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# Growth Evaluation: 2015

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**GROWTH IS DRIVEN BY DOMESTIC DEMAND IN 2015**

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**Executive Summary**

Turkish economy grew by 4 percent in 2015 in parallel with Betam’s forecast. It is relatively higher compared to 2015 growth rate which was 2.9. Also, actual GDP growth rate is consistent with the forecasts of the Medium Term Programme. However, while the Medium Term Programme expected a “balanced” growth (increase in private consumptions and positive contribution of net export), it was realised as unbalanced. Private consumptions provided the highest contribution by 4.5 percent (3 percentage point). Second biggest contribution belongs to government spending. Public spending including public investments increased by 7 percent. Private investment growth remained limited by 2.7 percent. On the other hand, net export showed a negative contribution; export has decreased by 0.8 percent while import increased by 0.3 percent.

In 4th quarter, GDP grew by 0.7 percent compared to previous quarter which Betam predicted as 0.8 percent. Main source of 4th quarter’s growth is the positive inventory investment. While private consumptions recorded a limited growth, a significant recovery occurred in investments. After the recent elections, we observe a severe deceleration in growth of public spending. On the contrary, net export contributed negatively due to the declining export and the extensively increasing import (Table 1).

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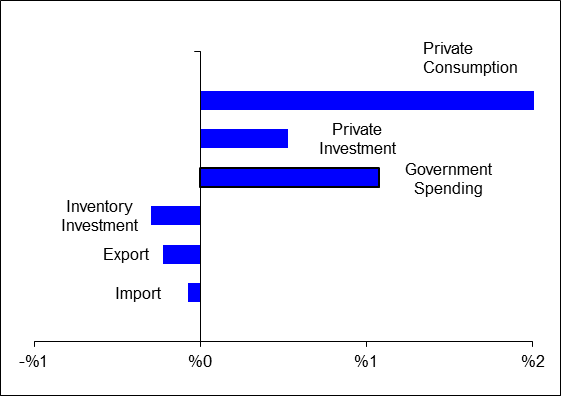
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**Figure 1: Annual change in GDP components (2014-2015)**

Source : Turkstat

**Figure 2: Contributions of GDP components to annual growth (2015)**



**Total Growth: %4,0**

Source: Turkstat

**Significant increase in Domestic Demand**

Private consumption which showed a very moderate increase in 2014 (1.3 percent), recorded an unexpected growth by 4.5 percent despite political uncertainties and became the leading GDP component. Another remarkable point is that private consumption continued to grow in spite of the decline of consumer confidence index in between two elections.

Government spending which majorly consists of consumption expenses (staff and material) also has a remarkable effect on domestic demand by recording relatively higher increase than 2014 (0.5 percent in 2014, 7 percent in 2015). The share of government spending in total GDP growth was measured to be 1.1 percent. Taking into account of recent elections, this significant increase is not surprising.

In addition to that, we don’t observe a substantial change in terms of sources of growth in 2015’s last quarter. On quarterly basis, private consumption and government spending both remain limited by 0.3 percent and 0.2 percent respectively. These two components contributed by 0.2 percent to quarterly GDP growth rate (Table 1).

**Recovery in Private Investments**

The only positive characteristic of 2015 growth in terms of quality is that the modest recovery of private investments. Private investments recorded 2,7 percent growth and contributed by 0,5 percentage point to total growth in 2015 in return to its weak growth and contribution in 2014.

Recovery in private investments persists whilst significant slowdowns occur in private consumption and government spending in the last quarter of 2015. From third quarter to fourth quarter, private investments rose by 2.6 percentage points. Also it remarkably contributes to quarterly growth by 0.5 percentage point.

Lastly, we would like to mention that inventory investment measured moderately negative for 2015, while it has 2 percent contribution to quarterly growth (Table 1).

**Unbalanced Growth**

The negative contribution of next exports to growth (decline in exports while limited increase in exports) can be perceived as the cost of relatively high 2015 GDP growth rate based upon domestic demand.

As a result of 0.8 percent decline in exports and 0.3 percent increase in imports, net exports contribute negatively to annual growth (0.3 percentage point). It should be noted that reduction in exports originated from weakening of foreign demand. Exports to Iraq, second biggest export market of Turkey, decreased by half. Exports to Russia declined because of current economic crisis and political conflict between two countries. On the other hand, limited recovery in European markets were not be sufficient for compensating export loss in Iraq and Russia markets.

We would like to point out that negative progress of net exports throughout 2015 even worsened during the last quarter. It should be noted that exports declined by 1.2 percent and imports increased by 6.5 percent on quarterly basis (from 3rd to 4th quarter). Finally, net export wipes out the contribution of inventory investments via bringing growth rate down by 2 percentage points (Table 1).

**Essential Tendencies in Economic Growth**

Even though we observe high growth performance throughout 2015, its quality should be examined. 4 percent growth rate is mainly driven by private consumption and government spending while net export’s negative contribution overshadows the strategy of “balanced growth”. Another noteworthy point is that growth in the last quarter relatively slowed down compared to first three quarters. As a result of negative contribution of net exports and significant slowdowns occurred in private consumption and government spending, we observe a deceleration in quarterly growth rate. Recovery in private investments can be mentioned as the only positive news in term 4th quarter results.

We would like to remind that Betam have already mentioned about the slowdown observed in last quarter growth in “2016 1st Quarter Economic Outlook” research brief. Also, we would like to underline that our growth forecast for first quarter 2016 is 0.5 percent.

**Table 1.Changes in and contributions of GDP components for 2015Q4 and 2015Q3, compared to the previous quarter.**

|  |  |  |
| --- | --- | --- |
| **2015 – Q4** | **Change** | **Contributions (pp)** |
| **Consumption** | 0.3% | 0.2 |
| **Private Consumption** | 2.6% | 0.5 |
| **Public Spendings** | 0.2% | 0.0 |
| **Inventory Investment** |  | 2.0 |
| **Export** | -1.2% | -0.3 |
| **Import** | 6.5% | -1.7 |
| **GSYH** | 0.7% |  |
|  |  |  |
| **2015 – Q3** | **Change** | **Contributions (pp)** |
| **Consumption** | 1.4% | 0.9 |
| **Private Consumption** | -6.3% | -1.3 |
| **Public Spendings** | 2.2% | 0.3 |
| **Inventory Investment** |  | -0.5 |
| **Export** | 1.6% | 0.4 |
| **Import** | -4.6% | 1.3 |
| **GSYH** | 1.2% |  |

Source : Turkstat.

**Table 2.Changes in and contributions of GDP components for 2015Q4 and 2015Q3, compared to the same quarter of previous year**

|  |  |  |
| --- | --- | --- |
| **2015 – Q4** | **Change** | **Contributions (pp)** |
| **Consumption** | 4.7% | 3.2 |
| **Private Consumption** | 1.7% | 0.3 |
| **Public Spendings** | 8.7% | 1.6 |
| **Inventory Investment** |  | -0.7 |
| **Export** | 2.1% | 0.6 |
| **Import** | -2.6% | 0.8 |
| **GSYH** | 5.7% |  |
|  |  |  |
| **2015 – Q3** | **Change** | **Contributions (pp)** |
| **Consumption** | 3.6% | 2.3 |
| **Private Consumption** | -2.1% | -0.4 |
| **Public Spendings** | 8.3% | 1.1 |
| **Inventory Investment** | 47.0% | 0.9 |
| **Export** | -1.4% | -0.4 |
| **Import** | -1.2% | 0.3 |
| **GSYH** | 3.9% |  |

Source:Turkstat

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 3. Contributions of GDP components compared to the previous quarter and total growth** | | | | | | | | |
|  | **Consumption** | **Private Investment** | **Government Spending** | **Inventory Investment** | **Net Exports** | **Exports** | **Imports** | **Sum** |
| **2012(1)** | -0.5% | 0.3% | 0.3% | -0.3% | -0.1% | 1.4% | -1.5% | -0.3% |
| **2012(2)** | -0.7% | -0.8% | 0.8% | 0.3% | 1.6% | 2.1% | -0.5% | 1.2% |
| **2012(3)** | 1.1% | -0.7% | 0.6% | 0.0% | -0.7% | -0.2% | -0.5% | 0.2% |
| **2012(4)** | -0.1% | -0.3% | -0.1% | -0.3% | 1.2% | 0.2% | 0.9% | 0.4% |
| **2013(1)** | 1.7% | 0.6% | 1.1% | 1.4% | -3.1% | -1.2% | -1.9% | 1.6% |
| **2013(2)** | 1.2% | 0.2% | 0.2% | 1.7% | -1.2% | 0.8% | -2.0% | 2.0% |
| **2013(3)** | 1.0% | 0.1% | -0.3% | -1.4% | 0.8% | -0.7% | 1.5% | 0.2% |
| **2013(4)** | 0.0% | 0.2% | 0.7% | -1.0% | 0.8% | 1.3% | -0.5% | 0.7% |
| **2014(1)** | -0.7% | -0.4% | 0.0% | 0.4% | 2.3% | 1.5% | 0.8% | 1.6% |
| **2014(2)** | 0.0% | -0.3% | -0.6% | 1.3% | -0.6% | -0.2% | -0.4% | -0.3% |
| **2014(3)** | 1.1% | 1.0% | 0.2% | -2.2% | 0.2% | -0.4% | 0.6% | 0.2% |
| **2014(4)** | 1.2% | -0.2% | 0.4% | 2.5% | -2.5% | -0.2% | -2.2% | 1.4% |
| **2015(1)** | 0.6% | -0.2% | 0.4% | -1.1% | 1.5% | 0.4% | 1.1% | 1.1% |
| **2015(2)** | 0.5% | 1.4% | 0.4% | -0.7% | -0.3% | -0.5% | 0.1% | 1.3% |
| **2015(3)** | 0.9% | -1.3% | 0.3% | -0.5% | 1.7% | 0.4% | 1.3% | 1.2% |
| **2015(4)** | 0.2% | 0.5% | 0.0% | 2.0% | -2.0% | -0.3% | -1.7% | 0.7% |

Source : Turkstat.

**Table4 :Growth of GDP components compared to the previous quarter**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Consumption** | **Private Investment** | **Government Spending** | **Export** | **Import** |
| **2012(1)** | -0.8% | 1.5% | 2.2% | 5.9% | 5.9% |
| **2012(2)** | -1.1% | -3.5% | 5.5% | 8.2% | 1.9% |
| **2012(3)** | 1.6% | -3.5% | 3.8% | -0.7% | 1.8% |
| **2012(4)** | -0.2% | -1.4% | -0.5% | 0.8% | -3.3% |
| **2013(1)** | 2.6% | 3.0% | 7.3% | -4.4% | 7.1% |
| **2013(2)** | 1.7% | 1.1% | 1.0% | 3.0% | 6.9% |
| **2013(3)** | 1.6% | 0.7% | -1.9% | -2.7% | -4.9% |
| **2013(4)** | 0.0% | 0.9% | 4.7% | 5.0% | 1.6% |
| **2014(1)** | -1.1% | -1.8% | -0.1% | 5.6% | -2.7% |
| **2014(2)** | 0.0% | -1.8% | -3.9% | -0.6% | 1.5% |
| **2014(3)** | 1.6% | 5.1% | 1.1% | -1.3% | -2.1% |
| **2014(4)** | 1.8% | -1.0% | 2.4% | -0.8% | 8.2% |
| **2015(1)** | 1.0% | -1.3% | 2.3% | 1.5% | -3.7% |
| **2015(2)** | 0.7% | 7.3% | 2.7% | -1.8% | -0.5% |
| **2015(3)** | 1.4% | -6.3% | 2.2% | 1.6% | -4.6% |
| **2015(4)** | 0.3% | 2.6% | 0.2% | -1.2% | 6.5% |

Source : Turkstat.