

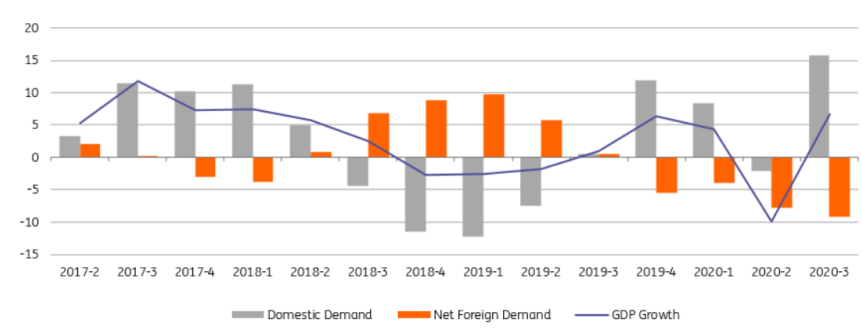
## Turkey: Recovery at full speed

As evidenced by early indicators including industrial production and retail trade, GDP rebounded strongly in the third quarter driven by private consumption, gross fixed capital formation and inventory build-up, while the contribution of net exports remained in negative territory



Source: Flickr

### GDP Growth (% YoY)



Source: TurkStat

Following a better than expected performance in the second quarter, the Turkish economy recovered at full speed in the third quarter, rising 6.7% year-on-year vs the consensus estimate of 4.8% (and our call of 4.5%). In seasonal and calendar adjusted terms (SA), the economy expanded by 15.6% on a quarterly basis, the highest ever quarterly change in the current GDP series, after a 10.8% contraction in the previous quarter due to the impact of the pandemic. The quarterly performance is driven by private consumption and investment.

Looking at the spending breakdown:

- Private consumption rebounded by 9.2% YoY and was one of the major drivers, with a +5.4ppt contribution to growth in the third quarter. Significant momentum in consumer credit and other domestic policy impulses is likely to be behind the recovery, despite gradually intensifying efforts to unwind them.
- Thanks to a favourable base, investment spending skyrocketed by 22.5% YoY, the highest since 2011, translating into a 5.2% contribution to the headline rate, as companies in a large number of sectors restored production capacity, with utilisation rates rising to pre-pandemic levels. While construction spending increased, as home sales surged on the back of attractive mortgage rates, machinery & equipment investment recorded a strong 24%, the fourth positive quarterly reading in a row. However, indebtedness of the corporate sector will remain an important drag on new investment given the recent weakness in the currency.
- With the countercyclical policies adopted, public consumption has been lifting GDP every quarter since the second half of 2017 with the exception of the second quarter. In 3Q, we saw a slight positive contribution.
- We also saw a contribution from inventory drawdowns (+5.1ppt). These contributions, which have been largely positive for the last five quarters, likely reflect some measurement problems.
- On the flip side, net exports were a drag, reducing the headline growth rate by another 9.1ppt in the third quarter. This is attributable to a drop in exports of 6% YoY while imports rose by 3.1% YoY. This is not surprising given the widening in the external deficit.

In the sectoral breakdown all sectors, with the exception of professional and administrative services, have lifted the headline growth rate, showing a broad-based recovery. Among positive drivers, industry and financial services have been the biggest contributors, pulling the third quarter performance up by 1.5ppt each.

Overall, as already evidenced by early indicators including industrial production and retail trade, GDP rebounded strongly in the third quarter, driven by private consumption, gross fixed capital formation and inventory build-up, while the contribution of net exports remained in negative territory. Some indicators for the fourth quarter show the strong momentum has continued although the pace of activity will decelerate given recent moves by the Banking Regulation and Supervision Authority and the Central Bank of Turkey. Also, downside risks are also increasing for the period ahead given the rise in Covid-19 cases and intensifying efforts to get the pandemic under control.

## 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 [www.ing.com](http://www.ing.com).