

The annual contraction is lower-than-expected in Q2.

Turkish economy contracted by 1.5% in the second quarter compared to the same period of the previous year, according to the chain-linked volume index (2009=100). Markets had expected GDP to shrink by 2%. On a seasonally and calendar adjusted quarterly basis, the economy expanded by 1.2% in Q2 following the 1.6% increase in Q1.

Turkey's annual GDP is 722 billion USD as of Q2.

Turkey's annual GDP as of the second quarter became 4 trillion TRY at current prices while the annual GDP in USD terms fell to 722 billion USD, decreasing by 18.4% compared to a year ago. Thus, we estimate that per capita GDP declined below 9,000 USD as of the second quarter.

Net export continued to make a positive contribution while investments dragged down the growth.

In Q2, the fall in private consumption expenditures limited the annual growth by 0.6 pp, an impact lower than the two previous quarters. On the other hand, the support of public consumption expenditures continued. Therefore, total consumption expenditures dragged the growth down by a limited 0.2 pp. In the second quarter when tax cuts in certain sectors like the white goods and automotive were in place, household final consumption expenditures recovered somewhat at current prices compared to the previous quarter.

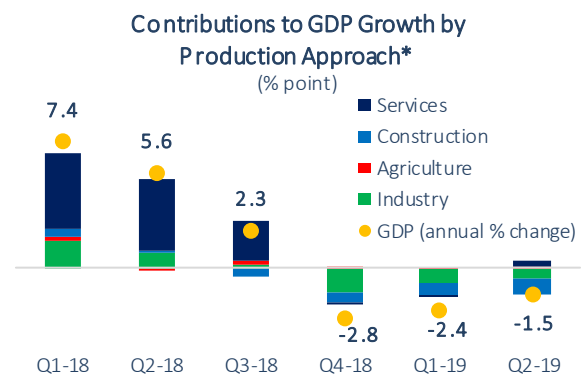
Having provided a considerable support to the growth since the second quarter of 2018, net export added 5.7 pp to the annual growth in the second quarter of this year. While exports pushed up growth by 1.8 pp, the contraction in imports parallel to the rebalancing of economic activity made a positive contribution of 3.9 pp.

Investment expenditures made a strong negative contribution to growth by 7.1 pp in the second quarter. 75% of this impact (5.4 pp) came from the construction investments. According to chain-linked volume index,

construction investments shrank by 29.2% yoy. Construction investments at current prices declined by 23.5% yoy. Machinery and equipment investments declined by 16.5% yoy in chain-linked volume index adding 1.7 pp to the negative contribution made by investments.

Agriculture and services sectors recorded a positive growth.

GDP figures by production approach revealed that agriculture and services sectors boosted growth in the second quarter while industrial and construction sectors made a negative contribution. Taxes-subsidies pulled down the GDP growth by 0.5 pp in this period.



On a seasonally and calendar adjusted quarterly basis, the construction sector contracted for the fifth consecutive quarter. Industrial sector, which had declined in each of the four quarters of 2018, advanced in the first two quarters of this year.

We expect a positive annual growth in the second half.

Having been on an annual contraction trend since Q4 of 2018, we expect Turkish economy to show a gradual rebound in the second half of 2019. Leading indicators on the third quarter have broadly supported this expectation so far. The impact of CBRT's rate cuts on the economic activity and the developments in financial markets will be monitored in the rest of the year.

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

	2017					2018					2019		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	6M
Consumption	4.2	1.9	7.3	4.5	4.5	4.4	2.9	1.2	-3.9	0.9	-2.0	-0.2	-1.0
Private	3.0	2.2	6.3	3.6	3.8	3.7	1.6	0.4	-4.7	0.0	-2.9	-0.6	-1.7
Public	1.2	-0.3	1.0	0.9	0.7	0.7	1.3	0.8	0.8	0.9	0.9	0.5	0.7
Investment	1.3	2.6	3.8	1.9	2.4	3.0	1.9	-1.3	-3.5	-0.2	-3.7	-7.1	-5.5
Change in Stock	-2.3	-1.0	0.2	4.0	0.4	3.4	-0.1	-4.4	-3.9	-1.5	-6.0	0.1	-2.9
Net Export	2.1	1.8	0.3	-3.2	0.1	-3.4	1.0	6.8	8.4	3.6	9.4	5.7	7.5
Exports	2.3	2.4	3.6	1.9	2.5	0.2	1.0	3.1	2.2	1.7	2.0	1.8	1.9
Imports	-0.2	-0.5	-3.3	-5.1	-2.4	-3.6	0.0	3.7	6.2	1.9	7.4	3.9	5.5
GDP	5.3	5.3	11.6	7.3	7.5	7.4	5.6	2.3	-2.8	2.8	-2.4	-1.5	-1.9

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

(*) Exc. taxes and subsidies

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

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