Turkey: Long way to go to rebalance economy

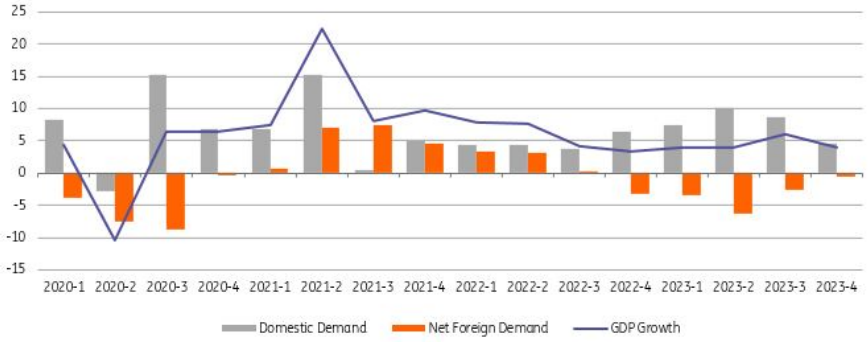
Headline GDP growth came in stronger than expected at 4.0% year-on-year while sequential growth accelerated notably to 1.0% quarter-on-quarter. This implies that there is still a long way to go to rebalance the economy

The Beyoglu district in Istanbul, Turkey

Turkish GDP growth in the fourth quarter was 4.0% on a year-on-year basis, better than the market consensus at 3.5% (and close to our call at 4.1%), due to a rebound in private consumption and robust investment. TurkStat revised third quarter GDP growth up to 6.1% from 5.9%. For 2023 as a whole, GDP grew 4.5% YoY although this marked a deceleration from a year earlier.

4Q GDP translates into a quarter-on-quarter growth rate of 1.0% after seasonal adjustments, gathering momentum after a relatively modest reading of 0.3% in 3Q. The acceleration in sequential performance is attributable to positive household consumption after a negative reading a quarter ago, and the supportive impact of net exports despite negative contributions from the inventory build-up, government consumption and investment.

Quarterly Growth (%, YoY)



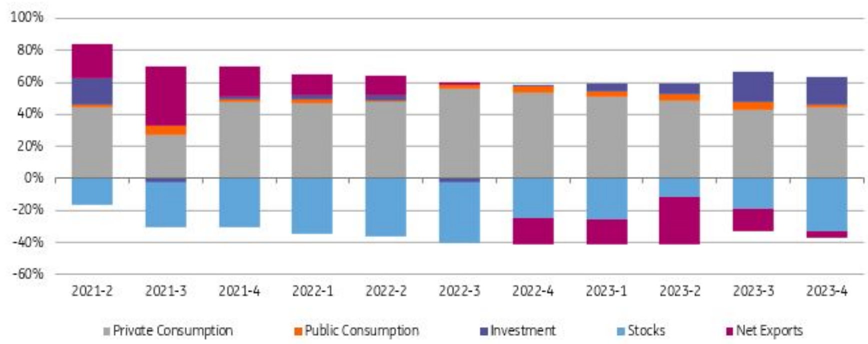
Source: TurkStat, ING

When we look at the breakdown in expenditures:

- Private consumption has lost steam, falling to the lowest level in the last two years, though it remains close to double digits, at 9.3% YoY. This continuing strength likely reflects a continuation of consumption that has been brought forward, leading to a lift in the headline GDP rate of 6.7ppt despite tighter credit conditions following central bank rate hikes.
- Investment appetite has been robust, showing 10.7% YoY growth, translating into a 2.6ppt contribution to the GDP expansion. This is mainly because of the continued rise in machinery equipment (14% YoY in 4Q) for the last 17 consecutive quarters. We also see a further recovery in construction investment (7.5% YoY), supporting 4Q investment growth.
- Among other factors: i) public consumption, which has positively contributed to the headline GDP rate since early 2021, continued to do so, although this has lost steam, showing a 1.7% YoY increase. This lifted the 4Q growth by a mere 0.2ppt. ii) the inventory build-up shaved 5.0ppt off growth iii) finally, net exports continued to pull the headline growth rate down, though to a lesser extent, by -0.6ppt. This is attributable to decelerating imports vs barely positive export growth.

In the sectoral breakdown, services turned out to be the biggest contributor, followed by construction and industry. The recovery in the construction sector and a higher contribution to the headline GDP in recent quarters are notable and are likely attributable to rebuilding efforts in the earthquake region.

Drivers of the growth (ppt contribution)



Source: TurkStat, ING

Overall, 4Q GDP data showed an acceleration in private spending despite an increasingly restrictive policy stance from the Central Bank of Turkey while leading indicators point to a further recovery in GDP growth in the first quarter of this year, as evidenced by the higher PMI, increase in sectoral confidence indicators and consumer confidence etc. This implies that there is still a long way to go to rebalance the economy. However, we expect weaker private consumption and gross fixed investment, especially after the first quarter, as the CBT has signalled it will maintain tighter credit conditions to rein in inflation. We see GDP growth this year at 2.5%. The risks are, however, on the upside given the Medium Term Plan (MTP) forecast of 4% from the government and the continuing supportive fiscal stance in addition to a potential recovery in foreign capital inflows.

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