

Turkey: The economy grew by 21.7% yoy in 2Q21

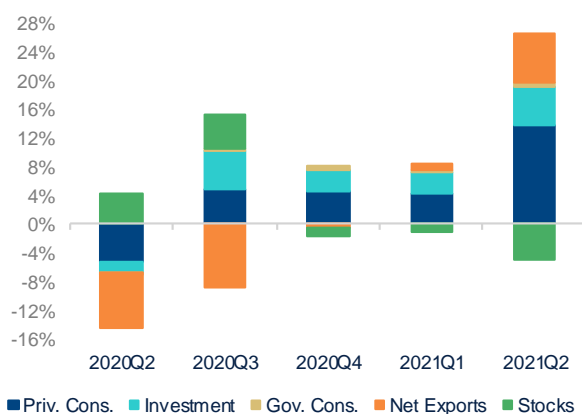
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Turkish economy grew by 21.7% in yearly terms in 2Q21, resulting in a growth rate of 14.3% in the first half of the year. Though, the quarter-on-quarter growth rate moderated to 0.9% after growing by 2.2% in 1Q21. The moderation stemmed from the sectors other than services, which still grew by 2.1% qoq, being backed by the reopening in the economy since mid-May. On the demand side, the deceleration was due to the stocks depletion (-1.1pp), while domestic demand still accelerated on mainly private consumption and net exports maintained a contribution of +1pp to the quarterly growth rate. Looking ahead, our monthly GDP indicator shows a yearly growth rate of near 13% in August (with 37% of information), which corresponds to a quarterly growth rate of above 2%. The high carry-over impact is over 3Q onwards but the reopening in the economy and recovering tourism and exports revenues are still boosting the overall growth rate. We maintain our 2021 GDP growth forecast at 9%, with risks still on the upside.

Domestic demand remained high, net exports stayed supportive in 2Q

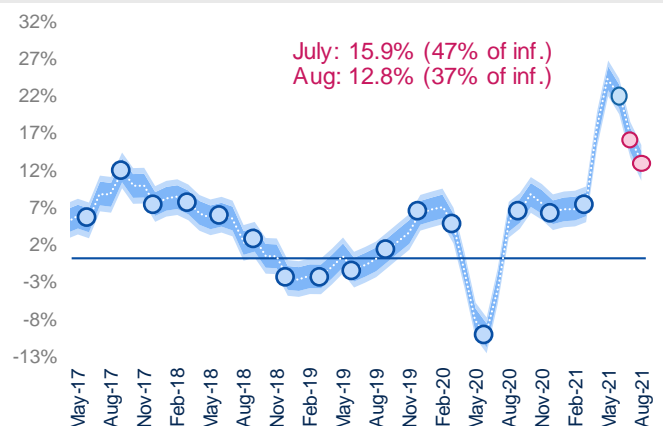
Base effects boosted yearly growth rates in 2Q21 as expected. Domestic demand was solid on private consumption (22.9% yoy) and investment (20.3% yoy) with contributions of 13.7pp and 5.4pp, respectively. Investment was supported by mainly machinery and equipment (35.2% yoy), which was followed by construction (12.2% yoy) and other investment (1.9% yoy). Government consumption accelerated to 4.2% yoy, implying 0.7pp contribution to GDP. The negative contribution of inventories continued for the third quarter with an acceleration to -4.9%pp. On the external side, contribution of exports rose to 10.8pp where imports also speeded up however its contribution stayed limited with 3.8pp. Thus, net exports contribution which turned into positive last quarter, started to weigh on the upside with 6.9pp in 2Q. In sectorial detail, all sectors except for financial and insurance activities (-1.7pp) gave positive contributions where trade, transportation, accommodation sectors took the lead with 8.9pp, which was followed by industry (7.5pp). On the other hand, agriculture and construction sectors remained weak with 0.1pp and 0.2pp contributions, respectively. Looking ahead, we expect domestic demand to moderate in the rest of the year, as seen in our Big Data indicators (Figure 5). Though, external demand will likely support activity and help the rebalancing in the economy, which is confirmed by our demand nowcasts for 3Q21 (Figures 6-9).

Figure 1. Contributions to GDP Growth (pp, annual)



Source: Garanti BBVA Research, Turkstat

Figure 2. BBVA Research Monthly GDP (%yoy, 3M Avg)

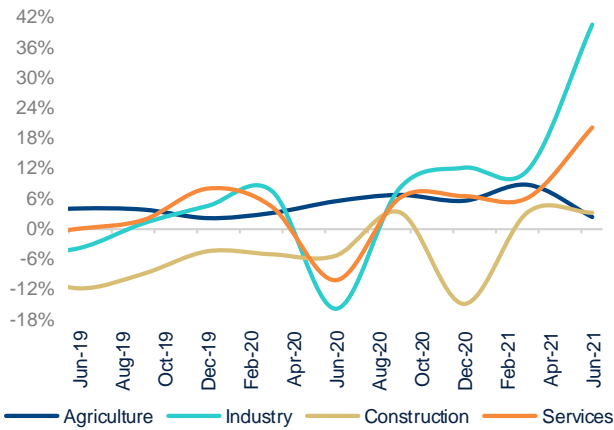


*Garanti BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP (GBTRGDPY Index in BGG)

Early indicators show pick-up signals for 3Q21

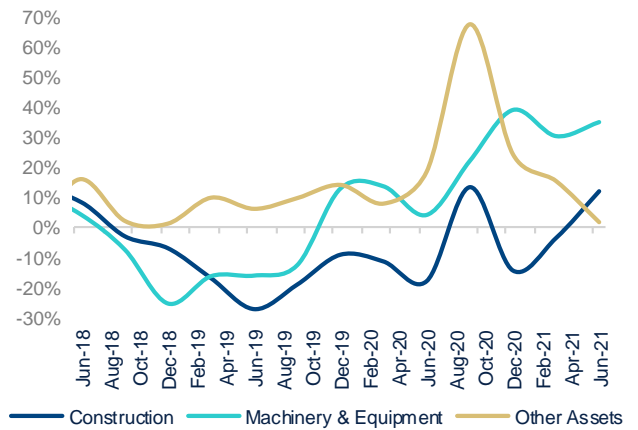
If no quarterly growth is assumed for the rest of the year, a growth rate of 8.6% would be achieved in 2021. Though, manufacturing PMI accelerating to 54.1 and manufacturing capacity utilization rate (s.a.) to 76.8% in August, and continuing pick-up in electricity production so far have all indicated still solid production levels in early 3Q. Given the increasing contribution of net exports backed by the stronger external demand and recovering tourism revenues, risks are still on the upside for our above consensus 2021 GDP growth forecast of 9%.

Figure 3. **Sectorial GDP Growth (YoY)**



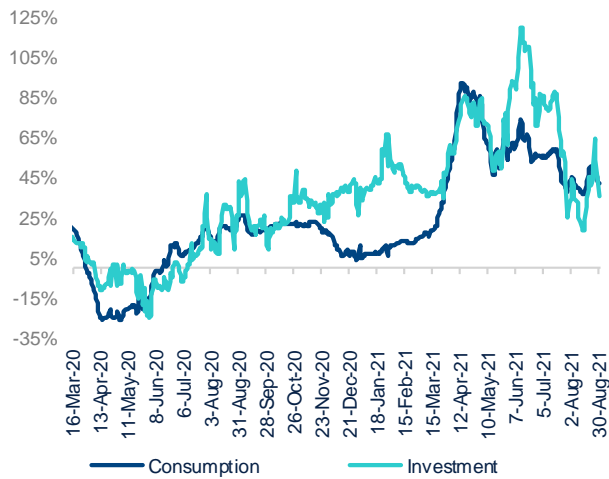
Source: Garanti BBVA Research, Turkstat

Figure 4. **Gross Fixed Capital Formation (YoY)**



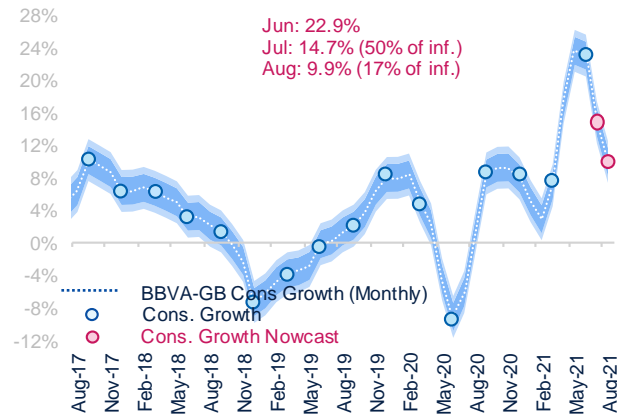
Source: Garanti BBVA Research, Turkstat

Figure 5. **BBVA Big Data Demand Indicators (28-day sum, nominal, YoY)**



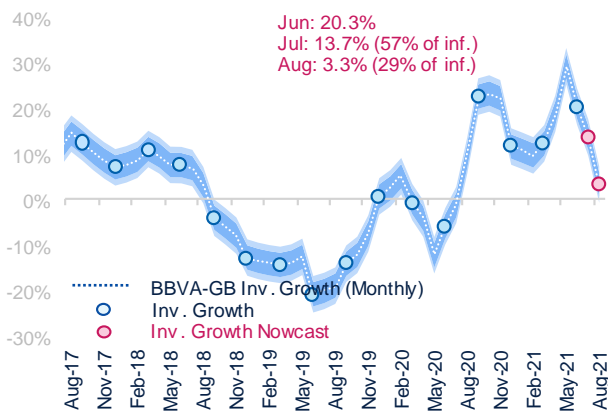
Source: Garanti BBVA Research

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



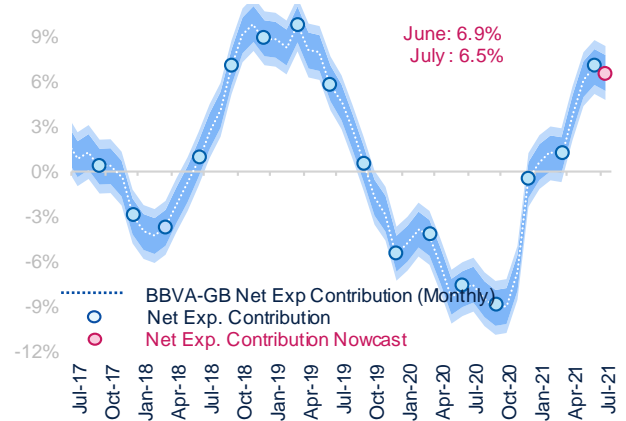
Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 7. **BBVA Monthly Investment Nowcast (3m yoy)**



Source: Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 8. **BBVA Monthly Net Exports Nowcast (cont. pp)**



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

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