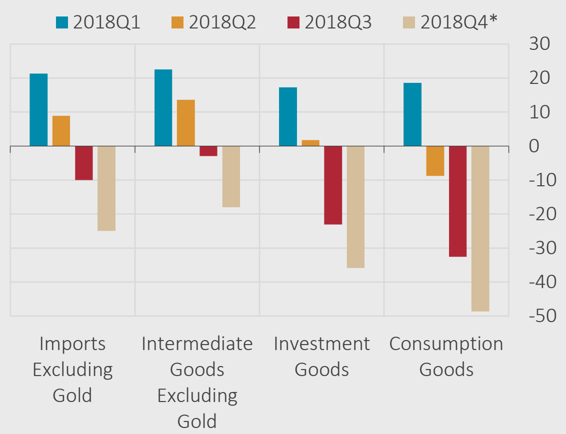
Box 4.1

Recent Trends in Imports: Consumption and Investment Goods

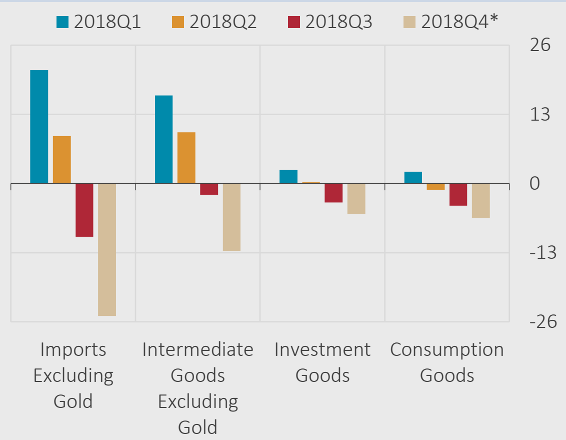
The recovery in the current account balance, which started in the third quarter of the year, accelerated in the last quarter because of the strong course of exports, the deceleration in loans, the slowdown in economic activity and the increase in tourism revenues. As a matter of fact, the annual current account deficit, which reached USD 58.2 billion in May, decreased to USD 33.9 billion as of November. This fall in the current account deficit is mainly due to the contraction in imports. The recent declines in the real exchange rate and domestic demand, and the deceleration in the growth rate of loans[1] have led to decreases both in total imports and imports of consumption and investment goods.

Chart 1: Goods Imports (Annual % change)



*Covers October and November only.

Chart 2: Contributions to Import Growth (% points)



Source: TURKSTAT.

A few important points come to the fore when examining the recent developments in imports: Excluding gold, imports, which rose by 10% in the first half of the year, contracted by 10.4% and 24.9% in the third and fourth quarters of the year, respectively. While the imports of investment and consumption goods lost considerable pace in the first half of the year, the imports of intermediate goods, which have a high share in the total imports, contributed significantly to the positive growth of total imports in the first half (Charts 1 and 2).[2] With the slowdown in domestic demand and credit growth rates, which started in the third quarter, the decline in investment and consumer goods imports became more apparent and imports of intermediate goods started to decline, albeit moderately. In the last quarter of the year, the downward trend in the imports spread across all three sub-categories. Despite the low share of consumption and investment goods in total imports, their contribution to the decline in total imports in the last quarter is almost the same as that of the intermediate goods.[3]

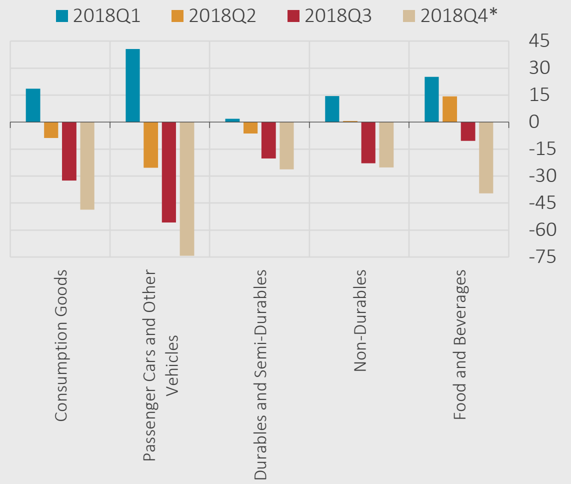
[1] For more information on the relationship between credit growth and the current account deficit, see Box 5.1, “Credit Expansion and Current Account Deficit” in the Inflation Report (April 2011).

[2] All calculations in the box are made by ignoring non-monetary gold imports. In addition, import numbers/values are in USD million per working day.

[3] Calculated by excluding non-monetary gold, consumption, investment and intermediate goods constitute 13%, 15% and 72% of total imports in 2017, respectively.

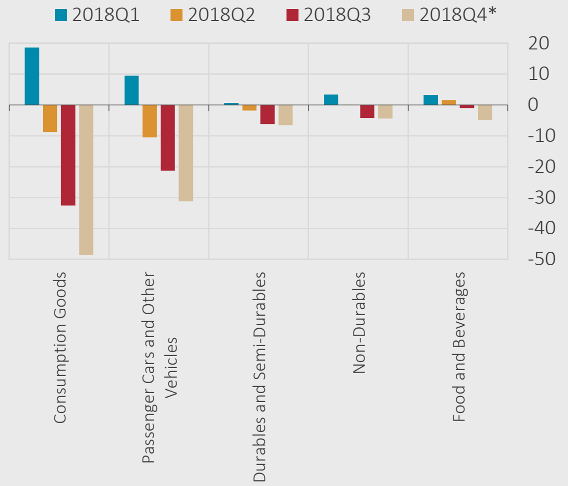
A detailed analysis of consumption goods indicates that the annual decline spilled over into the sub-items and was particularly rapid in the third and fourth quarters (Chart 3). Imports of passenger cars are the item of consumer goods with the highest decline. In the last quarter, passenger cars contributed 31 percentage points to the decrease in consumption goods imports, which was 46% from the same period of the preceding year (Graph 4).

Chart 3: Imports of Consumption Goods (Annual % change)



*Covers October and November only.

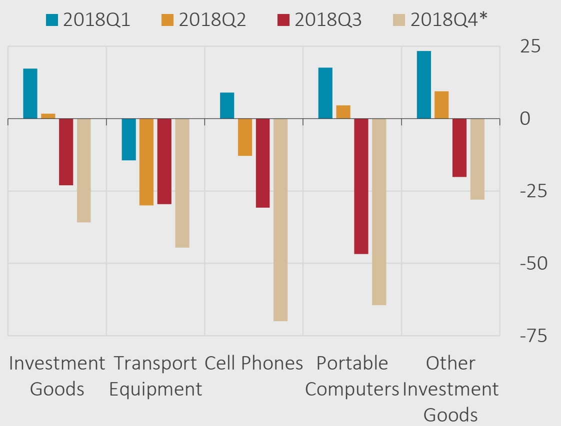
Chart 4: Contributions to Import Growth (% points)



Source: TURKSTAT.

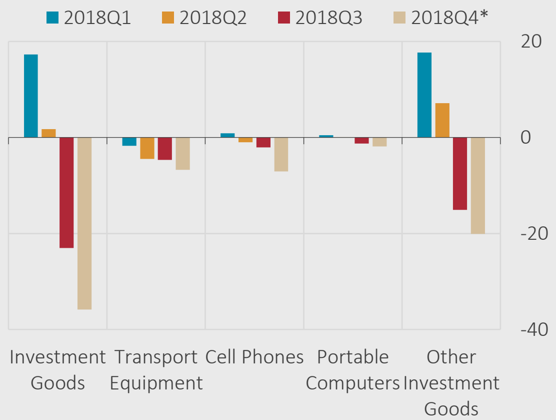
An analysis of the sub-items of the investment goods imports suggests that the decrease in imports is mostly concentrated in items such as mobile phones, portable computers and transportation vehicles, which are used essentially as consumer goods (Chart 5). The decline in imports of these products is mostly due to the tightening of credit conditions and the rise in their prices as a result of the depreciation in the TL. In the last quarter, these items fell by 70%, 64% and 45% on an annual basis, respectively. The total contribution of these three items to the 36% decline in the imports of investment goods in the last quarter is around 16 percentage points (Chart 6). The decline in imports of other investment goods, including machinery and equipment, remained relatively limited (28%).

Chart 5: Imports of Investment Goods (Annual % change)



*Covers October and November only.

Chart 6: Contributions to Import Growth (% points)



Source: TURKSTAT.

To sum up, imports of consumption and investment goods played an important role in the rapid recovery of the current account balance in the last quarter of the year. While the automotive sector drives the decline in consumer goods imports, the sharp fall in the imports of goods with consumption nature yet classified under investment goods is one of the main determinants of the decline in the imports of investment goods. On the other hand, the relatively limited contraction in the imports of machinery and equipment draws considerable attention. In this period of weakened economic activity, contracted credit supply and depreciated real exchange rate, achieving external balancing mainly through reducing imports of consumer goods rather than intermediate goods indicates a healthier composition in terms of production potential. This is expected to limit the external financing risks as the fall in the current account deficit continues in the upcoming period.