4. Supply and Demand Developments

In the third quarter of 2018, economic activity slowed down, consistent with the outlook laid down in the October Inflation Report. In this quarter, the rebalancing process that started in the second quarter became more evident. The strong contribution from net exports curbed further demand-led slowdown in economic activity.

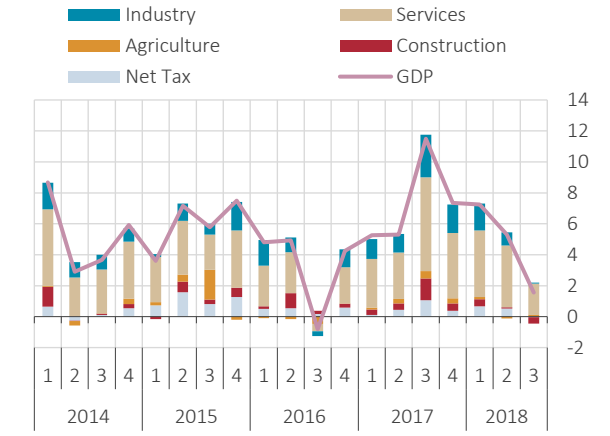
Despite the improvement in financial volatility and risk premium indicators on the back of the policy steps and the measures taken, the sustained tightness in financial conditions continued to limit domestic demand. Although the tax cuts introduced for durable goods instigated a partial recovery in private consumption demand, the impact of tax cuts on production and growth remained limited due to reduced inventory stock. Meanwhile, as growth in exports of goods and services, and the decline in the demand for imports continued, net exports' contribution to growth continued as well.

It is estimated that throughout 2019, financial conditions underpinned by the improvement in inflation outlook and the decline in country risk premiums will support a moderate recovery in domestic demand and net exports will contribute to growth. Although real income, which decreased in the second half of 2018 due to the rapid climb in inflation, is expected to support private consumption in the first quarter on the back of the wage adjustments introduced in early 2019, its contribution to growth throughout the year is expected to be limited depending on the labor force outlook. Meanwhile, the recent rise in uncertainties pertaining to monetary policies of advanced economies and global economic activity keep downside risks to growth via capital flows and foreign trade channels in place.

4.1 Supply Developments

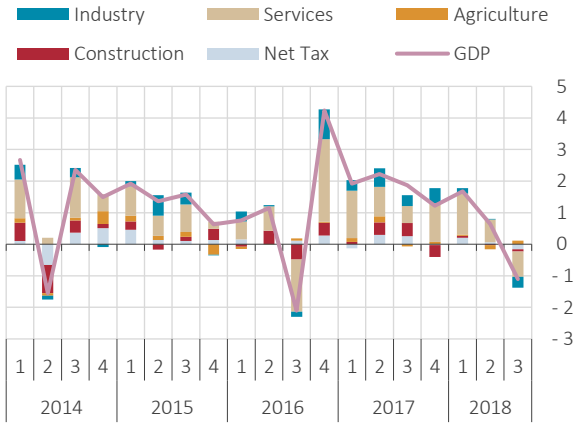
In the third quarter of 2018, gross domestic product (GDP) grew by 1.6% year-on-year and contracted by 1.1% quarter-on-quarter, adjusted for seasonal and calendar effects. In this quarter, the slowdown in economic activity spread across the majority of the sectors, with all main industries except agriculture providing less contribution to growth in both annual and quarterly terms. The services sector remained the biggest contributor to growth thanks to the strong recovery in the tourism sector (Charts 4.1.1 and 4.1.2).

Chart 4.1.1: Contributions to Annual GDP Growth from the Production Side (% Points)



Source: CBRT, TURKSTAT.

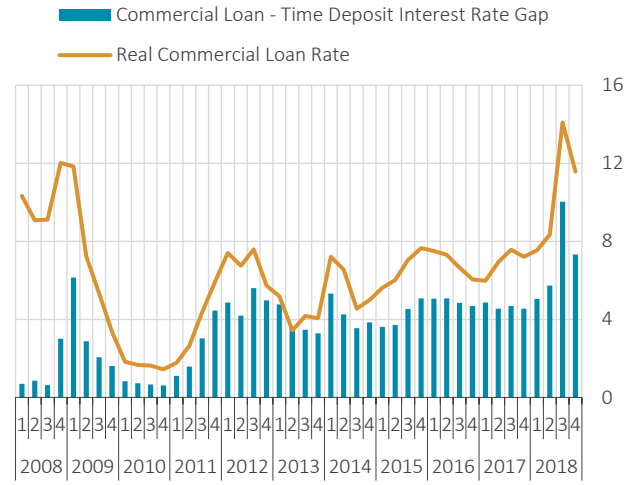
Chart 4.1.2: Contributions to Quarterly GDP Growth from the Production Side (Seasonally Adjusted, % Points)



Source: CBRT, TURKSTAT.

In the final quarter of 2018, financial indicators displayed a partial recovery on the back of the policy steps and measures taken, nevertheless, the interest margin and risk premium remained high and tightness in financing conditions persisted (Chart 4.1.3).

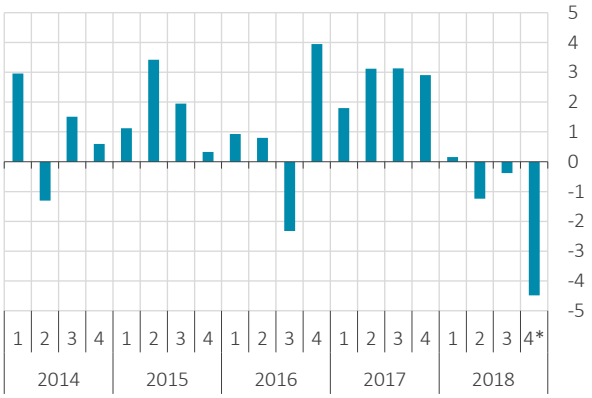
Chart 4.1.3: Commercial Loan-Deposit Rate Spread and Real Commercial Loan Rates* (Annual, Simple, %)



Source: CBRT, TURKSTAT.
* Deflated by 12-month ahead CPI expectations.

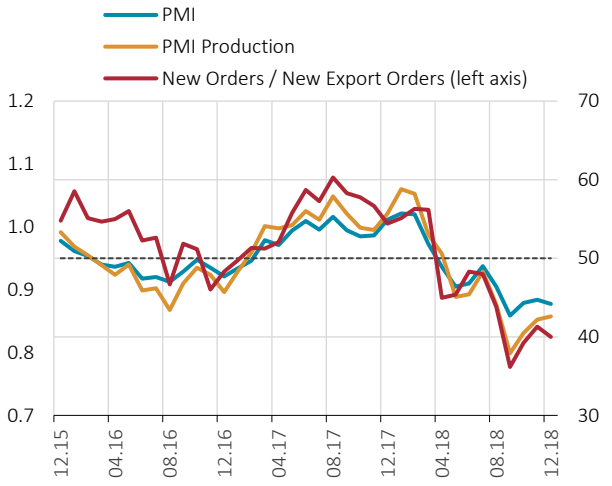
In the October-November period, industrial production decreased by 4.5% quarter-on-quarter (Chart 4.1.4). The slowdown in sectors that cater to the domestic market led by construction-related businesses continued with further spread across all sectors. In November, tax cuts were introduced for some sectors. Nevertheless, production only increased in the furniture manufacturing sector among the sectors subject to tax cuts which means the rise in sales in other sectors were largely met out of the stocks and production did not increase. Despite the general weakness in domestic demand, sectors related with medicine and defense industries sectors continued to contribute to industrial production. Meanwhile, a partial slowdown is observed in export-oriented sectors as well. The survey and the import data suggest that the domestic demand-led weakness in industrial production continued in December too (Chart 4.1.5).

Chart 4.1.4: Industrial Production Index
(Seasonally Adjusted, Quarterly % Change)



Source: TURKSTAT.
* October-November average.

Chart 4.1.5: PMI and PMI Production
(Seasonally Adjusted, Level)

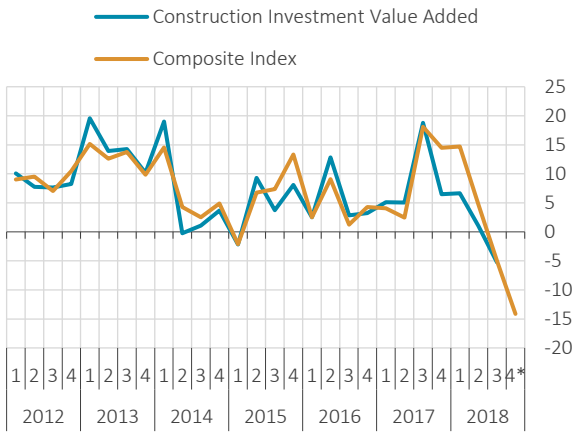


Source: IHS Markit.

In the third quarter, the construction sector's value added continued to decrease on a quarterly basis, and contracted by 5.3% annually, making it the only main sector that contributed negatively to annual growth. The industrial production, employment and construction sector composite indicator suggests that the ongoing decline in the sector's value added further accelerated in the final quarter (Chart 4.1.6, Chart 4.3.4). Meanwhile, services sector activity decreased in tandem with the downtrend in

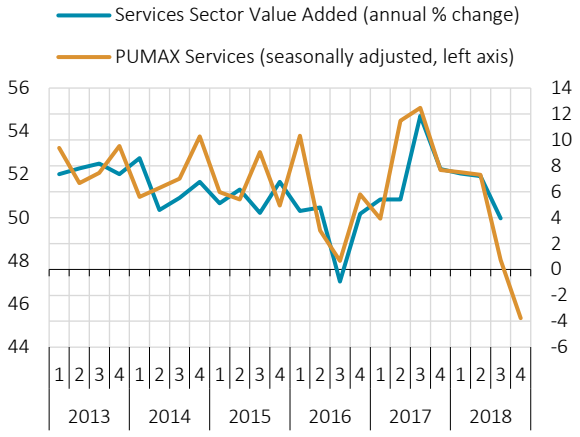
manufacturing and construction sectors (Chart 4.1.7). Conversely, the positive outlook in tourism-related sub-sectors curbed further weakening in the services sector.

Chart 4.1.6: Value Added and Composite Index of Construction** (Annual % Change)



Source: CBRT, TURKSTAT.
* As of November.
** The composite index of construction is measured by the annual percentage change in domestic real turnover in fabricated metals and other non-metallic minerals. Weights obtained from linear regression.

Chart 4.1.7: Value Added of Services Sector and PMI Service Index

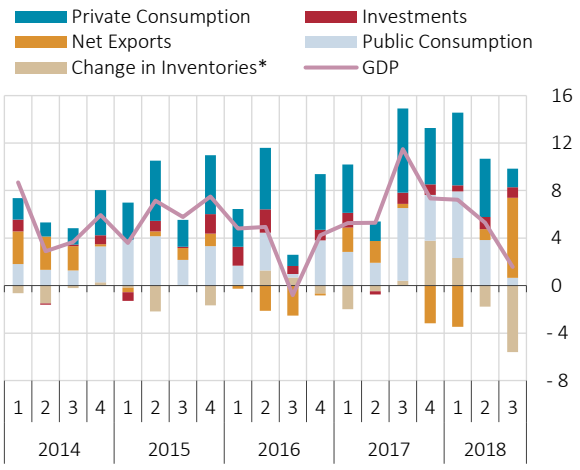


Source: MÜSİAD, TURKSTAT.

4.2 Demand Developments

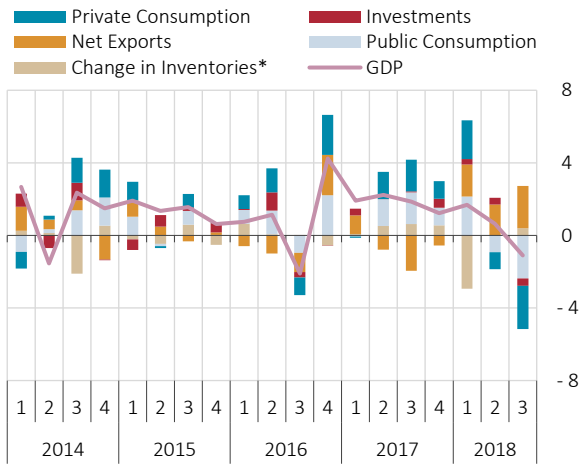
On the expenditures side, an analysis of 2018's third quarter data reveals that the slowdown in the economy mainly stemmed from domestic demand while net exports curbed further quarterly contraction (Chart 4.2.1 and Chart 4.2.2). In this quarter, the public sector's direct contribution to growth decreased compared to previous periods. Underpinned by strong tourism activities, exports of goods and services increased in the third quarter while imports of goods and services decreased due to weak domestic demand and the depreciation in real exchange rates (Box 4.2).

Chart 4.2.1: Contribution to Annual Growth from the Expenditure Side (% Points)



Source: CBRT, TURKSTAT.
* Includes inventories and statistical discrepancy due to chain linking.

Chart 4.2.2: Contributions to Quarterly GDP Growth from the Expenditures Side (% Points)

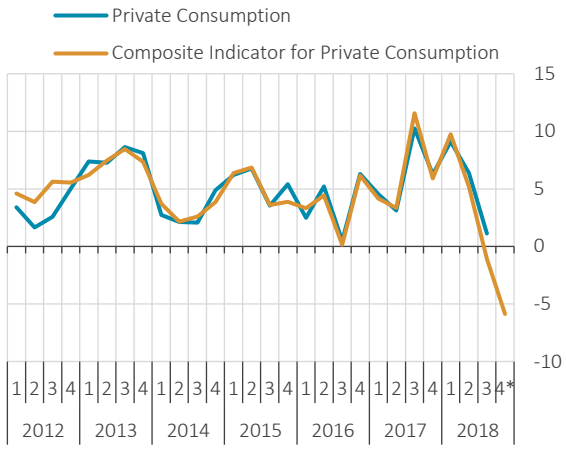


Source: CBRT, TURKSTAT.
* Includes inventories and statistical discrepancy due to chain linking.

Indicators for the final quarter suggest that the rebalancing in demand composition has continued and became more significant. The measures taken and the tax incentives introduced have partially curbed contraction in domestic demand. Meanwhile, the strong trend in exports of goods and services continued,

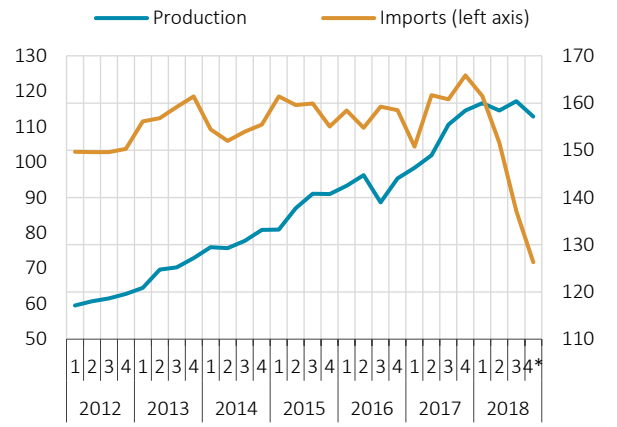
albeit with a slight slowdown. Thus, net exports continued to contribute to growth with the support of the decreasing imports due to subdued domestic demand conditions.

Chart 4.2.3: Private Consumption and Composite Indicator for Private Consumption** (Annual % Change)



Source: ADA, CBRT, TURKSTAT.
* As of November.
** The composite indicator is the weighted average of the annual percentage changes in the real turnover in non-durable goods, the import quantity index for durable goods, automobile and the volume index for retail sales. Weights obtained from regression analysis.

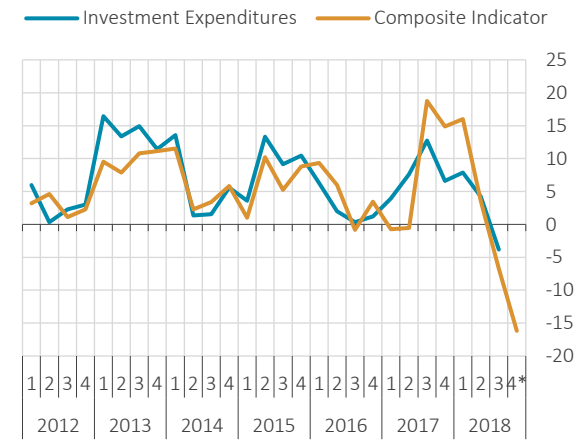
Chart 4.2.4: Production and Imports of Consumer Goods (Seasonally Adjusted, 2010=100)



Source: CBRT, TURKSTAT.
* October-November average.

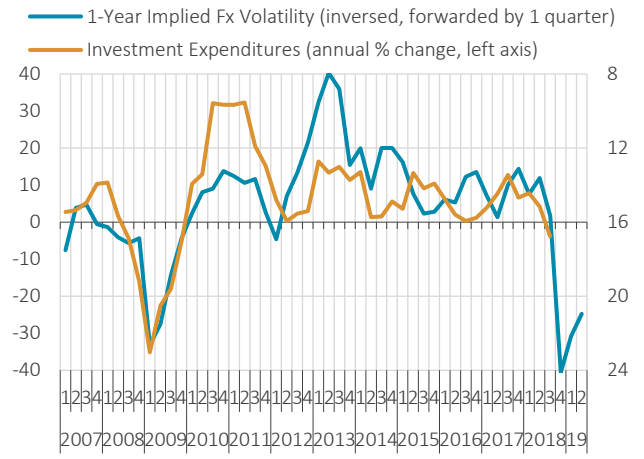
Composite indicators suggest that private consumption and investment expenditures decreased in the final quarter, year-on-year (Chart 4.2.3 and Chart 4.2.5). The depreciation in the Turkish lira and tightening in financial conditions led to a decline in demand for imported goods, primarily in automobiles. Meanwhile, deterioration in labor market and real wages made a contractionary impact on consumer demand via income-sensitive consumer non-durables (Chart 4.2.4).

Chart 4.2.5: Investment Expenditures and Composite Indicator for Investment Expenditures** (Annual % Change)



Source: CBRT, TURKSTAT.
* As of November.
** The composite indicator is the weighted average of the annual percentage changes in the domestic real turnover in the other non-metallic minerals, machinery-equipment, capital goods industries and annual percentage change in imports quantity index for capital goods. Weights obtained from regression analyses.

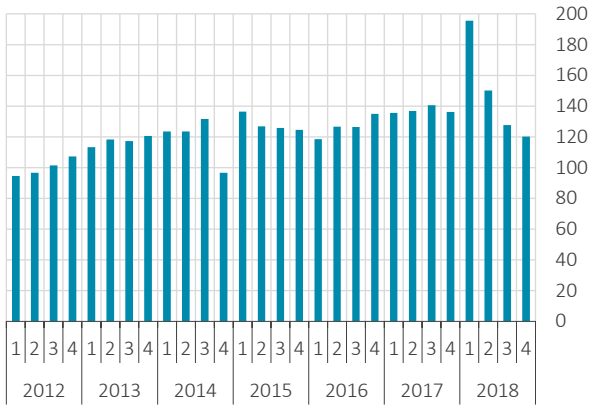
Chart 4.2.6: Investment Expenditures and Exchange Rate Volatility*



Source: Bloomberg, TURKSTAT.
* As of 25 January 2019.

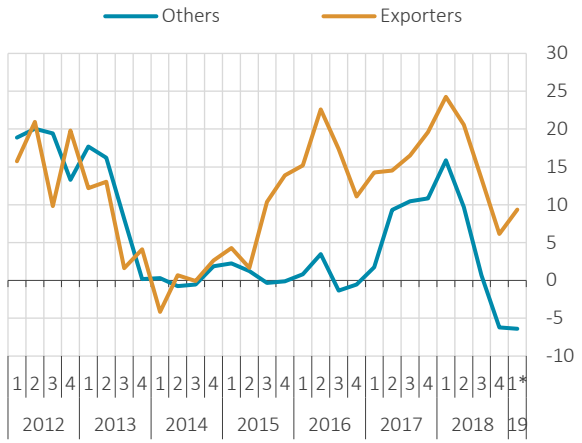
Financial volatilities restrict investment spending (Chart 4.2.6). In addition, the reduction of public spending on construction investments was another factor limiting total investments in the last quarter of 2018 (Chart 4.2.7). On the other hand, data from the Business Tendency Survey (BTS) suggest that exporting sectors had a higher investment tendency compared to other industries (Chart 4.2.8).

Chart 4.2.7: Central Government's Capital Expenditures* (Seasonally Adjusted, Real, 2012=100)



Source: MTF, CBRT.
* Deflated by CPI.

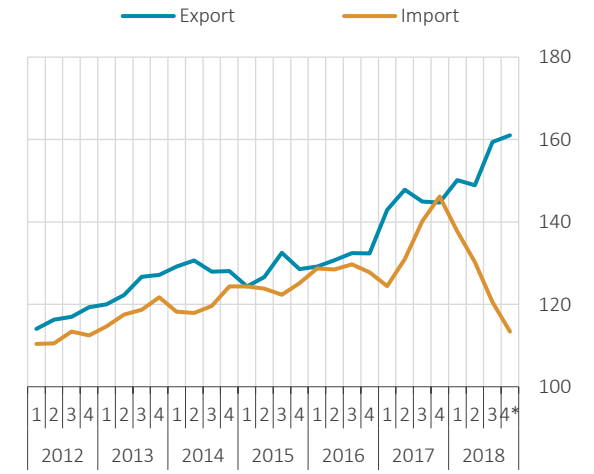
Chart 4.2.8: Fixed Capital Investment Tendency by Sectors Based on BTS (Seasonally Adjusted, Up – Down, %)



Source: CBRT.
* As of January.

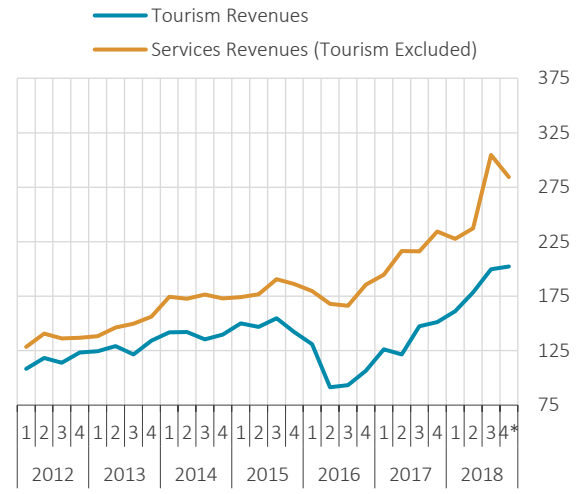
Net exports' strong contribution to quarterly growth continued in the final quarter as well. External demand remained strong despite the partial slowdown signals in global growth outlook. In this quarter, exports of goods were supported by firms' tendency to reach out to foreign markets and by their market diversification flexibility in response to cumulative depreciation of reel exchange rate and the slowdown in domestic demand (Chart 4.2.9). Moreover, the contribution to growth coming from exports of goods and services, which was underpinned by the strong course of tourism and affiliated transportation activities, increased (Chart 4.2.10). Meanwhile, the depreciation of the Turkish lira and the shrinking domestic demand put downward pressure on import demand (Chart 4.2.9 and Box 4.1).

Chart 4.2.9: Quantity Indices for Imports and Exports (Excl. Gold, Seasonally Adjusted, 2010=100)



Source: CBRT, TURKSTAT.
* Actual figures for October and November, forecast for December.

Chart 4.2.10: Tourism and Services Revenues** (Real, Seasonally Adjusted, 2010=100)



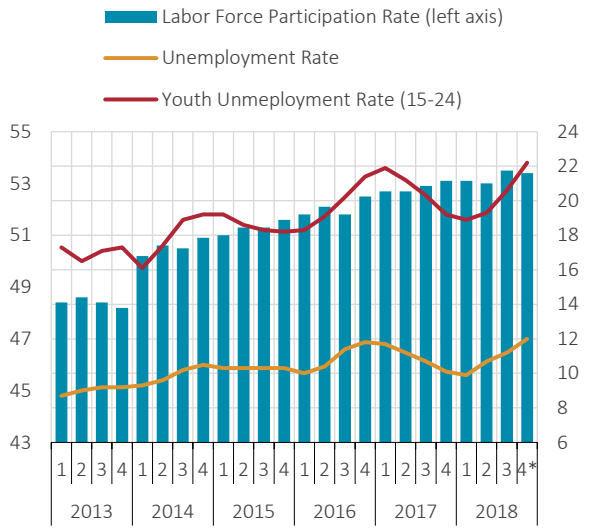
Source: CBRT, TURKSTAT.
* Actual figures for October and November, forecast for December.
** Deflated by CPI.

To sum up, the rebalancing trend in economic activity became more evident. It is estimated that throughout 2019, financial conditions underpinned by the improvement in the inflation outlook and the decline in country risk premiums will support a moderate recovery in domestic demand and that net exports will contribute to growth. Meanwhile the recent rise in uncertainties pertaining to monetary policies of advanced economies and global economic activity keep downside risks to growth via capital flows and foreign trade channels in place.

4.3 Labor Market

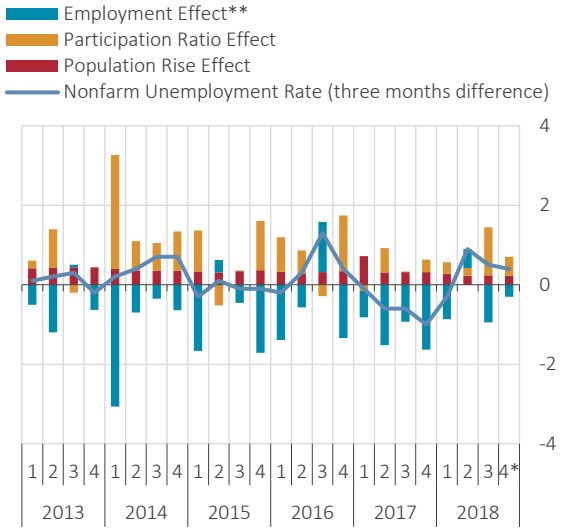
After a steady fall throughout 2017, unemployment rates assumed an uptrend in the second quarter of 2018 and this trend continued in the October period (Chart 4.3.1). In the third quarter, seasonally adjusted total and non-farm unemployment rates increased by 0.5 points compared to previous quarter to 11.2% and 13.1%, respectively. This was due to both deceleration in non-farm employment as a result of the slowdown in economic activity and the rise in labor force participation (Chart 4.3.2). In the October period, covering September, October and November, the seasonally adjusted total and non-farm unemployment rates increased by 0.3 and 0.4 points compared to third quarter to 11.5% and 13.5%, respectively.

Chart 4.3.1: Unemployment and Labor Force Participation Rates (Seasonally Adjusted, %)



Source: TURKSTAT.
* As of the October period.

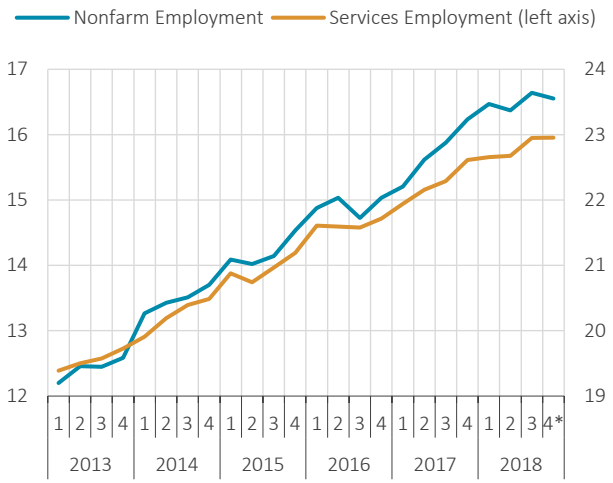
Chart 4.3.2: Contributions to Quarterly Changes in Non-Farm Unemployment (Seasonally Adjusted, % Points)



Source: CBRT, TURKSTAT.
* As of the October period.
** Employment growth pulls non-farm unemployment down.

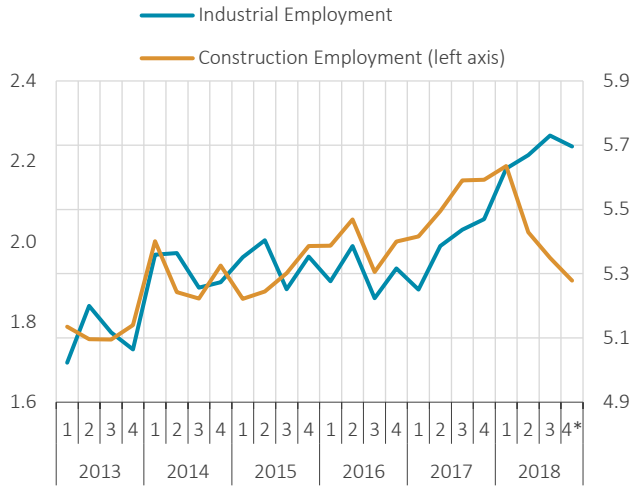
In the third quarter of 2018, the main contributors to non-farm employment growth were services and industrial sectors (Chart 4.3.3 and Chart 4.3.4). The favorable trend of exports made a positive impact on industrial employment. An analysis of sub-sectors of the services employment reveals that the increase was mainly driven by trade, tourism and public sector-related sectors (Chart 4.3.5). Employment in the construction sector continued to decrease as a result of the slowdown in businesses providing input to this sector (Chart 4.3.4).

Chart 4.3.3: Non-Farm and Services Employment
(Seasonally Adjusted, Million People)



Source: TURKSTAT.
* As of the October period.

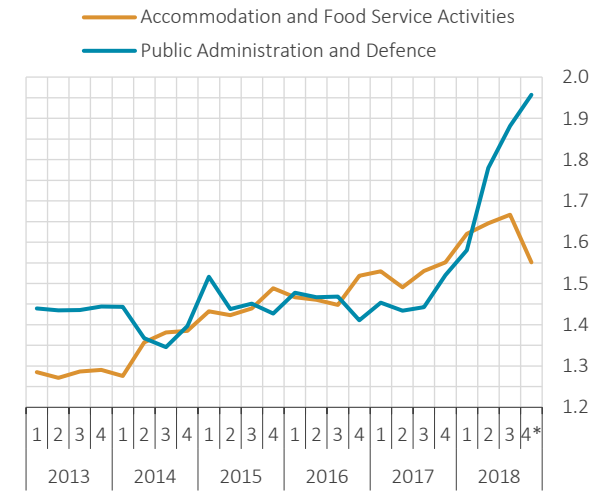
Chart 4.3.4: Industrial and Construction Employment
(Seasonally Adjusted, Million People)



Source: TURKSTAT.
* As of the October period.

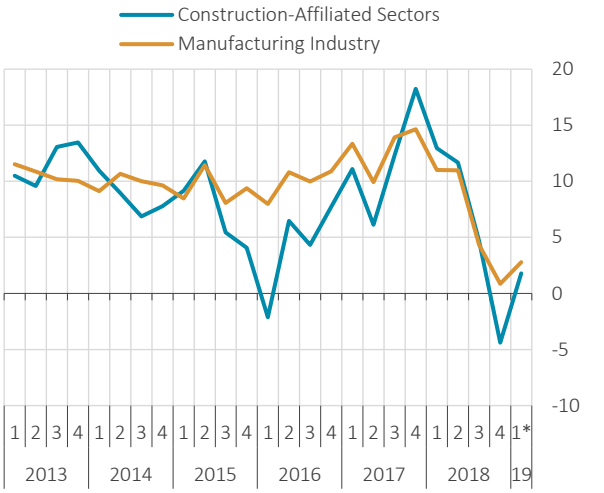
As the domestic demand-driven slowdown in economic activity became more noticeable in the final quarter of the year, firms' employment prospects deteriorated. Actually, compared to third quarter, industrial and construction sector employment decreased by 0.6% and 2.9%, respectively, in the October period. While the services sector employment was underpinned by public sector-related sectors, export and tourism-related sectors employment slowed down (Chart 4.3.5).

Chart 4.3.5: Employment in Selected Services Subsectors
(Seasonally Adjusted, Million People)



Source: CBRT, TURKSTAT.
* As of the October period.

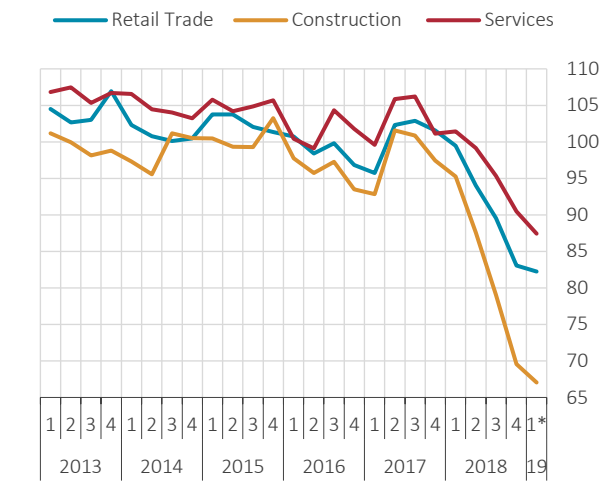
Chart 4.3.6: Three-Month Ahead Total Employment Expectations-BTS (Seasonally Adjusted, Up-Down, %)



Source: BTS, CBRT.
* As of January.
** Construction-affiliated sectors include rubber and plastics, minerals, basic metal and fabricated metal.

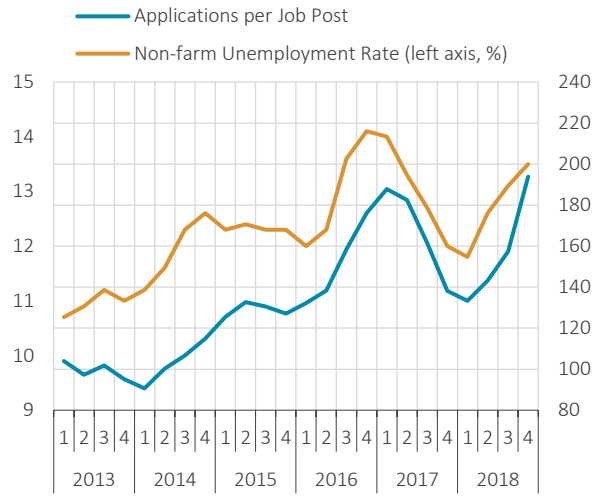
According to the BTS, the three month-ahead employment expectation suggests that employment will remain weak particularly in construction-related sectors (Chart 4.3.6). Similarly, the deceleration in three month-ahead employment expectations for sectors other than industrial sector continues (Chart 4.3.7). In the third quarter, applications per job posting on Kariyet.net, which moves together with non-farm unemployment, continued to rise compared to the previous quarter (Chart 4.3.8).

Chart 4.3.7: Expected Number of Employees by Sectors for the Next 3 Months (Seasonally Adjusted)



Source: CBRT, TURKSTAT.
* As of January.

Chart 4.3.8: Applications per Posting on Kariyer.net and Nonfarm Unemployment* (Seasonally Adjusted)

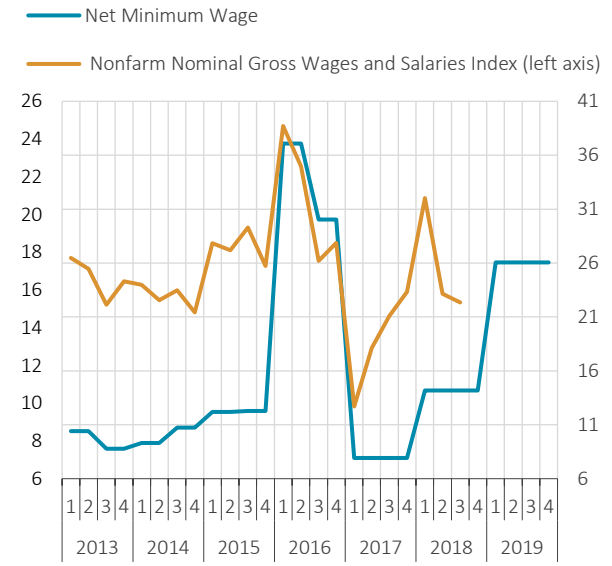


Source: Kariyer.net, CBRT.
* As of the October period.

4.4 Wages and Productivity

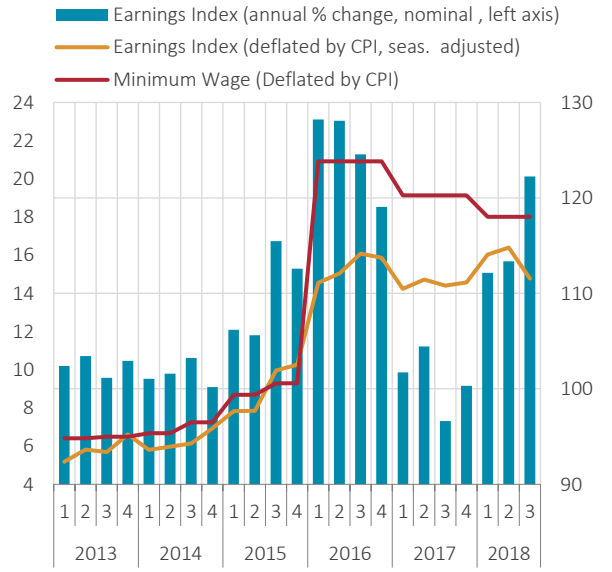
In the third quarter of 2018, as the uptrend in unemployment rates continued, the non-farm gross wage index decreased in real terms (Chart 4.4.1). Similarly, the seasonally adjusted real earnings index decreased significantly by 2.8% (Chart 4.4.2).

Chart 4.4.1: Non-farm Wage Index and Net Minimum Wage (Nominal, 2015=100, Annual % Change)



Sources: MLSS, CBRT, TURKSTAT.

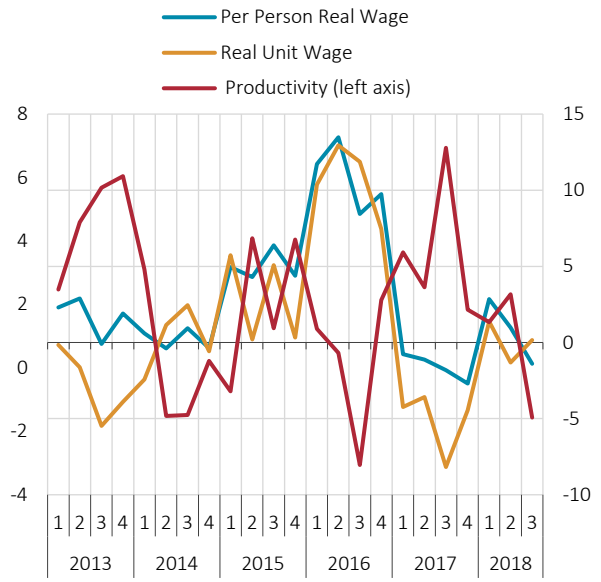
Chart 4.4.2: Non-farm Hourly Earnings Index (Seasonally Adjusted, 2015=100)



Source: CBRT, TURKSTAT.
* Deflated by the CPI.

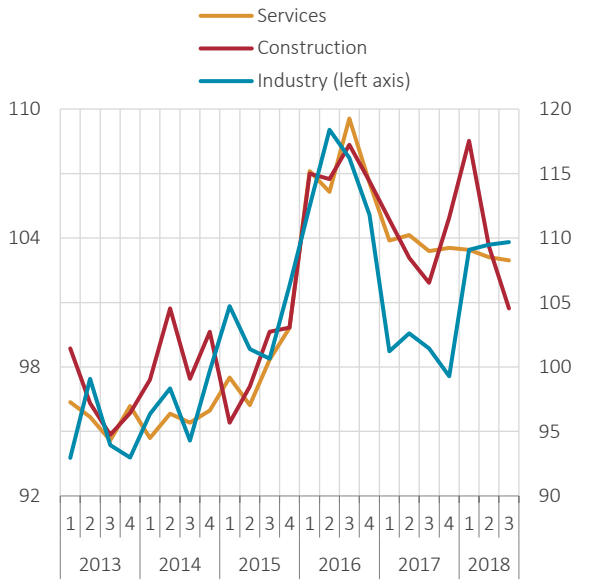
In periods when economic activity contracts, as was the case in the third quarter of 2018, production reacts more promptly than employment and thus, partial labor productivity decreases. Actually, in this quarter, non-farm partial productivity decreased by 1.6% year-on-year, while per capita real wage fell by 1.4%, less than the productivity. Therefore, real unit wages (per capita real wage/productivity) remained similar to last year's level (Chart 4.4.3).

Chart 4.4.3: Partial Labor Productivity*, Per Capita Real Wages and Real Unit Wages** (Non-farm, 2015=100, Annual % Change)



Source: CBRT, TURKSTAT.
* Non-farm value added/nonfarm employment (HLFS).
** Per capita real wage x employment/value added.

Chart 4.4.4: Real* Unit Labor Costs by Sectors** (Seasonally Adjusted, 2015=100)



Source: CBRT, TURKSTAT.
* Deflated by the CPI.
** Real labor cost/productivity (value added/HLFS employment).

In the third quarter, the seasonally adjusted real labor cost per hour index decreased across all sectors compared to previous quarter. Similarly, as a result of the productivity decreases in services and industrial sectors, the real unit labor costs remained flat. Real unit labor cost of the construction sector decreased significantly due to the sharp fall in employment (Chart 4.4.4).

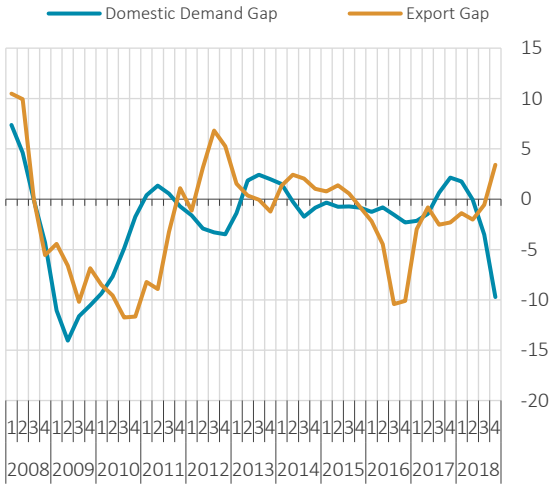
The factors that will determine the course of wages in the final quarter will be the trend of the economic activity, unemployment rate and inflation developments. In this quarter, the rise in unemployment rates did not affect employees with wages very close to the minimum wage, but exerted downward pressure on wage increase for upper percentiles. In 2019, the level of minimum wage and past inflation rates will be the two key factors that will determine wage increase. The gross minimum wage and net minimum wage for 2019 was set at TRY 2,558, and TRY 2,020, respectively, denoting a 26% increase (Chart4.4.1). The continuation of state subsidies for minimum wage provided to employers in 2019 is expected to partially limit cost pressures. Another important issue is the sensitivity of wages to business cycles. Aldan and Gürcihan-Yüncüler (2016)[1] conclude that while, there is no significant flexibility in real wages around or under the minimum wage in Turkey, real wages over the minimum wage are relatively more flexible. Therefore, it is expected that the percentage rise for wages sensitive to business cycles will be less than the minimum wage increase rate. To sum up, the wage increases in 2019 is expected to be higher than that in 2018 due to minimum wage adjustment and backward-indexation; nevertheless this rise is expected to be partially curbed by economic activity and labor market outlook.

[1] Aldan, A., and Gürcihan Yüncüler, H. B. (2016), Real Wages and the Business Cycle in Turkey, CBRT Working Paper, No. 16/25.

4.5 Output Gap

To assess the cyclicality of the economy and the demand-driven pressures on inflation, the CBRT monitors output gap indicators estimated by several methods.[2] Based on the breakdown of the output gap by its components, exports are estimated to have hovered above their long-term trend in the final quarter (Chart 4.5.1). However, the disinflationary contribution of aggregate demand conditions became more noticeable due to the weak domestic demand. Actually, output gap's maximum- minimum band compiled from various indicators points to a unanimous conclusion that economic activity has been significantly below its potential in the final quarter (Chart 4.5.2).

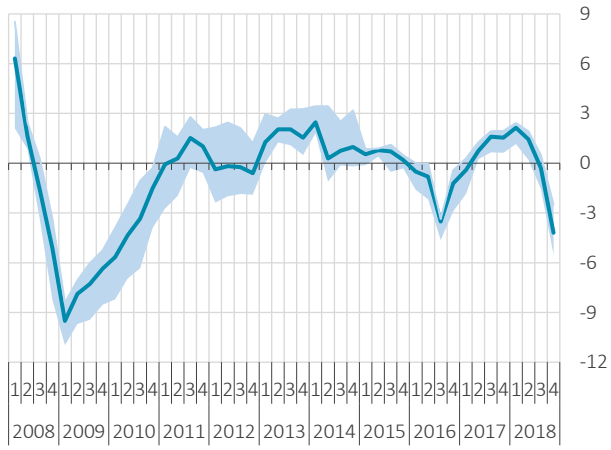
Chart 4.5.1: Breakdown of Output Gap by Demand Components*



Source: CBRT calculations.

* Output gap series constructed from demand components (See Inflation Report 2018-III Box 4.1). Forecasts for total demand components have been used for 2018Q4.

Chart 4.5.2: Output Gap Indicators*
(Average and Min/Max Band)



Source: CBRT calculations.

* For 2018Q4, forecasts for GDP and total demand components have been used.

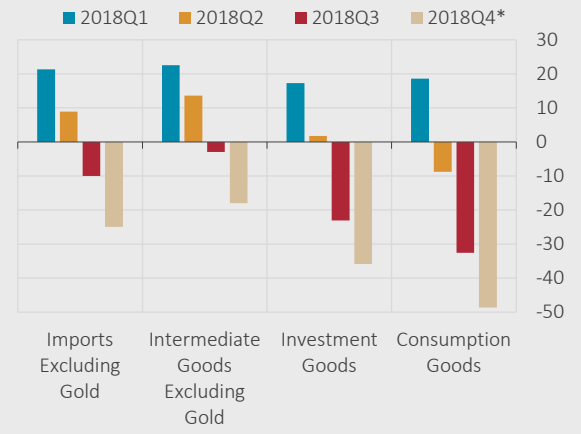
[2] See Inflation Report 2017-1, Box 4.2, "Alternative Indicators for Output Gap", pp. 55-59.

Box 4.1

Recent Trends in Imports: Consumption and Investment Goods

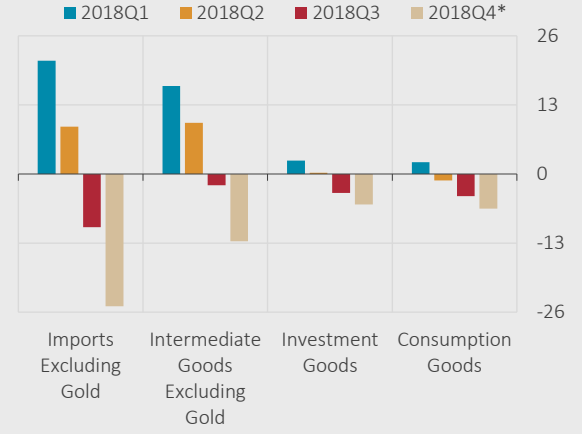
The recovery in the current account balance, which started in the third quarter of the year, accelerated in the last quarter because of the strong course of exports, the deceleration in loans, the slowdown in economic activity and the increase in tourism revenues. As a matter of fact, the annual current account deficit, which reached USD 58.2 billion in May, decreased to USD 33.9 billion as of November. This fall in the current account deficit is mainly due to the contraction in imports. The recent declines in the real exchange rate and domestic demand, and the deceleration in the growth rate of loans[1] have led to decreases both in total imports and imports of consumption and investment goods.

Chart 1: Goods Imports (Annual % change)



*Covers October and November only.

Chart 2: Contributions to Import Growth (% points)



Source: TURKSTAT.

A few important points come to the fore when examining the recent developments in imports: Excluding gold, imports, which rose by 10% in the first half of the year, contracted by 10.4% and 24.9% in the third and fourth quarters of the year, respectively. While the imports of investment and consumption goods lost considerable pace in the first half of the year, the imports of intermediate goods, which have a high share in the total imports, contributed significantly to the positive growth of total imports in the first half (Charts 1 and 2).[2] With the slowdown in domestic demand and credit growth rates, which started in the third quarter, the decline in investment and consumer goods imports became more apparent and imports of intermediate goods started to decline, albeit moderately. In the last quarter of the year, the downward trend in the imports spread across all three sub-categories. Despite the low share of consumption and investment goods in total imports, their contribution to the decline in total imports in the last quarter is almost the same as that of the intermediate goods.[3]

[1] For more information on the relationship between credit growth and the current account deficit, see Box 5.1, "Credit Expansion and Current Account Deficit" in the Inflation Report (April 2011).

[2] All calculations in the box are made by ignoring non-monetary gold imports. In addition, import numbers/values are in USD million per working day.

[3] Calculated by excluding non-monetary gold, consumption, investment and intermediate goods constitute 13%, 15% and 72% of total imports in 2017, respectively.

A detailed analysis of consumption goods indicates that the annual decline spilled over into the sub-items and was particularly rapid in the third and fourth quarters (Chart 3). Imports of passenger cars are the item of consumer goods with the highest decline. In the last quarter, passenger cars contributed 31 percentage points to the decrease in consumption goods imports, which was 46% from the same period of the preceding year (Graph 4).

Chart 3: Imports of Consumption Goods
(Annual % change)

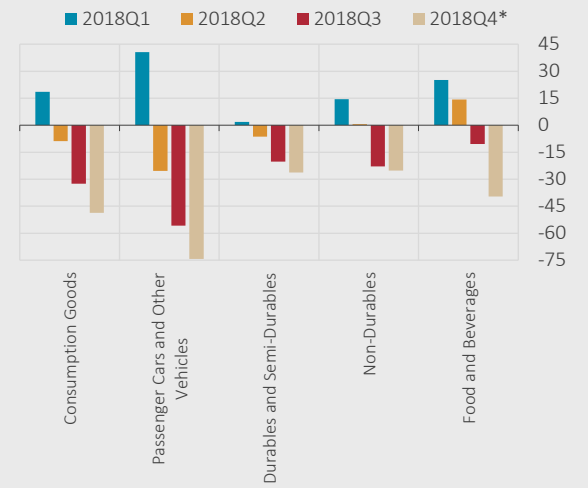
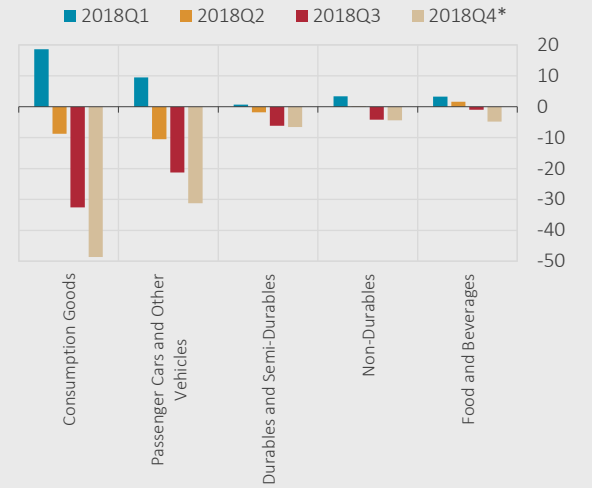


Chart 4: Contributions to Import Growth (% points)



*Covers October and November only.

Source: TURKSTAT.

An analysis of the sub-items of the investment goods imports suggests that the decrease in imports is mostly concentrated in items such as mobile phones, portable computers and transportation vehicles, which are used essentially as consumer goods (Chart 5). The decline in imports of these products is mostly due to the tightening of credit conditions and the rise in their prices as a result of the depreciation in the TL. In the last quarter, these items fell by 70%, 64% and 45% on an annual basis, respectively. The total contribution of these three items to the 36% decline in the imports of investment goods in the last quarter is around 16 percentage points (Chart 6). The decline in imports of other investment goods, including machinery and equipment, remained relatively limited (28%).

Chart 5: Imports of Investment Goods
(Annual % change)

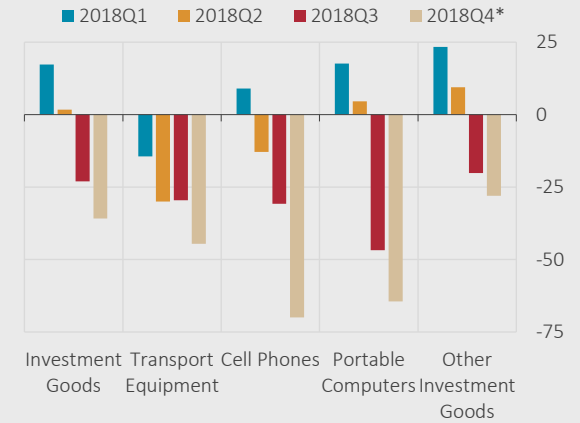
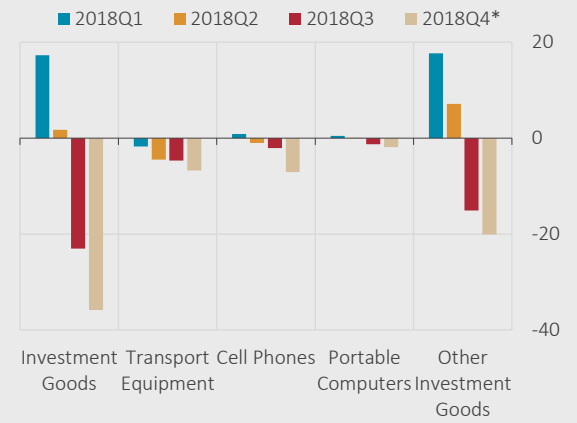


Chart 6: Contributions to Import Growth (% points)



*Covers October and November only.

Source: TURKSTAT.

To sum up, imports of consumption and investment goods played an important role in the rapid recovery of the current account balance in the last quarter of the year. While the automotive sector drives the decline in consumer goods imports, the sharp fall in the imports of goods with consumption nature yet classified under investment goods is one of the main determinants of the decline in the imports of investment goods. On the other hand, the relatively limited contraction in the imports of machinery and equipment draws considerable attention. In this period of weakened economic activity, contracted credit supply and depreciated real exchange rate, achieving external balancing mainly through reducing imports of consumer goods rather than intermediate goods indicates a healthier composition in terms of production potential. This is expected to limit the external financing risks as the fall in the current account deficit continues in the upcoming period.

Box 4.2

Structural Policy Measures to Reduce the Current Account Deficit

After reaching 6.5% in the first half of 2018, the ratio of the current account to gross domestic product (CA/GDP) decreased to 5.5% in the third quarter with the recovery in exports. In November, the 12-month cumulative current account deficit fell l to USD 34 billion, with a reduction of USD 5.5 billion from the previous month. The improvement in the current account is expected to continue considering the recovery in exports and slowdown in imports. Meanwhile, as the literature states, improvements in the current account in the medium/long run will call for reforms on the structural side . Accordingly, multiple measures to contain the current account deficit have recently been taken in Turkey. The main structural problems in the current account and policy measures to contain them are discussed in this box under five headings.

Savings-Investments Gap

The saving-investment gap fluctuating around 4-5% is higher than in peer countries. Accordingly, a number of policy measures increasing the diversity of financial instruments to encourage domestic savings have recently been put into effect. For example, funds accumulated in the automatic enrollment pension system are expected to reach 3.5% of GDP at the end of 2020. Similarly, gold-backed bond issues aimed at bringing the under-the-mattress gold into the economy and the dowry and housing accounts facility introduced in 2016 increased the household savings significantly.

An increase in the household saving rate rests on a higher income as well as a healthy income distribution. Other long-term solutions include changing consumption habits by reducing waste and taking cognizance of ecologic sustainability as well as maintaining a rate of population increase compatible with long-run sustainable growth.

The household debt in Turkey is relatively lower than its peers. Nonetheless, the connection between the household debt and a balanced current account emphasized by the literature calls for the capacity to implement macro-prudential policies in coordination with different institutions when necessary. Accordingly, the recently established Financial Stability and Development Committee plays an important role in detecting the risks accumulated in financial system in advance and coordinating the management of such systemic risks. The amendments to Decree no. 32 and the establishment of the initiative at the CBRT to manage the exchange rate risk, and the foreign exchange borrowing regulation addressing small-scale firms with no foreign exchange are all expected to help attaining a healthy saving structure .

Foreign Direct Investments

Policies aiming at increasing Foreign Direct Investments (FDI) should be designed in tandem with the industrial policies. The motivation of foreign firms investing in the manufacturing sector is generally to raise the efficiency of a part of the production chain while the motivation of foreign firms investing in the services sector is to increase their market share . The incentive programs that are conducted in different sizes and scopes can assist FDI that will increase the production capacity through positive externalities. Accordingly, domestic partnership can be encouraged and the FDI incentives can be designed with the intention of increasing the capacity and skills of domestic suppliers. These programs should be designed to serve the purpose of developing knowledge-based capital; should be supported by long-term education policies aiming at increasing R&D; should be more-broad based and easily understood and implemented by investors.

Investments in Sectors with High Productivity and Added Value

It should be considered that the main prerequisites of production in high value added sectors are the production experience, technical infrastructure, business environment, R&D and human capital. Hence, sources of investment should be channeled to areas that will develop technical infrastructure and education system should be designed in a way to ease the transition of employment towards productive areas.

Import Dependency of Exports

Policies aimed at producing high value added and technological products domestically as an alternative to imported inputs can help contain the current account. Accordingly, to reduce dependency on imported intermediate inputs and sustainability of input supplies the Input Supply Strategy (GITES) and Action Plan was put into effect and the Committee for Domestic Production was established. On the other hand, it should be emphasized that the use of imported intermediate inputs is not entirely unfavorable given cognizance of the internationalization of production. The sustainability of imported inputs, especially for producers that are a part of global chains is essential.

Energy Imports

The primary policy to reduce the demand for imported energy is the shift towards renewable energy. Reducing natural gas imports will affect the current account directly. Energy investments should be designed in view of the natural resources of the country and should be dispersed across the country. Incentives for domestic hardware, training the technical staff that can use this technology, and undertaking energy saving policies can all contribute to the efforts to meet the energy demand through domestic resources. Moreover, efforts to change the energy consumption behavior should also be supported.

To sum up, it is important to support the cyclical improvement in the current account with structural policies in order to attain a balanced current account in the long run. To this end, efforts to increase savings for a balanced current account financing structure and to sustain financial stability will be conducted in hand with efforts to increase the total productivity in an era of internationalization of the production.

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