Türkiye: Rapid recovery signals in activity

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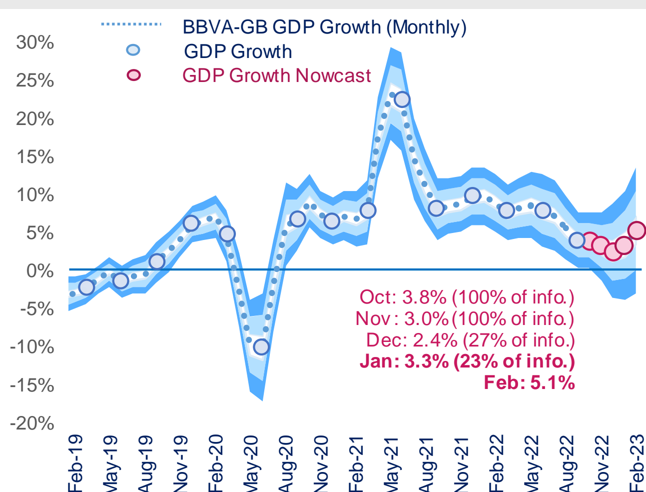
Industrial production (IP) contracted by 1.1% y/y in Nov22, which resulted in an annual growth rate of 1.1% in Oct-Nov22 period after its growth rate of 2.5% in 3Q22. Although the contraction in seasonal and calendar adjusted quarterly trend continued to lose pace, IP continued to remain weak. Similarly, overall turnover index (excluding agriculture) adjusted quarterly trend level maintained a contraction but with a deceleration. Accordingly, our monthly GDP indicator nowcasts a yearly GDP growth of near 2.5% for December (27% information), which can be increasing to 2.5-3% with the upcoming official December figures. As we have underlined in our previous reports, recent populist measures in terms of letting some TL liquidity to be freed up have started to boost economic activity with near 5% y/y weekly GDP growth rates since late December. After the realization of 2022 GDP growth at 5-5.5%, this will mean a very strong start to the year with near 2% q/q GDP growth rate in 1Q23. Confirming our expectations of a solid performance in the first half of the year, GDP growth might easily reach 3% in 2023, even with considering some adjustment in the second half.

Recent deceleration has started to be reversed since late December

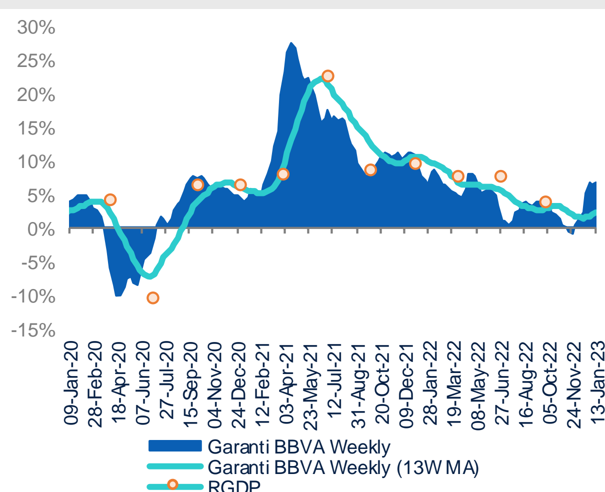
In seasonal and calendar adjusted series, IP shrank by 1.1% m/m in Nov22 on the back of a broad-based contraction in subcomponents but with a clear downward impact from intermediate goods production showing spill-over effects from both weaker external and domestic demand. In terms of quarterly trends, the contraction in IP (-4.2% q/q in 3Q22) turned out to be a positive change (+1.9% growth in Oct-Nov22 compared to 3Q22) but proved not to be enough to compensate the previous quarter's contraction. When adding other sectors performances via turnover indices, we can confirm the overall weakness till Dec22, which seems to start to reverse as signaled by the early indicators. Flash indicators such as manufacturing PMI (48.1 in Dec. vs. 45.7 in Nov.), capacity utitlization rate (76.4% in Dec. vs. 75.9% in Nov.), and a slight improvement in both electricity and exports in seasonally adjusted series show that the recent deceleration in activity has started to be reversed with a clear rebound at the start of the year. Accordingly, our weekly GDP tracker nowcasts yearly GDP growth rates of above 5% by late Dec22 and our monthly GDP indicator confirms this trend with quarterly y/y growth rate of near 5% by Feb23.

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



Source: Garanti BBVA Research, *Garanti BBVA monthly GDP indicator is an average of different model results synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BBG)*

Figure 2. **Garanti BBVA Weekly GDP Tracker*** (YoY)



Source: Garanti BBVA Research, Turkstat, for methodology please check the following link

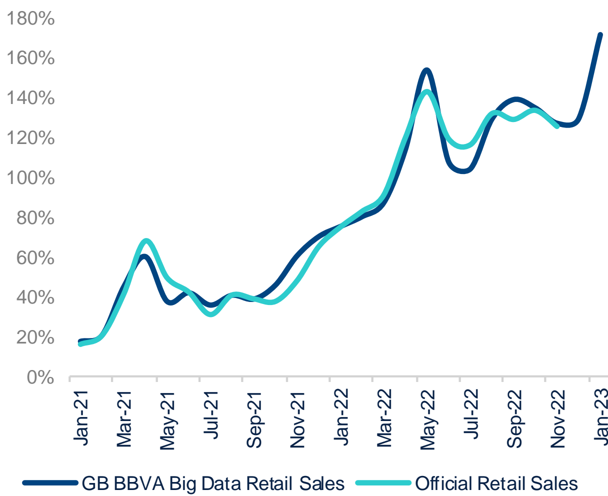
On the demand side, the main driver of the growth continues to be private consumption, which we expect to be further boosted by the recent wage hikes, early retirement bonuses and other populist measures such as energy price reductions. On the external side, exports remain weak but also start to show early signals of some differentiation across the regions in order to partially compensate the downward impact from mainly Europe. On the other hand,

imports stays solid due to continuing robust consumption. Hence, the contribution from net exports remains slightly negative and we expect this pattern to continue till the elections.

All in all, aggregate demand continued to be much stronger than supply in the second half of last year, implying further depletion of stocks. However, potentially led by the requirement from depleted stocks or some available TL liquidity to favor companies in their cash flow management, industries can be increasing their supply in order to well fulfill the strong demand in the recent weeks. Therefore, inflationary risks will remain high as long as the boost in consumption continues with easing but still challenging cost push factors, which might end up with lower deceleration in inflation in contrast to expectations on top of base effects.

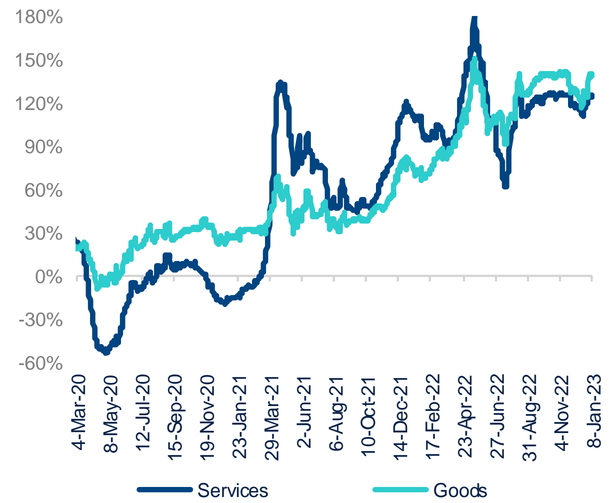
As confirmed by our latest nowcasts, economic activity will likely strengthen at the start of the year with near 5% y/y GDP growth rates, which will help the economy to be able to grow near 3% in 2023. We expect the adjustment to start taking place after elections, when the lagged effects might affect next year more clearly on the negative side.

Figure 3. **Garanti BBVA Big Data Retail Sales** (nominal YoY)



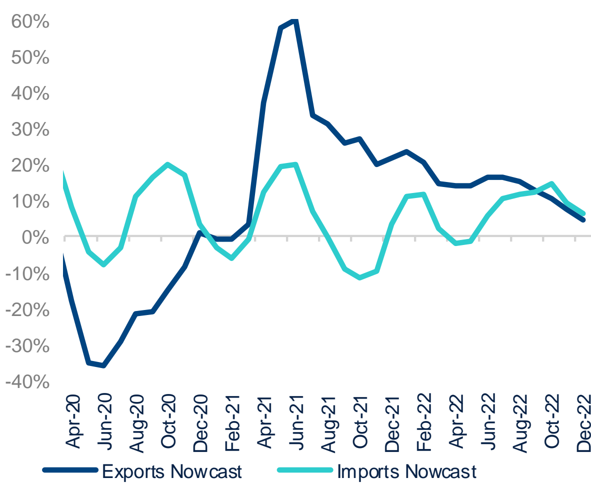
Source: Garanti BBVA Research, Turkstat

Figure 4. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, nominal YoY)



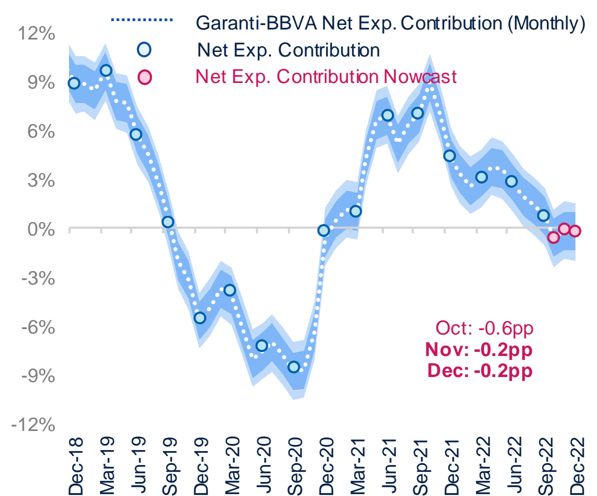
Source: Garanti BBVA Research, Turkstat

Figure 3. **Garanti BBVA Exports & Imports Nowcasts** (yoy, 3-month moving avg.)



Source: Garanti BBVA Research, GBTRGDPX and GBTRGDPM in Bloomberg

Figure 4. **Garanti BBVA Net Exports Contribution** (3-month pp)



Source: Garanti BBVA Research, GBTRGDPX and GBTRGDPM in Bloomberg

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