

Outline

Outlook for Turkey

Turkey's Structural Problems

Reform Agenda & Structural Fixes

Long-Term Prospects

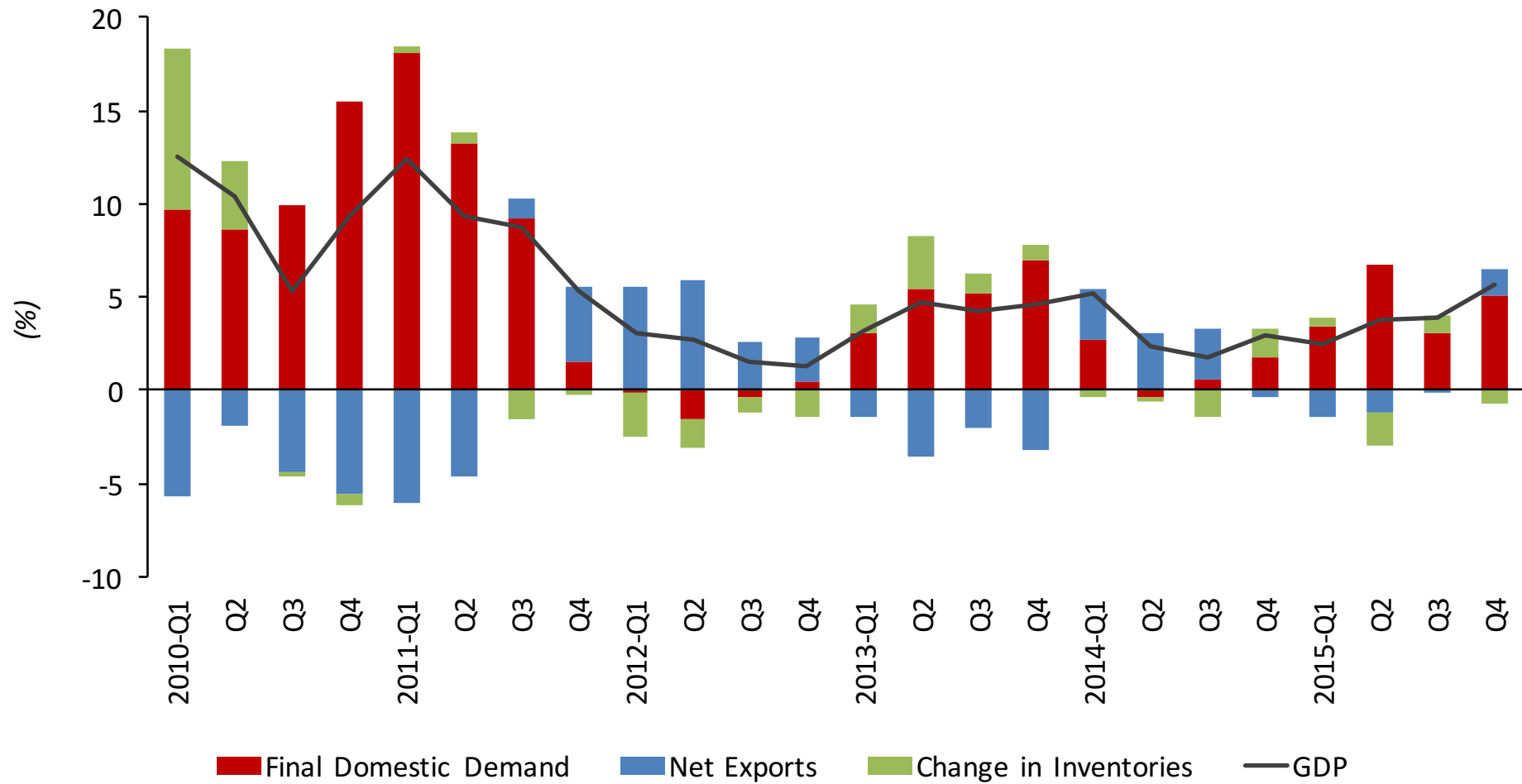


Outlook for Turkey

Resilient Growth

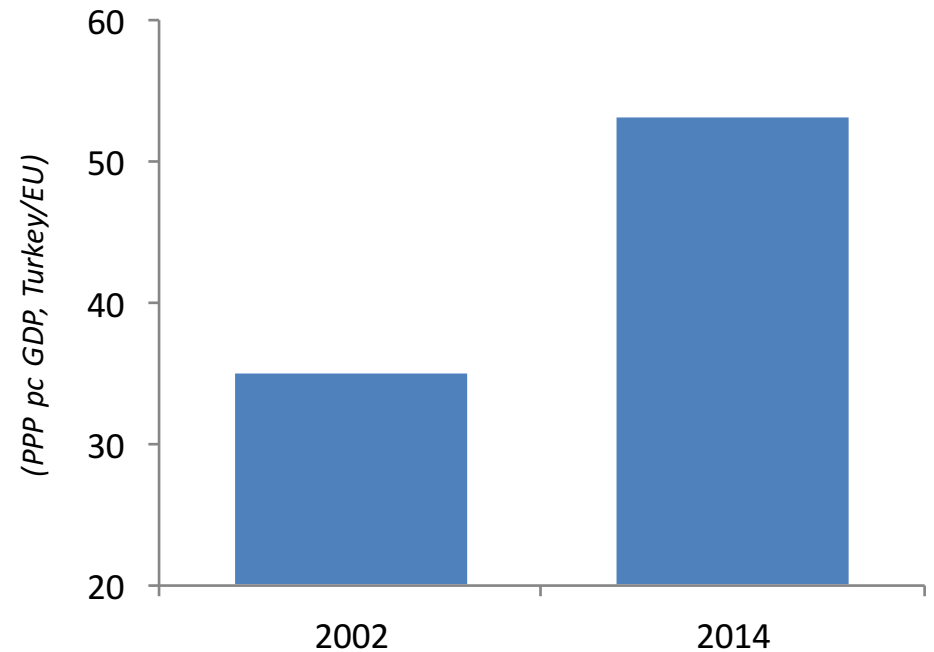
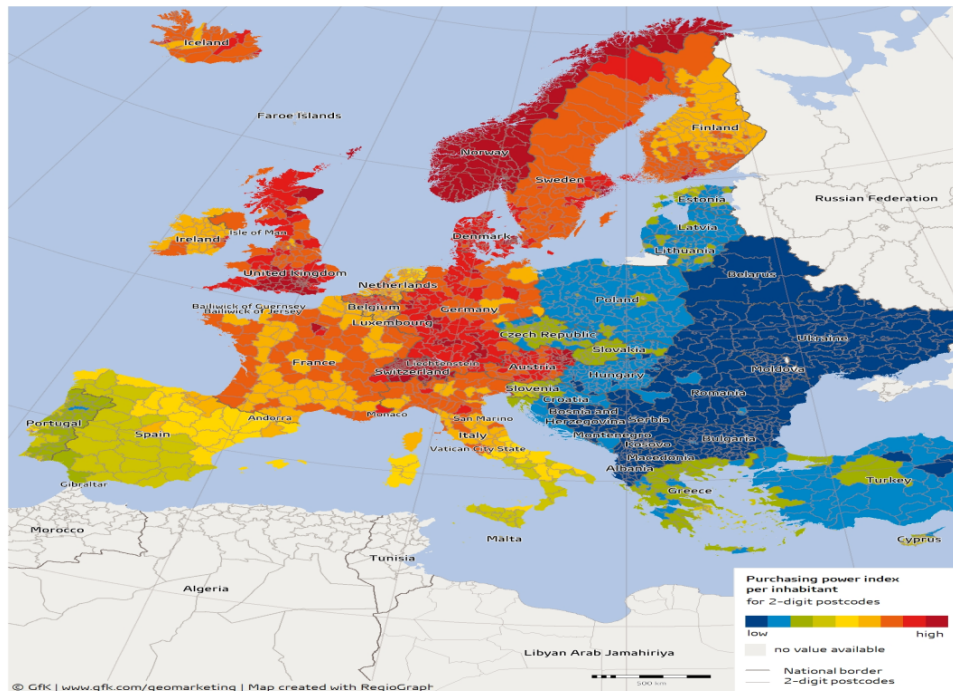


More Balanced Growth

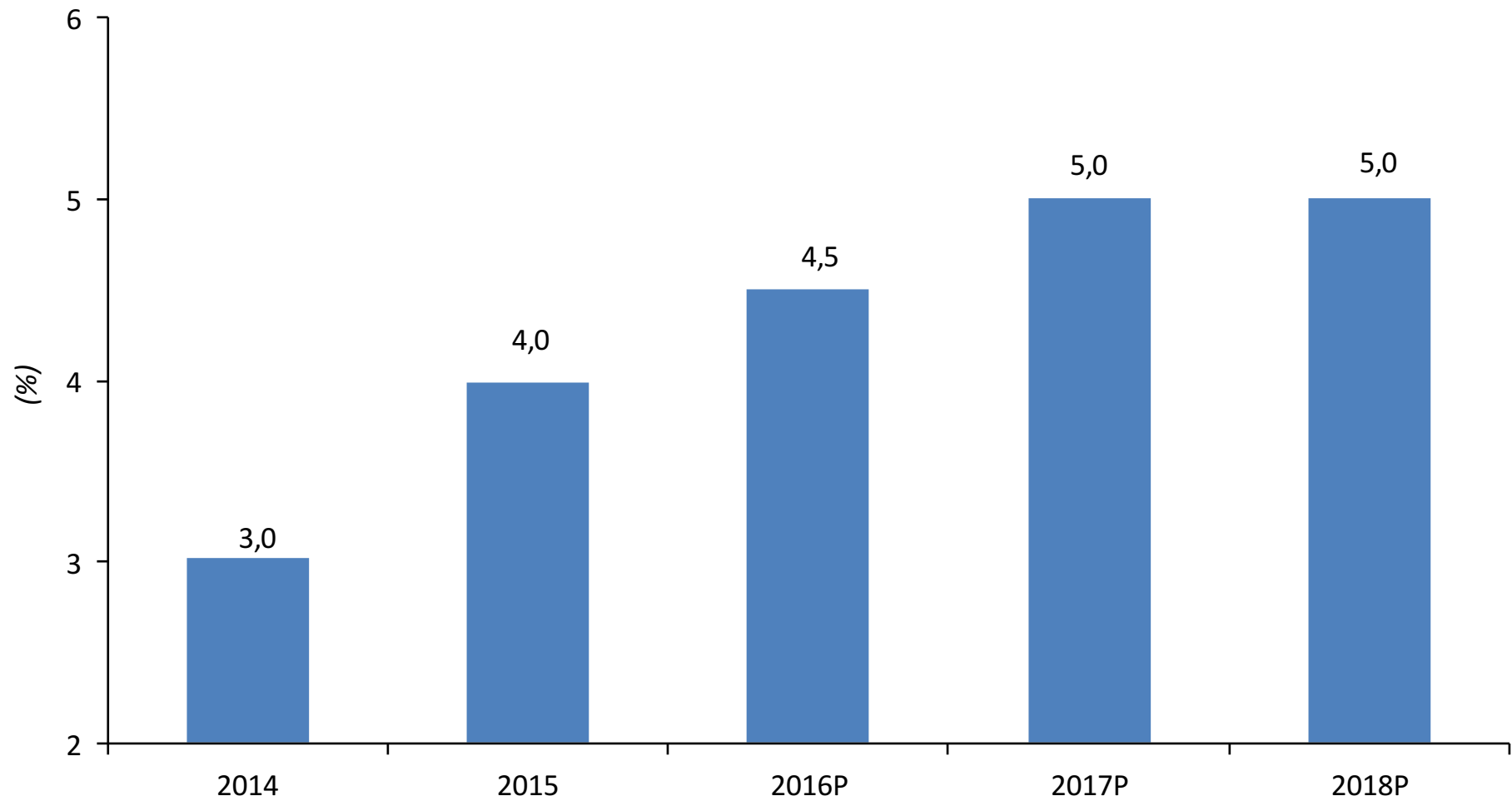


Real Convergence

Narrowing per capita GDP gap between Turkey and EU by nearly 20 percentage points



GDP Growth Outlook



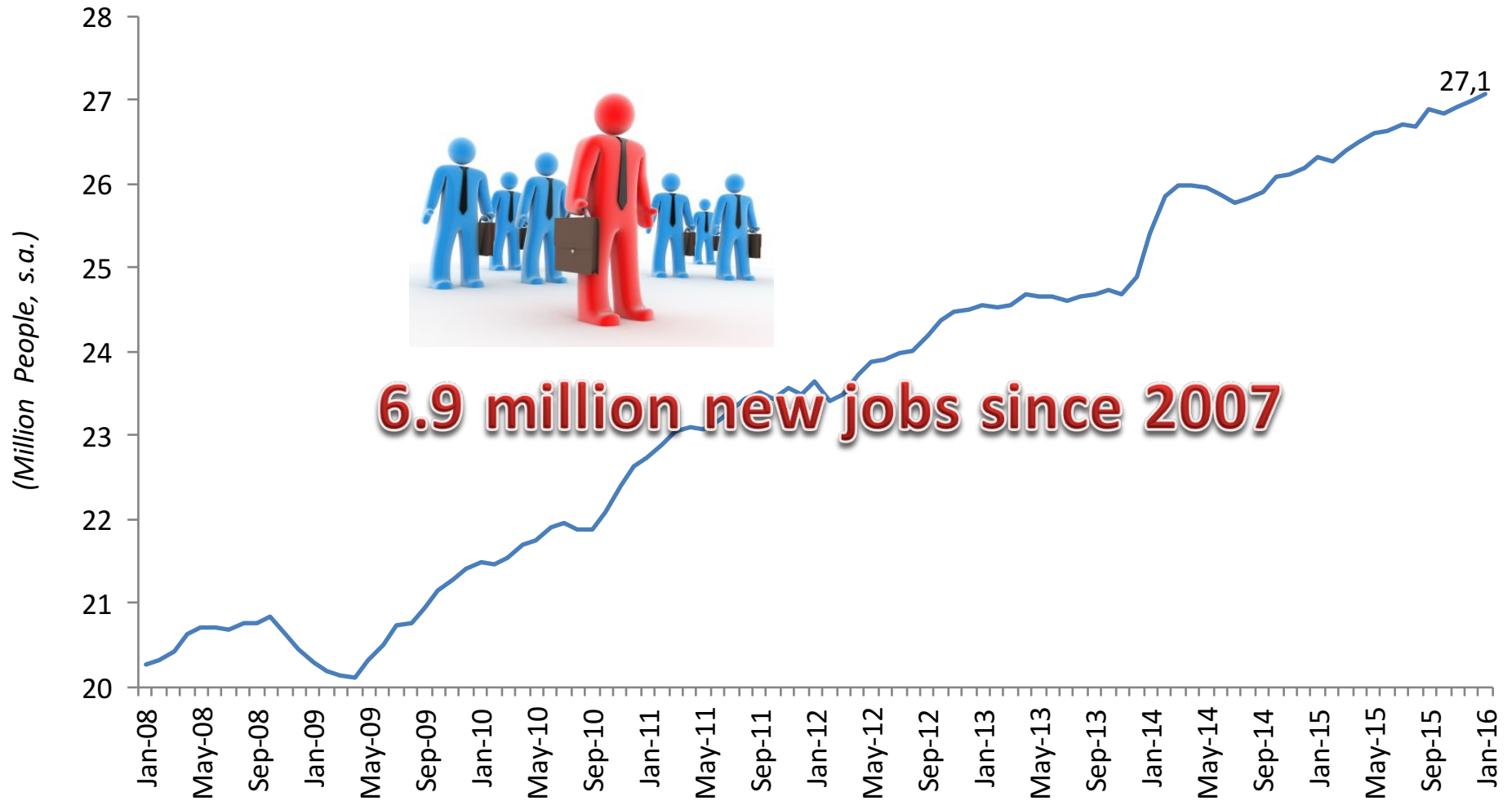
Risks to Growth Outlook

Geopolitical tensions

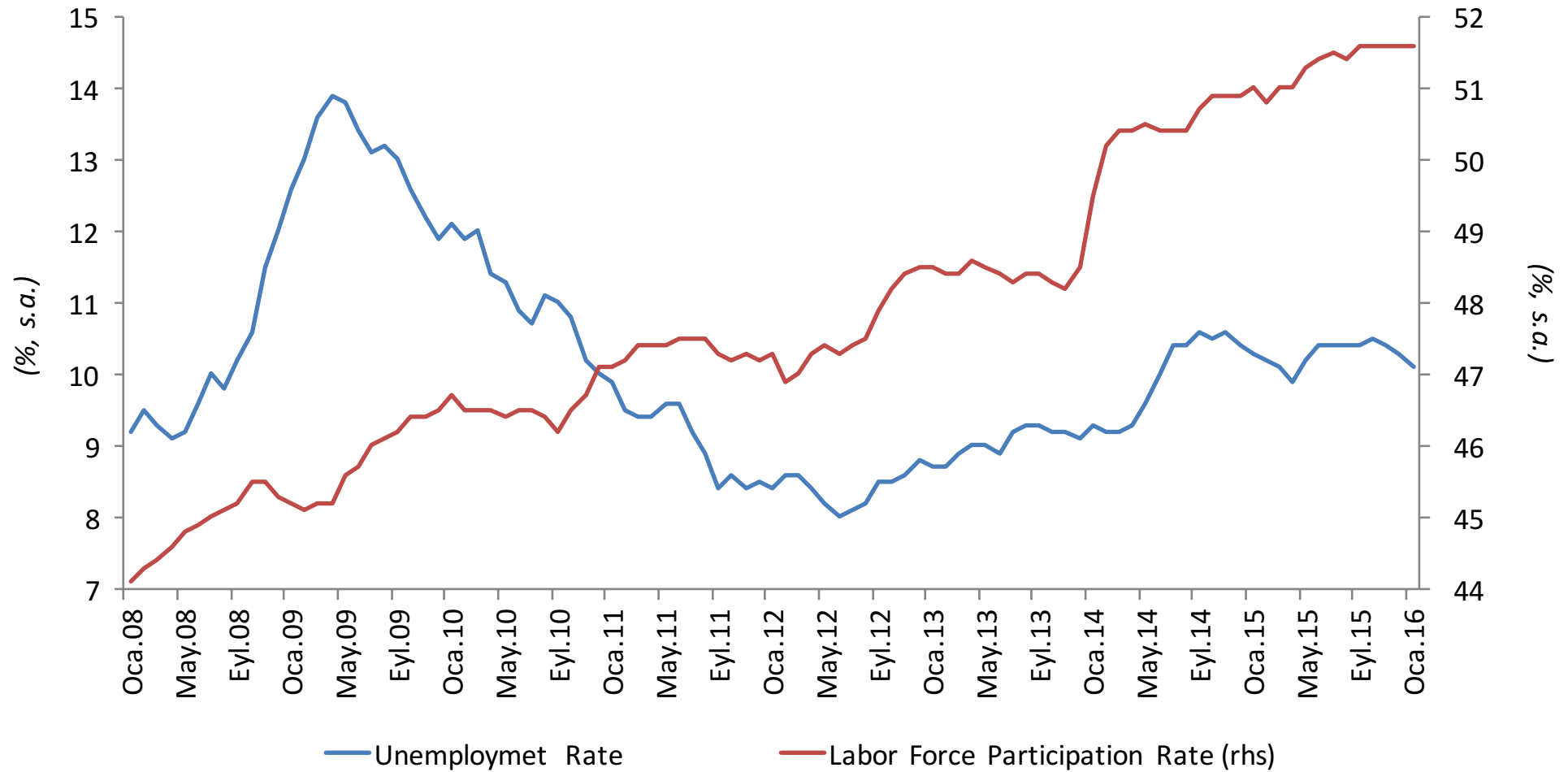
Limited or no progress in structural reforms

More aggressive Fed rate hikes

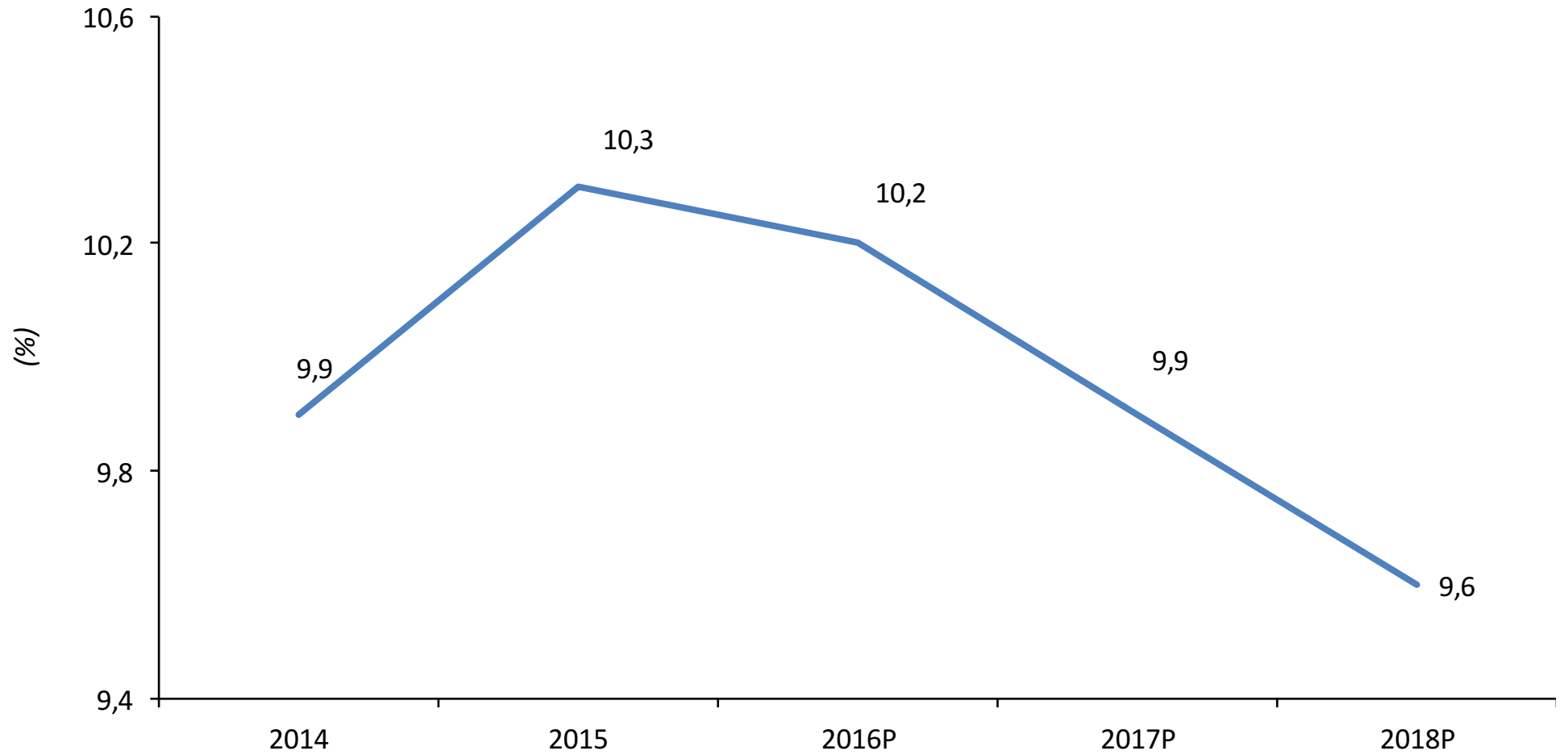
Strong Job Creation



Unemployment Remains High



Unemployment Outlook



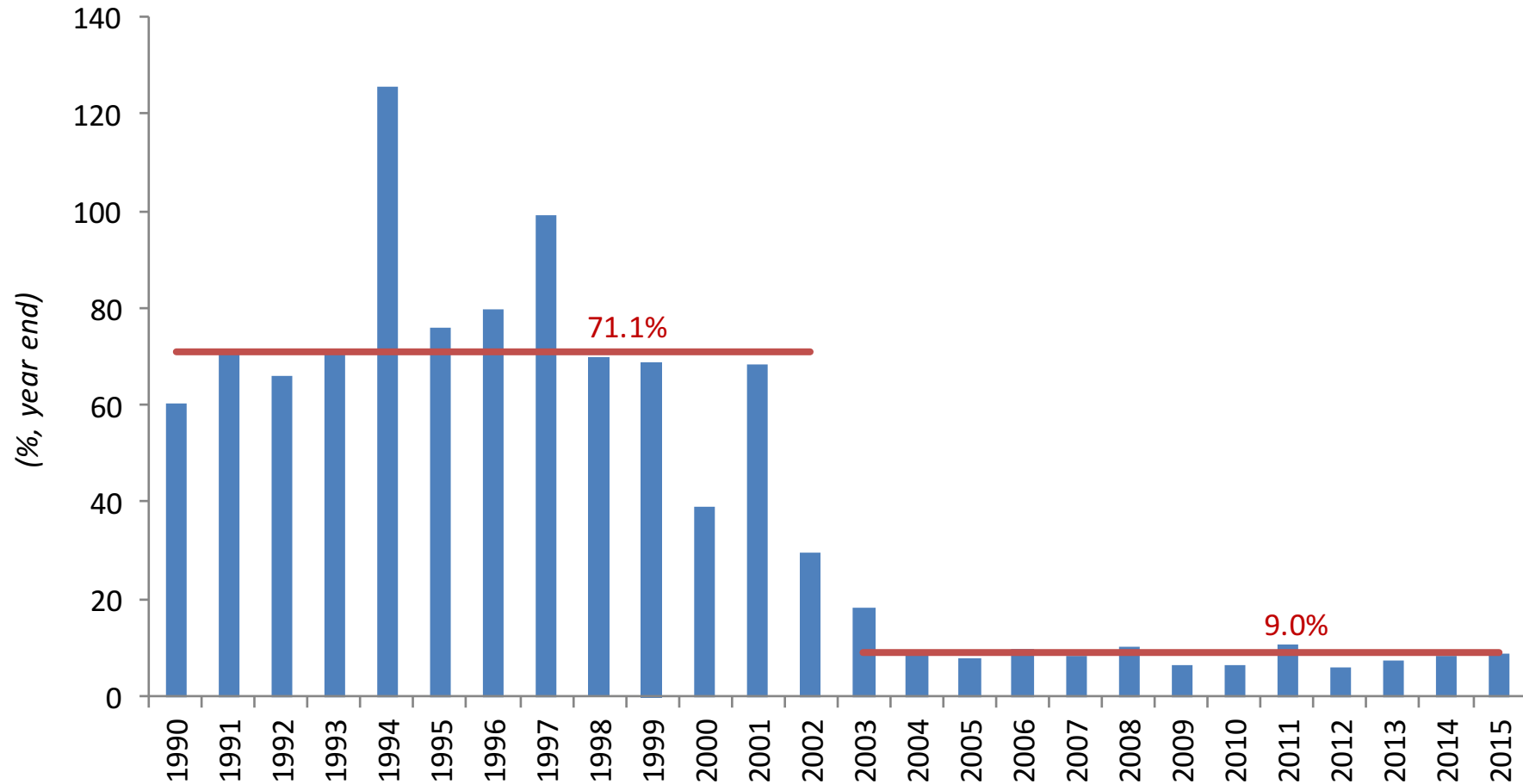
Risks to Employment Outlook

Shocks to expected growth

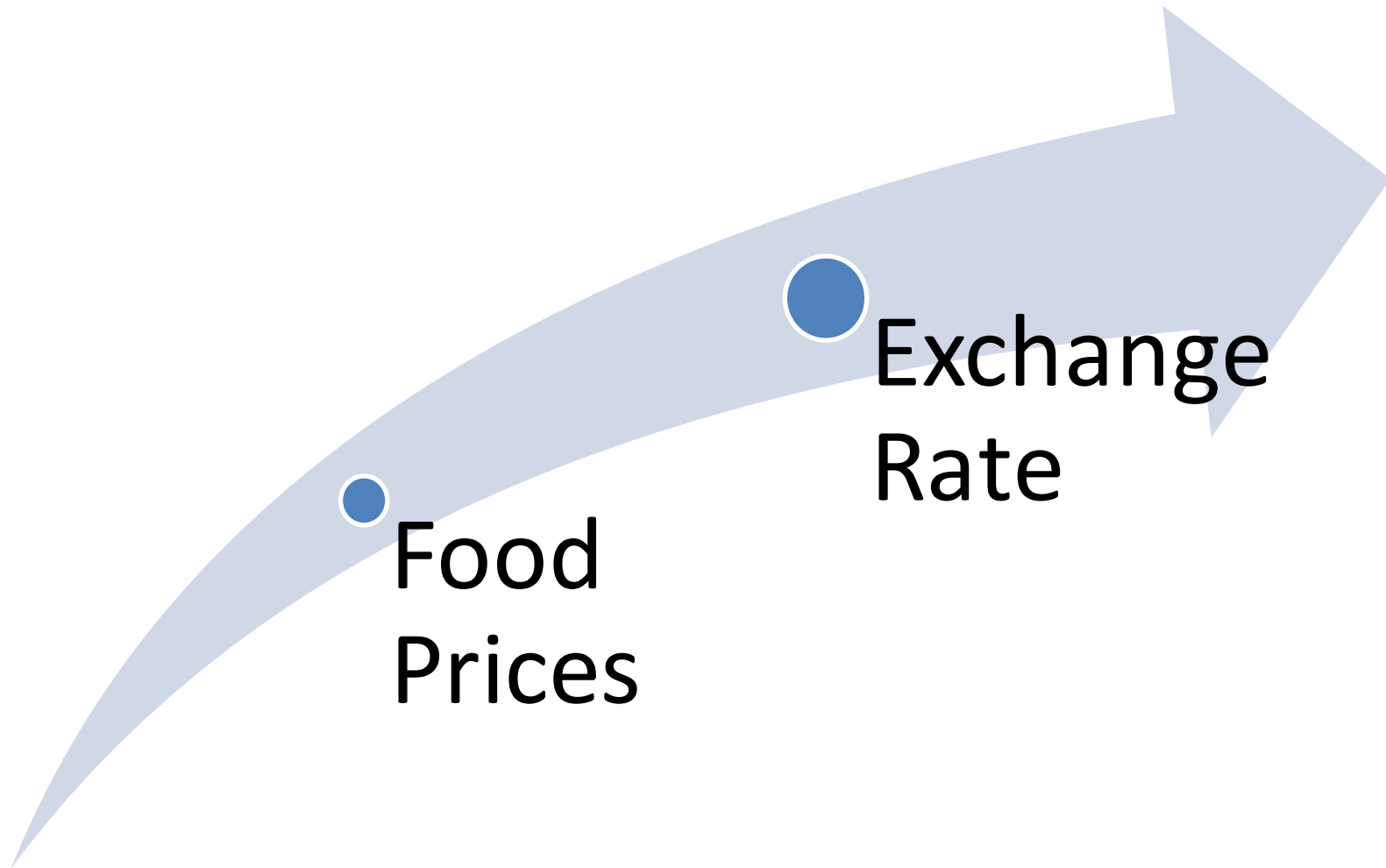
Limited or no progress on Labor Market Reform

Increase in # of refugees

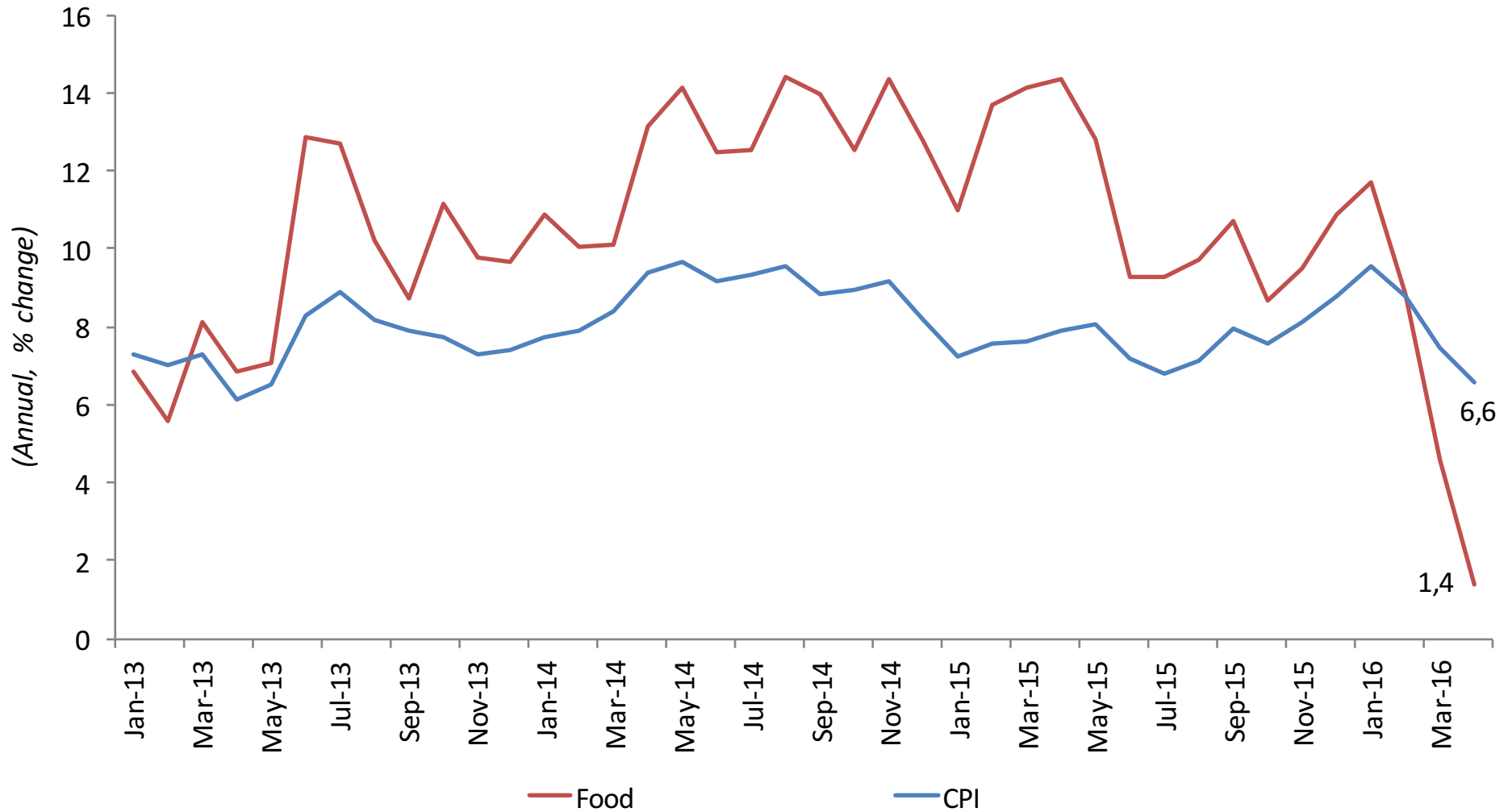
Inflation is Down to Single Digits



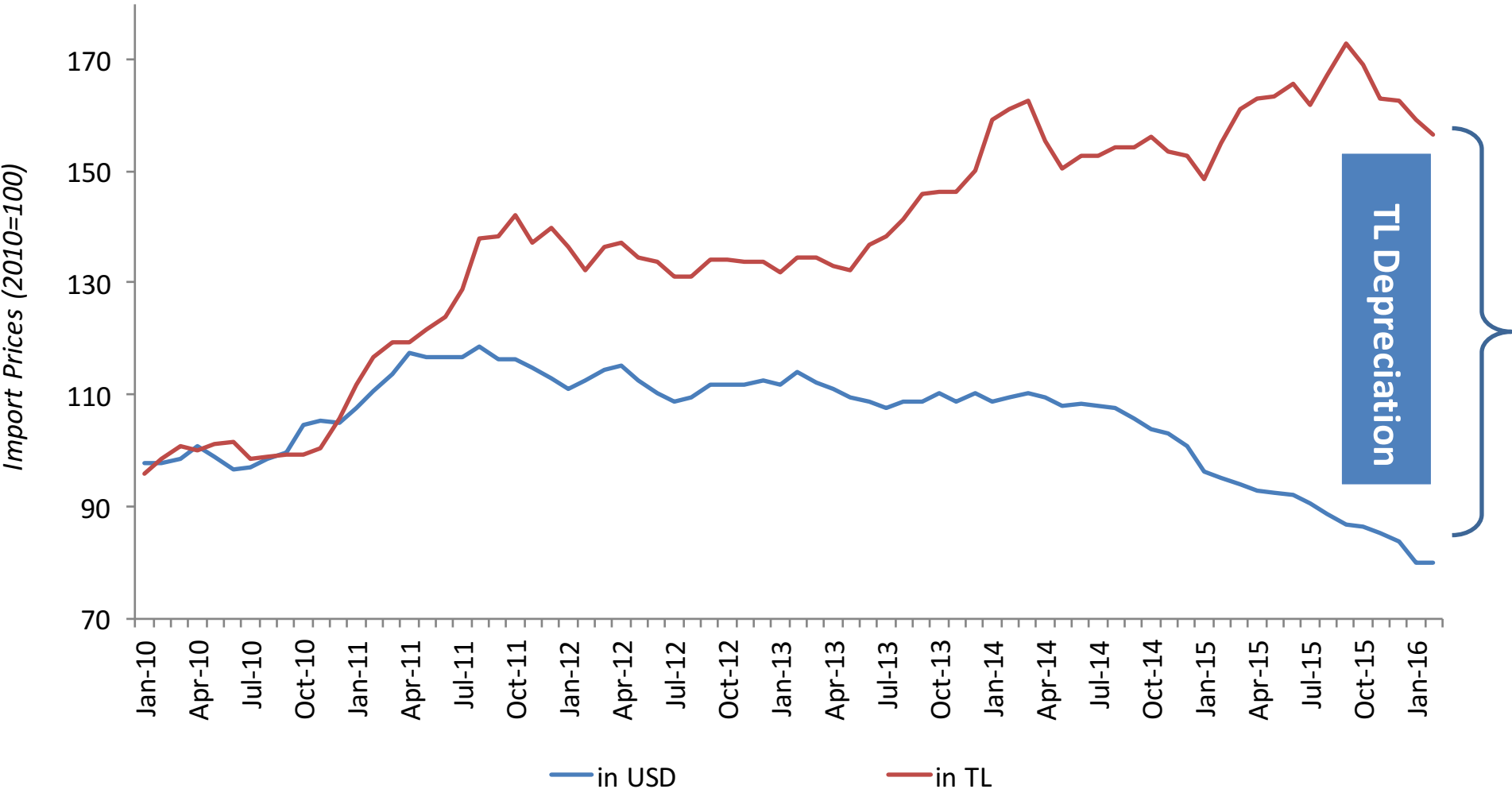
Why is Inflation above the Target?



Headline Inflation vs Food Inflation

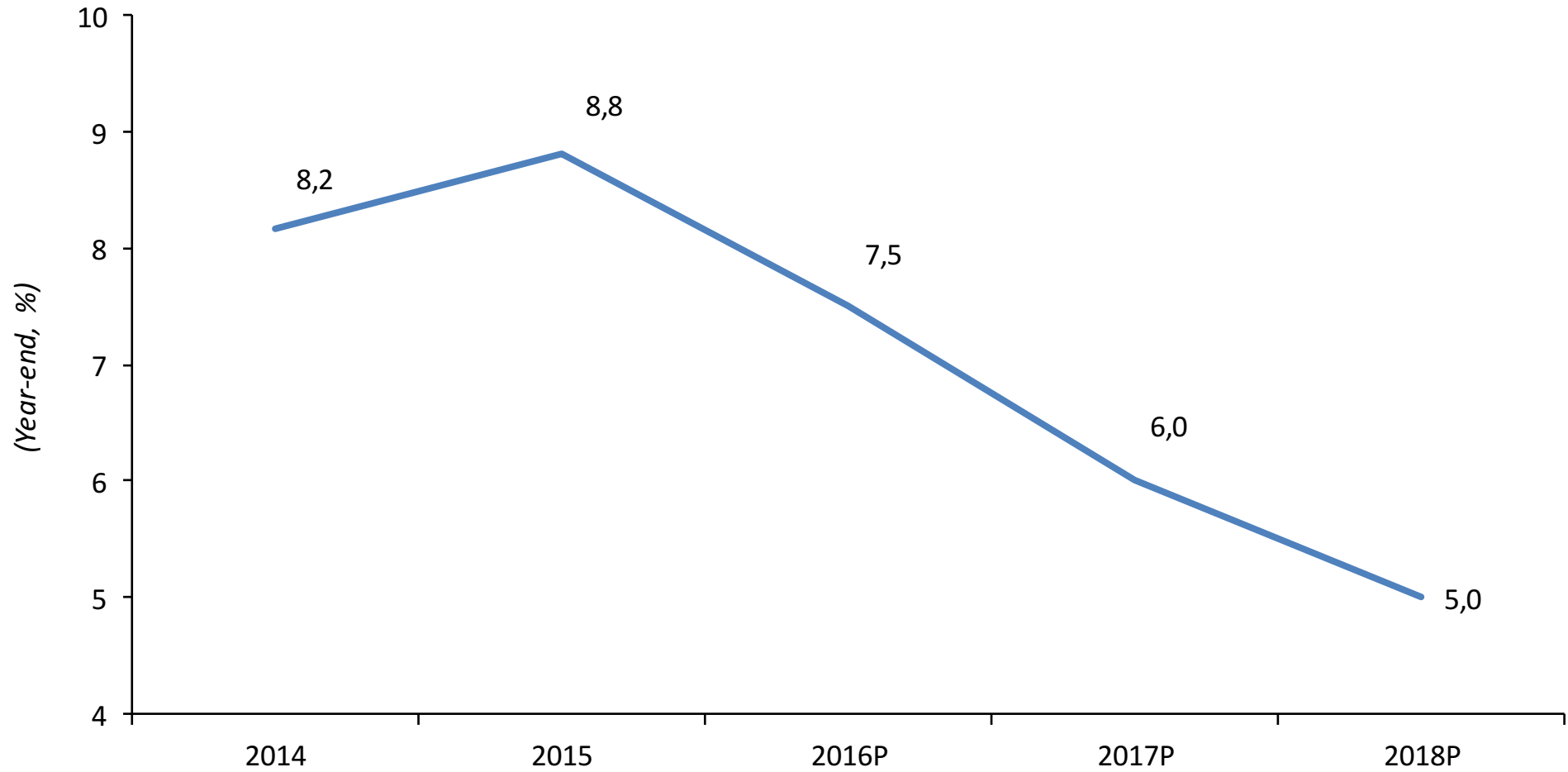


Impact of Currency Weakness

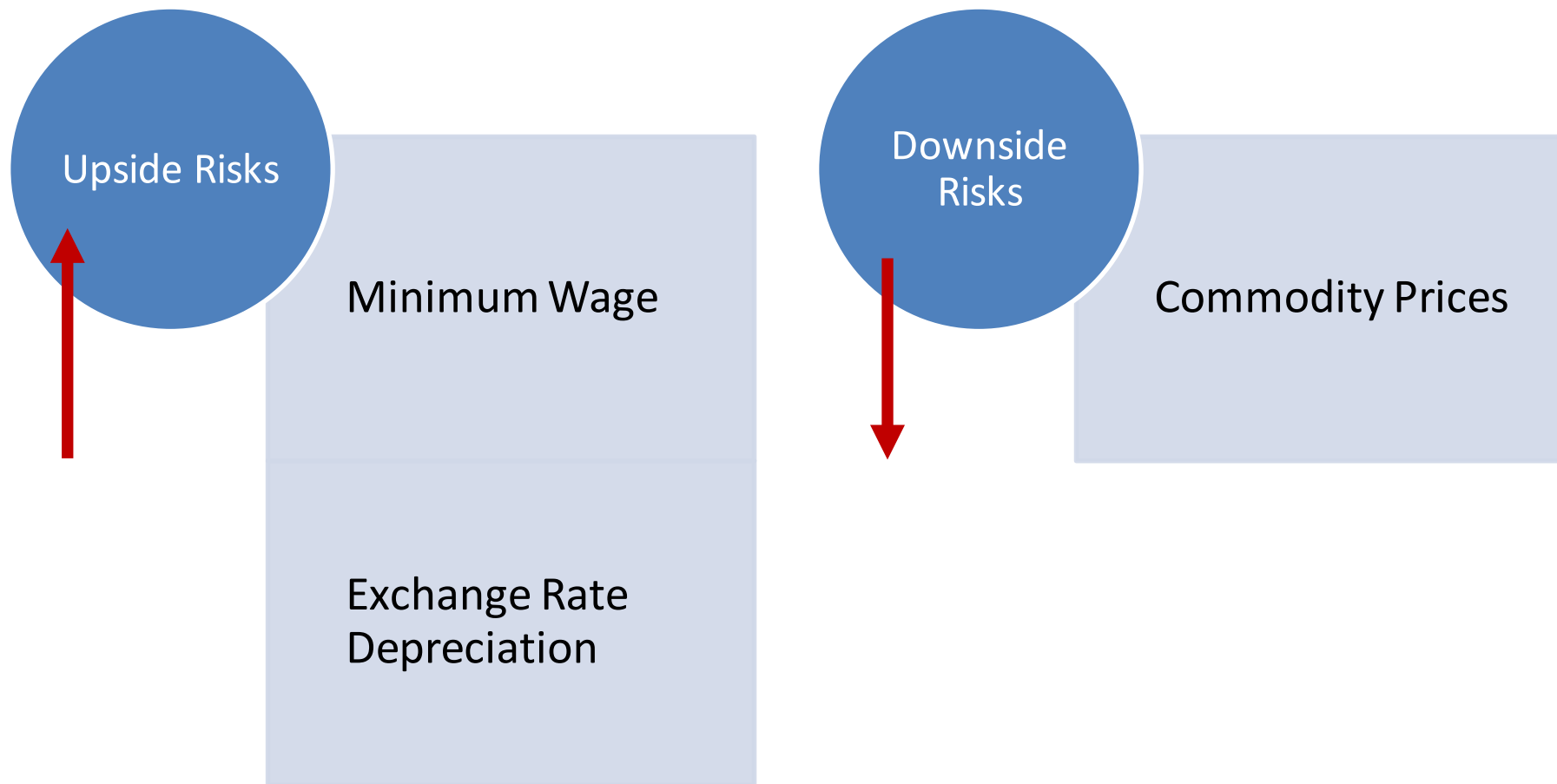


Source: TURKSTAT

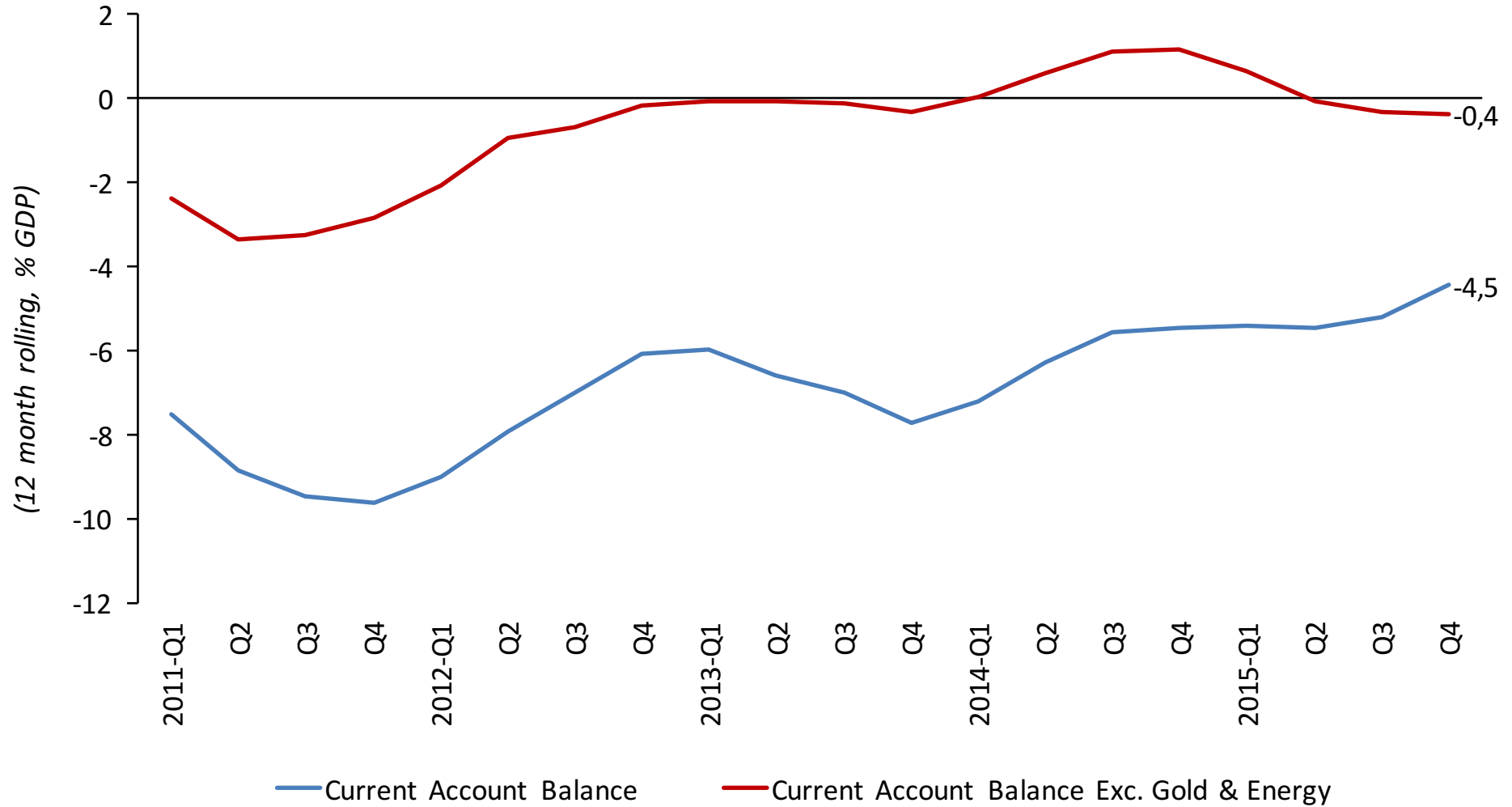
Inflation Outlook



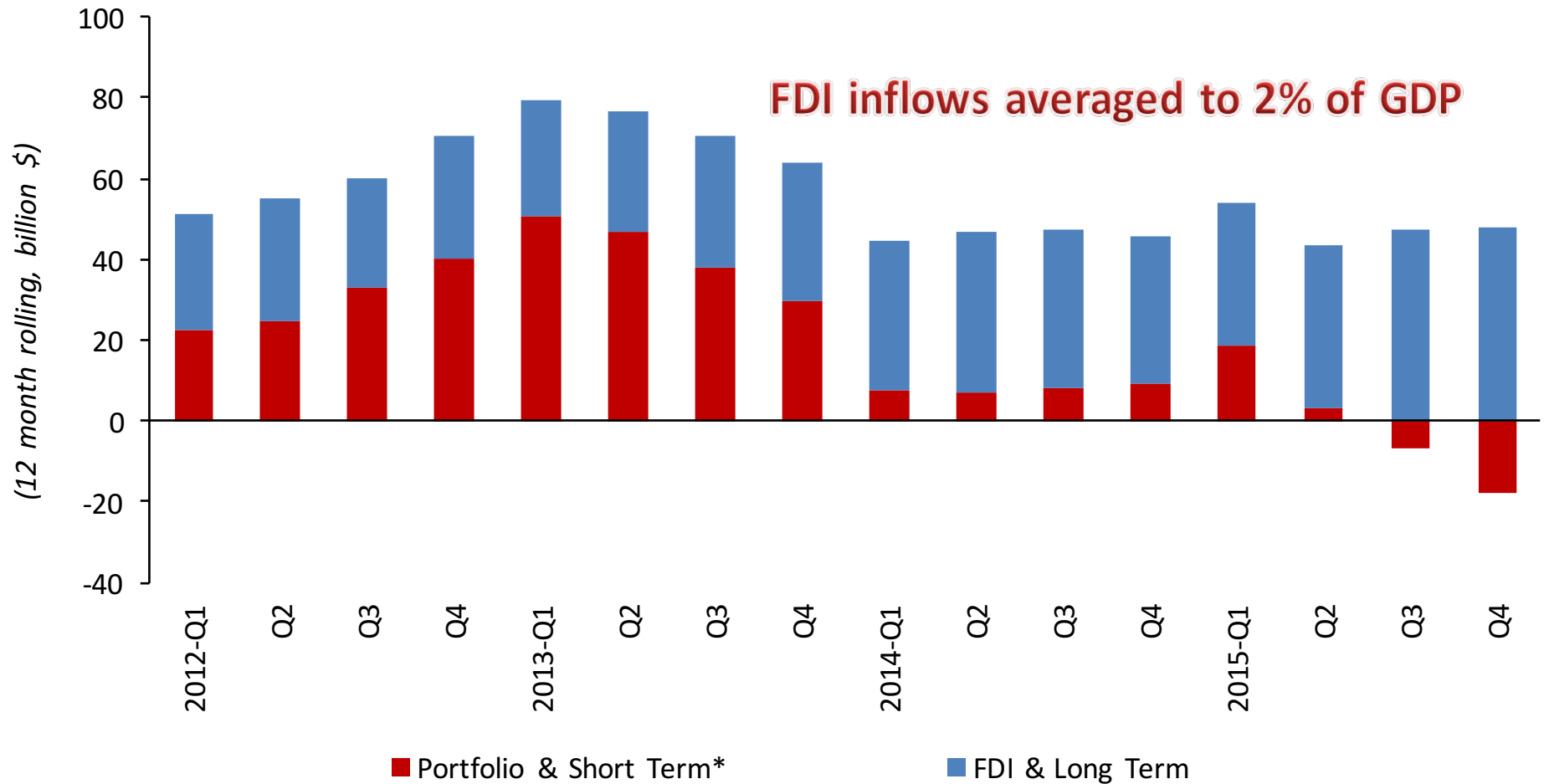
Risks to Inflation Outlook



Current Account Balance



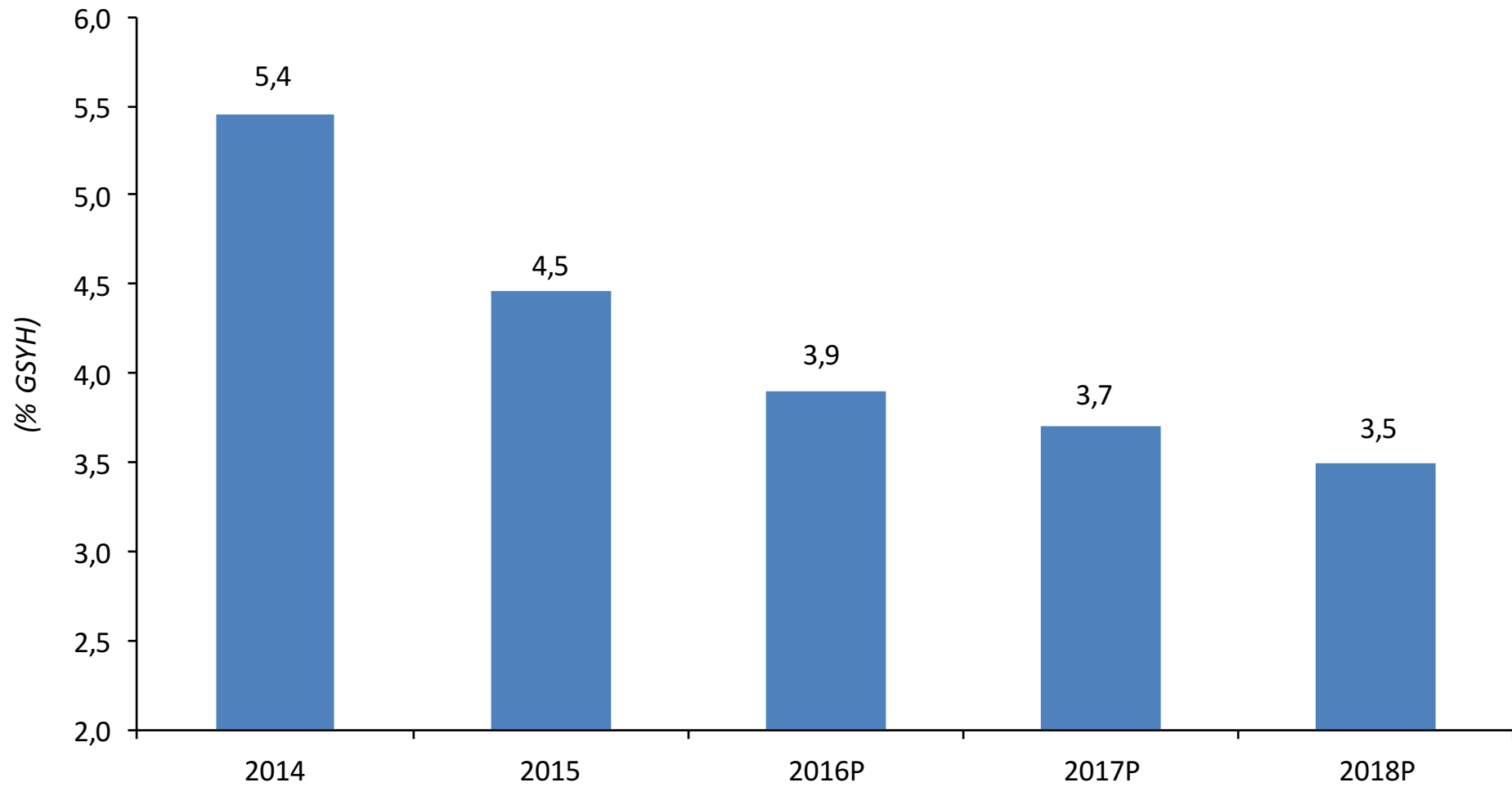
Financing of C/A Deficit has Improved



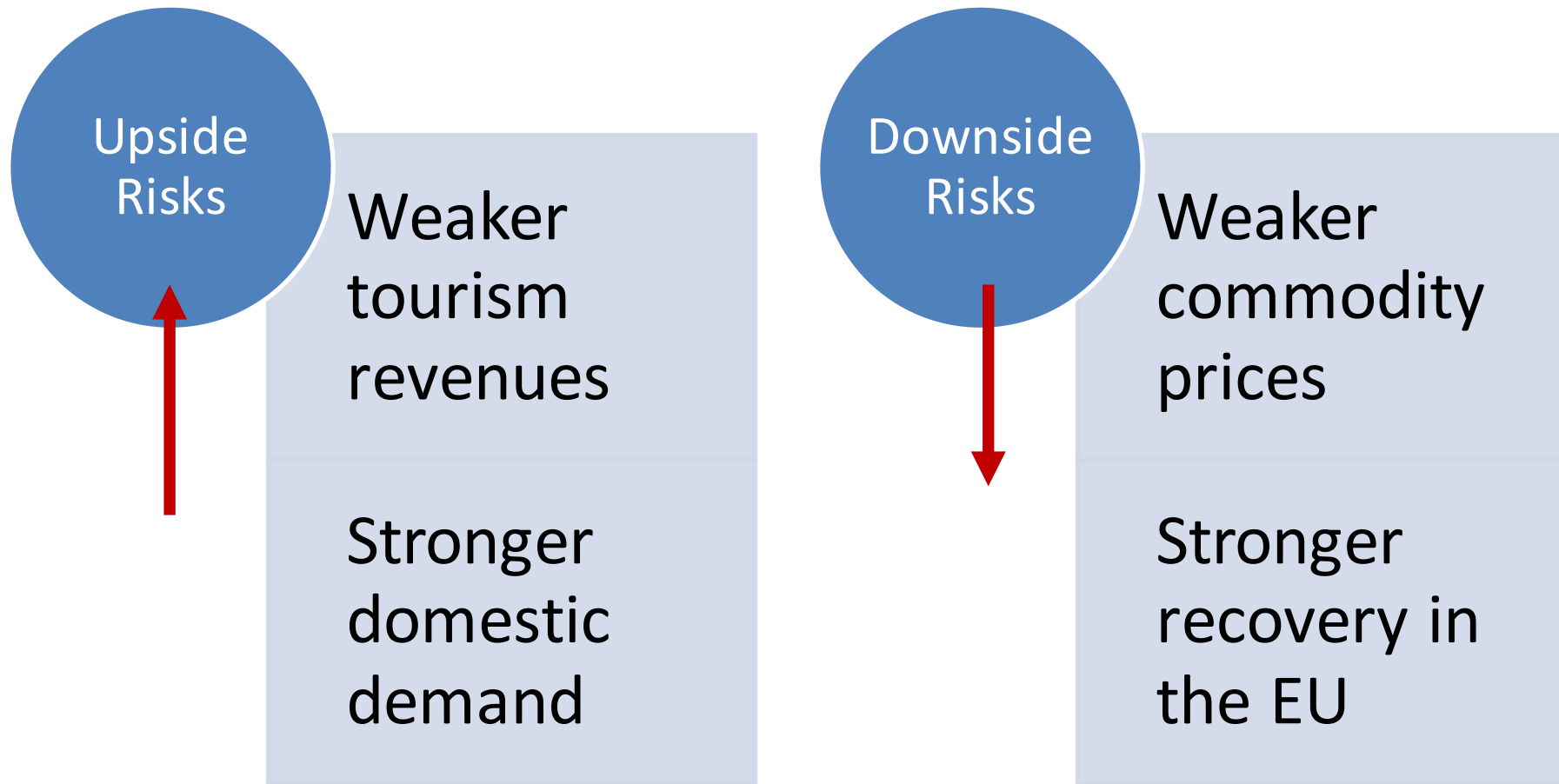
Source: CBRT

(*) Short term capital flows includes banks and other sectors' net short term loans and banks' currency and deposits.

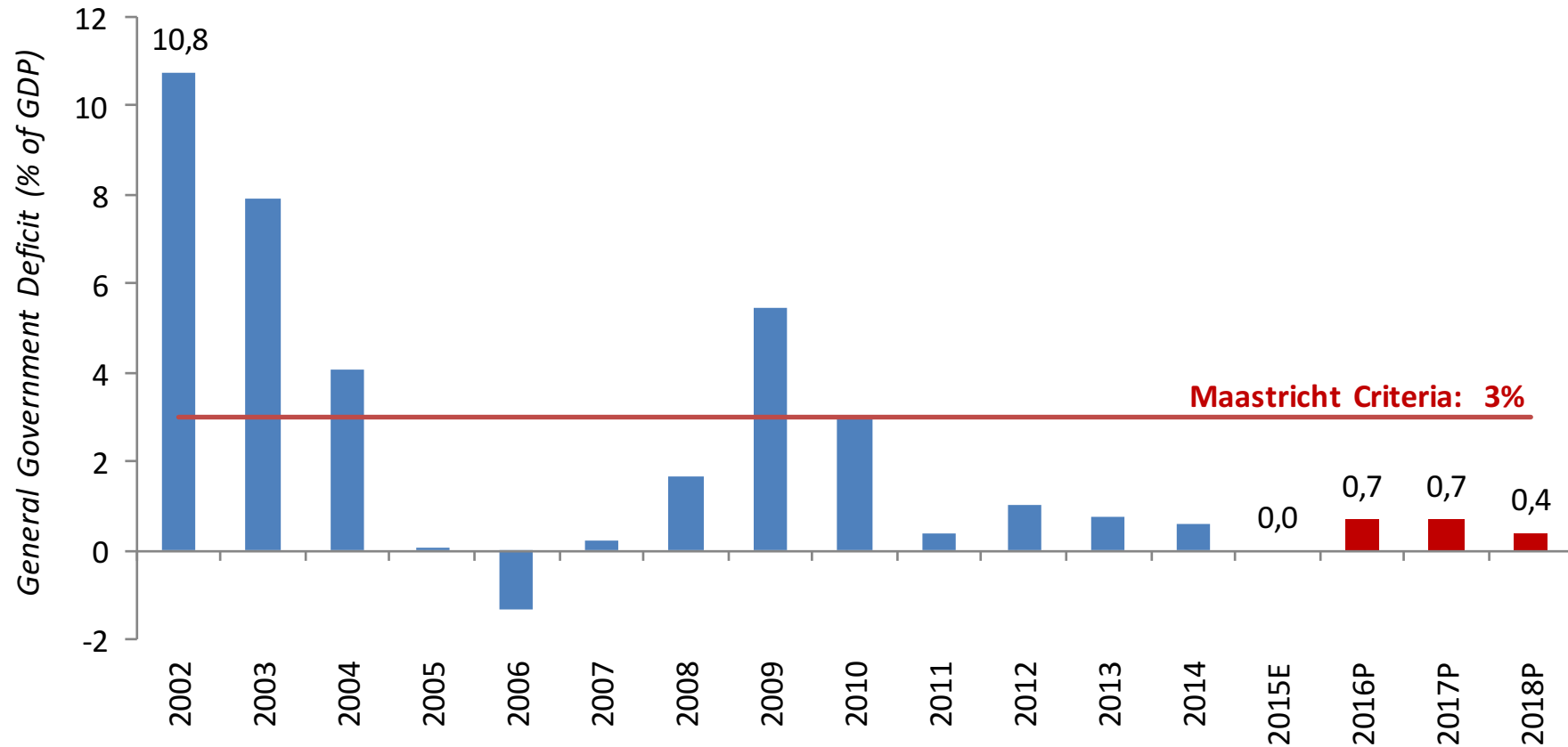
C/A Deficit Outlook



Risks to C/A Outlook



Strong Fiscal Position



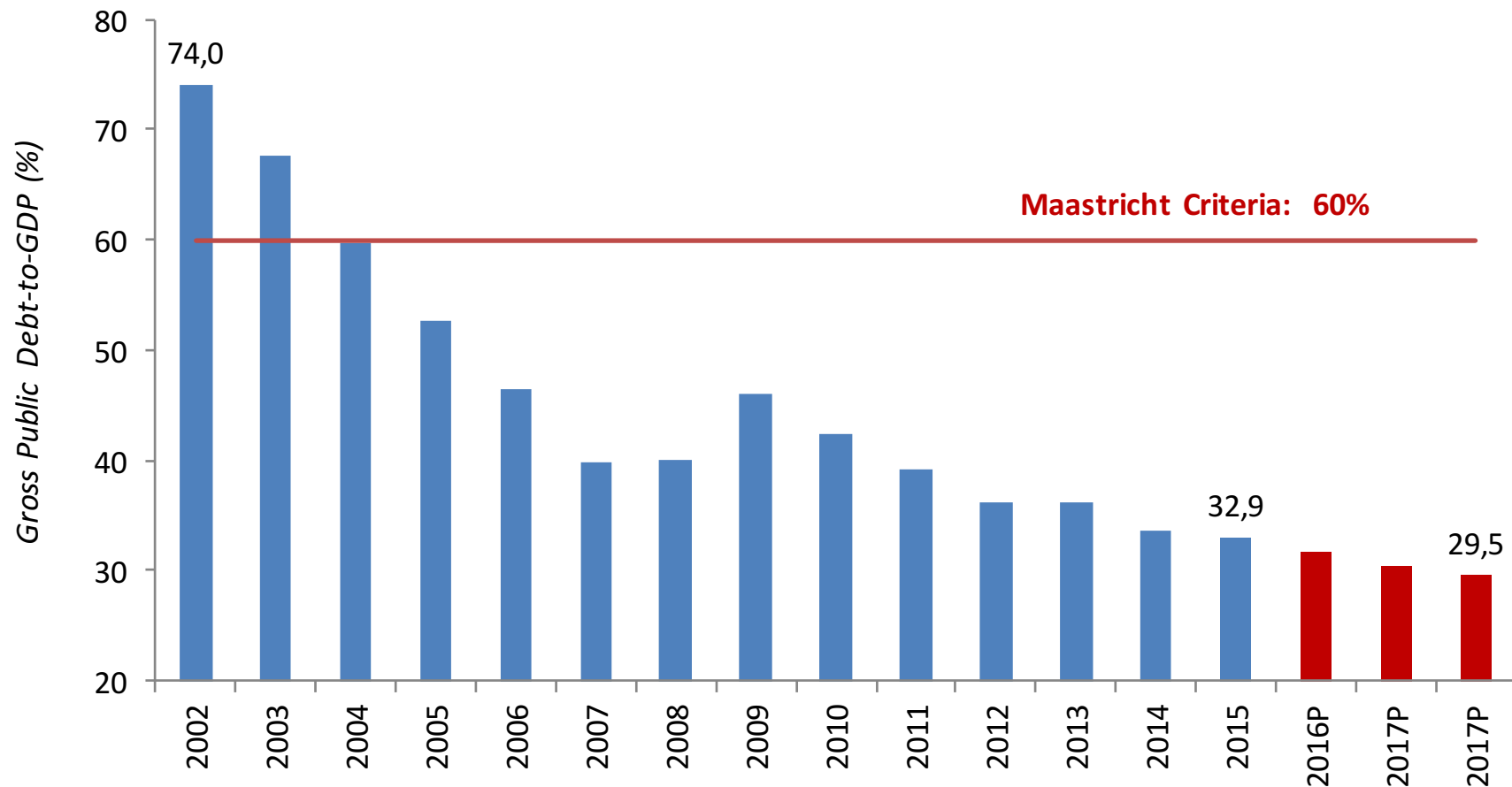
Satisfied Maastricht Criteria except 2009

Source: Ministry of Development, TURKSTAT

E: Realization Estimate

P: Program

Favorable Debt Dynamics



Satisfying Maastricht Criteria since 2004

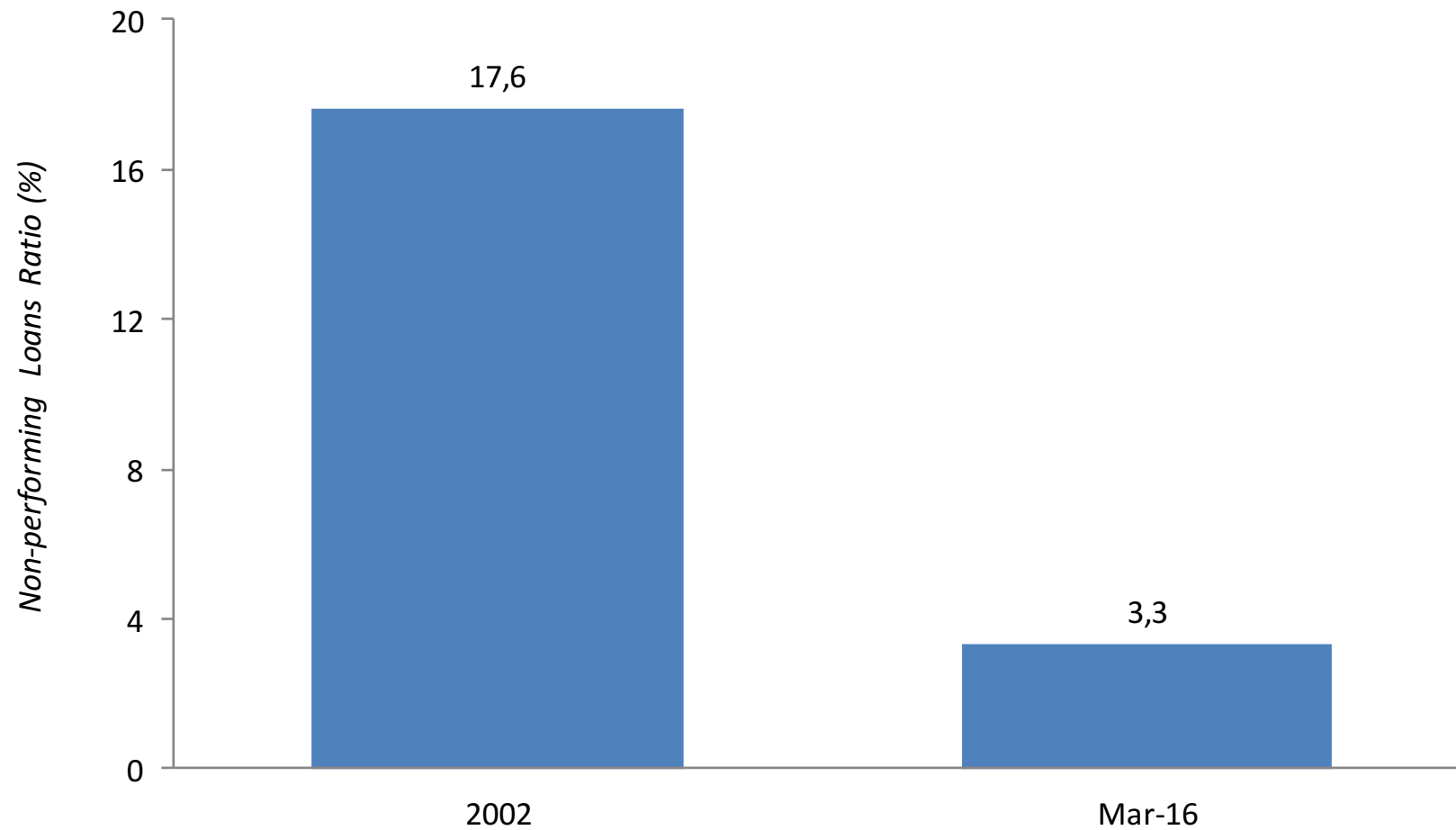
Risks to Fiscal Outlook

Higher Spending Needs

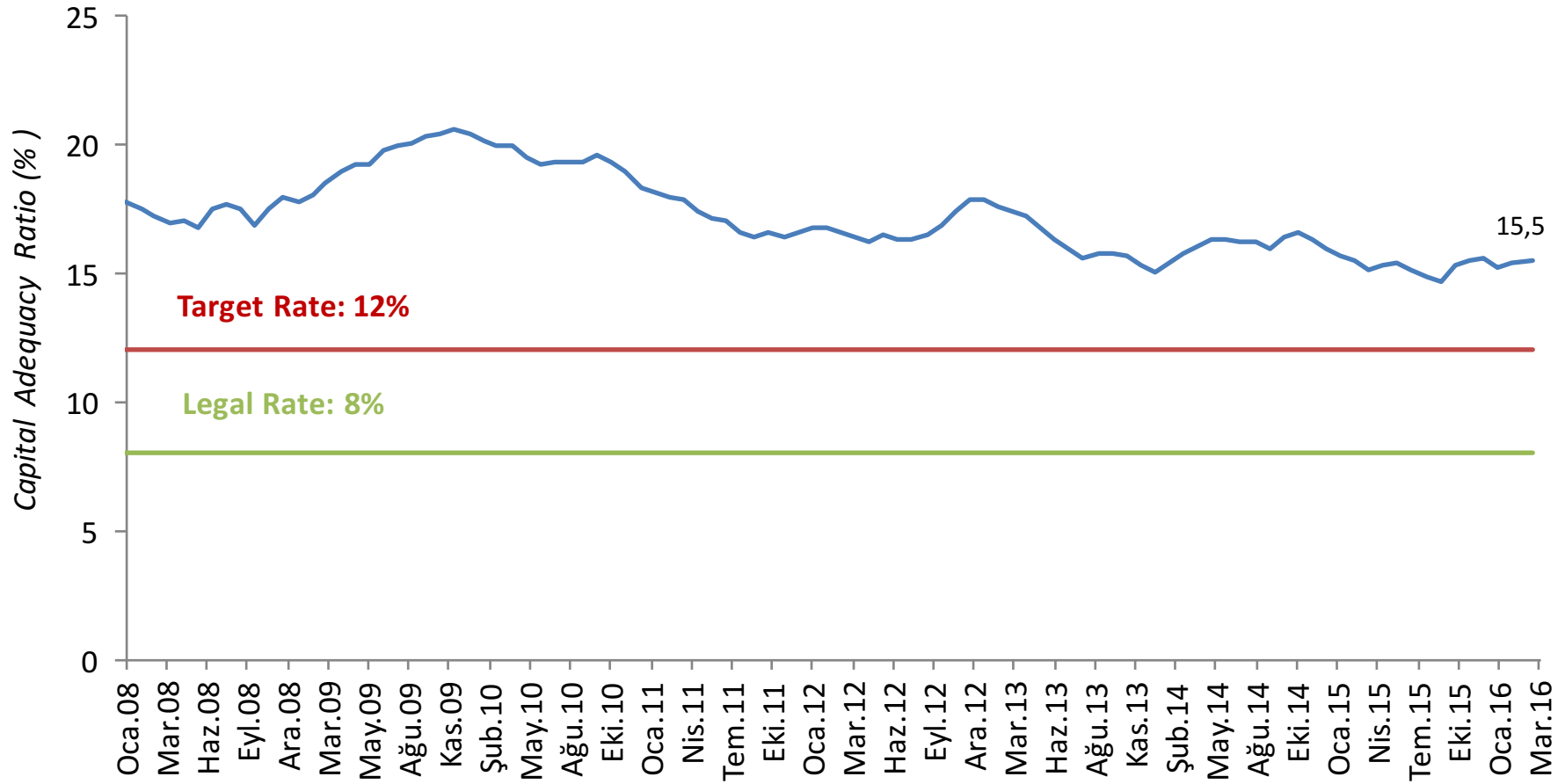
Lower Real Tax Revenues

Slower Growth

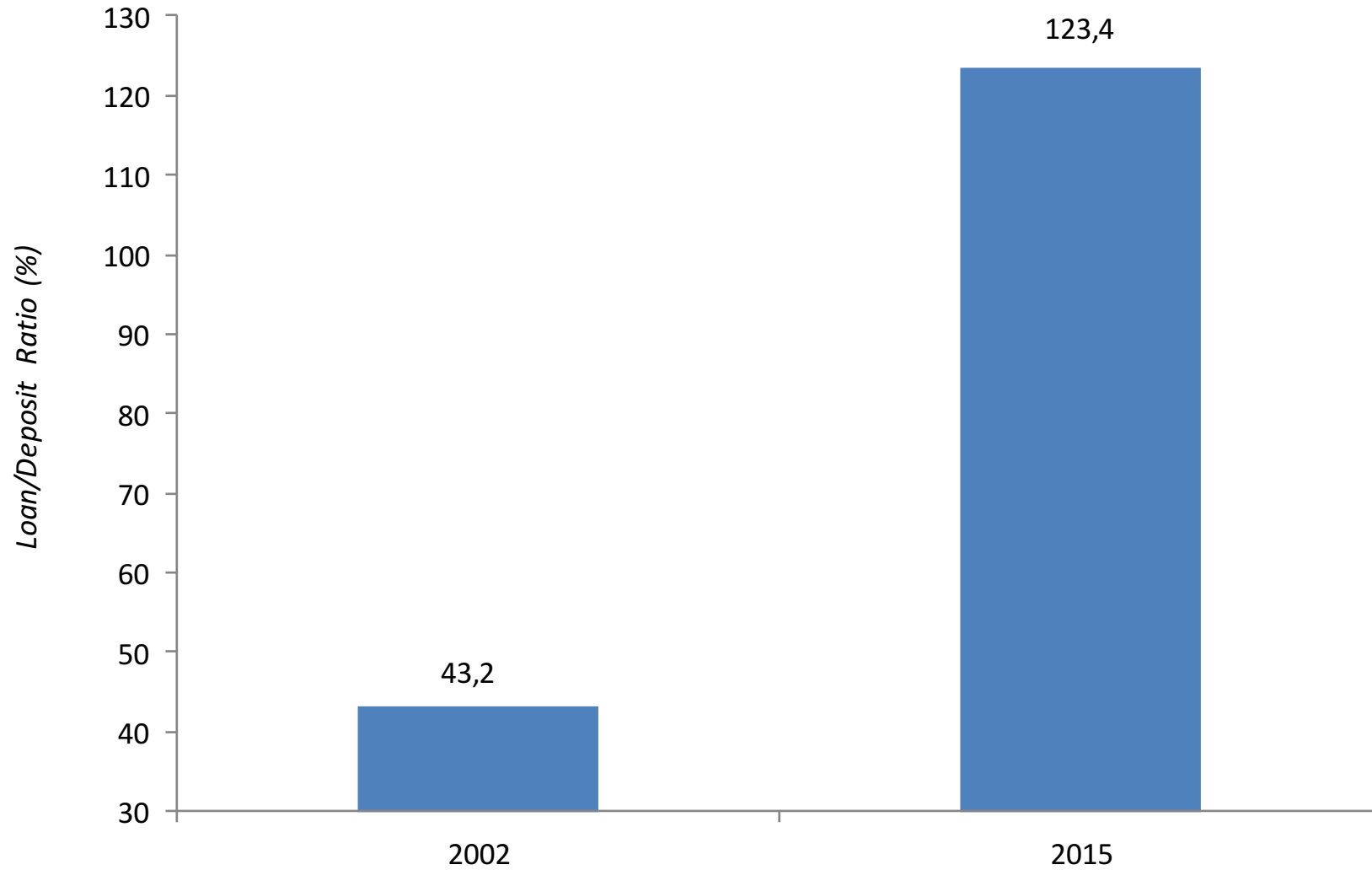
Banking Sector: High Asset Quality



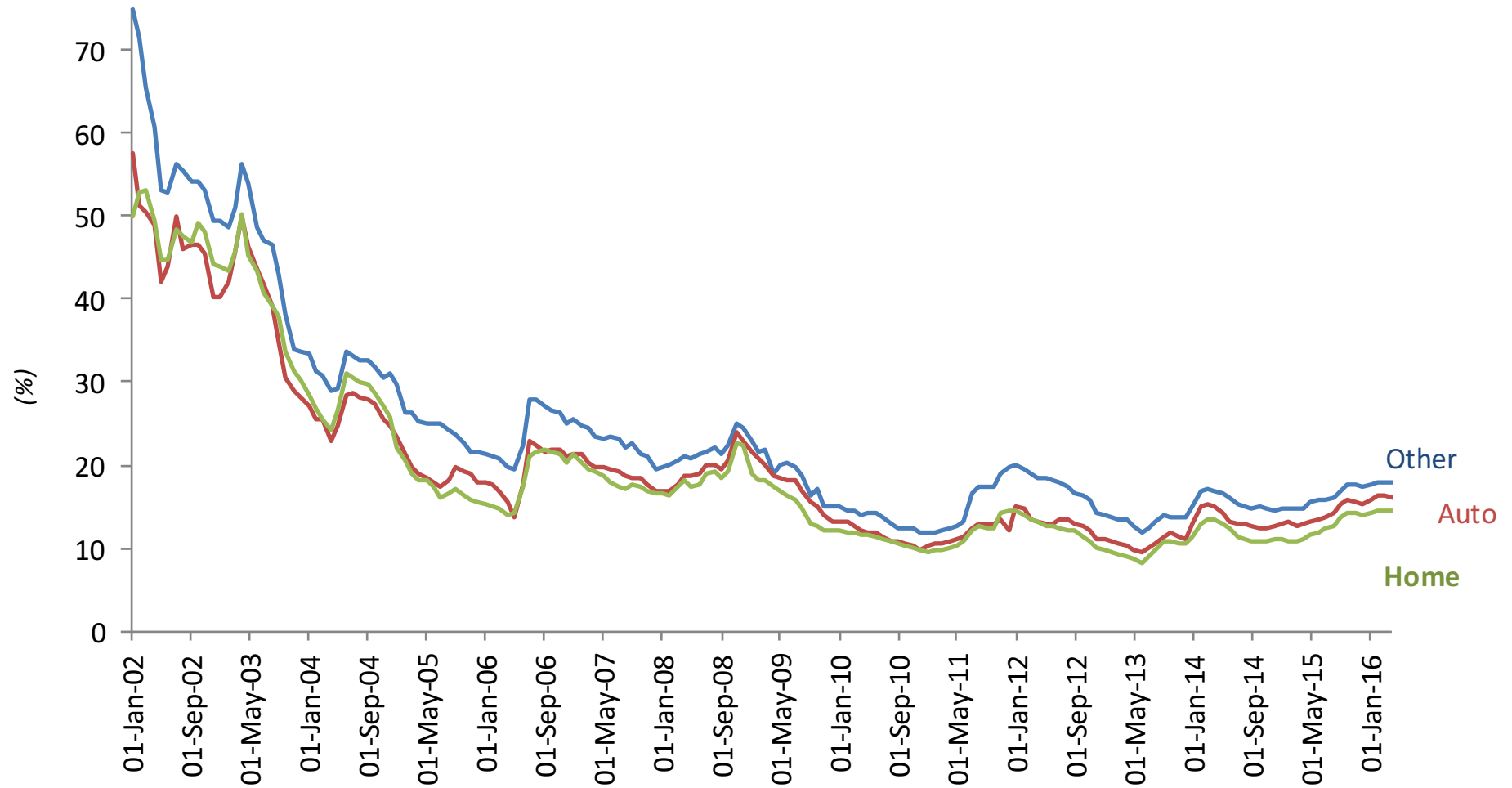
Banking Sector: Well Capitalized



Banking Sector: Loan/Deposit Ratio



Interest Rates

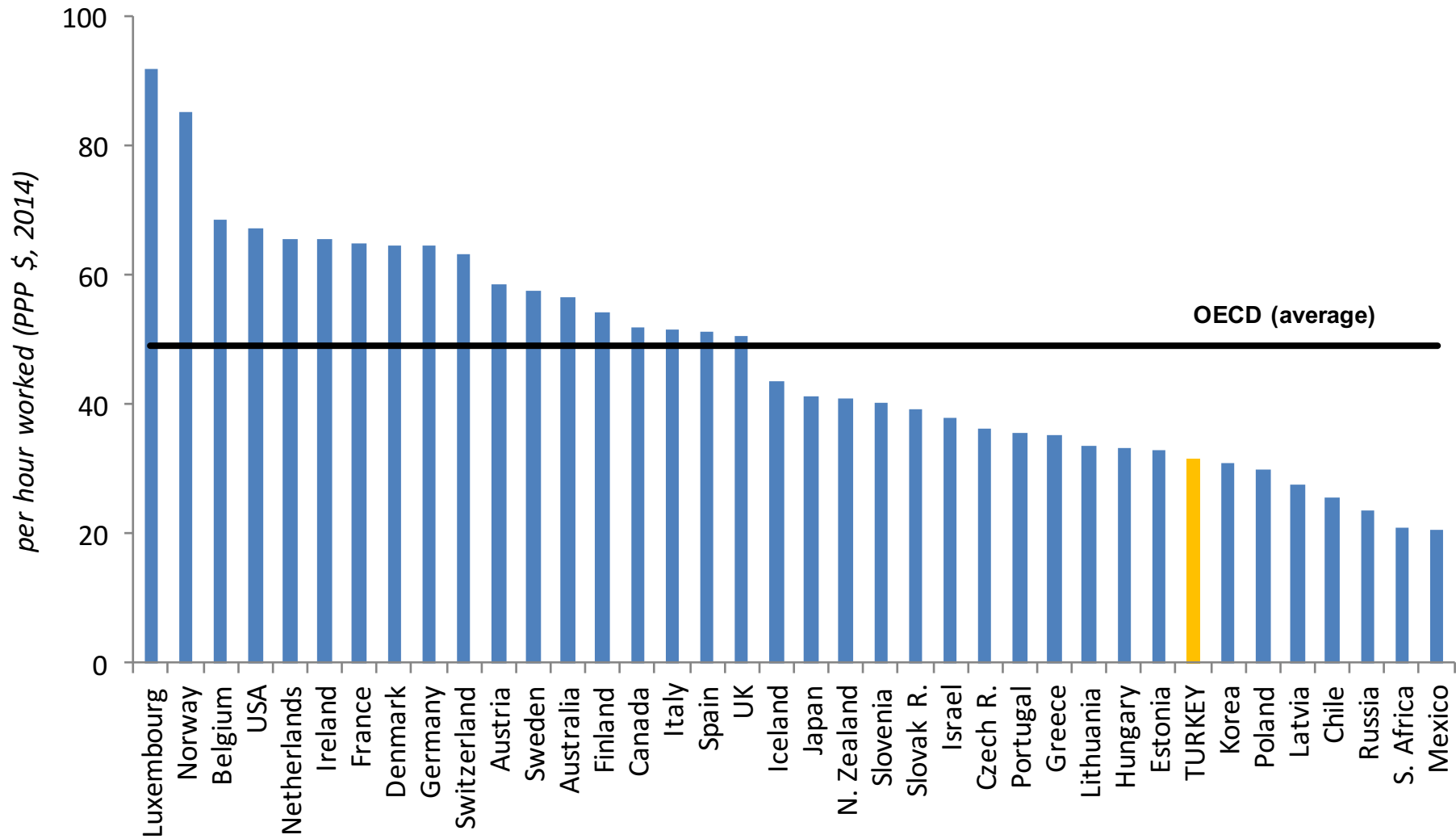


Source: Central Bank

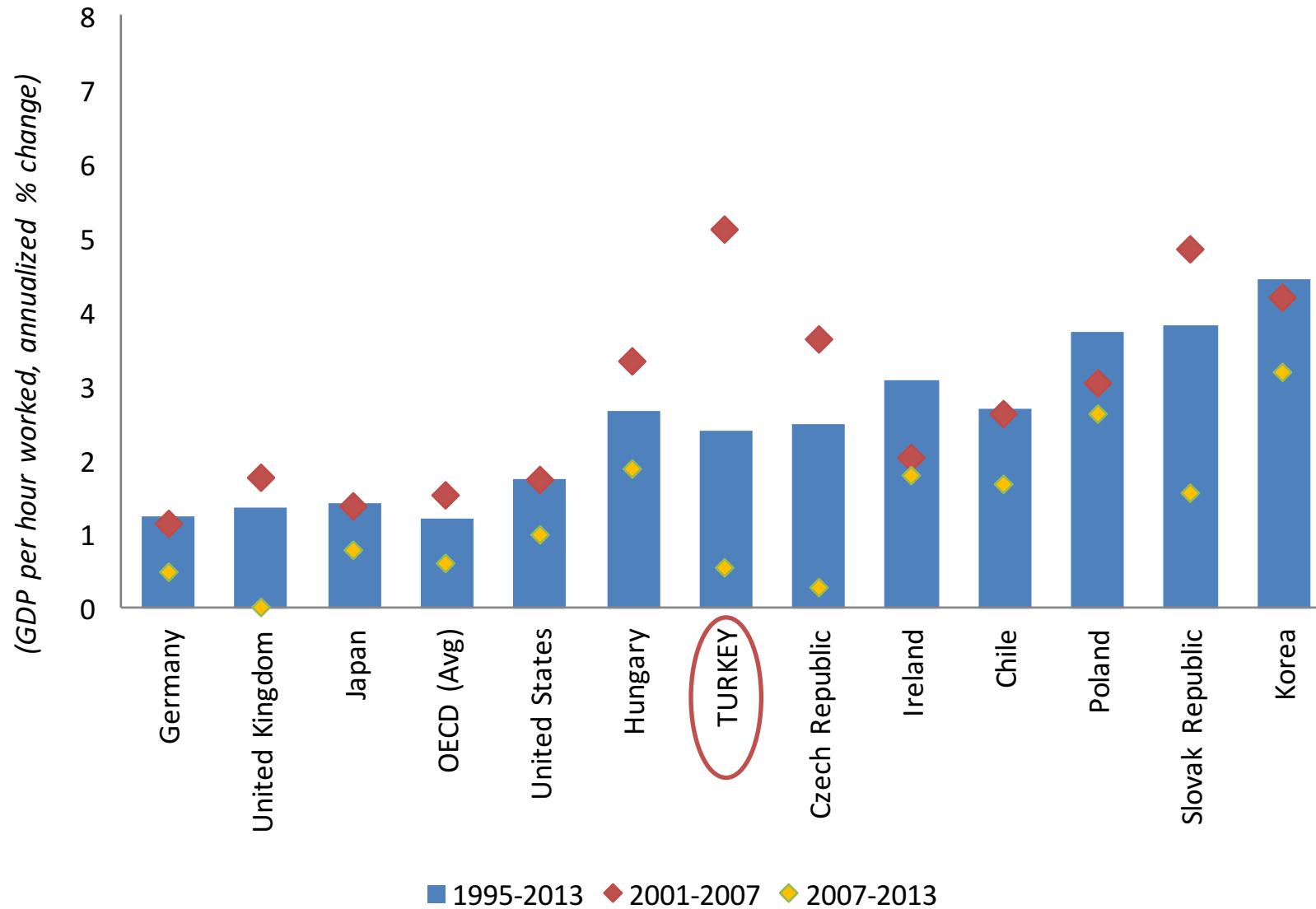


Turkey's Structural Problems

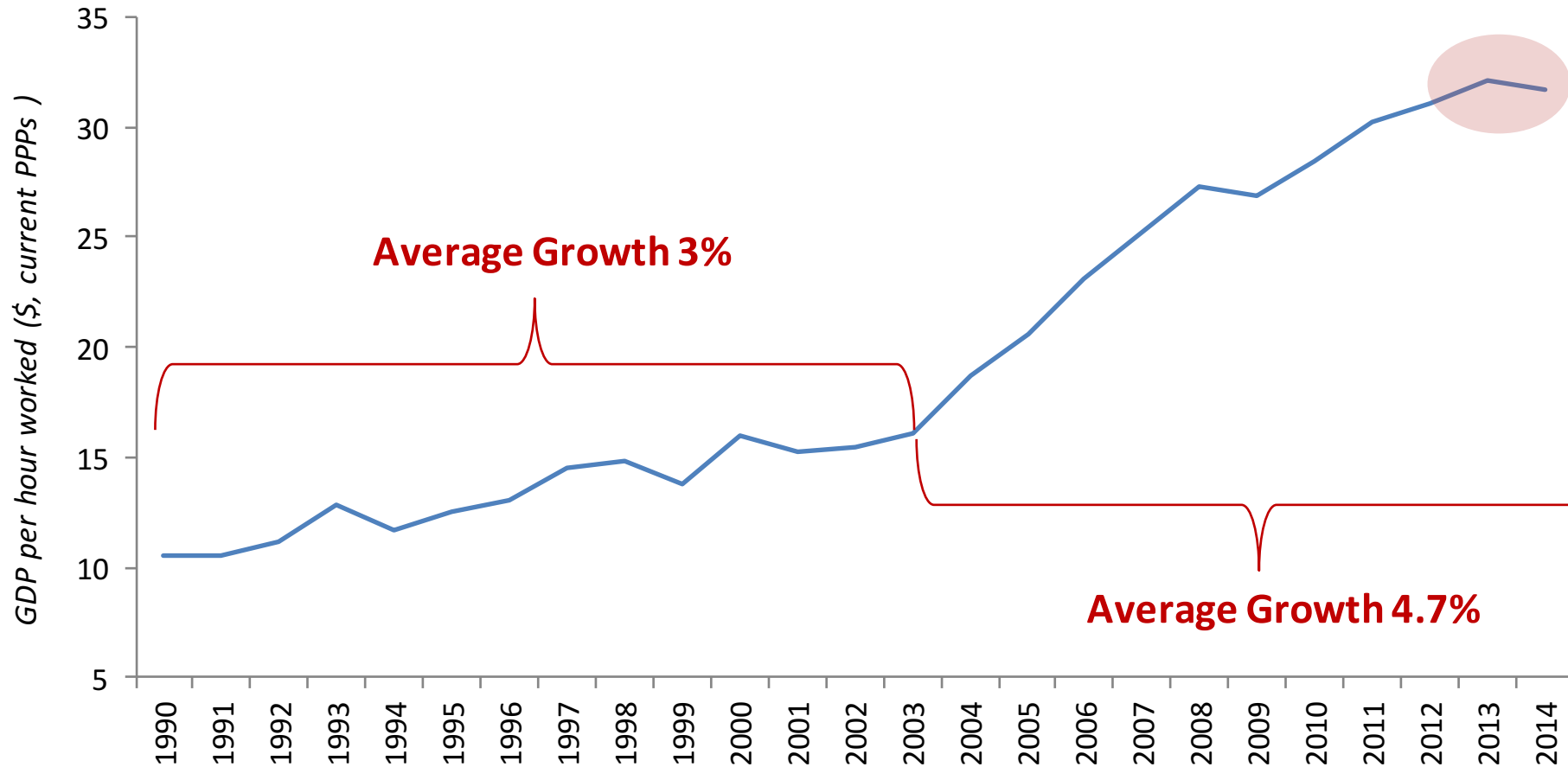
Low Productivity



Recent Trends in Productivity

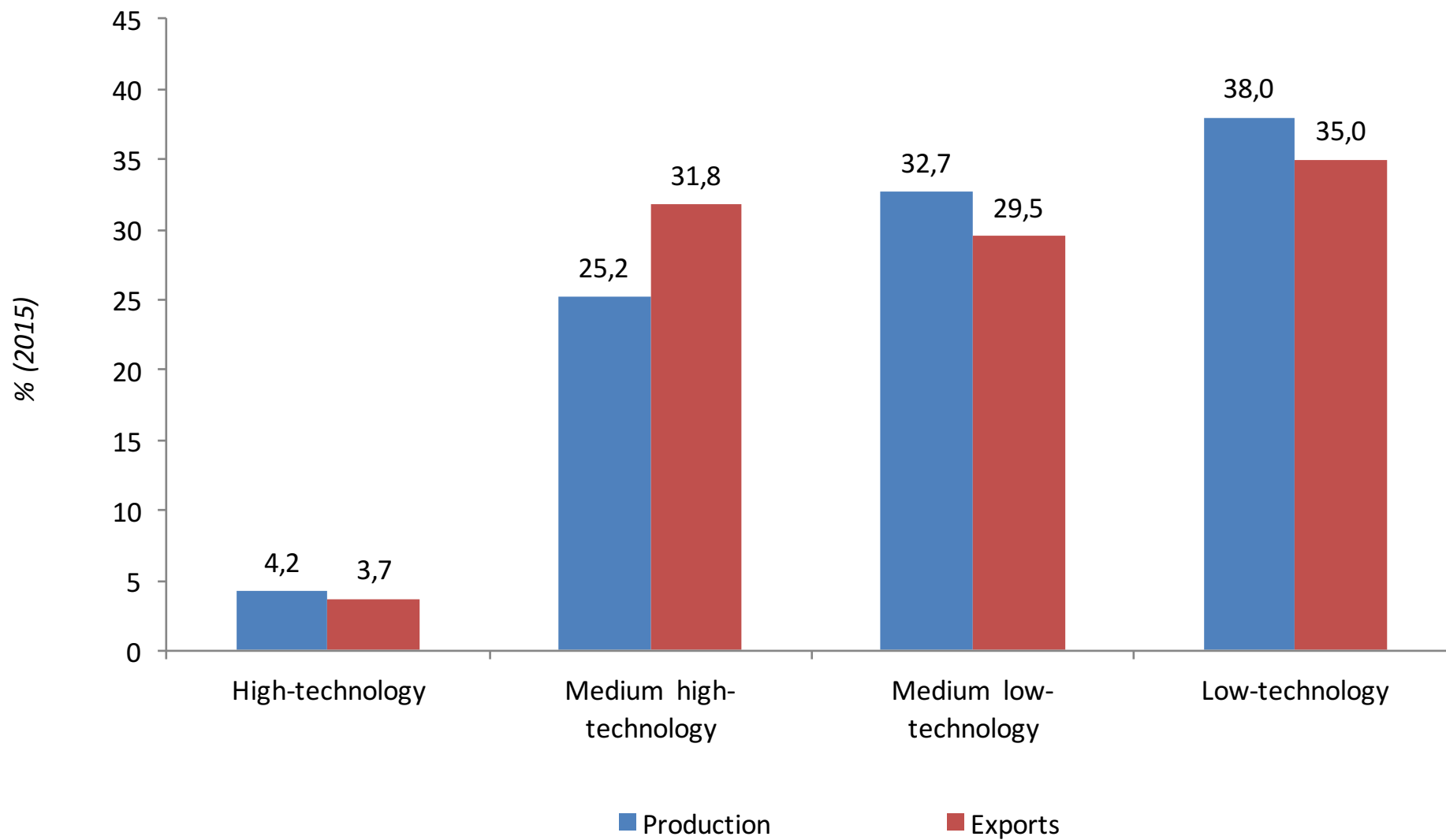


Productivity: 1990s vs 2000s

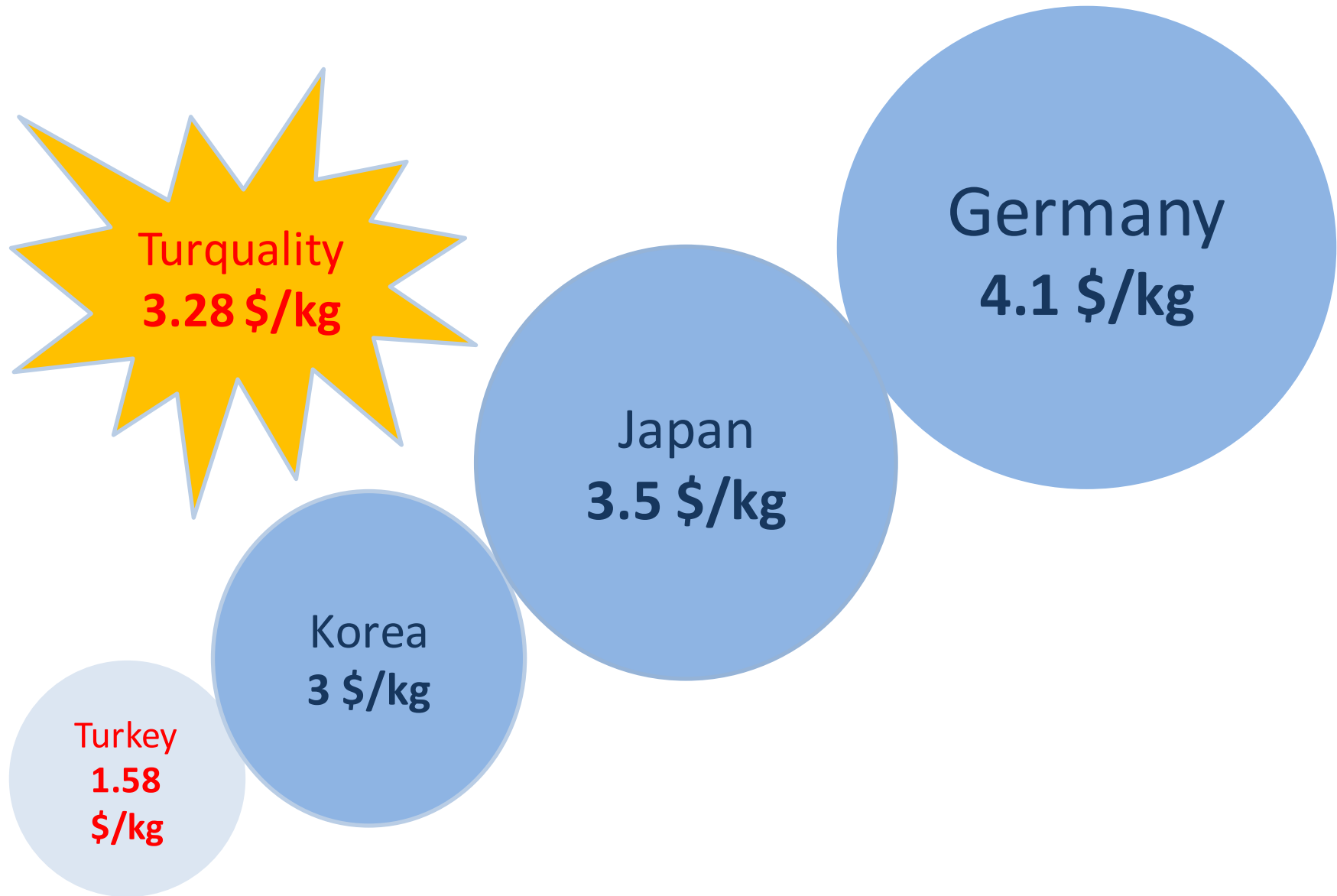


Current Situation: Productivity growth has been stagnant in recent years. **Increasing productivity** would support high, stable and sustainable growth in the medium term.

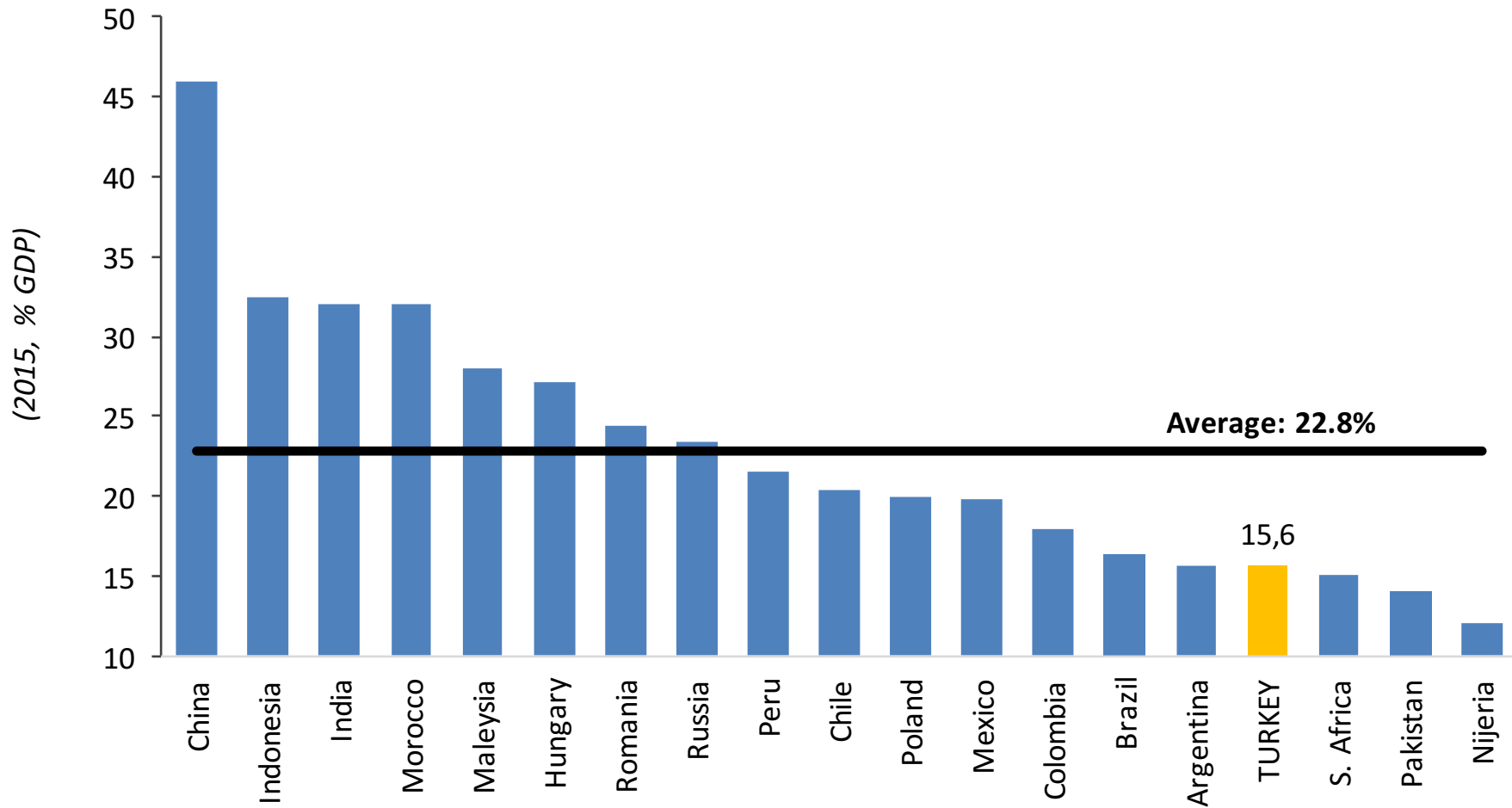
Low Value Added Manufacturing



How Much is a Kilo of Exports

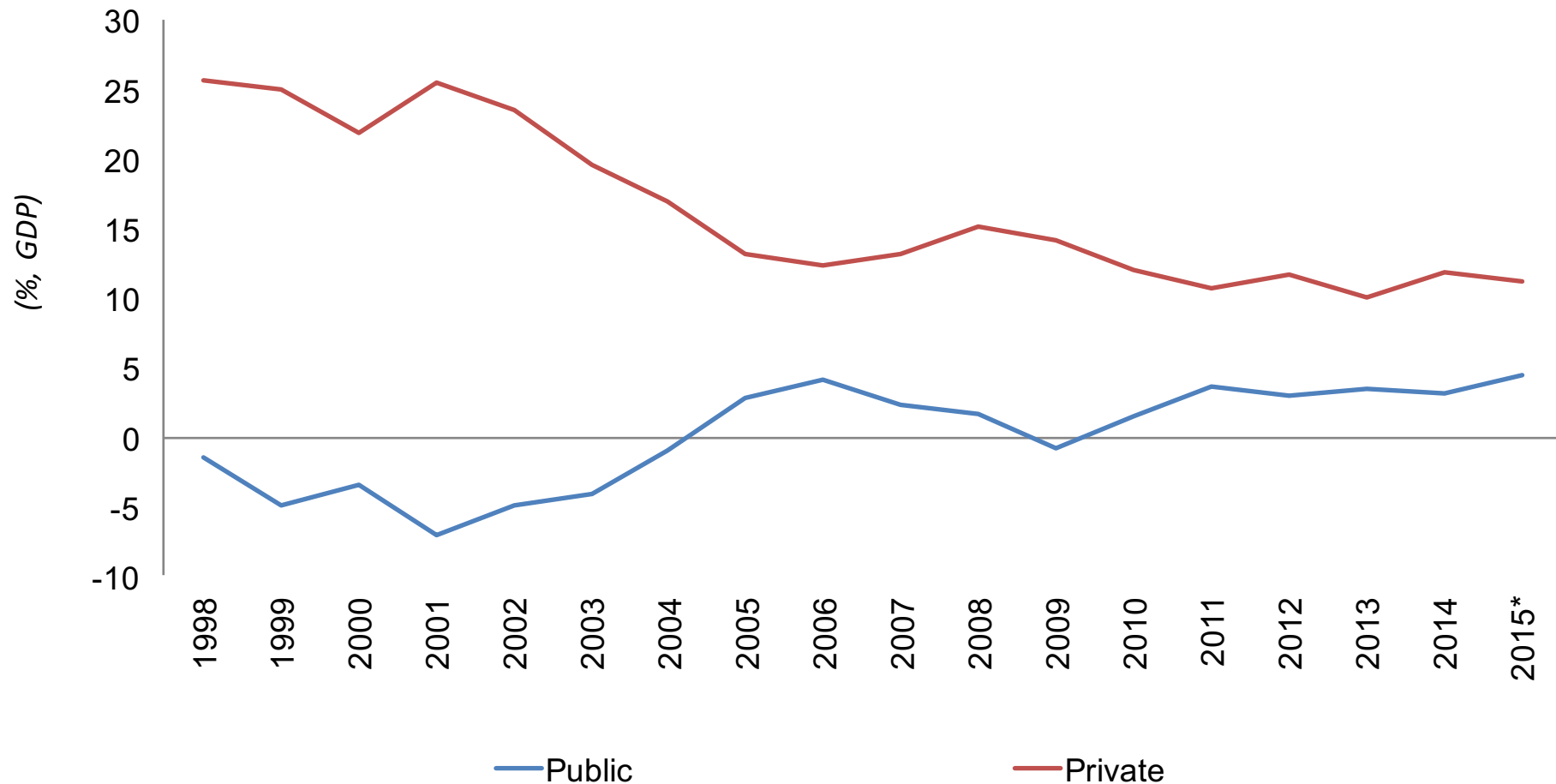


Low Domestic Savings



Source: IMF

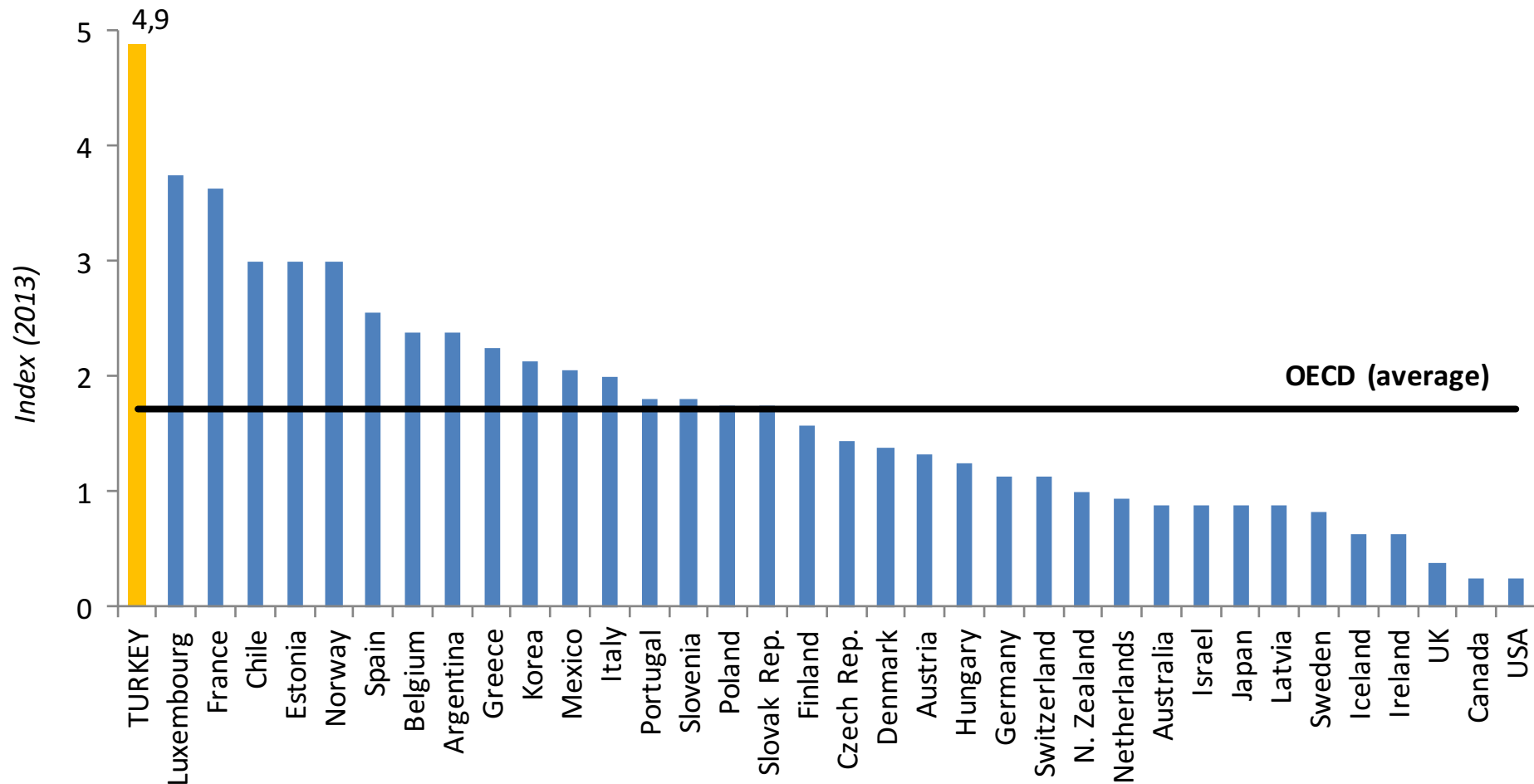
Private and Public Savings



Source: Ministry of Development, TURKSTAT, Central Bank of Turkey

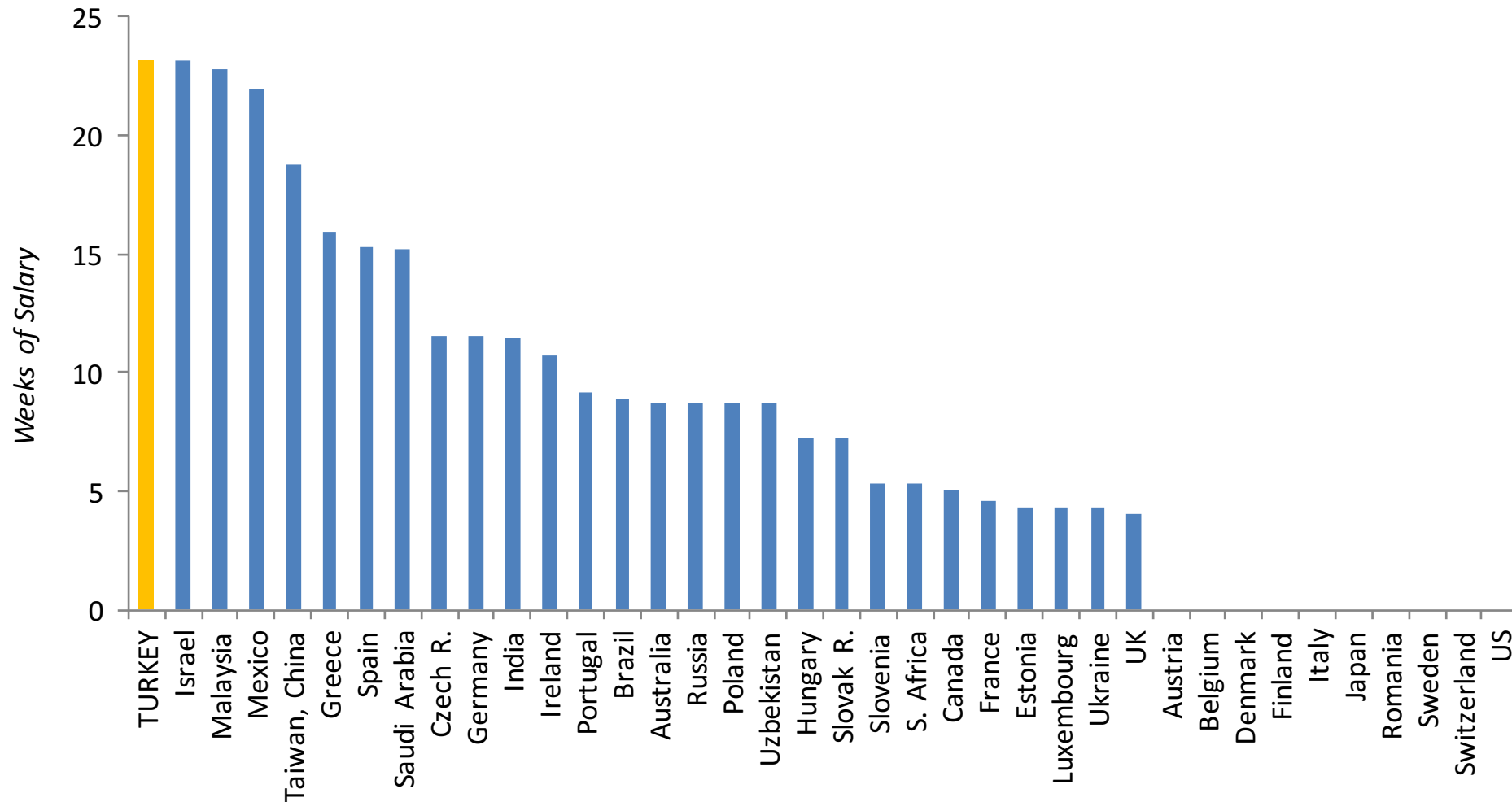
*: Forecast

Rigidities in Labor Market



Current situation: Among OECD countries, Turkey has the highest level of labor market rigidity.

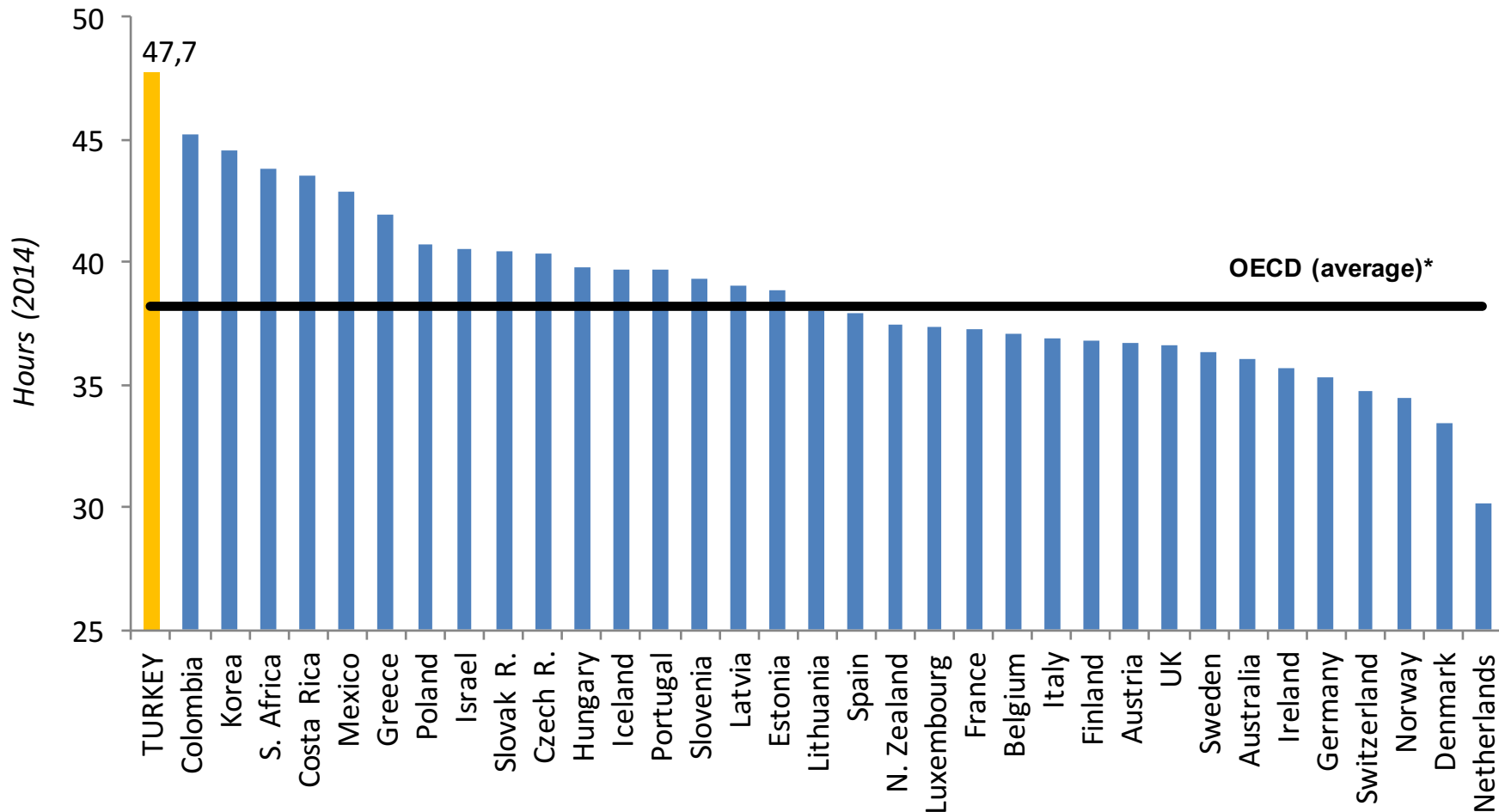
Severance Pay



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

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

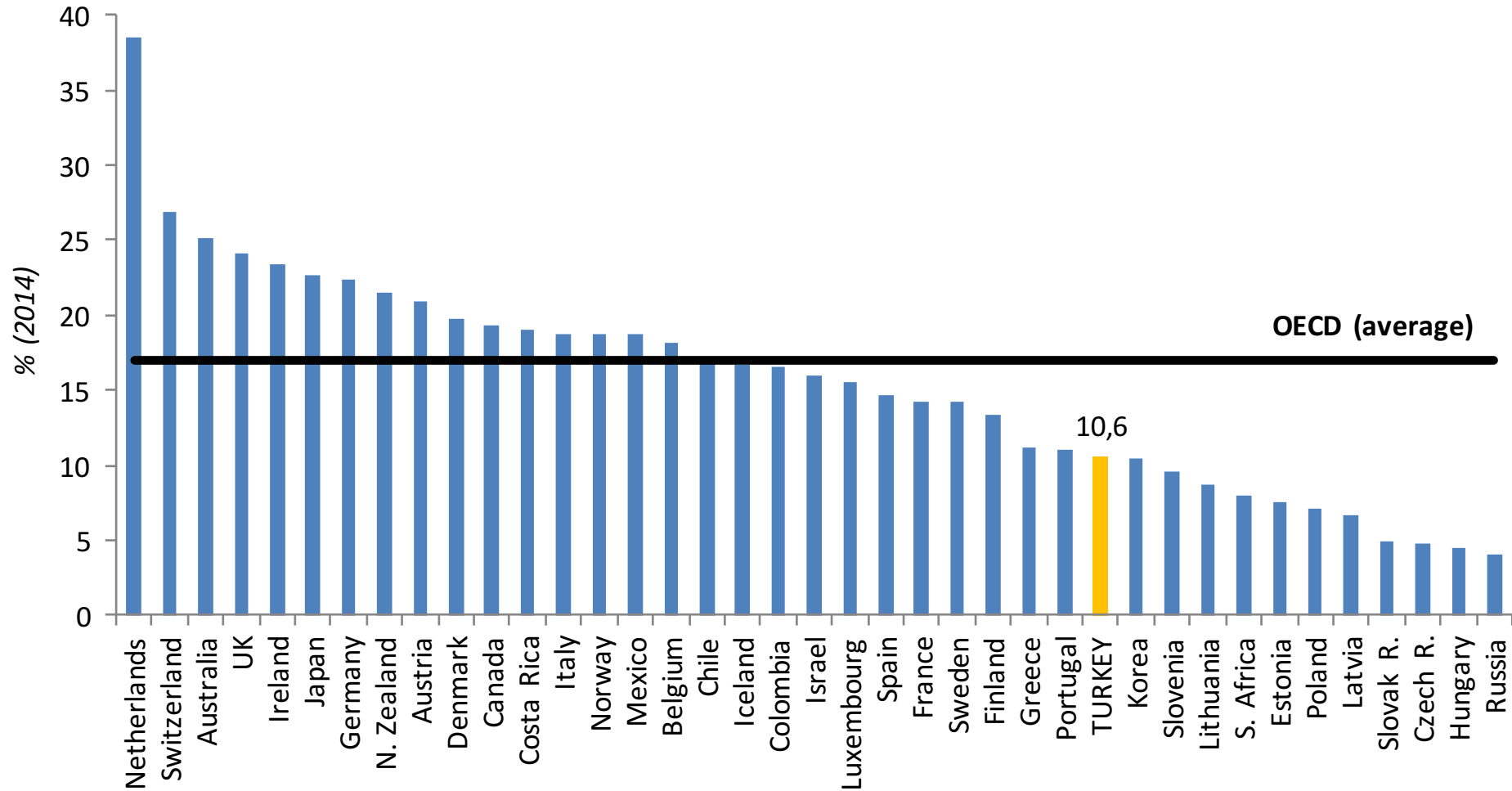
Average Weekly Hours Worked on the Main Job



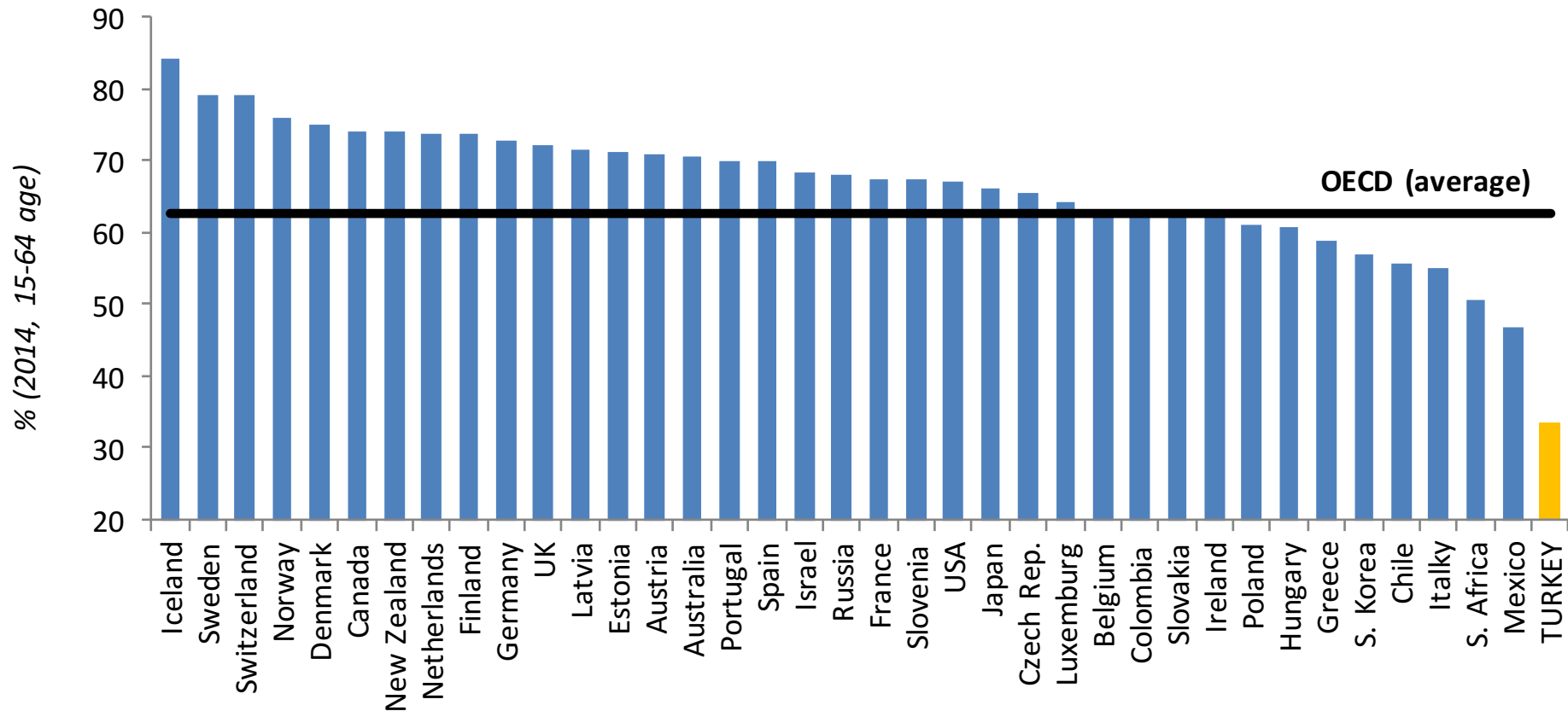
Source: OECD

(*) Data show average of OECD countries.

Share of Part Time Employment

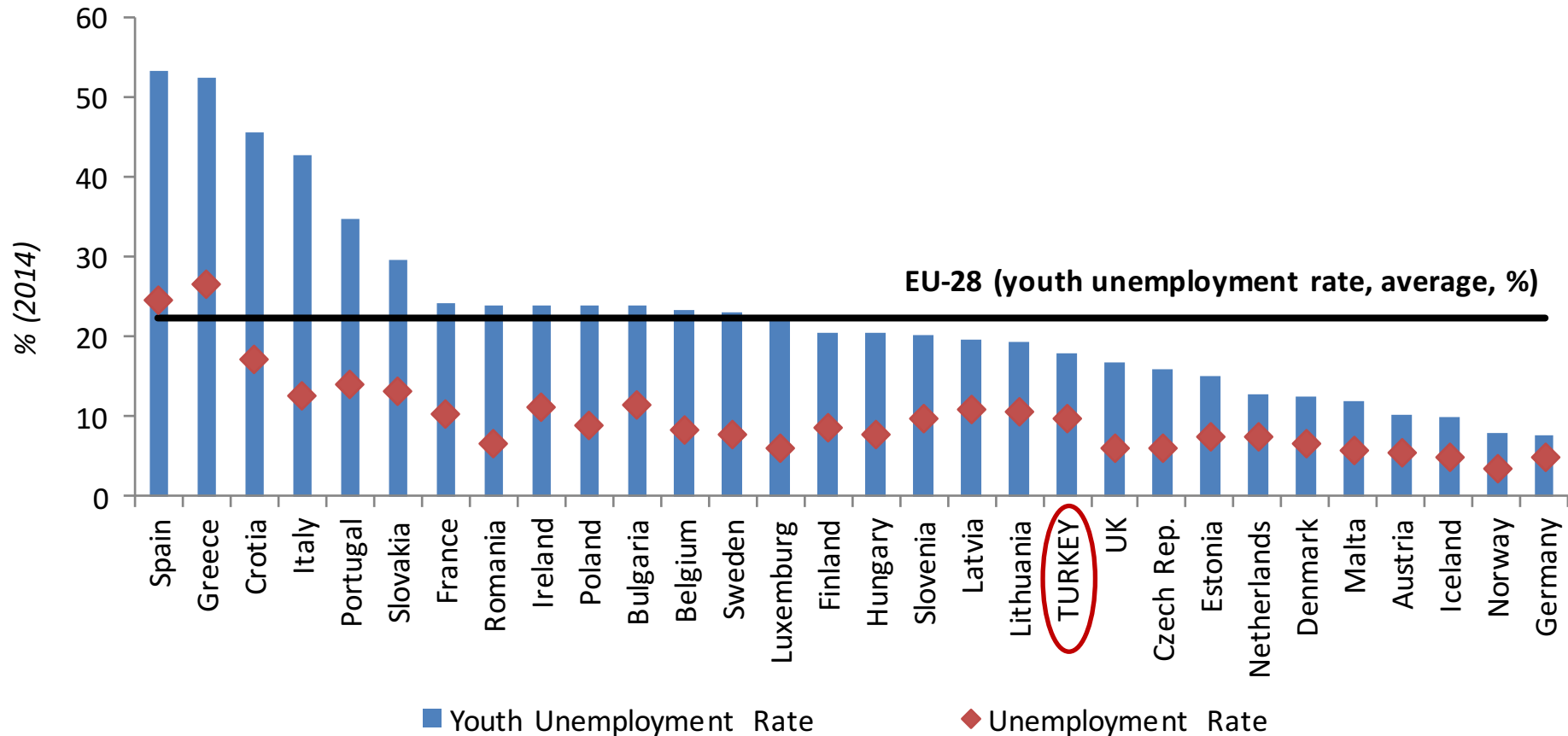


Low Female Labor Force Participation Rate



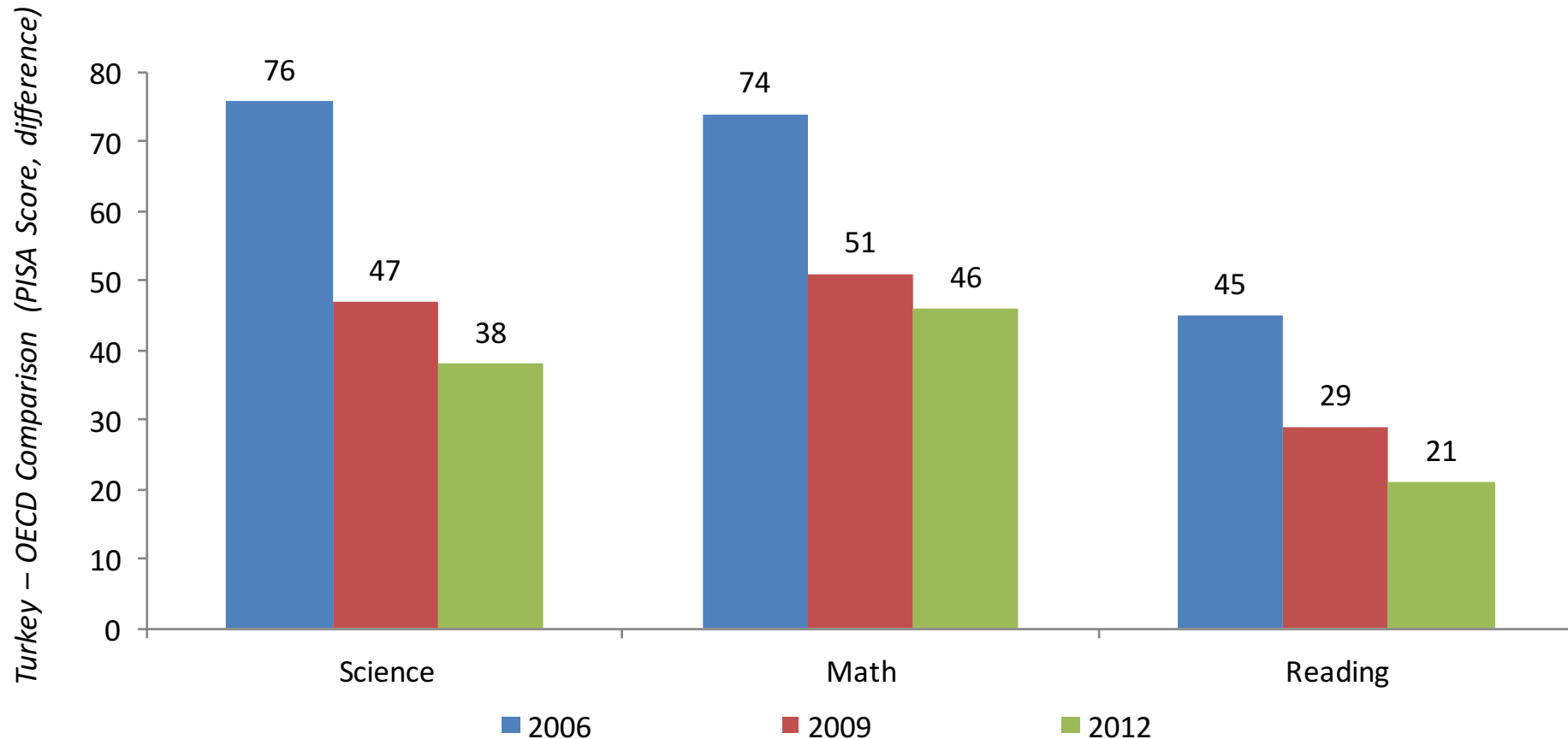
Current situation: Although female labor force participation has significantly increased in recent years, it is still lower than the OECD average. **The added value that women produce by participating in labor force will help us unleash the potential of Turkish economy.**

High Youth Unemployment



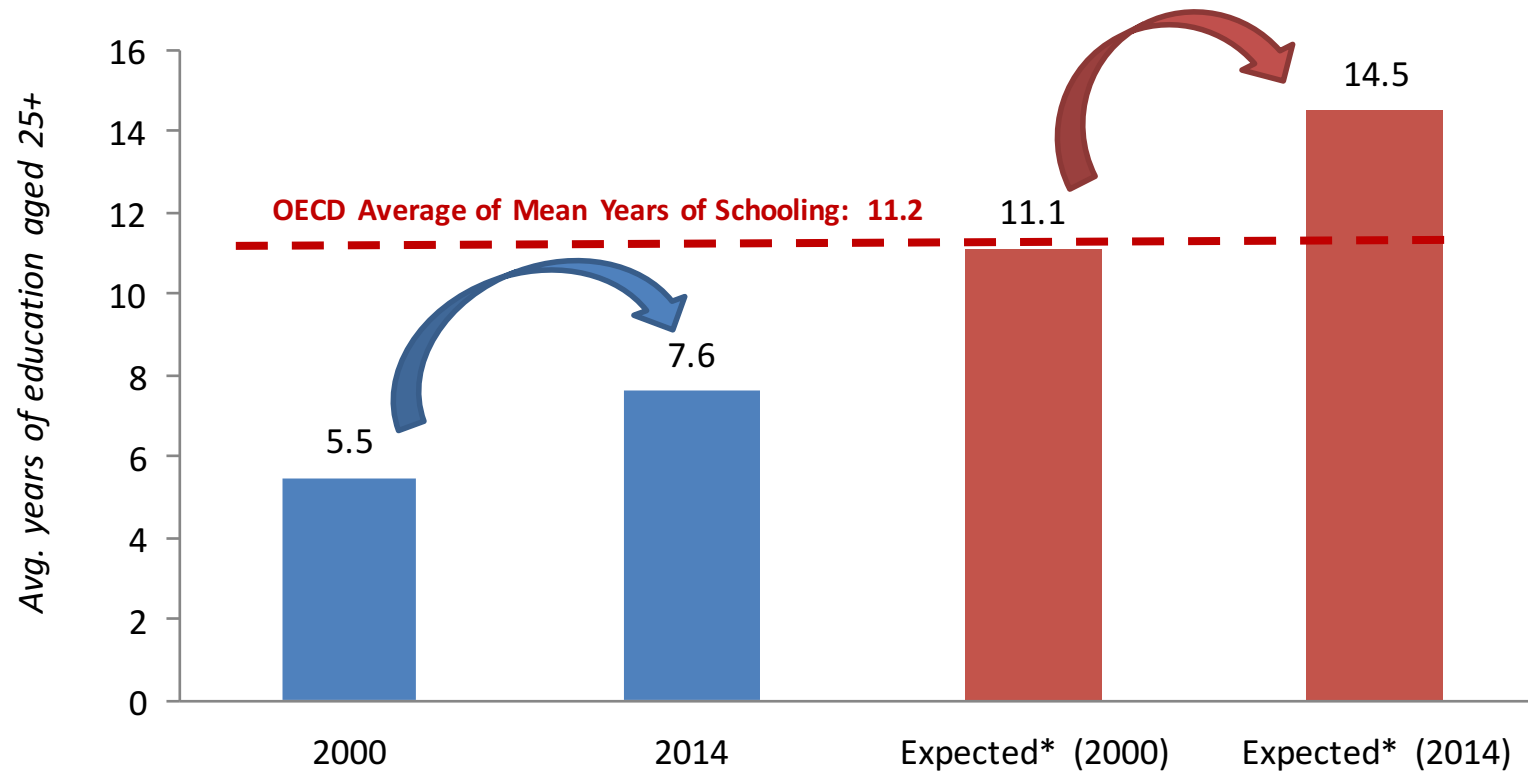
Current situation: Youth unemployment rate is a common phenomena across all countries and considerably higher than the headline. While youth unemployment rate in Turkey is still lower than the EU-28 average, it is 8 percentage points higher than the headline unemployment rate.

Poor Quality of Education



Current Situation: Turkey has made significant progress in **education quality** according to OECD's PISA research. Approximately 30 points of improvement has been achieved in all three categories relative to the OECD average. It is important to accelerate this positive tendency in the upcoming periods.

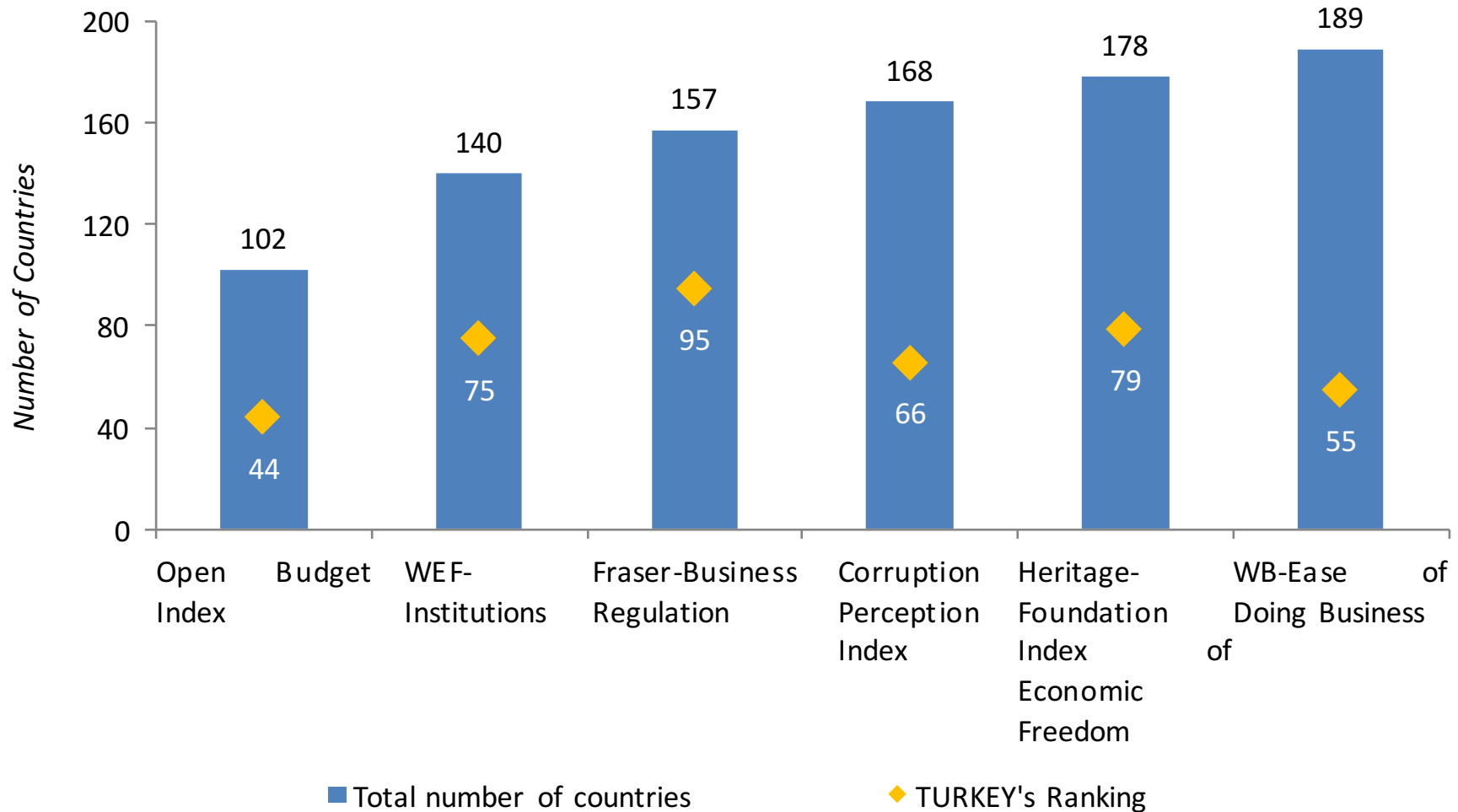
Quality of Human Capital Stock



Source: UNDP, Human Development Reports.

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

Weak Institutions



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



Turkey's Reform Agenda & Structural Fixes

Why Reforms?

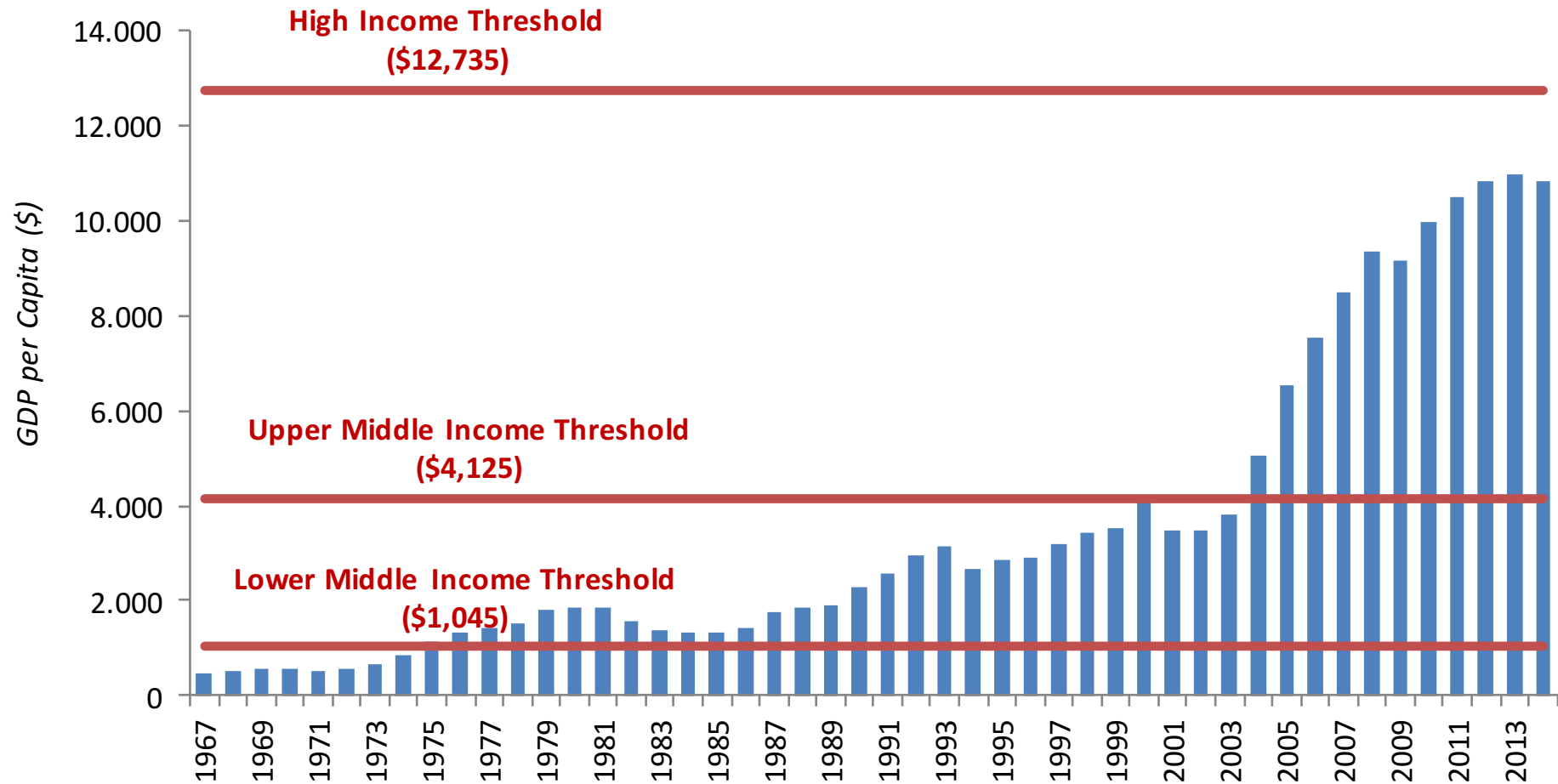
Avoid middle-income trap

Boost productivity

Move up the value chain

Improve competitiveness

The Ultimate Goal of Structural Reforms



Three Pillars

Sectoral
Transformation
(Micro Reforms)

Structural
Reforms
(Macro Reforms)

EU Accession
Process



Sectoral Transformation (Micro Reforms)

Sectoral Transformation



25

Transformation
Programs

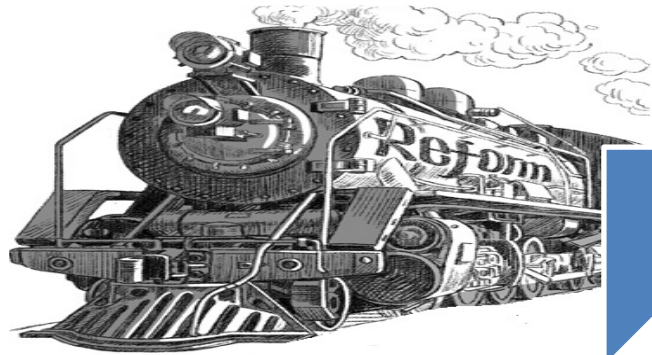


1,250

Micro Reforms

Sectoral Transformation: 25 Programs

Reducing Import Dependency	Commercialization in Priority Technology Areas	Tech. Develop't and Domestic Production 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



Structural Reforms (Macro Reforms)

Structural Reforms (Macro Reforms)

Labor Market
Reforms

Education Reform

Enhancing
Investment
Climate

Enhancing
Transparency &
Combatting
Corruption

Judicial Reform

Public Finance &
Public
Administration
Reform

Reforms to Improve Capital Productivity

High Value Added Production

- Increase Private Sector R&D
- Commercialization of R&D
- New patent law

Entrepreneurship

- A stronger entrepreneurship eco system
- A new fund for early stage R&D and design efforts
- A credit guarantee mechanism for commercialization of innovative projects
- Incentives for young entrepreneurs

Reforms to Improve Labor Productivity

Quality of Education

- Teachers training
- Performance measurement & quality index

Skills of Labor Force

- On-the-job training
- Vocational & technical education

Qualified Employment

- Attracting global talent

Education Reform

Teachers
Training

Performance
Measurement &
Quality Index

Vocational &
Technical
Training

School-Based
Budgeting

Foreign
Language
Education

Life-Long
Learning

Enhancing Investment Climate

A New
Patent Law &
R&D Package

Reducing Red
Tape

Specialized Courts

Incentives for
Medium- & High-
Tech Production

Enhancing Transparency & Combatting Corruption

Ethics, Integrity,
& Accountability
in Public Sector

Public
Procurement

Campaign Finance
Disclosure

Rule-Based
Zoning
Regulations

Reforming Judicial System

Modern
Arbitration
System

Specialized Courts

Expert Witness
Mechanism

Creation of New
Appeals Court

Public Finance Reform

Income Tax
Reform

Enhancing Tax
Payers' Right (Tax
Procedures Code)

Expenditure
Reform

Performance
Based Budgeting

Public Administration Reform

Public Personnel
Reform

Productivity,
Accountability &
Transparency

e-State

Performance
Based Culture



EU Accession Process

EU Accession Process: The Main Agenda

Enhancing Customs Union Agreement

Implementation of Readmission Agreement

Finalizing the Efforts on Visa Exemption

Why do we need EU?

Strengthening Rule of Law

Enhancing Standards of Democracy

Improving Quality of Institutions

Why does EU need Turkey?

Improved Economic Dynamism

A Greater Say in International Affairs

Enhanced Dialogue between Civilizations

Energy Supply Security



Long-Term Prospects

Determinants of Long-Term Growth

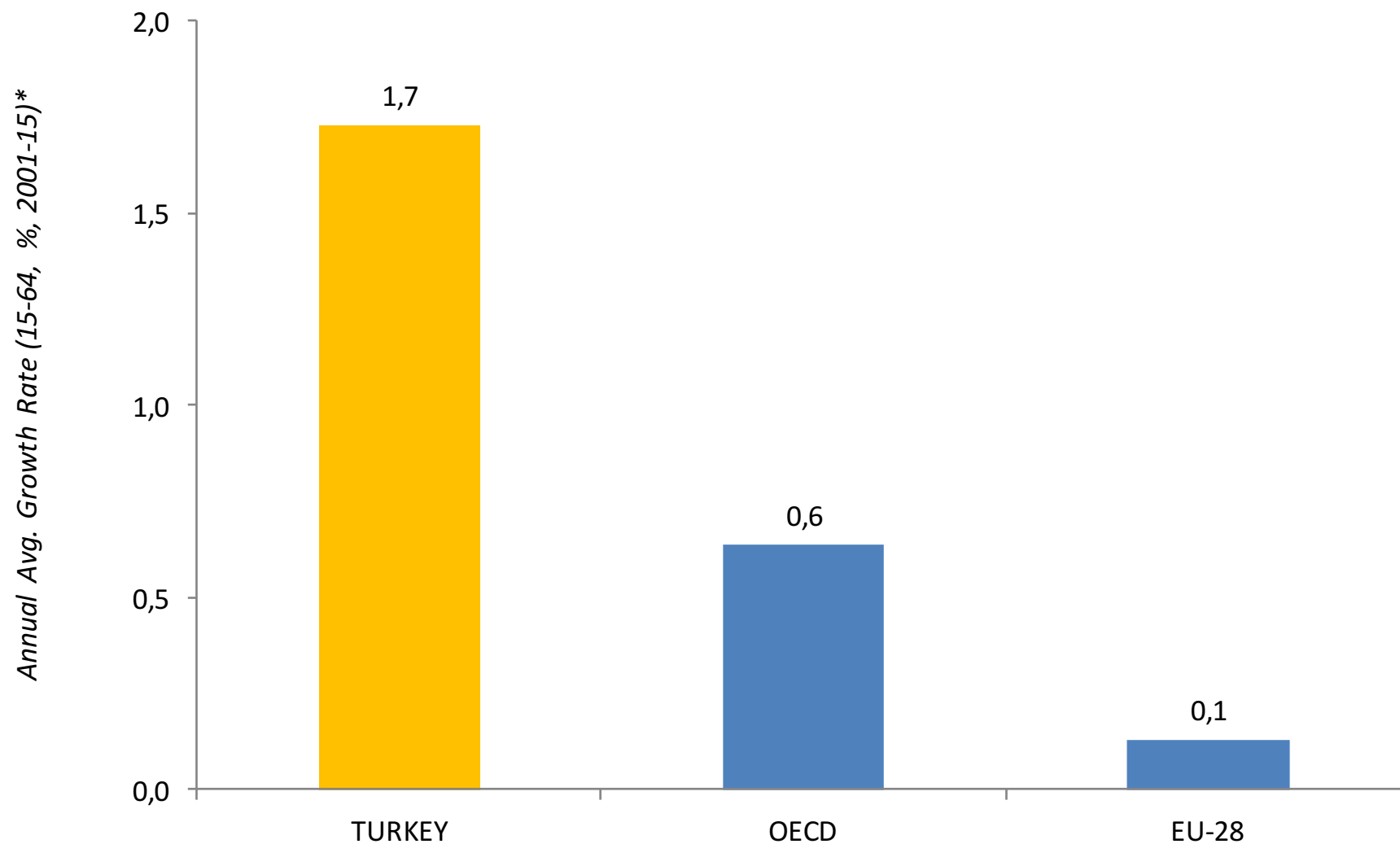


Demographics

Productivity

Quality of
Institutions

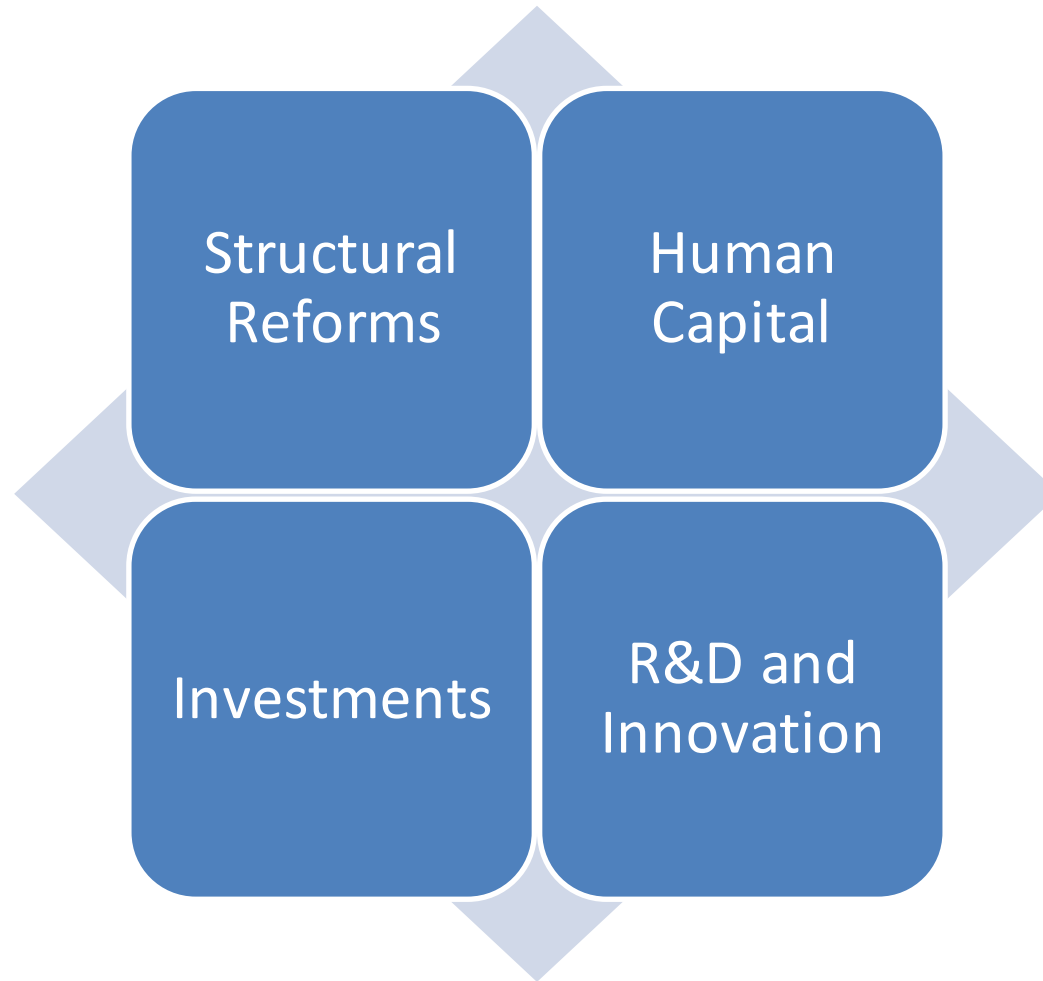
Demographics: Working Age Population Growth



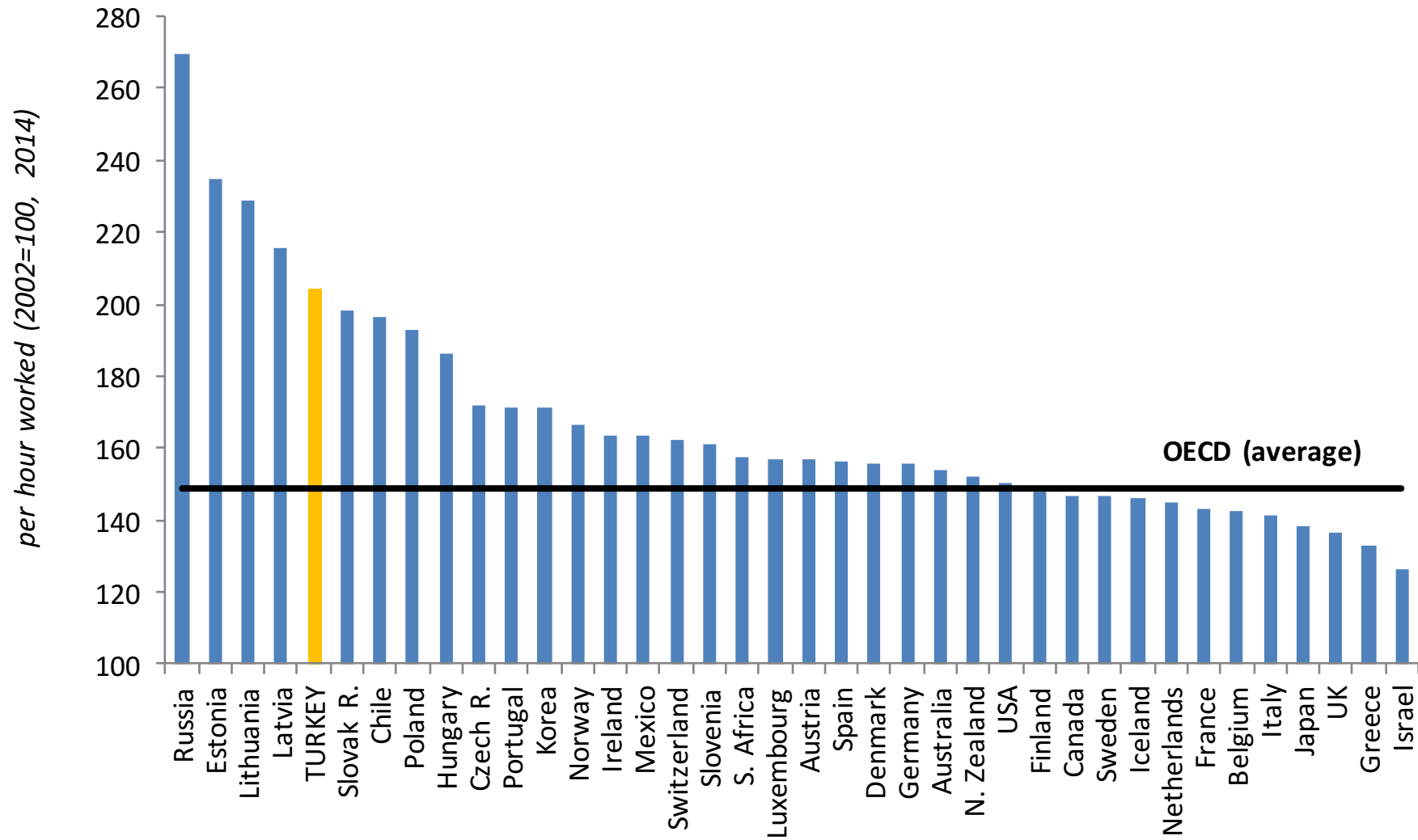
Source: OECD, EUROSTAT, TURKSTAT

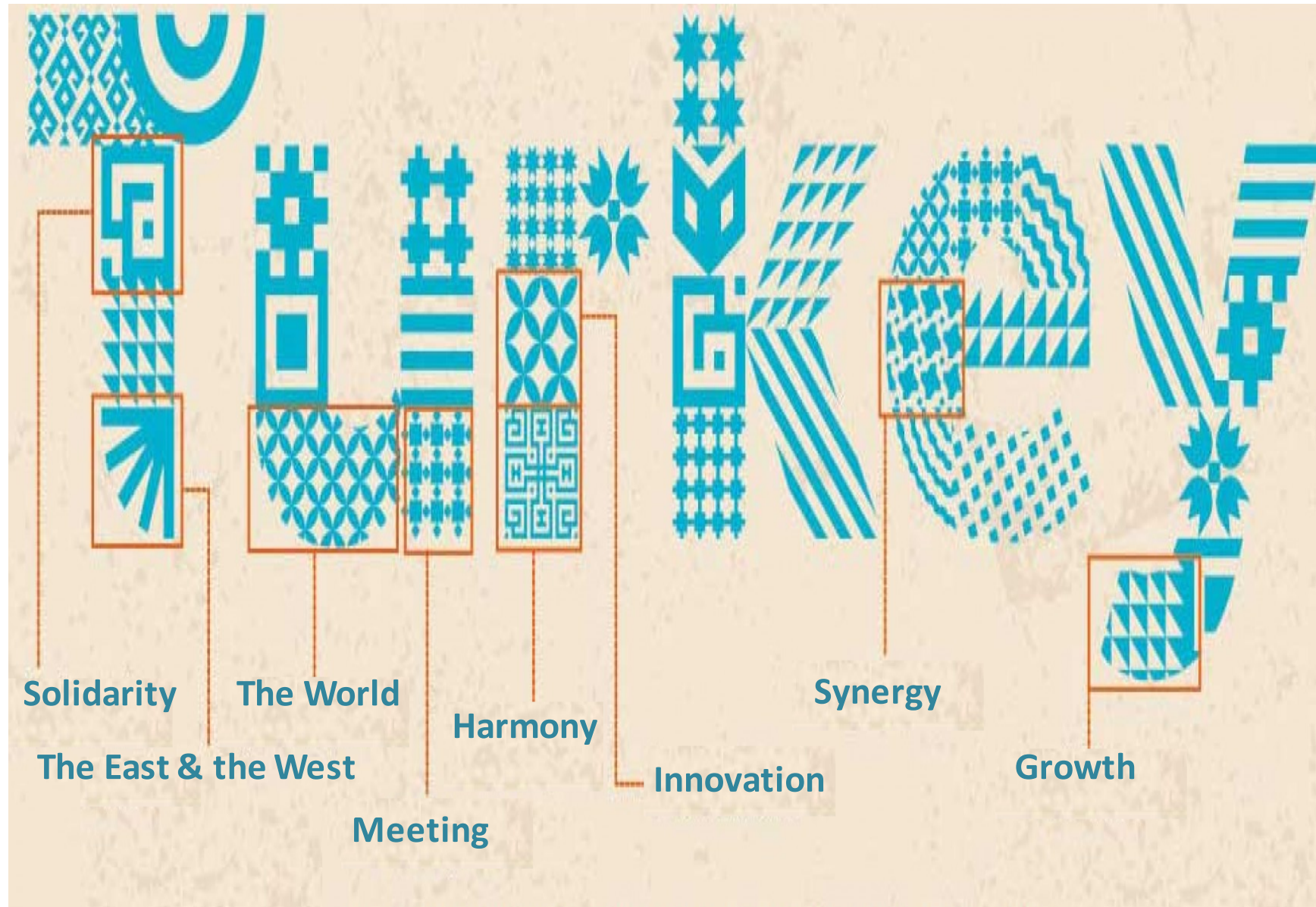
(*) The latest data available

Determinants of Productivity



Rising Productivity





THANK YOU...