

Turkey: Annual GDP set to grow 7% in February

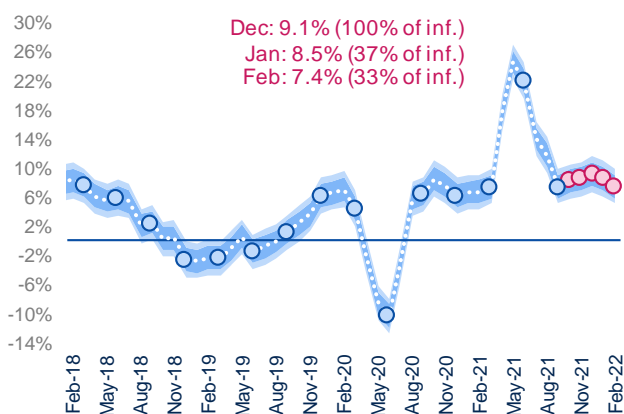
Ali Batuhan Barlas / Adem Ileri / Seda Guler Mert / Sinem Senel / Yesim Ugurlu Solaz
11 February 2022

Industrial Production (IP) surprised on the upside, increasing 14.4% yoy in calendar adjusted terms (vs market expectation of 10.8%). IP also rose by 1.6% mom, resulting in a 4.3% quarter-on-quarter growth in 4Q21 (vs 2.0% qoq in 3Q21). Both retail sales and turnover index in the services sector suggest that consumption remains solid. Our Big Data demand proxies and other high frequency indicators also confirm a robust momentum despite recent energy supply shortages in late January. After forecasting a yearly growth rate of near 9% for December (implying 2.5% qoq growth in 4Q21), our monthly GDP indicator nowcasts a deceleration near 7% for February (33% of info). Looking ahead, higher commodity prices and tighter financial conditions, on top of faster than expected monetary policy normalization in advanced economies, could add downside risks on 2022 GDP growth. However, expected new credit facilities (capitalization of public banks, a new Credit Guarantee Fund scheme, and longer term financing via CBRT), current strong momentum, looser fiscal and monetary policies, and still robust global activity will act as compensating factors. Hence, we expect GDP growth at 3.5% in 2022.

Economic activity starts to decelerate more clearly in February

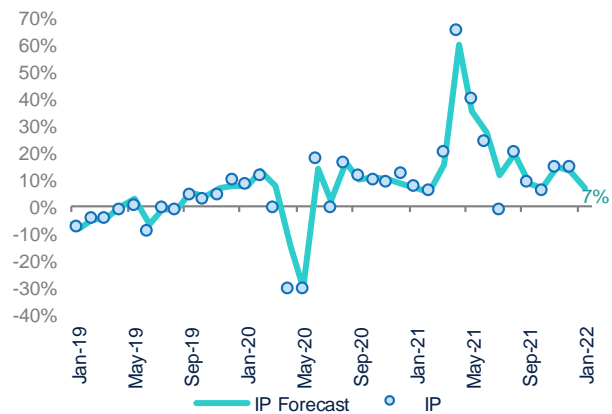
The main contribution to monthly IP growth (1.6% m/m) came from capital goods production (7.6% m/m), while energy and intermediate goods production remained weak (0.8% and 0.2% m/m, respectively); consumer goods remained stable. On a quarterly basis, consumer goods took the lead, followed by intermediate and capital goods production. Based on our big data indicators, electricity production (down to 6% y/y in Jan-Feb), manufacturing capacity utilization (down to 78%) and manufacturing PMI (down to 50.5), we forecast IP to contract 3.5% m/m in January. Despite this decline, industrial output might still post a 7% y/y growth rate. On the demand side, private consumption has started to decelerate reaching the lowest growth rate since 3Q21. Nonetheless, it still remains relatively strong. In contrast, investment demand is shrinking at a faster pace, reflecting weakness after a slight recovery in 4Q21. The contribution from net exports also declined, led by the recent jump in imports. All in all, the deceleration in economic activity remains moderate despite the recent currency shock and recent energy shortages in late January, suggesting that the economy remains resilient. Large negative real interest rates, recent push in credits, especially from state banks, and an expansionary fiscal policy create short term upside risks on the growth outlook. However, a high inflationary environment with elevated policy uncertainty also generate downside risks on both consumption and investment.

Figure 1. **Garanti BBVA Research Monthly GDP Indicator*** (%yoy, 3-month moving avg.)



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

Figure 2. **IP vs IP One-Month Ahead Forecast (YoY)**

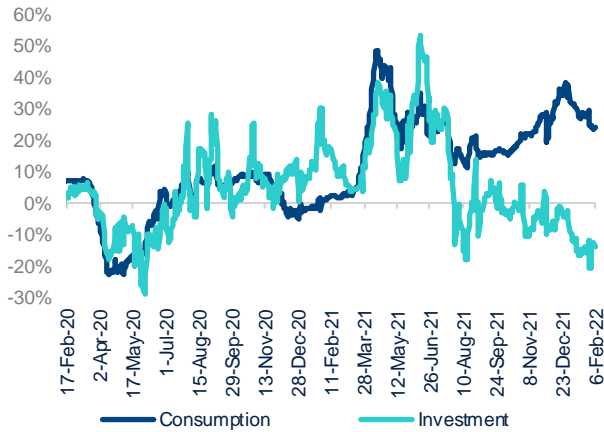


Source: Garanti BBVA Research, Turkstat

GDP growth to reach 11% in 2021 and moderate to 3.5% in 2022

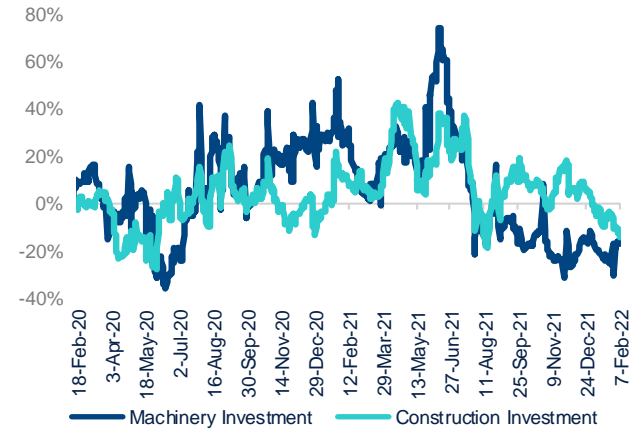
Looser domestic economic policies and supportive global growth will likely keep economic activity on a growing track, but tighter financial conditions following the sharp currency shock will weigh on the downside for 2022 GDP growth. We remain prudent and expect 2022 GDP growth to be realized as 3.5%.

Figure 3 **Garanti BBVA Big Data Domestic Demand Indicators** (28-day sum, adjusted by CPI and PPI, YoY)



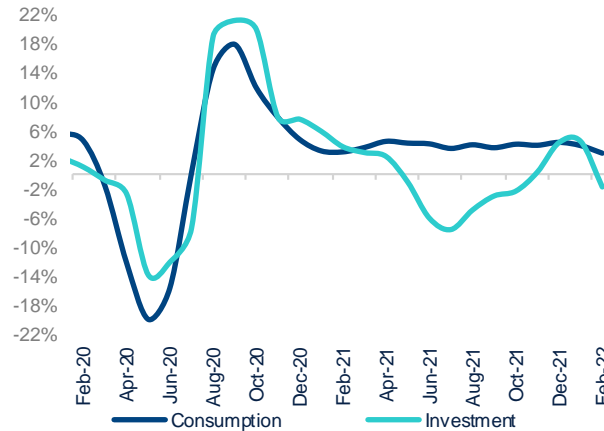
Source: Garanti BBVA Research, Turkstat

Figure 4. **Garanti BBVA Big Data Investment Indicators** (28-day sum, adjusted by PPI, YoY)



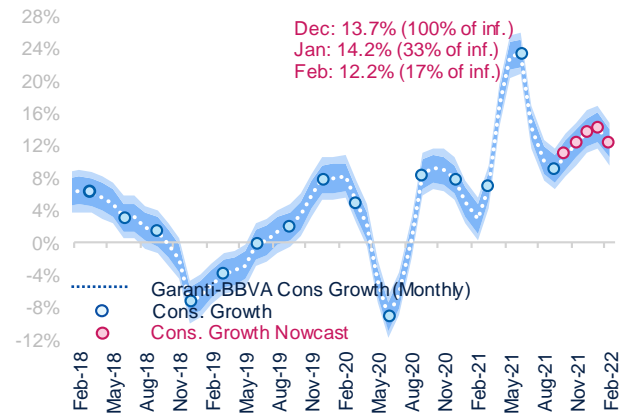
Source: Garanti BBVA Research, Turkstat

Figure 5. **Garanti BBVA Big Data Domestic Demand Indicators** (3-month qoq, adjusted by CPI and PPI)



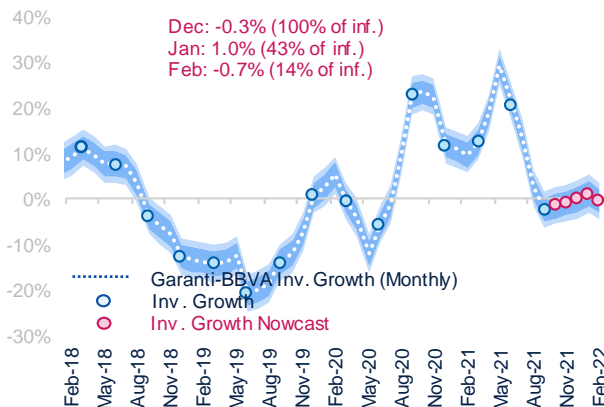
Source: Garanti BBVA Research, Turkstat

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



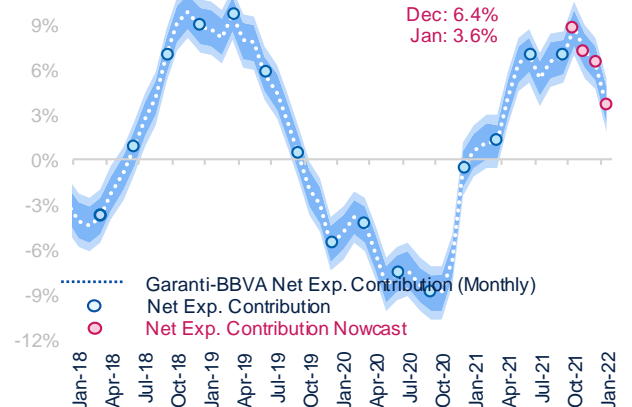
Source: BBVA Research Turkey, GBTRCGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRIGDPY Index in Bloomberg

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



Source: BBVA Research Turkey, GBTRXGDPY and GBTRMGDPY in Bloomberg

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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

