MACROECONOMIC IMBALANCE INDICATORS

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February 2022 | Issue: 4

2020 Macroeconomic Imbalance Indicators: EU and Turkey

The Macroeconomic Imbalance Procedure (MIP) Scoreboard for 2020 was published on 24 November 2021 as a statistical supplement to the Alert Mechanism Report. The report is prepared by the European Commission and published annually.[1] The highlights of the report can be summarized as follows:

The COVID-19 epidemic, which has affected the whole world, has brought significant financial burdens to the EU economies. As a result of the 2007-2008 global financial crisis, private and public sector debt increased in many countries and the current account balance deteriorated. At the end of the 10 years following the crisis, current account deficit indicators have improved relatively, debt increases have been brought under control, indebtedness levels have been gradually reduced, and the banking sector has strengthened, but the COVID-19 epidemic paused this recovery process. In this context, while the economic activity contracted sharply, the measures to combat the epidemic brought significant financial burdens to the national economies. As a result, in 2020 the general government debt of 13 EU member states has exceeded the threshold of 60% of GDP (Austria, Belgium, Croatia, Cyprus, Finland, France, Germany, Greece, Hungary, Italy, Portugal, Slovenia and Spain).

While member countries with high external indebtedness were more adversely affected by the COVID-19 crisis, countries with current account surplus maintained their positions. In countries whose economies are based on tourism revenues (Croatia, Cyprus, Greece, Malta and, to a lesser extent, Portugal and Spain), the current account balances have deteriorated with the epidemic. External indebtedness is also seen to be high in these countries (except Malta). On the other hand, the indicators of the countries with the highest Net International Investment Position (NIIP) deficit among EU members (Cyprus, Greece, Ireland, Portugal and Spain), have further worsened. While the decline in GDP was the main factor in this development, the increase in current account deficits in economies dependent on tourism revenues also negatively affected the NIIP. On the other hand, in countries with high current account surpluses such as Germany, Denmark and the Netherlands, had experienced only a limited decline in their current account balances.

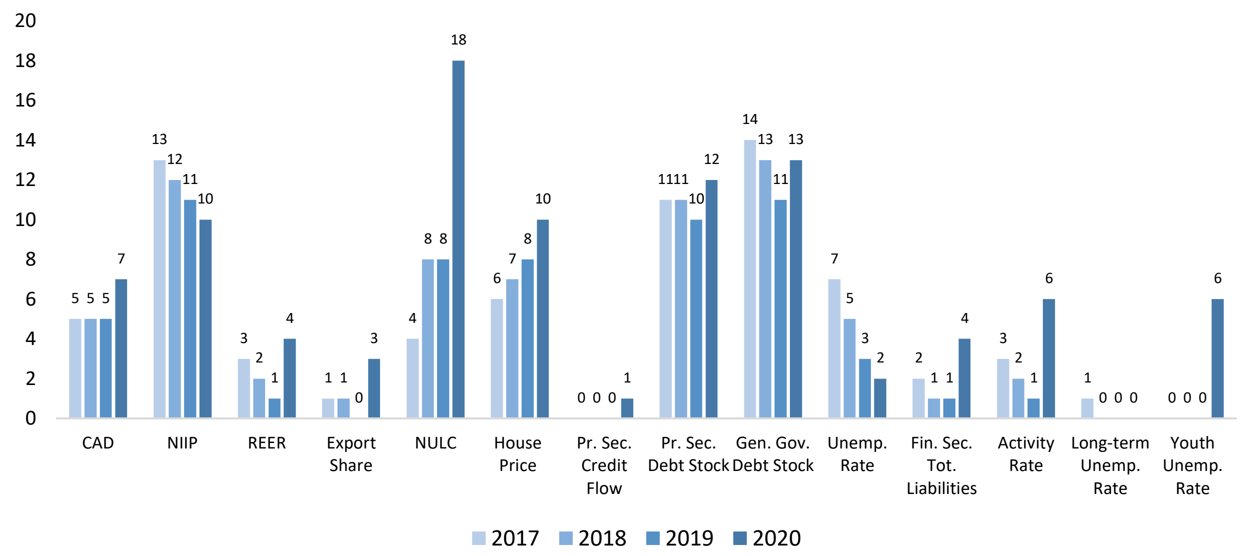
Unit labor costs have risen across the EU as a result of temporary but significant declines in labor productivity throughout the COVID-19 crisis. Due to measures such as the implementation of short-term work programs with the epidemic, working hours decreased and labor productivity indicator based on hours worked decreased significantly. In this context, while the unit labor cost indicator increased in 22 member countries, it exceeded the threshold values determined as 9% and 12% in 18 of them. On the other hand, nominal effective exchange rates appreciated in most of the member countries in 2020, especially in Bulgaria, Greece, Latvia, Lithuania and Sweden. Nominal effective exchange rates rose as a reflection of the appreciation of the Euro in international markets, as investors turned to safer financial instruments at the beginning of the epidemic. Real effective exchange rates (REER) based on consumer price inflation also increased in most countries in parallel with nominal value increases. On the other hand, there were fluctuations in export market shares in 2020; while significant export market share losses exceeding the threshold were observed in France, Greece and Spain, significant gains were recorded in many countries, as in the case of Ireland, Lithuania and Poland.

[1] European commission (2021). Alert Mechanism Report 2022. Brussels, 24.11.2021. https://ec.europa.eu/info/sites/default/files/economyfinance/2022_european_semester_alert_mechanism_report.pdf

Private sector debt ratios increased significantly with the COVID-19 crisis, posing a risk in meeting its future financial obligations. The ratio of private sector debt to GDP rose in all EU countries except Denmark, Ireland and Lithuania. While this development was mainly driven by the decline in GDP, private sector debt increased in most countries as a reflection of policy measures such as loan guarantees or debt relief. In 2020, the private sector debt/GDP ratio was above the threshold of 133% of GDP in 12 member countries (Belgium, Cyprus, Denmark, Finland, France, Ireland, Luxembourg, Malta, Netherlands, Portugal, Spain and Sweden).

The measures taken against the COVID-19 crisis have preserved production capacities and the effects on employment have been limited. On the other hand, the epidemic brought about an acceleration in the increase in house prices. Although developments in the labor market differ between sectors and member countries, employment has largely returned to pre-crisis levels. House prices accelerated further in 2020 after continued increases prior to the COVID-19 pandemic, reaching their fastest growth rate since the global financial crisis. While the supply shortages in the housing market, which increased with the epidemic, made the supply-side effects more evident, the transition to remote working caused structural breaks by changing geographical preferences on the demand side. In 2020, real house prices increased above the 6% threshold in 10 EU member countries (Austria, Croatia, Estonia, Germany, Lithuania, Luxembourg, Netherlands, Poland, Portugal and Slovakia).

Fipure 1. Number of EU member states exceeding MIP thresholds (2017-2020)



Source: Eurostat

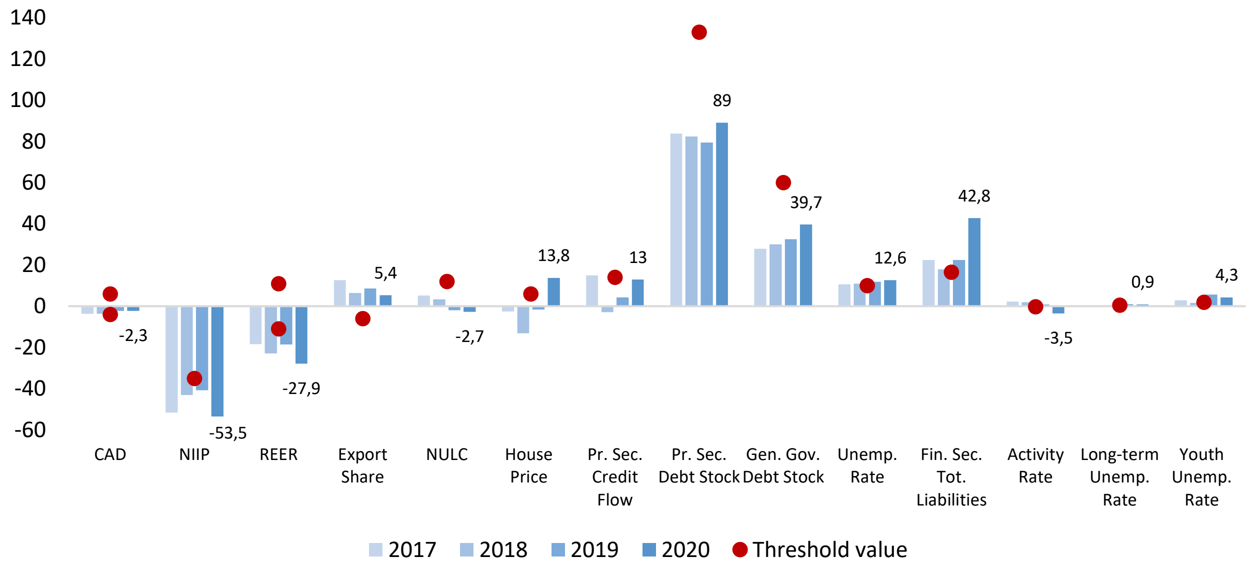
While Turkey's net foreign exchange position gap increased in 2020, its international competitiveness remained high. Turkey's NIIP indicator was below the threshold of -35%, which implies a high level of indebtedness. The real effective exchange rate, which is one of the competitiveness indicators, declined sharply and the downward trend observed in the unit labor cost since 2019 accelerated. These price and cost advantages also led to increases in the indicator calculated using the share of exports in world exports. The external imbalance indicator regarding the current account balance, on the other hand, maintained its level of -2 percent and remained below the threshold value.

In parallel with the EU countries, the level of indebtedness of residents in Turkey increased during the epidemic period. All of the internal imbalance indicators, which are defined by the variables of private sector credit flow, private sector debt stock and general government debt stock for monitoring indebtedness levels, have increased at high rates in 2020. Despite the aforementioned increases, the indebtedness indicators are below the threshold values. However, the unemployment rate which has been above the 10% threshold since 2016, further increased by 1 percentage point with the epidemic, and thus, indicate a decline in debt repayment capacity. On the other hand, the total liabilities of the financial sector were 42.8% in 2020, well above the threshold.

With the COVID-19 outbreak, asset prices in Turkey increased faster than in EU countries. The house price index, which measures the real price change in the housing market as another indicator of internal imbalance, increased by 13.8% in 2020 in Turkey. This rate is well above the threshold value of 6% and it is 3 times the average of 27 EU member states.

In terms of labor market indicators, Turkey differed negatively from EU countries, while the long-term and youth unemployment continued to increase, the economically active population diminished. While the indicator of activity rate increased continuously in previous years, it decreased by 3.5 percentage points in 2020 and fell below the threshold value. The long-term unemployment rate indicator remained below the 0.5 point threshold until 2019, it increased by approximately 2 points in 2020. Among the EU members, there is no country that exceeds the threshold in the long-term unemployment rate. During the epidemic period, the youth unemployment rate increased by 4.3 points and was twice the threshold value, and Turkey was negatively differentiated from many EU member countries.

Figure 2. MIP Indicators: Turkey and threshold values (2017-2020)



Source: TURKSTAT, CBRT, Ministry of Treasury and Finance, WTO and TEPAV calculations.

Table 1. MIP Scoreboard: EU and Turkey (2020)

	External Imbalances and Competitiveness					Internal Imbalances						Labor Market Indicators		
	Current Account Balance	Net International Investment Position	Real Effective Exchange Rate	Export Share	Nominal Unit Labor Cost Index	House Price Index	Private Sector Credit Flow	Private Sector Debt Stock	General Government Gross Debt Stock	Unemp. Rate	Financial Sector Total Liabilities	Activity Rate	Long Term Unemp. Rate	Youth Unemp. Rate
	Ratio to GDP 3-year average	Ratio to GDP	CPI based 3-year change	Ratio to World Exports 5-year change	3 year change	Real annual change	Ratio to GDP	Ratio to GDP	Ratio to GDP	3 year change	Unconsolidated Annual change	Ratio of population aged 15-64 3-year change	Ratio of active population aged 15-74 3-year change	Ratio of active population aged 15-24 3-year change
Turkey	-2.3	-53.5	-27.9	5.4	-2.7	13.8	13.0	89.0	39.7	12.6	42.8	-3.5	0.9	4.3
Belgium	0.1	44.4	2.5	10.9	7.5	3.6	1.1	192.0	112.8	5.7	8.8	0.6	-1.2	-4.0
Bulgaria	0.8	-26.3	7.1	16.0	20.4	5.2	4.2	94.3	24.7	4.8	11.1	0.9	-1.1	1.3
Czechia	1.5	-12.5	5.6	10.1	19.3	5.5	2.3	81.9	37.7	2.3	3.3	0.5	-0.4	0.1
Denmark	8.1	68.8	0.9	11.5	6.2	4.6	4.8	220.9	42.1	5.2	5.7	1.1	-0.3	-0.8
Germany	7.4	61.7	2.4	1.4	11.1	7.1	6.0	120.1	68.7	3.4	11.3	1.1	-0.5	0.6
Estonia	1.0	-21.5	5.3	17.6	17.1	6.9	3.6	104.4	19.0	5.6	17.5	0.4	-0.8	6.3
Ireland	-5.8	-174.0	-1.2	50.0	-6.3	-0.2	-1.8	188.9	58.4	5.5	7.2	-0.8	-1.7	0.9
Greece	-3.7	-175.0	0.4	-10.1	6.4	5.5	5.4	125.3	206.3	17.6	27.4	-0.9	-4.7	-8.6
Spain	1.6	-85.5	1.1	-6.8	11.0	2.2	4.4	146.4	120.0	15.0	9.5	-1.7	-2.7	-0.3
France	-1.0	-30.2	2.7	-6.9	4.6	4.4	13.0	173.7	115.0	8.5	11.6	-0.5	-1.3	-1.9
Croatia	1.6	-47.8	0.5	0.1	13.7	7.3	1.3	98.0	87.3	7.5	7.3	0.7	-2.5	-6.3
Italy	3.2	2.4	0.6	-2.8	5.5	2.2	4.1	118.7	155.6	9.9	6.8	-1.3	-1.8	-5.3
Cyprus	-6.6	-136.7	0.1	28.5	5.6	0.7	-2.5	259.7	115.3	7.7	-2.5	1.9	-2.4	-6.5
Latvia	0.7	-34.7	5.9	18.2	18.7	2.7	-1.8	66.7	43.2	7.3	10.8	1.2	-1.1	-2.1
Lithuania	3.7	-15.8	6.9	39.3	18.3	6.4	0.3	54.7	46.6	7.0	28.5	2.6	-0.2	6.3
Luxembourg	4.5	39.9	1.5	20.6	11.1	13.8	44.1	316.8	24.8	6.0	-3.6	2.0	-0.4	7.8
Hungary	-0.7	-48.1	-4.9	8.2	13.2	1.9	7.7	76.4	80.1	3.8	55.3	1.6	-0.6	2.1
Malta	3.0	60.3	2.1	13.2	19.9	2.2	9.0	139.0	53.4	3.9	1.9	4.9	-0.9	0.3
Holland	9.1	113.9	3.8	7.4	14.0	6.0	-1.3	233.7	54.3	3.7	3.3	1.2	-1.0	0.2
Austria	1.6	9.3	3.2	5.2	12.2	6.2	4.7	131.2	83.2	4.9	10.6	0.2	-0.5	0.7
Poland	0.7	-44.5	1.1	36.9	12.3	7.1	1.4	75.8	57.4	3.5	11.7	1.4	-0.9	-4.0
Portugal	0.0	-106.4	0.0	-0.9	16.2	7.7	4.4	163.7	135.2	6.8	7.2	-0.4	-2.2	-1.3
Romania	-4.9	-48.3	3.4	20.6	20.7	2.2	1.3	48.4	47.4	4.4	13.4	1.9	-0.5	-1.0
Slovenia	6.4	-15.2	1.9	20.2	14.9	5.2	-0.9	69.7	79.8	4.9	14.0	0.4	-1.2	3.0
Slovakia	-1.8	-65.7	5.3	8.1	16.4	7.2	3.7	95.3	59.7	6.3	9.9	0.3	-1.9	0.4
Finland	-0.4	-5.3	2.3	12.3	5.4	1.3	6.4	153.3	69.5	7.3	7.8	1.6	-0.9	1.3
Sweden	4.6	16.4	-4.8	4.5	9.6	3.0	11.6	215.5	39.7	7.2	11.1	0.0	-0.1	6.0
Thresholds	%-4/6	-35%	%+/-5 (EA) %+/-11 (Non-EA)	%-6	%9 (EA) %12 (Non-EA)	%6	%14	%133	%60	%10	%16.5	-0.2 pp	0.5 pp	2 pp

Source: For EU data; Eurostat, Macroeconomic Imbalances Procedure, Main Tables (https://ec.europa.eu/eurostat/web/macroeconomic-imbalances-procedure/data/main-tables), for Turkey data; TURKSTAT, CBRT, Ministry of Treasury and Finance, WTO and TEPAV calculations.