Activity Pulse

Türkiye | GDP grew by 5.9% y/y in 3Q

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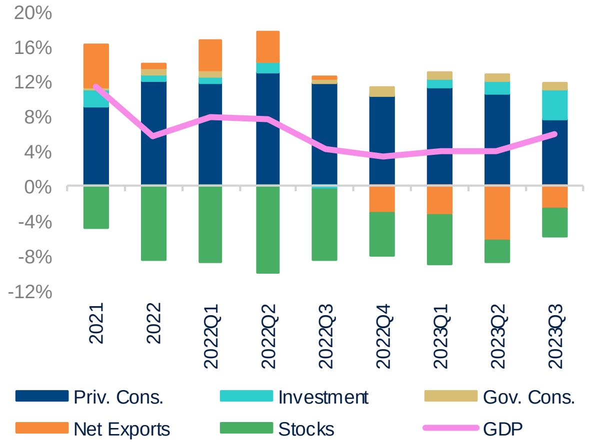
Turkish economy grew by 5.9% y/y in 3Q, above the market consensus of 5.3% but parallel to our expectation of 6%. Seasonal and calendar adjusted GDP lost momentum (0.3% q/q) after its strong acceleration in 2Q (3.3% q/q). Despite some slowdown, domestic demand remained stronger than production. Monetary policy tightening, selective credit policies and restrictions on consumer credit growth started to limit private consumption, while the composition of aggregate demand began to change in favor of investment and exports. The acceleration of exports and the weakening of imports resulted in a more limited negative contribution of external demand. Leading indicators and our big data proxies suggest further slow-down in consumption, stronger investment and recovering net exports in 4Q. Our monthly GDP indicator nowcasts 4.5% y/y growth as of November (with 27% of information), signaling a slight contraction in quarterly terms. Although the positively surprising policy rate hikes become more restrictive to eliminate the imbalances, the fiscal stance before the local election will determine the pace of adjustment. We expect GDP growth rate to be 4.5% in 2023 but decelerate to 3.5% in 2024 with a bias to the downside.

Still robust aggregate demand but with a shift toward investment and exports

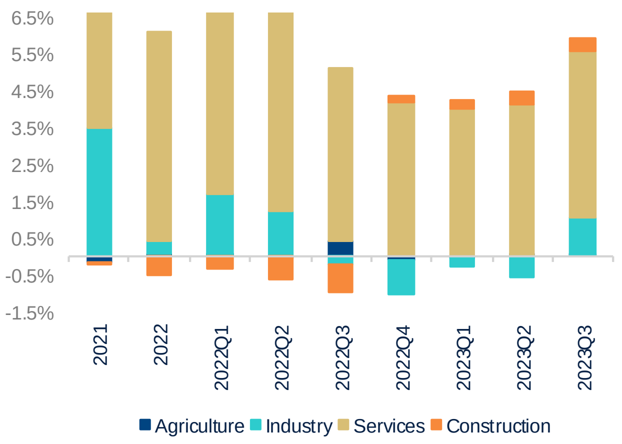
Despite some slow-down, domestic demand excluding stocks remained strong by contributing 11.8 percentage points (pp) to annual growth in 3Q, particularly led by private consumption. Private consumption contracted on a quarterly basis for the first time since 4Q20 (-1.7% q/q in 3Q vs. 4.7% q/q in 2Q). Also, government consumption, which accelerated in 2Q with the support of expansionary policies before the elections in May and increased spending to the earthquake region, lost pace in quarterly trends with 1.8% q/q (vs. 2.8 q/q in 2Q). On the other hand, investment expenditures gained momentum significantly compared to the previous quarter (5.4% q/q vs. 3.2% q/q on avg. in 1H23) and were supported especially by machinery and equipment, as well as construction on the back of reconstruction efforts in earthquake zone. Meanwhile, the negative contribution of net exports on annual growth was more limited compared to previous quarters, thanks to the slight weakening of imports (2.3% q/q in 3Q vs. 5.2% q/q in 2Q) and the recovery in exports (5.4% q/q in 3Q) after contracting in the consecutive four quarters.

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



Source: Garanti BBVA Research, TURKSTAT

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

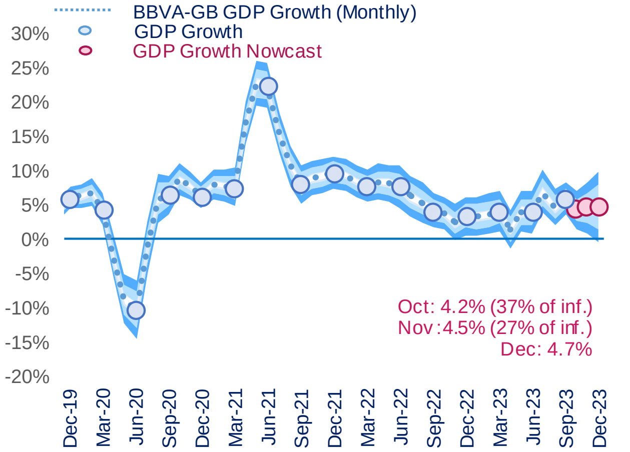


Source: Garanti BBVA Research, TURKSTAT

All in all, more limited negative contribution from net exports (-2.6 pp) and still strong contribution from domestic demand (7.7pp from private consumption, 0.7pp from the government expenditure and 3.4pp from investment expenditures) to the annual GDP growth rate (11.8pp) concluded a further depletion from stocks with 3.2pp.

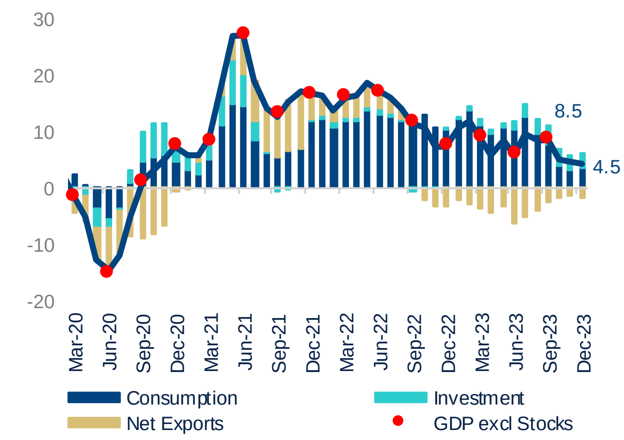
On the sectorial side, production continued to be weak due to the limiting effects of the poor foreign demand. All sectors contributed to annual growth positively, led by mainly services and industrial sectors but if we exclude the 1.7pp annual contribution of tax minus subsidies and the positive calendar impact, the supply from the remaining sectors proved to be poor. Broad based services sectors' contribution to growth was 4.5pp, which were pushed by trade, transportation and accommodation (1.1pp). Industrial sector contributed positively to annual growth for the first time since 3Q22 with 1pp. Similar to the previous quarter, construction sector remained strong (8.1% y/y vs. 6.6% y/y in 2Q) on the back of recovery efforts in the quake regions, thus contributing to annual growth with 0.4pp. Despite the positive seasonal impact, the contribution of the agricultural sector on annual growth was very limited (0.03pp).

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



Source: Garanti BBVA Research, GBTRGDPY Index in BBG

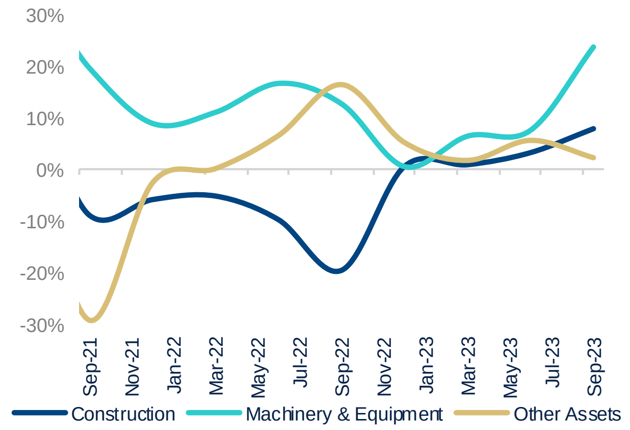
Figure 4. **GARANTI BBVA NOWCAST CONTRIBUTIONS TO GDP GROWTH** (ANNUAL, PP)



Source: Garanti BBVA Research, TURKSTAT

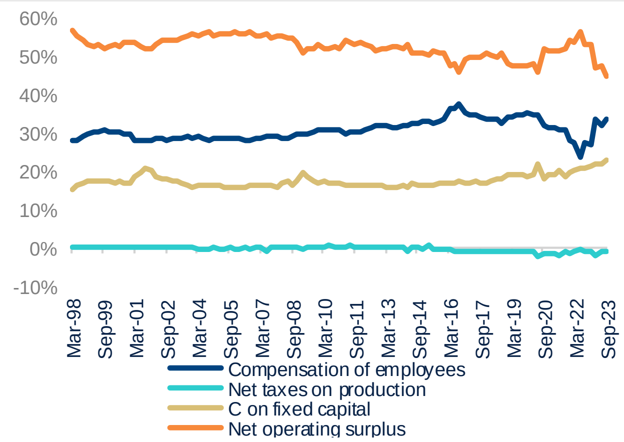
When we analyze the income distribution of production, in the seasonally adjusted series, the compensation of employees increased to 33.4% and reached the pre-pandemic level on the back of the recent high wage adjustments, while the net operating surplus decreased from its highest level in 2Q22 (56.2%) to 45%.

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



Source: Garanti BBVA Research, TURKSTAT

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

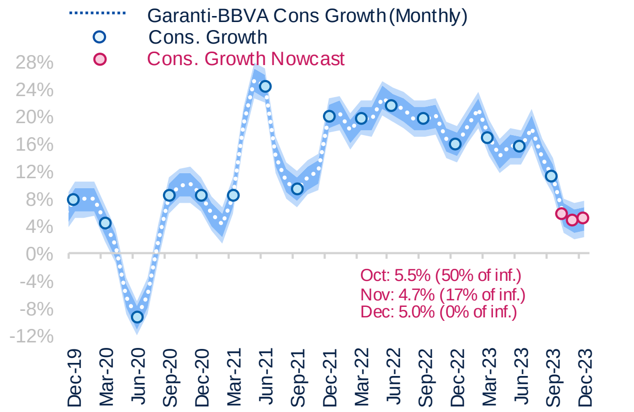


Source: Garanti BBVA Research, TURKSTAT

According to 4Q leading indicators and Garanti BBVA big data proxies, we observe that private consumption has started to slow down more significantly (Figure 7), while investment remains strong (Figure 8) and the negative contribution from net exports has somewhat come down (Figures 9-10). Although the deceleration in consumption limits imports, the strong trend in investments seems to have supported imports to some extent in the recent period. All in all, domestic demand has started to stabilize much faster in the last quarter but the stance of the fiscal policy in the coming period will determine the pace of rebalancing. This is why, apart from the earthquake spending, a prudent fiscal policy will be needed to help stabilize the economy.

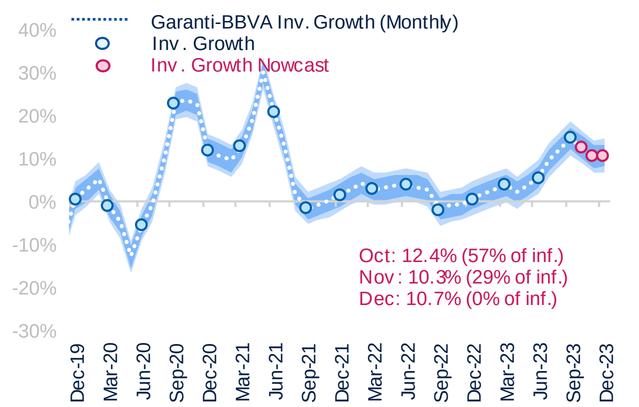
On the supply side, our monthly GDP nowcasting indicator signals an annual GDP growth of 4.5% (with 27% of information) as of the end of November, pointing out a slight quarterly contraction in 4Q. The good news is that based on our nowcasting on demand subcomponents, we observe that the imbalance between demand and supply (excessive demand compared to weaker production) is closing a little faster recently. Last but not the least, when quarterly growth rates are considered, production trend is quite volatile. Hence, economic policies targeting to eliminate imbalances and therefore enhance predictability via ensuring price and financial stability in the coming period will be important to attain a sustainable growth path.

Figure 7. **GARANTI BBVA MONTHLY CONSUMPTION NOWCAST** (3M YoY)



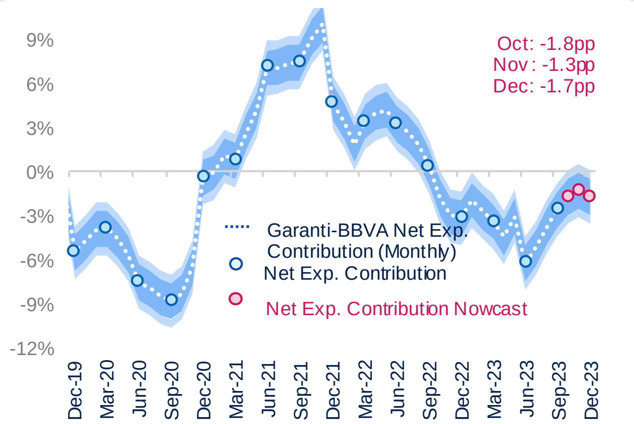
Source: Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 8. **GARANTI BBVA MONTHLY INVESTMENT NOWCAST** (3M YOY)



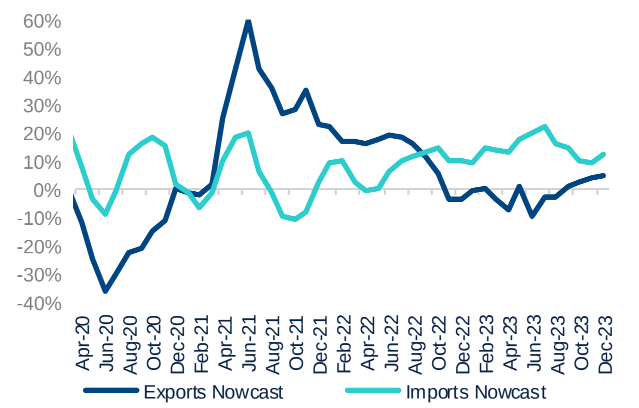
Source: Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 9. **GARANTI BBVA NET EXPORTS NOWCAST** (ANNUAL CONTRIBUTION, PP)



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY

Figure 10. **GARANTI BBVA EXPORTS AND IMPORTS NOWCAST** (3M, YoY)



Source: Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY

The future course of policy mix would be decisive on growth outlook

Despite the slowdown in activity on quarterly terms, GDP growth is likely to reach 4.5% in 2023 with the strong performance recorded so far. More signals on a faster correction in aggregate demand but still high positive output gap keeps the challenges on inflation and current account deficit alive. The contribution to growth from domestic demand will decelerate further on the back of more restrictive monetary policy and macro-prudential policies aiming the change towards a more sustainable growth composition. The recent higher than expected policy rate hike would be supportive to adjust imbalances but the fiscal stance especially before the local election will determine the pace of adjustment in the near future. Although the differing growth paths implied by the Medium Term Program (MTP) and the Central Bank (CBRT)'s output gap projections reflect some uncertainty over the magnitude of the adjustment in growth in the short term, we keep our assumption on a soft landing. We maintain our GDP growth forecast of 3.5% for 2024 but also acknowledge the accumulating downside risks led by the more restrictive stance of the economic policies so far. Expected fiscal impulse mainly on earthquake spending and potential capital inflow to the country might remain supportive on growth outlook.

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