

ECONOMIC ACTIVITY PULSE

# Turkey: Gradual Recovery Underway

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Incoming data suggest the gradual recovery in economic activity is still underway. Our monthly GDP indicator signals economic activity to grow at 3.3% YoY, slightly lower than 4Q16 growth of 3.5%. Industrial production (IP) in March grew by 2.8% (calendar adjusted, yoy), parallel to the market but lower than our expectations. Looking ahead, exports have lost momentum in April as the support from the automotive sector has loosened somewhat. Another important hard data, electricity consumption also moderated in April, suggesting that activity lost some pace around the referendum. We think that lagged impacts of Government incentives on top of rapid credit expansion and tax cuts will be supporting growth, especially in 2H17.

## Moderating IP growth in the short term

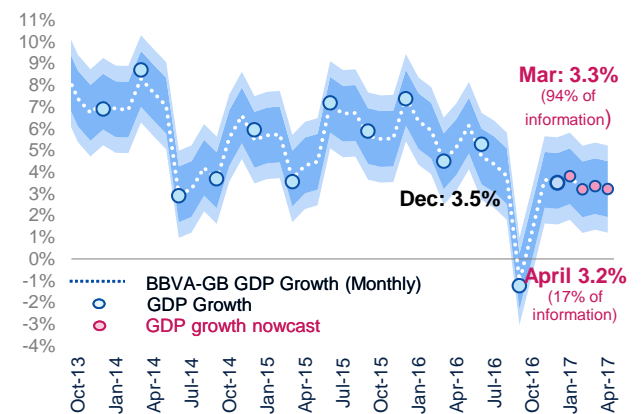
The positive news on March IP data are the intermediate goods production which turned to growth and sizable contribution from durable consumer goods thanks to the tax cuts of the Government. In quarterly terms, IP grew by 1.8% (yoy) in 1Q17, slightly lower than 2.0% in 4Q16. The outlook is more or less the same with the prominent factors of energy and capital goods, contributing 1.2pp and 0.8pp, respectively. The support from consumer goods production has become in favor of durable goods, while intermediate goods production remained weak. In sectorial detail, auto and electricity production continued to lead as IP excluding these two sectors contracted by 0.7%. Exporting sectors performed relatively better in 1Q17, confirming the likely positive net exports contribution. Looking ahead, IP is likely to find support from the lagged effects of strong credit growth thanks to the Treasury guaranteed Credit Guarantee Fund, the extended tax cuts on durable white goods and continuum of fiscal expansion. Improving EU demand and trade relations with important export partners, including Russia, will also help to keep recovery on track.

Figure 1 Activity Indicators (3MA, YoY, SA)

	Mean	2016				2017			
		Jan	Feb	Mar	Apr	Jan	Feb	Mar	Apr
Industrial Production	3.6	-3.1	-0.3	0.4	2.0	3.3	12	1.8	
Non-metal Mineral	12	-3.0	2.3	1.7	-1.0	-4.2	-6.9	-2.0	
Electricity Production	4.2	3.1	3.3	3.3	5.3	6.4	7.1	7.8	7.3
Auto Sales	3.9	-15.2	3.4	24.1	10.2	6.4	-8.8	-7.5	
Tourist Arrivals	-0.8	-36.0	-33.1	-28.2	-21.3	-14.8	-9.2	-6.4	
Number of Employed	3.6	13	14	15	13	13			
Number of Unemployed	4.9	13.2	14.6	16.1	18.6	20.3			
Auto Imports	6.5	-10.2	9.0	3.17	16.4	11.1	-8.1	-12.7	
Auto Exports	7.6	12.2	-16.5	-10.6	-1.7	33.5	30.2	33.5	
Financial Conditions	74.6	88.6	92.6	80.1	73.6	59.0	42.6	38.3	33.6
Credit Growth-13Week	12.6	14.5	14.8	14.0	14.3	14.0	14.7	15.3	15.5
Retail Sales	4.1	-0.8	0.3	-0.5	-1.8	-2.3	-3.2		
Real Sector Confidence	107.2	106.6	104.9	108.2	103.9	100.6	106.2	106.5	106.3
MICA Forecast						3.8%	3.2%	3.3%	3.2%
GDP YoY		-1.3%			3.5%				
		Contraction		Slow-down		Growth		Boom	

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2 Garanti-BBVA Research Monthly GDP (YoY)\*

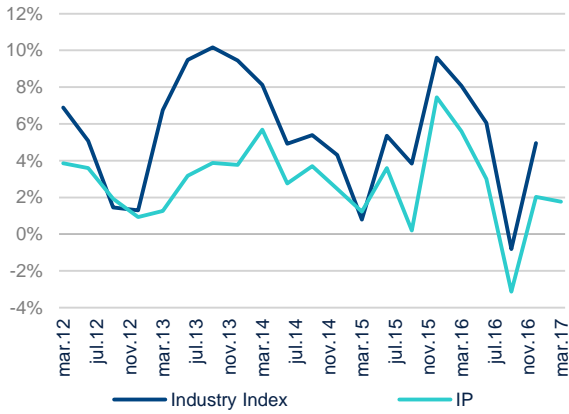


Source: \*BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat \*Our indicator is also available on Bloomberg with the ticker GBTRGDY Index

## Gradual recovery is on track, lagged effects will be supportive in 2H17

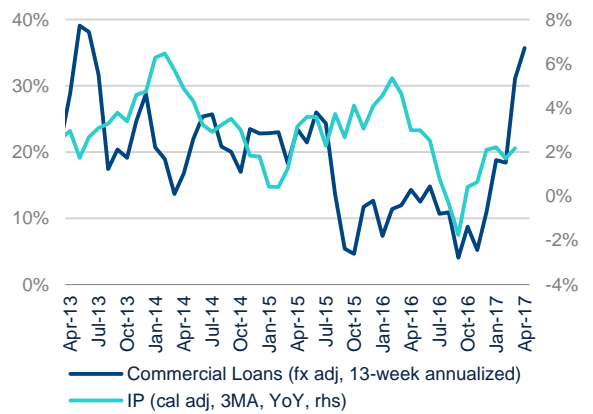
Although IP growth shows signals of slowdown in the short term we think the gradual recovery is still on track. The lagged effects of policy stimulus, improving EU demand and export relations and favorable base effects in 2H17 are all supporting. After posing a relatively moderate growth rate in the first half, we forecast the recovery to gain momentum in the second half. We deem the overall risks are balanced on our 2017 growth estimate of 3%.

**Figure 3** IP vs Industry component in GDP (3MA, YoY)



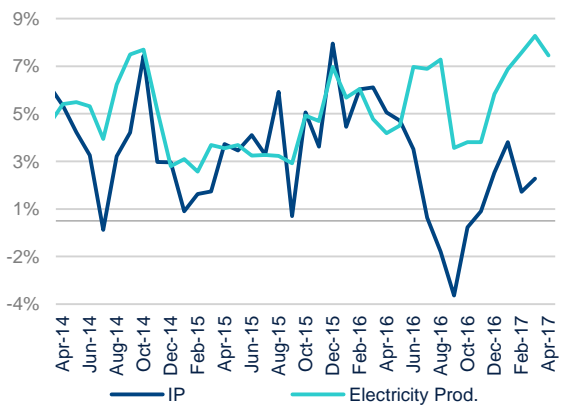
Source: Garanti Research, Turkstat

**Figure 4** Loan Growth and IP



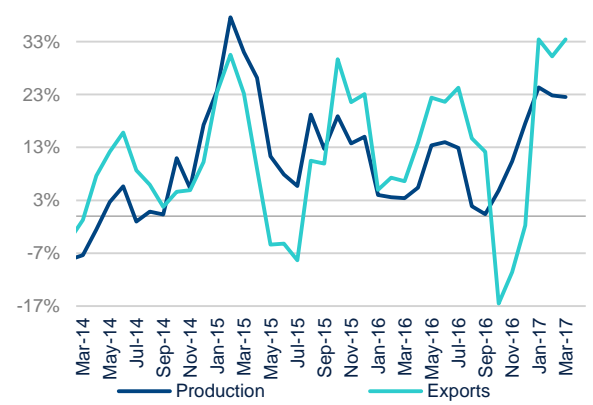
Source: Garanti Research, Turkstat, CBT, BRSA

**Figure 5** IP & Electricity Production (3MA, YoY)



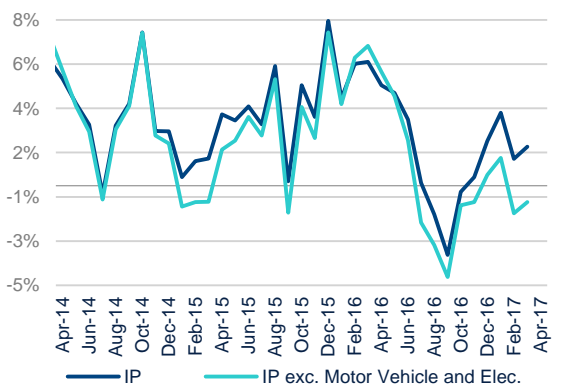
Source: Garanti Research, Turkstat, TETC

**Figure 6** Automotive Prod. & Exports (3MA, YoY)



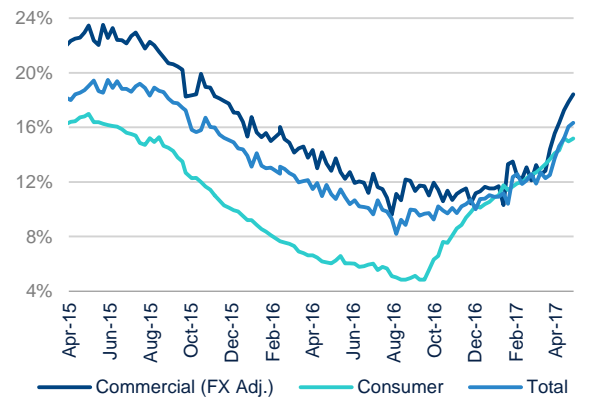
Source: Garanti Research, Turkstat, CBT, AMA

**Figure 7** IP Excluding Motor and Electricity Production (3MA, YoY)



Source: Garanti Research & Turkstat

**Figure 8** Loan Growth Rates (YoY)



Source: Garanti Research, Turkstat, CBT, BRSA

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