

**TOBB President M. Rifat Hisarcıkıoğlu:**

## **TURKEY IN THE FIRST QUARTER**

With 7 percent growth in the first quarter of the year Turkey achieved the highest growth rate among the Organization for Economic Co-operation and Development (OECD) countries. During this period, the economy has shrunk 1 percent in the OECD countries and 2 percent in the European Union countries.

**T**urkey's economy achieved 7 percent growth in the first quarter of the year. The GDI increased by 29 percent to TRY 1.4 trillion in the first quarter compared to the first quarter of last year at current prices according to the production method. The value of GDI in the first quarter was USD 188 billion at current prices. In the first quarter of this year information and communication activities increased by 18 percent, industry by 12 percent, agriculture by 8 percent, services by 6 percent, finance, insurance and construction activities by 3 percent in comparison to the same quarter of last year.

### **Household consumption expenditures increased by 7 percent compared to last year**

Household consumption expenditures increased 7 percent in the first quarter compared to the same quarter last year. Government consumption expenditures increased by 1 percent and gross fixed capital formation increased by 11 percent. Goods and services export increased 3 percent and import decreased by 1 percent in the first quarter compared to the same quarter last year. Compensation of employees increased by 16 percent and net operating income increased by 39 percent in the same period. While the ratio of compensation of employees in the gross value added was 39 percent in the first quarter of last year, it was 36 percent in the first quarter of this year. Net operating income ratio increased from 42 to 46 percent.

### **We are proud to achieve the**

highest growth among the OECD countries

With 7 percent growth in the first quarter of the year Turkey achieved the highest growth rate among the Organization for Economic Co-operation and Development

(OECD) countries. During this period, the economy has shrunk 1 percent in the OECD countries and 2 percent in the European Union countries. In this period South Korea and France achieved a growth of 2 percent and USA grew by 1 percent. In the first quarter the highest shrink in the economy in the OECD countries was in the United Kingdom with 6 percent. German and Mexican economies shrank by 3 percent.

### **Private consumption expenditures contributed 4.2 points to the growth**

Yearly and quarterly growth numbers show that restrictions as safety measures against the pandemic in the first quarter were not heavily imposed on economic activities which allowed a limited impact of the pandemic on the economy. Private consumption expenses which increased by 8 percent on an annual basis in the final quarter of 2020 continued to increase fast also in the first quarter of 2021, with 7.4 percent. Thus, private consumption expenditures contributed 4.2 points to the growth. Public expenditures were limited in this period. Compared to the same quarter last year, public expenditure expanded by 1.3 percent and contributed 0.2 points to the growth in the first quarter of 2021.

Another important support to growth was from investment expenditures. Investment expenditures that had fallen since the second half of 2018 increased in the third quarter of 2020. Recovery in the investment expenditures continued also in the first quarter of 2021 and annual increase reached to 11 percent. As a result, investments contributed 3 points to the growth.

### **Export increased; import decreased**

Developments in foreign trade had a positive effect on growth. While export



numbers increased on an annual basis, import decreased in the first quarter of 2021. The foreign trade balance supported growth and increased export contributed 1.3 points and decreased import contributed 0.4 point to growth.

The fast growth in the first quarter raised the bar for expectations in the second quarter. Double digit growth rates have started to be estimated. However, as the GDI decreased over 10 percent in the second quarter last year, it will not be healthy to use it to compare the growth in the second quarter of 2021. The base effect will be extremely high. On the other hand, the increase in foreign exchange rates and interest rates which started with the unexpected discharge of the Central Bank president from the office, high inflation and increase in risk premiums have also worsened economic vulnerability. If in the second quarter our national income maintains the level it reached in the first quarter, we will achieve over 7 percent growth in 2021.

### **Businesses that have been negatively affected by lockdowns need direct support instead of loans**

On the other hand, this growth was not achieved equally among all the industries. The service industry experienced major losses. Because lockdowns imposed due to pandemic hit them the hardest. While the employment rate in the manufacturing industries exceeded pre-pandemic levels, it is

still significantly lower in the service industry. Businesses and people that have been negatively affected by lockdowns need direct support instead of loans. However due to the government budget deficit which started in recent years, instead of financial support from the budget, public banks offered loans and this increased debt ratio significantly.

We need to lower our risk perception as much as possible in the next period. In order to achieve this, the precarious solution of artificial low interest and increased bank loans should be avoided. Because this increased

the demand for gold and foreign exchange. The reserves of the Central Bank were spent in a never previously seen manner and hidden from the public to ease the pressure caused by the demand for foreign money on foreign exchange rates, and Turkish central bank's net foreign currency reserves were negative for the first time.

If the Central Bank reduces policy rates without lowering risk perception and inflation, interest rates and foreign exchange rates will increase. Additionally, oil prices and commodity prices have been increasing

in the world. We should remember that we are import-dependent for these goods. High risk, high interest rates and high foreign exchange rates are not causes but symptoms. Causative factors should be corrected to eliminate them. If we find the right path and restore trust and minimize uncertainties of the future, risk perception will change for the positive, inflation and interest rates will decrease, investments and employment will increase, economy will continue to grow in a healthier, more comprehensive and sustainable way.



**T**he "Smart Cities to Create Value" report prepared by Ernst & Young (EY) Turkey, Turkish Municipalities Association and WWF-Turkey (World Wildlife Fund) has been published. The report which shows the values created by smart cities with examples, underlines the pressures on the environment and quality of life caused by growing cities, and the necessity to achieve smart city transformation with innovative technologies. It is reported that in cities faced with many challenges such as fast urbanization, migration, increase in population, safety and inefficient use of resources, smart city transformation achieved with the help of new technologies will play an important role in solving problems and create value. In the report which included good practices from municipalities in Turkey and in the world, a roadmap for smart cities of the future has presented.

#### **Fast urbanization compels transformation**

According to the estimates of the United Nations, it is reported that the world's population is expected to increase by 2 billion reaching to 9.7 billion by 2050. Again in 2050, 70 percent of the world's population and 86 percent of the population in the OECD countries will be living in urban areas. Now the generation Z with 1.8 billion members who are between the age of 10 and 24 comprise approximately one fourth of the world population. While the population in the leading economies of the world is getting older, developing countries has a growing, relatively younger population. The demographic characteristics which can change in every country and city make it necessary to find solutions to the needs of the Generation Z in some cities and to the needs of older population in others.

#### **The danger of lack of plan is imminent**

Another development which necessitates transformation is the speed of urbanization. Unplanned urbanization destroys fertile lands and reduces agricultural efficiency as well as soil's carbon dioxide storage capacity. Air pollution caused by vehicles and industrial manufacturing has negative effects on people's health and quality of life. The water cycle which is disrupted due to excessive construction and urbanization and water shortage threaten agriculture and jeopardize the access of billions of people to clean water. City administrations should have an innovative and future oriented approach in order to improve quality of life in cities. Flexible, resilient cities where citizen and stakeholder engagement is at the highest level, physical structure is good and physical and digital integration has been completed are called "smart cities".

#### **Social comprehensiveness is essential**

According to the "Smart Cities to Create Value" report, ensuring social comprehensiveness, increasing competencies and promoting creativeness are the goals in the transformation of people centered smart cities. Digital and data oriented education centers, organizations which offer jobs or social opportunities for disabled people, projects which create employment for young unemployed people and projects focusing on the needs of older people are some of the good practices in smart cities.



## TOBB 76.-77. Board Meeting, was held online

**T**urkish Union of Chambers and Commodity Exchanges (TOBB) 76.-77. Meeting was held online due to Covid-19 safety measures. In his post on social media after the Board Meeting, M. Rifat Hisarcıklioğlu, TOBB President said the following: "I would like to thank all our delegates from 81 cities and towns. There are so many things to do! We will continue to monitor, discuss and report problems of our members and find solutions together with our Chambers and Commodity Exchanges." Mr. Hisarcıklioğlu, TOBB President, visited Anıtkabir together with the participants of TOBB Board Meeting and TOBB Board of Directors and paid their respect to Atatürk, as part of the TOBB 76.-77. Board Meeting.

## Hisarcıklioğlu was elected again as a member of ICCIA Board of Directors

**M**. Rifat Hisarcıklioğlu, President of the Turkish Union of Chambers and Commodity Exchanges (TOBB) and Vice President of the Islamic Chamber of Commerce, Industry and Agriculture participated in the 37. Board Meeting of ICCIA, which took place in video conference. In the meeting where members of the ICCIA Board of Directors were elected for the 2021-2025 period, Hisarcıklioğlu was elected again as a member of ICCIA Board of Directors. According to the ICCIA Constitution, the Board will hold a Board Meeting to select Vice Presidents. M. Rifat Hisarcıklioğlu, TOBB Resident, is currently the Vice President of ICCIA.



## Modernization decision at Customs Union

**T**he Customs Union (CU) was the promising good news 24 years ago for Turkey to become a member of the EU. And now for the CU which makes positive contributions to the foreign trade but also worsens foreign deficit of Turkey, the call for modernization also as a result of the initiatives of the Ministry of Trade has finally produced results. Recently Ursula von der Leyen, President of the EU Commission told that negotiations to authorize discussions for the modernization of the CU have been re-initiated which led to the belief that "there is hope at CU". So, the firm stand taken during negotiations will show whether the history will repeat itself.

