



بنك الإمارات دبي الوطني
Emirates NBD

Economics

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Turkey GDP Update

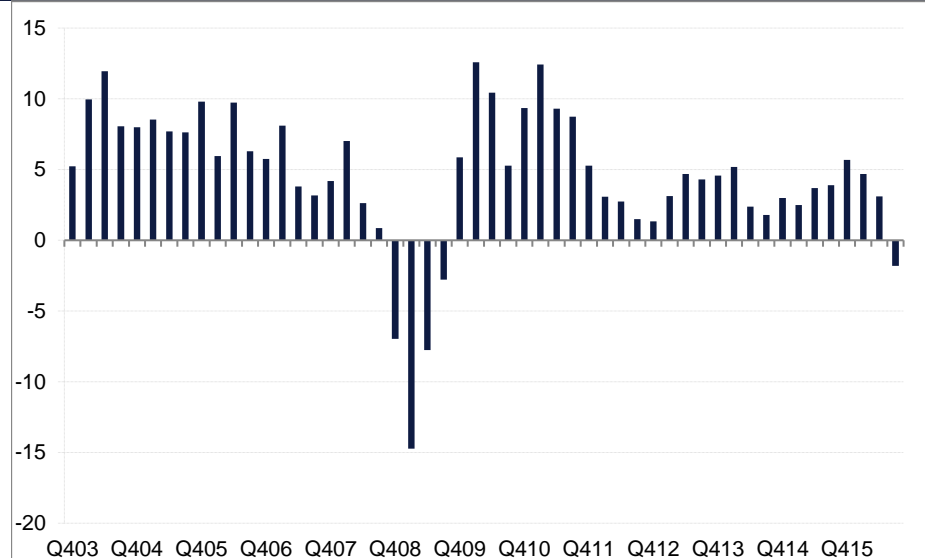
The Turkish economy contracted -1.8% y/y in real terms in the third quarter of 2016 according to data released earlier today. This was the worst quarterly GDP performance since 2009, and was sharply lower than growth of 3.1% and 4.7% recorded in Q2 and Q1 respectively. The breakdown of GDP by expenditure shows a sharp divergence between the economy's traditional growth driver of household consumption, which declined -3.2% y/y in Q3, and government consumption which surged 23.8% y/y. In addition, fixed investment fell -0.6% y/y, while exports dropped -7.0% y/y and imports grew 4.3%. Turkey's stats agency is also in the process of revising historical data, and now puts 2015 GDP growth at 6.1%, compared to the previous estimate of 4.0%.

High frequency data released in recent weeks suggests that the economy's performance did not improve at the start of Q4. Latest figures on retail sales, industrial production, tourism, unemployment, and PMIs all suggest that domestic consumption and fixed investment will remain a drag on growth heading into 2017 (*charts #1-5*). That said, the data has not been uniformly negative, with latest releases of real sector confidence, auto sales and capacity utilization indicating that Q4's performance might not be as poor as Q3 (*charts #6-9*). Nevertheless, we have revised our forecast for 2016 real GDP growth to 1.2%, which will mark the weakest performance since 2009.

Looking ahead to next year, the Turkish economy is likely to continue seeing below trend GDP growth, with our forecast currently sitting at 2.3%. Certainly, the global environment does not look like it will provide much support in the near term. In the first instance, rising interest rates in the U.S. will be a concern for many emerging markets next year, but particularly Turkey given its large external financing requirements. Moreover, following the latest OPEC announcement over the weekend that the group has agreed to larger-than-expected output cuts with non-OPEC producers, global energy prices also look set to trend higher in the coming months, which should put added pressure on oil-importing markets like Turkey.

As the key factors behind this downturn are domestic however, a notable improvement in growth is unlikely until there is greater clarity on the direction of economic policy. Aside from ongoing concerns surrounding the security environment (which also played a notable role in Q3's GDP contraction), the government's priority continues to be on boosting credit growth to the private sector, the returns of which are questionable given that total loan growth is already running at 16.0% y/y as of November. Private sector confidence is weak, and will unlikely improve until the domestic political backdrop stabilizes.

GDP Growth



Source: Havers, Emirates NBD Research

Retail Sales



Chart #1

Source: Havers, Emirates NBD Research

Industrial Production



Chart #2

Source: Havers, Emirates NBD Research

Tourist Arrivals*

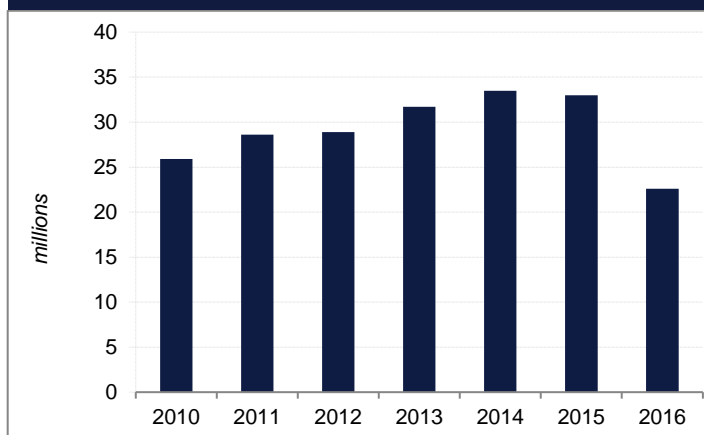


Chart #3 *Jan-Oct

Source: Havers, Emirates NBD Research

Unemployment



Chart #4

Source: Havers, Emirates NBD Research

Purchasing Managers' Index

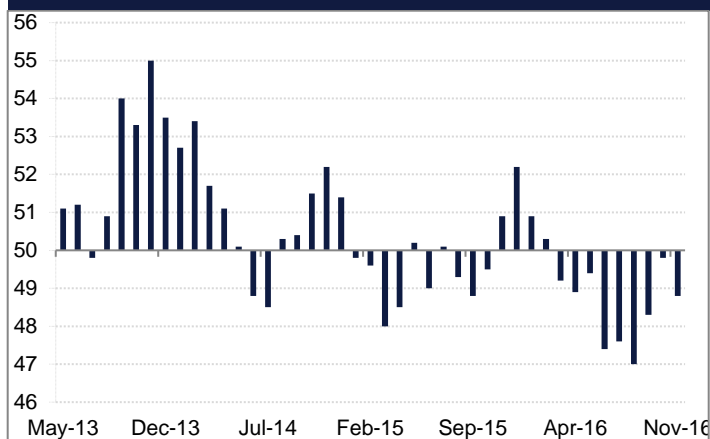


Chart #5

Source: Markit, Emirates NBD Research

Real Sector Confidence



Chart #6

Source: Havers, Emirates NBD Research

Auto Sales*

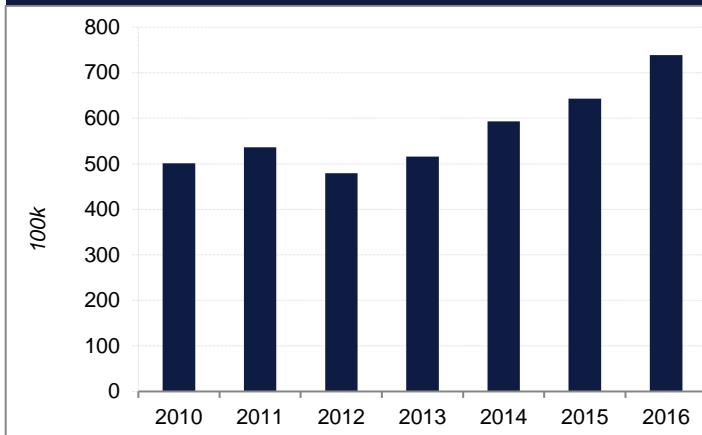


Chart #1 *Jan-Oct

Source: Havers, Emirates NBD Research

Capacity Utilization



Chart #2

Source: Havers, Emirates NBD Research

Leading Indicator



Chart #3

Source: Havers, Emirates NBD Research

Loans-to-Deposits

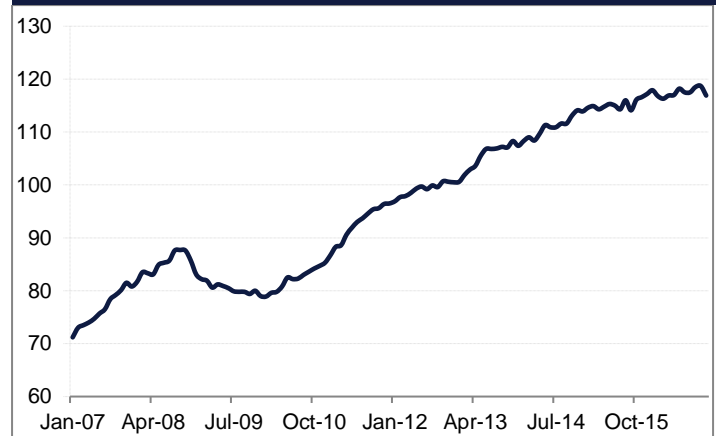


Chart #4

Source: Havers, Emirates NBD Research

Loan Growth



Chart #5

Source: Havers, Emirates NBD Research

Turkish Lira

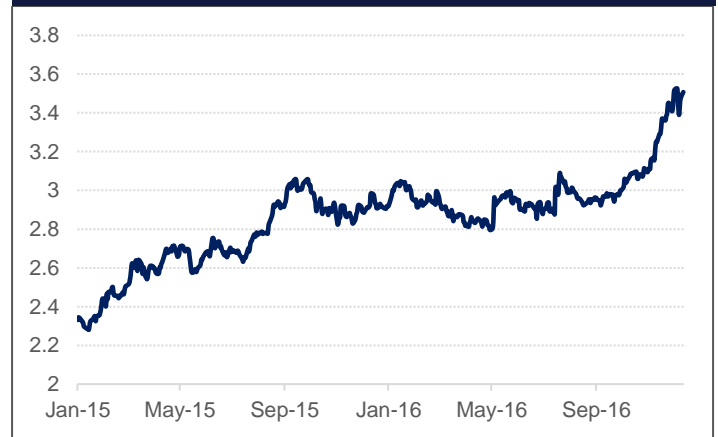


Chart #6

Source: Bloomberg, Emirates NBD Research

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