BBVA Research

Creating Opportunities

Activity Pulse

Türkiye | Weaker production with still strong demand

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Turkish economy grew by 3.8% in 2Q23 in annual terms slightly above the market consensus of 3.5% (vs. our expectation of 4.5%), which corresponds to 5% GDP growth if the calendar day adjustment is made. The sequential quarterly growth showed a strong acceleration with 3.5% after its 0.1% contraction in 1Q23, confirming the solid recovery after the February earthquakes. On the production side, services continued to pioneer, whereas industrial production contracted. Led by brought-forward demand on top of extraordinary loose policies ahead of the elections in May, domestic demand boosted by private consumption made a significant contribution. Together with weaker exports, a clear acceleration in imports resulted in a more negative contribution of external demand. Therefore, aggregate demand remained stronger than supply, underpinned the pressure on current account deficit, exchange rate and so inflation. Leading indicators and our big data proxies suggest that industrial production remains weak, while domestic demand stays strong. The current positive momentum of activity, ongoing recovery efforts in the quake region and the Government's efforts to achieve a soft landing pattern with gradual normalization steps in policies will be supportive on growth in the near term. After 2Q GDP's weaker than expected realization, a slight downside risk emerged on our 2023 GDP growth forecast of 4.5%. Though, we still expect GDP growth to materialize in the range of 4% to 4.5% with a high probability.

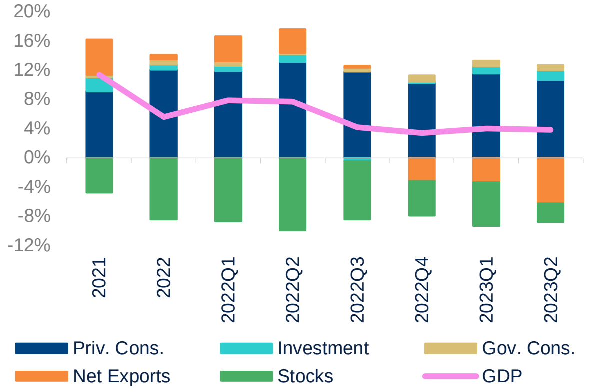
Strong acceleration in consumption, deepening negative impact of net exports

On the expenditure side, domestic demand remained strong led by private consumption, while weakening external demand, real appreciation in the exchange rate and high consumer loan growth deepened the negative contribution of net exports. Private consumption gained momentum (5.3% q/q in 2Q vs. 3% q/q in 1Q) due to the brought-forward demand in a high inflation environment, low borrowing costs and high wage adjustments and led to a strong annual growth (15.6% y/y in 2Q vs. 17.3% y/y in 1Q). Government consumption also gained pace (2.3% q/q in 2Q vs 1.2% q/q in 1Q) on the back of populist policies before the elections in May and the supports to the earthquake region. After remaining sluggish for an extended period of time, investment expenditures recovered further (5.1% y/y in 2Q) despite a limited quarterly deceleration (2.2% q/q vs 3% in 1Q), supported by both machinery and construction (7.4% y/y and 2.5% y/y, respectively). On the other hand, imports accelerated further (5.2% q/q in 2Q vs 1.7% in 1Q) on the back of strong domestic demand while exports contracted (-1.8% q/q in 2Q vs 0.1% q/q in 1Q) due to weaker global demand and real currency appreciation. Hence, the negative contribution of external demand (i.e. net exports) on annual growth reached the highest level since 3Q20 (-6.3pp vs. -3.4pp in 1Q). All in all, demand remained stronger than supply, led stocks to deplete further in 2Q (-2.5pp contribution to growth).

On the production side, industrial sector decelerated to 0.1% q/q in 2Q (vs. 1.4% q/q in 1Q), while it contracted by 2.6% in annual terms subtracting 0.5pp from 2Q GDP growth. The contribution of the agricultural sector on annual growth was close to zero, whereas construction's contribution improved further in 2Q (0.3pp vs. 0.2pp in 1Q) on the back of recovery effort in the quake regions. Therefore, broad-based services continued to support activity with 4pp annual contribution, led by trade, transportation and accommodation.

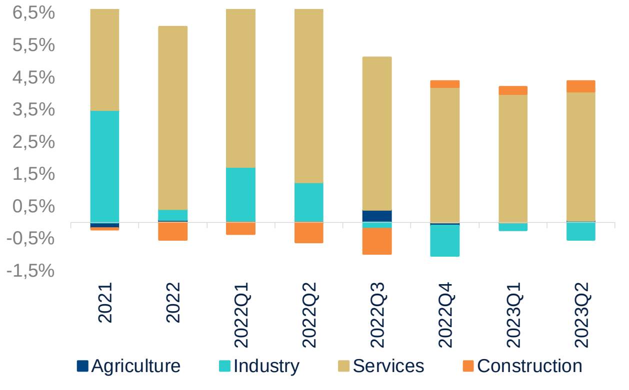
On the income side, after a declining trend for a while, the recent high adjustment in wages and the early retirement payments have led the share of wages in the overall value-added to recover from 21% in the 2Q22 to 28.4% in 2Q23 while the net operating surplus declined to 42% from 50% in 2Q22.

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



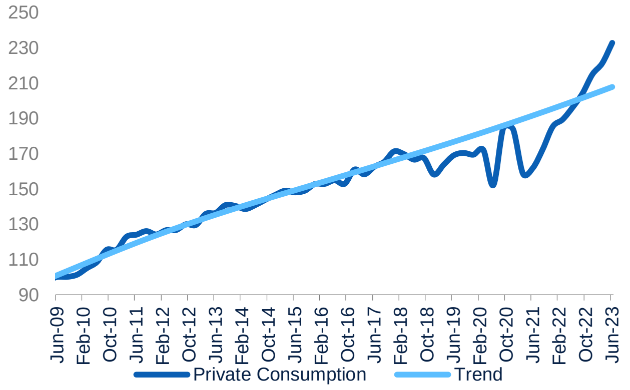
Source: Garanti BBVA Research,

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



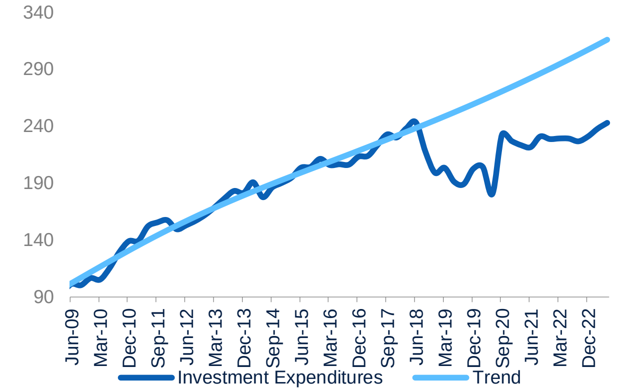
Source: Garanti BBVA Research, TURKSTAT

Figure 3. **PRIVATE CONSUMPTION VS TREND** (SCA INDEX, 2009=100)



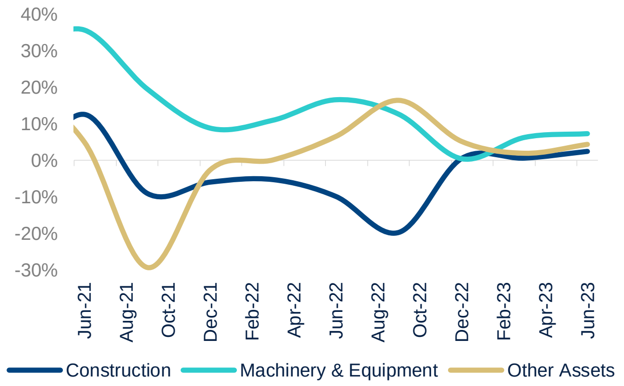
Source: Garanti BBVA Research, TURKSTAT

Figure 4. **INVESTMENT EXPENDITURES VS TREND** (SCA INDEX, 2009=100)



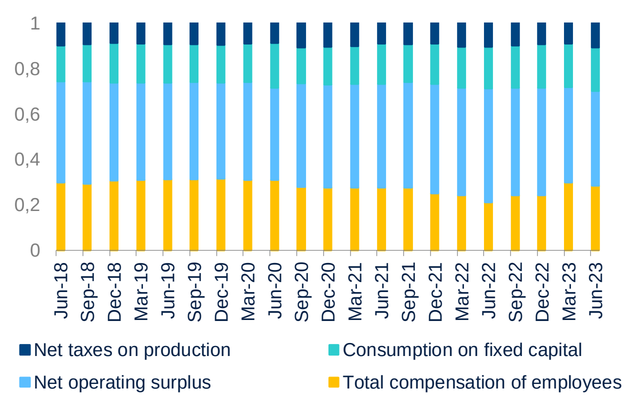
Source: Garanti BBVA Research, TURKSTAT

Figure 5. **GROSS FIXED CAPITAL FORMATION** (YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 6. **SHARES IN GROSS VALUE ADDED** (%)

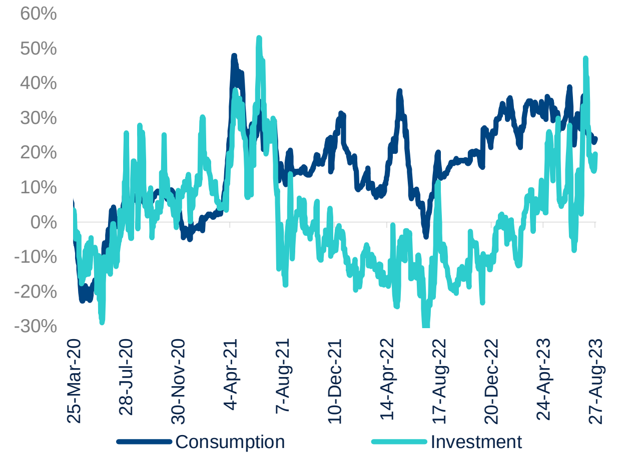


Source: Garanti BBVA Research, TURKSTAT

Looking ahead, the continuation of weaker manufacturing PMI and capacity utilization rates have signaled downward pressure on industrial production, which can be reinforced by lower confidence levels in the rest of the sectors and significant deceleration in commercial lending in the recent weeks if an overall production level is considered. On the other hand, our big data indicators on domestic demand still confirm the continuation of robust consumption, particularly on goods.

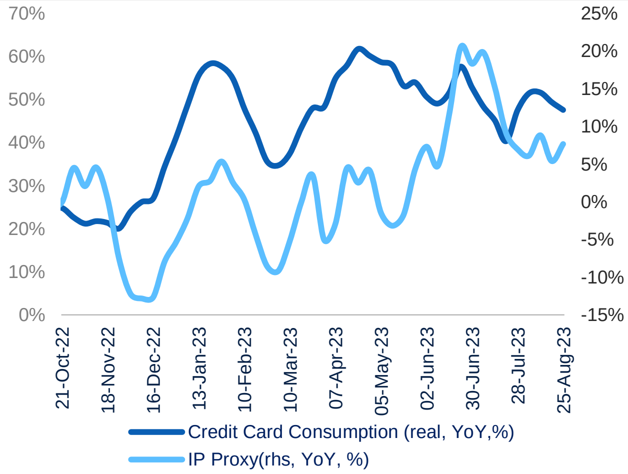
We nowcast domestic demand driven growth to continue in 3Q, indicating only a slight deceleration so far with 2.5% q/q as of August, which we expect to decelerate faster once September data is added. Our monthly GDP indicator nowcasts an annual growth of 6.2% in July (32% of information) and 5.1% in August (27% of information), boosting annual figures thanks to favorable calendar day impact in 3Q.

Figure 7. **GARANTI BBVA BIG DATA DOMESTIC DEMAND (REAL, 28-DAY SUM, YoY)**



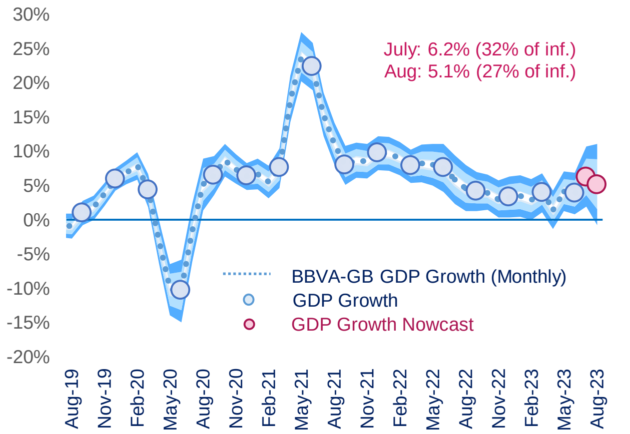
Source: Garanti BBVA Research

Figure 8. **CREDIT CARD CONSUMPTION AND IP PROXY (REAL, 4 WEEK MA, YoY)**



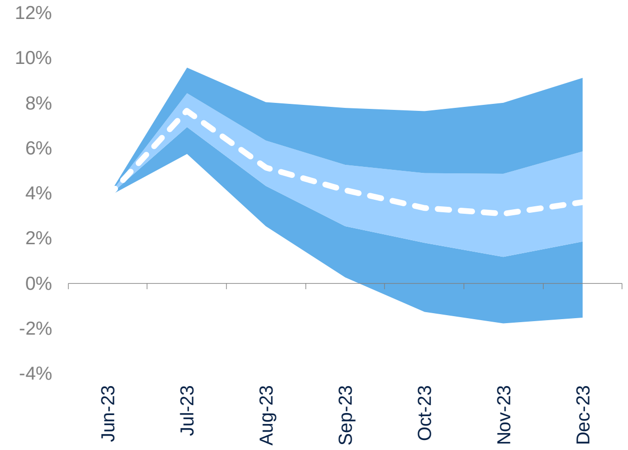
Source: Garanti BBVA Research, CBRT

Figure 9. **GARANTI BBVA MONTHLY GDP INDICATOR** (3M AVERAGE YoY)



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 10. **GARANTI BBVA GDP FORECAST SIMULATION** (3M AVG YoY)



Source: Garanti BBVA Research, 20% and %50 confidence bands

A more sustainable growth composition is targeted

The Government has started to put efforts to achieve a more sustainable growth composition in favor net exports while reducing the contribution of domestic demand. Since monetary policy tightening has remained gradual so far, macro prudential policies have been reinforced through mainly selective credit policies, which aim to facilitate commercial lending but restrict consumer loans in order to achieve a smooth transition in the economy. In addition to the quantitative limitations on loan growth and continuing upward adjustment in loan rates, the risk weights of retail loans in the capital adequacy ratio calculations have been increased. Based on the latest available data as of August, we made simulations on GDP growth for the remaining part of the year. According to our simulations, probability density forecasts for 3Q and 4Q have left skewed distributions, meaning that annual GDP growth can be above 4% in 3Q with near 52% probability and above 4% in 4Q with again near 50% probability. As a result, we conclude that 2023 GDP growth might still reach 4-4.5% with a high probability. For the time being, we maintain our 2023 GDP forecast at 4.5%.

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