



# 2018 OECD ECONOMIC SURVEY OF TURKEY

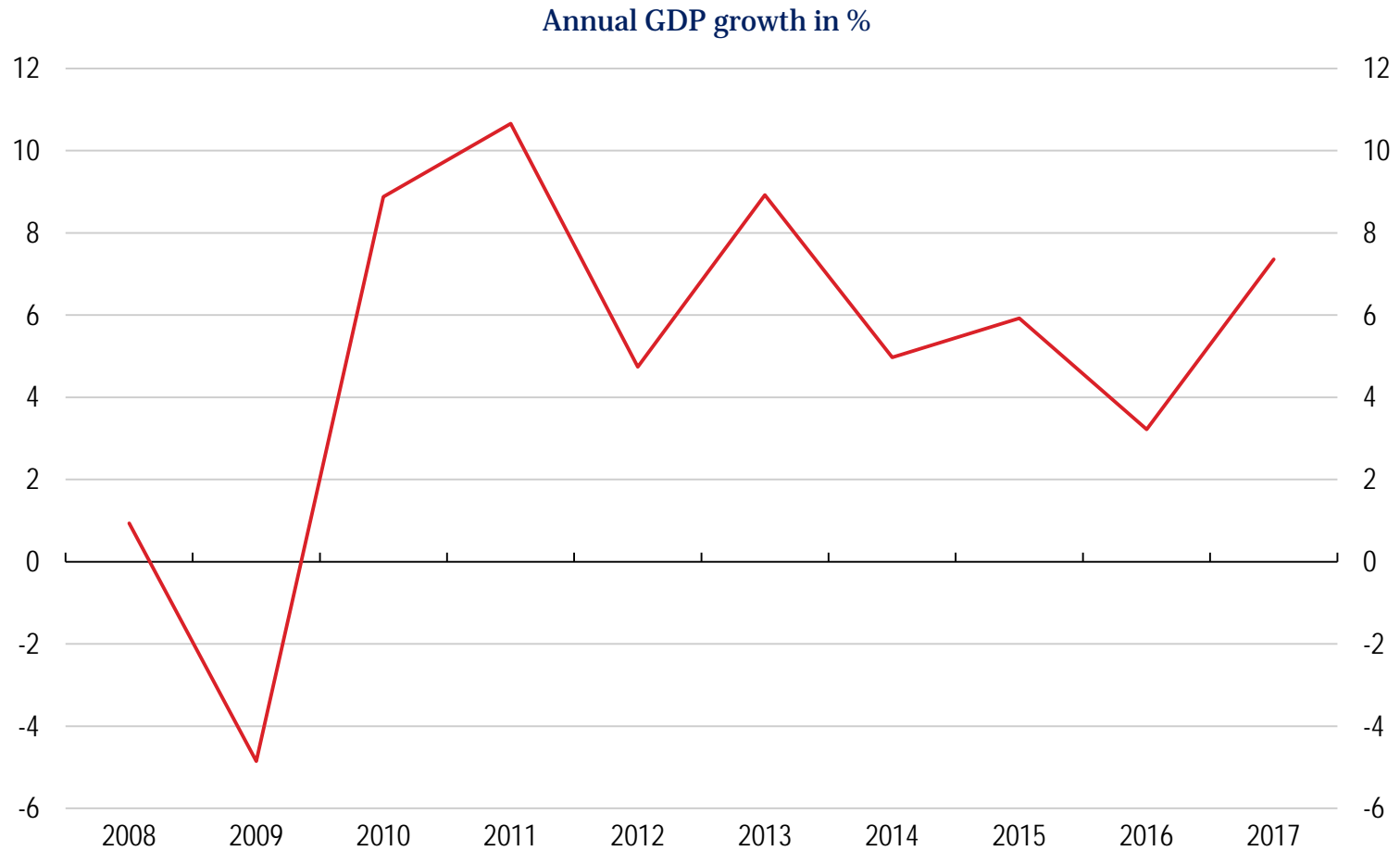
*Upgrading business investment*  
*Paris, 13 July 2018*

<http://www.oecd.org/eco/surveys/economic-survey-turkey.htm>





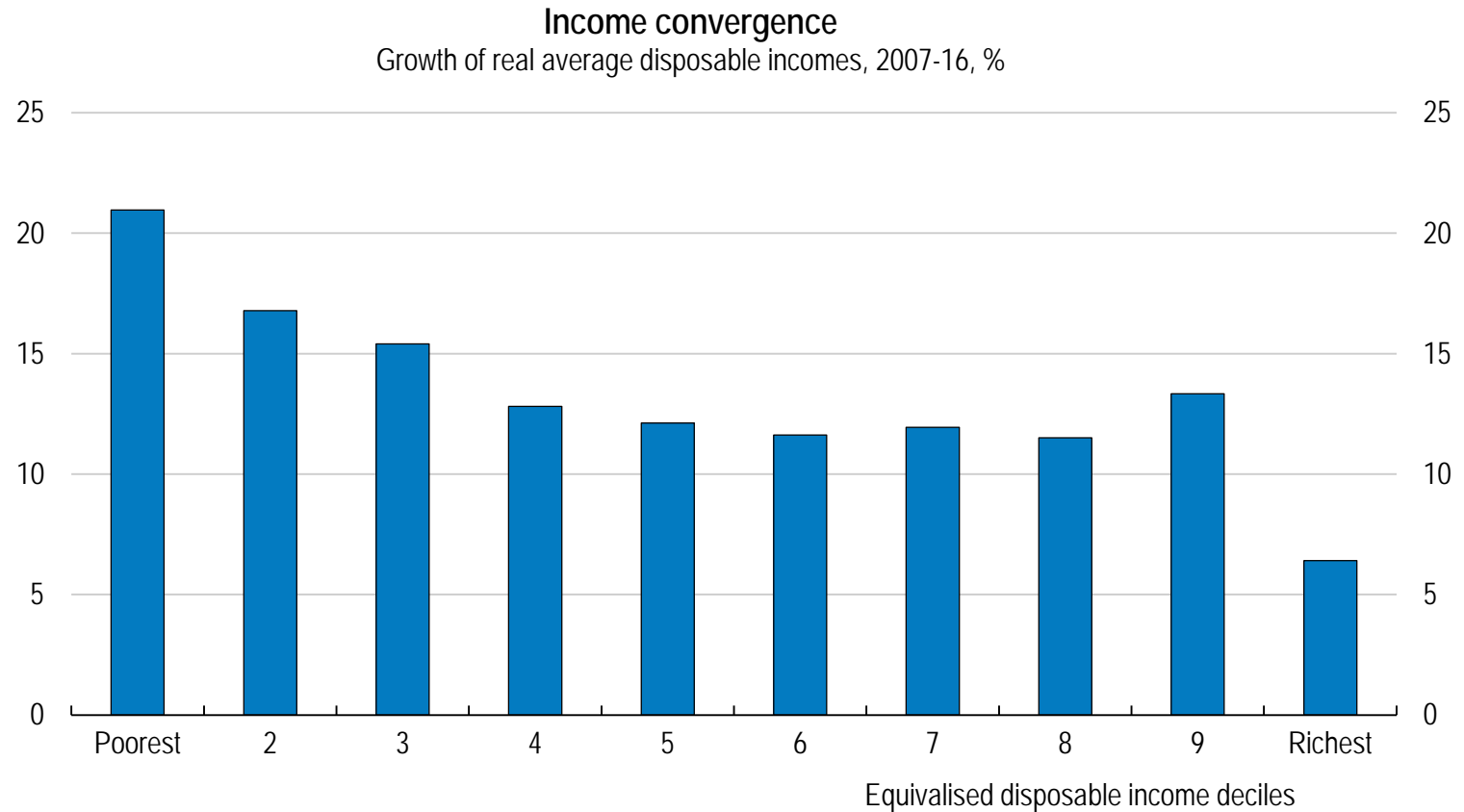
# Growth remains strong despite headwinds



Source: OECD Economic Outlook database.



# The dispersion of incomes has narrowed

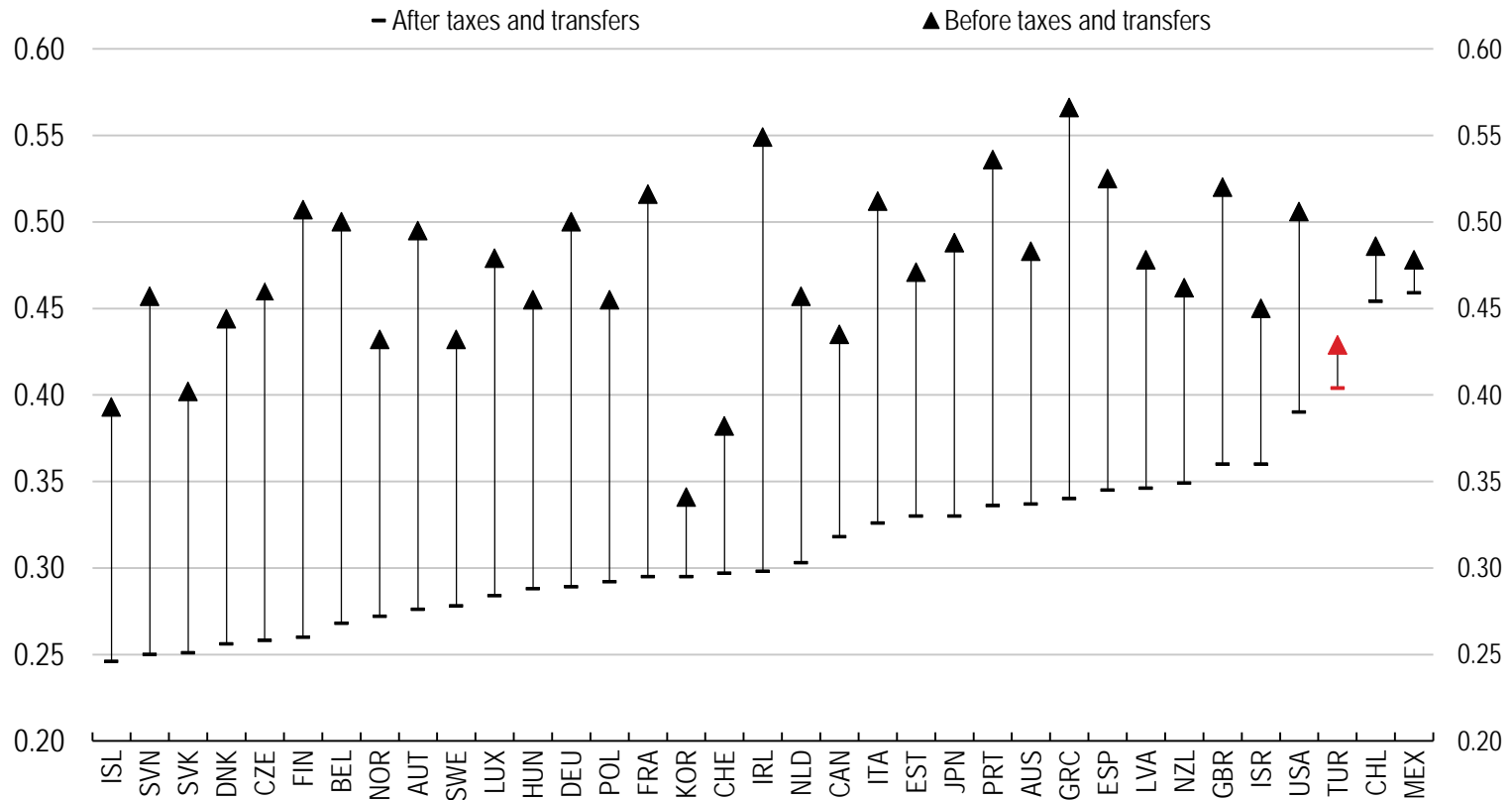


Source: Turkstat.



# Tax and transfers can play a more important role

Gini coefficient, 2015 or latest year

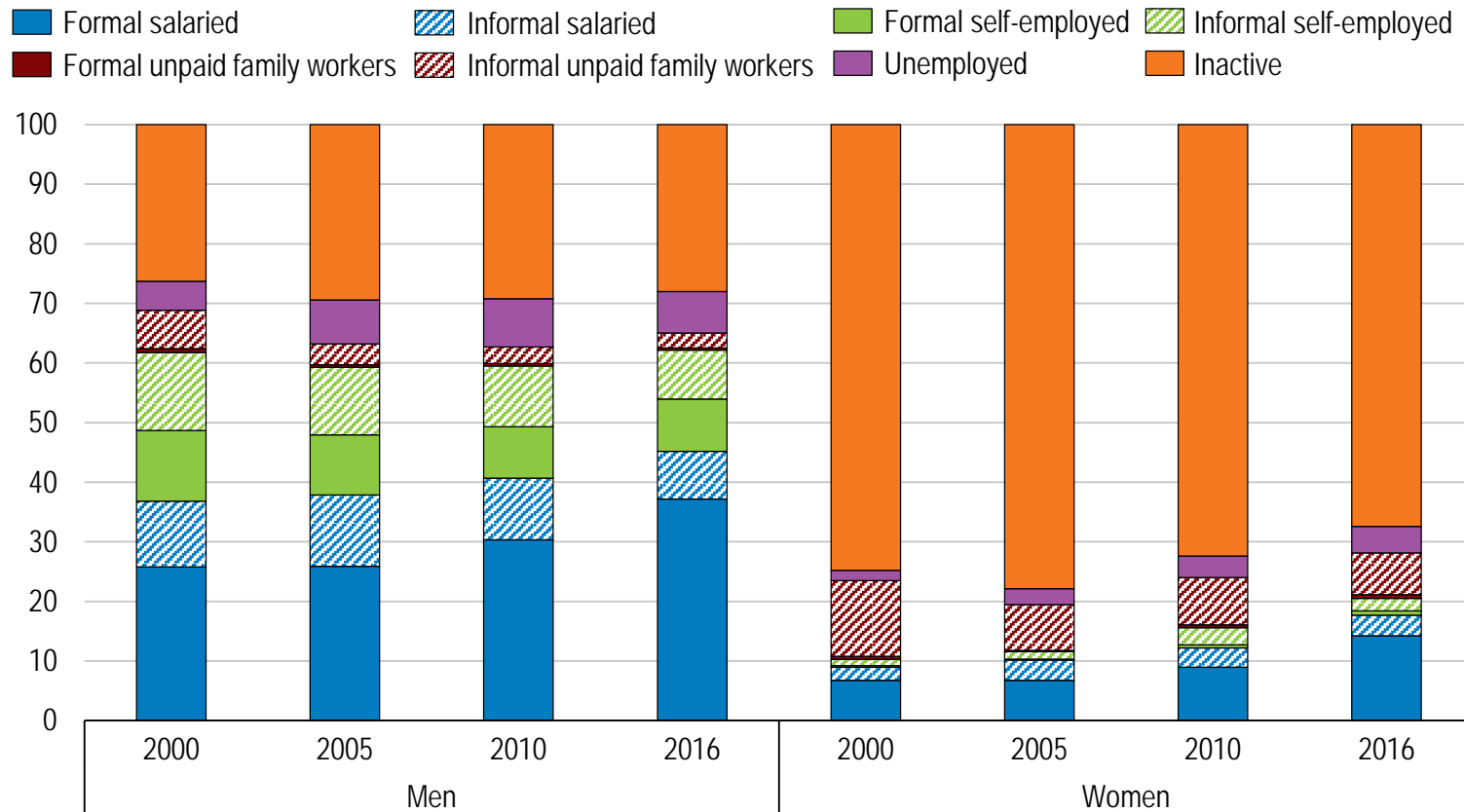


Source: OECD (2018), OECD Income Distribution (database).



# Women continue to suffer from unequal opportunities

Composition of the working-age population (over 15 year-old), in per cent

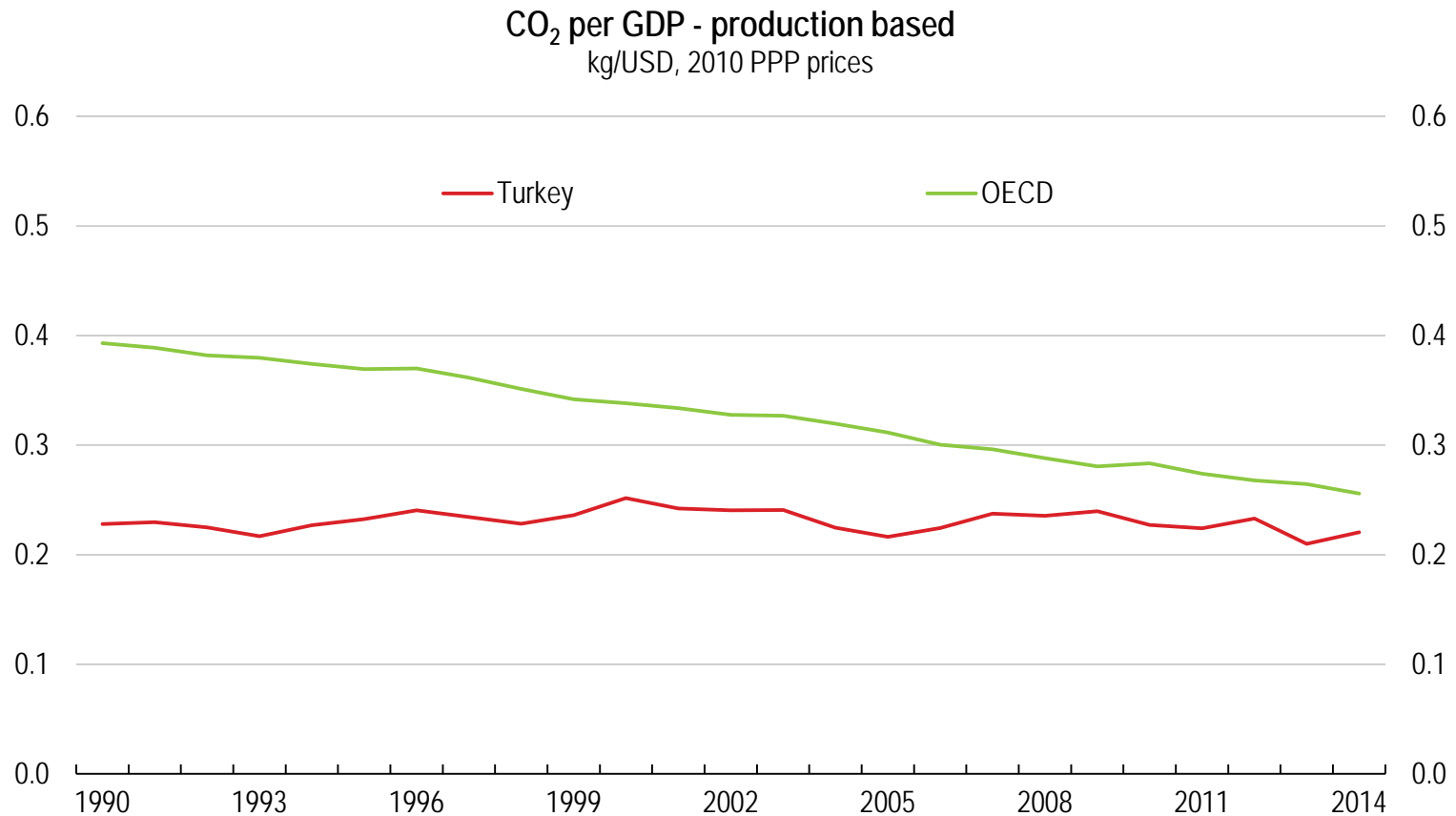


Note: Formal unpaid family workers are family members doing household work, paying social security contributions and earning pension rights.

Source: Turkstat.



# Carbon emissions per unit of GDP are still not falling



Source: OECD (2018), *Green Growth Indicators*.

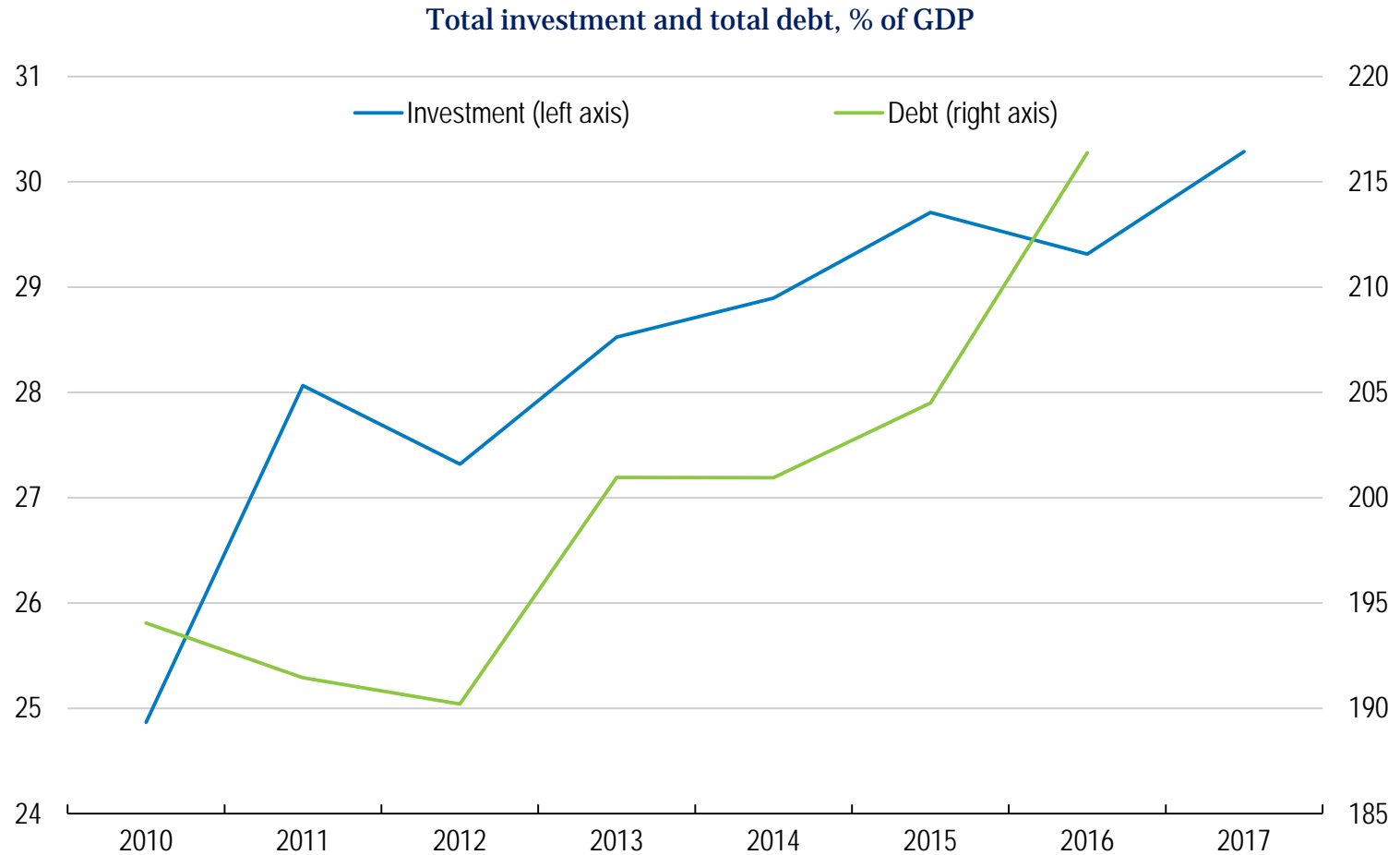


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# **MACROECONOMIC REBALANCING IS REQUIRED**



# Investment is dynamic but increasingly funded by debt

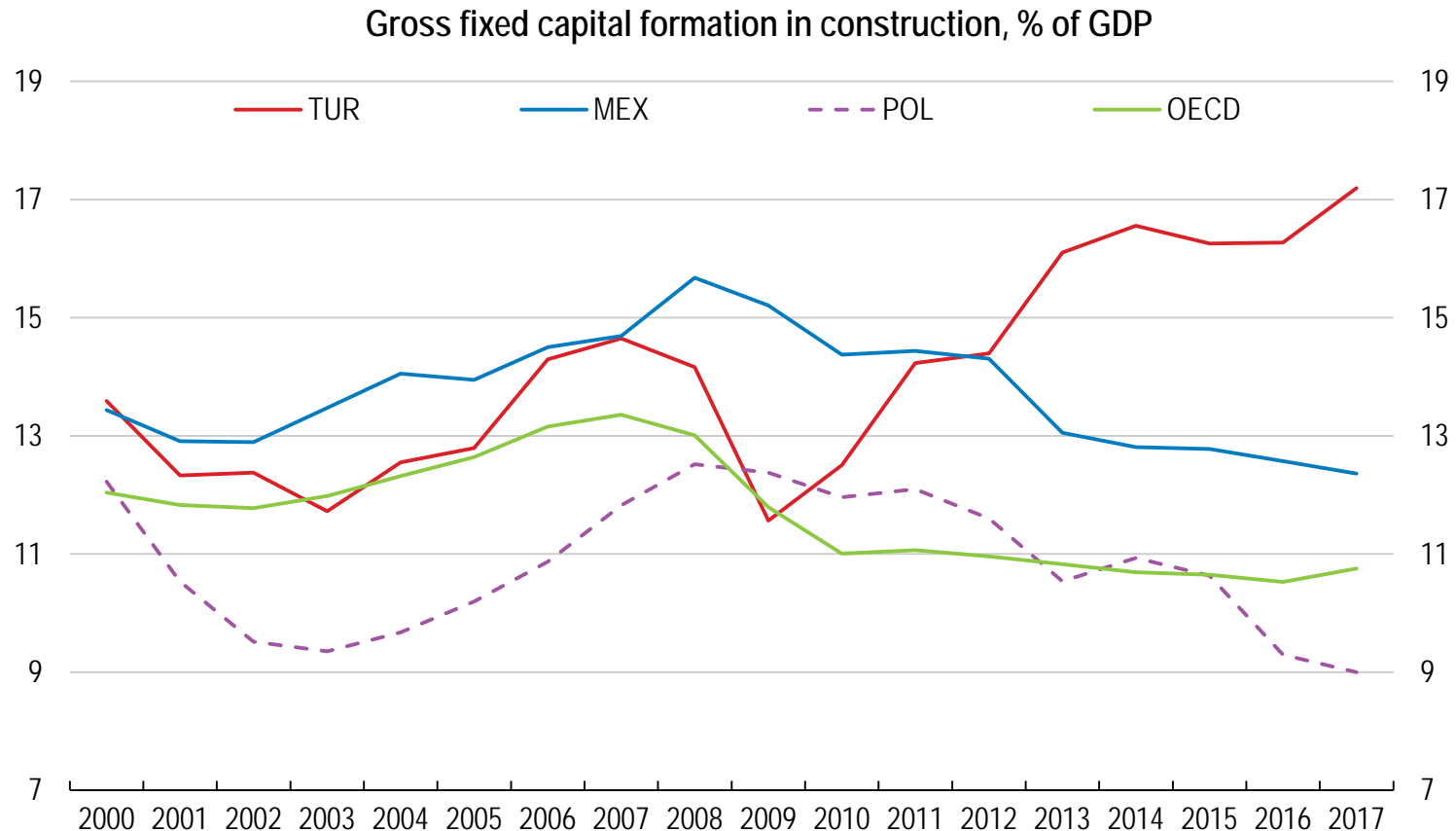


Source: OECD Economic Outlook and OECD Financial Accounts (databases).





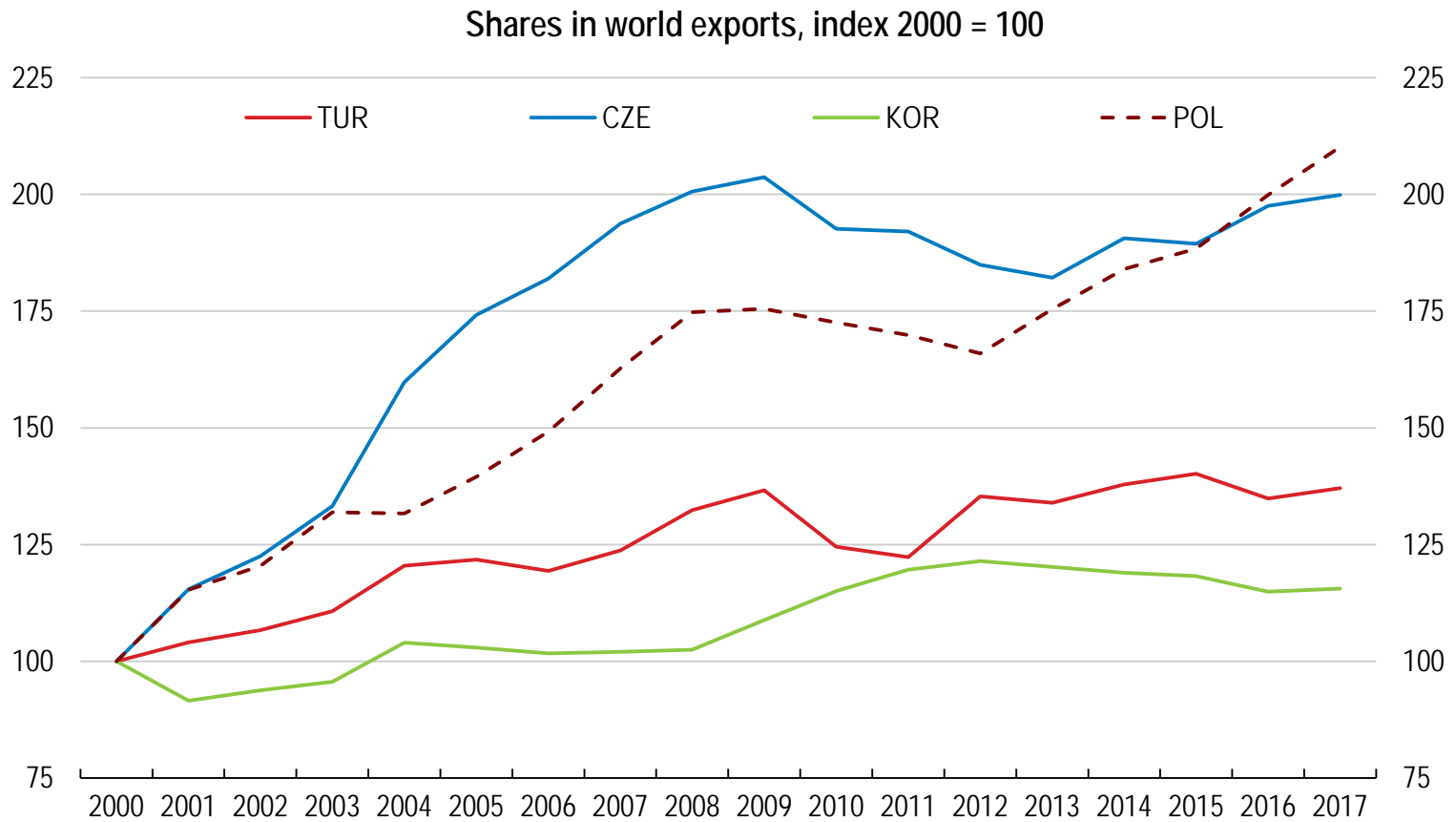
# Construction has gained a very large weight in investment



Source: OECD Economic Outlook database.



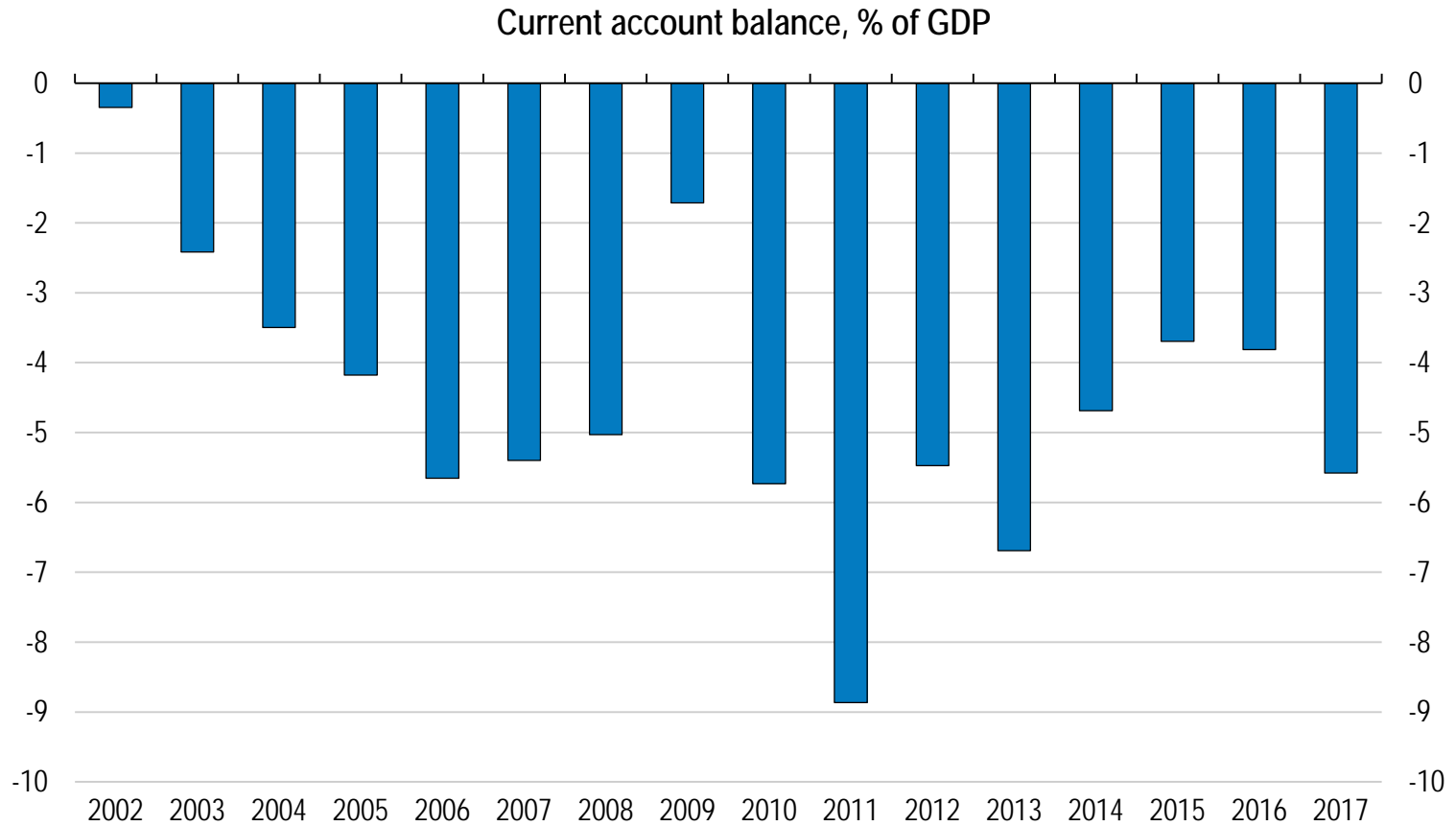
# The export sector has grown below potential



Source: OECD Economic Outlook database.



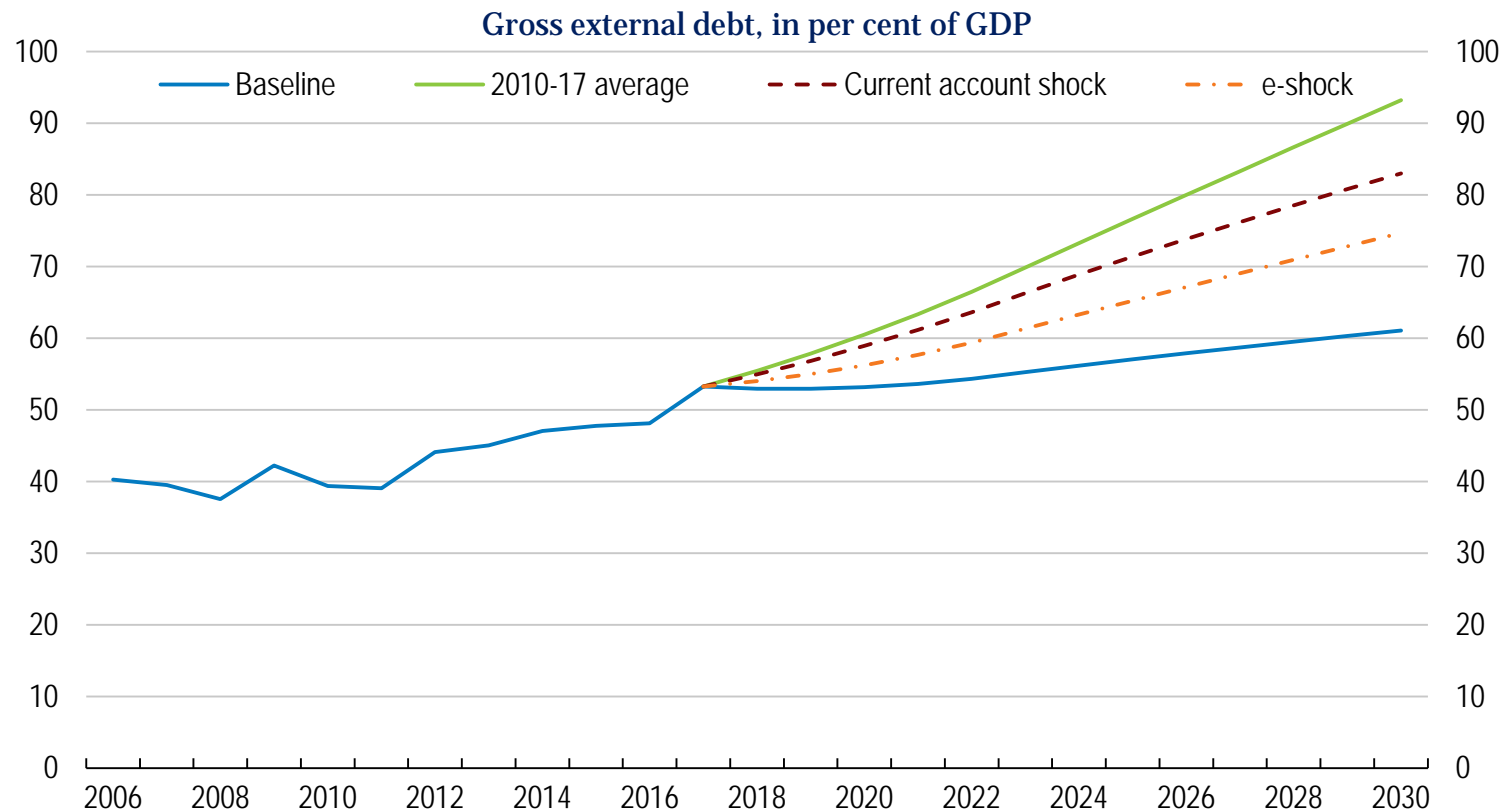
# The deficit of current account is rising



Source: OECD Economic Outlook database.



# Debt sustainability is at risk

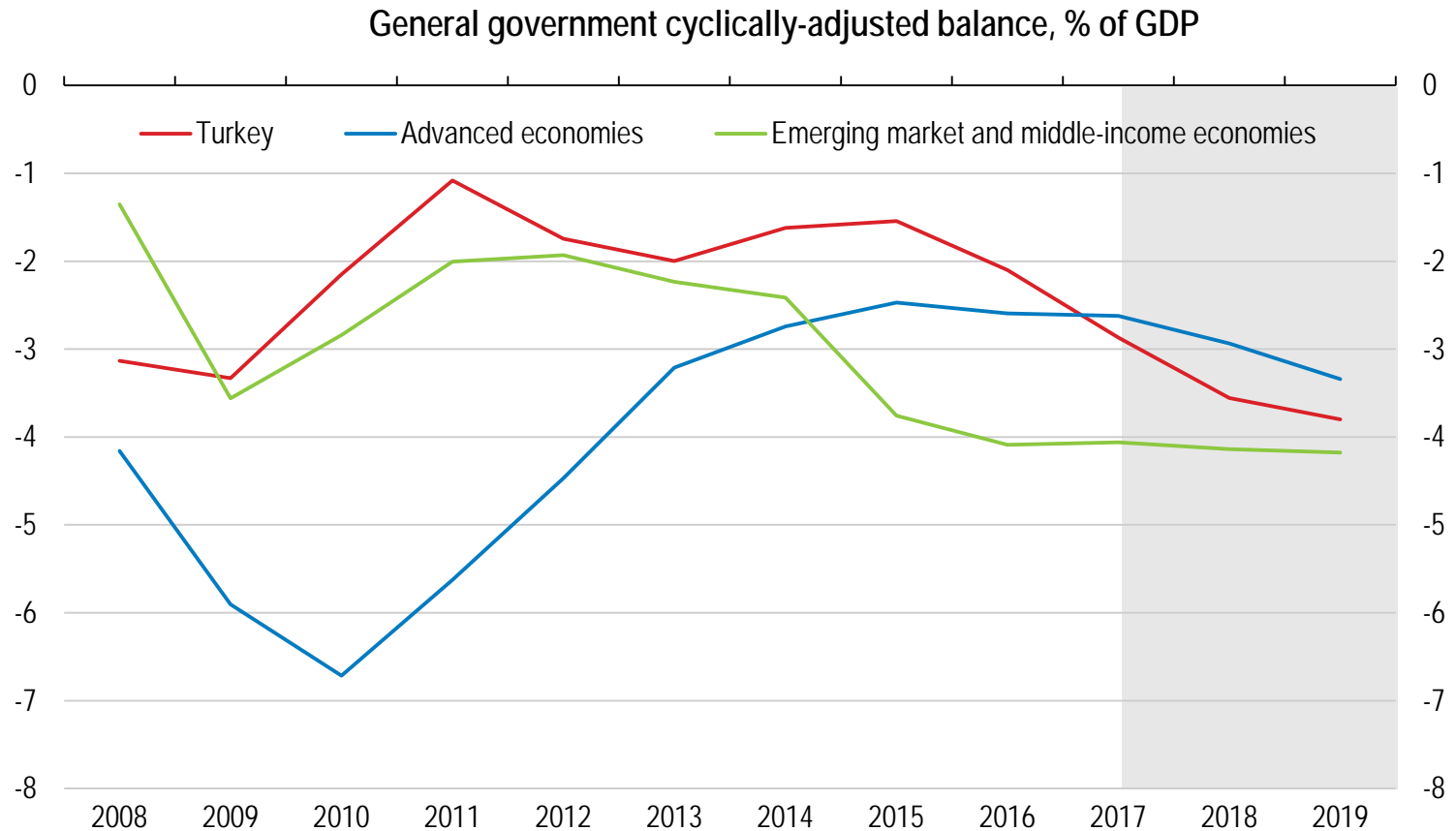


Note: The "2010-17 average" scenario extends average parameters observed over 2010-17 until 2050. The "baseline" scenario assumes an interest rate of 1.5% in 2018 rising by 0.5 percentage points per year and stabilising at 4.0% from 2023 onwards, real GDP growth of 5%, inflation of 7%, effective exchange rate depreciation of 5%, a current account deficit of 4% and net FDI inflows of 1.5% of GDP per annum. "CA shock" assumes a current account deficit of 6% while the "e-shock" scenario assumes 7% nominal depreciation per year (all other fundamentals equal to baseline for both shock scenarios).

Source: OECD calculations based on IMF (2018), Balance of Payments (database) and OECD (2018), OECD Economic Outlook (database).



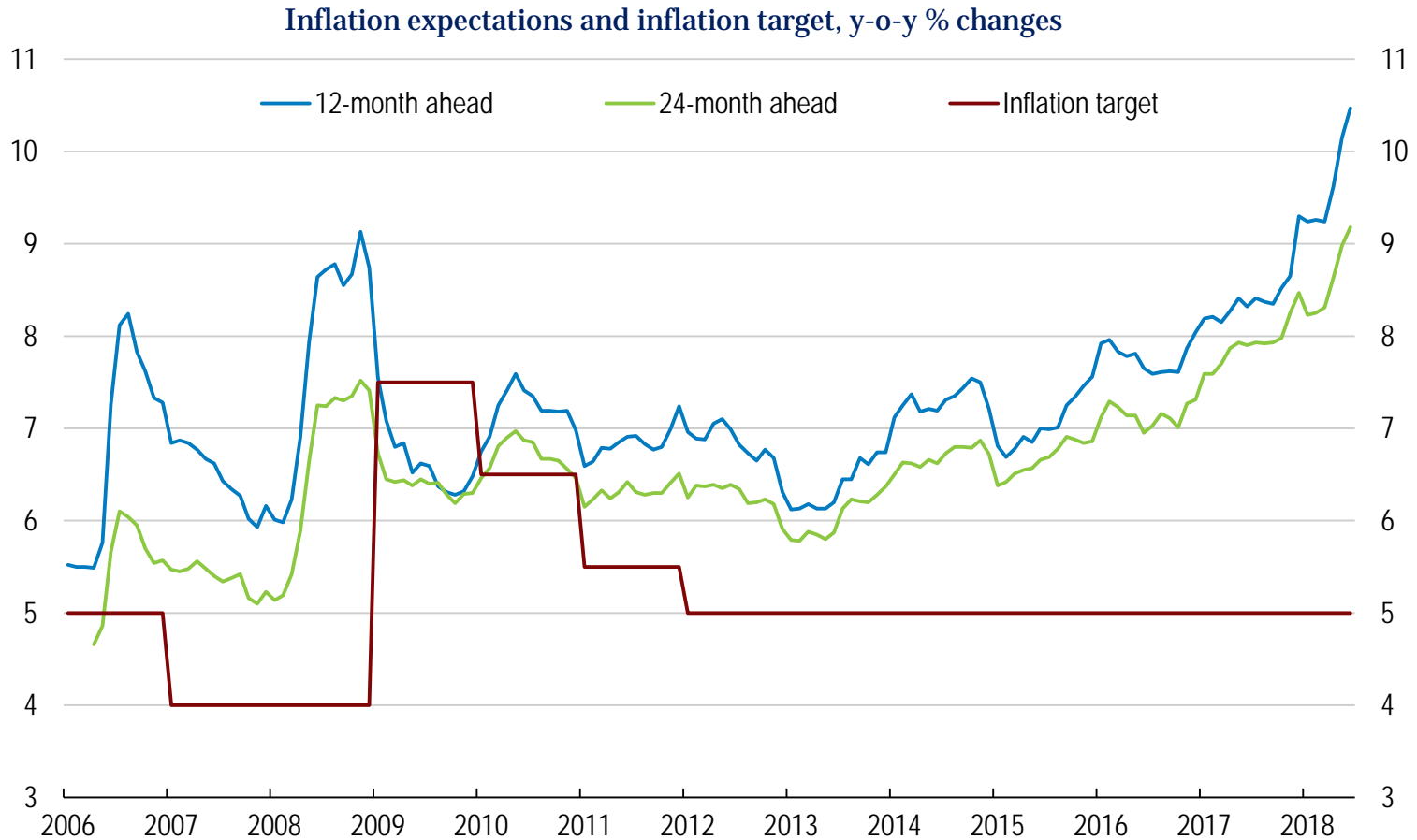
# Fiscal consolidation is at risk



Source: IMF (2018), Fiscal Monitor, April 2018.



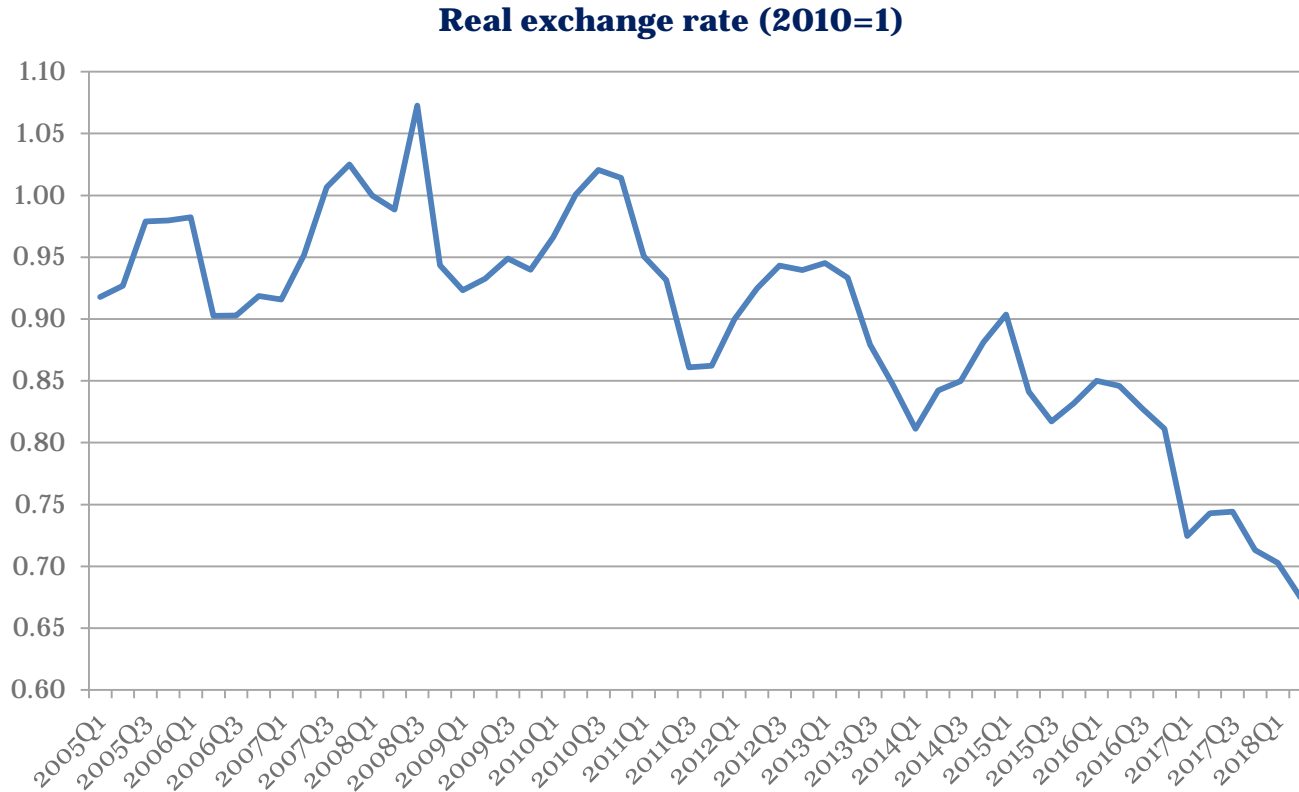
# Inflation is rising sharply



Source: Central Bank of the Republic of Turkey.



# The Lira has depreciated significantly

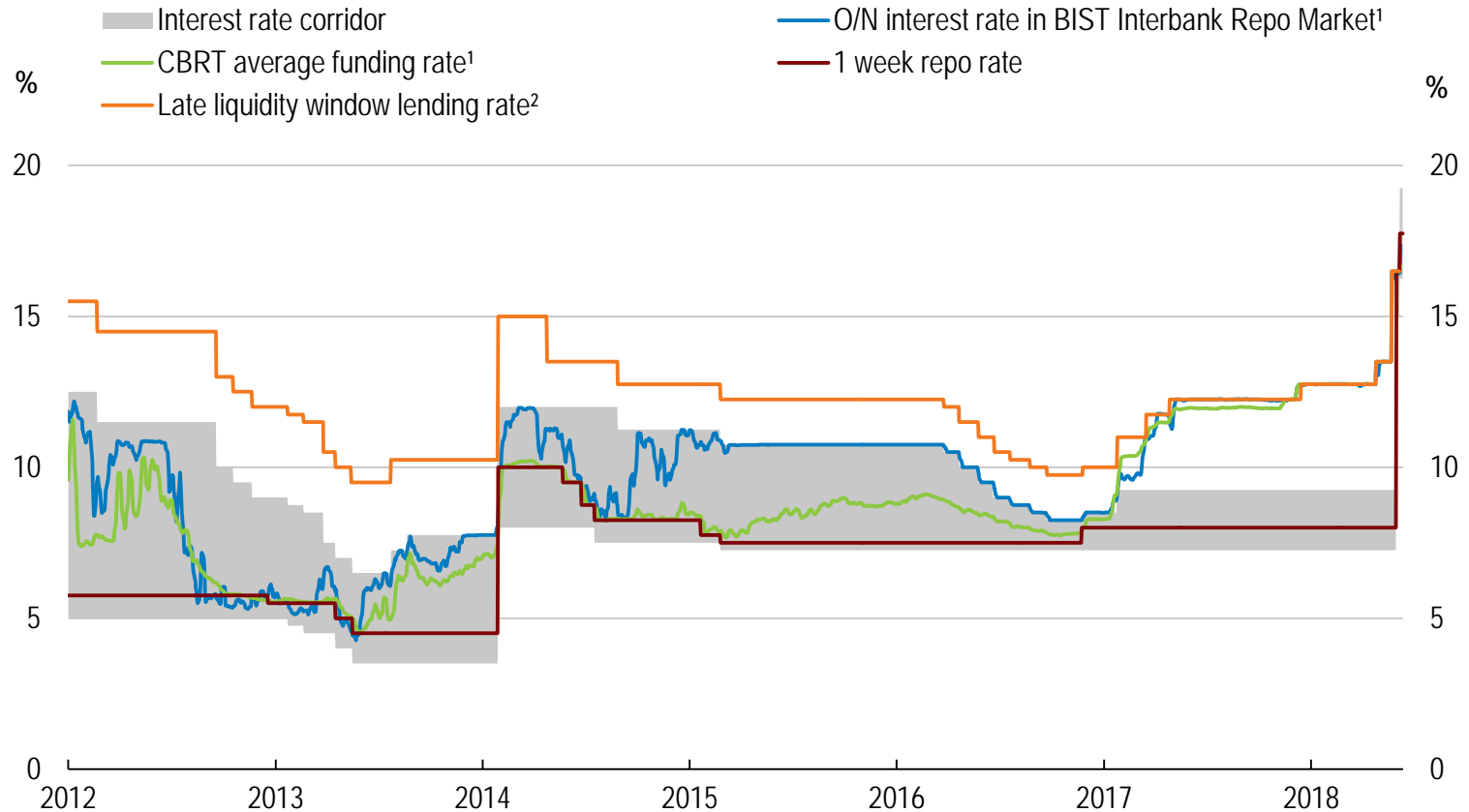


Source: OECD Economic Outlook databases.



# The recent tightening of monetary policy is welcomed

## The interest rate corridor and the main funding rates







# POLICY RECOMMENDATIONS

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- Publish quarterly general government accounts according to international standards and a regular Fiscal Policy Report covering all contingent liabilities and quasi-fiscal activities of the government.
- Tighten fiscal and quasi-fiscal policies, strengthen the macroprudential rules and rein in housing loans.
- Restore the credibility of monetary policy by committing all stakeholders to the independence of the central bank.
- Forward guidance should be provided on how the authorities plan to achieve the inflation target.



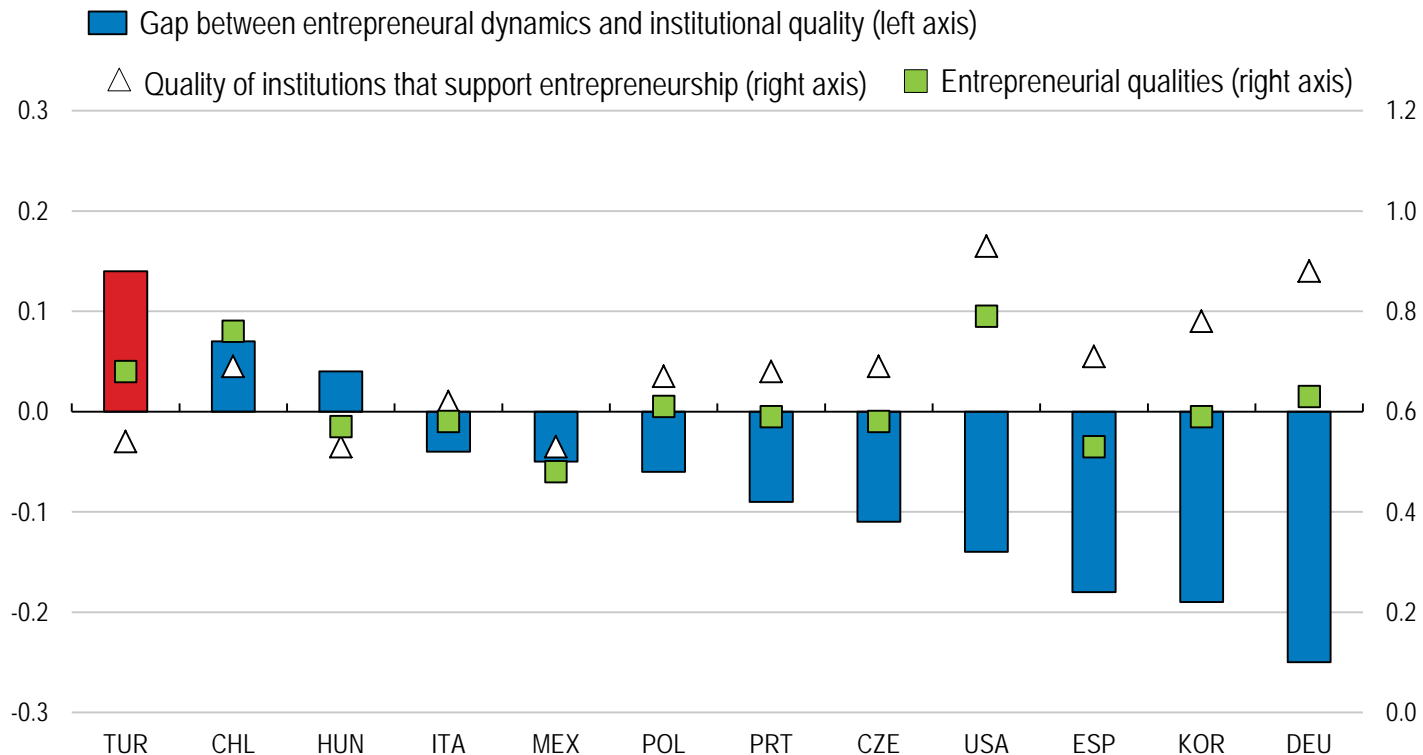
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# **UPGRADING THE BUSINESS SECTOR WITH HIGHER QUALITY AND BETTER ALLOCATED INVESTMENTS**



# Entrepreneurial dynamism contrasts with regulatory restrictions

Gap between entrepreneurial dynamics and institutions

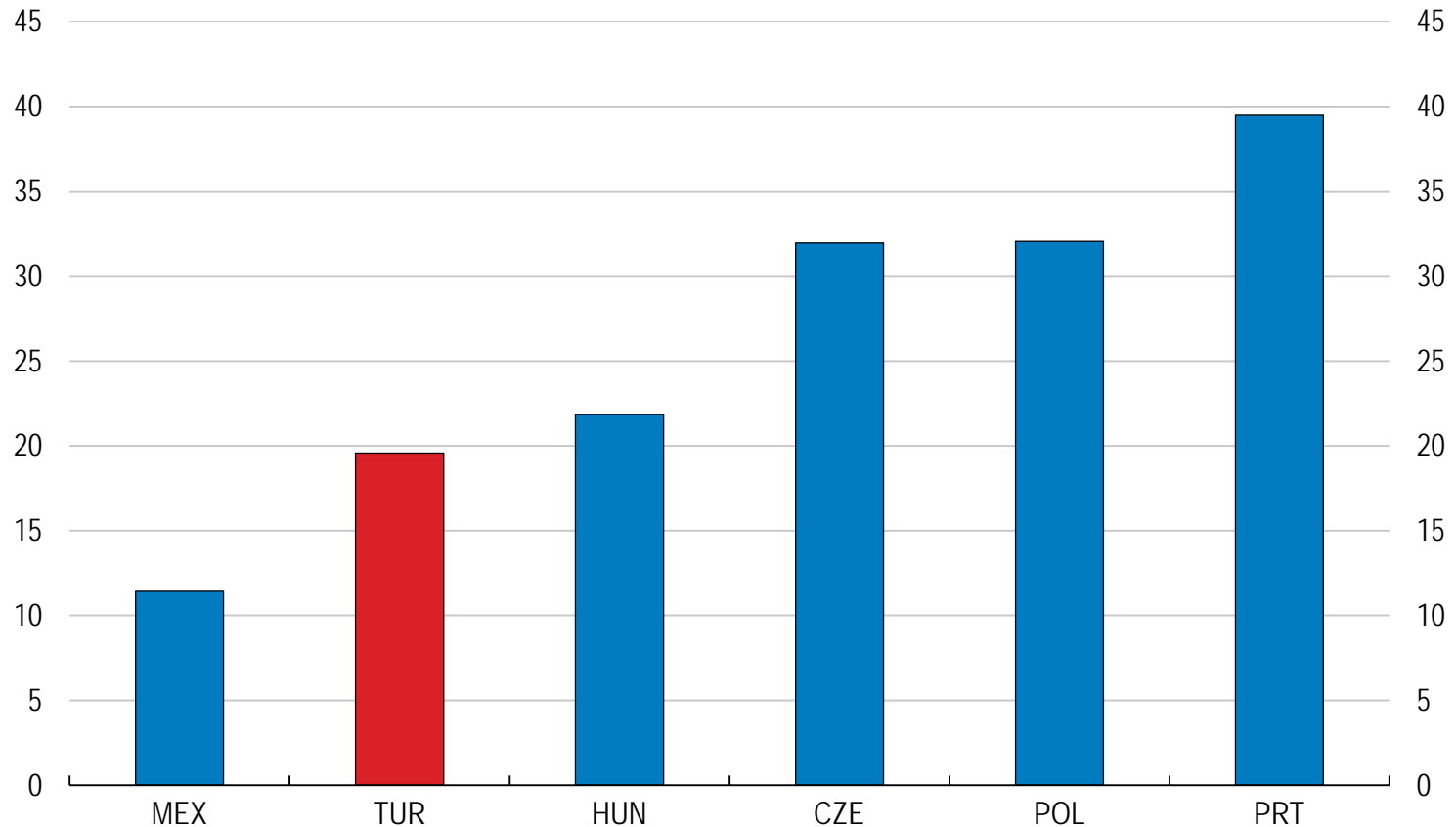


Source: Global Entrepreneurship Research Association, London Business School, Global Entrepreneurship Monitor (database, <http://www.gemconsortium.org/data>) and Global Entrepreneurship and Development Institute, Global Entrepreneurship Index 2018. The quality of institutions supporting entrepreneurship and entrepreneurial qualities are scored between 0-1.



# Small firms considerably lag behind in labour productivity

Labour productivity of small firms relative to large firms, large firms=100, 2014 or latest

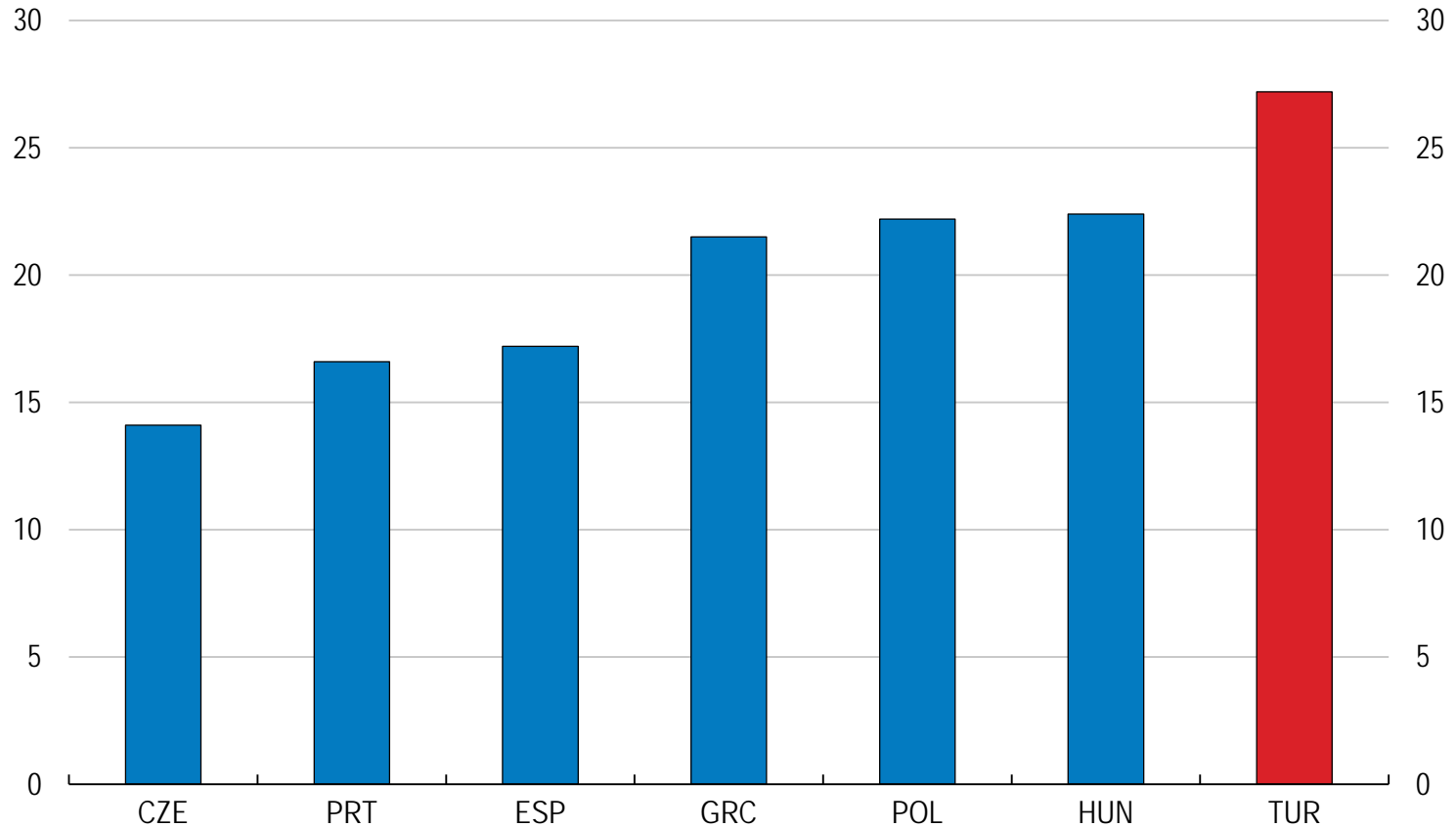


Note: Small (large) firms are defined as those employing less than 10 (more than 250) persons.  
Source: OECD (2017), Entrepreneurship at a Glance 2017.



# Informality has declined but remains high

Share of informal activities in total value-added, 2017, %

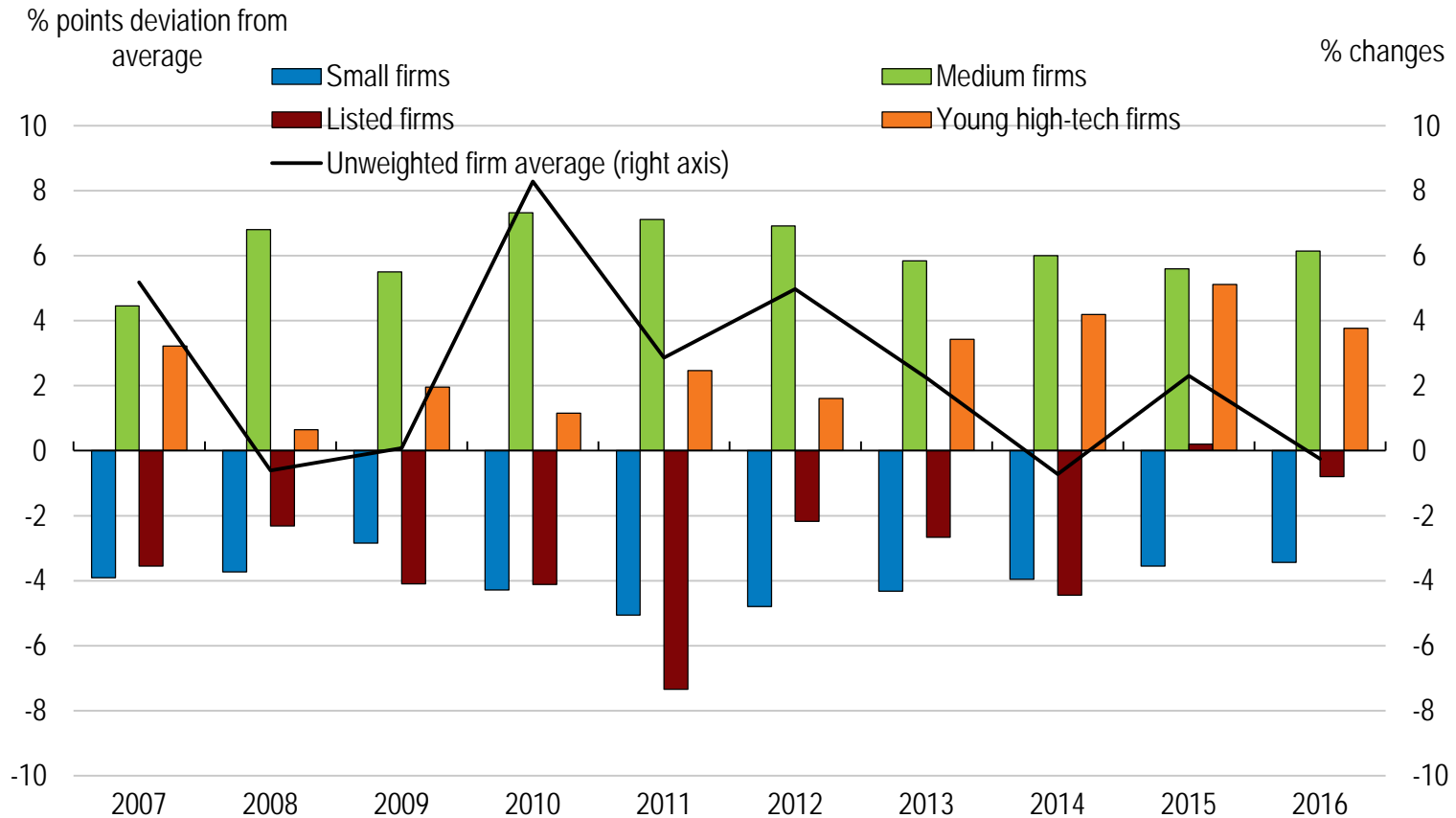


Source: Medina and Schneider, "Shadow Economies Around the World: ", 2018.



# Machinery and equipment investments grow at uneven paces across firm types

Manufacturing, lagged machinery and equipment stock (real prices)

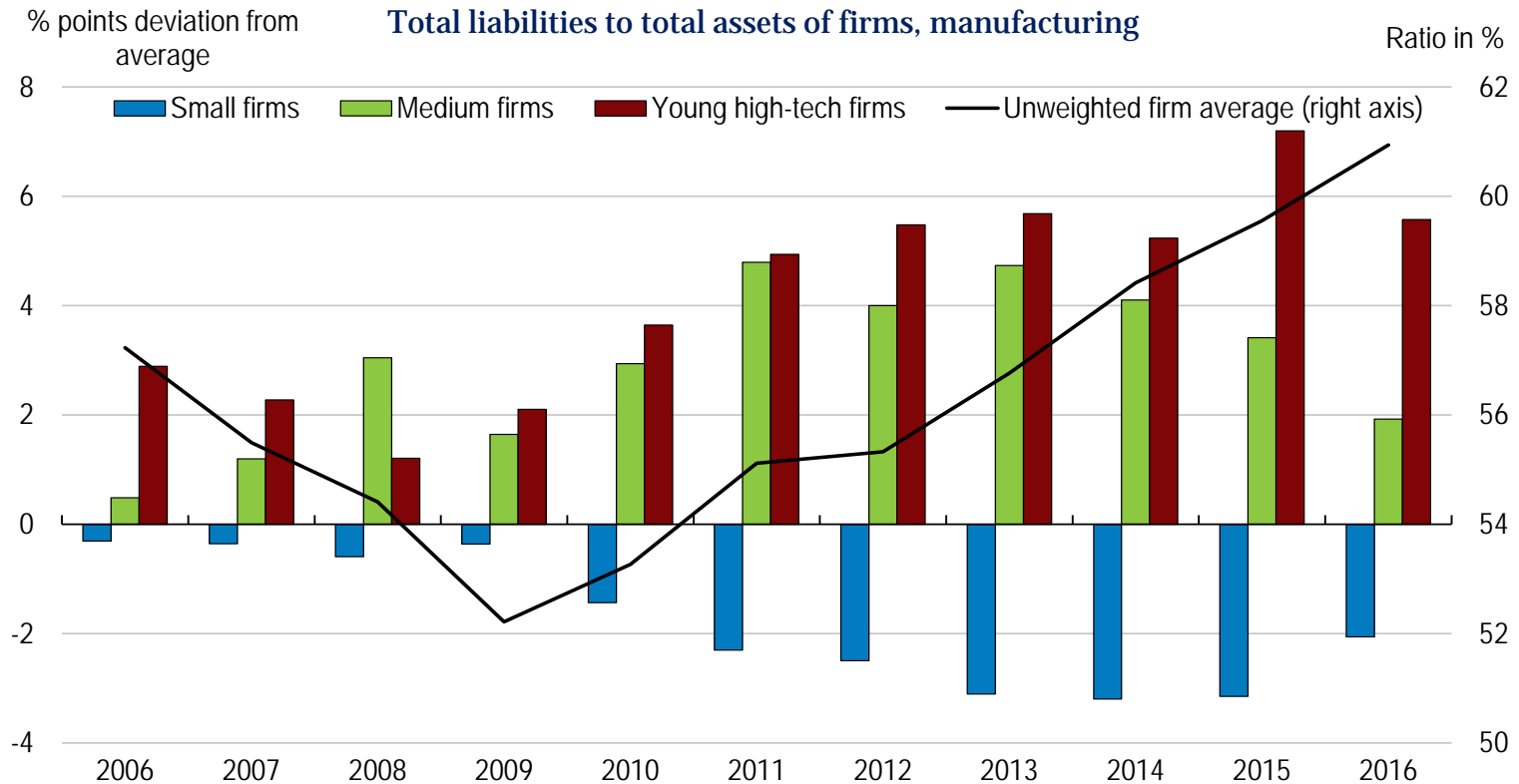


Note: Investment growth rates of small firms (employing less than ten workers and which are more than five years old); of medium-sized firms (employing from 50 to 249 workers); of firms listed on the stock exchange; and of young technology-intensive firms (less than four year old firms in upper-middle and high technology sectors) are shown in percentage point deviation from the manufacturing sector average, after controlling for sectoral composition differences.

Source: OECD/CBRT dataset on the basis of Enterprise Information System (EIS).



# Medium-sized firms and high-tech start-ups are particularly leveraged



Note: Small firms (employing less than ten workers and which are more than five year old), medium-sized firms (employing from 50 to 249 workers), and young technology-intensive firms (less than four year-old firms in upper-middle and high technology sectors) ratios are shown in percentage point deviation from the manufacturing sector average, after controlling for sectoral composition differences.

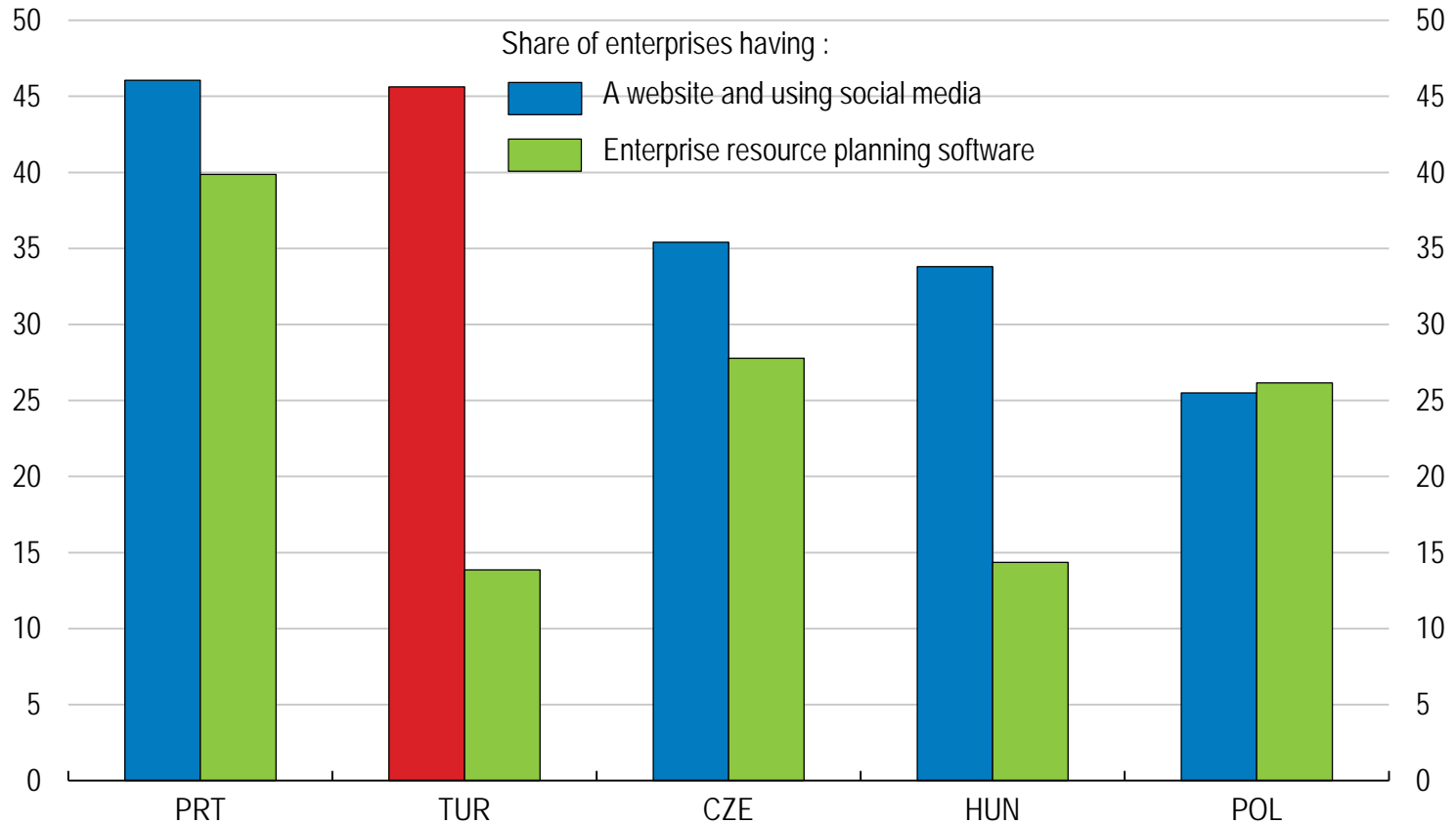
Source: OECD/CBRT dataset on the basis of Enterprise Information System (EIS). Note: Small firms (employing less than ten workers and which are more than five year old), medium-sized firms (employing from 50 to 249 workers), and young technology-intensive firms (less than four year-old firms in upper-middle and high technology sectors) ratios are shown in percentage point deviation from the manufacturing sector average, after controlling for sectoral composition differences.

Source: OECD/CBRT dataset on the basis of Enterprise Information System (EIS).



# Digitalisation advances but core applications should spread more broadly

Digitalisation among enterprises, 2017, % of all enterprises

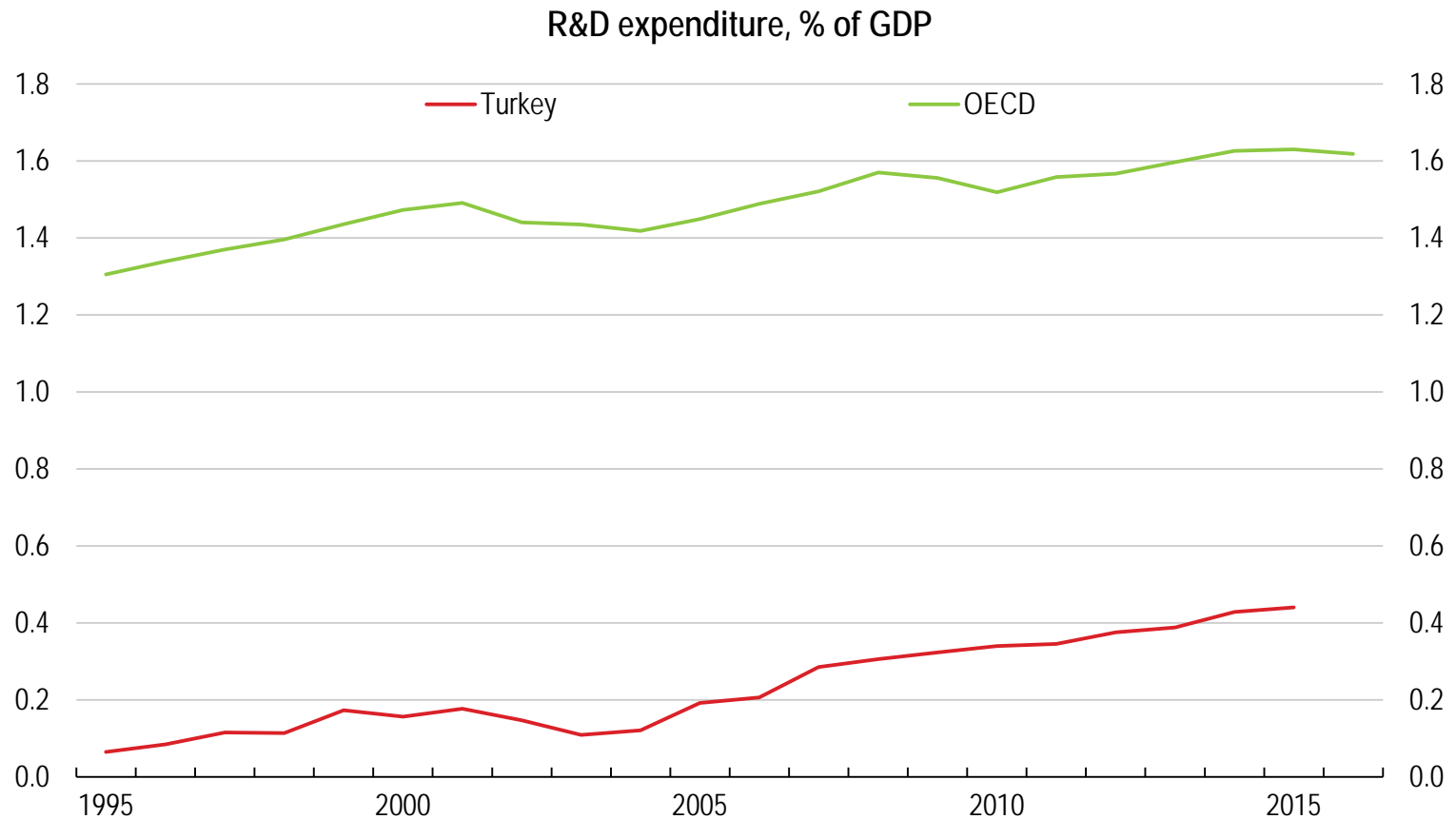


Source: Eurostat (2017), The Digital Economy and Society Index.





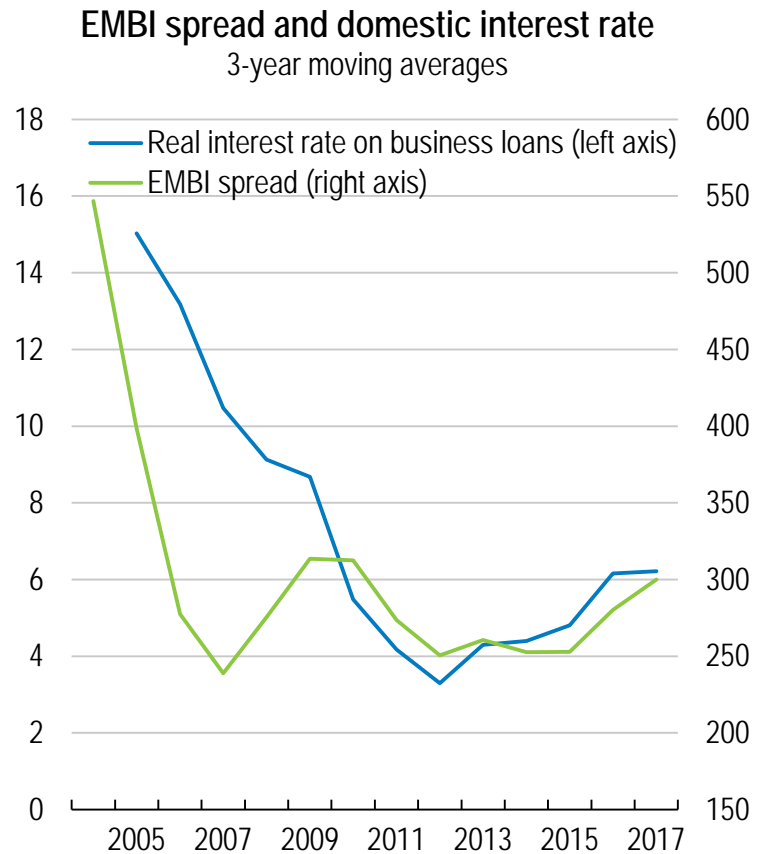
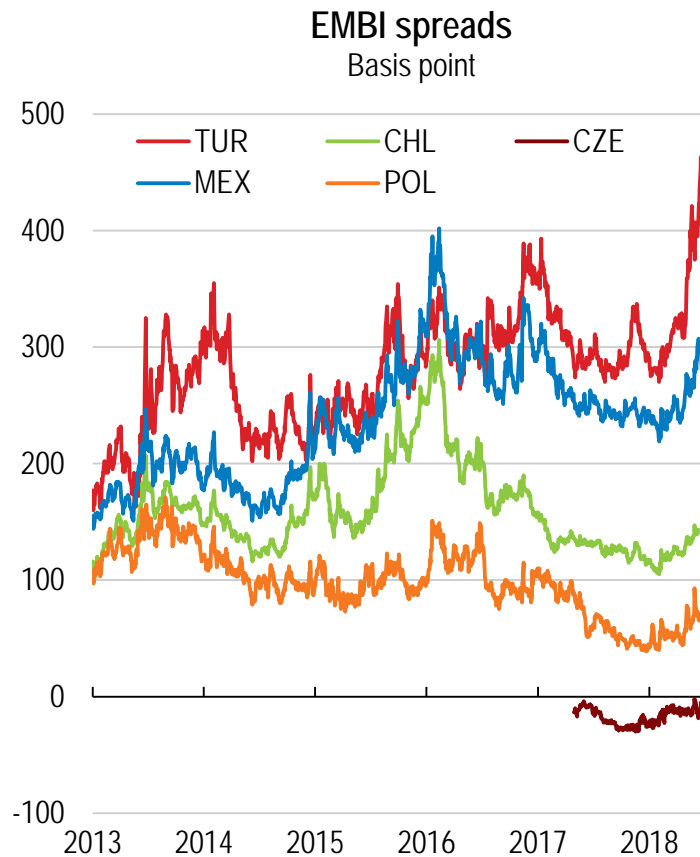
# R&D expenditures are low but rising



Source: OECD Main Science and Technology Indicators database.



# The credit costs of all firms can be reduced considerably

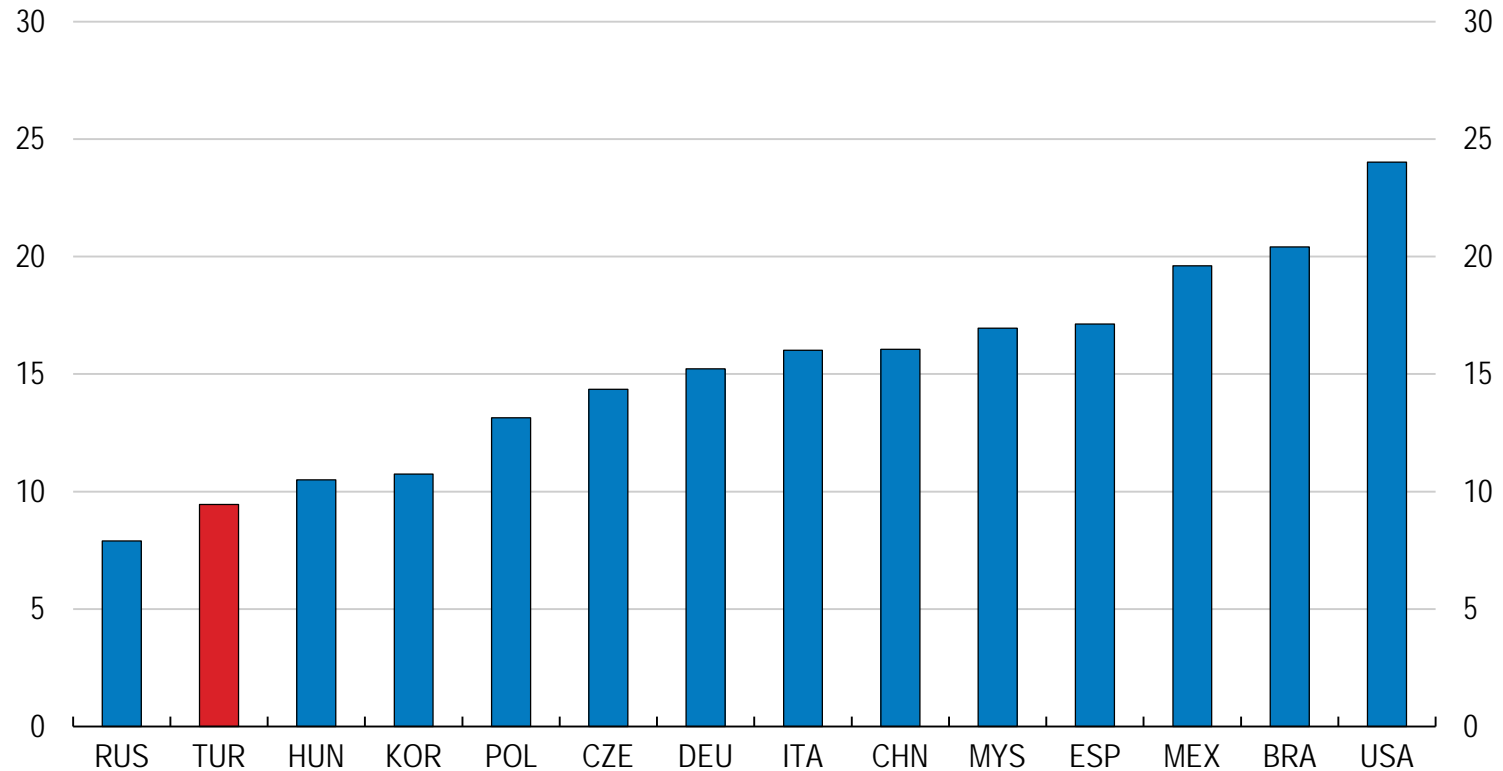


Source: Thomson Reuters Datastream (database) and Central Bank of the Republic of Turkey.



# Equity risk premia are high

Price/earning ratio, average first half 2018



Source: Thomson Reuters Datastream (database).



# POLICY RECOMMENDATIONS

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- To reduce the funding costs of the economy improve the international credibility of governance institutions, fiscal transparency and price stability.
- Carry out a strategic review to identify and address the most binding constraints to the development of the currently weak ecosystem for equity financing of investment.
- Evaluate the uptake of the various recent social security contribution cuts granted and make permanent those which have proven most supportive of formalisation, financing this through better tax enforcement.
- Encourage family firms through technical support and awareness campaigns to develop standard corporate governance, professional management and financial transparency.



## POLICY RECOMMENDATIONS (cont.)

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- Enforce the compulsory auditing rules of the new Company Law. Reduce audit costs - while maintaining audit quality standards - via tax incentives in the early years of audited financial reporting.
- Undertake a cost-benefit analysis of the credit guarantee system and normalise its size, tighten the macroprudential rules and contain the quasi-fiscal activities of public financial institutions.
- Complete and enforce a holistic strategy of digitalisation, encompassing education, life-long learning and infrastructure and internet access policies.



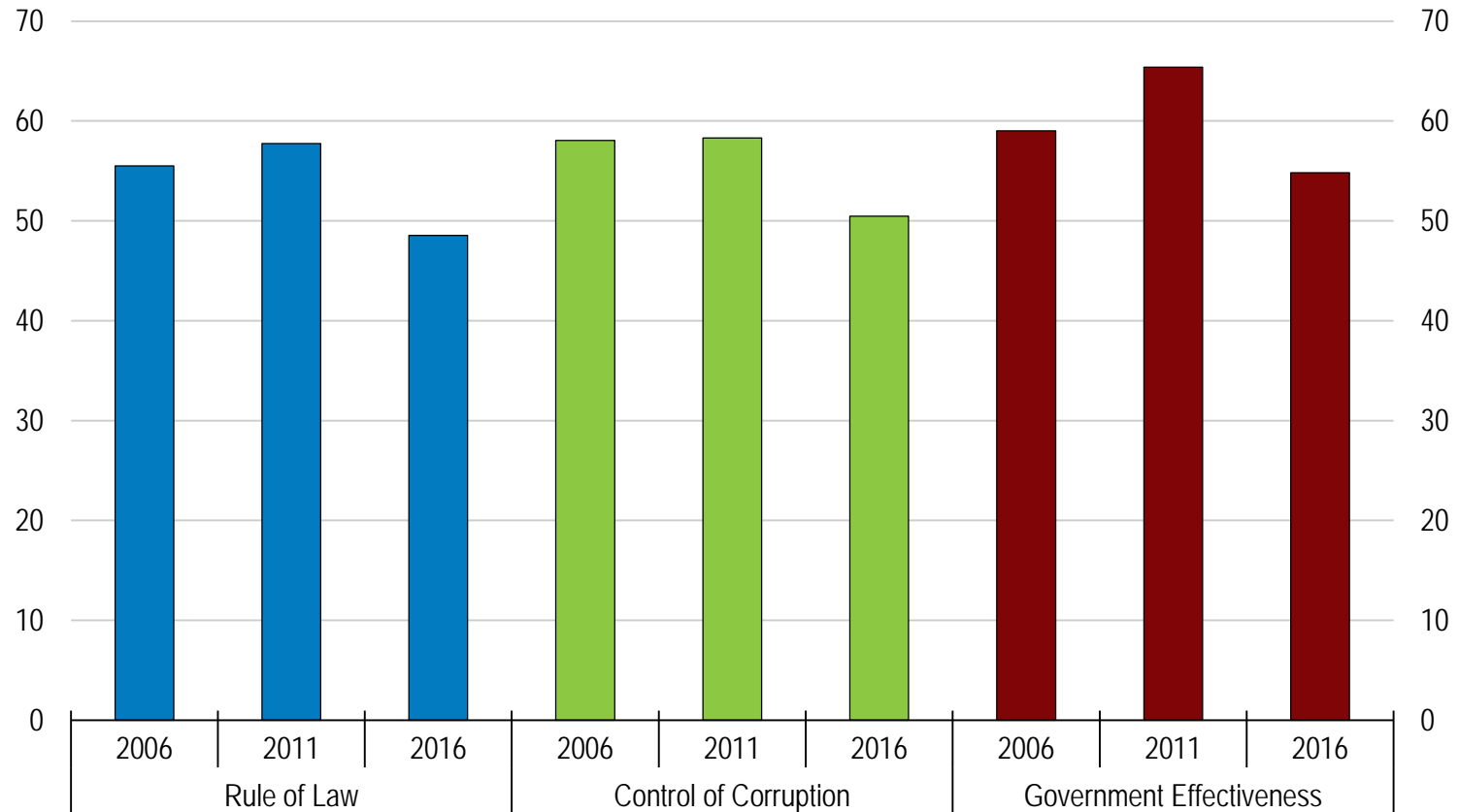
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# **STRENGTHENING TURKEY'S INSTITUTIONAL AND HUMAN CAPITAL BASIS**



# The quality of institutions can be improved

(Rule of law, control of corruption, government effectiveness)

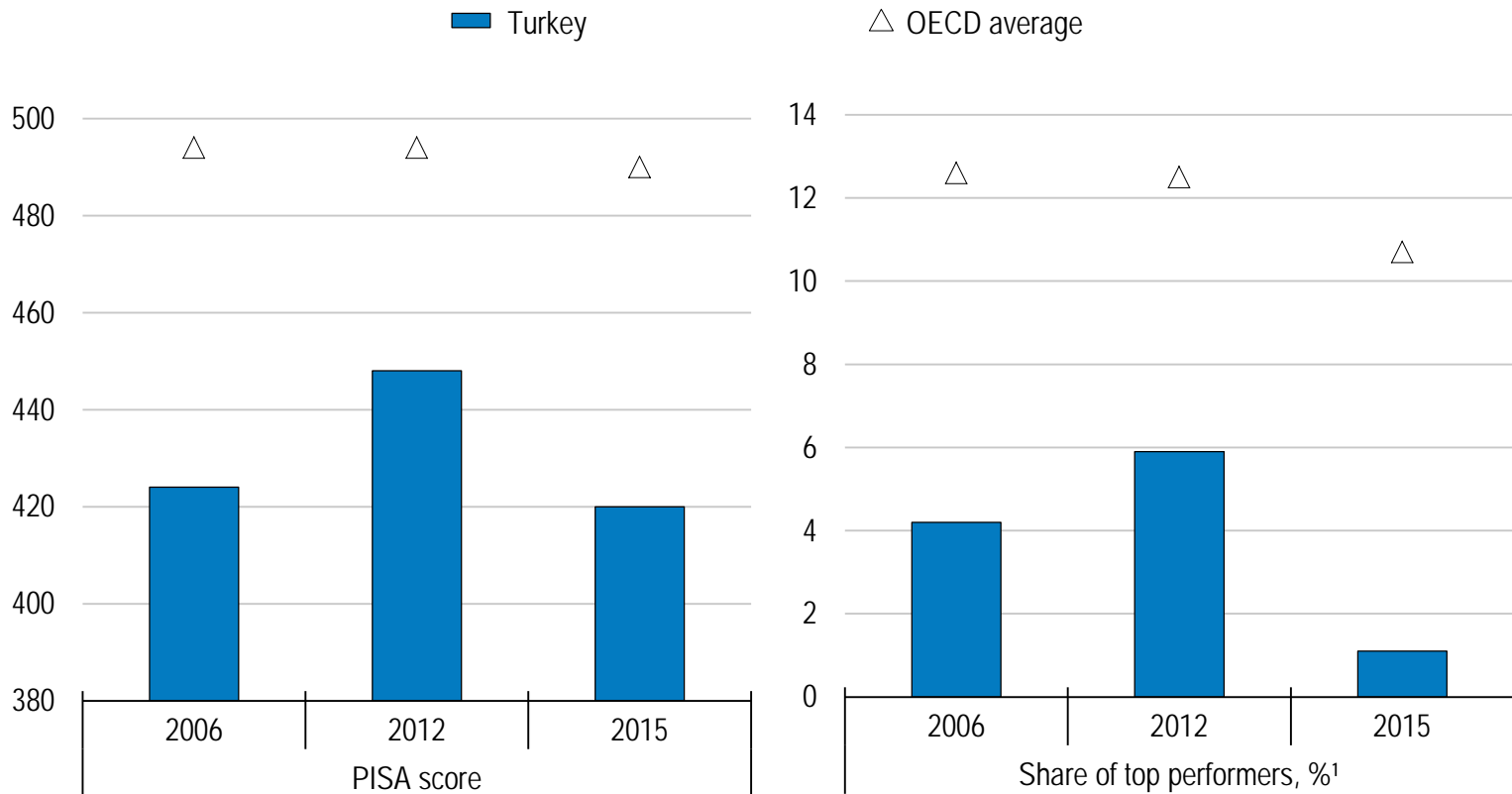


Source: World Bank (2017), Worldwide Governance Indicators.



# The quality of education should be improved

## Secondary students' mathematics skills



1. Proficiency level 5 or above on a scale of 1 to 6.

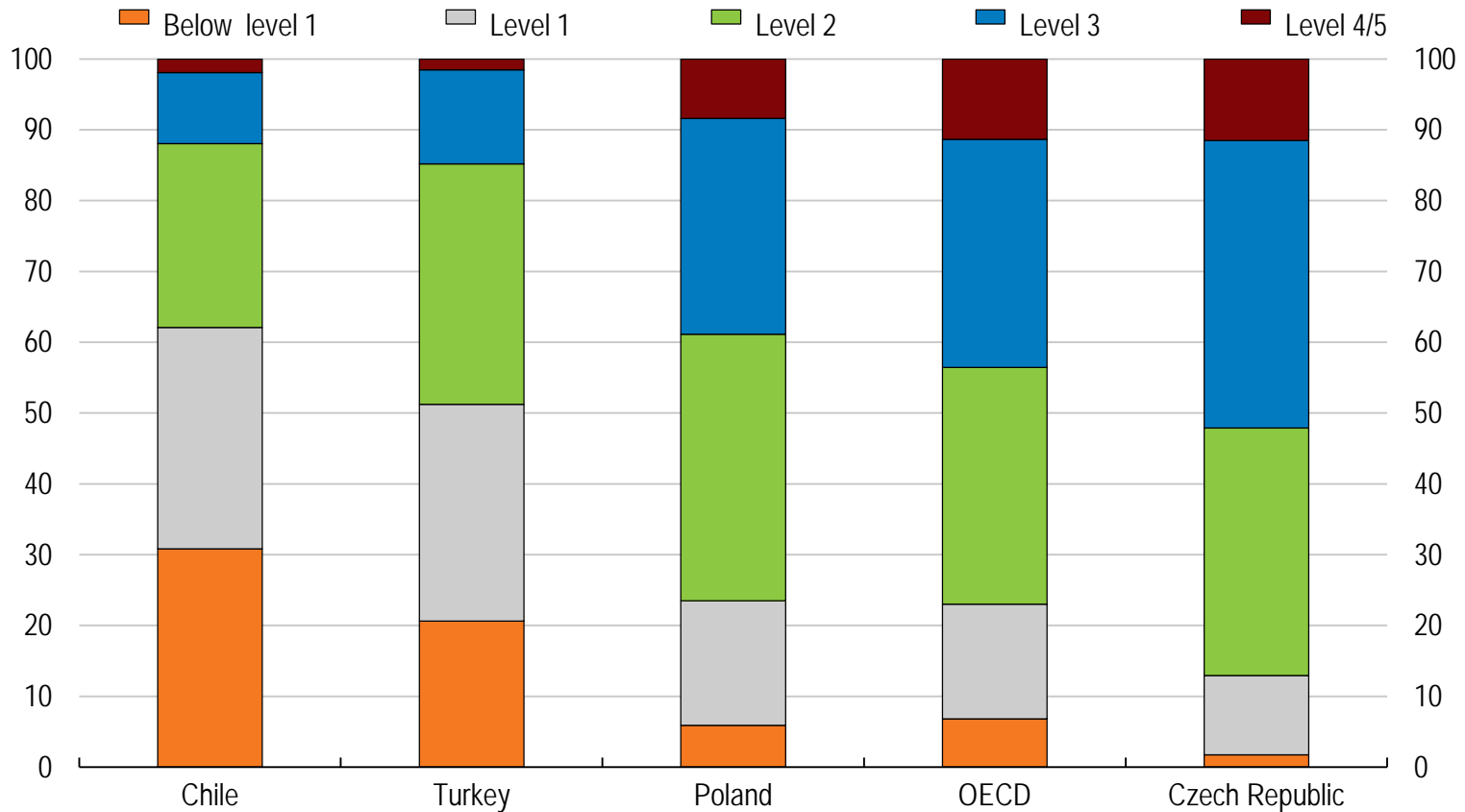
Source: OECD (2016), PISA 2015 Results: Excellence and Equity in Education (Vol. I) and OECD (2016), Skills Matter: Further Results from the Survey of Adult Skills.





# The skills of the working age population should be strengthened

**Adult population's numeracy skills**  
% of 16-65 year-olds

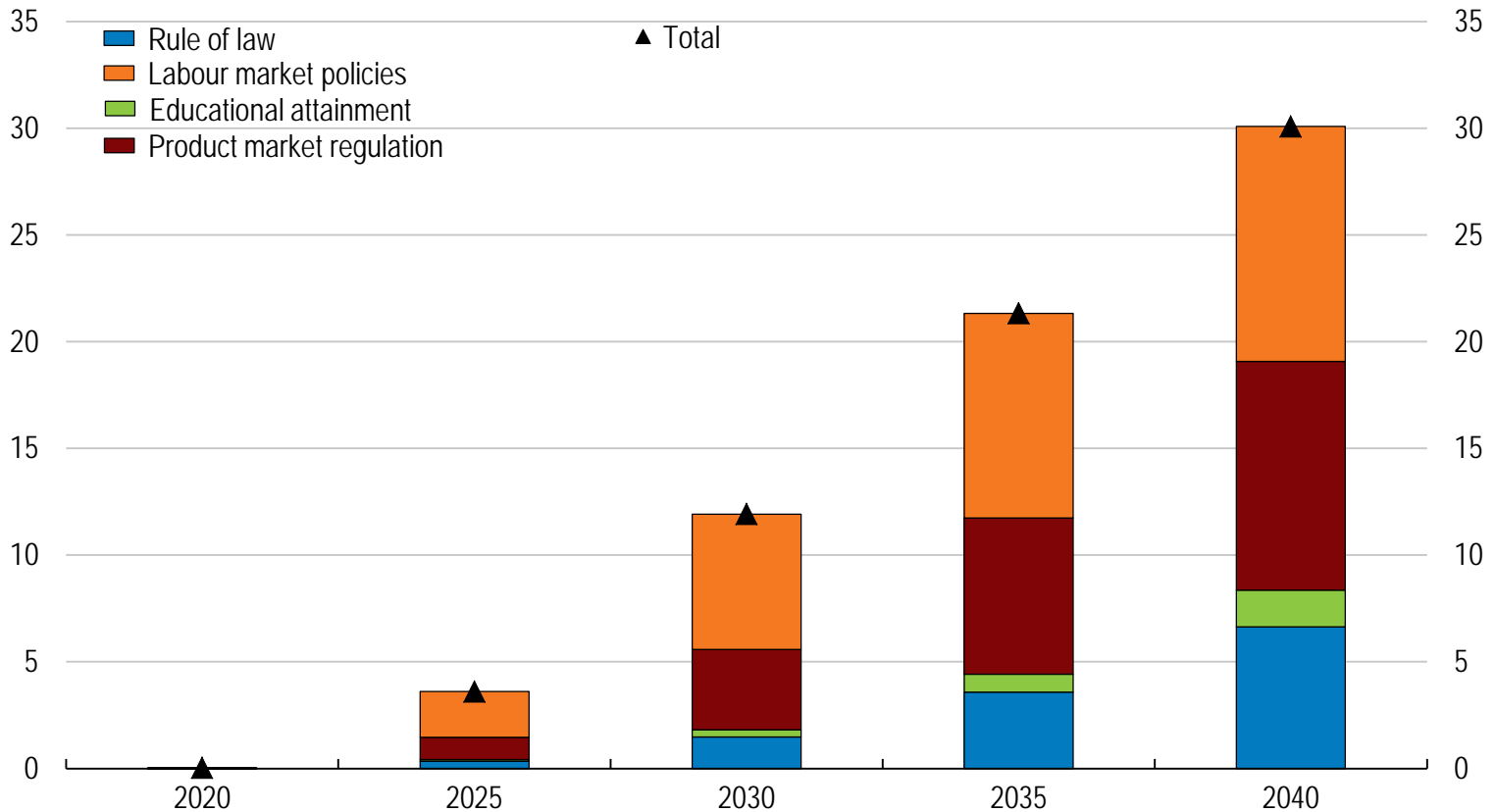


Source: OECD (2016), PISA 2015 Results: Excellence and Equity in Education (Vol. I) and OECD (2016), Skills Matter: Further Results from the Survey of Adult Skills.



# Future growth prospects hinge on reforms

Projected gains in real GDP per capita from gradual convergence with OECD good practices,  
% difference from baseline



Source: Estimations based on "OECD Long-term Scenarios for the World Economy" database.



# POLICY RECOMMENDATIONS

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- Strengthen the rule of law, judiciary independence and step up the fight against corruption.
- To reorient spending to top priority areas, implement the strategic and performance-oriented budgeting objectives of the Public Finance Law 5018 to help reorient spending.
- Grant more autonomy and resources per student to education institutions, against greater performance accountability.
- Facilitate further women's labour force participation, notably by increasing the provision and quality of early child education and child and elderly care.
- Assess the additional impact on carbon emissions and use economic instruments such as harmonised pollution taxes and emission permits to reduce them



## For more information

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This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

<http://www.oecd.org/eco/surveys/economic-survey-turkey.htm>