



GDP Growth - 4th Quarter of 2014

Economic Research Division

TÜRKİYE İŞ BANKASI

Turkish economy grew above the expectations in the 4th quarter of 2014.

Turkish economy grew by 2.6% yoy in the last quarter of 2014 and performed better than expectations. The market anticipated 2% yoy GDP growth in the last quarter.

Analyzing the calendar adjusted figures, it was seen that GDP expanded by 2.4% yoy in the last quarter of 2014. Also, seasonal and calendar adjusted GDP growth was realized as 0.7% qoq.

In 2014 GDP growth, expanding by 2.9% yoy, was realized well below its long-term trend. Owing to the depreciation of TRY during 2014, nominal GDP in USD terms fell to 800 billion USD and per capita income decreased to 10,404 USD

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	1.2
2011 Q4	5.2	0.8
2012 Q1	2.5	-0.3
2012 Q2	3.1	1.1
2012 Q3	1.7	0.3
2012 Q4	1.3	0.3
2013 Q1	3.7	1.8
2013 Q2	4.3	1.7
2013 Q3	4.1	0.4
2013 Q4	4.6	0.7
2014 Q1	4.8	1.6
2014 Q2	2.6	-0.4
2014 Q3	2.0	0.5
2014 Q4	2.4	0.7

*Calendar Adjusted GDP

**Seasonally and Calendar Adjusted GDP

in 2014 from 10,822 USD in 2013. Turkstat made upward revisions in the previously announced growth figures. In this context, 2013 GDP growth figure was revised from 4.1% to 4.2% and GDP growth rates in the first three quarters of 2014 were also revised up.

Domestic consumption gained momentum in the last quarter.

Having exhibited a weak performance in the second and third quarters of 2014, domestic consumption posted a gradual recovery in the last quarter. In this period, private domestic consumption expenditures contributed to the growth by 1.6 points while public consumption expenditures' contribution was quite limited with 0.2 point. Regarding the whole year, total consumption expenditures expanded by 1.8% yoy and contributed to the 2014 growth by 1.4 points.

Total investment expenditures decreased.

In the last quarter of 2014, private investment expenditures registered a limited increase and contributed 0.2 point to the growth. On the other hand, as public sector investment expenditures decreased by 8.8% yoy, total investment expenditures lowered the GDP growth by 0.3 point.

Net exports limited the economic growth in the last quarter.

In last quarter of 2014, the contribution of exports to the growth fell compared to the previous quarters as a result of the deceleration in export volume. On the other hand, it was noteworthy that imports, which increased by 4.6% yoy in the last quarter of the year, reduced the growth by 1.3 points. Therefore, the net exports negatively affected the fourth quarter growth with 0.4 point. Regarding the whole year, on the other hand, net exports made the highest contribution to the growth rate by 1.8 points.

GDP composition has changed in the fourth quarter of 2014 compared to the previous quarters. Indeed, domestic demand became the main driver of the growth.

Expenditure Approach - Contribution to GDP (1998 Prices)

(% points)

	2012		2013				2014				
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Consumption	0.3	3.0	4.5	3.9	5.1	4.1	2.7	0.5	0.7	1.8	1.4
Private	-0.3	2.2	3.6	3.7	4.1	3.4	1.8	0.2	0.1	1.6	0.9
Public	0.6	0.8	0.8	0.2	1.0	0.7	0.9	0.3	0.6	0.2	0.5
Investment	-0.7	0.1	0.9	1.3	1.9	1.1	-0.1	-0.9	-0.1	-0.3	-0.3
Private	-1.1	-1.3	-0.2	0.6	1.1	0.1	0.1	-0.3	0.4	0.2	0.1
Public	0.4	1.4	1.1	0.7	0.7	1.0	-0.2	-0.6	-0.5	-0.4	-0.4
Change in Stock	-1.5	1.5	2.9	1.1	0.8	1.6	-0.4	-0.1	-1.1	1.4	0.0
Net Exports	4.0	-1.4	-3.6	-2.0	-3.2	-2.6	2.6	2.8	2.4	-0.4	1.8
Exports	3.9	0.8	0.0	-0.6	-0.3	-0.1	2.8	1.5	2.0	0.9	1.8
Imports	0.1	-2.2	-3.6	-1.4	-2.9	-2.5	-0.2	1.3	0.4	-1.3	0.1
GDP	2.1	3.1	4.7	4.3	4.6	4.2	4.9	2.3	1.9	2.6	2.9

Numbers may not add to total due to rounding

Source: Calculated from Turkstat figures.

Source: Turkstat

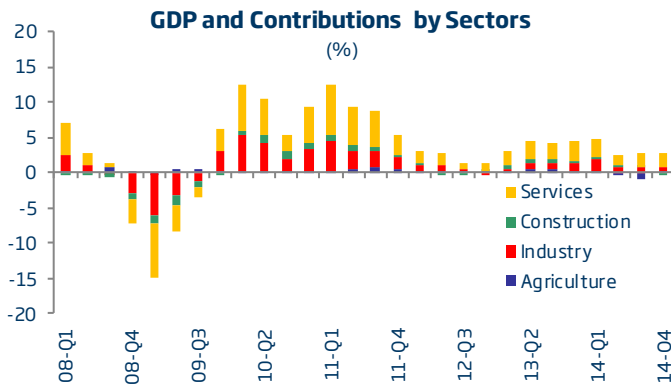
GDP Growth - 4th Quarter of 2014

Economic Research Division



Construction sector shrank in the last quarter of 2014.

According to the production approach, the services sector, which has the biggest share in GDP, made the highest contribution to the last quarter growth by 1.9 points. Contribution of the industrial sector, on the other hand, declined to 0.7 point, losing momentum for the fourth consecutive quarter. The construction sector, which has slowed down since the third quarter of 2013, contracted in the last quarter of 2014. Accordingly, construction sector reduced the GDP growth for the first time since global financial crisis. Having lowered the GDP growth in the second and third quarters due to the drought during the last summer, agriculture sector made only 0.1 point contribution to the growth in the last quarter.



In 2014, services, industrial and construction sectors made a contribution of 1.9, 1.0 and 0.1 points to the GDP growth respectively while agriculture sector lowered the GDP growth by 0.2 point.

Expectations

After displaying a weak performance throughout 2014, consumption expenditures recovered in the last quarter of the year. However, 2014 growth rate came in below the Medium Term Program estimate of 3.3% due to the weak course of investment expenditures and the negative contribution of the net exports.

The declining trend in total exports volume recorded in the first two months of the year in line with the drop in exports to EU countries indicated that contribution of net exports to growth would continue to diminish in the coming period. Besides, the industrial production and the leading indicators worsened in the first quarter of 2015. This suggested that the mild recovery occurred in domestic demand conditions in the last quarter of 2014 might be temporary. In light of these developments, the growth in the first quarter of 2015 is expected to have exhibited a weak course.

Source: Turkstat

GDP Growth - 4th Quarter of 2014

Economic Research Division

**Türkiye İş Bankası A.Ş. - Economic Research Division****İzlem Erdem - Manager**

izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager

alper.gurler@isbank.com.tr

Hatice Erkiletlioğlu - Asst. Manager

hatice.erkiletlioglu@isbank.com.tr

Bora Çevik - Economist

bora.cevik@isbank.com.tr

Eren Demir - Asst.Economist

eren.demir@isbank.com.tr

M. Kemal Gündoğdu - Asst.Economist

kemal.gundogdu@isbank.com.tr

Gamze Can - Asst.Economist

gamze.can@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.