Turkey: 2Q20 contraction in single digits

Thanks to large supportive economic policies and stimulus measures, the Turkish economy recorded a single-digit contraction in the second quarter on a YoY basis. This shows that the impact of the pandemic turned out to be less than that in many other countries

Source: Flickr

The Turkish economy recorded a 9.9% year-on-year contraction with a better-than-expected performance in the second quarter. In seasonal and calendar adjusted terms (SA), the activity narrowed by -11% quarter-on-quarter with the breakout of the pandemic. This is the sharpest ever quarterly drop since the start of the GDP series in 1998, and was mainly driven by record sequential fallls in private consumption and collapse in exports with pandemic-related restrictions.

Looking at the spending breakdown:

- Heavy-weight private consumption recorded a 8.6% YoY decline and turned out to be one of the major drags with a -5.0 percentage point contribution to the growth in 2Q20. Significant consumer credit momentum with markedly lower rates limited the downside during the pandemic.
- Thanks to the countercyclical policies adopted, public consumption that has been lifting GDP every quarter since the second half of 2017 was barely negative, providing a mere -0.1ppt

to the headline.

- Gross fixed capital formation contracted at a lower-than-expected rate on the back of strength in the credit impulse with the state banks at the forefront and later participation of private banks. Accordingly, investment consumption recorded -6.1% YoY growth, translating into a -1.5ppt contribution, driven by construction investments, whereas machinery & equipment investments posted another positive 4.7% YoY growth in 2Q20 following double-digit increases in the previous quarters. Investment are likely to be on the recovery phase in the near term as companies restore production capacity but indebtedness of the corporate sector will remain an important drag on new investments.
- Anther major contracting item in 2Q20 was net exports, reducing the headline growth with another -7.8ppt in the first quarter. This is attributable to the sharp drop 35.3% YoY in exports given the impact of pandemic on the goods trade and tourism with global mobility restrictions. Imports, on the other hand, fell by 6.3% YoY, lower than expected given that credit stimulus prevents imports from falling more sharply in the second quarter.
- Finally, we saw contribution of inventory drawdown with +4.5ppt, the fourth in a row. These large inventory contributions in recent quarters likely reflect some measurement problems.

In the sectoral breakdown, services and industry turned out to be the key drivers of contraction, pulling the second quarter performance down by 5.9ppt and 3.3ppt respectively. On the flip side, strong credit activity should help the financial sector to lift the growth by 1.5ppt.

> Overall, thanks to large supportive economic policies and stimulus measures, the impact of the pandemic turned out to be less than that on many other countries in th second quarter. The 2Q GDP outcome should lead to upward revisions for the 2020 forecast given also that frequent indicators show a strong rebound with a relaxation of lockdowns, signifying a "V" shape recovery so far in the second half. However, recent steps taken by the Banking Regulation and Supervision Agency and the Central Bank of Turkey to normalise the policy should limit the pace of recovery in economic activity.

Author

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