

Short Term Growth Outlook & Our MPC Call

Industrial Production grew by 8% in calendar adjusted year-on-year terms in September, which resulted in an increase of 8% in the third quarter after the sharp contraction of 17% in the second quarter. Besides, retail sales also kept its high momentum, by growing 9% during the quarter, compared to its 12% yearly contraction in the second quarter. Therefore, both series confirmed the strong recovery pattern since mid-May as our Big Data proxies and other high frequency indicators have already signaled.

With this information, we now forecast the third quarter GDP growth at near 5% in year-on-year terms, which has still been followed by a high momentum at the start of 4Q as a result of still ongoing pent-up demand, according to our Big Data proxies.

All in all, given the still strong data so far, 2020 GDP growth rate will likely be above our current forecast of 0% and the downward impact of the recent financial tightening will materialize at the start of 2021 but still keep the full year growth rate close to the potential, boosted by the low base of this year and the positive impact of a potentially lower risk premium.

The Turkish economy is now on the edge of a change, as the policy makers pointed out last week. Actions speak louder than words so the first test for the markets will be the next Monetary Policy Committee Meeting this week. Our call is to have an explicit rate hike of 475bps in the policy rate, which would increase the rate to 15% and be a good signal of turning back to the orthodox policies.

The current strong activity could also facilitate an explicit rate hike decision of the Central Bank as the markets already priced in. The recent and most probably prolonged financial tightening also backed by other tight policies, rapid credit deceleration and uncertainties attached to financial stability weigh as the downside factors on the growth outlook next year. Though, as this year will still provide a very low base and the world will likely experience a normalization path throughout the year, 2021 GDP growth could still be close to the potential, around 4%, in our view.