



# The EU Accession Anchor and the Turkish Economic Transformation

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# Overview

- 1. The EU-anchor, features and objectives**
- 2. The 'atypical' case of Turkey**
- 3. The challenging way forward**



# 1. The EU-anchor, features and objectives



# What is the EU anchor about?

	<b>Acquis complementary to economic management</b>	<b>Development agenda beyond the Acquis</b>
<b>Low economic cost</b>	<ul style="list-style-type: none"> <li>• Sound medium-term fiscal framework</li> <li>• Competition policy and State Aid</li> <li>• Liberalization of services (infrastructure / financial services)</li> <li>• Financial system supervision</li> <li>• Financial control and auditing</li> <li>• Corporate transparency</li> </ul>	<ul style="list-style-type: none"> <li>• Labour market flexibility</li> <li>• Privatization</li> <li>• Deepening of capital markets</li> </ul>
<b>Potentially high economic cost</b>	<ul style="list-style-type: none"> <li>• Alignment with CAP (transition cost/post accession benefits)</li> <li>• Environmental protection</li> <li>• Adoption of product and safety standards</li> </ul>	<ul style="list-style-type: none"> <li>• Tax reform</li> <li>• Managing contingent liabilities of public sector</li> <li>• Public enterprise restructuring</li> <li>• Improving efficiency of public administration</li> <li>• Education</li> <li>• Social protection</li> <li>• Regional policy</li> </ul>



# How does it work - Objectives?

**Compliance with the Copenhagen criteria...getting well-prepared for accession**

- Functioning market economy
- Able to compete upon accession
- Acquis alignment

**Brings about stability, transparency, predictability and hence growth and convergence...**



# How does it work - Instruments ?

- Opinion, and annual progress report
- Pre-accession Economic Programme (Medium Term Programme 3yrs), dialogue
- National Programmes for Adoption of the Acquis
- Negotiations in 33 Chapters
- Peer Pressure and twinning
- Financial instruments (IPA)



# The EU-anchor as a catalyst for reform -1

- Whether by design or through its decision-making, the EU anchor has a strong impact on the pace of economic reforms in all Candidate countries.
- This effect is changing over time, as the nature of the transformation, as well as the expectations on accession may change.

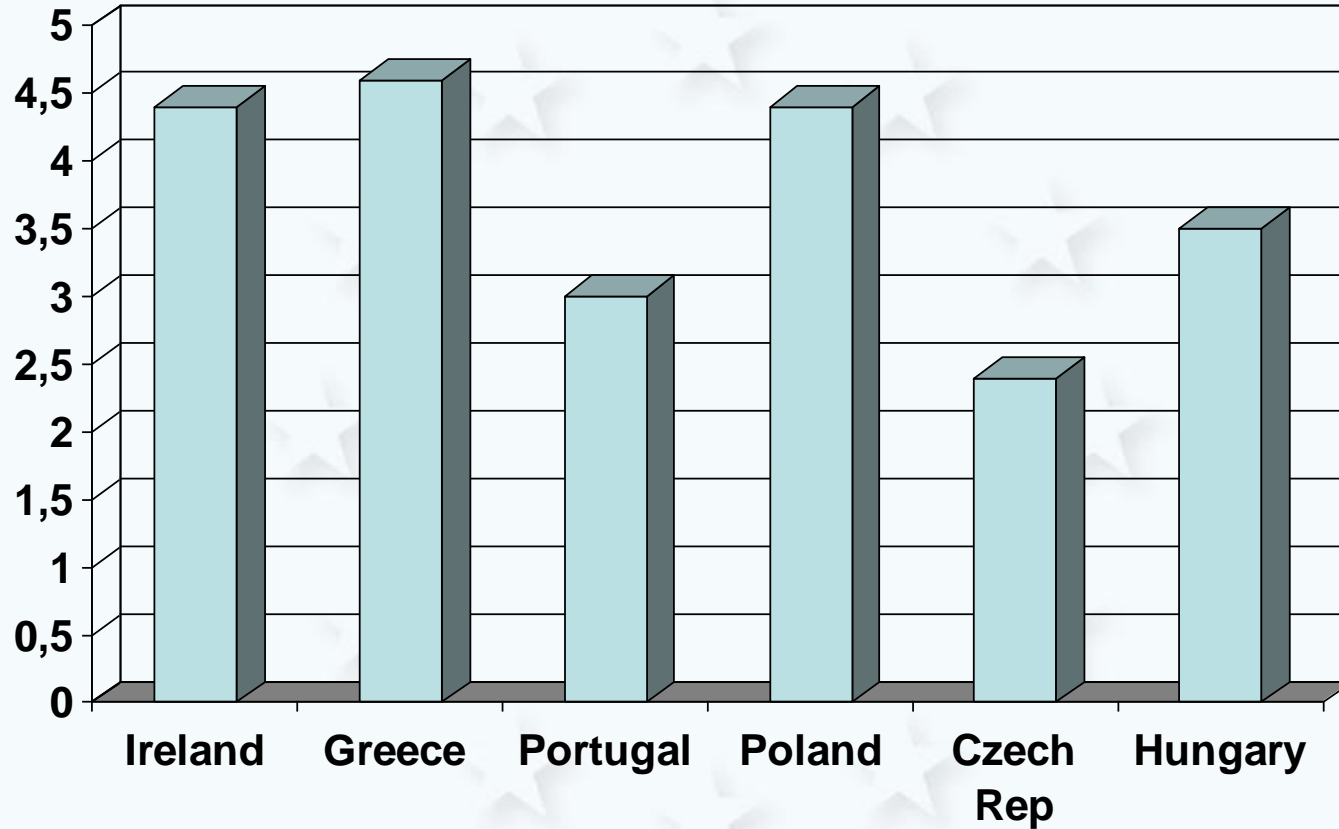


## The EU-anchor as a catalyst for reform -2

- The failure of the EU to implement internal reforms may be perceived as weakening the leverage of the outside anchor (creates uncertainty and thus weakens leverage)
- The lure of joining the EMU serves as an important anchor once countries join the EU.



## Annual GDP Growth (average in decade before EU-Accession)



Source: Commission Services



## 2. The ‘atypical’ case of Turkey



# The case of Turkey – key specific features

- Big country with young population
- Relatively poor with enormous income inequality, and knowledge gaps
- Complicated and volatile political and economic context:
  - Mixed signals in the EU about accession
  - Cyprus issue
  - Highly polarized domestic political situation
  - Until 2002, highly volatile economy (boom-bust cycles)



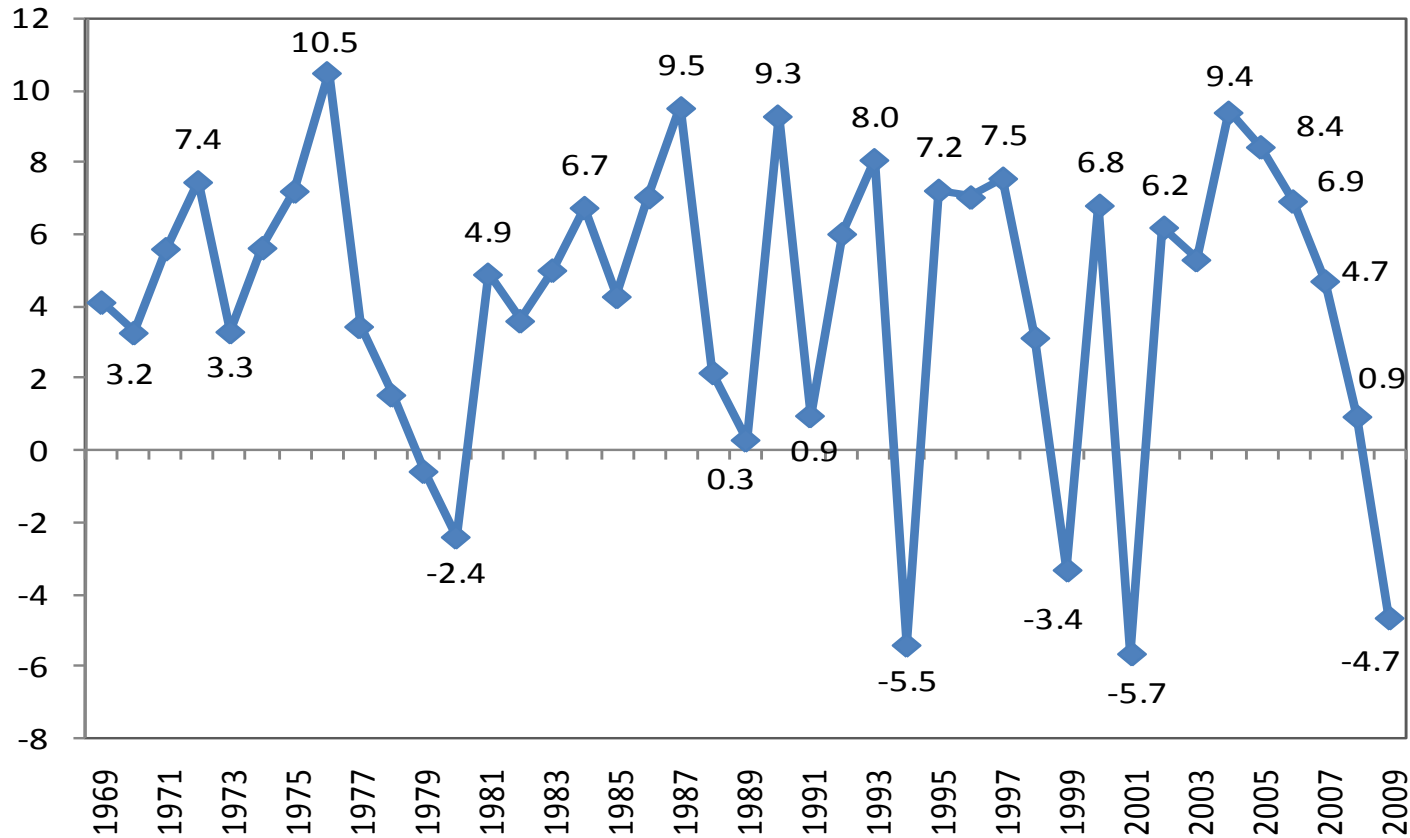
# The case of Turkey – factors strengthening the economic dimension of the anchor

- Largely coincided with IMF Programmes (2002-2008)
- Government takes strong ownership with own priorities and timeframe (« Ankara and Istanbul Criteria »)
- Ample liquidity in the financial markets and very positive sentiment towards emerging markets drive capital inflows (except mid-2008-2009)



# Need for an anchor...

Real annual GDP growth





# ...which functions well...

## Basic Macroeconomic Indicators and Their Volatility

	1988-2001	1995-2001	2002-2007
<b><i>GDP Growth (%)</i></b>			
Mean	3.1	3.4	6.8
Standard Deviation	5.1	5.5	1.8
<b>Fixed Investment Growth (%)</b>			
Mean	2.8	3.2	15.5
Standard Deviation	15.5	16.8	7.5
<b>CPI Inflation Rate (%)</b>			
Mean	73.2	73.9	17.6
Standard Deviation	15.1	16.2	15.0

**Source:** TurkStat and own calculations. GDP and investment growth rates after 1998 are based on new National Account series consistent with ESA95.



# The Turkish Economy, a success story -1

- **Growth of almost 7% annually over the period of 2002-2007, against the backdrop of a benign global economic environment.**
- **The consolidation of fiscal balances, disinflation, improvement in banking supervision, and structural reforms raised confidence, attracted inward investment, and created a more resilient economy.**



# The Turkish Economy, a success story -2

- **Significant fixed investment in growing export sectors** (vehicles, machinery and equipment, electronics and white goods), and services sectors (telecommunications, banking and finance); capital intensive with high labour productivity.
- **Supported both by FDI** (3% average versus 0.5% in 90s) **and by cheap capital goods imports** (USD18 billion per year in 2002-07 versus USD7.7 billion in 1990-2001).



# **The Turkish Economy, a success story -3**

- **Financial crisis demonstrated a more resilient Turkish economy, which was hit hard mainly through plummeting investment, but recovered very strongly.**
- **Public finances relative soundness and banking sector strength was evidenced...but the structural weaknesses came back rapidly, in particular the external vulnerability (widening CA) and the need to create “high-quality” jobs (partly due to skills mismatch)**



### **3. The challenging way forward**



# Pride goes before the fall ?

**Proud about rapid rebounding of the economy after the crisis, but:**

- Transition unfinished, income gap remains big
- EU anchor is not strengthening towards accession as with previous enlargements
- Are the domestic anchors sufficiently strong to preserve growth and stability levels? Fiscal rule dropped
- Is there a reform fatigue in Turkey?
- Will the “Turkish disease” (political uncertainties) come back?



**Thank you for your attention!**