

ECONOMIC ACTIVITY PULSE

Turkey: GDP grew 7.4% in 2017

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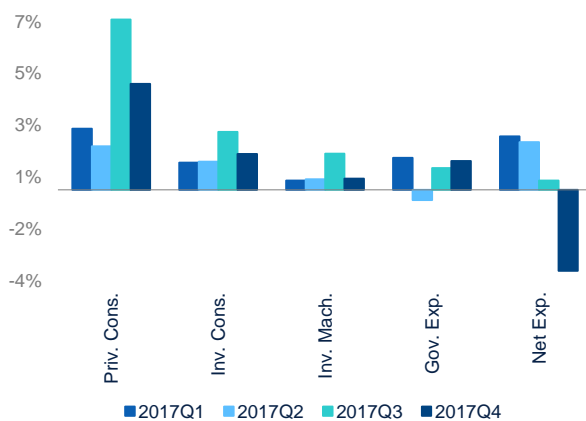
GDP grew by 7.3% (YoY) in 4Q17 above both the market consensus and our expectation (6.7%). The upward revision of the first three quarters and stronger than expected Q4 resulted in 7.4% yoy growth in 2017 (3.2% in 2016). The acceleration in growth in 4Q (1.8% qoq on seasonally adjusted basis vs 1.3% in 3Q) as a result of the robust domestic demand confirmed the preliminary high frequency indicators that already signaled the maintenance of strong activity in the first quarter of 2018. Our monthly GDP indicator (GBTRGDY Index at Bloomberg) nowcasts 6.3% yoy growth for 1Q18 (including March data with 28% of information). The positive momentum in the economy and still expansionary policy impulses will keep the high growth. We maintain our expectation that GDP growth may normalize to 4.5% in 2018 due to tightening financial conditions with some upside risks.

Solid domestic demand, net exports dragging growth in 4Q

GDP growth was supported by the still high domestic demand contribution (10.4pp), while net exports dragged down the growth (3.1pp) as strong imports (22.7% yoy) outbeat exports (9.3% yoy) in 4Q. Private consumption was leading domestic demand (4.1pp contribution), while investment (1.8pp contribution) continued to be supported by machinery and equipment. While our nowcasting for demand subcomponents (GBTRGDPC, GBTRGDPI, GBTRGDPX and GBTRGDPM indices at Bloomberg, see graphs 6-8) highlighted a solid growth in 4Q, the upside surprise came from stronger than expected stock accumulation as demand lagged behind the production. On the sectoral side, while growth was broadbased, services sector took the lead with 4.7pp contribution.

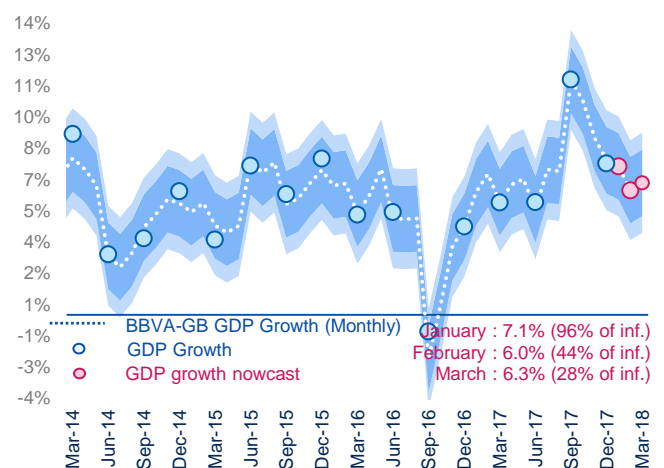
The GDP growth in 2017 was mainly explained by strong domestic demand with only limited net exports contribution as strong exports managed to offset high imports. In sectorial detail, services sector contribution more than doubled with 4.6pp in 2017 compared to 2.1pp in 2016, while industry, construction and agriculture supported the growth by 1.8pp, 0.6pp and 0.3pp, respectively.

Figure 1 Annual contributions to GDP



Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

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



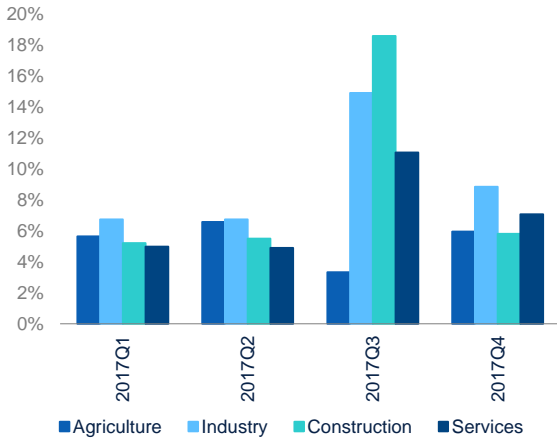
Source: *BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat *Our indicator is also available on Bloomberg with the ticker GBTRGDY Index

Growth to normalize to 4.5% in 2018 with some upside risks

GDP grew by 7.4% in 2017 as a result of solid domestic demand and recovering exports thanks to policy stimulus and supportive external demand. We expect economic activity to remain strong on high inertia in the first half of 2018. Unfavorable base impact in the second half and tighter financial conditions could be limited by the expansionary policy measures announced so far. We maintain our GDP growth forecast at 4.5% for 2018.

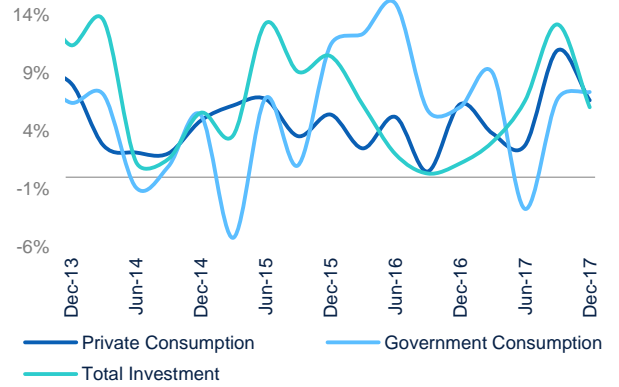
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Figure 3 Sectorial Growth YoY



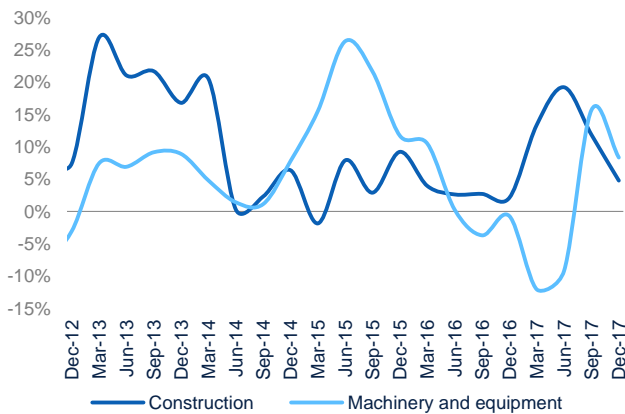
Source: Garanti Research, Turkstat

Figure 4 Domestic Demand Growth YoY



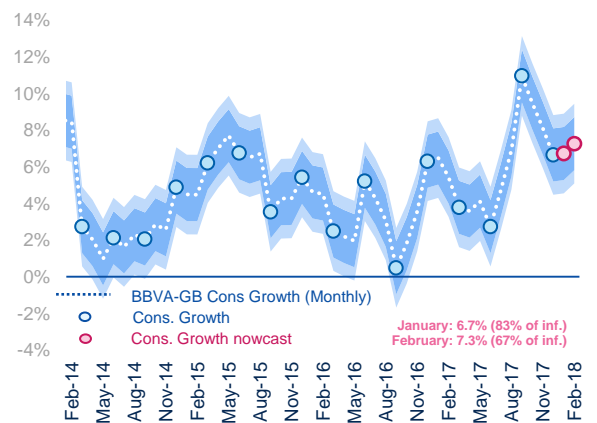
Source: Garanti Research, Turkstat

Figure 5 Gross Fixed Capital Formation YoY



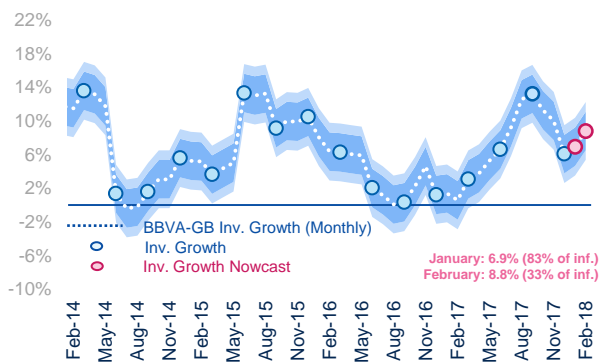
Source: Garanti Research, Turkstat

Figure 6 Consumption Nowcasting (YoY)



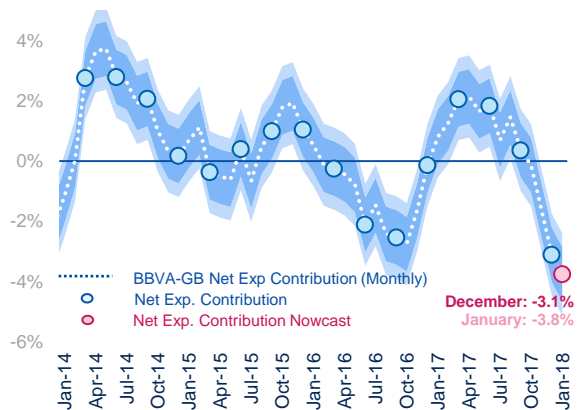
Source: Garanti Research, Turkstat

Figure 7 Investment Nowcasting (YoY)



Source: Garanti Research, Turkstat

Figure 8 Net Exports Nowcasting (Annual contribution)



Source: Garanti Research, Turkstat

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