

# Turkey: The economy grew by 1.8% in 2020

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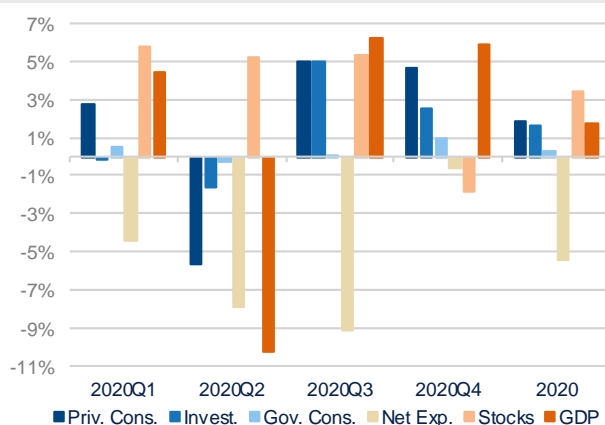
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Turkish economy grew by 5.9% in yearly terms in 4Q20, lower than both our and market expectation of near 7%. The quarter-on-quarter growth rate occurred at 1.7%, still maintaining a strong momentum after the sharp rebound of 3Q20. Despite the solid contributions of industry and services sectors, the contraction in construction and weak performance of agriculture weighed on the downside in 4Q20. On the demand side, domestic demand gave a robust contribution of 6.5pp (where inventories gave the first negative contribution -1.8pp after 5 quarters), while net exports dragged down a limited 0.6pp from the annual GDP growth rate. Therefore, the full year GDP growth rate reached 1.8% in 2020, following the downward revisions of the first 3 quarters growth rates (0.2% revised vs. 0.5% previous). Looking ahead, both our Big Data proxies and other high frequency indicators signal only a limited deceleration so far, which started to become clearer by only late February. Our monthly GDP indicator nowcasts a yearly GDP growth rate of 5.7% as of February, which we expect to come down to 3-4% with the incoming data referring to the rest of 1Q21. We maintain our 2021 GDP forecast at 5% with some upside risks given the current strong momentum.

## Strong domestic demand but this time negative impact from stocks

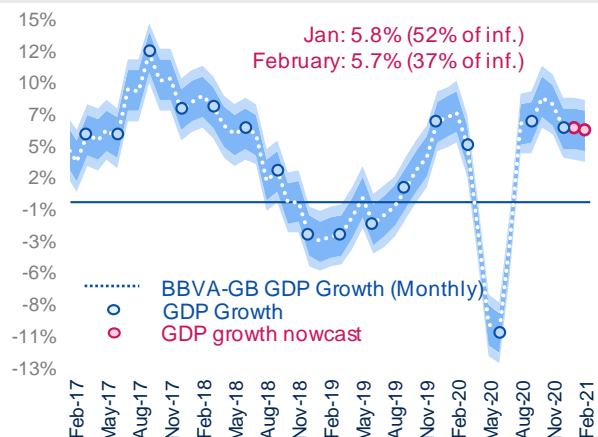
Domestic demand remained solid on the back of mainly private consumption and investment (contributions of 4.7pp and 2.6pp, respectively) in 4Q20. Investment demand was supported by strong machinery & equipment (38.7% yoy) and other assets (15.8%), while construction contracted by 14.7%. Government consumption also increased its contribution to 1pp. After displaying positive contribution to GDP in the previous 5 quarters, stocks this time posed -1.8pp contribution. On the other hand, negative contribution of net exports decelerated to 0.6pp in 4Q (-9.1pp in 3Q). All in all, domestic demand gave a strong 7.2pp contribution (3.4pp from stocks) to GDP, while net exports subtracted from growth by 5.5pp in 2020. On the sectorial side, construction was the downside factor by contracting 12.5% yoy in 4Q, whereas industry, services (broad definition) and agriculture sectors grew by 10.3%, 6.4%, and 4% yoy respectively. In 2020, services sector gave a contribution of 1.3pp (0.9pp only from financial services), while industry and agriculture contributed by 0.4pp and 0.3pp respectively. In contrast, construction sector contribution was negative by 0.3pp. Looking ahead, high frequency indicators still signal only a smooth moderation in economic activity since our monthly GDP indicator nowcasts a yearly GDP growth rate of 5.7% (37% of information) as of February. If we check different methods and also integrate our IP forecasts to understand the bias on our calculations, we attain a range of a 4-5% annual growth as of February (Chart 4), which we expect to come down further to 3-4% range with the incoming data for 1Q21 in a change of composition in favor of net exports as seen in our GDP subcomponents (Charts 6-9).

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



Source: BBVA Research Turkey, Turkstat

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

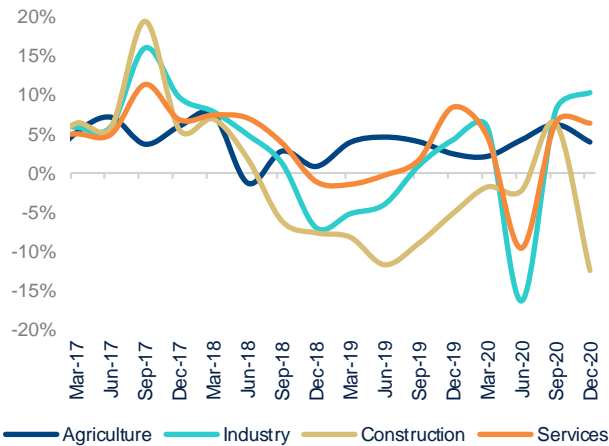


\*BBVA-Research Turkey monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPI Index in BBG)

## 2020 GDP growth occurred at 1.8%, resulting in a strong carry-over of 6pp in 2021

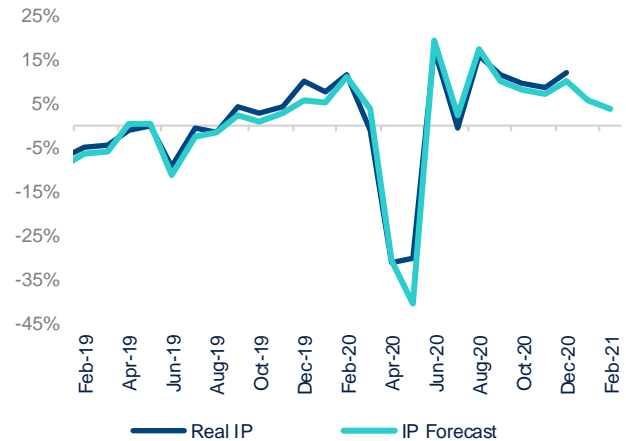
The strong momentum so far, expansionary policies abroad, accelerating inoculation, favorable base effects and expected stabilization in financial assets remain the supportive factors for the growth outlook this year. However, given the inflationary pressures, the potential of additional monetary tightening or at least staying tight for a longer period of time could be the factors to curb domestic demand further. All in all, we maintain our 2021 GDP forecast at 5%, evaluating risks on the upside for now.

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



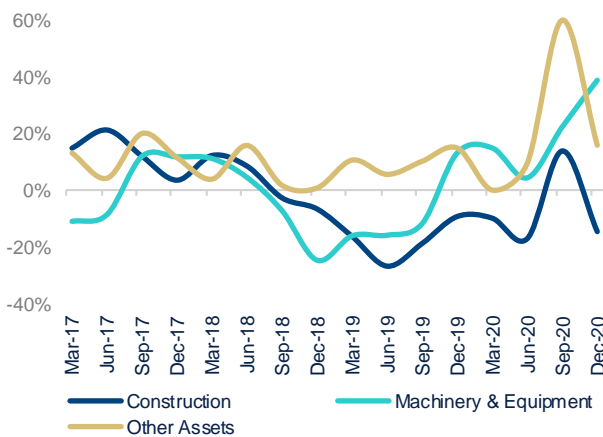
Source: BBVA Research Turkey, Turkstat,

Chart 4. **Industrial Production (IP) & IP Forecast (YoY)**



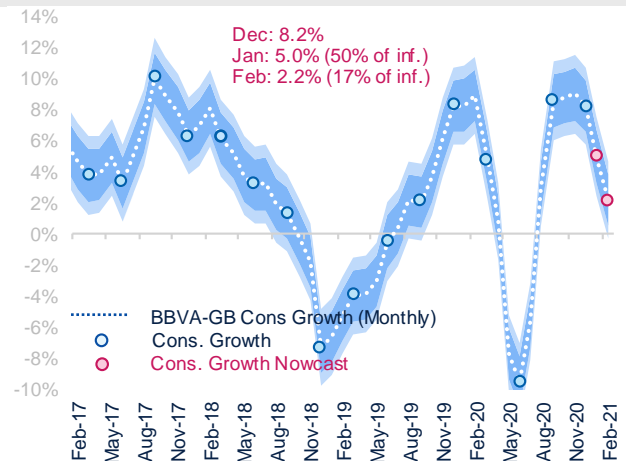
Source: BBVA Research Turkey, Turkstat,

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



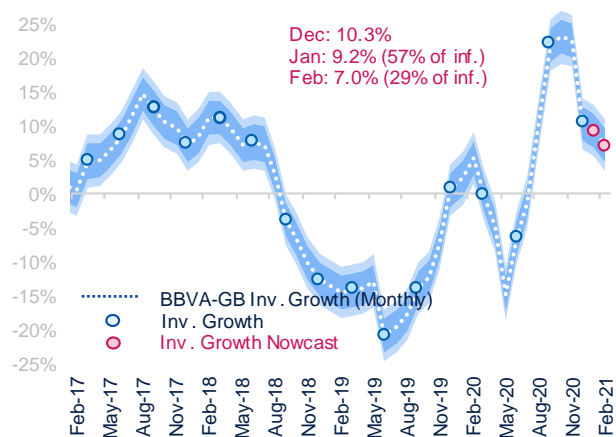
Source: BBVA Research Turkey, Turkstat,

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



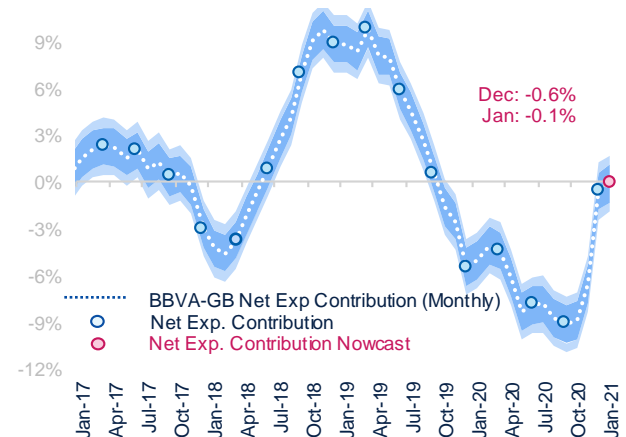
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in BBG

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