Turkey: Growth moderates but still strong in 4Q

GDP softened in the fourth quarter last year but still remains strong at 7.3% YoY, and was mainly driven by private consumption and investments

Source: Shutterstock

7.4 GDP growth

in 2017 (%)

Better than expected

Better than expected performance

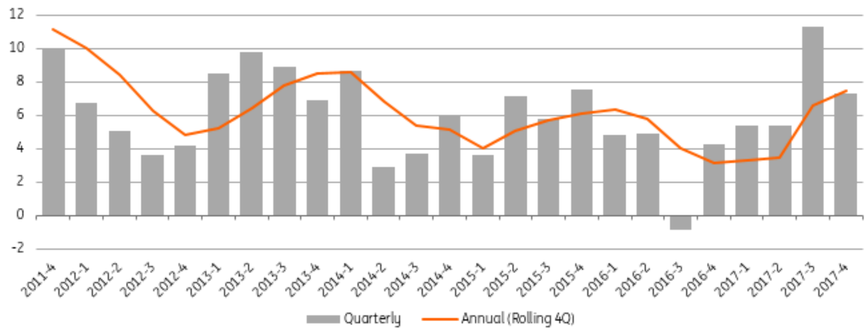
Economic activity was better than expected in the fourth quarter with 7.3% year-on-year growth while market expectations as per Reuters survey were 7.0% while we expected 6.9%.

The figure shows some moderation over the previous quarter with 11.3% YoY growth reflecting base effects due to a contraction in 3Q16 for the first time since the global crisis. GDP expansion in

2017 stood at 7.4%, the highest since 2013, and significantly above of the government's 5.5% projection according to the Medium-Term Programme (MTP) for the 2018-20 period.

In seasonal and calendar adjusted terms (SA), GDP expanded 1.8% QoQ, contradicting expectations with acceleration from 1.3% QoQ a quarter ago. TurkStat revised quarterly figures for 1Q and 3Q in 2017 to 5.4% and 11.3% from 5.3% and 11.1%.

Evolution of GDP growth (%)



Source: TurkStat, ING Bank

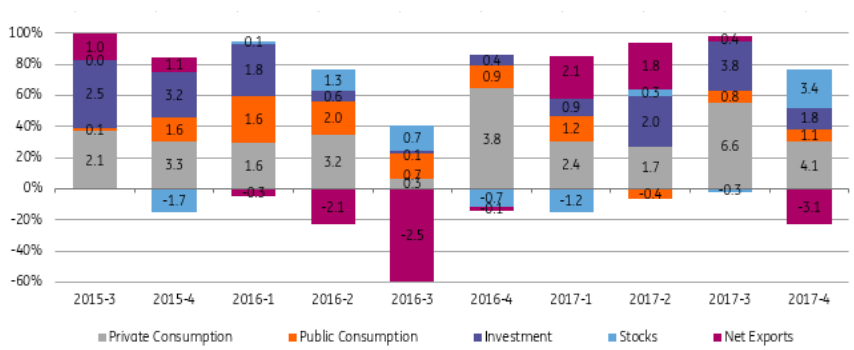
Growth was mainly driven by domestic demand

Looking at the breakdown, the growth performance was driven mainly by robust domestic demand.

First, we see that private consumption again turns out to be a major driver with a 6.6% YoY rise in 4Q17, pulling the growth up by 4.1bp, while investments have contributed 1.8bp to the headline with continuing strength in machinery and equipment investments, and further, albeit declining, support from residential investment.

Both private consumption and investments have moderated given reversal of tax cuts at the end of 3Q and fading impact of credit stimulus with lending via Credit Guarantee Fund scheme closing the ceiling. Public consumption, depending on the spending pattern of the government, rose by 7.4% YoY, lifting the 4Q growth up by 1.1ppt, gradually accelerating in the last two quarters after the negative reading in 2Q.

Growth Breakdown (%, YoY)



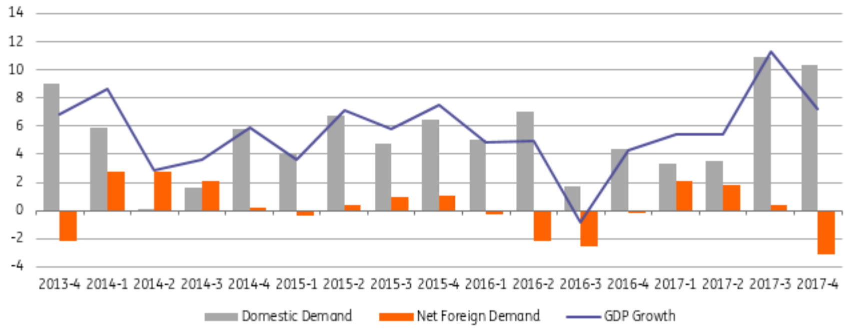
Source: TurkStat, ING Bank

Contribution of net exports turned to negative

Exports maintained the upwards trend with 9.3% increase due to sharp currency weakness, strong economic growth in the EU and recovery in trade with Russia while imports jumped by 22.7%, the biggest since 2010 on the back of accelerating gold imports and robust domestic demand.

Accordingly, contribution of net trade turned to negative again with -3.1ppt. Finally, inventory accumulation added 3.4ppt to the GDP growth, explaining continuing resilience in production.

Drivers of the growth (ppt contribution)



Source: TurkStat, ING Bank

Services still the major contributor

Among the sectors, services stood out with a 2.0ppt contribution, followed by industry with 1.8ppt addition to the headline. A large number of sectors showed some softening while financial sector that was the only one with negative contribution in 3Q, turned to positive again, pulling the quarterly growth up by 0.1ppt.

Risks for 2018 growth are on the upside

Overall, the robust GDP growth rate in the fourth quarter relied entirely on domestic demand, while external demand was a drag for the first time in 2017.

For the whole year, support from the external demand was barely positive while private consumption and investments turned out to be major drivers thanks to credit and fiscal impulse as well as supportive base effects, especially in the second half.

However, for this year we expect economic activity to lose momentum with a slowdown in lending, albeit to remain solid. Given sustaining a competitive growth rate stands out as a key priority for the authorities, a slower rate may prompt delivery of some additional stimulus.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

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