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Growth in Turkey to Recover in 2017 Thanks to Improving Exports, Says World Bank



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PRESS RELEASE

Growth in Turkey to Recover in 2017 Thanks to Improving Exports, Says World Bank

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Ankara, February 2, 2017 - The World Bank issued today its new Turkey Regular Economic Note (<http://www.worldbank.org/en/country/turkey/publication/turkey-econ-note>) (TREN)^[1] which focuses on the recent economic developments and provides World Bank forecasts on key macroeconomic indicators in Turkey on a quarterly basis. The Bank revised its growth forecast for 2016 to 2.1 percent, as recovery in Q4 was weaker than envisaged earlier. In 2017, growth in Turkey is expected to recover to 2.7 percent in 2017 thanks to improving net exports.

"We expect growth in 2017 to be driven more by public spending and net exports and less by private consumption and investment," said **Johannes Zutt** (<http://www.worldbank.org/en/about/people/j/johannes-zutt>), **World Bank Country Director for Turkey**. "Strengthening growth in the EU will help increase exports, while subdued private demand will constrain import growth."

According to the Note, Turkey's economy shrank in Q3 amid temporary political turmoil and falling tourism revenues. Seasonally adjusted GDP plunged by 2.7 percent q-o-q in Q3, recording the largest drop since March 2009, because the failed coup attempt and its aftermath depressed business and consumer confidence and tourism revenues declined.^[2]

Portfolio outflows from the bond market accelerated in Q4 due to domestic and external factors. The surprising result of the U.S. presidential election and the anticipation that the Federal Reserve will increase interest rates faster than earlier envisaged decreased global risk appetite, triggering outflows from developing countries. Slowing GDP growth, rising inflation, and a widening current account deficit add to investors' concerns, while the Central Bank's actions fall short of expectations.

The Bank analysis also underlines that the banking sector roll-over rate has fallen since June. The 12-month banking sector roll-over rate dropped from 187 percent in June to 111 percent in November, as foreign banks became more cautious about lending to Turkish banks and demand for external financing from Turkish banks was subdued.

"The continuation of this trend could imply slower credit growth in the domestic market, as banks rely heavily on foreign funding to extend credit," states **Ayberk Yilmaz, Economist in the World Bank Turkey Office**. "A meaningful interest rate increase would help shore up confidence in the Central Bank, stem the depreciation trend, and maintain price and financial stability."

The World Bank's work in Turkey is based on a joint Country Partnership Strategy (CPS) for the period 2012-2016. The CPS aims to support Turkey's transition to high income with financing of up to US\$ 6.45 billion during the five-year period, as well as with policy analysis and advisory services. Key objectives include enhanced competitiveness and employment, improved equity and public services, and deepened sustainable development. The World Bank's partnership with Turkey is evolving to include the sharing of knowledge and experience with a wider international audience. The preparation of a new Country Partnership Framework (CPF) for the period of 2017-2021 is underway.

^[1] Turkey Regular Economic Brief is a brief that assesses recent economic developments in Turkey and provides World Bank forecasts on key macroeconomic variables. Given that the focus is on the recent past, the Note reports seasonally adjusted quarter-on-quarter changes (or 3-month-on-3-month changes). Although year-on-year rate is much less volatile, the main advantage of using a quarter-on quarter growth rate is that it is easier to identify turning points in the economy, such as the end of a recession or beginning of an expansionary period.

^[2] TURKSTAT recently revised the GDP series to align the methodology with EU and UN standards. We rely on the new GDP series in our analysis.

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RESOURCES

Turkey Regular Economic Note - February 2017 (<http://www.worldbank.org/en/country/turkey/publication/turkey-econ-note>)

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