



# Turkey and the Emerging Market Economies during the Global Crisis

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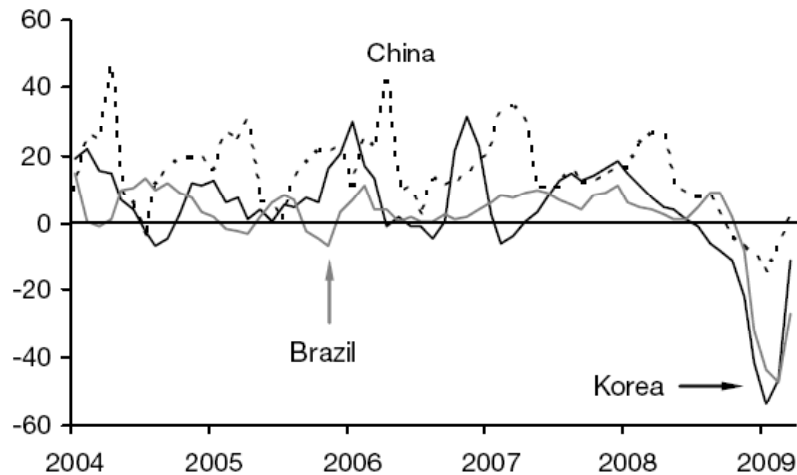
14 June 2009

Nicosia

# Green Shoots in The Global Economy?

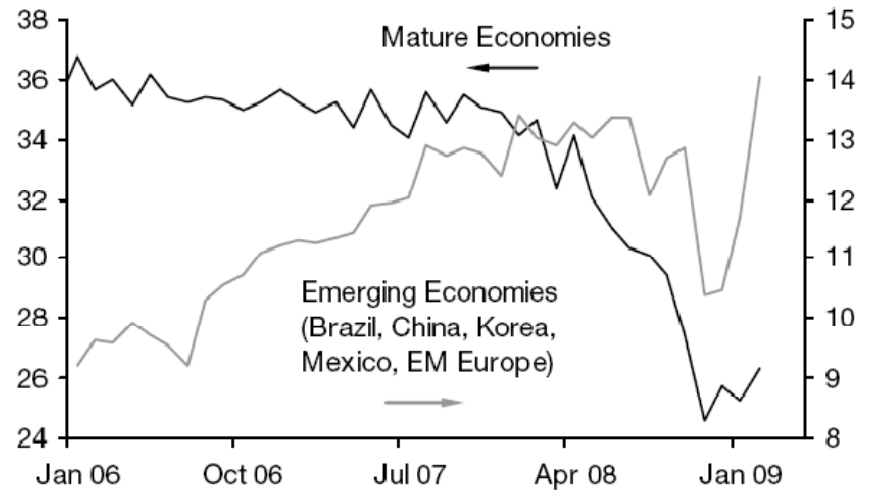
**Emerging Markets: Manufacturing Production**

percent, 3m/3m saar



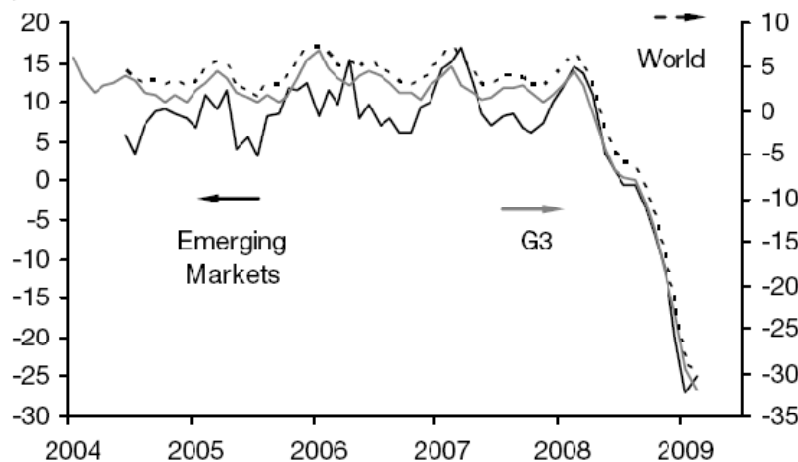
**Auto Sales**

million units, saar (both scales)



**Global Manufacturing Production**

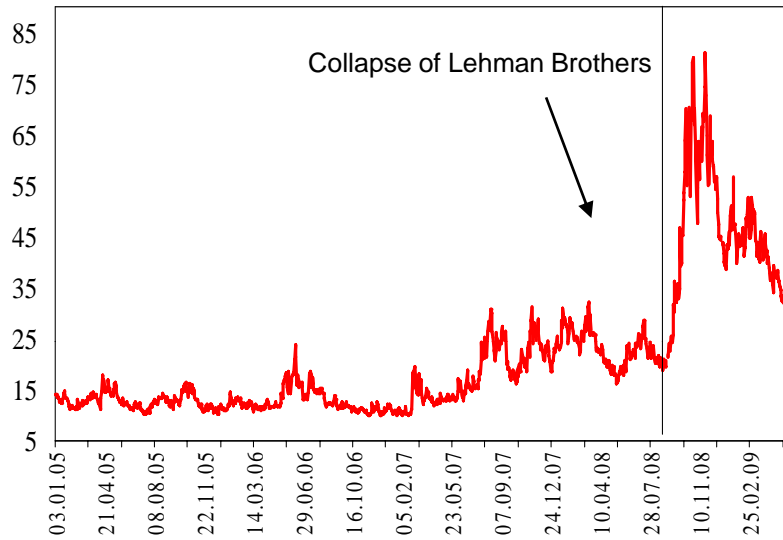
percent, 3m/3m saar, both scales



- There are more signs of easing of the global recession in the second quarter of 2009.
- Emerging market economies leading the way.

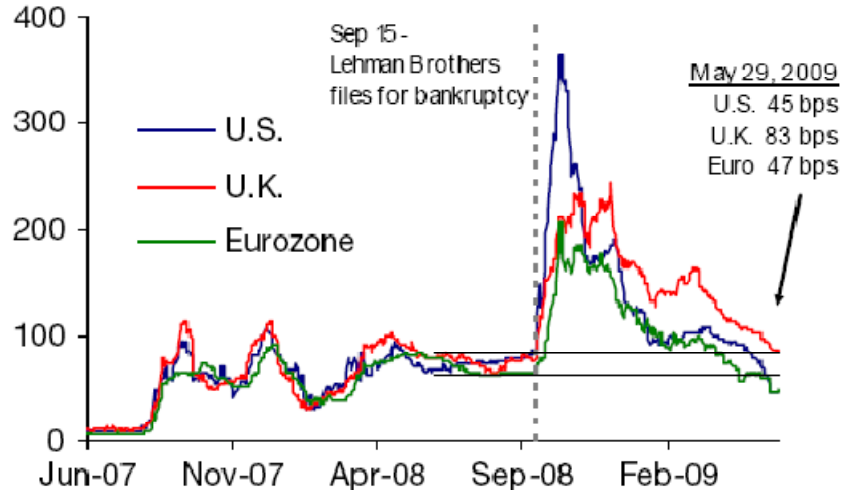
# Easing tensions in the financial markets

**CBOE Volatility Index**



**Term Interbank Market**

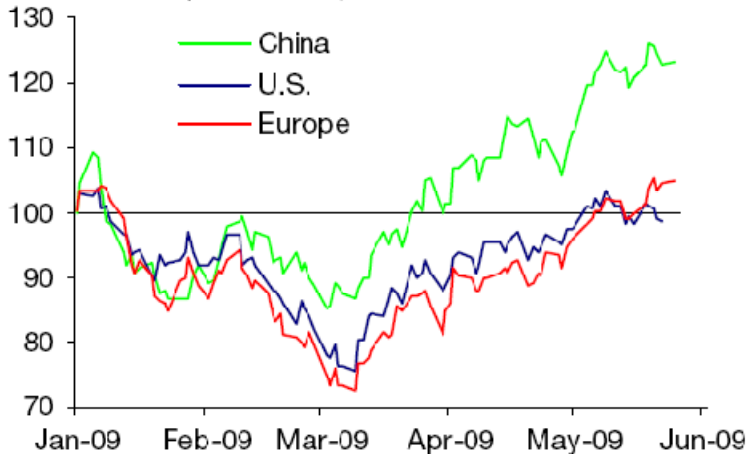
3-month Libor/Euribor - overnight index swaps, bps



— VIX

**Equity Performance by Region**

MSCI indices (US\$ returns), end-2008=100



- Improved economic news from East Asia and less dire news from Europe revived risk appetite especially towards emerging economy assets.



# Despite signs of green shoots, impacts on real economy will be long lasting and severe

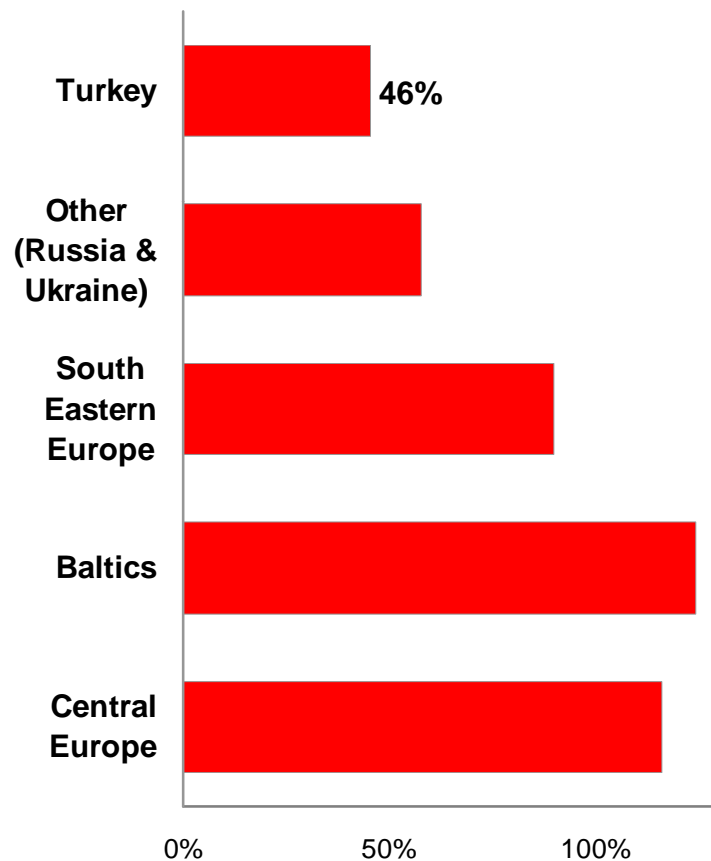
- World output will contract by 1.3% in 2009
- World trade will contract in 2009 by around 10% according to the World Trade Organization and the IMF<sup>1</sup>
- CEE export in 2009 will decline by €65 bn vs 2008 (excl. Russia): it's the first drop in a decade<sup>2</sup>
- Investment activity will experience negative growth in all the CEE countries (-9.7% on average in CEE in 2009)<sup>2</sup>
- Emerging and developing economies will record net private capital outflows in the amount of \$190 bn (as opposed to inflows in the last decade)
- FDI towards CEE will almost halve in 2009 vs. 2008 (less than EUR 35 bn, the lowest figure since 2004)<sup>2</sup>

(1) Source: IMF, WTO; (2) Source: UniCredit CEE Strategic Analysis

# Turkey's Trade Openness and Dependency

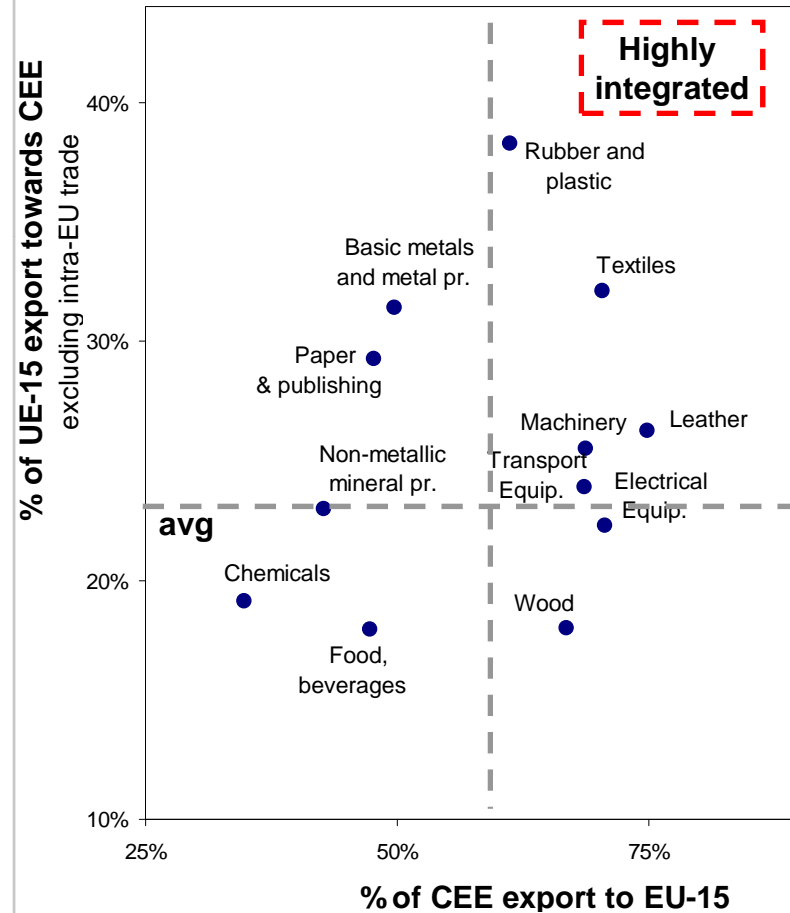
## Trade openness of CEE countries

(Export+Import / GDP, %, 2008)



## EU15-CEE<sup>1</sup> trade integration

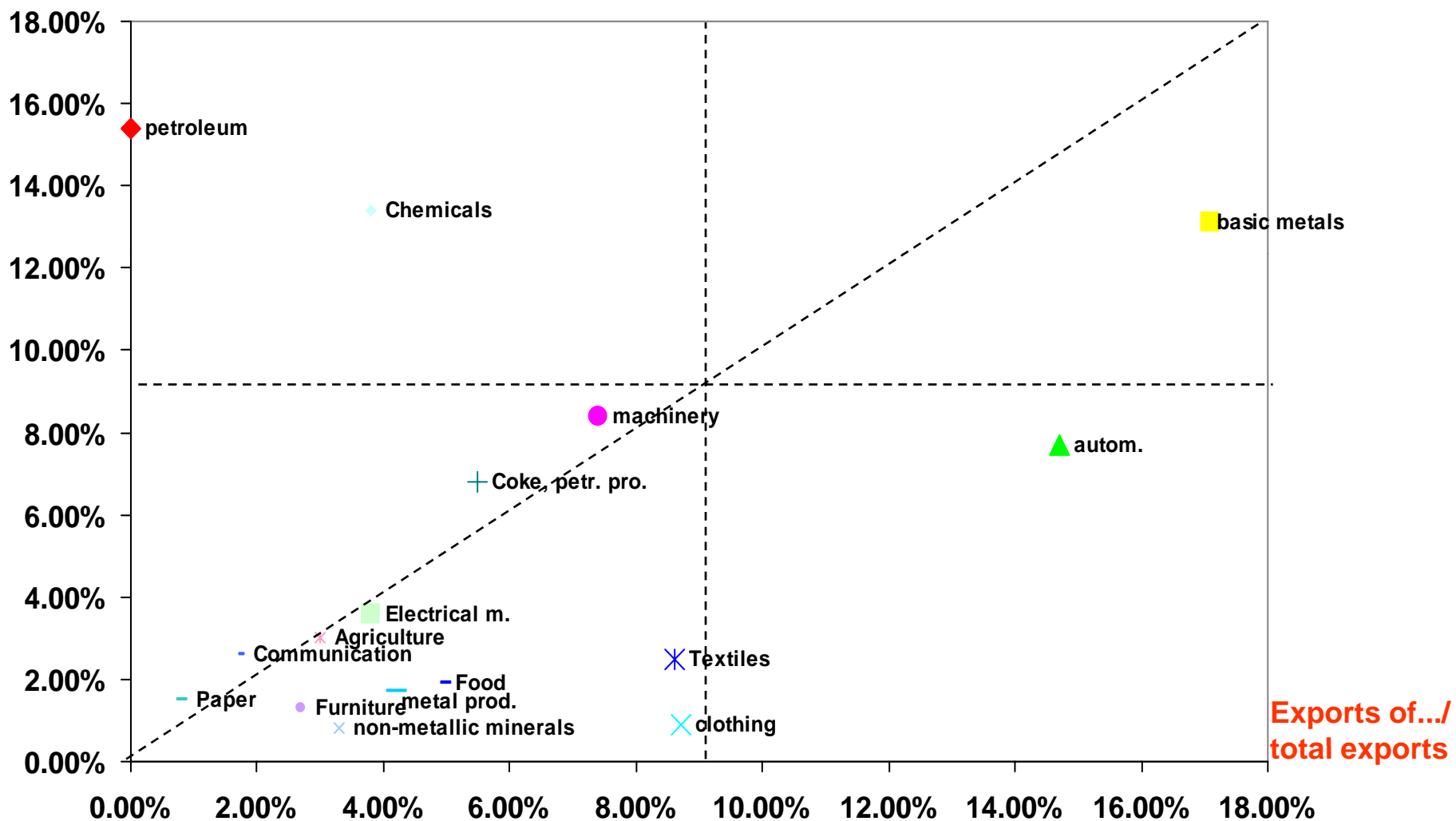
% of export and import on total



(1) CEE includes New Member states (excl. Slovenia) and Turkey; EU15: the 15 members of "old Europe"; Source: UniCredit CEE Strategic Analysis, Global Insight;

# Turkey's Trade Structure (2008)

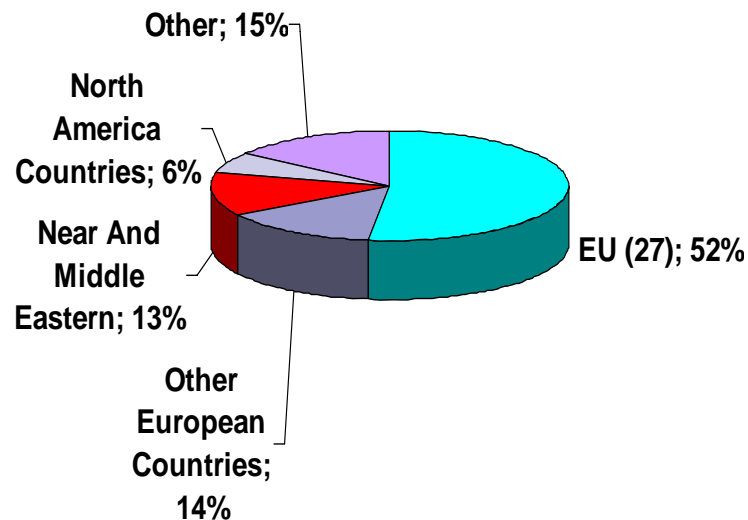
Imports of ... / total imports



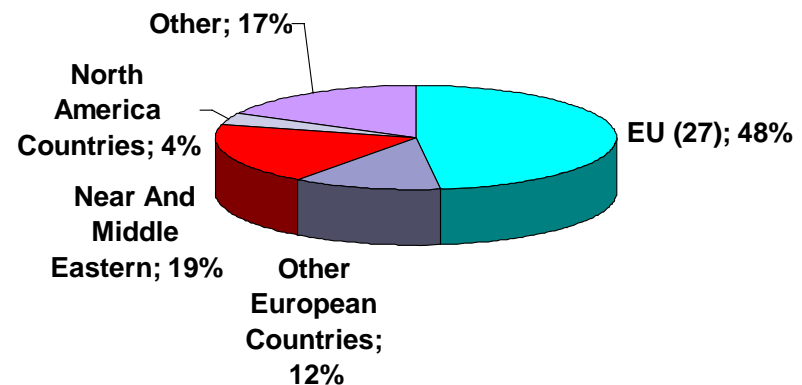
Source: Turkstat

# Turkey trying to diversify export markets

Exports (2006, %)

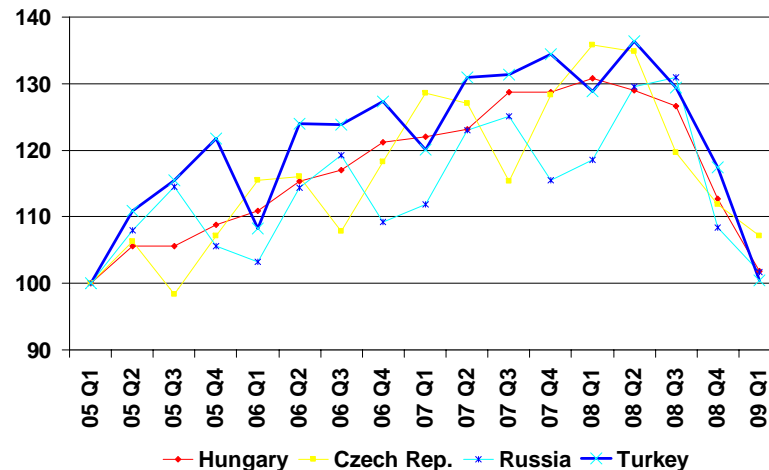
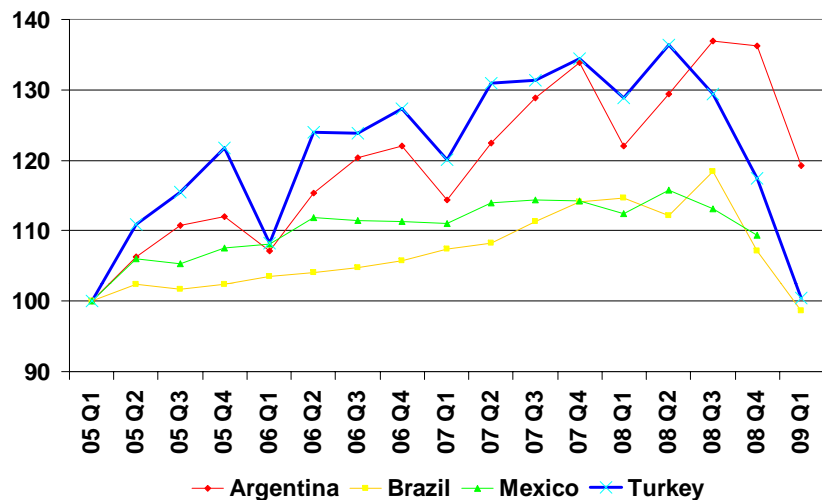


Exports (2008, %)



Falling star: EU  
Rising star: Middle East

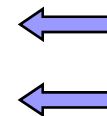
# Industrial production: Turkey and her Peers (s.a., 2005Q1 = 100)



## GDP Growth (% change over a year ago)

	2008	2009f	2008 Q3	2008 Q4	2009F Q1
CEE8	4.1	-7.0	4.5	-0.8	-7.8
(CEE5)	3.9	-2.3	4.3	1.5	-1.9
Bulgaria	6.0	-3.7	6.8	3.5	-3.5
Czech Republic	3.2	-2.0	4.0	0.2	-3.4
Hungary	0.5	-6.0	1.3	-2.5	-6.4
Poland <sup>1</sup>	4.9	-1.0	5.0	3.0	0.5
Romania	7.0	-5.8	9.2	2.9	-6.4
Russia	5.6	-8.7	6.0	1.2	-9.5
Turkey <sup>1</sup>	1.1	-7.5	1.2	-6.2	-9.5
Ukraine <sup>1</sup>	2.7	-16.6	7.1	-7.9	-18.4

<sup>1</sup> CEE5: Bulgaria, Czech Republic, Hungary, Poland, Romania



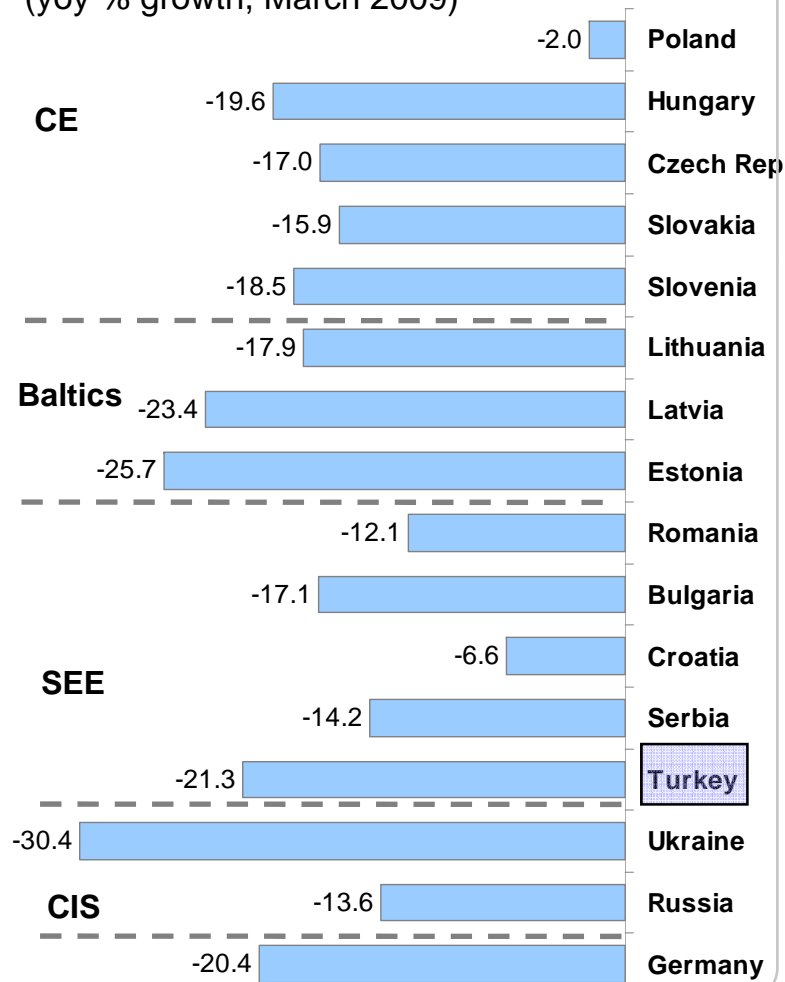
■ Source: IIF



# Turkey has been one of those, hit the hardest among the CEE

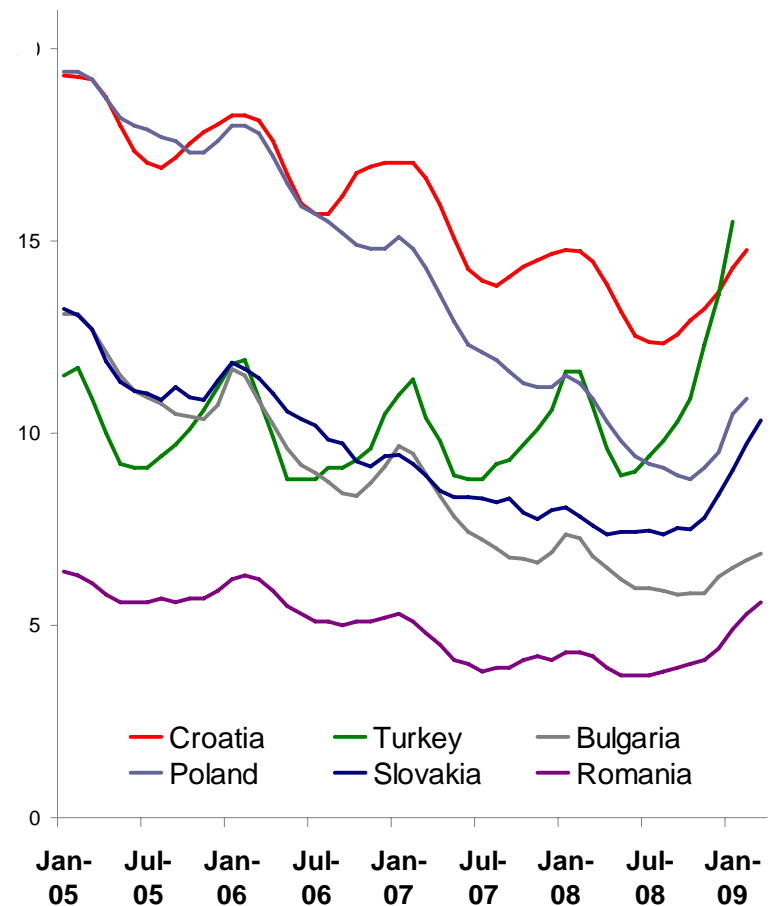
## Industrial Production

(yoy % growth, March 2009)



## Unemployment rate

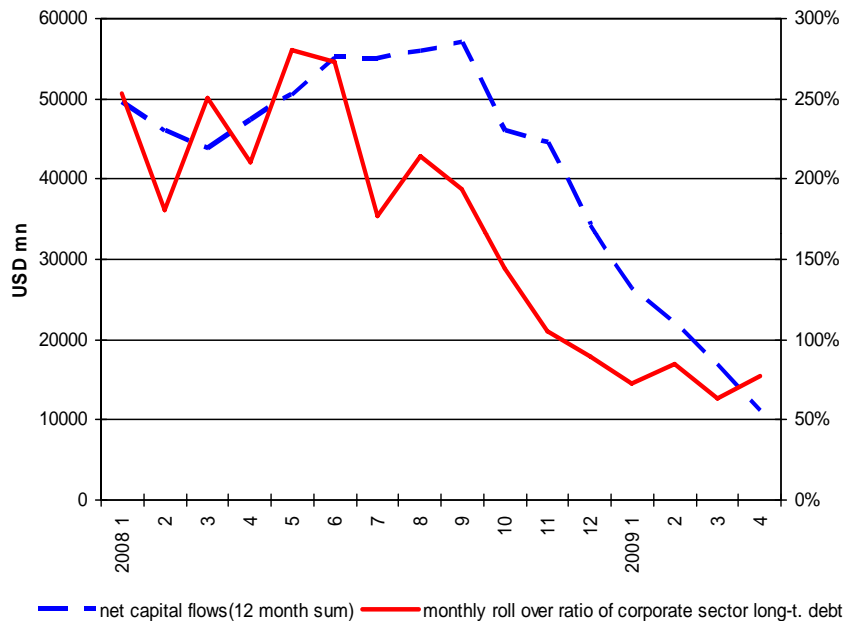
(%, 2005-'09)



Source: Bloomberg, UniCredit CEE Strategic Analysis

# Foreign financing dried up in Q1'09

## Net Capital Inflows and Corporate Sector's Rollover Ratio



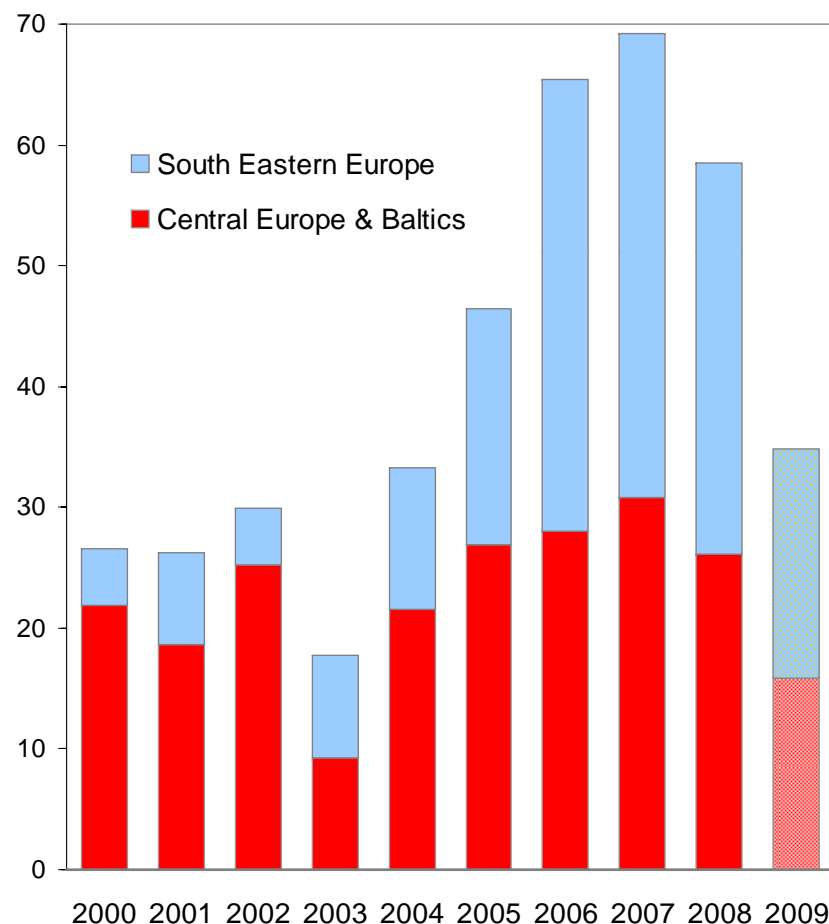
TURKEY'S FINANCING NEED (\$ bn)	2009
Current Account Deficit	10.0
Private Sector Debt Services	49.7
Public Sector Debt Services	8.0
Eurobond Payments	4.5
Net Errors and Omissions	0.0
<b>TOTAL</b>	<b>72.2</b>
FINANCING MEANS (\$ bn)	2009
FDI (net)	5.0
Equity+GDIs (net)	-2.0
Eurobonds issues	4.0
Private Sector Borrowing	60.2
Public Sector Borrowing	5.0
<b>TOTAL</b>	<b>72.2</b>

Private sector's rollover ratio: 121%.  
Seems not compatible with recent trends...

# FDI inflows to Turkey expected to slow

## FDI inflows in CEE

(EUR bn)



## FDI in CEE countries

(EUR bn, cumulated inflows)

	1989-1999	2000-'08
Poland	29.0	87.1
Hungary	24.8	18.1
Czech Rep.	17.2	55.3
Slovakia	2.1	29.1
Baltics	5.8	17.1
Romania	5.7	41.0
Bulgaria	2.3	30.2
Western Balkans	5.7	32.9
<b>Turkey</b>	<b>7.9</b>	<b>62.3</b>
<b>CEE</b>	<b>100.6</b>	<b>373.2</b>
Ukraine	3.4	29.0
Russia	7.8	144.5

Western Balkans: Slovenia, Croatia, Serbia, Bosnia-H. Source: UniCredit CEE Strategic Analysis

# IMF loans increasingly devoted to Emerging Economies

## International support

IMF Plans 2008-09

Intensity of the support\*



### Regular Stand-by

<b>Ukraine</b>	05.11.2008	2 year, SDR 11 billion (\$16.4 bn)
<b>Hungary</b>	06.11.2008	17 month, SDR 10.5 billion (\$15.7 bn)
<b>Latvia</b>	23.12.2008	27 month, SDR 1.52 billion (\$2.35 bn)
<b>Serbia</b>	26.03.2009	27 month, SDR 2.6 billion (\$3 bn)
<b>Romania</b>	03.05.2009	2 year, Euro 12.95 billion (\$17.5 bn)
<b>Turkey</b>	TBA	

### Flexible Credit Line

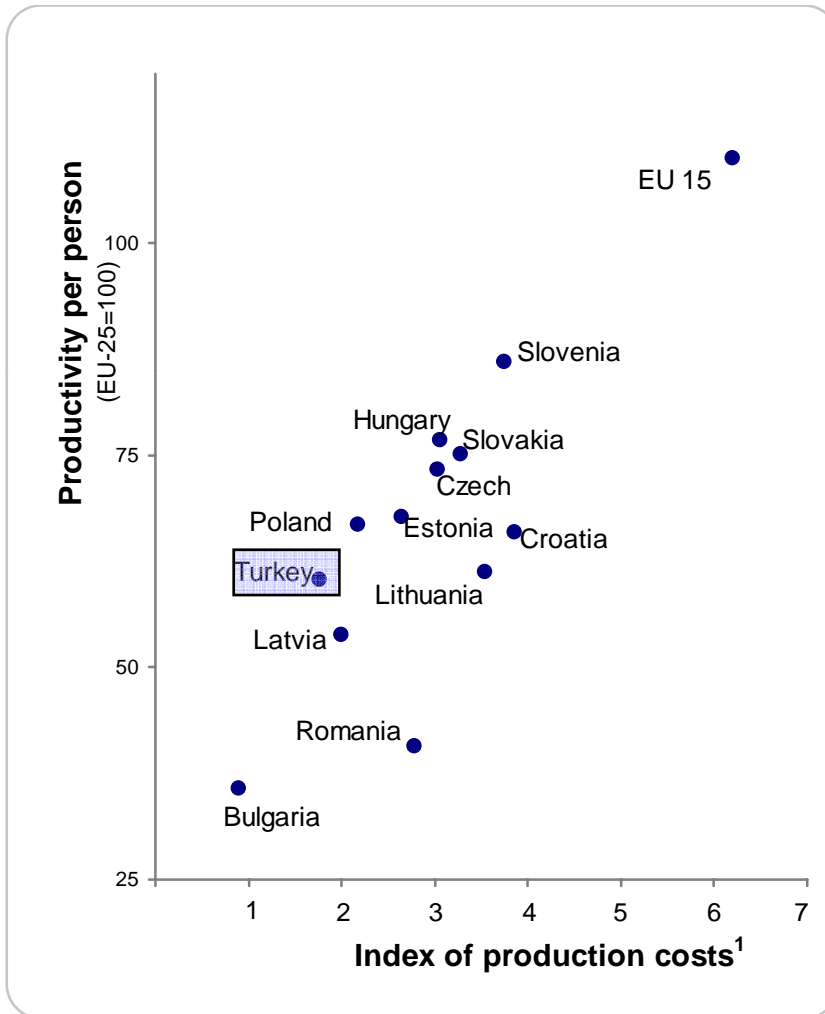
		One year precautionary arrangement,
<b>Poland</b>	14.04.2009	SDR 13.7 billion (\$20.5 bn)
<b>Mexico</b>	01.04.2009	\$47.1 bn
<b>Colombia</b>	11.05.2009	SDR 7 billion (\$10.5 bn)

IMF support packages since the start of the crisis reached USD 185 bn: two thirds of these funds were devoted to CEE countries

Source: IMF, UniCredit CEE Strategic Analysis,

# Competitiveness in CEE countries

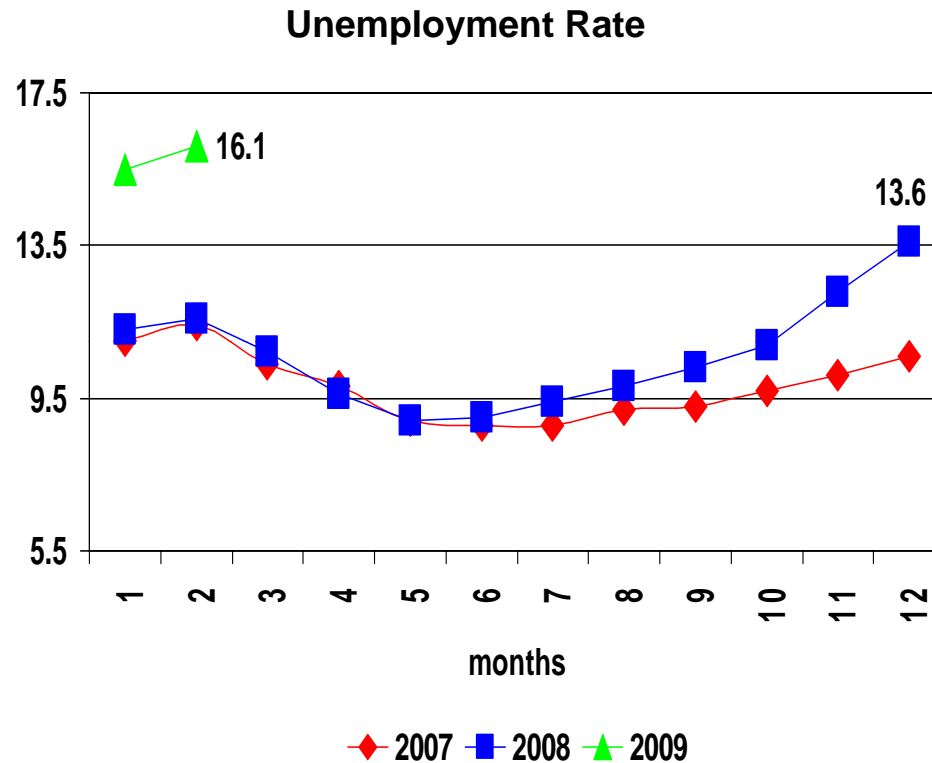
Productivity and Production Costs<sup>1</sup> (EU 25=100)



Turkey is relatively low costly in terms production among her peers, but lags significantly behind in terms of productivity

(1) The index, which ranges from 1 to 7, has been built taking into account labour costs (40% weight in the index), taxation (20%), electricity prices for industrial users (25%), cost of financing (ie. Interest rates locally, 15%). Source: World Economic Forum "Global Competitiveness Index", World Bank "Ease of doing business", Eurostat, UniCredit CEE Strategic Analysis, 2009

# Unemployment is the biggest challenge

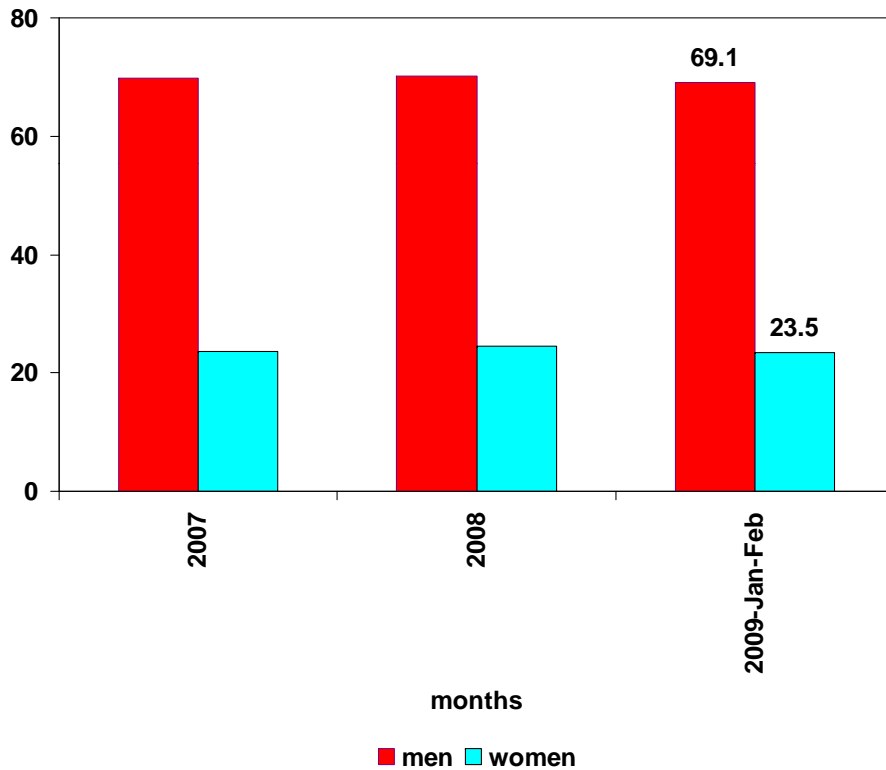


	2002	2003	2004	2005	2006	2007	2008
<b>GDP Growth (%)</b>	6.2	5.3	9.4	8.4	6.9	4.7	1.1
<b>New Employment</b>	-170	-207	644	255	284	235	456
<b>Non-Agricultural New Employment</b>	461	86	409	1,162	689	347	307
<b>Agricultural New Employment</b>	-631	-293	235	-907	-405	-112	149

■ Source: Turkstat

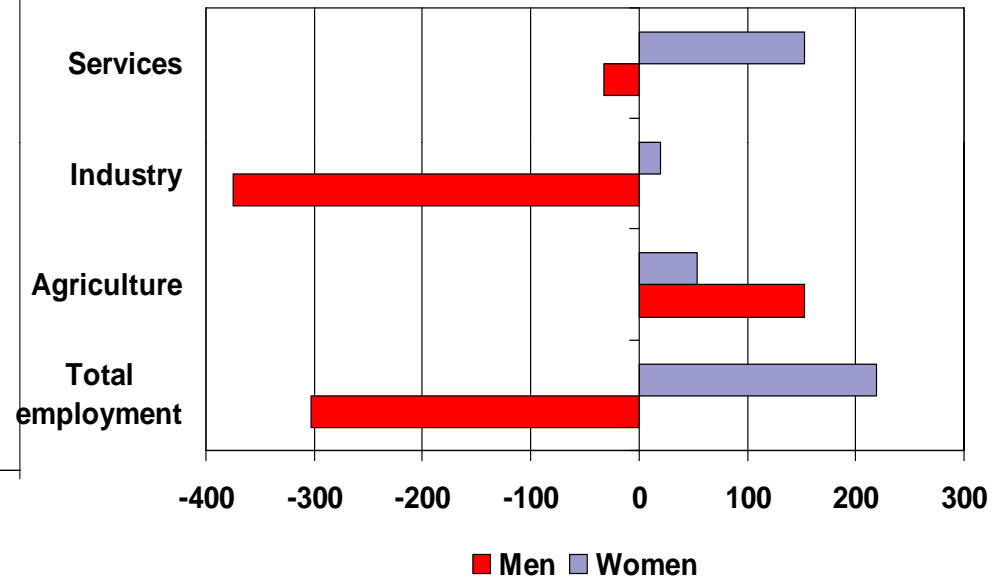
# Women in Labor Market

Labor Force Participation Rate



Source : Turkstat

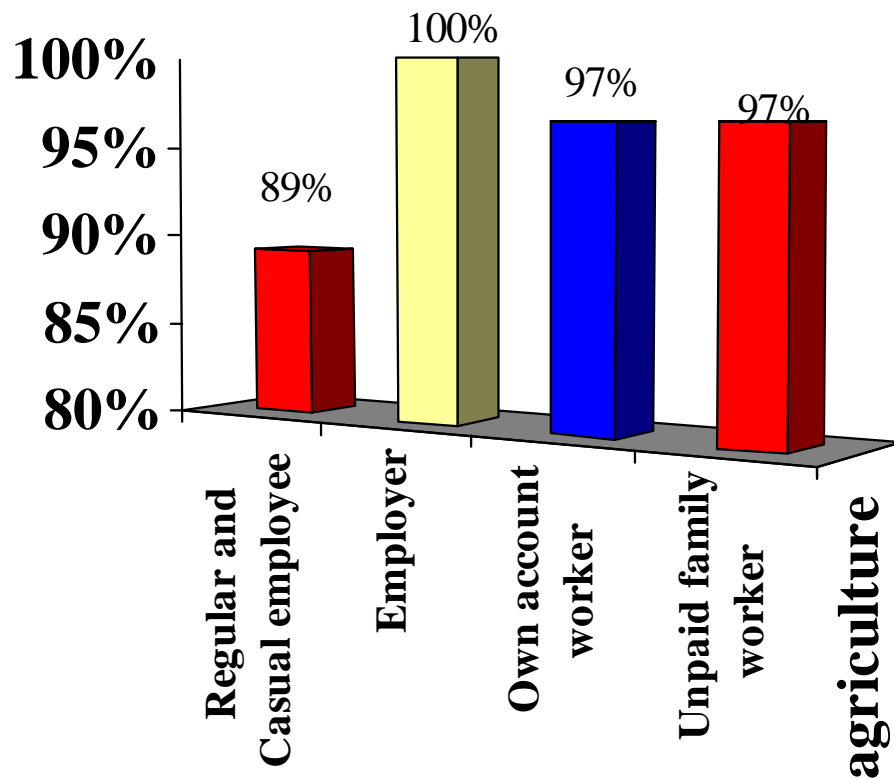
Change in Employment  
(Feb. 2009, YTD thousand)



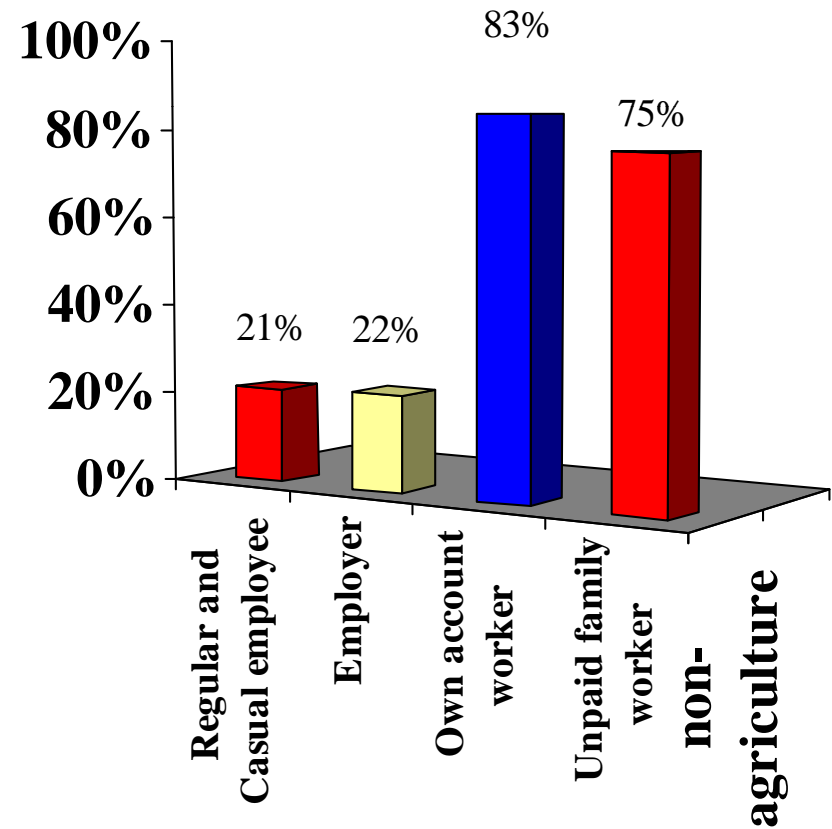
Adjustment is taking place in labor market during the crisis. Women employment increase, men are losing jobs.

# Employed Women not Registered to Any Public Social Security Institution (February 2009)

**AGRICULTURAL SECTOR**



**NON-AGRICULTURAL SECTOR**

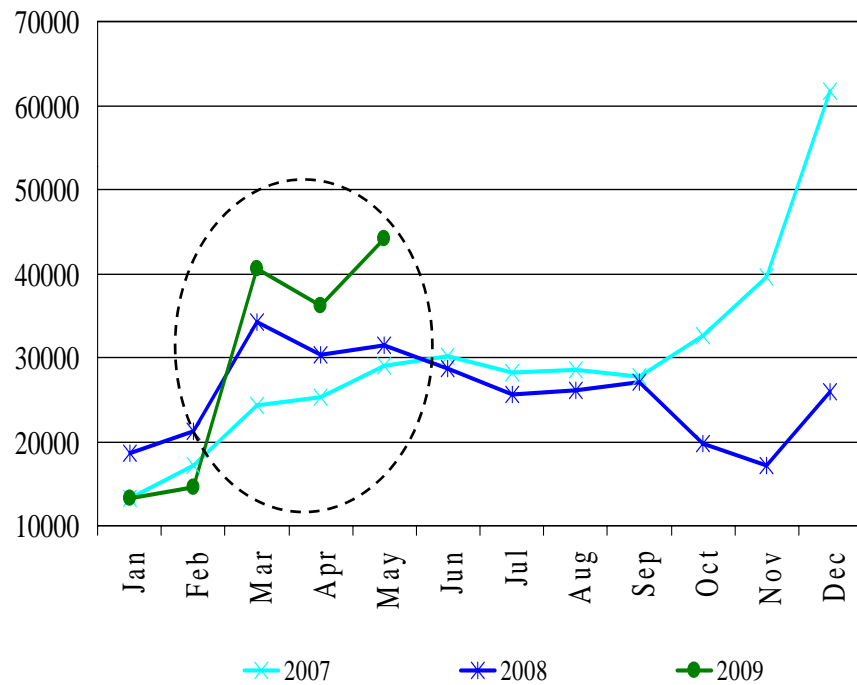


■ Source: Turkstat

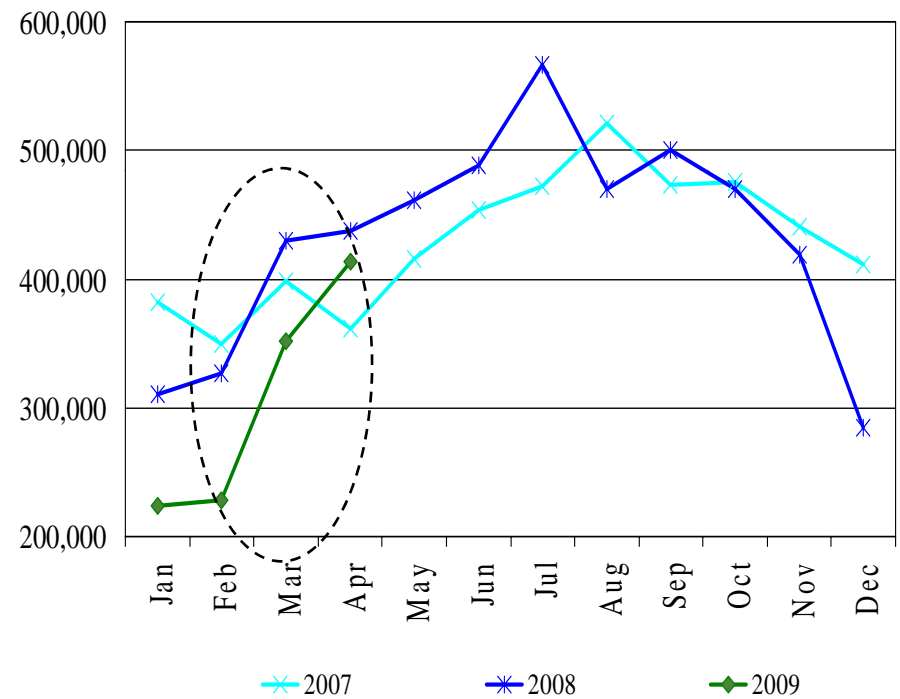


# Positives: Signs of Recovery ?

## Automobile Sales (number)



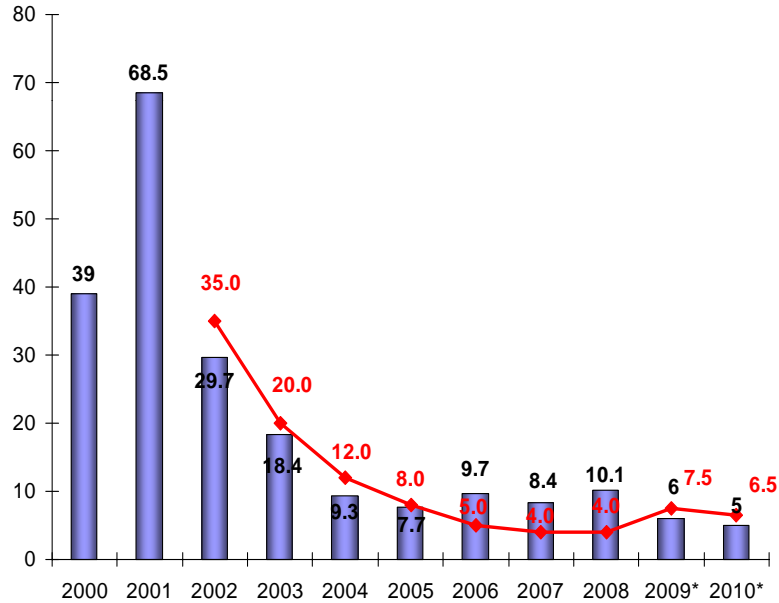
## Durable Good Sales (number)



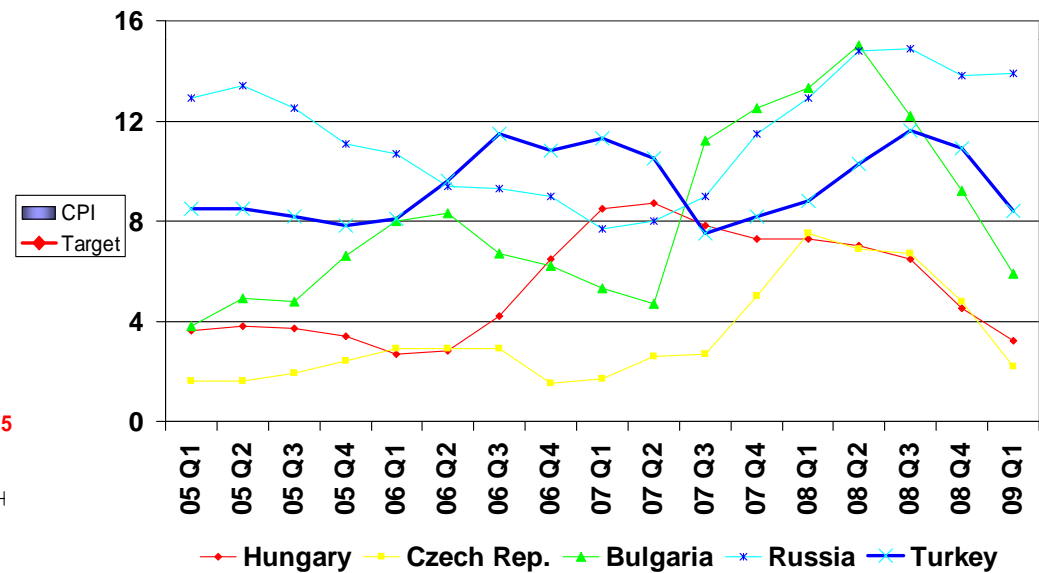
■ Source: OSD and BESD

# Positives: Inflation no more concern, at least in the short-term

## Inflation



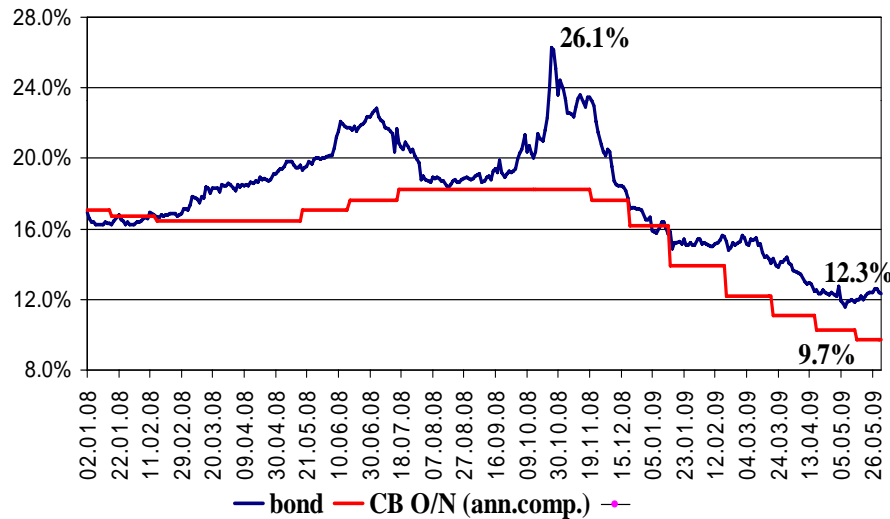
## CPI Inflation



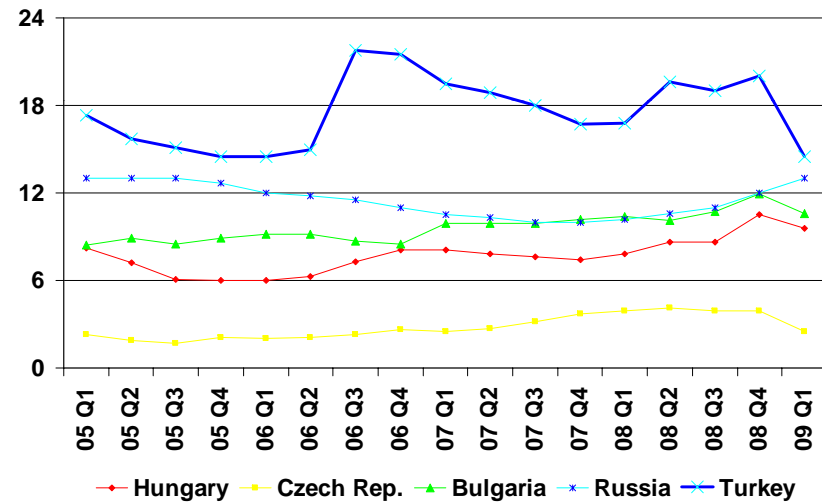
Source: Turkstat and IIF

# Positives: Interest rates declining

### Bond Rates and CB's O/N Rates



### Selected Interest Rates

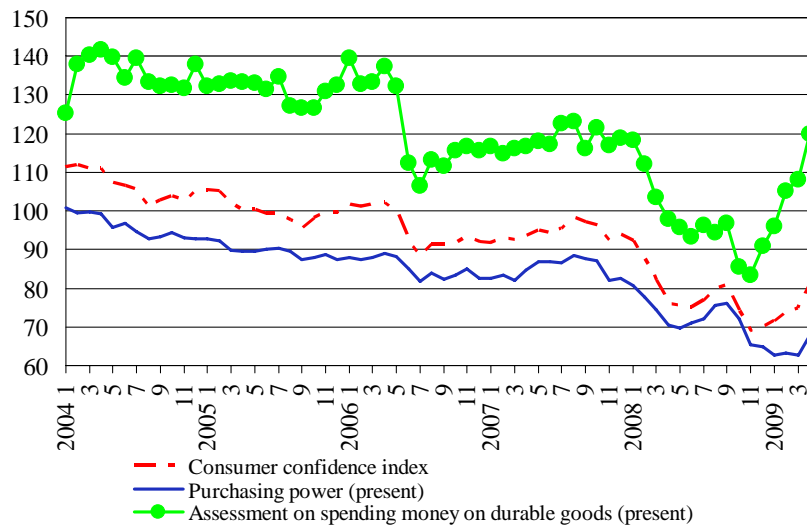


\* Hungary: 90-day Treasury bill auction rate. Czech Rep.: Interbank deposit rate (3-month).  
 Bulgaria: Short-term lending rate (annual). Russia: Central bank refinancing rate. Turkey: Treasury bill (average auction yield).

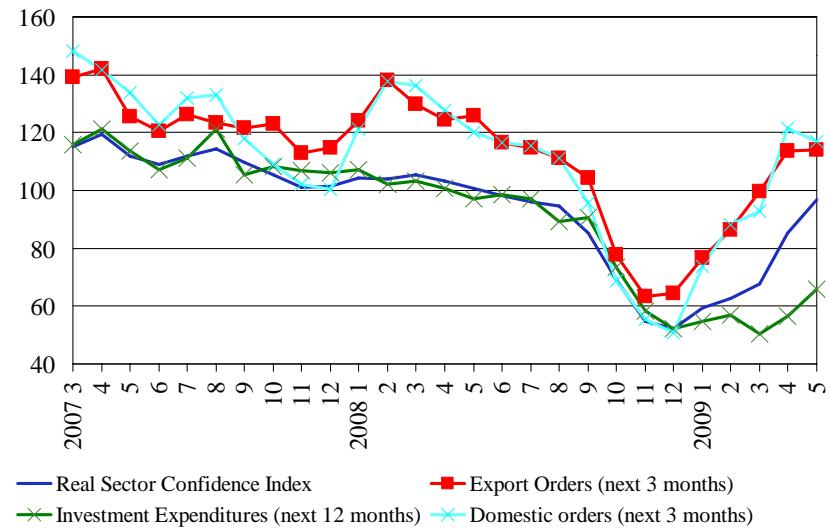
\*\* Source: IIF

# Positives: Expectation surveys steadily on the rise

## Consumer Confidence Index\*



## Real Sector Confidence Index\*\*



\* Central Bank and Turkish Statistical Institution

\*\* New index starting from 2007.



# Closing words

- There are more signs of “green shoots” in the global economy suggesting that the worst may be over.
- Risks are beginning to shift to the management of an exit from fiscal stimulus and large budget deficits, monetary and quantitative easing.
- Budget deficits, inflation concerns, increase in commodity prices and increase in interest rates are the future agenda for almost every country during the recovery, including Turkey.
- Turkey started to implement crisis management measures, after notable delay.
- Deteriorating public finances and labor market weaknesses are the major threats ahead of Turkey.
- Unemployment and depressed domestic demand may forestall the return to recovery.
- We need “credible” medium and long-term strategies for an overall transformation of the existing model. However, these measures always surpass the life of a governing authority.
- Once Turkey is back on track with fiscal and economic reforms, recovery may be faster than expected.



Thank You...