

HIGH GROWTH SUPPORTED BY PRIVATE CONSUMPTION AND INVESTMENTS

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Executive Summary

In the first quarter of 2018, according to seasonally and calendar day adjusted data, Gross Domestic Product (GDP) increased by 2 percent compared to the previous quarter and by 7.4 percent compared to the same quarter of last year. The highest contribution to annually economic growth comes from private consumption (6.6 percentage points) and investment (2.8 percentage points), respectively. Imports, after 20 percent of growth in the last quarter of 2017, reached again a very high growth rate, 15.6 percent. Contribution to growth of this high growth rate was minus 4.5 percentage points for imports. Since exports remained unchanged, contribution to growth of net foreign trade was minus 4.2 percentage points. The contribution of the stock change was relatively high with 1.7 percentage points.

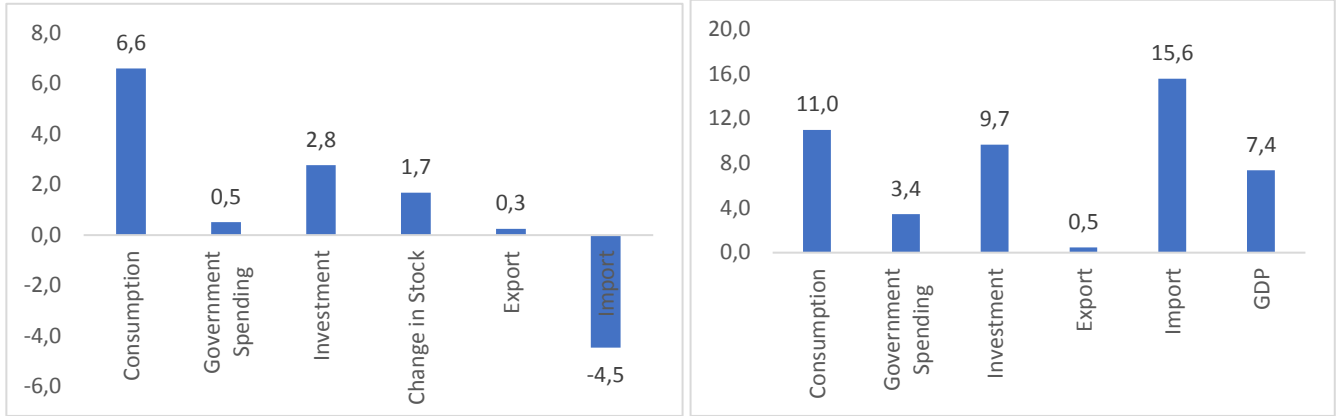
Although GDP growth was higher than expectations in the first quarter, the rise in interest rates on the one hand, unexpected and high value losses in TL in the second quarter on the other hand are expected to restrain investments and to increase the uncertainties and inflation rate. Therefore, it is not surprising to see lower growth rates in the coming quarters. Nevertheless, it should be noted that 5.5 percent GDP growth projected in the 2018-2020 Medium Term Program (OVP) is still a realistic goal if extraordinary situations will not emerge after the election.

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Figure 1: Contributions to growth (left) and year-on-year growth rates (right) of GDP components in 2018 Q1



Source: TurkStat, Betam.

Table 1: Growth rates and contributions to growth of GDP components in 2017 Q4 and 2018 Q1 compared to same quarter of last year

	2017Q4		2018Q1	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
Consumption	6.6	4.0	11.0	6.6
Government Spending	7.4	1.2	3.4	0.5
Investment	6.0	1.8	9.7	2.8
Change in Stock		3.7		1.7
Export	9.3	2.0	0.5	0.3
Import	22.7	-5.4	15.6	-4.5
GDP	7.3		7.4	

Source: TurkStat, Betam

Table 2: Growth rates and contributions to growth of GDP components in 2017 Q4 and 2018 Q1 compared to previous quarter

	2017Q4		2018Q1	
	Değişim (%)	Katkı (%)	Değişim (%)	Katkı (%)
Özel Tüketim	2.9	1.7	4.2	2.5
Kamu Tüketimi	5.8	0.8	1.6	0.2
Yatırım	-1.3	-0.4	5.2	1.5
Stok Değişimi		0.7		-3.5
İhracat	4.4	1.0	-1.0	-0.2
İthalat	8.3	-2.2	-5.2	1.3
GSYH	1.7		2.0	

Source: TurkStat, Betam

High increase in private consumption

According to the same quarter of last year, consumption growth which was 6.6 percent in the fourth quarter, was 11 percent in the first quarter. Contributions to GDP growth following

these growth rates increased from 4.6 percentage points in 2017 Q4 to 6.6 percentage points in 2018 Q1 (Table 1). When we look at the seasonally and calendar day adjusted data, we see that private consumption growth has strengthened in the first quarter (from 2.9% to 4.2%) and contribution to growth has increased (Table 2).

Contribution of the investment has continued

The investments which contributed 1.8 percentage points to growth growing by 6 percent annually in the last quarter of 2017, grew by 9.7 percent in the first quarter of 2018 contributing 2.8 percentage points to GDP growth (Table 1). Quarterly data show a similar situation: investments which contributed minus 0.4 percentage points to growth in the last quarter of 2017, have contributed 1.5 percentage points to growth in the first quarter of 2018 (Table 2). As may be recalled, the contribution of investments to annual growth was 2.4 and 3.5 percentage points in the second and third quarters of 2017, respectively. We expect these favorable developments seen in investments will be adversely affected by increasing market interest rates.

Contribution of stock changes has decreased ⁴

Stock changes contributed to the growth strongly with 3.7 percentage points in the last quarter of 2017 while this was 1.7 percentage points in the first quarter of 2018 (Table 1). When we look quarterly growth, it is seen that seasonally and calendar day adjusted stock changes negatively contributed to growth by minus 3.5 percentage points (Table 2).

Net foreign trade contribution continues to be increasingly negative

Contribution of net foreign trade in the last quarter of 2017 turned negative. Compared to the same quarter of the previous year, contribution of the export has decreased from 2

⁴ TurkStat uses the chained volume index method when calculating new national income series. The contribution to growth of the stock change cannot be easily calculated because there is an additivity problem in the chain method and a chain index cannot be derived for the "changes in stock". We discussed in detail in the research note that we recently published how to account for the contribution of stock change to growth in the chain-volume index approach (see Betam Research Note 17/217).

percentage points to 0,3 points and contribution of the import has increased from minus 5.4 percentage points to minus 4.5 points, thus contribution of net foreign trade has decreased from minus 3.4 percentage points to minus 4.2 percentage points in the first quarter of 2018 (Table 1). Using seasonally and calendar day adjusted data, we observe a reverse situation. It is seen that contribution of exports turned negative and contribution of imports turned positive (Table 2). As a result, contribution of net foreign trade increased from minus 1.2 percentage points to 0.9 percentage points.

Contribution of public spending has decreased

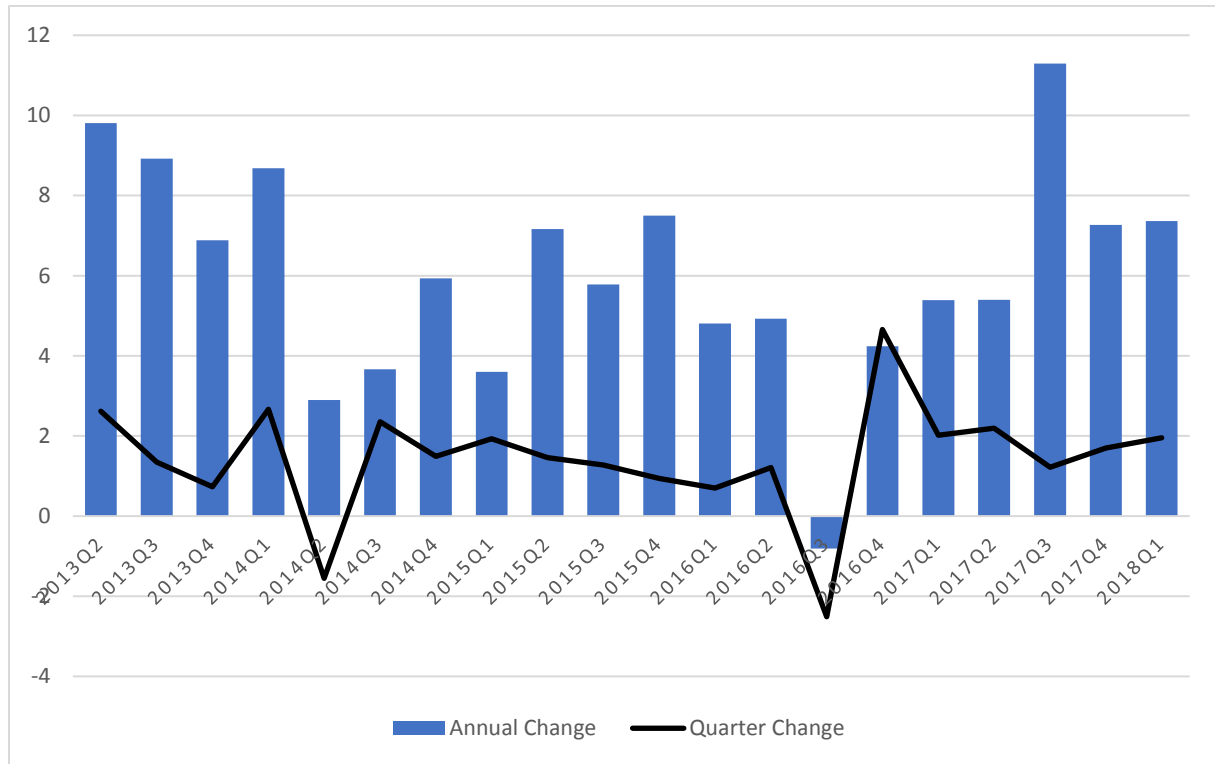
While the government spending did not contribute to the growth from second quarter to third quarter, this changes in the last quarter of 2017 with the increase in public expenditures. In the first quarter of 2018, the final consumption expenditure of the government increased by 3.4 percent annually and contributed 0.5 percentage points to GDP growth (Table 1). The final consumption expenditures of the government, which increased by 5.8 percent in the last quarter of 2017, increased by 1.6 percent in the first quarter of 2018. Thus, the contribution of public expenditures is only 0.2 percentage points in 2 percent quarter-on-quarter GDP growth.

The Future of Growth

The economic growth in the first quarter of 2018 was similar the growth of 2017 in terms of its drivers. While this domestic-demand-driven economic growth expanded the current deficit, the rising exchange rate and inflation brought about the "overheating" debate. Early election declared in April and then the issues in May which is not the subject of this research brief brought Turkey a different conjuncture. In order to control the rapid depreciation of the Turkish lira, the Central Bank of Turkey increased the policy interest rate by 425 basis points to 17.75 percent. This jumping has not only hiked up deposit interest rates but also sizably increased loan interest rates. The debate over "stagnation" gave place to the debate over "overheating" assuming that the exchange rate will not return to its April level, inflation will continue to rise, and the economy will inevitably go into a period of stagnation. Since the new economic conjuncture will have a delayed effect on economic growth leading indicators, we do not expect these effects to be seen in our first growth

forecast for the second quarter which will be mostly based on April and May data. On the other hand, we expect the first signs of recession will be apparent in the following forecasts, mainly in the forecasts for third quarter.

Figure 2: GDP growth rates compared to the previous quarter and same quarter of last year



Source: TurkStat, Betam.