Macro Comment 12/28

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Turkey: growth slows, but worries remain

Rabobank

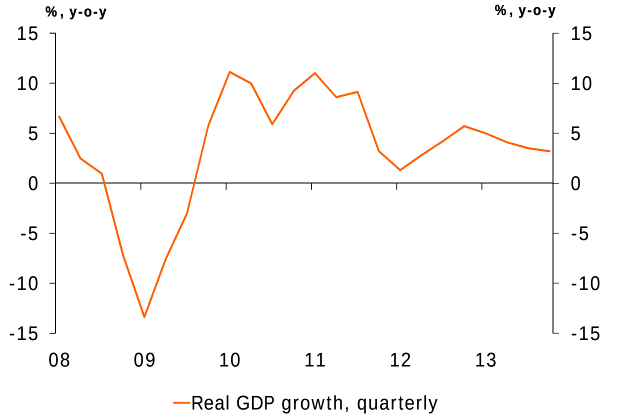
Turkey's economic growth slowed in 4Q11, indicating that the economy is finally cooling down, after the prior stellar growth rates fuelled overheating concerns. Still, volatile growth rates, combined with large current account deficits and stubbornly high inflation rates remain worrisome.

The latest data on Turkey supports our view that the economy is cooling down. In the last quarter of 2011, the economy grew by a relatively low 5.2% y-o-y, after growing by 8.4% the quarter before. The overall print for 2011 came in at 8.5%. A further sign that the risk of overheating is indeed averted is the fact that while growth in the first three quarters of 2011 was driven by private consumption and investment, this picture changed in the last quarter, when net exports took over. In 4Q11, net exports contributed 3.2 percentage points (ppt) to growth (and -1.4 ppt for 2011 as a whole), with exports increasing by 6.7% y-o-y in that quarter. Meanwhile, private consumption and investment together only contributed 1.1 ppt in 4Q11 (compared to 9.8 ppt in 2011 as a whole).

The downward growth trend is expected to be sustained in 2012. As already observed in our previous macro comment, industrial production contracted by a seasonally adjusted 1.3% in January (y-o-y). In addition, recent data shows that manufacturing output slowed as well, to just 0.4% in January (from 2.6% in December 2011). For 2012 as a whole, we expect a 3.5% growth rate, as private consumption and investment are expected to slow further, while the recession in the eurozone (Turkey's main export market) will drive down demand for Turkish goods.

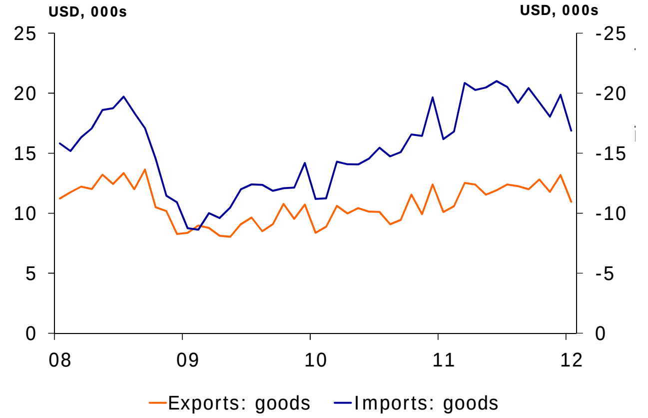
However, despite slowing domestic consumption, the dominating economic risks in Turkey remain. First, inflation is likely to remain elevated. For the last three months, inflation remained stubbornly high at 10.5% on average, even though core inflation fell somewhat. High inflation is largely caused by increasing energy prices. These high energy prices also lead to the second problem: the persisting current account deficit. Turkey imports roughly 70% of its energy needs. In January, in spite of the drop in domestic demand, the current account only decreased by 0.46% y-o-y and therefore remains at a high 10% of GDP.

Graph 1: Volatile growth



Source: Reuters EcoWin

Graph 2: Gap between imports and exports



Source: Reuters EcoWin

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We therefore conclude that, while overheating has now been averted, economic risks remain. The country has been unable to shake both high inflation and a high current account deficit. Although a lower growth rate is expected to lower inflation and reduce the current account deficit, both are expected to remain elevated. Furthermore, we remain concerned with the enormous volatility of the growth rate (see graph 1). High volatility is generally associated with lower growth rates, on average, as it creates uncertainty, spooks investors and forces the private sector to adjust to rapidly changing circumstances.

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