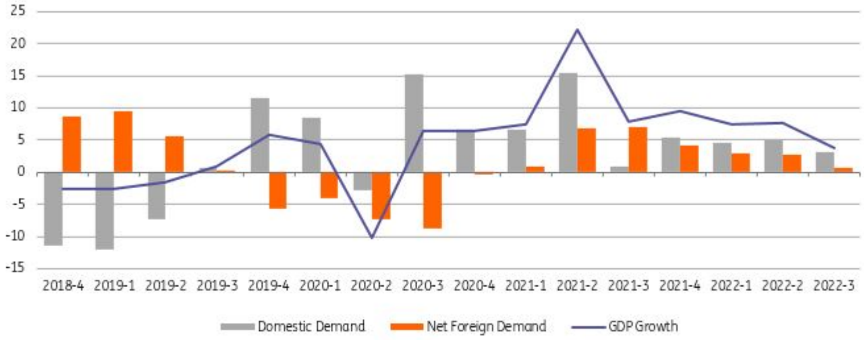
# Turkey's GDP growth loses momentum, as expected

Third quarter GDP reflected strong consumer demand and continuing, albeit moderating, support from external demand. Government spending has also been a major driver

Source: shutterstock

GDP growth in the third quarter was 3.9%, broadly in line with the consensus at 4% (and below our call of 4.5%). The breakdown of year-on-year growth reveals continuing strong support from private consumption as well as contributions from net exports and government spending, while investment activity has further moderated. TurkStat revised up the second quarter GDP expansion to 7.7% from 7.6%.

## Quarterly growth (%, YoY)




Source: TurkStat, ING

Third quarter GDP translates into a slightly negative quarter-on-quarter growth rate of -0.1%, after seasonal adjustments, showing significant deceleration from the second quarter rate of 1.9%. This is the first negative reading since the breakout of the Covid-19 pandemic in the second quarter of 2020. Despite significant support from government spending and continuing strength in private consumption, capital formation, net exports and stock depletion were drags that pulled the sequential growth performance into negative territory.

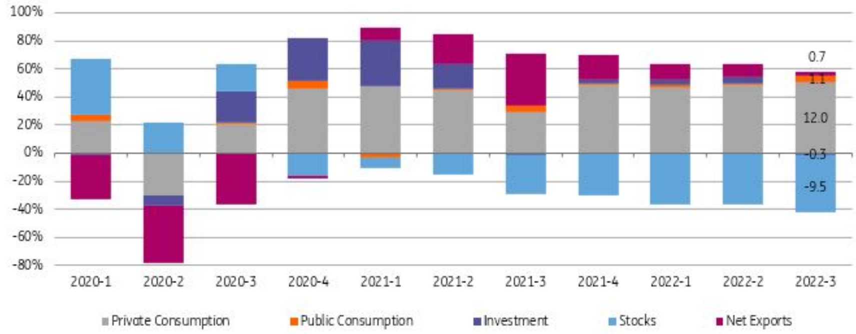
On the demand side, private consumption maintained its strong pace, with a 19.9% year-on-year growth rate. This was a major driver of the headline GDP expansion, with a +12ppt contribution. A recovery in consumer confidence since the beginning of the third quarter, reaching the highest level in the last year, is likely attributable to stability in the exchange rate. The breakdown reveals a balanced outlook with strong support from both goods and services. This shows a continuation of robust household consumption driven by negative real rates, leading to reduced savings.

Investment appetite has moderated further in comparison to the strong performance seen in the first half. Accordingly, 3Q investment growth was negative at -1.3% year-on-year, translating into a -0.3ppt contribution to the headline. In the breakdown, machinery & equipment investment, which have been growing in the last 12 quarters, remained strong, with a 14.3% growth rate, thanks to government efforts to increase available financing. Construction investment, which plunged 19.9% YoY, was the major driver of the negative rate of investment spending.

Elsewhere, i) public consumption, which has positively contributed to growth in the last five quarters, continued to do so, with an 8.5% YoY increase, lifting 3Q growth by 1.1ppt, the most since early 2018. This was reflected in the continuing expansion of the annual budget deficit to 1.4% of GDP from 0.6% of GDP in 2Q ii) an inventory build-up shaved 9.5ppt off growth iii) finally, net exports pulled the headline growth up by +0.7ppt but moderated significantly in comparison to recent quarters. This is attributable to accelerating imports despite still robust exports.

In the sectoral breakdown, all sectors with the exception of construction lifted the headline growth rate, signalling the continuation of broad-based strength in economic activity. Among positive drivers, services, once again, was the biggest contributor, pulling the third quarter performance up by 1.7ppt, followed by financial services at 0.9ppt. Industry, on the other hand, weakened markedly as evidenced by earlier industrial production data, with a barely positive contribution to the headline.

## Drivers of growth (ppt contribution)




Source: TurkStat, ING

Despite a respectable performance in the third quarter, it is quite clear that economic activity has slowed, mainly on the back of a worsening global backdrop which is leading to an adverse impact on exports. Accordingly, we look for around 5.0% growth this year and a slowdown to 2.5% next year.

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