

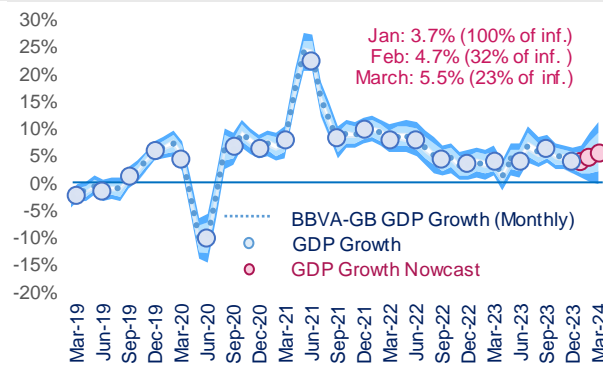
Activity Pulse

Türkiye | Still solid domestic demand in 1Q24

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15 March 2024

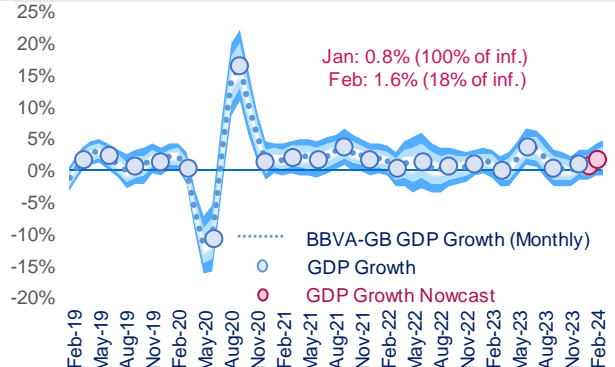
- After the strong growth performance in 2023 with 4.5% y/y, our monthly GDP indicator nowcasts an acceleration in activity with annual growth of 5.5% in March, driven by fiscal impulse and still solid private consumption.
- Aggregate demand remained stronger than supply, signaling that the tightening in monetary policy along with other policy measures have limited impact so far to correct the imbalance.
- Despite the tighter stance, our nowcast results show that the contribution of private consumption to GDP accelerates further in March, on the back of recent high wage adjustment and still elevated inflation expectations.
- The recovery in the contribution of net exports to GDP is noteworthy in 1Q, led by the stable exports and the correction in imports.
- We maintain our 2024 GDP growth forecast of 3.5% on top of the strong performance in 1Q, the pre-election fiscal impulse and expected capital inflows in the coming period.

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



Source: TURKSTAT, Garanti BBVA Research

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



Source: TURKSTAT, Garanti BBVA Research

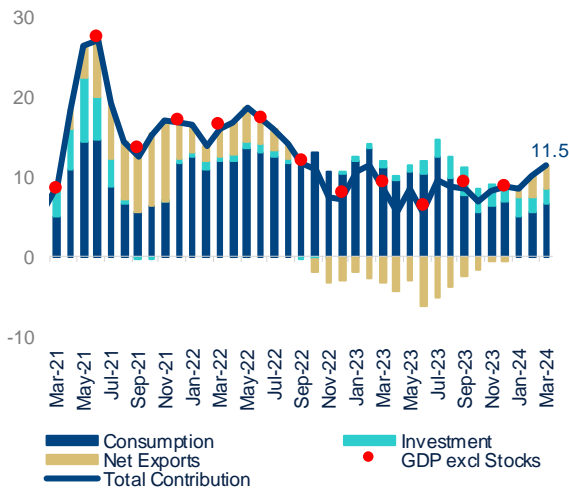
Figure 3. **Economic Activity Indicators Heatmap (3-month YoY, mean corresponding to 2010-2022)**

Mean	2023												2024			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Industrial Production (IP)	7.0	1.7	-0.4	-0.7	-6.0	0.4	-3.4	5.7	3.1	8.5	4.4	3.9	2.2	0.8		
Intermediate Goods IP	7.1	-4.9	-6.3	-6.0	-11.3	-5.1	-7.8	1.1	-0.1	6.6	3.9	3.8	3.3	1.3		
Turnover Index	10.6	15.7	16.1	13.3	5.7	9.9	7.4	16.2	11.7	12.2	5.5	4.3	3.7	1.6		
Employment	3.2	6.4	5.4	4.9	3.8	3.5	2.4	2.7	2.3	2.8	2.0	1.3	1.5	1.6		
Electricity Consumption	4.3	-5.6	-5.0	-5.1	-6.5	-4.0	-4.4	1.5	2.3	6.2	4.1	3.6	3.5	4.1	5.6	6.6
Capacity Utilization*	76.1	76.0	76.0	75.2	75.2	75.4	76.2	76.6	76.4	76.5	76.5	77.1	77.2	77.1	76.9	
Retail Sales	6.4	23.9	27.1	29.4	26.2	30.9	29.0	32.8	26.5	23.2	16.9	15.8	14.6	13.7		
Import Volume	3.2	8.7	13.9	18.5	16.4	20.7	14.6	20.1	12.8	14.5	9.7	6.7	3.7	-5.2	-6.7	
Import VAT	8.3	-0.3	-3.9	-2.7	-7.4	-1.5	-4.4	9.3	7.1	13.8	10.8	13.9	15.1	9.5		
Economic Confidence*	101.3	98.3	98.8	99.1	100.0	101.6	102.4	101.4	98.2	96.3	95.4	95.7	96.1	97.0	98.3	
FX adj. Commercial Credits	2.4	-14.6	-13.9	-11.5	-7.3	-5.2	-6.9	-13.8	-20.3	-21.7	-22.1	-22.6	-25.4	-26.3	-26.9	-30.4
Consumer Credits	5.3	2.9	8.7	18.9	27.4	31.9	30.9	24.7	18.5	14.1	12.5	12.0	5.0	3.8	2.5	-7.0
GB Big Data Consumption	7.2	28.8	30.9	32.1	30.6	34.6	34.7	36.6	32.9	27.0	18.7	14.7	13.3	12.6	17.2	18.6
GB Big Data IP Proxy	7.0	-4.5	-2.7	0.0	-3.1	8.7	8.6	15.6	4.6	1.2	-4.8	-2.0	-3.2	-3.2	-3.6	3.2
GDP Nowcasting Results YoY																
GDP YoY					3.96%		3.93%		6.07%				3.97%	3.7%	4.7%	5.5%

Source: TURKSTAT, CBRT, Garanti BBVA Research

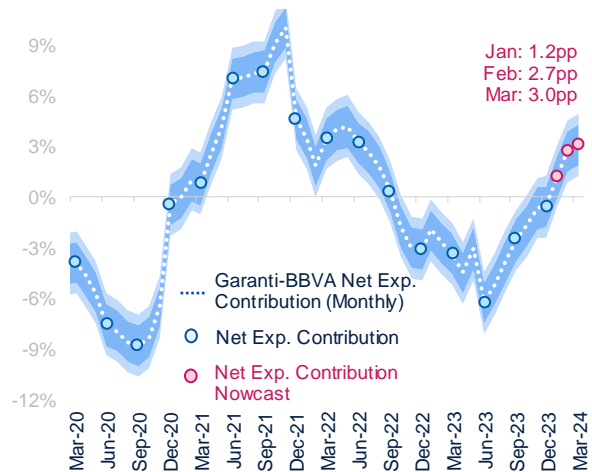
- Our GDP nowcasts on demand sub-components indicate that private consumption (6.5pp) and investment (1.9pp) contributed totally 8.4pp to annual growth as of Jan., while the positive contribution of net exports (3.0pp) continues to widen. Private consumption has most recently started to gain pace especially on the back of high wage adjustment and still elevated inflation expectations (Figure 3).
- Despite the tightening financial conditions, we observe that financial conditions are not as tight as in 2018 and have shown some easing most recently. Recent measures from the Central Bank (CBRT) to curb down monthly credit growth could tighten financial conditions in the coming period (Figure 5).
- Quarterly industrial production (IP) growth accelerated to 1.4% in Jan. from -0.9% in 4Q23, showing a limited improvement in activity, particularly led by strong consumption. Despite the sharp contraction in the production of intermediate and capital goods, consumption goods production prevents further deterioration (Figure 6). The deterioration in manufacturing sector is not broad based as only some sectors contributed negatively.
- The capacity utilization in the manufacturing industry indicates limited improvement in Feb, except for capital goods. PMI reached 50.2 (vs 49.2 in Jan), above 50 threshold level for the first time in the last eight months. The intermediate goods imports has improved recently. Hence, the leading indicators signaled further recovery in Feb (Figure 9).
- Turnover indices in real term revealed that activity in construction sector remained solid thanks to the ongoing effort in earthquake zone, while industry and trade sectors have deteriorated as of January (Figure 7).
- The new trade sales volume, recently released by CBRT, contracted by 3.2% m/m mainly led by wholesale trade (-5.9% m/m), while retail sales increased by 2.6% m/m. On the other hand, the change in 3-month moving average rose to 4.3% in January from 2.6% in December.
- Based on the new series released by TURKSTAT on the services sector, the contraction in services production is not broad based, mainly led by transportation and storage services (Figure 8).

Figure 3. **Garanti BBVA Nowcast Contributions to GDP Growth** (annual, PP)



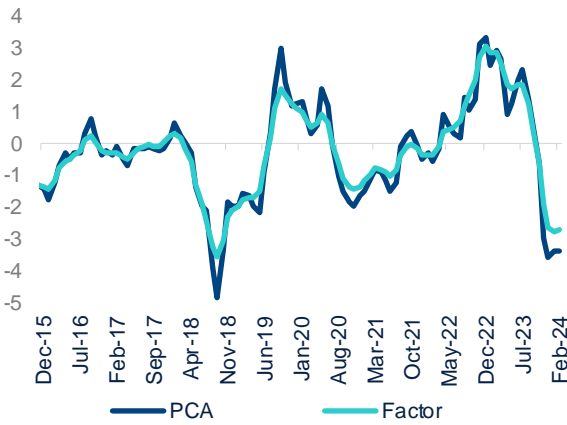
Source: TURKSTAT, Garanti BBVA Research

Figure 4. **Garanti BBVA Net Exports Nowcast Contribution to GDP Growth** (annual, PP)



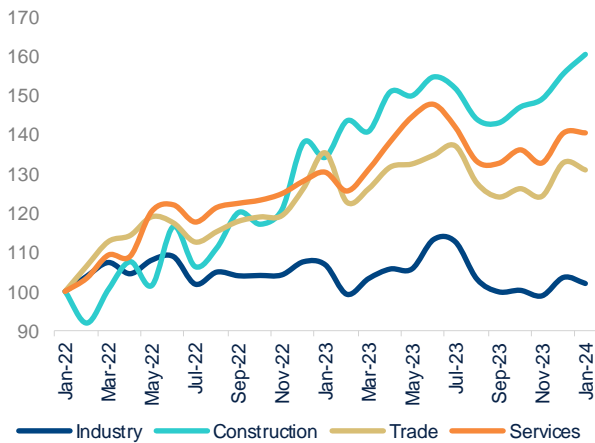
Source: TURKSTAT, Garanti BBVA Research

Figure 5. **Garanti BBVA Financial Conditions Index¹**
(standardized, + easing, - tightening)



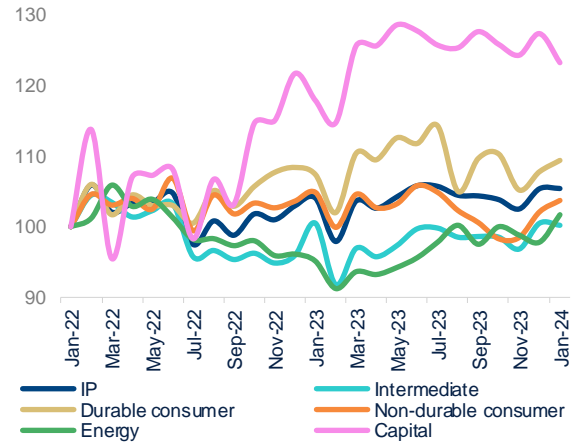
Source: TURKSTAT, Garanti BBVA Research

Figure 7. **Sectorial Turnover Indices**
(real, seasonal and cal. adj., Jan22=100)



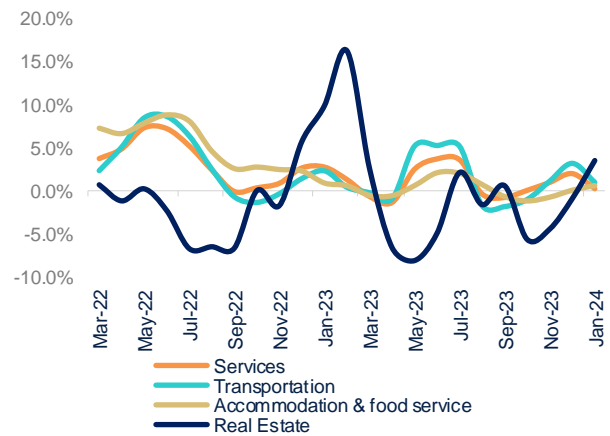
Source: TURKSTAT, Garanti BBVA Research

Figure 6. **Industrial Production Index**
(seasonal and cal. adj., Jan22=100)



Source: TURKSTAT, Garanti BBVA Research

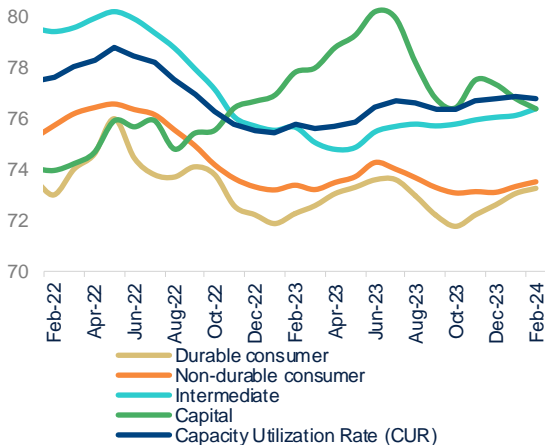
Figure 8. **Services Production Index**
(3MA, QoQ)



Source: TURKSTAT, Garanti BBVA Research

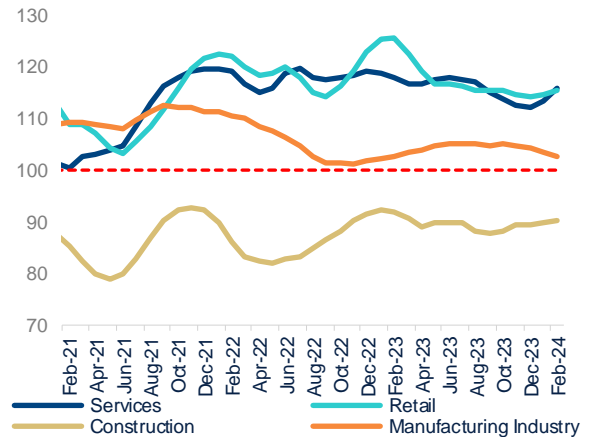
¹ Based on the study done by Bahçeşehir University Financial Research and Implementation Center (BFRC), we calculate the financial conditions index. The following variables are included; CDS, ex-ante 2 year yield (real), real exchange rate, real stock price, portfolio inflows, yield curve slope(10y-2y), real loans rate.

Figure 9. **Capacity Utilization Rate (3MA, seasonal and cal. adj.)**



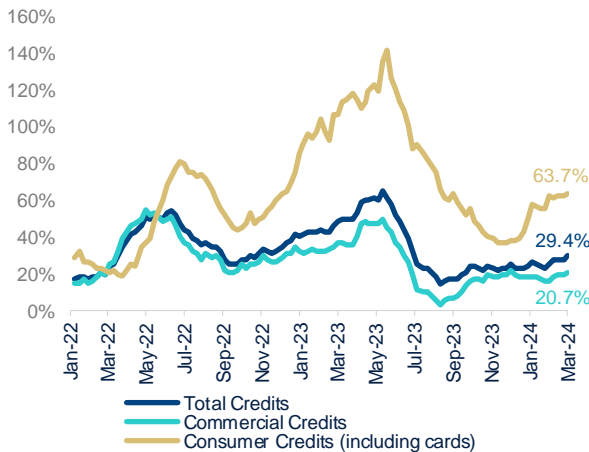
Source: CBRT, Garanti BBVA Research

Figure 10. **Sectorial Confidence Indices (3MA, seasonal and cal. adj.)**



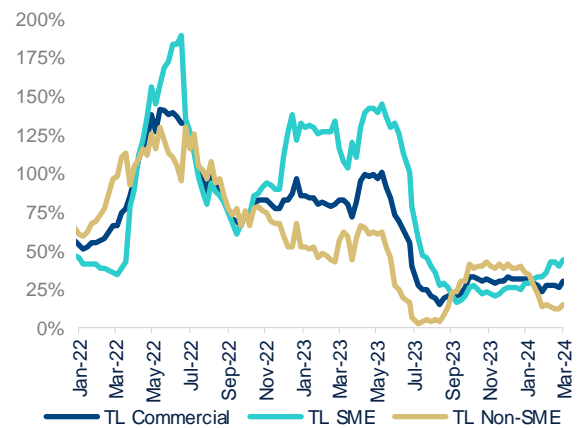
Source: TURKSTAT, Garanti BBVA Research

Figure 11. **Total Credit Growth (FX adj., 13-week average annualized rate)**



Source: BRSA, Garanti BBVA Research

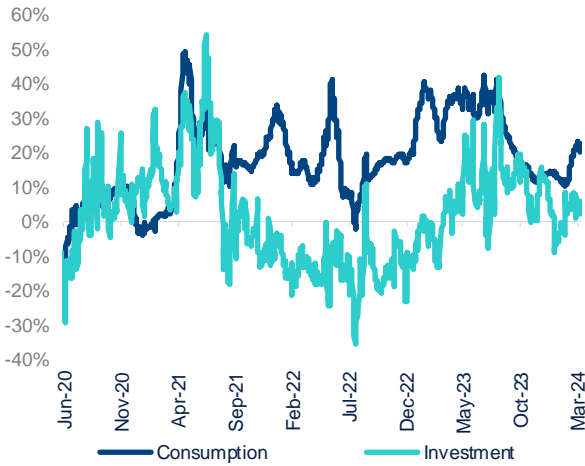
Figure 12. **TL Commercial Credit Growth (13-week average annualized rate)**



Source: BRSA, Garanti BBVA Research

- Our big data indicators on demand sub-components shows that the private consumption on both goods and services started to accelerate as of Feb (Figure 14). Investment demand, on the other hand, remained subdued confirming the momentum loss in the production capacity of the economy (Figure 13).
- Consumer credits maintained its upward trend with the support of general purpose loans and credit cards, which confirms the recent acceleration in private consumption as signaled by our big data consumption indicators (Figure 11).
- Retail sales volume increased by 2.6% m/m in January (vs 1.6% in Dec. 2023) and consumption goods imports has surged in February, confirming the ongoing solid demand condition. Hence, we believe that financial conditions should be tightened further (Figure 18).
- Despite the recent reversal in goods imports in February, our external demand big data indicators show that the positive contribution of net exports to GDP recovered further in 1Q on top of recovering exports (Figure 19).

Figure 13. **Garanti BBVA Big Data Domestic Demand Indicators** (28-day sum, real, YoY)



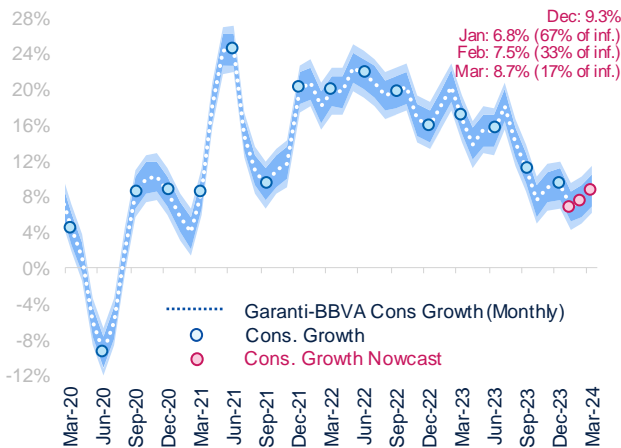
Source: TURKSTAT, Garanti BBVA Research

Figure 14. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, real, YoY)



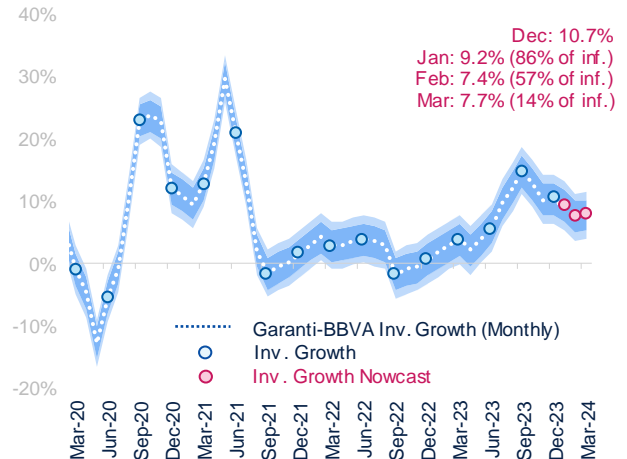
Source: TURKSTAT, Garanti BBVA Research

Figure 15. **Garanti BBVA Monthly Consumption GDP Nowcast** (3M YoY)



Source: TURKSTAT, Garanti BBVA Research

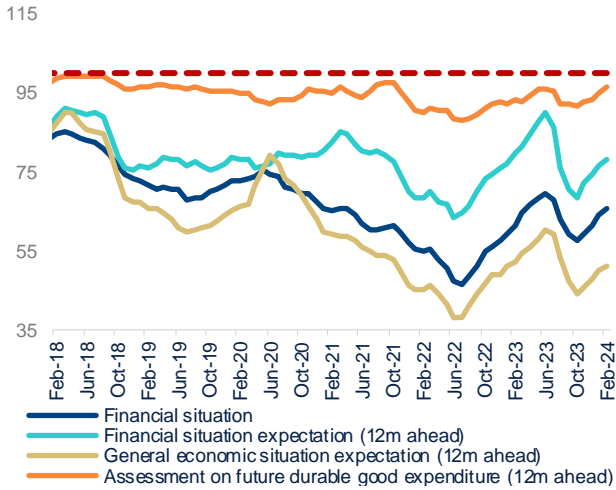
Figure 16. **Garanti BBVA Monthly Investment GDP Nowcast** (3M YoY)



Source: TURKSTAT, Garanti BBVA Research

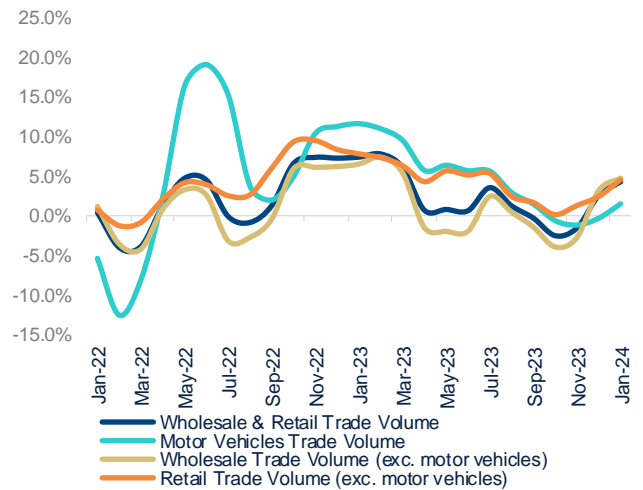
BOTTOM LINE: Economic activity is accelerating in 1Q based on the recent hard data and our big data indicators. The aggregate demand remained much stronger than supply, on the back of still solid private consumption which has started to re-accelerate most recently. Increasing pace in consumer credits, particularly credit card spending, strengthening trend in retail sales and the recent upsurge in consumption goods imports point to the need for further tightening in financial conditions to ensure the continuation of the rebalancing in the economy. In that respect, the CBRT decreased the monthly credit growth caps to 2% for commercial and general purpose loans (prev.: 2.5% and 3%, respectively) on top of introducing new required reserve regulations; which might tighten financial conditions in the coming period. We think that the likelihood of increasing policy rate above 45% has increased due to high inflation trend and still robust consumption. However, CBRT may opt for macro prudential policy applications such as new measures on credit cards and quantitative tools before hiking the policy rate. Given the solid growth in 1Q and our expectation of an acceleration in capital inflows in 2H, we maintain our GDP growth forecast of 3.5% for 2024. If the post-election policies become more restrictive, we will evaluate risks on our short term GDP growth forecasts.

Figure 17. **Consumer Confidence Index (3MA, seasonal and cal. adj.)**



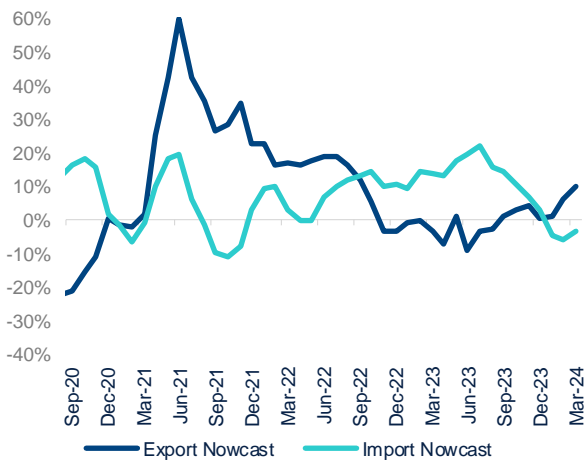
Source: BRSA, Garanti BBVA Research

Figure 18. **Wholesale & Retail Trade Volumes (3MA QoQ, seasonal and cal. adj.)**



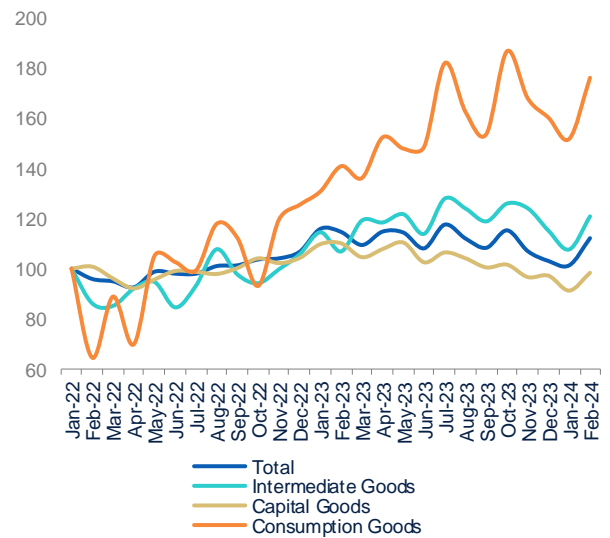
Source: TURKSTAT, Garanti BBVA Research

Figure 19. **Garanti BBVA Monthly Exports & Imports Nowcast (3M, YoY)**



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY

Figure 20. **Import Sub-Components Volume Index (2022 Jan=100, seasonal and cal. adj.)**



Source: TURKSTAT, Garanti BBVA Research

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