



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **Growth Potential of Turkey**

**Erdem Başçı  
Governor**

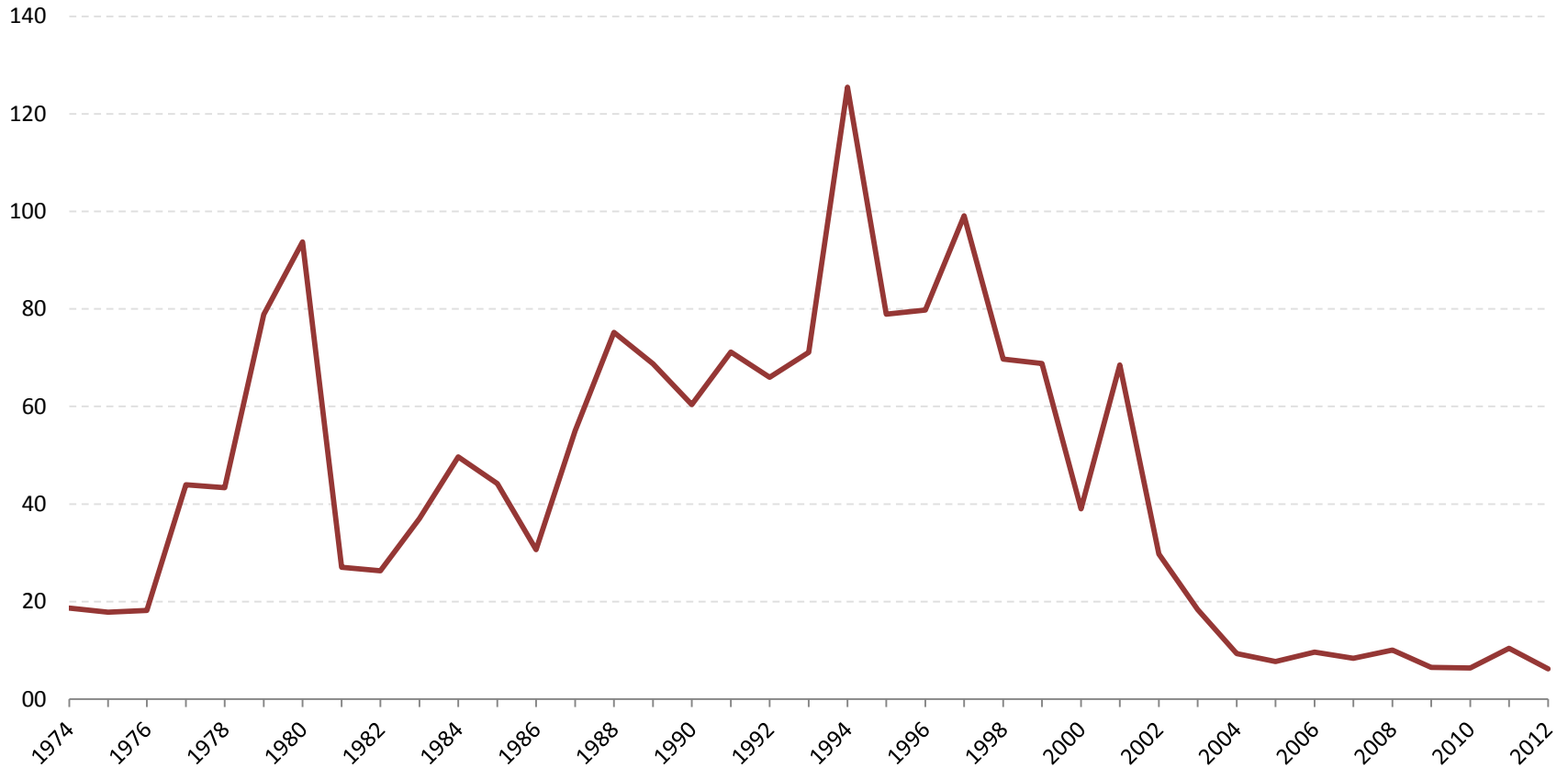
**13 March 2013  
İstanbul**

# Challenges for Growth

1. Inflation
2. Financial Crises
3. Structural Challenges

# Inflation in Turkey

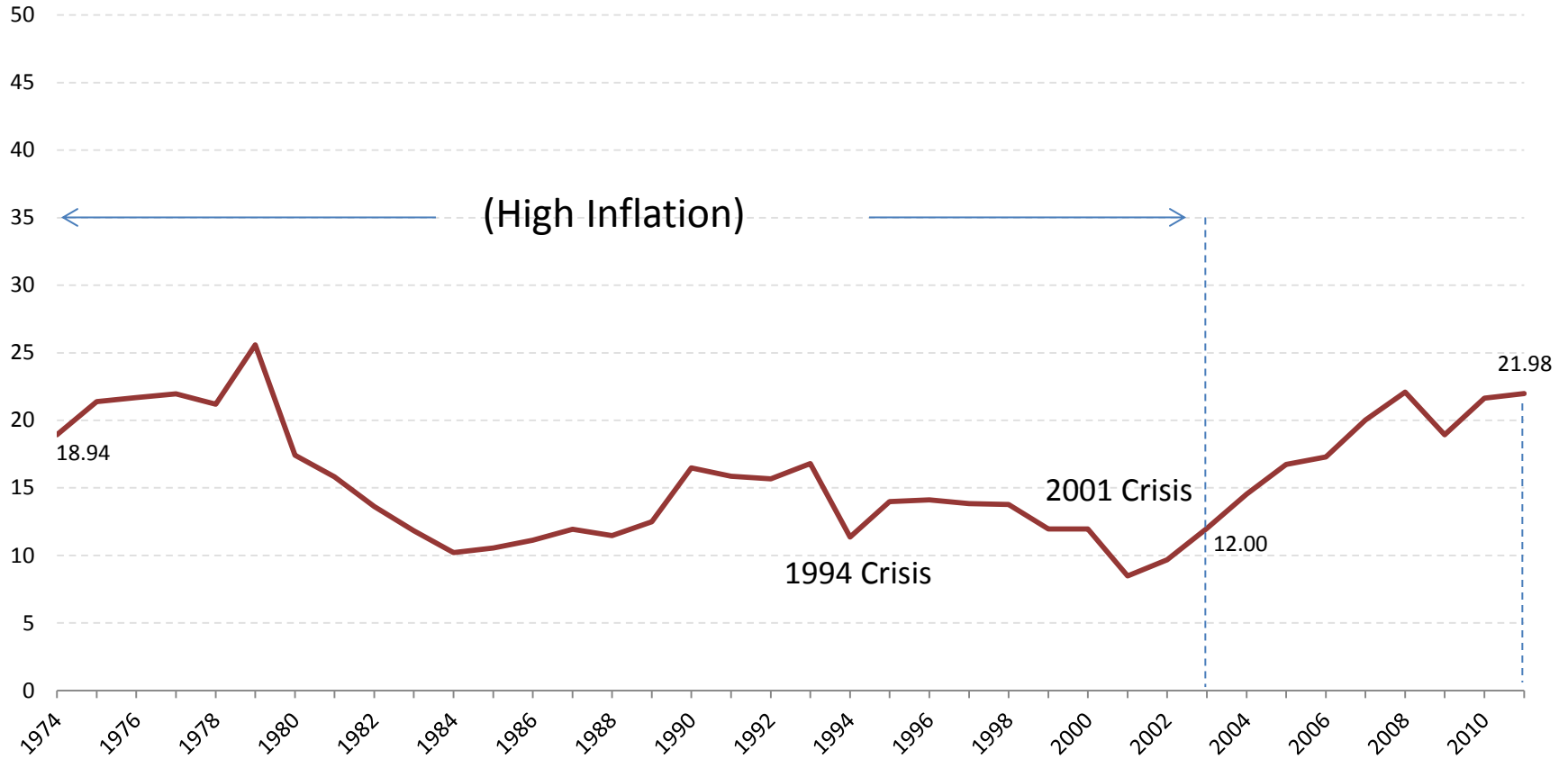
## Inflation (Percent)



Source: CBRT

# Inflation and Cost of Crises

## Per Capita Income in Turkey with Respect to the US (Percent)



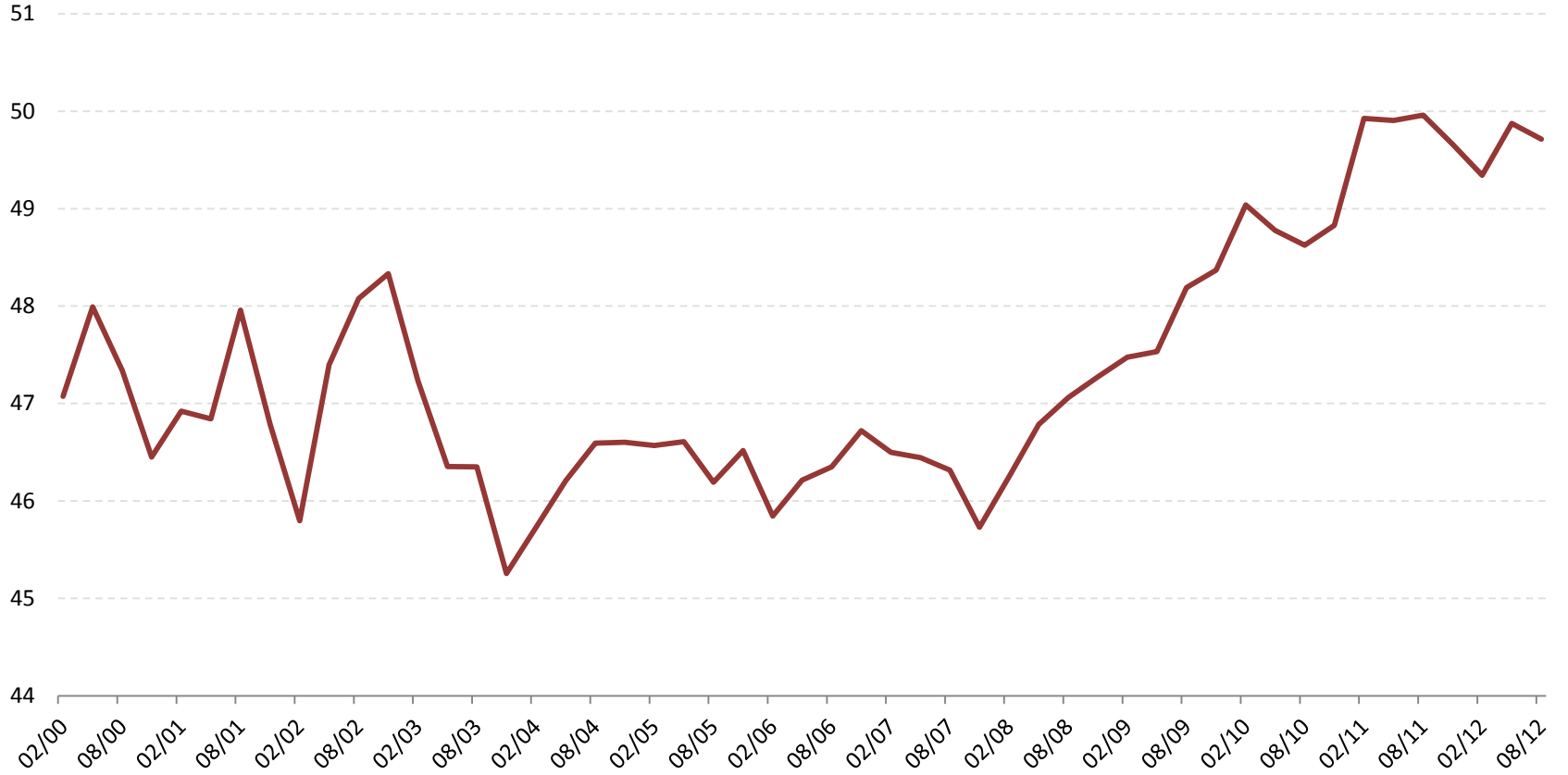
Source: UN, CBRT

# Production Function

1. Labor
2. Capital
3. Productivity

# Labor

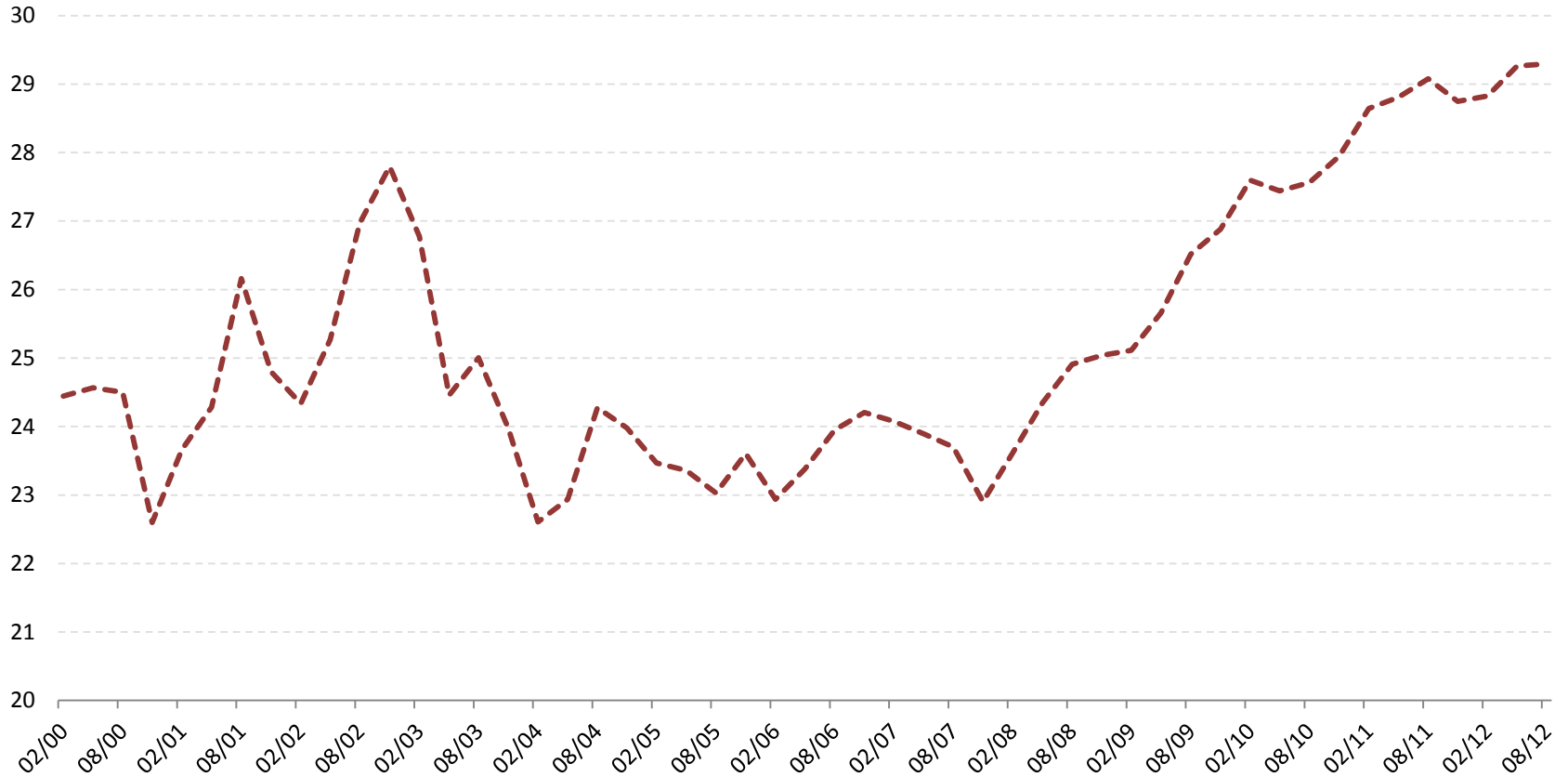
## Labor Participation in Turkey (Total, Percent)



Source: TURKSTAT

# Labor

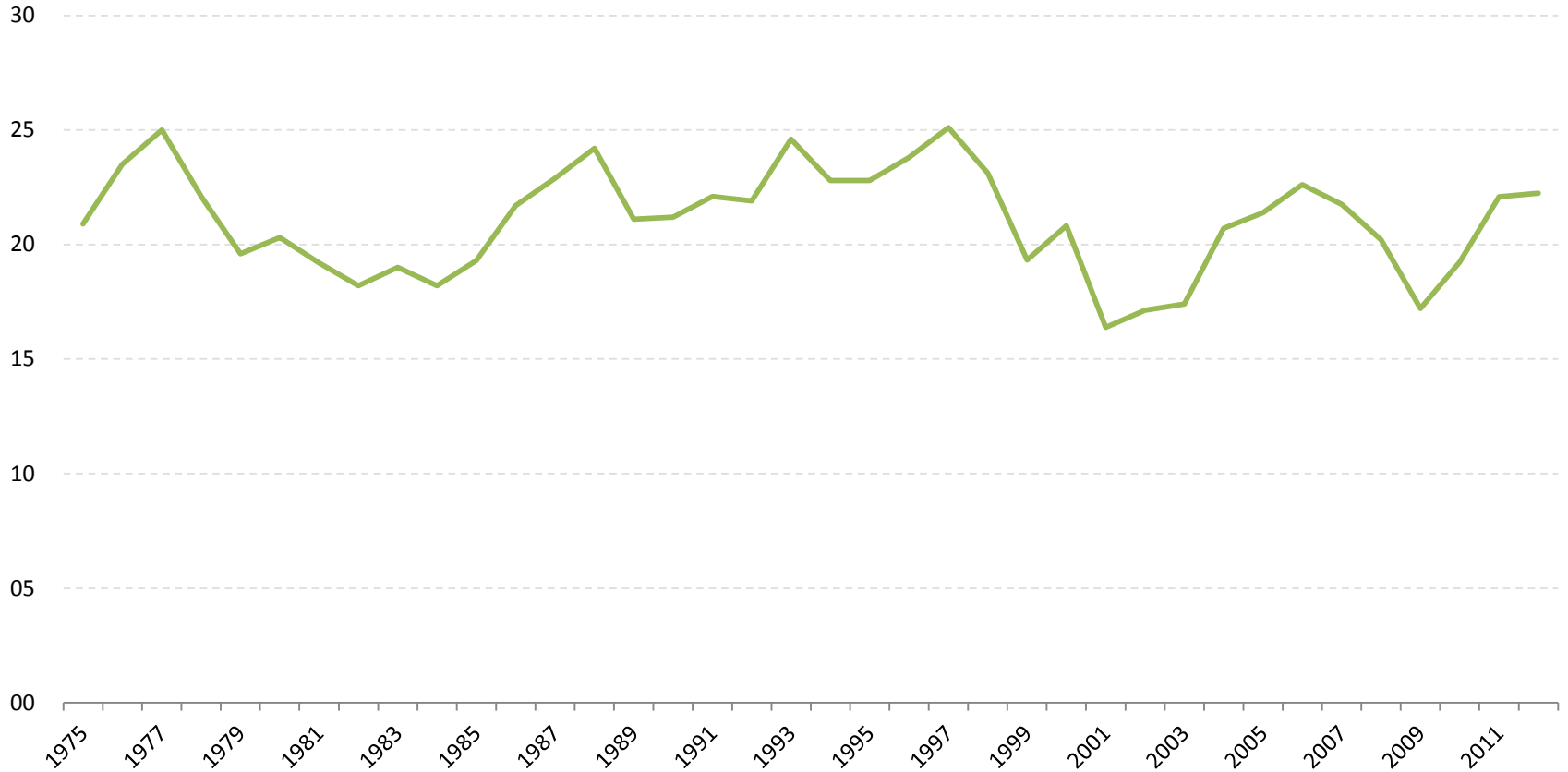
## Female Labor Participation in Turkey (Percent)



Source: TURKSTAT

# Investments

## Fixed Capital Investments\* (Ratio to GDP, Percent)



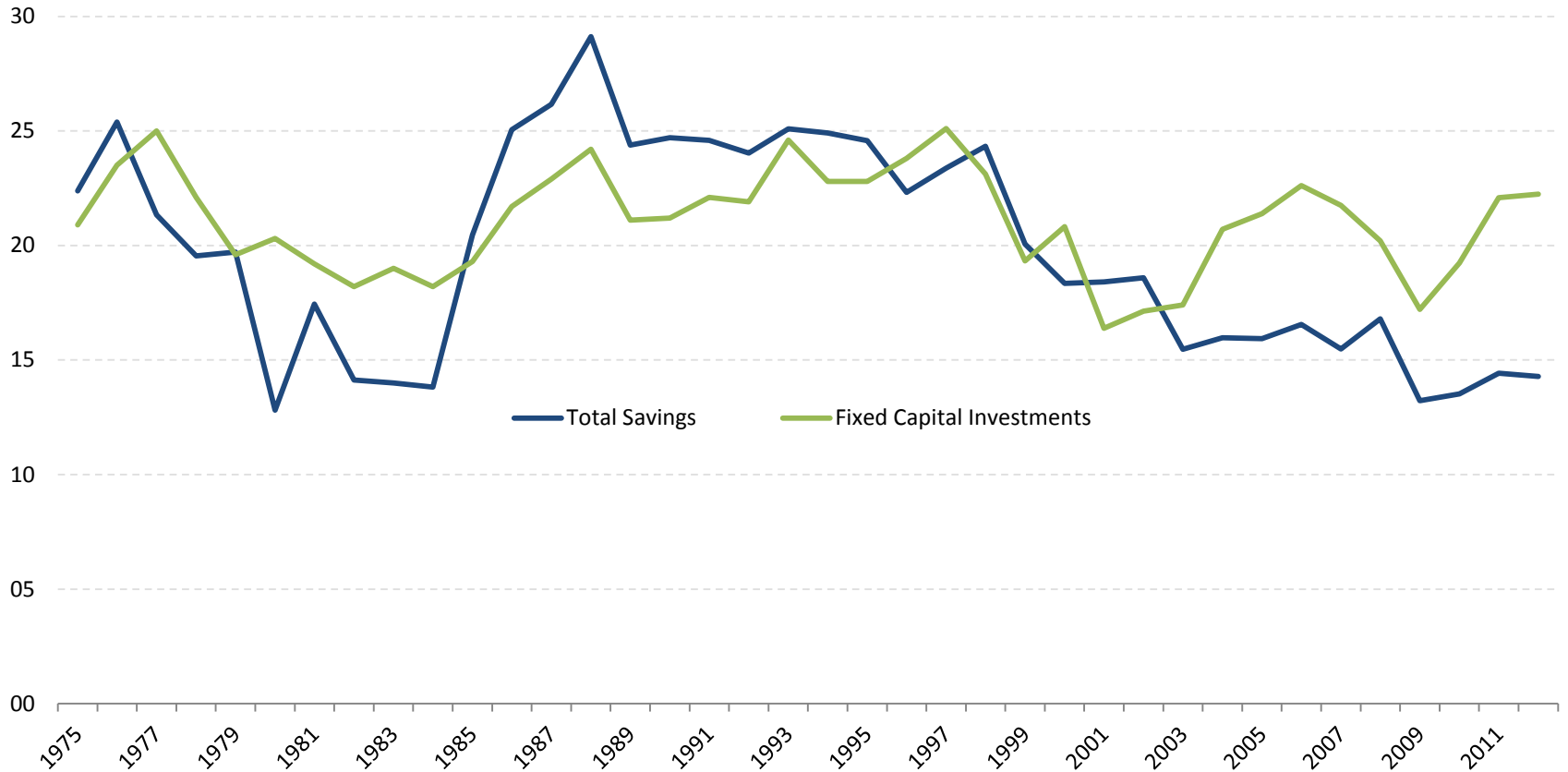
Source: Ministry of Development

\*Figures for 2012 are estimates.



# Investments and Savings

## Fixed Capital Investments and Domestic Savings\* (Ratio to GDP, Percent)

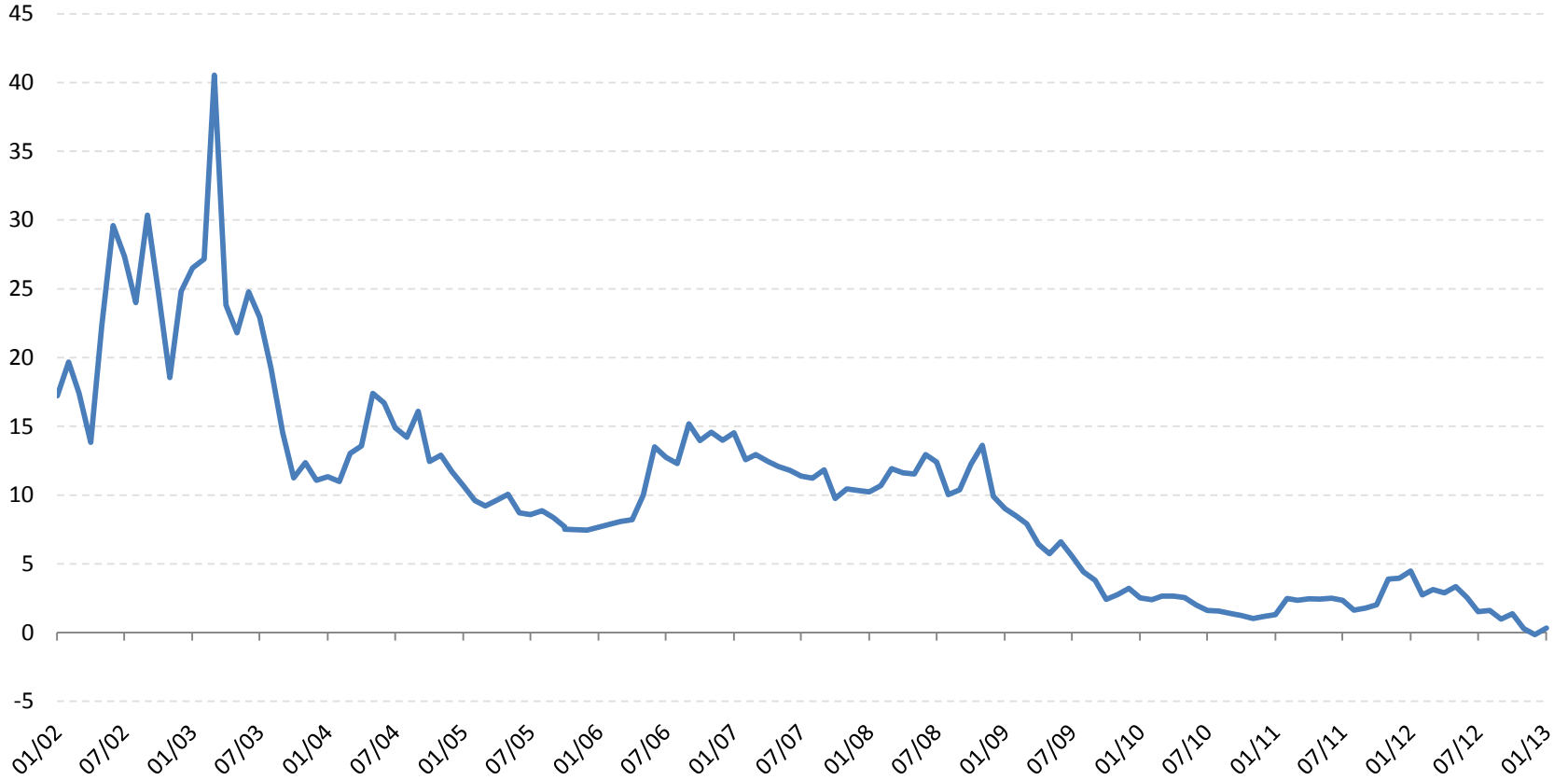


Source: Ministry of Development

\* Figures for 2012 are estimates.

# Real Interest Rates (Market)

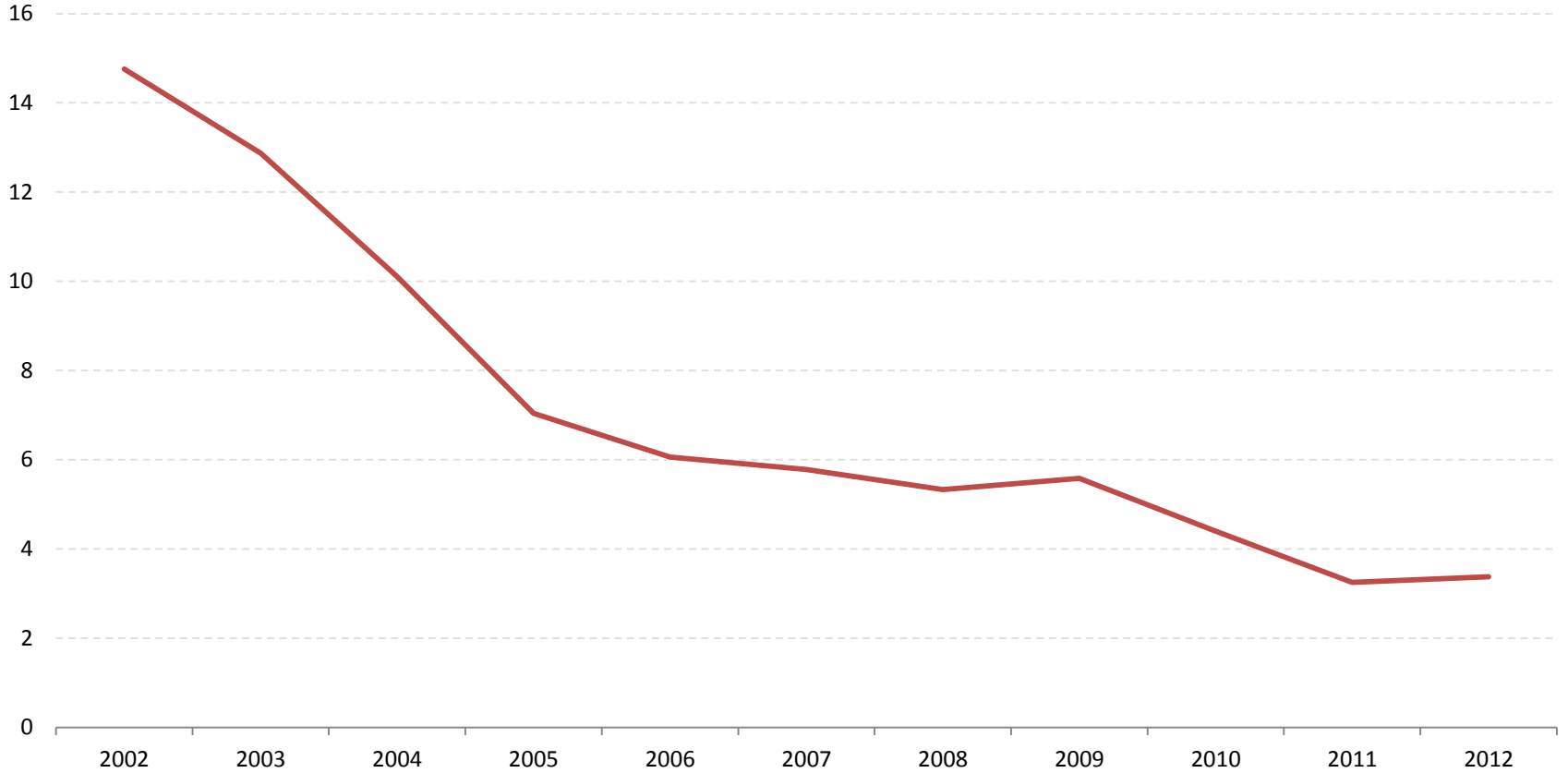
## Expected Real Interest Rates of Government Bonds (%)



Source: CBRT

# Interest Expenditures

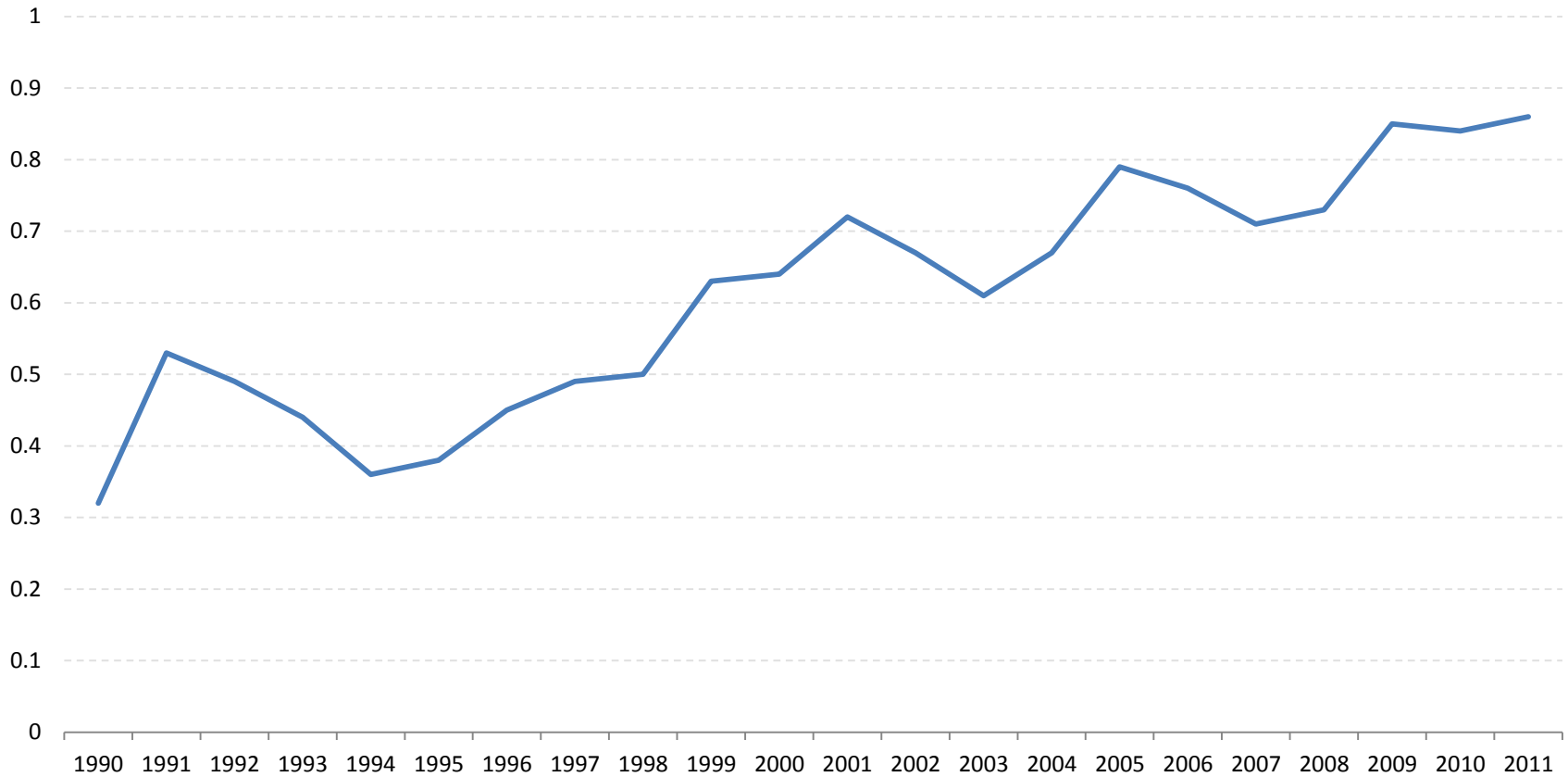
## Interest Expenditures of Government (Ratio to GDP, Percent)



Source: Ministry of Finance

# Research and Development

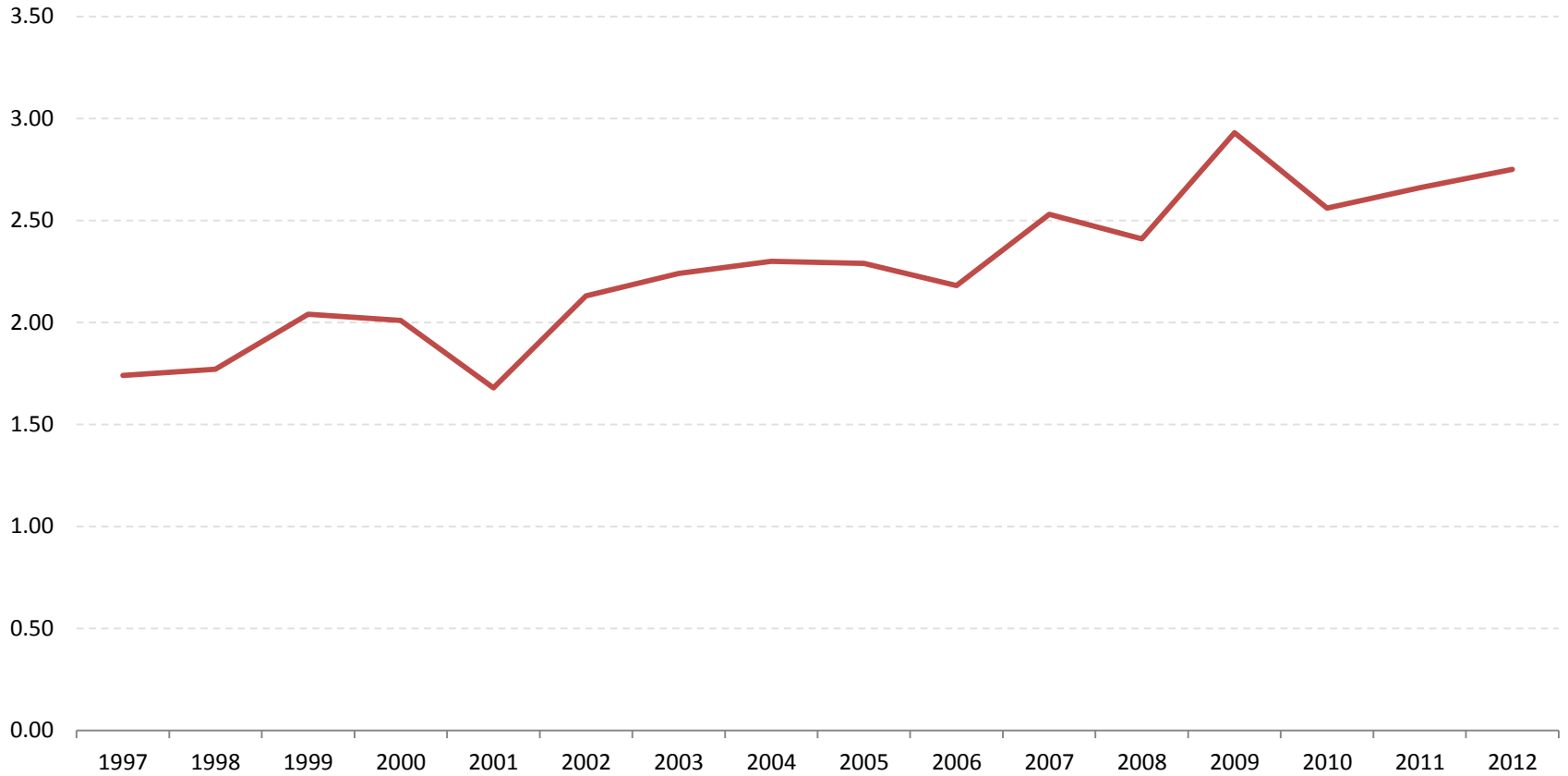
## R&D Expenditures (Ratio to GDP, Percent)



Source: TURKSTAT

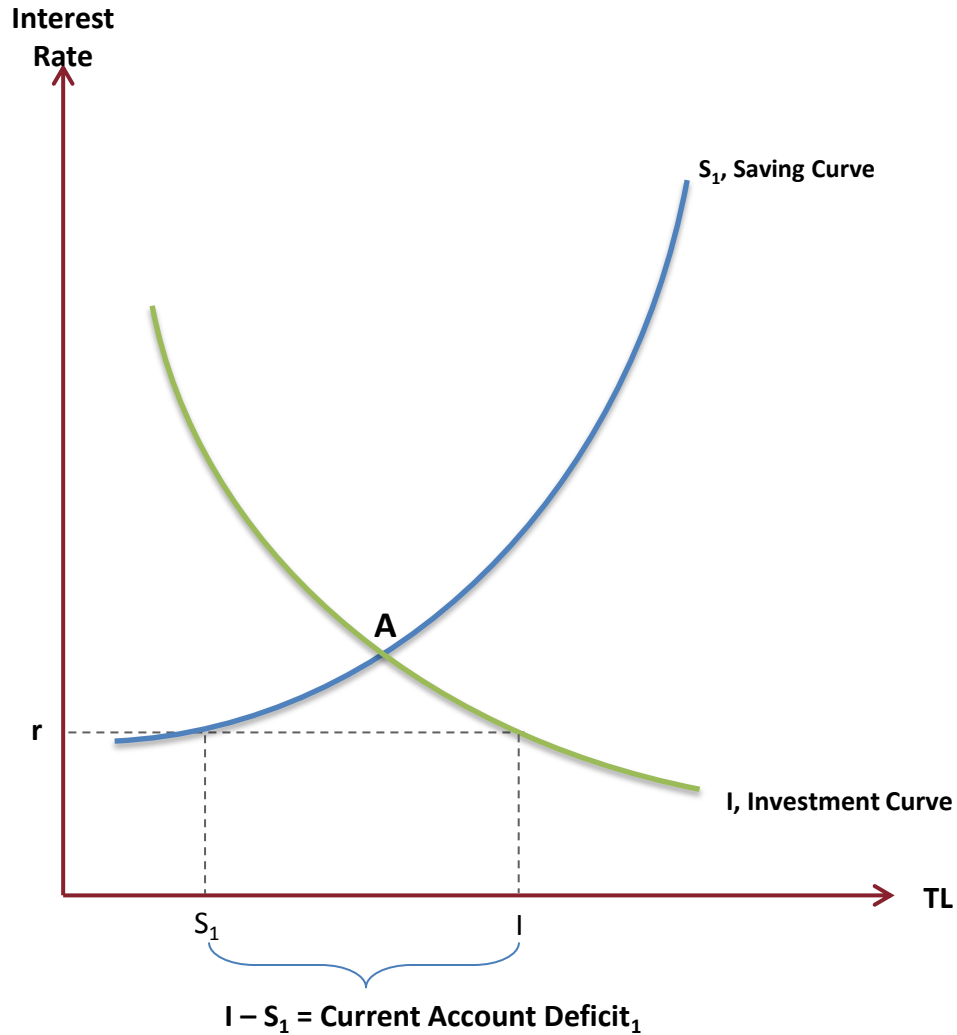
# Education Expenditures

## Ratio of Ministry of National Education's Budget to GDP (Percent)

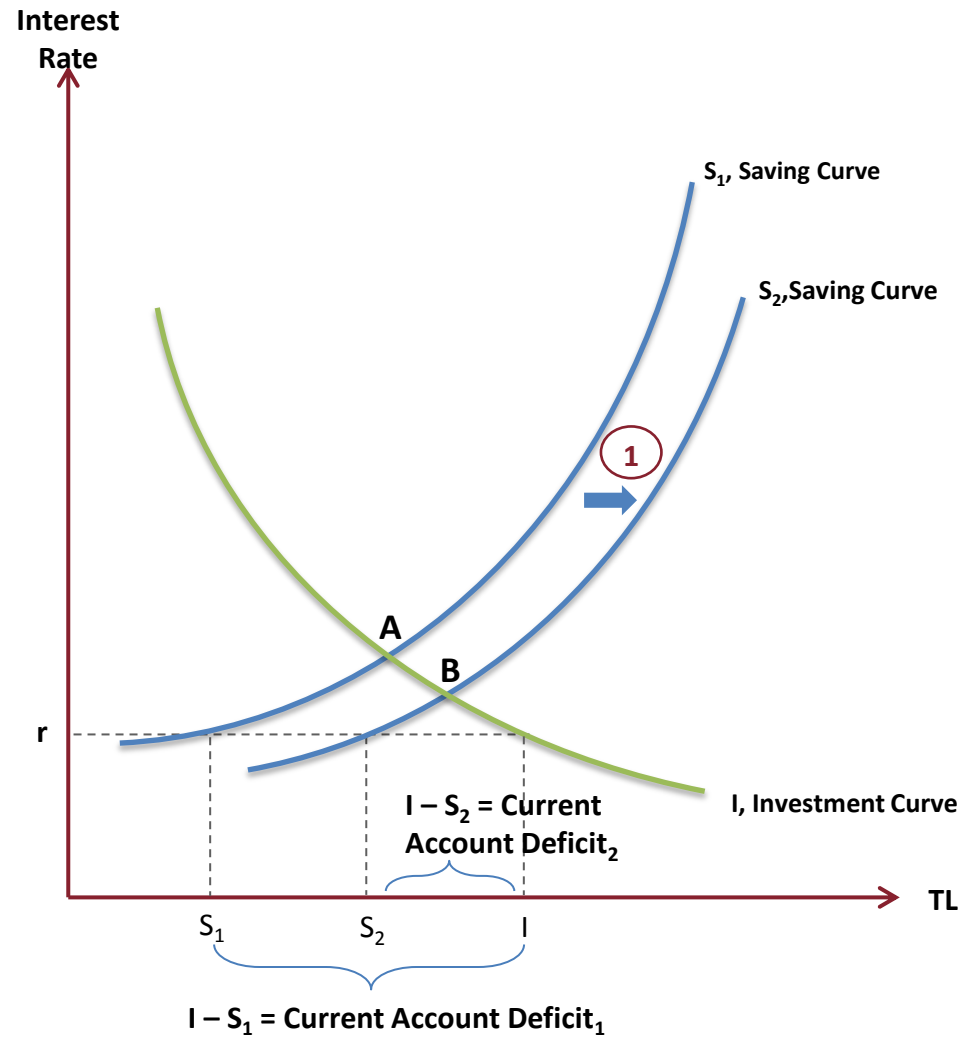
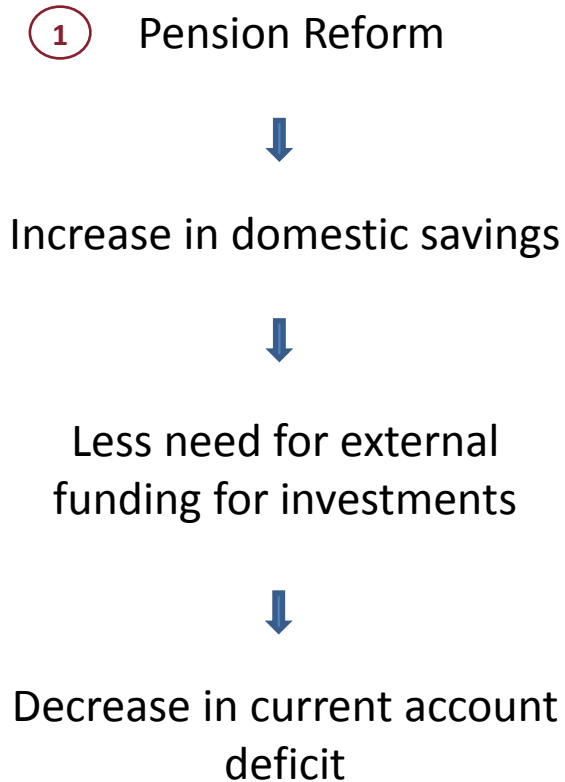


Source: Ministry of National Education Statistics

# Savings – Investment Balance and Current Account Deficit



# Pension Reform



# Macprudential Policies

① Prevention of Overborrowing



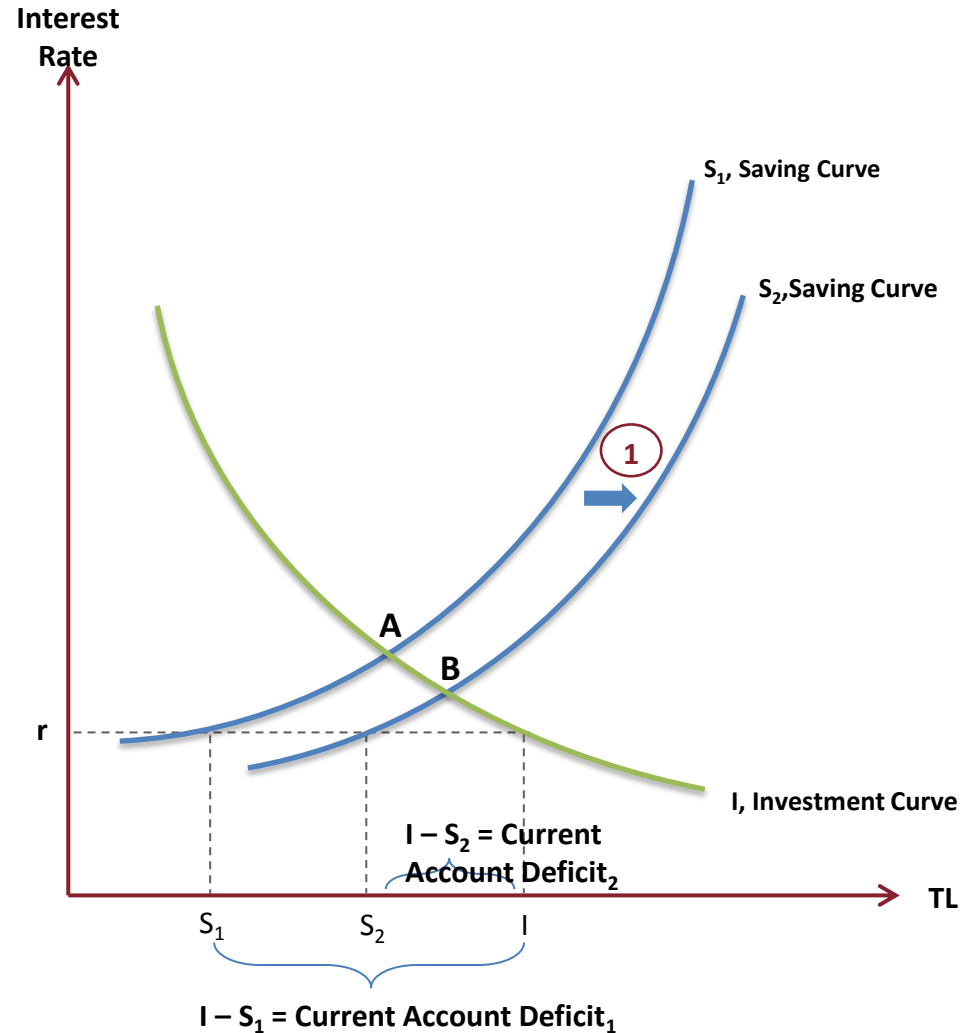
Increase in domestic savings



Less need for external funding for investments



Decrease in current account deficit





# Savings Awareness

- **The Endogenous Determination of Time Preference**  
Gary S. Becker and Casey B. Mulligan. (1997). The Quarterly Journal of Economics, Vol. 112 (3), pp. 729-758.
- **Cognitive and Attentional Mechanisms in Delay of Gratification.**  
Walter Mischel, Ebbe B. Ebbesen and Antonette Raskoff Zeiss. (1972). Journal of Personality and Social Psychology, Vol. 21(2), pp. 204-218.
- **Optimal Financial Knowledge and Wealth Inequality**  
Annamaria Lusardi, Pierre-Carl Michaud and Olivia S. Mitchell. (2013). NBER Working Paper 18669.
- **Do the Rich Save More?**  
Karen E. Dynan, Jonathan Skinner and Stephen P. Zeldes. (2004). Journal of Political Economy, Vol. 112(2), pp. 397-444.

# Financial Education

① Increasing savings awareness



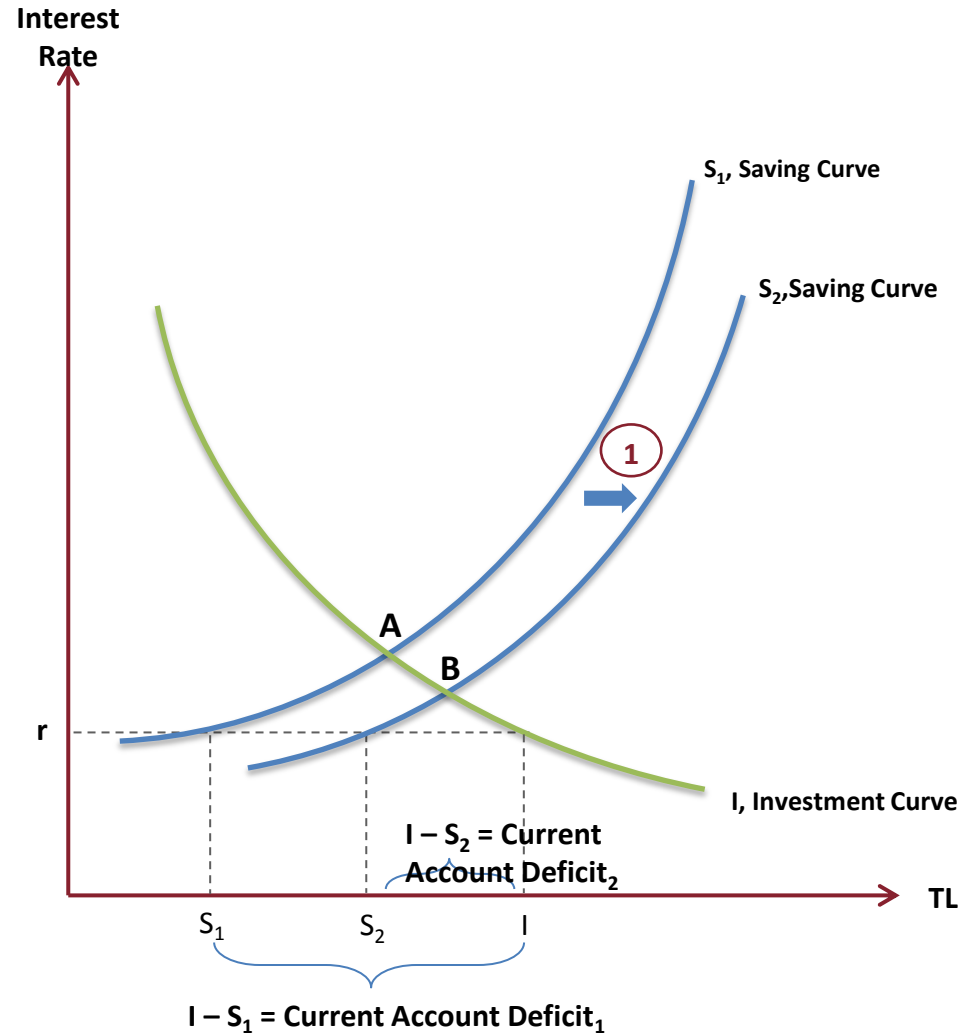
Increase in domestic savings



Less need for external  
funding for investments



Decrease in current account  
deficit



# To Boost Growth Potential:

1. Price Stability
2. Financial Stability
3. Structural Reforms

# Overview

- Growth rates and interest rates remain to be low all over the world.
- In this conjuncture, the right policy mix for the Turkish economy consists of low interest rates and balanced growth.
- Balanced growth means a growth pattern that safeguards internal balance (price stability) and external balance (balance of payments).
- Financial stability is also an important factor for balanced growth.
- The Central Bank of Turkey, with its policy instruments, will continue to support balanced growth in the upcoming period as well.
- Once the structural reforms in the Medium Term Program are accomplished, Turkey's balanced growth rate might further increase.



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