Did Turkey's economy recover from the crisis? Did we out-compete rivals?

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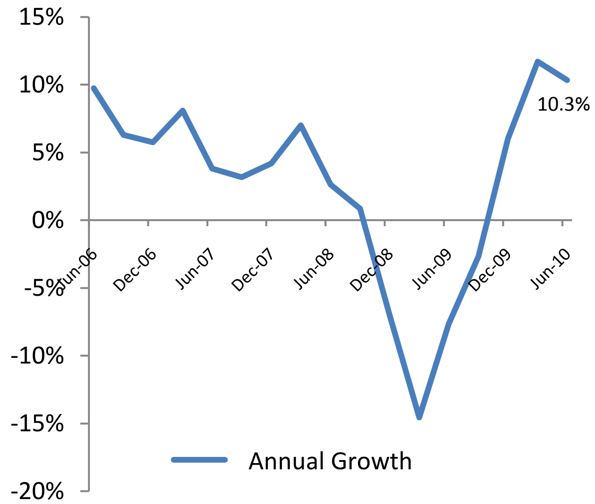
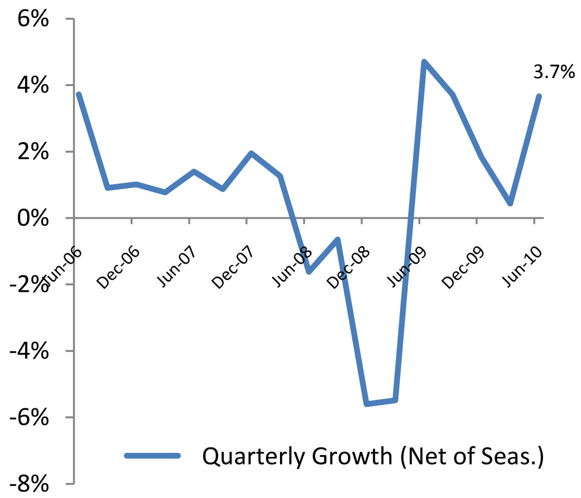
Turkey, one of the countries suffering the impacts of the global crisis most severely, achieved two-digit growth rates in the second quarter of 2010 demonstrating a substantial economic recovery. Following the 11.7% annual growth ensured as of the first quarter of 2010, growth in the second quarter proved as high as 10.3 percent.

Quarterly growth figures net of seasonal effects display the improvement in performance even more clearly. After the trough hit in the first half of 2009, quarterly growth figures tended upwards beginning with the third quarter of 2009. Nonetheless, by the first quarter of 2010, quarterly growth rate fell down to 0.4 percent raising questions about the sustainability of growth. The revitalization of the quarterly growth performance as of the second quarter of 2010 nurtures hopes that the recovery process is to perpetuate (Figure 1).

Two questions awaken when assessing growth rates. First is as to whether Turkey could re-accomplish the pre-crisis production level. Second critical question is about Turkey's performance in relation with rival economies. This policy note aims to answer these questions and present Turkey's performance with a comparative analysis.

Figure 1. Annual and quarterly GDP growth



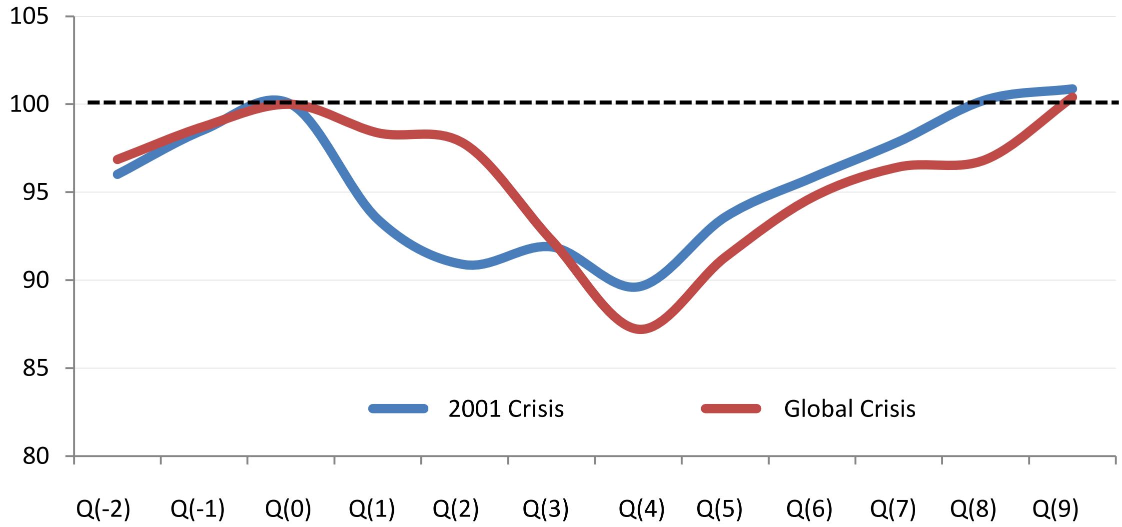


Source: TURKSTAT

Recovery took longer than the 2011 crisis

The peak level of production before the impacts of the global crisis being felt was recorded in the first quarter of 2008. By the first quarter of 2009, quarterly level of production dropped by 12.3 percent compared to the pre-crisis level and then started to revive. The removal of the effects of the crisis and the achievement of pre-crisis levels of production however took place in the second quarter of 2010; i.e. the ninth quarter following the eruption of the crisis. Compared to the pace of recovery following the 2001 crisis, it took longer for Turkey to recover from the 2009 crisis (8 quarters versus 9 quarters). This proves how substantial the impact of the global crisis on Turkey was (Figure 2).

Figure 2. Level of production in 2001 crisis and the global crisis



Source: TURKSTAT

Sudden collapse, rapid revival

In order to make a comprehensive analysis of Turkey's performance, other countries' performances should as well be assessed. Table 1 shows the growth performance of 35 countries which carry out 87 percent of global production and 76 percent of world exports. According to this, the first column reveals the growth rates for these countries between the second quarter of 2008, accepted as the emergence of the crisis, and the second quarter of 2009 (first sub-period) representing the trough of the crisis.[1] Over this period, Turkey was the sixth most rapidly contracting country among the considered 35 countries. Countries shrinking more rapidly than Turkey are Lithuania, Russia, Slovenia, Mexico and Romania.

On the other hand following this rapid contraction Turkey maintained a high-pace recovery. Considering the growth performance between the second quarter of 2009 and the second quarter of 2010 (second sub-period), Turkey together with China ranks the third following Singapore and Peru. Over this period Turkey outpaced countries including India, Brazil, Indonesia and Malaysia which are considered as the locomotive of global growth.

Turkey's performance over the examined period is quite interesting. It is highly promising that a country which was the sixth most rapidly contracting country also achieved to be the third rapidly recovering country. For instance, among the countries which shrank more rapidly than Turkey in the first period, Mexico ranked the 10th, Russia the 12th, Slovenia the 27th, Lithuania the 28th and Romania the 34th in recovery.

So, was this success enough to offset the contraction suffered after the crisis? Third column of Table 1 shows the level of production in the second quarter of 2010 in comparison with the second quarter of 2008. According to this, rates above 100% imply that the relevant country currently produces at a level above the pre-crisis production level.

[1] Since the peak and trough periods differ across countries, peak and through was assumed at the second quarter of 2008 and second quarter of 2009, respectively.

Table 1. Comparative GDP indicators

	Annual Change (%) 2008 Q2 - 2009 Q2	2009 Q2 - 2010 Q2	Level of production comp. to period before the crisis (2008-Q2)	Total time of recovery
1- China*	7.9	10.3	119.0%	0 quarters
2- Singapore**	-1.8	18.7	116.6%	5 quarters
3- India*	6.0	8.8	115.3%	0 quarters
4- Indonesia*	4.1	6.2	110.5%	0 quarters
5- Peru*	-2.1	11.9	109.6%	5 quarters
6- Brazil**	-1.4	8.0	106.5%	5 quarters
7- Poland**	1.3	3.8	105.1%	0 quarters
8- Korea**	-2.1	7.1	104.9%	5 quarters
9- Malaysia**	-3.9	8.9	104.6%	5 quarters
10- Israel**	-0.7	4.1	103.4%	4 quarters
11- Hong Kong**	-3.8	6.5	102.5%	9 quarters
12- Turkey*	**-7.6**	**10.3**	**101.9%**	**9** quarters
13- S. Africa*	-2.8	3.2	100.3%	8 quarters
14- Canada**	-3.2	3.4	100.1%	7 quarters
15- Switzerland**	-3.4	3.3	99.9%	-
16- Slovakia**	-5.2	5.0	99.6%	-
17- USA**	-4.1	3.0	98.7%	-
18- Norway**	-2.1	0.8	98.7%	-
19- France**	-3.2	1.7	98.5%	-
20- Mexico**	-8.6	7.7	98.4%	-
21- Germany**	-5.4	3.7	98.1%	-
22- Netherlands**	-5.1	2.6	97.4%	-
23- Sweden**	-6.1	3.6	97.3%	-
24- Austria**	-5.1	1.9	96.7%	-
25- Japan**	-5.9	1.9	95.9%	-
26- Denmark**	-6.9	2.9	95.8%	-
27- United Kingdom**	-5.9	1.6	95.6%	-
28- Spain**	-4.5	-0.2	95.3%	-
29- Italy**	-6.2	1.1	94.9%	-
30- Greece**	-1.9	-3.5	94.7%	-
31- Russia*	-10.8	5.2	93.8%	-
32- Hungary**	-7.0	0.0	93.0%	-
33- Slovenia**	-9.6	1.5	91.8%	-
34- Romania**	-8.0	-1.4	90.7%	-
35- Lithuania **	-16.6	1.4	84.5%	-

Source: TEPAV calculations, Eurostat, EIU, BEA, Statistics Canada, Bank of Israel, Banco de Brasil, tradingeconomics.com
**Series are not net of seasonal effects.*
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It is observed that Turkey has an impressive performance also in this regard, ranking the 12th among 14 countries which achieved rates above 100%. 4 (China, India, Indonesia and Poland) out of the 14 countries ensured economic growth over both sub-periods. On the other hand Turkey is the only country, which contracted more than 4 percent in the first sub-period (18 countries including Turkey) but re-achieved the pre-crisis production level in the second sub-period. Among the 11 countries performing better than Turkey are 7 Far Eastern, 2 Latin American, 1 European and 1 Middle Eastern country, which proves Turkey's strength across its region.

Fourth column in Table 1 represents the total time of recovery for the 14 countries which re-achieved the pre-crisis production levels. According to this, together with Hong Kong, Turkey is the slowest recovering country among the examined countries.

Individual growth performances imply a 4-group categorization for the examined countries. According to this, countries with the best performance (Growing during the crisis period) are China, India, Indonesia and Poland. These are followed by 10 countries which, despite contracting in the first period after the crisis recovered rapidly and re-achieved the pre-crisis production levels. Thanks to the performance achieved in the last period, Turkey is also among the 'Rapid Recoverers' group. 'Slow-recoverers' group constitutes of countries, which achieved economic growth in the second period but failed to re-achieve the pre-crisis production levels. The fourth group involve countries which suffered from contraction in production throughout the period after the crisis and which failed to recover considerably. The countries in this group are 12 European Union member countries, Japan and Russia.

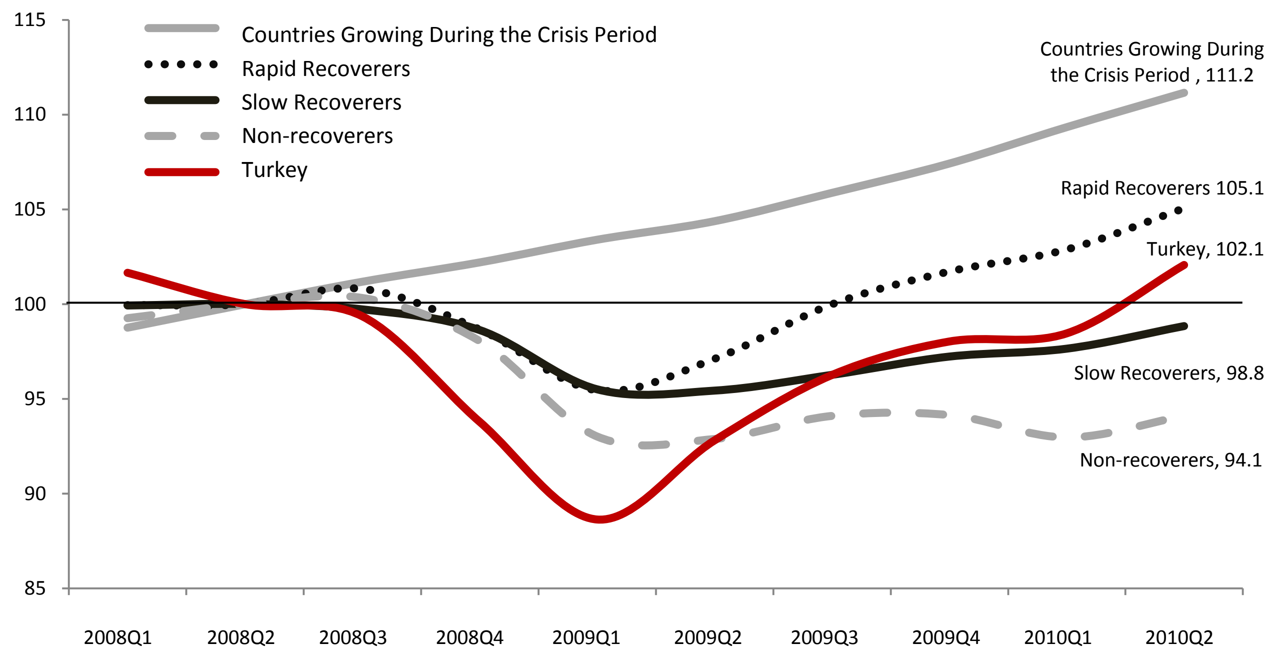
Table 2. Country categorization by growth performance

Growing during the crisis period	Rapid recoverers	Slow recoverers	Non-recoverers
China	Singapore	Switzerland	The Netherlands
India	Peru	Slovakia	Sweden
Indonesia	Brazil	USA	Austria
Poland	Korea	Norway	Japan
	Malaysia	France	Denmark
	Israel	Mexico	United Kingdom
	Hong Kong	Germany	Spain
	Turkey		Italy
	S. Africa		Greece
	Canada		Russia
			Hungary
			Slovenia
			Romania
			Lithuania

Figure 3 gives the course of production over the crisis period in the examined country groups and in Turkey. As the figure reveals, Countries Growing during the Crisis Period ensured a raise in production to 111.2 in the second quarter of 2010. Rapid Recoverers and Slow Recoverers faced economic contraction until the first quarter of 2009 whereas the performance of the two groups diverged as of the second half of 2009. Non-recoverers demonstrate a static course of production over the process following the contractionary period.

Comparison of country groups and Turkey in terms of production reveals a complex picture. Turkey, in spite of performing worse than Non-recoverer countries in the first sub-period of the crisis, broke into Rapid Recoverers group with the successful performance achieved in the second sub-period.

Figure3. Quarterly production level across country groups and in Turkey over the crisis period (2008 Q2 = 100)



Source: TEPAV calculations, Eurostat, EIU, BEA, Statistics Canada, Bank of Israel, Banco de Brasil, tradingeconomics.com

Recession in Europe affects Turkey's exports adversely

The source of rapid growth of Turkey appears to be domestic consumption that helped the economy to turn around and private sector investments that buoyed as of the second quarter. The contribution made by consumption and investments to growth rate are 48 percent and 57 percent, respectively. Whereas domestic consumption surpassed the level before the crisis; private sector investments still stand 5.7 percent below the pre-crisis level. Despite the pleasing course of domestic consumption and investments; net exports caused a 16% contractionary impact on growth. The underlying factor here is the weak export performance due to slow recovery in foreign demand as well as the rapid increase in imports stemming from the imported intermediary input requirement of the industry.

Turkey's position among the examined 35 countries with respect to export performance is presented in Table 2. According to this, in the first sub-period Turkey ranked the ninth in terms of fall in exports with a drop by 34.6 percent. In the recovery period (second sub-period) Turkey's exports hiked by 23.9 percent. Nonetheless, the rise in exports did not reach the pace in growth. Turkey ranked the 17^{th} with respect to the rise in exports.

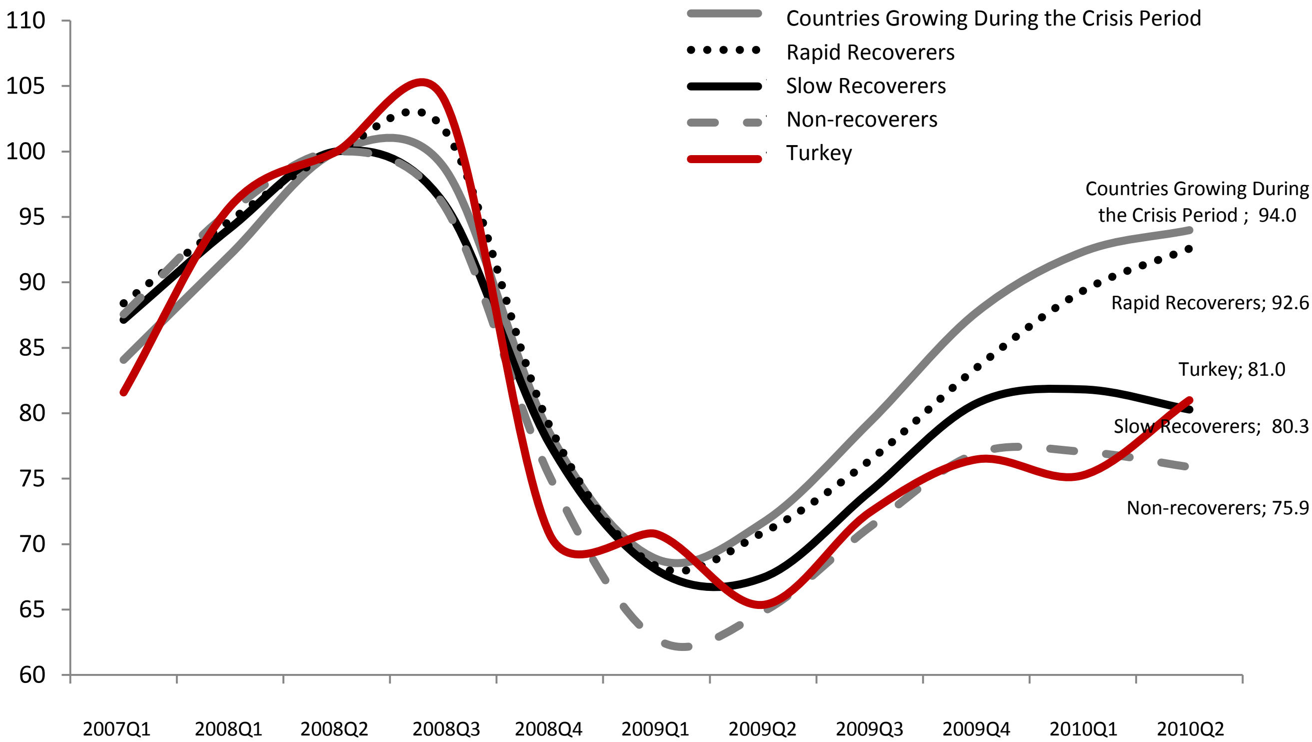
Comparison of export performance before the crisis reveals that current level of exports of 4 Far Eastern countries (China, Korea, Hong Kong and Indonesia) is above the pre-crisis level. On the other hand, Turkey's exports as of the second quarter of 2010 equals only 81 percent of those in the second quarter of 2008. This performance puts Turkey at the 17th place in terms of export performance and at the 11th place in terms of production (GDP level). Main determinant of relatively weak export performance of Turkey is the ongoing economic recession in Europe. 16 (all except Canada and Russia) out of 18 countries that rank worse than Turkey with respect to export performance is European countries. This proves that weak export performance of Europe is connected to the depreciation of Euro against Dollar.

Table 3. Comparative export indicators

	Annual Change (%) 2008 Q2 - 2009 Q2	**Annual Change (%)** 2009 Q2 - 2010 Q2	**Level of exports comp. to pre-crisis level (2008-Q2)**
1- China	-24.1	39.6	106.0%
2- Korea	-21.1	33.1	105.0%
3- Hong Kong	-14.3	22.5	105.0%
4- Indonesia	-24.0	34.5	102.2%
5- Brazil	-25.4	28.8	96.1%
6- Peru	-27.3	31.9	95.9%
7- Singapore	-30.8	36.7	94.6%
8- Mexico	-32.4	39.0	94.0%
9- Japan	-33.7	40.9	93.4%
10- USA	-25.8	25.3	93.0%
11- Israel	-30.4	31.6	91.6%
12- India	-31.8	32.2	90.1%
13- Malaysia	-33.3	33.2	88.9%
14- S. Africa	-33.7	33.9	88.8%
15- Romania	-30.6	21.4	84.3%
16- Switzerland	-25.4	12.6	84.0%
17- Turkey	**-34.6**	**23.9**	**81.0%**
18- The Netherlands	-32.1	18.8	80.7%
19- Canada	-40.4	32.0	78.7%
20- Poland	-33.5	16.6	77.6%
21- Russia	-46.2	43.2	77.0%
22- Slovenia	-32.9	14.4	76.8%
23- Slovakia	-33.7	15.2	76.4%
24- United Kingdom	-34.2	15.3	75.9%
25- Germany	-34.4	15.6	75.8%
26- France	-30.9	8.7	75.1%
27- Hungary	-34.7	13.5	74.1%
28- Spain	-34.2	12.4	73.9%
29- Sweden	-39.7	20.4	72.5%
30- Italy	-34.7	10.5	72.2%
31- Lithuania	-44.1	28.3	71.7%
32- Denmark	-31.5	3.0	70.5%
33- Austria	-35.2	8.0	69.9%
34- Greece	-28.5	-2.8	69.5%
35- Norway	-45.4	16.5	63.6%

Source: World Trade Organization (WTO)

Figure 4. Quarterly export performance of country groups and Turkey during the crisis (2008 Q2 = 100)



Source: TEPAV calculations, World Trade Organization

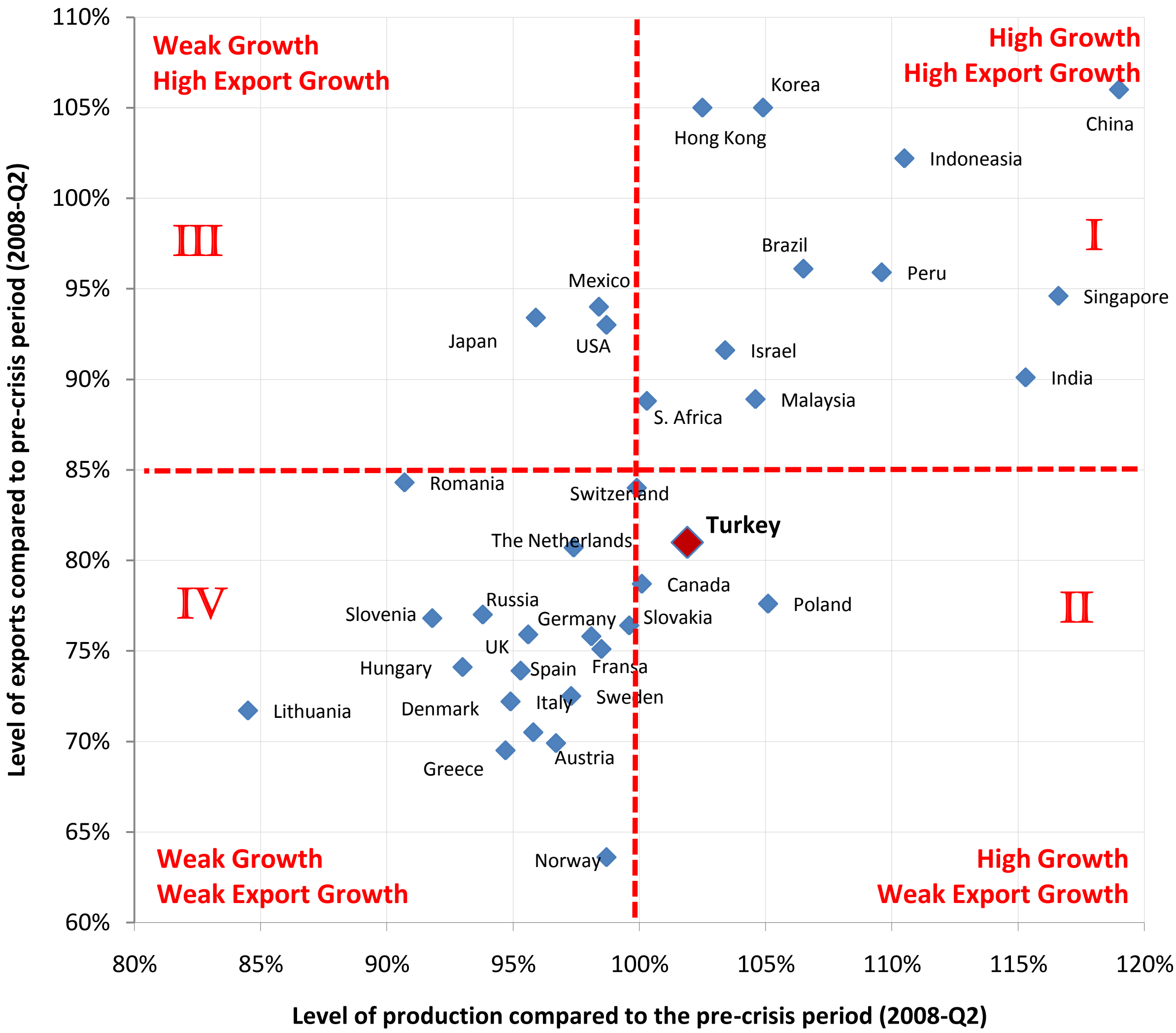
High Growth, Weak Export Growth: Turkey

Examination of export performance of countries grouped as per their growth performance reveals that Countries Growing During the Crisis Period and Rapid Recoverers ensured rapid rise in their exports whereas Slow Recoverers and Non-recoverers encountered a second downward trend in Dollar denominated exports as of the first two quarters of 2010 (Figure 4).

Export performance of Turkey, which is in the Rapid Recoverers group when growth performance is considered, is similar to that of Non-recoverer countries until the second quarter of 2010. With the recovery in exports in the second quarter of the said year, Turkey's export level achieved the level of Slow Recoverers. Nevertheless, it is striking that Turkey still performs significantly below the average of Rapid Recoverers.

Figure 5 compares selected countries' growth performance and export performance. According to this, Turkey failed to break in the first zone where high growth along with high export growth is observed, which implies that Turkey has been growing relying on domestic demand. Export gains in Turkey as well as in Canada and Poland stand below the GDP growth rate. Mexico, Japan and USA, countries in the third region, had a growth performance weaker than export growth. 17 European countries and Russia remaining at the fourth zone performed weakly in terms of both economic growth and export growth.

Figure 5. Level of production and exports during the crisis period



Source: TEPAV calculations, WTO Eurostat, EIU, BEA, Statistics Canada, Bank of Israel, Banco de Brasil, tradingeconomics.com

Conclusion and Remarks

By the second quarter of 2010 Turkey achieved both a double-digit growth rate and the production level of the pre-crisis period. Thanks to the said recovery, Turkey ranked 12th among 14 countries that managed to accomplish the production level before the crisis. Being the only country that achieved this despite suffering from economic contraction in the first sub-period is the most important indicator of Turkey's success. Nonetheless, pace of recovery is quite slow compared to the aftermaths of 2001 crisis.

On the way of recovery, domestic consumption proved the engine of growth. Domestic consumption has been increasing continuously since the third quarter of 2009. Private sector investment elevated rapidly in the second half of 2010, triggering growth. However net exports remain as a threat for growth. The underlying factor here is the weak export performance due to slow recovery in foreign demand as well as the rapid increase in imports stemming from the imported intermediary input requirement of the industry.

Turkey could not ensure as strong recovery in exports as in growth. Turkey's exports as of the second quarter of 2010 equals only 81 percent of those in the second quarter of 2008. As a result of this, Turkey stood only at the 17th place in terms of comparative export performance. Export performance of Turkey, which is in the rapid recoverers group when growth performance is considered, is similar to that of weak recoverer countries.

In order to maintain the impressive growth performance, Turkey has to introduce measures that will ensure the sustainability of the rise in private investments and regard recovery in exports. It is of great importance to develop a strategic approach with the purpose to secure enduring rise in exports and improvement in investment climate, which perpetuates the need for a soild industrial strategy. Realization of the reforms which have been set back since 2007 can serve for the improvement of industry's competitiveness and the sustainability of high growth rates. Otherwise, along with the fading away of the basis effect as of the third quarter, drops in growth rate will be likely.