BBVA Research

Creating Opportunities

Turkey: The economy grew by 7% in 1Q21

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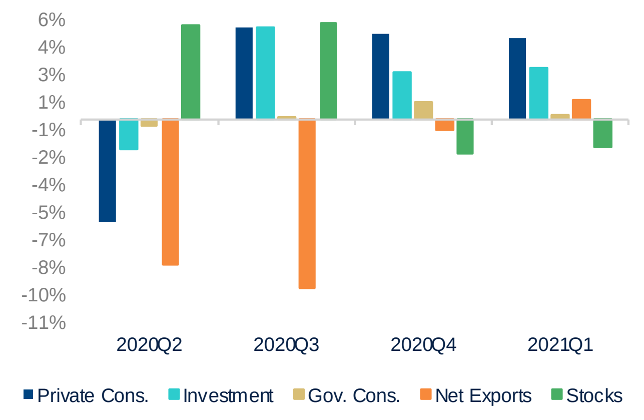
Turkish economy grew by 7.0% in yearly terms in 1Q21, higher than both our (6.5%) and market expectation (6.3%). The quarter-on-quarter growth rate being maintained at 1.7% implied no moderation compared to 4Q20. In addition to solid contributions of industry and services sectors, the increase in construction value-added helped to maintain a high momentum. On the demand side, domestic demand gave a robust contribution of 6.0pp, while the contribution of net exports turned into positive (1.1pp) for the first time after 5 quarters. Our monthly GDP indicator shows a yearly growth rate of 24% as of May (with 35% of information) as our Big Data proxies and other high frequency indicators jump on base effects. The strong momentum so far, positive base effects in 2Q and recent upward revisions in global growth forecasts reinforce upsides risks on our prudent 2021 GDP growth forecast of 5%. As seen in the pending reaction of the economy once the economy started to reopen since late May, a positive surprise is now more likely despite tighter financial conditions and downside risks on tourism revenues.

Excluding inventories domestic demand moderated only very slightly

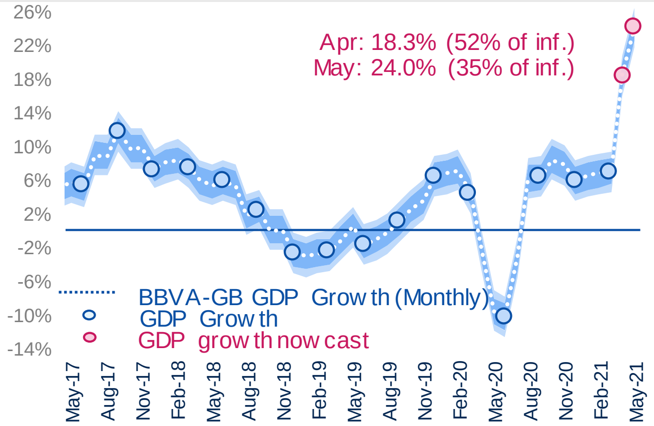
Domestic demand remained solid on the back of private consumption (7.4% yoy) and investment (11.4% yoy) with contributions of 4.4pp and 2.9pp, respectively in 1Q21. Investment demand was supported by strong machinery & equipment (30.5% yoy) and other assets (14.4% yoy), while the contraction in construction investment slowed down to 4.7%. Government consumption became weaker (1.3% yoy implying only 0.2pp contribution). For the second quarter in a row, inventories gave a negative contribution of 1.5pp. On the other hand, negative contribution of net exports in the previous 5 quarters turned into positive (1.1pp) as exports continued to recover (3.3% yoy) and imports contracted (-1.1%). On the sectorial side, all of the sectors gave positive contributions in yoy terms where the highest support was from the industry with 2.5pp, which was followed by trade, transportation, accommodation sectors' contribution of 1.4pp (implying a more positive reaction after the reopening in March). In broad terms, services sector gave a contribution of 4.2pp, while agriculture and construction each contributed by 0.2pp. Looking ahead, although high frequency indicators started to decelerate since April, the slow-down is still not clear so far due to the reopening again and continuing credit growth rates at moderate levels. Private consumption still accelerates whereas investment stabilizes as of May (Figure 5). On the other hand, the contribution from net exports is increasing on the positive side, led by the contraction in goods trade deficit on top of exports (Figure 8).

Figure 1. **Contributions to GDP Growth (pp, annual)**



Source: Garanti BBVA Research, Turkstat

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

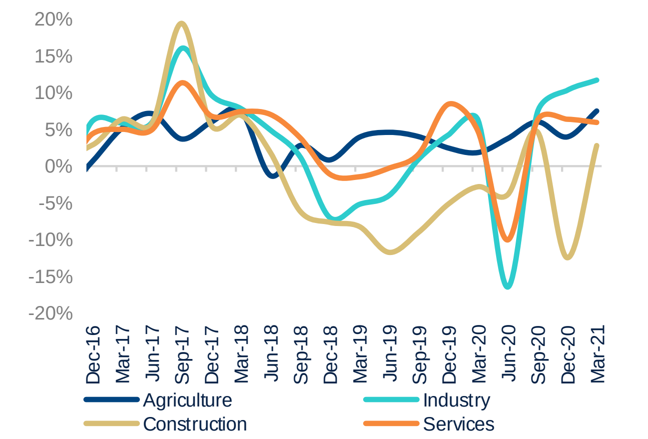


*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)

Strong activity so far reinforce upside risks on our GDP forecast

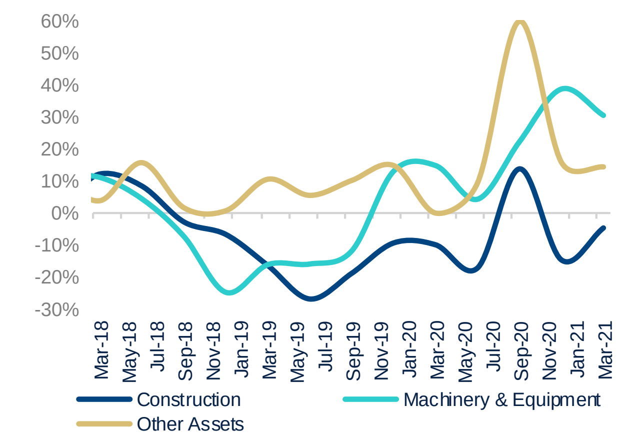
Current strong momentum, moderating but continuing credit growth and more positive global growth outlook reinforce upside risks on our prudent 2021 GDP growth forecast of 5%. On the negative side, tighter financial conditions, downside risks on tourism revenues and finalization of the ban on lay-offs and short term working allowances in June all raise the uncertainty. All in all, a positive surprise is now more likely given the pending reaction of the economy with the reopening in late May as seen in our Big Data indicators.

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



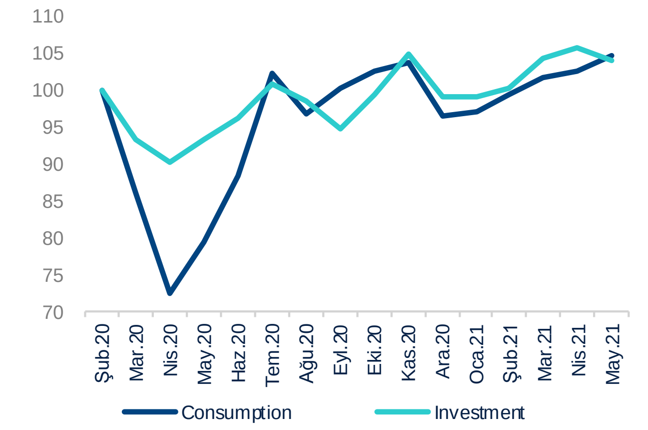
Source: Garanti BBVA Research, Turkstat

Figure 4. **Gross Fixed Capital Formation** (YoY)



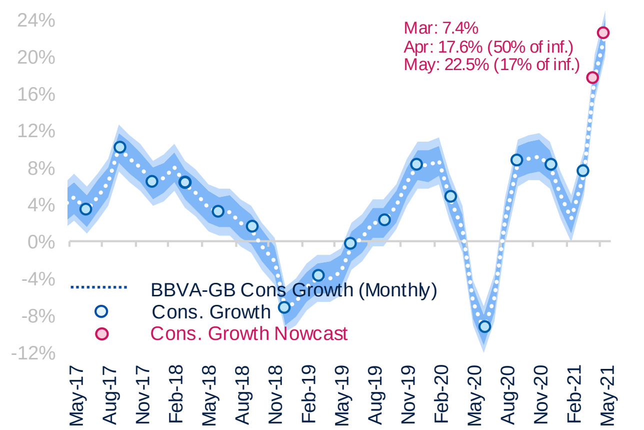
Source: Garanti BBVA Research, Turkstat

Figure 5. **BBVA Big Data Demand Indicators** (seasonal and calendar adj. Feb2020=100)



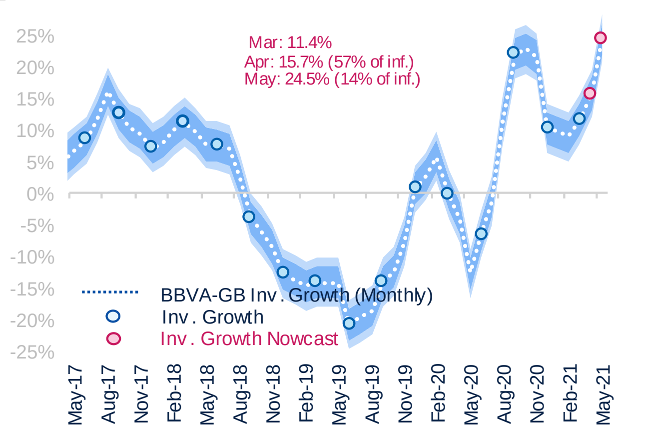
Source: Garanti BBVA Research

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



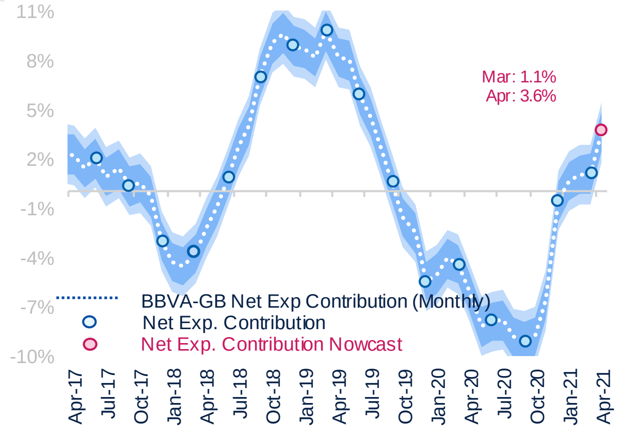
Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

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



Source: Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 8. **BBVA Monthly Net Exports Nowcast** (cont. pp)



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

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