Activity Pulse

Türkiye | Pending an effective rebalancing in activity

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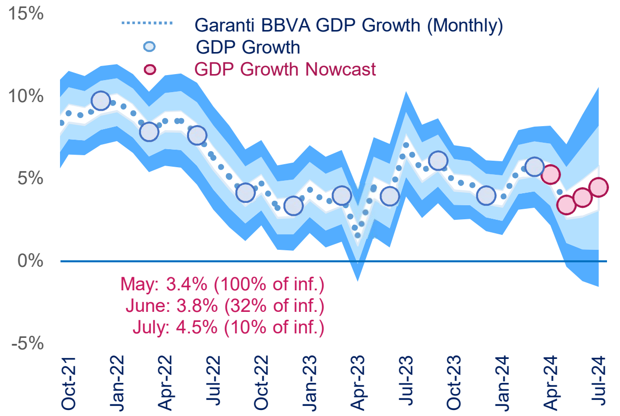
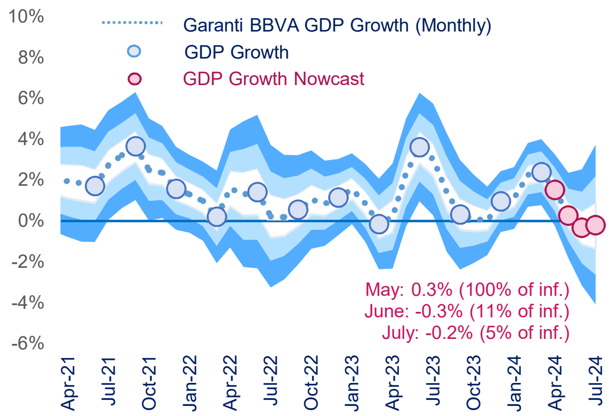
- Economic activity decelerates further, especially led by the worsening in the industrial production; whereas services sector prevents a further deterioration. Our monthly GDP indicators confirm the ongoing slow-down and we nowcast a mild quarterly contraction of 0.3% in 2Q24 which implies an annual GDP growth rate closer to 4%.
- The quarterly moderation in aggregate demand in 2Q24 has been supported by a contraction in investment expenditures and net exports; while private consumption supported positively. Tight financial conditions are still not effective enough to contain households' consumption as targeted. As a result, aggregate demand remains stronger than supply, keeping inflationary pressures alive as also pointed by the Central Bank (CBRT) in its June MPC meeting notes. Fiscal policy did not introduce a new demand shock so far (Figure 4) but the repercussions from the existing large shock in 4Q23 keep gradual cash payments on the accrued expenditures of last year.
- We maintain our view that the risks would be on the upside for our 2024 GDP forecast of 3.5%, considering the strong performance in 1H24 and continuing supportive fiscal stance. If an effective policy mix lacks in fight against inflation, the CBRT would remain restrictive longer than we expect in our baseline. This is why we have an upward bias on our CBRT funding rate forecasts, which would have a downward impact on our GDP forecasts for 2025.

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



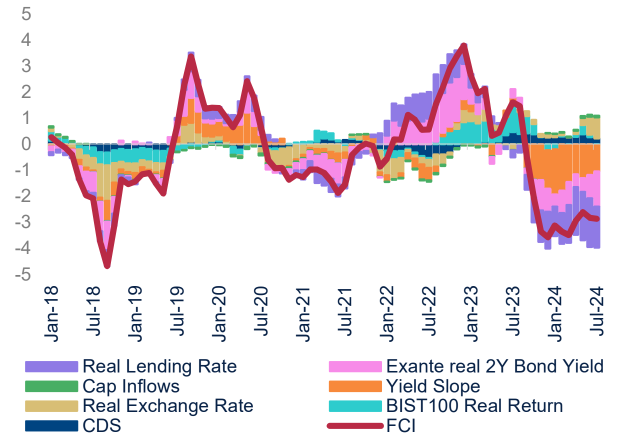
Source: Garanti BBVA Research, GBTRGDPY Index in BBG
*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

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



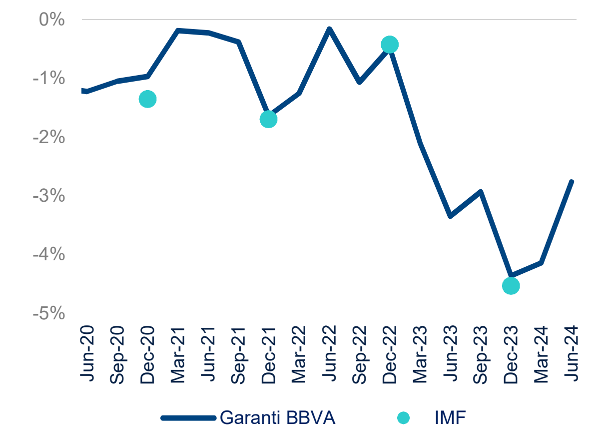
Source: TURKSTAT, Garanti BBVA Research

Figure 3. **Garanti BBVA Financial Conditions Index** (standardized, + easing, - tightening)



Source: CBRT, Bloomberg, Garanti BBVA Research

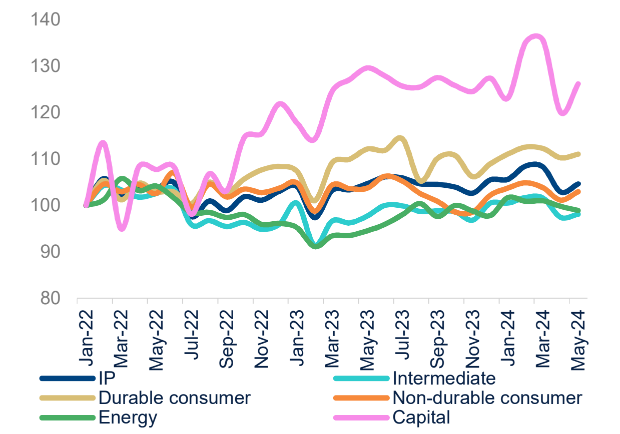
Figure 4. **Fiscal Impulse Indicator** (cyclically adj primary balance/potential GDP, annualized sum)



Source: TURKSTAT, Garanti BBVA Research

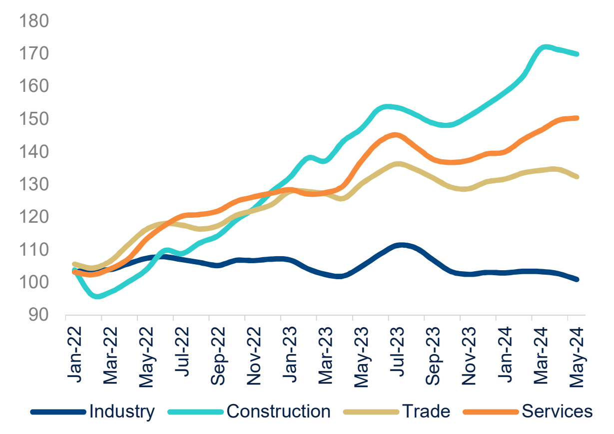
- Considering the supply side, industrial production (IP) increased by 1.7% m/m in May, after the negative impact of bridge holidays in April. However, the recovery was much weaker compared to 5% contraction previously. Therefore, IP fell by 3.4% in April-May in comparison with 1Q24. In detail, there was a broad-based decline across all sectors in April-May compared to 1Q24 with capital goods recording the highest (-6.2%), followed by intermediate goods (-3.4%) and consumer goods (-1.9%).
- The turnover fell by 2.4% m/m in real terms in May due to the contractions in industry (-2% m/m) and trade (-4.2% m/m). Still, the turnover in construction increased by 2% m/m in real terms, while services sector contracted by only 0.3% m/m. In April-May period, the turn-over in industry, construction and trade contracted by 3.8%, 4.7% and 3% relative to 1Q24; whereas the services turn-over growth decelerated to 2.8% (vs 5.1% q/q in 1Q24.)
- Services sector prevented a further deceleration in activity in 2Q24 as services production increased by 1.3% m/m in May and fell only by 0.5% q/q in April-May (compared to a stronger contraction in industry); which was supported by accommodation, information and administrative activities.

Figure 5. **Industrial Production Index** (seasonal and cal. adj., Jan22=100)



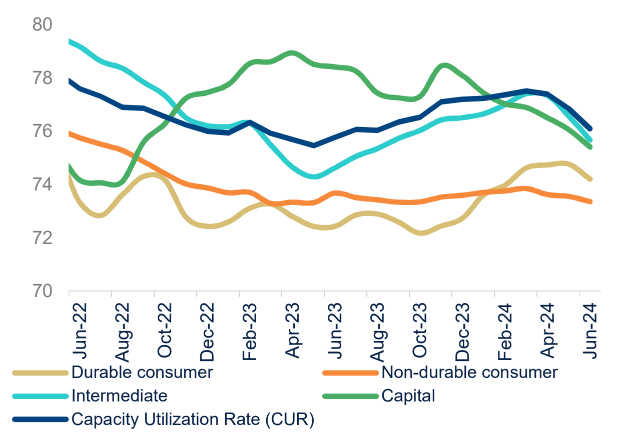
Source: TURKSTAT, Garanti BBVA Research

Figure 6. **Sectorial Turnover Indices** (real, 3MA, seasonal and cal. adj., Jan22=100)



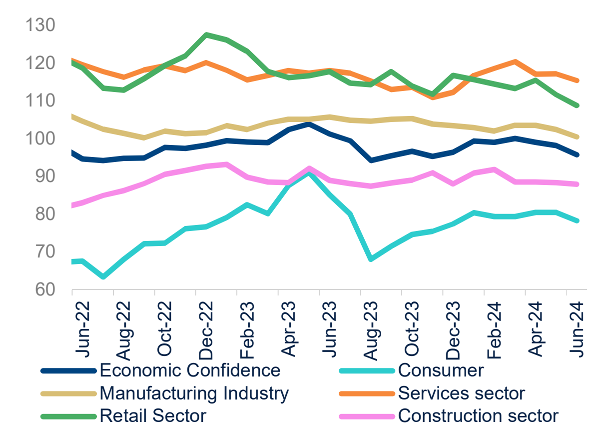
Source: TURKSTAT, Garanti BBVA Research

Figure 7. **Manufacturing Capacity Utilization Rate** (%, seasonal and cal. adj., 3MA)



Source: TURKSTAT, Garanti BBVA Research

Figure 8. **Economic Confidence Index** (seasonal and cal. adj.)



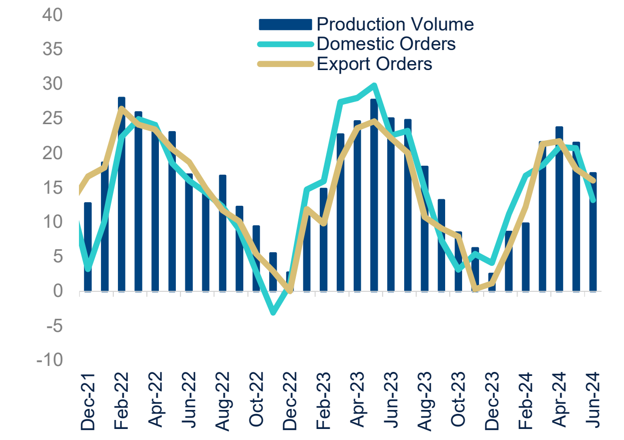
Source: TURKSTAT, Garanti BBVA Research

- Manufacturing capacity utilization rate recorded a decline for the third time in a row in June with 0.4pp m/m (Figure 7) on the back of the broad-based capacity contraction across all sectors. Manufacturing PMI fell further below the 50 threshold level in June with 47.9 (48.4 in May and 48.5 in 2Q24 vs. 49.8 in 1Q24), as a result of the contraction in both output and new orders, led by the weak external demand coupled with the moderating domestic demand.
- Economic confidence contracted in June by 2.5% m/m and worsened by 1.8% on quarterly terms (vs. 3.5% in 1Q24). Manufacturing industry confidence continued to decline led by a broad-based worsening in the expectations over production capacity and orders. The economic tendency survey (Figure 9) signals a further decline in the production volumes of companies in the next 3 months, especially with the expected weakening of domestic and export orders. Meanwhile, the intermediate goods imports excluding gold imports (Figure 10) increased in June

based on our calculations but contracted by 0.6% q/q in 2Q (vs +0.8% in 1Q), confirming a clearer adjustment in industrial activity compared to other sectors.

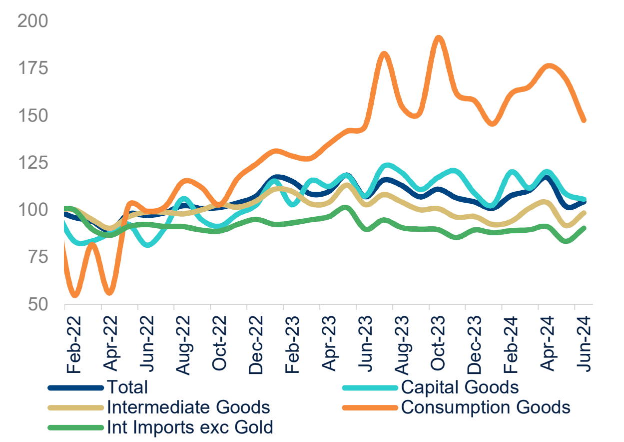
- Despite the slowdown in 2Q24, overall strong performance in the first half of the year continued to support employment. On the other hand, the broad-based unemployment, which has been on the rise since October 2023, especially due to time-related underemployment, raises questions about the quality of employment (Figure 11).

Figure 9. **Production Volume, Domestic Orders and Export Orders in the Next Three Months** (Balance)



Source: CBRT, Garanti BBVA Research

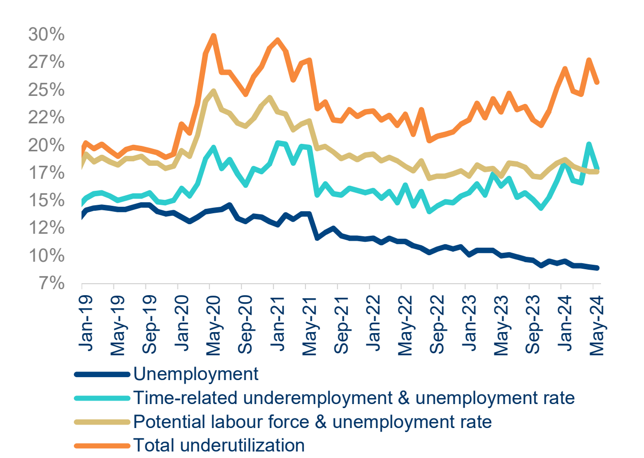
Figure 10. **Import Sub-Components Volume Index** (2022 Jan=100, seasonal and cal. adj.)



Source: TURKSTAT, Garanti BBVA Research

- On the demand side, retail sales has declined for the last 3 months, shrinking by 1.1% in April-May relative to 1Q24. Private consumption goods imports (Figure 10) continued to retreat in June, according to our calculation. Households' spending availability maintains somewhat a resistance against a clearer deceleration in consumption since card spending preserve an upward trend since the beginning of the year and wealth effects do support. Our big data consumption indicators also confirm the decline in May, but show some strengthening thereafter including early July. Accordingly, our private consumption GDP indicator nowcasts 5.6% y/y growth in 2Q24, implying an acceleration to around 2.5% q/q in 2Q24 (vs. 1.1% q/q in 1Q24). This may indicate that although there is a loss of momentum in goods consumption via cards in high-frequency data, overall service consumption might have remained stronger most likely driven by some acceleration in GPLs and wealth effects on FC sales.

Figure 11. **Unemployment Rate** (%, seasonal adjusted)



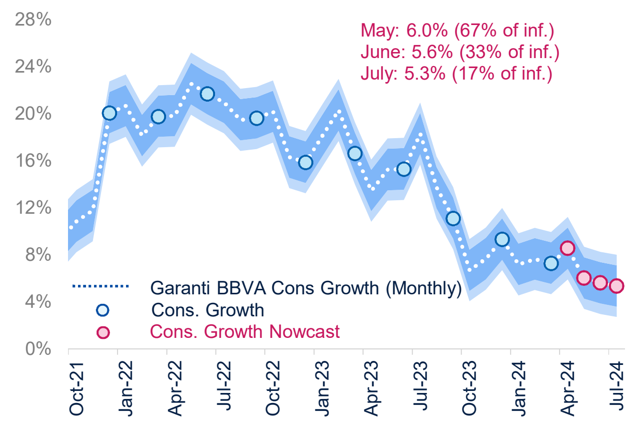
Source: TURKSTAT, Garanti BBVA Research

Figure 12. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, YoY, adjusted by CPI)

Source: TURKSTAT, Garanti BBVA Research

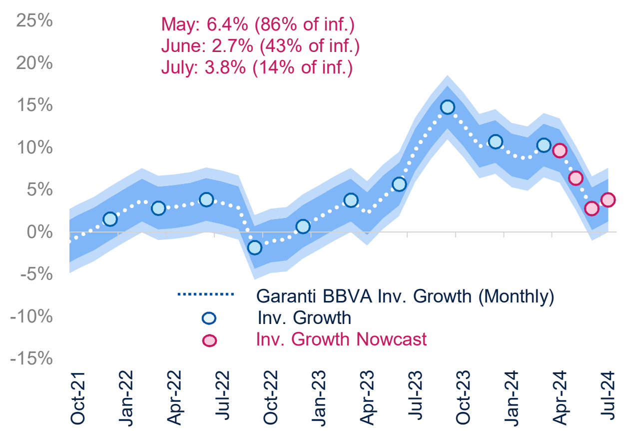
- On the investment expenditures, the decline in capital goods production (-6.2% q/q) in April-May, the weakening in construction turnover indices and the deceleration in capital goods imports in 2Q24 (Figure 10) all signaled a slow-down in investment expenditures in 2Q24. This is also confirmed by our monthly investment GDP indicator (Figure 14) since it nowcasts 2.7% y/y growth as of June, implying around -4% q/q in 2Q24.

Figure 13. **Garanti BBVA Monthly Consumption GDP Nowcast** (3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

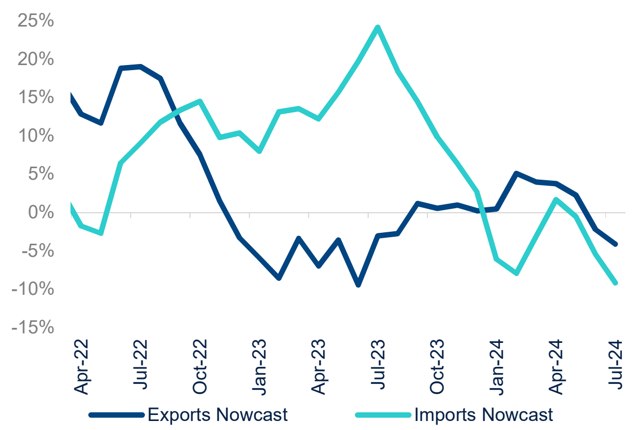
Figure 14. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

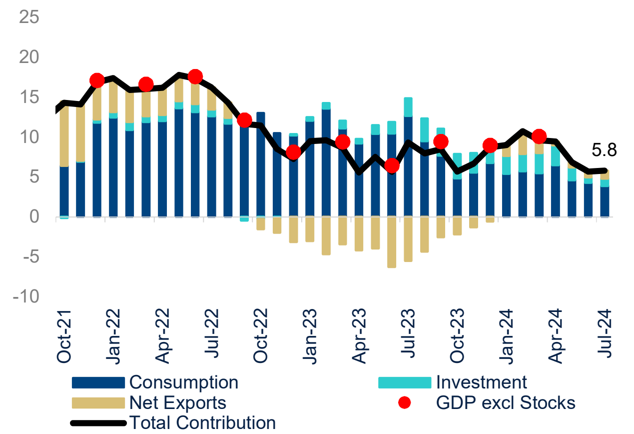
- Based on our calculations, goods imports decelerated to 1.4% q/q in 2Q24 (vs. 5.3% in 1Q24) stemming from the moderation in domestic demand; while exports remained weak. Overall, our imports monthly GDP nowcast shows a further deterioration on an annual basis but some recovery on a quarterly basis after contracting by 4% q/q in 1Q24. On the other hand, our monthly exports GDP indicator fell in 2Q24, indicating a contraction on a quarterly basis (vs. 2.9% q/q in 1Q24, Figure 15). Hence, net exports' contribution to aggregate demand could be negative in 2Q24 after its +1.6pp q/q contribution in 1Q24.
- In sum, our GDP nowcasts on demand sub-components indicate that aggregate demand excluding government consumption (Figure16) remained stronger than supply in 2Q24, signaling a continuing depletion from stocks. On a quarterly basis, the contraction in investment and net exports are the main drivers in the recent moderation despite some acceleration in private consumption. The change in demand composition is not favorable as targeted.

Figure 15. **Garanti BBVA Exports & Imports Monthly GDP Nowcast** (3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research

Figure 16. **Garanti BBVA Monthly GDP Contribution** (pp, annual)



Source: TURKSTAT, Garanti BBVA Research

BOTTOM LINE: Hard data so far showed a rapid slow-down in economic activity particularly in industry, driven by the recent moderation in demand. Aggregate demand decelerated in 2Q24 but investment and net exports were the main drivers behind. The lagged impact of the monetary policy tightening could be clearer in the second half of the year. On the other hand, supportive tax revenues on moderate demand and limited earthquake expenditures so far prevent a new demand shock on the economy but the repercussions from the large fiscal impulse observed in 4Q23 will maintain cash spending going forward. The need for a fiscal consolidation becomes more obvious on the rebalancing of the economy and the fight against inflation. Although the draft bill may be supportive to generate revenues, more effort is needed in terms of savings on the expenditure side. Considering the strong momentum in the 1H24, the gradual but expected recovery in global growth and the delayed impact of a tighter policy mix, risks are tilted to the upside on our 3.5% GDP forecast for 2024. As a result, downside risks emerge on our GDP forecast of 3.5% for next year.

DISCLAIMER