



GDP Growth - 2nd Quarter of 2014

Economic Research Division

TÜRKİYE  BANKASI

GDP growth missed the estimates in the second quarter.

Turkish economy grew by 2.1% yoy in the second quarter of 2014, missing estimates. According to Reuters' Survey, the markets expected 2.65% yoy GDP growth. On the other hand, Turkstat revised first quarter GDP growth upwards from 4.3% to 4.7% and the 2013 year-end GDP growth from 4% to 4.1%. The annual GDP growth in the first half of 2014 was realized as 3.3%.

The calendar adjusted GDP grew by 2.4% yoy in the second quarter. The calendar and seasonal adjusted GDP, on the other hand, decreased by 0.5% qoq, the first quarterly contraction since the first half of 2012.

The deceleration in domestic consumption expenditures continued in the second quarter.

The impacts of the measures taken by the BRSA (Banking Regulation and Supervision Agency) in order to limit the growth in consumer loans and CBRT's rate hike at the end of January on private consumption expenditures became more evident in the second quarter. The private consumption expenditures, which have the highest share in GDP with 64.6%, made only 0.3 point contribution to growth. Their contribution to first quarter growth was 2.2 points. The public sector consumption expenditures, which increased rapidly ahead of the local elections, decelerated in the second quarter on annual basis. Thus, the contribution of public expenditures to GDP growth decreased from 0.9 point to 0.3 point.

Steep decline in investment expenditures

Total investment expenditures decreased by 3.5% yoy in the second quarter. This was the sharpest decline registered since the second quarter of 2012. Analyzing the breakdown of investment expenditures, public sector investment expenditures decreased by 0.9% yoy and

GDP (1998 Prices)

Period	Calendar Adjusted GDP* (%)	Seasonally and Calendar Adjusted GDP** (%)
2011 Q1	12.6	2.5
2011 Q2	9.3	0.6
2011 Q3	8.7	1.2
2011 Q4	5.2	0.8
2012 Q1	2.5	-0.2
2012 Q2	3.1	1.1
2012 Q3	1.7	0.2
2012 Q4	1.3	0.3
2013 Q1	3.6	1.9
2013 Q2	4.2	1.7
2013 Q3	4.0	0.3
2013 Q4	4.6	0.9
2014 Q1	4.7	1.8
2014 Q2	2.4	-0.5

*Change compared to the same period of previous year

**Quarter over quarter change

private sector investment expenditures decreased by 4.1% yoy in the second quarter. It was noteworthy that the decline mainly stemmed from the 7.6% yoy contraction in private sector's machinery and equipment expenditures. On the other hand, compared to the same quarter of the previous year, both the public sector and the private sector increased their construction investments in the second quarter.

Net exports made the highest contribution to growth.

As opposed to the limited increase in consumption expenditures (0.4% yoy) and the decline in investments expenditures, the net exports' contribution to GDP growth was realized as 2.9 points in the second quarter, up from 2.6 points in the first quarter. According to the GDP figures, exports increased by 5.5% yoy while imports declined by 4.6% yoy due to the downward pressure on domestic demand in the second quarter.

	Expenditure Approach - Contribution to GDP (1998 Prices)					(% points)			
	2012	2013			2014				
	Annual	Q1	Q2	Q3	Q3	Annual	Q1	Q2	1 st Half
Consumption	0.3	3.0	4.5	3.9	5.0	4.1	3.2	0.5	1.8
Private	-0.3	2.2	3.6	3.7	4.0	3.4	2.2	0.3	1.2
Public	0.6	0.8	0.8	0.2	0.9	0.7	0.9	0.3	0.6
Investment	-0.7	0.1	0.9	1.2	1.8	1.0	0.0	-0.9	-0.5
Private	-1.1	-1.3	-0.2	0.5	1.2	0.1	-0.3	-0.9	-0.6
Public	0.4	1.4	1.1	0.7	0.7	0.9	0.3	0.0	0.1
Change in Stock	-1.5	1.4	2.9	1.2	0.9	1.6	-1.1	-0.4	-0.7
Net Exports	4.0	-1.4	-3.6	-2.0	-3.2	-2.6	2.6	2.9	2.7
Exports	3.9	0.8	0.0	-0.6	-0.3	-0.1	2.8	1.5	2.1
Imports	0.1	-2.2	-3.6	-1.4	-2.9	-2.5	-0.2	1.4	0.6
GDP	2.1	3.1	4.6	4.2	4.5	4.1	4.7	2.1	3.3

Numbers may not add to total due to rounding

Source: Calculated from Turkstat figures.

Source: Turkstat

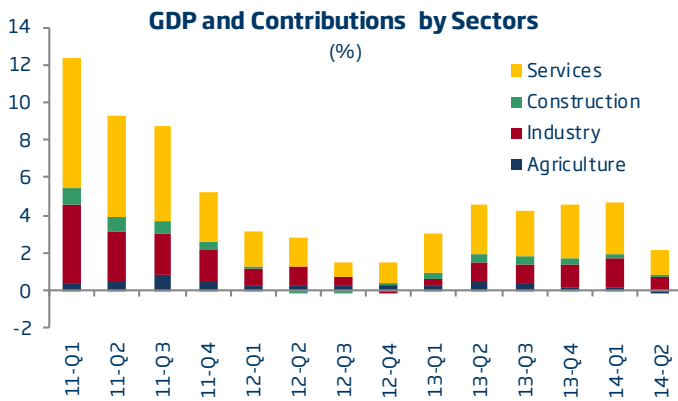
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Drought is adversely affecting the agriculture sector.

According to the production approach, the services sector, which has the biggest share in GDP, also made the highest contribution to second quarter growth by 1.4 points. During the same period, industrial sector made 0.7 point and construction made 0.2 point contribution to growth. On the other hand, agriculture sector lowered the growth by 0.1 point due to the drought.



We estimate that the 2014 year-end growth might surpass 3%.

The loss of momentum in domestic demand became evident in the second quarter while net exports continued to make significant contribution to growth.

In the second half of the year, we think that domestic demand might enliven thanks to the CBRT's rate cuts and the diminishing political uncertainties. Despite this expected revival in domestic demand, the foreign demand conditions will be less favorable in the remaining part of the year due to the loss of momentum in Turkey's largest export market, the EU, and the ongoing conflicts in Turkey's second biggest export market, Iraq. Thus, the contribution of net exports to growth might not be as strong as it was in the first half. On the other hand, one opportunity for Turkey to increase exports is Russia's embargo on several food imports from US, EU, Canada, Norway and Australia. Russian importers will look for alternative countries and Turkish exporters might benefit from this. In addition, European Central Bank's recent rate cuts and its decision to start a new asset purchase program in October are considered as a positive development in terms of global liquidity conditions and in turn will also help to revive the demand in Euro Area. In this context, we estimate that Turkey's GDP growth, which was 3.3% yoy in the first half of 2014, will be above 3% at the end of 2014.

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