Activity Pulse

Türkiye | More deterioration in activity ahead

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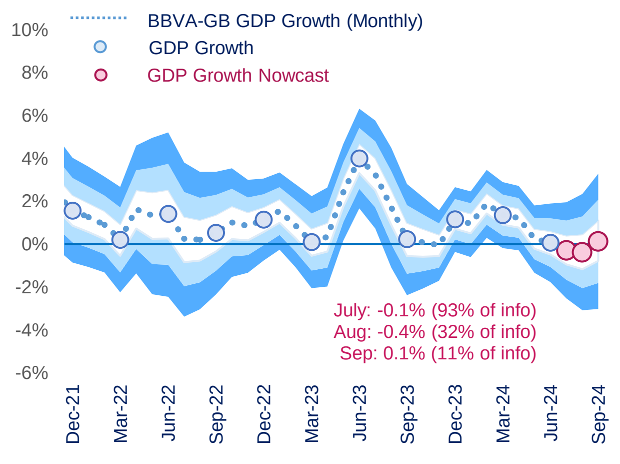
17 September 2024

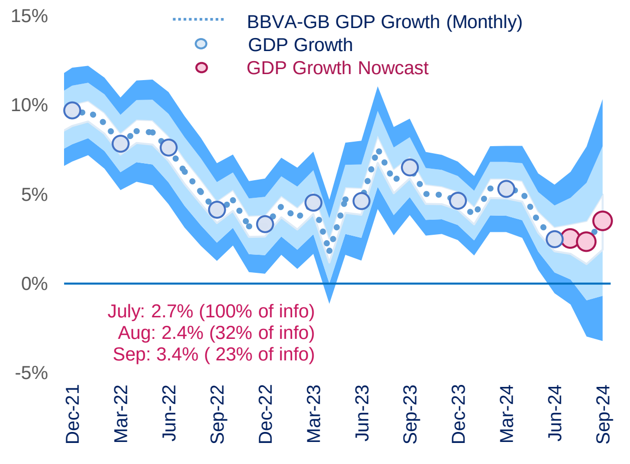
- Production continued to weaken, driven by tight financial conditions therefore an ongoing contraction in commercial loans in real terms, and further moderation in aggregate demand. Hard data and leading indicators point to a broad-based weakness in sectorial output in 3Q with a potentially deeper impact on services compared to 2Q composition. Our monthly GDP indicator nowcasts a quarterly contraction in August (-0.4%) and an increase (0.1% q/q) as of September, implying 3.4% y/y GDP growth but we do have less information for September (Figure 1-2). Hence, there could be likely a mild quarterly contraction in 3Q, in line with our expectation.
- Our quarter-on-quarter nowcasting indicators show that aggregate demand could moderate further, mainly caused by a contraction in private consumption, while the investment and net exports could recover (Figure 3). Output gap would turn negative in 3Q but the aggregate demand excluding stocks might still remain stronger than supply. The evolution in credit composition still in favor of consumer loans prevents a faster normalization (Figure 4). The continuation of restrictive monetary stance and tight financial conditions will be key to keep rebalancing ahead.
- On the other hand, fiscal policy remaining expansionary from the cash basis (Figure 5), continues to be supportive of demand conditions and still does not help disinflation. Yet, given the Medium Term Program (MTP) targets, a significant fiscal consolidation is projected for 2025, mainly led by the savings in capital expenditures and capital transfers. As a result, we understand that earthquake expenditures accrued from last year will be mostly spent in cash this year and there might not be any substantial new accrued spending next year.

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



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

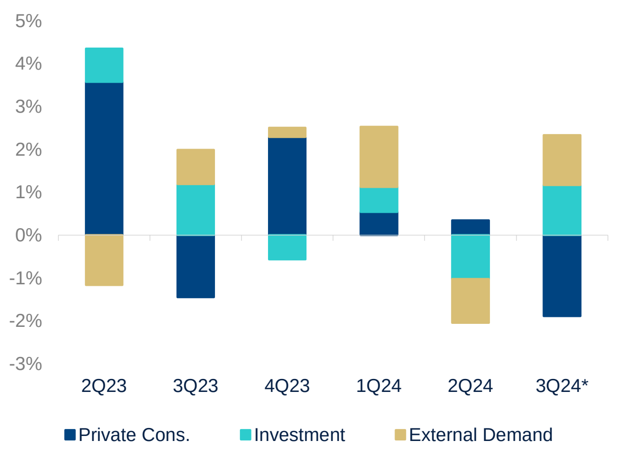
Figure 2. **Garanti BBVA Monthly GDP Nowcast*** (3-month average YoY)



Source: Garanti BBVA Research, GBTRGDPY Index in Bloomberg

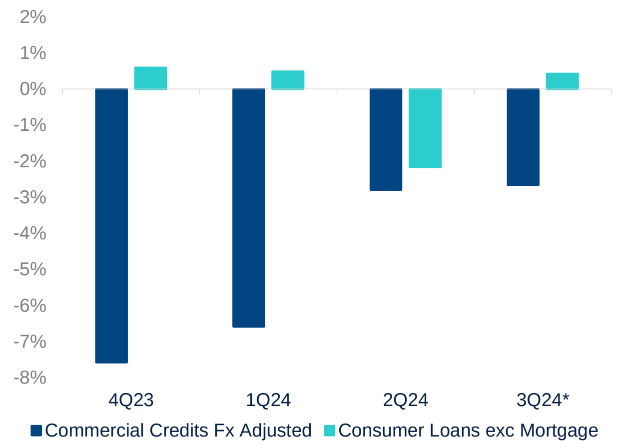
- According to our most recent calculations, we estimate Türkiye's potential growth at around 4-4.5% (Figure 6). Therefore, reaching the forecasted 5% medium term growth in the MTP, current economic stabilization program requires to be complemented by a more comprehensive and effective structural reform set. If so, this will eventually speed up the disinflation process, as also targeted by the Central Bank (CBRT).
- Overall, considering the negative base effects stemming from the recent upward revision in 2023 GDP growth, our expectations of restrictive monetary stance and tight financial conditions accompanied by fiscal consolidation, we revised our GDP growth forecasts downward to 3.2% from 3.5% for 2024 and to 2.7% from 3.5% for 2025. We also upgrade our long run GDP growth forecasts to 4% (vs. 3.5% previously), assuming the recent reversal towards orthodox policies will contain the pre-assumed further deterioration.

Figure 3. **GDP Expenditure Components** (contribution to QoQ GDP Growth, pp)



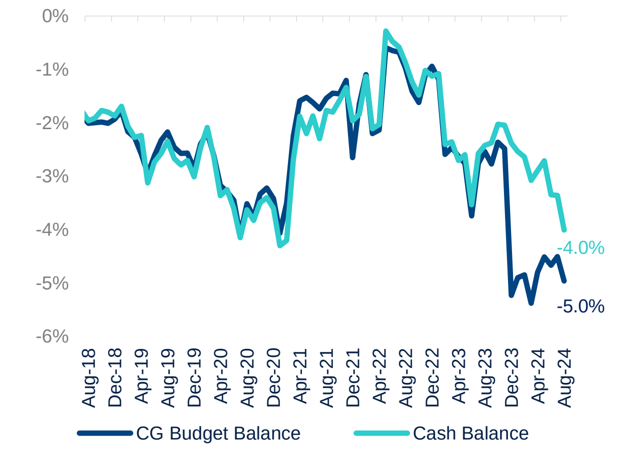
Source: TURKSTAT, Garanti BBVA Research
*3Q24 based on nowcasts for Demand Components, see graphs 15-18

Figure 4. **Credit Growth** (QoQ, adjusted by CPI)



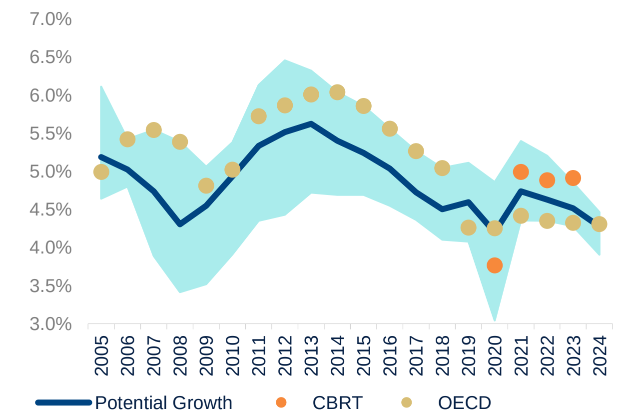
Source: BRSA, TURKSTAT, Garanti BBVA Research
*as of Sep 6 in 3Q24

Figure 5. **Central Government Budget & Treasury Cash Balance** (% of GDP)



Source: Treasury and Finance Ministry, TURKSTAT, Garanti BBVA Research

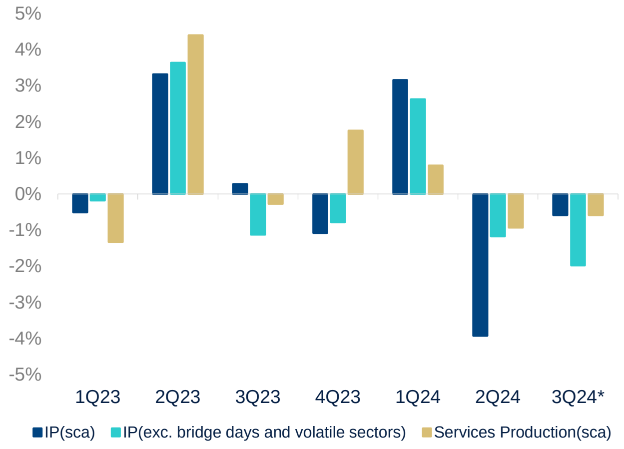
Figure 6. **Potential Growth via Different Methods*** (YoY, range corresponding to min. & max. levels)



Source: TURKSTAT, CBRT, OECD, Garanti BBVA Research.
*An average of OECD estimate, BBVA Project, multivariate filter, GDP growth accounting via production function, HP filter and BP filter

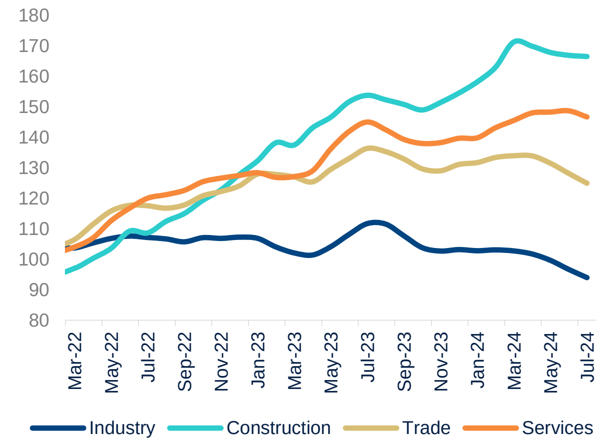
- On the supply side, industrial production (IP) rose by 0.4% m/m in July, largely due to the reversal from the negative impact of the bridge day effects recorded in June. If we exclude the volatile sectors such as computer, electronics and other transportation and the impact of bridge days as in the note of CBRT, the worsening trend in industrial production becomes deeper (Figure 7).
- Real turnover index (composite of industry, construction, trade and services) fell further by 3.7% m/m in July (vs. -0.4% m/m prev.) with the highest loss recorded in construction (-11.6% m/m), followed by services (-4.6% m/m) and industry (-3.1% m/m). On quarterly terms, the broad-based worsening in turnovers (Figure 8) confirmed the continuing deceleration in overall activity.
- The services sector had remained supportive in 2Q, however this support is likely to weaken in 3Q (Figure 7). Services production declined by 0.2% m/m in July, after contracting by 1.2% m/m in June and the main contributor to prevent a further deterioration was real estate production (3.5% m/m).

Figure 7. **Industrial and Services Production**
(seasonal and cal. adj., QoQ)



Source: TURKSTAT, Garanti BBVA Research, *as of July in 3Q24

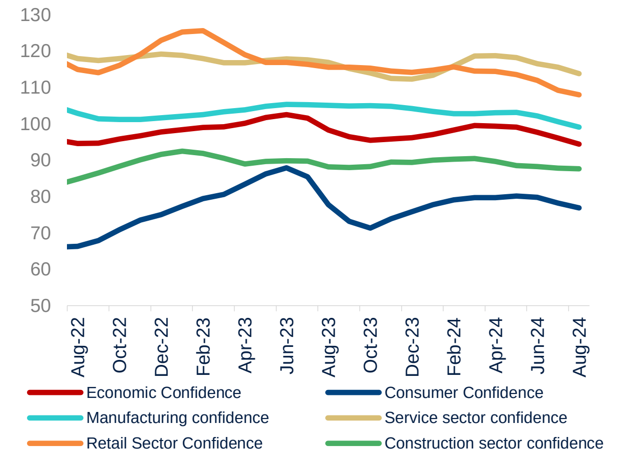
Figure 8. **Sectorial Turnover Indices**
(real, 3MA, seasonal and cal. adj., Jan22=100)



Source: TURKSTAT, Garanti BBVA Research

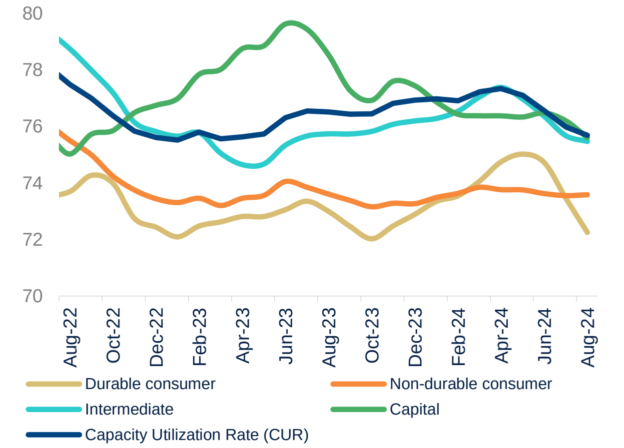
- Leading indicators overall signal that the deterioration in activity is likely to deepen in 3Q. Economic confidence declined for the fifth month in a row (-1.3% m/m) in August, led by confidence losses in services (-2.0% m/m) and manufacturing (-0.7% m/m) sectors. As of August, the quarterly trends demonstrated further deterioration (-3.3% q/q vs. -1.8% q/q in 2Q24), on the back of broad-based worsening among sectors (Figure 9).
- Manufacturing capacity utilization rate (CUR) and PMI remained below historical averages as of August. CUR fell by 0.2pp m/m to 75.7% in August. On quarterly trends, we observe the highest deterioration in the capacity of durable consumer goods followed by intermediate and capital goods (Figure 10). Manufacturing PMI remained in the contraction territory, though slightly inching up to 47.8 in August from 47.2 in July. Despite the positive impact of bridge days in 3Q, the underlying trend could remain weak in industry.
- The economic tendency survey (Figure 11) pointed to expectations of declining production volumes of companies in the next 3 months, with exports orders expectations experiencing much more drastic decline compared to domestic orders. The sentiment of the producers signal a relatively more challenging outlook on the production side, also confirmed by the declining imports of intermediate goods excluding gold (Figure 12).

Figure 9. **Economic Confidence Index**
(seasonal and cal. adj., 3MA)



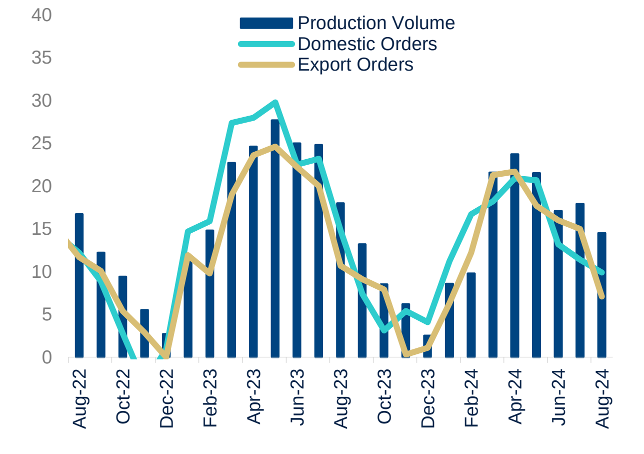
Source: TURKSTAT, Garanti BBVA Research

Figure 10. **Manufacturing Capacity Utilization Rate**
(%, seasonal and cal. adj., 3MA)



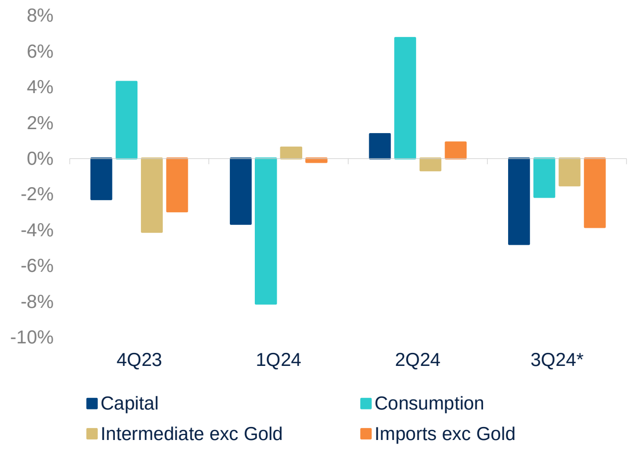
Source: CBRT, Garanti BBVA Research

Figure 11. **Production Volume, Domestic Orders and Export Orders in the Next Three Months** (Balance)



Source: CBRT, Garanti BBVA Research

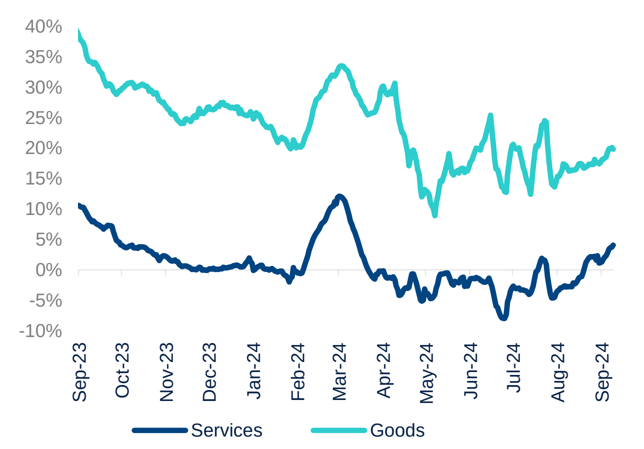
Figure 12. **Import Sub-Components Volume** (2022 Jan=100, QoQ, seasonal and cal. adj.)



Source: TURKSTAT, Garanti BBVA Research, *as of August in 3Q

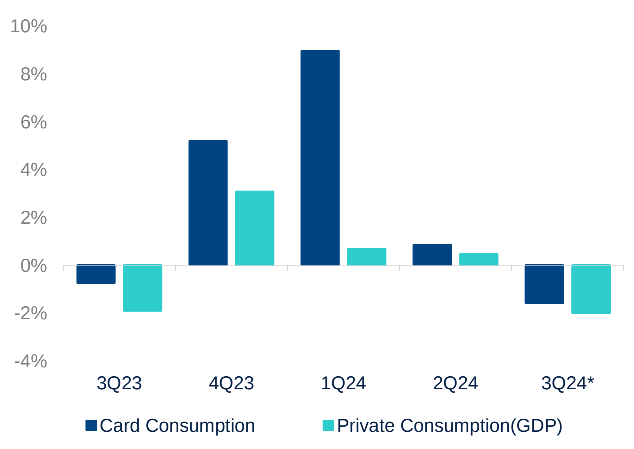
- On the demand side, our quarter-on-quarter nowcasting indicators signal that, contrary to the undesired rebalancing of aggregate demand in 2Q (i.e., positive contribution from consumption, but negative contributions from investment and net exports), private consumption could contract in 3Q while we might observe a correction in investment after a sharp decline in 2Q and a positive contribution from net exports. We expect more moderation of the domestic demand in the near future, led by tighter financial conditions on top of expected fiscal consolidation.
- Our monthly private consumption nowcast suggests that although consumption has somewhat recovered on an annual basis as of September (Figure 13-15), it is likely to contract on a quarterly basis. The fall in private consumption goods imports volume (Figure 12) and the retreat in seasonal and calendar adjusted card spending in 3Q as of August (Figure 14) lead to weakening in private consumption. On the other hand, retail sales, which rebounded on a monthly basis in June and July, do not signal yet a clear cooling on the goods consumption side.
- On the investment side, the economic tendency survey signaled that investment could remain weak as fixed investment expectations for the next 12 months decreased further as of August. Also, capital goods imports contracted further in 3Q. Besides, our monthly investment GDP nowcast (Figure 16) also points to a weak investment outlook in 3Q on an annual basis, implying some positive growth on a quarterly basis but we think that this could be just a technical correction after the sharp decline in 2Q.
- On the external side, thanks to the ongoing normalization in domestic demand, imports remain subdued even when the faster moderation in golds imports is excluded (Figure 12). On the other hand, exports stay relatively stable. So, our nowcasts on net exports point to a somewhat positive contribution to growth in 3Q (Figure 17-18).

Figure 13. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, YoY, adjusted by CPI)



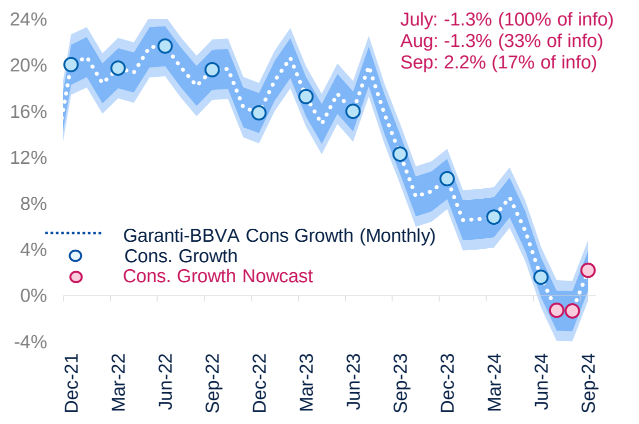
Source: TURKSTAT, Garanti BBVA Research

Figure 14. **Real Card Expenditures vs. Private Consumption** (seasonal and cal. adj., QoQ)



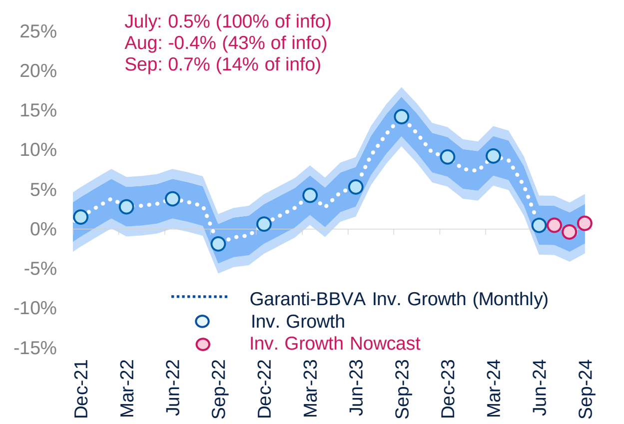
Source: TURKSTAT, CBRT, Garanti BBVA Research
* as of August in 3Q

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



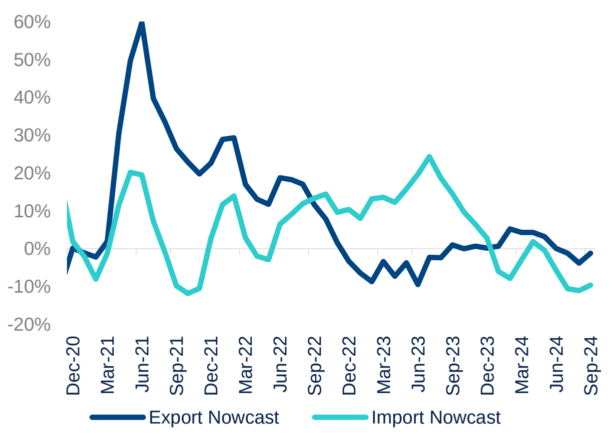
Source: TURKSTAT, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 16. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average YoY)



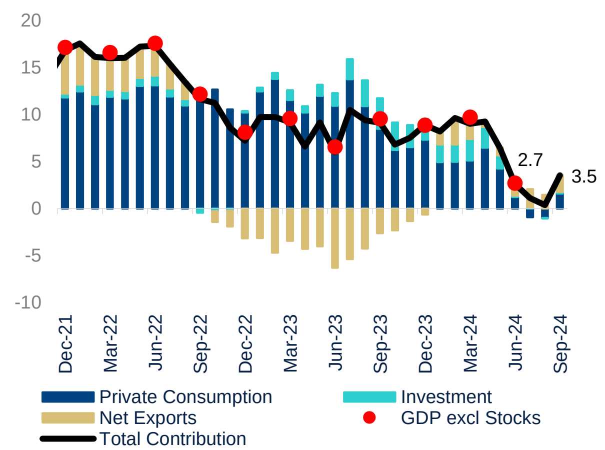
Source: TURKSTAT, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 17. **Garanti BBVA Exports & Imports Monthly GDP Nowcast** (3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

Figure 18. **GDP Demand Sub-Components** (contribution to annual GDP, pp)



Source: TURKSTAT, Garanti BBVA Research

BOTTOM LINE: The decline in commercial loans on the back of tight financial conditions and credit growth caps, and further moderation in aggregate demand lead production to adjust further on the downside. Both hard data and soft indicators point to a mild contraction in GDP in 3Q on a quarterly basis, in line with our expectations. The updated forecasts under the new Medium Term Plan (MTP) confirmed that the economy management considers a downside but a moderate adjustment on the near term growth, given their long run growth projections of 5%. In this respect, the political will remains to aim for a gradual soft-landing of the economy. Nevertheless, the 2025 GDP growth forecast of 4.5% in MTP is largely conflicting with the output gap forecasts of the Central Bank (CBRT), which imply a deeper recession. On rebalancing, demand indicators signal that private consumption could contract on a quarterly basis in 3Q, while net exports and investment could recover. However, the credit growth composition still remaining in favor of consumer loans weakens the monetary transmission mechanism and could lead to a slow correction in the sizable gap between demand and supply grown in the last years. In this regard, high inflation expectations will require the CBRT to maintain a restrictive stance for longer. As also seen in MTP, a significant fiscal consolidation is projected for 2025, driven mainly by the savings in capital expenditures and capital transfers. Therefore, the combined impact of a tighter policy mix going forward will likely exert downward pressure on the growth outlook. All in all, led by base effects triggered by the upward revision of the 2023 growth, we have revised our 2024 GDP growth forecast from 3.5% to 3.2%. Accordingly, the quarterly revised GDP path weighs on our 2025 GDP growth forecast and we revise it to 2.7% from the previous 3.5%.

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