

## Growth in Turkey moderates

Turkish GDP data showed a continuation of the rebound from the pandemic induced recession despite the mobility restrictions



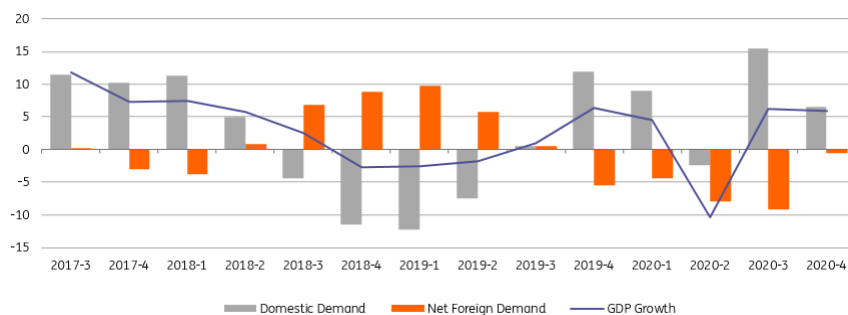
Source: Shutterstock

In the pandemic year, GDP expansion turned out to be strong at 1.8%, recording one of the best performances among the major emerging market countries vs 0.9% in 2019 and well above the government's 0.3% projection.

On a quarterly basis, 4Q GDP growth at 5.9% was lower than the market consensus at 7.1% (and our call of 6.5%). While losing some momentum in comparison to 3Q, the growth still remained buoyant as evidenced earlier by high-frequency economic activity indicators. The statistical agency, TurkStat also revised both 2Q and 3Q figures down to -10.3% and 6.3% respectively from -9.9% and 6.7%.

In seasonal and calendar-adjusted terms (SA), economic activity continued its recovery with 1.7% QoQ at a still higher pace, after a surge in 3Q thanks to the various stimulus measures and an accommodative policy stance to mitigate the adverse effects of the pandemic. The quarterly performance is driven mainly by net exports.

## Turkish GDP growth



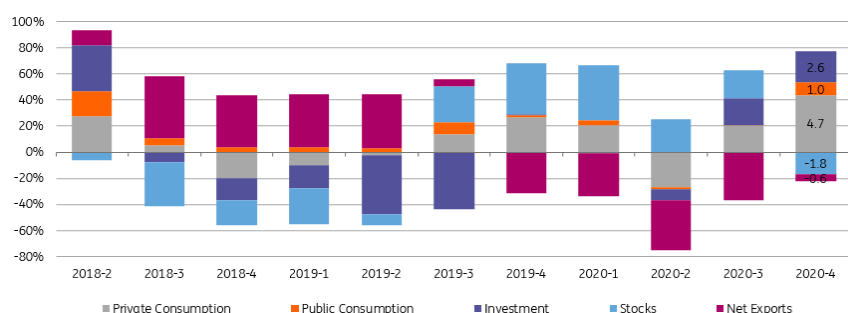
Looking at the spending breakdown, private consumption maintained its rebound with 8.2% YoY after another close to double-digit growth quarter in the previous quarter and turned out to be one of the major drivers with a +4.7ppt contribution to the growth in 4Q20.

There is still significant consumer credit momentum in private banks and the continuing impact of other domestic policy impulses despite intensifying efforts to unwind them should be the factor behind the private consumption growth. Investments maintained recovery with 10.3% YoY, translating into +2.6ppt contribution to the headline as companies, after a long delay after the August 2018 financial shock, has utilized pandemic related supportive measures to improve production capacity.

Accordingly, machinery & equipment investments recorded excessive growth rates in the second half of 2020, reaching 39% YoY in 4Q, while construction investments slipped into negative territory again weakening on the back of increasing mortgage rates. Public consumption that has lifted GDP almost every quarter since the second half of 2017 has remained supportive in 4Q, adding the headline +1.0ppt. After inventory buildup since 3Q19 markedly supporting the GDP performance, we saw the contribution of inventory drawdown with -1.8ppt.

These large impact of inventories in recent quarters likely reflect some measurement problems.

## Breakdown of GDP



Finally, net exports remained a drag, reducing the headline growth by another 0.6ppt in the last quarter, though the adverse impact on the headline was moderated in comparison to previous quarters. This is attributable to a small rise in imports by 0.6% YoY given that exports were

practically unchanged.

In the sectoral breakdown, all sectors except construction have lifted the headline growth showing a continuation of the broad-based recovery. Among positive drivers, industry was again the biggest contributor, pulling the fourth quarter performance up by 2.0ppt, followed by services with 1.1ppt which is a surprising performance given return of pandemic-control restrictions in early-November.

Overall, the data showed the continuation of the rebound from pandemic induced recession despite the revival of quarantine measures with the second wave in the Covid-19 pandemic. Despite some moderation over 3Q, 4Q GDP performance has remained strong driven by private consumption, gross fixed capital formation, and government expenditures while contributions of net exports and inventory were in negative territory.

The latest activity indicators hint at a strong start to this year and the carry-over effect from the last year should keep yearly growth high, though the pace of activity will likely lose momentum given significant policy tightening by BRSA and the central bank along with ongoing uncertainty.

## Author

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.