

Turkey – as a potential eurozone candidate?

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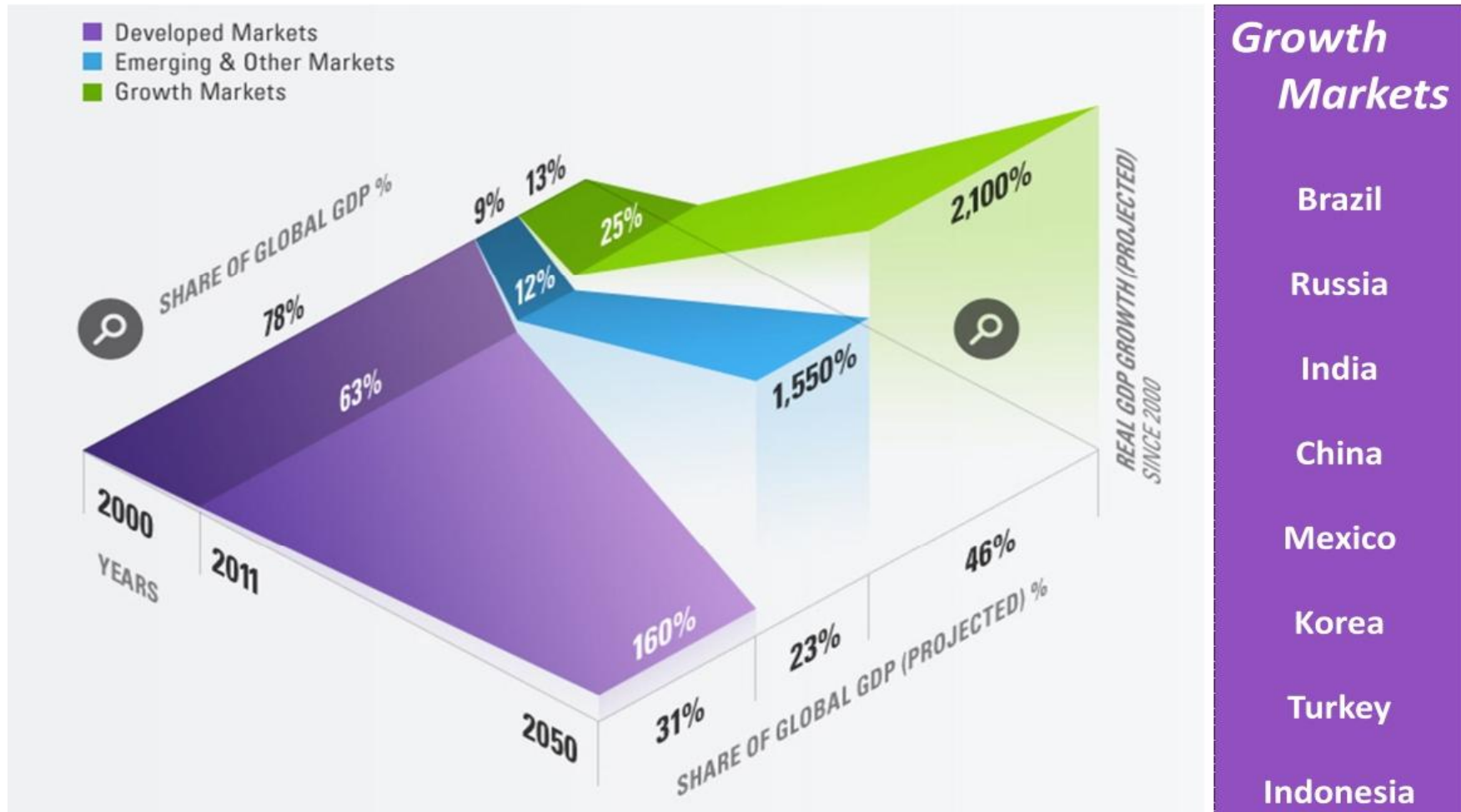
Introduction

- 2009-2011: Economic Analyst – Prime Minister Office (Think-tank - Ecostat)
- 2011-2013: EU Analyst – Ministry for National Economy
- Present: International Taxation Analyst – Hungarian Tax Office

My hypothesis:

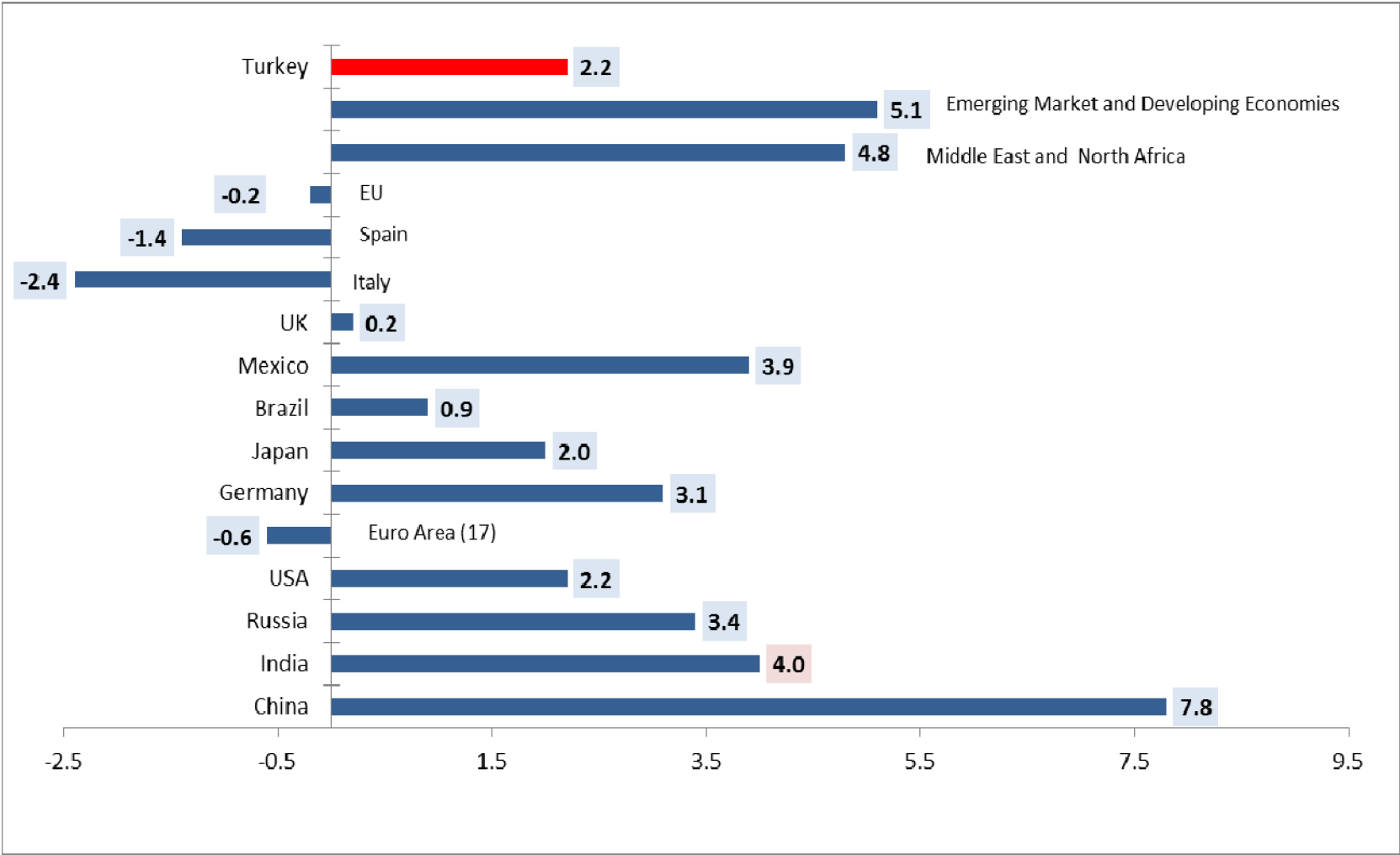
Whether the euro zone is an optimal environment for a less developed country like Turkey to catch up?

Turkey is One of the Eight Growth Markets of Future



Source: Goldman Sachs

Real GDP Growth of Turkey compare to Selected Countries/Country Groups (2012)



Source: TURKSTAT, IMF

Growth Forecasts for Selected Countries/Country Groups (%)

Growth Forecasts for Selected Countries/Country Groups (%)								
		Turkey	Euro Area	US	Brazil	Russia	India	China
IMF	2013	3.4	-0.6	1.7	2.5	2.5	5.6	7.8
	2014	3.7	0.9	2.7	3.2	3.3	6.3	7.7
OECD	2013	3.1	-0.6	1.9	2.9	2.3	5.3	7.8
	2014	4.6	1.1	2.8	3.5	3.6	6.4	8.4
WB	2013	3.6	-0.6	2.0	2.9	2.3	5.7	7.7
	2014	4.5	0.9	2.8	4.0	3.5	6.5	8.0
UN	2013	3.2	-0.3	2.1	3.3	4.4	6.7	8.3
	2014	5.4	0.9	2.3	4.5	4.4	7.2	8.5

Source: IMF, OECD, UN, WB

Maastricht Criteria (1)

Inflation rate of no more than 1.5 percentage points above the average of the three countries with the lowest inflation rates

	Reference value	Eurozone	Turkey
2007	2,8	2,1	8,78
2008	4,2	3,3	10,43
2009	0,6	0,3	6,26
2010	1,5	1,6	8,58
2011	3,4	2,7	6,45
2012	3,2	2,5	8,94
2013*	-	1,4	6,2
2014*	-	1,3	5

Source: Worldwide Inflation Database

Maastricht Criteria (2)

Nominal long term interest rates not exceeding by more than 2 percentage points those for the three countries with the lowest inflation rates.

	2008	2009	2010	2011	2012
Eurozone	4,31	3,82	3,61	4,35	3,88
Reference value	6,17	5,52	4,91	4,84	3,94
Turkey	19,16	11,66	8,89	9,8	10,43

Source: Eurostat, TURKSTAT

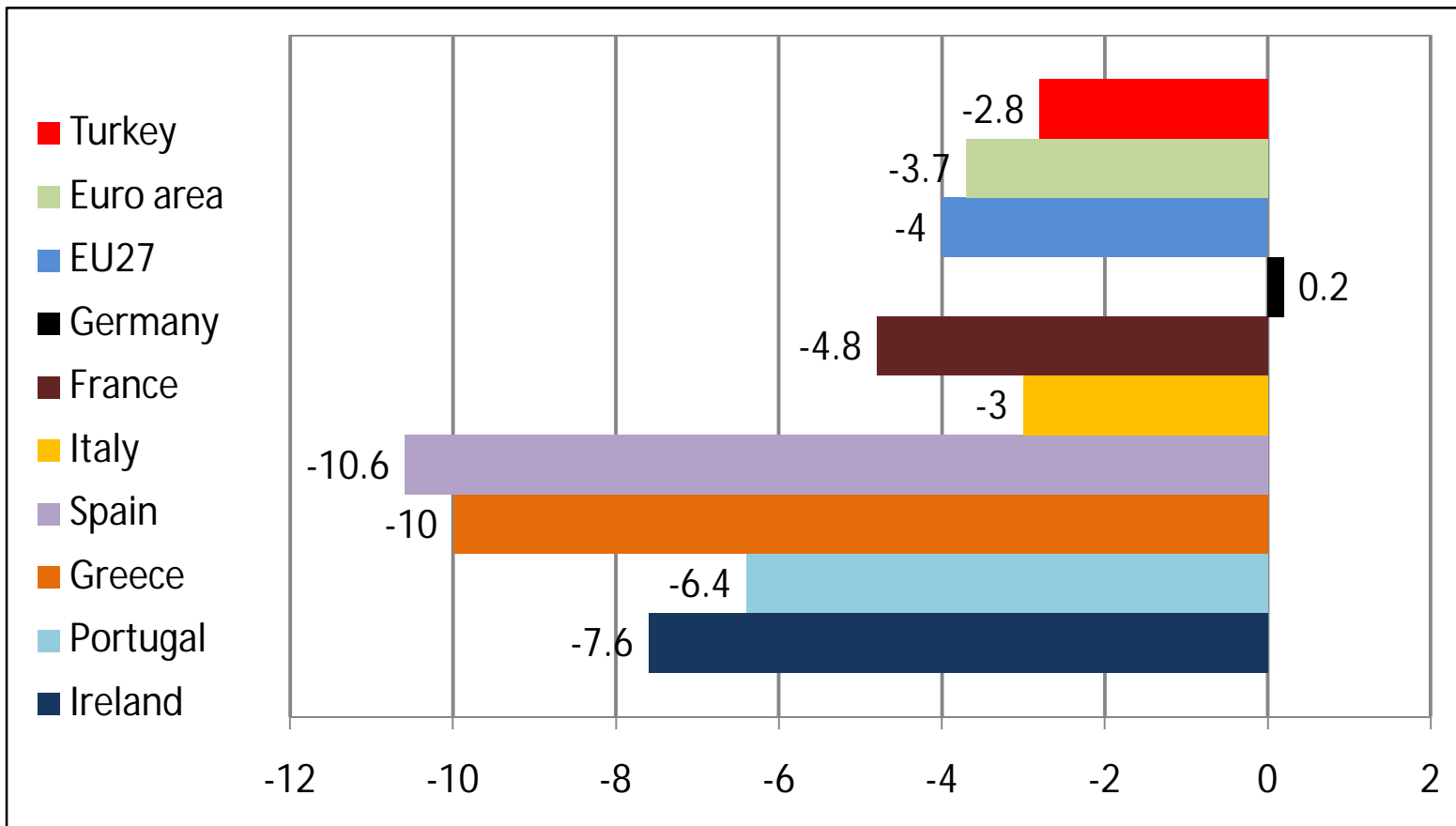
Maastricht Criteria (3)

No exchange rate alignment for at least two years.

Not relevant at the moment.

Maastricht Criteria (4)

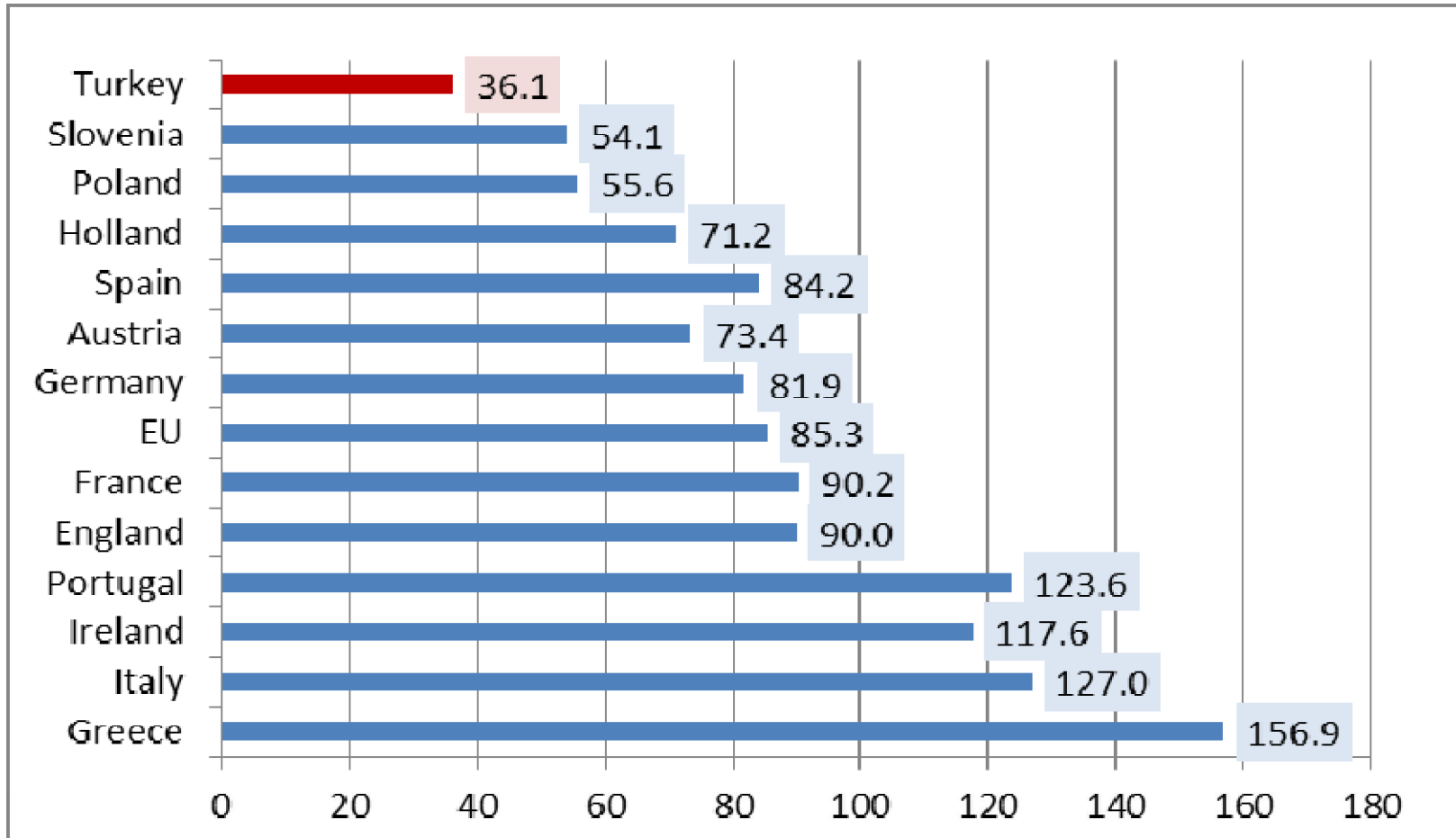
Government budget deficit not in excess of **3 (%)** of each country's GDP.



Source: Eurostat, TURKSTAT

Maastricht Criteria (5)

Gross debt to GDP ratio that does not exceed 60 (%).



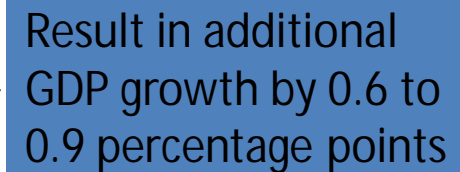
Source: TURKSTAT

Convergence criteria for a hypothetical entry test for Turkey (SUMMARY)

Inflation (1)	Interest rates (2)	Fiscal balance (3)	Public debt (4)	Exchange rate regime (5)	Number of criteria fulfilled
NO	NO	YES	YES	(YES)	3

Advantages of the Eurozone accession for a less developed country

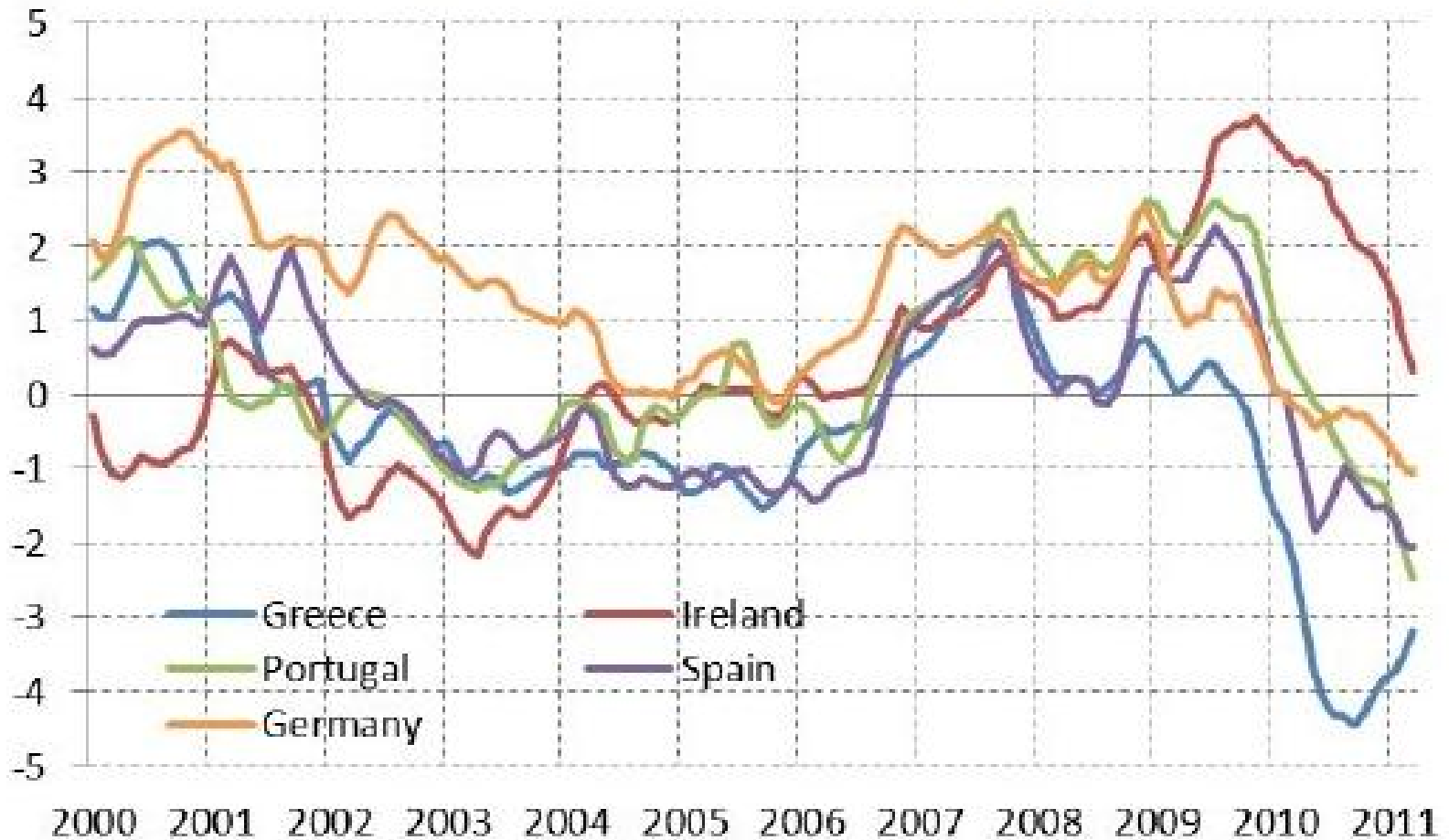
1. Stability (0,08-0,13%)
2. Lower exchange rate risk
3. Trade expansion (0,55-0,76%)
4. Higher investment rate
5. Price ,transparency'
6. Lower transaction costs (0,18-0,3%)
7. Lower monetary reserves needed



Result in additional
GDP growth by 0.6 to
0.9 percentage points

Significant decrease in nominal and real interest rates

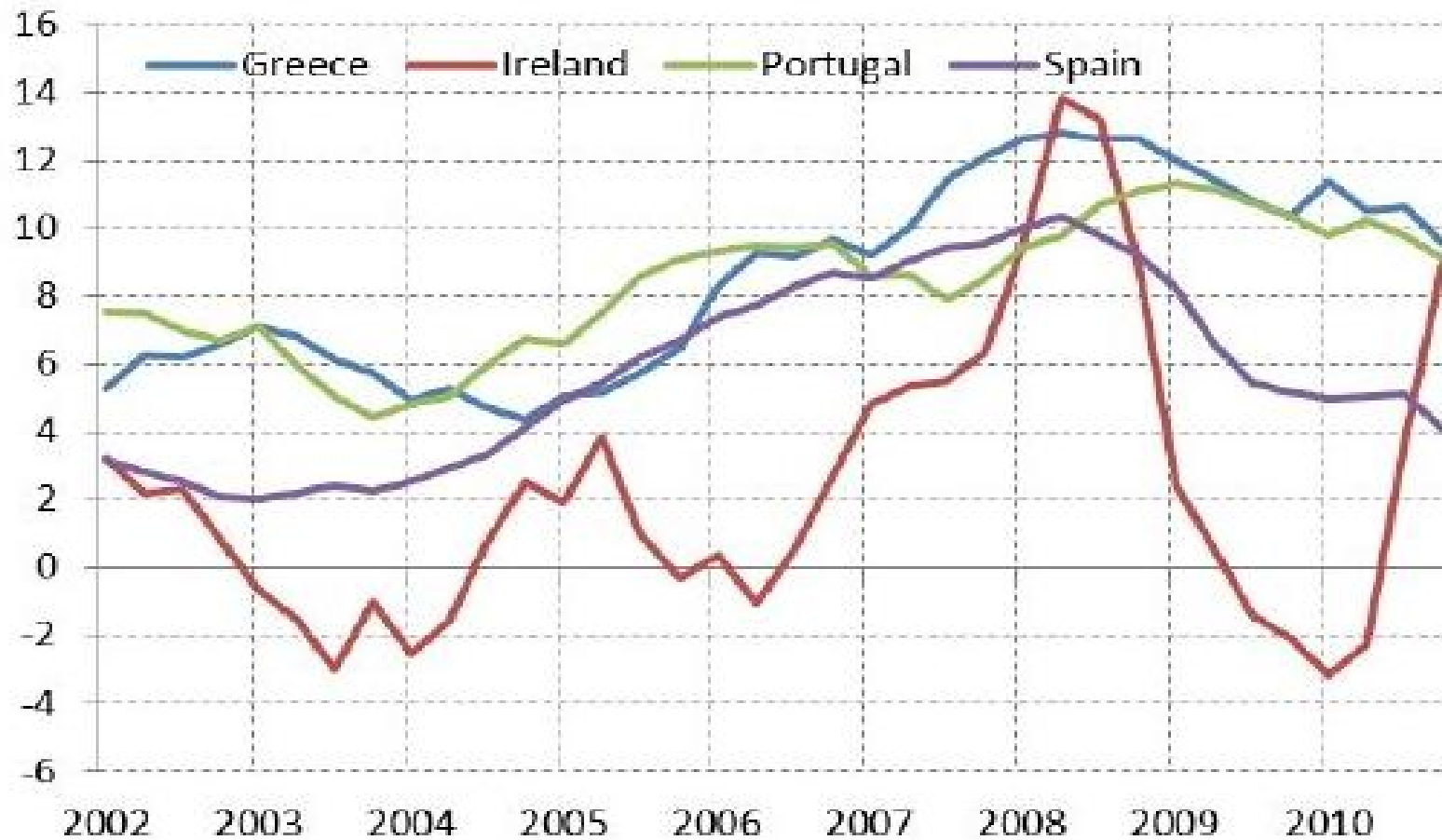
Real 3m interbank rates, in %



Source: Eurostat, National Bank of Poland

Increased creditworthiness induced high capital inflow

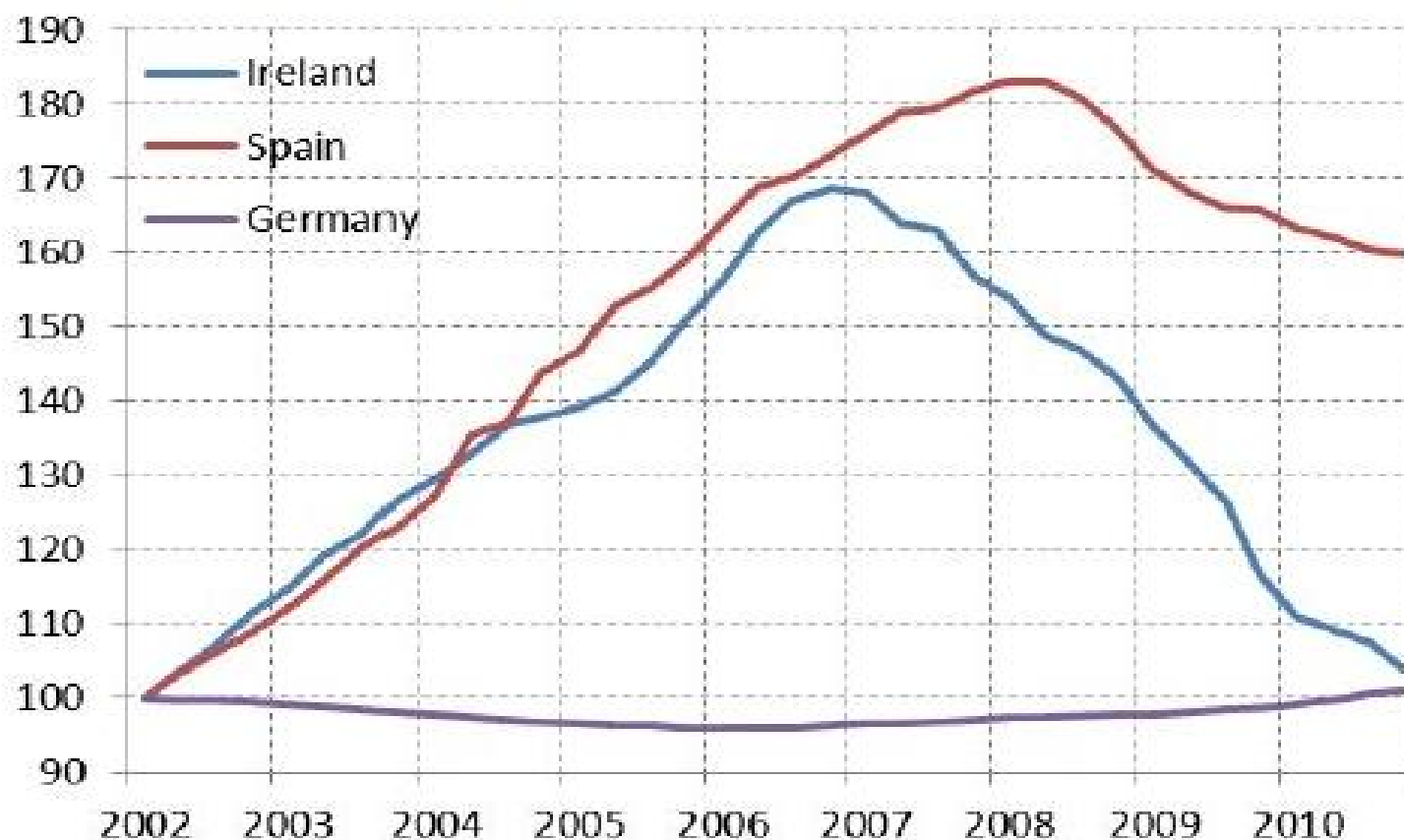
Foreign capital inflow, in % of GDP



Source: Eurostat, National Bank of Poland

Large investment in housing started a boom-bust cycle in the periphery

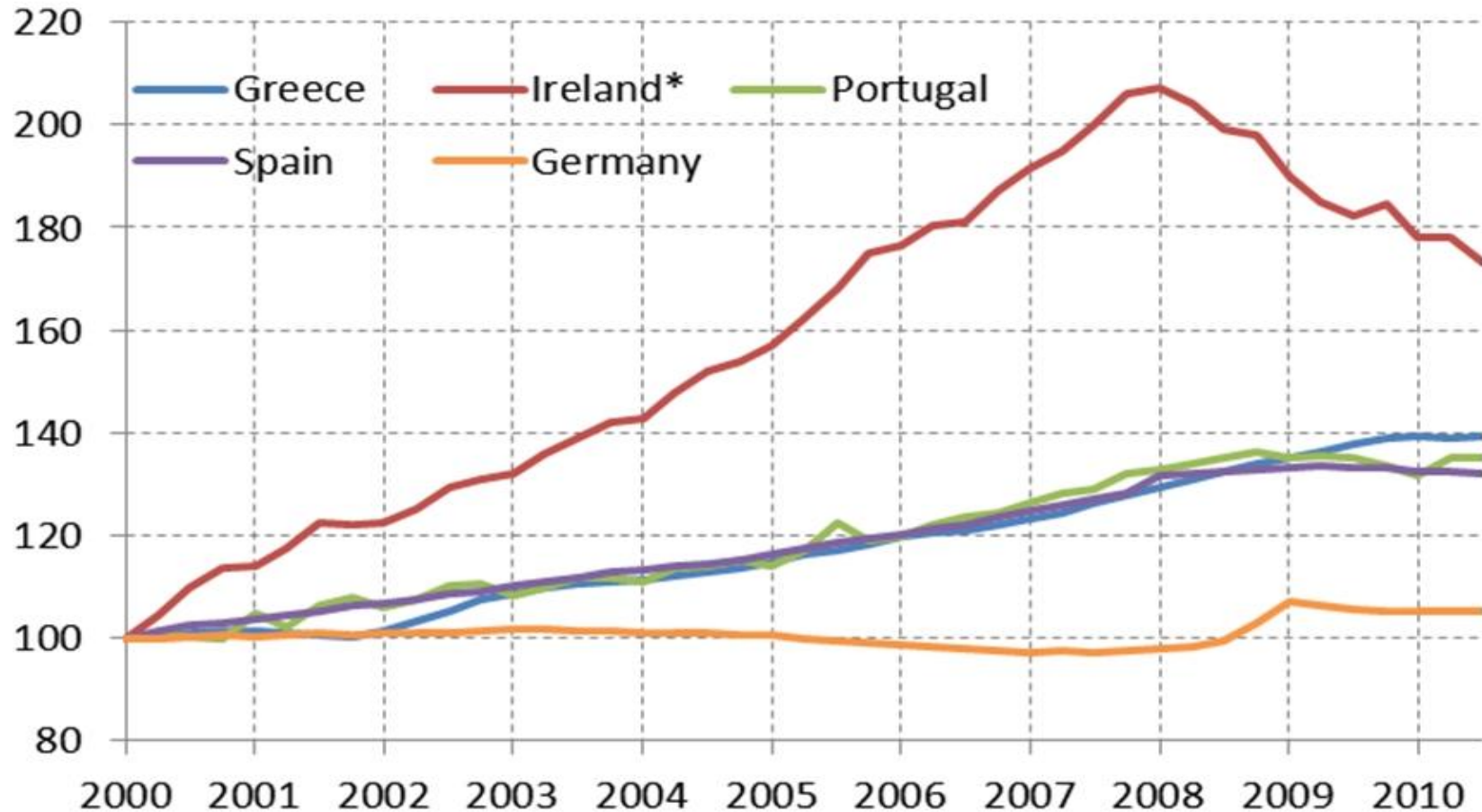
House prices, Q1 2002=100



Source: Eurostat, National Bank of Poland

Decreasing competitiveness

Unit labour costs, Q1 2000=100

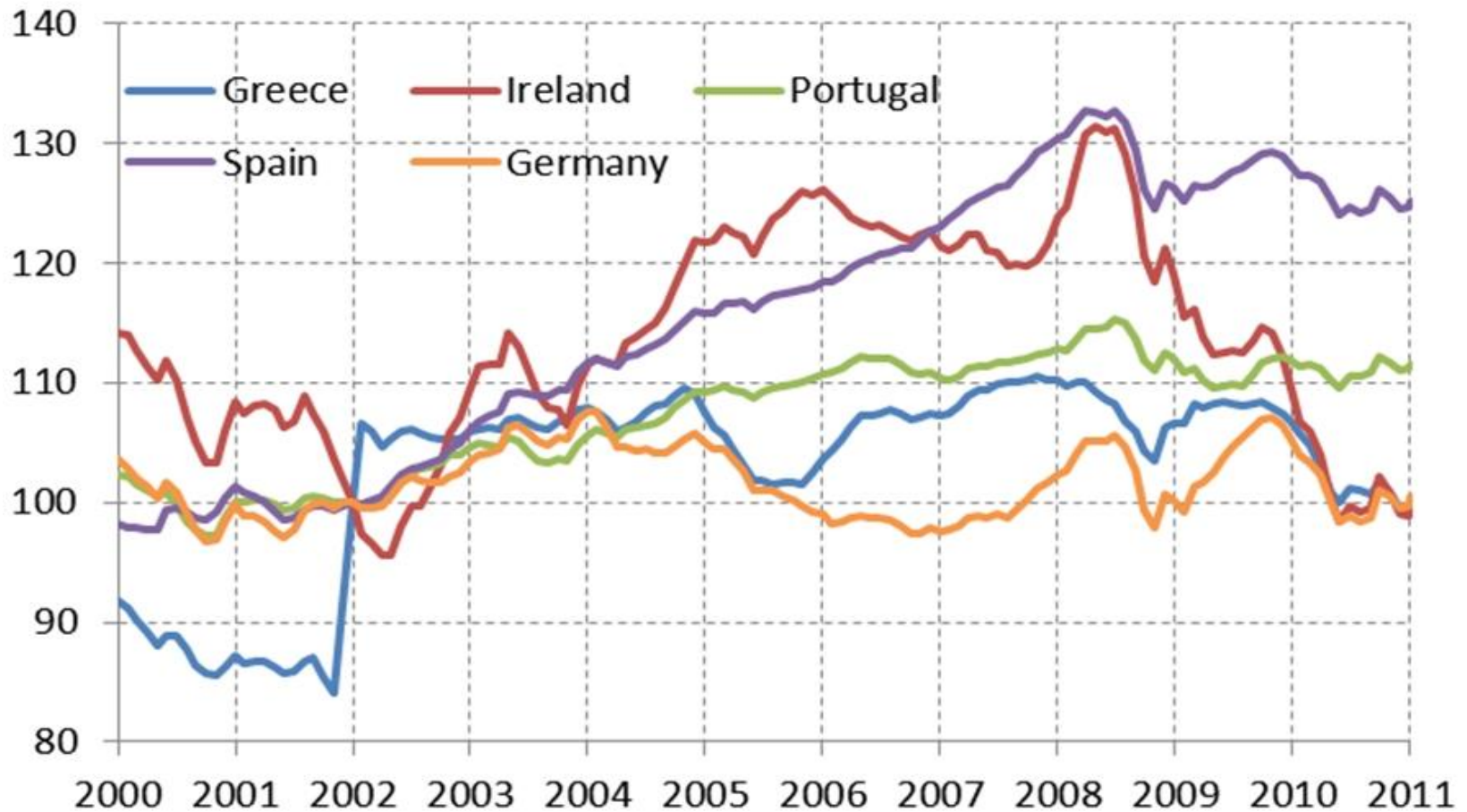


* Ireland – business sector, rest – total economy

Source: ECB, IMF, National Bank of Poland

Decreasing competitiveness

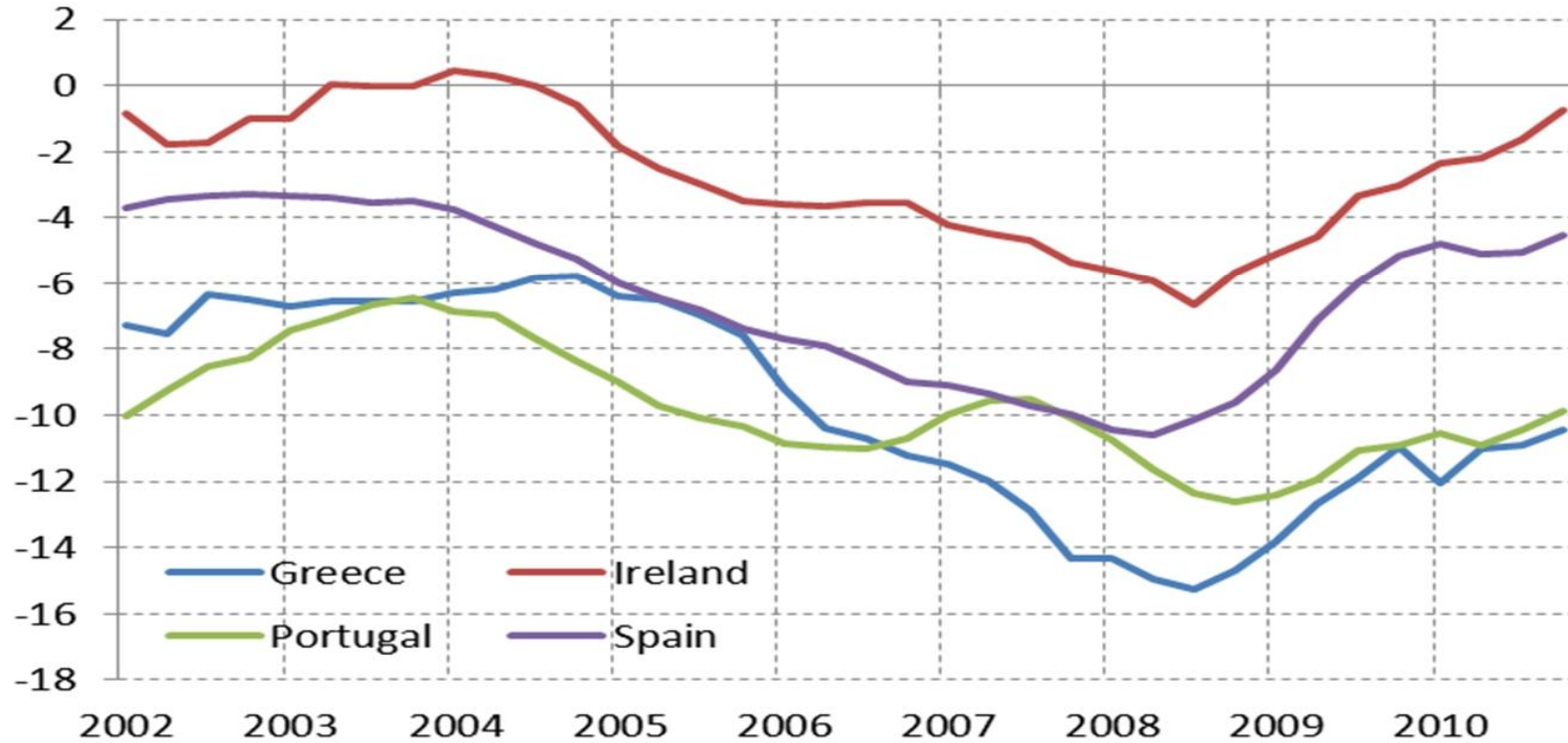
ULC deflated REER, Jan. 2002=100



Source: ECB, IMF, National Bank of Poland

Faster convergence but at a cost of growing external imbalances

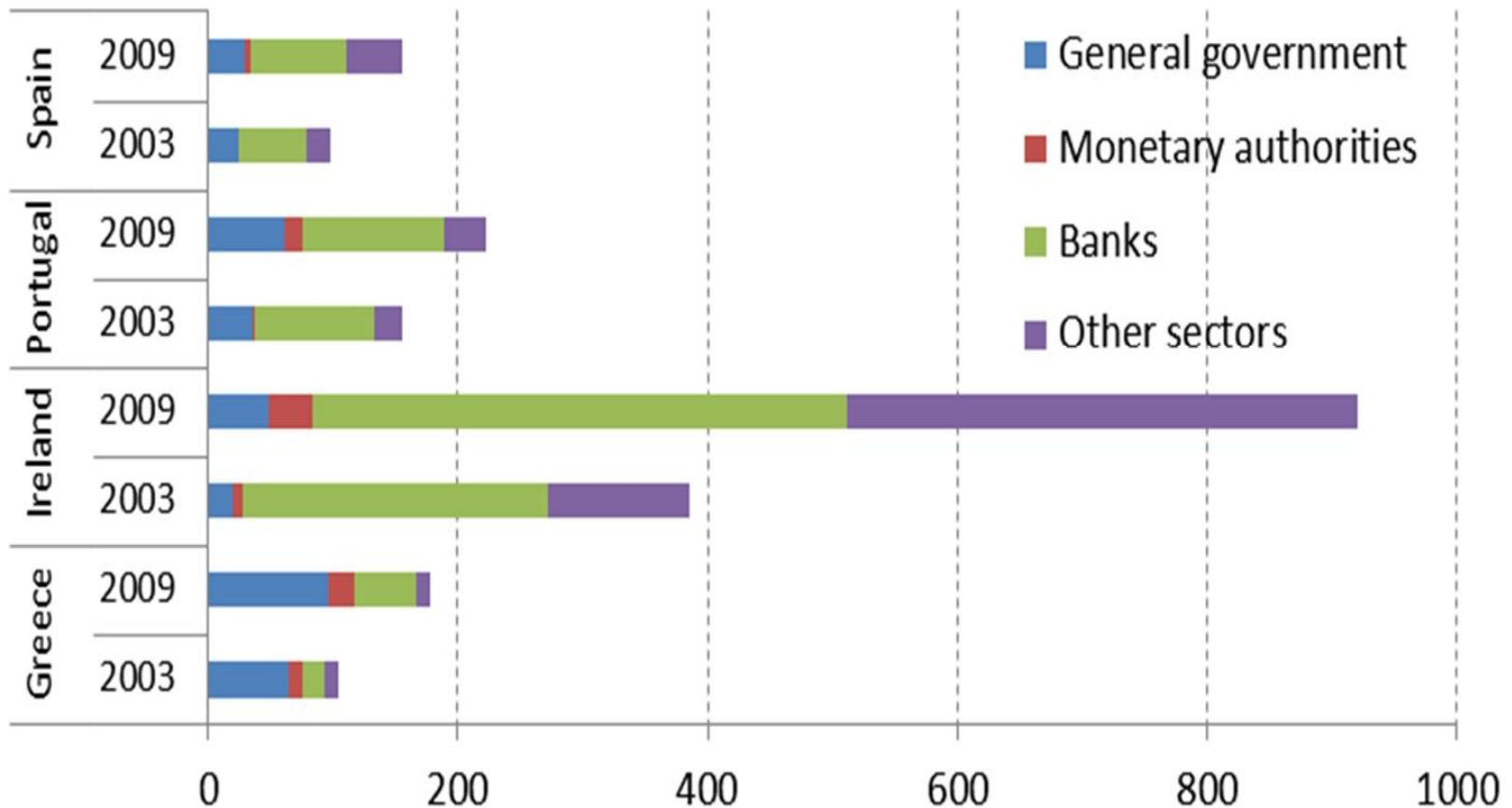
Current account balance in the peripheral countries, in % of GDP



Source: ECB, IMF, National Bank of Poland

Growing external imbalances

External debt, in % of GDP

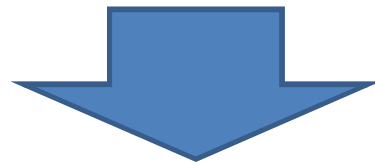


Source: ECB, IMF, National Bank of Poland

Summary

ADVANTAGES

1. Monetary Stability
2. Lower exchange rate risk
3. Trade expansion
4. Higher investment rate
5. Price 'transparency'
6. Lower transaction costs
7. Lower monetary reserves needed

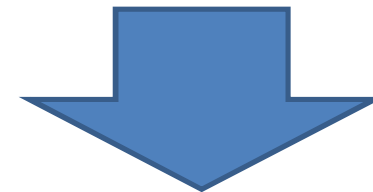


Can result in additional GDP growth by 0.6 to 0.9 percentage points

OR

DISADVANTAGES

1. Risk of bubbles
2. Losing the chance of countercyclical policy response
3. Risk of losing monetary independence
4. Faster economic growth may be more difficult
5. Problem of the EUR exchange rate



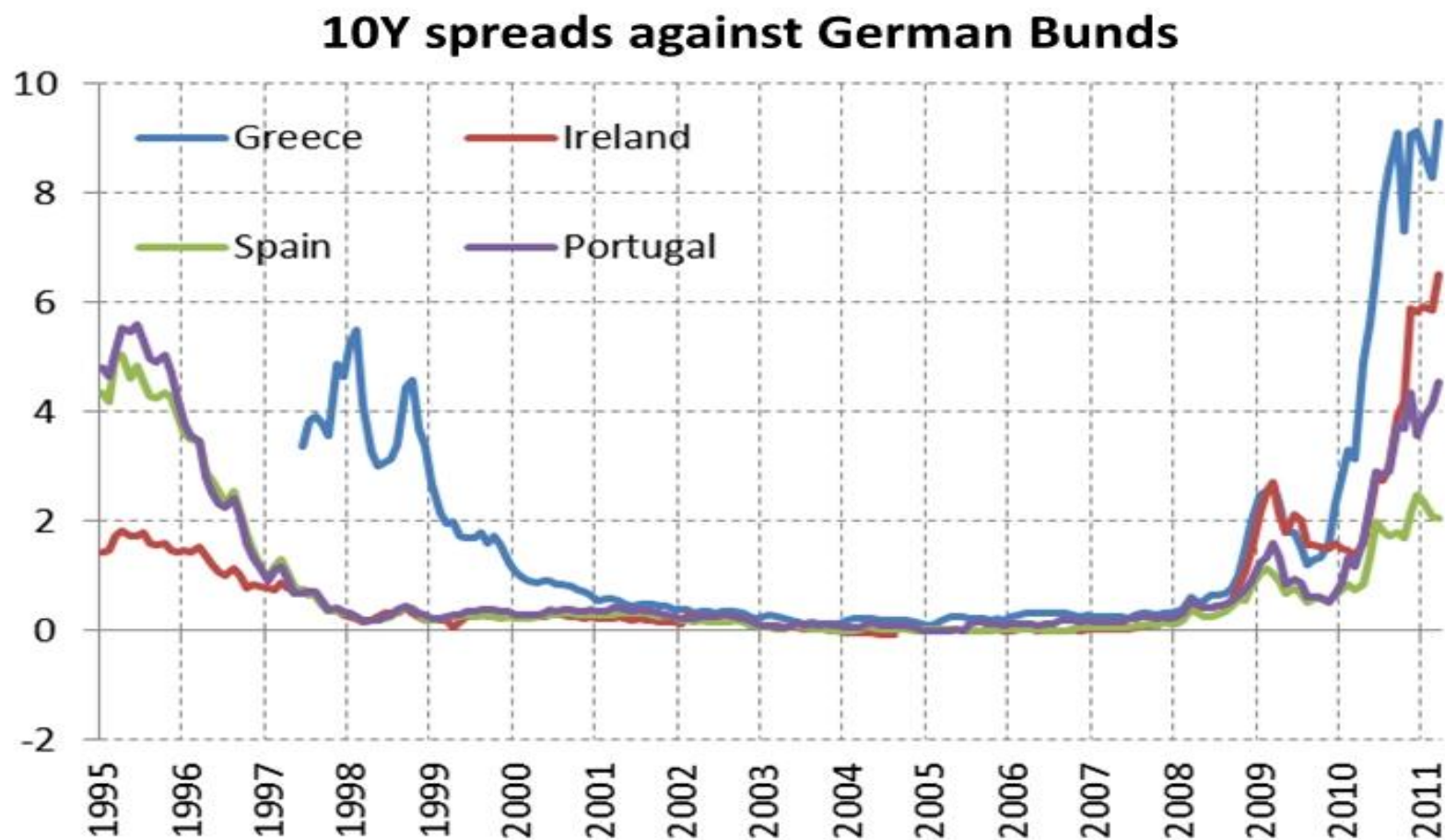
Can cause a two-digit output decline and a debt trap

**Thank you for your kind
attention!**



Summary

The Euro – good project for good times



Source: ECB, IMF, National Bank of Poland

Summary

Global crisis revealed euro area weaknesses

Why?

Because euro is an incompleted project:

+ COMMON MONETARY POLICY;

**- MULTIPLE FISCAL AND
STRUCTURAL POLICIES;**

**+ FINANCIAL MARKET
INTEGRATION.**

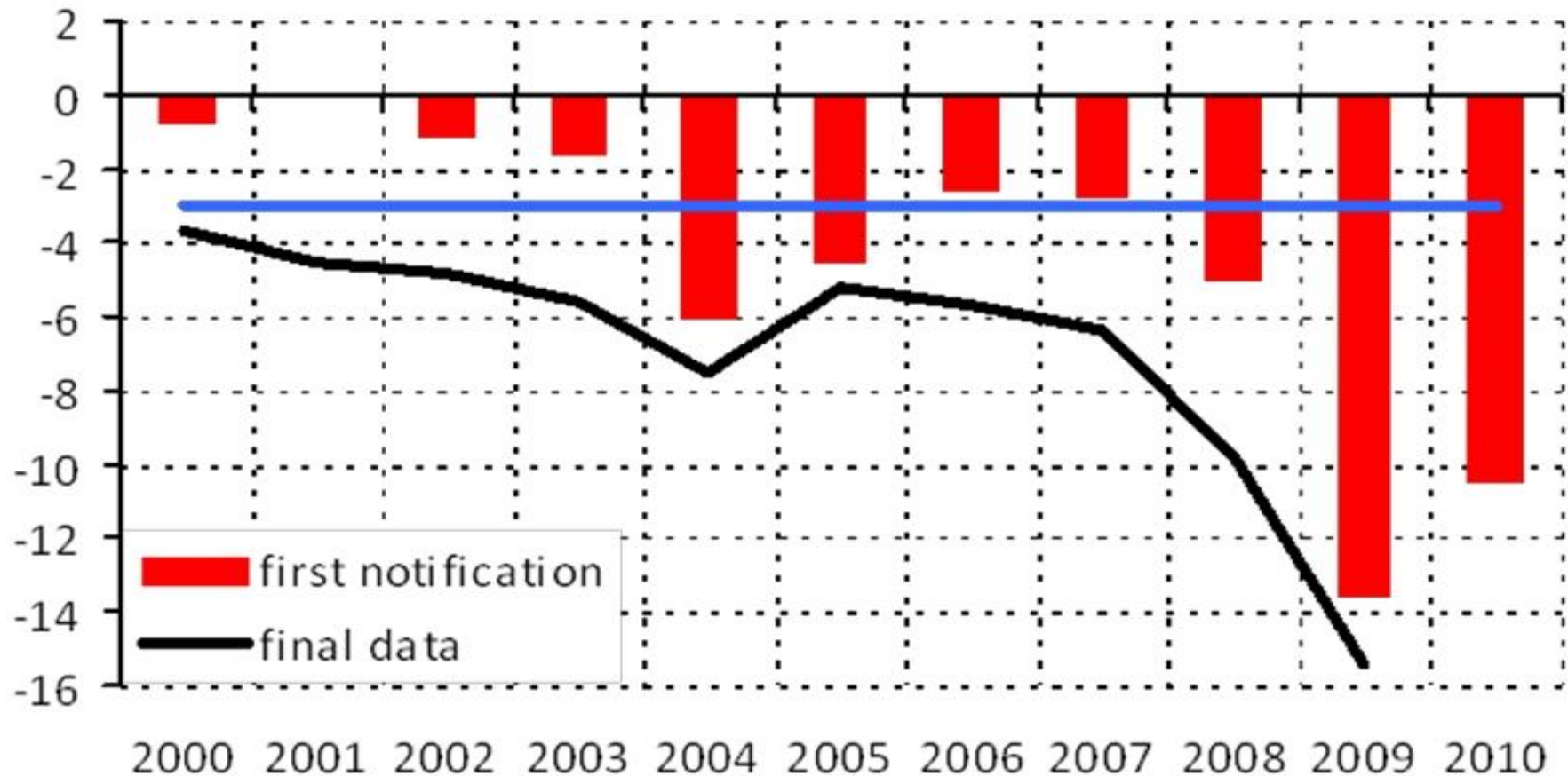
**-WEAK AND FRAGMENTED
SUPERVISION, LACK OF
CROSS-BORDER BANK
RESOLUTION REGIME.**

**- NO FLEXIBLE, MOBILE
LABOR MARKET (like in the
US);**

Summary

Greece – a perfect example of weak supervision over national fiscal policies in the euro area

General government balance in Greece, in % of GDP



Source: ECB, IMF, National Bank of Poland

Growing external imbalances

Current account balance, Germany vs. rest of the euro area, EUR mn



Source: ECB, IMF, National Bank of Poland

Real GDP growth (core vs periphery+Turkey)

Poor correlation between business cycles



Source: Eurostat