

Turkey: Domestic demand boosts GDP

Alvaro Ortiz / Seda Guler / Asuman Kemiksiz / Ali Batuhan Barlas / Serkan Kocabas

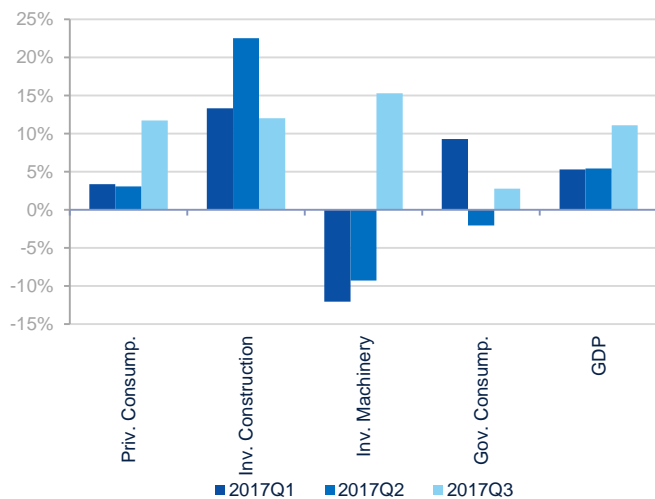
11 December 2017

The GDP growth rate of 3Q17 surprised on the upside at 11.1% (8.5% both BBVA-GB and consensus), which was supported by the Government’s counter-cyclical measures (particularly the Credit Guarantee Fund) and favorable base year impact and working day adjustments (with an annualized quarterly growth rate of 5%). On the components side, consumption and residential investment remained strong but this time there was also a recovery in machinery investment. The upward revisions in both 1Q and 2Q lifted the first half of the year growth rate to 5.3%, leading the GDP growth rate in the first 3 quarters to 7.4%. This strong figure and an already promising 4Q nowcast (In October, IP grew by 8.9% yoy, mostly supported by the intermediate and capital goods production, which keeps production and exports outlook positive for the near future) will lead us to significantly upgrade our already high GDP forecast (6%) to near 7% for 2017.

Private consumption had the largest contribution but machinery investment also picked-up

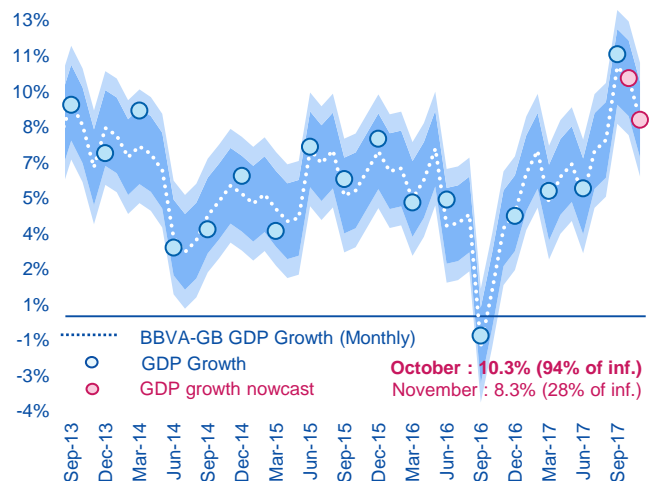
Private consumption growth was 11.7% in 3Q, having the largest contribution to the annual GDP growth (7.0pp), increased significantly from the first half’s 3.2% growth. Investment growth kept accelerating and its growth rate came in at 12.4% (5.5% in 2Q) as this time machinery investment supported with a strong pick up (15.3% yoy), the first positive realization in the last five quarters. Exports on goods and services had its fastest pace in 5 years (17.2% yoy growth) although robust growth in imports hindered its support. Overall, the resilient GDP growth rate relied almost entirely on domestic demand (10.7pp contribution including stocks), while support from the external demand remained very limited (0.3pp contribution). In sectorial basis, the recovery was broad-based with most of the sectors posting high contributions; 2.6pp industry, 1.4pp construction, 6.7pp services and 0.4pp agriculture.

Figure 1 GDP Components (YoY)



Source: Garanti Research, Turkstat

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



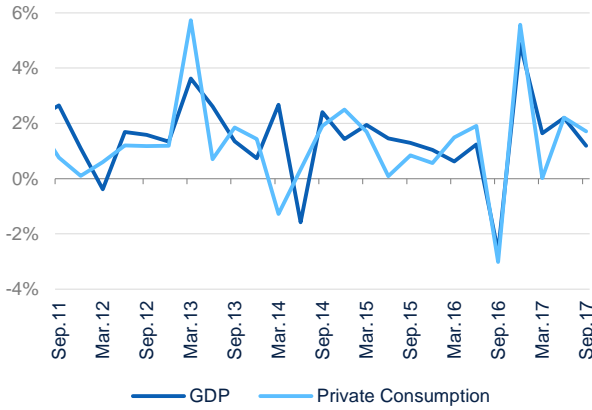
Source: *BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat *Our indicator is also available on Bloomberg with the ticker GBTRGDPY Index

Positive data and an opportunity for a rebalance

GDP growth published today brought another positive surprise, as year-to-date growth accelerated to 7.4%, compared to 2.8% in the previous year. Favorable base impact and support from counter-cyclical policies maintained the high momentum in domestic demand, which will lead the economy to grow near 7% in 2017. The recovery in machinery investment is also promising and, in our opinion, should start to replace the growth in some components experiencing “excess” demand to cope with core inflation problems. In sum, today’s data is positive and also brings an opportunity for a rebalance in the economy.

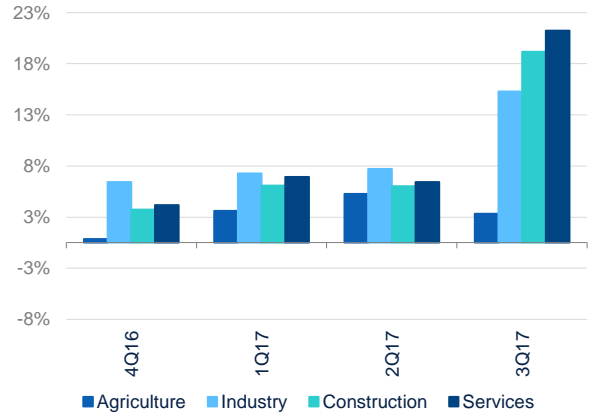
ECONOMIC ACTIVITY PULSE

Figure 3 GDP Growth QoQ (Seasonally & Calendar Adj)



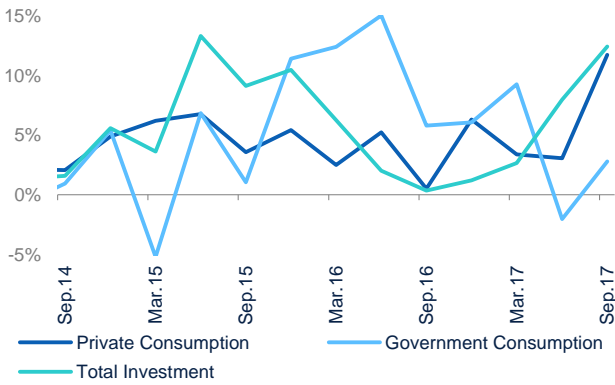
Source: Garanti Research, Turkstat

Figure 4 Sectorial Growth YoY



Source: Garanti Research, Turkstat

Figure 5 Domestic Demand Indicators YoY



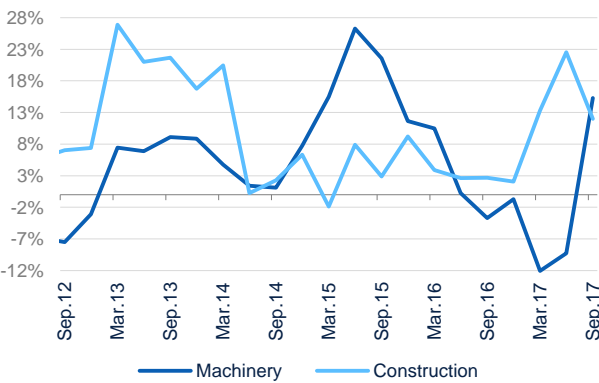
Source: Garanti Research, Turkstat

Figure 6 External Demand Indicators YoY



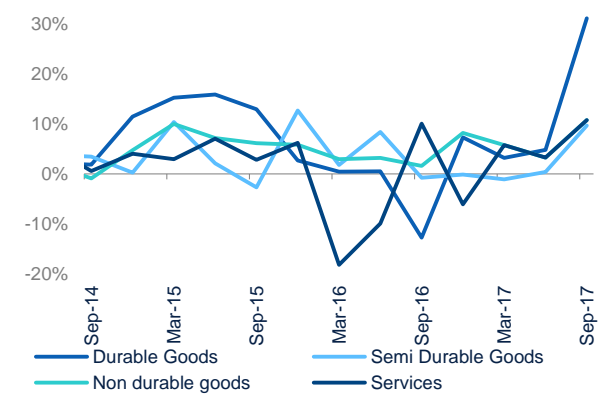
Source: Garanti Research, Turkstat

Figure 7 Gross Fixed Capital Formation YoY



Source: Garanti Research, Turkstat

Figure 8 Private Consumption Details YoY



Source: Garanti Research, Turkstat

ECONOMIC ACTIVITY PULSE**DISCLAIMER**

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.