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# Economic Studies: Economics in Practice

## Turkey

Turkey the Eurasian country, mainly located in West-Asia is with smaller portions on the Balkan peninsula in Southeast Europe. The neighbours of Turkey are Greece and Bulgaria to its northwest, Georgia to its northeast, Armenia, the Azerbaijani exclave of Nakhchivan and Iran to the east; and Iraq and Syria to the south. The capital is Ankara but its largest city is the metropolis Istanbul. There are various spoken languages and a lot of ethnic groups like Kurds, Arabs, Laz and in different regions of Turkey. Turkey's economy and diplomatic initiatives led to its recognition as a regional power while its location has given it geopolitical and strategic importance throughout history. The currency is the Turkish Lira. The head of state and government is Recep Tayyip Erdogan. 99% of the citizens in Turkey are Muslim, mostly Sunni. There is a minority of Alevi (about 20% of the population) and Christian minorities (Greek Orthodox, Armenian Gregorian, Syriac, Latin Catholic) and Jewish.



<https://amp.businessinsider.com/images/5b7193428905f228008b53fc-750-375.png>

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## **1.0 Economic Systems**

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In 2017, Turkey is the Middle East's leading economic power ahead of Iran and Saudi Arabia, the 7th largest economy in Europe and the 13th largest economy in the world. A member of the G20 and the Customs Union, Turkey officially began its accession negotiations with the European Union in October 2005. Turkey, after good figures up to 2011 (+ 8.5% in 2011 and + 9.1% in 2010) is experiencing a significant downturn in its growth rate (+ 2.9% in 2014). Turkey's production structure is characterized by overrepresentation of industry and agriculture and under-representation of services. Turkey is an industrial country where agriculture occupies an important place in the production of the national wealth. The value added of the industry represents 26.6% of GDP vs 63.7% for services and 9.6% for agriculture.

After having seen its growth slowed down in 2016 (3.2%) due to an unfavorable international economic context (weak growth in the Euro zone, readjustment of US monetary policy, Russian recession) and political instability (the attempted coup d'état in July 2016, the evolution of the Syrian conflict), the Turkish economy is growing much better than estimated: 7.4% in 2017 according to national statistics, and in particular 11.1% during the third quarter. While domestic demand was sluggish, growth was supported by credit incentives (encouraged by state loan guarantees) and a new fiscal policy. In addition, the depreciation of the Turkish lira, which continued to fall in value in 2017, led to an increase in exports.

Inflation continues to remain above the target and was estimated at 10.9% in 2017, reaching a double digit rate for the first time in nine years. Inflation is expected to remain high in 2018 (9.3% according to IMF projections), while strong demand, rising cost

pressure and inflation acceleration forecasts put pressure on inflation. The interest rate hike of the Turkish Central Bank (more than 5% / 500 basis points in 2017) was not enough to stem inflation. In addition, external financing continues to be significant due to a high current account deficit, which is expected to remain above 5% of GDP in 2018. Fiscal incentives should be removed in 2018 (up 2 points 22% between 2018 and 2020) and regional and national uncertainties remain, growth should be moderate in 2018 (between 4% and 4.5%). Turkish President Recep Tayyip Erdogan won the historic referendum of April 2017 by a short lead (an advance of less than 3%). The transition to a fully presidential regime is expected to take place in 2019 with the abolition of Prime Minister.

In line with the political trends of 2016, relations with the European Union and the United States have faced a series of challenges and have continued to deteriorate considerably. The constitutional referendum even took a diplomatic dimension between Turkey and the Netherlands after a Turkish minister was prevented from campaigning for referendums to the Turkish community in The Hague. Turkey then banned the return to Turkish soil of the Dutch ambassador, who was then out of the country. Holland formally dismissed its ambassador in February 2018 while expressly stipulating that no other Turkish ambassador would be accepted at The Hague. In addition, the United States has temporarily closed the visa service in Turkey after two local employees of the US consulate in Istanbul were suspected of being linked to the coup in July 2016. Turkey responded by suspending its service visa in the United States. This multi-month conflict ended in December 2017. At the same time, Turkey has entered into a deal with Russia to purchase 4 S-400 missile systems for US \$ 2.5 billion. .

The unemployment rate, which reached 12.4% at the beginning of 2018, dropped sharply to 10.3%. Youth unemployment, which has come close to 25%, has also dropped considerably to 19.3% (according to the Statistical Institute of Turkey). Nevertheless, income inequality and the size of the informal economy (33.6%) remain challenges that the country faces.

### MAIN ECONOMIC SECTORS

The agricultural sector contributes 7% of Turkish GDP. Despite the fact that it employs almost 20% of the population (19.4% at the end of 2017, a decrease of 0.1% compared to the previous year), this sector continues to suffer low productivity due to dependence on small farms. About 11% of Turkish territory is used as agricultural land. Wheat is the country's leading crop, Turkey is the world's third largest exporter of tobacco and the largest producer of hazelnut (about 70% of world production). Turkey remains a net exporter of agricultural products (in 2017, about US \$ 15 billion in exports compared with US \$ 5 billion in imports). Nevertheless, livestock imports, in particular, are increasing exponentially to offset a decline in domestic production in this sector. Mineral resources are abundant but underutilized.

Industrial production is the main activity of the country. The secondary sector accounts for 32% of GDP (in 2017) and employs 26.8% of the national workforce. The Turkish government has favored major infrastructure projects, particularly in the transport sector, with the Construction-Operation-Transfer (CET) project financing model.

The service sector, which is in full development, accounts for more than 60% of GDP and

employs 53.8% of the country's workforce (2017). Tourism contributes 10% of GDP and is one of the main sources of foreign currency for the country. Highly affected by the terrorist attacks and regional instability in 2016 (revenue down 30%), the tourism sector recovered in 2017 (with an annual income of US \$ 26.3 billion, up 18.9%) and is expected to recover in 2018 before the crisis.

[https://www.tradesolutions.bnpparibas.com/fr/explorer/turquie/apprehender-le-contexte-ec-  
onomique](https://www.tradesolutions.bnpparibas.com/fr/explorer/turquie/apprehender-le-contexte-ec-<br/>onomique)

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## 2.0 System of government

Turkey is a Republic. The republic is a parliamentary representative democratic public. The Prime Minister is the head of the government and the President is the head of the state. At this moment, Binali Yıldırım is the Prime Minister of Turkey and Recep Tayyip Erdoğan is the President of Turkey. Before Erdogan became the President of Turkey, he has been the Prime Minister of Turkey from 2003 to 2014. Turkey's political system is a separation of powers. The Council of Ministers is the **executive** power, the **legislative** power Grand National Assembly of Turkey. The **judiciary** however is independent of the executive and legislative powers. Its freedom and Independence is protected within the constitution, which was on the 7th November 1982 after the Turkish constitutional referendum happened. The political parties are dominantly conservative parties like AKP, **MHP** since 1950 but there are also leftist parties like **CHP**. The current party which rules is the social and conservative **AKP** (Adalet ve Kalkinma Partisi in turkish) which means Justice and Development party. Erdogan was the founder of the party. The party was elected by 52.59% (yellow) of the 26,324,482 voters on the 24th of June 2018.



**AK PARTI**

[https://upload.wikimedia.org/wikipedia/commons/f/fb/Turkish\\_presidential\\_election\\_2018.png](https://upload.wikimedia.org/wikipedia/commons/f/fb/Turkish_presidential_election_2018.png)



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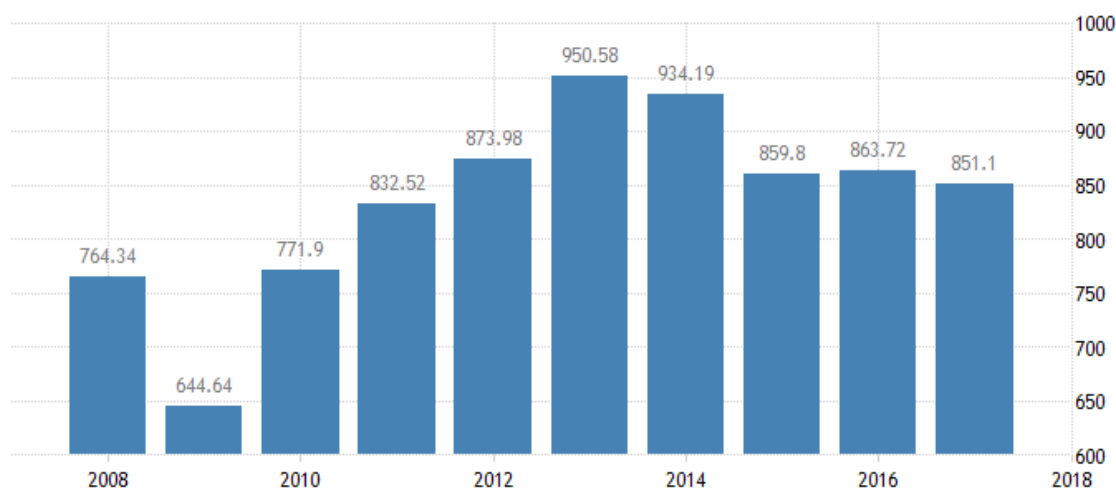
## 3.0 Economic and financial Indicators

### 3.1 Gross Domestic Product (GDP)

	2015	2016	2017	2018*(f)
GDP growth (%)	6.1	3.2	7.4	4.0
Inflation (annual average, %)	7.7	7.8	11.1	13.5
Public Balance / GDP (%)	-1.0	-1.1	-1.5	-1.9
Current Balance / GDP (%)	-3.7	-3.8	-5.5	-6.0
Public debt/ GDP (%)	27.6	28.3	28.3	28.5

\*Outstanding public debt defined by the EU (f): forecast

We can see that the GDP is falling but the inflation is rising like the public debt, the public balance and the current balance because they are negative. The GDP in Turkey was worth **851.10 billion US dollars in 2017**. The GDP value of Turkey represents 1.37 percent of the world economy. It comes as the 19st in the world list followed by the Netherlands. GDP in Turkey averaged 252.70 USD Billion from 1960 until 2017, reaching an all time high of **950.58 USD Billion in 2013** as seen in the chart and a record low of 8.02 USD Billion in 1961.



<https://tradingeconomics.com/turkey/gdp>

### 3.2 Price Stability/ Inflation

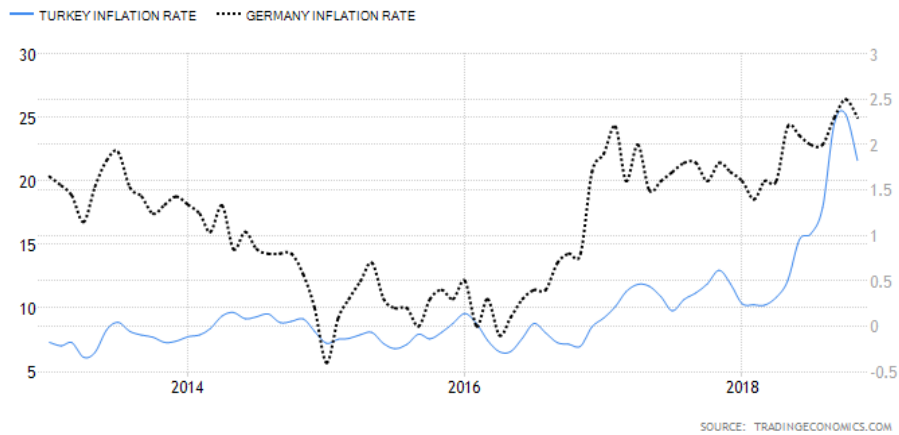
The Inflation (CPI) down is 8.81% in December 2015. The population under the poverty line has decreased :

- 18% in 2010
- 12.9% in 2011
- 9.5% in 2012
- 5.9% in 2013

The Human Development Index (HDI) is up to 0.761 in 2014. The Active population is up to 31 million in 2017.(HDI) by sector: agriculture: 8.5%, industry: 27.1%, services: 64.4%.

Turkey's consumer price inflation eased to 21.62 percent year-on-year in November 2018 from a near 15-year high of 25.24 percent in the prior month, and below market expectations of 22.58 percent. It was the lowest inflation rate since August mainly due to a favourable trend in oil, lira recovery and tax cuts in consumer durables, furniture and

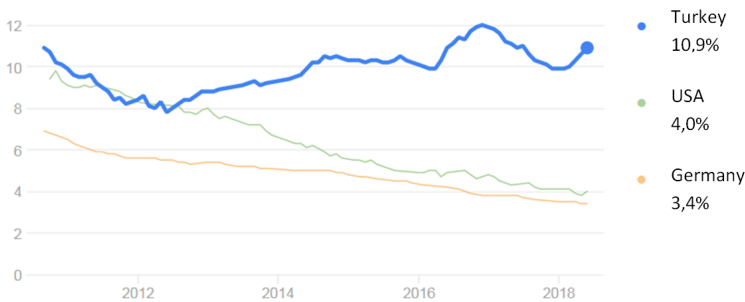
automobile introduced by the government in early November. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, dropped to 20.72 percent in November from an all-time high of 24.34 percent in the previous month.



### 3.3 Unemployment

Turkey / Unemployment

10,9% (June 2018 )



[http://www.bls.gov/cps/cps\\_htgm.htm](http://www.bls.gov/cps/cps_htgm.htm)

According to data announced by the Turkish Institute of Statistics (TUIK), the unemployment rate was 10.6% in February 2018, after a decrease of 2 basis points compared to the same period of 2017. In addition, the number of unemployed fell by 546,000 to 3,354,000 in the same period.

At the same time, the unemployment rate also fell by 0.2 basis points from January 2018, according to the TUIK. It should be noted that the unemployment rate for young people aged 15 to 24 was 19%, also down 4.3 points, still higher than the overall labor force (aged 15 to 64), which is 10.9% (-2%). Participation in employment increased by 0.4 basis points to 52.2% in February 2018. With men's participation rate at 71.5% (down 0.2 basis points), women's participation rate was 33.3% (up 1 basis point), according to TUIK. But now, with the graphic, we know that the unemployment rate is increasing in June.

### 3.4 Distribution of Income and Wealth

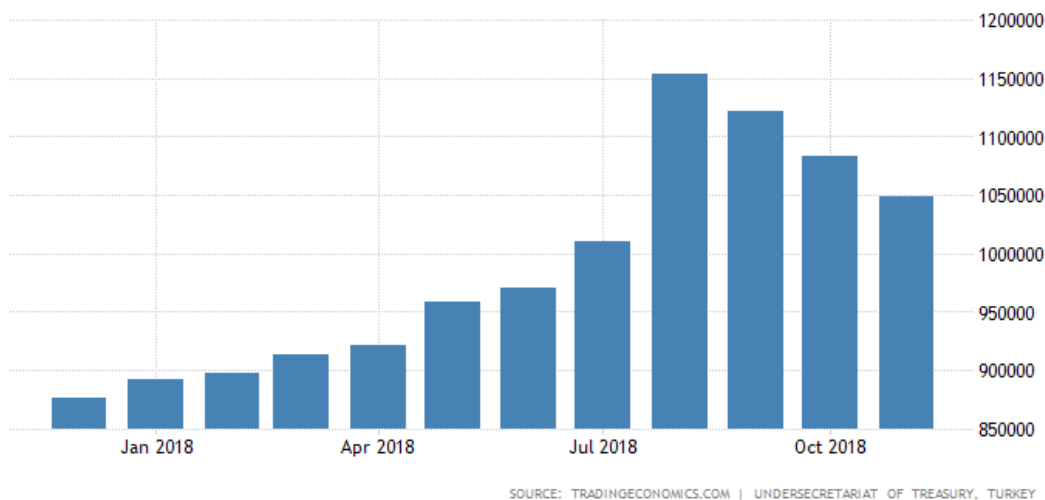
The Gross domestic product (par value) is up to \$ 905 billion from US \$ in 2018. In PPP it is up to \$ 2,249.864 billion in 2018. The Rank for GDP in PPP is up to 13th. The GDP

growth has increased 6.7% from 2010-2016 to avg. up 11.1% in 2017. The GDP by sector in 2008 was:

- agriculture: 8.5
- industry: 28.6%
- services: 62.9%

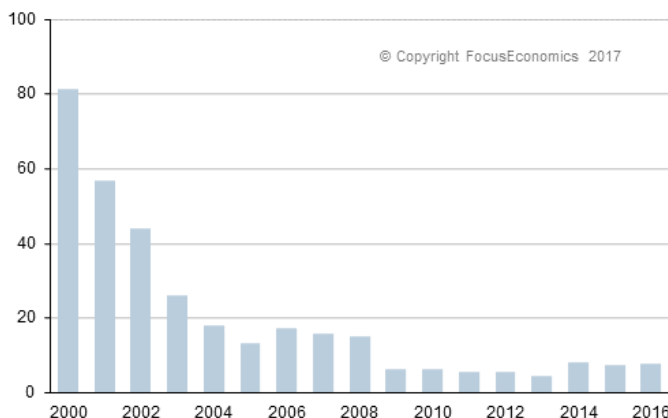
### **3.5 Government Debt**

The public debt is down to 26.5% of GDP (est 2017). The external debt is decreasing to \$ 396.8 billion (third quarter 2014) (T.C. Basbakanlik Mustesarligi). And the public revenue is increasing \$ 178 billion (29.3% of tax revenue GDP). Furthermore, the Stagnant public spending \$ 189 billion and the Declining public deficit 1.5% of GDP (2014). The Government Debt in Turkey decreased to 1.048.876 TRY Million in November from 1.083.484 TRY Million in October of 2018. Government Debt in Turkey averaged 26509711 TRY Million from 1986 until 2018, reaching an all time high of 1.153.479 TRY Million in August of 2018 and a record low of 15 TRY Million in January of 1986.



<https://tradingeconomics.com/turkey/government-deb>

### **3.6 Interest Rate Level (& Recent Development of Interest Rate Level)**



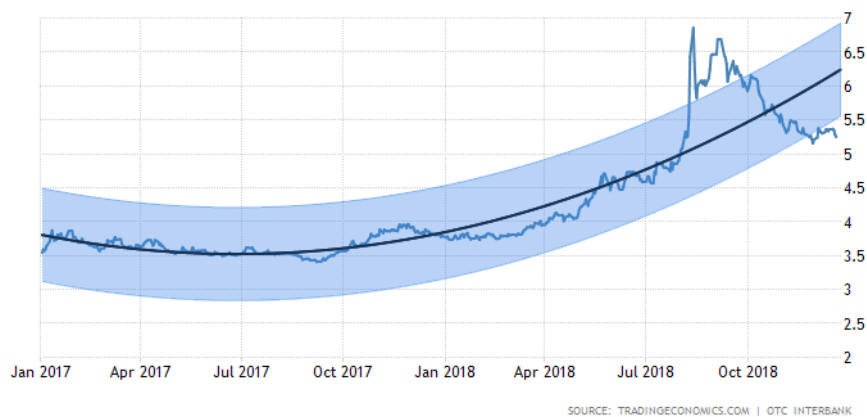
#### **Turkey Interest Rate Chart**

Turkish central bank interest rates jump to 24% (BFM Bourse) - Turkey's central bank is raising its key interest rate from 17.75% to 24%. The pound bounces on the 13 Sept. 2018. The Bank's decision to keep rates at their current high level was motivated by a desire to consolidate the strengthening of the lira observed in recent months, as well as to temper inflation, which is still

extremely elevated despite dipping in November.

<https://www.focus-economics.com/country-indicator/turkey/interest-rate>

### **3.7 Exchange Rates**



<https://tradingeconomics.com/turkey/currency>

The Turkish Lira is expected to trade at 6.13 by the end of this quarter, according to Trading Economics global macro models and analysts expectations. Looking forward, we estimate it to trade at 6.53 in 12 months time.

### **3.8 Size and Importance of the Domestic Market**

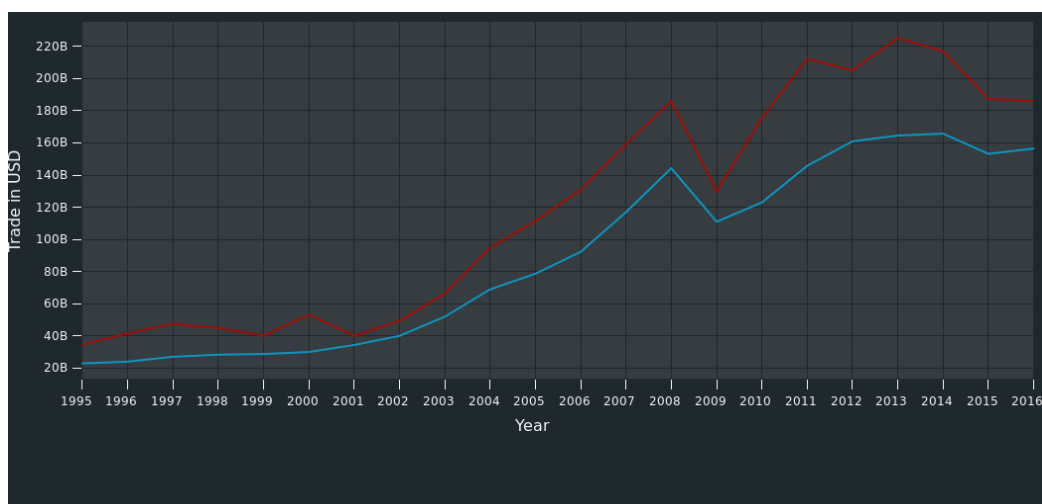
According to the World Bank's report on the global economic outlook published in April 2017, based on purchasing power parity (PPP), the Turkish economy is the 13th largest in the world and the 5th largest in Europe in 2016 .

### **3.9 Import and Export**

The Exports are up to \$ 157.1 billion (2017) .The Exported goods are :chemicals, foodstuffs, textiles, transport equipment, metal products, electronics, automobiles and the Main customers are :Germany with 9,60%,Iraq with 6,90%,United Kingdom with 6.30%,Italy with 4.50%,France with 4.1%,United States with 4.0% (2014).The Imports are up to \$ 234.2 billion (2017). The Imported goods are: Oil, fuels, gas, machinery, chemicals, semi-finished goods, transport equipment.

In 2016, Turkey exported \$156B and imported \$186B, resulting in a negative trade balance of \$29.6B.The top exports of Turkey are Gold (\$12B), Cars(\$9.4B), Delivery Trucks (\$5.17B), Vehicle Parts (\$4.4B) and Knit T-shirts (\$3.17B), using the 1992 revision of the HS (Harmonized System) classification. Its top imports are Cars (\$10.3B), Refined Petroleum(\$7.27B), Gold (\$6.48B), Vehicle Parts (\$5.24B) and Planes, Helicopters, and/or Spacecraft (\$4.23B). As of 2016 Turkey had a negative trade balance of \$29.6B in net imports. As compared to their trade balance in 1995 when they still had a negative trade balance of \$11.6B in net imports. Imports (red graph) Exports (blue graph).





<https://atlas.media.mit.edu/en/profile/country/tur/>

### 3.10 Turkey's foreign trade (in billions of US dollars)

	2010	2011	2012	2013	2014	2015	2016
Exportations	113.9	134.9	152.6	151.8	157.6	143.9	143
Importations	185.5	240.8	236.5	251.7	242.1	207.2	199
Volume	299.6	375.7	389.1	403.5	399.7	351.1	342

Turkey's economy is open to foreign trade, which represents 47% of GDP (World Bank, 2017). The automobile and textile industries spearhead the Turkish foreign trade, followed by gold, jewelry, food, steel and equipment industries as well as machinery. The main imported products are vehicles, hydrocarbons, medicine and chemical products. The European Union is by far Turkey's largest customer, followed by the United States, China, Russia and Iraq. Despite a steady increase in exports, which have a relatively low added value, Turkey has a growing trade deficit fuelled by its dependency on energy imports. The crisis in the Eurozone, which receives one third of Turkish exports and the country's geographical proximity to conflicts in the Middle East have taken a toll on the Turkish economy. After falling by 11.7% in 2016, trade deficit rose by a staggering 37.5% to USD 77.6 billion. Exports grew at a slower rate than imports (10.2% as opposed to 17.9%). Currency depreciation continues to boost exports.

### 3.11 Inflation :

Inflation has exceeded 25% in one year in Turkey, its highest level in 15 years. These official figures published Monday, November 5, 2018 reflect the impact of the fall of the Turkish lira on the economy of the country, weakened.

At the root of this rise in inflation is the fall of the Turkish lira, which continues to plummet against the dollar. A decrease of 30% since the beginning of the year, in particular because of growing concerns related to President Recep Tayyip Erdogan's interference in the country's monetary policy.

This inflationary surge led the Turkish government to downgrade its growth forecasts.

Economists are already anticipating a contraction in gross domestic product (GDP) for the current quarter, but also for the following quarter.

To fight against inflation, the government called in October all Turkish companies to reduce their prices by 10%, with no visible effect, despite the positive response of companies. These new inflation figures come a week after the government announced a temporary reduction in taxes on cars, appliances and furniture, the sectors most affected by inflation. But according to experts, more will be needed to stem the rise in prices, including more aggressive monetary policy from the central bank

<http://www.rfi.fr/economie/20181105-turquie-inflation-livre-dollar>

## Conclusion

To conclude Turkey's economy, various aspects are going to be analysed. Firstly, the GDP of Turkey in 2017 was worth 851.10 billion US dollars, which means 10,540.62 USD GDP per capita and the growth is estimated to be 7,4 %. This shows that the GDP is growing, which is a positive outcome for the economy of Turkey. Another positive aspect is marked by the consumer price inflation rate. It is decreasing due to tax cuts by the government, trend in oil and lira recovery. In November it dropped to 20.72 % after being 25.24 % in the prior month. However, in comparison to Germany and the US Turkey still got a high rate of unemployment, which was 10.9 % in June 2018. When looked at the government debt Turkey's external debt is decreasing to 396.8 billion dollars. In addition to that the government debt is also decreasing by almost 40.000 Turkish Lira. The interest rate has raised from 17.75 % to 24 % to consolidate the strengthening of the Lira and to temper inflation, which makes a good national outcome on Turkey's economy. The exchange rate of Turkey lies on 6.13 Liras, which is still a high rate but compared to other times where it was higher the rate has decreased. The Exports with Turkey's main export countries namely Germany, England and the United Arab Emirates has increased. In Germany it rose by \$ 5.2 billion, in England it rose by 1.5 billion USD and by 6.7 billion USD in the United Arab Emirates from 2008 to 2017, which means that Turkey is on its peak of exporting, Turkey's total exports increased by 19% in the last 10 years. The imports also increased 15.7 % in the same time period. The share of China, Germany and Russia in total imports, the top three in 2017, was 27.4%. Foreign trade is very important for Turkey's economy it represents 47% of the GDP, which are mainly the automobile and textile industries followed by its top export goods namely gold, jewelry, food, steel and equipment industries as well as machinery. Negative aspects in terms of imports and exports is trade deficit which comes from its dependency on energy imports and the crisis in the Eurozone making the things a lot harder by the country's geographical proximity to conflicts in the Middle East. In terms of Exports it is seen that Exports are growing slower than Imports (10.2% opposed to 17.9% ) which needs to change for a better economical status of Turkey's.

work review :

Very good work ! Well-documented and well-written !

You've quoted your sources and made a good analysis of the country.

Economic facts and explanations : A+

Economic analysis : A+

English : A+

Efforts to cooperate : A+

Mrs MESTRE : Emma's grade 20/20

# ***TURKEY***



## **Economic Systems**

Turkey's largely free-market economy is driven by its industry and, increasingly, service sectors, although its traditional agriculture sector still accounts for about 25% of employment.

## **Gross Domestic Product (GDP)**



The GDP in Turkey = 851.10 billion US dollars in 2017. The GDP value of Turkey is 1.37 percent of the world economy. It is the 19th in the world list followed by the Netherlands. From 1960 to 2017 the GDP in Turkey averaged 252.70 USD Billion, reaching an all time high of 950.58 USD Billion in 2013 and a record of 8.02 USD Billion in 1961.



## **Price Stability / Inflation**

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## **Unemployment**

The unemployment rate was estimated as 10.6% in February 2018, after a decrease of 2 basis points compared to the same period of 2017. Also, the number of unemployed fell by 546,000 to 3,354,000 in the same period.

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