Turkish GDP growth loses momentum

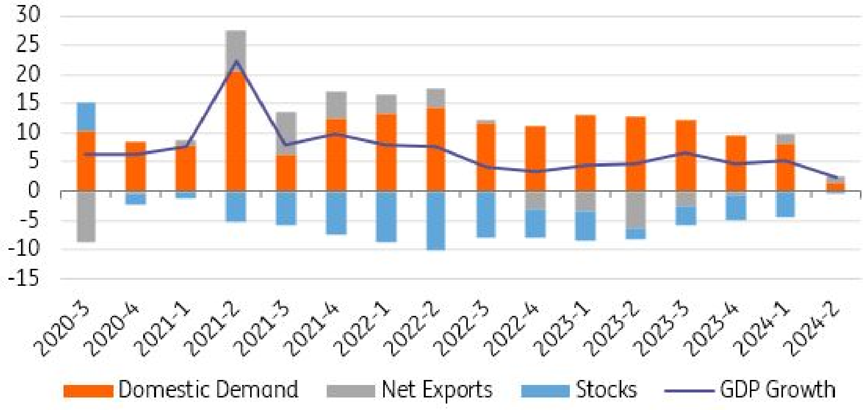
Economic activity in Turkey lost momentum in the second quarter of the year. High-frequency indicators signal that a slowdown is likely to become more visible in the second half of 2024

Private consumption has fallen to its lowest level since the Covid-19 pandemic

Second quarter GDP growth in Turkey turned out to be 2.5% on a year-on-year basis, well below the market consensus (3.2%) and our call (3.5%), largely driven by domestic demand. The Turkish Statistical Institute also revised the first quarter GDP expansion to 5.3% from 5.7% and 2023 growth up to 5.1% from 4.5%. Accordingly, GDP growth in the first half of the year stood at 3.8% with downward forces in the second half of the year at play.

The second-quarter performance translates into a barely positive quarter-on-quarter growth rate of 0.1% after seasonal adjustments. This shows a significant momentum loss compared to a relatively modest reading in the first quarter of 1.4%. The decelerating sequential performance is attributable to the turning of investments and net exports to negative and the declining supportive impact of government spending.

Quarterly growth (%, YoY)



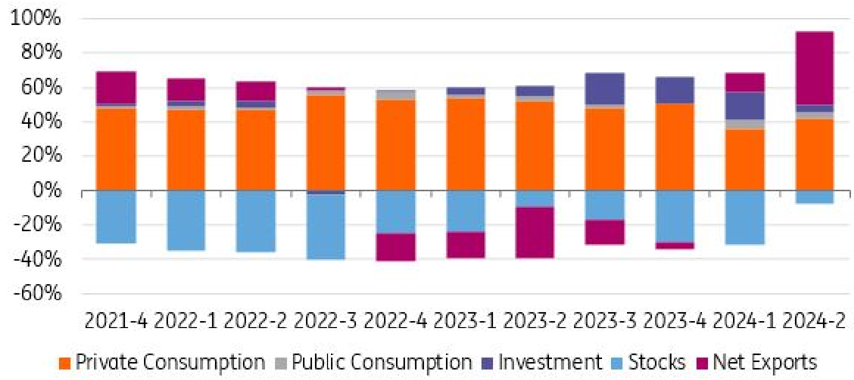
Source: TurkStat, ING

Looking at the breakdown of expenditures in the second quarter, we can see that:

- Private consumption fell to its lowest level since the pandemic, with a tiny 1.6% YoY rise (lifting the headline GDO by 1.2ppt). This likely reflects the impact of tightening delivered by policy actions from March onwards.
- Investment appetite was sluggish at 0.5% YoY growth translating into a 0.1ppt contribution to the GDP expansion. This is mainly because of strength in construction investments (up by 8% YoY), while growth in machinery equipment dove into negative territory with -5.6% YoY after a long period of strong expansion since the third quarter of 2019.
- Public consumption that has positively contributed to the headline GDP since early 2021 (except in the fourth quarter of 2023) lost steam compared to the previous quarter with a 0.7% YoY increase, lifting second-quarter growth by a mere 0.1pt. This reflects that expenditure and revenue-side measures taken so far in fiscal policy have had a limited impact.
- Inventory build-up shaved 0.2ppt off growth.
- Net exports continued to support the headline growth with 1.3ppt. This is mainly attributable to a contraction in imports.

In the sectoral breakdown, services was the biggest contributor (1ppt), followed by industry (0.9ppt). Continuing strength in the construction sector and a higher contribution to the headline GDP in recent quarters were likely due to rebuilding efforts in the earthquake region.

Drivers of growth (ppt contribution)



Source: TurkStat, ING

Overall, following the Central Bank of Turkey's policy actions with the surge in loan demand in the run-up to the local elections (including an unexpected rate hike in March, moves to control both TRY and FX lending growth and sterilise the liquidity in the system), economic activity has lost momentum driven by domestic demand.

By comparison, private consumption, which has been the main driver of growth in recent quarters, grew on a sequential basis and reached a new historic high.

For the second half of the year, there are signals of additional weakness in domestic demand while the latest macroprudential tightening measures by the central bank that should push TRY deposit rates higher provide further evidence for the bank's tighter-for-longer monetary stance. Accordingly, tightening financial conditions, slowing real wage growth and a likely increase in the unemployment rate point to a further slowdown in economic activity in the period ahead. We see 2.5% GDP growth in 2024.

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