

Turkey: economic situation

In terms of economic size, there is some similarity between Poland and Turkey: each country's GDP amounts to some 4% of the GDP of the EU-25. From that fact one might conclude that in the foreseeable future, neither positive nor negative developments of the Turkish economy will have the potential to exert a substantial influence on the EU's economy. Such argumentation, however, does not take into account that Turkey is a big player in the Black Sea and East Mediterranean region, and that its economic influence on a number of countries in the region is quite significant. While Turkey has no energy resources of its own, it holds the key to much of the region's oil and gas transports, both via pipelines and tankers which pass the Bosphorus. Close to 70 million citizens make Turkey an important country – but also a poor one, as its GDP per capita is only 28% of the EU average.

On 16 December 2004 the EU will announce whether it has decided to start accession negotiations with Turkey. One important criterion in this decision relates to the likelihood of Turkey's economy being mature for accession in ten to fifteen years' time. This seems to be the case, as at least some economic indicators position Turkey already now in the vicinity of countries such as Bulgaria, Poland and Romania. At the same time, compared to the Central and East European reform countries, Turkey's economy is characterized by sharper contrasts. For instance, there is a number of highly developed industrial plants in the country, most of them owned by private holdings. The largest of them are active in many segments of the manufacturing and service sectors; these little empires are also quite active on the international floor. In parallel, there is a large number of small and medium-sized enterprises, some of them still using rather archaic production methods. State-owned enterprises play an important role too, no matter that in most key sectors they have already lost their monopoly positions. Privatizing them, as was planned a long time ago, is likely to rank high on the government's agenda in the next few years, but it is not that clear how much foreign capital will be involved.

In the past, Turkey went through periods of high economic growth, which, however, frequently experienced a sudden interruption. After 1989, the year of liberalization of capital flows, these crises became more pronounced. This occurred last time in 2001. Thereafter, real GDP has always grown at high rates, reaching nearly 12% in the first half of 2004. Has Turkey's economy stopped being a 'serial crisis economy'? Possibly, the economy's vulnerability has declined. The attempt to qualify for EU membership has stimulated the

former as well as the present government to carefully observe the IMF conditions. Government debt has ceased to grow and in per cent of GDP it has even started to fall. The consolidation of the banking sector has been successful, and at least the big banks are now in relatively good shape. Inflation declined to around 10% per year, after decades when it was sometimes difficult to prevent hyperinflation. As the devaluation trend of the Turkish currency has come to a halt, conditions for the introduction of the New Turkish Lira, envisaged for 1 January 2005, are favourable. When the customs union with the EU came into force in 1995, Turkish enterprises had initially difficulties withstanding the enhanced competition. However, the strong devaluation following from the financial crisis in 2001 helped to overcome this problem. Growth of exports is high enough to prevent serious current account imbalances resulting from rapid import expansion.

The most problematic aspect of Turkey's economy is probably the labour market. The creation of new job opportunities diverges strongly among individual regions, and internal migration is correspondingly high. In future years, it will not only be important to achieve high rates of GDP growth; it will be equally important that most parts of the country and most economic sectors participate successfully in such growth.

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