

TURKEY

GDP growth is estimated to have slowed to under 3% in 2016, but is projected to pick up gradually to around 3¼ per cent by 2018. The Turkish economy continues to face geopolitical headwinds and unsettled political conditions, after having weathered a coup attempt in July and engaged in military operations in Syria.

Uncertainties are high but fiscal, prudential and monetary policies are supportive and should spur household consumption from late 2016 onwards. New and generous incentives have been introduced to stimulate business investment, which, however, has stayed subdued so far. For private investment to pick up, it is important to durably restore confidence by implementing high-priority structural and institutional reforms.

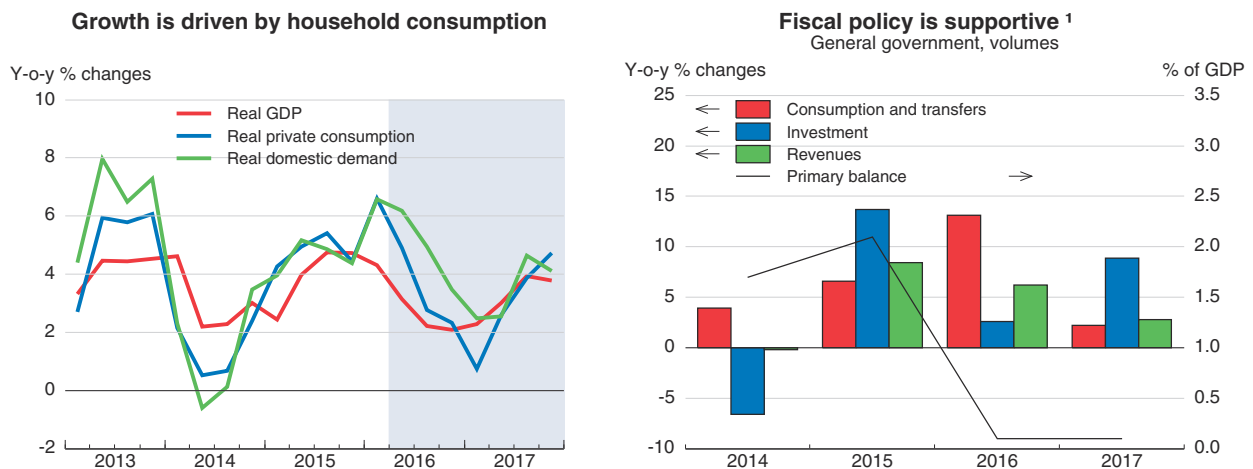
The hard-won fiscal room gained through prudent budget policy enabled the authorities to phase in several counter-cyclical measures. The Medium-Term Economic Programme 2017-2019 published in early October announced further, and welcome, infrastructure investment. A transparent and integrated framework for the planning, procurement and fiscal management of large infrastructure projects, including those undertaken through public-private partnerships, would reduce their costs and create room for other growth-friendly spending, such as on education.

The economy has proved resilient to severe shocks

Following the coup attempt in mid-July, market sentiment worsened only temporarily. More recently, in a context of high geopolitical uncertainty and an extension of the state of emergency, a rating downgrade triggered additional exchange rate and stock market weakness. Household and business confidence declined.

Household consumption decelerated through 2016 despite the very large minimum wage hike in January. This partly reflected the sharp deceleration in consumer loans and credit card debt following measures to address fast household credit expansion. Private business investment has remained weak.

Turkey



1. On the basis of the Medium-Term Economic Programme 2017-19, October 2016.
Source: OECD Economic Outlook 100 database; and Ministry of Development.


Turkey: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices TRY billion	Percentage changes, volume (1998 prices)				
GDP at market prices	1 567.3	3.0	4.0	2.9	3.3	3.8
Private consumption	1 109.7	1.4	4.8	4.1	3.0	4.4
Government consumption	236.6	4.7	6.7	12.8	3.5	2.7
Gross fixed capital formation	318.6	-1.3	4.0	0.6	4.9	3.1
Final domestic demand	1 664.9	1.4	4.9	4.8	3.4	3.9
Stockbuilding ¹	4.9	-0.1	-0.5	0.3	-0.1	0.0
Total domestic demand	1 669.8	1.3	4.6	5.3	3.5	4.0
Exports of goods and services	401.8	7.4	-0.9	-1.8	4.0	4.8
Imports of goods and services	504.3	-0.3	0.2	5.7	4.7	5.5
Net exports ¹	- 102.6	2.0	-0.3	-2.3	-0.3	-0.4
<i>Memorandum items</i>						
GDP deflator	—	8.3	7.4	6.9	7.4	7.4
Consumer price index	—	8.9	7.7	7.9	7.7	7.3
Private consumption deflator	—	7.0	6.9	6.9	7.2	6.9
Unemployment rate	—	9.9	10.3	10.6	10.7	10.7
Current account balance ²	—	-5.5	-4.4	-4.6	-4.7	-4.5

1. Contributions to changes in real GDP, actual amount in the first column.

2. As a percentage of GDP.

Source: OECD Economic Outlook 100 database.

StatLink  <http://dx.doi.org/10.1787/888933439232>

Turkey's main export markets in Europe and in the region remain subdued. A trade embargo imposed by Russia in 2016, which is in the process of being waived, added to the volatility of export markets. Nonetheless, exporters are highly entrepreneurial and, backed by exchange rate depreciation, increased their share in several alternative markets in 2016, including in some EU countries. Still, the collapse of tourism revenues undermined overall export performance. With the expected normalisation of external trade conditions, real exports of goods and services are projected to recover gradually.

Macroeconomic policy is supportive

Fiscal, monetary and prudential policies are supportive. Fiscal policy was expansionary in 2016, mainly through increased public sector wages and social transfers, and expenditures for refugees. The share of primary general government spending in GDP is expected to increase from around 38% in 2015 to around 41% in 2016 and 2017, before falling below 40% in 2018. Monetary policy was loosened, despite above-target inflation and inflation expectations, with the average funding rate of the central bank cut by about 100 basis points between March and October. Prudential rules were relaxed, with an extension of term limits on consumer loans and credit cards. Tax amnesties, additional tax cuts and new subsidies were also offered to businesses. A more fundamental upgrading of the business environment through structural and institutional reform would give additional stimulus to business investment.

There are uncertainties ahead

GDP growth is projected to pick up to around 3¼ per cent in 2017 and 3¼ per cent in 2018, driven by recovering household consumption and gradual increases in exports. This projection is subject to above-average special risks. Military activity has increased across the south-eastern border, and a constitutional referendum might be held in 2017. Related developments will affect household and business confidence, and will bear on consumption, investment and growth.

Uncertainties will also affect external funding. The current account deficit fell from 8% of GDP in 2013 to an estimated 4.6% in 2016. However, external debt roll-over needs are high. In the current circumstances, preserving the credibility of economic policy institutions is crucial. The cautious implementation of the Medium-Term Economic Programme, the alignment of national accounts with international standards and related improvement in fiscal transparency, and the actual implementation of the announced structural and institutional reforms would strengthen internal and external confidence and reduce foreign funding risks. On the upside, diplomatic rapprochement with some neighboring countries may improve trade prospects faster than foreseen, not only for goods but also for tourism and other services.