

Turkey: The economy grew by 0.9% in 2019

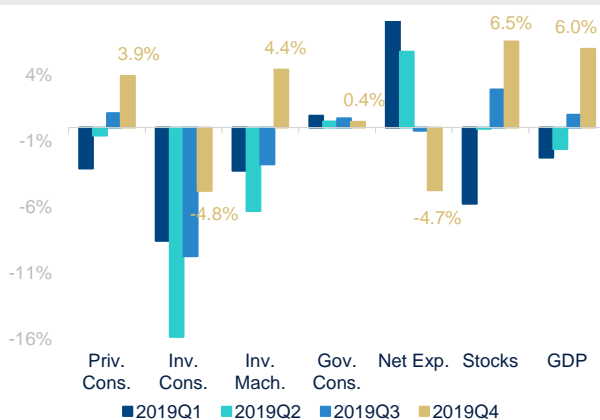
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Turkish Economy grew by 6% yoy in 4Q19, leading the whole year GDP growth to be realized at 0.9%, beating the consensus but parallel to our initial forecast of 0.8%. Seasonal and calendar adjusted quarterly growth rate also confirmed the acceleration in economic activity by materializing at 1.9%, up from 0.8% in 3Q19. The recovery was backed by both consumption and investment, though investment still lagged behind as expected. Looser financial conditions and strong base effects have supported the activity so far, which will likely be followed by a similar momentum in 1Q20 as our nowcasting figures currently suggest (6.2% annual GDP growth in February with 30% info). However, the persistency of the recent global volatility and geopolitical developments will be key on the pace of economic activity in the coming quarters. We remain prudent and maintain our GDP growth forecast at 4% for 2020.

Sharp positive contribution from stocks with further recovery in domestic demand

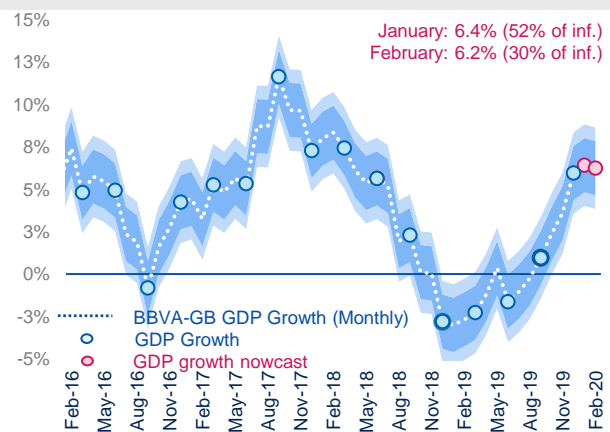
Economic activity has accelerated further on the back of high private consumption growth (6.8% yoy), ongoing recovery in investment (-0.6% yoy from -12.8% yoy in 3Q19) and huge historical positive contribution from stocks (6.5 pp), while the support from Government consumption decreased to its lowest level (0.4pp) since 3Q17. Domestic demand contribution including stocks recovered to 10.7pp in 4Q19 from 1.2pp in 3Q19, whereas the contribution from net exports deteriorated further to -4.7pp in 4Q19 on the back of sharp increase in imports (29.3% yoy) despite the continuous moderate growth in exports. However, 2019 GDP growth was underpinned by a positive contribution from net exports at 2.3pp, while domestic demand dragged down 1.4pp mainly due to the sluggish recovery in investment. On the sectorial side, the recovery in industry and services sectors accelerated to 6.3% yoy and 7.2% yoy in 4Q19 from 1.6% yoy and 1.4% yoy in 3Q19, respectively. Although construction sector somehow recovered, it still continued to pose a negative growth rate (-3.8% yoy). On the other hand, for 2019 in total, services sector was the main contributor with 1.9pp contribution. Recent impulses on policy and regulation fronts with current positive momentum and still some positive base effects but diminishing in the first half of the year will continue to support growth. Our demand subcomponents also confirm that domestic demand might recover further on consumption and investment while negative contribution from net exports may deepen due to the acceleration in imports. All in all, prudence should be maintained as global risks especially on coronavirus and geopolitical factors bring downside pressures on activity.

Chart 1. Annual contributions to GDP



Source: BBVA Research Turkey, Turkstat

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

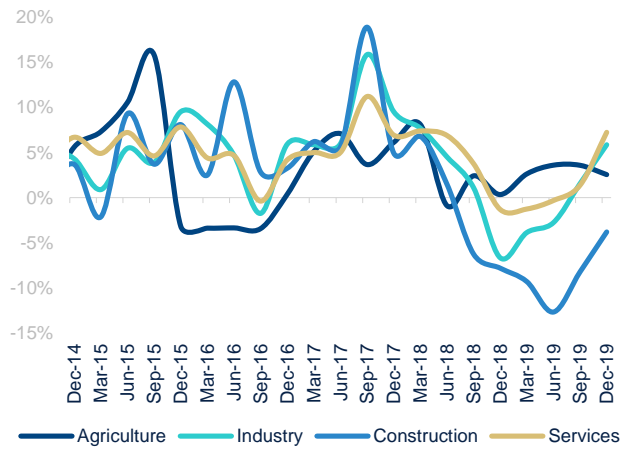


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDPY Index in BBG

Activity gains momentum, complacency should be ruled out

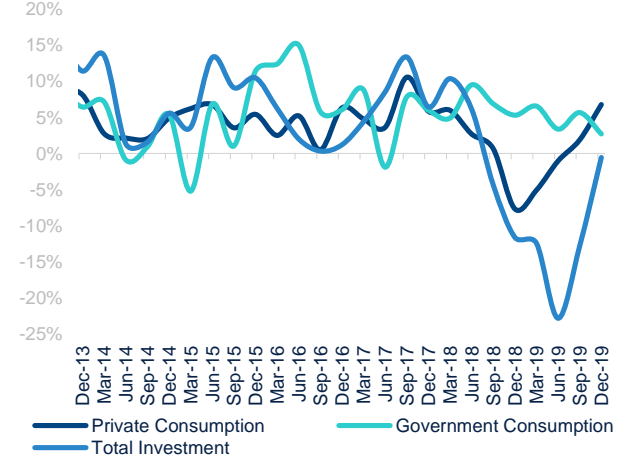
Looser financial conditions, policy impulses and strong base effects will likely be supportive for economic activity in the first half of the year, which could be dragged down somewhat depending on the persistency of the recently increased volatility on top of both global and geopolitical factors. In any case, complacency should be ruled out since the economic recovery is still on track as our nowcasting figures currently suggest. Given the downside risk factors, we remain prudent and maintain our GDP growth forecast at 4% for 2020.

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



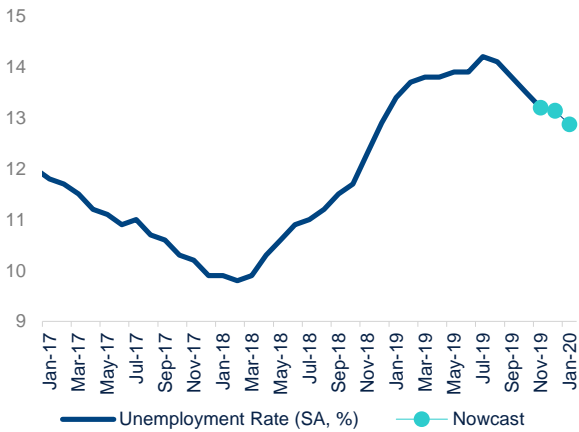
Source: BBVA Research Turkey, Turkstat,

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



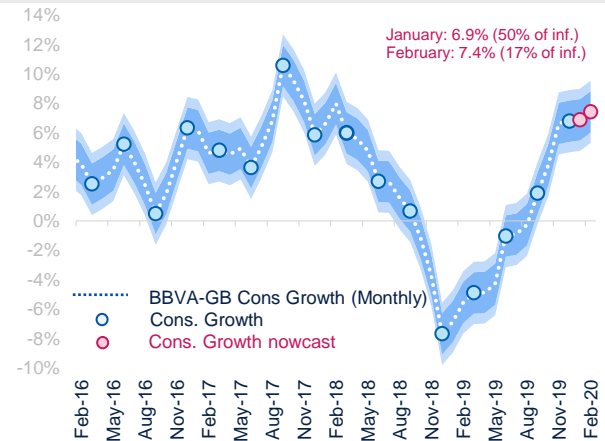
Source: BBVA-Research Turkey, Turkstat,

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



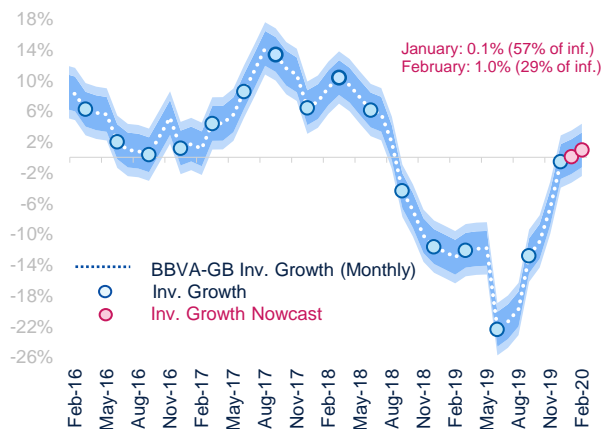
Source: BBVA Research Turkey, Turkstat,

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



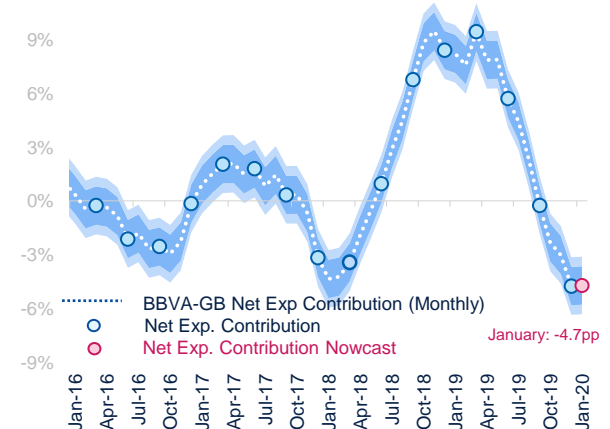
Source: BBVA Research Turkey, GBTRCGDPY Index in BBG

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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