

Turkish domestic demand - the main culprit behind falling growth?

The weakness in domestic demand turned out to be a major driver of contraction in 4Q GDP growth along with inventory drawdown, while the contribution of net exports remained largely positive. But having said that, recent momentum indicators are lending hint early signs of stabilisation



Source: Shutterstock

-3.0%

4Q GDP Growth

(YoY)

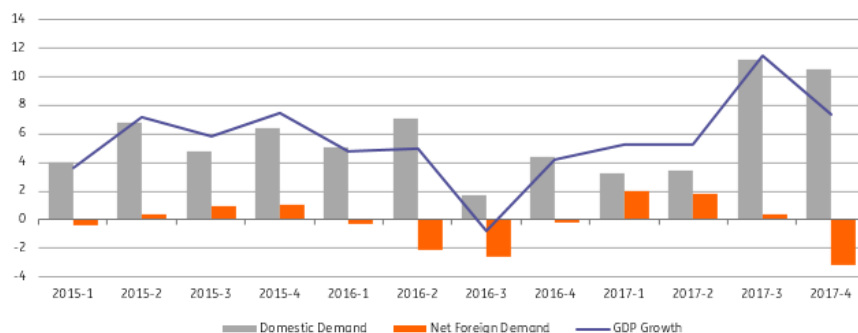
Worse than expected

Economic growth in the fourth quarter turned out to be -3.0%, slightly worse than our expectations of -2.7%, but in line with our call.

The Turkish statistical agency, TurkStat, made some minor revisions to headline GDP for the previous quarters (1Q growth up to 7.4% from 7.2% and 3Q growth to 1.8% from 1.6%). The figures show further momentum loss with the summer volatility taking a toll on GDP.

In 2018, GDP growth came in at 2.6%, falling significantly from a year ago when it was at 7.4% - the highest since 2013, and below the government's projection of 3.8%. In seasonal and calendar adjusted terms, GDP contracted by a significant -2.4% QoQ vs -1.6% QoQ a quarter ago, confirming the economy has fallen into recession on the back of deterioration in confidence, sharply higher bank lending rates, and contraction in bank lending.

Quarterly growth (% YoY)



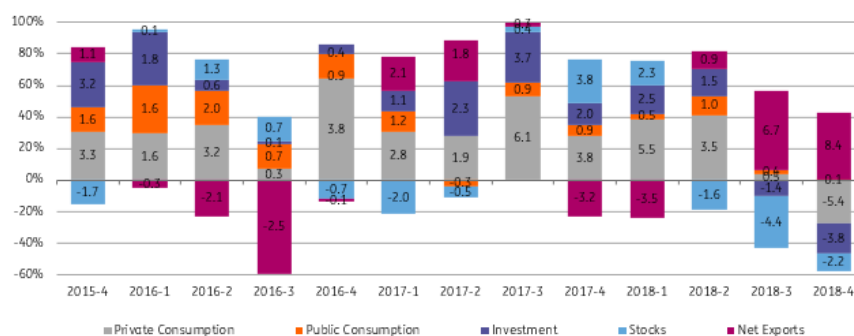
Source: TurkStat, ING Bank

The breakdown shows private consumption turned negative for the first time since the global financial crisis with to -8.9% YoY in 4Q18, pulling growth down by -5.4 basis points, while investment growth that was in the negative territory in 3Q18 recorded another contraction at -12.9% YoY, contributing -3.8bp to the headline in the same period. Both construction and machinery & equipment investments were drags showing plunge in investment demand in the aftermath of last year's summer volatility.

Public consumption, determined by the spending pattern of the government that positively contributed to the growth performance remained so with a slight 0.5% YoY increase, lifting 4Q growth up by 0.1ppt, though it was considerably weaker given the efforts of policy makers to get a grip on the budget deficit.

Exports maintained their upwards trend with a sharp 10.6% YoY increase thanks to improving price competitiveness and robust tourism revenues while imports contracted by a sharp 24.4% YoY on the back of deteriorating demand factors, making net exports largely positive at 8.4ppt - the highest in the current GDP series. Finally, inventory drawdown deducted -2.2ppt from the headline GDP growth.

Drivers of the growth (ppt contribution)



Source: TurkStat, ING Bank

Among the sectors, industry stood out with a -1.3ppt contribution - the lowest among sectors, as monthly industrial production data has shown, followed by construction, financial activities and professional, administrative and support service activities, each recording -0.6ppt deduction from the headline. All sectors showed significant weakness over the previous quarter showing the extent of deterioration.

Overall, strong growth in the first half of 2018 thanks to fiscal measures, but the first loss of significant momentum came in 3Q18 and then turned into a recession in the last quarter on the back of increased uncertainty, deteriorating sentiment, challenging external financing conditions and sharp monetary tightening that have weighed on domestic demand, especially on private consumption and investment.

In recent months, the government has announced a number of stimulus measures for both households and companies which can be helpful for economic recovery. But domestic demand weakness is likely to linger as unemployment stays on the upwards trend and credit activity remains subdued, but having said all of that, recent momentum indicators on lending hint early signs of stabilisation.

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>.