

Macroeconomic Imbalance Indicators: 2022 - I

The Macroeconomic Imbalance Procedure (MIP) framework and the MIP Scoreboard, which was established to strengthen the coordination between fiscal and monetary policies among European Union member states, to monitor macroeconomic policies and to improve the supervision of these policies are replicated for Turkey by TEPAV based on publicly available official statistics. The indicative figures are updated on a quarterly basis.¹

Following the publication of official statistics for the first quarter of 2022, the MIP Scoreboard has been updated. Indicators show that the current account deficit is on an increasing trend, despite the rapid and high depreciation of the Turkish lira and the historically low levels in unit labor costs. The initial data on the share of Turkey's export revenues in world exports show that the improvement trend that started in 2021 continues in the first quarter of 2022. However, the positive course in competitiveness indicators was not reflected in the current account balance. Most of the internal imbalance indicators reaching their highest value in the analysis period show that internal imbalances have been at their peaks since 2011. In the first quarter of 2022, the indicator for the total liabilities of the financial sector reached approximately 4 times the threshold value and the house price index reached approximately 5 times the threshold value. In this period, the deterioration in the employment outlook slowed down compared to the end of 2021. However, it is considered that unemployment continues to be a factor of macroeconomic imbalance due to having persistent high rates and/or indicators outside the threshold values.

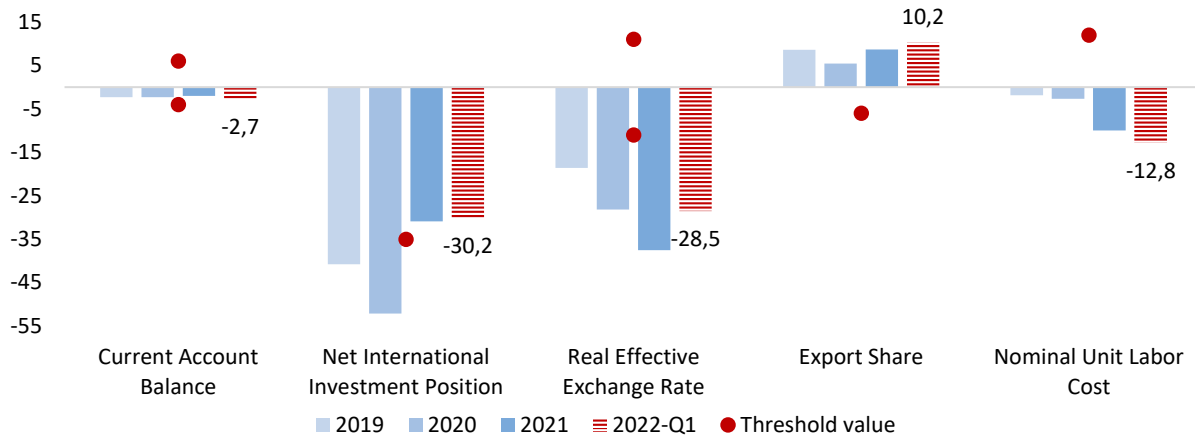
I. External Imbalances and Competitiveness Indicators

Indicators for the first quarter of 2022 show that the current account deficit is on an increasing trend despite the rapid and high depreciation of the Turkish lira and the historically low levels in unit labor costs. The **real effective exchange rate** indicator, which fell to the lowest level of the last 11 years by the end of 2021, remained low in the first quarter of 2022, indicating a competitive level. The downward trend in the three-year rate of change in the **unit labor cost**, which is another competitiveness indicator, accelerated in 2021 and became the lowest value of the analysis period with -12.8 percent as of the first quarter of 2022. Although the sharp decline in the said indicator supports competitiveness, it reflects the decline in the purchasing power of workers and the contraction in the share of labor payments in national income with increasing inflation. Despite supportive competitiveness indicators, the long-term improvement trend observed in the external imbalance indicator regarding the **current account balance** reversed in 2022. Although the initial data on the **share of Turkey's export revenues in world exports** show that the improvement trend that started in 2021 continues in the first quarter of 2022, this positive development was not reflected in the current account indicator. On the other hand, the **net international investment position**, which is an indicator of external imbalance, maintained its level above the threshold value in the last quarter of 2021 as well in the first quarter of 2022 (Figure 1, Table 1).²

¹ For a detailed study, see: Cangöz, C., Şahinbeyoğlu, G., Kurt, T. and E. Yılmaz (2021). "European Union Macroeconomic Imbalance Procedure (MIP) and Turkey Assessment," TEPAV Evaluation Note, No. 202105 (https://www.tepav.org.tr/upload/files/1621681636-4.European_Union_Macroeconomic_Imbalance_Procedure_MIP_and_Turkey_Assessment_1.pdf)

² The International Investment Position (IIP) Statistics published by the CBRT were revised with the publication dated August 19, 2021, and the data were updated until 1998, resulting in an improvement in the net IIP open position. For revision study, please see: https://www.tcmb.gov.tr/wps/wcm/connect/ad9a207b-0c13-41ae-b010-c0a83134d531/ticari_krediler_UYP_ENG.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-ad9a207b-0c13-41ae-b010-c0a83134d531-nJtdrBM

Figure 1. External Imbalances and Competitiveness Indicators (2019-2022-Q1)

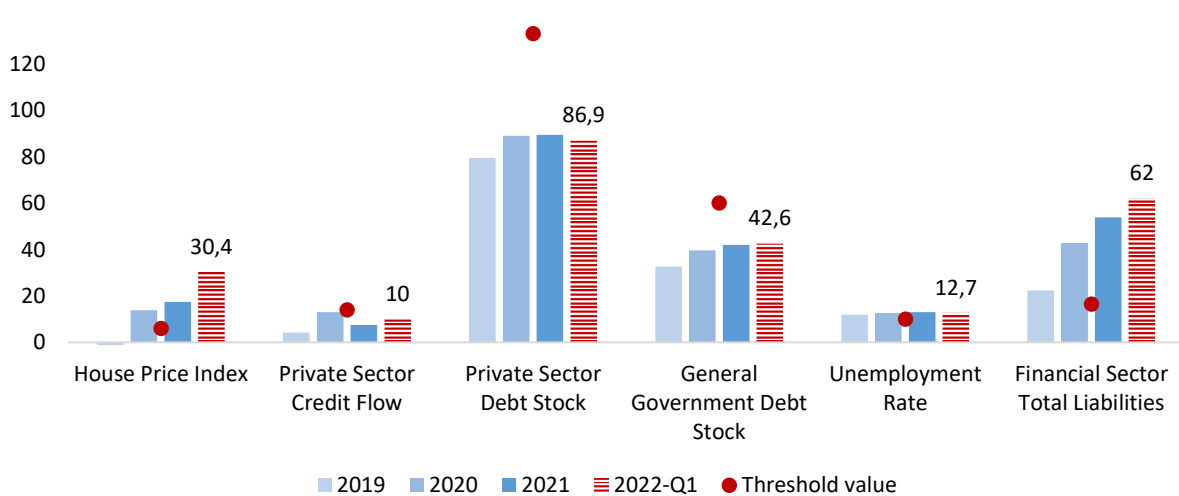


Source: TURKSTAT, CBRT, Ministry of Treasury and Finance, WTO and TEPAV calculations

II. Internal Imbalance Indicators

Three of the six indicators reaching their highest values in the analysis period indicate that internal imbalances have been at their peaks. Private sector credit flow and general government debt stock increased in the first quarter of 2022 compared to the end of 2021 but, they remained below the threshold values. Although the ratio of private sector debt stock to GDP had a slight decline in this period, it still has one of the highest values of the analysis period. This indicates high level of indebtedness which is narrowing the fiscal space in general. On the other hand, the indicator of total liabilities of the financial sector, which has been increasing rapidly since 2020, has approached 4 times the threshold value in the first quarter of 2022 and constitutes a source of financial vulnerability. Similarly, the house price index, which measures the real price change in the housing market, was well above the 6 percent threshold, contributing to the increase in internal imbalances. In addition, the unemployment rate indicator, which has been above the 10 percent threshold since 2016, is still at the level of the COVID-19 epidemic (Figure 2, Table 1).

Figure 2. Internal Imbalance Indicators (2019-2022-Q1)

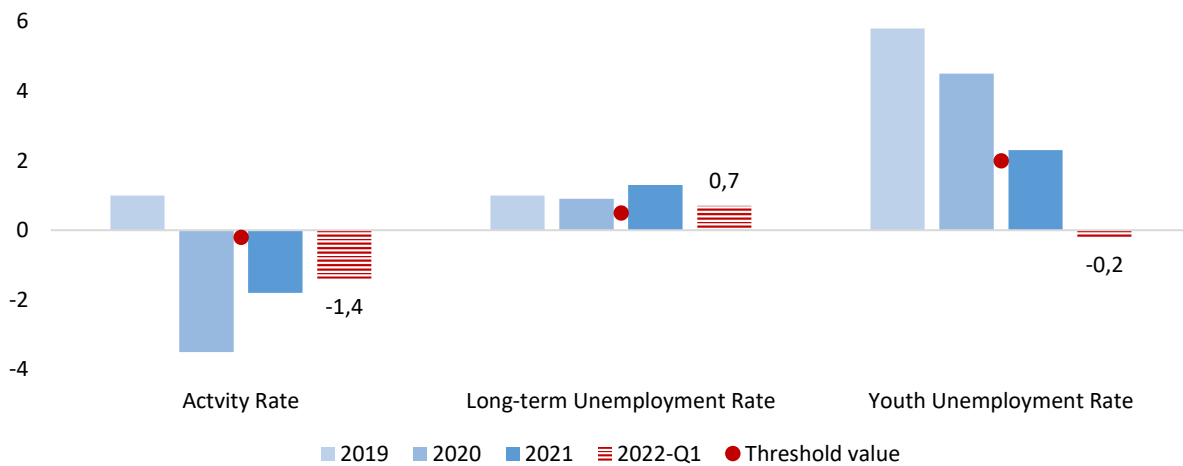


Source: TURKSTAT, CBRT, Ministry of Treasury and Finance and TEPAV calculations

III. Labor Market Indicators

In the first quarter of 2022, both the activity rate and long-term unemployment indicators are above the threshold values. While the activity rate indicator, which is defined as the labor force participation of the economically active population aged 15 and over, had an increasing trend before 2020, it reversed with the COVID-19 epidemic and declined by more than 3 points. The downward trend continues in the first quarter of 2022, albeit at a slower pace. On the other hand, the long-term unemployment rate indicator, which expresses the ratio of people who have been unemployed for 1 year or more to the labor force, improved partially in the first quarter of 2022, but remained above the threshold value. The increase in the youth unemployment rate, which is calculated over the three-year change in unemployment rates for the 15-24 age group, started in 2019 and reversed for the first time in the first quarter of 2022. However, the youth unemployment rate still hovers above 20 percent. Considering labor market indicators in general, it is seen that the deterioration has been slowed compared to the end of 2021, but it continues to be a factor of macroeconomic imbalance due to the persistent high unemployment rates and/or the indicators outside the threshold values (Figure 3, Table 1).

Figure 3. Labor Market Indicators (2019-2022-Q1)



Source: TURKSTAT and TEPAV calculations

Table 1. Macroeconomic Imbalance Indicators - Turkey (2011 – 2022-Q1)

	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 Debt Stock	Unemployment Rate	Financial Sector Total Liabilities	Activity Rate	Long-term Unemployment Rate	Youth Unemployment 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	Annual change	Ratio of population aged 15+ 3-year change	Ratio of 15+ to active population 3-year change	Ratio to active population aged 15-24 years 3-year change
2011	-5.5	-37.7	-7.0	4.3	3.1	-3.6	10.4	60.7	36.1	11.9	14.0	3.0	-0.3	-2.1
2012	-6.7	-48.3	-2.3	7.7	3.8	3.8	9.1	62.2	32.4	10.3	15.6	2.1	-1.3	-7.8
2013	-6.7	-40.9	-16.0	4.3	3.2	5.0	12.7	71.2	31.1	9.6	22.4	2.0	-1.0	-3.0
2014	-5.1	-46.5	2.3	7.7	8.7	6.3	9.6	74.2	28.4	9.6	17.2	0.6	-0.5	-0.5
2015	-4.4	-42.7	-10.8	22.5	4.9	6.2	10.9	79.0	27.3	10.0	14.5	1.3	-0.1	1.0
2016	-3.5	-39.7	-7.3	26.5	15.2	3.4	7.1	84.2	27.9	10.4	19.4	1.2	-0.1	0.9
2017	-3.7	-51.5	-18.4	12.6	5.2	-2.5	15.0	83.7	27.9	10.7	22.5	2.3	0.3	2.9
2018	-3.6	-43.2	-22.9	6.5	3.3	-13.2	-2.9	82.4	30.1	10.9	17.9	1.9	0.3	1.8
2019	-2.3	-40.8	-18.6	8.6	-1.9	-1.6	4.2	79.5	32.6	11.9	22.4	1.0	1.0	5.8
2020	-2.3	-52.1	-28.2	5.4	-2.7	13.8	13.0	89.0	39.7	12.6	42.8	-3.5	0.9	4.5
2021	-2.0	-30.9	-37.5	8.7	-10.0	17.4	7.5	89.4	42.0	13.0	53.9	-1.8	1.3	2.3
2022-Q1	-2.7	-30.2	-28.5	10.2*	-12.8	30.4	10.0	86.9	42.6	12.7	62.0	-1.4	0.7	-0.2
Threshold values for EU countries	%-4/6	%-35	%+/-5 (Eurozone) %+/-11 (Non-Eurozone)	%-6	%9 (Eurozone) %12 (Non-Eurozone)	%6	%14	%133	%60	%10	%16.5	-0.2 points	0.5 points	2 points

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

* The World Trade Organization (WTO) annual data covers 281, the quarterly data covers 103 countries.