

Turkey: GDP growth reached 11.7% year-to-date

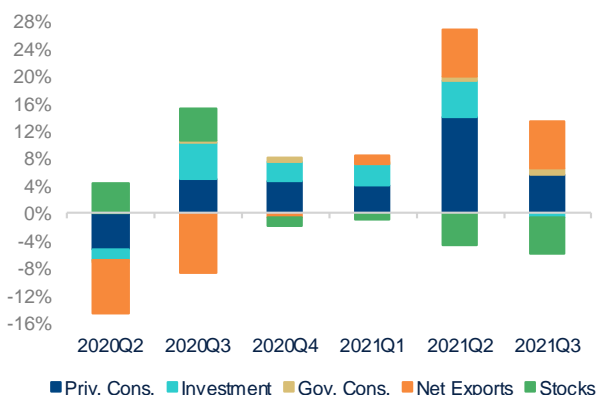
Ali Batuhan Barlas / Adem Ileri / Seda Guler Mert / Sinem Senel / Yesim Ugurlu Solaz
30 November 2021

Turkish economy grew by 7.4% in yearly terms in 3Q21, resulting in a growth rate of 11.7% in the first three quarters of the year. The quarter-on-quarter growth rate accelerated to 2.7% after growing by 1.5% in 2Q21. The pick-up in the pace of the recovery stemmed from both services and industry, whereas agriculture and construction contracted. On the demand side, domestic demand grew mostly on consumption (0.6pp, including the inventories effects subtracting 5.4pp) while net exports maintained a strong contribution (6.8pp) to the annual growth rate. Looking ahead, our monthly GDP indicator shows a yearly growth rate of near 8% in November (with 35% of information), which corresponds to a quarterly growth rate of near 1.5%. Given today's data and recent information, 2021 GDP growth will likely reach 10.5-11%, beating our current 9.5% GDP growth forecast. Looser policies and recent acceleration in credit growth still keep the momentum high for 4Q activity. Though, led by the latest currency shock and accompanying tighter financial conditions will likely weigh on the downside for 2022 GDP growth.

Acceleration in exports, accompanied by continuing domestic demand

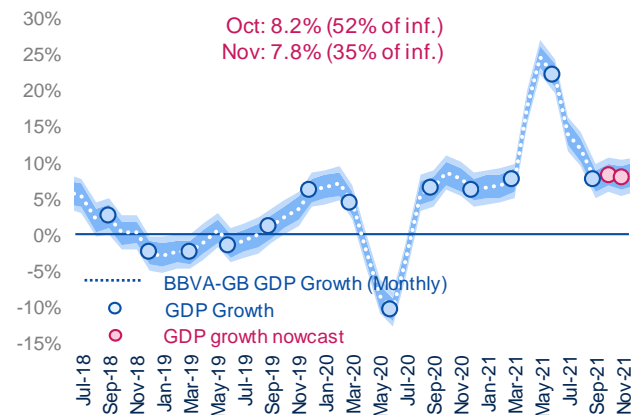
Domestic demand remained solid on private consumption (9.1% yoy) and government consumption (9.6%) with contributions of 5.4pp and 1.2pp, whereas investment subtracted from growth (-2.4% yoy and -0.6pp contribution). On the investment side, machinery and equipment still grew (17.5% yoy) but construction and other investment recorded annual contractions (-9.6% and -28.5% respectively). The negative contribution of inventories continued for the fourth quarter with an acceleration to 5.4pp. On the external side, exports gained momentum with 25.6% yoy, while imports recorded a decline of 8.3% yoy (adding 5pp and 1.8pp to growth, respectively). Thus, net exports contribution remained parallel to the 2Q with 6.8pp. In sectoral detail, the main contributor to annual growth was services sector (4.4pp), which was followed by industry (1.8pp) while agriculture (-0.7pp), construction (-0.4pp) and financial services (-1pp) subtracted from growth. As seen in our GDP demand nowcasts, economic activity remains solid so far in 4Q21. Domestic demand keeps growing on consumption, while contraction in investment is decelerating. However, recent volatility in asset prices and likelihood of mobility restrictions due to new variants (likely to jeopardize external demand) might be the near term downside risks on growth. Also, growing inflation problem led by both accelerating exchange rate pass-thru and demand-pull factors might keep the outlook bloomy.

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



Source: Garanti BBVA Research, Turkstat

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

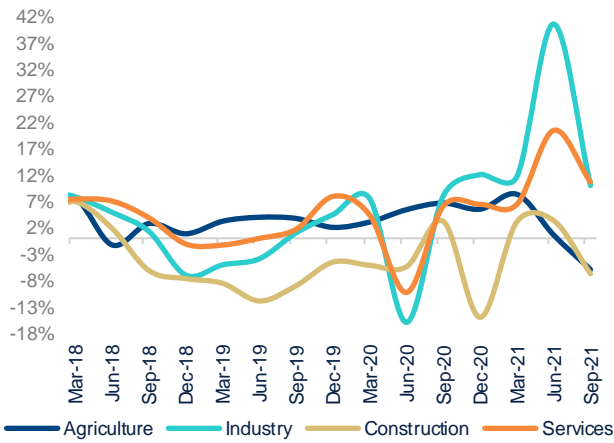


*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDY Index in BBG)

Only a slight deceleration so far in 4Q21

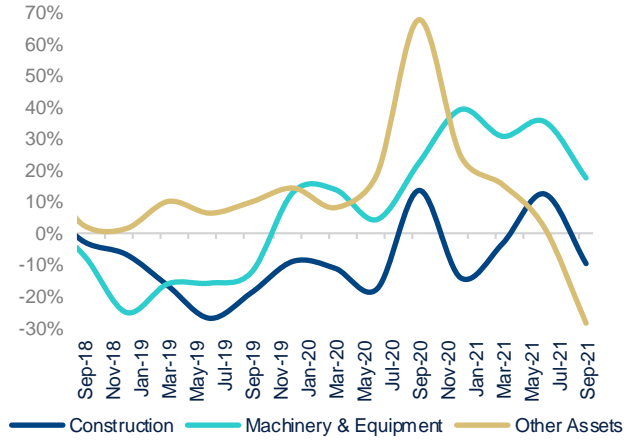
Current stress in financial markets might be caveats but recent acceleration in credits, post-pandemic effects and significantly deteriorated expectations keep domestic demand brought forward. As confirmed by our GDP nowcasts, there is only a slight deceleration so far, being also supported by external demand. 2021 GDP growth will likely reach 10.5-11%, beating our current 9.5% GDP growth forecast. Risks are on the downside for 2022.

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



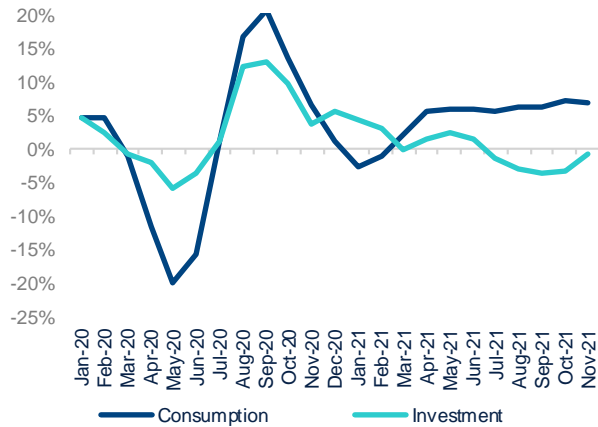
Source: Garanti BBVA Research, Turkstat

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



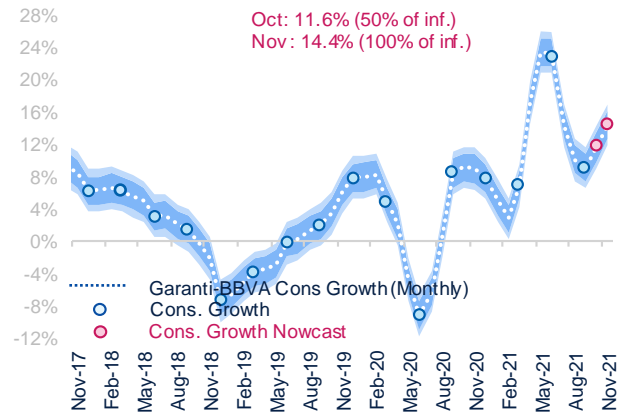
Source: Garanti BBVA Research, Turkstat

Figure 5. **BBVA Big Data Domestic Demand Indicators (quarterly real changes)**



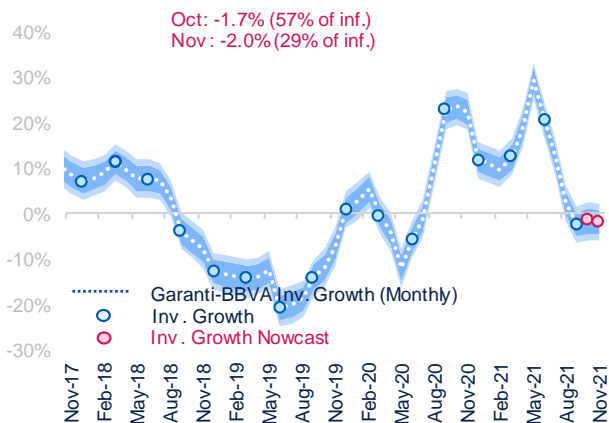
Source: Garanti BBVA Research

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



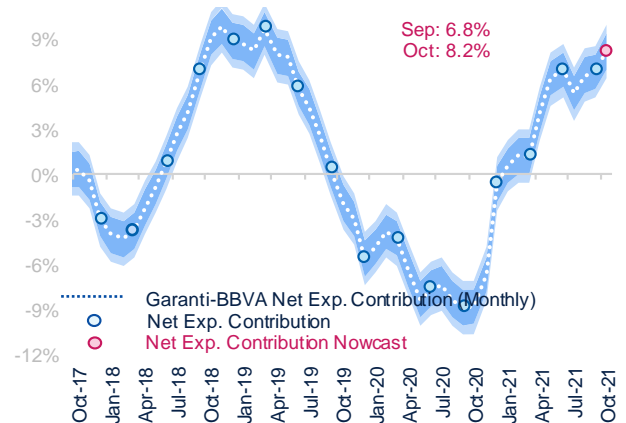
Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

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

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:

Garanti BANKASI A.Ş. Nispetiye Mah. Aytar Cad. No:2 34340 Levent Beşiktaş İstanbul.
Tel.: +90 212 318 18 18 (ext 1064)
bbvaresearch@bbva.com www.bbvaresearch.com

