

Economic Watch

Turkey: The end of recession but with prevailing risks

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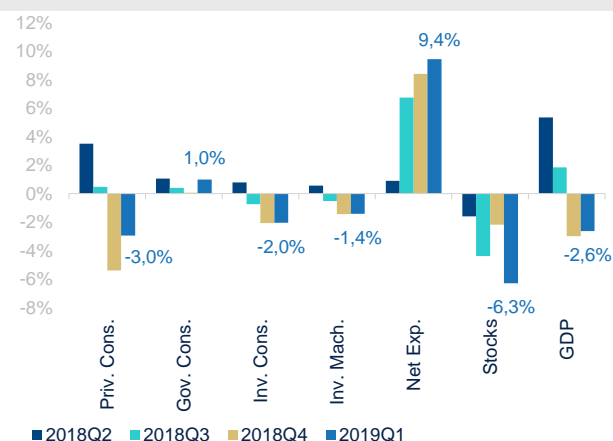
31 May 2019

Turkish Economy contracted by 2.6% in annual terms in 1Q19, parallel to market expectations (-2.8% Consensus vs. -1.7% BBVA Research). The economy technically came out of the recession as the quarterly contraction in seasonally and calendar adjusted terms turned into positive by 1.3% after the decline of three previous consecutive quarters. The deepest negative contribution of stocks in the current series suppressed the overall contribution from domestic demand (-12.1pp), while the support from net exports set a new record high level (+9.4pp). Our monthly GDP indicator shows further recovery for 2Q19 but with some signals of deceleration and nowcasts a contraction of 1.7% yoy in April (47% of info) and -1.2% yoy in May (30% of info). Recent tighter financial conditions on the renewed high volatility in the financial markets could reverse the ongoing recovery path and introduce a W pattern in the absence of a prudent policy coordination. We maintain our GDP growth forecast at 0.3% for 2019.

The sharp negative contribution from inventories weighed on GDP

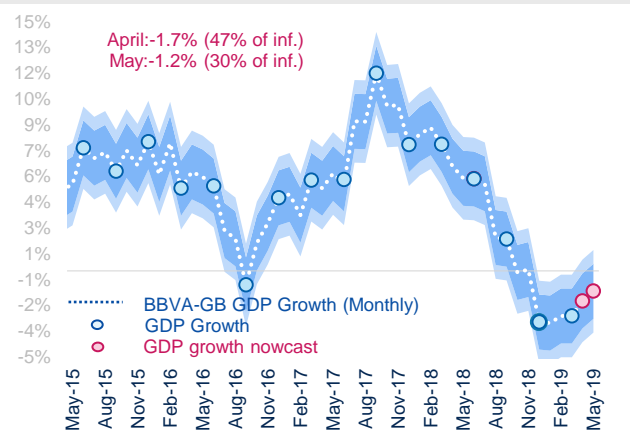
Our main discrepancy in 1Q19 GDP data was the sharp negative contribution from inventories (-6.3pp), which led the overall contribution from domestic demand to deepen further. When stocks excluded, the shrinkage in domestic demand indeed decelerated, as the annual contraction in private consumption slowed down to 4.7% from 8.9% and the growth in Government consumption accelerated to 7.2% from 0.5%. Investment expenditures continued to contract by near 13%. On the other hand, exports remained supportive (9.5% yoy) and the contraction in imports deepened further to 29% yoy, the lowest level since 1Q09. Thus, the contribution from net exports set a new record (+9.4pp). On the production side, the deceleration in the contraction of industry (to 4.3% from 6.4%) helped the overall figure, while the services gave a similar contraction (-1.5% yoy). The shrinkage in construction widened to 10.9% from 8.7%, while the agriculture gave a positive contribution similar to historical averages. Looking ahead, our nowcasting on demand subcomponents (Graph 6 to 8) gives signals of further recovery, but with some loss of steam especially on the consumption side. The magnitude and the duration of the recovery will depend on how the policy mix will face the renewed high volatility in financial markets, which could introduce a W pattern.

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, GBTRGDPY Index in BBG

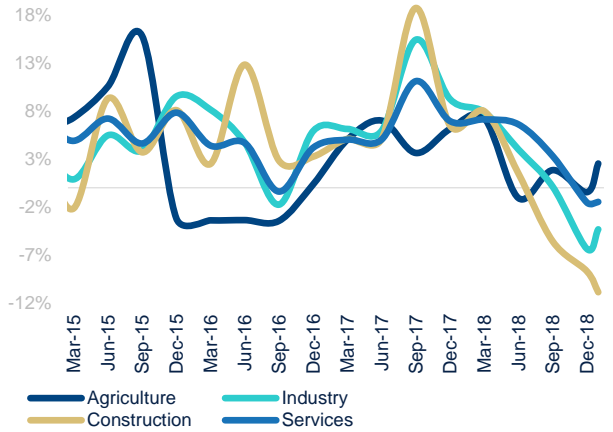
Prudence and collaboration will be key to maintain the recovery trend

The preliminary indicators still supporting a gradual recovery and supporting base effects in the second half of the year should easily result in a positive growth rate in 2019. However, the renewed high volatility in financial markets, and political and geopolitical uncertainties can truncate the recovery path. A prudent policy mix remains key to maintain this trend alive and avoid a “W” pattern.

Creating Opportunities

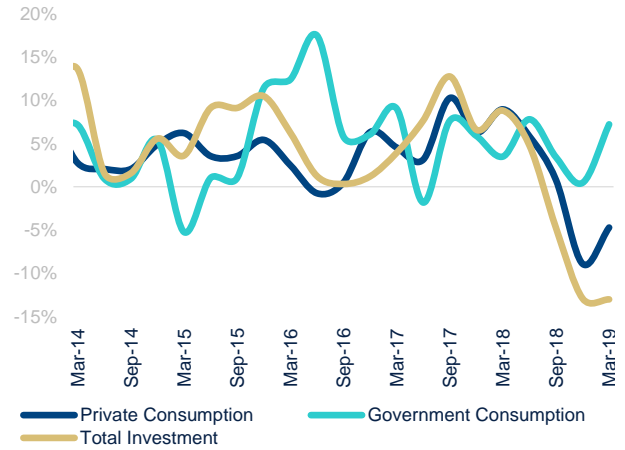
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Chart 3 Sectorial Growth (YoY)



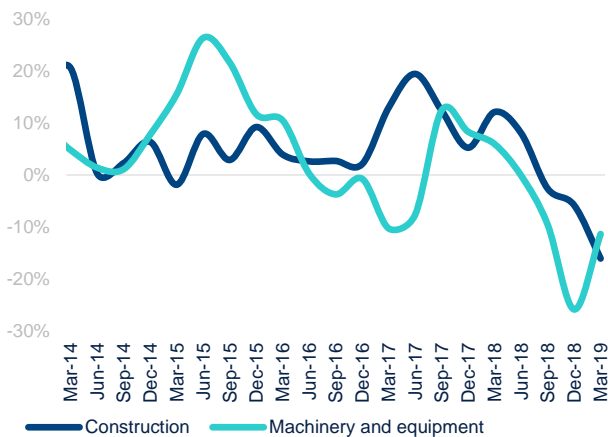
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

Chart 4 Domestic Demand Growth (YoY)



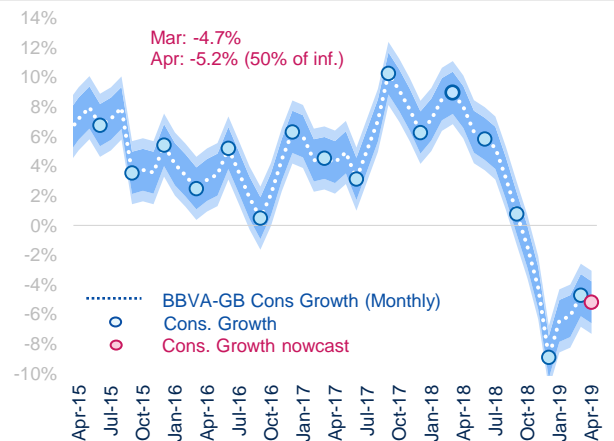
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5 Gross Fixed Capital Formation (YoY)



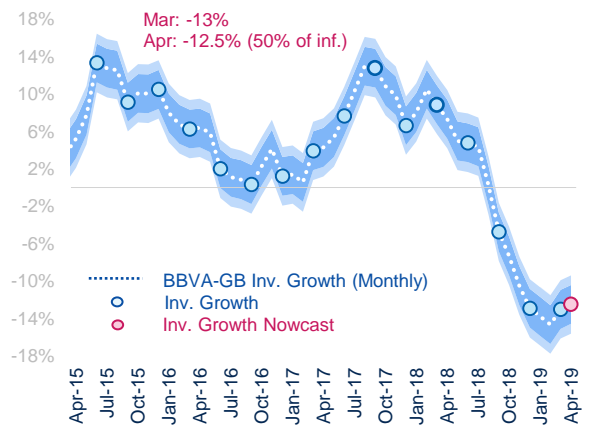
Source: BBVA Research Turkey, Turkstat, CBT, AMA

Chart 6 Monthly Consumption Nowcast (3MA)



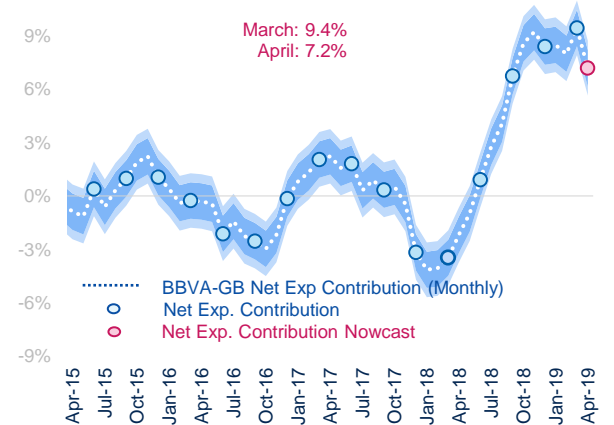
Source: BBVA Research Turkey, GBTRCGDPY Index in BBG

Chart 7 Monthly Investment Nowcast (3MA)



Source: BBVA Research Turkey, GBTRIGDPY Index in BBG

Chart 8 Monthly Net Exports Nowcast (Annual cont.)



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BBG

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