

Türkiye | The economy grew by 5.7% y/y in 1Q24

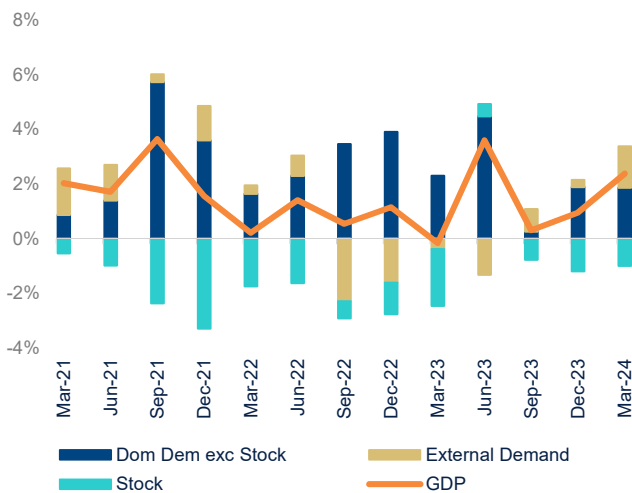
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31 May 2024

The Turkish economy grew by 5.7% y/y in 1Q24 (5.5% market consensus and 6% our expectation). The quarterly acceleration in economic activity was faster than our expectation with 2.4% q/q, driven by mainly still robust aggregate demand. Despite the adjustment in demand components in favor of investment and net exports, aggregate demand remained stronger than supply, indicating that the expected rebalancing in the economy is yet to be reached. Leading indicators display only a slight deceleration in 2Q24, while our big data proxies point out to the resistant private consumption as of May. Despite the tight financial conditions, other factors such as wealth effects and retailers' spending availability via cards, and unanchored inflation expectations and the concerns about the pace of fiscal consolidation create risks on the expected pace of adjustment. We envisage that the lagged impact of the expected fiscal consolidation and monetary tightening on activity will be more clearly seen in 2H24. Therefore, given the strong performance of 1H24, the risks on our 2024 GDP growth forecast of 3.5% for 2024 became tilted to the upside, while the extended effects to the next year could result in downside risk for our 2025 GDP forecast of 3.5%.

Much stronger demand than production led to an ongoing stock depletion

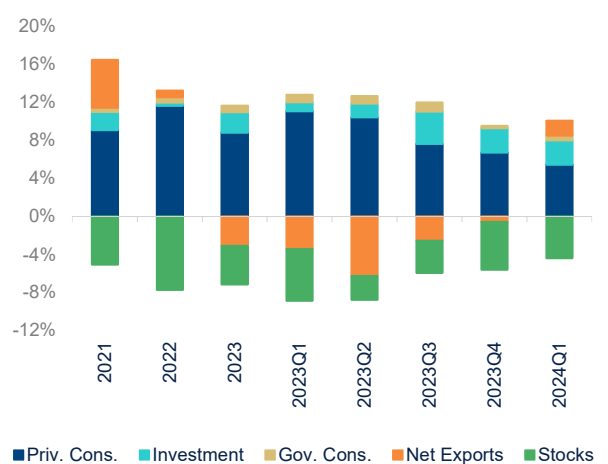
1Q24 GDP realizations pointed to the gradual continuation of rebalancing in favor of net exports, while domestic demand excluding stocks remained solid on the back of private consumption and investment (Figure 1). According to our calculations, domestic demand excluding stocks contributed 1.9pp to quarterly GDP growth in 1Q24 (out of 2.4pp in total), while its annual contribution decelerated to 8.5pp on unfavorable base effects (Figure 2). In quarterly terms, investment (2.9% q/q) and net exports growth (1.5% q/q) gained pace, whereas private consumption decelerated considerably to 1.1% q/q (vs. 3.6% q/q in 4Q23). The acceleration in machinery equipment investment (3.6% q/q) supported the overall investment in 1Q24, while the construction investment lost momentum with 2.5% q/q (vs 4.3% q/q in 4Q23). On the external demand side, the adjustment in imports and some improvement in exports recently, resulted in an annual contribution being positive with 1.6pp for the first time in the last 6 quarters. Albeit the rebalancing of the composition of growth, the adjustment seems to be gradual since aggregate demand remained stronger than supply, maintaining the negative contribution of stocks (-4.4pp in 1Q24 vs. -5.0pp previously in annual GDP). Leading indicators and our big data proxies still reveal that despite some slight deceleration, domestic demand could remain stronger than supply in 2Q24, led by private consumption and investment with a decline in the positive contribution of net exports.

Figure 1. Contributions to GDP Growth via Expenditures (Quarterly, pp)



Source: Garanti BBVA Research, TURKSTAT

Figure 2. Contributions to GDP Growth via Expenditures (Annual, pp)

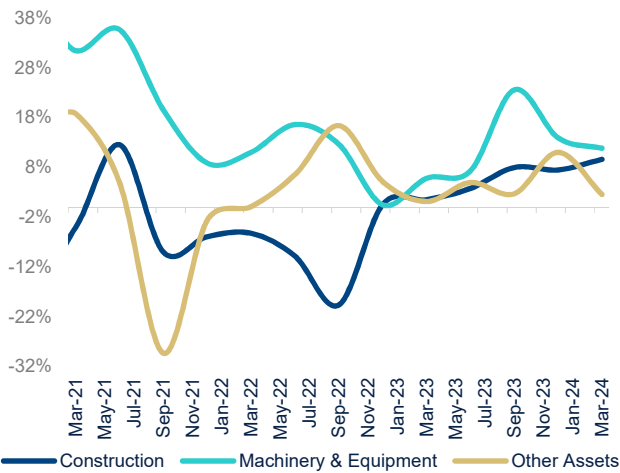


Source: Garanti BBVA Research, TURKSTAT

On the sectorial side, a broad-based positive contribution to annual growth in 1Q24 was observed, led by aggregate services excluding taxes (2.9pp), industry (1pp) and construction (0.6pp). On the other hand, the contribution from agriculture (0.1pp) remained subdued. Overall, sectorial data signaled that the production improved by 2.4% q/q (up from 1% q/q in 4Q23), supported by the continuing solid domestic demand despite much tighter financial conditions. However, the leading indicators such as manufacturing PMI and capacity utilization rate have shown some loss of pace in manufacturing in 2Q24.

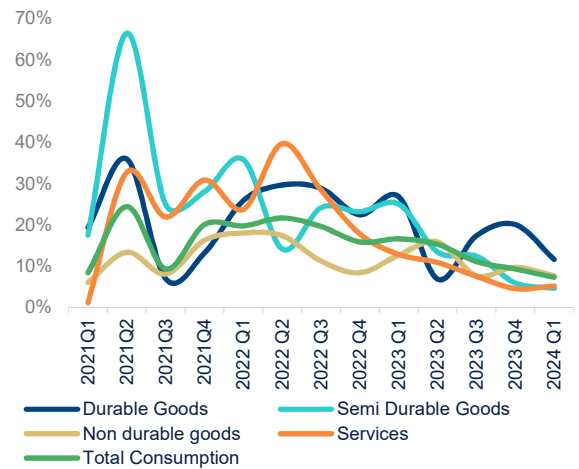
Finally considering the value added in seasonal adjusted terms, the share of wages increased to 34.8%, the highest level since the end of 2019 due to the impact of better than expected wage adjustments at the beginning of 2024. The cumulative GDP reached to 1,158mn USD while GDP per capita rose to 13,330 USD from 12,950 USD in 4Q23.

Figure 3. **Gross Capital Formation (YoY)**



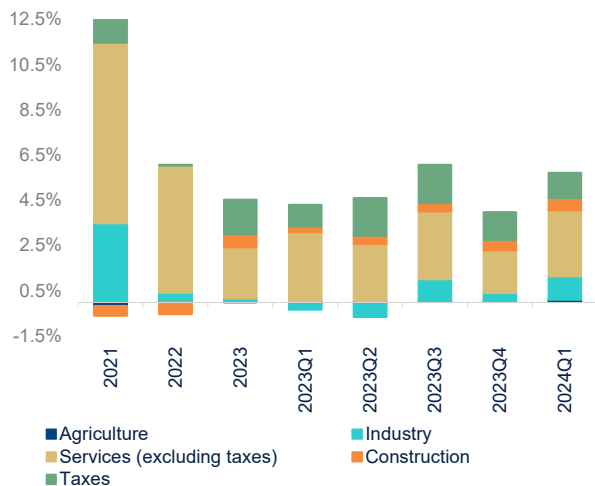
Source: Garanti BBVA Research, TURKSTAT

Figure 4. **Private Consumption Growth (YoY)**



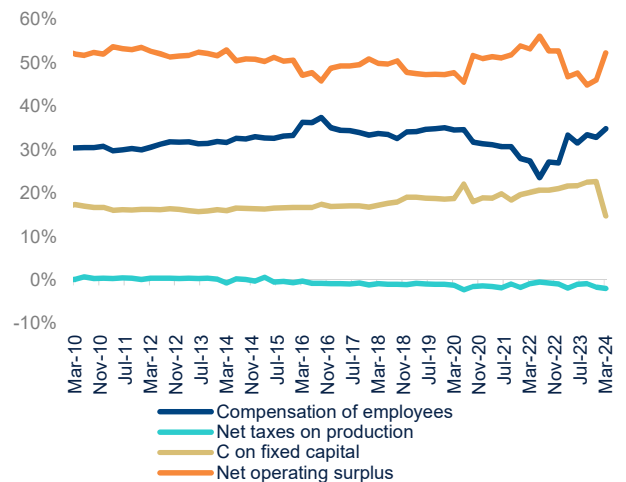
Source: Garanti BBVA Research, TURKSTAT

Figure 5. **Contributions to GDP Growth via Production (Annual, pp)**



Source: Garanti BBVA Research, TURKSTAT

Figure 6. **Shares in Gross Value Added (sa, %)**



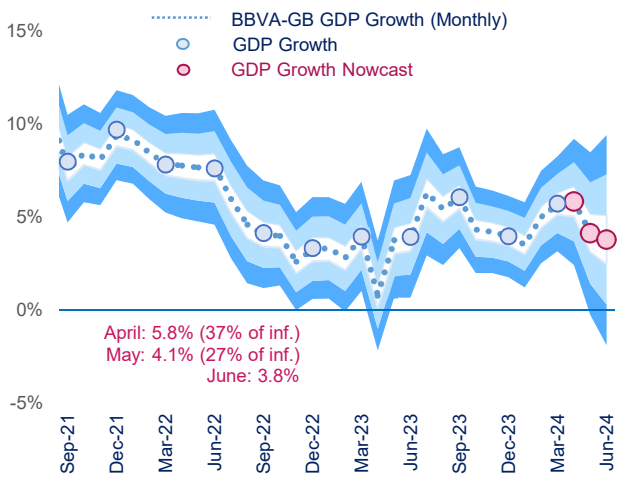
Source: Garanti BBVA Research, TURKSTAT

The slowdown in 2H24 will depend on the course of policy choices

Looking ahead, our monthly GDP indicator nowcasts an annual growth rate of 4.1% in May (27% of information) and 3.8% in June, which overall points to a slight slow-down in economic growth in 2Q24, corresponding to nearly 1.4% q/q GDP growth as of May. The negative calendar day effects due to the long religious holiday in April will be important in the quarterly growth adjustment.

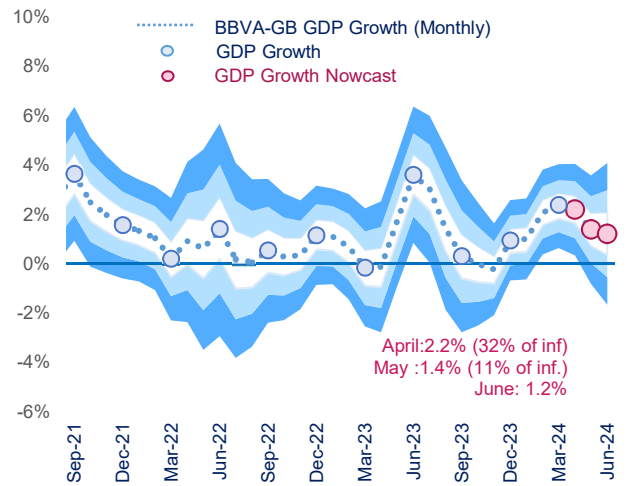
The gradual deceleration so far, repercussions from the existing fiscal impulse, high inflation expectations, wealth effects and availability of spending via cards maintain the imbalance between aggregate demand and aggregate supply. We evaluate that the lagged effects of expected fiscal consolidation and monetary tightening will be more evident in the second half of the year, especially in the last quarter. Therefore, domestic demand might remain somewhat higher than our previous expectation throughout the year. All in all, considering the strong performance of 1H24 and the expected lagged impact of economic policies, risks start to be tilted to the upside for our 2024 GDP forecast of 3.5% and to the downside for our 2025 GDP forecast of 3.5%. The magnitude of the upcoming fiscal consolidation expected to be reinforced with new savings packages and the likelihood of additional macroprudential policies will be the determinant factors on the pace of adjustment in economic activity.

Figure 7. **Garanti BBVA Monthly GDP Nowcast (3-month average, YoY)**



Source: Garanti BBVA Research, TURKSTAT

Figure 8. **Garanti BBVA Monthly GDP Nowcast (3-month average, QoQ)**



Source: Garanti BBVA Research, TURKSTAT, CBRT, Bloomberg

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