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Economy in 2012

Erdal Tanas Karagöl, Ülkü İstiklal Mıhçıokur, Ahmet Semih Bingöl

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Erdal Tanas Karagöl, Ülkü İstiklal Mıhçıokur,
Ahmet Semih Bingöl

Translated by Gülgün Kozan Köse

CONTENTS

ABSTRACT | 3
1. ECONOMIC GROWTH AND SOFT-LANDING | 4
2. CURRENT ACCOUNT DEFICIT | 5
3. FOREIGN TRADE | 7
4. PUBLIC FINANCE | 9
5. MONETARY POLICY, CURRENT ACCOUNT DEFICIT AND ECONOMIC GROWTH | 11
6. CONCLUSION AND RECOMMENDATIONS | 14

SETA | Nenehatun Caddesi No: 66 Gaziosmanpaşa / Çankaya 06700 ANKARA TÜRKİYE
Phone:+90 312.551 21 00 | Fax :+90 312.551 21 90 | www.setav.org | info@setav.org

ABSTRACT

The ongoing debt crisis in EU countries and shrinking of the global economy in 2012 provoked pessimistic scenarios regarding economic growth, causing developed and developing countries to revise down their economic growth plans. Due to high dependency on imports and low-value-added production, economic growth resulted in a swift increase in Turkey's current account deficit in 2011. Therefore Turkey had to choose between economic growth and current account deficit in 2012. As a result, the growth target for 2012 set out in 2012-2014 Medium Term Program was reduced from 4 percent to 3.2 percent in 2013-2015 Medium Term Program.

In the first nine months of 2012, Turkey recorded a 2.6 percent growth rate. Despite pessimistic outlook in the global economy, Turkey achieved a positive economic growth owing to its export rate. Despite the debt crisis in Eurozone in 2011 Turkey increased its market share and ensured geographic diversity. This gave positive impetus to exports. Increase in foreign trade volume continued in 2012 and a net export-weighted economic growth was achieved. The Central Bank is expected to cut interest rates so that exports and domestic demand contribute to economic growth in the upcoming periods. The cuts in the policy interest rate will lead to a substantial decrease in credit interests and will also contribute to the boom in economic activity.

Within the scope of monetary policies, Turkey adopted practices towards building up resistance to fragilities caused by external balance, credit expansion and capital inflows. As a result, Turkey, on the one hand, achieved soft-landing by controlling current account deficit while it on the other hand aimed to maintain a healthier composition of external financing.

As a result of measures on current account deficit taken in 2012, one of the three leading international credit rating agencies, Fitch raised Turkey's grade to investment grade (BBB-) for the first time in 18 years. Turkey's almost 0 percent current account deficit excluding energy, decrease in macro-financial risks in the short term, sustainable economic growth, decrease in public debt and in inflation, strong banking system and increasing resistance to crisis have all played a role in Fitch's decision

ECONOMY IN 2012

Turkish economy—which achieved high growth rates due to high domestic demand in 2011—witnessed an increase in imports and current account deficit. Therefore, high growth rates and related increase in current account deficit and the sustainability of this deficit have stayed on the economic agenda. Pessimistic scenarios due to the ongoing debt crisis notably in EU countries and shrinking of the global economy caused developed and developing countries to revise down their economic growth estimates. Similarly economic growth target of Turkey set out for 2012 was lower when compared to 2011. The growth target for 2012 set out in 2012-2014 Medium Term Program was reduced from 4 percent to 3.2 percent in 2013-2015 Medium Term Program. In brief, economic growth, current account deficit, foreign trade and monetary policy occupied the Turkish economic agenda in 2012.

1. ECONOMIC GROWTH AND SOFT-LANDING

According to the data gathered from the Turkish Statistical Institute, the GDP increased 3.4 percent in the first quarter of 2012; 3 percent in the second quarter of 2012 and 1.6 percent in the third quarter of 2012 compared to the same quarters in previous year (Table I). The Turkish economy continued to grow in 2012 despite the brake put on the economic growth due to the increase in current account deficit. The net exports positively contributed to the economic growth in the first and second quarters of 2012; however, Turkey recorded lower growth rates compared to 2011. Although Turkey remained below expectations during the first, second and third quarters, Turkey recorded 2.6 percent growth rate enjoying a much higher growth rate than European average.

As of the third quarter of 2012, domestic demand continued to shrink while exports continued to increase despite the weakening global growth outlook. Therefore the sustainability of export-based growth is significant. Moreover, due to decrease in imports in order to reduce current account deficit, economic growth slowed down and current account deficit has gradually decreased. The Central Bank is expected to cut interest rates so that exports and domestic demand contribute to economic growth

in the upcoming periods. The cuts in the policy interest rate will lead to a substantial decrease in credit interests and will contribute to the boom in economic activity. Boosting domestic demand and exports will avoid underdevelopment of Turkish economy.

Furthermore, the economic growth recorded through the increase of domestic savings and large-scale investments is significant for the sustainability of economic stability. It is through such an economic structure that Turkish economy will be among the first ten economies of the world, one of the targets of the government for 2023.

TABLE 1. GDP 2011, 2012

Year - Quarter	GDP at Current Prices (Million TL)	Growth Rate (%)	GDP at Current Prices (Million Dollar)	Growth Rate (%)	GDP at Constant Prices (Million TL)	Growth Rate (%)
2011-I	287,991	19.5	182,588	14.3	26,251	11.9
2011-II	315,493	18.6	201,763	16.6	28,021	9.1
2011-III	351,654	18.8	203,375	3.9	31,087	8.4
2011-IV	339,755	14.9	184,572	-9.1	29,515	5.2
2011 annual	1,294,893	17.8	772,298	5.6	114,874	8.5
2012-I	327,995	13.4	182,174	-0.6	27,161	3.4
2012-II	349,630	10.3	193,686	-4.5	28,838	3.0
2012-III	377,584	7.7	209,248	3.2	31,594	1.6

Source: Turkish Statistical Institute

The Central Bank is expected to cut interest rates so that exports and domestic demand contribute to economic growth in the upcoming periods.

2. CURRENT ACCOUNT DEFICIT

Turkey counteracted negative effects of 2008 global economic crisis in a short period of time and gave a steadier outlook compared to developed countries. Owing to this steady outlook, Turkish economy minimized the negative impact of external shocks caused by global economic deterioration. Nevertheless, the current account deficit to GDP ratio increased to 10 percent due to an 8.5 percent economic growth led by domestic demand in 2011 (Chart 1). The increase of imported inputs contributed to substantial increase of current account deficit in Turkish economy. That the current account deficit to GDP ratio reached to 10 percent in Turkey—which was the second-fastest growing country after China in 2011—provoked debates on the sustainability of current account deficit. Furthermore, economic growth led to an increase in current account deficit, which was generated by high dependency on imports and low-value-added production. Deficit in current account was considered as one of the elements of fragility in Turkish economy. As a result, Turkish economy had to choose between economic growth and current account deficit in 2012.

Because foreign demand from European countries, the largest export market of Turkey, decreased and there was a swift increase in domestic demand in 2011, Turkey preferred credit slowdown to economic growth in order to decrease current account deficit. The economic growth target for 2012—which was reduced to 3.2 percent in 2013-2015 Medium Term Program—contributed to the decrease in the current account deficit and the current account deficit was reduced to a sustainable level.

In line with above-cited choice, a monetary tightening policy was adopted contrary to monetary expansion in European Union countries. In order to attain this goal, the Cen-

tral Bank shrunk the credit volume thus slowing down the domestic demand. Owing to related economic measures, the current account deficit GDP ratio fell to 6.7 percent in January-September period compared to previous year. Since forgoing economic growth will not yield permanent results in the long term and economic growth is indispensible for developing economies as Turkey, it was obligatory to take structural measures for decreasing the current account deficit.

Giving incentives for industrial production was the primary measure. A new incentive system was prepared in order to adopt high-tech manufacturing and to encourage direct foreign investments in Turkey where the composition of exports mainly consists of low and medium technology products. In this new incentive system—which was prepared in line with the needs and demands of investors—incentives were put under four categories: general incentives, regional incentives, incentives to large-scale investments and incentives to strategic investments. On the other hand, this system—where the size and qualifications of investments matter—was designed to give incentives to strategic practices which will decrease current account deficit and regional development differences and increase employment.

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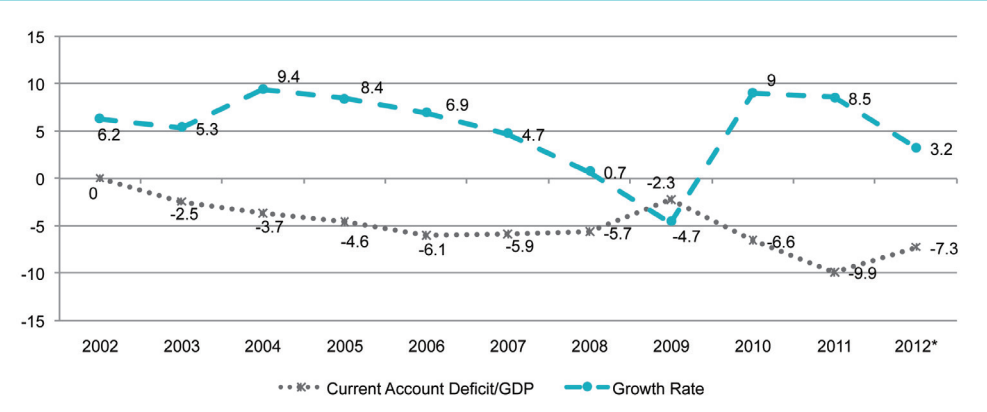
CHART 1. GROWTH RATE AND CURRENT ACCOUNT DEFICIT/GDP RATIO



Source: Turkish Statistical Institute, Middle Term Program (2013-2015)
(*)Middle Term Program Estimate*OVP (2013-2015) tahminleri verilmiştir.

Despite positive indicators in the public finance, capital groups are considered as one of the elements of fragility in Turkish economy. That the sustainability of current account deficit was seen as an element of fragility directly influenced the foreign investment in Turkey because positive developments in public finance and other macroeconomic indicators were overshadowed by the current account deficit and the credit rating agencies—which have a direct effect on investments—considered current account deficit as a rating criterion. As a result, a huge difference was witnessed between the market rating of the credibility of the Turkish economy and ratings of credit rating agencies. Markets welcomed the economic, financial and political stability of Turkey while credit rating agencies ignored this credibility in the market. One of the three leading international rating agencies Standard and Poor's reduced Turkey's long-term foreign currency credit ratings (BB +) to stable from positive in May 2012, stating its concerns

about high current account deficit in 2011. International credit rating agencies haven't granted the grade Turkey deserved for years and Turkey's credit rating has remained under investment grade, which hindered investments funds in Turkey and Turkey paid a heavy price in return. [1]

As a consequence of measures on current account deficit taken in 2012, one of the three leading international credit rating agencies, Fitch upgraded Turkey's to investment grade (BBB-) for the first time in 18 years. Turkey's almost 0 percent current account deficit excluding energy, decrease in macro-financial risks in the short term, sustainable economic growth, decrease in public debt and in inflation, strong banking system and the increasing resistance to crisis have all played a role in Fitch's decision. It is expected that other rating agencies will also upgrade Turkey to investment grade in the upcoming periods. This indicates that investment environment has improved and it will pave the way for Turkey to receive low-cost direct foreign investments and funds. This will also contribute to the financing of the current account deficit. Moreover, the increase of domestic savings in economy, fiscal discipline, structural reforms in the struggle against underground economy will not only facilitate financing of current account deficit but also decrease current account deficit. [2]

As a consequence of measures on current account deficit taken in 2012, one of the three leading international credit rating agencies, Fitch upgraded Turkey's to investment grade (BBB-) for the first time in 18 years.

3. FOREIGN TRADE

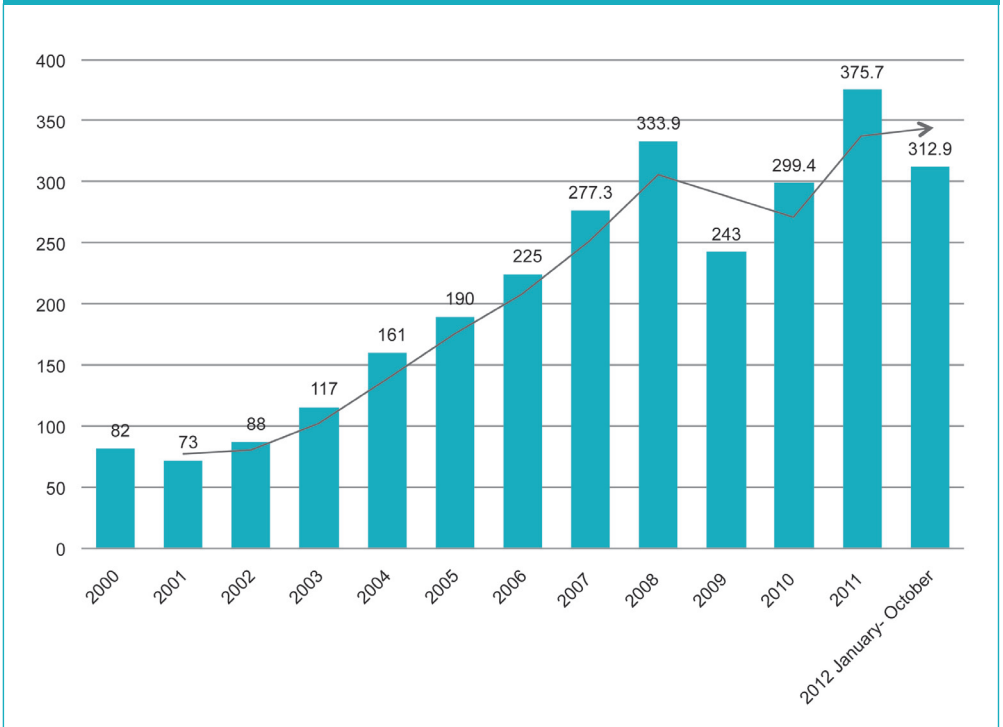
As there are less and less obstacles to trade and competition gets fierce in the world economy, the primary economic target for countries is to have a large share in export market. It is now obligatory to capture new markets, to sell high-quality products at a low price, to export high-tech products and to be among the firsts in the world economic league table. Export becomes more crucial and competition among countries gets fierce. Turkey is willing to capture a large share in this market and to increase export volume to 500 billion dollar by 2023. In line with this target, "2023 Turkey Export Strategy and Action Plan" was put into practice in 2012. This strategy mainly aims to resolve structural problems in export and to resist possible external shocks in global economy.[3]

Turkish economy is adapted to fierce competition environment in the world trade and it consistently increased its foreign trade volume from 2001 to 2008 global economic crisis. In 2009 foreign trade volume decreased due to global economic crisis; however, it began to increase as of 2010 and reached to the level before the crisis (Chart 2). Despite the debt crisis in Eurozone in 2011, Turkey increased its market share and ensured geographic diversity which, in turn, gave a positive impetus to exports. Increase in foreign trade volume continued in 2012 and a net export-weighted economic growth was achieved.

1. Karagöl, Erdal.T. ve Mıhçıokur, Ü.İ. (2012), "Kredi Derecelendirme Kuruluşları: Alternatif Arayışlar", *SETA Rapor* (No:7), Ankara.
2. Republic of Turkey Ministry of Development, "2013 – 2015 Medium Term Program", 9.10.2012.
3. Republic of Turkey Ministry of Economy, "2023 Turkey Export Strategy and Action Plan", 13.06.2012.

The shrinkage in exports to Europe was compensated by exports to the Middle Eastern and African market and increase in exports was maintained.

CHART 2. THE VOLUME OF FOREIGN TRADE (BILLION DOLLARS)



Source: Turkish Exporters Assembly (TİM)

While exports to developed countries decreased during 2012 January-October period, Turkey continued to increase its export rate. In 2012 exports to EU countries, one of the leading trade partners of Turkey, decreased due to the debt crisis. Nevertheless, Turkey increased its market diversity in export and compensated for the market share it lost in Europe. The shrinkage in exports to Europe was compensated by exports to the Middle Eastern and African market and increase in exports was maintained. Exports served as the main contributor to the economic growth with a 12.09 percent increase in reference period when compared to the same period in 2011. Due to the demand shrinkage in European Countries—who buy more than 40 percent of Turkey's exports—Turkey's export to European Countries decreased 22.1 percent compared to the same month in previous year. Market diversity was ensured in order to minimize the negative effects of the decrease in export in this region, thus demand shrinkage in the region was compensated. Exports to Near and Middle Eastern countries increased 28.7 percent while exports to African countries increased 16 percent compared to the same month in previous year. In 2012 exports increased more than imports despite global economic crisis. As a result during 2012 January-October period export import ratio reached to 64.5 percent (Chart 3).

CHART 3. THE RATIO OF EXPORT TO IMPORT

Source: Turkish Exporters Assembly (TİM)

Turkish economy enjoyed a steadier outlook than developed countries owing to its fiscal tightening policy and strong banking sector.

4. PUBLIC FINANCE

In 2012 global uncertainty caused by the Eurozone crisis continued. This resulted in a slowdown in economic activity. Turkish economy enjoyed a steadier outlook than developed countries owing to its fiscal tightening policy and strong banking sector. However, increase in items such as purchase of goods and services, personnel expenditures, social security premiums and notably transportation infrastructure expenditures, also increased the budget deficit.[4]

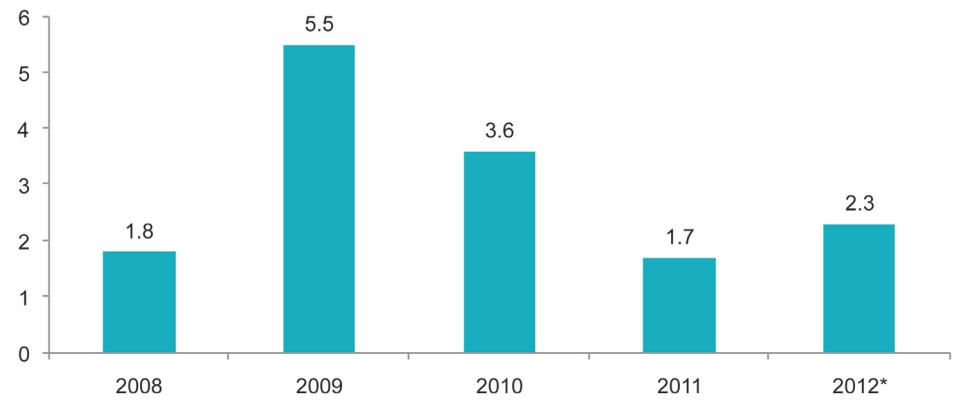
In 2012 Turkish economy maintained fiscal discipline and decided to maintain it in the upcoming periods in the 2013-2015 Medium Term Program. The program estimates the budget deficit for 2012 as 33 billion 472 million TL and the ratio of budget deficit to GDP as 2.3 percent (Chart 4). In a time when Eurozone had a high deficit in the budget, Turkey was able to meet the budget deficit target.

However, imports also decreased as a result of decreasing domestic demand, which declined the import revenues in return. Nonetheless, given the fiscal tightening policy, increasing privatization and indirect tax increase, the budget deficit for 2012 is expected to be 2.3 percent.

The budget deficit in Turkey is expected to be below the Maastricht Criteria of 3 percent. The ratio of primary balance—which is another indicator for the public finance performance—to GDP is also expected to be 1.1 percent.[5]

4. Karagöl, E.T. (2012), "Orta Vadeli Program (2013 – 2015)", *SETA Perspektif* (10), Ankara.
5. Republic of Turkey Ministry of Finance (2012), "2013 Budget Justification", Ankara.

CHART 4. BUDGET DEFICIT/GDP



Source: Turkish Statistical Institute, Middle Term Program (2013-2015)
(*)Middle Term Program Estimate

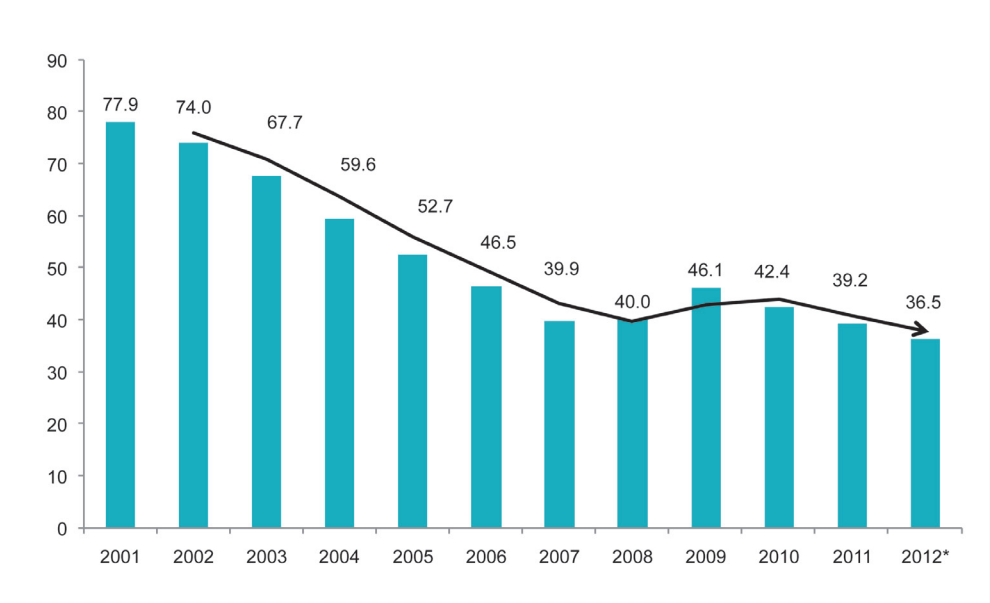
In order for the sustainability of this fiscal discipline in the upcoming periods, related structural reforms need to be strengthened and the quality of public sector borrowing structure should be improved.

Maintaining the fiscal tightening policy is particularly significant in controlling external shocks. Therefore, the 2013-2015 Medium Term Program aims to maintain fiscal discipline. In 2012 Turkey's most successful economic performance was again in public finance. In order for the sustainability of this fiscal discipline in the upcoming periods, related structural reforms need to be strengthened and the quality of public sector borrowing structure should be improved. In addition to the improvement of the quality of fiscal discipline, efforts at increasing domestic terms of trade will contribute to financial stability. [6]

On the other hand, the ratio of EU defined general government debt stock to GDP gradually decreased from 2001 to 2008 due to fiscal tightening discipline. This ratio increased in 2009 due to the global economic crisis; however, it declined since 2010 and achieved the level of the period before the crisis at 39.2 percent in 2011. In 2013-2015 Medium Term Program, this ratio for 2012 is expected to decline to 36.5 percent (Chart 5).

6. CBRT, "Financial Stability Report-2" (15), Ankara, November 2012.

CHART 5. GENERAL GOVERNMENT DEBT STOCK DEFINED BY EU/GDP (%)



Source: Turkish Statistical Institute, Middle Term Program (2013-2015)
(*)Middle Term Program Estimate
* OVP (2013-2015) tahmini

5. MONETARY POLICY, CURRENT ACCOUNT DEFICIT AND ECONOMIC GROWTH

Uncertainty in global economy and increase in energy prices influenced inflation rates in Turkey in 2011. Annual inflation rate averaged 10.45 percent particularly due to price adjustments in October 2011. Given the possible negative effect of the increase in inflation on production and economic growth in the medium and long term, and the failure to meet the price stability target, the CBRT adopted a monetary tightening policy in 2012. Therefore, similar to what occurred in 2011, in 2012 various monetary policies such as policy interest, required reserve ratio policy, interest rate corridor policy were adopted. In doing so, the Central Bank attempted to seize control through flexible monetary policy.

In the first quarter of 2012 energy prices increased more than what was expected and inflation reached to 10.43 in parallel to changes in international oil prices. As a result, the Central Bank controlled domestic demand and significantly increased required reserve ratio. The Central Bank maintained flexible monetary policy and built up reserves by increasing required reserve ratio due to uncertainty in global economy.

In the second quarter of 2012 inflation began to decline as expected due to the slowdown in domestic demand and economic activity. As a result, current account deficit, despite high oil prices, decreased. Turkey, on the one hand, strengthened reserves through short term foreign exchange selling auctions while, on the other hand, tried to control credit growth rate. The interest rate corridor was widened upwards in order to meet inflation targets of the CBRT and TL average funding cost was raised and competitive balance was struck in line with the measures taken. [7]

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7. CBRT, "Inflation Report 2012- 1", Ankara, 31.01.2012.

In the third quarter of 2012, Eurozone took concrete steps towards addressing debt crisis and uncertainty regarding the global economy. This created an environment of confidence in markets during this period when The Central Bank maintained monetary tightening. However, the inflation rate remained high due to high import prices excluding energy. [8] Due to uncertainty regarding the global economy and increase in energy prices, Turkey failed to achieve price stability objective. The uncertainty regarding the global economy also decreased investments and increased interest rates. Accordingly, the negative effect of high inflation rates in 2011 on pricing behavior, high oil prices and price adjustments in September and October increased inflation rates in 2012.[9]

While many countries notably the Eurozone suffered from economic shrinkage, Turkey maintained economic growth. These higher growth rates should be sustained in order to be among the first ten economies of the world.

In addition to above-mentioned developments in monetary policy, year-end inflation target for 2012 was set as 7.4 percent in 2013-2015 Medium Term Program. Fiscal tightening policy should be adopted in coordination with monetary tightening policy in order to meet the inflation target. Particularly in the wake of Fitch's upgrade, Turkey should properly manage the capital inflow in the country and keep capital inflow from undermining price stability. Furthermore, the CBRT should support macroeconomic outlook through multiple policy instruments in order to ensure both price stability and financial stability.

Within the scope of monetary policies, Turkey adopted measures for building up resistance to fragilities caused by external balance, credit expansion and capital inflows. Turkey aimed to achieve a balanced economic growth (in other words aimed to achieve soft-landing by controlling current account deficit) and to maintain a healthier composition of external financing,[10] inflation rates were kept at low levels through short term interest rate and "fine adjustments" were made to monetary stance on daily and weekly frequencies through interest rate corridor. [11]

Consequently, exports in Turkey substantially increased thanks to policies employed at this particular time of global crisis. In line with this increase in exports,, Turkey has sustained a positive economic growth since the last quarter of 2009. While many countries notably the Eurozone suffered from economic shrinkage, Turkey maintained economic growth. These higher growth rates should be sustained in order to be among the first ten economies of the world.

8. CBRT, "Inflation Report 2012- 3", Ankara, 26.07.2012.
9. Karagöl, E.T. (2012), "Orta Vadeli Program (2013 – 2015)", *SETA Perspektif* (10), Ankara.
10. A. Hakan Kara, "Küresel Kriz Sonrası Para Politikası", Türkiye Cumhuriyeti Merkez Bankası (TCMB), Haziran, 2012.
11. Op. Cit.

CHRONOLOGY	
January 24, 2012	The Central Bank announced that it will stop holding regular foreign exchange selling auctions as of 25 January; however, it will hold intraday foreign exchange selling auctions when deemed necessary.
February 21, 2012	The Central Bank Monetary Policy Committee kept the one-week repo rate at 5.75 percent. Borrowing rate was kept at 5 percent while lending rate was cut from 12.5 percent to 11.5 percent.
March 1, 2012	The results of the competition for the Turkish Lira Sign organized by the Central Bank were announced. The winning design was presented to the public by the Prime Minister Recep Tayyip Erdoğan, the Deputy Prime Minister Ali Babacan and the Governor of the Central Bank Erdem Başçı.
March 27, 2012	According to the press release by the Central Bank the upper limit for standard gold reserves that may be held to meet Turkish lira reserve requirements was increased from 10 percent to 20 percent in order to strengthen the build-up of gold reserves and positively influence cost and liquidity channels of the banking sector. The limit for standard gold reserves that may be held to meet reserve requirements for foreign currency liabilities excluding precious metal deposit accounts was decreased from 10 percent to 0 percent.
April 2, 2012	The Turkish Statistical Institute announced that Turkish economy grew 5.2 percent in the last quarter of 2011 while it recorded 8.5 percent of annual growth rate.
April 5, 2012	The Prime Minister Recep Tayyip Erdoğan announced the "New Incentive System" prepared by the Republic of Turkey Ministry of Economy.
May 1, 2012	International rating agency Standard and Poor's (S&P) cut Turkey's credit ratings to stable from BB +.
May 29, 2012	In the Central Bank Monetary Policy Committee meeting, the Committee approved a limited increase in the flexibility regarding the allowance to hold Turkish lira reserve requirements in foreign currency in order to support financial stability and the upper limit was raised to 45 percent from 40 percent.
June 20, 2012	International rating agency, Moody's upgraded Turkey's government bond ratings by one notch to Ba1 from Ba2.
June 21, 2012	The Monetary Policy Committee decided to keep one-week repo rate at 5.75 percent, borrowing rate at 5 percent, lending rate at 11.5 percent and the interest rate on borrowing facilities provided for primary dealers via repo transactions at 11 percent.
July 2, 2012	The Turkish Statistical Institute announced that Turkish economy grew 3.2 percent in the first quarter of 2012.
September 10, 2012	The Turkish Statistical Institute announced that Turkish economy grew 2.9 percent in the second quarter of 2012.
September 18, 2012	The Monetary Policy Committee decided to keep one-week repo rate at 5.75 percent, borrowing rate at 5 percent. The Committee cut lending rate from 11.5 percent to 10 percent while it cut interest rate on borrowing facilities provided for primary dealers via repo transactions from 11 percent to 9.5 percent.
October 9, 2012	2013- 2015 Medium Term Program was announced.
October 18, 2012	The Monetary Policy Committee decided to keep one-week repo rate at 5.75 percent, borrowing rate at 5 percent. The Committee cut lending rate from 10 percent to 9.5 percent while it cut interest rate on borrowing facilities provided for primary dealers via repo transactions from 9.5 percent to 9 percent.
November 5, 2012	Fitch raised Turkey's long-term foreign currency credit ratings from BB to BBB- for the first time since 1994 and Turkey's outlook was revised to "stable."
November 20, 2012	The Monetary Policy Committee decided to keep one-week repo rate at 5.75 percent, borrowing rate at 5 percent. The Committee cut lending rate from 9.5 percent to 9 percent while it cut interest rate on borrowing facilities provided for primary dealers via repo transactions from 9 percent to 8.5 percent.
December 10, 2012	The Turkish Statistical Institute announced that Turkish economy grew 1.6 percent in the third quarter of 2012.
December 18, 2012	The Monetary Policy Committee cut one-week repo rate from 5.75 percent to 5.50 percent.

6. CONCLUSION AND RECOMMENDATIONS

The data on current account deficit and economic growth in 2012 indicate that Turkey still tries to strike a balance between domestic and foreign demand. In line with the increase in exports in 2012, Turkey has sustained a positive economic growth since the last quarter of 2009. While many countries notably the Eurozone suffered from economic shrinkage, Turkey maintained economic growth.

Owing to policies put into practice in 2012, Turkey recorded a substantial increase in exports. During this period exports served as the main contributor to the economic growth. As a result, overvaluation of the Turkish Lira must be avoided in order to sustain this ongoing increase in exports. The Central Bank is expected to cut interest rates so that exports and domestic demand contribute to economic growth in the upcoming periods. The cuts in the policy interest rate will lead to a substantial decrease in credit interests and therefore contribute to the boom in economic activity. As a result economic growth in 2013 will be greater when compared to 2012.

In the upcoming periods, Turkey should take long-term structural measures and achieve economic growth without increasing current account deficit. This should be done in order not to be obliged to choose between current account deficit and economic growth. The New Incentive System prepared as a measure against the current account deficit will positively contribute to Turkish economy in 2013. In the wake of Fitch's upgrade of Turkey to investment grade the quality of financing the current account deficit is expected to improve. This will also increase foreign investments

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Turkey needs to achieve higher growth rates in the upcoming periods in order to meet its target for 2023 to be among the first ten economies of the world. To that end, country's domestic savings and competitive power should be improved and strengthened. As acknowledged by the Central Bank Monetary Policy Committee, implementation of structural reforms will contribute to relative improvement of credit risk, thus supporting financial stability. Steps in this direction will provide room for monetary policy maneuver and support social welfare by keeping interest rates of long-term government securities permanently at low levels.

The ongoing debt crisis in EU countries and shrinking of the global economy in 2012 provoked pessimistic scenarios regarding economic growth, causing developed and developing countries to revise down their economic growth plans. Due to high dependency on imports and low-value-added production, economic growth resulted in a swift increase in Turkey's current account deficit in 2011. Therefore Turkey had to choose between economic growth and current account deficit in 2012. As a result, the growth target for 2012 set out in 2012-2014 Medium Term Program was reduced from 4 percent to 3.2 percent in 2013-2015 Medium Term Program.

In the first nine months of 2012, Turkey recorded a 2.6 percent growth rate. Despite pessimistic outlook in the global economy, Turkey achieved a positive economic growth owing to its export rate. Despite the debt crisis in Eurozone in 2011 Turkey increased its market share and ensured geographic diversity. This gave positive impetus to exports. Increase in foreign trade volume continued in 2012 and a net export-weighted economic growth was achieved. The Central Bank is expected to cut interest rates so that exports and domestic demand contribute to economic growth in the upcoming periods. The cuts in the policy interest rate will lead to a substantial decrease in credit interests and will also contribute to the boom in economic activity.

Within the scope of monetary policies, Turkey adopted practices towards building up resistance to fragilities caused by external balance, credit expansion and capital inflows. As a result, Turkey, on the one hand, achieved soft-landing by controlling current account deficit while it on the other hand aimed to maintain a healthier composition of external financing.

As a result of measures on current account deficit taken in 2012, one of the three leading international credit rating agencies, Fitch raised Turkey's grade to investment grade (BBB-) for the first time in 18 years. Turkey's almost 0 percent current account deficit excluding energy, decrease in macro-financial risks in the short term, sustainable economic growth, decrease in public debt and in inflation, strong banking system and increasing resistance to crisis have all played a role in Fitch's decision

ERDAL TANAS KARAGÖL, Yıldırım Beyazıt University
ÜLKÜ İSTİKLAL MIHÇIOKUR, Research Assistant, SETA Foundation
AHMET SEMİH BİNGÖL, Research Assistant, SETA Foundation

SETA | FOUNDATION FOR POLITICAL ECONOMIC AND SOCIAL RESEARCH
Nenehatun Caddesi No: 66 GOP
Çankaya 06700 Ankara TÜRKİYE
Ph:+90 312.551 21 00 | Fax :+90 312.551 21 90
www.setav.org | info@setav.org

SETA | Washington D.C. Office
1025 Connecticut Avenue, N.W., Suite 1106
Washington, D.C., 20036
Ph: 202-223-9885 | Fax: 202-223-6099
www.setadc.org | info@setadc.org