

ECONOMIC ACTIVITY PULSE

# Turkey: Still high 1Q GDP but already moderating

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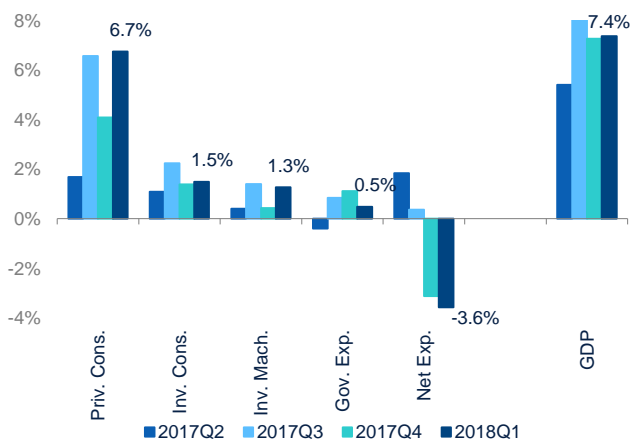
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GDP grew by 7.4% (YoY) in 1Q18 above both the market consensus and our expectation (7% vs. 6%). The acceleration in growth on quarterly basis was surprising (2% vs 1.7% in 4Q), mainly supported by the boost in private consumption and the recovery in investment. Financial conditions had become tighter more obviously starting from March; hence the lagged effects will certainly weigh more as of 2Q. Though, current high inertia could still be supporting as our monthly GDP indicator (GBTRGDY Index at Bloomberg) still nowcasts slightly below 6% yoy growth for 2Q18 as of May (with 44% of information). We expect the cool-down in economic activity to become much clearer in the second half of this year as statistical base effects and tightening financial conditions will affect domestic demand negatively. We forecast 2018 GDP growth to be in the range of 3.5-4.0% as we expect adjustment of the economy to become more obvious from now onwards.

## Robust domestic demand on private consumption and investment in 1Q

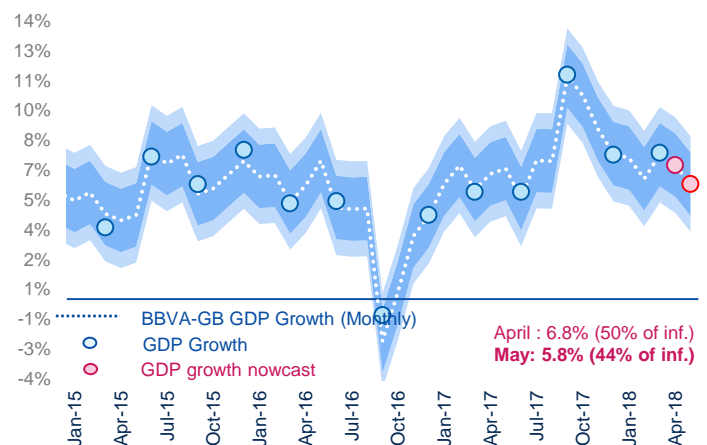
The boost in private consumption was the salient factor about higher than expected data. Private consumption grew by 11.0% yoy in 1Q, up from 6.6% in 4Q17 and 6.1% in overall 2017, supported by all subcomponents except for durable goods. Investment expenditures also picked-up by 9.7% yoy growth in 1Q, up from 6.0% in 4Q17 and 7.3% in 2017, on top of acceleration in construction and ongoing moderate rise in machinery investment. On the other hand, government consumption receded to 3.4% growth in 1Q, down from 5.0% in 2017. Thus, domestic demand gave 10.9 pp contribution to growth, including the contribution of stocks by 1pp, while external demand continued to drag down growth by 3.6pp with almost no contribution from exports. On the sectorial side, main subsectors kept the high momentum with a positive differentiation from construction whose growth rate rose to 6.9% from 5.8% in 4Q17. Looking ahead, our nowcasting for demand subcomponents (see graphs 6-8) already highlight a moderation in economic activity with more apparent cool-down indicators as of May such as imports and automotive production in terms of hard data.

Figure 1 Annual contributions to GDP



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Figure 2 BBVA Research Turkey Monthly GDP (YoY)\*



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

## Economic growth should and will cool down in the second half of the year

Higher than expected GDP growth solely dependent on domestic demand reminds us the magnitude of the overheating during the 1Q. Looking ahead, we expect the sizably tighter monetary policy (ex ante real rate is now above 7% after the 500bps interest rate hikes of the last 2 months). Fiscal policy should rapidly join monetary policy to support the rebalancing of the economy. We expect GDP growth in the range of 3.5-4.0% this year.

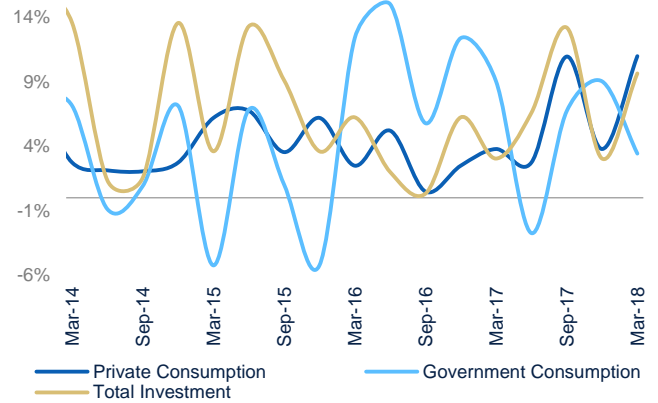
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**Figure 3 Sectorial Growth YoY**



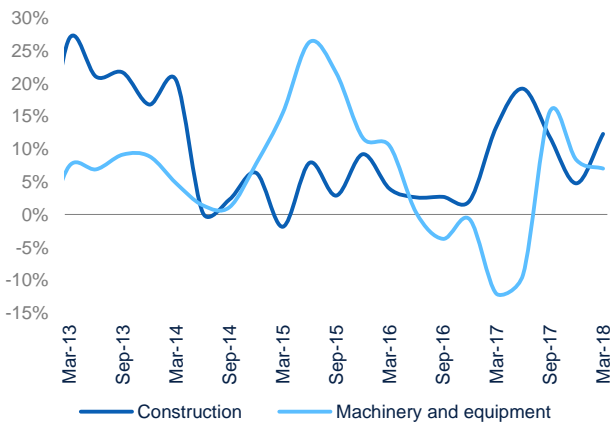
Source: BBVA Research Turkey, Turkstat

**Figure 4 Domestic Demand Growth YoY**



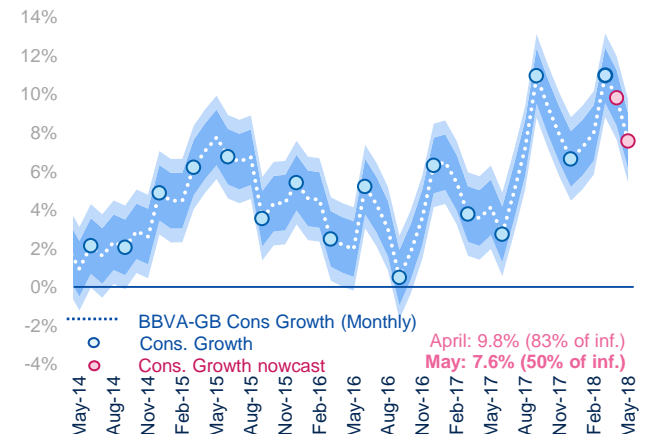
Source: BBVA Research Turkey, Turkstat

**Figure 5 Gross Fixed Capital Formation YoY**



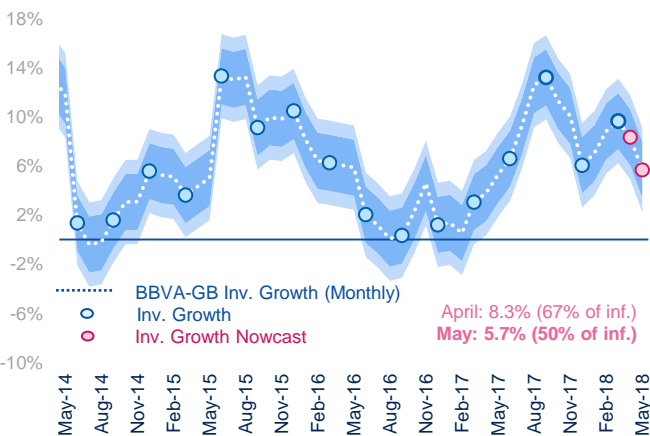
Source: BBVA Research Turkey, Turkstat

**Figure 6 Consumption Nowcasting (YoY)\***



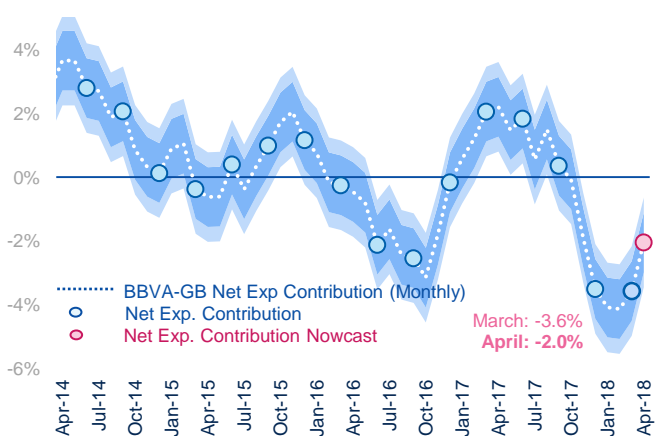
Source: BBVA Research Turkey, Turkstat  
\*Bloomberg ticker GBTRGDPC Index

**Figure 7 Investment Nowcasting (YoY)\***



Source: BBVA Research Turkey, Turkstat  
\*Bloomberg ticker GBTRGDPI Index

**Figure 8 Net Exports Nowcasting (Annual contribution)\***



Source: BBVA Research Turkey, Turkstat,  
\*Bloomberg ticker for exports GBTRGDPIX Index; for imports GBTRGDPM Index

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