

Turkey: First Positive Growth since 3Q2018

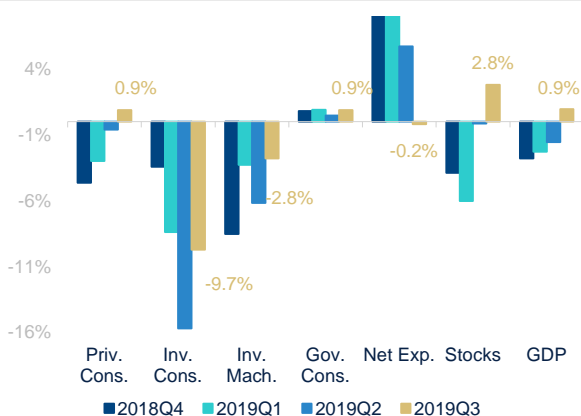
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Turkish Economy grew by 0.9% yoy in 3Q19 (Consensus; 1%), the first positive YoY growth since 3Q18. The GDP grew by 0.4% in quarterly terms, signaling some momentum loss comparing 1.2% qoq in 2Q19. Domestic demand recovered on stocks, private consumption and government consumption, causing the positive high contribution of net exports for the last 3 quarters to reverse to slight negative contribution. We expect an acceleration of the recovery in the next two quarters on the supportive financial conditions and substantial base effects. Our monthly GDP indicator confirms this expectation as it nowcasts 3.5% yoy in October (52% of info) and 5.1% yoy in November (32% of info). Complacency should be ruled out as challenges in the medium run remain given the uncertainties on global, geopolitical and local factors. We maintain a prudent GDP growth forecast of 0.3% for 2019 with some upside risk and a neutral 3% for 2020.

Further recovery in domestic demand, leading negative impact of net export

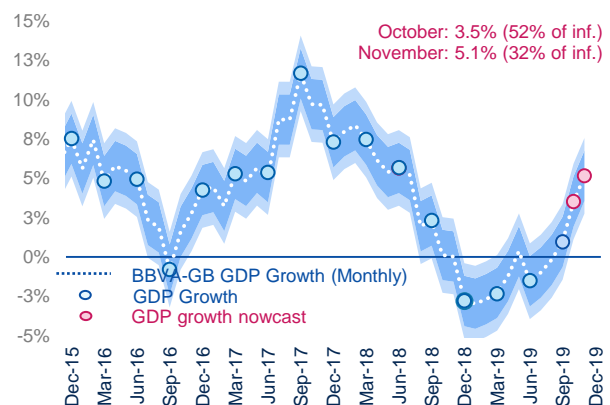
Domestic demand has recovered from -7.2% yoy in 2Q19 to +1.1% yoy in 3Q19, supported by the positive contribution of stocks, private and government consumptions. Investment is bottoming out but still negative contribution prevented further recovery in activity. Private consumption grew by 1.5% yoy while the government consumption (7% yoy in 3Q19) continued to support economic activity. The contribution of stocks returned to the positive territory as 2.8 pp contribution, signaling some improvement on supply side. Main discrepancy in our estimation has stemmed from the net export side as we were still expecting positive contribution despite the slightly negative realization of 0.2pp. On the sectorial side, industry and services sectors displayed positive growth of 1.6% and 0.6% yoy, respectively after contracting in the last three quarters while construction sector continued to shrink by 7.8 yoy in 3Q but showing some improvement at least. Our demand subcomponents showed that domestic demand will continue to recover on consumption and investment while the net export will begin to give sizeable negative contribution due to the rise in import and weak performance of exports on the slowdown in global activity. Taking into account the pick-up in credit growth, favorable base effect, the recovery in electricity and auto productions, confidence indices and our big data indicators such as retail sales and investment expenditures, we think that economic activity will improve faster in the last quarter of 2019 and first quarter of 2020. The lagged impact of the recovery will be observed in the labor market as our unemployment nowcasting model (Chart 5) estimates the decline in unemployment rate (s.a).

Chart 1. Annual contributions to GDP



Source: BBVA Research Turkey, Turkstat

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

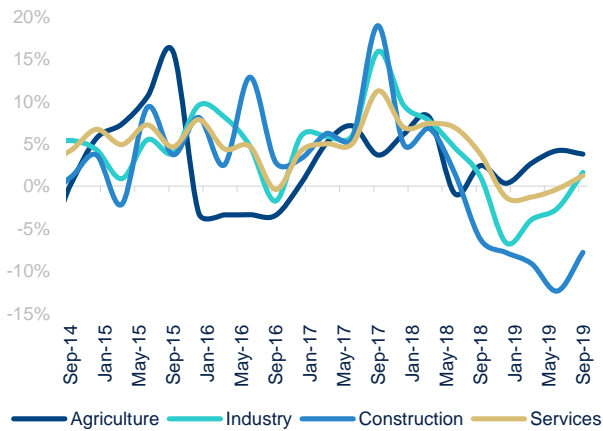


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDPY Index in BBG

The recovery is accelerating in 4Q but complacency should be ruled out

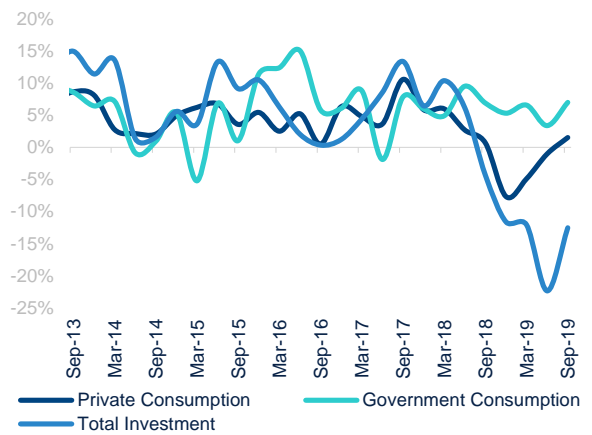
The monetary policy impulse and the favorable base effects in the coming two quarters would result acceleration in activity. We expect 0.3% growth in 2019 with some upside risks. However, complacency should be ruled out and policy mix should be prudent as uncertainties stemmed from geopolitics, global and still incomplete corporate restructuring put some risks in the medium term.

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



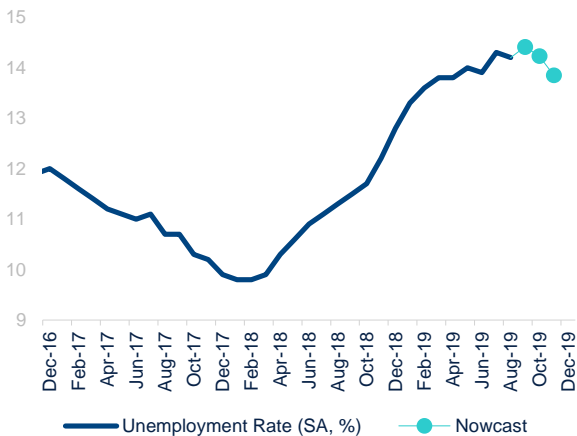
Source: BBVA Research Turkey, Turkstat,

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



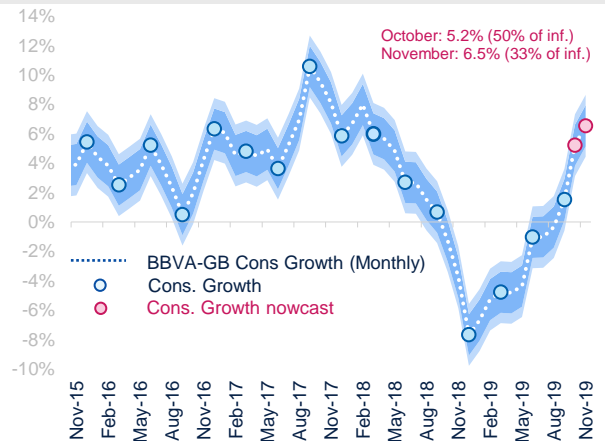
Source: BBVA-Research Turkey, Turkstat,

Chart 5. **Unemployment Nowcast Google Big Data (%)**



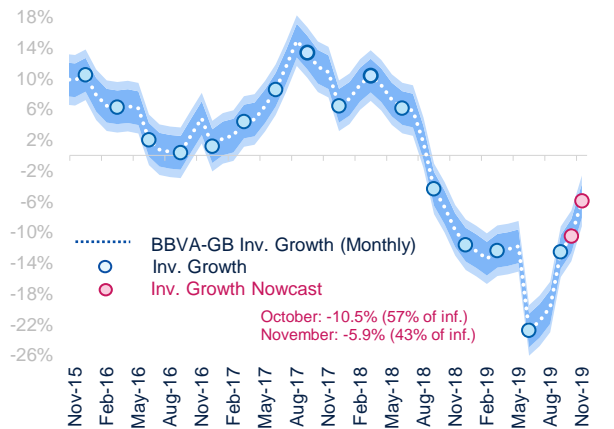
Source: BBVA Research Turkey, Turkstat,

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



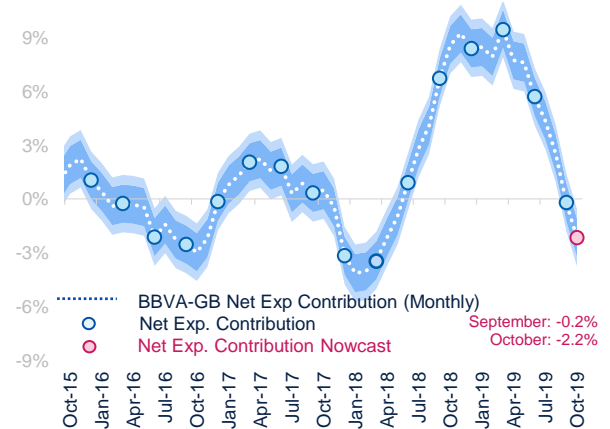
Source: BBVA Research Turkey, GBTRCGDPY Index in BBG

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

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