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NEWS RELEASE

GLOBAL ECONOMIC PROSPECTS 2011 AND TURKEY

The world economy is moving from a post-crisis bounce-back phase of the recovery to slower but still solid growth this year and next, with developing countries contributing almost half of global growth, says the World Bank's latest *Global Economic Prospects 2011.*

The World Bank estimates that global GDP[1], which expanded by 3.9% in 2010, will slow to 3.3% in 2011, before it reaches 3.6% in 2012. Developing countries are expected to grow 7% in 2010, 6% in 2011 and 6.1% in 2012. They will continue to outstrip growth in high-income countries, which is projected at 2.8% in 2010, 2.4% in 2011 and 2.7% in 2012.

Turkey has recovered strongly from the effects of the 2008-09 global crisis, recording a real GDP growth of about 8% in 2010. Output has now surpassed its pre-crisis level by a comfortable margin, one of the few countries in Europe to achieve this milestone. This strong recovery was underpinned by economic reforms undertaken since 2001 which made room for decisive policy easing during the crisis. Employment has also surpassed pre-crisis levels, linked to significant increases in the female labor force participation rate, although open unemployment in Turkey remains high in absolute terms (11.3 percent in Oct 2010) and represents a challenge both to social welfare and to productivity.

Inflation targeting is also performing well, although the task has been complicated by the high volume of short-term capital flows to the Turkish economy. End-2010 inflation was 6.4 percent, within the target of 6.5 percent for a second year running. High short-term capital inflows in 2010, a corollary of loose global monetary policy as well as confidence in the Turkish economy, have buoyed economic activity and have financed a sharply increasing current account deficit, which has now returned to its pre-crisis level. The authorities have recently introduced measures to reconcile inflation targeting with a more aggressive approach to managing inflows.

Looking forward, the Government's track record has in effect been strengthened by its response to the global recession. The Medium Term Program for 2011-13 forecasts a gradual improvement in public sector balances, although the composition of taxation and spending still pose longer-term challenges. The main macroeconomic risk is that a reversal of capital flows could cause a significant growth slowdown, given the high level of the current account deficit. In the longer term, higher productivity, higher exports to more diverse markets, higher domestic saving, and greater energy efficiency and diversification are the keys to reducing Turkey's reliance on external finance. Improvements in these areas will require structural reforms in labor and product markets, which would not only have a positive effect on current account balances, but also on Turkey's growth potential.

[1] Measured at 2005 market prices and exchange rates (or 4.8%, 4.1% and 4.4% when aggregated using Purchasing Power Parity weights).