



GDP Growth - 3rd Quarter of 2014

Economic Research Division

TÜRKİYE İŞ BANKASI

Lower than expected GDP growth in the third quarter

Turkish economy grew by 1.7% yoy in the third quarter of 2014, missing market consensus with a wide margin. Thus, the economy registered the weakest quarterly growth performance since the last quarter of 2012. According to Reuters' Survey, the markets expected 3% yoy GDP growth.

Turkstat also made upward revisions to the GDP growth rates for the first quarter (from 4.7% to 4.8%) and the second quarter (from 2.1% to 2.2%). In the first nine months of 2014, GDP growth was realized as 2.8% yoy.

GDP (1998 prices) (% change)

Period	Compared to the same quarter of the previous year*	Compared to the previous quarter**
2011 Q1	12.6	2.5
2011 Q2	9.3	0.6
2011 Q3	8.7	1.3
2011 Q4	5.2	0.8
2012 Q1	2.5	-0.2
2012 Q2	3.1	1.1
2012 Q3	1.7	0.3
2012 Q4	1.3	0.3
2013 Q1	3.6	1.8
2013 Q2	4.2	1.6
2013 Q3	4.0	0.5
2013 Q4	4.6	0.8
2014 Q1	4.8	1.8
2014 Q2	2.5	-0.5
2014 Q3	1.8	0.4

*Calendar Adjusted GDP

**Seasonally and Calendar Adjusted GDP

The calendar adjusted GDP expanded by 1.8% yoy in the third quarter. The seasonally and calendar adjusted GDP increased by 0.4% qoq in the third quarter after having decreased in the second quarter.

Net exports continued to make the highest contribution to growth.

Net exports made 2.5 points contribution to growth in the third quarter. Despite the ongoing problems in Turkey's main export markets such as Russia and Iraq, the momentum in total exports was sustained thanks to the increase in exports destined to the European Union and the US. On the contrary, downward pressure on imports continued as the expected enlivening in domestic consumption expenditures was not materialized despite the CBRT's rate cuts.

Weak outlook in domestic consumption expenditures continued in the third 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 continued to be influential on private consumption expenditures in the third quarter as well. The private consumption expenditures, which have the highest share in GDP with 65.3% in the third quarter of 2014, made only 0.1 point contribution to growth. Their contributions to the growth in the first and the second quarters were 2.3 points and 0.3 point, respectively. Against this weak outlook in private consumption expenditures, public expenditures, which have around 10% share in GDP, increased by 6.6% yoy in real terms in the third quarter and made 0.6 point contribution to growth.

Fall in investment expenditures decelerated.

Total investment expenditures decreased by 0.4% yoy in the third quarter after having fallen by 3.5% in the second

Expenditure Approach - Contribution to GDP (1998 Prices) (% points)

	2012		2013				2014			
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	9 Months
Consumption	0.3	3.0	4.5	3.9	5.0	4.1	3.2	0.6	0.8	1.5
Private	-0.3	2.2	3.6	3.7	4.0	3.4	2.3	0.3	0.1	0.9
Public	0.6	0.8	0.8	0.2	0.9	0.7	0.9	0.3	0.6	0.6
Investment	-0.7	0.1	0.9	1.2	1.8	1.0	-0.1	-0.9	-0.1	-0.4
Private	-1.1	-1.3	-0.2	0.5	1.2	0.1	-0.2	-0.8	0.0	-0.3
Public	0.4	1.4	1.1	0.7	0.7	0.9	0.2	-0.2	-0.1	0.0
Change in Stock	-1.5	1.4	2.9	1.2	0.9	1.6	-1.0	-0.4	-1.5	-1.0
Net Exports	4.0	-1.4	-3.6	-2.0	-3.2	-2.6	2.6	2.9	2.5	2.6
Exports	3.9	0.8	0.0	-0.6	-0.3	-0.1	2.8	1.5	2.0	2.1
Imports	0.1	-2.2	-3.6	-1.4	-2.9	-2.5	-0.2	1.4	0.5	0.6
GDP	2.1	3.1	4.6	4.2	4.5	4.1	4.8	2.2	1.7	2.8

Numbers may not add to total due to rounding

Source: Calculated from Turkstat figures.

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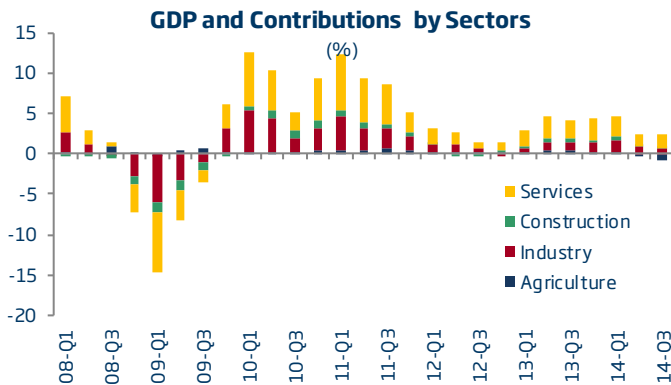
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quarter. Private sector investment expenditures were almost unchanged in the third quarter compared to the same quarter of the previous year while public sector investment expenditures decreased by 2% in the same period. On the other hand, analysing the seasonally and calendar adjusted figures, it was seen that the private sector investment expenditures rose by 2.6% in the third quarter compared to the previous quarter. The fact that this increase was mainly originated from the machinery and equipment expenditures was noted as a favorable development.

Agriculture sector continued to perform poorly.

According to the production approach, the services sector, which has the biggest share in GDP, made the highest contribution to third quarter growth by 1.7 points. During the same period, industrial sector made 0.6 point and construction made 0.1 point contribution to growth. On the other hand, agriculture sector, whose share in GDP increases in the third quarters historically, continued to perform poorly due to adverse weather conditions. In fact, agricultural sector lowered the GDP growth by 0.7 point in the third quarter. Thus, the agriculture sector made the highest negative contribution to growth since the third quarter of 2007.



We expect that the 2014 year-end growth will be around 3%.

The private consumption expenditures were expected to enliven moderately in the third quarter thanks to the impacts of the CBRT's rate cuts and the diminishing domestic political uncertainties. However, third quarter GDP growth figures showed that this expected revival in private consumption expenditures has not been materialized yet. On the other hand, the year-over-year decrease in total investment expenditures slowed down in the third quarter while they increased compared to the second quarter according to the seasonally and calendar adjusted figures. This pick-up in investment expenditures was noted as a favorable development. In sum, the significantly lower than expected GDP growth in the third quarter points out that the Medium Term Program growth forecast of 3.3% for 2014 is unlikely to be achieved.

In the last quarter of the year, we expect that the private consumption expenditures will follow a flat course while public consumption expenditures will support the GDP growth to a limited extent. The net exports, which contributed by 2.6 points to the 2.8% growth that in the first nine months, is expected to support growth in the last quarter thanks to the continued increase in exports to the European Union and the decline in oil prices. In this context, we expect that the 2014 year-end growth will be around 3%.

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