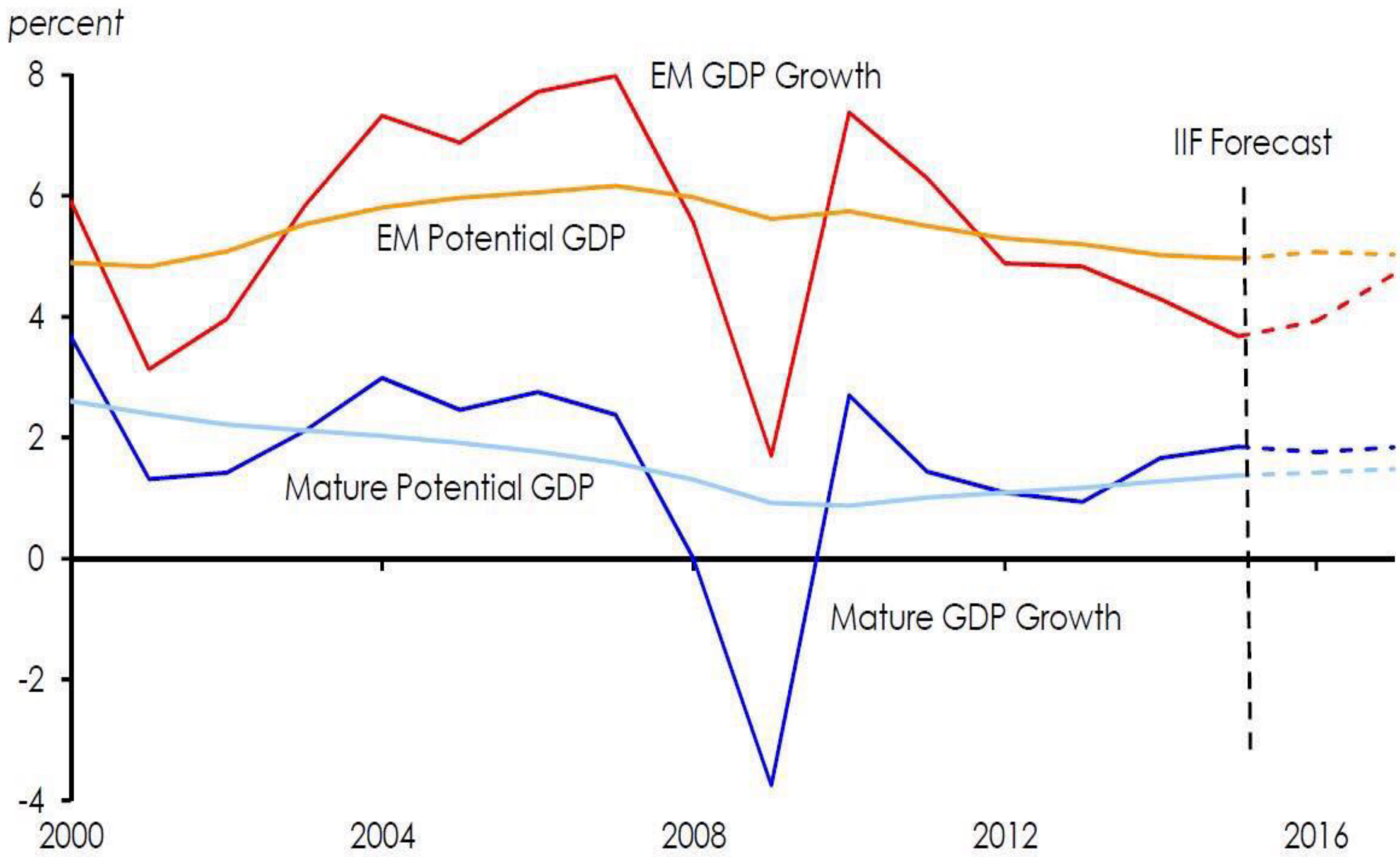
Only Saudi Arabia and Turkey have Delivered



Source: IMF; CEA calculations

* EU excl. Germany, France, Italy, and the UK

Sub-trend Growth in EMs



Source: World Bank (Potential), IIF (Actual)

Global Economic Risks

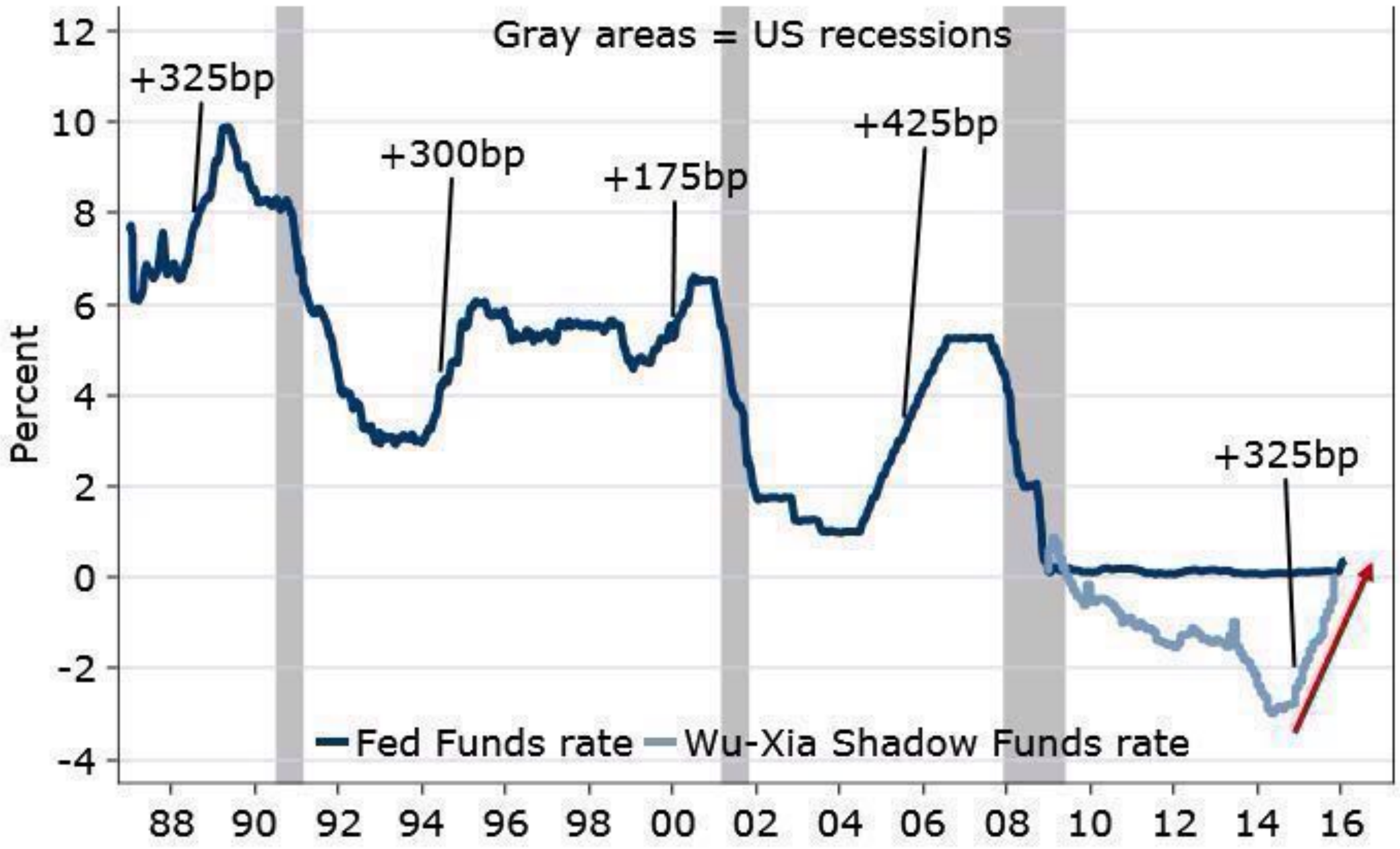
Fed Rate Hike

Chinese Economic Slowdown

Low Commodity Prices

Geopolitical Tensions and Political Uncertainties

Global Monetary Policy Normalization

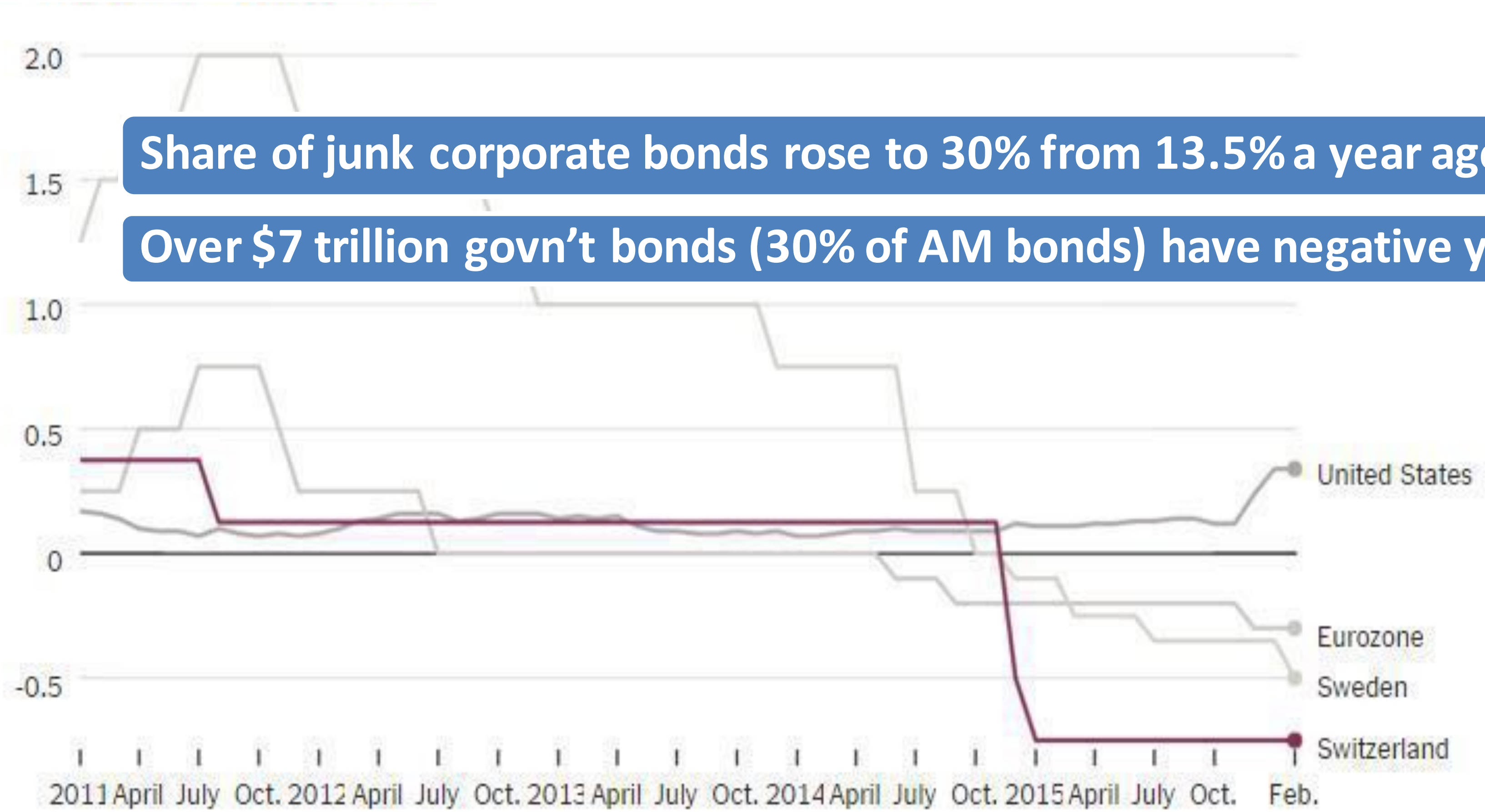


Source: FRB Atlanta, Nordea Markets and Macrobound

Negative Interest Rates

Share of junk corporate bonds rose to 30% from 13.5% a year ago.*

Over $7 trillion govn't bonds (30% of AM bonds) have negative yields.**



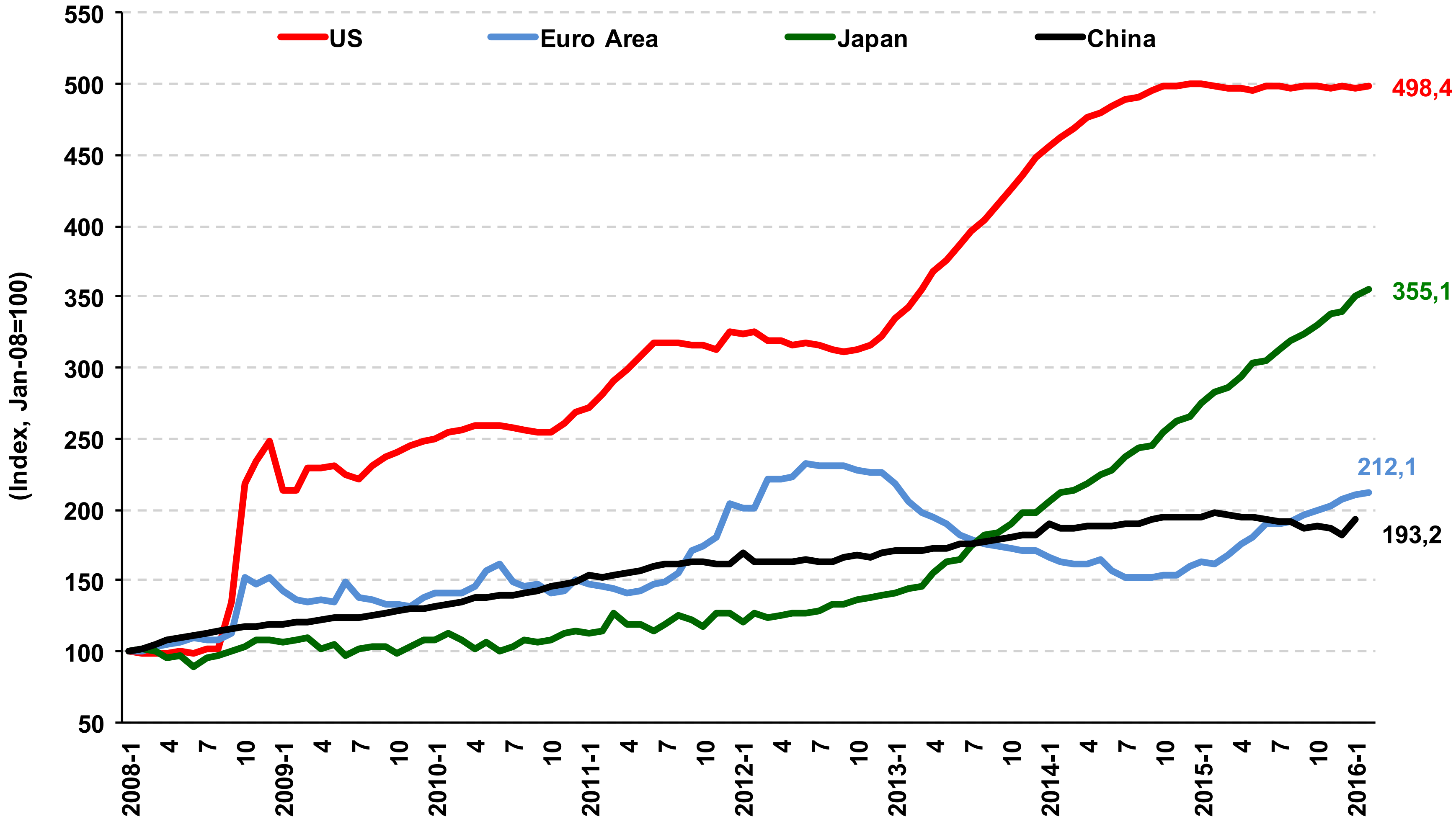
*Effective federal funds rate for US; ECB deposit facility rate for Eurozone; Riksbank main repurchase rate for Sweden; Swiss National Bank 3-month Libor target for Switzerland

Source: NY Times (FED, ECB, Swedish Riksbank, Swiss National Bank)

*The Economist, CNBC

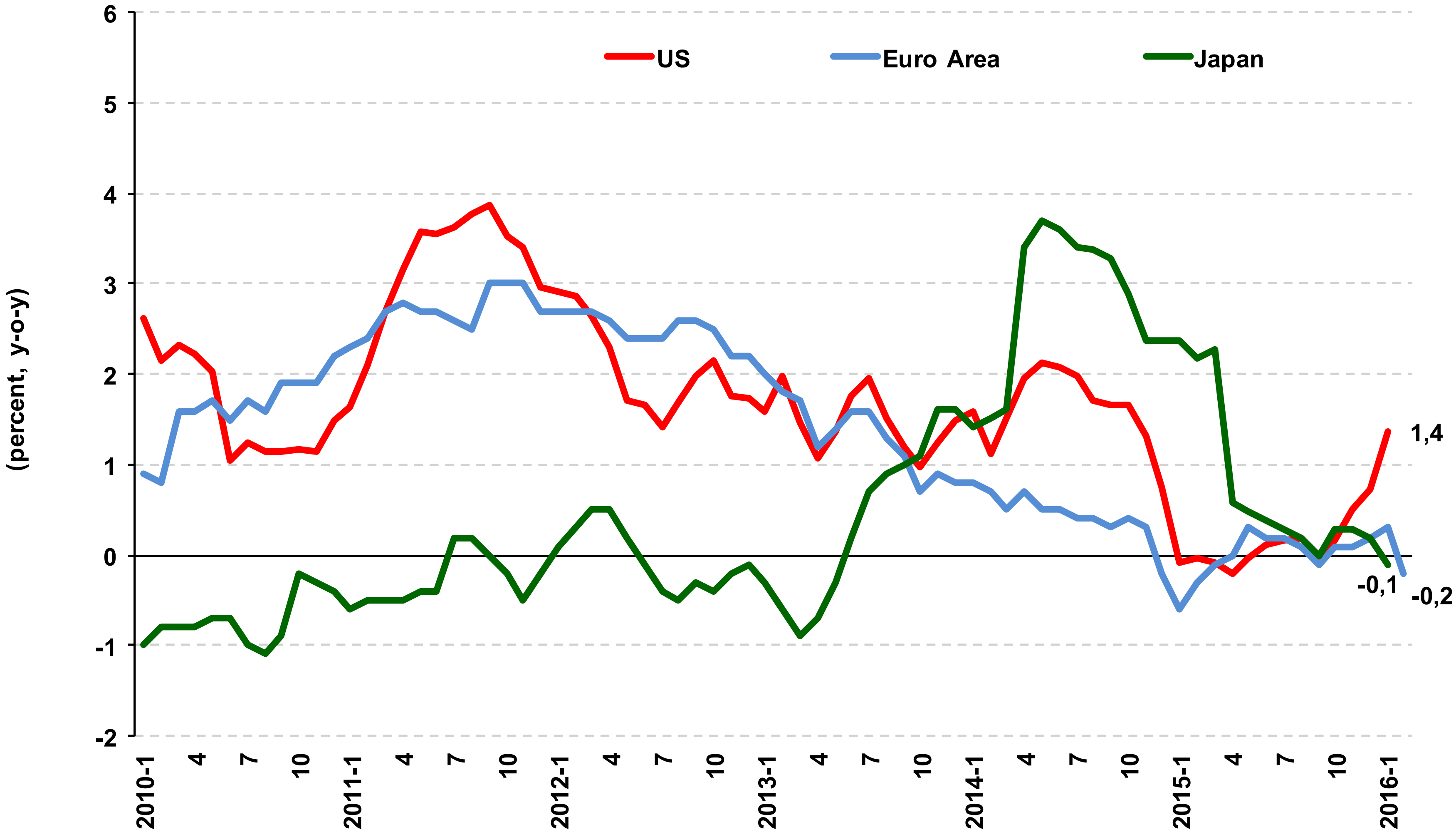
** Bloomberg

Central Bank Balance Sheets



Source: Statistical offices of the related countries, Bloomberg

Inflation/Deflation?



Source: Statistical offices of the related countries, Bloomberg

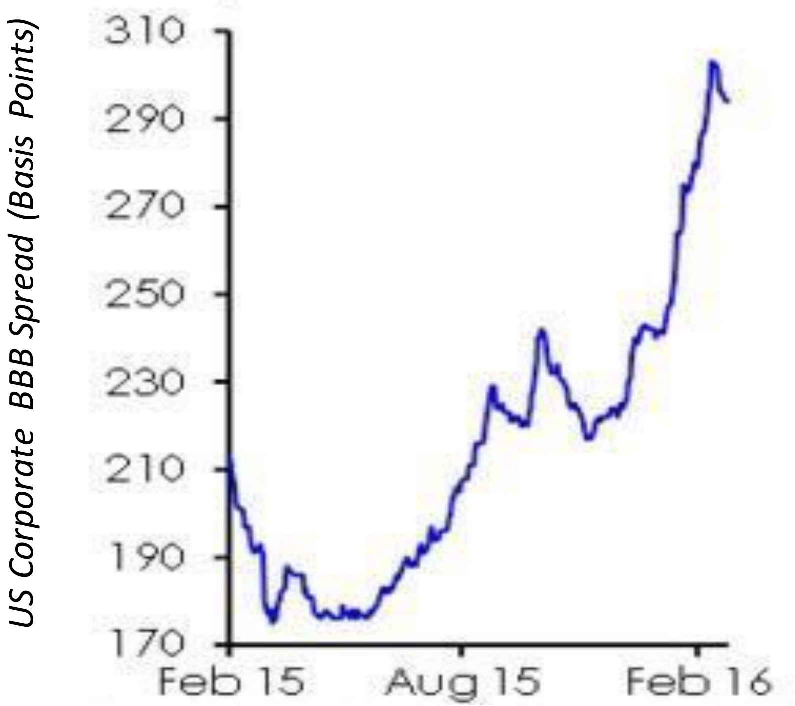
Real Effective Exchange Rates

The US dollar at its 30-year peak

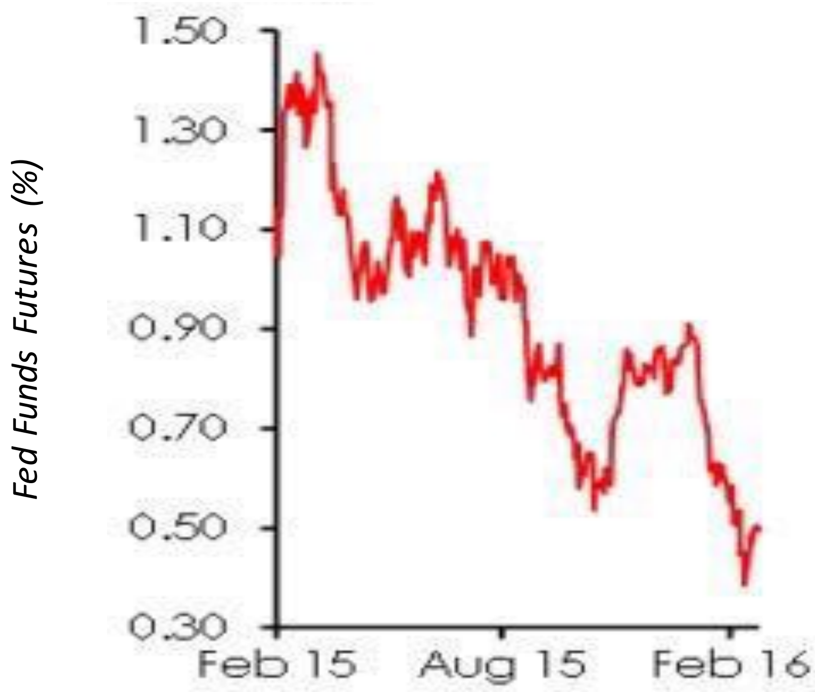
Source: BIS, Gavekal Data/ Macrobound

High Risk Aversion

BBB Spread



Fed Funds Futures

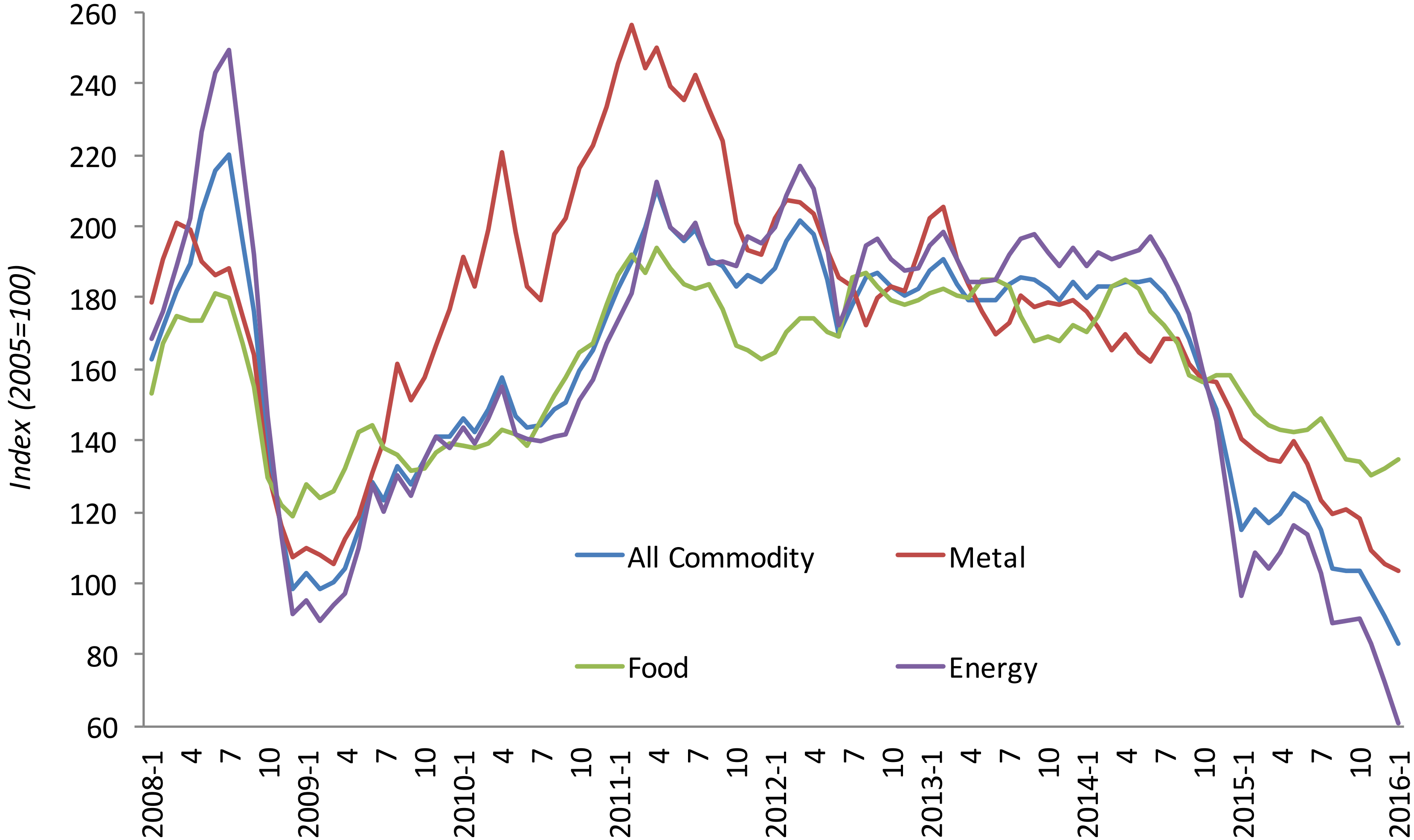


Source: BoML, Bloomberg, Fed, IIF.

Chinese Economic Slowdown

Source: Quartz

Low Commodity Prices

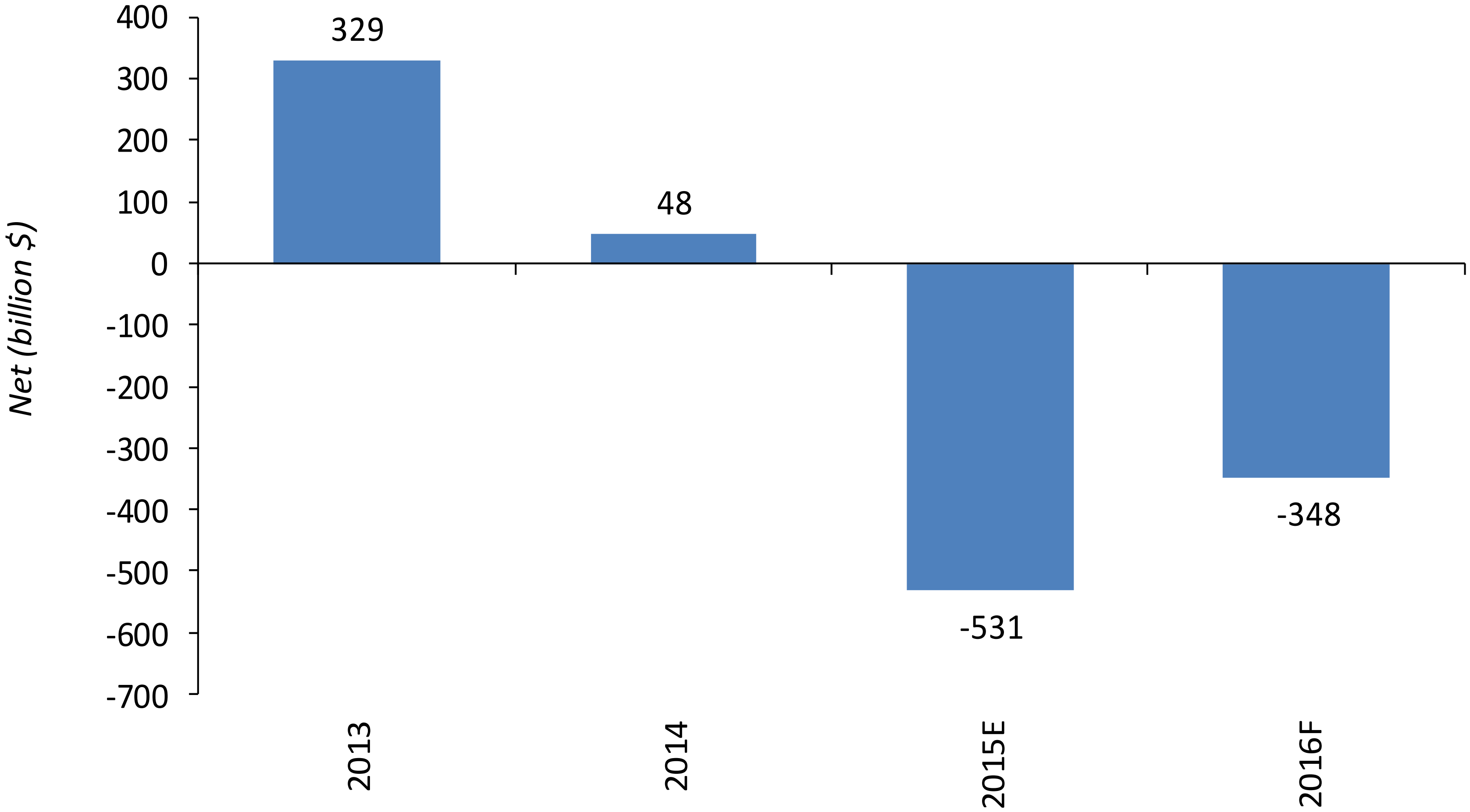


Source: IMF

Declining Reserves

Source: IMF and Bloomberg

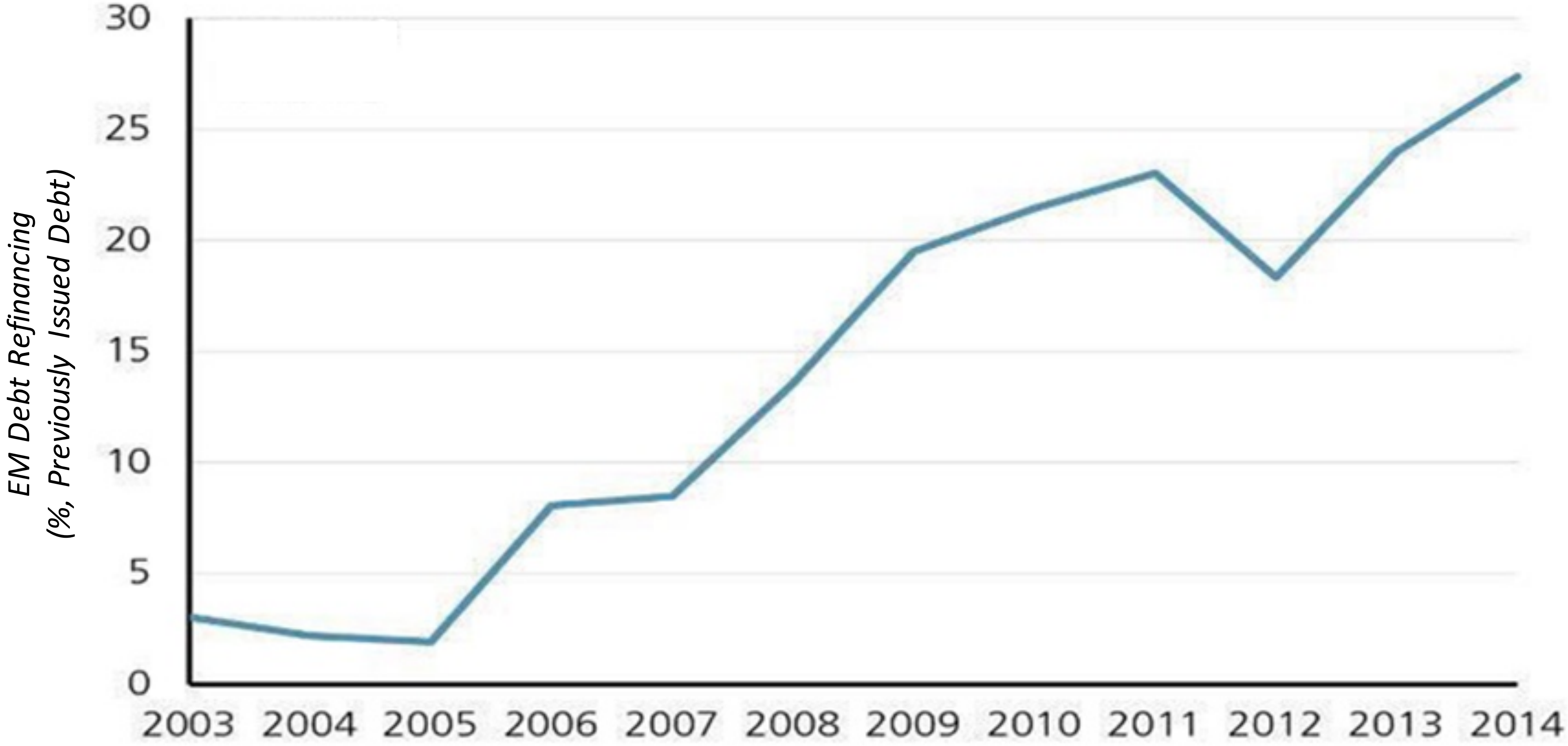
Net Capital Flows to Emerging Markets



Source: IIF

E: Estimate, **F:** Forecast

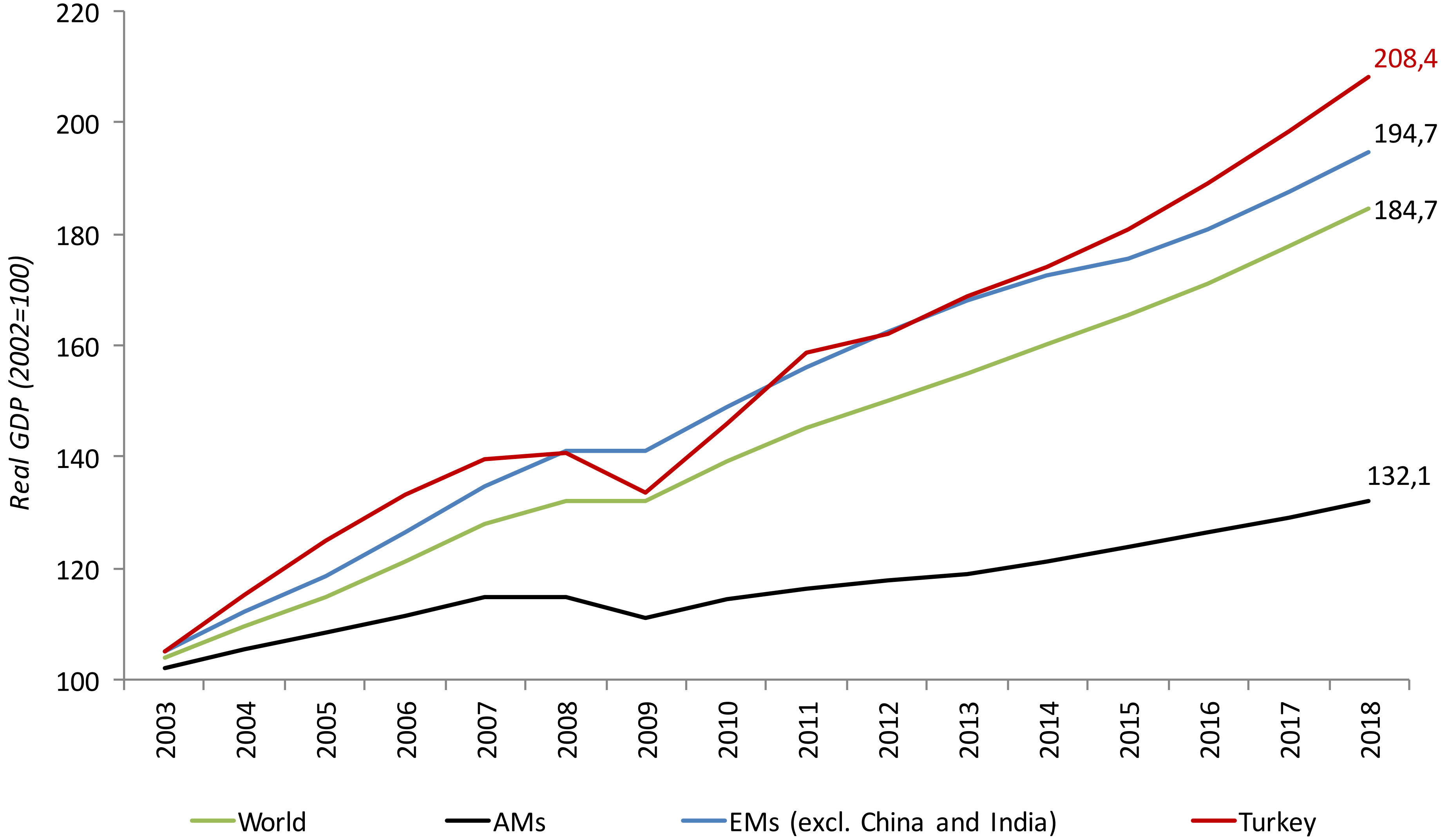
Refinancing Accounts for 1/3 of EM Debt



Source: Bloomberg, Haver, UBS

Outlook for Turkey

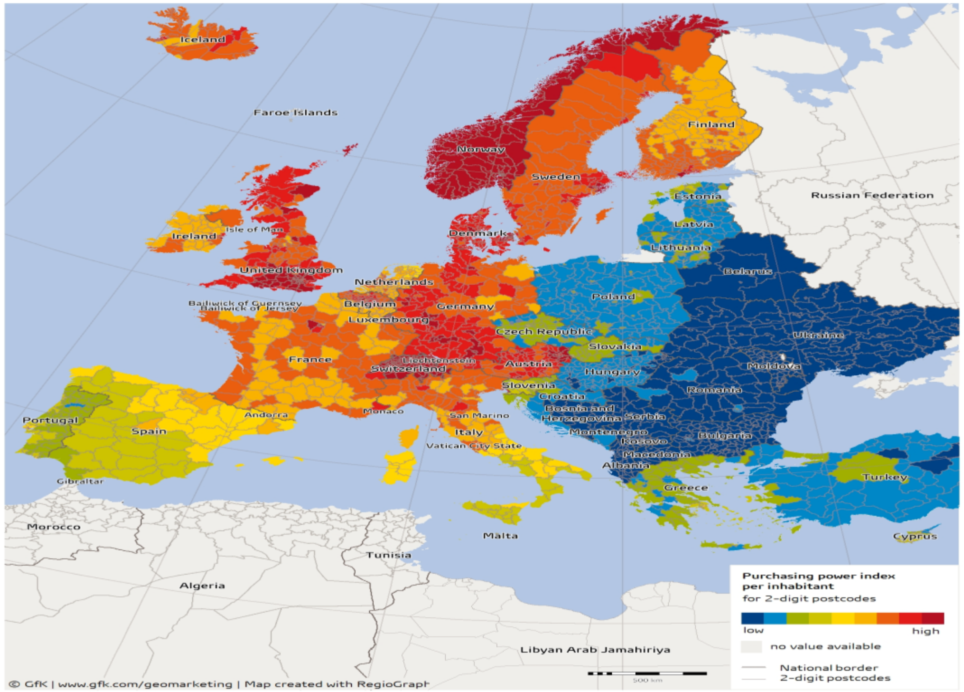
Economic Growth

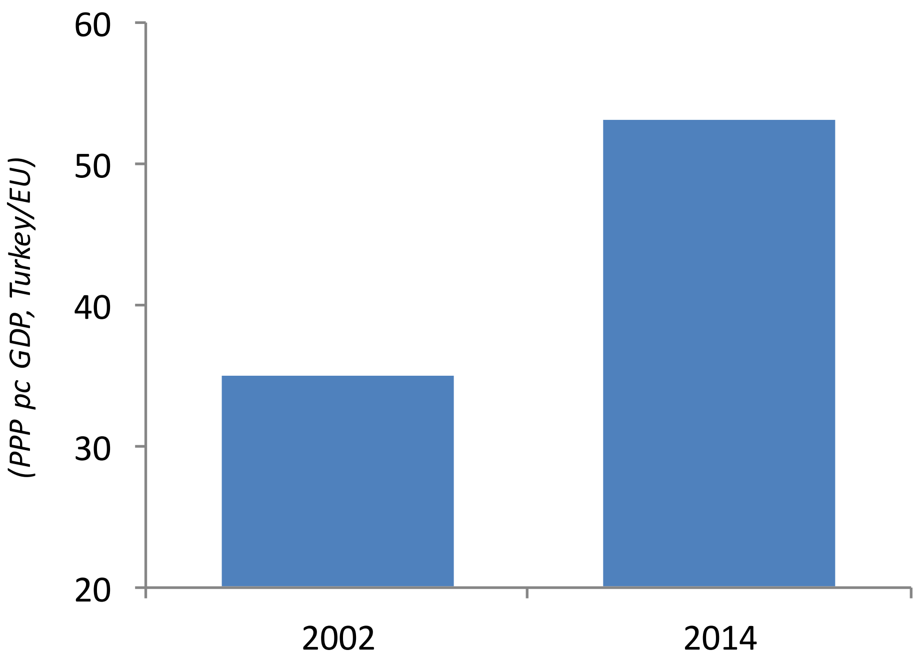


Source: TURKSTAT, IMF, Ministry of Development

Real Convergence

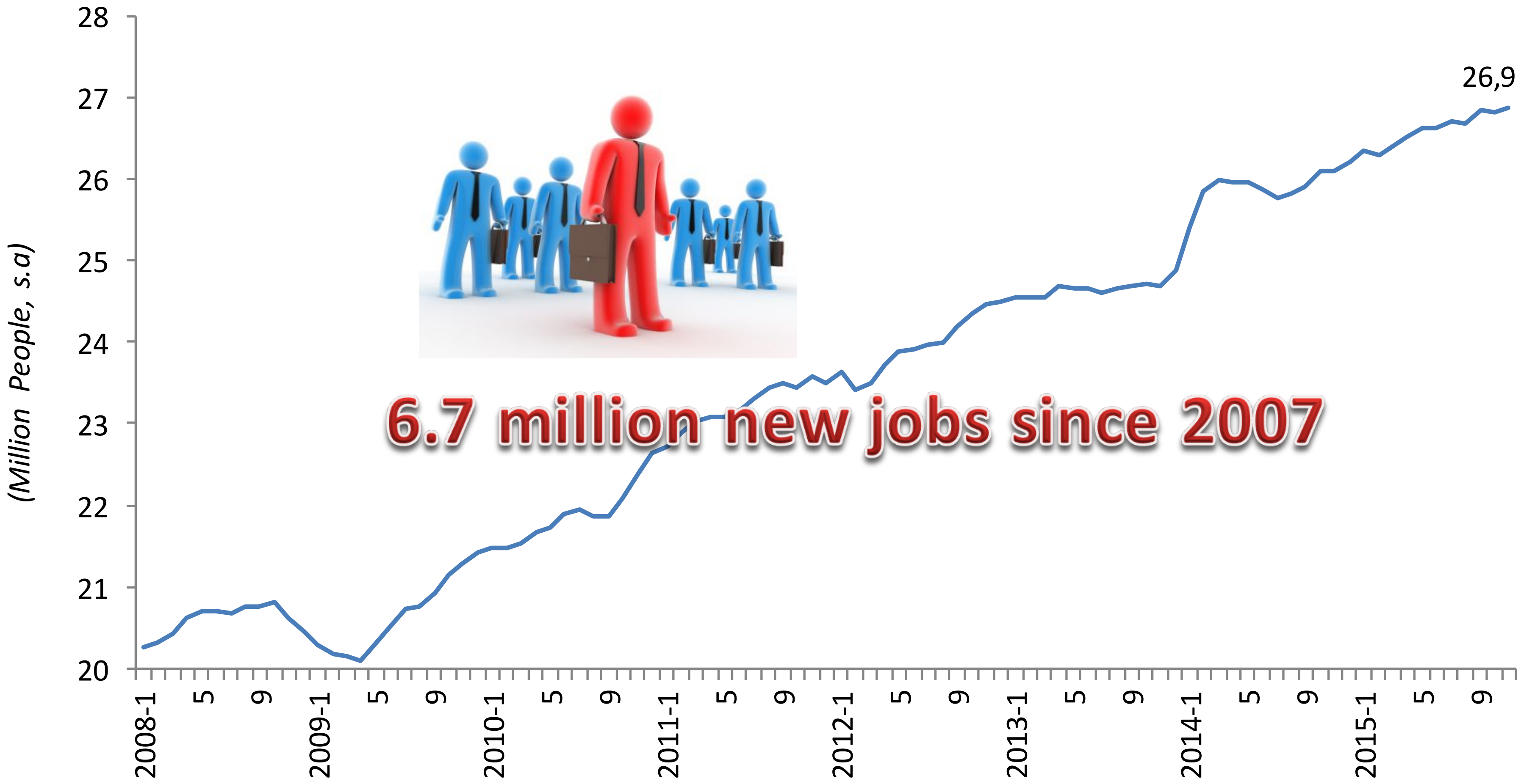
Turkey has narrowed the per capita GDP gap with EU by nearly **20 percentage points**





Source: GFK, EUROSTAT

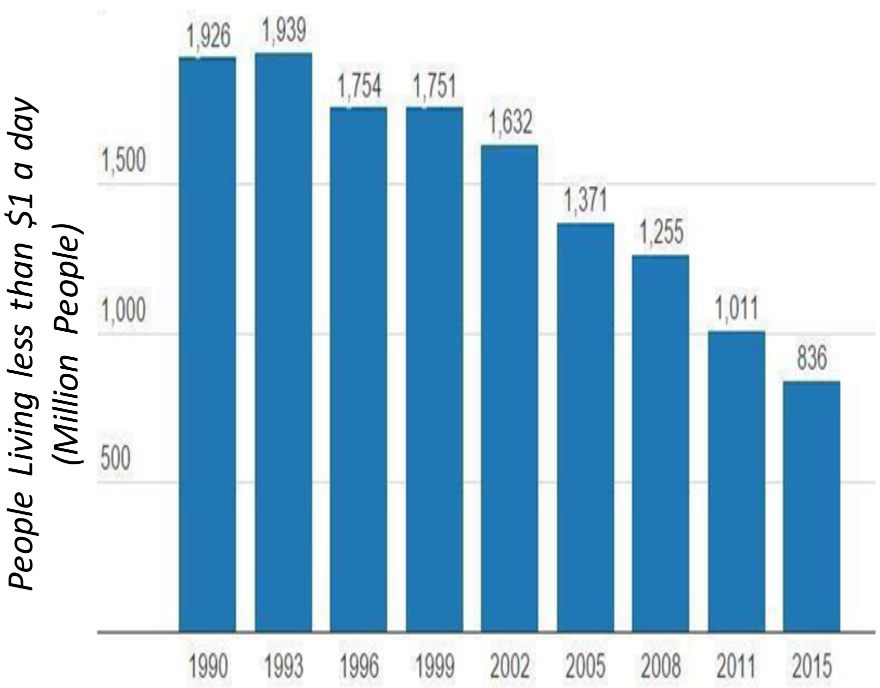
Strong Job Creation



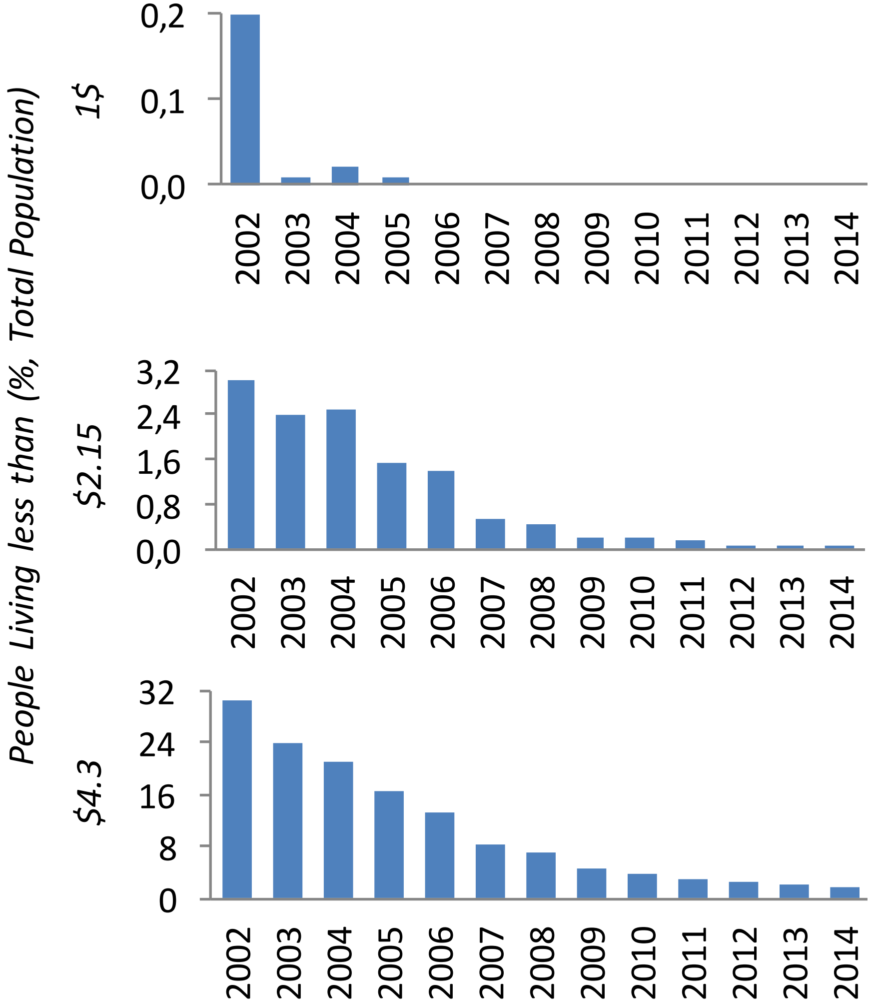
Source: TURKSTAT

Reducing Absolute Poverty

WORLD

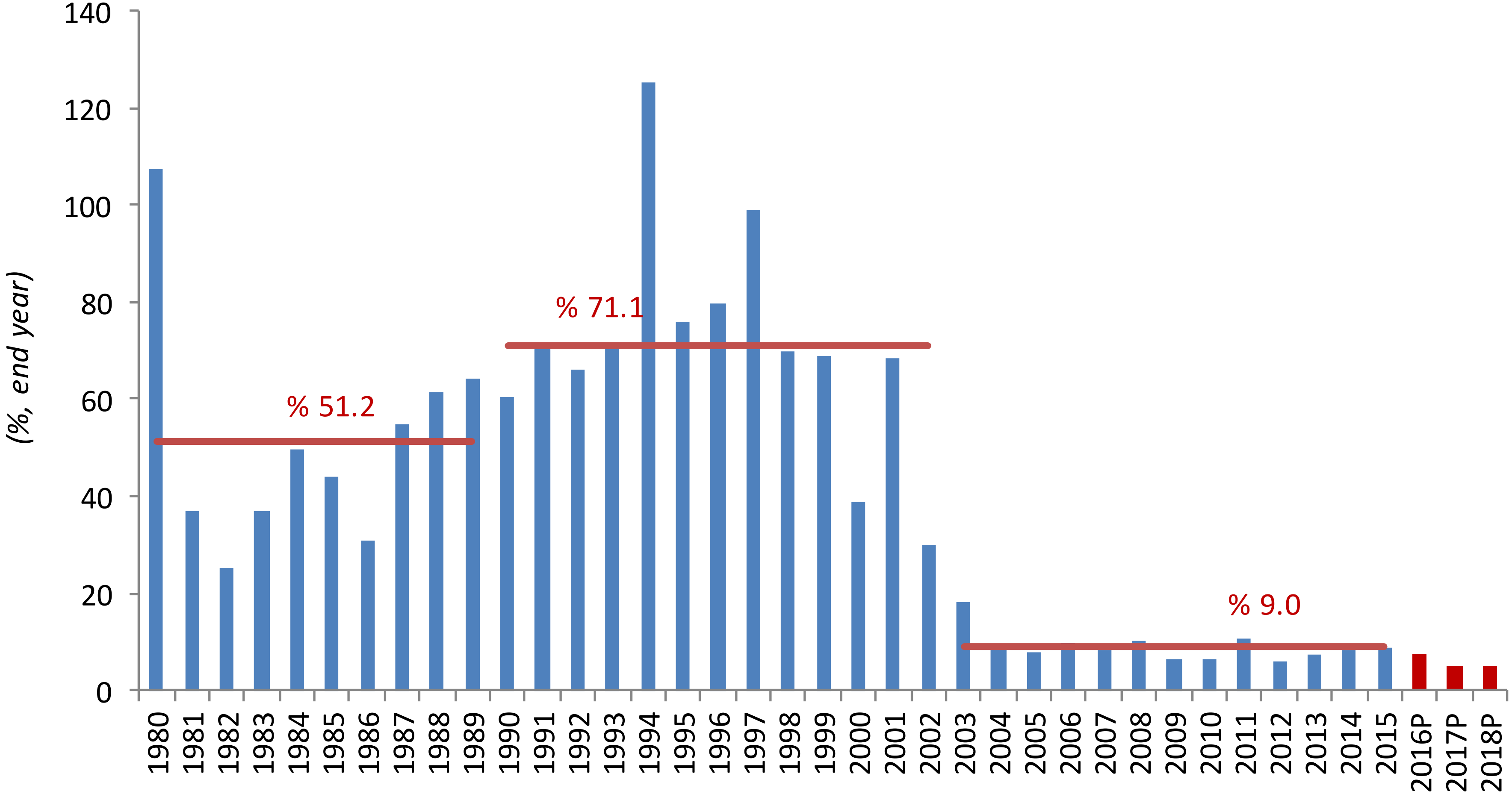


TURKEY



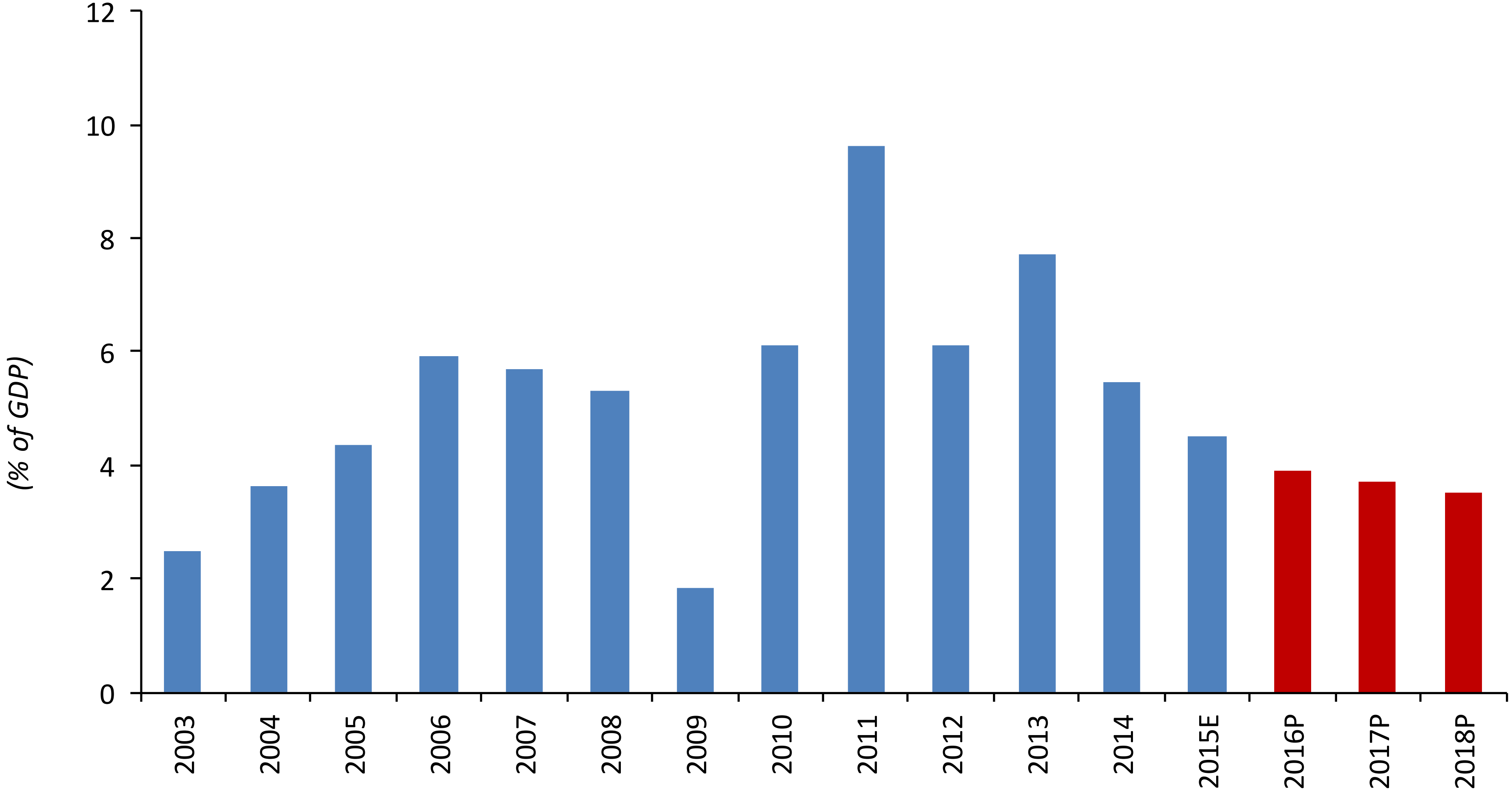
Source: United Nations, Turkstat

Inflation down from Double Digits



Source: TURKSTAT, Ministry of Development
P: Medium-Term Program Target

Current Account Deficit

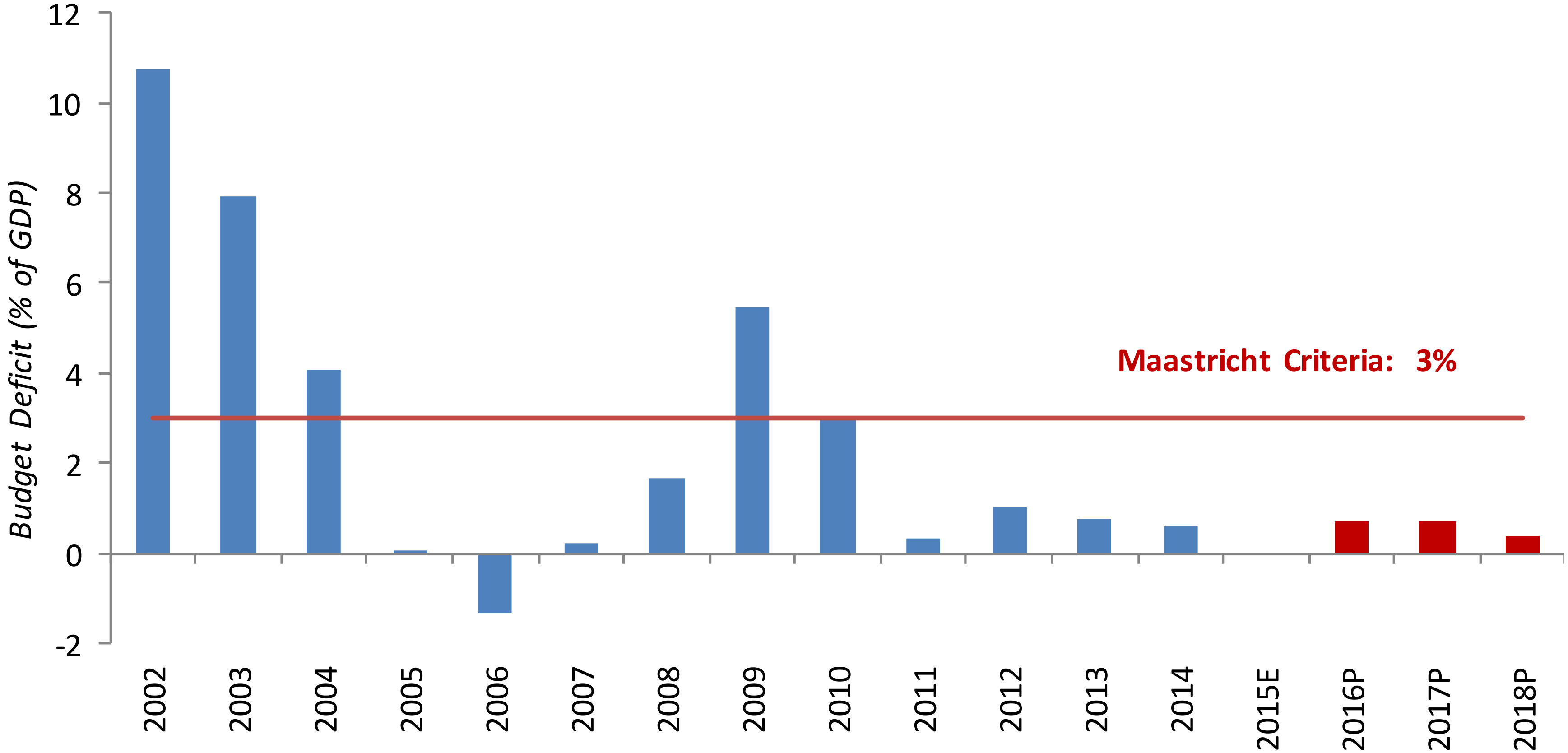


Source: TURKSTAT, CBRT, Ministry of Development

E: Estimate

P: Medium-Term Program Target

Fiscal Position



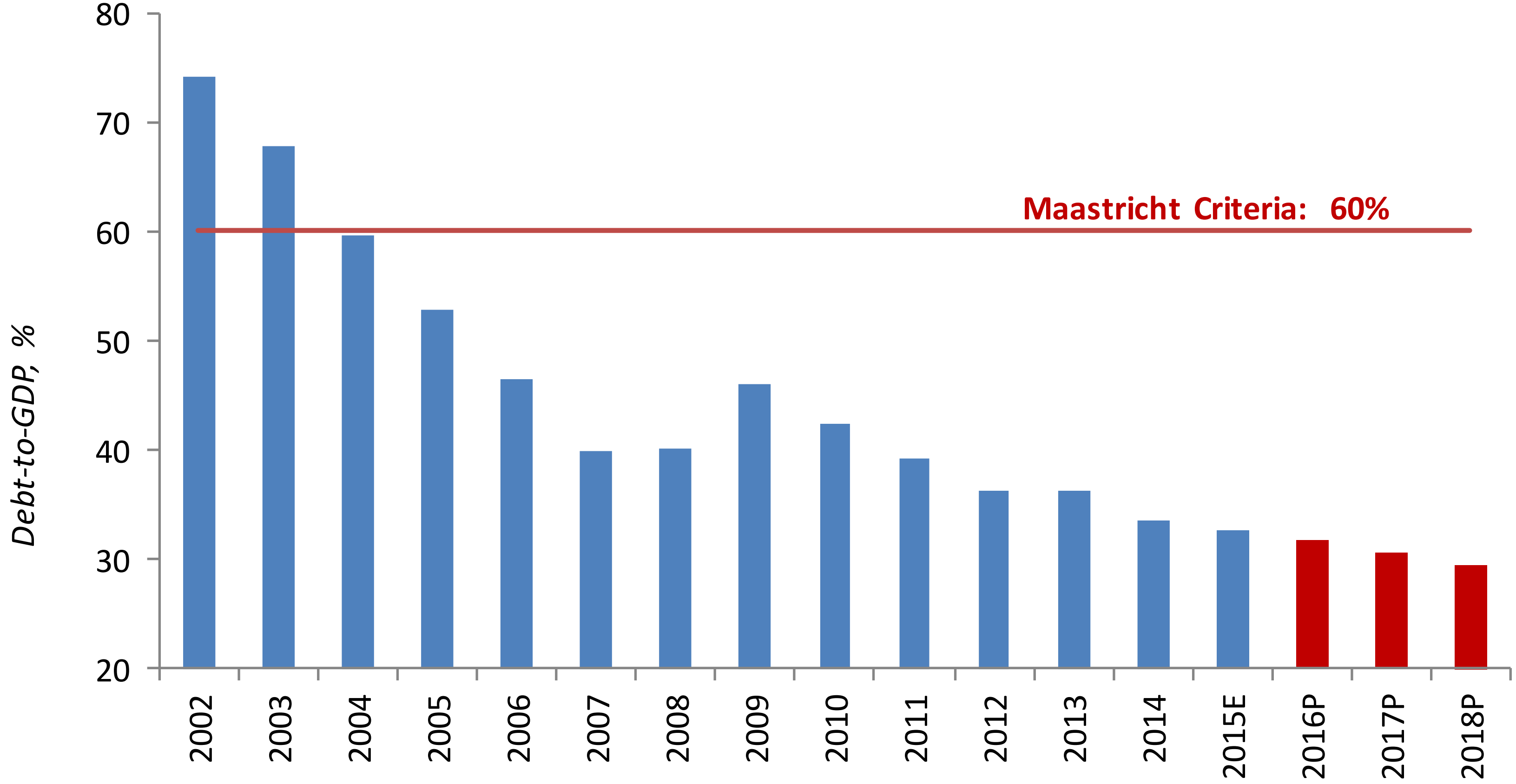
Satisfied Maastricht Criteria except 2009

Source: Ministry of Development, TURKSTAT

E: Estimate

P: Program

Debt Dynamics



Satisfying Maastricht Criteria since 2004

Source: Undersecreteriat of Treasury, Ministry of Development, TURKSTAT, IMF
E: Estimate
P: Program

Turkey’s Reform Program

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

Reducing Import Dependency	Commercialization in Priority Technology Areas	Tech. Develop’t and Dom. Prod’n through Public Procurement	Domestic Resource Based Energy Production	Energy Efficiency Improvement
Enhancing Efficiency of Water Use in Agriculture	Healthcare Related Industries Structural Transformation	Health Tourism Improvement	Transformation from Transportation to Logistics	Enhancing Productivity In Manufacturing
Increasing Domestic Savings and Avoiding Waste	Istanbul International Financial Center	Rationalization of Public Expenditures	Public Revenue Quality Enhancement	Business and Investment Climate Improvement
Statistical Infrastructure Development	Family and Dynamic Population Structure Conservation	Improving Labor Market Effectiveness	Reducing Informal Economy	Basic and Occupational Skills Development
Attracting Qualified Human Resources	Healthy Life and Mobility	Institutional Capacity Improvement at Local	Competitiveness and Social Cohesion Enhancing Urban Regeneration	Improving the Infrastructure of International Cooperation for Development

Sectoral Transformation

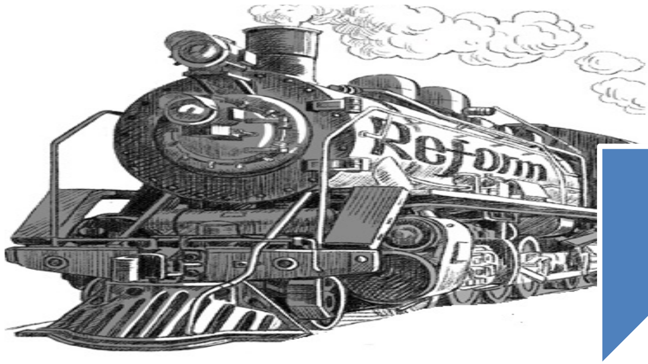
Reforms aimed at avoiding middle-income trap

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

Programs are designed with the input of all relevant ministries

The Economy Coordination Board to monitor progress

Commitment to publish Regular Progress Reports



Structural Reforms
(Macro Reforms)

Enhancing Investment Climate

New Patent Law and R&D Supports

Reducing Red Tape

Specialized Courts

Incentives for Medium and High-Tech Production

Education Reform

Teachers' Academy

Education Quality Index

Vocational & Technical Training

School-Based Budgeting

Foreign Language Education

Life-Long Learning

Labor Market Reforms

Severance Pay

Part-time &
Flex-Work

Private
Employment
Agencies

On-the-Job
Training

Attracting
Global Talent
(Turquoise Card)

Enhancing Transparency & Combatting Corruption

Political Ethics Law

Public Procurement Law

Transparency of the finance of politics

Rule-Based Zoning Regulations

Reforming Judicial System

Specialization in Judiciary	Expert Witness Mechanism	Increasing the effectiveness of labor court
Putting Arbitration Centers into operation	Increasing the effectiveness of intermediate court of appeal	Restructuring Notary System

Public Finance Reform

Income Tax Law

Tax Procedures Code

Performance Based Budgeting

Expenditure Reform

Public Administration Reform

Public Personnel Reform

Productivity, Accountability & Transparency

Quality of Public Service

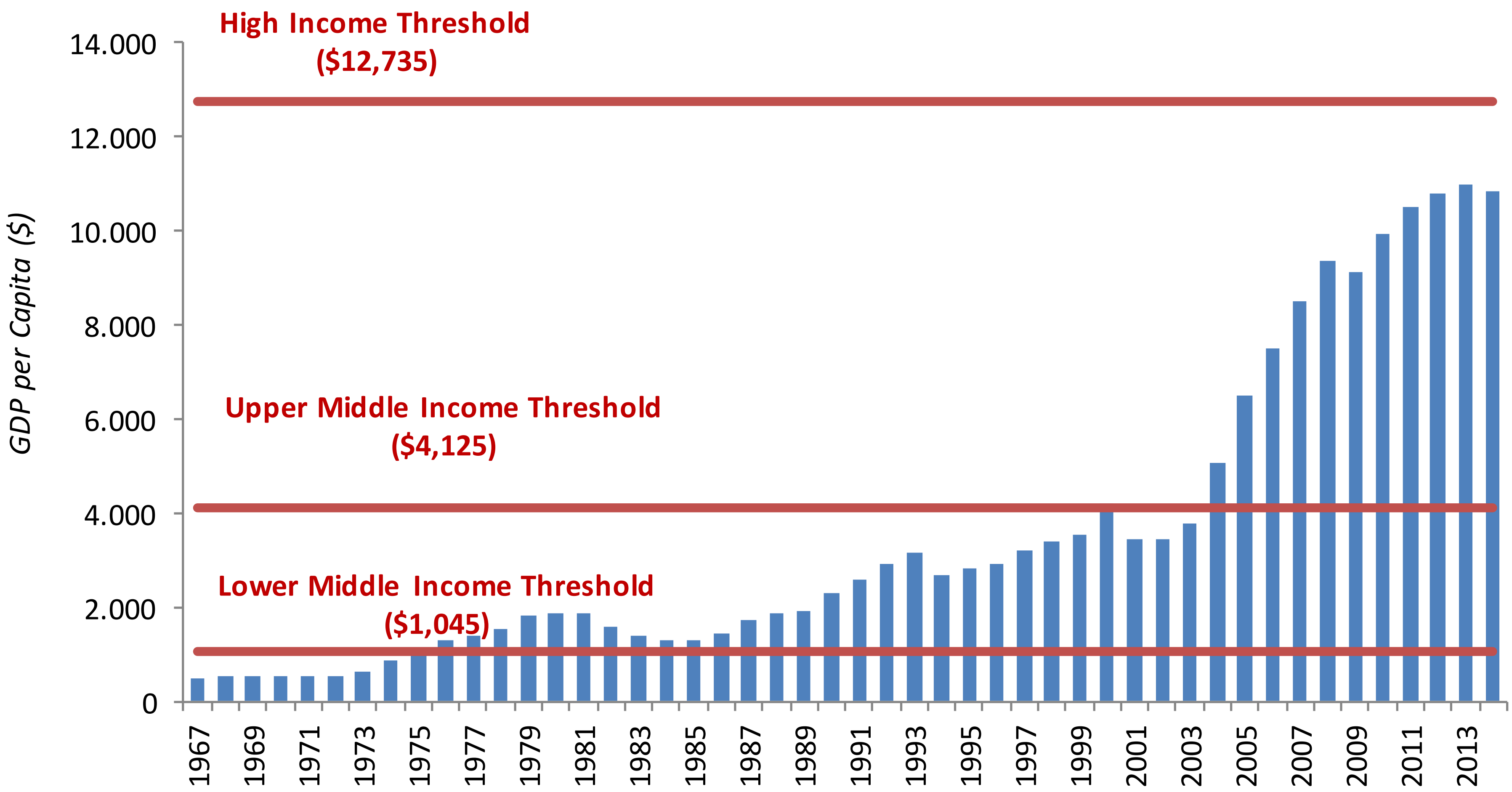
e-State

EU Accession Process: The Main Agenda

- Enhancing Customs Union Agreement
- Implementation of Readmission Agreement
- Finalizing the Efforts on Visa Exemption

Long-Term Prospects

Target: Becoming a High Income Country



Source: World Bank (Atlas Method)

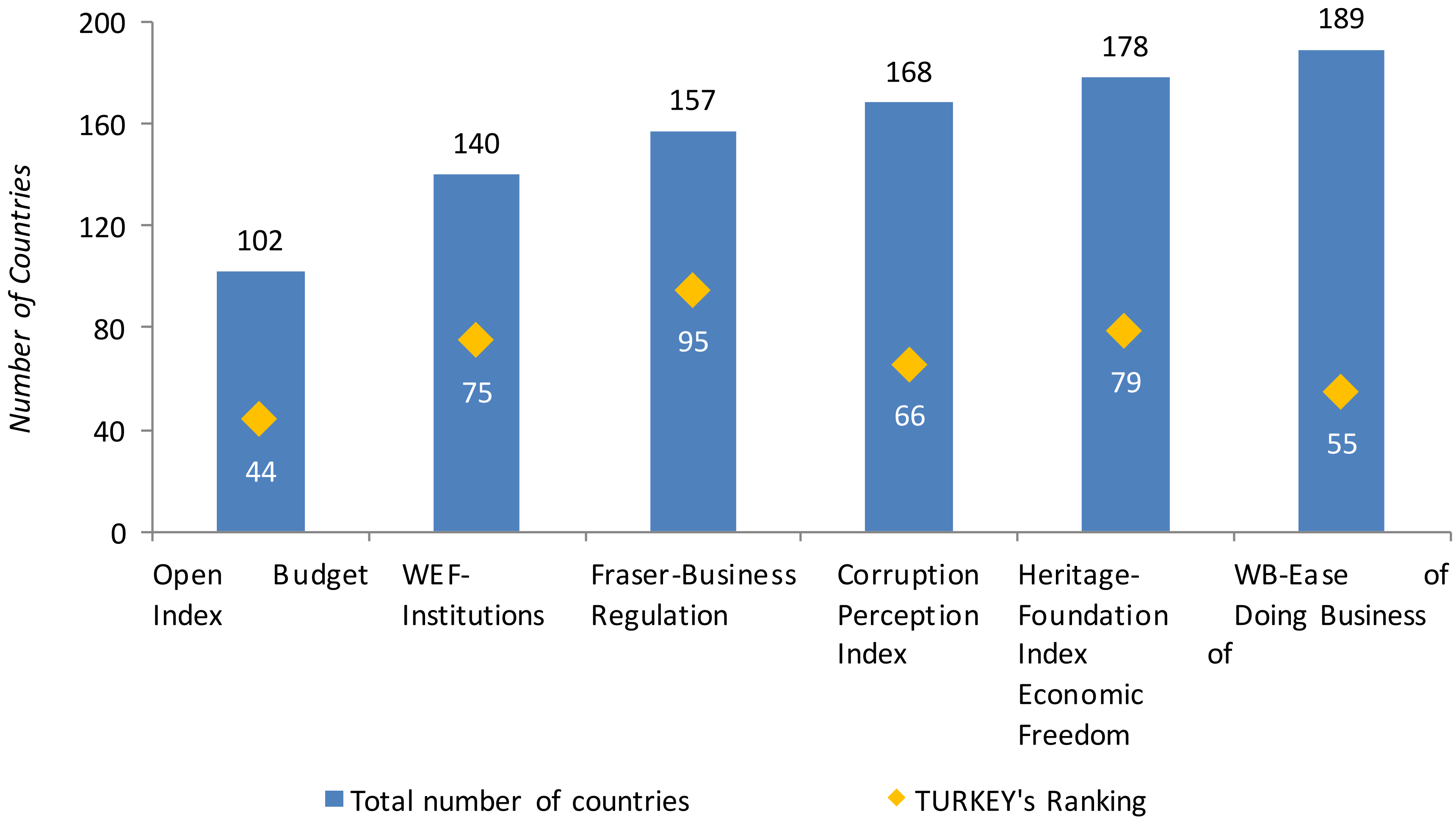
Determinants of Long-Term Growth

Quality of Institutions

Demographics

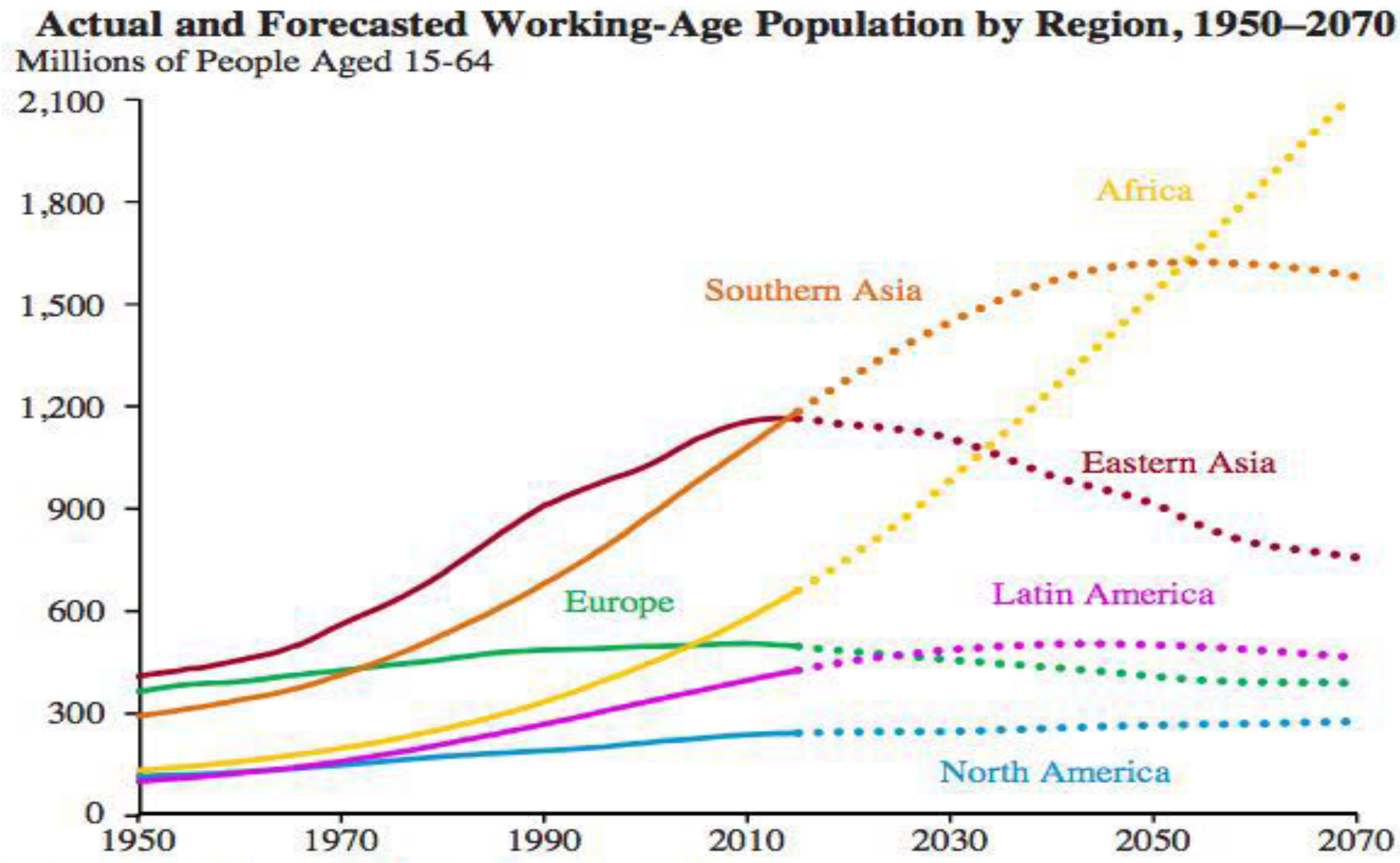
Productivity

Quality of Institutions



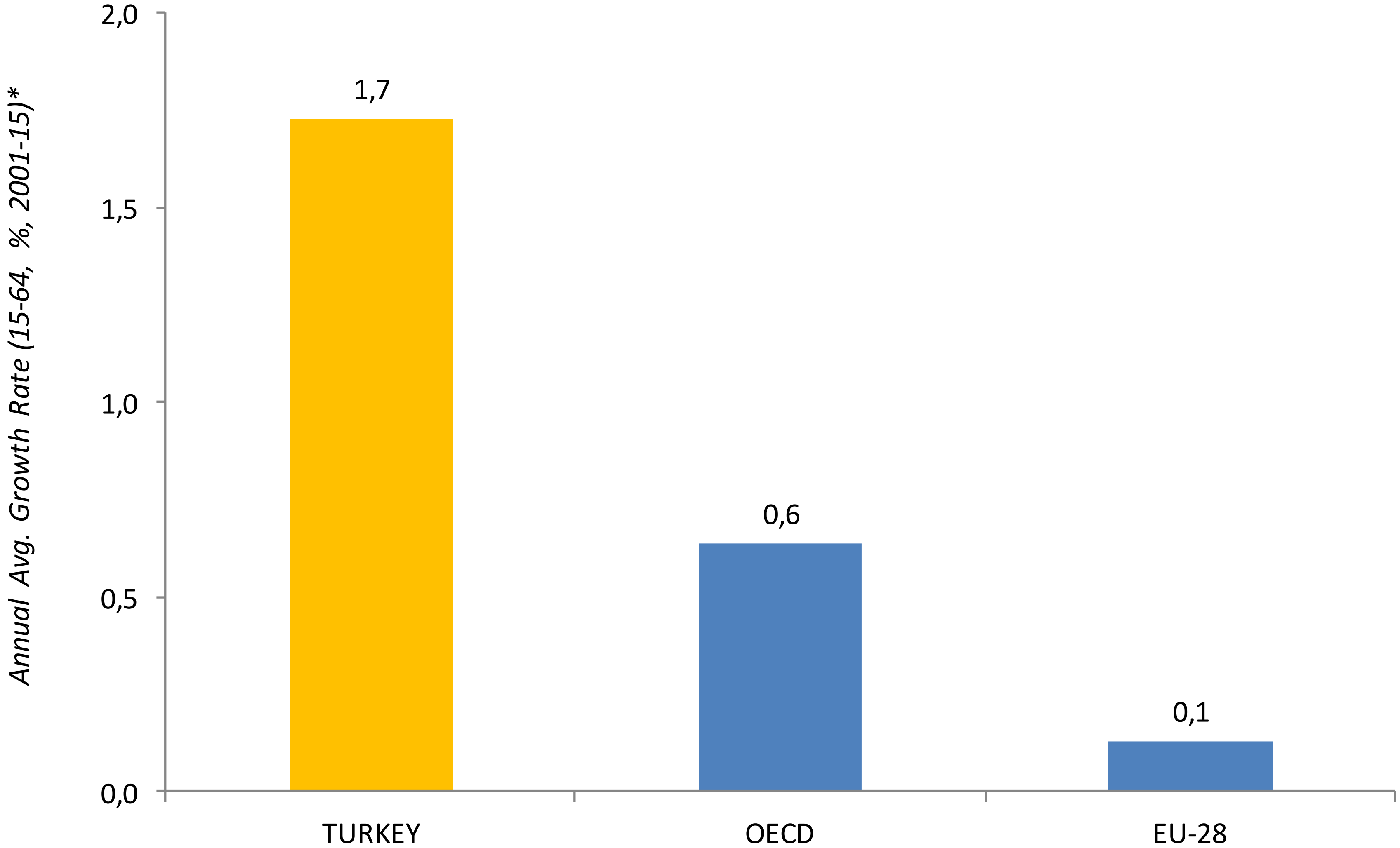
Source: World Bank, World Economic Forum, Fraser Institute, Heritage Foundation, Transparency International

Working-Age Population by Regions



Source: United Nations World Population Prospects

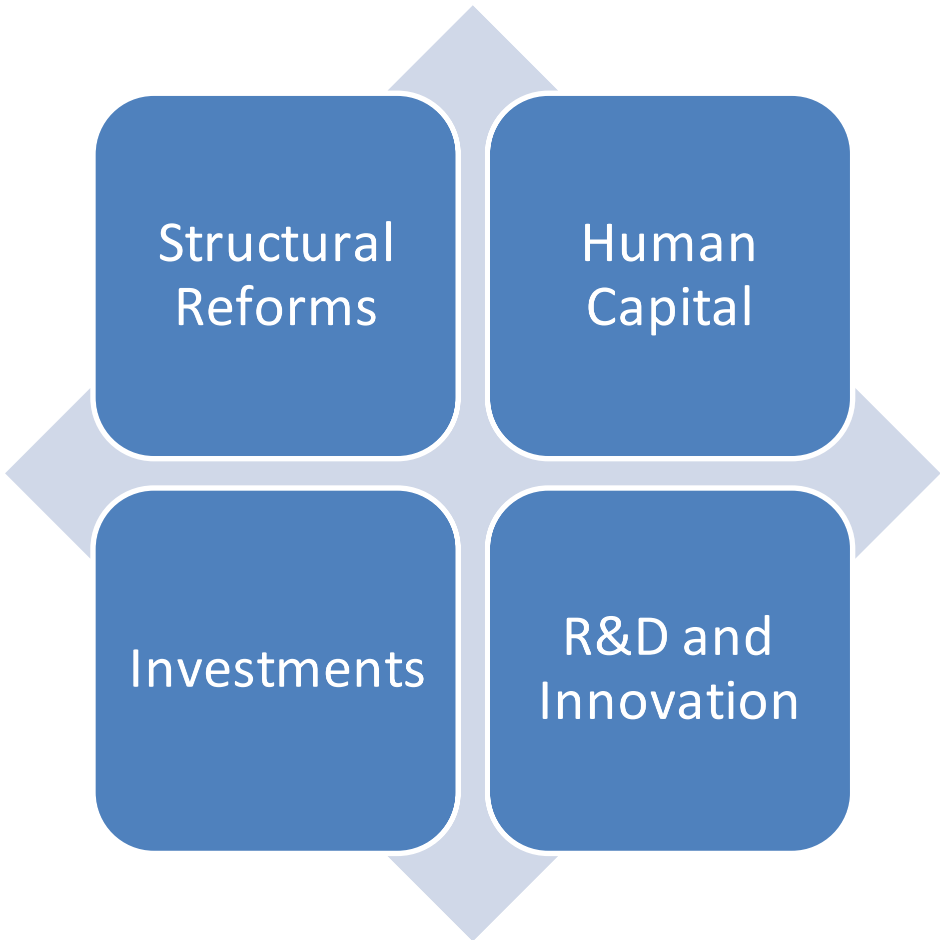
Working Age Population Growth in Turkey



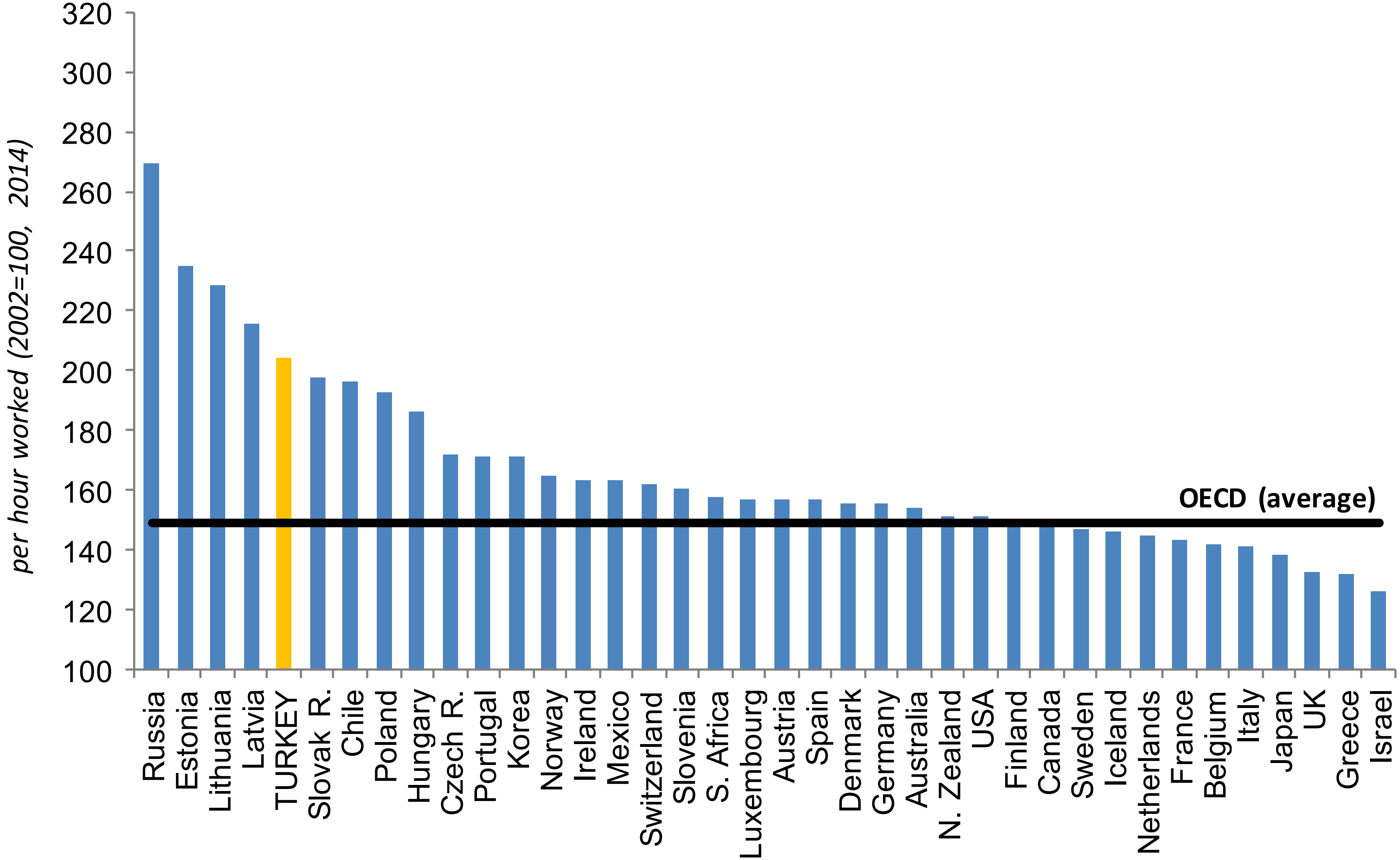
Source: OECD, EUROSTAT, TURKSTAT

(*) The latest data available

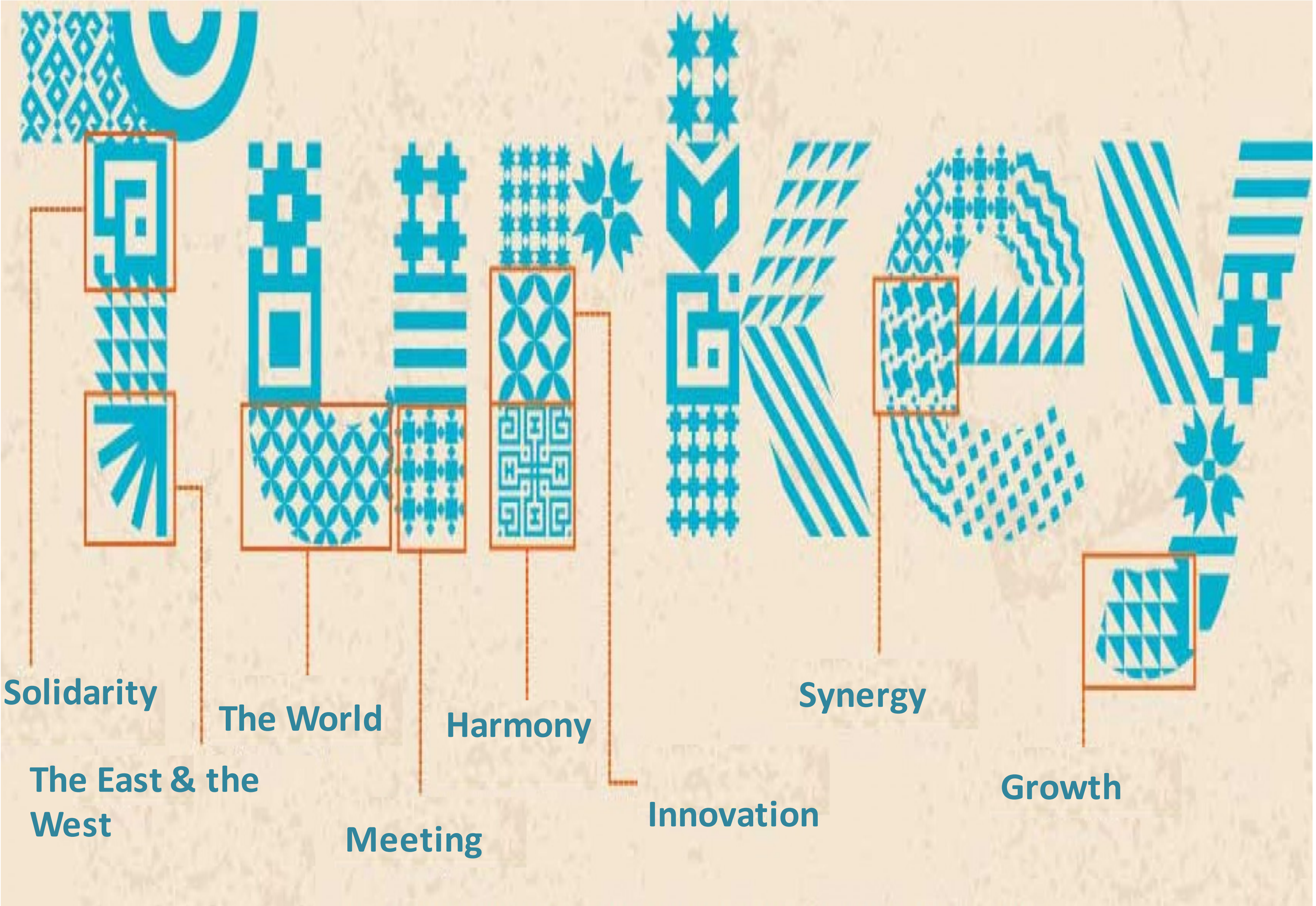
Determinants of Productivity



Productivity Index



Source: OECD


Solidarity
The East & the West
The World
Meeting
Harmony
Innovation
Synergy
Growth

THANK YOU...