

HIGH GROWTH IN THE 4TH QUARTER TOO

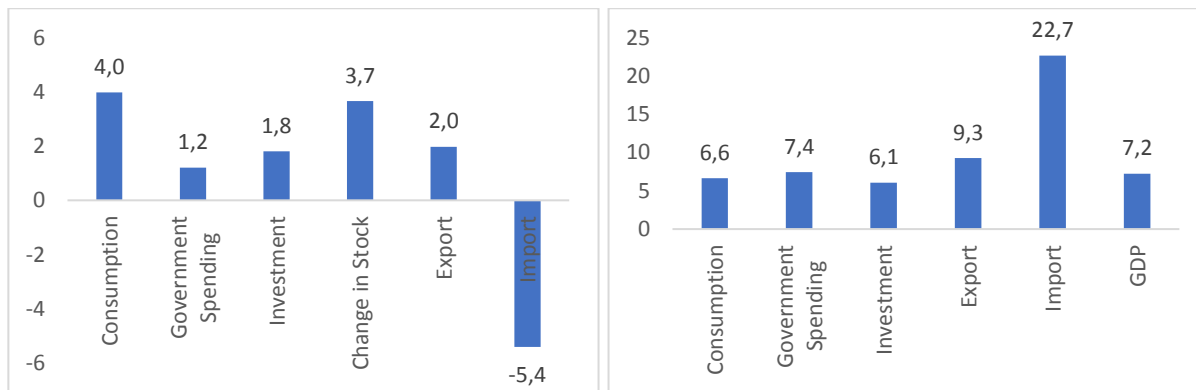
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Executive Summary

In the last quarter of 2017, Gross Domestic Product (GDP) increased by 7.3 percent compared to the same quarter of the previous year, while using seasonally and calendar day adjusted data the quarter-on-quarter growth rate was 1.8 percent. The highest contribution to annually economic growth comes from private consumption (4.0 percentage points) and change in stock (3.7 percentage points), respectively. The contribution of investments that grew by more than 6 percent was only 1.8 percentage points whereas the contribution of exports that grew by 9.3 percent was only 2.0 percentage points. Imports rose by 22.7 percent, a record increase, and accordingly its contribution to growth was minus 5.4 percentage points. Ultimately, the contribution of net foreign trade was high but negative, minus 3.4 percentage points. On the other hand, the contribution of government spending was limited, 1.2 percentage points.

7.4 percent of annual GDP growth in 2017 is almost two points higher than the projected 5.5 percent GDP growth for 2017 in the 2018-2020 Medium Term Program (OVP). It is widely acknowledged that the Credit Guarantee Fund and other incentives are effective in this high growth. The question is how these enormous incentives can be sustained within budget constraints in 2018.

Figure 1: Year-on-year growth rates (right) and contributions to growth (left) of GDP components in 2017 Q4



Source: TurkStat, Betam.

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Moderate increase in private consumption

Compared to the same quarter of previous year consumption rose by 6.6 percent in the fourth quarter of 2017, while this was 10.9 percent in the third quarter. Even though the contribution to growth has decreased from 6.4 percentage points to 4.0 points, consumption continued to be main driving force for the growth in the last quarter (Table 1). When we look at the seasonally and calendar day adjusted data, we see that consumption growth has kept solidifying in the last quarter (from 1.8% to 2.7%) and contribution to growth also increased (Table 2).

Table 1: Growth rates and contributions to growth of GDP components in 2017 Q2-Q3 compared to the same quarter of last year

	2017Q3		2017Q4	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
Consumption	10.9	6.4	6.6	4.0
Government Spending	6.7	0.9	7.4	1.2
Investment	13.2	3.8	6.1	1.8
Change in Stock		0.0		3.7
Export	17.9	3.8	9.3	2.0
Import	15.0	-3.6	22.7	-5.4
GDP	11.3		7.2	

Source: TurkStat, Betam

Table 2: Growth rates and contributions to growth of GDP components in 2017 Q2-Q3 compared to the previous quarter

	2017Q3		2017Q4	
	Change (%)	Contribution (%)	Change (%)	Contribution (%)
Consumption	1.8	1.0	2.7	1.6
Government Spending	-0.1	0.0	6.5	0.9
Investment	4.5	1.3	-1.2	-0.4
Change in Stock		0.3		0.7
Export	-0.7	-0.2	4.9	1.1
Import	4.6	-1.2	8.4	-2.2
GDP	1.3		1.8	

Source: TurkStat, Betam

Contribution of the investment has decreased

Investment growth was 13.2 percent while its contribution to GDP growth was only 3.8 percentage points in the third quarter of 2017. In the last quarter these numbers were, respectively, 6.1 percent and 1.8 percentage points (Table 1). The contribution to growth of

investments rose from 2.4 percentage points in the second quarter to 3.5 percentage points in the third quarter. We saw this increase as proof of the repercussion of the Credit Guarantee Fund (KGF) on economy. Last quarter's data show that the KGF effect is starting to fade⁴. As a matter of fact, in the quarterly data we see that, from third quarter to forth quarter, the investment volume decreased (minus 1.2 percent) and pulled down the GDP growth by 0.4 percentage points (Table 2). It is understood that this decrease was caused by the stagnation observed in the construction sector in the last quarter; this sector, which annually grew by more than 12 percent in the first nine months, declined by 4.8 percent in the last three months.

Strong contribution from stock changes

Stock changes did not contribute to the GDP growth in the third quarter of 2017, while they contributed strongly in the last quarter, with 3.7 percentage points (Table 1). In addition, seasonally and calendar day adjusted data show that contribution of the stock changes to quarterly growth has increased from 0.3 percentage points to 0.7 points. (Table 2).

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).

Net foreign trade contribution turned negative

Contribution of net foreign trade in the third quarter of 2017 was almost zero. On the other hand, compared to the same quarter of the previous year, contribution of the export has decreased from 3.8 percentage points to 2 points and contribution of the import has decreased from minus 3.6 percentage points to minus 5.4 points, thus contribution of net foreign trade was minus 3.4 percentage points in the fourth quarter (Table 1). According to seasonally and calendar day adjusted figures, we observe that there is a similar situation in the changes from

⁴ The amount of support the KGF received from the Treasury increased to 2 billion TL in 2015 and then 25 billion TL in 2015. In 2017, the total amount of bail given by KGF was limited to 250 billion TL. See Additional Figure 1 and <http://www.kgf.com.tr/index.php/tr/bilgi-merkezi/rakamlarla-kgf> and <http://www.kgf.com.tr/index.php/tr/desteklerimiz/kaynaklarimiz/hazine-mustesarligi-fonu>

the quarter to the quarter. Exports and imports decreased together and the contribution of net exports to growth was minus 1.4 percentage points in the third quarter. Despite a strong increase in exports in the fourth quarter (4.9 percent), a much stronger (8.4 percent) increase in imports did not change the negative contribution (minus 1.1 percentage points) (Table 2).

Contribution of public spending has increased

The government spending which was cut sharply in the third quarter did not contribute the growth. However, it is seen that the government increase its spending in the fourth quarter. In the fourth quarter, the government spending recorded a very high increase of 6.5 percent and the contribution to growth was 0.9 percentage points which is half of the 1.8 percent quarterly GDP growth (Table 2)

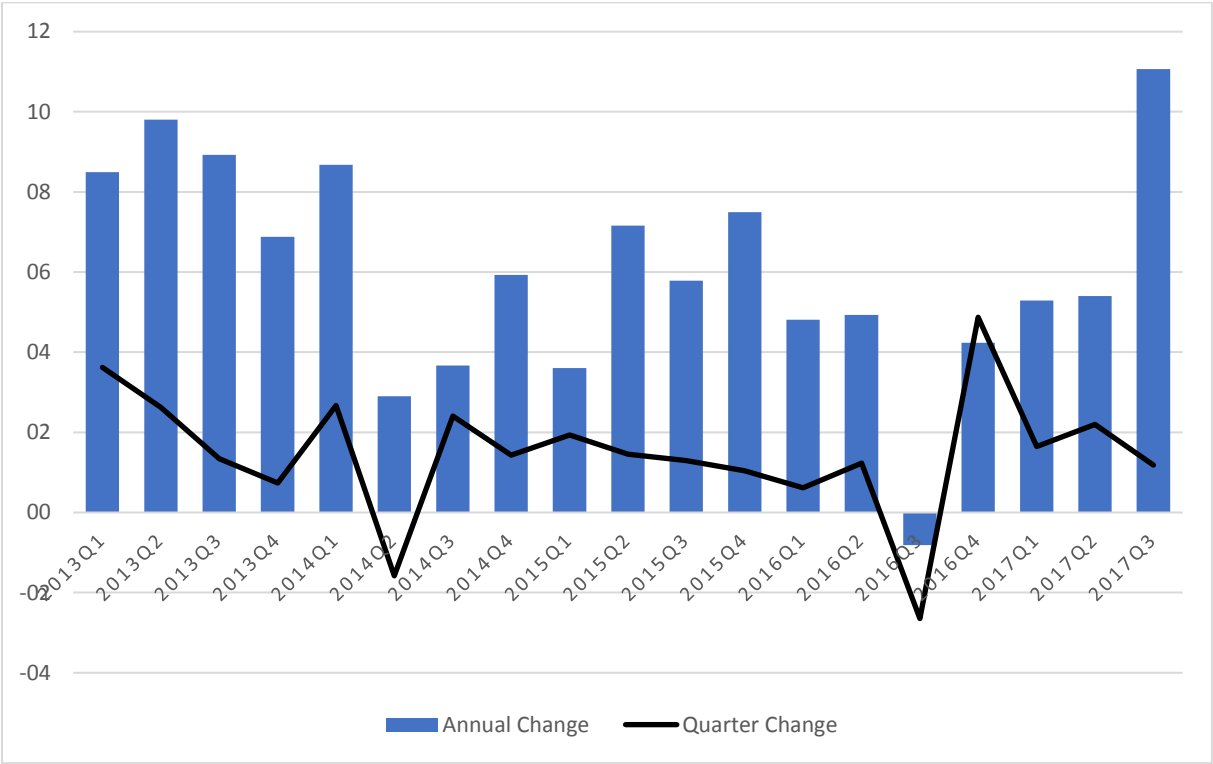
The Future of Growth

The annual growth rate was expected to be high due to the base effect due to the contraction of Turkish economy in the third quarter of 2016. Also, it must be mentioned that, quarterly GDP growth which increased from 1.3 percent to 1.8 percent ensured an annual GDP growth of 7.4 percent. Aggregate annual growth is higher than 5.5 percent projected in OVP. In addition, the depreciation of the Turkish Lira and the demand pressure were effective in the rise in inflation. These facts raised the debates about the economic overheating. GDP growth was limited to 3.2 percent in 2016. An average growth of 5.3 percent in last two years is consistent with Medium Term Program projections.

Estimates of international institutions and other institutions for GDP growth in 2018 range from 4 percent to 5 percent. This growth range can be considered reasonable if incentives that strongly support domestic demand do not continue in 2018 due to fiscal disciplinary concerns. However, the large increase observed in public consumption expenditures in the last quarter seems to suggest that the fiscal discipline worry is pushed to the second plan. The increase in public consumption expenditures also played an important role, while the strong private consumption growth had a dominant share in the acceleration of GDP growth in the last quarter. On the other hand, for now it is unclear whether high import growth, which caused net exports to make a negative contribution in the last quarter, will continue in 2018, and whether the recession in the construction sector, which negates the contribution of

investments, is permanent. It can be said that the developments in these two sectors will play a decisive role in the economic growth in 2018. We expect that the uncertainties in this matter will be enlightened to a certain extent when we publish our growth forecast for the first quarter of the year in the coming days.

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



Source: TurkStat, Betam.