

Economic Watch

Turkey: Sharp adjustment of domestic demand in 2018

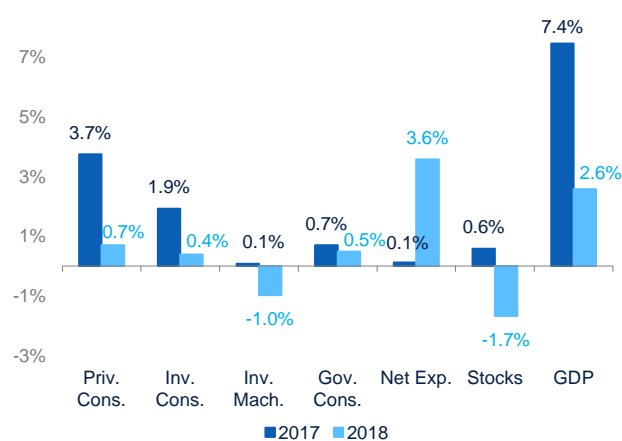
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Turkish Economy contracted by 3.0% in annual terms in 4Q18, slightly worse than expectations (-2.5% Consensus vs. -2.2% BBVA Research). The economy technically entered into a recession as the quarterly contraction in seasonally and calendar adjusted terms became deeper with -2.4% after the decline of 1.6% in 3Q18. The shrinkage in domestic demand reached the highest level since 2009 global financial crisis, while the contribution of net exports remained the main buffer with its peak in the series going back to 1998. All in all, the economy grew by 2.6% in 2018, down from 7.4% in 2017. Our monthly GDP indicator (GBTRGDPY Index in Bloomberg) shows signals of bottoming-out after January and nowcasts a contraction of 3% by February with 37% info. We maintain our GDP growth forecast at 1% for 2019 as recent impulses and base effects in the second half of the year may balance the poor performance of 1Q19.

High frequency indicators show signals of bottoming-out in February...

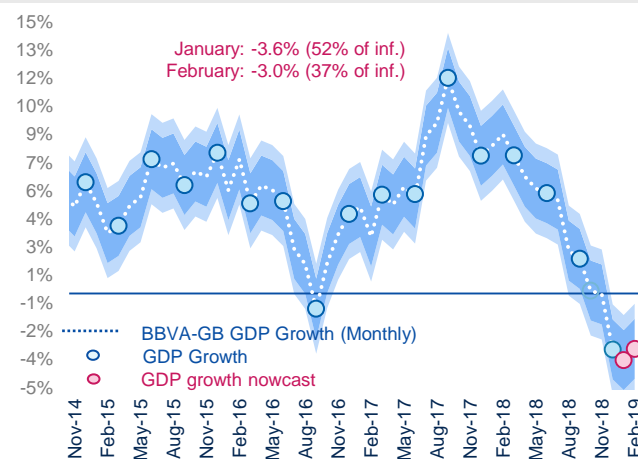
Our main discrepancy in 4Q18 GDP data was the sharp contraction in private consumption with 8.9%, while investment contracted by 12.9% as we expected. Thus, with weaker contribution from Government consumption, domestic demand subtracted 11.4pp from growth, which was partially compensated by the sizable contribution of net exports by 8.4pp in 4Q18. Hence, including stocks, domestic demand gave a negative contribution of 1pp in 2018, while external demand provided a buffer of 3.6pp. In sectorial detail, all main sub-sectors contracted in 4Q18, where the contraction in industry weighed the most. Throughout 2018, the sub-indices, agriculture, industry and construction gave almost no contribution to growth, while the services mainly backed the growth rate with 2.4pp on top of trade, transportation, accommodation and administrative services. Looking ahead, the contraction in intermediate goods imports, electricity production and our big data retail sales indicator look bottoming out, while confidence indicators and credit growth signal that the economy has already reached the trough of the business cycle. Our nowcasting on demand subcomponents (Graph 6 to 8) also gives some signals of bottoming-out, especially on the consumption side. The magnitude and the duration of the recovery will depend on the success of the supply side policies, which should focus on medium to long run sustainable growth path.

Chart 1 Annual contributions to GDP



Source: BBVA Research Turkey

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



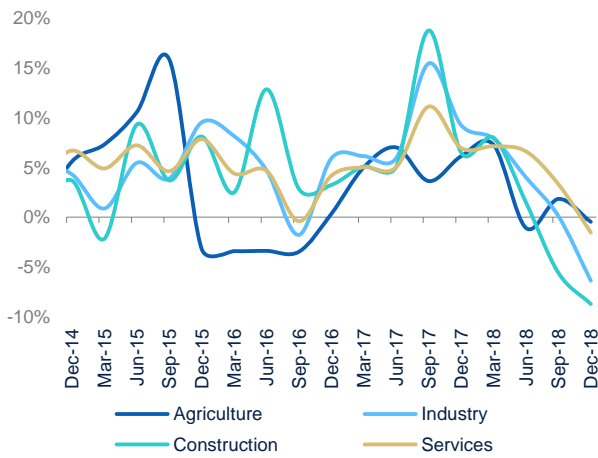
*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat

We maintain our 2019 GDP growth estimate at 1%

Although sharper than expected contraction in 4Q18 signals some downside risks especially for 1Q19, we maintain our 2019 GDP growth estimate at 1%, given the recent impulses in terms of higher-than-expected minimum wage hike, supportive loan restructuring facilities and new credit and employment campaigns targeting SMEs. High frequency indicators have already started to show some signals of bottoming-out after the poorer January data.

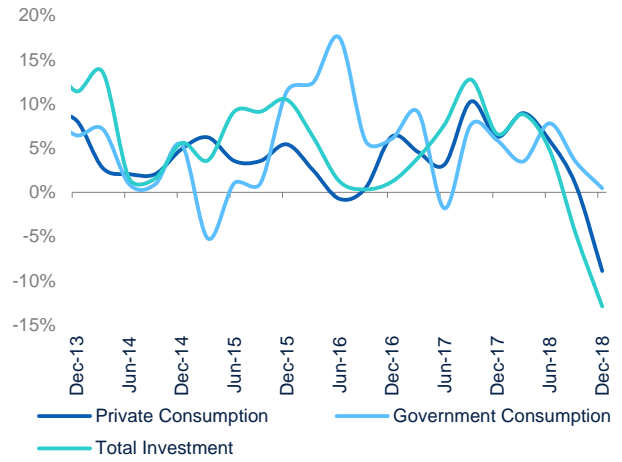
Creating Opportunities

Chart 3 Sectorial Growth (YoY)



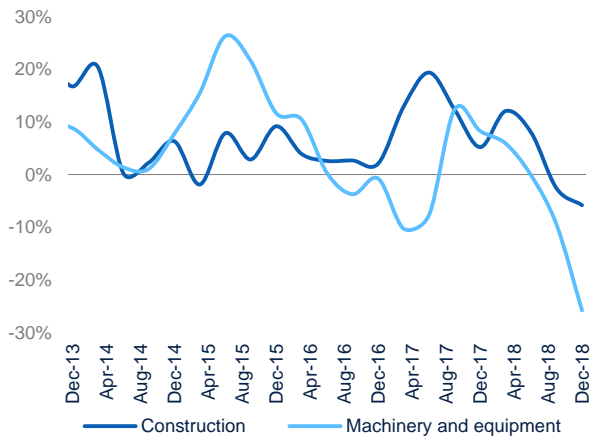
Source: BBVA Research Turkey, Turkstat

Chart 4 Domestic Demand Growth (YoY)



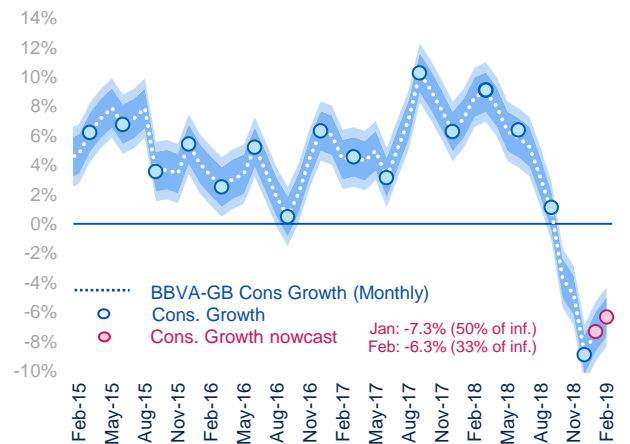
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5 Gross Fixed Capital Formation (YoY)



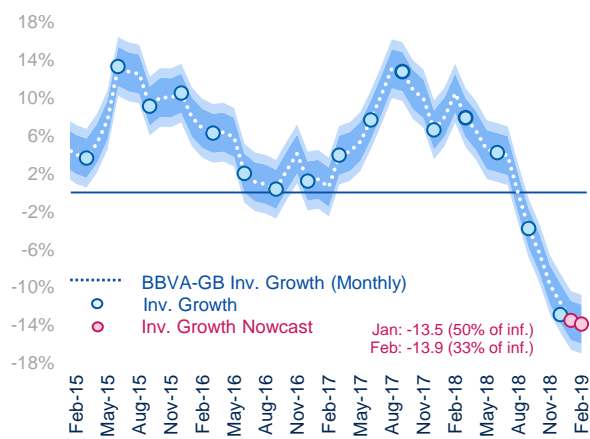
Source: BBVA-Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



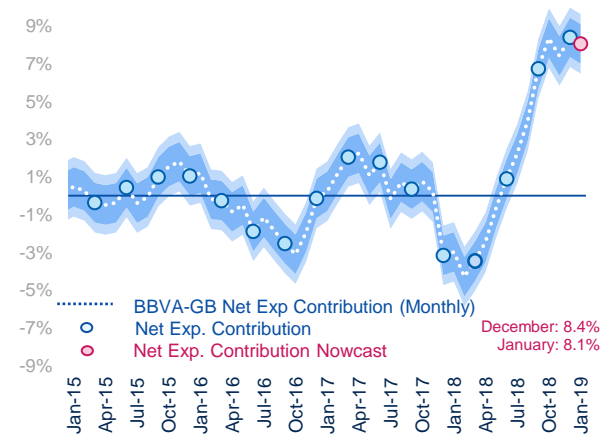
Source: BBVA Research Turkey Monthly GDP Model, Turkstat

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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