

**YASED UNITED EVENT ON “TURKISH ECONOMY IN THE DAYS OF COVID-19” WITH THE PARTICIPATION OF MR. AUGUSTE TANO KOUAMÉ,**

**WORLD BANK TURKEY COUNTRY DIRECTOR**

**MINUTES OF MEETING**

**April 30, 2020 / Video Call**

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| **Participants:** |
| **Number of participants:** 186**Guest Speaker:** Mr. Auguste Tano Kouamé, World Bank Turkey Country Director **Moderator:** Mr. Serkan Valandova, Secretary General of YASED |
| **Discussion Topics:** |
| The event began with the opening speeches of YASED Chairperson Ms. Ayşem Sargın and YASED Secretary General Mr. Serkan Valandova. Followingly, Mr. Auguste Tano Kouamé started his speech which was structured into three main topics as follow:* Spread of Covid-19
* Ongoing and potential economic impacts
* Economic outlook

**Spread of Covid-19:*** Turkey deployed a combination of actions to control the pandemic and its impact. These actions are grouped in 4 categories: **1)** **movement restrictions 2) social distancing 3) economic support to households and firms 4) public health**.
* Easing movement restriction measures in Turkey will depend on a combination of the infection rate and health system capacity.

**Ongoing economic impacts:** * **Global Value Chains:** Turkey’s forward and backward integration (linkages) in GVCs has increased in recent years. On the other hand, it is forecasted that USA and the EU will face sharp recessions, which pose challenges for exporters in the near term.
* **Purchasing Manager’s Index:** Turkey has seen steady improvement in Purchasing Manager’s Index since the currency depreciation of 2018, however this sustained improvement reversed in March 2020 largely due to Covid-19. The sectors highly affected from this decline include machinery, textile, electricity, wood and minerals. Other sectors that are not significantly affected might get affected due to the connection between sectors.
* **Manufacturing Capacity Utilization Rate:** Capacity utilization rate is back to the level of 2009 financial crisis. Although this is a negative outcome, Turkey now has more space to produce in the recovery period even without additional investments. The silver lining is that there is no destruction of existing assets.
* **Corporate Vulnerability Index:** The Index saw its peak on March 20. It coincides with the announcement of measures of economic support in the US, Europe and Turkey. With these support packages, the corporate vulnerability index declined slightly though remains high.
* **Market Risks:** Turkey’s market risk is high. Although Credit Default Swap rates for Turkey have declined in recent days, Turkey still has one of the highest spreads among the emerging markets. Treasury Bond yields improved in the past few days. This shows that there is search for safety and trust in the treasury bond. Turkey has reasonably good fiscal space, especially thanks to low public debt.

**Economic Outlook:*** **Growth Scenarios:** 2021 is expected to be a year of recovery globally. The recovery period will start gradually. It is expected to begin in quarter 4 of 2020. This scenario will change if there is to be a second wave of Covid-19. Growth in Turkey is expected to resume in quarter 4 of 2020.
* **Poverty Scenarios:** The poverty rate was 10.4% in Turkey pre-Covid-19. In scenario 1: with a shock in labor income due to Covid-19, the poverty rate could increase to 14.4%. In scenario 2: wage support of up to 150% of minimum wage to formal sector workers, could help contain the poverty rate to 12.5%. In scenario 3: social assistance transfer of 1000 TL per household, could help further contain the poverty rate to 12.1%. In these scenarios, there would be negative mobility out of the middle class into the vulnerable group category. Adequate policy interventions could prevent a worsening of the poverty rate and a shrinking of the middle class.
* **Policy Framework**: Tools such as **1) health and social protection 2) monetary policy 3) fiscal policy 4) financial and regulatory policies** have been used in Turkey. The government deployed all possible tools during the crisis phase; these instruments will also need to be used during the recovery phase. Turkish government’s financial package initially consisted 2% of GDP compared to 9% in the Euro zone. Turkey chose to use its sources gradually.
* **Government Deficit:** Fiscal space in Turkey compared to other countries is fairly good (has a low level of debt and deficit). There is space for the government to borrow more to support the economy and to support households. However, on the monetary side, space is more limited because inflation is already higher than where the government wants it to be and the real interest rate is already negative, which means the room to cut interest rate further may be limited.
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| **Questions & Answers:** |
| **Will Covid-19 speed up the automation process. How do you evaluate Turkey’s position in this, especially in the post Covid era?*** Automation is the other name of social distancing. We will need to rely on automation for everything; Automated banking, cashless banking, transportation. Automation will be the name of the game going forward. Turkey could be one of the champions of automation because Turkey has a young population in the workforce. Turkey already tested its capacity to use automation in certain areas. However, more investment will be needed in automation, technology and businesses supporting automation.
* Education system also needs to put emphasis on skills for automation from early on. Unless Turkey invests a lot in this, it may lose in the next level of global value chain integration.
* In World Bank’s Global Value Chain Report, Turkey is well integrated in the global value chains. There are four phases of global value chain and Turkey is good in the 3rd phase, which is automated manufacturing, however the 4th phase is innovation and Turkey has room to go in order to be more fully integrated here.

**Many low- and middle-income countries are in the initial phase of Covid-19. Do you think we are undermining the health aspect and making ourselves vulnerable globally?*** We cannot win against Covid-19 unless we win against Covid-19 everywhere in the world. We need to pay close attention to low capacity countries. Many of the low capacity countries in Sub-Saharan Africa, Latin America, South Asia are taking the kind of health measures that USA and Europe should have taken early. But conditions in low income countries are very different in terms of lower health and social protection capacities, less ability to maintain social distance due to high population density, and other factors that could increase the incidence of the disease. While low income countries have not been the epicenter of the disease so far, if there were to be an acceleration of contagion rate or a second wave of Covid-19 in low income countries, then every scenario could change.

**Do you expect increased regionalization and trade ties between Europe and Turkey in the light of shifting sourcing trends? Can Turkey benefit from sourcing shifts in the near future?** * Yes. Not just vis-a-vis Europe that Turkey can benefit from. Turkey can benefit from other countries too, depending on a number of things.
* In the coming out of the Global Financial Crisis, data showed that China was the big driver of global recovery. China’s growth in that period helped the world economy recover. However, China would not be able to play this role in this crisis. Countries like Turkey can substitute some of the role that China played. Now there seems to be an acknowledgement that the world should not be too dependent on China for supplying everything. A lot of the production will be relocated back to USA and Europe or nearby countries such as Turkey due to logistic reasons.
* If we look at this from the perspective of regions like Africa, they will look to get supplies from closer countries. Overall, Turkey can benefit from this but new investment in large firms, technology and education is always necessary.

 **As the pandemic evolves, countries toolboxes to cope with Covid-19’s negative effects are going to change and new instruments are going to be introduced. Keeping in mind the scarcity of funds to support new tools, what other the other funds that can be allocated? What other tools should be implemented to support the private sector in Turkey?*** The Turkish government luckily has a lot of tools. Many of these tools mean higher fiscal deficit but as was said before, there is space for higher fiscal deficit.
* World Bank approved a project in the health sector to support new medical supplies, new test equipment, and so on.
* Beyond this project, the World Bank is preparing a number of projects focused on mitigating the impact on global value chains on the export side and on firms operating in domestic economy.
* Another project under preparation by the World Bank will support education through distance learning that is efficient and equitable so that no child is left behind. This will help mitigate the impact of Covid-19 on human capital investment.

**How do you evaluate the FDI attraction performance and related regulatory performance of Turkey? What are your views on the message Turkey is delivering to investors in the aftermath of Covid-19?*** Countries are now more focused on protecting firms and on health issues. Sources of FDI are very cautious now. Before Covid-19, Turkey was sending good messages to investors. One proof is the improvement in Turkey’s Doing Business ranking for the 3rd year in a row. There is room for improvement and I believe this room for improvement will be exploited in the post-Covid era.
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