

# Turkey: 1Q GDP already shows the COVID impact

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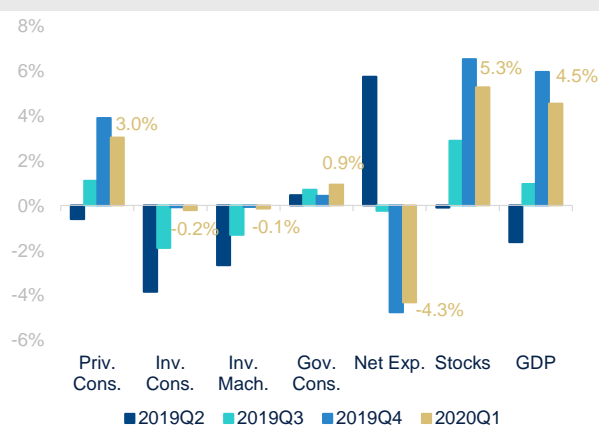
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Turkish Economy grew by 4.5% yoy in 1Q20, lower than expectations (5.5% BBVA Research vs. 4.9% Bloomberg). Seasonally and calendar adjusted quarterly growth also decelerated to 0.6% from the previous 1.9% in 4Q19. The downside surprise stems from the more rapid reaction of services to the impact of the Covid shock, especially on the more sensitive ones: trade, transportation, accommodation and financial services. On the demand side, domestic demand gave a positive contribution of 8.8pp (5.3pp of which came from inventories), while net exports dragged down 4.3pp from the yearly GDP growth rate. Our Big Data proxies and other high frequency indicators signal that the worst could be over starting from May when the restrictions started to be lifted. Our monthly GDP indicator nowcasts a yearly growth rate of -0.4% for April and -6.3% for May, which would be recovering in June thanks to both positive calendar day effects and the lifting of the restrictions and could even be better than our initial projections. We still maintain our GDP growth forecast at 0% for 2020, assuming a partial gradual recovery pattern in the rest of the year.

## Faster than expected impact of the Covid shock on the services sector in 1Q

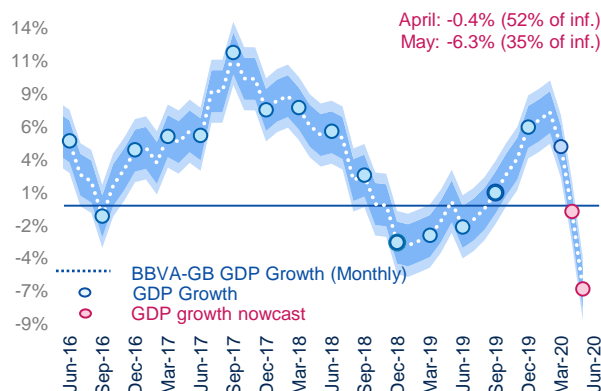
Economic activity continued to expand in 1Q by growing 4.5% annually but losing momentum (0.6% qoq, down from 1.9% qoq in 4Q19), led by the negative impact of Covid starting from March. On the demand side, consumption in both households and government (5.1% and 6.2% yoy, respectively) supported the activity whereas investment (-1.4% yoy) and net exports weighed on the downside. Exports contracted by 1%, while imports grew by 22%, resulting in a negative GDP contribution of 4.3pp. Since demand remained subdued, inventories continued to give a high GDP contribution of 5.3pp. On the sectorial side, industry, services and agricultural sectors (6.2%, 4.7% and 3% yoy in 1Q20, respectively) remained supportive but the deceleration in services sector which has been directly affected by the lock-down measures was faster than our expectations. On the other hand, construction sector continued to suffer despite its slight recovery to -1.3% yoy from -3.8% yoy 4Q19. Leading indicators such as electricity production (near -17% yoy during April-May), auto production (-91% yoy in April), manufacturing PMI (33.4 in April) and our big data indicators all signal that the impact of the shock deepened in April and started to bottom out thereafter. With this info, we forecast a sharp decline in industrial production in April and May (Chart 5), which also carries the impact of negative calendar day effects of partial lockdowns and shift of Ramadan holiday to May this year. Looking ahead, as the lockdown measures begin to ease globally, we expect a gradual recovery from now onwards, whose pattern will depend on the behavioral changes and global risk mood together with the domestic macroeconomic policies.

Chart 1. Annual Contributions to GDP



Source: BBVA Research Turkey, Turkstat

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

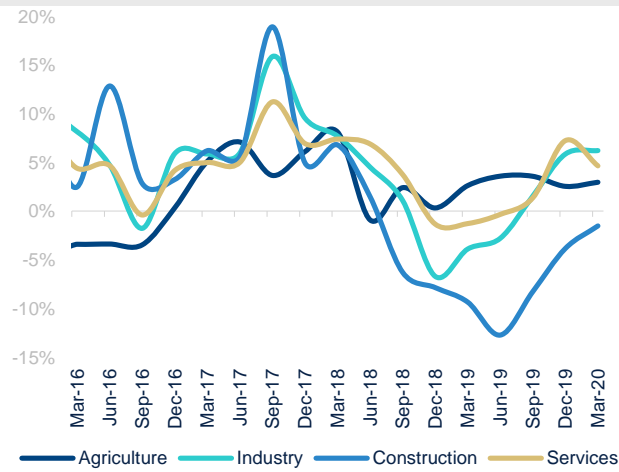


\*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, GBTRGDPY Index in BBG

## The adjustment in 2Q will be harder, to be followed by a recovery in 2H

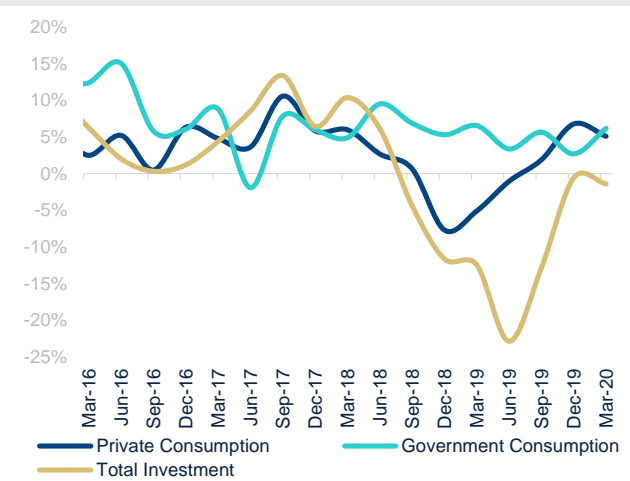
As our Big Data proxies and other high frequency indicators already show bottoming-out signals and the normalization steps will intensify in June, we expect a partial recovery from now onwards, which is the main assumption of our baseline. Despite the downside surprise of 1Q GDP, we still maintain our 2020 GDP forecast at 0%, with risks still somehow balanced, depending on the recovery pattern in the rest of the year.

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



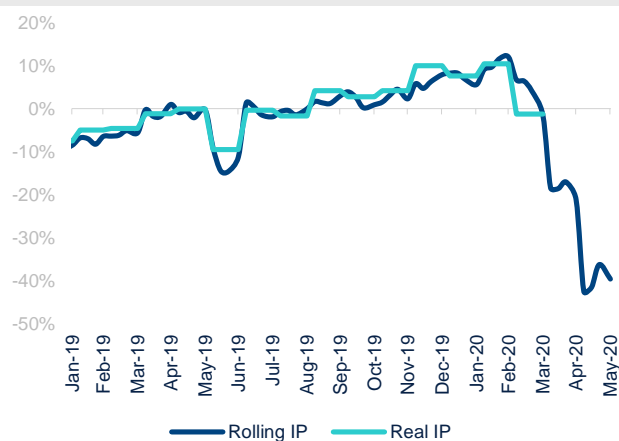
Source: BBVA Research Turkey, Turkstat,

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



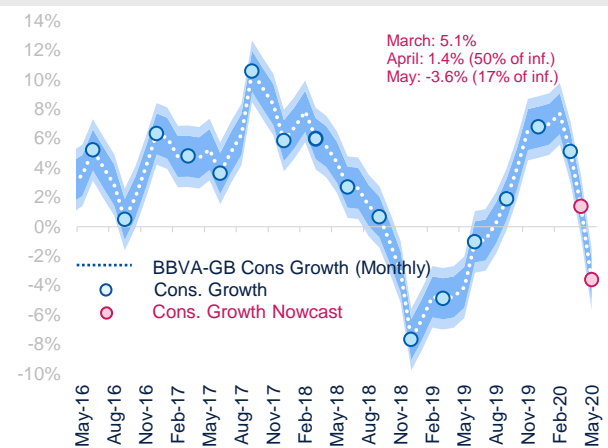
Source: BBVA-Research Turkey, Turkstat,

Chart 5. **Real IP and Rolling IP Forecast (weekly, YoY)**



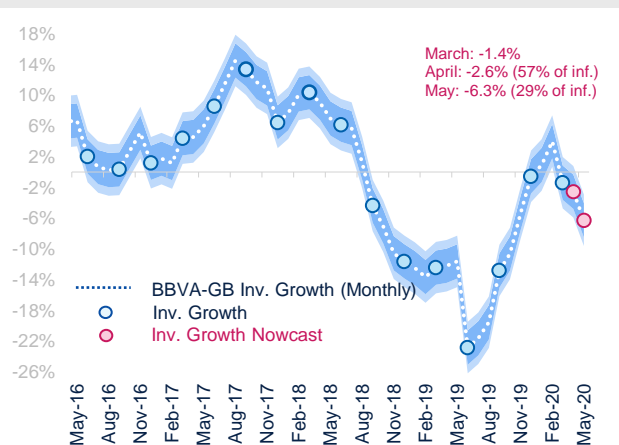
Source: BBVA Research Turkey, Turkstat,

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



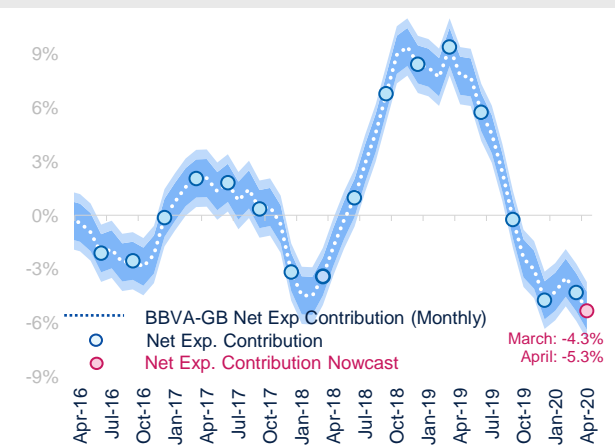
Source: BBVA Research Turkey, GBTRCGDPY Index in BBG

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



Source: BBVA Research Turkey, GBTRIGDPY Index in BBG

Chart 8. **BBVA Monthly Net Exports (contribution to GDP)**



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BBG

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