

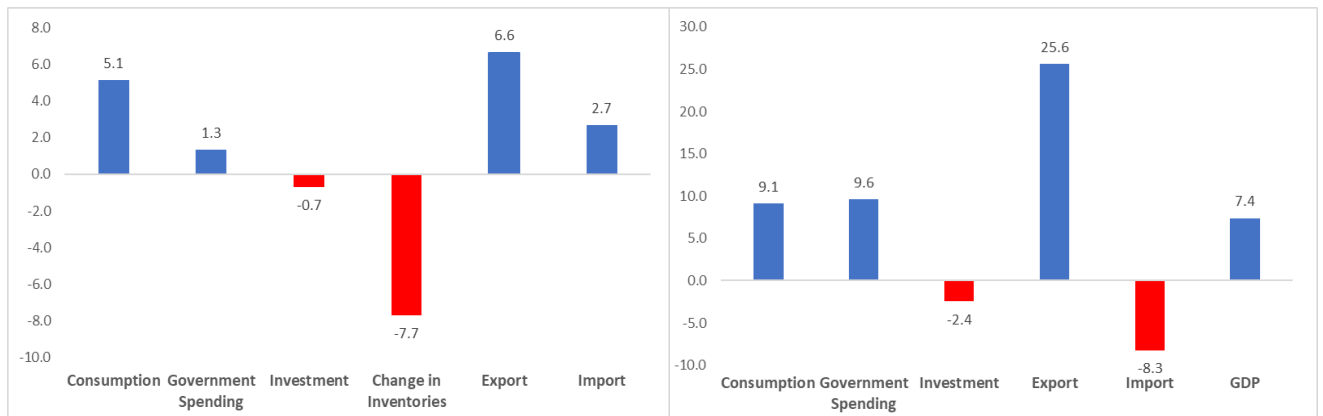
NET FOREIGN TRADE DRIVED GROWTH

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Executive Summary

The Turkish economy has grown 7.4 percent in the third quarter of 2021. Given the 6.7 percent growth rate in the same quarter of 2020, there is no base effect in this quarter in contrast to the second quarter. The economy shrank by 10 percent in the second quarter of 2020, and in return it grew 21 percent in the second quarter of this year thanks to the base effect. The biggest contribution to the growth has come from net foreign trade in this quarter. Exports which increase by 25.6 percent contribute 6.6 percentage points to the growth. Imports which decrease by 8.3 percent contribute 2.7 percentage points to the growth, and as a result overall 9.3 percentage points of the growth comes from net foreign trade in this quarter. Using seasonally and calendar adjusted data, we see that the GDP grows by 2.7 percent compared to the previous quarter by means of consumption. One can conclude that the contribution of net foreign trade to the growth will be stronger given that bulk of the depreciation of Turkish lira occurred in October and the exchange rate was relatively stable during the second quarter. However, the risk caused by distorted expectations due to the increasing inflation and interest rate may drag down growth rate in the following quarters.

Figure 1: Contributions to growth (left) and year-on-year growth rates (right) of GDP components in 2021 Q3



Source: TurkStat, Betam

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Increase in private consumption

In the third quarter of 2021, private consumption grew by 9.1 percent at the annual rate and supports the yearly GDP growth by 5.1 percentage points (Table 1). Looking at the seasonally and calendar adjusted data, we see that private consumption increases by 8.5 percent and contributes the quarterly GDP growth by 4.3 percentage points (Table 2).

Table 1: Growth rates and contributions to the growth of GDP components in 2021 Q2 and 2021 Q3 compared to the same quarter of the previous year

	2021Q2		2021Q3	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
Consumption	22.9	13.2	9.1	5.1
Government Spending	4.2	0.5	9.6	1.3
Investment	20.3	5.7	-2.4	-0.7
Change in Inventories		-6.1		-7.7
Export	59.9	14.6	25.6	6.6
Import	19.2	-5.9	-8.3	2.7
GDP	21.7		7.4	

Source: TurkStat, Betam

Table 2: Growth rates and contributions to the growth of GDP components in 2021 Q2 and 2021 Q3 compared to the previous quarter

	2021Q2		2021Q3	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
Consumption	1.6	1.2	8.5	4.3
Government Spending	0.7	0.1	8.0	1.2
Investment	0.7	0.1	-2.3	-0.5
Change in Inventories		-1.5		-2.3
Export	2.2	0.8	5.0	1.1
Import	-3.3	0.8	5.4	-1.1
GDP	0.9		3.6	

Source: TurkStat, Betam

Decrease in investment

Investment expenditures have been increasing since the third quarter of 2020 and increased by 20.5 percent contributing annual growth by 5.7 percentage points in the second quarter of 2021. In the third quarter of 2021, investment expenditures decreased by 2.4 percent on year on year basis which shrinks the output growth by 0.7 percentage points (Table 1). There is a similarity according to the seasonally and calendar adjusted data: while investments contributed slightly positive to GDP growth (0.1 percentage points) in the second quarter, the contribution turned negative with minus 0.5 percentage points in the third quarter (Table 2).

Decreases in inventory suppress growth³

In the second quarter of 2021, change in inventories weighs down annual GDP growth by minus 7.7 percentage points (Table 1); according to the seasonal and calendar adjusted data, change in inventories contributes to the GDP growth by minus 2.3 percentage points (Table 2). The negative effect of change in inventories to the GDP is also a result of the base effect: we observe that stocks that swelled with the effect of the pandemic dissolve rapidly in the third quarter, putting a brake on production.

Imports continue to increase

In the third quarter of 2021, exports increase by 25.6 percent year-on-year base, and contribute the GDP growth by 6.6 percentage points. On the other hand, the yearly increase in imports by 19.2 percentage points depresses the growth by 5.6 percentage points. The decline in imports further increased the contribution of foreign trade to growth (Table 1). Imports in quarterly base, on the other hand, increase by around 4 percent (Table 2).

Public spending increases

The strong 9.6 percent increase in public expenditures in the third quarter of 2021 contributed 1.3 percentage points to annual growth (Table 1). In seasonally adjusted figures, we see that public consumption increased by 8.3 percent compared to the previous quarter and contributed 1.2 percentage points to growth (Table 2).

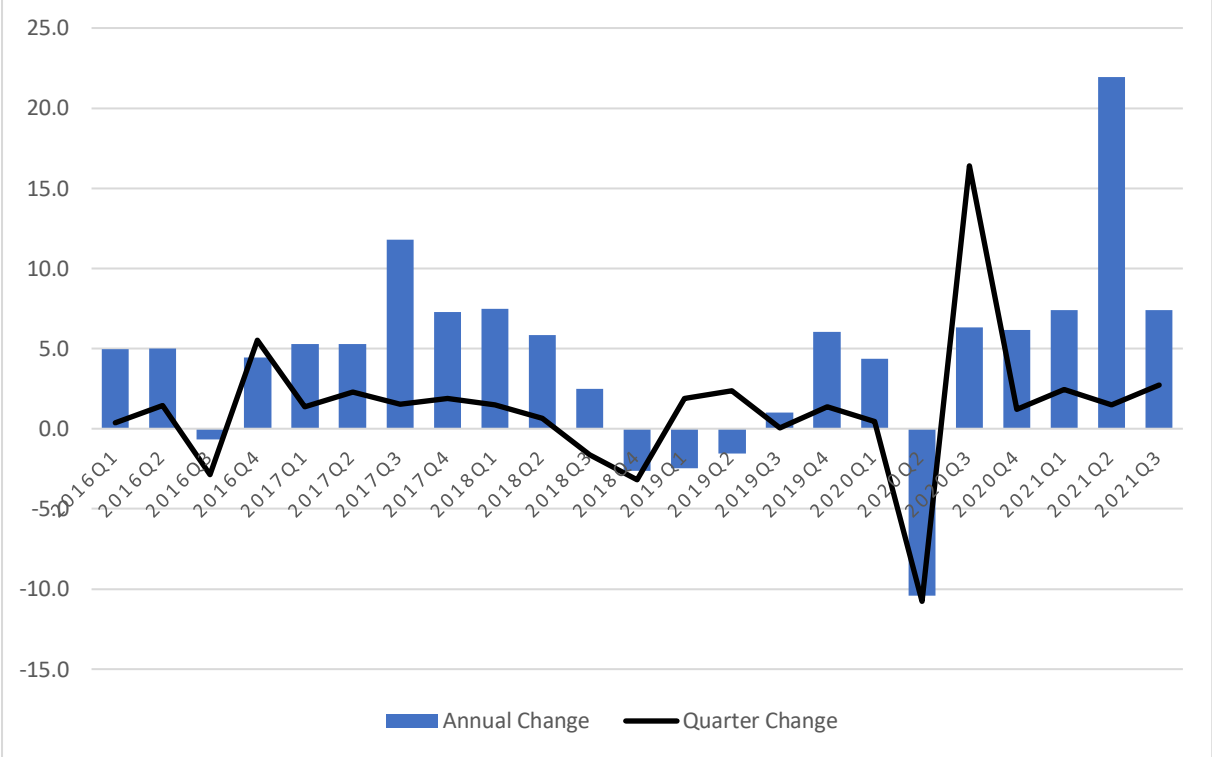
The future of growth

Considering that the exchange rate remained relatively stable throughout the third quarter, and the main increase in which took place in October, we can say that the contribution of net foreign trade to the growth will be even stronger in the last quarter. It is understood that net foreign trade will be a driving factor increasing growth in the near future. On the other hand,

³ TurkStat uses the chained volume index method when calculating new national income series. The contribution to growth of the inventory change cannot be easily calculated because there is an additivity problem in the chain method and a chain index cannot be derived for the "changes in inventories". We discussed in detail in the research note that we recently published how to account for the contribution of inventory change to growth in the chain-volume index approach (see Betam Research Note 17/217).

the deteriorating expectations due to rising inflation and interest rates in the last quarter of the year may also drag down the growth in the next period, especially through investments. It is not possible to predict how much the deteriorating expectations will reflect on the private sector investment behavior and how much net foreign trade will increase due to the depreciating TL. Near-term growth will depend on which of these two factors will dominate.

Figure 2: GDP growth rates compared to the previous quarter and same quarter of last year



Source: TurkStat, Betam