



**UNDER EMBARGO UNTIL 03.30 GMT, THURSDAY, 18 APRIL 2013**

## Turkey

### *Briefing Notes for the Launch in Ankara, 18 April 2013*

#### Growth slows as the global economy weakens again

- In Turkey, there was a sharp slowdown in GDP growth to 3.2% in 2012 from 8.6% in 2011. There were weaker global economic conditions, especially in the crisis-affected euro zone, Turkey's main export market. Also, monetary policy was tightened to reverse a sharp fall in the value of the Turkish lira in late 2011 and early 2012, which had a dampening impact on the growth performance of the country.
- All the major sectors of the economy witnessed much lower growth rates in 2012. Moreover, gross fixed investment growth slowed sharply in 2012 due to softer domestic demand and the base effect of higher growth in 2010 and 2011.
- Civil war in neighbouring Syria led to an influx of refugees to Turkey. Moreover, political instability in other neighbouring countries in the Middle East is also having adverse impact on the Turkish economy.
- In Turkey, GDP growth is projected to pick up slightly to 3.8% in 2013, with some loosening of monetary policy. However, a risk remains that the global economic slowdown, especially euro zone sovereign debt crises, could be deeper and more prolonged than predicted.

#### Inflationary pressures persist

- In Turkey, inflationary pressures increased sharply towards the end of 2011 when monthly inflation exceeded 9% as compared to the same month in the previous year. The exchange rate came under severe pressure at that time, resulting in tightening of monetary policy. Inflationary pressure continued throughout 2012.
- During the second half of the year, the Government introduced sharp increases in indirect taxes and administered prices to shore up public finances. This raised consumer prices. Average inflation for 2012 is estimated to have been 8.9% as compared with 6.5% in 2011.

### **Slight increase in budget deficit**

- Owing to weaker economic activity, the budget deficit in Turkey rose to 2% of GDP in 2012 from 1.4% of GDP in 2011. During the second half of the year, the Government introduced sharp increases in indirect taxes and administered prices to contain the budget deficit.

### **Current account deficit raises serious concern about its sustainability**

- The rapid increase in Turkey's current account deficit in recent years raises serious concern about its sustainability in the short to medium term. Driven by a credit-fuelled rise in import demand and higher oil prices, it reached 10% of GDP in 2011. The weakness of import demand and the strength of export growth in 2012 indicate rebalancing of the economy. Growth of exports to non-European Union countries remained strong. The current account deficit eased to 6.2% of GDP in 2012.
- However, the large structural current account deficit will remain a problem as plans to tackle it, such as reforms aimed at raising the country's domestic savings rate and promoting domestic production of intermediate goods and alternative energy, are unlikely to have an impact in the short term.
- The Government plans to tackle the services current account deficit problem by promoting innovation, the domestic production of intermediate goods and the use of alternative energy sources.

### **Strengthened regional cooperation**

- Strengthened regional cooperation can help solve a number of the challenges facing South and South-West Asia and can be an important development strategy to ensure a sustainable future for the subregion.
- Regional cooperation can play a pivotal role in crafting solutions to shared vulnerabilities and helping ensure food and energy security, as well as reducing the subregion's vulnerability to natural disasters. Better connectivity, across the subregion and beyond, can help leverage the subregion's strategic location at the crossroads of Asia and the Pacific to re-emerge as the hub of East-West trade that it once was.
- Greater regional integration not only increases intraregional trade, but also promotes efficiency-seeking investment in the subregion's supply chain and production networks. This, in turn, creates more and better jobs in addition to building productive capacity, particularly in the subregion's least developed countries.
- Turkey's outward FDI to other countries in the subregion, particularly Bangladesh and Pakistan, is on the rise.