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Snap

Turkey: Growth moderates in 2Q

GDP softened in 2Q18 though remained strong with 5.2% year-on-year growth, close to the market consensus. Domestic demand has lost momentum compared to the previous quarter, while the contribution of net exports has turned positive

5.2%

2Q GDP Growth
(YoY)

As expected

Economic activity was broadly in line with expectations in 2Q with 5.2% year-on-year growth compared to market expectations- as per the Reuters Survey- of 5.3% (and our call of 5.4%). The figure shows some moderation from the previous quarter's 7.3% YoY growth (given the fading credit impulse and early signs of moderation in domestic demand). Accordingly, four-quarter trailing GDP growth retreated slightly to 7.8% over the previous quarter, though growth will likely drop significantly in the second half, as evidenced by the ongoing momentum loss in activity. In seasonal and calendar adjusted terms (SA), GDP expanded 0.9% quarter-on-quarter, decelerating from 1.5% QoQ a quarter ago, showing that activity has already started to ease and will likely turn negative in the coming quarters. TurkStat revised its quarterly figures for 1Q18 to 7.3% from 7.4%.

Looking at the breakdown, private consumption was again a major driver with a 6.3% year-on-year rise in 1Q18, pulling growth up by 3.8 basis points. Investment contributed 1.2 basis points to the headline, with continuing support from construction, which recorded a 6.6% YoY increase. Machinery and equipment investment, on the other hand, turned out to be barely positive, with a 0.6% YoY rise, not a favourable signal for growth prospects. It should also be noted that both private consumption and investment have moderated given the fading effects of the credit impulse last year. Government spending, which had been on an uptrend before June's elections, rose by 7.2% YoY, lifting the 2Q growth rate by 1.0 percentage points.

Exports maintained their uptrend, with a 4.5% increase amid sharp currency weakness and continuing external demand from the EU. Imports moderated to a mere 0.3%, the lowest since 2014 on the back of weaker domestic demand. Accordingly, the contribution of net trade turned positive again by 1.0 percentage point. Finally, inventory accumulation deducted 1.7 percentage points to GDP growth.

Among sectors, services stood out with a 1.8 percentage point contribution, followed by industry with 0.9 percentage point addition to the headline. A large number of sectors showed some softening over the previous quarter, while agriculture stood out with a negative contribution in 2Q, pulling the quarterly growth down by 0.1 percentage point.

> Overall, strong growth in the first half of this year is attributable to fiscal measures introduced by the government to support private consumption and investment, with increasing capital spending. Given that increased financial volatility is weighing on

sentiment, the likely difficulties in external financing, an ongoing uptrend in inflation and already sharp monetary tightening since early 2018 with likely further steps, a strong underperformance in growth could well be seen in the second half, likely turning to negative on a sequential basis.

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