Activity Pulse

Türkiye | No clear cooling sign in activity

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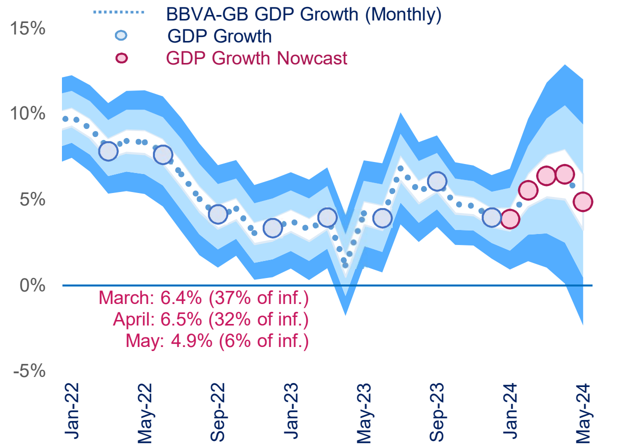
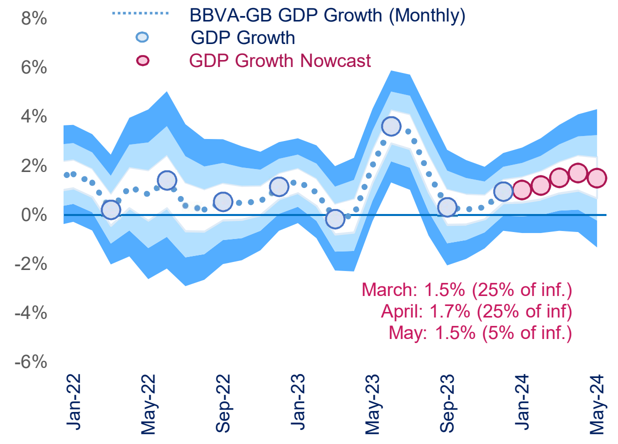
- Our monthly GDP indicator nowcasts an acceleration in 1Q24 with a quarterly growth of 1.5% (vs. 1% q/q of 4Q23) implying 6-6.5% y/y GDP growth, driven by supportive fiscal policy and solid domestic demand. Given the early 2Q data, we nowcast only a limited deceleration in May. (Figure 1-2). According to our calculations, persistently high positive output gap indicates that the expected rebalancing in the economy still did not materialize (Figure 3).
- Despite the tight financial conditions, the slow-down in domestic demand remains very limited and aggregate demand remains stronger than supply. We believe additional demand restrictive measures and a tight fiscal stance will be needed to ensure the desired slow-down, particularly in private consumption.
- Considering the strong performance so far and the lagged impact of the expected tighter policy mix in the second half of the year, we envisage that the risks on our 2024 GDP growth forecast of 3.5% are now balanced.

Figure 1. **Garanti BBVA Monthly GDP Nowcast *** (3-month average YoY)



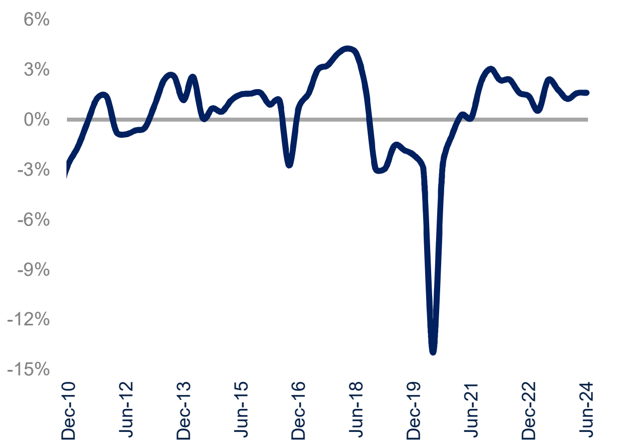
Source: Garanti BBVA Research, GBTRGDPY Index in BBG
*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

Figure 2. **Garanti BBVA Monthly GDP Nowcast** (3-month average QoQ)



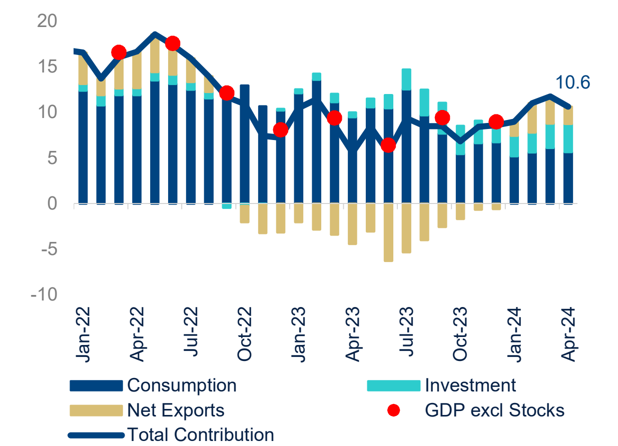
Source: TURKSTAT, Garanti BBVA Research

Figure 3. **Garanti BBVA Output Gap** (% deviation from potential estimate)



Source: TURKSTAT, Garanti BBVA Research

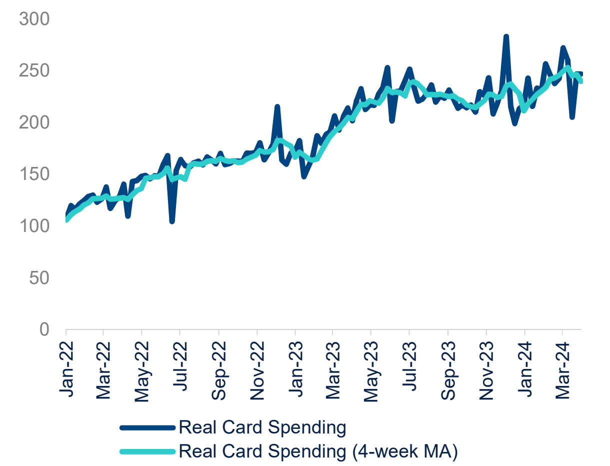
Figure 4. **Garanti BBVA Nowcast Contributions to GDP Growth** (annual, pp)



Source: TURKSTAT, Garanti BBVA Research

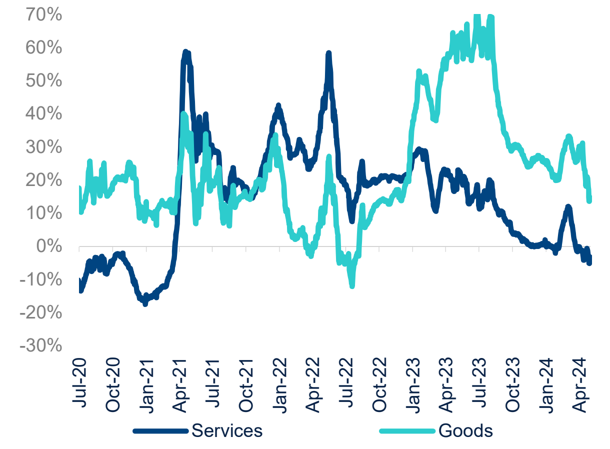
- Our GDP nowcasts on demand sub-components indicate that domestic demand remains solid as private consumption (5.6pp) and investment (3.1pp) contributed totally 8.7pp to annual growth as of April (Figure 4).
- Supportive fiscal policy, elevated inflation expectations, real currency appreciation, wealth effects and availability of above inflation credit card spending underpin private consumption, for which our big data consumption indicators display only a very limited deceleration in April (Figure 5-6).
- Although the positive contribution of net exports accelerated until March, it slowed down in April (1.9pp down from 3pp in 1Q24). There has been a strong import demand in April, bringing our import demand GDP indicator back to positive territory (Figure 7).
- Financial conditions remain tight, especially after the recent upsurge in loan rates. Yet, the real return of the stock market, the real currency appreciation and the decrease in risk premium seem to have prevented further tightening (Figure 8). The wealth effect might continue to support consumption in the short term. We envisage that maintaining restrictive financial conditions will be key to strengthen the monetary transmission mechanism.

Figure 5. **Real Card Spending** (weekly, adjusted by CPI, Jan2022=100)



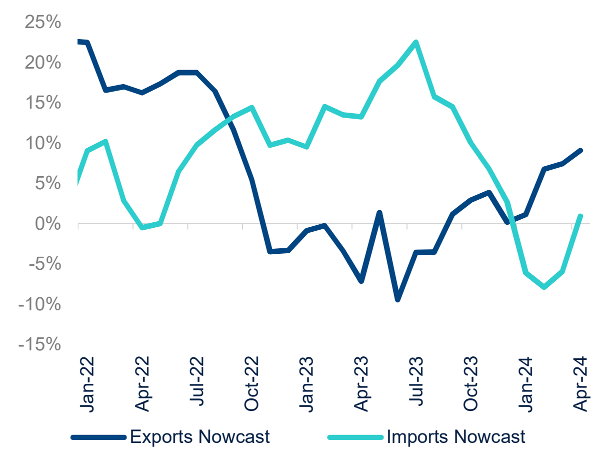
Source: CBRT, Garanti BBVA Research

Figure 6. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, YoY, adjusted by CPI)



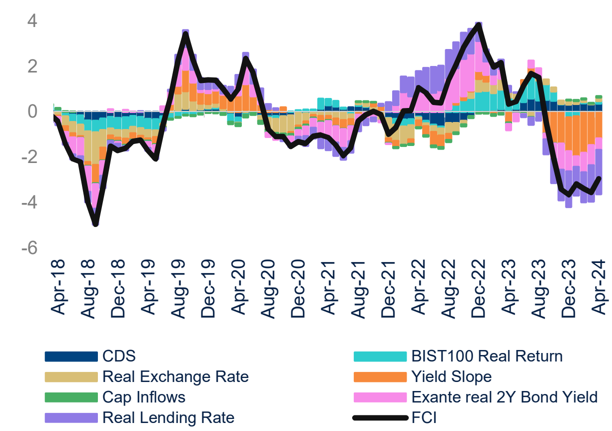
Source: TURKSTAT, Garanti BBVA Research

Figure 7. **Garanti BBVA Exports & Imports Monthly GDP Nowcast** (3-month average YoY)



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY

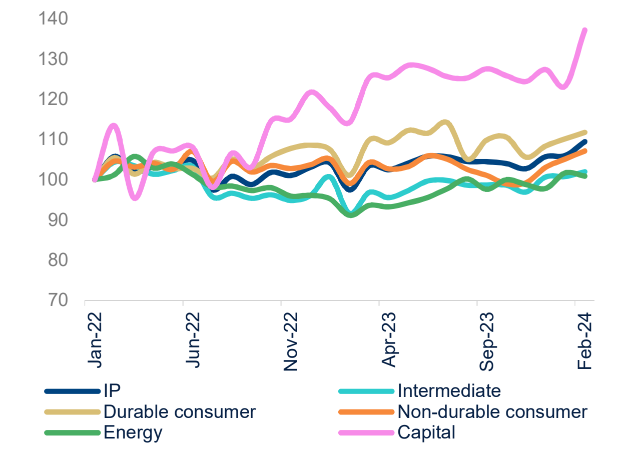
Figure 8. **Garanti BBVA Financial Conditions Index** (standardized, + easing, - tightening)



Source: TURKSTAT, Garanti BBVA Research

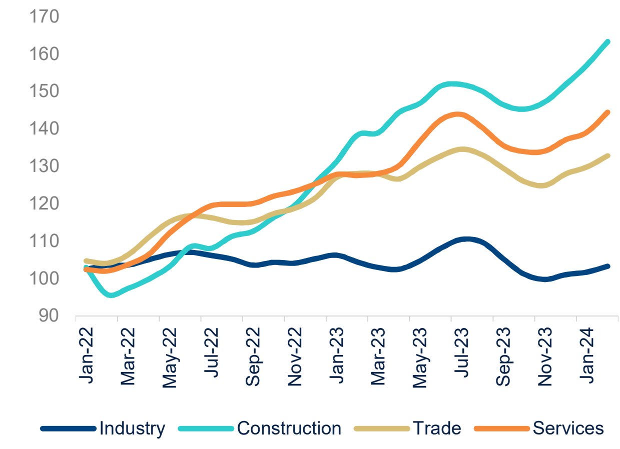
- Quarterly industrial production (IP) accelerated further to 3.4% q/q in Feb compared to 4Q23 (-0.7 q/q), showing the continuing recovery in activity. Excluding energy, there was a broad-based improvement, with capital goods production standing out, followed by consumption and intermediate goods production (Figure 9). Most sectors in the manufacturing contributed to the activity positively, albeit limited, whereas the other transport equipment (mostly defence related) was the main driver (almost 2pp).
- Turnover indices in real terms revealed a broad-based acceleration in sub-sectors in Feb, while the services sector took the lead. Construction turnover remained solid, whereas industry and trade sectors' were relatively moderate.
- There was also some recovery in services production with 0.7% in Jan-Feb period compared to 4Q23 (Figure 11).
- Manufacturing capacity utilization rate contracted slightly by 0.2pp m/m in April (Figure 12) but still recovered limitedly on a quarterly basis (+0.2 pp). Manufacturing PMI moved below the 50 threshold level in April with 49.3 (vs. 49.8 in 1Q24), signaling some slow-down in production. The intermediate goods imports improved slightly in April as a sign of improving exports led by the bottoming-out signals from particularly Europe.

Figure 9. **Industrial Production Index**
(seasonal and cal. adj., Jan22=100)



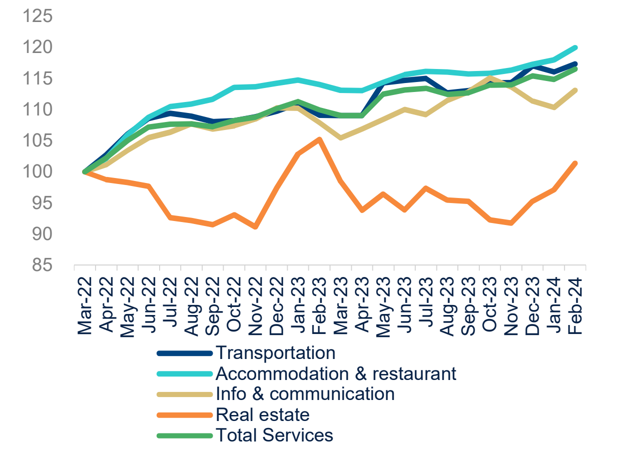
Source: TURKSTAT, Garanti BBVA Research

Figure 10. **Sectorial Turnover Indices**
(real, seasonal and cal. adj., Jan22=100)



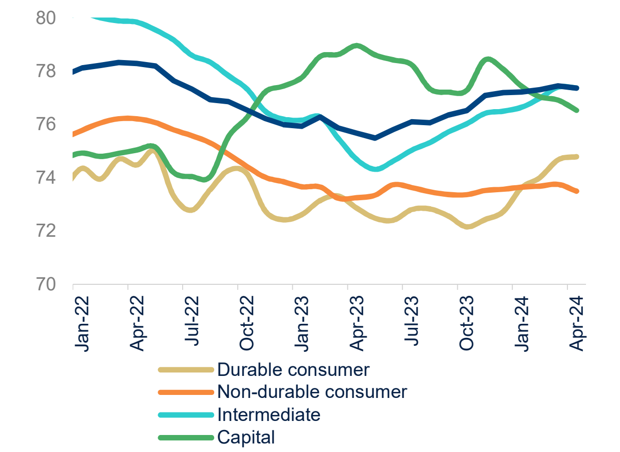
Source: TURKSTAT, Garanti BBVA Research

Figure 11. **Services Production Index**
(seasonal and cal. adj., 1Q22=100, 3MA)



Source: TURKSTAT, Garanti BBVA Research

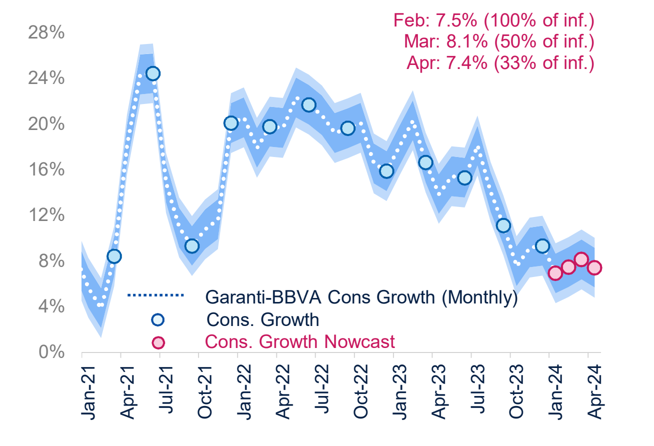
Figure 12. **Manufacturing Capacity Utilization Rate**
(seasonal and cal. adj., 3MA)



Source: CBRT, Garanti BBVA Research

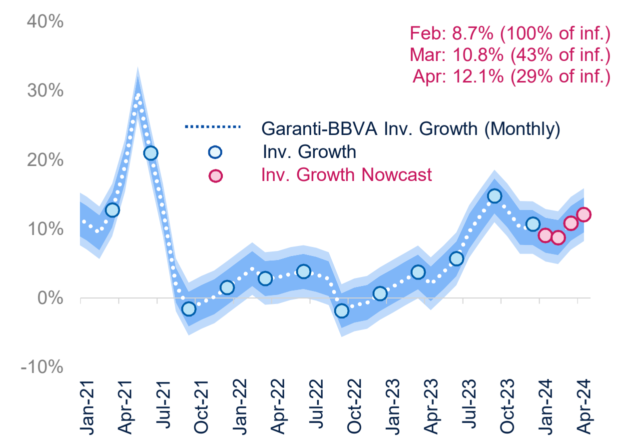
- Our big data consumption indicators show a loss of momentum in both goods and services consumption in April. Yet, it might still be early to call it as a fast normalization due to the calendar day effects of the long holiday, as also confirmed by our monthly private consumption GDP nowcast for April (Figure 13).
- This trend has also been supported by the strong consumption goods imports realization in April, reaching almost the highest level observed since October 2023, while capital goods imports displayed a setback (Figure 15).
- Regarding investment, there has been most recently some acceleration according to our monthly investment GDP nowcast, which would be positive, if sustained, to support the production capacity of the economy going forward.
- On the credit side, the TL lending rates rose significantly, led by the credit growth caps and the positively surprising rate hike of the CBRT in March. Though, the credit composition is still not in favor of rebalancing (Figure 16). In this regard, additional measures might be needed to regulate the availability of retailer spending via credit cards.

Figure 13. **Garanti BBVA Monthly Consumption GDP Nowcast** (3-month average YoY)



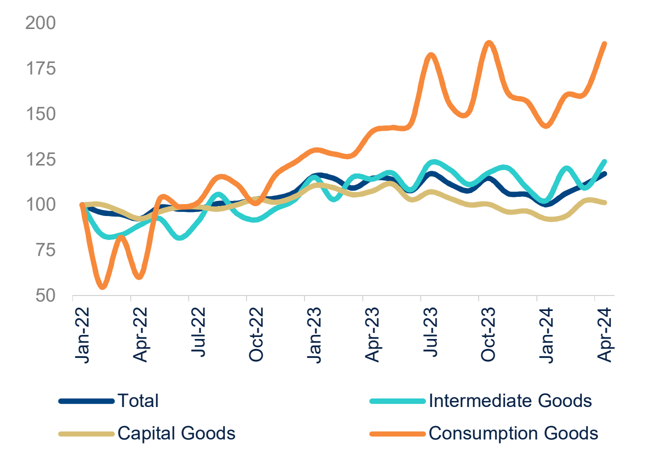
Source: TURKSTAT, Garanti BBVA Research, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 14. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average YoY)



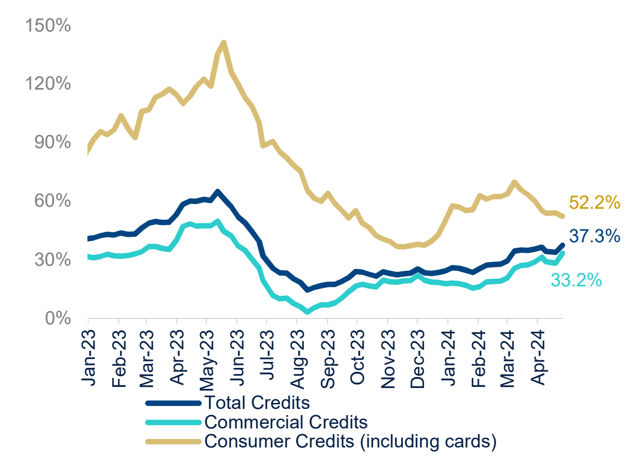
Source: TURKSTAT, Garanti BBVA Research, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 15. **Import Sub-Components Volume Index** (2022 Jan=100, seasonal and cal. adj.)



Source: TURKSTAT, Garanti BBVA Research

Figure 16. **Total Credit Growth** (FX adj., 13-week average annualized rate)



Source: BRSA, CBRT, Garanti BBVA Research

BOTTOM LINE: Hard data realizations in February pointed that the setback in January was temporary. We observe some tightening in financial conditions, however this tightening has not yet been transferred into a considerable moderation on demand. Given the current strong performance and the lagged impact of the expected tighter economic policies in 2H24, we eliminate our previous slight downward bias and now assess that the risks on our 2024 GDP growth forecast of 3.5% are balanced. We will observe to what extent the tightening in financial conditions, fiscal stance and macro-prudential measures will support the rebalancing in the economy and evaluate the risks on our GDP forecasts accordingly.

DISCLAIMER

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