Turkey: Jump in 3Q growth

GDP expansion in 3Q17, also reflecting base effects due to a contraction in 3Q16 for the first time since the global crisis, is mainly driven by private consumption and investment.

Source: Shutterstock

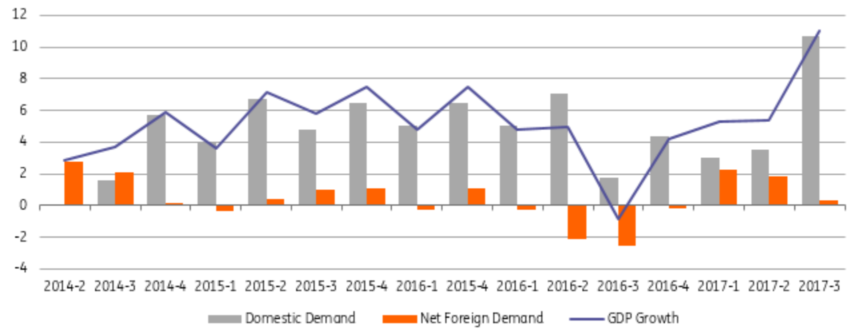
11.1 3Q GDP Growth

(YoY, %)

Better than expected

Economic activity was higher than expected in 3Q with 11.1% YoY growth. Market expectations per the Reuters Survey were at 10.0% (and our call at 7.5%). The robust performance also reflected a significant base effect from last year, given a contraction in 3Q16 for the first time since the global crisis. Accordingly, 4-quarter trailing GDP growth improved to 6.5%, signalling that full year growth this year can be above this level. In seasonal and calendar adjusted terms (SA), GDP expanded 1.2% QoQ, decelerating from 2.2% QoQ a quarter ago, and showing that the recovery has lost some momentum. TurkStat revised quarterly figures for the first half of 2017 to 5.3% and 5.4% from 5.2% and 5.1%.

Quarterly GDP Growth (%, YoY)



Source: TurkStat, ING Bank

Private consumption again turned out to be a major driver with a 11.7% YoY rise in 3Q17. This was thanks to healthy consumer confidence and the impact of stimulus measures including VAT cuts in some consumer durables as well as improving ability of households in accessing bank financing that comes with easing macro prudential measures. Accordingly, we see some momentum gain in private consumption, with a 7.0ppt contribution to the headline growth vs 1.9ppt a quarter ago.

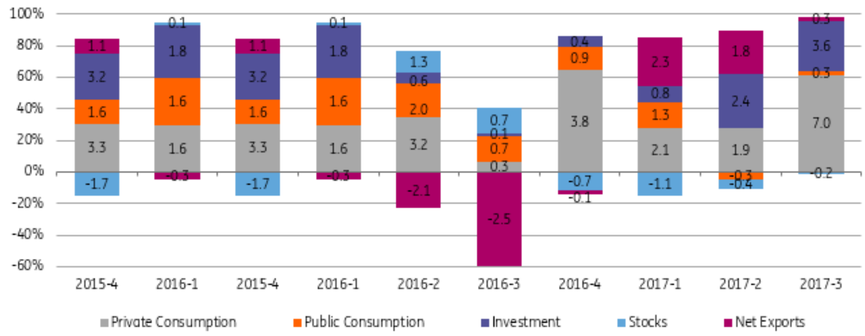
Public consumption, depending on the government's spending pattern, rose by 2.8% YoY, pulling 3Q growth up by 0.3ppt. This followed the first negative reading in 2Q after eight positives in a row.

Fixed investment gained further strength, with 12.4% expansion attributable to an improving political backdrop in the aftermath of the April referendum and the support of the credit guarantee fund (CGF). The 3.6ppt contribution to 3Q growth is the highest since the first half of 2015, showing improving investment appetite in the real sector together with the massive lending expansion in the banking sector. The composition of capital spending shows a 15.3% recovery in machinery and equipment, the first positive reading after four quarters of contraction. Construction investments remained robust at 12% YoY growth.

Exports maintained their uptrend with a 17.2% increase due to strong economic growth in the EU and the recovery in trade with Russia. Imports jumped by 14.5%, the most since 2011, on the back of robust domestic demand. Net trade provided another positive contribution to the headline, with 0.3ppt, though moderating from 1.8ppt a quarter ago.

Finally, inventory depletion shaved 0.2ppt from GDP growth, supporting the view that production should remain resilient in the coming period.

Drivers of the growth (ppt contribution)



Source: TurkStat, ING Bank

Among the sectors, services stood out with a 4.2ppt contribution, followed by industry and construction with 2.6ppt and 1.5ppt (including real estate activities) additions to the headline, The financial sector was the only one with a negative contribution, shaving the headline by 0.2ppt.

Overall growth performance, reflecting a supportive base effect, was domestically driven, thanks to the favourable impact of the CGF and tax cuts. Going forward, however, we expect economic activity to soften in coming quarters with withdrawal of some expansionary fiscal measures. We look for reversal of the tax cuts at the end of 3Q and moderating impact of the credit impulse. Further tightening of monetary stance will also be unsupportive.

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