

Turkey: Robust growth in the first quarter, but a downturn is likely

First-quarter GDP showed the impact of strong consumer demand and continuing support from external demand. However, recent high-frequency growth indicators point to a deceleration in economic activity

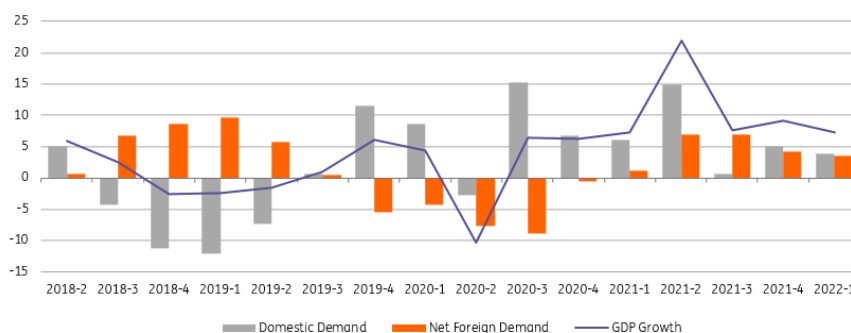


First-quarter GDP showed the impact of strong consumer demand

Turkish GDP expansion was revealed to be 7.3% on a year-on-year basis, higher than the market consensus (7.1%) and ING's call (6.0%), despite headwinds from the Russia-Ukraine conflict. A breakdown of year-on-year growth reveals continuing support from private consumption and net exports which was also the case in the last quarter of 2021, while investment activity has remained relatively subdued.

First-quarter GDP, on the other hand, translates into a quarter-on-quarter growth rate of 1.2% after seasonal adjustments, showing some further momentum loss with the lowest quarterly reading since end-2020. However, it is still strong given the continuing impact of last year's financial volatility and the risks posed by geopolitical developments. Sequential performance is mainly attributable to stock building, while there is also support from capital formation and net exports.

Quarterly growth (% YoY)



Source: TurkStat, ING

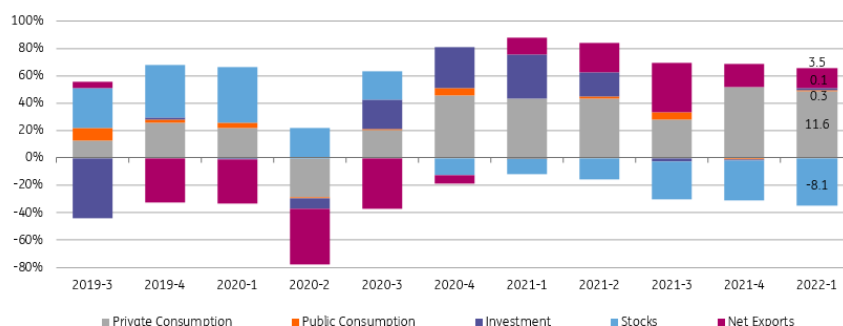
On the demand side, private consumption has remained strong with 19.5% YoY growth, and this has turned out to be the major driver with an +11.6ppt contribution to the headline GDP expansion in the first quarter of 2022. The breakdown reveals a balanced outlook with strong support from both goods and services. This shows the continuation of robust household consumption given inflation fears and negative real rates, leading to fewer savings and the bringing forward of future spending.

After a weak performance in the second half of 2021, investments turned positive at 1.1% YoY, translating into a +0.3ppt contribution to the headline reading. However, this still points to subdued activity despite various measures and an accommodative policy stance to boost investment demand. Breaking this down, machinery and equipment investments rose by 10.5%, the ninth positive reading in a row, while construction investments have remained in the negative territory.

Other points to note are:

- Public consumption added 0.1ppt to the headline after a drag in 4Q21.
- Inventory build-up shaved more than 8.0ppt off growth.
- Net exports raised the headline growth by +3.5ppt, the biggest contribution after household consumption. This is attributable to continuing strength in exports up by 3.9% YoY, despite 0.5% YoY growth in imports.

Drivers of growth (ppt contribution)



Source: TurkStat, ING

In the sectoral breakdown, all sectors, with the exception of construction, lifted the headline growth signalling broad-based support for economic activity. Among positive drivers, services, once again, was the biggest contributor, pulling the first quarter performance up by 3.3ppt, followed by industry at 1.6ppt as indicated by industrial production data, and the financial sector at 1.2ppt.

Overall, first-quarter GDP showed the impact of strong consumer demand and the continuing support from external demand which were also the major drivers last year. However, recent high-frequency growth indicators point to a deceleration in economic activity. This is because of:

1. PMI readings below the 50 threshold in the last two months.
2. Below 50 sectoral PMIs since the beginning of this year including food, non-metallic minerals, basic metals, machinery and metal, wood and paper, showing half of the sectors covered in the data.
3. A continuous decline in electricity consumption (30-day moving average) that turned negative in the second half of April.
4. A moderation in retail volumes.

An accommodative policy stance, as is evidenced by strong primary spending and deeply negative real interest rates, should be supportive in the near term. However, economic activity during the rest of the year will likely lose momentum given deteriorating purchasing power, higher FX volatility, as well a less supportive global backdrop with tightening global central bank policies and elevated geopolitical risks.

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 <http://www.ing.com>.