

ECONOMIC ACTIVITY PULSE

Turkey: V-shaped Growth Recovery on Revisions and Consumption

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4Q16 GDP grew by 3.5% YoY, significantly above the market and our expectation of 1.9%. Accordingly, full year GDP growth came in at 2.9% beating our 2.3% forecast. Surging private consumption and much higher than expected growth in industry were the main sources of our bias, respectively in expenditure and production. Most part of the positive surprise in 4Q growth (1.1pt) is explained by the significant upward revision of the previous three quarters' GDP figures. Yet on QoQ terms, 3.8% 4Q growth released by the TurkStat is close to our 3.1% call. However, employment, consumption and production indicators made available by TurkStat still fall short of shedding light on the remaining unexplained part. Looking ahead, our monthly GDP model signals a further recovery in 1Q17 towards 6% by February, suggesting a v-shaped recovery after the slump in 3Q16.

4Q industrial sector and consumption growth surprised positively

In 4Q16, on the expenditure side, almost the entire contribution came from private consumption which grew by 5.7%, whereas government consumption was weak by 0.8% YoY growth. Both series were surprising as hard data on retail sales and government expenditures were implying the opposite. Thus, domestic demand gave a total contribution of 3.8pp, while the negative contribution of net exports lost momentum with the pick-up in exports. On the production side, a significant contribution was derived from the industry with 5% YoY growth in 4Q16, which was not fully confirmed by monthly IP series. Together with the upward revisions in the first 3 quarters from 2.2% to 2.6% in annual terms, GDP grew by 2.9% in 2016. Domestic demand including stocks contributed 4.2pp, while net exports, mostly due to the problems in the tourism sector, subtracted 1.3pp from the growth rate of last year. Private consumption was weak by 1.4pp contribution, government consumption and total investments both contributed by almost 1pp to the growth in 2016.

Figure 1

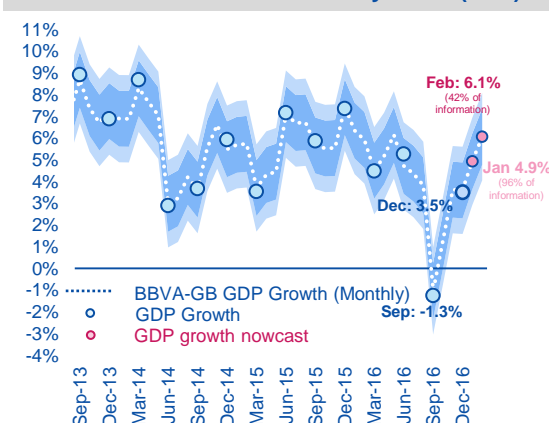
Activity Indicators (3MA, YoY, SA)

| Mean | 2016 | | | | | | | | 2017 | |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | |
| Industrial Production | 3.6 | 3.0 | 0.1 | -1.3 | -3.1 | -0.3 | 0.4 | 2.0 | 3.3 | |
| Non-metal Mineral | 1.4 | 0.4 | -3.3 | -1.5 | -3.0 | 2.3 | 1.7 | -1.0 | -4.2 | |
| Electricity Production | 4.2 | 6.9 | 6.4 | 6.8 | 3.1 | 3.3 | 3.3 | 5.3 | 6.4 | 7.1 |
| Auto Sales | 4.2 | 2.5 | -4.6 | -13.4 | -15.2 | 3.4 | 24.1 | 10.2 | 6.4 | -2.1 |
| Tourist Arrivals | 3.1 | -36.2 | -38.4 | -38.8 | -36.5 | -32.9 | -28.3 | -22.8 | -7.8 | |
| Number of Employed | 3.6 | 2.7 | 1.8 | 1.2 | 1.3 | 1.4 | 1.5 | 1.3 | | |
| Number of Unemployed | 4.7 | 4.2 | 8.2 | 11.6 | 13.2 | 14.6 | 16.1 | 18.6 | | |
| Auto Imports | 6.8 | 2.6 | -3.5 | -9.7 | -0.2 | 9.0 | 31.7 | 16.4 | 11.1 | -8.1 |
| Auto Exports | 7.2 | 2.16 | 24.3 | 14.7 | 12.2 | -16.5 | -10.6 | -1.7 | 33.5 | 30.2 |
| Financial Conditions | 75.4 | 86.7 | 91.2 | 88.4 | 88.6 | 92.5 | 80.1 | 73.6 | 59.0 | 42.0 |
| Credit Growth-13Week | 12.5 | 15.3 | 15.2 | 14.7 | 14.5 | 14.8 | 14.0 | 14.3 | 14.0 | 14.6 |
| Retail Sales | 4.2 | 2.1 | -0.2 | -0.5 | -0.8 | 0.3 | -0.5 | -1.8 | -2.3 | |
| Real Sector Confidence | 107.3 | 104.3 | 106.3 | 103.0 | 107.1 | 103.8 | 107.6 | 103.8 | 100.5 | 106.5 |
| MICA Forecast | | | | | | | | | 4.9% | 6.1% |
| GDP YoY | | 5.3% | | | -1.3% | | | | 3.5% | |

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2

Garanti-BBVA Research Monthly GDP* (YoY)



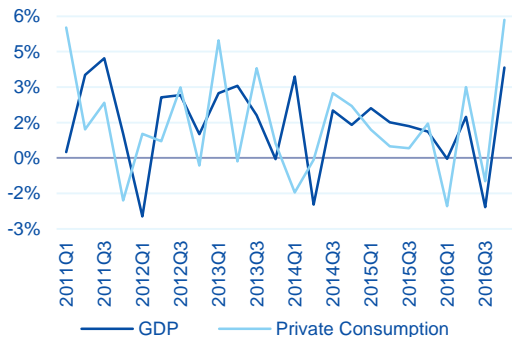
*BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP.
Source: BBVA-Garanti Monthly GDP Model, Turkstat
**Our indicator is also available on Bloomberg with the ticker GBTRGDPY Index

A resilient 2016 and a good start for 2017

2.9% growth in 2016 in a very challenging year is a positive surprise and shows the resilience of the economy. Intensified fiscal stimulus and counter-cyclical macro-prudential measures to boost private consumption seem to have worked. Our monthly GDP indicator points at a continuum of recovery in 1Q and most likely we will upgrade our 2.5% GDP forecast for 2017 in the short term.

Figure 3

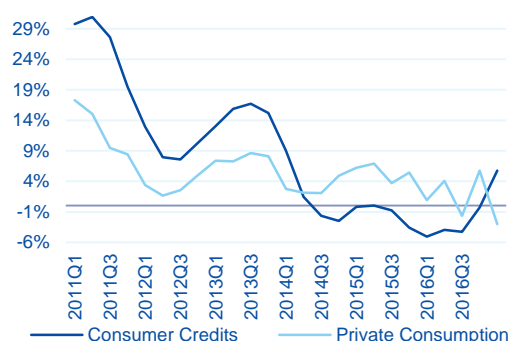
GDP Growth QoQ (Seasonally and Calendar Adj)



Source: Garanti Research, Turkstat

Figure 4

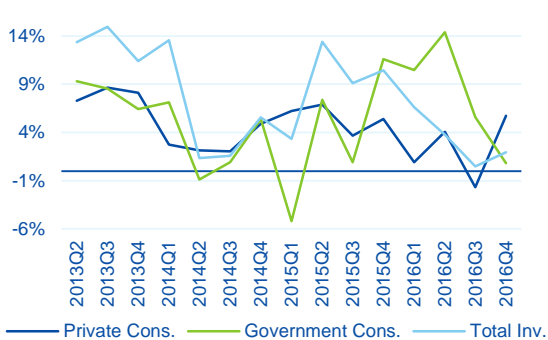
Real Cons. Credit & Private Cons. Growth (YoY)



Source: Garanti Research, Turkstat, BRSA

Figure 5

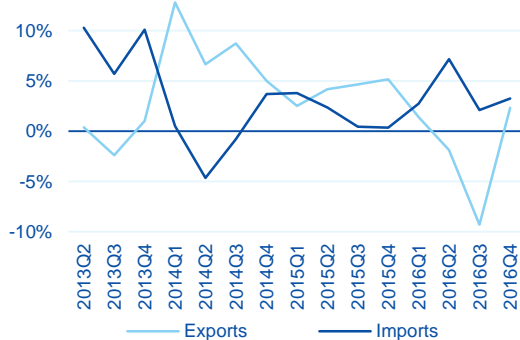
Domestic Demand Indicators YoY



Source: Garanti Research, Turkstat

Figure 6

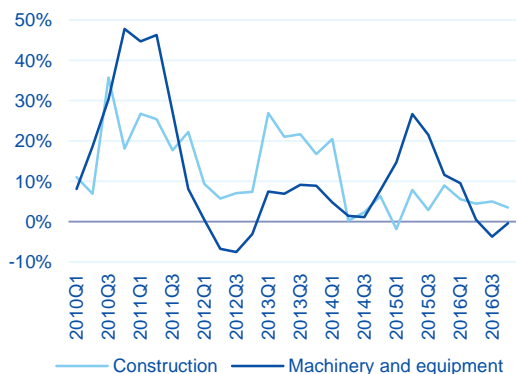
External Demand Indicators YoY



Source: Garanti Research, Turkstat

Figure 7

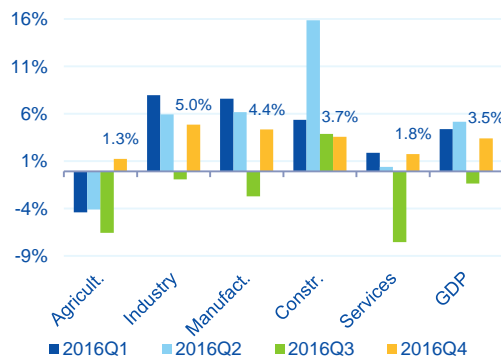
Gross fixed capital formation YoY



Source: Garanti Research, Turkstat

Figure 8

Sectorial Growth YoY



Source: Garanti Research, Turksta

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