

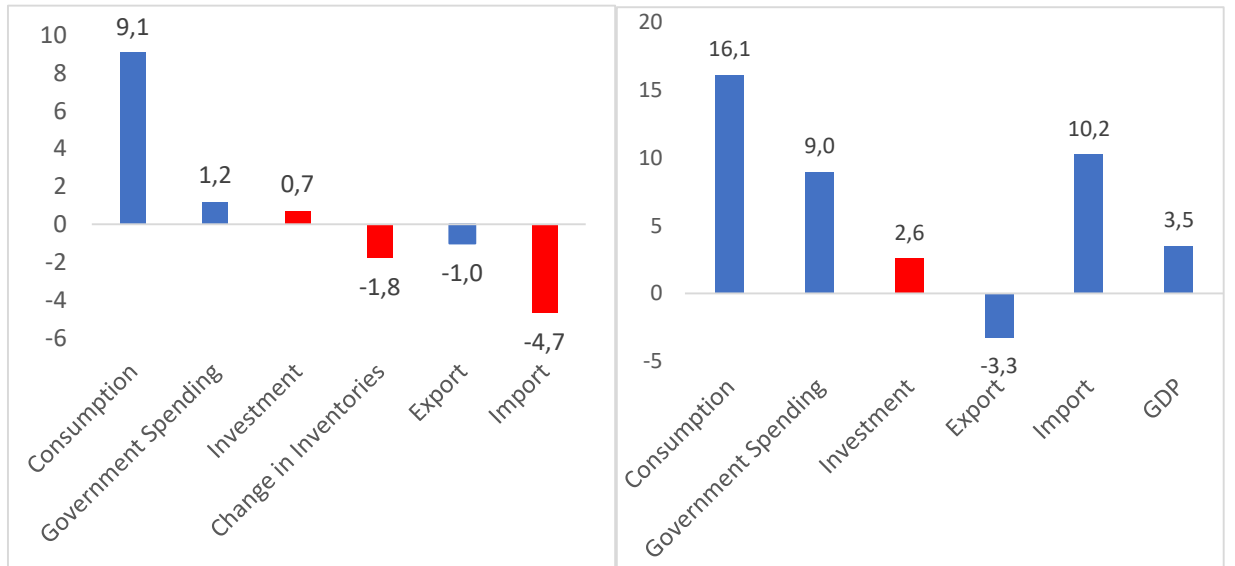
THE CONTRIBUTION OF NET EXPORTS TO GDP GROWTH IS NEGATIVE

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Executive Summary

The Turkish economy grew by 3.5 percent in the last quarter of 2022. Thus, the annual growth for 2022 was recorded at 5.6%. Private consumption was the key driver of the growth, accounting for 9.1pp. The contribution of net foreign trade (0.7pp in the previous quarter) was -5.7pp. Changes in inventories pulled the growth down by 1.8pp. According to the seasonally and calendar-adjusted series, the Turkish economy grew 0.9% on quarter in the last quarter of 2022. While private consumption contributed 3.1pp to quarterly GDP growth, net foreign trade's contribution was -2.0pp. Investments pushed the quarterly growth by 1pp while the changes in inventories drove quarterly growth down by 1.2pp.

Figure 1: Contributions to growth (left) and year-on-year growth rates (right) of GDP components in 2022 Q4



Source: TurkStat, Betam

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Increase in private consumption continues.

Private consumption increased by 16.1% YoY in the last quarter of 2022, with a 9.1pp contribution to the growth (Table 1). According to the seasonally and calendar-adjusted figures, it rose by 4.9% QoQ, with a 3.1pp contribution to the quarterly growth (Table 2).

Table 1: Growth rates and contributions to the growth of GDP components in 2022 Q3 and 2022 Q4 compared to the same quarter of the previous year

| | 2022Q3 | | 2022Q4 | |
|-----------------------|------------|------------------|------------|------------------|
| | Change (%) | Contribution (%) | Change (%) | Contribution (%) |
| Consumption | 20.4 | 11.1 | 16.1 | 9.1 |
| Government Spending | 4.7 | 0.6 | 9.0 | 1.2 |
| Investment | -0.8 | -0.3 | 2.6 | 0.7 |
| Change in Inventories | | -8.1 | | -1.8 |
| Export | 12.4 | 4.1 | -3.3 | -1.0 |
| Import | 11.9 | -3.4 | 10.2 | -4.7 |
| GDP | 4.0 | | 3.5 | |

Source: TurkStat, Betam

Table 2: Growth rates and contributions to the growth of GDP components in 2022 Q3 and 2022 Q4 compared to the previous quarter

| | 2022Q3 | | 2022Q4 | |
|-----------------------|------------|------------------|------------|------------------|
| | Change (%) | Contribution (%) | Change (%) | Contribution (%) |
| Consumption | 4.4 | 2.7 | 4.9 | 3.1 |
| Government Spending | 8.9 | 1.1 | 0.0 | 0.0 |
| Investment | -1.5 | -0.4 | 3.7 | 1.0 |
| Change in Inventories | | -0.8 | | -1.2 |
| Export | -1.4 | -0.5 | -1.3 | -0.5 |
| Import | 6.2 | -2.2 | 4.1 | -1.5 |
| GDP | -0.1 | | 0.9 | |

Source: TurkStat, Betam

Moderate rise in investment

Investment spending increased by 2.6% YoY in the last quarter of 2022 and contributed 0.7 pp to the growth. Similarly, it rose by 3.7% QoQ, with a 1.0pp contribution to the quarterly growth (Table 1 and Table 2).

Inventories continued to decrease³

Stock changes continued to suppress annual growth. The contribution of stock changes to annual and quarterly growth was recorded at -1.8 and -1.2pp, respectively (Tables 1 and 2). Stock change has almost negatively contributed to the growth for the last two years, and this means that the GDP growth rate calculated by expenditure method is higher than the GDP growth rate calculated by the production method. In our previous research briefs, we attributed the rapid increase in expenditures to the melting stocks of accumulation and the rapid increase due to inflation expectation during the pandemic.

Also, a third explanation is possible as Assoc. Dr. Orhan Karaca pointed out⁴. If the consumption expenditure price deflator is calculated as lower than its actual value, real consumption growth will be higher than its actual value. However, the possible error for consumption deflator does not affect the real GDP growth calculated by the production method, but only shows itself as a higher consumption growth.

Low foreign trade contribution due to increasing imports

In the fourth quarter of 2022, exports dropped 3.3%, and imports increased 10.2% YoY. The acceleration of the increase in imports caused the foreign trade contribute to decline to 5.7pp, which was 0.7pp in the previous quarter. (Table 1). The seasonally and calendar-adjusted figures show exports decreased by 1.3% and imports increased by 4.1%; thus, foreign trade pulled quarterly growth down by 2.0pp (Table 2).

Public spending increased

In the last quarter of 2022, public spending rose by 9.0%, with a 1.2pp contribution to annual growth (Table 1). According to seasonally and calendar-adjusted figures, public consumption remained unchanged in the last quarter of 2022 (Table 2).

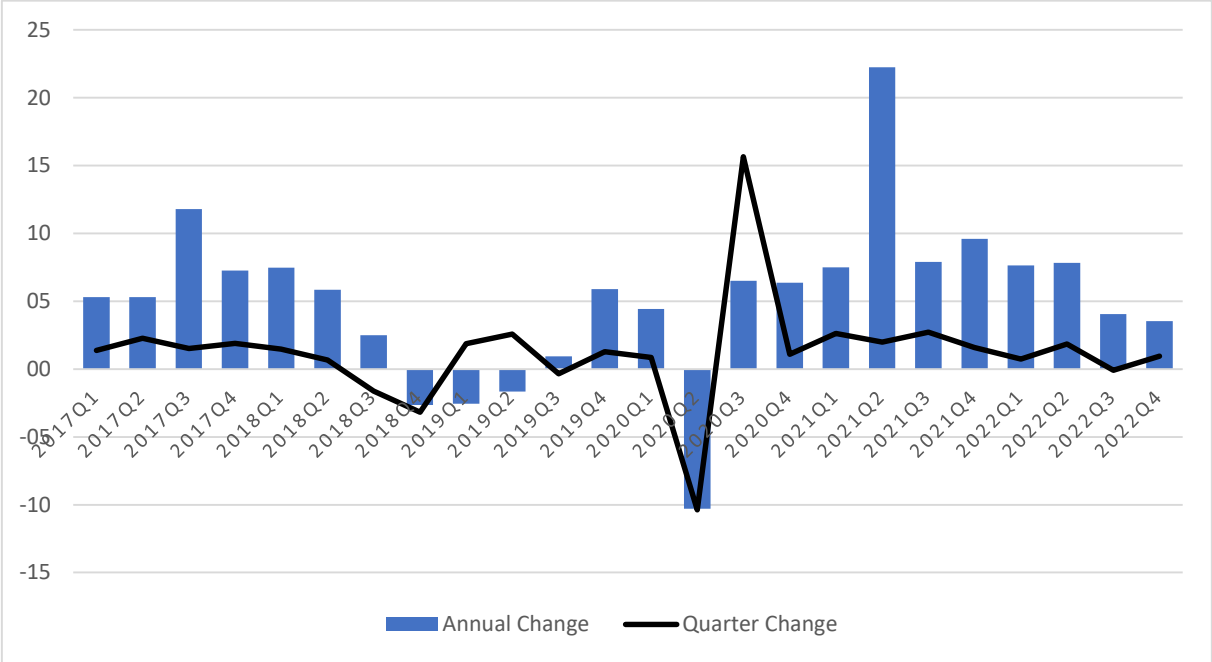
³ TurkStat uses the chained volume index method when calculating new national income series. The contribution to growth of the inventory change cannot be easily calculated because there is an additivity problem in the chain method and a chain index cannot be derived for the "changes in inventories". 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).

⁴ <https://drorhankaraca.blogspot.com>

The future of the growth

Private consumption and public expenditures were the main drivers of the growth in the last quarter of 2022. The contribution of change in inventories was negative. Due to the stable exchange rates, exports are likely to contribute less to the growth soon. We expect private consumption to continue to increase in the first half of 2023 due to the election. However, it is less likely to maintain the same pace for the rest of the year. The growth will undoubtedly be affected due to the material and moral losses and the internal migration caused by the February 6 earthquakes. Public decisions and incentives will determine the magnitude of the harmful effects of earthquakes.

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



Source: TurkStat, Betam