

Turkish-Austrian Economic Relations in a European and International Context

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Turkish-Austrian economic relations were at the center of a conference jointly organized by the Oesterreichische Nationalbank (OeNB) and the Central Bank of the Republic of Turkey (CBRT) held on the OeNB's premises in Vienna on March 18, 2013.

In his opening remarks, *OeNB Governor Ewald Nowotny* emphasized Turkey's enormous growth record over the past years. Since 1995, Turkey's GDP has almost doubled whereas Austria's GDP – still surpassing growth in the euro area by a margin – has expanded at less than half that pace over the same time period. However, Turkey's growth performance was all but even over the past decades. Nowotny recalled the severe financial crisis in 2001, which he witnessed in his position as vice president of the European Investment Bank that he held at that time. He pointed out how well Turkey has learned the lessons from the then massive lending and currency mismatch in the banking sector, demonstrating the importance and effectiveness of comprehensive reform and discipline. Today, Turkey's banking sector is extremely healthy, representing a good example for other countries. Nowotny further highlighted the fruitful cooperation between Austria and Turkey in the new IMF constituency and the strength of FDI ties between Austria and Turkey and their potential to support technological upgrading, thus fostering catching up in per capita incomes. He also mentioned Turkey's successful export re-orientation toward fast-growing destinations. This process underlines the bridge function of the Turkish economy and puts Turkey at the crossroads between the dynamic economies of Asia and Europe.

CBRT Governor Erdem Başçı thanked the OeNB for hosting the event and focused in his speech on the following three issues: First, he reflected on the growing share of emerging countries in world exports and in particular the increase in trade among emerging countries themselves, which has reduced the impact of lower demand from advanced economies. At the same time global decision making has moved from the G7 to the G20 level and is reflected in the increased recognition of emerging countries in international organizations. Second, turning to financial stability, Başçı said that the challenges and potential adverse consequences of strong capital flows to emerging markets cannot be addressed by capital controls. Rather, capital accounts have to be kept open and risks should be managed by careful macroprudential policies. In Turkey, the approach currently pursued by the authorities combines such policies with careful interest rate management, also keeping a close view on exchange rate developments and credit growth. Başçı mentioned in this context Turkey's membership in the Financial Stability Board, where it currently chairs the regional consultative group for the Middle East and North Africa (MENA), one of six regional groups. Third, Başçı referred to the rotation scheme in the joint IMF constituency as a symbolic yet very promising solution. Referring to bilateral economic relations with Austria, he identified a large unexploited potential for bilateral trade, mentioning also strong FDI links. Austria is the number one investor in Turkey, with a focus on the energy sector, which makes the outlook for further business cooperation between the two countries appear very promising.

In the panel discussion, Austrian-Turkish economic relations were reviewed from several different angles. *CBRT Vice Governor Murat Çetinkaya* reflected on

Turkey's immediate growth prospects and expressed his expectations of a rebalancing of growth drivers based on the following factors: well-anchored inflation expectations, strong fundamentals as the pull factor behind capital inflows, low exchange rate volatility, a low and declining debt-to-GDP ratio and strong employment growth arising from increasing labour force participation. Further, he pointed toward ongoing financial deepening, the high profitability of the Turkish banking sector, its strong capitalization and good asset quality. With respect to the cooperation between Austrian and Turkish business partners, he saw the greatest potential in finance, pointing out Turkish investors' appetite for EU assets. A total of 16 Turkish banks are currently active in the EU, two of them in Austria.

Professor Aykut Kibritçioğlu from *Ankara University* gave a detailed comparison of Austrian and Turkish trade patterns and pointed out a large unexploited potential for bilateral trade. To date, bilateral trade is mostly inter-industry in nature, thus keeping the potential for further growth limited. Further, FDI can also substitute for and hence crowd out trade. Finally, he did not identify any empirical evidence for a positive influence of immigration flows (predominantly from Turkey to Austria) on trade. Hence, high-level support in order to enhance trade relations is needed, and there is a strong role for business agencies and joint green investments.

Ambassador Ayşe Sezgin confirmed the importance of political support in order to boost bilateral trade up to its potential. Referring to shifts in global economic and political balances and the increasing recognition of emerging economies in global decision taking, she expressed the view that Turkey's accession to the EU will be unlike any previous enlargement, but therefore all the more interesting. Given its impressive growth record – Turkey will become Europe's second largest economy in 2050 – and its role as an energy and transit hub between producer and consumer markets, Turkey is to be considered as a truly global player. Consequently, if Europe wants to remain a dynamic world region, European integration must become deeper and wider.

The last speaker, *Supervisory Board Chairman of Vienna Insurance Group, Wolfgang Rutenstorfer*, shared his views on the prospects for Austrian companies. After having taken advantage of being the first to move into the then newly accessible markets in Central and Eastern Europe and in light of limited scope for further expansion in this region with the privatization process coming to an end, Austrian firms now have to take strategic decisions where to move next. Two important markets are well within reach for Austrian companies: Russia and Turkey, with Turkey representing an interesting hub for the Caspian Sea and the Middle East. While large firms can afford to enter both markets, smaller firms will have to decide on one. Turkey's healthy banking sector, its comparatively high level of human capital and its relatively liberal business environment add to the country's attractiveness for foreign investors.

The discussion that followed the experts' contributions revealed a vivid interest – in particular of Turkish business people based in Vienna – in strong business ties between Turkey and Austria.