

Turkey: GDP slumped but beat market expectations

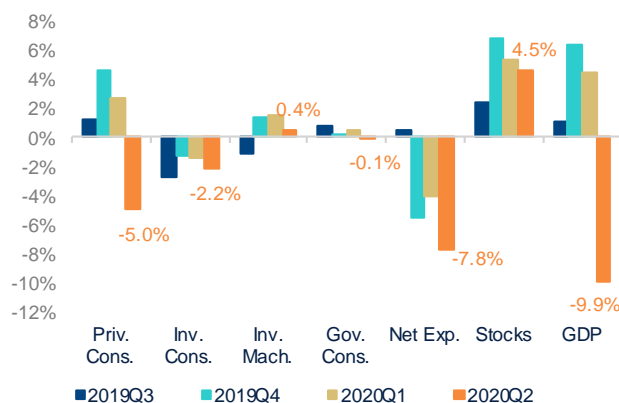
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 31 August 2020

Turkish economy contracted by -9.9% in yearly terms in 2Q20 (-10.7% Bloomberg, -12.7% Reuters). The quarter-on-quarter contraction was higher at 11%. The growth rates in services and industry, sensitive to the Covid-19 shock, were the key factors behind. On the demand side, domestic demand gave a negative contribution of 2.1pp (where inventories limited the downward impact with +4.5pp contribution), while net exports dragged down a record of 7.8pp from the yearly GDP growth rate. Our Big Data proxies and other high frequency indicators are already signaling a strong “V” shaped recovery in 3Q20. So, with a -3.1% GDP growth during the first half of the year, it is unlikely to observe that the gloomy outlook of the consensus for 2020 GDP growth could be fulfilled. We have recently adjusted our 2020 GDP growth forecast to -1.0% from the previous 0% on the back of the recent monetary tightening and financial volatility, but maintained our initial forecast range between -3% and +1%. The economic recovery might continue to have near 5.5% GDP growth in 2021.

Services sector was the main dragger from growth

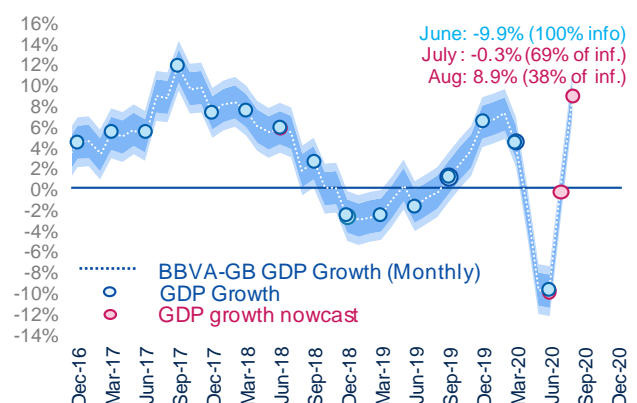
The negative impact of the Covid-19 shock deepened in 2Q20 and economic activity contracted by 9.9% in annual terms, led by the historically deepest quarter-on-quarter contraction of 11%. On the demand side, the main dragger was the exports with -9pp contribution, whereas the relatively very limited contraction in imports (-1.2pp) resulted in a record negative contribution from external demand (-7.8pp). Second, household consumption shrank by 8.6% (the deepest level since 1Q09), subtracting 5pp from growth. The contraction in investment was rather limited with 6.1% (-1.5pp), fueled mainly by the positive base effects. Surprisingly for us, government consumption also contracted by 0.8%, dragging down growth by 0.1pp for the first time since 2Q17. Since demand remained subdued, inventories continued to give a high positive GDP contribution of 4.5pp. On the sectorial side, the growth rates in certain services sectors (sensitive to the Covid shock) and industry weighed on the downside (-5.9pp from trade, transportation and accommodation, and -3.3pp from industry), while agriculture (0.2pp) and other services sectors such as financial (+1.5pp) and information services (0.3pp) limited a further contraction. On the other hand, construction sector continued to suffer (-0.2pp) in the 8th consecutive quarter. Looking ahead, our Big Data and leading indicators confirm a recovery in both demand and the supply side, led by the ease in lock-down measures globally and domestic policy impulses, which should be partially reversed by the recent financial tightening. Our monthly GDP sub-components confirm a robust recovery trend, also in investment, especially showing a better outlook on the machinery front (Charts 6-7).

Chart 1. Annual Contributions to GDP (pp, annual)



Source: BBVA Research Turkey, Turkstat

Chart 2. BBVA Research Monthly GDP (%yoy, 3M Avg)*

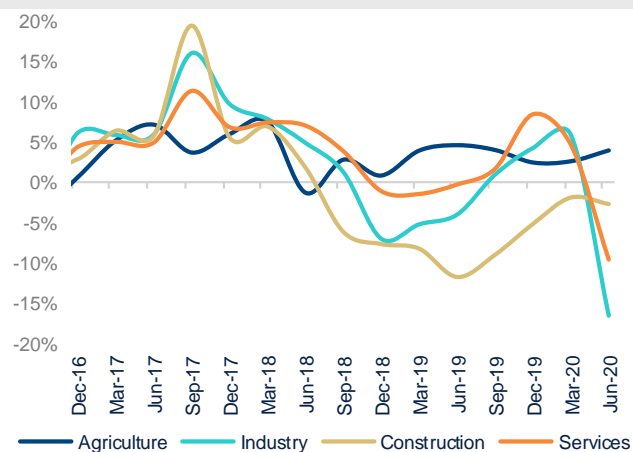


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

We expect 1% GDP contraction in 2020 and 5.5% GDP growth in 2021

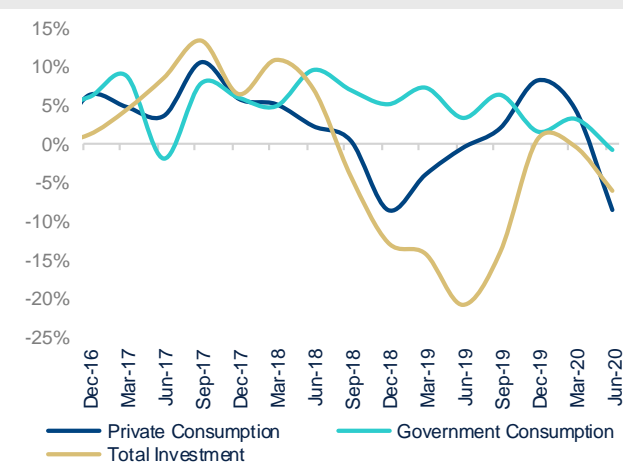
While the recent financial tightening and uncertainties led us to adjust our GDP forecasts to -1%, we maintain our initial forecast range between -3% and +1% for 2020. However, the intense recovery in 3Q20 already poses some upside risks. In any case, Turkey's GDP will outperform the rest of the EMs and gloomier expectations should be ruled out. GDP growth might converge to 5.5% in 2021.

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



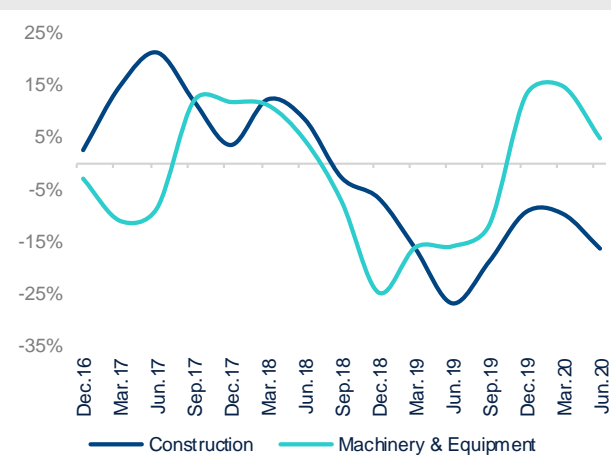
Source: BBVA Research Turkey, Turkstat,

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



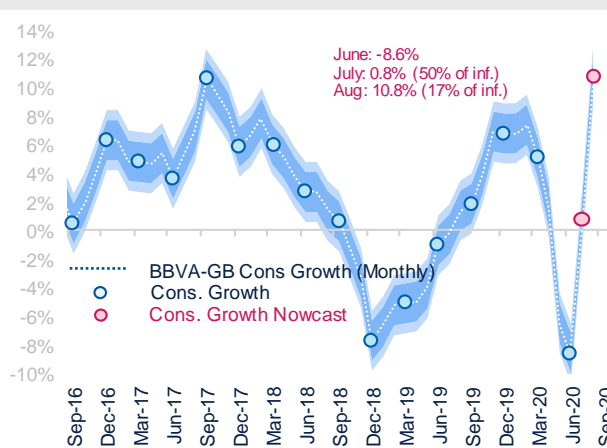
Source: BBVA Research Turkey, Turkstat,

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



Source: BBVA Research Turkey, Turkstat,

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



Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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

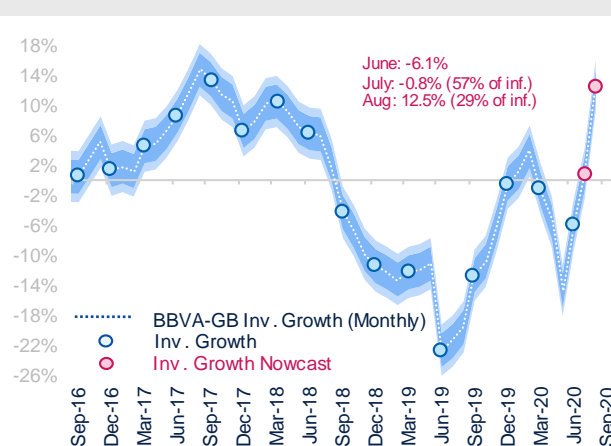
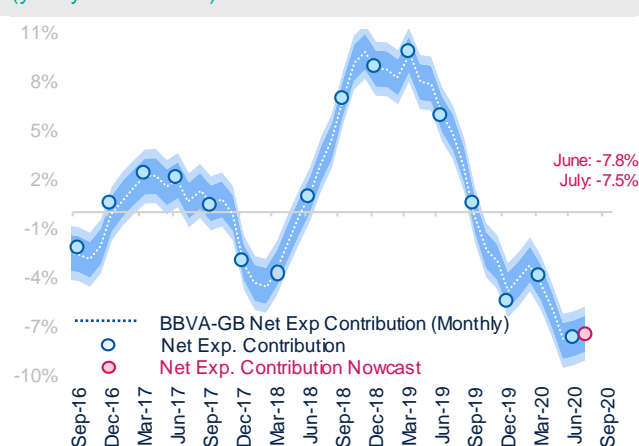


Chart 8. **BBVA Monthly Net Exports Now cast (yearly contribution)**



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BBG

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