

# Turkey: Activity proves resilience so far in 2Q

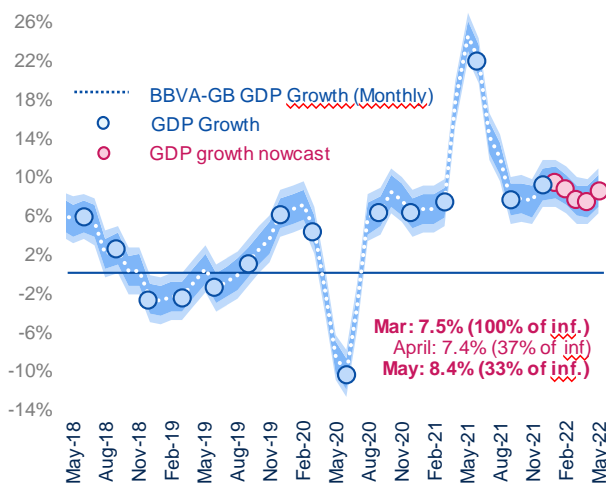
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**Industrial Production (IP) surprised on the upside in March, growing 9.6% y/y in calendar adjusted terms. IP contracted by 1.8% m/m but given the upsurge in February, the quarterly IP growth remained solid by 2% (vs. 3.9% in 4Q21). According to our big data demand proxies and other high frequency indicators, our monthly GDP indicator shows a quarterly GDP growth rate close to 1-1.5% in 1Q22, which corresponds to a yearly growth rate of around 7.5%. The weaker performance we observed in early April surprisingly turns out to be a recovery in the recent weeks, which increases the upside risks on our current prudent 2022 GDP growth forecast of 2.5% assuming no substantial negative shocks.**

## IP decelerates but deceleration so far remains limited

IP contracted in March (1.8% m/m) across the board except for the energy goods since the pick-up in February had more than offset the decline in IP in January due to energy shortages at that time. Therefore, although there has been some deceleration, the quarterly IP growth remained solid (2.0% vs 3.9% in 4Q21). The slow-down was pretty clear in intermediate and consumer goods production (particularly non-durables), but the slight improvement in both capital and energy goods production helped not to have a much faster deceleration in overall IP in 1Q22. In this regard, still supportive export performance seems to provide an absorption capacity against a clearer downturn in domestic demand oriented sectors production. Therefore, despite the spill-over effects from the war in Ukraine, activity remains resilient so far as we nowcast a yearly GDP growth rate of near 7.5% for 1Q22 and around 8% as of May. Compared to much weaker figures in April, both electricity production and consumption recover in May. Manufacturing capacity utilization rate remains supportive with 78.1% in April after realizing 77.8% on average in 1Q22. Though, sentiment indicators signal a loss of momentum with April manufacturing PMI (49.2) remaining below 50 for a second consecutive month and confidence in other sectors show somewhat a deterioration.

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 (GBTRGDPY Index in BBG)

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



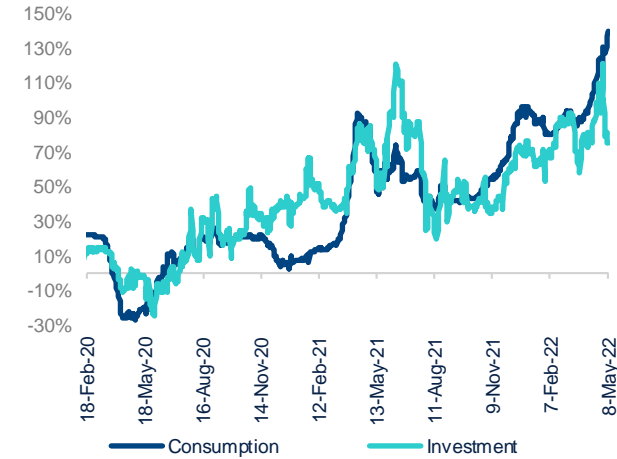
Source: Garanti BBVA Research, Turkstat

## Consumption stays solid, investment contraction might halt

According to our big data demand indicators, private consumption even gains pace since the second half of April due to most likely Ramadan effects and continuation of brought forward demand on top of expansionary policies. Besides, the shrinkage in investment demand loses some pace except for the long Ramadan holiday in early May, supported by the signals from construction. On the other hand, the positive contribution from net exports did not change much, mainly due to still supportive exports. All in all, the deceleration in economic activity continues but ongoing growth supportive policies by means of much looser policy stance seem to help prevent a relatively faster

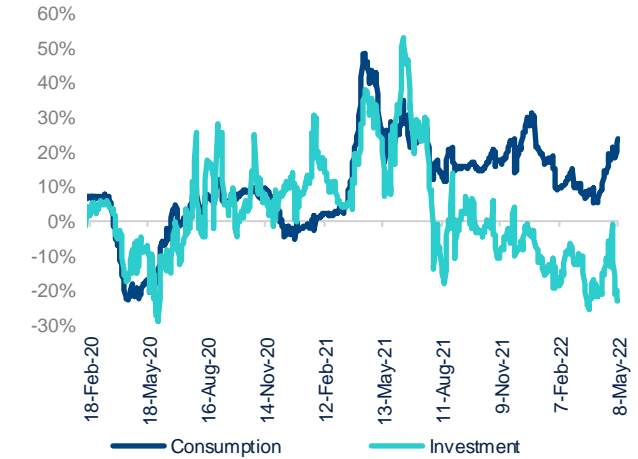
deceleration despite the cumulating downside risks in both domestic and external fronts. The high inflationary environment with elevated policy uncertainty generate downside risks to domestic demand, while potential spill-over effects from the Russian invasion of Ukraine on global demand will likely reduce the expected contribution from exports and tourism.

Figure 3 **Garanti BBVA Big Data Domestic Demand Indicators** (28-day nominal sum, YoY)



Source: Garanti BBVA Research, Turkstat

Figure 2 **Garanti BBVA Big Data Domestic Demand Indicators** (28-day sum, adjusted by CPI and PPI, YoY)

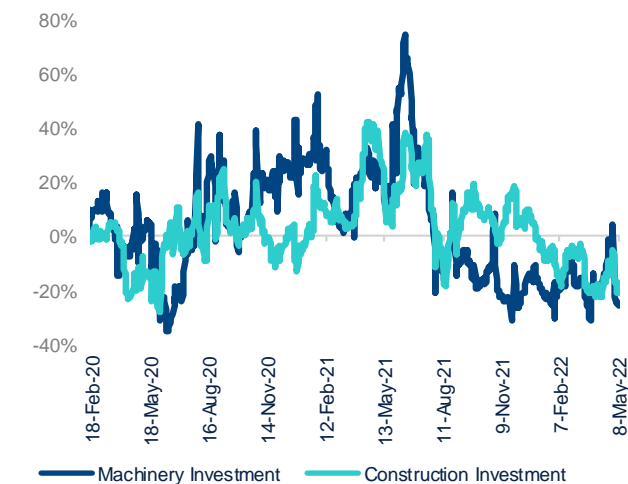


Source: Garanti BBVA Research, Turkstat

### A growing upside risk on our 2022 GDP growth forecast

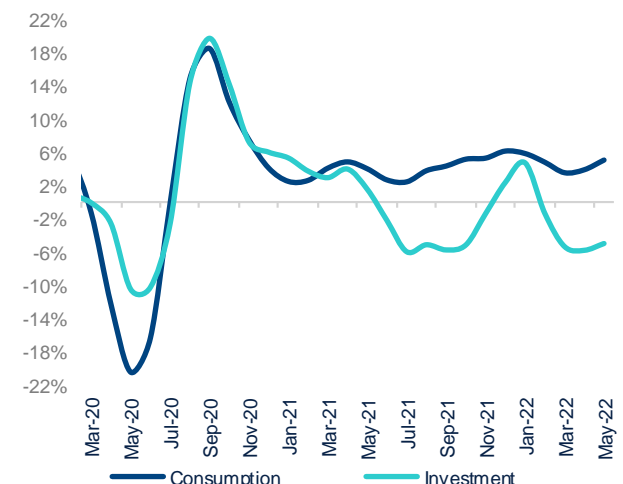
Larger negative real interest rates, recent push in credits and loose fiscal policy remain supportive in the short term. Also, the recent performance in both exports and tourism show resilience (as seen in our big data, reaching above 2019 pre-pandemic level in early May), which surprise on the upside. However, current high financial volatility and uncertainty in global markets, and their potential impact on external demand are clear downside risks to the near term growth outlook. As confirmed by our GDP nowcasts, economic activity has started to decelerate. Nonetheless, the expansionary bias of the government spending, other counter-cyclical policies and the pandemic-related reopening of the economy also help absorb downward pressures. 2Q22 GDP data will provide a clear test to understand the magnitude of the resilience of the economy. If the current pace is sustained and no substantial negative shock occurs, risks are clearly tilted to the upside on our prudent 2022 GDP growth forecast of 2.5%, which at the same time generates significant downside risks for the next year.

Figure 3 **Garanti BBVA Big Data Investment Indicators** (28-day sum, adjusted by PPI, YoY)



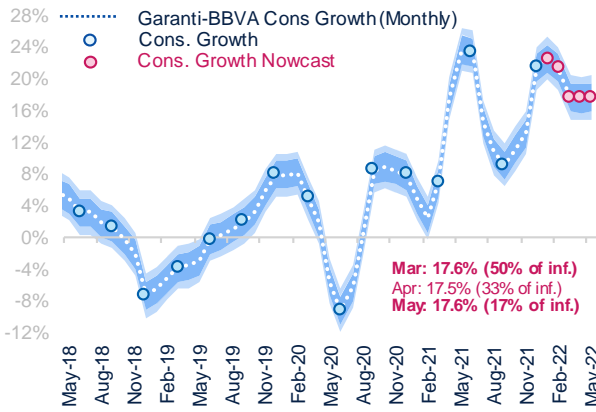
Source: Garanti BBVA Research, Turkstat

Figure 4. **Garanti BBVA Big Data Domestic Demand Indicators** (3-month qoq, adjusted by CPI and PPI)



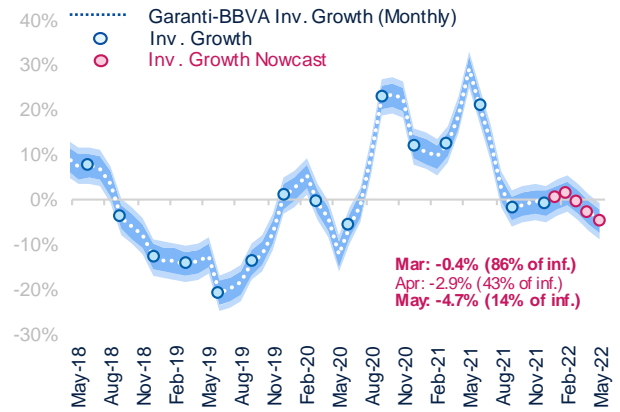
Source: Garanti BBVA Research, Turkstat

Figure 5. **Garanti BBVA Monthly Consumption Nowcast (3m yoy)**



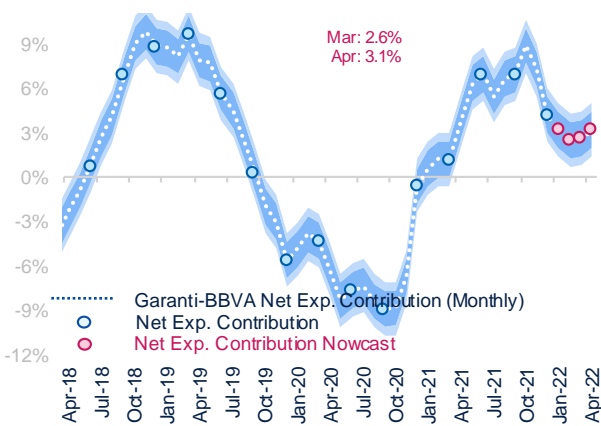
Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

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



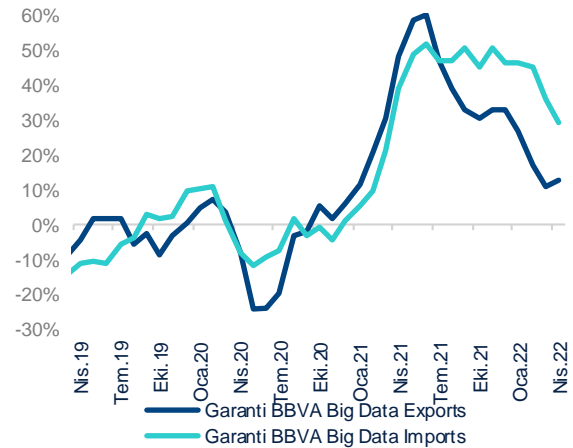
Source: Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 7. **Garanti BBVA Monthly Net Exports Nowcast (contribution, pp)**



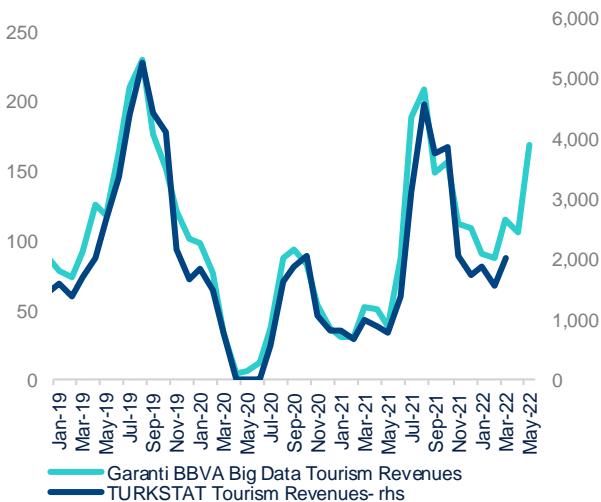
Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

Figure 8. **Garanti BBVA Foreign Trade Big Data Indicators (3m yoy)**



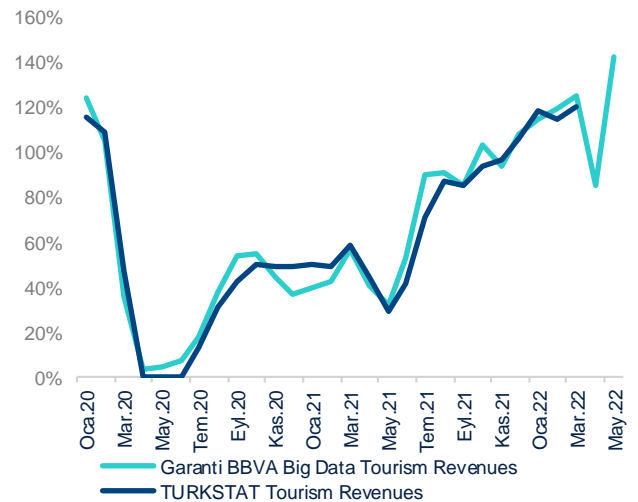
Source: Garanti BBVA Research

Figure 3. **Garanti BBVA Big Data Tourism Revenues (US\$Mn)**



Source: Garanti BBVA Research, Turkstat

Figure 2. **Garanti BBVA Big Data Tourism Revenues (compared to the same period in 2019)**



Source: Garanti BBVA Research, Turkstat

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