

Turkey: Record high GDP growth

Second quarter GDP registered record high growth of 21.7% year-on-year, reflecting the impact of robust domestic demand, ongoing strength in external demand and large base effects due to the breakout of the pandemic in 2Q20



Shoppers in Istanbul

21.7% GDP Growth
2Q21, year-on-year

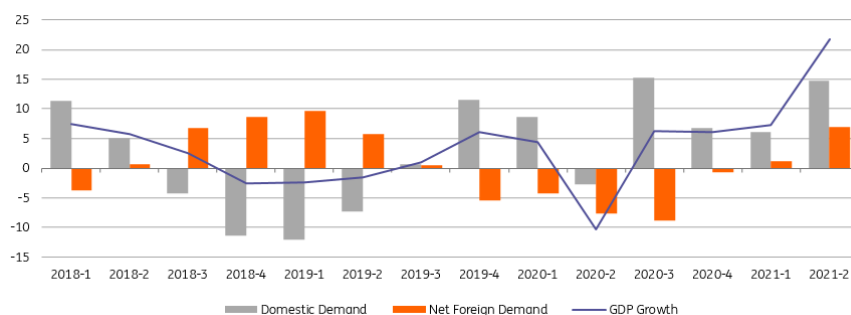
As expected

GDP in Turkey recorded strong year-on-year growth of 21.7% in 2Q21 in line with expectations on the back of large favourable base effects. This puts first half growth (compared to the same period of 2020) at 14.3%. While TurkStat revised the 1Q figure up slightly to 7.2% (from 7.0%), it kept 2020 growth unchanged at 1.8%. The breakdown of year-on-year growth reveals continued support from private consumption, gross fixed capital formation and net exports.

2Q GDP rose 0.9% quarter-on-quarter after seasonal adjustments, showing some momentum loss from the 2.2% pace seen in 1Q and the 1% rate recorded in the last quarter of 2020. This

moderation in activity is attributable to pandemic effects early in the second quarter as well as elevated FX volatility and higher interest rates. Still, Covid restrictions were relaxed from May onwards as the pace of vaccinations accelerated, which supported a recovery in domestic demand (including household consumption and the continued strong performance of investment) and net exports have continued to rebound given strong external demand, as global activity has picked up.

Turkish GDP growth



Source: TurkStat, ING

On the demand side, private consumption has continued to recover, at 22.9% YoY, and has become the major growth driver with a +13.7ppt contribution to the headline GDP expansion in 2Q21. While continuing strong growth in durable and semi-durable goods was a determining factor, services turned positive after four consecutive quarters of contraction with the support of a small base in the same period of 2020.

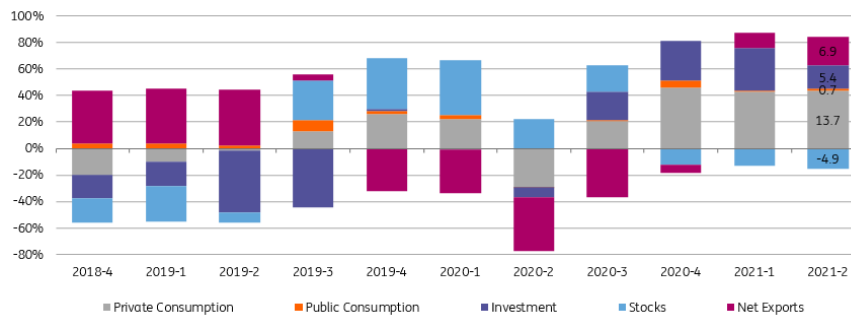
Investment remained on a recovery path, at 20.3% YoY, translating into a +5.4ppt contribution to the headline rate, as companies' appetite to improve production capacity remained robust. In the breakdown, machinery & equipment investment have recorded strong growth rates in recent quarters, standing at 35.2% YoY in 2Q21, while construction investment, which has generally been in negative territory since the financial volatility of 2018, turned positive.

Public consumption, which has lifted GDP almost every quarter since the second half of 2017, remained supportive in 2Q21 adding +0.7ppt to the headline rate, while inventory buildups shaved almost 5.0ppt off growth, likely reflecting some measurement problems.

Finally, net exports raised headline growth by +6.9ppt, the biggest contributor after household consumption. This is attributable to continuing strength in exports, up by 10.8% YoY, despite 3.8% YoY growth in imports.

In the sectoral breakdown, all sectors with the exception of financial and insurance activities lifted headline growth, reflecting the continuation of a broad-based recovery. Among positive drivers, services was the biggest contributor, pulling the second quarter performance up by 8.9ppt, followed by industry at 7.5ppt as indicated by industrial production data.

Contributions to annual GDP growth



Source: TurkStat, ING

Early indicators for the third quarter point to a continuation of the rebound in economic activity as evidenced by the latest manufacturing PMI, business confidence, foreign trade data and tourist flows etc. Given this backdrop, there is an increasing possibility that growth will surprise on the upside this year, towards the 8% level or higher.

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