

# 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

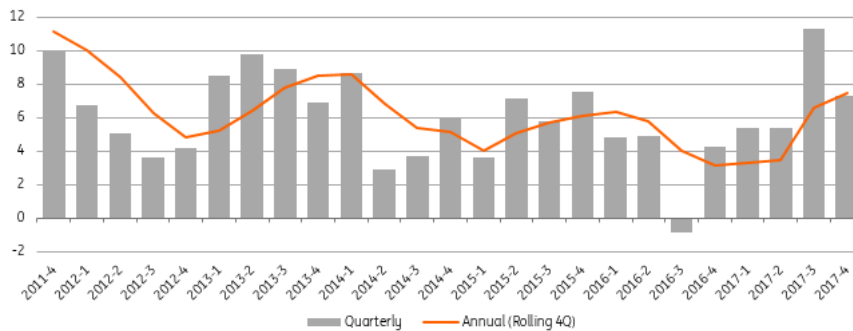
Economic activity was better than expected in the fourth quarter with 7.3% year-on-year growth while market expectations as per Reuters survey were 7.0% while we expected 6.9%.

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

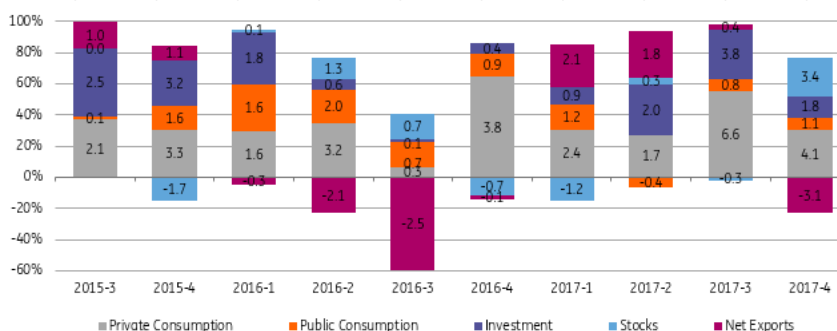
## Growth was mainly driven by domestic demand

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)



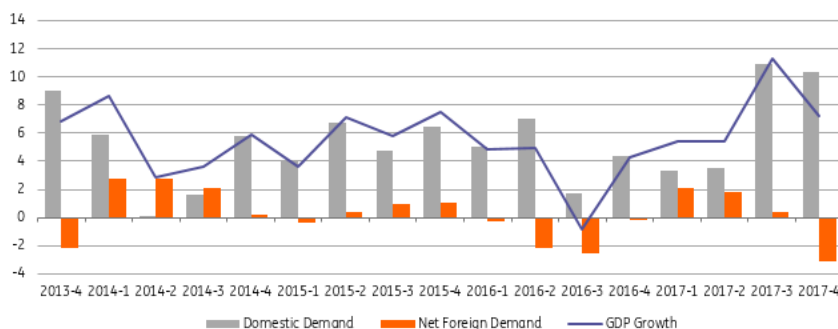
Source: TurkStat, ING Bank

## 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](mailto:muhammet.mercan@ingbank.com.tr)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).