Turkey: Fourth quarter growth driven by strong private consumption

Turkey's GDP for the fourth quarter showed the impact of robust private consumption and continuing strength in external demand, pulling 2021 growth into double digits, at 11%

Shoppers in Istanbul

9.1%

GDP Growth

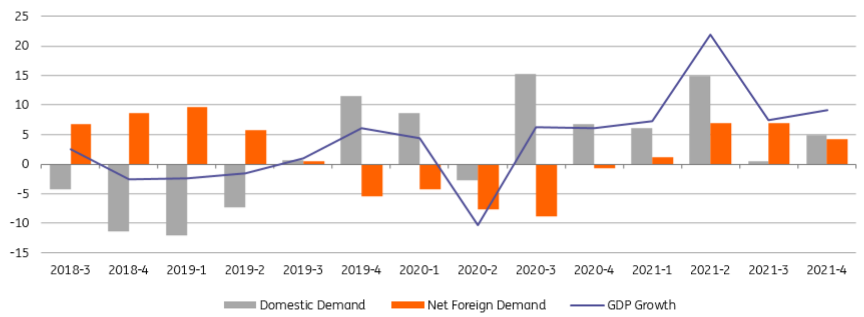
(4Q, YoY)

As expected

Scoring another strong performance, Turkish GDP expanded by 9.1% year-on-year in the fourth quarter, in line with expectations. This was due to private consumption and export growth, while gross fixed capital formation and government consumption were drags on growth. Accordingly, 2021 GDP growth moved up to double digits, at 11%, the highest in the last decade. The breakdown of year-on-year growth reveals continuing support from private consumption, gross fixed capital formation and net exports.

On a quarterly basis, GDP grew at a 1.5% rate after seasonal adjustments, showing some momentum loss with the lowest quarterly reading in 2021, though it is still strong given financial volatility in November and December. This sequential performance is attributable to 1) an acceleration in household consumption given inflation fears and negative real rates, which have led to lower savings and pulled forward future spending demand and 2) net exports which have continued to grow strongly given robust external demand with global activity picking up.

GDP Growth (%, YoY)



Source: TurkStat, ING

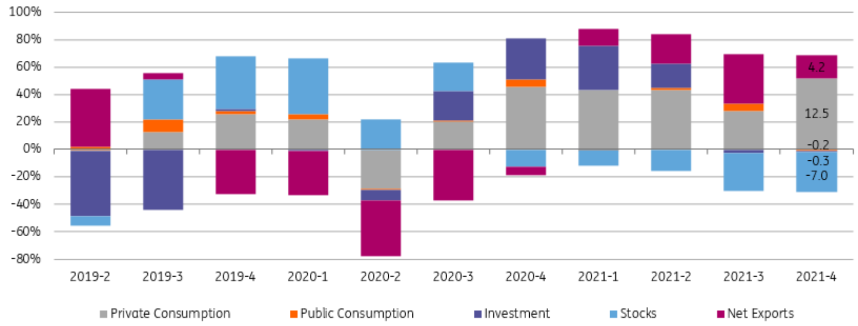
On the demand side, private consumption gained pace again with a 21.4% YoY rate. This was a major driver, contributing +12.5ppt to the headline GDP expansion in 4Q21. While growth in goods, and particularly non-durables, strengthened, services showed a significant acceleration and determined the outlook. This is indicative of more balanced consumption demand with the removal of pandemic control measures.

After a weak performance in the third quarter, investment contracted once again by 0.8% YoY in 4Q, subtracting -0.2ppt from the headline rate as companies became more cautious amid increasing uncertainty in the operating environment. In the breakdown, a continued rise in machinery and equipment investment is encouraging while construction investment remained in negative territory.

Elsewhere: i) public consumption cut 0.3ppt from the headline rate after strong contributions in the second and third quarters ii) inventory build-up shaved almost 7.0ppt off growth, likely reflecting some measurement problems iii) net exports raised the headline growth rate by +4.2ppt, the biggest contribution after household consumption. This is attributable to continuing strength in exports, up by 4.8% YoY, despite 0.6% YoY growth in imports.

In the sectoral breakdown, all sectors with the exception of construction have lifted the headline growth rate, showing a continuation of broad-based activity. Among positive drivers, services, once again, were the biggest contributor, pulling the last quarter's performance up by 3.9ppt, followed by industry at 2.2% as indicated by industrial production data.

Drivers of the growth (ppt contribution)



Source: TurkStat, ING

> Fourth-quarter GDP showed the impact of robust consumption demand and ongoing strength in external demand, factors which also drove the economy throughout 2021. However, despite policy makers' focus on maintaining higher growth via lower rates and accelerating lending, economic activity this year will likely lose momentum given deteriorating confidence and the decline in purchasing power in the wake of recent currency volatility, as well as a less supportive global backdrop with tightening global central bank policies and rising geopolitical risks.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer