

Economic growth came in line with expectations at 5.2%.

Normalization in economic activity has started to appear in growth data as of the second quarter of 2018. According to the chained volume index, GDP grew by 5.2% compared to the same period of the previous year, broadly matching expectations. First quarter growth rate was revised down to 7.3% from 7.4%. Thus, Turkey's GDP expanded by 6.2% yoy in the first half of the year. Private consumption expenditures and investment expenditures were the main drivers of growth in this period.

Annual GDP growth increases to 5.5% when adjusted for calendar effect. Seasonally and calendar adjusted growth, on the other hand, became 0.9% qoq, the slowest pace in seven quarters.

Strong contribution from domestic demand...

According to expenditure approach, the contribution of private consumption expenditures to second quarter GDP growth was 4.8 pp. 3.8 pp of this contribution stemmed from private consumption expenditures while the rest came from public consumption expenditures. Household expenditures for non-durable and semi-durable goods were behind this strong contribution while the fall in household demand for durable goods weighed on growth.

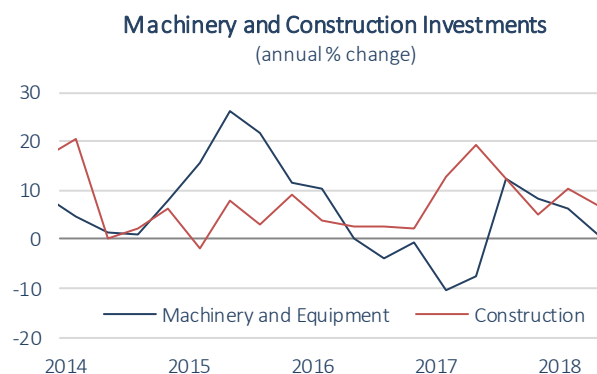
Net exports supported growth.

In the previous two quarters, net exports had considerably pushed growth down due largely to the increases in energy prices and gold imports. In the second quarter of the year, on the other hand, net exports added 1 pp to growth. The recovery in exports and the deceleration in imports, both due partly to TRY depreciation, were behind this performance.

A weaker contribution from machinery and equipment investments.

Investment expenditures made the second highest contribution to growth in the second quarter of the year as it was the case in the first quarter. Investment

expenditures, which added 2.3 pp to growth in the first quarter, made a contribution of 1.2 pp in the second quarter. In this period, the slowdown in machinery and equipment investments was noteworthy. According to the chained volume index, machinery and equipment investments increased by 0.6% yoy and contributed 0.1 pp to GDP growth. Construction investments rose by 6.6% yoy and added 1.2 pp to growth.



Agricultural sector dragged down growth.

GDP figures by production approach showed that all main sub-sectors except agricultural sector boosted growth in the second quarter of the year. Having the largest share in GDP, services sector contributed to economic growth 3.8 pp while the contribution of construction sector declined to 0.1 pp. Agricultural sector dragged growth down by 0.1 pp in this period.

Expectations...

Both domestic and foreign demand propped up growth in the second quarter of the year. Investment expenditures also continued to bolster growth albeit with a lesser extent. In the period ahead, we believe that the recent loss of momentum will become more evident as CBRT's rate hikes and exchange rate developments exert downward pressure on economic activity.

Contributions to GDP Growth by Expenditure Approach (chain linked volume index 2009=100) (% points)

	2016					2017					2018		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	H1
Consumption	3.2	5.2	1.0	4.7	3.5	4.1	1.7	7.1	4.7	4.4	6.5	4.8	5.6
Private	1.6	3.2	0.3	3.8	2.2	2.8	1.9	6.1	3.8	3.7	5.8	3.8	4.7
Public	1.6	2.0	0.7	0.9	1.2	1.2	-0.3	0.9	0.9	0.7	0.7	1.0	0.8
Investment	1.8	0.6	0.1	0.4	0.7	1.1	2.3	3.7	2.0	2.3	2.3	1.2	1.7
Change in Stock	0.1	1.3	0.7	-0.7	0.3	-2.0	-0.5	0.4	3.8	0.6	2.0	-1.7	0.0
Net Export	-0.3	-2.1	-2.5	-0.1	-1.3	2.1	1.8	0.3	-3.2	0.1	-3.5	1.0	-1.1
Exports	0.4	-0.4	-2.1	0.5	-0.4	2.3	2.4	3.6	1.9	2.5	0.2	1.0	0.6
Imports	-0.7	-1.7	-0.4	-0.7	-0.9	-0.2	-0.5	-3.3	-5.1	-2.4	-3.6	-0.1	-1.8
GDP	4.8	4.9	-0.8	4.2	3.2	5.3	5.3	11.5	7.3	7.4	7.3	5.2	6.2

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

Economic Research Division

izlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

ilker Şahin
Economist
ilker.sahin@isbank.com.tr

Alper Gürler
Unit Manager
alper.gurler@isbank.com.tr

Gamze Can
Economist
gamze.can@isbank.com.tr

H. Erhan Gül
Asst. Manager
erhan.gul@isbank.com.tr

Ayşim Kalkan
Asst. Economist
aysim.kalkan@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş., accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.