

Turkey: Economic activity remains on recovery path

The latest GDP data confirms that the worst is over thanks to stimulus measures introduced by the government and a supportive fiscal stance



Source: shutterstock

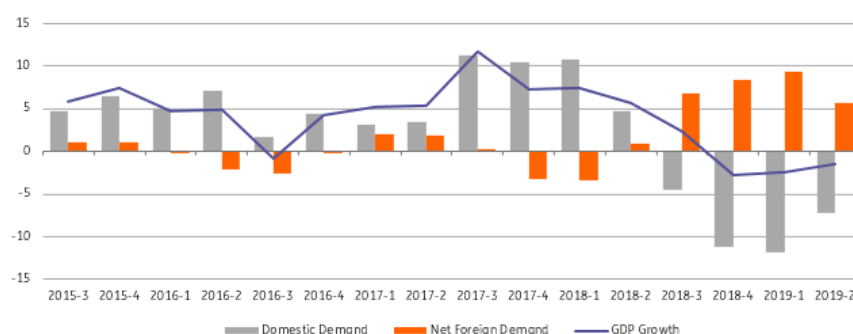
-1.5% 2Q GDP Growth
(YoY)

Better than expected

Economic activity in 2Q contracted by 1.5% year-on-year, better than the consensus estimate of a 2.0% contraction, though close to our call at -1.6% YoY. In seasonal and calendar adjusted terms (SA), growth momentum maintained a healthy pace at 1.2% quarter-on-quarter, after moving into positive territory at 1.6% QoQ one quarter ago. TurkStat made some minor revisions to the headline GDP data in the first quarter (from -2.6% YoY to -2.4% YoY). The data confirms that the worst is behind us thanks to stimulus measures introduced by the government and a supportive

fiscal stance.

Quarterly Growth (% YoY)

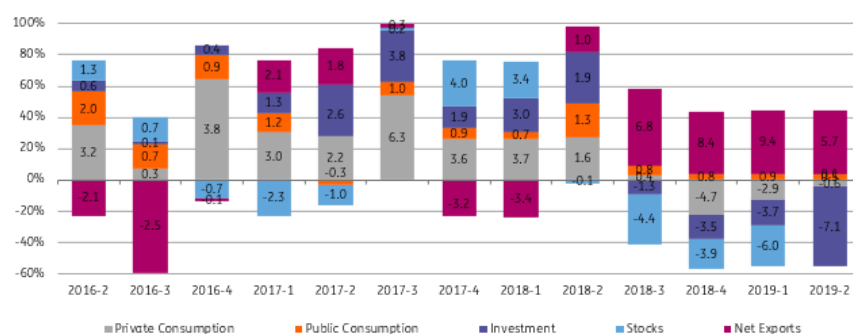


Source: TurkStat, ING

Looking at the spending breakdown, private consumption and investment contributions to the YoY GDP performance remained soft at -0.6 percentage points and -7.1pp, respectively. However, the contraction in private spending moderated from the previous quarter to -1.1% YoY, while investments weakened further to -22.8% YoY, the biggest drop since the global financial crisis. Both construction and machinery & equipment investments were major drags, showing the extent of the deterioration in investment demand in the aftermath of the financial volatility last year. The more modest contraction in private consumption is likely attributable to government incentives and a relative recovery in sentiment in late May and June. Investment weakness was likely due to a negative turn in the credit impulse in 2Q following state bank-driven loan growth in 1Q.

Public consumption, which has positively contributed to the growth performance since the second quarter of 2017 continued to do so, with a 3.3% YoY increase, lifting 2Q growth by 0.5ppt. This was reflected in the continued expansion of the annual budget deficit to 2.6% of GDP from 2.3% of GDP in 1Q (1.9% in 2018).

Drivers of the growth (ppt contribution)



Net trade also had a positive contribution at 5.7pp. Exports maintained their uptrend, with an 8.1% increase thanks to improving price competitiveness, while imports contracted by 16.9% on the back of weaker demand. Finally, the contribution from inventory was slightly positive after four consecutive negative prints, suggesting significant inventory depletion.

Among sectors, construction stood out, detracting -1.0pp from growth, the weakest among sectors, followed by industry at -0.5pp. With the exception of a few sectors (i.e construction, real estate activities), the contribution of all other sectors somewhat improved compared to a quarter ago, confirming that the recovery process has been broadening.

Private demand further dragged down growth in 2Q, with the rebound mostly driven by continued strength in net exports and government consumption. Signs of a recovery and base effects should provide support to the headline figure in the second half. The policy mix is shifting towards further loosening, which is also supported by an improving global, geopolitical and political backdrop. A normalisation in financial conditions with the central bank's easing cycle and credit impulse likely turning positive again in the period ahead should support the growth outlook. Inflation expectations, which are not well anchored, the dollarisation trend and still weak confidence as well as other macro vulnerabilities should be watched closely.

Author

Muhammet Mercan

Chief Economist, Turkey

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.