

Turkey: Growth in 2Q surprised market on the upside

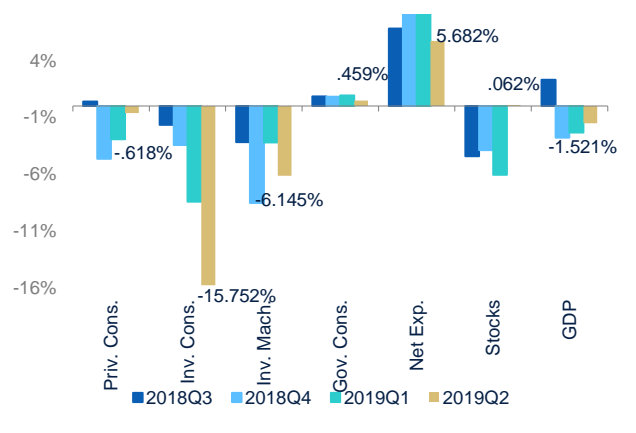
Ali Batuhan Barlas / Adem Ileri / Serkan Kocabas / Seda Guler Mert / Alvaro Ortiz
02 September 2019

Turkish Economy contracted by 1.5% in annual terms in 2Q19, better than market expectation but worse than ours (-2% Consensus vs. -1% BBVA Research). In quarterly terms, the economy grew at 1.2%, avoiding the “W” pattern but moderating from 1.6% QoQ in 1Q19. Besides, the upward revision in the last 3 quarters of 2018 led GDP growth in 2018 to pick up from 2.6% to 2.8% and the 1Q19 was also revised upwards to -2.4% yoy (previous -2.6%). Despite the improvement on the private consumption and the still robust contribution of net exports (+5.7pp), sharp negative contribution of investment expenditures (-7.1pp) prevented the further recovery. Our monthly GDP indicator signals some moderation in economic activity as it nowcasts a mild improvement from the actual -1.5% to 1.3% yoy for July (47% of info). We expect an acceleration of recovery in August once the supply side indicators benefit from calendar effects on top of positive base effects starting to kick-in in 3Q and 4Q. The looser monetary and macro-prudential policy will provide some extra support but complacency should be fully ruled out as an aggressive policy easing could revert market confidence. We still maintain our GDP growth forecast at 0.3% for 2019.

The sharp decline in investment prevented further recovery

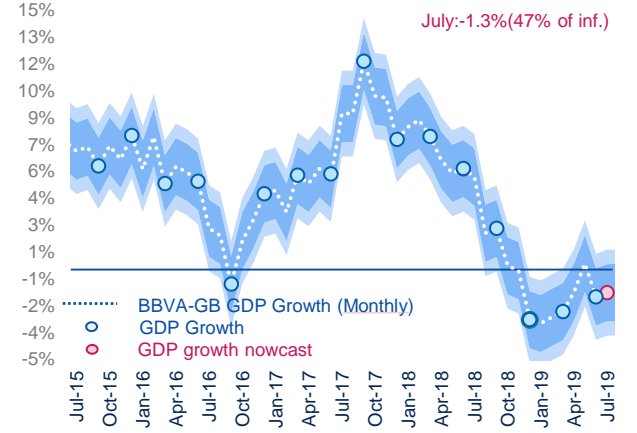
Domestic demand has recovered from -11.4% yoy in 1Q19 to -7.2% yoy in 2Q19 based on the improvement on the private consumption and stocks but the sharp contraction in the investment expenditure prevented further recovery. The annual contraction in private consumption has slowed down from 4.8% in 1Q19 to 1.1% while the growth in government consumption decreased from 6.6% yoy to 3.3% yoy. However, investment expenditures were the main discrepancy in our estimation as the annual contraction has accelerated from 12.4% in 1Q19 to 22.8% in 2Q19, sharpest fell since 1Q2009 and stemmed from further deterioration in construction and machinery expenditures despite the our slight recovery expectation based on the leading indicators. Public investment for which we don't have high frequency indicators could be the one of the main reasons. Besides, while the exports growth (8.1% yoy) was still robust, the slowdown in annual contraction of imports, declined from 29% in 1Q19 to 17%, led contribution from net exports to decline from 9.4pp in 1Q19 to 5.7pp. On the production side, the deceleration in the annual contraction of services (to 0.2% from 1.3% in 1Q19) and industry (to 2.7% from 3.9% in 1Q19) supported the economic activity, while the shrinkage in construction sector has deepened further from 9.3% yoy to 12.7% yoy. The agriculture was the only sector that gave a positive contribution of 0.1pp.

Chart 1. Annual contributions to GDP



Source: BBVA Research Turkey, Turkstat

Chart 2. BBVA Research monthly GDP (3ma, yoy)*

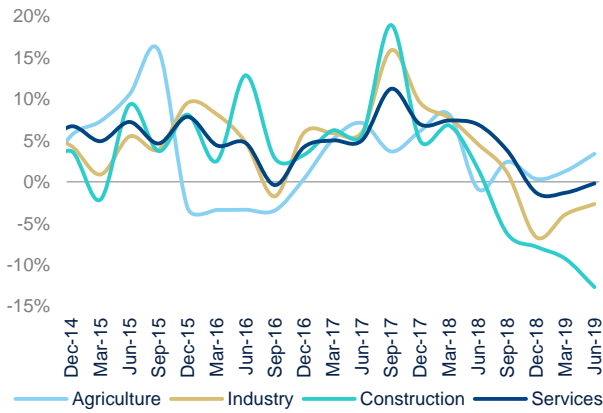


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDPY Index in BBG

Gradual recovery should be enhanced by the right steps on policy front

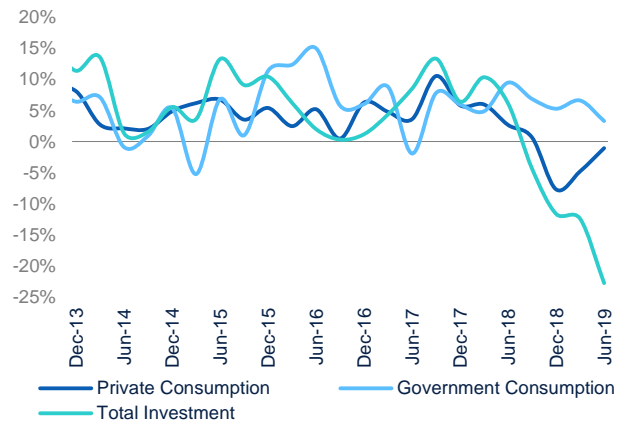
The recent macro prudential measure of CBRT, the better financial conditions and the supportive base effects in the second half of the year, would lead to a positive growth rate in 2019 GDP (we expect +0.3%). Nevertheless, the right steps on the policy front would be crucial to reinforce confidence as global factors (trade wars and economic slowdown in EU) and geopolitical uncertainties could pose downside risks on the recovery path.

Chart 3. **Sectorial Growth (YoY)**



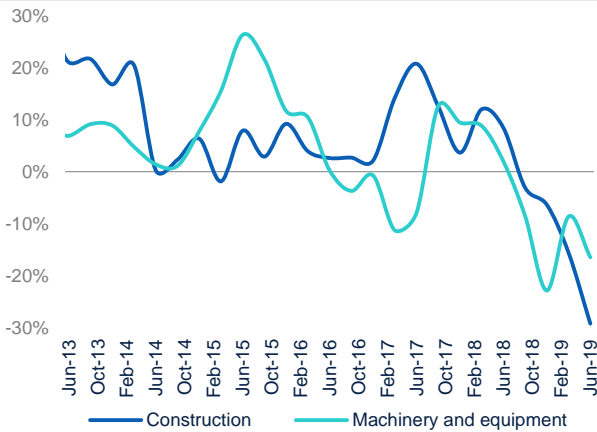
Source: BBVA Research Turkey, Turkstat, GBTRRTIY Index in BBG

Chart 4. **Domestic Demand Growth (YoY)**



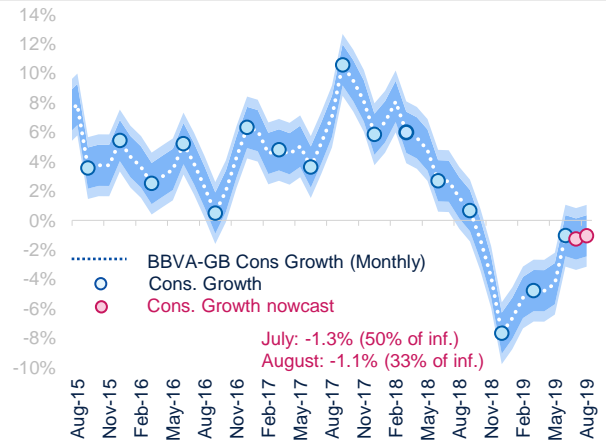
Source: BBVA-Research Turkey, Turkstat, TETC

Chart 5. **Gross Fixed Capital Formation (YoY)**



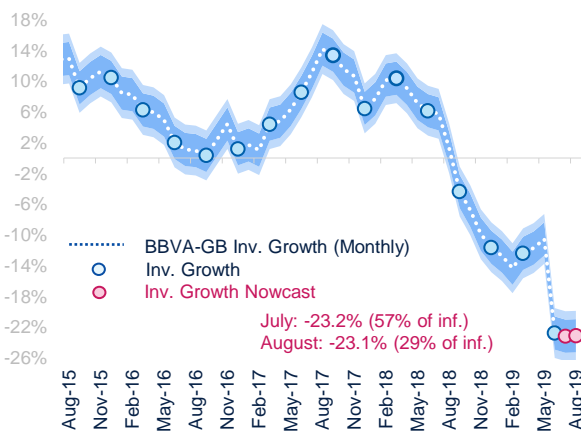
Source: BBVA Research Turkey, Turkstat, CBT, AMA

Chart 6. **BBVA Monthly Consumption Nowcast(3m yoy)**



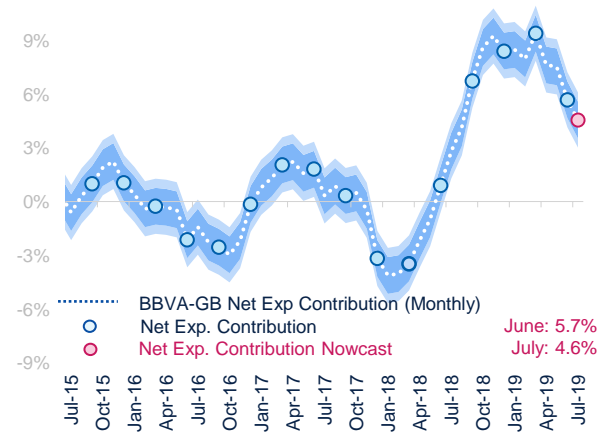
Source: BBVA Research Turkey, GBTRCGDPY Index in BBG

Chart 7. **BBVA Monthly Investment Nowcast (3ma yoy)**



Source: BBVA Research Turkey, GBTRIGDPY Index in BBG

Chart 8. **BBVA Monthly Net External sector (contrib.)**



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BBG

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorized by BBVA.

ENQUIRIES TO:

BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com

