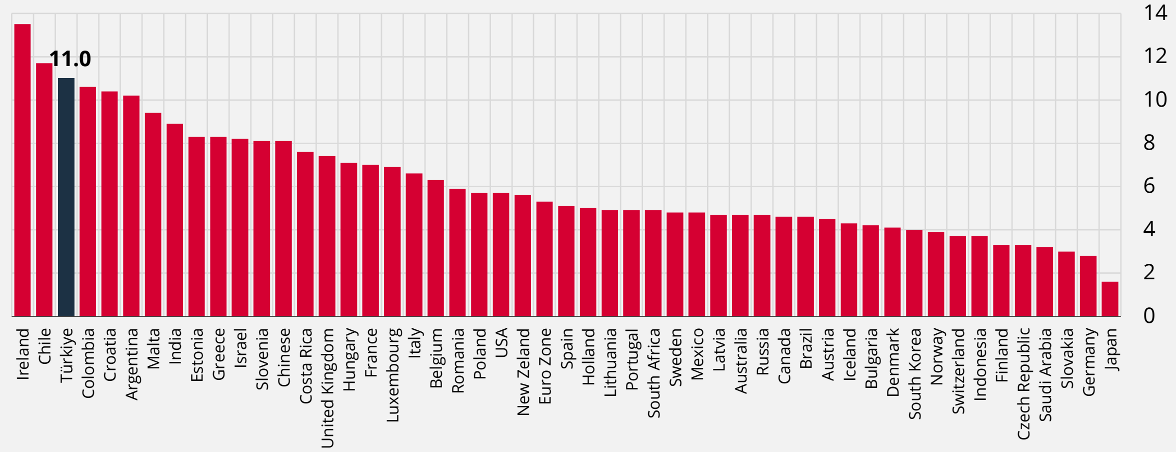
Box 2.1

The Share of Sustainable Components in the Composition of Growth

Global economies recovered significantly in 2021 with the help of supportive policies and positive developments in the vaccination process. However, country-specific conditions and the measures they took against the pandemic caused a differentiation in their growth outlooks. In this period, as a result of the increase in vaccination, the gradual removal of pandemic-related measures on a global scale and the increase in mobility ensured the revival of activity in services, tourism and related sectors, which are highly sensitive to pandemic conditions, and a rapid recovery in global demand. Accordingly, with the improvement in global trade, production levels increased and employment losses decreased. The positive outlook in the global economy spread through national economies, lifting growth rates to high levels. However, problems stemming from supply chains, volatility in energy prices, emerging new variants, geopolitical tensions, rising debt levels, divergences in vaccination rates and the diversity of policies implemented against the pandemic caused the growth rates of countries to differ. With an overall annual growth of 11 percent in 2021, Türkiye was one of the countries with the highest growth rate (Chart 1).

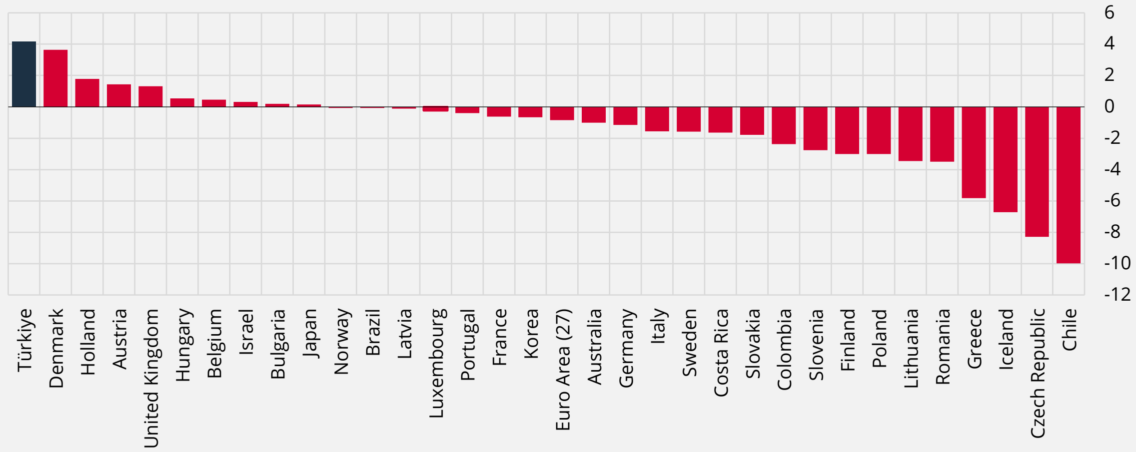
Chart 1: Annual Growth (2021, %)



Source: IMF, OECD.

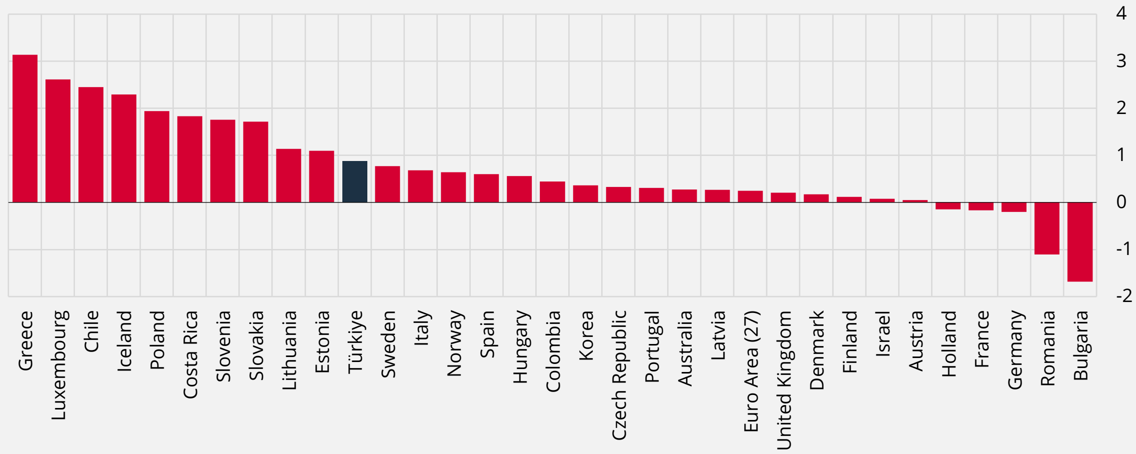
In order to strengthen the economy structurally, gain competitive advantage and reach a sustainable growth path through high value-added production, it is important to increase the weight and contribution of activities that increase potential growth, such as investments, and support the current balance with net exports in the growth composition. Net exports and machinery-equipment investments made strong contributions to growth in 2021. While net exports made a historically high contribution to the annual growth with 4.9 points, machinery-equipment investments continued to make a significant contribution with 2.3 points. In the last quarter of 2021, the Gross Domestic Product (GDP) increased by 9.1 percent on an annual basis. In this period, the contribution of net exports to annual growth was 4.2 points, while the contribution of machinery-equipment investments was close to 1.0 points. In this context, it was observed that Türkiye differed from other countries in terms of the contribution of sustainable components to growth in that period (Chart 2 and Chart 3).

Chart 2: Contribution of Net Exports to Annual Growth[1] (2021 Q4, % Points)



Source: OECD and author's calculations.

Chart 3: Contribution of Machinery-Equipment Investments to Annual Growth (2021 Q4, % Points)

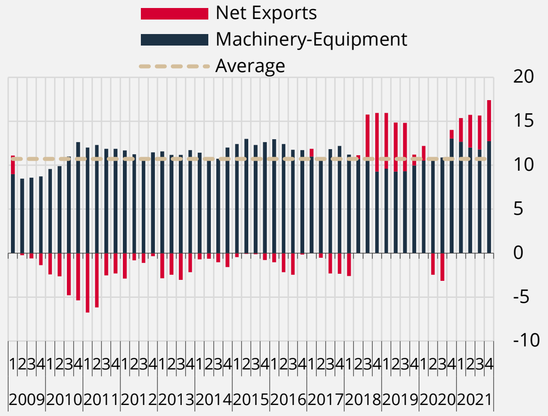


Source: OECD and author's calculations.

The share of net exports in national income, which recorded a significant decrease as a result of the decrease in foreign demand due to the measures and restrictions aimed at controlling and slowing the pace of the pandemic in 2020, converged to pre-pandemic levels in the following period due to the normalization steps in trade partners and the competitiveness of export companies and market diversification flexibility. In addition, the shares of machinery-equipment and net exports, which have recently contributed to sustainable growth and the current account balance, in GDP are above the long-term averages (Chart 4). The share of machinery-equipment investments, which ranked second in total investments for a long period of time, exceeded the share of construction investments as of the last quarter of 2020 and it exceeded 50 percent in the last quarter of 2021 (Chart 5). The annual increase in machinery-equipment investments for nine consecutive quarters since the last quarter of 2019 is considered important for sustainable growth.

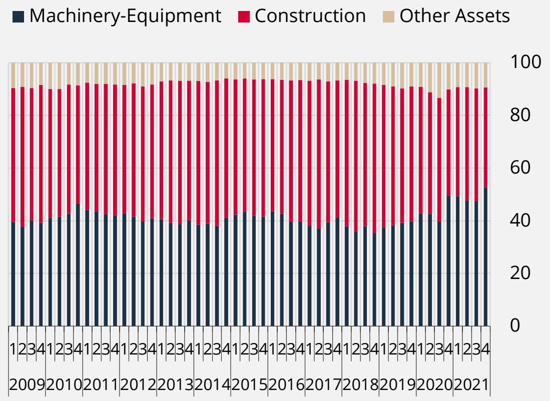
[1] Estonian data is not included in the graph to preserve readability. In this period, the contribution of net exports to growth in Estonia was calculated as 20.3 points.

Chart 4: Share of Machinery-Equipment Investments and Net Exports in GDP (%)



Source: TurkStat, author's calculations.

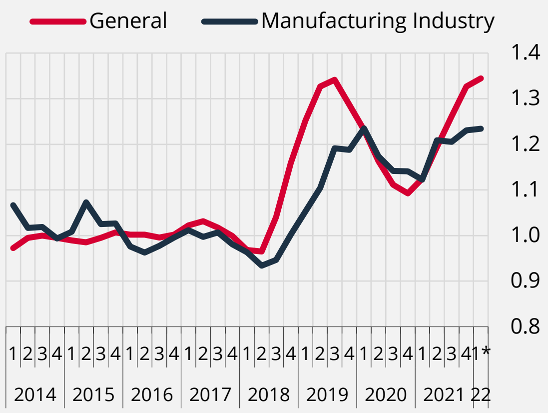
Chart 5: Share of Subcomponents in Total Investment Expenditures (%)



Source: TurkStat, author's calculations.

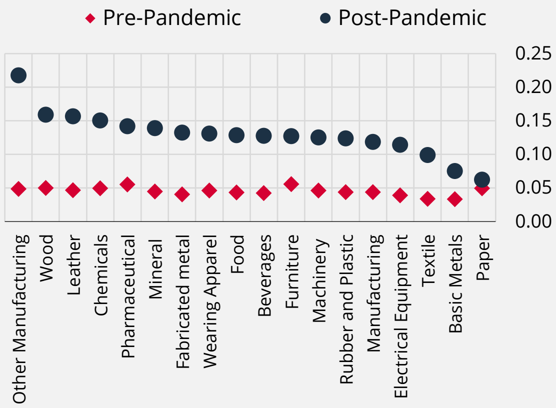
Due to the high course of commodity prices, supply-demand mismatch in some sectors, especially energy, and high levels of transportation costs after the pandemic, the prices of goods subject to foreign trade increased. In this context, when interpreting foreign trade developments, it is considered that an analysis on the basis of quantity would be healthier by excluding the effect of incidental increases in prices. While the ratio between the seasonally and calendar adjusted export and import quantity indices hovered around 1 on average between 2013Q1 and 2018Q2, it showed an upward trend in 2018-2019 due to the developments in the real exchange rate. Although the rate decreased during the pandemic period, it showed an increasing trend again in the post-pandemic period and regained the averages of the 2018-2019 periods. The ratio calculated for the manufacturing industry, on the other hand, followed a more volatile course compared to the general average, but tended to increase in the post-pandemic period (Chart 6). On a sectoral basis, it is observed that the average monthly increase rate of the export quantity index across the manufacturing industry sectors has increased approximately 3 times compared to the pre-pandemic period. The increase rates in sectors such as other manufacturing, wood and cork and leather are particularly noteworthy (Chart 7). In this context, it is evaluated that the positive outlook spread across the sectors in terms of export volume growth contributes to sustainable growth.

Chart 6: Ratio Between Export and Import Quantity Indices (4-Quarter Moving Average)



Source: TurkStat, author's calculations.
* Average of January-February.

Chart 7: Manufacturing Industry Export Quantity Index Monthly Average Increase Rates on a Sectoral Basis [2] (%)

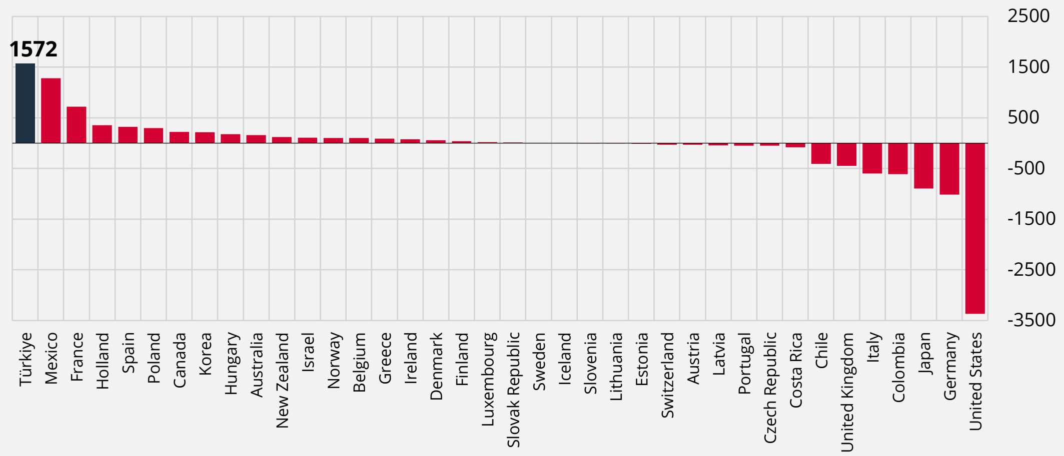


Source: TurkStat, author's calculations.

[2] The pre-pandemic period covers the years 2013-2019, and the post-pandemic period covers the average of January-February 2022 from the last quarter of 2019. The values in the charts are obtained by adjusting changes on a monthly basis in the relevant periods. Since the export quantity indices of tobacco, petroleum, computers and motor vehicles decreased in the post-pandemic period, they were not included in the chart.

These developments observed in the sustainable components of the growth composition have positive reflections on the labor market. By the end of 2021, Türkiye was the country that increased its employment the most among OECD countries compared to the pre-pandemic period (Graph 8). In this period, seasonally adjusted employment growth was over 1.5 million and employment gains spread across sectors. Industrial employment increased by around 12 percent with 684 thousand people compared to the pre-pandemic period and reached the historical highest level. In this period, construction employment increased by 309 thousand people, while the increase in service employment was 800 thousand people. While the employment rate increased by 0.9 points, the number of unemployed decreased. With the effect of the increase in employment, the unemployment rate decreased by 2.3 points compared to the pre-pandemic period, while the decrease in the non-farm unemployment rate was 2.8 points. At the end of 2021, the employment rate increased by 3.4 points compared to the end of the previous year and stood at 46.4 percent. In the same period, the seasonally adjusted unemployment rate decreased from 13 percent to 11.1 percent by approximately 1.9 points. Non-farm unemployment rate, on the other hand, decreased by 2.1 percentage points from 15.1 percent to 13 percent. In addition, the number of unemployed decreased by 318 thousand people in this period.

Chart 8: Change in Employment* (Seasonally Adjusted, Change From 2019 Q4 to 2021 Q4, Thousand People)



Source: OECD and TurkStat.
* 2021Q3 data is used for countries that do not have 2021Q4 data for employment.