

Economic Watch

# Turkey: Sharper than expected adjustment in 3Q GDP

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Turkish Economy grew by 1.6% in annual terms in 3Q18, failing to satisfy expectations (2.2% Consensus vs. 2.2% BBVA Research). Seasonally and calendar adjusted quarterly growth rate turned to be negative with -1.1%, which signals that the adjustment in the economy becomes faster and is likely to deepen further. Domestic demand gives the lowest contribution to growth since 2009, compensated by the sizable reversal of net exports. Our monthly GDP indicator (also in Bloomberg, GBTRGDPY Index) nowcasts a contraction of 0.9% in October and near 0% growth in November, possibly supported by temporary tax incentives (with 52% and 32% info, respectively). We maintain our GDP growth estimate at 3% for 2018, while risks are on the downside for our 2019 growth forecast of 1%.

## Growth solely backed by services in 3Q18

As widely expected, domestic demand includes a sharp adjustment with only 0.4pp contribution to growth and if stocks are also included, its contribution becomes sizably negative with 5.2pp. Private consumption grew only 1.1%, backed by non-durable goods and services; while Government consumption remains to be supportive with 7.5% growth. Investment expenditures contracted by 3.8%, mainly on machinery and equipment (-8.5%); though construction investment also shrank by 1.8%. All in all, the adjustment in domestic demand was compensated by a sharp reversal of external demand, due to a sizable contraction in imports and relatively stronger performance of exports, which led to a net exports contribution of 6.7pp. On the supply side, the growth was solely backed by the services with 1.8pp, in which trade, transportation, accommodation, restaurants (1.0pp) and public services on education, health and social work (0.9pp) mainly weighed. The deceleration in industry was noteworthy with 0.3% (down from 4.2% in 2Q), while construction sector contracted by 5.3%. Agricultural sector grew only limitedly at 1%, even when its share is the highest seasonally. As the overall production becomes negative except for the services, the sharp depletion of stocks makes it harder for exporters to continue with high performance, which will also be affected by the expected softer global demand in the coming quarters.

Chart 1 Annual contributions to GDP

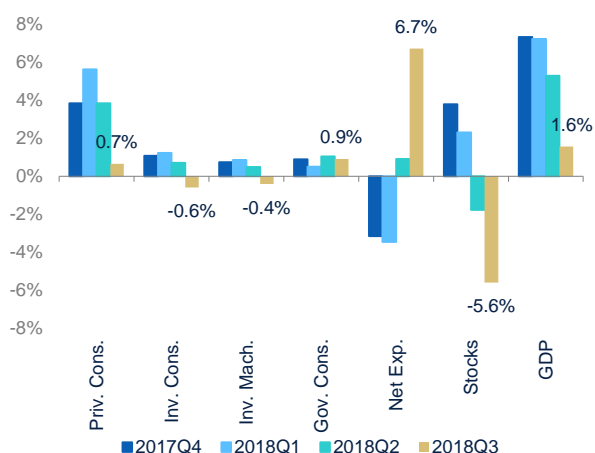
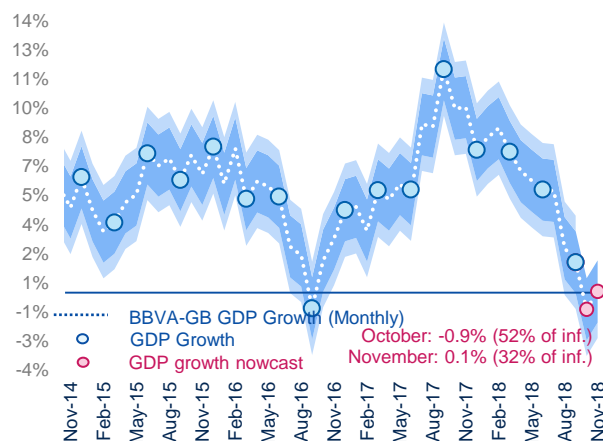


Chart 2 BBVA Research Turkey Monthly GDP (3MA, YoY)\*



Source: BBVA Research Turkey

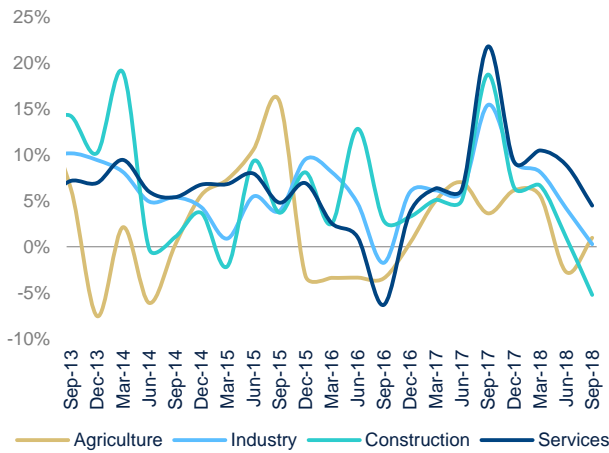
\*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat

## Downside risks for 2019 GDP growth are increasing

Given the worsening high frequency indicators, we estimate industrial production could shrink further in 4Q. Although recent tax incentives in certain sectors could bring some recovery in expenditures, it could be compensated from the continuation of depletion in stocks. We maintain our GDP growth estimate at 3% for 2018, but risks could be on the downside our 2019 growth forecast of 1%.

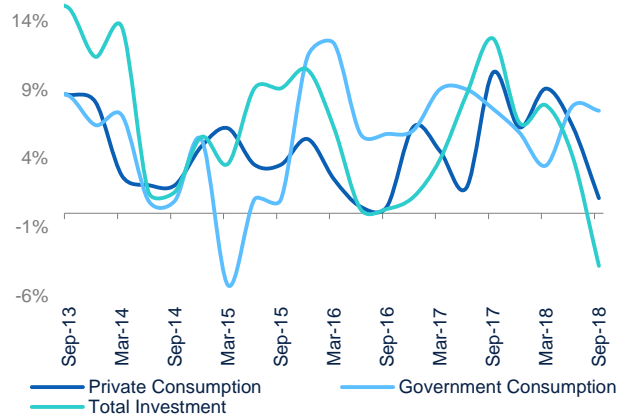
## Creating Opportunities

Chart 3 Sectorial Growth (YoY)



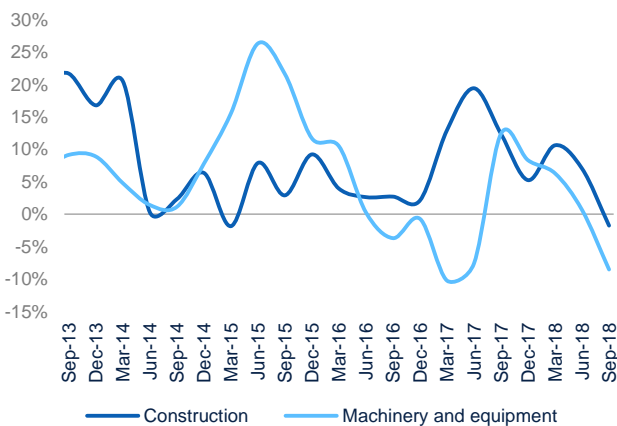
Source: BBVA Research Turkey, Turkstat

Chart 4 Domestic Demand Growth (YoY)



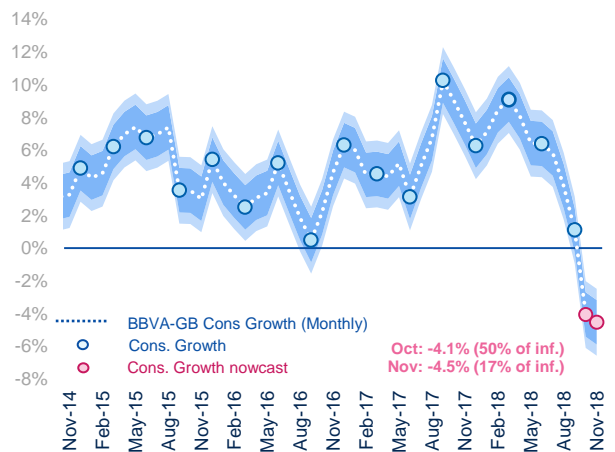
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5 Gross Fixed Capital Formation (YoY)



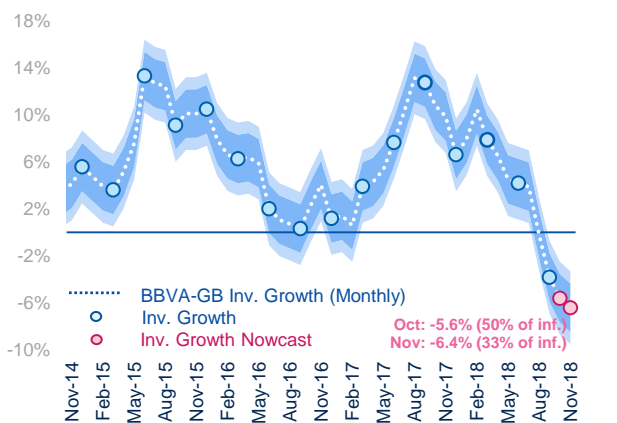
Source: BBVA-Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



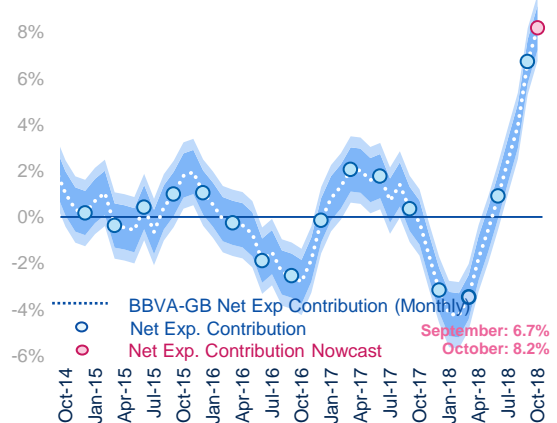
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 7 Monthly Investment Nowcast (3MA)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

Chart 8 Monthly Net Exports Nowcast (Annual cont.)



Source: BBVA Research Turkey Monthly GDP Model, Turkstat

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