Turkey: No change in growth drivers

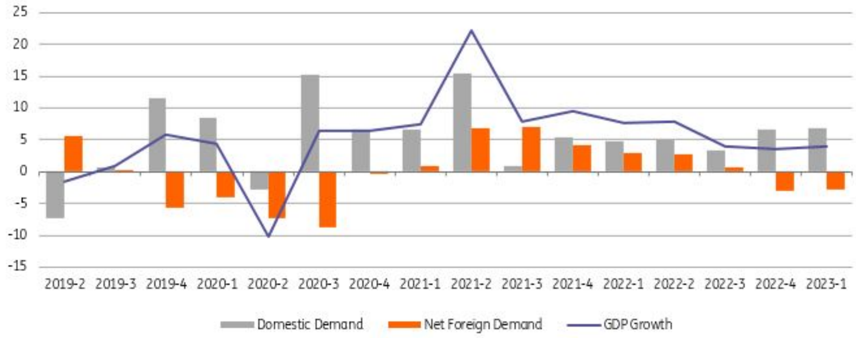
First-quarter GDP data in Turkey showed private consumption as the key driver, though net exports remained a drag. The assignment of a new economy management team after the elections, and guidance on the policy direction will be key for the outlook

The Ankara skyline

Turkish GDP grew 4.0% year-on-year in the first quarter, slightly better than the market consensus at 3.9% (vs our call at 3.6%), on the back of private consumption, government consumption and gross fixed capital formation, while net exports were a drag again.

1Q GDP translates into quarter-on-quarter growth of 0.3% after seasonal adjustments, showing some momentum loss in comparison to a relatively strong reading in 4Q, at 0.9%. This moderating sequential performance is attributable to 1) a deceleration in household consumption, which saw the lowest growth rate since the last quarter of 2020, also likely reflecting the impact of the earthquakes and 2) government expenditures turning negative while stocks positively contributed to the headline rate and investment appetite remained solid.

Quarterly growth (%, YoY)



Source: TurkStat, ING

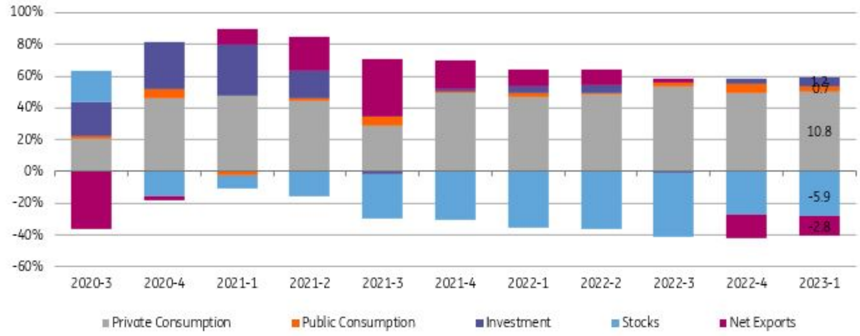
When we look at the breakdown in expenditures, we see that private consumption maintained its strong pace, with a 16.2% YoY growth rate. This was the major driver with a +10.8ppt contribution to the headline GDP expansion. Continuing improvement in consumer confidence, likely attributable to stability in the exchange rate, provides evidence of strength in consumption.

Regarding the investment appetite, construction investment, which has been generally weak since the financial volatility in 2018, grew in the low single digits in the first quarter after turning positive in the fourth. Machinery and equipment, which has followed a strong path since late 2019, recorded a healthy 8% YoY expansion after considerable momentum loss in 4Q when it recorded growth of just 2.3% YoY. Accordingly, first-quarter investment growth was at 4.9% YoY, translating into a 1.2ppt contribution to the headline rate.

Among others: i) public consumption, which has positively contributed to growth continuously in the last seven quarters, continued to do so, with a 5.3% YoY increase, lifting 1Q growth by 0.7ppt. This was reflected in the continuing expansion in primary expenditures with a large primary deficit in 1Q from a primary surplus over the same period of 2022 ii) inventory build-up shaved 5.9ppt off growth, and lastly, iii) net exports continued to pull headline growth down by -2.8ppt. This is attributable to accelerating imports vs negative export growth amid a deteriorating growth outlook in Turkey's export markets.

In the sectoral breakdown, as signalled by the industrial production data, industry was a drag, subtracting -0.1ppt from 1Q growth. Among positive drivers, services, once again, were the biggest contributor, pulling the first quarter performance up by 3.0ppt, followed by financial services, at 0.6ppt.

Drivers of growth (ppt contribution)



Source: TurkStat, ING

Growth drivers for the 1Q GDP have remained the same as those in the recent quarters, namely strong consumption demand and government spending. Early indicators for the second quarter, on the other hand, hint at an acceleration in the GDP expansion in comparison to the first quarter. These indicators include recent releases of real sector confidence and the capacity utilisation rate (CUR), which reflects a continued strengthening in manufacturing and signals that the earthquakes earlier this year are no longer affecting the data. The PMI has also further improved to above the first quarter average, while confidence indicators for retail, construction and services show further improvement, too. As the growth for the first half implies a better-than-expected performance, the current macro indicators point to the need to rebalance the economy. In this regard, the assignment of a new economy management team after the elections and guidance on policy direction will be key for the outlook.

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