İSTANBUL
SANAYİ ODASI

The Turkish Economy
2013

İSTANBUL
SANAYİ ODASI

The Turkish Economy 2013

May 2013

FOREWORD

Our survey of the Turkish Economy 2013 looks at developments in the world and the Turkish economy in 2012 and expectations for 2013. In the survey, the economy in 2012 is examined under the rubrics of national income, public financing, population, employment, price movements, foreign trade and monetary developments. Expectations for the overall balance of the economy, the budget, inflation and foreign trade in 2013 are also included together with assessments by our Chamber.

Following growth of 9.2% in 2010, Turkey grew by 8.8% in 2011, entering the ranks of the world's fastest growing countries in both years. After those two brilliant years, we entered 2012 with expectations of a slowdown under the impact of a large current account deficit at home and increasing uncertainty in the global economy abroad. Indeed, 2012 was a year in which the economy slowed beyond forecasts. When growth rates remained at 3.3% in the first quarter and 2.9% in the second, projected growth for the year was revised downwards to 3.2%. However, growth rates of 1.6% in the third quarter and 1.4% in the fourth were inadequate to meet that forecast, and growth at year's end was below even the revised figure of 2.2%.

GDP, which passed the one trillion mark for the first time in 2010, came to TL1.298 trillion in 2011 and TL 1.417 trillion in 2012, which is equivalent to 786.3 billion U.S. dollars. Per capita GDP was TL 18,927 in current prices, corresponding to 10,504 U.S. dollars.

Manufacturing was the main sector of the economy in 2012 with a 15.6% share, followed by transportation and communications in second place with 14%, and wholesale and retail trade in third with 12.2%. Value added in manufacturing rose by 2.9% in the first quarter of the year and 3.5% in the second, only to decline in the third by 1.1% and cease altogether by year's end. In parallel with these quarterly rates, growth in the sector remained at 1.9% for the year, a rate that contributed 0.5 of a point to Turkey's 2.2% GDP growth.

The steady shrinkage year by year in the manufacturing sector's share in the country's GDP at current prices is one of the major problems in the economy. At 23.9% at current prices in 1998, this sector's share in GDP declined to 15.6% in 2012, a clearly unfavorable development for the country's industrialization process and industry in general. Another point worth noting is that price increases in manufacturing ranked second lowest among all the sectors, as becomes immediately clear if we examine GDP implicit price deflators by branch of economic activity. The GDP implicit price deflator (1998 = 100) was 1,203.2 in 2012, whereas the price deflator in manufacturing was considerably lower at 768.3. This figure is an indicator that the manufacturing industry has difficulty passing input prices on in the form of increases in the prices of its goods and that funds are therefore being siphoned off into other sectors.

Turning now to growth in other branches of industry, value added in 2012 was up by 0.1%

in wholesale and retail trade, 0.6% in construction, 3.2% in transportation, warehousing and communications, 3.2% in financial intermediaries, 3.5% in agriculture, hunting and forestry and 1.7% in home ownership.

A look at growth on the expenditure front reveals that a 0.7% fall in final household consumption expenditure was a major factor in the 2012 economic slowdown. Another key factor was a decline in investment spending. Total fixed capital investment spending, which rose by only 0.7% in the first quarter of the year and fell by 2.7%, 4.2% and 3.8% in the remaining three quarters, was down by 2.5% for the year.

Coming now to private sector investment spending, here, following a 1% increase in the first quarter, falls of 3.6% in the second, 6.2% in the third and 9.2% in the fourth resulted in a 4.5% drop for the year, a figure that points to a decline above and beyond the forecast for the sector. Despite this situation in investment spending, however, 2012 was a relatively positive year in terms of international direct investment inflows. Such inflows, which reached their highest level ever in 2007 at 22 billion dollars, declined to 19.8 billion in 2008 and 8.7 billion in 2009 under the impact of the global crisis, rising slightly again in 2010 to 9 billion dollars and then sharply in 2011 to 16 billion. Although down again in 2012 parallel with the slowdown in the world and the Turkish economy, at 12.4 billion dollars for the year they nevertheless appear to have recaptured their average of recent years.

Unemployment is an area of the economy in which a relative improvement was achieved in 2012. The unemployment rate, which climbed to 14% in 2009 when the global crisis was at its worst, fell to 11.9% in 2010, 9.8% in 2011 and 9.2% in 2012 when 24,821,000 persons had jobs and 2,518,000 were jobless. The employment rate is therefore 45.4%, the unemployment rate 9.2%. The number of jobless also fell by 97,000 on the previous year in 2012 as the work force expanded by 2.3% and the number of employed persons by 24.6%. In the same year, the shares of the various sectors in full employment were 24.6% for agriculture, 19.1% for industry, 6.9% for construction and 49.4% for the services sector.

2012 was also a successful year for the fight against inflation. The annual CPI, which fell to its lowest level since 1970 in 2012 at 6.40%, climbed again into two-digit territory in 2011 at 10.45% but dropped in 2012 to 6.16%. The increase in the PPI was lower at 2.45%.

Turning to foreign trade, the IMF estimated that annual export growth in 2012 would be 2.1% in the developed countries and 3.6% in the developing economies. The corresponding figures for imports were 1.2% and 6.1%. A look at Turkey shows that while the country's annual exports were up by 13% in 2012, imports on the other hand declined by 1.8%. Therefore, as Turkey's exports were rising at a rate far above expectations for the developed and developing economies, imports were declining as a result of steps taken to lower the current account deficit. Due to this development in foreign trade, Turkey's foreign trade deficit contracted to 84.1 billion dollars in 2012, which in turn paved the way

to a reduction, albeit it slight, in the current account deficit.
While the target for 2012 is 58.7 billion dollars in the 2013 economic program, at year’s end the current account was significantly below that projected figure at 47.5 billion dollars. Similarly, while the dollar value of GDP in 2012 was 786.3 billion, the current account deficit came to 47.5 billion dollars, thereby contracting to around 6% of GDP.
Budget performance was another area that went relatively well in 2012 when budget revenues, despite being projected at 329.8 billion Turkish Liras, instead came to 331.7 billion. Budget expenditures on the other hand, which had been projected at 350.9 billion Turkish Liras, came to 360.5 billion, resulting in a budget deficit of 28.8 billion Turkish Liras instead of the projected 21.1 billion.
Turning now to expectations for 2013, GDP growth in 2013 is projected at 4% in the economic program with rates of 3% in agriculture, 4% in industry and 4.2% in services expected for the year in the main sectors. Total consumption expenditure is expected to rise by 3.1% and fixed capital investment spending by 6.8%. The current account deficit in 2013 is projected to be 60.7 billion dollars. The ratio of domestic savings to GDP, which was 13.8% in 2011 and 14.3% in 2012, is projected to be 15% in 2013. Such a low rate of domestic savings not only limits investment spending but also makes sustainable growth difficult. The fact that domestic savings in countries similar to Turkey is around 25-30% shows what a major shortcoming this is for the country.
Turkey chalked up its lowest inflation rate in forty years in 2012 at 6.16%. Inflation in 2013 is projected to be 5.3%. Following low and single-digit inflation in 2012, this rate, despite being even lower, nevertheless stands out as the highest rate among the European countries.
Exports are expected to increase by 3.6% to 158 billion dollars and imports by 7% to 253 billion dollars in the 2013 economic program. The foreign trade deficit is expected to be 95 billion dollars. As the figures indicate, growth in imports is expected to exceed growth in exports in 2013 as in previous years. The current account deficit to GDP ratio for 2013 is projected to be 7.1%.
The IMF’s growth forecasts in 2012 were 5.1% for the developing countries and 3.2% for the world as a whole. Turkey’s annual average growth in the Republican period has been 4.7%. The 2.2% we achieved in 2012 does not appear very successful by these criteria. But 2012 was a difficult year, and sustaining even such a small rate of growth should therefore be deemed a favorable outcome. At the same time, the decline from 9.7% in 2011 to 6% in 2012 in the current account deficit to GDP ratio is significant. It should not however be overlooked that this was due to a sharp fall in growth. As we always try to emphasize, what is really important with regard to the current account deficit is that steps be taken towards structural reform in the direction of more high-technology, knowledge-based

products high in value added in the structure of our production and exports. Such steps will contribute significantly to solving the problem of inadequate domestic savings, which is one of the fundamental shortcomings of the Turkish economy.

At the moment, a climate of low interest, low growth continues in the world. In this climate, our Central Bank has determined that the right economic policy for Turkey is a combination of low interest and balanced growth, which it defines as growth that takes into account the internal balance, in other words price stability, as well as the external balance and financial stability. The Central Bank says that it will continue to support balanced growth with the political instruments at its disposal and that Turkey's rate of balanced growth may also rise even further as the structural reforms in the Medium Term Program are put in place. Our most important expectation now is that 2013 - which is already expected to be a modest year with a growth forecast of 4% - even if it is a better year than 2012, be a year of gains made in the name of structural reform in which reforms to shore up the competitiveness of our industry are part of the agenda.

C. Tanıl KÜÇÜK, Chairman
Board of Directors
İstanbul Chamber of Industry

EXECUTIVE SUMMARY

One of the countries with the highest rates of growth internationally with 9.2% in 2010 and 8.8% in 2011, Turkey suffered a sharp decline in growth in 2012.

The growth forecast for 2012 in the economic program for the year was 4%, but this was pulled down to 3.2% in the 2013 program. Based on initial estimates, however, growth in 2012 was limited to 2.2%. When growth estimates for 2012 were announced, growth in 2011 was also revised upwards from 8.5% to 8.8%.

In addition to this adjustment, growth rates for the first and second quarters of 2012 were also revised; no revision has yet been announced for third quarter results. When 2012 first quarter growth, previously announced at 3.4%, was revised downwards to 3.3%, the 3% previously estimated for the second quarter was also revised downwards to 2.9%. GDP growth in the last quarter of 2012 was 1.4%

GDP growth in 2012, which has declined considerably on the high GDP growth rates of 2010 and 2011, exhibited a steadily falling trend over the course of the 3-month periods. The main factor in this trend is a relative slowdown in domestic demand that began in the last quarter of 2011.

Based on the IMF's January growth estimates for 2013, average world growth in the production of final goods and services is 3.2% in 2012. Estimated at 1.4% in the developed countries, it is higher in the emerging and developing economies at 5.1%. As the figures show, Turkey's GDP growth rate, originally estimated at 2.2%, is below the average both for the world and for the developing countries.

In the total for Agriculture, Hunting and Forestry, agriculture value added came to 5.2% in the first quarter, 3.6% in the second, 2.7% in the third and 4.3% in the fourth, resulting in a 3.5% increase for the year at constant prices. The agricultural sector appears to have grown in all quarters by comparison with 2011. Value added growth in the Fisheries sector was slightly lower at 3.1%.

In Mining and Quarrying, value added contracted by 0.6% and 5.1% in the first and last quarters respectively of 2012 but rose by 3.1% and 5% in the third and fourth quarters, yielding growth of 0.8% for the year.

Manufacturing, the main sector of the economy, has seen a sharp decline in its share in GDP at current prices since the year 2000 especially. The mainstay of the Turkish economy since 1982, manufacturing's share in GDP, which was 23.9% in 1982, began to contract in the 2000's, falling to its lowest level in 2009 at 15.2%. It is little changed in 2012 at 15.6%.

For movement in the Turkish economy comparable to the development observed in the emerging economies today, there is an urgent need for greater momentum in the country's industrialization. The unfavorable development seen in manufacturing, however, points to a slide towards de-industrialization in Turkey. In 2012 as well, growth in the sector's value added has been extremely limited, in domestic demand especially as well as, relatively speaking, in foreign demand, due to stagnation in the sector, which should be the engine of growth. A steadily contracting trend also has emerged in the sector's growth over the year.

Value added in manufacturing exhibited growth of 2.9% in the first and 3.5% in the second quarter of 2012, falling to 1.1% in the third before coming to a complete halt in the fourth. Parallel with these quarterly growth rates, value added growth for the year was only 1.9%.

Value added in the Gas, Water and Electricity sector, which was up in the first three quarters of 2012 but not in the fourth, rose by 3.5% for the year as a whole.

The overall slump in the other branches of the economy in 2012 affected the Construction sector as well, where value added during the year rose by only 0.6%.

Stagnation also plagued the Wholesale and Retail Trade sector in 2012. Falls especially in marketed industrial products and imported goods impacted negatively on value added in the sector, which was practically unchanged on 2011 at an average of 0.1% for the year.

In contrast with the other branches of economic activity, value added growth in the Hotel and Restaurant sector was somewhat better at 3.4%.

Following Manufacturing, which is Turkey's engine of economic growth, Transportation, Warehousing and Communications was the second largest sector with a 14% share in GDP at current prices and value added growth of 3.2% in 2012.

Value added growth in Financial Intermediaries was 4.5% in the first quarter, only to fall to 3.6% and 0.9% respectively in the second and third before rising again by 3.8% in the fourth quarter. When these quarterly figures are averaged for the year, growth in the sector is 3.2%.

Housing is the fourth largest sector in the Turkish economy, accounting for 9.7% of GDP in 2012 and growth of 1.7% for the year. The Real Estate, Rentals and Business Activities sector, which has exhibited one of the highest growth rates of the 2000's, was also the sub-sector with the highest value added growth in 2012 at 6.6%.

Value added growth in the Public Administration and Defense and Mandatory Social Security sector was 3.5% in 2012. In the other related sectors, value added growth for the year was: 4.3% in Education, 5.3% in Health and Social Services, 0.6% in Other Community, Social and Personal Services, and 5.6% in Households Employing Domestic Personnel.

Value added growth in the sectors in general was marked by a falling trend during 2012 as growth rates of 3.5% and 3.1% in the first and second quarters fell to levels of 1.6% in the third and last quarters. Combined growth in all the sectors came to 2.4% for the year.

Net indirect taxes, which were up by 2.5% in the first quarter, fell to 1.4% in the second, 0.8% in the third and 1% in the fourth, yielding average growth of 1.4% for the year.

The GDP Implicit Price Deflator

Exhibiting 9.2% growth at current prices in 2012, GDP was up at constant prices as well by 2.2%. The implicit price deflator for GDP, which is calculated by dividing the (nominal) growth rate at current prices by the (real) growth rate at constant prices, is around 106.8 (109.2/102.2) for the year. Based on 12-month averages in 2012, however, rises in the CPI and the PPI are 8.89% and 5.33% respectively. As is evident from the figures, the implicit price deflator of 6.8% falls between the rises in the CPI and the PPI.

A look at implicit price deflators by branch of economic activity from 1998 to 2012 shows the implicit price deflator index number to be 1.203,2 in 2012 based on 1998=100. The lowest implicit price deflator index number is in financial intermediaries at 331.9. In other words, this sector has claimed the smallest share of price rises over the last fourteen years. The sector with the second lowest index number is the main sector of the economy, manufacturing, putting it in the position of the sector second least able to reflect rising input prices in the prices of its products. The results of this are also evident in the decline in the sector's share in GDP from 23.9% in 1998 to 15.6% in 2012.

Turkey's GDP, which topped one trillion Turkish Liras at current prices for the first time in 2010, rose to the level of TL 1.298 trillion in 2011 and TL 1.417 trillion in 2012. On a dollar basis this comes to 773,980 million dollars for 2011 and 786,293 million dollars for 2012.

Per capita GDP at current TL prices in 2012 was TL 18,927, the equivalent of 10,504 U.S. dollars, representing a rise of 7.9% on 2011, 1% at constant prices but lower at 0.4% in U.S. dollars.

The Overall Balance of the Economy

The Economic Program for the coming year is announced every year in October. The program for 2013, which was announced in October of 2012, also gave the economic aggregates in 2012 and projections for 2013.

The 4% growth rate previously announced for 2012 in the program for that year was revised downwards to 3.2% in the 2013 program. When growth in the last quarter of 2012 was below the 1.4% previously projected, growth for 2012, at 2.2%, was also below the projected rate of 3.2%. The significantly low rate of GDP growth in 2012 compared with the high rates of 2010 and 2011 stems from a sharp contraction in domestic demand during the year.

Based on the latest GDP figures, household consumption expenditure fell starting from the first quarter of the year right through the fourth quarter. Down by 0.4% in the first quarter of 2012, household consumption expenditure dropped by 1.3% in the second quarter, 0.4% in the third and 0.8% in the fourth, yielding an average decline of 0.7% for the year despite the fact that a 0.6% rise had been projected for 2012 in the 2013 economic program announced in October 2012. In the case of government final consumption expenditure, despite the 3.9% rise forecast the program, actual growth was even higher at 5.7%.

Gross fixed capital investment spending meanwhile was down by only 0.7% in the first quarter of 2012 but fell more sharply in the the subsequent three, by 2.7%, 4.2% and 3.8%, resulting in a 2.5% decline for the year, and higher than the 0.5% decline projected in the 2013 economic program.

Private sector fixed capital investment spending in 2012 fell by 4.5% on average over the year, considerably more sharply than the 1.7% decline projected in the 2013 program. At the same time, the rise in public investment at 8.9%% was higher than the expected growth of 4.5%.

These falls in combined final consumption expenditure and fixed capital investment spending contributed negatively to GDP growth in 2012. The contribution of household consumption expenditure to GDP was -0.5 of a point and that of private sector fixed capital investment spending even less at -0.9 of a point. The single positive contribution of 4.7 points stemmed from exports of goods and services due to its 17.2% growth. Gold exports, however, must not be overlooked in the growth in this item in 2012. Imports of goods and services meanwhile showed no change whatsoever from 2011 to 2012.

Total final consumption expenditure accounted for 84.9% and total investments for 20.3% of GDP at current prices in 2012. The share of inventory variance was zero. Taken together, the shares of total consumption (84.9%) and total investments (20.3%) add up to 105.2% of GDP, which means that production was unable to keep up with consumption in 2012 when a 5.2% portion of final consumption was due to exports of goods and services.

When the current account deficit's 6% share (in other words, the foreign savings share) is subtracted from the 20.3% share of total investment at current prices, the remaining 14.3% shows domestic savings as a percentage of GDP. Considering that the share of domestic savings was 13.8% based on revised figures for 2011, despite this 0.5 point increase Turkey has no chance of achieving sustainable growth with such low rates of domestic savings.

Since the Turkish Bureau of Statistics (TurkStat) does not publish figures for investment or inventory variance by sub-sector, such figures can only be gleaned from the annual economic programs. In those programs as well, fixed capital investment spending at constant and current prices is given only for the public and private sectors. These therefore are the figures that are used.

In compiling our report on the Turkish economy, fixed capital investment spending figures taken from the program on a sector basis may differ slightly from those based on national income estimates.

In the sectoral distribution of fixed capital investment at current prices for 2012 in the 2013 economic program, manufacturing occupies first place with a share of 32.8%. Transportation is in second place with 23.4%, and the housing sector in third with 11.4%.

Some 40.4% at current prices of private fixed capital investment in 2012 was in manufacturing. This sector's top position remains unchanged on 2011 despite an 1.8 point drop from 42.2% in that year. Second place transportation's share contracted too from 19.9% to 19.6% as did that of housing from 14.4% to 13.8%. Sectoral ranking in the private sector is unchanged in 2012.

While domestic savings and fixed capital investment continue to be problematic for the Turkish economy, it is clear that the manufacturing sector in particular is in need of a higher rate of investment. Otherwise it may prove extremely difficult to halt the contraction that has been under way in the sector's share in GDP at current prices in the 2000's.

Investment Incentive Certificates

Investments tied to investment incentive certificates declined in 2012 by 2.3% at current prices and 6% at constant prices. Such investments were down in 2011 as well, by 18.8% at constant prices. As the figures indicate, gross fixed capital investment spending fell in 2012 at constant prices as did investments tied to investment incentive certificates.

Foreign Capital

Heading the list of fundamental problems in the Turkish economy, inadequate capitalization stems from a low, and increasingly lower, ratio of domestic savings to GDP. As a percentage of GDP, domestic savings, which were low in any case at levels of 20-30% up to the year 2000, have sunk even lower since then, down to levels of around 13% in recent years. The shortfall in domestic savings has had to be buoyed up by foreign savings in order to balance savings and investment at least to some degree.

One way of solving this problem in economies that need foreign savings for growth is by attracting foreign direct investment. Although Turkey has been not in general been successful in attracting real, greenfield investment, it did manage to boost the amount of foreign direct investment in the country from 1.2 billion dollars in 2004 to levels of around 22 billion dollars in 2007. But this too began to fall with the crisis that erupted in 2008, dropping to 8.4 billion dollars in 2009 and 9 billion in 2010. The amount of foreign direct investment in the Turkish economy has begun to increase again of late, reflecting especially the monetary policies put in place by the U.S. and the EU-27 nations to exit the crisis, and reaching levels of 16 billion dollars in 2011 and 12.4 billion in 2012.

Picking up a little in 2005, direct investment inflows took the form mainly of financial investments and existing investment instruments changing hands. Although such capital inflows are useful to some degree in maintaining the foreign currency balance, they do not constitute a significant solution to the problem of a current account deficit of gargantuan proportions.

Ten billion dollars' worth of the 12.4 billion dollars of direct investment in Turkey in 2012 by individuals domiciled abroad appears to have gone to sectoral investments. Some 43.4% of direct investment in the Turkish economy was channeled into manufacturing, 2% into mining, 9% into energy and 45% into services.

Also in 2012 there was a 4.1 billion-dollar boom in net direct investment abroad by individuals domiciled in Turkey.

The possibility that Turkey can increase her rate of domestic savings and reduce the current account deficit is quite low in the short term. In order, therefore, for Turkey to finance her current account deficit through direct channels, steps need to be taken to encourage true greenfield foreign capital inflows rather than attracting so-called "hot money" (portfolio investments).

The Balance of Public Financing

The Public Debt

Internal Debt

Debt stock in Turkey, which was around 122.2 billion Turkish Liras at the end of crisis year 2001, had risen by 216.4% at current prices in the last decade to TL 386.5 billion by the end of 2012.

Impacted by 2012, which was a rather unfavorable year in terms of growth, the increase in internal debt remained at 4.8%. Nevertheless, interest payments on 2011's internal debt of 35.1 billion Turkish Liras rose by 16% in 2012 to TL 40.7 billion. This points to a slight movement in interest rates in 2012 compared with 2011 despite the Central Bank's low interest policy.

The average period to term of internal debt stock was lowered during the year, from 44.7 months in 2011 to 33.6 months in 2012.

External Debt

Following the economic crisis of 2001, the economy exhibited a positive growth trend when enterprises, which were struggling to compete, found it difficult to generate funds and turned to foreign loans despite exchange rate risk. This upwards trend despite a lowering of in-country interest rates compared with previous years stems from Turkey being a high interest country by world standards.

Foreign borrowing has risen continuously since 2001, and Turkey's foreign debt stock in 2012 was around 336,863 million dollars. In the 11-year period from 2001 to 2012 foreign debt stock has increased by 196.6%, in other words, by 10% a year on average.

Private sector foreign debt stock has increased by 15% on average every year for the last 11 years. These steep rises underscore the dimensions of the risk of fragility in the economy.

The Tax Burden

With regard to the tax burden, which expresses tax revenue as a percentage of GDP, Turkey appears to have preserved its distinction of having the lowest ratio among the European countries in the OECD.

Based on the most recently released OECD figures, the average tax burden in the OECD countries is around 33.8% whereas in Turkey it is 25.7%. Provisional figures for 2011 indicate that Turkey's tax burden has fallen even lower to 25%. Turkey's tax burden exhibits very significant differences from the tax burdens of the European countries in the OECD, in which tax burden ratios in 2011 were as follows: France 44.2%, Germany 37.1%, Italy 42.9%, Spain 31.6%, Sweden 44.5% and the UK 35.5%.

If Turkey can manage to bring informal economic activities onto the records, it may be possible to lower tax rates and raise the tax burden. In return, government savings will increase and there may be a possibility of eliminating the current account deficit and resolving the issue of inadequate domestic savings.

Privatization

Privatization proceeds, which declined by 2.3 billion, 3.1 billion and 1.4 billion dollars respectively in 2009, 2010 and 2011, were around 3 billion in 2012. While an 83.5% portion of this, or 2.5 billion dollars' worth of privatization proceeds in 2012, was acquired through public offerings, a 311.7 million dollar portion, or 10.3%, was derived from plant/property sales and another 186.5 million dollars' worth, or 6.2%, from block sales.

The Central Administration Budget

Budget revenues were estimated at 329.8 billion Turkish Liras in the estimated budget for 2012. The actual figure was 0.6% higher at TL 331.7 billion, representing a very small difference due to the slump in 2012 following an uptick in economic activity in 2010 and 2011.

Tax revenues accounted for 84% of budget revenues in 2012, down slightly from 85.5% in 2011. Among tax revenues, income tax, which was up by 20.8% in 2011, rose by only 15.8% in 2012.

Corporation tax revenues were up by 7.5% and taxes on goods and services by 8.2% in 2012. The rise in taxes collected on international trade and transactions was limited to 3.5%.

Due to a contraction in the growth of tax revenues in 2012, the budget deficit swelled by 61.9% on 2011. An important factor in this was low growth of 3.5% in taxes collected on foreign trade as a result of a decline in imports during the year.

Indirect taxes made up 69.3% of tax revenues in 2012, very close to their 69.8% in 2011. Direct taxes accounted for 30.2% of tax revenues in 2011 and 30.7% in 2012. This distribution of direct and indirect taxes is peculiar to Turkey and stems from distortions in the country's tax structure.

The budget deficit was forecast at 21.1 billion Turkish Liras in 2012. The actual figure was 36.5% higher at TL 28.8 billion. The non interest-bearing balance for the year is TL 19.6 billion.

Population and Employment

The population of Turkey was 75.627.384 on December 31, 2012, representing a population growth rate of 12% and a decline on the 13.5% of 2011.

Some 18.3% of Turkey's population in 2012 (13.854.740) reside in Istanbul. Istanbul with a 6.6% share is followed by Ankara with a population of 4.965.542 and a 5.3% share, and Izmir with a population of 4.005.459.

At the end of 2012, Turkey's total population had risen by 12% (903.115) on 2011 to 75.627.384, 50.2% of which was male (37.956.168) and 49.8% female (37.671.216).

Based on the results of the Household Labor Force Survey published in 2012, the non-institutional population has risen by 1.228.000 to 73.604.000. The working age population was up by 1.131.000 on the previous year to 54.724.000.

The labor force increased by 614.000 (2.3%) to 27.339.000 in 2012 but the rate of participation in the work force was unchanged on 2011 at 50%. This is the lowest rate among the OECD member countries and far below the rate of the next highest ranking country.

The number of employed persons was up by 2.9% (711.000) to 24.821.000 in 2012, and the number of unemployed down by 97.000 to 2.518.000. The employment rate rose from 45% in 2011 to 45.4% in 2012, and the unemployment rate fell from 9.8% to 9.2%, its lowest since the 6.5% of 2000.

Non-agricultural unemployment in 2012 fell by 0.9 of a percent on 2011 to 11.5%. A similar trend is observed in youth unemployment, which was down to 17.5% in 2012 from 18.4% in 2011.

Some 24.6% of those employed in 2012 were in the agriculture sector, down by 0.9 point from 25.5% in 2011. The share of those employed in construction in 2012 was little changed on 2011 at 6.9%, but the share of those employed in services rose by 1.3 point on 2011 to 49.4% as the number of persons employed in the sector increased by 5.8% on the previous year.

Unfavorable developments in employment in manufacturing in 2012 resulted in a decline from 18.1% in 2011 to 17.8% in 2012 in the sector's share in jobs, its lowest level since 2003.

Developments in the Analytical Balance Sheet of the Central Bank

The December 28, 2012 balance sheet of the Central Bank of the Republic of Turkey (CBRT) exhibited high growth of 39.2% in the last year, stemming largely from a 25.7% increase in foreign assets. When the Bank's funds provided by the valuation account and capital revenues exceeded domestic assets, these were again a negative balance sheet item in 2012. They did however retreat from a negative 26.9 billion Turkish Liras to a negative TL 14 billion, thus contributing to growth in the Analytical Balance Sheet.

Developments in Deposits, Credit Stock and the Monetary Aggregates

Deposits grew by 13% in 2012, at around 15% in the case of current accounts and higher than the 12% growth in savings accounts. Deposits in the foreign banks were up by 19.7% in 2012, while growth in the deposits of the private banks remained at 13.9%. Deposits in the government-owned banks on the other hand only managed to grow by 9.2%. Growth in foreign currency accounts remained at the level of 4% due to falling exchange rates during the year. Growth in total bank deposits was 10.2%.

Growth in credit stock was far behind that of 2011 at 18.2%. Market preferences changed in 2012 as growth in Turkish Lira credits at 20.3% outstripped that of 8.7% in foreign currency credits.

The Foreign Exchanges

While GDP was growing at high rates, the economy ran current account deficits of 6.2% in 2011 and 9.7% in 2012. As a result of government-implemented economic measures to counter this deficit in the balance of payments, which reached very large dimensions especially in 2011, the Turkish Lira lost a significant proportion of its value in the second half of the year and by year's end the U.S. dollar had gained 22.8% on the lira. Then in 2012 a modest slowdown was observed in growth as GDP grew by only 2.2% at constant prices.

The U.S. dollar, which was selling for TL 1.9008 at the end of December 2011, had fallen to TL 1.7889 by the end of 2012. In other words, the Turkish Lira gained 5.9% on the U.S. dollar during the year. Against the Euro on the other hand the Lira lost 4%. Euro-dollar parity, which was at 129.4 at the end of 2011, rose to 131.9 by the end of 2012. This development against the dollar and in favor of the Euro is positive from the standpoint of Turkey's exports to the eurozone. The lira's gain on the Japanese Yen meanwhile was around 15.3%.

In contrast with 2011, these developments in the exchange rates in 2012 led to a change for the better, albeit slight, in the structure of borrowing of firms with foreign currency-indexed loans.

Price Movements

Parallel with the global economy in 2012, Turkey too experienced a relative slowdown which manifested itself especially in domestic demand. The CPI dipped below even its 6.5% of 2009 as the price increase on an annualized basis came to 6.16%. It had been projected at 7.4% in the 2013 economic program.

Based on figures released by TurkStat, the Producer Price Index (PPI) in 2012 was up by 2.45% on 2011. Following a double-digit price rise in 2011, the increase in the PPI in 2012 was the lowest since the 1970's.

Foreign Trade

World trade in goods and services in 2011 grew by 5.9% according to the IMFs January estimate for 2013, and growth of 2.8% in this item is expected in 2012. The exports of the developed countries rose by 5.6% in 2011; expected growth in 2012 is 2.1%. Finally, the exports of the emerging economies and developing countries were up by 6.6% in 2011 and are expected to rise by 3.6% in 2012.

In imports, the imports of the developed countries rose by 4.6% in 2011; growth in this group's imports in 2012 is expected to be 1.2%. In the emerging and developing economies, imports were up by 8.4% with estimated growth of 6.1% in 2012.

Based on the IMF's growth and foreign trade estimates, the relative slowdown of 2011 intensified slightly in 2012. While GDP growth in Turkey was generally in line with this trend, a somewhat different picture emerged in exports due especially to exports of gold. Turkey's exports were up by 13% in 2012 while imports declined by 1.8% in contrast with the global trend.

Based on foreign trade statistics released by TurkStat, Turkey's exports rose by 13% on a dollar basis in 2012 to 152.5 billion dollars, representing a 5.5 point fall on the 18.5% growth rate of 2011.

Exports, which were up 13% on a dollar basis in 2012, declined by 16.7% in volume and by 3.1% in unit value. Exports of manufactured products rose by 13.8% in 2012 whereas exports of agricultural products were up by only 0.5%.

A close look at 2012 exports by category of goods reveals exports of Precious and Semi-precious Stones and Precious Metals to be in first place with growth of 336.7% and a 10.7% share, making gold the main contributing factor to the country's dollar-based export growth of 13.1% for the year.

Motor vehicle exports, Turkey's main export sector in recent years, was in second place with a 9.9% share in 2012. The exports of this sector fell by 4.1% on 2011. In third place with a 7.9% share were Boilers, Machinery and Appliances with export growth of 3.9% in 2012.

Despite the decline in imports in 2012, the export-import offset ratio remains at the rather low level of 64.5%, an 8.5 point rise on its 56% in 2011 notwithstanding.

The total share of the EU countries, Turkey's biggest export market in 2012, declined from around 46.2% in 2011 to 38.8% in 2012. Over 50% in earlier years, the EU countries' share shrank to extremely low levels in 2012, decreasing by 5% despite export growth of 13.1% on a dollar basis in 2012.

Turkey's second largest market in 2012 with a 27.8% share were the countries of the Near and Middle East. 7.1% portion of that 27.8% went to Iraq, and the remaining 11.9% to Iran and the United Arab Emirates in the form of gold. As exports to other Asian countries rose by 3.7% in 2012, these countries' total share came to 6.9%. Exports to the Americas were up by 21.6% in 2012 as their share in the total climbed from 5.9% to 6.3%. Exports to the African countries too were up in 2012 by 29.8%, expanding their share from 7.7% to 8.8%. Despite a growth of 10.8% in exports to the other European countries, their share contracted from 9.6% to 9.4%.

As is always the case in exports, Germany was in first place in 2012 with an 8.8% share, followed by Iraq in second with 7.1% and Iran in third with a 6.5% share due especially to exports of gold bullion. Exports to Iran rose by 176.4% in 2012.

Exports in 2012 were projected at 248.7 billion dollars in the economic program for that year, but this estimate has been pulled down to 239.5 billion in the 2013 program. Based on figures published by TurkStat, imports fell by 1.8% on 2011 to 236.5 billion dollars.

Increasing in volume by 1% in 2012, imports fell by 2.8% in unit value, a result that indicates Turkey's imports are getting cheaper, albeit only slightly. While small in proportion, it is nevertheless an unfavorable development from the standpoint of domestic producers. A slowdown in domestic demand especially was responsible for the decline in imports.

The Foreign Trade Deficit

The economic slowdown and slump in domestic demand were a factor in the 1.8% decline in imports and the reduction of the foreign trade deficit by 20.7% to 84 billion dollars. The foreign trade deficit in 2012 is the second highest to date after 2011.

The Balance of Payments

The balance of payments current account deficit was projected at 65.4 billion dollars in the economic program for that year. In the 2013 program however it has been revised downwards to 58.7 billion. Based on data released by the Central Bank of Turkey, the balance of payments current account deficit was 46.9 billion dollars in 2012. Falling below both forecasts and expectations, this represents a 28.2 billion dollar reduction on its 75.1 billion-dollar level in 2011. There is a major dependence on the current account for growth in the economy, a dependence that Turkey must reduce by rapidly increasing the rate of domestic savings in the country.

Forecasts and Expectations for 2013

Despite the passage of five years since the start of the recent global crisis, achieving the stability expected in the world economy has proved elusive for various reasons.

Regardless of this unfavorable trend, however, the Turkish economy made a rapid recovery in 2010, boosting its production of final goods and services (Gross Domestic Product) by 9.2%. Sustaining that success in 2011, Turkey entered the ranks of the world's fastest growing countries with growth of 8.8%. In 2012, however, the Turkish economy suffered a sharp fall in growth, which came to only 2.2% for the year.

Growth in 2010 and 2011 derived mainly from private consumption expenditure and fixed capital investment. Then, as a result of measures taken in the face of global uncertainty and to counter the increase in the current account deficit, economic activity in the country began to slow starting in the last quarter of 2011 especially. This relative slowdown continued in 2012 as well, as GDP growth fell to levels of only 2.2%.

GDP growth of 4% has been targeted in 2013 when economic growth is expected to come primarily from domestic demand and the contribution of exports of net goods and services is not expected to be at the high levels it was in 2012.

Turkey's 4% growth in 2013 is expected to come from growth rates of 3% in agriculture, 4.2% in industry, and 4.2% in the services sector.

Growth of 3.1% at constant prices in total final consumption expenditure is projected in the 2013 economic program, at 3.6% in final government consumption expenditure and 3.1% in household consumption expenditure.

In total fixed capital investment spending meanwhile 6.8% growth is projected, with 5.4% growth in public sector fixed capital investment spending and 7.1% in private sector investment spending.

The contribution to GDP of inventory variance, a component of total investment spending, is expected to be negative at -0.1% in both the public and the private sectors. On an expenditure basis, a 4.2% rise at constant prices in exports of goods and services and a 4% increase in imports are projected in 2013.

The share in GDP of total final consumption expenditure at current prices is estimated at 84.3% in the 2013 economic program and that of total investment, i.e. inventory variance and fixed capital investment, at 21.8%. The combined share of total consumption and total investment meanwhile is 106.1% (84.3% + 21.8%), 100% of which is GDP, while the remaining portion is due to exports of net goods and services. Net goods and services expressed as a percentage of GDP make up 6.1% of the current account, and another item, net factor incomes coming from abroad, makes up -0.9%. As a percentage of GDP, current net transfers from abroad are projected at 0.2%. The combined total of these items (-6.1%) + (-0.9%) + (0.2%) comes to -6.8%, which shows the projected size of the current account deficit as a percentage of GDP in 2013.

Assuming that investment is equal to savings (I=S), subtracting the current account deficit at 6.8% of GDP from total investment at 28.1% of GDP, one arrives at the domestic savings ratio of 15% for the year forecast in the program for 2013. This ratio is not significantly different from the ratios of 13.8% in 2011 and 14.3% in 2013.

Some 2.1% of the 15% domestic savings ratio projected for 2013 is expected be provided by the public sector and another 12.9% by the private sector.

Expressed as a percentage of GDP, central administration budget revenues are projected to be 23.6% in the 2013 economic program. Such revenues are expected to come to 370.1 billion Turkish Liras and budget expenditures to 404 billion TL for the year. This means an increase of 11.6% on 2012 in the case of revenues and 12.1% in the case of expenditures.

The non-interest budget deficit, which was 19.6 billion Turkish liras in 2012, is projected to fall by 2.6% in 2013 to 19.1 billion.

In the IMF's January estimate for 2013, a figure of 1.6% is given for inflation in the developed economies and 6.1% in the emerging and developing economies. Based on estimates made for 2012, inflation was 2% in the developed countries and 6.1% in the emerging and developing economies. At 5.3%, Turkey's expected inflation in 2013 is therefore quite close to the 6.1% estimated for the developing countries. Expected inflation in the eurozone in 2013 is 5.3%, and there is no country among the EU countries with expected inflation above or even near that of Turkey's 5.3%.

Exports of 158 billion dollars and imports of 253 billion have been targeted in the economic program for 2013. Compared with the figures for 2012, this means growth of 3.5% in exports and 6.1% in imports for the year. As the figures show, growth in imports is again, as in previous years, expected to outstrip growth in exports. The 4% GDP growth projected in 2013 in the economic program for the year makes this difference inevitable.

Although the foreign trade deficit contracted to 84 billion dollars in 2012, the deficit as estimated in 2013 is 95 billion dollars, which in turns means a balance of payments current account deficit of 60.7 billion dollars for the year.

The balance of services, a sub-item in the current account of the balance of payments, is expected to show an increase of 22.6 billion dollars and current transfers growth of 1.8 billion dollars in 2013. A 7.7 billion-dollar reduction is projected in the balance of payments.

A ratio of current account deficit to GDP of 7.1% is projected in 2013, and the probability these expectations will be met is extremely high thanks to current trends in the world and the Turkish economy. At the same time, the current account deficit and the problem of hot money in the economy are also likely to continue in 2013. It is therefore incumbent on us to point out once again that growth funded by a current account deficit is not sustainable.

Table: Basic Economic Aggregates

	2007	2008	2009	2010	2011	2012	2013 (*)
National Income							
GDP (at current prices) (TL billion)	843,2	950,5	952,6	1.098,8	1.297,7	1.416,8	1.571,2
GDP (at current prices) ($ bn)	648,8	742,1	616,7	731,6	774,0	786,3	858,0
GDP annual implicit price deflator	106,2	112,0	105,3	105,7	108,6	106,8	5,3
GDP growth rate (%)	4,7	0,7	-4,8	9,2	8,8	2,2	4,0
Agriculture, Hunting, Forestry	-7,0	4,6	3,7	2,4	6,2	3,5	-
Fisheries	0,7	-5,7	-0,3	1,7	1,8	3,1	-
Mining and Quarrying	8,1	5,4	-6,7	4,7	3,9	0,8	-
Manufacturing	5,6	-0,1	-7,2	13,6	10,0	1,9	-
Production and Distribution of Gas, Electricity, Hot Water and Steam	6,8	3,7	-3,4	7,3	8,8	3,5	-
Services	6,3	1,2	-3,2	8,6	9,0	2,4	-
Per capita GDP ($)	9.240	10.438	8.559	10.022	10.466	10.504	11.318
Per capita GDP by Purchasing Price Parity ($)	13.903	15.021	14.413	15.571	17.468	-	-
Industrial Production (Annual change adjusted for calendar effect), %, (based on 2010=100)							
Total Industry	8,6	-1,1	-10,4	12,4	9,7	2,5	-
Mining and Quarrying	11,7	6,9	0,5	0,9	6,4	2,0	-
Manufacturing	8,3	-2,2	-12,4	14,0	10,1	2,2	-
Production and Distribution of Gas, Electricity, Hot Water and Steam	9,0	3,4	-2,2	8,3	8,7	4,5	-
Unemployment and Employment (%)							
Unemployment Rate	10,3	11,0	14,0	11,9	9,8	9,2	8,9
Employment Rate	41,5	41,7	41,2	43,0	45,0	45,4	-
Prices (%)							
Producer Price Index (TurkStat) (2003=100)							
12-month price increase	5,9	8,1	5,9	8,9	13,3	2,5	-
Annual average price increase	6,3	12,7	1,2	8,5	11,1	6,1	-
Consumer Price Index (TurkStat) (2003)							
12-month price increase	8,4	10,1	6,5	6,4	10,5	6,2	5,3
Annual average price increase	8,76	10,44	6,3	8,6	6,5	8,9	-
Foreign Trade ($ bn)							
Exports (FOB)	107,3	132,0	102,1	113,9	134,9	152,5	158,0
İmports (CIF)	170,1	202,0	140,9	185,5	240,8	236,5	253,0
Foreign Trade Deficit	-62,8	-69,9	-38,8	-71,7	-105,9	-84,1	-95,0
Current Account Deficit	-37,8	-40,4	-12,2	-45,4	-75,1	-47,5	-60,7
Debt							
Total External Debt Stock ($ bn)	250,3	281,0	269,2	291,9	304,2	336,9	-
Total External Debt Stock/GDP	38,6	37,9	43,7	39,9	39,3	42,8	-
Total Internal Debt Stock (TL billion)	255,3	274,8	330,0	352,8	368,8	386,5	-
Total Internal Debt Stock/GDP	30,3	28,9	34,6	32,1	28,4	27,3	-

Source: Ministry of Development, 2013 Economic Program, Turkis Statistical Institute, Central Bank of the Republic of Turkey, Undersecretariat of the Treasury.

* Ministry of Development, projections made in the 2013 Economic Program.