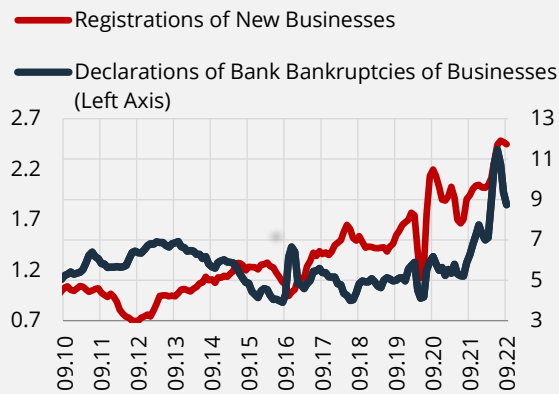


Box 2.1

Business Dynamism in the Context of Business Registration and Bankruptcy Statistics

Business dynamism has decreased significantly in developed economies recently, which poses a significant risk of increasing inequality and decreasing long-term growth trends. Indicators for the labor market, the demographic structure, and the productivity and growth performance of the economy give an idea about the relative strength of business dynamism in the country. One of the main indicators of business dynamism is the sound process of company registrations and bankruptcies while the economy is growing. This box examines the recent course of the statistics of business registrations and bankruptcies.

Chart 1: Business Registrations and Bankruptcy Statistics (3-Month Moving Average, Seasonally Adjusted, Thousand Unit)



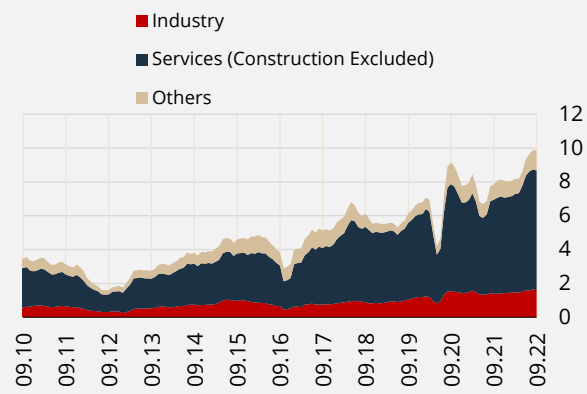
Source: TOBB.¹

Although the number of business registrations has been on the rise since 2013, it has sharpened its upward trend after 2020 (Chart 1). This increase was driven by supportive monetary-financial policies during the pandemic and regulations that facilitate doing business by enabling some legal and corporate transactions related to the process of online business registrations. In addition, incentives for women and young entrepreneurs, entrepreneurial support, the expansion of credit lines, and non-refundable incentives are among other factors supporting this increase. As a result, as of September 2022, the total number of new business registrations increased by 69% compared to the same period in 2019.

The number of business bankruptcies declined from 2013 to 2015 but displayed a stagnant outlook in the 2016-2020 period and a rapid increase that spread across all sectors after 2021. This increase in the bankruptcies may have been caused by the negative effects of the lockdown measures during the pandemic on sectors such as restaurants, accommodation, culture, and entertainment. On the other hand, there are critical structural transformations such as digitalization changes in consumer habits and supply chains in the post-pandemic period.

The increase in the number of business registrations and bankruptcies during this period partially sheds light on the process's effect on the economy's dynamism. Chart 2, which shows the net effect of the increasing dynamism through the difference between new business registrations and bankruptcies, indicates that the seasonally adjusted net number of firms has reached ten thousand. According to the sectoral distribution of net business registrations, it is seen that the companies are predominantly located in the services sector (Chart 2).

Chart 2: Net Business Registrations Statistics (3-Month Moving Average, Seasonally Adjusted, Thousand Unit)



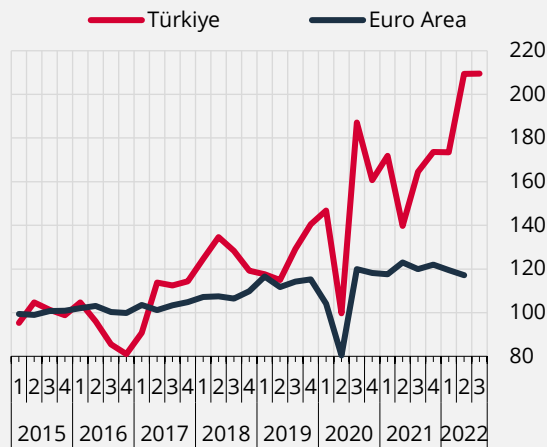
Source: TOBB.

¹ According to the registrations published in the Turkish Trade Registry Gazette, business registrations and bankruptcy statistics announced by TOBB include companies that initiated or terminated their activities. Firms that do not contribute to economic activity, have stopped their activities and remain passive are not included in these statistics.

However, it is noteworthy that the number of new business registrations / bankruptcies in the industrial sector is less affected by cyclical fluctuations, while the services sector, which includes various subsectors with different dynamics, is more sensitive to cyclical fluctuations. As of September 2022, the net number of companies increased by 57.1% in total, 50.7% in services, and 46.6% in the industrial sector compared to the same period of 2019.

The trends in the number of business registrations and bankruptcies are compared with those of European countries, where our importance as a production center has increased in the post-pandemic period and there is a higher degree of harmonization between these statistics. According to the European Union Statistical Office (Eurostat) data, the trends in new business registrations did not diverge from 2015 to the pre-pandemic period, but while they shifted and flattened after the pandemic and, more recently, declined in the Eurozone, they have been accelerating in Türkiye (Chart 3). Chart 4, which provides information about the trends in the number of bankruptcies, supports the ongoing structural transformation in Türkiye. While a permanent decline was observed in the number of bankruptcies in the euro area after the pandemic, there was an acceleration in the statistics of new business registration in Türkiye. As seen in Chart 2, the net number of business registrations are increasing, and there is a significant dynamism in Türkiye's new business registrations and bankruptcies.

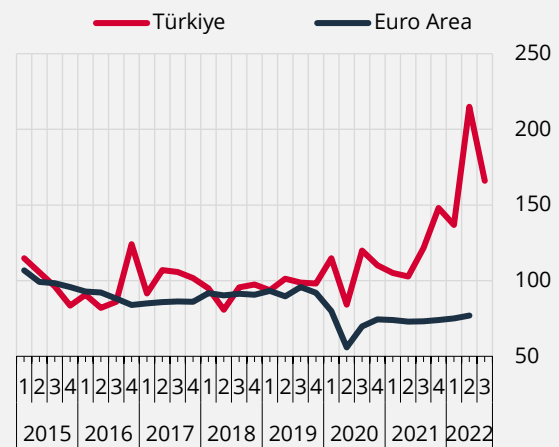
Chart 3: Business Registrations in Türkiye and the Euro Area (Seasonally Adjusted, 2015=100)



Source: CBRT, Eurostat.

* Includes 19 countries in the euro area.

Chart 4: Bankruptcies in Türkiye and the Euro Area (Seasonally Adjusted, 2015=100)

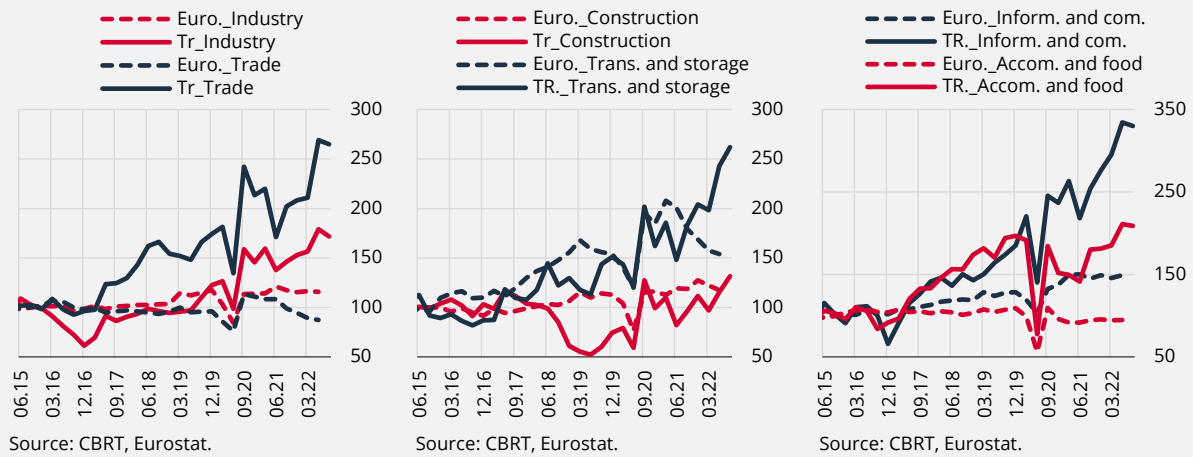


Source: CBRT, Eurostat.

* Includes 19 countries in the euro area.

It is observed that the increase in post-pandemic new business registrations in Türkiye spread across sectors (Chart 5). As a result of the digital transformation, new business registrations in the information-communication sector, a technology-intensive and high-value-added sector, increased at a more dramatic pace than in other sectors. On the other hand new business registrations decreased in the Eurozone except in industrial, accommodation-food services, and information-communication sectors. According to sizes, it is seen that new business registrations mostly include micro-scale companies, followed by small and medium-sized companies, respectively. Although their share in employment is low, there are findings in the literature that small and medium-sized young firms grow faster and have a higher job creation capacity than large firms (Ayyagari et al., 2014; Yue & Rama, 2015, and Rotar et al. 2019). In this context, the increase in net newly established companies and the company composition contain positive signals for the increase of entrepreneurship and business dynamism.

Chart 5: Business Registrations in Türkiye and Euro Area by Sectoral Division
(%, Seasonally Adjusted, 2015=100)



In summary, there has been a significant increase in the trends of new business registrations and bankruptcy statistics following the pandemic. However, both variables have stagnated in Eurozone, our largest export destination where these variables are statistically more comparable and we face our biggest competition. In addition, the number of net new business registrations increased, reflecting the added value and employment growth. Moreover, net business registrations increased in high value-added sectors like the manufacturing industry and communication sectors. Therefore, the above information provides essential information about the structure of the economic transformation experienced after the pandemic.

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