Activity Pulse

Türkiye | The economy grew 4% in 1Q23

Adem Ileri / Tugçe Tatoglu / Gul Yucel

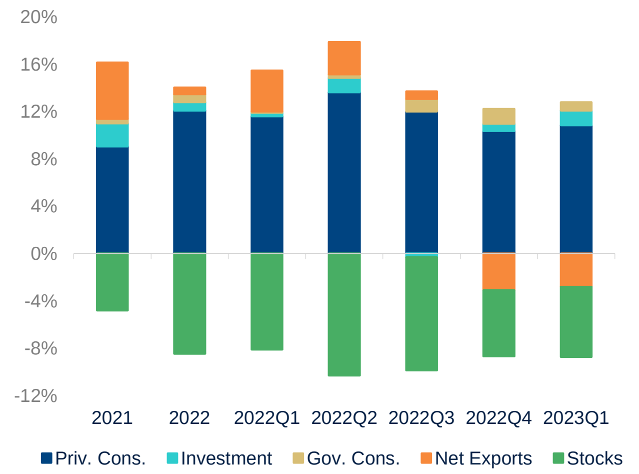
1 June 2023

Turkish economy grew by 4% y/y in 1Q23 in line with market expectation (3.9%) but slightly lower than ours (4.3%). Seasonal and calendar adjusted GDP signaled loss of momentum due to the impact of the earthquakes since quarterly growth decelerated to 0.3% from 0.9%. Domestic demand continued to provide the highest contribution to growth with strong private consumption, while the services sector carried growth on the production side. Our monthly GDP indicator nowcasts 4.6% y/y growth as of May (with 27% of information) confirming that the recovery in the post-quake period will continue, as also hinted by the leading indicators. Assuming no sharp normalization in economic policies ahead of local elections in 2024, we expect GDP growth to be in the range of 4-5% in 2023 on the back of the current strong momentum, fiscal efforts on post-quake recovery and expected lagged impact of populist measures.

Domestic demand driven growth while negative contribution from net exports

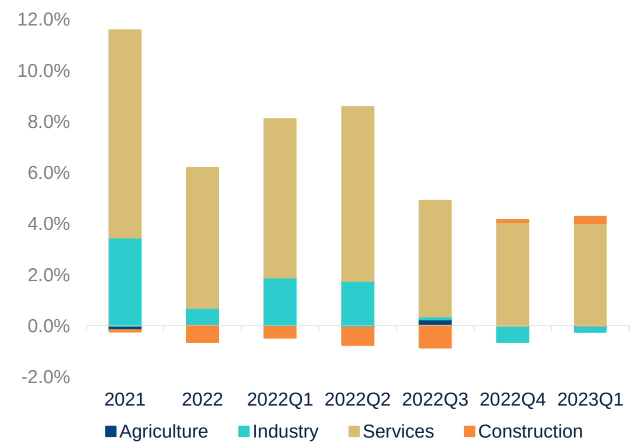
Domestic demand remained strong, rising by 12.1% y/y (excluding stocks) on the back of private consumption, followed by investment, whereas net exports contribution to aggregate demand was negative. Private consumption increased by 16.2% y/y while investment growth accelerated to 4.9% y/y, supported by machinery and equipment (8.0 y/y) and construction (1.3% y/y). On the other hand, government consumption has slowed down, increasing by 5.3% y/y. On the external side, imports rose by 14.4% y/y (prev. 10.2% y/y) while exports continued to decline, though limitedly, with -0.3% y/y. All in all, contribution of external demand (i.e. net exports) on annual growth continued to be negative in 1Q23 (-2.8pp vs. -3.1pp in 4Q22), while domestic demand (excluding stocks) carried growth with 12.8pp. As a result of aggregate demand remaining stronger than aggregate supply, inventories continued to be depleted 10 quarters in a row by pulling annual growth down by 5.9pp.

Figure 1. **CONTRIBUTIONS TO GDP GROWTH VIA EXPENDITURES** (ANNUAL, PP)



Source: Garanti BBVA Research, TURKSTAT

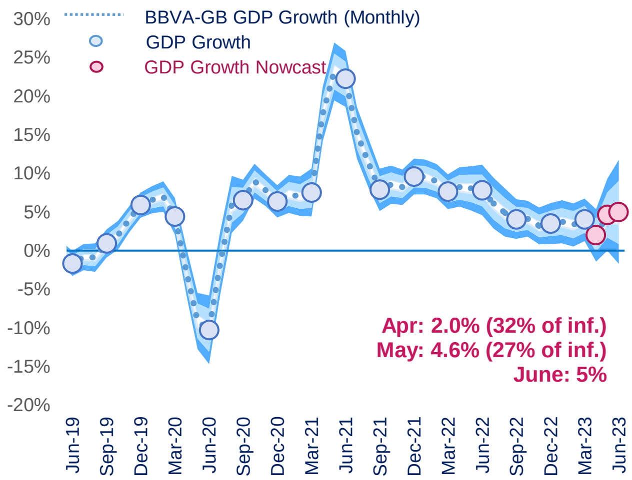
Figure 2. **CONTRIBUTIONS TO GDP GROWTH VIA PRODUCTION** (ANNUAL, PP)



Source: Garanti BBVA Research, TURKSTAT

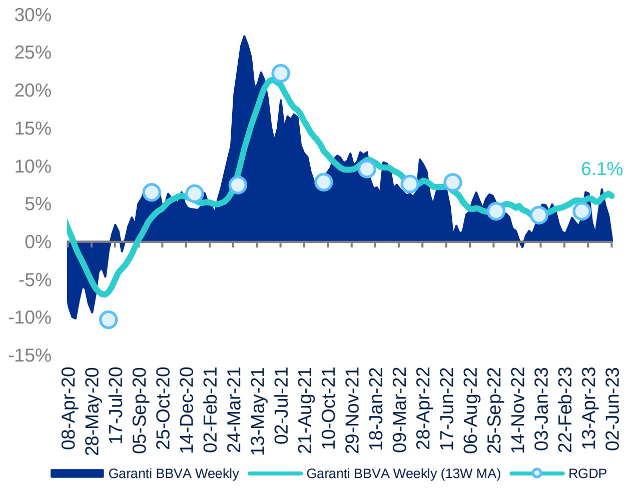
On the sectorial side, construction reinforced its contribution to annual GDP growth (0.2pp), on the back of reconstruction efforts in the post-quake period, whereas it had brought negative contribution to growth in 2022. Broad-based services continued to be the main contributing sector to growth with 4.0pp thanks to trade, transportation and accommodation, while industry and agriculture caused 0.2 pp decline altogether. On income approach, the share of wages in the overall value-added recovered based on the recent high adjustment in wages after displaying a decreasing trend in favor of the capital owners in the last couple of quarters.

Figure 3. **GARANTI BBVA MONTHLY GDP INDICATOR* (YoY, 3-MONTH MOVING AVG.)**



Source: Garanti BBVA Research, TURKSTAT

Figure 4. **GARANTI BBVA WEEKLY GDP TRACKER* (YOY GROWTH)**



Source: Garanti BBVA Research, TURKSTAT

Preliminary indicators signal continuing recovery in economic activity in 2Q23 as manufacturing capacity utilization rate rose to 76.3% in May from 75.6% in April, while electricity production increased for the first time in the last 11 months by 2.9% y/y. PMI, on the other hand, stayed unchanged in May at 51.5 but pointed out a growth performance above trend. Last not but not least, quarterly trends have shown gains in services and real sector confidence, while retail sales and construction confidence deteriorated compared to 1Q23. All in all, preliminary indicators and our big data indices show signs of a clear acceleration in activity, signaling near 2% quarterly GDP growth rate in 2Q23. Our monthly GDP indicator also confirms this trend by nowcasting 4.6% y/y GDP growth in May with 27% of information after nowcasting a slight slow-down in activity with 2.0% y/y growth (32% information) largely due to negative calendar day impact of Ramadan holiday. Our weekly GDP indicator also exhibits a similar pattern as economic activity is accelerating in May after decelerating till mid-April.

Loose policies will keep macroeconomic imbalances alive in the short run

The continuation of populist fiscal policies along with relief and reconstruction efforts in the quake region, toppled with extremely low interest rates in the pre-election period led to persistent consumption driven growth. Strong domestic demand will likely continue, which will add upside pressure on inflation and reinforce external financing needs in the near future. Since the local election will be held in March 2024, the government might desire to maintain pro-growth policies to some extent in order to support employment. Therefore, assuming no sharp return to orthodox policies before the election, we forecast GDP growth to be in the range of 4-5% in 2023. The lagged impact of the delayed adjustment can be more clearly observed next year with a growth rate below the potential.

BBVA Research

Creating Opportunities

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

ENQUIRIES TO:
Garanti BANKASI A.Ş. Nispetiye Mah. Aytar Cad. No:2 34340 Levent Beşiktaş İstanbul.
Tel.: +90 212 318 18 18 (ext 1064)
www.bbvaresearch.com