Creating Opportunities

Turkey: Sharp GDP in 3Q signals "+" growth in 2020

Ali Batuhan Barlas / Adem Ileri / Berk Orkun Isa / Seda Guler Mert / Alvaro Ortiz

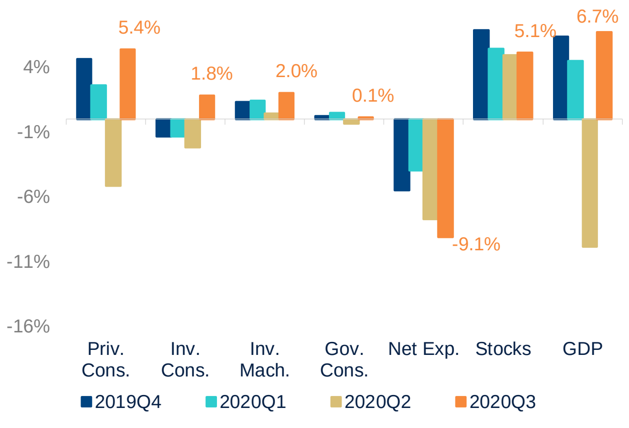
30 November 2020

Turkish economy grew by 6.7% in yearly terms in 3Q20, beating both our and market expectation of 5%. The quarter-on-quarter growth rate was also sharp at 15.6%, leading the overall level to jump over the pre-pandemic level. Therefore, annual GDP growth rate reached 0.5% in the first 3 quarters of the year. Services sector, even the ones sensitive to the Covid shock, gave a positive contribution; while other main subsectors also showed a strong rebound. On the demand side, domestic demand gave a robust contribution of 15.8pp (where inventories remained supportive with +5.1pp contribution), while net exports dragged down a record of 9.1pp from the yearly GDP growth rate. Regarding 4Q20, both our Big Data proxies and other high frequency hard data indicators signaled only a limited deceleration so far, which started to become clearer by the third week of November when new restrictions have been announced. Our monthly GDP indicator nowcasts a yearly GDP growth rate relatively stable to 3Q20, which we expect to lose momentum in the very short term. On top of the robust performance so far, 2020 GDP growth will likely get near 1% (above our current forecasts of 0%). Given the strong momentum, the changes in the policy framework, the reduction in risk premium and the strong carry over (base effect), we maintain our 5.5% GDP forecasts for 2021.

Very strong domestic demand, high negative contribution of net exports

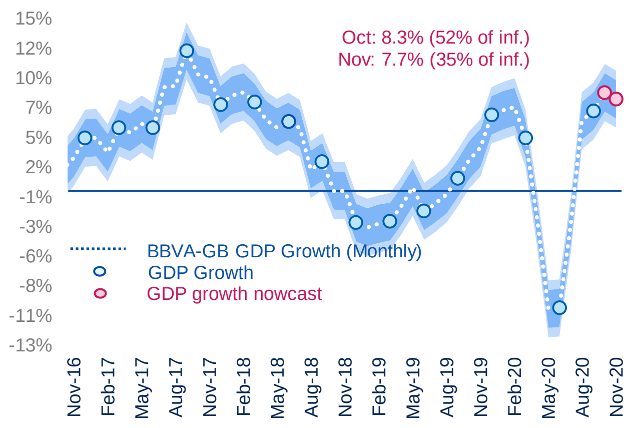
The ease in lock-down restrictions and expansionary policy measures especially in terms of credit boost led GDP to recover very sharply in 3Q20, eliminating the deep negative output gap observed in 2Q20. On the demand side, household consumption grew by 9.2% in yearly terms (5.4pp cont.) mainly backed by the durable goods consumption, while investment jumped by 22.5% yoy (5.2pp cont.), which showed a balanced composition but mostly supported by the machinery segment. Government consumption continued to remain weak by 1% growth (0.1pp cont.). However, somehow recovering but still weak external demand, poor tourism revenues and the revival of imports on domestic demand led net exports to remain the main dragger from growth (-9.1pp cont.). As a result, despite the rebound in domestic demand, inventories maintained its high positive contribution (5.1pp). On the sectorial side, all sectors except for the administrative services supported the recovery. The contribution from industry materialized as 1.5pp, while agriculture and construction sectors gave 0.8pp and 0.4pp contributions, respectively. Services sector, sensitive to the Covid shock, recovered to 0.2pp contribution after the sharp drag of 5.8pp in 2Q20, while the rest of the services contribution was mainly backed by the financial and information services. Looking ahead, recent financial tightening and mobility restrictions against the second wave of pandemic could put downside risks on economic activity as our big data indicators started to confirm this expectation as of November (Charts 5-7). Though, the strong momentum so far and the very low base of this year could still be supportive for 2021 GDP.

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



Source: BBVA Research Turkey, Turkstat

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

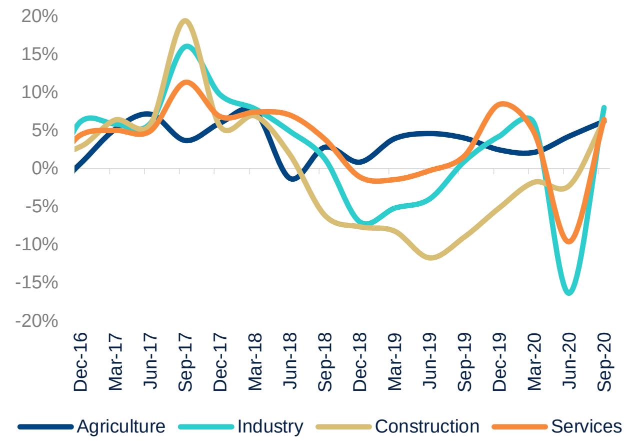


*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

GDP will likely grow near 1% in 2020 and 5.5% in 2021

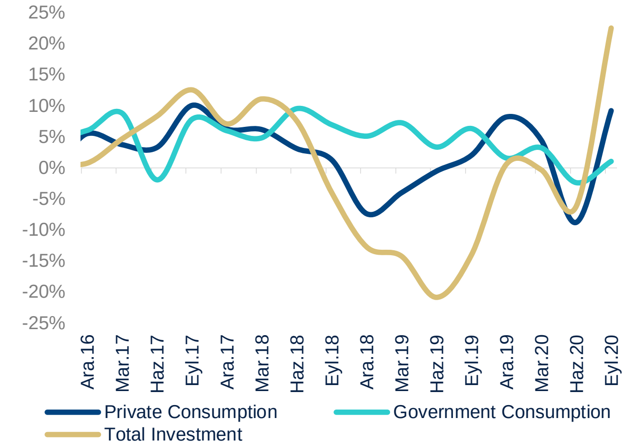
Today's data confirm the strong recovery pattern as our Big Data proxies and other high frequency indicators have already signaled. On top of the robust performance so far, 2020 GDP growth will likely get near 1%, above our current forecast of 0%. Given the strong momentum, the changes in the policy framework, the reduction in risk premium and strong base effect we maintain our 5.5% GDP forecasts for 2021.

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



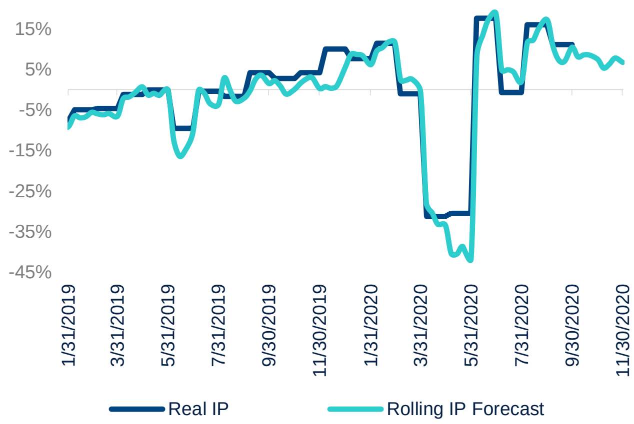
Source: BBVA Research Turkey, Turkstat,

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



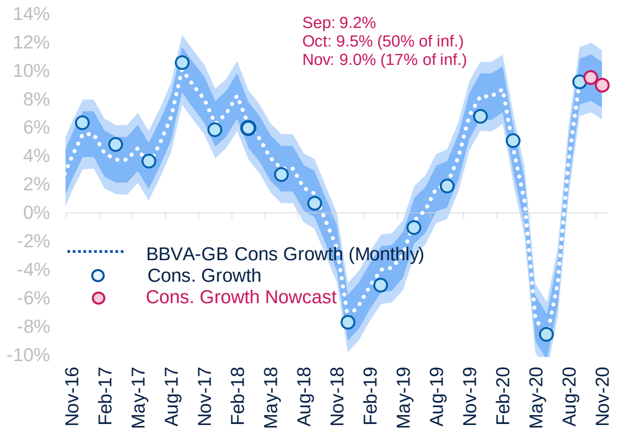
Source: BBVA Research Turkey, Turkstat,

Chart 5. **IP & Rolling IP Forecast** (YoY)



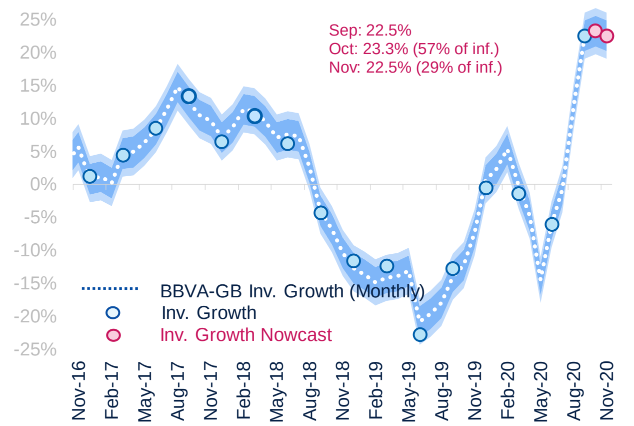
Source: BBVA Research Turkey, Turkstat,

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



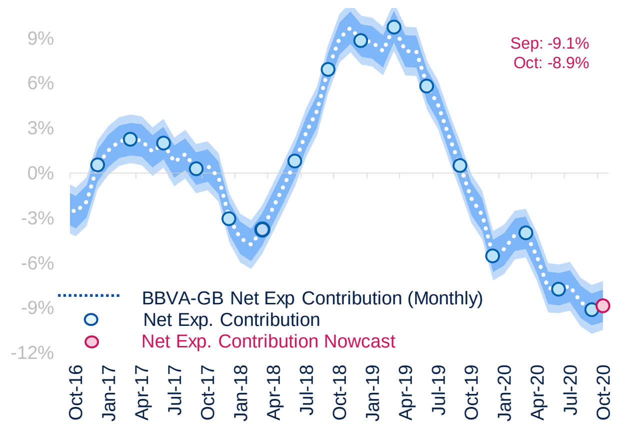
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BBG

BBVA Research

Creating Opportunities

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

ENQUIRIES TO:
BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com